# Common Reading: The Connector

**Instructions:** Examine the following sources from the Underwriting Manual, then answer the questions about them on the last page.

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| THE FHA UNDERWRITING MANUAL was part of the National Housing Act and written in 1934. The National Housing Act gave over $119 Billion to subsidize home loans (mortgages) for over 35 million Americans between 1934-1968. |

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**PREFACE**

1. The Underwriting Manual is issued by the Federal Housing Administration. It contains instructions and regulations governing the procedure and policies to be followed by Underwriting Staffs of the Federal Housing Administration.

2. The Manual describes the techniques used by the Federal Housing Administration to determine whether or not mortgages are eligible for insurance under Title II of the National Housing Act. Eligibility is determined by risk rating. This process consists of an examination of mortgage risk and embraces valuation

**PART II**

**SECTION 6**

**METHODS OF MORTGAGE RISK RATING**

**DEFINITIONS OF RISK RATING**

**601.** *Mortgage risk rating* is the process of thoroughly analyzing the major factors of risk undertaken in the making of a mortgage loan and the rating of the mortgage in accordance with the risk involved in the loan transaction or in connection with the insurance of the mortgage. Risk rating is made necessary by the terms of the National Housing Act.

**SECTION 9**

**RATING OF LOCATION**

**GENERAL RATING INSTRUCTIONS**

**Rating of Location**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **FEATURE** | **REJECT** | **1** | **2** | **3** | **4** | **5** | **RATING** |
| Relative Economic Stability |  |  |  |  |  |  |  |
| Protection from Adverse Influences |  | 4 | 8 | 12 | 16 | 20 |  |
| Freedom from Special Hazards |  | 1 | 2 | 3 | 4 | 5 |  |
| Adequacy of Civic, Social, and Commercial Centers |  | 1 | 2 | 3 | 4 | 5 |  |
| Adequacy of Transportation |  | 2 | 4 | 6 | 8 | 10 |  |
| Sufficiency of Utilities and Conveniences |  | 1 | 2 | 3 | 4 | 5 |  |
| Level of Taxes and Special Assessments |  | 1 | 2 | 3 | 4 | 5 |  |
| Appeal |  | 2 | 4 | 6 | 8 | 10 |  |
| **TOTAL RATING OF LOCATION** | | | | | | |  |

**937.** *Quality of Neighboring Development.* The quality of dwelling construction is significant, inasmuch as unsubstantial, flimsy construction is subject to rapid deterioration which hastens the lowering of class of occupancy….The rating will be adversely affected if the neighboring development consists of old, obsolete dwellings….Areas surrounding a location are investigated to determine whether incompatible racial and social groups are present, for the purpose of making a prediction regarding the probability of the location being invaded by such groups. If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.

**951.** *Quality and Accessibility of Schools.* When considering the question of schools, distances to the schools should be related to the public or private means of transportation available from the location to the schools. The social class of the parents of children at the school will in many instances have a direct bearing….However, if the children of people living in such an area are compelled to attend school where the majority or a considerable number of the pupils represent a far lower level of society or an incompatible racial element, the neighborhood under consideration will prove far less stable and desirable than if this condition did not exist.

**980 (1). *Protection from Adverse influences.*** The Valuator should realize that the need for protection from adverse influences is greater in an undeveloped or partially developed area than in any other type of neighborhood. Generally, a high rating should be given only where effective restrictive covenants are recorded against the entire tract, since these provide the surest protection against undesirable encroachment and inharmonious use. To be most effective, deed restrictions should be imposed upon all land in the immediate environment of the subject location.

**980 (3).** Recorded restrictive covenants should strengthen and supplement zoning ordinances and to be really effective should include the provisions listed below.

[...]

*g*. Prohibition of the occupancy of properties except by the race for which they are intended.

**982 (1).** *Adequacy of Civic, Social, and Commercial Centers.*These elements of comfortable living usually follow rather than precede development. Those centers serving the city or section in which the development is situated should be readily available to its occupants. Schools should be appropriate to the needs of the new community; and they should not be attended in large numbers by inharmonious racial groups.

The Connector

**Your task is to determine the “gist”— the main idea(s) of the document/artifact. In order to do this task, answer the following questions.**

## ✎ Quickly skim the entire document. Write a list of 5-10 key words/phrases.

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| 1. Mortgage 2. Risk rating 3. Dwelling construction 4. National Housing Act 5. Loans 6. Racial groups 7. Schools 8. Social class 9. Federal Housing Administration 10. Underwriting Manual |

## ✎ What is the main idea of the document? Give 3 pieces of evidence.

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| The main idea of the document is to analyze people who have bad credit and cannot get a loan. An underwriter analyzes the finances, environment, neighborhood, and education of clients. There are policies and regulations that are followed to ensure an individual or group can be able to get a loan or mortgage. |

## ✎ What larger issue(s) does this document connect to?

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| The larger issue that this document connects to is racial conflict. People who live in impoverished areas will not be able to get loans. Statistically, impoverished areas have many African Americans. ”If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.” “However, if the children of people living in such an area are compelled to attend school where the majority or a considerable number of the pupils represent a far lower level of society or an incompatible racial element, the neighborhood under consideration will prove far less stable and desirable than if this condition did not exist.” |