Reinvestment
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FINAL REPORT

COMMUNITY MEMBERS
OF
MAYOR'S REINVESTMENT
TASK FORCE

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SECTION I

APPRAISAL AND UNDERWRITING STANDARDS

FOR RESIDENTIAL LOANS IN SEATTLE

(The following recommendations are based on materials in Chapter 3 of the Draft Report, pp. 11-21.)

1. Discard Discriminatory and Destructive Appraisal and Underwriting Standards

Findings

We agree with the analysis in the Draft Report, pp. 12-15 on the destructive and discriminatory effects that traditional appraisal and underwriting standards have had on Seattle neighborhoods, citizens and taxpayers.

Lenders on the Reinvestment Task Force have explained local lenders are somewhat limited in their power to change these policies, because federal and state regulatory agencies, secondary mortgage markets and private mortgage insurers apply these traditional appraisal and underwriting standards to loans made locally. When the Task Force discussed these standards with the regional vice presidents of the two federally related secondary markets, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, both gentlemen defended their continued use. A local savings and loan executive called to the attention of the Task Force a regulation (Number 571) of the Federal Savings and Loan Insurance Corporation which authorizes that agency to use professional appraisers in determining whether neighborhoods are declining, improving, or remaining stable. We presume that appraisers will be influenced in such evaluation by the training they have received from the two national appraisal societies. As noted in an earlier Task Force report on underwriting and appraisal, these two societies incorporate these standards into their training materials.

We note with approval the recent anti-discrimination lawsuit the United States Department of Justice has filed against four major trade associations which promote the use of these appraisal and underwriting standards. Those trade associations are: The Society of Real Estate Appraisers, the American Society of Real Estate Appraisers, the United States League of Savings Associations, and the Mortgage Bankers Association of America.

Recommendations

The Mayor and City Council should issue a joint proclamation calling for the immediate elimination of these destructive and discriminatory appraisal and underwriting standards by Seattle lenders, appraisers, secondary mortgage markets, federal and state regulatory agencies and private mortgage insurers.

The Mayor and City Council should meet immediately with representatives of community councils, minority and women's rights and other public interest groups. These groups should establish a timetable for mounting a campaign to change the appraisal and underwriting policies of the various state and federal agencies, secondary markets, and private mortgage insurers whose policies affect Seattle lenders (See subsequent section of this report for recommended strategies).

A City disclosure ordinance should be adopted which will require lenders to report that information which is necessary to determine whether local lenders and the secondary mortgage markets are continuing to use these traditional standards. The disclosure ordinance should include all lending institutions making residential loans in Seattle. The disclosure format, Alternative B proposed in the Draft Report, will elicit the information needed to make such an evaluation.

The City should offer assistance to the United State Department of Justice in its anti-discrimination suit against the four trade associations which promote the use of the traditional appraisal and underwriting standards. This offer of assistance should include, but not be limited to, materials developed by the Reinvestment Task Force and the filing of an amicus curiae (friend of the court) brief.

2. Do Not Use the 20% Vacancy Factor to Determine Whether Residential Loans Should Be Made on Seattle Blocks--Establish a City Monitoring System of Vacancies, Lending Patterns and Neighborhood Trends

Findings

Housing abandonment has reached epidemic proportions in many eastern and midwestern cities, and is a legitimate cause for concern. However, it is clear that this is not yet an unsolvable problem in Seattle. It is our judgment that Seattle lenders have magnified the gravity of the local situation out of proportion to the facts.

We have identified the reliance by lenders upon traditional underwriting and appraisal standards as a major part of the disinvestment problem. It would be a tragic mistake to allow the lenders to substitute a new set of standards or risks which are equally inapplicable and damaging to Seattle neighborhoods.

The following factors indicate that the use of a 20% vacancy rate in determining neighborhood risk for residential lending is neither appropriate nor workable in Seattle:

a. Seattle contains an unusual mixture of income levels, housing styles, and housing quality within neighborhoods, and even within individual blocks. Reinvestment Task Force inspections of neighborhoods, stigmatized as "problem" neighborhoods, show an impressive amount of pride in ownership evidenced by recent painting and home improvement projects and well-kept yards. It is particularly striking to note that these efforts are going forward even though there may be vacant or abandoned structures in the same block or even next door.

b. There are a number of blocks in Seattle which have a vacancy/abandonment rate in excess of 20% due, in part, to past lending practices and public policies such as land acquisition for freeways.

c. In some neighborhoods, the application of the 20% vacancy factor would legitimize the practices of "redlining", and perpetuate the deterioration of the blocks.

d. It is extremely difficult to distinguish between vacancy and true abandonment. For example, FHA foreclosure procedures require that houses must remain vacant during the redemption period which may take a year or more.

e. The 20% vacancy rate, or any other rate, is a purely arbitrary judgment. No evidence has been presented to the Task Force which would prove conclusively that a specific vacancy rate is an objective indicator of risk alone. Mitigating circumstances may be present and not clearly visible.

f. There will be great difficulty in administering the vacancy factor as a risk indicator leading to constant dispute. For example, the definition of "block" as originally proposed is unworkable in many neighborhoods because of street layouts and topography. A complicated information system would have to be established to distinguish between vacancies and abandonment over a period of a year. Who would pay for such a system? How can we be sure that the information will be made available to sellers, buyers and other residents on the block, so they have sufficient information to evaluate decisions made by appraisers and lenders?

g. The Draft Report proposes that if two mitigating circumstances are present on the block, lenders can waive the 20% vacancy factor. Those two circumstances are: a community organization which includes the block in its service area and the continued provision of basic City housekeeping services. These two factors are also subject to conflicting interpretations. For example, who determines whether City housekeeping services are adequate? Who determines whether a community organization is providing enough service to a block to offset the 20% vacancy? The fact a community organization includes a given block in its service area does not mean that block is the recipient of any special services from that organization.

Recommendations

The 20% vacancy factor should not be used as a risk indicator to determine whether residential loans are to be made on Seattle blocks. Persistent vacancy/abandonment of housing in a block may well point to some problems which require joint attention by local residents, community organizations, realtors, lenders and the City. These vacancies should be monitored so that joint action can be initiated without curtailing lending.

The City should designate a central office to coordinate, collect, and analyze data on vacancies and lending patterns generated by the proposed disclosure ordinance and other important neighborhood trends. This information should be routinely distributed to community councils, lenders, realtors and appraisers so that joint action can be taken as problems develop.

There are a number of programs concerned with housing in the City, but the responsibility for coordinating them is diffused. Policy planning and program implementation should be centered in one office or department.

3. Eliminate the Concept of Future Economic Life of the Neighborhood

Findings

Estimates which appraisers and underwriters make about future economic and social conditions in neighborhoods are guesses. Many such guesses may be influenced by the traditional appraisal standard that older neighborhoods eventually deteriorate. These guesses are also influenced by subjective judgments on the part of appraisers and underwriters. They must speculate about the number of years remaining until neighborhood deterioration reaches unacceptable levels. They make judgments about the desires of buyers and tenants to live in neighborhoods whose residents differ socially and economically. These guesses and judgments about neighborhood futures are incorporated into lending policies. If they predict future deterioration, lending policies can be formulated which contribute to and perpetuate deterioration.

Two sources of testimony received by the Task Force emphasize that the traditional practice of guessing the future economic life of neighborhoods is intrinsically unreliable. The initial sources of testimony were the statements of appraisers, loan underwriters, federal and state regulators, and secondary mortgage market officials. We asked each representative whether he could reliably predict the economic and social conditions in Seattle neighborhoods over the next thirty years. (Thirty years is the maximum repayment period on conventional single-family loans which federal and state regulated lending institutions are permitted to make and secondary markets will buy.) Each representative acknowledged such predictions were impossible, and that estimates of economic life were essentially guesses made by appraisers and underwriters. The next sources of testimony were the statements of several academic researchers who are specialists in neighborhood analysis. They pointed out that full-time professional researchers of neighborhood trends have neither the data sources nor the sophisticated research methods needed to make predictions about neighborhood conditions over a thirty year span.

Appraisers have resisted the proposal to discard the concept of future neighborhood economic life. If they choose to continue using this concept, a significant test of appraisers' own confidence in the reliability of their guesses is whether they are willing to assume any financial liability if their guesses turn out to be wrong.

Recommendations

The practice of requiring estimates of the future economic life of neighborhoods should be eliminated since these estimates are really guesses made by appraisers and underwriters that are predicated on traditional appraisal and underwriting standards.

4. Select Comparables from Blocks with Similar Physical Characteristics and Public Resources -- Eliminate Race of Residents, Age of Housing and Quality of Neighborhood Schools as Legitimate Characteristics

Findings

Traditional appraisal standards have made the age of housing and the racial and economic characteristics of local residents legitimate factors in selecting comparables. The traditional standards assign higher risks to neighborhoods with older homes. Higher risks are also assigned to neighborhoods which are racially and economically mixed or have minority residents.

Appraisers are asked to compare neighborhoods according to the quality of local schools. However, appraisers have no special training or data that qualify them to make reliable evaluations.

We recognize that there are certain legitimate characteristics of properties and neighborhoods which influence buyers' choices. For example, some buyers consider a school located nearby to be a nuisance, while others think it is an amenity. Some buyers prefer old homes and others want newly built homes, etc.

Recommendations

Comparables should be selected from blocks which have similar physical configuration, e.g., size of lot, location on that block, topography, view, etc. and proximity to public resources, e.g., parks, recreational facilities, public transportation.

Appraisers should not select comparables based on the racial, ethnic, and economic composition of neighborhood residents, or age of neighborhood housing.

Since appraisers do not have the requisite training and data, they should not compare neighborhoods according to the quality of local schools.

5. Substitute Remaining Physical Life for Remaining Useful Economic Life of Physical Structure

Finding

The use of the concept of remaining useful economic life of specific individual properties is subject to the same difficulties inherent in the concept of the economic life of neighborhoods.

Recommendations

The remaining physical life of the residential structure should be the standard by which the remaining useful life of the property is to be calculated. The calculation must consider the current physical condition of the property. An important consideration should be whether the structure can be repaired or rehabilitated. The existence of a rehabilitation program, availability of home remodeling funds as part of the loan package, would insure that the structure's life can be extended.

The estimated physical life of the residential property should be established at a minimum of 30 years, unless lenders can present to the borrowers documented evidence to the contrary.

6. Maintain High Standards of Creditworthiness

Findings

We agree with the statement of problems and the recommended remedies in Section A, Maintaining High Standards of Creditworthiness, p. 20 of the Draft Report.

Recommendations

We recommend the following addition to the proposed credit standards: Joint incomes of husband and wife as well as income from second jobs held for long periods should be included for consideration.

7. Positive Steps Lenders Should Take to Make Equal Opportunity Residential Lending a Reality in Seattle

Findings

We agree with the description in the Draft Report, page 21, of lending policies which have discriminated against minorities and women.

During the Task Force negotiations on the Equal Opportunity section of the Draft Report, lender members cited recent federal laws on fair lending practices (Title VIII, Equal Opportunity in Housing Act of 1968, Title VI, Fair Credit Reporting Act of 1970, and Title V, Equal Credit Opportunity Act of 1974) as evidence that these past discriminatory lending practices are changing. At that time, we pointed out legislative changes do not always result in behavioral changes. In the two months which have passed since that discussion, we have been shocked and disappointed at the public revelations that lending institutions represented on the Task Force have engaged in patently illegal acts of racial and sexual discrimination. In one case, the State Human Rights Commission found that a subsidiary of one bank had practiced racial discrimination in renting apartments. State law has made such a practice illegal since 1971, and federal law has made it illegal since 1968. In another case, the United States Department of the Treasury cited Seattle banks for subsidizing the membership of their employees in local private clubs which bar women and minorities from membership. The Treasury Department noted that such practices have been illegal under federal law since 1965 when a presidential executive order prohibited sex and other types of discrimination by firms contracting or doing business with the federal government. Department of Labor regulations at 41 CFR 60-2.23(6)(9) also state that special corrective action should be taken "if minorities or women are excluded from or are not participating in company sponsored activities or programs." To date, none of the lending institutions cited by the Treasury Department have announced they will voluntarily stop subsidizing membership in discriminatory private clubs.

The lending institutions cannot excuse their behavior on the grounds that these laws are of recent vintage. They have had a substantial period to institute affirmative action programs, and implement strong internal monitoring controls to insure all employees are complying with the laws.

Evidence of discriminatory practices provides a significant perspective for viewing Task Force lenders' opposition to requests that all local lenders supply us with information on the race, sex, and place of residence of boards of directors, real estate loan officers, and staff appraisers. In response to the Draft Report, four community organizations and one individual asked the Task Force to secure this information. They believed that past lending discrimination against women, minorities, and whites living in older Seattle neighborhoods has been partially caused by the insensitivities of board members, loan officers, and appraisers to the needs of these groups. They want to determine whether these groups which have suffered from past discriminatory lending policies are significantly represented in those key positions which will have to establish and implement any new lending policies. The lenders on the Task Force vigorously resisted these requests on the grounds it was introducing a new issue into the deliberations of the Task Force, and would anger many other lenders in Seattle who had only reluctantly agreed to some of the proposals in the Draft Report.

Recommendations

The proposed City disclosure ordinance should require every lending institution doing business in Seattle to disclose the race, sex, and place of residence (Seattle/outside Seattle) of members of the boards of directors, residential loan officers, and staff appraisers.

The City should conduct a review of the affirmative action lending programs and employment practices of all Seattle lending institutions.

Seattle lending institutions which subsidize employees' membership in private clubs with discriminatory membership requirements should exercise moral leadership and refuse to subsidize membership until those clubs change their policies.

8. Institute Uniform Down Payment Requirements, Repayment Periods and Interest Rates for All Residential Loans in King County.

Findings

Lenders have discriminated against loan applicants by making less favorable loan terms available for residential loans in Seattle neighborhoods than in suburban King County.

Recommendations

Each lender should institute uniform down payments, repayment periods and interest rates for all residential loans throughout King County. These loan terms should be given to each applicant and included in all marketing programs.

9. Disclosure of Appraisals and Credit Records to Loan Applicants

Finding

Loan applicants will be hampered in their efforts to determine whether they are being treated fairly by local lenders, unless they have access to the property and neighborhood appraisal and their credit records.

Recommendation

Lenders should routinely give to each applicant a copy of the applicant's credit record and property-neighborhood appraisal.

SECTION II

PROPOSED LENDING STANDARDS AND

THE CERTIFICATE OF OCCUPANCY

(The following recommendations are based on materials in Chapter 3, pp. 22-25 of the Draft Report.)

1. The City Should Not Adopt a Certificate of Occupancy in Exchange for the Lenders' Eliminating Destructive and Discriminatory Appraisal Standards

Findings

Early in the Task Force proceedings, the lender members acknowledged the existence of de facto redlining as a result of applying traditional appraisal and underwriting standards. Public testimony and analysis by the Task Force reinforced the conclusion that lenders have refrained from providing loans, basing their decisions on standards which have insured the decline and deterioration of neighborhoods.

City government and the taxpayers should not obligate themselves to adopt a certificate of occupancy as a condition for lenders' termination of discriminatory practices.

Despite the fact that Philadelphia has some of the most blighted areas of housing in the country, all the commercial and mutual savings banks have discarded traditional underwriting and appraisal standards without requiring the city government to enact a city-wide code enforcement policy.

As to the argument that a code enforcement policy will upgrade the housing stock, there has been no evidence presented to the Task Force that code enforcement at the time of sale has the desired effect. Considering the expense and complexities of setting up specific requirements and effective enforcement, as well as the adverse effect upon low-income and fixed-income residents, it would be very unwise for the City to become embroiled in the complicated and lengthy task of setting up such a system of enforcement. The legal complications must also be considered. For example, the Seattle-King County Board of Realtors in public testimony before the Task Force has stated it will challenge in the courts a certificate of occupancy.

Recommendations

The Mayor and City Council should reject the adoption of a certificate of occupancy in exchange for lenders' discarding their traditional appraisal and underwriting standards.

Lenders should approve residential loans for the purchase or rehabilitation of residential property subject only to the creditworthiness of the borrower and the physical condition of the property. The property should either be physically sound in its current state or be capable of repair and rehabilitation.

Lenders who wish to determine the physical condition of a residential structure prior to loan approval can order an advisory building inspection from the Building Department or private inspection firms. We encourage buyers to use such inspections as a means of consumer protection.

SECTION III

MONITORING LENDING POLICIES AND PRACTICES:

LENDERS AND PUBLIC REVIEW BOARDS

(The following recommendations are based on materials in Chapter 3, pp. 26-30 of the Draft Report.)

1. Insure the Credibility and Efficiency of the Lenders Review Board Findings

Findings

We endorse the concept in the Draft Report of a monitoring system which allows the review of rejected applications by both lenders and the public. After reviewing the public comments on the Draft Report, we find several weaknesses which should be eliminated. The current proposal permits the Mayor to appoint lenders to their review board whose institutions do not subscribe to the new underwriting and appraisal standards. It also permits the Mayor to make such appointments before those standards have been determined. We find this to be a conflict of interest. The public has no representative at the meetings of the Review Board. The current proposal does not assure the person appealing the decision a prompt decision on his or her appeal.

Recommendations

The Mayor should make no appointments to the Lenders Review Board until the City, community, and lenders have decided on the exact underwriting and appraisal standards which will be used by the Board.

The Mayor should make no appointments to the Lenders Review Board unless each nominee's lending institution has agreed in writing to subscribe to the appraisal and underwriting standards.

Each rejected loan application should be referred automatically by the rejecting institution to the Lenders Review Board instead of putting that responsibility on the applicant.

The Lenders Review Board should meet weekly to assure prompt decisions on appealed loan applications.

The City staff person assigned to the Public Review Board should serve as an ex-officio member of the Lenders Review Board.

Lending institutions which subscribe to the new appraisal and underwriting standards and the lenders and public review procedure should undertake a widespread advertising campaign to inform the public of their new standards and the appeal process.

2. Enlarge the Scope of Public Review Board to Monitor Patterns and Practices of Lenders, Regulatory Agencies, and Secondary Markets

Findings

One of the primary purposes of a Public Review Board should be to test the credibility, efficiency, and public responsiveness of the financial institutions, regulatory agencies, and secondary markets. If the Board is to accomplish this task, it is not enough to deal with the individual complaints on a case-by-case basis. The overall patterns and practices by the private and public institutions will determine whether improvements and changes are taking place, or if problems exist. For example, some lending institutions might not aggressively market the availability of loans in given neighborhoods as a way to avoid lending there. The best way to pick up that type of pattern is through disclosure of overall lending patterns throughout the Seattle area.

Recommendations

The Public Review Board should review the annual disclosure information, and interpret the data to local community councils, churches, businesspersons, etc.

The Board should compile quarterly reports from information submitted by the lenders on loans rejected and accepted by categories of race, sex, census tract. This information would indicate lending trends between the annual disclosure dates.

The Board should review lenders' performance in affirmative action in employment and marketing.

The Board should review applications for branch offices and charters of new banks and savings associations.

The Board should help local neighborhoods evaluate the potential impacts of such applications and make recommendations to the appropriate state and federal regulatory agencies.

The Board should monitor activities of regulatory agencies in relation to local lenders and Seattle neighborhoods

The Board should monitor the local lending patterns of the secondary mortgage markets through data generated by the proposed disclosure ordinance.

3. Eliminate Potential Conflict of Interest on Public Review Board

Finding

The Draft Report proposed that real estate brokers and contractors be represented on the Public Review Board. After considering this proposal, we believe it represents a potential conflict of interest, because both industries are heavily dependent upon continuing good relations with local lending institutions. The Public Review Board can obtain the expertise of these industries by informal consultation.

Recommendations

Eliminate representation by contractors and real estate brokers on the Public Review Board.

Recast representation on the Public Review Board according to the following format:

a. Four representatives from community organizations representing residential neighborhoods

b. Chairperson of the Lenders Review Board--ex officio

c. One representative from the Mayor's Office

d. Two citizens selected from the city at large

4. Enlarge Legal Authority of Public Review Board

Finding

We believe the Public Review Board needs greater powers to effectively fulfill its purpose.

Recommendations

The Public Review Board shall be established by City Ordinance and be granted the powers appropriate for the Board to fulfill its functions, including subpoena powers and the right to hold public hearings and accept public testimony.

The Public Review Board should have the power to monitor lenders' compliance with the proposed disclosure ordinance.

SECTION IV

HOUSING REHABILITATION

(This section is substituted for Chapter 4, "Housing Rehabilitation" and Chapter 5, "Dislocation of Poor People from Neighborhoods" of the Draft Report.)

Preservation of the city's housing has been acknowledged by neighborhood residents, lenders, and public officials to be a critical determinant of Seattle's future. By contrast, traditional appraisal and underwriting standards, lending practices, federal, state and local policies, and the values of many individuals have contributed to the wasteful destruction of our housing and neighborhoods. Fortunately, there is a growing awareness in Seattle and across the nation that we can no longer waste these precious resources. M. Todd Cooke, President of the Philadelphia Savings Fund Society, second largest mutual savings bank in the nation, expressed this view forcefully to the Reinvestment Task Force:

> We can no longer afford the luxury of allowing our housing to decay to the point we must completely rebuild our neighborhoods every forty years. We must develop public policies and private lending practices which allow for the continual renewal and rehabilitation of our housing and neighborhoods.

Seattle has not yet been infected by the widespread housing decay and abandonment which has plagued midwestern and eastern cities. But we must take no comfort in this comparison. There are alarming symptoms which portend future deterioration and potential housing abandonment of epidemic proportions. The housing stock is aging--more than 50% of the city's housing units were built before 1940. According to Seattle's Housing Assistance Plan, .8% or 1,835 of the city's total housing units are dilapidated, and 14% or 31,575 units are deteriorated. Between 1970 and 1974, the city also suffered a net loss of 931 single family houses. A large segment of our city's residents cannot afford to rent or purchase decent housing without housing subsidies. Approximately 27,000 lower-income Seattle households need some degree of housing subsidy.*

Housing deterioration has city-wide impacts. The symptoms of housing decay are manifested to some degree throughout most sections of the city; they are by no means isolated in a few core-city neighborhoods. Even the very affluent residential neighborhoods and commercial and industrial sections of the city will not escape the future impact of widespread housing deterioration. Although the dilapidated houses and apartments may not be located within these areas, the effects will be felt there--when the tax bill arrives. Housing deterioration undermines the city's tax base. It also generates political pressure on the City to invest more in housing conservation programs. Taxpayers throughout the city are then squeezed between a declining tax base and the need to pay for municipal programs which will halt further deterioration.

* Sources for these data are 1970 Census, 1974 Field Examination by the Building Department, and the 1976 Community Development Block Grant Housing Assistance Plan.

The need for housing rehabilitation is clearly city-wide in scope. Unfortunately, no rehabilitation strategy on a city-wide scale has been developed to meet this urgent need. To be sure, several different housing conservation and rehabilitation programs have been used in the past or are currently in operation--federal low interest loans and grants, housing code enforcement, and the neighborhood housing rehabilitation programs for Mt. Baker, Mann-Minor and Stevens neighborhoods. While many of these efforts are laudable, they have been targeted on a relatively few neighborhoods. There is a pressing need for a strategy that is equal in scope to the various facets of housing decay as they exist across the entire city.

We believe the city-wide housing rehabilitation strategy should include the following elements:

1. Reduce the Cost of Rehabilitation Financing

Finding

Financing for housing rehabilitation and repair is most often done through home improvement loans. The use of home improvement loans often makes financing of housing rehabilitation prohibitive, because of the high interest rates and short repayment periods of five to ten years (See Appendix A for a summary of the interest rates and maximum repayment periods Seattle lending institutions are requiring for non-subsidized home improvement loans in the Mt. Baker housing rehabilitation program). By contrast, mortgage loans currently carry interest rates of about 9% and repayment periods of more than 20 years.

Recommendation

Financing techniques for housing rehabilitation must be developed which reduce the monthly payment by lowering interest rates and extending the repayment periods. Interest rates and repayment periods should correspond to the lower interest rates and longer repayment periods which are characteristic of mortgage loans.

Finding

Many purchasers of houses want to do rehabilitation work, but prefer to live in their homes for several months before deciding what work needs to be done. Since the mortgage loan is usually closed at the time the buyer moves in, the financing of such rehabilitation cannot be included in the first mortgage loan which has the more advantageous interest rate and repayment period.

Recommendation

Lenders should use "open-ended" mortgages which will allow a borrower to add a maximum of $10,000 for rehabilitation work to the mortgage loan within a year after the buyer takes possession of the house.

2. Eliminating "Overimprovement" As an Appraisal Standard

Findings

Traditional appraisal standards warn against lending on homes that will be "overimproved" compared to nearby houses. This criterion of "overimprovement" is inappropriate for Seattle because of the mix in the style, size, amenities, degree of maintenance and price on most blocks throughout the city.

In those few Seattle blocks where the housing is uniformly deteriorated, lenders continued use of the standard "overimprovement" will perpetuate redlining: those owners who want to pioneer in rehabilitating their homes will automatically be overimproving their houses. And since this criterion dictates that "overimproved" properties represent excessive lending risks, those properties will remain redlined.

Recommendations

When appraising a house which has a higher degree of improvements than those of other houses on its block, appraisers should not estimate its value by comparing it with sales prices of lesser improved, nearby houses. Instead appraisers should look for other blocks where the diversity in housing improvements is similar to the block where the house being appraised is located. Appraisers should then base their estimates of value on the houses situated on other blocks whose degree of improvement is comparable to that of the house being appraised.

Seattle appraisers and lenders should eliminate the criterion of "overimprovement" from their appraisal criteria and substitute the method presented above for appraising houses which are dissimilar to those on the same block.

The Mayor should appoint no lenders to the lenders' review board until each nominee's lending institution stipulates in writing that it has eliminated "overimprovement" from its appraisal criteria and substituted the alternative appraisal method presented in the above recommendation.

The City should immediately begin a lobbying campaign directed at the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The purpose of the lobbying effort is to stop these two secondary mortgage markets from using "overimprovement" as a criterion for purchasing home loans from Seattle.

3. Establish a Secondary Market for Rehabilitation Loans

Finding

Currently, none of the three federally-related secondary mortgage markets have the legal authority to buy rehabilitation loans. Therefore, in periods of tight money, when deposits are being withdrawn from local banks and savings associations, there will be no local funds for rehabilitation lending and no secondary market source of funds.

Recommendation

The City should immediately prepare legislative proposals which will authorize the purchase of rehabilitation loans by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Government National Mortgage Association.

4. Financing Available for Do-It-Yourself Home Maintenance and Rehabilitation

Findings

Lenders have been reluctant to make rehabilitation loans for do-it-yourself projects, since homeowners often take several years to complete the work. Sometimes the work is never finished.

Recommendation

After receiving an application for a do-it-yourself rehabilitation loan, the lenders should help the homeowner estimate the cost of the work. The lenders should then guarantee the homeowner that the amount of money needed to finance the project will be available while the work is in progress for a period of time not to exceed two years. The homeowner then draws down only that portion of the loan which is needed to complete the next phase of the rehabilitation work. After the initial loan increment is granted, the lender will release subsequent loan increments after an inspection has shown that the work for the preceding phase has been completed and the homeowner has submitted materials bills for the next phase. The homeowner should only pay interest for the outstanding amount of the loan.

5. Skill Development Training for Do-It-Yourself Home Maintenance and Rehabilitation

Finding

The high cost of labor makes it impossible for many homeowners to hire tradespersons for house maintenance and rehabilitation projects. In addition, there is a shift in values away from reliance on professionals to self-help. This is evidenced by the desire of many homeowners to learn the skills needed for housing maintenance and rehabilitation.

Recommendation

Lenders, material suppliers, community councils, churches and the City should create training programs in skills needed for home maintenance and rehabilitation. (The Greenlake United Methodist Church is currently operating such a program.)

To reduce the costs of home maintenance and repair, local homeowners should purchase materials through cooperative buying.

6. Propose Federal, State and Local Tax Incentives for Housing Rehabilitation

Finding

Federal tax policies encourage investment in new housing. The Internal Revenue Code provides little incentive for private investment in the maintenance and rehabilitation of existing housing. (For a detailed analysis of federal tax incentives, see Chapter 6, pp. 44-47 of the Draft Report of the Mayor's Reinvestment Task Force.)

Real property tax policies also discourage private investment in rehabilitation, since the improvements increase the assessed valuation with a concommitant increase in the taxes. These policies are determined by the state.

Recommendation

The City should develop federal and state legislation which will provide incentives for private investment in the maintenance and rehabilitation of existing housing. The City should seek out allies across the state and nation which will support these legislative proposals.

7. Develop Housing Maintenance and Rehabilitation Strategies for Housing Owned by the Elderly

Finding

Diminishing income, physical energy and dexterity make it increasingly difficult for the elderly to maintain their own homes. As home maintenance is deferred, houses begain to deteriorate.

There is a need to arrest this deterioration for the safety and comfort of the elderly occupants who prefer to remain in their homes. There is another compelling reason for continuing the maintenance--it is a strategy which is essential for the long-term preservation of our housing stock. If the elderly continue to live in their homes for a number of years and the deterioration goes unchecked, the accumulated deterioration will make rehabilitation much more difficult and costly for subsequent owners. In some cases, the extent of deterioration may make rehabilitation economically unfeasible.

Recommendation

The elderly, community councils and churches, lenders, Seattle Housing Authority and the City should develop strategies for continuing the maintenance of houses owned by the elderly.

8. Develop Housing Rehabilitation Strategies for Low-Income Families

Finding

A contributing cause of housing deterioration is the fact that low-income people cannot pay for maintenance and rehabilitation. There are two basic remedies for this problem: housing subsidies which bridge the gap between family income and the costs of decent housing, and new job opportunities which generate more income for families. The Congress determines the extent to which housing subsidies are available locally. Our capacity to meet local housing rehabilitation needs for the poor is limited by federal policy. Currently, the major direct federal subsidy is the Section 8 rental assistance program. This program subsidizes the difference between 25% of the adjusted income of eligible families and the fair market rentals of existing, new, or rehabilitated units. To date this program has not been used in Seattle as a means of subsidizing the cost of rehabilitating existing units. Also, the Congress has provided an indirect subsidy in the form of a tax incentive for rehabilitating rental housing for low and moderate income families. This incentive, Section 167(k) of the Internal Revenue Code, allows investors in this type of rehabilitation to write off their total investment within a five-year period. It does not appear that this tax incentive has been widely used in Seattle. Currently, the Congress is considering whether to extend this provision.

Although the Reinvestment Task Force did not have time to examine in detail the relationship between job opportunities and the needs of low and moderate income families for housing rehabilitation, it is important to underscore this essential relationship. There are two critical elements in this relationship. The first element is the availability of job opportunities <u>within</u> neighborhoods which can provide second incomes for low and moderate income families. Typically, these types of jobs are provided by small businesses and industries scattered throughout Seattle neighborhoods. The availability of bank credit for remodeling expansion, inventory and capital equipment is vital for the economic survival of these small businesses. If bank credit is not available on reasonable terms, neighborhood jobs will not be available to local families.

The second element is the capacity of private community serving institutions to assist low and moderate income families in getting and keeping jobs. Day care centers, counseling programs, health services, and other neighborhood services provide essential support for persons who want to become employable. They are also needed to help persons stay on the job. Credit is needed for the construction of neighborhood serving facilities. Credit can also be helpful to those private programs which are reimbursed by public agencies for their services. There is often a cash flow problem because of the delay between submission of vouchers and the receipt of the payment.

<u>Recommendations</u>

Strategies should be developed for using the Section 8 housing subsidies for the rehabilitation of rental units.

If Congress continues the tax incentive for rehabilitating low and moderate income rental units (Section 167(k), this financing technique should then be widely used for housing rehabilitation in Seattle.

Lenders, in concert with the City neighborhood residents and businesses, should conduct a survey of small businesses and industries throughout

Seattle neighborhoods to determine what types of credit needs are not being met by local lending institutions. The results of the survey should be used to develop a strategy for reinvestment which will create new jobs.

The City's Department of Human Resources should survey private community-serving institutions and organizations to determine types of credit needs that are not now being satisfied by local lenders. The City, the private community-serving institutions and organizations, neighborhood residents and local lenders should develop a strategy for extending needed credit to these organizations.

The City Council should adopt a disclosure ordinance for all lending institutions doing business in Seattle which includes the disclosure of loans for subsidized housing rehabilitation, and loans for small neighborhood businesses and private community-serving institutions and organizations. (For details, see Disclosure Alternative B in the Draft Report of the Reinvestment Task Force.)

9. Avoid Displacement of Low-Income Persons as a Consequence of Neighborhood Reinvestment

Finding

One of the tragedies that has haunted most public and private efforts to rehabilitate neighborhood housing is that low-income residents of those neighborhoods are usually forced out because public and private reinvestment often increases housing values. Owners of rental units often evict poor tenants so the buildings can be rehabilitated and rented to people with higher incomes. Low-income owners of residential properties may sell in order to take advantage of higher prices, but their limited incomes make it impossible to buy or rent housing in the same neighborhood. Code enforcement policies designed to improve the housing stock have sometimes forced poor owners and tenants to abandon buildings, because their incomes were too limited to finance the required repairs.

There is a pervasive suspicion in many low-income communities that the City and local lending institutions would like to pursue neighborhood reinvestment policies that will eventually force low-income persons, particularly minorities, out of neighborhoods that are strategically located close to Downtown.

Recommendations

Public and private reinvestment strategies should be designed so that low-income persons are not forced out of their neighborhoods. Community organizations representing low-income neighborhoods, the City, Seattle Housing Authority and local lending institutions should give their highest priority to the development of strategies which will avoid the displacement of poor people. The Rehabilitation Policy Group, which will soon be convened in the Office of Policy Planning, should immediately begin to develop solutions to this vexing problem. The Rehabilitation Policy Group should give special attention to the use of Section 8 rental subsidies and the Section 167(k) of the Internal Revenue Code as a means of enabling low-income persons to remain in neighborhoods whose housing values are increasing.

10. Revision of the Housing Code

Finding

The City Council will soon be considering proposed revisions in the Housing Code. The Reinvestment Task Force has received a number of comments that the current Housing Code contains standards which require more improvements than are necessary to assure the basic health and safety of the occupants. Compliance with these requirements increases the costs of housing rehabilitation and maintenance.

Recommendation

Although we have reviewed the housing code and the proposed revisions, we lack the technical background to make substantive recommendations concerning those revisions. However, we urge the City Council to eliminate any superfluous standards which do not protect the health and safety of the occupants in order to reduce the costs of rehabilitation.

11. Change in Lenders' Priorities Toward Housing Rehabilitation and Neighborhood Residents

Finding

Lenders have told community members on the Reinvestment Task Force that the high administrative costs of rehabilitation lending have deterred them from becoming more aggressively involved in this area. They have said that rehabilitation loan amounts are relatively small and the administrative costs relatively high, thereby reducing their profit margins. (The lenders have never provided any documentation to support this contention.)

However, we feel compelled to raise hard questions about the way lenders have defined the relationship of their profits to neighborhood housing needs: Deposits are the "stuff" from which bank profits are made. People do not deposit in banks and savings associations unless they have confidence in the integrity of those institutions. How will lenders attempt to cultivate the confidence of neighborhood depositors in the future? Will they continue to spend large sums on advertising, trying to persuade us they really care about our personal and family needs? Or will they try to win our trust and deposits by redirecting promotional dollars into staff trained in rehabilitation financing--staff who know how to get into the neighborhoods and really listen to people? (A sixty-second TV ad during prime evening time during the week costs about $700. A full-page newspaper ad costs about $2,300.) What will be the profit picture of Seattle lending institutions ten years from now if the city's housing continues to decay and the tax base is undermined?

Recommendations

Seattle lending institutions should reduce their advertising budgets by a minimum of 10% and invest that money in the salaries of staff trained in rehabilitation financing. Staff should be selected for their sensitivity to people as well as their technical skills.

The lenders' rehabilitation staff should be assigned permanently to neighborhoods throughout the city. The first task should be to listen to the community's definition of neighborhood reinvestment needs. They can do this best by meeting with local residents, community councils, churches, private community serving institutions and neighborhood business persons. The rehabilitation lenders' next step should be the joint development of reinvestment strategies with members of the community. Cooperative planning is needed to insure the reinvestment programs will be tailored to the particular needs of each neighborhood.

12. Continue City Neighborhood Reinvestment Programs

Findings

In recent years, the City has made considerable strides in returning tax dollars to the neighborhoods in the form of capital improvements and various services. This has not always been the case, and certainly the City must assume some responsibility for current housing deterioration because of the past neglect of neighborhood needs

Recommendation

The City should continue its investments in neighborhood improvements and services. These investment decisions should only be made after careful consultation with local residents, community serving institutions and neighborhood business persons.

SECTION V

DISCLOSURE

(The following recommendations refer to Chapter 7, pp. 49-63 in the Draft Report.)

1. Disclosure of Appraisal and Underwriting Standards

Findings

Appraisal and underwriting criteria determine loan eligibility. Therefore, loan applicants have a right to know precisely what standards will be used to evaluate their applications. City and School District policy makers and taxpayers must make fiscal and program decisions based on the social, economic and physical conditions in neighborhood and commercial areas. These conditions are created, in part, by private lending decisions. Therefore, policy makers and taxpayers also have a right to know exactly what appraisal and loan underwriting standards are being used to evaluate applications for residential and commercial loans.

Recommendations

The application of appraisal and underwriting standards have great consequences for the public. Therefore, the public has a right to know what standards are being used. The proposed City disclosure ordinance should require that copies of appraisal and underwriting standards and policies used by each Seattle lending institution be made available to the public. Standards and policies of other public and private institutions which influence local lending policy such as mortgage insurers, secondary mortgage markets and regulatory agencies should also be disclosed.

2. Disclosure of Resources Committed to the Community Marketing of Loan Availability

Finding

Lenders have not adequately met the credit needs of older Seattle neighborhoods for residential rehabilitation loans, neighborhood business loans, short-term revolving credit for day care centers on voucher systems, etc. Further, house and apartment owners, estate agents, neighborhood businesses, private community-serving institutions have not believed that credit will be made available to them, nor have they understood some of the practical problems lenders may have in administering such loans.

By documenting and disclosing loan marketing programs, the City and neighborhoods can assess the extent of lenders' commitment to reinvest in older communities.

Recommendations

The proposed City disclosure ordinance should require lenders to describe the marketing programs used to generate demand for different types of loans. This description should include dollar amounts committed to such marketing programs, geographic scope of the marketing, and samples of informational materials.

3. Disclosure of Important Residential Lending Facts: Percentage Down Payments, Age of Houses and Apartment Buildings, Secondary Market Loans, Construction Loans, and Forward Commitments to Developers, Race and Sex of Applicants, Loans to Absentee Owners

Findings

Although there are some useful types of residential loan information which lenders on the Task Force have agreed to disclose, there are several other important characteristics of their residential lending policies which they have refused to disclose. We believe it is essential that these items, contained in Disclosure Alternative B of the Draft Report, be included in the City disclosure ordinance.

Recommendations

The residential lending facts, and the reasons why they should be included in the disclosure ordinance are:

Percentage Down Payments - One form of redlining has been the requirement that borrowers make larger down payments on older homes in Seattle neighborhoods than in the suburbs. The disclosure of the average down payments per census tract will reveal whether there are any systematic biases. Of course,some buyers may desire to make a higher down payment, but this should average out over the entire metropolitan area. So a pattern will emerge for any lending institutions which systematically require higher down payments in some areas and not in others.

Age of Houses and Apartment Buildings - Traditional appraisal and underwriting standards have assigned higher risks to older houses and apartment buildings, thereby contributing to the redlining of those properties. It is important for lenders to disclose the age of the residential properties on which they have made loans. Comparisons can be made between the average ages of the residential properties in a census tract with the average age of properties on which loans have been made. This comparison can be used as an indicator of whether loans are being made on all properties regardless of age.

Secondary Mortgage Markets Loans - Lenders on the Reinvestment Task Force said that the appraisal and underwriting standards used by the secondary mortgage markets were major contributors to the Seattle redlining problem. Since most lenders originate loans which will be acceptable for purchase at a later time, the secondary market standards become very important. Therefore, it is critical that information be disclosed on the sales of loans to secondary markets. By examining the distribution of mortgage loan purchases across city neighborhoods and suburbs, it will be possible to determine whether the secondary markets are purchasing loans on an equitable basis throughout the area.

Construction Loans - Construction loans are used to finance the actual construction of a building. (The property, in effect, is refinanced with a mortgage loan when the construction is completed, and the house or aprtment building is sold.) Construction loans are important indicators of the extent to which lenders are financing new development both in the suburbs and the city. If, for example, a large number of construction loans are being made in suburban areas and only a few residential loans of any type are being made in the city, this might indicate that the lender's investment priorities were in suburban development.

Disclosure of residential construction lending in Seattle neighborhoods can provide a useful indicator of the effectiveness of City efforts to encourage "in-fill" construction on vacant land lots and tracts of land.

Forward Commitments to Developers - A "forward commitment" is a lender's commitment of a predesignated loan amount to a builder/developer for delivery at some specified future time. The forward commitment to the developer is made prior to the lender's making funds available to the public at large. Typically, the lender commits, in the present, to providing mortgage loans to all credit-worthy buyers of homes in the developer's subdivision when the homes are completed. The lender then reserves those funds for the developer.

Disclosure of forward commitments is particularly important during times of tight money when depositors are withdrawing savings from banks and savings and loan associations. As their lendable funds shrink, lenders must limit their loans. Developers and their buyers will receive preferential lending treatment under these circumstances.

Loans to Absentee Owners of Single-Family Houses - Loans to absentee owners of single-family houses should be disclosed. The Task Force received complaints that lending institutions were making loans to persons buying single-family homes and converting them to apartments and rooming houses, but denying loans to applicants who wanted to occupy the residences . Owner-occupancy generally provides more stability to neighborhoods than does absentee-ownership. Comparisons can be made of the number of loans to absentee-owners with those made to owner-occupants. The federal disclosure law requires lenders to report whether the loans are made to owner-occupants or absentee-owners. Since lenders will be reporting this data, they should be required to do so under the municipal disclosure ordinance.

Race and Sex of Applicants - Women and minorities have been severely affected by discriminatory lending practices. Currently, the federal and state regulatory agencies do not as a matter of policy require lenders to keep a record of the race and sex of each loan applicant. So the City should require that such information be disclosed as a means of monitoring lending policies.

4. Retroactive Disclosure of Lending Practices and Deposits from January 1, 1973 to December 31, 1975

Findings

It will be impossible to determine whether lenders have changed past lending practices unless there is documentation of their past practices. The lenders have said they will change their policies. But it will be impossible to determine whether any change is occuring --unless there is publicly available data on past lending practices.

Information on past deposit trends is necessary to determine whether changes in the volume of lending were related to decreases or increases in savings deposits. These deposits are a major source of lendable funds for mortgage loans. It is particularly important to have retroactive deposit information, because some lenders said they curtailed lending during 1973 and 1974 due to substantial deposit withrawans. This reduced their supply of lendable funds. There certainly were episodes of extremely tight money during this period. But if lenders were treating Seattle neighborhoods and suburbs equally, the data should reveal a uniform reduction in lending for all areas, during this time.

We note that the Mayor's mandate to the Task Force included these obligations:

- Determine the current status of investment policies regarding housing and businesses in Seattle...

  Document the nature and extent of any problems therewith...

We regretfully report the lender members of the Task Force steadfastly refused our repeated requests for retroactive loan and deposit data. This data was essential to fulfill the Mayor's mandate to "document the nature and extent of any problems". The lenders gave two reasons for refusing to provide this data: (a) Retroactive disclosure was too costly. (b) Retroactive disclosure would give community groups the opportunity to "harass" lending institutions. It must be noted that the lenders did not provide any documentation to support their contention that retroactive disclosure was too costly.

Recommendations

Our independent analysis suggests that the costs of retroactive disclosure for a period from January 1, 1973 to December 31, 1975 should not be burdensome. There were a relatively small number of mortgages made during this period which any one lending institution must report on. Table 1 shows the total number of real estate mortgages recorded at the King County Courthouse for each year, and the percentage of all mortgages recorded by the ten lenders with the largest volume during this period. Table 2 shows the number of real estate mortgages that each of the ten largest lenders recorded every year.

TABLE 1

Pioneer National Title Insurance Company publishes a monthly listing of mortgages recorded at the King County Court House. This listing includes the number, type and dollar amount of mortgages made in King County by each lender during the month.* There is no separate breakout for mortgages made within the city of Seattle. An annual summary of mortgage activity is also prepared by Pioneer.

Data for 1973, 1974 and 1975 show that the number of loans recorded by the top ten lenders in the county comprised nearly half of the total loan volume recorded by individual institutions during each of those years (the miscellaneous category not included):

	1973	1974	1975
Total Number of Loans Recorded by Reporting Lenders	21,267	18,258	23,596
Number of Loans Recorded by the Top 10 Lenders	10,681	9,035	11,028
Percentage of the Total Volume of Loans Recorded by the Top 10 Lenders	50.2	48.8	46.7

* A "miscellaneous" category is also included as a separate total. This category lumps together deeds of trust recorded by individuals and loans made by those lenders who have not asked to be listed as separate institutions in the monthly report.

TABLE 2

RECORDED REAL ESTATE MORTGAGES

1973 (Top 10 of 69 Lenders listed)

Misc: 5161
1. Washington Mutual Savings Bank - 2,190
2. National Bank of Commerce - 1,388
3. Peoples Mortgage - 1,124
4. Seattle-First National Bank - 960
5. Firstbank Mortgage Co. - 835
6. Washington Federal Savings and Loan - 992
7. Pacific First Federal - 832
8. Kassler & Co. - 847
9. Coast Mortgage - 766
10. Great Western Union Federal - 747

Total - 10,681

1974 (Top 10 of 66 Lenders listed)

Misc: 5585
1. Washington Mutual Savings Bank - 1,316
2. Peoples Mortgage Co. - 1,247
3. Washington Federal Savings and Loan - 1,219
4. National Bank of Commerce - 992
5. Firstbank Mortgage Co. - 842
6. Seattle-First National Bank - 824
7. Lomas & Nettleton - 711
8. Great Western Union Federal - 568
9. Rainier Mortgage - 550
10. Kassler & Co. - 644

Total - 9,035

1975 (Top 10 of 67 Lenders listed)

Misc: 6776
1. Washington Federal Savings and Loan - 2,195
2. Peoples Mortgage - 1,524
3. Washington Mutual Savings Bank - 1,303
4. Seattle Mortgage Co. - 1,225
5. Metropolitan Federal - 979
6. Great Western Union Federal - 868
7. Puget Sound Mutual - 773
8. Seattle Trust and Savings Bank - 759
9. Continental, Inc. - 718
10. Kassler & Co. - 720

Total - 11,028

The other major cost item is geo-coding the data. Geo-coding means identifying the loan and deposit data by census tract. Lenders are already preparing to disclose loan data by census tract in order to comply with the federal mortgage disclosure law. So retroactive disclosure will not mean additional costs of setting up a new geo-coding system.

Recommendations

The City disclosure ordinance should require retroactive disclosure of residential loans and deposits for King County specified in Tables 1, 2, 6 and 7 of Disclosure Alternative B. The geographic reporting unit should be census tract. The data should be reported in twelve month periods, beginning January 1, 1973, concluding June 30, 1976. Mortgage banking companies should be exempted from deposit disclosure since they are not depository institutions.

Lenders should not be required to submit the retroactive disclosure until three months after the passage of the City's disclosure ordinance. This will give them a reasonable period of time to prepare the information.

5. Disclosure of Deposits

Findings

Disclosure of deposits is essential for two reasons:

First, deposit disclosure will give neighborhoods the information they need to hold banks and savings associations accountable for their stewardship of our money. Residents, businesses, churches, local governments and others are large sources of deposits and profits for local financial institutions. These banks and savings associations are not private businesses without any public obligation to serve the community. On the contrary, they exist only because the public has conferred certain rights and privileges on them through federal and state charters and supervision. The disclosure of deposits can be a significant reminder of this stewardship. And neighborhoods can use this information to hold banks and savings associations accountable for their public stewardship.

Lenders object to this strategy of public accountability. They say it will result in "credit allocation". Lenders say they need to be free of pressures and influences in order to make rational investment decisions. We find this argument plainly specious. Lenders are constantly pressured by powerful economic interests for favorable credit terms. For example, major business interests sit on the boards of directors of many local financial institutions. They do so, in part, to insure that lending policies will create a favorable business climate for them. Large depositors also exert very strong pressure on lenders for favorable loan terms and other bank services.

Unfortunately, no one with similar power represents Seattle neighborhoods on those boards of directors. Neighborhoods do not bargain with their deposits for favorable loan terms and other services. Disclosure of deposits can begin to change this situation. Deposit information will help all Seattle neighborhoods compete for credit on the same basis with other economic interests.

Secondly, disclosure of deposits will enable neighborhoods and the City to monitor whether banks and savings associations are meeting local credit needs before investing neighborhood deposits elsewhere. Certainly, arbitrary loan- to- deposit ratios cannot be imposed on lenders, because of the great variance in deposits and credit needs across neighborhoods. However, if substantial lending needs are going unheeded by a lending institution at the same time it is holding deposits sufficient to meet at least some of those needs, deposit information will reveal this inequity.

The financial institutions have also objected to deposit disclosure because they fear undue competitive pressures. They fear that other banks and savings associations will raid their deposits if they disclose this data. We find it difficult to understand why banks and savings associations -- which laud the virtues of competition and free enterprise -- should shrink from competition.

<u>Recommendations</u>

The City disclosure ordinance should require the disclosure of deposits as outlined in Tables 6 and 7 of the <u>Draft Report</u>.

6. <u>Disclosure of Race, Sex, Place of Residence of Lending Institutions' Boards of Directors, Real Estate Loan Officers, In-House Appraisers</u>

<u>Finding</u>

See discussion of this matter in Equal Opportunity in Lending, Section I, of this report.

<u>Recommendation</u>

See the recommendation presented in Equal Opportunity in Lending, Section I, of this report.

7. <u>Disclosure of City Expenditures for Capital Improvements and Services</u>

<u>Findings</u>

Seattle residents, who are both depositors in local lending institutions and taxpayers, need information to determine whether both the lenders and the City are investing their money in ways which will help revitalize the City's neighborhoods. The withdrawal or substantial reduction of essential public services and maintenance of capital improvements, over time, contribute to the deterioration of neighborhoods as inevitably as does the withdrawal of private credit. Although the City routinely discloses information on amounts spent for services and capital improvements, it does not report the data by census tract. Therefore, it is difficult to determine the precise amounts of public expenditures which are made in given neighborhoods.

Recommendation

City expenditures for capital improvements and services of each department should be disclosed for every census tract in the City on an annual basis.

8. Disclosure of Loans to Neighborhood Businesses and Private Community-Serving Institutions and Organizations

Finding

See discussion in Section IV on Housing Rehabilitiation.

Recommendation

See recommendation in Section IV on Housing Rehabilitiation.

9. Disclosure Ordinance for All Lending Institutions With Offices in the City of Seattle

Finding

To have a complete picture of lending activity and deposit patterns for all lending institutions operating in Seattle, the City disclosure ordinance should not be limited solely to depositories of City funds.

Recommendation

The disclosure ordinance should include all commercial and mutual savings banks, savings and loan associations and mortgage companies with offices in the City.

SECTION VI

FEDERAL AND STATE ACTION REQUIRED FOR NEIGHBORHOOD REINVESTMENT

(The following recommendations are based on materials in Chapter 6, pp. 34-48 of the Draft Report.)

We support the problem analysis and proposed remedies which appear in Chapter 6 of the Draft Report. We make the following recommendations to strengthen those earlier proposals.

1. Initiate Strong City and Citizen Lobbying Efforts to Shape Federal and State Regulations of Lending Institutions

Findings

The overwhelming majority of the capital resources needed to rebuild and preserve neighborhoods are controlled by lending institutions--commercial and mutual savings banks, savings and loan associations, life insurance companies, pension funds and credit unions. The amounts of public capital for neighborhood revitalization which are available from federal and state sources are insignificant compared to those controlled by lenders. For example, during 1975, the total amount of federal community development block grants allocated to the Seattle metropolitan area totaled $15,000,000. By contrast, the seventeen savings and loan associations and two mutual savings banks with offices in this metropolitan area, which are members of the Federal Home Loan Bank Bystem, closed loans totalling $485,000,000. In the past, the City and neighborhood residents, businesspersons and private institutions have focused their lobbying efforts on the relatively small pot of federal and state funds. We simply did not realize who controlled the bulk of the capital. While we were preoccupied with federal and state grants, important as they have been, the financial industry has lobbied effectively for federal and state policies which, on balance, appear to have been harmful to older cities.

The time has come for the City and all citizens interested in preserving our neighborhoods to begin strong lobbying efforts for state and federal regulatory and tax policies which will encourage lenders to reinvest in our neighborhoods. This lobbying campaign will not be easy since the financial industry has, through the years, built up considerable influence with the state legislature, Congress, and federal and state regulators. The political influence of the financial industry is derived from three sources: campaign support for state legislators, Congress persons, governors and presidents; influence in appointments to key regulatory positions; and the provision of technical information to legislators and regulators by lenders' trade associations. The first two sources of power are somewhat obvious. Legislators and chief executives who are beneficiaries of campaign support from lenders will generally be sensitive to the legislation and regulatory appointments proposed by lenders. However, the third source of power--the provision of technical information by trade associations--is less obvious. Banking regulations or tax policy often appear to be an undecipherable cureaucratic and legislative maze. Deciphering this technical information to legislators and chief executives is one of the most important functions which lenders' trade associations perform.

The City and neighborhood interests also need technical assistance in deciphering how the regulation of financial institutions and tax policies affect their interests, and the City should develop this capacity and make it available to neighborhoods.

Recommendations

The City and neighborhood representatives should join with other cities and citizens groups throughout the state and nation in lobbying for strong public interest representation on federal and state regulatory boards and agencies. Too often, the regulators of financial institutions are selected from the industries they regulate and then return to the financial industry after leaving public office. Both of the supervisors of state-chartered banks and savings and loans were employed by the industries they regulated prior to their appointments.

The City should support state legislation which would change the manner in which the State Superintendent of Banking and the State Superintendent of Savings and Loans are selected. These positions should become elective offices in order to make the regulatory powers of the state more responsive to the people of the state.

The City and neighborhood representatives should jointly press the State for a full review of State financial regulatory agencies and their policies as they relate to neighborhood reinvestment.

The City and neighborhood representatives should jointly take an active role in reviewing and lobbying on any proposed statutory or regulatory changes affecting reinvestment policies of state and federally supervised banks, savings and loan associations, life insurance companies, pension funds, and credit unions.

The City and neighborhood representatives should jointly press for statutory and regulatory changes which will emphasize the stewardship obligations which lending institutions have to the public and their depositors. Such lobbying efforts should emphasize the need for lending institutions and regulators to be accountable both to the public in general and the depositors of the individual institutions, City and neighborhood support should be given to requirements that democratic procedures should be followed at annual meetings and board meetings of mutually owned savings and loan associations and mutual savings banks; they should also support the annual revalidation of owners proxies by savings and loan officials management and public interest representation on the boards of directors of stock-chartered commercial banks and life insurance companies.

The City and neighborhood representatives should jointly request federal and state regulatory agencies to institute a moratorium on all applications to establish branch offices of banks and savings and loan associations in Seattle. The regulatory agencies and the public should use the moratorium to review the extent to which state and federally chartered lending institutions have been serving the legitimate credit needs of Seattle neighborhoods.

The City and neighborhood representatives should jointly monitor all branch and charter applications through the Public Review Board. The City should provide technical assistance to the Board and affected neighborhoods as they conduct this review. (The City has been assisting the Capitol Hill Community Council in reviewing a commercial branch application in that neighborhood. That application is now pending before the Comptroller of the Currency, the federal regulatory agency for national banks.)

2. Liberalize the Real Estate Lending Capacities of Federally Chartered Credit Unions

Finding

Current federal regulations substantially restrict federally chartered credit unions from residential mortgage lending.

Recommendation

The City and neighborhood representatives should lobby for federal regulations which will remove residential lending restrictions on federal credit unions, allowing them to compete equally with savings and loan associations for residential mortgage loans. We feel that competitive lending alternatives must be made available to existing banks and savings and loan associations.

3. Lobby for Changes in the Federally Related Secondary Mortgage Markets

Findings

The three federally related secondary mortgage markets, Federal National Mortgage Association, Government National Mortgage Association and the Federal Home Loan Mortgage Corporation, are extremely important in determining the appraisal and underwriting standards of local lenders. Many local lenders use the standards imposed by the secondary markets to insure that all loans will be acceptable for sale to those markets. A proposal was made in the Draft Report that secondary markets allow local lenders to substitute the proposed appraisal and underwriting standards for those imposed by the secondary markets. We continue to support that proposal. However, we have reconsidered the recommended strategy for affecting these changes. We placed too much reliance upon the lenders to join the City and neighborhood representatives in pursuing an aggressive strategy to lobby for changes in the secondary markets. Local lenders are heavily dependent on secondary market purchases on virtually a day-to-day basis, so they cannot afford to challenge publicly those standards.

Recommendations

The City and neighborhood representatives should immediately begin a lobbying campaign to change the underwriting and and appraisal standards of these secondary markets.

The City and neighborhood representatives should present joint testimony on secondary market practices pertaining to neighborhoods when the United States Senate Banking Committee conducts oversight hearings on the federally related secondary markets next fall.

The City and neighborhood representatives should immediately review the legislative package which the Federal National Mortgage Association (FNMA) has submitted to Congress, as FNMA developed this legislative proposal in an effort to deal with criticisms that it is redlining older neighborhoods. Based on this review, the City and neighborhood representatives should support those items in the FNMA proposal which they feel are in the interest of Seattle neighborhoods and propose amendments to those proposals which are not deemed to be helpful to our neighborhoods. The City and neighborhood representatives should then present joint testimony at the congressional hearings on the FNMA legislative package.

SECTION VII

USE OF CITY RESOURCES FOR NEIGHBORHOOD REINVESTMENT

1. Use City Deposits to Reward Lending Institutions for Neighborhood Reinvestment

Finding

The City holds large amounts of tax money in local lending institutions and in other types of investments. (See Table 1)

TABLE 1

The City has two basic accounts: an investment fund of over $335 million; and a daily cash flow account that is similar to a checking account which averages around $50,000,000 on any given day.

The following is an account of the investment fund by amount and type of investment as of December 31, 1975.

Time Deposits			
Seattle-First National Bank	$ 41,178,970		
Rainier National Bank	6,108,743		
Peoples National Bank	2,000,000		
Pacific National Bank	3,350,000		
Seattle Trust Savings and Loan	1,800,000		
Equitable Savings and Loan	25,000		
Great Western Savings and Loan	19,000		
Pacific First Federal Savings and Loan	16,047		
Capital Savings and Loan	15,000		
Subtotal		$ 54,453,819	
U.S. Treasury Notes	43,220,878		
FNMA Mortgage Backed Bonds	30,802,900		
U.S. Treasury Discount Bills	30,425,418		
U.S. Treasury Bonds	22,341,917		
FNMA Debentures	2,554,349		
FHLB Bonds	478,068		
3458 shares in deVegh Mutual Fund	118,124		
Subtotal		$184,395,473	
Pension Fund Investments		151,345,005	
Total Investment Fund			335,740,478

Currently, there is no City policy for investing those tax dollars in ways that will help revitalize neighborhoods.

Recommendation

The City should develop and implement a policy for placing tax dollars in lending institutions and in other legally approved investments that will in turn reinvest tax dollars in Seattle neighborhoods.

2. City Should Support the Creation of a Community Development Bank Dedicated to Neighborhood Revitalization

Finding

The past failure of Seattle commercial and mutual savings banks and savings associations to compete vigorously in neighborhood reinvestment lending leaves us somewhat skeptical of their future willingness ... pete in this area --after the public pressure abates. Therefore, we believe it is in the interest of neighborhoods and the City to plan for the creation of a community development bank whose sole purpose will be the undertaking of neighborhood reinvestment programs.

Recommendation

The City should prepare alternative models for the creation of a neighborhood reinvestment bank. The charter should specify that the bank is to be used solely for neighborhood reinvestment purposes. The ownership of stock should be widely held throughout the City with limits placed on the percentage of stock any one party can control. The stock should be priced so that people of modest means can purchase shares. We recognize that state constitutional restrictions would limit the City from participating in the actual formation of such a bank. But its technical assistance in researching how such a bank could be created and operate would seem to be lawful. Once the community development bank is in operation, the City should deposit as much of its funds in this bank as is permissable under state law.

SECTION VIII

REINVESTMENT ISSUES NEEDING FURTHER STUDY

1. Further Study of Real Estate Investment Policies of Life Insurance Companies and City Employees Pension Fund, Redlining by Property Insurance Companies and Credit Needs of Neighborhood Businesses

Findings

During our deliberations a number of significant issues were called to our attention. The limitations of time and resources did not permit us to study these matters. However, we believe several issues merit further analysis by the City, the community and lending institutions.

Recommendation

Studies and policy recommendations should be made on the following issues:

Real estate and commercial investment practices of life insurance companies.

Real estate and commercial investment policies of City employees' pension fund.

Redlining by property insurance companies.

Credit needs of neighborhood businesses.

APPENDIX A

HOME IMPROVEMENT LOAN TERMS

The following loan terms and conditions were quoted to the Mt. Baker Program during the week of May 15th and are subject to change at any time. Please check the specific terms which a bank is offering when you contact a loan officer.

Institution	Loan Officer	Maximum Loan Amount	Rate	Maximum Repayment Time	Required Security
Bank of California	C. E. Wallam 587-3630	0 - 2500 2501 - 5000 5001 -	12%	3 years 5 years 8 years	Over $6000 Title Insurance Appraisal Deed of Trust
Citizens Federal Savings & Loan	[illegible] ~~Harry Ostrander~~ ~~464-1082~~ 447-6423	7500	10.5% to 11.5%	10 years	2nd mortgage No prepayment penalties
Equitable Savings	Don Quinn 682-4272	5000	12%	7 years	2nd mortgage
Fidelity Mutual Savings Bank	Vic Ledel 447-2151	9500	11% to 12%	15 years	2nd mortgage
Group Health Credit Union	323-9430	7500	10.8%	7.5 years	No 2nd mortgage
King County Employees Credit Union	Judy Kelly 682-8791	2500 - 10000	10% to 11%	3 years to 8 years	2nd mortgage
Liberty Bank of Seattle	Don Swanson 329-3434	65% of Appraised value	12%	5 to 7 years	2nd mortgage
Lincoln First Federal Savings	Gordon Nygard 622-5812	FHA & Own 7000	11% to 12%	5 years	2nd mortgage
Metropolitan Federal Savings	Russ Peterson 447-7922	10,000	11.5%	10 years	2nd mortgage
N.W. Federal Employees Credit Union	285-0440	7500	10%	5 years	No 2nd mortgage
Old National Bank	447-7360	7500	11%	7 years	2nd mortgage
Pacific First Federal Savings	Ms. Linnane 682-5455	10,000	12%	5 years	1st mortgage
Pacific National Bank	Joanne Yamamoto 292-3364	7500 or 50% of Equity	12%	5 years	Deed of Trust
Peoples Bank	Bob Corbin 344-4657	0 - 2000 2001 - 5000	12% 11.5%	3 years 5 years	unsecured Real Estate Li
Prudential Mutual Savings Bank	Natelie Pinto 622-3200	9500	10% to 12%	15 years	2nd mortgage
Puget Sound Mutual Savings Bank	Ron Goodmanson 447-5758	9500	12%	10 years	2nd mortgage
Rainier Bank	Sam Bess 587-2572	0 - 5000 5000 - 7500 7500 -	11.75% 11.5% 11.25%	7 years 10 years 12 years	2nd mortgage
Seattle First National Bank	Bob Bodkins 583-7382	7500	12%	7 years	2nd mortgage

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.tution	Loan Officer	Maximum Loan Amount	Rate	Maximum Repayment Time	Required Security
.ttle Trust d Savings Bank	George Textor 223-2364	FHA & Own 85% of equity	11%	11 years	2nd mortgage
:eachers Bank	Dan Curtis 628-4250	5000	10.5%	5 years	2nd mortgage & depositor
Teachers Credit Union	628-4200	5000	7.5%	5 years	2nd mortgage
United Savings & Loan	624-7581	5000	12%	5 years	Lien
University Federal Savings & Loan	Bob Catton 545-4300	10,000	9.5%	15 years	2nd mortgage
Washington Mutual Savings Bank	Harry Ostrander 464-4802	7500	10.5% to 11.5%	7 years	2nd mortgage no prepayment
Westside Federal Savings & Loan	Sandra Chatom 682-7950	10,000	12%	15 years	2nd mortgage