Chapter 3

Additional Government Influence

LEARNING OBJECTIVES

When you've finished reading this chapter, you will be able to

- list the responsibilities and activities of HUD;
- explain the criteria for selling property under the Interstate Land Sales Full Disclosure Act;
- identify important acts of federal legislation that affect real estate finance; and
- describe the operation of the Farm Credit System.

Community Development Block Grant Program (CDBG)
Community Reinvestment Act (CRA)
entitlement communities
Equal Credit Opportunity Act (ECOA)
Good Faith Estimate (GFE)
Home Mortgage Disclosure Act (HMDA)
Housing Choice Voucher Program
Housing and Economic Recovery Act of 2008 (HERA)
HUD-1 Settlement Statement
Interstate Land Sales Full Disclosure Act (ILSFDA)
Neighborhood Stabilization Program (NSP)
property report
Real Estate Settlement Procedures Act (RESPA)
statement of record
tax increment financing

Over the years, the federal government has established special departments and programs to regulate trends in the U.S. housing market. Some of the most significant of these will be covered in this chapter along with important federal legislation directly affecting real estate practice.

The first part of this chapter discusses the activities of the Department of Housing and Urban Development (HUD). One of HUD's primary duties is to supervise the Federal Housing Administration (FHA). HUD is also responsible for the Government National Mortgage Association (Ginnie Mae) and interstate land sales in addition to administering a variety of housing programs focused on social improvement, including low-rent housing projects, urban renewal, and rehabilitation programs.

This chapter also reviews current federal legislation that regulates the complex real estate marketplace. This legislation includes the Equal Credit Opportunity Act (ECOA), the Real Estate Settlement Procedures Act (RESPA), and its various disclosure requirements. It examines the role of various agencies that assist communities in attracting new industry, improving the housing of their citizens, and regulating the fair application of real estate loans.

Finally, this chapter reviews the cooperative Farm Credit System (FCS), which is designed to serve the particular financial needs of farmers and ranchers. The FCS provides funding for land acquisition, home and accessory buildings, equipment purchases, and general farm and ranch operations. The U.S. Department of Agriculture Rural and Community Development Program complements the Farm Credit System by providing funds for farmers and ranchers who are unable to secure credit from other sources.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

The Department of Housing and Urban Development (HUD) was given cabinet status in 1965. It consolidated a number of older federal agencies.

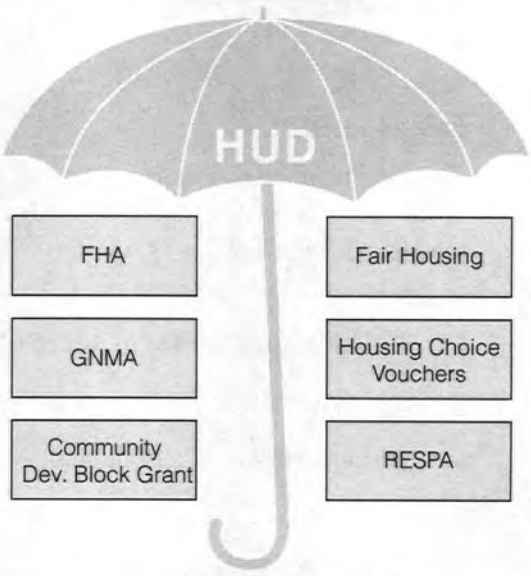
HUD is the federal agency responsible for national policy and programs that address America's housing needs, improve and develop U.S. communities, and enforce fair housing laws. HUD's mission is to help create a decent home and suitable living environment for all U.S. citizens.

As illustrated in Figure 3.1, HUD's primary activities include

- supervising the Federal Housing Administration (FHA),
- directing Ginnie Mae,
- enforcing the Fair Housing Act and RESPA regulations,
- managing the Housing Choice Voucher Program (formerly Section 8 Housing),
- managing the Indian Housing Act, and
- supervising public housing projects.

As part of the **Housing and Economic Recovery Act of 2008 (HERA)**, HUD authorized the Neighborhood Stabilization Program (NSP). This program was designed to stabilize communities suffering from large numbers of abandoned homes and foreclosures by providing funds to all states and selected local governments to acquire and redevelop those properties. Under the American Recovery and Reinvestment Act of 2009

FIGURE 3.1 **The Primary Supervisory Activities of HUD**



(ARRA), the NSP was expanded to include grants to nonprofit organizations. A third round of NSP funding was included in the Dodd-Frank Act of 2010.

Another part of HERA was the Hope for Homeowners program, which provided an opportunity for borrowers having trouble making their mortgage payments to refinance with an FHA-insured mortgage. This program was in effect through September 30, 2011.

In the past, HUD was also responsible for overseeing Fannie Mae and Freddie Mac operations. Regulation of these government-sponsored enterprises (GSEs) now falls under the Federal Housing Finance Agency (see Chapter 4).

One of the important functions of HUD is to provide information on home ownership to the public. The HUD Web site (*www.hud.gov*) is a tremendous resource for the public and for real estate practitioners.

Working under the stated mission to "create strong, sustainable, inclusive communities and quality affordable homes for all," HUD's Strategic Framework for 2010–2015 emphasizes the following strategic goals:

- Strengthen the nation's housing market to bolster the economy and protect consumers
- Meet the need for quality affordable rental homes
- Use housing as a platform for improving quality of life
- Build inclusive and sustainable communities free from discrimination
- Transform the way HUD does business

The HUD Office of Community Planning and Development seeks to achieve these goals through creating partnerships among various levels of government and the private sector, including profit and nonprofit organizations.

The Federal Housing Administration (FHA) is covered in Chapter 8, and Ginnie Mae is covered in Chapter 4. Additional HUD responsibilities will be covered in this chapter.

Fair Housing

The HUD Office of Fair Housing and Equal Opportunity (FHEO) enforces the Fair Housing Act (Title VIII of the Civil Rights Act of 1968 prohibiting discrimination in the sale, rental, and financing of dwellings based on race, color, national origin, religion, sex, familial status, and disability) and other civil rights laws, including

- Title VI of the Civil Rights Act of 1964,
- Section 109 of the Housing and Community Development Act of 1974,
- Section 504 of the Rehabilitation Act of 1973,
- Title II of the Americans with Disabilities Act of 1990,
- the Age Discrimination Act of 1975,
- Title IX of the Education Amendments Act of 1972, and
- the Architectural Barriers Act of 1968.

In some cases, fair housing complaints are handled at the state level when the state has an equivalent enforcement program.

HUD has been charged with enforcement of the Real Estate Settlement Procedures Act (RESPA) since its inception in 1974 and takes an active role in the enforcement of the RESPA regulations, covered in detail later in this chapter.

Community Development Block Grant (CDBG)

The **Community Development Block Grant (CDBG)** program is one of HUD's longest continuously run programs. Since its inception in 1974, the CDBG program has helped communities with economic development, job opportunities, and housing rehabilitation. CDBG funds have been used to construct and improve public facilities such as water, sewer, streets, and neighborhood centers; to purchase real property; and to assist private businesses.

CDBG funds are split between states and **entitlement communities**, defined as metropolitan cities with populations of at least 50,000 and urban counties with populations of at least 200,000. States distribute to non-entitlement communities. Annual grants are provided to 1,209 general units of state and local government. The amount of each grant is determined based on a formula made up of different measures of community needs such as the poverty level, population data, age, and density of housing. Seventy percent of CDBG funds must benefit low-income and moderate-income families.

Neighborhood Stabilization Program (NSP)

The **Neighborhood Stabilization Program (NSP)** was established to help stabilize communities that have suffered from foreclosed and abandoned homes. NSP funds authorized under the Housing and Economic Recovery Act (HERA) (called NSP1 funds) provided grants to states and selected local governments to purchase and redevelop such properties. NSP2 funds were authorized under the American Recovery and Reinvestment Act (ARRA) to include nonprofit entities on a competitive basis for grants and to fund $50 million to national and local technical assistance providers. NSP3 funds were authorized under the Dodd-Frank Act of 2010 to provide a third round of grants to states and local governments on a formula basis.

Interstate Land Sales

The **Interstate Land Sales Full Disclosure Act (ILSFDA)**, passed by Congress in 1968, established the informational criteria for marketing residential land to potential buyers. Designed to reduce fraud in the sale of land by developers, the law requires that anyone selling or leasing 25 or more lots of unimproved land as part of a common plan in interstate commerce must comply with the act's provisions. The exceptions include subdivisions of five acres or more, cemetery land, commercial and industrial land, and any residential subdivision marketed exclusively in the state where it is located.

A developer must provide HUD with a **statement of record** that includes explanations and descriptions of existing and proposed encumbrances, improvements, utilities, schools, recreation areas, roads, and all services to be provided for the residents' use. A **property report** must be delivered to the buyer prior to the purchase of the property. The seller must have a signed receipt from the buyer indicating the buyer received the property report. If a property report is received within 48 hours prior to signing, the buyers have the right to change their minds within seven days, cancel their contract, and receive a return of any deposits made. However, if the report is not received within the allotted time, the buyers may legally rescind their contract at any time.

Whereas the ILDFDA was once a subagency of HUD, its enforcement has been shifted to the new Bureau of Consumer Financial Protection. New regulations and guidelines may appear as the transition is completed.

Urban Renewal

HUD sponsors urban renewal projects that encompass entire neighborhoods as well as specific properties. Neighborhood renewal involves large-scale planning, including site acquisition, site clearance, construction, and disposition. Urban renewal originates at the community level, where a workable plan is developed and then sent to HUD for approval and sponsorship.

In addition to providing funds for slum clearance, HUD makes loans and grants to owners and tenants in depressed areas for rehabilitating their properties. Grants are also available to demolish structures unfit for habitation.

Public Housing

HUD provides financial assistance to local authorities for acquisition and operation of properties for public housing programs. This assistance includes grant monies, housing subsidies, and other means of support. HUD also helps finance public housing agency projects to integrate public housing into surrounding communities and to provide residents the skills to contribute to their communities.

Housing Choice Voucher Program. The HUD **Housing Choice Voucher Program** is the federal government's major program for assisting very-low-income families, the elderly, and the disabled to obtain safe and affordable housing. The program was originally only for rental subsidy and was called Section 8. Families seeking assistance apply through their local public housing agency. Tenants have the freedom to select housing where they want to live within a standard rent range. The rent subsidies are paid to owners and consist of the difference between what the tenant can pay and the contracted rent.

Under legislation passed in 2001, individual Public Housing Authorities (PHA) have the option to use a portion of their Housing Choice Vouchers to assist first-time homebuyers. PHAs individually make the determination of how much of their funding they wish to allocate to this Homeownership Voucher Program. FHA sets minimum income and employment requirements, but other eligibility requirements are set by the PHA. For example, recipients may be required to attend a homeownership and housing counseling program.

Native American Housing. Through the **Office of Native American Programs (ONAP)**, HUD promotes providing decent, safe, and affordable housing for lower-income Native American, Alaska Native, and Native Hawaiian families. ONAP works closely with tribes and tribally designated housing entities to administer their own programs.

Other Programs. HUD offers monetary support to state and local governments and to nonprofit organizations to assist homeless individuals and families to move from the streets to temporary shelters to supportive housing and, ideally, back into the mainstream of American life. HUD also helps fund cooperative housing for low-income persons, housing for the elderly, mortgage interest subsidies, relocation assistance, college housing, disaster area reconstruction, and housing in isolated areas.

HUD provides a Good Neighbor Next Door sales program for law enforcement officers, pre-kindergarten through 12th-grade teachers, firefighters, and emergency medical technicians. A discount of 50 percent of the sales price is provided in return for a commitment to live in the property for a minimum of 36 months.

For full details on all of HUD's special programs, see HUD's Homes and Communities Web site at *www.hud.gov*.

SIGNIFICANT FEDERAL LEGISLATION

In the past, real estate transactions were virtually unregulated, and each party was assumed to be knowledgeable about the facts and conditions surrounding the sale and financing of a property. As the marketplace evolved and became more complex, it also became

clear that many purchasers or sellers were not well informed. As a result, some significant federal legislation was passed that has become standard practice in every real estate transaction.

The Federal Equal Credit Opportunity Act (ECOA)

The **Equal Credit Opportunity Act (ECOA)** is Title VII of the Consumer Protection Act. It prohibits lenders from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, or dependency on public assistance. The basic provisions of the act include the following:

- The lender may not ask if the applicant is divorced or widowed. However, the lender may ask if the borrower is married, unmarried, or separated. The term *unmarried* denotes a single, divorced, or widowed person and, in a community property state, is of particular interest to local lenders.
- The lender may not ask about the receipt of alimony or child support unless the borrower intends to use such income to qualify for the loan. The lender may ask about any obligations to pay alimony or child support.
- The lender may not seek any information about birth control practices or the childbearing capabilities or intentions of the borrower or co-borrower.
- The lender may not request information about the spouse or former spouse of the applicant unless that person will be contractually liable for repayment or the couple lives in a community property state.
- The lender may not discount or exclude any income because of the source of that income.
- The lender must report credit information on married couples separately in the name of each spouse.
- The lender may ask about the race or national origin of the applicant, but the borrowers can refuse to answer without fear of jeopardizing their loan.

The ECOA also prohibits lenders from discriminating against credit applicants who exercise their rights under truth-in-lending laws. In addition, lenders and other creditors must inform all rejected applicants in writing of the principal reasons why credit was denied or terminated. The focus of the ECOA is to ensure that all qualified persons have equal access to credit.

Both the Justice Department and HUD are charged with protecting borrowers from discrimination in lending practices under the fair housing laws and ECOA. An example of ECOA's effectiveness is the case against the Chevy Chase Federal Savings Bank in Washington, DC, which was accused of violating the racial discrimination standards. The bank denied all allegations but agreed to invest $11 million to open at least one new branch in an African American area of the city. The bank also agreed to provide eligible borrowers discounted interest rates and grants equaling 2 percent of the loan down payments.

The Real Estate Settlement Procedures Act (RESPA)

Administered under the FHA, the **Real Estate Settlement Procedures Act (RESPA)** is designed to protect the participants in a real estate transaction by providing closing cost information so they better understand the settlement procedures. RESPA covers the sale of residential properties and the acquisition of mortgage loans, including home equity loans, second mortgages, and refinancing loans on residential properties.

Violations of RESPA are subject to severe penalties such as triple damages, fines, and even imprisonment. RESPA covers almost every service provider involved in the purchase of a home, including

- real estate brokers and agents,
- mortgage brokers and mortgage bankers,
- title companies and title agents,
- home warranty companies,
- hazard insurance agents,
- appraisers,
- flood insurers and tax service suppliers, and
- home and pest inspectors.

Real estate brokers or agents are prohibited from receiving anything "of value" for referring business to another real estate service provider or from splitting fees received for settlement services unless the fee is paid for an actual service. Exemptions to the referral restrictions are (1) promotional and educational activities, (2) payment for goods provided or service performed, and (3) affiliated business arrangements. For a detailed description of each of the exempt categories and to see examples of permissible activities and payments, see *www.hud.gov*.

Disclosures Under RESPA. In order to protect participants in a real estate transaction, RESPA requires all service costs to be disclosed at various times during the process. Disclosures must be made during the time of a loan application, before settlement/closing, at settlement, and after settlement.

Disclosure at the Time of a Loan Application. At the beginning of the mortgage loan process, the lender must provide the borrower the following three items:

- A Special Information Booklet containing information on real estate settlement services must be provided.
- Within three business days, a **Good Faith Estimate (GFE)** of settlement costs listing the charges the borrower is likely to pay at closing and indicating whether the borrower has to use a specific settlement service must be provided. A new GFE form developed by HUD went into effect on January 1, 2010 (see Appendix A). The new GFE gives specific details on all loan terms, closing costs, and related fees, giving the

borrowers a better opportunity to compare different loan products. The new GFE has zero tolerance for any change to significant aspects of the estimate.

- A mortgage servicing disclosure statement informing the borrower whether the lender intends to keep the loan or transfer it to a different lender for servicing, in addition to information on how the borrower can resolve complaints, must be provided.

Disclosures Before Settlement/Closing. Prior to settlement, an Affiliated Business Arrangement (AFBA) Disclosure is required whenever a settlement service provider refers the borrower to a firm with which the servicer has any connection, such as common ownership. The service usually cannot force a borrower to use a connected firm. A preliminary copy of a **HUD-1 Settlement Statement** (see Appendix B) is required if the borrower requests it 24 hours prior to closing. This form estimates all settlement charges that must be paid by the participants. The borrower must also receive a copy of the truth-in-lending statement prior to closing that discloses the annual percentage rate and total costs of credit involved in the transaction.

Disclosures at Settlement. The HUD-1 Settlement Statement is distributed at closing and shows the actual charges incurred by the participants. In addition, an initial escrow statement is required at closing or within 45 days of closing. This statement itemizes the estimated taxes, insurance premiums, and other charges that must be paid from the escrow account during the first year of the loan. RESPA limits the amount of "cushion" the lender may require in the escrow account to two months of payments. It is now federal law to include a lead-based paint disclosure on all properties built before 1978. The new HUD-1 form became effective January 1, 2010, and lists the actual costs side-by-side with the estimated costs, giving borrowers documentation for their records plus protection from possible fraud or predatory lending practices.

Disclosures After Settlement. After settlement, an Annual Escrow Statement must be delivered by the loan servicer to the borrower. This document enumerates all escrow deposits and payments during the past year. It indicates any shortages or surpluses in the escrow account and informs the borrower how to remedy them. If the loan service is transferred to another servicer, a Servicing Transfer Statement is delivered to the borrower.

Truth in Lending Act (TILA)—Regulation Z

The Truth in Lending Act, Title I of the Consumer Credit Protection Act of 1968, requires that all costs of financing be disclosed to the consumer. The intent of this act is to ensure that consumers can compare the cost of making a purchase using credit to the cost of making the same purchase with cash. Important TILA disclosures that relate to mortgage lending are listed in the following:

- The annual percentage rate (APR) discloses the true yield achieved by the lender through a combination of the stated rate of interest, any discount points, and additional lender fees. The APR must be disclosed to the consumer prior to making the loan and in all advertising.

- Regulation Z requires full disclosure of all elements of financing. Disclosure of any one of the "trigger" terms—rate of interest, number of payments, term of the loan, amount of monthly payment, down payment amount, or percentage—requires full disclosure of all of the terms.
- Adjustable-rate mortgages must include disclosure of all potential rate increases.

TILA disclosures are always required for credit extended for the purchase of real property. If credit is to be extended for the purchase of personal property in excess of $25,000, or if repayment will be made in more than four installments, TILA disclosure is required. There is sometimes a misconception on the part of the public that all credit agreements have a three-day right of rescission. There is no right of rescission for credit extended for the purchase or construction of real property. Credit extended for a home equity loan or refinancing does have the three-day right of rescission.

In Practice

A real estate licensee recently represented a buyer as her buyer agent for the purchase of a new town house. The licensee recommended three different loan officers for the buyer to contact regarding obtaining a home mortgage loan. The buyer picked one and was very happy with him, until this morning, when she received a truth-in-lending statement in the mail. She immediately called the licensee, obviously very upset. "You and the loan officer both assured me that I was getting a 6.5 percent loan and that I was going to be able to borrow $200,000. Today I get this statement in the mail saying that the interest rate will be 6.82 percent and that I'm only borrowing $194,000. Now I don't know what or who to believe."

This is not an uncommon reaction to receipt of the truth-in-lending statement. Fortunately, the licensee has dealt with this many times before and was quickly able to calm the buyer down. He then explained to her that the Truth in Lending Act requires the lender to disclose exactly how much they are earning on the loan, including any loan fees and discount points that may have been charged. Because there were three points on this $200,000 loan, the lender only sends a check for $194,000 to the settlement table (they receive the other $6,000 in points, paid by the buyer, seller, or both). When the discount points and additional loan fees of $500 are calculated, the lender's actual yield becomes 6.82 percent.

The Community Reinvestment Act (CRA)

The **Community Reinvestment Act (CRA)**, passed by Congress in 1977, ensures that financial institutions pursue their responsibilities to meet both the deposit and the credit needs of members of the communities in which they are chartered. Each institution is required to delineate its community, specify the types of credit services it offers, post a public notice stating that the institution is being reviewed by a federal supervisory agency, and prepare a community reinvestment statement to be made available to the public. The act covers the majority of U.S. financial institutions. The federal supervisory agency

would include the Comptroller of the Currency and the board of governors of the Fed, the FDIC, and the new Consumer Financial Protection Bureau.

The 1990s were a period of strong CRA enforcement due to the number of mergers and acquisitions taking place. The act was revised in 1995 and again in 2005.

The Home Mortgage Disclosure Act (HMDA)

Under the **Home Mortgage Disclosure Act (HMDA)**, all mortgage originators are required to report information relating to income level, racial characteristics, and gender of mortgage applicants. This includes loans originated as well as applications rejected.

STATE AND LOCAL PROGRAMS

Various states have established agencies to provide financial assistance at the community level for special real estate developments. These agencies are grouped into categories—one to assist local communities in attracting new industry and another to improve the housing of its citizens. A complete discussion of bond programs that may be used by states or local governments can be found in Chapter 5. Another source of funding for state and local redevelopment programs are the Neighborhood Stabilization Program grants previously described in this chapter.

Industrial Development Agencies

Under legislation from the state government, communities have organized industrial development agencies empowered to purchase and improve land for industrial and office parks. These activities are funded by industrial revenue bonds (IRBs) backed by a state's bonding credit. Some funds are also raised through voluntary contributions from citizens interested in expanding the economic base of their community.

Community growth is the ultimate goal behind the development of industrial land. By offering preplanned industrial park sites, as well as other amenities and incentives, a community can attract new industrial activities. IRBs can create new jobs and more commercial activity in the local area, with commensurate increases in profits for businesses and tax revenues for the community. Many U.S. communities have used the IRB approach to achieve growth and have been successful in attracting new industries. The interest paid on these bonds is federally income tax free to the bond purchaser, thus providing a lower borrowing interest rate to the developer.

Mortgage Insurance Programs

Some states have developed special real estate mortgage insurance programs of their own, funded by the state itself. The state sells either general obligation bonds repaid from state income tax collections or, more frequently, revenue bonds repaid from the mortgage insurance premiums collected. The funds raised from the sale of these bonds are used primarily as reserves for backing specific development projects. For instance, if a community wished to embark on a rehabilitation project, money could be secured from private

sources to pursue this objective. If the project were approved, the state would issue insurance for repayment of the funds so the work could proceed.

Money raised from the sale of state bonds might also be used for direct loan purposes, such as special loans for the purchase of farm or ranch land. The states of California and Texas have provided such programs. Other states have special programs for veterans and for low-income housing projects, as well as other socially oriented programs.

Community Redevelopment Agencies

Local governments may establish community redevelopment agencies for expansion of the supply of low-income housing. These agencies are supervised by city council members and can acquire property by eminent domain. Any building program must agree to allocate 30 percent of the rental units for low-income tenants before it can be approved. Replacement housing must be provided within or outside the redevelopment area for every person displaced by the project.

Tax Increment Financing. Projects of community redevelopment agencies are funded in large part with **tax increment financing**. This technique allocates the increased property tax revenues derived from redevelopment to pay the debts incurred in improving the area. It requires that property taxes be frozen as of the date the redevelopment plan is adopted, with any excess taxes applied directly to satisfy the debt or used as security for the sale of bonds. After the debts have been satisfied, the taxes may rise to current levels, offsetting additional community costs brought about by the improvements.

AGRICULTURAL LENDING

Farm loans have special cyclical requirements. The values of farm and ranch lands depend on productivity, and productivity in turn depends on management expertise and climatic conditions. Although management skills can be evaluated based on past experience, nobody can estimate the influence of nature on each season's crops, and farm and ranch loans acquire a unique risk factor.

Agricultural loans have to be designed with as much flexibility as possible. Rather than following a rigid payment pattern, their design must allow the farmer-borrowers the opportunity to pay when they can. It is essential, for instance, that the principal amount is not due in a bad crop year. The terms of the loans need to be lengthened, up to 40 years in some cases, to allow for those years when crops fail and no payments can be made. Farmer-borrowers also need an opportunity to pay larger portions of the principal, in addition to the interest required, during a good year so that they can repay their loans in full over the longer time period.

Farmer-borrowers need to be able to extend, expand, and otherwise adjust their loans depending on unforeseen circumstances. The extension and expansion techniques designed to satisfy the special problems of the farmers are defined as open-end mortgages. As a last resort for a distressed farmer-borrower, a moratorium on payments occasionally is used to offset imminent foreclosures brought on by situations outside the borrower's

control. Open-end mortgages and moratoriums will be discussed in later chapters of this book.

The Farm Credit System (FCS)

The Farm Credit System (FCS) was created by Congress in 1916 to provide American agriculture with a source of sound, dependable credit at competitive rates of interest. Through approximately 90 local Farm Credit associations and five Farm Credit Banks, more than $160 billion in credit and related services have been provided to farmers, ranchers, producers, and harvesters of aquatic products, rural homeowners, timber harvesters, agricultural cooperatives, rural utility systems, and agribusinesses.

The FCS banks do not take deposits. The funds used for lending are raised through the sale of bonds and notes in national capital markets. The Federal Farm Credit Banks Funding Corporation manages the sale of system-wide debt securities. Purchasers of these securities are assured of timely payment of principal and interest by the Farm Credit System Insurance Corporation (FCSIC).

Long-term mortgage loans are generally made by Farm Credit Banks, Federal Land Bank Associations, or Federal Land Credit Associations. Short-term and intermediate-term loans are usually made by Production Credit Associations. In some cases, these entities have combined to form Agriculture Credit Associations that provide both long- and short-term loans. The Farm Credit Administration (FCA) is an independent federal regulator responsible for examining and ensuring the soundness of all FCS institutions.

See *www.farmcreditnetwork.com* for more information on the Farm Credit System.

Federal Agriculture Mortgage Corporation (Farmer Mac)

The Federal Agriculture Mortgage Corporation, known as Farmer Mac, was created by Congress to provide a secondary market for agricultural and rural housing mortgage loans. In the Farmer Mac I Program, Farmer Mac purchases qualified loans from agricultural mortgage lenders, thereby replenishing the lenders' source of funds to make new loans. The loans are then packaged and sold as securities. In the Farmer Mac II Program, Farmer Mac purchases guaranteed portions of USDA loans. Farmer Mac also purchases qualified rural utility loans or guarantees payment of interest and principal of securities backed by pools of such loans.

Although both the Farm Credit System and Farmer Mac were created and chartered by Congress, neither is funded by taxpayers. See *www.farmermac.com* for more information on the program.

The U.S. Department of Agriculture Rural and Community Development Program (USDA Rural Development)

The activities of the Farm Credit System are complemented by the USDA. This governmental unit was created in 1994 to combine the Farmers Home Administration (FmHA), the Rural Development Administration, the Rural Electrification Administration, and the Agricultural Cooperative Service.

The USDA Rural and Community Development Program [Rural Housing Service (RHS)] forges new partnerships with rural communities to reverse the downward spiral of rural job losses, out-migration, and diminishing services. The program funds projects that bring housing, community facilities, utilities, and other services to rural areas. The USDA also provides technical assistance and financial backing for rural businesses and cooperatives to create quality jobs in rural areas.

See *www.rurdev.usda.gov* for more information on the program.

SUMMARY

This chapter examined the Department of Housing and Urban Development (HUD), which participates actively in real estate finance. In addition to supporting the FHA and Ginnie Mae, HUD promotes various urban renewal projects, area rehabilitation ventures, and open-space developments. Among its other socially oriented housing activities are public housing programs, cooperative housing for low-income persons, mortgage interest subsidies, relocation aid, disaster area construction, and isolated area housing.

Federal legislation regulating real estate finance was examined, including the Equal Credit Opportunity Act (ECOA), the Community Reinvestment Act (CRA), the Real Estate Settlement Procedures Act (RESPA), and the Truth in Lending Act (TILA). ECOA prohibits lenders from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, or dependency on public assistance. The Community Reinvestment Act requires all federally regulated financial institutions to expand their responsibilities to meet the needs of all citizens of a community. RESPA is designed to prevent abuses of buyers and sellers by providing estimated costs of a real estate transaction before closing to avoid any last-minute shocks, and TILA requires a full disclosure of all costs of credit.

Most states have established financing agencies of their own to help develop industry in various communities and provide the means to improve the housing requirements of their citizens. These agencies frequently use bond issues to raise funds for their programs, some of which are repaid with tax increments.

The last section of this chapter reviewed the Farm Credit System, which originated under the federal Farm Loan Act of 1916 and serves the particular financial needs of farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, and selected farm-related businesses. Complementing the various agencies of the Farm Credit System, the U.S. Department of Agriculture Rural and Community Development makes loans to farmers and ranchers unable to secure credit from other sources.

INTERNET RESOURCES

Department of Housing and Urban Development
www.hud.gov

Fannie Mae
www.fanniemae.com

Farm Credit Administration
www.fca.gov

Farm Credit System
www.farmcreditnetwork.com

Federal Agricultural Mortgage Corporation
www.farmermac.com

Federal Housing Finance Agency
www.fhfa.gov

Freddie Mac
www.freddiemac.com

Ginnie Mae
www.ginniemae.gov

U.S. Department of Agriculture
www.usda.gov

USDA Rural Development
www.rurdev.usda.gov

REVIEW QUESTIONS

1. HUD is responsible for all of the following *EXCEPT*
   a. FHA.
   b. Ginnie Mae.
   c. Fannie Mae.
   d. Community Development Block Grants.

2. A developer is planning a new subdivision of building lots. In which case will it be subject to the Interstate Land Sales Full Disclosure Act?
   a. If all lots will be 10 acres
   b. If the subdivision will consist of 20 individual lots
   c. If the subdivision will be marketed out of state
   d. If the subdivision will be marketed locally

3. The Housing Choice Voucher Program allows a public housing authority to use a portion of its available funds to
   a. provide rehabilitation funds for depressed areas.
   b. improve public water and sewer systems.
   c. provide mortgage payment subsidies for qualified applicants.
   d. build psychiatric hospitals.

4. While taking a loan application from a married couple, a loan officer inquired about the wife's ability to have more children. Which federal act is the lender violating?
   a. RESPA
   b. ECOA
   c. TILA
   d. HMDA

5. RESPA does *NOT* require that the lender provide a borrower with a
   a. Good Faith Estimate.
   b. truth-in-lending statement.
   c. HUD-1 closing statement.
   d. right of rescission.

6. The disclosure of all elements of financing in advertising is required under
   a. APR.
   b. GFE.
   c. CRA.
   d. Regulation Z of TILA.

7. The Community Reinvestment Act requires a lender to
   a. provide housing voucher certificates when requested.
   b. offer credit to all qualified members of the community served.
   c. build low-cost housing.
   d. become a member of the Federal Reserve system.

8. Selling industrial revenue bonds (IRBs) backed by the state's bonding credit is one way for a local community to
   a. build a new high school.
   b. purchase and improve land for an industrial or office park.
   c. rehabilitate the city jail.
   d. provide street lights throughout the downtown area.

9. The Neighborhood Stabilization Program provides grants for the
   a. purchase and redevelopment of foreclosed properties.
   b. development of low-cost rental projects.
   c. construction of public facilities.
   d. exclusive benefit of low-income families.

10. The Farm Credit System network of financial institutions may provide credit to farmers and ranchers for all *EXCEPT* the
    a. processing and marketing of goods.
    b. purchase of farm equipment.
    c. rehab of farm outbuildings.
    d. purchase of a home in an urban area.