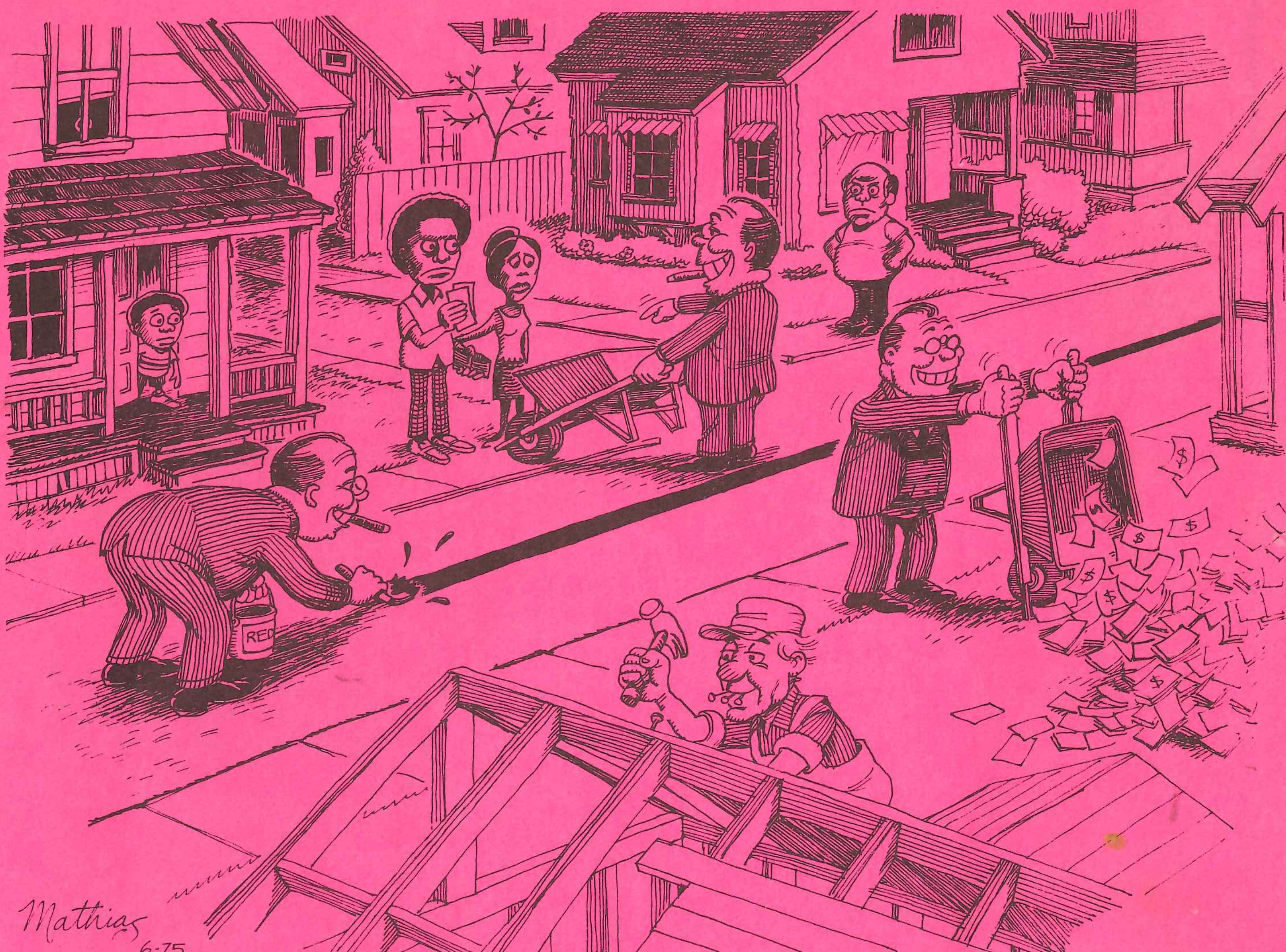
REDLINING AND DISINVESTMENT IN CENTRAL SEATTLE:

HOW THE BANKS ARE DESTROYING OUR NEIGHBORHOODS



A REPORT TO THE COMMUNITY BY THE

CENTRAL SEATTLE COMMUNITY COUNCIL FEDERATION

JULY, 1975

REDLINING AND DISINVESTMENT -- DEFINITIONS

Redlining is the practice by banks and other lending institutions of refusing home loans or requiring higher interest rates and larger down payments to otherwise credit worthy people because they happen to live in a certain area. Redlining arbitratily sets off an area, and thus the people within that area, as ineligible for conventional investment.

Redlining can take several forms. The extreme form is outright refusal to lend on amy terms on property within a redlined area. Other ways used of discouraging residents from improving their neighborhoods are: raising the amount of the downpayment, charging excess 'points', refusing to lend on properties older than a prescribed age, applying overly strict structural standards to a house, shortening the term of the loan, and charging higher interest rates. All of these supposedly compensate for lending in a 'high risk' area, according to the banks.

Disinvestment is a general policy followed by banks of taking in savings deposits from residents of a redlined area but refusing to return that money, in the form of home, business, and consumer loans, to the community that provided the money. Instead, people's money is funneled out of the city to be invested in the suburbs. No money remains to meet the needs of the neibhborhoods whose cash flows elsewhere.

Redlining and disinvestment begin as a decision by bankers that a neighborhood is dying. Lending institutions believe that they can make more money by investing their money elsewhere, especially in the suburbs. Rather than saving our longstanding communities, they invest our savings money in suburbs and highrises which are beyond the moderate-income family's price range. By doing this, bankers create a self-fulfilling prophecy of decline--and make money doing it!

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REDLINING AND DISINVESTMENT
HOW THE BANKS ARE DESTROYING OUR NEIGHBORHOODS

INTRODUCTION

The lifeblood of a neighborhood is money for mortgages, rehabilitation, and new construction. Money invested in housing allows communities to continually rebuild themselves and remain healthy. Where the flow of money that normally comes into a neighborhood is cut off and instead drained away to support growth elsewhere at the cost of our neighborhoods, then our community is threatened with spreading blight, decay and eventual death by financial strangulation.

Neighborhoods don't decay on their own, they decline because of conscious choices that are made by the people and institutions that now control them.

When banks and other financial institutions arbitrarily deny or discourage the flow of money to neighborhoods, choosing instead to support the growth of suburbs, it is called redlining. Redlining has occurred in older areas of East Coast and Midwest cities for years and has resulted in the complete deterioration of neighborhoods.

Redlining, the Federation has discovered, is occurring in Seattle as well and will have the same long-term consequences unless it is stopped. Throughout our communities we see the signs of decay and abandonment. Only blackberries grow on vacant lots which should support new homes. After families are thrown out by the FHA and the mortgage companies, houses stand as empty shells and become the targets of vandals and arsonists. The city allows them to remain that way rather than forcing them to be fixed up or torn down. Speculators buy up lots and houses and let them sit -- waiting to sell at a high profit. And the blight spreads -- into the Rainier Valley and other racially transitional neighborhoods.

In a study conducted over the last five months, the Federation has completely searched public records to determine the causes of the deterioration of our neighborhoods. As the result of that research, the Federation has discovered striking evidence of a complete neglect of the housing needs of the Central Area and the Rainier Valley by Seattle's lending institutions. Data to be presented in this study shows a total redlining of major portions of the Central Area and a near complete redlining of the Rainier Valley.

According to public records:

1. No conventional or FHA loans were granted in the last five years in large parts of the Central Area by nearly all banks except to speculators or investors.

2. Only FHA insured loans through mortgage companies are available to Central Area and Rainier Valley residents -- at higher costs.

3. The foreclosure rate by the major mortgage companies active in the redlined areas is up to eight times that of most banks.

4. The banks and savings and loans have abandoned the FHA market to mortgage companies producing serious consequences.

5. Savings money of Central Seattle residents is not staying in the community in the form of loans, but is flowing out at an alarming rate to be invested in the suburbs. While Central Area branch banks loan out as little as 19¢ for every dollar they collect in deposits from the area, suburban branch banks invest up to $2.40 in loans for every savings dollar that originates in those communities.

Federal agencies which regulate Seattle's lending institutions have issued rules making such practices illegal. For instance, the Federal Home Loan Bank Board in 1973 ruled that refusal to lend in a particular area because of age of houses, income level, or racial composition was discriminatory and illegal. However, the regulators don't even collect the information they would need to correct these documented abuses.

Who controls the fate of our neighborhoods? Up until now, the banks have because they control how they spend <u>our</u> money. They have decided not to lend here, and without their investment, there is no way to fix up housing.

Ultimately, however, the people in the community hold the control over the fate of their neighborhood. By concerted action, we can turn around the process of deterioration and maintain the viability of our community. By informing and organizing ourselves, we can force the banks to reinvest, to greenline -- to lend the money which makes the difference between livability and decay.

For years, the Federation and its affiliated groups have been active in fighting the deterioration of our neighborhoods. The Federation initiated the idea of a city housing rehabilitation program and provided the major backing to get $4.5 million appropriated. Later, the Federation fought successfully to get all the rehabilitation target neighborhoods located within its community council areas. More recently, the Federation originated and pushed through the innovative Port Authority housing program, which will place high-quality homes on now-vacant Central Area lots. In more day-to-day concerns, the Federation details the fact of redlining and disinvestment and their consequences. It and its member groups call on all interested people to join us to stop the redliners. The report concludes with some suggested first steps that can be taken to reverse bank redlining and return control of the fate of our neighborhoods to the people!

> "Cities don't die accidentally. Redlining is done by specific people for one purpose only and that is to make as much money in the shortest period of time and the hell with everyone else."
>
> ...Brian Boyer, Author
> Cities Destroyed for Cash

REDLINING -- THE EVIDENCE

1. What Are the Responsibilities of Banks?

Traditionally, financial needs of neighborhoods have been met by local lending institutions. Historically, savings and loans and mutual savings banks were established to serve only their depositors. They were chartered by the local and federal governments to provide the kind of sensitive service to their local communities which large downtown banks wouldn't offer. They were given special competitive advantages by the government, which let them offer higher interest on savings deposits than commercial banks. The money they attracted was to be used to meet the housing needs of the communities they served.

For example, Washington Mutual, a typical representative of a neighborhood-serving institution, has been the friend of many families because it helps pay for houses, boats, vacations, and schooling. People's Bank has supported people by lending to small businesses and to contractors to build houses.

But over the years, the mutuals and savings and loans have neglected their responsibilities to their service areas while maintaining their hold on their publicly-given privileges. Originally meant to be neighborhood institutions, they have turned their backs on the needs of the neighborhoods of their depositors while seeking to make their money elsewhere.

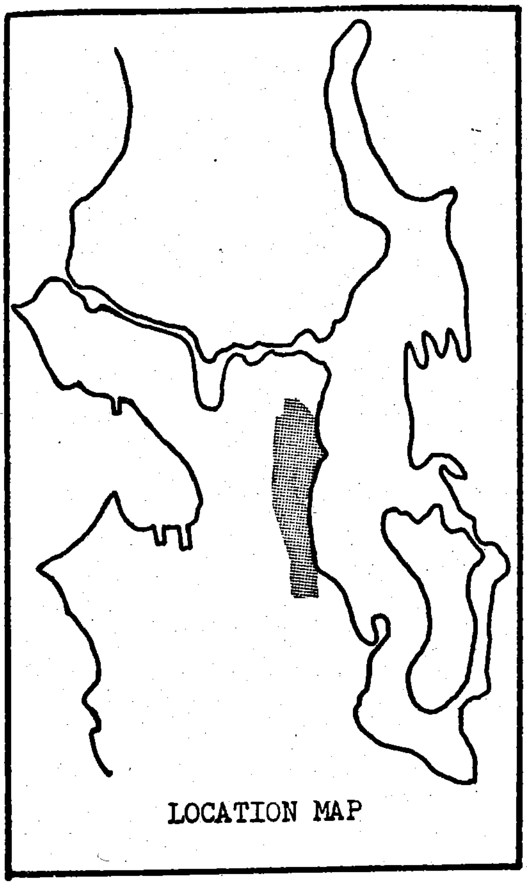
Washington Mutual is not the friend of many families in the Central Area. Washington Mutual, the largest real estate lender in the county, has not written loans in the core area of the Central Area since at least 1970. People's Bank (they claim "it was named after us"!) has refused money to businesses and lends only to real estate speculators in this area, while its mortgage company has one of the worst foreclosure records in the city. University Federal Savings and Loan loans only in affluent neighborhoods and has just opened an office on Mercer Island to spend our savings money there. Their competitors join them in illegally discriminating against our neighborhoods.

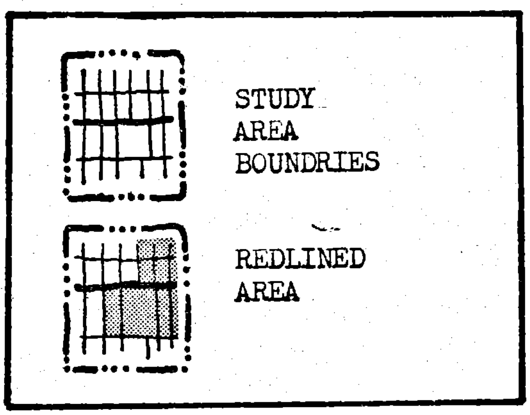
A public trust has become a public abuse.

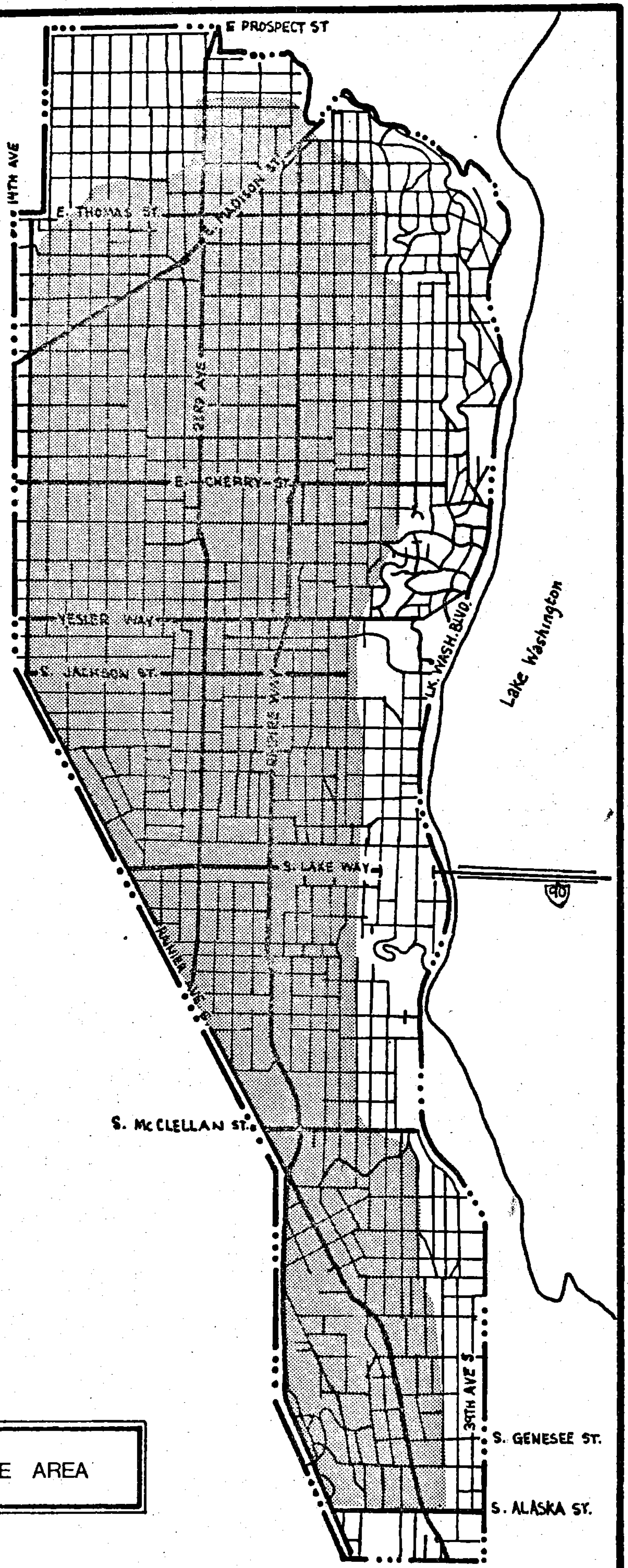
2. Which Banks Lend Where?

The Federation has studied the details of over 1,150 residential property transfers since 1970 in the Central Area and the Rainier Valley (the precise study area is outlined on the accompanying map). Twenty-nine percent (29%) of the sales were either bought outright, financed privately, or bought on a real estate contract. Seventy-one percent (71%) were financed by lending institutions. It is this second category that is the basis for the following presentation as those were the sales where the homebuyer went to the market for money.

Banks, mutuals, and savings and loans do the vast majority of lending in King County. They accounted for seventy-two percent (72%) of all residential loans in 1973 and eighty-two percent (82%) in 1974. Mortgage companies lent the





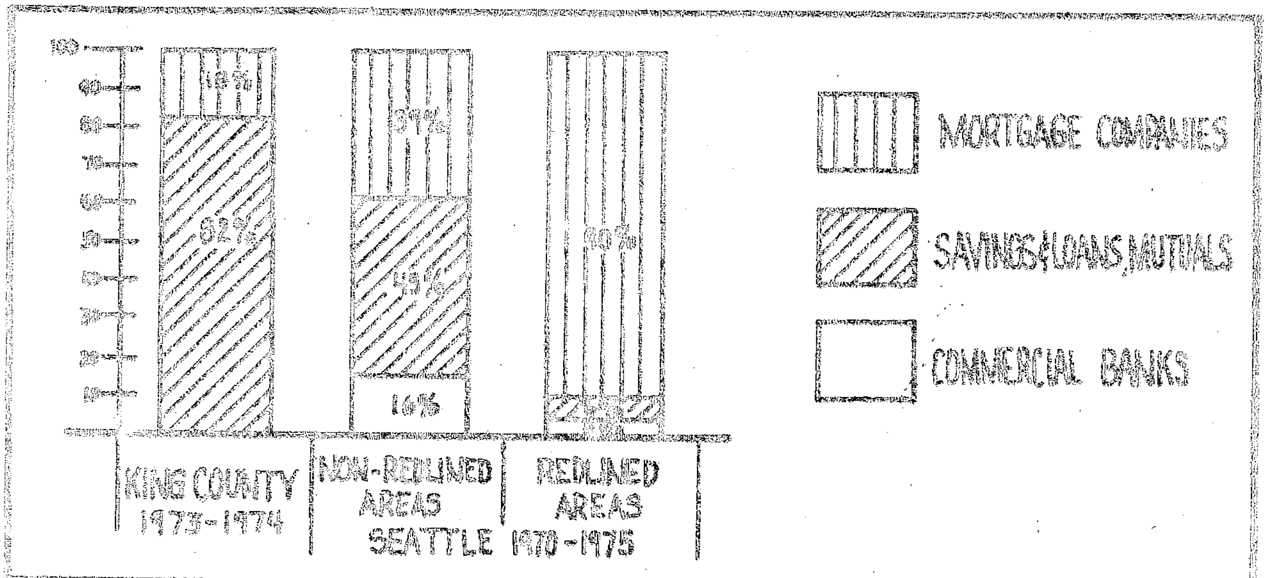


REDLINING IN THE CENTRAL SEATTLE AREA

remainder of the money.[1] In parts of the Central Area and Rainier Valley, which included affluent areas in Capitol Hill, Madrona, Leschi, and Mt. Baker, mortgage companies lent a proportionally greater amount: thirty-nine percent (39%) of the real estate money compared with the banks' sixty-one percent (61%). This pattern is probably not unusual for most Seattle neighborhoods, as for years banks have encouraged and provided financing for suburban development.

But who lent money within the core of the Central Area? While banks were willing to lend in higher-income neighborhoods within the Central Area, they refused to lend in predominately minority areas where cheaper housing was available. Mortgage companies made ninety percent (90%) of the loans, while banks lent only a miniscule proportion -- a complete reversal of the lending pattern for the county as a whole.[2]

LOANS BY AREA AND INSTITUTION



	KING COUNTY 1974	NON-REDLINED AREAS No. 1970-75	%	REDLINED AREAS No. 1970-75	%
MORTGAGE COMPANIES	18%	143	39%	394	90%
SAVINGS & LOANS, MUTUALS	82%	163	45%	26	6%
COMMERCIAL BANKS	—	58	16%	18	4%

Major portions of the Central Area and the entire Rainier Valley have been abandoned by the banks and are now served only by mortgage companies. The redlined neighborhoods range from Mann-Minor, the East Madison Valley, and parts of Stevens on the north to Rainier Valley at least as far south as South Alaska Street (see map).

Within this area, most banks made no loans in the last five years! The others, as shall be shown shortly, lent only to absentees, investors, and speculators! This was especially true in the Central Area.

The following banks have made two loans or less since 1970 in the redlined areas of the Central Area and the Rainier Valley:

Bank	Mortgages in County, 1974[3]
People's National Bank	$ 47,688,000
Washington Mutual Savings Bank	43,052,000
Washington Federal Savings & Loan	42,305,000
University Federal Savings & Loan	15,538,000
Pacific National Bank	14,094,000
Puget Sound Mutual Savings Bank	12,307,000
Citizens Federal Savings & Loan	11,316,000
Fidelity Mutual Savings Bank	5,780,000

The following banks lent only to absentees, investors, or speculators:

Bank	Mortgages in County, 1974[3]
Seattle First National Bank	$ 51,158,000
Rainier National Bank	35,079,000

Other Seattle banks did not do a large enough volume of business anywhere in the Central Area -- even in affluent parts -- to allow comparison.

Banks, then, have systematically refused to serve the needs of prospective homebuyers in most of the Central Area and all of the Rainier Valley. Out of 438 recorded financed transactions in the redlined areas since 1970, a mere 44 were handled by banks and savings and loans -- supposedly established and chartered to be the servants of the housing needs of their community! In addition, as shall be noted, most of these 44 loans went, not to typical home-buyers, but to investors and absentees.

3. Who Do Banks Lend To?

Additional facts have been discovered which point beyond even the stark fact of bank redlining. Banks, and savings and loans in particular, in the past four years have taken steps to move away from serving the needs of the moderate-income homebuyer altogether!

Housing costs have climbed throughout the county in the last few years making it harder for persons of average means to own their own homes. Financing costs have contributed heavily to this inflation. In this context, it is important to remember that banks and savings and loans provide the cheapest source of mortgage credit. The other institutions which help average-income people buy houses are FHA and its companion, the VA. Since almost no down-payment need be made under either system, FHA and VA provide a valuable service in reducing the immediate costs of home purchase.

Seattle banks and savings and loans have acted to frustrate both the above-mentioned ways in which a moderate-income homebuyer can economize. Three facts stand out: banks and savings and loans have withdrawn from writing FHA/VA loans;

2

the average price of a house financed by a conventional bank loan is beyond the reach of the average homebuyer; and the savings and loans, in particular, 3 are pulling out of financing lower-cost housing.

The following figures show how the major savings and loans and mutual savings banks have nearly quit giving FHA and VA loans:

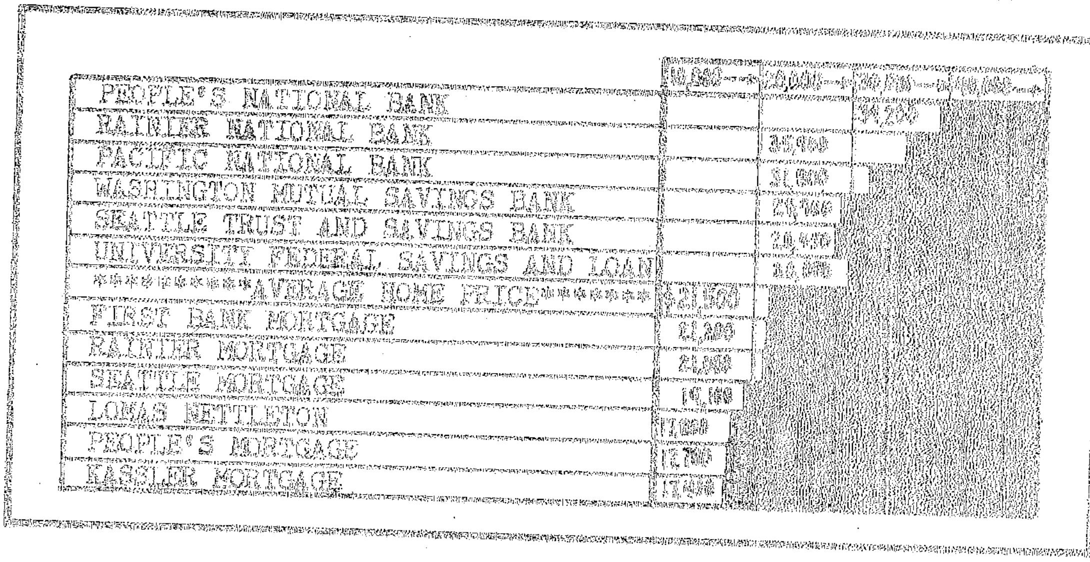
	% of Residential Loans Which Are FHA/VA (County-wide)[4]				
	1971	1972	1973	1974	1975
Savings & Loans:					
Washington Federal	32	18	8.9	3.1	-0-
Great Western Union Federal	34	21	8.6	9.4	15.3
University Federal	22	15	6.9	3.3	1.3
Pacific First Federal	-0-	-0-	-0-	-0-	0.9
Citizens Federal	28	3.5	3.4	8.2	1.0
Metropolitan Federal	15	6.6	-0-	4.7	23.0
Westside Federal	20	5.9	6.3	4.5	3.1
AVERAGE	20	9.3	5.2	4.5	4.9
Mutual Savings Banks:					
Washington Mutual			12.5	2.7	
Puget Sound Mutual			12	8.1	

It is true that total FHA and VA sales have declined throughout the county. All lending institutions are cutting back on their FHA and VA portfolios. But the top savings and loans and mutuals listed above, which could potentially serve the Central Area and the Rainier Valley the best, have restricted their FHA and VA lending even more than normal. In fact, they have pulled out of the FHA and VA market between two and four times faster than the average of all the lending institutions.[5]

This is especially serious since the savings and loans already don't lend conventionally in redlined areas. This makes FHA or VA the only way left to buy a house. But they've pulled out of the FHA and VA market as well! This is important since, as shall be detailed later, savings and loans and mutuals charge less for FHA and VA loans and foreclose much less than mortgage companies. Their withdrawal leaves redlined homebuyers at the mercy of the mortgage companies.

The banks, as well as denying credit to FHA and VA buyers, are not lending money for houses within the financial capability of the person of average income. Even within the non-redlined areas of the Central Area, with very few exceptions, banks and savings and loans did not lend on any house which sold for less than $20,000. Again, mortgage companies have swept in to fill the void left by the departure of the banks. The following chart lists the price of the average house financed by specific banks and mortgage companies:[6]

AVERAGE PRICE OF HOUSE FINANCED IN THE CENTRAL AREA
BANKS VERSUS MORTGAGE COMPANIES



One further piece of evidence further documents the policy of savings and loans, in particular, of increasingly denying credit to the moderate-income homebuyer, regardless of where he or she wishes to buy. Since 1973, while commercial banks and mutuals made about the same average loan each year, the average loan written by savings and loans in the county rose over $1,600:

Bank	Average Conventional Loan (Countywide)? 1973	1974	1975
Pacific First Federal	$30,400	$33,400	$37,900
Great Western Union Federal	26,800	29,600	39,200
Washington Federal	26,600	26,400	29,200
Citizens Federal	24,100	26,000	26,400
University Federal	25,200	25,000	33,600
AVERAGE	$27,000	$28,600	$32,000

Figuring an average downpayment of 25%, this means that the average house financed by the top savings and loans went from $36,000 in 1973 to $38,100 in 1974 -- requiring an income of at least $20,000 yearly to afford the payments!

Residents of redlined neighborhoods then face a double bind. First, they can't get loans -- conventional or FHA/VA -- from standard lending institutions. Second, if they decide to move to where mortgage money is more available, they find themselves faced with lenders who are pulling out of financing lower-cost housing!

REDLINING FOLLOWS RACIAL LINES

Redlining, a practice which discriminates against geographic neighborhoods of Seattle's inner city, is, not surprisingly, linked with the racial composition of the community. Redlining has been followed with a vengeance in the core of the Central Area for years. However, as an increasing number of minorities have moved from the Central Area to the Rainier Valley, redlining practices have followed them. Redlining, which helped to force people out of the Central Area, has accompanied the movement of minorities into the racially-transitional Rainier Valley.

Census Tract	64	76	77*	78	79*	87*	88*	89+	90+	95+	100+	101+
% Minority (1970)	22	47	92	54	62	90	95	75	80	46	47	34
% Minority (1960)	18	32	89	40	49	83	79	66	80	12	26	12

* Census tracts of redlined areas in Central Area.
\+ Census tracts of redlined areas in Rainier Valley and bordering on Rainier Valley.

4. Loans to Speculators but not to Homebuyers: How the Banks Lend in the Redlined Areas

While banks and savings and loans were nearly absent from lending in the red-lined portions of the Central Area, a few loans were given. Who did they go to? By digging into the details of every bank loan, the following picture emerges clearly for the Central Area (the Rainier Valley has not shown the same signs as the Central Area, although the trend appears to be heading in the same direction).

Banks and savings and loans are discriminating against the normal homebuyer. Of the twenty loans in the Central Area that the banks did write since 1970, all but four buyers owned other property which the bank could demand a mortgage on. Most of the buyers that banks lent to owned two or more other houses. Two men who bought several houses owned, between them, thirty-one other properties in the area. Six of twenty sales were for multiplexes, which could be rented out for profit. Six others were houses that the bank making the loan had earlier foreclosed upon -- so they had to lend the money to get it off their hands! Most importantly, the great majority of sales financed by banks were substantially below assessed value -- by as much as 50% or 60%. Only five of the twenty sales were near or above what the county assessed them at. The vast majority of the loans written by banks and savings and loans, therefore, went to people buying low and hoping to sell at a high profit.[8]

What this means is that (with only two exceptions) banks and savings and loans lent money only if one or more of the following conditions were met:

a. the buyer owned several other houses already;
b. the buyer only paid about half of what it was worth, perhaps hoping he could sell it later at a high price;
c. the buyer got a house that the bank itself owned because it had foreclosed on somebody earlier.

The average homebuyer shopping for a Central Area house gets turned down, while investors, absentees, and speculators find a smiling face at the bank!

> "(The bankers) deny they engage in redlining... Redlining is not the issue here. You can never determine for certain whether a financial institution is redlining anyway."
>
> ...Seattle City Councilmember John Miller, July 10, 1975 Seattle Post Intelligencer

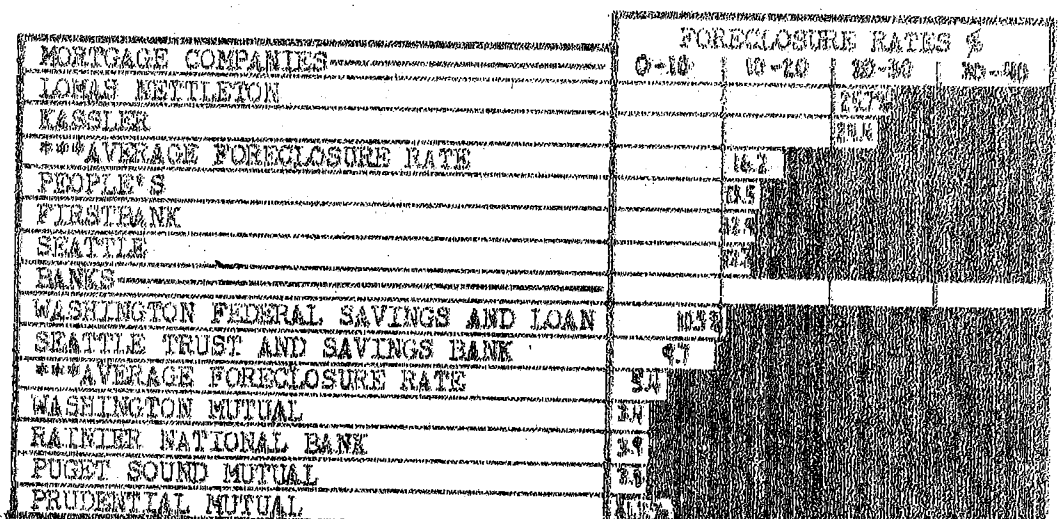
> "When someone says that there is no such thing as redlining, ask them how much money they're making out of it."
>
> ...Brian Boyer, author Cities Destroyed for Cash

5. <u>The Redlined Homebuyer's Last Resort -- The Mortgage Companies</u>

After searching for a mortgage from a bank, prospective residents of a redlined area find that none is available. They discover that the bank won't lend on houses that fall below a certain price. Furthermore, the door is closed on them even when they inquire about an FHA-insured or VA-guaranteed mortgage. After these frustrations, homebuyers must go to a mortgage company for a loan. Money is available there to buy houses -- what does it matter that only mortgage companies, not banks, provide the money?

Facts show that mortgage companies, unlike banks and savings and loans, charge more for writing a loan in the first place, then subject homebuyers to an exceptionally high risk of foreclosure. Both practices have very real consequences for the decay of our neighborhoods. If banks and savings and loans did actively lend in the Central Area and the Rainier Valley, all indications are that fewer houses today would be boarded up and more people would still be living in their homes.

Mortgage companies, the Federation discovered, after demanding the information from HUD, <u>foreclose up to eight times more often on FHA loans than do banks, mutuals, or savings and loans.</u> To make matters worse, the mortgage companies who write the most mortgages in the redlined areas also have the highest foreclosure rates of any company. Lomas and Nettleton, which does 60% more business than its closest competitor, has the highest foreclosure rate of all.[9] The four major mortgage companies serving the redlined areas have an average foreclosure rate four times that of banks and savings and loans.[10]



AVERAGE FORECLOSURE RATES	
Top Four Mortgage Companies that Lend in the Central Area	16.2%
All Banks (including Savings and Loans, and Mutuals)	5.4%

(Note: Foreclosure rate is the percent of loans in default for which foreclosure proceedings have started.)

Banks and savings and loans, as their low rates show, make a real attempt to help a family through temporary financial difficulties. Yet, since they don't lend either conventionally or through FHA, the residents of the redlined communities are refused the opportunity of receiving that kind of good service.

The consequences are larger than to the residents who lose their homes through foreclosure. Foreclosures create empty houses, which fast become havens for vandalism, crime, and health hazards. Nearly every block in the Central Area and the Rainier Valley has one or more abandoned houses with "FBI" stickers on them, meaning that the house has been foreclosed and passed back to FHA. Mortgage companies have little incentive to help struggling homeowners as FHA pays them 100% of their investment and profits when they foreclose. (See Appendix for example of high profits mortgage companies make by foreclosing.) FHA itself is a party to the abandonment process because it continues, after repeated requests, to refuse to require that mortgage companies institute mandatory forbearance practices on loans in default. Banks could help by lending in redlined areas, but they don't.

The other consequence of mortgage companies exclusively writing loans is that it results in a higher direct cost to the homebuyer and seller than if they could deal with a bank. The reason for this lies in the very nature of a mortgage company as opposed to a bank. No one deposits money in a mortgage company. Mortgage companies either have to borrow their money from a bank just like any other business, or attract money from investors by being able to pay them a high yield. Banks, on the other hand, get their money from depositors at a comparatively low rate.

The result is that when the mortgage company pays off the seller of a house, the money they use costs them up to 40% to 50% more than it costs a regular bank. That cost gets passed right on to either the buyer or seller, by what are called "points". Points are a percentage of the purchase price which must be paid by the seller or buyer to the mortgage company (at the time of closing) to induce them to lend the money. Points in March were running about 7% -- which is $1,400 on a $20,000 loan. This goes right to the lender and doesn't build up the person's equity in their house -- unlike a downpayment -- one penny.

Banks and savings and loans, because they pay less for the money they use to loan, can afford to charge several fewer points.[11] This is a real savings which goes to the buyer or seller because of competition. But residents of redlined areas don't benefit from normal market-place competition because of redlining practices.

Here again, buyers and sellers of lower-cost houses are treated discriminatorily by the lending institutions. It is common practice for more "points" to be charged for cheaper homes. The Federation has procured a copy of a People's Mortgage Company document which indicates that homes below $15,000 get charged double the amount of points of homes costing $30,000 or more (see Appendix). This is yet another way lending institutions have of penalizing moderate-income people.

Residents of the Central Area see the signs of deterioration in their neighborhoods every day. Vacant lots become overgrown as few new homes are built. Houses recently lived in get boarded up and soon fall into disrepair. Normal wear and tear in the rest of the neighborhood's housing doesn't get fixed up as it should.

What this report has documented so far is some of the reasons for this noticeable decay. New homes can't be built when minority contractors can't get loans from the banks. Houses get boarded up because of foreclosures by mortgage companies, with the complicity of FHA. Banks won't lend for rehabilitation if they won't lend on a much more secure home purchase mortgage.

The institutions with the money to help, it is now clear, have arbitrarily denied the investment that is the lifeblood of our neighborhoods. What financing is available through mortgage companies costs much more and opens up the community to their profit-above-all foreclosure practices.

Redlining by banks has left whole communities without the financing essential for their rebuilding. Instead, the money which should be spent here improving our communities goes elsewhere. While applicants for loans in the Central Area are rejected by being told money is "tight", money -- our savings deposits -- flows freely away to be spent by banks in the suburbs. This disinvestment is the subject of the second part of this report.

DISINVESTMENT -- OUR MONEY BUILDS THE SUBURBS

Where do banks spend our money? Banks are able to lend because people deposit their money with them. In most neighborhoods, money that residents put in branch banks stays in the community in the form of loans to buy or fix up homes, finance education, or support local business. People's savings money normally gets plowed back to their neighborhoods to help keep them strong. In a real sense, by depositing their money in a bank, residents are the source of money for their neighbors that need loans. The banks are only the middlemen.

Central Area people provide millions of dollars yearly to the banks. Children for years deposited their quarters faithfully every week with Wasington Mutual through "Bank Day" of the Seattle Public Schools. But we now know that almost none of those quarters and paychecks get re-invested in the communities where they came from.

People have a right to expect their bank not to just pay interest, but to invest in the continued strength of their neighborhood. It's our money and the banks are spending it somewhere else!

The Federation has discovered the incredible extent to which the Central Area and the Rainier Valley are being stripped of the investment cash they need. According to the best available figures, the Central Area is getting less than 25¢ back in the form of loans for every dollar its residents deposit. And none of that money is going into the redlined areas.

But in the suburbs outside Seattle, in many places they're getting over $2 re-invested for every dollar they deposit! No wonder our neighborhood businesses and residents find it so hard to get a loan. No wonder we are told money here is so "tight".

The chart on the following page contains the information that proves this dis-investment.[12] The loan-to-deposit ratio listed in the chart represents the return a neighborhood is getting on its deposits. The largest banks in the Central Area and Rainier Valley (both Seafirst) return less than 20% of the money they collect from local residents back to the community. However, many of the suburban branches loan out more money than their local communities produce in deposits! That gap, likely as not, is filled in by dollars from the Central Area and other Seattle neighborhoods.

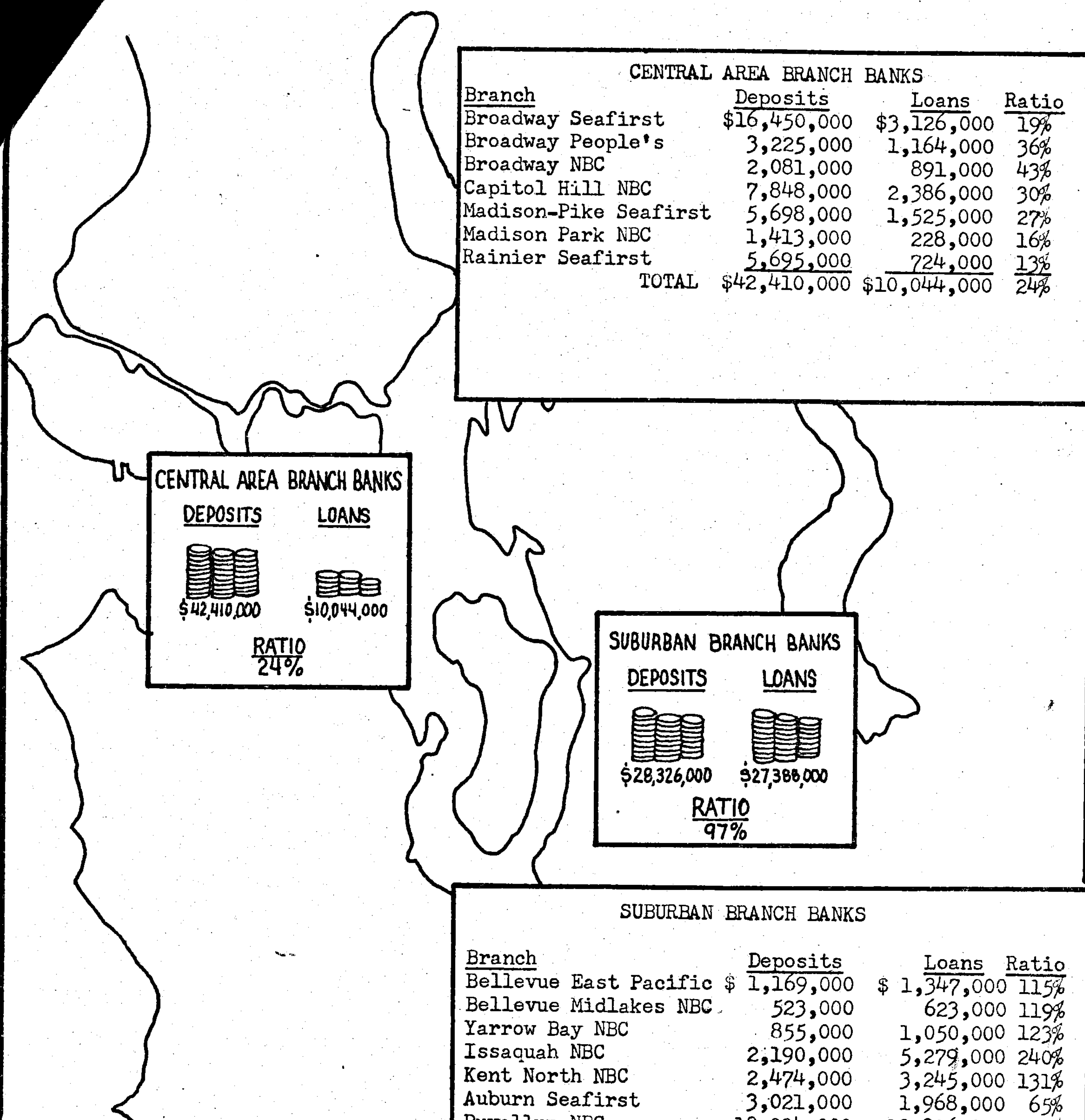
> "Many banks defend their lopsided loan-to-deposit ratios on the ground that the nature of banks' intermediary function -- to attract excess capital and lend it out for productive uses -- necessarily entails borrowing from some to lend to others. The fact remains, however, that the present practice of making credit decisions ...excludes from consideration the satisfaction of the credit needs of the community that provides deposits.
>
> By thus subordinating, if not completely ignoring, unmet community credit needs -- such as local economic development and preserving, rehabilitating, and constructing housing -- the banking practices operate like a regressive tax, funneling money of communities with declining economies to those with brighter economic prospects. This merely reinforces existing economic trends, making it increasingly difficult to reinvigorate an area beset by economic blight."
>
> ...Ralph Nader, David Leinsdorf and Donald Etra, CITIBANK, pp. 82 - 83

Seattle banks are actively working to destroy our city neighborhoods while building up suburbia. The figures show where our money is going. Partly because of this, Seattle, which got 42% of the mortgage money in the county in 1971, got only 32% in 1974 -- a decline of nearly one-fourth.[13]

Bank policies on interest rates and downpayments encourage suburban growth at the expense of our city neighborhoods. Ads are placed in our community newspapers which offer 7-3/4% loans for homes in Federal Way, while people buying in the Central Area have to pay the full allowable FHA rate -- up to 3/4% higher.[14]

CENTRAL AREA BRANCH BANKS

Branch	Deposits	Loans	Ratio
Broadway Seafirst	$16,450,000	$3,126,000	19%
Broadway People's	3,225,000	1,164,000	36%
Broadway NBC	2,081,000	891,000	43%
Capitol Hill NBC	7,848,000	2,386,000	30%
Madison-Pike Seafirst	5,698,000	1,525,000	27%
Madison Park NBC	1,413,000	228,000	16%
Rainier Seafirst	5,695,000	724,000	13%
TOTAL	$42,410,000	$10,044,000	24%



SUBURBAN BRANCH BANKS

Branch	Deposits	Loans	Ratio
Bellevue East Pacific	$ 1,169,000	$ 1,347,000	115%
Bellevue Midlakes NBC	523,000	623,000	119%
Yarrow Bay NBC	855,000	1,050,000	123%
Issaquah NBC	2,190,000	5,279,000	240%
Kent North NBC	2,474,000	3,245,000	131%
Auburn Seafirst	3,021,000	1,968,000	65%
Puyallup NBC	18,094,000	13,876,000	77%
TOTAL	$ 28,326,000	$27,388,000	97%

DISINVESTMENT: DEPOSIT TO LOAN RATIOS
CENTRAL AREA BRANCH BANKS Versus SUBURBAN BRANCH BANKS

The Federation has also found that buyers of houses in Capitol Hill, Madrona, Leschi, and Mt. Baker are forced to pay an average of 43% higher downpayment on existing houses for conventional loans than residents of such areas as Newport Hills, Kirkland, Kent, and Lake Forest Park.[15]

Requiring higher downpayments and interest rates are a subtle form of redlining. In this case, people living in areas surrounding the redline pay the price of redlining decisions by banks. Such policies also actively contribute to disinvestment by providing incentives for people to move out of Seattle to where the cheaper money is. Why should our money help Bellevue homebuyers pay less down instead of staying here to help us?

Disinvestment by Seattle banks is a major cause of the problems facing our city today. The flight of people to the suburbs that banks encourage by their conscious policies robs our local government of tax money needed to run our schools and provide our city services. Loans are non-existent for our neighborhood businesses while banks help to finance the new Evergreen East Shopping Center -- which is estimated to cost downtown business alone $80 million a year. Yet no grocery store gets built at 23rd and Jackson partly because the money isn't there to do it. When banks do invest here, it often is in a negative way. John Spellman managed to get $13 million for his Domed Stadium from local banks, while the low-income housing needs of the International District go unrecognized and, as yet, unfunded.

Banks also have been extremely reluctant to participate in the city's Housing Rehabilitation program -- after it was tailor-made to fit all their requirements! It still remains to be seen if enough rehabilitation money will be made available on reasonable terms to do the job. Just recently we find that slumlords, backed by most of Seattle's banks, filed to run the Stevens area rehabilitation program -- without provisions for true neighborhood participation in its management. In any event, what involvement may come eventually from the banks in this program does not compensate for their years of complete neglect of community needs in the course of their daily business decisions.

-lining and disinvestment, then, have consequences far beyond the real ones which redlined residents face. While no investment money is made available to them, neighborhing residents in Capitol Hill, Madrona, Leschi, Harrison, and Mt. Baker are similarly penalized by having to pay higher downpayments and interest rates. On a city-wide level, our money which is needed here flows away to finance housing and commercial projects which directly hurt Seattle. Our schools close down as our tax base is increasingly inadequate to meet the needs. Our businesses suffer as our money is used to build shopping centers beyond our reach.

A well-meaning city government is not in a position to fight the trends that the banks encourage. Seattle gets less than $10 million a year in revenue sharing funds, while the Broadway branch alone of Seafirst funnels more money than that out to the suburbs! Our financial institutions have the resources to help us to preserve our neighborhoods. But, instead of giving us service for our savings dollars, they are financially strangling, not only redlined areas, but all Seattle. It's time that they are stopped.

> "All mortgage lenders have engaged in the process of redlining -- refusing to consider certain urban districts, claiming they are too run down to invest in ... (the Savings and Loans) lending has been directed toward financing the middle-class exodus to the suburbs."
>
> ...Thomas Marvell, The Federal Home Loan Bank Board, Praeger Press, 1973

THE BANK REGULATORS -- A MODEL OF NEGLIGENCE

Banks, mutuals, and savings and loans do have responsibilities to the public. Because their activities are so central to the health of our economy, not only our neighborhoods, government agencies have been established to oversee their operations. Supposedly, these regulators help guarantee that the institutions which keep our money serve our needs.

But the bank regulators have done nothing to remedy, or even investigate, the redlining of the banks they regulate. In fact, two agencies in particular have taken steps to deny to the Federation information which could further document disinvestment. The State Division of Banking refused to release loan and deposit data on state-chartered mutual savings banks that was available for federally-chartered banks. In a similar vein, the federal Comptroller of the Currency placed on the confidential list all information on branch bank loans and deposits. This information had been public for at least ten years earlier, but was withdrawn from the public because of bankers' complaints that such data revealed "trade secrets"![16]

Some regulators have at least ruled that redlining is illegal. For instance, the Federal Home Loan Bank Board, which oversees savings and loans, in December, 1973 issued guidelines stating that:

> "Refusal to lend in a particular area solely because of the age of the homes or the income level in a neighborhood may be discriminatory in effect since minority group persons are more likely to purchase used housing and to live in low-income neighborhoods... Each loan applicant's credit worthiness should be evaluated on an individual basis without reference to presumed characteristics of a group."
>
> ...Federal Home Loan Bank System Statement of Policy, 531.8(c)(6), 531.8(b)

But the same regulators, after issuing the guideline, refuse to follow-up on their good intentions by investigating the banks to see if they redline. At this time, they don't even gather the information they would need to determine if illegal practices were occurring. As Thomas R. Bomar, chairman of the Federal Home Loan Bank Board, has said:[17]

> "This agency probably has the authority to require full disclosure but we're not sure this is an appropriate function for us to get into. To make a major jump into this new field would require at least a $100 million addition to our budget and a 50% increase in our 850-member examining staff. We're not sure its worth it."

Bankers are hiding behind the excuse of "trade secrets" and regulators behind that of money to keep essential information from the public which would identify the redliners! Someone should tell the bankers, who are so fond of defending the free-enterprise system, that one of the cornerstones of a free-market system is access to the information needed to make informed economic decisions. Perhaps one of the reasons for the complete inaction by regulators may be who controls the regulators. (Seven of the ten members of the Board of Directors of the Federal Home Loan Bank of Seattle, which regulates Northwest savings and loans, are bankers themselves!)

Disclosure of where banks get and spend their money would not only tell the public who is guilty of redlining, but also where they could invest their money to see that it went back to their own neighborhood. Disclosure would also give the regulators the information needed to follow the good intentions of their guidelines with responsible regulatory action.

Forcing action by the government may be hard when the officials responsible are controlled by the bankers they are supposed to regulate! As with most things, if change is going to come, the people must organize themselves to reverse redlining and disinvestment. It's our money and it must return to our neighborhoods!

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CONCLUSION -- THE PEOPLE CAN WIN!

The facts are clear. From the top -- Washington Mutual, University Federal, Seafirst -- on down, the banks are illegally redlining while encouraging disinvestment from the city. They are systematically refusing to support the livability of our neighborhoods but continuing to lend to speculators. Our childrens' dimes and nickels go to Washington Mutual, only to see them and all the other bankers turn their backs on the families they claim to be the friends of.

Without bank investment, our neighborhoods slowly die. It's starting to happen now as more and more houses become abandoned and torn down, and as houses still lived in don't get the repairs they need. Banks must be held accountable for their ghettoizing policies and must be forced to re-invest in the community where they get their money from. Why should Central Area savings go to build up the suburbs while our own neighborhoods slowly decay and die?

> "Whenever there is a conflict between human rights and property rights, human rights must prevail."
>
> ...Abraham Lincoln

Redlining can be stopped. Community groups throughout the country have confronted the banks ~~and~~ won. We can do it too.

In Minneapolis, citizens raised over $1 million in a "greenling" campaign and won promises from the largest savings and loan to more than quadruple the money it invests in the inner city there. A Milwaukee group, after receiving endorsements from the City Council and the local Archbishop, redeposited $1 million in two banks which agreed to lend within a previously redlined area.

A Jamaica Plain group in Boston developed a "community investment plan" which earmarked hundreds of thousands of dollars of deposits which would be lent out only within Jamaica Plain. A coalition of Chicago community groups raised over $100 million from unions, churches, and local residents to be withdrawn from redlining banks and deposited in cooperating banks. This has resulted in banks actually physically relocating back into the community to serve local needs.

All these campaigns were won only after extended effort by residents of redlined communities. They have shown us that, if enough people are aware of the problem and are willing to work, banks can be made to be responsive to the community's needs.

Redlined communities in Seattle face the same problem that other cities are dealing with, stemming from the same sources -- the banks. There are several potential ways of starting a "greenling" campaign in Seattle. Which strategies are chosen depend on what the people decide upon. What follows are a few approaches which have been tried successfully elesewhere and can work here.

To start with, it is next to impossible right now for citizens to know which bank to put their money in if they want it used for neighborhood preservation. One way to deal with that is to work to get the city government to pass a full disclosure ordinance. A disclosure ordinance would, among other things, reveal where savings money comes from and where loans are made for each bank. When this was done in Washington D. C., it was found that the largest savings and loan got 80% of its deposit money from within the city but lent 99% of its money outside the city to affluent suburbs!

A way to follow-up on such an ordinance would be to organize support to get the city and other public agencies to withdraw public monies from redlining banks which contribute to the deterioration of city neighborhoods. Money could be placed in any institution which pledged to lend in redlined areas. The City of Seattle presently has $20,000 in every savings and loan in the city, and several times that amount in each of the large downtown commercial banks.

A third possibility would be for the community to deal directly with the redliners themselves, in conjunction with or instead of asking the cooperation of public bodies. This strategy is called a "greenlining" campaign. Such an effort follows upon an extensive educational effort by community groups to explain redlining and its consequences in their neighborhoods. Pledges would be gathered from individuals, businesses, churches, and other organizations to withdraw deposits from the banks in which they are held and re-deposit, at the direction of the community anti-redlining group, in any bank which agrees to re-invest in the Central Area. The community group can use these pledges as a lever in negotiations with banks. In addition, the group can gain the right to monitor the bank's progress in re-investing in the community. This approach, while requiring an extended effort, has the benefit of using community residents' money to their own advantage! Neighborhood withdrawals, combined with government withdrawals, speak the language the redlining bankers can understand.

There are other ways to move to solve the problem, ranging from hearings before the City Council or Civil Rights Commission to direct pressure on the banks. The above approaches were discussed because they have worked in other cities and helped to stop the tide of deterioration.

What is most important is that action be taken soon. The banks and mortgage companies have gotten away with illegal discrimination for years and will continue to make their profits in the suburbs with our money -- unless the community organizes to stop it! Fortunately, there are several ways to act, all of which have been successfully used elsewhere. Now is the time to start.

SAVE OUR NEIGHBORHOODS!!

APPENDIX

I. FOOTNOTES
II. A NOTE ON METHODOLOGY
III. PEOPLE'S MORTGAGE COMPANY MEMO
IV. EXAMPLE OF FORECLOSURE PROFITS

CREDITS

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Bill Satoris for the graphics in this report
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FOOTNOTES

1. Compiled from the "Mortgage Barometer", published monthly by the Pioneer National Title Insurance Company. This source lists, by month, for each lending institution the number and volume of conventional and FHA/VA mortgages written per month for King County.
2. The precise study areas and their loan 'profile' are listed elsewhere in this Appendix.
3. "Mortgage Barometer", year-end 1974 totals.
4. Compiled from monthly "Mortgage Barometer", January 1971 through May, 1975. The percentage listed is the dollar volume share of FHA loans of all residential loans under $75,000 written by each bank in each year. Since residential loans over $75,000 are excluded due to the limitations of the Pioneer Title data, the FHA rate included in this report is an underestimation of the true portfolio share which each bank has in FHA insured loans.
5. Setting the volume of FHA lending in 1971 equal to 100, and the volume of FHA lending by the top seven savings and loans in the county in 1971 also equal to 100, this allows the savings and loans' withdrawal from FHA to be compared with the general decline in FHA activity county-wide since 1971. The decline in savings and loans' FHA activity is seen to be much greater than that of all lending institutions. Also, the decline continued through 1974 while for the county as a whole the FHA market bottomed in 1973 at 64% of the 1971 volume and increased in 1974 to 69% of the 1971 volume. Time did not permit a tabulation of the county-wide total for 1975 to date.

Total County FHA		Top Seven S&L FHA
100	1971	100
79	1972	79
64	1973	49
69	1974	33

6. Figures derived from an averaging, of all mortgage loans written in the study area since 1970 for each of the listed institutions. The Federation conducted this research using various documents available at the King County Administration building.
7. Compiled from monthly "Mortgage Barometer", January, 1973 through May, 1975.
8. Information based on record search on each loan by banks, savings and loans, and mutual savings banks in the redlined portions of the Central Area. Multiple ownerships were determined from the master index at the County Assessor's office. Absentee investment was found from a search of the deed, estate sales tax receipt, and current Polk's City Directory. Previous history of certain properties, such as previous foreclosures, was found by the use of the estate sales tax receipts and index kept in the County Comptroller's office.
9. In the redlined portions of the Central Area and the Rainier Valley, since 1970, the following number of loans were written by each major mortgage company: Lomas and Nettleton, 106; People's, 66; Seattle, 50; Firstbank, 39; and Kassler, 29.
10. Compiled from HUD Form 2068S, filed monthly with HUD by each mortgage company which services more than 250 FHA-insured loans in the Seattle area. The figures in the chart are derived from a sample taken from the months of January, April, July, and October of the years 1972 through 1974, and January and April of 1975, with the exception of October 1974, which HUD did not have available at the time of inspection by the Federation.

11. Based on conversations with personnel at HUD's office of Housing Management and Mortgage Credit. This office monitors current markets for FHA loans and the terms of their transactions.
12. Loan and deposit figures for branch banks are from applications to open _de novo_ branches of national banks. These documents are on file at the office of the Regional Administrator of National Banks, in Portland, Oregon.
13. Compilation from quarterly reports of the "Single-Family Residential Sales Data," a publication for Washington counties of the Society of Real Estate Appraisers.
14. _The Medium_, May 21, 1975, advertisement by Nordberg and Associates.
15. Downpayment differentials between central city communities and suburbs were determined from a preliminary study by the Federation of a random sample of recent sales of existing houses in parts of Bellevue, Kirkland, Houghton, Kent, and Lake Forest Park, as well as central Seattle. Homebuyers in Central Seattle neighborhoods paid an average of 21.5% down, while homebuyers in suburban areas only paid 15% down.
16. Telephone conversation with Mr. Jay Denning, deputy Regional Administrator of National Banks, in Portland Oregon, April 30, 1975.
17. _Wall Street Journal_, April 5, 1974, underscoring added.

A NOTE ON METHODOLOGY

The Federation used all available public records in researching redlining and disinvestment. The major source of information on lending by institutions on first mortgages was records filed at King County. The Assessor's Office had sales histories and assessment data for each residential property in the study area. The Federation reviewed such information for every property in the area and selected each sale since 1970 for further analysis. The mortgagee for each sale was determined by examining the actual mortgage or deed of trust for each transaction.

The 'Mortgage Barometer', published monthly by the Pioneer National Title Insurance Company, was the source of information for aggregate county-wide data on lending institutions. It lists all real estate mortgages, and individually itemizes each from these bulk figures, all loans over $75,000 were considered to be 'commercial' while all loans under $75,000 were assumed to be 'residential'. Admittedly, this presumption resluted in less precision than desired, but did still allow for generalization and comparison within the limitations of the best abailable data. This practice probably errs on the side of underestimating true average residential loan amounts and shares of loan protfolios that are FHA-insured, so the benefit of statistical weaknesses weighs in favor of the lending institutions.

Disinvestment figures -- loan and deposit amounts for branch banks -- came from applications to open de novo branch banks filed with the Comptroller of the Currency. This source was the only available public information on capital flow between regions. The nature of the dtat only allowed for a sampling of all urban and suburban branch banks. However, what evidence was available pointed strongly in the direction of disinvestment.

The complete picture of disinvestment would appear if a disclosure law required banks to reveal the geographic source of their deposits and location of their loans. The Federation challenges the banks to support such a law, if they feel that they have been unjustly maligned by what is, because of their demands on the public regulatory bodies for secrecy, the best available public source of information.

FUNDING

PEOPLES MORTGAGE COMPANY

Apartments, Commercial & Residential

1101 PIKE ST., SEATTLE, WASHINGTON 98101

PHONE 344-4500 — AREA CODE 206

ALL BRANCHES (EXCEPT PHOENIX & DENVER)

Effective November 22, 1974

FHA & VA LOANS

RATE:	9%	
DISCOUNT:	1½%	30,000 and above
	2%	15,000 to 30,000
	3%	Below 15,000

MAXIMUM VA LOAN: $50,000 (without P.M.I.)
MINIMUM VA/FHA LOAN: $10,000

CONVENTIONAL LOANS

				FEES
90% LOAN	10 %	+ ½	Interest	2½%
95% LOAN	10 %	+ ½	Interest	3%

NEW MAXIMUM LOAN AMOUNTS:

90% LOANS — $55,000 — No PMI Insurance required up to and including 80 LTV ratio.

95% LOANS — $40,000

MINIMUM LOAN AMOUNT FOR 90% AND 95% LOANS REMAINS $20,000

THE ABOVE CONVENTIONAL QUOTES ARE BASED UPON GOOD LOANS AND ANY CHANGE IN CREDIT OR PROPERTY COULD RESULT IN INCREASE IN FEE OR INTEREST RATE.

For details on 8½% Subsidy Program contact Dan Carlo or Cliff Peterson.

HOW THE MONEY IS MADE

WHY MORTGAGE COMPANIES PRACTICE FAST FORECLOSURE

The following is a financial breakdown of the profits that a financial institution realizes on an FHA insured loan which is foreclosed after 12 months.

House Value	$19,000
Down payment	500
FHA 30 year mortgage @ 8 1/2 % excluding taxes, insurance, and escrow is $139.12 monthly	18,500
Seller charged 10 "points" (%) to compensate investor for "low" FHA interest rate	1,850
Mortgage Co. pays seller	16,650

After 12 months and payments, payments are defaulted (missed) for some reason. A 3 month, FHA-required grace period must follow the default before the mortgage company can begin foreclosure proceedings. This process generally takes ½ year. HUD then pays off the remaining principal of the mortgage plus interest that has accured since the last payment was made (approximately 15 months ago).

For twelve months, borrower paid:	
Interest	$11,520.73
Principal	148.00
	$ 1,669.44
At foreclosure, HUD pays:	
15 months of foreclosure interest	$ 1,892.48
Principal less $148.00	19,351.28
	$21,913.20
Mortgage Co.'s original cash investment	-16,650.00
Mortgage Company's PROFIT	$ 5,263.20

This equals a 31.6% return in 2 1/4 years on a $16,650 investment. Consider the profits if a mortgage company forecloses on 100 homes a year: this would be ($5,263 x 100) $526,300 a year profit, all paid with our taxes.