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COMMUNITY AFFAIRS

St. Louis Fannie Mae Director Opening New Doors

Clifton Berry

In August 1995, Fannie Mae opened a Partnership Office in St. Louis. In a special interview, Community Affairs spoke with Clifton Berry, director of the office, who talked about Fannie Mae's objectives in St. Louis, as well as nationally.

CA: What are some of the factors that contributed to Fannie Mae opening a Partnership Office in St. Louis?

I'd say the starting point was somewhere around October 1994, when the company decided it needed to open Partnership Offices across the country. The initial decision was to open 25 offices in key markets consistent with the company's long-term goal, which is to spawn 10 million new homeowners in a $1 trillion dollar initiative by the end of the year 2000.

CA: What are some of your other goals or your vision for St. Louis?

There really is no exception to what we're doing nationally versus what we're doing in St. Louis. What we're doing in St. Louis is a subset of that trillion dollar initiative. It basically has eleven components to it:

1. Opening Doors Campaign: This is a direct dialog with homeowners across the country to determine issues that affect home ownership. In 1994, we said our goal was to have a direct dialog on home ownership with 5 million American families. In '95 we've had more than 1.2 million consumers respond to our efforts as a result of our advertising, etc.

2. Fighting Discrimination: We announced as part of the initiative that we would be working to eliminate discrimination in the mortgage finance system. In 1995, if we look at our single family financings, 18 percent of our purchased mortgages were to minority households. That compares with 16 percent in '94. We financed homes now for more than 450,000 minority families with $47 billion in mortgage credit in '94 and '95.

3. New Americans Campaign: Immigrants are the fastest growing segment of our population. We are targeting this population by printing our training materials in 10 or 11 different languages.

4. Home Path Initiative: This is an initiative through which we attempt to link people who need homes with the agencies who do home ownership counseling. There are parts of the country where a homeowner who wanted this kind of counseling wouldn't have as many outlets as we have in St. Louis, so they could call a central number that we've set up, and we can pair them with trainers who are typically using our materials.

5. Underwriting Flexibility: This is something we've been working on for quite some time with what we call our community lending products. These are the products that have the higher loan-to-value—95-97 percent. The qualifying ratios are more expanded. We work hard through our lenders to identify non-traditional sources of credit and actually build non-traditional credit reports with agreements we have with credit reporting agencies.

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Clifton Berry

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6. Partnership Offices: We've committed to opening 25 offices across the country. I think, today, if I'm not mistaken, we have about 22 partnership offices. Some of the cities we're in besides St. Louis are New York, Chicago, Los Angeles, Atlanta, Hartford, Boston, Miami, New Orleans and Cleveland—it's kind of a representative set.

7. Underwriting Experiments: We've committed to do about $5 billion in these underwriting experiments. This is basically product development. In St. Louis one of our underwriting experiments has to do with the St. Louis rehab mortgage—only being offered in St. Louis. If this pilot is successful, it may be replicated in other cities; likewise, if Chicago has a program that is working, we can bring it here.

8. Innovations for Change: What we're doing is introducing new products. For instance, we introduced our Home Keeper mortgage as a conventional reverse mortgage where senior citizens can use the equity in their home to establish a stream of income.

9. Multifamily Housing Finance: We also have established more aggressive multifamily housing goals. Fannie Mae is essentially a single-family company, but because of our size we've committed to financing $50 billion in multifamily housing to create affordable rental housing opportunities over the same period of commitment by the year 2000.

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> —Clifton Berry
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> Director, Fannie Mae Partnership Office, St. Louis

10. Reducing Costs Through Technology: I think this is probably as significant as anything else we're doing. Approximately 30 percent of the people employed by this company—and there are about 3,500 employees—work on nothing but technology. Through technological innovations we believe as much as $1,000 can be squeezed out of the cost of originating a mortgage.

11. Fannie Mae Foundation: The commitment on the part of the Foundation, hopefully independently, is to spend more than $30 million a year over the next 3 years to support housing and community development. It's through this mechanism that we support the operating budgets of non-profit organizations who are active in some aspect of the mortgage finance system. Whether training, counseling or, in some cases, development, that is the activity of the Foundation.

CA: Tell us about the HouseSt. Louis program which was recently announced.

We announced that over the next five years we would purchase mortgages totaling $275 million in this market. The interesting thing about that, and I think probably a story that's buried in the numbers, is that for us to get $275 million in mortgages, our activities have to produce probably three times that number. We buy mortgages, of course, that are made according to our standards, but there's nothing that says that if a bank makes a loan that it has to sell it to us. Our $275 million number is based upon what we think we can get out of the market, so we have to work to increase the market. Also we've committed under the plan to make a $500,000 investment in the St. Louis Equity Fund. The other key thing under the HouseSt. Louis investment plan is the development of new products that are available in St. Louis. One is the rehab mortgage that we talked about earlier, and another is the middle-income homeowners product which is designed to attract people into the city or to influence middle-income earners who are presently in the city to stay.

CA: Would you like to see lenders more actively involved in some way, and, likewise, is there a way that you would like to see non-profits participate?

Actually, we're getting a tremendous amount of cooperation from lenders and non-profits. In terms of the lenders, in particular, we'd like to see more signed up for our program. We need more lender participation, and we're working toward that by training. We're doing a lot of training with lenders because we find that it's hard for them to keep up with the tremendous volume of new products that's always in the market. At this point, it's probably too early to say we're not getting the level of cooperation or that there is anything else we'd like the lenders to do except to be responsive to what we're offering in the market and what makes business sense to them. I think that the strength of the non-profits as a community is very important to what we're doing, and we'd like to see them strengthened by more cooperation, which I think is happening. Being stronger as a group of organizations helps them to attract more resources in the community.

I would say that the operative term is partnership. There's nothing we can do to meet our goals and objectives in this community without others in the community joining hands with us. I think it's important to raise the whole issue of housing in the region to the highest possible priority level.

HOUSING ISSUES

Inmates in Memphis Build Homes and Futures

On an average day in 1992, nearly 2,500 people in Shelby County, Tenn., were housed in jails, and about 83 percent of them were repeat offenders. A prolonged stay at the Shelby County Correction Center didn't adequately deal with the main causes of recidivism, which were drug abuse, joblessness and a lack of education. The results for the inmates and the community were counterproductive.

Then, in 1993, Memphis started a unique community development partnership designed to reverse this situation and to provide more affordable housing for limited-income families as well. Through "Building for the Future," inmates at the Shelby County Adult Offender Center volunteer to enter a three-month carpentry training program that includes classroom instruction and on-site construction of Habitat for Humanity homes. Full-time instructors teach not only carpentry training to the inmates, but also basic education and life skills. Instructors are employees of Memphis City Schools Division of Technology and Careers.

By constructing new homes, inmates in Memphis' "Building for the Future" program provide a service to the community and also enhance their own future job prospects.

The program meets four specific objectives to benefit the community:

1. It provides education and training so that inmates are able to find work when released from prison. Inmates receive training in marketable skills that should reduce the rate of re-entry into the criminal court system.

2. It meets a critical need for the Memphis area—the renovation and construction of housing units for limited-income families. Currently 30,000 units are needed in the city of Memphis. Both the city and county are seeing the conversion of substandard housing into simple, decent housing for families in need as a result of this program.

3. It has added new homes to the tax base of the city and county. Each home has turned non-tax producing property into income-producing property for the Memphis area.

4. It provides a means for Habitat for Humanity of Memphis to come closer to meeting its mission of helping low-income families attain home ownership.

Screening by Adult Offender Center counselors and "Building for the Future" instructors allows for the selection of students whose sentencing permits their completion of the 12-week course—inmates selected must have attained work release status. The neighborhood associations where the inmates work are notified and support the program.

Volunteers of the "Building" program have constructed 17 houses and 154 people have graduated from the training. One graduate is co-owner of a construction company and another is the owner of one of the Habitat homes.

In August 1995, the program began operating two classes concurrently. Classes are made up of 10 to 12 people. A third course began in January for medium-security inmates whose sentencing does not permit leaving the prison. The students in these classes complete the carpentry skills training and build pre-fab panels for affordable homes in a new plant established in an old cannery on the Division of Correction grounds.

First Tennessee Bank provides budget and financial training at the end of the classes. Most of the homes have been built in the Winchester Park neighborhood of Memphis where other neighborhood revitalization is occurring. The "Building" program has also renovated nine severely damaged public housing homes and a community center in local public housing projects.

For more information about this program, contact Sue Jackson, First Tennessee Bank Corporate Communications, at (901) 523-4357.

Regional Roundup

Fannie Mae Selects Louisville

Fannie Mae has chosen Louisville as the site of its first Community Partnership plan. The three-year plan is designed to increase home ownership and affordable rental opportunities in Louisville.

The city will be able to leverage Fannie Mae's resources and products through the partnership, which will emphasize low-, moderate- and middle-income city neighborhoods. Fannie Mae is working on a structure to invest in the Louisville Community Development Bank and the Park DuValle neighborhood development project. In addition, Fannie Mae has made a preliminary commitment to invest up to 10 percent of the total capital raised in the Housing Partnership's Louisville Equity Fund. The Fund will provide capital for the construction and rehabilitation of rental properties in Louisville that qualify for low-income housing tax credits.

For more information, call Fannie Mae at 1-800-7FANNIE.

Mattingly Joins Louisville Branch

Tamme Mattingly recently joined the Community Affairs staff of the Federal Reserve Bank of St. Louis. Mattingly, an analyst assigned to the Louisville Branch, has several years of experience with a commercial bank in Louisville.

Mattingly will assist in the Bank's efforts to provide banks

Tamme Mattingly

and bank holding companies with information on appropriate programs to help meet community development needs, as well as promote the goals of the CRA by facilitating communication between borrower groups, local governments, development organizations and community financial institutions. She can be reached at (502) 568-9216.

Videos Explain Native American Lending

The Federal Reserve Bank of Minneapolis has produced five one-hour video tapes that show how to lend to Native Americans on Indian reservations.

The goal of the video set, which includes a manual, is to teach banks how to make loans on reservations and how to settle disputes with reservation residents who default. The set costs $145 and is available by calling 1-800-553-9656, ext. 2290.

MISSOURI FIRST Expands Opportunities

Under the MISSOURI FIRST Linked Deposit Program—one of the nation's most utilized linked deposit loan programs—deposits of state funds are placed in Missouri banks at below-market rates, allowing eligible borrowers to obtain low-interest loans from banks. The $350 million program, administered by the State Treasurer's Office, provides opportunities for individuals, businesses and organizations to improve the scope and efficiency of their operations.

MISSOURI FIRST For Job Creation has been allocated $110 million. This fund can be used by new or expanding firms operating in Missouri that have ten or more employees. For every $25,000 borrowed, at least one job must be created or retained. The minimum deposit and loan amount is $90,000. Funds can be used to finance relocation expenses, working capital, interim construction, inventory, site development, machinery and equipment, and other expenses necessary to create or retain jobs.

MISSOURI FIRST For Small Business has been allocated $55 million. Eligible Missouri small businesses must have fewer than 25 employees and be organized for profit. Small business loans are limited to $100,000 and can be used for operating expenses; inventory; equipment purchase, rental or lease; and maintenance, repair and renovation to real property.

Other Linked Deposit funds are designed to cover agriculture, multi-family housing development, drought relief, and student loans.

Lenders and borrowers may obtain information and applications by contacting the State Treasurer's Office at 1-800-662-8257.

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Please direct any questions or comments to Glenda Wilson at (314) 444-8317.

Community Development Investments and the Lending Test

How to count qualified investments under the Lending Test in the new CRA examination

CRA

Community development professionals will find cause for celebration in a letter issued Feb. 21, 1996, by all four bank regulatory agencies describing how banks can count investments in a community development bank (CDB) as qualified activity under the lending test in the new CRA examination.

The letter was issued in response to a request from Cecil Adams, president of Community Bank of the Bay (proposed), a community development bank in formation in Oakland, Calif. According to the letter, any bank that makes an investment in a CDB may choose to have its investment evaluated strictly under the investment test or under both the lending test and the investment test. The following is an example of how a bank's investment could be treated:

Assume an institution invests $1 million in a CDB that has a total capitalization of $10 million.* The CDB holds assets of $30 million, with $12 million in qualified investments and $18 million in community development loans.

The investing bank could choose to have its $1 million investment considered solely under the investment test. Alternatively, if it requested consideration under both the lending and investment tests, the amount attributed to the investment test would equal the product of the bank's investment in the CDB and the percentage of CDB's assets portfolio comprised of qualified investments.

The amount attributed to the lending test would equal the product of the investing bank's pro rata share of community development loans originated by the CDB during the period under review and the percentage of the CDB's asset portfolio comprised of community development loans.

In this example, qualified investments comprise 40 percent of the CDB's total assets ($12 million of total assets of $30 million), so the investing bank would receive consideration of 40 percent of its total $1 million investment in the CDB, or $400,000, under the investment test. It is assumed that the remainder of the bank's investment has been used to fund community development loans in an amount equal to its pro rata share of loans originated by the CDB. Since the bank has supplied 10 percent of the capital of the CDB, this provides the basis for determining, under the lending test, its pro rata share (10 percent) of community development loans made by the CDB. Assuming the CDB's $18 million in loans were originated during the period under review and benefit the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area, the bank's pro rata share of these loans would be $1.8 million. However, because community development loans comprise only 60 percent of the CDB's asset portfolio, the bank would receive consideration of only 60 percent of its pro rata share of community development loans, or $1.08 million, under the lending test. In summary, the bank's $1 million investment would be evaluated as a $400,000 investment under the investment test plus $1,080,000 in loans under the lending test.

An investing bank, as you would imagine, must provide its supervisory agency with necessary information to calculate the appropriate breakdown should the bank choose to have its investment evaluated under both the investment and the lending tests.

The staffs of the four financial supervisory agencies are in the process of developing an official commentary, in the form of questions and answers, to provide additional guidance for resolving interpretive questions arising under the new CRA regulations. This commentary will provide further clarification of how such investments will be treated under the new CRA regulations, including a description of other types of community development financial institutions in which banks could invest and receive partial credit under the lending test.

All in all, this is good news for community development banks and those institutions considering investments in CDBs. The thoughtful response of the regulatory agencies to the question of bank investments relative to the new CRA regulations demonstrates the agencies support and recognition of the important work of community development banks and that of their bank investors.

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* Any bank investment in a community development bank must be authorized by the investing institution's primary supervisory agency.