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Handbook: Thrift Activities **Section: 270**
Subject: Qualified Thrift Lender Test **TB 20-2**

June 15, 1992

QTL Guidelines

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Summary: This bulletin provides information on investments in "starter homes," "credit-needy areas," acquisition and development loans and combination loans under the Qualified Thrift Lender (QTL) Test.

For Further Information Contact: Your Regional Office or the Policy Division of the Office of Thrift Supervision (OTS), Washington, D.C.

Thrift Bulletin 20-2

Background

The OTS implemented the QTL provisions of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) in new regulations published in the Federal Register on July 9, 1991. In the preamble to the final regulation, OTS said it would provide additional supervisory guidance on investments in "starter-homes" and "credit-needy" areas as these terms require further clarification and detail. In addition, this bulletin provides guidance on acquisition, construction and development loans and loans on mixed use properties.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) changes parts of the current QTL test, which will require OTS to revise its QTL regulation. The guidance in this bulletin, however, is unchanged by the new legislation.

Starter Homes

The statutory and regulatory QTL provisions provide that savings associations may, subject to certain conditions, include 200 percent of the dollar amount of loans and investments to purchase, construct, or develop starter homes or starter home developments in qualified thrift investments (QTI).

To be classified as a starter home loan for QTL purposes, a loan must meet the following criteria:

- Be secured by a 1- to 4-family home, condominium, or cooperative; or by a development where 75 percent or more of the value of the development consists of such homes;
- Be located in the association's Community Reinvestment Act (CRA) community; and
- Be valued at the time the loan is made at an appraised value of 60 percent or less than the median value of newly constructed 1- to 4-family homes in the savings association's CRA community.

If no median value figures are available for the savings association's CRA community, the savings association may estimate such value in any of the following ways:

- Federal Housing Finance Board (FHFB) Method. A thrift may rely on the most recent annual statewide housing value data generated by the FHFB. The FHFB data will be made available by the OTS regional offices.
- National Association of Home Builders (NAHB) Method. NAHB publishes median housing prices monthly for 147 metropolitan areas as part of its Housing Opportunity Index. If the thrift's CRA area is included in one of these surveyed areas, the most recent NAHB data may be used.
- Private Method. A thrift may rely on figures generated by a private company, with substantial experience conducting market surveys, for newly constructed housing values for a year from the date of the survey. The survey methodology will be subject to review during examinations.

Credit-Needy Areas

The statutory and regulatory QTL provisions also authorize savings associations to include in QTI 200 percent of the dollar amount of loans to assist small businesses or to construct, develop, or improve domestic residential housing or community service facilities within credit-needy areas.

The term "credit-needy" area includes areas within the association's delineated CRA community that meet one or more of the following criteria:

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- Census Tract Characteristics
  - Census tracts, counties or areas in a Metropolitan Statistical Area (MSA) with a median household income that is 80 percent or less of the MSA median.
  - Census tracts, counties or areas in a MSA that are 35 percent or more minority with a median household income that is 120 percent or less of the MSA median.
- Loan Activity Characteristics
  - Census tracts where: (1) loans by all institutions—as reported by the most recent available aggregate Home Mortgage Disclosure Act (HMDA) data—total 50 percent or less of the average loan volume for all census tracts in the MSA and; (2) the median household income is 120 percent or less of the MSA median.
- Alternative Characteristics (subject to review for reasonableness during examinations).
  - Areas that have been designated as credit-needy by federal, state, or local government and that receive some form of credit-related targeted assistance from federal, state, or local government.
  - If none of the above data are available for the association's community, credit-needy areas may be identified after consultation with local government and community representatives.

In addition, if the loan is for a small business or a "community service facility," the loan may be classified as a loan to a credit needy area for QTL purposes if it meets one of the following criteria:

- The loan is to a community service facility or a small business within the credit-needy area.
- The loan is to a small business that is owned by an individual whose home address is within the credit-needy area.
- The loan is to a community service facility that primarily serves individuals whose homes are within the credit-needy area.

For example, under the first alternative, a loan to a community center, school, or small business in a credit-needy area would qualify. Under the second, a small-business loan to a person residing in a credit-needy area but whose business is not within such an area would qualify. Finally, under the third, loans to hospitals, churches or school dormitories that have clientele, the majority of whom live in credit-needy areas, would qualify.

Acquisition and Development Loans

Generally, land acquisition loans are not considered QTI. However, an acquisition and development loan, with or without the construction phase as part of the loan, may be considered QTI if it is reasonably certain to be developed as domestic residential housing. Acquisition and development loans must meet the following criteria in order to be classified as QTI. Savings associations should maintain documentation in their files demonstrating that these criteria have been met for examination purposes.

- Both stages of an acquisition and development and loan must be financed in a single combination loan.
- The financing must be a loan, not an investment.
- The savings association must be able to demonstrate, at the time the loan is made (and at all times thereafter), that the property is reasonably certain to be developed as domestic residential housing. A loan is considered to be reasonably certain to be developed for residential use when:
  - the property is zoned exclusively for residential use; or
  - the property is zoned to permit residential use and there are legally enforceable covenants in the deed to the property that limit its use to sites for structures designed primarily for dwelling; or
  - the property is zoned to permit residential use and the borrower certifies that it intends to construct dwelling structures immediately on nearly all of the property.

Mixed-Used Properties

Generally, in the case of mixed-use properties, such as an apartment building with retail shops on the ground floor, or a restaurant with living quarters above, a thrift should follow the guidelines in §§541.23 and 541.4 to determine the property's residential nature and, consequently, its suitability as QTI. A thrift must show that the property is primarily residential with only "minor business use." Otherwise, only the portion of the loan that meets the QTL criteria may be considered a QTI. Such pro-rata qualifications should be assigned on a reasonable basis using an appraisal. Note that §541.23 defines loans consisting of combinations of farm residences and commercial farm real estate as residential real estate.

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