COMMUNITY CREDIT NEEDS

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

S. 406

TO ENCOURAGE FINANCIAL INSTITUTIONS TO HELP MEET THE CREDIT NEEDS OF THE COMMUNITIES IN WHICH THEY ARE CHARTERED, AND FOR OTHER PURPOSES

MARCH 23, 24, AND 25, 1977

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COMMUNITY CREDIT NEEDS

WEDNESDAY, MARCH 23, 1977

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:10 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Tower, and Heinz.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

I expect Senator Tower to be here momentarily. He has a statement to make and he of course will make that statement whenever he comes.

Today the Senate Banking Committee begins 3 days of hearings on S. 406, the Community Reinvestment Act. This bill would provide that a bank charter carries with it an obligation to serve the credit needs of the area the bank is chartered to service, consistent with prudent lending practices. Furthermore, it would provide regulatory machinery to carry out this policy.

The bill is based on two widely shared assumptions.

No. 1: Government through tax revenues and public debt cannot and should not provide more than a limited part of the capital required for local housing and economic development needs. Financial institutions in our free economic system must play the leading role.

Second: A public charter for a bank or savings institution conveys numerous benefits and it is fair for the public to ask something in return.

In theory, and in law, banks and savings institutions are chartered to serve local convenience and needs. In practice, the regulatory agencies look only to the capital adequacy of the applicant, his character and reputation, and whether the proposed service area contains sufficient deposit potential to support another new bank or branch. The Community Reinvestment Act would provide that "the convenience and needs of communities includes the need for credit services as well as deposit service, and further, that regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

Under the bill, the regulatory agencies would review the lender's record of community service and consider it when an existing bank applied for a new facility. Groups applying for new charters would also be required to assess local credit needs and indicate plans for meeting them.

Some bankers, of course, already serve more than their share of the housing and economic development needs of their communities. One of our witnesses, Ronald Grzywinski, is chairman of a commercial bank in Chicago that has stimulated the revitalization of a so-called declining neighborhood through an aggressive, affirmative program of local housing and small business lending. Another witness, Todd Cooke, is president of one of the Nation's largest savings banks. Mr. Cooke took the lead in organizing the Philadelphia mortgage plan, which has put more than $12 million in mortgage loans into formerly redlined Philadelphia neighborhoods.

On the other hand, when the committee did a survey of banking services here in Washington, we found one bank with a policy of making no home mortgage loans. This same bank was making a great volume of loans to the outside real estate interests of its own board. We found a savings and loan chartered in Washington with 99 percent of its mortgage loans in the suburbs, and this story is repeated throughout the country. Banks that claim there is no demand for local housing and small business and agricultural credit, or who argue that the need to protect depositors' money precludes such lending, are often the same banks that have squandered money on speculative real estate loans or credits to shaky foreign regimes.

The problem, of course, is that for every Todd Cooke and for every Ron Grzywinski, there are dozens of bankers who are either too lazy or too greedy to see the loan demand in their own communities. Demand in our economy is not a passive, fixed thing. It is manipulated and promoted. If a banker is willing to get out of the office he will find it. This bill would encourage him to do so.

Supposedly, there was no effective demand from the old row house neighborhoods in Philadelphia, and no economic future for the south shore neighborhood of Chicago, but two energetic bankers proved otherwise. Lending practices should be of interest to the regulators. Banks and thrifts that are truly serving the convenience and needs of the community should be rewarded. Others should not. This is already public policy in Massachusetts, Connecticut, and California as we shall hear later this morning.

This is what this bill would do at the Federal level. And let me clarify what this bill does not do.

It does not provide for credit allocation. The worst thing we could do, in my opinion, would be to empower Dr. Burns or anyone else to allocate so much credit to this sector and so much credit to that one. The Fed does too much of that informally already. To criticize reinvestment incentives as a form of credit allocation is disingenuous. We already have credit allocation, as one commentor has observed, and it is credit allocation for the Fortune Five Hundred. Whenever money gets tight, it is small business and housing and family farms that suffer, and big business that gets the scarce credit. We already have numerous structural forms of credit allocation in the form of specialized credit intermediaries such as the farm credit banks, FNMA, Ex-Im Bank, and so on, which have preferential access to Treasury borrowings. We have structural credit allocation in the form of a specialized home loan bank system, mortgage insurance, and guaranteed small business loans. I think that debate in the context of a reinvestment bill is a red herring.

The Community Reinvestment Act would not allocate credit, nor would it require any fixed ratio of deposits to loans. But it would provide that a bank charter is indeed a franchise to serve local convenience and needs, including credit needs.

[Copy of S. 406 and additional material follows:]

95TH CONGRESS
1ST SESSION

S. 406

IN THE SENATE OF THE UNITED STATES

JANUARY 24 (legislative day, JANUARY 19), 1977

Mr. PROXMIRE introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To encourage financial institutions to help meet the credit needs of the communities in which they are chartered, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Community Reinvestment Act of 1977".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress finds that—

(1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the

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convenience and needs of the communities in which they are chartered to do business;

(2) the convenience and needs of communities includes the need for credit services as well as deposit services; and

(3) regulated financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

(b) It is the purpose of this Act to require each appropriate Federal financial supervisory agency to use its authority when chartering, examining, supervising, and regulating financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions.

DEFINITIONS

SEC. 3. For the purposes of this Act—

(1) the term "appropriate Federal financial supervisory agency" means—

(A) the Comptroller of the Currency with respect to national banks;

(B) the Board of Governors of the Federal Reserve System with respect to State chartered banks which are members of the Federal Reserve System and bank holding companies;

(C) the Federal Deposit Insurance Corporation with respect to State chartered banks and savings banks which are not members of the Federal Reserve System and the deposits of which are insured by the Corporation; and

(D) the Federal Home Loan Bank Board with respect to institutions the deposits of which are insured by the Federal Savings and Loan Insurance Corporation and to savings and loan holding companies;

(2) the term "regulated financial institution" means an insured bank as defined in section 3 of the Federal Deposit Insurance Act or an insured institution as defined in section 401 of the National Housing Act;

(3) the term "application for a deposit facility" means an application to the appropriate Federal financial supervisory agency otherwise required under Federal law or regulations thereunder for—

(A) a charter for a national bank or Federal savings and loan association;

(B) deposit insurance in connection with a newly chartered State bank, savings banks, savings and loan association or similar institution;

(C) the establishment of a branch or other facility with the ability to accept deposits of a regulated financial institution;

(D) the relocation of the home office or a branch office of a regulated financial institution;

(E) the merger or consolidation with, or the acquisition of the assets, or the assumption of the liabilities of a regulated financial institution requiring approval under section 18(c) of the Federal Deposit Insurance Act or under regulations issued under the authority of title IV of the National Housing Act; or

(F) the acquisition of shares in, or the assets of, a regulated financial institution requiring approval under section 3 of the Bank Holding Company Act of 1956 or section 408(e) of the National Housing Act;

(4) the term "primary savings service area" means a compact area contiguous to a deposit facility from which such facility obtains or expects to obtain more than one-half of its deposit customers; and

(5) the term "consumer deposit" means a time or savings deposit or demand deposit owned by one or more individuals in an amount less than $100,000.

COMMUNITY REINVESTMENT PROGRAMS AND PROCEDURES

SEC. 4. Each appropriate Federal financial supervisory agency shall develop programs and procedures for carrying out the purposes of this Act. Such programs and procedures shall include—

(1) requiring that in connection with an application for a deposit facility, the applicant—

(A) delineate the primary savings service area for the deposit facility;

(B) analyze the deposit and credit needs of such area and how the applicant proposes to meet those needs;

(C) indicate the proportion of consumer deposits obtained from individuals residing in the primary savings service area by the deposit facility that will be reinvested in that area; and

(D) demonstrate how the applicant is meeting the credit needs of the primary savings service areas in which it or its subsidiaries have already been chartered to do business;

(2) using, as factors to be considered in approving applications for deposit facilities, the applicant's record in meeting the credit needs of the primary savings serv-

ice areas in which it or its subsidiaries have already been chartered to do business, and its proposal for meeting the credit needs of the primary savings service area associated with the pending application;

(3) permitting and encouraging community, consumer, or similar organizations to present testimony at hearings on applications for deposit facilities on how well the applicant has met or is proposing to meet the credit needs of the communities served by or to be served by the applicant or its subsidiaries; and

(4) requiring periodic reports from regulated financial institutions concerning the amount of consumer deposits obtained from and the amount of credit extended in the institutions' primary savings service areas and making such reports available to the public.

ANNUAL REPORT

SEC. 5. Each appropriate Federal financial supervisory agency shall include in its annual report to the Congress a section outlining the actions it has taken to carry out its responsibilities under this Act.

EFFECTIVE DATE

SEC. 6. Regulations to carry out the purposes of this Act shall be published by each appropriate Federal financial supervisory agency, and shall take effect no later than one hundred and eight days after the date of enactment of this Act.

[From the Congressional Record, January 24, 1977]

By Mr. PROXMIRE:

S. 406. A bill to encourage financial institutions to help meet the credit needs of the communities in which they are chartered, and for other purposes; to the Committee on Banking, Housing and Urban Affairs.

Mr. PROXMIRE. Mr. President, the Community Reinvestment Act, which I am introducing today, is intended to establish a system of regulatory incentives to encourage banks and savings institutions to more effectively meet the credit needs of the localities they are chartered to serve, consistent with sound lending practices.

Although communities depend on their local institutions to supply capital for economic development, home mortgage loans, consumer credit, municipal finance, and a variety of other needs, the "convenience and needs" criteria as applied by regulators in their allocation of charters and branch approvals, have focused almost exclusively on deposit services.

An applicant must show that the growth of deposits in the service area is sufficient to justify another facility without unduly harming established institutions. But the other side of the coin—the credit needs of the locality and the applicant's capacity to service these needs—have been almost ignored by the regulatory agencies. If an applicant is deemed competent and the community's deposit base sufficient to justify his entry into the market, the financial institution has license to all but ignore the credit needs of the locality.

The Community Reinvestment Act is based on four widely shared assumptions:

First, because of our mixed economic system and the limited volume of tax revenues, the public sector cannot—and should not—finance all capital needs.

Second, private financial institutions are the main source of capital for domestic economic development, housing, and community revitalization, both in urban and rural areas.

Third, investment by financial institutions in their communities need not involve risks greater than those normally taken by prudent lenders, and often involves less risk because of the lender's firsthand knowledge of his community.

Fourth, a public charter conveys numerous economic benefits and in return it is legitimate for public policy and regulatory practice to require some public purpose, without the need for costly subsidies, or mandatory quotas, or a bureaucratic credit allocation scheme.

The bill focuses on depositary financial institutions—primarily commercial banks, mutual savings banks, and savings and loan associations. These institutions supplied $382 billion of new credit during the last 4 years, or 55 percent of the total amount extended in U.S. credit markets. Of the $382 billion, $55 billion was loaned abroad. During the same period, depositary institutions obtained consumer savings deposits of $301 billion from individual depositors. These institutions thus play a strategic role in allocating the public's savings. Their collective decisions help to shape the communities we live in, our economic well-being, and have a profound impact on our daily lives.

The Federal bank regulatory agencies have considerable influence over financial institutions. One of the most significant powers is the authority to approve or deny applications for deposit facilities. Persons wishing to organize a bank or savings institution must apply for a charter. Once established, the institution can apply for branches or remote terminals with the ability to accept deposits. It can request the relocation of its home office or branch. It can seek to acquire another institution through merger. Or it can form itself into a holding company and acquire other financial institutions as holding company subsidiaries.

The authority to operate new deposit facilities is given away, free, to successful applicants even though the authority conveys a substantial economic benefit to the applicant. Those who obtain new deposit facilities receive a semiexclusive franchise to do busines in a particular geographic area. The Government limits the entry of other potential competitors into that area if such entry would unduly jeopardize existing financial institutions. The Government also restricts competition and the cost of money to the bank by limiting the rate of interest payable on savings deposits and prohibiting any interest on demand deposits. The Government provides deposit insurance through the FDIC and the FSLIC with a financial back-up from the U.S. Treasury. The Government also provides ready access to low cost credit through the Federal Reserve Banks or the Federal Home Loan Banks.

In return for these benefits, financial institutions are required by law and regulatory policy to serve the "convenience and needs" of their communities as a condition for acquiring new deposit facilities. The "needs" of a community clearly include the need for credit services as well as deposit services. However, in practice, the regulators have tended to ignore credit needs and have focused primarily on deposit needs. An applicant for a deposit facility is required to demonstrate in great detail that the community needs additional deposit services. However, the regulators do not require any comparable analysis of the community's need for credit and how the applicant proposes to meet that need.

In practice, applicants for a charter may be interested in meeting the communities' credit needs—or they may be interested primarily in financing their own outside business interests; or they may wish to invest the community's savings in farflung ventures. Under present practice, their inclinations do not weigh heavily in the decision to award a charter or a branch.

The regulators have thus conferred substantial economic benefits on private institutions without extracting any meaningful quid pro quo for the public. Other regulatory agencies have not been as timid when awarding charters. For example, the FCC requires radio and TV license applicants to indicate how much public service broadcasting they will provide. Further, FCC licenses must be renewed periodically and renewals can be denied for failure to serve the public.

The proposed legislation directs the bank regulatory agencies to use their influence to award applications for deposit facilities in a way that will benefit local communities as well as bankers. An applicant for a deposit facility would be required to:

First, designate the area from which it expects the deposit facility will draw more than one-half of its deposit customers—primarily savings service area;

Second, analyze the deposit and credit needs of that area and how those needs would be met by the new charter or branch;

Third, indicate the proportion of consumer deposits obtained from the primary savings service area that will be reinvested in that area; and

Fourth, demonstrate how the applicant is meeting the credit needs of the areas in which it has already been chartered to do business.

An application for a deposit facility is defined to include applications for: First, new Federal charters; second, deposit insurance by newly chartered State institutions; third, branches, including remote terminals with the ability to accept deposits; fourth, home office or branch relocations; fifth, mergers with existing institutions: and sixth, acquisitions of existing institutions by financial holding companies. The requirements in the bill apply only to applications otherwise required under existing law or regulations and do not provide any new authority to the bank regulatory agencies. The bill states that in carrying out their existing authority to approve applications for deposit facilities, the regulatory agencies shall give due consideration to the applicant's past record in meeting community credit needs and its willingness to do so in the future. This does not mean that the regulators would consider community credit services as the only factor in approving or denying deposit facility applications.

On the contrary, the agencies would continue to apply the criteria they have traditionally used for approving deposit facility applications, as spelled out under exitsing law and regulations. These include the financial history and condition of the bank, the adequacy of its capital structure, its future earnings prospects, the general character of its management, and the convenience and needs of the community to be served.

The bill would not inject any significantly new element into the deposit facility application approval process already in place. Instead, it merely amplifies the "community need" criteria already contained in existing law and regulation and provides a more explicit statutory statement of what constitutes "community need," to make clear that it includes credit needs.

In order to give the regulators a better picture of community credit needs, the bill directs the regulators to encourage testimony from community organizations at deposit facility application hearings. These hearings will afford the regulators an opportunity to assess how well an institution is meeting the credit needs of the communities in which it is already chartered to do business and how the community regards its proposal for a new deposit facility. Those who testify can be representatives of the communitties already served as well as the community to be served. The deposit facility approval process can thus be systematically used to reward those institutions with a good record of community services.

The bill is not intended to force financial institutions into making high risk loans that would jeopardize their safety. Indeed, the bill specifically requires that any action taken by the bank regulators must be "consistent with safe and sound" banking practices. Moreover, there is no reason to assume that a higher degree of community reinvestment is incompatible with bank safety. Rebuilding and revitalizing communities threatened by decline is good for the communities and good for banking. Financial institutions cannot prosper in the long run unless we have balanced growth and development throughout America.

Finally, there is no evidence that banks or thrift institutions have gotten into financial difficulty by overinvesting in their local communities. On the contrary, most of the recent financial difficulties suffered by banks arose from making insider loans to affiliated persons and speculative loans outside the community in which the bank was chartered.

The bill also does not substitute the judgment of the regulator for the judgment of a banker on individual loans. Each bank or savings association will be free to exercise its best judgment on individual loan applications. However, a bank's overall community lending record would be reviewed when it applied for new deposit facilities and this record would be considered along with other factors in deciding on the application.

The bill should also be helpful in paving the way for a liberalization of branching restrictions at the State or Federal level, should Congress or the States decide to ease those restrictions. One of the most persistent arguments against branching is that outside institutions might use their branches to siphon deposits away from local communities. The policies contained in the Community Reinvestment Act should be useful in alleviating any fears that a more liberal branching policy would be inimical to community welfare.

COMPTROLLER OF THE CURRENCY,
ADMINISTRATOR OF NATIONAL BANKS,
Washington, D.C., March 28, 1977.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for comments on S. 406, the Community Reinvestment Act of 1977.

The intent of the bill, as explained in your introductory remarks, is "to establish a system of regulatory incentives to encourage banks and savings institutions to more effectively meet the credit needs of the localities they are chartered to serve, consistent with sound lending practices. We agree wholeheartedly that financial institutions should serve the credit needs of their relevant markets.

As we wrote you last October, the Comptroller of the Currency recognizes the importance of assuring that national banks serve the convenience and needs of their communities. As the primary regulator of federally chartered commercial banks, we have assumed a central role in detecting and combatting the problems which S. 406 seeks to address. National bank examinations are deliberately rigorous to assure that national banks are meeting these needs, while maintaining safety and soundness of operation.

As part of our efforts, this Office, together with the Justice Department, HUD, the Federal Reserve Board, the FDIC, and the Federal Home Loan Bank Board, created the Interagency Task Force on Fair Housing Enforcement. The purpose of the Task Force is to consider the various aspects of fair housing enforcement and seek solutions to the problems encountered. Discussions so far have centered on the powers of each agency to implement regulations concerning fair housing and the desirability of keeping records on applicants' race, color, sex, etc.; examining procedures, training and techniques; and appropriate and permissible corrective mechanisms.

Separately, we have signed a special memorandum of understanding with the Department of Justice, Civil Rights Division, to the effect that this Office will select several banks at which Justice attorneys will be present as observers during the fair housing portion of our special consumer examination. This understanding should result in a training technique by which the experts at Justice will be able to offer our examiners the benefit of their experience in investigating discrimination allegations.

A third major activity in the fair housing area is a data collection survey which our Office has conducted in a number of banks across the nation in recent months. Loan applicants at selected national banks were asked to complete a special form which records their personal and economic characteristics. The bank involved was required to provide a written explanation why any application was rejected. Location of property also was recorded, and we anticipate that the comparison of this information will be made with census tract data available from the Commerce Department. Now that the pilot project has been completed, we now are evaluating the suitability of the program to nationwide use.

The commitment of the Comptroller's Office to the cause of community revitalization goes even further with our involvement in the Urban Reinvestment Task Force. As you know, this interagency body presently is engaged in developing the Neighborhood Housing Services program on a national scale. In the future the Task Force hopes to adopt a more comprehensive approach, designed to help alleviate the shortage of commercial and small business loans in deteriorating areas, as well.

As did the previous Comptroller, we continued in encouraging national bank executives to involve their institutions actively in efforts to preserve their communities. Especially, we will continue to work with HUD in the important area of housing lending to develop practical ways of achieving better service to the needs of the banking public.

We have found that, in general, a bank serves its depositors best when it invests prudently in its community, particularly in the form of loans to individuals and businesses. This policy is reflected clearly in our charter, branch, merger, consolidation, and asset purchase procedures.

It is in light of these procedures, however, that we believe the provisions of S. 406 do not provide the comprehensive solutions to the complex problems of community disinvestment which trouble us all. While we do not claim to have all the answers to the difficult problems arising from community financial needs, private initiatives by banks to respond to those needs, and the most effective governmental role, we do not agree with your assertion that "the credit needs of a locality and the applicant's capacity to serve these needs have been almost ignored by the regulatory agencies." A review of our activities leads to the contrary conclusion.

The Comptroller's Policy Statements on Corporate Activities, a copy of which is attached, are broadly drawn to cover national bank charters, branches, mergers, conversions, and relocations, among others. For each type of application made to this Office, a national bank or group desiring to organize a national bank must illustrate graphically the primary service area (PSA) of the facility in question. The PSA is defined as the smallest area from which the bank expects to draw approximately 75 percent of its deposits. Its boundaries must take into account natural and artificial access barriers, traffic patterns, and population concentration.

Applicants are required to assemble a broad range of information with respect to the primary service area which they have delineated. Organizers of a national bank, for example, must describe the competitive environment they wish to enter. In addition to the number of bank offices located in the area, total deposits and total loans in commercial banks must be listed. The organizers then must identify all banks and branches which are expected to compete with the new bank, and must detail total loans, as well as deposits, for each of those facilities over the previous four-year period.

The charter application further requires organizers to outline the various services offered by banks and branches in the PSA. Deposit services and loan services share equal significance in this section of the application, and the organizers must indicate how the proposed bank will offer competitive rates for each. Organizers must conclude with projections for loan and deposit business during the first three years of operation.

A national bank branch application closely resembles the charter format. An applicant bank must characterize the loan and deposit activity of all commercial banks in the area to be served by the new branch. As with a charter application, the applicant must answer a comprehensive list of questions on the types of competitive services which the new branch will offer to enhance the convenience and meet the needs of its community. In this regard, the applicant also must describe the variety and intensity of competition offered by neighboring financial institutions. Finally, the applicant must project the volume of business, including loans and deposits, which the branch will handle during its first three years of operation.

The application which this Office uses for mergers, consolidations, and asset purchases is also comprehensive. The applicant is required to provide an economic profile of the relevant geographic market. This must include a careful description of projected banking services, such as banking hours, loan interest rates, and deposit rates. Moreover, the applicant is required to enumerate any factors which will affect the convenience and needs of the community to be served. Throughout the application form considerations of loan and deposit activity are of equal prominence. We attach copies of all these forms for your information.

It is important to understand that the PSA is a regulatory, and not a statutory, invention. In exercising our franchising authority this Office has found it necessary to provide for the orderly and objective evaluation of banking needs in local markets. The PSA is designed to serve that purpose. But just as the PSA is a convenient unit of measure, uniform in its application, the regulatory origin of the concept also allows this Office to treat its delimitation with considerable flexibility and professional judgment. Were we to be constrained by statute in this regard, we are certain that the resultant PSA often would not accurately reflect the true banking market.

Illustrative of this point is the importance of non-geographic components in the construction of certain PSA's. For example, the American Indian National Bank in Washington, D.C., was established primarily to serve the needs of a particular segment of the United States population nationwide. Similarly, there are 81 other minority-owned banks throughout the country which have been chartered deliberately to serve the needs of specific groups, irrespective of geographic location.

Geography also plays little role in a large proportion of the business conducted by any of the nation's largest commercial banks with national and multi-national corporations. Moreover, many banks, both large and small, receive substantial deposits from customers who bank where they work or enroute to work rather than in their home communities.

By requiring an applicant for a banking facility to depict a "primary savings service area," S. 406 ignores this critical distinction between regulatory and statutory standards. The bill would require the regulatory agency to base its actions on an inflexible and frequently unrealistic market measurement. Thus, the bill's elemental rigidity would make its provisions counterproductive.

Our present system of credit allocation is based in large measure upon vigorous competition among numerous financial intermediaries. For the most part, it works well. However, the bill's narrow focus upon retail markets may encourage regulatory agencies to ignore one of the most important roles of the nation's commercial banking system, *i.e.*, to serve as a major supplier of short- and intermediate-term credit to business and industry. Thus, the bill, while well-intentioned, could conceivably force short-term regulatory actions which could have impact upon employment municipal services, and innumerable other economic interests essential to the nation's well-being and, indeed, to the welfare of the very retail customers which the bill is designed to benefit. We have serious reservations as to whether any regulatory agency could have the wisdom necessary to administer such a system to the maximum benefit of competing economic interests. Such a governmentally encouraged departure from the established mechanisms of our complex credit economy should be approached with extreme caution.

As a final point, the Comptroller's Office historically has sought to fulfill another major purpose of S. 406 by recognizing the importance of consulting interested persons in a community to ascertain local financial needs and the adequacy of existing banking services.

Our regulations governing applications for various types of bank activities are designed to provide an opportunity for any interested party to submit comments or request a hearing on any application. In order to encourage community participation in this process, on several occasions we have absorbed the hearing transcript costs for protesting citizen groups.

We trust that this information will be helpful.

Sincerely,

ROBERT BLOOM,
Acting Comptroller of the Currency.

88-032 O - 77 - 2

CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., March 21, 1977.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to provide comments on your proposed "Community Reinvestment Act of 1977" (S. 406), as requested by your letter of December 17.

The Board agrees with the findings of the bill that regulated institutions should help to satisfy the convenience and needs of the communities in which they are chartered. The Board also agrees that the financial supervisory agencies should encourage financial institutions to help meet the credit needs of their communities to the extent this is consistent with safe and sound operations. We believe, however, that this obligation is imposed upon the Board under existing statutes, and we have undertaken to fulfill that obligation in our various regulatory and supervisory activities. Therefore, while the Board recognizes that credit inadequacies may exist in parts of some communities, we are of the opinion that enactment of the proposed legislation would not enhance our ability to encourage financial institutions to meet such local credit needs.

The proposed bill assumes that supervisory authorities stress the importance of providing deposit services while paying insufficient attention to the extent to which applicant institutions propose to meet the credit needs of their communities. The Board is responsible for the evaluation of applications (a) for holding company expansion through acquisitions, (b) for mergers in which the continuing bank is to be a State member bank, and (c) for new branch offices of State member banks. Regulatory authority granted to the Board in these cases directs the Board to consider the "convenience and needs" of the community involved. The Board has interpreted this term to encompass "credit needs" as one of the major factors to be considered in acting on such applications.

The Board's application forms and its review procedures are essentially the same in any case involving a change in banking structure. Both consider the potential of the proposed change in meeting local credit needs. For example, applicants for the acquisition of a bank requiring approval of the Board under section 3(a) of the Bank Holding Company Act of 1956 must supply relevant information on changes expected in the various banking services offered. Such information includes anticipated changes in interest rates on loans, maximum maturities and other loan terms, and significant changes expected in the loan and investment portfolio of the bank to be acquired. This information, when used in conjunction with information about the holding company's past performance and examiners' reports on other banks in the holding company, is usually sufficient to determine whether the applicant intends to serve the "convenience and needs"—including both depository and credit needs—of the community involved.

The Board is concerned about the problems that would inevitably surface if Federal Regulatory powers were expanded, to the extent proposed by the bill, for the purpose of encouraging specific local types of lending. Establishing standards for setting the proportion of total loans that an institiution should allocate to local credit would necessarily be arbitrary. Small banks, especially those in rural areas, probably make the major portion of their loans to local individuals and businesses at present, and might not be affected to any great extent. But larger institutions located in major banking centers may solicit deposits and extend loans on a regional, statewide, national and international basis. To restrict the activities of these institutions through Federal regulation could well prove counter-productive even to the purposes of this bill. It could block the flow of funds—mortgage credit, for example, or funds for new capital investment—from an established community with excess savings to a growing community unable to generate sufficient savings to meet its expanding financing needs.

The Board believes that improvements in the allocation of credit are more likely to be achieved by removing existing legal and regulatory impediments to the free flow of funds in markets than by adding new ones. We recognize of course, that markets do not always work in ways that maximize social priorities, and that thus there may be particular credit needs that public policy will need to encourage. But we should proceed most carefully and cautiously in imposing public policy objectives on private lending institutions since the effects on our present private competitive credit market system could be profound. It is important to remember that each time a particular credit use is mandated by law or regulation, some other credit use—that otherwise would have been accommodated—must go unsatisfied. Indeed, as long as depositors are free to move their funds where they perceive the highest return or the greatest safety, it may not be possible to mandate flows of credit into particular channels.

I hope that these comments will be helpful to you in the further consideration of this legislation.

Sincerely yours,

ARTHUR F. BURNS.

FEDERAL DEPOSIT INSURANCE CORPORATION,
Washington, D.C., May 4, 1977.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This responds to your request for a report on S. 406, 95th Congress, the "Community Reinvestment Act of 1977."

S. 406 would require the FDIC, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Home Loan Bank Board of develop procedures for utilizing their existing authority with respect to charter, branch and deposit insurance applications, as well as merger and holding company applications, to encourage regulated institutions to help meet the credit needs of their local communities insofar as may be consistent with safe and sound operation of such institutions, In connection with such applications, insured banks and savings and loan institutions and their holding companies would be required to—

(1) delineate the deposit facility's primary service area (*i.e.*, the area from which it obtains or expects to obtain over one-half of its deposit customers);

(2) analyze the deposit and credit needs of such area and how they propose to meet these needs;

(3) indicate what proportion of its "consumer deposits" (*i.e.*, deposits of individuals not exceeding $100,000) received from residents of the primary service area would be reinvested in that area; and

(4) demonstrate how they are already meeting the needs of the primary service areas where they are doing business.

While the bill contains no express authority to do so, the regulatory agencies could presumably utilize this information, together with testimony presented at hearings on the application by community and consumer organizations, as the basis for denying any of the aforementioned applications. The bill would also require the agencies to obtain periodic reports from regulated institutions on the amount of consumer deposits received and credit extended in their primary service areas and to make this information available to the public.

We fully support the objectives of this bill. However, it raises very complex and difficult problems which should be dealt with on a comprehensive basis and not by piecemeal enactments. As stated by HUD Assistant Secretary for Community Planning and Development, Robert C. Embry, Jr., in his March 24, 1977 testimony:

"Community reinvestment is not an end in itself, but a means to the goal of neighborhood revitalization. We believe there should be a comprehensive approach to revitalization which includes specific attention to reinvestment problems. The Department is already working actively to encourage and facilitate revitalization through its Community Development Block Grant program, its demonstration programs such as urban homesteading, its modification of its insurance programs, and its research program.

"We believe that an overall strategy is required which not only addresses the issue of redlining and disinvestment, but also such matters as neighborhood representation, careful utilization of mortgage insurance programs, and integration of investment leveraging with community development activities. Initiatives in these latter areas have already been undertaken."

We also share the Federal Home Loan Bank Board's concern that S. 406 might not achieve its intended objectives. On the contrary, the practical effect of the bill could be to discourage financial institutions from making applications for offices in neighborhoods where funds are badly needed because of the reexamination that this would entail with respect to their lending policies in service areas where they already have offices. Some institutions might even close down offices already established in certain neighborhoods if they felt that they could be publicly criticized for not meeting the credit needs of such neighborhoods when they apply for a branch in another location. The result of this would be to increase the present concentration of financial institution offices in more affluent neighborhoods.

Finally, we believe that the periodic reporting requirements in § 4(4) of the bill would impose an unnecessary reporting burden on financial institutions which would be largely duplicative of requirements already in effect under the Home Mortgage Disclosure Act. The information so elicited would be of little use under the bill's proposed regulatory framework because such information would be required, in any event, in connection with applications submitted by financial institutions for regulatory approvals subject to the bill's provisions.

For the foregoing reasons, we are not able to support enactment of S. 406 at this time. However, if Congress should nevertheless decide to proceed with its consideration of this proposed legislation, we would strongly recommend that the following largely technical suggestions be incorporated in the bill.

(1) Because the bill introduces the essentially new concept of considering whether an applicant is meeting the convenience and needs of communities not directly involved in the particular application, the legislative history of the bill should make abundantly clear that the regulatory agencies may deny an application on the basis of any of the statutory factors required to be considered, including the convenience and needs not only of the community served or to be served by the deposit facility directly involved in the application but also of any community in which the applicant (or any depositary institution under common control therewith) is already doing business, as set forth in § 4(2) of the bill.

(2) In order to cover those State-chartered savings and loan associations which are not authorized to accept accounts denominated "deposits," we suggest adding a reference to "accounts" or "savings accounts" where appropriate in the bill.

(3) Since admission to membership in the Federal Reserve System automatically confers deposit insurance on a State-chartered bank, we suggest adding applications for such membership to the list of covered applications in § 3(3).

(4) There is no apparent reason for the bill to cover only deposit insurance applications of "newly chartered" banks; thus, those words should be deleted from § 3(3)(B).

(5) Since most of the applications listed in § 3(3) could be necessitated under emergency circumstances involving the failure or possible failure of an insured depositary institution where the time factor would be crucial, the preamble to § 3(3) should exclude any application necessitated by such circumstances.

(6) "Primary savings service area" should be more precisely defined. The present definition in § 3(4) permits great leeway to a depositary in deciding what its service area is and could result in "gerrymandering" the boundaries so long as the 50 per cent deposit requirement is met.

(7) Because of the difficulty of projecting long-term future credit needs of a community, we suggest substituting "estimate" for "indicate" in § 4(1)(C) and specifying a realistic time frame to be covered by such estimate.

(8) Since relocation of a branch may result in an institution's no longer serving a particular community, we suggest adding the following at the end of § 4(1)(D):

> "and, in the case of relocating an existing branch or office, how such relocation will affect the credit needs of the service area no longer to be served."
>
> Also in § 4(1)(D), the word "total" should be inserted before "credit needs" to underline the need to take account of all forms of credit utilized in the community.

(9) To more clearly articulate the intent underlying § 4(2), we suggest revising it to read as follows:

> "(2) Consideration, as part of the agency's assessment of the convenience and needs factor, of the applicant's record in meeting the credit needs of the primary savings service areas in which it or any depositary institution

under common control therewith already does business and of its proposal for meeting the credit needs of the primary savings service area where the particular deposit facility is or is to be located."

(10) Section 4(3) of the bill should be amended to delete "present testimony at hearings on" and to insert in lieu thereof "submit information in connection with." As presently written, this paragraph seems to assume that formal hearings are routinely held in connection with such applications. This is not the case. We also believe that, because of its ambiguity, the reference in § 4(3) to "encouraging" submission of data by consumer organizations should be deleted. As far as permitting intervention by such organizations in application procedures, that is presently authorized under existing FDIC regulations.

(11) By way of a more substantive suggestion, we recomemnded deleting § 4(4) in its entirety. The reporting requirements contained therein seem to be largely duplicative of requirements already in effect under the Home Mortgage Disclosure Act. In any event, reports by institutions not making any applications of the type listed in § 3(3) would be of no immediate use to the regulatory agencies. Of course, any institution making such an application would submit the required information in connection therewith under § 4(1).

(12) Finally, we believe the term "credit needs" as used in the bill should be defined to mean loan demand by creditworthy borrowers residing or conducting commercial or other types of enterprises in the community, in order to allay fears that the bill contemplates a lowering of credit standards or usurpation of the banker's duty to exercise sound credit judgment.

If we can be of any further assistance in this connection, please let us know.

Very truly yours,

ROBERT E. BARNETT, *Chairman.*

The CHAIRMAN. I'm going to ask the first four witnesses to come forward as a panel if they would. Our first witness is Mr. Ralph Nader, of the Center for the Study of Responsive Law. Our next witness is Ms. Gale Cincotta, National People's Action; and Mr. Carl Holman, President of the National Urban Coalition; and Mr. Henry Schechter, Director of the Department of Urban Affairs, AFL-CIO.

I appreciate the fact that some of you have already limited your statements rather severely. If you could present your statements in as brief a period as possible, then we could proceed with the questioning.

Do you have a statement, Senator Heinz?

Senator HEINZ. No, Mr. Chairman.

The CHAIRMAN. Mr. Nader, go right ahead, sir.

STATEMENT OF RALPH NADER

Mr. NADER. Thank you, Mr. Chairman and distinguished members of the committee, for your invitation to comment on S. 406, the Community Reinvestment Act. The bill would provide an incentive for depository institutions to better serve the credit needs of their local communities. It is intended to moderate neighborhood disinvestment by depository institutions. This destructive pattern has been brought to the attention of Congress by the efforts of citizen organizations. Reflecting this origin, the bill eschews the costly and inefficient tax credit schemes so often advanced by the financial industry and its friends in the Treasury Department as a means to direct credit to areas of social priority. Instead, the bill relies on an economical and efficient incentive to redirect lending patterns—conditioning bank charter and operating privileges on the provision of adequate credit services in the local community.

I think what this bill distinguishes, Mr. Chairman, is that it clearly enunciates the principle that if the Federal Government is going to extend a whole array of benefits, privilegs and subsidies to banking institutions, that the same government should condition these privileges and subsidies on the grounds of some general criteria of responsiveness to the community where the subsidized institution is operating and receiving its deposits. I hope that in the future you can extend this principle throughout the Federal Government so that where the taxpayer is asked to subsidize or to nourish in effect, a system of corporate welfare to very abundantly endowed financial or other corporate institutions, that the taxpayers get a return in performance, that these subsidies and privileges are not just to be used for the aggregation of corporate power or for the establishment of a permanent gift mechanism, but they are to be conditioned on a responsiveness to the community.

The bill would direct the Federal banking agencies when acting on charter, branch, merger, or acquisition applications to consider the applicant bank's or thrift's record in meeting the credit needs of the neighborhoods surrounding its existing branch offices. The bill would also direct the banking agencies to consider the extent of the applicant's commitment to meet the credit needs of the neighborhood surrounding the proposed or newly acquired bank office. It is true that existing Federal statutes direct the banking agencies to consider community convenience and needs when acting on bank applications. It is also obvious that credit needs fall within the ambit of community convenience and needs, and that therefore the Federal banking agencies already have authority to consider the factors specified in the bill. However, the banking agencies have declined to exercise this authority.

In practice, the Federal banking agencies have narrowly construed the community convenience and needs factor to encompass only increased competition resulting from new bank offices and greater financial and managerial resources resulting from acquisitions and mergers. On the rare occasions where the agencies have even mentioned lending records, they were only considered as a make-weight in a decision already made on other grounds. The bill is needed to reverse this agency neglect.

The bank agencies' operating assumption that depository institutions have no obligation to give priority to the credit needs of their local communities has prevented the agencies from addressing one of the most critical issues in banking—the disinvestment of older neighborhoods, for the most part in urban areas, but to a lesser extent in towns and rural areas. The slow strangulation of neighborhood vitality that results when lenders reduce the supply of conventional mortgage loans and small business loans has been well documented by several committees of Congress, including the Senate Banking Committee. And, of course, also well documented is the sequential effect of similar disinvestment whether by insurance companies or other institutions who flee the neighborhood or redline it. The disinvestment of urban neighborhoods has also facilitated suburban sprawl, a trend with high social costs in an environment of increasing energy, material, and land shortages. Yet, in spite of the direct relationship between lending policies and neighborhood disinvestment, the banking agencies have taken no actions to curb disinvestment.

Underlying the inaction of the Federal banking agencies is their attitude that the public interest will best be served if bank credit is constantly shifted to the locales offering the highest rate of return. Under this view neighborhood disinvestment is nothing more than the transfer of capital out of a neighborhood where it would be used less efficiently. The Federal Reserve Board in approving the merger of Marine Midland Bank's—a bank holding company—10 subsidiary banks into a single bank offered the following rationale:

> It is true, of course, that by transforming separate subsidiary banks into branches of a unified statewide bank, the merger would make it easier for Marine to use deposits received in one area of the state as a basis for making loans in another. However, the Board believes this could be an advantage of the merger, and not a disadvantage.

This bank agency analysis conveniently overlooks the facts that depository institutions are the primary source of residential mortgage credit and that in the area of housing a laissez-faire approach to credit flows does not often achieve optimum social results. One might also add here or recall here Justice Brandeis' description of the deposits as being other people's money. That has to be continually emphasized—other people's money. We're not dealing here with traditional commercial exchanges. We're dealing with a trust factor for affecting other people's money.

On the first point, as of March 31, 1976 residential mortgage loans represented 52 percent of the total dollar amount of all loans extended by commercial banks, savings and loans and mutual savings banks, and there's a little table there that specifies that.

The residential mortgage credit provided by these depository institutions—$443 billion—represented 73 percent of the total volume of residential mortgage credit in the Nation—$604 billion.

On the second point, the housing market is subject to distortions and destabilizing influences that have undesirable social effect of major consequence. Individual home purchase and home repair decisions are heavily influenced by the related decisions of other individuals, a process often referred to as the neighborhood effect. Consumers, particularly moderate and lower income home seekers, are often ill informed about home financing opportunities and even when informed have limited bargaining power. Speculators are often in a position to profit by manipulating and accelerating these destabilizing forces.

These instabilities of the housing market cause neighborhoods to be very fragile institutions. An essential element in maintaining their vitality is an adequate supply of conventional credit. When depository institutions shun the credit needs of their local neighborhood in search of easier, short-term profits elsewhere, the vitality of these neighborhoods is often undermined. This social cost has been overlooked by the Federal banking agencies.

S. 406 would establish a mechanism to counter the tendency of depository institutions to shun neighborhoods in which destabilizing trends have appeared. By conditioning the privilege of bank expansion on a showing of adequate service in the local community the bill would reward those financial institutions which provide adequate credit services in their local communities. S. 406 would, in effect, interject the community service factor into the market calculations of depository instiutions. In the long run this will be saying the financial institutions have to be saved from themselves. If they continue redlining areas on an ever expanding basis, they are going to undermine the very basis of their own prosperity at the pedestal of a short-term maximum profit ideology. As a consequence, bank expansion and adequate community service would be interlocked. S. 406 would make it possible to moderate neighborhood destabilization while at the same time maintaining a flexible banking structure and free credit flows. It would encourage banks to go into a neighborhood to service it rather than to stripmine it.

The strategy embodied in S. 406 is particularly relevant for a period in which the Federal budget must be carefully managed. The bill does not depend on a Federal subsidy, such as a tax credit, to generate incentives. Rather, the incentive derives from the privilege to establish additional banking facilities. The right to grant this privilege is a public resource that would be used more effectively if S. 406 were enacted.

S. 406 does not provide community organizations with the right to seek judicial review when the Federal banking agency has abused its discretion or acted contrary to law. Whether community organizations have standing to seek judicial review of bank agency actions on applications is unclear under existing law. The banking agencies are naturally hostile to such a right. For example, on November 16, 1976 the Federal Home Loan Bank Board's Acting General Counsel, Daniel J. Goldberg, in a speech before the U.S. League of Savings Associations stated: "Under our branching regulations, if you look at them for federals, really only another financial institution can file what we view as a substantial protest."

Like Congressional oversight, legal standing for community organizations or interested individuals for that matter is essential if the Federal banking agencies are to be held to their statutory mandate. S. 406 should provide for standing for community organizations as a final mechanism of accountability or oversight in accordance with the criteria of this legislation. I can't emphasize too much, Senator Proxmire, the need of some sort of standing so that the groups and individuals most affected can under due process of law bring these financial institutions to account.

I think the section in the bill on page 4—that's section 4(C)—needs to be expanded to specify more precisely the nature of the hearings, under what conditions they should be invoked, and what the administrative and judicial review standards are to be for community organizations and individuals.

There is an additional point I'd like to make. In the explanation for this legislation which the committee distributed earlier, in addition to the tax subsidies that financial institutions are given by the Federal Government, they have the semiexclusive franchise to do business in a particular geographic area, limitation of entry of other potential competitors, restricting competition by limiting the rate of interest payable on savings deposits and prohibiting any interest on demand deposits as well as deposit insurance, and the general backup role of the various bank agencies.

Now this is an overwhelming series of privileges and subsidies and it's about time that there be an underwhelming quid pro quo for the extension of these privileges. For too long the Federal Government has looked on its chartering responsibiliy as a mechanical clerical function, instead of asking what kinds of performance should be obtained within the market structure, so that these charters can have some sort of recompense in terms of the public interest. I'm pleased to see that this existing legislation takes an important, very modest, very nonbureaucratic, very economical step in that direction.

We have some materials to include in the record if it meets with your concurrence. Thank you, Senator.

The CHAIRMAN. We would be delighted to have the material for the record.

[Complete statement and additional materials received from Mr. Nader follow:]

CAMERA

STATEMENT OF RALPH NADER

before the

SENATE BANKING COMMITTEE

U. S. SENATE

WASHINGTON, D.C.

MARCH 23, 1977

Mr. Chairman and distinguished members of the Committee, thank you for your invitation to comment on S.406, The Community Reinvestment Act. The bill would provide an incentive for depository institutions to better serve the credit needs of their local communities. It is intended to moderate neighborhood disinvestment by depository institutions. This destructive pattern has been brought to the attention of Congress by the efforts of citizen organizations. Reflecting this origin, the bill eschews the costly and inefficient tax credit schemes so often advanced by the financial industry and its friends in the Treasury Department as a means to direct credit to areas of social priority. Instead, the bill relies on an economical and efficient incentive to redirect leading patterns - conditioning bank charter and operating privileges on the provision of adequate credit services in the local community.

The bill would direct the federal banking agencies when acting on charter, branch, merger, or acquisition applications to consider the applicant bank's or thrift's record in meeting the credit needs of the neighborhoods surrounding its existing branch offices. The bill would also direct the banking agencies to consider the extent of the applicant's committment to meet the credit needs of the neighborhood surrounding the proposed or newly acquired bank office. It is true that existing federal statutes direct the banking agencies to consider "community convenience and needs" when acting on bank applications.

It is also obvious that credit needs fall within the ambit of "community convenience and needs", and that therefore the federal banking agencies already have authority to consider the factors specified in the bill. However, the banking agencies have declined to exercise this authority.

In practice the federal banking agencies have narrowly construed the "community convenience and needs" factor to encompass only increased competition resulting from new bank offices and greater financial and managerial resources resulting from acquisitions and mergers. On the rare occasions where the agencies have even mentioned lending records, they were only considered as a make-weight in a decision already made on other grounds. The bill is needed to reverse this agency neglect.

The bank agencies' operating assumption that depository institutions have no obligation to give priority to the credit needs of their local communities has prevented the agencies from addressing one of the most critical issues in banking - the disinvestment of older neighborhoods, for the most part in urban areas, but to a lesser extent in towns and rural areas. The slow strangulation of neighborhood vitality that results when lenders reduce the supply of conventional mortgage loans and small business loans has been well documented by several committees of Congress, including the Senate Banking Committee. The disinvestment of urban neighborhoods has also facilitated suburban sprawl, a trend with high social costs in an environment of increasing energy, material, and land shortages. Yet, in spite of the direct relationship between lending policies and neighborhood disinvestment, the banking agencies have taken no actions to curb disinvestment.

Underlying the inaction of the federal banking agencies is their attitude that the public interest will best be served if bank credit is constantly shifted to the locales offering the highest rate of return. Under this view neighborhood disinvestment is nothing more than the transfer of capital out of neighborhood where it would be used less efficiently. The Federal Reserve Board in approving the merger of Marine Midland Banks' (a bank holding company) ten subsidiary banks into a single bank offered the following rationale:

> It is true, of course, that by transforming separate subsidiary banks into branches of a unified state-wide bank, the merger would make it easier for Marine to use deposits received in one area of the State as a basis for making loans in another. However, the Board believes this could be an advantage of the merger, and not a disadvantage.

This bank agency analysis conveniently overlooks the facts that depository institutions are the primary source of residential mortgage credit and that in the area of housing a laissez-faire approach to credit flows does not often achieve optimum social results. On the first point, as of March 31, 1976 residential mortgage loans represented 52% of the total dollar amount of all loans extended by commercial banks, savings and loans and mutual savings banks.

	Residential Mortgage Loans	Total Loans
Commercial Banks (FDIC Insured)	$78 billion	$474 billion
Savings and Loans	$287 billion	$287 billion
Mutual Savings Banks	$78 billion	$83 billion
Total	$443 billion	$844 billion

The residential mortgage credit provided by these depository institutions ($443 billion) represented 73% of the total volume of residential mortgage credit in the nation ($604 billion).

On the second point, the housing market is subject to distortions and destabilizing influences that have undesirable social effects of major consequence. Individual home purchase and home repair decisions are heavily influenced by the related decisions of other individuals, a process often referred to as the neighborhood effect. Consumers, particularly moderate and lower income home seekers, are often ill informed about home financing opportunities and even when informed have limited bargaining power. Racism often generates rapid shifts in attitudes toward particular residential neighborhoods. Speculators are often in a position to profit by manipulating and accelerating these destabilizing forces.

These instabilities of the housing market cause neighborhoods to be very fragile institutions. An essential element in maintaining their vitality is an adequate supply of conventional mortgage credit. When depository institutions shun the credit needs of their local neighborhood in search of higher, short term profits elsewhere, the vitality of these neighborhoods is often undermined. This social cost has been overlooked by the federal banking agencies.

S. 406 would establish a mechanism to counter the tendency of depository institutions to shun neighborhoods in which destabilizing trends have appeared. By conditioning the privilege of bank expansion on a showing of adequate service in the local community the bill would reward those financial institutions which provide adequate credit services in their local communities. S.406 would, in effect, interject the community service factor into the market calculations of depository institutions. As a consequence, bank expansion and adequate community service would be interlocked. S.406 would make it possible to moderate neighborhood destabilization while at the same time maintaining a flexible banking structure and free credit flows.

The strategy embodied in S.406 is particularly relevant for a period in which the federal budget must be carefully managed. The bill does not depend on a federal subsidy, such as a tax credit, to generate incentives. Rather, the incentive derives from the privilege to establish additional banking facilities. The right to grant this privilege is a public resource that would be used more effectively if S.406 were enacted.

S.406 does not provide community organizations with the right to seek judicial review when a federal banking agency has abused its discretion or acted contrary to law. Whether community organizations have standing to seek judicial review of bank agency actions on applications is unclear under existing law. The banking agencies are naturally hostile to such a right. For example, on November 16, 1976 the Federal Home Loan Bank Board's Acting General Counsel, Daniel J. Goldberg in a speech before the U.S. League of Savings Associations stated:

> Under our branching regulations, if you look at them for federals, really only another financial institution can file what we view as a substantial protest.

Like Congressional oversight, legal standing for community organizations is essential if the federal banking agencies are to be held to their statutory mandate. S.406 should provide for standing for community organizations.

Attachment 1

Before the

REGIONAL ADMINISTRATOR OF NATIONAL BANKS

Richmond Region

Richmond, Virginia

In the Matter of:

The Application of American Security
and Trust Company, N.A., Washington,
D.C. to establish a branch office at
229 Pennsylvania Avenue, S.E.,
Washington, D.C.

PETITION TO DENY A BRANCH APPLICATION

The Ward 1-A Advisory Neighborhood Commission (1-A ANC), the Ward 2-C Advisory Neighborhood Commission (2-C ANC), the Ward 4-B Advisory Neighborhood Commission (4-B ANC), the Ward 5-C Advisory Neighborhood Commission (5-C ANC), the Ward 6-A Advisory Neighborhood Commission (6-A ANC), the Ward 7-D Advisory Neighborhood Commission (7-D ANC), James Powell, Dolores Dews, Columbus Burrell, Edward Gill and Earl Bryant hereby request the Comptroller of the Currency to deny American Security and Trust Company's (AS&T) application to establish a branch at 229 Pennsylvania Avenue,S.E., Washington, D.C.. AS&T has failed to provide adequate banking services in the neighborhoods represented by the ANC petitioners and in which the individual petitioners reside and seek to purchase and rehabilitate homes and operate small businesses. The Comptroller cannot properly extend to AS&T the privilege of establishing an additional branch at a new location until AS&T agrees to provide more adequate banking services in petitioners' neighborhoods.

Moreover, AS&T's lending policies have impermissible discriminatory effects on minority persons and minority neighborhoods and the Comptroller cannot properly permit AS&T to establish additional branches until it agrees to adjust its lending policies to eliminate these effects.

The testimony presented on behalf of Charlotte Holmes, Chairperson of the Housing and Community Development Committee, 6-A ANC, Charles Richardson, Jr., Chairperson, 2-C ANC, Juanita Barfield, Chairperson 5-C ANC, Samuel Carson, Chairperson 1-A ANC, and Richard Lohmeyer, Vice-Chairperson 4-B ANC at the January 10, 1977 hearing on this application before the Regional Director for Corporate Activities, Richmond Region, is incorporated by reference.

I. The Parties.

The 1-A, 2-C, 5-C, 4-B, 6-A, and 7-D ANC's (protesting ANC's) are local governmental commissions elected to represent the residents of particular neighborhoods within the District of Columbia. The neighborhoods represented by the protesting ANC's are indicated in the chart below (protesting ANC neighborhoods). These neighborhoods have a residential population ranging from 14,000 to 39,000.

ANC's were authorized by Section 738 of the District of Columbia Self Government and Governmental Reorganization Act. Public Law 93-198, December 24, 1973. Pursuant to that act the District of Columbia Government has divided the District into 36 ANC neighborhoods and has formally recognized 35 ANC's. An ANC is established when 5% of the registered voters of a designated neighborhood petition the Council of the District of Columbia (D.C. Council) to establish an ANC.

Each ANC is comprised of a number of individual commissioners. Each commissioner is elected by the registered voters from a single member district located within the ANC. The number of single member districts and hence the number of commissioners varies between ANC's, but is generally between 7 and 15. Each ANC has a chairperson who is elected at large by all the registered voters in the ANC.

AS&T currently operates at least one branch office in each of the protesting ANC's neighborhoods. Thus, as the elected representatives of the residents of these neighborhoods, the protesting ANC's and their individual commissioners have a vital interest in this proceeding. Many of their constituents are moderate and lower income persons who seek to purchase or rehabilitate homes or to operate small businesses in the neighborhoods. These constituents have been injured by AS&T's lending

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policies and will be further injured by an continuation of these policies. Thus the ANC's, the individual commissioners, and their constituents will be directly injured if the Comptroller approves AS&T's branch application without a commitment from AS&T to modify its lending policies.

James Powell and Dolores Dews are minority persons who reside in protesting ANC neighborhoods. AS&T has denied both of them mortgage loans with low downpayment requirements. James Powell, Dolores Dews and other minority residents of the protesting ANC neighborhoods have been adversely affected by AS&T's current lending policies and will be directly injured if the Comptroller approves AS&T's branch application without a commitment from AS&T to modify its lending policies.

Columbus Burrell and Edward Gill are minority persons who operate small businesses in the protesting ANC neighborhoods. Earl Bryant is a minority person who seeks to establish a small business in a protesting ANC neighborhood. AS&T has denied them small business loans. Columbus Burrell, Edward Gill and other minority small businessmen in the protesting ANC neighborhoods have been adversely affected by AS&T's current lending policies and will be directly injured if the Comptroller approves AS&T's branch application without a commitment from AS&T to modify its lending policies.

Moreover, residents of the protesting ANC neighborhoods who do not seek mortgage loans and small business loans for themselves are adversely affected when other residents and small businesses in their neighborhoods cannot obtain mortgage loans and small business loans. These residents will be injured if the Comptroller approves AS&T's branch application without a commitment from AS&T to modify its lending policies.

II. <u>AS&T's obligation to serve the protesting ANC's neighborhoods.</u>

The National Bank Act and the Federal Deposit Insurance Act direct the Comptroller to charter national banks for two basic purposes--to develop a sound monetary system and to serve community convenience and needs. 12 U.S.C. sec. 21, 24,26,27,1814,1816. 12 C.F.R. sec. 4.2(b). Thus national banks have an obligation to serve the banking needs of the communities in which they operate.

When a national bank establishes branch offices, the areas surrounding these branch offices become part of the community to be served. Thus the national bank's obligation to serve community banking needs extends to each of these branch office areas.

The home office or branch office area to which a national bank's service obligation extends is known as the primary service area. The Comptroller has defined the primary service area as the area from which a home office or branch office generates 75% or more of its deposits. <u>Comptroller's Policy Statement on Corporate Activities</u>, October 26, 1976 at 6, 11. In a densely populated urban area which has many competing depository institutions, such as the District of Columbia, a primary service area can be accurately characterized as a neighborhood.

The Comptroller's regulations recognize a branch office's obligation to serve its local neighborhood. A national bank requesting permission to establish a branch office must describe in detail the economic character of the primary service area and indicate the primary service area's credit needs. The applicant national bank must also describe the banking services that the proposed branch will offer. <u>Comptroller's Form CC 7024-0.6</u>. (Replaced on January 2, 1977, by Form CC 7021-01).

The obligation to serve the banking needs of the primary service area means that a national bank must make reasonable efforts to meet the area's credit needs. When a branch application indicates that the applicant will not make such reasonable efforts, the Comptroller cannot properly approve the application. Similarly, when an applicant has not made reasonable efforts to serve the credit needs of the primary service areas surrounding its existing branch offices, the Comptroller cannot properly authorize it to expand by establishing additional branches.

AS&T operates 11 branch offices in the protesting ANC neighborhoods. The primary service areas of these branches represent more than one-half of the total area of the protesting ANC neighborhoods. The protesting ANC neighborhoods, the location of AS&T's branch offices operating in these neighborhoods, and the estimated primary service area for each branch office are indicated on the chart below.

Most of these branch offices were established prior to 1960 and their primary service areas were not delineated in the branch applications. However AS&T's 1962 application to establish a branch office at 5911 Blair Road, N.W. (within the 4-B ANC) delineated a primary service area roughly equivalent to a circle with a one mile radius. Similarly, the Comptroller's field investigation concerning AS&T's 1962 application to relocate its Georgia Avenue branch office (within the 1-A ANC) from 3608 Avenue, N.W. to 3500 Georgia Avenue, N.W. indicates a circular service area with a one mile radius. However, AS&T's applications to establish branch offices at 120 C Street, N.W. (within the 2-C ANC) in 1966 and 21st and L Streets, N.W. in 1974, and its application in this proceeding have delineated primary service areas with radii of approximately 1/3 of a mile.

Two factors account for the smaller primary service areas in the later applications. First, new branches established by other financial institutions have increased the competition for deposits and thereby shrunk the primary service areas. Second, primary service areas are smaller in business areas where most consumer deposits are obtained from employees at their place of work than in residential neighborhoods. Considering both these factors, petitioners estimate the primary service areas for AS&T's branch offices to have currently a 1/2 mile radius in residential neighborhoods and a 1/3 mile radius in business areas.

However, the assumption of circular primary services areas in some cases significantly understates the portions of the protesting ANC neighborhoods that lie within the primary service areas. The ANC's generally represent natural neighborhoods and thus provide a natural customer deposit base. Therefore the primary service areas often conform more closely to ANC boundaries than to circular areas.

Moreover, by definition a branch office receives 25% of its deposits from outside its primary service area. Since the portions of the protesting ANC neighborhoods which lie outside the primary service areas are close to the AS&T branch offices, AS&T will receive a significant volume of deposits from these areas.

Based on an evaluation of neighborhood characteristics petitioners have estimated the percentage of deposits at each AS&T branch that is obtained from the protesting ANC neighborhoods. The estimation indicates that the 11 AS&T branch offices, with three exceptions, obtain at least

50% of their deposits from the protesting ANC neighborhoods. The three exceptions involve branch offices located on the boundary of the 2-C ANC, an ANC in which AS&T operates a total of 7 branch offices. In view of this contribution of deposits by the protesting ANC neighborhoods, AS&T has an obligation to serve the banking needs of these neighborhoods.

Petitioners have also estimated the percentage of deposits at each AS&T branch that are obtained from commuters--persons who work in the protesting ANC neighborhood but do not reside there. Commuter deposits represent a high percentage of total deposits at AS&T's seven branches located in the 2-C ANC. In residential neighborhoods such as the 7-D ANC and the 4-B ANC commuter deposits do not represent a significant share of total branch deposits.

AS&T's obligation to serve the banking needs of the protesting ANC neighborhoods derives from their role as primary service areas. The primary service area is defined in terms of total branch deposits--commuter deposits as well as resident deposits. Thus the total deposits obtained from an ANC neighborhood, including commuter deposits, is the relevant factor in determining that obligation. However, once that obligation has been established, resident deposits are a relevant factor in assessing the impact of the branch on the neighborhood.

The Federal Deposit Insurance Corporation (FDIC) has provided petitioners with the volume of deposits by deposit category held by each AS&T branch office as of June 30, 1975. Based on the FDIC deposit data petitioners have estimated the volume of AS&T branch office deposits obtained from each protesting ANC neighborhood and from resident consumers and businesses.

1-A ANC

Georgia Avenue Branch
3500 Georgia Ave., N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 70%
Estimated Percent of ANC Area Deposits obtained from Commuters: 30%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 49%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$5.136	$3.595	$2.517
Passbook Savings	$8.405	$5.884	$4.118
Time	$ .669	$ .468	$ .328
Total Deposits	$14.210	$9.947	$6.963

2-C ANC

Mt. Vernon Square Branch
7th Street and Mass. Ave., N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 80%
Estimated Percent of ANC Area Deposits obtained from Commuters: 75%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 20%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$19.745	$15.796	$3.949
Passbook Savings	$11.355	$ 9.084	$2.271
Time	$2.232	$ 1.786	$ .446
Total Deposits	$33.332	$26.666	$6.667

2-C ANC

Northeast Branch
8th and H Streets, N.E.

Estimated Percent of Branch Deposits obtained from ANC Area: 30%
Estimated Percent of ANC Area Deposits obtained from Commuters: 30%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 21%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$ 6.080	$1.824	$1.277
Passbook Savings	$11.253	$3.376	$2.363
Time	$ 1.444	$ .433	$ .303
Total Deposits	$18.777	$5.633	$3.943

15th and M Streets Branch
15th and M Streets, N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 40%
Estimated Percent of ANC Area Deposits obtained from Commuters: 80%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 8%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$26.411	$10.564	$2.113
Passbook Savings	$ 8.765	$ 3.506	$ .701
Time	$ 1.576	$ .630	$ .126
Total Deposits	$36.752	$14.700	$2.940

2-C ANC

O Street Branch
1st and O Streets, N.E.

Estimated Percent of Branch Deposits obtained from ANC Area: 30%
Estimated Percent of ANC Area Deposits obtained from Commuters: 40%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 18%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$7.860	$3.144	$1.414
Passbook Savings	$3.546	$1.418	$ .638
Time	$ .676	$ .270	$ .122
Total Deposits	$12.082	$ 4.833	$2.174

Columbia Branch
911 F Street, N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 80%
Estimated Percent of ANC Area Deposits obtained from Commuters: 92%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 6%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$13.732	$10.986	$ .824
Passbook Savings	$ 3.782	$ 3.026	$ .227
Time	$ .887	$ .710	$ .053
Total Deposits	$18.401	$14.721	$ 1.104

2-C ANC

Federal Triangle Branch
1111 Pennsylvania Ave., N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 50%
Estimated Percent of ANC Area Deposits obtained from Commuters: 97%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 2%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$6.375	$3.188	$ .128
Passbook Savings	$4.138	$2.069	$ .083
Time	$ .895	$ .448	$ .018
Total Deposits	$11.408	$5.704	$ .228

120 C Street Branch
120 C Street, N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 50%
Estimated Percent of ANC Area Deposits obtained from Commuters: 95%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 3%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$5.142	$2.571	$ .154
Passbook Savings	$ .872	$ .439	$ .026
Time	$ .122	$ .061	$ .004
Total Deposits	$6.142	$3.071	$ .184

4-B ANC

Blair Road Branch
5911 Blair Road, N.W.

Estimated Percent of Branch Deposits obtained from ANC Area: 75%
Estimated Percent of ANC Area Deposits obtained from Commuters: 15%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 64%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$4.395	$3.296	$2.813
Passbook Savings	$4.589	$3.440	$2.937
Time	$1.232	$ .924	$ .788
Total Deposits	$10.216	$7.662	$6.538

5-C ANC

O Street Branch
1st and O Streets, N.E.

Estimated Percent of Branch Deposits obtained from ANC Area: 50%
Estimated Percent of ANC Area Deposits obtained from Commuters: 30%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 35%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$7.860	$3.930	$2.751
Passbook Savings	$3.546	$1.773	$1.241
Time	$ .676	$ .338	$ .237
Total Deposits	$12.082	$6.041	$4.229

6-A ANC

Northeast Branch
8th and H Streets, N.E.

Estimated Percent of Branch Deposits obtained from ANC Area: 50%
Estimated Percent of ANC Area Deposits obtained from Commuters: 20%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 40%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$ 6.080	$3.040	$2.432
Passbook Savings	$11.253	$5.627	$4.501
Time	$ 1.444	$ .722	$ .578
Total Deposits	$18.777	$9.389	$7.511

East Capitol Street Branch
9th and East Capitol Streets

Estimated Percent of Branch Deposits obtained from ANC Area: 50%
Estimated Percent of ANC Area Deposits obtained from Commuters: 20%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses: 40%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$3.142	$1.571	$1.257
Passbook Savings	$5.279	$2.640	$2.111
Time	$ .903	$ .452	$ .361
Total Deposits	$9.324	$4.662	$3.730

7-D ANC

Benning Branch
3839 Minnesota Ave., N.E.

Estimated Percent of Branch Deposits obtained from ANC Area:	50%
Estimated Percent of ANC Area Deposits obtained from Commuters:	20%
Estimated Percent of Branch Deposits obtained from ANC Area residents and businesses:	40%

Deposit Type	Branch (FDIC Data)	ANC Area (Estimation)	ANC Residents & Businesses (Estimation)
	(All amounts in millions)		
Demand	$3.934	$1.967	$1.574
Passbook Savings	$9.310	$4.655	$3.724
Time	$1.170	$ .585	$ .468
Total Deposits	$14.414	$7.207	$5.765

III. The credit needs of the protesting ANC neighborhoods.

Each protesting ANC neighborhood encompasses a substantial residential area and varying sized commercial strips comprised of small businesses. The 2-C ANC also encompasses a large business district and many office buildings of the federal government.

a. Mortgage credit needs.

The residents of the six protesting ANC neighborhoods are predominantly moderate and lower income persons and predominantly Black persons.

	Residential Population (1970)	Percent Black Persons* (1970)	Average Family Income** (1973)
1-A	26,000	94.4%	$9,423
2-C	39,008	80.5	8,168
4-B	22,195	80.0	14,597
5-C	29,165	91.9	10,212
6-A	38,249	82.6	9,785
7-D	14,166	98.6	11,190
		District of Columbia	$15,842

The housing stock in the protesting ANC neighborhoods represents a mixture of 1-4 family homes and multi-family buildings.

Distribution of Housing Units - 1970 Census

	1-A	2-C	4-B	5-C	6-A	7-D
1-Family	35%	24%	74%	54%	56%	49%
2-4 Family	11%	16%	6%	21%	24%	15%
5 or More	54%	60%	20%	25%	20%	36%
Total Units	9,865	16,588	6,916	8,322	11,274	4,552

*1970 Census Data

**Data provided by the D.C. Commission on Residential Mortgage Investment.

A substantial number of the housing units in the 1-4 family structures in the protesting ANC neighborhoods are owner occupied.

Percent of 1-4 Family Units Owner Occupied* - 1970 Census

1-A	2-C	4-B	5-C	6-A	7-D
50%	22%	83%	44%	39%	57%

Thus the residents of the protesting ANC neighborhoods have a substantial need for mortgage credit.

Total Dollar Amount of Mortgage Loan Originations
For the Purchase of 1-4 Family Homes** - Dollars in Millions

	1-A	2-C	4-B	5-C	6-A	7-D
1973	$1.625	$2.245	$3.163	$2.705	$8.268	$1.249
1975	$3.527	$3.578	$4.494	$3.586	$15.924	$1.286

During the last 3 to 5 years, the demand for mortgage credit on the part of protesting ANC neighborhood residents has increased significantly because a growing number of such residents desire to become home owners. This increased interest in home ownership arises from a desire to participate in the upgrading of the protesting ANC neighborhoods and the realization that home ownership may be necessary to prevent future displacement from the neighborhoods.

However, this increased interest in home ownership on the part of the neighborhood residents has been frustrated by the fact that in recent years home prices have risen faster than the incomes of the neighborhoods' many moderate and lower income persons.

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*This assumes that all owner occupied housing units excluding co-operatives and condominiums are in 1-4 family structures and that all co-operative and condominium units are in structures with 5 or more units.

**Data provided by the D.C. Commission on Residential Mortgage Investment.

Average Sales Price of 1-4 Family Homes*

	1973	1975	% Increase
1-A	$18,774	$23,266	24%
2-C	18,941	22,282	18
4-B	26,406	36,964	40
5-C	16,965	21,490	27
6-A	21,659	37,659	74
7-D	19,350	25,075	30

District of Columbia Average Family Income

1973*	1975**	% Increase
$15,842	$17,262	9%

When home prices rise faster than family income, moderate and lower income persons experience increasing difficulty in setting aside the cash needed for down payments on home purchases. Thus there is a great need in the protesting ANC neighborhoods for mortgage loans with low down payment requirements.

In spite of this need, most of the commercial banks and savings and loans located in the District of Columbia impose a 25% down payment requirement on persons seeking mortgage loans to purchase homes in the protesting ANC neighborhoods.

FHA and VA insured loans reduce down payment requirements. However, commercial banks and savings and loans in the District have generally refused to provide FHA insured mortgage loans. As a result the great

* Data provided by the D.C. Commission on Residential Mortgage Investment.
**Data provided by the Council of Governments Metropolitan Washington.

majority of home purchasers in the protesting ANC neighborhoods have been forced to rely on mortgage banking companies for FHA insured mortgage loans.

Percent of Total Mortgage Credit Provided by Mortgage Banking Companies, S&L's, and Commercial Banks - 1975*

	Mortgage Banking** Companies	S&L's	Commercial Banks
1-A	60.3%	6.7%	0.3%
2-C	24.8%	16.1%	0.2%
4-B	64.2%	20.1%	0.4%
5-C	61.0%	4.3%	1.2%
6-A	49.5%	14.3%	1.4%
7-D	70.2%	12.6%	0.0%

This forced reliance on mortgage banking companies has had several adverse effects. First, mortgage bankers will not refinance the mortgage loans which they originate and service. Thus, the home purchaser is cut off from this source of credit for home rehabilitation or other expenditures. Information provided by the D.C. Commission on Residential Mortgage Investment. Second, mortgage banking companies foreclose on home owners who experience temporary mortgage payment difficulties much faster than depository institutions. Third, mortgage bankers do not perform home inspections with the same thoroughness as depository institutions and thus afford less protection to home buyers. Thus there is a great need in the protesting ANC neighborhoods for commercial banks and savings and laosn to provide FHA insured mortgage loans.

However, even if commercial banks and savings and loans provide FHA insured mortgage loans, moderate and lower income residents will continue to be disadvantaged if the commercial banks and savings and loans do not also provide conventional mortgage loans with reduced

*Data provided by the D.C. Commission on Residential Mortgage Investment
**These percentages include mortgage loans provided by credit unions. According to the D.C. Commission on Residential Mortgage Investment, credit unions provide approximately 2% to 3% of the total mortgage credit in the ANC neighborhoods.

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down payment requirements. Some home sellers and real estate brokers are unwilling to sell homes to buyers who will obtain FHA insured mortgage loans. Lenders providing FHA insured mortgage loans often require sellers to pay "points", HUD inspectors may require the seller to undertake repairs, and FHA insured mortgage loans may take longer to arrange than conventional mortgage loans. Moreover, because of widespread reliance by minority persons on FHA financing, many home sellers or brokers who seek to avoid sales to minority persons refuse to sell to buyers who will use FHA financing. Thus when FHA financing is the only financing available to moderate and lower income residents, these residents are denied access to a substantial share of the housing market. There is therefore a large unmet demand in the protesting ANC neighborhoods for commercial banks and savings and loans to provide conventional mortgage loans with liberal down-payment requirements.

Many housing units in the protesting ANC neighborhoods are in need of substantial rehabilitation. Surveys by the D.C Department of Economic Development indicate that in portions of the 1-A ANC, 5-C ANC, and 6-A ANC neighborhoods and in the entire 2-C ANC neighborhood 67% of the housing units require rehabilitation. District of Columbia Department of Housing and Community Development, Application for Federal Assistance for a Community Development Block Grant Program - 1975 at V-6. Thus, the protesting ANC neighborhoods have an unmet demand for mortgage credit to finance home rehabilitation.

As home prices have risen faster than family income a growing number of residents have found the monthly payments on the mortgage loans required to purchase homes to be beyond their means. Thus, an interest rate subsidy is needed to enable such residents to purchase homes. The FHA 235 program enables moderate and lower income persons to purchase and rehabilitate low priced homes with 5% interest rate mortgages. HUD has authorized financing for 1,000 235 units in the District of Columbia during fiscal year 1977. However, due in large measure to mortgage lender unwillingness to participate in the FHA 235 program this allocation is not being used. Thus, there is an unmet need in the protesting ANC neighborhoods for commercial banks and savings and loans to make mortgage loans under the FHA 235 program.

Multi-family buildings (5 or more units) provide from 20% to 60% of the housing units in the respective protesting ANC neighborhoods. Almost all of these multi-family buildings are renter occupied and many are in need of rehabilitation. Various non-profit organizations have sought to convert the tenure of certain multi-family buildings from landlord ownership to co-operative ownership by tenants. Co-operative ownership would provide tenants with an incentive to rehabilitate the buildings and allow them to participate in the upgrading of the protesting ANC neighborhoods. At the same time, it would also enable tenants to minimize the cost of rehabilitation and thereby avoid the danger of displacement from the building due to expensive rehabilitation designed to attract high income persons.

The FHA 213 is designed to insure mortgage loans made to non-profit organizations sponsoring co-operative housing projects. However, the commercial banks and savings and loans in the District have been unwilling to provide mortgage loans under the FHA 213 program. Information provided by John Lunsford, a director of Jubilee Housing.

The FHA 235 program, in addition to providing mortgage insurance and on interest rate subsidy for single family housing, also extends to the conversion of multi-family buildings to condominium ownership for moderate and lower income persons. However, as noted above, commercial banks and savings and loans in the District have been unwilling to participate in the FHA 235 program.

b. Small business credit needs.

The businesses located in the protesting ANC neighborhoods are mostly small businesses. The only major exception is a portion of the 2-C ANC area south of Massachusetts Ave. which contains large retail stores and federal office buildings. Petitioners estimate that there are roughly 1,300 small businesses located in the protesting ANC neighborhoods. Petitioners also estimate that approximately 90% of the small businesses located in the 1-A ANC, 2-C ANC, and 5-C ANC areas are minority owned.

The small businesses located in the protesting ANC neighborhoods have been severely handicapped by the inability to obtain commercial loans. Petitioners have surveyed 74 small businesses located in the 1-A ANC, 2-C ANC, and 5-C ANC areas. Only 12% of the businesses surveyed currently had a commercial loan from a commercial bank or had obtained a commercial loan from a commercial bank in the last several years. On the other hand, 49% of the businesses surveyed stated that they had tried to obtain a commercial loan and had failed or had not tried because they felt it was useless.

Small Businesses

	Total (estimate)	Percent Minority Owned	Number Surveyed	Obtained Commercial Loan (in last several years)	Denied Commercial Loan or did not Apply Because They Felt It Was Useles:
1-A	150	85%	24	5	12
2-C	500	95%	46	4	22
4-B	250				
5-C	150				
6-A	150				
7-D	100				

When an adequate supply of commercial credit is available a high percent of small businesses borrow from commercial banks. For example, The National Capital Bank of Washington indicates that it extends commercial loans to 28 of the 39 small businesses located on Pennsylvania Ave., S.E. between 2nd and 7th streets, S.E. and on 2 blocks of 7th Street, S.E. which have deposit accounts with it. Memorandum of National Capital Bank of Washington Protesting the Branch Application of American Security and Trust Company, Jan. 6, 1977 at Attachment 4.

Thus, 72% of these small businesses receive loans from commercial banks. This borrowing rate of 72% contrasts sharply with the 12% rate in three ANC neighborhoods surveyed. The contrast indicates that commercial banks have generally refused to serve the credit needs of the small businesses in the protesting ANC neighborhoods.

The unwillingness of commercial banks to extend commercial credit in the protesting ANC neighborhoods has not only curtailed the operations of existing small businesses but has also impeded the establishment of new small businesses. A study performed for the District of Columbia Redevelopment Land Agency indicates that there are substantial opportunities for new small businesses in several of the protesting ANC neighborhoods. D.C Redevelopment Land Agency, Shaw Commercial Study, 1973.

IV. AS&T's mortgage lending record in the protesting ANC neighborhoods.

AS&T has virtually refused to provide mortgage loans for the purpose of 1-4 family homes in the protesting ANC neighborhoods. During the period from May, 1972 to June, 1976, AS&T made only five mortgage loans with a total dollar amount of $174,000 for the purchase of 1-4 family homes in the area represented by the six protesting ANC's. Lusk's District of Columbia Real Estate Directory Service, May, 1972 - June, 1976.

AS&T Mortgage Loans For 1-4 Family Home Purchases

May, 1972 - June, 1976

ANC	Purchase Price	Mortgage Loan	Loan to Price Ratio
6-A	$95,000	$65,000	68%
6-A	86,000	65,000	75.6
4-B	26,000	19,000	73
4-B	13,000	13,000	73
1-A	15,800	12,000	63
2-C	0	0	
5-C	0	0	
7-D	0	0	

Total Mortgage Loans For Home Purchases $174,000

AS&T dollar volume of mortgage credit for home purchases in the protesting ANC neighborhoods over the entire four year and one month period represents only 0.5% of the total dollar volume of such mortgage credit provided by all lenders to these neighborhoods during the single year of 1975.

Mortgage Loans To Purchase 1-4 Family Homes in the

Six Protesting ANC Neighborhoods

AS&T	May, 1972 - June, 1976	$.174
All Lenders	1975	$32.395 million*

*Data provided by the D.C. Commission on Residential Mortgage Investment.

AS&T has conducted its banking operations in a manner to discourage residents of the protesting ANC's from applying for mortgage loans. At least two of the branch offices located in the protesting ANC neighborhoods have not been given authority to extend mortgage loans. AS&T officers at the Blair Road Branch 4-B ANC and the Benning Road Branch in the 7-D ANC have told neighborhood residents seeking mortgage loans that they must inquire at AS&T's main office at 15th Street and Pennsylvania Ave., N.W. Moreover, among the six personal banking services listed in AS&T's advertising material, mortgage loans are conspicuously absent. See Appendix A.

AS&T requires mortgage loan applicants to pay a non-refundable fee of $99.50 before its loan officers will begin to process an application. See Appendix B. Moderate and lower income applicants who believe that they may not succeed in obtaining mortgage loans are generally reluctant to risk $99.50 to determine if they are qualified. Other mortgage lenders in the District do not employ such tactics. For example, Independence Federal Savings and Loan Association will examine a mortgage application on the asumption that the information provided by the applicant is correct and make a preliminary decision. Only after a preliminary approval is given is the applicant required to pay a loan origination fee to cover the cost of a credit investigation and home appraisal.

AS&T has refused to provide mortgage financing with low down payment requirements and has thereby denied the moderate and lower income residents of the protesting ANC neighborhoods access to mortgage credit. AS&T will not participate in any of the FHA programs of loan insurance. Thus, neighborhood residents cannot obtain the following types of mortgage loans from AS&T--(1) loans under the FHA 203(b) program to purchase 1-4 family homes; (2) loans under the

FHA 235 program to purchase and rehabilitate 1 family homes and condominium units; (3) loan under the FHA 213 program to purchase multi-family buildings for co-operative ownership.

The record of AS&T's mortgage loans provided from May, 1972 to June, 1976 indicates that AS&T has required at least a 25% down-payment on conventional mortgage loans in the protesting ANC neighborhoods. Few moderate and lower income persons are able to purchase homes with such down payment requirements.

On February 14, 1976, James Powell, a minority person and resident of the 7-D ANC inquired at AS&T's main office as to whether AS&T would provide a mortgage loan to purchase a $44,000 home in the 7-D ANC. Mr. Powell sought an FHA insured mortgage loan but was informed by AS&T's loan officer that AS&T did not make FHA loans. Mr. Powell then asked about AS&T's down payment requirements on conventional mortgage loans. The loan officer informed Mr. Powell that AS&T required a 25% down payment. However, when pressed by Mr. Powell, the loan officer subsequently stated that AS&T might provide a mortgage loan with a 20% down payment requirement.

Thus AS&T may have reduced its down payment requirement for the purchase of homes in the protesting ANC neighborhoods, but, if so, it is reluctant to inform neighborhood residents of this fact. However, even if AS&T has reduced its down payment requirement to 20%, this is still an unnecessarily burdensome requirement. Thus AS&T continues to use high down payment requirements as a means to deny the protesting ANC neighborhood residents access to mortgage credit.

AS&T has also refused to provide mortgage loans to purchase and rehabilitate a moderately priced home. On Fabruary 15, 1977 Delores Dews, a minority person, inquired at AS&T's main office as to whether AS&T would extend her a mortgage loan to enable her to exercise her first option to purchase a home for $19,000 located on Columbia Road, N.W., the boundary line of the 1-A ANC. An AS&T loan officer informed Ms. Dews that AS&T would not provide a home purchase and rehabilitation mortgage loan. The loan officer also discouraged Ms. Dews from applying for a conventional home purchase mortgage loan, stated that AS&T would not provide FHA insured mortgage loans, and suggested that she contact a mortgage banking company in Maryland in order to obtain an FHA insured mortgage loan.

AS&T has also been unwilling to provide conventional mortgage loans to non-profit corporations that seek to sponsor co-operative housing for moderate and lower income persons. For example, in 1974 AS&T indicated to Jubilee Housing that it was not interested in providing mortgage credit to Jubilee Housing for the purchase and rehabilitation of multi-family buildings with theultimate objective of conversion to co-operative ownership by the tenants. Information provided by John Lunsford, a director of Jubilee Housing.

AS&T has privided a minimal supply of mortgage credit to existing home owners in the protesting ANC neighborhoods in the form of refinancing outstanding mortgage loans and granting second mortgage loans. However, AS&T's refinancings and second mortgage loans have been concentrated almost entirely in the portion of the 6-A ANC that is west of 15th Street, N.E.. Over the last 7 years this area has experienced a dramatic displacement of moderate and lower income minority persons and an influx of affluent white persons. Petitioners estimate that the area's residential population has changed from 80% Black in 1970 to 50% Black in 1977. Most of AS&T's mortgage credit extended to existing home owners has gone to White persons undertaking rehabilitation in this area. Outside this limited area AS&T's record of providing mortgage credit to existing home owners in the protesting ANC neighborhoods is almost as dismal as its record of providing mortgage credit for home purchases.

AS&T Mortgage Loans To Existing Home Owners

Refinancings and Second Mortgages, May, 1972 - June, 1976*

ANC			
6-A	$52,000	$20,000	$8,988
West of 15th St.,	40,039	15,000	8,760
N.E.	37,069	14,673	8,394
	29,319	14,673	6,278
	29,206	13,194	6,082
	28,875	13,092	5,044
	28,002	11,599	3,616
	25,282	11,332	
	22,002	10,987	
	21,898	9,936	
	20,892		
		TOTAL:	$607,369
6-A East of 15th St., N.E.			$ 5,461
2-C	$29,307	$6,918	$4,698
	12,864	6,514	
4-B	$25,000	$12,477	$8,282
5-C		$9,246	$8,000
1-A			$8,935
7-D			$ 0
Total Excluding 6A West of 15th Street, N.E.:			$137,702

AS&T's branch application in this proceeding provides further evidence of AS&T's attitude toward mortgage lending in the District of Columbia East of Rock Creek. In listing the credit needs of the proposed primary service area which is located in the 6-B ANC neighborhood, AS&T fails to even mention mortgage loans even though $21.356 million in mortgage loans was extended in 1975 in the 6-B ANC. AS&T Application, Summary of Information at 1. AS&T's application also indicates that the proposed branch office would not have authority to originate mortgage loans. Summary of Information at 1. Moreover,

* Lusk's District of Columbia Real Estate Directory Service, May, 1972 - June, 1976

AS&T's estimate of the loan volume that would be outstanding at the proposed branch office after five years of operation does not provide for any mortgage loans. Summary of Information at 2B.

V. AS&T's Small Business Loan Record in the Protesting ANC's.

AS&T has severely restricted its supply of small business loans in the protesting ANC neighborhoods. AS&T has refused to make many small business loans which could have been made without undue risk. For example, in 1976 AS&T refused to provide a small business loan to Columbus Shoe Repair located at 4051-A Minnesota Avenue, N.E. (7-D ANC). The store owner, Columbus Burrell, a minority person, had been in business for 11 years. Likewise, in 1975 AS&T refused to provide a small business loan to Gill's Valet located at 4051 Minnesota Avenue, N.E. (7-D). The store's owner, Edward Gill, a minority person, had been in business for 13 years.

AS&T's refusal to provide small business credit has thwarted the establishment of new small businesses as well as handicapping existing ones. On January 31, 1977 Earl Bryant, a minority person, sought a small business loan from AS&T in order to install a new ventilation system in a new bakery store which he proposed to open at 312 14th Street, N.W. (1-A ANC). Mr. Bryant had purchased with his own savings and installed $8,000 of bakery equipment and was ready to open for business when the District of Columbia Government informed him that he would have to install a new ventilation system. AS&T's Georgia Avenue, N.W. branch office refused to extend a small business loan of $5,000 to cover the estimated cost of installing a new ventilation system. AS&T could easily have made the loan with no undue risk by taking a $5,000 lien on the $8,000 worth of bakery equipment.

VI. AS&T's failure to fulfill its service obligation to the protesting ANC neighborhoods.

a. Refusal to make reasonable efforts to serve unmet credit needs.

As shown above AS&T's obligation to serve the banking needs of its primary service areas requires that it make reasonable efforts to serve the credit needs of the protesting ANC neighborhoods. Petitioners have demonstrated that there is a large unmet demand for mortgage credit and small business credit in these neighborhoods. Moreover, the provision of mortgage loans, reduction of down payment requirements on conventional loans, participation in FHA programs and expansion of loans to small businesses are reasonable activities for a commercial bank with AS&T's financial and managerial resources. As a national bank, AS&T is authorized to provide a variety of credit services. Though a national bank may properly limit the range of credit services it offers, it cannot refuse to provide a certain type of credit service in its primary service area if there is a substantial unmet demand for such credit. Therefore, AS&T's virtual refusal to provide mortgage credit and its restricted supply of small business credit in the protesting ANC neighborhoods are unreasonable and result in a breach of its obligation to serve the protesting ANC neighborhoods.

b. Provision of mortgage credit outside the protesting ANC neighborhoods.

Even if AS&T were to argue that it could avoid its obligation to its primary service areas by excluding a credit service in all areas of operation, AS&T cannot advance such an argument in this proceeding. AS&T can hardly claim that mortgage lending is a type of credit service which it does not provide. During the four year and one month period in which AS&T virtually refused to provide mortgage credit for home purchases in the protesting ANC neighborhoods, it provided a substantial volume of such loans in the portion of the District of Columbia West of Rock Creek--an area in which AS&T has six branch offices--and outside the District of Columbia--an area where AS&T has no branch offices.

<u>AS&T Mortgage Loans</u>

Outside D.C.--January, 1972--June, 1975* Purchase of 1-4 Family Homes	$38.541 million
Outside D.C.--January, 1975--June, 1976** Purchase of 1-4 Family Homes and Refinancings for Home Improvement	$6.336 million
D.C. West of Rock Creek Park--January, 1972--June,1975* Purchase of 1-4 Family Homes	$9.048 million
D.C. West of Rock Creek Park--January, 1975--June, 1976** Purchase of 1-4 Family Homes and Refinancings for Home Improvement	$3.446 million
Protesting ANC Neighborhoods--May, 1972--June, 1976*** Purchase of 1-4 Family Homes (Excluding 6A ANC West of 15th Street, N.E.)	$.044 million
Protesting ANC Neighborhoods--May, 1972--June, 1976*** (Excluding 6A ANC West of 15th Street, N.E. Purchase of 1-4 Family Homes, Refinancings, and Second Mortgage Loans	$.182 million

Thus, AS&T's virtual refusal to extend mortgage credit for home purchases in the protesting ANC neighborhoods is not the result of a general policy against mortgage lending applied in all areas but is instead a selective refusal to lend in particular neighborhoods. Rather than give priority to its primary service areas over outside areas, AS&T

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*Data provided by the D.C. Commission on Residential Mortgage Investment

**AS&T, Mortgage Loan Disclosure Statement, September 30, 1976.

***Lusk's D.C. Real Estate Directory Service, May, 1972-June, 1976.

gives priority to outside areas. This classic pattern of redlining constitutes a fundamental violation of AS&T's obligation to serve the credit needs of the protesting ANC neighborhoods.

Moreover, AS&T's distorted distribution of mortgage credit is not the unfortunate result of lending criteria applied in an even handed manner. AS&T's mortgage loan data indicate that AS&T has provided more liberal mortgage financing in the affluent portion of D.C. west of Rock Creek than it has in the protesting ANC neighborhoods. Undoubtedly these same liberal policies were applied in areas outside the District of Columbia where AS&T made by far the greatest number of its home purchase mortgage loans.

Maximum Loan To Price Ratio--AS&T Home Purchase Mortgage Loans--May, 1972 to June, 1976*

Protesting ANC Neighborhoods 75.6%

D.C. West of Rock Creek:

Price	AS&T Mortgage Loan	Ratio
$150,000	$150,000	100%
45,000	38,000	84.4
72,000	60,000	83
22,000	18,000	81.8
99,750	80,000	80.2
84,500	67,600	80
63,000	50,400	80
47,500	38,000	80
47,500	38,000	80
44,000	35,200	80

Rather than adjust its mortgage lending criteria in order to serve the credit needs of the protesting ANC neighborhoods, AS&T adjusted its criteria in order to divert mortgage credit away from these neighborhoods.

*

c. <u>Breach of branch application commitments.</u>

As shown above, in order to discourage residents from applying for mortgage loans AS&T refuses to provide mortgage loan services as its branch offices in the protesting ANC neighborhoods. Mortgage loan applicants are required to apply at AS&T's corporate headquarters on 15th Street and Pennsylvania Avenue, N.W. Yet AS&T's application to establish a branch at 120 C Street, N.W. (2-C ANC) stated that the proposed branch would offer first mortgage loans.* Likewise, AS&T's application to establish a branch at 5911 Blair Road, N.W. indicated that there was a major demand for mortgage credit in the neighborhood and stated that AS&T would offer complete banking services of the proposed branch.** AS&T's refusal to provide mortgage loan origination services at these branch offices represents a flagrant breach of commitments it made in obtaining the approval of the Comptroller's Office to establish these branches.

d. <u>Disinvestment of the protesting ANC neighborhoods.</u>

AS&T's unwillingness to provide mortgage credit and small business credit in the protesting ANC neighborhoods has resulted in a situation in which the deposits that it receives from neighborhood residents and businesses are far greater than the loans it makes to them. The level of AS&T's disinvestment of the protesting ANC neighborhoods can be approximated by estimating the total volume of AS&T mortgage loans, commercial loans, and

*<u>AS&T Application to Establish a Branch Office at 120 C Street, N.W.</u> Summary of Information, 1966.
**<u>AS&T Application to Establish a Branch Office at 5911 Blair Road, N.W.</u>, Summary of Information, 1962.

consumer loans outstanding to neighborhood residents and businesses and subtracting this total from the volume of deposits of neighborhood residents and businesses held by AS&T.

Deposit totals have already been calculated for each protesting ANC neighborhood.

An estimate of the total dollar amount of AS&T mortgage loans outstanding in each neighborhood can be derived from the dollar amount of AS&T mortgage loans originated in each neighborhood from May, 1972 to June, 1976. In the District of Columbia financial institutions hold mortgage loans for an average of 12 years. Thus, AS&T's total volume of mortgage loans currently outstanding should be roughly 2½ times the total volume of mortgage loans it originated over the last four years.

An estimate of AS&T's outstanding consumer loans in each neighborhood can be derived from the volume of savings deposits which AS&T obtains from each neighborhood. AS&T indicates that its consumer loan volume by census tract is approximately 30% of its savings deposit volume. AS&T Application at 2B. Thus, AS&T's consumer loan total in each neighborhood can be derived from the prior estimate of its savings deposit totals.*

An estimate of AS&T's outstanding small business loans in each neighborhood can be derived from estimates of the number of small businesses in each neighborhood, the average commercial loan per small business, and AS&T's market share of small business loans.

*This estimation is based on AS&T's volume of passbook savings and time deposits, even though AS&T may have included only passbook savings deposits in its 30% calculation. Thus, the estimate may overstate AS&T's consumer loan totals.

Petitioners have estimated the number of small businesses located in each protesting ANC neighborhood. AS&T estimates that in the service area of its proposed branch there is an average $3,000 of commercial loans outstanding per small business. AS&T Application, Summary of Information at Attachment 2B. Petitioners estimate that in the protesting ANC neighborhoods due to the limited number of small businesses which are able to obtain commercial loans,the average commercial loan per small business is no greater than $1,000. Petitioners also estimate that AS&T provides 25% of all the small business loans in these neighborhoods, although this is most likely in overly generous estimation of AS&T's market share.

Petitioners have not included AS&T's commercial loans to large corporations located in the protesting ANC neighborhoods. In providing the FDIC with branch office deposit data AS&T appears to have attributed all the demand deposits of large corporations to its main office at 15th Street and Pennsylvania Avenue, N.W. AS&T indicates that its main office has $122 million in demand deposits. Petitioners estimate that roughly $100 million of this represents large corporate deposits. As of December 31, 1975, AS&T had $90 million in commercial loans outstanding. Thus petitioners estimate the AS&T's loans to large corporations are roughly equal to the demand deposits it obtains from large corporations. Therefore, excluding both the demand deposits and commercial loans for large corporations should result in an accurate picture of the impact of AS&T's branch office on the protesting ANC neighborhoods.

AS&T's Neighborhood Disinvestment

	Neighborhood Funds To AS&T (estimate)	AS&T Funds To Neighborhood (estimate)			
	Deposits of ANC Residents and Small Businesses	Consumer Loans to ANC Residents	Mortgage Loans to ANC Residents	Commercial Loans to ANC Small Businesses	Disinvestment
1-A	$ 6.963 million	$1.334 m.	$.052 m.	$.038 m.	$5.539 m.
2-C	17.240	2.214	.176	.125	14.725
4-B	6.538	1.118	.194	.063	5.163
5-C	4.229	.443	.043	.038	3.705
6-A	11.241	2.265	1.532	.038	7.406
7-D	5.765	1.258	0.000	.025	4.482

This massive level of disinvestment can hardly be viewed as a transfer of funds from wealthy, capital surplus neighborhoods to more needy areas. The protesting ANC neighborhoods are moderate and lower income and it has been shown that they have substantial unmet credit needs. AS&T's large scale disinvestment of these neighborhoods undermines home ownership and small business opportunities for neighborhood residents. Such financial stripmining is in clear violation of AS&T's obligation to serve the credit needs of these neighborhoods.

VI. Discriminatory effects of AS&T's lending policies.

Petitioners have demonstrated that AS&T's has provided mortgage credit for home purchases almost exclusively to predominantly White neighborhoods and has avoided predominantly Black neighborhoods. See also, Petitioners' Exhibits C-2, C-5, and D-1 presented at the January 10, 1977 Hearing in this proceeding. Thus, AS&T's mortgage lending policies have a substantial discriminatory effect on minority persons.

This discriminatory effect results from AS&T's mortgage lending criteria and its operating procedures. Minority residents in the District of Columbia have incomes substantially below those of White persons. Petitioners' Exhibit E-1. Thus, AS&T's high down payment requirements on conventional mortgage loans and its refusal to participate in FHA programs have a discriminatory effect. See also, Petitioners' Exhibit E-2. AS&T's refusal to process mortgage loans at its branch offices in predominantly minority neighborhoods limits the number of minority loan applicants. AS&T's policy of charging a loan origination fee prior to initial processing of mortgage loans is designed to discourage moderate and lower income persons who, in the District are predominantly minority persons, from applying for mortgage loans.

Likewise, AS&T's small business lending policies have a discriminatory effect on minority businesspersons. The small businesses in several of the protesting ANC neighborhoods to which AS&T refuses to provide commercial credit are predominantly owned by minority persons.

The discriminatory effects of AS&T's mortgage lending and small business policies are not justified by business necessity. Thus, the policies are in violation of the federal Civil Rights statutes. 42 U.S.C. sec. 3601 et seq.'s 42 U.S.C. sec. 1981, 1982; Public Law 94-239 (1976 Amendments to the Equal Credit Opportunity Act). The Comptroller cannot properly approve the branch application of an applicant such as AS&T that pursues impermissibly discriminatory policies. Moreover, Section 3608(c) of the Civil Rights Act of 1968 as well as the 5th and 13th Amendments require the Comptroller to take affirmative measures to end discrimination in lending.

Respectfully submitted,

Of Counsel:

Jonathan A. Brown

Louis J. Sirico, Jr.

Attorney for Charlotte Holmes et. al.
Public Interest Research Group
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Suite 419A
Washington, D.C. 20036
202-833-3931

I certify that a copy of this motion was mailed this day to American Security and Trust Company, 15th Street and Pennsylvania Avenue, N.W. Washington, D.C.

February 16, 1977

Louis J. Sirico, Jr.

A CHECK LIST OF BASIC BANKING SERVICES

PERSONAL BANKING SERVICES

Here are a few of the many services we provide to help you manage your money.

- **Personal Checking Accounts.** At American Security, you need not pay any service charge if you maintain a sufficiently high average balance.
- **Savings Accounts** pay interest computed daily and compounded quarterly from day of deposit to day of withdrawal.
- **Systematic Savings** automatically transfers funds each month from your checking to your savings account.
- **Ready Reserve** is a personal line of credit that lets you write yourself a loan simply by writing a check.
- **Certificates of Deposit** are available at competitive rates and with varying maturities.
- **Consumer Loans** are available for home improvement, automobile financing, major appliances, or for any sound purpose.

INTERNATIONAL BANKING SERVICES

American Security has a world-wide network of foreign correspondents. Our international services include:

- **Foreign Currency Exchange**
- **Drafts**
- **Mail/Cable Payment orders in U.S. Dollars and Foreign Currencies**
- **Commercial Letters of Credit**

COMMERCIAL BANKING SERVICES

American Security provides the full spectrum of banking services for businesses, organizations, and associations. Ask any Commercial Banking Officer about:

- **Commercial Checking**
- **Payroll Service**
- **Lock Box**
- **Account Reconciliation**
- **Commercial Loans**
- **Wire Transfer**
- **Collections**
- **Short Term Investment/Money Center**

TRUST SERVICES

American Security has more assets under trust management than any other bank in Washington. Our specialized services for individuals and organizations include:

- **Estate Planning and Administration**
- **Trustee under Agreement and by Will**
- **Investment Management Accounts**
- **Employee Benefit Plans**
- **Custodian Accounts**

APPENDIX A

AMERICAN SECURITY CORPORATION

(PARENT COMPANY OF AMERICAN SECURITY AND TRUST COMPANY, N. A.)

730 FIFTEENTH STREET, N. W., WASHINGTON, D. C. 20013

624-4120

NOTICE TO APPLICANT

In connection with your proposed real estate loan application, the following forms are attached hereto:

1. Loan Application - FHLMC Form 65.

2. Verification of Deposit form for each institution holding deposits that will be utilized for purposes of down payment, to be returned to the Real Estate Department.

We request that the application be typed or printed neatly, and completed in full. The application should be accompanied by a legible copy of sales contract accepted by the seller (in cases of purchase money loan requests), and a check in the amount of $99.50 which will cover the cost of credit investigation and property appraisal in most cases. These fees are non-refundable.

Please attach a statement indicating the proposed settlement date, and the name of the attorney or title company conducting the settlement.

Time required for processing, from our receipt of completed application to final settlement, is generally not less than 30 days.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of sex or marital status. The Federal Agency which administers compliance with this law concerning this bank is Comptroller of the Currency, Consumer Affairs Division, Washington, D.C. 20219. Additionally, the Fair Housing Act ~~also~~ prohibits discrimination on the basis of race, color, religion, sex or national origin.

If you have any questions, please do not hesitate to contact the Real Estate Department, telephone 624-4120.

APPENDIX B

Attachment "A"

Before the

Federal Home Loan Bank Board

Washington, D.C.

In the Matter of:

The Application of Perpetual Federal Savings and Loan Association, Washington, D.C. to establish a branch office at the intersection of 18th Street and Columbia Road, N.W., Washington, D.C.

MOTION FOR ADEQUATE COMMUNITY GROUP NOTICE

The Adams Morgan Organization (AMO) requests that when the Federal Home Loan Bank of Atlanta advises Perpetual Federal Savings and Loan Association (Perpetual) to publish notice of the above captioned application, that the Federal Home Loan Bank Board (the Board) send directly and without delay to AMO written notice informing AMO that such advise has been given.

Pursuant to 12 C.F.R. sec. 545.14 federal savings and loans give public notice of branch office applications by publishing a notice in a newspaper of general circulation in the proposed branch's community. This notice appears in fine print buried amidst the newspaper's classified advertisements. AMO contends that this inconspicuous and obscure manner of publication does not provide adequate notice to community groups such as AMO.

AMO is a non-profit organization composed of residents of the Adams Morgan neighborhood. AMO presently has 3,000 members. The Adams Morgan neighborhood is located within the District of

Columbia. The specific area represented by AMO is outlined on the map attached as Appendix A. (hereinafter AMO Area).

AMO endeavors to advance the interests of the Adams Morgan neighborhood. In particular, AMO seeks to further the home ownership opportunities of the neighborhood's residents and to improve the neighborhood's housing stock. Many AMO members are longstanding neighborhood residents who desire to purchase homes in the AMO Area. Other members are home owners who require mortgage credit and home improvement loans to upgrade their homes. On December 9, 1975, AMO participated in proceedings before the District of Columbia City Council on real estate speculation in the District. AMO also works to further the development of small businesses in the neighborhood. AMO provides assistance in obtaining loans and other technical advice to ten small businesses.

The site of Perpetual's proposed branch office, the intersection of 18th Street and Columbia Road, N.W., lies at the heart of the AMO Area. See Appendix A. The AMO Area is composed of 32,000 residents. 1970 Census Data. The AMO Area has numerous small business enterprises. The AMO Area would clearly provide the primary service area for a savings and loan branch office located at 18th Street and Columbia Road.

Section five of the Home Owners Loan Act authorizes the Board to approve charters for federal savings and loan associations upon a finding of "necessity" and "usefulness" in the community to be served. 12 U.S.C. Sec. 1464. The Board, by regulation, has adopted the same criteria of necessity and usefulness in approving federal S&L branch applications. In view of these criteria, statements by community groups, such as AMO, on the banking needs of their communities are an important part of the record in branch application proceedings.

However, AMO cannot properly prepare a statement describing the banking needs of the Adams Morgan neighborhood and carefully evaluate a branch application unless it is given effective notice that such an application has been accepted for public comment. Publication of an inconspicuous notice amidst the classified advertisements of a Washington, D.C. newspaper does not provide adequate notice. Such notice is easily overlooked, especially by community groups, such as AMO, with few full time staff persons. Where the newspaper notice is discovered subsequent to the day of publication, valuable time has been lost. The evaluation of a branch application and preparation of a statement take considerable time for a community group with limited resources. Since the Board requires that statements be filed within 30 days, community groups can ill afford to have their already short preparation time truncated by delays in notice.

The Board has authorized the various Federal Home Loan Banks to establish notice procedures to supplement notice by newspaper publication. The Board's formal policy statement on the processing of branch applications provides:

> The Supervisory Agent at the time of advice to an applicant to publish notice of the application ... may send a copy of such advice to State savings and loan authorities, any trade organizations which have local thrift and home financing institutions as members, and any local thrift and home financing institutions which the Supervisory Agent considers might have a competitive interest in the application.

12 C.F.R. sec. 556.5

The Supervisory Agent for the District of Columbia area, the Federal Home Loan Bank of Atlanta, does in fact send direct, written notice to competitor S&Ls. By providing direct written notice to competitor S&Ls, the Board has tacitly admitted that newspaper publication is not adequate. If newspaper publication is not satisfactory for S&Ls with professional counsel, then it certainly is not adequate for community groups with limited resources.

The federal courts have admonished the federal regulatory agencies to take affirmative measures to insure that citizens groups participate in agency proceedings. See, e.g., Scenic Hudson Preservation Conference v. FPC, 354 F.2d 608 (2d Cir. 1965) ("the right of the public must receive active and affirmative protection at the hands of the Commission.") National Association of Independent Television Producers and Distributors, et. al. v. FCC 502 F.2d 249 (2nd Cir. 1974) ("the Commission must take the initiative to seek out [public] parties and develop a meaningful record.") Far from complying with this affirmative action mandate, the Board's notice procedures do not even provide community groups with the same advantages offered to the Board's regulatees, the savings and loan industry. AMO urges the Board to cure this procedural bias by providing AMO with the same direct, written notice that is provided to competitor S&Ls.

Respectfully submitted,

Martin H. Rogol

Martin H. Rogol
Attorney for AMO

August 23, 1976

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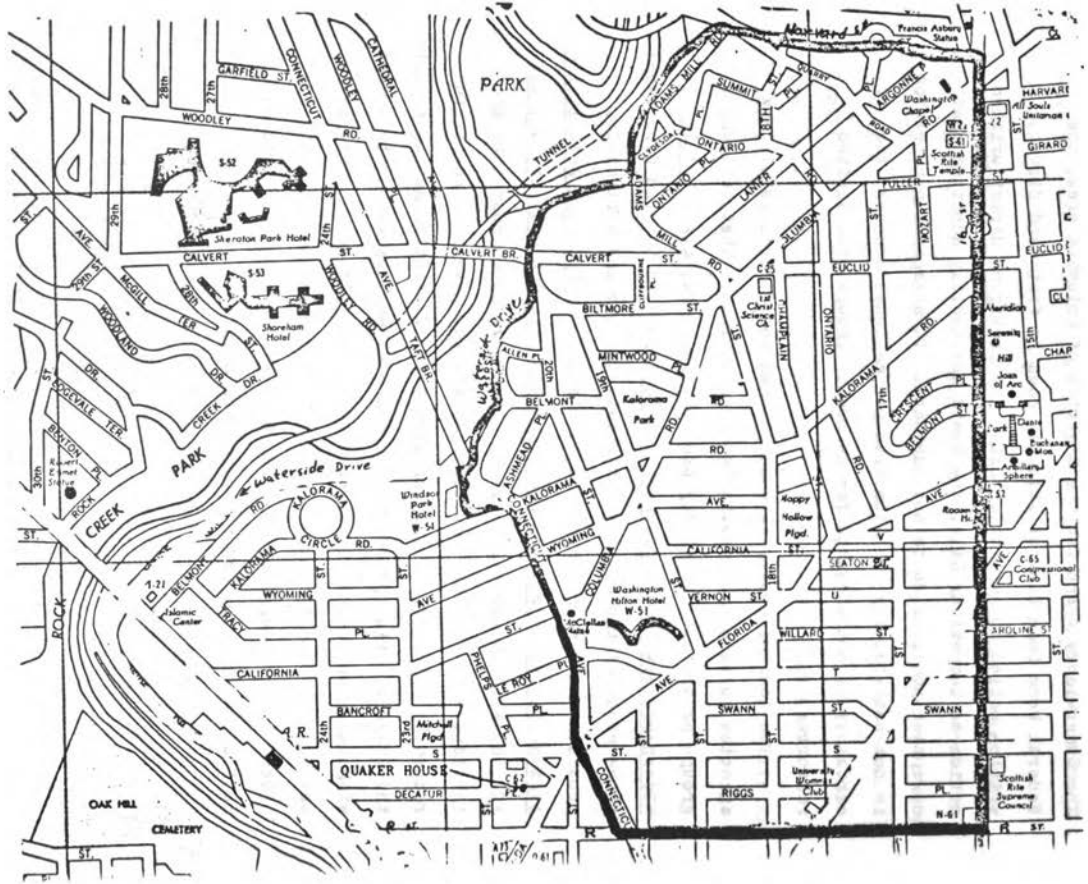
(202) 833-3935



GARFIELD ST.
WOODLEY
CONNECTICUT
CATHEDRAL
PARK
28th
27th
Sheraton Park Hotel
S-52
S-53
Shoreham Hotel
CALVERT
CALVERT BR.
TUNNEL
TAFT BR.
WOODLAND
McGILL
TER
DR.
CREEK
PARK
ROCK
CREEK
waterside Drive
Waterside Drive
KALORAMA
CIRCLE
RD.
BELMONT
WYOMING
TRACY
Islamic Center
CALIFORNIA
BANCROFT
24th
23rd
Mitchell Plgd
QUAKER HOUSE
DECATUR
OAK HILL
CEMETERY
Windsor Park Hotel
W-54
ALLEN PL
20th
19th
BELMONT
ASHMEAD
PHELPS
LE ROY
PL
Kalorama Park
MINTWOOD
BILTMORE
CLIFFBOURNE
CALVERT
COLUMBIA
Washington Hilton Hotel
W-51
McClellan Statue
FLORIDA
VERNON ST.
WILLARD
SWANN
RIGGS
University Womens Club
Happy Hollow Plgd.
CHAMPLAIN
ONTARIO
EUCLID
1st Christ Science Ch
ADAMS MILL
SUMMIT
ONTARIO
LANIER
QUARRY
ARGONNE PL
CLYDESDALE
Harvard st
Francis Asbury Statue
Washington Chapel
Scottish Rite Temple
FULLER
MOZART
16th ST.
HARVARD
All Souls Unitarian
GIRARD
EUCLID
Meridian
Serenity
Hill
Joan of Arc
Dante
Buchanan Mon.
Armillary Sphere
CRESCENT
BELMONT ST
KALORAMA
17th
SEATON PL
C-65 Congressional Club
CAROLINE ST
SWANN
Scottish Rite Supreme Council
N-61
R ST.
15th
CHAP

Before the

FEDERAL HOME LOAN BANK OF ATLANTA

Atlanta, Georgia

In the Matter of:

The Application of Perpetual Federal Savings and Loan Association, Washington, D.C. to establish a branch office at the intersection of 18th Street and Columbia Road, N.W., Washington, D.C.

AMENDED PETITION TO DENY A BRANCH APPLICATION

The Adams Morgan Organization (AMO), the Adams Morgan Advisory Neighborhood Commission (Adams Morgan ANC), the Mount Pleasant Advisory Neighborhood Commission (Mt. Pleasant ANC), Jean Smith, and Horace T. Harris hereby petition the Federal Home Loan Bank of Atlanta (Atlanta Bank) to deny the above captioned application.

AMO's Petition To Deny A Branch Application of September 24, 1976 (hereafter AMO Petition), excluding the section entitled Conditions For Perpetual's Entry Into The Proposed P.S.A., is incorporated by reference. The testimony presented on behalf of AMO at the November 9, 1976 hearing on this application before the Atlanta Bank (hereafter Hearings), excluding the portions of that testimony outlining conditions under which AMO would accept a Perpetual branch office, is also incorporated by reference. The portions of the AMO Petition and the testimony not incorporated by reference have been superceded by the proposed Loan Policy Agreement between Perpetual, AMO, the Adams Morgan ANC, and the Mt. Pleasant ANC.

I. The Parties

AMO and its purposes have been fully described in the AMO Petition and the Hearings. Many of AMO's minority and moderate and lower income members who seek to purchase or improve homes in Adams Morgan are being adversely affected by Perpetual's lending policies. Were Perpetual to establish a branch at 18th Street and Columbia Road without changing its lending policies, the most favorable branch site in the community would be occupied by an S&L whose lending policies adversely affect the great majority of the area's residents. The resulting expansion of Perpetual's operations in the community and the pre-emption of the most favorable branch site by a non-responsive S&L would injure both AMO, an organization established to promote a racially and economically diverse but harmonious community, and many of AMO's individual members.

The Adams Morgan ANC and the Mt. Pleasant ANC are local governmental commissions elected to represent the residents of the Adams Morgan and Mt. Pleasant neighborhoods. They were established in 1975 by the District of Columbia Government as required by Section 738 of the District of Columbia Self Government and Governmental Reorganization Act. Public Law 93-198, December 24, 1973. Each ANC Commissioner is elected by registered voters from a single member district located within the ANC's neighborhood. The Adams Morgan ANC has 12 commissioners. The Mt. Pleasant ANC has 5 commissioners. The area represented by the Adams Morgan ANC is outlined on the map in Appendix A. The area of the Mt. Pleasant ANC is shown in Appendix B. The Adams

Morgan and Mt. Pleasant ANC's represent the entire P.M.A. proposed by Perpetual in its branch application (census tracts 40, 38, 39, and 27.02), as well as an additional two census tracts (42.01 and 27.01).

As elected representatives of the residents of Adams Morgan and Mt. Pleasant, the two ANC's and their individual commissioners have a vital interest in this proceeding. As with AMO's members, many of the ANCs' constituents would be injured if Perpetual's application were approved without a change in Perpetual's lending policies.

Jean W. Smith is a minority person, and a resident of the Adams Morgan neighborhood. Jean W. Smith and her husband, Frank Smith, have entered into negotiations to purchase a home located in the Adams Morgan neighborhood. In an effort to obtain economical financing to purchase the home,Jean Smith, on November 22, 1976, asked Perpetual to make an FHA insured mortgage loan on the property. Mrs. Smith was told that Perpetual did not make FHA insured loans in the District of Columbia. Jean Smith and Frank Smith and other minority residents of Adams Morgan and Mt. Pleasant are being adversely affected by Perpetual's present lending policies and would be injured were Perpetual's application approved without a change in Perpetual's lending policies.

Horace T. Harris is a minority resident who owns a moderately priced home located in Adams Morgan. In an effort to obtain financing to upgrade his home, Horace T. Harris on December 9, 1976 asked Perpetual to make a renovation loan on his home. Mr. Harris was told by Mr. Graves of Perpetual's Farragut Square Office that "we don't make those kinds of loans." Mr. Harris then asked Mr. Graves if Perpetual would refinance his present mortgage loan from another institution in order to provide funds for renovation. Mr. Graves again replied that Perpetual did not make such loans. Horace Harris and other minority residents of Adams Morgan and Mt. Pleasant are being adversely affected by Perpetual's refusal to provide second mortgage loans for home rehabilitation and refinancing for rehabilitation of mortgage loans made by other lending institutions. Horace Harris and other minority residents would be injured were Perpetual's application approved without a change in Perpetual's lending policies.

II. Liberal financing policies are needed to provide home ownership opportunities for the great majority of the community's residents.

A. Income of Community Residents

The record in this proceeding demonstrates clearly that the great majority of the residents of the AMO Area and the Mt. Pleasant ANC Area (hereafter the community) are moderate and lower income persons.

According to Perpetual:

> Almost half of the P.M.A. is a significantly low income area; about one fourth is average; and about 30% are moderately higher than average income people.

Perpetual Application at 9.

Perpetual estimates the median family income in the P.M.A. to be currently $12,000. Perpetual Application at Section C,4. AMO estimates the median family income in an area comprised of the P.M.A. and census tract 42.01 to be $11,686. Througout the AMO Petition this area was referred to as the PSA. AMO further estimates the following distribution of income for the families in the PSA.

ESTIMATED FAMILY INCOME IN THE PROPOSED P.S.A.-1976

Family Incomes	Percent of Families
Below $10,500	45%
Greater than $10,500 but Less than $22,5000	38%
Above $22,500	17%

AMO Petition at 7.

Thus there is no dispute between petitioners and Perpetual concerning the income level of the community's residents.

B. Rising Price of Single Family Homes in the Community

The record in this proceeding also establishes that the price of housing in the community is rising much faster than the incomes of the community's residents. In 1970, the median value of owner-occupied single family homes in the P.S.A. was

$24,667. AMO Petition at 4. Yet data provided by Perpetual indicate that by 1975 and 1976 the median value of single family homes sold in the AMO Area and the Mt. Pleasant ANC Area--an area including the P.S.A. and an additional $1^3/_4$ census tracts--was $39,500. Perpetual's Response of October 19, 1976 to AMO's Petition to Deny at 4. (hereafter Perpetual Response). Assuming that the homes sold are representative of the area's single family housing stock, this represents a 60% increase in the price of the area's single family homes. By contrast, Perpetual has estimated that between 1970 and 1976 the median family income in the P.M.A. rose by only 43%. Perpetual Application at C,4.

Perpetual's Response shows an even more dramatic price increase in the area during the last $1^1/_2$ years. Perpetual's data on the 525 single family home sales transactions in the AMO and Mt. Pleasant ANC Areas between January 1, 1975 and June 30, 1976 indicate that 44 single family homes were sold twice within this 18 month period. Perpetual Response at Addendum E. (see Appendix C). The median increase in the purchase price of these 44 homes was 36%--an increase which occurred within a period of 18 months or less. Undoubtedly some degree of rehabilitation was undertaken on some of these homes, which would account for a portion of the price rise. However, rising market prices and speculation played a major role. A precise measure of price increases due entirely to rising market prices and speculation is provided by an AMO analysis of single family home sales on Willard

Street in Adams Morgan. AMO Case Study of Land Speculation (see Appendix E). Analysis of the AMO Case Study indicates that the 13 homes surveyed experienced a median annual price increase of 111% even though no rehabilitation or renovation was undertaken during the survey period.

The recent escalation in home prices has been particularly great in the western half of Adams Morgan--census tract 40. Census data indicate that in 1970 the median value of owner occupied single family homes in census tract 40 was $40,700. Yet the AMO Petition shows that the median purchase price of 1-4 family homes purchased in census tracts 40 and 41 during 1975 was $95,000. AMO Petition at 5. Census tract 41 lies outside Adams Morgan, but data on census tract 40 alone were not available to AMO. Addendum E in Perpetual's Response confirms that many high priced homes are located in census tract 40. Single family homes recently purchased on Kalorama Road west of 19th Street were all priced above $90,000; 4 single family homes purchased on Ashmead Place had prices ranging from $70,000 to $172,000. See Appendix C. A recent edition of The InTowner, a local newspaper cited by Perpetual, describes these rising prices.

> Illustrative of the economic and demographic changes in the Adams Morgan area are the most recent sales for developed townhouses in the 1800's of Wyoming and Belmont for over $100,000.

The InTowner, October 1976 at 1. (See Appendix D)

Thus there is clearly no dispute in this proceeding concerning the fact that home prices in Adams Morgan and Mt. Pleasant have recently risen much faster than the income of the area's residents.

C. Rising Prices and the Renovation of Single Family Homes

The record in this proceeding also shows that the renovation of homes has been a major factor in the rapid rise of housing prices in Adams Morgan and Mt. Pleasant. The community has in effect a bifurcated housing market composed of separate markets for non-renovated homes and for fully-renovated homes. Evidence of this dual market is found in the D.C. Office of Assessment Administration's estimate that sales prices in census tracts 38, 39, 27.01, and 27.02 (the northern and eastern half of Adams Morgan and all of Mt. Pleasant) were clustered in two ranges--unrenovated properties between \$20,000 and \$40,000, and renovated properties between \$60,000 and \$70,000. AMO Petition at 5.

Data provided by Perpetual confirm this analysis. As mentioned above Addendum E in Perpetual's Response lists 44 homes that were purchased and then resold within less than 18 months. (See Appendix C.) Of these 44 homes, 26 had first sale prices below \$29,500 and thus were generally not renovated. Several of these homes which appear to have been rehabilitated between the first and second sales are listed below. The data indicates that rehabilitation has raised the purchase price by \$20,000 to \$40,000.

DOUBLE SALES TRANSACTIONS ON SINGLE FAMILY HOMES BETWEEN

January 1, 1975 and June 30, 1976

Address	First Sale	Second Sale	Price Increase
1837 Monroe St.	$30,000	$67,000	$37,000
1831 Ontario Pl.	23,000	55,000	22,000
3423 Mt. Pleasant	17,500	42,500	25,000
3425 Mt. Pleasant	17,500	38,500	21,000
1941 Calvert St.	43,000	67,500	24,000
2807 18th St.	40,000	82,000	42,000
1804 T St.	15,000	55,000	40,000

Further evidence of large price increases due to rehabilitation is provided by the many streets listed in Addendum E on which similarly constructed and similarly situated row houses sell for prices ranging from $20,000 to $70,000, the higher or lower price depending on whether a particular house has undergone rehabilitation. Thus Perpetual's Response confirms AMO's contention that the manner in which rehabilitation is being undertaken raises the price of 1-4 family homes by $20,000 to $40,000.

D. Conversions and the Price of Multi-Family Housing Units

Like 1-4 family homes, condominium and co-operative units in the community are becoming very high priced. For example, condominium units recently sold in the Airy View Condominiums, located at 2415 20th Street in Adams Morgan had the following prices.

AIRY VIEW CONDOMINIUM UNITS PURCHASED BETWEEN
December 1, 1975 and June 30, 1976

Purchase Price	Number of Units
Above $60,000	2
$50,000 to $60,000	13
Below $50,000	5

Lusk's Real Estate Directory.

An example of high priced co-operative units is provide by the Chancellery, a co-operative housing project located at 2141 Wyoming Avenue in Adams Morgan. The following mortgage loans were recently made on these co-operative units.

THE CHANCELLERY - MORTGAGE LOANS MADE ON CO-OPERATIVE UNITS
Between December 1, 1975 and June 30, 1976

Mortgage Amount	Number of Loans
Above $60,000	1
$50,000 to $59,000	7
$40,000 to $49,000	5
Below $40,000	3

Lusk's Real Estate Directory

Such high prices provide landlords, speculators, and developers with strong incentives to convert multi-family rental projects into high priced condominiums or co-operatives. For example, the above mentioned Airy View multi-family building was purchased in 1974 for only $145,000 and converted into 20 individual condominium units which sold for roughly $50,000

each--a total of $1 million dollars.
Testimony Of The Community Speculation Task Force, June 19, 1975. at 6. (hereafter Speculation Task Force). (See Appendix E).

Conversions such as that undertaken at the Airy View have resulted in the eviction of many lower income, minority, and elderly tenants. Speculation Task Force at 6. A similar eviction and conversion in Adams Morgan ocurred in 1974 in a 73 unit multi-family project known as the Woodley, located at 1851 Columbia Road.

In order to halt these evictions the District of Columbia in August, 1974, imposed a moratorium on conversions. However, this moratorium was ended by the Emergency Condominium Regulation Act of 1976. Although the new conversion ordinance imposes some restrictions on conversions there is great liklihood of a substantial number of conversions in the near future in Adams Morgan and Mt. Pleasant. For example, a 10 unit apartment building located at 1831 California Street in Adams Morgan was recently approved for conversion to condominium ownership. As has been shown such conversions generally result in very high priced multi-family units.

E. Home Financing Needs of the Community's Residents

Both petitioners and Perpetual agree that the rapidly rising home prices in the community make it increasingly difficult for moderate and lower income residents to purchase homes. However, there is sharp disagreement between petitioners and Perpetual as to whether Perpetual's lending policies have any impact on home ownership opportunities for such persons.

Perpetual refuses to recognize the impact that its lending policies have on home ownership opportunities. According to Perpetual, the renovation of the housing stock in Adams Morgan and Mt. Pleasant for purchase by affluent persons and the attendant displacement of moderate and lower income persons is a matter over which Perpetual has no influence. Perpetual Letter To William Branham, Supervisory Agent, Federal Home Loan Bank of Atlanta, July 29, 1976. Perpetual Response at 2.

Contrary to Perpetual's disclaimers, adjustments in lending policies can have a significant impact on home ownership opportunities. The following lending policies, if adopted by Perpetual, would substantially broaden home ownership opprotunities and minimize the displacement of moderate and lower income persons: 1) lower down payment requirements; 2) extension of 5% loans under the FHA 235 program; 3) wrap-around mortgage loans, second mortgage loans and home improvement loans for moderate rehabilitation with low cash investment requirements; 4) mortgage loans to non-profit corporations for co-operative housing.

As home prices in the community have risen faster than incomes, the accompanying increases in down payments and monthly mortgage payments have become substantial obstacles to home ownership by the majority of the community's residents. Larger down payments are particularly burdensome to moderate and lower income persons who have difficulty setting aside substantial savings. The chart below demonstrates that liberalized financing (higher loan/value ratios) is required if down payments are to be held to a level within the means of the majority of the community's residents.

Home Price	Loan/Value Ratio	Down Payment
$25,000	75%	$6,250
$50,000	75%	$12,500
$50,000	87.5%	$6,250

Of course lower down payments mean higher mortgage loan amounts and thus higher monthly mortgage payments. Lenders cannot be expected to provide mortgages at subsidized interest rates in order to reduce monthly payments. However, lenders can provide loans under the FHA 235 program which enables moderate and lower income persons to purchase substantially rehabilitated single family homes or condominium units with 5% mortgages.

As demonstrated above, the rehabilitation of 1-4 family homes in the community has raised home prices by an average of $30,000. According to Perpetual raising the price of a home from $25,000 to $55,000 has the effect of reducing from 50% to 15% the percentage of the community's families that are financially eligible for home ownership. Perpetual Response at 5.

However, the manner in which rehabilitation is being undertaken has unnecessarily inflated home prices. Rehabilitation is currently being undertaken by professional real estate developers and affluent home buyers. The strong demand for homes in the community and the rapidly rising home prices provide professional developers with strong incentives to undertake expensive renovation in order to place a high priced home on the market. Likewise, affluent home buyers often undertake high cost, full scale renovation that results in a very high priced home.

While professional real estate developers and affluent individuals have both the cash and the access to financing required for rehabilitation, moderate and lower income persons have limited cash and experience difficulty in obtaining financing. Thus moderate and lower income residents are discouraged from purchasing non-renovated homes in the community and undertaking more modest rehabilitation. The end result, correctly noted by Perpetual, is that expensive renovation is driving the price of homes beyond the means of the community's residents.

Wrap-around mortgage loans with liberal down payment and cash outlay requirements would enable more moderate and lower income residents to purchase and rehabilitate homes in the community. Such loans would minimize the need for large cash outlays and would eliminate the need for relying on high cost second mortgages and personal loans.

On the other hand, where moderate and lower income residents already own homes that are in need of rehabilitation, second mortgage loans on favorable terms would make it easier for them to undertake rehabilitation. Such second mortgage loans would amortize the cost of improvements over a long period of time and would minimize cash outlays. Unsecured home improvement loans with long maturity periods would have the same effect--although their interest rates are generally higher than those for mortgage loans.

As shown above, rising realty prices provide strong incentives to convert multi-family units into high priced condominium or co-operative units. However, the price of converted housing units can be minimized if conversions are undertaken by non-profit corporations established to promote housing opportunities for moderate and lower income persons. Jubilee Housing, a non-profit corporation that has established such co-operative housing projects in the District of Columbia, including Adams Morgan, estimates that there are in Adams Morgan many multi-family buildings that could be converted to co-operative ownership and modestly rehabilitated for approximately $10,000 per unit--roughly $5,000 for the purchase price and $5,000 for rehabilitation. (Information provided by John Lunsford, a director of Jubilee Housing.) When conversion and rehabilitation costs are minimized in this manner most of a building's tenants can afford to become co-operative or condominium owners and thereby continue to reside in the building.

Co-operative housing provides a particularly desirable vehicle for preserving home ownership opportunities for moderate and lower income residents in the many multi-family buildings located in the community. Establishing ownership on a co-operative basis can shield the housing units from the surrounding escalation of realty prices. There are no landlords to convert the buildings into expensive rental or condominium units--a constant danger with multi-family rental buildings. Likewise, there are no individual condominium owners to purchase, rehabilitate and sell their own units in the housing market--a drawback to condominium ownership. In a cooperative, the residents of the building collectively decide the price of occupancy shares and the amount of rehabilitation to be undertaken.

Another advantage of co-operative housing sponsored by non-profit corporations is that such corporations are often able to obtain charitable grants to help finance co-operative housing projects for lower income persons, and these grants substantially reduce the monthly residency fees. For example, in June, 1976, Jubilee Housing received a $200,000 foundation grant to purchase and rehabilitate for co-operative housing for lower income persons two apartment buildings located in Adams Morgan--one at 1631 Euclid Street, and another at 1630 Fuller Street. The two buildings have a combined total of 90 units--60 units in one building and 30 units in the other. The residency fees on the new co-operative units will range from $135 to $185 per month. (Information provided by John Lunsford, a director of Jubilee Housing.)

Thus there is a great need for mortgage loans with low down payment requirements to be made to non-profit corporations for the purchase and rehabilitation of multi-family buildings to be owned on a co-operative or condominium basis by moderate and lower income residents. Such financing would enable many of the community's residents who are presently tenants to become housing co-operative members or condominium owners and thereby benefit from the upgrading of the neighborhood.

The community's moderate and lower income residents could also better afford to purchase condominium units if lenders provided loans under the FHA 235 program. This program enables moderate and lower income persons to purchase condominium units in substantially rehabilitated buildings with 5% mortgages. Under present HUD guidelines up to 40% of the condominium units in a rehabilitated multi-family project may receive interest rate assistance.

III. <u>Failure to provide home ownership opportunities for residents will insure their continued displacement from the community.</u>

The need to broaden home ownership opportunities for the community's residents does not arise solely from the general desirability of home ownership. As shown above the renovation and general price rise currently underway in Adams Morgan and Mt. Pleasant is placing much of the housing stock beyond the means of the community's moderate and lower income residents. Because this renovation and price rise is occurring throughout the entire community, the inability to purchase renovated units generally means involuntary displacement from the community.

The most dramatic form of involuntary displacement involves the eviction of tenants from 1-4 family homes or multi-family buildings by landlords who desire to renovate the properties and resell them at prices beyond the means of the tenants. Such evictions have generated substantial disruption in the community. Recent examples of such evictions occurred at the following row houses located in Adams Morgan:

1. 26 families evicted from homes on Seaton Place. Washington Post, April 24, 1976 at B,2. (Appendix F)

2. 21 families evicted from homes on Ontario Road. The Columbian, March, 1976, at 1. (Appendix G)

3. 15 families evicted from homes on Willard Street. Speculation Task Force, June 19, 1975 at 6. (Appendix E)

Recent examples of evictions of moderate and lower income tenants from multi-family buildings in Adams Morgan prior to conversion to condominiums occurred at the following locations:

1. 73 families evicted from the Woodley apartment building at 1815 Columbia Road.

2. 24 families evicted from the Airy View Apartment building at 2415 20th Street. Speculation Task Force, June 19, 1975 at 6. (Appendix E)

Because minority persons comprise the majority of the community's residents and because the community's minority residents have family incomes substantially lower than white residents, the burden of displacement has fallen primarily on minority residents. With a few exceptions, the families evicted in the above mentioned examples were Black or Spanish speaking. See citations above.

The displacement of minority persons has become so substantial that it threatens to undermine the integrated character of the community. The InTowner recently described the displacement of minorities from the western half of Adams Morgan as follows:

> In the lower northwest middle-class whites are now in the majority west of 18th throughout the entire area and west of 17th as far north as S Street. Even these street markers will perceptibly change as housing projects, now underway or contemplated

> on Swann, T, Willard, Seaton and Beakman Place attain completion. The decision of Perpetual to install its 11th branch at Columbia Road and 18th may have been influenced by its own projections of anticipated growth for the area.
>
> The InTowner, October 1976 at 1. (See Appendix D).

A draft committee report prepared by the District of Columbia Government Council's Committee on Finance and Revenue describes the end result of such displacement.

> While neighborhood change is not necessarily bad, speculation-induced change takes place at the sacrifice of racially and economically diverse, yet stable, communities. This is particularly at issue in the Adams-Morgan and Mount Pleasant Communities. The vast majority of converted property buyers are white and affluent. Of course, this is not itself undesirable at all--the problem is that the pendulum swings too far. The transitional speculation neighborhoods have historically become "resegregated" as are Georgetown, Foggy Bottom and close-in Capital Hill.
>
> D.C. Government Council, Committee on Finance and Reserve, Partial Draft Report, Real Property Transactions Act of 1976, November 8, 1976 at 29.

Lending policies which provide broader home ownership opportunities for moderate and lower income residents are needed if the displacement of such persons from the community is to be limited. It is manifest that lending policies that undermine the ability of the great majority of the community's residents to continue living in their community do not serve community convenience and needs.

Moreover, because the moderate and lower income persons displaced are primarily minority persons, lending policies that fail to broaden home ownership opportunities have a racially discriminatory effect. Since lending policies that would minimize the displacement of minority residents could be readily implemented, the discriminatory effect is impermissible under the Civil Rights Statutes and the 14th Amendment.

IV. Perpetual's lending policies restrict home ownership opportunities for the majority of the community's residents and accelerate their displacement from the community.

The record in this proceeding demonstrates that Perpetual does not provide liberal home financing policies that would facilitate home ownership by the community's moderate and lower income residents. See Hearings at 43 to 47.*

Rather than provide financing that minimizes down payment requirements, Perpetual has required at least a 25% down payment on conventional mortgage loans in the community. However, Perpetual appears to have made an exception to this policy in the case of the approximately 100 mortgage loans which it is providing on the newly contructed 213 town house development known as Beekman Village located in Adams Morgan. Thorton W. Owen's testimony indicates that Perpetual is providing 82% financing on these $67,950 homes--the maximum allowable under the FHLBB's regulations. Hearings at 86. Thorton W. Owen also refers to "savings and loans' abilities to go over $55,000 on 90% loans with proper mortgage insurance; however, this would be in violation of 12 C.F.R. Sec. 545.6(a)(4). Hearings at 86.

Perpetual estimates that an annual income of $24,800 is required to purchase a home for $55,000. Perpetual Response at 5. Under Perpetual's assumptions an income of about $30,000 would be required to purchase the $67,950 homes in Beekman Village. Yet based on AMO's

*The first sentence on page 44 should read, "Perpetual does engage in rehabilitation by refinancing existing mortgages."

estimated distribution of family incomes in the community, less than 10% of the community's residents have incomes above $30,000. Thus Perpetual is providing the most liberal financing on homes which the community's residents cannot afford. This policy clearly accelerates the displacement of the community's moderate and lower income persons.

Rather than finance the purchase of lower priced 1-4 family homes, Perpetual has concentrated its lending in the community on high priced properties. According to Perpetual the median value of single family owner-occupied homes in the P.M.A. is only $24,000. Perpetual Application at Section C, Part I. Yet the median purchase price of the 18 loans made by Perpetual in the community between January 1, 1975 and June 30, 1976 for the purchase of single family homes was $62,000. Perpetual Response at Addendum F. As shown above Perpetual's calculations indicate that a $62,000 home is beyond the means of roughly 90% of the community's residents. Moreover, the 100 or more loans which Perpetual is making on the $67,950 town houses at Beekman Village will aggregate to a total loan volume of about $5 million-- an amount which is 6 times greater than the total loan volume of all single family home purchase loans made by Perpetual in the community over the last 1½ years. Perpetual Response at Addendum F.

Rather than provide wrap around mortgage loans with low down payments to finance the purchase and rehabilitation of non-renovated single family homes, Perpetual limits its rehabilitation lending to the refinancing of existing mortgages in cases where home owners have built up substantial equity. Perpetual Response at 2.

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Thus, only those who can afford to purchase a home with a large down payment can obtain rehabilitation financing from Perpetual at the time of purchase. This policy would become manifest were Perpetual to provide the following data for each of the 25 refinancings listed in Addendum F in which the loan proceeds were used for home improvement or rehabilitation: 1) the outstanding loan balance as a percentage of the property value at the time of refinancing; 2) the refinanced loan amount as a percentage of the improved value of property.

Thus, by restricting the opportunity of moderate and lower income community residents to purchase and to rehabilitate homes in the community, Perpetual is accelerating the displacement of these persons from the community. This effect could be seen clearly were Perpetual to provide the following data: 1) the number of home buyers receiving the 18 home purchase loans listed in Addendum F who resided outside Adams Morgan and Mt. Pleasant prior to the time of purchase; 2) the number of home owners receiving refinancings listed in Addendum F which were used for significant rehabilitation who resided outside Adams Morgan and Mt. Pleasant prior to purchasing the home which was rehabilitated by the refinancing.

Perpetual's conservative policy on refinancings is paralleled by its refusal to make second mortgage loans for home rehabilitation, even though it has authority to do so under 12 C.F.R. 454.6-26. Perpetual also refuses to provide unsecured home improvement loans. Perpetual Response at 2. As petitioners have shown above the inability to obtain such secondary financing on liberal terms has undermined the ability of the community's moderate and lower income residents to undertake rehabilitation or improvement of homes.

Rather than make loans under FHA programs such as 203(b), 213, 234, and 235 which are designed to assist moderate and lower income persons, Perpetual has refused to participate in any FHA/VA programs. Perpetual Response at 3. A recent example of such refusal occurred on November 22, 1976 when petitioner Jean Smith, a community resident, sought an FHA insured mortgage loan from Perpetual to purchase a single fmaily home located in Adams Morgan. Jean Smith was informed by Mr. Graves of Perpetual's Farragut Square Office that Perpetual did not make FHA loans in the District of Columbia and that it "hasn't done so for ten years."

Perpetual's reluctance to provide mortgage loans to non-profit corporations interested in operating multi-family rental projects for moderate and lower income residents is particularly unfortunate. For example, in 1974 Perpetual and other District of Columbia lenders indicated that they were not interested in making a mortgage loan to Jubilee Housing for the purchase and rehabilitation of the two above mentioned apartment buildings located in Adams Morgan. Thus, a private individual had to purchase the two multi-family buildings and lease them to Jubilee Housing. (Information provided by John Lunsford, a director of Jubilee Housing.)

Moreover, Perpetual's unwillingness to provide low down-payment loans for co-operative housing under the FHA 213 insurance program is particularly detrimental to the development of co-operative housing for the community's moderate and lower income residents.

Another example of Perpetual's unwillingness to accommodate the home financing needs of the community's moderate and lower income residents is its recently announced refusal to provide mortgage loans on multi-family rental buildings located in the District of Columbia. Washington Post, August 14, 1976 at B-1. (Appendix H) Since 71% of the housing units in the community are multi-family rental units, this policy represents a complete disregard for the housing needs of the great majority of the community's residents. (1970 Census Data.)

Perpetual's lending record in the area cannot be properly judged merely by examining the dollar volume of mortgage loans provided. As recognized by the Chairperson of the Perpetual's Executive Committee, Samuel Scrivener, Jr., the fundamental issue is whether Perpetual's lending policies are "tailored" to the needs of the neighborhood's residents. Hearings at 61. The basic need is for economical financing, not loans for high priced housing and expensive renovation. Hearings at 82-86. As has been shown above, a large volume of loans for high priced homes, expensive renovation and conversion of multi-family units to expensive condominiums and co-operatives will accelerate the displacement of moderate and lower income persons. Thus the overall result of Perpetual's lending policies has been to accelerate the displacement of moderate and lower income residents from the community.

V. Perpetual's lending policies have a discriminatory effect on the community's minority residents.

The most current census data indicate that the minority residents of Adams Morgan and Mt. Pleasant have lower incomes that the community's white residents. The chart below indicates the median family incomes in the 6 census tracts that comprise Adams Morgan and Mt. Pleasant.

MEDIAN FAMILY INCOME - 1969

Census Tract	38	39	40	42.01	27.01	27.02
Black Families	$5,111	$7,007	$7,526	$6,405	$7,306	$8,818
Spanish Speaking	7,833	7,524	9,947			
All Families (including minorities)	7,136	12,035	13,606	7,609	9,154	10,309

1970 Census Data.

The "All Families" category includes minorities, whom as of 1970 represent approximately 80% of the residents in these census tracts--roughly 60% Black persons and 20% Spanish speaking persons. 1970 Census Data. The median income of White families is not available, but it must have been substantially above the median income of minority families in order to raise the median income of all families so far above the median income of minorities who represented 80% of the population. Moreover, due to the influx of affluent White persons into the community since 1972, the income differential between White persons and minority persons has undoubtedly widened. See Appendix D.

Because the community's minority residents have incomes substantially below White residents, they are more disadvantaged than White persons by conservative lending policies which require large down payments. Thus, Perpetual's lending policies described above, including its refusal to participate in FHA insurance programs, have a discriminatory effect. Moreover, because a greater percentage of minority persons than White persons are eligible for interest rate assistance under the FHA 235 program a discriminatory effect also results from Perpetual's refusal to participate in the FHA 235 program for interest rate assistance.

The limited data available on the racial composition of borrowers purchasing homes with mortgage loans insured under the FHA 203(b) program documents this discriminatory effect.

RACIAL DISTRIBUTION OF MORTGAGE LOANS

	Mortgage Loans Approved by Commercial Banks and S&L's in the D.C. S.M.S.A., June 1, 1974 to November 30, 1974*	Mortgage Loans Approved under the FHA 203(b) Insurance Program on Existing Homes in the D.C. S,M.S.A. 1975**
	Share of Total Loans	Share of Total Loans
White Persons	80.0%	54.7%
Black Persons	15.1%	37.9%
Spanish-American Persons	1.6%	2.1%
Total	100.0%	

* FHLBB, Fair Housing Information Survey, August 19, 1975 at
** Data provided by H.U.D.

Data for concurrent time periods are not available, but no great shift in the racial composition of loans in the D.C. S.M.S.A. can be reasonably expected to have occurred over a 6 month period.

In Section III above petitioners have shown that the community residents who have been displaced because of the inability to obtain financing were predominantly minority persons. This further establishes the discriminatory effects of Perpetual's lending policies.

VI. Perpetual's Implementation of The Loan Policy Agreement would serve the Home Financing Needs of the Community's Residents Minimize Displacement, and Eliminate Unlawfully Discriminatory Effects.

AMO, the Adams Morgan ANC, and the Mt. Pleasant ANC have drafted and submitted to Perpetual a Loan Policy Agreement. (hereafter the Agreement). The specific provisions of the Agreement are based on the home financing requirements outlined in Section II, part E. Implementation of the Agreement would transform Perpetual's lending policies from an obstacle into an aid to home ownership for many of the community's residents. If the Agreement were implemented, Perpetual's lending policies would minimize rather than accelerate the displacement of the community's residents. Its implementation would also eliminate those discriminatory effects of Perpetual's present lending policies that are not justified by business necessity.

If Perpetual signs the Agreement and incorporates it into its branch application prior to approval of the application by the Atlanta Bank or the Federal Home Loan Bank Board, petitioners will withdraw all opposition to the application. The Agreement as mailed to Perpetual on December 6, 1976 and a brief summary of the Agreement are provided.

Implementation of the Agreement would not impose any unreasonable burdens or undue risks on Perpetual. FHLBB regulations authorize each type of loan specified in the Agreement. These regulations are carefully designed to prevent undue risks to S&L's from their conventional mortgage lending. Concerning full participation in FHA/VA programs, Perpetual, an $807 million asset association with a robust 10.5% capital to deposit ratio, has ample financial resources and management expertise with which to participate in these programs.

A FHLBB regulation authorizes the establishment of branch advisory commissions and the attendance of their members at association board of directors meetings. In fact, Perpetual has already established such branch commissions for two of its branch offices.

AMO's prior condition that Perpetual's management nominate for election to Perpetual's board of directors a person selected by the Adams Morgan ANC is hereby withdrawn. AMO Petition at 16. Petitioners believe that a branch advisory commission would be more effective in implementing the Agreement. The condition that Perpetual enforce the right of first refusal of tenants has also been withdrawn on the ground that enforcement could be more effectively undertaken by title insurance companies.

Perpetual cannot legitimately claim that business necessity prevents implementation of any portion of the Agreement. In view of the above demonstrated compelling need for the Agreement and the Agreement's ability to moderate discriminatory effects, business necessity is certainly the only appropriate standard for evaluation objections to the Agreement.

VII. <u>The Loan Policy Agreement must be incorporated into Perpetual's Application prior to Atlanta Bank Approval of the Application.</u>

Petitioners have demonstrated that Perpetual must change its lending policies before it can properly establish a branch office at 18th Street and Columbia Road. In the Agreement, petitioners have formulated new lending policies which Perpetual must undertake if it is to serve the needs of the community and avoid unlawful discrimination. In order to insure that these new lending policies are promptly adopted and remain in operation a formal binding commitment from Perpetual must be included as part of its application. Without such a commitment there is no mechanism to hold Perpetual to any promised change in lending policies.

Neither petitioner nor the Atlanta Bank can rely on informal promises from Perpetual that it will change its lending policies at some time in the future. The record in this proceeding shows how quickly Perpetual can change its attitude toward and willingness to work with community organizations and the ANC's. When Perpetual's management sought to impress the Atlanta Bank with the depth of its commitment to serve and "assist the people of the community," Perpetual emphasized its close relationship with AMO, and described AMO as "a community betterment group that is striving to assist the economic development of the residents." <u>Perpetual Application</u> at 37. Yet when AMO challenged Perpetual to change its lending policies, suddenly Perpetual viewed AMO as a group opposed to community improvement. Thus Perpetual adopted the recklessly false statements of Martin F. McMahon to the effect that AMO opposed the establishment of a neighborhood police center and a restaurant. <u>Hearings</u> at 29.

Rather than work in good faith with community representatives to adopt more adequate lending policies, Perpetual has chosen to use its considerable financial resources, its privileged access to depositors and borrowers, and its position of public trust to misrepresent the views and undermine the position of a community organization that has challenged its policies. On November 2, 1976 Perpetual sent to its depositors and borrowers in Zip Codes 20009 and 20010 a letter which seriously misrepresented AMO's position in this proceeding. Perpetual's letter implied that AMO was unconditionally opposed to Perpetual establishing a branch in Adams Morgan, when in fact AMO had stated to Perpetual that it would withdraw its opposition to Perpetual's application if Perpetual changed its lending policies and nominated for election to its board of directors a person selected by the Adams Morgan ANC. AMO Petition at 16, 17. The letter failed completely to indicate the basis of AMO's protest--the relationship between Perpetual's conservative lending policies and the displacement of community residents.

Perpetual's letter to its depositors and borrowers also misrepresented the results of AMO's referendum on Perpetual's branch application. AMO's referendum, held on September 11, 1976, resulted in 254 votes "no", 181 votes "Maybe, if AMO can work out agreements to safeguard the community interest," and 161 votes "Yes." Hearings at 35-37. (See Appendix I). Rather than explain the significance of the "Maybe" vote Perpetual merely characterized it as a "qualified 'in favor'".

Perpetual, however, did not stop at merely misrepresenting AMO's position. Accompanying Perpetual's letter to its depositors and borrowers was a pre-paid, pre-addressed post card on which Perpetual asked its customers to vote "yes" or "no" on whether Perpetual should establish a branch office at 18th Street and Columbia Road. (See Appendix J). Thus Perpetual's customers were not given an opportunity to express their view on the central issue in this proceeding--whether Perpetual should adjust its conservative lending policies as a condition for entry into the community--but were instead forced to vote an unconditional "yes" or an unconditional "no."

Perpetual asserts that the great majority of the customers responding to its post card survey voted in favor of its branch application. However, in view of the misleading information provided by Perpetual and its failure to allow for a meaningful vote, the Atlanta Bank cannot properly attach any significance to the results.

If the Atlanta Bank desires an accurate reading of the attitude of Perpetual's customers toward the issue raised by petitioners in this proceeding, it must require Perpetual to mail to each of its customers in Adams Morgan and Mt. Pleasant a copy of the Agreement and the accompanying Explanation and a ballot which provides an opportunity to vote for or against the Agreement as a condition for entry. Moreover,such a survey should not extend to all of the residents of Zip Codes 20009 and 20010 since these Zip Code Areas extend far beyond Adams Morgan and Mt. Pleasant. Perpetual surveyed 9,400 customers, even though it admits that it has only 3,599 cutomers in the community. Statement of Thomas J. Owen before the Atlanta Bank, November 6, 1976 at 11. Perpetual Response at 2.

Perpetual's demonstrated willingness to use its considerable economic power and its position of public trust in order to undermine the efforts of democratic community organizations poses a threat to the community which cannot be taken lightly. A measure of Perpetual's economic power is shown by its advertising expenditures which were $.417 million during the first 6 months of 1975. Information provided by the D.C. Commission on Residential Mortgage Investment. On the other hand, AMO's total operating budget for 1976 was only $12,000. Were Perpetual to enter the community after refusing to reach an agreement, it certainly has the resources with which to undercut the position of community organizations which challenge its policies.

The unacceptability of relying on non-binding promises by Perpetual to adjust its lending policies is further evidenced by Perpetual's statements and testimony in this proceeding. Rather than face squarely the issue raised by AMO--the impact of its conservative lending policies on community residents--Perpetual has focused its efforts on discrediting AMO. For example, Perpetual claims that AMO's Executive Council does not represent its total membership--an assertion that can only be premised on contempt for the democratic process, since the members of AMO's Executive Council are elected from single member districts within Adams Morgan. Perpetual Response at 2.

Moreover, Perpetual's minimal statements concerning its lending policies are often misleading. For example, Perpetual states that it makes 90% loans with private mortgage insurance, but no such loans have been made in Adams Morgan or Mt. Pleasant. Perpetual Response at 3. Perpetual states that it makes loans for property modernization, but Perpetual told petitioner Horace Harris that it did not make renovation loans. Perpetual Response at 5. Perpetual states that it will refinance existing mortgage loans for the purpose of renovation, but Perpetual also told petitioner Horace Harris, who had an existing mortgage loan from another institution, that it would not provide refinancing for renovation. Perpetual Response at 2. In an effort to demonstrate its commitment to home financing Perpetual lists 25 loan refinancings undertaken in the community, but Perpetual failed to indicate that the loan proceeds on as many as one-half of these refinancings were not expended on housing. Perpetual Response, Addendum F.

Without execution of the Agreement there is no mechanism with which to hold Perpetual's management accountable to the community. AMO has already shown that Perpetual's management is not accountable to its members -- the association's depositors and borrowers. AMO Petition at 13. Perpetual's procedures for member participation are totally inadequate. Perpetual's management solicits permanent proxies which turn over members' voting rights to management unless formally revoked by the members. Even worse, a complaint filed with the FHLBB by a Perpetual depositor on November 15, 1976, indicates that Perpetual leads persons to believe that signing a revokable proxy is a condition for opening a savings account. Petition for a Temporary Cease-And-Desist Order, November 15, 1976 (Appendix K).

Perpetual's management does not even mail written notice of its annual meetings to its members. The only notice of annual meetings that Perpetual's members receive is a fine print, postage stamp sized notice which is buried in the classified advertisement section of The Washington Star and also xeroxed and posted inconspicuously in Perpetual's branch offices. (Appendix L). Such disregard of a fundamental prerequisite to viable mutuality is consistent with Perpetual's willingness to mail to its members letters and voting cards for the purpose of misrepresenting and undermining a democratic community group's position.

Further evidence of the disdain with which Perpetual's management views democratic principles is found in its conduct at Perpetual's annual meeting on November 16, 1976. When a Perpetual depositor asked Perpetual's management to disclose the association's annual income and the salaries of its officers, he was greeted with laughter from Perpetual's management. Such contempt for the rights of members could not survive for long in a truly accountable association.

Because Perpetual's lending policies are established by its management without any effective input from its members, the attitudes and self-interests of Perpetual's management deserve special attention. Perpetual's management has pursued a policy of seeking maximum retained earnings. The end result of this policy is Perpetual's remarkably high level of net worth, or capital, as it is commonly called. As of April 30, 1976, Perpetual's management had built up the association's capital to $74 million, an amount equal to 10.5% of Perpetual's savings balances. This capital ratio is far in excess of the 7% target suggested by the FHLBB or the savings and loan industry average of 6.6%.

Perpetual has achieved this high level of earnings and high capital ratio by maintaining an unusually high spread between the interest rate that it charges to borrowers and its cost of funds and operating expenses. Perpetual's deposits consist entirely of pass book savings accounts on which Perpetual pays a uniform 5¼% interest on all deposits. Yet Perpetual earns at least 8-3/4% on the mortgage loans that it currently makes. This represents a spread of 3½% between cost of funds and interest rates on assets -- a remarkably high spread. In the S&L industry a spread between cost of funds and mortgage rates of 2% is generally considered adequate. The S&L industry as a whole presently has a spread of only 1.5%.

Perpetual's policy of maintaining maximum earnings is not consistent with the interests of its members. For example, were Perpetual's management to choose to operate with the normal 2% spread, then Perpetual could make mortgage loans at 7¼% instead of 8-3/4%. In fact Perpetual's desire to maximize this spread is the underlying reason for its conservative lending policies. Participation in FHA/VA loan programs, extension of smaller loans, and loans with higher loan to value ratios, could marginally increase Perpetual's operating costs and are therefore considered to be undesirable by Perpetual's management. However, as petitioners have shown, the provision of such loans would result in substantial benefits to Perpetual's moderate and lower income members.

Perpetual's management has pursued a policy of maximum retained earnings against the interests of its members because the policy has allowed for maximum growth of Perpetual's assets. Mutual savings and loan associations can grow either by expanding their deposit base or by converting retained earnings into new assets. However, Perpetual, like other S&Ls in the District of Columbia, has limited opportunities for expanding its deposit base. The District is a limited, relatively mature market in which the aggregate volume of savings deposits grows very slowly. Federal and State laws prohibit Perpetual and the other D.C. S&Ls from establishing any new branches outside the District, thereby shutting the door on geographic expansion as a means to increase deposits. Thus the primary vehicle for rapid growth available to Perpetual's management is the maximization of retained earnings and their reinvestment in new assets and this is facilitated by a conservative lending policy.

A policy of maximizing asset growth is clearly in the self-interest of Perpetual's management. The salaries of Perpetual's executive officers are directly related to the size of the association. Equally important are the indirect benefits and the prestige that accompany the management of a large and expanding financial institution. Finally, some of Perpetual's officers and directors, in particular the members of the Owen family, have outside interests in business which are ancillary to Perpetual's mortgage lending operations, and these businesses are in a position to benefit from a rapid growth in Perpetual's loan volume. For example, in 1970 a Federal District Court found that Perpetual's management had unlawfully diverted credit insurance income to a business operated by its directors.

There is, however, a secondary vehicle for increasing the deposit base available in Adams Morgan and Mount Pleasant. Although the housing stock and the number of families residing in the community are not likely to increase, the displacement of moderate and lower income persons by affluent persons would substantially increase per capita savings in the community. With a branch office located at a choice site in the heart of the community, Perpetual would be in a favorable position to gain a substantial share of the increased savings.

Thus, Perpetual's management has an unmistakable personal interest in maintaining Perpetual's conservative lending policies and accelerating the displacement of moderate and lower income residents from the community. This adverse interest makes the incorporation of the Agreement into Perpetual's application a vital necessity for the community.

Moreover, it is essential that the entire Agreement be incorporated. The Agreement recognizes the need for a comprehensive approach to loan policy modification. If only portions of the Agreement are adopted, these provisions can be easily evaded. For example, a commitment to make 90% loans is meaningless without an agreement on credit worthiness standards and appraisal practices. Liberalization of credit worthiness standards is more workable if an effective housing counselling service has been established.

Finally, the Agreement cannot be successful without the establishment of the Branch Advisory Commission. The Branch Advisory Commission is necessary to insure that individuals who have the confidence of the community are in a position to effectively monitor the implementation of the Agreement. Moreover, the Branch Advisory Commission is the only effective means for generating recommendations to modify the Agreement that will have the support of the community. Most important, if the co-operative and condominium projects are to be undertaken as outlined in the Agreement, the Branch Advisory Commission is needed as a forum for the required co-operation between community representatives, non-profit corporations and Perpetual.

Respectfully submitted,

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Louis J. Sirico, Jr.

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Attachment 2C

LOAN POLICY AGREEMENT

BETWEEN

PERPETUAL FEDERAL SAVINGS AND LOAN ASSOCIATION, WASHINGTON, D.C.

AND

ADAMS MORGAN ORGANIZATION, WASHINGTON, D.C.

ADAMS MORGAN ADVISORY NEIGHBORHOOD COMMISSION, WASHINGTON, D.C.

MOUNT PLEASANT ADVISORY NEIGHBORHOOD COMMISSION, WASHINGTON, D.C.

The parties to this Agreement share a common belief that Adams Morgan and Mount Pleasant should be maintained as socially and economically diverse neighborhoods. In furtherance of this common goal, the parties to this Agreement shall work together to provide home financing opportunities to the lower and moderate income and minority residents of these neighborhoods.

A. Conventional Loans

Perpetual agrees to make the conventional loans enumerated below to any credit-worthy resident of the area represented by the Adams Morgan Organization, the Adams Morgan ANC, the Mount Pleasant ANC, (hereafter collectively referred to as the Agreement Area) or to any non-profit co-operative housing corporation approved by the Branch Advisory Commission (BAC) established by Part G of this Agreement for the purchase, improvement or rehabilitation or the combined purchase and rehabilitation of any property located in the Agreement Area or any share of a co-operative housing corporation owning such property. All such loans shall be made at interest rates no greater than those rates available to Perpetual's other borrowers. Maturity periods on such loans shall be available up to the maximum allowable under federal regulation. In the case of mortgage loans, property securing such loans shall be valued at either market price or by an appraiser acceptable to the BAC.

1. Mortgage loans to owner-occupants of 1-4 family homes and condominium units:

a. Mortgage loans at 90% financing to purchase single family homes priced at $45,000 or less, and condominium units priced at $30,000 or less.

b. Mortgage loans at 95% financing to purchase single family homes priced at $30,000 or less, and condonimium units priced at $20,000 or less. Such loans shall be available only to households with incomes below the Agreement Area's median income. Perpetual shall maintain a special 1% reserve for such loans.

c. Mortgage loans to both purchase and rehabilitate single family homes and individual condominium units. (Wrap-around mortgage loans.) The purchase price portion of the loan shall be financed according to a or b above. The rehabilitation portion of the loan shall provide 90% financing. The improved value of the property shall be no greater than $60,000 in the case of single family homes, or $40,000 in the case of condominium units.

d. Mortgage loans at 80% financing to purchase or to both purchase and rehabilitate (wrap-around mortgage loans) 2-4 family homes priced at $65,000 or less. The rehabilitation portion of such loans shall be no greater than $30,000.

e. Refinancing of outstanding Perpetual mortgage loans to provide rehabilitation funds equivalent to those available to home buyers under c and d.

f. Second mortgage loans for rehabilitation at 90% financing. The improved value of the home shall not exceed $60,000 for single family homes, $95,000 for 2-4 family homes, or $40,000 for condominium units. (FHLBB regulations provide Perpetual with leeway authority to make second mortgage loans.)

2. Co-operative housing loans:

a. Mortgage loans to non-profit corporations for the purchase and rehabilitation of co-operative housing projects located in the Agreement Area. To be eligible for such loans, a non-profit corporation must be approved by the BAC. In order for such a loan to finance conversion from multi-family rental tenure to co-operative ownership, the tenants of the building must receive at least 70% of the co-operative units.

i. Where units representing 90% of a co-operative project's value are presold, Perpetual shall provide:

-95% financing and maintain a special 1% reserve, if 80% or more of the units will have an improved value of $20,000 or less;

-90% financing, if 80% or more of the units will have an improved value of $40,000 or less.

ii. Where presold units do not represent 90% of the property value, Perpetual shall provide 80% financing, if 80% or more of the units will have an improved value of $40,000 or less.

b. Share loans to Agreement Area residents to purchase occupancy shares in co-operative housing projects located in the Agreement Area. To be eligible for such a loan, the occupancy share must be purchased from a non-profit co-operative housing corporation approved by the BAC, and the unit to be occupied must have an improved value of $40,000 or less. Such loans shall be made at the same interest rate available on mortgage loans provided under this Agreement. Such loans shall be available with maturity periods as long as 15 years. Perpetual shall establish a Service Corporation for the purpose of making co-operative housing share loans.

3. Home improvement loans (not secure by realty) to owner-occupants of 1-4 family homes and condominium units. Such loans shall be in amounts up to $10,000, with maturity periods as long as 15 years, and payable in monthly installments.

B. Credit-Worthiness Standards For Conventional Mortgage Loans

Perpetual agrees to employ the following criteria in determining the credit-worthiness of an applicant seeking a conventional mortgage loan under Part A of this Agreement.

1. All income of the applicant and applicant's spouse--including income from overtime and part-time employment--that is reasonably stable and will most likely continue shall be included as part of effective gross income.

2. Labor performed by a borrower to improve realty securing a loan shall be considered as the equivalent of a cash investment for the purpose of calculating loan to value ratios.

3. In cases where the applicant's credit history is limited, the applicant's rental payment and employment record shall be used in lieu of a credit record.

4. Perpetual shall make loans to an applicant with a satisfactory credit record if the applicant's total payments on debt obligations and housing expenses will be less than 50% of his or her effective net income.

5. For applicants with records showing prompt rental payments and steady employment, Perpetual shall make loans where total payments on debt obligations and housing expenses will be greater than 50% of effective net income, if the application has the approval of the Agreement Area Housing Counseling Service established under Part E of this Agreement.

C. FHA/VA Insured And Assisted Loans

Perpetual agrees to make the FHA/VA insured and assisted loans enumerated below to any of the following individuals or corporations qualifying under FHA/VA eligibility standards for the purchase and/or rehabilitation of any property located in the Agreement Area: 1) individual residents of the Agreement Area, and 2) non-profit co-operative housing corporations and condominium developers approved by the BAC. All such loans shall be available at the maximum allowable loan amounts, loan to value ratios, and maturity periods.

1. Mortgage loans insured under FHA Program 203(b) to individual residents to purchase and both purchase and rehabilitate (wrap-around mortgage loans) one to four family homes.

2. Mortgage loans insured under FHA Program 203 to developers approved by the BAC to purchase and substantially rehabilitate single family homes that will be sold to home buyers with mortgage financing under FHA Program 235.

3. Mortgage loans insured and assisted under FHA Program 235 to individual residents to purchase substantially rehabilitated single family homes.

4. Mortgage loans guaranteed under VA Programs to individual residents to purchase one to four family homes.

5. Mortgage loans insured under FHA Program 234 to individual residents to purchase individual condominium units.

6. Mortgage loans insured under FHA Program 213 to non-profit co-operative housing corporations to purchase and both purchase and rehabilitate projects for co-operative housing. The non-profit co-operative housing corporation shall be approved by the BAC. In order for such a loan to finance conversion from multi-family rental tenure to co-operative ownership, the tenants of the building must receive at least 70% of the co-operative units.

7. Mortgage loans insured under FHA Program 234 to developers to purchase and substantially rehabilitate multi-family rental projects for conversion to condominium ownership. The developer must be approved by the BAC. Such condominium projects must include low and moderate income housing units. The building's tenants must receive at least 70% of the units. Where possible, at least 30% of the units must be reserved for Agreement Area residents obtaining permanent financing and assistance under FHA Program 235.

8. Mortgage loans insured and assisted under FHA Program 235 to individual residents to purchase substantially rehabilitated conominium units.

9. Unsecured home improvement loans insured under the FHA Title I Program.

D. <u>D.C. Government Loan Program</u>

If the District of Columbia Government establishes a rehabilitation loan program or a loan insurance program, Perpetual agrees to make loans qualifying under such programs to residents of the Agreement Area and to non-profit co-operative housing corporations and condominium developers approved by the BAC in cases where the price and value of property securing such loans is within the limits established for conventional loans qualifying under Part A of this Agreement.

E. Agreement Area Housing Counseling Service

The BAC shall designate a person or persons to constitute the Agreement Area Housing Counseling Service. At least one person so designated shall be bilingual. Perpetual agrees to contribute funds for the salary and expenses of the Housing Counseling Service in an amount not less than the amount of such funds contributed by the BAC. Perpetual shall provide the Housing Counseling Service with copies of its current application forms for mortgage loans, co-operative share loans, and unsecured home improvement loans, and a copy of its mortgage lending manual.

Perpetual shall also provide each Agreement Area resident who has applied for and been denied a loan at its 18th Street and Columbia Road branch office with a referral statement prepared by the Housing Counseling Service. Whenever authorized to do so by the loan applicant, a member of the Housing Counseling Service may review any such loan application.

F. Special Loan Officer at 18th Street and Columbia Road Branch Office

Perpetual agrees to establish a Special Loan Officer to process applications by Agreement Area residents for the following types of conventional or FHA/VA loans under this Agreement: mortgage loans on 1-4 family homes and condominium units, co-operative share loans, and home improvement loans. The Special Loan Officer shall be a full time officer at Perpetual's 18th Street and Columbia Road branch office. The Special Loan Officer shall be a resident of the Agreement Area and shall be bilingual. The Special Loan Officer shall provide technical assistance to the Housing Counseling Service. The Special Loan Officer shall also participate in the processing of applications for loans on co-operative and condominium projects filed by corporations approved by the BAC pursuant to Part A, Part B, or Part D of this Agreement.

G. Branch Advisory Commission

There is hereby established a Branch Advisory Commission (BAC) for Perpetual's 18th Street and Columbia Road branch office. The BAC shall consist of six members. Perpetual shall appoint two members from a list of nominees submitted by the Adams Morgan ANC. Perpetual shall appoint two members from a list of nominees submitted by the Mount Pleasant ANC. Perpetual shall appoint any Agreement Area residents as the remaining two members. All members shall serve one-year terms, but may be reappointed.

The BAC shall perform the specific duties assigned to it under this Agreement. The BAC shall also monitor the implementation of this Agreement and shall recommend modifications of the Agreement. The members of the BAC shall be permitted to attend meetings of Perpetual's board of directors. Members shall also be permitted to inspect Perpetual's financial records; provided that no member shall inspect any record containing information concerning any identifiable borrower or depositor without prior authorization from such borrower or depositor.

H. Bilingual Facilities at the 18th Street and Columbia Road Branch Offices

Perpetual shall make avail ble in Spanish loan applications and material relating to savings accounts, such as savings account rules and proxy cards.

This Agreement shall be incorporated into Perpetual's Application to Establish a Branch Office at 18th Street and Columbia Road, N.W. prior to any Federal Home Loan Bank Board approval of the application. In consideration for the incorporation of this Agreement into Perpetual's application prior to the applications approval, the Adams Morgan Organization, the Adams Morgan ANC, and the Mount Pleasant ANC shall:

1. withdraw their opposition to the application;
2. not undertake or participate in a depositor boycott against Perpetual on account of its lending policies in the Agreement Area;
3. not undertake or participate in a proxy challenge to Perpetual's management on account of its lending policies in the Agreement Area.

Frank Smith, Jr.
Chairperson Adams Morgan ANC
Chairperson Adams Morgan Organization

Stanley K. Williams
Chairperson Mount Pleasant ANC

Thorton W. Owen
Chairperson of the Board
Perpetual Federal Savings and Loan Association

Thomas J. Owen
President
Perpetual Federal Savings and Loan Association

Attachment 2D

Before the

FEDERAL HOME LOAN BANK BOARD

Washington, D.C.

In the Matter of:

The Application of Perpetual Federal Savings and Loan Association, Washington, D.C. to establish a branch office at the intersection of 18th Street and Columbia Road, N.W., Washington, D.C.

MOTION FOR

EXPUNGEMENT OF BIASED FINDINGS AND RECOMMENDATIONS, A HEARING CONDUCTED BY AN UNBIASED HEARING OFFICER, AND SUBMISSION OF ADDITIONAL INFORMATION

The Adams Morgan Organization (AMO), the Adams Morgan Advisory Neighborhood Commission (Adam Morgan ANC), the Mount Pleasant Advisory Neighborhood Commission (Mt. Pleasant ANC), Jean Smith, and Horace T. Harris hereby request that the Federal Home Loan Bank Board (Board) strike from the record the findings and recommendations of the officers of the Federal Home Loan Bank of Atlanta (Atlanta Bank). The bias of the Atlanta Bank officers requires that the Board undertake this action.

Petitioners further request that the Board appoint an unbiased hearing officer to conduct an unbiased hearing. At present, the record in this proceeding in regard to the applicant's lending policies in the Adams Morgan and Mount Pleasant neighborhoods of Washington, D.C. (hereinafter jointly referred to as the community) is inadequate. In large measure this inadequacy is attributable to the bias of the Atlanta Bank officer who presided at the hearing in this proceeding and failed to develop necessary information.

Petitioners also request that the Board require the applicant to submit additional information for the record.

I. The record required for a proper finding in this proceeding.

The Home Owners Loan Act requires the Board before chartering a Federal S&L to find "a necessity for such an institution in the community to be served" and "a reasonable probability of its usefulness." 12 U.S.C. sec. 1464(e). That act also requires the Board in chartering and regulating federal S&L's to give "primary consideration to the best practices of local mutual thrift and home financing institutions." 12. U.S.C. sec. 1464(e).

The Board has incorporated the statutory chartering criteria of "necessity" and "usefulness" in its branching regualtion. 12 C.F.R. Sec. 545.14(c). The Board requires branch applicants to "indicate the type and extent of services to be offered...describe the socio-economic characteristics of the market area population (level of population, median income, family size, etc.), and discuss how these characteristics indicate the need for a savings and loan facility with the type and extent of services being proposed." FHLBB FORM 700 at 3.

Thus federal statute and the Board's own regulations require that a full record be developed concerning the community's home financing needs and the applicant's lending policies. In this undertaking the issue of home financing needs is particularly complex because it may require ascertainment of community values as well as social facts. Ascertainment of such valves requires an examination of the attitudes of community residents.

In this proceeding, community attitude is a central issue. Petitioners have demonstrated that the great majority of the community's residents desire to preserve the racially and economically integrated nature of the community. For that reason they desire a financial institution that will adjust its lending policies to minimize the displacement of moderate and lower income persons from the community.

Yet the applicant claims that petitioners represent only a small segment of the community's residents and that, in fact, the majority of the community's residents support applicant's efforts to establish a branch without adjustment of its lending policies. Perpetual's Response of October 19, 1976 to AMO's Petition to Deny at 2. (Perpetual Response). Statement Of Thomas J. Owen submitted to the Atlanta Bank on November 9, 1976 at 11, 12. It is clear from the above that in this proceeding community home financing needs cannot be ascertained merely from examing social and economic facts, but also requires a determination of the values and attitudes of the community's residents.

Moreover, where, as in Adams Morgan and Mount Pleasant, there is strong need for particular home financing services, a full record on the applicant's lending policies is particularly important. If the applicant's lending policies do not meet these particular home financing needs, then the applicant, in order to pass the test of usefulness and necessity, must make reasonable adjustments.

Petitioners have demonstrated a substantial disparity between the community's particular home financing needs and the applicant's lending policies. Thus a record must be developed on the issue of reasonable adjustments. In order to determine what adjustments can be reasonably expected, the record must contain data to show the point at which lending policies adjustments would expose the applicant to undue risk.

Moreover, the federal civil rights laws and the Board's regulations prohibiting discrimination in mortgage lending impose on the Board a further obligation to develop a record concerning lending policies in cases where the applicant's lending policies have discriminatory effects on a community's minority residents. 42 U.S.C. sec. 3601 et. seq.; 42 U.S.C. sec. 1981, 1982, Public Law 94-239. If the applicant's lending policies have unlawful discriminatory effects in the community prior to establishment of a branch, then the Board cannot properly find "usefulness and necessity" in an expansion of the applicant's scope of operations in the community.

Petitioners have shown that the applicant's lending policies have a discriminatory effect. Thus these lending policies must be subjected to the business necessity test as required by federal civil rights laws and the Board's regulations. In order to apply that test the record must contain data on the risks associated with less discriminatory lending policies.

Even where the applicant's existing lending policies have no unlawful discriminatory effects, the applicant's extablishment of a new branch without adjusting its lending policies may generate discriminatory effects. Thus, the Board's obligation to take affirmative action under Section 3608(c) of the 1968 Civil Rights Act requires that the Board in this proceeding develop a full record on the issue of alternative lending policies with less discriminatory impact.

II. <u>The role of the Atlanta Bank Officers in developing the record required in this proceeding.</u>

The Board has delegated to the officers of the Atlanta Bank primary responsibility for developing a record in this proceeding. William Branham, a Senior Vice President of the Atlanta Bank, ordered, scheduled the time and location, and conducted the hearing held on on the application at the Atlanta Bank on November 9, 1976. See 12 CFR Sec. 545.14(h), 556.5(a)(3). Mr. Branham also organized and led a field investigation of the community that included interviews of community residents to determine their attitude toward the application. See 12 C.F.R. sec. 556.5(a)(3). Mr. Branham was delegated authority to require the applicant to submit additional information for the record, although he appears not to have exercized that authority. See 12 D.F.R. Sec. 556.5(a)(2). Finally, Mr. Branham submitted to the Board a summary and analysis of the proceeding and a recommended decision. See 12 C.F.R. Sec. 556.5(a)(4). Carl Kamp, the President of the Atlanta Bank, found On October 4, 1976 that the AMO Petition to Deny of September 24, 1976 was not a "substantial" protest. See 12 C.F.R. Sec. 545.14 (g)(4). (See. Appendix A).

The portion of the record submitted by the Atlanta Bank officers will have a major impact on the Board's decision. Mr. Branham's summary, analysis and recommended decision will greatly influence the Board's judgement. In particular, the results of the field investigation and survey of community attitude conducted under Mr. Branham's leadership will be given great weight by the Board in its evaluation of a central issue in this proceeding--the home financing needs of the community and the attitudes of the community's residents. Additionally, the finding by Mr. Kamp that the AMO Petition To Deny was not a "substantial" protest will prejudice petitioners'right to seek judicial review of the Board's final order in this proceeding.

The Atlanta Bank officers have also exercized control over the portion of the record submitted by the applicant. Perpetual has submitted in this proceeding only minimal and often misleading information concerning its lending policies. In spite of the inadequacy of Perpetual's submissions, Mr. Branham failed to question Perpetual concerning its lending policies at the hearing. It also appears that neigher Mr. Kamp nor Mr. Branham have invoked their authority provided by 12 C.F.R. Sec. 556.5(a)(2) to require the applicant to submit additional information.

III. The conflict of interest inherent in the delegation of authority to the Atlanta Bank officers.

The senior officers of the Atlanta Bank are selected, employed, have their salaries fixed, and discharged by the Atlanta Bank's board of directors. Although the Board (FHLBB) has authority to veto the Atlanta Bank's selection of an officer, and in the case of the President authority to fix a salary range, the officers of the Atlanta Bank are very much creatures of the Atlanta Bank's board of directors.

The Atlanta Bank's board of directors is composed of 14 directors; 8 directors elected by the S&L's located within the Atlanta Bank Region and 6 public directors appointed by the Board.* Thus, the majority of the persons who employ the Atlanta Bank officers are elected representatives of the S&L industry. This relationship results in an inherent conflict of interest whenever the officers are involved in a dispute between on S&L and a community organization. Where the officers are assigned primary responsibility for developing

*As of April, 1976, the Board had not even bothered to fill all of the public director positions. FHLBB Journal, April 1976 at 77.

the record and making recommendations in such a dispute, this conflict of interest cannot help but bias the record and the recommendations. In order to appreciate the extent of this bias one need only consider the reaction of the S&L industry were the eight S&L representatives on the Atlanta Bank's board of directors replaced by the leaders of neighborhood associations.

Moreover, the delegation of authority to the Atlanta Bank officers results in a conflict of interest even where community organizations have not intervened. As shown above, the Board has an obligation to develop a full record on community necessity and usefulness in all application proceedings. Clearly officers who are beholden to the S&L industry cannot be expected to make vigorous efforts to develop a record that might suggest that an applicant be required to adjust its lending policies as a condition for approval.

The Board has attempted to legitimize this delegation of authority by designating the Atlanta Bank officers as the Board's Supervisory Agents. Thus William Branham, a senior vice president of the Atlanta Bank, is referred to as a Supervisory Agent. Carl Kamp, the Atlanta Bank's President, is known as the Principal Supervisory Agent. However, the designation of the officers as "agents" of the Board represents nothing more than the formal act of delegating authority to them to process applications. Though nominally agents of the Board, the officers are in fact still employees of the Atlanta Bank and the conflict of interest remains unchanged.

IV. <u>Biased actions of the Atlanta Bank officers in this proceeding.</u>

The conflict of interest underlying the delegation of authority to the Atlanta Bank officers has been manifest in their biased actions in this proceeding. William Branham has made a number of procedural rulings which indicate bias against petitioners. On September 17, 1976, AMO filed with the Atlanta Bank a request for additional time in which to file a statement in this proceeding. The request indicated the home financing problems in the community and pointed out the inadequacies in Perpetual's application. Yet Mr. Branham, claiming that the Board's regulations did not authorize any extensions of the 30 day filing deadline, refused to grant the extension and did not offer to request additional information from AMO pursuant to 12 C.F.R. Sec. 545.14(g)--a means by which AMO could have submitted statements for the record after the filing deadline.

Mr. Branham's refusal to provide additional time for AMO stands in sharp contrast to his willingness to misinterpret the Board's regulations in order to provide additional time for Perpetual. Perpetual was required by 12 C.F.R. Sec. 545.14(g) to file its response to AMO's protest within 15 days of the filing deadline for protestants. However, Mr. Branham misinterpreted this regulation in order to allow Perpetual a response period of 25 days after the filing deadline. Hearing before the Atlanta Bank on November 9, 1976 at 51,55.

On October 4, 1976 Carl Kamp ruled that AMO's protest was not "substantial" and thus that AMO had no right to a hearing even though the protest did, in fact, comply with the requirements enumerated in 12 C.F.R. Sec. 545.14(g)(4). (See. Appendix A.) Yet three days later, on October 7, 1976, William Branham ordered a hearing on his own motion. (See. Appendix B.) Since AMO was the only protestant of record, ordering the hearing was clearly a tacit admission that AMO had filed a "substantial" protest. At the hearing William Branham indicated that the Atlanta Bank officers never judged AMO's protest on its merits, but rather acted on the assumption that a community organization by its very nature could not file a substantial protest. Hearing at 68. The position that a community group cannot file a "substantial" protest is not supported by the language of 12 C.F.R. Sec. 545.14(g)(4). The Atlanta Bank officers misconstrued the regulation in order to deny AMO the opportunity, should AMO seek judicial review of the Board's final order, to claim standing on the ground that the Board had found its protest to be substantial.

William Branham's failure to consider AMO's views concerning the scheduling of the hearing provides further evidence of bias. On October 7, 1976 Mr. Branham informed AMO that a hearing would be held, indicated that it could not be scheduled until after October 19, 1976, and requested that AMO advise the Atlanta Bank on or before October 19, 1976 as to a convenient hearing date. (See Appendix C.) AMO filed a statement concerning the time and location of the hearing on October 19, 1976, but Mr. Branham, contrary to his commitment, had already scheduled the hearing at least a day earlier. Moreover, in scheduling the hearing in Atlanta, Georgia, Mr. Branham disregarded the requests of AMO and other community residents that the hearing be held in Washington, D.C. in order to minimize the burden of participation by community residents.

Further evidence of bias is found in the manner in which William Branham presided over the November 9, 1976 hearing. At the hearing, Mr. Branham repeatedly questioned AMO concerning the nature of its organization and the basis for its opposition to Perpetual's application. Hearing at 66, 67, 69, 83, 84, 87. Yet Mr. Branham failed to question Perpetual concerning its loan policies. In fact, Mr. Branham eventually

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went so far as to endorse a totally misleading statement of Perpetual concerning its lending policies. In response to AMO's stated concern that Perpetual provide more liberal financing on the more expensive homes in the community, first Perpetual and then Mr. Branham implied that this was a problem caused by the Board's regulations--a totally erroneous suggestion. Hearings -t 86, 87. Since Perpetual's loan policies are a central issue in this proceeding Mr. Branham's failure to develop a record on this has fatally flawed the proceeding.

On November 19, 1976 William Branham led a four member team that conducted a field investigation of the community in order to determine the social and economic characteristics of the community's residents, the housing stock, and, most important, the attitude of the community's residents toward Perpetual's application. The investigation team consisted of Mr. Branham, two other employees of the Atlanta Bank, and an employee of the Board.

A key element of the field investigation was a street interview of community residents to determine their attitude toward the application. The Atlanta Bank had prepared interview forms that asked whether the person interviewed was a resident of the community, whether he or she had heard of Perpetual's application, and whether he or she wanted a Perpetual branch in the community.

Chris Summers, a community resident, was approached and interviewed by a woman member of the investigation team while walking down 18th Street, N.W. in Adams Morgan. The team member read the questions on the interview form and recorded Mrs. Summer's answers. At no time did the team member ask Mrs. Summers whether Perpetual should change its lending policies before entering the community.

Alex Wright, another community resident, was stopped while walking down 18th Street near Columbia Road and interviewed by two members of the investigation team. The team members, a man and a woman, stated that they were from the Federal Home Loan Bank of Atlanta and that they were conducting a survey to determine whether the community wanted Perpetual to build a branch office at 18th Street and Columbia Road. They asked Mr. Wright to fill out the interview form. Based on the type of questions asked Mr. Wright received the impression that the team members were actually working on behalf of Perpetual.

Thus, Mr. Branham's investigation team conducted the interviews in a biased manner. The interview questions were phrased in terms of whether Perpetual should establish a branch, not whether adjustment of Perpetual's lending policies should be a condition for entry into the community. No effort was made to determine whether community residents desired a branch that would modify its lending policies in order to minimize the displacement of moderate and lower income persons from the community. The thrust of the interview was similar to the question asked by Perpetual in its customer survey, "Do you favor Perpetual establishing a new branch office at Columbia Road and 18th St. N.W., Wash., D.C." Amended Petition To Deny of Dec. 10, 1976 at J-2. Like Perpetual, Mr. Branham's investigation team avoided the key issue and created the false impression that AMO had unconditionally opposed Perpetual's branch application. Amended Petition To Deny at 30, 31.

Emil Summers, another community resident, was also interviewed while walking down 18th Street, N.W., in Adams Morgan. A male mamber of the investigation team stated that he was from the Federal Home Loan

Bank of Atlanta and asked Mr. Summers whether Perpetual should be allowed to build a branch at 18th and Columbia Road. Mr. Summers stated that he was opposed to the branch. The team member then asked Mr. Summers whether he had ever been associated with AMO. Mr. Summers replied yes. The team member then terminated the interview and did not fill out the interview form. Thus, Mr. Branham's investigation team excluded from its survey data the response of a community resident who opposed Perpetual's application.

V. Elimination of Bias from the record

As shown above this proceeding has been flawed by the bias of the Atlanta Bank officers. This bias has directly injured petitioners and has violated their right to due process under the 5th Amendment and Sec. 558 of the Administrative Procedure Act.

In order to remove this bias the Board must strike from the record the work product of these officers. Thus, the Board must strike the findings of the field investigation conducted by Mr. Branham. The Board must also strike the recommended decision, summary and analysis of relevant information provided by Mr. Branham. Finally, the Board must strike Mr. Kamp's finding that AMO's protest was not "substantial".

Moreover, the hearing held at the Atlanta Bank was inadequate due to the bias of the presiding officer, Mr. Branham. Thus, the Board must order another hearing to be conducted by an unbiased hearing officer. The unbiased hearing officer should also be assigned responsibility for conducting any field investigations and submitting the recommended decision, summary and analysis of relevant information. The unbiased hearing officer should also make a finding as to whether AMO and the other petitioners have filed a "substantial" protest as defined by 12 C.F.R. sec. 545.14 (g) (4).

VI. Development of an adequate record

In addition to insuring that its proceedings are free from bias, the Board has an obligation to develop a full record on all the relevant issues. As petitioners have shown above, the disparity between the community's home financing needs and Perpetual's lending policies and the impermissible discriminatory effects of Perpetual's lending policies are central issues in this proceeding. Thus the Board must develop a full record on Perpetual's current lending policies and alternative lending policies before it can properly take action on Perpetual's application.

At present the record in this proceeding contains only scant information concerning Perpetual's lending policies. The minimal information submitted by Perpetual in its October 12, 1976 Response To AMO's Petition To Deny and its December 21, 1976 Response To Amended Petition To Deny is often misleading. In order to correct this deficiency the Board must ask Perpetual to submit for the record the following information:

(1) A copy of Perpetual's Mortgage Lending Manual (including all instructions for loan officers).

(2) A detailed description of Perpetual's policies concerning loan to value ratios for mortgage loans on older properties and non-renovated properties located in the Adams Morgan and Mt. Pleasant neighborhoods.

(3) A detailed description of Perpetual's policies concerning single mortgage loans for both the purchase and rehabilitation (wrap-around mortgage loans) of properties located in the Adams Morgan and Mt. Pleasant neighborhoods.

(4) A description of the criteria used by Perpetual in evaluating the credit worthiness of mortgage loan applicants, including family income, net worth, and prior credit history requirements.

The inclusion of Perpetual's Mortgage Lending Manual is essential. It is not a self-serving submission and would provide valuable evidence of Perpetual's lending policies. The submission of information concerning Perpetual's financing of the purchase of older and non-renovated residences and the rehabilitation of such residences is critical given the nature of the housing stock in the community. Since 79% of the community's housing units are in multi-family buildings this should include should include policies on multi-family residences as well as single fmaily homes. Finally, given the predominance of moderate and lower income residents in the community and the disproportionately high percentage of such residents who are also minority persons, the submission of information concerning Perpetual's credit worthiness criteria is essential.

VII. <u>Improper delegation of authority to take final agency action.</u>

As discussed above, the Board has delegated authority to Atlanta Bank President to determine whether protestants have filed a "substantial" protest. The Board has also provided that the decision of the Atlanta Bank President shall be final. 12 C.F.R. Sec. 545.14(g)(4)(ii). As demonstrated by Mr. Kamp's decision in this proceeding, the Atlanta Bank President exercizes significant discretion in applying the criteria enumerated in 12 C.F.R. Sec. 545.14(g)(4)(i) to the facts of a particular protest. Moreover, as stated above, the decision as to whether a protest is substantial determines whether the protestant has the right to a hearing and bears directly on the question of whether a community group protestant has standing to seek judicial review of a Board order.

Federal courts have held that the heads of federal administrative agencies have broad power to delegate authority to their subordinates. However, the delegation of authority to persons who are neither employees of the federal agency nor Civil Service hearing officers to take final, non-reviewable agency action on a matter that substantially effects the rights of participants in an agency proceeding exceeds the bounds of permissible delegation. Thus, Mr. Kamp's ruling that AMO's protest was not "substantial" cannot be viewed as "agency action." Therefore, the ruling was in violation of Section 1461 of the Home Owners' Loan Act which requires the Board to regulate federal savings and loans and Section 558 of the Administrative Procedure Act which requires the Board to set and complete proceedings.

Respectfully submitted,

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February 22, 1977

I certify that a copy of this motion was mailed to Thornton W. Owen, Chairperson of the Board, Perpetual Federal Savings and Loan Association, 11th and E Streets, N.W., Washington, D.C. 20004. February 22, 1977

Louis J. Sirico, Jr.

The CHAIRMAN. Ms. Cincotta.

STATEMENT OF GALE CINOTTA, CHAIRPERSON, NATIONAL PEOPLE'S ACTION

Ms. CINCOTTA. Thank you. Good morning, Senators.

I am here to testify on the need for and the components of a national reinvestment act. I address my comments to S. 406, the Community Reinvestment Act of 1977 that is now before the Senate Banking Committee.

We agree fully with the concept that all financial institutions have an affirmative obligation to meet the credit needs of all our citizens and their neighborhoods. However, in order to accomplish the purpose of community reinvestment, the act must contain provisions that require all financial institutions—not just the institutions that apply for some type of expansion authority—but all institutions and the Federal regulators to undertake affirmative programs to meet local credit needs.

I submit to the committee an amended bill containing such provisions. I will cover in my testimony some high points of the amendments.

The Community Reinvestment Act of 1977 begins with the premise that many communities' credit needs are not currently being met. Following that logic, Congress must recognize that many communities have historically been underserved. S. 406 should include provisions that address the needs of the historically underserved areas as well as assuring adequate credit opportunity for all communities. The bill should therefore be amended to include underserved areas as specific areas where credit needs are more acute and where financial institutions should place special emphasis on meeting those needs.

For the purpose of adequately and fairly serving the credit needs of an entire community and particularly the underserved areas, a financial institution must necessarily define a service area and an affirmative marketing plan. Primary Service areas for savings and loan institutions should be defined in the Act as that—

> geographic territory which includes the areas in which the institution originates 80 percent of its loans and all other areas which are as close as or closer to the association's facility as such areas.

Similarly, the term primary service area for commercial banks should be defined in the Act as those areas—

> from which the institution receives 80 percent of its consumer deposits and all other areas which are as close as or closer to the institution's offices as such areas.

And by that, I mean you should be able to draw a full circle, if 80 percent of the institution's loans are outside, and if the institution can make a judgment that far out of an area a full circle from that should be drawn around the institution that it should be servicing.

In applying definitions of loans and consumer deposits, institutions must define them for the entire institution, not on a branch by branch basis.

The underserved areas which require affirmative marketing programs should be defined in the act as—

census tracts, or aggregate of census tracts within the PSA, which are characterized by minority or racially changing populations, lower income households, or an older housing stock.

Also, the home mortgage disclosure data could be used as areas that are seen as serving minimal loans.

In order for the regulatory bodies to determine that the financial institutions are cooperating in providing for meeting the credit needs in these underserved areas, the Act must mandate that the regulators require financial institutions to develop and implement comprehensive, affirmative marketing programs, and submit annual performance data.

The Community Reinvestment Act correctly assumes that there is a demand for mortgage credit in every community. Discouraging this demand has been a prime activity of financial institutions who would rather invest depositors' and public monies in real estate investment trusts, or marketing loan packages for suburban tract developments. Exploding the myth of lack of demand should be another prime concern of the reinvestment act.

Requiring affirmative marketing is one way, but it is critical that the Community Reinvestment Act prohibit discrimination in the quoting or application of conditions and terms, or in the case of real property, the appraisal due to geographic location of the applicant or the subject property.

Senators, what we are talking about when we say reinvestment is not requiring financial institutions to purchase homes, apartments, or businesses or make bad loans, but to make sound loans on equitable terms, to neighborhood investors. One of the most insidious forms of discouraging reinvestment is the variance of terms, conditions or appraisal standards from one area to another.

In a recent discussion with an official of the U.S. League of Savings Associations, we were reminded that, and I quote: "there are three rules in appraisal—the first one is location; the second one is location; and the third one is location." Further, when asked whether he did not accept that appraisal decisions were highly subjective, he responded: "No; it isn't subjective. It is an honest effort to guess what's going to happen!"

To allow this practice is to force private capital—savings—out of the very neighborhoods the Community Reinvestment Act is concerned about.

I would like to point out to the committee that the industry, while talking lack of demand out of one side of their mouth, are talking about coinsurance out of the other side. They admit to demand when the topic comes around to the Federal Government subsidizing their private institutions, but they scream "there's no demand" when the topic under discussion is lack of their services to the depositors, the public and the community. As proof of demand, I cite three examples.

In 1975, the Center for Urban Affairs of Northwestern University published a report that included a study on the conventional mortgage demand of one Chicago neighborhood, Logan Square. What the report showed was that lack of conventional home mortgaging does not reflect a lack of demand. In fact, conventional lending was replaced by federally insured mortgaging.

The age of the structures was comparable to an adjacent community that was receiving conventional loans. Ninety-three percent of the buyers in the area made relatively high downpayments, yet received FHA mortgages, while 90 percent of the buyers in the adjacent area made relatively low downpayments, and got conventional financing.

The study concluded that race may have been a factor. There was a higher percentage of Spanish-speaking buyers in the area of heavy FHA lending. In addition, the study conclusions suggest that the pattern of discrimination reflects the lenders' refusal to approve applications for conventional loans and/or the buyers' failure to apply for conventional loans out of fear that they would not qualify. And I've got copies of a Sun Times article quoting and listing some of the buyers, one who offered to make an $8,000 downpayment on a $16,500 home. Another one winning a bid on a $39,500 property, the financial institution told them they would need $11,500 down, which they had, and then after they won the bid, the institution told them there must have been a mistake when they said they were going to give them a mortgage.

Again, on the question of demand, the California Department of Savings and Loan developed a comprehensive package of reinvestment regulations that went into effect August 1976. During the first 3 months of the program, lending in historically underserved areas increased at a greater per loan and per dollar amount rate than in areas where redlining has not been a problem.

The four historically underserved Los Angeles communities of East Los Angeles, Adams Park, Eagle Rock, and Pomona had increases of 198 percent, 167 percent, 126 percent, and 70 percent, respectively, in the number of loans made. The dollar amount for these 4 areas also increased, by 229 percent, 219 percent, 144 percent, and 126 percent, respectively. These communities' home lending pattern contrasted with dollar amount increases in Beverly Hills of 48 percent and Palos Verdes of 17 percent. It contrasted in number of home loans as well. Beverly Hills increased only 15 percent, while Palos Verdes actually dropped 15 percent during the same 3 months. As I said, the demand is there.

Senators, the amendments I propose are critical if S. 406 is to be a community reinvestment bill.

I have also brought a chart that deals with the data from the Home Mortgage Disclosure Act of 1975 showing Chicago, Philadelphia and Hartford, Conn., the shaded area of the pie is the city, the checkered is the suburbs and the white piece is outside the SMSA. The first column of the table is home mortgages, and the second column is home mortgages and home improvement loans. If you say, well, the suburbs have newer buildings and the cities are older, they should be getting home improvement loans. When you add the two figures together, the red area is the city, the blue is the suburbs and the white is outside the SMSA. And the third column is five units or more of nonowner occupied loans and the picture for Philadelphia and Hartford is even worse than for the Chicago area, and I think that it shows the reason we really need to add to this Community Reinvestment Act bill, especially with it having that title—I'm afraid we might not get anything else through Congress if we don't add it on this bill. Thank you.

The CHAIRMAN. Thank you, Ms. Cincotta.

[Complete presentation follows:]

PREPARED STATEMENT OF GALE CINCOTTA, NATIONAL PEOPLES ACTION

Good morning, Senators. My name is Gale Cincotta, and I am chairperson of National People's Action.

I am here to testify on the need for and the components of a national reinvestment act. I address my comments to S. 406, the Community Reinvestment Act of 1977 that is now before the Senate Committee.

I agree fully with the concept that all financial institutions have an affirmative obligation to meet the credit needs of all our citizens and their neighborhoods. However, in order to accomplish the purpose of community reinvestment, the Act must contain provisions that require *all* financial institutions—not just the institutions that apply for some type of expansion authority—but all institutions and the Federal regulators to undertake affirmative programs to meet local credit needs.

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I will cover in my testimony some high points of the amendments.

The Community Reinvestment Act of 1977 begins with the premise that many communities' mortgage credit needs are not currently being met. Following that logic, Congress must recognize that many communities have historically been underserved. S. 406 should include provisions that address the needs of the historically underserved areas as well as assuring adequate credit opportunity for all communities. The bill should therefore be amended to include underserved areas as specific areas where credit needs are more acute and where financial institutions should place special emphasis on meeting those needs.

For the purpose of adequately and fairly serving the credit needs of an entire community and particularly the underserved areas, a financial institution must necessarily define a service area and an affirmative marketing plan. Primary Service areas for savings and loan institutions should be defined in the Act as that "geographic territory which includes the areas in which the institution originates 80% of its loans and all other areas which are as close as or closer to the association's facility as such areas."

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In order for the regulatory bodies to determine that the financial institutions are cooperating in providing for meeting the credit needs in these underserved areas, the Act must mandate that the regulators require financial institutions to develop and implement comprehensive, affirmative marketing programs, and submit annual performance data.

The Community Reinvestment Act correctly assumes that there is a demand for mortgage credit in every community. Discouraging this demand has been a prime activity of financial institutions who would rather invest depositors' and public monies in real estate investment trusts, or marketing loan packages for suburban tract developments. Exploding the myth of "lack of demand" should be another prime concern of the reinvestment act.

Requiring affirmative marketing is one way, but it is critical that the Community Reinvestment Act prohibit discrimination in the quoting or application of conditions and terms, or in the case of real property, the appraisal due to the geographic location of the applicant or the subject property.

Senators, what we are talking about when we say reinvestment is *not* requiring financial institutions to purchase homes, apartments, or businesses or make bad loans, but to make sound loans on equitable terms, to neighborhood investors.

One of the most insidious forms of discouraging reinvestment is the variance of terms, conditions or appraisal standards from one area to another.

In a recent discussion with an official of the U.S. League of Savings Associations, we were reminded that, and I quote: "there are three rules in appraisal—the first one is location; the second one is location; and the third one is location." Further, when asked whether he did not accept that appraisal decisions were highly subjective, he responded that: "It is an honest effort to *guess* what's going to happen!"

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In 1975, the Center for Urban Affairs of Northwestern University published a report that included a study on the conventional mortgage demand of one Chicago neighborhood, Logan Square. What the report showed was that lack of conventional home mortgaging does not reflect a lack of demand. In fact, conventional lending was replaced by federally insured mortgaging.

The age of the structures was comparable to an adjacent community that was receiving conventional loans. Ninety-three percent of the buyers in the area made relatively high down payments, yet received FHA mortgages, while 90 percent of the buyers in the adjacent area made relatively low down payments, and got conventional financing.

The study concluded that race may have been a factor. There was a higher percentge of Spanish-speaking buyers in the area of heavy FHA lending. In addition, the study conclusions suggest that the pattern of discrimination reflects the lenders' refusal to approve applications for conventional loans and/or the buyers' failure to apply for conventional loans out of fear that they would not qualify.

Again, the lack of demand proves to be a worthless argument given the example of 70 individuals who recently bid at Chicago HUD "as is" sales for HUD owned family homes. Each of these 70 bidders forfeited $500 in deposits because private sector conventional lenders refused them loans.

Again on the question of demand, the California Department of Savings and Loans developed a comprehensive package of reinvestment regulations that went into effect August 1976. During the first three months of the program, lending in historically underserved areas increased at a greater per loan and per dollar amount rate than in areas where redlining has not been a problem.

The four historically underserved Los Angeles communities of East Los Angeles, Adams Park, Eagle Rock and Pomona had increases of 198 percent, 167 percent, 126 percent, and 70 percent, respectively, in the number of loans made. The dollar amount for these four areas also increased, by 229 percent, 219 percent, 144 percent, and 126 percent, respectively. These communities' home lending pattern contrasted with dollar amount increases in Beverly Hills of 48 percent and Palos Verdes of 17 percent. It contrasted in number of home loans as well, Beverly Hills increased only 15 percent, while Palos Verdes actually dropped 15 percent during the same three months. As I said, the demand is there.

Senators, the amendments I propose are critical if S. 406 is to be a community reinvestment bill.

[S. 406, 95th Cong., 1st sess.]

THE COMMUNITY REINVESTMENT ACT OF 1977: AMENDED VERSION

(Proposed by National Peoples Action)

A BILL, To require financial institutions to help meet the credit needs of the communities in which they are chartered

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Community Reinvestment Act of 1977".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress finds that—

(1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business;

(2) the convenience and needs of communities includes the need for credit services as well as deposit services; and

(3) regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the communities which they are chartered to serve and the communities which fall within their primary service areas, but which are underserved.

(b) It is the purpose of this Act to require each appropriate Federal financial supervisory agency to use its authority when chartering, examining, supervising, and regulating financial institutions, to encourage such institutions to equitably meet the credit needs of the communities in which they are chartered and the historically neglected communities within their primary service areas consistent with the safe and sound operation of such institutions.

DEFINITIONS

SEC. 3. For the Purpose of this Act—

(1) the term "'appropriate Federal financial supervisory agency" means—

(A) the Comptroller of the Currency with respect to national banks;

(B) the Board of Governors of the Federal Reserve System with respect to State chartered banks which are members of the Federal Reserve System and bank holding companies;

(C) the Federal Deposit Insurance Corporation with respect to State chartered banks and savings banks which are not members of the Federal Reserve System and the deposits of which are insured by the Corporation; and

(D) the Federal Home Loan Bank Board with respect to institutions the deposits of which are insured by the Federal Savings and Loan Insurance Corporation and to savings and loan holding companies;

(2) the term "regulated financial institution" means an insured bank as defined in section 3 of the Federal Deposit Insurance Act or an insured institution as defined in section 401 of the National Housing Act;

(3) the term "application for a deposit facility" means an application to the appropriate Federal financial supervisory agency otherwise required under Federal law or regulations thereunder for—

(A) a charter for a national bank or Federal savings and loan association;

(B) deposit insurance in connection with a newly chartered State bank, savings bank, savings and loan association or similar institution;

(C) the establishment of a branch or other facility with ability to accept deposits of a regulated financial institution;

(D) the relocation of the home office or a branch office of a regulated financial institution;

(E) the merger or consolidation with, or the acquisition of the assets, or the assumption of the liabilities of a regulated financial institution requiring approval under section 18(c) of the Federal Deposit Insurance Act or under regulations issued under the authority of title IV of the National Housing Act; or

(F) the acquisition of shares in, or the assets of, a regulated financial institution requiring approval under section 3 of the Bank Holding Company Act of 1956 or section 408(e) of the National Housing Act;

(4) the term "primary service area" means:

(A) in the case of savings and loan associations, that geographic territory which includes the areas in which the institution originates 80% of its loans and all other areas which are as close as or closer to the association's facilities as such areas.

(B) in the case of banks, that geographic territory from which the institution receives 80% of its "consumer deposits" and all other areas which are as close as or closer to the bank's facilities as such areas.

In applying definitions of loans and consumer deposits, institutions must define them for the entire institution, not on a branch by branch basis. In no case shall the definition of the primary service area, as applied to this Act, be extended beyond the boundaries of the United States, its territories or properties.

(5) the term "consumer deposit" means a time or savings deposit or demand deposit owned by one or more individuals in an amount equal to or less than the current Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporation insured limit.

(6) the term "loan" shall include all individual loans for mortgages, property improvement, land purchase, construction, and business, as well as individual consumer loans. It shall not include automatic extension of credit from revolving charge accounts.

(7) the term "underserved areas" shall be applied to all census tracts, or aggregate of census tracts within primary service areas, which are characterized by minority or racially changing populations, lower income households, or an older housing stock.

(8) the term "area" as it applies to primary service areas, underserved areas, and areas subject to lending and deposit disclosure requirements of the Act shall be comprised of one or more *census tract*.

(9) the term "census tract" shall be used as defined by the United States Bureau of the Census.

COMMUNITY REINVESTMENT PROGRAMS AND PROCEDURES

SEC. 4. Each appropriate Federal financial supervisory agency shall develop programs and procedures for carrying out the purpose of this Act. Such programs and procedures shall include—

(1) requiring that in connection with an application for a deposit facility, the applicant—

(A) delineate the primary service area for the deposit facility;

(B) analyze the deposit and credit needs of such area and how the applicant proposes to meet those needs;

(C) indicate the proportion of consumer deposits obtained from individuals residing in the primary service area by the institution;

(D) demonstrate how the applicant is meeting the credit needs of the primary service area in which it or its subsidiaries have already been chartered to do business;

(E) demonstrate how applicant is meeting the credit needs of the underserved areas within the primary service area in which it and its subsidiaries have already been chartered and are already doing business;

(2) using, as factors to be considered in approving applications for deposit facilities, the applicant's record in meeting the credit needs of the primary service area in which it or its subsidiaries have already been chartered to do business, and its proposal for meeting the credit needs of the primary service area associated with the pending application;

(3) permitting and soliciting community, consumer, or similar organizations to present testimony at hearings on applications for deposit facilities on how well the applicant has met or is proposing to meet the credit needs of the communities served by or to be served by the applicants or its subsidiaries; and

() requiring annual public reports from regulated financial institutions listing, by census tract, the number, dollar amount and type of deposits and the number, dollar amount and type of loans, both inside and outside of the primary service area and the underserved areas;

(5) requiring for each institution an affirmative marketing program to ensure that lower income persons, women and persons from minority groups, as well as all persons residing in or owning property in, or operating a business within underserved areas are the focus of special outreach efforts to meet their credit needs;

(6) requiring that each affirmative marketing program be on file with the appropriate federal financial regulatory agency and on file for public use at each facility, and that such programs include as a minimum:

(a) market areas;

(b) media use;

(c) the focus of advertising, including sample advertisement and spots;

(d) the use of informational brochures posters;

(e) mortgage and other loan counseling programs, if any;
(f) working relationships with real estate brokers or other business and professional persons likely to serve persons needing credit;
(g) delineation of budget and staff assigned to the affirmative marketing program;
(h) defining specific populations within the underserved areas for special outreach efforts; and
(i) setting annual goals;

(7) developing standards of service defining acceptable and unacceptable levels of lending to underserved areas; and applying this standard to each institution and requiring that each facility post an evaluation in full view, make copies available to the public at the simple cost of reproduction, and mail copies of the evaluation to all depositors and borrowers;

(8) requiring all facilities to develop a pamphlet describing their underwriting standards for all types of loans and requiring that each facility distribute this pamphlet to each prospective loan applicant prior to initiating the formal loan application process, and further requiring that each loan denial include a written statement of the reasons for the denial, stating the precise standards in the pamphlet upon which the decision was made;

(9) requiring that personnel in each facility when receiving verbal or personal inquiries about loans inform the inquirer of the requirement to make a written application and limiting all other interchange prior to taking that formal application to the reading of a publicly available written statement of a uniform set of terms and conditions for loans of the type which are the subject of the inquiry;

(10) requiring no discrimination in the quoting or application of conditions and terms, or in the case of real property, the appraisal, due to the geographic location of the applicant or the subject property, and informing all regulated institutions that whenever disclosure data or other records subject to examination by the agents of the financial regulatory agencies indicate variance of terms, conditions or appraisal standards from one area to another, the burden of proof falls on the officers of the institution to demonstrate in clear aand compelling terms, and with objective evidence, that in that particular case, such a variation was necessary to avoid what can be demonstrated to be an unsound business practice;

(11) developing from the deposit and loan disclosure data an inventory of underserved areas and requiring that all applicants for relocations or branch facilities apply to serve one or more of these areas or explain in detail, in their application for another area why they could not locate a facility in any such underserved areas;

(12) requiring of all applicants having existing facilities a Neighborhood Impact Statement defining how the new facility being applied for will affect the areas previously served;

(13) developing a system of annual reviews of the performance of regulated institutions and, for institutions found to have unsatisfactory standards of service, recommending disciplinary action based on the severity of the abuse; with such action including, but not limited to, fines, the issuing of cease and desist orders, the imposition of an implementation process for the affirmative marketing program, the restructuring of the composition of the governing board, and the consideration of recommendations to the insuring agency to reconsider the granting of insurance and/or the recommendation that the charter be revoked.

ANNUAL REPORT

SEC. 5. Each appropriate Federal financial supervisory agency shall include in its annual report to the Congress a section outlining the actions it has taken to carry out its responsibilities under this Act.

EFFECTIVE DATE

SEC. 6. Regulations to carry out the purposes of this Act shall be published by each appropriate Federal financial supervisory agency, and shall take effect no later than one hundred and eighty days after the date of enactment of this Act.

Conventional Loan Distribution in 3 Cities

An Ovevrview of Attached Graphs and Tables

In looking at the distribution of home loans for 3 cities, we see a repeated pattern—high suburban lending, low city lending, and varying loan levels for housing outside the metropolitan area.

CHICAGO: The four largest savings and loans and two largest banks jointly made 75% of their conventional homeowner mortgage loans in the suburbs; 22% in the city, and nearly 3% outside the metropolitan area. The pattern does not even change when home improvement loans are added in. Chicago's portion increases somewhat when larger unit buildings (5 or more units) and loans to investors for 1–4 unit buildings (non-owner-occupied) are added in.

The pattern for PHILADELPHIA's six major lenders is similar for 1–4 unit homeowner loans and home improvement loans. The figures for lending outside the metropolitan area—much higher than Chicago—probably reflects the difference between Illinois unit banking and Pennsylvania branch banking. There is no way, however, to determine how much of the loans indicated as "outside metro area" are outside the state of Pennsylvania.

The most dramatic city vs. suburban lending is reflected in Hartford's figures.

It should be pointed out that closer analysis of each of these cities' data shows great disparity in lending within the city. The blackened portion of the "pies" that represents city loans does not represent equal distribution of loans within the city (or within the suburbs). Particularly within the city, and in some suburbs, there are numerous underserved neighborhoods that received little or no money.

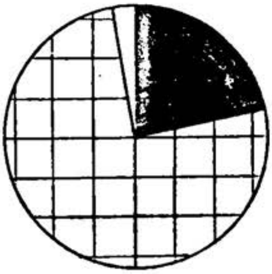
The figures and the charts on which they are based are only for housing loans, the only kind of lending data required under the current Home Mortgage Disclosure Act.

NOTE.—All loans are loans originated by institutions. None are secondary or purchased loans.

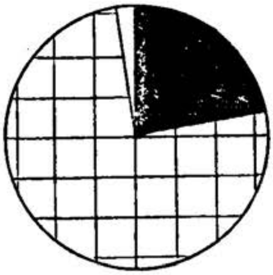
Also, figures on attached tables are in thousands of dollars (000s omitted).

CHICAGO: Loan Distribution
by 4 Largest Savings & Loans and 2 Largest Banks

HOME MORTGAGES*
(1-4 units)

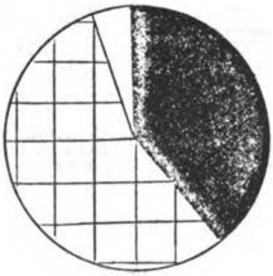


HOME MORTGAGES Plus
HOME IMPROVEMENT LOANS



OTHER LOANS

(Buildings over 5 units and
non-owner-occupied 1-4 units)



KEY: City Suburbs Outside Metro Area

*does not include FHA

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CHICAGO: LENDING BY FOUR LARGEST SAVINGS AND LOANS AND TWO LARGEST BANKS 1975

Lender (assets)	Conventional mortgages 1 to 4 units			Home improvement loans 1 to 4 units			All loans (5 plus units) and nonoccupants 1 to 4 units		
	Number	Dollars	Percent of dollars	Number	Dollars	Percent of dollars	Number	Dollars	Percent of dollars
First Federal Savings & Loan ($1.82 billion)	2,888	105,248	100	941	4,156	100	137	10,542	100
Chicago	993	27,369	26.0	452	1,663	40.0	93	5,313	50.4
Suburbs	1,894	77,852	73.9	487	2,487	59.8	44	5,229	49.6
Outside	1	27	.1	2	6	.2	0	0	0
Talman Federal Savings & Loan ($1.29 billion)	3,758	109,016	100	418	1,014	100	221	11,899	100
Chicago	1,616	42,955	39.4	231	508	50.1	192	7,365	61.9
Suburbs	2,129	65,625	60.2	187	506	49.9	124	4,338	36.5
Outside	13	436	.4	0	0	0	5	196	1.6
Bell Federal Savings & Loan ($1.14 billion)	2,065	82,438	100	199	469	100	85	9,295	100
Chicago	231	7,681	9.3	44	93	19.8	8	297	3.2
Suburbs	1,506	64,874	78.7	142	346	73.8	40	7,652	82.3
Outside	328	9,883	12.0	13	30	6.4	37	1,346	14.5
St. Paul Federal Savings & Loan ($0.76 billion)	2,218	73,369	100	131	499	100	23	1,673	100
Chicago	309	8,882	12.1	25	87	17.4	6	411	24.6
Suburbs	1,909	64,487	87.9	105	411	82.4	17	1,262	75.4
Outside	0	0	0	1	1	.2	0	0	0
Continental National Bank ($20.77 billion)	755	37,830	100	21	50	100	0	0	0
Chicago	86	3,396	9.0	1	2	4.0	0	0	0
Suburbs	669	34,434	91.0	20	48	96.0	0	0	0
Outside	0	0	0	0	0	0	0	0	0
First National Bank ($2.58 billion)	327	10,993	100	241	563	100	0	0	0
Chicago	126	3,465	31.5	164	416	67.8	0	0	0
Suburbs	200	7,467	67.9	77	147	23.9	0	0	0
Outside	1	61	.6	21	51	8.3	0	0	0
Total	12,011	418,894	100	1,951	6,802	100	466	33,409	100
Chicago	3,361	93,748	22.4	917	2,769	40.7	299	13,386	40.1
Suburbs	8,307	314,739	75.1	1,018	3,945	58.0	225	18,481	55.3
Outside	343	10,407	2.5	37	88	1.3	42	1,542	4.6
Total conv. plus home improvement	13,962	425,645	100						
Chicago	4,278	96,517	22.6						
Suburbs	9,325	318,684	74.9						
Outside	380	10,495	2.5						

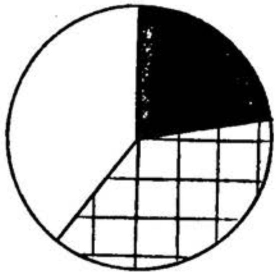
NOTES

Chicago data compiled and analyzed by National Training and Information Center (NTIC).

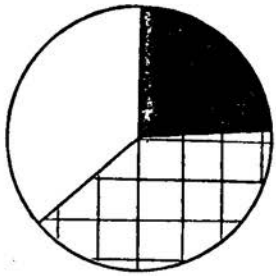
Deposit information is available by geographic area for only 1 of these lenders, First National Bank. Of all deposits, 76 pct come from Chicago and 24 pct from the suburbs.

PHILADELPHIA: Loan Distribution
by 6 Major Lenders

HOME MORTGAGES*
(1-4 units)

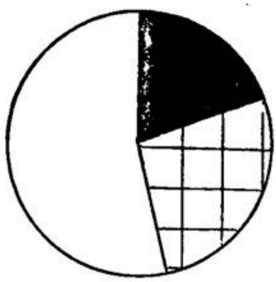


HOME MORTGAGES Plus
HOME IMPROVEMENT LOANS



OTHER LOANS

(Buildings over 5 units and
non-owner-occupied 1-4 units)



KEY: City Suburbs Outside Metro Area

*does not include FHA

PHILADELPHIA: LENDING BY SIX MAJOR LENDERS JAN. 1, 1975 THROUGH JUNE 30, 1976

Lender (assets)	Conventional mortgages 1 to 4 units			Home improvement loans 1 to 4 units			All loans (5 plus units) and nonoccupants 1 to 4 units		
	Number	Dollars	Percent of dollars	Number	Dollars	Percent of dollars	Number	Dollars	Percent of dollars
Metro Federal Savings & Loan ($0.29 billion)	568	16,322	100	95	277	100	15	331	100
Philadelphia	298	7,004	42.9	67	189	68.2	11	232	70.1
Suburbs	258	9,023	55.3	28	88	31.8	3	78	23.6
Outside	12	295	1.8	0	0	0	1	21	6.3
East Girard Savings & Loan ($0.24 billion)	380	10,554	100	1	2	100	38	4,438	100
Philadelphia	200	4,493	42.5	1	2	100	36	4,382	98.7
Suburbs	166	5,644	53.5	0	0	0	2	46	1.3
Outside	14	417	4.0	0	0	0	0	0	0
Philadelphia Savings Fund Society ($3.95 billion)	3,428	87,345	100	20	94	100	11	*	*
Philadelphia	1,458	26,961	30.9	5	19	20.2	*	*	*
Suburbs	1,089	34,890	39.9	1	9	9.6	*	*	*
Outside	881	25,494	29.2	14	66	70.2	*	*	*
Western Savings Bank ($1.56 billion)	189	6,418	100	90	310	100	5	12,435	100
Philadelphia	34	813	12.7	18	51	16.3	0	0	0
Suburbs	57	2,243	34.9	27	104	33.6	0	0	0
Outside	98	3,362	52.4	45	155	50.1	5	12,435	100
Philadelphia National Bank ($3.95 billion)	2,014	66,801	100	2,008	6,558	100	16	*	*
Philadelphia	173	3,027	4.5	577	1,500	22.9	*	*	*
Suburbs	511	17,455	26.1	1,422	4,974	75.8	*	*	*
Outside	1,330	46,319	69.3	29	84	1.3	*	*	*
Girard Bank ($3,64 billion)	178	4,883	100	3,532	8,110	100	3	7,764	100
Philadelphia	95	1,636	33.5	1,469	2,801	34.5	0	0	0
Suburbs	80	3,124	64.0	1,980	5,083	62.7	2	6,720	86.6
Outside	3	124	2.5	83	226	2.8	1	1,044	13.4
Total	6,756	192,323	100	5,746	15,349	100	61	24,968	100
Philadelphia	2,258	43,934	22.8	2,117	4,562	29.7	47	4,614	18.5
Suburbs	2,161	72,379	37.6	3,458	10,258	66.8	7	6,854	27.5
Outside	2,338	76,011	39.6	171	531	3.5	7	13,500	54.0
Total Conventional plus Home Improvement	12,503	207,675	100						
Philadelphia	4,375	48,496	23.4						
Suburbs	5,619	82,637	39.8						
Outside	2,509	76,542	36.8						

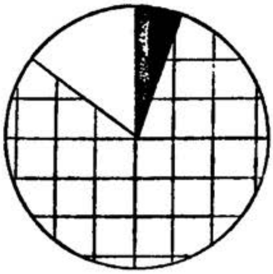
NOTES

Philadelphia data from "Where Our Dollars Go" by Northwest Community Housing Association.

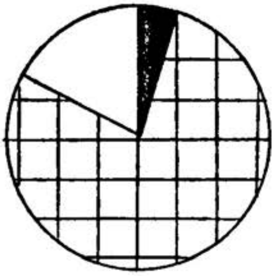
Three of these lenders purchased over $176 million in FHA loans made by other lenders. Philadelphia National Ban k alone purchased $151 million.

HARTFORD: Loan Distribution
by 5 Major Lenders

HOME MORTGAGES*
(1-4 Units)

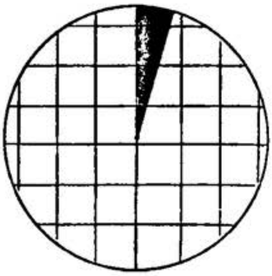


HOME MORTGAGES Plus
HOME IMPROVEMENT LOANS



OTHER LOANS

(Buildings over 5 units and
non-owner-occupied 1-4 units)



KEY: City Suburbs Outside Metro Area

*does not include FHA

HARTFORD: LENDING BY FIVE MAJOR LENDERS, JAN. 1, 1975 THROUGH DEC. 31, 1975

Lender	Conventional Mortgages 1 to 4 units			Home Improvement loans 1 to 4 units			All loans (5 plus units) and nonoccupants 1 to 4 units		
	Number	Dollars	Percent of dollars	Number	Dollars	Percent of dollars	Number	Dollars	Percent of dollars
Hartford Federal Savings and Loan	936	29,098	100	920	2,232	100	15	429	100
Hartford	84	1,771	6.1	123	296	13.3	7	182	42.4
Suburbs	638	20,379	70.0	319	730	32.7	8	247	57.6
Outside	214	6,948	23.9	478	1,206	54.0	0	0	0
Society for Savings	621	20,061	100	278	976	100	24	30,055	100
Hartford	0	0	0	0	0	0	0	0	0
Suburbs	621	20,061	100	278	976	100	24	30,055	100
Outside	0	0	0	0	0	0	0	0	0
Hartford National Bank and Trust	127	5,253	100	803	2,536	100	3	649	100
Hartford	1	70	1.3	52	180	7.1	2	306	47.1
Suburbs	53	2,127	40.5	299	869	34.3	1	343	52.9
Outside	73	3,056	58.2	452	1,487	58.6	0	0	0
United Bank and Trust	35	1,219	100	89	565	100	0	0	0
Hartford	2	64	5.2	13	107	18.9	0	0	0
Suburbs	33	1,155	94.8	76	458	81.1	0	0	0
Outside	0	0	0	0	0	0	0	0	0
Connecticut Bank and Trust	294	9,160	100	374	1,165	100	0	0	0
Hartford	33	868	9.5	72	180	15.4	0	0	0
Suburbs	261	8,292	90.5	302	985	84.6	0	0	0
Outside	0	0	0	0	0	0	0	0	0
Total	2,013	64,791	100	2,464	7,474	100	42	31,133	100
Hartford	120	2,773	4.3	260	763	10.1	9	488	4.8
Suburbs	1,606	52,014	80.3	1,294	4,018	53.9	33	29,645	95.2
Outside	287	10,004	15.4	930	2,693	36.0	0	0	0
Total conventional plus home improvement	4,477	72,265	100						
Hartford	380	3,536	4.9						
Suburbs	2,900	56,032	77.5						
Outside	1,217	12,697	17.6						

NOTES

Hartford data collected by Education/Instruction, Inc., Harftord, Conn.; analyzed by National Training and Information Center, Chicago.

According to research by Education/Instruction, the deposit source for these 5 institutions is: ⅔ of the deposits come from the city of Hartford; ⅓ come from the suburbs.

[From Chicago Sun-Times, March 20, 1977]

How Poor Lose Out in HUD Auctions

(By Jerry DeMuth)

Dozens of Chicago families have lost hundreds of dollars each because lenders have refused to finance homes they contracted to buy at U.S. Department of Housing and Urban Development auctions.

"People go down there (to a HUD auction) expecting to get a bargain. Instead, they get cheated," said one woman who, with her husband, wanted to buy a three-bedroom home on 112th Pl. for $10,500.

Mr. and Mrs. Mahlon Mims made the winning bid on the home at one of the auctions held by HUD to reduce its vast inventory of repossessed homes and advertised as "purchase opportunities."

"We had the gas turned on so the city inspector could inspect the furnace," said Linda Mims. "Then we had the electricity turned on. Altogether, we had put about $600 into the house." That was above the $500 the couple were required to deposit when they bid on the house.

"We didn't know then we would have so much trouble getting financing. Banks said they would gladly finance a new home or a home being sold by a private individual, but not a home from HUD," she said.

The Mimses recovered their $500 deposit, but are bitter because "HUD is not telling people they're giving refunds," Mrs. Mims said. She said she only knew by talking to another HUD buyer.

Many individuals complain HUD has not told them there were circumstances under which they could get the deposits back. Others said they tried and failed to recover the money.

Some 125 of 899 sales at HUD's first four auctions last summer were never closed, and refunds were made in only 37 of those cases, according to figures from HUD.

"Those auctions are a hoax," complained Mrs. Carolyn Morris, who sought to purchase a three-bedroom home on S. State for $16,500. "They're another means of exploiting poor people. They're not to help anybody but HUD."

She said she offered to make an $8,000 down payment on the house. "I figured that if I made a reasonable down payment, anyone would finance it," she said.

But she was unable to find any institution willing, including those on a list supplied to her by HUD.

"I called HUD about getting the money back," she said. "A woman told me, 'You knew you couldn't get the money back.' "

Mrs. Albert Porter and her husband transferred their savings from a neighborhood bank to a major Loop bank when it promised financing, only to see that bank change its mind. The Porters eventually lost their $500 deposit.

John Smylie, who made the winning bid for $39,500 on a three-flat on King Drive, also thought he had financing lined up. "They had asked for $11,500 down," said Smylie of a Southwest Side savings and loan association. "Then after I put in my bid, they said no. They told me the man who had promised me a mortgage had made a mistake. So we ended up losing $500."

"Individuals who try to buy these homes don't have a chance," said Lenore Rodgers, a leader of the Metropolitan Area Housing Alliance that provided The Sun-Times with a list it compiled of 46 persons who were not able to close auction sales.

"These people can't get financing because banks are redlining these areas," Mrs. Rodgers said. "HUD knows this so they shouldn't take their $500 deposits."

John Davis, head of property disposition for the Chicago Area HUD office, said the agency regularly grants extensions of closing dates and will refund deposits "at the decision of the (HUD) Secretary on a case-by-case basis" for such reasons as inability to obtain financing or vandalism to the home. "But we tell them it's up to them to get financing," he added.

The CHAIRMAN. Mr. Holman.

STATEMENT OF CARL HOLMAN, PRESIDENT, NATIONAL URBAN COALITION

Mr. HOLMAN. Thank you, Mr. Chairman.

Chairman Proxmire and members of the Senate Banking Committee, I hoped to be accompanied today by Mr. John Kelly, president of the Midwest National Bank of Indianapolis, a bank which provides much of its services to a predominantly central city clientele. Unfortunately, Mr. Kelly informed us late yesterday that urgent business requires his presence in Indianapolis today. I will include some of his comments.

It is always a pleasure to testify before this committee which has been the birthplace in recent Congresses of some of the soundest and most creative legislation designed to assist our ailing urban areas. S. 406, the Community Reinvestment Act of 1977, is aimed at complementing the fine work begun by your earlier mortgage disclosure legislation. This new act highlights the almost neglected but absolutely essential area of meeting local community credit needs which is often overlooked in chartering new financial institutions. The concept that financial institutions have an obligation to analyze and respond to basic credit needs of the service areas in which they are chartered is one we wholeheartedly endorse and applaud. We agree that a public charter conveys numerous economic benefits to the applicant who receives a semiexclusive franchise to do business in a particular geographic area. It is only right, therefore, that this same charter should mandate some degree of investment by the applicant in this same geographic area.

While we are in complete agreement with the general concept and intent of this legislation, I would like to take this opportunity to raise a series of possible consequences of the actual language as drafted which, if not taken into account, may result in further disinvestment in urban areas. I acknowledge in advance that I am viewing what is intended as comprehensive legislation from a predominantly urban point of view. However, the possible cumulative effects of the actual provisions of this bill urge me to suggest the following considerations:

First: This act may actually retard early entrance by lending institutions into neighborhoods which are beginning to undergo significant revitalization. It's very easy to get branches in once certain other people who have been there have been pushed out. A thorough analysis of the credit needs of an improving community, with the attendant lending restrictions, may convince conservative lenders that a later entry into the credit market is not only economically justified but necessary. That is to say, the bank may not enter at the time of considerable need, but rather when revitalization has essentially been accomplished.

Second: There is the possibility that should a bank or branch focus entirely on the credit needs of its local community, especially if it be in an area having a relatively small deposit base with credit needs disproportionate to its deposits, then the feasibility of pooling resources through allocations from other branches may be impaired.

Third: This legislation may provide the necessary justification for suburban banks and branches to restrict their loan portfolios to their immediate local areas. This might cause such banks to feel little or no obligation to provide creditworthy central city applicants with loans and mortgages.

I realize that none of these possibilities need occur, but we have talked with a great number of bankers as we were preparing to testify, and I do think these are considerations that might be taken into account.

In John Kelly's absence, I should like to share with you three of his recommendations for banking incentives in keeping with the purposes of this legislation.

I might say, in Senator Lugar's absence, that Mr. Kelly came from Citibank and is one of these minority bankers who has attempted to establish and to operate a bank in an area which is underserved by existing banks.

He suggests that regulatory agencies should permit banks to maintain a reduced level of funds kept on reserve in some proportion to the amount extended in credit to the local community.

Second: That a new classification should be established for Treasury tax and loan payments for banks that meet the new credit requirements which would allow them to keep treasury tax and loan payments on deposit for a longer period of time. This would also be related in some proportion to the amount of credit extended in the local community.

Finally: A more favorable borrowing rate—perhaps a percentage point or so below the established borrowing rate of the Federal Reserve or the Federal Home Loan Bank would be granted when a bank extending local credit is required to borrow for liquidity purposes. For example, these community credits could be considered as collateral for the Federal Reserve, for the Treasury tax and loan payments, or for increased liquidity.

Lest you think I'm masquerading as a banker, Mr. Kelly has been kind enough to suggest that he will be pleased to submit in writing to the committee whatever you may require by way of further comment or clarification on his suggestions.

I'd like to take this opportunity to suggest again that this committee might consider perhaps in separate legislation the creation of a Federal development bank which would provide hard and soft loans for strengthening the economic life of urban areas. For some time now the coalition has been urging the creation of such an instrumentality which would draw on the best experiences of entities like the Export-Import Bank and World Bank and which would strengthen the opportunities for more rational development in management of land, housing, transportation, and job market resources at regional and local levels. I'm encouraged that the new administration seems ready to move in this direction, and feel that appropriate legislative support from your committee would do much to bring such facilities into being, which would particularly benefit our older northeastern and north-central cities as well as many others.

We speak of changing neighborhoods in cities like our own, where Capitol Hill is changing, as southwest Washington changed, as Adams-Morgan is changing, and we're all for constructive change, but we also believe that it should be possible to stabilize, conserve and revitalize urban neighborhoods without dispossessing or dispersing all of the residents already in place. We are now in the process of conducting a survey of neighborhood revitalization and displacement in 43 cities across the country. Our preliminary findings reveal that as middle class and more affluent whites are moving back into some central city neighborhoods, minorities and white low income and elderly residents are being pushed out, often into new urban or fringe suburban ghettos. We are finding a crucial need to have government provide insured rehabilitation loans, as it already provides insured mortgages, so that those who wish to remain in improving neighborhoods may have the option to do so. I hope that the proposed legislation may take us another step toward a better life and better urban neighborhoods made available not only to the conventional preferred loan risks and newcomers, but also to those who have already invested in those improving neighborhoods a substantial part of their life, their resources, and their hopes for the future. Thank you.

The CHAIRMAN. Thank you very much, Mr. Holman.

The CHAIRMAN. Mr. Schechter.

STATEMENT OF HENRY SCHECHTER, DIRECTOR, DEPARTMENT OF URBAN AFFAIRS, AFL-CIO

Mr. SCHECHTER. I appreciate the opportunity to appear before you to present the views of the AFL-CIO on S. 406, the proposed Community Reinvestment Act of 1977.

The AFL-CIO supported the enactment of mortgage loan disclosure legislation to help combat redlining which denies credit for home purchases in designated neighborhoods. That concept would be extended by the proposed Community Reinvestment Act of 1977.

Much of the basic Federal legislation applicable to financial institutions had its genesis in reactions to economic instability that was set off or greatly aggravated by unwise operation of financial institutions. The disruptions caused by the financial panic of 1907 led to the establishment of the Federal Reserve System to provide a source of credit to the banks in times of liquidity crises. The great number of bank failures and capital impairments of thrift institutions in the late twenties and early thirties contributed greatly to the massive economic dislocations of the Great Depression. This led to the enactment of legislation between 1933 and 1935 which included the establishment of the Federal Home Loan Bank System, deposit insurance, interest rate regulation and various restrictions on lending. These measures were designed to maintain the soundness and continuing operation of the institutions, and to assure that credit services needed for economic growth and stability would be provided to residents and businesses in local communities.

The national scope of the aforementioned historic economic crises represented the sum total of hundreds of community crises in which the policies and subsequent conditions of financial institutions were of strategic importance. The events of the early thirties established beyond a doubt that an undue contraction of various credit services is harmful to the community. This has been demonstrated in modern times at the neighborhood level.

As pointed out in Chairman Proxmire's statement accompanying the introduction of the bill, in the Congressional Record of January 24, 1977:

> Those who obtain new deposit facilities receive a semi-exclusive franchise to do business in a particular geographic area. The government limits the entry of other potential competitors into that area if such entry would unduly jeopardize existing financial institutions.

The Federal powers are exercised not only to protect stockholders, and depositors who would be inconvenienced until they are repaid under Federal insurance. Such protection against competition that might cause failure of institutions is justifiable in large part because the financial institutions are expected to continue to provide services that will support the economic viability of the community.

It is appropriate and logical, therefore, that the Federal financial supervisory agencies in accordance with the stated purpose of S. 406, should be required to use their authority when chartering, examining, supervising, and regulating financial institutions to help meet the credit needs of the local community in which they are chartered, consistent with the safe and sound operation of such institutions. The nub of the matter probably lies in the concluding clause "consistent with the safe and sound operation of such institutions".

The usual explanation by a local financial institution of a reluctance or refusal to extend credit in all or part of a local business or residential market area is that risk of loss is too great in light of the outlook for economic viability of that local area. There is no need to go into a lengthy detailed explanation of how the adoption of policies based on such prognostications by lenders in a market or submarket area often become self-fulfilling prophecies.

The question is the basis on which the risk judgments are made. Supervisory agency examiners of financial institutions are concerned with the status of loans that were made; they were not concerned with loans that were not made, and why such loans were not made. There is a need for a record that would enable a Federal financial supervisory agency to judge whether the individual institutional assessment of risk is or is not reasonable. Such a record would really be necessary to implement subsection 4(2) of S. 406. That section would require the supervisory agency to judge the record of an applicant, for a deposit facility or deposit insurance or for a branch office, in meeting the credit needs of the primary savings service area in which it or its subsidiaries have already been chartered to do business.

If the purpose of the proposed act is to be served, therefore, there is need for a requirement that every applicant who applies for credit, and whose application is refused, be provided with a written reason for such disapproval, and that the financial institution maintain a file of copies of such refusal for examination by the supervisory agency.

The past record of the ratio of aggregate loans made to deposits received for a submarket area can be useful. Comparative ratios for different institutions in a given local area would provide an initial indication of which ones may have been serving the credit needs of the community and which were not meeting such needs. More detailed reviews of the operations of those with relatively low ratios could then throw light on the merits of policies that were pursued. Presumably, the regulatory agencies would obtain such data in order to fulfill the requirements of subsection 4(1)(D).

On the other hand, it is questionable whether the estimates required of financial institution applicants under sub-section 4(1)(C) should be included. It is difficult to see how the managers of a proposed financial institution or branch facility could meaningfully respond to subsection 4(1)(C) to indicate the proportion of consumer deposits obtained from individuals residing in the primary savings service area that will be reinvested by the lender in that area. There is almost no way of knowing how large a demand for various types of credit will emanate from residents and business people of the local community, and how much of such a volume of credit could be granted consistent with the safe and sound operation of such institutions.

This gets back to the question of risk, and the other side of the coin, the rate of return from a loan that is commensurate with the risk involved. There is no universal standard of judging risk, or in establishing differences in risk that would justify differences in interest rates required on loans. Each institution really makes its own judgment of risks, risk differentials, and returns to be obtained from different investments. These factors weigh heavily in the determinations by private financial institutions of allocation of their resources for credit extension in their local communities and in other parts of the country or the world.

When it turns out that judgmental errors have been made in assessing risk, there are likely to be moves for Government bail-outs.

The tens of billions of dollars in loans to less developed countries that were made by commercial banks were undoubtedly made in anticipation of relatively high returns that would justify the risks involved. With hindsight, it now appears that some of these loans were of quite high risk and repayments are now doubtful. The board chairman of one of the largest banks suggested a week ago that international financial institutions should enlarge existing public credit lines or guarantees. Increased loans from international institutions supported by the U.S. and other governments, might allow the debtor nations to repay their private bank loans, while the public institutions assume the high risk burden.

The foreign country loan experience raises a question which may seem beyond the scope of this hearing and yet is related. Should such past performance also be considered as detrimental to the provision of local community credit needs and therefore act as a negative consideration in applications for additional branches and deposit facilities?

In general, shouldn't the record of past performance include a review not only of the proportion of resources which were devoted to meet local credit needs but also a review of the types of credit and types of creditors who were served by the deployment of available resources of the institution. How much of the credit resources coming from local deposits was used to make loans to large corporations, or foreign borrowers, to finance economic activity outside of the local community, and was there a dearth of needed credit locally while such credit extensions were being made?

We would suggest consideration of a requirement that the Federal supervisory agencies, in implementing the purposes of S. 406, should take into account the types of alternative uses of funds eleswhere, and the extent to which such credit extensions affected the availability of funds to meet local credit needs.

With the qualifications and changes that have been recommended, the AFL-CIO supports the enactment of S. 406.

The CHAIRMAN. Thank you very much, Mr. Schechter.

Senator Tower has an opening statement.

OPENING STATEMENT OF SENATOR TOWER

Senator TOWER. Thank you, Mr. Chairman.

I apologize for having been detained and not being here to make my statement at the beginning of the testimony which I'm following with great interest.

I have some serious reservations about this Community Reinvestment Act. I don't quarrel with the ends of the proposal and that is providing mortgage credit to creditworthy purchasers in the inner-city areas. My main concern is in the manner in which this is to be achieved.

This proposal would, as I read it, provide for a scheme of credit allocation in our financial institutions. I think this could be detrimental and that it could disrupt the flow of mortgage credit in this country. The overall effect could be to deprive the parts of the country that are short of mortgage capital from receiving surplus capital that exists in other parts of the country and to what degree would an institution be limited in purchasing mortgages for its portfolio which are not originated within its so-called service area? To what degree would an institution be limited from investing in securities in GNMA, FRDMC or FNMA? Such an investment would not be an investment in the community in which the lender is located but such an investment is crucial in terms of providing mortgage credit for the Nation as a whole.

I think a better approach to providing mortgage credit to the inner-city is to encourage institutions to make loans in that area. Unless adequate services are there, such as good streets, schools, sanitation, police protection, fire protection, and so forth, a lender will normally assume a higher risk in making a loan in such an area. I would encourage such lenders to make such loans by providing them with the assurance that should any losses occur they would share such losses and not be 100 percent responsible for them.

I plan to introduce legislation in a few days which would provide a program which would accomplish this.

S. 406 would require the Federal financial institutions regulatory agencies to pressure commercial banks, as well as savings and loan associations to use their consumer deposits for loans to borrowers physically located in the same geographic areas in which the deposit-accepting institutions are located. Such impediments to the free functions of financial markets necessarily hamper the economic efficiency with which those markets allocate credit.

From the standpoint of the welfare of the Nation as a whole, economic efficiency is maximized if credit is given to those productive borrowers willing to pay the highest interest rates after allowance for risks. Now this is because those borrowers will use the available credit for the most productive purposes. This is what enables them to pay the highest interest rates. If Government sponsored credit allocation is used to channel credit to other borrowers, it necessarily will use the credit for less productive purposes and economic well-being of the Nation as a whole will suffer.

Thus, S. 406 raises the basic question of what is the proper role for financial institutions? Should commercial banks, for example, gather deposits locally for lending to local borrowers or should they gather deposits locally for lending to those borrowers, regardless of physical location, able to use the funds in ways most beneficial to the welfare of the Nation as a whole?

S. 406 would also impose a considerable paperwork burden on financial institutions and might force them to divulge competitively important information and where they derive their deposits and where they make their loans. Although this bill is administered by the Comptroller of the Currency, the Federal Reserve System's Board of Governors, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board, only the last agency mentioned will testify at the hearings. Now this would appear to me to leave a serious gap in the hearing record. It's crucial that adequate mortgage credit be provided to inner-city residents. There is sound existing housing stock that should and must be preserved. It would be far cheaper to rehabilitate and preserve this stock than razing it and building new units. Additionally, there are thousands of neighborhoods that are presently stable that could be subject to decline and decay unless adequate mortgage credit is made available for the purchase of these homes and where necessary the rehabilitation of them.

I look forward to the balance of these hearings and hope we will be able to find some realistic and workable solutions to problems of lack of adequate mortgage credit to our Nation's inner-cities.

Thank you, Mr. Chairman, and I ask unanimous consent that my statement be placed at the appropriate place in the record prior to the testimony.

The CHAIRMAN. Thank you, Senator Tower, and let me say quickly in response to you, all the regulatory bodies were asked to give a statement or to testify, as they will, and we have statements from each of them that will be part of the record.

Senator TOWER. Good. I'm glad to know that they will be included.

The CHAIRMAN. I said before you came that this was not a credit allocation bill and I certainly don't see it that way. Whatever we can do to prevent it from being a credit allocation bill I want to do.

What this bill would do would be to try to make the banks more sensitive than they have been in the past to their responsibilities to provide for local community needs. Obviously, as was indicated by some of the witnesses, the sanction is a relatively weak sanction. You're not going to put a bank out of business if they don't loan locally. You're not going to say you have to make certain loans at all. What you're saying is when a bank—in fact, the effective way this would work—when a bank wants to branch, one of the considerations—one of the considerations in whether or not approval be given to that is how well they have served their local community in the past, what their track record is in this particular respect; and, of course, if they can show that the community where they haven't made the loans is not a community in which they could make sound loans I think that would be a complete and adequate answer. But if you have competing banks, one bank has a good record of making loans; the other has not; in the local community, then preference would be given under this legislation to the bank that has the better record or the one that doesn't have such a good record if he has to come forward with some kind of affirmative plan which they could show in the future that they intended to make community loans.

Senator TOWER. Mr. Chairman, let me say again that I certainly don't disagree with the objectives. My concern is the approach and I think that in that connection we should consider various approaches to the problem and I think the shared risk approach is one that merits some consideration. I think we all have the same objective and

I think that my record shows in my 16 years of membership on this committee that although I'm generally perceived as a redneck reactionary, that I have a fairly liberal record on housing and urban development.

The CHAIRMAN. Well, the Senator has a fine record in very many respects.

Senator TOWER. Would you put that in writing, Mr. Chairman?

The CHAIRMAN. I'm just hoping that the Senator will read the interesting article in the Wall Street Journal this morning which pointed out that the Republican Party is going to do their best to show that they are not simply interested in the Fortune Five Hundred and that they are looking—as a matter of fact, they are dying for an opportunity to show it. I think this bill is a perfect opportunity. I'd like to hear ringing support from the minority side for the bill and I think that would be an excellent step in the direction of showing that——

Senator TOWER. I think we should seek a better way.

The CHAIRMAN. Very well. Mr. Nader, you put quite a bit of emphasis on revising section 4(C) of the bill. I think it's on page 5 of the bill, the section that said, on line 14:

In connection with an application for a deposit facility, the applicant shall, among other things, indicate the proportion of consumer deposits obtained from individuals residing in the primary saving service area by the deposit facility that would be reinvested in that area.

Mr. NADER. I believe it was section 4(C).

The CHAIRMAN. I meant to say 4(1)(C). Is that the area you're referring to?

Mr. NADER. Section 4(C) begins with "Permitting and encouraging."

The CHAIRMAN. Well, this is on page 6, line 5, then:

Permitting and encouraging community consumer or consumer organizations to present testimony at hearings on application for deposit facilities.

Mr. NADER. Yes, sir.

The CHAIRMAN. Would you give us a little more detail on that? I wasn't able to follow your suggestions and it seemed——

Mr. NADER. The premise of this section is that excessive degree of discretion is accorded to the banking agencies and, as you know, there are two recommendations. One, more specific standards controlling that discretion which may be described as lassitude or total inaction by the banking agencies; and two, that there isn't standing on the part of community groups or interested individuals in the cachement area. Without these provisions, the bill may in effect be administered into nothingness by the banking agencies. You need the ability of community organizations to say to a banking agency, under this legislation, you permitted the particular financial institution unbridled discretion which resulted in the violation of the purpose of this legislation and the standards which are in the statute or in the regulation and we're going to take the agency or the bank to court to require adherence to the standards so the purpose of the legislation can be met.

The CHAIRMAN. What standing do consumer organizations have now under existing law?

Mr. Nader. It's unclear. I mean, they can appear at various hearings, as they have, regulatory hearings, but I don't think it can be said that they have standing to go to court at all, and their standing administratively is fuzzy before the agencies.

Now you can imagine what would have happened if the public didn't have standing to challenge inadequate environmental impact statements in the envoronment area, and again citizens and environmental groups have challenged the environmental impact statements and won in court where the court has ordered a particular public or corporate facility to really perform in accordance with the purpose of the EIA law and not just put together a lot of nonsense in 400 pages with large margins and entitle it "Environmental Impact Statement."

The Chairman. All right. Mr. Schechter, would you like to comment on that, on providing a clear-cut, specific standing for consumer organizations to, if necessary, go to court in order to participate?

Mr. Schechter. As a nonlawyer, I agree they should have standing. I know there have been cases where such third party intervention has been ruled out because consumer organizations don't have standing, and I think it would be desirable.

Mr. Nader. There has to be a difference between a resolution of Congress and a legislative enactment, and if you don't have standards and you don't have standing, a law can be turned into a Congressional resolution as far as Federal banking agencies are concerned. They know how to do it. You give them an opening and they will take it.

I think the analogy with the environmental impact statement cases in the court is very apt. Where a pipeline company or refinery or the Army Corps of Engineers did not do a specific and adequate environmental impact statement, these institutions have been taken into court and they have had to revise their performance.

I'm concerned that the very good purposes of this legislation can be nullified because of the unbridled discretion which this legislation gives to the Federal banking agencies.

The Chairman. Well, that's a very interesting recommendation. I want to think about it. The analogy with the environmental impact statement, of course, is not clean and clear. It's not precisely the same, is it? The environmental impact statement you can simply stop a project that otherwise might proceed, whether it's a commercial project or a governmental project. In this particular case, your notion is that it might stop an agency from, for instance, permitting a bank to branch because they have not complied with this particular section.

Mr. Nader. Yes. I think you have to take it to that conclusion. Otherwise, there's no teeth whatsoever in the bill.

Suppose a financial institution puts forth a statement or a report that fulfills the three or four criteria in this bill and it's ridiculous. There's nothing there. It's just a lot of words. You have to have some sort of standard which neighborhood people who are affected by that financial institution can invoke before an administrative hearing and in court. The last thing we want is a charade.

The Chairman. Mr. Holman, you expressed concern that this bill might somehow encourage banks to put an even larger share of their money into the suburbs. How would you suggest we modify the bill to prevent that?

Mr. HOLMAN. I think I was saying two things. One, that this section in which they're supposed to do this thorough analysis might wind up with their making the kind of analysis which says, well, the deposit base in certain areas is relatively weak and for that reason we're going to put less of our money and we have justification for putting less of our loans into this area just on the basis of the fact that we're making it perhaps as clear or stringent as we might make it; that when such an analysis has been made, even if the deposit base generally for those areas is pretty weak, it is still contingent upon them to make loans to the people who are already residents of that particular area.

The CHAIRMAN. You see, the reason I raise that question is because the facts of life here are so stark and clear. You have a situation here in the District of Columbia, for instance, where the loans by banks and savings and loan instiutions in the District are very light and they make big investments outside the District in the suburbs in mortgages, and where they do invest in the District it's by and large in the northwest section and the white section and they don't invest in the inner-city. They don't invest in the black neighborhoods, with some exceptions where one or two banks have done it and done extremely well.

Hr. HOLMAN. Yes. I have seen that.

The CHAIRMAN. So I don't see how this could worsen the situation. It's so bad now, I don't see how this could do anything but shift attention to the neglect of the inner-city neighborhoods and the older neighborhoods.

Mr. HOLMAN. I think that the concern that we have and some of the bankers expressed the feeling as they looked at the law—now, it might be true that you take some of the areas which have shifted, like Capitol Hill—it may very well be that because a number of the people already residents in there are low income people that the amount of their deposits as against the amount of deposits of people in neighborhoods which are more affluent would be such that the bankers would feel, even under this law, that they are justified in either putting less money into this area or making their loans to the people who are now trying to come in.

The CHAIRMAN. What we found was that in case after case after case, an S. & L. or a bank would be located in a downtown area and the deposits coming from the local neighborhood, even though people had modest incomes, were reasonably substantial. They loaned that money outside in the suburbs overwhelmingly.

Mr. HOLMAN. Yes. I agree, but I don't know if you recall that some months ago there was an application for a branch to go into I think it was the Adams-Morgan area and this was fought by the people in the area. People said, well, I wonder why. They were fighting it because they were pretty sure that the reason for this branch coming in now as that it was trying to attract the new people who would be more substantial income who would buy out the folks who are already there and those folks would then be unable to find adequate or suitable housing elsewhere.

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In other words, I think the act very well takes care of one kind of problem, but we are also concerned about this.

The CHAIRMAN. You're right to be concerned. It seems to me what you're concerned with, however, we can't really handle very well under this bill or this kind of bill. You're concerned that neighborhoods that are being revitalized, the poor people, the minorities and elderly are often pushed out.

Mr. HOLMAN. Yes.

The CHAIRMAN. And I, of course, share that concern and share that concern very deeply. But isn't that a problem for housing policy to set aside some restored units and build new units in the neighborhood for the poor and for the elderly? My feeling is that we can't reach that problem with this bill, but we have a lot of other ways.

Mr. HOLMAN. Gale has shown an interesting article from the Chicago paper in which it's hard to tell whether what we're dealing with is housing policy or a kind of conscious or unconscious collusion between HUD and the financing agencies. I don't know whether she'd like to comment on that.

Ms. CINCOTTA. That's the article that I'm going to supply to you, also. The way we put it in the amendments, we were trying to address the kinds of problems that Carl was talking about, that the definition of primary service area, if you could service—taking a pie, way out areas, you can make judgments on putting loans in as far out in suburban areas or wherever. That's where we came in with our definition of primary service area. You should be able then to draw a full circle of where 80 percent of your loans are and service that entire area, and the way we saw the amendment on this bill that would address the problems of underserved areas so that there would have to be an affirmative program.

I talked to the vice president of First National Bank and I said, "How do you get so many loans outside the city?" And he said, "We have six full-time men that meet with village managers, city officials and builders and developers, and try to tell them we have money available and we'll put loans out there and give credit to them." I said, "How many do you have in the city of Chicago?" They had none.

So we're trying to say if they can find a way to service the outlying areas through our amendments, they should be able to come up with an affirmative program that addresses itself to the inner-city also, that that was aggressively going out there and finding loans and that's with no branches, and yet they don't service the whole area. They don't have anybody in the city of Chicago trying to put loans in and say they are available. We tried to address that problem with those amendments saying this is your entire primary service area and you have to put an affirmative program in and if it's 6 men outside the city, then you should have at least 12 people inside the city aggressively packaging loans and making them available to all neighborhoods.

The CHAIRMAN. I see. I think that is an interesting recommendation that you have made.

My time is up. I will yield to Senator Heinz in a minute.

As I understand it, you suggest we go beyond merely requiring that the banks serve the credit needs of their charter areas, that they have a special obligation to affirmatively serve the credit needs of what you called historically neglected communities within its service area?

Ms. CINCOTTA. Within their service area, right.

The CHAIRMAN. Like the affirmative action we have in the civil rights program.

Ms. CINCOTTA. Right, and in labor relations. It wasn't good enough to say we will hire minorities, you had to put a program together and have disclosure to see how your program was working.

We see the Home Mortgage Disclosure Act as a monitoring tool.

The CHAIRMAN. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman. I would like to compliment the distinguished panel on their very helpful testimony.

Before I proceed with a few questions, I do want to make a couple of brief comments about the legislation, which, it seems to me, aims in a far too much neglected area, which is that of revitalizing, preserving, and rehabilitating our existing neighborhoods. I know many of the people at the witness table have been very active in that. I come from the State of Pennsylvania, which has two very large cities, Pittsburgh and Philadelphia, but many other medium-sized and smaller towns, and I would like to emphasize that the problem of neighborhoods is not uniquely a big city problem. It can strike just as hard in rural areas, or in small- or medium-sized cities.

And I think the chairman's objective with this legislation is quite consistent with recognizing that need. I think S. 406 provides us with an excellent opportunity in fact to address, much more comprehensively than we have done in either the House or the Senate in the years I have been in the Congress, the question of neighborhood revitalization.

Therefore, I think the purpose of the legislation is indeed excellent, although I am sure we will have some wrangles over some specifics in the legislation.

Two questions would appear to me to be quite important, though, as we address ourselves to this question. The legislation really only addresses the question of the role of financial institutions in how they can be made more sensitive to the requirements of lending, both to residential and small business entities in general in areas which are thought to be neglected at the present time.

Now that is well and good. But I am concerned that there is no linking mechanism here to try and sensitize or attract the interests of local government officials. The adequacy of police and fire protection is important to a neighborhood. The sensitivity with which the other needs of the neighborhood are serviced, garbage collections, for example is important.

I am wondering if you would care to make any comments, perhaps Ms. Cincotta would care to address this question of how, if at all, we should attempt to link this legislation with getting local officials more interested in paying attention to some of our neighborhoods that are either deteriorating or could do so.

Ms. CINCOTTA. You also are going to be dealing with a bill called the Neighborhood Preservation Act, that deals with Community Development Act money. We intend to testify on that.

We see that under that legislation cities through that act should be servicing existing older neighborhoods, in capital improvements, rehabilitation loans and services. Today we are only dealing with this one bill. But we see that need to earmark a portion of the CD funds, under something we call double dollars, that the city would put a portion of their funds for existing older neighborhoods and the Federal Government would match that dollar for dollar.

The financial institutions would return investments, conventional loans, through say this bill or other legislation, and it would start to have the kind of impact that you are talking about.

What we have found, like in Chicago there is a project called Dearborn Park. There was a conscious decision to revitalize the area, in fact, build an area on the south side of the city.

When the lenders and developers started to put the package together, and as soon as the money was in place and the developing pieced together, then the city, because the lenders had already made the commitment, the city's Board of Education, who says they don't have enough money for our neighborhood, said yes, we will build new schools for that area, they will be in place, yes, the Park District said yes, there will be a park within that area.

And probably nobody is ever going to know that that is a city park, and should be used by everybody the way the plans are drawn.

But as soon as the lenders came in and were going to develop that area, all of a sudden the city services are coming in.

And what is happening in our neighborhoods is that the lenders have evacuated them in the form of loans, then we find the city services, the Board of Education and the garbage and all of that have an aftereffect. So if you could tie this bill with the community development bill then you would find the return to the city, because the lenders would be with the people saying we have made an investment here, back it up with city services.

Senator HEINZ. I think you are addressing the point exactly that I am trying to get at here.

I am reminded that in one of our cities, the city of Pittsburgh, some of the community development money was set aside by the mayor of the city for a low interest home improvement program, which was made available consistent with some of the constraints, some which we probably ought to change in the Community Development Act, for low and moderate income home improvement.

And the program utilizes existing financial institutions. By all accounts, it has worked quite well.

I am not trying to sell you that particular program. But the point is that the city chose to involve the same people this legislation aims at, the financial institutions, in their policy for neighborhoods, and there was a necessary close relationship between what the city approved in the way of subsidy payments for low interest loans, which were obviously very helpful to some of the people in the neighborhoods involved, and certainly got the attention of the banking community.

Ms. CINCOTTA. You have the neighborhood housing service program also. We have four of them in the Chicago area. And our experience has been that when the financial institutions make a commitment to these neighborhoods, city services follow, the city puts in Community Development Act money, they put the loan grants program in these areas, they put the homesteading program in these areas, and it is started.

But the catalyst is the financial institutions.

Senator HEINZ. The reason I press the point is there is a chicken and egg question. While it may be true in Chicago that once the financial institutions have made the investment the city services follow, I wouldn't want to rely on it in every instance.

Ms. CINCOTTA. Tie the CD double dollars with it.

Senator HEINZ. Mr. Schecter.

Mr. SCHECTER. Senator, I believe in many areas the beginning of an erosion of a neighborhood is a judgment by lenders that it is a high risk, and it is easy for them to make that judgment, because there is usually a suburban community development which obviously is a much sounder judgmental risk.

But in many cases the judgment on the neighborhood is premature.

The chairman mentioned in his opening statement the Philadelphia banks that got together and started making loans in certain neighborhoods. They changed their policy. Those banks started looking at the individual square block, instead of the entire neighborhood. They were able to find some blocks that were good. And they started looking at the total income of the family, instead of discounting the secondary workers.

Now they did that, and as a result I believe a large part of that neighborhood is conserved, and they don't get into the self-fulfilling prophesy business of having the neighborhood go down.

So I think that is what we have to sensitize the lenders to, and perhaps educate them, in whatever way we can, so that before there is a pullback on city services, and the cumulative effect comes into play, that we can save neighborhoods.

Senator HEINZ. I don't think there is much disagreement on that point.

I would like to ask a further question. Now, Mr. Holman, on behalf of Mr. Kelly, made some suggestion that there be some incentives for the banks. I think Mr. Nader, perhaps Ms. Cincotta, said that they didn't favor incentives. But you, Mr. Schecter, indicated in your statement towards the end that perhaps there should be some form of risk-sharing, which implies to me incentives.

You likened the situation to he international monetary situation, that private investment and public co-insurance.

I was wondering if you would care to comment on the three suggestions of Mr. Kelly put forward by Mr. Holman, namely, regulatory agencies should be permitted to maintain a reduced level of funds on reserve, a new classification should be established for Treasury tax and loan payments, and, finally, a more favorable borrowing rate at the Fed.

Mr. SCHECTER. All of these would, of course, result in marginal additional financial benefits to the institutions which would get these privileges. Lower reserves means more money can be loaned out, or more tax and loan accounts means more money can be loaned out, also at no extra cost.

I don't think we should be, in effect, bribing institutions to do what they should be doing under their present charters, and the way they are given charters under Federal law, which says that they are supposed to serve the credit needs of their communities.

So I don't think we should be giving them additional privileges also.

Mr. HOLMAN. I can't speak for Mr. Kelly, and as I said, I would like him to have the benefit of the questions which have been raised.

Mr. Kelly is one of a very small number of minority bankers who have attempted to establish banks in neighborhoods which simply—it is all very well to talk about what the other banks should be doing. But they simply are not doing it.

In many cases we are dealing with areas in which branch banks have left the community. And many of these banks will keep a branch, they cover the keeping of the branch in what they consider "bad neighborhoods" by a kind of pooling, in which they are able to say the total, basically all of the banks are doing well by sharing what might look like the sort of bad picture from a banker's point of view, bad picture of this bank located in the poor neighborhood by their other branches which are in neighborhoods which are more affluent.

It may be indeed true that it will be possible to get banks to do what this bill wants them to do without any incentives at all if the law is made strong enough. But we spent, with three of our affiliates, three days in Pittsburgh looking at the Pittsburgh housing services program many years ago, and I would suggest it would be useful for you to look at that and see how different that is from the program which the Federal Government is now supposedly copying in other areas.

It is very true that the county cooperated in terms of code enforcement. It is very true that the city government provided services in what had been an area which was going to otherwise be a decaying area.

It is also very true that the community planners, the city planning services, had never paid any attention to this neighborhood. They asked for community planners, and those community planners went out into the community to see what was happening.

Now we have got the community block grant program, and in city after city we are seeing that those community block grant funds are not going into these neighborhoods, but are going into the neighborhoods which have the greater political clout. And it is interwoven, because on the very day we went up to visit one of the bankers in the program, and he pointed out that they had discovered people in those neighborhoods who qualified for bank loans, just as anyone else did, there were others who would have to get a certain amount of assistance. And he complimented himself and the others on that.

As we walked out into the bank, as we were going out, this young man from the Pittsburgh housing services was there with a couple, a rather elderly couple, looking disconsolate. I said "What is wrong?" and he said "We have just been turned down."

As you know, they have the lowest default record I think of almost any neighborhood there. What had happened?

There was a new bank loan official there, and he knew nothing about the plan, and all he knew was that regionally, geographically, here was the area these people were coming from, and he did what was the automatic thing.

I think that the housing policies and the requirements that we put on how the community block grants, which are now wide open to be used in any way anyone chooses, I think all of these things do relate one to the other.

I am very disturbed when I see mayors and businessmen getting together and saying we need to develop economic development programs for the cities, and they take $100,000 or more of community block grant funds and set up an organization, as they have done in two cities already, and no people from the neighborhoods are involved at all in this.

So the things do interrelate. We are just trying to deal with the things which are basically in this bill now.

Senator HEINZ. Mr. Holman, I thank you. I got a note saying my time has expired. I don't wish to cut off debate——

The CHAIRMAN. Go right ahead. I think this is very useful questioning. Mr. Nader and Ms. Cincotta would like to comment.

Mr. NADER. I would just like to comment on the irony of this discussion, because the original concept of the savings and loans and the mutuals was that they were to be controlled by the depositers, in fact, not just in law. And they were to be responsive to the local community, because of that local control.

Due to a whole series of evasive and technical maneuvers by S. & L.'s and mutuals, including the assignment of the proxy when you fill out your deposit card, that essential cooperative structure, which if it was operating would make this legislation unnecessary, has been destroyed.

Perhaps the committee may wish to pay attention to the original design of the S. & L.'s and the mutuals on some later date, to see whether the actual control of the depositors who put their money in the bank can be reasserted as the basis for reviving the neighborhoods.

I am brought to this observation at this point because I can see how if we don't pay attention to this basic problem, which was the original design of the S. & L.'s and mutuals many years ago, we will get into proliferation of programs that are supposed to somehow intermesh and interlock, but which escape the basic principle of community or neighborhood power.

That is really the basic issue. When you combine the fact that it is the neighborhoods' money that makes the existence of this depository institution possible with the need to put real teeth into the mutual and S. & L. concept, you might end up with a much much better basic situation.

Ms. CINCOTTA. It really frightens me with these co-insurance bills that are floating around the House, and I heard Senator Tower talk about one in the Senate, the concept of that came out after the Home Mortgage Disclosure Act was won and people had the right to look at where loans were given.

What it basically says is that, without any proof of any risk, certain areas should have lines drawn around them, they are special areas, bad areas, that the people should pay higher interest, they should pay insurance premiums, at least a minimum of 15 percent down payment, with no perception of risk, rather than the institution just having to give loans in those areas like Mr. Nader said that they are chartered to do.

When you talk to the trade associations for the S. & L.'s who are promoting this, they say well, they are just not going to make loans unless they are insured. I say all they will do is inflate the prices 20 percent and they will be 100 percent insured, instead of 80, and we have another FHA program. If a person goes to a conventional lender and they have a credit check and the home is checked out, and the only difference, you know, the only reason they can't get a conventional loan is they have a lower down payment than required, then they should automatically be given an FHA loan. The program is already there. The lenders are coming up with these incredible schemes with no basis in fact. I don't think in any one of our hearings has any S. & L. or bank been shown to have gone under, been in trouble by giving loans in those neighborhoods. Yet we read about $15 billion, one-sixth of all the lending is going to Iron Curtain countries. What collateral? Who inspected what? It is easier to get a loan in Albania than on the West Side of Chicago. It is incredible we get into these arguments. It is beyond me that the Congress doesn't say you are chartered to give loans, you have to give loans, or you lose your charter.

That is what they are supposed to do with the peoples' money. We are going to probably have a debate on co-insurance, which doesn't make sense.

Mr. Nader. I might add that appropos that New York Times series a few weeks ago on the New York City banks going through the Bahamas to make their loans, so they can escape New York City and State taxes, we are going to see an added dimension as to the flight of these loan funds. They have been fleeing from the central city to the suburbs, they have been fleeing from Buffalo central city to Beverly Hills, via an acquisition by one of the Buffalo banks.

Now we are going to see an increasing sophistication of international flight. That is why the chartering mechanism has got to be very very seriously considered in terms of what are the conditions for granting charters. As you get more multinational banks, as you get more links between multinational banks and domestically based financial institutions, facilitated by the whole computer revolution, you are going to see an excessive facility flight, which is going to challenge to the core the subject jurisdiction that this committee has.

Senator Heinz. Thank you all very much. I know my 10 minutes have doubly expired.

Thank you, Mr. Chairman, for your indulgence.

The Chairman. I want to thank you very much, Senator Heinz, I think your questioning has suggested some lines along which we can improve this bill.

I am told that the cities that have most effectively used CD Bloc grants have leveraged their private loans with their CD funds.

And this bill, of course, would encourage that. In fact, we might specifically provide language that would indicate that as one of the elements to look for.

I also think we might add a section possibly recognizing elected offiicials, as you say, along with community groups.

I don't want to lessen in any way, however, the standing and encouragement that we should give for consumer groups and community groups in this legislation.

I want to thank all of you. I thank Mr. Nader for emphasizing the importance of putting some teeth in this bill by providing for standing, so that suit can be brought.

That is a very interesting suggestion. We certainly want to at the very minimum provide more standing for community groups in administrative proceedings.

Thank you very much.

Our next four witnesses are the Honorable Carol Greenwald, Commissioner of the Massachusetts State Banking Department; the Honorable Lawrence Connell, Commissioner of the Connecticut State Banking Department; Dr. John Marlin, Council on Municipal Performance; and Mr. Conrad Weiller, Queens Village, Philadelphia, Alliance for Neighborhood Government.

We are anxious to hear your testimony. We are delighted to have you before us.

Please proceed.

STATEMENT OF CAROL GREENWALD, COMMISSIONER, MASSACHUSETTS STATE BANKING DEPARTMENT

Ms. Greenwald. We strongly support the legislation before the committee, the Community Reinvestment Act of 1977. The criteria to be used by bank regulatory agencies in granting bank charters and branches should be clarified by legislation so that the public's perception of convenience and needs, and not the banking industry's becomes the basis of decisionmaking.

There is no substitute for this type of positive action. Loan disclosure and analysis will inform citizens, legislators and other public officials as to where banks have not been making loans, where bank disinvestment has already occurred. While disclosure will indicate after the fact where reinvestment remedies may be necessary, it is not preventive action.

There are at least two ways in which redlining practices can be addressed without having specific congressional action to redress the grievances of depositors in urban communities nationwide. One is to make bank management more responsive to the communities which they are chartered to serve. Among the large Boston savings banks, for example, there are remarkably few trustees who are Boston residents. If even a few of the trustees of each bank lived in these city neighborhoods, it is doubtful that these institutions would continue to reinvest only pennies for every savings dollar deposited.

A second extremely effective means of insuring that a financial institution has and will continue to meet the credit needs of the community which it has been chartered to serve is through periodic review on the part of Federal regulators, as proposed in this legislation.

In Massachusetts, we have administratively instituted many of the provisions of this bill; we have done so in keeping with our legislative mandate to regulate in the public interest.

The department has held public hearings on every branch office petition. Traditionally, regulators have notified only other financial institutions in this manner, so that the infrequent hearings which have been held have focused on the concerns of banks fearing new competition, rather than on the needs of the public.

Community groups that express an interest in bank branchings may get on our mailing list to receive notices of hearings free of charge; their testimony is welcomed and often helpful. We have been concerned that even our present notification procedures are inadequate for eliciting relevant public comment.

That is partly because we don't believe that individuals actually read the legal notices when the bank advertises there is going to be a hearing on its branch petition.

We are therefore now in the process of drafting a new directive on advertising notices to be given to the public. Rather than putting the ad in the legal notices, we will be requiring banks to put an ad where the bank normally places an ad in the newspaper for its normal advertising. The bank must give the same information it puts in the legal notice, namely, where the hearing is going to be, where they want to branch to, and what time the hearing will be. The ad should also have the bank's logo on it and be in large print. And in addition, the bank must place in its lobby a large poster giving this same kind of information. The poster will be similar to the kind banks put in the window explaining the different interest rates the bank pays on deposits.

Second: The Department has required letters reaffirming banks commitment to serving the credit needs of the areas in which they were chartered, before approving suburban branch petitions.

Massachusetts changed its branching law about a year ago. Before that, Boston banks coud not branch outside of their home office county, which is basically the city of Boston. In the last year they can branch within 15 miles of the city, which takes them to the suburbs.

The first time that the department required such a letter of a Boston bank, the Charlestown Savings Bank, the president's response was that even though his bank was committed to the city of Boston, in principle he objected to this kind of requirement, that he should have to put in writing that he had a commitment to the city in which he was chartered.

However, since we stuck to our guns, we have received that letter and we have received similar letters from all of the banks that have applied for a branch application, which I think is now seven banks in the last year.

In addition to the general commitment that the banks will continue to serve the credit needs of the city in which they were chartered, we have asked for certain positive actions to be taken, depending on what we were familiar with in that bank.

In one case we got a commitment that the bank would now make mortgage loan applications available at all its branch locations. Another was asked to make a commitment to work with community representatives in the older neighborhoods that it traditionally served, and to seek local area members for its Board of Trustees.

Most interestingly, another bank was granted permission to establish a suburban branch only after it renewed its commitment to a branch in an underbanked neighborhood by relocating it to better quarters, extending banking hours there, and offering the bank's full range of services at the branch. This branch the bank had earlier sought to close; a request which had been denied.

These are the kinds of actions that can be taken at the review process, at a branch hearing by the regulatory agency.

Third: The Department has reminded institutions chartered in urban areas that, if they are interested in petitioning the Department for suburban branches, they must be prepared to document their record of serving credit needs in the communities where they are presently located.

Notwithstanding this statement, recently half of the cooperative banks in the city of Boston—the cooperative banks are our state-chartered savings and loan associations—declined an offer to join the Boston Banks Mortgage Review Board.

This was a board created a little more than a year ago, made up of three savings bankers, representing the savings banks in the city, and 3 community leaders. The board meets every other week and they review denied mortgage applications that have been forwarded to the board. The department publicly responded by stating that we would have to scrutinize very carefully any future applications for a branch by banks which refused to allow the review board to review their mortgage applications for possible redlining.

The 12 savings banks currently participating in the board protested this statement and asked the department to retract it on the grounds —I am going to quote extensively from the press release they issued that—

> this type of administrative action, even if within the legal powers of the Commissioner, is a poor way to go about securing cooperation. Such activities appear to represent the Commissioner's price for an action she favors. This approach is all too similar to those which characterized some of the behavior of the Nixon administration as disclosed in the post-Watergate period. As Government functionaries, they too used quasi-legal powers to pressure people into cooperating. They too kept lists of "enemies", of those who disagreed with them. Such unilateral actions, if continued, can only result in the withdrawal of many, if not all, of the voluntary participants in this worthwhile effort to encourage greater investment in housing in the City of Boston.

This statement meant to me that even those banks voluntarily participating in the mortgage review board saw their commitments as voluntary and did not see that serving the credit needs of their community was a legal obligation entailed in their charter, and therefore insisting on such responsiveness to their community was a legitimate action by the chartering authority.

I would hope that the proposed legislation would make this much clearer, both to the banks and to regulatory agencies.

Finally: We are concerned that our interest in meeting the credit needs of communities be institutionalized, and we are beginning to require additional information from urban banks in their branch applications as a regular matter.

Such information will cover such matters as, One: The bank's description of socio-economic trends in the urban neighborhood it serves, the credit needs implied by such trends, and actions taken or planned by the bank in order to respond to those needs.

Two: The description of the policies and practices that may affect credit granting processes, such as the method of dealing with verbal inquiries about mortgages, flexibility in handling home improvement loan needs, and the choice between conventional or government insured mortgages.

Finally: Any present variation in services available at different branches.

The department has found the mortgage and deposit information that we have compiled under the disclosure directives issued by our office in 1975 and again in 1976 have been extremely useful. Unlike the Federal Home Loan Bank Board's objections to a request by this committee to compile similar information, we have found this information to have high benefits, and to be capable of being put together with very minimal costs.

I assure you, Senator, we have very minimal resources for research.

The only manner in which a regulator can ascertain how the credit needs of a community are being served is to know how well depository institutions are collectively serving that area. Mortgage disclosure can provide a Federal regulatory agency with essential information that could never be obtained from an individual bank submitting a branch application.

For example, in a preliminary analysis of the mortgage information disclosed by the Boston area banks under the State directive last year, the department began investigating the reasons for the relatively low number of residential loans granted by some banks in urban neighborhoods over the one-year period.

At first we took the banks' argument that there was low demand, that these were neighborhoods where there was low volume home sales, either because they are stable older neighborhoods, or there wasn't a demand for mortgages in the area.

But we found there were a substantial number of home sales; there just wasn't a substantial number of bank mortgages being made in the area.

Table 1 shows that in a substantial number of Boston neighborhoods, bank mortgages are less than 50 percent of the home sales that take place in that neighborhood. That is very interesting, because bank financing is clearly the easiest and least expensive way of purchasing a home. Using a private mortgage company with its shorter maturity loans, and usually higher interest rates is much more expensive.

The question then comes why are individuals choosing to go to private mortgage companies rather than going to banks?

From our data on mortgage disclosure, we have received information about applications received at banks. In table 2, you see that in many Boston neighborhoods mortgage applications are less than half of the home sales taking place in those neighborhoods.

So the neighborhood people have come to the realization that there is no point in going to the bank, you are not going to get a mortgage there, so they don't apply.

Or—and this is what we are not sure of—they are not given an application when they do walk in. That is a question we will have on the branch applications, about how do you handle verbal inquiries on home mortgage applications or loans.

Our department's director of research, who is with me today in case you have questions about our specific study, was contacted earlier this year by Mr. Gillespie, the Deputy Director of the Federal Home Loan Bank Board, who inquired about our analysis of mortgage loan disclosure information. In a letter dated February 1, 1977, she explained to Mr. Gillespie what measures we found to be most useful and how easily an analysis could be performed, even with limited resources.

Considering the importance of analyzing this data to the vitality of our nation's cities and the ease with which the pertinent information can be obtained and analyzed, the lack of initiative on the part of the Federal Home Loan Bank Board and other Federal agencies is appalling. Some of the conclusions of our department's analysis were summarized in testimony presented in support of an anti-redlining bill now before the Massachusetts legislature. And I would be happy to provide the committee with a copy of that testimony.

If you have any questions about that analysis, I have the director of research here with me.

In conclusion, I believe that depository institutions do have an obligation to serve their communities in an affirmative and responsive way. This applies most emphatically to mutual thrift institutions by the very nature of their charters and to commercial banks as well, even though they have obligations to stockholders, because of the fact that their charters are valuable public franchises. If depository institutions are not fully responsive to their communities' needs, application review process is an appropriate way for regulators to find that out and to seek a quid pro quo for the public. We have tried to represent the public interest in this way in Massachusetts and other State bank reguators have taken similar actions, most notably, Connecticut. The Community Reinvestment Act would demonstrate to Federal agencies that Congress expects them to do likewise.

[The complete statement of Ms. Greenwald follows:]

Prepared Statement of Carol S. Greenwald, Massachusetts Commissioner of Banks

We strongly support the concepts embodied in the proposed Community Reinvestment Act of 1977, an act to encourage financial institutions to help meet the credit needs of the communities in which they are chartered. The criteria to be used by bank regulatory agencies in granting bank charters and branches should be clarified by legislators so that the public's perception of "convenience and needs" and not the banking industry's, becomes the basis of decision-making.

There is no substitute for this type of positive action. Loan disclosure and analysis will inform citizens, legislators and other public officials as to where banks have not been making loans, where banks disinvestment has already occurred. While disclosure will indicate after the fact where reinvestment remedies may be necessary, it is not preventive action.

There are at least two ways in which redlining practices can be addressed without having specific Congressional action to redress the grievances of depositors in urban comunities nationwide. One is to make bank management more responsive to the communities which they are chartered to serve. Among the large Boston savings banks, for example, there are remarkably few trustees who are Boston residents. If even a few of the trustees of each bank lived in these city neighborhoods, it is doubtful that these institutions would continue to reinvest only pennies for every savings dollar deposited.

A second extremely effective means of insuring that a financial institution has and will continue to meet the credit needs of the community which it has been chartered to serve is through periodic review on the part of federal regulators, as proposed in this legislation. In Massachusetts, we have administratively instituted many of the provisions of this bill; we have done so in keeping with our legislative mandate to regulate in the public interest.

(1) The Department has held public hearings on every branch office petition. Traditionally, regulators have notified only other financial institutions in this manner so that the infreqeunt hearings which have been held have focused on the concerns of banks fearing new competition rather than on the needs of the public. Community groups that express an interest in bank branching may get on the mailing list to receive notices of hearings free of charge; their testimony is welcomed and often helpful. We have been concerned that even our present notification procedures are inadequate for eliciting relevant public comment. Intrested persons can easily miss the required legal advertisements and may not know about our mailing list. Therefore, we are now changing our notification procedures. We will require that notices of branch proposals be carried in local newspapers in a manner similar to regular bank advertising, with larger print, the bank's logo and all the pertinent information about the hearing, rather than being lost in the small print of the classified ads page. Also, we will require applicant banks to post a similar notice in a prominent position in all of their offices.

(2) The Department has required letters reaffirming their commitment (from urban banks) to serving the credit needs of the areas in which they were chartered, before approving suburban branch petitions. The first time that the Department required such a letter of a Boston bank, the Charlestown Savings Bank, the President replied that, while his bank was committed to serving Boston, he thought that the Department's request in *principle*, was entirely inappropriate. Eventually, this bank and four other Boston institutions for which we have approved suburban branches have submitted such letters. In addition to general commitments to maintaining services in inner city neighborhoods, the banks' letters have in some cases contained an additional positive ingredient. For example, one bank assured us that it would make it possible for mortgage loan applications to be filed at all its branch locations and another made a commitment to promoting mortgage loans and working with community representatives in the older neighborhoods it has traditionally served and to seek more local area members for its Board of Trustees. Another bank was granted permission to establish a suburban branch only after it renewed its commitment to a branch in an underbanked neighborhood by relocating it to better quarters, extending banking hours there and offering the bank's full range of services at the branch—a branch that the bank had earlier sought to *close*. These are all examples of affirmative action to promote community reinvestment as part of the process of reviewing applications.

(3) The Department has reminded institutions chartered in urban areas that, if they are interested in petitioning the Department for suburban branches, they must be prepared to document their record of serving credit needs in the communities where they are presently located.

Notwithstanding often repeated statements about these requirements, a few weeks ago, 9 out of 18 cooperative banks in Boston (our state-chartered savings and loans) refused an invitation to join the Boston Banks Mortgage Review Board. The Board, voluntarily formed under the auspices of the Department with a voting membership of three savings bankers and three community representatives, meets every other week to review appeals from Boston homebuyers whose mortgage applications to participating banks have been denied. The Department publicly responded by stating that, without regular review by the Board of the banks' mortgage activities, the Department would have to "scrutinize very carefully any future applications for a branch by banks which refuse to allow the Review Board to review their mortgage applications for possible redlining." The 12 savings banks currently participating in the Review Board protested this statement and asked the Department to retract it on the grounds that "this type of administrative action, even if within the legal powers of the Commissioner, is a poor way to go about securing cooperation. Such activities appear to represent the Commissioner's "price" for an action she favors. This approach is all too similar to those which characterized some of the behavior of the Nixon administration as disclosed in the post-Watergate period. As Government functionaries, they, too used quasi-legal powers to pressure people into cooperating. They, too, kept lists of "enemies"—of those who disagreed with them. Such unilateral actions, if continued, can only result in the withdrawal of many, if not all, of the voluntary participants in this worthwhile effort to encourage greater investment in housing in the City of Boston."

This statement clearly indicates that even those banks who were participating in the Mortgage Review Board saw their commitments as a voluntary action; they did not see that serving the credit needs of their communities was a legal obligation entailed in their charters and that, therefore, insisting on such responsiveness was a legitimate action by the chartering authority. The proposed legislation would make this much clearer both to the banks and to the regulatory agencies.

Needless to say, the Department refused to retract the statement about branch applications. We do not see issues of credit needs, like redlining in the communities these banks are chartered to serve, as concerns which management can refuse to address, particularly if they are petitioning to serve the convenience and needs of the public elsewhere.

We remain concerned that attention to credit needs and banks' past performance be further institutionalized. To that end, we are beginning to require additional information from urban banks in their branch applications as a regular matter. Such information will cover such matters as: (a) the bank's description of socio-economic trends in the urban neighborhoods it serves, the credit needs implied by such trends and actions taken or planned by the bank in order to respond to those needs; (b) description of policies and practices that may affect the credit-granting process, e.g. method of dealing with verbal inquiries, flexibility in handling home improvement loan needs, or the choice between conventional or government-insured mortgages; (c) any present variation in services available at different branches.

The Department has found the mortgage and deposit information compiled under disclosure directives issued from our office in 1975 and, again, in 1976, extremely useful. Unlike the Federal Home Loan Bank Board, which was asked by this Committee to analyze the federal home mortgage disclosure data in thirty metropolitan areas, the Massachusetts Banking Department has found that such an analysis for the Boston SMSA can be made with minimal costs and tremendous benefits. The only manner in which a regulator can ascertain how the credit needs of a community are being served is to know how well depository institutions are *collectively* serving that area. Mortgage disclosure can provide a federal regulatory agency with essential information that could never be obtained from an individual bank submitting a branch application.

For example, in a preliminary analysis of the mortgage information disclosed by Boston area banks under the State directive last year, the Department investigated the reasons for the relatively low number of residential loans granted by banks in some urban neighborhoods over a one year period. Initially we thought that this might be explained by the low volume of home sales, that either these neighborhoods were very stable with little turnover or that there were no homebuyers interested in purchasing homes in these neighborhoods. What we found was that there was a substantial number of home sales in these areas but that many buyers were purchasing their homes without bank financing. In some Boston neighborhoods like Jamaica Plain, North and South Dorchester, Roxbury, South Boston, and the South End, five or more out of every 10 homebuyers purchased their property without a bank mortgage (See Table 1).

TABLE 1.—*Bank financed home sales, percent of total residential sales (July 1975 to June 1976) (table 5A)*

Geographic area:	*Bank mortgages as a percent of total home sales*
City of Boston:	
Roxbury	20
North Dorchester	33
South End	50
Jamaica Plain	52
South Boston	52
West End	52
South Dorchester	56
Charlestown	61
East Boston	63
Roslindale	63
Back Bay	64
Hyde Park	66
North End	72
West Roxbury	79
Allston-Brighton	89
Older cities and urban towns outside Boston [1]	73
Inner suburbs [2]	83
Middle suburbs [3]	83
Outer suburbs [4]	78

[1] 1st quartile-remaining areas.
[2] 2d quartile.
[3] 3d quartile.
[4] 4th quartile—Those suburbs are served somewhat less than other suburbs by Boston area banks, as they are also served by banks outside the Boston area.

The Department then questioned why homebuyers in these neighborhoods consistently obtained financing, at often greater expense, from other sources like private mortgage companies. Did these homebuyers initially apply for a bank mortgage and pursue these alternatives only after their bank mortgage applications had been denied? It appears that homebuyers in these areas are simply not encouraged to apply. (See Table 2).

TABLE 2.—MORTGAGE APPLICATIONS COMPARED WITH RESIDENTIAL SALES (JULY 1975–JUNE 1976)

Geographic area	Number of mortgage applications compared with residential sales (percent)	Mortgage applications (number)	Residential sales (number)
City of Boston:			
Roxbury	32	86	266
North Dorchester	39	257	663
Jamaica Plain	41	106	258
East Boston	44	121	275
South Boston	48	120	250
Roslindale	60	175	292
South Dorchester	63	432	686
West End	66	89	134
Hyde Park	67	201	300
West Roxbury	69	200	292
Charlestown	72	111	154
Allston-Brighton	81	293	362
North End	84	79	94
South End	118	223	189
City of Lynn:			
Lynn Center	55	134	245
Lynn East	58	170	293
Lynn West	75	201	267
Lynn Shore	92	70	76
Older cities and urban towns outside Boston	94	2, 391	2, 536
Inner suburbs	98	7, 427	7, 604
Middle suburbs	86	8, 451	9, 833
Outer suburbs	68	6, 167	9, 069
Total	80	27, 599	34, 499

Our Department's Director of Research was contacted earlier this year by Joseph W. Gillespie, Deputy Director of the Federal Home Loan Bank Board, who inquired about our experience with analysis of mortgage loan disclosure information. By letter dated February 1, 1977, she explained to Mr. Gillespie what measures we found to be most useful and how easily an analysis could be performed, even with limited resources. Considering the importance of this problem to the vitality of our nation's cities and the ease with which pertinent information can be obtained and analyzed, the lack of initiative on the part of the Federal Home Loan Bank Board and other federal agencies is appalling. Some of the conclusions of our Department's analysis to date and lessons from our related experience were summarized recently in testimony presented in support of an anti-redlining bill now before the Massachusetts legislature. I would be happy to provide the Committee wtih a copy of that testimony for the record.

CONCLUSION

I believe that depository institutions do have an obligation to serve their communities in an affirmative and responsive way. This applies most emphatically to mutual thrift institutions by the very nature of their charters and to commercial banks as well, even though they have obligations to stockholders, because of the fact that their charters are valuable public franchises. If depository institutions are not fully responsive to their communities' needs, application-review process is an appropriate way for regulators to find that out and to seek a quid pro quo for the public. We have tried to represent the public interest in this way in Massachusetts and other state bank regulators have taken similar actions. The Community Reinvestment Act would demonstrate to federal agencies that the Congress expects them to do likewise.

The CHAIRMAN. Thank you very much, Ms. Greenwald.

Mr. Connell, I see you have a concise statement. I call your attention to the fact that it is after 12 o'clock but I presume you can give us that in a little over 5 minutes. Go right ahead.

STATEMENT OF LAWRENCE CONNELL, COMMISSIONER, CONNECTICUT STATE BANKING DEPARTMENT

Mr. CONNELL. Yes, Senator. Thank you for inviting me to testify before the committee on S. 406.

[The statement read by Mr. Connell, and the attachments for the record follow:]

PREPARED STATEMENT OF LAWRENCE CONNELL, JR.

My name is Lawrence Connell. I am Bank Commissioner in the State of Connecticut. Thank you for inviting me to testify before the Committee on S. 406, the Community Reinvestment Act. We endorse the Committee's interest in addressing the urgent national problem of comunity reinvestment by financial institutions.

Briefly stated, S. 406 would require the federal banking agencies to specifically consider both the deposit and credit needs of the particular community to be served with respect to new charters, branches and other like applications. While we believe that these criteria are usually considered in applications acted upon by federal agencies, we must acknowledge that with the exception of the Bank Merger Act, federal law [1] does not specify market criteria to be employed by the federal agencies. Federal agencies have published procedural regulations that at least refer to the general convenience and needs of the community to be served.[2] The Comptroller of the Currency has published policy statements on bank charters, branches, conversions and other corporate activities. That policy statement includes banking factors and market factors among its other components. The thrust of the policy statement is directed towards the potential of successful

[1] 12 U.S.C. 26, 27, 30, 35 and 36, 12 U.S.C. 1816, 12 U.S.C. 321 and 323
[2] 12 CFR 42, 208 and 303

operation of the particular banking facility from a profitability standpoint. Section II of the policy statements states with respect to branch applications:

"... The Office of the Comptroller of the Currency (OCC) encourages a banking structure capable of fulfilling local, regional and national needs for banking services. In the interests of increased competition, service to the public and efficiency, the OCC considers branching a desirable means of bank expansion ..."

Nevertheless, there is a need for better understanding of the criteria employed by both state and federal regulatory agencies when ruling on bank structure applications. In this regard, Connecticut statutes are no better than federal law. We have attempted to remedy this situation by issuing statements from time to time on policy issues that we believe to be important.

In Connecticut, a principal concern has been services to city residents and, in particular, convenient banking hours and food stamp sales. Some two years ago, it had come to our attention that banking hours might have been more limited in the city than in the suburbs. Moreover, food stamps, which are only sold through financial institutions in Connecticut, were not being made available on a convenient basis. Exhibit I is a statement by the Banking Department that expresses our concern about this matter. It announced a suspension of action on branches while a study was made of these issues. Exhibit II revealed the results of the study. It confirmed our concern that banking services were not as available in the cities as the suburbs. The survey also noted an improvement in food stamp services. Since then, Saturday and extended banking hours have also become more available in the cities. This is an ongoing process in Connecticut. Exhibit III is a release describing a recent follow up survey.

Additional services we feel are important include student loans and participation in state low and moderate income housing finance programs. Exhibits IV and V describe our actions in this area. The latter exhibit specifically states:

"... Banks and savings and loan associations enjoy protection from competition found in few other areas of business. Establishment of branches and new institutions is carefully controlled. ... In return for this protection, it is expected that the financial institutions will serve the needs of the public. Along with convenient banking hours, deposit and other traditional banking services, participation in the newer government sponsored programs is included in determining an applicant's potential for meeting the modern convenience and needs test. ..."

Therefore, with respect to S. 406, we believe that convenience and needs criteria should be specifically included in all statutory provisions relating to structure decisions by primary regulators, i.e. with respect to national banks, federal savings and loan associations and federal credit unions. On the other hand it is the obligation of the state agency as the primary regulator for state chartered financial institutions to address these issues within its sphere of influence. It is somewhat more difficult for secondary regulators to effect the policy objectives of S. 406 because they only have a veto power after the state agency has made its decision. If the state agency is doing its job, there should be no need for the Federal Deposit Insurance Corporation or the Board of Governors of the Federal Reserve System to repeat the same procedure.

S. 406 is legislation that principally refines administrative procedures with respect to structure decisions. It does address a need to more clearly inform the public why and on what terms banking licenses will be granted. There is an additional tool that has been provided in Maine to ensure that a financial institution serves its community. Section 255 of the Maine Code[3] permits twenty-five or more citizens to require the bank regulator to conduct a hearing on whether a particular institution is serving its community. I believe a similar statute should be considered in federal law with remedial provisions for institutions that are found to be inadequately serving their community.

In summary, when we speak of restoring our great cities we are speaking of the quality of life there. Quality of banking services includes not just gross loans or deposits but particular types of loans, convenient banking hours and needed services. All these must be in the quotient that comprises convenience and needs. In addition, the industry and public must be clearly informed of the criteria the regulatory agency employs in arriving at its decision. Such is merely proper government administration. Lastly, there must be a better remedial mechanism when an institution is found to have not served its community. Because entry

[3] 9-B MRSA 255

by new competitors by reason of law or capital requirements is not often sufficient or timely to deal with service needs, we must be prepared to do more.

Exhibit I

AUGUST 22, 1975.

DECISION

On April 15, 1975, the Norwich Savings and Loan Association, Norwich, Connecticut made application to the Bank Commissioner to establish a branch office at the junction of State Routes 12 and 138, Jewett City.

Protests against said application were filed by the Jewett City Trust Company and the Jewett City Savings Bank. At the request of the protestants a hearing was held on the protests and application on June 27, 1975, at which time the applicant and protestants were represented. Evidence was submitted and testimony taken at said hearing. A field investigation was conducted by an examiner on April 30, 1975, and the findings of the field examiner were made available to all parties.

After due consideration of evidence and data submitted in the application, gathered on the field investigation and submitted at the hearing, I find the application to be in the public interest and hereby approve said application on the following conditions:

(1) That the branch will be established by July 1, 1976.

(2) That the overall expenditure to establish the office will not exceed $160,000.

(3) That Norwich Savings and Loan Association offer food stamp sales at said office.

(4) That Norwich Savings and Loan Association maintain Saturday banking hours as proposed in its application.

BASIS FOR DECISION

Norwich Savings and Loan Association, Norwich, Connecticut, made application to establish a branch office in Jewett City, Connecticut, a borough of Griswold, Connecticut, the latter having a population of approximately 8,000 persons. Located at the junction of Routes 12 and 138 the proposed branch is considered to also serve to a greater or lessor extent the towns of Lisbon, Sprague, Canterbury, Plainfield and Preston.

Competition is provided by a number of financial institutions but principally from the two protesting institutions, the Jewett City Trust Company and the Jewett City Savings Bank. The Jewett City Trust Company, founded in 1921 had total assets of $10,367,987 on June 30, 1975. It is a commercial bank. The Jewett City Savings Bank was established in 1873 and had total assets of $32,497,907 as of June 30, 1975. Under the branching laws of the State of Connecticut, Sections 36–59 and 36–129 of the Connecticut General Statutes, Griswold is a closed town and no other commercial or savings bank may establish a branch office in Griswold except by merger with one of the respective banks. Therefore, insofar as branch offices are concerned, both protestants have enjoyed a monopoly for many years. The entry of the Norwich Savings and Loan Association into Griswold would provide the first new banking facility in over 50 years.

In passing upon a branch application the Bank Commissioner has broad discretion. Factors considered by the Commissioner include the general economic conditions in the market area, the degree of competition, prospects for profitable operations, adequacy of the capital structure of the applicant, adequacy of the applicant's management, and the effect of the application on the soundness of the banking institutions in the area. When measuring the degree of competition on the proposed market area consideration is given to the number and types of services offered by competing financial institutions, the relative prices of such services, the number and location of banking offices and their hours of operation.

With respect to the proposed application consideration was given to the fact that Griswold was closed to branch entry except by a savings and loan association. Furthermore, with respect to competitive services the applicant proposes to offer Saturday banking hours, food stamp sales and in several cases loans at a lower rate and on more generous terms than the protestants. Saturday banking hours were not available in Griswold at the time of the application. It is interesting to note that the protestant Jewett City Trust Company notified this office on August 15, 1975, that it would offer Saturday banking hours effective September 13, 1975.

With respect to any effect on soundness of the two protesting competitor institutions consideration was given to the fact that both experienced growth in deposits over the past few years despite the existence of severe disintermediation in Connecticut and throughout the nation. For the past two years the Jewett City Savings Bank has experienced the second largest deposit growth record of all Connecticut savings banks. Its deposit growth for the first six months of 1975 exceeded $2,800,000. The Jewett City Trust Company is a full service commercial bank. In addition to services that may be offered by the applicant, Jewett City Trust Company offers trust services, commercial loans, demand deposits to corporations and municipalities, and payroll services to businesses and municipalities. Although its growth has been less than Jewett City Savings Bank, the Trust Company has been successful even though, by choice, it limited its banking office to Jewett City. The Trust Company has the financial resources to develop branch offices in other towns. The fact that it has not elected to do so does not necessarily infer that it should enjoy insulation beyond statutory protection from competition in the town in which it maintains its office.

A significant portion of banking business of the residents of Griswold is conducted outside of the town. The market area proposed by the applicant includes a potential penetration throughout Lisbon, thirty percent of Sprague, twenty percent of Canterbury and ten percent of Plainfield and Preston. Griswold and the proposed market area are presently changing from rural farmland to residential communities drawing people who work as far away as New London. Contrary to national and state trends, new housing permits have continually increased in the area over the past few years ranging from a low of $756,300 for Griswold in 1972 and increasing to $2,108,300 in 1974.

Accordingly considering all the relevant factors and in particular the offering of Saturday banking hours and sale of food stamps, the application appeared to be in the public interest and was approved.

POLICY STATEMENT

The Banking Department has been concerned about several patterns in bank services that have recently developed. First has been the lack of interest among the financial institutions in offering the sale of food stamps. As of July 1975, of the 176 financial institutions in Connecticut, only 36 offered food stamp sales including only one thrift institution, Peoples Savings Bank of Bridgeport. Norwich Savings and Loan Association would be the first savings and loan association in Connecticut to offer this essential public service. Beyond the fact that only a minority of the state's financial institutions offer food stamp sales it has come to our attention that such service is further diluted by limited banking hours for such sales particularly in the core cities.

Therefore, the Banking Department is conducting a survey of banking hours by the financial institutions under its supervision with a view towards determining whether a pattern of economic discrimination might exist with respect to banking hours in the core cities vis-a-vis the suburbs. Until that survey is completed a moratorium will be in effect with respect to the approval of applications for branch offices by state chartered financial institutions.

Exhibit II

Seeptember 29, 1975.

FOR IMMEDIATE RELEASE

The Banking Department has just concluded its survey of banking hours provided by state-chartered financial institutions in eight Connecticut cities and their surrounding suburban areas which shows an overall pattern of evening and Saturday services being generally available to the residents of the suburbs but not available to the same extent to the residents of the core cities. Cities covered in the survey were Bridgeport, Hartford, New Haven, Stamford, Waterbury, New London, Danbury, and Meriden—their selection was to provide a statewide picture.

The concern of the Banking Department has been that of providing equalized services to customers in both urban and suburban settings; and as a result of the moratorium placed on branch applications by Commissioner Lawrence Connell on August 22, there has been noted a response on the part of banks all over the state to reassess their priorities in terms of these special services. To date, eighteen savings banks and six commercial banks have indicated their intention to make substantive changes in their hours of operation.

Overall statistics reveal that on an aggregate basis of 150 core city banks or branches, only 41 or 27% were open for banking business on Saturdays in the core cities and 47 or 31% were open after 6 on at least one evening in the cities. In suburban areas, 88 branches were surveyed showing 54% of such branches open at least one evening per week. Saturday hours varied from city to city with some areas bereft of any service at all.

In the City of Hartford, of 35 banking facilities in the core city, *none* was found to be open on Saturday, and only eight were open after six p.m. on any one evening. Of 58 suburban facilities, however, seven were open on Saturday and 41 open after six p.m., or 70% of the total. Under these circumstances, it would be very difficult for persons residing in the core city to conduct their banking business on Saturday or find an urban branch in the evening. Suburbanites, on the other hand, although restricted as to Saturday banking, would have facilities open during evenings throughout the week.

Other cities reveal somewhat different patterns but none provide comprehensive banking services for either Saturdays or evenings. Of the banks surveyed in New Haven and New London, neither urban or suburban branches were available for Saturday business. Evening hours in six banks were not available in the City of New London and of ten suburban branches in that area, only two providing evening banking hours. New Haven is just slightly better in providing evening hours in the city; three out of 22 branches are open one evening, whereas 45% of the 33 suburban branches surveyed were offering evening hours.

Stamford has an equal percentage of banking offices open on Saturday of the number surveyed—71%—but very limited evening hours in both urban and suburban settings. Waterbury seems to be providing more services in the core city both on Saturday and during evening hours of the banks surveyed—28% available in the city on Saturday and 76% available during evening hours, compared with 7% and 53% in the suburbs. Bridgeport residents of both urban and suburban areas have a larger percentage of their banks and branches open on Saturdays and evenings than any other city surveyed—52% and 70% respectively on Saturday, and 33% and 57% during evenings.

The moratorium on branch applications addressed itself, also, to the problem of limited number of financial institutions providing services to the public in the sale of food stamps. Commercial banks have been providing such services since the inception of the program in 1968, but the increased numbers of persons receiving such assistance together with the limited hours of bank services had made it very difficult for both the recipient and the banks themselves. In some instances, the restrictions on hours when food stamps were available for purchase or the limited number of personnel assigned to the function further exacerbated the problem. As of June 1, 32 commercial banks, one savings bank, and three credit unions were selling food stamps. Inquiries and requests for applications to sell have been reported by the Director of the Food Stamp Program for the Welfare Department by 17 savings banks, four commercial banks, nine savings and loan associations, and one credit union, most of whom have requested applications for inclusion in the program. The funding for such services is shared on an equal basis by the state and federal governments; financial institutions are paid 49½ cents per transaction, a cost which puts Connecticut on the low side in terms of support.

The startling increase in number of households receiving food stamps over the past year has been among the elderly, the disabled and blind, the working poor, and the unemployed or underemployed. Households of these types receiving assistance in June, 1974 were 16,173—in June, 1975; 30,589 or an increase of 89% in one year. During the same period, public assistance households "welfare families" went from 28,808 to 30,213 for an increase of only 4.9%. The trend is continuing to move in that direction. During the past three months, the percentage of increase in nonpublic assistance households, adjusted to a yearly figure, the increase is 58%, whereas "welfare" households have increased only 1.8%. The steadily deteriorating economic situation has added persons whose need for such assistance has increased dramatically and the response of those eligible has been overwhelming. Part of this change is also due to the efforts of the administration to inform the public and to make it simpler to apply for such assistance.

Those factors prompted Commissioner Connell to impose the moratorium to point up the issue and the response from the financial community has been gratifying. The moratorium has been lifted and branch applications are being processed as rapidly as possible. Six applications have been approved this week and eight more are in process of evaluation. Banking hours and variety and quality of service will be among the criteria to be considered in branch applications.

Exhibit III

For Release Friday, 25, 1977.

CONNECTICUT BANKING DEPARTMENT

The State Banking Department and the Department of the Treasury are conducting a followup study to determine the availability of food stamp services to the residents of the state. Field inspections will be conducted in New Haven, Waterbury, Bridgeport and Hartford beginning March 1st. At least one field study will also be made of a rural area of the state.

A moratorium on branch banking was imposed in the fall of 1975 in order to encourage additional banks to begin to provide such services and to provide extended hours of services to all customers particularly for those in urban areas where evening hours and Saturday hours for banking were minimal. As a result of that effort, 23 savings banks, seven commercial banks and one credit union have been added to the available outlets for food stamp services bringing the total in the state to 91. The addition of these financial institutions has not resulted in distributing the services more evenly since the additional outlets represent only 10% of the transactions. Therefore, some banks still carry a heavier volume than might be considered desirable from both the banks and clients point of view. The purpose of the new study is to attempt to equalize the services among the institutions and to determine if there are areas not presently being served adequately.

Part of the problem stems from the hesitancy of some financial institutions to cash public assistance checks because of past experiences with fraud. Legislation has been introduced in the General Assembly which attempts to deal with this issue.

According to figures provided by the Department of Social Services as of January, 1977, 29,012 households with 95,632 individuals on public assistance were participating in the program. This figure represents over 97% of those who applied. Others who were utilizing food stamp services, including unemployed persons, those on social security, and families whose incomes permitted participation, numbered 31,600 households and 83,961 individuals. These figures have held rather steady for the past two years with those not on public assistance dropping very slightly, possibly as a result of the slightly improving economic climate.

The food stamp program which has been under attack in many areas of the country has been handled exceptionally well in Connecticut due to the concern of the administration for this important program of assistance to our citizens. There has been an extremely small percentage of loss or misuse and the efforts of the state agencies involved and the fine cooperation of the banking industry has been largely responsible for this good record.

Exhibit IV

STATEMENT: NEW HAVEN SAVINGS AND LOAN ASSOCIATION DISAPPROVAL OF BRANCH AT BOSTON POST ROAD AND LINDY STREET, ORANGE

On May 18, 1976 the New Haven Savings and Loan Association filed an application to establish a branch office at the southwest corner of the Boston Post Road and Lindy Street, Orange. This community of 14,700 population and area of 17.6 square miles is currently served by three offices of commercial banks and five existing or approved offices of thrift institutions. The per capita ratio per banking office in the town of Orange is 1837 as opposed to a state average of 2661.

The New Haven Savings and Loan Association, established in 1890, has its Main Office at 124 Temple Street, New Haven. This office is in the central business district with limited on-street parking and no feasible way to provide on-premises parking or drive-in facilities. The Association currently has two branch offices, North Haven opened June 19, 1964 and Guilford established April 13, 1974. Due to the trend of the population to move to the suburban communities, a portion of the growth of this institution has come from its branch operations. The Association has savings and mortgage customers in the four town area of Orange, Milford, West Haven, and Woodbridge and the proposed branch would serve these existing customers and hopefully generate new accounts.

The New Haven Savings Bank made application for a branch office on Old Tavern Road, Orange, April 29, 1976. This application received approval May 19, 1976. The savings bank site is one-half mile from the proposed location of the New Haven Savings and Loan Association. A total of eight banking offices, existing or approved, are located within 1¾ miles of the proposed site, four of these within ½ mile.

The New Haven Savings and Loan Association has not provided various consumer services that are expected in today's market. In its application for a branch office in Guilford, it is stated that the Association was adding educational loans to its services, but this has not been the case. The Association does not participate in the student loan program. The Association does not participate in the food stamp program even though its main office adjoins an area of low income residents of the City of New Haven. While it was stated that consideration would be given to extended hours at the Orange office it is noted that the main office and existing branches are open 9:00 A.M. to 3:00 P.M. with the exception of Thursday when offices are open to 6:00 P.M. The drive-in teller at Guilford is open to 4:00 P.M. daily. The Association does not offer Saturday banking hours.

The present mix of financial institutions in Orange includes three commercial banks and five thrift institutions. The applicant does not propose to provide any services not currently available in the community and in some areas, less than is provided by the competition. Projected deposits of $7,000,000 and profitable operation at the end of the third year would appear to be overly optimistic in this highly competitive area. Since the New Haven Savings Bank was recently approved for a branch office in Orange, it would be premature to inject still another branch office in the market area at this time.

Accordingly, after due consideration of evidence and data submitted with the application and the field investigation report, the application is disapproved.

Exhibit V

STATEMENT: NEW HAVEN SAVINGS AND LOAN ASSOCIATION APPLICATION FOR BRANCH AT BOSTON POST ROAD AND LINDY STREET, ORANGE, CONNECTICUT

On July 7, 1976, an application by the New Haven Savings and Loan Association to establish a branch office at Boston Post Road and Lindy Street, Orange, Connecticut, was denied by this office. In a statement of reasons and findings on the application, it was noted that the proposed service area already had adeqaute banking facilities. The applicant did not propose any significant new services.

On August 5, 1976, the applicant petitioned for a reconsideration of the application and submitted additional evidence with respect to the proposed branch. The application for reconsideration was published in Connecticut Banking Department Bulletin #676 dated August 13, 1976.

In its application for reconsideration, New Haven Savings and Loan Association disclosed that it had some 1,745 customers with $4,778,000 in deposits and $5,101,000 in mortgage loans in the proposed branch market area of Orange, Milford, West Haven and Woodbridge. The applicant considers the proposed branch as a regional office to serve the above mentioned four-town area. New Haven Savings and Loan Association also reported the loss of some 1,200 customers in the last five years from the four-town area which is attributed to a lack of a convenient branch facility to serve that area.

New Haven Savings and Loan Association had $37 million in deposits and $37 million in mortgage loans as of December 31, 1975. Competing financial institutions in Orange are represented by four mutual savings banks, one federal savings and loan association and three commercial banks of which all but one, Orange National Bank, have deposits in excess of $100 million. The applicant states that the proposed branch office is needed for the Association to continue as a viable competitor in the New Haven area.

It is also noted that the applicant's management has been authorized and instructed by its Board of Directors to take such steps as necessary to participate in the Connecticut Student Loan Program, the Connecticut Housing Finance Authority, and the food stamp program. A check with those agencies revealed that the applicant has followed up and begun negotiations to participate in the programs.

The Banking Department regards participation in the student loan, food stamp and housing finance authority programs as important and significant indicia of convenience and needs. The Connecticut General Assembly enacted laws to establish these programs and has authorized appropriations and financing facilities to implement them. These agencies of the Executive Branch are staffed with persons to administer the programs.

Over the past several years, increases in educational expenses have far outstripped growth in real income, especially that of the middle income family. The middle income family is not usually eligible for scholarship aid. Therefore, the Connecticut Student Loan Foundation is an important source of assistance to meet these educational needs. Student loans are government insured, eighty percent by the federal government and twenty percent by the State of Connecticut. These risk free loans provide a reasonable, subsidized return to the lender. In view of these factors and the current comfortable liquidity condition of Connecticut financial institutions, it is expected that these institutions will provide loans to all qualified students regardless of whether the student or his or her family has a banking relationship with the particular institution.

The Connecticut Housing Finance Authority purchases mortgages from originating banks and savings and loan associations. These mortgage loans must be to persons of low and moderate income. Current criteria make this program available to persons of incomes up to $24,750 and mortgages up to $49,500, well within the middle income level. The down payment required is lower than conventional loans. Therefore, the Connecticut Housing Finance Authority is an important vehicle for financial institutions to provide lower cost mortgages to middle income families.

The importance of the food stamp program in this state was thoroughly discussed in an earlier statement on August 22, 1975, with respect to a branch application in Jewett City. Given the present unemployment rate of 9.5 percent in Connecticut, as well as retired persons on fixed incomes and the working poor whose incomes cannot stretch to meet present inflation, the need for food stamps to sustain minimal nutritional level continues to be a pressing need for many of our citizens.

Banks and savings and loan associations enjoy protection from competition found in few other areas of business. Establishment of branches and new institutions is carefully controlled. Indeed our branching law which generally prohibits a financial institution from establishing a branch in a town where a like financial institution has its head office is considered one of the most anti-competitive laws in the nation. In return for this protection, it is expected that the financial institution will serve the needs of the public. Along with convenient banking hours, deposit and other traditional banking services, participation in the newer government sponsored programs is included in determining an applicant's potential for meeting the modern convenience and needs test.

Accordingly, upon examination of the evidence submitted by the applicant in its petition for reconsideration, the application is approved on the basis that the proposed branch is necessary for the New Haven Savings and Loan Association to maintain its position as a viable competitor in the New Haven area. Competing institutions are of sufficient size and strength to withstand the additional competition. Moreover, the applicant's efforts to participate in the student loan, food stamp and Connecticut Housing Finance Authority programs is duly recognized.

Mr. CONNELL. S. 406 really requires the Agency to wait until the bank makes an application. Therefore, I think that there are probably three amendments I would suggest to S. 406.

One: An amendment of section 4(1) (b) and (d), by the addition of other banking services to the credit criteria.

Second: I think that public officials elected and appointed should be able to act in the area of the decision of the Federal agency.

In fact, if we had that power, I would give up the State McFadden Act provisions of the branch banking laws.

The CHAIRMAN. Where did you have in mind that that would go? Is that the section to which Mr. Nader referred?

Mr. CONNELL. Yes; where he spoke of the citizen participation. I think public officials should be specifically included there.

The CHAIRMAN. Senator Heinz made the same point.

Mr. CONNELL. That is correct. I would endorse that statement. If we had that, I don't think a State branching law should have any more application to the activities of a national bank and Federal S. & L.

Third: I think the provisions for 25 persons to petition the particular banking agency for a hearing, if they feel the institution is not serving the community, is a particularly important addition. Licenses needn't be granted in perpetuity. Thank you.

The CHAIRMAN. How about the suggestion that Mr. Nader made about standing in court or some kind of special standing for consumer groups?

Mr. CONNELL. I would endorse that. There is a considerable question on the extent that consumer groups have standing. I believe the only standing that the State agency would have would be with regard to the McFadden Act, and the State branching law provisions, which in my mind are for the most part anticonsumer and not in the public interest today. They restrict competition and entry.

The CHAIRMAN. Thank you very much.

Dr. Marlin, you have a summary of your statement, I believe. The entire statement will be put in the record.

STATEMENT OF JOHN TEPPER MARLIN, COUNCIL ON MUNICIPAL PERFORMANCE

Dr. MARLIN. My name is John Tepper Marlin. Between 1964 and 1969 I was an economist with the Federal Reserve Board and the Federal Deposit Insurance Corporation, where I used to look at applications of the kind you are talking about.

Since 1969 I have been engaged in research and teaching on banking and urban economics, and since 1973 I have headed the Council on Munipical Performance, a nonprofit Research group in New York City, which developed measures to compare the effectiveness of delivery of essential urban services.

Most recently, under a grant from the Ford Foundation, we have been gathering comparative information on urban reinvestment programs around the country. My testimony this morning is about this research. Two surveys of reinvestment programs and proposals have been submitted to this committee. Their relevance to the committee's hearing is that they show a range of 65 actual and 25 proposed responses to urban disinvestment, and provide a basis for evaluating some of them.

To summarize these two review papers, we have divided the reinvestment programs and proposals into 10 categories as follows:

First: Use of public deposits to encourage lending in the inner city.

Second: Requiring information from lenders on where the mortgages have been made.

That second point has already been implemented by the committee.

Third: Requiring lending institutions to meet mortgage needs throughout the area from which their deposits are drawn. This is the present thrust of S. 406.

Fourth: Requiring lending institutions to use nondiscriminatory lending procedures, including meeting mortgage needs throughout their lending area.

This meets the objections of Mr. Holman earlier and is similar in thrust to S. 406, but has the slight difference in the definition of the primary service area.

Fifth: Providing for mortgage review panels to process complaints of discrimination on geographical or other grounds.

Sixth: Providing support for the mortgage market, through risk pooling programs.

Seventh: Making direct housing loans or subsidies of the traditional kind.

Eighth: Regulation of investments of life insurance companies and pension funds to encourage a higher proportion of home mortgages in their portfolios.

Ninth: Development of community banks to serve as local agents of government programs or as alternative banks.

Finally: Changing laws or regulations covering city tax assessment policies and delivery of services, as already discussed by Senator Heinz.

What I conclude from the information we have collected, in the context of these hearings, is that there is a growing tendency to view the community responsibility of lending institutions as going beyond the convenience and needs of depositors only.

However, there are many ways in which this responsibility to lenders can manifest itself, and I would recommend that several options for lenders to contribute to reinvestment solutions be provided for in the proposed bill, with the effectiveness of these options being evaluated from year to year.

In the interest of conserving time, I will end my remarks here. I will be glad to provide more specifics in answer to questions.

Thank you.

[Material received for the record from Mr. Marlin follows:]

84 Fifth Avenue
New York, New York 10011

REINVESTMENT: ACTIONS AND PROPOSALS

Summary of Representative Reinvestment Programs Prepared for the Committee on Banking, Housing and Urban Affairs, U.S. Senate, March 23, 1977.

by John Tepper Marlin
Executive Director
Council on Municipal Performance

REINVESTMENT: RECENT ACTIONS

While there is widespread agreement regarding the existence of a disinvestment problem contributing to housing deterioration in inner city neighborhoods, there is considerable disagreement over the cause of the problem and therefore the most desirable solutions.

To help focus attention on the specific reinvestment solutions that have been adopted by cities and states as well as the Federal government, COMP has compiled a representative list and description of reinvestment actions -- private, legislative, administrative or judicial -- around the country, with some preliminary analysis of the programs.

The actions are considered under ten headings: use of public deposits for reinvestment purposes, extension of mortgage disclosure requirements, monitoring of financial institutions' charters to ensure that they are serving the credit needs of their depositors, fair lending requirements, mortgage review, mortgage support such as pooling or purchase programs, direct aid to finance housing, regulation of pension fund and insurance companies' policywriting and investment practices, creation of community banks and reform of city service and tax policies.

1. Public Deposits. Most reinvestment programs require state or Federal action. Public deposit programs have the advantage that they can be used by cities as well as higher levels of governments.

In California, the Los Angeles County Board of Supervisors passed a resolution that the County Treasurer should allocate deposits based on the mortgage lending records of the commercial banks, using the disclosure data derived in late

1976 from implementation of the 1975 Home Mortgage Disclosure Act. However, the County Treasurer has not yet carried out the resolution, on the grounds that the office has no staff to develop a monitoring system for the data.

Colorado's former Treasurer, Sam Brown, invited competitive bids from banks and savings and loan associations for the deposit of state funds, but then (starting in 1975) adjusted these bids to take into account the institutions' "activity ratios" in certain socially desirable areas, including low-cost and older housing loans.

Illinois requires a pledge from a bank bidding for state funds to the effect that it will not "reject arbitrarily mortgage loans for residential properties within any specific part of the community served by the bank because of the location of the property," and will "make loans available on low and moderate income residential property throughout the community within the limits of its legal restrictions and prudent financial practices." However, there are no enforcement procedures in this law. In 1974 the Chicago City Council passed an ordinance requiring that no city funds be deposited in any bank which did not make a pledge not to redline, and did not provide information on the sources of deposits and location of mortgaged properties by census tract. About half of the eligible Chicago banks have complied.

In New York City, Mayor Abraham Beame in March 1977 (following COMP's Newsletter on this subject) announced that he was directing his Finance Administration to allocate court and trust funds among city-based savings banks on the basis, in part, of their mortgage lending records. Since these funds must, under state law, be placed in passbook accounts subject to Federal Reserve Regulation Q interest ceilings, neither the city or the account beneficiaries lose any interest from the program.

Utah's Treasurer, David Duncan, offered $5 million in state funds to banks agreeing to make loans in "high risk" neighborhoods, but no banks took up the offer.

2. Mortgage Disclosure. At the Federal level, the 1975 Home Mortgage Disclosure Act requires all insured commercial banks and thrift institutions to report the location, by ZIP code, of properties on which they made a mortgage loan during the previous twelve months. The Act is being implemented by the Federal Reserve Board through its Regulation C. Several states have their own disclosure regulations and have argued for exemption from Regulation C on the grounds that state regulations were more comprehensive.

Illinois, for example, originally intended to apply its regulations not only to state-regulated institutions but to Federally chartered institutions in the state. Regulation C is now a minimum for all institutions, state and Federal, and removes Federally chartered banks from the obligation to comply with state disclosure regulations. The add-on feature of state regulations leads to a competitive imbalance between state and Federal institutions.

Illinois regulations are much stronger than Regulation C in that they require the total mortgage portfolio of state institutions as well as changes at six-month intervals. The Illinois Savings and Loan League, along with several individual S&L's, has sued the state to challenge the legality of state laws applying to Federally chartered institutions. The League is also challenging the legality of requiring disclosure retroactively, to loans made in prior years. Two Illinois cities, Chicago and Rockford, have gone beyond the state regulations and require information on the amount of time and demand deposits by census tract of depositors' residence, and the interest paid.

The Massachusetts State Banking Department has responded to complaints of redlining by Boston community groups by issuing a directive on August 1, 1975 -- and again a year later -- requiring all state-chartered institutions in the Boston metropolitan area with $20 million or more in assets to file mortgage and deposit information by census tract for the cities of Boston and Lynn and by ZIP code for the rest of the area. The Department has seen its responsibility as collecting and analyzing the data, in contrast with the Federal agencies administering the Home Mortgage Disclosure Act. A preliminary report was provided to the Senate Committee on Banking, Housing and Urban Affairs in November 1976 by Harriet Tee Taggart, the Department's Director of Research. She has told COMP that a final report has been put off until the Department finishes analyzing application files of mortgage company and Federal Housing Administration (FHA) loans, i.e. until mid-1977.

New Jersey's banking authority collects mortgage information from the banks but does not reveal it to the public.

In New York State, the state institutions were exempted from Regulation C only if they report mortgage originations separately from mortgage purchases. This has necessitated complex changes in the New York State reporting requirements, to the point where one computer consultant involved in assisting banks with their compliance has concluded that "dual compliance would be better than a jerry-built state reporting system." William Woodward III, Deputy New York State Superintendent of Banks, responds that the consultant is exaggerating the difficulties, perhaps motivated by an interest in "doubling his business." He says that his office will provide a report to the Assembly Banks Committee by April 30, covering overall New York State data, plus in-depth analysis of Brooklyn and Rochester.

3. Credit Needs. The requirement that banks serve the "convenience and needs" of the communities they operate in has long been a part of Federal and state bank charters and regulations, but has seldom been used explicitly to require--for example, when branching requests are considered--that financial institutions serve the credit needs of their depositors.

Federal Reserve Board Chairman Arthur Burns has written to member institutions advising banks to interpret their charters so as to provide special credit access to neighborhoods in which the bulk of their depositors live. But the Federal agencies haven't over the years given significant attention to this responsibility in making decisions on branches or mergers.

Connecticut's Bank Commissioner has taken a step toward a mortgage credit needs test by using a bank's participation in the Connecticut Housing Finance Authority as an "important and significant" index of the bank's serving its community's convenience and needs, when it applies to open a branch or change its location.

In Illinois, the Metropolitan Area Housing Alliance in Chicago has sued several banks on behalf of several individuals who complained that they were victimized by a specific kind of violation of community credit needs: "fast foreclosure" (foreclosing on a home immediately when one payment is missed). The case was settled favorably out of court.

In general, states have preferred to deal with reinvestment through fair lending provisions discussed below rather than by reference to the credit needs of a community. Three kinds of arguments are used against a credit needs approach. First, it has been branded as "credit allocation" based on a presumption (which some bankers argue is unwarranted) that if there is a "low" ratio, however defined, of mortgages to deposits, local mortgage credit needs aren't being met. Second, it doesn't help neighborhoods with large credit needs but few deposits. Finally, its effectiveness depends on strong regulatory enforcement, but regulatory agencies are slow to change their modes of behavior and, in the long term, weak in dealing with the regulated industry.

The advantages of a credit needs approach are that it makes a very small step from existing principles governing regulatory actions, and is relatively easy to implement using mortgage/deposit ratios as rules of thumb for evaluating bank performance.

4. Fair Lending. In contrast to the credit needs approach, which relies on a quota in the form of some concept of a minimal ratio of mortgages to deposits, the fair lending concept is procedurally oriented. Its origins are in anti-discrimination provisions applied to individuals. Only recently has the concept of discrimination on a neighborhood-wide basis been raised.

The Federal government has a variety of anti-discrimination provisions. The Federal Reserve Board's Regulation B, as revised in 1976 to reflect amendments in that year to the Equal Credit Opportunity Act (ECOA), became effective in March 1977, enforcing the prohibition against discrimination in financing of housing and for the first time requiring record-keeping on loan applications.

The ECOA is somewhat duplicative of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968, which mandates fair housing policies and specifically prohibits discrimination in housing finance. This Act is administered by the Secretary of the Department of Housing and Urban Development (HUD). In a turf-protective letter to the Federal Reserve Board, James Blair, former Assistant Secretary of HUD for Fair Housing and Equal Opportunity, suggested that a preamble to Regulation B state the common coverage of home financing by the ECOA and Title VIII. He also urged that it indicate that a single set of substantive rules would be agreed upon jointly by the Federal Reserve and HUD.

The California regulations, which cover state-chartered S&L's only, are a model for this approach. They ask two questions: (1) Have mortgage loan ap-

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plications been processed equitably? and (2) Has the bank engaged in sufficient "affirmative marketing" throughout its lending area (as defined by the pattern of bank lending but prohibiting bank gerrymandering so as to exclude poor areas) to ensure that applications for loans fairly reflect loan demand throughout the area? The California regulations were initiated by, and are enforced by, the Business and Transportation Agency's Savings and Loan Department which supervises state-chartered savings and loans.

The District of Columbia government was the first city to prohibit redlining. Title 34 of the 1973 D.C. Human Rights Act prohibits discrimination in lending based on race, national origin or sex. The D.C. Office of Human Rights investigates any alleged violation and attempts to conciliate. The D.C. Human Rights Commission is charged with holding hearings and rendering decisions on cases where conciliation has failed and a "probable cause" of a violation of law is found to exist. However, during the first three years of the Act the Human Rights Commission had not heard any decisions or rendered any decisions relating to redlining.

In the Illinois Fairness in Lending Act, redlining is made illegal, but it is left up to individual complainants to sue the alleged discriminating institution in the civil courts. No such suits have yet been initiated.

Minnesota passed a law in 1974 which prohibits discrimination against geographic areas as well as individuals. However, allegedly because of a restrictive usury law, local financial institutions have been making very few in-state mortgages, so that the form of non-discrimination they have apparently been practicing is lending equally little to all individuals applying for mortgages.

Massachusetts' Fair Lending laws prohibit discrimination according to race and sex, but do not specify geographical area. Wisconsin in 1974 prohibited geographical lending discrimination.

5. Mortgage Review. Mortgage review panels are outlets for those who feel that they have been unfairly denied a mortgage loan. They are adjudicative bodies created either by government (as in California) or by groups of banks in a particular city or state.

California's Department of Savings and Loan has created two Boards of Inquiry which serve as mortgage review panels. Both of these boards have three members. They are located in San Francisco and Los Angeles, serving the northern and southern half of the state respectively. Both boards have met only twice, and their record is criticized by California anti-redlining groups.

The District of Columbia's resolution creating a Commission on Residential Mortgage Investment (CMRI) also provided for a Complaint Review Committee (CRC) composed of three of the CMRI Commissioners and the Deputy Director of the D.C. Office of Consumer Affairs. The function was to serve as a mediator for applicants who had brought a complaint against a D.C. lending institution. During the first seven months after its creation in 1975, the CRC averaged about two meetings per month and less than one complaint per meeting. Of the first twelve complaints, four subsequently obtained loans, two were assured of getting them, three are reapplying and only three were told by the CRC that their applications did not merit further review. The CMRI Report concludes that the process revealed "a significant communications gap" between the lending institutions and the applicants.

In Massachusetts, the State Banking Department has "set up" (in the words of its Research Director) an informal Mortgage Review Board for the Boston area. The voluntary board is composed of three bankers, three community representatives and two non-voting representatives from the Department and the Mayor's office. It meets every other week to review appeals. By November 1976, 24 cases had been reviewed. Of them, 11 were considered bankable, and 7 were not. The other 6 cases were withdrawn before a decision was made or were still pending when the count was made. Of the 11 bankable applications, 8 were sent back to the original bank (commonly for reappraisal), and 3 were sent to other participating banks. The Board uses two rules of thumb in deciding on creditworthiness: (1) No more than 25% of the borrower's gross income should be required for payment of principal, interest, real estate taxes and property insurance; and (2) When combined with other installment debts, these payments should not exceed 33% of gross income.

In Michigan, the Detroit banks have developed an Urban Reinvestment Review Committee modeled on the Philadelphia Plan. It has been endorsed by the city's biggest bank, the National Bank of Detroit, but has not been activated yet because of efforts by some savings and loan institutions to modify some of the provisions. The Committee can either refer a rejected application back to the original bank, or to another bank, or to the City of Detroit's high-risk loan fund financed with Federal money.

The commercial and savings banks of New York State have set up a $40 million fund to be used by their Mortgage Review Panel in the event that the banks to which the applicant originally went refuse to make a mortgage loan even after the Panel requests reconsideration. As of mid-March, no applications had been processed, in part because of a delay in government authorization for the program.

In Pennsylvania, the Philadelphia Mortgage Plan (abbreviated as the Philadelphia Plan or PMP) was started by three banks which were members of the Greater Philadelphia Partnership and had been working together on the local Neighborhood Housing Services (NHS) program. Starting in 1975, the lending institutions worked together on common lending standards which would open up the credit window a little wider than in the past. Within a year the consortium had grown to 13 institutions and had involved a number of community organizations as well.

In contrast with the other mortgage review systems which react passively to consumer complaints, the Philadelphia Plan's monitoring group, reviewing developments bi-monthly, sought aggressively to review and redefine lending criteria. The key elements of the new standards are: Using smaller geographic areas for appraisals (the block rather than the neighborhood); placing high value on the existence of a strong local organization dedicated to preserving the neighborhood; and including non-wage payments such as welfare and child support in gross income. Experience with the Philadelphia Plan has been good. Delinquency rates so far are low, even though reportedly about four out of five applications under the Plan were accepted and $13 million has been loaned out.

Among some anti-redlining activists, the Boston Mortgage Review Board is regarded as a public relations gesture by the local financial community. Its slow processing record does not suggest that its direct contribution to reinvestment will be major, but as a banker explained to COMP, "having a panel like that reviewing loans makes you more careful in handing out a rejection." The Philadelphia Plan has received more praise from reinvestment advocates. Its contribution may be inadequate by itself, but it is significant. The Detroit and New York State programs are too new to comment on.

6. Mortgage Support. Mortgage review panels represent a special form of support of private mortgage markets of which coinsurance and pooling are other varieties.

Federal support of banking institutions via short-term loans and deposit insurance represent support of the mortgage market. Regulation Q is an attempt at providing such support by providing funds to lending institutions at a cost which is below market. However, providing the funds doesn't mean loans will be made. These indirect and roundabout methods of support, some say, aren't doing the job.

A relatively new Federal program with a very successful track record is the Neighborhood Housing Services (NHS) program operating in over 30 cities. Started in Pittsburgh in 1968 by a group of neighborhood residents who approached local banks for lending commitments, the program worked so well that it was adopted by the Federal Home Loan Bank Board (FHLBB) and in 1974 the FHLBB and HUD jointly created the Urban Reinvestment Task Force with the mission of spreading the idea to other cities.

The Task Force serves as a developmental agency, setting up local NHS programs in each city and sometimes making a contribution to a local high-risk loan fund. Each NHS program is a local partnership between financal institutions, the city government and neighborhood leaders. The financial institutions agree to make all bankable mortgage loans, provide administrative staff support for the program, and participate in the local NHS governing board. The city agrees to use flexible code enforcement procedures, to make needed capital improvements in the area, and to contribute, sometimes with Community

Development Block Grant (CDBG) funds, to a high-risk loan fund controlled by the NHS board for making non-bankable loans.

California has a Housing Finance Agency which offers coinsurance as part of its Neighborhood Preservation Program.

Florida enacted its House Bill 2010 offering mortgage market support, but it required a constitutional amendment which failed when presented to the electorate.

In Indiana, The Greater Indianapolis Housing Development Corporation has been guaranteeing about 75% of the value of rehabilitation loans (average, \$3,000) made at three commercial banks. The maturities range up to five years. The guarantees are financed by about \$½ million CDBG funds.

Minnesota is widely accepted as the leader in its tax-exempt revenue bonds to purchase FHA-insured (under Title I of the National Housing Act) housing rehabilitation loans. In 1975 the Minnesota Housing Finance Agency (MHFA) sold \$9 million of these bonds, using the money to buy the loans, which carry a 7½% or so interest rate. The originating lenders get their principal back, plus a \$75 origination fee and a regular servicing fee. The loans must be on homes at least 15 years old and must be to low- or moderate-income families. Within two years of its first bond issue in 1973, the MHFA had raised \$129 million and loaned out nearly two-thirds of it. The program has been copied in New Jersey and in a growing number of other states.

The New York State Mortgage Agency was created in 1970 after a 25% decline between 1968 and 1969 in state mortgage investments by banks in the state, and a serious drop in residential construction. The agency's concept was to purchase mortgages from the banks on condition that they use the money to originate new, in-state residential mortgages. Within four years the agency had raised and used about \$470 million. However, New York State's debt problems ended its access to the market and little more has been done since 1974.

The concept has been copied by at least 23 other states, with at least ten funded and in operation (the others have run into voter rejection of bond issues or issuing authority, or other snags). In addition to the Minnesota and New York programs already discussed, the eight other states which have created and implemented similar agencies are: Alaska, Connecticut, Kentucky, Maine, South Dakota, Tennessee, Virginia and Wisconsin.

New York has also initiated a Rehabilitation Mortgage Insurance Corporation (REMIC) in 1973, to operate solely in designated preservation areas in New York City. It got off to a slow start. The Community Preservation Corporation, a private mortgage pooling group financed by New York City banks, makes loans in two neighborhoods and is the chief user of the REMIC program. As of the end of February 1977, there were 27 insurance cases with 1,764 dwelling units involving mortgage debt of $9.7 million of which $4.6 million is insured.

7. Direct Programs. There was a major Federal effort in the 1960's to provide direct support to housing. Many of the programs which proliferated are not regarded as successful, especially the large-scale urban renewal and public housing projects. The Housing and Community Development Act of 1974 essentially reflected a belief in Congress that there was a need for greater local control and turned CDBG funds over to the localities to spend. One categorical program which survived was HUD's Section 312 loan program, created under the 1964 Housing Act to provide financing for rehabilitation to bring housing up to local codes. The corresponding grant program, Section 115, was discontinued.

The California Housing Finance Agency, a unit of the state's Business and Transportation Agency, makes low-interest housing loans for non-profit and local government entities and also operates the Neighborhood Preservation Program which makes rehabilitation loans in designated preservation areas.

Colorado in 1972 provided $250,000 to the Division of Housing for a State Demonstration Grant. Additional grants through 1976 brought the total to $5 million, funding 90 local housing (mostly rehabilitation) projects along with $13 million in leveraged private and Federal investments.

In Massachusetts, Boston's Home Improvements Program makes grants to property-owners of one-fifth of its estimate of the cost of proposed rehabilitation, up to $1,000 for a single-family home and $3,000 for a six-unit building. The Program spends $4 million a year of CDBG money.

To the south of Boston, Fall River is making rehabilitation loans with an interest rate which depends on the borrower's income relative to the median of other families of the same size. A family earning half the median income would pay 4%. A family earning nearly double the median or more would pay the market rate. The program costs $½ million a year in CDBG funds.

Finally, the Old Holyoke Development Corporation makes rehabilitation grants to homeowners based on a percentage of the cost. The percentage varies with the taxable income of the borrower, ranging from 30% for those earning less than $8,000 to 15% for those earning close to $20,000. Applicants earnings over $20,000 are not eligible.

In Minnesota, the Minneapolis Housing and Redevelopment Authority (MHRA) is approved as a lender under the MHFA program discussed above. The neighboring authority in St. Paul is, too. The MHRA ties the interest rate on its rehabilitation loans to the borrower's income, adjusted for family size. A borrower with a family of four and earning below $10,300 (or up to $17,450 but with housing expenses over one-fourth his or her income) would pay 4%. Up to $17,450 he or she would pay 6%. Over $17,450, the interest rate rises to 8%. The MHRA's money comes from CDBG allocations, city bonds, local bank loans and funding from MHFA programs.

Hoboken, New Jersey, has been subsidizing rehabilitation loans since 1972. It lends up to $6,000 with a maturity of up to nine years, with the purpose of bringing houses up to code. The loans and subsidies cost $½ million a year in CDBG money.

New York has pioneered in housing finance with its Urban Development Corporation, which floats bonds, when the market will absorb them, and uses the money to finance housing developments such as Roosevelt Island in New York City. The state's Mitchell-Lama projects for low and middle income residents were built through a combination of state tax abatements, Federal interest rate subsidies and other programs. New York City's Housing and Development Administration provided direct housing loans through its municipal loan program, but this was suspended because of scandals and was ended, soon after it recontinued, because of the city's financial problems.

Ohio has a $2 million fund for making direct seed money grants to local groups wishing to rehabilitate neighborhood housing.

Oregon's Portland Development Commission uses a deferred payment loan to provide financing to correct serious housing code violations. Over $½ million of such loans have been made from a fund established with CDBG funds.

In Rhode Island, the Home Improvements for Providence program makes rehabilitation loans at 3% interest and subsidizes housing costs for lower income families when repairs are needed to remedy code violations. The program gets $2 million a year from CDBG allocations.

Madison, Wisconsin has a Housing Rehabilitation Services Program which makes deferred payment loans in cases of special hardship. It also provides regular 6½% loans and Section 312 HUD loans for rehabilitation.

8. Insurance and Pension Regulation. Some commercial banks which have in the past originated many mortgages which were then sold to insurance companies note that the life insurance industry's investments in city housing have dropped drastically. Without a repurchase outlet, commercial banks are unwilling to originate as many new mortgages.

Federal reinvestment efforts relative to the life insurance companies were focused under the Johnson Administration on a $2 billion loan program for inner cities. However, the industry was disinvesting at a much faster rate than it was reinvesting, for a large net loss to the cities. John G. Heimann, now New York State's Housing and Renewal Commissioner, was the person who negotiated the arrangement for the President. In an interview with COMP, he summed up developments in the insurance industry as follows: "I was had."

Pension funds are subject to the same kinds of criticism as life insurance companies, namely that a declining proportion of their investments (3% of private funds) are in residential mortgages. No direct action has yet been taken to encourage pension funds to invest more in mortgages, but the new Employee Retirement Income Security Act (ERISA) has brought private funds under Federal regulation.

Illinois has responded to the problem by including life insurance companies in its 1975 fair lending laws.

Massachusetts has moved to regulate the casualty and insurance companies, which were seen as contributing to neighborhood deterioration by not making tenant or homeowner insurance policies available to residents of inner city communities. The State Insurance Superintendent created an assigned risk pool for high-risk insurance policies, but state officials say that the companies have been loading the pool with poorly written policies and are now using their heavy loss rate on the pool to demand a 50% increase in premiums.

Texas has long required insurance companies to keep a fixed proportion of their assets invested within the state.

9. Community Banks. The only state that runs a fully fledged bank is North Dakota, which started nearly six decades ago with an investment of $2 million. It has been earning about eight times that much annually, and now has assets of nearly $400 million. About three-fourths of the bank's deposits come from the state, but it has 4,000 other accounts. The largest single category of loans is for housing (35 million), with farms and students following behind in that order. Some of the loans to lender or direct housing loan programs involve financing authorities that have been compared to the Bank of North Dakota, but they do not offer banking services and usually make only one kind of loan.

10. City taxes and services. A major requirement for reinvestment is adequate city services and equitable property tax systems in deteriorating neighborhoods. COMP's City Housing Report #2 (pp. 11-13) describes how slow property tax reassessments contribute to acceleration of neighborhood decline. By failing to adjust assessments to reflect changes in property values, property tax rates decline in upwardly transitional neighborhoods and rise in deteriorating neighborhoods. This link between city tax policies and neighborhood deterioration has been established in cities such as Baltimore and Philadelphia.

In Alabama, a successful suit against the City of Mobile by the National Association for the Advancement of Colored People (NAACP) charged that at-large election of city council members denied black neighborhoods representation, resulted in inequitable service delivery and was unconstitutional. COMP segregation data were cited in this case.

A similar case in Louisiana, against the City of Shreveport (the most segregated city of 109 ranked in COMP's Newsletter II:1) also resulted in a Federal court order to provide for neighborhood election of council members to ensure better representation and more equitable service delivery.

Although a 1971 suit against the State of Massachusetts by some older commercial firms objecting to "121A" tax abatements to new firms failed, the suit had the effect of changing administrative regulations to eliminate these abatements, and provide for 100% valuation for all property owners. However, it is alleged by Massachusetts officials in other departments that "pencil" (unofficial) abatements are given. The unexpected side effect of the suit and the state's response to it is that residential property owners are paying more than they used to, since they had been favored prior to 1971 as against commercial institutions.

In Mississippi, the mayor of Jackson proposed a new form of government which would replace at-large election of its commissioners with district elections, but the proposal was rejected in a referendum in February 1977. The Lawyers Committee for Civil Rights under Law is now suing the city, and similar suits are under way in other Mississippi towns.

New York City has provided tax abatements to encourage rehabilitation of older housing, under the J-51 program, and new construction, under the 421 program.

Several Texas cities, including the two largest, Dallas and Houston, have been sued to institute district election of council members on the same principles as the Mobile and Shreveport cases. COMP provided expert testimony in the Houston case, which is still in Federal court.

ACTIONS

	Federal	ALABAMA	ALASKA	CALIFORNIA	COLORADO	CONNECTICUT	DISTRICT OF COLUMBIA	FLORIDA	ILLINOIS	Chicago	INDIANA	KENTUCKY	LOUISIANA	MAINE	MASSACHUSETTS	Boston	MINNESOTA	MISSISSIPPI
1. Public deposits					●													
2. Mortgage disclosure	●								●						●			
3. Credit needs	●					●				●								
4. Fair lending	●			●			●		●						●		●	
5. Mortgage review				●			●									●		
6. Mortgage support	●		●	●		●		●			●	●		●			●	
7. Direct programs	●			●	●										●		●	
8. Pension & Insur. Reg.	●								●						●			
9. Community banks																		
10. City taxes Service equity		●											●		●			●
TOTALS	6	1	1	4	2	2	2	1	3	1	1	1	1	1	5	1	3	1

	NORTH DAKOTA	NEW JERSEY	NEW YORK	New York City	OREGON	Philadelphia	RHODE ISLAND	SOUTH DAKOTA	TENNESSEE	TEXAS	Dallas	Houston	UTAH	VIRGINIA	WISCONSIN	TOTALS
1. Public deposits				●									●			3
2. Mortgage disclosure		●	●													5
3. Credit needs																3
4. Fair lending			●												●	8
5. Mortgage review			●			●										5
6. Mortgage support		●	●					●	●					●	●	15
7. Direct programs		●	●	●	●		●						●		●	12
8. Pension & Insur. Reg.										●						4
9. Community banks	●															1
10. City taxes Service equity				●			●			●	●	●				9
TOTALS	1	3	5	3	1	1	2	1	1	2	1	1	2	1	3	65

REINVESTMENT: PROPOSALS

The proposals described below are in various stages of development. Some are ideas which are being considered by individual legislators or administrators. Others have been introduced in the legislatures and have a high probablility of becoming law.

1. Public Deposits. The concept of using public local funds for public purposes appears to have a future. In California, the Los Angeles County Treasurer's difficulty in monitoring Federal mortgage disclosure data is being met by a proposal from the Center for New Corporate Priorities and the Southern California Association of Governments for how to develop and implement an effective system.

Colorado Republican State Representative Jim Reeves has co-sponsored a bill to prevent the State Treasurer from using deposit placement for reinvestment or other social purposes. In an interview with COMP, Reeves described his intent as follows: "These administrative procedures are usurping the authority of legislature. Also, it is interference with the free enterprise system." However, Reeves says, "The bill isn't doing well. It will probably get defeated in the Senate. Local people want to be able to do the same thing as the State Treasurer."

2. Mortgage Disclosure. The existing Federal mortgage disclosure legislation, as implemented by the Federal Reserve Board's Regulation, does not require information on the portfolio of existing mortgages, only new additions during the reporting year. In addition, no information is required on the source of deposits by census tract of the depositor. Finally, certain institutions, notably mortgage bankers, are excluded. Proposals have been made to address these weaknesses.

The first two are dealt with in the New York State Banking Department's Supervisory Procedure G-107. However, the Federal law distinguishes between mortgages originated and mortgages purchased by the reporting bank. New York State is attempting to use the Federal definition retroactively, in order to maintain the exemption of state-chartered institutions from compliance with Regulation C.

There is a bill in the California legislature to add savings deposit data to the mortgage disclosure requirements.

Connecticut's Bill 1399 combines mortgage disclosure requirements with fair lending regulations.

Washington's Financial Institutions Disclosure Act will require separate reporting of mortgage data to the state.

3. Credit Needs. The two main ways of ensuring equitable access to home mortgage credit are: (a) requiring financial institutions to meet the credit needs of their service areas as well as their deposit needs, and (b) ensuring that lending is fair and non-discriminatory.

The credit needs approach is embodied Federally in Senate Bill S.406, the "Community Reinvestment Act of 1977," as introduced by Senator William Proxmire in January 1977. It specifically states that "the convenience and needs of communities includes the need for credit services as well as deposit services." It gives permissions for mergers, branching and other actions by regulated institutions dependent upon compliance with this principle. Compliance means that an institution must "delineate the primary savings service area of the deposit facility," where such a service area is defined as "a compact area contiguous to a deposit facility from which such facility obtains or expects to obtain more than one-half of its deposit customers." It must then show how it is meeting area credit needs. For example, on a proposed new facility, it must "indicate the proportion of consumer deposits (any deposit less than $100,000 owned by individuals) obtained from individuals residing in the primary savings service area by the deposit facility that will be reinvested in that area."

A bill is being introduced in the Illinois legislature to deal with foreclosure. As part of their obligation to service credit needs in their area, bankers would be required to exercise "forebearance" in the event that a borrower misses a payment. Forebearance means offering the delinquent debtor an alternative to foreclosure: making up the late payment either immediately or over the remaining term of the loan. At the insistence of bankers, the bill is tied to shortening the redemption period for foreclosed property to avoid vandalism.

Massachusetts is attempting to reform its mutual savings banks elections to make trustees more responsible to depositors.

The New York State Banking Department has been petitioned by the New York Public Interest Research Group to amend Supervisory Policies SB2 and SL2 to add to the requirements for new branches that "the applicant satisfies the need for mortgage and home imporvement loans in its existing service areas."

The Department is also preparing a proposal to change the voting procedures of mutual savings banks, to make them more responsive to depositors' credit needs. Mutuals have democratic-sounding charters but in practice their boards of directors are self-perpetuating. Details of the New York State proposal were not yet available to COMP, but the following are the kinds of proposals that have been discussed.

Banks could be required to make available data on board meetings and executive compensation schedules, and their voting procedures could be modified to mandate broader depositor participation. Bank elections could be monitored by requiring annual solicitation of proxies and notice of meetings and election and nomination of trustees through open meetings. Conversion to stock association could be prohibited unless the institution can demonstrate a credit advantage to the neighborhood. Voting could be limited to residents of institution's primary service area.

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4. <u>Fair Lending</u>. <u>California</u>, the leader in introduction of Fair Lending regulations, is proposing to go a step further, to require that real estate agents and brokers present prospective home buyers with a range of financial alternatives. The regulations would be administered by the Business and Transportation Agency's Department of Real Estate.

Another important proposed change in California's regulations would require that banks advertise residential lending along with deposit services as part of an "affirmative marketing plan." The plan might entail publication of disclosure data quarterly, with a summary going to all depositors.

In <u>Illinois</u>, community groups are concerned about the lack of enforcement provisions in the existing Fairness in Lending Act. The Metropolitan Area Housing Alliance has developed a bill, introduced by Rep. Michael Holewinski, which would: require a financial institution to give written notice to an applicant of his or her rejection for a mortgage loan; would define reasons for rejection which would not violate the law; would establish a mortgage review board to review complaints administratively and recommend to the Attorney General when prosecution of the bank seems appropriate; and, finally, would provide for damages to the rejected applicant and mandate an affirmative marketing plan for the offending bank.

<u>Connecticut</u> has a fair lending bill under consideration, # 1399, combined with mortgage disclosure.

<u>Nebraska</u> is considering legislation which would require lenders to provide equal opportunity to applicants "on an individual basis."

<u>Michigan</u>'s proposed fair lending bill would be extended to cover the appraisal process, to ensure that appraisals are not discriminatory.

<u>Pennsylvania</u>'s Legislature's Business and Commerce Committee has been working on a fair lending bill.

Washington's proposed Financial Institutions Disclosure Act prohibits the "unfair practice" of using neighborhood considerations deciding whether to make a mortgage loan.

5. Mortgage Review. Mortgage review procedures are incorporated in the fair lending law proposed in Illinois, and the mortgage disclosure law proposed in Michigan.

6. Mortgage Support. At the Federal level, the U.S. League of Savings Associations has been promoting the idea of greatly expanded coinsurance programs, which would mean government insurance of high-risk areas. The reaction of an anti-redlining activist at National People's Action to this proposal is: "This legalizes redlining. They want government insurance to meet the supposedly non-existent demand for mortgage loans in redlined areas. It's another HUD." The proposed coinsurance program would require higher interest from borrowers and exemption from state usury and forbearance laws.

State initiatives in this area involve refunding housing finance agencies which purchase mortgages or make "loans to lenders." A typical state official's reaction is that of New York Housing and Community Renewal Commissioner John G. Heimann who favors the U.S. League of Savings Association's coinsurance program and an increase in the usury ceiling. He points out that New York's ceiling (one of the lowest in the country) harms high-risk areas in the state the most since, with a limited supply of credit and no bidding for funds, the most secure areas receive highest priority.

7. Direct Programs. To ameliorate some of the adverse effects of Federal housing programs, it has been proposed that neighborhoods and cities be given full standing to petition HUD and sue the FHA or the Veterans Administration (VA) under certain conditions. An example would be when it can be reasonably alleged that there is undue concentration of FHA or VA-insured low-income lending to the detriment of a neighborhood. This suit would be especially important in the context of unregulated mortgage banking practices which use Federal guarantees to lend indiscriminately, and then contribute to neighborhood blight with fast foreclosure procedures. Another proposal is that HUD and VA be required to obtain certification of rejection by a conventional lender before making a subsidized residential loan.

California is considering a turnkey program for rehabilitation of older housing. Under this system the money for the rehabilitation will be advanced to local residents and will be regained when the house is put on the market.

Michigan's Governor, in his State of the State message, has proposed that the Michigan State Housing Authority develop grant and loan programs to assist deteriorating neighborhoods.

Two favored prescriptions of the 1960's, subsidy of interest rates for multi-family mortgage financing and building of more public housing, are missing from the above list. They are less often proposed by reinvestment advocates today because interest rate subsidies and housing projects are seen as boons to builders, not neighborhoods. Subsidized buildings have moved lower income people from their homes, but the goal of creating new lower income housing for them is often aborted by cost overruns.

8. Pension and Insurance Regulation. Pension funds and life insurance companies are major sources of long-term capital. Pension funds, for example, have $370 billion to invest. Yet little of this money is used for residential financing. About two-thirds of pension fund money is in stocks, and only about 5% in residential mortgages (less for private funds, more for state and local funds). Proposed requirements under Federal diversification principles in the 1974 Employee Retirement Security Act (ERISA) would encourage the pension funds to increase their residential mortgage investments.

There is concern among legislators in the Michigan State legislature about insurance company redlining, but no bills had been introduced at the time of COMP's survey.

9. Community Banks. Although the Bank of North Dakota is the only functioning, fully fledged state bank, there have been proposals for state and city banks elsewhere. New York is an example. A less far-reaching proposal, also brought up in a variety of guises and places, is to create local institutions which will consolidate Small Business Administration, Economic Development Administration and Community Services Administration programs such as lending, coinsurance, guarantee and mortgage market programs. An alternative is to promote local development banks along the model of Chicago's South Shore Bank.

10. City Taxes and Service Equity. More rapid tax assessment changes have been proposed to halt deterioration caused by the heavy tax load in areas where values are falling. Some cities are also being urged to take over buildings with back taxes owing on them more quickly in order to protect them and neighboring buildings from blight.

In Illinois, the land on which multi-family housing units (more than six apartments) are located, is assessed at the market value were it to be used for high rise apartment construction, where zoning permits such construction. Representative Ellis Levin is arguing that the state law applied to farmland, which assesses it at its market value for farming purposes but collects back taxes at a higher rate for three previous years should it be sold for development, ought also to apply to city properties which are not being used for their most lucrative possible purpose.

CONCLUSIONS

Although many of the reinvestment issues are unsettled, reformers such as National People's Action in Chicago and the Coalition Against Redlining in Los Angeles are convinced that changes in regulatory and incentive programs to improve the inner city reinvestment climate cannot wait. Their proposals are far more sophisticated than similar programs a decade earlier, and are based on the financial institutions' long history of public purpose as specified in their charters. Banks' charter commitment to serve the "convenience and needs" of their service areas, whether defined as depositor areas or lending areas, is being harnessed to bring them behind reinvestment targets. In the debate that is under way, an important consideration is that loans which might be unprofitable and fruitless for a single institution can become profitable and effective when backed by government disclosure and lending standards applied to all institutions.

PROPOSALS

		Federal	CALIFORNIA	COLORADO	CONNECTICUT	ILLINOIS	Chicago	MASSACHUSETTS	MICHIGAN	NEBRASKA	NEW YORK	PENNSYLVANIA	WASHINGTON	TOTALS
1.	Public deposits		•	•										2
2.	Mortgage disclosure		•		•						•		•	4
3.	Credit needs	•				•		•			•			4
4.	Fair lending		•		•	•			•			•	•	6
5.	Mortgage review					•			•					2
6.	Mortgage support	•												1
7.	Direct programs		•						•					2
8.	Pension & Insur. reg.								•					1
9.	Community banks						•				•			2
10.	City taxes Service equity					•								1
	TOTALS	2	4	1	2	4	1	1	4		3	1	2	25

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Council On Municipal Performance

REINVESTMENT: PUBLIC DEPOSITS

Under the Federal Home Mortgage Disclosure Act of 1975 and similar acts in California, Illinois, Massachusetts, New Jersey and New York, hitherto unavailable information on banks' mortgage lending practices is being made available to the public.

The impetus for this legislation—and other initiatives pending on both the state and Federal levels—comes from concern with "redlining" or the alleged bank practice of systematically denying mortgages in certain neighborhoods because of economic conditions or racial factors not strictly related to loan loss experience. Some argue that whole cities have been redlined in terms of mortgages on certain types of properties (*e.g.*, multifamily brownstones), and that this has hastened urban disinvestment.

Most bankers maintain that they do not redline, but reject loans on the basis of their loss experience in individual neighborhoods. However, some, such as I.J. Lasurdo, President of New York's Green Point Savings Bank, acknowledge that they would not grant mortgages in certain areas. While a debate continues over whether or not the practice of redlining in fact exists, the obvious deterioration of city housing has prompted governments to act, if not to curb the alleged practice, at least to mandate that additional information on residential loans be made public.

Some advocates of mortgage disclosure feel that the immense power that banks wield to destroy or revive neighborhoods should be brought under public control. Others, more moderate, think that their actions should be open to public scrutiny in order to permit planning for neighborhood reinvestment. In addition, many feel that public deposits should be invested so as to encourage banks to respond to perceived social needs.

Action by individuals and organizations to move their deposits to more responsive banks, known as "greenlining," was advocated by Chicago's Citizens Action Program. Key anti-redlining community organizers like National People's Action in Chicago are now demanding regulatory action on the part of government.

In fact there is a long tradition of public involvement in banking. State or Federal governments grant bank charters. As a result, bank regulation is highly restrictive. For example, Federal Reserve Regulation Q sets a limit on the amount of interest that banks can pay small depositors. The rationale behind the resulting artificially low interest on savings (and the ¼% differential allowed to savings institutions) is that potential mortgage lenders will have access to low-cost savings and can continue to make available low-cost loans for housing. Anti-redlining activists argue with some cogency that banks have eaten the carrot without budging—realizing the advantages of Regulation Q without being moved in the mortgage investment direction sought by the regulators.

On the municipal level, former New York City Finance Administrator Roy M. Goodman introduced social considerations in city investing as long as ten years ago. His approach was to deposit city funds in commercial banks in ghetto areas, in return for a commitment by the banks to make loans to small businesses.

The argument of those who favor using social factors in allocating government deposits is that banking services are highly regulated and standardized, and that public agencies have much discretion which, in the absence of published performance criteria, would tend to be used for political purposes. Campaign contributions or the connection of banking officers with political parties and elected officials have often played a part in decisions on where to place public funds. Therefore, making the criteria for allocation of public deposits standardized and (especially where the potential for competition on interest or service grounds is limited by law) socially relevant would, it is argued, improve the functioning of both the public and private sector.

Social criteria could include such diverse considerations as the equal employment practices of banking institutions or their willingness to make loans for pollution control equipment.

However, the use of mortgage funds is peculiarly applicable as a social factor because it is at the heart of the financial crisis of the major U.S. cities. If Northeastern banks could be persuaded to redirect more of their mortgage loans from suburban and Sunbelt real estate speculation back to rehabilitation and reinvestment in the urban neighborhoods where most of their deposits come from, this would be a major step forward for the older cities. New York State banks respond that the state's 8½% ceiling on interest discourages loans. Anthony

Nicholas, vice president of Citibank, has testified that "the 8½% legal ceiling must be eliminated." City and state governments need to review such policies of their own which may hinder city reinvestment, but any incentives which encourage banks to make mortgage loans in the central cities should be viewed with respect. Use of public deposits is not a total solution, but could be a useful signal of public policy. As former New York State Superintendent of Banks John G. Heimann says, "It couldn't hurt."

Northeast cities could learn from the example of the State of Colorado which has introduced a unique approach to encouraging social responsibility among banks. This widely reported but so far little emulated program was instituted by former State Treasurer Sam Brown in 1975.

The Treasurer invites competitive bids from banks and savings and loan associations for the deposit of state funds. While the placement of state funds is made as a result of the competitive bidding process, interest rate adjustments are made to the bids on the basis of lending policies the Treasurer is trying to encourage. Banks receive upward adjustments on the basis of their "activity ratios" in the following areas: student and small business loans, agricultural loans, and low-cost and older housing loans. In the competitive bidding, banks compete with the other banks in their economic region (the state is divided into four economic regions). The savings and loan associations compete on a state-wide basis. The Treasurer has considered additional criteria such as loans to minorities and women.

A more modest effort to deal with the social responsibilities of banks has been made by the State of Illinois which requires that when a bank submits a bid for the deposit of state funds, the bank must include a commitment executed by the president that: "The —— Bank pledges not to reject arbitrarily mortgage loans for residential properties within any specific part of the community served by the bank because of the location of the property. The bank also pledges to make loans available on low and moderate income residential property throughout the community within the limits of its legal restrictions and prudent financial practices." There are, however, no enforcement procedures in the Illinois law.

A different approach was taken by the Chicago City Council in 1974 when it passed an ordinance stating that "no [city] money shall be deposited in any bank or savings and loan association until it has been designated by the City Council as a depository." The City Comptroller receives information regarding the residential, consumer and commercial lending practices of the institution applying to be a depository. Deposit information on savings and checking accounts must also be submitted. For loans made within Chicago and for deposits from Chicago residents, the information must be provided by census tract. In addition, each institution must pledge not to redline. After reviewing the information about the practices of a bank the City Council decides whether or not to designate it as a depository. This was the first such law in the nation.

Many banks have chosen to forsake the city funds and failed to provide the requested information. Over the past three years about half of the eligible Chicago banks have complied with the city's disclosure requirements.

A similar reluctance of some banks to change their mortgage practices even if it means forgoing profitable government deposits was displayed in Utah where the State Treasurer, David Duncan, committed over $5 million in state funds to be deposited only in banks that make mortgages in "high risk" neighborhoods. Not one bank has so far taken the state up on its offer.

The Chicago deposit program seems to be working, while the Utah program so far does not. In both cases, however, the carrot was publicly identified. The banks were apprised of what they could gain or lose by complying with the requests for information on mandated lending policies.

A more flexible, but also more arbitrary, reinvestment program was launched in New York City when its Commissioner of the Treasury, Jay E. Butler, wrote to the 42 New York City mutual savings banks in 1976. The Treasury is responsible for allocating to banks the valuable Court and Trust Fund Deposits. These deposits are left with the city through abandoned property, landlord-tenant or testamentary court decisions. Under present New York City laws and court practices the deposits may not be pooled, must remain in the county of jurisdiction, and must be left in passbook accounts which are subject to Regulation Q deposit ceilings. Therefore there is little scope for the Treasury's shopping around for higher interest rates on the basis of the long average time the funds are on deposit (five years is common) and the substantial size of many accounts.

Commissioner Butler asked the banks for information on:

1. Total deposits, within New York City and outside New York City.

2. Dollar volume of mortgages by location (inside and outside New York City).

3. Dollar volume of mortgages within depressed New York City areas.

4. Loans to restoration corporations.

5. Whether the bank handles food stamps.

Savings banks were singled out because ten times more of their money is in mortgages than commercial banks' money: 67% of assets *vs.* 7%, respectively. In New York State they hold $45 billion in mortgages, more than all other financial institutions (including insurance companies and pension funds) combined. They have $48 billion in deposits in New York City alone (most of it in Manhattan), compared to the $53 billion total assets of Citibank, the second largest bank in the world.

Commissioner Butler's intention was to direct the city's money to banks which show greater social responsibility in addressing New York's mortgage needs. Fifteen of the 42 banks failed to respond to his questionnaire, with one, American, flatly refusing to cooperate.

COMP analyzed the data from the responses that were received and spoke with the officials involved in allocating funds. As an organization concerned with open government and measurable public objective, we propose that the mort-

This table shows how a publicly announced incentive system might work. The statistics are based on spread sheets provided by the New York City Treasury Department showing responses to a questionnaire sent to 42 New York City savings banks by Commissioner Jay Butler. Of the 42 banks surveyed, 23 provided full deposit and mortgage answers, 4 provided incomplete answers, and 15 failed to respond altogether (an asterisk indicates non-response).

**IMPLICATIONS OF MORTGAGE PARITY CRITERION
FOR PLACING COURT & TRUST DEPOSITS IN NEW YORK CITY SAVINGS BANKS**

	Total Deposits, End 1975 $million[1]	Deposits Rank (out of 26)[2]	NYC/ Total deps Per Cent[3]	NYC Mortgages, End 1975 $million	NYC/ Total Mortgages Per Cent[4]	Mortgage Parity Per Cent[5]	Parity Rank (out of 24)[6]	Actual City Deposits $thousand	Implied Target Deposits $thousand[7]	Implied Change $thousand[8]
Bronx County										
Dollar	2,062	4	88.1	727	45.1	51.2	3	2,202	8,083	+2,881
Eastern	664	17	79.0	133	26.7	33.8	14	672	0	− 672
North Side	400	23	98.9	113	38.7	39.1	12	324	791	+ 467
Kings County (Brooklyn)										
Anchor	*	—	*	*	*	*	24	395	0	− 395
Brooklyn	*	—	*	*	*	*	24	173	0	− 173
Dime of New York	3,368	2	73.6	379	17.0	23.1	20	679	0	− 679
Dime of Williamsburgh	*	—	*	*	*	*	24	86	0	− 86
East New York	*	—	*	*	*	*	24	747	0	− 747
Fulton	*	—	*	*	*	*	24	85	0	− 85
Greater New York	1,260	9	98.1	170	15.5	15.8	23	678	0	− 678
Green Point	781	13	93.3	427	61.5	65.9	4	2,488	2,989	+ 501
Hamburg	312	20	88.7	100	30.2	34.0	13	69	700	+ 631
Independence	726	14	81.5	166	37.1	45.5	9	220	1,162	+ 942
Lincoln	1,645	7	89.2	487	35.0	39.2	11	361	3,409	+ 3,048
Metropolitan	*	—	*	*	*	*	24	493	0	− 493
Roosevelt	311	21	84.9	207	62.0	73.0	2	162	1,449	+ 1,287
Williamsburgh	1,699	6	81.7	188	15.4	18.8	21	1,039	0	− 1,039
New York County (Manhattan)										
American	*	—	*	*	*	*	24	113	0	− 113
Bowery	3,762	1	*	477	11.8	*	24	2,280	0	− 2,280
Central	*	—	*	*	*	*	24	202	0	− 202
Dry Dock	1,507	8	91.2	199	22.3	24.5	18	338	0	− 338
East River	1,176	10	94.2	*	*	*	24	196	0	− 196
Emigrant	*	—	*	116	7.1	*	24	1,000	0	− 1,000
Empire	563	19	93.0	194	45.5	48.9	8	371	1,358	+ 987
Franklin	*	—	*	*	*	*	24	1,136	0	− 1,136
Greenwich	1,823	5	91.1	643	37.1	40.7	10	481	3,101	+ 2,620
Harlem	*	—	*	*	*	*	24	603	0	− 603
Manhattan	1,108	12	84.3	196	20.3	24.1	19	152	0	− 152
New York Bank for Savings	2,735	3	90.9	638	30.5	33.6	5	1,512	4,466	+ 3,954
Prudential	*	—	*	*	*	*	24	308	0	− 308
Seamens	*	—	*	*	*	*	24	1,052	0	− 1,052
Union Dime	1,125	11	86.6	121	15.5	17.9	22	2,172	0	− 2,172
United Mutual	698	16	79.6	220	40.6	51.0	6	883	1,540	+ 7
Queens County										
College Point	142	26	83.0	*	*	*	24	314	0	− 314
Flushing	*	—	*	*	*	*	24	772	0	− 772
Jamaica	*	—	*	*	*	*	24	554	1,099	+ 85
Long Island	*	—	*	*	*	*	24	340	0	− 554
Queens County	581	18	90.0	· 135	29.3	32.6	16	738	0	− 340
Richmond Hill	417	22	95.1	211	65.9	69.3	3	61	945	+ 207
Ridgewood	711	15	87.7	157	27.3	31.1	17	1,014	1,477	+ 1,416
Richmond County (Staten Island)										
Richmond County	171	25	100.0	125	100.0	100.0	1	305	875	+ 570
Staten Island	329	24	100.0	101	50.4	50.4	7	200	707	+ 507
Total, New York City	*30,476*			*623*				*27,970*	31,151	+ 3,531

[1]Total deposit information is available for every bank in various industry directories. Figures are shown only for those who provided them in the questionnaire in order to indicate a base for the ratio in the third column.
[2]The rank is provided only for the 26 banks which provided total deposit data.
[3]This is the ratio of New York City deposits to total deposits. Industry spokespersons caution that some banks may have a higher proportion of depositors resident in the suburbs while maintaining deposits near their place of work in the City.
[4]If the total of all the mortgages in this column, $6.2 billion, is compared to the total of all deposits, $30.5 billion, the ratio is 20%, considerably lower than the overall average for all mutual savings banks – nearly 70%. In other words, while savings banks are putting $70 out of every $100 deposits into mortgages, only $20 of these mortgages are for New York City buildings.
[5]New York City/total mortgages divided by New York City/total deposits.
[6]Non-responding banks are assigned the lowest rank.
[7]Based on mortgage parity index. Banks which failed to provide enough information to calculate mortgage parity are given target deposits of $0, as are banks which show a figure of less than 25% of mortgage parity.
[8]This is simply the difference between Projected Target Deposits and Actual City Deposits. A minus indicates a policy of withdrawal of municipal funds from the bank. A plus indicates the magnitude of increase on deposits by the mortgage parity criterion.

gage criteria being applied by the Treasury be publicly specified.

In preparing its analysis and hypothetical mortgage parity criteria, COMP took into account the ratio of New York City deposits to total deposits, which permits a fairer comparison of mortgage data than if all deposits are assumed to originate from New York City. However, industry spokespersons caution that some banks (*e.g.*, those in Manhattan) may have a higher proportion than others of depositors resident in the suburbs but maintaining deposits in the city near where they work. This bias is difficult to determine and deal with, without census tract data on the residence of depositors such as is required by Chicago.

The index that COMP created divides NYC mortgages to total mortgages by NYC deposits to total deposits. If more deposits come from outside New York City, one could expect more mortgage loans to be made outside the city. Only the two Richmond County banks take in all their deposits from New Yorkers. In all of the other instances the index adjusts the ratio of New York City mortgages to total mortgages upward to reflect the suburban source of some of their deposits. Data on New York City mortgages are now public for all New York banks under Regulation G-107 of the New York State Banking Department. Each bank must maintain, by census tract, a breakdown of the different types of mortgage loans it has made. Deposit information is also collected, but (in contrast to Chicago where it is public) is being treated by the state as confidential. However, Deputy Superintendent of Banks William Woodward III says, "This decision is subject to review."

COMP's hypothetical mortgage criteria, shown in Table 1, use the following decision rules:

1. Eliminate from consideration for new deposits those banks which do not respond to the Treasury's request for information on deposits.
2. Eliminate from consideration banks which have less than 25% of their mortgages within New York City, after dividing the mortgage ratio by the proportion of total deposits from city sources.
3. Allow a target of $7,000 in Court and Trust Fund deposits for every $1 million in New York City mortgages.

The target deposit levels which would result from this procedure could be used in conjunction with other factors such as the services provided by the different banks in handling accounts, and whether they are opening or closing branches in declining neighborhoods. Public standards for other criteria could also be specified.

RECOMMENDATIONS

Public deposits are by themselves not the answer to disinvestment, but they can be an important part of a solution, especially if there is public support for banks which are making an effort to make city mortgages. It would help individuals seeking guidance on making deposits if state and local governments were to move toward more open social criteria for allocation of public deposits. Competitive bids for interest yield and service provided should remain the basic criteria for deposits, but social criteria become especially important where deposits are subject to Regulation Q or other yield limitations. A key social factor is the proportion of mortgage loans made by a bank within the area from which its deposits are drawn. In New York City and other municipalities such a criterion could be applied in the following way:

1. Where neither Federal, state nor local disclosure requirements make public the source of deposits, send out an annual questionnaire to area banks interested in public deposits, requesting information on the residence of depositors by census track. Exclude from consideration banks that do not respond.
2. If the city is concerned about loans to depressed areas and wants to give "extra credit" for loans in these areas, it should specify the census tracts to be counted as being depressed, and should ask about the average length of mortgages and average downpayments.
3. Make public the questionnaire results and the criteria by which public deposits are to be allocated. In addition to use of mortgage data the published criteria might include service standards (processing time, accounting accuracy, method of interest rate computation) and other possible considerations such as whether the bank advertises its loan program, whether it has opened or closed branches within the city or whether it handles food stamps.
4. On the basis of published criteria, develop target deposit levels for each bank annually and move funds into banks below their target.

Professor Robert Bish of the University of Maryland, noting the life insurance and pension assets, as well as savings, of neighborhood residents (even in poor areas), concludes, "Locally generated funds, if channeled into neighborhood economies, would be more than sufficient to end neighborhood disinvestment." Public deposits are one way of encouraging the mobilizing of these assets for economic development and stability.

This Newsletter is the first of a series, funded by a grant from the Ford Foundation, on reinvestment. The material in this Newsletter is based on information provided by the Savings Bank Association of New York State, the National Training and Information Center, the New York Public Interest Research Group, the Woodstock Project, and other institutions and individuals identified in the text. It was prepared by John Tepper Marlin, formerly an economist with the Federal Reserve Board and the Federal Deposit Insurance Corporation.

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The CHAIRMAN. Thank you very much Mr. Weiler.

STATEMENT OF CONRAD WEILER, ALLIANCE FOR NEIGHBORHOOD GOVERNMENT, QUEENS VILLAGE, PHILADELPHIA

Mr. WEILER. Thank you very much, Senator. I want to thank you for the opportunity to testify. I am here on behalf of the Alliance for Neighborhood Government, which is an organization of neighborhoods, several hundred members from various cities.

First of all: The bill is something we support. However, we would like to suggest some changes in it to strengthen it.

Our overall concern is not reinvestment so much as reinvestment for whom.

I come from a neighborhood which is a perfect example of what Mr. Holman was talking about. Many of the neighborhoods that my association represents are neighborhoods in which reinvestment is no longer the problem, but what kind of reinvestment, and reinvestment for whom.

We would like to strengthen this bill so it would show for whom the reinvestment is being made, who is benefitting from it.

To be very specific, we would like to see the bill strengthened to give us some measures as to whether reinvestment is simply bringing investment from the suburbs to the city, but not helping the lower and moderate income people.

The neighborhood is more than just the territory, the neighborhood is the fabric of interrelationships among the people living there.

We are afraid that reinvestment is just going to recycle those neighborhoods, bring in the upper middle class professionals and so on.

So I would suggest several additions to the bill.

First: The bill should include the Federal National Mortgage Association, which on numerous occasions has expressed a clear interest in middle income housing in the inner city.

By middle income housing, I am afraid that they mean something more than what other people—I assume they mean housing in the $30.000, $40,000, $50,000, $70,000 price range.

If so, if a way could be found to bring FNMA under this bill, I think this would be a step forward in showing the impact of reinvestment.

Second: Sort of positive criteria for evaluating reinvestment might be advisable. I would suggest simply criteria showing the effect of reinvestment on achieving and maintaining both racial and income diversity. Also the effect of reinvestment in causing economic dislocations, driving people out of the neighborhood.

Third: I would suggest there be a common basis of collection of the data among the various agencies that will be supplying it, because without a common basis, such as Census tracks, the neighborhoods which will try to use this data will be at a great disadvantage in trying to bring it all together.

Finally: I would suggest—excuse me. The fourth point is that the responsible agencies consider some action where necessary—I realize this will be very controversial—to discourage credit actions which result in destabilizing neighborhoods, too much reinvestment, or forcing economic dislocation.

Finally: I would suggest to tie together all of these things that a consolidated statement be issued, and I would suggest the name be "Neighborhood Reinvestment Impact Statement", suggestive of the environmental impact statement.

And that public hearings perhaps may be part of the community development public hearing, citizen participation process be required along the lines Mr. Nader and others have talked about.

This would be especially important if community development is amended as we hope it will be to include a stronger role for neighborhoods. They are presently not mentioned in the bill specifically as part of the citizen participation process.

So that is the summary of my remarks. Thank you very much.

[The complete statement of Mr. Weiler follows:]

PREPARED STATEMENT OF CONRAD WEILER, CHAIRMAN, ALLIANCE FOR NEIGHBORHOOD GOVERNMENT

NEIGHBORHOOD DIVERSITY

Neighborhood diversity includes but is far broader than the concept of racial integration. Neighborhood diversity means, above all, socio-economic diversity—the mixture of people of different incomes, education, occupation and ethnic, religious and racial groups within a neighborhood. Implied in the socio-economic diversity of the population of the neighborhood is a diversity of the economic base and of land use, so that, residential, commercial and industrial uses are viewed as potentially compatible: single family homes with apartments, light industry wtih commercial, the corner store with single family homes, the artisan living upstairs and his workshop and store downstairs.

Occurring within the neighborhood—that is, a small urban area in which face-to-face contacts, personal knowledge, and pure democratic decision making can exist—diversity is an historic turning away from two centuries of homogenization, specialization, centralization and regionalization of residence, workplace, recreation, shopping and public affairs erected by industrialization and privatism in the American metropolis.

NEIGHBORHOOD DIVERSITY AS A GOAL OF PUBLIC POLICY

Neighborhood diversity is an extraordinarily desirable goal of public policy because of the profound social, economic and political effects it could have on American cities and life generally.

Neighborhood diversity could help, obviously, to promote racial integration. Diversity could help and the isolation of the old from the rest of society. Diversity could help fight crime by having many different eyes on the same streets all the time. Diversity could reduce the destructive effects of the private automobile and reduce the need for public transportation by putting people closer to where they want to be for jobs, shopping or relatives, by emphasizing accessibility over mobility. Diversity would reduce both panic selling and speculation in real estate by reducing the importance of "blockbusting" of any kind, whether in terms of social change, or in terms of introducing commercial uses into residential areas. Diversity would help to introduce human scale technology into the city, and make conservation of resources more effective. Diversity would help restore holistic, family medicine and reduce the rigidity of sex roles.

Most important, diversity could transform politics and public life, so that each neighborhood assembly debates and deals with all the issues in society, because they are contained within its membership, not just those issues of a single narrow economic class or ethnic outlook. Diversity would reduce or eliminate the need for busing to promote better schools, for forcing blacks into white neighborhoods for housing purposes. Diversity would end the split of urban politics into either reform or party boss factions, and unify both the innovation and objectivity of reform and the personal contact and corrective to bureaucratic inhumanity of the ward boss at a controllable, overseeable neighborhood level.

Diversity would provide the ordinary citizen with access to decision making and government without dependence on ever more remote regional or national interest groups, parties and candidates.

STRATEGIES FOR ACHIEVING DIVERSITY

There are two great strategies developed in public policy for achieving neighborhood diversity, based on how one views the growth patterns of our metropolitan areas. The strategy that has dominated so far (to the extent diversity has been an important effective concern of action at all) has focussed primarily on racial diversity and is based on a centrifugal model of metropolitan growth.

In the centrifugal model, racial and income groups are arranged in a hierarchy of rising status from the center of the city outward. The whites are fleeing the city, factories are moving out, and the cities are dying. Public policy does little or nothing to stop or even slow down this basic centrifugal trend but merely tries to achieve racial diversity by trying to make blacks move even faster than the whites so that blacks will be dispersed into the outer city and suburban housing. This strategy has been largely unsuccessful because it actually accelerates the movement of all populations in the metropolitan industrial system of homogeneous specialized land use while doing almost nothing to change the basic socio-economic forces promoting homogeneity. This may be called the centrifugal force strategy—forcing blacks outwardly faster than whites.

The second strategy, a long-range strategy, has been to attract the middle class back to the city, primarily through massive and strategic applications of federal urban renewal grants. This strategy, the recycling strategy, after 20 to 30 years of patient laying of groundwork is now beginning to bear fruit.

In most of our big cities, it is now obvious that some of the middle class are returning to old neighborhoods in and around the downtown, preserving and restoring old houses, creating new artist quarters and attractive and often avant-garde shopping areas, staging city festivals, helping to revive ethnic pride, serving as community organizers to fight crime or superhighways or to organize green-lining campaigns or to build basement trout tanks. While this revival and rediversification of old city neighborhoods may still be largely unnoticed by urban policy analysts, anyone who actually lives in old city neighborhoods and looks around in Boston, Philadelphia, Baltimore, Washington or dozens of other cities knows it is happening.

In the next 5 to 10 years this return to the city—spurred by the gasoline shortage, disillusionment with suburban life, residential taste changes, rising cost of new housing, and many other factors—will become the dominant trend of metropolitan politics.

But will it achieve diversity? Though it will achieve more diversity—or destroy it less to be more accurate—than did the great two cenury era of outward suburban growth—because recycling will occur on an already thoroughly urbanized base, recycling by itself is at best neutral and in the long run also hostile to diversity, because recycling is really metropolitan geopolitics. Recycling is simply the strategic replacement of the poor by the middle and upper middle class through public policy. Recycling is not any more than suburbanization an attempt to create diversity, except in an abstract statistical sense in that city populations as a whole will become more statistically diverse if the middle class returns.

THE NEIGHBORHOOD AND CITY RECYCLING

The neighborhood concept offers us a unique opportunity to restructure city recycling so that is not simply a re-suburbanizing of the city, but the creation of a third and true strategy for diversity in metropolitan areas. For the first time, recycling puts those on the side of diversity in the position of being conservative, of not forcing social change, but if trying to absorb and diffuse it to preserve, not force, diversity.

How would this occur?

The answer lies in the redevelopment process itself. As the neighborhood redevelops—or as it is "preserved", to use a HUD phrase—several things happen. There is an increase in private investment, sometimes preceded but usually followed by an increase in public investment. Property values suddenly increase, often dramatically. Abandoned, "bombed-out" buildings suddenly become "shells for restoration by urban pioneers." New people move into the neighborhood and these new people are typically artists or middle or upper class professionals. At first, they move into the empty buildings or ones being sold in the normal neighborhood process of real estate turnover. Often these newcomers establish or attract new businesses and give new life to old ones. They become active and actually help to improve the neighborhood. Typically, they value the diversity of the neighborhood highly and originally moved to the neighborhood because they believed in a diverse, urban neighborhood life style. Up to this point, neighborhood diversity has increased as a result of recycling.

Unfortunately, the diverse recycling or redeveloping neighborhood is merely at a temporary midpoint between what might have been a largely poor or working class homogeneity and an emerging upper middle class homogeneity.

Just as racial stability in a neighborhood has cynically but perhaps accurately been called "the time between the first blacks moving in and the last white moving out," so diversity in the redeveloping neighborhood might be defined as "the time between the first upper middle class professional moving in to restore an old house and the last old-timer being moved out by rising property taxes and change in neighborhood life-style."

Unfortunately, the traditional urban policy fights of the past decades have obscured what is happening in redeveloping neighborhoods. Most of what is happening to recycle these neighborhoods and to progressively turn them over to the upper middle class is happening because of liberal *successes* in stopping the razing of neighborhoods through demolition-style urban renewal, fighting the destruction of neighborhood scale by introduction of public housing high rise, preventing the ripping apart of neighborhoods for superhighways, and by stopping red-lining of city neighborhoods.

What has been done as a result of these and other actions has been to restructure market preferences and investment parameters so that the private investor now has a new and potentially vast market of old city housing to exploit with virtually no adequate public policy controls to preserve such values as diversity. In part, this is because practically no one actually anticipated city recycling, and anyway, most urban policy analysts still gloomily anticipate the death of the city and support black population dispersal as the main liberal housing issue. Moreover, most of the basic political issues and institutions of our cities were established during the municipal reform movement of the turn of the century, which posed the conflict between local and regional, parochial and good of the whole, boss and good government, corruption and technical efficiency, neighborhood and centralization, stagnation and economic and social progress.

WHAT MUST BE DONE TO PRESERVE NEIGHBORHOOD DIVERSITY?

Once there is a recognition of the fact of city recycling and its vast potential either for resegregation of our urban neighborhoods or creation of true diversity in them, certain measures become logically necessary.

First, and profoundly important, is the establishment of the neighborhood as a legitimate and basic policy context for achieving diversity. This is the single greatest and most dangerous defect of the Housing and Community Development Act of 1974. Nowhere does the CD Act establish the framework by which to measure the professed goals of neighborhood diversity. It is clearly impossible to measure success or failure in achieving neighborhood diversity until a common neighborhood unit of observation is established for public policy. Furthermore, there must be a *single* neighborhood unit of observation, not the proliferation of "community" or "neighborhood" oriented programs now found in city, state and federal programs each of which establish different neighborhood boundaries, different specialized citizen boards, different deadlines and procedures—all of which further fragment the neighborhood to itself and to anyone trying to get a holistic view of the neighborhood.

In establishing the neighborhood as a context of public policy, it must be recognized that the neighborhood itself must participate in and play a major if not dominating role in defining itself. This is necessary not only to define a real, functioning neighborhood and not a bureaucratic vision of one, but also to establish the good faith with the neighborhood that will be necessary to deal with diversity and its enemies.

Second, neighborhoods must be given a formal, legal status with resources for necessary technical services, so that they can adequately participate as an equal in preserving and promoting diversity, and also be held responsible legally and politically for their actions. Thus, some form of neighborhood government is necessary whether required by federal law, or established by city ordinance.

Third, a reconceptualization and revision of present zoning, building code, planning and land-use controls must be undertaken, so that they do not promote only homogeneity, but also promote diversity. Zoning for example, must not rigorously separate residential categories by density and especially not rigorously separate residential from commercial categories.

Fourth, a serious revision of the real property tax must be undertaken, so that rising neighborhood property market values do not drive out persons on low and fixed incomes through radical increases in tax assessment between intrinsic improvements to the house and general appreciation of the neighborhood with at least the tax assessment increase on general appreciation of the neighborhood being deferred until sale of the property.

DIVERSITY AND REINVESTMENT

Finally, and perhaps most important, a whole range of new controls and procedure must be developed with the gentrifying and homogenizing effects of reinvestment. (Gentrification is the opposite of deterioration—it is the rapid increase of public and private investment in a neighborhood accompanied by the replacement of lower by higher income residents.)

Reinvestment is now underway in such programs as Neighborhood Housing Services, the Philadelphia Mortgage Plan, various greenlining efforts following from the fight against redlining, and in a great variety of publicly supported programs such as those listed in HUD's catalog "Neighborhood Preservation."

Some of these programs are so eminently necessary and represent an historic reversal of urban decline that it may seem the sheerest of folly to criticize them now. Yet, in truth, few if any of these programs have any inherent resistance to gentrification. It has been such an exhausting and overwhelming struggle to reverse the trend of urban decline that we never dreamed that our success might generate even worse problems. And, on the whole, these successes have not yet resulted in wholesale upper middle class homogenization of the "inner city" but they probably will in the near future, if not by themselves, then with the help of such massive reorientations of the private mortgage and construction industry as are proposed by the Forum One and Forum Two proposals of the Federal National Mortgage Housing Association. Here a National Cities Corporation, controlled directly by Presidential and Congressional appointees would influence the investment of billions of dollars, have the power of eminent domain, and direct its massive energies to providing "middle income housing in the inner city."

Clearly the time has come to anticipate events, for once, rather than wait until it is too late. Reinvestment must occur within a framework that will achieve, but not destroy neighborhood diversity. An excellent opportunity to do this is provided by Senator Proxmire's Bill S. 406, The Community Reinvestment Act of 1977. This Bill would call attention to the need for reinvestment in city neighborhoods and establish a mechanism for encouraging and monitoring the reinvestment process.

On behalf of the Alliance for Neighborhood Government I would like however to suggest several additions to the bill that in our opinion would greatly strengthen it.

First, the coverage of the bill should be extended to include the Federal National Mortgage Association. FNMA is perhaps even more important than the agencies already mentioned in the Bill, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Federal Home Loan Board, in creating and directing the actual flow of mortgages to or from city neighborhoods. Moreover, FNMA for several years now has been conducting studies of the market for "middle income housing in the inner city," has developed a specific legislative program to promote this kind of reinvestment and is right now in the process of conducting a national program publicizing their plans. Omitting FNMA from the coverage of this Bill would leave a great piece of the overall reinvestment process outside of the unified look at reinvestment the Bill attempts to create.

Second, criteria for evaluating reinvestment should be written into the Bill. We would strongly suggest that measurement of the effects of reinvestment on achieving and maintaining income and racial diversity in neighborhoods, and on economic dislocation of existing neighborhood residents whether tenants or homeowners should be included among such criteria. We are very concerned that reinvestment be not just for the few who can afford $50,000 or $75,000 town houses. We are very concerned that reinvestment and the return to the city not be merely a continuation of the suburbanization process of creating homogeneous upper middle class enclaves. I might add here that my own neighborhood organization, Queen Village Neighborhood Association, is very concerned about the problem and that the Philadelphia Council of Neighborhood Organizations as well as the Alliance for Neighborhood Government, have already taken positions against such economic dislocation and homogenization of neighborhoods.

Third, there should be a common basis for the collection of these data, perhaps census tracts, as in the Mortgage Disclosure Act, and a single agency responsible for collecting, publishing and perhaps evaluating the data. We are particularly concerned that there be a common basis for reporting so that the thousands of neighborhood groups in our cities can get hold of this data, interpret it, and perhaps take action of some kind. If each reporting agency uses its own format and reporting basis, it is likely that this will only make it very difficult for neighborhoods to play a role in monitoring the very process in which they have such a great stake. On the other hand, as the various green-lining campaigns have shown, neighborhoods armed with the right kind of information can accomplish a great deal in their own and in the public interest.

Fifth, that where it became clear from the data collected under the Bill that reinvestment policies are causing or leading to a destruction of neighborhood diversity or causing forced economic dislocation of residents, that the Boards of the various agencies covered under this Bill be required to take steps to discourage lending and other policies causing or augmenting these trends.

Finally: We would suggest a name for these data and the procedure that would symbolize the full intent expressed in the Bill. The name Neighborhood Reinvestment Impact Statement might serve this purpose, paralleling the Environmental Impact Statement that has done so much to open-up the process of spending federal money on physical improvements. Along these same lines, it might be well to require annual public hearings in cities on reinvestment, as expressed in the data anticipated in this Bill and the changes suggested here, or some other form of citizen review, perhaps requiring it as part of the citizen participation process under the Community Development Program.

NEIGHBORHOOD DIVERSITY AND AMERICAN CIVILIZATION

Achievement of neighborhood diversity is far more than a housing program. It is a program to transform American life: to finally overcome the conflicts and defects of industrial civilization, and to exploit the benefits of industrialization by merging them with an older tradition and also a newer vision of humanized civilization.

The CHAIRMAN. Thank you very much.

Ms. Greenwald, S. 406 provides for an ongoing review of lending practices, as well as a review in connection with applications to open new branches.

As a State regulator with considerable experience and with a fine record of effectiveness, do you find that the branch application process provides you with the most appropriate leverage to encourage community service on the part of banks?

Ms. GREENWALD. Yes, I do. It is an opportunity when the bank wants something for the bank department to say it wants something from the bank. So we find that is the most effective time for talking about it.

The CHAIRMAN. What can you do with a bank that is not interested in opening a branch, and is not doing anything in the community?

Ms. GREENWALD. Our experience is most banks do want a branch.

The CHAIRMAN. There are States in which branching is not permitted or is very limited.

Ms. GREENWALD. I realize that. Those States have many problems, one of which is they have no competition in the local communities.

When we wrote to your staff on this bill, we said we do not treat branches as an exclusive franchise. We have very much a probranching process.

I am afraid I really don't have a good answer for you. We do have one bank in Boston who has chosen, has told me, they will not come in for a branch as long as I am the bank commissioner, because they don't want to discuss their credit practices with me, except through the Mortgage Review Board, which reviews their practices. They are being penalized, though. They are not getting into the suburbs, where all of the other big banks are going. This bank is going to lose in the long run by saying we would rather wait until you are gone before we open any branches, rather than talk to the department about credit practices.

The CHAIRMAN. Do you think as a national initiative that this legislation might help to overcome opposition to branching, by providing that one of the criteria to encourage branching is a record of community service, and therefore a recognition that the banks that come in would be more likely——

Ms. GREENWALD. Yes, I do. The community groups in Boston—I pushed for statewide branching in Massachusetts, because I believe that is proconsumer. The community groups in Boston have a record of testifying against that legislation, because they have just this concern.

The CHAIRMAN. The picture that I think a lot of people have, it is an understandable picture for laymen, is that you get a big bank in Boston or Milwaukee, and they are not interested in Watertown or in some relatively small town on the outside. They come into the community, they are absentee owned. Top management is absent. Local citizens think of these banks as putting their money in Saudi Arabia or some place, not really interested in developing the local community.

Ms. GREENWALD. That is right. I think a bill like this answers some of those problems.

In Boston we work with the community groups, trying to resolve their dislike of statewide branching. That is how we came up with the idea that if a Boston bank wanted a suburban branch, the bank would have to give the banking department a letter of commitment to continue to serve the city, and continue to offer all of the services they now offered at their branches, plus eliminating any deficiencies of services in the city of Boston.

This method of handling branch applications came out of a dialogue with the community groups and it helped remove their opposition to allowing statewide branching. We got the compromise of going 15 miles out of the city, which does take the banks into the suburbs of Boston.

The CHAIRMAN. Mr. Marlin, some of the provisions of this bill are general statements of policy. We can't provide every detail of administrative procedure by statute. That has to be done, of course, by the regulatory agencies through regulations, and it empowers them to issue regulations to carry out the act.

From your knowledge of reinvestment initiatives at the State level, are there good examples of State or local regulations that would provide a model for the Federal regulatory agencies to carry out the intent of the act?

Mr. MARLIN. I think the best example of what you are asking for is probably California, which introduced fair lending regulations administratively through the department of savings and loan of the business and transportation agency.

The department introduced its regulations through 5 amendments to chapter 2 of title 10 of the California administrative code.

The five amendments relate to applications for new branches—or other changes in facilities of the kind we have been talking about—applications for mergers, public information and fair lending requirements and guidelines.

The changes spell out procedures for ensuring the lending institutions process loan applications equitably, and that they engage in what is called an affirmative marketing of loan services throughout their lending area. An affirmative marketing program of this kind was referred to by Gale Cincotta in earlier testimony.

The affirmative marketing feature requires lending institutions to maintain on file with the Commissioner an affirmative marketing plan. Such a plan must describe how the institution's marketing efforts, specifically including the making of loans, are designed to reach groups protected against discrimination.

The California regulations have four other interesting provisions. They incorporate two mortgage review boards of inquiry as part of the system for dealing with complaints of unfair lending practices.

Unlike Massachusetts, where the Boston mortgage board is a voluntary activity on the part of the banks, the California boards are part of the regulatory system.

The California regulations specify procedures for ensuring fair market appraisals of property on which a mortgage is sought. They specifically prohibit 10 types of discriminatory practices.

Finally, they offer guidelines for processing applications to ensure nondiscrimination.

The major difference between the California approach and S. 406 is that California institutions are permitted to define their service area quite broadly, more broadly than the charter area referred to in S. 406, which relates to the source of the deposits.

The CHAIRMAN. What is the attitude on the part of the banks? Are they resisting this or accepting it?

Mr. MARLIN. I understand, from talking to the author of these regulations, that he is persona non grata in California among the banking institutions, even though the Coalition Against Redlining complains that the regulations aren't strong enough.

However, in terms of bank cooperation with the regulations, I think it has gone fairly well. I am not aware of any great problem with the regulatory procedures or the lenders' compliance with them.

The CHAIRMAN. Are they strenuously trying to change the regulations?

Mr. MARLIN. I don't sense that that is what is going on in California. Anti-redlining groups are lobbying for stronger regulations but the S. & L.'s are cooperating with the ones that are in effect.

The CHAIRMAN. What you describe is a situation that would be different on the Federal level. Here we would have at least four bodies involved in regulating this, as I understand it, the home loan bank board and the three bank regulatory agencies.

Would that make a difference?

Mr. MARLIN. Not to mention the other agencies involved, like Housing and Urban Development.

The CHAIRMAN. That's right.

Mr. MARLIN. I would think it would make a difference. But I don't think that it would make it impossible to administer a regulation of this kind. After all, there are other regulations which are administered commonly by the different regulatory agencies. I think that something could be worked out among them which would be procedurally acceptable.

The CHAIRMAN. Mr. Weiler, you expressed concern, and echoing Mr. Holman's concern, that this would not really help many people in the inner cities, low income people and others from being pushed out, the elderly.

As I told him, I certainly share that concern, but I wonder if we can solve all of the problems with this bill?

We have, as you know, a number of other legislative initiatives we are following. HUD is under new management now and they have indicated they recognize this problem and are pushing to provide housing for the poor and elderly.

Can we reach this problem with this bill? This is really a bill that has to go primarily to conventionally financed housing.

Unfortunately, as the Harvard-MIT study showed, only a small proportion of our people can afford that kind of housing anyway. That is, about 25 percent of our people can afford new housing, and 35 percent can afford used housing.

So this is limited. And it seems to me we can't expect it to reach, as far as housing is concerned, everyone.

Then as far as the business groups are concerned, it would have limited application, too. We have an SBA which has responsibilities for that also.

Mr. WEILER. Well, I am sure that we don't want to try to change the credit market through this bill. I just felt that the goal of trying to observe the reinvestment process should include some way of generating the data and raising the questions that Mr. Holman and myself are concerned about.

I think that is all I am really encouraging to be made part of this bill.

I do recognize that there are other legislative actions that would go towards actual action on this issue. But I think since the purpose is to generate a sense of awareness and to generate information that this could be an important factor included in the process of generating awareness and data.

The CHAIRMAN. Mr. Connell, you stressed that the quality of banking service should include not just gross loans or deposits, but particular types of loans.

I think you make a good point. In other words, if a bank is doing a vigorous job of promoting credit cards in the local community at 18-percent interest that is one thing; if they are promoting mortgages that is something different.

Do you think this legislation could be more precise on the question of what is to be encouraged, without getting into the credit allocation situation, which would be hard, I think, to get passed.

Mr. CONNELL. I think certainly language could be put in the report that would direct the agencies to consider various Government programs to facilitate the credit being granted in particular areas.

After all, when you think of the student loan program in Connecticut, 50 percent guaranteed by the Federal Government, 50 percent by the State government, and the interest rate is subsidized, there is no risk, and a good return.

The Connecticut housing finance authority programs not only deal with low- and moderate-income housing, but also provide for purchase of homes by people of greater means and who might relocate in the city in certain areas.

Although that can conflict with some people's ideas of what should happen in the cities, it is a very complicated and complex issue. But there are many many programs to be dealt with.

I would probably rather see it in the report language but I do think this bill needs to be broadened to deal with other services as well. I would rather see it in the report language, so they could develop their criteria over a period of time.

Right now the statute says nothing but shall approve a branch.

The CHAIRMAN. Ms. Greenwald, your testimony indicates you have done a lot of what we have in mind in this bill administratively under your general public interest authority.

Do you think that the Federal agencies could go and do likewise, follow your lead, or is there some legal constraint on that?

Ms. GREENWALD. I really am not an expert on that. I would assume that they could do so administratively, but I am not sure that there is not something in the law. I can't imagine that there is, but I am not a legal expert on that point.

It seems to me you can do a great deal with administrative authority. I am sure they could have public hearings and invite the communities, not just give notice to the banks. That I am sure of.

The CHAIRMAN. At any rate, this bill would strengthen their hand.

Ms. GREENWALD. Yes, it would.

The CHAIRMAN. Table 1 in your testimony reflects that the poorer communities—I take it the poorer communities, I am not as familiar with Boston any more as I used to be. I spent 5 years there, but I am not sure I can remember. At any rate, I would construe it to mean the poorer communities are least likely to get their mortgage financing from banks and savings institutions.

Your statement indicates this is not for lack of demand, but rather because the banks discourage, or at least don't encourage, applications from these neighborhoods.

You point out they get it from private mortgage companies, which charge higher interest and have shorter terms, and, therefore, the monthly payments are a great deal higher.

Do you have any evidence that loans made in the neighborhoods with the low percentage of bank loans are necessarily more risky?

Ms. GREENWALD. Just the opposite, actually.

The CHAIRMAN. If not, what motivates banks to avoid these areas? If it is less risky——

Ms. GREENWALD. I wouldn't say less risky. I would say the risk is not greater. Our evidence is the foreclosure rate is around 2 percent on conventional mortgages anywhere in the city of Boston by census tract. It is one thing to get the data and it is another thing to have perceptions.

I think when we have told that to banks they didn't believe it, and they now have our data to look at and can let it sink in. Because I think their perception is different than that. We have run into the problem, I think this has been shown in other cities also——

The CHAIRMAN. Do you think it is true of the smaller cities too, that they are also as out of touch with reality? A big city like Boston, I imagine there is perhaps less understanding of the potential than there would be in a city like Brockton or Springfield.

Ms. GREENWALD. Well, we have some feeling that what has actually happened in cities like Springfield and Brockton is they are so afraid of having a repetition of the public outcry that happened in Boston, there has been more action by the banks there to forestall having it brought upon them by the community groups.

So I think the stimulus didn't come from their size, but from seeing an example within the State, that you have to deal with this, so you might as well deal with it now before it hits you.

One thing we have come across is appraisal practices and guidebooks that have a bias in them which is completely outdated, if it was ever true. I am not sure it was ever true. It is the notion that neighborhoods have a life cycle like a human being, that after a certain number of years a neighborhood inevitably declines, and it will certainly inevitably decline if it is not a homogeneous neighborhood.

So that if we have different ethnic groups moving in, or different land use, this necessarily will mean it is a riskier place to loan. This is right in the appraisal handbooks, right in the guidebooks.

Yesterday, we had a discussion meeting with bankers, appraisers and community groups, and with Darel Grothaus from Seattle, to talk about this whole perception of the appraisal process, and what it says about neighborhoods.

What came out of that meeting, and also data we gathered, is that it is a completely erroneous impression. What it says is that I cannot use today's market value to tell me what the appraised value of this house should be, because I am looking into the future and inevitably there will be a decline in this neighborhood, and I, the bank, hold a mortgage for 20 years and I don't have to know what housing is worth today, I have to make a forecast about what it will be worth 25 years from now.

Here is where the appraisal process brings in misconceptions. If blacks are moving into a neighborhood or Italians are moving into a neighborhood, that makes it heterogeneous and therefore, makes it less desirable and the appraiser will downgrade the value of the property.

We tried to show the banks that in truth, probably because of inflation—and inflation is something we have consistently had in this country, although we can argue about whether it is 5 percent or 2 percent, but inflation has always been a fact of life in this country—that home sale prices in the city are not less than the bank mortgage on them, no matter in which neighborhood. In the blackest ghetto of Boston, the home sale price today is greater than the price the bank put on the mortgage when they gave the mortgage, and that is the truth. Although we all say that inflation is terrible, at least it has had this one positive effect, that the whole appraisal process has been made much much easier. You can use today's market value and you don't have to worry that the home sale price 10 years from now will be less than today's market value.

The CHAIRMAN. I think you are right about the prospects for the next 20 years or so.

I would certainly disagree with you on economic history. If you take a period of 1840 to 1940, there was no increase in the price level—of course there is a dispute over the validity of the figures because of the haziness of statistics and inaccuracy. But up until about 1945, we had a remarkably stable price level. We had inflation in every war period, sharp inflation, then a sharp deflation after the war. All of the bets are off since World War II, we have had an entirely different economic situation, certainly as far as prices are concerned.

Ms. GREENWALD. I don't know anything about data from the 1840's, and I would question data before the 1860's.

The CHAIRMAN. You are so young, you wouldn't remember.

Ms. GREENWALD. But I will check it for you. We had a deflation in the 1930's, but appraisal analysis will never save the bank from a general depression. In that case, it won't tell you that in this neighborhood the prices will be better in 20 years. If we have another 1930 in 1980, no appraiser can tell you in this neighborhood the houses will sell for more and in that neighborhood for less.

So that is outside of the appraisal process. But in the normal economic cycle we have had of business recessions and recoveries——

The CHAIRMAN. I think you are right as far as the future is concerned.

As you know your Senator, Senator Brooke, has based a very interesting housing initiative on this notion that inflation is going to make the value of the house increase as time goes on, and therefore one of the things he is proposing is that the payments at the beginning of the paying off of the mortgage should be a lot less.

Ms. GREENWALD. The reason that I brought that up is you asked why aren't they making mortgages in this neighborhood. It is because they continue to think that the way they have to appraise the property is to make a projection about its value in 20 years, and their own appraiser's perception is that if it is going to be a heterogeneous neighborhood, blacks and whites, the manual tell you it is not as good a property and therefore appraise it down.

That is why the applications are not there.

The CHAIRMAN. Mr. Connell, I have one final question for you.

You say that there needs to be a better remedial mechanism when a financial institution is found not to have served its community.

Are you indicating we ought to have renewable charters, a charter should be granted as it is for a radio and TV station, for 3 or 5 or 10 years, and then take a look at what kind of job they have done? And if they have not done a good job, cancel the charter?

Mr. CONNELL. I believe the original national bank charter was a renewable charter. That isn't really anything new either in banking or the Federal Communications Commission operation.

I don't feel we necessarily need that harsh a remedy.

The CHAIRMAN. I don't think we can possibly get that considered favorably by the committee or the Congress.

Mr. CONNELL. There are other ways of dealing with remedial action. An affirmative marketing or advertising program. Maybe suspension of business in a more favorable area for a week or two. It only has to be done once and people are very sensitive to the embarrassment, more than the actual fact.

The CHAIRMAN. Ms. Greenwald puts a lot of emphasis on the branching and it seems she made a very convincing argument that that should do it.

Mr. CONNNELL. We are using that approach, as my testimony indicated, in several areas. But I feel that we need something more than that, because you wait for the institutions to make a move. I know we have at least two institutions in Connecticut that have not branched for a long time, and are not serving their communities well at all.

So I think that it would be perfectly proper to have a review system in the bank structure area.

I would like to comment on one thing, Senator, in terms of values of property and lending practices.

We have done a study in Connecticut on a rather brief basis on some of the lending practices in the inner city. One of the problems we found in the core city has been that in the past banks made loans on 100 percent appraisal basis to absentee landlords for multifamily dwellings, the three decker that someone left and moved to the suburbs.

The borrower got the loan without any personal liability. And within a few years the property began to deteriorate, any kind of maintenance was deferred. And I would say that 75 percent of the loans charged off in the city involve absentee landlord ownership, and these were big dollars, $3 million, $4 million, $5 million.

So I think part of the urban decay problem is related to improper lending practices.

I guess what I would have to say is we need a much deeper study in the whole banking practice, lending practice area, other than merely the Home Mortgage Disclosure Act provisions. But that act is an excellent beginning point.

In Connecticut we are proposing to do that type of analysis, if the legislature permits us to.

The CHAIRMAN. I want to thank the panel very much for excellent testimony. It has been most enlightening. This has been a fine morning for us, we have an excellent record.

The Committee will stand in recess until 11 o'clock tomorrow morning.

[Thereupon, at 12:45 p.m. the hearing was recessed, to reconvene at 11 a.m. the following day.]

COMMUNITY CREDIT NEEDS

THURSDAY, MARCH 24, 1977

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 11 a.m., in room 5302, Dirksen Senate Office Building, Senator Paul S. Sarbanes, presiding.

Present: Senators Sparkman, Williams, Sarbanes, and Lugar.

Senator SARBANES. The chairman is at a meeting of one of the appropriations subcommittees and will be back shortly. In the meantime he asked us to go ahead and begin.

And it's no longer designate Mr. Secretary. We are pleased to have you here this morning, and if you would go ahead with your statement as you wish, either read it or summarize it, and proceed, we would appreciate that.

STATEMENT OF ROBERT EMBRY, ASSISTANT SECRETARY FOR COMMUNITY DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. EMBRY. Thank you Senator Sarbanes.

I'd like to read it if I may. It's short and I think that it adequately explains our position.

I am grateful for the opportunity to appear before you to discuss the Department's view on the proposed Community Reinvestment Act of 1977. At the outset, let me say that the Department strongly supports the objective of this bill. We believe that financial institutions should be encouraged to help meet the credit needs of the communities in which they are chartered, and we commend the Chairman for introducing this legislation. The community reinvestment concept is a valuable and realistic component in approaching the problem of neighborhood revitalization.

If I may, I would like to take a moment to tell the committee of a study concerning reinvestment that was undertaken while I was the Commissioner of Housing for the city of Baltimore. Several years ago, the city examined the problem of financial disinvestment in its declining neighborhoods and found that, indeed, several financial institutions were refusing to make mortgage loans in these areas. As a result of this study and the impact of the disclosure of these lending patterns, Baltimore was able to achieve, first, the removal of all arbitrary restrictions on mortgage lending including those on age of housing, second, a pledge of $45 million above the previous year's lending, and, third, the establishment of a committee of lenders and officials to review claims of unfair denial of mortgages. I believe that effort demonstrates clearly both the need for an awareness of the very real, serious problems in the area of urban reinvestment and the need for a comprehensive approach to the subject.

Community reinvestment is not an end in itself, but a means to the goal of neighborhood revitalization. We believe there should be a comprehensive approach to revitalization which includes specific attention to reinvestment problems. The Department is already working actively to encourage and facilitate revitalization through its community development block grant program, its demonstration programs such as urban homesteading, its modification of its insurance programs, and its research program.

We believe that an overall strategy is required which not only addresses the issues of redlining and disinvestment, but also such matters as neighborhood representation, careful utilization of mortgage insurance programs, and integration of investment leveraging with community development activities. Initiatives in these latter areas have already been undertaken.

In July 1976, the Department held a fact gathering fair housing administrative meeting on redlining and disinvestment. Testimony was given by 58 witnesses representing private financial interests, community groups, and State and local governments. Those hearings documented not only the specific practices of home mortgage lenders, but also examined the roles of real estate appraisal and underwriting practices and the secondary market in influencing lenders decisions. We are now in the process of reviewing the summary report of that meeting and other relevant literature to formulate recommended changes in federal law, administrative policies and voluntary remedies which, we believe, will enhance our ability to deal with the discriminatory practice of redlining and disinvestment.

The Department also has begun a comparative analysis of the statutes and regulations of the six States which have statutory and regulatory provisions aimed at combating redlining. We hope next to look at the effects of these provisions to determine if they are in fact bringing more investment into credit-poor neighborhoods. We have also issued a request for proposals under which a contractor will catalog various methods that local groups are using for analysis and use of data developed under the Home Mortgage Disclosure Act so that this can be distributed and groups in many communities can make real use of this data. We hope to award the contract by the middle of May, with verifiable descriptions on these methods due in December.

Additionally, the Federal Insurance Administration Advisory Board has begun to address the problem of redlining in the insurance industry. This problem is a serious component of the disinvestment issue, in that banks are reluctant if not totally unwilling to lend money on property for which insurance has been refused.

We believe these activities represent the beginning of an overall strategy for dealing in a rational way with the problem of community reinvestment.

We support the proposition that a financial institution should apply a portion of its resources toward the credit needs from which it generates its deposit base. For that reason, we strongly support the objectives of S. 406.

However in our review of the bill, several issues and concerns have arisen which lead us to question the adequacy of the bill in meeting its own stated objectives. Indeed, in some respects, we believe the bill could have adverse effects on the problem it is seeking to remedy.

The purpose of this bill is to require each Federal financial supervisory agency to encourage federally-regulated financial institutions to help meet the credit needs of the local communities in which they are chartered, consistent with the safe and sound operation of such institutions. To accomplish that objective, the bill would require any federally chartered or insured depository institution—those regulated by the Federal Reserve Board, the Comptroller of the Currency, the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, and the Federal Savings and Loan Insurance Corporation—to demonstrate in its application for a deposit facility, as defined in the bill, how it is meeting the credit needs of its current primary service areas and that it will do so for its new service area. The intention of the bill is to establish minimum performance standards on institutions requesting charter, merger, relocation, branching, or deposit insurance.

In introducing this legislation, Chairman Proxmire said that those who obtain new deposit facilities approval receive a semi-exclusive franchise to do business in a particular geographic area, and that the Federal Government conveys certain benefits to that institution, such as deposit insurance and access to low cost credit through the Federal Reserve Bank or the Federal Home Loan Banks. In turn, it was stated, the Federal Government should require institutions receiving those benefits to fulfill some public purpose. We agree with that basic premise. Our concerns rest in an assessment of the specific approach proposed by this bill.

The trigger for review of an institution's performance in meeting the credit needs of its current primary service area, and its program for meeting those of its proposed new area, would be the application for a deposit facility, as defined in the bill. Because applications for deposit facilities vary widely depending on general economic conditions and internal policy decisions by individual institutions, there is likely to be an uneven distribution of applications submitted by institutions differing in location, size, and fiscal solvency.

It is therefore difficult to assess how systematically this bill would begin to cover financial institutions under its jurisdiction. Nevertheless, we believe a basic principle of establishing performance criteria for such facilities could be an appropriate means to establish a broad Federal policy toward financial institutions and their responsibility to meet the credit needs of their service areas.

Also, the bill would require applications for new deposit facilities to include information on:

One: The delineation of the proposed new service area;

Two: How the proposed facility would meet credit needs there; and

Three: The proportion of deposits from that area which would be reinvested in that area. We recognize that there are encouraging signs that a few financial institutions are beginning to branch into areas which have previously been credit-short. However, in our view, requesting data on how an applicant institution intends to serve the credit needs of the proposed new service area is peripheral to the basic purpose of this bill, which is to assure that the credit needs of an institution's current service areas are being met. We believe the bill should focus exclusively on how the lending institutions are serving their present service areas, and that these requirements should be dropped in favor of the existing regulations regarding proposed servicing of new areas. The key provision of this bill is the one which examines overall current performance of an institution in its existing service area by requiring that the submission for a new deposit facility demonstrate that the institution is meeting the credit needs of the primary service areas in which it is already operating. This is the critical feature of the bill and one which, coupled with the provision for public hearings, could help encourage financial institutions to serve the credit needs of their current service areas.

However, we question the effectiveness of this provision. Inherently, it is a reporting requirement, and there is little in the language of the bill to direct how information required to be collected would be used. Further, a statement of how an institution is meeting the credit needs of its current primary savings service area is deficient, in our view, if it fails specifically to provide that an institution demonstrate that it is meeting the needs of credit-short areas within its overall service area. For example, a financial institution which serves the northwest section of Washington, D.C., should be required specifically to address how its meeting the credit needs in the 14th Street corridor.

In order to make such a determination, a Federal regulatory agency would need information from a variety of sources. However, the burden of proof under the bill would be on the applying institution to demonstrate how it is meeting credit needs. Testimony from the required public hearings and data required by the Home Mortgage Disclosure Act could provide a generalized picture of the applicant's performance, but would not be a real substitute for the type of detailed reporting that, although very difficult to obtain, would give a picture of an institution's commitment to its community.

Therefore, the bill should give more direction on what data would be submitted by institutions, and what standards should be used by the Federal agency in evaluating applications.

Chairman Proxmire has stated and the Department agrees that it is not the intention of this bill to force financial institutions into making high-risk loans that would jeopardize their safety. We agree with the Chairman that it has not been proven that investment in credit-short neighborhoods will jeopardize a financial institution's fiscal solvency. This concern has not been borne out by the experience of the urban reinvestment task force experience in 33 cities.

As noted before, neighborhood disinvestment and redlining are critical issues. We agree with President Carter's remark before the

U.S. Conference of Mayors in Milwaukee last summer to the effect that a national urban policy should include a prohibition against redlining. The best form for such a prohibition is still not clear.

We support the basic thrust of S. 406, that lending institutions should demonstrate that they are adequately serving the credit needs of their community before its application for a deposit facility is granted.

We cannot urge passage of this bill at this time, however, because of the objections I have just outlined. We would instead urge the Committee to work with us to develop an overall strategy on urban reinvestment.

We are very anxious to work with the committee on such a comprehensive approach and look forward to a close working relationship with Congress and this committee in this effort.

Again, I want to thank you for the opportunity to appear before the committee on an issue which is of great importance to the Department.

Senator SARBANES. Thank you very much, Mr. Secretary.

Senator Sparkman.

Senator SPARKMAN. I enjoyed the presentation. I think it's a very clear statement. I don't have any particular questions to ask about it.

Senator SARBANES. I guess we ought to go to the last page and get a better sense of what you mean by "a comprehensive approach and an overall strategy." What does that encompass?

Mr. EMBRY. Well, we believe that dealing just with institutions that come in and request a branch——

Senator SARBANES. First of all, does that encompass legislation along the lines of this legislation? If not this particular piece of legislation, is that strategy in lieu of legislation?

Mr. EMBRY. No, that strategy includes legislation.

Senator SARBANES. OK. Now what would the legislation be?

Mr. EMBRY. Well, having only been at work for a short time, we don't have any specific legislation, but what we do recommend is a policy, which we are in the process of preparing, that encourages lending institutions to supply money in credit-short areas which would include not just those institutions which are seeking branching approvals but would include Federal and State institutions to the extent that the Federal Government has some regulatory authority over States such as the amendment of the Federal insurance provision perhaps, to include more ability to look into what State institutions are doing; but it includes more than just the trigger mechanism that is included in this bill. We do support the approach of this bill; that is, that if the Federal Government through its various regulatory agencies is to give approval to certain institutions to branch and do other things that hopefully will make them more money, that approval should be conditioned on them showing that they are pursuing national objectives.

Spelling out how that is done, we think requires a good deal more work, at least a good deal more detail and thought than is in this bill at the moment.

Senator SARBANES. But you would go back to those institutions that already have gotten their charters and which already are proceeding in a certain way, and, in effect require them, if they weren't doing so, to meet this community responsibility?

Mr. EMBRY. We are concerned that the lending institutions that are not branching, who are not requesting these approvals, which we would suspect represent the majority of the lending that is going on in this country, that we have a policy to encourage them to meet the total credit needs of their community.

That does not include a mandatory percentage but it does include various incentives which we hope do not cost the Federal Government money, which is one of the strong points of this approach, that it doesn't require Federal funds and does have a regulatory effect that in effect would permit the institutions to regulate themselves.

In other words, they decide how much is reasonable but we don't know what standard we can measure it by, but, yes, it would include a look at those institutions that are not branching, that are not coming to the Federal Government for these approvals.

Senator SARBANES. What would be the sanction for—recognizing, first of all, the question of the standard that they should be meeting, what would be the sanction for failing to meet that standard for existing institutions? For new institutions, the applicant's are seeking to do something and, therefore, the sanction is the denial of a charter. For existing institutions what would the sanction be?

Mr. EMBRY. It's too early to say what it would be. We would rather look in terms of carrots rather than sticks, at least the carrot here being the ability to branch. The carrot with respect to existing institutions, I gather they borrow money from the Federal Government and they have certain regulatory provisions that apply to them in terms of reserves and other aspects of running their institution. At this moment I don't know enough about the incentives that might be provided to existing institutions to say what they might be, but that would be where we would be looking to begin with.

Senator SARBANES. In the Baltimore situation, which you talked about at the outside, wasn't the commitment for those funds related to legislation they were seeking in the State legislature with respect to the usury law?

Mr. EMBRY. That's right.

Senator SARBANES. So those institutions really made that commitment in order to influence the votes in the general assembly to get the State limit on interest rates lifted in order to deal with the money market situation?

Mr. EMBRY. Some institutions had already made the commitment before that issue came up. That issue did help to persuade some of the more reluctant lenders to join in. They have since reviewed that commitment annually with no legislative threat, the usury problem already having been resolved as far as they are concerned, but that certainly was an important factor.

Senator SARBANES. Of course, that annual renewal is interesting because I gather that their experience, as a consequence of channeling those funds differently, tends to be much more positive than I guess they anticipated or feared before they ever made it.

Mr. EMBRY. I think that is probably the most important point. There is a question of definition between those who are advocating increased lending and those who are resisting. Those who are restisting it continually cite the example of neighborhoods that are in complete decay; welfare families wanting to borrow money. They contend that to lend in such areas would drive them into bankruptcy or certainly into financial irresponsibility. The advocates for increased responsiveness are not talking about those situations. What they are talking about are neighborhoods where loans are perfectly reasonable, although perhaps not as attractive as the larger loans in the suburban areas, but are certainly reasonable, responsible loans.

The NHS experience of the Federal Home Loan Bank Board has indicated that the voluntary action by Federal savings and loans that have been able to extend their activities into areas that they previously weren't active in, have had beneficial results. We think there is a large area in which they can move that do not include areas of financial irresponsibility. I think the Baltimore experience has demonstrated that.

Senator SARBANES. What else would the comprehensive strategy involve besides legislation of the sort that we have been talking about?

Mr. EMBRY. It would involve, as I indicated, the insurance problems in cities, fire insurance problems that many areas are having, and other aspects of insurance that are restricting reinvestment in cities.

It would involve neighborhood organizations and strengthening them, but I cannot indicate the total magnitude of this study because we are just starting it over the next few weeks.

Senator SARBANES. Senator Lugar.

Senator LUGAR. No questions.

Senator SARBANES. What's your response to the argument that—how do we deal with the question—I guess the 14th Street corridor is your answer—but how do you deal with the question that they will service their credit area, but they would define that credit area in such broad terms as still essentially to channel funds into the top part of the spectrum and ignore the balance of it?

Mr. EMBRY. That is a point we were trying to make, that I think that the representatives of the Federal Home Loan Bank Board will make, among others. It is the definitional question, the approach of looking where the depositors come from and drawing a circle around it or an oblong or a square or triangle, whatever it might be. We don't really think that addresses the question of servicing the community needs.

The first thing is what community needs are we talking about? Are we talkng about elderly? Are we talking about blacks, Puerto Ricans, women, middle class, moderate income? There are a lot of community needs that are included with that definition.

We assume that the community need this legislation is addressing itself to, and I believe the explanatory language makes this clear, is areas that are credit short, areas that are redlined, and that has been the prime thrust in this area for some time. We think the probably more useful focus is to determine how lending institutions are servicing credit short areas than areas from which their depositors come, and how you define those credit short areas, what standard you use in determining whether they are or are not adequately servicing that area, we think requires a great deal more thought before legislation is passed.

Senator SARBANES. How do you define it in the Baltimore situation which you outlined before? Where did they make their commitment?

Mr. EMBRY. They made their commitment in the city and we monitored it every year to see whether by census tract those areas that were reasonable risks from our point of view in terms of the average income, age of the housing, price of the housing and so forth—whether loans were going into those areas. But we did not define certain areas of the city and we also had a complaint committee which we could do locally but perhaps is tough to do under this Federal legislation.

Anybody anywhere in the city or any community group that thought it was being shortchanged by lending institutions could come to that committee and the bank should accept those loans that we thought were reasonable on a rotating basis—the banks and the other lending institutions.

We did not draw specific lines around specific neighborhoods but I gather that is what is intended here. I think there needs to be some kind of predictability for a lending institution coming in asking for something as to what standard it has to meet. Maybe this cannot be done and only a public hearing is required where everybody states what they have to state and the regulators rule, but since there is court review in this there may be some judicial requirements for increased specificity.

We think to the extent that it can be arrived at, it should be.

Senator SARBANES. Well, we want to thank you, Mr. Secretary, very much for some very helpful testimony.

Mr. EMBRY. Thank you.

Senator SARBANES. Mr. Marston, if you could come forward we would be happy to hear from you now. You can proceed as you choose. We have your statement, and it's a lengthy one, and if you choose to summarize it, and then go to questions that might be helpful. Or, if you wish, follow it as you have submitted it.

STATEMENT OF GARTH MARSTON, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD, ACCOMPANIED BY DONALD M. KAPLAN, DIRECTOR, OFFICE OF ECONOMIC RESEARCH; ROBERT S. WARWICK, ACTING DIRECTOR, OFFICE OF HOUSING AND URBAN AFFAIRS; AND STEPHEN M. EGE, ASSOCIATE GENERAL COUNSEL

Mr. MARSTON. Mr. Chairman, it's a 10,000 word statement. Whereas I think it is extremely well done——

Senator SARBANES. Essentially, a book, yes.

Mr. MARSTON. I think it would be best and appreciated by all of us here if I simply submitted it for the record. There are copies I believe now and I think you have some other copies coming and perhaps I would just summarize and I will try to move along very quickly and summarize what we believe to be the key points, and then try to answer any questions that you have.

Senator SARBANES. Fine. Without objection, the statement as submitted will be included in the record. Why don't you go ahead and proceed?

[Complete statement follows:]

PREPARED STATEMENT OF GARTH MARSTON, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

Good morning, Mr. Chairman. The Federal Home Loan Bank Board welcomes this opportunity to discuss with the Committee the proposed Community Reinvestment Act (S. 406). In my testimony I propose to discuss how the Board is currently processing deposit facility applications, to outline some of the specific consumer credit problems which S. 406 may be intended to address, and to point out how the mechanisms proposed in S. 406 to encourage more active lender servicing of community needs may or may not bring about the desired results.

S. 406 would require the four Federal financial regulatory agencies to see that their regulated institutions are "encouraged" to meet not only the depositary, but also the credit needs of their local communities. The mechanism the bill would set up to accomplish this purpose would be in the form of revised review procedures which the agencies would be required to use when any of the regulated institutions sought approval of: a national charter, insurance of accounts, a branch facility, office relocation, a merger or a holding company acquisition. In addition to the usual considerations weighed when assessing an application, the agencies would be required to take into account material indicating an institution's (and its subsidiaries') past performance and proposed efforts to meet the credit needs of its existing and proposed primary savings service area. Furthermore, the supervisory body would permit and encourage community and consumer testimony on the application, and require periodic reports from the regulated institution concerning the amount of consumer deposits it obtained from and the amount of credit it extended to its local area. The four agencies, in turn, would report annually to Congress on actions taken in fulfilling their responsibilities as set forth in the bill.

Prior to a substantive assessment of the bill, I would like to briefly indicate to you the present application procedures and approval standards which the Board employs with respect to the types of applications addressed in the bill.

FEDERAL CHARTERS

Pursuant to the statutory requirement in Section 5(a) of the Home Owners' Loan Act, the Board issues charters for Federal associations "giving primary consideration to the best practices of local mutual thrift and home financing institutions." In the connection with such charter applications the Board considers three criteria: 1) the necessity for the proposed association in the community to be served, 2) the reasonable probability of usefulness and success of the proposed association and 3) the question of whether the charter may be granted without undue injury to properly conducted existing local thrift and home financing institutions.

Also, in connection with such applications, there is a requirement that the applicant publish notice of the application in a local newspaper. An opportunity is provided for oral argument upon the written request of the applicant or a protestant. In addition, any member of the public may file written statements in support of or opposition to the application.

Candidates for a Federal charter must submit detailed information on housing, competition and general community needs. Data on recorded mortgages is used to identify the institutions making loans in the local area. This data gives the Board an indication of general credit needs. Information on building permits discloses the level of housing activity in a community, another barometer of credit needs. Additionally, applicants supply information on the savings and time deposits of all financial institutions in the market area and the savings rate paid. They also describe what their proposed lending policies will be and define their primary market. Moreover, they must designate the kinds of loans they will make and on what type of collateral, indicate whether they will offer VA and FHA loans and what will be the sources for loan origination (walk-in or broker originated), and finally, disclose the loan rates contemplated and the fees charged.

INSURANCE OF ACCOUNTS

With regard to insurance of accounts, the Board observes the standards of the National Housing Act which generally permit the Corporation to insure all Federally chartered associations and eligible State chartered associations. The Corporation is required to "give full consideration to all factors in connection with the financial condition of applicants and insured institutions."

The criteria the Board uses for reviewing insurance of accounts applications for new institutions are: 1) the need for an additional insured institution, 2) the reasonable probability of usefulness and success of the new institution, 3) the extent of possible undue injury to existing insured institutions and 4) insurance risk to the Corporation.

As with the Federal charter application, public notice is required, there is opportunity for written comment and provision is made for an oral argument. The data required to be submitted in an application for insurance of accounts is very similar to that required for charter applications. In deciding insurance of accounts applications, the Board carefully considers the question of community needs from both a savings and credit viewpoint. However, litigation is pending which seeks to require the Board to accept the judgment of the State chartering authorities on these points.

BRANCH APPLICATIONS

The Board has full plenary authority over Federal associations' organization and operation. The Board uses the following criteria to review branch and limited facility applications from Federal associations: 1) the necessity for the proposed branch in the community to be served, 2) the reasonable probability of usefulness and success and 3) whether there will be undue injury to properly conducted existing thrift institutions. Public notice, comment and oral argument provisions are identical to those provided in charter and insurance applications.

When a Federal savings and loan applies for a branch or limited facility, it is requested to provide information on the thrift and credit needs of the primary market area, data respecting all other financial institutions currently operating there, the demographics of the community and a description of the kinds of housing activity taking place.

In certain recent cases local community action groups sought, and have received, the opportunity to participate in Board branching proceedings.

RELOCATION

With regard to relocation of a home office or branch office of a Federal association, the Board's statutory authority resides in the Home Owners' Loan Act. The reviewing criteria which the Board uses are: 1) the need for the relocation and 2) the possibility of undue injury. Provisions for public notice, written comment and oral argument are the same as those described above.

The data submitted in applications for relocations is generally similar to the branch application material, although less detailed.

HOLDING COMPANY ACQUISITIONS

Pursuant to section 408(e) of the National Housing Act, the Corporation uses as its standard for review of savings and loan holding company acquisitions consideration of "the financial and managerial resources and future prospects of the company and institution involved, and the convenience and needs of the community to be served." The Corporation publishes in the Federal Register notice of a holding company acquisition application allowing for submission of written comments or views.

In connection with the initial acquisition of a savings and loan association by a holding company, the National Housing Act requires the Corporation to consider only the financial and managerial resources and future prospects of the company and institution involved, not the convenience and needs of the community. However, in all other instances of holding company acquisitions (*i.e.*, where the applicant already has acquired a savings and loan and is acquiring a new one or the applicant has acquired a savings and loan and is acquiring a new one with the intent to merge), the appropriate forms request information concerning the convenience and needs of the community to be served.

MERGERS

The Board has full authority under the Home Owners' Loan Act to review all Federal association mergers and under the National Housing Act to review insured institution mergers because, among other things, of the resultant increase in insured accounts. The Board uses the same reviewing standards for both types of merger. Those criteria involve a review of: 1) the legality of the proposed merger and 2) economic considerations, including a review of: (a) the market concentration and ranking of the resulting institutions and of other competing institutions, (b) the number and size distribution of competitors, (c) actual or potential competition significantly curtailed, (d) trends toward concentration, (e) the overlap of branch savings submarkets, and (f) the extent to which rates paid on savings instruments and charges on mortgages appear to be competitively determined. The Board also considers the extent to which the merger will affect the convenience and needs of the communities to be served in terms of savings facilities, types of loans available and the impact on the operating efficiency of the resulting institution, as well as the managerial and financial capabilities of the applicant institutions.

Public notice of the proposed merger in a local newspaper is required in all cases.

Thus we may state, as a generalization, that the Board's licensing activity is already keyed in substantial respects to a showing of credit needs within the community to be served. However, we do not establish as a rigid criterion that an institution must place a fixed percentage of its assets within a primary service area.

CONSUMER CREDIT PROBLEMS

We turn now to our substantive assessment of S. 406. The Chairman, in introducing S. 406 on January 24, 1977, made a number of arguments in support of this legislation which the Board would like to address. He stated at several points that in applying the statutory criteria necessary for charter and branch approvals, the regulatory agencies have relied almost exclusively on deposit as opposed to credit needs. As we have just indicated, the Board, in fact, does give significant weight to both savings and credit needs in acting upon charter and branch applications. The Board would not be meeting its statutory responsibilities were it to do otherwise; we necessarily must focus on the income that can be expected to be generated from credit extensions so that the institution can meet the dividend and interest requirements essential to obtain and maintain deposits. Especially for newly chartered institutions this means a clear indication of likely credit needs. Even for well established institutions the Board expects, in passing on branch or relocation approvals, to have a clear indication of credit needs. Thus, we believe that the statements made in support of the legislation concerning the emphasis given to saving needs are overdrawn, at least in the case of the Board. The Board has in the past, does now, and, absent legislative change, will in the future give significant weight to credit needs, in passing upon the applications which are the subject of S. 406.

The statement in support of the bill also declares "a public charter conveys numerous economic benefits and in return it is legitimate for public policy and regulatory practice to require some public purpose, without the need for costly subsidies, or mandatory quotas, or a bureaucratic credit allocation scheme. . . . The authority to operate new deposit facilities is given away, free, to successful applicants even though the authority conveys a substantial economic benefit to the applicant. Those who obtain new deposit facilities receive a semi-exclusive franchise to do business in a particular geographic area."

We disagree with the thrust of these remarks with regard to the institutions we regulate in several respects. While we would agree that the present barriers to entry do create benefits for regulated savings and loan institutions, we do not agree that no public benefit is given in return, that the charter and insurance certificates come "free," or that chartered institutions enjoy a semi-exclusive franchise comparable, as the statement asserts, to an FCC station license. Let me deal with these points in turn.

First, we are troubled by the proposition that the present system of regulated financial institutions conveys no public benefit, or even no significant public benefit. We believe that the entire thrust of the great savings and loan legislation of the 1930's was that there is substantial public benefit from limiting entry into and closely regulating the business of banking and of thrift institutions. We further believe that the Congress has long since determined that the nation's mortgage credit and housing needs are well served by the creation and support of specialized housing credit financial institutions, the savings and loan industry. Thus we do not believe it accurate to characterize the present structure of regulated financial institutions, as created and expanded by the Congress over t years, as conveying no public benefit.

Second, we do not believe that the Federal charter or insurance of accounts comes "free", especially for s&ls, who are restricted largely to making mortgage loans even if other loans may often be more profitable. In recent years, the Congress has also prohibited discriminatory lending practices and required disclosure of lending terms and disclosure of the costs associated with closing mortgage loans, among other things. Thus, as Congress has addresed various practices of lending institutions, it has sought those things which, in its judgment, are appropriate corrective actions. These laws are enforced by the Board with respect to the institutions under its jurisdiction. The Federal franchise for financial institutions is not "free" in any meaningful sense of that term and does involve a quid pro quo on the part of these institutions.

Third, and lastly, we take exception to the notion that Federally chartered or insured institutions enjoy a semi-exclusive franchise akin to a broadcasting license. The Board in its chartering and branching decisions favors the entry of new institutions into market areas so that savers and borrowers may have a choice of savings and loan associations—in fact, a very broad choice in large market areas. We believe that this is a pro-competitive policy. At the same time, however, the Board does not go so far in this direction as to endanger the safety and soundness of existing institutions, or to establish institutions or facilities of existing institutions, which are not needed by the communty which they serve. We do not believe, however, that this latter policy consideration has operated to deny to savers and borrowers meaningful choices as among existing financial institutions.

Let me try to summarize what we have said to this point. We do not believe that the statement in support of this legislation accurately characterizes the present regulatory treatment of the financial institutions subject to the Board's jurisdiction. We do not consider saving needs to the exclusion of credit needs. Savings institutions are subject to substantial legislative and regulatory limitations on their activities to protect the interests of their customers, and the Board does not insulate the institutions it regulates from the forces of competition. The equation between Board decisions on applications of the type included in S. 406 and the public responsibilities of institutions receiving agency approval is balanced.

We strongly support improving community effort by savings and loan associations. However, the need for this legislation must not be based on an attempt to correct an alleged imbalance between public benefits and public responsibility. since it does not, in fact, exist. Rather, it should be based on the merits of S. 406 as a corrective action for a perceived failure of present legislative structures to meet defined "credit needs."

In the remainder of our testimony, we shall examine, as best we are able to determine, precisely what credit needs the proposed legislation might be seeking to address. After stating this perceived need, we will briefly discuss existing mechanisms for meeting these objectives. We will then return to the mechanism proposed in the legislation to see whether S. 406 seems likely to help or to hurt in meeting these stated objectives.

There are a great variety of credit needs which relate to the purchase or repair of housing. Aside from the credit needs of expanding communities, with respect to individuals seeking credit, there are minority citizens who may face credit discrimination; there are low and moderate income borrowers who may need help in meeting their credit needs; and there are middle income people who may not currently be able to afford the housing they desire. With respect to credit needs of geographic areas, there are blighted areas that need massive funding for restoration; there are deteriorating neighborhoods that require concerted efforts for their rejuvenation; and there may be "redlined" areas that are the subject of geographic or racial discrimination that need the active enforcement of the fair housing laws. Finally, there is the more generalized question of whether all financial institutions should serve their local communities only, to the exclusion of other areas.

In what follows, we will examine the various credit needs which might fall subject to the "meeting the credit needs of the primary savings service area" test found in section 4(2) of S. 406. We believe it is important in assessing S. 406, to delineate with particularly the objectives, in terms of various types of "credit needs," which this legislation might be seeking to meet. The Board in administering the proposed legislation would be required to define "credit needs" administratively and enforce the legislation along the lines suggested below. In other words, if there is no further legislative clarification of the expression "credit needs" to be addressed, the Board would develop its own working definitions and impose the sanction of section 4(2) only where the Board deemed the imposition of the sanction as an appropriate means of reaching particular "credit need" objectives.

Let us now turn to a consideration of the various types of "credit need" objectives which S. 406 might be taken as addressing. So as not to unduly lengthen this testimony, the discussion which follows will focus primarily on the branch approval process, even though S. 406 would operate with respect to a number of "applications for deposit facilities."

DISCRIMINATION AGAINST INDIVIDUALS OR AREAS

The first credit need which the proposed Act may seek to address is that of individuals unable to obtain credit because of unlawful discrimination. In this regard, the Board is committed strongly to the principles of the fair housing laws. It actively supports the goals of the Fair Housing Act and the Equal Credit Opportunity Act. The Board has promulgated regulations to implement the Fair Housing Act, has issued formal opinions interpreting the regulations and has revised its supervisory procedures in order to ensure compliance with both Acts. As you know, as part of the Board's regulatory authority, it periodically examines all of its regulated institutions. To aid in detection of fair housing and equal credit law violations, each of our examiners has recently completed a two and one-half day intensive training course on the purpose of these laws and ways to detect violations.

The Board has taken effective action to detect and remedy not only discrimination in lending but also discrimination in employment as well. At the time of each examination, the Board's examiners determine: (a) the extent of management's familiarity with the various laws and regulations dealing with discriminatory practices; (b) whether the institution has established and implemented nondiscriminatory policies and evaluate the effectiveness of such policies and (c) whether the institution is complying with the laws and regulations dealing with discriminatory practices. Additionally, the Board's examiners will determine whether the institution has considered utilization of governmental or private programs designed to aid in meeting the housing needs of minority or low-income groups. In addition to these regular activities, the Board's Office of Examinations and Supervision makes special investigations of complaints of alleged discrimination made by individuals, documented complaints made by responsible public groups regarding specific institutions and complaints made by or through other governmental agencies. When the examiner finds instances of policies or practices which give the appearance of being discriminatory or which are, in fact, discriminatory, such instances are brought to the attention of and discussed with the institution's management, and a request is made for prompt correction of the unsatisfactory condition. In nearly all cases, the examiner's actions result in immediate correction of the problem.

During the six-month period ending January 31, 1977, the Board's examiners detected 581 instances of failure to follow requirements relating to nondiscrimination. Many of these instances involved matters of form, such as the failure of the board of directors to adopt a satisfactory, formal, written policy of nondiscrimination or failure to provide required statements of equal opportunity in lending or employment in advertisements. Other instances were more substantive in nature. Regardless of the importance of the matter, all 581 instances were brought to the attention of and discussed with management by the examiner. In 481 instances (82.2 percent), immediate correction was effected.

Generally, the report of examination will disclose all material deviations from requirements, irrespective of whether the matter has been satisfactorily corrected. In every instance where the examiner believes management's response to be unsatisfactory, the report will contain the facts regarding the situation, so that the Board's Supervisory Agent may request the board of directors to institute correcive measures. In addition, even though satisfactory correction was obtained by the examiner, the Supervisory Agent may provide the board of directors with his comments, requests or admonitions so as to reinforce and confirm the examiner's actions.

It may well be asked whether the review mechanisms proposed in S. 406 would give additional weight to enforcement of the fair housing laws. It is the Board's view that the added penalties of denial or postponement of a deposit facility application could have a salutary effect of encouraging prompt resolution of problems detected in an examination with respect to discrimination violations. The Board presently denies branch applications where supervisory objection is raised on safety and soundness grounds. With the aim of seeking resolution of discrimination violations, when evaluating requests for a deposit branch facility, the Board is prepared to consider revision of its reviewing procedures to include a consideration of the examination report of an applicant institution for compliance with the fair housing and nondiscrimination laws. It is the Board's opinion that institutions would be less likely to incur such violations and would be prompter in correcting them if the approval of deposit facility applications were to include consideration of this material.

However, in this regard we believe S. 406 presents serious problems in at least three general respects. First, as written, "credit needs of the primary savings service area" does not clearly reflect that the "needs" referred to are those of individuals subject to unlawful discrimination. Second, since the Board's actions in denying or postponing branch applications on this basis would be judicially reviewable, it would be appropriate to have legislative clarification of the quantum of proof which would form the basis of the Board's finding of unlawful discrimination sufficient to justify such action on branch applications. Third, the legislation does not make clear that the Board would be relying upon its examination reports in taking this action. The type of information to be provided by the applicant under section 4(1) of S. 406, does not specifically address the problem of unlawful discrimination. If the Board's view, using existing examination reports would be a surer way than the mechanisms set out in S. 406 to encourage compliance with the nondiscrimination laws and insure that credit was available to all creditworthy individuals.

BLIGHTED AREAS

Another possible objective to be served by the proposed Community Reinvestment Act may be to bring more money, in the form of mortgage credit, into blighted areas. However, since such depressed locations have a myriad of complex problems needing simultaneous attention, it may be asked whether the savings and loan industry is equipped to make significant contributions without also runing the risk of jeopardizing its safe and sound operations. We believe that the answer is clear—blighted urban areas need the kind of massive assistance that only government subsidy and other broadly based programs can provide. Examples are HUD's Community Development Block Grants and the urban renewal programs of many State and local governments. In the Board's view, it would be inappropriate to penalize savings and loans for not serving areas where only concentrated governmental assistance can have any real influence.

DETERIORATING NEIGHBORHOODS

Another type of community "credit need" not adequately being met which may be an objective of S. 406 is the need for financing in deteriorating neighborhoods. In response to the particular problems such neighborhoods face, the Board has encouraged assistance through its participation in the Urban Reinvestment Task Force. The Task Force has supported the development of Neighborhood Housing Services which combine the voluntary efforts of the local citizens, city government and financial institutions in restoration of a declining community. In those neighborhoods where the NHS program has been set up, the results have been most encouraging.

However, S. 406 could be construed to require the Board to make participation in NHS mandatory, as proof of serving "credit needs," when evaluating a branch or relocation application. The Board believes that such a requirement could have a deleterious effect since the very heart of the NHS program, namely voluntary cooperation, would be undermined. Further, it has been our experience that when

NHS efforts are instituted, voluntary participation by the savings and loans in the area has been very good. Thus, if S. 406 is addressed to the "community needs" of neighborhoods receiving NHS assistance, we believe the sanctions of the bill are not only unnecessary, but perhaps even counterproductive.

LOW AND MODERATE INCOME INDIVIDUALS

Stepping back for a moment from the problems of the cities, the Board is also aware of the more general problem of providing credit for low and moderate income individuals wherever they reside. Serving their "credit needs" may also be an objective of the bill. However, is the answer to their problems simply tied to the availability of credit or rather can it better be resolved by the use of governmental assistance to cushion the borrower's payment obligations? We believe that proper servicing of this kind of "credit need" falls largely within the areas of special governmental assistance programs targeted to these income groups.

However, would the Board be required under S. 406 to evaluate the participation of savings and loans in such subsidy programs, if available, as proof that they are servicing community "credit needs" when applying for a depository facility? In the Board's view, assuming that an institution is complying with all safe and sound lending regulations and the nondiscrimination laws, the mix of its portfolio assets is properly a business rather than a governmental judgment. Indeed, the statement in support of this legislation makes clear that "the bill . . . does not substitute the judgment of the regular for the judgment of a banker on individual loans." In this regard, it is the Board's observation that to the extent that such programs as the Ginnie Mae tandem program are made available with a minimum of administrative burden, institutions are very willing to participate.

MIDDLE INCOME INDIVIDUALS

What about the middle income person who, some studies have indicated, cannot afford the house he or she would like to purchase? Is there a "credit need" here which thrift institutions should address? The answer depends on whether there is an unmet "affordability gap" between the cost of existing housing and what a middle income person can pay. Recent studies by the Congressional Budget Office and the Harvard-MIT Joint Center seemed to have determined that a "gap" does exist. Only the CBO study has been released, and the Board is troubled by several methodological problems we see with that study. Looking to the recent record of home sales, there is strong evidence that potential home buyers have found a way to acquire their new homes. We would be happy to provide to the Committee a more detailed Board analysis of the CBO study. Nevertheless, if, in fact, a gap does exist, then its source may well be in a broad range of economic conditions, not keyed to the "credit needs" of local borrowers. In this event, the best approach to a solution of any "credit need" problems would not lie in penalizing individual institutions but would look to broader based, macro-economic policy tools.

As you know, the Board is presently studying a range of flexible mortgage instruments which will be designed to increase housing availability in certain cases and to improve the ability of particular population sub-groups to purchase homes or to improve the quality of their housing, or to do both. If these new instruments when available meet a "credit need" in an individual area, would S. 406 require the Board to impose on institutions a requirement that a fixed percentage of their loans be made in the form of the alternative mortgage instruments? Again, we do not believe that mandatory government portfolio investment decisions for thrift institutions are proper or desirable. Yet, as drafted, the legislation would in effect bring about just such a mandatory investment result.

ALLOCATION OF CREDIT TO LOCAL AREAS

A more generalized concern than the five issues just discussed, which S. 406 may seek to address, involves the question of whether savings and loan institutions should be required to concentrate lending in their local communities quite apart from the "credit need" objectives which we have thus far articulated.[1] An

[1] In this connection we note that Senate Report No. 94–187 favorably reporting the Home Mortgage Disclosure Act states, at p. 11: "[T]he Committee rejects the notion that there must be some fixed ratio between deposits gathered from a community and loans returned to that community."

answer to this question lies with the development of the savings and loan industry and the legislation governing that industry. As is well known, when savings and loans originated, they focused on local community lending. This viewpoint was adopted by Congress when it enacted the Home Owners' Loan Act. The rationale behind this legislation was to set up mechanisms by which the Federal Home Loan Bank Board could encourage local thrift and home financing. However, Congress gradually expanded the lending territory of Federal savings and loans. Originally, they could lend only on homes located within a radius of 50 miles from their home offices. But, over the years, Congress increased the territory lending limit to 100 miles, then State-wide, and finally nationwide. In practice, of course, most institutions lend a small percentage of their portfolio on a nationwide basis.

Moreover, over the years, the role of the savings and loan associations in the economy has changed and the industry has taken on additional roles. Increasingly, thrift institutions have acted as financial intermediatries shifting their funds from capital surplus to capital deficit areas. Congress has promoted the concept of improving the efficiency of the secondary market as evidenced by the separation of FNMA from HUD in 1968 and by the creation in 1970 of the Federal Home Loan Mortgage Corporation to provide a secondary market for mortgage investments.

Notwithstanding the developments toward wide-spread mortgage market participation there remain, of course, constraints upon Federal associations lending outside their primary service areas. As previously noted, in practice most retail oriented savings and loan associations invest only a small percentage of their assets outside their local area. In addition, the Board's branching policy and that of the State authorities generally limit savings and loan branches to within State locations. Without regard to these resrictions, and probably more imporant, there are the business necessities of the thrift industry. The business of making home financing loans almost requires that the lending institutions be located near their mortgage investments in order to properly appraise the security property and to take remedial action in the case of a default in a mortgage.

From an economic perspective we would like to point out that studies on the characteristics of those individuals who traditionally maintain the highest savings account balances indicate that such individuals are typically higher income persons and are more elderly than the typical individual. As a matter of fact, our present branch approval process recognizes that the savings potential of an area is likely to be much greater if it is a higher income area or composed of older individuals. However, conversely the demand for housing credit needs tends to come from middle income individuals and younger households who have little or nothing in the way of savings. Yet many communities in this country are homogeneous, consisting of people in the same age or income group. Such communities will be capital surplus or capital deficit. This means that there is bound to be a significant mis-match between the source of savings and the need for housing credit in a large number of communities. This indicates that a substantial amount of community reinvestment may not always be a feasible objective and, given that higher income communities generate a disproportionate volume of savings, too much community reinvestment may sometimes be inconsistent with the social goal of attempting to direct more mortgage credit into lower or moderate income neighborhoods.

A basic problem with the bill arises from the difficulty of defining what we mean by a primary savings service area and the relationship that this has, if any, to a "community." A particularly difficult situation arises in the case of depository offices in downtown areas of central cities and offices located in super-regional shopping centers that attract customers from a very broad area. It so happens that a very large proportion of deposits are in offices of this type. Yet, it is precisely in the case of these offices that the primary savings service area and, even more importantly, the community concept makes least sense. Downtown offices of large central cities often draw their deposits primarily from those working or shopping in the area, most of whom are likely to reside in various suburban areas surrounding the central city. Does the bill contemplate that the primary savings service area for such offices would be defined on the basis of the location of those working in the area, which may include only a small number of city blocks surrounding the offices and contain only large commercial structures? Or does the bill contemplate that the primary savings service area is to be defined on the basis of the residential address of the depositors, which would often produce a service area that would encompass much of the metropolitan area? We would assume the latter. The same problem arises on a somewhat lesser scale in the case of offices in super-regional shopping centers in suburban areas that attract employees and shoppers from a broad region transcending comunities.

Given its title, the bill appears to focus on "communities." But its implementation involves the use of the "primary savings service area" concept, which is defined solely in terms of an area from which more than one-half of deposit customers are drawn. There is no reason why a primary savings service area should necessarily coincide with a "community" as we traditionally think of it. This brings out a major problem that is posed by the bill and its title. To what extent does an office serve a specific community that is more than merely a contiguous geographical area. By community we traditionally think of an area that is bound together because of some degree of common local government, common schools or other public facilities, or ethnic or other characteristics that make for some type of social cohesion. Insofar as primary savings service areas do not always coincide with communities and straddle a number of communities, the use of service areas raise questions about whether the practical effect of the bill is to focus on community needs.

In this connection, we have to be realistic and recognize the tremendous mobility of the American people. Almost twenty percent of households move each year. In large metropolitan areas it is common for households to move to entirely different neighborhoods. It is true that many small towns and certain neighborhoods in larger cities continue to have considerable stability and diversity in the make-up of their population and do meet the concept of what we normally mean by a community. However, this traditional concept of a community probably is no longer applicable to large sections of the country.

We would like now to turn to the specific defintion of a primary savings service area. This is an area around the facility in which it is expected that more than one-half of its deposit customers would be drawn. We have tried to wrestle with the problem of how to apply this definition. The fact is that there is no one unique geographic area around an office from which one-half of the deposit customers will come. It may be possible to have one such unique area if we insist on using a perfect circle, in which case we would expand the circle to the point where it contains half of the deposit customers. However, a perfect circle is rarely an accurate depiction of an area from which deposits come. As a result of natural boundaries or transportation patterns, a savings service area may well be represented by an ellipse or, more likely, by a ragged type of geometric shape. In practice one could specify an infinite number of different geographic areas for the primary savings service area, any of which would contain at least one half of the deposit customers. One way to deal with this problem would be to allow regulatory authorities to insist on a primary savings service area that itself seemed most logical and not merely accept any such area as put forth by the applicant. This is not an easy task to do, based on this agency's experience in dealing with applications.

Another problem has to do with the threshold of percentage of deposit customers that is used in specifying the primary savings service area. The bill puts the threshold at 50 percent. In many cases, however, the use of a 60 percent, 75 percent, or 80 percent threshold could expand very substantially the geographic boundaries of the primary savings service area. A 50 percent threshold might in many cases lead to an area that is quite small, perhaps with a radius of one mile or less. The use of a 75 percent threshold could well extend this to an area four or five times as large, depending on the exact geographical dispersion of accounts and the transportation patterns in the area. None of these primary savings service areas would necessarily coincide with any meaningful definition of a community.

The bill poses particular problems for multi-branching savings and loan associations. As you know, there has been extensive branching of S&Ls in recent years. As of September 1976 there were 255 S&Ls that had 10 or more branches. All institutions with more than one office, no matter what the number, would be required to show how they are meeting the credit needs of the primary savings services areas of each of their offices if they wish to have an application approved. The very complexity and time consuming nature of ascertaining whether credit needs are met in the case of institutions that have a large number of offices would be staggering. There would certainly be a blizzard of paperwork on the part of applicants and a corresponding need on the part of our staff to examine the contentions of the applicant and all those who may protest.

The bill also poses a serious conflict in terms of the weight to be given to the needs of depositors versus those of the borrowers of the intitution. Given the highly competitive nature of savings markets, S&Ls are under considerable pressure to pay high interest rates to depositors, usually at ceiling rates. At the same time that these high rates have to be paid to deposiors, savings and loan associations are also under pressure to build up their reserves and net worth by having an adequate amount of earnings remain after paying interest to depositors. This means that S&Ls must channel their funds into mortgage loans that yield a rate of return sufficient to produce necessary earnings, consistent with safe and sound lending practices. It is a continuing fact of life, however, that there are geographical differences in mortgage interests rates.

Some savings and loan associations are legitimately faced with the problem that mortgage interest rates available in their own service areas may not always be adequate and, in fact, may be less than those available elsewhere. There is the difficult situation posed by restrictive usury ceilings in some states which makes it difficult, if not impossible, to meet the going rate that must be paid on deposits if a substantial portion of these deposits are lent in that State. Since savings and loan associations invest a large bulk of their funds in residential housing, regardless of where the geographical location of this housing may be, the Board does not believe that these investments are non-socially productive simply because funds flow to an area different from their origination.

As we have noted, much of our problem with the bill stems from the fact that it requires credit needs to be analyzed in terms of the primary savings service area as defined in the bill. Yet, both business realities and social objectives may argue for a mortgage lending service area that is broader or different than that of the primary savings service area.

Unfortunately, the bill as drafted is a double-edged sword. It may put increased pressure on savings and loan associations, either on their own or because of the way the Bank Board would administer the bill, to channel more of thier funds into certain arbitrarily defined primary savings service areas. But what if this were offset, as well it might be, by a withdrawal of funds presently being put into those areas by institutions that do not have offices in those areas or that are investing more than the savings than they obtain from offices in that area? Moreover, one community's gain in terms of increased lending is another community's loss. It is not clear whether those who gain will be more deserving than those who lose.

This brings us to what we think is possibly a misplaced emphasis in the bill. From a social point of view, the relevent issue is not whether a particular office of a financial institution adequately serves or is going to serve the credit needs of some arbitrarily defined savings area around it. Instead, the social concern should be with how well a particular geographical area is being served by all financial institutions together. It would seem that little is gained by examining evidence that a proposed office will be investing a certain percentage of its deposits in an arbitrarily defined savings service area, if, in fact, that area is part of a community that is being well served by a variety of financial institutions with respect to its credit needs.

In this context, let me now turn to the Board's procompetitive policy and give you some examples of the Board's efforts to assure that credit needs are being met.

COMPETITION AS A MEANS FOR MEETING "CREDIT NEEDS"

The Board is sensitive to the need for active mortgage loan competition in individual markets. The Board's policy has been to encourage active competition among savings and loans, on the assumption that improved service to the communities in which they are situated naturally will follow.[2]

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[2] For example, the Board's statement of policy regarding the establishment of branches and related facilities by Federal savings and loans, 12 C.F.R. 556.5(b)(5), reads as follows:

"As a general policy, the Board encourages the establishment of branch offices and other office facilities by Federal associations in communities and market areas which either are not serviced or are underserviced by existing savings and loan facilities. In addition, the Board favors increasing the level of competition, by permitting more than one savings and loan facility in a market area, to provide convenient, alternative choices resulting in better service to the public. . . ."

Because the health of communities and their financial institutions are interrelated, and because thrift and financing requirements can vary widely from community to community (*e.g.*, the savings needs of older citizens as opposed to the home financing needs of younger citizens), we have used our regulatory authority to encourage competition in the financial market place, finding it the best mechanism to assure that diverse community needs are satisfied. To this end, if there are unmet thrift or credit needs in a community, it is our belief that existing or newly organized savings and loan associations should be permitted to enter that market and attempt to meet those needs. In some instances the introduction of a new facility will be more convenient to the existing depositors or borrowers of an association thus making credit more accessible to them. In other cases, the establishment of new associations makes credit available to a new segment of the public. In still other cases, the establishment of a new institution or facility in an area makes the existing area institutions more responsive to customer needs—the salutary byproduct of a competitive marketplace.

Examples of the Board's approval of Federal charters, conversions, or insurance of accounts for minority operated associations will demonstrate how it has encouraged increases in the availability of credit to new segments of the public.

In September of 1973, the Board approved the application submitted by a group of Cuban-Americans for a new Federal charter. The proposed site of the Union Federal Savings and Loan of Miami was the business district of that city. At the time the application was filed there was one savings and loan branch office and five home offices located within one mile of the proposed site. The designated primary market area for Union was the city of Miami, having a population of 324,859 of which 36.6% were Cuban-Americans and which already was served by eighteen savings and loan facilities. At the end of 1976 this association had $16.4 million in assets, an increase of 124% over the preceding year.

While Union Federal continued to grow, the Board approved the application of a second Cuban-American organization in mid 1975. The new Federal was called Inter-American Federal Savings and Loan Association. Its office is located approximately six miles from Miami's downtown shopping district. Because Cuban-Americans constitute a large and growing portion of the association's market population, over one-third, the organizers contended that a need existed for a locally based facility which would be oriented to the specific thrift and home-financing needs of the market area's Latin community. Inter-American opened for business in September of 1976, and by the close of that year it had acquired $2.4 million in assets.

Other examples further demonstrate that competitive impetus can lead to improved servicing of the needs of communities previously underserviced.

In November of 1971 Pan American Savings and Loan of El Paso, Texas, received FSLIC insurance and Federal Home Loan Bank membership. Its organizers were primarily Mexican-American. At the time it submitted its applications, there were four savings associations in El Paso with a total of nine offices. The city had a population of 322,000, 46% of which were Mexican-American. By December 31, 1976, Pan American had $8.1 million in assets. This was up 9.3% over the previous year.

The Mission Federal Savings and Loan Association, also of El Paso, Texas, received FSLIC insurance in September, 1973. Like Pan American, its organizers were Mexican-Americans. At the close of 1976, Mission had $5.5 million in assets. This represented a 51.7% increase over its 1975 assets.

Chinatown Federal Savings and Loan Association of San Francisco, California, received Board approval of its Federal charter in January, 1973. Its organization group consisted of 14 Chinese-Americans. The basic impetus for the application was to establish an association that would be identified clearly with the Chinese-American population in San Francisco. The delineated primary service area included the Chinatown portion of San Francisco of which 57% was Chinese-American. Although there were six existing association facilities in the area, three of them being only one-tenth of a mile from the proposed location, the Board believed that the applicant would be both useful and successful. Between 1975 and 1976 the assets of Chinatown grew from $8.3 million to $12.8 million representing a 51.4% increase.

Fulcrum Savings and Loan Association, also located in San Francisco, California, was insured by the FSLIC in June, 1975. It is owned and operated by blacks. Blacks represent 15.7% of the total population in the primary market area. Urban renewal and redevelopment form the bulk of new housing in this community. Between 1975 and 1976 Fulcrum had a 93.8% rise in its total assets ($2.5 million to $4.9 million).

Oakland Federal Savings and Loan Association of Oakland, California, received a Federal charter from the Board in November of 1972. The organizing group consisted of six blacks, four Anglos, an Oriental and a Mexican-American. The purpose of the application was to establish an association willing to make mortgage loans in certain areas of Oakland which are predominantly black. At the time the application was considered, there was only one thrift institution in the primary market arae. Oakland's assets reached $6.4 million in 1976. This represented a 25.5% increase over 1975 assets.

Sound Savings and Loan Association of Seattle, Washington, was incorporated in November, 1975 and insured by the FSLIC in the following year. The organizers consisted of eight women and two men. The savings and loan planned to concentrate its efforts on the downtown and urban renewal areas of Seattle by meeting the unfulfilled needs for credit, financial assistance and counselling for women and minority groups. As of the first five months of 1976, the total number of its market area loans was 14.822, an increase of nearly five times that for the same period in 1975.

First Federal Savings and Loan Association of Phoenix, Arizona, applied for a branch office at Window Rock, Apache County, Arizona, and was approved by the Board in December, 1975. The site selected is the area's major administrative center for the Navajo Tribe and is situated on the Indian reservation. Presently, there is need for 8,300 new housing units and renovation or replacement of 14.000 existing units in this area.

A concluding set of statistics may be helpful in putting in proper perspective the Board's emphasis on competition and how it has aided people who were previously excluded from access to credit. In 1971 there were 40 minority associations with FSLIC insurance. In 1976 the number had increased to 73. Within that same time span the total assets of such minority associations grew from $400 million to $958 million.

We believe that the chartering and branching policies of the Board described above provide a more practical and sound basis for encouraging servicing of particular market areas than the penalty approach of S. 406. Where special credit problems of the type we have listed are presented, different, specially designed policy tools are needed. Moreover, if the Congress believes that existing tools are being under-utilized, the oversight function can be applied as a corrective.

There is one final point we would like to make that concerns the scope of S. 406 and its application to various types of thrift institutions.

It should be noted that while the Board has the authority to approved applications for insurance of accounts, holding company acquisitions and mergers of State chartered associations, it does not have statutory authority to rule upon the establishment of branches and related facilities or the relocation of offices of FSLIC-insured State chartered savings and loans. The result is that the proposed legislation would affect only the branching and relocation activities of Federal savings and loans. It would not appear desirable or in the public interest to impose the standards of the proposed legislation only on Federal savings and loans which make up less than one half of the total number of thrift institutions in the country.[3] Also, the Board is concerned that if the bill is enacted in its present form, it may cause some Federal savings and loans to convert to State charters.

In concluding my remarks, we would like to reiterate that the Board supports all of the objectives which we have discussed and which we believe the bill seeks to meet.

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[3] According to 1976 figures there were 2020 Federally chartered associations as opposed to 2838 State chartered associations.

However, as we have indicated, it is not clear to the Board that the bill would achieve the objective as implied by its title. The practical effect of the bill might well be to discourage associations from making applications in neighborhoods where funds are badly needed because of the reexamination that this would bring about with respect to the lending policies in service areas of other offices. Savings and loan associations might well close down offices that they already have in certain neighborhoods if they feel that they would be publicly attacked for not meeting the credit needs of the service areas of these offices when they apply for a branch in another location. Thus, the bill could well have the practical impact of concentrating offices of savings and loan institutions to a greater degree in more affluent neighborhoods. Thus, we have grave doubts about whether the bill can carry out its intended purpose, if its purpose be investment in "communities" *simpliciter*. Most savings and loan deposits are already located in or drawn from more affluent areas. Any effect of the bill in reinforcing this trend because of a perceived concern that offices in problem neighborhoods would be vulnerable to the charge that the deposits in those offices are not adequately reinvested in the service area would add to an already unfortunate situation.

The Bank Board desires to be constructive in responding to the problems that the bill attempts to address. There certainly are situations where savings and loan associations may be discouraged from investing enough funds in a given area or neighborhood because of fears, correct or not, about the soundness of that neighborhood. Such an attitude can be a contributory factor to neighborhood decline although we do not believe that this type of behavior is the major reason for such a condition.

The way to deal with this problem, however, is not to impose a process of application review that might have the practical effect of encouraging money to remain in the affluent neighborhoods. Instead, the best method would be to devise a means by which *all* financial institutions, regardless of where they are located, would be better motivated to channel funds into older and less affluent neighborhoods in need of revitalization. The Community Reinvestment Act would rely for funds only on offices in the affected areas and only to the extent of deposits generated in primary savings service areas around those particular offices. The reality, however, is that the volume of funds available from these primary service areas are grossly inadequate to finance the kind of urban revitalization that this bill appears to be arguing for. The major growth in savings accounts and credit availability are not in these offices. The fact is that we need to tap the money that is available in offices located outside of the affected neighborhoods or drawing funds from a much wider area if we are to do an adequate job of revitalizing urban areas. We need incentives that will encourage all financial institutions—regardless of location of offices and definition of savings service areas—to channel more funds into the target areas.

Our comments have been designed to suggest ways to meet the objectives of the bill. A particular step the Board is prepared to take is in the area of unfair and discriminatory housing practices making use of the mechanism suggested by S. 406. We have procedures which uncover violations of the fair housing laws and we require their correction. Furthermore, in the course of ruling on various applications for depository facilities, we require information which reveals past performance and future intent to serve community needs. We are proposing today that in the course of our evaluation of future applications we shall weigh the prior performance of an institution in the area of fair housing as revealed to us in our examination reports.

S. 406 as presently drafted, however, needs clarification as to its objectives and careful consideration of the effectiveness of the mechanism set forth in the bill to meet those objectives, and the precise linkage, if any, between "savings areas," as defined, and "communities." In its present form, it provides what is, in our view, a cumbersome, vaguely defined policy tool for a host of distinct potential "credit need" problems. We are prepared to offer whatever assistance we can, in addition to this testimony, in clarifying the bill's legislative objectives and in commenting upon appropriate, practical and administrable policy tools to reach those objectives.

I would be pleased to answer any questions you may have. Thank you.

Federal Home Loan Bank Board Office of Industry Development **CHECKLIST OF SUPPORTING DOCUMENTS FOR PERMISSION TO ORGANIZE**	PRINCIPAL APPLICANT'S NAME, CITY, STATE

INSTRUCTIONS: When required documentation is assembled in accordance with instructions, place an "X" mark in Col. A. If for any reason any of the required documentation is omitted, place an "X" mark in Col. B and make explanatory comments below. Column C is reserved for use by the Board's Supervisory Agent. Position this form on top of all documents, which support this sheet.

REQUIRED ITEMS	CHECK APPROPRIATE COLUMN AND COMMENT AS REQUIRED		DO NOT USE THIS COLUMN
	REQUIRED DOCUMENTATION ATTACHED (A)	INCOMPLETE OR NOT SUBMITTED (COMMENT) (B)	FOR AGENT'S USE (C)
Application Form, FHLBB 133			
Exhibit I.			
A. Maps.			
B. Proposed Location.			
C. Proposed Savings Service Area (Narrative Detail).			
1. Population.			
2. Resident income levels, etc.			
3. Savings potential of population.			
4. Existing or proposed major economic base of community.			
D. Local Savings. 1. Savings deposits of bank offices, etc.			
E. Local Home Financing. 1. Strength of mortgage demand.			
Exhibit II.			
A. Proposed Operations.			
1. Office location.			
2. Capital, subsidies and estimated growth.			
3. Directorate, management and other personnel.			
4. Independent ground-floor quarters and full-time.			
5. Estimated volume of business for first year.			
6. Pledge share accounts.			
7. Lending policies.			
8. Dividend rates.			
B. Undue Injury (Narrative Statement).			
Exhibit III.			
A. Possible Undue Injury to Properly Conducted Existing Local Thrift and Home Financing Institutions.			
Exhibit IV.			
A. Character and Responsibility of Applicants.			
1. Biographical sketch.			
2. Affiliations with other financial institutions.			
3. Affiliations with related businesses.			
4. Financial responsibility.			
Exhibit V.			
A. Additional Pertinent Information.			
Exhibit VI.			
A. Affidavit.			

FHLBB Form 756
June 1971

Appendix B

SUMMARY OF DOCUMENT: Sources of Economic Data: A Guide for Savings and Loan Applicants

This summary provides an overview of the detailed documentation of home-lending and thrift needs in local service areas the Bank Board expects charter applicants to submit in support of their application. This guide is designed to help applicants find data sources and analyze the assembled data used as documentation.

> When a group applies for permission to organize a new federal savings and loan association, or for insurance of accounts on an association not yet in operation, it must show a necessity in the community for the proposed association. Exhibit I of the Outline of Information lists the data which the group must submit to enable the Federal Home Loan Bank Board to evaluate this necessity. This Guide is intended to assist applicant groups in locating and presenting the required information. (This quotation is taken from the introduction to Sources of Economic Data:...)

A. Maps and Delineation of Service Area.

A(1) Delineation of the Savings Service Area

"The savings service area of a savings and loan association is that area from which the proposed institution expects to draw the majority of the savings customers. To delineate this area, one must look at factors which influence the customer's decision to save at a particular association...

1. The accessibility of the various savings and loan associations to the customer's home, shopping area, and job...

2. The accessibility and attractiveness of the shopping center or commercial area in or around which the savings and loan association is located...

For the actual definition of the trade area, it is necessary to use a number of broad indicators of the supply and demand for savings activity. The supply side includes all of the existing or proposed institutions offering the same or substitutable savings services in an area. On the demand side it is necessary to use a number of indicators of the general level of economic activity, such as total retail sales,

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savings in time deposits, and employment. Since people often save in a location convenient to their homes as well as where they shop or work, another useful indicator of demand is the number of families living in an area.

Thus the size of the savings service area will vary with population density, the presence of retail and employment activity, the transportation system, and the size and location of competing financial institutions... (Emphasis is author's.)

A(2) Preparation of Maps of the Service Area and the Surrounding Communities.

Maps are a very important part of the application. These maps should show not only the service area of the proposed association, but should also show the relation of the service area to a larger area... (Emphasis is author's.)

In many instances, especially in larger urbanized areas or SMSA's boundaries of the different census tracts are quite important. In an SMSA, the service area of a savings and loan association will normally consist of an agglomeration of several census tracts. It is quite important for the evaluator of an application to know exactly where the boundaries of these tracts lie in relation to the site of the proposed institution;... (Emphasis is author's.)

B. Proposed Location.

C. Proposed Savings Service Area.

C(1) Population Trends in the Savings Service Area, City, County and SMSA.

This section should show the white, non-white, and Spanish-surname population of the service area, city, county and SMSA...Also include the ratio of customers to existing savings and loan association offices (including branch offices) in the savings service area. (Emphasis is author's.)

C(2) Resident Income Levels, Median Family and Per Household Income, Type of Housing Occupancy, and Family Size.

C(3) Dilapidated, Deteriorated, and Abandoned Housing.

A table should be prepared showing the total number of housing units in the service area with all plumbing facilities or lacking all plumbing facilities for the total and the minority group populations. (Emphasis is author's.)

C(2)(b) Racial Segregation

To show the extent of racial segregation in the neighborhoods of the savings service area, develop a table showing racial make-up by census tract... (Emphasis is author's.)

Appendix B

C(2)(c) Housing Sponsors

(This paragraph is focused on sponsors of low- and moderate income housing and sponsors of urban renewal projects.)

C(3) Savings Potential of the Service Area.

All of the items mentioned in Section C will have a bearing on the current or future savings potential of the savings service area... (Emphasis is author's.)

Demonstrating that there is, in fact, untapped savings potential in the service area is one of the most crucial pieces of evidence that the application must show. (Emphasis is author's.)

C(4) Economic Base of Community.

Because the economic well-being of the entire community, and therefore its savings potential, will be influenced by changes in the sources of employment, income, and output, analysis of these trends is an important part of the application...

D. Local Savings.

D(2) Savings Capital in All Financial Institutions in the Service Area.

E. Local Home Finance.

Generally, a good argument can be made that loan customers will be willing to travel farther than savings customers. A larger area should, therefore, be analyzed when discussing the potential lending area.

Local mortgage markets, like savings markets, are not isolated from national ones. A decline in housing starts might be the result of high interest rates for home loans or of a decline in the local economy. For this reason it is important to mention the trends outside of the local area...

An informal survey of local lending institutions is probably the best way to find out about the interest rates, terms and loan-to-value ratios prevalent in the loan service area. (Emphasis is author's.)

Appendix C

[illegible]
[illegible]

FEDERAL HOME LOAN BANK BOARD

APPLICATION FOR PERMISSION TO ORGANIZE A FEDERAL SAVINGS AND LOAN ASSOCIATION

To the Federal Home Loan Bank Board
Washington, District of Columbia

THE UNDERSIGNED, citizens of the United States and of the community to be served, desirous of forming a local mutual thrift institution in which people may invest their funds, and in order to provide for the financing of homes, being persons of good character and responsibility, and believing in the necessity for such an institution in the community to be served and in the reasonable probability of its usefulness and success without undue injury to properly conducted existing local thrift and home-financing institutions,

DO RESPECTFULLY MAKE APPLICATION to the Federal Home Loan Bank Board for permission to organize, under such terms and conditions as the Federal Home Loan Bank Board may prescribe, a Federal Savings and Loan Association to be located at or in the vicinity of ____________________ ____________________ in the _______________ of ____________________, County of ____________________, State of ____________________,

AND DO HEREBY AGREE TO RAISE INITIAL SAVINGS CAPITAL in the amount of not less than $____________ from ________ initial subscribers, or such other amount from such other number of subscribers as may be designated by the Federal Home Loan Bank Board, under such conditions as it may prescribe,

AND TO PLEDGE SHARE ACCOUNTS as guaranty to the Association against operating deficits and losses in excess of its reserves in the amount of $____________ or such other amount as may be designated by the Federal Home Loan Bank Board, under such conditions as it may prescribe,

AND HEREBY APPOINT ____________________ of ____________________ to represent the undersigned before the Federal Home Loan Bank Board, and to receive all notices, correspondence, and documents relating to this application,

AND DO JOINTLY AND SEVERALLY REPRESENT AND WARRANT to the Federal Home Loan Bank Board, for the purpose of inducing the Federal Home Loan Bank Board to permit the organization of said Federal Savings and Loan Association upon the terms and conditions set forth in the application or upon such other terms and conditions as may be required by the Federal Home Loan Bank Board (and with the intention that the Federal Home Loan Bank Board should rely upon the following), that:

THE UNDERSIGNED WILL NOT REPRESENT THEMSELVES as authorized to organize such association until this application is approved and, upon notification that the application has been approved, they will proceed only in accordance with the provisions of the Home Owners' Loan Act of 1933, as amended, Title IV of the National Housing Act, Federal Home Loan Bank Act, and with the rules and regulations made thereunder;

THE UNDERSIGNED ARE NOT ACTING in this application as representative of or on behalf of any person, partnership, association, or corporation undisclosed to the Federal Home Loan Bank Board;

NO CHARGE OR EXPENSE incurred in connection with the organization of the Federal Savings and Loan Association shall be charged to the Association;

THE INITIAL SHARE CAPITAL to be raised pursuant to requirement of the Federal Home Loan Bank Board will not with the knowledge, belief or concurrence of the undersigned be obtained by borrowing on the security of accounts in the association; NOW, THEREFORE:

STATE OF____

COUNTY OF_______________________________________

THE UNDERSIGNED, BEING DULY SWORN, DEPOSE AND SAY:

THAT WE ARE THE APPLICANTS in this Application for Permission to Organize a Federal savings and loan association in..____________________________;

THAT ALL OF THE STATEMENTS AND REPRESENTATIONS made in this Application for Permission to Organize, signed by each affiant, and dated the ____________day of ____________, 19____ , and all evidence and data submitted in support thereof are consistent with the facts to the best of our information and belief.

Typed Name____________________ Signature____________________

Residence____________________ Business Address____________________

Typed Name____________________ Signature____________________

Residence____________________ Business Address____________________

Typed Name____________________ Signature____________________

Residence____________________ Business Address____________________

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Residence____________________ Business Address____________________

Typed Name____________________ Signature____________________

Residence____________________ Business Address____________________

etc.

(JURAT PRESCRIBED BY LAW OF STATE)

Appendix D

FEDERAL HOME LOAN BANK BOARD OFFICE OF INDUSTRY DEVELOPMENT CHECKLIST OF SUPPORTING DOCUMENTS FOR BRANCH OFFICE APPLICATION	APPLICANT'S NAME, CITY, STATE DOCKET NO.

INSTRUCTIONS: When required documentation is assembled in accordance with instructions, place an "X" mark in Col. A. If for any reason any of the required documentation is omitted, place an "X" mark in Col. B and make explanatory comments below. Column C is reserved for use by the Board's Supervisory Agent. Position this form on top of all documents, which support this sheet.

REQUIRED ITEMS	CHECK APPROPRIATE COLUMN AND COMMENT AS REQUIRED: REQUIRED DOCUMENTATION ATTACHED	CHECK APPROPRIATE COLUMN AND COMMENT AS REQUIRED: INCOMPLETE OR NOT SUBMITTED (COMMENT)	DO NOT [USE] THIS CO[LUMN]: FOR AGENT'S USE
Application Form, FHLBB 700	(A)	(B)	(C)
Exhibit I.			
A. Maps.			
B. Proposed Location.			
C. Proposed Savings Service Area (Narrative Detail).			
1. Population.			
2. Resident income levels, etc.			
3. Savings potential of population.			
4. Existing or proposed major economic base of community.			
D. Local Savings.			
1. Savings deposits of bank offices, etc.			
2. Applicant's present savings volume in proposed service area.			
E. Local Home Financing.			
1. Strength of mortgage demand.			
2. Applicant's present mortgage loan volume in proposed service area.			
Exhibit II.			
A. Proposed Branch Operations.			
1. Description of plans for office quarters.			
2. Independent ground-floor and full-time.			
3. Period of time necessary for opening.			
4. Home and branch office data.			
Exhibit III.			
A. Undue Injury (Narrative Statement).			
Exhibit IV.			
A. Additional Pertinent Information.			

Appendix E

FEDERAL HOME LOAN BANK BOARD

APPLICANT INSTRUCTIONS FOR A BRANCH OFFICE

In accordance with the requirements in Section 545.14 of the Rules and Regulations for the Federal Savings and Loan System, each application by a Federal association for permission to establish a branch office shall be supported by information to show: (1) there is a necessity for the proposed branch office in the community to be served by it (Exhibit I); (2) there is a reasonable probability of usefulness and success of the proposed branch (Exhibit II); (3) the proposed branch office can be established without undue injury to properly conducted existing local thrift and home-financing institutions (Exhibit III); and (4) any additional information considered pertinent by the applicant and not specifically applicable to any other requirement (Exhibit IV).

No application shall be considered if the applicant does not meet the eligibility requirements in Federal Regulation 545.14(b).

To expedite the processing of an application the supporting information should include, but not necessarily be limited to, the matters outlined below, with particular emphasis on trend data concerning the proposed branch service area. Latest Bureau of Census data and special economic surveys, made primarily for the applicant, local industries, governmental subdivisions or agencies, or educational institutions are extremely useful.

A list of suggested sources of data is available from your Supervisory Agent.

Submit 4 complete sets of information to the Supervisory Agent at your Federal Home Loan Bank.

1. Application Form, FHLBB-700.

2. Checklist of supporting documents Form FHLBB-754 - to be used as a covering sheet for exhibit material which will aid in assembling documentation. Supporting documents should be identified in the bottom right hand corner of each page according to the paragraph designations used in these instructions.

EXHIBIT I - NECESSITY FOR PROPOSED BRANCH OFFICE

A. MAPS:

1. General Specifications: This application must be accompanied by two maps: (1) a state map upon which is shown the proposed location and the proposed service area (PSA); and (2) a city, county or local area map upon which is shown the proposed location, the PSA, applicants' and other existing or proposed thrift institution offices, and significant commercial facilities in or near the PSA. A third, optional map of the city, county or local area may be submitted showing the proposed location, the PSA and the location of commercial banks.

Where available, all maps submitted must be original, full color road type maps. No map (state, city, county or local area) shall be larger than 36 inches by 42 inches. In addition, city, county or local area maps should have a scale of between one inch to the mile and three inches to the mile and such scale should appear on the face of the map.

2. Notations: The only notations (in addition to what is already printed thereon) that are to appear on maps submitted in support of this application are the following:

   Proposed Service Area (PSA) - should be outlined by a heavy black line.

   Proposed Location - should be marked with a black X and with a black circle around it.

   X (Black)

   Applicant's Offices - in or near the PSA should be marked by black numbers with black circles around them.

   1 2 3 (Black)

   Other Institutions - Any other existing or proposed thrift institutions in or near the PSA should be marked by red numbers with red triangles around them.

   1 2 3 (Red)

   Commercial Facilities - Significant commercial facilities in or near the PSA should be marked by green numbers with green squares around them.

   1 2 3 (Green)

   Where a third or optional map is submitted, the proposed location and the PSA should be marked on the map as set forth above and the commercial banks should be marked by black numbers with black diamonds around them.

   1 2 3 (Black)

   A key, listing the names of each item identified by one of the above symbols, should be provided as an attachment to each map.

B. Proposed Location: Describe in narrative form the geographical location of the proposed branch office. Include in the description the character of land uses in the immediate vicinity such as: strip development; shopping center (neighborhood or regional -- number of stores, principal tenants, square footage of retail space, area of draw, retail sales, etc.); office buildings, residential neighborhood, etc. If the proposed branch office is to be located in a shopping center not yet in operation, give full details regarding the status of development, number of stores and principal tenants, square footage of retail space, proposed opening date and other information you believe may be pertinent.

C. Proposed Savings Service Area: Describe in detail the general community characteristics of the proposed savings service area, and show specific statistics to support your application. All phases of community information are to be set forth on a current basis and on what you believe to be meaningful trends. Additional data covering a broader area may also be quite helpful. Sources of the various data should be clearly stated.

Remember, such data should relate to the savings service area if possible and other data for larger or different areas should be clearly identified and explained.

1. Population trends.

2. Resident income levels, type of housing occupancy; e.g. median family income, per household income and predominant range of income.

3. Savings potential of population and/or evidence of any untapped savings potential.

4. Existing or proposed major economic base of community.

D. Local Savings:

1. Savings-type deposit data of financial institutions other than Federally insured savings and loan associations in the area. For banks use most recently published "Call Report".

2. Volume (number and amount) of applicant's present savings accounts in the proposed service area including percent to total savings.

E. Local Home Financing:

1. Characterize the strength of mortgage demand in the area using such relevant economic data as:

   (a) Volume of tract housing and other new single-family dwellings completed and sold.

   (b) Volume of new multiple housing units completed and rented.

   (c) Housing developments, recent and proposed, including number of units, value and type of housing occupancy.

2. Volume (number and amount) of applicant's present mortgages in the proposed service area including percent to total mortgages.

APPENDIX F

Notice of Filing of Branch Office Application:

Notice is hereby given that, pursuant to the provisions of §545.14 of the rules and regulations for the Federal Savings and Loan System, the ____________ Federal Savings and Loan Association, ___(city)___, ___(state)___, has filed an application with the Federal Home Loan Bank Board for permission to establish a branch office at, or in the immediate vicinity of ___(street address)___, ___(city)___, ___(state)___. The application has been delivered to the office of the Supervisory Agent of the said Bank, located at the Federal Home Loan Bank of ___(city)___, ___(street address)___, ___(city___. Any person may file communications, including briefs, in favor or in protest of said application at the aforesaid office of the Supervisory Agent within 10 days (or within 30 days if advice is filed within 10 days stating that more time is needed to furnish additional information) after the date of this publication. Four copies of any communications should be filed. The application and all communications in favor or in protest thereof are available for inspection at the aforesaid office of the Supervisory Agent.

_______________ Federal Savings
and Loan Association _______________

Notice of Filing Application for Change of Office Location

Notice is hereby given that, pursuant to the provisions of §545.16 of the Rules and Regulations for the Federal Savings and Loan System, the ____________ Federal Savings and Loan Association, ___(city___, ___(state)___, has filed an application for permission to change the location of its office which is now located at ___(street address)___, ___(city)___, ___(state)___, to or in the immediate vicinity of ___(street address)___, ___(city)___, ___(state)___.

The application has been delivered to the Office of the Supervisory Agent of the said Board, located at the Federal Home Loan Bank of ___(city)___, ___(street address)___, ___(city)___. Any person may file communications, including briefs, in favor or in protest of said application at the aforesaid office of the Supervisory Agent within 10 days (or within 30 days if filed within the first 10 days stating that more time is needed to furnish additional information) after the date of this publication. Four copies of any communications should be filed. The application and all communications in favor or in protest thereof are available for inspection by any person at the aforesaid Office of the Supervisory Agent.

_______________ Federal Savings and
Loan Association _______________

APPENDIX G

Notice to Change a Designation of Home Office and Branch Office

______________ Federal Savings and Loan ___(city)___, ___(state)___, has filed an application with the Federal Home Loan Bank Board to redesignate its existing home office as a branch office and to redesignate a new office as its home office. In order to obtain such a new office, it has also filed with said Board an application for permission to establish a branch office which, if approved, will be redesignated as its home office. The following notice is hereby given pursuant to applicable regulations: (here insert notice required by §545.14 of this chapter)

Mr. MARSTON. Like Mr. Embry's statement, I'm sure that there will be no unanimous agreement on what we have said. I would like to point out, Mr. Chairman, that the board has demonstrated its interest in providing sound mortgage borrowing opportunities to a wide range of consumers.

We have our alternative mortgage instrument research study going on. We have completed our examiner training program on nondiscrimination. You're familiar with the work that the board has done along with others on NHS programs with its direct and indirect benefits. There was in the paper this morning a statement of the recent accord that we had with constructive civil rights groups. There is also the expeditious handling on the part of the board to allow some savings and loan associations in New Jersey to buy a bond issue, and the proceeds of that issue will be used in areas designated by the State legislature as underserviced areas. Mr. Roessner is very familiar with that and I understand he's to be one of your witnesses coming along.

Now, Mr. Chairman, I do not want to imply that we are complacent.

Further, I understand that there are some changes and some amendments contemplated to this bill so I hope that our testimony will be helpful to the analysis of this bill and any forthcoming amendments. As I go into the comments I hope that one of the questions that the committee and the staff will keep in mind is:

Is this in the best interest of the consumer-borrowers of States like Texas and California, and is it in the best interest of consumer-savers in States such as Massachusetts, Michigan, Florida, and Illinois?

Specifically, there are many ambiguities in the bill which we believe should be cleared up. For example, what credit needs does the bill address? Those of minority groups, allowing them to obtain credit free from discrimination practices? Low and moderate income groups, middle income groups, or perhaps the credit needs in blighted areas or deteriorating areas, or perhaps consumers in capital short areas or perhaps the credit needs of the housing construction industry and the purchasers of new homes?

Thus, the bill, as stated now, is unclear as to what credit needs you're trying to have served, at whose expense; whether you intend to omit 60 percent of the Nation's savings and loan associations from the bill; and what you intend for the some 2,400 savings and loan associations throughout the United States that have only one branch or no branches. Mr. Embry referred to this.

Second: The written testimony covers the board approval procedures. I just want to reiterate here that we do look at the credit needs of the communities. We disagree with the statement about semiexclusive franchises. We believe that there are benefits. The S. & L.s this year, based on our flow of funds projections, are supporting 60 percent of the home mortgage market in what we regard as the best housed Nation in the world.

Is the charter free? I don't think it's free. The savings and loan associations are restricted as to the types of investments they can make, and the impact of Federal income taxes is higher on savings and loan associations than their major competitors.

Finally: Is the charter semiexclusive? We don't believe so. We believe that the board's record stands as procompetitive. At least this is what many of the savings and loan associations tell us. Why are you allowing all these new branches? We are procompetitive in terms of new savings and loan association charters and branches. We are also active and beginning to be effective in attracting new sources of capital to the housing market from investors who have not been interested heretofore in investing in mortgage instruments.

Turning briefly to economics, I think there's some misunderstanding, Mr. Chairman, on where savings come from. Who are the savers? Where do they live? Savers are generally higher income, not rich but higher income people and they are older people, 55 years and older generally. Borrowers, on the other hand, are middle to low income people and tend to be much younger—our sons and daughters.

The majority of the market areas are relatively homogenous as to demographics. By that, I mean they are stratified as to income in general and as to age. Therefore, I think we have here a built-in mismatch as to the suppliers of capital and the demand of capital in most neighborhoods. This implies that substantial community investment is often not feasible and often may be ill-advised.

Mr. Chairman, the bill assumes that the primary service area necessarily coincides with something called the community and as the song said, it just ain't necessarily so. Convenience to work is of increasing importance to the consumer in depository selection.

As to the 50 percent figure, I don't know what rationale went behind this selection. It's a nice round number, but what kind of geometric design will be used to encompass 50 percent of deposits will often differ from that used to encompass the community.

Finally, on economics, you have the multibranch problem and I have just mentioned that half the savings and loans have one branch or none. There are many associations that have 20 or more. It will make branching more difficult. The consumer tells us by his or her action that he or see likes branches, and there you read convenience of location.

Finally, under this bill, how do new communities—how do building communities satisfy their credit needs?

So, in conclusion; first: Who has the priority? The borrower-consumer or the saver-consumer? Remember, that one community's gain is another community's loss.

Second: I understand—I didn't hear a statement nor have I read it, but I understand a witness yesterday indicated how competition works in the long run, and he spoke of a test of how well credit needs are met by all institutions. In contrast, this bill appears to turn to credit allocation.

Third: And I think one of my personal serious concerns is that it might have an effect just opposite to that intended and the intent is good, Mr. Chairman. I have always lived fairly close to the city centers and do so here in Washington, D.C. It may lead to the closing of offices in the inner-city areas. It may lead savings and loan associations not to open offices in innercity areas, and it may lead to the concentration of branches even more in the more affluent areas and suburbs.

Therefore, we urge you to rely on or to release the market forces, to focus on all institutions that can and do supply mortgage credit and, most importantly, to address the special problems in major blighted and deteriorating areas by looking to broadly based Government-private programs rather than on a few branches of only 50 percent of the savings and loan associations.

Mr. Chairman, that concludes my summary and I'd be happy to try to answer any questions for you. I have several members of the staff with me who have great expertise.

Senator SARBANES. When you talk about a mismatch, how are you defining the neighborhood you refer to?

Mr. MARSTON. The neighborhood is not a precise term, Mr. Chairman. If you want to use, say, the northwest section as a neighborhood or capitol hill as a neighborhood—Capital Hill is probably a little smaller as a neighborhood. It's not a precise definition. I guess northwest would be a section of the District and Capitol Hill would be just a neighborhood.

What I'm saying is that in the northwest I think, as the studies have shown, they have a surplus of funds.

Senator SARBANES. Well, you contend the market forces would in effect move in money in an adequate way, into the service areas of these institutions?

Mr. MARSTON. Well, I think you have to define what adequate is and you have to look at your alternatives. I think the market forces have been moving money into an area such as Capitol Hill, which I'm particularly interested in, in a way that it did not move before. I think it came from a number of sources. I think part of it was the prodding of the Congress.

Part of it was the learning experience the savings and loan associations have had here from their NHS experience. Not only did they have a service corporation that made loans, but also the people who owned the service corporation, the savings and loans, have learned how to make good sound loans in these areas.

The other thing was beyond the control of the savings and loan and that was the relaxing of the usury limit. In 1974, the usury limit in the District was 8 percent. In Virginia and Maryland it was 10 percent. Why lend money in the District? Then, in 1974, they raised the rate to 10 percent and that's when I got my loan, 10 percent money. But if it hadn't been for that, I couldn't have gotten any.

So I guess my answer is generally yes.

Senator SARBANES. How do you explain the Baltimore experience under your rationale?

Mr. MARSTON. Well, you probably know that we think that we hold out Baltimore as being one of the best NHS areas in the country. I'm not aware of any that's done any better. There have been some very, very good ones. We have taken three bus loads of people up there, including people from the Hill and other agencies, just to look at it. I think there you had a great combination of city government who was concerned. Your mayor up there and Bob Embry—I think he is a great appointment. He disagrees with us on a lot of things, but he and the mayor and several others were the key. The city was involved. They understand the services have to be provided. They understand the responsibilities and the necessity of the municipal government to be part of the equation. You had some good lenders up there. Howard Scaggs, who probably many of you know, Mr. Chairman, and a number of the lenders took a real interest in this. They didn't just invest the money of their savers, but they got involved in the process. The third thing, in Baltimore, was that you had an interested, constructive neighborhood group. When we were up there, we were introduced to this lady, Matilda—perhaps you have met her—she heads Matilda's Marauders. She and several neighbors go around before trash collection day and if somebody has put their trash out on the sidewalk they go up and knock on the door and say, "Trash collection is tomorrow. Put this inside." That's the kind of commitment from the neighbors up there that I think made this work. It was a combination of three.

Senator SARBANES. Well, that all sounds very nice, but the fact of the matter is that the institutions, in order to get the usury limits raised in Annapolis, which they could not do because of the political forces, in effect said: "To get this we make a commitment to put money into the city to have it available for loans for housing." Matilda and all the rest of it to one side, that's essentially what led them to make the decision and the consequence of that experience was that it really was quite positive for them.

Now, how are you going to get lending institutions to make that kind of commitment in communities all across the country? They are drawing the money out of there and they are not putting it back in.

Mr. MARSTON. Well, they are drawing it out of there——

Senator SARBANES. Let me ask, if market forces are working won't they put the money clearly where they can get the greatest return?

Mr. MARSTON. Sure. I think they should.

Senator SARBANES. Don't they have other places where they could put the money where they will get an adequate return? We're not asking them to lose their money or to lend it out at no return, but where they will get an adequate return. Yet the push will always be to go to the top end of the spectrum, will it not?

Mr. MARSTON. Yes, sir.

Senator SARBANES. How do you get them, then, to service areas from which they are drawing their money? They do receive advantages by receiving these charters and being allowed to do business; don't they? I think your statement in effect says they do.

Mr. MARSTON. Yes, they get advantages and they give advantages.

Senator SARBANES. How are you going to get them to respond to this need? We're not asking them to go in and lose money. We're asking them simply to respond to important credit needs in that community. Really, all the legislation does is require them to show what they are doing in that area in terms of seeking these various regulatory approvals. What's wrong with that?

Mr. MARSTON. Well, part of it is the process they have to go through. For example in the State of Illinois, there aren't many branches. Up until 3 or 4 years ago it was a nonbranching State for savings and loan associations. I have been in the State of California and in other States around the country where there are multibranch units.

So you just have a blizzard of paperwork and as I understand from this administration, that's one thing they want to cut down on. I don't think, Mr. Chairman, that——

Senator SARBANES. Well, Mr. Lance said the other day when he was asked that question about zero-based budgeting. He conceded this meant more paperwork, but he said the objective which zero-based budgeting was designed to achieve more than outweighed the additional paperwork.

Mr. MARSTON. That's a judgment.

Senator SARBANES. That might be the case here; might it not?

Mr. MARSTON. Yes, sir. It certainly could be, but I don't think it's a bad thing to have financial institutions going for the best yield. Chairman Burns' statement and the experience of the commercial banks is about like the savings and loans. They have been in a deteriorating capital position. Their net worth vis-a-vis savings and assets has been going down. It's not dangerous, but it's a problem that is of concern. It's going to be interesting to me to see the Congress' response to his comment that one of the ways commercial banks increase their equity capital versus savings was out of their foreign operations. I think his statement was it constituted about half their earnings.

So going for good yields is beneficial because savings growth is based on your reserve capabilities and savings are what mortgage loans are made of.

Now you ask specifically then what about lending in these areas, the kind of area where I live and Bob Embry lives, the city areas? I think the approach to that is to make those loans less risky and that's what you have done in that neighborhood in Baltimore.

So, therefore, an 8-percent loan or a 9-percent loan in one place is a good deal. A 9-percent loan with another set of facts is not a good deal.

The other thing, as I indicated, underwriting mortgage loans——

Senator SARBANES. Is that the distinction that you think these lending institutions have been making—that kind of fine distinction?

Mr. MARSTON. I think that's what they are——

Senator SARBANES. How do you answer, then, when the studies show in Baltimore and other places that they have simply redlined out extended neighborhoods, many of which are as healthy, if not more healthy, than suburban areas in which they continue to loan. They just make a kind of a blanket judgment about this.

Mr. MARSTON. Senator, that's the conventional wisdom.

Senator SARBANES. And it's borne out by studies.

Mr. MARSTON. Which studies?

Senator SARBANES. Certainly in the Baltimore situation.

Mr. MARSTON. I have not seen the study and I'd be happy to take a look at it. I don't deny, however, you want to define it—and I think according to the Library of Congress research people the definitions are not very good that we use for redlining. There's a difference between redlining and disinvestment. I agree with them on that. And you know, really I don't think we're debating on that.

I think what we're trying to do is to determine how can we keep up the progress that people are making—how can we keep it going and keep financial institutions from making unsound loans.

Senator SARBANES. No. I think the question you have to answer is how do you get an institution that draws its savings out of an entire metropolitan area to, in turn, put them in in some reasonable way, instead of directing them all—let's assume for the moment—to the outlying areas where the return is slightly higher. How do you address that problem?

Mr. MARSTON. My general feeling is, first, you've not addressed this. You have not spelled out the mechanisms in the bill and I think the——

Senator SARBANES. Do you think it's a problem that needs addressing, or is your response to it that somehow or other the market will answer it?

Mr. MARSTON. Well, I don't think it's an either/or proposition. I think it's a problem that needs addressing and I think——

Senator SARBANES. Would you resolve it by market forces only?

Mr. MARSTON. Basically, but not only by market forces, as I indicated earlier.

Senator SARBANES. If you're going to resolve it basically by market forces, why do we resrict the operation of the market in terms of who can come into it and in all the other respects which give those who obtain your approvals an advantage?

Mr. MARSTON. Well, as I tried to indicate, Senator, we have what we believe is a procompetitive attitude. Remember that all we do is charter and supervise the Federal savings and loan associations and we provide insurance for member State-chartered institutions, but there are others. There are commercial banks. There are credit unions. There are mutual savings banks in about 19 States. There are hock shops. There are many, many sources of credit. Credit does not flow just from savings and loan associations.

Senator SARBANES. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I'm going to have to go to another engagement.

I just want to ask this question. I don't get it. I've read a great deal in your statement. It's a rather long statement. We are considering S. 406 introduced by Chairman Proxmire. Do you favor or oppose that legislation or is your attitude that it's not needed?

Mr. MARSTON. I favor the intent of the bill, but I think there are too many ambiguities and questions in it as it stands. I do not favor it now, and we would be pleased to work with the committee as you know that we have in the past to try to see if there's something that could be valid and worthwhile out of it.

Senator SPARKMAN. You think there's good in the bill to the extent that it can be amended? Or would you rather just throw it aside and make a new start?

Mr. MARSTON. Well, there is one thing in there that we can use. As part of our branch procedures as we outline in the testimony, we look at the need, the probability of usefulness and success, and generally at whether or not it will do undue injury to properly conducted thrift institutions. Those are the three regulatory requirements for branching. There is one that we could use and that is—we often will not allow a branch for supervisory reasons, but the applicant can take us to court. We would feel in a better position if we had some clear legislative authority to include as a supervisory objection evidence of discrimination. In other words, we could use our approval process as a sanction against institutions which are discriminating.

As I indicated earlier, we have had seminars. We have trained all of our examiners in this general area. We have brought people in from the outside to help us do this and this would be helpful to us. So that's one specific thing to which I can say, yes, the approach of the bill makes sense.

Senator SPARKMAN. Well, I'm going to have to leave, but why wouldn't it be a good thing to have your staff members work with the staff members of this committee, particularly in collaboration with Senator Proxmire and his individual staff members, and see if we can't work out something? I believe all of us recognize that there's some good that can be done in this field.

Mr. MARSTON. Yes, sir.

Senator SPARKMAN. But the thing we've got to work out is the best way to reach that point.

Mr. MARSTON. That's right. It just seems to me we spend half our time down there working with the Senate staff and we'd be pleased to continue to do so.

Senator SPARKMAN. Well, that's a pretty good way to work. Thank you very much.

Mr. MARSTON. Thank you, Senator.

Senator SARBANES. I think we're out to increase the percentage of that time.

Senator Lugar.

Senator LUGAR. Mr. Chairman, thank you.

Mr. Marston, it seems to me that your testimony may be to a lesser extent than that of Mr. Embry and I read ahead the next testimony—that the problems defining credit for low-income neighborhoods are difficult and honest judgments might be made as to what is occurring there. At the same time, many people who would like to fix up their houses, and buy properties in inner cities, are discouraged from doing this.

Mr. MARSTON. Yes, sir.

Senator LUGAR. So it seems to me undeniably that each witness and all members of the committee are, and from Senator Sparkman's question I gather that he's concerned with that problem as I have been during the last 10 years, trying to find money for inner-city Indianapolis.

I suppose what I'm concerned about, first of all, is that the basis for this bill appears to be that because some Federal advantages have been conferred upon banks which you represent today or savings and loans or other credit institutions that we will hear from, that this is a legitimate reason for the Federal Government to move in and increase regulation of the industry. This bill would substantially increase reporting requirements, trace the inflow and outflow of savings and then beyond that—and this becomes more vague as the witnesses I think are pointing out—having found this information, what the Federal Government requires from those findings.

Now it seems to me that tactfully you're saying—but if you're not, please correct me—that although a need exists here, by and large we're going to have to think of other mechanisms in which the Federal Government can work in a more broadly-based financial community to direct funds as opposed to what you have characterized as a mismatch of moneys that come into particular branches or institutions within an inner-city neighborhood or even a broader census tract area or however we would define it. What I think we shall find—at least we found this in Indianapolis—is that after we had found all the deposits in various census tract areas, in many of those areas the deposits were not very great. If one were to make a specific allocation to those neighborhoods, the neighborhoods would have been substantially shortchanged.

What clearly had to come about was substantial revenues from the suburbs, if we were to look strictly at branches, because branches are being placed where affluent people might deposit their money or at least people who are going to save money—in this case, sometimes people who are 55 and 60 and 65 beyond the child-rearing age save more money. This is why I begin to have some skepticism about the particular thrust of this bill.

If we're going to have a strict allocation, try to expose how much money is coming into inner-city, how much is being deposited or loaned and so forth, we're not likely to hit the basic problem, which is the capital shortage or loan shortage in these areas.

Now is my reasoning reasonably consistent with your own or would you like to speak for yourself on this?

Mr. MARSTON. I think you have stated our position beautifully. As I recall, you're a former mayor of Indianapolis and I think we have just opened an NHS—we're working on opening an NHS office in Indianapolis, and I'm delighted for Indianapolis, but my son, who is director of metropolitan development down in Evansville, is quite unhappy with me that you've got it.

I think you're exactly correct that there is no balance—and that's what I tried to say in my opening statement—between the supply of savings and the demand for credit. There are certain neighborhoods that have more savings than they can use and there are other areas that don't. You mentioned the benefits. I think the savings and loan associations have conferred great benefits back to the areas which they serve. This was the original intent of Congress in setting up this system. The U.S. league estimates at the end of the year they had 80 million savings accounts. That's one per household. They must be doing something right and they are making 60 percent of the home mortgage loans. I think that's a real benefit to the country.

The purpose of branching is to get deposits. You don't need branches in general to generate mortgage loans. You have salesmen going out talking to the realtors and builders to get loans.

Finally, I just got this on the 21st from President Carter, and what President Carter is doing is reconstituting a committee that

President Ford set up. This is a copy of a memo to some of his cabinet people saying that he wants to form a working policy group on urban and regional development. The purpose of the group would be to conduct a comprehensive review of all Federal programs which impact on urban and regional areas to seek the perspectives of State and local officials concerning the role of the Federal Government in urban and regional development and to submit appropriate administrative and legislative recommendations.

As you know, as the mayor—and I have heard Senator Garn say it—he wasn't the mayor of Salt Lake City; he was the local representative of the Federal Government. So I think President Carter, by this, believes as President Ford did, that we really don't have much of a handle on how these things work. I hope that agrees with your statement. It was my intention to agree.

Senator LUGAR. Let me ask you this, and ask for your comment again, although I think you covered this fairly well, but you answered in response to Senator Sarbanes the thought that banks really ought to look for safe loans essentially. They ought to try to maximize earnings. They ought to allow market forces to govern it.

Indeed, when Chairman Burns testified before this committee a couple weeks ago, he testified that by and large the banking system was better fulfilling this objective.

Now, on the one hand, there are members of this committee who critized the banking system for having so many failures. Charts were placed in front of us indicating how many failures had occurred and indicating that there were grave weaknesses. Well, in fact, what I think you're suggesting is one way to avoid bank failure and certainly the lack of stewardship this implies, is to make sounder loans and to have more profitable banks. And with that, I agree.

I think the thing I would like to ask you now is, even if this legislation does not really meet the problem very well—and I'm beginning to have some skepticism as to whether it does—and granted that one of this committee's responsibilities is oversight of how much confidence our banking system can engender, what are the appropriate mechanisms that you have mentioned in your testimony. You say the best method would be to devise means by which all financial institutions, regardless of where they are located, would be motivated to channel funds into older and less affluent neighborhoods in need of revitalization. Rather than throwing a wet blanket entirely on S. 406 today, can you give us any direction as to a constructive way that we can begin to meet the problem in the manner in which you have suggested here?

Mr. MARSTON. I think there are several ways. We're working on a shared risk bill now. I say we are. We have been approached on that as to the possibility of insuring loans in the mature cities. One of our reservations is that I believe that there are good loans to be made, but anyway, that is one specific example.

A second example is doing what the Board is doing, and I believe the other regulatory agencies, but our number one goal is housing. We continually talk about this problem. We sponsored the NHS projects. There are great fallouts from that. People are learning not to just look and focus on new housing developments, which are very important, you know—there's a goal for new housing—there are people out of work—and so the Federal Government has to set the goals that they see that fit. Those are the two or three that come to mind.

Senator LUGAR. Those are helpful. It just seems to me that this argument will continue, whether it be the vehicle of S. 406 or something else, until there really are some more visible, constructive attempts here or until a better record is made of what is occurring. I do recognize that and it will not be adequate simply to cast doubt on this particular vehicle or to indicate that we are all sympathetic to the problem. And I suppose my hope would be, as Senator Sparkman had asked earlier, that as you have ways or those associated with you have ways to work with this committee on more appropriate vehicles, this may be important so that we do not come out with haphazard legislation down the trail and fail to meet our objective and raise hopes that are simply not going to be fulfilled.

Mr. MARSTON. Senator, the Board has really plenary powers with the Federal savings and loans and has quite a bit of influence with the State chartered. We find that our jawboning on certain issues, the talks we give, the obvious support we give—I mentioned going up to Senator Sarbanes' area when we put together three bus loads, three separate trips, up to see what these people have been doing in Baltimore. This kind of action on our part, along with the nondiscrimination programs that we have conducted that the committee is familiar with—we discussed this with members of this committee and others—I think these are positive steps that should continue.

Senator LUGAR. I agree, and should be better publicized perhaps so that more persons know what you're doing and might be stimulated to do likewise. Thank you.

Senator SARBANES. Mr. Marston, are you suggesting that some of the difficulties which financial institutions have experienced in terms of failures and other difficult straits in which they find themselves are the consequence of home mortgage investments that they have made?

Mr. MARSTON. No, sir.

Senator SARBANES. What are they the consequence of?

Mr. MARSTON. The main problems of savings and loan associations, as I indicated, is the deteriorating capital ratio, their net worth to savings. One of the problems there is that the effective Federal income tax as a group on savings and loan associations is 30 percent.

Senator SARBANES. No. Let's take the institutions that Chairman Burns is talking about that are having all these financial problems. I mean, none of those—in fact, they might be better off if they followed the purposes which this bill is seeking to achieve than their current practices, might they not?

Mr. MARSTON. Well, they might, but I would not—whatever Chairman Burns says as far as I'm concerned about commercial banks, I really wouldn't criticize that. I would just say in reading his statement to the House Banking Committee a week or so ago, he indicated that one of the reasons for the improvement in commercial banks earnings was their return on foreign investments.

Senator SARBANES. Yes, but the ones that are in trouble have been obviously investing in highly speculative ventures, have they not?

Have they not been investing abroad in lesser developed countries with respect to oil tankers, real estate investment trusts?

Mr. MARSTON. That's part of it, I suppose. One of the great problems with all institutions is either dishonest or incompetent management, and I think that was the problem down in San Diego and perhaps the one with Franklin.

Senator SARBANES. Isn't there a tremendous attraction for any institution to seek that investment which will return them hopefully the very highest return? In other words, you play for the big stakes instead of the steady safe stakes?

Mr. MARSTON. Not savings and loans.

Senator SARBANES. Well, savings and loans operate under some restrictions and, of course, I'm trying to separate out now the argument you're mixing of organizations because you go back and forth between the commercial banks and the savings and loans. The savings and loans can't get into some of these things. They are prohibited from doing so.

Mr. MARSTON. That's right. One of the places the commercial banks got into their REITs and that would involve real estate, but those were not in general——

Senator SARBANES. I just want to get at the argument that suggests that the difficulties of commercial banks in particular, as a consequence of their investments, is in any way related to the purposes of this bill, because very clearly their difficulties have come from an entirely different kind of use of their money. Isn't that correct?

Mr. MARSTON. Yes. I'm sorry. I didn't mean to imply that. I simply meant to say that earnings are very important to financial institutions, to savers and to borrowers. That's all I meant to say.

Senator SARBANES. You spent a considerable part of your statement talking about the various S. & L.s that have opened up under minority auspices.

Mr. MARSTON. Yes.

Senator SARBANES. And, of course, I commend that development. On page 36 you say:

> In 1971 there were 40 minority associations with FSLIC insurance. In 1976 the number had increased to 73, and the total assets have grown from $400 million to $958 million.

What are the total assets of all of the pertinent S. & L.s?

Mr. MARSTON. Insured S. & L.s run roughly $400 billion.

Senator SARBANES. So the minority associations that we're talking about are at $1 billion?

Mr. MARSTON. Yes.

Senator SARBANES. Well, that's a quarter of one percent; is that right?

Mr. MARSTON. Sounds right, yes.

Senator SARBANES. Then your next sentence says:

> We believe that the chartering and branching policies of the Board described above provide a more practical and sound basis for encouraging services of particular marketing areas than the penalty approach of S. 406.

Mr. MARSTON. I'm sorry, Mr. Chairman——

Senator SARBANES. Well, why don't you just refer to your statement on page 36, the last full paragraph, the first sentence there.

Mr. Marston, if it would be more convenient, the committee certainly has no objection to the gentlemen who are with you assuming seats with you.

Mr. MARSTON. All right. This is Mr. Ege. He's head of our legislative division, an attorney; and this is Mr. Kaplan, director of our office of economic research; and Mr. Warwick who is head of our office of housing and urban affairs.

Senator SARBANES. Well, gentlemen, welcome. Now how can we go on in that sentence, in view of the fact that we're talking about a quarter of one percent of the total business?

Mr. MARSTON. Well, Mr. Chairman, about a year ago in the Senate Appropriations Committee hearing Chairman Proxmire asked about the problem book that we had and we told him very frankly that minority run savings and loans made up an inordinately large number, higher percentage than usual of the problem book categories 1 and 2, and we described our efforts, and Mr. Warwick can go into that.

Senator SARBANES. I don't think the thrust of my question is getting across. I think there's an area that we're trying to address ourselves to and that is to give minority groups an opportunity to participate in the economic system. Therefore, to encourage this trend, and as welcome as it may be, the point is that it represents a tiny portion of the total industry and, therefore, you can't look for the solution to the question of credit being available in communities all across the country to this trend, which deals with only a tiny segment of what we're talking about.

Mr. MARSTON. You're absolutely right.

Senator SARBANES. If you're going to deal with the problem, you're still back with how do the other S. & L.'s, which have $399 billion of the $400 billion in total assets—how do they function and operate?

Mr. MARSTON. Right. Well, Mr. Chairman, you are exactly correct. If you relied only on the minority savings and loans to satisfy those need", you would be exactly correct. It turns out in Washington, D.C., that many members of the community, black members of the community, do not save with the savings and loan associations run by a black president. They don't trust blacks to keep their money safe. That's what the president has told me. Many of the people then are serviced by largely white-run institutions.

Senator SARBANES. What do you think of that attitude?

Mr. MARSTON. Well, this is why I told the minority savings and loans at their convention here that I think they have the problems, that minority S. & L.'s are important because they are developing minority management, they are showing to the people of their communities that they can, in fact, be responsible money managers. Furthermore, I told them that their marketing areas, both as to source of savings and to loans, are too concentrated. Independence Federal here in the city has one little branch over here on C or D Street, but they branched over to Connecticut Avenue to tap the more affluent areas. For minorities it's going to be a slow process. We are encouraging it. You are exactly correct. But the other people are served by those run by majority—by whites.

Mr. KAPLAN. Senator, let me just expand on that if I might for a moment. When we studied the problems, the operating problems of minority institutions, we discovered that such problems fall into three major areas. The first I would list as the difficulty of finding experienced, trained managers to run associations. The second problem is that it is difficult for anybody to start a new institution, starting up a new institution is difficult. Small institutions have unique problems that are a function of their size. And the third area, as already has been alluded to, is that in the market areas where these institutions have been located, the savings business is really inadequate to support growth in credit needs. Thus, we come back to what my point is, namely, that we can't look to institution's branches in the inner-city areas as being able to tap an adequate supply of savings. Thus, we are seeing, as Mr. Marston said, the branching back into other areas of the city where the savings base is stronger.

The phenomenon that I am trying to point out is the credit allocation aspect of the bill as opposed to providing some incentives.

Senator SARBANES. Well, the point is that as welcome as the increase in minority institutions may be for other reasons, it does not begin to get at the problem of whether money is going to be available, because the amount of money that you're talking about is just a tiny part of the total picture. So, to quote all of this in your statement and then end up, in effect, looking at that as a way of trying to deal with this problem does not make sense. The institutions that control the $399 billion in assets are going to have to have policies that make the credit available.

Mr. KAPLAN. Senator, let me approach it a different way. I think the positive statement we have been trying to make is that there are different approaches to meeting different kinds of credit needs, and part of our difficulty is that the different kinds of credit needs haven't been clearly spelled out in the bill. I think we're saying that with regard to credit needs that aren't being met for discriminatory practices this agency is prepared to take very strong action with regard to branch approvals. With regard to credit needs that really focus on major blighted areas or with extremely low-income families, we have to look to broadly based Government programs. Where we have stable but deteriorating neighborhoods, there's a different solution—we're finding the Neighborhood Housing Services approach works well in these cases.

Again, I think we're talking about different solutions to different kinds of credit needs rather than ignoring the fact that these differences exist.

Mr. MARSTON. Mr. Chairman, may Mr. Warwick add something there? He reviews all minority applications among his many other duties?

Mr. WARWICK. Well, in response to the Senator's question a moment ago, I was simply going to suggest that I don't think we included those stories about several new minority owned or operated associations to say that minority associations by themselves would be able to meet these kinds of credit needs. Rather, I think they were offered as examples of the way in which the bank board encourages entry into this restricted area of the savings and loan business to meet needs that aren't otherwise being met; and unmet credit needs are most easily defined in instances where we're dealing with minority associations.

However, they need not necessarily be minority. The Board recently reviewed an application from someplace in Louisiana by an applicant group—it may be integrated but certainly not predominantly minority—that proposed to meet the credit needs of older areas around a major university, I believe. We had another application recently, this one did happen to be minority, but it was a Spanish-speaking group in New Mexico in a community that was served by a single branch of an existing institution and the credit needs in that community were very poorly served by—not poorly served, but inadequately served—by the institution that was there.

The point of listing these minority associations is not that these institutions with about $1 billion worth of assets, can somehow meet a nationwide problem by themselves; but rather to suggest that entry into this market is a viable way for the system to meet certain existing credit needs.

Senator SARBANES. Well, of course, if they can't meet a nationwide problem, then we have to look elsewhere, and we have to look at the policy of the balance of the institutions which totally dominate this particular area of economic activity.

Mr. MARSTON. Mr. Chairman, they don't. They have a high percentage, but there are other people who are in the mortgage market and, again, you have to ask—the committee and the Congress has to ask itself, if you're going to put the money there, who are you going to take it away from?

Senator SARBANES. Well, who would you be taking it away from?

Mr. MARSTON. You would be taking it away from people who are getting it now and that's one of the tradeoffs.

Senator SARBANES. How do you know? All this would require is that they in effect indicate—what do you require of them with respect to indicating what their lending policies are?

Mr. MARSTON. We ask what kind of loans they are making. We ask about their penetration, where are the sources of the loans. We have them make a finding as to the probability of usefulness and success in the area, are they going to put it into existing housing or new construction, depending on the branch.

Senator SARBANES. Mr. Marston, what do you understand the mission of your agency to be if it has one?

Mr. MARSTON. To do everything we can to provide as steady as possible and as economically as possible flow of housing funds to the mortgage market.

Senator SARBANES. I'm going to end my questioning with this comment: The act under which you are chartered in its original title—and I think you all ought to go back and think a bit about this because this was its original purpose, and how far you have come from it is, I think, rather interesting—

An Act to provide emergency relief with respect to home mortgage indebtedness, to refinance home mortgages, to extend relief to the owners of homes occupied by them and who are unable to amortize their debt elsewhere, to amend the Federal Home Loan Bank Act to increase the market for obligations to the United States and for other purposes..

Now you had an objective when you started out that really looked to the people who are trying to get credit and homes and wanted to become homeowners.

Mr. MARSTON. That sounds like the Home Owners Loan Corp., and they went out of business in—in the early fifties. That's how the thing started. Then there's another act and I have to ask the lawyers about it.

Senator SARBANES. But that was the original purpose.

Mr. MARSTON. But that was an emergency situation.

Senator SARBANES. Well, I understand that. You don't feel we have an emergency now with respect to credit for our Nation?

Mr. MARSTON. Well, we are getting into semantics. There's a problem. I don't know whether it's an emergency.

Senator SARBANES. Well, what I quoted from is right out of your current operating manuals.

Mr. MARSTON. But the point is, there's also the national act and, remember, Senator, that the Congress changed in 1970 by recognizing the validity and the value to the people of the country of the secondary mortgage market, it moves money from capital surplus areas to capital short areas, Congress created the Federal Home Loan Mortgage Corporation. Things have changed and we recognize this. We recognize that perhaps by emphasizing to our associations that there are good loans to be made in mature cities, as I keep putting it, that may reduce or increase the cost of mortgage funds out in the suburbs.

Senator SARBANES. Well, of all the constituents you have, which one is sort of primary, do you think, in your concern?

Mr. MARSTON. Well, I just—I guess I'll have to answer that for the record. I don't know. That's a good question, Senator, it's difficult to answer.

Senator SARBANES. Well, it's something I think you all ought to think about. Well, thank you.

Mr. Roessner, we're happy to have you here with us this morning and we are looking forward to hearing your testimony and you can proceed in any manner you choose, either to read it or to summarize it.

STATEMENT OF GILBERT ROESSNER, PRESIDENT, CITY FEDERAL SAVINGS AND LOAN ASSOCIATION, NATIONAL SAVINGS AND LOAN LEAGUE, ACCOMPANIED BY HARDING WILLIAMS, GENERAL COUNSEL

Mr. ROESSNER. Thank you, Mr. Chairman.

The statement itself is very brief. It's not 10,000 words. On the other hand, we do have copies and I submit them for the record. I will summarize the statement.

Senator SARBANES. Well, without objection, the statement will be included in the record as submitted.

Mr. ROESSNER. My name is Gilbert Roessner. I am president of City Federal Savings and Loan Association of Elizabeth, N.J., and past president of the National Savings and Loan League.

I am appearing on behalf of the National League, a nationwide trade organization for savings and loan associations. With me at the table is Mr. Harding Williams, general counsel of the National League.

[Complete statement follows:]

PREPARED STATEMENT OF GILBERT G. ROESSNER ON BEHALF OF THE NATIONAL SAVINGS AND LOAN LEAGUE

Mr. Chairman and members of the Committee, my name is Gilbert G. Roessner. I am President of City Federal Savings and Loan Association of Elizabeth, New Jersey and Past President of the National Savings and Loan League.

I am appearing on behalf of the National League, a nationwide trade organization for savings and loan associations.

The National League appreciates the concerns which prompted the introduction of S. 406. Granting of a Federal or State charter authorizing the creation of a savings and loan association does indeed confer an obligation of high public trust on the grantees of that charter.

Mr. Chairman, it seems to me that there are two basic issues here. First, are savings and loan associations and other financial institutions meeting their responsibilities mandated by charter? Second, will this legislation improve upon the operations of these financial institutions toward meeting these obligations? Although I do not feel that I should speak on behalf of other types of financial institutions, permit me to address each of these issues in turn as they relate to the savings and loan industry.

The primary obligation of savings and loan associations, particularly those under Federal charter by Congress in 1933, is to foster home ownership. We believe that savings and loan associations have fulfilled this obligation. As the data in Table I demonstrate, Federally-insured savings and loan associations finance almost half of the non-farm residential mortgage debt outstanding in the U.S. They have financed between 65% and 70% of such loans during the past two years alone. Of the industry's $395 billion in assets, over 80% are invested in mortgage loans.

As is shown in Chart I attached to this Statement, the savings and loan industry is the principal and overwhelming source of funds in home mortgages. Since 1974, net lending activity by savings and loans in the home mortgage area has climbed from a recession low of $14 billion to an annualized rate of over $35 billion in 1976, an all-time high by any intermediary at any time. By comparison, the flow of funds into home mortgages by commercial banks, mutual savings banks, and life insurance companies is rather small.

It is noteworthy, Mr. Chairman, that by regulation savings and loan associations are limited in making residential mortgage loans to areas within 100 miles of the principal office. Lending activity beyond these limits is permitted, although restricted through the purchase and sale of participations.

Of a more specific nature, the subject of "inner-city" lending has received a great deal of attention in recent years. As the Committee may be aware, savings and loan associations and other depository lending institutions are active in a variety of programs around the country relating to low- and moderate-income housing. Among these is the Neighborhood Housing Service program. Recent figures from the Urban Redevelopment Task Force show that over 250 savings and loan associations currently contribute to NHS operating budgets in over 25 cities.

The National League currently is surveying its membership to compile further detail on the involvement of its members into low- and moderate-income housing programs, both subsidized and unsubsidized. Our initial responses from this survey indicate that savings and loan associations are quite active in a variety of other inner-city projects in addition to NHS, involving close cooperation among many groups within the community.

In summation on this point, Mr. Chairman, let me say that:

1. The savings and loan industry has and continues to meet its chartered commitment to housing;
2. The savings and loan industry is continuing to emphasize increased lending in inner-city areas through a number of subsidized and unsubsidized programs;
3. Unlike other financial institutions, savings and loan associations lend their funds within the United States, primarily for residential mortgages, and primarily in those states where they maintain their principal office.

Permit me now to turn to the second area, that is: "Will S. 406 improve upon the operation of financial institutions in meeting their chartered obligations?" Again speaking on behalf of the savings and loan industry, I would argue that the proposed legislation, as is, would prove to be more harmful than beneficial.

Permit me to elaborate:

1. All financial institutions (and indeed any organization) receiving special charter and privileges from the public sector have an obligation to their communities and to the public. For that reason, we endorse the concept that the public sector should seek more data and information as to how well these chartered commitments are being met and honored. But I believe that what is needed is executive and administrative action, not statutory mandates. Indeed, Mr. Chairman, the authority already exists for administrative action toward the soliciting and obtaining of the type of information which would be required by S. 406. Examination of FHLBB Form 700 "Facility Application", which must be completed by applicants for new facilities, requires the following information under Section B of that form:

a. "Describe the social-economic characteristics of the market area population (level of population, median income, family size, etc.), and discuss how these characteritics indicate the need for a savings and loan facility with the type and extent of services being proposed.

b. "Describe the type and extent of financial services presently being offered within the primary market area and explain how the opening of the office would be beneficial to the consumers in the area and would not unduly injure any other existing thrift and home financing institution."

Clearly, Mr. Chairman and members of the Committee, this wording is broad enough to obtain whatever market data is necessary for the purposes envisioned in S. 406. Most data could be solicited through the proper regulatory agencies if it were not already public information. The savings and loan industry is willing to cooperate in any way, but we feel, Mr. Chairman, that if public benefits are to be gained, then there should be public cost and effort sharing in acquiring this information. Regardless, statutory authority is not called for.

2. I strongly feel, Mr. Chairman, that legislation of the nature of S. 406 would result in the discouragement of capital flows. Because the effect of this legislation would be to promote branching and expansion of financial institutions into those areas which have a high savings capital base, it would encourage lending in capital-surplus areas and would discourage lending in capital-short areas. The effect of this would be to discriminate against the poor, the young, and the economically underdeveloped areas of the various states and regions. In the United States, only 34% of savers at savings and loan associations have home mortgages. Savers tend to have above average incomes and above average education. Forty-eight percent of association savers are over the age of 55 and 70% of large savings accounts ($5,000+) come from the older savers. Clearly, savers and borrowers are not the same and any legislation which encourages lending patterns based upon existing savings capital bases would create tremendous market discrepancies and would be discriminatory indeed. I cannot believe that this is the intent of S. 406, yet this would be the effect. Mr. Chairman, we have seen the impact of legislation and regulation which restricts capital flows and branching activity on an inter-state basis. Thus, terms on conventional home mortgages are significantly different in different areas of the country. For example, the effective mortgage rate on new homes in Houston and Los Angeles in December of 1976 was 9.3% compared to an effective rate of 8.5% for new home mortgages in the New York-New Jersey region, a difference of about 80 basis points. If restrictions did not exist on lending and branching on an inter-state level, capital markets would work more efficiently and we would not have the situation where home buyers in the Los Angeles and Houston areas are having to pay nearly one percentage point more on their home loans than those in the New York-New Jersey region. Another way to put this, Mr. Chairman, is that due to artificial barriers to capital markets, home buyers in Los Angeles and Houston are having to subsidize home buyers in New York and New Jersey. I submit that a similar sort of inequitable phenomenon would occur on a more localized basis as a consequence of legislation such as S. 406.

3. Finally, it seems to me that some recognition should be given to the fact that branching is tied to the convenience of the saver. Extension of mortgage credit is not as localized a phenomenon from the standpoint of convenience as is savings. One does not go in every day or every week to obtain a mortgage, yet savings is conducted on a frequent periodic basis, by the day or the week. For that reason, a strong consideration toward branching policy

should be for the convenience of the saver and for the provision of services to the customer. With the current restriction of interest on checking accounts and the limitation on the rate of interest payable on savings deposits, the interest of the saver, who is just as much a consumer as the borrower, is too frequently ignored.

In the way of summation then, Mr. Chairman, I would like to reiterate the following key points concerning S. 406 and the issues surrounding it:

1. Financial institutions have an obligation to their communities within the limits of financial soundness. Responsibility of financial institutions is to borrowers and savers alike. A charter to go broke is no charter at all.

2. We agree that additional data and information are needed to monitor the activities of financial institutions but statutory requirement would be the wrong way to go, at this time.

   a. First, the authority for soliciting this data presently exists.

   b. Considerable information of the nature envisioned under S. 406 is already public information.

   c. Because this data would presumably convey public benefits, we would encourage public sharing of the costs associated with obtaining any additional information and data.

3. Finally, Mr. Chairman, I believe that the road to financial fairness must be paved with less regulation, and fewer artificial barriers and costs. Data gathering and analysis fine—we endorse the concepts surrounding such information gathering as posed in S. 406 and are quite willing to support it. But to the extent that such actions are used to create artificial barriers and restrict market flows, then history has shown time and again that these actions only create inequities and unnecessary costs without mitigating the problems and providing the solutions for which they were intended.

Thank you, and I will be happy to answer any questions which the Committee may have.

TABLE I.—NONFARM RESIDENTIAL MORTGAGE DEBT OUTSTANDING [1]

[Dollars in billions]

			Mortgage loans of insured savings and loans			
					Annual increase	
Year	Total	Annual increase	Total	Percent of column	Amount	Percent of column
1967	$291.2	$18.0	$117.6	40.5	$7.3	40.6
1968	312.1	20.9	126.8	40.6	9.0	43.0
1969	335.1	23.0	136.0	40.6	9.2	40.0
1970	358.2	23.1	146.0	40.7	10.0	43.2
1971	398.7	40.5	169.6	42.5	23.6	58.3
1972	455.4	56.7	200.9	44.1	31.3	55.2
1973	509.8	54.4	226.2	44.7	25.3	46.5
1974	550.8	41.0	243.5	44.2	17.3	42.2
1975	592.0	41.2	272.5	46.0	29.0	70.3
1976	[1] 658.0	66.0	316.3	48.1	43.8	66.4

[1] Partially estimated.

Source: Board of Governors of the Federal Reserve System, and Federal Home Loan Bank Board.

TABLE II.—*Annual increases of mortgage debt held by Federal agencies* [1]

Year:	Amount (billions)
1969	$6.0
1970	7.2
1971	8.1
1972	8.2
1973	10.2
1974	7.4
1975	18.5
1976	15.0

[1] Includes: GNMA and its mortgage pools, FNMA, FHLMC, and Federal Land Banks.

Source: Board of Governors of Federal Reserve System.

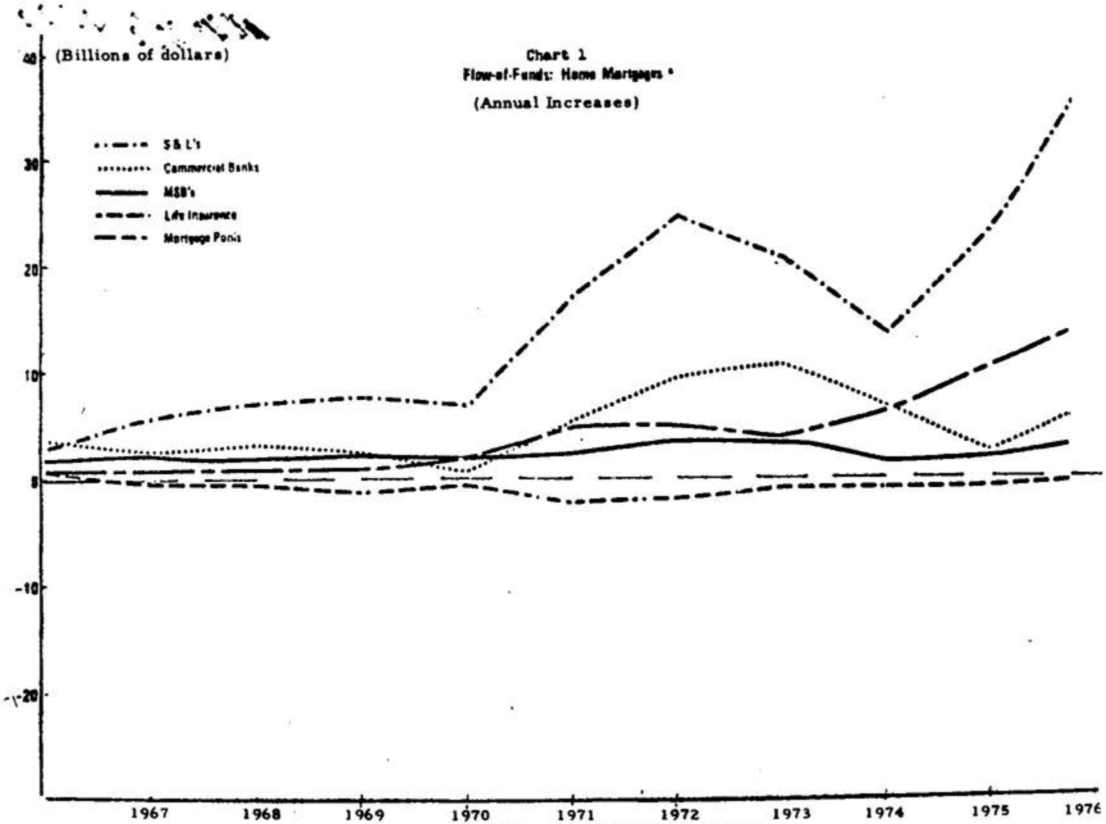


Chart 1
Flow-of-Funds: Home Mortgages *
(Annual Increases)

Source: Federal Reserve Board

Mr. ROESSNER. Mr. Chairman, let me just add a point here in response to questions you were asking of Chairman Marston. I'd like to take exception to Chairman Marston's response. We do not seek loans by yield alone. There's a tradeoff between the charter obligations to provide economical home financing and to encourage thrift and profitability. In the case of my own institution, which has $1.2 billion of assets, the largest in the State of New Jersey, 75 percent of our mortgage portfolio is invested in the State of New Jersey. We have made this tradeoff.

In sheer economic terms and in response to some of the points you made earlier, sir, we would have therefore invested all of our money outside the State of New Jersey. I submit, that the savings and loan institutions in this Nation are responding to a great extent to the will of Congress in the granting of those charters.

We think, of course, that markets would be better served by minimizing barriers rather than building barriers.

Finally, again reinforcing here some of the points made earlier, you must understand that branching is tied to the convenience of the saver. Extension of mortgage credit is not as localized a phenomenon from the standpoint of convenience as is the activity of saving. One certainly does not go in every day or every week to obtain a mortgage and yet savings are conducted on a frequent periodic basis by day and by week. By way of summation there, Mr. Chairman, I'd like to reiterate the following key points concerning S. 406 and the issues surrounding it. I repeat, financial institutions do in fact have an obligation to their communities, within the limits of financial soundness. Responsibility of financial institutions is to borrowers and savers alike. A charter to go broke is no charter at all.

We agree that additional data and information are needed to monitor the activities of financial institutions but statutory requirement would be the wrong way to go at this time.

First: The authority for soliciting this data presently exists. Considerable information of the nature envisioned under S. 406 is already public information. Because this data would presumably convey public benefits, we would encourage public sharing of the costs associated with obtaining any additional information and data.

Finally, Mr. Chairman, I believe that the road to financial fairness must be paved with less regulation and fewer artificial barriers and costs. Data gathering and analysis, fine—we endorse the concepts surrounding such information gathering as posed in S. 406 and are quite willing to support it. But to the extent that such actions are used to create artificial barriers and restrict market flows, then history has shown time and again that these actions only create inequities and unnecessary costs without mitigating the problems and providing the solutions for which they were intended.

Mr. Chairman, one last point I'd like to add for the record and for your information and for Senator Williams' information that was mentioned by Chairman Marston. The New Jersey Mortgage Finance Agency is launching a new program and has negotiated the private placement of $100 million of bonds of which City Federal Savings, the institution which I head, has subscribed to $50 million, half of the issue. We are closing that transaction next week on March 29.

The program requires that the proceeds of that bond issue be loaned on residential mortgages in specific neighborhoods as described by maps and boundaries. It's a specific antiredlining bill. That money must be loaned to mortgage borrowers in those neighborhoods in particular cities in the State.

On the other hand, the program is structured in such a way that it's a sound investment for the bond holders in that 85 percent of the loans shall be insured by the Federal Housing Administration and the Veterans' Administration. Certain reserve requirements are provided for the conventional lending that will be done.

We endorse this as a responsible and positive program to serve the legitimate credit needs of all of our citizens. That's what we're chartered to do. There is no simple solution, Mr. Chairman. It's a multifaceted problem and to compartmentalize it, if you will, as this bill would do, the saving and the borrowing needs of the community, we submit would be counterproductive rather than productive. Thank you very much.

Senator SARBANES. Mr. Roessner, I just want to make this comment, and I first of all agree with your observations that it's not a simple solution. I want to thank you for what I consider to be an extremely thoughtful statement, and I must say that I think it reflects a greater sensitivity to the public interest and to the concerns that have motivated this legislation and other activities on your part, coming here as a private citizen representing the industry, than was previously reflected by Chairman Marston. I'm not going to expect you to comment on this—that was previously reflected by Chairman Marston, who is a public official and whose prime concern is the public interest. I just make that as an observation.

I think you have shown a great deal of sensitivity to the problem. I may not agree with you in every respect, but at least we can have a discussion with some understanding of what the situation is.

I take it that you don't really object to furnishing at least a good deal of the kind of information that this legislation seeks. Is that correct?

Mr. ROESSNER. No. We endorse the objectives of the bill.

Senator SARBANES. Well, of course, the regulatory agencies could have been requiring and seeking this information now, but they have not done it.

Mr. ROESSNER. Mr. Chairman, I appreciate your comments with respect to our testimony and while I should take the fifth with respect to the comments about the chairman, I must say that my own institution has 64 branches. We have filed applications before the Federal Home Loan Bank Board many, many times. I must say, sir, that they do a superb job. They get most of the information that I believe this bill requires.

The fact is, however, that within recent years—and by recent, I mean perhaps the last 8 to 10 years—the savings and loan industry, in my judgment, has finally awakened to the fact that convenience is a critical consideration in the mind of the saver and the commercial banking industry was out-stripping us. They are still out-branching us by something like 3-to-1.

So that I applaud what the Board has done to encourage our industry to branch, to provide convenience in addition to rate, because as the chairman pointed out, it takes those savers to make those loans. You do not get both from the same neighborhoods in equal volume and really much of the data with respect to the characteristics of the neighborhood, the kind of loans we already have in the primary trade areas, are now required by the Board.

As a matter of fact, sir, in our written testimony, we make reference to the application itself which is standard with the Board in which they specify the information the applicant must file.

I'm saying that while perhaps there has been an emphasis upon convenience in garnering savings within the last 5 to 10 years, perhaps a greater emphasis should now be placed upon whether or not the legitimate sound credit needs of the areas we serve are being filled. I do not argue with that.

I submit, on the other hand, that by statute is not the way to do it. We think this agency has been responsible. We think it's done an outstanding job. We think it will. I think it's been bound to help because Congress in showing this kind of interest.

I recite the program in New Jersey. We are sensitive to these things. We want to do it. We must still make a profit, though, Senator.

Senator SARBANES. Well, of course, the legislation has language that's specifically designed to protect you on that latter concern. I mean, the legislation recognizes that you're going to apply economic criteria to these loans and doesn't seek to deny you that.

Mr. ROESSNER. Senator, may I make another point here which you may be aware of and perhaps you're not? The statute that authorizes the Federal Home Loan Bank Board to approve or grant charters to Federal associations is not at all specific. It's very general. Their right to grant such branches has been tested in the courts. It's gone all the way up to the Supreme Court I believe on more than one occasion. The original test case was one in New Jersey. The courts found that the Board in fact has authority to grant branches because under the statute they are required to follow the best practices of properly conducted local thrift and home financing institutions to get a variety of practices around the Nation, of both mutual savings banks and savings and loan associations.

So the Board has followed those practices, but that's a broad authority they have.

Now, within that context of such broad authority we submit in our statement that to get so specific in terms of details by statute would be counterproductive. You may not agree with that but that is our considered judgment.

Senator SARBANES. I understand that point. I think the concern is that the Board, in carrying out that general mandate, has neglected, or virtually neglected, one aspect of the total picture that's extremely important.

You say in your statement, and I share that view, on page 2, the primary obligations of savings and loan associations, particularly those under Federal charter by Congress in 1933, is to foster homeownership, and I think that's really the thrust of what we're trying to get at, and particularly the problem of certain areas just being blanketed out in terms of being the recipients of funds.

I understand your point on page 6 about the capital flows and where your money comes from and where it goes to and that gets into a question of how you define the community you're talking about. If it were defined as a metropolitan area, it would seem to me that information on lending practices which showed that an institution, in effect, drew from the local area, but then only put money back in the periphery, even though in the area's middle there might be equally good ventures available, is not meeting the kind of mandate it ought to have under its charter. You don't really quarrel with that I don't think.

Mr. ROESSNER. I don't quarrel with the essence of it. I quarrel with the fact that that's being ignored. I think the Federal Home Loan Bank Board and I think the savings and loan industry is being very responsive to this whole need. Unfortunately, we are carrying——

Senator SARBANES. Do you think other lending institutions are being as responsive as the Federal Savings and Loans?

Mr. ROESSNER. No, sir; I do not. The life insurance companies, for example, in this Nation have practically abandoned the residential mortgage credit. Now I don't want to pull our chestnuts out of the fire by bringing them in, but as we discuss this issue the fact is we are carrying a very heavy burden.

Senator SARBANES. We did it, too; so don't worry that you're putting them into the fire.

Mr. ROESSNER. They are big boys. They handle themselves very well.

Senator SARBANES. Senator Williams.

Senator WILLIAMS. Thank you, Mr. Chairman.

I'm glad I came in for the conclusion. Of course I will read Mr. Roessner's full statement later. I appreciate that the National Savings and Loan League does support in principle the objectives here and I gather that is not only your personal position but the position of the league and you're speaking for the league?

Mr. ROESSNER. Yes, sir.

Senator WILLIAMS. And I know that in practice you, as the chief executive officer of one of the largest savings and loan institutions in New Jersey, practice what you say you believe in principle in our State.

Do you find that the principle is applied by members of the league equally across the country or is this a spotty thing?

Mr. ROESSNER. Senator Williams, it's really quite broad. Obviously, an institution in a small, relatively isolated community might be devoid of any of these problems. To some extent it depends upon where one is located, but there are illustrations all across the Nation as to what the savings and loan industry is trying to do within the boundaries of soundness to address themselves to this need.

As I said to Senator Sarbanes, of course, it's a complex problem. There are no simple solutions. I think we must attack it on many fronts. There are many ways to do this. In New Jersey again, our mortgage finance agency has tried several programs. The loans to lenders programs in which we participated where the agency borrowed the money, made loans to us to in turn lend to particular types of borrowers in particular cities, they gave us an additional 25 basis points if we lend in particular cities to encourage through the carrot technique loans in those cities. We responded. That was done. The agency felt it wasn't done enough, if you will, in certain specific locations they contend the loans were not made. They were made in Newark, for example, in the Valesburg section instead of the central ward. Now under the new program that I referred to, the loans are going to have to be made in the central ward, if, in fact, such demand exists.

But such loans are going to be made primarily on an FHA/VA insured basis because the institutions still have a mandate to function on a sound basis. There are risks.

Senator WILLIAMS. I was particularly pleased to hear of your subscription to the new issue that's coming out next week, that $100 million. How much housing is anticipated from that?

Mr. ROESSNER. Senator, if you divide the $100 million into about an average, unfortunately, of $40,000, I think that's 2,500 loans. Somebody had better check my arithmetic.

Senator WILLIAMS. That's one of the problems that we face, of course, and not in this context particularly, but the new single family residential isn't reaching the income levels as I see it of the lower-middle income.

Mr. ROESSNER. Senator Williams, you're aware particularly in our State, in New Jersey, the very economics of the situation is such that very high percentage, perhaps 85 percent of the people are priced out of the residential mortgage market. The tax burden is part of this.

Senator WILLIAMS. And that $40,000 average is divided, pretty much—the first big chunk is the land itself; is that right?

Mr. ROESSNER. Yes. Of course, because these loans must be made in particular neighborhoods of older cities in our State, it will be primarily existing construction, resale of existing houses. Again, the economics wouldn't support new construction in any significant volume.

Senator WILLIAMS. If you don't mind a little ad for your association in New Jersey——

Mr. ROESSNER. Never.

Senator WILLIAMS. My hometown went through the critical period of the late sixties and had many problems. It still does. The showplace is not on Main Street—it's not called Main Street but it's our secondary main street in Plainfield, N.J.—is City Federal's new building by Edward Durrell Stone. I guess it's been there 10 years now.

Mr. ROESSNER. Senator, Plainfield is another interesting illustration. The city, unfortunately, was known nationally for some of the problems that developed in the sixties. Chairman Marston should take credit for this and his predecessors. The neighborhood housing service in Plainfield was one of the first in this series of NHS activities, a broad-based community program, initiated by the Federal Home Loan Bank Board, supported and funded in part by the local savings and loan association. We are making progress, not dramatic, but we are out there trying.

Senator WILLIAMS. I agree. And Plainfield happens to be one city where 235 housing showed a lot of promise until that sort of dried up for other reasons.

Mr. ROESSNER. Yes, sir.

Senator WILLIAMS. Thank you very much. We are proud of you for your statement.

Senator SARBANES. Mr. Roessner, I just want to thank you again for a very thoughtful statement and presentation and a great deal of sensitivity to the problem. I think it's probably safe to say that if all the chief executives of lending institutions across the country had as much concern and sensitivity as you have evidenced this morning, we might not have quite the problem that we have before us. Thank you.

Mr. ROESSNER. Thank you. That's very generous of you, Senator.

Senator SABRANES. Thank you. The committee stands adjourned.

[Whereupon, at 12:50 p.m., the hearing was adjourned.]

COMMUNITY CREDIT NEEDS

FRIDAY, MARCH 25, 1977

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:05 a.m. in room 5302 of the Dirksen Senate Office Building, Senator William Proxmire, (chairman of the committee) presiding.

Present: Senators Proxmire, Sparkman, and Garn.

The CHAIRMAN. The committee will come to order.

Our first witness this morning is Mr. Todd Cooke, president of the Philadelphia Saving Fund Society.

I understand you have a plane to catch, and you have to leave here by 10:30 or so. Therefore, we are going to put you on by yourself to testify as the initial witness and then we will have a few questions for you and then we will proceed to the other witnesses.

STATEMENT OF M. TODD COOKE, PRESIDENT, THE PHILADELPHIA SAVING FUND SOCIETY

Mr. COOKE. I appreciate that, Senator, and I'm sorry I can't stay for the entire morning.

I am president of the Philadelphia Saving Fund Society, familiarly known as PSFS, with current deposits of $4.4 billion, and assets of $4.8. PSFS is the largest savings bank in the country, as well as the oldest. PSFS is also, by a wide margin, the largest mortgage investor located in the Commonwealth of Pennsylvania. During 1976, for example, PSFS settled $560 million to mortgage loans.

I am happy to have the opportunity this morning of presenting my views on the Community Reinvestment Act of 1977. This bill would direct the Federal financial supervisory agencies to exercise their authority, for example, when conducting periodic examinations or considering applications for new branches, to encourage financial institutions to meet the credit, as well as the deposit needs of the communities they serve.

I shall briefly state my position with respect to the bill as a whole and several of its provisions and then make a few general comments.

One: A financial institution, in my judgment, clearly has a primary and continuing responsibility to the community in which it is authorized to operate. This is an underlying premise of the bill in which I heartily concur.

Two: This responsibility cannot be limited simply to helping meet the community's deposit needs, but must, as a matter of economic logic, extend also to its credit needs.

Three: Accordingly, I take no exception to the bill's directive that the supervisory agencies use their chartering, examining, supervising and regulating authority to encourage financial institutions, which may have been lax in this regard, to meet these twin responsibilities.

Turning to the detailed requirements of the bill, I must express two reservations as follows:

One: The requirement—section 4(1)(c)—that financial institutions, as part of their application for a new branch office facility, indicate the proportion of consumer deposits deriving from the community which will be reinvested in the community is impractical. While a rough percentage could be targeted for a specific date, it would be a little better than a guess, and given the virtual certainty of shifts in consumer deposit flows and credit demands, would have little validity for subsequent periods. These shifts result from a multiplicity of factors, ranging from the local to the global, which simply cannot, with any plausibility, be reduced to projections for a community or a neighborhood within a large city.

Accordingly, I would urge the deletion of this section and suggest that determination of compliance be left to the administrative discretion of the supervisory agencies.

As a less significant comment I would also suggest that the language of section 4(3) be revised to make it clear that the supervisory agencies' obligation to hold hearings is permissive, rather than mandatory.

I understand that last year the FDIC considered 866 applications to open new banking offices or deposit facilities. Clearly, it would be an intolerable administrative burden were the FDIC, and the other supervisory agencies, required to hold a public hearing and receive testimony on each such application.

With your indulgence, I will now make a few general comments. First, I would like to emphasize that mutual savings banks have a long and distinguished history of serving the communities in which they are located. Meeting the credit and deposit needs of the individual and the family is one important way that mutual savings banks have discharged this responsibility.

In addition, they have also, through bond investment, financed waterplants, police stations, schools, and numerous other municipal facilities and improvements. They have provided the funds to build the churches, hospitals, colleges, and universities and other voluntary institutions which are such a vital part of our communities.

In addition, they have encouraged their trustees and officers to provide, in their individual capacities, the leadership and support for major community endeavors.

In my testimony, I cite a few examples in the experience of my own institution. I will not read that portion of my testimony. I want to bring it, however, to your attention that PSFS was instrumental in spearheading in 1975 the Philadelphia mortgage plan. This has the cooperation of every bank, commercial, and mutual in

Philadelphia, and is successfully providing mortgage financing on competitive market terms to creditworthy families who wish to buy properties in older urban neighborhoods.

What I would like to suggest to your attention is that mutual savings banks have already and historically accepted their broad responsibilities to the community. The Community Reinvestment Act addresses itself to only a small portion of what savings banks already are doing.

Two final comments which I trust will not be considered gratuitous. Financial institutions have a social role which, as the previous paragraphs suggest, savings banks have historically discharged with distinction. The social role is intertwined with the savings bank's vital economic role as a financial intermediary. There is always a danger, whenever legislation of this type is enacted, that it will compromise this latter role.

The economic role of financial intermediaries continues to be the historic one of effecting the transfer of funds from areas of capital surplus—be they functional or geographic, to those of capital shortage. Permitting socially desirable constraints to overbalance this vital economic role will cripple financial institutions and their ability to function effectively in the public interest in either capacity.

Finally, I must register concern that the Community Reinvestment Act, if passed, might provoke the Federal supervisory agencies to a frenzy of rulemaking and regulations which could prove burdensome to the financial institutions involved, without providing any real offsetting benefit to the public. PSFS has just completed preparing the reports, for the last half of 1976, required by the Home Mortgage Disclosure Act of 1975. The PSFS report runs 32 pages, and, according to the estimates of our comptroller, costs $83,000 to produce. I am not necessarily questioning the value of the data which financial institutions are obliged to produce under the terms of the Home Mortgage Disclosure Act, but simply pointing out that each such act, and even more important, the regulations and reporting requirements deriving from each such act, divert significant resources from the bank's principal activities, add further to the mountain of paperwork and increase significantly the cost of doing business.

Accordingly, I would hope that the bill might, as previously suggested, grant considerable administrative discretion to the supervisory agencies, so that they would not feel obligated to develop an elaborate structure of regulations in achieving the bill's objectives.

Mr. Cooke. Mr. Chairman, I would be glad to answer any questions you may have.

[Complete statement of Mr. Cooke follows:]

PREPARED STATEMENT OF M. TODD COOKE, PRESIDENT, THE PHILADELPHIA SAVING FUND SOCIETY

My name is M. Todd Cooke. I am President of The Philadelphia Saving Fund Society, familiarly known as PSFS, with current (2/28/77) deposits of $4.4 billion and assets of $4.8 billion. PSFS is the largest savings bank in the country, as well as the oldest. PSFS is also, by a wide margin, the largest mortgage investor located in the Commonwealth of Pennsylvania. During 1976, for example, PSFS settled $560 million in mortgage loans.

I am happy to have the opportunity this morning of presenting my views on the Community Reinvestment Act of 1977. This bill would direct the Federal financial supervisory agencies to exercise their authority, for example, when conducting periodic examinations or considering applications for new branches, to encourage financial institutions to meet the credit as well as the deposit needs of the communities they serve.

I shall briefly state my position with respect to the bill as a whole and several of its provisions and then make a few general comments, following which I will be happy to respond to any questions you may have.

1. A financial institution, in my judgment, clearly has a primary and continuing responsibility to the community in which it is authorized to operate. This is an underlying premise of the bill in which I heartily concur.

2. This responsibility cannot be limited simply to helping meet the community's deposit needs, but must, as a matter of economic logic, extend also to its credit needs.

3. Accordingly, I take no exception to the bill's directive that the supervisory agencies use their chartering, examining, supervising and regulating authority to encourage financial institutions, which may have been lax in this regard, to meet these twin responsibilities.

Turning to the detailed requirements of the bill, I must express two reservations as follows:

1. The requirement (Section 4)(1)(C) that financial institutions, as part of their application for a new branch office facility, indicate the proportion of consumer deposits deriving from the community which will be reinvested in the community is impractical. While a rough percentage could be targeted for a specific date, it would be little better than a guess, and given the virtual certainty of shifts in consumer deposit flows and credit demands, would have little validity for subsequent periods. These shifts result from a multiplicity of factors, ranging from the local to the global, which simply cannot, with any plausibility, be reduced to projections for a community or a neighborhood within a large city. Accordingly, I would urge the deletion of this section and suggest that determination of compliance be left to the administrative discretion of the supervisory agencies.

2. I would also suggest that the language of Section 4(3) be revised to make it clear that the supervisory agencies' obligation to hold hearings is permissive rather than mandatory. Last year, I understand that the FDIC, for example, considered 866 applications to open new banking offices or "deposit facilities". Clearly, it would be an intolerable administrative burden were the FDIC, and the other supervisory agencies, required to hold a public hearing and receive testimony on each such application.

With your indulgence, I will now make a few general comments. First, I would like to emphasize that mutual savings banks have a long and distinguished history of serving the communities in which they are located. Meeting the credit and deposit needs of the individual and the family is one important way that mutual savings banks have discharged this responsibility. In addition, they have also, through bond investment, financed water plants, police stations, schools and numerous other municipal facilities and improvements. They have provided the funds to build the churches, hospitals, colleges and universities and other voluntary institutions which are such a vital part of our communities. In addition, they have encouraged their trustees and officers to provide, in their individual capacities, the leadership and support for major community endeavors, such as the United Way, and major community institutions, such as hospitals and colleges.

To mention only a few examples from the experience of my own institution, PSFS financed the first residential urban renewal undertaking in the country—the Friends Neighborhood Guild rehabilitation project in Philadelphia's East Poplar area. PSFS also was instrumental, both in terms of providing leadership and financing, in relocating Philadelphia's produce market from the Dock Street area, thus clearing the way for the highly successful restoration and rejuvenation of the historic Society Hill area. PSFS has also, for many years, taken a special interest in various programs designed to encourage homeownership and rehabilitation in older urban neighborhoods. Recently, PSFS was one of three financial institutions which spearheaded the development and operation of the Philadelphia Mortgage Plan. This program, which now has the active support and participation of every bank—commercial and mutual, in Philadelphia, is successfully providing mortgage financing, on competitive market terms, to creditworthy families who wish to buy properties in older urban neighborhoods. In addition, PSFS has a long history of providing financing for many of the Philadelphia area's churches, hospitals, colleges, universities and specialized voluntary institutions. I am, therefore, suggesting that mutual savings banks have already accepted their broad responsibilities to the community. The Community Reinvestment Act addresses itself only to a small portion of what savings banks already are doing.

Two final comments: Financial institutions have a social role which, as the previous paragraphs suggest, savings banks have historically discharged with distinction. The social role is intertwined with the savings bank's vital economic role as a financial intermediary. There is always a danger, whenever legislation of this type is enacted, that it will compromise this latter role.

The economic role of financial intermediaries continues to be the historic one of effecting the transfer of funds from areas of capital surplus—be they functional or geographic, to those of capital shortage. Permitting socially desirable constraints to overbalance this vital economic role will cripple financial institutions and their ability to function effectively in the public interest in either capacity.

Finally, I am concerned that the Community Reinvestment Act, if passed, might provoke the Federal supervisory agencies to a frenzy of rule-making and regulations which could prove burdensome to the financial institutions involved, without providing any real benefit to the public. PSFS has just completed preparing the reports. for the last half of 1976, required by the Home Mortgage Disclosure Act of 1975. The PSFS report runs 32 pages, and, according to the estimates of our Comptroller, costs $83,000 to produce. I am not necessarily questioning the value of the data which financial institutions are obliged to produce under the terms of the Home Mortgage Disclosure Act, but simply pointing out that each such Act, and even more important, the regulations and reporting requirements deriving from each such Act, divert significant resources from the bank's principal activities, add further to the mountain of paperwork and increase significantly the cost of doing business. Accordingly, I would hope that the bill might, as previously suggested, grant considerable administrative discretion to the supervisory agencies so that they would not feel obligated to develop an elaborate structure of regulations in achieving the bill's objectives.

This concludes my testimony. I shall be happy to answer questions, if you wish.

The CHAIRMAN. Thank you very much for a constructive statement. I agree with virtually everything you say.

I have questions for you.

There is no question that the bill is limited and limited in its effect. It is certainly limited in the benefits it is going to bring for housing and community development. And it is not designed to do everything by any means at all. It is also only a small portion of what the savings and loan and other institutions do now with respect to community assistance.

I agree also that this bill should not be designed to impede capital flow from capital surplus areas to capital deficit areas. We do not want to do that. That is not the intention of the bill. We should do all we can to prevent that effect.

I am very impressed by your assertion, which is certainly sensible, that this legislation should not have the effect of imposing additional regulation and report writing. What we had in mind is when institutions wish to branch, that they now have to comply with providing information, and this would simply change to some extent the kind of information that they would supply.

We do not have any notion that we would impose a big paperwork burden here.

Let me ask you, you say you support the thrust of the bill. You support its objective. You think it is desirable. But you have some problem with the proposed mechanism in section 4.

What administrative enforcement in your view should we substitute for what we provide here? We had testimony on the first day of hearings, on Wednesday, from Mr. Nader, saying that the bill was toothless; it needed more force and effect if it is going to do anything.

Mr. COOKE. The thrust of my comment, Senator Proxmire, would be to urge that the bill focus attention on a financial institution's overall response to the credit needs of the community defined in terms of the overall area served by the financial institution, and not in terms of each individual branch and the community that the branch serves.

Perhaps could I elaborate by an example of what troubles me.

The CHAIRMAN. Yes, sir.

Mr. COOKE. We have an office in an older section of Philadelphia. It is in my judgment precisely the kind of neighborhood that requires the continuing attention of financial institutions. It needs mortgage investment. This particular office, our Logan office, has lost a quarter of a million dollars in deposits over the last 2-year period. The residents of that community are dissaving. The logic that could be inferred from the bill is that such dissaving should also be accompanied by disinvestment.

I recognize clearly that that is not the thrust of the bill. In fact, I would like to point out in that particular community my institution, over roughly the same period that deposits dropped by $250,000, a quarter of a million dollars, has invested $1.8 million in residential mortgages.

The point I am trying to make is if you restrict the analysis to limited communities served by specific branches, I'm afraid the conclusions drawn may be erroneous.

The CHAIRMAN. That is an excellent point. It would be ridiculous in my view for a regulating body to indicate that because the deposits had dropped, therefore the investment of the bank in the community would drop. It may be that the investment of the community is outrageously deficient to begin with. If the deposits dropped, they should have increased them before and they should in this case.

That suggests that we should look at the language and try to strengthen it.

In your experience on the receiving end of the regulatory policy, have the regulators ever displayed any sensitivity to whether you are adequately serving community credit needs? Have they ever asked you about that or requested of you or asked you for the record?

Mr. COOKE. I would have to say thay have not, to my personal knowledge. Whether they have made such inquiries of other officers in the bank, I cannot say.

The CHAIRMAN. Do you know of a savings bank that failed to get branch approval because they were failing to serve credit needs?

Mr. COOKE. I do not.

The CHAIRMAN. Do financial institutions in your view have an obligation to serve the credit needs of their localities? I take it from your statement that you think they do.

Mr. COOKE. In my judgment they most assuredly do.

The CHAIRMAN. Your institutions took the lead in providing Philadelphia residents with more loans in what were viewed as red-line areas. You are a community leader and a banker that cares about his city.

What should public policy do to encourage other lenders to display the initiative you have shown? Or is this a voluntary thing for lenders, to encourage growth in the community or not through their efforts?

Mr. COOKE. The bill we are considering would tend to encourage financial institutions to shoulder these responsibilities where they have not been doing so. Government can also be supportive to a program like the Philadelphia mortgage plan, which is entirely a private program. But it can be sustained and supported very helpfully by governmental actions, particularly municipal actions which would be directed to shoring up adjacent areas, to increasing the level of municipal services, or perhaps simply to restoring municipal services to a level in an older community comparable to that already being provided in a newer community.

The CHAIRMAN. Why in your view are some institutions less sensitive than yours has been in community needs, in providing credit for communities?

Mr. COOKE. That is a difficult question, Senator Proxmire. Perhaps Philadelphia with its Quaker tradition has some greater concern for the community needs. I think also it is fair to say that we in Philadelphia today benefit from a fairly long tradition of business and community leaders working together on the whole fairly harmoniously.

The CHAIRMAN. Senator Sparkman?

Senator SPARKMAN. Mr. Chairman.

Of course, I have not been here during all of the testimony, but have you expressed yourself—I have tried to read your statement, but I did not have a chance to read all of it. We are considering S. 406; that is correct, is it not?

Mr. COOKE. Yes.

Senator SPARKMAN. Have you said yea or nay on the bill?

Mr. COOKE. I believe, Senator, I have said that in general I would endorse the bill, subject to some reservations which I have outlined on pages 2 and 3 of my testimony.

The most serious reservation relates to section (4)(1)(c).

Senator SPARKMAN. What is that particular section?

Mr. COOKE. That is the section which would require financial institutions as part of their application for a new branch office facility to specifically indicate, presumably by some percentage figure, the amount of deposits deriving from the community to be served by the new office which the institutions would propose to reinvest in the community.

To me that effort, that specificity is impractical.

The CHAIRMAN. Thank you very much, Mr. Cooke. I thank you for your support of the legislation and your warning that you want us to word it in such a way that we don't deprive assistance to areas that need it.

Now, I would like to have Mr. Ronald Grzywinski, chairman of the executive committee of South Shore National Bank of Chicago; and Mr. Milligan, who is at the table as our next witnesses as a panel.

STATEMENTS OF RONALD GRZYWINSKI, CHAIRMAN OF THE EXECUTIVE COMMITTEE, SOUTH SHORE NATIONAL BANK OF CHICAGO, AND A. A. MILLIGAN, PRESIDENT-ELECT, AMERICAN BANKERS ASSOCIATION

The CHAIRMAN. I will ask Mr. Grzywinski to lead off and then Mr. Milligan and then we will question both gentlemen.

Go ahead.

Mr. GRZYWINSKI. I will summarize a little of the written testimony I presented and add a little to it.

It seems over the 15 years or so that I have been in the banking business that a banker has three responsibilities.

The first of those is to protect the savings that are entrusted to his care.

The second one is to earn a reasonable return for his shareholders, and the third one is to support and encourage the economic development of his community.

The community in the case for a bank such as South Shore might be in our immediate neighborhood.

For larger banks it might be an entire metropolitan area; perhaps for some of the major money center banks, perhaps the economy of the entire United States.

It seems to me that the available evidence shows that generally the banking industry has done a very good job on the first two. We have certainly had bank failures in the past couple of years, but generally the banking industry has done a good job in the past four decades protecting the savings that are entrusted to its care. The data also shows that banking as an industry has, over the years, earned a very reasonable rate of return on invested capital.

I think, more and more, as the data becomes available as a result of various kinds of disclosure ordinances at the State and Federal levels and in the cities, it is becoming clear that perhaps for a variety of reasons the banking industry is not doing as good a job as might be done in supporting and encouraging the economic development in its primary service area, its community.

There are several reasons. One: That the managers and the owners of banks are measured and rewarded primarily on the profit performance of their banks. That is the primary measurement stick. It is the easiest measurement stick and it is also the best reward system.

Second: We have created in this country a body of public policy that contributes to the earnings of banks. Many of those policies were created to serve other purposes, especially during the thirties.

But, in effect there are a number of such policies that affect the bottom line of bank earnings statements. Ceilings on interest rates is one example. It is an example where, if those rates were floating, banks would probably pay higher interest rates than they presently pay and, in the short term, there would be some reduction in bank earnings.

Depositor insurance is another. While it is paid for by banks, one could argue that it has probably made the public less aware of the capital-to-asset ratios of many of our financial institutions.

I would guess that if we did not have FDIC and FSLIC insurance, the public might be more aware of the 20-to-1, 25-to-1, asset-to-capital ratios that prevail at some banks and might make demands to have the ratios reduced to 10-to-1.

The focus of this particular legislation restricting entry into the marketplace is a benefit that is conferred by public policy and that contributes to the earnings of banks. If the banking industry were able to open branches the way the gas companies used to open branches, competition might be more severe, and we argue that earnings would be significantly lower. The purpose of going through this litany is to point out that in my judgment, because of the public policies, it seems to me that the public has a call on regulated financial institutions to do those things that are in the public interest and that again, the banking industry seems generally unwilling to do by itself.

I think our own experience, while it is early and limited, has pointed out that a financial institution can be the vehicle, perhaps the means, to restore economic vitality to a particular community. Probably you know we were able to put together an investor group 3½ years ago that purchased the South Shore National Bank. The bank had been started in 1939 and grew through 1968, its peak.

The South Shore National Bank and its neighborhood began to experience racial change in the sixties. The South Shore National Bank in 1968 had $80 million in assets.

Thereafter, it began to lose those assets. Its deposits began to experience deposit attrition. After some time the bank applied for permission to the Comptroller of the Currency to relocate out of the neighborhood to a new location in downtown Chicago.

Fortunately, the people who lived in South Shore at that time were able to get competent, professional assistance, and they were able to contest that move; and they succeeded in getting a favorable decision from the Comptroller that required the South Shore National Bank to stay in South Shore. The Comptroller said it was an unprecedented decision for that office.

We were able to purchase the bank 8 months later.

Since that time we have been trying to use it as a development bank for the neighborhood. That means working within the body of the regulations. We have tried to consciously make an effort to use the bank's resources—the credit power of the bank—and reinvest them in our neighborhood.

To date, through the past 3½ years we have reinvested about $8 million or a third of our total loan portfolio in South Shore. It is invested in various ways. While I think it is too early to say that the South Shore neighborhood has turned around, there are very clear indications that it is moving in the right direction.

Single family property values in the past 18 months have increased by at least 50 percent and in some areas, by more than 50 perecnt, and it has become an extremely tight market.

There are a number of people becoming interested, including a major savings and loan service corporation that has started to do multifamily rehabilitation, and a number of other parties are coming into the neighborhood looking at the rental housing stock and working to redevelop it.

We have been working with other people who are interested in rebuilding the commercial district. If one talked to various people in the neighborhood, one would find that there is a general spirit that the situation in the neighborhood has turned around and is beginning to move in the right direction, although there is still much to do. We did all of this work pretty much by ourselves.

The contribution by the savings and loan service corporation was an important contribution.

But during the time we were doing this, two of the largest banks in Illinois, the two largest banks have had about $25 million in deposits from our neighborhood. We know this because the city of Chicago has passed a disclosure ordinance that requires banks, if they want to receive city funds, to disclose not only the loans but the deposits they have and the source of those deposits—those banks have over $25 million and are major sources of competition—if one excludes statemented loans against charge cards, it appears that they have only reinvested $500,000 in our neighborhood.

There is data on other neighborhoods in Chicago, which would tend to show the same thing in the other areas.

So, I have various conversations with bankers——

The CHAIRMAN. Did you say $500,000?

Mr. GRZYWINSKI. Yes. The figures are $25.3 million. Total loans, $5.6 million. We estimate that 90 percent of the $5.6 million is in charge card loans, which would leave a net of $500,000. It comes to 2 percent, if I'm not mistaken. Anyway, the various conversations I have had with bankers at larger banks have indicated quite clearly. I think, two things.

One: That many of the banks see themselves as retail savings banks, but as wholesale lending banks.

They don't see any incentive or any need for getting involved in lending in the neighborhood. They recognize that and their marketing policies are all geared toward attracting personal savings accounts. They know as well as, I'm sure, members of this committee know, that that is the fastest growing sector of bank deposits and has been for some time.

Second: Where I have talked to middle management people in in larger banks that have branches—we have no branching in Illinois—it seems that in many cases, there is no communication between people responsible at the staff level for providing urban services and the people who have branch line responsibility.

Where the credit decisions are being made, there is relatively little communication. I think all of this has led me to what my own experience has been and to an unfortunate conclusion. Three or four years ago, I was more optimistic that bankers might work more aggressively in taking greater initiative in rebuilding neighborhoods and communities.

The unfortunate conclusion I have come to is that bank managers may be well-intentioned on that issue, but the simple fact of the matter is that the system rewards earnings, and development or reinvestment in neighborhood is an additional short-term cost.

If any bank decides to do that by itself, it is, in effect, self-imposing a tax on its earnings. Therefore, what is needed is a universally applied system of incentives and/or sanctions to encourage development.

I say that, unfortunately, because like most people, I don't like any more legislation or regulation than we have to have.

It seems as though nothing much is going to happen, if we don't do something.

S. 406 is a modest, but important, beginning in this regard. It should be enacted.

However, I think it should be strengthened in the area of the authority and direction to examine current performance in existing service areas. Otherwise, I think there is a possibility, perhaps a probability, that the legislation will be counterproductive. It is generally viewed that facilities are opened only in affluent markets. It would not do much for the older areas which are generating large proportions of the savings in banks and which need most reinvestment.

There are five areas where the committee may wish to consider strengthening the bill. The first—and it might well be done through regulation rather than legislation—is to do a better job of defining the primary savings service area. Questions of definition here are important. An applicant bank, a bank applying for a new deposit facility, should prepare an economic impact analysis that shows the credit needs of the area and how those credit needs are going to be met.

I'm concerned here that there may be a number of banks, independent banks, perhaps banks that have small branching networks that might be doing a very good job in their primary economic area. and they might well be located in very attractive growth areas. And there is a tendency in this country—where bigness per se is able to take advantage of growth opportunities—to favor larger financial institutions.

The CHAIRMAN. I hesitate to interrupt but could you summarize if possible in a few minutes.

Mr. GRZYWINSKI. But I think we need to show where the credit needs are and how those credit needs are going to be met.

Third: As we saw in the South Shore situation, where the community group was attempting to fight, it was able to get professional resources. Generally, there is an imbalance in any public hearing because an applicant bank is able to muster many more professional resources and the consumer and community groups are generally dependent on voluntary assistance.

I think here the bill could be improved by giving standing to a municipal government in a hearing, but more importantly, by having a system where there is financing and support for a public advocate within the agencies who would be looking at the public point of view on the various branch applications.

Fourth, I think it is necessary that whatever reporting requirements there are be done by census tracts. Contrary to Mr. Cooke's position, we have seen where, within service areas, there are enormous disparities. Only by getting down to census tracts can you see where the deposits come from and where the loan needs exist.

Finally: There should be public hearings on the drafting regulation.

There should be opportunity after the regulations are drafted that in each of the various regulatory regions there should be hearings on these regulations to see if they are consistent with the legislative intent.

The final point is that development requires initiative. It does not happen just by opening your front doors and saying, "Yes, I will make loans in this neighborhood." It won't happen. There has to be initiative on the part of either the lending institution or whatever vehicle is going to be responsible.

I think there has to be the will and motivation to find the way for that, which is hard to do, but is necessary.

This would help create a way for serious initiative and more balanced economic development.

The CHAIRMAN. Thank you for a fine statement.

Mr. Milligan, you are President of the Bank of A. Levy of Oxnard, Calif., and president-elect of the American Bankers Association.

You can go ahead.

[Complete presentations of Ronald Grzywinski and A. A. Milligan follow:]

PREPARED STATEMENT OF RONALD GRZYWINSKI, CHAIRMAN OF THE EXECUTIVE COMMITTEE, THE SOUTH SHORE NATIONAL BANK OF CHICAGO

Neighborhoods are dying in cities throughout America. Good housing turns to slums, profitable businesses leave or go bankrupt, schools deteriorate, and crime increases. Working on their own, the victims of this process—businesses, churches, schools, and the people—are powerless to stop it. Soon whole neighborhoods are abandoned, left to die of spiraling neighborhood deterioration, and the tax base of our cities continues to erode.

The causes of neighborhood deterioration are many and varied. They involve the psychology of class and ethnic prejudice, the pressures of rapid racial and socio-economic transition, and the problem of aging housing stock. At a critical point credit is shut off, and the community loses the capacity to shape its future.

Neighborhood deterioration often begins when members of a different racial or ethnic group, seeking a better life, move into an old neighborhood. Generally the new residents do not have as sound a financial base as the former residents. Deterioration can also occur more slowly as a community ages. As the process continues, the ties that bind the neighborhood are severed. Soon the established shopkeepers move, community organizations dissolve, the crime rate begins to climb, the rental properties and the schools decline. Thereafter, the community steadily deteriorates.

From a distance, the task of community redevelopment seems complex and expensive. Social, political, and economic factors appear interwoven in a maze of cause and effect. Even the point and means of entry are disguised.

Close up, the task becomes one of feasible projects. In nearly every community across the nation, there already exists an institution that, because of its special characteristics, can serve as a pivotal point in the fight against spiraling neighborhood deterioration. Such an organization is the federally regulated financial institution.

It is a known and generally trusted institution.

It is a knowing institution. It knows more about the local economy than any other institution. It can make credit judgements, identify local economic problems, search for solutions, and develop constructive proposals for public and private action.

The rules, regulations, procedures, and operating precedents for financial institutions are in place and do not have to be created anew.

It controls a pool of credit, one of the three prerequisites (along with capital and know how) for any development work.

As businesses, financial institutions are oriented to a pragmatic, project-by-project program of development which incorporates measureable standards of performance.

Because they are highly regulated, the managers of development in a banking context are constrained to operate within a system of checks and balances which helps to assure a prudent application of resources.

Federally regulated financial institutions, however, are essentially profit-motivated. As such, they necessarily choose investment policies to assure the highest return consistent with prudent risk. As Mr. Robert Bloom, Acting Comptroller of the Currency, has pointed out, "a century of experience (has shown) that the profit motive serves the public interest best in encouraging bankers to seek out every available opportunity for prudent and economically sensible investment of depositors' funds." This motivation has produced mixed results. Seeing themselves as powerless victims of a process of deterioration, bankers appear, on the one hand, to withdraw savings from capital-rich neighborhoods in need of reinvestment to rehabilitate aging fixed assets and, on the other, to deposit them in new but capital-poor neighborhoods which promise a longer economic life.

The new Administration and the Congress face an unprecedented challenge—find ways to apply the virtues of our profit-motivated market economy to solve the problems of economic and social deterioration in those parts of the nation which have lost their competitive edge. This must be done without adding unbearable costs to the public treasury and without creating new bureaucracies that can impede the flow of public resources to areas of need. S. 406, the Community Reinvestment Act of 1977, is a modest step in this direction. It will raise the consciousness of managers and regulators of financial institutions about their obligation to meet more effectively the credit needs of the localities they are chartered to serve.

Unfortunately, the Act does not go far enough. It does not create a system of incentives and sanctions adequate to induce regulated financial institutions to invest capital, credit, and talent resources in deprived areas either on a scale commensurate with the needs of the nation or according to the capacities of such institutions. S. 406 uses only one of the privileges granted to regulated financial institutions through public policy, that is, restricted entry into the market place, to encourage banks and savings institutions to meet legitimate and prudent credit needs. As a first step, however, it should be enacted. As Senator Proxmire stated in his excellent introduction to the Bill in the Congressional Record of January 24, 1977, it is time to act on the realization that "the public sector cannot . . . finance all capital needs," that "private financial institutions are the main source of capital for domestic economic development," and that "investment by financial institutions in their communities need not involve imprudent risks."

In addition to suggesting specific amendment to S. 406, I will comment on one section that deserves careful scrutiny. Sec. 4(1)(D) requires an applicant financial institution to "demonstrate how (it) is meeting the credit needs of the primary savings service areas in which it or its subsidiaries have already been chartered to do business." Without sufficient direction as well as authority to examine in depth the reinvestment behavior of a financial institution in those communities from which it already attracts a large portion of the available saving deposits, the Bill is an insignificant gesture. As we have seen, financial institutions branch most aggressively into newer communities that promise rapid growth rates. They seem to count on the reluctance of depositors to change established depository relationships, and they defer opening facilities in older communities which, although there is adequate market penetration, have the greatest need of reinvestment. Therefore, if this bill intends to stimulate large-scale reinvestment in needy communities, it must insure, as a precondition to opening any new deposit facility, a comprehensive review of a financial institution's reinvestment policies in all communities from which it attracts significant deposits.

To achieve S. 406's objective of local reinvestment, this Committee may want to consider the following amendments:

1. Add a more specific definition of the "primary savings service area" in which financial institutions have been chartered. The definition should include for example, any area in which a financial institution now attracts approximately 15% of the known savings deposits. (This may require amending the Home Mortgage Disclosure Act of 1975 to include disclosure of sources of deposits by census tract.)

2. Require any applicant of a new deposit facility to prepare an economic impact analysis: Current regulations offer the large financial institutions the greatest opportunities to expand their deposit facility network. In many parts of the nation this has led to steadily increasing concentration of banking resources without a corresponding commitment to community credit needs. (For example, the two largest banks in Illinois control approximately 24.6% of all domestic funds on deposit in the state, without benefit of branches. Together they now withdraw $25.3 million in deposits from the South Shore neighborhood of Chicago, but they have reinvested only $5.6 million in loans, of which approximately 90% are thought to be bank card credits at annual interest rates of approximately 18%.) An economic impact analysis would help to prevent further concentration of banking resources. Such a report would have to outline the credit deficiencies of the service area and argue persuasively that the credit needs can only be met through opening a deposit facility. The provision would accomplish two objectives: insure that any new institution entering the service area has designed a strategy to meet existing credit needs; and protect from the glutony of bigness per se those institutions that have been doing a responsible job in a particular service area.

3. Include specific safeguards to the public interest: While the Bill would encourage "community, consumer, or similar organizations to present testimony at hearings on applications for deposit facilities on how well the applicant has met . . . credit needs," we should recognize that such organizations are often volunteer staffed. They cannot summon the talent resources a well capitalized financial institution will muster to present and defend its application. Such a situation can only result in an imbalanced adversary relationship with the public inadequately represented. Two amendments to the Bill could rectify this potential (probable) inequity.

a. State that official representatives of the municipal government are entitled to testify at such hearings. (As the financing of municipal services becomes increasingly difficult in more of the older cities, local officials should take a growing interest in the reinvestment policies of financial institutions and should be able to call upon the resources needed to analyze fully the reinvestment performance of financial institutions.)

b. Require applicants for deposit facilities to provide sufficient financial support for a Public Advocate both to work within the appropriate Federal financial supervisory agency and to represent the public's interest at all hearings. (Such an office in New Jersey recently resulted in the Public Utilities Commission not only rejecting New Jersey Bell's bid for a $150.2 million rate increase, but actually ordering a $1 million rollback for low use customers. "A key feature in the Jersey plan is a requirement that any utility filing a rate petition must pay one-tenth of one percent of its operating revenues for the preceding year to support the challenge, thus enabling the Public Advocate to hire qualified consultants on a par with the expert witnesses that utilities always muster to support their rate cases." *New York Times* editorial.)

4. Amend the first line of Sec. 4(4) to read, "requiring periodic reports by census tract from regulated financial institutions." This would avoid the problem of wide economic disparities that can exist within a given savings service area.

5. Include a provision in Sec. 6 for public hearings in each regulatory district after publication of the draft regulations but prior to implementation. This would insure that community, consumer, and similar organizations have an opportunity to comment on the regulations. Also, correct the typographical error, "one hundred and eight days" to read "one hundred and eighty days."

Neighborhoods are the basic unit of our national community. The Community Reinvestment Act of 1977 attempts to deal with a specific geographic area defined as a primary savings service area. This area should in fact be identified as a neighborhood. If the Bill is enacted, conflicts will inevitably arise over what constitutes such a primary savings service area. Furthermore it seems clear that this and other committees will be looking at neighborhoods with greater frequency. Therefore, the Senate Banking Committee might want to introduce legislation requiring the appropriate Federal agency to define Standard Neighborhood Statistical Areas throughout the nation. Such definition would simplify the process of dealing with neighborhoods.

MONEY MATTERS

(By Judith Barnard)

Water began seeping into the elegant South Shore Villa condominium during the night of October 21, 1976. Within a few minutes, the city water department had been called and a crew left the station at 79th and Ashland to drive in to South Shore. Before they got to the Villa, the cracked water main that had allowed the seepage burst, and five million gallons of water exploded into 69th Street at South Shore Drive.

The street was sucked into a 60-foot lake; cars floated on its surface. As the earth washed away, the south wall of the Villa crumbled, opening living rooms, bedrooms, and kitchens to the night air.

The water department crew had to shut off six valves to stop the flow; each took 20 minutes. When they had finished, and the sound of rushing water had died away, television crews, news photographers, and residents lining the collapsed street took stock of the damage.

It was a terrific disaster for the public—high drama and no one hurt or killed. But for those who knew what the Villa meant symbolically, the flood had wounded an entire neighborhood. That regal building had been given up as a prospective slum by its mortgage holder, Talman Federal. The community of South Shore had been declared a disaster area, soon to become one large slum, by urbanologist Pierre de Visé, by a majority of its former white residents, and by the money merchants of Chicago.

But the 39-unit Villa had been reclaimed, renewed. It was sold at a hefty profit to a developer, and its residents formed a strong, active condominium association. It was both an example and a symbol of what South Shore could achieve in its homes and businesses—if the streets held, and if the community didn't become discouraged. And if the commitment held firm among the people behind the Villa renovation, behind the effort to turn South Shore around—the staff of the South Shore National Bank.

At its peak, the South Shore National Bank had assets of $80 million—a stable bank in a stable, prosperous white community with a lakefront, an enclave of mansions, blocks of modest homes, and solid three-story walkups, high-rises, designer shops along 71st Street, churches, synagogs, schools, proximity to the Loop and the University of Chicago, and a heterogeneous population of 80,000.

What happened in South Shore isn't a unique story any more—but what's happening now is unique. It may even carry hope for other deteriorating urban areas where all those involved claim—and believe—they are victims of forces beyond their control.

South Shore "went black." Within a few years, the population in the area bounded by Jackson Park (67th Street), Stony Island, 83rd Street, and the lake shifted from 99 percent white to 85 percent black. The white residents who stayed either had substantial investments in mansions in the section called the Jackson Park Highlands, or an investment of another kind; a commitment to integration and a belief, or hope, that they could keep South Shore from going the way of neighboring Woodlawn.

The forces that accompany, and accelerate, the deterioration of an area are complex and, seen in isolation, baffling. But they have a pattern, and South Shore's in the 1950s and 1960s went something like this:

The pressure for good housing for blacks was enormous. Where they could, blacks burst out of their overcrowded, deteriorating neighborhoods into areas with better housing, lower crime rates, better schools, and breathing space. The demand pushed prices up; landlords raised apartment rents, and blacks, having few options, paid them. Other landlords followed suit, and white families, who did have options, moved to neighborhoods where rents were lower.

At this point, two things happened. Landlords assumed that blacks would ruin the area, so many saw no sense in spending good money on maintenance or on screening applicants or on enforcing density restrictions. Maintenance became minimal; rents went up; many black families, to make payments, shared apartments with cousins or friends. And owners watched their self-fulfilling prophecies be fulfilled.

By "milking" their buildings (also called "managing for demolition"), owners pocketed money they would have spent on maintenance and taxes. In that way they could recover the purchase price of a building in three years. The City of Chicago allows a "grace period" of ten years of nonpayment of taxes before it takes over a building; so the owners, their names often buried in land trusts, had plenty of time to walk away from buildings that by then were worthless.

Single-family homes were treated much the same way. Black families that could not get conventional mortgages (the area, by this time, had been red-lined by most banks and savings and loan institutions), got FHA-insured mortgages. And when they couldn't keep up payments (FHA screening procedures are minimal), and the mortgages were foreclosed, those houses had to stand empty for one year (a peculiar FHA regulation) before new owners could take over. By that time, the houses had become playgrounds, stripped of their fixtures and damaged by cold, rain, and wind. More, neighbors had stopped fixing up their homes because the sore spots depressed values on the block.

"Disinvestment" means the conscious decision by financial institutions to keep investment money out of a community. It applies to banks in the community as well as those downtown. At about the time the color of South Shore began changing, the owners of the South Shore National Bank decided they couldn't cope with the new residents. Banking habits were different, the people were different from those with whom the bank had been comfortable. Many familiar customers were leaving and taking their deposits elsewhere. The bank had made its own decision to disinvest, which in effect meant creating conditions that would speed the outflow of deposits. The lobby got dirty and wasn't cleaned up, tellers weren't replaced when they left, and people had to stand in line for as long as an hour to open a new account. The minimum deposit required for high-interest accounts was greater than in downtown banks, services were minimal, and mortgages were refused. In 1972, the bank lent $59,000 in South Shore mortgages for the entire year: two homes.

As a policy, it worked. Assets dropped from $80 million to $46 million, deposits to $41 million. Business was so bad, the owners said, they had to get out. They had buyers who wanted to move the bank to the Standard Oil Building. They filed an application to move.

Looking over its shoulder at Woodlawn, the South Shore Commission, a community organization begun in the 1950s, fought the move. They testified before the Comptroller of the Currency that there wasn't a good reason for the bank to move, that the move would do irreparable damage to South Shore.

And for the first time, the Comptroller of the Currency turned down such an application, stating that the bank "has failed to show persuasive reason at this time for abandoning its present service area and leaving the South Shore community without a strong, established, and adequately capitalized commercial bank."

Sometimes events coincide as if by plan. At the same time that the owners of the South Shore National Bank were looking for a way out of a community they no longer understood, a group of people in Hyde Park was looking for a bank to buy. One member of the group was the former president of the Hyde Park Bank and Trust Company, Ron Grzywinski (Griz-win-'ski), who had just completed a two-year fellowship at the Adlai Stevenson Institute, where he worked up a model for a development bank that could help a community reverse the spiral of deterioration.

Grzywinski named his model the Neighborhood Development Corporation; it would be a holding company that would buy a bank and eventually form subsidiaries, both for profit and nonprofit, to act as a catalyst and a base of support for neighborhood rehabilitation and development.

He had talked it out with the people who would help him put the model into action: Mary Houghton and Milton Davis, who, as directors of the Hyde Park Bank's urban development division, had created the successful minority business-loan program.

In another of those fortuitous conjunctions of events, in August 1972, at the same time Grzywinski was looking over the South Shore National Bank, the Federal Reserve Board ruled that bank holding companies could make "investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas." The ruling went on: "Bank holding companies possess a unique combination of financial and managerial resources making them particularly suited for a meaningful and substantial role in remedying our social ills."

It was a trumpet sounding the charge. Grzywinski took his model, the new Fed ruling, and his own considerable charm, and went calling on foundations, wealthy individuals, and church groups, looking for four million dollars.

He wasn't preaching the kingdom of heaven as a reward for good works in South Shore; he was making a business pitch for investments that he expected, but could not promise, would pay dividends if investors would agree to defer their earnings until the new owners could reverse the outflow of deposits and attract new money from within and outside South Shore.

At no time, verbally or in his written proposals, did he conceal the role that he and his fellow officers intended the bank to play in making an experiment that hadn't been made in any other deteriorating neighborhood in the country:

"While the policy of the corporation is to make loans and investments only in situations which it believes offer a reasonable expectation of return to the corporation, *it will not attempt to maximize such return at the expense of its primary goal of developing the neighborhood for the benefit of its residents.* Moreover, the corporation expects to conduct or contract for research and studies to provide technical assistance and to make grants related to neighborhood development. While the effect of such expenditures may be to improve the neighborhood, they may also reduce the returns, if any, to the participants in the corporation." (From the Offering Circular of the Illinois Neighborhood Department Corporation: italics added.)

It was hardly a conventional approach: what followed was even less so. The Offering Circular reiterated the dangers the new owners might face—hostility from the community, lack of sufficient outside investments to maintain momentum, absence of any models on which to base their experiment, the danger of the bank's going under before the decay could be reversed. Then the circular added, almost casually, that if the bank became profitable and succeded in its commercial and residential development goals, its ultimate goal would be "to sell to residents of the neighborhood the equity in the corporation, or alternatively in the bank."

But the radical punch line was only one line in 47 pages of hard business and banking sense, with the comforting word "profit" appearing frequently, and it was presented by Grzywinski with his special blend of youth (he is 40), energy, and experience as a bank president in Hyde Park and in Lockport, Illinois. Between the first offering (1973–74) and the second (beginning in 1975) nearly three million dollars was committed. And Ron Grzywinski bought a bank.

"The first day," Mary Houghton says, "nothing was different at the bank except that three new people came to work."

They went to work on August 23, 1973—Ron Grzywinski, chairman of the board, Mary Houghton, vice president, and Milton Davis, president. Mary Houghton, tall, with an open, engaging smile, walks with a long stride bent forward as if hurrying to see around the next corner. She is forthright and accessible—hallmarks of the entire staff, by design as well as by inclination. They came to a bank where their predecessors had been distrusted, even despised by many black residents, a bank that had been run by white males who had tried their damnest to get out of South Shore. Now here was a new bunch taking over; was the fact that Houghton was female and Davis was black and Grzywinski "cared" about people enough to convince South Shore that things had really changed?

Not for a long time. "The population was nervous about the bank," says Calvin Bradford (of the Circle Campus College of Urban Sciences), who has been studying the South Shore community. "They took one look at these people who came in saying, 'We're going to remake your neighborhood,' and their first reaction was to say, 'The hell you are.' No one knew whether they were bankers or some new kind of community group. Did they want to make a splash and then leave, or a fat profit and then leave, or did they really have something new in mind?"

There is one tested way to reach into a community and convince people you're for real: Grzywinski and Davis did what independent precinct workers in Chicago have done for years; they had a coffee campaign.

They started in the lobby of the bank. Grzywinski young and roseate, Davis short, stocky, dark, with a quiet smile and an even quieter voice, almost a murmur. (Oddly, all three of them, Grzywinski, Davis and Houghton, speak in low tones, sometimes mumbling, as if the radical things they have to say—radical for bankers—are better said slidingly and then put into action.)

Davis and Grzywinski stood in the lobby of the bank offering coffee, asking questions—What do you want from the bank? What do you want for South Shore? What services are important to you?—and talking about themselves at the same time.

Then they went to living rooms, recreation centers—wherever they could wangle an invitation. Sometimes only three people came to listen; at other times, up to a dozen. But information travels, and one special piece of information got around: With the new ownership, no resident of South Shore could be turned down for a loan unless Grzywinski, Davis, or Houghton agreed. The days of low-echelon summary refusals were over. "What they'd had," said Houghton, "was some stuffy banker talking to a street-wise black. They just talked past each other. Eventually they stopped talking altogether."

"Of course, we do turn down applications," Grzywinski says. "We should take more risks, but our interest is in surviving."

"The point is," adds Houghton, "that many loans can be made less risky if someone tries to put a package of protections together. That's one of our main roles."

But the coffee campaign wasn't only about loans; it was also about deposits, urging South Shore residents to "plant your money close to home," to deposit their dollars where the dollars would stay, in the form of loans, mortgages, and investments.

Eighty thousand people live in South Shore, with a total of more than $110 million in their bank accounts, most of which are in large downtown banks.

In 1974, the Chicago Disclosure Ordinance required those banks wanting to qualify as depositories for city funds to disclose the amount of their savings deposits and home loans in every census tract in the city. Some of the disclosures:

In 1974, Continental Bank made 92 percent of its loans in suburbs, eight percent in the city, of which 59 percent were made in the North Side Gold Coast and three percent downtown.

Harris Trust and Savings made 95 percent of its loans in suburbs, and five percent in the city, of which 49 percent were made in the Gold Coast.

First National made 76 percent of its loans in suburbs, 24 percent in the city, of which 46 percent were made in the Gold Coast.

In 1974, six banking institutions (Continental, LaSalle, First National, Exchange, Central, American National) with $144 million in savings deposits from the communities of Logan Square, Austin, Roseland, West Englewood, and South Shore, returned to those communities one-half cent on the dollar in home loans.

To the argument that no one in these redlined communities asked for mortgages or qualified, the officers of the South Shore bank responded with skepticism in 1973 and 1974. In 1976, they responded with figures on home mortgages they made in South Shore in that year alone: 52 loans made for a little over one million dollars. At the end of the year, only two were delinquent.

While the evenings were given over to downing coffee and talking up the new policies, the days were occupied with raising a sinking bank. In the 12 months before the new owners took over, $6.3 millions in deposits had been withdrawn. Customer fraud and delinquent personal loans were rampant, and reporting systems were poor.

It took 26 months for the new owners to report to their shareholders that "in 1975, the South Shore National Bank restored profitability to its operations and, for the first time in seven years, experienced substantial growth in ordinary deposits."

(By the end of 1976, Grzywinski was beginning to talk about the possibility of paying dividends to shareholders, as each quarter's profits were dramatically higher than those of the preceding quarter. His goal is to pay a standard (for banking) return of ten to twelve percent on invested capital, which would, he says, "make it very difficult for bankers to say that profitability and development are mutually exclusive.")

The new owners had put a host of new procedures into practice. They hired a number of highly professional banking people, and others whom Mary Houghton calls "compulsive, flexible people who don't necessarily have a banking background, but are very good at solving problems."

They rewarded tellers for speed and accuracy with the highest teller salaries in the city, which, together with tighter procedures, reduced teller fraud and carelessness and eliminated the long lines that had infuriated would-be depositors.

Interest rates were made competitive with those of downtown banks; certificate-of-deposit accounts were made available; free-checking-with-savings accounts were introduced; banking hours were lengthened to six p.m. on weekdays and, for the first time, included Saturday mornings; data processing was upgraded; loan collection procedures were strengthened. "The Bread Rapper," a bimonthly newsletter in the format of Illinois Bell's "Telebriefs," was inaugurated and sent to all checking-account customers; it is both a community newspaper and a regular report of bank activities.

And they redecorated the bank, inside and out.

"I was ashamed to say I worked there," Houghton says. "It was grubby and depressing. I remember there was a sign up front above the teller cages that said, 'We no longer give deposit balance information.' It was filthy and covered with fingerprints; it had been there for three years."

They replaced the blue tille on the exterior walls with new brick facing; the lobby was completely redone with carpeting, sofas, bright lights, graphics of the bank's new logo, a walnut counter for tellers, ceiling-high plants, and a dramatic burgundy-and-blue color scheme.

"People had been saying the bank must be in trouble" Houghton says. "Any place that looked as lousy as this one did had to be in trouble. Which was another way of saying how bad things were in South Shore. Then we fixed up the place and people began saying the bank must be doing real well, and that meant South Shore was doing better because not only were we staying here, but we looked prosperous. And if *we* believed in South Shore, that was big news because bankers always know what's safe to believe in, right?"

By the end of 1976, with a remodeled bank, a new drive-in facility recently opened two blocks west on 71st Street, land cleared and construction under way for a much-needed parking lot across the street, and a lobby that was becoming a community social center, the bank had 30,000 deposit accounts totaling $47,844,300. Its assets stood at $54,500,580, and its profit for the year was $420,000. More important, it had financial fingers in a number of South Shore pies.

That after all, was the main idea. The bank Sales Book, which is given to potential investors, sets this sentence alone on one page: "To our knowledge, INDC [Illinois Neighborhood Development Corporation] is the only bank holding company organized for the primary purpose of neighborhod renewal."

"What we had to do," Milton Davis says ,"was put people and their money together." He smiles: such a simple idea. He sits in his small office off the main lobby, with just enough room for a desk and two guest chairs; his door is usually open. For weekly meetings he goes upstairs, past the small alcove off the hall where Mary Houghton has her desk, and into the combined conference room and Neighborhood Development Center. (Until recently, Ron

Grzywinski used the conference table as his desk; finally, after three years, he has his own office: a cubicle at the end of the upstairs hall.)

At the weekly meetings of the various bank committees, people and their money are put together—when possible. The various committees evaluate personal- and business-loan applications from what could be the split-personality viewpoint of banker and developer. The drive behind these meetings is to keep the split from getting too wide.

"A banker is a judge," Grzywinski says. "A developer is an advocate. There's inevitable tension between the two. We try to be as creative as possible in keeping the tension to a minimum and being developers as much as possible."

"All mortgages," says University of Chicago sociologist Richard Taub, who has used South Shore as a living laboratory for three years, "should be seen as development techniques. Banks traditionally have been passive; instead, they should go out and actively seek people who can become owners. There's no other way to create a real sense of community, to truly develop an area."

Grzywinski agrees; it is basic to the way the bank views some mortgages—which, elsewhere, might be perfectly conventional loans—as tools for the development of South Shore. "Power runs to ownership in this country. If we can get a core of stable, home-owning families, a lot of the other problems that come with transient populations will be eliminated."

"And, adds Mary Houghton, "to do that we use every guarantee we can find—the Mortgage Guarantee Insurance Corporation, Federal insurers, good collateral, any solid help we can get to make mortgages others might refuse."

The center of these efforts is the newly formed Neighborhood Development Center, headed by Mary Houghton, with fund raising handled by Susan Davis.

The funds are raised from outside South Shore. Susan Davis has sent letters (signed by Ron Grzywinski) to more than 30,000 people, and has made telephone calls to hundreds of others, asking for savings deposits of at least $1,000 as a unique investment in a community.

The approach is both conventional and offbeat. First, depositors are assured they will receive the same insurance protection and interest paid by all banks; they aren't being asked to plunge into risky waters. But Susan Davis also tells them that each $1,000 they deposit produces $500 in credit and $25 in annual earnings, which goes directly into the rebuilding of South Shore. And the importance of that kind of investment to people outside the community (aside from the chance to do good without losing a penny) is that if the experiment works, if a neighborhood can be rehabilitated and made livable and attractive to the whole city, not only is the city strengthened, but other neighborhoods can have hope that eventually rehabilitation may spread as rapidly as urban blight does now.

There are, then, "two kinds" of money coming in to the bank: regular deposits from South Shore residents which, with bank investment activity, support the day-to-day operations, expansion, and so on; and development deposits, aiming at turning South Shore around, which are solicited from beyond the area and dispensed by the Neighborhood Development Center. Says Mary Houghton: "In most banks, rewards are given for caution. At South Shore we're more interested in innovation—not irresponsible, but still not the kind of caution exercised elsewhere. But even with innovation, there are proposals that no one in the bank will take a chance on; those are the ones we get in the development center. We try to find ways to minimize the risk, then one of us presents the application to the loan committee as its advocate. And still we turn down about 90 percent of the small-business loan applications we get."

Paul Carson, commercial loan officer, adds, "If all else fails, I ask the applicants if there's a brother or cousin or friend who might go in with them and share the risk. If they can't find anyone, we have to give up."

The development center began with some dismal statistics:

In 1975, there were 148 vacant stores in South Shore totaling more than 200,000 square feet: 20 percent of all retail space in the area. Many of the occupied stores looked and often were, marginal.

There was no central shopping area; only commercial strips with plenty of fast-food carry-outs and wig shops, but no mix of stores for one-stop shopping. As much as 80 percent of South Shore's sales potential went to shopping centers outside the area.

"Our customers were all gone," says Seymour Seder, in his elegant women's shop in Flossmoor Commons. His old store on 71st Street still has the outlines of the name Seder above the front door. "It wasn't that we wanted to leave; we had to leave."

"Everyone feels like a victim," Ron Grzywinski says. "The banks, the store owners, the people who leave, the people who move in. They don't talk about adjusting to new conditions; they talk about 'losing' a neighborhood."

"Bankers," says Milton Davis, "and many shopkeepers, had nothing in their backgrounds to give them an understanding of what was happening to South Shore."

Against expectations, the average income level of South Shore residents was no lower than it had been when the area was all white. But the spread became greater: about 17 percent of the residents earn more than $20,000 a year; about 17 percent are on welfare (a close approximation, by the way, of the whole city); and "black money" was seen by financial and business people as less dependable than "white money." So shop owners fled, small-business loans were generally unavailable, mortgages and home-improvement loans were refused, and the weeds grew high along the Illinois Central tracks that split 71st Street down the middle.

When the Neighborhood Development Center was formed, more than 13 percent of South Shore's housing units were in trouble: 476 buildings with 3,892 units were in abandonment, tax delinquency, foreclosure, or combinations of these. And a building that's in trouble has company; it infects the blocks in all directions. The biggest problem in South Shore was that the buildings most in trouble weren't clustered where they could be isolated for drastic one-shot action; they were scattered throughout the community, each infecting its own area.

Susan Davis' letters and phone calls for development deposits focused on the two problems of South Shore: deteriorated commercial strips and housing units in trouble. And the money has come in, growing from the first year's deposits of $863,000 to a total at the end of 1976 of $7,300,000.

But that isn't the whole story. When solicitation costs and development expenses (staff time, etc.) are subtracted, development income doesn't approach development expense. In a monthly report from the development center, Mary Houghton lists loans that "furthered the bank's development objectives by extending funds within South Shore in innovative ways." There were loans to small businesses and community groups, personal education loans, home-improvement loans, and mortgages (including several in the South Shore Villa, the showplace of development activity in South Shore). There were also one-time projects such as the preparation of a booklet for bank customers titled *A Guide to Banking Services*—a description of bank service charges, interest computation, ways to maximize earnings and avoid charges—following a trail blazed by California consumer groups pushing for full disclosure of bank charges.

All of this is "development expense," which, in 1976, exceeded development income by approximately $125,000 (money that might otherwise have been paid as dividends to investors) mostly because of an item called "staff time."

It's one of the biggest and probably the most slippery expense for the bank, because without large infusions of staff time, development wouldn't happen. "Bricks and mortar are the easiest," Grzywinski says. Development is as much an attitude as it is a rehabilitated building. And that takes not only dollars, but energy and time.

Early on, the new owners went to the South Shore Commission, the community organization that, though buffeted and drifting, was the most intact group in the area. Commission members and bank staff established a resident advisory council to work with the bank on policy and to act as a liaison with the community. It is the only citizen advisory board to a commercial bank in the country.

"We don't replace the Commission," says Bob Pickens, chairman of the advisory council. "But we have committees that work directly with the bank—bank services, commercial development, housing, and marketing and education. We discuss with the bank whether certain businesses would be a good addition to the community, how the bank can help residents, what people expect and need from the bank. We thought it would be a good idea to have classes on balancing checkbooks, and the bank had them. They were very successful. The bank also provides space for us to meet, and research and staff time."

There it is again: staff time—provided on request to every group formed or in formation in South Shore. Staff time is provided to the Parkside Project, though a foundation grant pays the salary of the project director, Jim Bringley. Parkside (the northwest corner of South Shore) is the area's most deteriorated section. Bringley devotes full time there, going door to door, talking to people about their needs, locating owners, identifying the buildings being managed for demolition, and the status of tax payments. "At first we really weren't trusted," he says. "But lately that's changed. In one month we made seven home-improvement loans; we've applied for a grant to landscape three empty lots as parks. And through Model Cities and the Woodlawn Urban Progress Center, CETA [Comprehensive Education and Training Act] workers scraped and painted window frames. Do you have any idea of the amazing difference fresh-painted window frames make to the appearance of a building? And to the attitude of the people who live there, and to the whole block?

"There are things we can do together with the city. If we find five or six people to buy a building of 12 or more units, the city would give a grant of 50 percent of the rehab money; the bank, together with other financial institutions and insurance companies, would finance the rest. We could do whole blocks at once that way. We have to make large, visible changes; there's no other way."

"If you inch your way along," says Cal Bradford of Circle Campus, "buildings die behind you as you go."

Bank staff time is provided to the South Shore Arts Association, a nonprofit group formed by residents to operate the Jeffery Theatre. To insure room for future expansion, the bank has bought the building next door, which houses the theatre. The bank leases the theatre to the Arts Association and helps the group plan renovation and develop profitable management techniques. Profits—when they come—will be plowed into other community programs: summer concerts, ballets, plays, art fairs.

Staff time is provided to the South Shore Center on the Lake, a nonprofit group organized to save the South Shore Country Club from demolition. Though in disrepair from neglect by the park district, which now owns it, the club is a natural community center, and the Center on the Lake, with bank help, is trying to find ways to keep that magnificent white elephant and its 65 acres available to the public.

Staff time is provided to the South Shore Block Club Coalition for United Action—residents who organized to renovate and sell a square block of abandoned townhouses in the center of South Shore. When the block club coalition and those abandoned townhouses came together at the bank, the trumpet call of the Fed ruling on bank holding companies sounded loud and clear—"to promote community welfare, such as the economic rehabilitation and development of low-income areas." As a direct result, the Jeffery Development Corporation, a nonprofit subsidiary of the bank holding company, was formed and staffed by bank people, to work with community groups—specifically, for a start, with the block club coalition—to rehab housing units. The bank applied to the Chicago Department of Urban Renewal for a grant to hire an architect and housing consultant. It promised the coalition that it would appraise the units after rehab, write the proposal for interim financing of the rehab project on a revolving fund basis (as soon as the houses were sold, the money would go back into the fund for use as interim financing of the next project), advertise for buyers, screen would-be purchasers, and provide mortgages.

The bank also promised to arrange financing for neighborhood homeowners for improvement to *their* property (the inevitable "ripple" effect), to clean up the neighborhood, and to convert an open space (when a nearby building was demolished) to a playlot or park.

But perhaps the biggest step of all requiring staff time in line with the Fed ruling and the goals of the bank, is the latest one: the formation of the South Shore Area Development Company. The formal launching was at a reception at the South Shore Country Club, with 70 business and professional people and the guest of honor, Mitchell Kobelinski, director of the Small

Business Administration (SBA). There were brief speeches and a slide show of a shopping mall in Maryland, and then everyone went back to work, but the occasion was important and the guests knew it. South Shore is one of the few communities (and the one most closely watched because of the presence of the bank) to have a nonprofit local development corporation (LDC) organized to borrow SBA money and funnel it to for-profit businesses for construction, modernization, or expansion. Up to $500,000 per business may be borrowed at 6.625 percent for up to 25 years. The LDC will receive applications and screen them with the help of the bank, then borrow 90 percent of the cost of each project from the SBA, investing the other ten percent itself. (The ten percent can be a pledge of assets, though usually it will be dollars.) Merchants may be asked to put up 90 percent of the LDC's required ten percent, but the bank is looking for grants to fund the full ten percent required for each business.

While a few community groups have formed an LDC without much outside support, it is unlikely that the South Shore Area Development Company would have come into being without the bank. The spur to the renewal of South Shore has been the bank—there is a straight line from its staff to the South Shore Commission to the resident advisory council to the local development corporation.

(Paul Carson says, "I talk to people who used to come in for loans and weren't even listened to. Now, when I go to meetings, like the chamber of commerce, I hear people say, 'That's my banker.'")

Four years ago, conventional wisdom had it that by 1976 South Shore would be a slum. An officer of a downtown bank says that major banks and savings and loans were trying to dump all their investments in South Shore. Talman Federal, for one, sold the South Shore Villa at a loss to a developer who remodeled it, converted it to condominiums, and made a profit on it. Two of the condominium mortgages were made by Talman.

Some visible examples of the new confidence in South Shore:

Elzie Higginbottom, a vice-president of Baird and Warner, has developed, independently, two large high-rises in South Shore, financing the rehab work through the Illinois Housing Development Authority. He raised rents to attract more stable tenants and screened those who applied. "We have no robberies, no muggings; we don't need 24-hour security. We have a good mix of tenants; some units are subsidized for elderly residents under section eight of FHA regulations, but nobody knows who they are; there's no stigma. It's been a profitable venture for me, largely because the bank is there as an anchor in the community. You put people in the right frame of mind—believing in a place—and it's amazing what they can do."

"When a building is renovated," says Ron Grzywinski, "other people on the block mow their lawns, paint window frames, plant flowers. It happens every time."

"But," adds Higginbottom, "parts of South Shore will need more than private assistance to stop the cancer. Middle-class blacks are taking a 'wait-and-see' attitude, and the bad areas need massive kinds of help to convince those people to move in."

Saul Klibanow is the director of Rescorp (Renewal Effort Service Corporation), a development company funded by 57 savings and loan institutions in Chicago. Rescorp has rehabilitated more than 150 units in large buildings in South Shore and soon will begin work on another 150. Klibanow says, "We went in because the bank was a stabilizing, commercially sound factor. And we made a profit of $75,000. The main thing is that we did a highly visible cluster of buildings. Phase Two will be the same—several large buildings on one or two blocks, each unit rehabbed, the exteriors sandblasted, and the grounds landscaped. Our job is to demonstrate the potential of an area that we think will respond to a stimulus. We give the stimulus; we construct an environment."

The rehab done by Rescorp was financed by the Illinois Housing Development Authority (IHDA), as were Elzie Higginbottom's two buildings. Irv Gerick, the director of IHDA, echoes Klibanow: "We went into South Shore because the bank was a source of private capital that would still be there when IHDA and Rescorp were gone. And we felt that the combination of IHDA money and the bank's presence would influence other developers. Nobody, after all, has enough funds to save a whole community. We look for strong developers, strong contractors, various protections against default, and an institution like the bank. A project has to make economic sense to make social sense; we've put seed money in to show our faith that South Shore can make sense both ways."

Once a month, on a Wednesday afternoon when the bank is closed, the officers and staff meet at Ron Grzywinski's Hyde Park home from three in the afternoon through dinner.

"It's really a chance for me to cook," Grzywinski says, but, though relaxed, the group spends an intense three hours reading and discussing reports on community groups like the Metropolitan Area Housing Alliance; bank activities; other banks in Chicago; and the South Shore community.

As he cooks Swiss chard (picked a few minutes before from the backyard vegetable garden), slices cucumbers (also just picked), and mixes up a salad dressing, Grzywinski answers questions about the bank, especially, "What makes it different from other banks?"

"If you looked at most bank staff meetings, they wouldn't look like this one," he says, for openers. Fifteen to twenty people sit in a circle. They range in age from early twenties to over forty; they're about evenly divided between black and white. Uncompetitive among themselves, eclectic, with an air of defiance in their talk of "other banks" (especially attempts to get branch-banking legislation passed), they are absorbed in the continuing problems of the costs of banking, the costs of community renewal, the costs of even the less ambitious but first-step goal of stabilization of the neighborhood.

In a number of ways, South Shore has stabilized. Welfare and crime figures have stopped rising, though they haven't fallen. Since the new owners took over the bank, homes and apartments have appreciated between five and ten percent, depending on the area within South Shore. Foreclosures are down, though many buildings still are being managed for demolition. Six to seven large buildings a year are being converted to condominiums, increasing the number of owners—a major condition of stability.

Perhaps most important, community organizations are proliferating; all of them depend on the bank for staff time and facilities, but they are beginning to build their own momentum. Says Stanley Hallett of the Northwestern University Center for Urban Affairs, and a board member of the South Shore Bank: "People see things happening and they follow each other's lead. Something important has happened in South Shore: people are beginning to understand the structure of their neighborhood—specific problems, how they can be tackled, in what order, by whom, and when. The level of their goals, the agendas of their meetings have gone way up; large numbers of them suddenly are working very hard to get things done. That's all a function of their understanding who 'we' are and what 'we' have to do to make South Shore a good place to live. For all of this, the bank is necessary but not sufficient. The people are the first investors in their neighborhoods."

With the growth of community organizations, the apparent stability of the area, millions of dollars loaned by IHDA for rehabilitation, and loans and mortgages made by the bank, large businesses are re-evaluating South Shore.

Jewel Companies' Chicago real-estate manager, Pat Burke, says Jewel sees "nothing to discourage us in South Shore." The company is building a 44,000-square-foot store—"the largest in Chicago except for the Grand Bazaars"—at 75th and Stony Island. In addition, Jewel executives are "observing" shopping patterns to decide if they want to buy the land across the street which had been the chosen spot for a new National before that company decided to pull out of the Chicago area.

Walgreen's has expanded one store and is remodeling another; Certified food store owner Michael Berezin bought the Hi-Lo when it closed (retaining the entire staff) and in 1976 enlarged his own office space, citing the bank for "investing in people, which is the best way to invest in an area."

The consensus on the bank is not unanimous. When National wanted to expand its supermarket at 71st and South Shore Drive, which required demolishing a building (from which most of the tenants had already moved), neighbors objected to having a large store and a parking lot next to their apartment buildings. The bank defended the store at community meetings, and much of the opposition faded when National presented plans for fences and landscaping to screen the parking lot. With National gone, the issue has died, but it did revive the initial suspicions about Grzywinski, Davis and Houghton: Are they bankers or developers, and what do they expect to get out of us?

For some, the question lingers, fed by the bank's decision to raze buildings across the street for a parking lot. No one doubts the desperate need for parking on 71st Street, but residents did question the location: "They tore down buildings that were in good shape," said one at a recent town meeting held at the South Shore Country Club. "Those aren't the ones they should be tearing down."

Others question the bank's priorities. At that same meeting, Bill Saphir, president of one of the neighborhood councils in South Shore, challenged the decision to tear down buildings for parking instead of studying the feasibility of an area-wide transportation system, such as the mini-bus run by Michael Reese Hospital.

In all probability, when the now-empty land is surfaced and landscaped to Ben Weese's impressive design, the opposition will fade, and residents and shop owners will laud the bank for its leadership in providing parking in an area where people have been complaining about the lack of parking for more than 20 years.

The pattern of doubt, slow acceptance, and then lavish enthusiasm has been repeated throughout the three years the new owners have been at the bank by nearly every group with which they have dealt. Today it is difficult to find substantive local criticism. Whatever the future of South Shore, community leaders are convinced that it is the bank that will make that future happen.

William Strickland, whose Midas Muffler Shop on Stony Island is one of the most successful in the country, is one of the bank's strongest supporters, though he takes no active part in community organizations. "They're one of the few groups who still care about helping us. Don't you ever think things happen in this country by accident; the national commitment to help minorities has ended. If it weren't for the bank, we'd be left with the racism of the downtown banks, we'd be ignored just like we were before the bank changed hands, and South Shore would have gone nowhere but down."

The commitment of the South Shore Bank is not specifically to integration, but to the development of the community, whatever the make-up of its population. "We have too many massive problems to put integration near the top," Milton Davis says. "We have about 15 percent white residents now; if more white families are going to move to South Shore, it will be only when we have a stable community with good shopping and a relatively low crime rate. Right now, we're concerned with the people who live here."

Calvin Bradford of Circle Campus adds: "There's a feeling, finally, that a community doesn't have to die as soon as it 'turns black.' In fact, there's a waiting list for many buildings in South Shore. That doesn't mean the problems are solved, only that there are indicators they can be."

At the staff meeting at Ron Grzywinski's house, the talk is of MAHA studies on redlining. Why would other banks make loans in South Shore, even if the South Shore National Bank *is* a profitable institution?

"For three reasons," Grzywinski answers. "First, legislative. There's a growing realization on the part of government that there won't be enough public monies to rebuild neighborhoods. And we have to rebuild them; housing units are desperately needed, and it's far too expenseive to build new units. So banks, savings and loan institutions, pension funds, and so on are being looked at as sources of money. There may well be legislation that will restrict the ways institutions may use some of their funds.

"Second, there's clout. Political leaders can say to the banks, 'If you want branch banking, if you want city deposits, if you want other kinds of help we can give you, here's what you do.'

"And finally there are profits. There is enormous profit potential in the rehab of older buildings. If clusters of buildings are refurbished or completely rehabbed, there's a very big spread between a purchase price of, say, $3,000 for a building and the price its units can be sold for, even after adding in all the rehab costs. Rescorp has proved it. We're about ready to go into the community ourselves, as Rescorp has done: Our holding company would acquire and rehab properties for sale as condominiums or low-income co-ops if we could get Federal or private subsidies for them.

"Look at what's been done already in South Shore; not one developer who has come in in the past few years to rehab for sale or rent has lost money. Every one of them has made a profit. We're not saying we don't have a lot to learn; we're not saying there are no problems. Some are huge, and none of them are easy to solve. But we are saying that South Shore—and maybe most other deteriorating communities—aren't necessarily places where investors will get burned."

On Wednesday night, October 17, 1976, Alderman Ross Lathrop convened a meeting at the South Shore Country Club with representatives of the city water department and an attorney from the corporation counsel's office. About 300 South Shore residents were there to hear what the city was going to do about the 60-foot hole in 69th Street and the property washed out by the broken water main.

The city, said the officials, was not legally responsible for the damage, but Mayor Daley had decided, "for moral reasons," to pay for ruined automobiles, personal property, and damage to the South Shore Villa, as soon as the residents filed their claims. The South Shore National Bank is providing staff time to help the residents with the paper work.

Prepared Statement of A. A. Milligan on Behalf of the American Bankers Association

Mr. Chairman, and members of the Committee, my name is A. A. Milligan. I am President of Bank of A. Levy, Oxnard, California, and President-Elect of the American Bankers Association. I appear here today on behalf of the American Bankers Association with respect to S. 406, the Community Reinvestment Act.

The bill would require an applicant for a financial institution charter, insurance, branch (including an electronic terminal), holding company acquisition, merger, or home or branch office relocation to supply information as to its past record and future intent with respect to meeting the credit needs of the community in which it is located to the Federal financial regulatory agency with jurisdiction over the applicant.

The bill would specifically require an applicant to: 1) define the area from which it draws or intends to draw more than fifty percent of its deposit customers (its "primary savings service area"); 2) analyze the deposit and credit needs of the area, and how it proposes to meet them; 3) detail the proportion of the savings and time deposits of individuals residing in that area which it intends to reinvest there; and 4) describe how it is meeting the credit needs of the areas in which it is already located.

The Federal financial institution regulatory agencies would be required to use the information so provided in considering applications for approval and must permit and encourage community, consumer, or similar groups to appear at hearings on such applications, and testify as to the applicant's proposal or record on meeting the credit needs of the communities already served by the applicant. The bill also mandates that Federal financial institution regulators require periodic public reports from financial institutions they supervise as to their record of serving the credit needs of their communities.

The ABA recognizes that S. 406 is intended to help revitalize and rebuild the housing and economic base of communities threatened with deterioration, and we agree with that goal.

We recognize that this bill would impose on banks a significant additional burden of administrative processes and paperwork. If this were the only problem, we would nonetheless not oppose the opportunity to demonstrate that the majority of banks are, in fact, working to meet the financial needs of their communities. However, we cannot support S. 406 because it is based on a serious misunderstanding of how the nation's financial system functions to meet the credit needs of all communities. The bill seems to imply that a bank should lend to borrowers in its deposit service area in some direct proportion to the amount of funds it gathers in deposits in that area. Any attempt to require banks to meet that criterion would seriously undermine the banking system's ability to meet the financial needs of this nation. It would guarantee that communities now suffering from economic deterioration would be unable to generate sufficient funds to finance their own economic redevelopment.

Mr. Chairman, in your own state of Wisconsin, many community banks are involved in financing projects which their own deposits are not sufficient to finance. They do this either by putting together loan participations involving banks outside their communities, or by drawing on lines of credit with their correspondents in urban areas. That's good for the communities in Wisconsin because their financial needs are being met. But under this bill, the banks in urban areas, such as Milwaukee, Chicago, or Minneapolis, that are providing the necessary funds for rural community development in Wisconsin would not be considered to be meeting the needs of their own deposit service areas. They would be labeled derelict in their responsibilities to their own communities—even if their own communities had no current need for the funds that were being channeled into other communities in Wisconsin in need of loanable funds.

Consider the situation in the San Joaquin Valley in California. Under normal circumstances, the credit needs of farmers in the Valley very widely over the year. At times, their credit needs may be several times the total value of the deposits of banks located in Valley communities. The only way those banks can meet the credit needs of these farmers is to draw on deposits at bank offices located outside the Valley. Yet under this bill, bank offices outside the Valley would not be considered to be meeting the credit needs of their own communities.

This year, of course, this example takes on added importance because of the drought California farmers are experiencing. They will need additional funds to tide them over until the next rain—funds that cannot possibly be generated in the farming communities where they deposit their savings. These farmers raise a major part of the produce consumed by the entire nation, and if they are to survive this drought in relatively good economic health, they will need to draw on savings generated by banks and savers outside their immediate communities. Yet under this bill, banks outside California that make loans to California farmers would not be meeting the financial needs of their own communities.

Finally, consider the financial needs of the urban communities in the Northeast Corridor. These are the communities most seriously threatened with economic deterioration, the communities most in need of the assistance this bill is intended to provide. But deposits from communities in the Northeast Corridor may not be sufficient to finance the necessary urban redevelopment. Successful urban redevelopment would likely have to rely on funds from financial institutions located outside the Northeast, perhaps in the fast-growing Sunbelt. Again, under this bill, institutions in the Sunbelt that chose to channel funds into the Northeast would not be considered to be meeting the financial needs of their own communities.

We do not deny that there is a problem—that from time to time a few banks may be channeling funds that appear to be needed within their deposit service areas to borrowers outside their communities in search of a quick, high yield. But we believe that competitive pressures will in the future, as they have in the past, force those banks to change their policies. Their competitors within their communities take advantage of these local loan opportunities—and will advertise the fact that they are concerned about community development, whereas the other institutions are not. The resulting publicity forces these few institutions to begin paying more attention to their community's credit needs.

Even if these competitive pressures did not exist, however, this bill would not solve the problem. What it would do is impose another layer of needless regulation and paperwork on the vast majority of banks that are doing their best to meet the financial needs of their communities. It would create needlessly rigid formulae for determining what constitutes adequate financial service to a financial institution's deposit service area. In fact, it is a major step toward political allocation of credit. It is a step toward specifying the kind and amount of loans to be made by financial institutions. It would substitute the judgment of a Federal agency as to what constitutes a legitimate credit need for the judgment of borrowers and financial institutions.

If this bill is carried to its logical conclusion, financial institutions could find themselves forced to turn down creditworthy borrowers in order to make other loans, perhaps of lower quality, to meet the priorities determined by the Federal financial institution regulators. In fact, the bill has the potential for creating a major conflict of interest for the regulators. On the one hand, they would be charged with establishing and enforcing priorities for a financial institution's loan portfolio. They would encourage banks to make certain kinds of loans to satisfy those earlier established priorities. But in some instances, a bank might be forced to make substandard loans to satisfy those priorities. The regulators would then be required to criticize the very loans they in effect required the bank to make.

Worst of all, this bill would not reverse the economic and resulting physical deterioration of the communities it is intended to help. In instances where the credit needs of a deposit service area exceed its total deposits, as is the case in many urban communities, the bill would make it *more difficult* to finance urban redevelopment. Under this bill, banks outside these urban areas would not have the flexibility to channel additional funds into these deteriorating communities. S. 406 would, in fact, narrow the "convenience and needs" test applied in bank chartering, thereby *reducing* the flexibility and discretion of Federal bank regulatory agencies to ensure that financial institutions effectively serve the deposit and credit needs of their communities.

The American Bankers Association appreciates the opportunity the Committee has offered to present our views on S. 406.

The CHAIRMAN. Thank you very much.

We are delighted to have the ABA come in and testify. But I do not know how many generations will pass before the ABA comes out in favor of something in the public interest. You opposed the Federal Reserve Act. You opposed the Federal Deposit Insurance Corporation. You opposed Truth-in-Lending. You have opposed everything in the 20 years that I have been on the committee except the power of States to impose an effective tax on banks.

Mr. MILLIGAN. As a matter of fact, we have been positive on many issues which have come before this and other committees of the Congress. In response to a statement you made in a hearing on March 22, 1973, we wrote a letter on the question of negativism to Senator Thomas McIntyre, which is included in the record of hearings on the extension of the Interest Rate Control Act in March 1973.

We wrote you again on May 12, 1975, in response to your comment to our witness on the proposed Home Mortgage Disclosure Act of 1975.

In addition, you personally complimented our witness, Mr. Rex Morthland, during his testimony on housing legislation on March 19, 1975. Last year, we did not oppose H.R. 3035, to provide for earnings on idle funds in Treasury tax and loan accounts, or S. 2304, to increase the powers of bank regulatory agencies. And I am sure you remember our vigorous efforts to support actions by this committee to revise the RESPA statute in 1975.

It is not accurate to characterize the ABA as generally negative on banking legislation.

The CHAIRMAN. Come on. Every one of those matters that you favored provided no real benefit to the public interest or the social obligations of banks. But let me point out that here we have a TV ad which was sponsored by the American Bankers Association and it says or suggests the following—and let me read the captions:

"Where does your money go after you put it in your bank? Some of it is right here, building your neighborhood with construction loans and home mortgages. Money for your public parks and money for your schools. Today, American banks have over $80 billion invested in communities like yours.

"So, if you believe in your community, there is no better place to put your money than your bank."

Mr. MILLIGAN. Those statements are correct. Twenty-five percent of the assets of the commercial banking system are invested in housing and related functions today. The total investment is in excess of $220 billion.

May I put this in the record for the benefit of the committee?

The CHAIRMAN. Fine.

[The information follows:]

THE BANKING INDUSTRY'S RELATIVE CONTRIBUTION TO HOUSING FINANCE

In the past, thrift institutions have garnered most of the credit for financing residential housing. If the situation is viewed solely in terms of residential mortgage holdings, their claims have validity. But direct housing credit is not the sole requirement for providing decent housing, that also depends on the existence of streets and sewers, utilities, construction companies and industry to produce housing materials. And all of these housing factors are financed by banks. Moreover, banks provide the major share of funds for other forms of privately financed low cost housing.

I. RESIDENTIAL MORTGAGE LOANS

MORTGAGE LOANS OUTSTANDING, BY TYPE OF LENDER 1ST QUARTER 1976

[Dollars in billions]

Lender	1 to 4 family	Multi-family	Total
Savings and loan associations	$231.3	$25.9	$257.2
Commercial banks	78.2	5.5	83.7
Mutual savings banks	50.3	13.9	64.2
Life insurance companies	17.3	19.7	37.0
All others	126.3	35.7	162.0
Total	503.4	100.7	604.1

Banks held $83.7 billion in residential mortgages at the end of the first quarter of 1976, ranking second only to the savings and loan industry in these loans (and banks' bad debt reserve provisions do not provide a special incentive to hold such loans, as is the case with savings and loan associations and mutual savings banks). But, this is only the beginning of the story.

II. MOBILE HOME LOANS

Banks are the major source of credit for purchasing mobile homes which have become the dominant factor in the low-cost housing market. Mobile homes account for almost half of the new single family dwellings sold in the U.S. last year and strong sales continue. Mobile homes are virtually the only kind of low-cost housing that is widely available to American families earning under $8,000 per year. At the end of 1975 banks had $8.7 billion in mobile home loans outstanding, an estimated two-thirds of all such debt.

III. CONSTRUCTION LOANS

HOLDING OF RESIDENTIAL CONSTRUCTION LOANS BY TYPE OF LENDER 2d QUARTER, 1976

[Dollars in billions]

Lender	1 to 4 family	Multi-family	Total
Commercial banks	$5.5	$2.5	$8.0
Savings and loan associations	8.0	2.1	10.2
Mutual savings banks	.3	.3	.6
Mortgage companies	1.1	1.0	2.0
Mortgage investment trusts	.7	2.0	2.7
All others	.1	1.7	2.7
Total	15.7	9.6	21.3

Banks are a major supplier of funds for residential construction, an essential base of housing finance. Atthe end of the second quarter of 1976 banks held $8 billion in residential construction loans, nearly one-third of the total. Moreover, banks held $4.5 billion in land loans at the end of the quarter, an estimated half of which was for residential purposes.

IV. LOANS FOR THE INFRASTRUCTURE OF HOUSING

The total shelter needs of families require more than just the direct financing of construction and final mortgages. Also needed are services to make a house usable—for example, such private and municipal services as electricity, water, streets and sewers. Considering all financing requirements to provide adequate housing and related facilities, banks rank near the top of the lending groups. Some of the most recent data available reveal that banks:

Invest in obligations of Federal government agencies involved in housing, amounting to $14.5 billion.

Hold over $100 billion in municipal securities, of which an estimated $7 billion were issued to finance residential support facilities—roads, sewers and other utilities.

Provide $5.9 billion in home improvement loans.

Provide credit assistance to the housing industry indirectly through the loans they make to other housing lenders, such as savings and loan associations, mortgage bankers, life insurance companies and real estate investment trusts, totaling an estimated $20 billion.

V. MEASURING BANK'S CONTRIBUTION TO HOUSING

Residential mortgage loans	$83.7
Mobile home loans	8.7
Home improvement loans	5.9
Residential construction loans	8.1
Residential land loans	2.3
Federal housing agencies obligations	14.5
Municipal securities supporting housing	78.0
Loans to other housing lenders	20.0
Total	221.2

This over $221 billion commitment of the banking industry to housing is a rough estimate, but a conservative one. It does not cover an indeterminate amount of loans to contractors, building suppliers and other businesses engaged in housing construction, servicing, and supply. But by any standard of measurement, a 221.2 billion investment is a very significant commitment to the housing industry. This puts banks in a very strong and very close second position to the savings and loan associations in the overall financing of the nation's housing needs.

FEBRUARY, 1977.

FSLIC

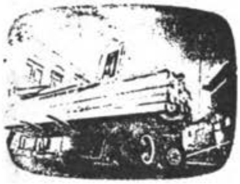
THE SAVINGS AND LOAN FOUNDATION

Serving Savings and Loan Associations Across America

TITLE: MACHINES | CODE #: OEFD 5315 | LENGTH: :30

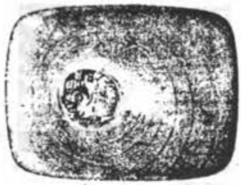
MUSIC UNDER:ANNCR (VO)
What does it take to start the wheels of American industry rolling?
It takes machines...

men...



and money.

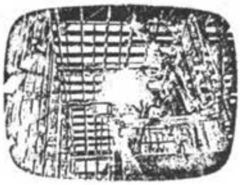
That's where Savings & Loans come in.



Money you save with us goes back into your community...

in the form of home loans. The Savings and Loan commitment to housing generates over...

100 million dollars a day...

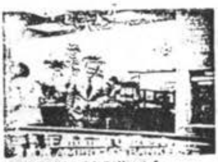


for jobs, goods...and services. Help keep America rolling by having your...

savings account at...your Savings and Loan.
MUSIC: UP TO END

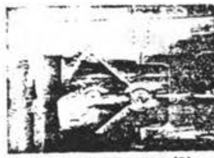
LEO BURNETT COMPANY, INC. AMERICAN BANKERS

AS FILMED AND RECORDED (2/75) "Vault" (No Music) :60 BJBS0220



1. GILBERT Ed Gilbert for America's Bankers.

2. You know the money you keep in your checking and savings accounts? Ever wonder what happens to it?



3. Open'er up, George. (Sfx: opening vault door)

4. GILBERT: Some of the money is right here in town...

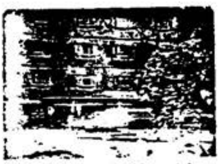
5. ...helping people change things for the better.

6. Take Mike Moratto's Men's Store. Mike's got himself a new storefront--...

7. ...he got it with a loan from his bank. Sales are up, too.

8. Then there's Ellen Cardinale's new car.

9. Bank helped her with it.



10. And this is the Memorial Hospital. The Bank financed the new wing--...

11. ...gonna mean a lot to this town, too.

12. Now all this might have happened without the Bank. But with the bank, it's happening now instead of later.

13. So you see, your money's been working for the town. And for you. And all the while...

14. ...it's been right here when you need it,--thank you George--in a safe, convenient place.

15. America's Bankers. Helping you change things for the better.

The CHAIRMAN. There is one bank here in Washington that will not make home mortgage loans but is generous to the outside business interests of its board of directors. No mortgage loans but its board of directors have 100 percent of all of its loans that exceed $100,000.

Banks in New York City do not care much about Brooklyn but are up to their ears in REITs. They have tanker loans.

Your testimony concedes that some banks may be channeling funds needed locally to out-of-area borrowers in search of a high yield. Is this the bankers' constitutional right or should there not be some regulatory constraint to serve local needs, too. I am concerned about the fact that there is too much emphasis in having Government try to do everything. And banks say this is not their job. Local communities are not their job. But when they are in a slightly deteriorating shape, the neighborhood, they say, leave that to the Government.

What I want to do is use your expertise, your experience, your ability, discipline, your record of success to make this go; and sitting just to the left of you is a man who proves this can be done. He runs a bank that has done this and succeeded in it. He made a 13.8 percent return on his capital last year by his policies.

We are trying to encourage bankers to try this. You will find it works out pretty well.

Mr. MILLIGAN. I believe he made the bulk of his returns on the transactions in his securities portfolio rather than on his loan portfolio. Securities transactions are beside the point.

The CHAIRMAN. No, it is not. He can do both. I am not saying, put everything in the local community. There may be situations where you can only put in 10 or 5 percent. This bill says where there is a local credit need, where the need is sound, that it should be provided for.

We had Ms. Grenwald appear a few days ago before the committee, the commissioner of banking in Massachusetts, and she found in the lowest income census tracts there was no worse record of delinquency than in the highest income census tracts. She has been pushing the banks in Massachusetts to get into community lending. They found it worked well.

Mr. MILLIGAN. That is a rare exception. Also, the banks you cite that are not involved in their communities are the rare exception out of the 14,000-odd commercial banks in the United States.

The CHAIRMAN. Mr. Grzywinski is the rare exception?

Mr. MILLIGAN. Not necessarily. There are a great many banks that, if we had had the opportunity to survey, would be shown to be doing a good job in their own areas.

The bulk of commercial banks are. There are few banks which are really subject to the criticism you are making. I submit that with 14,300-plus banks in the United States, there will obviously be some that will fit the category which I mentioned in my statement and which you have mentioned in your press release, that is, which are ignoring their communities' needs.

The CHAIRMAN. How about the two big Chicago banks that Mr. Grzywinski mentioned? How about the pitiful inadequacy of their investment in the neighborhoods?

Mr. MILLIGAN. He does say that they do have $5.6 million total credit in that area. Not $500,000. He estimates that a good percentage of that $5.6 million is in credit lines.

The CHAIRMAN. Do you know what percentage $5 million represents to those banks? Peanuts. It is a tiny fraction of one-tenth of 1 percent. It is nothing.

Mr. MILLIGAN. Right.

Mr. GRZYWINSKI. If I may respond, there is a lot of data in Chicago. I do not have it here with me. I think that any objective person would, in reviewing that data, conclude that at least in that city that the banks, the major banks, are not investing in the old neighborhoods from which they get deposits.

I do not have that data here. I cannot afford a staff to bring it here. But I could make that available. It is a matter of public record.

From time to time I have gotten into other neighborhoods around the country. I have been in Brooklyn, Hoboken, and various kinds of places. Generally, when you talk about mortgage loans, real estate mortgage loans that the industry makes, I am sure that those numbers are correct.

Generally, you know as well as I know that it is much easier and safer and more profitable to make a loan on a new home in a new subdivision for a variety of reasons.

But that is not where the problems exist. Problems exist with the people, neighborhoods and tax base of the old cities and old neighborhoods. And that is where our industry should be making its investment.

We have a public charter and public responsibility. That is not what is happening. I wish there were no more regulation, that we would not have to have legislation. But by and large the initiative that is required and the initiative the industry should be taking is not happening.

When you talk about our own earnings and how much is invested—but the breakout, reinvestment in the South Shore neighborhood by the major banks of Chicago, other than charge cards, is miniscule.

But two banks alone have $25 million in deposits from my neighborhood. The grand total of deposits to other banks from my neighborhood is $50 million.

Development costs money and there is no escaping that. The problem is I am serving a predominantly black market that for all of the reasons in our society has generally lower incomes. The average balance in my deposit account is 60 percent of the industry average.

I am presently a $58 million bank and I serve over 31,000 deposit accounts. I do not know what the statistics are for your bank, but I am sure our balance is considerably lower than your own.

That is where the problem comes in, in trying to serve those accounts.

What we have found—by doing development work and having, in our particular case, a charge imposed upon us by our shareholders to do this kind of work—is that we have had to become sharper bankers in every part of our management, including the bond portfolio management.

The examiners came in in June or July, and they said that for the first time in 10 years, the trend in the bank was up. It is not easy, but somehow we have to find ways in the industry to do this.

Mr. MILLIGAN. I wasn't criticizing what he has done. He has done an excellent job. I'm not an expert on the Chicago situation. And it would be improper, I would think now, for me to have any opinion in response to your question about the First National Bank of Chicago and Continental Illinois, and what kind of job they are doing in Chicago.

They have been there for a long time. I submit that the problem we are currently addressing, which is that of the central cities and the deterioration and funneling of credits to them, is a problem; but it is one which has been a long time in the making and is, as far as the financial industry is concerned—I'm blanketing in the thrifts, as well as the commercial banks—is one being addressed. If I recall what Mr. Cooke said about what was happening in Philadelphia, they are doing a good job there.

The CHAIRMAN. What are we trying to do here is not to provide for any terrible sanction or require that you make loans that aren't sound. Every loan should be sound. We are not saying that you should make a loan that has any greater prospect of default in the community. All we are saying is that the job that you do in servicing community needs should be taken into consideration as one element in whether or not branching should be approved. It is a mild proposal, it seems to me.

Mr. MILLIGAN. Yes, Mr. Chairman. I submit that social consciousness has found its way into every board room or most of them.

The CHAIRMAN. I hope so.

Mr. MILLIGAN. The bottom line is an indication of what management has done, yes, but management can't accomplish that bottom line unless it has a social conscience and an awareness of its own community and serves it. Otherwise, the bread and butter of a commercial institution won't come through its front door.

The CHAIRMAN. We have the appalling facts of our cities. President Carter was right when he said last spring in Milwaukee that the number one problem, economic problem in this country, is our cities. I think you would agree with me. We don't want to solve the problem with Government money. We couldn't do it. We couldn't do it with a Marshall plan for the cities. We have to do it with the people who are there, people who understand the city, live in the city, who know the economy, loan officials who understand the value of the property, who understand what it is to require effective discipline.

You are the people, you bankers are the people who can do the job. You have more resources than we have in the Federal Government. You do. The private sector is bigger. The resources of our financial institutions are vast. Some of us in Congress are little deceived by the notion that we can proceed and spend more and invest more and more, but that is a fallacy which will end up giving us inflation or an ineffective way of doing the job. This is simply one mild constructive approach.

I hope you will reconsider this. Talk to the ABA about this. When you say that this bill will result in not providing money to the northeastern parts of our country from the banking institutions, from the banking institutions outside the Northeast, the Sun Belt that doesn't make any sense at all. The banking institutions in the northeastern part of our country are investing so much of their funds abroad.

Our banking system has $250 billion invested abroad; $50 billion to lesser development countries that are considerably more risky than investments in local communities.

Mr. MILLIGAN. That remains to be seen. I was not referring to the money center banks. I was thinking of Altoona, Pa., Buffalo, upstate New York, rather than the New York metropolitan area which I readily recognize is part of the thrust of the bill. But certainly I would concur with you completely on your feeling that the private sector can attack and accomplish these projects.

The CHAIRMAN. My time is up. You are not saying you would expect the Florida banks under this bill to stop investing money in Altoona. I don't think there is much of that going on really.

Mr. MILLIGAN. Of course not. The examples are obviously hypothetical. These are possibilities and that is what we are talking about. We are only projecting what the possibilities might be.

The CHAIRMAN. My problem is the flow has been the other way. It has been from the depressed communities. You get deposits there and then you invest in the outside thriving communities.

Mr. MILLIGAN. This is turning around.

The CHAIRMAN. We want to encourage that.

Mr. MILLIGAN. Certainly, and so does the private sector.

The CHAIRMAN. Senator Garn.

Senator GARN. Thank you, Mr. Chairman. I don't know whether I should speak at all or not. I have had a few moments to cool off. I would like you to know there are some members of this committee who feel that it is the banking industry and savings and loan industry in this country who have been responsible for building this Government and not government. Damn it to hell, we have had 200 years of the private sector building the greatest country. There are problems and I know a lot about them firsthand, having spent 7 years in local government. The answer isn't more rules and regulations. Piecemeal, we are heading for credit allocation and Government bureaucrats sitting back here interfering with the private sector. I'm sick and tired of the antibusiness attitude of this committee. I think the record speaks for itself. It is constant.

You come in here; you are insulted day after day, treated rudely, but the Kathleen O'Reillys, the Ralph Nader's have their asses kissed every day and and told how wonderful their testimony is over and over again, while we are building up a regulatory burden that is going to destroy the housing industry in this country.

I get so sick and tired of it. Talk about negativism. This committee is negative. You have a staff that is so overwhelmingly antibusiness that—and they don't have a practical bit of experience in their brains—every answer is: "Pass another law." I deliberately stayed away from these hearings most of this week, so I wouldn't have an outburst like this. I couldn't stand to come and hear Ralph Nader over and over again representing himself as representing millions of people.

At least there are a few of us who happen to think there are problems that do need correction, but more and more Federal regulation isn't the answer to that problem. I have the greatest respect for Senator Proxmire and his ability and intelligence. He is probably one of the hardest working Senators in the entire U.S. Senate.

I suggest maybe his Golden Fleece Award go to this committee for the costs it has imposed on the American consumer and not on the financial institutions, because they have to be passed on to the consumer and when we are going to get reason and balance in these decisions, I don't know.

One of these days I'm going to get so sick of this Senate and their ideas of imposing more and more regulations and ignoring what builds the greatest standard of living. I think we should look at what we have passed in the past and make sure they work properly and do what they were intended to do rather than continue to impose new regulation.

I feel like going home and making as much money as I can before I drop dead, after fighting ethics code and everything else. I'm sorry, but after 2 years, I have had a belly full of the answer being: "Let's push through another law in the name of consumerism," and the poor consumer is getting ripped off by it.

When we start going back to a cost-benefit analysis, how much does it cost, who pays the bill and who is going to benefit, then maybe we will come up with answers. We are not willing to wait for the chairman's and my bill to go through to get a neighborhood commission and answers and analyses of past programs.

We just keep throwing in more. I apologize for getting so angry, but I feel strongly about this. As the chairman and everybody else knows, I'm tired of not being listened to at all. I don't know what good it did to spend 7 years in the neighborhoods of this country and think I have the answers when you have the groups coming into your office and commission meetings there you are out in the trenches and front lines. More would like to build housing. But the ridiculous HUD that sits there with their silly rules and regulations doesn't result in building houses, but you end up just filling out forms. When they wise up to the fact that for 20 years, we have been having Federal programs that haven't been producing housing, maybe they will look the other way.

Maybe I'm totally wrong. My way hasn't been tried. I'm not listened to at all. I apologize for my anger, but I think we are heading for a totally regulated centralized banking system in this country, politicized with whoever happens to be in power, although I doubt I'll live long enough to see the Republicans control anything, even the elevator operators around here.

I don't know. I happen to think we ought to have a balanced viewpoint between the private and public sectors, rather than this overwhelming unbelievable morass of Government and bunch of bureaucrats that have never been out in the real world trying to regulate and plan. Let's put Humphrey-Hawkins in and we will have a real jewel.

The CHAIRMAN. I agree with you wholeheartedly that we should do our best to solve these problems in the private sector.

That is what this bill is designed to do.

This bill is designed to get the banks to do the job rather than have the Federal Government do the job.

You and I agree that they do a better job than the Federal Government can. They have far more expertise. They know their neighborhood and their area.

One approach is to do nothing. They say: Let's keep things the way they are. The profit system will enable things to work out.

Perhaps it would gradually improve.

You have the Ron Grzywinskis that show the way, perhaps.

I am trying to propose legislation that would provide some mild incentive to persuade the banks to get into their local communities more aggressively than they have in the past and to try the kind of prescription that Mr. Grzywinski has indicated can be shown.

Let me ask you, Mr. Grzywinski—we have heard a great deal from the trade associations about the lack of demand for mortgage credit in older neighborhoods. What is your experience in the South Shore area? Has demand materialized when you opened your doors and said you were available to make loans or did you have to go out and spread the word?

Mr. GRZYWINSKI. We did a lot of spreading of the word. The first winter we were there the president of the bank and I thought we were running an independent political campaign because we spent two or three nights a week in parlor meetings, PTA meetings, telling people what we were trying to do with the bank.

We tried to convince them that the neighborhood wasn't going down.

The CHAIRMAN. You had to fight for it, sell it?

Mr. GRZYWINSKI. We had to fight for it. There is data which shows the notion of demand is really a myth. The realtors know where they can get the loans. The realtor is interested in making the profit and closing that deal as quickly as he can.

If he has a prospective buyer, he will send that buyer to the place where he is most certain he can get that loan.

I did this in Lockport when I was managing a bank in a county that had no FHA lending in a blue collar community. I put together a package and got all of the realtors together over lunch and told them what we were doing, and we did more business that year than a savings and loan that was five times our size.

People just have to know you are doing it.

The CHAIRMAN. Are creative loans more costly to service?

Mr. GRZYWINSKI. There is an inescapable cost of development. Some loans are more expensive than others. Depending on interest rates in the marketplace, mortgage loans may or may not be a profitable investment.

Student loans are difficult to service even though they are in our case 100 percent insured. We have to do the collection work and they are difficult to service.

We do not let our installment loan people turn down an installment loan until it has been reviewed by another committee at the bank.

Small business loans, we have had a good relationship for 10 years with the Small Business Administration. We have to go through a separate level, after we approve the loan. We have to take it to the SBA and they go through the process all over again and we have to sell them on it. That costs money. It is difficult.

We subsidize part of that cost by raising deposits from outside our market and using the earnings from that.

If we talk about a national system, there are ways where we should be able to develop cash-and-profit incentives so we can get banks to do more of this.

As I said in the beginning of my testimony, this bill is a reasonable bill and ought to be passed because I think already banks do benefit from public policy.

While there would be additional costs involved, what we have to create is a system by which banks have some incentive to find ways. They should start arguing for doing away with the bureaucracies involved.

We need a development banking system in this country, and we don't have it.

The CHAIRMAN. You do agree in principle that a bank charter to serve the convenience and needs of the community has some obligation to make loans in that community?

Mr. MILLIGAN. Yes, and most banks fulfill their charters.

You will find that to be the fact in this country.

The CHAIRMAN. The three bank regulatory agencies have never sanctioned a bank or failed to approve a branch application because the bank was failing to meet community needs.

In the absence of sensitivity by the regulators, how can we expect lenders to pursue this obligation to the community?

Mr. MILLIGAN. We have an excellent example of the attitude of the regulators sitting here at the table where they said that a particular bank might not move out of the area in which it was established because it was serving the convenience and needs of that community and it should stay there and continue to do so rather than move uptown and perhaps be more profitable to the shareholders.

The CHAIRMAN. That is a rare case.

Mr. MILLIGAN. It is very likely that it is seldom that the problem actually arises in the consideration of a charter.

The CHAIRMAN. Don't we need to redefine convenience and needs to make sure it includes loans and not just deposits?

Mr. MILLIGAN. Mr. Chairman, if you define the convenience and needs clause again, you are going to circumscribe the regulatory authorities, whereas now they have broad authority.

If you narrow down the definition, then the regulators are going to be held within the confines of that definition whereas at this point they can, through the various powers they have, exert influence on the financial industry, if you will, to accomplish the purposes for which they are intended.

And I suspect that from within our own industry there is that kind of pressure and influence which is accomplishing the purposes that you are speaking of.

It may be painfully slow.

Maybe it needs a nudge, but it is getting a nudge. And when I say there is social consciousness up and down the pike, if you will, it is there and it is becoming more evident.

The major banks have departments which devote themselves completely to this area.

The CHAIRMAN. I think you are a remarkably fine witness, and you make a fine impression. I am sure you spoke with complete sincerity.

What concerns me, of course, is the fact that all we are asking to do here is that the regulatory bodies put emphasis on the record of serving community needs, particularly with respect to loans, and we want to take that into consideration.

It is such a mild suggestion or request. You are such a reasonable man that it would seem to me that would appeal to you.

You agree with the general objective, although you don't agree with our means of achieving it. You say, relax and let things take their course; we will work our way out of it. But we see this real problem in our cities. It is not a racial problem either. We have many cities which are entirely white, where the housing stock is somewhat old, and they are having a great deal of trouble.

It is a broad problem, as you know. It is a problem for residences as well as small businesses.

Mr. MILLIGAN. The ramifications of that problem are tremendous.

They are things again to which we should be addressing ourselves, but outside the purview of this particular hearing.

But, certainly, we feel strongly that these problems must be addressed. They must be conquered. It can't all be done overnight, because there isn't that much expertise.

One of the things we are concerned about is that a simple bill will result in rather substantial set of regulations and, again, that there will be——

The CHAIRMAN. You have good reason to be concerned about that. We have seen that happen before. We are determined to not let that happen again this time. What I would like to do with this legislation is to find out from the regulatory bodies what kind of regulations they would have and make sure we don't repeat the mistake made by the Congress in enacting the Real Estate Settlement Procedures Act. We had agreement with the industry. They favored the bill and they found they had a nightmare.

I supported Senator Garn in trying to repeal that. Your bank is a small institution, understaffed, overworked, specializing in the kind of loans that take a great deal of staff time. You have testified this bill should be strengthened to require a comprehensive review of reinvestment policies and all of the others that go with it.

You don't think this will represent an intolerable paperwork burden.

We found we made serious mistakes in the past in this committee in enacting legislation that did that, and we don't want to do that again.

Mr. GRZYWINSKI. It would take additional work. Our bank holding company has to file each quarter an extensive report to the Federal Reserve Board on the holding company. There are other regulations. Truth-in-Lending, for instance, takes time. If we wanted to open a branch, or a drive-in facility which is all we could do in

Illinois, it would be an additional burden. We would want to make sure that we were interested in going into that area before doing that.

I don't like it. I wish there were a better way to do it. But I dislike the paperwork, as much as anybody else.

I don't know what the costs are. But, certainly, it costs money. I think it should be kept as simple as it can be. But I don't know if there is any other answer to it. I would like to add for the record that in our dealings with the Comptroller's Office and the Fed they have been fair and, within the extent of the regulations, quite supportive of the work we have been doing.

In the last examination by the Comptroller's Office in June or July of last year, we were at the end of the examination. What we were doing in terms of reinvestment in the neighborhood, and it appeared as though the examiner-in-charge had a questionnaire and he was asking questions from that questionnaire, and we had to tell him what we were doing.

Mr. MILLIGAN. The examiners always look at the domicile of the loans to make sure we are loaning in an area not only close to home, but loaning in an area where we know a little about what we are doing. That is an ongoing thing.

The CHAIRMAN. Senator Garn?

Senator GARN. The chairman has said this committee has made serious mistakes in the past. Maybe you could underscore that in the record.

Second: Mr. Grzywinski, I agree with you and the chairman that this bill by itself does not impose that big a regulatory burden. But won't you agree with the totality of what this committee and the Congress has done over a period of years is a massive paperwork burden with very large costs?

For 2 years, one of the first questions I asked came at this committee. I said how much does it cost? For 2 years I have been asking that question, and I can't get an answer from the proponents or opponents of the bills. I was on the executive side of the Government in Utah. I couldn't make decisions without having some idea of costs. We do it all the time without knowing. The totality concerns me.

A little bill here and a little there. It is like building the matchstick houses. You build them for a long ways and then they collapse. This one little bill isn't that big a deal.

Mr. GRZYWINSKI. I don't keep track of the work of the committee; I run a bank.

Senator GARN. You must be familiar with some of the things: Equal Credit Opportunity, Truth-in-Lending. On and on and on. You are familiar with them. If you are not, you are violating the laws.

Mr. GRZYWINSKI. We don't willingly violate the laws. We hope we don't do it unwillingly. We file those reports. They take time. Our comptroller sometimes can't do something else, because he has to do that. When I weigh that against the needs we have in our neighborhood and the kind of needs I see existing in other neighborhoods, and when I don't see any effort on the part of other banks to take initiative to try to help in some way, and I don't care if they help in my neighborhood, there are a lot of other neighborhoods—we have 75 in Chicago to choose from—but I started out 5 years ago believing if you could show that you could do development—I started doing developmental lending in 1967 at another bank—that bank has made $21 million or $22 million worth of loans and its losses have been $100,000, I have been told. I believe if we started doing that—I might add that that operation is profitable to the best of my knowledge—but if we started doing that, other banks would follow the lead.

They would say, we will get serious. Maybe under our holding company, we may open up a development office or development subsidiary as a couple of large banks around the country have.

However, it hasn't happened in 10 years. I thought if we started dealing with the bank and could go into a neighborhood and turn it around that bankers would move agressively.

And there has been movement, I agree.

Senator GARN. May I interrupt you to pursue a line of questioning?

I will make a statement so you know how I feel.

Redlining does exist. I may surprise you after hearing my initial outburst. Redlining does exist.

What I disagree with, is how do we solve the problem of redlining? Do we blame the credit unions, savings and loans, banks? Or do we look at maybe another cause of the problem?

The consumers groups, they say damn the financial institutions, they won't make loans. I agree with what you are saying. But how do we stimulate what you are talking about? Do we do it by passing a law that requires people to do things, that mandates, and assign a bureaucracy to police it, or do we look at the basic causes?

Sometimes such things have nothing to do with the ability of the owner to pay, but any financial institution has to look at the condition of the house that is being bought and the situation that exists in the neighborhood.

If we could get people off septic tanks and get code enforcement programs from the Federal Government and the chairman will tell you that nobody has pushed harder for section 312 than I, against two administrations and maybe now we will get $120 million this year.

You can see a situation, one mayor from Utah, in his town they had rehabilitated 119 homes for $70,000 of state government money. The likelihood of banks going in and saying, we can make a loan there, now is good.

That is the point I have been trying to make for 2 years and I have seemed to fail totally.

That is just another law, more regulations from the various regulatory agencies will never ever solve the problem of disinvestment and redlining and the problems in the inner-cities. Until we attack the problem on a total basis, getting banks involved with the city government and with the Federal Government all in cooperation, things are not going to happen.

You know the lead the financial institutions have taken in cities like Baltimore.

I don't disagree with you. You know a banker can't disagree with what I'm saying. Unless we correct some of the other problems and cooperate you just can't pass a law and expect the financial institutions to bail out the inner-cities. At the same time they have hearings about problem banks and what a lousy job they are doing and we have to stiffen the regulations because they are making poor loans. There has to be commonsense and balance. Do you agree or disagree?

Mr. GRZYWINSKI. Last June or July I testified before this committee on things that I thought would provide additional incentives that would not cost the Treasury anything, using such things as regulation Q and the dollar amount of insurance by the FSLIC and FDIC as market incentives to encourage banks to do more in the area of development.

You would have to create a system of measurement which would be difficult but to have a system by which a banker is doing a better job of development might be able to pay 5½ and 6 percent on savings accounts and would have a competitive edge in the marketplace. It would be an advantage to the consumer and give the bank a market advantage. If my depositors were insured to \$50,000 or \$60,000 and First National depositors were insured only to \$40,000, there wouldn't be much paperwork involved in that.

Philosophically, we are saying the same thing.

On the other hand, I don't see that happening. It may happen someday.

Senator GARN. My point is there, rather than just passing a law that is going to try by legislative fiat require you to do something, wouldn't we be better off in this Congress to encourage what I'm saying? Wouldn't we be better off to put more money into community development grants through local government, wouldn't that cost you less in development costs and wouldn't the banking and savings and loan industry be better able to go in and make loans in these redlined areas if we improved the entire situation?

You can't raise one ship in the harbor. But if you raise the level of the harbor, all of the ships come up.

Mr. GRZYWINSKI. Those things would help. I don't know what the costs would be.

When I read the projections from the Bureau of the Budget that there will be no new spending until 1980, I don't know where the money is going to come from.

Senator GARN. We are going to take it out of water projects in the West.

Mr. GRZYWINSKI. I don't know what the total work of the community is but this legislation is what we have now.

It seems if it is passed it would be a step in the direction in which we need to move.

Senator GARN. You are talking about deficits and I abhor them, too.

Look at the balance of our housing programs. We fight to get $120 million for rehab. Would you agree that there is a tremendous inventory and asset of good, solidly built, older homes in most of the cities? Rehab rather than going out and building new public housing, the billions of dollars of costs, that 15 years from now will be falling apart——

Mr. GRZYWINSKI. I have seen two examples of remarkable redevelopment activities.

Senator GARN. I tried in this committee for 2 years to reduce some of the—not talking about increasing the total budget, but the priorities within it, reducing the programs that don't work like 236 and to reduce conventional public housing. If you can rehabilitate 119 homes for $70,000 to make them livable and safe and up to code standards that is wonderful.

Mr. GRZYWINSKI. 236 and section 8 are important pieces in the beginning cycle of turning around a neighborhood. An area may be too far depressed to come in with market rate and market term loans, but if you have a strategy for a neighborhood or that particular area and come in first with a large enough segment of concentrated subsidized moderate income housing, then you can build around that and begin to come in——

Senator GARN. Isn't rehab the very first step in revitalizing a neighborhood?

Do you think $120 million is adequate in a rehab program?

Mr. GRZYWINSKI. No. We couldn't use $120 million in South Shore, but close to it.

Senator GARN. You have made my point exactly. That is what we have if the $50 million extra I requested is put in for the entire country for rehab. A house in Salt Lake City, typical World War II type, small home, elderly couple living in it, and if you start looking at the possibilities of low income housing for them. For $3,000 out of our funds in the city, through a rehabilitation program, the major problem was plumbing, electrical and the furnace. It had a wall heater that was very dangerous. With $3,000, we went in and dug a partial basement, put in a new furnace, improved the electrical and plumbing and they have a nice home now.

What would it have cost them to go into any other thing. I think somebody might be willing to make a loan on that house. In the future, when that elderly couple is gone and somebody wants to buy that home, I bet any bank or savings and loan in Salt Lake City will make a loan on that house and the $3,000 made it possible.

Mr. GRZYWINSKI. You can rehab many houses for between $6,000 to $8,000.

The subsidy programs, section 8 and 236, the construction costs are coming in at $15,000 to $16,000 a unit and then you get up to $30.000 a unit with soft costs.

Nonetheless—and I think those are expensive costs—that kind of system has to be used as a way of priming the pump, and where we do have subsidies, housing subsidies, where we are making large housing expenditures, those expenditures should be made in areas where there is non-Government subsidized development as part of the package. We have not used the subsidized housing packages the way they should be used, to encourage more market activity in that area.

Senator GARN. My time is up.

I don't think there is too much difference in our opinions.

The CHAIRMAN. Senator Garn has made an excellent argument for our bill. I don't think he would acknowledge that but he has The private sector does have an important role here.

I didn't think the day would come when the distinguished Senator from Utah makes a pitch for the Government coming in and solving these problems through Government-paid rehabilitation, through Government actions of various kinds and not rely first on the private sector, which is all this bill does.

This won't cost the Federal taxpayer a nickel. It may cost something to the banking institutions but that is something that you as a banker can assume.

But the important thing is whether you want to solve this problem with Government funds or with as little Government funds as possible; if we are going to succeed, we have to enlist the private sector.

You can provide rehabilitation too. The banks with the right kind of incentive and encouragement will provide more and better rehabilitation than we can ever provide in the Congress of the United States.

You have provided rehab loans, isn't that correct?

Mr. GRZYWINSKI. Yes, sir.

The CHAIRMAN. That is what the bill is trying to achieve.

Senator GARN. May I assume that you will support in the next housing bill greatly expanded rehabilitation and cut down on conventional public housing?

All I have succeeded with all of the compliments you have paid me is allocate $120 million out of a $450 billion budget. That's peanuts for a conservative. Put that in the record, too.

The CHAIRMAN. I hope you will join me in my committee initiatives.

Senator GARN. Will you fight to keep that extra $50 million in that I requested this year?

The CHAIRMAN. For what?

Senator GARN. Section 312.

The CHAIRMAN. $50 million isn't much for an ex-mayor from Utah, but from a poor old country boy from Wisconsin, that is a lot.

Senator GARN. This committee has unanimously put it in.

As chairman I would expect you to follow your committee's directions as you sit on the Appropriations Committee.

The CHAIRMAN. I do whenever I agree with the committee.

Thank you, gentlemen.

Our next witness is Morris Crawford, Edward Brooks, Security Federal Savings and Loan of Richmond, who, I understand will give us the viewpoint of the savings and loan industry and Ms. Kathleen Hamilton, Central West End Savings and Loan of St. Louis.

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STATEMENTS OF MORRIS D. CRAWFORD, JR., CHAIRMAN OF THE BOARD, BOWERY SAVINGS BANK, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS; EDWIN BROOKS, JR., PRESIDENT, SECURITY FEDERAL SAVINGS AND LOAN OF RICHMOND; AND KATHLEEN O'C. HAMILTON, CENTRAL WEST END SAVINGS AND LOAN ASSOCIATION, ST. LOUIS, MO.

Mr. CRAWFORD. Thank you, Mr. Chairman.
[Statement of Mr. Crawford follows:]

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

Mr. Chairman and Members of the Committee, my name is Morris D. Crawford, Jr., chairman of the board of the Bowery Savings Bank, New York City, and chairman of the National Association of Mutual Savings Banks' Committee on Federal Legislation.

I am pleased to have this opportunity to discuss S. 406 the Community Reinvestment Act of 1977, introduced by Chairman Proxmire earlier this year. As we understand the bill, its stated purpose and intended effect would be to require the appropriate Federal supervisory agencies, in passing upon applications for new "deposit facilities," to determine whether the applicant institution has been satisfying credit needs in areas contiguous to exiting deposit facilities. Further, applicants would be required to set forth the porportion of consumer deposits expected to be obtained from residents in the service area of the proposed facility that would be subsequently reinvested in that service area.

Federal statutes pertinent to savings banks presently require the FDIC to take into consideration, among other criteria, both the convenience and the "needs" of the community in determining whether or not to act affirmatively on applications affecting deposit facilites. For example, in order to qualify a bank for insurance under Sec. 6[1] of the Federal Deposit Insurance Act, the Board of FDIC must consider "convenience and needs of the community" as a factor. Under Sec. 18(d)[2] of the Act, the same criteria must also be satisfied in order for a savings bank to establish and operate any new branch. The same test is also found in the merger section—Section 18(c)(5) of the F.D.I.A.[3]

Based on existing statutes, therefore, the Federal supervisory authorities can undoubtedly interpret "needs of the community" to include credit needs. We have reason to believe that they do apply this interpretation from time to time but not in all cases and not always expressly. This suggests that the enactment of S. 406 is not strictly necessary and that its purpose might be accomplished by administrative regulations or even by simple revision of present forms of application.

If, however, Congress should determine that no statutory duplication would be involved in the enactment of S. 406, we believe that some of the requirements set forth in the bill might be reconsidered. For example, the definition of a bank's "primary savings service area" as "a compact area" which is geographically "contiguous to a deposit facility" may not be entirely appropriate for a branch facility located in a commercial center, a large regional shopping area, a high-rise office building or certain metropolitan markets. Many of these branches draw 50 percent or more of their deposits from such widely spread geographic areas that the actual savings service area cannot be thought of as either "compact" or "contiguous."

Further the applicant for a "deposit facility" would bear the burden of analyzing the "credit needs" of its "primary savings service area" and proposing methods for meeting "those needs." The applicant would also be required to indicate the "proportion of consumer deposits obtained from individuals residing in the primary savings service area by the deposit facility that will be reinvested in that area." In the first instance, nowhere does the bill provide a definition of "credit needs." Lacking such definition, the burdens of

[1] 12 U.S.C. 1816.
[2] 12 U.S.C. 1828(d).
[3] 12 U.S.C. 1828(c)(5).

analysis of, and providing proposals for meeting, "those needs" would be virtually insurmountable. Even assuming a reasonable conceptual definition of "credit needs" could be provided, the mechancial problems of compliance would be significant.

There are other aspects of the bill which might also be reviewed. For example, Senator Proxmire, in his introductory message accompanying the bill, pointed out that the "needs" of a community may sometimes be ignored because of the motives of applicants who "may be interested primarily in financing their own outside business interests" or "may wish to invest the community's savings in far-flung ventures." This just does not apply to the nation's mutual savings banks. Most savings banks are severely restricted or completely prohibited by state law from the financing of business interests of their officers or trustees or from significant investment in far-flung business ventures. Most observers would argue that mutual savings bank support for the national housing market through secondary market purchases of mortgage paper on out-of-state properties or through the purchase of municipal obligations is in the national interest and helps move needed funds for public housing goals from capital surplus to capital deficient areas. The question thus arises as to whether the proposed legislation addresses a critical problem in the case of our specific industry.

Section 4(3) of the bill suggests that regulators encourage testimony from community organizations at deposit facility application "hearings." Present FDIC regulations provide for public notice of all such applications and an opportunity to be heard for all interested parties, whether or not a formal "hearing" is held. Because of the delays involved, we would not like to see formal "hearings" for all such applications but it could well be that the regulatory authorities could amend present regulations to bring this notice more specifically to the attention of interested groups and without further legislative direction.

While we respectfully submit that S. 406 would not add significantly to powers that Federal supervisory authorities already have, its passage would concern us in several other respects. The bill is obviously designed in part to combat alleged geographic discrimination on the part of some lending institutions—a practice commonly referred to as "redlining." The bill implies that in the solution of this complex and vexing matter, there should be some sort of relationship between where an institution receives its deposits and where it should be investing those deposits. Granted, no such ratio is spelled out or even required under the literal terms of the bill but we, suggest that Federal regulatory authorities could well interpret the legislation this way.

This disturbs us for at least three reasons. First, the nature of the problem appears to be one of perception at least as much as one of reality. In instances where mechanisms have been established to deal with the practice, it has been shown that these perceptions were not a reflection of actual conditions. Second, the mutual savings bank industry has addressed this issue through its own initiatives and finds this private approach much preferred, from a public policy standpoint. I will expand on these points further on in my statement. Third, we believe that any implication that there should be a specific relationship between where deposits come from and where investments should be made is too simplistic and could well be self-defeating for those who seek to encourage greater investment in less affluent communities. Financial intermediaries have always moved funds from capital surplus to capital short areas. Any unrealistic criteria for local investment of local savings could well lead (i) to unnecessary investment in capital surplus areas, (ii) to even less investment than at present in capital short areas, and (iii) to the location of deposit facilities primarily in relatively affluent areas wthout sufficient regard to the convenience of savers in less affluent areas.

It is the tradition of the mutual savings bank industry that community needs must and shall be served, provided such service is compatible with safe and sound banking practices. For example, we believe our industry has an excellent record with respect to establishing special programs to encourage investment in urban areas. What these programs have in common is that they represent private initiative by the lending community to channel funds, furnished on a voluntary basis by participating institutions, into areas that may have previously experienced difficulty in securing mortgage finance. These programs already exist in Boston, Pittsburgh, and Philadelphia, and a similar program has been developed and is about to be launched in New York City. They typically involve a "mortgage review" committee and these committees consist not only of bankers, but of neighborhood represenatives as well.

It might serve to examine one of these programs in more detail. In Boston, an Urban Mortgage Review Board was established in 1976 to review appeals brought by rejected mortgage loan applicants. The board consists of six members—three bankers and three neighborhood representatives. It is significant to note that in the board's first eight months of operation, 1,603 mortgage applications for loans on Boston properties were received by savings banks. Of this number, 243 were denied. All 243 of the denied applicants were advised of their right to petition the Urban Mortgage Review Board and some 30 did so. Out of these 30 cases, there were only four where even a single member of the board felt that location might have been a factor in the initial rejection of the loan application. Thus, the results in Boston suggest there may be far less "redlining" than residents of affected neighborhoods once believed to be the case.

In reviewing the bill and allied materials, however, we were gratified to note Senator Proxmire's words in his introductory message: "The bill is not intended to force financial institutions into making high risk loans that would jeopardize their safety. Indeed, the bill specifically requires that any action taken by the bank regulators must be 'consistent with safe and sound' banking practices."

Accompanying me today are two of the leading savings bankers involved in urban lending review programs in New York and Boston: Mr. Vincent J. Quinn, president and chairman of The Brooklyn Savings Bank and Mr. Arthur F. Shaw, president of the First American Bank for Savings in Boston. These two gentlemen are far more expert than I am and would be pleased to answer any questions of the Committee as to the operation of urban lending review programs in fulfillment of the "needs" of the community.

NYPIRG

A NYPIRG REPORT

TAKE THE MONEY AND RUN!

Redlining in Brooklyn

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This report would not have been possible without the dedicated work of students at Brooklyn College who helped conceive and plan it and were entirely responsible for researching the data. The contribution of Andy Roth was especially important. He headed the task force of students, instructing them in the intricacies of county real estate records and making sure that the work was done on schedule. The members of the task force were: Barry Glickman, Barbara Kluger, Robert Levine, Susan Lyons, Maxine Margo, Dennis Mulligan, Susan Odessky, Marc Pergament, and David Rosen. The effort of Eric Cohen also merits special acknowledgment. As staff project coordinator at the Brooklyn College Chapter of NYPIRG, he inspired and advised the students and helped them channel their concern about urban housing into constructive action. Richard Golden, a NYPIRG staff attorney assigned to the Brooklyn office of NYPIRG, helped edit the report and has testified before City and State committees investigating the problem of red-lining.

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PREFACE

Housing dominates the domestic economy of most Americans. A house is the most expensive lifetime purchase for most people, with their automobiles and funerals being distant seconds and thirds. For apartment dwellers, rent is usually the greatest single monthly expense, absorbing at least one quarter of disposable income.

As might be expected, housing has as much importance for society as it does for individuals. Homes are so expensive that almost everyone who buys one must do so on credit, extended in the form of mortgage and home improvement loans. When mortgages are not available for credit-worthy people to buy structurally sound homes, entire neighborhoods and cities decline. Young families with children cannot find homes and older residents leave without being replaced. City real estate tax income declines, leading to a diminution of school quality. Customers leave or cannot move into neighborhoods and local businesses close, leading to unemployment, lower sales taxes, decreased income tax revenues, and thus to a decline of municipal services.

People with steady jobs, good income, and a record of credit-worthiness cannot obtain a mortgage at all or can do so only by going to a government or private insurance pool that charges "points", thereby inflating interest costs. Whites, who have the choice of moving to suburbs where less expensive conventional mortgages are available, no longer move into the inner cities. "Transition" neighborhoods, which would become racially integrated if whites could obtain mortgages at competitive prices, instead turn into racial ghettos.

These symptoms of credit strangulation have appeared with frightening speed and intensity in New York City. Racial ghettos are spreading; real estate tax revenue is falling; schools and municipal services are suffering.

Credit is extended by those with money, which means, in our society, banks. This power to extend or withhold credit has been given to banks by their depositors. In the past, residents who deposited money in a local savings bank could assume that their money would be used for the community's benefit. This assumption is recognized by Congress in the Home Mortgage Disclosure Act of 1975, which is predicated on banks' "obligations to serve the housing needs of the communities in which they are located."

There are two kinds of banks in America: commercial and savings banks. Commercial banks are formed by stockholders and are profit-motivated. Savings banks are not required to earn more than enough to give depositors a fair return on deposits and to cover administrative costs.

As this report shows, many Brooklyn savings banks have abdicated their responsibility to their depositors and communities. With one honorable exception, the seven banks surveyed by NYPIRG are choking the flow of credit in Brooklyn. They pursue profit outside their home areas and ignore the credit needs of local residents. The withdrawal of credit affects every neighborhood, every race, and every income group.

The red line is drawn in secret, without the knowledge of depositors to whom these banks should be accountable. As can be seen from the methodology section of this report, it was possible to obtain the facts only after months of work by many people searching diffuse and voluminous public records.

One of the most disheartening aspects of the redlining problem is the infinite number of ways a bank can refuse to keep capital in a given area. The average mortgage term may have been 25 years; it suddenly becomes ten or 15 years, making the monthly charge prohibitive. Previously the loans would be for 80 percent or 85 percent of the appraised value of the house; now the loan will be for only 60 percent or 70 percent of the appraised value. While before, the appraised value would approximately equal market value, now appraised value is only 60 percent to 70 percent of market value. Previously the mortgage would be closed when title passed; banks now begin to require completion of unnecessary repairs or redecoration prior to closing the mortgage. Whereas previously a balloon mortgage on an apartment building would automatically be rolled-over at termination of the term, suddenly banks demand payment of the outstanding principal or agree to extend the loan only at an exorbitant rate of interest. Before, the potential borrower could apply for a loan without charge; now the bank imposes "front end" costs such as application fees, appraisal fees, commitment fees, and closing and attorneys' fees. Whereas previously a credit-worthy purchaser could simply assume the obligations of an existing mortgage, suddenly the bank imposes a "due-on-sale" clause accelerating payment of the loan upon sale of the property, which requires the property's purchaser to negotiate a new mortgage at a higher rate of interest and with front end fees.

Using these techniques, a bank does not have to proclaim explicitly that an area is redlined. Once it gets the reputation for employing these practices, potential borrowers do not even bother to apply. Without mortgage applications, the bank can come into the public forum and say with a straight face that demand does not exist. This report proves that demand for mortgages exists in Brooklyn, no matter how "mature" its neighborhoods. One of the smallest banks surveyed recorded 722 mortgages in Brooklyn during the most recent full calendar year -- four times the number of mortgages as the bank with the next highest number of recorded mortgages. If the other banks, with their far greater resources, had invested a similar proportion of their assets, there would have been $313 million in mortgages issued; the actual total was $40 million.

Banks take money given to them under a false assumption as to how that money will be used. They not only do not use that money for the purpose intended, but also actively deprive the depositors of use of the money, much to their harm. There is a word for this conduct; it is "fraud".

People who wish to buy a home in a redlined neighborhood are not seeking favors or special treatment. All they ask is the opportunity to commit the same down payment and pay the same interest as their friends in other areas. They are denied this opportunity by people who until now have been beyond accountability.

There are many ways to correct the situation. Public officials can be helpful in enacting and enforcing better laws. But the surest, fastest, and most effective solution lies in the hands of ordinary citizens. Depositors must unite to demand an accounting. Some banks are more responsive to community needs than others. Citizens have the ultimate power. They can put redlining banks out of business. By depositing wisely, they can make responsible banks and their own neighborhoods flourish. NYPIRG pledges every assistance it can render to this effort.

Donald K. Ross
Director
November 1976

INTRODUCTION

Low and middle income Americans have traditionally used banks in two ways: first, as the repository of families' life savings; and second, as the financer of the largest purchase most families ever make -- their home. These two services are closely related because money deposited as savings is lent in the form of home mortgage and improvement loans. Banks thus safeguard and disburse the lending pool necessary for continual rejuvenation of neighborhoods.

In recent years banks in many areas across the country, including Brooklyn, have abandoned their role as lending pool for local home buyers. Instead, they take deposits from area residents but invest them in other neighborhoods, nearby states, or even other parts of the country. Local residents see their savings withdrawn from their own neighborhoods and employed for the benefit of other communities

This geographic disinvestment is called "redlining" since, in effect, banks draw a red line around neighborhoods, and refuse to make mortgage loans within them. Redlining contributes to a downward spiral of community abandonment, lowered property values and racially and/or economically segregated neighborhoods.

Despite visual evidence of vast rundown neighborhoods and the complaints of frustrated persons who unsuccessfully sought to obtain mortgages (the NAACP has filed suit on behalf of black families denied access to houses south of Avenue H), it has until now been impossible to prove the existence of redlining in Brooklyn. Banks refuse to let the public know how much mortgage money they have invested in a neighborhood or the amount of deposits made by neighborhood residents The depositor/mortgage applicant has no readily accessible source for determining the previous record of the bank in granting mortgages in his or her neighborhood. However, it is possible to discover a bank's investment in a given area through the extremely arduous process of examining public records of deeds and mortgages.

Students working with the Brooklyn College Chapter of the New York Public Interest Research Group, Inc. (NYPIRG) decided to make the commitment of time and labor to examine these records. A task force of ten Brooklyn College undergraduates resolved to answer the following question: "Are banks which received the dominant portion of their savings deposits from Brooklyn residents investing a similar portion of these deposits in mortgages or properties located in Brooklyn?"

METHODOLOGY

The first step was to identify those ban.s with the greatest percentage of Brooklyn residents as depositors. T is task was complicated by the refusal of banks to release the relevant da.a, but it is generally accepted in the banking industry that most of the lepositors in a particular savings bank office live close to that office. Commercial banks were not considered because Brooklyn residents form too small a portion of their depositors. Only savings banks with headqua ters or a majority of branches in Brooklyn were used. To insure that th: banks selected for study were capable of major investment in Brooklyn only those with more than $800 million in assets and a total investment in mortgages of more than $500 million during the most recent fiscal ye r, 1975, were chosen. Seven savings banks meeting these criteria were ch sen for survey:*

Brooklyn Savings Bank.
The Dime Savings Bank of New York.
East New York Savings Bank.
The Greater New York Savings Bank.
Greenpoint Savings Bank.
Metropolitan Savings Bank.
Williamsburgh Savings Bank.

Every mortgage issued is recorded in the office of the county clerk for the county in which the property is locaied. This record is public and is usually examined by anyone thinking of buyi g a property to determine if there are any outstanding debts on it. Informa ion on Brooklyn mortgages is recorded in a ledger, indicating the bank grant ng the mortgage, the property owner, the block and lot designating the property location and a liber number. The liber number is used to locate the mo tgage on microfilm reels, where the value of the mortgage is recorded as wel as the street address. The Brooklyn College task force went to the Municipal Building in Brooklyn and, over a period of five months, looked at the mortgage record for each of the 9,000 blocks in Brooklyn. The students recorded data from the mortgage ledgers for mortgages granted by the seven savings banks during calendar 1975. Using the liber numbers, they then consulted the microfilm reels to determine the amount of the mortgage and the street address of the property.

The next step was to obtain the banks' annual reports for fiscal 1975. Figures for total assets, total deposits, overall mortgage investment, annual mortgage investment, and number of branch offices were abstracted from the reports.

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* The main office of Greenpoint Savings Bank is now in Flushing, Queens, but Greenpoint was included among the surveyed banks in order to investigate its reputation for major investment in Brooklyn.

RESULTS

The data obtained by the task force is summarised in the following tables and charts.

Table I: The Seven Banks Surveyed: Locations of main offices and Brooklyn branches; total assets as of close of fiscal year 1975.

The surveyed banks had assets varying between less than one billion dollars (East New York and Greenpoint) to almost four billion dollars (Dime Savings).

Table II: Mortgages issued by surveyed banks on Brooklyn properties during calendar 1975.

Six of the seven banks invested only a token amount in Brooklyn. The largest bank (Dime) invested little more than five million dollars. One of the smallest banks (Greenpoint) invested almost $25 million.

Table III: Dollar value of mortgages issued on Brooklyn properties during calendar 1975 as percentage of total value of mortgages reported at close of 1975 fiscal year and as percentage of total assets at close of fiscal year 1975.

Six of the banks committed less than one half of one percent of their assets to Brooklyn during calendar 1975. The seventh (Greenpoint) committed almost three percent.

Table IV: Comparative Ranking of Seven Savings Banks Studied. Number of Brooklyn mortgages issued during calendar 1975; dollar value of Brooklyn mortgages issued during calendar 1975; percentage of total outstanding mortgages; percentage of total assets.

The bank with the second smallest amount of assets (Greenpoint) ranks highest by all indicia of investment in Brooklyn.

Map I - A to G: Geographic Distribution by zip code of mortgages issued during 1975 on properties located in Brooklyn. Separate map for each bank surveyed.

Map II: Combined geographic distribution by zip code.

The northern part of Brooklyn is mostly black and Hispanic and receives little or no mortgage investment; the southern part is white and receives most of what little money is committed to Brooklyn.

ANALYSIS OF DATA

Brooklyn Is Redlined

The feature which calls for attention first is the small number of properties involved. According to the 1976 U.S. Census, there are 209,842 owner-occupied housing units in Brooklyn. The surveyed banks made mortgage loans involving only 1,186 properties.

The next observation is that these banks, with total assets of almost $11 billion, issued only $40 million in mortgages on Brooklyn properties in 1975. They thus committed less than one half of one percent of their assets to Brooklyn.

When the banks do invest in Brooklyn mortgages, they choose the more valuable properties. According to the 1970 census, the median value of owner-occupied dwellings in Brooklyn was $25,400. The average amount of a mortgage extended by the banks surveyed was $33,804 during 1975. When a bank is asked to extend a mortgage loan, it sends an appraiser to the property. The appraiser gives the bank his opinion as to the market value of the house. Traditionally in New York the appraised value is conservative and is usually 10 to 20 percent below the price agreed to by the seller and buyer. The bank will extend a mortgage only to between seventy and eighty percent of the appraised value, requiring the buyer to supply the balance of the purchase price either by secondary financing or from his or her own resources. Thus, an average mortgage value of $33,000 indicates that the market value of the property was in the vicinity of $45 to $50 thousand.

Taken as a whole, then, the performance of these banks is deplorable. However, one bank consistently lent proportionately more on Brooklyn properties. The Greenpoint Savings Bank committed 3.58 percent of its total mortgage investment and 2.87 percent of its total assets to Brooklyn properties. The corresponding figures for the other six banks average 0.22 percent and 0.14 percent. Even though it ranked sixth among the seven banks surveyed in terms of total assets, Greenpoint alone issued 722 Brooklyn mortgages in 1975 totaling $25 million in mortgages.

The record compiled by the six banks other than the Greenpoint indicates an acute state of lethargy. Together, the six banks issued 464 mortgages in 1975 totaling $15 million compared with 722 mortgages totaling $25 million for Greenpoint. The combined assets of these six banks is $10 billion. Their mortgage investments in Brooklyn represent only 15 percent of total assets. The greatest commitment of mortgage money by a single bank among the six was only $5 million for 184 mortgages. If these banks, with their far greater resources, had invested in Brooklyn during 1975 at the same rate as Greenpoint, $313 million of mortgage money would have been invested instead of $40 million. The performance of Greenpoint undermines any allegations by the other banks that there is no market for mortgages in Brooklyn or that it would not be sound business practice to accept mortgages on Brooklyn properties.

Black Neighborhoods Fare Worse Than White Neighborhoods

The entire borough of Brooklyn is redlined but some neighborhoods suffer more than others. Study of the postal zone maps, and especially Map II, shows that the surveyed banks concentrate their mortgage activity on the southern third of Brooklyn. The 35 mortgages made in the Greenpoint section (zip code 11222) were all from the Greenpoint Savings Bank and the 28 mortgages in East New York (zip code 11207) were all made by the East New York Bank for Savings. Except for these two concentrations, no postal zone north of Eastern Parkway received more than ten mortgages during 1975.

This singular neglect of neighborhoods may be related to their racial composition. The zip code 11222 area, which received the largest number of mortgages north of Eastern Parkway, also has the largest white population north of Eastern Parkway. Census figures are similarly suggestive. Brooklyn census tract 291 is located in the Bedford-Stuyvesant neighborhood of zip code area 11221, one of three zones to receive no mortgages. Census tract 686 is located in the Mill Basin neighborhood within zip code 11234 which received the highest number of mortgages of all Brooklyn zones. Tract 291 has a 97.8 percent black population while the black population of tract 686 is 1.1 percent. The housing stock in tract 291 consists of turn-of-the-century brownstones, while the housing in tract 686 is post-war suburban.

This pattern of racial discrimination is not isolated to two census tracts. Similar evidence of discrimination is available from examination of census tracts 916 and 280. Census tract 916 is located in the East New York neighborhood within zip code 11212, which received three mortgages in 1975. Tract 280 is located in the Bensonhurst neighborhood within zip code 11214, which received 65 mortgages in 1975. Tract 916 has a black population of 76.8 percent; the black population of tract 280 is 3.0 percent.

CORROBORATION OF DATA

The Office of Finance/Administration, Department of the Treasury of the City of New York has custody of millions of dollars paid into local courts pending determination of lawsuits. The Department deposits these funds in interest bearing accounts at savings bank located in the county which is the site of the action.

On February 27, 1976, Commissioner Jay E Butler wrote to these depositories, among whom are all of the seven surveyed banks. He asked them to disclose, among other information: the total amount of their deposits and the amount of these deposits in New York City offices; and the total amount of their mortgage portfolio and the amount of this portfolio invested in New York City properties. These figures were requested as of December 31, 1974 and December 31, 1975.

Three of the surveyed banks -- Metropolitan, East New York, and Brooklyn -- either did not reply at all or submitted an unresponsive letter. Data as of December 31, 1975 from the remaining banks was as follows, calculated as percentages:

	Dime	Greater N.Y.	Greenpoint	Williamsburgh
Deposits in New York City offices as percentage of total deposits.	73%	98%	93%	81%
Mortgages on New York City property as percentage of total mortgages.	17%	15%	61%	15%

The banks receive at least three quarters of their deposits from New York City offices, but place fewer than one fifth of their mortgages on New York City property. Again, the one exception is Greenpoint.

These figures, supplied by the banks themselves, and for the first time making public data on the relation between deposits and mortgages, confirm the trend identified by the NYPIRG task force. Brooklyn-based banks are investing a negligible proportion of their assets in Brooklyn. This fact becomes even clearer when one notes that the figures submitted by the banks to Finance/Administration represented their total portfolio. The trend away from Brooklyn must have been going on for some time if only 15 percent of a bank's mortgage portfolio remains there.

We still have no comprehensive data showing where the banks are investing our money. Naturally, the banks themselves do not release this information.

One indication of what is going on, however, is the fact that, according to the December 4, 1975 issue of "Southeast Real Estate News", the Williamsburgh Savings Bank committed five million dollars to the General Development Corporation of Miami as financing for 200 residential properties. This one loan far outweighed the less than two million dollars Williamsburgh committed to mortgages on 67 properties located in Brooklyn during all of 1975.

CONCLUSION

The Brooklyn College NYPIRG task force began this study with the following question: "Are banks which receive the dominant portion of their savings deposits from Brooklyn residents investing a similar portion of these deposits in mortgages on properties located in Brooklyn?" For six of the seven surveyed banks, the answer must be a resounding "No!" Only the Greenpoint Savings Bank has returned more than a negligible portion of its deposits to Brooklyn in the form of mortgage investment.

All seven of the banks surveyed have discriminated against the black population of Brooklyn by channeling mortgage money to those neighborhoods that are predominantly white.

Banks do not publish in their annual reports or publicity literature figures which would tell depositors where their money in invested. The banks' attitude has been: "All you should worry about is the rate of interest." Depositors concerned about their neighborhoods should care about more than that.

NYPIRG has published this report as an aid to residents of Brooklyn. Armed with the information contained here, depositors can either demand greater investment in redlined areas by their savings banks or transfer their accounts to more responsible banks.

Public officials can also help. They can place public money in banks which are responsive to community needs. They can enact statutes prohibiting discrimination against credit-worthy people on the ground of location of the property just as discrimination because of race, national origin, religion, or gender is now prohibited. They can demand that banks release complete data on the source of their deposits and the beneficiaries of their credit.

The problem of redlining can be solved in many ways. The important thing is to begin.

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TABLE I

The Seven Banks Surveyed: Locations of main offices and Brooklyn branches; total assets as of close of fiscal year 1975.

BANK	MAIN OFFICE	BRANCH OFFICES	TOTAL ASSETS (1,000 = 1,000,000,000)
Dime Savings Bank of New York	DeKalb Avenue & Fulton Street	Bensonhurst, Coney Island, Flatbush, Kings Plaza	$ 3,777
Williamsburgh Savings Bank	Hanson Place	Bensonhurst, East New York, Williamsburgh	1,877
Greater New York Bank for Savings	Fifth Avenue between 9th & 10th Street	Bensonhurst, Borough Park (2), Coney Island, Flatbush (2), Park Slope	1,402
Brooklyn Savings Bank	Montague Street	Bay Ridge, Bensonhurst, Georgetown (Flatlands), Gravesend	1,119
Metropolitan Savings Bank	Montague Street	Bay Ridge (2), Bedford-Stuyvesant, Canarsie, Flatbush, Flatlands, Sheepshead Bay	1,034
Greenpoint Savings Bank	41-60 Main Street Flushing	Bay Ridge, Canarsie, Crown Heights, Flatbush (2), Sheepshead Bay	868
East New York Savings Bank	Atlantic Avenue & Pennsylvania Avenue	Brownsville, Crown Heights (2)	864
TOTAL ASSETS			$ 10,941

TABLE II

Mortgages issued by surveyed banks on Brooklyn properties during calendar 1975.

BANK	NUMBER OF MORTGAGES ISSUED	TOTAL DOLLAR VALUE OF MORTGAGES ISSUED	AVERAGE DOLLAR VALUE
Greenpoint Savings Bank	722	24,915,465	34,509
Dimes Savings Bank of New York	184	5,344,930	29,048
Metropolitan Savings Bank	69	2,986,216	43,278
Williamsburgh Savings Bank	67	1,913,061	28,553
Brooklyn Savings Bank	52	1,917,204	36,869
East New York Savings Bank	48	1,866,564	38,886
Greater New York Savings Bank	44	1,148,600	26,105
TOTAL	1,186	40,092,040	33,804

TABLE III

Dollar value of mortgages issued on Brooklyn properties during 1975 as percentage of total value of mortgages reported at close of 1975 fiscal year* and as percentage of total assets at close of 1975 fiscal year.

BANK	PERCENT OF ALL MORTGAGES	PERCENT OF TOTAL ASSETS
Greenpoint Savings Bank	3.58	2.87
Dime Savings Bank of New York	0.25	0.14
Metropolitan Savings Bank	0.36	0.28
Williamsburgh Savings Bank	0.15	0.01
Brooklyn Savings Bank	0.25	0.17
East New York Savings Bank	0.28	0.21
Greater New York Savings Bank	0.10	0.01

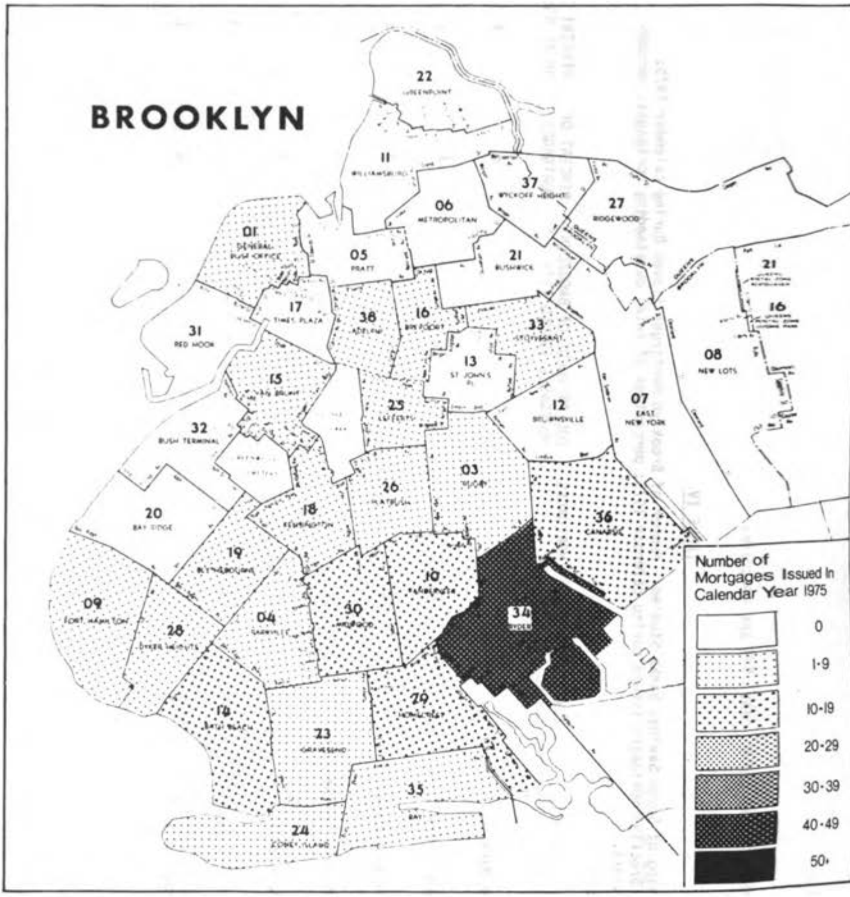
*Including conventional, VA, FNHA, GNMA, and FHA mortgages.

TABLE IV

Comparative Ranking of Seven Savings Banks Studied: Number of Brooklyn mortgages issued during calendar 1975; dollar value of Brooklyn mortgages issued during calendar 1975; percentage of total outstanding mortgages; percentage of total assets.

BANK	NUMBER OF BROOKLYN MORTGAGES ISSUED 1975	DOLLAR VALUE OF BROOKLYN MORTGAGES ISSUED 1975	PERCENT OF MORTGAGES	PERCENT OF TOTAL ASSETS
Brooklyn Savings Bank	5	4	4	4
Dime Savings Bank of New York	2	2	4	5
East New York Savings Bank	6	6	3	3
Greater New York Bank for Savings	7	7	7	6
Greenpoint Savings Bank	1	1	1	1
Metropolitan Savings Bank	3	3	2	2
Williamsburgh Savings Bank	4	5	6	6

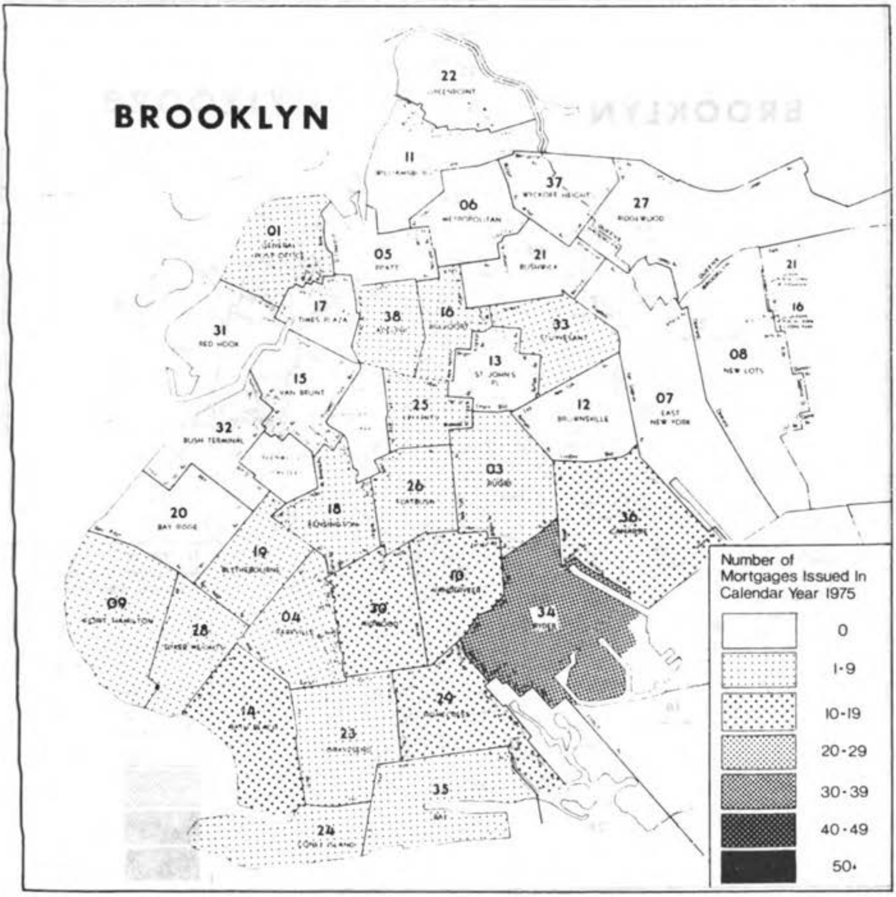
MAP I-A



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

BROOKLYN SAVINGS BANK

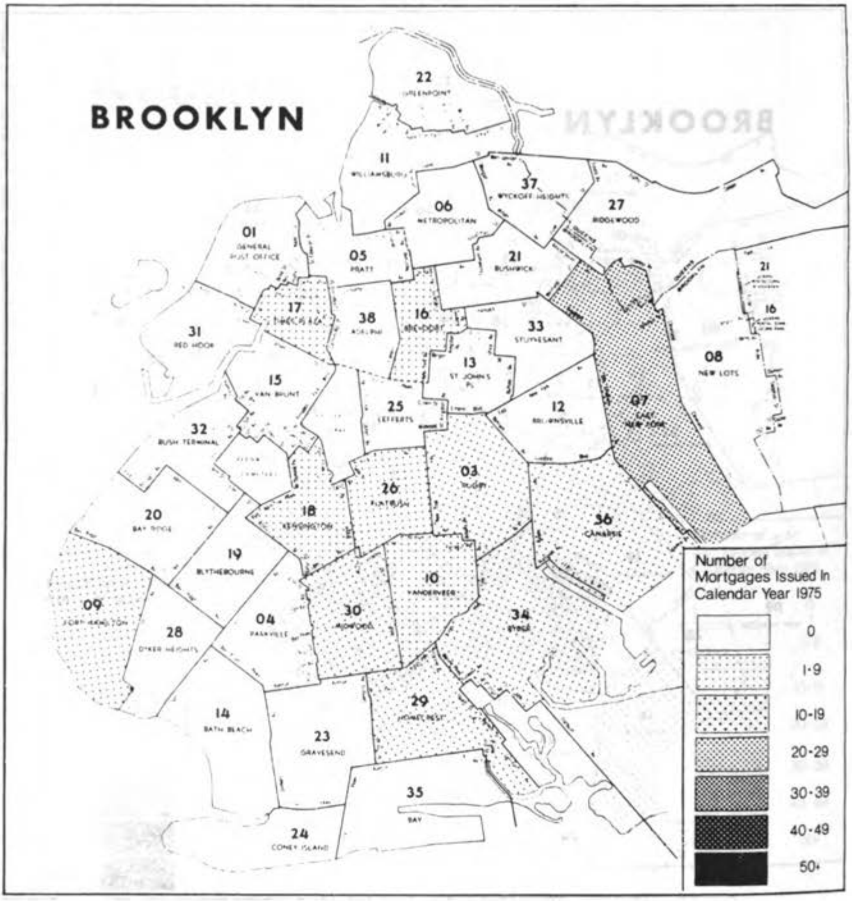
MAP I-B



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

DIME SAVINGS BANK

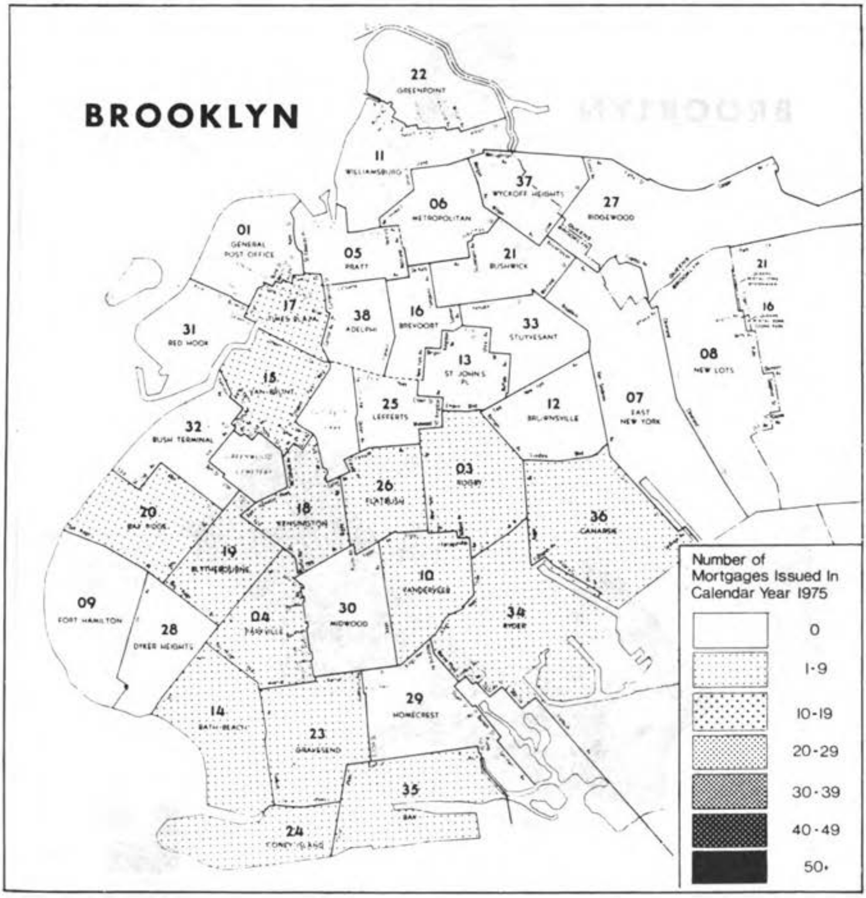
MAP I-C



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

EAST NEW YORK SAVINGS BANK

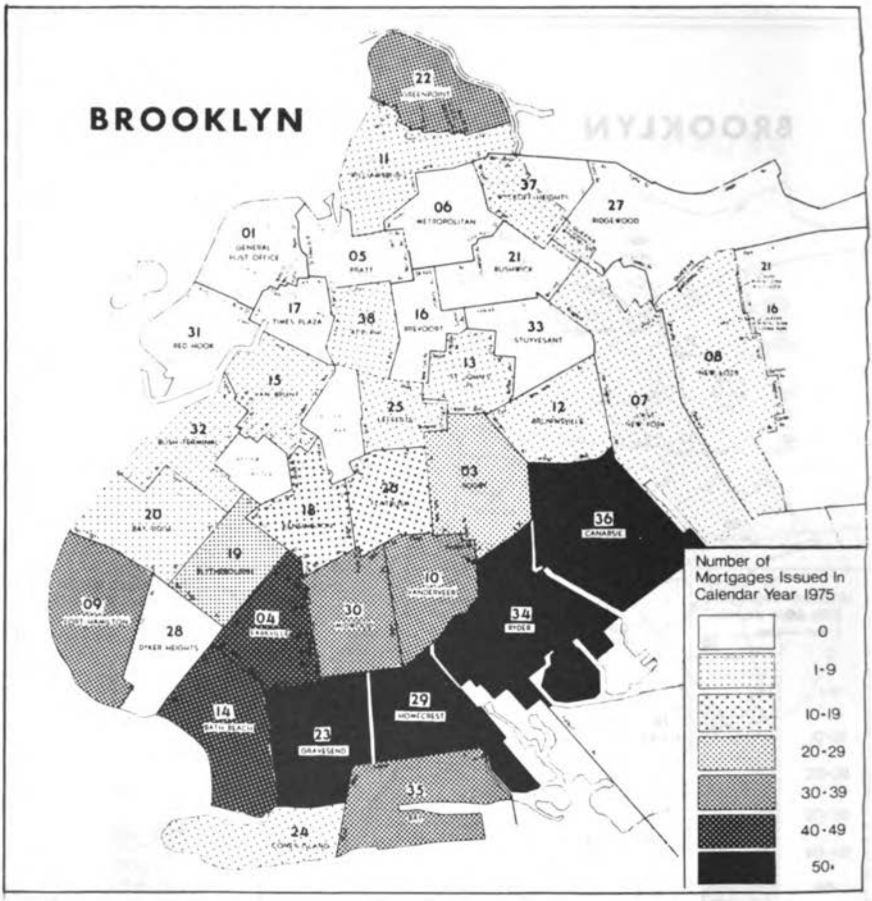
MAP I-D



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

GREATER NEW YORK SAVINGS BANK

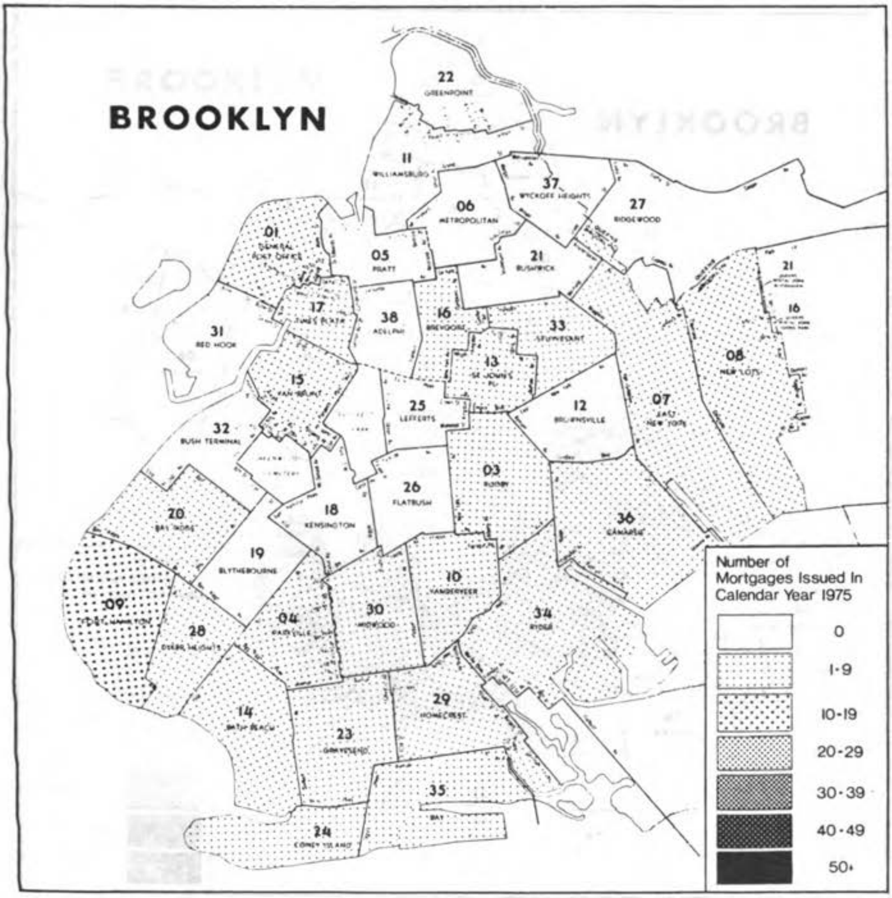
MAP I-E



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

GREENPOINT SAVINGS BANK

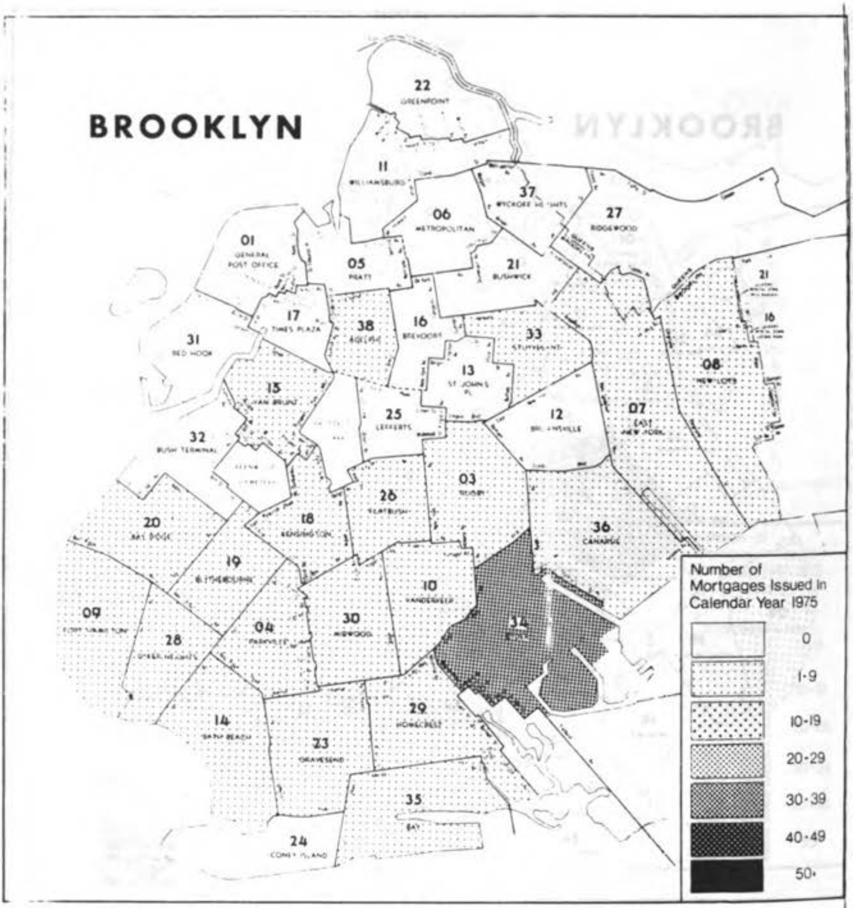
MAP I-F



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

METROPOLITAN SAVINGS BANK

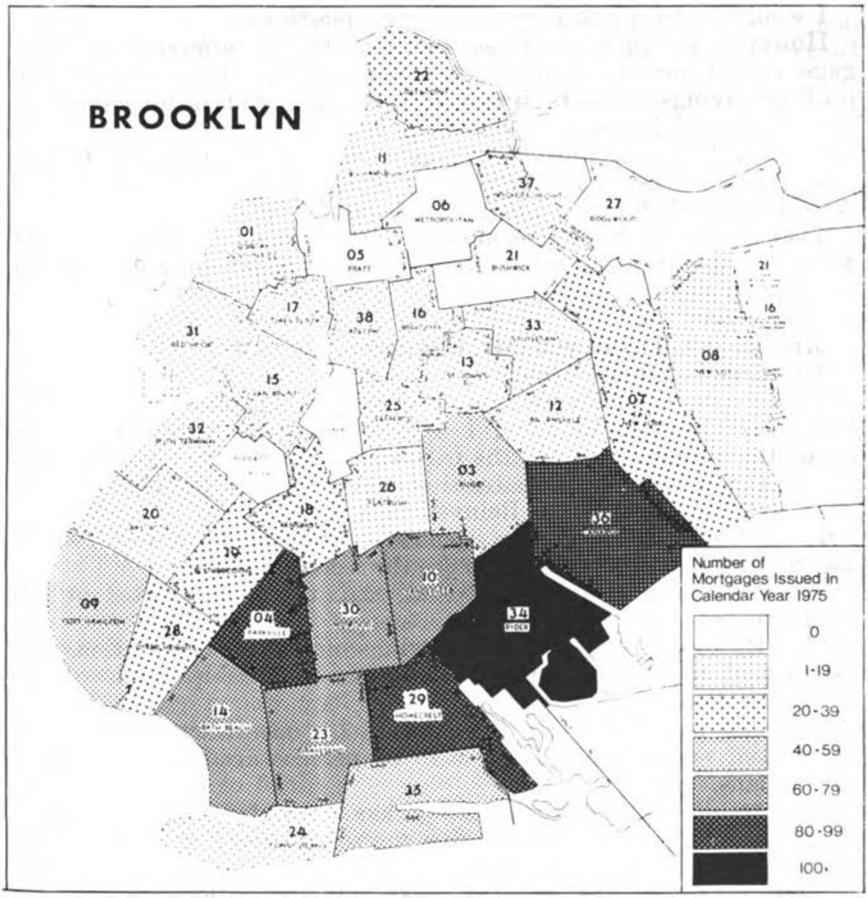
MAP I-G



GEOGRAPHIC DISTRIBUTION BY ZIP CODE OF MORTGAGES
ISSUED DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

WILLIAMSBURGH SAVINGS BANK

MAP II



COMBINED DISTRIBUTION BY ZIP CODE OF MORTGAGES ISSUED BY
THE SURVEYED BANKS DURING 1975 ON PROPERTIES LOCATED IN BROOKLYN

Mr. CRAWFORD. My name is Morris D. Crawford, Jr., chairman of the board of The Bowery Savings Bank of New York City, and chairman of the National Association of Mutual Savings Banks' committee on Federal legislation.

I would be happy to respond to your questions.

However, I would like to say with particular reference to mortgage review boards, I have accompanying me today two of the leading savings bankers involved in urban lending programs in New York and Boston.

Vincent J. Quinn, president and chairman of the board of Brooklyn Savings Bank and Arthur F. Shaw, president of the First American Bank for Savings in Boston.

They would be happy to answer the questions of the committee as to the operation of urban lending review programs in fulfllling community need.

Thank you.

Mr. BROOKS. Thank you, Mr. Chairman.

My name is Edwin Brooks.

I am president of the Security Federal Savings and Loan Association of Richmond, Va., and I appear today as legislative policy committee vice chairman of the U.S. League of Savings Associations.

The U.S. League appreciates this opportunity to present its views on S. 406, the Community Reinvestment Act.

In the interest of time, I have cut my statement down, but I would like to file my complete statement for the record.

The CHAIRMAN. I appreciate that, and it will be printed in full in the record.

Mr. BROOKS. As you know, savings and loan associations are established to serve the thrift and home ownership needs of the American public.

Over 90 percent of the investments by our institutions are in residential real estate, and close to 80 percent are in single-family home loans.

One result of this specialization has been that our institutions originated four out of every five mortgage loans in our country during much of the past 2 years.

Another result has been to make our institutions targets for community groups and others who allege that our investment practices cause neighborhood disinvestment and urban decay.

The 94th Congress responded by passing the Home Mortgage Disclosure Act.

We view the legislation under consideration today, the Community Reinvestment Act, as a continuation of that approach, and my comments will reflect many of the same reservations we expressed two years ago.

First, some regulatory considerations:

The introductory statement for S. 406, reprinted in the January 24 Congressional Record, states:

> The credit needs of the locality and the applicants' capacity to service these needs—have been almost ignored by the regulatory agencies.

While we cannot speak for other depository institutions, the savings and loan associations under the jurisdiction of the Federal Home Loan Bank Board would take issue with this statement.

The Board can, and does, place a burden upon the applicant to justify the credit needs of the community to be served.

If the purpose of S. 406 is to increase the documentation which already accompanies these types of applications, we would note that S. & L. applicants already shoulder a significant paperwork burden.

Adding to this burden implies processing delays for obtaining approval or denial of these facilities—and resulting delays in serving the public.

An even more troublesome problem is presented by the periodic report requirement of Section 4.

That language calls for periodic reports concerning the amount of consumer deposits obtained from and the amount of credit extended in the institutions' primary savings service areas and making such reports available to the public.

In the first place, this recordkeeping appears to duplicate the Home Mortgage Disclosure Act for institutions with home or branch offices in SMSA's.

We strongly recommend that the Congress await the results of the March 31 reporting date under HMDA, the first to use census tract coding, before universally imposing any new reporting requirement for home loan activity.

Furthermore, the collection and distribution of savings data, as called for in S. 406, raises serious questions of privacy and potential abuse—for institutions and for our depositor customers.

The committee wisely rejected such a provision in the HMDA 2 years ago, and we urge you to do so again.

As we testified at that time, periodic disclosure of areas of high savings concentration would provide a "gold mine" of information which would not only be of interest to competing institutions, but could attract the attention of door-to-door salesmen, direct mail advertisers, and so forth.

In sum, the periodic reporting section of this bill would be an administrative nightmare for larger savings and loans with many branch office locations, and such costly requirements would discourage smaller institutions from expanding to meet their community's needs.

S. 406 raises another regulatory issue. Branching approvals by FSLIC-insured, State-chartered savings and loan associations have heretofore been determined solely by the appropriate State regulatory agency.

To impose a review at the Federal level of these branching decisions by State authorities would certainly constitute a fundamental change in our regulatory structure, and intrude upon State sovereignty.

We would also note that the Subcommittee on Financial Institutions of this committee recently received testimony on the Interim Report of the National Commission on Electronic Fund Transfers.

The recommendations of that report regarding terminal placement are effectively preempted by the requirements contained in S. 406.

We also have problems with the proposition that new applications should be tested by an applicant's "past record" in meeting community credit needs.

Neighborhoods and communities change—and regulatory agencies must be given some flexibility in permitting institutions which, as a sound business decision, seek to respond to that change.

With the increased regulatory restraint proposed in this legislation, few institutions would seek to locate offices in any areas except those with the most favorable possibilities for future mortgage loan demand.

Thus, established neighborhoods, business districts, and industrial locations would be more poorly served as a result.

Won't one of the consequences of the "past record" criteria be to encourage institutions to close down service locations in marginal investment areas if it will prevent them from applying for more profitable locations?

Or, do we really want to penalize an institution located in an area which becomes blighted—due to factors beyond its control—by denying it an opportunity to relocate?

In short, we question whether the penalty of denying new services to the community is justified by previous credit performance at existing locations.

I would now like to discuss briefly some economic considerations of the Community Reinvestment Act.

We need to have branches to get the money which supports our home lending activity. If savings and loan associations are denied convenience locations for attracting savings customers—for example, in an established neighborhood of high-rise apartments with little need for additional mortgage credit—those potential customers will move their deposits to some other kind of institution or market instrument. The housing market will pay the price.

On a local level, the markets for savings and for loans are distinct and separate. They cannot be linked as S. 406 suggests. Loans may be needed by younger families in bedroom neighborhoods and suburbs; savings may be available in downtown locations near jobs or in retirement communities.

Parenthetically, I would like to say at this point Mr. Elbert Stuart, who is president of the Berkely Savings & Laon Association in Norfolk, Va., which is a minority association, is here on his own initiative this morning. He has expressed to me, when he heard I was testifying, his concern about this bill.

He has stated that if you wish, he would be happy to answer any of your questions relative to this matter or he would be most happy to consult with your staff or the staff of any of the members of the committee at a later time.

The CHAIRMAN. Very good.

Mr. BROOKS. Continuing with the testimony: Further, it is our observation that savings flows do not necessarily coincide with mortgage loan demand.

One example might be the situation in the Great Plains States where bumper crops have led to fast savings growth, but there is little or no population growth creating mortgage loan demand.

These institutions buy loans and participations in loans originated in the urban centers, thus moving their excess funds efficiently to areas where they are needed for housing city families.

The movement of funds from capital surplus to capital short areas is, as your committee heard last fall, the purpose of the secondary market facilities.

The Community Reinvestment Act erects new barriers to this movement of capital. It is potentially destructive to the secondary markets.

We also take exception to the notion that our credit practices initiate neighborhood decline.

There are many, many factors besides lending decisions which contribute to urban decay—poor municipal services, code enforcement, local tax policies, educational facilities, transportation, job opportunities, et cetera.

What is often needed is a total community effort to arrest urban decay and revitalize neighborhoods.

As you know, savings associations are financial "intermediaries." We invest other people's money.

We must do so in a prudent and safe manner, not only for the protection of our depositors, but for the protection of the Federal Savings & Loan Insurance Corp.

We, therefore, cannot ignore risk in our lending decisions.

In this regard, the U.S. League has commissioned a study by two former governors of the Federal Reserve Board, Andrew Brimmer and Sherman Maisel, to isolate urban lending "risk" from noneconomic factors—such as racial discrimination—and to quantify risk in urban residential lending situations.

We will share this material when completed.

The CHAIRMAN. We have the highest respect for Governor Maisel and Governor Brommer. We would like to get that.

Thank you.

Mr. BROOKS. In our view what is needed is a program of incentives to private sector financial institutions to encourage them to tackle the higher risks inherent in inner-city lending.

Together with the Federal Home Loan Bank Board staff, we have explored a shared-risk insurance plan for conventional home loans introduced as H.R. 15407 in the last Congress.

The concept involves establishment of an insurance fund to apportion the risk of loss on an 80/20 basis with originating lenders.

Properties in areas determined—perhaps by HMDA data—to have insufficient loan activity would be eligible for these conventional mortgages.

Lenders would retain their share of the risk—and their commitment to the neighborhood—throughout the life of the loan.

The FHA's experimental section 244 coinsurance program and the Farmers Home Administration's new guaranteed single-family home loan program are similar concepts which, I understand, are under review by your Housing and Rural Housing Subcommittees.

We would welcome further congressional consideration of these various loan programs.

All of these incentives' approaches to lending in higher risk situations merit careful review. They provide "loans, not lists" for the home-buying public.

The coverage of S. 406 is limited to those providers of credit under the jurisdiction of Federal financial supervisory agencies.

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In the area of mortgage finance, of immediate concern to us, the Community Reinvestment Act would not apply to mortgage bankers, insurance companies, pension funds, finance companies, and, under the terms of the bill, credit unions.

Under the Home Mortgage Disclosure Act, the U.S. League of Savings Associations has been helpful by supplying coding guides, and so forth, for each standard metropolitan statistical area.

The U.S. League of Savings Associations has also been helpful in encouraging the neighborhood housing services program underway in more than 30 cities.

I believe the members of this committee visited an NHS project in Baltimore recently.

We are also encouraging the establishment of mortgage review boards around the country to provide appeals procedures for rejected loan applicants.

The Milwaukee area mortgage opportunity plan in your home State, Mr. Chairman, has served as a prototype for development of mortgage review panels in other cities.

These activities and others within the housing and community development jurisdiction of your committee promise far more in the way of meeting community credit needs than does the Community Reinvestment Act, S. 406.

I appreciate this opportunity to testify and invite your questions.

[Complete statement of Mr. Brooks follows:]

PREPARED STATEMENT OF EDWIN BROOKS, JR.

Mr. Chairman: My name is Edwin Brooks, Jr. I am President of Security Federal Savings and Loan Association of Richmond, Va., and appear today as Legislative Policy Committee Vice-Chairman of the United States League of Savings Associations.* The U.S. League appreciates this opportunity to present its views on S. 406, the Community Reinvestment Act.

As you know, savings and loan associations are established to serve the thrift and home ownership needs of the American public. Over 90% of the investments by our institutions are in residential real estate, and close to 80% are in single-family home loans. One result of this specializaton has been that our institutions originated 4 out of every 5 mortgage loans in our country during much of the past two years. Another result has been to make our insititutions "targets" for community groups and others who allege that our investment practices cause neighborhood disinvestment and urban decay. The 94th Congress responded by passing the Home Mortgage Disclosure Act. We view the legislation under consideration today, the Community Reinvestment Act, as a continuation of that approach, and my comments will reflect many of the same reservations we expressed two years ago.

Before addressing these concerns, Mr. Chairman, I would note that under the rules of the Committee our written statement is submitted 48 hours in advance of presentation; it is difficult to anticipate the comments, constructive and otherwise, which the Committee will receive at their Wednesday and Thursday hearings. Thus, I would appreciate an opportunity to amplify upon these printed remarks during our oral testimony on Friday.

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* The United States League of Savings Associations (formerly the United States Savings and Loan League) has a membership of 4,600 savings and loan associations, representing over 98% of the assets of the savings and loan business. League membership includes all types of associations—Federal and state-chartered, insured and uninsured, stock and mutual. The principal officers are: John Hardin, President, Rock Hill, South Carolina; Stuart Davis, Vice President, Beverly Hills, California; Lloyd Bowles, Legislative Chairman, Dallas, Texas; Norman Strunk, Executive Vice President, Chicago, Illinois, Arthur Edgeworth, Director—Washington Operations; and Glen Troop, Legislative Director. League headquarters are at 111 E. Wacker Drive, Chicago, Illinois 60601; and the Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006; Telephone: (202) 785-9150.

REGULATORY CONSIDERATIONS

The introductory statement for S. 406, reprinted in the January 24 *Congressional Record*, states: "The credit needs of the locality and the applicants' capacity to service these needs—have been almost ignored by the regulatory agencies." While we cannot speak for other depository institutions, the savings and loan associations under the jurisdiction of the Federal Home Loan Bank Board would take issue with that statement. We assume that this observation applies primarily to applications for branches and remote terminals, new charters, and insurance-of-accounts coverage. In these cases, the Board can and does place a heavy burden upon the applicant to justify the credit needs of the community to be served.

If the purpose of S. 406 is to increase the documentation which already accompanies these types of applications, we would note that S&L applicants already shoulder a significant paperwork burden. Adding to this burden implies processing delays for obtaining approval or denial of these facilities—and resulting delays in serving the public.

An even more troublesome problem is presented by the periodic report requirement of Section 4. That language calls for periodic reports "concerning the amount of consumer deposits obtained from and the amount of credit extended in the institutions' primary savings service areas and making such reports available to the public." In the first place, this record-keeping appears to duplicate the Home Mortgage Disclosure Act for institutions with home or branch offices in SMSAs. We strongly recommend that the Congress await the results of the March 31 reporting date under HMDA, the first to use census tract coding, before universally imposing any new reporting requirement for loan activity. Furthermore, the collection and distribution of savings data, as called for in S. 406, raises serious questions of privacy and potential abuse—for institutions and for our depositor customer. The Committee wisely rejected such a provision in the HMDA two years ago and we urge you to do so again. As we testified at that time, periodic disclosure of areas of high savings concentration provide a "gold mine" of information which would not only be of interest to competing institutions, but could attract the attention of door-to-door salesmen, direct mail advertisers and so forth. In sum, the periodic reporting section of this bill would be an administrative nightmare for larger savings and loans with many branch office locations. Such costly requirements would discourage smaller institutions from expanding to meet their community's needs.

S. 406 raises another regulatory issue. Branching approvals by FSLIC-insured, state-chartered savings and loan associations have heretofore been determined solely by the appropriate state regulatory agency. To impose a review at the Federal level of these branching decisions by state authorities would certainly constitute a fundamental change in our regulatory structure, and intrude upon state sovereignty. We would also note that the Subcommittee on Financial Institutions of this Committee recently received testimony on the Interim Report of the National Commission on Electronic Fund Transfers; the recommendations of that report regarding terminal placement are effectively preempted by the requirements contained in S. 406.

We also have problems with the proposition that new applications should be tested by an applicant's "past record" in meeting community credit needs. Neighborhoods and communities change—and regulatory agencies must be given some flexibility in permitting institutions which, as a sound business decision, seek to respond to that change. With the increased regulatory restraint proposed in this legislation, few institutions would seek to locate offices in any areas except those with the most favorable possibilities for future mortgage loan demand. Thus, established neighborhoods, business districts and industrial locations would be more poorly served as a result. Won't one of the consequences of the "past record" criteria be to encourage institutions to close down service locations in marginal investment areas if it will prevent them from applying for more profitable locations? Or, do we really want to penalize an institution located in an area which becomes blighted—due to factors beyond its control—by denying it an opportunity to relocate? In short, we question whether the penalty of denying new services to the community is justified by previous credit performance at existing locations.

Before leaving the regulatory considerations we would note that the proceedings at the Federal Home Loan Bank Board and at the District Federal Home Loan Banks already encourage "community, consumer or similar organizations to present testimony" on applications.

ECONOMIC CONSIDERATIONS

I would now like to discuss briefly some economic considerations of the Community Reinvestment Act.

In 1975, the League commissioned Booz, Allen, Hamilton to study consumer service strategies for savings associations. Their report emphasized the importance of convenience locations to attract savings. We need to have branches to get the money which supports our home lending activity. If savings and loan associations are denied convenience locations for attracting savings customers—for example in an established neighborhood of high-rise apartments with little need for additional mortgage credit—those potential customers will move their deposits to some other kind of institution or market instrument. The housing market will pay the price.

On a local level, the markets for savings and for loans are distinct and separate. They cannot be linked as S. 406 suggests. Loans may be needed by younger families in bedroom neighborhoods and suburbs; savings may be available in downtown locations near jobs or in retirement communities.

Further, it is our observation that savings flows do not necessarily coincide with mortgage loan demand. One example would be the recent recessionary period when consumer uncertainty led not only to high personal savings levels, but also to hesitancy to make such significant purchases as new homes. Another example might be the situation in the Great Plains States where bumper crops have led to fast savings growth, but there is little or no population growth creating mortgage loan demand. These institutions buy loans and participations in loans originated in the urban centers, thus moving their excess funds efficiently to areas where they are needed for housing city families.

The movement of funds from capital surplus to capital short areas is, as your Committee heard last fall, the purpose of the secondary market facilities. The Community Reinvestment Act erects new barriers to this movement of capital. In our view, it is potentially destructive to the secondary markets—which provide a cushion for the swings in the economy which have been such a problem for housing in the past. As suggested by the example above, secondary market activity can play a helpful role in revitalization of our nation's urban areas, too. Placing undue emphasis on an institution's overall community lending record is inefficient in economic terms and could be a great disservice to many communities.

We also take exception to the notion that our credit practices initiate neighborhood decline. There are many, many factors besides lending decisions which contribute to urban decay—poor municipal services, code enforcement, local tax policies, educational facilities, transportation, job opportunities, etc. What is often needed is a total community effort to arrest urban decay and revitalize neighborhoods.

As you know, savings associations are financial "intermediaries". We invest other people's money. We must do so in a prudent and safe manner, not only for the protection of our depositors, but for the protection of the Federal Savings and Loan Insurance Corporation. We, therefore, cannot ignore risk in our lending decisions. In this regard, the U.S. League has commissioned a study by two former Governors of the Federal Reserve Board, Andrew Brimmer and Sherman Maisel to isolate urban lending "risk" from non-economic factors (such as racial discrimination) and quantify risk in urban residential lending situations. Their studies are not yet complete; however, their preliminary findings show that risks are typically higher in older neighborhoods in larger, rather than smaller cities, and, not surprisingly, neighborhoods of higher incomes represent lower credit risks. We will certainly share this material with the Committee when completed.

In our view, what is needed is a program of incentives to private sector financial institutions to encourage them to tackle the higher risks inherent in inner-city lending. Together with the Federal Home Loan Bank Board staff, we have explored a shared-risk insurance plan for conventional home loans introduced as H.R. 15407 in the last Congress. The concept involves establishment of an insurance fund to apportion the risk of loss on an 80/20 basis with originating lenders. Properties in areas determined (perhaps by the HMDA data) to have insufficient loan activity would be eligible for these conventional mortgages. Lenders would retain their share of the risk—and their commitment to the neighborhood—throughout the life of the loan. The FHA's experimental Section 244 co-insurance program and the Farmers Home Administration's new guaranteed single-family home loan program are similar concepts which, I understand, are under review by your Housing and Rural Housing Subcommittees. We would welcome further Congressional consideration of these various loan programs. All of these incentives' approaches to lending in higher risk situations merit careful review. They provide "loans not lists" for the home-buying public.

COVERAGE

The coverage of S. 406 is limited to those providers of credit under the jurisdiction of Federal financial supervisory agencies. As the introductory statement noted, this excludes close to half of the total credit extended in the U.S. In the area of mortgage finance, of immediate concern to us, the Community Reinvestment Act would not apply to mortgage bankers, insurance companies, finance companies, and, under the terms of the bill, credit unions—which could become a growing factor when H.R. 3365, now in Conference, becomes law.

WHAT S&LS ARE DOING

We are not unmindful of the criticism of inadequate savings association performance in a number of our major cities. The U.S. League has endeavored to provide its members with the most accurate material available with which to comply with the Home Mortgage Disclosure Act. Through arrangements made with the Reuben H. Donnelly Corporation of Chicago, we have produced specially-designed Census Address Coding Guides for each Standard Metropolitan Statistical Area. These guides, in use not only in our business but in commercial banks as well, assure the best compliance achievable for the 1976 data. (March 31, as mentioned previously, is the first compliance date utilizing census tract recording.) While the HMDA may have improved responsiveness of financial institutions to community housing needs in some isolated locations, we would repeat our judgment that the exercise has been time-consuming, costly and unproductive for the vast majority of depository institutions located in SMSAs across the nation where "redlining" is not considered a problem.

Savings associations have also responded through their participation in the Neighborhood Housing Services program now underway in more than 30 cities. Members of this Committee and staff, I understand, have toured the Baltimore NHS project and are acquainted with this innovative and coordinated approach to stabilizing urban neighborhoods.

We are also encouraging the establishment of mortgage review boards around the country to provide appeals procedures for rejected loan applicants. The Milwaukee Area Mortgage Opportunity Plan in your home state, Mr. Chairman, has served as a prototype for development of mortgage review panels in other cities.

These activities and others within the housing and community development jurisdiction of your Committee promise far more in the way of meeting community credit needs than does the Community Reinvestment Act, S. 406.

I appreciate this opportunity to testify and invite your questions.

The CHAIRMAN. Thank you very much.

Ms. Hamilton?

Ms. HAMILTON. Mr. Scatizzi and I are happy to be here on behalf of our group.

The CHAIRMAN. We didn't anticipate that there would be two of you.

If you can abbreviate your statements, we would appreciate it.

Mr. SCATIZZI. I am Thomas A. Scatizzi.

The type of community-oriented financial institutions which are envisioned in the Community Reinvestment Act is what we have been through. We have fulfilled all of the provisions of this act in the last 2 years that we have been putting this thing together, unknowing to us that this act would be produced.

We determined a primary service area. We established the amount of savings capital that would be available to a neighborhood savings and loan association. We attempted to outline a program concerning community needs. It has been exciting.

The commmunity support we have received has been terrific. The type of institution we envision would be one operating in the neighborhood, drawing its resources from the neighborhood, providing a base for reinvestment of resources drawn from that area back into those specific neighborhoods.

We are also concerned residents of a large American city. We saw the demise—we saw the lack of lending opportunities. We try not to take the industry to task too greatly, because basically we feel if this was due to a lack of understanding by the industry. I would be hesitant to lend someone else's money in an area which I did not understand. We appreciate this. This is why we feel community-oriented and controlled financial institutions such as are envisioned in this bill are a cornerstone in this country, as savings and loans and banks have been throughout the history of this nation.

They have provided the resources that brought our country to the level it is at now. We are heartened by the fact that it is not a regulatory measure. Its purpose is to encourage a national policy which we feel is a policy, is a program that the savings and loan and banking industries can live with and can function and operate within.

And we feel that by identity of one with the other that they can be successful in isolating these profitable lending opportunities within the area, with a critical element of local control.

In closing, one other remark I would like to make is, as the other witnesses have stated, the reporting requirements of the act, and I am familiar with the reporting requirements for banks and savings and loans, if care could be taken not to duplicate and make them as minimal as possible in order to accomplish the goals of the act because these can be burdensome and difficult to financial institutions.

Thank you.

I will defer to Ms. Hamilton.

Ms. HAMILTON. I am Kathleen Hamilton and I am one of the incorporators of the proposed Central West End Savings and Loan Association located in St. Louis, Mo.

This was an area neighborhood hit by real estate blight. Our institution will be controlled by area residents and businessmen who are committed to the neighborhood and sensitive to its need.

As stated in the Congressional Record on February 24, a financial institution's investment in the community in which it is located often involves less risk because of the lender's firsthand knowledge of the community.

We believe community support is critical for a community-oriented financial institution since active community groups are major cornerstones of the life of an urban neighborhood and are a valuable resource for a lending institution with community commitments.

I would like to emphasize section 4, part 3 of this bill, directing such lending institutions to demonstrate community support.

There is a continuing, and mutually enriching need for communication and cooperation between a local financial institution such as the savings and loan association and various commmunity groups that are the cornerstone of that area's life and continued growth.

We feel this Community Reinvestment Act is vital to the survival of the cities by focusing on serving the housing needs of the neighborhood and reinvesting a certain amount of its deposits to assure continued growth of that neighborhood which is a major deposit resource.

An important element of the success of such financial institutions is outlined in your bill and is seen in our proposed savings and loan association, through control of area residents and businessmen who have commitments to the area and understand its needs.

We feel this act can be a major contribution to the continued growth of healthy urban neighborhoods.

Thank you.

The CHAIRMAN. Thank you very much.

Thank you for doing such a fine job of making your statement concise. We appreciate it.

[Complete statements follow:]

TESTIMONY FOR
THE COMMUNITY REINVESTMENT ACT, SENATE BILL 406
SENATOR WILLIAM PROXMIRE, CHAIRMAN
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
MARCH 25, 1977
DIRKSEN SENATE OFFICE BUILDING, ROOM 5302
WASHINGTON, D.C.

CRITICAL IMPORTANCE OF COMMUNITY SUPPORT IN FINANCIAL INSTITUTIONS SERVICING A PARTICULAR NEIGHBORHOOD.

Presented by:

Kathleen O'C. Hamilton
Member
Board of Incorporators
Central West End Savings and Loan
Association, St. Louis, Missouri -
Proposed

6252 Westminster Place
St. Louis, Missouri 63130

TESTIMONY PRESENTED BY THE INCORPORATORS OF THE PROPOSED CENTRAL WEST END SAVINGS AND LOAN ASSOCIATION, ST. LOUIS, MISSOURI, CONCERNING THE CRITICAL IMPORTANCE OF COMMUNITY SUPPORT IN FINANCIAL INSTITUTIONS SERVICING A PARTICULAR NEIGHBORHOOD.

TESTIMONY FOR THE COMMUNITY REINVESTMENT ACT, SENATE BILL 406
SENATOR WILLIAM PROXMIRE, CHAIRMAN
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
MARCH 25, 1977
DIRKSEN SENATE OFFICE BUILDING, ROOM 5302
WASHINGTON, D.C.

Senator Proxmire and Distinguished Members of the Senate Committee on Banking, Housing, and Urban Affairs, we are very pleased to be able to testify to you and your committee on behalf of the Community Reinvestment Act, S. 406, and thank you for this opportunity. We feel that our proposed savings and loan association, The Central West End Savings and Loan Association, is an explicit example of what your bill, The Community Reinvestment Act, is seeking to accomplish in encouraging lending institutions to be aware and supportive of the needs of the community in which it is located. Our proposed institution will be controlled by area residents and businessmen who are committed to the neighborhood and sensitive to, and knowledgeable of, its needs. We believe that community support is critical for a community-oriented financial institution since community groups are a major cornerstone of the life of an urban neighborhood. Such groups can literally bring back to life a dying and decaying area; and are an invaluable resource for a lending institution with particular community commitments such as are outlined in your bill.

I feel this statement is best illustrated by a brief recounting of the revitalization of our west end community of

St. Louis, whose rebirth is largely due to the dedicated involvement and spirit engendered by the formation of community groups to buttress and promote the area.

The central west end community of the City of St. Louis is a racially mixed neighborhood, located in the central corridor of the city which includes the site of the 1904 St. Louis World's Fair. As a lifelong resident of the west end in the specific Skinker-DeBaliviere area, I have come to firmly believe that thriving neighborhoods, with their own loyalty and personal identity, are key answers to the salvation of the city. The central west end of St. Louis is such a neighborhood community. My husband and I bought our first home in the Skinker-DeBaliviere area of this community in 1966 when there was apparent evidence of neighborhood decline through migration to the suburbs, deteriorating buildings, rising crime, growth of real estate speculators, the abuse of the "235" housing financing program, abandonment of houses, and the practice of "redlining" certain areas for excessive insurance premiums and a lack of home loans. But the housing stock that was and is available in the magnificent, spacious, older homes, many in need of restoration, but offering a lifestyle and heritage that could not be built, along with the reasonable cost of such residences, outweighed the obvious liabilities. Financing of such homes was particularly frustrating in that lending institutions were unfamiliar with the area and were reluctant to invest their resources in such neighborhoods.

We moved into this community when the demise of the area had been accelerating since the late 1950's. But the influx of dedicated, new homeowners, coupled with the commitment and belief in the area by residents that had remained, prevented a further downward spiral. I feel this upturn was directly motivated by the mobilization and beginning of community groups forming an encouraging and intense community spirit, and loyally promoting the area.

Our proposed Central West End Savings and Loan Association is a natural outgrowth of such community groups. The central west end urban community of St. Louis could not have been designed more effectively to be an example of an area that can meet the requirements of The Community Reinvestment Act.

The plan of restoration and attack on neighborhood blight, rising crime, and declining home values, was directed by a core of home owners who persevered in obtaining financing for home mortgages, and home remodeling at incredible obstacles. By forming effective and aggressive community groups, focus was concentrated on three areas: promotion of the neighborhood to encourage people not only to be actively aware of this west end community, but to purchase homes and move in and be a part of it; crime reduction of the area; and political impact to effect a positive change.

The promotion and stabilization of neighborhood real estate activity began in the late 1960's and early 1970's. The Skinker-DeBaliviere Council was established in March, 1966, as a co-operative effort of three local neighborhood residential organizations, three area Churches, and Washington University, which is located within the area. Its purpose is to work together as a force to maintain and develop a healthy, urban community to benefit present and future residents. In 1969, the Skinker-DeBaliviere residential service, a volunteer group of home owners dedicated to promoting residential sales, was established. The concentration of the group was focused on weekend house tours of available and rehabilitated property. An outgrowth of this organization is now an annual neighborhood art fair and house tour of unique and recently renovated homes which receives city-wide attention. One local real estate company which is still actively interested in the sale of west end homes, concentrated on hiring agents residing in particular west end blocks, to promote housing availability when other real estate companies were bypassing the area.

Our community contains many magnificant and unique private place residential areas dating from the time of the 1904 World's Fair era. These have now attained national recognition through being designated as historic districts due to the diligent research and promotion of its residents and their local political representatives. A for-profit corporation, with profits held in trust, West End Townhouse, was also established in the late 1960's by area residents concerned about reclaiming deteriorated multiple dwellings. Since financing was so difficult at the time, loan guarantees were underwritten by Washington University and the Catholic Archdiocese of St. Louis. Now, many apartments are also owned by area home owners so that absentee landloards are at a minimum.

Crime prevention achieved a major breakthrough through the formation, in 1970, of the Women's Crusade Against Crime. Its founding co-chairwomen are west end residents. This is a national, pioneer organization in volunteer crime prevention. Its strength stems from neighborhood and block-street involvement. The local police force meets regularly with neighborhood groups. Aggressive representation by aldermen within the neighborhood on the city level and representation on the state level was instrumental in revitilizing our community. Through such representation, the mayor of St. Louis was made aware of neighborhood needs and recently created the Community Development Agency, whose first head was the past alderman from the Skinker-DeBaliviere area. This agency has played a vital and rejuvenating role in neighborhood rehabilitation and renewal.

Our hearing this past November for preliminary approval for a state charter for the Central West End Savings and Loan Association fulfilled the requirements of the Community Reinvestment Act as stated in section four, part three, which directs that such lending institutions should demonstrate community support. We received solid endorsement and support from the mayor of St. Louis, the treasurer of the State of Missouri, state representatives and aldermen, as well as numberous business organizations devoted to the area, including the local bank, churches, and both Washington and St. Louis Universities which are located in or near our primary market area. All explicitly endorsed the idea that such a lending institution was needed and could derive support from the area. The fact that it would be controlled by local area and business residents was emphasized as a positive factor.

Previously, our only lending resource was chiefly two commercial banks whose main interest is not home financing. But through the persistence of our political representatives and our local real estate agents, of which I am one, who are residents of the area, savings and loan institutions were made more aware of the lending needs. In the past, it had been extremely difficult to obtain mortgage financing from these institutions. Just this past November, the St. Louis Post Dispatch had an editorial and corresponding cartoon which showed the noose of mortgage loan red-lining around the city. In recent years there was a great disparity between city and county lending practices which was documented by the Phoenix Fund report. The chief executive officer of a large, regional savings and loan association which has been increasingly responsive to the city's needs, testified in our behalf at our November hearing. Loans are now being made on a more balanced scale, looking to the capacity of the person seeking the loan rather than the location of the house in the city or suburbs. This past February, the Federal National Mortgage Association, the government-chartered secondary market for residential mortgages, has committed twelve million dollars in home mortgages in St. Louis neighborhoods.

We feel that city savers should deposit in institutions sensitive to their needs which is directly addressed by the Community Reinvestment Act. All the governmental, financial, educational, and community support for us has emphasized that such a savings and loan association should be controlled and directed by residents of the area who understand problems and other factors critical in that specific area's growth and improvement.

The involvement of two major universities in our area and a major redevelopment of Washington University's hospital complex has generated extensive real estate activity along with private redevelopment groups. There is now over two hundred million dollars worth of redevelopment activity in our primary market area.

The emergence of a savings and loan association such as the Central West End association which is controlled and directed by area residents and businessmen, can be viewed as an organic growth from such cellular, neighborhood, community active groups as have been described. The two monthly, neighborhood newspapers with volunteer staffs that have emerged within the past five years, have viewed the local control of a savings and loan institution as adding another dimension to all our efforts to preserve and enhance city living. The Community Reinvestment Act further directs our efforts to preserve the quality of city life.

An important part of this bill should greatly emphasize the need for communication and co-operation between the local, financial lending institution, such as a savings and loan association, and the various community groups that are the cornerstones of that area's life and continued growth.

Such a bill as The Community Reinvestment Act is vital to the survival of the cities by focusing on serving housing needs of a neighborhood and reinvesting a certain amount of its deposits to insure continued growth of that very neighborhood which is a major deposit resource. The success of such financial institutions as outlined in your bill, and as specifically seen in our proposed savings and loan association, is commensurate with the control of it by area residents and businessmen who have a commitment to the area, and understand the problems and other factors crucial to the area's improvement. The critical importance in the communication and input received from an ongoing communication between such a lending institution and community neighborhood groups cannot be overestimated. Such groups, through their active loyalty and commitment and promotion of the central west end neighborhood, have completely turned around and revitalized the area. It is also happening in other neighborhoods nationally. This is a chief key to urban revitalization. We feel the Community Reinvestment Act can be a major factor in the continued growth of healthy, urban neighborhoods. Thank you for giving us the opportunity to express our support of such a vital bill.

TESTIMONY PRESENTED BY THE INCORPORATORS OF THE PROPOSED CENTRAL WEST END SAVINGS AND LOAN ASSOCIATION, ST. LOUIS, MISSOURI. CONCERNING THE NEED TO LEGISLATE A NATIONAL POLICY RELATING TO COMMUNITY REINVESTMENT OF RESOURCES BY FEDERALLY INSURED BANKS AND SAVINGS AND LOAN ASSOCIATIONS.

TESTIMONY FOR THE COMMUNITY REINVESTMENT ACT, SENATE BILL 406

SENATOR WILLIAM PROXMIRE, CHAIRMAN

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

MARCH 25, 1977
DIRKSEN SENATE OFFICE BUILDING, ROOM 5302
WASHINGTON, D.C.

Senators:

We offer these remarks both as Incorporators of the Central West End Savings and Loan Association as well as being concerned residents of a large American City. The urban neighborhoods which constitute our primary service area are characterized by resident promoted revitalization, enjoying a strategic location at the center of a large metropolitan area, and having a rich historical and cultural heritage. These neighborhoods contain a sound and virtually irreplaceable housing stock in need of a continuing infusion of new and caring residents willing to invest the financial resources necessary to promote the systematic rehabilitation which will maintain their inherent viability. In addition to its residential qualities the area has located at its peripheries two noted private Universities as well as a large University affiliated hospital-medical school complex. Financial resources must and should be made

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available to those persons choosing an urban way of life. Therefore, we view the criteria as set forth in the Community Reinvestment Act as specifically applying to the community forces and needs which led to the organization of our proposed Central West End Savings and Loan Association.

We speak not only for ourselves but also for potential residents of this Central West End community who have been constantly frustrated by the past lack of understanding as to the inherent value of this area by St. Louis lending institutions. The Community Reinvestment Act recognizes, as we do, that a vital urban neighborhood such as the Central West End of St. Louis, as well as many other such neighborhoods nationally, provides an attractive, exciting and cosmopolitan alternative to suburban living. In addition to offering an effective means to counter act the negative and costly forces of urban sprawl which have flourished in our country for the past quarter century. The stability of such areas should and must be insured if a very important element of American society, namely city living, is to be preserved.

We are convinced that community oriented financial institutions should play a vital role in maintaining the stability of such urban neighborhoods as well as realizing profitable lending opportunities resulting from existing and potential investments located within these areas. Consequently, as concerned residents and businessmen who are committed to our Central West End neighborhood, we decided that we could most favorably support this area through establishing as a result of our own efforts a Savings and Loan institution at the neighborhood, grass-roots level which engenders solid community support as well as educates, informs and serves to broaden the base of the home lending industry. Establishing such a neighborhood-oriented and supported Savings and Loan Association parallels what we feel to be the thrust of the Community Reinvestment Act, which is an exciting and practical attempt to guide and encourage financial institutions to lend in urban areas where a majority of these institutions have previously refrained from reinvesting resources in a manner which serves the best interests of the community in which these institutions are located.

Through the years the Thrift Institution and Banking Industries have provided a cornerstone for economic growth and have served as an important vehicle for improving the quality of American life. Neighborhood oriented and controlled lending institutions are vital to orderly and profitable future commercial growth in this country as well as providing the resources to expand and improve housing facilities. People in our greatly rootless American society can personally identify with and be committed to a local neighborhood institution, especially one which encompasses such a unique and intense community spirit which is inherent to its own existence. The orientation and focus provided by neighborhood financial institutions is consistent with the overall well being of our entire money market system since the banking industry nationally must rely on the cellular support of local institutions for its foundation and basic strength. A national policy based on this commitment to local neighborhood reinvestment should be formulated to lead banking institutions to attain this necessary life in our great American cities.

The provisions of this Bill requiring lending institutions to examine the deposit potential and lending needs of the communities in which they are located is of critical importance to the viability and execution of a national goal of community involved financial institutions. Another positive force which could result from implementation of this legislation would give rise to increased competition among financial institutions. Policies established as a result of the passage of the Community Reinvestment Act hopefully would encourage the formation of more responsive lending institutions which would serve to retard the development of large centralized banking institutions which often lead to a noncompetitive and unfavorable concentration of financial resources. It is our belief that the principal impetus of this legislation should require regulatory authorities to investigate and give reasonable consideration as to whether existing or proposed financial institutions are utilizing or will fully utilize sound reinvestment opportunities which exist within their market areas prior to granting permission to establish additional facilities or granting new charters.

We have examined the provisions of this legislation, and in our opinion the criteria established are reasonable; and that these provisions are capable of being fulfilled not only by us in our primary service area but by other financial institutions as well. We feel that the primary market area where our deposit facility is to be located will be a drawing source for the bulk of both our savings and lending customers. Our application for a Savings and Loan Association charter has analyzed the deposit and credit needs of the primary market area, and we feel we can successfully and profitably satisfy these needs. Our statistical projections indicate that a major portion of consumer deposits obtained from our primary service area can be soundly reinvested in that area. Therefore, permit us to reinforce the concept that Senate Bill 406--as submitted--properly places principal emphasis on the encouragement of seeking out sound reinvestment opportunities as opposed to regulated or imposed quota percentage reinvestment of capital resources. As it is our opinion that such a regulated imposition would be contrary to the basic principles of our Free Enterprise system. Therefore, we urge you to maintain the emphasis on encouragement as opposed to regulation. Also it is our considered opinion that caution should be taken to specify that any reporting requirements established in this law be as minimal as possible and not lead to an unnecessary expansion of the extensive reporting burdens currently imposed upon regulated financial institutions.

We have formed what we consider to be a nucleus neighborhood Savings and Loan Association which will serve as a model nationally for policies affecting such lending institutions. We note that the Central West End Savings and Loan Association will be the first such financial institution chartered in twenty three years in the St. Louis metropolitan area and only the second to be chartered in the past twenty years in the State of Missouri.

We recognize that in the final conclusion no institution can be required to originate and pursue unsound lending policies. However, a lending institution situated in an urban community, dedicated to the needs of that community and controlled by interested members of that community can be mutually beneficial and profitable to the neighborhood in which it is located as well as to the institution itself. We applaud this proposed legislation whose goal as introduced is not directed toward the regulation of lending institutions or their policies, but provides a reasonable framework to encourage institutions to develop a greater understanding of the communitites in which they exist through the close identification and support of one with the other. It is also appropriate that the Federal Government utilize its considerable resources, prestige and power to provide the impetus for formulation of a committed national policy of urban reinvestment and neighborhood preservation.

We as the Central West End Savings and Loan Association will provide a grass-roots example of a community involved financial institution as is envisioned in this legislation, such as can exist and grow throughout the United States serving to strengthen the roots and broaden the scope of the Savings and Loan and Banking Industries. The goals of the Community Reinvestment Act can be accomplished within sound lending practices, and we enthusiastically support the passage and adoption of this legislation to insure specific urban neighborhood stabilization and the sound financial growth of our nation.

Respectfully Submitted:

Thomas A. Scatizzi, Chairman
Board of Incorporators
Central West End Savings and Loan Assn.
(Proposed)

4440 Lindell Boulevard #1003
St. Louis, Missouri 63108

Central West End Savings and Loan Association—Proposed St. Louis, Mo.

3.0 MORTGAGE POTENTIAL IN THE PRIMARY MARKET AREA

The anticipated potential volume of mortgage activity for each of the first three years of operation of the institution has been estimated by a method discussed in 3.1 below. The mortgage estimates for the Primary Market Area as a whole are disaggregated for each of the four sub-areas previously identified.

3.1 METHODOLOGY OF DETERMINING POTENTIAL LOAN DEMAND

Table 4 summarizes the estimated potential mortgage demand in the Primary Market Area for the period 5/75 to 6/76. From each sub-area, a representative sample of blocks was selected for detailed analysis. From this analysis, residential sales activity for each sub-area and the primary market area was identified.

For each sample area, a total number of property transfer transactions for the past 3 years (5/73–6/76) was recorded from the plat book records in the City of St. Louis Assessor's office, Real Estate Department. The total number of structures for each sub-area was determined from the Sanborne maps and a thorough familiarity with the areas being analyzed. These two sets of data permitted the development of a ratio (number of transactions: number of structures) which could then be applied to the area as a whole. The resulting ratio permitted the determination of the total volume of property transactions which could represent bankable mortages for each sub-area and the entire Primary Market Area. A factor of 10% was deducted from this figure to account for transactions where no sale was involved (title transfers and foreclosures) to yield an *estimated total volume of property transactions.*

In estimating the *dollar volume of transactions*, an average property transaction dollar amount for each sub-area was determined. The average transaction dollar amount was derived from information provided by:

1. Comparable data files of residential sales compiled by the American Society of Appraisers for the Primary Market Area.
2. The working knowledge of realtors active in the Primary Market Area.
3. Information provided by the Washington University Medical Center Redevelopment Corporation.

3.2 ASSESSMENT OF POTENTIAL LOAN DEMAND

The annual estimated potential demand for mortgages in the Primary Market Area is estimated at approximately $22,000,000. To estimate the proportion of this amount which the proposed Central West End Savings & Loan Association can be expected to capture, 50% of the total property transaction volume was projected to be absorbed by other institutions (i.e. other Savings & Loans, Commercial Banks, Insurance Companies). Approximately $11,000,000 in tranactions was therefore estimated to be a realistic potential total dollar volume of mortgages relating to the proposed Association. Assuming a 25% standard down payment, the actual mortgage demand in the Primary Market Area available for service by the Central West End Savings & Loan is estimated at about $8,250,000. (See Table 4).

TABLE 4.—ESTIMATED VOLUME OF PROPERTY TRANSACTIONS IN PRIMARY MARKET AREA, BY SUBAREA (MAY 1975–MAY 1976)

Area No.	Estimated number of transactions in subarea (May 1975–May 1976)	Average transaction[3] price per property	Estimated total annual volume of transactions for May 1975–June 1976
1	244	[1] $40,000	$9,760,000
2	139	[1] 28,000	3,892,000
3	153	[2] 10,000	1,530,000
4	316	[3] 21,500	6,794,000
Totals	852	24,875	21,976,000
Less 50 pct to be absorbed by other institutions			10,988,000
Less 25 pct for downpayments			8,241,000

[1] Average price based on appraisal data and general knowledge of area.
[2] Washington University Medical Center Redevelopment Corp.
[3] Other sources: Plat books, city assessors office, City of St. Louis and U.S. Census, 1970.

Note.—The figures for areas 1 and 2 have been modified to take into account a more representative sample of housing types. The average price of transactions for area 3 was estimated by the Washington University Medical Center Redevelopment Corp. staff, who are very familiar with the area and its transactions as part of their everyday activities.

The CHAIRMAN. I would like to call Mr. Crawford and Mr. Brooks' attention to the last sign we have over here. This indicates the beautiful music that we see on TV about how your institutions service the communities.

This is a savings and loan foundation. Music under. It begins,

What does it take to start the wheels of American industry rolling? It takes machines, men, money. That is where the savings and loans come in. Money you save with us goes back into your community in the form of home loans.

It shows the typical house in a city, row house.

The savings and loan commitment to housing generation, over $100 million a day. For jobs, goods, and services, help keep America rolling by having your savings and loan account at your savings and loan.

Music then ends.

Soft violins playing put us in the mood for feeling that this is a message of truth and message that paints a beautiful picture of what happens.

[See illustrations printed on pp. 319 and 320.]

The CHAIRMAN. Mr. Crawford, according to data released by the New York City treasurer, your institution has the lowest percentage of its assets reinvested in New York City of any of the large New York banks. One small savings bank, Immigrant, is lower, with 7.1 percent.

Most of the others reinvest 20 and some over 60 percent. What is the reason for your policy? Do you consider New York a poor risk?

Mr. CRAWFORD. I do not consider New York a poor risk. I think New York is still the greatest city in the world, and I think it has a good future, Senator.

I am not quite sure of the figures you are quoting from the city treasurer. I am not aware of them. Perhaps I should, if you want to talk about Bowery Savings Bank, tell you a few of the things that we have done.

In the first place, back as far as 1956 our bank established an office in Harlem, the first one in 50 years, and built in connection therewith an apartment house, 200 units, which is still, and has always been, fully occupied.

The CHAIRMAN. What year was that?

Mr. CRAWFORD. 1956.

In 1968, long before the concerns that are so widely expressed today, Bowery Savings Bank in New York, having tried for years to do something in the really deteriorated areas of the city, undertook a turnkey program. By that, I mean we actually became developers of the low-income area in South Harlem, Brooklyn, the lower east side. We actually acquired properties, tenaments that were burned out, and we in the first instance built an apartment of 50 units, 123rd Street of New York City.

We had no commitment from any Government Agency to take us out of that, ultimately. We had a mere handshake from the public housing authority that they would buy the property back.

We constructed that first apartment house in 13 months—from the day we acquired the property to the day it was ready for occupancy. The public housing authority told us it takes them 7 years to accomplish the same result.

We went on from there with other banks and insurance companies. When the 236 program and other funds that were available were taken away from us in 1973, we had at that time built 1,000 new units of housing. That is a considerable portion of the new housing in the deteriorated areas of New York that were built by anyone.

The CHAIRMAN. You are making a good and thoughtful response, but it is not a response to the question I asked. My question was the proportion. The fact is, you are the biggest bank of your kind, savings bank, in New York. Very large bank, $3.7 billion. And the percentage, proportion that you invest in the commmunity is less than any of the other large banks.

The question is—you have done things obviously. With that colossal amount of capital, you are bound to be making some local investment. We do not deny that. I want to know why it is so low.

Mr. CRAWFORD. I do not know what figures you are talking about there, but the Bowery Savings Bank made the largest investment in the bonds floated to bail out the Urban Development Corporatiton. We just completed that operation in New York, as you know, and the savings banks have, by making an investment of $240 million, made possible a saving of 20,000 units of housing that the UDC is building.

It is far from being the low investor in that area. We have by far the largest amount invested of any savings bank in New York.

The CHAIRMAN. You are the biggest. The point I make is that you have total deposits of $3.762 billion, as of the end of 1975. And as of the end of 1975 your New York City mortgages were $477 million, which was 11.8 percent, which was less than any of the other banks.

Mr. CRAWFORD. I didn't hear that last figure.

The CHAIRMAN. 477 million was the dollar amount of New York City mortgages at the end of 1975 and the total percentage of the total percent was 11.8 percent.

Are those figures right or wrong?

Mr. CRAWFORD. That may be right. I don't recall. As you know, New York City, the total assets of the savings banks are something near $50 billion.

Traditionally, the large Brooklyn banks and others have concentrated in the one-family home lending in the Brooklyn area. We have done what we have in the branch areas that we have, and we only recently have had branches in that area.

The CHAIRMAN. You have Manhattan banks. You have Drydock, 23 percent. You have Empire, 45 percent. You have Greenwich, 37 percent. You have Manhattan, 20 percent. You have New York Bank for Savings, 30 percent. You have Union Dime, 15 percent. United Mutual, 40.6 percent.

Yours is the lowest.

Mr. CRAWFORD. Yes. There is a division of labor. If we were to put all of our funds into housing——

The CHAIRMAN. I'm not asking for that.

Mr. CRAWFORD. I don't think the market has suffered. Also there have been initiatives in other housing-related areas that have been substantial.

The CHAIRMAN. Isn't the lending record of your own bank proof that we need reinvestment initiatives, so that banks will give priorities to the communities where they draw their deposits?

Mr. CRAWFORD. I don't think so.

The CHAIRMAN. Do you have proposals to encourage mortgage investments in areas where you have depositors, to encourage building or home loaning?

Mr. CRAWFORD. We have established branches in the Long Island area in the last 3 years.

We pursue mortgages in that area. I have told you about our efforts in connection with the new housing.

The CHAIRMAN. That is the suburbs.

Mr. CRAWFORD. There aren't many one-family homes in Manhattan for one thing. We have recently had an office open in Queens and we are lending money there. We are lending money in New York City, whenever we have the opportunity to make a sound loan, whether it be a one-family house or apartment house or any other kind of loan in the city of New York.

The CHAIRMAN. Well, I certainly don't mean by these statistics to be at all critical of you or your bank.

It has a marvelous reputation. And it is a well-deserved reputation. I'm saying it seems that this bill should be useful in providing a criteria for you and your bank which, as I say, although it has done many fine things, seems to be lagging behind in local community investment. And I don't have—you apparently don't have a specific program for New York City. Mr. Brooks, you say on page 2 of your statement that application for charters and branches, the bank board places a heavy burden on the applicant to justify the credit needs of the community to be served.

Just what is that heavy burden?

Mr. BROOKS. Mr. Chairman, there is an extraordinary amount of materials, paperwork, studies, feasibility studies, et cetera, a lot of it on the mortgage data and construction and housing in the particular area that you are going in.

I have four offices in my association. I'm an average size association in Richmond. I think I have a typical size association for the country. I have in my briefcase, a copy of the files from the day I incorporated Security Federal 20 years ago.

We have been serving the public and our community since that time, excellently.

The files, getting back to the question, the file of incorporation, and looking at the last branch we got, it has gone from thin to voluminous. Where is it going to stop? But the point is that the Federal Home Loan Bank Board and Federal Home Loan Bank of Atlanta do require us to do extensive work to justify going into a particular community.

The CHAIRMAN. Let me make two points then. Let me quote Daniel Goldberg, who is the bank board's general counsel, in a speech to the U.S. League. He said: "I recognize that branches are established primarily to attract savings." Primarily to attract savings. He doesn't say primarily to attract savings and then meet credit needs by lending the money. Isn't this the real message you get from the regulators under existing law and practice?

How much do they care about where you are providing credit?

Mr. BROOKS. It naturally follows the credit needs will be met. Let me say this to you, I look on my association as perhaps a manufacturing corporation, if I may, and money is my raw material, and I have to get it.

If I don't get it, I don't supply the end product, credit.

I think Mr. Goldberg's statement, and I'm not too familiar with it, but hearing you repeat it, is aimed at that particular situation.

We have to get the money first, sir, before we can lend it.

The CHAIRMAN. I understand that. If you get the money, if you don't make it available to the community, that is my point.

Let me point to the forms, Federal Home Loan Bank forms, required items, check lists for permission to organize. There is a list of requirements. It is a detailed list.

It requires a great deal. It would be simple to take this form and without any significant additional burden, make this form comply with this particular bill.

It won't take more than a few computations to provide the credit information. However, there is nothing on this form that we can find, and we have gone through it carefully, that requires the information with respect to meeting credit needs. They have proposed saving service area, local savings, proposed operations, office location, so forth.

But I don't see that the regulators now are requiring you to provide credit information.

Mr. BROOKS. Mr. Chairman, again, in the file and I would be glad to supply copies of anything you want from my own files to the committee, believe you me, there is plenty of information there about credit. Let me go one step further. I happen to have a copy of the letter from the Federal Home Loan Bank of Atlanta to Mr.

Blumenauer, who is the president of Columbia Federal Savings & Loan Association here in Washington. This is one example where they requested more "credit needs" documentation from a branch applicant. The letter says: "Please also indicate the expected mortgage volume on the annual basis for the proposed office."

I state this because the Home Loan Board does ask for it.

The CHAIRMAN. Mortgage volume, but not in the service area. That could be anywhere.

Mr. BROOKS. For the proposed office. That is implied.

The CHAIRMAN. No, the proposed office could make mortgage loans in California or Florida.

Mr. BROOKS. But that is not how we read it. I don't lend in California from my Willow Lawn branch.

The CHAIRMAN. You have connection in California?

Mr. BROOKS. I made $30 million worth of loans last year. Of the money, $13 million came from the secondary market. It came from other associations into the Richmond market. We are supplying the community need.

The CHAIRMAN. I don't object to your making loans out and this bill would not inhibit that. But it says that you should provide for the necessary needs of your local community.

That is what the bill would provide.

Mr. BROOKS. We are doing that.

The CHAIRMAN. If you make loans in Florida and California, there is no objection to that. I'm not saying you have to have 95 or 100 percent of your loans in the local community. You might have 50, 40, 30, or less. If the situation in the local community was fully met, you may have less.

But that is one of the criteria which the examiner would look for—regulator would look for.

Mr. BROOKS. You will find that the situation in most communities are like that.

Steps are being taken where the deficiencies occur. This problem wasn't created overnight. We are trying to meet the deficiencies. To put in legislation—I testified before you on RESPA, and you know what a problem that was——

The CHAIRMAN. I was never in favor of RESPA. I was opposed to it. It was Senator Brock's bill.

We repealed part of that bill.

Ms. Hamilton, you testified that yours is the first new savings and loan in St. Louis in more than 20 years.

Ms. HAMILTON. It is the first charter application in 23 years in St. Louis and 17 years in Missouri.

The CHAIRMAN. It is astonishing.

Ms. HAMILTON. It is.

The CHAIRMAN. Did you find that the older neighborhood had difficulty in obtaining mortgage credit from the older established savings and loans?

Ms. HAMILTON. Yes, and I'm a real estate agent also, and I did find that. For 7 years we have had a problem in educating lending institutions to lend in this area.

They are more responsive now.

We had the executive of a major savings and loan association testify in our behalf. It is because we have been persistent in trying to get the education that was needed to these savings and loans.

We are a grassroots organization, and I think we could be a national example of what can happen with such a bill as this to neighborhoods to help themselves.

This is why we are so elated about this particular legislation.

The CHAIRMAN. Mr. Crawford, your testimony emphasized how much the mutual savings and loans are doing for their communities voluntarily.

Some lenders are meeting community credit needs and the two folks on your left are examples of that in St. Louis. They will be doing that.

Mr. Cooke and Mr. Grzywinski, two other witnesses from this morning are models of what imaginative lenders can do. Except for a relatively small number, others do not seem to care.

Look at the lending statistics for Brooklyn. One small savings bank, Green Point is providing more mortgage credit in Brooklyn than the other six Brooklyn Banks combined. Green Point Bank's assets are $868 million. The others have more than $9 billion. Shouldn't we send those other banks a message to do better? Isn't that what this legislation would do?

Mr. CRAWFORD. I would like Mr. Quinn to answer that question.

Mr. QUINN. I assume in your statistics you are referring to the report of the Public Interest Research Group, which was made on seven savings banks in Brooklyn.

The CHAIRMAN. That is right.

Mr. QUINN. First of all, the data was just for the year 1975. It ignores completely the total mortgage loan commitment by the remaining six banks. The report also leaves out three other major banks in Brooklyn, who meet the same size criteria reported to be the criteria used by the Public Interest Research Group. This leads to the next question, as to whether or not their allegations would not have been as well founded if they included those three banks.

In terms of the commitment to Brooklyn of savings banks mentioned in the report, one of the banks brought to task by that report has, in fact, 44 percent of its total mortgage portfolio in Brooklyn and derives only 43 percent of its total deposit base from Brooklyn.

I might also add in my own bank's case—I have 10 branches—five of them are in Brooklyn. In the year suggested by the report, three of those branches lost money. There is no reference to that in the report.

In addition to which, during that year and well before that year, dating back to 1967, the Brooklyn savings banks have, including the five or six banks in the report, have, in fact——

The CHAIRMAN. Let me interrupt to say that you relate the percent of deposits to loans.

Mr. QUINN. I did that because that is what the report did.

The CHAIRMAN. That is what the bill would do.

Mr. QUINN. Does the bill mean I should disinvest in the other three areas——

The CHAIRMAN. Of course not. This would be one crude, rough overall guide. But it wouldn't be the determinative factor. As I say, you could get 100 percent of your deposits in the community and lend 3 or 4 percent there, if it could be shown that the investment opportunity was being fully met.

Mr. QUINN. It seems difficult, Senator, as one of the witnesses mentioned before, to describe the community which the Brooklyn Savings Bank serves.

The CHAIRMAN. Let me take your bank.

Mr. QUINN. Did you say the Brooklyn Savings Bank in 1975, the year covered by that report, increased their mortgage portfolio net by $30 million?

I'm sorry. Some $40 million. Of that $40 million, $31½ million went into New York State. More than 75 percent of it was invested in New York State. Over 50 percent—$20.6 million—of that net increase went into the five boroughs of New York City.

The CHAIRMAN. Let's take your bank, the Brooklyn Savings Bank with $1.1 billion in assets. You made 52 loans in Brooklyn during 1975.

Green Point Bank, a smaller bank made 722 loans in Brooklyn or about 15 times as many. That certainly proves the demand is there.

What is so objectionable about Brooklyn?

Mr. QUINN. It proves the demand was there for the Green Point's area, in particular. It does not prove that we have not met the community need, when we have invested over 50 percent of our total mortgage increase in that year in the five boroughs of New York. Are we limited to Brooklyn as our community? Would this bill suggest that New York City, the rest of New York City should suffer?

The CHAIRMAN. I am asking the question.

Mr. QUINN. There is no way to respond to the question of whether or not the demand is there. If you extrapolated the same percentage that the Green Point invested to their total assets in Brooklyn and tried to have all of the other savings banks to do the same percentage, there wouldn't possibly be enough demand.

The CHAIRMAN. Most of the Green Point loans were not made in Green Point. Only 22 were made there. They were made in other parts of Brooklyn. They were made at the far corner of Brooklyn from Green Point—36 in Canarcy, 34 in Ryder, 29 in Homecrest, 23 in Grave's End, 14 in Bath Beach, and so on. They are made not in Green Point. They were made elsewhere.

Again, I'm not saying that you shouldn't make loans elsewhere. You should.

I'm saying when you compare these, it looks as if this bank was more aggressive and active and serviced its community more effectively than your large bank did.

Mr. QUINN. I don't necessarily agree with that. Our bank specializes in large high-rise apartment houses—multifamily dwellings.

Green Point does not. We consider ourselves more specialized in that area. I maintain once again that more than 50 percent of our total mortgage increase for the same year referred to in the Public

Interest Research Group report went into the five boroughs of New York. That is still serving the community. Over 75 percent of the total mortgage increase went into the State of New York.

I submit if you extrapolate those figures in terms of the savings banks in the city you will find they are serving the community. In the 10-year period from 1965 to 1975—which is the year covered by the report—the savings bank investment in New York City increased by over 60 percent.

The CHAIRMAN. New York State is a large State. It is 18 million people. New York City itself has what—8 million people? It is an enormous city.

Your community is Brooklyn. You are the Brooklyn Savings Bank. A great proportion of your deposits come from Brooklyn. I'm sure you get deposits from elsewhere. Much of your deposits come from Brooklyn. The contrast, in this case, your bank is not serving that community, where you are located.

Mr. QUINN. You can't take the current deposit flows in any 1 year and say we are not serving the Brooklyn community. A large base of our deposits are in Brooklyn. A large base of our existing mortgages are in Brooklyn. The increase in our deposits in the last 5 years has come from outside of Brooklyn. We have served those communities from which the new deposits have come. I do not agree that we do not serve the community where we have our deposits.

The CHAIRMAN. You have testified that existing statutes already require the regulatory agency to take into consideration community credit needs in determining whether to approve branch applications. Have either one of you ever heard of any case where one of the regulatory agencies rejected an application, or required the applicant to make a greater loan commitment on the grounds that the proposed facility would not be sufficiently attentive to the community credit needs?

Mr. CRAWFORD. Before I answer that may I amplify what Mr. Quinn said?

I have tried to get at this by answering your first question. When you have the kind of concentration of deposits such as we have in the New York City savings banks, there is necessarily a division of labor amongst them. The Green Point, the Dime, others, have concentrated almost exclusively on the one-family home.

Mr. Quinn says his bank takes up the great deal of demand in the multifamily area and so do other banks, including the Bowery.

There are things that have to be done in the community. We have to have office buildings, shopping centers, all kinds of facilities. Many of the large banks like the Bowery have had to pick up that type of lending—which the smaller banks cannot do.

You mentioned 11 percent. 11 percent of $4 billion is still a sizable amount of money. If you were to try to relate the source of deposits with the source of loans, it is a very impractical thing to do.

In the 18 months, years 1973 and 1974, Bowery Savings Bank had a net deposit outflow of $300 million. This was generally the situation of all of the banks in the metropolitan area. Their mortgage lending, be it shopping centers, apartment houses, one-family houses, continued undiminished.

If we had gaged our lending on the amount of deposits we had received from any given community then——

The CHAIRMAN. I'm not asking that. Perhaps we should have language in the bill that would make it clear that that isn't the purpose of the bill. Can you answer the question as to whether you can cite a single instance where the regulator rejected an application or required the applicant to incorporate a greater local commitment on the grounds that they weren't serving the local communities?

Mr. CRAWFORD. I have no knowledge of that. We are not told why a branch application is turned down. There are branch applications turned down. It could be on that basis. I would say this, that the New York State Banking Department requires the trustees of each bank to form an audit committee each year to have an examination of the bank.

There are a number of questions which our banking department requires to be answered. One of those is how are you serving the local community's need for housing? That matter is gone into by our own trustees, and by the examiners who come in to examine our operations and our lending. We have never been criticized for *not* pulling our weight in that respect.

This is one example where the State supervisor constantly asks whether we are working on the community needs.

Mr. BROOKS. I have two aspects of that in answer to your question, sir. First of all, one of the items in the criteria for establishing the savings and loan association, as you know is, is there a need or necessity for the institution?

Now, admittedly, it doesn't say deposits or credit. We are charged by charter to be thrift and home financing institutions. So the Federal Home Loan Bank sees a need for both. I have heard time and time again—I can't document it here, but I can later—of associations being turned down because of lack of need, lack of necessity. It hasn't been broken down as to whether it was lack of need for deposits or lack of need for credit.

But, nevertheless, I feel that associations have been turned down because there was not a credit need. Now, I mentioned Mr. Stewart from Norfolk and I also mentioned he is the president of a minority association. There is a lesson here. He serves central Norfolk. I believe the supervisory agency of the Federal Home Loan Bank Board approved this association primarily for the extension of credit, not deposits.

The CHAIRMAN. My question is whether or not an application was turned down because there was a finding that the institutions *did* not propose to meet community need for credit and therefore would not be allowed to branch.

Mr. BROOKS. I don't know of any case that has been turned down for that.

The CHAIRMAN. That is the answer?

Mr. BROOKS. No.

The CHAIRMAN. They ought to do that once in a while.

Mr. Brooks. With the kind of surveys we have to give, if we couldn't prove that, we wouldn't put the application in. In the savings and loan business, they require us to document that there is such a need and that we are serving the community.

The Chairman. But with all of the S. & L.'s we have in this country, with all of the branches we have in this country, you would think—and with the delinquency in some cases, I don't make charges with respect to anyone here today, but we know there are institutions that don't meet credit needs.

Everybody who has testified, even the spokesman for the ABA, admitted that. Yet, there hasn't been anyone that we can find who knows of a bank that was turned down because they failed to meet the credit needs.

Mr. Brooks. The administrative aspect of our business could be improved, but I don't think it takes a law to do it.

The Chairman. Mr. Brooks, you say, we really want to penalize an institution located in an area that becomes blighted due to factors beyond its control, by denying it the opportunity to relocate. The answer to that is, yes. Look at the witness who preceded you. Mr. Grzywinski's bank wanted to relocate to get out of the blighted neighborhood. That is when it was under different ownership. But the only ruling of this kind, the Comptroller said it would deprive the community of needed services.

Mr. Grzywinski got the bank and that bank has been a prime factor in that community's revival. But you think the bank should be able to move to more lucrative opportunities.

Mr. Brooks. Each case is different. Perhaps in the Chicago case, there was a need for that. In other areas, I would be willing to say a savings and loan, if it remained, could not do what seems to be demanded here this morning.

The Chairman. The people who had the bank before thought that. But Mr. Grzywinski, however, made it fly. As he said, he had meetings in cellars and in neighborhoods. He went out aggressively and fought hard to get the kind of business that would make his bank move and it did. It is a profitable bank. It makes a 14-percent return.

Mr. Brooks. In that case, it is correct. But we are reasoning from the specific to the general here. It seems to me to get an overall picture we should get other cases.

The Chairman. I think that is right. There are cases undoubtedly where a neighborhood is in such a shape that you would have to permit the bank to move out. I think it should be a consideration. That is all this bill would do.

Mr. Brooks. I don't think you need a law to do it.

The Chairman. It is not being done now.

Mr. Crawford. The deputy superintendent of banks has said no proposal for solving the problem is worthwhile because the effect of the problem has not been defined. This is an issue we are dealing with here. These two people are talking some fine ideals, but I note this is a proposed organization, and I wish them well.

Here is the deputy superintendent of banks saying that for more than a year and a half they have been actively involved investigating the problem of checking the mortgage credit in New York State, particularly, the charge that banks redline or discriminate against borrowers on the basis of where their property is located. He goes on to explore ways that this problem can be dealt with through incentives and initiatives under way, and so forth.

He concludes that because the department is in a process of preparing a report on mortgage financing in New York State, based on the study of data derived from the disclosure information, it is not prepared to make recommendations at this time, as to what specific actions would be most effective in New York. I submit to you that this problem has not been properly defined.

There has never been yet, to my knowledge, a conclusive argument made that there are effective mortgage credit demands that are unresolved in New York City—or anywhere else. Now, we all have black hats and white hats. We are not all perfect and we don't live in a perfect world. But, there are serious initiatives that are being experimented with in New York and Boston and elsewhere. We have put together for the first time this enormous amount of data on where the loans are being made and in what amounts.

I feel myself embarrassed to come before this committee for the first time and take a negative attitude. I have been here supporting, over the last 12, 15 years, legislation that I think is supportive of housing. I submit to you, I think a little breathing spell, a little time to analyze whatever we can get out of this enormous amount of data, would be worthwhile before imposing on the banks these additional burdens, and I might add, imposing further burdens on the regulatory agencies.

The agencies now are strung very, very thin in terms of their examining staff. I just learned yesterday that in New York State, for example, there are 60 unfilled positions for bank examiners and we know why that is. It is not an attractive job. The pay is not very good.

If we add on them—until we are sure this kind of legislation is necessary—further additional burdens, I think it is going to make our supervision less effective. I don't think the case has been made that this kind of an approach will solve the problem that we all know exists.

The CHAIRMAN. You say the problem exists. I am glad to hear you say that.

The problem exists.

We have seen that Mr. Cooke, who was our first witness this morning, and Mr. Grzywinski, have been able to show and established the fact that there are mortgage needs that weren't being met, that they were met because they got out and did the job of developing and making it possible for these people who weren't getting mortgage loans and wanted them and needed them.

We have the remarkable record of the banking commissioner in Massachusetts.

We have similar experience in California and Connecticut.

We had testimony on that before this committee on Wednesday establishing the fact that when the banking commissioner insisted on more aggressive action on the part of their financial institutions that they found again and again a great market not being met that could be met on a sound basis, not by making unsound loans, but on a sound basis.

We have a record establishing the fact that there is a market here, a need. You can see that there is a need. It isn't being met now.

That is what we mean by saying there is a need. It is not being met.

All we are doing with this mild and limited legislation is to provide encouragement, incentive, reward for those who do the job we all agree should be done and is not being done.

Mr. CRAWFORD. I have to correct my statement.

I think we can do a better job than we are doing now. But I don't think that this is the way to do that.

I would like to see these initiatives going forward now, have more time to bring on the effects we are all trying to accomplish without burdensome, additional paperwork which is costly and time-consuming.

I don't know how you go into a new branch and establish beforehand what the credit need is.

For example, we established a branch about 2 years ago on Long Island. We knew that there was a good deposit-gathering potential in that area.

Mr. Brooks pointed out that is the beginning of the process.

We then encouraged all of the community groups to come in. We had a public facility for them to use and it is used every single night of the week. They know we are there and they know we are anxious to make mortgage loans.

I don't know if you can huddle in basements and get mortgage loans, but——

The CHAIRMAN. It sounds appealing to me. That is the way you get votes.

Mr. CRAWFORD. We are not running for office.

The CHAIRMAN. You may not be, but you are hustling, letting the neighborhood know what you have to offer and what they can do.

You are not interested only in affluent people, but with everyone.

Your bank particularly. Your name signifies you are interested in people with modest incomes.

Mr. CRAWFORD. There is no question in my mind that the people of the city of New York know they can come to the savings banks and get a fair hearing.

In New York State, the savings banks, as of 1974, had $42 billion of mortgage holdings; commercial banks $13.4 billion.

The CHAIRMAN. The testimony of the banking commissioner of Massachusetts was that a great deal of loans for low income census tract areas were made with private mortgage lenders at much higher rates on terms which required much higher monthly payments because the term was shorter, much higher down payments in spite of the fact she said her experience was that the default rate was the same in all of the census tracks regardless of income.

Mr. SHAW. That figure is nearly right except that the commissioner's figures did show that 80 percent of the home sales, by her own figures—that she took for a period of a year—80 percent of those home sales were mortgages.

The percentage to which she refers going to other than banks was that some of the loans went to private mortgage companies. And I think in all of this we have to realize there are people who do not qualify credit-wise for mortgages.

Unfortunately, there are several companies operating who take these loans with no credit basis whatsoever. They take almost any loan immediately. It is a lucrative operation.

We are not turning these people away because we don't see them. We might have to turn them down, but we are not seeing these people at all.

The CHAIRMAN. I don't in any way deny the fact that you have to turn down some people who apply.

Mr. SHAW. We are one bank and one area where the regulator is over-sensitive to what we are discussing—Commissioner Greenwald. We do have to provide all of this information you saw in her testimony.

To this date she has not turned down an application for a branch.

I think this responds to the inference that you had in your question—we are getting looked at in this area.

The CHAIRMAN. That is a good point on your side. Thank you very much.

I want to thank Ms. Hamilton for testifying.

We didn't have very many questions for you because we agree more with you.

I think this is a fine record, and I appreciate it.

The committee will stand adjourned.

[Whereupon, at 12:55 p.m., the committee hearing was adjourned.]

[Additional material received for the record follows:]

Mortgage Bankers Association of America
1125 Fifteenth Street, Northwest, Washington, D. C. 20005 (202) 785-8333

April 13, 1977

Oliver H. Jones
Executive Vice President

The Honorable William Proxmire
Chairman
Senate Committee on Banking, Housing
and Urban Affairs
5300 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

The Mortgage Bankers Association of America (MBA) welcomes the opportunity to comment on S.406, the Community Reinvestment Act of 1977. It is our understanding that the bill would encourage financial institutions to meet the credit needs of the communities in which they are located. Specifically, the bill would provide that federal financial regulatory agencies require the institutions they regulate to review the credit needs of their local communities whenever approval was sought for mergers, federal charters, insurance of deposits, branching or any other relocation of deposit facilities.

An applicant would be required to designate the community boundaries, i.e., a "primary service area" from which it expects the deposit facility will draw more than one-half of its deposits; to analyze the deposit and credit needs of that community and how those needs would be met by a new charter or branch; to detail how much of the consumer deposits obtained from the primary service area would be reinvested in that community; and, finally, to show how the applicant would meet the credit needs of the communities in which it has already been chartered to do business.

<u>The Mortgage Correspondent System</u>

The mortgage correspondent system is a combination of mortgage companies that originate mortgages for sale to a diversified body of investing institutions, often remotely located from the mortgaged property. Mortgage funds flow through this nationwide system from surplus deposit areas to areas where the demand for mortgages exceeds the supply of savings. The correspondent system provides a vehicle through which the nation's homes and other real properties may be financed promptly and efficiently.

It evens out fluctuations in the supply of mortgage funds and it reduces the cost of mortgage credit by bringing competition into communities where mortgage demands exceed the supply of savings.

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S.406 would contract the correspondent system and, thereby,

1) make mortgages a less attractive investment by preventing investors, such as federally regulated depository institutions, from reaching out of their primary service areas for mortgage loans;

2) prevent the nationwide credit markets from competing with local lending needs by limiting the transfer of savings from areas of capital surplus to areas that are capital short; and

3) discourage homeownership and homebuilding by encouraging geographic differentials in mortgage interest rates and savings deposit interest rates.

Effect of S.406 on Savings Flows, Investment and Growth

Growing economic areas attract the development of new depository institutions and branches. Being growth areas, deposit flows do not equal credit demands and local borrowers must reach out beyond the community's borders for the funds needed. If the surplus areas are cut off or restricted from investing outside of their primary service areas, the growing areas will be stymied in their efforts.

Note that the surplus areas do not have an adequate demand and, if their surplus funds cannot be moved, they must pay savers less in order to reduce their supply of funds. Moreover, jobs created in the growth areas and in all areas where they must purchase the materials needed to expand would diminish in number.

When a growing area reaches maturity, it will pass through a period where its savings and credit demands are in balance. In this period, its financial institutions would not need and would not use the secondary mortgage market. Even then, the availability of mortgage credit from distant areas acts as a competitive force to keep interest rates in the area from reflecting monopolistic conditions.

Once growth is complete, the community would find itself with savings exceeding the demand for credit and in need of outlets for funds beyond its primary service area.

The mortgage banking correspondent system ties these phases of growth together and permits the nation to balance its requirements from area to area. Accordingly, it reduces interregional differences in interest rates on mortgages as well as savings. It is part of a highly efficient system of moving funds across the nation to places where they are most needed.

Effect on Borrowers Perceived to be Disadvantaged

The proposed legislation would thwart these valuable economic functions and would not provide credit to marginal borrowers or marginal properties. The needs of disadvantaged or deteriorating neighborhoods would not be met. Indeed, they would be further disadvantaged because the growth cycle could not be regenerated by outside funds.

Lenders are not the prime cause, nor are they blameless in the deterioration of the nation's cities. They are one important part of a very complex process of growth, decline, deterioration and rebirth of major portions of our cities. In this process home mortgage credit is not the sole nor even the principal reason for neighborhood deterioration. Lenders merely react to precedent changes in the economic circumstances of a neighborhood in a complex process in which local government officials, real estate brokers, real estate appraisers and citizens of the community also play important roles.

A HUD publication, The Dynamics of Neighborhood Change, (1976) describes this process of neighborhood change:

> "The decision of individuals and groups of people...determines most of what happens. Households in the neighborhood decide to move out; households presently looking for a house decide not to buy in that neighborhood; bank officers decide not to loan money for the area; owners of apartments houses decide to cut down on maintenance to keep what they consider to be a reasonable profit.
>
> In other words, it is the decisions that people make—individually or collectively—that have the critical impact on what happens to the buildings, streets, schools and parks...
>
> "Many decisions are made during the process of neighborhood change, by households, building owners, bankers, real estate brokers, school boards. Each decision is made in response to some event or change in circumstances. That is the cause. Once the decision is made it has consequences—the effect. A sequence, cause—decision—effect. Of course, as the sequence progresses the effects become the cause that trigger the next decision, in a kind of chain reaction."

In this process, it is impossible to isolate and to fix responsibility for the initial decision that begins neighborhood decline. Indeed, it is the process not the initial decision that is important. However, this scenario of change also implies that decisions may be made to intervene at a later time in the process and arrest decline.

Understandably, individual lenders, real estate brokers, public officials, and even neighborhood residents are typically reluctant to intervene. None feels responsible for the decline. Each feels powerless to halt it.

Acting alone, no lender, homeowner, broker, or appraiser can affect the process. Spending vast sums of money will not be successful, nor will legislation like S.406, the Community Reinvestment Act of 1977 revitalize a dying neighborhood.

Conclusion

MBA believes that enactment of S.406 would be unwise and premature. In recent weeks the Department of Housing and Urban Development issued a request to outside consultants for a six-month study to catalogue effective ways for localities to analyze and use date required under the Home Mortgage Disclosure Act. HUD was particularly looking for ways to use that information to secure "private reinvestment" in neighborhoods. S.406 would require lenders to compile reams of data when the Federal government is not yet sure how to make constructive use of information already collected at both public and private expense.

In addition, the Department of Housing and Urban Development has urged the Congress to await the Administration's proposals for a "comprehensive approach to the subject" of urban reinvestment before moving ahead with S.406. MBA agrees that the problem of urban reinvestment should be addressed in this manner, rather than piecemeal.

The purpose of S.406 to increase the identification of credit needs of neighborhoods is well intentioned. MBA, however, believes that the bill's delineation of "primary service areas" and the concomitant effort to require loans to be made in proportion to the deposits in that primary service are misplaced. Our studies, see enclosure, indicate that the public would be better served by identifying those neighborhoods that credit can salvage with the joint cooperation of the federal government, local officials, lenders, and the real estate industry. A commitment by these groups can be the catalyst that generates a new cycle of growth, that attracts distant as well as local investors, and that benefits the entire economy. Tying lenders to a primary service area without such a commitment and without regard to the area's stage of growth and development would harm the community, the lender, and the saver.

Sincerely,

Oliver Jones

Oliver H. Jones
Executive Vice President

OHJ/pab
Enclosure

Mortgage Bankers Association of America
1125 Fifteenth Street, Northwest, Washington, D. C. 20005 (202) 785-8333

January 12, 1977

Mr. Kennon V. Rothchild, President
Mortgage Bankers Association of America
1125 15th Street, N. W.
Washington, D. C. 20005

Dear President Rothchild:

It is our pleasure to transmit the final report of the Redlining Study Committee, a Task Force appointed by President William Ezzell in July, 1975.

The Task Force was given a charter to develop a positive program on the subject of redlining that would provide financing in inner city areas if certain criteria defined by the Task Force were met, and that would involve many segments of the real estate lending industry.

Our report responds to that charge and we hope it will be useful to all members of MBA. In its work, the Task Force concentrated on the lender's underwriting decision--should credit be extended to a loan applicant or not--and on the community socio-political process that influences that decision.

Of equal interest to the Task Force, but not addressed in its field visits or its report, are the many innovative techniques used by lenders in recent years to provide mortgage financing in inner-city areas. Although these techniques were designed to meet individual needs, the Task Force believes other communities and other lenders could benefit by a catalog that provided details, and encouraged replication elsewhere. The Task Force believes the Association should undertake this project as a complement to its own report.

The members of the Task Force worked hard and knowledgeably on this very difficult project. It was an honor and a pleasure to serve as their Chairman.

Sincerely yours,

Mattson

Everett Mattson

EM/kd
Enclosure

FINAL REPORT
REDLINING TASK FORCE
MORTGAGE BANKERS ASSOCIATION OF AMERICA
December 31, 1976

Foreword

The Mortgage Bankers Association of America established a Task Force in June, 1975, in an effort to evaluate serious allegations made before the Senate Banking Committee during hearings on the Home Mortgage Disclosure Act.

The allegations included the following:

> "Redlining. . .refers to a process of purposeful manipulation of neighborhoods to bring about their deterioration and destruction."

> "It is the initial action of local financial institutions in cutting off loans from the community that led to a decline in property values."

In their work, the Task Force held fact-finding meetings in Chicago, Illinois, Los Angeles, California, and Pittsburgh, Pennsylvania.

In those cities, the Task Force visited neighborhoods involved in the redlining controversy and visited similar-looking neighborhoods where mortgage credit is plentiful.

Representatives of local public officials, neighborhood associations, and lending institutions met with the Task Force and presented their views of redlining.

This report reflects the facts and conclusions drawn from those first-hand field visits.

It defines the nature and scope of the problem and suggests a solution for the myriad problems that have been lumped--sometimes erroneously--under the term "redlining."

The Association is indebted to the members of the Task Force who gave their time and energies to this project. Members of the Task Force included:

Everett Mattson, Task Force Chairman, The Lomas & Nettleton Company, Dallas, Texas

Richard A. Crissman, Assistant Vice President, Ralph C. Sutro Co., Los Angeles, California

James C. Fitzmaurice, Senior Vice President, First Federal Savings & Loan Association of Chicago, Chicago, Illinois

Donald E. Goodman, Vice President, Kirk Mortgage Company, Philadelphia, Pennsylvania

Lawrence C. Humphrey, President, Premier Mortgage Corporation, Detroit, Michigan

Sidney Kaye, Advance Mortgage Company, Southfield Michigan

Robert W. Larson, President, Larson Mortgage Company, Plainfield, New Jersey

Erwin A. Salk, President, Salk, Ward & Salk, Inc., Chicago, Illinois

Robert J. Spiller, President, The Boston Five Cents Savings Bank, Boston, Massachusetts

Robert H. Wilson, President, Percy Wilson Mortgage and Finance Corporation, Chicago, Illinois

Peter M. Williams, Senior Director, Management Services Department, Mortgage Bankers Association of America, served as staff representative to the Task Force.

Citizens, lenders, appraisers, real estate brokers and public officials in any community should be able to use the work of this Task Force as a base upon which to build the mutual understanding and respect that is essential to solve this difficult problem.

Kennon V. Rothchild, President
Mortgage Bankers Association of America
Washington, D. C.

Summary of Findings

The Task Force's findings reject the allegation that neighborhood deterioration is caused by lenders. This is a simplistic and erroneous conclusion. Lenders are not the prime cause, nor are they blameless in the deterioration of the nation's cities. They are one important part of a very complex process of growth, decline, deterioration and rebirth of major portions of our cities. In this process, home mortgage credit is not the sole nor even the principal reason for neighborhood deterioration.

The Task Force believes that lenders are justified in refusing to extend credit for conventional financing of loans if:

Market appeal is low,

Residents and the city government are not organized to work together for improvement,

Residents are justifiably displeased with city services,

Most housing is rental property,

Significant maintenance needs exist,

Either overcrowding or high vacancies exist,

Code violations are rampant and no enforcement program is operating.

The Task Force finds the first two items on the list are especially important. First, many allegations of redlining are notable for their lack of data showing a demand for financing. The Task Force believes there is an excess supply of deteriorating, older housing in our cities and that this will continue to be true until an increased number of buyers choose to live in them. In many cities, spurred by neighborhood associations and local-federal cooperative programs, this buyer demand is increasing. The Task Force believes lenders should be on the lookout for opportunities to provide financing to creditworthy applicants wherever there is clear evidence of stability and demand for housing, even in areas where these were lacking in the past.

Second, the Task Force finds compelling evidence that neighborhood decline is more likely to be stopped, or even reversed, when local government officials, neighborhod residents, lenders, appraisers and real estate brokers make a joint commitment to a neighborhood.

Redlining Defined

For this study, the Task Force adopted the following definition of redlining:

"The identification of a specific geographic area for the purpose of denying real estate loans or varying lending terms in a discriminatory pattern."

The phrase "in a discriminatory pattern" refers to the use of underwriting criteria to make credit unavailable or more difficult to obtain in a particular area.

For example, if a lender wanted to avoid making loans to members of a race--a practice specifically prohibited by law--it might involve a sound underwriting criterion, for example the age of houses in the neighborhood, to mask its discrimination.

Often, lenders are unjustly accused of redlining when they apply sound underwriting criteria uniformly, because the effect appears to be discriminatory. For example, there is a close correlation in many parts of our nation between family income and race. If lenders' underwriting rejections for insufficient income are predominantly members of one race, it may be difficult to establish that inadequate credit was the determining factor, rather than race.

The phrase "vary lending terms" does not imply that this practice is unsound or necessarily discriminatory. Historically, sound underwriting has called for differences in downpayments, maturities, and interest rates to account for different risks. If lenders are willing to accept risks of varying degrees, they must either use varying terms or raise the credit standards for the lowest quality of loan acceptable. In the latter situation, the good credit risk would have no advantage and the less worthy risk would have no loan. No other way exists to carry out lenders' fiduciary responsibility to savers and to provide savers with compensation that recognizes the risks taken.

Historically, lenders have also established rigid and standardized lending policies to place an outside limit on their risks and reduce the discretion left in the hands of loan officers.

Examples of these policies include:

Exclusion of properties that are more than a fixed number of years old;

Exclusion of loans below a fixed minimum amount; and

Exclusion of properties in neighborhoods that are judged to be "economically obsolete," regardless of the physical condition of a specific property.

The correlation of age of property and obsolesence of neighborhood with rejection of loans may make the availability of credit appear to be an overt practice of redlining. Clearly, some sound loans may be overlooked or avoided because of rigid rules but the Task Force does not condone this result. However, there may be legitimate economic reasons for avoiding specific geographic areas where property values are declining.

Certainly the property is important to the lender. A real estate loan is more than a credit loan to the borrower. The security offered--the property--is critical on its own merits because:

The property is the essential collateral needed to provide homebuyers with the excellent loan terms they have traditionally enjoyed.

The assumption of an existing loan by a new homeowner can occur without the lender's ability to insist upon adequate credit standards.

A borrower may encounter a financial reversal, where loss to the lender can be avoided only if the property's market value at that time is greater than the outstanding loan balance.

Where many houses in a neighborhood are tenant occupied, lenders properly suspect that the absentee owners have several motives, none of which give assurance of near-term stability. Such owners may be speculating that land use may change, or they may be former occupants who moved elsewhere but were unable to sell their homes. Any lender must be assured that the remaining owner-occupants are responding to these changing ownerships in a positive way; e.g., by forming a neighborhood association and enlisting the city's aid to achieve rehabilitation and reversal of the trend.

In some neighborhoods, there are so many families who can not afford market priced housing that those who can move elsewhere. More lending in these areas without governmental subsidy of both housing and social services will only make the general condition worse.

This problem of housing the poor is often linked mistakenly with redlining. Redlining, however, refers to a refusal to make loans to creditworthy applicants on sound properties for reasons that are discriminatory, but has nothing to do with denying loans to applicants who are not creditworthy.

The Complex Process of Neighborhood Decline

The Task Force finds scant evidence that financial institutions, by withholding funds from healthy neighborhoods, cause property values to decline. Instead, lenders react to changes in the economic circumstances of a neighborhood in a complex process in which local government officials, real estate brokers, real estate appraisers, and citizens of the community also play important roles.

The local government, through its policies of public investment, building code enforcement, zoning decisions, and political leadership, has a great impact--either good or bad--on the quality of life and economic stability of neighborhoods.

Real estate brokers, intentionally and unintentionally, may let clients know their attitudes about a neighborhood's value and influence decisions to purchase property.

Real estate appraisers directly affect the amount of credit lenders are willing or, under statute and regulation, are able to provide. If appraisers misjudge the process of neighborhood change, including the segment of re-birth, they may participate in accelerating decay.

Lenders are reluctant to encourage home buyers to invest in neighborhoods in which values are declining.

Citizens of a neighborhood affect the value of their own properties--and others in the neighborhood--through their action or inaction in maintaining and remodeling of their houses, and their support of neighborhood associations.

In essence, decline occurs when the interplay of these and less direct forces result in the replacement of higher income families with successively lower income families. In the process, property upkeep suffers, a neighborhood often acquires heterogeneous types of housing, and, more and more, prospective buyers see it as less desirable than other parts of the community.

This process is summarized in the accompanying table which was taken from, The Dynamics of Neighborhood Change, published by the Department of Housing and Urban Development. The characteristics of each of the five types of neighborhoods are pertinent to any discussion of credit availability. As the process of decline occurs, for example, lenders believe that more stringent terms are justified on the basis of long-established, economically sound underwriting standards.

Underwriting Standards for Conventional Loans Made by Depository Institutions

Depository institutions make the majority of single-family conventional loans in America. These institutions are supervised by state and federal government agencies that establish lending standards the depository institutions must meet.

The Task Force finds that the underwriting standards of these government agencies place considerable emphasis on present neighborhood conditions and prospective value.

The Federal Savings & Loan Insurance Corporation in Section 571.1(g) of its regulations permits institutions under its supervision to "obtain the services of a professional appraiser. . .to ascertain whether the neighborhood is improving, stabilizing or declining."

THE PROCESS OF NEIGHBORHOOD CHANGE

1. HEALTHY

PHYSICAL
Good Property Upkeep
Sound Structural Condition
Homogeneous Housing Type
Good Location
Neighborhood Well Maintained

SOCIAL
Middle to High Social Status
Moderate to Upper Income Levels
Ethnic Homogeneity
High School Graduates and Above
Family Oriented or Childless Adults
White Collar and/or Skilled Blue Collar Workers
Pride in Neighborhood and House
Good Neighborhood Reputation
Neighborhood Perceived as Safe
Socially Cohesive

ECONOMIC
High Owner Investment
Good Property Values
Insurance Available
Conventional Financing Available
High Confidence in Future Value

PUBLIC SERVICES
Services Efficient and Appropriate
Some Reliance on Private Services

2. INCIPIENT DECLINE

PHYSICAL
Spot Maintenance Neglect
Aging Housing Stock
Some New Non-Residential Uses
Less Desirable Location

SOCIAL
Decline in Social Status
Declining Household Income
Influx of Middle Income Minorities
Decline in Education Level
Smaller Families (Widowed, Elderly)
More Semi-Skilled, Underemployed
Often Fear of Racial Transition
Decline in Neighborhood Reputation

ECONOMIC
Some Cutback in Maintenance
No Rise, Some Decline in Property Values
Increasing Insurance Costs
Some Difficulty in Getting Financing
Waning Confidence in Future Value
Property Tax Burden Increases
More Renters, in Single Family Areas

PUBLIC SERVICES
Mismatch Between Needs and Service Provision

3. CLEARLY DECLINING

PHYSICAL
General Minor, Many Major Deficiencies
Larger Capital Improvements Needed
Higher Density Leads to Visible Wear
Relatively Poor Location
Visible Deterioration in Public Areas
Commerical Vacancies

SOCIAL
Major Decline in Social Status
Lower Incomes, More Welfare Households
Decrease in White In-Movers
Large Families, Often Female Headed
Increasing Unskilled Workers and Unemployed
Lack of Social Cohesion
Fair to Poor Neighborhood Reputation
Lack of Pride in House and Neighborhood
Increasing Fear for Safety
More Minority Children in Schools

ECONOMIC
Further Cutback on Maintenance and Repairs
Definite Decline in Property Values
Insurance Prohibitive
Serious Problems in Getting Financing
Fear for Future Value of Investment
Predominantly Renters
Revenue at Break-even Point
Increasing Operating Costs
Small Scale Investor Owners

PUBLIC SERVICES
Perceived Decline in Service Responsiveness
Increasing Dependence on Public/Social Services

4. ACCELERATING DECLINE

PHYSICAL
Major Deficiencies, Deterioration Prevalent
Old Buildings Predominate
Increasing Vandalized Property
Undesirable Location
Incompatible Land Uses Allowed
Increasing Residential Vacancies
Some Abandonment

SOCIAL
Low Social Status
Predominantly Low Income/Minority Tenants
Elderly Ethnics
Increasing Multi-Problem Families
Mostly Unskilled Workers: High Unemployment
Poor Tenant-Landlord Relations
Poor Neighborhood Reputation
Absolute Decline in Population
Fear for Personal Safety
Predominantly Minority Children in Schools
Increasing Fire and Crime

ECONOMIC
Almost No Maintenance or Repairs
Lack of Buyers
Insurance Denied
Costly Non-Institutional Financing Only
Extreme Pessimism Toward Present and Future
Frequent Over-Assessment
Increasing Cash-flow Problems
Skyrocketing Operating Costs
High Proportion of Absentee Owners

PUBLIC SERVICES
Absolute Decline in Services

5. ABANDONED

PHYSICAL
Severe Dilapidation
Adjacent Abandoned Buildings
Voluntary/Involuntary Demolition
Noise, Abandoned Cars
Vacant Littered Lots
General Area Decay
Widespread Abandonment

SOCIAL
Lowest Social Status
Poverty Level Incomes
Squatter Population
Multi-problem Welfare Families Prevalent
Bad Neighborhood Reputation
Households With Options Leave
Fear, Apathy
High Crime and Fire Incidence

ECONOMIC
Collapsed Rental Market
Serious Rent Collection Problems
Negative Cash-flows

PUBLIC SERVICES
Inadequate, Unresponsive to Need

Source: The Dynamics of Neighborhood Change
HUD, 1975

The Federal Home Loan Mortgage Corporation, in its Single-Family Underwriting Guidelines, published in April, 1974, gives several examples of neighborhood characteristics that should be treated as weaknesses when considering a loan application. They include: (1) mixed land use, (2) changes in land use, (3) the need for general maintenance, (4) a predominance of older (25+ years) properties that have not been modernized, and (5) below average appeal to prospective buyers compared with available alternatives. These weaknesses are present in almost every city in the United States where charges of redlining are voiced.

The FHLMC Guidelines conclude:

> "Always relate loan-to-value ratio and loan term to the security under consideration. . . If property values are fairly stable, but some sign of weakness is noted, the term should be shortened, or the loan-to-value ratio reduced. . . ."

Challenges to Traditional Underwriting Standards

Loan underwriting is an art, not a mechanical exercise, and some standards that lead to rejecting or varying the terms of a loan are subjective. The Task Force is not surprised that citizen groups or local government officials, not trained as appraisers, are critical of the lender's decisions. Even lenders make different judgments about the acceptability of a specific loan application.

The underwriting decision on an older property is often based on the lender's judgment about the question: "Will or will not this applicant maintain the house?" The decision is often based not on the present value of the property but on the underwriter's subjective judgment of the buyer's motivation. The lender may be hard pressed to justify its decision, because motivation is difficult to evaluate. But, motivation of the buyer is a valid concern of the lender.

Criteria such as "neighborhood influences," "stability of neighborhood value," and "remaining economic life" are also vulnerable to criticism, not only because they are largely subjective, but because they are based on social attitudes that have changed radically in recent years.

For example, American attitudes have changed perceptibly on the following factors which are directly linked to the underwriting criterion of "neighborhood stability:"

Racial integration

Family size

The desirability of existing housing compared to new, because of cost, location, design, construction quality and esthetic appeal of older dwellings

Restoration and preservation of historically or architecturally significant buildings, and the financial backing of this activity.

As homeowner attitudes on these factors change, their effect on property values changes also.

Most appraisal tests describe "healthy" neighborhoods in terms of middle class suburban settings. By contrast, a neighborhood with a mixture of kinds and sizes of houses, or one that contains both commercial or rental property, is put in an inferior category. Because "healthy" also suggests relatively new, the implication is clear that anything more than a generation old is nearing the end of its "economic life." Furthermore, suburbs have street widths that match contemporary engineering standards, the setbacks are uniform, and there is architectural sameness in the streetscape; anything having other qualities is not considered standard. No one should be surprised, then, that loan officers see old or mixed-use neighborhoods as unsuitable for "safe" loans.

Admittedly, it is extremely difficult for an appraiser to place a reasonably accurate value on a house that is badly in need of repair, is scheduled to be renovated with the loan proceeds, and is surrounded by other houses in equally poor condition and with no prospects for remodeling.

The Task Force finds that lenders in Pittsburgh, because of their commitment to the rejuvenation of specific neighborhoods, have instructed appraisers either to not use "remaining economic life" tests or to apply them in a most flexible manner. Loans are made on older houses built on 20-foot lots--too narrow to qualify for a building permit under Pittsburgh's current zoning rules. As one lender told the Task Force "we determine a fair value and make the loan."

The lender's underwriting criteria should recognize the changes in attitude and efforts to revive specific neighborhoods in a way that assists the process of change. The lender alone cannot get the job done, but it should work actively with others to bring about constructive change.

The Role of FHA-Insured Loan Programs in Neighborhood Decline

The Task Force also considered the charge voiced by a Los Angeles official that "studies have confirmed that when FHA becomes the only source of financing, property values decline."

The Task Force, though it did not review any studies purporting to prove this charge statistically and though it does not entirely agree with the statement, does believe that FHA's "acceptable risk" programs, used in older portions of our cities since 1965, have contributed to the decline of neighborhoods.

Prior to the late 1960s, FHA-insured loans were the only source of financing in thousands of city neighborhoods containing moderate-priced houses. The flow of funds to these neighborhoods, based on sound underwriting standards, excellent property standards, and thorough appraisals, resulted in appreciating property values that equaled or bettered the record of neighborhoods with higher priced housing that, because of statutory limits on FHA loan amounts, were ineligible for FHA-insured loans.

However, Congress enacted several "acceptable risk" FHA insurance programs in the 1960s. These aimed at providing homeownership to persons who could not meet the traditional underwriting standards of depository institutions, the Veterans Administration, nor the "economic soundness" tests of previous FHA programs.

At a Congressional hearing in 1972, former Secretary of HUD, George Romney testified that "the substitution of 'economic soundness' by 'acceptable risk' thrust FHA into the inner-city housing market. . .[in] an effort to buck [deteriorating] trends.

"There was widespread sentiment at the time [1968] that homeownership. . .by itself could reverse advancing decay and growing social and economic problems," Romney told Congress.

These FHA programs, principally Section 221(d)(2) and 223(e) were designed for neighborhoods in the "clearly declining" and "accelerating decline" phase of deterioration. In these neighborhoods, the "economic soundness" tests of conventional lenders required loan terms that were more conservative than normal. Under the new FHA programs, however, loans were insured with higher than normal loan-to-value ratios, lower credit standards and longer than normal terms (30 years).

The Society of Real Estate Appraisers, in its 1975 publication, Inner-city Valuation Study made this incisive statement:

> "Low income families were already living in the community. The result of the housing programs was to convert tenants of substandard properties into homeowners of substandard properties. In effect, the Act assisted in the unloading of substandard property upon uninformed purchasers. Borderline credit was accepted. Thirty-year loans were approved in communities with an economic life of 5 to 10 years. . .[and] assured the FHA a great number of foreclosures and repossessions."

The FHA "acceptable risk" programs had a devastating effect on neighborhoods in the "incipient decline" type where moderate-priced houses were occupied by owners who had met the more stringent "economic soundness" credit tests.

For example, in a HUD circular FHA-400.2, dated August 1, 1968, the Section 223(e) program was stated to have the following purpose:

> ". . .to encourage use of FHA mortgage insurance in older, declining urban areas, in order to provide housing for low and moderate income families and to contribute to the upgrading or stabilization of such areas."

The Task Force finds that, although the program fulfilled the first purpose and has provided homeownership opportunities for tens of thousands of urban dwellers, the program failed to achieve the second when it was used in neighborhoods where homeowners had previously met higher, conventional loan underwriting standards.

The new FHA credit standards, permitting a lower downpayment, less employment stability, and a lower monthly income to meet the same monthly mortgage payment brought in buyers with less income than the sellers. This resulted in a reduction in average neighborhood income--a clear indication of a neighborhood in decline.

For these reasons, the Task Force finds it is inappropriate to lower credit standards and encourage homeownership by purchasers who are unable to pay the full economic costs involved.

Intervening in the Process of Neighborhood Change

The HUD booklet, The Dynamics of Neighborhood Change, describes the process of neighborhood change as being continuous:

> "the decision of individuals and groups of people. . .determines most of what happens. Households in the neighborhood decide to move out; households presently looking for a house decide not to buy in that neighborhood; bank officers decide not to loan money for that area; owners of apartment houses decide to cut down on maintenance to keep what they consider to be a reasonable profit. In other words, it is the decisions that people make--individually or collectively--that have the critical impact on what happens to the buildings, streets, schools and parks. . . .
>
> "Many decisions are made during the process of neighborhood change, by households, building owners, bankers, real estate brokers, school boards. Each decision is made in response to some event or change in circumstances. That is the cause. Once the decision is made it has consequences--the effect. A sequence, cause--decision--effect. Of course, as the sequence progresses the effects become the causes that trigger the next decision, in a kind of chain reaction."

In this process, the origin of neighborhood decline--the initial decision that begins the process--is not only impossible to isolate, but relatively unimportant. However, this scenario of change also implies that decisions may be made to intervene in the process and arrest decline.

Understandably, individual lenders, real estate brokers, public officials, and even neighborhood residents are typically reluctant to intervene. None feels responsible for the decline. Each feels powerless to halt it.

Acting alone, no lender, homeowner, broker, or appraiser can affect the process. Spending vast sums of money will not be successful, if it is used to attack only one part of the problem. Certainly, the history of the federal urban renewal program and other housing programs that focus on buildings is that public expenditures alone are not sufficient to arrest neighborhood decline.

The Task Force believes that the earlier intervention strategies are begun in the process of neighborhood decline, the more likely they are to succeed. The adage "an ounce of prevention is worth a pound of cure" is extremely relevant. The redlining issue is most explosive in neighborhoods in the "Incipient Decline" category. Intervention strategies should begin here, not in the "Accelerating Decline" and "Abandoned" neighborhoods favored by past federal urban renewal programs.

The Task Force believes a successful program must:

First, bring together all the intermediaries whose decisions affect the future of the neighborhood. Their views must be given an opportunity to be heard and evaluated.

One writer, Roger S. Ahlbrandt, Jr., expressed it this way.

> "Without a means of trading information, neighborhood deterioration may become a self-fulfilling prophecy in neighborhoods where an early intervention strategy of a comprehensive, coordinated nature could have succeeded in preserving an area. It is unfortunate, but true, that financial institutions, Realtors, appraisers, insurance companies, city governments and neighborhood residents often act on poor information, and their actions are then harmful to all concerned."[1]

Second, a commitment to the neighborhood must be made by lenders, local government officials, appraisers, real estate brokers, and the residents who live there.

The commitment by lenders should be to provide a flow of mortgage funds to buyers of houses in the neighborhood and to present homeowners who seek to rejuvenate their houses. All lenders must work together. No single lender is willing, nor can afford, to be the only lender in a neighborhood.

The commitment to provide funds may be made in a variety of methods to assure the participation of all lenders in the area. Many plans have evolved as lenders have attempted to respond to obvious needs. This experimentation has produced many worthwhile programs that should be continued.

The commitment by the local government should include:

> Maintenance or upgrading of those government support services that improve the livability of a neighborhood. These include schools, crime prevention, street maintenance, street lighting, garbage collection, automobile parking facilities, public transportation, libraries and parks.
>
> Accepting responsibility for coordinating the efforts of homeowners, real estate brokers, lenders, and other city government departments to fulfill their commitments to the program.
>
> Using federal Community Development funds under special revenue sharing in ways that restore and maintain the social and economic vitality of the community.
>
> Enacting and/or enforcing a workable building code that guarantees buyers safe and sanitary housing, but does not impose needless rehabilitation that results in raising the price of housing beyond the reach of typical residents of the neighborhood.

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[1] Roger S. Ahlbrandt, Jr., The Mortgage Banker, March, 1976, p. 16.

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The commitment by professional appraisers should be flexible enough to ensure that the value assigned to properties for lending purposes reflects the commitment of the other participants to the neighborhood.

The commitment by real estate brokers should include wholehearted compliance with the spirit of the federal or local government laws that forbid racial steering, blockbusting, fright-inducing door-to-door solicitations, and similar practices that ethical real estate brokers have repeatedly repudiated.

The commitment by local residents to their neighborhood should be evidenced by a formal, active community or homeowner's organization dedicated to maintaining the desirability of the community as a place to live. Neighborhood groups have an essential role to play. When they are comprised of local residents who show interest and enthusiasm, local governments and lenders should work with them in a positive way.

Neighborhood organizations have evolved on a grass roots basis in almost every major city. They need the coordination provided by city officials and the cooperation of other groups to succeed.

Code Enforcement--A Controversial Intervention Strategy

The Task Force finds that enforcement of building codes has sometimes assisted the recovery of neighborhoods, but has at times hastened their decline. If property owners believe they will recover repair costs from increased rents or higher sales price, then strict enforcement of codes assists a neighborhood. If property owners come to the opposite conclusion, code enforcement increases abandonment and furthers neighborhood decline.

Code enforcement works best when it is one element in an overall neighborhood intervention strategy. It provides the legal backing that is needed to impose the community's desire for property upkeep upon each individual owner.

Enforcing codes in a neighborhood of older houses means costly repairs. In a neighborhood of moderate-priced houses, many property owners are often unable to take on additional debt obligations. This suggests that any comprehensive strategy to assist a neighborhood should provide home improvement loans at low interest rates to homeowners who cannot afford market rates.

The Federal Role in Intervention Strategies

Federal government's role in intervention strategies requires that its policies:

Be flexible enough to allow for variations in different cities to respond to different needs,

Provide assistance in restoring properties to good condition, and

Subsidize on a one-time, front-end basis, with no continuing liability, either direct or contingent.

<u>Flexibility</u>. The Task Force notes that successful intervention strategies in use across the country vary widely to reflect unique local problems and the solutions worked out by the local community. The Task Force believes this is appropriate and should be encouraged.

Federal expenditures are always a welcome addition to local resources, but their impact is likely to be most successful when used to assist a local intervention strategy. The Task Force believes that the Community Development block grants offer the best mechanism yet developed to achieve this goal.

For example, a community plan might determine that new neighborhood commercial buildings are badly needed as part of an intervention strategy. Federal funds would be helpful to assist the acquisition and construction costs.

<u>Provide Assistance to Rehabilitate Existing Structures</u>. As noted earlier, rehabilitation of older houses often carries a price tag higher than moderate-income property owners can afford. In many cases involving these owners, the only choices are to subsidize the cost of improvements or allow the structures to continue deteriorating.

Subsidies for this purpose should be used only in neighborhoods with comprehensive restoration strategies. There are not enough funds available to meet the total need for restoration of older buildings. Therefore, subsidies should be directed to neighborhoods that have made the necessary commitments. Subsidy dollars alone will not be helpful in the long run.

The Task Force notes that past federal subsidy programs have emphasized construction of new or substantially rehabilitated housing: Section 235 program, GNMA tandem plans, Section 202 (elderly) project loans, and Section 236 apartments. The Task Force believes that housing for low- and moderate-income families can be obtained at considerably less cost per unit through subsidized remodeling loans. The loan amount will be less, and the exposure to loss will be dramatically less than building new units.

<u>One-Time Subsidies</u>. Intervention strategies based on Federal programs involving long-term payment of subsidies should be weighed carefully because the budget impact is large and the life of the subsidy program is too uncertain to support continuing neighborhood and city programs.

For example, the Section 235 program was used in some cities to finance substantial rehabilitation of older houses in declining neighborhoods. The finished units sold for approximately $20,000 and mortgage payments were subsidized down to 1 percent. This substantial reduction of monthly payments permitted persons with income as low as $8,000 to $10,000 to buy housing that, without the subsidy, would have required a considerably higher income. Other houses in the neighborhood typically had not been rehabilitated, and were valued at $10,000 to $15,000. Owners of these units had incomes comparable to the purchasers using Section 235.

In its early years, when the owners of the rehabilitated houses sold the units, the subsidy continued if the new owner's income did not exceed the allowable limit.

After the program was suspended in 1973, however, the subsidy stopped when the property was sold on terms requiring a new mortgage. This reduced the value of the property substantially since persons with the average income of those living in the area could not afford to make the monthly payment on a $20,000 mortgage, and higher income buyers were unlikely to move into the neighborhood.

Faced with a substantial loss on the sale of the house, the typical seller permitted the lender to foreclose, and HUD took possession of the property, later reselling it at its reduced unsubsidized value.

The Task Force believes this is an expensive, administratively complicated method to rehabilitate houses.

A far less expensive method would be to sell the rehabilitated unit for a below-cost figure of $12,000 to $15,000--a price buyers could afford to pay--and pay the federal subsidy in a lump sum when the house is sold to the first owner.

The Task Force notes that subsidies have always been in short supply in the past, and that cities should assume that programs requiring continuing appropriations will ultimately fail.

The National NHS Program--An Intervention Strategy

One highly-regarded intervention strategy is guided by the Urban Reinvestment Task Force (URTF), a joint effort of HUD and four federal financial regulatory agencies. More than 25 communities have formed a "Neighborhood Housing Service" under this program, and others are in the planning stage. Neighborhoods chosen generally are in the "Incipient Decline" or "Clearly Declining" stages, as described above. The housing stock is basically sound, but showing signs of deterioration. Owner-occupied houses predominate.

To be eligible for assistance by the URTF, neighborhood residents must demonstrate that they want to preserve their neighborhood and improve their homes. Residents must commit themselves to making the program work.

Components of a Neighborhood Housing Service. As stated in the application procedure published by the URTF, the most important components of a Neighborhood Housing Service are:

- The NHS organization itself. It is a private, nonprofit corporation, whose board of directors are predominately community residents, but with significant representation from financial institutions. A staff, typically three persons, carries out the NHS work of financial counseling, assistance with rehabilitation specifications and bids, monitoring of contractors, administration of revolving loan fund and maintaining liaison with city agencies and financial institutions.

Financial institutions that agree to invest in the neighborhood by making loans at market rates to all homeowners who meet normal credit standards. The financial institutions (and other local businesses) normally contribute to the NHS to meet its operating costs.

A "high-risk" revolving fund for making loans at flexible rates and terms to residents who do not meet normal credit standards. Capital for these revolving funds has been contributed by foundations and local corporations in past years though, increasingly, local governments have used community development block grant funds for this purpose.

A local government that agrees to reinvest in the neighborhood by making necessary improvements in public amenities and by conducting an appropriate housing code compliance program coordinated with NHS activities.

Pittsburgh's Neighborhood Housing Service (NHS)--An Example of a Successful Intervention Program

Although, the Neighborhood Housing Service programs in some cities have not yet demonstrated great success, the Task Force finds the NHS operating in Pittsburgh Pennsylvania, to be an excellent example of a coordinated program that shows great promise of arresting and reversing neighborhood decline.

Functions of the NHS. According to Thomas A. Jones, Pittsburgh's NHS executive director, the most important functions of the NHS have been:

Generating objective discussion about the NHS neighborhood's problems,

Providing the mechanism for all interested participants to reach joint decisions about actions to take and working together to implement them.

The Pittsburgh NHS was not "installed" ready-made, but evolved over a two year period, beginning in the mid-1960's. At that time several neighborhood programs were operating in Pittsburgh with financing assistance from a variety of Federal and local government sources. These programs concentrated on different issues, depending upon the needs of the community.

In the neighborhood served by what is now known as the NHS, the program focused on maintaining an on-going market in existing housing for moderate-income residents. This decision was not imposed by the professional staff, but developed by the neighborhood residents. However, the staff assisted this process by first, arousing interest among the residents to working together to improve their neighborhood. Next, the staff helped form "block clubs" comprised of local residents, providing a mechanism that could be used for a joint effort. After the block clubs developed "want lists," the staff then assisted in forming committees to work on the most important issues.

One comittee focused on the absence of financing for the rehabilitation of the houses in the neighborhood. The houses were old and lacked modern kitchen and bathroom facilities. Many units were in violation of one or more provisions of the city's building code. Typically, lenders were unwilling to make loans in the neighborhood.

The deterioration was almost universal and each lender felt the risk of an individual loan was great. In addition, many residents living in housing that needed rehabilitation were unwilling to incur the expense because they could not meet the market-rate repayment schedules on their limited incomes; they needed subsidized loans.

In addressing these problems, the committee, with the assistance of the professional staff, met with city officials and with lenders.

Reaching a joint decision. For example, the committee worked with the city government to decide which parts of the building code should be enforced rigidly, which parts should be enforced flexibly.

The process was slow because the residents did not thoroughly understand the code or the implications of enforcement versus non-enforcement. The NHS staff's position was that no enforcement (and this had been the city policy for the most part) led ultimately to the razing of neighborhoods. This had occurred many times under the Urban Redevelopment Agency and was accepted as fact by residents and the city government. To avoid razing of houses, codes had to be enforced on some basis.

However, both city officials and neighborhood residents were determined not to permit the code enforcement program to force out poor people unable to afford the cost of compliance. Previous Urban Renewal projects in that city had been insensitive to the social problems caused by displacement of local residents and everyone was determined to find a better solution.

When a detailed program was worked out, its implementation was relatively simple because all participants understood and agreed with its purpose.

The committee also worked with the city's lending institutions to agree on a lending program that would meet the needs of the neighborhood residents and the lenders' regulatory requirements for prudent underwriting.

The lenders formed a committee also, believing that the program developed should be used by all lenders, not one or two.

NHS Today. Ultimately, the Neighborhood Housing Service was formed with the lenders contributing funds to pay its operating costs.

Funds for home repair loans are obtained from capital gifts from corporations and foundations, the city's Federal Community Development funds--used to establish a special low-interest rate revolving loan fund--, and, finally, HUD's Section 312 program--including direct federal home improvement loans at 3 percent interest.

Loans may be made directly by a lender without NHS staff involvement. Generally, however, the staff pre-approves the case and refers it to a lender.

The entire rehabilitation and financing transaction is difficult for the borrower to understand and the NHS fills a vital role representing the homeowner with the city, the contractor, and with the lender.

Financing the Sale of Properties. Although FHA and VA financing are used in many cases, the NHS staff would object strenuously to lenders if no conventional loans were made. According to Mr. Jones:

> Terms of conventional loans are more flexible. FHA's rules are more rigid, especially on property requirements. Unusual conditions are rarely acceptable.
>
> The minimum downpayment on FHA and VA loans reduces homeowner equity and provides less motivation to care for the property.
>
> Sellers balk at FHA-VA financing because of the discount points they must pay.

The Need to Identify Neighborhoods

The message of today's urban neighborhood groups appears to be: "We don't want our bank to make unsound loans and lose our savings, but we want the reasons for rejection to be based on criteria that fit today's society." The findings of the Task Force strongly indicate that the balanced approach this statement implies poirts toward a need to identify neighborhoods that can be saved.

This must be done in cooperation with all parties and a full sharing of the reasons for the decision. Accordingly, the Task Force believes that resolving the redlining issue will require continuing objective analysis of the physical, economic, and social characteristics of neighborhoods to evaluate whether or not sound loans can be made in each particular area.

In most cities today, no formal study has been made. Instead, decisions to lend or not to lend in an area are based on limited facts and each lender's inability--acting alone--to influence the overall neighborhood environment. Although lenders should be involved in the analysis process, others should be included. The local government and neighborhood groups cannot be expected to agree with the results unless they participate in the work.

Neighborhood boundaries are already well-established in most cities as part of the planning process. Census tracts usually conform to neighborhood boundaries and Census Bureau reports provide many statistics that could be useful in such an analysis.

The Task Force urges that greater publicity be given to neighborhood trends in sales prices, trends in occupancy by owners vs. renters, levels of maintenance and upkeep, adequacy of municipal services, crime rates (especially street crime and other crimes of violence), and similar underwriting criteria. This will help prospective borrowers understand why one area is favored and another is disadvantaged.

The Task Force believes lenders can assist public understanding of their position by publicizing the market demand for loans and the reasons why loans are rejected. Although the Home Mortgage Disclosure Act requires reports of loans made in each neighborhood, the number of applications (demand) and rejections are not part of the report, though they are equally important in evaluating lenders' performance. The Task Force notes that the Equal Credit Opportunity Act requires lenders to provide each rejected applicant with the specific reason for rejection. Thus, it should be relatively simple to provide aggregate statistics.

The Task Force believes that the best long-term method lenders can use to prove they are not rejecting loans in a neighborhood for discriminatory reasons--i.e., redlining--is to publicize their underwriting standards, the facts about a neighborhood that make it ineligible for loans, and the reasons why individual applicants (in aggregate) are rejected.

It is essential that all lenders in a community have the information and neighborhood support necessary to make a public commitment to lend or not to lend in a given area. If loans can be made in a neighborhood on a sound basis, then all lenders should be prepared to make them. However, if the facts support a decision that loans cannot be made on a sound economic basis, then--and only then--is it appropriate to reject loans on the basis of the neighborhood's condition.

If lenders adopt such a strategy and publicly advise the community of their reasons--especially if they do so as a group--the Task Force believes the issue of redlining will be replaced by constructive efforts between lenders, local residents, and local governments to work together to remove the conditions in the neighborhood that produced unacceptability. If such a commitment from all parties is lacking, long-term rehabilitation of a neighborhood is unlikely under any circumstances.

Changes in attitude are an important part of the neighborhood rehabilitation process, and this can occur only by working together toward a common objective, not through new laws, subsidies, and court injunctions.

Geno Baroni, President

The National Center for Urban Ethnic Affairs

An Independent, Non-profit Organization

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Area Code 202/232-3600

April 4, 1977

Senator William Proxmire
Chairman
Senate Banking Committee
5300 New Senate Office Building
Washington, D.C.

Dear Senator Proxmire and Members of the Senate Banking Committee:

The National Center for Urban Ethnic Affairs supports the Community Reinvestment Act of 1977 (S.406) which if passed, will provide regulatory incentives to meet neighborhood credit needs by lending institutions. We are pleased with developing federal legislation addressing the concerns of reinvestment in the neighborhoods.

One of the more important aspects of S.406 is that nothing new is requested from financial regulatory agencies. This authorization would permit review of lending policies and practices of private institutions prior to their merging, opening a branch office, relocating the home offices and establishing bank holding companies. This bill, in effect, focuses on how to best use this authorization to ensure that the local (current and proposed) credit needs both are being met. While the Community Reinvestment Act of 1977 attempts to focus on investment patterns in neighborhoods and is complementary to the Home Mortgage Disclosure Act of 1975, still, these are some weaknesse to bill S.406.

First, the bill is restricted to effect only those lending institutions which undertake activities specified in the bill (mergers, branching, relocation, etc.). Those which do not choose any of these activities will not be affected by the Community Reinvestment Act of 1977. A mechanism should be provided to check these banks and S & Ls for their record of meeting local credit needs as well. Perhaps a review of these practices can be included in bank examinations.

Secondly, the bill calls for the lending institutions to determine the "local credit needs" and how to plan to meet them. We would suggest that stronger language and examples be included to identify community participation in this process. There is only one section in the bill which directly addresses the consumer role and which is through the traditional channel of public testimony. While this may be sufficient in some cases, the Center's experience with neighborhood organizations is that there is often times disagreement between community and lending representatives on:

- what are the local credit needs?

. what are the possible ways of meeting these needs?

. what are the definitions of the primary service areas?

. what are the criteria for credit-worthiness?

Without community input from the beginning, there is no guarantee that a report on the credit needs prepared by a lending institution will be sensitive to the varying needs of an urban neighborhood. Provisions of this bill should offer incentives to lending institutions to prepare "credit needs reports" and proposals for action in conjunction with local organized efforts. If we are all in agreement that successful neighborhood reinvestment efforts require activity of the public, private and community sectors, then it makes sense for the bill to outline in greater detail, the role of community and neighborhood groups.

The earlier Home Mortgage Disclosure Act is a stepping stone to this three-sector process of working toward reinvestment. The proposed Community Reinvestment Act, if strengthened, can provide still another vital part of the efforts to revitalize our nation's unclean neighborhoods.

As additional background and support information to S. 406, we are entering the draft of a Center's publication, "Neighborhood Reinvestment: A Citizen's Compendium for Programs and Strategies." This covers a variety of efforts to establish reinvestment programs throughout the country with particular attention paid to the involvement of community groups. We hope this information is of use to you. If we can be of further assistance to you in the development of S. 406 or other reinvestment initiatives, please do not hesitate to notify us.

Sincerely,

Robert J. Corletta
President

Karen Kollias
Director, Disclosure and Reinvestment Project

RJC:KJK:lmm
Encl.

LEGISLATURE OF MICHIGAN
WASHINGTON OFFICE
444 North Capitol Street, Suite 214
Washington, D.C. 20001
202/624-5490

March 22, 1977

The Honorable William Proxmire, Chairman
Senate Committee on Banking, Housing and Urban Affairs
5300 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

We in the Michigan Legislature have been carefully researching ways to deal with the economic crisis in our cities. We have studied the phenomenon of urban disinvestment and are developing legislation at the state level to promote neighborhood conservation and to combat the problems of insurance and mortgage redlining, unemployment and crime.

Michigan, along with every other state, needs help in the form of federal legislation. By ourselves, we lack the power to successfully attack such a severe, broad and all-encompassing issue. It is my understanding that at the State Strategies for Housing Conference in Chicago, February 25-27, 1977, Mr. Kenneth McLean, Staff Director for the U.S. Senate Banking, Housing and Urban Affairs Committee, emphasized that state government resources are inadequate to meet the needs of urban reinvestment. I couldn't agree more!

We welcomed the National Home Mortgage Disclosure Act of 1975 as a first step in arresting the decay of neighborhoods--but it is only a first step. We must not only stop the flow of capital out of cities, but must encourage capital to flow into our cities.

Disinvestment causes the oppressive conditions of high unemployment, high crime and abandoned housing in urban areas. It causes the loss of business, industry and retailing from center cities and neighborhoods. Detroit is in critical condition. The cities of Flint, Grand Rapids, Saginaw, Lansing, Kalamazoo and Battle Creek are in serious condition. Regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the communities which they are chartered to serve. Therefore I strongly urge passage of S. 406, the Community Reinvestment Act of 1977, with amendments recommended by National People's Action. With these amendments, S. 406 can provide a basis on which to build successful state programs to revitalize our dying cities.

Sincerely,

Bobby D. Crim

Bobby D. Crim
Speaker of the House of Representatives

NATIONAL ASSOCIATION OF REALTORS,
Washington, D.C., April 7, 1977.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing and Urban Affairs, Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: At the direction of the Realtors® Legislative Committee, I submit the following comments concerning S. 406, "The Community Reinvestment Act of 1977", and ask that they be made part of the hearing record.

The National Association of Realtors® shares the concern for community reinvestment which is the basis for S. 406. We have long voiced our alarm over the increased deterioration of our cities, with untold numbers of structurally sound existing housing units going under-utilized, denying adequate shelter for millions of underhoused Americans, while ever more costly new housing is being built elsewhere. In the very near future, this Association will present the public, and the Congress with its detailed proposal for revitalizing our cities and communities.

While we share this general concern with the philosophy behind S. 406, we must, however, state our opposition, on both philosophical and operating grounds, for the approach required by this bill:

1. The Congress has decreed that, for the safety of the public, that depository institutions must be regulated in terms of entry, (and sometimes exit), insurance, branching, and similar matters. That is, unlike non-regulated industries, the usual hallmarks required by economic theory regarding competition, are absent, *but, absent because of government regulation.* To now require an institution which petitions for the required governmental action on a requested deposit facility, to undergo additional requirements is akin to a Catch-22 proposition.

2. As expounded in the statement introducing S. 406 on January 24, the regulatory agency review which would be required is likened to the current FCC review of radio and TV license applications and renewals. We feel that this is a fallacious economic theory, akin to comparing apples and oranges. The airwaves are a public resource, owned and licensed as a monopoly by the Federal government for the public good. By contrast, a basic rationale for government involvement with financial institutions is the protection of depositors' funds.

3. The very philosophy underlying S. 406 seems to be at odds with the concept of encouraging mobility of capital. In the mortgage market, in particular, this is of crucial importance, as its institutions and instruments are less "sophisticated" than in other financial markets. The Congress created FNMA, FHLMC, and GNMA specifically to enhance the mobility of mortgage funds. S. 406 mitigates against that mobility.

4. While we are aware that the present bill does not require mandatory credit allocation, nevertheless, we are fearful that if S. 406 were enacted, the next step would be such a requirement. Our current system of specialized thrift institutions serves the credit needs of our various housing markets quite well. To further refine such allocation on the basis of specific localities is both unnecessary and inimical to the basic system of free enterprise.

5. Implementation of S. 406 could well necessitate increased costs for these institutions, resulting in lower returns for depositors and stockholders, who are also consumers. It is unfair to impose on one class of society the alleged benefits enjoyed the entire population.

6. Credit is not a right, as implied in S. 406, but a privilege. Under S. 406, the institution is assumed guilty of not meeting the (non-defined) credit needs of its (ill-defined) community and then asked to bear the burden of proving its innocence.

7. No provision is made for failing institutions. Currently, when a financial institution is in danger of failing, the regulatory agencies generally arrange for that institution to be investigated or acquired by a stronger one, thus preserving the existing facilities for its current savers and customers, yet S.404, making no provision for this, would obviously both discourage stronger institutions from agreeing to such takeovers, and indefinitely delay the acquisition thereby depriving the community of financial services.

As stated above, while this Association shares the concern for the problems which prompted S. 406, we feel that this bill approaches the matter in a negative rather than a positive manner. For example, as an alternative, we suggest, to encourage community investment, that the "shared-risk" proposal of Federal coinsurance be seriously considered, and also that "Mortgage Review Boards" with a pooled high risk fund could be a possibility. But to specify that Federally-chartered or insured financial institutions must carry the burden of what should be an overall community revitalization and reinvestment program is, in our opinion, grossly inequitable.

We appreciate the opportunity to comment on S. 406, and look forward to presenting you with our detailed proopsals on revitalizing the cities shortly.

Thank you.

Sincerely,

ALBERT E. ABRAHAMS,
Staff Vice President, Government Affairs.

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