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**Objective Appraisals Contribute to Fair Lending**

An appraisal is a key piece of information used in every residential loan decision. Accordingly, appraisers, as well as those who review appraisal reports, should be aware of potential pitfalls in order to avoid discriminatory appraisal practices.

You’ve heard the saying. The three most important things in real estate are location, location, location. That statement, while trite, is nevertheless true. Indeed, property location is fundamental to both value that specifically prohibit discrimination in lending.

This policy statement has been approved and adopted as “the Agencies” general position on the ECOA and the FH Act for purposes of enforcement. It is intended to be consistent with those statutes and their implementing regulations and to provide guidance to lenders seeking to comply with them.

The statement also discusses what constitutes lending discrimination under these statutes and what steps lenders might take to prevent discriminatory lending practices.

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**Inside This Issue**

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Secondary Market Continues Rapid Expansion

Lenders sell loans to reduce interest rate risk and improve liquidity

By Melissa Conaway

Bankers are reluctant to book long-term fixed rate loans because changes in interest rates could result in them paying more on deposits than they receive on the loans. As a result, loans are frequently packaged and sold in the secondary market. However, affordable housing loans sometimes require bankers to be more flexible in their underwriting than the secondary market allows. This article is one of an occasional educational series highlighting the importance of the secondary market for home purchase loans.

The secondary market for home mortgages has grown rapidly over the past decade, with home mortgages sold increasing 443%. The secondary market allows lenders and investors to buy and sell existing mortgages as whole loans, participations and mortgage-backed securities. Lenders sell these loans to reduce interest rate risk and improve liquidity.

A whole loan sale is the sale of 100 percent of a loan or unsecured pool of loans. Investors hold the actual mortgage and promissory note for each loan until maturity.

A participation sale is the sale of a partial interest in a loan or pool of loans, with the originating lender retaining a percentage interest in the loan or loan pool.

Mortgage-backed securities (MBSs) are securities collateralized by mortgage loans. The loans are pooled and packaged into securities that are then sold to investors. The security instrument itself represents an interest in a pool of mortgages. An investor in a MBS holds a security interest in a mortgage pool, instead of actually holding a mortgage and promissory note.

MBSs represent a rapidly growing segment of the fixed income market—securities such as bonds, mortgage-backed securities, and preferred stock. The level of current income, as defined by the issuer's coupon or dividend rate, is fixed for a specified time period, usually for the life of the issue. In the fixed income market, the value of the investment is based on the cash flow the investor receives. The cash flow on MBSs is determined by the underlying pool of residential mortgages. The pooled mortgages have individual interest rates limited to a stated range or spread, and provide an investment return through regular payments by homeowners of principal and interest.

The three basic types of MBSs are pass-through securities, mortgage-backed bonds, and special mortgage-backed securities.

A pass-through security is created when a pool of mortgages is established and shares in the pool are sold to investors. A trustee holds the mortgages; principal, interest, and any prepayments received from the homeowners are paid directly to investors of the security each month on a pro-rata basis. The term “pass-through” describes how the issuer distributes cash flows from the mortgages to investors. The cash flow, its pattern, and the credit worthiness of the pool all depend on the underlying mortgages.

Mortgage-backed bonds are corporate bonds which are general obligations that are secured with a pool of mortgages. The issuer of the bonds retains ownership of the mortgage pool and uses the mortgages as collateral for the bonds. Although pass-through securities pay interest and principal on a monthly basis, mortgage-backed bonds pay interest semi-annually and then repay principal at maturity.

Special mortgage-backed securities combine features of pass-through securities and mortgage-backed bonds to form hybrid securities. The most common special mortgage-backed securities are collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and stripped mortgage-backed securities (SMBSs).

Several agencies support the secondary market, including government sponsored enterprises, such as the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). These organizations buy mortgages from lenders who use the sale proceeds for additional mortgage lending. The mortgages must be underwritten by lenders to meet the secondary

... generally assigned a “AAA” credit rating ...

See MBS, page 3
MBS: Mortgage Loans Must Meet Underwriting Standards

Market’s standards. The securities issued by these institutions are guaranteed by the agencies themselves and are generally assigned a “AAA” credit rating.

The Government National Mortgage Association (Ginnie Mae) is also a government agency active in the secondary market. Ginnie Mae securities carry the full faith and credit of the U.S. government and are collateralized by Farmers Home Administration (FmHA) insured, U.S. Housing and Urban Development (HUD) and Federal Housing Administration (FHA) insured, and Veterans Administration (VA) guaranteed home purchase loans. Ginnie Mae guarantees the timely payment of principal and interest which makes these securities extremely marketable.

Although the benefits of securitization include some protection from interest rate risk, and provide liquidity and diversification for originating lenders and investors, several risks remain; including prepayment risk, credit risk, and interest rate risk.

Prepayment Risk

Prepayment risk, the risk that borrowers of the underlying mortgage loans prepay their loans earlier than expected, is the primary concern of both investors and issuers of MBSs. The value of a security is the discounted present value of its future cash flows. When the cash flows are uncertain as a consequence of the prepayment option on home purchase loans, determining the value of the security becomes more difficult.

The prepayment option creates an exposure similar to that of a call option; the right, not the obligation, to buy a particular security at a specified price anytime until its expiration date. For example, if mortgage rates decline, mortgage bond prices will increase because the existing bonds are collateralized by home purchase loans that pay higher interest rates. However, borrowers have the right to refinance these underlying home purchase loans at lower interest rates, and as they do, prepayment may unexpectedly leave bond investors with funds to invest at lower interest rates. Prepayment by homeowners affects the yields and the actual life of mortgage pass-through securities. When interest rates decline, the risk of prepayment increases.

Prepayment rates are low during periods of high interest rates, and these existing securities are typically sold at a discount. Conversely, prepayment rates are high during periods of low interest rates, and existing MBSs would be sold at a premium.

Although interest rates are an incentive for prepayment, several other factors may also cause prepayments. These include: defaults and foreclosures; the

See MBS, page 6

1982 Outstanding Mortgage Debt
By Entities Holding the Mortgages

| Financial Institutions | 62.0% |
| Federal Agencies | 8.0% |
| MBS and other pools | 13.0% |
| Individuals & Others | 17.0% |

Source: Federal Reserve Board

$1.65 trillion outstanding as of 12-31-82

1992 Outstanding Mortgage Debt
By Entities Holding the Mortgages

| Financial Institutions | 44.0% |
| Federal Agencies | 7.0% |
| MBS and other pools | 35.0% |
| Individuals & Others | 14.0% |

Source: Federal Reserve Board

$4.04 trillion outstanding as of 12-31-92
Discrimination: Liability is Civil, Not Criminal

Continued from page 1

Lending Discrimination Statutes And Regulations

(1) The ECOA prohibits discrimination in any aspect of a credit transaction. It is not limited to consumer loans and applies to any extension of credit, including extensions of credit to small businesses, corporations, partnerships, and trusts.

The ECOA prohibits discrimination based on:
- Race or color;
- Religion;
- National origin;
- Sex;
- Marital status;
- Age (provided the applicant has the capacity to contract);
- The applicant receipt of income derived from any public assistance program; and
- The applicant exercise, in good faith, of any right under the Consumer Credit Protection Act.

The Federal Reserve Board's Regulation B implements the ECOA. Regulation B describes lending acts and practices that are specifically prohibited, permitted, or required.

(2) The FH Act prohibits discrimination in all aspects of residential real-estate related transactions, including, but not limited to:
- Making loans to buy, build, repair or improve a dwelling;
- Purchasing real estate loans;
- Selling, brokering or appraising residential real estate; and
- Selling or renting a dwelling

The FH Act prohibits discrimination based on:
- Race or color;
- National origin;
- Religion;
- Sex;
- Familial status (defined as children under the age of 18 living with a parent or legal custodian, pregnant women and people securing custody of children under 18); and
- Handicap.

Because both the FH Act and the ECOA apply to mortgage lending, lenders may not discriminate in mortgage lending based on any of the prohibited factors in either list.

Liability under these two statutes for discrimination is civil, not criminal. However, there is criminal liability under the FH Act for various forms of interference with efforts to enforce the FH Act, such as altering or withholding evidence of forcefully intimidating persons seeking to exercise their rights under the FH Act.

What is Prohibited

Under the ECOA, it is unlawful for a lender to discriminate in any aspect of a credit transaction and, under both the ECOA and the FH Act, it is unlawful for a lender to discriminate in residential real estate related transactions. Under one or both of these laws, a lender may not, because of a prohibited factor:
- Fail to provide information or services or provide different information or services regarding any aspect of the lending process, including credit availability, application procedures, or lending standards;
- Discourage or selectively encourage applicants with respect to inquiries about or applications for credit;
- Refuse to extend credit or use different standards in deter-

See DISCRIMINATION, page 8
An Enterprising Approach to Empowering Communities

Urban and rural areas to benefit as a result of new federal program

By Jennifer Grier

"Empowering Communities" will soon be more than a political catch phrase to 71 urban and 33 rural areas across the country. The impetus is the federal government Empowerment Zone and Enterprise Community (EZ/EC) program, which emphasizes a comprehensive approach to addressing the needs of poverty-stricken communities.

Hundreds of small towns and big cities are vying for the hotly contested designation by HUD and the USDA. Communities that meet the poverty criteria for the program can choose to apply for either an Empowerment Zone (Zone) or Enterprise Community (Community) designation. The major difference between the designations is the level of benefits.

Empowerment Zones in rural areas can receive up to $40 million and in urban areas up to $100 million in EZ/EC Social Services Block Grant (SSBG) funding. All Enterprise Communities are eligible for approximately $3 million in SSBG funds for redevelopment activities proposed by the community.

Other Funding Sources

Several federal agencies have committed to support the EZ/EC initiative through increased funding and technical assistance. HUD has designated $500 million for project-based rental assistance certificates or other assistance for housing, and another $500 million for Economic Revitalization Grants for loan guarantees under the Section 108 Loan Guarantee program to spur economic development.

USDA is proposing to set aside over $400 million to designated rural Zones and Communities over the next four years. The funding will be available for housing and community facilities, business development, and water and waste systems.

The Small Business Administration (SBA) has developed a program to establish One Stop Capital Shops (OSCS) in each Zone and Community that will provide loans and technical assistance to small and minority businesses.

Also, Fannie Mae has made a $1 billion commitment to housing investments and other benefits in designated Zones and Communities.

Benefits to Designated Areas

In addition to funding, the federal government has pledged to work with these communities to help remove any regulatory impediments to community development activities. For example, special consideration will be given to Zones and Communities for funding under other competitive federal programs and the flexible use of existing federal funds will be permitted.

Attractive incentives are also available to employers who provide jobs to persons who reside in designated Zones. Zone employers can claim a tax credit equal to 20 percent of the first $15,000 in wages and qualified costs of training for each employee that is a Zone resident.

Strategic Plans

A crucial element of the application for the EZ/EC program is the strategic plan outlining the community's vision of initiatives that will best serve the needs of its residents. The application will be evaluated based on the substance of the plan and the level of participation of the entire community in developing the plan.

The application deadline of June 30th marked the beginning of HUD and the USDA's arduous task of determining the 104 urban and rural designations. Although only a limited number will win a designation, these communities have become empowered just by participating in the application process for the EZ/EC program.
MBS: Risks Remain

Continued from page 3 —

sale of the property mortgaged; the payout of mortgage life insurance; or full payment of hazard insurance following a disaster.

Credit Risk

Another risk apparent in MBSs is credit risk or the risk of default. With MBSs, it is also the risk that the cash flows from the underlying mortgage loans will not support the timely payment of principal and interest due on the securities. Credit risk is not a major concern for most MBSs backed by federal agencies since they have federal guarantees. However, credit risk is an issue for private mortgage-backed securities.

Interest Rate Risk

Interest Rate Risk is the price sensitivity of an asset to changes in market interest rates. For example, if prepayment of loans occurs during periods of declining interest rates, the investor may have to reinvest at lower rates. However, financial institutions do have the ability to transfer the interest rate risk of the loans by selling them in the secondary market to agencies such as Ginnie Mae, Fannie Mae, and Freddie Mac.

Collateral Mortgage Obligations (CMOs)

By Rob Schenck

Mortgage-backed securities (MBS) are just that: securities backed by a pool of mortgages. What distinguishes an MBS from ordinary fixed-income securities is this: Although you know what the amortization schedule is on the mortgages, you never know whether or when the mortgages will be prepaid. Thus, you could create a mortgage pool with an average life of 7.5 years and an interest rate of 8 percent. But if interest rates drop and homeowners refinance, you might end up with a 4-year security.

That's the easy part. It gets complicated when the pool is cut into myriad tranches (French for "slices") to create different classes of mortgage-backed securities. The pool can be cut into tranches of varying maturities, average lives, yields, and return profiles. These Collateral Mortgage Obligations (CMOs), or Real Estate Mortgage Investment Conduits (REMICs), terms which are used interchangeably, may contain as many as 60-70 tranches. Remember that CMOs don't eliminate risks. They redistribute risks across tranches.

A significant portion of any CMO is packaged into securities that behave like bonds and have relatively predictable yield and maturity. These so-called planned amortization classes, or PACs, can be bought in almost any maturity you like. Unless mortgage prepayments hit epidemic proportions, these securities will usually remain outstanding as much as promised.

However, there are times when even the mainstream PACs don't behave as expected. Last year, with interest rates way down, prepayments so vastly exceeded expectations that numerous PACs broke through their prepayment bands, and many investors suddenly had to scramble to reinvest cash at much lower rates.

Support, or companion tranches, are the shock absorbers in the CMO. They absorb excess cash flows and make up for shortfalls. Their average lives can be extremely volatile because they bear substantial prepayment and extension risk.

There are literally hundreds of differently constructed CMO tranches. In addition to PACs and companion classes, other generic types include sequential payers, targeted amortization classes (TACs), floaters, accruals, payment only (POs), interest only (IOs), and residuals.

Mr. Schenck is an international bank examiner at the Federal Reserve Bank of Atlanta.

1993 Mortgage Loan Prepayments and Interest Rates

As interest rates declined, prepayments increased.

Source: Prudential Securities
Prepayment rates based on Public Securities Association (PSA) model; interest rates based on FHLMC fixed rate, first mortgages.
Appraisals: Race Should Not Be Considered

Continued from page 1

collection and its measurement in the appraisal process.

Single family residential real estate is highly localized. According to neighborhood characteristics. Objective neighborhood analysis is therefore an important ingredient in any reliable appraisal report.

A properly prepared appraisal should include a description and analysis of social, economic, governmental and environmental factors that influence value. For example, proximity to an environmental hazard or the presence of restrictive zoning are examples of environmental and governmental factors that may affect value. As a result these, and similar factors, should be considered in an appraisal. Conversely, factors such as neighborhood age or its racial or ethnic composition, are not value indicators nor are they reliable predictors of risk. Accordingly, these factors should not be considered in an appraisal.

The key to determining what should and should not be considered in an appraisal lies in identification of a causal relationship between a value influencing characteristic and its resulting impact on value. In other words, if a characteristic can be shown by market evidence to have a quantifiable impact on value, it should be considered in an appraisal, otherwise it should not.

Discriminatory Appraisals

Discriminatory appraisals are rarely intentional today. Indeed, most professional appraisers understand that discriminatory appraisal practice is both unethical and illegal. When discrimination does occur however, it is often subtle and difficult to identify in the normal course of evaluating the appraisal in the loan underwriting process.

Discriminatory appraisals typically result from one of two causes. Either the appraiser has described neighborhood characteristics in a biased, non-specific, or subjective fashion or has made adjustments to comparable transactions for factors that are not supportable by market evidence.

Subjective Terminology

Appraisers must avoid subjective, nondescript, or judgment laden terminology such as reference to neighborhood pride of ownership. Some appraisers use this terminology to describe typical property maintenance levels in a neighborhood. While

See APPRAISALS, page 10

READING FILE

- Detecting Discrimination by the Numbers, speech by Lawrence B. Lindsey, Governor, Federal Reserve Board, June 7, 1994.
- State Financing Programs for Housing and Community Development Compendium, available for Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee, compiled by the Community Affairs section of the Federal Reserve Bank of Atlanta. For copies, call (404) 589-7307. $2.50 each.
- Closing the Gap: A Guide to Equal Opportunity Lending, 27 pps., Federal Reserve Bank of Boston, provides a comprehensive list of suggestions and practices to ensure loan applicants are treated fairly and to expand markets for banks. For copies, call (617) 973-3459. Also available on videotape from VIDICOPY. Call 800-708-7080 for pricing and availability information.
- The Credit Process: A Guide for Small Business Owners, 26 pps., Federal Reserve Bank of New York, provides detailed information for small businesses on potential methods and criteria to obtain credit from financial institutions. For copies, call (404) 589-7307.
- Directory of Bank Holding Company Community Development Investments, 79 pps., Federal Reserve System, June 1993, provides a directory of approved community development investments in the U.S. For copies call (404) 589-7307.
- Widening the Window of Opportunity, Strategies for the Evolution of Microenterprise Loan Funds, prepared by Shorebank Advisory Services for Charles Stewart Mott Foundation. Operating and strategic recommendations on how development loan funds can cultivate relationships with conventional lending institutions to support micro-business lending. For copies, call 404/589-7307.

Copies of materials produced by the Federal Reserve System can be obtained by writing or calling the Community Affairs section at (404) 589-7307.
Discrimination: Lenders Must Be Able to Justify Underwriting

Continued from page 4

mining whether to extend credit;
- Vary the terms or credit offered, including the amount, interest rate, duration, or type of loan;
- Use different standards to evaluate collateral;
- Treat a borrower differently in servicing a loan or invoking default remedies; or
- Use different standards for pooling or packaging a loan in the secondary market.

A lender may not discriminate because of the characteristics of:
- A person associated with a credit applicant (for example, a co-applicant, spouse, business partner, or live-in aide); or
- The present or prospective occupants of the area where property to be financed is located.

Finally, the FH Act requires lenders to make reasonable accommodations for a person with disabilities when necessary to afford the person an equal opportunity to apply for credit.

Types of Lending Discrimination

The courts have recognized three methods of proof of lending discrimination under the ECOA and the FH Act:

- "Overt evidence of discrimination," when a lender blatantly discriminates on a prohibited basis;
- Evidence of "disparate treatment," when a lender treats applicants differently based on one of the prohibited factors; and
- Evidence of "disparate impact," when a lender applies a practice uniformly to all applicants, but the practice has a discriminatory effect and is not justified by business necessity.

Overt Discrimination

There is overt evidence of discrimination when a lender openly discriminates on a prohibited basis. There is also overt evidence of discrimination even when a lender expresses—but does not act on—a discriminatory preference.

Disparate Treatment

Disparate treatment occurs when a lender treats a credit applicant differently based on a similar set of circumstances. Disparate treatment ranges from overt discrimination to more subtle disparities in treatment. It does not require any showing that the treatment was motivated by prejudice or a conscious intention to discriminate against a person beyond the difference in treatment itself. It is considered by courts to be intentional discrimination because no credible, nondiscriminatory reason explains the difference in treatment on a prohibited basis.

Disparate treatment may more likely occur in the treatment of applicants who are neither clearly well-qualified nor clearly unqualified. Discrimination may more readily affect applicants in this middle group for two reasons. First, because the applicants are all "close cases", there is more room and need for lender discretion. Second, whether or not an applicant qualifies may depend on the level of assistance the lender provides the applicant in preparing an application. The lender may, for example, propose solutions to problems on an application, identify compensating factors, and provide encouragement to the applicant. Lenders are under no obligation to provide such assistance, but if they do, the assistance must be provided in a non-discriminatory way.

If a lender has apparently treated similar applicants differently, it must provide an explanation for the difference in treatment. If the lender is unable to provide a credible and legitimate nondiscriminatory explanation, the agency may infer that the lender discriminated.

If an agency determines that a lender's explanation for treating some applicants differently is a pretext for discrimination, the agency may find that the lender discriminated, notwithstanding the lenders' explanation.

When a lender's treatment of two applicants is compared, even when there is an apparently valid explanation for a difference in treatment, further investigation may establish disparate treatment. For example, seemingly valid explanations for denying loans to minority applicants may have been applied consistently to minority applicants and inconsistently to non-minority applicants: or "offsetting" or "compensatory" factors cited as the reason for approving non-minority applicants may involve information that the lender usually failed to consider for minority applicants but usually considered for non-minority applicants.

A pattern or practice of disparate treatment may also be established through a valid statistical analysis of detailed
Discrimination: Alternative Loan Products Should Be Considered

loan information, provided that the analysis controls for possible legitimate explanations for difference in treatment. Where a lender's underwriting decisions are the subject of a statistical analysis, detailed information must be collected from individual loan files about the applicants' qualifications for credit.

Disparate Impact

When a lender applies a policy or practice equally to credit applicants, but it has a disproportionate adverse impact on applicants, it is described as having a "disparate impact." Policies and practices that are neutral on their face and that are applied equally may disproportionately and adversely affect a person's access to credit.

Although the precise contours of the law on disparate impact as it applies to lending discrimination are under development, it has been clearly established that proof of lending discrimination using a disparate impact analysis encompasses several steps. The single fact that a policy or practice creates a disparity on a prohibited basis is not proof of a violation. Where the policy or practice is justified by "business necessity," factors that may be relevant to the justification could include cost and profitability.

Even if a policy or practice that has a disparate impact can be justified by business necessity, it still may be found to be discriminatory if an alternative policy or practice could serve the same purpose with less discriminatory effect.

Lenders will not have to justify every requirement and practice every time that they face a compliance examination. The Agencies recognize the relevance to credit decisions of factors related to the adequacy of the borrower's income to carry the loan, the likely continuation of that income, the adequacy of the collateral to secure the loan, the borrower's past performance in paying obligations, the availability of funds to close, and the existence of adequate reserves.

While lenders should think critically about whether widespread, familiar requirements and practices have an unjustifiable disparate impact, they should look especially carefully at requirements that are more stringent than customary. Lenders should also stay informed of developments in underwriting and portfolio performance evaluation so that they are well positioned to consider all options by which their business objectives can be achieved.

In addition to the Federal Reserve, the agencies who signed the Policy Statement include the Department of Justice, the Department of Housing and Urban Development, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Federal Housing Finance Board Administration, the Federal Trade Commission, the National Credit Union Administration, and the Office of Federal Housing Enterprise Oversight. For a complete copy of the joint Policy Statement on Discrimination in Lending, call Dianne Rawls, Community Affairs, 404/589-7307.

... the existence of disparate impact must be established by facts ...

DID YOU KNOW?

The Census Bureau reports that rural areas, especially in the South and West, grew by nearly 880,000 people between April 1990 and July 1992.
such language may sound innocent enough, it is too vague and subjective to indicate any actual effect on value.

To some readers, such terminology is far from innocent. It conjures up connotations about social characteristics or racial/ethnic composition of neighborhood residents. At its worst, pride of ownership has been interpreted as a code word designed to signal discriminatory underwriting.

In addition to terminology, it is inappropriate for an appraiser to draw unsupported conclusions about a neighborhood or its inhabitants. For example, a statement such as "the neighborhood is a high crime area" would be inappropriate unless it was accompanied by evidence, such as police crime statistics, to support the conclusion.

Adjustment Process

Unsupported downward adjustments to comparable sales because of an alleged superior neighborhood location as compared to the property being appraised should be carefully scrutinized. Indeed, if all of the sales have been adjusted downward for this reason, there may be cause to summarily reject the appraisal.

Implied by such adjustments is that all of the properties which the appraiser alleged were comparable to, and presumably competitive with, the property being appraised actually were not. If these properties were truly comparable, then no adjustment for neighborhood superiority would have been necessary.

In those rare cases when a neighborhood (location) adjustment to one comparable transaction is necessary, the adjustment should be clearly and unequivocally supported by market evidence.

Another subtle, yet potentially discriminatory action, involves unsupported downward adjustments to comparable transactions for subjective factors such as a home's design, appeal, and functional utility.

While such differences can exist, they rarely exist if comparables have been selected from the same neighborhood. When these and other similar adjustments are made in the appraisal, they should be accompanied by rational and unbiased analysis and the dollar amount of the adjustments should be supported by clear and unmistakable market evidence.

Race or Ethnicity as Comparable Selection Criteria

Race or ethnicity should never be used as a comparable sale selection criterion. In other words, the race or ethnic background of a prospective home purchaser is irrelevant. It would therefore be unacceptable for an appraiser to select comparable sales from neighborhoods other than where the subject property is located simply because residents have the same racial or ethnic background as the prospective home purchaser.

What Should Bankers Do?

• Be certain there is a rational and demonstrable causal relationship between any value influencing characteristic and its impact on value.

• Never accept race or ethnic background as a criterion for comparable sale selection.

• Challenge unsupported adjustment for subjective factors such as location, locational obsolescence, design, appeal quality and functional obsolescence. ♦
Fannie Mae Announces $1 Trillion Commitment

By Courtney Dufries

The Federal National Mortgage Association (Fannie Mae), announced a $1 trillion commitment to finance over 10 million home purchases by the year 2000. The ambitious program, entitled "Showing America a New Way Home" will consist of numerous programs that incorporate anti-discrimination efforts; advertising and education campaigns; second review programs and third-party review boards; 25 long-term partnerships with selected communities; the development of at least 10 new loan products; experimental underwriting, including a $5 billion commitment to test the underwriting criteria; a new $50 billion commitment to multi-family housing; and a $30 million commitment from the Fannie Mae Foundation to fund nonprofit housing efforts.

In his introduction to Fannie Mae's 1993-94 Housing Impact Report, James A. Johnson, chief executive officer said, "Discrimination, a lack of information, excessive costs, and a dwindling supply of affordable housing are all barriers...In 1994 and beyond, Fannie Mae will attack these barriers with all our energy and resources."

The new campaign builds on this commitment. To fight discrimination, Fannie Mae will "provide lenders with data" on their loans to minorities, encourage and solicit more Fannie Mae approved women and minority lenders, develop relationships with community development lenders serving minority or distressed areas, form partnerships with colleges and universities to help train minorities for jobs in the industry, and invest $25 million nationwide in seed capital in new and existing community development financial institutions.

Because most borrowers, including low- and moderate-income or minority applicants, need some exceptions to standard loan underwriting to qualify, Fannie Mae is taking steps to help ensure its guidelines are clear and flexible. A comprehensive training program will be implemented, new reference materials developed, and regional telephone "hotlines" established to answer any underwriting questions.

The advertising and education campaigns will utilize multilingual media to reach five million families who currently rent but aspire to own their homes. Homebuyer education programs will be emphasized, with special programs for new immigrants in English and in their native language when possible.

Second review programs and third-party review boards for denied applications will be encouraged, and denied applicants will receive additional information on reasons for denial and suggestions to correct the deficiencies. Approximately $5 million over three years is budgeted for the development of training materials for community groups and for a new computer software package to provide homebuyer education.

A toll free number, 800-732-6643, can be called to obtain by mail a list of local homebuyer counseling agencies.

Twenty-five "Partnership Offices" will be established (ten in 1994) to work with local governments, lenders, and others involved in affordable housing. So far, offices in Baltimore and Cleveland have been announced. ♦

For more information on these efforts, call your local Fannie Mae Office. For organizations located in Alabama, Florida, Georgia, Louisiana, Mississippi, or Tennessee, contact Bob Detjen, Fannie Mae Investment Officer, 404-398-6000.

HOT OFF THE PRESS!

The Federal Reserve Bank of Atlanta is pleased to announce the release of a series of Compendiums of State Financing Programs for Housing and Community Development. These comprehensive listings of financial resources cost $2.50 each and are available for the following states:

- Georgia
- Alabama
- Florida
- Tennessee
- Louisiana
- Mississippi

For more information, please call (404)589-7307.
Calendar

July

Neighborhood Reinvestment Training Institute, July 18-22. Courses in Affordable Housing, Community Development Strategies, Commercial and Economic Development, Community Reinvestment Lending, and Nonprofit Management, Chicago, IL. Workshop will be repeated October 24-28 in Baltimore, MD. Contact (202) 376-2642.


Federal Financial Institutions Examination Council, July 18, Fair Lending Seminar, Washington, D.C. This seminar will be repeated August 19 in Chicago, IL and November 4 in San Francisco, CA. Cost is $250.

To register, write: Federal Financial Institutions Examination Council - Fair Lending, 3501 Fairfax Drive, Room 3086, Arlington, Virginia 22226-3550.

August


September


October

National Puerto Rican Coalition (NPRC), October 20-21, 14th Annual Conference and Membership Meeting, Washington, D.C. Contact (202) 223-3915.

Information provided on upcoming events of other organizations should be viewed as strictly informational and not as an endorsement of their activities.

Partners

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Partners in Community and Economic Development