

**California Real Estate Finance**  
**Chapter 6**  
**Financial Agencies and Lending Programs**

**Chapter Purpose**

This chapter addresses the special nature of financing agricultural activities, the Department of Housing and Urban Development and federal state legislation dealing with equal credit and financing opportunities.

**Suggestions to the Instructor**

Students of real estate finance need to be aware of the federal and state agencies and legislation dealing with equal credit opportunities, truth in lending and closing procedures and costs. If there are any of the agencies in this chapter located near you, it would make the material more relevant to invite some representatives to participate in the classroom discussion.

**Learning Objectives**

Upon completion of this chapter, the student should be able to:

1. recognize the unique nature of agricultural lending, especially as it involves the uncertainty of production;
2. describe the scope and activities of the Cooperative Farm Credit System;
3. compare and contrast the activities of the various agencies within the Cooperative Farm Credit System;
4. define the activities of the California Housing Agency;
5. understand the role of HUD in supervising the FHA interstate land sales, urban renewal and public housing;
6. describe the federal legislation covering ECOA, Truth in Lending, RESPA and other special programs.

**Presentation Outline**

- I. Nature of Agricultural Lending
  - A. Introduction—first financing was for agricultural purposes
  - B. Need to design loans with flexibility due to special circumstances in farming and ranching
    1. Open-ended loans
    2. Variable interest rates

- II. The Farm Credit System
  - A. Participants in the Farm Credit System
    - 1. Six farm credit banks
    - 2. One agricultural credit bank
    - 3. The federal farm credit banks funding corporation
    - 4. The farm credit system financial assistance corporation
    - 5. The federal agricultural mortgage corporation (Farmer Mac)
    - 6. The farm credit leasing services corporation
    - 7. The farm credit system building association
  - B. The Farm Credit Insurance Corporation
  - C. The Farm Credit Council
  - D. The U.S. Department of Agricultural Rural Development Program
  
- III. The California Housing Financing Agency (CHFA)
  - A. Provides below-market, fixed-rate financing for first time homebuyers
    - 1. Not owned a home in previous three years
    - 2. Price and income limits per Table 6.1
    - 3. 5% down payment required
  - B. Home purchase assistance program
    - 1. Down payment aid for eligible buyers
    - 2. Must be first time buyer
  - C. Matching down payment program
    - 1. For low income buyers
    - 2. Junior loan to aid in down payment
    - 3. Interest on junior loan 3% with repayment deferred until home is sold
  - D. Other programs
    - 1. Construction financing for building own home
    - 2. Loans to minority-owned construction firms
    - 3. Financing for low-rent housing projects
  - E. City of Los Angeles home mortgage program
    - 1. Single family home mortgage bond program
    - 2. Borrowers must be first times home buyers
      - a. income cannot exceed \$46,900 for one or two persons, or \$56,280 for three or more
      - b. requires at least 3.5% down and borrower must occupy home for at least two years
      - c. loans may be assumed under approved terms
  
- IV. Housing and Urban Development (HUD)
  - A. Purpose
    - 1. To provide a suitable living environment for every citizen
    - 2. Provides programs that emphasize social improvements
  - B. Regulates subagencies
    - 1. Federal Housing Administration
    - 2. Government National Mortgage Association (GNMA)

3. Interstate land sales registration
    - a. requires dissemination of vital information to potential buyers of residential land
    - b. applies to interstate sales of 25 or more lots of unimproved land
    - c. exceptions are parcels of five acres or more and cemetery, commercial and industrial land
  4. Developer must provide statement of record
    - a. description of existing and proposed liens, improvements, utilities, schools, recreation areas, roads and all services to be provided
    - b. statement must be delivered prior to purchase of property
    - c. buyers may change minds within three days
- C. Urban renewal
1. Loans for neighborhood renewal
  2. Loans for slum clearance
  3. Grants to clear substandards structures
- D. Public housing
1. Assistance to local authorities for acquisition and operation of properties for public housing programs
  2. Funds for cooperative housing for low-income persons
  3. Funds for housing for the elderly, mortgage interest subsidies, relocation assistance, college housing, disaster area reconstruction and housing in isolated areas
- V. Other Legislation
- A. The Fair Housing Act
1. Designed to eliminate discrimination in the sale or rental of housing
    - a. race
    - b. color
    - c. sex
    - d. national origin
    - e. handicapped
    - f. families with children
  2. Exceptions
    - a. single-family homes sold by owner who does not own three houses at the same time
    - b. rooming houses for not more than four families where the owner lives on site
  3. Violations
    - a. complaint filed with local commissioner
    - b. if unsolvable, aired in federal court
    - c. if guilty, up to five years in prison or a \$1,000 fine

- B. Unruh Civil Rights Act
  - 1. Designed to eliminate discrimination in California
    - a. accommodations
    - b. facilities and services
    - c. all business establishments
    - d. all real estate activities
  - 2. Complaints directed to Department of Fair Employment and Housing
    - a. actions in Superior Court
    - b. may order sale or rental of property
    - c. punitive damages not to exceed \$1,000
    - d. exempts only rentals to one roomer or boarder
  - 3. California Department of Real Estate
    - a. under its Business and Professional Code 10177(1) rules against the creation of an environment that would create “panic selling”
- C. The Federal Equal Credit Opportunity Act (ECOA)
  - 1. Prohibits lenders from discrimination
    - a. race, color, religion, national origin, sex marital status, age or dependency on welfare
    - b. provisions of act in text
  - 2. Requires lenders to informally rejected applicants in writing why they were denied
- D. The Community Reinvestment Act
  - 1. Requires financial institutions to attempt to meet the needs of every member of their surrounding community
- E. The Home Mortgage Disclosure Act
  - 1. Requires lenders to report to the Fed
    - a. borrower’s income level
    - b. borrower’s racial characteristics
    - c. borrower’s gender
- F. Truth-In-Lending Law (Regulation Z)
  - 1. Requires all costs involved in securing a new loan to be revealed to borrowers in advance of loan being issued
    - a. finance charges
    - b. annual percentage rate (APR)
    - c. creditor’s identity
    - d. amount financed
    - e. number, amount and due dates of payments
    - f. itemization of amounts being financed
    - g. late payment and prepayment provisions or penalties
    - h. description of the security
    - i. assumption privileges, if any
  - 2. In advertising, requires disclosure of all of the financing details if just one item is disclosed

3. Borrowers have the Right of Rescission up to three business days following the loan transaction or delivery of the disclosure statement, whichever comes later
  4. Penalties for violations include a fine of up to \$5,000 and/or imprisonment for up to one year
- G. The Real Estate Settlement Procedures Act (RESPA)
1. Provides buyers and sellers closing cost information prior to settlement
  2. Acts to offset any last minute shocks
  3. Requires disclosures to borrowers
    - a. at time of loan application
    - b. before settlement closing
    - c. at settlement
    - d. after settlement
- H. Usury laws
1. Garn-St. Germain bill eliminated usury limitations on real estate loans
  2. In 1979, Proposition 2 eliminated usury limitations on real estate loans in California
- VI. State Financing Agencies
- A. Industrial development agencies
1. For community growth
  2. Purchase and develop industrial and office parks
  3. Raise funds by sale of revenue bonds
- B. Community redevelopment agencies (CRAs)
1. To enlarge the supply of low-income housing
  2. Activities
    - a. tax increment financing
    - b. mortgage revenue bonds
    - c. special assessments
- C. The Housing Financial Discrimination Act of 1977 (The Holden Act)