

MORTGAGE LENDING IN BLACK SUBURBAN HOUSING SUBMARKETS

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MORTGAGE LENDING IN BLACK SUBURBAN  
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## INTRODUCTION

In recent decades, black Americans have improved their access to previously closed portions of the housing supply. The most effective means of segregation--for example, restrictive covenants and the discriminatory mortgage lending policies of the Federal Housing Administration--are no longer available. The federal government and numerous local and state governments have promulgated regulations which are intended to limit the ability of lenders, real estate brokers, property owners and developers to discriminate on the basis of race. Despite these changes in law and government policy and practice, serious limitations remain on the residential choices of minorities.

The clearest manifestation of these limitations is the token representation of blacks in suburban areas. The currently popular characterization of an increasingly black central city surrounded by rings of white suburbs is accurate. Blacks have not participated in significant numbers in the rapid post-war suburbanization of the population. In 1960, in the 216 metropolitan areas of the United States, 17.8 percent of the central city population was black; 5 percent of the suburban population was black. In 1970, the proportion of the central city population which was black had risen to 21 percent. The proportion of the suburban popula-

tion which was black showed no increase, remaining at 5 percent.<sup>1</sup>

Since the 1970 Census, there have been population surveys which indicate that increasing numbers of black households are moving to the suburbs.<sup>2</sup> However, the data from these surveys do not make it possible to determine whether the aggregate increases in the black suburban population are occurring in all SMSA's, are limited to a few SMSA's, or whether they take the form of a dispersed pattern of settlement, an acceleration in the growth of small suburban ghettos, or simply the splitting over of central city populations into the suburban ring.

While recent increases in the suburban black population await full evaluation, it can be predicted that as blacks move slowly up the economic ladder, they will seek to broaden their housing choices in the suburbs of the metropolitan areas.

As upwardly mobile and middle class blacks move outward from their central city origins, the central question which arises is whether or not blacks have the same mortgage financing options in the suburban housing markets as those offered to white households.

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<sup>1</sup>U.S. Bureau of the Census, 1970 Census of Population and Housing: United States Summary, "General Demographic Trends for Metropolitan Areas, 1960 to 1970 (Washington, D.C.: Government Printing Office, 1970), Table B, p. 5.

<sup>2</sup>John F. Kain and John M. Quigley, Housing Markets and Racial Discrimination: A Microeconomic Analysis (New York: National Bureau of Economic Research, 1975), p. 299.



The central hypothesis of this research is that suburban housing submarkets which are predominantly black or in the process of racial transition are being inadequately served by conventional mortgage lenders. To say that a submarket is being inadequately served by conventional lenders implies that the demand for conventional credit in that area is not being met.

If this hypothesis is verified, subsequent analysis will seek to determine whether the explanation for the lack of conventional credit lies in supply forces or in demand forces. More specifically, are conventional lenders refusing loans to credit worthy individuals on the basis of race or is there a lack of demand for conventional credit by black homebuyers?

#### National Goals and the Effects of Discrimination

The national goal of equal housing opportunities for all was established by the Congress in 1968 through the enactment of Title VIII of the Civil Rights Act.<sup>3</sup> In terms of housing finance, equal housing opportunity means equal access to the full range of mortgage loan credit, conventional credit and the other forms of home finance. If conventional credit is not an available alternative and homebuyers must depend on government insured or non-institutional financing, homeownership opportunities are restricted.

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<sup>3</sup>Title VIII of the Civil Rights Act of 1968, 42 u.s.c. 3601-3619, 3631 (1970).

One of the effects of the historical and current restrictions on black home ownership is that the opportunity to accumulate capital through home ownership has been limited for minorities. Housing market discrimination, therefore, may be one important reason why black households at every income level possess less wealth than white households.

Also, much of the saving from home ownership derives from the favorable treatment accorded to homeowners under federal income tax laws. Housing market discrimination impedes minorities from taking full advantage of the tax benefits enjoyed by homeowners. Since these tax savings increase with income, this aspect of housing discrimination most sharply affects middle and upper income minorities.

The effects of housing market discrimination, however, reach far beyond housing and include additional, more subtle costs and welfare losses for minorities. De facto segregation, based on racial discrimination in housing, has displaced de jure segregation as the principal cause of segregated education and the inferior quality it typically represents.

Fire and theft insurance rates are typically higher in central city ghettos than in suburban communities. Mortgage financing is more difficult to obtain, the terms are less favorable, than in the suburbs.

Housing segregation and discrimination contribute to employment discrimination for blacks. Geographic limitations on the residential choices of blacks mean that many jobs can

be reached only by time-consuming and expensive commuting. Also, central city blacks may not even learn of employment opportunities in outlying areas. Faced with such obstacles, minorities may settle for low paying jobs near their homes or no job at all, choosing leisure or welfare payments as rational alternatives to low net pay and circuitous transportation.

Another widely accepted social goal is that of neighborhood economic stability. The level of conventional credit varies directly with both supply and demand confidence in a neighborhood. Thus, if the level of conventional credit is low, economic instability is likely to follow. This line of argument is developed in greater detail in Chapter I.

Using the records of 1746 mortgage transactions, this research analyzes the patterns of conventional, government insured and the other types of first mortgage activity for single family housing in two black suburban submarkets in the Atlanta metropolitan area; the pattern of mortgage lending in a white suburban submarket is included for purposes of comparison.

Although the focus of this research is on housing submarkets which are integrated or racially transitional, it is first necessary to provide an overview of the operation of the home mortgage market in order to clarify the basic differences among conventional, government insured and other types of mortgage lending. This is done in Chapter I. Chapter II describes the research methodology. In Chapter III, the

data is analyzed and the hypothesis tested. A summary of the findings, a critique of the research and recommendations for policy are the subjects of Chapter IV.

## CHAPTER I

### THE SINGLE FAMILY MORTGAGE MARKET

Home mortgage loans may be either conventional, seller financed or government insured. Each type of loan may be characterized in terms of its advantages and disadvantages to the individual homebuyer and seller and to the community as a whole.

#### Conventional Mortgages

Conventional loans are those which are originated by institutional mortgage lenders (commercial and savings banks, savings and loan associations and mortgage bankers) and which are not insured or guaranteed by the federal government.<sup>4</sup> Since conventional loans are secured by the value of the property purchased and by the credit-worthiness of the borrower, they are generally made in accordance with strict underwriting standards and require relatively high down-payments (usually 10 to 25 percent of the purchase price of the property).

Despite the larger equity investment required for a conventional mortgage, the individual homebuyer may consider

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<sup>4</sup>Although these institutional lenders originate both conventional and government insured loans, S&L's and commercial and savings banks are the primary originators of conventional loans and mortgage bankers, the primary source of government insured loans. In this study, therefore, the term "conventional lender" will refer to S&L's and commercial and savings banks.

a conventional loan more desirable than a government insured loan because:

1. The cost of the mortgage is usually lower than it is for a government insured loan.
2. The loan processing time is usually shorter than it is for a government insured mortgage.

The availability of conventional credit is crucial to the growth and overall economic stability of a community or a neighborhood; the proportion of total sales which are conventionally financed may be used as a measure of the viability of a neighborhood's housing market.

Thus, the level of conventional credit which is available in a neighborhood will vary directly with the level of confidence that potential homebuyers and property owners have in the area. In an area where disinvestment by conventional lenders is underway, prospective homebuyers will be less willing to purchase homes for fear their investments will not be redeemable through ultimate resale or remortgaging. Existing homeowners will be less able to obtain refinancing or rehabilitation loans and, therefore, must often go without needed home improvements and repairs. Without funds for the preservation or improvement of property, the physical deterioration process will be hastened.

#### Privately Financed Mortgages

The private mortgage is usually negotiated between the

buyer and the seller when institutional mortgage financing is not available. The non-institutional mortgage offers some benefits. Since only two parties are involved, the private mortgage is less complicated than the typical three-party transaction. The private loan frequently does not transfer title which means that there are fewer filings and less paperwork. It is less time consuming, and, initially, less costly. Downpayments are negotiable and, frequently, almost negligible.

However, private financing has a number of serious disadvantages. A major drawback is high cost. The private mortgage frequently has a higher interest rate than other financing. The term is sometimes short, causing debt service pressures.

If the transaction takes the form of a land installment contract (LIC), the buyer has virtually no rights to the property until the contract is paid off. Thus, the buyer is not entitled to the rights afforded by the institutional mortgage, and the seller cannot recoup his total investment in the property until the loan has run its full term.

When disinvestment by institutional mortgage lenders occurs in an area, transactions are financed in increasing volume through non-institutional channels. As the flow of home mortgage capital decreases, loans for maintenance and rehabilitation are increasingly difficult to obtain. This turn of events operates to accelerate the deterioration of a

neighborhood.

### Government Insured Mortgages

Government insured mortgages are either insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA). These loans are secured by the full faith and credit of the federal government.

Under Section 203 of the National Housing Act of 1934, the Federal Housing Administration insures first mortgage loans up to \$60,000 on single family homes and requires low downpayments (as little as 3 to 5 percent of the appraised value of the house). The Veteran's Administration guarantees the lender against loss up to 60 percent of the loan, with a maximum guarantee of \$17,500 for home loans. A VA loan requires no downpayment provided the total loan amount does not exceed the home's appraised value.

Since a government insured mortgage requires little or no downpayment, a potential homebuyer may consider a VA or an FHA mortgage more desirable than a conventional loan. However, VA and particularly FHA mortgages present problems of their own.

The loan processing time for a government insured loan is normally longer than for a conventional loan. Processing costs for an FHA loan may be more expensive than with other loans, particularly when there are time consuming delays.

Both VA and FHA loans are generally more expensive to homebuyers and sellers. The added cost which VA and FHA loans



bring to a transaction derives mainly from the fact that historically, VA and FHA interest rates have been below the market interest rate. In order to make up this difference in interest rates, lenders discount their VA and FHA loans by charging "points" to the seller. The cost of the points are, of course, passed on to the buyer in the sales price of the home.<sup>5</sup> In the case of FHA loans, the seller must pay the points himself if the price of the house requires a loan already at the statutory limit for FHA insurance (\$60,000).

Also reflected in the selling price is the cost of the repairs which a seller of a property being financed by an FHA or a VA loan must frequently make. Further, the FHA mortgagor must pay a 0.5 percent insurance premium. VA loans include no additional charge for insurance.

For these reasons, many low and moderate income homebuyers, especially those with marginal credit ratings, cannot depend on FHA loans. LIC transfers, with their low downpayment, quick processing time and acceptance of even the marginal credit individual, are often the only financing mechanism for the low or moderate income homebuyer.

FHA loans are not only more expensive to homebuyers and sellers than conventional loans, but less flexible as well. Since the holder of a conventional mortgage must assume the full risk of the loan himself, he will generally provide a

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<sup>5</sup>The added cost derived from the charging of points is usually between 1 and 7 percent of the sales price.

delinquent mortgagor with adequate forbearance opportunities to try to make the loan current again. Forbearance opportunities offered by mortgagees include accepting partial mortgage payments or recasting loans so that the term of the repayment of the principal balance is extended.

The holder of an FHA insured mortgage, on the other hand, has less incentive to provide forbearance opportunities. While the costs of working out programs of forbearance and adjustment are not recoverable in the event of foreclosure, the government reimburses the mortgagee for the principal of the loan, the delinquency interest, and two-thirds of the foreclosure costs.

While HUD guidelines state that FHA servicers are required to provide adequate forbearance opportunities before initiating foreclosure actions, the regulatory authority which FHA has over its servicers is limited.<sup>6</sup> In 1974 and 1975, community groups in several major cities charged FHA mortgagees with systematic violations of the spirit, if not the letter, of HUD guidelines governing forbearance.<sup>7</sup> These accusations were bolstered by evidence obtained by Congressional hearings and internal HUD audits. Mortgage bankers, the primary origi-

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<sup>6</sup>FNMA (Federal National Mortgage Association), however, does have effective regulatory authority over its FHA servicers who must report regularly on delinquencies and abandonments, and before foreclosing, must obtain the approval of FNMA.

<sup>7</sup>Barry Zigas, "FHA: Neighborhood Friend or Foe," Housing and Development Reporter, Special Report: Neighborhood Preservation (1975), pp. 394-96.

nators of FHA insured loans, have been the main target of such charges.

Although the delinquency and foreclosure ratios for VA loans consistently run close behind those for FHA loans,<sup>8</sup> the administration of the VA loan program has not resulted in allegations of unwarranted fast foreclosures. It appears that in most regions, the forbearance practices of VA servicers are more closely monitored than those of FHA servicers.

Despite these disadvantages to the individual homebuyer, government loan insurance programs have extended homeownership opportunities to countless individuals who could not afford to make the higher downpayments required on a conventional loan. At the community level, the expansion of the FHA lending programs in the late 1960's<sup>9</sup> provided an additional source of mortgage financing for central city communities throughout the nation, many of which had little conventional mortgage capital. Also, these programs have bolstered the capacity of lending institutions to make mortgage loans during tight money periods.

Even though these home loan programs have been successful in underwriting the mortgage financing needs of numerous

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<sup>8</sup> Mortgage Bankers Association of America, National Delinquency Survey (Washington, D.C.: June 30, 1977), pp. 9-12.

<sup>9</sup> The FHA mortgage insurance program was initiated in the 1930's, and from that time until the late 1960's, the program served primarily middle income families, most of whom were buying newly constructed homes in the suburbs.

individuals and communities, it is generally held that high concentrations of government insured loans in a neighborhood may have a destabilizing effect. Since the early 1970's, community groups in cities throughout the country have been vociferous in their claim that FHA lending programs have hastened the cycle of disinvestment by institutional mortgage lenders.<sup>10</sup>

This claim is based on the phenomenon occurring in many communities that as FHA lending increases to fill a vacuum created by a flight of conventional mortgage capital, this flight is accelerated; conventional lenders seem to regard an increasing presence of FHA loans as a confirmation of their original doubts about a neighborhood.

Researchers from Chicago's Metropolitan Area Housing Alliance, a city-wide coalition of community groups, found that in one community, conventional loans plummeted from over 60 percent to under 10 percent of loans made between 1965 and 1969; FHA mortgages soared from 6 percent to 86 percent.<sup>11</sup>

Instances of dramatic shifts in mortgage credit sources in communities where FHA lending is increasing are well documented in the testimony and studies presented at the U.S. Senate Hearings on the Home Mortgage Disclosure Act in 1975.

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<sup>10</sup> Zigas, pp. 394-95.

<sup>11</sup> U.S. Congress, Senate, Home Mortgage Disclosure Act of 1975, Hearings Before the Committee on Banking, Housing and Urban Affairs, 94th Cong. 1st sess., on S. 1281, Parts I and II (Washington, D. C.: Government Printing Office, 1975), p. 180.

One reason why institutional lenders view neighborhoods with high concentrations of government insured lending as poor business risks is that loan defaults, foreclosures and abandonments regularly run higher on government insured loans than on conventional mortgage loans.<sup>12</sup> The low down-payments on government insured loans have permitted thousands of low and moderate income individuals to purchase homes. These individuals are more susceptible to fluctuations in the national economy; during economic recessions, they may find it impossible to make their monthly payments. Also, because of the low amount of equity invested in a FHA or a VA insured home, a mortgagor may find that he has little to lose by walking away from his loan.

Further, the criticisms which have been directed against the administration of FHA lending programs since the late 1960's--the allegations of unwarranted fast foreclosures, inflated property appraisals, unsound credit underwriting, excessive discount points, speculative practices by realtors, and lack of maintenance of abandoned properties--have adversely affected the conventional lender's perception of the "FHA neighborhood."

In 1972, the Committee on Governmental Operations made the observation that one of the most painful lessons on the foreclosure experience on FHA homes is that when lenders write

<sup>12</sup>Federal Home Loan Bank Board, Aggregate Images (Washington, D. C.: June 30, 1977), p. 3.

mortgages for home purchases and then sell FHA backed mortgages to FNMA, they frequently abdicate responsibility for screening potential home purchasers and determining if the mortgaged property is structurally sound and fairly valued. The report points out that "neither FHA nor FNMA has taken steps to bar imprudent mortgage lenders from doing business."<sup>13</sup>

### Summary

The purpose of the preceding description of the various types of financing available in the home mortgage market is not to suggest that in any given submarket, the total replacement of government insured and non-institutional financing by conventional lending is desirable or even possible.

Every housing submarket has its particular characteristics and needs as a community, and within each submarket, there are as many different financing needs as there are individual buyers and sellers. Just as there is no mortgage loan mix which is universally desirable, there are no easy formulae to apply to the question of what is the most desirable mortgage lending pattern for a specific market at a specific point in time.

What this section does suggest is that if individual buyers and sellers in emergent black submarkets are to have the opportunity to choose that type of financing which best

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<sup>13</sup>U.S., Congress, House, Committee on Governmental Operations, Defaults on FHA Home Mortgages (Washington, D.C.: Government Printing Office, June 1972), pp. 4-5.

suits their particular needs and resources, a full mix of loan types should be available to them. Also, given the destabilizing effects of high concentrations of government insured and non-institutional lending, it is clear that the presence of conventional credit in emergent black neighborhoods is essential if they are to develop and remain stable.

## CHAPTER II

### REVIEW OF THE LITERATURE

With the widening concern over urban neighborhood decline in recent decades, there has been an increasing focus on the diversion of mortgage capital from central cities to suburban areas and the concomitant decline in the economic viability of central city housing markets.

Many of the studies which have been an issue of this focus reveal that race has played a significant role in the formation of institutional mortgage lending patterns. These studies show that there has been a decreasing commitment on the part of commercial and savings banks and S&L's to underwrite single family residential mortgages in areas which are predominantly black, in areas undergoing racial transition, and in areas which are in the path of racial transition.

This literature review includes the major studies which focus on the race and the shape of the mortgage credit market. These studies are characterized by surveys of lending practices of the local mortgage lending industries in various cities. They focus upon the institutional constraints which inhibit or prevent mortgage capital from flowing into minority or transitional communities.



### Studies of Discrimination in Mortgage Lending

In 1966, the New York City Commission on Human Rights described how the practices of mortgage lending institutions affected minority purchases of residential property in southern Queens County, New York.<sup>14</sup>

Using data gathered through interviews with real estate brokers, officials of public agencies, members of several human rights associations, private individuals and officials of lending institutions, the study found five major factors which inhibited minorities from obtaining adequate mortgage financing: (1) a lack of finances deriving from low income, no savings, an unstable economic status, and a poor credit rating; (2) inadequate facilities or an unattractive environment; (3) the absence of an open housing market which limits selection; (4) a low level of sophistication (a lack of knowledge about mortgage financing), (5) discriminatory practices of lending institutions.

The Commission suggested that one reason for the lack of conventional mortgage financing in the area was the "legacy of mistrust" held by minority real estate brokers and minority home seekers which inhibited them from seeking conventional financing and encouraged them to obtain mortgages largely through the services of mortgage bankers.

George Sternlieb, in a 1970 study of New York City's

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<sup>14</sup> New York City Commission on Human Rights, Residential Mortgage Financing and Minorities in New York City (New York: September 1966).

housing problems explored mortgage availability in specific areas from the perspective of the borrower and the lender.<sup>15</sup> On the basis of interviews with bankers and property owners, Sternlieb suggested that there was widespread institutional disinvestment in areas in New York City which had recently changed in racial composition or were in the path of projected transition.<sup>16</sup>

The National Urban League found a similarly clear pattern of disinvestment by conventional lenders in Bronx County during the 1960's.<sup>17</sup> Using regression analysis and thereby controlling for several key variables, the researchers attempted to explain the variation in the number and value of mortgages made by twelve Bronx County conventional mortgage lenders. It was found that race played a significant role in determining mortgage lending patterns: "As the number of blacks and Puerto Ricans in each...district increased, the number and value of mortgages made decreased."<sup>18</sup>

Thus, they concluded, while the analysis "does not suggest that race is the only or the primary variable considered by mortgage lenders...it does disprove the assertion

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<sup>15</sup>George Sternlieb, The Urban Housing Dilemma (New York: New York City Housing and Development Administration, 1971).

<sup>16</sup>Ibid., p. 318.

<sup>17</sup>National Urban League, Where the Lender Looks First: A Case Study of Mortgage Disinvestment in Bronx County, 1960-1970, by Richard J. Devine, Winston O. Rennie and N. Brenda Sims (New York: 1973).

<sup>18</sup>Ibid., p. xi.

that race has no significant bearing on mortgage lending."<sup>19</sup>

Similar findings were disclosed in a study of mortgage financing in Baltimore and Baltimore County during the period 1970 to 1972.<sup>20</sup> The researchers computerized data on sales prices, amount of mortgage, location, mortgagee and rate and term of mortgage for each transaction in Baltimore City during the study period and used a set of control information for all of Baltimore County.

The study revealed that within the same income group, the percent of the market absorbed by conventional financing decreased as the percentage of blacks increased. Conventional lenders seemed particularly reluctant to originate mortgages in the black tracts where average yearly income was \$8,000 to \$9,000 and \$10,000 to \$11,999. White areas (less than 10 percent black) in the \$8,000 to \$9,000 income range had 38 percent conventional financing while black areas (over 90 percent black) showed only 18 percent. White areas in the \$10,000 to \$11,999 income range showed 55 percent conventional financing with black areas showing only 31 percent. In the upper income group (over \$12,000), conventional financing was approximately the same in white and black areas (56 and 54 percent). The study concluded that

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<sup>19</sup> Ibid., p. xii.

<sup>20</sup> City of Baltimore, Department of Housing and Community Development, Home Ownership and the Baltimore Mortgage Market (Baltimore: 1974).

racial discrimination in lending appeared to be limited to moderate income blacks; racial discrimination in mortgage lending was not significant within the upper income portions of the market.<sup>21</sup>

Mortgage bankers were shown to be most active in the moderate income tracts (\$8,000 to \$12,000) which were integrated or racially transitional. Since conventional financing was not as high in such areas as in white and higher income areas, mortgage banks, utilizing FHA insurance, thus captured a large portion of the market.<sup>22</sup>

In another study of the mortgage finance system, the U. S. Commission on Civil Rights found discriminatory practices towards minorities and women in Hartford, Connecticut.<sup>23</sup> A survey of real estate brokers, officials from mortgage lending institutions and private individuals provided data which enabled evaluation of the impact of the criteria governing mortgage loan decisions. The study concluded that "...the system of mortgage finance, represented by the screening process and the subjectivity of many of the criteria on which qualifications are measured, affords ample opportunity

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<sup>21</sup>Ibid., p. 60.

<sup>22</sup>Ibid., pp. 69-70.

<sup>23</sup>U. S. Commission on Civil Rights, Mortgage Money: Who Gets It? A Case Study in Mortgage Lending Discrimination in Hartford, Connecticut (Washington: D. C.: Clearinghouse Publication, No. 48, June 1974).

for the discriminatory rejection of minorities."<sup>24</sup>

Evidence of the following practices was found: (1) imprecise criteria for lending; (2) a rationing out of marginal mortgage seekers due to the current tight money situation; (3) the arbitrary treatment of female or joint family heads; (4) a more thorough screening of minority applicants by real estate brokers and loan officers; (5) overt discrimination on the part of some brokers based on the assumption of minority credit unworthiness; (6) the steering of minority applicants into minority neighborhoods; (7) a screening out of marginal applicants by minority brokers based on the fear of losing their relationships with lending institutions; (8) an over-cautiousness of loan officers deriving from a concern for advancement; and, the underappraisal of property in minority areas by white appraisers forcing additional financing.

In a study carried out by Chicago's Metropolitan Area Housing Alliance, changes in the sources of mortgage financing in two neighborhoods undergoing racial transition were measured for the years 1950 through 1974.<sup>25</sup>

One of the neighborhoods, Roseland, is a middle class community<sup>26</sup> with 20 percent of its housing stock built after 1950. The other neighborhood, West Englewood, is a blue-collar community with a housing stock built primarily in the

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<sup>24</sup>Ibid., pp. 68-69.

<sup>25</sup>The Home Mortgage Disclosure Act Hearings, pp. 177-90.

<sup>26</sup>This study is weakened by the fact that incomes were not defined.

1920's. For purposes of comparison, a third neighborhood, Jefferson Park, was chosen. This community, which is similar to Roseland in median family income, median home value and age of housing did not undergo racial transition.

The study revealed that the racial transition which occurred in Roseland and West Englewood during the 1960's and early 1970's coincided with a dramatic withdrawal of conventional financing and an influx of FHA loans. This shift in mortgage credit sources occurred despite the fact that the new black residents were of substantially the same income and occupational levels as the former white homeowners.

Thus, despite their economic differences, the two transitional neighborhoods showed similar shifts in mortgage lending patterns after 1965 from conventional to FHA lending. In the two economically similar neighborhoods (Roseland and Jefferson Park), there were similarities in mortgage lending patterns until 1965. Although Roseland kept pace with Jefferson Park in increases in median family income and home value between 1965 and 1974, mortgage lenders did not treat the two neighborhoods in the same way: there was a 5 percent increase in the proportion of conventional financing in Jefferson Park during the period while conventional loans fell from over 60 percent to 10 percent of loans made in Roseland. FHA loans never rose above 5 percent in Jefferson Park, and in Roseland, they soared from 6 percent to 86 percent during the study period.

A 1972 U. S. Department of Housing and Urban Development survey of over 15,000 lending institutions demonstrated the degree to which these mortgage lenders considered factors which either directly or indirectly would work to the disadvantage of minorities.<sup>27</sup> Almost 17 percent of the total stated they considered the racial or ethnic characteristics of a neighborhood in evaluating loan applications. Over 15 percent considered the presence of low rent public housing projects as a negative factor. Twenty percent took into account the income level of neighborhood residents in evaluating loan applications in a particular area. All these criteria would make it more difficult for a minority loan applicant applying for a mortgage.

A Federal Home Loan Bank Board survey made public in August 1975, indicated S&L's were discriminating against minorities.<sup>28</sup> The survey was based on a form that required S&L's to report the disposition of loan applications, the census tract of the property involved, the race, marital status and the sex and age of the loan applicant. The conclusion of the survey was that S&L's were rejecting proportionately more of the applications of blacks than of whites.

In the aggregate, 18 percent of the loan applications

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<sup>27</sup> U.S. Department of Housing and Urban Development, Office of Equal Opportunity, Private Lending Institutions' Questionnaire on Return (Washington, D.C.: Government Printing Office, 1972).

<sup>28</sup> Federal Home Loan Board, Fair Housing Information Survey (Washington, D.C.: 1975).

of blacks were denied compared with 8 percent of the applications of whites. However, the interpretation of these results is ambiguous because the survey did not control for income differences between whites and blacks.

In 1976, Research Atlanta published a study of the patterns of home mortgage lending within the City of Atlanta and throughout the five county metropolitan area during 1974 and 1975.<sup>29</sup> The study provides the percentage contribution of each type of mortgage lender to the total volume of first mortgage activity within each of Atlanta's Neighborhood Planning Units (NPU's).

One of the most striking results of the study was the significantly lower level of S&L lending (as percentage of total lending activity within the NPU) in the predominantly black southern and western NPU's of the city as compared with S&L activity in the predominantly white northern neighborhoods in the southwest. In the southern and western areas, mortgage banks were shown to have the highest share of the institutional market.

The study, however, did not break down lending activity by type of loan. Instead, a random sample of all mortgage bank activity within the city was taken in order to determine what proportion of loans in each NPU was government insured. Estimates based on this sample showed that the neighborhoods

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<sup>29</sup>Research Atlanta, Mortgage Lending Patterns in Atlanta (Atlanta: 1976).



receiving the lowest levels of S&L activity were also receiving the highest proportion of FHA insured loans.

### Summary

The above studies support the view that racial minorities are faced with discriminatory practices in the home mortgage market which reduce their financing options.

Evidence that mortgage lenders discriminated against low and moderate income black was found in the studies conducted by the New York Commission on Human Rights, the U. S. Commission on Civil Rights and in the Baltimore research. The Baltimore study also found that there was little evidence of discrimination in the upper income portion of the market. However, the Research Atlanta study showed that middle and upper income black neighborhoods were receiving a lower level of conventional credit than white neighborhoods which had similar income levels.

While several of the studies mentioned in this review have included in their study areas black suburban submarkets, their main intent was not to isolate the specific problem of homeownership opportunities in black suburban areas.

The absence of research on this topic derives primarily from the fact that until very recently, it appeared that the trend in the nation's metropolitan areas of increasingly black central cities surrounded by "lily white" suburbs would remain unmodified.

In 1968, the Report of the National Commission on Urban Problems predicted that, if the trends of the last few decades are maintained, there will be a net drop in the white population in central cities accompanied by a steady rise in the black population.<sup>30</sup> The report estimated that the percentage of blacks in the central cities will almost double between 1960 and 1985. It was estimated that the percentage of blacks in the suburbs would increase only slightly, from 5.2 percent in 1960 to 6.1 percent in 1985.<sup>31</sup>

While there is little likelihood of a major shift in these trends, they will be modified somewhat by the emergence, since the late 1960's, of two other phenomena in the nation's metropolitan areas. The first is the revival of older central city residential neighborhoods and the movement of middle class whites back into the city. The second trend is the outward movement of middle class and upwardly mobile blacks to the suburbs.

As these blacks seek to broaden their access to the suburban housing supply, they will form an expanding, economically viable market segment. Despite this new marketing opportunity, these submarkets have remained largely unexplored by the suppliers of conventional mortgage capital; it appears

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<sup>30</sup>Building the American City: Report of the National Commission on Urban Problems to the Congress and to the President of the United States (Washington, D.C.: Government Printing Office, 1968) pp. 40-45.

<sup>31</sup>Ibid., p. 43.

that mortgage lenders are holding to the long-held belief that minority lending is inherently unprofitable.

This research hypothesizes that suburban housing submarkets which are predominantly black or in the process of racial transition, are being inadequately served by conventional mortgage lenders. Thus, the financing options of many homebuyers and sellers in these submarkets are limited; they must resort to the additional time and expense incurred by a VA and FHA insured mortgage.

This hypothesis is tested in Chapter IV which describes and analyzes mortgage lending patterns in three suburban housing submarkets in the Atlanta metropolitan area during the time period December 1972 through November 1974. The three study areas, Northeast, Cascade-Southwest, and East Point, are described in Chapter III.

This research remedies the methodological deficiency in the Research Atlanta study by examining mortgage lending patterns not only by type of mortgagee but also by type of loan. In addition, this research differs from the Research Atlanta study in that it covers the non-recessionary periods 1972-1973 and 1976, while the Research Atlanta investigation was concerned only with the period 1974-1975 which coincided with the 1974-1975 recession.

## CHAPTER III

## METHODOLOGY

To state that a housing submarket is "inadequately" served by conventional mortgage financing implies that the demand for conventional credit in that area is not being met. A precise determination of whether or not this is so requires data on mortgages sought but not approved. However, where data on the disposition of loan applications are not available, as is usually the case, it is not possible to conclusively test whether or not conventional lenders are satisfying all or even a portion of the total demand in the submarket, i. e., is the area being "redlined"<sup>32</sup> by conventional lenders?

An alternative methodology was developed in this research for testing the hypothesis that adequate conventional financing is unavailable in black housing submarkets.

This methodology is summarized as follows:

1. Using records of mortgages obtained, determine the patterns

<sup>32</sup>Redlining, as the term is most often used, is the practice by a lender of denying credit for home purchase or home improvements for properties within a specific geographic area (assuming that the area is within the lender's normal lending territory). The practice of redlining is considered discriminatory because the basis of exclusion, i.e., geographic location, is a criterion which is considered to have little to do with sound underwriting criteria, e.g., the creditworthiness of the individual applicant and the quality of the specific property.

of conventional, government-insured and other types of first mortgage activity for single family housing.

These patterns provide a profile of the supply of mortgage financing in which concentrations and imbalances may be seen.

2. When precise data on the level of demand for conventional credit in a submarket are not available, infer, by using income and housing statistics and other current socio-economic information, whether or not an effective demand for conventional credit exists, i.e., is there a demand in the submarket which is capable of absorbing and utilizing conventional mortgage credit?
  - a. Using income statistics, estimate whether or not the submarket has residents with sufficient income to make the down payments required for conventional mortgage loans.
  - b. Using housing statistics, determine whether or not the submarket has housing which is of an age and in a condition that is satisfactory for the granting of conventional loans.
  - c. Analyze and project other socio-economic characteristics of the submarket. Housing demanders (as well as investors), are influenced by both current conditions in a neighborhood and by expectations concerning future neighborhood characteristics. Some indicators of current and future characteristics are physical appearance of

the neighborhood, the amounts and types of new investment, turnover rates and changes in housing prices.

3. Analyze existing mortgage lending patterns (the supply of mortgage financing) relative to an effective demand in the submarket, i.e., is there a sufficient supply of conventional mortgage capital to meet the demand for this type of financing?
4. For purposes of comparison, select a white housing submarket with a similar income level, age and condition of housing and location relative to the central business district.

The following is a description of how the first two steps in this generalized approach, i.e., the profiling of supply and effective demand, were applied to three suburban submarkets in the Atlanta metropolitan area. In Chapter IV, the patterns of actual mortgage lending in these submarkets are analyzed and related to the inferences regarding effective demand.

#### Study Area Delineation

Two residential areas in southwest Atlanta, Cascade-Southwest and East Point, were chosen as suburban submarkets where there has been an influx of black businessmen, professionals and politicians. A white residential area, Northeast, was selected for purposes of comparison with the Cascade-Southwest area.

### Study Area I

Study Area I, Northeast, located in the northeastern section of the City of Atlanta is delineated by City of Atlanta NPU boundaries: Northeast, Brookhaven and Ridgedale Park in NPU B (Illustration I).

This study area includes some of the city's most affluent residential neighborhoods. In 1976, the area had a population of 7,539.<sup>33</sup> Annual mean income in 1974 was \$15,402.<sup>34</sup>

In 1973, approximately 90 percent of the housing stock in the area had a mean age of from 21 to 30 years. The remaining 10 percent of the housing had a mean age of from 11 to 20 years.<sup>35</sup> The percentage of housing units which were in standard condition in 1975 was between 90 and 100 percent.<sup>36</sup>

Less than 1 percent of the population in Northeast is black.<sup>37</sup>

### Study Area II

Study Area II, Cascade-Southwest, which lies in the

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<sup>33</sup>City of Atlanta, Department of Budget and Planning, Population Profile (Atlanta: 1976).

<sup>34</sup>R. L. Polk and Company, Report V6350, "Index of Household Income," Profiles of Change (Detroit: 1974).

<sup>35</sup>City of Atlanta, Department of Budget and Planning, PLAN File (Atlanta: June 1973).

<sup>36</sup>City of Atlanta, Department of Planning and Budget, Neighborhood Planning Unit Profiles (Atlanta: 1975).

<sup>37</sup>City of Atlanta, Population Profile.

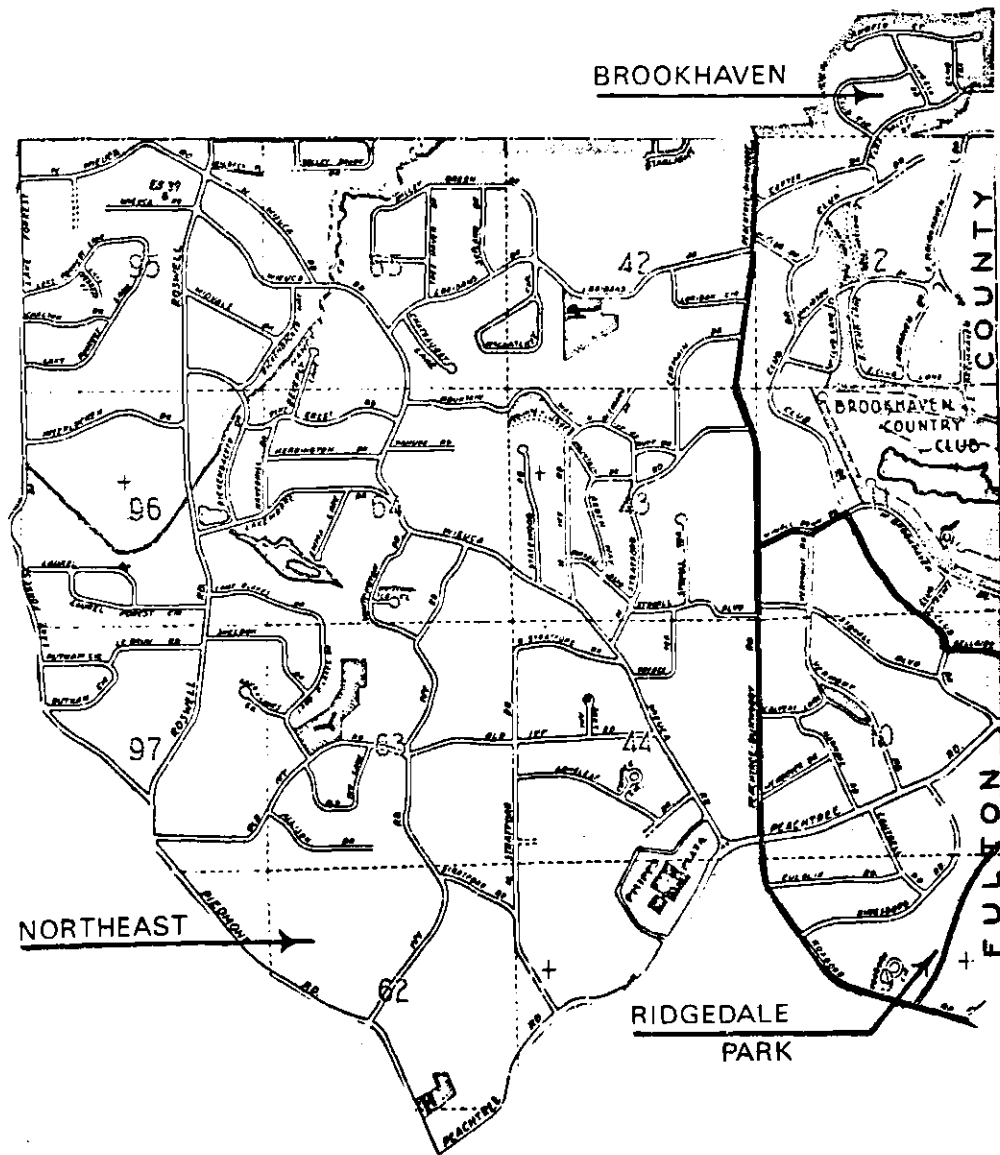


Figure 1. Study Area I - Northeast.



southeast quadrant of the city, is delineated by City of Atlanta NPU boundaries: Cascade Heights and Audubon Forest in NPU I, and a contiguous neighborhood, Southwest, in NPU R (Illustration 2).

This study area includes neighborhoods which are comparable in income level and housing stock to those in Northeast. The 1976 population of Cascade-Southwest was 9,639.<sup>38</sup> The annual mean income for the area in 1974 was \$14,672. The 1974 income levels of both Study Areas I and II were more than 15 percent above the national average.<sup>39</sup>

In 1973, 90 percent of the housing units in the area had a mean age of from 11 to 20 years. Ten percent of the housing units had a mean age of from 21 to 30 years.<sup>40</sup> As in the Northeast, 90 to 100 percent of the housing units in Cascade-Southwest were in standard condition in 1975.<sup>41</sup>

The neighborhoods in Cascade-Southwest are predominantly black. Cascade Heights experienced rapid racial transition during the 1960's, and by 1974, more than 80 percent of the neighborhood's population was black.<sup>42</sup>

An Atlanta Regional Commission study which measures increases in the black population during the 1970-1974

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<sup>38</sup>City of Atlanta, Population Profile.

<sup>39</sup>R. L. Polk and Company, Profiles of Change.

<sup>40</sup>City of Atlanta, PLAN File.

<sup>41</sup>City of Atlanta, Neighborhood Planning Unit Profiles.

<sup>42</sup>City of Atlanta, Population Profile.

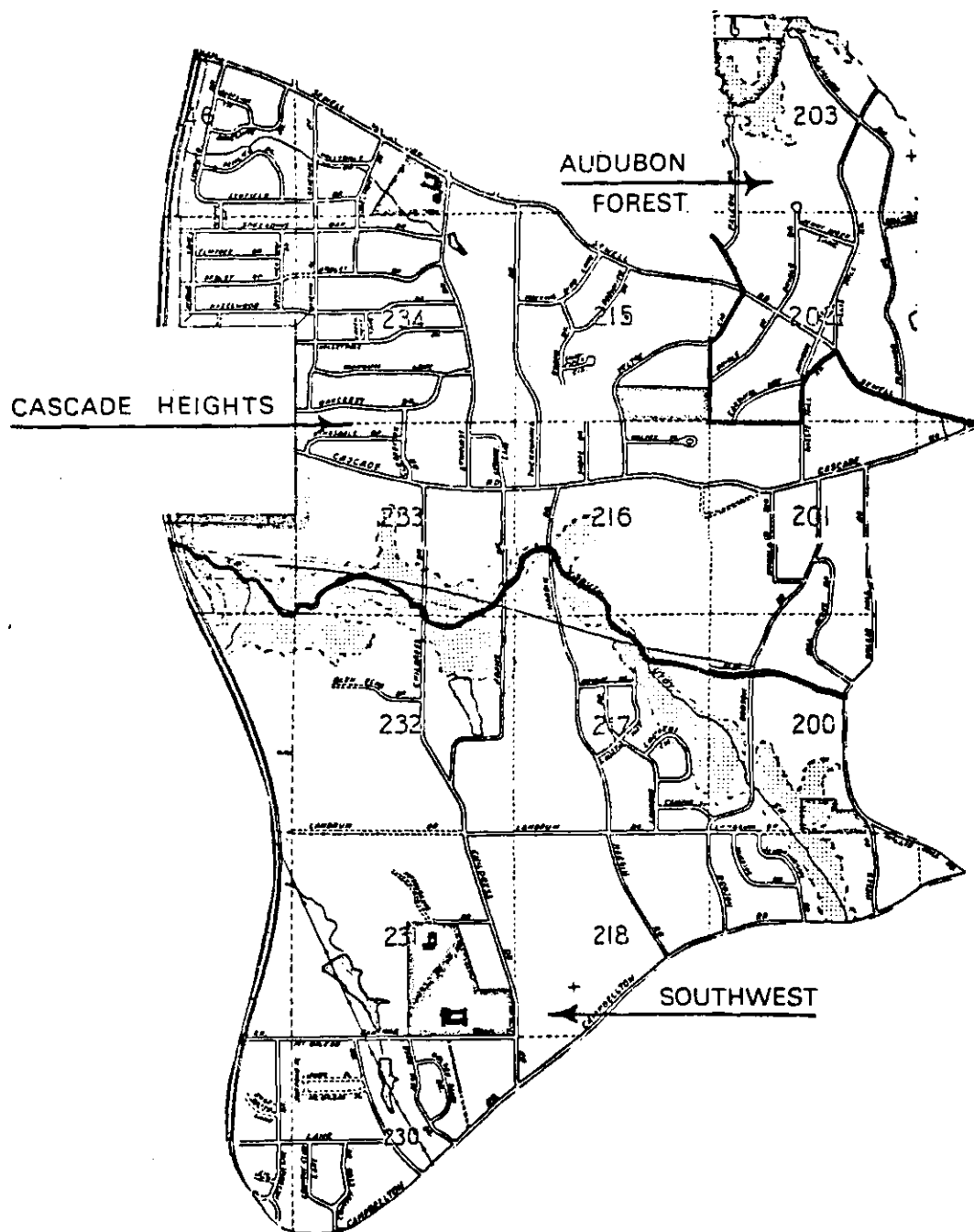


Figure 2. Study Area II - Cascade-Southwest.

period shows that the Southwest neighborhood is still more actively transitional than the Cascade area.<sup>43</sup> In 1974, 61 to 80 percent of the population in Southwest was black.<sup>44</sup>

The neighborhoods in Cascade-Southwest were some of the first suburban areas which were opened up to the city's middle and high income blacks in the 1960's. In what many have described as a policy of "controlled suburban integration," blacks in such occupations as politics, teaching, medicine, contracting, the ministry, and federal employment who sought to leave inadequate housing in the central city, were steered by realtors to neighborhoods in southwest Atlanta.

### Study Area III

The racial transition which has been underway in Study Area III, East Point, since the early 1970's is a continuation of the movement of blacks to the southwest suburbs of the Atlanta metropolitan area.

Located in the City of East Point in Fulton County, Study Area III is delineated by two census tracts, 113.01 and 113.02 (Illustration 3). These two census tracts in East Point were selected on the basis of income and housing statistics. Also, it is into this area of the City of East Point that young black professionals and managers, who are purchasing their first homes, are moving.

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<sup>43</sup>Atlanta Regional Commission, 1974 Population and Housing (Atlanta: 1974), pp. 27-29.

<sup>44</sup>City of Atlanta, Population Profile.



The population of the study area is 20,537, almost one-half the population of the City of East Point. The mean income of the area in 1976 was \$13,964.<sup>45</sup>

In 1976, the mean age of the housing stock in census tract 113.01 was from 15 to 20 years, and from 5 to 15 years in census tract 113.02. As in Study Areas I and II, 90 to 100 percent of the housing units were in standard condition in 1976.<sup>46</sup>

East Point was rapidly transitional between 1970 and 1977. The percentage of blacks in the area increased from 7 percent in 1970 to an estimated 46 percent in 1977.<sup>47</sup>

The traditional image of East Point is that the existing white residents are moderate and middle income individuals who work in service oriented jobs in downtown Atlanta or at the airport. Since the early 1970's, young black professionals and managers have found East Point and College Park attractive alternatives to the higher housing prices and taxes of Atlanta's southwest neighborhoods.<sup>48</sup>

#### The Demand Profile

The basis for the selection of the three study

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<sup>45</sup>City of East Point, Community Development Department.

<sup>46</sup>Ibid.

<sup>47</sup>Atlanta Regional Commission, Population and Housing, 1970-1977 (Atlanta: 1977).

<sup>48</sup>Decatur has also experienced an influx of young middle income black since the early 1970's.

areas was comparability in the indices of demand.

Northeast is a white residential area with an income level<sup>49</sup> close to that of Cascade-Southwest. The mean income of the East Point study area is slightly less than that of Cascade-Southwest.

The most recent income data available for Study Areas I and II were the 1974 annual mean income figures provided by R. L. Polk and Company. Since these data are reported by census tracts and the City NPU's are not coterminous with census tracts, it was necessary to estimate 1974 income on the basis of 1970 census block statistics.

The 1970 census block statistics report population by block. These data were used to derive the proportion of the population in each census tract which lay inside the NPU boundaries. It was assumed that the proportion of each 1970 tract population was the same as the 1974 proportion.

Using this proportion and the Polk income indices for census tracts, weighted estimates of 1974 mean income for each NPU neighborhood in the Atlanta study areas were prepared.

In character, the housing stock in Northwest is very similar to the housing in Cascade-Southwest. Based on visual

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<sup>49</sup>The income data used in this research provide only estimates of mean income; they do not provide an estimated income distribution. Thus, it was not possible to conduct a thorough statistical comparison of the income levels in the three study areas.

observation, the houses in all three study areas are similar to those typically found in ranch or colonial style suburban developments. Setbacks are generally 40 feet. Frontages in Cascade-Southwest and Northeast range from 100 to 200 feet, and from 60 to 100 feet in East Point.

The age and condition of housing in all three study areas are similar: in 1975, the mean age of housing in the three study areas ranged from 11 to 30 years, and in 1973, the percentage of housing in standard condition ranged between 90 and 100 percent.

The housing statistics for the Atlanta study areas were compiled from the City of Atlanta Department of Budget and Planning PLAN files and Neighborhood Planning Unit Profiles. Housing statistics for East Point were provided by the East Point Department of Community Development.

Interviews with planners from the City of Atlanta and East Point indicated that there had been a steady inflationary trend in property values in all three study areas during the study period.

#### The Supply Profile

The Lusk Real Estate Guides were used to provide a profile of the supply of mortgage capital in the three study areas. These Guides list each real estate transaction recorded in Fulton County and include landlot number, address, owner, amount of mortgage, interest rate, mortgage term and mortgagee. A 100 percent sample of this information for the three sub-

markets was compiled for the period December 1972 through November 1976. The number of observations in Study Area I, Northeast, was 395, in Study Area II, Cascade-Southwest, 414, and in Study Area III, East Point, 937.

Since the Lusk Guides do not include sales price, it was not possible to determine loan-to-value ratios, information necessary to calculate downpayment amounts. Also, the Guides recorded mortgage interest rate and term to maturity in only about 10 percent of the transactions. This made it impossible to determine whether the terms of the mortgages made in the three submarkets were favorable or unfavorable. This information would have been useful because redlining also occurs when institutional mortgage lenders require more onerous terms on mortgages within specific geographic areas, e.g., inordinately high downpayments or interest rates, and short term loans.

Another methodological deficiency in using the Lusk data is that there is no way to determine the number of LIC's in a submarket because with this type of mortgage financing, there is no deed transfer until the contract is paid off. A high proportion of LIC's would indicate a shortage of conventional mortgage capital.

The frequency distributions and crosstabulations presented in Chapter IV were produced on the Georgia Tech Cyber 74 using SPSS, Version 6.50.



## CHAPTER IV

### ANALYSIS OF THE DATA

Despite the fact that socio-economic data suggest the clear possibility of an effective demand for conventional credit in Cascade-Southwest and East Point, neither of these submarkets received conventional credit commensurate with the level in Northeast.

#### Financing by Conventional Lenders

Table 1 shows that in Study Area I, Northeast, 32.4 percent of mortgage loans made within the study period were originated by S&L institutions, and 11.4 percent by commercial and savings banks. Comparing these figures with mortgage bank transactions shows that conventional lenders held a three-fourths share of the institutional mortgage market in Northeast.

In Study Area II, Cascade-Southwest, 9.9 percent of total loans were made by S&L's, with 2.6 percent originated by commercial banks. Study Area III, East Point, shows a slightly higher level of S&L activity, 12.0 percent, but only 2.3 of all mortgages in this submarket were originated by commercial banks. In each of the two southwest submarkets, conventional lenders claimed only a one-fourth share of the institutional market.

Table 1. Percentage Distribution of Loans by Mortgagee by Study Area by Time Period.

	Study Area																											
	I - Northwest									II - Cascade-Southwest									III - East Point									
	Time Period	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total
Mortgage		46.7	23.1	14.9	22.0	22.2	30.0	30.2	49.1	32.4	22.2	8.2	3.6	6.3		17.1	6.7	7.7	9.9	32.3	14.9	16.5	6.3	7.1	11.2	9.1	45.0	12.0
Savings and Loan		15.0	7.7	10.6	5.3	12.3	10.5	21.3	7.5	11.0	6.3	4.7	6.3	3.1		2.2	1.9	2.6	9.9	9.2	3.2	1.4			1.1		2.3	
Commercial Bank		5.0	19.2	11.9	13.0	11.1	10.5	11.6	10.9	15.0	42.9	35.3	63.6	43.0	47.0	45.7	42.2	30.5	40.9	42.5	41.6	47.1	30.0	47.6	46.7	51.1	49.3	45.3
Mortgage Bank																												
V.A.																												
Seller			7.7	12.0	24.6	17.0	7.9	7.0	5.7	10.0		3.3	3.6	4.2	0.7	0.6	0.9	7.7	4.3	1.7								
Rescued		25.0	30.6	29.7	29.0	31.1	31.1	27.9	10.9	27.3	7.9	11.0	7.9	16.7	0.3	5.7	15.6	13.5	11.1	6.7	10.4	6.0	20.7	0.3	9.3	0.0	5.0	9.3
Other		8.3	7.7								17.9	22.6	13.0	20.0	34.0	20.0	22.3	20.0	21.7	20.3	26.0	23.0	31.9	24.9	27.1	26.1	31.7	26.0
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

During time periods three, four and five which fell between December 1973 and May 1975, the mortgage market was feeling the effects of disintermediation, the process by which savers divert funds from conventional savings accounts in order to seek higher returns from credit market instruments such as corporate or government securities. Thus, the flow of funds to the institutions that provide most mortgage money decreases.

The effects of this process can be seen in Table 1. In Northeast, S&L mortgages fell from 23.1 percent of total loans made in time period two to 14.9 percent in time period three; commercial bank mortgages decreased from 10.6 percent in time period three to a low of 5.3 percent in time period four.

In the two southwest submarkets, the decreases in the availability of conventional mortgage capital were both more precipitous and of longer duration. In Cascade-Southwest, S&L mortgages decreased from 8.2 percent of total loans originated in time period two to 1.6 percent in time period three. S&L mortgages rose to 6.2 percent in time period four, but plummeted to zero in period five. Commercial bank loans fell from 6.3 percent in time period three to 2.1 percent in period four. There were no commercial bank loans in time periods five and six.

In East Point, S&L lending decreased from 16.9 percent of total loans granted in time period three to 4.3 percent in

time period four. Commercial bank mortgages fell steadily from 3.2 percent in time period two to 1.4 percent in period three, .9 percent in period four down to zero in period five.

#### Government-Insured Lending

The relatively low level of financing by conventional lenders in the two southwest submarkets was accompanied by a high proportion of government-insured lending.

Table 2 reveals that in Cascade-Southwest, VA and FHA mortgages comprised 44.9 percent of total loans during the study period. Conventional loans made up 17.6 percent of the total.<sup>50</sup> In East Point, 41.7 percent of the mortgages were government-insured, with conventional loans comprising 19.1 percent of total loans.

This phenomenon was reversed in Northeast where only 10.1 percent of the loans were VA and FHA compared with a figure of 49.1 percent for conventional mortgages.

In Northeast, there was only one FHA loan during the study period compared with 39 VA mortgages (Table 3). A low level of FHA financing is typical in affluent white submarkets. The VA mortgages may be explained by the fact that veterans buying homes in such areas frequently choose to take advantage of VA financing.

In both Cascade-Southwest and East Point there was a

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<sup>50</sup> The totals for conventional loans shown in Table 3 differ from the totals for S&L and commercial bank loans seen in Table 4 because the former include conventional loans made by mortgage banks.

Table 2. Percentage Distribution of Loans by Type by Study Area by Time Period.

Loan Type	Study Area																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
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		I Dec 72-May 73			II Jun 73-Nov 73			III Dec 73-May 74			IV Jun 74-Nov 74			V Dec 74-May 75			VI Jun 75-Nov 75			VII Dec 75-May 76			VIII Jun 76-Nov 76			Total			I Dec 72-May 73			II Jun 73-Nov 73			III Dec 73-May 74			IV Jun 74-Nov 74			V Dec 74-May 75			VI Jun 75-Nov 75			VII Dec 75-May 76			VIII Jun 76-Nov 76			Total																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			

Table 3. Distribution of Loans by Type by Study Area by Time Period.

	Time Period	Study Area																										
		I - Northeast								II - Cascade-Southwest								III - East Point										
		I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total
Loan Type																												
VA		2	1	9	5	4	4	5	9	39	14	20	20	17	11	11	15	12	120	35	42	40	30	25	31	16	27	246
FHA						1				1	5	7	7	7	4	9	12	15	66	6	10	9	9	17	25	32	17	145
Total Government Insured		2	1	9	5	5	4	5	9	40	19	27	27	24	15	20	27	27	186	41	52	49	39	42	56	48	64	391
Total Conventional		38	25	18	20	16	23	23	31	194	26	17	20	3	5	2	7	2	73	38	40	48	12	5	10	8	18	179
Seller		4	6	14	8	3	3	3	3	41	5	10	5	8	2	2	7	7	46	8	16	10	24	7	10	7	8	89
Assumed		15	18	14	17	14	8	12	10	108	11	19	10	10	6	7	10	15	88	29	40	34	37	29	29	23	26	247
Other		5	4		1	2				12	2	12	1	3		1	1	1	21	4	6	7	4	1	2	2	5	31
Total		60	52	47	57	45	38	43	53	395	63	85	63	48	23	25	45	52	414	120	154	148	116	84	197	88	120	937

Table 4. Distribution of Loans by Mortgagee by Study Area by Time Period.

	Study Area																										
	I - Northeast									II - Cascade-Southwest									III - East Point								
	Time Period																										
		I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76
Mortgage	28	12	7	13	10	19	13	26	128	14	7	4	3		6	3	4	41	15	23	25	5	6	12	8	10	112
Savings and Loan	9	4	5	3	6	4	10	4	45	4	4							11	11	5	2	1	1	1	1	22	
Commercial Bank	3	10	15	9	5	4	5	10	61	27	30	42	21	11	16	19	20	186	51	64	70	45	40	50	45	59	424
Mortgage Bank																		19	2							11	
V.A.																		46	8	16	10	24	7	10	7	89	
Seller	15	10	14	17	14	8	12	10	108	11	19	10	10	8	7	10	15	90	29	40	34	37	29	29	23	26	247
Assumed	4	4		1	2				12	2	12	1	3		1	1	1	21	4	6	7	4	1	2	2	5	31
Other																											
Total	60	52	47	57	45	38	43	53	395	63	85	63	48	23	35	45	52	414	120	154	148	116	84	107	88	120	937

percentage decrease in VA loans during time periods six, seven and eight, June 1975 through November 1976, with a concomitant increase in FHA mortgages. One explanation for this is that VA entitlements for World War II and Korean War veterans may have been running out.

One could logically assume that the disintermediation process which occurred during time periods three, four and five, December 1973-May 1975, was at least partially responsible for the increase in FHA lending in the two southwest submarkets. However, since there was no increase in the presence of FHA lending in Northeast during this period, it may be concluded that the increase in FHA mortgages in the two southwest submarkets was a result of racial transition. This conclusion is reinforced by the fact that following the recession, FHA lending continued to increase in both submarkets.

#### Mortgage Bank Transactions

In both Cascade-Southwest and East Point, the mortgage market is dominated by government-insured mortgages and by the mortgage banking industry. Forty-five percent of all loans in Cascade-Southwest were federally-insured (Table 2), with 44.9 percent of total loans originated by mortgage bankers. In this submarket, then, mortgage bankers held almost a three-fourths share of the institutional market (Table 1).

In East Point, government-insured loans made up 41.7 percent of total loans granted during the study period (Table



2). Mortgage bank loans made up 45.3 percent of the mortgage market in East Point, which is a 75 percent share of the institutional market (Table 1).

In comparison, only 10.1 percent of the mortgages in Northeast were federally-insured (Table 2). Fifteen percent of all loans were originated by mortgage bankers. This figure represents a one-fourth share of the institutional market (Table 1).

Mortgage bankers are the primary originators of government insured mortgages. They also originate some conventional loans, but in Atlanta, these loans are usually made in the same areas and to the same income groups which also receive a high proportion of conventional loans from S&L's.<sup>51</sup>

For example, in Northeast where S&L lending activity is strong, 39.3 percent of mortgage banks loans were conventional. In Cascade-Southwest, only 22.0 percent of mortgage bank loans were conventional, and in East Point, the comparable figure was only 14.0 percent (Table 5).

Like the S&L's and the commercial banks, the mortgage banks felt the decrease in the availability of conventional mortgage capital which occurred in the 1973-1975 tight money period. After time period four, which ended in November 1974, the mortgage banks drastically decreased their conventional lending in all three study areas. At the same time, mortgage

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<sup>51</sup>Mortgage Lending Patterns in Atlanta, p. 8.

Table 5. Percentage Distribution of Mortgage Bank Loans by Type by Study Area by Time Period.

Loan Type	Study Area																										
	I - Northeast									II - Cascade-Southwest									III - East Point								
	Time Period	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76
VA		10.0	60.0	55.0	80.0	100.0	80.0	90.0	59.0	51.9	40.0	42.9	57.1	63.6	31.3	36.0	20.0	42.3	60.8	62.5	57.1	64.4	57.5	40.8	26.7	33.9	50.9
FHA					20.0				1.6	10.9	23.3	16.7	33.3	56.3	62.3	75.0	35.3		11.8	15.6	13.9	20.0	42.3	50.0	71.1	62.7	35.1
Conventional		100.0	90.0	40.0	44.4		20.0	10.0	39.3	29.6	36.7	40.5	9.3	36.4	12.5	5.0	22.6		27.5	21.9	30.0	15.6	2.0	2.3	3.4	14.0	
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

bankers in Cascade-Southwest and East Point increased FHA lending (Tables 5 and 6).

Since mortgage bankers in the two southwest submarkets consistently originated a higher proportion of government-insured loans than conventional mortgages, they were able to maintain their share of the mortgage market in these areas during the 1973-1975 tight money period. However, in Northeast where mortgage bankers originated a higher proportion of conventional loans than they did in the southwest submarkets, mortgage bank transactions decreased from 31.9 percent to 10.5 percent between December 1973 and December 1975 (Tables 1 and 5).

To this point, this research has presented a supply profile of conventional and government-insured mortgage lending in each of the three housing submarkets. However, in order to fully test the discrimination hypothesis, a complete supply profile of lending in each of the three submarkets is necessary. This is true because variations in VA originated, seller-financed, junior financed and assumed loans will affect the total proportions of conventional and government-insured loans. Thus, unless a characterization of the entire mortgage market is compiled, the share of the market captured by either conventional or government-insured lending cannot be determined.

Table 6. Distribution of Mortgage Bank Loans by Type by Study Area by Time Period.

	Study Area																											
	I - Northeast									II - Cascade-Southwest									III - East Point									
	Time Period	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-May 76	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total
Loan Type																												
VA		0	1	9	5	4	4	4	9	36	14	12	18	12	7	5	7	4	79	31	40	40	29	23	24	12	20	219
FHA		0	0	0	0	1	0	0	0	1	5	7	7	7	4	9	12	15	66	6	10	9	9	17	25	32	37	151
Conventional		3	9	6	4	0	0	1	1	24	8	11	17	2	0	2	0	1	41	14	14	21	7	1	1	2	60	
Total		3	10	15	9	5	4	5	10	61	27	30	42	21	11	16	19	20	186	51	64	70	45	40	50	45	59	430

### VA Originated Loans

Although the Veterans Administration guarantees many mortgage loans, it originates loans only on houses which it has repossessed due to foreclosures on VA loans previously originated by institutional mortgage lenders.

In Northeast, where there were no foreclosures on any type of mortgage during the study period, there were no VA originated loans. Cascade-Southwest which had a foreclosure rate<sup>52</sup> of 8.9 percent for the study period, had 19 VA originated loans, 4.5 percent of all loans made. In East Point, where the foreclosure rate was 2.6 percent for the study period, there were 11 VA originated loans. These loans comprised only 1.2 percent of total loans (Tables 4, 1 and 7).

### Privately-Financed Loans

Seller financed lending will typically increase during tight money periods as conventional lenders cut back on granting loans with high loan-to-value ratios. Privately-financed loans in Northeast increased from 12.3 percent to 24.6 percent of total loans made between time periods three and four, December 1973 through November 1974. The increase in seller-financed loans in Cascade-Southwest was from 7.9 percent to 16.7 percent of all loans during the same time period, and in East Point, from 6.8 percent to 20.7 percent (Table 1).

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<sup>52</sup>See Table 7 for definition of foreclosure rate.

Table 7. Foreclosures and Foreclosure Rates by Study Area by Time Period.

Time Period	Study Area					
	I - Northeast		II - Cascade-Southwest		III - East Point	
	Foreclosures	Foreclosure Rate (%)	Foreclosures	Foreclosure Rate (%)	Foreclosures	Foreclosure Rate (%)
I Dec 72-May 73			5	7.9	1	.83
II Jun 73-Nov 73			7	8.2	0	0
III Dec 73-May 74			6	9.5	0	0
IV Jun 74-Nov 74			3	6.2	1	.86
V Dec 74-May 75			6	26.0	6	7.1
VI Jun 75-Nov 75			5	14.2	3	2.8
VII Dec 75-May 76			5	10.8	5	5.6
VIII Jun 76-Nov 76					8	6.6
Total			37		24	

### Junior Financing

Tables 8 and 9 show that junior financing jumped sharply in Northeast in time periods four and five, June 1974 through May 1975, when the percentage of second mortgages taken back by the seller increased from 8.8 percent to 22.2 percent of total mortgages granted during these time periods. This lending pattern reflects the increased need for junior financing in a tight mortgage money market.

During the same period, the percentage of second mortgages taken back in Cascade-Southwest rose from 6.3 percent to 8.7 percent. In East Point, second mortgages taken back increased from 9.5 percent to 14.7 percent of total loans made during time periods three and four, December 1973 through November 1974.

Thus, during 1974-1975, there was a higher proportion of junior financing in Northeast than in the two southwest submarkets. This may be because the more confidence a lender feels about a housing submarket, the more willing he will be to take back a second or third mortgage in that area. Also, the higher loan-to-value ratios which may be assumed to exist in the southwest submarkets,<sup>53</sup> diminishes the need for junior financing in these areas.

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<sup>53</sup> A high proportion of government-insured lending in a housing submarket is an indicator that the residents have a lower level of capital assets, and subsequently, a greater need to take out larger mortgages than residents in an area with a high level of conventional lending.

Table 8. Distribution of Senior and Junior Loans by Study Area by Time Period.

	Study Area																										
	I - Northeast									II - Cascade-Southwest									III - East Point								
	Time Period	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76
Loan Type																											
1st Mortgage	59	47	46	52	35	36	41	50	366	60	79	59	45	21	34	41	45	384	111	139	134	99	77	94	77	111	842
2nd Mortgage	1	5	1	5	10	2	2	3	29	3	6	4	3	2	1	4	6	29	8	14	14	17	7	13	10	8	91
3rd Mortgage																			1	1	1			1	1	1	4
Total	60	52	47	57	45	38	43	53	395	63	85	63	48	23	85	45	52	414	120	154	148	116	84	197	88	120	937



Table 9. Percentage Distribution of Senior and Junior Loans by Study Area by Time Period.

Loan Type	Study Area																													
	I - Northeast										II - Cascade-Southwest										III - East Point									
	Time Period	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 75-Nov 75	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total	I Dec 72-May 73	II Jun 73-Nov 73	III Dec 73-May 74	IV Jun 74-Nov 74	V Dec 74-May 75	VI Jun 75-Nov 75	VII Dec 75-May 76	VIII Jun 76-Nov 76	Total		
1st Mortgage	98.3	90.4	97.9	19.2	77.8	94.7	95.3	94.3	92.7	95.2	92.9	93.8	93.8	91.3	97.1	91.3	94.5	92.8	92.3	90.3	90.5	45.3	91.7	87.8	87.3	92.5	89.9			
2nd Mortgage	1.7	9.6	2.1	8.0	22.2	5.3	4.7	5.7	7.3	4.8	7.1	6.3	6.3	8.7	2.9	8.7	11.5	7.0	6.7	9.1	9.5	14.7	8.3	12.1	11.4	6.7	9.7			
3rd Mortgage																	1.0	2.0	.6	.6				1.1	1.8	.4				
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

### Assumed Mortgages

The percentage of mortgages assumed in each of the three study areas during the study period was relatively consistent, varying between approximately one-fifth and one-quarter of total mortgages. In both Northeast and East Point, slightly over one-quarter of total loans were assumed, and in Cascade-Southwest, slightly more than one-fifth of all loans were assumed (Table 1).

As with seller-financed loans, mortgage assumptions will typically increase when there is a lack of money in the mortgage market. Looking at assumed loans by time period (Table 1), there were decreases in the percentage of mortgage assumptions in all three study areas between June 1973 and May 1974, followed by increases in assumptions between June 1974 and May 1975.

The other reasons why a buyer may choose to assume a loan--to take advantage of low interest rates, to avoid closing costs, to evade credit requirements--cannot be addressed within the scope of this research.

### Foreclosure Rates

Table 7<sup>54</sup> shows that during the study period, there

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<sup>54</sup>In the study, the foreclosure rate measures the number of foreclosures divided by the total number of loans in the area during the time period. Thus, it is a crude measure of the relative rate of foreclosures in the area. The more commonly cited foreclosure ratio measures foreclosures for a particular group of loans. Because the data on all previous loans in the area were not available, it was not possible to calculate a foreclosure ratio.

were no foreclosures in Northeast. The foreclosure rate in Cascade-Southwest was 8.9 percent, and in East Point, 2.6 percent. With the exception of time period eight, June 1976 through November 1976, foreclosures ran higher in Cascade-Southwest than in East Point. However, a 1976 Foreclosure Study by the City of Atlanta showed that 90 percent of the single family homes which were foreclosed in Cascade-Southwest between 1972 and 1976 were moderately priced (\$20,000-\$30,000) units with VA/FHA financing.<sup>55</sup>

#### Supply and Demand in Perspective

The preceding analysis of the supply of mortgage financing in the three study areas reveals that in the north Atlanta submarket, Northeast, mortgage capital was derived predominantly from conventional sources during the study period. In the two southwest submarkets, homebuyers utilized primarily government-insured mortgage financing originated by mortgage bankers.

An analysis of the three study areas' income and housing statistics shows that the income levels and housing conditions of the two southwest submarkets compare favorably with those found in the northeast submarket. Further, all three housing submarkets are economically stable. Interviews with planners for the City of Atlanta and the City of East

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<sup>55</sup> Interview with Robert Gray, NPU Planner, November 7, 1977.

Point indicated that during the study period, property values in these submarkets behaved as they did in the metropolitan housing market as a whole: there was a steady inflationary trend.

Turnover rates indicate that the housing markets in the two southwest study areas were slightly more active than Northeast's housing market (Table 10). The steady increase in the black populations in East Point and in the Southwest neighborhood of Cascade-Southwest coupled with active (but not unstable) housing markets and gradually increasing property values indicates that there was sufficient black demand in the southwest submarkets to sustain housing prices at a level comparable with the rest of the metropolitan area.

Based on these socio-economic characteristics and trends, it is inferred that the two southwest submarkets have a demand capable of absorbing a supply of conventional mortgage capital at a level higher than presently exists.

Thus, the central hypothesis of this research, that racially integrated or transitional submarkets are inadequately served by conventional mortgage lenders, was verified.

The question then is, "what is the source of this apparent lack of conventional lending activity in the two southwest mortgage markets?"

Conventional lenders claim that they have not withheld credit from these areas. They contend that if the housing stock in a submarket is in satisfactory condition to serve

Table 10. Number of Transactions and Turnover Rate by Study Area by Time Period.

Time Period	I - Northeast		II - Cascade-Southwest		III - East Point	
	Number of Transactions	Average Annual Turnover Rate	Number of Transactions	Average Annual Turnover Rate	Number of Transactions	Average Annual Turnover Rate
Dec. 72-Nov. 73	112	2.9	148	4.8	274	4.1
Dec. 73-Nov. 74	104	2.7	111	3.6	264	3.9
Dec. 74-Nov. 75	83	2.1	58	1.9	191	2.9
Dec. 75-Nov. 76	96	2.5	97	3.2	208	3.1
TOTAL	395	2.5	414	3.4	937	3.5

\*Turnover rate is defined to be number of transactions divided by the number of housing units within each study area.

as collateral for loans, and if the homebuyers have good credit ratings and the cash reserves to make downpayments on conventional loans, they will respond to a demand for mortgage credit. The lenders argue that realtors in the integrated or racially transitional areas in southwest Atlanta have close working relationships with mortgage bankers. Most prospective black homebuyers, therefore, are directed by real estate brokers to mortgage bankers whose lending activities are based primarily on originating federally-insured mortgages.<sup>56</sup>

There is some support for the contention that there is a lack of demand for conventional credit in integrated or racially changing submarkets. Experience in other cities has shown that blacks have been reluctant to utilize conventional sources of mortgage credit, even when money is available. A Federal Home Loan Bank Board survey in one metropolitan area indicated that in one six month period, S&L's received only 15 applications from blacks out of a total of 2,959, or 5.4 percent. This is true despite the fact that over 20 percent of the area's population was black.<sup>57</sup>

There are several reasons for the reluctance of

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<sup>56</sup>This argument was voiced in an interview conducted with Jerry Porter, a loan officer with Fulton Federal. This complaint was also voiced in an interview with Marty Collier, a counselor with the Metro Fair Housing Services in Southwest Atlanta.

<sup>57</sup>Fair Housing Information Survey, p. 4.

minority groups to seek mortgage loans from conventional mortgage institutions.

The 1966 New York City Commission on Human Rights study in southern Queens<sup>58</sup> revealed that the discriminatory practices of institutional mortgage lenders inhibits minority groups from utilizing the conventional sources of mortgage financing and encourages them to seek mortgages largely through the services of mortgage brokers.<sup>59</sup>

The lending practices of conventional mortgage institutions were not the only source of discrimination in the mortgage market. It was not until the late 1960's that the FHA, under Congressional mandate, expanded its home insurance program to include low income families, and families in older, declining urban areas. The 1968 Report of the National Commission on Urban Problems clearly describes how the FHA perpetuated segregated housing patterns and "almost never" made loans in declining inner city neighborhoods where there reside large concentrations of minorities.<sup>60</sup>

Since mortgage financing alternatives have historically been limited for minorities, it follows that many blacks lack experience in seeking home credit; the prospective black home-

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<sup>58</sup>Residential Mortgage Financing Minorities in New York City, p. 31.

<sup>59</sup>A mortgage broker never invests his own capital in a mortgage; he is strictly an agent who seeks investors for loan applications.

<sup>60</sup>Building the American City, p. 100.

buyer may be unaware of the advantages and disadvantages of the various different types of home mortgage loans.

Perhaps the most significant reason why conventional credit sources have not been widely utilized by minorities is that blacks tend to have less favorable capital asset and credit positions than whites; the increase in job, educational and housing opportunities for blacks has been too recent for them to have acquired the credit and collateral positions of whites.<sup>61</sup> Thus, even for blacks whose incomes compare favorably with those of whites, the downpayment and credit rating requirements of a conventional loan may be out of reach.

#### Summary

In the face of the various contentions and observations on the demand side of the minority mortgage market, there is no conclusive evidence in this or in previous research that conventional lenders have withheld mortgage credit from integrated or transitional neighborhoods solely on the basis of race.

In the following chapter, suggestions are provided for achieving a more precise determination of how the supply of conventional credit in a mortgage market relates to the demand for such credit. Chapter V also presents and assesses various private and public programs which would influence

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<sup>61</sup> Many of the blacks who have chosen to buy their second home in the suburbs, previously owned homes in inner city neighborhoods or FHA subdivisions where appreciation of housing value is relatively low.



both the amount of conventional mortgage capital flowing into a submarket and the extent to which the credit consumer seeks conventional financing.

## CHAPTER V

### POLICY RECOMMENDATIONS

In the two minority submarkets selected for this research, Cascade-Southwest and East Point, the mortgage market was dominated by government-insured lending. More than two-fifths of the mortgage activity in both of these submarkets was in the form of VA and FHA loans. Non-institutional mortgages, seller-financed and assumed loans, made up another two-fifths of the lending. Conventional loans made by institutional mortgage lenders, mortgage banks, S&L's and commercial banks, made up less than one-fifth of total loans made.

Mortgage activity in the white submarket, Northeast, was predominantly conventional: one-half of the loans granted by institutional lenders were conventional. Almost two-fifths of the lending in Northeast was in the form of non-institutional loans, and only one-tenth of the mortgages were government insured.

The mortgage banking industry dominated the institutional market in both of the southwest neighborhoods where they held a three-fourths share of the market. In Northeast, this situation was reversed: conventional lenders, S&L's and commercial banks, claimed a 75 percent share of the market.

The low level of loans made by conventional mortgage

lenders in the southwest submarkets is particularly significant when the demand side of the market in all three study areas is considered. In income level of residents and age and condition of housing, the two southwest submarkets compared favorably with Northeast. Housing prices in all three submarkets behaved similarly, and turnover rates indicated that housing markets in the three study areas were active, but not unstable.

Relating the supply of conventional capital to demand possibilities in the two southwest submarkets, this research concluded that there existed an effective demand in these submarkets which was capable of absorbing and utilizing a supply of conventional mortgage credit at a level higher than existed during the study period.

#### Critique of the Research

This research presents a supply profile of mortgage financing for single family housing in three Atlanta metropolitan area submarkets during the years December 1972 through November 1976. There were two drawbacks to the data used for this profile. First, the Lusk data does not record LIC's because there is no deed transfer until the contract is paid off. A high level of LIC activity would be an indicator of disinvestment. Second, it is impossible to determine whether the terms on mortgages granted--interest rates, downpayments and terms to maturity--were in fact more onerous in the minority submarkets than in the white submarkets. Loan-to-

value ratios could not be calculated because the Lusk data does not include sales price, and interest rates and terms to maturity were recorded in only about 10 percent of the transactions.

On the demand side of the research, the income, housing and other socio-economic data used in the study had to serve as surrogates for data on the disposition of loan applications--data which would have provided a more precise picture of whether or not the demand for conventional credit in the three study areas had been served.

#### Suggestions for Future Research

Programs designed to increase the level of conventional lending in a submarket should address both possible causes for its absence: the lack of supply and the lack of demand. In other words, future research in this field should address the most crucial question in the redlining controversy--whether fewer mortgages are made in minority than in white submarkets because of differences in supply by mortgage lenders or because of differences in demand by homebuyers.

The hypothesis that a low level of conventional financing in a minority submarket is due to the fact that conventional lenders are refusing loans to credit worthy applicants on the basis of race would be most precisely tested by data on the disposition of loan applications, data which are not available at this time. In the absence of application data, this supply hypothesis could be tested in

the following manner:

1. Examining grievances filed by rejected loan applicants with Mortgage Review Boards (Mortgage Review Boards have been set up in at least 14 metropolitan areas).
2. Examining complaints of racial discrimination filed with the U. S. Attorney's office against lenders.
3. Interviewing a sample of sellers who have taken back paper to see if racial discrimination existed in their cases.
4. Interviewing a sample of homeowners with VA, FHA, seller-financed or assumed loans to determine whether they had first applied for a conventional loan, and if so, on what basis they were refused.

The hypothesis that a low level of conventional financing in a minority submarket is due to a lack of demand by homebuyers would also be most accurately tested by the use of loan application data. In the absence of such data, a similar procedure to that used to test the supply hypothesis could be followed.

Interviews with a sample of homeowners with VA, FHA, seller-financed or assumed loans could be conducted to learn whether they had obtained a particular type mortgage loan because they had wanted it, because it has been suggested to them by a broker, or because it had been the only type of loan available to them based on income and credit qualifications.

These interviews would make it possible to learn if homebuyers had been "steered" or directed to an FHA loan by real estate brokers, allegedly a common occurrence in minority markets.

In addition, it would be necessary to include another group of individuals in this procedure: those potential homebuyers who had applied for but had not received mortgage loans. However, it would be extremely difficult and costly to locate these individuals, for it would require drawing a large sample of individuals living in prominent black residential apartments.

It is clear that the precise testing of these two hypotheses which are at the base of the highly charged redlining controversy would require data on the disposition of loan applications. These data would not only provide neighborhood activists, legislators, regulators and researchers with a tool to prove or dispell accusations of redlining, but such data would enable the lending institutions themselves to make accurate demand assessments in housing submarkets.

#### Program Proposals

The purpose of the following three programs would be to influence the supply of conventional credit. The first two, the collection, disclosure and analysis of loan application data and the education of conventional lenders on new marketing opportunities, would be implemented simultaneously. The third alternative, the imposition of lending quotas on

conventional lenders, would be implemented only if the behavior of conventional lenders indicated that they continued to be unwilling to lend in minority submarkets, i.e., if the demand for conventional capital in minority submarkets was not being met.

The purpose of the fourth program proposal would be to influence the demand for conventional credit in minority submarkets where the absence of such credit is due to a lack of demand.

1. The Collection, Disclosure and Analysis of Loan Application Data

On November 2, 1977, the Federal Home Loan Bank issued proposed regulations to clarify the definition of a credit application for home financing. Specifically, the proposal defines a request for credit, either written or verbal, which is formally or informally responded to as an application.<sup>62</sup>

The proposed regulations would also require S&L's to maintain records of applications for monitoring purposes. Not only would written applications be monitored by FHLBB inspectors, but the regulations would require S&L's to keep tallies of in-person inquiries and phone calls in which information about an applicant or a property are mentioned. The customer's race, age, sex and marital status would be recorded whenever possible.

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<sup>62</sup>"Federal Agency Acts to Prohibit Redlining in Move Praised by Mondale," New York Times, 10 November 1977, p. 29.

These regulations are partly in response to pressure by civil rights groups who argue that unlawful discrimination in housing continues despite federal civil rights legislation. A recent survey in California found three times as many blacks as whites being formally denied home loans, even when both groups had the same income.<sup>63</sup> The regulation which requires S&L's to keep records of verbal loan inquiries and applications is proposed to prevent lenders who are reluctant to deal with minorities or women or with applicants who want to buy homes in minority neighborhoods, from discouraging loan seekers in the early states of the application process.

It is recommended that both S&L's and banks<sup>64</sup> be required to compile records of all written applications for mortgage loans. The FHLBB proposal to require the recording of verbal inquiries presents several problems. Applications made orally would be very difficult to document and prove if a lender were accused of some type of discriminatory practice. In the event of litigation, it would simply become the lender's word against the consumer's as to what was said. Further, this regulation would inhibit a lender from discussing any loan

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<sup>63</sup>"U.S. Agency Plans Rules for Savings and Loans to Prevent Discriminatory Pre-Screening of Customers," Wall Street Journal, 22 February 1978, p. 32.

<sup>64</sup>Regulations on loan application data which would apply to commercial banks would be issued by their regulatory agencies, the Federal Reserve Board and the FDIC.



terms on the telephone with prospective customers.

It is proposed here, however, that lenders be required to encourage applicants who make oral inquiries to submit written applications which would be forwarded to them by mail. The lender would be required to advise these prospective applicants that their written applications would be reviewed by a government agency to detect discriminatory practices.

As with the data compiled under the requirements of the Home Mortgage Disclosure Act of 1975, application data would be made available to the public for inspection and copying at the home office and at least one branch office within each SMSA in which the lending institution has an office. The application information, which would be compiled quarterly by census tract, should clearly provide the following: in addition to income and credit information, the race, religion, national origin, marital status, sex and age of the borrower. This information would be recorded in such a way that the names of borrowers and other identifying information would not be available to the public.

At the end of each quarter, lenders would be required to forward this data to the Bureau of Eternal Audits of Lending Institutions, an agency which should be set up under HUD to compile and analyze loan application data by SMSA. Based on these data, this agency would be able to pinpoint discriminatory lending practices and would make estimates of

demand for mortgage credit by census tract in each SMSA.

Records of violations of Title VIII of the Civil Rights Act of 1968 (also known as the Fair Housing Act) and the Equal Credit Opportunity Act (ECOA) would be forwarded to the lending institutions' respective regulatory agencies which would be required to issue "cease and desist" orders. In the event of a second violation, the Bureau of Equal Housing Lending would forward the recorded violation to the U. S. Department of Justice.

2. The Education of Conventional Mortgage Lenders on New Marketing Opportunities

Another means to influence the supply of conventional financing in minority markets is through an educational process which would dispell faulty perceptions of minority markets and stimulate conventional lenders to explore these expanding markets. The decision of conventional lenders not to redline, but rather to respond to a changing market, would serve as both a response to mounting political pressure to provide minorities with increased homeownership opportunities, and as a means to profitably expand their share of markets now dominated by mortgage bankers and federally insured lending.

Although the law of redlining is still in a period of rapid evolution and no precise guidelines currently exist, the institutional mortgage lender who withholds credit from a minority neighborhood risks being found guilty of violating federal civil rights legislation.

Section 805 of the federal Civil Rights Act of 1968

not only prohibits the straightforward denial of a loan because of the race of a borrower, but also prohibits consideration by a lender of the racial composition of a neighborhood. There is a developing legal theory that, even when an institutional lender's policy is not racially motivated, if the effect of the policy is to deny financing to minority persons, then the policy is subject to attack.

A lender would not likely be found to have violated Title VIII of the Civil Rights Act if it could show clear evidence that the policy in question is a matter of business necessity and that there are no less discriminatory means available to assure sound lending. However, the "sound business practice" defense would not be held generally applicable in an area where the income level and the age and condition of housing are comparable with the income levels and housing statistics of areas into which high levels of conventional mortgage capital are flowing.

Under the 1975 Home Mortgage Disclosure Act, banks and S&L's are required to disclose by zip code or census tract<sup>65</sup> the number and dollar amount of their residential mortgages.

Since 1975, well organized citizen's groups in cities across the country have been using this mortgage data to press lending institutions to advertise their willingness to make loans in neighborhoods where institutional disinvestment has

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<sup>65</sup>After June 30, 1976, disclosure had to be made by census tract.

occurred. Also, these groups have been exerting pressure on public officials to place public funds only in institutions sympathetic to neighborhood reinvestment.

Currently, there is pressure for firmer anti-redlining legislation in Congress, and in many state legislatures and large cities. It seems likely that, even in the absence of tougher laws, institutional lenders that fail to take affirmative action on minority lending within the next few years will have to answer for it in the courts.

For this reason, lenders will be forced to seek new investment opportunities in markets where mortgage lending has generally been written off as "good works" rather than "good business." Historically, minority markets have been classified in just this manner.

Minority loans have been regarded as small, troublesome and unprofitable by loan officials. The traditional view of racial transition stresses the low economic status of blacks, overcrowded and deteriorating housing and declines in property values.

This view is grossly outdated. Much of the current transition process is being led by the most affluent blacks who are moving into areas of slightly lower socio-economic status than themselves.<sup>66</sup>

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<sup>66</sup>Karl E. Taeuber and Alma F. Taeuber, Negroes in Cities: Residential Segregation and Neighborhood Change (Chicago: Aldine Publishing Company, 1965).

As late as 1961, the FHLBB and other federal regulatory agencies which regulate the nation's mortgage lending institutions still held the view that the entrance of minority groups into a neighborhood could be the cause of a decline in property value.<sup>67</sup>

Recent studies have shown, however, that while property values, i.e., actual selling prices, may drop temporarily during a period of racial transition, they generally rise again to their former levels once the transition is complete. In integrated neighborhoods, it has been found that prices equal or exceed prices in similar or all-white neighborhoods.<sup>68</sup>

Further, studies on delinquency risk and race have shown that mortgage quality in any neighborhood, black or white, is largely determined by characteristics of the individual borrower and property rather than by the neighborhood's racial composition.<sup>69</sup>

Both the faulty perceptions of minority markets and the issue of redlining itself have obscured the ability of conventional lenders to recognize the new market opportunities

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<sup>67</sup>U.S. Commission on Civil Rights, Understanding Fair Housing (Washington, D.C.: U.S. Government Printing Office, February 19, 1973) p. 4.

<sup>68</sup>John Boston, Leo C. Rigsby and Mayer N. Zald, "The Impact of Race on Housing Markets: A Critical Review," Social Problems, Winter 1972, pp. 382-93.

<sup>69</sup>Jeffrey Green and George M. von Furstenberg, "The Effects of Race and Age of Housing on Mortgage Delinquency Risk," Urban Studies, December 1975, pp. 85-86.

which have emerged from a changing social environment which may be characterized as follows: today there are increasing numbers of blacks who are insisting that the right to buy a home in a location of their choosing be extended to them. Within this population segment, there are increasing numbers of individuals who have the income and credit standing which would enable them to exercise this right.

The proposal for an educational program to dispell these faulty perceptions of minority markets and stimulate investor interest would take the form of HUD-sponsored seminars held for officers of conventional lending institutions in metropolitan areas throughout the nation. The emphasis of these sessions would be to discover existing entrepreneurial opportunities given the appropriate perception and redefinition of changing markets in each SMSA.

The following information would be the necessary base for the recognition and understanding of these opportunities:

1. A demand analysis of integrated and transitional submarkets based on loan application data and income and housing statistics.
2. A supply profile which would reveal which portions of the market might be captured by conventional lenders.
3. Estimates of property values which would show increases and decreases.
4. Default and foreclosure ratios which would provide a rough correlation between mortgage quality and race.

5. Turnover rates which would indicate existing market activity.
6. Other socio-economic trends which would include the amounts and types of investment, demographic changes, the physical condition of the neighborhoods in these submarkets.

Commercial banks and S&L's in this country have not traditionally functioned as self-conscious agents of social change. But they have had significant--and sometimes significantly deleterious--social effects, of which redlining is only one example. In the past, these institutions have tended to create such effects without intending them (banks and S&L's do not set out to destroy neighborhoods) and, frequently, without even noticing them.

For the future, there are several reasons for institutional mortgage lenders to pay closer attention to the social effects of their lending policies and to insure that those effects are not harmful. These reasons include government regulations (existing and anticipated), public demand, the pressures of corporate good citizenship, and perhaps most significantly, the long-range health of the lending institutions themselves is clearly related to the future of the neighborhoods which serve as their markets.

### 3. Lending Quotas for Conventional Mortgage Institutions

Should a demand analysis in a SMSA show that a low level of conventional lending in minority markets is caused by a withholding of funds by lenders, and not by a lack of demand,

the third program proposal would be implemented.

This alternative for increasing the supply of conventional financing in minority markets is through implementation of regulations which would in effect impose a quota system on conventional lenders on a metropolitan-wide basis.

These regulations, which would require legislation by the Congress, would compel all conventional lenders in a metropolitan area to make loans to black borrowers each year in a proportion related to the proportion of black households in the area which are above the national income average. In order to develop the quota, further research into the relationship between the proportion of black households above the national income average and the actual number of qualified black households in the housing market would have to be conducted.

One feature of this mechanism to influence the supply of conventional credit would be that lenders would be encouraged to actively explore that portion of the market which is made up of blacks who have the potential to become homeowners. The estimates of demand for mortgage credit made by the Bureau of Economic Analysis would be available to lenders to determine where the level of demand for conventional mortgage credit was high. The required proportion of loans would, of course, vary from year to year depending on the level of mortgage activity in the housing markets of the various metropolitan areas and on national economic conditions.



The effectiveness of these regulations in increasing the dispersal of blacks throughout a metropolitan area would depend on the extent to which realtors showed homes in all neighborhoods to blacks. Thus, these regulations should be enforced in conjunction with the strict enforcement of the Fair Housing Act. Otherwise, blacks would continue to be "directed" to the existing and developing black enclaves now found in the nation's metropolitan areas.

A lender who did not fill its annual quota would be fined and possibly suspended if it continued its discriminatory practices.

#### 4. Prepurchase Homeowning Counseling

If the analysis of application data showed that the absence of conventional credit in a submarket was due to a lack of demand for such credit, then programs should be designed to increase the number of credit worthy individuals seeking conventional loans. Consumer counseling is the most direct means to accomplish this end.

Disregarding the collateral and credit characteristics of a borrower, there are at least two reasons why a minority homebuyer may choose not to seek a conventional mortgage: a black homebuyer may be inhibited from applying for a conventional loan because of the long tradition of discriminatory practices by conventional lenders. Also, since home financing options for blacks have historically been limited, the prospective minority homebuyer may lack experience in seeking

home mortgage credit.

Accordingly, the objective of a prepurchase counseling program would be not only to provide the prospective homebuyer with information on anti-discrimination laws, but also with information on the various types of home financing available to him considering his particular needs and resources.

Clients for prepurchase counseling would be reached by two means. To ensure that every prospective homebuyer would have the opportunity to learn about the full range of financing options, realtors would be required to provide their clients with such information and to advise them of the availability of the prepurchase counseling program. In addition, an outreach effort would be undertaken by the counseling agency to draw in homeseekers who had not yet contacted realtors.

Counselors for this program would be drawn from both public agencies and from conventional lending institutions. Lenders would likely regard participation in this program as an opportunity to increase their share of mortgage markets presently dominated by mortgage bankers and government insured lending.

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