



Partners

IN COMMUNITY AND ECONOMIC DEVELOPMENT

FEDERAL RESERVE BANK of ATLANTA

VOL. 2 NO. 1



Clark Atlanta University

Creating opportunities

By Cynthia Goodwin

In December 1991, HUD awarded \$4.5 million under a new initiative to 10 historically black colleges and universities (HBCUs) to stimulate economic development, promote neighborhood revitalization, and foster anti-poverty strategies within the nation's minority communities.

"I see this \$4.5 million as a critical investment in the vast economic and entrepreneurial potential that we seek to un-

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OPINION

The HMDA prescription

By George Galster

The Federal Reserve's release of data for 1990 collected under the auspices of the Home Mortgage Disclosure Act (HMDA) has created a major controversy. What the numbers show is clear; what the numbers mean is not. Therefore, the stage is set for irresponsible rhetoric, unjustifiable complacency, and the formulation of wrong-headed public policy.

Since the HMDA of 1975, several categories of lenders have been required to report the number and dollar volume of mortgage loans they have made in neighborhoods of the metropolitan areas in which they do business. In 1989, HMDA was modified to require that a broader variety of lenders report not only loan volume by neighborhood, but also the disposition of individual loan applications and the gender, race, and income of each applicant. It is this first year's expanded data that were released recently.

The results showed dramatic racial patterns in mortgage activity. Disproportionately few blacks and Hispanics applied for mortgages relative to their share of the population.¹ Black and Hispanic applicants for mortgages were rejected more frequently than white ap-

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A tough time for rural housing

By Courtney Dufries

If you think it's tough to obtain a home purchase loan in the inner-city, you should try to get one in a rural area. Loan underwriting criteria used in rural areas present numerous barriers for all potential home-buyers, especially low- and moderate-income buyers. The lack of a strong secondary market combined with higher down payments, lower loan-to-value ratios, and traditional debt-to-income ratios pose many obstacles for people who look to their local lenders for these loans. Although some government-sponsored programs have been developed to address these problems, their effectiveness is limited.

Some of the barriers to

Rural banks frequently offer loans with 15-year maturities, which result in higher monthly debt payments that disqualify many low- and moderate-income home buyers.

these loans can be traced to the lessons learned from deregulating interest rates. In 1984, Congress found that limits on rates of interest on deposits discouraged people from saving money in depository institutions. In response, Congress agreed that all depositors should receive a market rate of return on their savings. Interest rates were deregulated, and

depositors soon received higher returns on their deposits.

However, the competition among financial institutions for deposits often resulted in their paying more for short-term deposits than they received on long-term loans. This mismatch was especially evident in the savings and loan industry. Liquidity, earnings, and capital were strained; and some financial institutions eventually failed. To prevent this problem, many banks, notably rural banks, now require shorter terms on home purchase loans.

Rural banks frequently offer home purchase loans with 15-year maximum maturities, sometimes with three- or five-year balloon features. Unfortunately, shorter maturities result in higher monthly debt payments that disqualify many low- and moderate-income buyers. The added expense of refinancing and closing another loan when a balloon payment is due can present a significant financial burden.

Adjustable rate mortgage loans (ARMs) are frequently used by rural lenders to prevent an interest rate mismatch between loans and deposits. ARMs provide annual interest rate adjustments that result in an increase or decline in the monthly loan payments. However, for some homeowners an increase in the loan payment can cause an unaffordable payment shock.

For low-income households especially, ARMs can result in a slow payment history on the home loans or on other loans (credit cards, car notes, etc.). In the worst case, ARMs that repriced upward over an ex-

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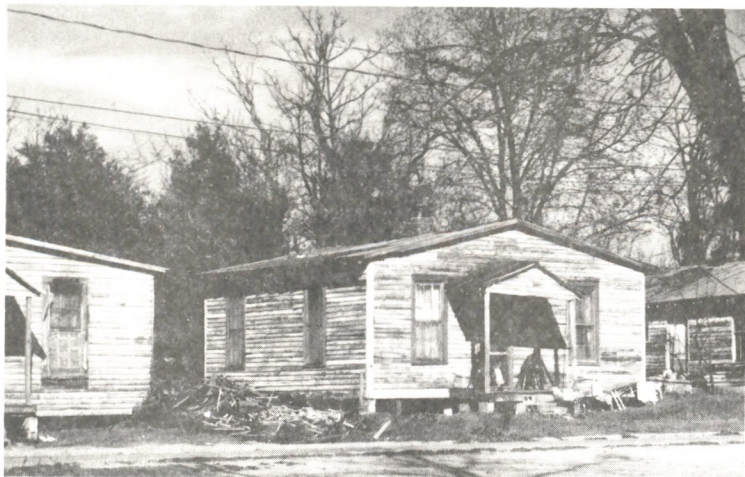
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tended period could result in loan defaults and foreclosures.

Most rural banks rely on conventional (traditional) loan underwriting criteria because of their proven safety and soundness. Conventional underwriting requires a minimum downpayment of 10%, with the added expense of purchasing mortgage insurance, or 20% without mortgage insurance. Requiring loan-to-value ratios of 90% or less helps ensure paying bank expenses if a foreclosure is ever required.

Conventional underwriting has constraints on debt levels, frequently called the "front" and "back" ratios. The front ratio is the monthly home loan payment (principal, interest, taxes, and hazard insurance) divided by gross income, and is usually set at 28%. This percentage represents the maximum debt level at which lenders allow a borrower to buy a home.

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Dilapidated rural housing near Thompson, Georgia.

Rural: Increasing credit availability

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The back ratio, normally set at 36%, is the minimum amount paid each month on all debt, including the home loan, divided by gross monthly income. These debt ratios help prevent excessive debt burdens and help ensure that homeowners have money for food, clothing, savings, repairs, and other expenses.

Conventional debt ratios can disqualify many low-income persons because even small amounts of debt can result in a relatively high ratio if the monthly gross income is low (the denominator in the equation). There are frequent debates about the most appropriate debt ratios, but the problem remains unresolved for low- and moderate-income households.

Solutions Now Available

Although none are perfect, programs are currently available to address affordable loan barriers such as high down payments, conservative debt ratios, and short maturities.

Three potential solutions include (1) using government guaranteed loans, (2) selling loans in a secondary market, and (3) using correspondent bank relationships.

One of the best government guarantees is offered through the Farmers Home Administration (FmHA). Among the several programs FmHA offers is a new direct guaranteed loan program (see *Partners*, Vol. 1, No. 2).

This program, offered to approved lenders, provides a 90% principal guaranty for applicants who live in rural areas and whose income does not exceed 100% of the median income for the county where the home is located. Applicant eligibility includes higher debt ratios (29% and 41%) and lower down payments (up to 100% financing). However, because fixed interest rates and 30-year maturities are required, lenders have been reluctant to offer these loans at their financial institutions.

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HBCUs: A possible resource

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leash in minority neighborhoods all across the country," said Secretary Jack Kemp.

Under the new program, HBCUs will work in close cooperation with local governments to design, develop, and implement approaches for economic growth and community development. The funding also encourages HBCUs to craft strategies to combat longstanding poverty problems such as homelessness.

Two HBCUs in the Sixth District received awards. Clark Atlanta University received an award of \$497,910. That award will be combined with private funds and through its community development corporation, Clark plans to acquire and rehabilitate four vacant homes for resale to low- and moderate-income families; spur job development in two areas by providing technical assistance; and provide technical assistance to various organizations in the implementation of the West End redevelopment plan, among other initiatives. Dr. Edward Davis will direct the implementation and can be reached at (404) 880-8401 for additional information.

Southern University at New Orleans was awarded \$500,000, which will be combined with private funding to operate a Technology Transfer Center for Community and Entrepreneurial Development. Program activities will be designed to address local community development objectives in the area of housing and economic development. Project Director for this initiative is Ms. Ivory Williams. For additional information, she can be contacted at (504) 286-5098.

Community Development Training

The Federal Reserve Bank of Atlanta

In conjunction with

The Development Training Institute

Community Reinvestment Training Workshops for lenders, compliance officers, and senior bank management.

March 17 - Nashville, Tennessee

March 18 - Atlanta, Georgia

March 20 - New Orleans, Louisiana

Call Dianne Rawls at 404/589-7307 for registration information.

CRCs gaining popularity

Collaborating to address acute affordable housing problems, lenders and government representatives from the Tampa-St. Petersburg area asked The Development Fund, a non-profit corporation that develops innovative financing for affordable housing and related community improvement, to prepare a plan for establishing a community reinvestment corporation (CRC).

The concept was presented to area lenders at a luncheon January 17 hosted by St. Petersburg Mayor David Fischer.

Addressing the group, Ron Zimmerman, vice president of The Federal Reserve Bank of Atlanta commented, "To achieve the scale necessary to fully address the housing affordability problems, two features—shared risk and profitability—are vital. This concept incorporates those attributes and has a proven track record."

The Federal Reserve Bank of San Francisco was instrumental in developing the first CRC, and both Reserve Banks continue to offer support and assistance in exposing lenders to this alternative. George Koehn, chief executive officer of SunBank of Tampa Bay, will chair the initial task force to assess the feasibility of forming a CRC.

CRCs offer participating institutions an opportunity

- to pool their resources to support local, regional, or statewide affordable housing initiatives
- to share the credit risk associated with affordable housing

- to share and reduce administrative costs
- to address institutional community reinvestment objectives.

This strategy also presents an opportunity for small- and medium-sized institutions to expand their community development lending portfolios by reducing the costs of obtaining the necessary expertise and maintaining staff and resources.

Initial funding for preparing this plan was provided by Barnett Bank of Pinellas County, C&S National Bank of Florida, NCNB National Bank of Florida (C&S and NCNB are now NationsBank, N.A.), First Florida Bank, N.A., First Union National Bank of Florida, SouthTrust Bank of Pinellas County, and SunBank of Tampa Bay.

CRCs are currently operating in five states. The first initiative was the \$100 million, statewide California Community Reinvestment Corporation (CCRC). CCRC has 60 member banks. CCRC's typical loan carries a fixed rate

SOUNDBITES

Foundation and Private Support Increasing

The latest study by the Council for Community-Based Development reveals that the private sector awarded 2,466 grants totalling \$90.1 million in the community development field in 1989. Among the 50 leading funders, each of which gave over \$400,000, there was a median increase of 39 percent from 1987. A copy of the report, *Expanding Horizons II*, is available for \$18 from Council, 1070 Thomas Jefferson St., N.W., Washington, D.C. 20007; (202) 342-9262.

Recognizing a community need: NationsBank Corporation and the NAACP are establishing five Community Development Resource Centers to promote community development lending. NationsBank is committing \$1.1 million to fund the Resource Centers for three years. The facilities, located in Austin, TX; Atlanta, GA; Charlotte, NC; Columbia, SC; and Richmond, VA, will be staffed by the NAACP. The centers will provide consumer and business education and counseling, economic development advocacy, and technical assistance.

with a 10-, 15-, or 30-year term, primarily for apartments or single-room occupancies in inner-city projects.

For additional information about CRCs, call John Trauth or Kathy Kenny at The Development Fund at (415) 863-7800.

SBA: More than a guarantee

The law does not require banks to participate in Small Business Administration (SBA) guaranteed business loan programs, but banks may face community criticism for not offering these loans.

Responding to criticism, bankers sometimes point out that SBA paperwork is a burden and that the underwriting criteria are too strict. The fact remains, however, that SBA programs benefit both small and large banks and the communities these banks serve.

(1) It offers guarantees in the event of default.

(2) The guaranteed part of the loan can be sold in the secondary market (often at a premium).

(3) The relationship between the bank and the borrower can potentially increase bank deposits and in turn strengthen local communities.

The SBA provides financial assistance to small businesses by making direct loans (resources for direct loans have been limited in recent years), loan guaranties, disaster loans, and other kinds of loans. The SBA is neither a venture capitalist nor a commercial bank. Its goal is to provide financial assistance until the credit becomes bankable. One of the SBA's most popular loan programs, the SBA 7(a) loan guaranty, benefits the public and at the same time, provides safe, sound, and profitable bank financing.

In years past, SBA was considered the agency of last resort. But that image has changed. While maintaining prudent standards, the guaranty encourages banks to be less risk averse. 25 percent of all SBA loans are extended to finance start-up ventures that are often not considered by

many lenders. As a result, the nonperforming loan levels of SBA guaranteed loans are generally twice those of conventional portfolios—about 10 percent for defaults and 1 percent for charge-offs.

The underwriting criteria are very similar to conventional underwriting used at commercial banks.

What the SBA does differently from commercial banks is guarantee loans with longer maturities that allow small business owners to make lower monthly loan payments. For many borrowers, the lower loan payments can make the difference in qualifying or not qualifying for a loan. Apple Computers, Federal Express and Nike are just three of the successful businesses that received SBA assistance.

Certainly no one would expect an agency like the SBA to offer loan guarantees without a formal process to ensure repayment. So the SBA has tried to ensure repayment and at the same time, address bankers' concerns about paperwork. Simply understanding the process of applying for a loan may cut down some of the paperwork.

The 7(a) guaranteed loan application is submitted on standardized forms and accepted for processing only after it has been reviewed for completeness. Any additional information is requested on incomplete applications. If this information is not received, the application is returned to the bank. The loan decline rate is about 50 percent nationwide, but this 50 percent includes applications that were incomplete or were ineligible.

The SBA offers two programs that expedite the application process. One

Reducing SBA Paperwork

The SBA has begun testing a pilot program to allow lenders to electronically transmit loan applications. Besides a faster response on loan decisions, applications could be readily transferred between SBA district offices when workloads are particularly heavy at one office. Full-scale implementation dates have not yet been announced.

The pilot program in November 1991 was seen as a success when a loan application that normally averaged three hours to prepare was completed in less than 45 minutes. After transmission to the SBA office, the loan was reviewed and approved in about the same time. Ultimately, the SBA hopes to reduce many loan applications and submission times to as little as 30 minutes.

is the Certified Lenders Program (CLP), under which the SBA has given about 700 lenders partial authority to approve loans. Another is the Preferred Lenders Program (PLP) of approximately 170 participating lenders who have full authority to approve loans. PLP authority includes determining eligibility and creditworthiness, structuring the

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Research on this article was provided by Jerry Williams, senior examiner in the Commercial Examinations section of the Federal Reserve Bank of Atlanta.

SBA

> Continued from page 5

loans, monitoring, collecting, servicing, and deciding about liquidation actions. This authority does not require prior review or consent by the SBA.

All banks, savings and loans, and thrifts are eligible to participate in the 7(a) program regardless of size because they are supervised by state or federal regulatory agencies.

"Paperwork is a given, but the benefit is a guaranteed portion of the loan that has the same value as a U.S. Treasury note. Both are backed by the full faith of the government," says SBA Regional Advocate Sam Lindsay.

"This substantially reduces the credit risk to the bank." Besides, the southeast regions' SBA officers have shown a willingness and desire to train loan officers [at commercial banks and for no cost]. And the secondary market becomes a profit center for the bank, more than offsetting the paperwork."

In fact, a major advantage to SBA lending is the ability to sell the guaranteed portion in the secondary market, similar to selling mortgage loans. Because interest rates on these loans can be as high as 2 3/4 percent over the prime rate, the guaranteed portion can be sold at a premium. In addition, banks can negotiate loan servicing rights, that may be profitable and contribute to the bank's deposit base.

Not everyone can qualify for an SBA loan. Anyone currently incarcerated, on parole or probation, or who has criminal actions pending is ineligible. Ineligible businesses include

- Non-profit organizations

SBA 7(a) Program's Past Due Statistics

The following statistics are based on total loans outstanding as of May 31, 1991.

	National	Region IV*
Past due 30-60 days	3.0%	3.4%
Past due 61-179 days	3.7%	3.3%
Liquidation	9.8%	10.5%

Loans delinquent more than 180 days are usually placed in liquidation. Any decision involving the liquidation of collateral is usually a mutual decision between the participant bank and the SBA.

* Includes Kentucky, Tennessee, North Carolina, South Carolina, Mississippi, Alabama, Georgia, and Florida.

- Media broadcasting and publications
- Floor plan financing
- Gambling
- Speculation
- Real property primarily held for investment or sale
- Monopolies
- Pyramid sales
- Illegal activities

Eligibility for a guaranteed loan is usually based on size, which varies among industries. These standards are available from your local SBA office.

The SBA goes to extra lengths to lend to handicapped persons, veterans, and women whom it considers acceptable credit risks. Other minority groups entitled to receive special considerations include blacks, Hispanics, Asians, and Native Americans.

The financial analysis of all loans includes a review of: (1) business collateral as a primary repayment source; and (2) additional personal collateral and the guaranty of the principals as secondary repayment sources. The SBA usually requires personal assets (i.e. equity in residences)

as protection and to ensure a strong commitment by the owner to the long-term viability of the venture.

The success of small businesses affect our standard of living and ultimately the strength of our entire community, including the banking community. The SBA 7(a) loan guaranty offers safe and sound lending opportunities for commercial banks by providing financing to borrowers until they become bankable credits. By providing incentives to commercial banks through potential increases in income and liquidity, SBA helps build communities and improve local living standards.

"The SBA is neither a venture capitalist nor a commercial bank. The SBA's goal is to provide financial assistance until the credit becomes bankable."

O P I N I O N

HMDA: Description vs. prescription

> Continued from page 1

plicants of roughly the same income.¹

So much for the facts. What about their interpretation? Here is where all major parties involved—community activists, lenders, and public policy-makers—are tempted to err. The common temptation is to believe that the HMDA data prove more than they're capable of.

My central theme is that HMDA data are fine for description, but lousy for prescription. They describe the lending patterns, but are incapable of distinguishing among alternative hypotheses about why they occur.

A medical metaphor is appropriate. HMDA data are useful like a doctor's cursory, external physical examination of a patient. Just as a doctor can ascertain that a patient looks peaked or has a fever, so too can HMDA data reveal superficial problems. Certainly this is not bad; but it is insufficient. Just as a doctor needs to know the etiology of symptoms in order to prescribe properly, we need to see what is occurring below the surface of lending patterns in order to develop appropriate responses.

Alternative Explanations For Observed Lending Patterns

The problem with the "symptoms" of lending difficulties that HMDA data indicate is that numerous "illnesses" are capable of explaining them. Consider first the observation of disproportionately few applications from blacks and Hispanics.

At least four (not mutually exclusive) hypotheses readily suggest themselves. First, perhaps these applicants could afford a mortgage for a home but simply do not know that they could, so they fail to apply. This could be termed a failure of information or marketing.

Second, they may be unsure whether they can afford a mortgage or not, but when they try to obtain information from a prospective lender, they are misinformed or otherwise discouraged from applying. This is lender discrimination at the pre-application stage.

Third, they may correctly believe that they cannot afford the size of mortgage required to purchase their desired property (for one personal financial reason or another) and thus do not apply. This is a problem of personal financial management, lack of personal productivity, macroeconomic conditions, or discrimination in the labor market.

Fourth, they may correctly believe that they can afford a sizable mortgage but choose not to apply for one, either because they do not see net advantages from homeownership or because they cannot find a superior home to purchase compared to the one they currently occupy. This could be due to historical unfamiliarity with homeownership, relatively low property appreciation in minority neighborhoods, or discrimination in the housing market, which limits housing choices.

Now consider the higher rate of loan denials for

black and Hispanic applicants. At least four hypotheses offer plausible explanations. First, applications may be treated more harshly by lenders merely because they are from minority applicants or because the property in question is located in a minority-occupied neighborhood. This is the hypothesis of racial discrimination by differential treatment of applications.

Second, applications from minorities may be evaluated according to similar standards as those from whites, but the standards are arbitrary, inflexible, and serve no sound business interest. In this case we would have racial discrimination through adverse impact.

Third, applications from minorities could be treated evenhandedly in light of fair, flexible standards that do have a sound business rationale, but they do not pass muster as often as those from whites. Even with identical incomes, blacks and Hispanics on average are less likely to have as large a downpayment, as long a job tenure, as good a credit history, or as low a debt/income ratio. This situation is due to a long, complex legacy of interracial, economic inequalities in America.

Fourth, minority applicants perhaps would have been approved were it not for appraisers who discriminatorily undervalued the properties in question or mortgage insurers who discriminatorily refused to grant insurance.

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Rural credit

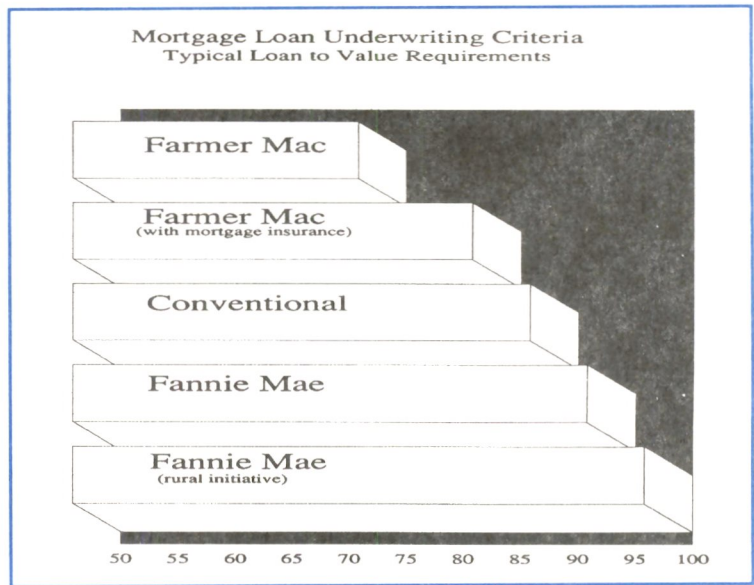
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Another potential 90% federal loan guarantee on rural home mortgages is available through the Rural Loan Guarantee (RLG) program, created by the National Affordable Housing Act of 1990. However, the RLG has limited funding. If committed funds are fully dispersed in 1992, the program will still account for less than 1% of all rural housing loans originated.

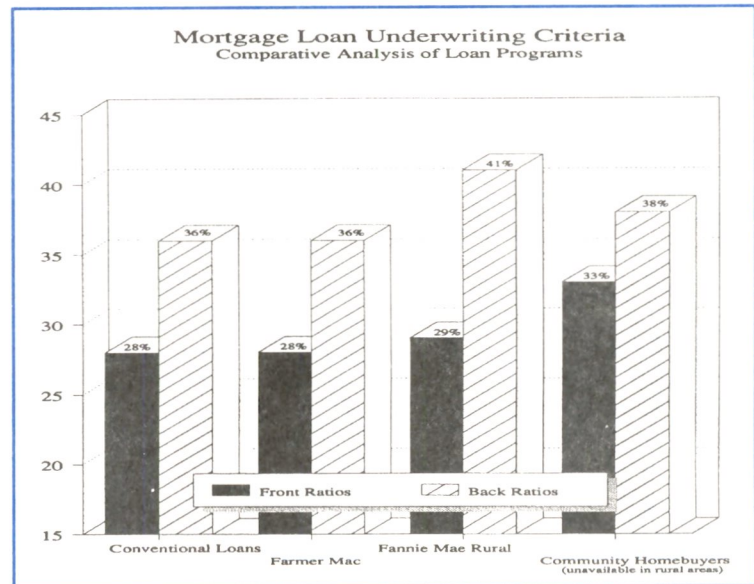
That brings us to a second possible solution to the loan barriers for rural borrowers: selling the loans to the secondary market. By selling the loans to the secondary market, lenders can afford to offer longer maturities because the sale eliminates the problem of interest rate risk. Currently, two major secondary markets are actively working to purchase rural housing loans: The Federal Agricultural Mortgage Corporation (Farmer Mac) and the Federal National Mortgage Association (Fannie Mae).

Farmer Mac's underwriting criteria are relatively strict, and currently no loans have been purchased from banks under this program. Fannie Mae has completed a pilot program to purchase rural housing loans and has recently announced intentions to begin purchasing loans nationwide.

Rural banks have been reluctant to sell home mortgages to Farmer Mac because they are required to retain a 10% exposure on each loan sold and because the underwriting criteria have made it difficult for some borrowers to qualify, especially low- and moderate-income borrowers. Front and back debt ratios are set at 28% and 36%; loan to value ratios are set at 75%, or 85% if the borrower has private mortgage insurance;



Source: Community Affairs Section



Source: Community Affairs Section

maturities are set at 30 years; and eligible areas are limited to towns of less than 2,500 people or unincorporated communities.

Fannie Mae has an attractive program that purchases loans with the 90% Farmers Home Administration guarantee. Approved lenders can sell loans one at a time, and three options exist for the 10% loss exposure. Lenders may assume the exposure, share the exposure, or transfer the risk to Fannie Mae.

Finally, a third possible solution to overcoming barriers for rural borrowers is looking to larger correspon-

dent banks. Many larger financial institutions in urban areas will purchase home mortgage loans from rural banks and help facilitate the packaging and sale of loans to the secondary market. Perhaps these relationships between rural institutions and larger institutions will begin to break down some of the many barriers to affordable home purchase loans in rural areas.

HMDA: How serious is the illness?

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It is my belief that all of these hypotheses have some validity. The problem is that the HMDA data tell us nothing about the degree to which any of them are responsible for what we observe.

No Guidance For Private or Public Policy Responses

Just as a doctor would be a fool to prescribe solely on the basis of an external examination, so would community groups, lenders, or regulators be foolish to concoct policy responses on the bases of superficial lending patterns. No entity in the for-profit, non-profit, or public sectors has enough resources to waste them treating an illness that isn't severe. And unfortunately, it doesn't appear that any single policy "medicine" holds any promise of curing several possible lending "diseases" simultaneously.

Consider again the eight alternative explanations I gave for the observed lending patterns. Each explanation holds a radically different policy implication. If blacks and Hispanics don't apply for mortgages because they are unaware of affordable products, informational outreach programs are in order. If applicants are illegally discouraged from applying, lenders must modify their management, and regulators must modify their examination procedures. If blacks and Hispanics have weak personal finances, policies ranging from credit counseling to improved training to anti-discrimination efforts in labor markets are appropriate. If applicants see no better housing options available, homeownership seminars and anti-discrimination efforts in housing markets are relevant.

"In this supercharged environment, the lending industry cannot afford to be complacent..."

Similarly, if blacks and Hispanics are more often rejected because they are differentially treated or subjected to lending standards having needlessly adverse impacts, reviews of policies and procedures by managers of lending institutions and tighter examination procedures by regulators are in order. If these minorities fail to meet fairly applied standards, new loan products, personal financial counseling, and more systemic changes affecting their earning potential should be considered. Discrimination by appraisers or mortgage insurers would indicate the need for new anti-discrimination policies.

The point is simple. Because HMDA data don't identify the source of the problem, we are left with no guidance about how to invest our scarce resources to best improve meeting the credit needs of blacks and Hispanics.

A Tempting Time for Rhetoric

Unfortunately, in the current politically charged atmosphere, it is tempting to place more veracity in the HMDA data than is warranted. Fair housing and community reinvestment advocates may be

tempted to interpret these data as proof of racial discrimination by lenders. The data are consistent with this interpretation but, unfortunately, do not offer conclusive proof. I have already suggested several alternative, plausible explanations for the findings and have discussed other statistical features of the HMDA data at length in an earlier report issued by the American Bankers Association.²

Indeed, Ron Zimmerman [Vice President and Community Affairs Officer of the Federal Reserve Bank of Atlanta] has provided an effective critique in the previous issue of this publication. We have still been bombarded in the media with the polemics of discrimination in mortgage markets that have originated from community, civil rights, and legislative leaders who ought to know better.

Other responses are equally inappropriate, however. The mortgage lending industry—commercial banks, savings and loans, mortgage companies—may be tempted merely to find solace in the fact that the HMDA numbers offer no conclusive proof of discrimination. Such complacency is unwarranted for two reasons.

First, a different sort of evidence has cast additional shadows of potential discrimination over the performance of mortgage lenders. Experiments were conducted in Louisville during 1988 and in Chicago during 1989.³ These pilot projects used matched pairs of white and black testers posing as mortgage seekers to uncover what occurred in the lending process before loan applica-

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HMDA

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tions were filed. The tests revealed that black testers were less likely to receive information about loan products, less likely to be told whether they qualified for a loan, and less likely to be given helpful suggestions about how to qualify than their comparable white teammates. Unfortunately, these pilot projects were too experimental to be considered definitive proof of discrimination, yet their findings are too provocative to ignore.

Second, even if illegal discrimination were not responsible for the lending patterns observed, the Community Reinvestment Act of 1977 requires that lenders help meet the credit needs of all sectors of their communities. The paucity of funds flowing into many minority-occupied communities and the apparent indifference with which some lenders treat prospective minority loan applicants and their neighborhoods suggests that often this is not occurring.

In this supercharged environment, the lending industry cannot afford to be complacent just because no HMDA-based studies have conclusively demonstrated that it discriminates. Rather, the industry must aggressively demonstrate its commitment to the principles of fair lending and community reinvestment. Lending institutions must conduct rigorous self-evaluations to ensure that all employees, policies, and procedures comply with the law.

In a new American Bankers Association manual, Charles Riesenber and I provide suggestions for how this can be done.⁴ But beyond non-discrimination, lenders must affirmatively expand their marketing efforts and develop

new products to suit the particular requirements and constraints of these communities.

Public policy-makers in Congress and in the agencies that regulate lenders may be tempted to respond to the outcry over the HMDA statistics with ill-conceived programs. They might, for example, mandate credit allocation schemes that would dictate that a certain share of all loans be granted in particular neighborhoods. Such a knee-jerk reaction could seriously distort lending patterns in ways that make no economic or social sense. Equally inappropriate, policy-makers might respond by arguing that because there is no conclusive proof of a problem, there is no problem.

What Should be Done?

What we need now are additional facts that portray an unambiguous picture of what's happening behind the scenes in mortgage markets. In other words, we need data that can confirm or deny the various hypotheses offered above. All the parties involved have a common interest in this. Activists should want to know if their suspicions are justified. Lenders should want to confirm that they are being falsely accused. Congress and the regulators should want to ascertain whether they are fulfilling their oversight responsibilities or whether new initiatives are needed.

Congress or a regulatory agency should commission a comprehensive, definitive study of mortgage markets. This study should not only statistically investigate data from loan application files of a broad sample of lenders, but should also use testers to in-

vestigate the pre-application stages before a "paper trail" is created. Only then will we know the extent to which discrimination by differential treatment is occurring. The highest social-scientific standards would be required. The cost of such a study would be trivial compared to the cost of either ignoring a potentially severe social problem or wasting resources in a vain attempt to solve a minuscule one.

Interracial disparities in mortgage loan application patterns and rejection rates present a seductive opportunity for inappropriate responses. Activists and politicians must not play demagogue. The lending industry must not be complacent. The regulatory agencies must avoid both a "know-nothing" attitude and frenzied overreaction.

Ignorance is bad policy. The country can best be served by intensifying our efforts to investigate lending practices in ways that provide definitive answers both statistically and through the experiences of testers. Activists, the lending industry, Congress, and regulatory agencies have a shared interest in getting to the bottom of this matter once and for all.

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Studies

- Constance Dunham, *The Unknown Lenders: The Role of Mortgage Banks in the Chicago Metropolitan Area* (Chicago: The Woodstock Institute, 1991), 108. The Woodstock Institute, 407 South Dearborn, Suite 550, Chicago, IL 60605, 312/427-8070.
- Ronald Zimmerman, *Lessons Learned from the Atlanta Mortgage Consortium*. Study analyzes that organization's loan portfolio after one year in operation. Federal Reserve Bank of Atlanta.
- The Secondary Market and Community Lending Through Lenders' Eyes*, prepared for Freddie Mac, this report addresses public concern that lenders have been underserving the credit needs of certain communities (1991). Call Angie Grantman (703) 903-2363.

Booklets/Pamphlets

- A Guide to Business Credit for Women, Minorities, and Small Businesses* explains the credit application process, types of loans, and relevant regulations. Board of Governors.
- Business Opportunities Casebook* is an effort to assist rural communities in their economic development efforts. For a copy, contact U.S. Small Business Administration, Rural Development, Business Development Division, 999 18th Street, Suite 701, Denver, Colorado 80202.
- Community Affairs Officers at Federal Reserve Banks* outlines the Community Affairs Officer's role, duties, and responsibilities, particularly those responsibilities related to the Community Reinvestment Act. Federal Reserve Bank of Richmond.
- Home Mortgages: Understanding the Process and Your Rights* details where and how to shop for a mortgage and explains the credit analysis process. Board of Governors.
- How to Establish and Use Credit* discusses how to qualify for credit and use it wisely. Federal Reserve Bank of Philadelphia.
- Is My Bank Meeting Its Community Reinvestment Obligations?* explains the requirements of the CRA and the examination process. Federal Reserve Bank of Atlanta.
- Mid-Atlantic Conference on the Community Reinvestment Act and Community Development Corporations* is an enlightening transcript of a conference on the subject. Federal Reserve Bank of Richmond.

Software

- Public/Private Partnership Model for Home Mortgage Lending* by Ronald Zimmerman is a Lotus-based, interactive computer model that enables the user to specify program underwriting criteria to determine a borrower's or a program's potential. Federal Reserve Bank of Atlanta.

Copies of materials produced by the Federal Reserve System can be obtained by writing or calling the Community Affairs section at the Federal Reserve Bank of Atlanta at (404) 589-7307.

C A L E N D A R

March

Neighborhood Reinvestment Corporation, March 2-6, Baltimore, MD, Neighborhood Reinvestment Training Institute, 30 courses in five areas including affordable housing, commercial and economic development, etc. Contact (202) 376-2642.

Housing Development Reporter & The Institute for Professional and Executive Development, March 12-13, Washington, D.C., *Opening Doors to HOME*. Contact (202) 331-9230.

National Low-Income Housing Coalition & National Low-Income Housing Information Service, March 14-16, Washington, D.C., *Building Housing Resources*. Contact (202) 662-1530.

Federal Reserve Bank of Atlanta, March 17, Nashville, TN; March 18, Atlanta, GA; & March 20, New Orleans, LA. *Community Reinvestment Training Workshops*. Contact Dianne Rawls at (404) 589-7307.

National Alliance to End Homelessness & Single Room

Occupancy Housing Corporation, March 18-20, Anaheim, CA, *Making the Transition to Permanent Housing*. Contact (202) 638-1526.

National Association of Housing and Redevelopment Officials, March 23-25, Washington, D.C., *1992 NAHRO Legislative Conference*. Contact (202) 429-2960.

April

National Peoples Action, April 4-6, Washington, D.C., *21st Annual Conference*. Contact (312) 243-3038.

National Council for Urban Economic Development, April 5-8, Washington, D.C., Annual Conference: *Transitions To The Future American Economy*. Contact (202) 223-4735.

National Trust for Historic Preservation, April 13-15, Tulsa, OK, *National Town Meeting on Main Street*. Contact (202) 673-4219.

Spectrum Services, Inc. & The Alternatives Group, April 20-22, Dallas, TX, *1992 CRA &*

HMDA Conference. Contact (214) 243-8844.

May

National Center for American Indian Enterprise Development, May 10-14, Seattle, WA, *1992 Reservation Economic Summit and National Indian Trade Fair*. Contact (800) 423-0452.

National Association of Government Guaranteed Lenders, May 13-15, Washington, D.C., *Mid-Year Conference on Small Business Lending*. Contact (405) 377-4022.

DID YOU KNOW?

HUD has established a 24-hour Indian housing hotline. A pre-recorded message provides information on Notice of Funding Availability (NOFAs), regulations, handbooks, funding deadlines, and meetings. The number is (202) 401-5060.

Please notify Partners if your organization would like to publicize an upcoming conference. The editor also welcomes information about community and economic development efforts in your community.

PARTNERS

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