DEMAND, SUPPLY AND MARKETING OF SINGLE-FAMILY MORTGAGE CREDIT IN MATURE COMMUNITIES

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Table of Contents

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Introduction

In an article entitled "Mortgage Review Boards: The Second Chance" in the September, 1977 issue of *Savings and Loan News*, Richard E. Knapp, President of Pittsburgh, Pennsylvania's Friendship Federal Savings and Loan, is quoted as saying that the absence of even one application for "official review" to the Pittsburgh Home Mortgage Opportunity Committee demonstrates that "the redlining problem was blown out of proportion and does not exist to the extent originally suggested" by community groups. His comments underscore the need for public policymakers to distinguish between two goals: the *elimination of overt discrimination against those actively seeking mortgages* on the one hand; and, on the other, the *stimulation of affirmative efforts to meet the latent demand for single-family credit* in mature communities.

Lender-initiated mortgage review panels apparently have contributed to the elimination of overt discrimination. This has happened, as Mr. Knapp himself suggests, in large part, because the existence of the panels of some fourteen cities has "probably resulted in closer scrutiny of borderline applications. . . that might have been appealed had they been rejected" by the originating institutions.[1]

It is clearly not sufficient -- although it is certainly necessary -- for lenders to have declared that they will not arbitrarily refuse to grant mortgages in certain areas or to certain groups of people. Given the perceptions of many persons -- including those who first raised the charge of "redlining" -- that financial institutions will not lend in mature communities, however, more than a declaration of non-discrimination is necessary to *stimulate* applications for single-family credit from these communities. As David S. Barrows, President of the Oregon Savings and Loan League, said, lenders "must make adjustments if they really want to lend in the inner city. Everybody's got to take a different look at the rules of the road."[2]

The purpose of this paper is to suggest that an important part of that new look must be to rethink the fundamental relationship between the demand, supply and marketing of single-family residential mortgage credit in mature communities. It will argue that *mortgage demand is primarily a function of marketing*, and, furthermore, that in order to market effectively, *lenders must use indicators of both active and latent demand to assist them in fulfilling their obligations to meet the credit needs of their communities.*

One caveat is in order. Stimulating demand for single-family credit in mature communities may have unintended consequences if the needs of current residents are not taken into account. If the velocity of home sales exceeds the supply of creditworthy mortgagors, prices may become deflated as sellers endure longer waits for qualified buyers. On the other hand, increased sales activity in a particular area may cause competition among buyers which results in home prices being bid up.

While value appreciation generally is good for a neighborhood, it also has the long-run effect of increasing property taxes. This increase can become a burden for residents of moderate or fixed incomes who want to remain in the community. Increased demand by purchasers from outside may also be accompanied by increased demand for rental units in the community. Again, while this trend generally is desirable, one of its negative consequences may be the displacement of moderate-income tenants.

For these reasons, this paper will emphasize how indicators of demand can be used by lenders, regulatory agencies and government at all levels to develop policies and practices which will increase the supply of single-family mortgages, home improvement loans and refinancing packages for the *current residents* of older, low- and moderate-income, racially changing and minority communities.

Neighborhood Credit Needs

In order to survive as structures of family opportunity, neighborhoods require both private and public credit. Financial institutions have an obligation to provide the following kinds of credits: residential, consumer, commercial, and institutional. The public sector must insure that neighborhoods have adequate municipal services, serviceable infrastructure and a sufficient flow of capital development expenditures to secure the private sector's investments. Since the focus of this paper is single-family mortgage credit, the other types of credit are mentioned only briefly.

Consumer credit is needed for a variety of purposes including automobiles, appliances, furniture, clothing, education, etc. If financial intermediaries do not provide this type of credit, consumers are forced to seek it -- often at higher rates -- from finance companies.

Commercial credit is equally important for neighborhoods. Business-persons must have access to credit to start new businesses, buy inventory, refurbish stores and fixtures and to expand. Credit for the purchase and rehabilitation of multi-family residential buildings is also classified as commercial by lending institutions. In many of our mature cities, the deterioration of multi-family structures has had a devastating effect on the market for single-family residences. This is particularly true in neighborhoods where there is a mixture of single- and multi-family buildings. Finally, *institutional* credit for churches, private schools, day care centers and voluntary associations is critically important, especially in areas where residents must depend upon mutual, self-help organizations to provide services that are purchased by individual households in more affluent communities.

Since this paper will be confined to a discussion of the demand, supply, and marketing of *single-family credit* for mortgages, home improvements, rehabilitation, refinancing and energy conservation, it will refer to the other types of credits mentioned above only as examples of how marketing affects demand.

Neighborhood Responsibilities

In a community that "works," residents play an important role in maintaining its viability. Individually, they take responsibility for repaying mortgages and other financial obligations out of income derived from their jobs. Individually and collectively, neighborhood residents maintain their property not only in order to increase its value as an investment, but also as a means of expressing community pride.

In addition, of course, neighborhood organizations have played an adversary role with lenders in calling attention to the lack of responsiveness of some financial institutions in meeting local credit needs. More recently, neighborhood residents in some areas of the country have begun working in *partnership* with lenders to identify unmet community credit needs and to develop programs to satisfy those needs. Examples of this co-operative activity include establishment of Neighborhood Housing Services programs, local community development corporations, and, in a few instances, creation of resident advisory boards for financial institutions.[3]

Needs of Financial Institutions

The primary need of financial institutions -- whether mutual or stock-owned[4] -- is to operate profitably, in order to continue being able to provide thrift and credit services to their communities. Both the accumulation of deposits and the extension of credit, therefore, must be viewed as profit generating activities for financial institutions.

The money that financial institutions lend is borrowed from their depositors. The depositors are guaranteed a certain interest rate, and in order to honor that commitment, the institutions must lend their funds at a higher rate. The spread between the rate that financial institutions pay their depositors and the rate that they charge their borrowers constitutes gross profits.

While the *yield* on mortgages often compares favorably with other types of loans, their longer *term* has led many commercial banks to shun them in favor of making shorter term commercial loans that only banks are permitted to make. Even savings associations, however, which are required by law to have a substantial portion of their loan portfolio in mortgages, have found that they can increase their aggregate portfolio yield by making fewer mortgages at a greater unit amount. This results from the fact that the amount of work involved in making a mortgage is approximately the same whether the mortgage is for a few thousand dollars or for $ 60,000.

The need to maximize return on investments has been reinforced by another need of financial institutions: namely, the need to remain safe and sound, and thereby, to be able to retain their charter and the confidence of their customers. The emphasis on safety and soundness is a historical vestige of the Great Depression days when many financial institutions failed. So ingrained is the fear of institutional failure -- in spite of the development since the 1930's of deposit insurance and periodic examinations designed to insure sound management -- that some lenders continue to equate risk in lending with a variety of neighborhood factors that bear little or no relationship to safety.

Perhaps the ultimate expression of the reasonable --

but, highly overemphasized -- need to meet safety and soundness requirements is the belief common to many lenders that built-up areas have little or no demand for mortgage credit, and that newly developing areas offer the best opportunity for low-risk, high-return lending. While it is probably fair to point out that this bias exists in much of the financial institutions industry, it must also be noted that many financial institutions have grown and prospered -- and continue to do so -- in areas that long ago reached the "developed" stage. The question that must be posed, therefore, is what are the responsibilities of financial institutions to provide mortgage credit in mature communities where the demand is not always as apparent as it is in newly developing suburban areas?

Responsibilities of Financial Institutions

Financial institutions are chartered either by the state or federal governments to meet the thrift and credit needs of a certain delineated area -- generally referred to as their "primary service area." The emphasis here should be on the word "needs" as it applies to the institution's obligation.

When it comes to *thrift* needs, there is very little argument among institutional managers about the fact that every household "needs" a savings account.

So ingrained is this notion in our national psyche that no one ever thinks to question the motives of marketing to increase savings deposits from even the poorest areas. On the other hand, however, institutions sometimes are looked at askance -- by their stockholders, by other institutional managers and even by financial regulatory examiners -- if they engage actively in marketing mortgage credit in older, low- or moderate-income, racially changing or minority communities.

There may be some justification for skepticism about marketing mortgage credit to persons residing in these communities. Residents of such areas may not have sufficient income to support the debt service on a mortgage or home improvement loan. Or, due to their limited income, they may have already committed themselves to debt obligations that make it impossible to assume the additional burden of a mortgage. In addition, of course, since those low-income persons who have managed to acquire a home often cannot afford the additional expense of attending to scheduled maintenance on the property, homes in *some* communities populated by persons of lower income show signs of blight as a result of deferred maintenance.

In most cases, these persons are not perceived by financial institutions as constituting a "demand" for credit, because even though they could use the money to improve their property, they are thought not bankable given traditional personal and property underwriting standards. Residents of such areas have long been aware of the skepticism of financial institutions about their creditworthiness, and often do not even try to obtain loans for mortgage or home improvement purposes.

Regardless of the perceived problems of lending in mature communities, however, the Housing and Community Development Act of 1977 explicitly declares that "regulated financial institutions have a continuing and *affirmative* obligation to help meet the credit needs of the local communities in which they are chartered" (our emphasis).[5] For this reason, it behooves lenders and regulators alike to determine what indicators of active as well as latent demand are most useful, and how those indicators can assist them in developing marketing programs to meet that demand. This paper is designed to facilitate that determination.

Part I. The Relationship Between the Supply, Demand and Marketing of Single-Family Credit in Mature Communities.

Any discussion of financial intermediaries -- institutions which accept deposits and make loans -- must be prefaced by recognizing the unique nature of these highly regulated institutions. Not only is market entry restricted, but competition for deposits is controlled by government established interest rate ceilings. Since most institutions pay the maximum permissible rate, there is little price incentive for customers to switch their accounts from one institution to another. The existence of federal deposit insurance and periodic examinations by regulatory agencies removes any safety incentive for consumers to move their accounts. In addition, the federal government has the ability to influence the interest rates charged borrowers through the exercise of monetary policy. All of these factors taken together give the traditional economic terms "supply" and "demand" unique meanings when they are applied to financial intermediaries.

Supply of Single-Family Credit

The supply of funds in depository institutions available for home lending is a product of several factors. Ultimately this supply is a product of the decisions of depositors to use a particular financial intermediary. There are some structural forces which influence this decision. Limits are placed on the benefits and rates of return which depositors can receive. These limits may be the result of government regulation, the internal policies of the financial institutions themselves, or larger economic factors which force interest rates up. Theoretically, when current or potential depositors can get more benefits or higher returns from investment opportunities not offered by depository institutions, they will withdraw or not deposit their funds in banks, savings and loan associations, mutual savings banks or credit unions. Secondly, in times of economic hardship, consumers may decide that the funds they would normally deposit are needed to meet daily expenses.

Within these larger constraints, the supply of funds directly available for home lending is a product both of government regulation and of the investment policies of individual institutions. Savings and loan associations, for example, are required to maintain a substantial portion of their loan portfolio in single-family mortgages. The individual institution, however, is permitted to decide where, to whom, and on what terms it will lend as long as it does so consistent with applicable laws and regulations regarding equal access to credit, state usury laws (if any), etc.

Demand for Single-Family Credit

The demand for single-family credit takes several forms. This paper will concentrate on the demand for mortgages, loans for home improvements, rehabilitation or energy conservation, and refinancing loans. Like supply, demand is primarily -- but not exclusively -- a function of individual decisions. Persons decide to buy, improve, rehabilitate, weatherize or refinance homes based largely on their individual needs and circumstances. Changes in employment, economic circumstances, values or family size can create demand to buy or sell homes.

Larger economic factors -- such as inflation -- either can depress or increase the demand for single-family financing. Families who are feeling the crunch of a wage/price spiral -- and who have the savings to do so -- may decide to purchase a home as a hedge against further inflation. Many more potential home purchasers may turn away from the ideal of home ownership due to their inability to accumulate a downpayment while a greater percentage of their income goes for necessities. At the same time, existing homeowners who would "trade up" in better economic times to larger or better appointed dwellings, decide to improve their current homes or to refinance them to obtain funds for other purposes, such as college educations for their children or retirement.

Demand for single-family credit is also influenced by government policies such as personal income tax deductions or credits. Deductions for interest and real estate taxes, and, more recently, proposed tax credits for certain types of home weatherization can influence demand. In addition, the ability to defer payment of taxes on capital gains realized from the sale of a primary residence if the seller purchases a home of greater value within eighteen months acts as an incentive for homeowners having sufficient equity to buy higher priced homes.

The policies of individual lending institutions can also influence demand for single-family credit. If institutions -- individually or collectively -- let it be known that they are not interested in lending in certain areas, or will make loans there only on terms that most buyers find unacceptable, the demand for credit in those areas will be dampened. Real estate brokers, for example, convey to clients their impressions of the lending policies of institutions located in or adjacent to the areas in which they broker. Since it is in the brokers' self-interest to make sales, they tend to steer their clients to institutions that they know will be responsive to demands for mortgages. Whether brokers' perceptions of lending institutions' policies are correct or not, these important actors do impact the demand for loans.

Marketing of Single-Family Credit

The purpose of marketing is to sell the products -- financial services -- of financial institutions. One of the classical texts on bank management defines marketing as "the creation and delivery of consumer-satisfying products (goods or services) at a profit to the bank."[6] This definition is worth considering, because it underlines the fact that marketing consists of more than advertising the availability of *existing* services. Banking products should be as varied as the communities that banks serve since "too narrow conception of what products they can provide has been the major shortcoming of most banks."[7]

The meaning of marketing for the communities about which this paper is concerned -- older, lower and moderate income, racially changing and minority communities -- is clear. If financial institutions' products are to be viewed as "customer satisfactions,"[8] the managers of those institutions must distinguish between latent and active demand for single-family credit, and use marketing to translate latent into active demand.

Active demand for single-family credit consists of those customers who contact or walk through the doors of a financial institution seeking funds to buy or upgrade a home. *Latent demand* exists anywhere that there is a potential need for resources that cannot be met with funds at hand. For example, a couple who has almost paid up their mortgage, but who need additional cash to finance college educations for their children represent latent demand for home refinancing.

Marketing can be divided into two phases. The first phase might be called "product development." In this phase loan packages are developed to appeal to potential borrowers. The development of new credit products is designed to meet the needs of certain target populations while maintaining or increasing the internal rate of return for the institution and while also meeting the institution's chartered service obligations. This product development stage may include not only developing the concept for a new program, but also testing that program.

The second phase of marketing involves the actual process of seeking out and informing the target populations of the characteristics and benefits of the loan product, and describing how the product can meet their particular needs for single-family credit services. The best, and most efficient, marketing requires matching the particular program to a marketing campaign which reaches the appropriate target population.

Marketing of mortgage programs, for example, would include not only general advertising, but direct contact and marketing to realtors, who are a critical element in the loan seeking process of homebuyers. On the other hand, while some homebuyers might be seeking home improvement loans as well, such loans would normally necessitate a marketing program designed to reach those persons who are already homeowners.

Part II. Active and Latent Demand for Thrift and Credit Services in Mature Communities

While the focus of this paper is the demand for home lending, some comments on demand for thrift services and demand for other types of lending provide useful parallels to understanding the parameters of demand in home lending.

Active and Latent Demand for Thrift Services

The active demand for thrift services of depository institutions could be reasonably estimated by the collection of data on the number and size of various kinds of accounts and savings certificates in commercial banks, mutual savings banks, savings and loan associations, and credit unions. The marketing of thrift services, however, represents the major portion of most financial institutions' formal marketing programs. It would be difficult to measure what portion of the present active demand would exist without the massive campaigns to market all kinds of thrift services.

The range of thrift services which have been devised is impressive and extensive. Financial institutions have developed not only basic savings and checking accounts, but a range of variations such as Negotiable Order Withdrawal (NOW) accounts, overdraft protection programs, "free" checking accounts, no minimum balance accounts, combined savings and checking services, specialized savings programs ranging from Christmas clubs to different savings certificates or "bonds," gift (premium) programs, retirement accounts, and accounts with a range of comprehensive services, such as automatic payment of bills or automatic deposit of payroll and Social Security checks. The importance of this marketing activity in creating active demand for thrift services is evidenced by the volume of advertising lenders engage in to attract new accounts or increase deposits in existing accounts.[9]

Active and Latent Demand for Commercial and Consumer Credit

Not only have lending institutions created a variety of programs to develop demand for thrift services, but they have created a similar variety of lending programs to develop loan demand. On the commercial loan side lenders not only advertise to business and industry in such places as the *Wall Street Journal* and various business magazines or trade publications, but they generally have some staff devoted to personalized contacts. In larger banks, there may be several departments -- each specializing in seeking out lending opportunities with different industries in the local, national, and international markets.

Consumer lending depends on a variety of forms of marketing. Some lenders mail to their depositors, or provide at their offices, application forms which can be used for a variety of loans.[10] The automobile loan is the most commonly advertised specific form. Lenders have employed numerous techniques to create demand for consumer loans. These range from mailing notices to bank depositors in their monthly statements to placing ads in magazines or newspapers which stimulate demand by including with each car loan a free membership to an automobile club.[11]

The most *generalized* form of consumer lending is the bank credit card (BankAmericard/Visa, Master Charge, etc.). Not only do lenders engage in advertising in the media and in direct solicitation of their own depositors, but many banking institutions offer a bank credit card as part of a package of services for opening certain types of accounts.

The bank credit card is a significant and interesting technique for translating latent demand into active loan demand. It represents a continuing *forward commitment* to an individual to make one or a series of loans within a specified credit limit. It encourages borrowing by the ease and convenience of pre-qualifying for credit. Some bank credit card plans even allow the holder to write checks against the credit card account. A more limited form of this forward commitment is found in the automatic lending process used for "overdraft protection" and "write yourself a loan" checking accounts. *The massive growth of the use of bank credit cards stands as a testament to the potential for marketing to transform latent loan demand into active demand through the use of creative packaging of loan programs.*

Active and Latent Demand for Home Lending

Home lending generally consists of two forms of loans: long-term mortgage loans; and short-term lending, usually used for home improvements. The active demand for these loans can be expressed as the total number of persons actively seeking such loans. This would include all those applying as well as those who actually receive loans. Active demand *includes* those people who have by-passed conventional single-family credit and are actively seeking insured government credit on their own initiative or as a result of realtors' recommendations. Active demand for government-insured loans, however, can also be considered latent demand for conventional loans.

Latent demand for single-family credit includes those persons who might be able to use home improvement loans or mortgage loans, but for some reason are not actively seeking such loans. Historically, the development of new mortgage loan packages has had a major impact on increasing the demand for mortgage loans. As is the case with most creative lending programs, *the primary method of increasing demand is to devise loan programs which increase the market by making more people eligible.*

Federal Housing Administration (FHA) programs represent the best example of how re-packaging of loans can maintain the lender's profitability while increasing the number of persons who qualify for loans. FHA lending revolutionized the conventional mortgage market by introducing long term, constant payment, low downpayment mortgages in the 1930's. The typical short term mortgage in effect at the time required a relatively high downpayment and the ability to make high monthly payments based on the short term of the mortgage. The typical mortgage also included a "balloon payment" at the end. By changing the terms of the mortgage, as FHA programs did, many more people could afford to make the initial downpayment and pay the debt service on a mortgage.

Similar techniques are used today to expand the market. The creation of secondary market institutions such as the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, their expansion, and many of the modifications in their underwriting and loan purchase standards have also contributed to the general conversion of latent to active demand for single-family credit since the expansion of the *supply* of credit which these institutions make possible is typically followed by increased demand for credit. Thus, the secondary mortgage market can be viewed as a marketing program which increases demand, especially for the selected types of mortgages which these institutions seek to purchase.

Private mortgage insurance allows lenders to grant loans with lower downpayments, thus expanding the market to many younger couples or individuals who have the income to pay monthly mortgage payments, but have not yet had time to accumulate equity sufficient for a conventional twenty or twenty-five percent downpayment. The proposed "Two Family Dwellings" regulations of the Federal Home Loan Bank Board seek to expand this market even further by increasing the percentage of an institution's portfolio which may be invested in such low downpayment loans.[12]

There are two clear examples, one in Philadelphia and one in Baltimore, where the revision of underwriting practices which expanded the definition of qualified applicants created a demand for conventional mortgage lending which did not seem to exist prior to these revisions.

In Philadelphia, the 13 lenders who participate in the Philadelphia Mortgage Plan (PMP) -- which began in October of 1975 -- agreed, as the basic element of the plan, that they should expand their *personal* credit underwriting standards to include more varied sources of income, and that they should revise their *property* underwriting standards so as not to exclude properties on the basis of previous beliefs about broad neighborhood characteristics.[13]

As of April of 1977, the lenders had received applications from 3,072 persons and made 1,260 conventional loans. They are now meeting a demand for these conventional loans which "did not exist" according to their application and lending activity prior to the implementation of the plan. Furthermore, the loans under this program -- which by definition were considered unacceptable risks according to previous underwriting standards -- have default and foreclosure rates comparable to, or better than, the other loans in their portfolios -- including many in developing suburbs.

In Baltimore, a detailed study of the availability of mortgage credit throughout the city was made in 1973 by the Home Ownership Development Program.[14] The study showed that within the city, and particularly within older and racially changing areas, there was very little conventional lending, but many contract sales, personal loans, and a great deal of lending activity by mortgage companies using FHA-insured loans. By these measures, there was little demand for *conventional* loans.

Partly as a result of community pressure, and partly as a result of an effort to gain support for raising the usury ceiling in Maryland, the major conventional lending institutions made a commitment to eliminate their arbitrary minimum dollar limit of $ 17,000 on loans, and to seek opportunities to lend in the city. As conventional lenders have re-examined their eligibility standards, homebuyers once considered too risky for any form of institutional lending have been transformed from latent to active demand for conventional mortgage loans.

The extent to which latent demand can be transformed into active demand is not simply a function of the definitions of eligibility of the development of new loan programs. Demand is also a function of how well-informed potential borrowers are of the programs and their eligibility requirements. In mortgage lending, realtors play a major role in linking potential borrowers with types of loans and types of lenders. A case from the racially changing Marquette Park community in Chicago illustrates the point.

Concern among black and white residents about the widespread use of FHA-insured loans and the simultaneous resegregation of the area had reached the point of violent confrontations by the Spring of 1976. In response to the crisis in Marquette Park, growing pressure from community organizations, and a federal suit filed against HUD concerning the practices of FHA-approved lenders, HUD initiated a special pre-purchase counseling program for FHA buyers.[15] The program required potential FHA homebuyers in the Marquette Park area to receive counseling both about opportunities to buy a home in other equally desirable areas *and* the option to secure conventional financing in Marquette Park. The responsibility for referring homeseekers to HUD fell on the realtors operating in the area, since counseling had to take place prior to a person being shown any homes.

The Leadership Council for Metropolitan Open Communities, a local fair housing organization, carried out extensive testing of realtors and monitoring of real estate transactions in the community both before and after the initiation of HUD's program.[16] Their records show that during the peak period of transactions (June 1975 to September 1976) -- prior to HUD's program -- conventional sales accounted for only fourteen percent of all transactions, with FHA and Veterans Administration (VA) insured loans accounting for the balance. After the counseling program was initiated on May 23, 1977, their monitoring for June and July, 1977 showed that seventy percent of those purchasing homes in the area used conventional financing. There have been *no new applications* for FHA loans since the program began.[17]

The thirty percent of the transactions not financed with conventional funds used VA financing. (VA has no *required* pre-purchase counseling.)

These data suggest that there was a substantial *latent* demand for conventional lending. Testing of realtors before and after HUD's program showed that while realtors almost uniformly steered homebuyers to FHA and VA loans before the program, not one realtor suggested the use of FHA loans after the program began, and realtors generally pointed out that there was "plenty" of conventional money available.

Many other communities across the nation have the potential for prudent conventional lending even though no special efforts currently are being made to reach this latent demand. One of the special studies on mortgage markets done for the New York State Banking Department, for example, suggests such a situation in Rochester, New York.[18]

The Rochester study compared selected city neighborhoods to a suburban community. It showed that city neighborhoods were served almost entirely by FHA-insured loans while the suburban community was served predominantly by conventional lending. Comparisons of the interest rates, downpayments and terms of city and suburban loans showed that the interest rates and downpayments were similar for similar types of loans, but that the term of the loans in the city was, on the average, considerably shorter. For a mortgage with the same value, this meant that homebuyers in the city were making larger monthly payments. Ironically, the data also showed that *city homeowners* were paying significantly *less* of their income on their mortgages. Generally, the less income spent on the mortgage, the less risk of default or foreclosure. Thus, the data suggests that the active demand for FHA loans in Rochester may represent a latent demand for conventional lending.

In addition to mortgage lending, there is latent and active demand for loans to improve, repair, remodel, or rehabilitate the property of existing homeowners in a community. Traditionally such loans have been for short terms and at interest rates higher than mortgage loans. Active demand for such loans has been limited, to a certain degree, to those who could afford additional debt service over and above their regular mortgage payments.

Just as the demand for mortgage loans has been increased by marketing which designs loan programs to fit the resources of less affluent homebuyers, so other types of home loans can be redesigned. One form of repackaging is to refinance the existing mortgage to include the remaining value of the old mortgage and the costs of desired home improvements. By packaging both loans as a single, long term mortgage, monthly payments can often be held at the level of the old mortgage alone, or even reduced. This is particularly true when the existing mortgage has aged sufficiently so that the principal balance has been significantly reduced or when property values have increased enough so that increases in value create additional equity against which the homeowner can borrow.

Refinancing can range from a simple combination of the old mortgage and funds necessary for some improvement to a refinancing purely for the purpose of creating additional cash for the homeowner. This latter form protects the property indirectly by improving the financial status of the homeowner. While not extensively used for single-family homes, this latter method of increasing a property owner's cash situation is one of the major sources of income for investors in commercial property.

The full range of possibilities for creating demand for flexible loan packages to meet the resources of the residents of older, moderate or lower income, racially changing or minority neighborhoods cannot be predetermined. However, different types of packages are appropriate for different types of situations. The financial situations of the homeowners or homebuyers, the physical conditions of the property, the size or age of the members of a household all may affect the potential for marketing conventional single-family credit in a given community.

What is clear from the cases presented here is that while the active demand for home lending may be estimated with some reasonable degree of accuracy, the latent demand cannot necessarily be predicted prior to the marketing of a particular loan program. Moreover, the response to the program may not even reflect the demand for such a lending package if the marketing was not carried out in a manner which effectively reached those who might qualify and benefit from the particular loan program.

Part III. Indicators of Active Demand in Mature Communities

This section of the paper describes some of the data sources which can be used to develop indicators of active and latent demand for single-family credit in mature communities. These sources can be used to meet the needs of the following groups: lenders; regulatory agencies monitoring the lending practices of financial institutions; local housing and community development agencies; public policymakers trying to increase the availability of credit in older urban neighborhoods; and community groups.

Lenders need to estimate the active and latent demand for credit in order to determine the portion of the market that they have captured in a given area. They also need to determine the relative size of the latent demand for credit so that they can design loan packages and aggressive marketing strategies to meet that demand.

Financial regulatory agencies need to estimate the active and latent demand for single-family credit in a given geographic area to determine if lending institutions are making reasonable efforts to meet the credit needs of their primary service areas as required by Title VIII of the Housing and Community Development Act of 1977.

Local housing and community development agencies need to determine the active and latent demand for credit as well as whether or not either type of demand is being met.

If the active or latent demand for credit is not being met, then the local agencies must design strategies to encourage financial institutions to meet that part of the active and latent demand which is creditworthy. The local public agencies must also develop strategies to meet the demand for credit which is *not bankable* even with the special private sector initiatives mentioned above.

Federal policymakers have concluded that it is crucial for the existing and potential residents of neighborhoods to have access to credit for single home purchases. In order to determine the need for federal efforts to insure that active and latent demand for credit is met, policymakers must have access to indicators of demand.

Community groups need indicators of active and latent demand to determine what portion of the demand for credit is being met by financial institutions. Another reason community groups need tools to analyze the demand for credit is to check the accuracy and comprehensiveness of estimates of demand made by financial institutions, financial regulatory agencies, and local housing and community development agencies. All of these groups can use the data sources described below to meet their respective needs.

In order to obtain an accurate indication of active demand for single-family credit on any given block in a neighborhood, the following data should be gathered. This information should be indexed by the street and address of the property rounded to the nearest hundred.

(1) The dollar value of each *application* for a mortgage or home improvement loan, or for the refinancing of an existing mortgage received by a financing source; and,

(2) The dollar value of each mortgage, home improvement loan or refinancing of an existing mortgage *granted* by a financing source.

Since there is currently no required public disclosure of loan applications by the block of the property, such information can only be obtained by surveying all financial institutions operating in a given neighborhood.[19] The usefulness of the data sources described below is presented according to their ability to meet the *ideal* data base stated above.

A reasonably accurate indicator of the active demand for financing of single-family housing can be developed by collectively analyzing data obtained from the following sources: legal property records of a given locality or county; data disclosed pursuant to the Home Mortgage Disclosure Act of 1975 (HMDA); state and local disclosure laws and administrative regulations (if any); data secured from the Federal Housing Administration (FHA) and the Veterans Administration (VA) pertaining to the number and value of FHA and VA insured applications obtained from, and loans granted to, residents of given neighborhoods; data obtained from the direct lending programs of state housing finance agencies; and special programs such as Neighborhood Housing Services' high risk pools.

Legal Property Records and Real Estate Directories

Legal property records are the most complete and *most disaggregated* source of the number of property transactions occuring in a given neighborhood. Transactions involving each legal lot in a given neighborhood will appear in these records. If financing of a transaction is provided by a third party, then the name of that party will also appear in the records as a lien against the property. The advantage of using legal property records is that analysis of property transaction and financing patterns can be undertaken on a *block-by-block basis*. Unlike disclosure data, which is aggregated by census tract, property records provide analysts with detailed geographic perspectives and opportunities to recognize distinct financing and transaction patterns. Another advantage legal property records have over disclosure data is that legal records will indicate when a *non-institutional* financing arrangement has been made.[20]

The *problems* with legal property records are that the records are often difficult to understand and require substantial staff time; the records do not indicate the *terms* or the *value* of the loans granted; and it is often not possible to distinguish between government insured and conventional loans. Another limitation of property records is that they do not indicate the total active demand for single-family credit since the records only contain credit which was *extended* for acquisition, refinancing or rehabilitation. The records do not contain any information pertaining to the number of applications for single-family credit rejected by lenders.

In some of the major cities in the nation, real estate directories can be obtained. These directories are usually either produced by the local government or a private organization. They are generally drawn from legal records, and they aggregate data by selected areas and characteristics. Frequently, these directories contain information on the type of loan involved in a transaction (FHA, VA, conventional, contract, etc.), the name of the party financing the transaction and in some cases, data describing the terms of mortgages. These directories have made it possible to do large scale studies of real estate transactions and the mortgage market in several cities, such as Boston, Baltimore, Newark, Philadelphia and parts of New York City.[21]

Disclosure Data

The Home Mortgage Disclosure Act (HMDA) of 1975 requires disclosure by federally chartered or insured depository institutions of all residential loans they originated or purchased. The information must be disclosed by the following categories: the number of mortgage loans on one-to-four family residences; home improvement loans; refinanced mortgages; mortgage loans on more than four units and loans on individual units of cooperatives and condominiums. Institutions must also indicate whether the single-family loans they originated or purchased were government insured (FHA, VA or Farmers Home Administration) or conventional. All data disclosed pursuant to HMDA must be aggregated by census tracts. Each institution must disclose on an annual basis, and must make available for public use a copy of its disclosure report.

The HMDA data are useful in determining the total number and dollar amount of single-family loans granted in a given census tract by all institutions required to disclose under HMDA. The problem with using HMDA disclosure reports to estimate active demand is that the reports are incomplete. First, HMDA does not require *mortgage bankers* to disclose loan originations. Consequently, that portion of active demand which is met by these non-intermediary lenders will be excluded from any analysis employing only HMDA data.

Second, disclosure pursuant to HMDA does not include information concerning the number of *applications* for credit received by financial institutions which were not approved. Thus, another important indicator of active demand is missing from any analysis limited to HMDA data.

The third problem with HMDA disclosure reports is that there is no official central collection place for this data. Analysts desiring to use it must obtain reports from every institution which originates mortgages or home improvement loans in a metropolitan area to be certain that they can develop a complete record of conventional single-family loans granted in a given neighborhood. Even if this is accomplished one cannot be certain that a complete record has been obtained, since it is possible that an institution in one metropolitan area had granted loans in another metropolitan area.

An additional limitation of the HMDA data in estimating active demand is that the act *exempts* institutions with assets of less than ten million dollars. Consequently, all loans originated by these institutions will be missed by any active demand analysis limited to HMDA data. Such institutions may play a significant role by financing a large number of transactions in, for example, a ten to twenty block area.

HMDA data is also problematic in that it is aggregated by census tract. Consequently, it is difficult to determine whether the number of loans granted in a given census tract are widely distributed throughout the census tract or if they are clustered in one or more parts of a census tract.

A final problem with HMDA data is that the Act has *no enforcement provisions.* Institutions which fail to comply are subject to no civil or criminal penalties. In some cases, financial institutions have not made HMDA reports available to the public.

State and local disclosure laws and regulations also provide data which can be useful in estimating active demand.[22] The following states and cities have disclosure laws and/or regulations: California, Connecticut, Illinois, Massachusetts, New Jersey, New York, Ohio, Chicago, Cleveland, Minneapolis, Rockford, and St. Louis. Much of the disclosure information produced pursuant to these laws and regulations has problems similar to the HMDA disclosure reports. Several of these efforts, however, require more complete information on active demand than does HMDA. The states of California, Massachusetts, Illinois, New Jersey, and the cities of Rockford and Minneapolis require institutions to disclose the number of "applications" they receive for mortgages or home improvement loans.

With the exception of the California regulations, which require disclosure of oral and written applications, all the local and state disclosure efforts which require disclosure of applications define applications as formal, written requests for loans. Consequently, a significant part of active demand is missed since there is no record of *oral* inquiries. The issue of whether or not oral inquiries represent serious active demand is, of course, debatable.

Records of oral applications might overestimate active demand since persons frequently make such inquiries at several institutions. Records of written applications, on the other hand, might underestimate active demand since some potential applicants may have dropped out before making a written application. Analysis of data on loans granted, however -- without *any* application data -- clearly underestimates active demand.

In addition to requiring the disclosure of written applications, the Illinois law also requires mortgage bankers to disclose their loan originations by census tract. This enables interested parties in these states to undertake a more complete analysis of active demand since they are able to obtain data describing the lending activities of mortgage bankers as well as conventional lenders in a given census tract.

FHA and VA Data

In those states which do not require disclosure of insured single-family loans originated by mortgage bankers, it is not possible to obtain a complete indication of the active demand unless data can be secured from the Federal Housing Administration and the Veterans Administration. Ideally, data obtained from these entities should describe the number and value of *applications* for FHA and VA insured loans, and the number and value of FHA and VA insured *originations.*

Surveys of Realtors, Finance Companies, and Voluntary Associations

Other data sources which can be employed to supplement sources previously discussed are surveys of realtors, finance companies and voluntary associations.

Realtors generally possess knowledge of the financing needs of homebuyers. Surveys of realtors will provide an indication of the number of transactions in a given area, and information concerning the number of sales financed by conventional sources, government insured programs, cash sales or contract sales. Surveying all realtors operating in a given area is likely to be expensive and time-consuming. Even if all realtors are surveyed, however, the data obtained will probably not provide a complete indication of the total active demand in that area. In many neighborhoods, property transactions often occur without the services of realtors.

Voluntary associations, churches, precinct captains and neighborhood businesses often facilitate contact between buyers and sellers. In some cases, these associations may even provide financing. In order to estimate that portion of active demand, analysts should attempt to secure property transaction information and financing sources through surveys of these institutions.

Surveys of *finance companies* are useful for obtaining data to develop a more complete indicator of active demand for single-family home improvement loans in a given area. Ideally, surveys of such companies should provide the number and dollar value of loans granted as well as the number and dollar value of loan applications on the most disaggregated basis possible.

Appendix A contains examples of the kinds of data sources which are available in many cities to help determine the volume of active demand for single-family credit in mature communities.

Part IV. Indicators of Latent Demand in Mature Communities

This paper has been based on the following assumptions about the latent demand for single-family credit in older, lower and moderate income, racially changing and minority neighborhoods:

(1) Latent demand *cannot* be estimated using indicators of active demand, such as HMDA data, or appeals to home mortgage opportunity panels (HMOP). HMDA data only measures individuals who were actively seeking and consequently were granted loans. Data derived from a HMOP only indicates the number of individuals who were actively seeking a loan, were rejected by a financial institutions, and were aware of and willing to appeal to a Home Mortgage Opportunity Panel.

(2) Latent demand exists in any area that *needs and/or desires* additional credit for purchasing, improving, weatherizing or rehabilitating homes.

(3) The "needs and desires" of an area can be calculated roughly by a combination of *observation, discussions* with community residents, business persons and institutional leaders, and by using certain other data sources discussed below.

(4) The ability of lenders to transform latent into active demand is *limited only by the creativity of institutions in developing and marketing products* -- loan packages -- which are flexible enough to take account of the resident population.

(5) A relatively precise determination of latent demand can only come from *analyzing the results of aggressively marketing loan packages* that are tailored to individuals' needs and capacities.

Block or census tract data obtained from U.S. Census publications will provide a very rough and outdated indication of some aspects of latent demand. Information on the number of owner-occupied units and certain data on amenities exists at the block level, while income data exists at the tract level. More current income data can be obtained from R. L. Polk and Company's *Profiles of Change: Urban Information System*. In some states, however, notably New York and Illinois, work has been underway to code state income data with geographic areas to allow *annual* income updates at the block or census tract levels.

Other data sources which can provide a rough estimate of latent demand are surveys of developers and builders. Developers and builders usually conduct their own market surveys to estimate the demand for certain types of housing and the income range of residents in a given market area. These surveys are usually based on projections of census data, and must be used with increasing caution as the time elapses since the last census was taken.

Occasionally, developers or builders will undertake random surveys of residents in a given neighborhood to determine their satisfaction with existing housing and their ability to pay for the housing they desire. Assuming that developers and builders would be willing to release the results of such surveys, these surveys could provide rough estimates of latent demand in a given geographic area. However, analysts must carefully determine the accuracy of such surveys.

One way to develp parameters of latent demand in a given neighborhood is through surveys of homeowners.

Homeowners whose mortgages have aged sufficiently could be questioned about their need to obtain cash and their willingness to refinance their mortgages. They could also be asked about renovation or home improvement projects they would like to undertake if financing were available at reasonable terms. In some neighborhoods, there may also be a latent demand for purchase of additional housing which is not activated because the potential purchaser is unaware that he or she could qualify for a mortgage.

Another indication of the latent demand is the physical condition of properties. A neighborhood possessing a high number of properties in need of improvement and a low active demand for home improvement financing may represent a significant latent demand for such loans. Lenders can also examine their portfolio in a given neighborhood to estimate the latent demand for refinancing of existing mortgages. If the mortgages in a neighborhood have aged to the point where mortgagors have a significant amount of equity in their properties, there may be a substantial latent market for refinancing.

Latent demand in a neighborhood can also be estimated by examining the marketing results of lenders operating in neighborhoods of similar economic or physical condition. As mentioned above, programs such as the Philadelphia Mortgage Plan have demonstrated that there is a substantial latent demand for credit in older neighborhoods, particularly for home improvement loans.

The California Department of Savings and Loan has commissioned a project with Wallace Smith at the University of California at Berkeley to develop a model of active demand in neighborhoods in Los Angeles County which are assumed *not* to be suffering the effects of disinvestment. Using a model of active demand in communities with low latent demand, the agency hopes to be able to compare it with actual lending activity in neighborhoods where disinvestment may be taking place. The comparison would test for significant differences in active demand.

Such models, it is hoped, could also use neighborhood comparisons to estimate *latent* demand based on the active demand in neighborhoods not suspected of disinvestment. However, there are at least two major problems with the use of such models. First, such models produce general typologies. The levels of lending and potential need for lending in any given neighborhood are the product of many complex and *individual* characteristics of that neighborhood. One cannot assume that abstract standardized models which describe an overall pattern will apply in any given individual case.

Second, even if there were no difficulty (which is doubtful) in determining which neighborhoods should be placed in the categories of "disinvested" or "not disinvested," there is no reason to believe that the particular needs and latent demand for lending in disinvested communities will be similar to the needs and active demand in non-disinvested communities. Unfortunately, much of the value in developing and applying such models is based on accepting the proposition that the needs and demands of both types of communities are, or should be, the same.

The *only* way that latent demand can be measured accurately in a neighborhood which has not been impacted by aggressive marketing of single-family credit is to see how many homeowners and homebuyers respond to aggressive marketing of flexible loan packages by lending institutions. All the measures of active demand discussed in this paper are useful for measuring the latent demand for credit once that demand becomes active as a result of marketing efforts. Therefore, these measures can be used to assess the effectiveness of marketing efforts.

Responsibility for Collection and Analysis of Data

Financial intermediaries are -- or should be -- the most knowledgeable institutions about their community. For this reason, they should be responsible for continually collecting and analyzing data to measure their community's active and latent demand for single-family credit. In preparing their analysis of the active demand for credit, lending institutions should be assisted in the following manner.

All *disclosure reports* required by federal, state, and local governments for institutions operating in a given metropolitan area should be collected and maintained at a central location which is accessible to lenders and the public. Federal, state and local *agencies involved in direct lending programs not covered by disclosure laws* should also provide reports containing data on single-family lending they have undertaken. *Local and county governments* should provide assistance to lenders engaged in using property records to estimate active demand by, for example, developing manuals to assist lenders in using the records.

The responsibilities of *federal regulatory agencies* should be to assist lenders in analyzing the demand for credit and to determine the reasonableness of their analyses. Regulatory agencies should also be responsible for producing a manual which will inform lenders of recommended data sources and methods for analyzing active and latent demand.

Required Regulatory or Legislative Changes

The regulations implementing Title VIII of the Housing and Community Development Act of 1977 should require lenders to undertake the following in the communities which the lenders determine to be their Primary Service Areas: (1) *active and latent demand analyses;* (2) *product development tailored to meet that demand;* and (3) *marketing plans for new loan products.* The regulations should also provide that impaction and evaluation of these plans be part of the periodic examination process.

In order to enable lenders to develop accurate indicators of active demand for single-family credit, the following changes should be made in the Home Mortgage Disclosure Act.

(1) *All* federally insured or chartered institutions, regardless of asset size, and all *mortgage banking* firms using FHA or VA insurance must disclose the following information on a census tract basis.

   (a) The dollar value of each application (oral and written) for a mortgage, home improvement loan or a refinancing loan; and

   (b) The dollar value of each mortgage and home improvement loan granted and of existing mortgages refinanced.

(2) All institutions required to disclose pursuant to HMDA must send one notarized copy of their disclosure reports to a *central location designated by their federal insurance agency* in the metropolitan area in which they do business.

(3) All institutions must file disclosure reports every *six months*.

Summary of Conclusions

- The demand for thrift and credit services in older, low- and moderate-income, racially changing and minority communities is *primarily a product of the marketing* by financial institutions.
- There are two types of demand: *active* and *latent.*
- *Active demand* for single-family credit services consists of those people who are actively seeking mortgage, home improvement or refinancing loans in the market place.
- *Latent demand* for credit servies consists of those people who have a need and/or desire for the above credits, but believe they are not qualified for credit and/or are not aware of the availability of loan packages to meet their needs or desires.
- Financial institutions are chartered to serve the thrift and credit needs of their service areas. They are aggressively serving the *thrift* needs of their service areas by meeting the active demand for thrift services. They are also attempting to serve latent demand for thrift services by activating it through effective marketing efforts.
- Recently, many of those financial institutions which had not been previously serving *active* demand for credit in their service areas have initiated efforts to meet this demand. However, only in a few cases have financial institutions initiated efforts to activate *latent* demand for credit.
- Financial institutions should begin to activate latent demand for credit by utilizing the *same level of aggressiveness* in marketing credit as they use in marketing thrift services.[23]
- Once latent demand for credit is actualized, lenders must meet that portion of the demand which is credit-worthy or can be made creditworthy through the *development of flexible, but prudent loan packages.*

- An indication of the active demand for credit can be developed by analyzing data derived from the following sources: *legal property records; disclosure data (HMDA, state, and local); real estate directories; Federal Housing Administration and Veterans Administration records;* and *surveys* of realtors, voluntary associations and finance corporations.

- The latent demand for thrift and credit services can only be *accurately* measured by the results of effective marketing strategies designed to actualize latent demand. Financial institutions can consult census data and conduct household surveys to obtain a *rough* indication of latent demand for credit.

- Pursuant to the Congressional mandate expressed in *Title VIII of the Housing and Community Development Act of 1977,* federal regulatory agencies should examine the efforts of financial institutions to measure and meet the active and latent demand for both thrift and credit services. Financial institutions should be expected to make the same efforts to actualize latent demand for credit as they undertake to actualize latent demand for thrift services.

Footnotes

[1]"Mortgage Review Boards: The Second Chance," *Savings and Loan News*, (September, 1977), Reprint, p. 3.

[2]Ibid., p. 4.

[3]South Shore National Bank of Chicago is one of the few financial institutions in the country which has formally created a resident advisory board. According to the Bank's 1976 Annual Report and Neighborhood Development Audit, "The Bank's 19-member Resident Advisory Board /is/ nominated by the neighborhood's nine area councils and other South Shore organizations . . ."

[4]Mutual institutions are owned by depositors. This form of ownership is common to most savings and loan associations and to mutual savings banks. Stock institutions are like any other publicly held corporation in that they are owned by stockholders and their stock can be traded. Governance of mutually owned institutions rests with depositors. Governance of stock institutions resides with stockholders.

[5]*Housing and Community Development Act of 1977*, Title VIII, *Congressional Record-House*, September 26, 1977, H.10117 - H.10118.

[6]Howard D. Crosse and George M. Hempel, *Management Policies for Commercial Banks*, Second Edition (Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1973), p. 274.

[7]Ibid., p. 277.

[8]Ibid.

[9]See Appendix A for an example of how one savings and loan association has created the special position of "manager of savings development" to market thrift services.

[10]See Appendix B for example of multi-purpose loan application.

[11]See Appendix C for example of marketing automobile loans which include premium inducements.

[12]See 42 FR 178 (September 14, 1977) for the proposed changes to 12 CFR Parts 541, 545, and 563. The proposed regulations define "two family dwellings," make them eligible for over 80% financing, and expand the proportions of a lender's portfolio which may be in either single family or two family dwelling loans in excess of 80% of value.

Footnotes, Cont'd.

[13]See Dennis R. Marino, *The Philadelphia Mortgage Plan*, A Report of the Woodstock Institute, Chicago (August, 1977), for a detailed evaluation of the Philadelphia Mortgage Plan.

[14]Home Ownership Development Program, City of Baltimore, *Home Ownership and the Baltimore Mortgage Market*, City of Baltimore (1973). The Citizens Planning and Housing Association in Baltimore publishes reports on mortgage activity in the city at least once a year.

[15]The program was initiated on May 23, 1977. The federal suit is *Jorman, et al., v. U. S. Department of Housing and Urban Development, et al.* C. A. No. 77 C581 (N.D. Illinois, 1977).

[16]The data in this section are taken from the records of the Leadership Council. Prior to the initiation of HUD's counseling program, eighty-four homebuyers were interviewed in the area. Thirty-five of these gave data on their savings and resources for a downpayment. Seventy-seven percent of these could have made a conventional downpayment. Auditing (testing) was carried out on at least ten real estate brokers in the area before and after the program. A sampling of 104 transactions was taken prior to the initiation of the program. Eighty-six percent of these transactions were FHA or VA. There were thirty-seven transactions in June and July after the initiation of the program. Seventy percent of these transactions were conventional.

[17]There were fourtenn FHA transactions which were in process at the time the program began and which were completed in June or July.

[18]See George Benston, et al., "Case Study of Mortgage Lending in Rochester, New York," New York State Banking Department, *Mortgage Financing and Housing Markets in New York State: A Preliminary Report* (May 10, 1977), pp. V-1 to V-49.

[19]The Fair Lending Regulations of the Commissioner of Savings and Loans of the State of California require disclosure of individual loans to the Commissioner's Office.

[20]See Appendix D for sample survey sheet of information on one property which was derived from legal records. This illustration is taken from a draft of *A Citizen's Guide For Neighborhood Property Analysis* edited by Dennis R. Marino. The *Guide* will be published by Woodstock Institute during 1978. See also The Community Research and Publications Group's *People Before Property: A Real Estate Primer and Research Guide* published by Urban Planning Aid, Inc., 639 Massachusetts Avenue, Cambridge, Massachusetts 02139.

Footnotes, Cont'd.

[21]See Appendix E for example of listing price and sales price information available from multiple listing service handbooks. It should be noted that access to these handbooks is carefully controlled by the real estate boards that publish them. For this reason, it may be necessary for those wishing to use this source of information to determine active demand in a neighborhood to develop an agreement with the local real estate board.

[22]See Appendix F for comparison of information required by various disclosure laws.

[23]See Appendix G for example of affirmative marketing for credit services in mature communities.

APPENDIX A

MULTI-BRANCH CHICAGO SAVINGS AND LOAN ASSOCIATION NEEDS A DIRECTOR OF SAVINGS DEVELOPMENT

What *is* a manager of savings development? Well, to some extent it's what you make it. You should know the savings side of the business well. You should be able to develop premium programs. You'll supervise market research on new accounts and work with the advertising agency in analyzing research data. You'll participate in promotional planning and have an important voice in related decisions. You'll be in touch with branch managers to get their ideas on advertising and customer relations. This is a particularly sensitive and interesting position with an excellent future. Salary is open. Please send letter and resume to:

Box CG-976, The Wall Street Journal

An equal opportunity employer M/F/Handicapped

APPENDIX B

LOANS . . .
FOR ANY PURPOSE

If you'd like to have money available right now—to buy a new car, or boat, take a vacation, fix up the house, meet medical expenses, or for any other good purpose (consolidation of bills, for example)—complete and mail the attached application and we'll start making the arrangements.

bank of ravenswood

1825 W. Lawrence Avenue
Chicago, Illinois 60640   312/769-2000

BANKING HOURS

MAIN LOBBY

Monday thru Thursday	8 A.M. to 6 P.M.
Friday	8 A.M. to 8 P.M.
Saturday	8 A.M. to 4 P.M.

DRIVE-IN AND WALK-UP HOURS

Monday thru Friday	8 A.M. to 8 P.M.
Saturday	8 A.M. to 6 P.M.

bank of ravenswood LOAN APPLICATION (Please Print All Information Requested)

I would like to arrange a loan of $__________ for _______ months for following purpose ____________________.

☐ I don't need a loan right now, but would like to have my credit application approved for $__________ and on file for a possible loan in the future.

Name in full | Age | Social Security Number

Home address | City | State | Zip Code | Telephone number

How long at above address _________ year(s) ☐ Rent ☐ Own | Monthly rent or payment $ | Name and address of landlord or mortgage holder | No. of dependents

Previous address | City | State | How long at previous address ______ year(s)

Present employer and address | Phone | Present position | How long ______ year(s)

Monthly salary | Other monthly Income* | Source* | Former employer and address | How long ______ year(s)

Name of present bank | Types of accounts ☐ Checking Acct. # | ☐ Savings Acct. # | ☐ Loan Acct. #

If joint application other applicant complete this section: | Relationship to applicant (if any)

Name in full | Age | Social Security Number

Home address | City | State | Zip Code | Telephone number

How long at above address _________ year(s) ☐ Rent ☐ Own | Monthly rent or payment $ | Name and address of landlord or mortgage holder | No. of dependents

Previous address | City | State | How long at previous address ______ year(s)

Present employer and address | Phone | Present position | How long ______ year(s)

Monthly salary | Other monthly Income* | Source* | Former employer and address | How long ______ year(s)

Name of present bank | Types of accounts ☐ Checking Acct. # | ☐ Savings Acct. # | ☐ Loan Acct. #

CREDIT REFERENCES Include charge accounts and installment contracts and attach a list showing additional debts not listed below.

Applicant Name of creditor	Amount	Co-applicant Name of creditor	Amount

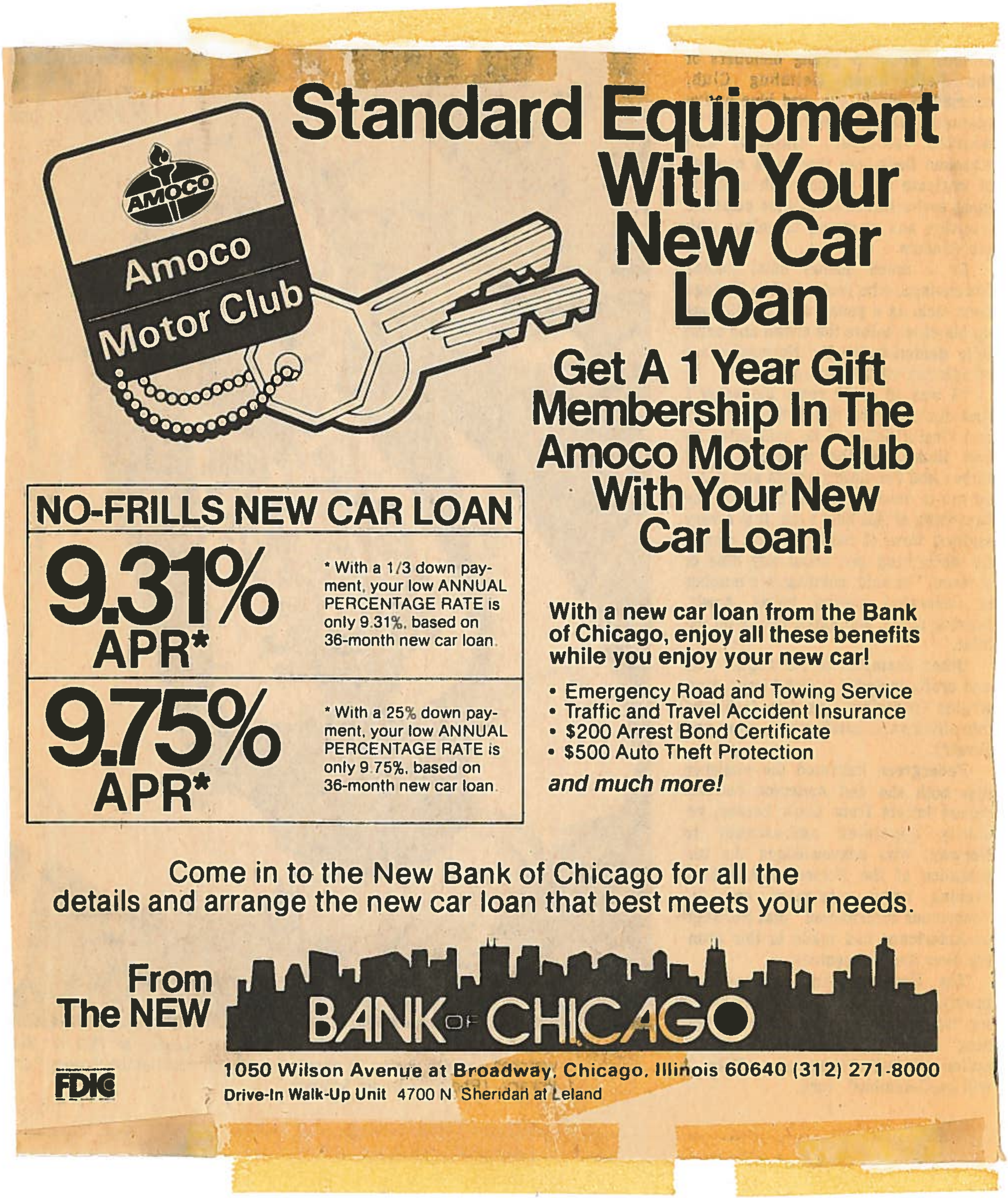
I/we give the above information for the purpose of obtaining credit and authorize the Bank to obtain information concerning any statements made herein.

(X) ____________________ __________
Applicant's signature   Date

(X) ____________________ __________
Other applicant's signature   Date

*Income from alimony, child support, or separate maintenance payments need not be revealed if you do not choose to have it considered as a basis for repaying this obligation.

APPENDIX C



Standard Equipment With Your New Car Loan
AMOCO
Amoco Motor Club
Get A 1 Year Gift Membership In The Amoco Motor Club With Your New Car Loan!
NO-FRILLS NEW CAR LOAN
9.31% APR*
* With a 1/3 down payment, your low ANNUAL PERCENTAGE RATE is only 9.31%, based on 36-month new car loan.
9.75% APR*
* With a 25% down payment, your low ANNUAL PERCENTAGE RATE is only 9.75%, based on 36-month new car loan.
With a new car loan from the Bank of Chicago, enjoy all these benefits while you enjoy your new car!
• Emergency Road and Towing Service
• Traffic and Travel Accident Insurance
• $200 Arrest Bond Certificate
• $500 Auto Theft Protection
and much more!
Come in to the New Bank of Chicago for all the details and arrange the new car loan that best meets your needs.
From The NEW
BANK OF CHICAGO
FDIC
1050 Wilson Avenue at Broadway, Chicago, Illinois 60640 (312) 271-8000
Drive-In Walk-Up Unit 4700 N. Sheridan at Leland

APPENDIX D

Franklin Township W½ NW¼ 30-45-14

Street Address 7751 Asphalt Street Researcher R. M.

Section number 30 Sub-section no. 2 Tax Block no. 235 Tax Parcel no. 018

Legal Letter Code "B" Legal Block no. 8 Legal lot no. 19 E 60' of Lot 20

Legal Book no. 857

	Document #	Grantor	Grantee	Instrument	Date	Description
A	55244019	Clark Booth & wf.	Wally Brown & wf.	WD	6/13/58	19 & E 60' of 20
B	55244020	W. Brown & wf	Downtown SLA	Mtg	6/16/58	"
C	55244021	"	"	A of R	6/16/58	"
D	55254413	Crosstown SLA	Clark Booth & wf	R 54107 1545	2/26/58	"
E	5617342	Astro Nat'l Bk. #11006	Freedom SLA	Mtg	5/24/61	"
F	5617343	"	"	A of R	5/24/61	"
G	56215151	Astro Nat'l Bank #11006	Campbell Trust Bk. #15364	TD	6/28/61	"
H	56221910	Wally Brown & wf	Astro Nat'l Bk. #11006	D in T	5/24/61	"
I	56223132	Downtown SLA	Wally Brown & wf	R 55244020 55244021	7/8/61	"
J	57767974	Astro Natl Bk.	Alice Pringle	D	3/11/66	"
K	57767975	Alice Pringle	Buckingham Bank #8442	DT	3/11/66	"
L	57786842	Campbell Trust #15364	Astro Natl Bk. #11006	R 56215151	3/31/66	"
M	69 Ch 83649	City of Chicago	Buckingham Bank #8442	Bond & Assm't	11/14/69	"
N	60416647	Freedom SLA	Buckingham Bank #8442	74 Ch 95481 Lis Pendens	3/15/74	"
O	60669998	Sheriff	Freedom SLA	C-5 76 Ch 54186	9/30/76	"

APPENDIX E

I. SUMMARY SHEET
(RESIDENTIAL)

SAMPLE SURVEY SHEET FOR RECORDING
MULTIPLE LISTING SERVICE
TRANSACTION DATA

RESEARCHER: TBK NAME OF REAL ESTATE BOARD: EAST SIDE

DATE OF MLS BOOK: 7/6/77 BOARD BOUNDARIES: DUBIN - PAUL / CENTRAL - SOUTH

NUMBER OF ACTIVE LISTINGS	# 2,016	VOLUME $	70,560,000
NEW LISTINGS THIS WEEK	# 230	VOLUME $	8,280,000
SOLDS REPORTED THIS WEEK	# 108	VOLUME $	2,808,000
PENDINGS REPORTED THIS WEEK	# 154	VOLUME $	5,236,000
NUMBER OF SOLD YEAR TO DATE	# 773	VOLUME $	22,417,000
TOTAL NUMBER OF PENDINGS	# 1,704	VOLUME $	35,768,250

COOPERATING BROKER SOLD 48% LISTING BROKER SOLD 52%

AVERAGE MARKET TIME

	DAYS	AVERAGE MARKET PRICE
SOLD	# 77	$ 26,000
PENDING	# 66	$ 32,000
NOT SOLD BUT OFF MARKET	# 127	$ 39,000
ACTIVE	# 83	$ 34,255

AVERAGE PRICE OF ACTIVE LISTINGS

RESIDENTIAL BEDROOMS	NUMBER	AVERAGE MARKET PRICE	AVERAGE DAYS ON MARKET
2 OR LESS	# 98	$ 13,700	# 54
3	# 345	$ 15,700	# 67
4	# 197	$ 16,255	# 65
5 +	# 53	$ 31,000	# 92
CONDO/COOP	# 28	$ 22,565	# 62
INCOME (2-4)	# 69	$ 31,760	# 78
APT (5+ UNITS)	# 71	$ 112,300	# 91

ADDITIONAL NOTES: BE SURE THAT RESEARCHER HAS PHOTOCOPY OF AGREEMENT BETWEEN EAST SIDE ORGANIZATION & EAST SIDE BOARD WITH HIM/HER WHEN GOING TO USE MLS BOOK -- SEE DAVE!

II. NEIGHBORHOOD SHEET **
(RESIDENTIAL)

RESEARCHER: [illegible]

SAMPLE SURVEY SHEET FOR RECORDING
MULTIPLE LISTING SERVICE
TRANSACTION DATA

BOARD AREA # 16 AREA BOUNDARIES: DUBIN-ST. JAMES/GILES-CITY LIMITS

------2 BEDROOMS OR LESS ------

---COOPERATIVE AND LISTING BROKER SALES---

ADDRESS	LIST PRICE	SALE PRICE	STATUS	DATE	TIME ON MARKET
144 DUBIN	$ 16,500	$ 14,900	FHA	3/28/77	46
197 GILES	$ 14,000	$ 13,500	CONV	7/2/77	32
173 RIDGE	$ 18,500	$ 17,900	CONV	7/1/77	36
1344 VINE	$ 22,000	$ 21,500	VA	5/28/77	1
911 COUNTY LINE	$ 14,900	$ 13,000	CONV	6/11/77	3
314 ST. JAMES	$ 16,700	$ 16,700	FHA	7/1/77	40
	$	$			
	$	$			

------ 3 BEDROOMS ------

ADDRESS	LIST PRICE	SALE PRICE	STATUS	DATE	TIME ON MARKET
420 VINE	$ 14,900	$ 14,500	CONV	5/26/77	26
715 OAK	$ 21,900	$ 21,000	CONV	6/11/77	34
333 HOLLYWOOD	$ 18,600	$ 18,600	FHA	7/1/77	2
1711 OAKBROOK	$ 29,500	$ 27,500	FHA	6/23/77	108
426 RIDGE	$ 25,000	$ 22,900	VA	6/28/77	47
	$	$			
	$	$			
	$	$			

------ 4 BEDROOMS ------

ADDRESS	LIST PRICE	SALE PRICE	STATUS	DATE	TIME ON MARKET
909 GROVE	$ 27,500	$ 27,500	CONV	5/28/77	13
1214 CRANDON	$ 32,600	$ 30,500	VA	4/13/77	27
947 LUPAS	$ 45,500	$ 42,500	CONV	6/11/77	47
1346 17TH STREET	$ 39,500	$ 35,000	CONV	7/1/77	5
1649 OAKBROOK	$ 28,700	$ 25,000	FHA	6/15/77	17
	$	$			
	$	$			
	$	$			

------ 5 BEDROOMS OR MORE ------

ADDRESS	LIST PRICE	SALE PRICE	STATUS	DATE	TIME ON MARKET
1267 NINETEENTH	$ 47,500	$ 45,500	CONV	6/27/77	[illegible]
937 GROVE	$ [illegible],700	$ 45,000	CONV	5[illegible]	
816 LUPAS	[illegible]	$ 39,500	[illegible]		
1731 OA[illegible]					

**Information taken from the "Area, Bedroom and Price Index" section at the back of most MLS books.

SAMPLE OF LISTING SHEETS AVAILABLE FROM
REAL ESTATE BROKERS AND FROM MULTIPLE LISTING SERVICES

SINGLE PRICE $ 18,500

ADD 711 Grove Street	# 77854
CITY Chicago, Illinois	AREA# 093
CONST & STYLE 1½ ST. stucco	

ROOMS	BRMS	BATH	LOT SIZE	TAX 1976	HE	AGE	N 1700
6	4	1½	25 x 100	$250	( )	older	W 1400

GARAGE	ELEC	POSS. 60	HEAT	A/C
none	(x)220 ( )110	or at cl.	GFA	( )CEN ( )UNITS

C	D		FL	BASEMENT full ( )RR ( )UR
		LR 12 x 10	1	SCHOOL Mt. Vernon
		DR 10 x 10		SCHOOL St. James
		KIT 8 x 10	1	CHURCH St. James
		BR 9 x 8	1	
		BR 12 x 12	2	(x)RANGE (x)ST/SCR ( )FP
		BR 10 x 10	2	(x)REFG ( )M/BTH (x)DRYER
		BR 8 x 8	2	( )DSHW (x)WASHER (x)PORCH
		FR		( )DISP ( )PATIO ( )KEY L/O

REMARKS

Moving to be closer to family. Ideal starter home in attractive city location. Close to transportation and 15 minutes from downtown. A must see to believe! FHA/VA

OFF Professional Realty	NO 060	PHONE 742-5568
SLSP Sally Vernon	NO 103	CODE 1Z/50-50

APPENDIX F

Appendix F

Comparison of Disclosure Requirements

The following three-part table compares the provisions of the Federal Disclosure Act, the administrative regulations in California, Massachusetts and New York, the laws and implementing regulations in Illinois and New Jersey, and the municipal ordinances for Chicago, Cleveland, Minneapolis, St. Louis and Rockford (Illinois). The table also includes the provisions of the proposed Missouri state disclosure law -- with the limitation that these provisions might be altered by an implementing regulations which would be developed if this proposed law were passed and put into effect.

The key for the tables is as follows:

X means that this provisions applies

? means that it is not clear whether this provision applies or would apply

10 indicates the asset limitation in millions of dollars for those disclosure provisions which exempt from reporting institutions with assets below a certain level

X[3] means that there is a footnote further explaining some detail of this provision for this particular law, regulation or ordinance

	Disclosure of Total Portfolio	Disclosure for Single Reporting Period	Combined Conventional and Insured Mortgages	Conventional Mortgages Separate	Combined FHA, VA, or FmHA Category	Separate FHA, VA, or FmHA Categories	Loans Under State Programs	Improvement and/or Rehabilitation	Construction	Vacant Land Purchase	Commercial	Consumer	Detailed Reporting - Single-Family	Multi-Family	Some Reporting - Other Real Estate	Applications	Originated Loans	Purchased Loans	Individual or Average Interest Rate	Individual or Average Downpayment	Individual or Average Term	Origination Fees and Charges	Loan to Price (Appraisal) Ratio
Federal Act		X		X	X			X					X	X			X	X					
California		X		X		X		X	X	X			X	X	X	X	X	X	X		X	X	
Massachusetts	X	X		X	X			X					X	X	X		X	X	X				
New York		X		X	X								X	X	X		X[9]		X		X		X
Illinois	X	X		X		X		X	X				X	X		X	X	?[10]					
New Jersey		X		X	X		X	X					X	X		X	X	X			X		
Chicago		X		X	X			X	X		X	X	X	X			X		X	X	X		
St. Louis		X		X	X			X					X	X			X	X	X[5]		X[5]		
Cleveland		X		X	X			X	X				X	X			X		X	X	X		
Minneapolis		X		X	X			X					X	X	X	X	X	X					
Rockford		X		X		X		X	X				X	X	X	X	X		X	X	X		
Missouri		X		X		X	X	X	X				?	?		X	X	X					

Chart I

	State Banks and Mutual Savings Banks	Federal Banks	State Savings and Loans	Federal Savings and Loans	Other Depository Institutions (Credit Unions)	Mortgage Bankers	Insurance Companies	Asset Size Exemptions	Exemption of Institutions with no office in Selected Metropolitan Areas	Metropolitan and Rural Areas	All or Selected Metropolitan Areas Only	Census Tract Level - All Areas	Census Tract for City or Metropolitan areas only	Zip Code or Single Summary	Category for some Areas	Combined Deposit Category	Single and/or Time Deposits	Demand Accounts (Checking, etc.)	Individual and Commerical Accounts	Annual Reporting	Semi-Annual	Quarterly	Monthly	Other
Federal Act	X	X	X	X	X			10			X	X		X						X				
California			X							X		X								X			X	
Massachusetts	X		X		X			20[1]	[1]	[1]	X		X	X			X[2]	X[2]		X				
New York	X		X					50		X			X	X			X			X				
Illinois	X	X	X	X	X	X	X				X	X		X[3]							X			
New Jersey	X	X	X	X	X			10	X	X			X	X[4]								X		
Chicago	X	X	X	X							X		X	X			X	X		X				
St. Louis	X	X	X	X				10			X	X		X			X[5]	X[5]		X				
Cleveland	X	X	X	X							X		X	X			X[6]							X[7]
Minneapolis	X	X	X	X							X		X	X			X[8]	X[8]	X[8]	X[8]				
Rockford	X	X	X	X							X	X									X			
Missouri	X	X	X	X		X	X				X		X								X			

Chart II

	Age of Properties	Living Space	Appraised Value	Selling Price	Amount of Loan	Borrower's Income	Borrower's Race	Borrower's Sex	Borrower's Age	Foreclosure	Delinquency and Defaults	Others	Individual Loan-by-Loan Reporting	Aggregate Date for Geographic Areas	Analysis Required by Agency	Some Analysis Done by Agency	Data Available at Central Place	Data at Lending Institutions	Part of Anti-Discrimination Legislation	Part of Public Deposits Ordinance
Federal Act														X				X		
California	X	X	X	X	X	X	X	X	X				X		X	X	X			
Massachusetts										X							X[2]	X[2]		
New York										X	X	X		X		X		X		
Illinois														X			X			
New Jersey	X			X	X								X					X	X	
Chicago														X			X		X	X
St. Louis														X	X	X	X	X	X	X
Cleveland														X			?[11]			X
Minneapolis														X		X	X	X	X	X
Rockford														X			X	X		X
Missouri														X	X		X	X	X	

Chart III

Footnotes for Appendix F

[1]The Commissioner of Banks in Massachusetts has ordered any institution, regardless of its asset size or location, to comply with the disclosure requirements if 25 or more of the institution's depositors sign such a request.

[2]Deposit data are not released on an institution by institution basis, but only in an aggregate form combining the deposits of all reporting institutions for each reporting area. Thus, the disclosure made to the Banking Commissioner is not the same as what is disclosed to the public and the deposit data are not available for inspection at individual lenders' offices.

[3]The Illinois law provides for disclosure by both census tract and zip code for all areas covered.

[4]The regulations implementing the New Jersey law include a category for loans made or purchased out of the state. This is unique.

[5]Reporting of deposit data and loan conditions are not required.

[6]All accounts listed at the downtown Cleveland offices of reporting institutions have been exempted from this reporting, regardless of the actual location of the person or institution holding the account. This appears to make the deposit data meaningless.

[7]Decisions on the deposit of city funds are made every two years. Thus lenders in Cleveland report on a bi-annual basis.

[8]There are deposit categories for time and demand accounts from out of the state as well as the non-Minneapolis portion of the Minneapolis-St. Paul metropolitan area. However, deposit data for the City is not broken down by census tract of zip code.

[9]Only "own-serviced" loans are reported under the regulations. "Own-serviced" is defined as "a mortgage loan for which the servicing function is performed by the institution that owns the mortgage..." It is not clear that this would include all loans originated by the institution, since it may not include loans originated, but sold. Further, it may not include loans purchased, if the institution does not service those loans.

[10]Presumably disclosure of the entire portfolio would include loans purchased as well as loans originated and still active, although no mention is made of this in either the Illinois law or the directions for reporting.

[11]Although it has been assumed that the data will be collected and examined at an office of the Cleveland City government, the ordinance states neither which office shall collect the data nor that the data shall be made public.

APPENDIX G

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