

SELF-HELP HOUSING

Farmers and Mechanics National Bank Interfaith Housing of Western Maryland

PARTICIPANT PROFILES

Farmers and Mechanics National Bank ("F&M" or "the Bank") is a subsidiary of F&M Bancorp, the fourth largest Maryland based independent bank holding company. F&M's main office is located in Frederick, Maryland. The Bank has approximately \$799 million in assets and operates 24 full-service community branches in Frederick, Montgomery, and Carroll counties in Maryland.

F&M offers electronic banking options throughout its market, including personal and business PC banking access and 24-hour banking. In addition to being a market leader in commercial and retail banking, F&M has a strong commitment to the local community. Through its CRA Department, F&M offers assistance to low- and moderate-income customers through a variety of services and products.

F&M has assisted first-time home buyers through its Afford-A-Home 100-percent financing program. The Bank also supports the Housing Opportunities Commission in Montgomery County by aiding borrowers with down payments and closing costs. Key Alliance, the newest division of F&M's Trust and Investment Management Group, provides free financial planning services to customers with no minimum income or investment

requirements. Finally, F&M is a Small Business Administration lender and makes loans to many local businesses.

Interfaith Housing of Western Maryland ("Interfaith Housing") focuses on rural housing needs in the five westernmost counties of Maryland. It was founded in 1989 by regional religious and lay leaders who are committed to improving the housing conditions for the poor. Since 1992, Interfaith Housing has developed 19 projects representing more than 380 units. The projects include rental housing for seniors, single family homes for very low-income purchasers, and shelters for domestic violence victims.

F&M and Interfaith Housing have joined forces on various initiatives to create affordable housing throughout Frederick County since 1993. Although F&M and Interfaith Housing are not in a formal partnership with one another, they have developed a strong business relationship with the common goal of creating affordable housing in western Maryland.

COMMUNITY BACKGROUND

Frederick County, the second largest county in Maryland, is located 50 miles northwest of Washington, D.C. Historically, Frederick County residents have been employed in the farming and manufacturing businesses. The county encompasses 428,197 acres, of which approximately 280,223 acres, or 65.5 percent, are devoted to agricultural and rural uses.

Over the last decade, Frederick County has experienced a steady increase in population. According to the Maryland Office of Planning, the county's population increased from 150,208 in 1990 to 175,399 in 1995. By the year 2000, it is estimated that the population of Frederick County will exceed 203,000 people. Because of the population increases, Frederick County also has seen a slow but continual growth in commercial and residential development. Residential development efforts have primarily

concentrated on single-family residences. Developers built 12,698 housing units between 1980 and 1990, of which 10,534 were single-family units. Between 1991 and 1997, new housing units totaled 13,406, 11,612 of which were single family units.

The county is home to Fort Detrick, a military base that employs 4,700 people and serves as the county's second largest employer, surpassed only by the county government itself. The county's median family income in 1997 was \$50,700, and the unemployment rate is at 3 percent. Economically, the area is becoming more diversified to meet the needs of a growing population. Farming and manufacturing are still important industries in the area, but service related business is growing rapidly.



COMMUNITY NEEDS

The high cost of housing to rural families located outside of the metropolitan Washington, D.C. area has virtually excluded many low- and moderate-income borrowers from the housing market. The primary identifiable barrier to affordable housing in Frederick County is the cost of development, which is exacerbated by the extremely high cost of land. The latter is a result of the

proximity of Frederick County to Montgomery County, one of the most expensive counties in America in which to live. As a result of the high costs of housing, many rural families cannot save sufficient funds to cover the down payment and settlement costs.

BEST PRACTICE PROGRAM OR PRODUCT

In their most ambitious housing initiative to date, F&M and Interfaith Housing worked together to develop Mountain View Community Homes ("Mountain View"), a 22 home single-family residential development for low- and moderate-income residents in Brunswick, Maryland. A new strategy was utilized to secure the property and build the homes. This strategy involved the participation of the low- and moderate-income buyers and became known as the Self-Help Program.¹ Through this program, families are able to trade roughly 1000 hours of volunteer effort for cash and equity in their homes. Mountain View is the region's first housing development of this kind.

The Mountain View project began in February 1995 when Interfaith Housing identified a site for development that had originally been considered for the construction of a school. Although the foundation for the school had already been laid, the site was abandoned making the property available for purchase. F&M made a \$350,000 secured real estate loan to cover the acquisition costs for the parcel of land. F&M evidenced its strong support for the project and for Interfaith

Housing by financing 100 percent of the appraised value of the property. Also, during the course of the Mountain View development, F&M competed for and won \$73,500 in self-extinguishing funding from the Federal Home Loan Bank of Atlanta ("FHLB-Atlanta"). The direct FHLB-Atlanta subsidy was passed through to Interfaith Housing to help cover the extensive site development costs on the parcel of land.

A key component of the Self-Help Program called for the qualified home buyers to contribute sweat equity to help build their homes. The sweat equity was utilized to cover two-thirds of the labor necessary to construct the homes, thus reducing the mortgages by a range of \$8,000 to \$15,000. With the borrower's sweat equity and FHLB-Atlanta subsidies in place, the loan amount financed for the homes in Mountain View ranged between \$84,000 and \$104,000. However, the appraised value of the home upon completion of construction ranged between \$95,000 and \$123,800. Therefore, at closing, each of the new borrowers had equity in their properties in an amount equal to what is seen in more conventional financing arrangements.

The household incomes of the families who have qualified for the Self-Help Program ranged between \$12,000 and \$40,000. To assist those families who qualified, but lacked sufficient funds to cover the down payment and closing costs, Interfaith Housing utilized the U. S. Department of Agriculture's Rural Housing Services 502 Loan Program ("502 Program"). This is a direct loan program, as opposed to a guarantee program, which features low interest rates and no down payment requirements. Use of the 502 Program enabled these borrowers to afford the homes being developed by Interfaith Housing, despite their low incomes.

The outreach, pre-qualifications, budget and credit counseling, and home ownership education workshops were administered by Interfaith Housing. Interfaith Housing developed its own Self-Help Program to administer the training requirements and provide adequate pre-construction training. As part of the requirements, the families participated in a minimum of 25 hours of pre-construction classroom training and 30 hours of on-the-job site training.

Through the Self-Help Program, the selected applicants were placed into three "building groups" that were trained sequentially to meet the time frames needed to acquire their lots and build their homes. Members of each building group served on construction teams to build all of the homes for their group. The construction teams worked under the direction of an Interfaith Housing construction supervisor. The families worked between 800

and 1300 hours to complete their group's homes. The construction of each group of homes generally required between 8 and 12 months.

¹ Schnell, Susanne C. Profiles of Partnership Achievements: Street Tested Strategies for Strengthening Neighborhoods. The Social Compact. 1997. P. 64.



Pictured above is the Mountain View Project's second building group at work. The project, which was financed by FMNB, was completed in January 1998.

EXPERIENCES AND OBSTACLES

The site originally purchased by Interfaith Housing presented some obstacles because it included the foundation of the school, which needed to be removed, and it had areas that were potentially unsuitable for housing development because of the hilly terrain. F&M extended credit to Interfaith Housing knowing that some of the lots could not be developed. Further, F&M management understood that non-profit developers are often forced to purchase land that might be considered unsuitable for housing development by the private sector because the land is affordable. In the case of the Mountain View project, two of the lots purchased by Interfaith Housing could not be developed for housing.

F&M found it helpful to issue letters of credit to the local municipality on behalf of the

Program's borrowers. The letters of credit were needed, as a bond, before the municipality would approve infrastructure development such as sidewalks, gutters, water, and sewage drains. The bond is generally required by all municipalities to ensure that the community infrastructure is developed according to local codes.

The demand for the housing was so great that F&M agreed to finance the acquisition of a second parcel of land. The land was used to develop five additional lots in Brunswick. A follow-up loan of \$95,000 was settled in September 1996 to fund the acquisition and development of the five lots. Those lots were financed at 90 percent of acquisition cost, with flexible underwriting. F&M's loan was repaid from normal sales activity in May 1997.

CURRENT STATUS

To date all of the Mountain View lots have been sold and the construction of the homes has been completed. The first seven borrowers moved into their new homes in January 1997. Another 10, from the second building group, moved into their homes in October 1997. The remaining five homeowners recently occupied their homes in January 1998. As part of the Self-Help Program, Interfaith Housing conducts post-purchase counseling workshops. To date there have been no defaults on the mortgages.

Because of the success of the Self-Help Program, F&M agreed to provide interim pre-construction loans and grants for two additional affordable housing developments.

Weinburg House, located in Frederick, Maryland, provides 23 affordable multi-family units for seniors 62 or older and/or handicapped residents with incomes between \$11,000 and \$26,340. The apartment complex features an elevator, wall-to-wall carpeting, individually controlled heat and air conditioning, and rent of \$320 per month. Additionally, Weinburg Knolls, located in Woodsboro, Maryland, will provide 14 affordable three and four-bedroom single family, detached homes for families earning between \$20,000 and \$32,000 (for a family of four). Construction of the infrastructure is scheduled to begin in February 1998.

PARTNERSHIPS

Interfaith Housing of Western Maryland, (sponsorship, outreach), Federal Home Loan Bank of Atlanta, (Subsidies; Land Purchases), USDA Rural Housing Services, (502 Low Interest Rate Mortgage Program), County of

Frederick (Affordable Housing Council Grant), State of Maryland, Dept. of Housing and Community Development (Low Interest Rate Mortgages).

ADDITIONAL INFORMATION CONTACTS

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Main Web Site: www.usda.gov
USDA Facilities Locator: offices.usda.gov
Rural Development Field Offices:
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ADDITIONAL RESOURCES

Maryland Office of Planning

301 West Preston Street
Baltimore, Maryland 21201
Phone: (410) 767-4500
Fax: (410) 767-4480
Home Page: <http://www.op.state.md.us/>

Maryland Department of Housing and Community Development

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