MORTGAGE REVIEW PANELS

AS INSTRUMENTS OF REINVESTMENT

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About the Author

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Summary

Mortgage review panels have been established in fourteen cities to give applicants who are rejected for single-family credit an opportunity for appeal. Most of the panels have been established by groups of lenders or their trade associations, although, as the paper points out, some panels have been set up as a result of statutes or regulations. Panels can be structured with either one or two tiers, and can involve only lenders, or can include regulatory officials and even citizen representatives. In addition to describing the operations of review panels in several cities, the authors discuss the accomplishments of and criticisms about review panels which have emerged largely as a result of the relatively few numbers of complaints that most panels have received.

MORTGAGE REVIEW PANELS AS INSTRUMENTS OF REINVESTMENT

Mortgage review panels are boards or committees to which applicants for loans may appeal if their applications are rejected by a financial institution, or if they are offered terms and conditions other than what they originally applied for. These panels provide an opportunity for an applicant to have a review of the lender's decision. Usually the review process is available only to applicants whose request for a loan has been rejected. In some cases, a review is also available for applicants who are offered a loan on terms and conditions unsatisfactory for them. Generally the review is limited to applications for single-family home mortgages and home improvement loans on structures which will be owner-occupied.

The purposes of mortgage review panels are summarized in the following excerpt from an article about them which appeared in the Savings and Loan News:

> By pledging 'to make sure all citizens are treated fairly and that mortgage funds are available in all neighborhoods,' the objectives of the Chicagoland committee exemplify the most fundamental goals of all other review boards.
>
> More to the point, however, is the commitment involved 'to dissuade the world -- the media, neighborhood groups and government officials -- that geographical discrimination exists in home mortgage lending,' as a Boston review board participant puts it.[1]

If a rejected application merits approval in the judgement of panel members, they seek to have a financial institution make the loan. The procedure is designed to protect against discrimination on the basis of geographical location, and to insure that the applicant will not have to make multiple applications to secure a loan.

Mortgage review boards are initiated either by lenders and industry-wide organizations of lenders, or they are created by a state or local government through legislation or regulations. Panels often include financial institutions regulators and, in some cases, representatives of public interest or community organizations.

Lenders may perform several functions within a mortgage review process. First, they usually agree to inform a rejected applicant about the existence of the review panel and the procedures for making use of it. Second, the lenders on the panels agree to consider making loans to those whose applications are rejected or modified by other lending institutions, when those applications are found meritorious by the review panel. In some cases, each participating lending institution makes a dollar commitment to a mortgage pool to be used in making loans that have been rejected by other lenders.[2] Third, lenders on the panels may also commit themselves to reconsider their own decisions when the review process indicates that rejected applications should have been approved.

A fourth role which lending institutions have been asked to play on some occasions is to adopt appraisal and underwriting criteria which eliminate many of the conventional lending constraints related to location.[3] Finally, in some cases, lenders have been asked to carry out affirmative marketing programs to let the public know that loans and the review process are available. This may involve advertising or other marketing measures by the individual institution, or a contribution to the panel, which then carries out the advertising and marketing process on behalf of participating lenders.

In addition to individual lending institutions, the mortgage review process involves a separate entity, a mortgage review board, panel, or committee. This panel may consist of one or two tiers. In the two-tier situation, there is usually an industry board which does the initial review. If that board affirms the decision of the initial lending institution which rejected the application, the applicant may appeal to a second panel, which may be composed of regulatory officials and members of the public.

The one-tier boards range in composition from an entirely industry board -- composed of lenders and trade association staff persons -- to one which includes members of financial institutions, local or state officials and public members. The review panel may have a specified period of time within which it will not only make its own independent finding, but will also seek to have a financial institution make the loan if it finds that the loan should be made. If the board's conclusion is different from that of the initial lending institution -- and that institution refuses to change its decision -- its responsibility will generally be to find another lending institution which will agree to make the loan. The other responsibility of the mortgage review panel may be to carry out an advertising campaign to make sure that the public is aware of the availability of the review mechanism and the procedures for using it.

The Two Original Forms of Review Panels

Among the earliest of the mortgage review panels were the Milwaukee Area Mortgage Opportunity Plan (MAMOP) and the Home Mortgage Opportunity Committee (HMOC) in Pittsburg. Each of these is a voluntary association of lenders. MAMOP is a one-tiered program while Pittsburg HMOC represents a two-tiered approach.

All home mortgage lenders doing business in Milwaukee County who volunteer to participate are members of MAMOP. The participants include savings and loan associations, banks and mortgage bankers. MAMOP is specifically designed to address discrimination against lending in certain areas, as the following statement indicates:

> The dual purpose of this plan is to encourage home ownership in all areas of Milwaukee County and to afford equal access to either conventional or government backed available financing by mortgage lenders to all prospective home buyers who meet the following criteria: (a) proof of adequate ability and credit background; and (b) purchase at fair market value of one or two home owner-occupied dwellings in sound condition; and (c) transactions documented by an accepted offer to purchase.[4]

Any applicant for a mortgage whose application is rejected may request an evaluation of the lenders' decision by the review panel.

The panel consists of representatives from the City of Milwaukee, Milwaukee County, the State Savings and Loan Commissioner's Office, the Banking Commissioner's Office, an appraiser, a representative of the Federal Home Loan Bank of Chicago, a representative of the Savings and Loan Council of Milwaukee County, and a representative of the Milwaukee Area banks. The review panel evaluates the information submitted by the loan applicant and the lender which rejected the original application.

After its review, the panel either confirms the rejection and states its reasoning for this decision, or it recommends approval of the loan application. In the latter case, the panel may suggest modifications and conditions as it deems appropriate, but it again must state a rationale for its action. If the review panel recommends that the loan be granted, the application is forwarded to a MAMOP lender. If this involves the modification of the terms and conditions of the original application, the applicant is so notified. The participating MAMOP lender who agrees to accept the loan under these terms and conditions then completes the processing of the loan application at its current market interest rate and fees.

In Pittsburg, the Home Mortgage Opportunity Committee was formed by 15 savings and loan associations and two commercial banks. Its stated purpose is as follows:

> 1) to insure that each applicant for a mortgage loan receives equal loan consideration; 2) to make sure that each applicant for a mortgage loan for the purchase or major improvement of a home is knowledgeable that a lender's rejection for a loan request may be appealed to an impartial committee. Review and appeal may be

obtained when the applicant asserts improper discrimination on the part of the lender; 3) to insure that each applicant who utilizes the procedures established secures prompt response with appropriate explanation.[5]

As in Milwaukee, this committee provides a review for any mortgage applicant who feels that his or her application has been rejected unfairly. While HMOC of Pittsburg does not guarantee that a favorable review by the Committee will lead to a mortgage, its literature for lender members states that "If the original lender rejects /_an application_/ a second time, the Committee will exert its efforts to place the loan from among the participating lenders, consistent with the terms /_the Committee_/ has recommended."[6]

HMOC of Pittsburg was the first two-tiered program. The Industry Loan Review Committee is made of members of the participating lending institutions. There are also public interest members who constitute the Public Interest Review Committee. If the Industry Loan Review Committee confirms the initial rejection, it sends the application to the Public Interest Review Committee along with its decision. If the Public Interest Review Committee recommends approval, it returns the application to the original lender. If the original lender continues to reject the application, the committee attempts to place the loan with a participating lender, though no lender is obliged to make the loan.

In response to allegations that some persons are discouraged by lenders from even making application for mortgages or home improvement loans, participating members of HMOC have agreed to document inquiries which do not result in a formal application. The committee agreed to accept complaints from people who had attempted to obtain mortgage financing but who either did not, or were not permitted to, file a formal application. The participating lending institutions also agreed to contribute to the committee for advertising expenses. The amount of these contributions were based on current assets of the lending institution. Funds are used for such purposes as printing posters to be distributed to each member institution for display in their offices.

One-Tiered Review Panels

In Cincinnati, a Mortgage Loan Review Committee was formed by the Better Housing League of Greater Cincinnati. This non-profit civic organization -- which focuses on housing problems in the metropolitan area -- worked with the urban problems committee of the Savings and Loan League of Southwestern Ohio to develop a Mortgage Loan Review Committee.

The review committee is composed of seven members, one each from savings and loan associations, commercial banks, the real estate industry, the bar association, plus three public members. The staff support is provided by the Better Housing League. The committee attempts to make a determination of the feasibility of the loan request. It also has counseling available for loan applicants. If the Better Housing League staff feels that the loan should have been made, it discusses the application with the institution. If resolution is not possible at that level, the matter is referred to the review committee for "direction and guidance."[7] The process is entirely voluntary with all of the parties, and there is no commitment to make any loans.

In Boston, the one-tiered Boston Banks Urban Mortgage Review Board consists of six members, three of whom are representatives of savings banks and three of whom represent community groups.[8] The 12 largest mutual savings banks in Boston agreed to participate in the review board. These institutions represent 93% of thrift institutions' assets in the City.

The procedure in Boston is similar to those described above. An applicant for a mortgage loan whose application is rejected at any of the participating banks may appeal to the board if he or she believes that the rejection was based on the location of the property rather than the condition of the property or the applicant's creditworthiness. If the majority of the board believes that the loan was denied because of the location of the property, the board will recommend that the bank grant the loan. If the savings bank continues to decline to make the loan, one of the other participating savings banks will be asked to make it. As with the other programs, none of the participating institutions is required to issue the loan.

Two-Tiered Review Panels

In Illinois, after an initial effort by the State Commissioner of Savings and Loan Associations to institute a Mortgage Review Panel in 1975, the state and federal councils of savings and loan associations took the lead in establishing a committee in 1976. Under the Home Mortgage Opportunity Committee (HMOC) of Chicagoland, any applicant who is rejected for a mortgage loan is to be informed by the association that there is a right to appeal to this two-tiered committee. The first appeal involves a board composed of five senior officers from the savings and loan industry. If that panel says that the loan should have been made, then the panel takes the responsibility for finding a participating lending institution that will agree to make it. If the initial panel concludes that the loan rejection was justified, then the rejected application automatically is sent to a "public interest panel."

The public interest panel has five members, two of whom are heads of the state and federal savings and loan regulatory agencies, respectively. If the public interest panel concludes that the loan should be made, the industry participants have committed themselves to find a lending institution which will make the mortgage. Thus, the commitment is to make the loan available even if the industry panel feels that the lender was justified in originally rejecting the application.

The institution which rejects an application is responsible for informing the applicant of the reasons for the denial, and the availability of the review committee. Within 15 days of the application for review to HMOC of Chicagoland, a final decision is made. The process has to go through both panels, if necessary, within the specified period.[9]

Similarly, the Seattle Public Reinvestment Review Board has a two-tiered system. The first review is done by a panel composed of nine lender members and one ex-officio representative from the Mayor's Office of Policy and Planning. The lender members are appointed by the Mayor from nominations submitted by participating lending institutions. If the lender review panel determines that the loan should be made, the Board will so recommend to the original lender. If the lending institution continues to be unwilling to make the loan, the review board will place the loan with another participating institution.

If the lender review board determines that the institution was correct in rejecting the loan application, or in offering terms at variance with those it normally offers, the panel will so inform the applicant with a written decision explaining the basis for its decision. This written notice will include a statement explaining that the person has the right to appeal to the public review board. If the public review board concludes that the lending institution and the lenders panel responded inappropriately, it will attempt to persuade the lending institution to reconsider its evaluation.

The Seattle process goes a step beyond the other review panels, because the lenders participating are required to adopt revised appraisal and underwriting standards as well as agree to the purposes and procedures governing the loan review process. These revised standards attempt to concentrate more on the physical conditions of the property and less on the characteristics of the neighborhood where the property is located.[10]

Problems and Performance

Seattle's effort to seek revised appraisal and underwriting guidelines illustrates one of the problems review boards have had in seeking industry participation. In Seattle, although most major banks have adopted the guidelines, most savings and loan associations "refuse to adopt them for fear of antitrust repercussions."[11] It is unlikely that such fears on the part of lenders will inhibit the adoption of uniform appraisal and underwriting guidelines elsewhere, however, since the U. S. Department of Justice said in a business review letter in March, 1977 that similar guidelines -- which were made part of the Boston Plan -- did not violate anti-trust laws. This ruling was based on the Justice Department's assumption that terms and conditions of the mortgages would continue to be established independently by each mutual savings bank participating in the Boston plan.[12]

A second problem has been that different types of depository institutions, savings and loans and banks, have traditionally been in a competitive relationship both for deposits and for certain types of real estate loans. Mortgage review panels which are seen as the product of one type of depository institution may have difficulty attracting members from other types of institutions. One type of non-depository lender in particular, the mortgage banker, has been passed over in many of the mortgage review processes. While the ommission of certain types of lenders can create some problems for voluntary review processes, their ommission can create serious inequities for participating lenders when the mortgage review panel is created by statute or regulatory action. The mortgage review process created by the California Department of Savings and Loan, for example, is restricted to the state chartered savings and loan associations which are regulated by that department.

Even where there has been widespread participation by various types of lending institutions, however, the volume of complaints to the review panels has been low. "With the notable exceptions of the Boston board and the Home Mortgage Opportunity Committee of Chicagoland," noted the Savings and Loan News, "the review requests have been few and far between."[13] Richard E. Knapp, President of Pittsburg's Friendship Federal Savings and Loan, noted that the absence of even one application for "official review" to the HMOC of Pittsburg demonstrates that "the redlining problem was blown out of proportion and does not exist to the extent originally suggested" by community groups.[14]

Mr. Knapp's comments, and the sparcity of complaints to most of the review panels, underscores the need for public policymakers to distinguish between two goals: the elimination of overt discrimination against those actively seeking mortgages or home improvement loans, on the one hand; and, on the other, developing public policies to encourage lenders to take the initiative in meeting what may be termed the "latent" demand for single-family credit in mature communities. 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 has "probably resulted in closer scrutiny of borderline applications . . . that might have been appealed had they been rejected" by the originating institutions.[15]

Like other strategies designed to eliminate discrimination in the granting of single-family mortgage credit and/or to stimulate additional lending in certain mature communities, mortgage review panels must be viewed as being most effective when they are used in concert with other private and public initiatives. This point was made forcefully by Robert H. McKinney, Chairman of the Federal Home Loan Bank Board, during his confirmation hearings before the Senate Banking Committee. "Mortgage review committees just have not been working. Complaints have not been filed, and I believe that subtle discrimination has continued in some areas without proper redress. . ." The Chairman then suggested that in addition to making a review of consumer complaints part of the periodic examination process for savings associations, that each Federal Home Loan District Bank establish a "consumer complaint department. . . where complaints could be funneled to a mortgage loan review committee of that District."[16]

Footnotes

1
Mortgage Review Boards: The Second Chance," reprinted from Savings and Loan News September, 1977, p. 1.

2
See forthcoming paper in this series entitled "Mortgage Pools as Instruments for Reinvestment."

3
See discussion below of Seattle panel. Also note that the the larger set of regulations governing lending in urban areas which were adopted by the California Department of Savings and Loans (Memo 76-45) include the creation of mortgage review boards as well as revised appraisal and underwriting criteria. In Philadelphia, Pennsylvania, the Philadelphia Mortgage Plan -- which includes periodic review by participating lenders of all mortgages, approved and rejected -- requires participating lenders to review and, if necessary, revise appraisal and underwriting standards.

4
"Milwaukee Area Mortgage Opportunity Plan," (revised May 26, 1977), MAMOP, 312 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, p. 1.

5
Memorandum from Thomas A. Jones, Chairman, HMOC of Pittsburg, to Members, regarding "Proposed Objectives, Organization and Procedures Adopted 10/15/75," un-dated, p. 1.

6
Ibid., p. 4.

7
Letter from Leonard M. Leick, Better Housing League of Greater Cincinnati, to Kathi Hellerbach, Center for Urban Affairs, Northwestern University, March 1, 1977, p. 2.

8
"Mortgage Review Board Formed in Boston," Trends In Housing, (National Committee Against Discrimination in Housing: Washington, D. C.), Fall Issue 1976, volume 20, Number 4.

9
Home Mortgage Opportunity Committee of Chicagoland, Post Office Box 516, Chicago, Illinois 60690.

10 "Seattle Residential Loan Review Process," Mayor's Office of Policy and Planning, Seattle, Washington, August 19, 1976.

11 "Seattle Redline Board Gets No Complaints," American Banker, March 4, 1977, p. 1.

12 "Massachusetts Forms Mortgage Review Board to Curb Redlining," American Banker, March, 1977, p. 2.

13 "Mortgage Review Panels: The Second Chance," p. 2.

14 Ibid., p. 3.

15 Ibid.

16 Ibid., p. 7.