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Builders and Lenders Attitudes: The Nebraska Mortgage Finance Fund Use of FHA 235 Housing

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BUILDERS AND LENDERS ATTITUDES: THE NEBRASKA MORTGAGE FINANCE FUND USE OF FHA 235 HOUSING

by

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Foreword

This report was originated by the Nebraska Department of Economic Development in an effort to gather information from builders and lenders concerning their perceptions of the appropriate functions of the Nebraska Mortgage Finance Fund. In gathering the information for the report, considerable time was given by the builders and lenders in order to share their thoughts, ideas, and concerns about the Nebraska Mortgage Finance Fund, and their use of the 235 program. Although some of the ideas were in conflict, those who read this report will find some common threads on which to build a program. Different interests have different views of the function of the Nebraska Mortgage Finance Fund, and of course each desires rules formulated to favor its position, but none of those interviewed lost sight of the need to provide housing assistance to low and moderate income families---they disagreed only as to procedures for doing that.

The Nebraska Mortgage Finance Fund to be successful must recruit support from all the housing elements which provided information for this report. This report should help to shed some light as to how best to structure a program which provides adequate incentives. At the same time, the conflicts which are noted provide clues as to how to guard against a group's unfair use of the Fund. With those things in mind, the report should add some understanding about the climate in which the Nebraska Mortgage Finance Fund must operate.

Purpose

The purposes of this report are: 1) to present the information gathered from builders and lenders regarding the 235 program and other below market rate programs, 2) to draw upon the ideas presented by those two groups to relate to the operation of the Nebraska Mortgage Finance Fund, 3) to present recommendations concerning actions which will increase the use of the 235 program in rural areas, and 4) to present policy options for consideration in writing rules and regulations for the operation of the Fund.

Method of Study

The method consisted primarily of doing in-depth interviews with builders and lenders in various parts of the State. Their experience with the different programs was called upon so that recommendations could be made for structuring the Nebraska Mortgage Finance Fund to become a "significant" force in the State's single-family home ownership market.

Twenty builders in seven cities were interviewed. Lenders from the savings and loan and mortgage banking sectors were also interviewed in order to ascertain their views on how the Fund should be structured and which target groups the Fund should attempt to reach.

The report is divided into three parts. Part I consists of the builders' perceptions of 235 and other below market interest rate programs, problems and assets of these programs, and recommendations concerning how Nebraska's program should operate.

Part II consists of lenders' views about who constitutes the target clientele and how that aspect of the program should be operated. The researchers were interested in determining incentives for lender participation, ability of major associations to disseminate the program statewide, what underwriting procedures they would desire, and limits beyond which they feel that the Nebraska Mortgage Finance Fund would be competing against conventional mortgages.

Part III consists of issues and recommendations.

PART I: BUILDERS' USE OF HUD 235 AND OTHER BELOW MARKET RATE PROGRAMS

In order to determine how builders felt about the use, acceptance, benefits, and abuses of the 235 program, and what advice, based on their experiences with that program, they could provide concerning the Nebraska Mortgage Finance Fund (NMFF), the following questions were asked:

> One program which is designed to provide mortgage funds for moderate income families is HUD's 235 program. Some people contend that 235 is not used widely enough outside of Lincoln and Omaha because it involves so much "red tape" that many builders simply will not mess with it. I would appreciate your views on this program. First, do you or have you built for that program? Explain.
>
> Do you believe it is a useful program?
>
> Is it used widely enough in this area?

A variety of follow-up questions was also asked depending on the geographic location of the respondent. Of the 20 builders interviewed, 12 had participated in either the old or the present 235 program. Nearly all felt that the former program was much superior because it met the needs of a broader economic spectrum. As one outstate builder put it, "The old 235 program was the best government program I have ever been involved with. If you go into the area where I built 35 of those houses, I'll bet you won't find more than two still on subsidy." This builder doesn't participate in the new program because 1) the income limits are too restrictive...very difficult to find an eligible purchaser, and 2) the mortgage ceilings are too low.

The findings indicate that in outstate areas the 235 program is being utilized to some extent. The big producer of 235's is Omaha which ranked third nationally in this area in 1978. The primary reason for Omaha's larger use of the program is that land costs are as much as $3,500 per lot less there, allowing for the use of the program. One outstate developer indicated that his lot development costs run $88 per front foot. His sales price is $102 per front foot. The least expensive lot he has is $9,600.

Builders would like to see the Nebraska Mortgage Finance Fund work but realize that unless adequate income and mortgage limits are set, they will not benefit from the program.

In order to probe this issue further, the researchers presented the 235 income and mortgage limits for the appropriate area of the State to the builders. Those who weren't participating indicated they wouldn't and couldn't touch the program with those kinds of limits.

Those who were participating indicated that they were about to get out of the business because of the profit squeeze. Although concerned, the Omaha builders were doing better in this area than other builders because of the lesser land costs. The only exception to this was a non-metro developer who had purchased lots prepared by funds from the Community Development Block Grant and was preparing to construct units eligible for 235 financing on those lots.

When the researchers asked builders to suggest a maximum income and mortgage ceiling for the funds, a wide variety of intriguing responses emerged. Currently, most builders would place the maximum income between $20,000 and $25,000. When pushed to provide a way of updating these ceilings, the most common response was to increase 235 limits by 20-25 percent although one suggested the ceiling be raised 50 percent. The other typical response was to use 100 to 120 percent of the median income for the areas as the ceiling.

Both Omaha area builders who were interviewed had been involved with Iowa's Housing Finance Agency, were familiar with those limits, and felt that program was workable.

The suggestions concerning a maximum mortgage amount were somewhat consistent although the suggested procedures varied. Most felt that using regular FHA 203(b) limits would be reasonable and that the mortgage amount should allow for a more expensive home if the purchasers had the necessary down payment. One suggestion was that a mortgage ceiling not be established because the mortgage ceiling is, in effect, established when the income ceilings are determined.

Again, the two Omaha builders who participated in the Iowa program felt its $55,000 sales price was adequate but not excessive. Most outstate builders indicated that $45,000-$55,000 was the minimum they could build for.

Throughout the builder interviews a constant philosophical view emerged. The present 235 program reaches a very narrow economic range. This program (NMFF), if it is to be an effective housing force, must serve a broader range. The fund will not be able to compete with 235's 4 percent interest rate--therefore the NMFF should expand both ways...by going above 235 to reach those who can't afford the current price house at market rate interest and by going below 235 to finance existing units which are all some can afford. When asked if the fund should concentrate solely on existing units, the anticipated negative response was received, but the background was enlightening. One builder recalled the history of the early 235 programs which financed both existing and new units and the vast amount of fraud involved with the existing unit parties of that program. Since then the 235 program has not financed existing units. Although discussions have taken place about reinstating the existing home portion of the 235 program, the difficulty of policing the purchase of those units has delayed its implementation.

Appraisals

In order to provide the builders with an opportunity to make some comments concerning the appraisal process, the following question was asked: "Appraisals have been criticized because builders have felt that they were not being allowed any profit. Have you had any appraisal experiences which you think should be considered when drafting regulations for the State housing finance fund?"

The most typical response to this question was that 235 programs presented no appraisal problems. When plans and specifications are approved, the builder knows the price he must build that particular unit for. The only areas of concern arose from builders who had difficulty with the Farmers Home Administration. That experience varied widely among builders within a particular county supervisor's area and among different areas.

The important conclusion from this is that builders felt the NMFF should utilize fee appraisers. Fee appraisers are considered knowledgeable about housing market conditions. The lenders could also use appraisers on their staff. Since the lender will be servicing the loans and securing mortgage insurance for the structure, they will need to be able to make the appraisals and relate them to the mortgage insurance requirements.

In brief, builders had little difficulty with the appraisal process. Many indicated that it was a matter of getting established and providing a reasonable product. The one group which seemed to be the most concerned about inadequate appraisals and perhaps also more concerned about the mortgage ceilings was the realtor/developer/builder types. To this group, appraisals, or income ceilings which cut into the real estate commission fee, are too low.

Volume

In order to obtain opinions from the builders concerning the need for volume to make 235 or 502 profitable, the following question was asked:

Some people believe that if you get into the 235 or Farmers Home 502 business that you have to produce a large volume of units in order to make a profit. The reasoning is that only with volume can you both control constuction costs and make an adequate profit because the base for profit is lower with these types of units. What are your feelings about that?

Nearly all builders felt that whether they did a few units or a lot of units didn't really matter as far as the profitability was concerned. The number of units they do under those programs varied widely from year to year.

The follow-up question was, "How many units would you need from the fund before you would feel it worth while to get involved with the program?" One unit was the most common response.

However, most felt that 5 to 10 units constructed for sale with NMFF monies would be more realistic. Indeed, many indicated that the most important aspect in having a successful program was that the money needed to be dependable and continuous. The problem with the 502 program is that they are frequently out of funds.

When this question was pursued by asking the builders what they felt would be an appropriate way of reserving units, nearly all felt that there should be some type of reservation fee (1 percent was most often mentioned). Those now participating in the 235 program indicated that the present 235 practice of not requiring a reservation fee allowed some builders to reserve units which they were not going to use. Those over-reservations deprived others from using the funds.

Paperwork

The researchers felt that an attempt should be made to estimate the attitudes people had about the paperwork involved with present Federal programs. Some advice was also solicited concerning ways which the fund might facilitate the use of money through writing regulations. The following question, therefore, was asked:

Paperwork and processing delays are factors which need to be planned for when working with Federal programs. Some people refuse to get involved because of these factors. About how much cost do you feel these paperwork considerations would add to the cost of a house? Things to consider are staff time, increased interest costs, scheduling problems, etc.

Most builders did not have a good feel for the amount it cost them to participate in these programs, and they indicated that it was part of doing business. The two builders who did give a specific response indicated paperwork cost them about $200 per house. What the builders interviewed did say, however, was that the Nebraska Mortgage Finance Fund would be much better off if it operated through the regular FHA guidelines and processing procedures. These systems are already in use by builders and lenders. They would simply process the mortgage under the same system and sell it to the NMFF rather than Ginnie Mae. Furthermore, the builders indicated that they were concerned that the Fund might attempt to establish separate codes for use with the Fund's money. They recommended that HUD's MPS be used and that local building inspectors provide the inspection for these units. Time delays with the present 235 program are costly--some reported delays of up to six months. By using the MPS, local inspectors, fee appraisers, and by having the processing done by the local lending institutions, the time delays should be greatly reduced. As far as extra paperwork with the NMFF is concerned, the builders believe that following these recommended procedures would keep the paperwork to a minimum.

PART II: VIEWS OF LENDERS IN THE FINANCIAL COMMUNITY

Background

Leaders in various financial institutions around the State were interviewed to determine: a) their involvement with various federally insured loan programs, b) their views on certain operational requirements of those programs, and c) their perception of the appropriate role for the Nebraska Mortgage Finance Fund.

Four savings and loans with branch offices around the State and two mortgage bankers were interviewed. Data for this section were obtained from personal interviews with representatives from:

Commercial Federal Savings and Loan

First Federal of Lincoln Savings and Loan

State Federal Savings and Loan

Nebraska State Savings and Loan

Banco Mortgage Company

Realbanc

Involvement with 235 and Other Below Market Rate Loan Programs

Lending institutions in Nebraska are involved in making loans under the various financial arrangements offered by HUD, FHA, and VA. The availability of different types of loan arrangements throughout the state is not perceived to be a serious problem, although the unwillingness of certain business elements--realtors, builders, and developers--reduces the effectiveness of some of the programs in certain localitites. The use of these programs varies greatly from one community to another, depending on several factors including the willingness of certain elements to use the programs.

Lending institutions indicated they were concerned about providing alternative financing arrangements to the various income segments. The key to determining whether or not a specific program is offered is the profit which the lender can make from the program. If the lender can make a "reasonable profit" under a program, they will offer it to their customers.

Economic Incentives for Lenders

Because the NMFF will need to establish the interest rate for mortgages made by the fund, the typical yield and spread requirements which lenders attempt to maintain will not be important factors. This in turn means that points will not be a factor. However, the economic incentives for the lending institution's becoming involved are the loan origination fees and the servicing fees. Most feel that no difficulty would be experienced in getting institutions involved if those fees were 1.5 percent for loan originations and .5 percent for servicing. The lenders could make an adequate profit with those fee structures. Some indicated that they would participate for 1 percent loan origination fee and 3/8 percent servicing fee, but that wouldn't be a very attractive program.

Volume is another factor which must be kept in mind. The lending institution respondents indicated that they would need several million dollars each year in order to make the program operate. One interviewee said that to initiate a new program costs about $50,000 and several thousand dollars every year thereafter are needed to maintain management. These fixed expenses will need to be spread across a larger dollar volume if the lower origination and servicing fees are used.

The mortgage lenders indicated they would each like several million dollars and that they would not participate with less than $1 million. One mortgage banker who is participating in the Iowa program said that $1 million would last him about one week.

Geographic Use of the Funds

The researchers asked two questions about the relationship of the home office to the branch offices. The first question was:

I sometimes get confused about how the central office in an organization like yours relates to the branch offices. Could you help me out there? For example, if I went to one of your branch offices in a non-metropolitan area, would they offer me the same range of programs that are offered in the metropolitan area? (Probe to find out whether the branch office could originate and close the loan, service the loan, etc.)

The second question was:

With your present operating procedures, do you believe that your non-metropolitan office will be as able to utilize programs offered by the Nebraska Mortgage Finance Fund as will your metropolitan offices? (Probe for involvement in other programs by non-metropolitan offices.)

The savings and loans all indicated that they make every program available in all their branches. Some of them use an allocation system to provide funds to the various branches. Others are decentralized with regional offices. The consensus was that the money could be used statewide with little difficulty. However, one of the respondents indicated that although the lending institutions can make the funds available, local attitudes and customs may not make them useful. Attitudes and customs vary among local realtors and builders, and they will also need to be committed to the use of the funds.

One mortgage banker indicated that he could utilize the money statewide because he has agents in several communities; the other said that he wouldn't try it because of the servicing problems. Both felt that savings and loans and banks could go statewide much easier.

Mortgage Insurance

Lenders were asked to provide some thoughts concerning the insurance requirements of the loans made from the fund's proceeds. Many felt that Private Mortgage Insurance programs ought to be considered if they are not already. The PMI's tend to do a better job of insuring the loans, and the processing is much smoother. Moreover, the NMFF could find some PMI's which are big enough to handle the Fund's insurance needs.

Appraisals

Lenders believe, as do the builders, that fee and institution staff appraisers ought to be the ones who appraise the property. No other system was suggested. The lenders indicated that between 5 and 10 percent of their appraisals come back under the contract sales price.

Target Group

Lenders were concerned that proceeds from the NMFF not be used to compete with their conventional loan market. The range offered for a maximum income level for participation eligibility was between 50 percent of the State's median family income and $20,000. The most common view was that the 235 guidelines be followed.

Lenders were split as to whether the NMFF should be used for both new and existing structures. Two felt that the fund should be limited to existing structures. Four felt that it was housing that we are concerned about and the new versus used should not be a factor.

Suggestions concerning purchase price ceilings also varied greatly. Those ranged from $20,000 to $55,000. At least one lender said that the need was to establish the income levels and employ sound underwriting standards which would then effectively set the ceiling.

One of the lenders warned that if the income and purchase price ceilings were set too low, the NMFF could end up with a portfolio of marginal properties in declining areas owned by people who could not maintain them. Another lender expressed the view that if the income level was too low, many participants would not be able to maintain the properties. Therefore, the income and purchase price ceilings ought to be high enough to allow the NMFF to establish some economic and geographic mix in its portfolio.

PART III: ISSUES AND RECOMMENDATIONS

Purpose

Interviewing both builders and lenders concerning their views on below market rate programs and how the Nebraska Mortgage Finance Fund "ought" to be organized and focused led to some comparisons of issues of agreement and disagreement. Differences in perceptions were also found within each group. In this section some issues which need to be considered when policies are made will be highlighted. Moreover, various recommendations for consideration in resolving these issues will be noted.

Issues and Recommendations

Issue: One of the more important issues which must be decided is the determination of the economic requirements for eligibility to participate in the NMFF's program.

Discussion: Builders' views on whom the Nebraska Mortgage Finance Fund should be geared toward were partially reflective of their experiences with the 235 program. People who just miss qualifying for 235 financing will not be able to afford a new or even moderately priced existing house at market rate interest. The gap between 235 interest rate and conventional interest rate (6 to 7 percentage points difference) is so large that to miss qualifying for 235 financing means that the applicant will only be able to afford a much less desirable house. Therefore, builders see the NMFF filling some of that gap and making it possible for some of those who fall between 235 financing and conventional financing to purchase a newly constructed house. Consequently, builders are concerned that those who establish income and mortgage ceilings do not make them so stringent that new construction be financially impossible.

Lenders were more ambiguous than builders as to whom the NMFF should reach. One reason for their ambiguity is that they do not perceive any "groups" which are not presently being served that the NMFF will be able to serve. As one lender indicated, they have people who do not qualify for a loan, but they do not have groups which do not qualify for loans. People tend to adjust their aspirations to a house for which they can secure a mortgage. Indeed, another lender indicated that in rural areas and small communities they are financing families with annual incomes as low as $11,000 or $12,000.

The Community Reinvestment Act also complicates the issue for savings and loan companies. With the up-to-one-percent interest reduction they are allowing for certain income groups (roughly the same income guidelines as 235), the savings and loans are cutting into some of the same income group which the NMFF will be trying to serve. This conviction that there is no identified income group which they are not now serving is reflected in the suggestions that income ceilings be set as low as 50 percent of the median income for the State.

Recommendations

Clearly the central political issue which the NMFF must address is to determine eligibility requirements for program participants. It is a mistake to believe that those requirements can be set so as to avoid cutting into the conventional markets now being served by the savings and loan associations. The only question is how deep does the Fund wish to cut into that market. The competition between the Fund and existing savings and loan practices is going to be greatest in financing existing houses. Therefore, in order to avoid the situation where the Fund's policies must either compete with existing practices or be used to finance only marginal property in marginal neighborhoods and/or areas, it is recommended that both existing housing and new construction be allowed under the Fund. Furthermore, it is recommended that the Fund set its income guidelines at 20 percent above the

235 guidelines for the Omaha area. This will have the effect of having one income standard for the whole State and make it easier for the builders to operate in different locales.

Issue: An operational issue which needs to be addressed concerns the procedures for securing geographic distribution of the funds.

Discussion: Nearly all builders and lenders believed that it was important for the Fund's proceeds to be used statewide. However, concern was also expressed that if the funds are allocated on a geographic basis that some provision be made for re-pooling of the unused monies. A commitment fee of 1 percent would help to prevent people from over-reserving units.

Recommendations

Some type of allocation system based on the percentage of households which require need should be used to allocate the units. A 1 or 1.5 percent reservation fee for the funds should be charged and a commitment fee of 1 percent charged if the funds are not used within a specified period of time (possibly for six months). If funds which are committed to a specific lending institution are not utilized within one year, they should be recaptured and redistributed on a first-come-first-served basis. From interviews with builders, it is evident that smaller builders will need a good deal of technical assistance in order to participate in this program. It is recommended that small scale builders be provided with technical assistance about the programs offered by the Fund and shown how they might be able to use those programs.

Issue: The maximum sales or mortgage price of a house financed by the Fund is important in determining whether or not the Fund can accomplish its objectives.

Discussion: Considerable variation occurred in the recommendations on the part of builders and lenders concerning the maximum sales price or mortgage price which would be eligible under the Fund. Builders would prefer a maximum mortgage price. This would allow for more expensive homes if the downpayment could be raised. Lenders were concerned about the competition, and some even suggested that the maximum sales price for a unit financed under the Fund should not exceed $25,000. Mortgage bankers perhaps offered the most objective view by indicating that for the NMFF to have a balanced portfolio of holdings, moderate type houses must be eligible for financing. If the only loans which are made are for $25,000 houses, those houses will tend to be concentrated in marginal areas and might not be the best investment.

Recommendations

The NMFF should establish a sales price ceiling. The sales price ceiling will need to be above the 235 ceiling. Builders would have liked it to be as high as the regular FHA ceiling. However, in the researchers' view, that will cause public hostility because of the potential and perceived abuses of the funds. However, the higher the ceiling the more likely it is for builders to build toward that program. This will have the effect of increasing the State's housing stock, but it will require more investment to house each family. The NMFF should establish targets for a balance between new and existing units. In this way new construction will be encouraged where it is needed, but people will still be encouraged to purchase existing houses, and the State's housing stock will be upgraded by the ripple effect.

Issue: What type of profit and underwriting standards will the NMFF establish?

Discussion: The basic problems the lenders have with the program are: 1) whether they will be able to make a reasonable profit, 2) whether the NMFF will compete with conventional lending, and 3) what types of underwriting procedures they will follow. As noted earlier, competition with other funds seems likely, so a reasonable profit is necessary if lenders are to be encouraged to participate.

Closing costs and loan origination fees should be established with profit in mind. Lenders are also concerned about their images. Underwriting procedures which are too lax would increase servicing and delinquency problems and hurt lenders' images.

One mortgage banker noted that they had received approval from the Iowa Housing Finance Agency to charge the seller a 3/4 percent prime rate differential. This was charged to cover the cost of using the lender's money to close the loan before the mortgage was sold to Iowa Housing. The important point here is to recognize that lenders will be using their own more expensive money until they ship those loans to NMFF. They might need to have a fee structure which takes this into consideration.

Recommendations

Lenders should be allowed a 1 percent loan origination fee and a .5 percent servicing fee. In order to facilitate the use of these monies and reduce the administrative costs to the lenders, private mortgage insurance should be allowed as well as FHA and VA.

Finally, unless some nationally established underwriting standards are adapted, lenders will be reluctant to participate because of the bad public relations which are generated by servicing problems. Therefore some relatively stringent national underwriting standards should be adopted.

APPENDIX A

TABLE A

LOCATION OF BUILDER AND
PARTICIPATION IN 235 PROGRAMS

Location of Firm	Builder Interviewed Has Participated in 235 Program	
	Yes	No
Beatrice	0	2
Columbus	1	2
Grand Island	3	1
Lincoln	2	0
North Platte	1	2
Omaha	2	0
Scottsbluff	3	1
	12	8

APPENDIX B

INTERVIEW SCHEDULE

The Center for Applied Urban Research at the University of Nebraska at Omaha is conducting a study for the Nebraska Department of Economic Development concerning the present utilization of below market interest rate housing programs. We are placing special emphasis on determining builders' and lenders' attitudes toward those programs so that regulations for the Nebraska Housing Finance Fund might be written in such a way as to encourage maximum use of the programs which the Fund will offer.

By way of background, I would like to explain the basic provisions of the Nebraska Housing Finance Fund. In 1978, the Unicameral passed a bill creating the Fund. The bill authorizes the sale of tax exempt bonds and the use of those bond proceeds for mortgages for moderate income families to purchase homes. Two types of programs are authorized. The first program would allow the Fund to loan money to lenders who in turn would make loans to eligible applicants. This, in essence, would provide the lenders with a separate pool of money which could be used for loans to people who would fall just short of being eligible for loans at the regular market rate. The second program which was authorized and will most likely be the first one implemented is what is called a mortgage purchase program. This program would allow lenders to make loans to eligible families and then sell those mortgages to the Fund. The lender would then not need to carry these mortgages in his portfolio but would receive a servicing charge for servicing the loan.

Throughout the nation, these types of programs have had mixed results. In Nebraska, we think soliciting the views of builders and lenders is important in order to avoid reducing the effectiveness of the programs by writing program regulations unacceptable to the two groups essential for making the program operational--the builders and the lenders.

In order for our discussion to be less abstract, I would like to get your reactions to some current programs, and from that we believe we will get some ideas about the most desirable and least desirable aspects of each program.

1. HUD 235 Program

One program which is designed to provide mortgage funds for moderate income families is HUD's 235 program. Some people contend that 235 is not used widely enough outside of Lincoln and Omaha because it involves so much "red tape" that many builders simply will not mess with it. I would appreciate your views on this program. First, do you or have you built for that program? Explain.

Do you believe it is a useful program?

Is it used widely enough in this area?

How is the program viewed by the builders in the area? That is, do they see it as a program serving those whom it is intended to serve, etc.?

One complaint about 235 is that the commitment and application fees and processing as well as the buyer's application are expensive and time consuming. Do you have any experience and/or observations which might be useful in structuring commitment and application fees for the State Finance Fund?

Another concern which has been expressed about the 235 program is that its income ceiling is inadequate. The income ceiling for this area is:

Persons in Household	Ceiling
1	$10,200
[illegible]	11,600
	13,400
4	15,200
5	16,400
6	17,600
7	18,850
8+	20,100

As you know, these ceilings are calculated by reducing gross income by 5 percent and then deducting $300 for each dependent child. The difficult task for any program designed to serve moderate income families is to define "moderate income" in such a way as to make the program workable for builders and lenders and yet not so high as to make everyone eligible. Do you think these income ceilings are workable? Please explain.

Another concern expressed by builders is that the mortgage limits are inadequate. The mortgage limit for a 3 bedroom house in this area is $37,600 and for a 4 bedroom house the limit is $43,600. The buyer can make a downpayment of 3 percent of the first $25,000 and 5 percent of anything over $25,000. That means the sale price for a 3 bedroom unit cannot exceed $38,728 and for a 4 bedroom unit the sale price must not exceed $44,908. Are these limits sufficient?

Appraisals have been criticized because builders have felt that they were not being allowed any profit. Have you had any appraisal experiences which you think should be considered when drafting regulations for the Nebraska Housing Finance Fund?

Some people believe that if you get into the 235 or Farmers Home 502 business that you have to produce a large volume of units in order to make a profit. The reasoning is that only with volume can you both control construction costs and make an adequate profit because the base for profit is lower with these types of units. What are your feelings about that?

Paperwork and processing delays are factors which need to be planned for when working with Federal programs. Some people refuse to get involved because of these factors. About how much cost do you feel these paperwork considerations would add to the cost of a house? Things to consider are staff time, increased interest costs, scheduling problems, etc.

APPENDIX C

QUESTIONNAIRE FOR DETERMINING LENDERS' ATTITUDES TOWARD SECTION 235 AND OTHER BELOW MARKET RATE PROGRAMS

Introduction

The Center for Applied Urban Research is gathering information for a report on the attitudes of lenders and builders toward section 235 and other below market rate interest programs. The purpose for gathering this information is to report the findings to the Department of Economic Development for use with the Nebraska Mortgage Finance Fund as they proceed in writing rules and regulations governing the operations of that agency.

The approach we are taking in gathering this information is to focus on section 235 and other BMR programs in order to provide an opportunity for you to indicate areas in which you feel that program is effective and areas which you believe the regulations and operations have curtailed program usefulness. By sharing your experience with these programs, we might discover ways which would make the program work more effectively and we will have a better idea about how to draft regulations for the Nebraska Mortgage Finance Fund.

1. Would you tell me about your institution's involvement with 235, V.A. 221 d2 and other BMR loan programs? For example, which ones are you currently involved with, what level of activity do you generally have from these programs and how long has your organization been involved with these programs?

2. One of the factors which seems to fluctuate rapidly in government sponsored programs is the points. Presumably, the points are related to your cost for money and the amount of interest you are allowed to charge. The results of this provide you with the return on your investment. In regard to government sponsored programs like 235, what rate of return will it take to involve lending institutions in the programs offered by the Nebraska Mortgage Finance Fund? (Why do you participate?)(Why don't you participate?)

3. If the Nebraska Mortgage Finance Fund were to offer a Mortgage Purchase Program (explain) you would still have costs associated with originating and servicing the loan. About what type of return would it take for you to become interested in the program? What loan origination and servicing fees do you feel would be equitable?

4. In addition to the cost associated with originating and servicing a loan, government programs require lenders to keep current with regulation and policy changes. About how much does it cost your organization to keep current with 235 and other programs?

5. Assuming that the Nebraska Mortgage Finance Fund drafted regulations which would not necessitate radical changes in your method of operation, would you be interested in participating in the program?

6. Under the existing programs, builders and developers get the reservations for units and lenders take care of the loans. It is probable that lenders will be responsible for reserving allocations of mortgage money under programs offered by the Fund. Would that additional requirement deter your firm from participating? (explain)

7. I sometimes get confused about how the central office in an organization like yours relates to the branch offices. Could you help me out there? For example,if I went to one of your branch offices in a non-metropolitan area, would they offer me the same range of programs that are offered in the metropolitan area? (Probe to find out whether the branch office could originate and close the loan, service the loan, etc.)

8. With your present operating procedures, do you believe that your non-metropolitan office will be as able to utilize programs offered by the Nebraska Mortgage Finance Fund as will your Metropolitan offices. (Probe for involvement in other programs by non-metropolitan offices.)

9. In order to provide a satisfactory loan rate for those borrowing from the Fund, it is anticipated that some type of mortgage insurance will be required. Do you have any suggestions concerning how the loans ought to be insured--i.e. HUD, private insurance, etc.?

10. Three of the crucial factors which need to be determined are: 1) who should the Fund attempt to reach--i.e. income group, 2) what type of mortgage ceilings would be realistic, and 3) what are your thoughts concerning using the fund for new vs. existing structures?

11. With HUD and V.A. insured programs some lenders use their own appraisers. What is your appraiser procedure? i.e., do you have your own appraisers, or do you use outside fee appraisers? About what percentage of your appraisals are below the contract sales price? In your non-metropolitan offices, do you have on-staff appraisers or do you use fee appraisers?

12. Finally, I would like to ask you about your volume needs before you would get involved in the funds program. Can you give me some idea about the minimum number of loans or dollar volume which you feel would be necessary to interest lenders in these programs?