

MCAP

MORTGAGE
CREDIT
ACCESS
PARTNERSHIP

Partnership Report



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

Mortgage Credit Access Partnership



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Foreword

“We’re in a position to make some real change. As much as we can, we want to ensure fair and consistent treatment for all home buyers, regardless of where they choose to live, their race, ethnicity or gender.” *Michael Moskow, MCAP Report to Partners conference, 5/29/97*

Opportunities for home ownership should not be limited because of an individual’s race, ethnicity or the geographical location of the property they wish to purchase. Unfortunately, the realities of today’s marketplace suggest that some financially and otherwise qualified individuals can be denied home ownership, albeit inadvertently as a result of policies and practices. Others may have their housing or mortgage financing options limited inappropriately for reasons outside of their control. These barriers not only affect minority home buyers but undermine the economic well-being and stability of the entire community.

To assure fair treatment in the home purchase process in Greater Chicagoland, the Federal Reserve Bank of Chicago initiated a program called the Mortgage Credit Access Partnership (MCAP). This entirely voluntary program was designed to bring together industry practitioners to examine the process and devise solutions to disparate treatment. In the spring and summer of 1996, the Federal Reserve and six other co-conveners recruited 100 organizations as Partners in MCAP, representing virtually every discipline within and related to the home-buying process.

The seven co-conveners, the City of Chicago, the Cook County Board of Commissioners, the Chicago Urban League, the Leadership Council for Metropolitan Open Communities, the Latino Institute, the Commercial Club of Chicago, and the Federal Reserve Bank of Chicago convened a two-day conference in September, 1996 to identify and prioritize key areas in the home-buying process which have the potential to give rise to disparities. After much deliberation, 130 professionals representing 100 Partner organizations agreed to examine the Appraisal Process, Credit Rating, Professional and Consumer Education and FHA Insured Lending Issues.

Over the next eight months, task groups formed to examine each issue and develop recommendations to stem disparities with respect to these specific areas. The goal was not to affix blame, but was and is to confront the complex issues that affect minority home buyers. In all cases, the groups engaged in frank and sometimes heated discussion, but always in a spirit of cooperation. They worked diligently to identify procedures and policies that have the potential to result in unequal treatment of minority home buyers and to create strategies to address them.

The report that follows contains the recommendations and action steps developed by the four task groups. It represents the result of analysis, discussion and debate. To be sure, every Partner may not fully support all of the recommendations, but they have agreed that the ultimate goal is a worthy one, and they continue to support the principles of the program.

It was never our intent in initiating MCAP simply to create a document, but to foster meaningful change. We must continue to work together, to challenge each other, to believe we can make the changes that will make a difference in many people's lives and improve our communities. On behalf of the co-conveners, I want to thank all of the 100 Partners for their outstanding cooperation in this important effort.



Michael H. Moskow

President,

Federal Reserve Bank of Chicago

Conveners and Partners in the Mortgage Credit Access Partnership

List of Conveners

City of Chicago, *Richard M. Daley, Mayor*
Cook County Board of Commissioners,
John H. Stroger, Jr., President

Chicago Urban League Development
Corporation, *James W. Compton, President
and Chief Executive Officer*

Federal Reserve Bank of Chicago,
Michael H. Moskow, President

Leadership Council for Metropolitan
Open Communities, *Aurie A. Pennick,
Esq., President and Chief Executive Officer*

The Latino Institute,
Migdalia Rivera, Executive Director

The Commercial Club of Chicago,
Richard L. Thomas, Chairman

List of Partners

Appraisal Institute

Argo Federal Savings Bank, FSB

Austin Bank of Chicago

Avondale Financial Corporation

Bank of America

Bank of Chicago, Little Village

Bank One Chicago, N.A.

Bell Federal Bank

Chase Mortgage Corporation

Chicago Area Fair Housing Alliance

Chicago Association of Realtors

Chicago City Bank and Trust Company

Chicago Clearing House Association

Chicago Community Trust

Chicago Council on Urban Affairs

Chicago Equity Fund

Chicago Rehab Network

Chicago Urban League Development
Corporation

Citibank

City Lands Corporation

City of Chicago

Cole Taylor Bank

The Commercial Club of Chicago

Community Bank of Lawndale

Community Investment Corporation

Community Reinvestment Associates

Community Savings Bank

Consumer Credit Counseling Service of
Greater Chicago

Cook County Board of Commissioners

Cook County Commission on
Human Rights

Equal Opportunity Housing Committee
for Illinois

Fannie Mae

Federal Home Loan Bank of Chicago

Federal Reserve Bank of Chicago

First Bank, N.A.	Leadership Council for Metropolitan Open Communities
First Chicago NBD Corporation	Liberty Bank for Savings
First National Bank of Lincolnwood	Local Initiatives Support Corporation
First of America Mortgage Company	Manufacturers Bank
First Security Federal Savings Bank	Metropolitan Planning Council
Freddie Mac	Mid America Federal
GE Capital Mortgage Insurance Company	Mortgage Guaranty Insurance Company
GMAC Mortgage Corporation	National Training and Information Center
Harris Bank	Neighborhood Housing Services of Chicago, Inc.
Home Builders Association of Greater Chicago	New Asia Bank
Home Savings of America	New Cities Community Development Corporation
HOPE Fair Housing Center	North West Housing Partnership
Housing Coalition of the Southern Suburbs	The Northern Trust Company
Hyde Park Bank	Norwest Mortgage Corporation
Illinois Association of Mortgage Brokers	Pinnacle Bank
Illinois Association of Realtors	PMI Mortgage Insurance Company
Illinois Bankers Association	PNC Mortgage
Illinois Coalition of Appraisal Professionals	Prudential Property and Casualty
Illinois Department of Insurance	Public Action Housing Policy Center
Illinois Housing Development Authority	Pullman Bank and Trust Company
John D. and Catherine T. MacArthur Foundation	Republic Bank of Chicago
The John Marshall School of Law	Resource Asset Management
LaSalle National Bank	South Shore Bank
The Latino Institute	South Suburban Housing Center
Latin United Community Housing Association	Southeast Chicago Development Commission
Latinos United	South/Southwest Association of Realtors
Lawyers' Committee for Better Housing	Spanish Coalition for Housing

St. Paul Federal
State of Illinois Office of Banks
and Real Estate
Suburban Federal Savings Bank
Superior Bank
TransUnion Corporation
TRW Information Services
Union League Club of Chicago

Universal Federal Savings Bank
University National Bank
Uptown National Bank of Chicago
U.S. Department of Housing
and Urban Development
Wieboldt Foundation
Woodstock Institute

A Message from the MCAP Steering Committee

Discrimination in the housing and mortgage lending markets is an undeniable part of the history of the Chicago area. Although much progress has been made in addressing discrimination in the housing-related industries, housing and lending inequities still exist. The continuing patterns of housing segregation and community disinvestment have hindered our communities from realizing their full potential, and the potential of all of their citizens. Limited housing and financing options of minority home buyers threaten the economic well-being of all communities. To meet the challenge of promoting fair housing and lending practices for all Chicago area citizens, we have organized and led, with the direct assistance of the Federal Reserve Bank of Chicago, the Mortgage Credit Access Partnership (MCAP).

As the Steering Committee for the Mortgage Credit Access Partnership, we have attempted to provide the four task groups with guidance and direction when needed, while keeping each group open to a broad range of views. We have tried to foster meaningful dialogue between parties that might never have worked together if not for this unique Partnership. We have worked to bridge the gap between organizations that may have had differences in

the past. The Partnership Report is the collective work of the four MCAP task groups. It represents a year-long process of discussion, debate and negotiation by the MCAP task group members, who represent most of the industries in the home selection/purchase process.

We are aware that all of the MCAP Partners may not fully agree with all of the recommendations, but importantly, they have agreed in principle with the goals of MCAP. We must continue to work together in hopes of achieving these goals. As we begin implementation heartened by a broad consensus of groups, we can move toward our vision of fair housing and lending for all.

The Partnership Report lays the groundwork to begin meaningful action, and is the defining document for the program, but it should not be viewed as 'final,' per se. The landscape of the housing and mortgage markets shifts constantly. Although the task groups took great care to understand and respond to the current environment, it is impossible to be aware of every new or specialized program, legislative initiative or industry innovation, and their ramifications. Our objective in bringing industry practitioners to the table was to get a perspective from the active participants in the industries involved. On

We have tried to foster meaningful dialogue between parties that might never have worked together if not for this unique partnership.

a fundamental level, we endeavored to learn what areas in the home-buying and credit underwriting process may give rise to disparities. The product of the work should accordingly be viewed in this light. As the groups move toward implementing their ideas, they will seek the participation and assistance of the specific industry and organization representatives affected by the recommendations, both to help with the process and to stay abreast of specific developments as they pertain to implementation.

Perhaps not surprisingly, there were some overriding areas of discussion among the task groups. As they deliberated, some recurrent ideas emerged which should be identified here. It is our hope that the Partners and other organizations in the housing and mortgage industries consider these ideas carefully.

One area of common agreement is racial diversity in hiring, promotion and retention. Companies involved in the home buying process are more likely to better understand the needs of clients of different races and backgrounds if the companies' staff is racially diverse at all levels. Reliable research evidence supports this finding for the insurance and mortgage origination industries. There is every reason to expect the same effect for

racially diverse staff in the other industries involved in the home buying process. The reason for this effect is simple. Many decisions made by professionals in the home purchase industries rely on professional judgement. The decisions rightly involve the exercise of discretion. A company with a racially diverse staff is more likely to judge minority home buyers on a basis consistent with non-minority applicants than a company whose staff is predominantly white. **The MCAP Steering Committee strongly urges the housing industry to place the highest priority on developing racially diverse staff.**

Equally important is a clear, unequivocal message from top management and throughout the managerial levels of organizations that discriminatory practices cannot and will not be tolerated, and that every reasonable step to ensure fairness, and consideration of diverse and specialized needs will be taken. In the real world, few messages are received more clearly than those involving financial incentives. **We encourage the MCAP Partners and other housing-related organizations to pursue historically underserved markets, and to explore compensation structures which reward serving historically underserved households. On a more fundamental**

level, we urge the Partners and others to develop a clear and simple organizational statement reflecting ‘zero tolerance’ with respect to discriminatory practices.

The second broad area of concern is key professional groups in the home buying process that are subject, on a relative basis, to less scrutiny from a regulatory standpoint. The advance of fair housing and lending practices in the nation depends jointly on individual action, and strong legal sanctions for those engaging in discrimination of any kind. Federal civil rights and fair housing laws prohibit discrimination in the home buying process. These prohibitions are strengthened when they are backed by the existence, and effective enforcement of the relevant regulations, and licenses or certifications which can potentially be revoked as a consequence of violations. Proper regulation and licensing or certification requirements should include provisions for mandatory adherence to the fair housing laws and practices for

all industry professionals, mandatory training on fair housing, appropriate sanctions for violations, and sufficient resources for the regulating or licensing body to enforce its mandate. **The MCAP Steering Committee recommends the careful development and passage of such provisions for housing professionals including appraisers, loan originators, underwriters, mortgage brokers and others.**

We are proud to serve as the Steering Committee for MCAP and would like to commend the task groups for their enormous devotion and energy. We must work together to make sure that cross industry cooperation will continue to be a strength of MCAP. The solutions to disparate treatment and disparate outcomes in the quest for home ownership will not be realized without organizations committed to their success. Therefore, we encourage all those involved to review the recommendations and commit the resources, effort and action to ensure that success.

The MCAP Steering Committee

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Federal Reserve Bank of Chicago*

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President, Woodstock Institute

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Citibank, IL, FSB*

The MCAP Task Group Recommendations and Blueprint for Action

Appraisal Process Task Group

1. Amend the Illinois Real Estate Appraiser License Law to include mandated licensing of all individuals who perform real estate appraisals, a nondiscrimination provision, new designation for entry level licensure candidates, improved fair housing training and a process for investigating discriminatory appraisal practices which includes sanctions for violations.
2. Amend the ethics provision of the Uniform Standards of Professional Appraisal Practice (USPAP) to include a definitive nondiscrimination statement.
3. Work with the Illinois Office of Banks and Real Estate and within existing statutes to create more effective fair lending compliance and oversight among mortgage brokers.
4. Work with Fannie Mae and others to develop a pilot program to explore alternative appraisal standards for turnaround and blighted neighborhoods.

Credit Rating Task Group

1. Identify credit bureau subscribers with proportionately high consumer challenges and develop strategies to reduce the incidence of erroneous data being reported to credit bureaus.
2. Develop a universal credit dispute form to facilitate more rapid and simple resolution of consumer disputes regarding inaccurate credit report information.
3. Distribute the Federal Trade Commission (FTC) information guide, “Credit Repair: Self-help May be Best” to first-time home buyers and others who would benefit.
4. Increase media’s role in consumer education regarding issues that affect access to mortgage credit.
5. Persuade the Illinois Office of Banks and Real Estate to include credit and compliance training as a requirement for real estate sales and brokerage licenses.
6. Distribute the FTC guide, “Scoring for Credit” to raise awareness of both the role of credit scoring in mortgage underwriting and steps to improve credit scores, particularly among low- and moderate-income borrowers.

7. Distribute the Federal Reserve Bank of Chicago pamphlet, “Credit Guide,” regarding responsible use of credit.
8. Urge lenders to use a second level review process if they are not already doing so.
9. Convene representatives from the FTC, National Credit Lending Association and the Associated Credit Bureaus to develop a new process for reporting disputed credit history information.

Professional and Consumer Education Task Group

1. Produce a catalog of available fair housing/lending literature, including a directory of organizations involved in these issues. Produce and distribute an accompanying video presentation on public access cable channels.
2. Identify and prioritize key professions in the home purchase and finance industry where educational requirements could positively affect disparate impact, and develop licensure or certification structure which includes requirements for appropriate training.
3. Work in conjunction with ongoing initiatives to standardize home buyer counseling courses and accredit agencies providing counseling.

FHA Issues Task Group

1. Seek innovative approaches to paying for home buyer counseling with input from secondary mortgage market institutions, HUD and primary mortgage lenders.
2. Develop and promote risk sharing partnerships between HUD and private-sector organizations to provide new forms of mortgage insurance for market segments which historically have had limited access to conventional mortgage loans.
3. Perform an analysis of Government Sponsored Enterprise loan data to determine if the mortgage needs of low-income and minority communities are met adequately.
4. Define and develop a database of communities at risk for negative impacts of concentrated FHA lending.
5. Implement a set of comprehensive plans to stop the destabilizing effect of disproportionate FHA lending in predominantly minority neighborhoods.

Appraisal Process Task Group Blueprint

	Description of Recommendation	Subject Area	Affected Organizations or Industries
1	Amend the Illinois Real Estate Appraiser License Law to include mandated appraiser licensing, a nondiscrimination provision, apprentice designation, improved fair housing/lending training and oversight.	State Mandatory Licensing and Certification of Appraisal Professionals	Illinois Office of Banks and Real Estate Professional Appraisal Associations Community and Fair Housing Organizations Secondary Market Institutions
2	Amend USPAP's "Ethics Provision" to include stronger language against discriminatory appraisal practices. Recommend that all appraisal associations require fair housing/lending training to receive trade group designation.	Enhancement of Professional Standards	The Appraisal Foundation Professional Appraisal Associations Banking Associations
3	Require fair housing/lending training for Illinois Residential Mortgage Licensees. Increase review and enforcement of mortgage brokers'/ bankers' lending policies and practices.	Increased Oversight of Mortgage Industry and Loan Originators	Illinois Office of Banks and Real Estate Illinois Mortgage Bankers Association Illinois Association of Mortgage Brokers Community and Fair Housing Organizations
4	Develop a pilot program to test alternative appraisal techniques in turnaround neighborhoods.	Appraisals in Turnaround Neighborhoods	Secondary Market Institutions Professional Appraisal Associations Community and Fair Housing Organizations Lending Institutions

The following four tables summarize the individual topics considered by each task group, their recommendations, and the organizations most readily impacted by each recommendation.

Credit Rating Task Group Blueprint

	Description of Recommendation	Subject Area	Affected Organizations or Industries
1	Identify companies that have proportionately high challenges to their reported consumer credit data.	Credit Bureau Subscribers	Credit Bureaus Associated Credit Bureaus
2	Create a standard consumer credit dispute form that facilitates faster resolution to disputes of erroneous credit history information.	Universal Credit Dispute Form	Credit Bureaus Associated Credit Bureaus National Credit Reporting Association
3	Distribute FTC booklet, "Credit Repair: Self-help May be Best," which offers advice on how to conduct a credit check-up.	Credit Disputes	Banking Associations Real Estate Professionals
4	Seek media outlets to educate consumers about the many variables that affect access to mortgage credit.	Access to Credit	Partner Organizations
5	Require pre-licensing and continuing education for real estate professionals on compliance and credit report analysis.	Real Estate Professionals and Credit Reports	Illinois Office of Banks and Real Estate Illinois Association of Realtors National Association of Realtors National Association of Real Estate Brokers
6	Encourage mortgage lending institutions that utilize credit scoring systems to distribute FTC's "Scoring for Credit" booklet.	Credit Scoring	Banking Associations Mortgage Brokers Real Estate Associations
7	Distribute the publication titled "Credit Guide," which provides information on responsible use of credit.	Credit Guide	Banking Associations Real Estate Associations
8	Establish and implement a second level review process prior to loan declination.	Second Level Review Process	Mortgage Lenders
9	Develop a process whereby independent credit reporting agencies report their verified finding of incorrect credit data to credit bureaus and thereby initiate a formal dispute process.	Simplified Credit Dispute Resolution	Credit Bureaus Associated Credit Bureaus National Credit Reporting Association

Professional and Consumer Education Task Group Blueprint

	Description of Recommendation	Subject Area	Affected Organizations or Industries
1	Develop a catalog of fair housing/lending literature along with a video designed to explain thoroughly the home mortgage process.	Fair Housing/ Fair Lending Literature Catalog and Video Presentation	Home Purchase Counselors Fair Housing Organizations
2	Prioritize those functions within the home-buying and financing process that do not require licensure, and review educational requirements with the appropriate trade associations.	Licensing Certification and Training for Certain Industry Professionals	Illinois Office of Banks and Real Estate Various Trade Organizations
3	Ensure that fair housing/lending training is included in the standard course curriculum being developed by Fannie Mae's Home Buyer Counseling Collaborative.	Standardization of Home Buying Counseling and the Accreditation of Home Buying Counselors	Housing Counselors Fair Housing Organizations Fannie Mae

FHA Issues Task Group Blueprint

	Description of Recommendation	Subject Area	Affected Organizations or Industries
1	Develop incentives for real estate agents and/or FHA-approved lenders to make prospective home buyers aware of financial incentives to receive home buyer counseling.	Standardized and Accredited Home Buyer Counseling	U.S. Department of Housing and Urban Development (HUD) Secondary Market Institutions Home Purchase Counselors FHA Originating Lenders
2	Develop and promote risk-sharing partnerships between HUD and private sector organizations. Maintain communication link with HUD and risk sharing partners and request the funding of loans in Chicago communities.	FHA Risk-sharing Partnerships	U.S. Department of Housing and Urban Development PMI Companies FHA Originating Lenders
3	Petition HUD to conduct and publish a thorough analysis of GSE data. In addition, HUD should reconsider the format of the GSE data it releases.	Improved Access to HUD and GSE Loan Data	U.S. Department of Housing and Urban Development Secondary Market Institutions
4	Develop a database and systematic process that continually identifies communities that are at risk of concentrated FHA lending.	Defined Communities at Risk for the Impacts of FHA Lending	U.S. Department of Housing and Urban Development
5	Implement a set of comprehensive plans to stop the destabilizing effect of disproportionate FHA lending in predominately minority neighborhoods.	Summarized Recommendations for Targeted FHA Impact Areas	U.S. Department of Housing and Urban Development

Appraisal Process Task Group



The explicit prohibition of discrimination in the ethical guidelines governing appraisers will reinforce the idea of equal treatment for home mortgage applicants.

An accurate and unbiased estimate of value is essential to evaluating the collateral for mortgage credit. Lenders, borrowers, mortgage insurance companies and others depend upon the objective valuation of this property. Often the decision to approve or deny a loan is made based upon the appraised value. Therefore, appraisal practices and the individual appraiser are central to the overall mortgage underwriting process.

Since appraisers play such a key role in the mortgage underwriting process, MCAP members decided to review the industry and its practices for the potential of disparate treatment and disparate impact. The Appraisal Process Task Group, composed of representatives of lending institutions, appraisal and real estate associations, fair housing groups and government agencies, undertook an exhaustive examination of this critical component of the mortgage credit decision.

To simplify discussion, members divided the topic into four sections. Appraisal guidelines and standard practices were reviewed by examining the Uniform Standards of Professional Appraisal Practice (USPAP) manual, state licensing laws, and materials from various professional associations. Next, the group investigated the relationship between lenders and appraisers for any possible discriminatory practices. The third area of discussion dealt with the increasing use of automated appraisals which concerned the use of “evaluations” versus a “full-fledged” appraisal. Finally, the Appraisal Process Task Group discussed mandatory licensing and training, which included the Illinois state requirements and the requirements of various appraisal associations.

The Appraisal Process Task Group's recommendations will help reduce the possibility of disparate treatment and disparate impact in a variety of ways. One recommendation is a requirement, by the state, that appraisal licensees receive initial and ongoing fair housing and fair lending training, demonstrate competency in particular market areas, and participate in a training period prior to becoming certified. The task group emphasizes the new requirements must be coupled with strong and consistent monitoring and enforcement of fair housing laws. The task group extends the recommendation to the various trade associations that offer trade designations and/or certifications to require fair housing and fair lending training.

Task group members also call for increased state oversight of mortgage brokers and loan originators with respect to fair practices, and alternative methods for appraising properties in "turn-around" neighborhoods, to increase the availability of mortgage financing. Looking to the future, the task group calls for a close watch on the use of automated appraisals for possible discriminatory effects on home buyers or communities. Collectively, these recommendations will serve to further protect consumers and create a fairer mortgage credit process.

I. State Mandatory Licensing and Certification of Appraisal Professionals

Industries or Organizations Affected:

- Illinois Office of Banks and Real Estate
- Professional Appraisal, Real Estate and Banking Associations
- Community and Fair Housing Organizations
- Secondary Market Institutions

Issue Being Addressed:

The potential for disparate treatment in the appraisal process — defined as the establishment of real property value for the purposes of accessing mortgage credit — is minimized with fair housing/fair lending regulations, education and enforcement. In addition, the Appraisal Process Task Group believes the lack of formal language against discrimination in appraisal practices exacerbates the possibility of disparate treatment.

Narrative Description of the Recommendation:

Amend the Illinois Real Estate Appraiser License Law to include:

- Mandated licensing of all professionals who undertake the valuation of real property which serves as collateral for the purposes of accessing mortgage credit.
- A nondiscrimination provision prohibiting the use of race, color, religion, sex, familial status, handicap status or national origin of prospective or present owners or residents of the area being appraised as factors in developing valuation conclusions.
- A designation for entry level licensure candidates, ‘State Licensed Trainees’. Appraisals completed by a ‘Licensed Trainee’ should require a formal review and the signature of a licensed or certified appraiser, in good standing.
- The requirement of pre-licensing and continuing education training in fair housing and fair lending, including information regarding diverse urban markets.
- A formal process for the aggressive monitoring and investigation of discriminatory appraisal practices along with a pro-active enforcement of antidiscriminatory appraisal procedures. The Illinois Office of Banks and Real Estate should report these fair housing violations and resulting actions to financial institutions, appraisal associations, HUD’s Fair Housing and Equal Opportunity (FHEO) office and the general public.

Appraisal Process Task Group Recommendations

- Establish a process whereby secondary market corporations communicate suspected fair housing violations in appraisals identified in the course of reviews or audits to HUD's FHEO office.
- Standardize professional licensing and certification requirements for appraisers nationwide, to include fair housing/fair lending requirements and entry-level apprenticeship licensing designations to be followed by licensing or certification. Currently, each state establishes regulations and requirements, resulting in a confusing array of standards.

Action Steps:

- Facilitate discussions between the Illinois Office of Banks and Real Estate and the various players involved in appraisals, as defined above, including state and national appraisal, real estate and banking associations.
- Draft and identify sponsors of legislation to be entered into the Illinois legislature.
- Explore possible consideration by the U.S. Congress to mandate these changes into the Appraisal Foundation's Uniform Standards of Professional Appraisal Practice.
- Promote a discussion between HUD's FHEO office and the Illinois Office of Banks and Real Estate to develop a cooperative action plan to investigate fair housing violations by and complaints against appraisers.
- Encourage national trade groups, the Appraisal Foundation, state regulatory agencies and secondary market institutions to promote comparable state licensing and certification requirements.
- Explore ramifications of decreasing the threshold loan defined within the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) as requiring a licensed appraisal from \$250,000 to \$50,000, given the advent of mandatory licensing and training for appraisers.

Expected Results of the Recommendation:

When mandated, these changes to the Illinois statutes governing real estate appraisers will standardize the appraisal industry and its practices in Illinois as they apply to accessing mortgage credit. Furthermore, licensing that includes aggressive monitoring and enforcement will increase appraiser accountability.

It is the task group's hope that by requiring fair housing/fair lending education of all licensed and certified appraisers, the incidence of disparate treatment reflected in an inac-

curate property valuation will decrease. This goal is also furthered by the aggressive monitoring and enforcement of existing laws. Punishment and public notice of illegal discrimination will deter other appraisers from engaging in prohibited practices.

Potential Obstacles to Implementation:

Disagreements between the various individuals that currently provide collateral valuations used to access mortgage credit may delay the passage of such legislation. Also, if a mortgage lending decision requires the use of a certified or licensed appraiser with demonstrated competency, then the proposed changes may increase the costs of lending.

Impact on the Market:

Increased awareness of fair housing/fair lending laws and demonstrated competency throughout the appraisal industry will lead to less disparate treatment. Strict monitoring and enforcement of the amended laws will deter appraisers from engaging in prohibited practices. Mandatory licensing and/or certification together with appropriate enforcement efforts, will reduce the disparate treatment of those seeking to obtain mortgage credit by ensuring consumers of competent, fair and impartial appraisals.

2. Enhancement of Professional Standards

Industries or Organizations Affected:

- The Appraisal Foundation, and other professional appraisal associations
- Banking Associations

Issue Being Addressed:

Discrimination in lending or appraising may be subtle, yet very real. Current appraiser guidelines, however, are not fully explicit in their prohibition of discrimination. Also, lack of knowledge of fair housing/fair lending laws and how they apply to the appraisal and lending industries are issues the task group believes must be addressed. It is extremely important that all appraisers and lenders are educated on the right of consumers to receive a fair and impartial appraisal valuation.

Narrative Description of the Recommendation:

The Uniform Standards of Professional Appraisal Practice (USPAP), developed by the Appraisal Foundation, serves as an essential guide to appraisal practices. For the first time, the 1997 edition of USPAP includes an “Ethics Provision”; however, its language needs to be strengthened. We propose to amend the USPAP “Ethics Provision” to read as follows:

“An appraiser must not use race, color, religion, sex, familial status, handicap status, or national origin of prospective or present owners or residents of the area being appraised as factors in developing property valuations.”

The Appraisal Process Task Group recommends all professional trade organizations require a fair housing/fair lending course and continuing education credits for members to receive trade group designation, including information regarding appraising diverse, inner city properties.

Action Steps:

- Make a formal request of the Appraisal Foundation and various national and/or local professional appraisal associations that offer designations and course work to amend their procedures. Task group members could assist the organizations to incorporate these changes into their designation system and/or help in designing an appropriate curriculum.
- Urge lenders to require a demonstration of competency by appraisers to work in particular markets, consistent with secondary market requirements.
- Request lender trade groups/associations to require fair housing and fair lending training to receive designations or certifications.

Expected Results of the Recommendation:

As a result of increased fair housing/fair lending education and a demonstration of competency, appraisers and lenders in Illinois and across the country will be more aware of nondiscriminatory practices. The explicit prohibition of discrimination in the ethical guidelines governing appraisers will reinforce the idea of equal treatment for all home mortgage applicants.

Potential Obstacles to Implementation:

These recommendations require an additional investment in education for most appraisers and lenders.

Impact on the Market:

More knowledgeable appraisers and lenders will better serve the needs of financial institutions and the public. Also, the possibility of reinvestment into blighted areas may increase based on fair appraisals of property value without the inclusion of negative opinions based on personal bias.

3. Increased Regulation of Mortgage Industry and Loan Originators

Industries or Organizations Affected:

- Illinois Office of Banks and Real Estate
- Illinois Mortgage Bankers Association
- Illinois Association of Mortgage Brokers
- Community and Fair Housing Organizations

Issue Being Addressed:

Mortgage brokers, which act as representatives for the lending institutions to which they sell loans, are subject to regulation by the Illinois Office of Banks and Real Estate (OBRE). The Appraisal Process Task Group believes further regulation, monitoring and enforcement procedures are needed to ensure fair and impartial lending. This is especially important as residential mortgage licensees originate an increasingly larger proportion of mortgage loans.

Narrative Description of the Recommendation:

The Appraisal Process Task Group urges the Illinois Office of Banks and Real Estate to develop methods and standards to monitor mortgage brokers'/bankers' lending policies and practices, including related appraisal practices for fair lending compliance. These processes should include enforcement of penalties for violations (censures, fines, revocations), and the requirement of fair housing/fair lending training for Illinois Residential Mortgage Licensees and their individual loan originators.

Furthermore, the task group recommends that fair housing and fair lending training be regulated through licensing, or an effective alternative, to ensure knowledge about fair housing/fair lending practices. Licensing of individual loan originators will help to ensure accountability for fraud and discrimination in lending practices.

Action Steps:

- Approach the Illinois Office of Banks and Real Estate to determine if the recommendations are possible through existing rules and regulations. If so, MCAP Partners and task group members can work with its staff to develop procedures. Otherwise, legislation will have to be drafted and introduced.

Expected Results of the Recommendation:

The interaction between mortgage brokers/bankers and appraisers would be subject to further regulatory standards. Opportunities and incidents of lending fraud and discrimination would diminish with further regulatory oversight.

Potential Obstacles to Implementation:

The mortgage brokers'/ bankers' associations may have concerns regarding stringent regulation of the industry, including licensing of loan originators. Increased regulations are usually accompanied by increased costs. In this occasion, mortgage brokers/bankers will bear the regulatory burden which will in turn raise their costs.

Impact on the Market:

Moving toward regulatory parity (vis-a-vis fair lending), between mortgage banks/brokerage institutions and depository financial institutions should result in fairer access to mortgage credit.

4. Appraisals in Turnaround Neighborhoods

Industries or Organizations Affected:

- Fannie Mae
- Freddie Mac
- Professional Appraisal Associations
- Community and Fair Housing Organizations
- Lending Institutions

Issue Being Addressed:

The appraisal of properties in blighted areas, such as empowerment zones, needs to be reevaluated. Current secondary market underwriting guidelines make it difficult or unattractive for financial institutions, especially small banks, to invest in depressed neighborhoods. Non-conforming loans (i.e., those that do not meet secondary market guidelines) must be placed in lender portfolios, which discourages lenders from making loans and therefore limits mortgage financing availability.

Narrative Description of the Recommendation:

Encourage Fannie Mae and Freddie Mac, in conjunction with community organizations, lending institutions and appraisal professionals, to offer a pilot program in targeted areas designed to explore alternative appraisal techniques to increase the financing availability in such areas. This recommendation is limited to owner-occupied units.

Action Steps:

- Convene a working group composed of appraisers, secondary mortgage market companies, community groups and lenders to discuss the possibility of using a different appraisal process in specified redevelopment areas.
- Develop specific underwriting guidelines for a reinvestment program, including appraisal standards, to be used when underwriting loans in targeted areas.

Potential Obstacles to Implementation:

Underwriting concerns of the primary and secondary markets must be resolved in order to implement this recommendation.

Impact on the Market:

Revising the method of appraisals in blighted neighborhoods will stimulate badly needed reinvestment. By providing nontraditional underwriting standards, specifically modified appraisal guidelines, the secondary markets will make it easier for financial institutions to invest in redeveloping neighborhoods.

Future Issue Affecting the Appraisal Industry

The issue of automated appraisals causing unintended disparate treatment surfaced in the task group's discussions. Members are concerned about the increasing use of automated appraisals and their fair housing implications. The task group believes this topic should be addressed in the future if it appears to impact home buyers or communities negatively.

Appraisal Process Task Group

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Credit Rating Task Group



The advent of credit scoring on the home mortgage process has raised fair housing concerns...better informed consumers, with specific knowledge of the impact of personal credit decisions on credit scores, will help to reduce disparate impact.

Fair and equal access to all forms of credit has come under increased scrutiny in recent years. Specifically, access to mortgage credit helps the majority of Americans gain financial independence and begin the wealth building process. A home represents people's dreams, a sound investment and path toward financial success. If denied access to mortgage credit, Americans are denied access to home ownership. To ensure fair and equal access to mortgage credit, the Mortgage Credit Access Partnership's Credit Rating Task Group investigated the credit rating process for areas of disparate treatment and impact. The discussion involved four different, but interrelated topics: 1) Credit Reporting, 2) Credit Scoring, 3) Credit Counseling, and 4) Mortgage File Presentation. These topics were thoroughly debated and investigated for hidden barriers to mortgage credit.

The Credit Reporting debate centered around the duties and responsibilities of credit bureaus and their subscribers. Representatives of Trans Union and Experian (formerly TRW), two major credit bureaus, gave extensive and informative presentations on how to read credit reports, the Fair Credit Reporting Act and the various procedures for correcting inaccurate credit data. After much deliberation the task group focused a few recommendations toward the credit bureaus which include the tracking of companies that operate in low- and moderate-income census tracts with a disproportionate amount of consumer challenges, and the creation of a universal credit dispute form to simplify the process of correcting inaccurate data.

The advent of credit scoring in the home mortgage process has also raised fair lending concerns. The Credit Rating Task Group carefully considered credit scoring and its impact on low- to moderate-income and minority borrowers. A representative of Fair, Isaac Co., which produces a general credit score based on information found in the credit bureaus files, helped clarify some of the mystery surrounding credit scores. However, members were hindered by the inability to examine the different factors and weights that comprise a credit score. Members concluded that a better informed consumer, with specific knowledge of the impact of their credit decisions on their credit score, would help ensure that potential disparate impact is minimized. Toward this purpose, the group proposes to encourage dissemination of credit scoring information through various media outlets and the circulation of an informative FTC booklet titled “Scoring for Credit.”

Finally, to ensure that no oversights were made in the underwriting and processing of minority loan files, the Credit Rating Task Group recommends every lending institution establish a second level review process. While many institutions may already have second level review processes, members felt that it should be an industry standard. The recommendation includes the idea that financial institutions should consider the use of nontraditional credit forms, such as utility payments, when developing guidelines for the second level review process. Broad and consistent use of expanded standards for establishing credit worthiness should lead to less disparate impact.

I. Credit Bureau Subscribers

Issue Being Addressed:

Low- and moderate-income consumers may be subject to inaccurate data on their credit files at a disproportionate rate. Evidence suggests that companies that do business within low- and moderate- income (LMI) census tracts may report incorrect credit information at a higher rate than those operating elsewhere. Due to the lack of available data, a benchmark should be established for a high number of challenges in order to prevent disparate impact within the LMI segments. Currently, credit bureaus do not document above mentioned companies by LMI census tracts.

Narrative Description of the Recommendation:

Identify credit bureau subscribers with a high number of consumer challenges that are located and/or do business in LMI census tracts.

Once identified, credit bureaus should share information with other credit bureaus and report information to their compliance departments for follow-up.

Action Steps:

The task group, in association with the credit bureaus will:

- Define the threshold for a high number of challenges.
- Identify and track companies that exceed the threshold by LMI census tracts.
- Communicate names of companies with other credit bureaus.

The task group in conjunction with Associated Credit Bureaus (ACB), will:

- Facilitate the development of consistent compliance actions, which should include monitoring and enforcement policies, against those companies that fail to comply.

Expected Results of the Recommendation:

- Credit bureaus will work with MCAP to define “excessive challenge” threshold.
- Credit bureau will begin to monitor credit grantors operating in LMI census tracts.
- Credit bureaus will begin “open communication” relative to credit grantors operating in LMI census tracts.
- Credit bureaus will adopt a consistent compliance stance relative to their subscribers.

Potential Obstacles to Implementation:

Cost to credit bureaus may delay implementation of the recommendations.

Impact on the Market:

The potential development of a database to identify, in the aggregate, patterns in consumer challenges in LMI segments has implications for consumer and credit grantor education relative to financial and fair credit practices. Also, it creates incentives for companies that report inaccurate information or delay the updating of information to be more diligent in these efforts.

2. Universal Credit Dispute Form

Issue Being Addressed:

Consumers faced with inaccurate or false data on their credit reports are subjected to unnecessary burdens, especially when under the time constraints of the mortgage application process. Currently, it is solely the consumer's responsibility to challenge the incorrect data with each credit bureau that reports false data. Providing a uniform format to dispute incorrect and/or stale data will simplify the process and increase the likelihood that consumers will exercise their right to dispute incorrect credit data.

Narrative Description of the Recommendation:

The task group and Associated Credit Bureaus (ACB) will work to create a standard consumer credit dispute format so consumers need to complete only one dispute form to update and correct all consumer credit files.

Action Steps:

- The task group will approach the ACBs and develop a team to facilitate the development of a universal credit dispute form.

Expected Results of the Recommendation:

The process relative to correcting and updating credit files should become less complex and time consuming. Therefore, consumers who are under the time constraints of the mortgage application process will be able to resolve these issues and obtain mortgage credit more easily.

Impact on the Market:

The adoption of a universal credit dispute form will allow consumers to update the information on their credit files on all credit bureaus' databases with one simple form. This should make it simpler for lenders to evaluate credit histories and approve more mortgage loans, especially to LMI customers.

3. Credit Disputes

Issue Being Addressed:

Incorrect and/or stale data may result in loan denial by a lender or application withdrawal by the loan applicant who is unable to rectify errors on a credit report. Developing better consumer access to the dispute process can enable LMI consumers to correct their credit record, thereby restoring their creditworthiness.

Narrative Description of the Recommendation:

Mortgage lenders, at the time of prequalification, preapproval and mortgage application, will distribute the Federal Trade Commission's booklet, "Credit Repair: Self-help May Be Best," which explains the process of credit dispute resolution. The booklet also raises awareness of unscrupulous 'credit scrubbers' and offers advice on how to conduct a credit check-up.

Lenders should also have available the Investigation Request Form (credit dispute form), when applicable, to hand out to consumers.

Action Steps:

- The task group will work to encourage mortgage lenders to distribute the FTC booklet and dispute forms and to hold workshops to discuss the importance of quick resolution of credit disputes.

Expected Results of the Recommendation:

Consumer awareness should increase, particularly within LMI segments relative to correcting and updating credit files. This awareness should increase the overall approval rates within the LMI segments as well as increasing the effectiveness and speed of the overall dispute process.

Impact on the Market:

The minimal cost to lenders to supply and distribute FTC booklets will be offset by the benefits of an increase in the number of creditworthy consumers and increased loan approval rates among LMI borrowers.

4. Access to Credit

Issue Being Addressed:

Many variables enhance or inhibit access to mortgage credit. Credit scoring models, credit files and payment histories are a few of the many factors home buyers must consider when seeking mortgage credit. Information about these variables should be more widely available, via diverse media outlets, that specifically target LMI segments.

Narrative Description of the Recommendation:

The media should take a more active role in educating consumers about credit items that may adversely impact their ability to obtain credit such as: high numbers of credit inquiries, unauthorized and/or unintended credit inquiries, high credit usage and the actual number of lines of credit vs. lump sum loans.

Action Steps:

- MCAP Partners will encourage diverse media outlets to educate consumers about items that adversely affect mortgage credit access.

- MCAP Partners will develop and distribute materials with basic information about the many variables that affect access to mortgage credit to diverse media outlets.

Expected Results of the Recommendation:

Greater consumer credit awareness will likely increase the number of creditworthy consumers, specifically within the LMI segment.

Impact on the Market:

Better informed mortgage customers will benefit the entire industry. Likewise, credit scores and approval rates should increase among LMI and minority borrowers.

5. Real Estate Professionals and Credit Reports

Issue Being Addressed:

Real estate professionals do not have the ability to extend credit. However, with their access to a prospective homebuyer's credit information, potentially they may use the information inappropriately to steer consumers to loan products, lenders and communities. The training proposed would, at a minimum, ensure that those real estate professionals accessing credit information understand consumers' rights under the various regulations such as the Equal Credit Opportunity Act and the Fair Housing Act.

Narrative Description of the Recommendation:

Real estate professionals who are authorized to inquire into consumers' credit histories will be required to attend credit /compliance training. The training should be a required component of pre-licensing and continuing education courses for all real estate professionals.

Action Steps:

- MCAP Partners must encourage the Illinois Office of Banks and Real Estate to include credit/compliance training as a required component of pre-licensing and continuing education courses for all real estate professionals.

- Illinois Office of Banks and Real Estate should work with the Illinois Association of Realtors, National Association of Realtors, and the National Association of Real Estate Brokers to facilitate the development of course work pertaining to credit report analysis and consumer rights under the regulations.

Expected Results of the Recommendation:

By increasing their knowledge of consumer rights under regulations for the Equal Credit Opportunity Act, Fair Credit Reporting Act and the Fair Housing Act, real estate professionals will be better equipped to provide consistent and fair service to consumers in general and particularly within the LMI segments.

Impact on the Market:

The enhanced training of real estate professionals will enable consumers to have more consistent access to diverse loan products, lenders and communities. Also, full implementation of pre-licensing and continuing education courses will give real estate professionals the tools to serve their clients more effectively.

6. Credit Scoring

Issue Being Addressed:

Credit scoring systems are in wide use today and are expected to gain greater acceptance. However, consumer awareness of the factors that affect their credit scores is low, especially in LMI communities. Educational materials will provide consumers with basic information and increase their understanding of credit scoring systems.

Narrative Description of the Recommendation:

Mortgage lenders utilizing credit scoring systems as a component of determining the extension of credit will hand out the Federal Trade Commission's booklet, "Scoring For Credit," at the time of prequalification, preapproval or mortgage application. This pamphlet is a brief but thorough explanation of credit scoring models and their applications by lenders.

Action Steps:

- Mortgage lenders must distribute the FTC booklet to prospective home buyers.
- Mortgage lending institutions that utilize credit scoring systems must train their lending staff to respond to consumer questions about information in the FTC booklet.

Expected Results of the Recommendation:

Consumer awareness should increase, particularly among LMI consumers, relative to credit scoring. This awareness should lead to an increased understanding of factors that influence, both positively and negatively, an individual's credit score.

Potential Obstacles to Implementation:

Cost to mortgage lenders to distribute FTC booklet and train lending staff, and adoption of the practice on a broad basis in the industry.

Impact on the Market:

Better informed mortgage consumers will understand the credit scoring consequences of their financial and credit decisions.

7. Credit Guide

Issue Being Addressed:

Lenders have the responsibility to evaluate all loan applications fairly and equally. This responsibility should extend to the education of the consumer regarding the mortgage application process.

Narrative Description of the Recommendation:

Mortgage lenders will hand out the Federal Reserve's pamphlet entitled "Credit Guide" to all applicants at the time of mortgage application. The booklet informs mortgage applicants about the parameters of the loan process.

Action Steps:

- Mortgage lenders and real estate professionals must distribute the booklet at the time of mortgage prequalification, preapproval and application.
- Mortgage lending entities and real estate professionals must train their staff to be able to respond to consumer questions about information contained in the booklet.

Expected Results of the Recommendation:

Consumer awareness of the credit granting process should increase, particularly within the LMI segments.

Potential Obstacle to Implementation:

Cost to mortgage lenders and real estate professionals to distribute the Credit Guide booklet and train staff.

Impact on the Market:

Better informed mortgage consumers are in the best position to ensure that their fair housing/fair lending rights are not violated.

8. Second Level Review Process*Issue Being Addressed:*

Denial rates on mortgage applications made to low- and moderate-income consumers are typically higher than those of the general population. Lenders should make a consistent attempt, via the second level review process, to increase loan approvals particularly within the LMI segment. The purpose of the second level review is to identify all possible factors that could lead to loan approval.

Narrative Description of the Recommendation:

All mortgage lenders should establish and implement a second level review process prior to loan declination, if they do not already have an established secondary review process.

Action Steps:

- The MCAP Partners must encourage all mortgage lenders to establish written underwriting guidelines, which should include basic and non-traditional credit criteria for use in the second level review process.

Expected Results of the Recommendation:

Overall denial rates, particularly within the LMI segment should decrease.

Impact on the Market:

Overall loan approval rates should increase, especially within the LMI population.

9. Simplified Credit Dispute Resolution*Issues Being Addressed:*

Mortgage-related credit reports (MRCRs) are prepared by both the National Credit Repositories (commonly known as the credit bureaus), and independent consumer reporting agencies. Independent agencies prepare a large percentage of the mortgage-related credit reports nationwide. Often during the preparation of a consumer's credit report, an agency will uncover incorrect credit data concerning a consumer's credit from the raw data supplied by the National Credit Repositories. Although the credit agencies verify the incorrect credit data directly with the creditor, they are unable to correct the data kept by the National Credit Repositories. The amended credit report which the independent agencies supplies to the front-end lender will differ from any subsequent

reports generated by the National Credit Repositories. Such reports supplied by the NCRs are generally used by the lenders/servicers to price loans.

Currently, the consumer must initiate corrections to his/her credit report regarding inaccurate raw data. The consumer must contact each of the three National Repositories and commence a dispute resolution process which involves three identical investigations, and which also duplicates the investigation performed by the independent consumer reporting agency. Independent credit reporting agencies should have an accepted process for reporting their verified findings of incorrect credit data to the appropriate National Credit Repositories. The NCRs can then initiate their own independent investigations to confirm and validate the corrections made by the independent credit reporting agency. Such a process will insure the most accurate reporting of credit information.

Narrative Description of the Recommendation:

Identify a process for the expedited correction of inaccurate consumer credit information. The process would involve notification by independent credit reporting agencies to the National Credit Repositories of inaccurate consumer credit data so that the NCRs may validate and correct raw credit data in consumers' credit records.

Action Steps:

Encourage the Federal Trade Commission in its capacity as the compliance regulator of the National Credit Repositories, to convene a meeting between the National Credit Repositories and the Associated Credit Bureaus (ACBs). The meeting should focus on identifying a process of reporting incorrect consumer credit information to the repositories. Cooperation within the credit industry will lead to more accurate credit information, which is a benefit to both the credit industry and the consumer.

Expected Results of the Recommendation:

Enhanced accuracy of the consumer credit information contained in the National Credit Repositories.

Impact on Market:

Accurate credit reporting will enable consistent access to credit markets on a fair basis by consumers. In addition, loan pricing based on risk assessment, which has recently become reliant upon credit scoring, will be more accurate. Consumers will benefit from more accurate information which is part of their overall credit file. The change will also result in less duplicated effort on the part of the consumer in maintaining an accurate credit profile.

Credit Rating Task Group

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Professional and Consumer Education Task Group



The Education Task Group focused on three key topics related to the home sales and mortgage financing process.

First, the group plans to develop a video-taped presentation on the key issues in fair housing and lending, which will also provide information to prepare potential home buyers to negotiate fair terms (i.e. fees, interest rates, transaction costs) for the purchase of a home. As an adjunct to the video presentation, the group will develop and publish a catalog of available fair housing and lending literature, including a directory of organizations that are involved in fair housing and lending issues.

Second, the group intends to explore licensure or certification for currently unlicensed professions within the industry to promote uniformity, fairness and most importantly, individual accountability among currently unlicensed players in the process.

Finally, the group intends to work with Fannie Mae to help establish standards and accreditation of home buyer counseling, and, it is hoped, an efficient way to cover the cost of quality home buyer counseling.

Information about fair housing and fair lending practices is not included in most first-time home-buyer counseling courses. As the industry gradually moves toward standardized, accredited counseling courses, it is important that fair practices, including information on loan pricing and the impact of technological changes, are covered in these courses.

I. Fair Housing/Fair Lending Literature Catalog and Video Presentation

Industries or Organizations Affected:

- Loan originators
- Appraisers
- Home purchase counselors
- Home buyers

Issue Being Addressed:

The Professional and Consumer Education Task Group has, through research among members, MCAP Partners and various industry representatives, identified a need for a catalogue of fair housing and lending literature, including a directory of fair housing and lending organizations. Despite the volume of literature in print on these topics, it appears that well-established channels of distribution for the materials largely do not exist. Furthermore, fair housing and fair lending practices are not routinely included in home buyer counseling courses. Work is underway by Fannie Mae and others to standardize counseling curricula and include information on fair practices. The catalog and directory are intended as a supplement to quality counseling in the interim and potentially on an ongoing basis.

Narrative Description of the Recommendation:

The Task Group will develop a catalog of available fair housing and fair lending literature. The catalog is intended for use by home buyer counseling agencies, mortgage lenders, real estate offices and other actors in the home purchase process. As a complement to the catalog/directory, the group intends to produce a video presentation for distribution on public access cable channels. Production of the video will be coordinated through City of Chicago Office of Cable Communications.

Action Steps:

- Survey all fair housing and fair lending organizations in the metropolitan area to determine what literature, video materials, regularly scheduled courses and seminars are available.
- Prepare a catalog of the groups' materials and courses including a directory of fair housing and fair lending organizations to be updated periodically. The feasibility of a web site as a resource to distribute and update the catalogue and directory will also be explored.
- Produce a video presentation highlighting fair housing and fair lending practices and creating awareness of the catalog/directory to be distributed through cable television public access channels with the assistance of the City of Chicago Office of Cable Communications.

Expected Results of the Recommendation:

The catalog and video are intended to augment existing home buying counseling courses, and to raise awareness of fair lending and housing issues in the mortgage industry among potential home buyers.

Potential Obstacles to Implementation:

Few obstacles, outside of cost, exist for producing the guide and video. The broader goal, to standardize and accredit home buyer counseling courses, and to ensure that fair housing/lending material is included will require broad consensus and cooperation in the related lending industries.

Impact on the Market:

While difficult to measure with accuracy, it is hoped that increased awareness among consumers and professionals will impact positively (i.e., reduce) the incidence of disparate treatment in the home buying process.

2. Licensing and Certification for Certain Industry Professionals

Industries or Organizations Affected:

- Unlicensed Segments of the Housing Industry

Issue Being Addressed:

Many industry participants have no licensing function with which to enforce their individual adherence to fair housing and lending regulations. For instance, loan officers are not required to be licensed, and some appraisal functions are performed either by unlicensed/unregulated individuals or by automated valuation models. Because of accountability issues arising from the lack of a licensure requirement, the Professional and Consumer Education Task Group raised the idea that this may be a source of unequal treatment of borrowers.

Narrative Description of the Recommendation:

Educational requirements cannot be reasonably achieved for segments of the industry that are currently not required to be licensed or certified. Therefore, the Professional and Consumer Education Task Group recommends the consideration of licensing and/or certification for certain housing/lending industry professions.

Licensing would create a vehicle for accountability where none currently exists. Caution should be exercised to ensure that licensing is appropriate and practical. Licensing regulations and continuing education requirements should include specific guidelines and course work covering fair housing and fair lending practices.

Action Steps:

- The task group will prioritize those functions within the home buying and financing process that do not require licensure, and review educational requirements with the appropriate trade associations.

Expected Results of the Recommendation:

The licensing function, through adjunct training requirements, will improve awareness of fair lending and housing laws among certain industry professionals, and will also provide the consumer with avenues of recourse when fair housing/lending violations occur.

Potential Obstacles to Implementation:

New licensure is likely to meet some level of political and industry resistance.

Impact on the Market:

The recommendation is aimed at areas of the home buying process which lack accountability. Licensure should help to establish levels of uniformity among functions within the home purchase process where variation currently exists, by establishing individual accountability.

3. Standardization of Home Buying Counseling and the Accreditation of Home Buying Counselors

Industries or Organizations Affected:

- Housing Counseling Agencies
- Fannie Mae's Home Buyer Counseling Collaborative

Issue Being Addressed:

The advent of home buyer counseling is relatively recent in mortgage lending. This function is also unlicensed and the existing training curricula also vary widely in scope, content, quality and effectiveness.

Narrative Description of the Recommendation:

For first time purchasers, the home buyer counseling concept appears to offer great potential benefit. However, the training of counselors must be standardized in order to be effective for large numbers of purchasers. Currently, there is a project underway by Fannie Mae that is seeking to address both the training and eventual accreditation of these providers. We believe that MCAP, specifically the Professional and Consumer Education Task Group, should offer appropriate information on fair housing/ lending to this collaborative to ensure that all counselors are well versed in the subject matter.

Action Steps:

- Work with Fannie Mae on standardization and accreditation of home buyer counseling and agencies. Ensure that fair lending and housing items, including potentially the guide the group is developing are included in the standard course curriculum.

Expected Results of the Recommendation:

Accreditation and possible licensing of home buyer counselors, resulting in standardized training and services being provided to first time home buyers. An increase in the quality of home buyer counseling and number of those receiving counseling. This action will also increase loan approval rates and home ownership rates, and lower the incidence of default.

Potential Obstacles to Implementation:

Increased cost of standardized and accredited counseling and shift in the ideas regarding the way counseling is provided in the home buying process are obstacles to the larger goal of establishing standardized home buyer training.

Impact on the Market:

Decreased foreclosures, especially among higher risk borrowers (e.g. those with high loan-to-value mortgages), should result if the recommendation is implemented.

Professional and Consumer Education Task Group

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FHA Issues Task Group



The FHA Issues Task Group chose to focus its attention on the disparate impact of high concentrations of FHA foreclosures on certain Chicago neighborhoods and suburban communities. Specifically, the group has developed strategies which will help to reduce the foreclosure rates in these communities to, or close to, the industry norm.

It is the responsibility of HUD to ensure that their policies do not result in disparate impact based on race, location or other factors. Given that FHA foreclosures disproportionately affect (destabilize) minority and low-income neighborhoods in the Chicago area, HUD's policies result in disparities in their effect, even if not in their design.

In the broad picture, FHA-insured mortgage financing works as it is intended, providing credit for home buyers who would not, in many if not most cases, be able to obtain mortgages under traditional mortgage underwriting criteria. However, the general risks created by the program, which is designed to serve home seekers who have little experience with the realities of buying a home, and modest financial resources to meet the responsibilities of home ownership, give rise to new issues. These risks create the need to provide potential FHA buyers with high-quality counseling and an awareness of the financial obligations they are taking on in home-ownership.

Of greatest concern to the Task Group is that FHA defaults and foreclosures are concentrated disproportionately in minority, racially diverse, and racially transitional communities. Recognizing that the present operations of the FHA single-

In certain Chicago area communities, which tend to have predominantly minority populations, FHA financing is the primary mortgage product. The destabilizing effect of high rates of FHA foreclosure in some of these communities has had a serious negative impact. HUD/FHA, the FHA Task Group and several MCAP Partners are working together to develop specific, place-based strategies to address this issue.

family insurance programs are not organized to assess the uses and impact of the program at a community level, the FHA Issues Task Group has developed two sets of recommendations.

The first set of recommendations is designed to better manage the general level of risks in FHA single-family programs, to educate the public in the Chicago area to alternative (conventional) lending products and to foster early intervention programs. The second set of recommendations is designed to provide HUD and other interested persons and groups with a means of implementing place-based strategies for ensuring that FHA and FHA-approved lenders do not, even unintentionally, undermine the social and economic fabric of communities where levels of FHA activity are out of line with the larger market.

I. Standardized and Accredited Home Buyer Counseling

Industries or Organizations Affected:

- U.S. Department of Housing and Urban Development
- Fannie Mae
- Freddie Mac
- Real Estate Professional Associations
- Home Buyer Counseling Organizations
- FHA Originating Lenders

Issue Being Addressed:

There continues to be concentrations of FHA-insured mortgage foreclosures in certain minority and low-income Chicago area communities. FHA's flexible underwriting standards were designed for borrowers, typically low- to moderate-income individuals, who may not qualify for a mortgage through the conventional markets. Numerous individual accounts describe first time home buyers financing a home with an FHA-insured mortgage loan and rapidly going into default and ultimately foreclosure. HUD data and other statistics indicate concentrations of FHA loan foreclosures in particular Chicago neighborhoods and suburbs.

Narrative Description of the Recommendation:

HUD and the FHA Issues Task Group should work together to develop incentives for real estate agents and/or FHA-approved lenders to make prospective home buyers aware of financial incentives to receive home buyer counseling.

Action Steps:

- Facilitate a discussion between secondary market corporations, HUD, primary lenders, nonprofit organizations, mortgage insurance companies and professional associations to strategize potential new ways to cover the cost of the counseling and to establish methods to train and accredit providers of the counseling.
- Approach the various real estate professional associations in the Chicagoland region and encourage them to distribute to their members a listing of accredited home-buying counselors, who in turn will pass the information to their clients. Literature passed to clients should include notice about FHA mortgage rate reductions for borrowers who receive counseling.

Expected Results of the Recommendation:

An informed, knowledgeable home seeker can better assess their ability to purchase and maintain a home. Educated shoppers will also be able to guard against prohibited and unfair practices in the home-buying process. Quality home-buyer counseling should help reduce defaults among FHA financed home purchases throughout Chicago and the country.

Potential Obstacles to Implementation:

- Establishing a common definition and standard processes for home buyer counseling.
- Funding of research to estimate the dollar cost or benefit of home buyer counseling.
- Organizing and training current providers of counseling to provide the new, standardized training.
- Garnering the support of Chicago area real estate trade associations.

Impact on the Market:

Fewer foreclosure and defaults of low down payment loans will help to stabilize the most devastated areas of Chicago and reduce HUD's burden to repay lenders for foreclosed loans.

2. FHA Risk-sharing Partnerships*Industries or Organizations Affected:*

- U.S. Department of Housing and Urban Development
- Private Mortgage Insurance Companies
- FHA Originating Lenders

Issue Being Addressed:

A pilot program is under design whereby HUD and private mortgage insurance companies will jointly share mortgage insurance risk. The program is being structured to use some of the resources of private sector partners to manage risk more effectively.

Narrative Description of the Recommendation:

The FHA Issues Task Group is looking to direct some resources for this program and other similar programs to Chicago communities. Accordingly, the group will attempt to meet with HUD and approved risk sharing partners and help identify lenders interested in working with such a program.

Action Steps:

- Maintain communication link with HUD and potential risk sharing partners.
- Help establish local support and assistance, such as referral services for delinquent borrowers.

Expected Results of the Recommendation:

Using private sector expertise and a holistic approach to mortgage insurance (including early delinquency intervention), the number of foreclosures and defaults affecting Chicago and suburban neighborhoods should decline. Risk-sharing with private mortgage insurance companies will lessen FHA's financial liability and offer private market benefits to low and moderate income individuals.

Impact on the Market:

Traditionally, private market companies have provided lower cost mortgage insurance for borrowers as compared with FHA mortgage insurance. By sharing the burden, HUD may be able to reduce mortgage insurance costs to low- and moderate-income (LMI) borrowers. The Task Group anticipates the default and foreclosure rate among loans in the pilot program will be lower than the rate among traditional FHA loans in LMI census tracts.

3. Revision of and Improved Public Access to HUD and Government Sponsored Enterprise (GSE) Loan Data

Industries or Organizations Affected:

- U.S. Department of Housing and Urban Development
- Fannie Mae
- Freddie Mac

Issue Being Addressed:

Access and redefinition of data from government sponsored secondary market corporations. Currently, it is difficult to ascertain where the GSEs facilitate mortgage lending. Also, when specialized GSE programs are in use, tracking their impact on specific areas is difficult.

Narrative Description of the Recommendation:

HUD should recognize the major contributions to fair lending achieved by both industry and community initiatives, as a result of the increased public access to Home Mortgage Disclosure Act data. Revising and providing public access to both its own default and delinquency data and the data HUD collects and distributes from Fannie Mae and Freddie Mac (the GSE data) have also made major contributions toward fair lending. HUD should conduct and publish a thorough analysis of the GSE data to ensure that the GSEs are meeting their government mandate to serve the needs of minority and low- and moderate-income neighborhoods, and review the adequacy of the format of the publicly disclosed GSE data to determine whether it is in the appropriate form for others to perform similar research. Additional information to be considered for release includes loan-by-loan data comparable to the HMDA format, coding for purchase and refinance and coding for specific specialized programs.

Action Steps:

- Present to HUD the rationale and benefits of increased access to the specialized data. Form a consortium with representatives from the requisite secondary market, lending and government organizations to strategize an approach.

Expected Results of the Recommendation:

Improved monitoring of secondary market activities by HUD and the public will help ensure that the GSEs are meeting their Congressional mandate to serve LMI communities. Also, increased scrutiny will encourage these corporations to serve low- and moderate-income communities in a more systematic fashion.

Potential Obstacles to Implementation:

GSEs claim that certain aspects of their data are proprietary and if released would damage their ability to compete in the secondary market. Convincing HUD, who controls access to the data, that the analysis and/or increased data access would help in achieving access to fair lending will be difficult.

Impact on the Market:

The overall goal of this recommendation is to increase public and governmental awareness of GSE's lending impact in lower-income and minority communities. Fannie Mae and Freddie Mac have committed to investing billions of dollars into LMI communities over the next decade. This data will allow the public and Congress to measure the results of their efforts to serve those communities.

4. Defined Communities at Risk for the Impacts of FHA Lending

Industries or Organizations Affected:

- U.S. Department of Housing and Urban Development

Issue Being Addressed:

Overall, FHA guaranteed mortgages are a suitable solution for providing credit to LMI borrowers whom the conventional markets generally do not serve. However, in certain communities which are disproportionately minority, the government program has sometimes been relied on too heavily. The following recommendations address the specific community-based problems of FHA Impacted Areas with place-based solutions, while leaving the lending program essentially intact.

Narrative Description of the Recommendation:

HUD should implement its new definition of the “community as the client,” and its own identification of the priority need for placed-based planning, by developing a database and systematic process that continually identifies communities that are at risk of suffering the consequences of concentrations of FHA lending. These areas would be defined as “Target FHA Impact Areas.” This process would incorporate the use of Home Mortgage Disclosure Act data, private mortgage insurance industry data, GSE data, HUD’s default and foreclosure data, as well as Census Bureau data. These data sets would be used to define Target FHA Impact Areas by establishing:

- A threshold percentage of minority residents;
- A threshold percentage of the metropolitan area median household income.

Among these areas, HUD should then define those with mortgage distress factors such as:

- FHA lending at a set level above the metropolitan-wide level;
- FHA defaults at a set level above the metropolitan-wide level;
- FHA foreclosures at a set level above the metropolitan-wide level; and
- HUD-owned properties at a set level above the metropolitan-wide level or with average time in the inventory at a set level above the metropolitan-wide level.

Action Steps:

- Define the profile of a typical community in the Chicago MSA using the data above. Compare this profile with those of Chicago and suburban community areas that are above the set percentage of minority population or which have median family income below the set percentage.
- Urge HUD to use the existing CreditWatch system to monitor FHA lenders in high risk areas.
- Convene a task force to identify standards and thresholds which will define the communities at risk to the impact of FHA lending, and to identify those actual communities.

Expected Results of the Recommendation:

Definition and monitoring of target areas will make HUD more aware of the obstacles on a community level, and more prepared to craft solutions once obstacles are identified.

Potential Obstacles to Implementation:

Readily available data makes this recommendation more easily implementable. Agreeing on the thresholds and definitions are the only potential problems.

5. Summarized Recommendations for Targeted FHA Impact Areas

Industries or Organizations Affected:

- U.S. Department of Housing and Urban Development

Narrative Description of the Recommendation:

The following is a list of recommendations specifically designed to combat the detailed problems of Targeted FHA Impact Areas. It includes a comprehensive plan to stop the destabilizing effect of disproportionate FHA lending in predominately minority neighborhoods.

- ***Develop Intensified Risk Sharing Programs in Targeted FHA Impact Areas to Improve Underwriting Quality and to Facilitate Early Delinquency Intervention.*** Mortgage insurance company partnerships with HUD in targeted areas will ensure quality underwriting standards in these areas and also shift some financial liability off the FHA.
- ***Develop Additional Originator Review Processes to be Applied in Targeted FHA Impact Areas.*** Use the CreditWatch system to review the process for defining and investigating originators with unacceptable quality control and poor performance to include an additional screening process in high risk target areas for lenders whose performance in these areas is at a set level lower than their performance in non-target areas. In order to improve the community approach to quality lending HUD should create assessment tools to target high risk loans or areas for additional quality control. It is particularly important in Targeted FHA Impact Areas that HUD make any proposed sanctions, hearings, and appeals in the process public. It is also important that lenders not be exempted from penalties because they claim to serve high levels of minority borrowers. While serving minority borrowers in general is a positive and even affirmative activity, engaging in poor underwriting disproportionately in minority areas should be seen as a potential violation of the Fair Housing Act.
- ***Develop Alternative Intensified Forbearance Activities for Loans in Targeted High FHA Impact Areas.*** In addition to recommending that HUD increase its efforts to ensure that FHA loan servicers provide effective forbearance relief in targeted areas, the task group proposes a pilot program whereby a handful of lenders will refer borrowers in default, soon after they are delinquent, to Neighborhood Housing Services (NHS), and/or Consumer Credit Counseling Services (CCCS). The borrowers will receive counseling as to their mortgage, and their best strategy (e.g., revised payments schedule, sale) to avoid foreclosure, but also on their overall credit and financial health through CCCS. The goal is to demonstrate cost savings

to lenders, servicers, private mortgage insurance companies (since the program will not be exclusively for FHA borrowers) through a workout versus foreclosure, and create a template that other nonprofits can use to provide the same service throughout Chicago and the nation.

- ***Develop an Alternative Processing System for Property Disposition for Public Agencies and Not-for-profit Developers in Targeted FHA Impact Areas.*** Work backwards from after-rehab cost to establish fair price. In the long run, this should generate savings for FHA insurance programs as they sell rehabbed homes sooner than later, when their value has greatly diminished.
- ***Develop an Alternative Set of Appraisal Guidelines for Vacant Properties in HUD Inventory.*** To appraise a vacant house accurately, recently sold vacant houses should be used as comparables. One helpful tool would be a list of recently sold vacant homes which HUD could circulate to FHA appraisers (as is currently done by the Veterans Administration). The objective is two-fold: 1) the lower appraised value should make a vacant home more affordable to nonprofit developers seeking to perform a thorough rehabilitation and re-sell the property to a qualified counseled buyer; and 2) it is expected that homes will remain vacant for a shorter period of time, enabling non-profits to compete more effectively with for-profit developers, and in the long term, promote neighborhood stability.

Action Steps:

- Hold discussions with lenders, nonprofits, mortgage insurance companies and other interested parties to develop a detailed plan to present to HUD.

Expected Results of the Recommendation:

The increase of services offered to FHA borrowers in the Targeted FHA Impact Areas will reduce the number of defaults and foreclosures that have destabilized these communities. Also, if instituted, the alternative set of appraisal guidelines and property disposition program will encourage reinvestment into these Impact Areas.

Potential Obstacles to Implementation:

HUD's reorganization and cutbacks may not allow for these increased services.

Impact on the Market:

Greater stability within neighborhoods and communities identified as Impact Areas.

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