

PROMOTING REINVESTMENT
AN OVERVIEW OF LENDING INITIATIVES

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I N T R O D U C T I O N

INTRODUCTION

The last ten years have witnessed increased activity by community organizations, financial institutions and local government to achieve neighborhood reinvestment. There are numerous examples nationwide of community organizations and financial institutions - sometimes in concert with local government - attempting to design prudent and realistic programs and loan products to meet the credit needs of older communities, especially low and moderate income neighborhoods. Although reinvestment activity before 1977 was significant, the passage of the Community Reinvestment Act encouraged more community organizations and financial institutions to become actively involved in efforts to address community credit needs.

Woodstock Institute has produced this guidebook in recognition of this activity and the importance of insuring that community organizations and lenders have adequate information about the range of strategies available to facilitate reinvestment. The guidebook is primarily oriented to community organizations and community-based development corporations. However, it may also be useful to financial institutions and local and state governments interested in tools to stimulate reinvestment.

This document is not meant to be comprehensive. The reader should not initiate or encourage the initiation of a particular program exclusively on the basis of information presented in this guidebook. Contact the appropriate agencies or people listed after the programmatic description to insure that the strategy is appropriate for addressing particular needs.

The guidebook begins with a section on loan underwriting standards and marketing of loan products - often overlooked issues in the field of neighborhood reinvestment and revitalization. Loan underwriting standards are important because they determine whether or not a loan is granted to finance the purchase or rehabilitation of a particular property by a certain type of borrower. Without an open-ended discussion of the adequacy and fairness of loan understanding standards, an otherwise sound reinvestment program involving a substantial commitment may be constructed on a shaky foundation.

Effective marketing of loan products in urban neighborhoods is essential to insure that the target population is aware of the availability of credit and the willingness of local lenders to extend credit in neighborhoods previously perceived to be unable to attract conventional credit. Without effective marketing, well-designed efforts may be unsuccessful due to insufficient active demand. The latent demand for credit in most urban neighborhoods, however, is significant. Unless marketing efforts are effective, latent demand will not be transferred to active demand.

Section II is the main component of the guidebook. It is designed to provide community organizations with programmatic ideas which can be suggested to local lenders to enable them to meet community credit needs within the parameters of sound business practice. This section includes chapters on low down payment loan programs, interest subsidy mechanisms, strategies for expanding the supply of lendable funds, the Community Investment Fund and the Neighborhood Reinvestment Corporation. With this information, community organizations will be able to

articulate community needs and to offer several reasonable options for lenders to pursue to address these needs.

This guidebook concludes with a glossary of banking and investment terms and a bibliography on neighborhood reinvestment.

S E C T I O N I

GOOD UNDERWRITING AND MARKETING -
R E I N V E S T M E N T E S S E N T I A L S

SECTION I

GOOD UNDERWRITING AND MARKETING - REINVESTMENT ESSENTIALS

ASSESSING LOAN UNDERWRITING STANDARDS

Before suggesting specific programs which can be used to enable financial institutions to meet community credit needs, a community organization should insure that the standards used by a financial institution to evaluate loan applications do not arbitrarily exclude, by intent or effect, borrowers and property about which the community organization is concerned. Although reviewing the lending standards of financial institutions can be a tedious process, these standards often determine whether or not a loan is granted to finance the purchase or rehabilitation of a particular property.

Underwriting practices which are discriminatory-in-effect against certain population groups and which are not justified by an overriding sound business concern may unnecessarily lead to the displacement of low- and moderate-income families if a lending institution which follows such practices makes a major commitment to inner city lending. By eliminating otherwise qualified borrowers and properties from securing credit through adherence to loan standards which are needlessly restrictive, the credit provided by such lending institutions will be restricted to middle and upper income property purchasers and owners who qualify.

Loan underwriting is divided into two components: credit underwriting and property underwriting (appraisal). Credit underwriting is a process whereby a loan officer determines if a loan applicant currently possesses the capacity to make monthly

payments on a loan and if there is a reasonable probability that the loan applicant will be able to continue to repay the loan throughout the term of the mortgage. To determine the financial capacity and the credit history of a loan applicant, a loan officer investigates the applicant's credit references, employment history, income, assets and current debts.

The purpose of property underwriting is to insure that the value of the property which the loan applicant desires to buy is equal to or greater than the sale price. This is done to protect the lender's investment in case the borrower is unable to repay the mortgage and the lender is forced to take the property through foreclosure. In such cases, the lender must be able to sell the property for a price equal to or greater than the sum of the outstanding mortgage loan plus the lost interest, and the cost of servicing the loan and selling the property.

In order to determine market value of a property, a lender will request an appraisal of the property. On the basis of professional judgment and available data, an appraiser estimates the value of the property in question. If the appraised value of the property is equal to or greater than the sale price, then the lender may grant a loan, usually for an amount equal to 80% of the sale price. However, if the appraised value is less than the agreed upon sale price, then a loan may be offered for only 80% of the appraised value. Consequently, the borrower would have at least three options: secure the funds required for a larger down payment; negotiate a reduction in the sale price; or void the purchase contract.

Some appraisers have been accused of underappraising property in inner city neighborhoods because of the alleged belief in models of neighborhood decline which implicitly or explicitly suggest that the presence of minorities or low-income residents in the neighborhood where the subject property is located, or in an adjacent neighborhood, represents an inevitable decline in property values. Consequently, these appraisers devalue property in such areas on the basis of their perception of the future. This decreases the likelihood that a homebuyer can obtain the necessary financing to purchase the underassessed property.

Community organizations should begin discussions with financial institutions by asking to review their underwriting standards. Federally chartered and/or insured savings and loan associations are required to disclose underwriting standards pursuant to the Federal Home Loan Bank Board's Nondiscrimination Regulations and Guidelines. Other lenders may disclose their standards voluntarily. Review the underwriting standards carefully to insure that there are not policies which would arbitrarily exclude particular residents or housing types in the neighborhood which is the subject of concern. The following (derived primarily from Title 10, Section 246.3(b), California Administration Code) are examples of underwriting standards which may be discriminatory in effect.

Restrictive Practices in Judging Credit Rating

A practice of disqualifying an applicant because of isolated credit difficulties or credit problems in the distant past has a discriminatory effect against moderate income families, many of whom have been the victims of harsh credit practices in the past. They key to judging

an applicant's credit rating should instead be the general pattern of recent behavior. A period in the past containing financial difficulty does not necessarily make the risk unacceptable if subsequently the applicant has maintained a good payment record on credit extended.

Discrimination Against Creditworthy Applicants Who Have Not Previously Owned Their Own Home

In view of past discrimination against minority families in the housing market, a policy of favoring applicants who have previously owned homes over applicants who have not has the effect of perpetuating past discrimination and therefore has a racially discriminatory effect.

Disallowing Income from Overtime, Production Bonuses, and Part-Time Work

Needlessly disallowing income from overtime and production bonuses has a discriminatory effect against blue-collar workers who often rely upon such income. As with other income, the determination as to whether income from overtime, production bonuses or part-time employment is counted should depend upon whether such income may reasonably be expected to continue through the early years of the mortgage term. Lenders should look to the recent stability of the applicant's income from overtime, production bonuses or part-time employment, and whether or not such income is a typical characteristic of the applicant's job.

Disallowing Income from Alimony, Child Support and Welfare Payments

A practice of disallowing income from alimony or child support payments has a discriminatory effect against women and against people who are divorced or separated.

Lenders are required by the Equal Credit Opportunity Act (ECOA) to consider welfare income as effective income when underwriting loan applications. Despite ECOA, there have been allegations that some lenders continue to discount such income.

Restrictive Practices in Judging a Prior Arrest Record

Needlessly restrictive practices in judging a prior arrest or criminal record have a discriminatory effect against minorities. Several studies have shown that minority persons are far more subject to arrest without cause, than are whites. If a person was arrested but not convicted, and if the person has a satisfactory record of repaying credit obligations and has income adequate to support the monthly payments, use of the arrest record as a factor in denying a loan cannot be justified.

Use of Overly Restrictive or Inflexible Payment-to-Income Ratios or Installment Debt to Income Ratios

The use of overly restrictive or inflexible underwriting rules with respect to payment-to-income ratios or installment debt-to-income ratios has a discriminatory effect against families with income in the lower range of the market, because such families tend to devote a greater percentage of income to basic necessities such as housing. Since potential applicants from such families are disproportionately minorities, women and persons who are not currently married, such practices have a discriminatory effect against racial, sex and marital status groups. Use, for example, of a 20% ratio of mortgage payments to total income is overly restrictive, since there is empirical evidence that the risk of mortgage delinquency does not increase when the payment-to-income ratio is 25% or 30% instead of 20%.

Restrictive Prices Based on the Age of the Home

Rules or practices which arbitrarily deny loans on older homes have a discriminatory effect against moderate income and minority families which are disproportionally located in inner city neighborhoods characterized by older housing. Obviously if an older structure is unsound, or if the home is in fundamentally poor condition, there are sound reasons for taking such factors into consideration in determining whether and under what terms and conditions to make a loan. Such determinations, however, should be made on a case-by-case basis.

Arbitrary Minimum Cutoff Points for Borrower Income, Loan Amount or Purchase Price

The use of an arbitrary rule that no loan will be made to an applicant whose income is below a certain predetermined amount (irrespective of the amount of the loan sought), or if the loan amount or purchase price is below a certain predetermined level, has a discriminatory effect against moderate income families and prospective purchasers of low cost housing concentrated in certain inner city neighborhoods. A case-by-case evaluation, using flexibility in an attempt to make those sound loans that should be made, is more appropriate.

Minimum Square Footage Cutoff

The use of a rule that no loan will be made on a home with less than some minimum square footage of improved living area has a discriminatory effect against moderate income families, many of whom may be only able to afford relatively small homes. If the appraisal indicates that

the loan is properly secured by the value of the property, and if the property can be deemed marketable, then size should not be a bar to a loan.

Refusal to Make Loans on Multi-Family Rental Housing

This will have a discriminatory effect on neighborhoods characterized by a high percentage of rental housing.

Refusal to Make Low Down Payment Loans

Low down payment loans are an important mechanism for making possible the purchase of housing by families which have sufficient income to support monthly mortgage payments, but do not have the 20% down payment which until a few years ago was a requirement for securing a mortgage loan from most conventional lending institutions.

With the use of private mortgage insurance (PMI), lenders can make 90% and 95% of appraised value single-family loans without incurring additional risk. Private mortgage insurance companies will insure 25% of a low down payment loan for a small fee which is passed on to the borrower. PMI actually reduces a lender's risk on low down payment loans below the risk incurred on 80% loan-to-value mortgages.

If any of these policies are followed by local financial institutions, they should be asked to replace them with policies which maintain the institution's fiduciary responsibility, but have less of a discriminatory effect.

Evaluating the Appraisal Process. Determining the fairness of a lending institution's appraisal process is difficult because estimating property values has been heavily dependent historically on the subjective impressions of the appraiser combined with limited analysis of market conditions. Community organizations should encourage lending institutions to adopt policies regarding appraisals which require primary dependence on objective, scientific analyses and minimize the influence of subjective impressions about the future of a neighborhood. An appraiser's

negative prophecies about the future value of properties in a given neighborhood can become self-fulfilling - causing property values to decline because lenders, basing decisions on the misguided appraisals, will not make sufficient financing available.

A sound appraisal should include the comparison of the property the loan applicant desires to purchase with at least three comparables (other properties in the immediate neighborhood which have sold recently). In cases where comparable nearby properties which have been recently sold are not available, the appraiser should select five comparable properties outside the immediate neighborhood which are identical except for location.

Obviously not all appraisals will equal the sales price of the property. In some cases, the appraisal may protect the buyer from purchasing a property which is overpriced. Differences between the sales price and appraised value could be caused by a variety of factors, such as uninformed buyer, the effects of seller financing, the inclusion of personal property or trade. Good appraisal practice requires an explanation of any significant difference between the appraised value and the selling price. Such justification or explanation should be included in the documentation of the appraisal in sufficient detail to allow meaningful independent evaluation. A requirement for such documentation should trigger reevaluations by appraisers if a difference between appraised value and selling price cannot be justified.

THE NECESSITY OF MARKETING LOAN
PRODUCTS IN URBAN NEIGHBORHOODS

Aggressive marketing is a necessary component of reinvestment strategies designed for inner-city neighborhoods. Without a lender's commitment to engage in significant marketing activities, the suggested loan programs which follow will probably not be used by the local residents for whom they are designed.

Due to the historical reluctance of some financial institutions to make loans in urban neighborhoods, many residents have assumed that they are not welcome to apply for loans at local financial institutions. Whether these perceptions are the result of steering by realtors, negative experiences in the past with particular lenders, or a lack of knowledge about lending will depend upon the individuals and neighborhoods involved. But its effects are clear: prospective buyers who cannot obtain mortgages will either enter disadvantageous "contract sales" arrangements with the former owner, will borrow money at prohibitively high interest rates, or will simply not buy at all.

Consequently, local residents may not approach conventional lenders who are now willing to make inner city loans, because of fears of being declared uncreditworthy. In order to overcome this perception, it is necessary for lenders to advertise their willingness to make loans in particular neighborhoods.

As those familiar with the advertising industry know, the messages that come out of marketing efforts are composed of innumerable small clues. Those who read or view advertising have been found to be very adept at picking up the clues intended

for them, even if the process occurs at a subconscious level. As a result, the spoken or written message of an advertisement is often less important than the background in which it is set. For example, a lender's television commercial which advertises the availability of mortgage money can easily discourage potential borrowers from the inner-city when the settings of the commercial are exclusively suburban in character.

Marketing can be divided into two phases. The first phase might be called "product development". In this phase loan packages are developed to appeal to potential borrowers. The development of new credit products is designed to meet the needs of certain target populations while maintaining a reasonable rate of return for the institution and while also meeting the institution's chartered service obligations. This project development stage may include not only developing the concept of a new program, but also testing that program.

The second phase of marketing involves the actual process of seeking out and informing the target populations of the characteristics and benefits of the loan product, and describing how the product can meet their particular needs for credit services. The best, and most efficient, marketing requires matching the particular program to a marketing campaign which reaches the appropriate target population.

Marketing of mortgage programs, for example, would include not only general advertising through the media, but direct contact and marketing to realtors, who are a critical element in the loan seeking process of homebuyers. On the other hand, while

some homebuyers might be seeking home improvement loans as well, such loans would normally necessitate a marketing program designed to reach those persons who are already homeowners.

It is important that lenders advertise in newspapers and on radio and television programs which are most likely to be viewed by the target population. In many cases, community newspapers, ethnic newsletters and Spanish language media may be more appropriate than metropolitan dailies. Distributing leaflets can also be an important means for spreading information about loan products.

Some lenders contend that there is little or no demand for credit in inner city neighborhoods. When encountering such contentions, it is important to make a distinction between active and latent demand for credit. Active demand includes those people who are actively seeking credit. Latent demand for single-family credit includes those persons who have a need for home improvement or mortgage credit, but have not applied for a loan because they believe they do not qualify or do not know that loan funds are available. Latent demand becomes active demand as a result of effective marketing.

SECTION II
REINVESTMENT STRATEGIES

SECTION II

REINVESTMENT STRATEGIES

This section of the guidebook describes several types of reinvestment strategies which community organizations can suggest to financial institutions willing to engage in the financing or development of single-family and multi-family housing located in urban neighborhoods. Much of the lending industry has become more sophisticated about loan devices and products which can be used to finance the acquisition and rehabilitation of urban housing. A surprising number of lenders, however, remain unfamiliar with such basic tools as private mortgage insurance, Federal Housing Administration (FHA) loan insurance, the programs of state housing finance agencies and the secondary mortgage market. An increasing number of lenders are conversant with the uses of Community Development Block Grant funds, Urban Development Action Grants and mortgage revenue bonds to help meet neighborhood credit needs. Only a handful of lenders, however, are familiar with the subsidiaries which have been created by bank holding companies and national banks, and the service corporations created by savings and loan associations to engage in neighborhood development. These and other programs are described in this section.

Without an understanding of the range of programmatic resources available, lenders may perceive initiatives suggested by community organizations to be unrealistic. It is in the interest of concerned community organizations to be able to cite potential reinvestment strategies and provide examples of programs which can be used to enable a lender to make prudent loans needed by neighbor-

hood residents. This document will hopefully fulfill this informational need.

At all times, lenders and community organizations must be clear about the purpose of lending programs. Most of the strategies which follow can be used to meet the credit needs of existing moderate income residents or to attract middle and upper income families into a neighborhood, sometimes at the expense of existing residents. Community groups should develop agreements with lenders that describe the goals and target population groups of special loan programs. A vague agreement to reinvest in a defined geographic area is considered by many to be insufficient given the potential of unintended speculation and displacement in neighborhoods targeted for reinvestment.

fee paid by the borrower. If a borrower defaults on a loan insured by a private mortgage insurance company and foreclosure occurs, then the lender will be reimbursed by the private mortgage insurance company for that portion of the loan it had insured. By using PMI, a lender's risk is reduced.

PMI is usually limited to the top twenty or twenty-five percent of the appraised value of a residential property. Instead of a risk exposure of eighty percent on a loan, a lender's risk is reduced to 72% on a loan which includes a 10% down payment plus mortgage insurance equal to 20% of the loan amount.

For more information on private mortgage insurance, contact the following mortgage insurance companies.

MGIC (Magic)
800-558-9900

Foremost Guaranty Corporation
800-942-7455

United Guaranty
800-334-8966

Tiger Investors Mortgage Insurance Company
800-225-1580

Local Government Loan Insurance programs for single family mortgage or rehabilitation loans has been created by many municipalities. In most cases, Community Development Block Grant funds have been used to insure or guarantee all or a portion of loans originated by lenders in target neighborhoods. Chicago, Milwaukee, Philadelphia and numerous other cities have created such programs. Check with your city's community development administration for the existence or possibility of creating a loan insurance program. (See Part II Interest Subsidy Mechanisms for discussion of programs which combine loan insurance with interest subsidy.)

1. LOW DOWN PAYMENT FINANCING

In many neighborhoods, moderate income families and, increasingly, middle income families, incur difficulty making a conventional down payment equal to twenty percent of the purchase price of a home. These families often exhibit adequate income to meet monthly housing expenses, but they have not been able to save the funds required for a down payment. In such cases, the availability of low down payment loans from local lenders is a community credit need which may be essential for maintaining the stability of a neighborhood's housing stock. Neighborhoods experiencing substantial conversion of housing units from rental to ownership especially possess a need for low down payment financing in order to provide families threatened with displacement with an opportunity to purchase their units. Low down payment loans are not necessarily of higher risk than loans with twenty percent down payments, provided that these loans are prudently underwritten by sensible (and sensitive) loan officers.

Recent regulatory changes by the Federal Home Loan Bank Board have removed prohibitions against savings and loan associations making loans secured by owner-occupied cooperative housing at greater than eighty percent loan-to-value. Associations also have been granted permission to make ninety percent loan-to-value financing for owner occupied two, three and four unit owner-occupied structures and the Federal Home Loan Bank Board has proposed dropping the requirement for private mortgage insurance on ninety percent loan-to-value mortgages. Several techniques are discussed below which can be used to reduce risk and meet federal or state regulatory requirements on low down payment loans.

Private Mortgage Insurance (PMI) provides lenders with insurance on a specified percentage of a mortgage loan for a small

Federal Government Loan insurance is provided primarily by the Federal Housing Administration, which attempts to stimulate private financing of housing by insuring single-family and multi-family mortgage and rehabilitation loans. Like private mortgage insurance, lenders are reimbursed for the losses they incur as a result of the foreclosure of insured loans. Many FHA programs, unlike private mortgage insurance, insure lenders for the total amount of the loan. The Veteran's Administration also plays a significant role in insuring or guaranteeing mortgages and home improvement loans even though its programs are restricted to qualifying veterans.

The following is an overview of some of the FHA-insurance programs and the Veteran's Administration Home Loan Program which can be used by lenders willing to respond to community credit needs. Although many of these programs, particularly the single family programs, have been the subject of considerable controversy, they remain valuable tools for making prudent loans to creditworthy low- and moderate-income families.

FHA Section 203b
Basic Home Mortgage Insurance:
Federal Housing Administrating Single Family
(1-4 units)

Purpose: This is HUD-FHA's basic single family mortgage insurance program. The program assists homebuyers in the purchase of one-to-four unit family homes by permitting the borrower to make a low down payment on a single family home. If the borrower defaults and foreclosure occurs, the lender will be reimbursed by FHA for any losses incurred.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: An eligible borrower is one who can establish that his income is and will be adequate to meet monthly mortgage payments.

Housing Eligibility: Any new, existing or rehabilitated housing with up to four units is eligible for insurance under this program. The mortgage loan units are:

<u>Type of Housing</u>	<u>Standard Limits</u>	<u>Solar</u>
One Family	\$ 67,500	\$ 81,000
Two Family	76,000	91,200
Three Family	92,000	110,000
Four Family	107,000	128,400

Down Payment Requirements: 3% of the first \$25,000 of the appraised value, plus 5% of the value in excess of \$25,000.

Term of Mortgage: 30 years, 35 under special circumstances.

Interest Rate: 13% (September 22, 1980, maximum allowable under HUD-FHA.)

Authority: Section 203(b), National Housing Act (1934) (P.L. 73-479), as amended.

For More Information: HUD regional office. See page 39.

FHA Title I
Property Improvement Home Insurance

Purpose: The Title I Home Improvement loan program insures 90% of the amount of a loan made to finance the rehabilitation of one-to-four unit residential dwellings.

Lender

Eligibility: Any HUD-FHA approved financial institution.

Borrower

Eligibility: There are no income limits set for the program. An individual must show acceptable credit and ownership or lease the property.

Housing

Eligibility: The maximum loan amount allowed is \$15,000 for a single family and \$7,500 per dwelling unit for two unit or larger residential structures with a maximum of \$37,500 for five or more dwelling units. Any loan in excess of \$7,500 must be secured by a mortgage lien.

Term of Loan: The maximum term of the loan maturity is 15 years and 32 days.

Interest

Rate: 15% maximum (effective July 18, 1980).

Authority:

Title I, Section 2 of the National Housing Act, (P.L. 73-479), as amended 12 U.S.C. Section 1703.

For More

Information: HUD regional office. See page 39.

FHA Section 221(d)2
Home Mortgage Insurance for Low and Moderate
Income Families

Purpose: This program insures mortgage loans made to finance the rehabilitation of substandard properties and to finance the purchase of one-to-four unit family housing purchased by low- and moderate-income families and residents displaced by government action such as urban renewal, code enforcement or a major disaster designated by the President. The program is specifically targeted to low and moderate income families and it is also tailored to some extent to the needs of urban housing.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: There are no specific eligibility income requirements although the program is targeted to low income households. Anyone who is considered an acceptable credit risk is eligible for participation.

Housing Eligibility: FHA limits on the mortgage amounts are:

<u>Type of Housing</u>	<u>Standard Limits</u>	<u>High Cost Areas*</u>
Single Family	\$31,000	\$36,000
(Families of 5 or more)	36,000	42,000
Two Family	35,000	45,000
Three Family	48,600	57,600
Four Family	59,400	68,400

(*High cost areas are defined as "areas in which construction costs are such that suitable housing cannot be built within the standard limits.")

Down Payment Requirements: If the insurance is secured by a new single family dwelling before construction has begun, on property over one year old to be rehabilitated or on property less than one year old with an approved warranty, the minimum down payment is 3%. If the insurance is secured by a new two-to-four family dwelling before construction, the down payment is 3% of the first \$25,000 of the appraised value and closing costs, and 5% of the remaining value. All other owner occupied properties require a 10% down payment. Non-owner occupied properties require a 15% down payment. For displacees the minimum down payment is \$200 per unit.

Term of
Mortgage:

Generally 30 years. FHA can extend maturity to 40 years in special cases.

Interest
Rate:

A maximum of 3% for owner occupants. Non-occupants shall pay the maximum rate in effect under this section at the time of the commitment of the insurance. Current HUD-FHA maximum allowable interest rate, 13% single family, 12% multi-family as of September 27, 1980.

Authority:

National Housing Act (1934), (P.L. 73-479), as added by Section 123, Section 221(d)(2), Housing Act of 1954 (P.L. 83-560), as amended.

For More
Information:

HUD regional office. See page 39.

FHA Section 235
Mortgage Insurance and Assistance Payments
for Home Ownership and Project Rehabilitation

Purpose: The Section 235 program enables low and moderate income families to purchase single family housing. The program provides 100% insurance for qualified mortgage loans and subsidizes the borrower when the monthly mortgage payments are in excess of 20% of the borrower's income. This subsidy may reduce the interest rate to as low 4%.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: There are no restrictions on the borrower's assets, however, his adjusted income may not exceed 95% of the median income of the local area.

Housing Eligibility: The single family program is limited to new or substantially rehabilitated housing. Condominiums constructed after October of 1975 are also eligible.

No subdivision is allowed to have more than 40% of its homes assisted through this program. This rule is waived in urban areas where large percentages of subsidized units are essential to the community.

The mortgage loan limits are:

<u>Type of Housing</u>	<u>Standard Limits</u>	<u>High Cost Areas</u>
Family of four (3 or fewer bedrooms)	\$32,000	\$38,000
Family of five or more (4 or more bedrooms)	38,000	44,000

Down Payment Requirements: Minimum down payments are 3% of the first \$25,000 and 5% of anything above that amount.

Term of Mortgage: 30 years or three-fourths of the estimated economic life of the property (whichever is less).

Interest Rate: The interest rate can be reduced to as low as 4% when a borrower subsidy is provided.

Authority: Section 235, National Housing Act (1934), as added by Section 101, Housing and Urban Development Act of 1968. (P.L. 90-448 as amended)

For More

Information: *HUD regional office. See page 39.*

FHA Section 221(d)(3)
Multifamily Rental Housing for
Low and Moderate Income Families

Purpose: HUD issues mortgages at market interest rate in order to stimulate the construction or substantial rehabilitation of rental or cooperative units for low and moderate income or displaced families.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: Public agencies, non-profit, limited dividend or cooperative organizations are eligible; as well as private builders and investors who sell the completed projects to the former organizations.

Occupant Eligibility: There are no specific eligibility income requirements.

Housing Eligibility: Projects may be detached, semi-detached, row, walk-up or elevator structures. The mortgage dollar limits are:

<u>Type of Housing</u>	<u>Nonprofit Mortgagor</u>	<u>Other Mortgagor</u>
<u>Non-Elevator</u>		
No Bedroom	\$21,563	\$19,406
One Bedroom	24,662	22,195
Two Bedrooms	29,984	26,985
Three Bedrooms	38,379	34,541
Four or more Bedrooms	42,756	38,480
<u>Elevator</u>		
No Bedroom	\$22,692	\$20,422
One Bedroom	26,012	23,410
Two Bedrooms	31,631	28,467
Three Bedrooms	40,919	36,827
Four or more Bedrooms	44,917	40,425

These dollar limitations may be increased as much as 75% in high cost areas.

Down Payment Requirement: 100% of the total cost of the project can be insured for nonprofit and cooperative mortgagors; a 10% down payment is required for general or limited distribution mortgagors.

Mortgage**Term:**

40 years or three-fourths of the economic life of the project, whichever is less.

Interest**Rate:**

The current HUD-FHA maximum allowable interest rate of 13.00% multifamily (September 21, 1980).

Authority:

Section 221(d)(3), National Housing Act (1934) (P.L. 73-479), as added of Housing Act of 1954, (P.L. 83-500), as amended.

*For More**Information:*

HUD regional office. See page 39.

FHA Section 207
Basic Multifamily Rental Housing Insurance

Purpose: HUD insures mortgages made by private lending institutions to finance the construction or rehabilitation of multifamily rental housing that contain eight or more units. The housing financed should accommodate families with or without children at reasonable rates.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: Private or public investors, builders and developers are eligible for funds. The interested party must confer with the HUD area office first. The location of the project must be in an approved HUD area where market conditions show that this type of housing is needed.

Occupant Eligibility: There are no set income requirements for families who wish to live in the units.

Housing Eligibility: The guaranteed loans may finance any type of rental construction: detached buildings, row houses, walk-up apartment buildings, or elevator-type highrises. The total project must include eight or more units. The mortgage loan limits for each unit are:

<u>Type of Housing</u>	<u>Standard Limits</u>	<u>Solar Limits</u>
<u>Non Elevator Buildings</u>		
No Bedroom	\$19,000	\$22,800
One Bedroom	21,600	25,900
Two Bedrooms	25,800	30,700
Three Bedrooms	31,800	38,200
Four or more Bedrooms	36,000	43,200
<u>Elevator Buildings</u>		
No Bedroom	\$22,500	\$27,000
One Bedroom	25,200	30,200
Two Bedrooms	30,900	37,100
Three Bedrooms	38,700	46,400
Four or more Bedrooms	43,758	52,500

(These limits can be increased up to 75% in high cost areas.)

Down Payment Requirement: 10% of the estimated value.

Mortgage
Terms:

40 years, or three-fourths of the economic life of the property.

Interest
Rate:

The maximum interest rate is 13% as of September 21, 1980.

Authority:

Section 207, National Housing Act (1934), (P.L. 73-479), as amended.

For More

Information:

HUD regional office. See page 39.

FHA Section 223(f)
Loan Insurance to Refinance Property (Multifamily)

Purpose: Insures loans which finance the purchase or refinance existing multifamily projects of eight units or more. Properties financed through this program must be at least three years old and the mortgage must be insured by HUD. Major rehabilitation is not permitted under this program.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: Investors, builders and developers who meet HUD requirements are eligible.

Occupant Eligibility: There are no income restrictions on persons wishing to occupy the units.

Housing Eligibility: The project must consist of eight or more dwelling units. Each unit must provide complete living facilities. The project must be primarily residential; commercial areas may not exceed 20% of the net rentable area or 25% of the gross income of the project.

Down Payment Requirement: 15% of the value of the project.

Mortgage Term: Not less than 10 years and not to exceed 35 years or 75% of HUD-FHA's estimate of the remaining economic life of the physical improvement, whichever is less.

Interest Rate: 13% (the current HUD-FHA maximum allowable interest rate.)

Authority: Section 223(f), National Housing Act (1934), (P.L. 73-479), as added by Section 311, Housing and Community Development Act of 1974 (P.L. 93-383).

For More Information: HUD regional office. See page 39.

FHA Section 213
Mortgage Insurance for Mortgage Loans to
Finance Cooperative Housing

Purpose: HUD insures mortgages made by private financial institutions on cooperative housing of 5 or more units with the stipulation that the units will be occupied by members of a non-profit housing cooperative.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: Only loans made to nonprofit corporations or trusts created to develop housing for the beneficiaries of the trust may receive these loan guarantees.

Occupant Eligibility: The units must be occupied by members of a nonprofit corporation or beneficiaries of the trust receiving the guarantees.

Housing Eligibility: Only buildings with five or more units are eligible for this program. The loans can be used to finance new construction or rehabilitation projects. Moreover, costs per unit cannot exceed the following:

<u>Unit Type</u>	<u>Walk-up Building</u>	<u>Elevator Building</u>
No Bedroom	\$19,500	\$22,500
One Bedroom	21,600	25,200
Two Bedrooms	25,800	30,900
Three Bedrooms	31,800	38,700
Four Bedrooms	36,000	43,758

(These limits may be increased up to 75% in high cost areas.)

Down Payment Requirement: 2% of the HUD estimated replacement cost of the project.

Term of the Mortgage: 40 years maximum.

Interest Rate: 13% maximum (February, 1980).

Authority: Section 213, National Housing Act (1934), (P.L. 73-479) as added by Section 114, Housing Act of 1950, (P.L. 81-475).

For More Information: HUD regional office. See page 39.

FHA Section 234(d)
Mortgage Insurance for Condominium Projects

Purpose: HUD uses this program to insure mortgage financing for the construction or rehabilitation of condominium units. In addition to this, FHA will insure loans for the operating losses of the first two years of the project's operation, if the condominiums are un-marketable and are used as rental units.

Lender Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: Profit and nonprofit mortgagors may apply.

Occupant Eligibility: Any creditworthy individual is eligible. One person may own up to four units with HUD-FHA insured mortgage, if he is the owner-occupant of one of the units.

Housing Eligibility: The program covers new construction or rehabilitation of detached, semi-detached, row, walk-up or elevator units of four or more units that are to be condominiums. The mortgage amount limitations are:*

Non-Elevator Units

No Bedroom	\$19,500
One Bedroom	21,600
Two Bedrooms	25,800
Three Bedrooms	31,800
Four Bedrooms	36,000

Elevator Units

No Bedroom	\$22,500
One Bedroom	25,200
Two Bedrooms	30,900
Three Bedrooms	38,700
Four or more Bedrooms	43,758

(*as of September 21, 1980).

These amounts can be increased by as much as 75% in high cost areas.

Down Payment Requirement: 10% of the FHA's estimated replacement cost of the project.

Term of Mortgage: 40 years, or three-fourths of the economic life of the property.

Interest
Rate: 14% maximum (June 28, 1980).

Authority: Section 234(d); as National Housing Act (1934),
(P.L. 73-479), as added by Section 104, Housing Act
of 1961 (P.L. 87-70), and as amended.

For More
Information: HUD regional office. See page 39.

FHA Section 231
Mortgage Insurance for Housing
for the Elderly

Purpose: Section 231 is designed to provide a direct incentive for the construction or rehabilitation of rental housing for elderly and handicapped persons. HUD-FHA insures mortgages in order to encourage the financing of new or rehabilitated housing developments containing eight or more units.

Lending Eligibility: Any HUD-FHA approved lender.

Borrower Eligibility: Any creditworthy individual, partnership, corporation, non-profit organizations, and public mortgagors approved by the FHA commissioner is eligible.

Occupant Eligibility: The following are eligible residents: elderly persons, anyone 62 years of age or older, handicapped persons, one whose impairment is expected to be of continued and indefinite duration and whose impairment substantially impedes his ability to live independently and is such that his ability to live independently could be improved by more suitable housing. Families whose head is handicapped or elderly under these terms may also qualify. There are no income requirements for tenants.

Housing Eligibility: The housing may be detached houses, semi-detached homes, and row, walk-up or elevator buildings with many units. Structures must be designed primarily for residential use and must meet a variety of special standards for elderly and handicapped housing (including local codes). Costs are limited as follows:

<u>Unit Type</u>	<u>Elevator Building</u>	<u>Non-Elevator Building</u>
No Bedroom	\$20,962	\$18,450
One Bedroom	24,030	20,625
Two Bedrooms	29,220	24,630
Three Bedrooms	37,800	29,640
Four or More Bedrooms	41,494	34,846

(These limits can be increased up to 75% in high cost areas.)

Down Payment
Requirement:

Nonprofit and public mortgagors are eligible for insured mortgages covering up to 100% of the estimated (by HUD-FHA) cost of the project. Profit-making mortgagors are eligible for only 90% of the estimated replacement costs.

Mortgage
Term:

40 years or three-fourths of the remaining economic life of the project, whichever comes first.

Authority:

Section 231, National Housing Act (1934), (P.L. 73-479) added by Section 201, Housing Act of 1959 (P.L. 86-372).

*For More
Information:*

HUD regional office. See page 39.

HUD Regional Offices

REGION I

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

John F. Kennedy Federal Building
Boston, Massachusetts 02203

REGION II

New Jersey, New York, Puerto Rico, Virgin Islands, Panama Canal Zone

26 Federal Plaza
New York, New York 10007

REGION III

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia

Curtis Building
6th and Walnut Streets
Philadelphia, Pennsylvania 19106

REGION IV

Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee

Pershing Point Plaza
1371 Peachtree St., N.W.
Atlanta, Georgia 30309

REGION V

Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin

300 South Wacker Drive
Chicago, Illinois 60606

REGION VI

Arkansas, Louisiana, New Mexico, Oklahoma, Texas

Earle Cabell Federal Building
U.S. Courthouse
1100 Commerce Street
Dallas, Texas 75424

REGION VII

Iowa, Kansas, Missouri, Nebraska

Federal Office Building
911 Walnut Street
Kansas City, Missouri 64106

REGION VIII

Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming

Executive Tower
1405 Curtis Street
Denver, Colorado 80202

REGION IX

Arizona, California, Hawaii, Nevada, Guam, American Samoa, Pacific Trust Territories

450 Golden Gate Avenue
P.O. Box 36003
San Francisco, California 94102

REGION X

Alaska, Idaho, Oregon, Washington

Arcade Plaza Building
1321 Second Avenue
Seattle, Washington 98101

Veterans (G.I.) Home Loan Program

- Purpose: The Veteran's Administration guarantees home loans made to veterans. Under the guaranty program, Veteran's Administration will guarantee up to 60% or \$25,000 (whichever is less) of the loan principal. Under the insurance programs the Veteran's Administration credits 15% of the loan to the lender's insurance accounts. In the case of default, Veteran's Administration pays for the lender either the amount of the insurance account for the loan or the unpaid balance of the loan, whichever is less.
- Lender Eligibility: Supervised and unsupervised lenders. Supervised lenders are those approved by HUD to make guaranteed loans without checking first with HUD. Unsupervised lenders must receive prior approval before making a Veteran's Administration loan.
- Borrower Eligibility: Veterans who were on active duty at least 181 days since the beginning of World War II; Veterans in active service during any part of World War II, the Korean Conflict or the Vietnam Conflict with 90 days active service; Veterans with service connected disability; and surviving spouses of persons who died as a result of that service are eligible.
- Housing Eligibility: The Veteran's Administration guaranteed or insured loan may be used to:
- purchase or construct one to four family homes
 - purchase a condominium unit or mobile home
 - repair, alter or improve a home
 - refinance an existing home loan
 - purchase or install energy conserving home improvements.
- Down Payment Requirement: The Veteran's Administration does not require a down payment but the lender may.
- Term of Mortgage: 30 years (maximum).
- Interest Rate: 12% maximum (August, 1980).
- Authority: G.I. Home Loan Program, 1944, Servicemen's Readjustment Act, 38 U.S.C. 1801 et seq.

*For More
Information: Veteran's Administration, Department of Veteran's
Benefits, Loan Guaranty Service, 810 Vermont Avenue,
N.W., Washington, D.C. 20420 (202) 389-2332.*

2. INTEREST SUBSIDY MECHANISMS

One of the major obstacles to insuring that reinvestment benefits low- and moderate-income families is the cost of credit. Given normal credit conditions, interest costs may prevent low- and moderate-income families from qualifying for mortgage or home improvement loans. During periods of high interest rates, a larger number of families experience difficulty in qualifying for market interest rate loans.

A number of local governments have created programs to address this problem. These programs feature subsidized interest rates on mortgage and rehabilitation loans made by private lenders to moderate income families or families who reside in designated neighborhoods. These efforts can be important vehicles for insuring that low- and moderate-income families benefit from the reinvestment activities of local financial institutions rather than being displaced by real estate activity which, in effect, channels the flow of credit to middle- and upper-income families.

To fund interest subsidy programs, local governments have used Community Development Block Grant funds, Urban Development Action Grants and mortgage revenue bonds. In addition to interest subsidies, many of these programs also include full or partial loan guarantees, down payment assistance and homeownership counseling. The following program summaries should be consulted for additional information, including examples of interest subsidy programs.

Urban Development Action Grants

Purpose: To help alleviate physical and economic deterioration through reclamation of neighborhoods having excessive housing abandonment or deterioration, and through community revitalization in areas with population outmigration or a stagnating or declining tax base.

Authority: The UDAG program was authorized by the Housing and Community Development Act of 1977. A three year appropriation was made for UDAG by Congress in 1978. Unlike the CDBG program, communities are not entitled to receive UDAG funds. Eligible communities must compete for funds by submitting proposals to HUD on a quarterly basis. The proposals are judged according to several criteria, one of which is the nature and extent of financial participation by private entities in proposed projects.

Eligible

Recipients: Distressed cities and urban counties.

Eligible

Activities: Action grant assistance can be used for any activity which Community Development Block Grants may be used, such as land acquisition, the development of public facilities, and the construction or rehabilitation of industrial and residential facilities. In addition, other activities necessary to revitalize the economic base of a distressed city or to reclaim neighborhoods having excessive housing abandonment may be approved.

Examples: Bayonne, New Jersey

The City of Bayonne received an Urban Development Action Grant of \$1,125,000 to fund an interest subsidy program. The program features a 3% interest rate for home improvement loans (\$525,000 for 175 loans) and a 5-6% interest rate for multi-family rehabilitation loans (\$600,000 for 75 loans).

Troy, New York

The City of Troy is using a portion of \$2.6 million, the proceeds of an Action Grant to provide interest subsidies on program loans made through participating savings banks. Participating banks have committed \$12.5 million.

Rochester, New York

Rochester received a \$2 million action grant to be used for the origination of mortgage loans for single unit and two unit owner occupied properties within the City of Rochester.

These mortgages have an interest rate approximately 1% below that being charged for conventional mortgages. The UDAG money is deposited in interest bearing accounts in local banks participating in the program. Local banks, through an agreement with the City, process mortgage applications from eligible persons. Banks use normal lending criteria as well as the criteria spelled out by the UDAG program.

At the mortgage closing, the City advances to the bank the amount of the mortgage. By agreement with the City, the bank promptly purchases "the rollover" mortgage from the City at a discounted rate sufficient to yield the bank an appropriate return on its investment. It also allows the bank to sell the mortgage in the secondary mortgage market.

For More

Information:

*David Cordish, Director
Urban Development Action Grants
U.S. Department of Housing and Urban Development
Washington, D.C. 20410
(202)755-6270*

Community Development Block Grant Funds (CDBG)

Purpose: The primary objective of this program is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Authority: The CDBG program was created by the Housing and Community Development Act of 1974. It was funded for a total of \$8.35 billion for 1975 and 1976. In 1977, it was renewed for an additional \$10.9 billion through fiscal year 1980. The program is administered by the U.S. Department of Housing and Urban Development.

Eligible

Recipients: Local governments, urban counties and states.

Eligible

Activities: Improvement or expansion of housing stock; construction or reconstruction of community facilities; provision of community services; economic development and employment programs.

Examples: Milwaukee's Homeowner Maintenance Assistance Program

This program insures and subsidizes the interest rate of conventional rehabilitation loans originated in targeted neighborhoods. In order to qualify for the program, a neighborhood must experience "housing market problems", or the majority of the residents must have household incomes below 80 percent of the median income of the City of Milwaukee. Housing market problems are considered to be declining property values, housing deterioration or evidence of physical blight.

The program is administered by the Neighborhood Improvement Development Corporation (NIDC), which is supported by CDBG funds. NIDC selects the target neighborhoods, publicizes the program, and helps potential borrowers prepare applications which are then forwarded to participating financial institutions. Lenders are responsible for underwriting the loan and appraising the property to be rehabilitated.

A second component of the program is a subsidized interest rate. The subsidy is four percent, which, during the summer of 1978, had the effect of reducing the market interest rate from 10-10½ percent to six percent. The funds for the interest subsidy are provided by investing the loan default fund in long-term securities and short-term certificates of deposit. The city deposits \$278,000 in the default fund per \$1 million of loans. Two hundred thousand dollars of the deposit is invested in securities and \$78,000

in certificates. The earnings from these two investments are used to capitalize the interest subsidy fund.

As of September 1978, 7,600 application requests had been received, 4,200 applications had been processed, and 2,700 had been approved. The average loan was \$3,400. The average household income of the borrowers was within two dollars of the median income of the city. Thirty percent of the households receiving loans had an annual income of below \$13,840.

City of Hoboken

The City of Hoboken administers a multi-family rehabilitation effort that includes a loan insurance component and an interest rate subsidy. Through its Tenement Rehab Program, the city insures 20 percent of the loans made to owners for rehabilitation of large apartment buildings in selected neighborhoods. An interest rate subsidy of four-to-five percent is also provided to reduce the total cost of rehabilitation.

In order to insure that rehabilitation projects are successful, the city assists property owners in preparing design plans and cash-flow statements and in selecting contractors. The program staff, interest rate subsidy fund, and mortgage insurance fund are financed by a CDBG allocation and a grant from the Urban Reinvestment Task Force. By leveraging private credit and providing technical assistance, the Tenement Rehab Program has made possible the rehabilitation of 12 apartment buildings containing 55 units.

For More

Information: Robert Dodge, III, Director
Urban Rehabilitation and Community Reinvestment
Department of Housing and Urban Development
Washington, D.C. 20410
(202) 755-5324

Mortgage Revenue Bonds

Purpose: To generate capital to finance the purchase of housing at below market interest rates. Because the interest earned from municipal revenue bonds is tax exempt these bonds can be sold to investors at an interest rate significantly lower than the interest rate on other sources of lending capital. The investors receive their principal and interest from the monthly payments of borrowers who receive mortgage loans financed with the bond proceeds.

Authority: Revenue Adjustment Act of 1968 (Public Law 90-364).

Eligible Issuers: Local and state governments.

Permissible Uses: In the 1968 Revenue Act, Congress permitted the use of the proceeds of tax exempt municipal and state revenue bonds for several purposes including the financing of "residential real property for family units." As of spring, 1980, there were several bills in Congress proposing to restrict the use of these instruments in raising capital to fund subsidized mortgage lending programs.

Examples: Chicago

In July, 1978, the Chicago Mortgage Plan was created with the issuance of a \$100 million mortgage revenue bond to fund the financing of single-family mortgages with an interest rate of 7.99%. This subsidized rate was two percent less than the conventional rate in the summer of 1978. The program was primarily designed to entice middle income households to buy property in the city. The program called for a \$40,000 ceiling on the adjusted family income of borrowers. The income ceiling was added to deter speculators and wealthy residents from exhausting the funds derived from the bond sale.

A second \$100 million bond was issued in 1979 with a lower income ceiling. This offer permitted the use of some of the bond proceeds to finance mortgage loans on owner-occupied properties up to six units.

Denver

The City of Denver developed a \$50 million revenue bond program in 1978. The city purchased loans made by Midland Savings to borrowers whose adjusted annual family income was less than \$20,000. The bond proceeds were used to finance the purchase of single-family and two-to-four unit properties.

For More

Information:

*Chicago - E. Stanley Enlund, Chairman
First Federal Savings and Loan
Association of Chicago
One South Dearborn
Chicago, Illinois 60602
(312)346-3500*

*Denver - John P. Hall, Senior Policy Analyst
Office of Policy Analysis
City and County of Denver
Suite 4A
1313 Tremont Place
Denver, Colorado 80204
(303)575-5701*

3. COMMUNITY INVESTMENT FUND

In 1978, the Federal Home Loan Bank Board established a five year, ten billion dollar fund to be administered through the Federal Home Loan Bank System. The program, called the Community Investment Fund (CIF), is designed to encourage federally chartered savings and loan associations to increase their commitment and leadership in the revitalization of mature communities, both urban and rural. The program provides loans to Federal associations at a subsidized rate of 1/2 of 1 percent below the estimated cost of funds to the bank system.

CIF can be used by Federal associations to engage in a variety of neighborhood reinvestment activities including providing subsidized mortgage and rehabilitation loans, establishing counseling programs, financing not-for-profit community development efforts, participating in CDBG programs and creating special marketing efforts.

Federally chartered savings and loan associations are members of the Federal Home Loan Bank System. The Federal Home Loan Bank System is comprised of the Federal Home Loan Bank Board which regulates savings and loan associations, and twelve district banks located throughout the nation.

Each district bank is responsible for administering the fund in its district under broad guidelines established by the Federal Home Loan Bank Board. In general, the Board asks for special creative efforts by the member associations to direct or stimulate lending designed to preserve or revitalize older communities.

Examples: The following are examples of programmatic activities undertaken by associations which have been funded through the CIF.

- * Provision of mortgage and rehabilitation loans at 1/2% below normal cost in a target neighborhood.
- * With a local community development corporation, acquire, rehabilitate and resell FHA repossessed properties.
- * Establish FHA Title I department for home improvement loans.
- * Install home counseling program.
- * Participate in financing Section 8.
- * Hire community lending officers.
- * Increase loan activity in central city and designated areas.
- * Increase set aside for below market city program.
- * Organize NHS effort and participate in housing development.
- * Provide at least \$500,000 annually for purchase, rehabilitation and home improvements in target neighborhood, and affirmatively market loans.
- * Assist community groups in establishing co-op.
- * Actively market availability of 90% loans on homes under \$40,000.
- * Provide financial support for nonprofit rehab group.
- * Work with city and other lenders to develop rehabilitation projects and leverage CDBG.

For More Information: Community Investment Officer, District Federal Home Loan Bank. See following page.

COMMUNITY INVESTMENT OFFICERS
FEDERAL HOME LOAN BANK SYSTEM

DISTRICT ONE:

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont

David Elliott, Vice President
Director of Community Investment
Federal Home Loan Bank of Boston
One Federal Street, 30th Floor
Boston, Massachusetts 02110
(617)233-5300

DISTRICT TWO:

New Jersey, New York, Puerto Rico and Virgin Islands

David Dennison, Vice President
Community Investment Officer
Federal Home Loan Bank of New York
One World Trade Center
Floor 103
New York, New York 10048
(212)432-2000

DISTRICT THREE:

Delaware, Pennsylvania and West Virginia

Thomas Jones, Vice President
Community Investment Officer
Federal Home Loan Bank of Pittsburgh
4th Floor, Gateway Center
11 Stanwix Street
Pittsburgh, Pennsylvania 15222
(412)388-3400

DISTRICT FOUR:

Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina and Virginia

Robert Warwick, Vice President
Director of Community Investment
Federal Home Loan Bank of Atlanta
Coastal States Building
260 Peachtree Street, N.W.
Atlanta, Georgia 30308
(404)522-2450

DISTRICT FIVE:

Kentucky, Ohio and Tennessee

Carol Braddock, Vice President
Community Investment Officer
Federal Home Loan Bank of Cincinnati
2500 DuBois Tower
Cincinnati, Ohio 45202
(513)852-7500

DISTRICT SIX:

Indiana and Michigan

Michael L. Harrison, Assistant Vice President
Community Investment Officer
Federal Home Loan Bank of Indianapolis
2900 Indiana Tower
One Indianapolis Square
Indianapolis, Indiana 46204
(317)269-5371

DISTRICT SEVEN:

Illinois and Wisconsin

Charles M. Hill, Sr. Vice President
Community Investment Officer
Federal Home Loan Bank of Chicago
111 East Wacker Drive
Chicago, Illinois 60601
(312)565-5700

DISTRICT EIGHT:

Iowa, Minnesota, Missouri, North Dakota and South Dakota

Joseph F. Egan
Director of Community Investment
Federal Home Loan Bank of Des Moines
907 Walnut Street
Des Moines, Iowa 50309
(515)243-4211

DISTRICT NINE:

Arkansas, Louisiana, Mississippi, New Mexico and Texas

Clifton Giles, Vice President
Community Investment Officer
Federal Home Loan Bank of
Little Rock
1400 Tower Building
Little Rock, Arkansas 72201
(501)372-7141

DISTRICT TEN:

Colorado, Kansas, Nebraska
and Oklahoma

Richard Fischman, Vice President
Community Investment Officer
Federal Home Loan Bank of
Topeka
120 East 6th Street
Topeka, Kansas 66603
(913)233-0507

DISTRICT ELEVEN:

Arizona, California and
Nevada

Lydia Bundy, Vice President
Community Investment Officer
Federal Home Loan Bank of
San Francisco
600 California Street
San Francisco, California 94210
(415)393-1000

DISTRICT TWELVE:

Alaska, Guam, Hawaii, Idaho,
Montana, Oregon, Utah, Wyoming
and Washington

Addis Chapman, Vice President
Community Investment Officer
Federal Home Loan Bank of
Seattle
600 Stewart Street
Seattle, Washington 98101
(206)624-3980

The following program summaries are designed to give the reader an introductory exposure to the secondary market entities sponsored by the federal government. Before recommending these programs, the reader should contact a representative of the appropriate corporation to obtain more detailed information.

4. EXPANDING THE SUPPLY OF LENDABLE FUNDS

An important contributor to the capacity of financial institutions to meet housing credit needs is the secondary mortgage market. This market is composed of government-sponsored entities such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association and state housing finance agencies. The secondary market also includes private corporations such as insurance companies, pension funds, commercial banks, savings and loan associations and other institutional investors.

The secondary market increases the supply of funds available for housing credit by purchasing loans made by originating lenders. The intended functions of government-sponsored secondary market entities are: (1) to stimulate private investment in residential mortgages by giving mortgage investments greater liquidity; and (2) to reduce the sharp fluctuations in the availability of mortgage credit which accompany business cycles.

Local financial institutions which are unable to increase their mortgage lending because of a limited supply of funds can ameliorate this problem by selling their loans to one or more secondary mortgage market actors. Each secondary market corporation has specific standards regarding the kinds of loans they will purchase. These standards include acceptable loan-to-value ratios, yields, creditworthiness of the borrower, term and physical condition of the security property. In addition, the originating lender must usually agree to continue to service the loan for a fee on behalf of the secondary market purchaser.

Federal National Mortgage Association

The Federal National Mortgage Association (FNMA) is a federally chartered, stockholder-owned corporation which supplements the nation's supply of funds available for residential mortgages. It is a private corporation with a public purpose.

The FNMA, known as Fannie Mae, is the nation's largest single source of residential mortgage financing. It does not, however, deal directly with homeowners or potential home buyers. Rather, the corporation operates in the secondary mortgage market, buying mortgage loans from local financial institutions - such as mortgage bankers, savings and loan associations, and commercial banks. In this way, the corporation puts money back into the hands of those lenders so that they can originate more mortgage loans than would otherwise be possible.

Fannie Mae obtains the funds to purchase these mortgage loans by borrowing funds in the nation's money markets. Like other large corporations, it sells both long- and short-term securities to investors, many of whom do not normally invest in housing.

Because Fannie Mae has constant access to these money markets, it always has funds available with which to purchase residential mortgages, even when other traditional housing investors experience a drain on their funds during tight money periods. During such tight money periods, the role FNMA plays in providing increased liquidity to mortgage lenders becomes even more important;

FNMA buys more loans than it does when local sources of housing funds are more readily available.

In most instances, Fannie Mae purchases mortgage loans - both government-backed and conventionally financed - by issuing purchase commitments to the originating lenders for varying periods of time. Under these commitments, the corporation agrees to buy, for a specified yield and dollar amount, mortgage loans made by the lenders. Sometimes, these commitments are made even before the lender has finalized the loan so that the lending institution can be sure it will be able to sell the mortgage once originated.

Fannie Mae charges a fee for issuing these commitments. From these fees and from the difference, or spread, between the cost of the FNMA's borrowed funds and the yield on mortgages it purchases, Fannie Mae derives its earnings. Fannie Mae pays a full corporate income tax on these earnings, reinvests much of them in its housing operations, pays some of them out in dividends to its stockholders and contributes the remainder to the U.S. Treasury.

Federal National Mortgage Association:
Loans on the Security of Mortgages

- Purpose: To enable lenders to use their existing mortgage portfolio as leverage to obtain additional funds for urban and real estate lending. Eligible lenders can use their mortgage portfolio as collateral for a secured loan from FNMA in the form of a one-year line of credit. Qualifying new urban mortgages originated with the loan proceedings may be sold to FNMA under any of its regular mortgage programs.
- Eligible Lenders: Any FNMA-approved lender or any other lender directly supervised by a federal agency and insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation or the National Credit Union Administration is eligible for FNMA loans under this program. State supervised and insured lenders may also be eligible.
- Eligible Mortgages:
(Security for loan) The line of credit (loan) must be secured by FHA-insured and VA-guaranteed mortgages which are owned by the lender and are otherwise eligible for purchase under FNMA's whole loan purchase programs. These mortgages need not be on urban properties.
- The funds drawn from the line of credit are used to originate real estate loans on properties determined by FNMA to be located in an urban area. However, these real estate loans may be residential, commercial, industrial or business loans. Newly originated residential mortgages to be sold to FNMA must meet the usual criteria for one of FNMA's regular mortgage programs.
- Process: A lender wishing to pledge a pool of mortgages as collateral for a line of credit from FNMA writes or calls the appropriate FNMA regional office to arrange for a FNMA representative to visit the lender's office and review the files of the mortgages offered as loan collateral. The FNMA reviews each mortgage to determine its acceptability to FNMA. If the mortgages are acceptable, the FNMA representative establishes the line of credit upon the execution of the note and agreement.
- On a quarterly basis for the duration of the loan, the lender submits to the FNMA regional office a list of the collateral pool mortgages and their current market value, and a report on the urban real estate investments that the institution has made in the preceeding quarter.

*For More
Information: FNMA Regional Office. See page 68.*

Federal National Mortgage Association:
Urban Loan Participations

Purpose: To promote and assist in the revitalization of urban areas and to increase the supply of funds for financing purchases of one-to-four unit housing structures. Under this program, FNMA purchases participation interests (between 50-60%, in 10% increments) in pools of conventional mortgages on properties that are located in urban areas. FNMA's participation must be at least \$250,000.

Eligible Lenders: Under this program, FNMA will consider the purchase of participations from FNMA approved conventional lenders or any institution insured or supervised by an agency of the Federal government or any state government. Participating lenders must certify that the proceeds of FNMA's purchase will be reinvested in urban areas in some form, including business, commercial or residential loans.

Eligible Mortgages: Mortgages must be secured by one-to-four unit housing structures or a single-family unit or condominium project approved by FNMA. The property must be located in a zip code area determined by FNMA to be urban in character. The mortgages included in the pool must be sound and acceptable investments from the standpoint of property and borrower qualifications. Loans must meet the requirements stated for the Urban Commitments Program.

Process: Approval of application by FNMA. A master urban loan Participation Agreement is executed by FNMA and the lender.

*For More
Information: FNMA regional office. See page 68.*

Federal National Mortgage Association:
Convertible Urban Standby Commitments

Purpose: To facilitate the purchase of one-to-four unit properties located in urban areas. This program provides more flexibility to the seller than the Urban Commitment Program. The seller does not have to include specific loans in its application to FNMA. The seller also has the option of converting the agreed upon yield at the time of commitment to a lower yield if rates drop during the commitment period.

The program is especially suited for a lender who is initiating aggressive marketing in an underserved urban area. Although the lender does not yet have loan applications, it can insure liquidity by obtaining an upfront commitment from FNMA to purchase the approved loans.

Eligible Lenders: FNMA approved lenders.

Eligible Mortgages: FHA-VA insured and conventional mortgages secured by 1-4 unit structures located in urban areas. Requirements are the same as the Urban Commitment Program.

Process: Upon approval of an application by FNMA, a convertible standby commitment is issued for eight months at a yield in effect on the date of the commitment. After four months, the commitment can be converted to the yield in effect on a given day. At this time, the lender must specify the type of loans to be delivered, either FHA or conventional.

For More Information: FNMA Regional Offices. See page 68.

Federal National Mortgage Association:
Urban Commitments Program

Purpose: To increase the supply of funds available to finance one-to-four unit dwellings in urban areas.

Eligible Lenders: FNMA approved lenders.

Eligible Mortgages: FHA-VA insured or conventional mortgages secured by one-to-four unit dwellings located in urban areas as defined by FNMA. These commitments are issued for specific individual properties that are existing, proposed, under construction or undergoing substantial rehabilitation.

Required Terms: All mortgages with a loan-to-value of greater than 80% must have mortgage insurance.

Single Family, Owner Occupied

<u>Loan to Value</u>	<u>Maximum Term</u>	<u>Maximum Loan Amount</u>
80% or less	30 years	\$93,750
80-90%	30 years	93,750
90-95%	30 years	75,000

Single Family, Non-Owner Occupied

<u>Loan to Value</u>	<u>Maximum Term</u>	<u>Maximum Loan Amount</u>
75% or less	20 years	\$93,750

2-4 Unit (Maximum loan-to-value is 95%)

<u>Maximum Term</u>	<u>Maximum Loan Amount (per unit)</u>		
20-30 years		Non	
	# of bed-rooms	Elevator Structure	Elevator Structure
	0	\$24,375	\$28,125
	1	27,000	31,500
	2	32,250	38,625
	3	39,750	48,375
	4 or more	45,000	54,698

Process: Upon approval of application by FNMA, a four month or six month commitment will be issued to purchase specified mortgage loans at an agreed upon yield.

For More

Information: *FNMA regional office. See page 68.*

Federal National Mortgage Association -
 FHA Insured Project Mortgage Programs -
 Immediate Purchase Contract and Standby
 Commitments

Immediate Purchase Contract

Purpose: To increase the supply of funds available to finance
 FHA insured mortgages secured by multi-family pro-
 perty.

Eligible
 Lenders: FNMA approved lenders.

Eligible
 Mortgages: Project mortgages insured by FHA pursuant to any of
 the following sections or titles are eligible for an
 Immediate Purchase Contract.

207	221(d) (4)	234
207(m)	223(d)	236
213	231	241
213(j)	232	242
220	232(i)	Title X
221(d) (3)	233	Title XI

Process: Eligible lenders can obtain an Immediate Purchase Con-
 tract by applying to the FNMA Washington office. The
 mortgage must be submitted within a specified commit-
 ment term. Unlike FNMA's single-family programs,
 FNMA directly services the FHA insured project mort-
 gages it purchases.

Standby Commitments

This program is similar to the Immediate Purchase
 Contract except that it provides the lender with an
 option to sell or maintain the mortgage within a
 specified term. The term of the commitment is
 usually one year.

*For More
Information: FNMA regional office. See page 68.*

Federal National Mortgage Association:
Rehabilitation Loan Program

Purpose: To increase the supply of conventional financing for the homebuyer, homeowner, builder/developer or investor to purchase (or refinance) and rehabilitate existing one-to-four family properties using a single financing instrument. In financing circles, this instrument is commonly referred to as a "wrap-around" mortgage loan. A portion of the loan is used to finance the purchase and the balance is used to finance rehabilitation.

Eligible Lenders: Banks approved as FNMA conventional Seller/Serviceicers, and insured by the FDIC, and which have the financial capacity and legal authority to execute the FNMA Rehabilitation Loan Program Repurchase Agreement, are eligible to apply for approval for this program. (State banks meeting these criteria may also be eligible.) Lenders must have sufficient staff experience and administrative capacity to originate and supervise these loans properly.

Eligible Mortgages: Conventional first mortgages on existing one-to-four unit properties are eligible. Mortgages must meet the same requirement as FNMA's other programs. The maximum permissible mortgage amount is based upon the appraiser's estimate of the "as completed" value of the property after rehabilitation.

Process: Applications are submitted to the FNMA regional office having jurisdiction over the property location. Upon receipt, FNMA reviews the size and experience of the lender's staff and the lender's estimate volume of rehabilitation financing for the next year.

If accepted, the lender and FNMA execute the Repurchase Agreement, which obligates the lender to repurchase mortgages originated under the Program if rehabilitation and documentation are not completed in accordance with the terms of the Agreement, or if the loan goes into default during the period of rehabilitation.

FNMA issues an Offering Authority to the lender which specifies the amount of rehabilitation mortgages the lenders may administer for FNMA during any one year. (Increases may be granted in certain cases.)

For More

Information: FNMA regional office. See page 68.

Federal National Mortgage Association:
FNMA Participation in Construction Loan
Advances for FHA Insured Multifamily Projects

Purpose: To increase the supply of funds for construction or rehabilitation loans for projects when a lender has an outstanding FNMA or Government National Mortgage Association commitment to purchase a project mortgage insured by FHA. FNMA maximum participation is 95% of construction or rehabilitation loans.

Eligible Lenders: Only active FNMA approved lenders are eligible. The lender must have demonstrated experience in project construction lending.

Eligible Loans: Construction or rehabilitation loans for multi-family projects provided that the lender has an outstanding FNMA or GNMA commitment to purchase the FHA insured project mortgage.

Process: Approval of application by FNMA.

For More

Information: *FNMA regional office. See page 68.*

FNMA Regional Offices

Northeastern Regional Office

510 Walnut Street
 Philadelphia, Pennsylvania 19106
 (215)574-1400

Connecticut

Delaware

District of Columbia

Maine

Maryland

Massachusetts

New Hampshire

New Jersey

New York

Pennsylvania

Puerto Rico

Rhode Island

Vermont

Virgin Islands

Virginia

West Virginia

Southeastern Regional Office

100 Peachtree Street, N.W.
 Atlanta, Georgia 30303
 (404)572-6000

Alabama

Florida

Georgia

Kentucky

Mississippi

North Carolina

South Carolina

Tennessee

Midwestern Regional Office

150 South Wacker Drive
 Chicago, Illinois 60606
 (312)641-0740

Illinois

Indiana

Iowa

Michigan

Minnesota

Nebraska

North Dakota

Ohio

South Dakota

Wisconsin

Southwestern Regional Office

2001 Bryan Tower, Suite 1200
 Dallas, Texas 75201
 (214)744-0311

Arkansas

Colorado

Kansas

Louisiana

Missouri

New Mexico

Oklahoma

Texas

Western Regional Office

3435 Wilshire Boulevard
 Los Angeles, California 90010
 (213)480-6464

Alaska

Arizona

California

Guam

Hawaii

Idaho

Montana

Nevada

Oregon

Utah

Washington

Wyoming

FNMA Central Office

Federal National Mortgage Association
 3900 Wisconsin Avenue, N.W.
 Washington, D.C. 20016

Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation (The Mortgage Corporation) was chartered by an Act of Congress in July, 1970, for the purpose of assisting in the development and maintenance of a secondary market in conventional (other than government-insured) residential mortgage loans. The Mortgage Corporation, through its loan purchasing program, endeavors to contribute to the availability of adequate housing by increasing the funds available for financing housing purchases and rehabilitation.

The FHLMC, also known as Freddie Mac, is a wholly owned subsidiary of the Federal Home Loan Bank System. It was capitalized by the 1970 sale of \$100 million of non-voting stock to each of the 12 banks of the FHLB system. It is under the direction of the Federal Home Loan Bank Board, and its Boards of Directors is the same as that of the Bank Board. It is limited in its mortgage purchase programs to dealing with member institutions of the FHLB System and financial institutions whose deposits are insured by an agency of the Federal government, or, in some cases, under state laws.

FHLMC purchases mortgages and mortgage participations under continuous over-the-counter programs. It finances those purchases through sales of mortgage participations and guaranteed mortgage certificates, advances from the Federal Home Loan Banks, and issuance of GNMA guaranteed, mortgaged backed bonds. It is not funded by the U.S. Treasury or appropriations; it has not issued GNMA guaranteed bonds since 1973; and it decreased borrowing

through the FHLB system in 1975. Its purchase programs are now financed almost entirely through its sales programs. FHLMC buys both single-family (1-4 units) and multi-family conventional mortgages in the form of whole loans and participations.

Unlike FNMA, the Mortgage Corporation does not have special programs to purchase loans in urban areas. Through its conventional home mortgage loan programs it purchases loans secured by urban housing.

The following provides a summary of the programs administered by FHLMC.

Federal Home Loan Mortgage Corporation
Immediate Delivery - Multi-Family Mortgages

Purpose: To increase the supply of funds available for financing the purchase or construction of multi-family property. To achieve this purpose, the corporation purchases conventional multi-family mortgage loans in whole or by participation, purchasing a 100% interest with the seller immediately repurchasing a 15% or 50% interest.

Eligible Lenders: FHLMC approved lenders.

Eligible Mortgages: Conventional mortgages secured by multi-family property. The maximum loan amount is \$7,500,000. The maximum loan-to-value ratio is 80%. The maximum loan amount per unit is stated below.

<u>Number of Bedrooms</u>	<u>Non Elevator Structure</u>	<u>Elevator Structure</u>
0	\$24,375	\$28,175
1	27,000	31,500
2	32,250	38,625
3	39,750	48,375
4	45,000	54,697

Process: Approval of application by FHLMC.

Program: Prior Approval - Multi-family mortgages
Through this program the Mortgage Corporation will commit to purchase mortgage or a participation in a mortgage secured by an acceptable multi-family property. The commitment will be made prior to the granting of the mortgage loan. This gives approved sellers the assurance of a market for these loans. The program requirements are similar to the Immediate Delivery - Multi-family Mortgage Program.

For More

Information: *Regional office of the Mortgage Corporation (FHLMC).
See page 73.*

Federal Home Loan Mortgage Corporation
Immediate Delivery - Home Mortgages

Purpose: To increase the supply of conventional funds available to finance the purchase of one-to-four unit housing structures. To achieve this purpose, FHLMC purchases conventional home (1-4 family) mortgage loans in whole or up to a 95% participation interest.

Eligible Lenders: FHLMC approved lenders which are restricted to members of the Federal Home Loan Bank system or financial institutions whose deposits are insured by an agency of the Federal government, or in some cases, under state laws.

Eligible Mortgages: Mortgages secured by one-to-four unit structures. The mortgages must have the following terms. All mortgage loans with a loan-to-value ratio in excess of 80% must be insured.

<u>Number of Units</u>	<u>Maximum Loan to Value Ratio</u>	<u>Maximum Loan Amount</u>
1-2	95%	\$ 75,000
1	90%	93,750
2	90%	120,000
3	90%	145,000
4	90%	170,000

Process: Approval of application by the Federal Home Loan Mortgage Corporation.

Program: Six Months Forward Commitment - Home Mortgages
Eight Months Forward Commitment - Home Mortgages
These programs operate under standards similar to the Immediate Home Delivery Program. Lenders which obtain commitments through these programs may sell mortgages anytime during the six or eight month commitment. Lenders also have the option not to sell the designated mortgages during the commitment period.

For More Information: *Regional Office of the Mortgage Corporation (FHLMC).
See page 73.*

Locations of the Mortgage Corporation (FHLMC)
Offices Throughout the United States

Northeast

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virginia, Virgin Islands, West Virginia

Louis C. Paretti
Regional Vice President -
Operations
Federal Home Loan Mortgage Corporation
Suite 901
2001 Jefferson Davis Highway
Arlington, Virginia 22202
(703)685-2445

Southeast

Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee

Douglas R. Cottrell
Regional Vice President -
Operations
Federal Home Loan Mortgage Corporation
Peachtree Center, Cain Tower Building
P.O. Box 56566
Atlanta, Georgia 30343
(404)659-3377

North Central

Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, Ohio, South Dakota, Wisconsin

Walter P. Moenning, Jr.
Regional Vice President -
Operations
Federal Home Loan Mortgage Corporation
Suite 1515
111 East Wacker Drive
Chicago, Illinois 60601
(312)861-8402

Southwest

Arkansas, Colorado, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, Texas, Wyoming

Paul W. Quinn
Regional Vice President -
Operations
Federal Home Loan Mortgage Corporation
Suite 1800
12700 Park Central Place
Dallas, Texas 75251
(214)387-0600

Western

Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington

Glenn Vaupel
Regional Vice President -
Operations
Federal Home Loan Mortgage Corporation
Suite 1000
3435 Wilshire Boulevard
Los Angeles, California 90010
(213)487-4800

Headquarters

Stuart N. Wechsler
Director of Community Affairs
Federal Home Loan Mortgage Corporation
P.O. Box 37248
Washington, D.C. 20013
(202) 789-4700

Government National Mortgage Association

The Government National Mortgage Association (GNMA), a corporation within the U.S. Department of Housing and Urban Development, provides a secondary market for certain mortgages used to finance federally assisted housing. GNMA also provides a source of secondary market financing for other types of mortgages.

GNMA, also known as Ginnie Mae, uses two basic tools to support the mortgage market. The first is a mechanism known as the Tandem Plan, through which GNMA makes mortgage money available at rates which are more favorable than private lenders would offer. The second tool is a mortgage backed security guaranteed by the full faith and credit of the U.S. This tool is used to raise capital to finance the purchase of additional mortgages.

The following two GNMA programs are especially significant vehicles for increasing the supply of credit for the purchase, construction and rehabilitation of multi-family housing.

Government National Mortgage Association
Program 25 Tandem Plan

Purpose: To increase the supply and lower the cost of the financing of multi-family housing of more than four units in which a portion of the units are under contract for Section 8 rent subsidy payments. Through this program, GNMA will purchase FHA insured mortgages secured by newly constructed or substantially rehabbed multi-family housing. The program also features a subsidized interest rate of 7.5%.

Eligible Lenders: GNMA will sign selling agreements with any Veteran's Administration "supervised lender" or FHA-approved mortgagees, including national banks, state banks, private banks, savings and loan associations, insurance companies, credit unions or mortgage and loan companies supervised by a state or federal agency.

Eligible Mortgages: FHA insured mortgages secured by newly constructed or substantially rehabilitated multi-family housing which includes units under contract for Section 8 subsidy payments.

For More Information: GNMA programs are administered by FNMA. Additional information can be obtained by contacting the appropriate FNMA regional office. See page 68.

Government National Mortgage Association
Program 27 Tandem Plan

Purpose: To increase the supply and lower the cost of financing for unsubsidized FHA-insured multi-family properties in distressed cities, which are defined as metropolitan cities meeting HUD's eligibility criteria for Urban Development Grants.

Eligible Lenders: Same as Tandem Program 25.

Eligible Mortgages: Unsubsidized mortgages insured under one of the following programs: Section 207, Section 213, Section 220, Section 221(d)(3) market rate, Section 221(d)(4), Section 231 and Section 234(d).

For More Information: GNMA programs are administered by FNMA. Additional information can be obtained by contacting the appropriate FNMA regional office. See page 68.

State Housing Finance Agencies

Over three-fourths of the states in the United States have established housing finance agencies (HFAs). These agencies are engaged in the financing of multi-family and single-family housing for a wide range of income groups.

The first major growth of state housing finance agencies occurred in 1968, following the passage of the Housing and Urban Development Act of 1968 which created the FHA Sections 235 (see page 27) and the now inactive FHA section 236 interest subsidy programs. State HFA's worked closely with HUD in producing Section 236 housing. When the moratorium on HUD subsidy programs was declared in January, 1973, housing finance agencies shifted to indirect financing programs such as mortgage purchase and loans-to-lenders programs.

Housing finance agencies raise capital for programmatic endeavors through the sale of tax-exempt bonds. HFAs are able to compete for capital with higher yield private investments because their bondholders do not pay federal income tax on the interest they receive. HFA bonds are generally not secured by the state treasury but are usually secured by the moral obligation of the state, by a reserve fund, or by mortgages.

The primary programs that state housing finance agencies operate are: construction and permanent financing for multi-family projects, direct mortgage lending for single-family loans; loans-to-lenders and mortgage purchase programs; seed money loans; loan insurance, and housing programs for special needs, such as veterans and the handicapped. A few housing finance agencies are

empowered to act as developers, and a small number provide their own subsidy programs. Most HFAs can also provide technical assistance to nonprofit groups and local governments.

The two programs discussed below - mortgage purchase and loans-to-lenders - are especially relevant for leveraging private lenders to engage in neighborhood reinvestment.

Loans-to-Lenders

Purpose: Loans-to-lenders programs are based on the assumption that private enterprise and investment are not able to provide sufficient long-term mortgage financing for residential housing. The major objectives of these programs have been to channel into the housing market capital which might have been used in non-housing ventures and to bring into the state mortgage market funds from national money and capital markets.

State housing finance agencies use their tax-exempt borrowing power to raise funds. The proceeds of the bonds are used to provide low interest loans to participating mortgage lending institutions which, in turn, agree to use the money to make new residential mortgage loans.

Eligible Lenders: Financial institutions must usually apply to the housing finance agency for participation in the program. Lenders are required to use the loan proceeds to make residential mortgages in a specified time period.

Eligible Borrowers: Some housing finance agencies impose minimum requirements on who can borrow through this program. There usually is a ceiling on the amount of individual mortgage loans and the funds must be used to finance property located within the state. A number of housing finance agencies have restrictions based on the borrower's income; the neighborhood in which the property is located; the condition of the housing stock, neighborhood, housing stock and owner-occupancy. The intent of these more specific requirements is to target the funds to a special population group or geographical area which has experienced difficulty accessing credit through conventional market mechanisms.

Example: The New Jersey Mortgage Finance Agency operates a loan-to-lenders program which has been described as a model program. The New Jersey program provides low-interest loans to mortgage-lending institutions with the requirement that the proceeds be used for residential housing. The agency sets the maximum interest rate that can be charged on the loans originated with these funds and requires that the loans be granted within nine months of receiving the funds.

In an attempt to stimulate inner-city lending, NJMFA has created two options for lenders participating in the loans-to-lenders program. Under Plan A, lenders are permitted to charge the maximum interest rate established by the agency. However, under Plan B, in

which participants agree to make mortgages in credit-deficient areas, lenders can charge an additional .25 percent above the interest ceiling.

The Illinois Housing Development Authority operated a loan-to-lenders program in the mid 1970's. This effort also attempted to target loans to urban neighborhoods by requiring participating lenders to use the proceeds of IHDA loans to make new mortgage loans within the institution's primary service area (PSA).

The PSA is defined as the region composed of contiguous zip code areas within the state where 60 percent of such deposits of the lending institution originate or such other areas agreed upon by IHDA and the lending institutions. A lending institution that uses the proceeds of the IHDA loans to originate mortgages outside its PSA would be disqualified from the program. The program is currently inoperative.

For More

Information: *Consult the chart on page 85 which lists the state housing finance agencies and indicates whether HFAs are authorized to operate or are actually operating loans-to-lenders programs. If your state is not operating such a program, consider using the program of another state agency as a model for your state to adopt.*

Mortgage Purchase Program

Purpose: As with loans-to-lenders programs, the enabling legislation for state mortgage purchase programs typically contains a legislative finding that recognizes a serious shortage of housing for low and moderate income families and persons. The basic mechanics of mortgage purchase programs are somewhat different than loans-to-lenders programs. As with loans-to-lenders programs, HFAs raise their capital through the sale of tax-exempt bonds. Using the proceeds from these sales, the agencies purchase existing home mortgage loans from the state's lending institutions. In order to guarantee the effectiveness of the program in generating new mortgages, a financial institution that sells mortgage loans to the HFA must agree to make new residential mortgage loans in an amount equal to the purchase price it received within a certain period of time.

Eligible Lenders: Financial institutions approved by the housing finance agency to participate in the program.

Eligible Borrowers: Mortgage purchase programs usually feature individual mortgage loan limits and are usually restricted to one-to-four unit owner-occupied properties. In some cases, family income and geographical restrictions are applied. The programs are exclusively for single-family housing.

Example: The New Jersey Mortgage Finance Agency (NJMFA) established a Neighborhood Mortgage Loan Purchase Program in 1977. The goal of the program is to encourage private investment in New Jersey cities by lowering interest rates, removing the risk to lending institutions, and encouraging municipal investment in eligible neighborhoods. The program involves a commitment by NJMFA to purchase mortgages originated by private lenders for the purchase of one-to-four family housing units in eligible neighborhoods. The agency's staff determines which neighborhoods are eligible by reviewing census data and mortgage lending activity within individual neighborhoods. Once the staff has decided that a neighborhood is not receiving sufficient financing, a determination will be made concerning the prudence of granting mortgages to neighborhood residents.

In examining the neighborhoods, the Agency looks at such factors as median family income, present level of home ownership, condition of housing stock, number of single-family dwellings, existence of concerned community groups, and the likelihood that adequate municipal services will be maintained.

To insure the quality of mortgages granted under the program, NJMFA attempts to provide homeownership counseling services to potential borrowers in eligible neighborhoods. The program staff also actively promotes the mortgage effort through aggressive marketing to inform residents of the availability of mortgage credit.

*For More
Information: See attached chart.*

Name of Housing Agency	Single Family Mortgage Purchase	Single Family Loans to Lenders	Multi- Family Mortgage Purchase	Multi- Family Loans to Lenders	Seed money loans to non-profit developers
Alaska Housing Finance Corp.	Y	N	Y	N	N
Arkansas Housing Develop.	Y	N	Y	N	N
California Housing Finance	Y	Y	Y	N	Y
Colorado Housing Finance	Y	N	Y	N	N
Connecticut Housing Finance	Y	N	Y	N	N
Delaware State Housing Auth.	Y	Y	Y	N	Y
Georgia Residential Finance	Y	Y	Y	N	Y
Hawaii Housing Authority	N	N	N	N	N
Idaho Housing Agency	Y	N	N	N	N
Illinois Housing Development	N	Y	N	Y	Y
Iowa Housing Finance Authority	Y	N	N	N	N
Kentucky Housing Corporation	Y	Y	Y	Y	Y
Maine State Housing Authority	Y	Y	Y	N	N
Maryland Community Develop.	Y	N	Y	N	N
Massachusetts Home Mortgage	Y	Y	Y	N	N
Massachusetts Housing Finance	N	N	N	N	N
Michigan State Housing Develop.	N	N	N	N	Y
Minnesota Housing Finance	Y	N	Y	N	Y
Missouri Housing Develop. Comm.	Y	N	N	N	Y
Montana Board of Housing	Y	Y	Y	Y	N
Nebraska Mortgage Finance Fund	Y	N	N	N	N
Nevada Housing Division	Y	Y	Y	Y	N
New Hampshire Housing Finance	Y	Y	Y	Y	N
New Jersey Mortgage Finance	Y	Y	Y	Y	NA
New Jersey Mortgage Finance	N	N	N	N	Y
New Jersey Housing Finance	Y	N	Y	N	N
New Mexico Mortgage Finance	Y	Y	N	N	N
New York City Housing Develop.	N	N	Y	Y	N
New York State Housing Finance	N	N	Y	Y	N
North Carolina Housing Finance	Y	Y	Y	N	Y
Ohio Housing Development	Y	Y	Y	N	Y
Oklahoma Housing Finance	Y	N	Y	N	Y
Oregon Housing Division	Y	Y	N	N	N

Name of Housing Agency	Single Family Mortgage Purchase		Single Family Loans to Lenders		Multi- Family Mortgage Purchase		Multi- Family Loans to Lenders		Seed money loans to non-profit developers	
	Auth	Oper	Auth	Oper	Auth	Oper	Auth	Oper	Auth	Oper
Pennsylvania Housing Finance	N	N	N	N	N	N	N	N	Y	N
Rhode Island Housing & Mort.	Y	Y	Y	Y	Y	N	Y	N	N	N
South Carolina State Housing	N	N	N	N	N	N	N	N	N	N
South Dakota Housing Develop.	Y	Y	Y	N	Y	N	Y	N	Y	N
Tennessee Housing Develop. Ag.	Y	N	Y	N	Y	N	Y	Y	Y	Y
Utah Housing Finance Agency	Y	Y	N	N	Y	N	N	N	N	N
Vermont Housing Finance Agency	Y	Y	Y	Y	Y	N	Y	Y	Y	N
Virginia Housing Development	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
West Virginia Housing Develop.	Y	Y	Y	Y	Y	N	Y	N	Y	N
Wisconsin Housing Finance Auth.	Y	N	Y	N	Y	N	Y	N	Y	N
Wyoming Community Develop. Auth.	Y	N	Y	N	Y	N	Y	N	N	N

5. FINANCIAL INSTITUTION AFFILIATES

For the last decade, the debate about disinvestment and reinvestment has focused on the availability of long-term credit (debt-financing), especially for the purchase of housing in older neighborhoods. An examination of the credit of many neighborhoods, however, will indicate that although the availability of debt financing is a necessary condition for economic revitalization, it is insufficient. Without equity investment by private investors in housing, commercial and industrial projects, the economies of inner city neighborhoods will not be rebuilt. Over the last ten years, federal financial institution regulatory agencies have gradually recognized the need to create mechanisms which can provide equity financing and engage in development activities in concert with community-based organizations. In response to this recognized need, the regulatory agencies authorized financial institutions to create subsidiaries capable of investing in and undertaking the development of neighborhood projects.

National bank subsidiaries, bank holding company subsidiaries and savings and loan association subsidiaries (service corporations) represent promising vehicles for neighborhood revitalization. However, without collaboration with indigenous neighborhood organizations and careful regulatory oversight to insure that these corporations are more concerned about community development than profit maximization, these entities could disserve the residents of the area they are chartered to serve, especially low and moderate income families.

Thus, it is critically important that community organizations play an active informed role in shaping, implementing and monitoring the reinvestment programs of the subject financial institutions. It is hoped that the program descriptions which follow will help enhance the capacity of the community organizations to effectively use financial institutions in the revitalization of their neighborhoods.

This section briefly describes examples of the mechanisms which can be suggested to financial institutions to enable them to make equity investments and engage in development activities. Although community organizations should proceed cautiously when advocating these activities, they can substantially benefit neighborhood residents if properly structured and monitored.

Community Development Corporations
as Subsidiaries of National Banks

Purpose: National banks are not permitted to invest directly in real estate or engage in the development or management of real estate. This vehicle was authorized by the Comptroller of the Currency to permit nationally chartered commercial banks to expand their capacity to meet community development needs by making equity investments in real estate and undertaking housing development directly as well as providing loans.

Authority: Comptroller of the Currency; interpretive ruling 12 U.S.C. 24(a)(8).

Eligibility: Any national bank, subject to the Comptroller's approval, may invest in a CDC under the following conditions.

1. The project is of a predominantly civic, community or public nature, not merely private.
2. The bank's investment in any one project does not exceed two percent of its capital and surplus.
3. Its aggregate investment in all such projects does not exceed 5% of its capital and surplus.

A community development corporation approved under this program can directly initiate or participate in housing, commercial and industrial development activities, such as:

- serving as an information clearinghouse between the bank and the local community.
- acquiring, owning, rehabilitating, constructing, managing, selling or promoting real property in a designated area.
- making loans or grants to further any project related to the CDC's activities.
- conducting or contracting for research and studies related to community development objectives.
- providing technical assistance on planning, financing and implementing related activities.

Examples: Four community development corporations have been created under this program. They are the North Carolina National Bank Community Development Corporation, the First Chicago Neighborhood Development

Corporation, the First National Bank of Rockford's Community Development Corporation, and Mercantile Trust, N.A. (St. Louis) Community Development Corporation.

The North Carolina National Bank subsidiary has been engaged in housing development in Charlotte, N.C., while the First National Bank of Chicago subsidiary has engaged in housing rehabilitation in the South Shore neighborhood of Chicago.

The First Rockford and Mercantile Trust CDCs were recently approved and are not yet engaged in development activities.

For More

Information: *Michael Barton or James Vitarello, Office of the Comptroller of the Currency, Washington, D.C. 20219 (202)287-4169.*

Community Development Subsidiaries
of Bank Holding Companies

Purpose: Community development subsidiaries of bank holding companies can provide a useful vehicle for reinvestment. Unlike banks - which are prohibited by law from making equity investments - these subsidiaries are able to become part or sole owners of real estate projects. As part-owners, these subsidiaries can provide additional capital to community development corporations and thereby assist in making them eligible for bank credit. Alternatively, the community development subsidiary can act on its own to purchase, rehabilitate, manage and/or sell single and multi-family properties.

Authority: 1970 Amendments to the Federal Bank Holding Company Act as interpreted by the Federal Reserve Board.

Eligibility: Any bank holding company may apply to the Federal Reserve Board for permission to establish a community development subsidiary. The board employs several criteria in reviewing the application including: whether proposed activities of the subsidiary will produce benefits to the public that outweigh possible adverse effects.

In 1971, the Board declared that it would permit BHC subsidiaries to make equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low income areas.

In its 1972 interpretation, the Board identified a list of specific projects that it deemed permissible. These included projects for the construction or rehabilitation of low and moderate income housing insured by the federal government under Sections 221(d)(3), 221(d)(4) or 236 of the National Housing Act, or similar projects that are insured by state housing finance agencies. The Board also included a list of projects that "may" be deemed permissible as follows: housing projects for low and moderate income people which are not insured by public agencies; and commercial facilities which are designed to serve low and moderate income persons.

Example: Since the passage of the 1970 Amendments to the Bank Holding Company Act, twelve bank holding companies have established CDC subsidiaries.

In 1977, the Illinois Neighborhood Development Corporation - the holding company for South Shore Bank of Chicago - received permission from the Federal

Reserve Board to organize a for-profit community development subsidiary called City Lands Corporation (CLC). The subsidiary operates by purchasing, rehabilitating, and reselling abandoned and sub-standard properties by using equity participation with developers to help them qualify for credit or by acting on its own. City Lands is currently engaged in a partnership with RESCORP, a savings and loan service corporation and First Chicago Neighborhood Development Corporation, a for-profit national bank subsidiary, to rehabilitate 420 rental units in the South Shore neighborhood.

For More

Information: *William H. Wiles, Federal Reserve Board, Washington, D.C. 20551. (202)452-3421.*

Savings and Loan Service Corporations

- Purpose: A service corporation is a subsidiary of one or more savings and loan associations which is formed to provide specific services to the parent association(s) including:
- originating, purchasing, selling and servicing loans;
 - management and administrative services;
 - acquiring unimproved real estate for resale or for development, subdivision and construction of housing;
 - managing and maintaining rental real estate owned by parent associations; and
 - serving as an insurance broker or agent.
- Service corporations can be used as a mechanism to involve one or more savings and loan associations in neighborhood revitalization. Although there are many service corporations engaged in the activities listed above, only a few have been created or adapted to engage in inner city housing development.
- Authority: Federal Home Loan Bank Board.
- Eligibility: One or more savings and loan associations may invest in the capital stock, obligations or other securities of a service corporation engaged in the acquisition, rehabilitation, management or real estate in urban neighborhoods. For specific investment limitations and permissible activities, see Federal Regulations 847, Section 549-1, Service Corporations.
- Examples: Two examples of service corporations engaged in urban housing development are the Chicago Area Renewal Effort Service Corporation (RESCORP) and the Greater Southwest Service Corporation. RESCORP has fifty-five Chicago area savings and loan associations as shareholders. The organization's long term goals are:
1. To engage in actions related to housing which aid in the solution of urban problems;
 2. To be a profitable venture, but to define profit both in terms of the bottom line and economic improvement in the community; and
 3. To demonstrate and represent the collective concern of its shareholders and the savings industry as a whole for the urban condition.

Since 1973, RESCORP has rehabilitated 462 apartments through the use of a mixture of public and private

financing including Section 8. The corporation is currently engaged in the rehabilitation of 442 units.

Another example of a service corporation engaged in housing rehabilitation is the GSWSC. This corporation was established by several savings and loan associations which have offices on the southwest side of Chicago. The corporation was created to work with the Greater Southwest Development Corporation in revitalizing the commercial and residential blocks of the area. The activities of the service and development corporations are designed to indicate the commitment of lending institutions to the area, thereby instilling confidence in the future of the community by area residents, business persons and investors. The two corporations believe they are beginning to accomplish this goal through the acquisition and rehabilitation of key properties.

For More

Information: *Federal Home Loan District Bank office, see page 53.*

Savings and Loan Association Investments
in Areas Receiving Concentrated HUD Assistance

- Purpose: Within many urban neighborhoods, the provision of credit for housing acquisition and rehabilitation is a necessary, but insufficient condition to foster revitalization. In neighborhoods characterized by older multi-family housing there is often a special need for the investment of long term capital to acquire deteriorating housing and to attract loans to finance rehabilitation. Recognizing this problem the Federal Home Loan Bank Board promulgated regulations to permit federal associations to directly invest in areas receiving concentrated assistance. Prior to this action, associations were not permitted to invest directly in real estate.
- Eligibility: Federal savings and loan associations may invest an amount equal to 5% of assets in real estate in areas receiving concentrated assistance under Title I of the Housing and Community Development Act of 1976, e.g., Neighborhood Strategy Areas, Housing Assistance Plan, Urban Development Action Grant and former Urban Renewal areas. The regulations permit 2% of the 5% to be invested in real estate on a direct equity basis. The remaining 3% must be invested in real estate.
- Examples: The authors are not aware of any savings and loans associations which have invested in real estate under the auspices of this program.
- For More*
Information: *Community Investment Officer, District Federal Home Loan Bank. See page 53.*

6. NEIGHBORHOOD REINVESTMENT CORPORATION

The Neighborhood Reinvestment Corporation (NRC) was created by Title VI of the Housing and Community Development Act Amendment of 1978 known as the National Reinvestment Corporation Act. The predecessor of the Reinvestment Corporation, the Urban Reinvestment Task Force, grew out of an effort in the early 1970's by the Federal Home Loan Bank Board to increase urban lending by savings and loan associations. It is based on the principle that, through constructive partnerships among financial institutions, local governments and community organizations, effective neighborhood revitalization is possible.

The Corporation receives direct appropriations from Congress in order to provide technical assistance and seed money to neighborhood groups who are involved in urban reinvestment. NRC supports local government, financial institutions and residents engaged in neighborhood revitalization through its two major programs: Neighborhood Housing Services (NHS) and Neighborhood Preservation Projects (NPP).

Neighborhood Housing Services (NHS)

Purpose: NHS is a local private, not-for-profit organization that is controlled by a board of directors composed of neighborhood residents, representatives of financial institutions and representatives of local governments. The program is designed to stimulate revitalization of neighborhoods which have the following characteristics:

- clearly defined boundaries
- 1,000 to 2,000 buildings (this figure may be less in smaller cities);
- basically sound housing structures;
- are in the early stages of deterioration;
- a large percentage of owner-occupied housing;
- low levels of home improvement and mortgage lendings; and
- families with incomes that are sufficient to cover typical repair costs.

Neighborhood

Eligibility:

A neighborhood desiring to organize an NHS program should share many of the characteristics stated above and commitments from neighborhood residents, local government and financial institutions. Residents must be committed to preserving the neighborhood and be willing to invest substantial effort to make the program successful. Local government must demonstrate its support by providing improved public services to the neighborhood and administering a housing code inspection program. Local financial institutions must be willing to make loans at market rate to creditworthy individuals and to contribute to the NHS operating budget.

Services

Provided:

NHS programs feature a high risk revolving loan fund that is available at flexible rates and terms to any resident who does not meet conventional underwriting standards. The NHS staff usually consists of 2-4 persons who provide financial counseling, administer the revolving loan fund, assist residents with rehabilitation specifications and bids, monitor contractor's work and act as a liaison with city agencies.

For More

Information:

*Neighborhood Reinvestment Corporation
Program Development Division
1700 G Street, N.W.
Washington, D.C. 20552*

Neighborhood Preservation Projects (NPP)

Purpose:

The Neighborhood Preservation Projects Program was created to enhance neighborhood revitalization activities, especially promising model projects which have potential transferability to other neighborhoods. NRC provides developmental funding and technical assistance for a limited number of selected demonstration projects involving a partnership of neighborhood residents, lenders and local government. Examples of some of the areas NPP projects address include:

- Mechanisms addressing the displacement of neighborhood residents due to increased housing costs;
- Neighborhood-controlled rental resources involving rehabilitation, ongoing maintenance and management assistance of buildings;
- Energy conservation integration with rehabilitation; and
- Condominium conversions benefiting low and moderate income residents.

Eligibility:

Selection for participation in an NPP project is based on the replicability of the project, the willingness of local government to provide financial and technical support for the project, the technical capabilities of the project sponsors, and the willingness of the sponsors to aid the corporation in assisting others interested in replicating the project.

*For More*Information:

*Neighborhood Preservation Projects
Neighborhood Reinvestment Corporation
1700 G Street, N.W. Fifth Floor
Washington, D.C. 20552*

USEFUL BANKING TERMS

USEFUL BANKING TERMS

Amortization: Periodic payment on the principal sum of a mortgage loan.

Ancillary Income: Any income on an apartment project in addition to that from rent. Example: coin laundry, etc.

Annual Constant Payment: A combination of interest and loan amortization payments expressed as a percentage of the principal.

Appraisal: Estimate of the real or market value of a property. That is, a valuation based on such factors as comparable sales or reproduction costs or income projections.

Appreciation: The increase in value of property caused by economic factors or inflation.

Assessed Valuation: The value assigned to real estate by a taxing authority for real estate tax purposes, usually a percentage of the market value of the property.

"Balloon" Mortgage: A long-term loan that is to be paid off in a lump sum at the end of a specified term. (As opposed to a self-amortizing loan.)

Break-Even Point: Amount of income, usually expressed in terms of a percentage of total income or occupancy, to cover operating expenses, debt service, and vacancy loss when referring to rental property.

Capitalization: Determination of present value based on current and future anticipated income.

Capitalization Rate: The current rate of return arrived at by dividing the net income of the property by the estimated value.

Cash Flow: Income remaining after paying debt service and operating expenses.

Closing: A meeting of the parties to either a mortgage transaction or transfer of title to property at which the documents necessary to accomplish these events are executed.

Construction and Development Loans: Short term loans usually (up to three years). Construction loans finance the building of residential, commercial and industrial structures. Development loans finance the purchase of unimproved land and the installation of site improvements, i.e., utilities, drainage, sewers, and roads.

Debenture: A promissory note backed by the general credit of a company and usually not secured by a mortgage or lien on any specific assets.

Debt Service: The cost of servicing the repayment of a mortgage loan including usually, principal and interest.

Deed: The legal written instrument that conveys title to real property.

Depreciation: The decline in value of an asset over a period of time as a result of age, use, physical deterioration and functional or economic obsolescence.

Earnest Money: The deposit paid to a seller usually by a potential buyer to demonstrate serious intent.

Equity: The value in a property in excess of all indebtedness against the property.

Equity Participation: A method of financing apartment (as well as commercial) construction enabling the lender to "get a piece of the action". In return for financing the project, the lender takes a percentage of the rent receipts or other equity interest.

Equity Syndication: The sales of shares or interests in the equity portion of a real estate financing package. This permits those investing in the project to share in its profits and losses. This method is often used in projects where significant paper losses through depreciation are expected during the project's early years. Investors are generally seeking a share in the losses for tax purposes. Equity syndication is most common when used in conjunction with a limited partnership form of ownership, where the equity investors are limited partners whose potential liabilities are limited to only their share.

Escrow: Delivery of a deed, bond, or money to a third person to hold until all conditions in a contract are fulfilled.

Exculpatory Clause: Language in a financial instrument whereby the personal liability of specific parties will be excluded from the transaction.

Fair Market Value: Price at which a willing seller and a willing buyer will do business.

Foreclosure: Legal proceeding by a lender that bars a mortgagor's right to redeem a mortgage when regular payments have not been made.

Front Money: A sum that includes funds needed to pay for the land, permanent financing fees, legal fees, title insurance and other closing costs not included in the construction loan.

Gross: The total income from the operation of the business management of the property, customarily stated on an annual basis.

Gross Rent Multiplier: A rough estimate of the value of the property based on a multiple of the gross rent.

Holdback: The portion of a loan commitment that is not funded until some additional requirement is met (rental, completion, etc.)

Income Limits: The family income limits established for admission into low and moderate income housing, which may not be exceeded if the families are to be eligible to rent or buy.

Interim Financing: The loan that covers construction costs and other incidental expenses attributable to the construction period. This is sometimes referred to as a "construction loan."

Intermediate-Term Loans: Interim financing (average 1-5 years, maximum 10 years) on income producing projects prior to arrangement of permanent financing.

Institutional Lender: A mortgage lender that invests its own funds in mortgages and carries a majority of such loans in its portfolio; i.e., mutual savings banks, life insurance companies, commercial banks, savings and loan associations.

Insured Loan: A loan on which an agency (such as FHA) insures the lender against loss of some or all of the principal. In addition to government agencies such as FHA and VA (which guarantees the loan) it also includes private mortgage insurance.

Interest Rate: Usually expressed as a percentage and included as part of the terms and conditions of a mortgage loan.

Lease: The contract whereby a piece of real estate, usually a residence or office space, is rented.

Lessee: One who contracts to rent real property from another.

Lessor: The owner who leases to a tenant.

Leverage: The ability to utilize borrowed money in order to purchase real property.

Lien: A charge upon property for the payment of a debt. Example: Lien placed on property by craftsmen who have worked to create or improve the property. (Also, the lien of a deed or trust or mortgage).

Maximum Loan-to-Value Ratio: The highest proportion of the selling price or appraised value of property (whichever is less) that the loan amount can represent.

Mortgage: A conditional transfer of property to secure a debt. The mortgage is terminated upon the repayment of the debt.

Mortgage-Backed Securities: Securities issued against a pool of FHA and VA mortgages guaranteed by the Government National Mort-

gage Association and the "full faith and credit of the United States".

Mortgage Banking: The business of providing mortgage funds to improve land or buildings or to purchase buildings. Usually sold later to a permanent investor with servicing retained at a specified fee.

Mortgage Commitment: A formal written communication from a lender agreeing to make a mortgage loan on specific property, specifying the loan's amount, length of time, interest rate and conditions.

Mortgagee: A lender who provides the money for the mortgage; generally includes banks, insurance companies, savings and loan associations, etc. The lender who has agreed to lend money to the mortgagor.

Mortgagor: The borrower, be it a person, corporation, or other entity, who pledges property as security for a loan.

Open-End Mortgage: Mortgage, or deed of trust, written so as to secure and permit additional advances beyond the amount of the original loan.

Option: The right to buy property at an agreed upon price within a specified time, binding upon the seller if the purchaser has given some form of consideration.

Pass-through Securities: Term that refers to the Government National Mortgage Association mortgage-backed security program where principal and interest are passed through to the investor as collected on the mortgages.

PITI: Principal, interest, taxes and insurance.

PMI: Private mortgage insurance. A private company providing insurance to a mortgage lender on specific real estate loan. Such insurance is usually on the top part of the loan and enables conventional lenders to make higher ratio loans.

Points: A point is a charge of 1 percent of the mortgage value, a charge assessed by the lender to increase the yield income from the mortgage loan to a position competitive with the yield from other types of investments. The Government prohibits buyer from paying points on FHA-VA insured mortgage loans.

Principal: Amount of money borrowed from the lender.

Second Mortgage: A mortgage or deed of trust on property placed subsequent to an existing mortgage. The second mortgage holder's interest is secondary to the first (existing) mortgage holder's.

Secondary Financing: A loan typically secured by a second mortgage or deed of trust on real property.

Seed Money: Funds needed to develop preliminary plans, obtain zoning, control the site and complete feasibility studies.

Settlement Expense: Different from closing costs but still involving charges that a buyer or seller has to pay at closing. Settlement costs include insurance and tax payments, special assessments for improvements to municipal facilities and sales commissions.

Subordination: A financial term denoting the willingness of the holder of a lien, or indenture, to accept payment behind another creditor.

Tandem Plan: The purchase by Government National Mortgage Association (Ginnie Mae) of certain mortgages at a supported price for subsequent resale at market prices to the Federal National Mortgage Association (Fannie Mae) and other investors.

Thrift Institution: A financial institution chartered by the state or federal government to accept deposits and make loans. By offering higher rates to savers on deposits, these institutions encourage savers, hence the name "Thrift Institution." Typical thrift institutions are savings and loan associations and mutual savings banks. By this definition, commercial banks are not considered thrift institutions.

Title: Evidence (usually in the form of a certificate or "deed") of a person's legal right to ownership of property.

Usury: Interest in excess of a legal rate to a borrower for the use of money.

Working Capital: Cash and other liquid assets available to carry out a real estate project.

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