Community Liaison

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Risk-Based Pricing

Promise or Perdition for Affordable Home Ownership?

In the past few years, technology has played a more visible role in fostering innovation in the housing credit markets and, thereby, in contributing to housing affordability. More sophisticated, empirically derived and statistically sound credit risk management systems have found their way into the home mortgage business. These systems allow lenders to streamline operations and pass reduced costs and increased responsiveness on to consumers.

Will technology's next step in the mortgage market have a similar favorable impact on choice and affordability? Does risk-based pricing of mortgages bring promise or perdition for affordable home ownership? The application of risk-based pricing to the home purchase-money mortgage market, primarily to first-time home buyers, was the subject of remarks given by OTS Director Ellen Seidman at the Neighborhood Reinvestment Training Institute in San Francisco on November 18, 1998. The following are excerpts from her speech.

Proponents of Risk-Based Pricing

The proponents of risk-based pricing for home mortgages rightfully point out that credit risk has always been a factor in the pricing of home mortgages. Lenders, and more recently secondary market investors, have routinely factored into the price of credit the transaction and applicant characteristics most strongly correlated to default risk. These are factors such as mortgage term, loan-to-value ratio and the borrower's payment capacity. The introduction of empirically derived and statistically predictive credit scoring technology into the pricing equation is, they say, simply a more efficient and accurate way to reflect borrower credit risk. It is undeniable that credit scores have become an integral part of determining price in the investor market.

Yet, up to now, credit risk's impact on mortgage pricing has been broadly applied across loan portfolios. Generally speaking, this results in a conventional conforming mortgage price and a significantly higher price for the non-conforming, sub-"A" market on down.

The promise, according to proponents of the new risk-based pricing, is the ability to use scoring technology to price mortgages on a "loan-level" basis: To better match price with the borrower's creditworthiness. This option, it is said, will mean lower mortgage costs for the sizable pool of home-buyers whose credit characteristics place them in the margin just below the current "A" market.

One rule of thumb is that for every one-half percentage point increase in interest rates, two million households are priced out of the market for a $100,000 home. In this light, a 5/8s of a percentage point decrease in the mortgage rate has the potential of helping millions of families who need

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help the most—those having modest incomes, high debt ratios and little-to-no (or blemished) credit who are buying entry level homes.

In this sense, risk-based pricing is simply another tool to be used to generate additional mortgage product innovation and choice for both borrowers and lenders. If the past is prologue to the future, such innovation and choice will translate to making more homes affordable for more people.

On the Other Hand: The Skeptics

That is one view of the future with risk-based pricing. On the other hand, there are more than a few voices expressing skepticism. Some are more adamantly opposed than others, foreseeing serious effects on the ability of minorities, immigrants and those with lower incomes to continue their homeownership gains.

What are the concerns being raised against risk-based mortgage pricing? Let us take a look.

First, there is the continuing concern about the workings of the technology underlying risk-based pricing: that is, credit scoring—the proverbial "black box." Sophistication in balancing the interaction of multiple variables gives credit scoring its predictive capacity. At the same time, that sophistication makes it difficult for an applicant or anyone assisting him or her to understand how his or her behavior is connected to the system's judgment (or at least its advice) about their creditworthiness.

Second, credit scoring and its more inclusive cousin, automated underwriting or mortgage application scoring, continues to be challenged as a vehicle that disproportionately adversely affects minority applicants. Concerns are raised that the populations upon which the scorecards are developed are not sufficiently diverse and do not represent the favorable credit experiences of minorities. Another complaint has been that the variables used inappropriately disadvantage minorities. This is most often exemplified by pointing to the supposed role that finance company credit experience plays in generating scores from the big three credit bureaus.

A third major objection to risk-based pricing of mortgages asserts that it will undermine the subsidy that so-called A plus borrowers now provide to the rest of the A market. Because the conventional conforming market contains a

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spectrum of credit risk from extraordinarily excellent to just plain, solidly good, full risk-based pricing of the A market at the loan level will, at its logical extreme, lead to a division of this market to the economic benefit of some and the detriment of many more. Without some intra-market subsidization, mortgages may actually become more costly for those at the margin of the conventional loan market.

Principles For the Implementation of Risk-Based Pricing

So what will it be? Promise or perdition?

I believe that as with most technologies the answer to our question depends on whether we are masters of the technology or whether we let the technology master us. By implementing risk-based mortgage pricing within a framework of sound principles, I believe we can add innovation and choice to the home mortgage market in a way that will further expand affordable home-ownership opportunities.

Four Principles Proposed

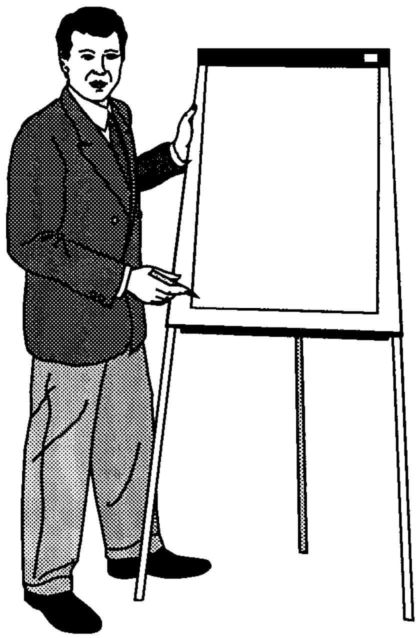
I propose that the following four principles guide us in this endeavor:

1. Consumers must be educated about, and empowered to deal with, risk-scoring and its impact on their eligibility for, and the pricing of, a home mortgage.

2. Lenders must be accountable for managing their operations and outlets to assure ethical, non-discriminatory delivery of risk-based home mortgage financing.

3. Developers and users of risk-based pricing models must maintain the reliability of their systems' performance and evolve to meet changing market conditions and consumer behavior.

4. All participants in the mortgage market must encourage the implementation of risk-based pricing as a means of improving service and affordability and must guard against the possibility of technology producing barriers to home ownership for minority or lower income families and individuals.



By following these four principles, I believe we can maximize our chances of realizing the promise of risk-based pricing while avoiding its pitfalls.

Principle 1. Consumer Education and Empowerment.

My first principle is directed at the need to have consumers understand what is going on in the risk-based mortgage market and how to interact with it.

Consumer education has lagged behind the rapid deployment of credit-scoring in the home mortgage market. I am happy to see that leaders in the industry are beginning to work together to reduce this gap. I encourage proponents of credit scoring and risk-based pricing to reach out to organizations like NRC, and others with grass-roots networks in the affordable housing market, to help educate those who need it most.

But education alone is not enough. We must make that education useful. One step in this direction is to integrate education into the housing counseling framework. A better appreciation by counselors of the inter-relationship between consumer credit behavior and the credit scoring mechanism is immensely important to continuing the demonstrated success that housing counseling has had in enabling more families to demonstrate their readiness to finance a first home at a responsible price with a loan from a responsible lender.

Further, we need to provide more information to applicants about what factors have caused them to be denied a favorable loan or required them to pay a higher interest rate. To this end, last May, OTS joined the OCC and other federal agencies to urge the Federal Reserve Board to require lenders to inform applicants receiving counter-offers why they did not qualify for the product or price they initially sought. OTS is also in the process of asking the Board's staff to clarify its guidance on disclosing the reasons behind an applicant being made subject to one set of loan approval standards rather than another due to a credit score.

Principle 2. Lender Accountability

The second principle stresses forward-thinking application of creditors' fair lending and consumer protection obligations.

First, lenders must actively monitor and manage all their product delivery channels for discriminatory conduct. This includes brokers, dealers and other actors relied on by the bank in reaching the public with their credit products. This is especially the case when risk-based pricing is coupled with loan officer or broker discretion in setting loan terms in the affordable housing market. A thrift that does not manage these circumstances to avoid a pattern or practice of disparate treatment will be held accountable for its failure.

Second, lenders offering mortgages differentiated by price on a risk-scored basis need to exercise oversight on how applicants are tracked or "steered" to particular mortgage choices. Be alert to loan officers who react to stereotypes or make snap judgments about what is best for a particular applicant without giving him or her the due consideration accorded to other applicants whose qualifications and preferences are more carefully explored. If you, or you and your affiliate, are risk-based pricing, be extra vigilant about how applicants are treated wherever they first contact your business network.

Third, scrutinize the exceptions, or "overrides," you allow to be made to your credit-scoring or risk-based pricing system. These departures from your expensive, expert scoring model have a way of destroying your policy of treating similarly situated applicants the same. This area will be a featured focus of new interagency fair lending examination procedures for those who use credit scoring systems for underwriting or pricing decisions.

Fourth, to borrow the good advice of Jo Ann Barefoot at KPMG, "Tie loan pricing into an ethical framework." Customers in the affordable housing market are often less sophisticated or experienced in dealing with financial institutions. Lenders need to ensure that neither they, nor the people outside their organization engaged in the delivery of their mortgage products, use business practices that they would not want applied to their own sons or daughters.

Principle 3. Maintain Reliable and Up-to-date Pricing Models

Credit scoring and automated underwriting in the mortgage market are still in their infancy. Although the early returns are promising, our experience is limited to some of the most favorable economic circumstances imaginable. History puts lenders on notice that business cycles are just that and good times are not never-ending.

As a matter of safety and soundness, lenders must monitor their risk-based pricing models to ensure their continued predictive powers and to anticipate changing conditions that may adversely affect their future reliability.

As a compliance matter, lenders need to stay abreast of modeling developments. Better information or more powerful analytical techniques may result in scoring models that yield not only reliably predictive results, but also have a less disproportionate adverse impact on minorities or other protected characteristic borrowers.

Principle 4. Employ Risk-based Pricing To Improve Affordability

My fourth and final principle may be the trickiest, and the most important, to apply. People can follow the first three principles completely and still fall short of the goal of expanding home ownership opportunities. We must pursue this principle on several fronts:

First, we must not sacrifice the benefits of subsidization available in broadly defined market segments for loan-level pricing that could result in displacing those on the bottom rung of today's conventional conforming mortgage market. Those with the market power to accelerate the risk-based pricing phenomenon need to approach their decisions at a deliberate pace and with foresight.

Second, we must take pains to use every benefit that credit scoring affords to expand home ownership opportunities. One of the most repeated promises made by proponents of credit scoring has been that the savings realized in processing the highest scoring applicants more efficiently will enable lenders to devote those resources to more thoroughly working the files of marginal applicants. All of us—lenders, community organizations, investors and agencies—should encourage the realization of this advantage of credit scoring. Chasing easy volume or slapping the next higher price on the marginal applicant in lieu of working that file for compensatory factors is reneging on the promise of credit scoring.

Third, we must help the borrower understand the consequences of their choices among the multitude of new financing options. Over the past several years, the home mortgage lending community in this country has developed a series of effective programs that allow lower-income families to get home loans at responsible interest rates by requiring the borrowers to participate in counseling that helps them understand how to be good homeowners and by servicing the loans aggressively, but with some understanding. I urge all of you to use whatever influence you have to make certain that the programs that are good for borrowers, lenders and communities are not jettisoned—or allowed to atrophy—under the guise of "more quickly increasing lending to low income households." We will have only ourselves to blame for the consequences if we do not continue to support these programs.

Fourth, we must use the fundamental strengths of credit scoring technology to better capture the factors most relevant to the affordable housing sector of the mortgage market. There is no *a priori* reason why such factors as successfully completing a housing counseling program, or demonstrating a record of timely utility or rent payments, cannot be incorporated into a reliable risk scoring model. It is important for us to take every feasible opportunity to increase the versatility and accuracy of this technology.

Conclusion

In summary, I think it is safe to say that risk-based pricing is here to stay. The form it takes and the uses to which it is put are up to all of us to shape. Our challenge is to employ this new tool to continue our unprecedented run of expanding home ownership. But if we proceed by following the four principles I've outlined today, I believe it is possible to realize the promise risk-based pricing holds for producing the kind of innovation and choice that makes home ownership more affordable for more people.

The full text of Director Seidman's speech is available on the OTS Website at http://www.ots.treas.gov, or by requesting Document No. 87034 from OTS' Publifax at (202) 906-5660 ■

OTS Hosts Successful Rural Development Conference

In September, the Office of Thrift Supervision sponsored the 1998 National Rural Development Conference in Atlanta, Georgia. OTS decided to host such a large gathering of people and organizations dedicated to ensuring the economic well-being of our rural communities because a significant percentage of the institutions OTS regulates are either headquartered or operate branch offices in rural communities. As the communities served by the industry do well, so too will the institutions that serve them. Therefore, OTS has an interest in promoting those policies and programs that benefit rural communities.

The conference included a mix of general interest plenary sessions, smaller break out meetings and networking opportunities. One of the highlights of the opening sessions was the address by Jill Long Thompson, Undersecretary of Agriculture for Rural Development. Ms. Long Thompson spoke about her own experience trying to manage a responsible full-time career while continuing to work her family farm. Managing growth and development issues with limited resources was a theme that ran throughout the entire conference. Ms. Long Thompson also spoke at some length about the various programs under the Rural Development division of the U.S. Agriculture. These include programs for financing housing and infrastructure development.

OTS Director Ellen Seidman acknowledged that decisions on many of the critical issues facing the regulatory agencies, such as interstate banking and mega mergers will have profound and lasting effects on the ability of rural communities to access capital. She challenged the financial institutions present at the conference to use the technology available to them to create better and more efficient means of getting products and services to rural communities—perhaps in lieu of traditional brick and mortar office buildings. She also encouraged those institutions with an existing presence in rural markets to look at other means, such as the USDA Rural Housing Service leveraged loan and loan guarantee programs, as ways to extend more credit for housing and other needs. She also stated that CRA regulations need to be applied in ways that encourage credit to flow to underserved rural communities.

As the communities served by the industry do well, so too will the institutions that serve them.

Although different rural communities face different problems, there were common areas of concern. The failure of communities to develop, attract or maintain a well-trained work force was one of the predominant themes. Throughout rural America, lack of education, functional illiteracy and unskilled labor is limiting communities' ability to be competitive in a rapidly evolving technical world. The lack of decent, affordable housing is also a key problem in many areas. The role of financial institutions in providing housing credit and in promoting economic development was widely discussed. There was also considerable discussion regarding the effect of banking regulations, particularly CRA, on rural institutions' choices regarding lending, investment and service opportunities. Some of the participants suggested that perhaps the performance of rural institutions should be measured differently than that of their urban counterparts. There were some participants that believe that the "service test" may be the most critical in rural areas. Considerable discussion of these issues took place, both formally in the break out sessions, and informally during breaks and at the reception.

Conference participants spent the entire day and a half discussing the problems and barriers, as well as solutions. If there was an overriding message that participants left with us, it seemed to be that information and collaboration are the most vital components of a successful rural development program. "Best Practices" from around the country were showcased in the breakout sessions, and participants took home ideas that could work in their communities. Virtually every "Best Practice" relied upon a multitude of partners for success. Everywhere there was evidence of the creative melding of federal, state, local and private resources. In addition to the "nuts and bolts" descriptions of successful programs, most participants indicated that the contacts they made with others from around the country were the most valuable things they were bringing home with them from the conference. Many rural residents and programs operate without the information that would make their jobs easier and their successes more frequent. The conference provided those networking opportunities.

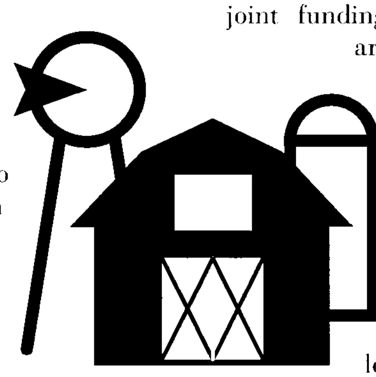
Each conference participant received a copy of a booklet, "Best Practices in Rural Development", which was published by the OTS. This booklet includes information from the research division of the U.S. Department of Agriculture as well as descriptions of best practices in housing and economic development from around the country. There is also a directory of many individuals and groups involved in rural issues included at the end of the booklet. You may download a copy of this booklet from the OTS website or you may request a hard copy by calling Lynn Bedard in the Southeast Region at (404) 888-8443.

In the coming months, we will be publishing articles about the various practices and programs that were highlighted at the conference. In addition, we are anxious to hear the details of other successful rural programs that you are involved in. Please write or call your local Community Affairs Liaison to share the details of those programs ■

OTS's Interest in Promoting Access to Credit in Rural Communities Continues

In October 1998, the OTS, as well as the FDIC, joined the Rural Home Loan Partnership. The Rural Home Loan Partnership is an initiative among USDA Rural Housing Services, Rural LISC, the Federal Home Loan Bank System and Neighborhood Reinvestment Corporation's Rural Alliance to increase home ownership in rural America by making private credit for eligible lower income borrowers more accessible.

The RHLP works to bring local financial institutions, community based organizations (CBOs) and local Rural Housing Services (RHS) officials and resources together as a means of providing greater access to credit for those who typically lack access to conventional long-term mortgage financing. Using money from a national set-aside of funds under the leveraged loan program, the RHS will provide a low cost, fixed rate second mortgage to cover up to 60 percent of the cost of the home. The local financial institution provides a long-term, fixed-rate first mortgage loan with an LTV not generally exceeding 40 percent of the value of the home. The financial institution will either use its own funds or funds available through the Federal Home Loan Bank System's Community Investment Program, which provides a source of long-term funding for the bank or thrift.



The CBO typically assists with home buyer education and counseling, and loan packaging; in addition, the CBO will often contribute monetary resources through grants from the FHLB's Affordable Housing Program, or HUD's Community Development Block Grant or HOME Program. The funds are used either for reducing the LTV for the first mortgage or for funding construction or rehab costs in excess of the market value of the home (which is often a problem in rural communities).

The RHLP has been able to put together about 40 local partnerships that are working together to provide joint funding for housing in rural areas. These groups are eligible for funds from the national pool of leveraged loan program money. And, they may also compete for the even greater pool of funds allocated to the states for both the leveraged loan program, and RHS' loan guarantee program.

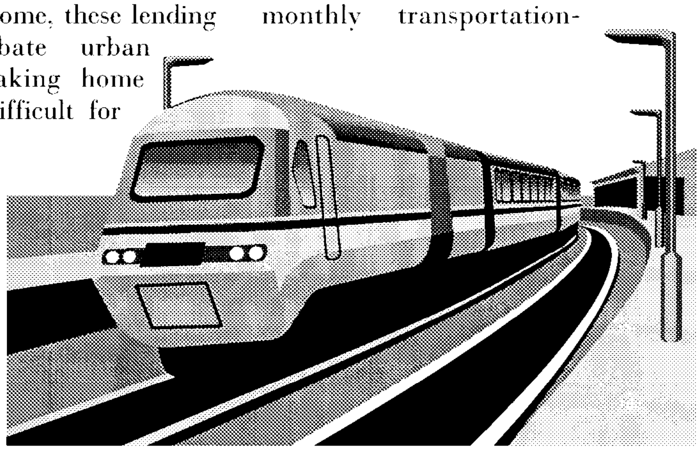
In 1999, the OTS will be working with the RHLP to provide training to rural financial institutions and community based organizations about the RHS leverage loan and loan guarantee program, the Rural Home Loan Partnership, and ways to achieve a successful collaborative funding arrangement. Interested parties should contact Sonja White at (202) 906-7857 or Caryn Stein at (202) 906-7020 ■

The Location Efficient Mortgage (LEM)

Making Housing More Affordable

A set of generally accepted principles within the lending industry determines whether people can obtain financing to buy homes or apartments. These rules, which are applied equally to urban and suburban housing despite key differences in their access to public transportation and jobs, effectively force many American families to move to cheaper, more distant locations to own homes.

In the opinion of some, these lending practices exacerbate urban sprawl, while making home ownership more difficult for inner city families.



The Natural Resources Defense Council (NRDC), in partnership with the Center for Neighborhood Technology (CNT) and the Surface Transportation Policy Project (STPP), nationally known nonprofit organizations involved with environmental issues, conducted extensive research on alternative lending requirements that could provide greater affordability for those living in locations that require less expenditure for transportation. The resulting "Location Efficient Mortgage (LEM)" would use new, technically justified formulas to reflect more accurately the consequences of living in a home that is located where transportation costs are low. The proposed formulas would be based on the expenses of an average household in a given location, providing greater allowed loan amounts (or higher DTI ratios) for housing in locations with lower costs of transportation.

The LEM recognizes that when families, particularly low-income families, are able to rely on public transportation rather than automobiles for their travel needs they spend less on transportation. Similarly, the LEM acknowledges that families save money when they "live locally." Those who shop, work, recreate, socialize, and participate in the resources of their local community don't need to travel as much. The LEM is supported by a computer software and mapping program that can calculate a family's annual and monthly transportation-related and population density-related savings under a variety of situations and conditions. If a borrower chooses a LEM, these savings would be integrated into the calculation of borrowing capacity as part of the customary mortgage application process. This procedure would create significant "stretch" in borrowing capacity.

To determine just how much money may reasonably and prudently be shifted, the LEM Partnership (comprised of the organizations noted above) has designed, tested, and now uses a geographical information system (GIS) model, programmed on a zonal basis, to calculate vehicle costs per household on an address specific basis. A LEM Advisor software program uses that information and borrower-specific data to calculate the household's Location Efficiency Value (LEV) under the actual conditions and circumstances presented by the borrower. The LEM Advisor software then integrates LEV into the qualification ratios as part of the mortgage application process.

What would the LEM mean to the community and the region?

The LEM has the potential to achieve several very desirable changes in urban areas. For example, the LEM could:

- Expand homeownership opportunities for certain low-and moderate-income households;
- Stimulate home purchases in low-and moderate-income urban communities;
- Increase public transit ridership;
- Support local consumer services and cultural amenities; and
- Improve regional/local air quality.

What is "Location Efficiency?"

Location efficiency is a land planning and economic development concept that stresses how accessible things are rather than how mobile one must to be find needed goods and services.

For example, when we choose access over mobility, we are thinking about:

- Where we live, work, and shop;
- How and where we travel;
- How we impact our environment; and
- How well we use public infrastructures such as public transit, roads, schools, and parks.

What Local Characteristics Define Whether a Location is "Efficient?"

The mix of characteristics often varies from one community to another, but generally the following are useful indicators of location efficiency:

- Household density at the community level;
- Access to public transit services;
- Access to shopping, services, cultural amenities, and schools; and
- Pedestrian "friendliness" or sidewalks, bikeways, benches, lighting, and planting.

What are the LEM's Key Features?

As currently envisioned, a Location Efficient Mortgage would have the following features:

- fully insured, thirty-year, fixed rate, single- family mortgage;
- applicable to single-unit and multi-unit owner-occupied housing and condominiums;
- loan-to-value ratio (LTV) of up to 95%; and
- long-term debt ratio of 38% to 42% depending upon allocation of Location Efficient Value.

Because many LEM eligible borrowers are likely to be buying a home for the first time, the proposed LEM program would require that:

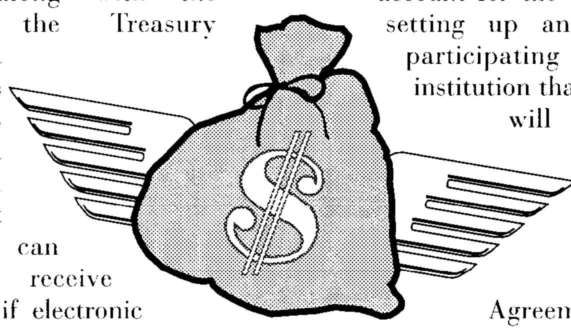
- Borrowers use pre-application counseling services;
- Long-term transit permit ownership be encouraged;
- Counseling service contact be maintained for 3 to 5 years; and
- Key household information must be reported for research purposes only.

The Location Efficient Mortgage concept was presented to senior officials of Fannie Mae in December 1994. Fannie Mae indicated its interest in this effort, supported further research into how Location Efficient Mortgages could be developed and implemented, and expressed a willingness to work with the LEM partnership on how the secondary market could participate in the program.

The LEM Partnership and Fannie Mae expect that they will conduct a pilot test of the LEM in 1999 with participating financial institutions located in Chicago, Seattle, and some parts of Los Angeles. The product will be offered to low- to moderate-income borrowers interested in purchasing a home located in an urban area served by public transportation ■

Treasury Proposes Attributes for Electronic Transfer Accounts

The September 1998 edition of this newsletter provided background information on the Debt Collection Improvement Act of 1996, which requires most federal payments, with the exception of tax refunds, to be made by electronic funds transfer beginning January 2, 1999. In a final rule issued on September 25, 1998, (which was distributed along with the newsletter), the Treasury Department clarified the circumstances under which federal payment recipients can continue to receive paper checks if electronic deposit would cause hardship. The final rule emphasizes recipient choice and the importance of ensuring that recipients are not disadvantaged or forced into making a choice that is not right for their circumstances. The preamble to the final rule indicated that Treasury would separately publish for comment a notice of the proposed features of an Electronic Transfer Account.



The Treasury Department has recently announced proposed attributes for an Electronic Transfer Account (ETA) that is intended to provide all federal payment recipients access to a low-cost account at a federally-insured financial institution for the purpose of receiving payments by electronic direct deposit. The ETA will only be available through federally-insured financial institutions, including thrifts, banks, and credit unions. Treasury will encourage, but not require, financial institutions to offer the ETA, and is proposing to reimburse institutions $12.60 per account for the one-time cost of setting up an ETA. Each participating financial institution that offers the ETA will be required to enter into a contractual agreement (ETA Financial Agency Agreement) with the Treasury Department.

Under the proposed guidelines, the Treasury Department would require that an ETA :

- be an individually owned account at a federally-insured financial institution;
- be available to any individual who receives a federal benefit, wage, salary, or retirement payment;
- accept only electronic federal payments;
- be subject to a maximum price of $3 per month;
- have a minimum of four cash withdrawals per month, to be included in the monthly fee,

through any combination of proprietary ATM and/or over-the-counter transactions;

- provide the same consumer protections that are available to other account holders at the financial institution;
- allow access to point-of-sale networks, if available;
- require no minimum balance, except as required by federal or state law; and
- provide a monthly statement

In addition, the Treasury Department is seeking comments on three other features that are not currently part of the ETA proposal. These features are:

- paying interest on account balances;
- allowing for additional deposits; and
- providing for third-party debit transactions or electronic bill payment.

The proposal was published for comment in the November 23, 1998 Federal Register. The 45-day public comment period closes on January 7, 1999. After the comment period ends, the Treasury Department will review and take into consideration those comments when finalizing the ETA Financial Agency Agreement with financial institutions.

For more information on the proposal, please visit the Financial Management Service's website at www.fms.treas.gov/eft/eta/, or contact the following FMS staff:

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  (202) 874-7106
- Matthew Friend
  Financial Program Specialist
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- Cynthia Johnson
  Director, Cash Management Policy and Planning Division
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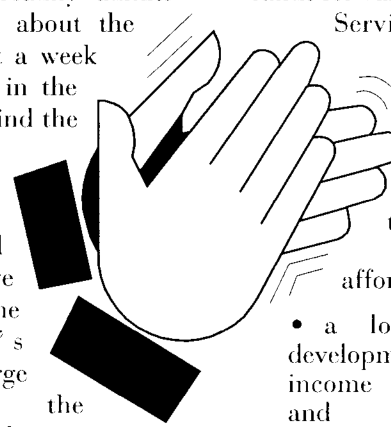
Southeast Region Thrift Forges Profitable Relationship with CDFI

In the last edition of the "Community Liaison" we ran an article about the Treasury Department's Community Development Financial Institution Fund and the Bank Enterprise Award Program. That article was "old news" for Susquehanna Bank's chief counsel, Dan Higham. Susquehanna, a $995 million thrift located in Baltimore, Maryland, had just received notice that it had earned a BEA Program award in the amount of $242,649. While the application process was not as easy as Higham had hoped, the results were worth the effort.

Mr. Higham, who readily admits that he only heard about the BEA program about a week before the deadline in the last round, did not find the process particularly "easy." At first glance, it looked like something he could apply for with relative ease because of the institution's investment in a large national CDFI, the Enterprise Social Investment Corporation. However, after further reading and analysis of the regulations governing the awards, he realized that the federal tax credit benefit that Susquehanna was already realizing from that particular investment would make it ineligible for consideration under the BEA. Nevertheless, Mr. Higham decided to see what he could put together based on Susquehanna's other community development activities in its assessment area, inasmuch as the BEA provides other options for earning an award. Eventually Higham narrowed the search down to several areas where he believed Susquehanna's proposed activities would be eligible and the application was filed. Since the BEA program requires applicants to predict what their level of activity will be during the ensuing year, there is uncertainty about exactly what sort of an award an institution will earn until its performance numbers are available. However, when the assessment period was over and the final reports submitted, Susquehanna had completed qualifying activities under several categories and had actually earned an even larger award than that for which it had applied.



Susquehanna earned BEA award funds for various "Development and Service" activities in "distressed communities" of Baltimore City, including:

- a loan to a local developer who used the proceeds to acquire and renovate three affordable homes;
- a loan to finance the development of housing for low income elderly city residents; and
- a loan to finance the construction and operating costs of a children's museum in the central city business district which would also house an after school program for at-risk city youth.

Under the category of "Project Investments," Susquehanna earned BEA awards for its charitable contributions to several Habitat chapters; a local nonprofit housing organization that used the funds for the rehabilitation of a house for homeless men; and a nonprofit group that provides a comprehensive homebuyers program for low and moderate income homebuyers.

Finally, Susquehanna earned a portion of its BEA award for "CDFI Support Activities" which were provided to Salisbury Neighborhood Housing Services, Inc. in the form of many hours of a loan officer's time. This loan officer assisted Salisbury NHS in setting up procedures for implementing a special state loan program to benefit low income borrowers.

In the end, this effort was beneficial for NHS as well. In fact, Susquehanna's successful BEA application for activities in Salisbury, Maryland inspired the executive director of the Salisbury NHS, Debbie Campbell, to encourage her other lending partners to apply for awards in the next round of BEA funding. Ms. Campbell met with Higham to design an investment product for the NHS lender partners that could qualify for a BEA award. At about the same time, the OTS sponsored a BEA Workshop for lenders interested in the upcoming funding round. Campbell obtained a copy of the video taped BEA Workshop provided by the OTS and invited all of her lenders to an application workshop at her office. She is looking forward to the investments that the BEA may help her attract. As a CDFI, Salisbury NHS can use the funds of its banking partners as matching funds for any grants received from the CDFI Fund.

Susquehanna was one of only two Southeast Regional thrifts to apply for and earn BEA funds. The most recent application round closed on November 30, 1998. Those awards will be made next fall. If you are an FDIC-insured financial institution with an interest in earning a BEA award, you should call the CDFI fund at (202) 622-8662 and ask to be placed on their mailing list. You will then receive correspondence advising you of the application deadlines for the program. For further information, contact Lynn Bedard in the OTS Southeast Regional Office at (404) 888-8443 ■

Community Development Financial Institutions

Fund 1998 Awards

On September 28, 1998, the Department of the Treasury announced the results of its CDFI awards for 1998. A total of $75 million was awarded to 190 banks, thrifts and community development financial institutions through three programs: the CDFI Core Program, Technical Assistance Component and Bank Enterprise Award (BEA) Program. The CDFI program leverages federal dollars by requiring that each CDFI provide at least a one-to-one match with funds from non-federal sources for each dollar of assistance it receives.

- Under the Core Program, 42 community development organizations received a total of $44.3 million in financial assistance. This financial assistance included:

Grants	$31,195,000
Loans	6,500,000
Equity Investments	4,500,000
Technical Assistance	1,168,500
Deposits/Shares	900,000

- 70 community development organizations were selected to receive a total of $3 million in technical assistance grants; and
- The fund made 79 BEA awards totaling $28 million to insured depository institutions. Awards ranged from $1,575 to $2.9 million with a median award of $120,628.

The OTS-regulated thrifts selected for funding under the BEA program are listed below. To see descriptions of these and other organizations receiving BEA awards, or for a list of CDFI core and technical assistance grants awarded in 1998, please refer to the CDFI website at www.treas.gov/cdfi.

OTS-regulated thrifts selected for funding under the Bank Enterprise Award (BEA) Program include:

- Bank of America, FSB
  Portland, OR $610,592
- Citibank, FSB
  San Francisco, CA $650,698
- Labe Federal Bank
  Chicago, IL $21,000
- Northeast Bank
  Auburn, ME $1,575
- Oceanmark Bank, FSB
  N. Miami Beach, FL $26,497
- Park Federal Savings Bank
  Chicago, IL $15,500
- PFF Bank and Trust
  Pomona, CA $7,764
- Susquehanna Bank
  Baltimore, MD $242,649
- Union Federal Savings Bank of Indianapolis
  Indianapolis, IN $513,871
- Washington Mutual Bank
  Seattle, WA $750,000
- Western Financial Bank
  Irvine, CA $24,002

Source: Information for this article was taken directly from the Department of the Treasury's September 28 press release ■

Community*Notes*

As part of our efforts to increase our support of the industry's community development activities, we are adding a Community Affairs Specialist to each region. **Kim Lucas** joins OTS with over 16 years of professional experience in economic and community development and small business lending (8 of those years as a commercial loan specialist with the Small Business Administration). Kim will be working with Lynn Bedard in the Southeast Region. **Marie Friederichs** has joined Jim Woods in the West Region, working out of the Seattle office. Marie has 17 years of government experience in the areas of economic, community and small business development.

The Community Affairs group has recently released two publications:

Best Practices in Rural Development

profiles programs and initiatives designed to provide capital and credit to rural areas. It incorporates the U.S. Department of Agriculture's *Understanding Rural America* as a critical backdrop for these discussions.

Individual Development Accounts (IDAs): *Strategy for Asset Accumulation*

provides an introduction to this evolving concept that can help low income individuals buy a home, start a business, or continue their education.

Both publications are available on the OTS website at:

http://www.ots.treas.gov

IDA*News*

With the passage of the Assets for Independence Act on October 27, 1998, Congress has authorized a 5-year, $125 million Individual Development Account demonstration. The demonstration, which will be conducted by the U.S. Department of Health and Human Services, received a $10 million appropriation for fiscal year 1999. Grants, which require matching non-federal funding, will be made to non-profit organizations on a competitive basis; the organizations may collaborate with state, local or tribal governments or with financial institutions or for-profit community development corporations. States which had an existing IDA commitment may also be eligible to apply directly.

Key Dates

January 27, 1999	*HHS announces availability of funding*
April 27, 1999	*Applications are due to HHS*
July 27, 1999	*HHS approves applications*

For further information, contact:

Caryn Stein
National Community Affairs Liaison
(202) 906-7020

Upcoming Events and Training Opportunities . . .

February 28-March 2, 1999: *The Corporation for Enterprise Development (CFED)* is sponsoring the 1999 National IDA Learning Conference in Oakland, California. Further details will soon be available on CFED's website at http://www.cfed.org, or you may request a conference brochure by sending an e-mail to cfed@cfed.org.

February 1-5, 1999: *The Neighborhood Reinvestment Training Institute* will hold the first of five comprehensive training programs planned for 1999 in Atlanta, GA. Additional information can be found on their website at http://www.nw.org or by calling (800) 438-5547.

February 9-10, 1999: *National Association of Affordable Housing Lenders (NAAHL)* will hold its first Members' Only Washington Legislative and Policy Meeting at the Capital Hilton in Washington, DC. For more information, contact NAAHL at (202) 429-5150.

March 8-9, 1999: *The Federal Reserve System* is sponsoring an academic conference featuring research papers and discussions on Business Access to Capital and Credit. The conference will be in Arlington, Virginia. For information, call (214) 922-5377 or (202) 452-3378.

March 8-10, 1999: *National Association of Housing and Redevelopment Officials (NAHRO)* will hold its 1999 Legislative Conference in Washington, DC. Learn what your legislators are doing for your community. More information will be posted as it becomes available on NAHRO's website at http://www.nahro.org.

SBIC Workshops . . .

The Small Business Administration is sponsoring six, one-day workshops on the ***Small Business Investment Company (SBIC) Program.*** Bankers, venture capitalists and representatives from community development groups will have an opportunity to learn how the SBIC Program can help establish profitable new markets. Tentative dates and locations for the workshops to be held in 1999 are:

March 23	**Chicago, IL**
April 6	**Kansas City, MO**
April 12	**New York, NY**
May 6	**Atlanta, GA**
May 17	**Dallas, TX**
June 2	**San Francisco, CA**

Additional information on these workshops will be posted to the OTS website and the SBA website (http://www.sba.gov) soon.

Future editions of the Community Liaison will highlight thrift industry community development activities and related issues and regulatory initiatives. We welcome your comments, as well as information about your institution's community development activities. Please contact your regional OTS Community Affairs Liaison, or write to us at our email address: community@ots.treas.gov. We look forward to hearing from you.