Partners Celebrates Five Years of Service

By Cynthia Goodwin

We are proud to begin our fifth year of publishing this newsletter. Our intent is to provide you with accurate and timely information on community development lending issues that directly impact your work. In addition to articles on "hot topics" such as fair lending and CRA, we try to feature models of successful community development programs with proven track records, or new programs with great potential.

Our mission is to foster community development lending and fair lending throughout the District. We feature conferences and seminars for industry professionals on topics frequently discussed in the newsletter. In 1994, for example, we directly or with others sponsored 16 conferences and gave 21 speeches on community development issues. In addition, we traveled to over 30 southeastern communities to learn of your problems and your successes. The information we gather from these important contacts form the basis of our newsletter.

Each newsletter provides a special focus. In past issues we featured business programs, housing programs, secondary markets, government loan guarantees, CRA, fair lending, community development corporations, loan consortia, loan funds, credit counseling, national and local nonprofit organizations, and banks. We strive to ensure a fair representation of urban areas, second-tier cities, and rural areas.

This issue is designed to supplement our recent "Renaissance of Rural America Conference" co-sponsored with the Federal Reserve Banks of Dallas, Richmond, and St. Louis. We are featuring two guest articles on business and industry loan programs that help meet rural credit needs. We hope you find the information helpful. With a subscription list of almost 7,000 industry professionals, we are always striving for a better product, and we welcome your suggestions. Thank you for your interest in community development lending!

INSIDE THIS ISSUE

- Federal guarantees available for rural business loans
- Neighborhood development grants available
- Empowerment Zones and Enterprise Communities announced
- Farmer Mac provides secondary market for business loans
- HUD and Fannie Mae provide more flexible underwriting
Business Opportunities for Rural America

Rural Business and Cooperative Development Service has $500 million available for business loan guarantees

By John W. Duncan

Rural America has seen many changes of varying degrees over the past twenty years; with rural population outmigration, increase in crime, decrease in viable economic opportunities as well as the continuing plight of farmers struggling to save and retain their land. Today, more than at any other time in the history of the United States, there is more focus on rebuilding rural American and revitalizing the heartland that has been the strength for sustaining rural communities. Working to address the needs of rural Americans is one of the nation's highest priorities, and one of its major domestic issues.

USDA Reorganization

One method being used to address rural America's need is the reallocation of scarce resources to areas with the greatest need. This approach requires that more of our resources be used in non-traditional ways to provide services to communities severely underserved and those hardest hit by economic trauma. The charge for leading such a task has been the job of the United States Department of Agriculture (USDA).

Since reorganization, with 28 agencies providing separate and distinctive services, USDA is creating economic synergism and opportunities for rural America. The lead USDA Agency spearheading this mission for rural America is the Rural Business and Cooperative Development Service (RBCDS), formerly a part of the Rural Development Administration. Particularly, the program administered by the RBCDS that is shaping the foundations for economic development is the Business and Industry (B&I)

"... the program can guarantee up to 90 percent of a loan up to $2 million . . ."

Guaranteed Loan Program. And, although it may not be the most well-known service at USDA, it is one of the best programs for rural business and industrial development.

Loan Guarantees Available

RBCDS received $500 million in the Fiscal Year budget appropriations to fund rural businesses. In President Clinton's 1996 Budget, released February 6, 1995, a $750 million B&I loan guaranteed program was proposed.

Administered at the state level by Rural Economic and Community Development (RECD), formerly the Farmers Home Administration (FmHA), the program can guarantee up to 90 percent of a loan up to $2 million, 80 percent of loans of $2 million to $5 million, and 70 percent for loans over $5 million with a ceiling of $10 million.

The focus of the program is business creation outside metropolitan areas. The concept works in concert with local community-based financial institutions and other economic development programs that impact total rural community development.

RBCDS is in the process of planning a series of informational forums in partnership with the American Bankers Association, the Federal Reserve Bank, and Farmer Mac to strengthen the lending process of the program. In addition, the Agency is looking into various areas that will build a more "customer friendly" approach to fine-tuning the delivery process and naming certified and preferred lenders with authority to directly approve loans with limited or no review by the Agency.

Program Needs Rapidly Increasing

The entire FY 1994 allocation was expended, demonstrating a demand for the business guarantees. And with the proposed streamlining of Agency regulations, many more loans are expected this year. RBCDS is streamlining regulations that will allow it to develop a national network with lenders.

One major component of the B&I success that is noteworthy can be attributed to the program's composition that strictly focuses on rural America. Also,
RBCDS: Federal loan guarantees provide new opportunities

Continued from page 2

the program funding increase emphasizes the need to elevate small and limited resource communities by working cooperatively with financial institutions and banks to fund the program and address local area needs. Program success is indicative of the demand to build rural enterprises for the 21st century.

According to Acting Administrator Dayton Watkins, "the Business and Industry Program is truly a vehicle for promoting rural communities. The B&I program can assist localities by providing credit to entrepreneurs to develop or expand businesses." Like the more widely used Small Business Administration (SBA) programs, the B&I program can provide capital for a wide range of businesses with some limitations.

For further information, please contact your local State Rural Economic and Community Development Office (RECD). For information on the location of your local RECD Office write to: Mr. Dwight A. Carmon, Director, B&I Division, Rural Business and Cooperative Development Service, U.S. Department of Agriculture, Washington, D.C. 20250 or call (202) 690-4100.

Dayton J. Watkins
Acting Administrator
Rural Business and Cooperative Development Service

U.S. Department of Agriculture Headquarters Organization

Secretary
Deputy Secretary

Under Secretary for Natural Resources & Environment
- Forest Service
- Natural Resources Conservation Service

Under Secretary for Farm & Foreign Agricultural Services
- Consolidated Farm Services Agency
- Foreign Ag. Service

Under Secretary for Rural Economics & Community Development
- Rural Utilities Services
- Rural Housing & Comm. Dev. Service
- Rural Economics & Cooperative Dev. Service

Under Secretary for Food, Nutrition, & Consumer Service
- Food & Consumer Service

Under Secretary for Food Safety
- Food Safety & Inspection Service

Under Secretary for Research, Education, & Economics
- Ag. Research Service
- Cooperative State Research, Education, & Extension Service
- Econ. Research Service
- Nat'l Ag. Statistics Service

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- Grain Inspection, Packers & Stockyards Admin.

Assistant Secretary for Administration
- Civil Rights Enforcement Information Resources Mgmt.
- Operations
- Personnel
- Administrative Law Judges, Judicial Offices, Board of Contract Appeals

October 1994
$75,000 Grants Available for Neighborhood Development

The U.S. Department of Housing and Urban Development (HUD) recently announced 1995 funding of $4.75 million for the John Heinz Neighborhood Development Program. Under this program, one-year grants of up to $75,000 will be awarded to neighborhood-based, non-profit organizations.

No more than 5% of the awarded funds can be used for administration or other operating expenses. HUD will also reserve 10% of the grant until it receives documentation that the program has been completed.

The grant must be used in conjunction with local matching funds. These funds can be raised from individuals, businesses, neighborhood development funding organizations, and other organizations conducting business or located in the applicant's established neighborhood boundaries.

Contributions received from outside of the geographic boundary may be used for project-related activities, but do not count towards the federal matching requirement. The neighborhood match must be raised within the one-year grant period, but the intended development activities may be implemented from one to three years.

Introduced in 1983, and made permanent in 1992, the program is designed to build the capacity of neighborhood-based non-profit organizations and to encourage these groups to develop relationships with public and private institutions. The funds can be used for a variety of purposes including housing and business development, social service programs, and neighborhood improvement or beautification projects. The program is named in honor of the late Senator John Heinz of Pennsylvania.

For more information or to receive an application packet, contact American Communities; P.O. Box 7189; Gaithersburg, MD 20898-7189; 1-800-998-9999.

DID YOU KNOW?

Mobile homes comprised 18.2% of rural America's housing stock, up from 11.3% in 1980, according to the U.S. Census Bureau.

SOUNDBITES

Seven Savannah, GA banks have committed a total of $1 million to the Savannah Community Development Corporation, a newly formed CDC that will make debt and equity investments in small and minority-owned businesses. Contributing banks include Ameribank, Bank South, First Liberty Bank, First Union National Bank, NationsBank, Trust Company Bank, and Wachovia Bank.

The Small Business Association has proposed to raise the maximum guarantee on 7(a) loans to $1 million and remove the current loan limit of $500,000. If this proposal is passed by Congress, other changes are also possible, including the right to impose additional lender and borrower fees on some programs.

The Internal Revenue Service (IRS) has issued proposed rules on the use of tax-exempt bonds to finance development in Empowerment Zones and Enterprise Communities. The rules are intended to provide guidance on qualified properties, limits of bond amounts, and details of compliance requirements. The rules also discuss the establishment of "loan recycling" programs. For more information contact the IRS at 202/622-3980.
Empowerment Zones and Enterprise Communities Selected

By Hank Helton

On December 21, 1994, after months of an extensive organization and application process by over 500 communities, the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA) designated 104 urban and rural Empowerment Zones and Enterprise Communities throughout the country.

In the Sixth District, one Empowerment Zone designation was made and fifteen Enterprise Communities were chosen. The selections were made based on the communities' stated intent to develop economic stability and self-sufficiency in selected areas by creating jobs; attracting private investment; training zone residents for employment opportunities; establishing long-term, attainable economic development goals; and establishing community-based, public-private partnerships for housing and small business development. The participation and financial commitment of the private sector was also a major factor in the decisions.

Atlanta's Empowerment Zone

The largest grant in the Sixth District, totalling $100 million, was awarded to Atlanta. In its application, the city adopted an "urban village" concept for the communities within its Empowerment Zone (EZ). The intent is for residents of the EZ neighborhoods to promote cooperation, collaboration, and partnerships between themselves and financial institutions, social service agencies, local government, and others in the private sector. The city's application emphasized the social aspects of community development with the intention of utilizing other physical and financial development programs already in place to supplement these initiatives. Examples of the social development aspects include the establishment of neighborhood-based treatment centers for drug and substance abusers and the formation of neighborhood-based housing resource centers to provide information on financing and redevelopment techniques.

"... the financial commitment of the private sector was a major factor in the decisions ..."

An existing partnership between The Atlanta Project (established by President Jimmy Carter), the Atlanta Chamber of Commerce, and six local banks will be utilized to provide up to $12 million in loans for small business development within the zone. The banks have also pledged approximately $20 million for direct loans and letters of credit for housing and small business development as part of the initiative. Renaissance Capital, a minority small business investment company (SSBIC), has also committed to provide equity investments in minority business enterprises located in the zone.

Mississippi Delta's Empowerment Zone

In contrast, the Mississippi Delta region has taken a more physical approach to involve public and private institutions in their efforts under this initiative. With the $40 million grant, the Delta Foundation and the Delta Council are working in partnership with local governments and private financial institutions to leverage the grant for housing and small business development needs.

To date, the six county governments involved have committed to provide $135 million in capital improvements and technical assistance. An additional $45 million has been committed from local financial institutions for housing and small business development in either direct loans or through the establishment of revolving loan funds working with local community development corporations. By establishing revolving loan funds, the Delta Council and Delta Foundation intend to leverage the funding for a longer term than the time limit placed on the grant.

Additional Benefits

In addition to the large dollar grants, there are other benefits to the Empowerment Zone and Enterprise Community designations.

Areas designated as Empowerment Zones will have access to employer wage tax credits, which provide a 20% credit against income tax liability (up to $3,000 per employee) for employees that live and work in the zone. Additional credits are also available through job tax credit programs, allowing employers to
Empowerment: Grants and tax credits available

Continued from page 5

claim up to $2,400 per employee for first year wages paid to employees who do not work within, but live in the designated area. Credits are also available to employers for contributions to a tax qualified compensation plan, up to $35,000 or 2% of compensation per employee, for employees that are eligible under the wage credit program.

Under both Empowerment Zone and Enterprise Community designations, incentives exist for capital investments in businesses located within the selected areas. For example, tax-exempt bond financing is available for industrial and commercial development. The total amount of bonds issued cannot exceed $3 million per designated area. For businesses located within the designated area, the expense allowance for depreciable business property has also increased to $20,000.

For housing development within the designated areas, the federal low-income housing tax credit has been expanded. Up to $818,000 in additional credits for each designated area has been allocated for a 3-year period beginning with the December announcement. Investments in qualified buildings are eligible for credits based on 130% (as opposed to 100%) of the cost basis.

Federal tax credits are also available for one-time cash investments in community development corporations (CDCs) operating within the designated areas. The credit is equal to 5% of the contribution and may be claimed over a 10 year period.

For more information on the Empowerment Zone and Enterprise Community initiative, contact HUD's Office of Community Planning and Development at 1-800-998-9999 or the local Community Development and Planning Office of the designated cities.

EMPOWERMENT ZONE DESIGNATIONS
Awarded 2-year grants totaling $100 million and access to tax incentives

SIX URBAN AREAS WERE AWARDED EMPowerMENT ZONE DESIGNATIONS:
Atlanta
Baltimore
Detroit
New York/Bronx County
Chicago
Philadelphia/Camden

THREE RURAL AREAS WERE AWARDED EMPOWERMENT ZONE DESIGNATIONS:
Mississippi Delta (Bolivar, Holmes, Humphreys, Leflore, Sunflower, and Washington Counties);
Kentucky Highlands (Clinton, Jack, and Wayne Counties);
Rio Grande Valley, Texas (Cameron, Hidalgo, Starr, and Willacy Counties).

TWO AREAS WERE CHOSEN AS SUPPLEMENTAL EMPOWERMENT ZONES:
Los Angeles, CA ($125 million)
Cleveland, OH ($87 million)

ENTERPRISE COMMUNITY DESIGNATIONS
Awarded $3 million grants and access to tax-exempt bond financing; 89 areas chosen

ENTERPRISE COMMUNITIES IN THE RESERVE BANK'S SIXTH DISTRICT:

SEVEN URBAN AREAS WERE CHOSEN:
Birmingham, AL; Dade County/Miami, FL; Tampa, FL; Albany, GA; New Orleans, LA;
Memphis, TN; Nashville, TN

EIGHT RURAL AREAS WERE CHOSEN:
Chambers County, AL; Greene County, AL; Sumter County, AL; Jackson County, FL;
Crisp County, GA; Dooly County, GA; Counties of the Central Savannah River Area, GA;
Scott County, TN

Boston, Houston, Kansas City, and Oakland were designated as Enhanced Enterprise Communities
and will each receive $22 million in economic development initiative grants and $3 million in social service block grants.
Florida BHC Lending Commitment

Barnett Banks, Inc., a $41.3 billion bank holding company headquartered in Jacksonville, Florida, committed $2 billion to a community lending plan to be implemented from 1993 to 1997 (featured in Partners, vol. 2, no. 2). Original plans estimated $803 million would be loaned after two years, but the subsidiary banks have almost met the entire goal by lending over $1.6 billion, or 80 percent of the full commitment. Of the total loaned, approximately $812 million were residential mortgages for low- and moderate-income applicants; $592 million were home improvement loans to low- and moderate-income applicants, small dollar loans (under $3,000 each) in low- and moderate-income areas, and need-based student loans; $272 million were commercial loans; and $13 million were multi-family housing loans through a state-wide nonprofit organization. Barnett Banks, Inc., had 31 subsidiary banks, 19 of which received "outstanding" CRA ratings by federal examiners. The remaining 12 institutions have either received "satisfactory" ratings or have not yet received a public CRA rating. For more information, contact Tony Brown, Director of Community Development, Barnett Banks, Inc., 9th floor, Barnett Center, 50 N. Laura Street, Jacksonville, FL 32202.

Mississippi Business Loans

The East Mississippi Community Development Corporation (EMCDC), a small dollar loan program for existing businesses in Meridian, Mississippi, was established by four local banks, a public utility, the state of Mississippi, and the Meridian Community College Business Development Center. The EMCDC (featured in Partners, vol. 2, no. 2) was created in 1991 with four banks investing $25,000 each. The original banks include the Bank of Meridian, Citizens National Bank, Trustmark National Bank, and Deposit Guaranty National Bank. Since then, SunBurst Bank, Commercial Bank of Dekalb, MS, and the Tennessee Valley Authority have joined as partners in EMCDC. As of year-end 1994, the program has produced 44 loans totalling $2,396,914. Potential borrowers must have 2 denial letters from conventional lenders to apply for a loan. For more information, contact Bill Crawford, Meridian Community College Business Development Center, 920 Highway 19 North, Meridian, Mississippi 39307; (601) 482-7445.

Atlanta Business Loans

The Atlanta Business Community Development Corporation, a recently announced venture between The Atlanta Project, the Atlanta Chamber of Commerce, the Greater Atlanta Small Business Project (GRASP), and 6 local banks, will make available $11.5 million in loans for new and existing businesses in Atlanta. The "Entrepreneurial Development Loan Fund" will fund loans from $25,000 to $100,000 for up to five years for qualified applicants. GRASP (featured in Partners, vol. 3, no. 2) will process the loans, administer the portfolio, and provide management and technical assistance to the applicants. For more information, call (404) 659-5955.

Minority Business Development Centers

In their ongoing efforts to foster small business development in the minority community, Minority Business Development Centers (featured in Partners, vol. 3, no. 2) continue to expand their efforts through public/private partnerships. The Columbus, GA, MBDC recently announced the formation of the Columbus Minority Business Loan Program. The program received loan commitments totalling $4.5 million from Barnett Bank of Southwest Georgia, Columbus Bank and Trust Company, First Union National Bank of Georgia, Regions Bank, SouthTrust Bank of Columbus, N.A., and Trust Company Bank of Columbus, N.A. For more information, call (706) 324-4253.

In a related matter, a program established in 1993 by the Orlando, FL, MBDC, the Orlando Minority Business Loan Program, had processed 52 applications for start-up or expansion loans as of September 1994. Of this, 25 small business loans totalling $2.39 million were approved. The Orlando MBDC (also featured in Partners, vol. 3, no. 2) has formed a partnership with the Walt Disney World Company to assist minority business enterprises (MBEs) in securing contracts for work on Disney projects. The MBDC also administers the City of Orlando's Micro-Loan Program. For more information, call (407) 422-6234.
Farmer Mac Buys Business Loans

Secondary market promotes loan growth in rural America

By Patrick Kerrigan

The Federal Agricultural Mortgage Corporation, commonly known as "Farmer Mac" is a federally chartered instrumentality of the United States. It was created by the Farm Credit Act of 1971, as amended by the Agricultural Credit Act of 1987, as a government-sponsored enterprise with a strong public policy mission to:

- Establish a national secondary market for agricultural real estate, and rural housing mortgage loans, as well as USDA guaranteed loans.
- Provide uniform standards and products for all participants.
- Access capital market funding for the benefit of lenders and borrowers.
- Assume a stable supply of funding for agricultural and rural loans at competitive rates of interest.

Farmer Mac has three separate secondary market programs: Farmer Mac I—Agricultural Real Estate, Farmer Mac I—Rural Housing, and Farmer Mac II—Secondary Market for USDA guaranteed loans.

Over the past year, we have seen growing interest in the Farmer Mac II secondary market program. Under Farmer Mac II, interested lenders sell the guaranteed portions of agricultural program loans, rural business and industry loans, and community facility and community development loans guaranteed by USDA and administered by what was formerly known as the Farmers Home Administration and Rural Development Administration, both branches of the USDA.

Farmer Mac II Program Benefits

Farmer Mac II is a "Win-Win-Win" opportunity for rural borrowers, rural lenders, and the USDA. Participation in Farmer Mac II affords lenders a ready access to competitive funding rates that Farmer Mac obtains in the capital market on its "government agency" debt obligations and guaranteed loan-backed securities. The benefits of efficient capital markets pricing on Farmer Mac debt are passed through to participating lenders. Many lenders in the Farmer Mac II program, in turn, pass those benefits on to borrowers in the form of longer terms rate, lower rates or both. In addition, the Farmer Mac II program allows lenders to:

- Minimize interest rate risk while still offering borrowers intermediate and long-term fixed rate loans.
- Increase the liquidity of their guaranteed loan portfolios enabling them to re-lend to new borrowers.
- Enhance the return on assets on the unguaranteed portion they retain, to levels of 15% or greater.
- Build customer relationships by offering borrowers a wide variety of competitively priced loan products that otherwise may not be available. Farmer Mac II gives small community lenders the opportunity to offer the same services that their larger regional competitors offer.

Farmer Mac Purchases

Lenders participating in the Farmer Mac II program sell the guaranteed portions of USDA loans directly to Farmer Mac and retain the unguaranteed portions of those loans in accordance with the terms of existing USDA guaranteed loan programs. Farmer Mac maintains a continuous "buy side" in the market, ready to purchase saleable guaranteed portions of performing loans from any lender or holder on efficient, predictable terms.

Eligible guaranteed portions may be sold to Farmer Mac regardless of their age, as long as they are not delinquent and the lender has no actual knowledge of any impending delinquency or default and does not anticipate pay off, liquidation, or delinquency within the next 12 months. To date, Farmer Mac has purchased over $125 million of USDA guaranteed portions and the monthly volume is steadily increasing. Over 150 lenders in 30 states are now actively using Farmer Mac II, and that number is growing every day.

Any lender, or other seller of guaranteed portions, may participate in the Farmer Mac II Program. All that is required is that lenders make guaranteed loans in accordance with existing USDA standards and procedures.

See Farmer Mac, page 9
Farmer Mac: Lenders sell USDA guaranteed loans

Continued from page 8

Special Loan Programs

Farmer Mac has taken a special interest in the USDA’s Community Facility (CF) and Business and Industry (B&I) guaranteed loan programs and is working closely with lenders to facilitate the completion of loan transactions. Farmer Mac sees these transactions and the usage of these guaranteed programs as being an important element in the renaissance of rural America. Currently, loans in rural areas (population less than 50,000) with a principal balance up to $10 million may receive up to an 80% B&I or CF guarantee.

B&I guarantee authority for 1995 was increased to $500 million, making it a golden opportunity for rural lenders to profitably finance community businesses with competitive interest rates. Eligible Business & Industry and Community Facility loans in these programs include, but are not limited to:

- Manufacturing facilities, Dental/Medical Clinics;
- Distributorships, Nursing Homes;
- Health Care Facilities, Libraries;
- General Construction, Fire Departments;
- Processing Facilities, Child Care Centers;
- Electrical Contractors, Jails;
- Retail Facilities, and Ag Fairs.

Lender Economics

In the Farmer Mac II program, lenders retain payment collection responsibilities and “pass through” the guaranteed portion payments to the Farmer Mac Trustee, Colson Services. In return for these servicing responsibilities, the lenders receive fees on the guaranteed portion.

Each week, Farmer Mac publishes its Rate Line providing the current Farmer Mac Net Yields (costs of funds to lenders) for the various standard loan indices. The Rate Line also announces the scheduled Document Delivery, Pricing and Sales Dates, as well as offers servicing hints and program updates. The Rate Line is currently faxed to over 1000 rural lenders nationwide.

Lenders who are not receiving the Rate Line may sign on to the distribution list by calling Farmer Mac. The Rate Line provides all the participants of the guaranteed loan program with a tool to stay in touch with the Farmer Mac secondary market. Additional Farmer Mac II program details are available by calling Farmer Mac directly at 1-800-TRY-FARM.

Regulators Clarify Position on Affordable Housing Appraisals

The four federal financial institution regulators have issued an interagency statement to clarify their position on the use of “intangible items,” such as tax credits, subsidies, and grants, when obtaining appraisals for affordable housing construction or permanent mortgage loans. The agencies’ appraisal regulations permit the appraiser to include in the market value estimate any significant financial assistance that would survive sale or foreclosure, such as the value of low-income housing tax credits.

In an effort to ensure more accurate and reasonable appraisals of affordable housing projects, the interagency statement also suggests that:

“An institution should ensure that an appraiser engaged to appraise an affordable housing project is competent to perform such an appraisal; is knowledgeable about the various types of financial assistance and programs that are associated with an affordable housing project; and identifies and considers the effect on value of any significant amount of the financial assistance. Consequently, the appraisal should contain a discussion of the value of the financial assistance that would survive sale or foreclosure and how it affects the market value estimate of the project. In addition, while certain types of financial assistance such as tenant-based rent subsidies do not necessarily transfer to new ownership upon sale or foreclosure, the lender should ensure that the appraiser appropriately considers the effect of these items in the cash flow analysis, when applicable.”

For a complete copy of this interagency statement, contact Dianne Rawls, (404) 589-7307.
CRA Regulations Finalized

The Board of Governors of the Federal Reserve System approved the final revisions to Regulation BB, which implements the requirements of the Community Reinvestment Act (CRA) for all insured state member banks. Adopting the new rule culminated an 18-month, interagency effort to make the assessments more performance-based, more objective, and less burdensome.

Collectively, the agencies received over 6,000 comments in response to the draft proposal issued in October 1994. The significant provisions of the final rule incorporates many of those recommendations, which include: (1) eliminating the proposed requirements to collect race and gender data on small business loans, (2) replacing the current 12 assessment factors with three performance-based criteria, and (3) establishing a streamlined examination procedure for smaller institutions.

The new regulation will be featured in upcoming Partners newsletters. If you would like a copy of the final regulation, including a summary of the revisions compiled by the Board of Governors’ Staff, please contact Dianne Rawls at (404) 589-7307.

READING FILE

- SHOP: The Card You Pick Can Save You Money, 17 pps., Federal Reserve System, provides a convenient summary of terms and conditions of credit card plans offered by financial institutions. For free copies, call (404) 589-7307.

- 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.


- Community Development Financial Institutions: Investing in People and Communities, prepared by Woodstock Institute provides an overview of the entire range of CDFIs by describing the various types of CDFIs, the roles they play in meeting credit needs, examples of specific lending programs, capital needs of CDFIs, and relationships between CDFIs and conventional financial institutions. For a copy, call (312) 427-8070 or write to Woodstock Institute, 407 South Dearborn, Suite 550, Chicago, Illinois 60605.

HUD and Fannie Mae Provide More Flexible Loan Underwriting Criteria

Income and debt standards clarified

By Jennifer Grier

Affordable housing programs sponsored through agencies such as Fannie Mae and the U.S. Department of Housing and Urban Development (HUD) have provided banks with opportunities to make loans to individuals and neighborhoods not previously served by traditional loan products.

The affordable housing market posed a particular challenge to conventional lenders because low- and moderate-income borrowers are often unable to accumulate the savings required for the downpayment and other up-front costs. Many of these borrowers are also declined loans because of their high debt-to-income ratio, which frequently is attributed to the lower incomes and not necessarily an excessive amount of debt.

Recently, Fannie Mae and HUD announced significant changes and clarifications to their underwriting requirements for single-family loans. These changes were prompted by the agencies' desire to provide more flexibility for lenders to underwrite creditworthy, non-traditional borrowers. Both Fannie Mae and HUD also clarified certain underwriting requirements to ensure that they are not applied in a discriminatory manner.

Debt-to-Income Ratios and Compensating Factors

A common problem in trying to qualify low-income borrowers for mortgages is high debt-to-income ratios. Due to the low incomes, even relatively small debt levels may result in a high debt-to-income ratio.

An applicant's debt-to-income ratios are based on two calculations: the "front" and "back" ratios. The "front" ratio is the new monthly mortgage payment (principal, interest, taxes and hazard insurance) divided by gross monthly income. The "back" ratio includes the monthly mortgage payment and the minimum monthly debt service of the applicant's other debts, divided by gross monthly income. Fannie Mae and HUD have benchmark ratios of 28%/36% and 29%/41%, respectively.

HUD and Fannie Mae have both emphasized their willingness to evaluate each application on an individual basis and consider any compensating factors. Specifically, if a borrower has demonstrated over a 12-month period that he or she is able to handle a higher housing expense with other debt obligations, the guidelines suggest that the applicant should not be denied solely based on the debt-to-income ratios.

Elimination of Child Care as Recurring Debt

HUD no longer requires that child care expenses be included in the qualifying debt-to-income ratios; however, court-ordered and voluntary child-support payments must be included. Based on the rising costs of child care, this change in policy could significantly affect the ability of borrowers with children to meet the qualifying debt-to-income requirements. HUD's new policy will provide consistency with Fannie Mae, whose existing policy has been to exclude child care expenses in the debt-to-income calculations.

Recognition of Income from Part-Time Employment

HUD has clarified its policy concerning part-time employment. HUD's definition of part-time employment does not refer to the number of hours worked during the week, but refers to jobs taken in addition to the normal, regular employment. Consequently, if an applicant's employment is less than 40 hours a week, it should still be evaluated as regular, on-going primary employment.

In addition, HUD and Fannie Mae have both revised their policies to no longer require that income from part-time employment only be allowed if it can be verified as "having been uninterrupted for the previous two years." Fannie Mae would like to see that the applicant has at least a 12-month history of being employed at part-time jobs. However, both would like the lender to determine that there is a strong likelihood that the borrower will continue to receive that income (i.e., verification from the employer).
CALENDAR

May

The National Main Street Center, The Department of Arkansas Heritage, The Arkansas Historic Preservation program and Main Street Arkansas, May 14-17. 9th Annual National Town Meeting on Main Street, Little Rock, AR. Contact: (202) 673-4219


Federal Reserve Bank of Dallas, Federal Reserve Bank of Kansas City and the New Mexico Bankers’ Association, May 25.

Fair Lending Workshop; Addressing Disparities, Las Cruces, NM. Contact: (505) 822-7900

Georgia Bankers Association, May 31 - June 1. Advanced Commercial Lending, Atlanta, GA. Contact: (404) 524-6125

June

The Urban Land Institute, June 15-16. Industrial and Business Parks Development: Warehouse, Distribution, Flex, and Manufacturing, Columbia, MD. Contact: (202) 624-7121 or (800) 321-5011.

July


August

National Housing and Rehabilitation Association, August 17-20. Summer Institute, Woodstock, VT. Contact: (202) 328-9171.

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