

Massachusetts Mortgage Association  
New England Business Conference

Remarks by Cathy E. Minehan  
President and Chief Executive Officer  
Federal Reserve Bank of Boston

May 6, 1997

Royal Plaza Hotel  
Marlborough, Massachusetts

I'm delighted to be with you this morning to discuss the work jointly sponsored by the Federal Reserve Bank of Boston and a wide variety of public and private organizations aimed at expanding access to home ownership in the Boston area. As a bit of background, however, efforts aimed at expanding opportunities for low and moderate income people would be for naught without a healthy economic climate--and we certainly have that both nationally and regionally.

Recent newspaper headlines have already told you about the amazing strength of the national economy. Low unemployment, strong economic growth, more than 2 million jobs created in the past year, strong consumer confidence, declining Federal budget deficit--and all this with very well behaved inflation. One has to go back to the 60's to encounter such a string of good news.

Reflecting this, the New England economy, after a slow start in the early 1990s, is finally in close alignment with national trends. Regional employment has been growing quite briskly over the past year--at a clip of 1.9 percent, just off the 2.2 percent pace for the nation. Massachusetts and New Hampshire have been the regional leaders in creating jobs recently, but Connecticut is gaining momentum as well. In fact, the region has entered its sixth year of sustained job growth, and if the New England economy keeps adding jobs for just another 10 months--as most people expect it will--we will match the 1980s for the longest employment expansion on record.

Unemployment averages only 4.1 percent in our region. In March New Hampshire had the lowest unemployment rate of all 50 states in the nation--2.1 percent. Even in Connecticut and Rhode Island, the New England states with the highest levels of unemployment, the rates are below 5 percent.

Inflation remains low. The latest Boston CPI registered only a 3.4 percent increase compared to a year ago. And from talking to

businesses throughout the region, we know they face competitive pressures that make price increases very difficult to contemplate, much less make stick.

As you more than anyone realize, New England housing activity is quite healthy, being buoyed by the good economy and solid consumer confidence. Sales volumes are up from a year ago, with especially large increases posted for Massachusetts and New Hampshire.

Thus, there is no doubt that things are going well both nationally and regionally. The trick now would seem to be to keep it that way. On the national scene, given resource constraints and the strength of economic growth, vigilance on the inflation front certainly seems to be warranted. Regionally, the best news for us would be for the nation to stay on track and help to keep alive the forward momentum we've been experiencing.

Fortunately in New England, some key factors driving our growth remain in abundance: a spirit of inventiveness, a willingness to take risks, and financial backing for new ventures. I just read a

few days ago--as those of you from this area probably did as well--that Internet and computer-network related software activity has grown by 2000 percent in Massachusetts since the early 90s. From what I can see, these engineers and entrepreneurs likely have many more ideas coming down the pipeline.

There *is* a growing problem of a lack of commercial space in some fast-growing areas of New England, such as Boston. This may be remedied over the next couple of years, as rents likely have risen to a point that justifies new construction, though I expect builders still will be cautious after the lessons of the real estate crisis of the late '80s.

The toughest regional issue, however, is a lack of people to fill jobs, especially those jobs that require technical skills. (We still have an ample supply of people seeking lower-paying jobs.) As a consequence of the recession, many people who had the financial resources to do so left our region for what they perceived as better opportunities elsewhere. Others stayed around but left the labor force. These trends are starting to reverse themselves, but slowly.

The New England labor force is no larger now than it was in 1991. And as we try to attract talent in fields like engineering or software development, we are competing with other parts of the country that also have very good opportunities and tight labor markets.

What is the role of the Federal Reserve in all this? Well obviously we don't control the flow of ideas and people, and we don't decide where and how much construction takes place. But we can--and we will--make every effort to pursue a monetary policy that enables the aggregate economy to continue to grow at a sustainable pace. That is, a pace that is consistent with the constraints imposed by the availability of physical and human resources. To the degree we are successful, our efforts to keep the economy on a sustainable trajectory will, I believe, yield widespread benefits. One of important consequences I hope will be to provide job and income opportunities to those people who have yet to share fully in the recovery that has taken place to date.

In the remainder of my remarks, I'd like to discuss a project in which the Federal Reserve Bank of Boston is taking a more direct role in spreading economic opportunities: The Greater Boston Home Purchase Process Initiative.

I believe that equal access to home ownership must prevail in all of our communities if we are to have a truly stable and growing economy. Home ownership is the cornerstone of community -- it is one of the strongest threads that binds families, neighborhoods, and cities together. And equal access to home ownership ensures that financially-qualified individuals and families can purchase a home, can become part of a community, and can become an integral part of their local economies. If home ownership is not equally available, then these local economies cannot function as they should and as they could.

Here in the Boston area, lenders and community organizations have a history of working together to help ensure that our neighborhoods and cities do work. Their collaborations have led to real improvements -- from 1992 to 1995 mortgage lending to black

residents more than doubled; and lending to Hispanics nearly tripled. These are numbers that we can all be proud of. But even more important, they signify a common commitment to the economic health of all of Greater Boston's communities.

Before I talk about the Initiative itself, I'd like to take a moment to describe its premise and its origins. The project is founded on the premise that buying a home is a multifaceted endeavor, involving potentially a significant range of participants from the realtor to the secondary market player. Opportunities for home ownership can be affected at many points in this complicated process. Opportunities can be affected by industry and professional practices -- in evaluating credit scores, in underwriting homeowner's insurance policies, and in serving individuals of different racial and ethnic backgrounds. They can be affected by public policy constraints -- by those that limit how lenders and originators may counsel their customers, by those that can discourage lenders from conducting self-testing to detect possible instances of disparate treatment, and by those that limit the ability of some lenders to sell loans to the

secondary market. Identifying these points has been the work of project participants.

In 1993, the Federal Reserve Bank of Cleveland led an initiative called the Residential Housing and Mortgage Credit project. It was conducted in partnership with a coalition of business, civic, labor, religious, and education leaders called the Cleveland Roundtable, and resulted in twenty industry recommendations to improve access to home ownership for minority residents in the Greater Cleveland area.

Reserve Banks across the country set about designing their own versions of the Cleveland project. In the spring of 1996, Reserve Banks in San Francisco, New York, Chicago, St. Louis, and Boston launched their projects. All five of these Reserve Banks have now completed their local projects and have compiled their results into a series of final reports.

Later this spring a team of national representatives in the field of home ownership will examine the five reports to determine if there are similar issues that cut across localities. That effort will culminate in a conference this fall, to be held in Washington DC. It will bring

together representatives of the home buying industry, nonprofit organizations, and public sector agencies to discuss areas for improvement in the home purchase process. From this conference, we hope to develop partnerships at the national level and to establish concrete plans to make positive and lasting changes across the country.

Turning back to Boston, our Initiative really began in the late eighties when the Bank published two controversial studies on mortgage lending in Boston that suggested, first, that certain areas were underserved in terms of banking services and credit and second, that racial disparity in mortgage application denials, while largely a factor of income and other financial factors, was not entirely so--race seemed to be a factor all by itself. These studies became the genesis for the formation of the Massachusetts Community and Banking Council; the background behind the Federal Reserve System's "Closing the Gap" publication and video, and the reason we've been so enthusiastic about the promise of our own version of the Cleveland project.

We in Boston believe markets work and that banks are more than ready to lend to any credit-worthy customer. The problem is that a variety of subtle factors can enter the equation--and unless everyone involved in the process is aware of those subtleties, opportunities for profitable loans and access to home purchase can be lost. The Boston initiative is aimed at making all aspects of the home purchase process accessible and understandable.

We started a year ago by building on a record of long-standing relationships with all parties involved in the home mortgage industry and working with 13 private, public and nonprofit sector organizations. I remember the first meeting of the group when one of the morning speakers commented that while he knew everyone in the room, he had never seen them all together in one place. I think that statement was reflective of the challenge facing us--to understand all aspects of the mortgage granting process and assess where problems might occur that could hamper equitable access to credit.

A hallmark of the Boston Initiative--and the other Reserve Bank projects as well--has been the joint coordination of the effort by the co-sponsoring agencies and the Bank. This hasn't been a Bank-run effort, nor are the recommendations for action Bank ideas. Rather the effort has been managed from the start by a coordinating committee of dedicated community, industry and public sector professionals, and the recommendations reflect the efforts of task groups meeting over the year. The Massachusetts Mortgage Association, and especially Steve Sousa, have been deeply involved and I salute their commitment.

Early on, four areas of concern were identified: the mortgage origination process; property appraisal insurance issues; secondary market issues, and, real estate brokerage issues. Four task groups were formed and drew on expertise from across the spectrum of the real estate and lending professions. Lenders and real estate agents, appraisers and home buyer education professionals, secondary market representatives and mortgage insurers all sat around the same table to analyze how current policies and practices could

hinder access to home ownership for minority and lower-income people. Then they worked together to develop recommendations that would help broaden those opportunities.

The Initiative's Final Report, which is available to you from our Public and Community Affairs Department, makes recommendations in three broad areas: access, including the use of technology, awareness on the part of both professionals and consumers, and incentive practices. Time doesn't permit me to review all the recommendations, but let me highlight a couple of areas where I think the task groups have developed some potentially effective ideas.

I was pleased that the Initiative devoted a lot of attention *credit scoring and mortgage scoring*, and their potential impact on home ownership for minority and lower-income people. As I'm sure you've noticed, technology really *is* reconfiguring the way the way lending decisions are made. It is also changing the way we go about our daily lives -- from e-mail to on-line banking. With it, much is removed from our direct control, and that can cause us to be suspicious of it.

At the same time, it can be very useful, facilitating communication with large numbers of consumers or in streamlining our operations. Sometimes the pace of change is dizzying, so it's incumbent on industry to ensure both that the technology of credit scoring and mortgage is *valid* and that it is used *properly*.

I was also pleased to see that all of the task groups emphasized *education*. By ensuring well-trained *professionals* who follow industry best practices, we can go a long way toward improving access to home ownership for minority and lower-income individuals. And when home buyer counseling agencies have comprehensive curricula and the necessary industry support, we can ensure that *consumers* are better prepared for successful home ownership. The groups have come up with some good recommendations to achieve both.

For professionals, task group members recommended a program that will instruct real estate and lending professionals in the unique challenges of working in minority and lower-income neighborhoods. The program will also inform them about available affordable

mortgage and secondary market programs, and then will link them to community-based organizations that help prepare consumers for home ownership, creating a network drawn together by education and information.

And finally, I'd like to mention the report's discussion of the unique challenges of educating appraisers to work in urban areas, and of educate lenders to order the most useful type of appraisal reports. Such comprehensive programs are *bound* to help professionals work more effectively, particularly with minority and lower-income people.

The Initiative's work now enters what I believe is its most important phase -- implementing key recommendations. Over the next year, the Federal Reserve and co-sponsoring organizations will lead -- and interested professionals will participate -- in developing new publications, designing new educational programs, and promoting new policy changes. It is in this phase where we expect-- and we will work hard to ensure--that the hours everyone has spent

in meetings will begin to bear fruit in expanding access to home ownership for minority and lower-income people.

And I believe that these efforts will also bear fruit in expanding opportunities for real estate and lending professionals. As we learned during the task group process, there are a lot of professionals -- mortgage originators among them -- who don't yet recognize the market opportunities that serving minority and lower-income markets can mean. Many are unfamiliar with the numerous special mortgage programs that can make home ownership feasible for lower-income people. Many are unfamiliar with the ways in which they can overcome language and cultural barriers to meet the needs of these home buyers. And many are unfamiliar with the work of community-based organizations, who are working hard at educating first-time home buyers about the intricacies of purchasing and owning a home.

What we're looking to accomplish is to expand the framework in which you go about your business in Boston -- by expanding your resources; by expanding the pool of qualified home buyers; and by

expanding the industry's knowledge of Greater Boston's communities. And in the process, I believe will find that market opportunities will also expand.

In closing, let me say how committed we are at the Boston Fed to ensuring this Initiative leads to beneficial change for everyone involved in the mortgage granting process--the borrower and the industry professional. This project starts from the premise that change can be win-win for all involved. It does so by beginning with the realities of our communities and the professionals who serve them. It seeks to make tangible changes in the home purchase process. And it engages everyone involved in designing and implementing those changes. And this is why I believe it can be so powerful, and why I encourage you to learn more about it -- by reading the Initiative report, and, for those of you in the greater Boston area, volunteering for one of the implementation committees. And I especially encourage you to take advantage of the market opportunities it will create, for the ultimate success of

**this Initiative will be measured by people like you as you build on the home buying framework, and by the people you serve, as they seek home ownership opportunities through you.**