



Meeting the challenge

By Courtney Dufries

Standard housing is a problem everywhere, and Tampa, Florida, is no exception. But what makes Tampa different is that it recognized its problems and has been successful with a large-scale effort to provide affordable housing and revitalize neighborhoods.

A partnership of local government, financial institutions, and nonprofit organizations resulted in the Tampa "Challenge Fund." The Challenge Fund was formed in 1987 with the goals of preserving valuable housing stock, stabilizing neighborhoods, increasing the tax base, promoting public and private partnerships, and providing safe, decent, affordable homes, especially for first-time homebuyers.

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P E R S P E C T I V E

The role low income plays in those persistent mortgage loan disparities

By Ron Zimmerman

More than a decade after the Community Reinvestment Act was passed, the debate over alleged, widespread discrimination in home mortgage lending by our nation's financial institutions is still not settled. In recent years, numerous studies using Home Mortgage Disclosure Act (HMDA) data and lien transfer records have clearly documented disparate patterns of geographic loan distribution that statistically correlate to the racial makeup of census tracts throughout the country. Few people today would argue that the patterns do not exist, but opinions vary on the underlying reasons for these disparities.

Based on the statistical evidence, most people tend to focus on racial discrimination as the primary cause of the lending patterns. Less recognized and understood is the impact that differences in income and wealth play in creating the disparate mortgage loan results. The Atlanta Metropolitan Statistical Area (MSA) census

data provide a good example. However, Atlanta is not unique in these income patterns. Similar income differences exist in most, if not all, major cities.

HUD defines as low- to moderate-income those census tracts having median incomes of 80 percent or less of the MSA median income. In the low- to moderate-income group in Atlanta, over 52 percent of the

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Distribution of Atlanta's Census Tracts by Race*

INCOME DISTRIBUTIONS	Census Tracts		Census Tracts	
	BLACK TRACTS Number	Percentage	WHITE TRACTS Number	Percentage
71% to 80% Median	9	11.11%	23	52.27%
61% to 70% Median	10	12.35%	11	25.00%
51% to 60% Median	13	16.05%	5	11.36%
41% to 50% Median	17	20.99%	5	11.36%
31% to 40% Median	17	20.99%	0	0.00%
30% of Median and less	15	18.52%	0	0.00%

* Assumes that a tract is at least 51% black or 51% white based on the 1980 census.

DISPARITIES: A shortage of income

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predominately white census tracts (defined for comparison as those tracts having a white population of 51 percent or more) have income between 70 and 80 percent of the MSA median income as opposed to only 11.1 percent of the predominately black tracts (51 percent or more black population). Although only 11.4 percent of the white tracts have median incomes of less than 51 percent of the MSA median income, the median incomes of 60.5 percent of the black tracts

income of \$44,100, 40 percent would equal an annual income of only \$17,640.

Thus, it is apparent that based on income alone, there is a tremendous difference in home mortgage borrowing capacity between the races. The negative effect of consumer debt, even the same dollar amount of debt, on the lower income applicants, within which group blacks are disproportionately represented, exacerbates the differences in borrowing capacity of the races. Monthly, non-housing, debt payment burdens as low as \$200 can mathematically disqualify lower income applicants for the loans needed to finance even very low cost housing. (See chart on page 6.)

Unfortunately, this situation tends to get worse from year to year because as the MSA median income rises, the HUD income range used to define the low- and moderate-income level encompasses people with increasingly higher incomes. Because more whites have incomes at or above the top of the income range, the group least affected by diminishing borrowing capacity because of debt and, therefore, the group most capable of qualifying to finance a home, will tend to have an

"...focusing on illegal credit discrimination as the sole cause of the disparate mortgage loan distribution patterns is unwise in that this narrow view obscures other factors that significantly influence the distribution of home mortgage loans..."

fall below this level. Finally, although no white tract's median income falls below 40 percent of the MSA median income, 39.5 percent of the black tracts fall below this threshold. Based on the 1991 Atlanta MSA median

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increasingly disproportionate number of whites.

Moreover, the dollar rise in income of the lower income people in the low- to moderate-income group will naturally trail the dollar rise in income of those at the top of the range even if the percentage increase is the same. For example, if one starts with income disparities of say \$30,000 and \$10,000 (a three to one difference amounting to \$20,000), a 5 percent income increase for each will result in an even wider disparity of \$31,500 and \$10,500 or a difference of \$21,000. Assuming that the 5 percent annual increase continues, the next year the income figures would move to \$33,075 and \$11,025, now a difference of \$22,050. Therefore, whites, who are more likely to be near the top of the income range, experience an increasingly disproportionate rise in borrowing capacity com-

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Farmers Home Administration unveils new loan program



By State Director Tom Harris

Farmers Home Administration (FmHA) implemented a new program to help rural residents become successful homeowners on May 17, 1991.

In addition to its direct housing loan program, FmHA is now authorized to guarantee commercial loans to purchase single-family housing.

Under the new program, FmHA guarantees up to 90 percent of the principal loan advanced by qualified lenders. Lenders that are HUD approved, Fannie Mae approved, or Freddie Mac approved can par-

ticipate. Also, state housing agencies, the Farm Credit System, and lenders already participating in other FmHA guaranteed programs are eligible.

FmHA is authorized to guarantee up to \$100 million in loans for single-family housing during the current fiscal year. The maximum loan amount is \$67,500 in most areas but can reach as high as \$124,875 in certain high-cost areas as established by HUD. Interest rates are set by the lender but cannot exceed the standard VA rate or Fannie Mae rate, whichever is higher.

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TAMPA: Challenge Fund expands to phase II

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Improvement is clearly evident in these before and after photos of one of Tampa's typical rehab units.

This partnership is even more impressive when compared to rehabilitation efforts in 1985, when government money was not effectively leveraged and the city's housing program rehabilitated only 37 homes. But in 1990, after only three years of full operations, the public and private partnership has rehabilitated 989 housing units in one year alone. And through the efforts of city-sponsored housing programs, especially the Challenge Fund, the community plans to rehabilitate and construct over 5,000 housing units in the next five years while continuing to leverage approximately \$2.59 of private funds for every dollar of federal funds.

The primary funding source of this effort is the Challenge Fund, which provides low-cost home purchase and home rehabilitation loans to households earning between 60 and 150 percent of the area

median income. Having proved itself in the initial program, the city announced "Challenge Fund II" in August 1990, and 18 financial institutions have committed \$28 million to the new program.

Under the initial Challenge Fund, most homeowners earned between \$15,000 and \$25,000 a year. Over \$13 million in loans were provided by 12 local financial institutions to homeowners at interest rates of 2 percent below market rates and for terms up to 20 years. Investors received 15-year loans at 1 1/2 percent below market. Financial institutions agreed to rate concessions and flexible underwriting because the city provided a five-year guaranty on every loan and provided all loan origination work. The guaranty program requires the city to buy back any loan delinquent 90 days or more.

According to Archie West, Urban Planner at the Community Redevelopment Agency, the city-sponsored nonprofit organization that administers the Challenge Fund, "participation by the banks in addressing substandard housing has been outstanding."

The program's strongest feature is that it "brings together all the elements necessary in a forum where the city, banks, nonprofit organizations, and individuals can do those things needed to revitalize a neighborhood."

Besides bringing diverse parties together, the city provides pre-purchase counseling, screens applicants, completes the loan documentation, and funds "soft second" mortgages to rehabilitate homes for qualified applicants whose income is less than 80 percent of the median income.

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TAMPA: Meeting the challenge

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The "soft-second" mortgages provide interest-free loans that, combined with bank financing, make home rehabilitation loans affordable for low-income families. The second mortgages are repaid when the ownership of the home changes.

"This Challenge Fund works because the city government brings something to the table other than CRA and high expectations," says Chris Steigerwaldt, vice president of Sun-Bank of Tampa Bay, a Challenge Fund lender. "The Community Redevelopment Agency chooses people carefully and follows through with loan administration."

Prescreening applicants is a difficult task. The Challenge Fund recently implemented a 13-week pre-purchase counseling program that covers everything from credit counseling to decorating and landscaping.

"Sometimes it's a matter of downsizing expectations of what people can afford," says Harriet Stone, director of Housing Management Services at Tampa United Methodist Center, a non-profit organization hired by the city to help screen applicants and provide counseling.

In addition, the Challenge Fund offers flexible underwriting criteria. Down payments range from 5 percent of the purchase price to only \$500. When looking at problems on credit reports, "we try to determine if it was something the applicant created and defaulted on, or if it was a joint problem such as a divorce, a medical problem, or a job loss," says Ms. Stone. "We would rather see no credit than bad credit".

Besides having a steady source of income ("consistent employment"), underwriting requirements limit total monthly housing expenses to 30 percent of monthly income and total monthly debt payments to 40

percent of monthly income. Loan to value ratios cannot exceed 90 percent.

The Challenge Fund's success is a shared success. The city government has effectively leveraged its funds to achieve a large-scale housing program that works to meet social, economic, and political goals. Nonprofit organizations and community groups achieve greater success in addressing their neighborhood concerns and providing affordable homes for the working poor. Local financial institutions benefit from a stronger deposit base, sound loans, and improved neighborhood and business communities.

Although these mortgage loans cannot currently be sold in the secondary market because of their below-market interest rates, local financial institutions have agreed to hold them in their own portfolios for the 20-year terms.

According to Connie Downs, Community Affairs Officer at Barnett Bank of Tampa Bay, "These are not normal everyday loans but we recognize the need for loans like this. Because the credit risks are controlled and the costs are reasonable, we are willing to accept some of the other [interest rate] risks. It is not always easy to satisfy our commitment to the community, but this is a prime example of how to do it".

Although the Challenge Fund is the most visible of the city's efforts, the city-sponsored Community Redevelopment Agency's home rehabilitation efforts have included many different programs.

Community Development Block Grants (CDBG) are used to provide very low- and low-income homeowners with non-

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SOUNDBITES

NIMBY syndrome impedes affordable housing

On July 8, 1991, the federal Advisory Commission on Regulatory Barriers to Affordable Housing issued its report at a White House ceremony. The report cited tacit opposition to the construction of low-cost housing in established neighborhoods—the "not in my back yard" syndrome—as the key motive behind these regulatory barriers, which can add as much as 20 to 35 percent to the price of a house in some areas. The commission urged the reform of complicated and time-consuming processes for obtaining building permits, expensive subdivision ordinances, zoning rules, rent control, and environmental protection laws. *Copies of the report can be obtained for \$10 from HUD User, P.O. Box 6091, Rockville, Maryland 20850, JD# HUD5806.*

STABILIZING NEIGHBORHOODS: Neighborhood Housing Services began a new chapter in Birmingham, Alabama in June 1991. The organization will be working in seven low- and moderate-income areas of the city. Former Federal Reserve Board Governor Martha Seger was the keynote speaker at a luncheon for the organization on July 11th sponsored by SouthTrust Bank, N.A. and AmSouth Bank, N.A. in Birmingham.

BUILDING AFFORDABLE HOUSING: The Churches Conference on Shelter and Housing announces the publication of a new resource book for congregations and community-based organizations considering a housing initiative. Entitled *Making Room at the Inn: Congregational Investment in Affordable Housing*, is a resource book intended to prepare nonprofits with little or no housing experience to work effectively with development partners and financial resources. *Contact CCSH at (202) 232-6748. Prices vary from \$10 to \$17.50 plus postage, depending on type of entity.*

"These are not normal everyday loans but we recognize the need for loans like this."

-Connie Downs

Affordable housing looking for a market

By William R. Smith

The business community is trying to deal with a shortage of affordable housing in Atlanta. But can it address the real problem—a shortage of income?

When it comes to building affordable housing, good intentions aren't enough. Just ask Ronald Hogan, president of Georgia-Pacific Corp.

Two years ago, the wood products and paper company committed \$2 million to help revitalize Vine City, a run-down neighborhood near the site of the Georgia Dome in downtown Atlanta. Hogan explains, "We're in the building materials business, so we decided this was a good way to direct some of our attention."

So far, the company has built 20 houses in Vine City and has plans to assemble 200, as part of what it calls Project Hope. The one-story houses cost between \$41,000 and \$50,000. In March, after a year on the market, only three of the houses were owner occupied; 15 were vacant.

"It's been a complete bust," says John Wieland, the state's largest homebuilder who donated his services to construct some of the Vine City houses. "You can't just go into a poor neighborhood and build houses, then congratulate yourself on what a great job you've done."

Hogan denies the effort has been for naught. "We've learned a lot from Project Hope," he says, but concedes it "hasn't met expectations."

Project Hope's problems illustrate the complexity of one of Atlanta's most severe problems: the shortage of affordable housing. Its most visible symptom is the homeless, whose numbers

"The heart of the problem is not a shortage of housing," says John Leak, a vice president with Central Atlanta Progress, the downtown business group. "It's a shortage of income."

have swelled to an estimated 10,000 in the metropolitan area.

What is often overlooked, however, is the vast number of families in Atlanta who can't afford decent housing. Half of every household in the city—a total of about 200,000 people—earns \$15,000 a year or less.

"The heart of the problem is not a shortage of housing," says John Leak, a vice president with Central Atlanta Progress, the downtown business group. "It's a shortage of income."

In the past, the public sector was responsible for affordable housing. But during the 1980s, Washington cut its commitment to low-income housing, and the U.S. Department of Housing and Urban Development was plagued by scandal. Things are no better on the local level. The Atlanta Housing Authority has 14,700 units, but 11% of them are uninhabitable. The waiting period for two- and three-bedroom units is three to six months.

The Atlanta Chamber of Commerce recently started an effort to address the shortage of affordable housing. It's being conducted through a coalition of corporations, non-profit or-

ganizations and neighborhood groups. Called the Atlanta Neighborhood Development Partnership, it is chaired by Hogan.

The partnership may help to bring focus to what has been a fragmented effort. Dozens of churches and civic organizations try to address the issue of affordable housing, but they rarely work together. Until the *Atlanta Journal-Constitution's* Pulitzer Prize-winning series on discriminatory lending practices in 1988, the business community virtually ignored the issue.

The chamber's effort is projected to raise as much as \$10 million for various programs and build as many as 10,000 housing units. "This will help get everybody to pull in the same direction," says Dan Sweat, president of the CF Foundation. "It will probably be the most aggressive and ambitious organization to address affordable housing in the city's history."

Research Atlanta, a non-profit group that studies community issues, recently published a report on affordable housing, and in many ways its conclusions contradict the approach espoused by the chamber. The report says there has been too much emphasis on trying to help poor people to buy homes and not enough on building and rehabilitating rental units. In some neighborhoods, such as Vine City and Summerhill, the default rate for mortgages exceeds 30%. Sandra Stone, executive director of Research Atlanta, says it's a mistake to encourage people with unstable incomes to take out a mortgage.

Research Atlanta says that 13% of all rental units in Atlanta are either overcrowded or have structural problems, such as in-

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William R. Smith is a staff writer for Georgia Trend. This article was reprinted with permission from Volume 6, Number 9 (May 1991).

BORROWING CAPACITY

1991 MSA MEDIAN INCOMES	ANNUAL INCOME	MONTHLY INCOME	FINANCING POTENTIAL	EFFECT OF \$200/MTH IN CONSUMER DEBT PAYMENTS	EFFECT OF \$300/MTH IN CONSUMER- DEBT PAYMENTS	Taxes and Insurance Adjustment	
						If Monthly Pymts for Taxes and Ins. are:	Subtract This Amt From Computed Loan Amounts:
-Moderate Ceiling-							
80% OF MEDIAN	\$35,280	\$2,940.00	\$102,309	\$102,309	\$94,255	\$ 50	\$ 6,214.09
70% OF MEDIAN	30,870	2,572.50	89,520	89,520	77,813	\$ 60	\$ 7,456.91
60% OF MEDIAN	26,460	2,205.00	77,732	73,799	61,370	\$ 70	\$ 8,699.73
-Low-Income Ceiling-							
50% OF MEDIAN	22,050	1,837.50	63,943	57,356	44,928	\$ 80	\$ 9,942.55
40% OF MEDIAN	17,640	1,470.00	51,154	40,914	28,485	\$ 90	\$11,185.37
30% OF MEDIAN	13,230	1,102.50	38,366	24,471	12,043	\$100	\$12,428.19
						\$110	\$13,671.01
						\$120	\$14,913.82

The financing potential assumes 28% of income is used to pay principal and interest expenses, 9% interest is charged, and a 30-year loan is obtained. Effect of consumer debts assumes 28% of income is permitted for monthly housing expenses, 36% is permitted for all monthly expenses, 9% interest is charged, and a 30-year loan is obtained.

The chart does not account for taxes and insurance expenses. To obtain an accurate financing potential both before and after adjusting for consumer debts, use the Taxes and Insurance Adjustment Chart.

DISPARITIES: The role played by low income

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Although only 11.4 percent of the white tracts have median incomes of less than 51 percent of the MSA median income, the median incomes of 60.5 percent of the black tracts fall below this level.

pared to blacks, who are more likely to be toward the bottom end of the income range.

Recognizing the difficulties that low-income applicants have qualifying for conventional loans, many community organizations have called for pricing and underwriting concessions to help eliminate the loan disparities. However, any concession to all low- and moderate-income applicants tends to result in a greater benefit to low- and moderate-income whites than to low- and moderate-income blacks. For example, the national median income in 1989 for whites was about \$2,500 per month and for blacks about \$1,500 per month. If, for instance, the underwriting guidelines were changed to permit use of an additional 2 percent of monthly income for housing expenses, whites at the median would see a \$50 per month rise in borrowing capacity while blacks at the median would see an increase of only \$30 due to the difference in incomes.

It is also becoming increasingly apparent that even making extremely low cost financing and other favorable terms and

assistance available will not necessarily create a market in neighborhoods that have suffered a severe decline, particularly where crime is a problem. (See "Affordable Housing Looking for a Market" on page 5 of this issue of Partners for one local example.) Given the extremely poor condition of some of these areas, homebuyers often have to take a tremendous leap of faith to believe that an area can and ultimately will be revitalized and become a safe, decent place to live as well as a viable financial investment. Thus, it is understandable that qualified applicants may be reluctant to chance the largest investment they may make during their lifetime on a questionable area.

Nothing in this article is intended to suggest that the regulators should diminish their efforts to uncover unlawful credit discrimination. However, it does seem that focusing on illegal credit discrimination as the sole cause of the disparate mortgage loan distribution patterns is unwise in that this narrow view obscures other factors that significantly influence the distribution of home mortgage loans, and these other factors

may explain why the loan patterns occur. Given the large differences in income and wealth between the races, it will likely be very difficult to totally eliminate the mortgage loan disparities. Along with ferreting out any unfair lending practices, appropriate attention should also be given to (1) examining the myriad factors that affect the cost of housing, (2) looking into whether the limited amount of available government and philanthropic subsidies are reaching the truly needy, and, (3) for lenders, the secondary market participants, and mortgage loan insurers, analyzing pricing and underwriting policies and practices to determine if the various risk parameters are being too tightly defined and whether the existing guidelines are being interpreted correctly and administered as intended. Unless these important aspects of the problem are addressed, it seems unlikely that the disparities can be reduced significantly.

Satisfying your examiner & satisfying your community are not always the same

By Allen Fishbein

Now that public disclosure of individual bank CRA ratings and evaluations has begun, it is little wonder that many institutions are bracing themselves for their next compliance examination. The new community reinvestment disclosure requirements mandated by the FIRREA are likely to bring increased public scrutiny, changing the stakes considerably for banks assigned poor or even mediocre ratings by the examiners.

These new changes to CRA have increased the temptation for banks to emphasize quick-fix methods for achieving regulatory compliance, even if these efforts are not directly aimed at addressing CRA's underlying purpose—to promote increased lending to underserved local communities. Those banks that continue to view CRA purely as a compliance issue, however, will learn very quickly that satisfying the examiner and satisfying the local community are not necessarily the same thing.

The Changing CRA Environment

Community groups and the regulators often have had substantially different expectations regarding CRA enforcement. To fully understand these differences, it is necessary to review the act's history since its inception in 1977.

CRA was adopted as a result of grassroots activism by local community groups. It was designed to address the concerns of these local citizens' groups

and others who believed that redlining and other discriminatory mortgage lending practices by the banking industry were contributing to the decay of many older urban neighborhoods. CRA was aimed as much at modifying the behavior, norms, and attitudes of banks as it was at changing the stance of the federal banking regulatory agencies, which it seemed had not used their supervisory authority to deter lending discrimination.

Community groups learned how to use the limited leverage CRA provides, by challenging requests for regulatory approval of bank expansions. The increasing involvement by community groups in the application process reflected the growing frustration by local communities with the level of agency enforcement. Even though they were labeled "extortionists" and "blackmailers" by some segments of the banking industry, local groups began to view the CRA challenge process as increasingly central to making the law work.

Few applications were denied as a result of CRA challenges. Nonetheless, those challenges provided local groups with the leverage they needed to engage banks directly in serious negotiations about the ways in which they can better meet local credit needs. Most challenges resulted in settlement arrangements between banks and community groups. It is estimated that more than \$7.5 billion in reinvestment commitments from banks and S&Ls have stemmed from these CRA negotiations.

The regulators steadfastly refuse to issue precise standards

on how many loans institutions are required to make. However, it appears that more precise guidelines are likely to emerge over time as a result of the agency determinations of CRA performance on a case-by-case basis.

Since the regulators are unwilling to tell banks how much CRA-related lending is sufficient to achieve a satisfactory or outstanding rating, some institutions are pinning their hopes for a good grade by emphasizing the "softer" aspects of CRA compliance. Thus, internal documentation systems, loan geocoding, expanding CRA statements, and the like seem to be receiving more attention these days than do strategies for improving actual lending performance to underserved segments of the communities.

It is a little early to forecast how the regulators will treat the "process" aspects of CRA as compared to actual lending performance. However, regardless of what the regulators ultimately decide to do, banks will continue to be evaluated by their communities, based on the extent to which they are providing credit to underserved areas rather than on the thickness of the paper they use for their CRA statements.

Winning Community Approval

Despite what you may hear from some quarters, there is no fail-safe means for ensuring that your record is challenge-proof. However, banks that have established strong ties with all segments of their local com-

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Allen Fishbein is General Counsel of the Center for Community Change and directs its Neighborhood Revitalization Project. CCC is a national technical assistance and advocacy organization, supporting low-income and minority community-based organizations. This excerpt is reprinted with permission. The full article appeared in the October 1990 issue of ABA Bank Compliance.

Public funding: CDBG

By Cynthia Goodwin

Many localities use funds from the Community Development Block Grant (CDBG) program to finance their investments in public/private partnerships. The CDBG program was begun in 1974 and is the federal government's main vehicle for supporting local renewal efforts. CDBG replaced eight former categorical grant and loan programs under which communities competed nationally for funds in specific project categories. Funding for fiscal year 1991 was \$3.2 billion.

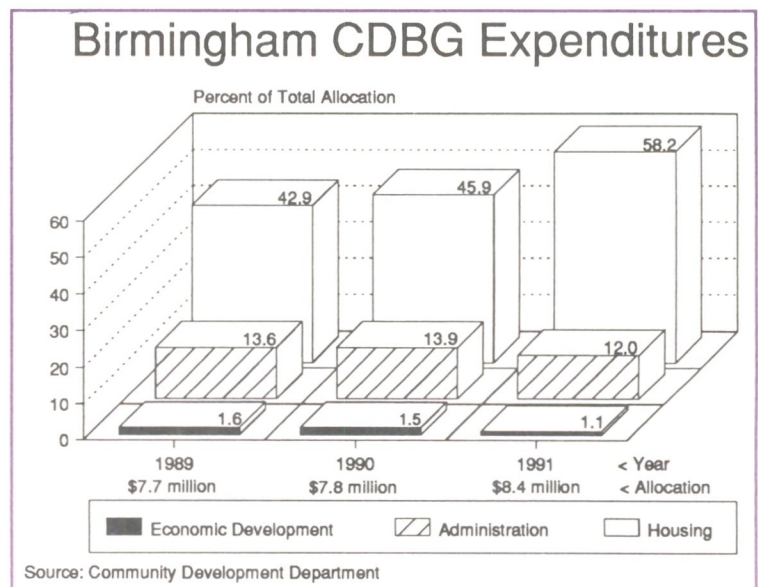
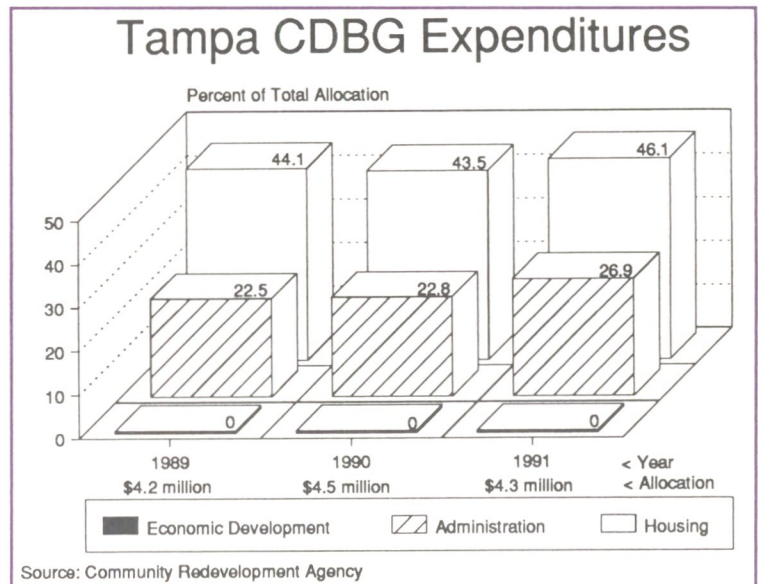
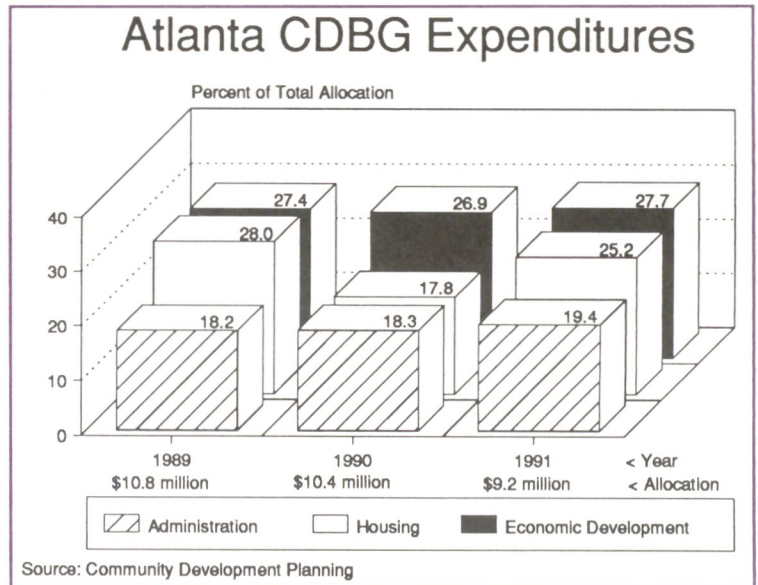
Entitlement and non-entitlement communities receive funds. "Entitlement areas" are (1) metropolitan central cities of MSAs or other cities within MSAs with populations of at least 50,000 and (2) urban counties within MSAs that are authorized to undertake community development and housing activities and that meet certain population requirements. These areas receive annual grants. To receive its allocation of funds, a community must submit a statement of objectives describing funding plans, submit a five-year Comprehensive Housing Affordability Strategies (CHAS), and must certify that its program complies with federal labor, environmental, civil rights, and contracting laws.

The 50 states and Puerto Rico are eligible to apply to distribute funds to non-entitlement units of government, generally under 50,000 in population, that are not metropolitan cities or part of an urban county. From each year's CDBG appropriation except the Secretary's Discretionary Fund [and the UDAG program for entitlement cities] 70 percent is allocated to metropolitan cities and urban counties, and 30 percent is allocated to non-entitlement areas.

Entitlement grants are determined by a statutory formula that uses several objective measures of community need including poverty, population, housing overcrowding, age of housing, and growth lag. Funds to non-entitlement areas are allocated among the states by a formula, and either the state or HUD distributes the funds to the different units of general local government.

Entitlement grantees received about \$2.02 billion in fiscal 1990, spread among 741 metropolitan cities and 125 urban counties. In 1988 (the most recent year for which this information has been reported), metro cities spent 35 percent of their funds on housing rehabilitation; 21 percent on public works; 12 percent on economic development; 14 percent on administration and planning; 9 percent on public services; and 8 percent on acquisition, clearance, and relocation. Non-entitlement areas received \$845 million in fiscal 1990. About \$808.9 million went to states, and \$36.3 million went to small cities in the

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Percentages do not total 100% due to category exclusions.

FARMERS: New program to increase rural homeownership

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Loans can be made to applicants whose income does not exceed 100 percent of the median income for the county where the home is located. Applicants with income less than 80 percent of the median income can qualify for a subsidy to reduce the amount of payment they actually pay. The subsidy is paid directly to the lender.

To qualify to participate in the Guaranteed Loan Program, lenders must submit to the FmHA State Office in their area the following:

1. Evidence of approval by HUD, Fannie Mae, or Freddie Mac and lender ID
2. The name, address, and phone number of the designated contact person for guaranteed loans.
3. A list of principal officers and their major duties.
4. Copies of all the forms that will be used to process guaran-

FmHA State Office Contacts

Douglas Canup	Athens, GA	(404) 546-2169
Austin Cromier	Alexandria, LA	(318) 473-7630
Stanley Shows	Jackson, MS	(601) 965-4325
G. Benson Lasater	Nashville, TN	(615) 736-7382
Jim Martin	Phoenix, AZ	(602) 640-5086
Jerry Cude	Little Rock, AR	(501) 324-6273
James Rathbone	Woodland, CA	(916) 666-3382
Don Pierce	Lakewood, CO	(303) 326-2851
Ambrose McGuire	Des Moines, IA	(515) 284-4666
Denver Parks	Lexington, KY	(606) 233-2731
Dale Holmes	Bangor, ME	(207) 947-3837
Ernest Schuette	East Lansing, MI	(517) 337-6608
Gary Frisch	Columbia, MO	(314) 875-5245
Thurman Burnette	Raleigh, NC	(919) 790-2731
Mary Painter	Columbus, OH	(614) 469-5165
Francis Wetherhold	Harrisburg, PA	(717) 782-4567
Wesley Harris	Columbia, SC	(803) 765-5879
M. J. Pena	Temple, TX	(817) 774-1305
Dorothy Seitz	Richmond, VA	(804) 771-2615
Deborah Davis	Wenatchee, WA	(509) 662-4298

teed loans including application forms, closing forms, and security instruments.

5. A brief synopsis of internal loan underwriting criteria.

"If there's a family living in the inner city with good credit and decent income they're probably going to want to move out to a more comfortable place...There has to be an effort to improve the entire neighborhood so people will want to stay there."

-John Wieland

GEORGIA: Shortage of income

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adequate insulation or broken plumbing. There are 3,000 apartment units that are boarded up and vacant.

Few neighborhoods have deteriorated more drastically than Vine City, which has a rich history. Mayor Maynard Jackson and City Council President Marvin Arrington grew up there. Alonzo Herndon, who founded Atlanta Life Insurance Co., built a mansion in the neighborhood near Atlanta University Center. Coretta Scott King lives in Vine City.

Two years ago, as part of the deal to develop the Georgia Dome, the Atlanta City Council got the state and Fulton County to set aside \$10 million to revitalize the neighborhood, which has a population of about 5,000. Georgia-Pacific announced



Project Hope later that year, in a separate effort.

Some 700 people—mostly residents of public housing in the vicinity—have applied for mortgages to buy Project Hope houses. But few have qualified, and people are getting tired of waiting. "It's taken an eternity to process the loans," says the Rev. W.L. Cottrell, president of the Vine City Housing Ministry, a coalition of neighborhood churches that markets the houses and counsels prospective buyers. Cottrell says some applicants have waited more than a year without being approved or rejected for a loan.

John Wieland is discouraged, in part because of conditions in

the neighborhood, where across the street from a row of freshly rehabilitated houses a boarded-up shack is occupied by crack dealers. "If there's a family living in the inner city with good credit and decent income, they're probably going to want to move out to a more comfortable place," Wieland says. "There has to be an effort to improve the entire neighborhood so people will want to stay there. That means you figure out ahead of time who's going to move into the houses, then work with them years in advance and help them to save money and pay their bills on time so they can qualify for a mortgage."

Hogan acknowledges the problems. "This is a complicated issue," he says. "There's got to be more to it than putting together bricks and mortar."

OPINION: Satisfying your examiner & satisfying your community are not always the same

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munities and have demonstrated a sustained record of working to address the needs of underserved areas have little to fear from a CRA challenge.

Banks can demonstrate this commitment to helping to meet community credit needs through outreach to their local communities. This means going beyond a bank's usual "circle of friends," particularly emphasizing those parts of the community in which the bank is not active.

In addition, banks should resist the mistake of thinking of CRA as an urban issue only. There are significant pockets of disinvestment in many rural areas that must be addressed. It is not enough for community bankers simply to say, "We would not be in business if we were not serving our community."

Winning community approval depends on top management staying in touch with the bank's community, not only by going outside the bank, but also by setting the tone for how the institution's personnel relate to all members of the community who come into the bank.

Working With Your Community

In his now classic book *Democracy in America*, Alexis de Tocqueville, the young French aristocrat who came to our nation in the 1830s, extolled the "can do" spirit of Americans in forming private, voluntary mutual assistance associations as an important means for tackling local problems. Fortunately, this tradition is continuing. It is alive and well in local communities throughout this country. The private, not-for-profit sector is a dynamic and growing part of most communities. This is the sector banks must relate to much better

if their CRA efforts are to succeed.

Being neither governmental entities nor commercial enterprises, the organizations that comprise the nonprofit sector often deliver essential social services to the residents of low- and moderate-income areas. These community-based organizations provide everything from health services, to child care, to employment training. The directors and staffs of these organizations can be quite knowledgeable about the needs and conditions of the areas in which they are located.

At their best, community-based organizations can serve as a banker's "eyes" and "ears" in the areas in which they are located. They are often vast repositories of information about local needs and potential business opportunities for banks. Many are becoming experienced housing and commercial developers.

Too many banks, however, confuse communication and outreach with information dissemination. Since community meetings are typically held on weekday evenings or the weekends, senior managers often delegate personnel with very little seniority to attend them. Moreover, the representatives attending community meetings may know very little about the bank's lending activities. As junior personnel, they are reluctant to speak on the bank's behalf. As a result, they limit their activities to passing out brochures and making sure the bank's name is listed on the attendance sheet that is circulated. The new CRA climate means that bank personnel will be attending more community meetings, but unless these representatives are in a position to carry on an active dialogue with

local residents, any new initiatives will not be worth the effort.

Conclusion

Public disclosure of CRA ratings and evaluations will provide the public with a great deal more information about banks' community lending records than was previously available. Community groups, consumer organizations, public agencies, and others all will be using this new information base to determine how well banks are serving local credit needs and as a basis for suggesting ways in which banks can improve their performance.

Further, given past history, it is unlikely that local groups will be content to rely exclusively on the ratings assigned by the

See FISHBEIN, page 12

Final Changes to CRA

Effective July 11, 1991, the Federal Reserve Board amended its Regulation BB to implement changes in the CRA contained in Title XII of the FIRREA. This "final rule" establishes procedures applicable to state member banks governing public access to CRA Performance Evaluations and CRA ratings assigned by the Federal Reserve during the examination process. The final rule adopts, with only minor modification, the requirements in the temporary rule which ensured that the changes required by FIRREA became effective by the mandated date. The most substantial modification from the temporary rule was to clarify that it does not require, but merely permits, the bank to respond to the CRA evaluation and place its response in the public comment file should it so desire.

TAMPA: Meeting the challenge

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For more information about this program contact Mr. Fernando Noriega, Jr., Division Manager, City of Tampa Community Redevelopment Agency, 310 9th Avenue, Tampa, FL 33605, or the Community Affairs section of the Federal Reserve Bank of Atlanta.

amortizing loans to upgrade their homes to a standard condition. This money is repaid when the home is sold or when ownership changes.

The same program has been expanded by using a Lump Sum Drawdown Agreement allowed under U. S. Housing and Urban Development regulations. Under this agreement, the full year's CDBG allotment of low-interest loans for housing rehabilitation money can be drawn at one time, thus earning

interest at a local bank while funds are disbursed as needed.

Two other programs provide purchase and rehabilitation loans to low-income persons.

The Resurrection of Affordable Housing Program (RAHP) works with nonprofit organizations to identify condemned homes that are then purchased, rehabilitated, and sold to low-income persons through a package of subsidized financing.

The Mayor's Own-A-Home program, is directed at selected

families living in public housing.

Several other smaller housing programs that provide loans and grants include (1) Urban Homestead Program, (2) Adult Congregate Living Facilities, (3) Elderly Grants, (4) Hillsborough County Housing Finance Authority Bond Program, and (5) Sewer Grants.

READING FILE

- Business Opportunities Casebook* is an effort to assist rural communities in their economic development efforts. For a copy contact U.S. Small Business Administration, Rural Development, Business Development Division, 999 18th Street, Suite 701, Denver, Colorado 80202.
- The Secondary Market and Community Lending Through Lenders' Eyes*, prepared for Freddie Mac, this report addresses public concern that lenders have been underserving the credit needs of certain communities (1991). Call Angie Grantman (703) 903-2363.
- A Guide to Business Credit for Women, Minorities, and Small Businesses* explains the credit application process, types of loans, and relevant regulations. Board of Governors.
- Community Affairs Officers at Federal Reserve Banks* outlines the Community Affairs Officer's role, duties, and responsibilities, particularly those responsibilities related to the Community Reinvestment Act. Federal Reserve Bank of Richmond.
- Home Mortgages: Understanding the Process and Your Rights* details where and how to shop for a mortgage and explains the credit analysis process. Board of Governors.
- How to Establish and Use Credit* discusses how to qualify for credit and use it wisely. Federal Reserve Bank of Philadelphia.
- Is My Bank Meeting Its Community Reinvestment Obligations?* explains the requirements of the CRA and the examination process. Federal Reserve Bank of Atlanta.
- Lessons Learned from the Atlanta Mortgage Consortium* by Ronald Zimmerman analyzes that organization's loan portfolio after one year in operation. Federal Reserve Bank of Atlanta.
- Mid-Atlantic Conference on the Community Reinvestment Act and Community Development Corporations* is an enlightening transcript of a conference on the subject. Federal Reserve Bank of Richmond.
- Public/Private Partnership Model for Home Mortgage Lending* by Ronald Zimmerman is a Lotus-based, interactive computer model that enables the user to specify program underwriting criteria to determine a borrower's or a program's potential. Federal Reserve Bank of Atlanta.
- Satisfying Your Examiner & Satisfying Your Community Are Not Always the Same* is an article by Allen Fishbein, general counsel for the Center for Community Change. 1990

Copies of most of these materials can be obtained by writing or calling the Community Affairs section at the Federal Reserve Bank of Atlanta at (404) 589-7307.

Please notify Partners if your organization would like to publicize an upcoming conference. The editor also welcomes information about community and economic development efforts in your community.

C A L E N D A R

September

Federal Home Loan Bank of Atlanta, September 26-27, Atlanta, GA, *Banking on Communities: Building Blocks for Success*. Contact Renee' Bayne (404) 888-8436.

National Association of Housing and Redevelopment Officials, September 29 - October 2, Atlanta, GA, *1991 National Conference and Exhibition*, Contact Registrar (202) 429-2960.

October

Institute for Community Economics, October 1-3, Washington, D.C., *Preserving Affordable Housing: An Introduction to Community Land Trusts*. Contact Carrie Nobel (413) 746-8660.

Federal Reserve Bank of San Francisco, October 17-18, 1991, Phoenix, AZ, *Desert Bloom*. Contact Kelly Walsh (415) 974-3314.

PUBLIC

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two states—New York and Hawaii—where HUD still administers the program. 53 percent of the 1989 funding to states and small cities was used for public works. Housing received 26 percent; economic development, 17 percent; administration and planning, 3 percent; and public services, 1 percent.

All projects and activities must principally benefit low- and moderate-income persons, aid in the prevention or elimination of slums or blight, or meet other urgent community needs.

Communities must furnish residents with information about the amount of CD funds that will be available in the coming program year; hold at least one public hearing; and publish the contents of the proposed statement of objectives.

FISHBEIN

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regulators. Communities will be using the information provided by the new disclosure reports to perform their own "audits" of the community reinvestment performance rather than the glossiness of an institution's CRA statement. If banks ever need a reason to get out and meet with their communities, they certainly seem to have one now.

Did You Know?

Of approximately 30,000 people who have completed the Fannie Mae/GEMICO Community Home Buyers Program, only 800 have obtained mortgage loans under this initiative.

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