New CRA Proposal Addresses Concerns

The following analysis identifies some important proposed changes to the regulations implementing the Community Reinvestment Act.

The Community Reinvestment Act (CRA) was passed by Congress in 1977 and states that banks and thrifts have an affirmative obligation to help meet the credit needs of all their communities, including low- and moderate-income areas, consistent with safe and sound banking practices.

In December 1993, the federal agencies charged with enforcing the CRA developed new regulations in an attempt to provide more objective, performance-based standards that minimized the compliance burden but maximized performance (see Partners Vol. 4, No. 1). The regulators received over 6700 letters on the December proposal; most supported the intended goal, but many expressed concerns over the specific provisions of the regulation.

The regulators have reviewed these comments and modified the December proposal. The revision retains much of the structure and the principles.

Innovative REA Program Enhances Rural Economic Development Efforts

Established in 1935 by Executive Order as an emergency relief program to finance electric service facilities in rural areas, the Rural Electrification Administration (REA) continues to evolve to meet the economic development needs of rural America.

In 1936, the Rural Electrification Act (the Act) gave the agency statutory authority and established it as a lender with the responsibility of promoting rural electrification efforts. In 1949, the Act was amended to allow for the funding of telephone service in rural areas.

However, in 1987 an amendment to the Act gave the REA authority to provide zero percent

See REA, page 6
A Cooperative Approach to Affordable Housing

National Cooperative Bank is helping to build a secondary market for affordable multifamily loans

By Lew Sichelman

Something after the first of the year, a relatively small, Washington, D.C.-based financial institution will issue its second security backed by affordable housing loans, providing further impetus for a private secondary mortgage market for low-income, multifamily housing mortgages. Such a market will not only complement, but also compete with the government-sponsored secondary market giants.

And wouldn't that be something for the National Cooperative Bank (NCB), a government-sponsored enterprise (GSE) itself? Created by Congress in 1978 to provide loans and financial services to cooperatives, NCB was forced to go private in late 1981.

But now, 13 years later, the outcast is back, bigger and better than ever, with $1.2 billion in servicing ($1 billion of it is on housing loans) and a number of affiliates.

With our first security, we proved to the affordable housing world that there is a private market beyond the agencies to finance affordable multifamily housing, says Grace Huebscher, president of NCB Mortgage Corporation, and the person in charge of all the bank's real estate activities. And now we're gearing up to do another one. Our goal is to become a conduit that buys loans from other players, pools them with our own loans into mortgage-backed securities and sells them to investors. The goal in 1995, according to NCB officials, is to do $30 million in mortgage-backed securities backed by affordable housing loans.

Public Mission

While NCB's focus on affordable housing is laudable, it's not without at least some self-interest. Technically, the institution is still considered a government-sponsored enterprise (oversight is provided by the Farm Credit Administration) with a public mission to provide a broad array of financial services to the nation's cooperative business sector, financing economic growth and community development in urban and rural America.

Under that charter, the bank, which is owned by its co-op members, is required to put forth its best effort to direct 35 percent of its time and assets in pursuit of low-income businesses, including housing. That's a tad higher than the 30 percent low- and moderate-income housing mandates placed on Fannie Mae and Freddie Mac by the U.S. Congress.

NCB is further away from meeting its goal than either Fannie Mae or Freddie Mac are from meeting theirs. But then, the bank doesn't have the advantage of being able to access the government's coffers either. "We're often placed in the GSE bucket, but we're not the same," says Huebscher. "We have absolutely no access to Treasury funding. The only thing that ties us to government is our broad charter."

Even with that handicap, however, the bank has managed to put up some pretty impressive numbers. Since being reconstituted as a privately owned cooperative financial institution, it has:

- Originated almost $2.4 billion in total transactions (made up of loans to all types of co-ops).
- Serviced more than $1.2 billion in loans.
- Originated almost $1.3 billion in real estate loans, which includes loans and leases to its more than 1,000 members, half of which are housing co-ops.
- Financed more than 20,000 units of affordable cooperative housing.

Three Million Residents

Beyond the stereotype of six rooms with a river view, today's cooperatives take the form of student housing, retirement villages, cohousing that combines private living units in a communal setting, even houseboats. What they all have in common is shared ownership, a democratic management organization and a board of directors made up of the residents themselves.

"Cooperatives provide a flexible financing structure that is ideal for community-based housing..."
Cooperatives: Providing increased opportunities for homeownership

One of the more innovative housing co-ops being created today are those at mobile home parks, a form of low-and moderate-income housing in and of themselves. Across the country, residents of these mobile home parks—300 parks in Florida alone over the past decade, according to the National Association of Housing Cooperatives—are forming cooperatives to purchase the parks in which they live.

Cooperative housing also is gaining a foothold in the nation’s inner cities, where both public and private entities are pursuing any number of measures that encourage not only the creation of new co-op communities but also the conversion of existing apartment building into co-ops. And that has Charles Snyder beaming.

"Cooperatives prevent the displacement of tenants by providing them with the opportunity to buy their apartments," says Snyder, NCB’s president. "It also provides a flexible financing structure that is ideal for accommodating the multiple partners that are involved in community-based housing."

"But I take my greatest pleasure in helping [low- and moderate-income families] create value, not only in their own homes but also their own communities. That’s something you and I take for granted. With the cooperative form of ownership, most people who can afford to pay their rent can afford to become an owner. And as soon as you introduce ownership, you introduce pride. These places become little islands of prosperity that blossom into other parts of the neighborhood."

Group Ownership

Of course, you’d expect such gushing accolades from someone in Snyder’s position. But "... it doesn’t make up for a poorly structured deal or lack of education of the tenant..."

others trumpet the merits of co-ops, too, and just as loudly. One is John Hamilton, executive director of the Concord (New Hampshire) Area Trust for Community Housing, or CATCH for short. Another is Jan Laskey, executive director of the Powderhorn Residents Group (PRG) in Minneapolis. Both groups were among this year’s recipients of the Fannie Mae Foundation’s annual Maxwell Awards of Excellence that recognize and encourage organizations working to develop and maintain housing for low-income people.

"While CATCH would have preferred to have individual owners when it built East Side Village, a collection of 26 three-bedroom townhouses, the numbers didn’t work," says Hamilton. "For single-family houses, we would have had to target people with higher incomes. But group ownership made it happen. And as a result, half of the community’s owners have incomes under 80 percent of the area’s median, and the other half are at 50 percent or less of that benchmark. Three owners were previously homeless."

"Condos are not nearly as viable a form of ownership for low-income owners as they are for market-rate buyers," says Snyder. "For one thing," he explains, "it’s easier for a group of owners to secure credit than it is for individual owners, especially at the lower end of the totem pole. For another, condos are at a major disadvantage because they usually prohibit borrowing. Consequently, all repairs must be paid for out of reserves, which can put a drain on every owner. Co-ops, on the other hand, can not only borrow, they can pay back what they borrow over the useful life of the repair or improvement."

Not a Panacea

None of this is to say that the cooperative form of ownership is a panacea for addressing the problem of affordable housing. Even Snyder admits it’s not. "It brings a lot of things to the table," he says, "but it doesn’t make up for a poorly structured deal or lack of education of the tenant."

And that is where the National Cooperative Bank Mortgage Corporation steps in. Operating as a classic mortgage banker in that it originates, warehouses and pools loans for sale into the secondary market, the NCB affiliate is taking the experience it has gained in selling nearly $1 billion of mostly market-rate loans and applying it to affordable housing.

Mr. Sichelman writes a syndicated weekly housing column.

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CRA: Community Profiles Required

Continued from page 1

underlying the December proposal, and effectively eliminates the twelve assessment factors currently considered in CRA evaluations.

Examination Assessment Context

CRA evaluations must be conducted within an appropriate context of local community credit needs and characteristics. The proposal requires the regulators to evaluate local needs, and include as part of their CRA assessment information on local demographics and on community characteristics. In addition, the evaluation must consider the financial institution's capacity and constraints, product lines and business strategy, and prior performance under CRA.

Community assessments would be prepared by the regulators without a requirement that banks perform the assessment themselves, although an institution may volunteer information.

The proposal gives particular attention to an institution's record of meeting credit needs in low- and moderate-income communities, but is expanded to also include low- and moderate-income persons, regardless of their location. The regulators would make available annually a list of qualifying incomes by geographic area.

Institutions and Tests Defined

Lending, service, and investment tests would provide the basis for evaluating retail institutions with at least $250 million in assets, and affiliates of bank holding companies with at least $250 million in total assets.

Wholesale and limited-purpose institutions would be evaluated under a community development test. These institutions must file a written request with their regulator to obtain these designations. Otherwise, they would be treated as a retail bank for CRA purposes. A wholesale institution would not be in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers. A limited-purpose institution would only offer a narrow product line to a regional or national market, such as credit cards or car loans. Some incidental retail lending would be allowed.

Niche institutions that specialize in certain types of retail lending or that cater to specific classes of borrowers (such as high net-worth individuals) would not qualify as a wholesale or limited-purpose institution and would be subject to the same examination standards as retail banks or small banks.

Small banks and thrifts would be defined as institutions with less than $250 million in assets, or members of holding companies with less than $250 million in assets, and would be evaluated under a streamlined assessment method.

The lending, service and investment tests have been modified from the December proposal, and the number of examiner judgements required has increased. The regulators believe that eliminating all examiner judgement is not desirable and probably not attainable. Examiner judgement is still required to take into account local community credit needs and the capacities and constraints of a specific institution. However, the proposal provides more specific guidance as to the standards that examiners would apply.

See CRA, page 8

SOUNDBITES

The Office of General Counsel of the Small Business Administration (SBA) has issued a legal opinion stating that lenders participating in its guaranteed loan program may use an SBA application form that requests race and gender data from the applicant. The Small Business Act and an Executive Order charge the SBA with ensuring access to loans and making loans to socially and economically disadvantaged small business concerns. Although collecting data is normally prohibited by the Equal Credit Opportunity Act (ECOA), an exception is allowed on the SBA loans.

The first federal jury trial of a lending discrimination case was decided in Houston, Texas, in favor of the plaintiff, who was awarded $3.2 million in punitive damages. The case was brought against First Gibraltar, now First Madison FSB, by a group of apartment residents whose application for a $330,000 mortgage to convert their complex to a cooperative was declined. The application was rejected despite guarantees and support from the city, HUD, and the National Cooperative Bank.

30 new houses are planned for the Dr. Martin Luther King, Jr. Historic District located in Atlanta, Georgia. NationsBank is investing $2.2 million in the project to build 30 new houses and rehabilitate 10 existing homes. In addition, its community-based partner, the Historic District Development Corp., received a $425,000 federal grant through the city of Atlanta to conduct the rehabilitation work. This development will greatly improve the quality of housing in the area, which is expected to attract 5 million tourists in 1996. The homes will cost between $65,000 and $75,000.
Crime Bill Pays for Community Development Projects

Federal legislation will provide fiscal assistance to distressed urban and rural areas

By Jennifer Grier

The omnibus crime bill recently passed by Congress not only provides funds to combat the increasing incidence of violent crime, but includes provisions for fiscal assistance to economic development projects in distressed urban and rural areas.

The Department of Health and Human Services (HHS) has established a national community economic partnership program to provide lines of credit to community development corporations (CDCs) to establish, maintain, or expand revolving loan funds for projects that provide business and employment opportunities for low-income, unemployed, or underemployed individuals and to improve the quality of life in urban and rural areas.

Economic Partnership Line of Credit

To be eligible to receive a line of credit, a CDC must submit an application with a strategic investment plan describing the economic characteristics of the target area, the types of businesses to be assisted, and the impact of such assistance on low-income, unemployed, or underemployed individuals in the area.

A single CDC can receive $2 million for a period of up to three years. However, the HHS has the discretion to increase a CDC's line of credit by up to $1.5 million if the CDC has effectively used the credit line and can demonstrate a demand for additional assistance.

This program is targeted to those CDCs who have previous experience in the development of low-income housing or community or business development projects. The CDC must also demonstrate some due diligence by securing local commitments for contributions at least equal to the requested line of credit.

HHS will give preferential consideration to those applicants proposing to serve a target area with a median income no higher than 80 percent of area median and with either a high rate of unemployment or a population loss between 1980 and 1990 of at least 7 percent.

Grants for Emerging CDCs

The bill also authorizes grants to emerging CDCs to upgrade their management and operating capacity. These management and operating grants cannot exceed $75,000 per year for up to three years.

Emerging CDCs can also meet specific requirements to qualify for a grant to establish a revolving loan fund for investments in new or expanding local businesses. The CDC must have completed a minimum of one economic development project that increased or improved employment opportunities for low-income individuals. In addition, the CDC must submit a strategic plan detailing the target area and businesses to be assisted.

The CDC must also secure local commitments for contributions equal to at least 10 percent of the requested grant amount, which is limited to $500,000 a year.

The bill authorizes $45 million for fiscal 1996, $72 million for 1997, and $76.5 million annually for 1998-99, with 60 percent of the funds to be used for the economic partnership line of credit and 40 percent for emerging CDCs.

DID YOU KNOW?

The largest financial institution in the USA is Citicorp, Inc., with assets totaling $216 billion as of 9/30/94.
REA Program

Continued from page 1

interest, pass-through loans and grants to its electric and telephone cooperatives by establishing the Rural Economic Development Loan and Grant Program. This change also allowed REA-funded cooperatives to invest up to 15 percent of their total utility assets in economic development projects. The loans and grants are obtained from REA by the cooperative at zero percent interest and passed on to specific projects.

REA requires 20 percent equity or supplemental funding before a project is eligible for the loan and grant program. For business expansion loans, repayment begins one year after origination. Start-up loans generally begin repayment two years after origination. Repayment terms are usually no longer than ten years, but are negotiable between REA and the cooperative borrower.

A change was made this year to broaden the scope of the program. As a result, grant funds can now be used to establish and operate revolving loan funds, to leverage with private capital to fund feasibility studies, and to provide technical assistance for community development programs, business planning, market research, business incubators, and others (see Federal Register, Vol. 57, No. 187). In fiscal year 1994, 46 loans totaling $13.4 million and 14 grants totaling $5.0 million were made.

REA grants have mainly been used to fund revolving loan programs. Through this program, REA will provide grants to cooperatives to establish a revolving loan fund. The cooperative will then be able to provide loans to borrowers who promote local economic development. Currently, this program is funded with approximately $25 million. Cooperatives can apply for grants up to $400,000.

To establish a revolving loan fund, the cooperative’s request for funding must include financial information on its first loan request and a written plan to administer the loan fund. REA then makes the decision on funding the program. The initial loan must be funded at zero percent interest. The cooperative may charge interest on any subsequent loans. After the first loan, the cooperative makes all credit decisions and administers the loan portfolio.

The REA encourages relationships between its cooperatives and local financial institutions, community development organizations, governments, and public and private developers involved in economic development efforts.

A deferment program is also offered to eligible projects. Utilizing the deferment, a cooperative’s debt service payment to REA is structured over either

Q&A on Rural America

Who has the highest standard of living in America—the urban or rural dweller? Test your knowledge of the social, physical, and economic differences between urban and rural households. The answers may surprise you!

Answer urban, rural or the same to the following questions:

1. Which households have a higher homeownership rate?
2. Which households have younger occupants?
3. Which owner-occupied households have a higher median home value?
4. Which homes are larger in size (sq. ft.)?
5. Which homes are typically older?
6. Which families have higher incomes?
7. Which owner-occupied households have more occupants?
8. Which households have more occupants that completed 4 or more years of college?
9. Which households have more occupants that completed 12 years of education?
10. Which households rate their neighborhoods more highly?

Answers on page 10.
News You Can Use

State Funds Available for Public/Private Partnerships

Resources to leverage with bank financing identified

Community development lenders all know that public/private partnerships are frequently a fact of life if you intend to engage in affordable housing revitalization or development programs. Unfortunately, finding alternative sources of funds to leverage with bank financing is often an arduous and time-consuming task.

Fortunately, all states have developed funding programs for affordable housing and economic development, and most have excellent sources of grant money available for technical assistance programs.

The Community Affairs staff at the Atlanta Reserve Bank has researched and published information on each of these state programs. The new publication, Compendium of State Financing Programs for Housing and Community Development provides information on the purpose of the programs, types of assistance available, eligible applicants, eligible uses of funds, application and award processing information, and key contacts at the state agencies. Best of all, the compendiums provide a 3-year history of program funding.

A limited supply of these comprehensive listings of financial resources are available by calling Dianne Rawls at (404) 589-7307. The cost is only $2.50 each. ♦

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READING FILE

- Detecting Discrimination by the Numbers, speech by Lawrence B. Lindsey, Governor, Federal Reserve Board, June 7, 1994. Governor Lindsey discusses the pros and cons of statistical analysis and credit scoring systems to combat lending discrimination.

- 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. These compendiums provide complete information on state-funded programs that community groups and lenders can utilize to finance local development and rehabilitation programs. If you are looking to form public/private partnerships, don't overlook these opportunities! Includes contacts and 3-year fiscal information. 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. A must for lenders! 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 free 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.
CRA: Small Banks Eligible for Streamlined Exam

Continued from page 4

The Lending Test

Favorable overall CRA ratings for institutions subject to the lending, investment, and service tests will not be possible unless the institution receives at least a satisfactory rating under the lending test. The December proposal allowed high ratings under the investment and service tests to compensate for a needs to improve rating under the lending test.

The emphasis on the market share tests outlined in the December proposal has been reduced. Examiners are not required to use any single type of market analysis, and would not require institutions to achieve specific market share ratios to pass the lending test. A market share analysis is only one of many tools the examiner may use in evaluating an institution within the context of its local credit needs and only where such analysis would provide accurate insight.

Rather, the lending test would evaluate the number and amount of loans made to low- and moderate-income persons, and the geographic distribution of an institution's lending, and would also consider the number, amount, innovativeness, and complexity of an institution's community development loans as a principal component of this evaluation.

The Investment Test

In the December proposal, an institution's total investments, grants, and certain loans that benefit low- and moderate-income geographies or individuals, divided by the institution's risk-based capital, resulted in a ratio that was used to determine a retail bank's rating under the investment test, or a wholesale or limited purpose bank's overall CRA rating. Under the new proposal, the ratio as a basis of the rating has been eliminated.

For other retail institutions, instead of a ratio, the agencies have proposed to focus on the dollar amount of qualified investments, the innovativeness and complexity of these investments and their connection to credit needs, and the institution's responsiveness to local credit and community development needs.

Qualified investments are investments, deposits, member-ship shares in a credit union, and grants that primarily benefit low- and moderate-income individuals, or businesses or farms with under $1 million in annual revenues or that qualify as small businesses under SBA regulations; and that address affordable housing (including multifamily rental housing) or other community economic development needs that are not being met in the normal course of business by the private market.

These investments exclude untargeted municipal bonds and standard mortgage-backed securities. Renting or selling on favorable terms, or donating any bank branch located in a minority neighborhood to any minority-owned depository institution or any women-owned depository institution would be viewed favorably.

Community Development Test

Wholesale and special purpose banks will be evaluated under a community development test, not an investment test. The test would focus on a wholesale or limited purpose institution's record in helping to meet the credit needs of its service area through qualified investments, community development lending, and community development services.

The Service Test

The December proposal evaluated an institution based on the percentage of branches readily accessible to low- and moderate-income areas. Some adjustment was allowed for other factors, such as credit counseling, homebuyer education programs, low-cost checking, etc. However, the service test rating was dependent to a large extent on permanent staffed banking offices (brick and mortar).

In the new proposal, brick and mortar branches still receive prominent consideration, but equal weight is given to actual services provided to low- and moderate-income areas. Consideration of other technologies would be allowed, including automated teller machines (ATMs), loan production offices, banking by computer or telephone, mobile branches, etc.

Small Bank Assessment

Independent institutions with less than $250 million in assets, and members of bank holding companies whose total banking assets are less than $250 million are not exempt from CRA evaluations but are automatically eligible for a streamlined examination, unless they request otherwise.

A satisfactory CRA rating is assured if several criteria are met. First, the bank's loan to
CRA: New Data Collection Requirements

The deposit ratio would be evaluated with consideration given to its size and financial condition; local credit needs; and other factors. Institutions would no longer be required to have at least a 60% loan to deposit ratio. However, institutions would be required to maintain in their public file a statement of the most recent quarter's loan to deposit ratio.

The bank must make the majority of its loans in its service area(s). Examiners will also evaluate the institution's demographic and geographic loan distribution to ensure a reasonable balance given local conditions. Finally, the institution's record of taking appropriate action in response to written complaints on meeting local credit needs would be considered.

A higher (outstanding) CRA rating could be assigned if the institution exceeds the requirements generally outlined above, and the institution has a favorable record of making qualified investments and has a strong service delivery system, including branch locations, ATM machines, etc. The investment test and service test can provide guidance to a small institution striving for an outstanding CRA rating. Of course, lower ratings could be assigned to these institutions for failure to meet the requirements established for a satisfactory rating.

Strategic Plan

Institutions have an option of submitting a strategic plan to the regulators for their CRA evaluation. The institution develops the plan, after informally seeking suggestions from the public. The plan is available for a 30 day public comment period. The regulators review the plan after the comment period. If the regulators do not object within 60 days, the plan is approved and the institution's evaluation will be based on the plan.

The plan should have measurable goals in lending, investment, and the provision of services, as appropriate. The plan must not be any less stringent than the other tests provided by the regulation, but is intended to give institutions the flexibility to develop a plan that best meets their business strategy and local credit needs.

Ratings

The overall ratings assigned under CRA evaluations are provided by statute, and cannot be changed by the regulators. However, the regulators have developed new systems to arrive at these ratings. In any case, evidence of lending discrimination would result in a lower assigned rating.

For retail institutions subject to the lending, investment, and service tests, the grid on page 1 would be used to determine the overall rating. For all other institutions, the regulations specify the evaluation criteria examiners will use to assign one of the four required ratings.

Institutions operating in multiple service areas will be required to help meet the credit needs in all of the service areas. The proposed regulation does not specify how many of the service areas will be examined on-site; determining the appropriate service areas will be detailed in the examination procedures. However, the Interstate Banking Efficiency Act under congressional consideration could impose examination requirements for the regulators to adopt.

Enforcement

The new proposal contains much of the same enforcement provisions as the December proposal. Regulators would have the same powers under CRA as with safety and soundness concerns. Many comments on the December proposal questioned the legality of these enforcement provisions, and the regulators are reviewing these issues now. The regulators have invited further public comment on this matter before issuing a final ruling.

HMDA and Data Collection

Data reporting under the proposal is increased for some institutions. Small institutions (eligible for the streamlined examination) are still not required to report for CRA purposes approvals and denials of loans. However, several new changes are noted for other institutions.

First, the reporting requirements are streamlined to avoid duplicate reporting under the Home Mortgage Disclosure Act (HMDA). However, the regulators propose to amend HMDA and require institutions (excluding small banks and thrifts) to report the geography of applications, approvals, and denials for loans secured by properties outside the institution's MSA.

Another significant change allows, but does not require, institutions to voluntarily collect data on the amount outstanding, the location of the borrower, and the income of the borrower for all consumer loans. The data could be reviewed by examiners, but the institution is
REA: Grants to Establish Loan Funds Available

Continued from page 6

a 60-month or 120-month period, depending on the nature of the project. If the cooperative is financing local businesses or development authorities, 60 month deferments are available. For technical assistance or community development assistance, 120 month deferments are available. Deferments cannot exceed 50 percent of the total cost of the project and no interest is charged on the deferred amount.

In addition to these two programs, REA offers a wide range

of financing tools for rural economic development ranging from distance learning and medical link grants to water and waste facility financing. For more information, call the REA at 202/720-1400 or a local contact listed on page 10.

Answers to Q&A on Rural America

1. Rural Households. Although more households (73.5%) are in urban areas, the 24.6 million rural households have a homeownership rate of 80.5%, far greater than the urban homeownership rate of 58.3%.

2. Urban households. Urban households are generally younger with 28% of the population under 35, versus 22% of rural households.

3. Urban households. The median value of owner-occupied units in urban areas was $87,920 versus $66,380 in rural areas.

4. Same. The size of owner occupied homes in urban areas and rural areas was about the same -- approximately 1,850 square feet.

5. Urban Households. The median age of owner-occupied units in urban areas was 30 years, while only 21 years in rural areas.

6. Same. The median income of urban families was $27,830 and for rural families was $27,530, not statistically different. However, rural homeowners have only four-fifths the income of urban homeowners.

7. Same. Among owner-occupied homes, the average size was 2.4 persons.

8. Urban Households. Urban households were more likely to complete four or more years of college than rural households (21.2% of the urban population versus 14.0% of the rural population).

9. Rural Households. 40.6% of the rural population completed 12 years or more of education versus 35.0% for urban areas.

10. Rural Households. When asked, rural households rated their neighborhoods far better than urban households. 84.5% of rural households versus 77.4% of urban households rated their neighborhoods good or excellent.

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Community Development Bill Holds Promise

$382 million available over four years for community development financial institutions

By Melissa Rickett

The Community Development and Regulatory Improvement Act was approved by Congress and became law on September 23, 1994. The legislation strives to promote community development, reduce the regulatory burden on the banking industry, and curb abusive mortgage lending practices. The community development provisions of the legislation are summarized.

The law will create the Community Development Financial Institutions Fund (the Fund), which will have offices in Washington, D.C. Unaffiliated with any other agency or department of the federal government, the new wholly-owned government corporation will be managed by a single, full-time administrator. The administrator, appointed by the president, will appoint a chief financial officer.

The bill authorizes financial support of $382 million over four years to promote economic revitalization and community development through investment in, and assistance to, community development financial institutions (CDFIs). Public funds would be distributed to either new or existing CDFIs that have a primary mission of promoting community development.

A single CDFI is not eligible to receive more than $5 million in assistance from the Fund over any three year period. Matching funds are also required, with one dollar of financial assistance from the fund to be matched with one dollar of private funds.

Two thirds of the funds are set aside for institutions specifically involved in community development lending. Some bank subsidiaries may meet the eligibility requirements for the funds, but are restricted from access unless their parent also qualifies. However, some joint ventures between community development organizations and banks may qualify.

The uses of the funds vary. CDFIs are eligible to receive technical assistance, loans, deposits, grants, or equity investments from the Fund. The CDFIs then provide loans, development services, and investments to serve targeted populations of low-income people or distressed communities.

Because the limited funds are awarded on a competitive basis and because CDFIs must have as their primary mission community development, it seems unlikely that traditional financial institutions would qualify for direct funding.

However, the bill allocates no less than one-third of total funding to support the Bank Enterprise Act. These funds may be available for traditional banks and thrifts as incentives for community development activities.

In addition, an advisory board will be established known as the Community Development Advisory Board, consisting of fifteen members. The Board's membership will consist of the following members or his or her designee: the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Housing and Urban Development, the Secretary of the Interior, the Secretary of the Treasury, the Administrator of the Small Business Administration, and nine private citizens appointed by the president.

The Board will advise the administrator on the policies and activities of the Fund. The Board is not responsible for advising the administrator on the granting or denial of any particular application. The administrator will be responsible for determining whether an applicant will receive funding. Funds will be granted on a competitive basis.

The bill may also reduce the regulatory burden of financial institutions. It is designed to lessen legislative control by allowing regulators to issue guidelines instead of specific rules and regulations in areas such as asset quality and stock valuations. The bill also addresses the issue of abusive mortgage lending and authorizes the Federal Reserve Board to write rules to implement the new law.


"CDFIs must have a primary mission of promoting community development."
CRA: More Performance-Based

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not required to submit it to the regulators.

Small business loan reporting would change dramatically. Although streamlined to more closely match the existing reporting of small business loans on a bank’s Report of Condition and Income (Call Report) or on a thrift’s Thrift Financial Report (TFR), institutions must also collect information on approvals and denials of small business and small farm loans by race and gender. Borrowers would be requested to voluntarily indicate on their loan application if the business or farm was 50% women-owned or 50% minority-owned. In addition, data on the size of the farm or business and the location of the loan would also be collected. Numerous provisions are required to limit public disclosure in an effort to safeguard individual privacy.

Finally, the aggregate number and dollar amount of community development loans outstanding as of December 31 of each year must be reported.

Comments are Welcome

The proposal contains more definitions and clarifications than before, and strives to ensure a more performance-based evaluation that is less burdensome. It provides examiners with a significant amount of discretion to ensure a fair evaluation and reduce potential anomalies. Your comments are welcome.

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