

**Assessment of
Home Loan Programs
in North Central Nebraska
November, 2002**

**by Kay Payne
Director**



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Executive Summary

• Home Loans

- The largest share of the home loan market was for in-house, short-term loans with the lending decision being made locally
- The second largest share was for conventional loans, followed by refinanced loans
- The government-backed market share was very small, only 4% of the market
- The USDA-RD program was very well known, the most known of the four government-backed programs
- The USDA-RD home loans were the most used of the four government-backed home lending programs, according to bankers; Realtors reported it as the least used by their clients
- Banks not using government backed lending programs reported a lack of demand as the most significant reason
- The most cited advantage of the USDA-RD program was the "no down payment" feature, while its greatest disadvantage was the amount of paperwork involved

• Business & Industry Loans

- About half of the bankers were familiar with this program; most who had not worked with it said there was no demand for it in their area

Introduction

Mr. Jim Barr, State Director for Nebraska's USDA-RD, contacted Kay Payne, Director of the Center for Rural Research & Development (CRRD) at the University of Nebraska at Kearney in June, 2002 about the department's interest in having the CRRD conduct an assessment of home loans in north central Nebraska. In July, CRRD provided cost estimates and objectives for the study as well as a list of banks and real estate agencies to be surveyed.

Objectives

Objectives for the survey were:

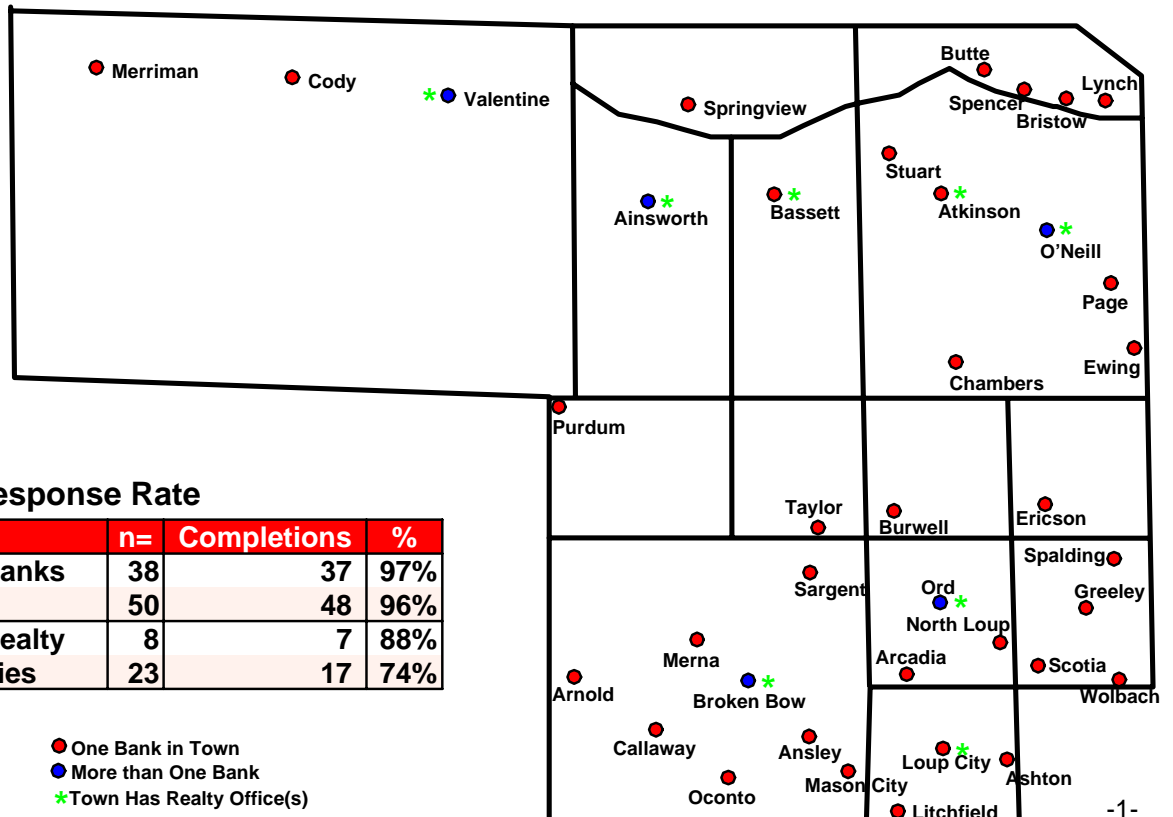
- To determine Banker:
 - Present lending practices
- To determine Banker and Realtor:
 - Perceptions of government backed home loans
 - Perceptions of government backed business & industry loans

Methodology

A draft of the survey instrument was pretested with a local Kearney Realtor and several changes were made. In August, the questionnaire was faxed to Jim who shared it with others at USDA for input. After several more minor revisions, the phone survey (see Appendix) was ready to implement. The CRRD sent an introductory post card to all 50 banks a few days before the student intern started conducted the phone survey in September. In October, introductory postcards were sent to all 23 real estate agencies shortly before calling commenced with this group.

The 14 county area comprised 50 banks in 38 communities and 23 real estate agencies in eight communities. The student completed surveys in 37 of the 38 towns, representing 48 of the 50 banks, for a 96% response rate. The remaining two banks refused to participate. The 23 real estate agencies were located in only eight communities. The interviewer completed 17 of these interviews for a response rate of 74%.

The six Realtors not reached had been contacted several times to no avail.

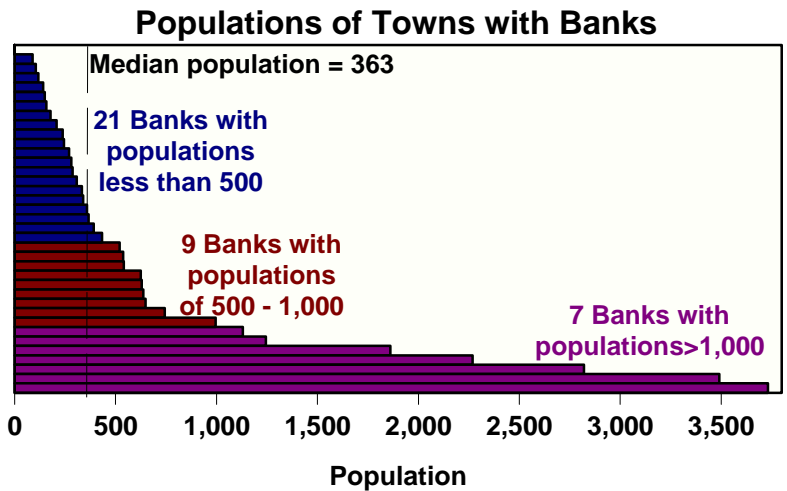


Response Rate

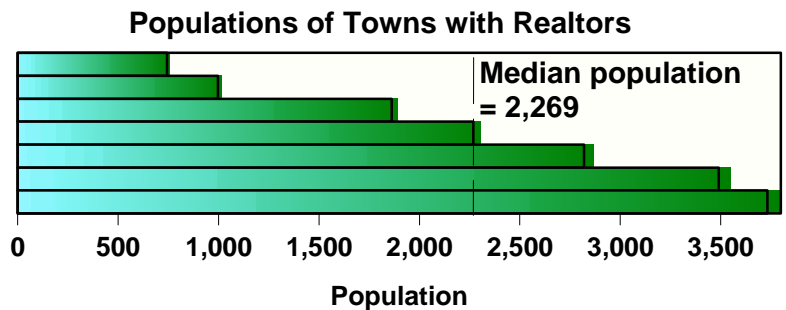
| | n= | Completions | % |
|--------------------------|----|-------------|-----|
| Towns with Banks | 38 | 37 | 97% |
| Banks | 50 | 48 | 96% |
| Towns with Realty | 8 | 7 | 88% |
| Realty Agencies | 23 | 17 | 74% |

- One Bank in Town
- More than One Bank
- *Town Has Realty Office(s)

The entire north central region of Nebraska was very sparsely inhabited. The largest community in the 14 counties had a population of 3,733. Twenty-one of these banks had Census 2000 populations of fewer than 500 residents, only nine reported a population between 500 and 1,000, the remaining 7 towns had populations greater than 1,000. The median population of all 37 surveyed communities was only 363 residents.



The seven towns with real estate agencies had a median population of 2,269.

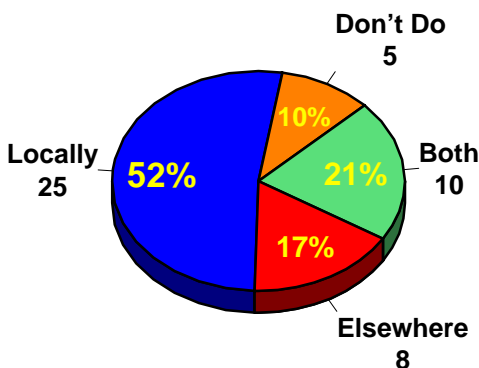


Results

Objective: To determine Banker present lending practices

Of the 48 banks contacted, just over half said they made their underwriting and approval decisions locally. Another 17% said these decisions were made elsewhere and 21% said "both", they made some decisions themselves and also had other locations make them. The decisions not made locally were made at other several other locations; Lincoln was the most often given locale for these decisions. Some decisions were made out-of-state and other banks did not know where these decisions were made. Five banks stated they did not make home loans.

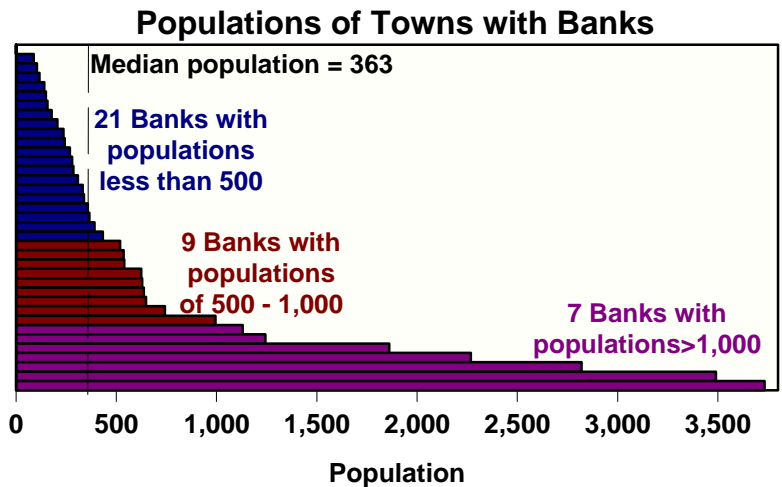
Are your home loan underwriting and approval decisions made locally or at some other location?



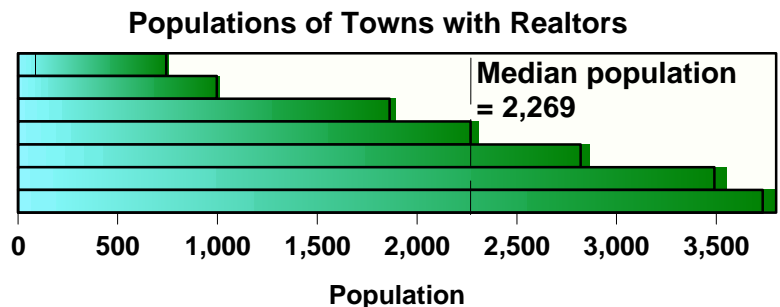
| Location | Other | Both |
|--------------|----------|-----------|
| Lincoln | 2 | 3 |
| Unknown | | 3 |
| Out-of-state | 1 | 1 |
| Alliance | 1 | |
| Cozad | 1 | |
| Lexington | 1 | |
| Kearney | 1 | |
| O'Neill | 1 | |
| Grand Island | | 1 |
| Rushville | | 1 |
| Valentine | | 1 |
| Total | 8 | 10 |

This question proved to be more complicated than it appeared. Some banks said they did not make these lending decisions and, instead, let others such as the government, make the decision. Banks are supposed to make their own decisions and then ask the government for a guarantee, but some will not make this decision until after the government guarantees the loan. Others sold their loans on the secondary market so thought that the secondary market made the lending decision. A specific question about selling loans on the secondary market was asked later in the interview.

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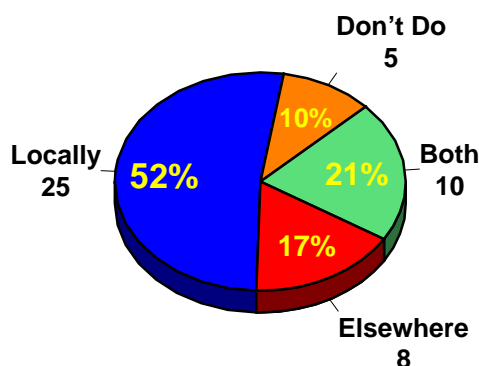


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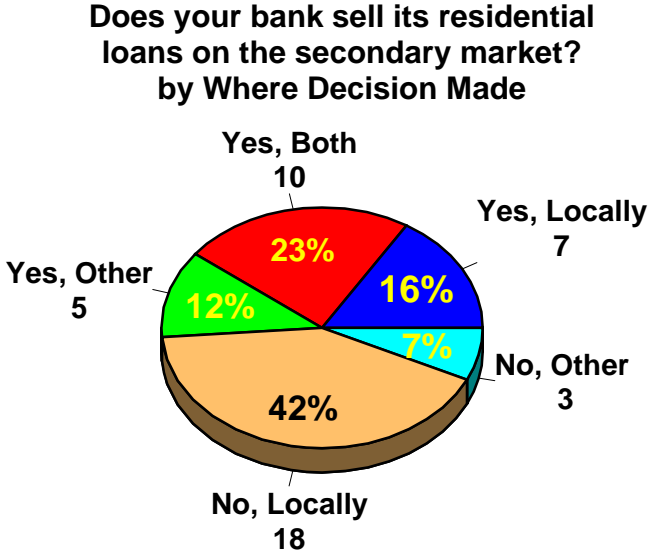
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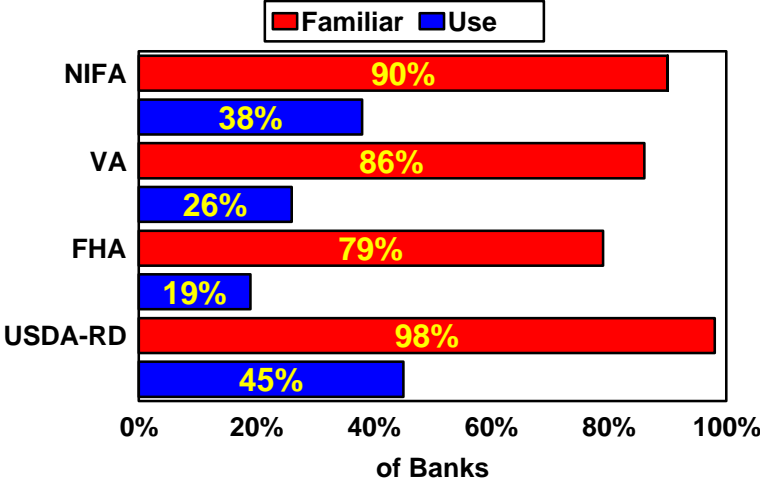
This question proved to be more complicated than it appeared. Some banks said they did not make these lending decisions and, instead, let others such as the government, make the decision. Banks are supposed to make their own decisions and then ask the government for a guarantee, but some will not make this decision until after the government guarantees the loan. Others sold their loans on the secondary market so thought that the secondary market made the lending decision. A specific question about selling loans on the secondary market was asked later in the interview.

Of the 43 banks providing home loans, half sold them on the secondary market and half did not. Of the 22 banks that did sell their home loans, the lending decisions were split among those make their lending decisions locally (16% of all banks), elsewhere (12%), and at both locations (23%). The remaining 21 banks that did not sell their loans were much more likely to keep their loans local (42% of all banks) than elsewhere (7%).



Objective: To determine Banker perceptions of government backed home loans

Are you familiar with these government-backed home loans? and Has your bank used these funds?



The 42 Bankers were asked if they were familiar with four types of government backed home loans, including Nebraska Investment Finance Authority (NIFA), Veteran’s Administration (VA), Federal Housing Authority (FHA), and United States Department of Agriculture - Rural Development (USDA-RD) loans. If the bankers were familiar with each loan program, they were then asked if they had used the program. Familiarity with the programs ranged from 79% for FHA to 98% for USDA-RD loans. Not only was the USDA-RD program the most familiar to bankers, it was also the most used, with a 45% usage rate. The least used program was FHA with only 19% usage.

Why Banks Don’t Use These Programs

| | NIFA | VA | FHA | USDA-RD |
|----------------------|-----------|-----------|-----------|-----------|
| No demand | 12 | 13 | 14 | 13 |
| Paperwork | 5 | 7 | 5 | 8 |
| Lack of staff | 2 | 2 | 2 | 0 |
| Fees | 3 | 0 | 0 | 0 |
| Lack of Knowledge | 3 | 2 | 1 | 0 |
| Other | 5 | 8 | 6 | 6 |
| Total Reasons | 30 | 32 | 28 | 27 |

The banks that did not use these programs were asked an open-ended question about why they did not use them. All were probed for additional answers. For all four programs, the most cited reason for not using them was that there was a lack of demand. Other reasons included the amount of paperwork involved, lack of staff, fees, and a lack of knowledge about the programs. A complete list of other reasons is in the Appendix.

What are the advantages/disadvantages of using a USDA home loan?

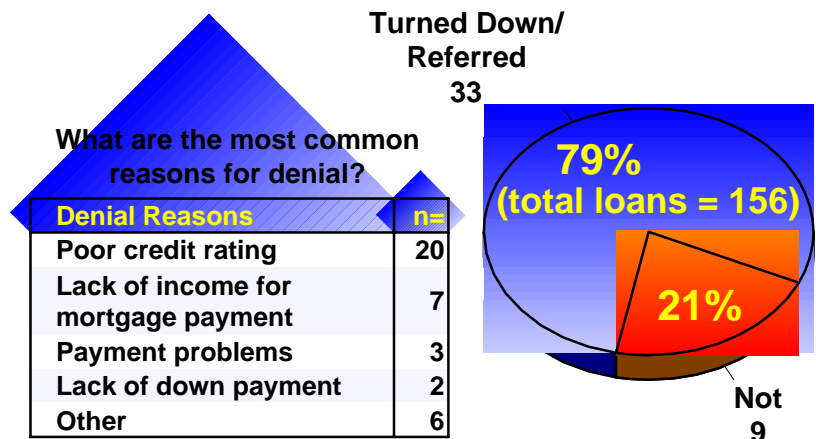
| Advantages | n= |
|-----------------------------|-----------|
| No down payment necessary | 11 |
| Guarantee (no risk to bank) | 2 |
| Other | 6 |
| Total Advantages | 19 |
| Disadvantages | n= |
| Paperwork | 7 |
| Time | 3 |
| Fees | 5 |
| Other | 10 |
| Total Disadvantages | 25 |

Bankers who were familiar with the USDA-RD home loan program were asked what the advantages and disadvantages of the program were. These were asked as open-ended questions and respondents could list as many as they wanted. The most reported advantage of the program was that no down payment was necessary. The most listed disadvantage was the paperwork involved in the process. Others also mentioned the fees or the time required for processing the loan. A list of other advantages and disadvantages is in the Appendix.

Nine banks reported other home loan sources they used; a listing of their responses is also in the Appendix.

More than three-fourths of the banks that offered home lending services had turned down or referred home loans to someone else. These 33 banks turned away a total of 156 loans in the first nine months of 2002. The most often reported reason for denial was poor credit ratings. Others had inadequate income to make mortgage payments or lacked the down payment. Again, a complete list of other reasons is in the Appendix.

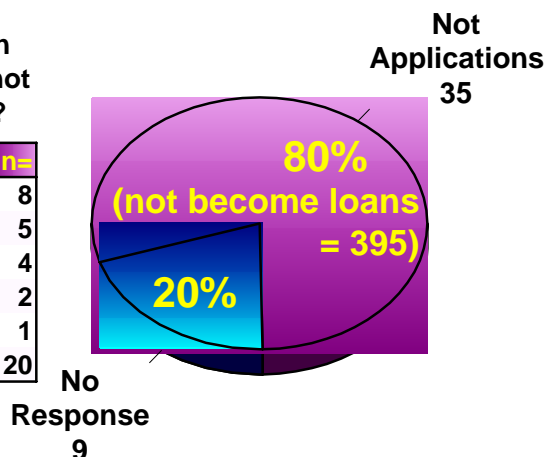
Approximately how many home loans has your bank turned down or referred (to a mortgage broker) in 2002?



About how many inquiries for home loans has your bank had in 2002 that do not turn into applications?

What are the most common reasons those inquiries do not become loan applications?

| Why Not Become Loan | n= |
|-----------------------|----|
| Interest rate | 8 |
| Lack of down payment | 5 |
| Don't know | 4 |
| Lack of income | 2 |
| Length of time on job | 1 |
| Other | 20 |

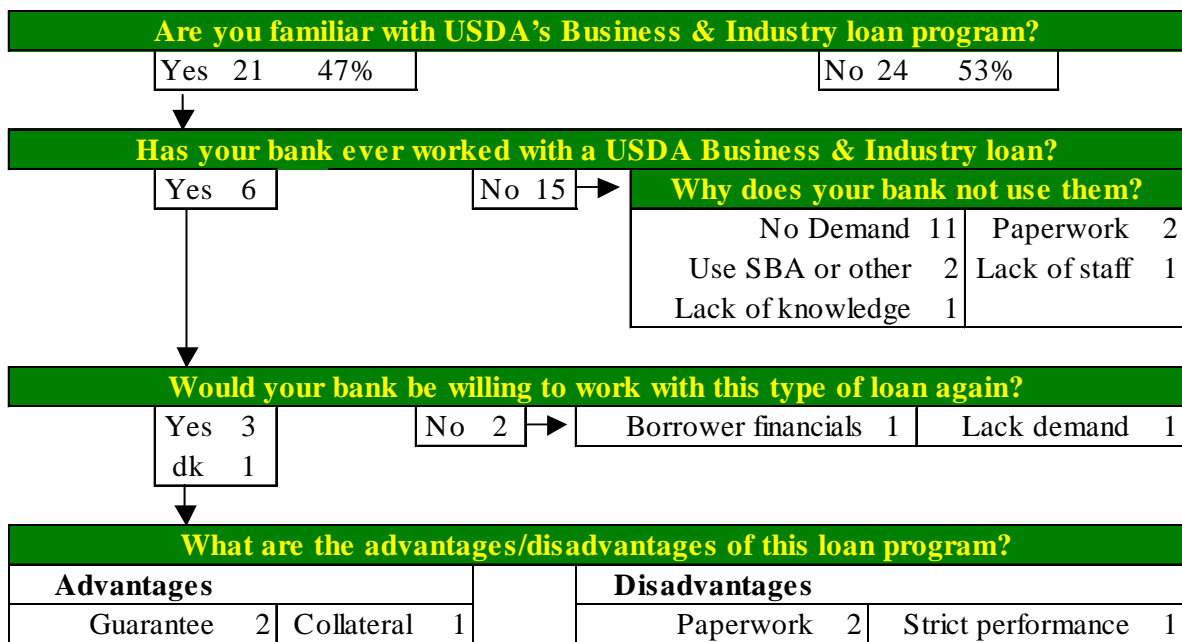


The last question about home lending practices of bankers asked about inquiries for home loans that did not turn into applications. Thirty-five banks reported a total of 395 prospective home loan applicants that did not materialize. A wide range of reasons were given; the most often cited were the interest rate and the lack of a down payment. Other reasons are in the Appendix.

Objective: To determine Banker perceptions of government backed business & industry loans

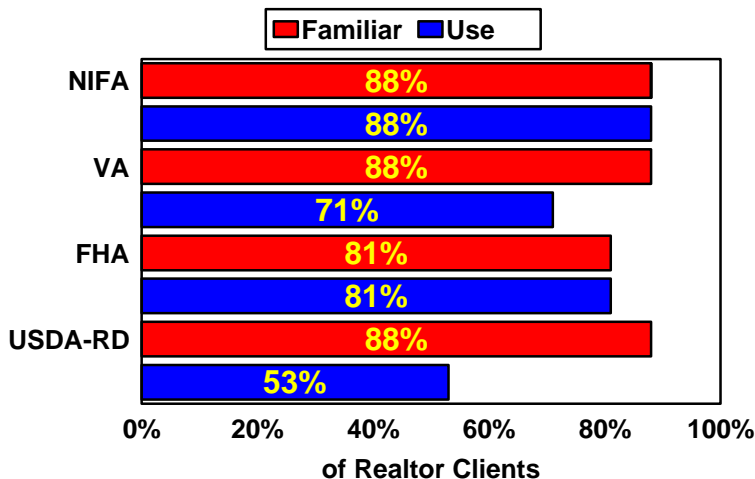
For this portion of the survey, 45 bankers responded to the survey. Of those, just under half (47%) were familiar with the USDA Business and Industry (B&I) loan program. Of the 21 banks familiar with the program, only six had ever worked with it. Of these six who had worked with the program, two would not be willing to work with it again, but three or four would be willing. These four listed advantages of the guarantee (n=2) and collateral (n=1), but disadvantages of the paperwork (n=2) and the strict performance of the loan (n=1).

Banks that had not ever worked with a USDA B&I loan mostly said there was no demand for it (n=11). Others said they used the SBA or other sources (n=2), lacked knowledge of the program (n=1), didn't like the paperwork involved (n=2), or lacked the staff (n=1) to do them. The banks that had worked with the B&I program but were not willing to do so again gave the borrower's financial statements (n=1) and a lack of demand (n=1) as reasons.



Objective: To determine Realtor perceptions of government backed home loans

Are you familiar with these government-backed home loans? and Have any of your clients used these funds?



Most Realtors were familiar with the government back home loan programs, but there were varying usage rates for the programs. All Realtors who were familiar with NIFA and FHA had clients who had used these programs. For VA loans 71% of the Realtors had clients who had used this program. For USDA-RD loans, the response was somewhat different; even though the program was as well-known as other government programs just over half of the Realtors' clients had used this program.

Only two Realtors made comments about why they did not use the VA program; seven commented on why they did not use USDA-RD's home loan program. Most reasons for not using USDA-RD's program related to the hassle or the paperwork of this program. This question was asked as open-ended, so respondents could make as many comments as they wished and were probed to give more.

Why Clients Don't Use These Programs

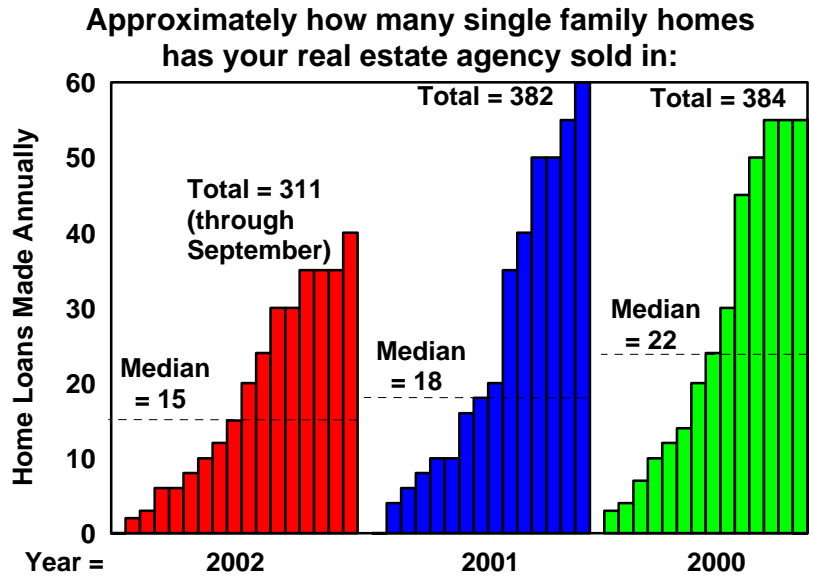
| |
|--|
| VA |
| Don't qualify Nobody wanted to do anything, nothing flowing |
| USDA-RD |
| Paperwork (2 mentions) Don't refer them this way, but they've been helpful though Didn't go through Lack of information and knowing it's available It's a government program, don't want to take the time to do it Housing that is affordable around here, doesn't really need, it's too much of a hassle |

Realtors reported the advantages and disadvantages of the USDA-RD home loan program. Ten comments were made about its advantages and 15 disadvantages were recorded as listed below.

What are the advantages/disadvantages of using a USDA home loan?

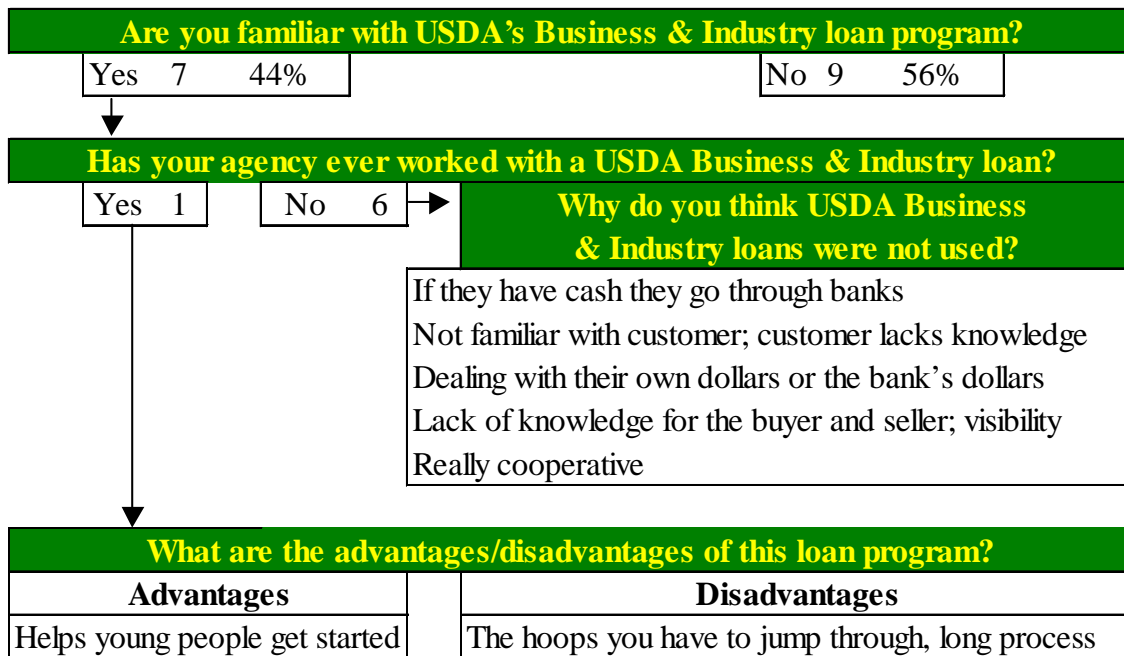
| |
|--|
| Advantages |
| No down payment necessary |
| Lower income guidelines, subsidized interest rate |
| Can get in easier, big plus |
| Helps low-income people who can't afford them; lots of rules |
| Possibly lower equity requirements, conventional route is better |
| If you should sell it, payback all that you paid in |
| Income related, no dollar low interest rate |
| Helps people with little |
| Loaned on a house, they worked with clientele to have low payments |
| Interest rate |
| Disadvantages |
| Paperwork (3 mentions) |
| Time (3 mentions) |
| Customers not understanding |
| Run into will problems |
| Theory great, reality too difficult, deals fall apart, take so much time, catch 22 |
| Didn't go well because our expense is over promise |
| Income limit too low to qualify enough people |
| Too much work, repairs on house |
| There isn't any, can't get enough people |
| Not yet, not a lot moving |
| Too long of a process |

The 17 real estate agencies contacted in the survey reported an estimated 311 homes sold in the first nine months of 2002. The total number of homes sold in 2001 was estimated at 382, with 384 in 2000. The median number of homes sold in 2002, if annualized, would be approximately 20, which was consistent with 18 in 2001 and 22 in 2000.



Objective: To determine Realtor perceptions of government-backed business & industry loans

More than three-fourths of the agencies handled the sale of businesses. Of the 13 agencies that did handle business sales, seven were familiar with USDA’s Business and Industry loan program and six were not. Of the seven that were familiar, only one had worked with this type of loan. This Realtor said the advantage was that it helps young people get started, but the disadvantage was the hoops the customer has to jump through and the long process. The six Realtors who had not used the business and industry loan process gave various reasons for not doing so.



Conclusions

• Bankers and Home Loans

- 50% of the banks made their home lending decisions exclusively at the local level, another 40% did not, and the remaining 10% did not provide these services
- These banks accounted for over 700 home loans in the first nine months of 2002
 - The largest share of the market was for in-house, short-term loans with the decision being made locally
 - The second largest share was for conventional loans; the majority of these loan decisions were not necessarily made locally
 - Refinanced loans ranked third in volume with the decision likely to be made locally
 - Government-backed loan market share was very small, only 4% of the market
- Half of the banks sold their loans on the secondary market; the half that did not sell their loans were very likely to make their lending decisions locally
- The USDA-RD program was very well known, the most known on the four government-backed programs
- The USDA-RD home loans were the most used of the four government programs
- Banks not using government-backed lending programs reported a lack of demand as the most significant reason
- The most cited advantage of the USDA-RD program was the "no down payment" feature, while its greatest disadvantage was the amount of paperwork involved
- Most banks did turn down or refer loans; they were most likely to do this because of poor credit ratings

• Bankers and Business & Industry Loans

- About half of the bankers were familiar with this program
- Most who had not worked with it said there was no demand for it in their area

• Realtors and Home Loans

- Most Realtors were familiar with the four government-backed lending programs
 - All Realtors who were familiar with NIFA and FHA had clients who had used these programs
 - Most of the Realtors who were familiar with VA loans had clients who used them
 - USDA-RD loans were the least used by Realtor clients of the four programs
- Disadvantages of the USDA-RD program concerned the paperwork and time involved in the process
- The contacted Realtors reported sales of over 300 homes in the first nine months of 2002

• Realtors and Business & Industry Loans

- Just over half of the Realtors who handled the sale of businesses were familiar with this program, but only one had a client who used it

Appendix

We need your input! Would you please help us?

Kaylinn, a student intern with the Center for Rural Research & Development at the University of Nebraska at Kearney will be calling you in the next few weeks. The Center is working with a government home loan provider to determine your bank's satisfaction, opinions, and usage of home loans. The information you provide will remain strictly confidential. If your bank does not process home loans of any kind, please feel free to leave us a voice mail message at 308 865-8006.

Thank you for your help,
Kay Payne
Director



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List of Other Comments

11. Why not? (use NIFA funds) List of other:

Banks:

- Only set up to do in farm real estate, interest won't help
 - Time
 - Use FNMA
 - Not signed up with NIFA
 - Not beneficial to customer; Small town purchase price in market doesn't warrant use in that program
- Listed as others, but moved to **Fees**
- Fees are too high
 - Cost
 - Lack of volume, regulations not cost-effective of overhead
- Listed as others, but moved to **Lack of Knowledge**
- Product knowledge
 - Not knowledgeable
 - Not smart enough, too small

14. Why not? (use VA funds) List of other:

Banks:

- Product
 - No one mentions it
 - Originate but sell them
 - Never got signed up
 - Long-term, no variable rates
 - Sent to secondary market
 - Merged with another bank
 - FNMA
- Listed as others, but moved to **No Demand**
- Lack of volume
- Listed as others, but moved to **Paperwork**
- Requirements too heavy; stay way from; do other things
 - Too difficult
- Listed as other, but moved to **Lack of knowledge**
- Better to go elsewhere, not real sure
 - Not smart enough too small

17. Why not? (use FHA funds) List of other:

Banks:

- Originate and sell them
 - Offer USDA-Rural Development
 - People think they need to go to equitable
 - No \$ to put down they can go rural development
 - To risky
 - FNMA
- Listed as other, but moved to **No Demand**
- Lack of volume
 - Requirements; Do such a low volume
- Listed as other, but moved to **Paperwork**

- Too difficult; don't waste time
- Listed as other, but moved to **Knowledge**
- Not smart enough; too small

20. What are the advantages of using a USDA home loan? Listed as other:

Banks:

- Can't tell you
- Your terms can be longer
- No
- No; to accommodate customer
- Use on farm but residents don't know
- No

Listed as other, but moved to **No Down Payment**

- Helps people that doesn't have equity to get started, reduces the risk
- Helps people buy loans that wouldn't normally fit in
- 100% financing
- 100% financing
- Advantage to borrow 100% financing

21. What are the disadvantages of this loan program? Listed as other:

Banks:

- Strict on requirements on the home
- Reason they don't do anymore; Customers get mad at you
- Energy efficiency requirements, most houses don't meet
- As a taxpayer, concerned buyers get in without any down payment
- Thermal standards
- Not familiar
- Not much for the borrower no opportunity for fifteen-year loan

- 2% they charge to guarantee the loan
- Meet requirements 2% guarantee fee
- Costs involved to get out to refinance

Listed as other, but moved to **Additional Paperwork**

- Funding tight and paperwork
- Cumbersome, too many hoops to jump through; extra expense to them

Listed as other, but moved to **Fees**

- Customer's poor shape; Customer pays fees for someone else to do it

22. Why not? (use USDA-RD funds) List of other:

Banks:

- Not yet, but working on it
- Other loan programs; don't have to send off
- People really aren't aware of it; don't qualify for NIFA
- Can't fix a loan longer than five years much longer term they call for
- Send elsewhere
- Property located; value hard to get loan to value ratio

Listed as other, but moved to **No demand**

- Lack of volume
- Not a lot of sales
- Volume

Listed as other, but moved to **Paperwork**

-Complicated; do it yourself

24. Are there any other home loan sources you use? What sources?

Banks:

- Few PMI
- Service broker-for long term, then do use 2ndary market
- 2ndary-principle residential market Sun Trust Mortgage and Commercial Federal
- Energy loans, grant funds; get from different sources
- Conventionally
- Send elsewhere; bank has to qualify
- Local core-federal funding; down payments up-date home; grant type
- Participation in N central community coalition board provides assistant to low-income families, low to moderate income, and age
- In house and USDA

26. What are the most common reasons for denial? List of other:

Banks:

- First lack of equity
- To help them better rate for longer term; locking rate long-term
- Not comfortable with it
- Don't do 100% financing; Property didn't value
- Out of area
- Unable to compete on interest rate

Listed as other, but moved to **Payment Problems**

- Lack of payment
- Late payments
- Overextended

Listed as other, but moved to **Lack of Income**

- Cash flow can't do it
- Insufficient income for the amount request
- Debt to income

Listed as other, but moved to **Lack of down payment**

- No down payment
- No down payment

28. What are the most common reasons those inquiries do not become loan applications? (asked of bankers) Some people who inquire about buying do not follow through. What are the most common reasons for not following through? (asked of realtors)

Listed as other:

Banks:

- Don't find property or go to their lender
- Lack of equity
- Not best for customer
- Didn't want the house after all, too high
- Alternate financing
- Went elsewhere
- Don't buy house; go elsewhere
- Explain to them payments and then it scares them off or maybe they just go to others
- Tri-County Bank in Stuart really aggressive, so they usually go there
- Terms more than

- Sold their house; so withdrew
- Out of state
- Inquisitive gather facts
- Decide against; went elsewhere
- Yellow pages; saw # out of town
- Loan to value
- Housing availability
- Large enough we can't do justice on them refer elsewhere
- They haven't found a house they want yet availability of adequate house on market
- Not sure what they want they just inquire not to application stage

Listed as other, but moved to **Interest Rate**

- The terms looking for longer fixed rate
- Don't offer long-term fixed rates
- Interest rate
- Wanted to know rates; don't buy house
- Rate
- Don't hear from them again; better rates elsewhere
- Interest rate better somewhere else
- Go elsewhere want lower interest want to go 20 to 30 year

Listed as other, but moved to **Don't know**

- First don't know why they came back
- Don't come back
- Don't know really don't know shopping around or decided not to do it
- Do not know; no follow up done

Realtors:

- Lack of job and insecurity of income
- Didn't find home suitable
- Looking out for their budget
- Window shoppers
- Not enough dollars and finance related
- Lack of ability to have funds
- Not getting loans
- Tried to follow through, NIFA is the only thing he's done anything with and that was because of the Stuart Tri-county
- Financing
- Headache with paperwork, they thing
- Can't get financing
- Normally it's the financing, want more than feasible
- Indecisive, not willing to take the challenge
- Don't understand what all is involved, renting they think is easier effort
- Find something else that fits their taste, hassle of lenders
- Can't get a loan

20. Are there any comments you'd like to make about government backed home loans?

Realtors:

- Paperwork is a nightmare
- Really cooperative
- Be more flexible, they've been more positive than negative
- Wonderful programs but get destroyed by bureaucrats

- Very restrictive, too many loops
- Not much experience with problems, with getting veteran thing, no corporation with their local party that does it
- Don't like to fool with too much time and restriction
- Wish you could buy a higher dollar home with government backed loans, can probably in other houses
- Opposed to financing in our area, was used for apartments
- (He laughs and says he could go on and on)

Part II, 4. Why does your bank not use them (USDA's Business & Industry loans? (asked of bankers) Why do you think USA B&I loans were not used? (asked of realtors) List of other:

Banks:

- Lack of knowledge of it-use other
 - Go thru SBA or in-house
 - Small bank
- Listed as other, but moved to **No Demand**
- Insufficient, no demand
 - Size of loan few commercial loans
 - More geared for manufacturing not beneficial
 - No opportunity
 - Business too small
- Listed as other, but moved to **Paperwork**
- Too complicated, not helping the rural

Part II, 6. Would your bank be willing to work with this type of loan again? Why not? List of other reasons:

Banks:

- Not been able to get financial info on the individual loan they were purchasing the guaranteed portion
- Listed as other, but moved to **Lack of Demand**
- Not enough of them to keep track of the rules

Part II, 7. What are the advantages of this loan program? List of other reasons:

Banks:

- Guarantee
- Shows up in collateral
- Guarantee limited risk-economic development and getting new business

Part II, 8. What are the disadvantages of this loan program? List of other reasons:

Banks:

- Strict on performance that the borrower needs to meet tough

