Do you ever wish that all the housing finance programs sponsored by your state government were listed in one place? Now they are. Enclosed in this issue is a listing of state housing finance programs for the six states that constitute the Ninth Federal Reserve District—Michigan, Minnesota, Montana, North Dakota, South Dakota, and Wisconsin.

We started this project thinking that individuals and organizations involved in financing housing would appreciate an easy-to-use guide to the housing programs available in their states. What we did not realize was the number and complexity of the programs available from many of the states. As the time our research analyst spent researching these programs grew and grew, we came to understand the formidable task that faces anyone trying to find the right programs to fit varying needs. We trust you will find the enclosed listing a help to you in this task.

All of the information was obtained from state housing finance agencies, and we want to thank those agencies for helping us in this project.

We see this guide as a first edition, to be revised, updated, and improved. We are also planning a similar guide to state economic development financing programs. Therefore, we would appreciate any comments you have on the content or format of this listing. Please address such comments to any of the Community Affairs staff listed on the back page. For questions or comments about the substance of the listing, you may want to contact the author, Cindy Porter.

Layering
The Art of Finding the Money Somewhere

A layer is a source of funds used to finance part of a project. Typically, the term is used when a project is financed using several sources of funds, none of which alone provides the needed funds.

As you look for ways to finance housing, whether you are a financial institution, a developer, a community group, or a person wanting to finance a house or apartment building, you almost always use more than one source of financing.

The simplest example is the person buying a home who provides some of the money from savings and then applies for a mortgage for the rest. Slightly more complicated would be the combination of savings, a gift from the applicant's...
parents, and a mortgage for the rest.

Or perhaps the person still does not have enough for the down payment from personal savings and a parental gift and applies for a second mortgage to cover the remainder of the down payment. This scenario, with four layers of financing from private sources, does involve some work and coordination. The parents have to sign appropriate gift letters and make sure the money is available on the day of closing. Both the first and second mortgage companies have to qualify the borrower, perform an appraisal of the property, investigate the title status of the property, and so on.

This type of financing happens every day and is so commonplace many do not see it as particularly challenging. But it gets more complex when building affordable housing, renovating apartment buildings in low- and moderate-income areas, and other less common projects. For one thing, financing can come from public as well as private sources. For example, a state may have a loan program encouraging purchase or rehabilitation of properties in certain neighborhoods. This loan may be added on to a conventional mortgage as part of the financing package.

Or financing may be provided by not-for-profit sources. For example, a foundation may have some grant money available for building affordable housing. While grants from such sources are likely to be too small to finance the entire project, this source could provide one layer of the financing needed.

One town’s success story

To illustrate how one city used layering to build affordable housing, let’s look at a project financed with both money and in-kind services through an unusual mix of sources, including local banks, government agencies, community development organizations, a not-for-profit housing developer, and the local high school and technical college.

The site of this project is Bemidji, Minnesota, a city of about 11,000 in northwestern Minnesota. This is how the project was structured.

The Beltrami County Housing and Redevelopment Authority (HRA) formed the Beltrami County Home Construction Partnership with three entities: the Carpentry Program at Northwest Technical College, the Bemidji High School, and the Bemidji Area Habitat for Humanity. The purpose of the partnership was to build affordable housing in Bemidji.

The HRA requested a grant of $152,400 from the Community Rehabilitation Fund of the Minnesota Housing Finance Agency (MHFA). This startup grant, awarded in early 1994, was to fund materials and some subcontracted labor necessary to build four affordable single-family houses in Bemidji each year.

The Bemidji Affordable Housing Project

**Construction Financing**
- Community Rehabilitation Fund—Minnesota Housing Finance Agency
- Northwest Minnesota Initiative Fund
- Bemidji Area Habitat for Humanity

**Permanent Financing**
- Area financial institutions
- Beltrami County Housing and Redevelopment Authority
- Minnesota Mortgage Program—Minnesota Housing Finance Agency
- Rural Economic and Community Development Agency (formerly Farmers Home Administration)
- City of Bemidji

**In-kind Contributions and Technical Assistance**
- Bemidji Area Habitat for Humanity
- Bemidji High School
- Northwest Technical College—Bemidji
- Headwaters Regional Development Commission
Students in Bemidji, Minnesota, provide labor in the construction of affordable houses in an innovative program combining local, regional, and state efforts. Four houses will be built each year. Top: Construction Technology II at Bemidji High School. Bottom: Carpentry I at Northwest Technical College.

However, these funds could not be used to fund administrative costs or provide the technical expertise necessary to develop the partnership. Therefore, the HRA contracted with the Headwaters Regional Development Commission (HRDC) to provide technical assistance for the project.

The HRA also received a $22,000 grant from the Northwest Minnesota Initiative Fund. These funds paid HRDC for administrative services necessary in the creation of this unique partnership.

Tax-forfeited lots from the city and the county were used as building sites for houses built by Habitat for Humanity and the high school. Unable to find suitable lots on which Northwest Technical College could build the houses, the HRA purchased three acres and subdivided it into 11 lots. The college built homes on two of these lots.

The City of Bemidji helped develop the infrastructure for the subdivision. The City engineering department prepared the specifications and bid out the infrastructure construction. The City also agreed to cover half the cost of paving the streets in the entire subdivision.

The homes were appraised at $70,000. The HRA established a sale price of $61,000, and interested home buyers applied to local financial institutions for financing. All applicants that prequalified and demonstrated an ability to close were considered candidates for the purchase of a home. Borrowers were free to apply for any loan program that met their needs.
Loan programs used included the Minnesota Mortgage Program, which is an FHA first-time home buyer program, and the Rural Economic and Community Development’s Guaranteed Rural Housing Program.

In addition to the financing obtained through a local financial institution, home buyers signed a $9,000 second mortgage with the HRA. This mortgage carries no monthly payment of principal or interest and will be forgiven if the purchaser owns and occupies the home for at least ten years.

The houses that Bemidji built

Two single-family homes were built by Northwest Technical College on its campus then moved to permanent sites in the subdivision. These homes were sold in 1995 by the HRA to lower-income households that might not otherwise have had the opportunity to own a home.

One single-family home was built in 1995 by students in Bemidji High School’s Carpentry Program on a site and foundation provided by the Bemidji Area Habitat for Humanity. The completed house was then donated to Habitat, which sold it to an eligible family.

Finally, the HRA provided material to the Bemidji Area Habitat for Humanity for the construction of its 1994 project. This home was also sold by Habitat to an eligible family.

Brainchild

As is so often the case with layered projects, one person had the vision for putting this project together and making it work. In this case, Tim Flathers, community development director at Headwaters Regional Development Commission, matched the community’s need for low-cost housing with an educational opportunity for students at the local high school and technical college. Others shared his enthusiasm for the project. According to Flathers, the industrial technology instructor at the high school “really ran with the idea,” building a house almost entirely without the need for subcontractors.

The financial help of the Northwest Minnesota Initiative Fund and the Minnesota Housing Finance Agency made this project possible. With the continued involvement of the partners, the Beltrami County Home Construction Partnership expects to add four new single-family homes to Bemidji’s affordable housing stock each year.

The HRA played a critical role in this project. This five-member board, with no staff and very limited financial resources, remained committed to its mission and found a creative way to make a difference in the community.

Did you know...

According to the U.S. Small Business Administration...

- There are 6.5 million women-owned businesses in the United States today?
- 85% of all new startup businesses today are women-owned?
- You can get information on SBA programs by visiting their Internet Home Page? The address is: http://www.sbaonline.sba.gov
The Internet. Are you interested?

The Community Affairs function of the Federal Reserve System has begun to consider how to offer information and software through the Internet. We created this survey to help determine what kind of information is most useful to you. If you are interested in helping, please fill out this questionnaire and return it to us by fax: (612) 344-2702.

Name of Organization: ____________________________

City: ____________________________

Banks, please indicate asset size:

☑ Less than $100 million
☑ Between $100 and $300 million
☑ Over $300 million

Have you ever explored the Internet?

☑ Yes ☐ No

Do you have a business or home connection to the Internet?

☑ Business ☐ Home ☐ Both

If you don’t have a connection, are you considering one?

☑ Yes ☐ No

Which topics interest you the most?

☑ Community & Economic Development
☑ Housing
☑ Small Business
☑ Development Finance
☑ Consumer-oriented Information
☑ Native American Credit Issues
☑ Fair Lending
☑ Discrimination
☑ The Community Reinvestment Act
☑ The Home Mortgage Disclosure Act
☑ Bank CRA Ratings
☑ Mutual Funds
☑ List of Bank/BHC Applications (received, approved, denied)
☑ Application Forms
☑ Bank and Bank Holding Company Directory

Banking Data such as:

☑ FR-Y6 Reports
☑ Reports of Condition and Income (Call Report)
☑ Uniform Bank Performance Report (UBPR)
☑ Bank Holding Company Performance Report (BHCPR)

Other suggestions:

Thanks for your time!
HA!
(Humor in Acronyms)

Housing programs, like government in general, are notorious for their acronyms. See how well you can match the definition to the acronym. Answers are on page 9.

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<thead>
<tr>
<th>ARM</th>
<th>RECD</th>
<th>CHAS</th>
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</thead>
<tbody>
<tr>
<td>1. Apartment Renovation Mortgage Program</td>
<td>1. Rural Economic and Community Development</td>
<td>1. A very distinguished butler</td>
</tr>
<tr>
<td>2. Adjustable Rate Mortgage</td>
<td>2. After a train leaves its tracks</td>
<td>2. Community Housing Affordability Strategy</td>
</tr>
<tr>
<td>3. Amortized Revocable Market</td>
<td>3. Researching Endlessly in Creative Directions</td>
<td>3. Consultants Handle All the Surveys</td>
</tr>
<tr>
<td>CHIP</td>
<td>MURL</td>
<td>CLT</td>
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<tr>
<td>2. Collateral Hypothecation Illiquid Penalty</td>
<td>2. Funding for community art projects aimed at beautifying commercial areas by painting fine art on sides of dilapidated buildings</td>
<td>2. Community Land Trust</td>
</tr>
<tr>
<td>EMRAP</td>
<td>NHS</td>
<td>HTF</td>
</tr>
<tr>
<td>4. Examiners Might Really Appreciate Parties</td>
<td></td>
<td>4. Housing Trust Fund</td>
</tr>
<tr>
<td>HOME</td>
<td>SRO</td>
<td>FHA</td>
</tr>
<tr>
<td>1. It's not an acronym</td>
<td>1. Substandard Restriction Opportunity</td>
<td>1. Federal Housing Administration</td>
</tr>
<tr>
<td>2. Home Ownership Made Easier</td>
<td>2. Single Room Occupancy</td>
<td>2. Fair Housing Act</td>
</tr>
<tr>
<td>4. There's no place like it</td>
<td>4. Sweat-equity Rally Organizers</td>
<td></td>
</tr>
</tbody>
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6
Community Reinvestment Act

Q & A

I have read the regulation. Is there anything else I should read to help me better understand the new CRA regulation?

A
Yes. The preamble to the regulation (printed in the Federal Register Thursday, May 4, 1995, pp. 22156-22178) discusses many of the issues that the regulators considered as the new regulation was drafted. By reading this discussion, you will gain insight into how the drafters of the regulation envisioned that it would be implemented. Also, the examination procedures (available from your regulator) will help you understand how the examiners will be conducting CRA examinations of your institution.

Q
I have heard that I should choose a large assessment area, perhaps one much larger than my old community delineation. Is this true, and if so, what if I can't serve all parts of this assessment area? Won't my regulator criticize me?

A
Regulators will no longer comment on the size of an assessment area, either whether it is too large or too small. Also, regulators no longer expect that the bank will be able to meet the credit needs of the residents of all parts of its assessment area. Rather, the regulator will look to see if the geographic distribution of loans in the assessment area is reasonable, given the bank's office and branch locations. Regulators will, however, be rating the bank based on the proportion of the bank's loans made in its assessment area. For a small bank to receive at least a "satisfactory" rating, a majority of its loans must be in its assessment area. Since the larger the assessment area, the higher that proportion is likely to be, many banks have decided that a bigger assessment area is better than a smaller one.

Q
Can small banks (as defined by the regulation) use the strategic plan option to get an "outstanding" rating without collecting data?

A
Yes. Only if a small bank elects to be evaluated under the lending, service, and investment test must it collect and report the data as discussed in Subpart C of the regulation. However, any strategic plan must include measurable goals for helping to meet the needs of its assessment area. Thus, a bank electing to submit a strategic plan and be evaluated under that plan will likely collect data to make sure that it is meeting these goals. Remember that a small bank can also obtain an "outstanding" rating by meeting the standards for a "satisfactory" rating under the small bank test and either exceeding some or all of those standards or making qualified investments and providing services and delivery systems that enhance credit availability in the bank's assessment area. Please note that when the regulators examine a small bank, they are looking for a level of lending activities that will support a "satisfactory" rating. If you are a small bank that wants to be considered for an "outstanding" rating, please inform your regulator at the start of the examination (or earlier) so that the examiners will perform an appropriate examination.

Q
I found four CRA notices in the CRA regulation. Which one do I use?

A
In the Federal Register of Thursday, May 4, 1995, each agency sets out its CRA regulation, identical except for the enforcing agency. Because the notice as set out in the new regulation includes the name of the institution's regulator, be sure to pick the right notice to copy. The CRA notice for banks regulated by the OCC is on page 22187; for banks regulated by a Federal Reserve Bank, page 22200; for banks regulated by the FDIC, page 22211; and for thrifts regulated by the OTS, page 22223.
Resources

Access to Credit: Women, Lenders, and Small Business Loans, a new publication from the Federal Reserve Bank of Chicago and the Women's Business Development Center, is intended to foster an improved understanding of the issues that affect women's access to small business credit. Call the Chicago Federal Reserve Bank, (312) 322-5111.


Community Revitalization Series:
- How to Be Your Own Developer: Making the Development Decision
- Mortgage Lending: An Introduction for Community-Based Organizations
- Loan Origination Workbook: A Workbook on Gathering and Verifying the Information
- Loan Underwriting Workbook: A Workbook on Analyzing and Committing to Lend

Breaking Ground: A Beginner's Guide for Nonprofit Developers, a new publication from the Federal Reserve Bank of Dallas, is intended to help increase the housing development capacity of nonprofit organizations and to foster partnerships between nonprofits, government agencies, and financial institutions. For a free copy (max. of 50) call the Public Affairs Department of the Dallas Fed at (800) 333-4460, ext. 5254.

Lending in Indian Country
Cultural and Legal Issues

Our popular seminar, "Lending in Indian Country," has been video taped. Produced by the Federal Reserve Bank of Minneapolis, the video seminar addresses cultural differences, land and title issues, tribal powers, sovereign immunity, tribal courts, collateral, remedies, and other critical issues.

Aimed at financial institutions, mortgage lenders, government agencies, attorneys, and banking regulators, the 5-hour video series and accompanying guide book are available for $135. This price includes $10 shipping and handling, but does not include sales tax.

Scheduled for release in April. Call (612) 340-6008 for a brochure and order form.
## Community Dividend

### Calendar

**March 14-15**

"Housing Tax Credit Compliance: Managing for Long-Term Project Success." Boston, Mass. Sponsor: Housing and Development Reporter and The Institute for Professional and Executive Development, Inc. Call (800) 473-3293 or (202) 331-9230.

**April 9**

"Fed Focus." Topics include the Community Reinvestment Act and a keynote address on "Policies to Promote Long-Term Growth" by Reserve Bank president Gary Stern. Sioux Falls, So. Dak. Sponsor: Federal Reserve Bank of Minneapolis. Call (612) 340-6928.

**April 22-24**


**May 5-7**


**May 6-7**


**May 16-18**


**May 19-22**


**June 24-25**


**September 29-October 2**


**November 9-12**


### Answers to HA!

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<td>HOME</td>
<td>1. It's not an acronym</td>
</tr>
<tr>
<td>RECD</td>
<td>Both 1. &amp; 4. Rural Economic and Community Development is the new name for Farmer's Home Administration</td>
</tr>
<tr>
<td>MURL</td>
<td>3. Minnesota Urban and Rural Homesteading</td>
</tr>
<tr>
<td>NHS</td>
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</table>

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Community Dividend covers topics on community reinvestment and neighborhood lending. It reaches financial institutions, community-based organizations, development organizations, and government units throughout the Ninth Federal Reserve District.

We welcome your questions and concerns. Please write or call:
JoAnne Lewellen, Community Affairs Officer
(612) 340-6913
or
Margaret Bloyer, Manager
(612) 340-5360
Community Affairs, BSD
Federal Reserve Bank of Minneapolis
P.O. Box 191
Minneapolis, MN 55480-0291

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