

MCAP

MORTGAGE
CREDIT
ACCESS
PARTNERSHIP

Progress Report Summer 1999



Assuring Fair Treatment in the Home Purchase Process in Greater Chicagoland.

Mortgage Credit Access Partnership

Progress Report — Summer 1999

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Foreword

Over the past three years, a dedicated group of individuals has taken part in an important initiative designed to foster fair treatment in the home purchase process in the greater Chicago area. The Mortgage Credit Access Partnership (MCAP) was convened in 1996 with this purpose in mind.

An entirely voluntary program, MCAP was conceived not as a conceptual or theoretical exercise, but as a means to effect changes in policies and practices. MCAP was targeted at those policies and practices in the entire home purchase process, not simply those involving the mortgage, that cause disparate outcomes for home buyers based on their race, gender, where they choose to live, or other factors that should not affect their housing or financing choices. The Partnership zeroed in on four key topics: the appraisal process, FHA lending issues, credit reporting, and consumer and professional education.

As the program evolved, however, it became clear that examination of key fair housing and fair lending issues that affect entire communities and even national policies was also relevant, and necessary, to a meaningful dialogue and action plan around fair housing and fair lending practices. MCAP has broadened its scope and now has teams exploring high-cost predatory lending, a new equity investment concept that could help promote neighborhood stability and affordable housing, and fair lending compliance in light of credit scoring technology.

After almost three years since MCAP was officially launched, I am pleased to report that significant accomplishments have been realized as a result of the efforts of the people and institutions that took part in MCAP. Most importantly, the concept of “partnership” has pervaded the program, and without the collective efforts of MCAP Partners, none of the accomplishments reported in this document would or could have been achieved.

Accordingly, I would like to take this opportunity to thank all of the organizations and individuals who have contributed their time and efforts to the success of the Mortgage Credit Access Partnership to date. For those involved in efforts that are still under way, I look forward to your continued involvement and thank you for your continued commitment to the success of the program.



Michael H. Moskow
*President and Chief Executive Officer
Federal Reserve Bank of Chicago*

Executive Summary

This report highlights the significant accomplishments to date of the Mortgage Credit Access Partnership (MCAP), the voluntary collaborative established to identify and address issues of unfair treatment in the home ownership and financing process in greater Chicagoland.

The MCAP process was formally initiated in mid-1996 when the Federal Reserve Bank of Chicago and six co-conveners brought together over 100 organizations as MCAP Partners representing housing-related industries including appraisers, lenders, insurers, community developers, fair housing and community advocates, government agencies and others. The Partners set up four task groups to examine issues in four areas: the appraisal process, FHA lending, credit reporting, and consumer and professional education. The task groups developed recommendations for changes in policy and practices, and set about implementing those recommendations in late 1997.

Among the key accomplishments in response to the recommendations of the four MCAP task groups:

- The Illinois Real Estate Appraiser License Act now includes a specific non-discrimination provision and fair housing training requirements for licensees.
- A counseling and emergency loan fund initiative called the Foreclosure Intervention Program has helped well over 100 families restructure their mortgages and avoid foreclosure.
- A group of MCAP Partners has established a working team to develop a new method of conveying foreclosed FHA properties to nonprofit developers in order to reduce the incidence of foreclosed, vacant homes in foreclosure-impacted areas. This team includes the FHA Commissioner.
- A researcher who is an MCAP Partner analyzed the performance of GSEs (government sponsored enterprises) Fannie Mae and Freddie Mac in con-

veying conventional mortgage financing to low-income areas. The analysis uses both HMDA (Home Mortgage Disclosure Act) and GSE loan data. A paper covering his findings is expected to be released in the fall of 1999.

- A video is in production focusing on key issues of fair housing, fair lending and the responsible use of credit in the home ownership process.

Following on these accomplishments, MCAP has expanded to new issues:

- A task group was formed in late 1998 to review the issue of abusive subprime lending, sometimes referred to as predatory lending, which appears to disproportionately affect minority and low-income individuals.
- A working committee was formed to develop a housing finance demonstration program. This program will introduce a new concept described in the book *Housing Partnerships: A New*

Approach to a Housing Finance Market at a Crossroads. Essentially, the housing partnership concept involves using institutional equity investment in a portfolio of single-family homes to make home ownership possible for a broader spectrum of the population.

- A team led by the Federal Reserve Bank of Chicago along with the Federal Reserve Board and the Federal Reserve Banks of San Francisco and Cleveland is assessing the use of credit scoring technology in the mortgage underwriting process and its relationship with fair lending compliance. This effort is in response to needs identified in MCAP-type projects conducted in six cities nationwide (see page 12, MCAP National Issues) and subsequent focus groups held in Boston, Chicago and San Francisco.

The MCAP Steering Committee

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Malcolm Bush
President, Woodstock Institute

Linda Crane
Professor, John Marshall School of Law

Charles Echols
*Construction Manager, Cook County
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Brad Ellis
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Introduction

The Mortgage Credit Access Partnership (MCAP) was established in 1996 as an entirely voluntary program with the goal of identifying and eliminating unfair practices and unfair treatment in the home purchase and financing process in the Chicago metropolitan area. More than 100 organizations registered as Partners in MCAP and supplied staff members to participate in four task groups that addressed specific issues related to home purchase and finance.

After the release of the Mortgage Credit Access Partnership Report in October 1997, the MCAP program entered a new phase. The issuance of the report marked the end of the formulation of recommendations and the beginning of implementation of those recommendations. This report recaps the efforts since 1998 to implement the recommendations of the four task groups: Appraisal Issues, Credit Reporting, FHA Issues, and Consumer and Professional Education. It will also describe new directions the program has taken.

When the four task groups reconvened early in 1998, they prioritized their recommendations for changes in policy and practices and began to pursue those outlined within this report. During 1998, the formal task group structure lost some of its importance, while functional teams emerged pursuing individual goals and seeking to implement specific recommendations. Not surprisingly over a two-year span, some turnover has occurred within MCAP Partner organizations; some of the original task group and steering committee members have moved on to other organizations, other lines of work, and even other parts of the country. However, commitment to the initiative remains strong.

Progress on Task Group Recommendations

Appraisal Issues

The Appraisal Issues task group continues to hold periodic general meetings.

Accomplishments to date include the following:

- A group led by the Leadership Council for Metropolitan Open Communities and the Illinois Coalition of Appraisal Professionals proposed amendments to the Illinois Real Estate Appraiser License Act and was successful in getting them passed. The amendments include a non-discrimination provision and educational provisions that require licensees to obtain fair housing training as a condition of licensure, and a trainee designation for new licensees. The law applies to appraisers holding or seeking an Illinois State Appraiser license.
- A team is developing a pilot project focused in the Chicago neighborhoods of Austin, North Lawndale and South Lawndale (South Lawndale is commonly referred to as “Little Village”). Specialized training courses offered by various trade associations and organizations, dealing with conducting appraisals in relatively inactive urban markets and fair housing/lending, are being identified for appraisers wishing to participate in the pilot. The team is also exploring the feasibility of developing a web site. The site would contain a directory of relevant organizations in the target area, links to sources of sales data for comparable neighborhoods, and details on available training courses. On a temporary basis, the site will be a page on the Federal Reserve Bank of Chicago web site.

FHA Issues

The FHA Issues task group has merged with a newly formed task group focused on predatory lending (discussed later in this report). The impetus for merging the groups is that input from members of both task groups indicated that the two issues affect many of the same Chicago area communities.

With respect to the original task group, independent groups of MCAP Partners and others are working on three recommendations that are moving forward.

- An MCAP Partner applied for and received a HUD grant to undertake research using both GSE and HMDA (Home Mortgage Disclosure Act) data. The purpose of the analysis is to examine the extent to which GSE policy facilitates or inhibits conventional mortgage lending in low-income communities. His paper is currently in draft form and

is expected to be available for public release in the fourth quarter of 1999. The author has tentatively agreed to present the paper at a future meeting of MCAP Partners at the Federal Reserve Bank of Chicago.

- The FHA task group had recommended that FHA develop alternative, intensified forbearance procedures for borrowers in targeted FHA impact areas to reduce foreclosures in these high-risk, high-default areas. To address the foreclosure issue in Chicago neighborhoods, MCAP Partners Neighborhood Housing Services of Chicago (NHS) and Consumer Credit Counseling Services of Greater Chicago (CCCS) developed an aggressive, privately and publicly funded initiative, the Foreclosure Intervention Program (FIP). To date, four lenders and two private mortgage insurance companies have contributed funds to establish the program and are referring delinquent borrowers. Operating and loan funds have also been supplied by the U.S. Department of Housing and Urban Development and the City of Chicago, Department of Housing. FIP provides intensive, professional counseling for troubled borrowers. Qualified homeowners who reside in Chicago can also access the Homeowners Emergency Loan Program (HELP) to obtain loans up to \$7,000 through NHS at very low cost. In February 1999, NHS and CCCS reported on the program at a half-day informational meeting at the Federal Reserve Bank of Chicago. Well over 100 households had been able to bring their mortgage loans to a current status, or restructure their existing mortgage, and avoid foreclosure as a result of the program.
- MCAP Partners New Cities CDC and Neighborhood Housing Services of Chicago (NHS) are working with the National Association of Housing Partners (NAHP) to design a comprehensive HUD single-family property disposition reform package. The cities of Chicago, Cleveland, Miami, Rochester, Milwaukee, Sacramento and San Antonio have been targeted for the program. The reform package includes a purchase method by which a local organization or partnership of organizations will acquire HUD's entire inventory in an impacted area. Each property's purchase price will be discounted according to the property's level of disrepair. Under the plan HUD would also provide purchase mortgages. A national risk-sharing model would be developed by NAHP through which net losses on individual properties would be mitigated to reduce the financial exposure to organizations that participate. To date, the enabling federal legislation has been passed, an earmarked line item of \$2,000,000 is being considered in the fiscal year 2000's federal budget, and a working team of NAHP representatives and the FHA commissioner has been established.

Consumer and Professional Education

The Consumer and Professional Education task group continues to hold general meetings. The group is producing a video on the home purchase process.

The video will address fair housing, fair lending, and the responsible use of credit. The presentation combines interviews with recent homebuyers and people previously unsuccessful in the process. It also includes commentary from homeownership counselors, mortgage lenders, and other professionals. Industry experts including housing, lending, and credit specialists have been recruited to provide the background and commentary. The target audience includes people considering buying a first home as well as homeowners considering a move.

Credit Rating

The Credit Rating task group no longer holds general meetings. The task group's accomplishments include the following:

- Experian, one of the nation's major credit bureaus and an MCAP Partner, undertook an analysis of credit bureau subscribers (creditors) that serve low-income census tracts. The purpose was to determine whether credit report information within a given area is disputed more frequently in low-income tracts than in middle- and upper-income tracts. (Disputes or inaccuracies on a credit report can lead to a loan denial when they are not resolved in a timely manner). Experian (formerly TRW) agreed to perform this analysis for Cook County, Illinois and Dallas County, Texas. Their data is stored, and for purposes of the analysis was reported, by zip code. Although the report was summarized due to the proprietary nature of some of the relevant data, it showed that there was no significant difference between dispute rates for creditors in low-income zip codes compared to those in middle- and upper-income zip codes.
- Experian is also actively exploring alternative methods that would allow lenders, underwriters and others to correct erroneous credit history data on behalf of a borrower. Experian met with four independent credit reporting agencies (organizations that consolidate credit reports from the three major credit bureaus for credit underwriting purposes) to discuss potential methods for the independent groups to play a more active role in facilitating dispute resolutions.

New Directions for MCAP

MCAP has undertaken two additional initiatives. The first focuses on predatory lending and the second explores the concept of housing partnerships, that is, shared ownership of single-family homes between individuals and institutional investors as limited partners. These two initiatives are discussed below.

Predatory Lending Task Group

A group of MCAP Partners began to focus on the issue of predatory lending in late 1998. During its several meetings to date, this new task group has focused on overly aggressive marketing, origination, pricing, servicing and collection practices targeted at the elderly, minorities, and low-income communities with few or no traditional banking facilities. An informational meeting on predatory subprime lending was held in March of this year at the Federal Reserve Bank of Chicago. Presenters included representatives from the Federal Trade Commission, the Illinois and Iowa Attorney General Offices, the Illinois Office of Banks and Real Estate, the Illinois Association of Mortgage Brokers, the Legal Assistance Foundation of Chicago, Neighborhood Housing Services of Chicago and the Federal Reserve Board. Approximately 40 MCAP Partners were represented at the meeting. Case studies were discussed concerning individual victims, enforcement actions against specific lenders, pending and suggested reforms to policy and practices, and regulation to stem abusive and illegal practices. The task group intends to issue recommendations and action steps early in 2000, and has discussed the formation of a high profile committee with industry and political leaders to raise awareness of the issue and its ramifications.

Housing Partnership Task Group

A working committee was formed to develop a demonstration program which would introduce the new concept in housing finance described in the book *Housing Partnerships: A New Approach to a Housing Finance Market at a Crossroads*. Essentially, the housing partnership concept involves equity sharing in a portfolio of single-family homes. An investment pool is established to provide equity for the purchase of homes, thereby reducing the cost for individual homebuyers, while the pool's investors hold an equity stake in those homes as limited partners. Several meetings have been held to discuss the topic and bring key interested parties to the table. Additionally, an informational meeting about the work of the committee is tentatively planned for the fourth quarter of 1999.

MCAP National Issues

Like the Federal Reserve Bank of Chicago, Reserve Banks in New York, Boston, Cleveland, St. Louis and San Francisco conducted MCAP-type projects. Reserve Bank staff who managed these projects collaborated and identified common issues that could be addressed cooperatively.

Task forces have been established to further review the common issues from a national perspective. These issues include: steering in real estate agent interactions, accessibility of home owner's insurance to low-income individuals and communities, appraisals in revitalizing urban areas with inactive real estate markets, and fair lending implications of credit scoring in mortgage lending.

The Federal Reserve Bank of Chicago is leading a committee which is developing a series of publications on maintaining fair lending practices while using credit scoring technology in mortgage lending. Community Affairs staff from the Federal Banks of San Francisco and Cleveland and Compliance staff from the Federal Reserve Board are also participating in the project. The committee surveyed industry stakeholders to get their feedback on a set of issues identified through the MCAP process. Focus groups on fair lending practices and credit scoring were also conducted.

Most recently, the committee hosted two roundtable discussions at the Federal Reserve Board in Washington, D.C. with high level representatives from the Association of Mortgage Bankers, the U.S. Department of Justice, the National Community Reinvestment Coalition, Fannie Mae, Freddie Mac, the Associated Credit Bureaus, Fair Isaac Corporation, the National Fair Housing Alliance and the American Bankers Association. The information derived is being used as a foundation for a series of articles. These articles will highlight industry commentary on the use of credit scoring models while assuring compliance with fair lending regulations in the mortgage lending process.

The committee has met bimonthly since the second quarter of 1998. To date, the committee has formed issue statements and a flow chart of the credit scoring process. Feedback from the survey and roundtable will be used to further refine the issues and frame the subject matter for each article in the series. The first article, which will provide an overview of the research and process to date and set the context for the series of quarterly articles to follow, is scheduled for release in the fourth quarter of 1999.

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