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HOME MORTGAGE LENDING
New Products, New Partnerships, New Means of Ownership

Beth McMurtrie, Federal Reserve Bank of Boston

Until the first government-sponsored mortgage insurance program made its appearance in 1934, private mortgage financing catered primarily to the well-off. Mortgage lenders typically required large down payments on homes and rarely offered loans with terms longer than five years. At the height of the Great Depression, with mortgage lending and homebuilding at a virtual standstill, the introduction of the Federal Housing Administration marked the advent of low-interest, long-term mortgage loans with low down payments. Homeownership was soon to become achievable for middle-income Americans.

Since that time an entire industry has developed around the home mortgage market, one that has worked extraordinarily well in getting middle-income families into homes they can afford. In 1990, 64 percent of all households in this country owned their home. Private mortgage insurance and the secondary mortgage market have also helped make home mortgage lending a relatively low-risk and profitable venture for banks, thrifts, and mortgage companies. By 1991, the volume of single-family mortgage loan originations (excluding refinancings) had reached $393 billion.

Yet these statistics do not tell the entire story. Homeownership rates among first-time homebuyers, minorities, and lower-income families have been declining for more than a decade. With housing prices still very high relative to income, high down payment costs and steep monthly mortgage payments are the primary impediments to ownership. One study estimates that only 17.2 percent of all renters, and only 4.2 percent of black renters, have both the savings and the income to afford to buy a home, even when given the option of taking out a larger loan with a very low (5 percent) down payment.

In response, mortgage lenders, government agencies, private mortgage insurers, and secondary mortgage market corporations have begun to develop new products to serve low- and moderate-income homebuyers. Inherent in the restructuring of the mortgage lending market is the belief that home mortgages are still one of the safest products that lenders and investors can provide. Many lenders are now offering first-time homebuyer programs with very low down payment requirements and flexible underwriting standards. These programs often provide some form of buyer education and may offer below-market interest rates as well. Some public and nonprofit agencies offer second mortgages with flexible repayment terms to help reduce the costs of homeownership even further.

This issue of *Communities & Banking* looks at several relatively recent developments in the housing market. Our first article, "Breaking into the Housing Market through Affordable Housing Dispositions," describes several programs developed in response to the real estate industry collapse of the late 1980s. In "Cooperative Approaches to Living," cooperatives are presented as one of several ownership options that offer an alternative to the traditional single-family home. Lenders looking for a source of low-cost, fixed-rate funds to develop mortgage or home improvement loan programs for lower-income customers should read "How to Finance a First-Time Homebuyer Program with Matching Federal Home Loan Bank Funds." The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 is summarized in an article that explains what lenders and buyers should expect from Fannie Mae and Freddie Mac in the coming year. Finally, one of the many innovative and successful homeownership programs in New England is profiled in "Good Samaritans." Its story demonstrates how lenders and community organizations can work together to design creative, effective homebuyer programs for lower-income customers. CB

Free subscriptions and additional copies of **Communities & Banking** are available upon request to the Public and Community Affairs Department, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Or call Sheryl Snowden at (617) 973-3097.

Financial institutions, community-based organizations and other organizations involved in community development that have interesting projects, programs or ideas that they would like to have mentioned in **Communities & Banking** should contact:

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BREAKING INTO THE HOUSING MARKET THROUGH AFFORDABLE HOUSING DISPOSITIONS

Paul Williams, Federal Reserve Bank of Boston

Housing prices in the Northeast are among the highest in the nation, making homeownership all the more difficult for New England's low- and moderate-income homebuyers. For these prospective homeowners, programs for affordable housing disposition may be worth looking into.

Housing disposition programs run by federal agencies and secondary mortgage market corporations are designed to sell foreclosed commercial and residential properties through auctions, sealed bids, and arrangements with real estate brokers. The programs are open to the general public and properties are sold to the highest bidders. Congressional legislation mandates that many of these agencies set aside a portion of their inventory for low- and moderate-income buyers.

Special programs created for disposition of affordable single-family housing sell foreclosed condominiums and one- to four-family properties. Depending on the selling agency, properties may be bought for as little as $20,000. To ensure that properties are not bought by investors, buyers must agree to occupy them for a specified length of time and often are required to remit portions of any profit earned if the property is resold too soon.

These programs have had a low profile in New England. Moreover, getting reliable information about the different programs and their properties can be difficult. In Texas, buyers can call a single "Hotline" phone number to receive information about the various disposition programs. The programs in New England operate independently, however, and homebuyers must do some research to learn which programs are active, what their guidelines are, and what properties are available.

Buyers should also be aware that disposition programs have their limitations. By its nature the disposition market does not offer much variety. Many homes are in need of repair, or are condominiums that come with their own set of problems. Yet those able to invest the time and energy could save thousands of dollars.

Federal Deposit Insurance Corp. Auctions and Sales

The Federal Deposit Insurance Corporation (FDIC) sells foreclosed properties acquired from failed commercial banks. The 1991 FDIC Improvement Act requires that the agency make some of its residential properties available for affordable housing. With only five million dollars in appropriations, FDIC officials admit to some difficulties in getting the program started. FDIC auctions and sales of condominiums and one- to four-family properties are under way, however, and for those willing to go through the process, they can offer very good deals.

"So far approximately 666 single-family properties in New England have been sold to qualified buyers, with an estimated value of $21.7 million," says Jack Taylor, Senior Disposition Specialist for the FDIC. Close to 1,100 affordable housing properties in the New England area, valued at around $52 million, still remain and will be made available through the FDIC's Northeast Sales Center. (See the box, "Affordable Housing Disposition Program Comparison.")

Qualified buyers of FDIC properties may not have adjusted incomes greater than 115 percent of the area median. Further, program participants must agree to use the properties as their primary residences for at least one year. If a property is resold within twelve months after its purchase from the FDIC, 75 percent of any profit must be remitted to the agency. Eligible properties are identified by their appraised values, with their condition ranging from poor to good.

The FDIC allows current tenants to purchase their residences whether or not they are income-eligible. Tenant sales, however, are subject to the FDIC's occupancy and profit-recapture requirements. Properties can also be purchased by nonprofit organizations and public agencies that intend to provide rental units for low-income families or to rehabilitate and resell properties to low- and moderate-income families.

The FDIC offers buyer incentives in the form of rebates and discounts on the purchase of certain single-family properties. Rebates and discounts are limited to 10 percent of a property's purchase price and can be used in a variety of ways to help reduce the cost of buying the property. Though the FDIC does not offer mortgage financing, it does work with local lenders to try to ensure that financing is available for its properties.

The FDIC has held three affordable housing auctions in New England and the agency plans to hold several others this year, though dates have not yet been set. Sales of single-family properties are ongoing through the FDIC Northeast Sales Center.

RTC & Fannie Mae

Resolution Trust Corporation (RTC) properties are acquired from thrifts that previously held them in foreclosure. The properties are held for sale to qualified households, nonprofit organizations, and public agencies for 97 days, after which they may be sold to the general public. Federal National Mortgage Corporation (Fannie Mae) properties come from its foreclosures on bad mortgages. Fannie Mae properties can be bought by anyone but only qualified buyers may receive special financing for affordable housing.

As in the case of FDIC properties, the condition of RTC and Fannie Mae properties varies. They are eligible for the affordable housing programs based on their appraised values, and carry owner occupancy restrictions and income limitations.

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Affordable Housing Disposition Program Comparison

	FDIC	RTC	FANNIE MAE
Eligible Properties Condos and one-family Two-family Three-family Four-family	Maximum appraised values $101,250 $114,000 $138,000 $160,000	Maximum appraised values $67,500 $76,000 $92,000 $107,000	All foreclosed condominiums and one- to four-family properties.
Qualified Buyers	Maximum income: 115 percent area median	Maximum income: 115 percent area median	Properties may be bought by anyone but only income-qualified buyers may receive the affordable housing program financing.
Terms of Sale	180-day marketing period (12-month owner occupancy requirement)	180-day marketing period for condominiums 97-day marketing period for one- to four-family properties (12-month owner occupancy requirement)	No restriction (12-month owner occupancy requirement under Home Advantage Program)
Seller Financing	No, but discount or rebate up to 10 percent of purchase price.	Yes, 3-5 percent down payment 15-year loans if below $50,000 30-year loans if above $50,000 Rehab up to 25 percent of appraisal or $5,000, whichever greater	Yes, 3-5 percent down payment Closing cost assistance No mortgage insurance needed (Home Advantage financing is provided by Massachusetts Housing Finance Agency)
For More Information	Northeast Sales Center (800) 365-0381	Regional Sales Center (800) 782-6326 (800) 624-HOME In Massachusetts (800) HOME-111	Philadelphia Regional Office (215) 575-1400 In Massachusetts (800) HOME-111

COOPERATIVE APPROACHES TO LIVING

Paul Williams
Federal Reserve Bank of Boston

The constituents of affordable housing – from the homeless to moderate-income families to the elderly and people with disabilities – have very different housing needs. What they have in common are limited incomes and the need for stable, affordable housing.

To meet these requirements, housing advocates and developers have had to redefine the traditional concept of home, and private lenders increasingly are being asked to finance alternative housing projects. (See the box on page 6, "Alternative Housing & Ownership Arrangements.") To lenders unfamiliar with the ownership arrangements and sources of equity and debt financing available to these projects, alternative housing can appear risky. But if properly structured, these projects pose no greater risk than conventional mortgage lending, and can provide long-term, locally controlled affordable housing to fit the needs of particular lower-income communities.

The Cooperative Approach

An increasingly popular form of alternative housing, cooperatives offer residents continued affordability and a voice in how their homes are managed. They are also typical of alternative housing structures in terms of the long-range planning, nontraditional financing, and resident participation necessary to make them work.

Housing cooperatives can take a number of forms, but they are generally nonprofit corporations that own and operate multifamily residences for the benefit of the occupants. Cooperative members buy shares in the corporation and pay monthly carrying charges. In exchange, they receive long-term leases and a voice in how the cooperative is run. While shareholders can live in their particular units permanently, they own corporation shares only, not the units themselves.

A housing cooperative is operated according to bylaws developed by co-op members. These bylaws outline the governing of the corporation, detail how board members are elected, and explain the co-op's management structure and the rights and responsibilities of members.

Housing cooperatives are suitable for people of a wide range of incomes who are capable of working well in groups. The major benefit of a housing cooperative is that residents have control over the properties in which they live. Elected boards can hire management firms to collect carrying charges and perform bookkeeping and building maintenance, or boards may choose to run the properties themselves to save money, develop managerial skills, and maintain the active participation of co-op residents.

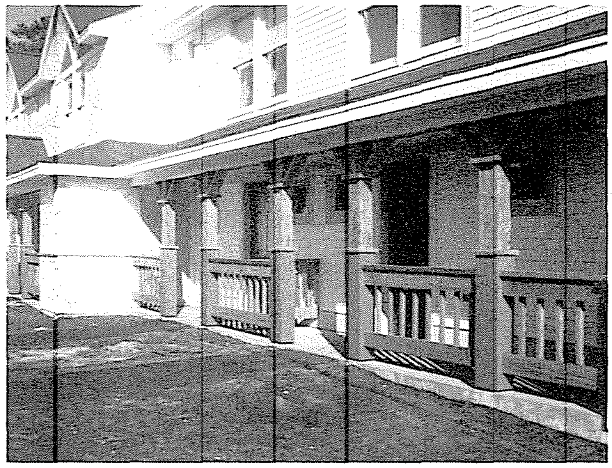
Cooperatives also offer economic benefits. Share prices are usually less than the cost of a down payment on a house or condominium and the corporation holds the only mortgage. After membership shares are paid off, carrying charges are often reduced to contributions for mainte-

SOURCES OF FINANCING AND TECHNICAL ASSISTANCE FOR CO-OP DEVELOPMENT

AGENCIES & PROGRAMS	TYPE OF ASSISTANCE
FEDERAL PROGRAMS & AGENCIES	
LOW-INCOME HOUSING TAX CREDITS	EQUITY
SECTION 8 RENTAL SUBSIDIES	EQUITY
HOME FUNDS	EQUITY - GAP
COMMUNITY DEVELOPMENT BLOCK GRANTS	EQUITY - GAP
FEDERAL HOME LOAN BANK PROGRAMS	EQUITY - DEBT
FARMERS HOME ADMINISTRATION PROGRAMS	GAP - DEBT
STATE HOUSING FINANCE AGENCIES	
VERMONT HOUSING AND CONSERVATION BOARD	EQUITY
CONNECTICUT DEPARTMENT OF HOUSING	GAP - DEBT
NEW HAMPSHIRE HOUSING FINANCING AUTHORITY	EQUITY - GAP - DEBT
MAINE STATE HOUSING AUTHORITY	EQUITY - GAP - DEBT - TA
MASSACHUSETTS HOUSING FINANCING AGENCY	EQUITY - GAP - DEBT - TA
RHODE ISLAND HOUSING AND MORTGAGE FINANCE CORPORATION	EQUITY - GAP - DEBT - TA
COMMUNITY LOAN FUNDS	
WORCESTER COMMUNITY LOAN FUND	GAP - DEBT - TA
NEW HAMPSHIRE COMMUNITY LOAN FUND	DEBT - TA
VERMONT COMMUNITY LOAN FUND	DEBT - TA
BOSTON COMMUNITY LOAN FUND	DEBT - TA
GREATER NEW HAVEN COMMUNITY LOAN FUND	DEBT - TA
MAINE COMMUNITY LOAN FUND	DEBT - TA
NONPROFIT CO-OP HOUSING DEVELOPERS & TRAINERS	
INSTITUTE FOR COMMUNITY ECONOMICS (MA)	DEBT - TA
COMMUNITY BUILDERS (MA)	TA
ASSOCIATION FOR RESIDENT CONTROL OF HOUSING (MA)	TRAINING
GOOD NEWS HOUSING (RI)	TA
COASTAL ENTERPRISES (ME)	TA
CHAMPLAIN VALLEY MUTUAL HOUSING CORPORATION (VT)	DEBT - TA - TRAINING
LAKE CHAMPLAIN HOUSING DEVELOPMENT CORPORATION (VT)	TA
CONCORD AREA TRUST FOR COMMUNITY HOUSING (NH)	TA - TRAINING
CO-OP INITIATIVE (CT)	TA
CO-OPPORTUNITY (CT)	TRAINING

*GAP FINANCING IS A FORM OF DEBT THAT HAS FLEXIBLE REPAYMENT PROVISIONS.
THIS LISTING IS A SAMPLE OF RESOURCES AVAILABLE FOR COOPERATIVE HOUSING.
FOR ADDITIONAL COOPERATIVE HOUSING RESOURCE INFORMATION, CONTACT PAUL WILLIAMS AT (617) 973-3463.

nance, utilities, and a reserve fund. The cooperative also allows members to share the obligations of the property and, in most cases, members can build up equity in their shares.



26-UNIT EAST SIDE DRIVE TOWNHOUSES
Concord, NH
Concord Area Trust for Community Housing, Developer

Debt	
Concord Community Housing Investment Pool (8.5% for 25 years)	$536,450
New Hampshire Housing Finance Authority (8% for 40 years)	$421,497
Gap	
NHHFA Affordable Housing Fund (1% for 40 years)	$225,000
Equity	
Community Development Block Grant	$266,310
Federal Home Loan Bank (AHP grant)	$305,000
New Hampshire Community Development Finance Agency/ Chubb LifeAmerica Grant	$110,000
Residents' Equity	$13,000
Total Permanent Financing	**$1,877,257**

Maintaining Affordability

Faced with the possibility of their building being sold and the prospect of higher rents or even eviction, the tenants of a building or apartment complex may decide to form an association and buy their residence as a cooperative corporation. In other cases, community-based organizations may decide that the construction of a new cooperative would serve the housing needs of the local community.

If long-term affordability is the corporation's primary concern it may choose to organize a **limited equity cooperative.** This type of co-op structure attempts to ensure perpetual affordability by building in restrictions on the resale of shares. Deed restrictions allow the cooperative to buy back shares from exiting members at prices predetermined by "limited equity formulas" and resell them to new members. Equity formulas typically include the original price of a unit share, the value of approved improvements to the unit, adjustments for inflation, and may include other considerations such as the mortgage amortization attributable to each unit.

To reduce development costs, **leasehold cooperatives** sell their buildings to developers while generally retaining ownership of the land and a lease on the building. The developer forms syndicated partnerships by selling partial ownership of the building to investors, who collect tax benefits for the life of the syndication. The terms of the lease will usually give the cooperative first rights to repurchase the building when investors can no longer claim tax benefits.

What Lenders Ought to Know

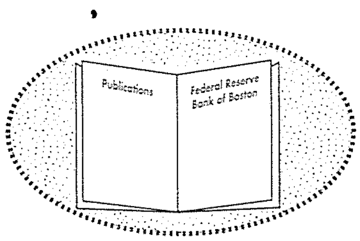
Because loan agreements are made with the corporation and not with individual members, lenders should fully understand the legal and organizational structure of the cooperative before making a financial commitment. The corporation's legal documents should be in order and its organizational structure should be properly outlined. Technical assistance is available to corporations from public agencies and nonprofit organization with experience in developing housing cooperatives. (See the box, "Sources of Financing and Technical Assistance for Co-op Development.")

Although lenders may not always be able to meet the full financing request of such affordable housing projects, they should be aware of the public financial enhancement programs that offer loan guarantees, tax credits, and gap financing that can help form a workable loan package.

Lenders should also be aware of the different ways in which they can assist affordable multifamily projects through both short-term and long-term lending. Short-term acquisition loans, construction loans, and bridge loans can be key in getting a project started or in securing financial commitments from other sources. The repayment of such loans can be tied to the receipt of public funds or syndication payments. Federal Home Loan Bank members can offer longer term financing through the Affordable Housing Program, the Community Investment Program, or the New England Housing Fund. Lenders should also consider the possibility of becoming equity investors through Low-Income Housing Tax Credits. (See Volume 3, Number 3 of *Communities & Banking* for details.)

Lenders should also keep in mind that cooperative living is not for everyone. Successful cooperatives depend on residents' participation, organization, and managerial skills. Therefore, consideration should be given to a cooperative's provisions for preparing its members for co-op living and training board members in property management. Lenders should also consider the criteria a cooperative uses to admit new members and, to the degree possible, they should assess how well existing cooperative members work together. CB

Cooperative Housing Guides



• *Community Sponsorship of Housing Cooperatives,* National Association of Housing Cooperatives and Community Cooperative Development Foundation (1987). Explains what community sponsors can expect from cooperatives and the advantages of housing cooperatives versus rentals and individually-owned houses. Describes some successful types of housing cooperatives in the United States and ways to get them started. Also covers the need for continuing cooperative education and the special roles of mutual housing associations and cooperative associations. Write to National Association of Housing Cooperatives, 1614 King Street, Alexandria, VA 22314. Or call (703) 549-5201. $19.00 for members, $23.00 for nonmembers.

• *Cooperative Housing: A Handbook for Effective Operations,* Midwest Association of Housing Cooperatives and the Organization for Applied Science in Society (1977). Provides an overview of cooperative housing management, the continuing operation of housing cooperatives, and the co-op's responsibility to its members. Write to National Association of Housing Cooperatives, 1614 King Street, Alexandria, VA 22314. Or call (703) 549-5201. $19.00 for members, $23.00 for nonmembers.

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Alternative Housing & Ownership Arrangements

Alternative housing comes in a number of forms. At a minimum, these arrangements provide individuals with suitable places to live at affordable prices. At their most ambitious, they give residents the opportunity to collectively own and manage their homes.

• **Single-Room Occupancy Housing (SRO),** also known as Congregate Housing, is a residence in which tenants have private rooms but share common areas, such as the kitchen, dining room, living room, and bathroom. SROs owned and managed by community-based organizations may also offer social services or target specific populations, such as battered women.

• **Co-Housing** is a hybrid that combines private and communal forms of living. Residents occupy individual, complete housing units and share additional kitchen, dining, and recreational facilities with other residents.

• **Community Land Trusts** are private nonprofit corporations that acquire and hold land in perpetuity to be developed for specific community uses. When used for the purpose of affordable housing, the community land trust controls the terms and sale of all properties and improvements on the land in order to maintain long-term interests, while allowing leaseholders to retain general ownership rights to their properties. Land trusts are run by local residents and leaseholders who own portions of the land trust's property.

• **Mutual Housing** is developed, owned, and managed by nonprofit associations and designed for long-term affordability. Residents pay a one-time refundable membership fee and a monthly percentage of income as rent to cover the association's expenses. In turn they are given a lifetime right of occupancy and a voice in the management of the property through residents' councils and property management committees. Residents also have a majority representation on the association's board of directors, whose other members may include community and business leaders and public officials. The housing units are paid for with an up-front capital grant, eliminating debt and tax syndication.

Continued from page 6 Cooperative Housing Guides

The following articles and publications are available from the Association for Resident Control of Housing. Write to ARCH, 16 North Street, Boston, 02109. Or call (617) 742-6780.

Goals and Resources for Financing Limited Equity Cooperatives in Massachusetts, (1989). Public, private, and nonprofit sources for financing the development and ongoing operation of a co-op are listed. Included for each source is the type of funding available and selection criteria used. $4.00.

° *Legal Aspects of Cooperative Housing*, John Achatz, Esq., and Jonathon Klein (1988). Details legal issues in developing cooperative housing, including incorporation, federal tax issues, corporate structure, and financing. $7.00.

° *Limiting Member Equity in Housing Cooperatives* and *How the Different Equity Formulae Impact on Co-op Member Investments*. The first article explains why and how member equity is limited in housing co-ops. Sample equity formulae from Massachusetts limited equity co-ops are given. The second article illustrates the impact of three different equity formulae on co-op member investments by tracing the value of two families' co-op shares over a period of 10 years. $3.00.

° *Assessing Financial Stability of Cooperatives*. This article outlines for lenders how a co-op is structured and how the cooperative's legal documents, financial management, and organizational structure act to ensure the financial stability of the cooperative. Criteria by which to assess a cooperative project looking for a loan are provided. $4.00.

° *Denotes publications that have been ordered by the Public & Community Affairs Department and are available for public use.*

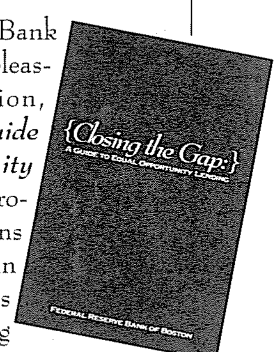
Publications & Programs

The 1991 Report to Congress on the Federal National Mortgage Corporation (Fannie Mae) and ***1991 Report to Congress on the Federal Home Loan Mortgage Corporation*** (Freddie Mac) from the Department of Housing and Urban Development (HUD) examine the financial condition, market position, and statutory responsibilities of these two government-sponsored enterprises. Both reports also discuss Fannie Mae's and Freddie Mac's success in meeting affordable housing goals established by Congress and compliance with fair housing statutes and regulations, and outlines HUD's regulatory oversight of these agencies. For copies of these reports, write to HUD USER, P.O. Box 6091, Rockville, MD 20850. Or call (800) 245-2691. $4.00 each.

Money Management Program Available for Elders

Misplaced or forgotten bills can spell trouble for elders who run the risk of having utilities turned off or being evicted for non-payment. A new statewide program, the Massachusetts Money Management Program (MMMP), is responding to the growing need for help. MMMP is co-sponsored by the Mass Home Care Association, the American Association of Retired Persons/ Legal Counsel for the Elderly, and the Executive Office of Elder Affairs. Powered by volunteers, MMMP is available to over 70 cities and towns throughout 8 project sites. Massachusetts is one of only five states that have a statewide money management program. Eligibility is limited to low-income, frail elders who could not otherwise afford the help. MMMP aims to help elders to remain living at home with help in keeping the household finances in order. MMMP matches elders with trained, insured AARP volunteers who act as their representatives, payees, or bill payers. Volunteers sort through arrears, make payments on current bills, set up repayment schedules for elders who are unable to pay bills, balance checkbooks, and reconcile bank statements.

Any bank interested in more information about MMMP should have their CRA officer contact Liz Babbitt, the statewide coordinator, North Shore Elder Services, Inc., 152 Sylvan Street, Danvers, MA 01923. Or call (508) 750-4540.



The Federal Reserve Bank of Boston recently released a new publication, *Closing the Gap: A Guide to Equal Opportunity Lending*. This guide provides recommendations for mortgage lenders in several areas of business operations, including staff training, underwriting standards and practices, second review policies, marketing, and testing. *Closing the Gap* stresses the importance of developing a comprehensive and flexible strategy that integrates fair lending practices into daily business operations. Copies of the guide are available without charge from the Public and Community Affairs Department, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Or call (617) 973-3459.

FEDERAL HOUSING ENTERPRISES FINANCIAL SAFETY AND SOUNDNESS ACT OF 1992

Beth McMurtrie, Federal Reserve Bank of Boston

Three years in the making, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 has changed the way the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) do business. The Act established the Office of Federal Housing Enterprise Oversight within the U.S. Department of Housing and Urban Development (HUD) to oversee the two government-sponsored enterprises. The Office has the power to establish capital standards, require financial disclosure, conduct examinations, and enforce compliance with the standards and rules it enacts. Further, Freddie Mac and Fannie Mae are now expected to meet the following affordable housing goals, to be set annually by the HUD Secretary.

Low- and Moderate-Income Housing Goal: Congress has set an interim two-year target, beginning January 1, 1993, in which 30 percent of the total number of dwelling units financed by mortgages purchased by Freddie Mac and Fannie Mae must be for low- and moderate-income families. "Low income" is defined as up to 80 percent of area median income; "moderate income" is defined as between 80 and 100 percent of the median.

Special Affordable Housing Goal: After a two-year transition period, at least 1 percent of the dollar amount of single and multifamily mortgage purchases must serve low- and very low-income families. "Very low income" is defined as less than 60 percent of area median income. Freddie Mac and Fannie Mae can receive full credit toward this goal through **1.** the purchase or securitization of federally insured or guaranteed mortgages; **2.** the purchase or refinancing of existing, seasoned portfolios of loans, if the proceeds from the sale of the loans are reinvested by the lender in similar lower-income mortgages; and **3.** the purchase of direct loans made by the Resolution Trust Corporation and the Federal Deposit Insurance Corporation. All mortgages purchased, refinanced, or securitized in this fashion must assist low- and very low-income families and must meet certain other criteria stated in the law. The transitional goal set by Congress for the two years beginning January 1, 1993 is $1.5 billion for Freddie Mac and $2 billion for Fannie Mae. One-half of these purchases must be multifamily rental housing, the other half single-family housing.

Central Cities, Rural Areas, and Other Underserved Areas Housing Goal: Congress has set a two-year interim target, beginning January 1, 1993, in which 30 percent of all mortgage purchases, as measured by the number of units supported by the mortgages, must be for housing located in central cities (as defined by the Office of Management and Budget).

> "TO MEET THE LOW- AND MODERATE-INCOME HOUSING GOAL..., THE SPECIAL AFFORDABLE HOUSING GOAL..., AND THE CENTRAL CITIES, RURAL AREAS, AND OTHER UNDERSERVED AREAS HOUSING GOAL..., EACH ENTERPRISE SHALL—
>
> **1.** DESIGN PROGRAMS AND PRODUCTS THAT FACILITATE THE USE OF ASSISTANCE PROVIDED BY THE FEDERAL GOVERNMENT AND STATE AND LOCAL GOVERNMENTS;
> **2.** DEVELOP RELATIONSHIPS WITH NONPROFIT AND FOR-PROFIT ORGANIZATIONS THAT DEVELOP AND FINANCE HOUSING AND WITH STATE AND LOCAL GOVERNMENTS, INCLUDING HOUSING FINANCE AGENCIES;
> **3.** TAKE AFFIRMATIVE STEPS TO -
> **A.** ASSIST PRIMARY LENDERS TO MAKE HOUSING CREDIT AVAILABLE IN AREAS WITH CONCENTRATIONS OF LOW-INCOME AND MINORITY FAMILIES; AND
> **B.** ASSIST INSURED DEPOSITORY INSTITUTIONS TO MEET THEIR OBLIGATIONS UNDER THE COMMUNITY REINVESTMENT ACT OF 1977, WHICH SHALL INCLUDE DEVELOPING APPROPRIATE AND PRUDENT UNDERWRITING STANDARDS, BUSINESS PRACTICES, AND REPURCHASE REQUIREMENTS, PRICING, FEES, AND PROCEDURES; AND
> **4.** DEVELOP THE INSTITUTIONAL CAPACITY TO HELP FINANCE LOW- AND MODERATE-INCOME HOUSING, INCLUDING HOUSING FOR FIRST-TIME HOMEBUYERS."
>
> *Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Section 1335)*

How will this affect mortgage lenders and homebuyers? As stated in the law, Fannie Mae and Freddie Mac are expected to work with lenders, public agencies, housing finance agencies, and community organizations to achieve their goals. Both agencies agree that this is the most effective way to reach underserved markets. "Regardless of the legislation," notes Cheryl

Regan, spokesperson for Freddie Mac, "our approach to affordable housing is to develop partnerships with local agencies." In New England, Freddie Mac is in the process of developing a program with the Connecticut Department of Housing and Fannie Mae to provide financing for up to $100 million in mortgages throughout the state. Freddie Mac is also participating in the American Dream Program with the Massachusetts State Treasurer's Office to make low down payment mortgage loans available to lower-income homebuyers. Fannie Mae has several similar partnerships in place and recently created the Central Cities Initiative, with the purpose of modifying its existing products to fit the individual needs of a city, training lenders in its underwriting procedures, and creating new products, services, and procedures as needed. (See the sidebar for a list of Fannie Mae's and Freddie Mac's existing products for lower-income homebuyers.)

Fannie Mae also expects to increase its community outreach activities through housing fairs and homebuyer education programs, and it is working with the National Association of Real Estate Brokers, the National Bankers Association, and the National Council of La Raza to provide outreach and counseling in lower-income and minority neighborhoods. Fannie Mae has also published workbooks in Spanish and English as part of the buyer education requirement for its Community Home Buyers Program. Freddie Mac requires buyer education as well through its Affordable Gold Program and has provided guidance for lenders on appropriate education programs.

In anticipation of the legislation and in recognition of the need to reach underserved markets, in early 1992 both agencies clarified and expanded their underwriting guidelines for their standard single-family mortgage products. These changes were intended to make their mortgage products more accessible to lower-income and nontraditional borrowers. For example, both agencies will consider housing expense-to-income ratios in excess of the standard ratio if the borrower can demonstrate an ability to manage high housing costs, as many lower-income renters do. They have also expanded and clarified their guidelines in the areas of credit history, sources of income, and employment history. In a recent speech to the Mortgage Bankers Association, Fannie Mae Chairman and CEO James Johnson noted, "We have experimented with and developed many innovative products and services to help private, profit-making institutions participate in this business of making housing more affordable for lower-income Americans and others not well served by the housing finance system."

As a result of the legislation, Fannie Mae and Freddie Mac are also starting to collect more information on the loans they purchase, including the homebuyer's income, race, and gender and whether the borrower is a first-time homebuyer or has received a public subsidy. The new data will enable them to develop monitoring procedures for loans to lower-income borrowers, so that they can modify their programs and develop new products when necessary.

For more information on Fannie Mae's and Freddie Mac's programs, call Geoff Smith, Director of Low- and Moderate-Income Housing, Fannie Mae Northeastern Regional Office, at (215) 575-1532; Mark Spates, Affordable Housing Program Manager, Freddie Mac, at (703) 903-2363; or Jim Carey, Affordable Housing Manager, Freddie Mac, at (703) 903-2291. CB

Lower-Income Homebuyer Products

FANNIE MAE*

Community Home Buyers Program with 3/2 Option – Has flexible underwriting and a 3/2 down payment option that allows for 2% of the down payment to come from gifts, grants, or loans.

Community Second Mortgages– Fannie Mae will purchase the first mortgage on a property that also has a subsidized second mortgage issued by a state, county, or local housing agency or nonprofit organization.

Community Home Improvement Mortgage Loans – Fannie Mae will purchase the first mortgage on a property in which the loan-to-value ratio is based on a post-rehab appraisal. Repair work can account for up to 30% of the appraised value. Experience in home improvement lending and Fannie Mae approval required.

Community Land Trust Mortgage Loans – Fannie Mae will purchase a mortgage that is secured by a property situated on land held by a community land trust.

Guaranteed Rural Housing Loan Program – Fannie Mae will purchase Farmers Home Administration-guaranteed 30-year fixed-rate loans with a loan-to-value ratio of up to 100%. Borrowers with incomes at or below 115% of area median may qualify for interest rate assistance.

FannieNeighbors Mortgages – Available for borrowers in census tracts with a minority population of at least 50% and/or a median family income of 80% or less of the area median. Underwriting criteria are the same as for the

Continued on page 10

Continued from page 9 Lower-Income Homebuyer

Community Homebuyers Program. Can be used in tandem with federal, state, or local second mortgage programs.

Lease-Purchase Mortgage Loans– Fannie Mae will purchase mortgage loans made to nonprofit organizations on properties that are leased to lower-income families with an option to buy. A one-time assumption of the mortgage by the renting family is permitted when the family is ready to buy.

Home Equity Conversion Mortgages – Fannie Mae will purchase FHA-insured reverse mortgages that permit older homeowners to tap the equity in their homes.

* Fannie Mae requires homebuyer education in all programs except Home Equity and Rural Housing.

FREDDIE MAC

Affordable Gold – Has flexible underwriting and a 3/2 down payment option that allows for 2% of the down payment to come from gifts, grants, or unsecured loans. Homebuyer education is required.

Massachusetts American Dream – Similar to Affordable Gold, this one-year program will provide financing for 1,200 families in 1993.

Connecticut Homebuyers Affordable Mortgage Program – Freddie Mac will provide financing for up to $100 million in first mortgages. Second, down payment-assistance mortgages, are provided by the Connecticut Department of Housing. The program features reduced closing costs and points.

HOW TO FINANCE A FIRST-TIME HOMEBUYER PROGRAM WITH MATCHING FEDERAL HOME LOAN BANK FUNDS

Adapted from an article in "Tools For Housing" published by the Federal Home Loan Bank of Boston

(Summer 1992)

First-time homebuyers accounted for 45 percent of all homes sold in the United States in 1991. Many member institutions of the Federal Home Loan Bank of Boston have developed programs specifically for first-time homebuyers and have used advances from the Community Investment Program (CIP) and New England Housing Fund (NEHF) for this purpose with great success.

Setting up a first-time homebuyer program. Most first-time homebuyer programs offer loans at rates below those charged for other mortgages, and they involve relaxed underwriting standards. Typically, a first-time homebuyer program will allow a loan-to-value ratio of 95 percent rather than the usual 80 percent, with a stipulation requiring the purchase of private mortgage insurance. In some programs, the borrower may use gift money for part of a down payment. Other concessions that help a first-time buyer qualify include reduced application and closing costs and the establishment of a credit history through alternative means, such as rent and utility payments.

A source of low-cost, fixed-rate funds. Using fixed-rate CIP and NEHF funds, members are able to minimize the rate risk associated with fixed-rate mortgage lending and offer favorable loan terms to eligible buyers. Members apply to the Federal Home Loan Bank to borrow the amount of money they anticipate will be needed to fund a first-time homebuyer program or one stage of that program. CIP advances are priced at the Federal Home Loan Bank's own cost of funds and NEHF advances are priced 5 basis points over the Bank's cost of funds. Both CIP and NEHF advances come in a broad range of maturities and are available to Federal Home Loan Bank members at any time. Once the funds are granted, members can either draw down the entire amount as one advance or take down a "strip" of advances as needed.

Targeting lower-income homebuyers. CIP and NEHF income guidelines specifically target the low- and moderate-income markets. CIP advances must be used for mortgage programs that benefit households with incomes at or below 115 percent of the area's median income, as defined by the U.S. Department of Housing and Urban Development. NEHF advances can be used for mortgage programs or projects that benefit households with incomes at or below 140 percent of the median income for the area.

For more information about membership in the Federal Home Loan Bank System, the Community Investment Program, or the New England Housing Fund, contact the Federal Home Loan Bank's Housing and Community Investment Department at (617) 330-9892. CB

Q & A

Community Investment Program
New England Housing Fund

What criteria does the Federal Home Loan Bank use in evaluating applications to use CIP or NEHF funds for homebuyer programs?
The program must serve low- and moderate-income households, and the spread on FHLB-funded loans must be the same or less than the lender's standard spread.

What are the ongoing reporting requirements?
For first-time homebuyer programs using CIP and NEHF funds, one-time reporting is required after the funds have been disbursed. The lender must complete a form verifying that the recipients of its loans are within income guidelines. The form is approximately three pages long.

Can the funds be used to extend a construction loan to a nonprofit that wants to purchase and renovate houses, with the loan then taken out as homes are bought?
Yes. For example, Bank A would lend construction money to the developer to cover purchase and rehab costs. The takeout loan would come from the sale of the properties. Bank B would extend mortgage loans to the potential homebuyers. Bank A may wish to ensure repayment of its loan through a presale agreement and a commitment of funds from Bank B. Both Bank A and Bank B could use FHLB funds.

Can the funds be used for a home improvement loan program?
Yes. It should be noted that the shorter the term of the loan to the member bank, the lower the interest rate charged. The member bank could use the funds to develop a low-interest home improvement loan program. This could be particularly beneficial to lower-income and older homeowners with limited budgets whose homes are in need of repair.

Can the funds be used to make loans on two- to four-family properties if the owner is lower-income?
Yes. The Federal Home Loan Bank is concerned with the income of the borrower only at the time the loan is made; no borrower would have her mortgage rescinded simply because her income rose above the maximum.

How many loans to first-time homebuyers have been made so far?
$180 million in funds has been committed to first-time homebuyer programs in New England since early 1990. $130 million of that has been advanced.

What are some of the other uses of CIP and NEHF for housing?
Cooperatives (including limited equity co-ops, and co-ops located on land trusts), single-room occupancy projects, mobile home parks, and multi-family rental properties have been financed under CIP and NEHF.

Continued from page 3
Breaking into the Housing Market

To obtain listings of RTC affordable housing properties, contact the agency's regional Sales Center, state housing finance agencies, or the Federal Home Loan Bank of Boston. Listings of realtors who sell Fannie Mae affordable housing properties can be obtained from the company's Philadelphia regional office.

In Massachusetts, the RTC and Fannie Mae have established special programs to help low- and moderate-income homebuyers make better use of their affordable housing programs. The RTC's Homeward Bound and Fannie Mae's Home Advantage programs are coordinated by the Citizens' Housing and Planning Association (CHAPA). For each program, affiliated nonprofit organizations provide detailed information and counseling to prospective homebuyers and certify that the buyers meet program qualifications. The RTC provides mortgage financing under its Seller Financing program. Fannie Mae provides mortgage and rehabilitation financing.

Undoubtedly, the best thing about affordable housing disposition programs is the price of the properties. According to data collected by the Massachusetts Homebuyers Club (see p. 12), at RTC auctions of affordable housing, properties sell, on average, for 67 percent of their appraised values.

Buyers are cautioned, however, that disposition programs are meant to be temporary and may seem disorganized and frustrating. Speaking of the FDIC auctions, Peter Blanchard of the Massachusetts Bankers Association admits that the process is not one for novices: "You really have to educate yourself," he says, "but when people understand the process, it works very well." CB

NATIONAL COMMUNITY REINVESTMENT COALITION

Central among the concerns of many community development organizations is access to credit and banking services for underserved and disadvantaged communities. To provide community organizations with a unified voice in promoting the effectiveness of the Community Reinvestment Act and other federal community reinvestment and consumer credit laws, a number of local and national community organizations have formed the National Community Reinvestment Coalition (NCRC). To meet its objectives, the organization acts as an advocate in community reinvestment issues and provides services to its 214 member organizations nationwide.

As a voice for community reinvestment, NCRC tracks proposed changes in banking legislation and regulations that would affect the Community Reinvestment Act. NCRC coordinates local phone and letter campaigns to stop congressional amendments intended to weaken CRA; it keeps members regularly informed about CRA issues through mailings and its quarterly newsletter; and it publishes the *Community Reinvestment Sourcebook*, a catalog of community reinvestment informational resources. NCRC can also arrange technical assistance for community organizations working with local lenders on reinvestment projects.

"NCRC's goal is to give community organizations a stronger, cohesive, and more effective voice in shaping community reinvestment policies at the local, state, and national levels," says John Taylor, Executive Director. To this end, NCRC holds seminars and conferences to broaden public awareness of community reinvestment issues, strengthen regulatory support of CRA, and expand funding for local, regional, and state community organizations. A recent NCRC workshop on CRA for members of Congress and their staff was aimed at educating them from the perspective of local community developers.

For more information about NCRC, contact John Taylor, Executive Director, National Community Reinvestment Coalition, 1875 Connecticut Avenue NW, Suite 710, Washington D.C. 20009. Or call (202) 986-7898.

MASSACHUSETTS HOMEBUYERS CLUB

Buying a home should not have to turn into a research project, as it often does for families looking for homes they can afford. The Massachusetts Homebuyers Club (MHC) takes much of the research out of finding a home by providing low- and moderate-income first-time homebuyers with home listings, educational programs, and referral services.

The Homebuyers Club was established in 1990, through a state grant, as a nonprofit clearing house for affordable housing information. The Club maintains a database of affordable properties, including properties owned by the Resolution Trust Corporation and the Federal Deposit Insurance Corporation. (See the article, p 2.) Club members receive listings of properties that meet their specifications as the database is updated.

The Homebuyers Club also offers homebuyer education courses. Low- and moderate-income members who complete these courses are eligible for Massachusetts Housing Finance Agency (MHFA) and Federal National Mortgage Association (Fannie Mae) financing. The Homebuyers Club occasionally holds seminars on topics such as buying at auctions and avoiding foreclosure, which members can attend free of charge. The Club also recently sponsored a national conference, "The Consumer Revolution in Real Estate," which focused on homebuyers' rights as consumers.

The Homebuyers Club can also refer members who would like further assistance to a mortgage consultant or to a "buyer broker." The mortgage consultant helps homebuyers understand the different financing programs available to them and provides assistance in choosing the programs that best meet their long-term goals and short-term needs. Buyer brokers are brokers who solely represent homebuyers in real estate transactions. There is no charge to members for the mortgage consultant's services. The buyer's broker generally splits the sales commission with the seller's broker, or may be paid directly by the buyer.

Members can also take advantage of discounts offered by businesses that participate in the Club. Businesses directly connected to the housing industry, such as contractors, inspectors, attorneys, and appliance stores, participate by offering members discounts of at least 10 percent. Mortgage lenders are encouraged to provide the Homebuyers Club with information about their first-time homebuyer loan products.

First-time homebuyers can join the Homebuyers Club for a prorated annual fee, starting at $25. For further information about the Massachusetts Homebuyers Club, call (800) MA-BUYER.

— Paul Williams

PUBLICATIONS

Housing

° *Pension Plans: Investments in Affordable Housing Possible with Government Assistance*, General Accounting Office (1992). This report discusses the common elements of 15 affordable housing arrangements financed, in part, by pension funds. The report also looks at expected rates of return on these housing investments. Write to the General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877. Or call (202) 275-6241. Free.

° *Evaluation of Neighborhood Housing Services: Final Report*, Research Triangle Institute (1991). This study assesses the effectiveness and efficiency of the NHS program over the four year period from 1987 to 1990. The study also assesses the government's potential liability associated with the lending activities of NHS organizations and with the secondary mortgage market managed by the Neighborhood Housing Services of America. Write to the Neighborhood Reinvestment Corporation, 1325 G Street, N.W., Suite 800, Washington, DC 20005. Or call (202) 376-2400.

° *Are Mortgage Lending Policies Discriminatory? - A Study of 10 Savings Banks*, New York State Banking Department (1993). A report on the mortgage lending policies and practices of ten savings banks in New York. The study looks at the application process and outreach activities of these banks. It examines in detail 2,670 mortgage loan applications, including both approvals and denials, to determine if the banks' lending criteria are applied in a consistent and nondiscriminatory manner. The study also looks at each bank's underwriting standards and the exceptions made to these standards by race and gender. Write to the Banking Department, Consumer Studies Division, 2 Rector St., New York, NY 10006. Or call (212) 618-6549.

Community Development

° *ABA Guide to Affordable Housing Ideas and Resources*, American Bankers Association (1992). This guide contains over 230 entries which define community reinvestment terms, explain federal affordable housing programs, and describe resources and contacts. Write to the Center for Community Development, American Bankers Association, 1120 Connecticut Avenue, Washington, DC 20036. Or call (800) 338-0626. $65 for members, $150 for nonmembers.

° *Community Development Investments*, Board of Governors of the Federal Reserve System (1992). This publication offers guidance to bank holding companies on the formation of community development corporations (CDCs)and other uses of equity investments for local development projects. It covers Federal Reserve polices and guidelines governing bank holding company CDCs and equity investments, key issues bank holding companies should address when considering community development investments, and the Federal Reserve review process for approving holding company CDCs. Write to Sheryl Snowden, Public and Community Affairs Department, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076. Or call, 973-3097. Free.

The Community Reinvestment Sourcebook: A Guide to Resources and Strategies for Effective Community Reinvestment, National Community Reinvestment Coalition (1992). Contains a summary of the Community Reinvestment Act, four case studies, a resource directory, and a bibliography. Write to NCRC, 1875 Connecticut Ave. N.W., Suite 1010, Washington, DC 20009. Or call, (202) 986-7898. $5.00 for members, $25.00 for nonprofits, and $50.00 for all others.

CRA/HMDA Guides

° *A Guide to HMDA Reporting: Getting it Right*, Federal Financial Institutions Examination Council (1992). The Guide is written to address the needs of management and help individuals who actually prepare the HMDA report. It provides an overview of the law's requirement explaining how to determine whether an institution is covered by HMDA, contains directions for assembling the necessary tools for reporting, and gives step-by-step instructions for completing the HMDA Loan Application Register. Write to FFIEC, 2100 Pennsylvania Avenue, N.W., Suite 200, Washington, DC 20037. Free.

° *A Citizen's Guide to CRA*, Federal Financial Institutions Examination Council (1992). The Guide is designed to help people understand the Community Reinvestment Act (CRA) and the responsibility it gives the federal financial supervisory agencies to encourage financial institutions to reinvest in local communities where they do business. Write to FFIEC, 2100 Pennsylvania Avenue, N.W., Suite 200, Washington, DC 20037. Free.

° *Denotes publications that have been ordered by the Public & Community Affairs Department and are available for public use.*

GOOD SAMARITANS

Beth McMurtrie and Paul Williams, Federal Reserve Bank of Boston

In the mid-1980s, Berkshire County, Massachusetts, particularly the southern part of the county, found itself at the center of a second-home boom. New Yorkers – and to a lesser degree, Bostonians – found a refuge from urban living in Western Massachusetts. Housing prices soared, creating a fear among local businesses that many Berkshire County residents would soon be forced to leave the area for lack of affordable housing. Fortunately, a strong working relationship among local lenders and two community based organizations led to the creation of an affordable mortgage program for the area's lower-income homebuyers.

The Good Samaritan Homeownership Program was introduced in 1989, but its roots were planted in the early 1970s, when Berkshire lenders and local churches funded the creation of the Berkshire Housing Development Corporation, a nonprofit agency that develops housing for the area's elderly and lower-income people. Church and bank representatives hold positions on the organization's board. Thus, when 10 area banks and one credit union were asked to purchase a special $2 millon bond issue put forth by the HDC's sister organization, the Berkshire Fund Inc., to create an affordable mortgage program, it was a relatively smooth transaction.

The original purpose of the program, according to Elton Ogden, Director of the Good Samaritan Homeownership Program and Vice President of the Berkshire HDC, was to provide financing to lower-income homebuyers at a time when no other mortgage options were available. Having bankers on the original committee, he said, "made it an awful lot easier to get other banks to participate."

The Good Samaritan program provides special mortgages, homebuyer education, and counseling to income-eligible families in Berkshire County. Through the program, fixed-rate first mortgages are made by participating lenders at interest rates up to 1.5 percent below market. There are no origination fees and borrowers are charged only for appraisals and their credit reports. Maximum household incomes for the program range from $28,200 for one person to $43,500 for a family of five. Above this, $300 can be added for each minor living in the household. Homebuyer education and counseling are required and are provided by Berkshire HDC. The program includes a series of seminars that cover subjects such as lending and credit requirements, insurance, and home inspections.

All Good Samaritan loans must meet traditional underwriting guidelines, including housing expense- and debt-to-income ratios of 28/36. The one exception is a low 5 percent down payment requirement. First mortgages are made at an 80 percent loan-to-value ratio and a second mortgage at a 15 percent loan-to-value ratio is provided by the Berkshire Fund. The second mortgage, though generally at a higher interest rate than the first, has flexible repayment terms and is scheduled so that it can be repaid in 15 years. The second mortgage also carries a charge of 1 point as a means of covering some of the administrative costs of the program. All Good Samaritan loans are held in lenders' portfolios and private mortgage insurance is not required. Since 1989, 41 loans have been made through the Good Samaritan program, and many other homebuyers have benefitted from the program's educational seminars and counseling.

A Shared Commitment

As in the rest of New England, economic conditions have changed significantly in Berkshire County since the the program began. The local economy has been hit hard by the recession, and in the past ten years about 10,000 jobs have been lost in an area with a population of only 150,000. Today, the area suffers from a great deal of unemployment, underemployment, and outmigration.

The silver lining to the bad local economy is that lower interest rates and falling home prices have made the program even more beneficial to those low- and moderate-income homebuyers now able to find homes in their price range. Lenders such as Cathy Gilmour of First Agricultural Bank and Eugene Hannon of Great Barrington Savings Bank are enthusiastic about the benefits of the Good Samaritan program. For them, this is more than just something to add to their CRA files. According to Ms. Gilmour, it's good business: "These loans help the local economy and generate additional business for the banks, such as car loans and checking accounts." Further, it shows that the banks believe they have a role in supporting local residents, through economic booms and busts. As Mr. Hannon states, "We're able to give something back to the community."

For more information on the Good Samaritan Homeownership Program, call Elton Ogden at (413) 499-1630. CB