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MARYLAND ADVISORY COMMITTEE

TO THE

U. S. COMMISSION ON CIVIL RIGHTS

Hearing on

MORTGAGE LENDING AND EMPLOYMENT OPPORTUNITY
IN BALTIMORE SAVINGS AND LOAN INSTITUTIONS
AS THEY AFFECT MINORITIES, ETHNICS AND WOMEN.

Room 1208
G. H. Fallon Federal Building
31 Hopkins Plaza
Baltimore, Maryland

Thursday, 2 October 1975

BEFORE:

BERT BOOTH, CHAIRPERSON, HOUSING TASKFORCE

PRESENT:

VIRGINIA SQUIER, MARY LOKER, WILLIAM J. THOMPSON,
ROBERT JEFFERS, CHESTER WICKWIRE, MARJORIE K. SMITH,
EDWARD DARDEN, Members, Maryland Advisory Committee to
the U. S. Commission on Civil Rights.

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P R O C E E D I N G S

BOOTH: May we come to order.

I am required again to read the Privacy Act Statement before we start.

On September 27, 1975 the Privacy Act of 1974 became effective. Pursuant to that Act, the U. S. Commission on Civil Rights and the State Advisory Committee are required to inform the public and individuals with full information as to their statutory authority to collect this information. The Commission's authority to do so is set out in 42 United States Code, Section 1975(b). Its Advisory Committee authority is set out in 42 United States Code, Section 1975(d)(c).

Any information collected by this Advisory Committee from any individuals prior to this hearing was given voluntarily. All individuals participating in this hearing have volunteered to do so, and any information this Advisory Committee collects from you during the course of this hearing will be voluntarily supplied by you. The Advisory Committee will not impose any sanctions on any individual who chooses not to answer a particular question or divulge certain information.

The Advisory Committee's principal purpose for collecting information is to obtain enough information for the Committee to prepare a report to the U. S. Commission on Civil

jrb5 1 Rights regarding the employment and lending practices of savings
2 and loan institutions in Baltimore, Maryland. Information
3 obtained in the course of this hearing will also be used for
4 other purposes as set out in the U. S. Commission on Civil
5 Rights Notice in the Federal Register pursuant to the Privacy
6 Act concerning its State Advisory Committee Project Files.
7 Copies of the U. S. Commission on Civil Rights' statement
8 on the relationship of the Privacy Act of 1974 as to information
9 collected by the Commission and its Advisory Committee are
10 freely available to all participants and members of the audience.
11 Copies are located here in the hearing room on the table.

12 Now, our first participant this morning is
13 Walter Orlinsky, President of the Baltimore City Council.

14 Have you a statement, or would you like us to fire
15 some questions?

16 ORLINSKY: I would like to at least make some
17 preliminary remarks, and then I will try and answer questions.

18 BOOTH: Okay.

19 ORLINSKY: As I understand the purpose of the hearing
20 it is to secure information of lending practices by savings
21 and loans in Baltimore City with regard to minorities -- and
22 that includes women, although they happen to be a majority;
23 nevertheless, I would like to suggest that it probably is more
24 realistic to think of cities as a minority as a whole. And the
25 problems that have been apparent and inherent in lending

jrb6 1 practices in urban core areas, well, they certainly distinguish
2 in terms of problem areas between white and black, rich and
3 poor, male and female; nevertheless, cities as a whole, in
4 fact, are distinct minorities historically -- meaning probably
5 from the mid-fifties on -- in terms of lending practices
6 by lending institutions.

7 The overwhelming bulk of most cities from somewhere
8 in the mid-fifties on found themselves redlined, which is the
9 convenient phrase for saying "we aren't making loans here."
10 That practice in the areas that are redlined traditionally
11 has certainly a high correlation between the racial charac-
12 teristics of the areas where there is to be no lending and the
13 areas in which there might be some lending. But the city as
14 a whole relative to lending practices, for example, in
15 the metropolitan area, even in communities that are not
16 redlined where presumably white middle income and better males
17 are either heads of households and are getting loans are getting
18 relatively less and have relatively less ability to secure
19 loans than comparable people who are trying to lend for housing
20 in the suburban areas.

21 It is my own personal opinion, feeling, that the basic
22 reason that that practice arose was that by the mid-fifties
23 the federal government had fairly well established the VA and
24 FHA policies, new policies, which in essence subsidized the
25 existence of the suburbs by making it possible for bankers

jrb7 1 to lend all of the money that they chose to loan on an
2 insured basis, and that cities -- well, the book that was used
3 in determining whether a loan should be made under FHA or VA
4 lending basically was designed around construction. And for
5 the most part cities are made up of older houses, housing
6 stocks with relatively less new construction going on as
7 opposed to the suburbs which were the recipients of the
8 Eisenhower road program and these two housing policies.

9 And given the forties, fifties and on into the
10 sixties, the reality was that blacks were not welcome in the
11 suburban areas. There were clearly overt acts of specific
12 discrimination against the availability of housing for blacks
13 at any price whatsoever. That begins to change, obviously,
14 when the Civil Rights Acts were passed, specifically those
15 dealing with lending practices, although the extent of that
16 change is not particularly dramatic or remarkable.

17 One can prognosticate or theorize I guess is a
18 better word, as to why there was no really dramatic shift in
19 housing patterns after the advent of the Civil Rights Law
20 as it applies to lending practices; one can safely assume that
21 at least in part there is probably a feeling amongst many
22 blacks for whom the economics don't make a lot of difference,
23 a general feeling that they are not overly welcome even if
24 the lending is available -- in a city like Baltimore where
25 traditionally racially, ethnically, religiously and so on, we

jrb8 1 tend to have housing enclaves as an overall general pattern,
2 there is no reason to assume that the black community does
3 not share some of that common feeling of an enclave philosophy.

4 In any event if one looks at black housing patterns
5 moving out into the suburban areas out of the city, it still
6 follows the almost totally traditional line for older East
7 Coast cities of corridors and wedges based on the peripheral
8 -- the nearest place where the black community is to the city
9 line, it spills over. There is no real random selection of
10 housing that is measurable or really discernible.

11 Now, Baltimore City is probably unique in America
12 in terms of handling lending, banking, practices for a
13 completely unique happy set of circumstances which we happened
14 to stumble into in 1974, which is probably just a one-time
15 accidental shot that happened to us. But we picked it up.

16 Maryland has a usury law to top the interest rate
17 relative to the overall market interest rate for lending on
18 housing at a low level. The banks and savings and loans were
19 absolutely insane for their desire to increase the interest
20 rate or to take off the ceiling altogether and the city
21 delegation, when the bill came up, went against it and was
22 in fact a deciding factor during a regular session of the legis-
23 lature in the non-passage of that.

24 Simultaneously -- and there was no real strategy
25 that brought it out -- CPHA had published a report indicating

jrb9 1 the full extent of the redlining that existed in the City of
2 Baltimore, and the clearly discriminatory lending patterns.
3 Again, I stress, obviously impacting far more greatly the
4 black community than the white community, but generally showing
5 the city was in a minority position relative to the total
6 economy of the metropolitan area.

7 And the housing community development department of
8 the city also issued a report which substantiated the CPHA
9 finding. There was a lot of screaming and hollering. What
10 the city administration did at that juncture was to approach
11 the banks and the savings and loan industry and make them
12 the proverbial offer they could not refuse: our offer was that
13 as administration we would urge the Baltimore City delegation
14 to support at least an increase in the usury -- interest rate
15 level -- if in return banks and the savings and loan industry
16 would make a series of commitments in writing to the city in
17 terms of lending practices.

18 First of all with regard to the banks it was a
19 question of making available additional sums of money for
20 lending, when people chose to go to a bank and make a loan.
21 And we asked for an enforcement procedure of that which would
22 provide that in the event someone applied for a loan and was
23 turned down that a committee made up of banks and the city
24 -- city representative -- would review the rejection, if the
25 party chose to appeal the rejection. And if it was found

jrb10 1 that the loan was reasonable within the normal criteria for
2 banks -- which I stress is considerably different than
3 savings and loan situations -- that the banks would agree on
4 a rotating basis to accept that mortgage application and make
5 the loan.

6 With regard to the savings and loan industry, again
7 it was a question of increasing total dollars available for
8 people in the city who wishes to make loans. The same review
9 procedure for rejections, but in that case it was extremely
10 important to get them to agree to three points that were
11 very significant. And it was the savings and loans' method
12 of redlining without appearing to be redlining.

13 They had an internal rule of thumb in their
14 guidebook of normal business procedures that said, "Thou
15 shalt not make loans under \$6 or \$7 thousand; and thou shalt
16 not lend on houses that are more than 20 years old; and thou
17 shalt not lend on houses that -- and I believe -- were 12
18 feet or less in width."

19 One does not have to be a brainy housing economist
20 to recognize that that was a very effective means of
21 redlining a substantial portion of the City of Baltimore
22 and, in the process, excluding from the potential home-pur-
23 chasing market an enormous number of lower middle income and
24 lower income people who might in fact wish to purchase an
25 older house in an older area at a price that could be

jrb11 1 afforded at a rate to pay out per month which would allow
2 him reasonable expectation of the ability to handle maintenance
3 and other normal factors.

4 On February 20, 1974, I believe it was two weeks
5 earlier, approximately, the banks signed up -- actually February
6 20, the Maryland Savings and Loan Vice President specifically
7 agreed to those conditions in writing.

8 Since that time there has been a very substantial
9 increase in the amount of mortgages that have been made
10 in the City of Baltimore. It is somewhat difficult to discern
11 all of the patterns of the mortgages, and this Commission is
12 probably better able to discern how many were black, how many
13 where white, how many were female, how many were upper or
14 lower income; but on the surface, as far as we have been
15 able to determine there has been a thousand-percent increase
16 in the total amount of money that is lent from that time to this
17 time. We would like to hope under the agreements that were
18 made; we cannot clock for you how much of that thousand
19 percent represents, for example, inflation and how much is
20 real dollars. We have not been able to find the constant
21 dollar ratio.

22 But there are substantial numbers of mortgages
23 that we are aware of that are now coming out and that are now
24 available to people; and we are not getting the kinds of
25 protests and comebacks as a municipality that we did a year,

jrb12 1 a year and a half ago.

2 Now, -- and I might say that the dollar amount
3 that we used was a \$30 million increase in money available
4 over and above what was traditionally lent in the city. To
5 date that money has never been used up in toto, but I must
6 say that we have absolutely no evidence that the failure to
7 use up that money has been because of discriminatory bank
8 practices as much as the fact that the overall economy is
9 rotten enough, and interest rates are high enough so that
10 lending, whether it be in the City of Baltimore or anywhere
11 else is substantially down. And people who are desiring to
12 buy houses have not increased to any remarkable extent.

13 The city also did something else with regard to
14 redlining, which I am very interesting in making a part of the
15 record because I hope other cities might try it. A couple of
16 years back, I guess three years back, four years back, we
17 began to enter into the housing market as a municipality in
18 what amounts to direct competition with the banks through a
19 series of issues which we -- bond issues -- which we have had
20 on the ballot now regularly since four years ago.

21 We started by first of all making loans available
22 for the purposes of rehabilitation of housing at an interest
23 rate considerably below market. We generally charge one
24 percent above whatever it costs us when we sell our bonds.
25 So if we sell our bonds at 4-1/2 percent, that money is lent

jrb13 1 at 5-1/2; if it's 5-1/2, we lend it at 6-1/2.

2 In any event these are long-term loans and they
3 are available.

4 I might say on a business basis our loan experience
5 is very good and we are much more flexible than a rigid
6 financial officer at a bank might be; but basically, you know,
7 we are looking also for some reasonable expectation of
8 security. But our range of lending indicates that our more
9 liberal lending practices give us a loss ratio -- I think we
10 lost one loan and I think that's because somebody died and
11 the survivor went insane -- I mean that's literally the only
12 loss we have sustained on any of these loans.

13 It would indicate that the S&L's and banks might
14 very well profit from liberalizing some of their own lending
15 practices without necessarily jeopardizing their financial
16 position or fiduciary relationship to their stockholders, or
17 to the participators of mutual savings and loans.

18 We went from the rehabilitation into the direct
19 housing market, lending for purchase. There we tried to
20 accent those houses that were in reasonably stable residential
21 communities which for one reason or another were boarded up,
22 that single house or those two houses in the residential
23 neighborhoods that were the eyesore in the neighborhood.

24 We found there was a market for those houses. We
25 lent. We lent at a lower interest than long-term loans and

jrb 14 1 we have been reasonably successful there in getting a lot of
2 those houses set up. You might take a picture of one, and
3 the nicest one to go look at is at 29th and Calvin Street,
4 where my old college fraternity demolished a beautiful house
5 which stands by itself on a large lot. It had been vacant
6 I guess for about 10 years, which was purchased; and it's
7 probably getting about \$60,000 worth of renovation. We made
8 the renovation loan and the mortgage loan, and it is now
9 quite a handsome house. It was the only house in that whole
10 immediate vicinity that was dilapidated, had fires and all the
11 other problems. And it's been a tremendous asset to the
12 neighborhood.

13 Those are the kinds of loans that our program is
14 directed to.

15 We then went into the dollar a year house business,
16 taking older houses and offering them on a basis -- lottery
17 basis -- we discovered we needed a lottery because we dis-
18 covered there were so many more people who wanted the houses
19 than houses were available.

20 And there again where our program is different than
21 most cities that played the dollar game, because, recognizing
22 the reluctance of banks -- and here I must say there was some
23 legitimacy from an economic point of view, given the areas and
24 conditions of the houses, the reluctance of the banks to make
25

jrb 15 1 \$25,000 to \$30,000 substantial loans which would be required
2 for a first-rate upgrading of houses that had no pipes, and
3 facilities of any sort.

4 We -- most other cities have dollar programs and
5 you can get a house for a dollar, "Go find a bank to lend you
6 money," and that's why most of the programs don't work. We
7 said, "Here is a house for a dollar, and we'll give you the
8 loan."

9 Well, we found that in screening the applicants for
10 the homes we tend to exclude maybe 10 or 12 percent of those
11 that are interested only because they do not appear to have
12 the financial capacity to handle the kind of renovation
13 in the home. In an effort to change that we selected a couple
14 of areas where lower renovations would be needed in order to
15 produce the house, to produce a completed house, and to attract
16 a lower middle income purchaser who might be interested in
17 staying in the city -- some on Durham Street -- and we are
18 trying to select additional areas like that, so that we can
19 get a better spread in terms of the houses that we make avail-
20 able and which are sold within the economic range of the
21 purchasers under this program.

22 So it tends to flatten, instead of being bell-
23 shaped.

24 Our next great venture in gracious living will be
25 this November when a \$30 million bond issue is on the ballot

jrb 16 1 in addition to additional bond money for the existing programs
2 I described, making a total of somewhere around \$50 million.
3 The \$30 million will be used to produce our first major
4 effort in new housing in the downtown area at Harbor West.

5 We are trying to produce reasonable housing in
6 middle rent income range. That \$30 million will be used to
7 provide, we hope, enough of a subsidy to be able to construct
8 new housing in the downtown that will be affordable for
9 what the current definition of a middle income family is.

10 Along with that I might say that in the city
11 generally, and in the country generally, about four years ago
12 this country found itself in a remarkable position from a
13 point of view of history: the cost of an average new house
14 exceeded the cost of the average American's ability to purchase
15 it for the first time in the history of the country. And that
16 has not changed, really. It indicates no potential for change.

17 That gives cities extraordinary opportunities
18 in terms of its existing housing stock and I suspect that
19 irrespective of our agreements and so on with the banks, some
20 of the increase in the lending is by virtue of the fact that
21 the city is somewhat more active as a housing market today
22 and that there is generally a higher or more -- I guess a
23 higher or more -- I don't know the right words: call it
24 a higher economic group that is looking for housing and
25 purchasing in the city as a general matter because there is

rb17 1 decent housing available at reasonable prices that is
2 extremely competitive in a positive way with the housing that
3 is available in the surrounding metropolitan areas.

4 Cities, if they are going to produce housing,
5 particularly in the middle income range, are going to have
6 to subsidize that construction. That gives us a tremendous
7 advantage over a place like, for example, Baltimore County,
8 where the word "subsidy" is a sin; and since the city has long
9 been accustomed as a political reality to subsidy in general,
10 voters have no great problem with the subsidy, whether it is
11 for low income or middle income housing.

12 There has been consistent broad-based support
13 for programs that will do that, and that should give us an
14 opportunity if the economics of the country remain the same,
15 for some length of time to more effectively compete for
16 middle income people. We are concerned for the minorities and
17 women who are people and so on.

18 Now, let me say that as a basic urban strategy
19 if the city is going to be able to continue to provide over
20 any length of time the level of services necessary for the
21 kind of population it has, it is extremely important for the
22 city to get a better economic income distribution amongst
23 the people who live in it. And one of the traditional urban
24 problems is that we have got a monopoly on poverty, and very
25 few people are excited in investing in poverty, with the

rb18 1 exception of those who sell food stamps.

2 But that is, you know, a kind of a problem; and so
3 we do have an active and admitted policy to attract where we
4 can -- but not at the sacrifice of any of our low income
5 housing programs -- an effort to attract a better income
6 distribution to the city.

7 For the most part it is lower middle and middle
8 income people who enter these various programs I have just
9 described.

10 The other end of the problem is, and I think it has
11 to be recognized that low income families generally have had
12 a reluctance at almost any price to purchase housing where it
13 is available. There is a lack of demand there, whatever the
14 reasons for that may be.

15 I don't know much about it but I believe about
16 two years ago the city and the state joint-ventured a project
17 dealing with a small area of the city, preselected and kept
18 secret from everybody -- so secret I don't know very much about
19 it, I don't know where it is -- where we took all of the tools
20 the state had, the city had, and whatever we could salvage
21 out of the federal government, and applied it to that area
22 in an effort to see whether we could substantially alter
23 the housing quality, ownership patterns, rental quality, and
24 so on, and stabilize the area.

25 What happened there, how far it went and whether

jrb19. 1 it succeeded or failed, I don't know. I suspect that the
2 results were not particularly positive because otherwise
3 they would have been ballyhooing it to the skies. But if you
4 can get a handle on where it is and what it is from one of
5 our departments and the state department, you may want to take
6 a look at that and get a better handle on what might be done
7 in an area like that.

8 For better or for worse the question of women in
9 lending and so on is more difficult for me to deal with because
10 at this time there is no data that we have collected that
11 is specifically directed to that question. And I can say that
12 the city as a city has logged a significant degree of complaints
13 directed specifically to that problem. We have had obviously
14 a myriad of complaints dealing with black-white splits, and
15 so we have dealt with that.

16 But as a casual observer I would imagine whether
17 in the county or the city the question of discrimination
18 against women lenders in housing is fairly persuasive, and
19 probably considerably worse than the practices that would
20 apply generally to blacks. There's a long history of it,
21 a general prevalence of it; far be it from me to say that
22 the City of Baltimore somehow has miraculously managed
23 to escape the national average in that area.

24 But, as I say, we have no real specific data
25 on that. I don't think anybody would be prepared from the

1 city's point of view would be prepared to talk directly to
2 that beyond the obvious generality that we know exists.
3 The practice there is a bit more difficult to discern, or to
4 weed out, because a great many of the problems of I suspect
5 a single woman attempting to make a loan has is probably
6 roughly similar to the problems that a single male might have
7 in going about a loan for housing, outside of pregnancy
8 argument -- as most men don't get pregnant -- but, for example,
9 I guess it applies to blacks as well: the total structure
10 of what a woman owns as opposed to what the average man owns,
11 or the average black as opposed to the average white, which
12 goes into the equation rather heavily when you are making
13 very substantial institutional loans on a house.

14 Those kind of problems are obviously not going to
15 be solved in the lending practices specifically. They are
16 going to be solved with a move to some realistic equality --
17 money, pay, for the work done without respect to race or sex.

18 At that I'll quit and try to answer any questions
19 that you have.

20 BOOTH: Let me ask you first, you obviously think
21 the pledge that was made has helped?

22 ORLINSKY: Yes. We have had occasion to ask
23 the city to go back over that, you know, we have a housing
24 office that Roger Windsor runs; we assist people and so on.
25 And through that, whether it's complaints to a legislator or

jrb 21 1 a complaint to the housing department about, you know, "they
2 turned us down," we have gone back over and we feel relatively
3 secure that they are reasonably living up to their pledge.

4 BOOTH: Do you think they will continue to?
5 What do you project for the future?

6 ORLINSKY: I think they are going to continue to
7 first of all, you know -- we have the institutional inclusion
8 of the city as a member of the review process.

9 BOOTH: That will continue beyond the pledge?

10 ORLINSKY: The pledge is in futuro, there was
11 no limitation on the pledge. It was one a one-year or two-
12 year pledge, it was a general pledge, that these specific
13 practices will stop, that the \$30 million would be a sort of
14 annualized figure until such time as it was justified to
15 revise it.

16 We weren't very much upset over the need to adjust
17 it upward because if in fact that \$30 million over and above
18 whatever their lending levels were when we started -- it's
19 much more than \$30 million -- if they actually lent the \$30
20 million, it would be making more money available, because it
21 would indicate that loan experience, low loss ratios, and
22 business would take care of itself. It was to break down the
23 institutional barriers.

24 And, yes, I think it is going to continue. Again
25 I would like to tell you it is because we are so good and so

1 touch, but as I indicated to you, I think the housing market
2 in Baltimore is rapidly becoming a superior housing market.
3 It's a better real estate buy, and S&L's don't make money
4 unless they lend. And increasingly they are finding the place
5 they are going to lend and that they are going to make money
6 on is in the city.

7 I read an article in the paper the other day about
8 a variety of federal or state or local subsidies that could
9 be made for low income families to use for purchasing. As
10 I indicated I think the city is probably doing more than
11 any other government institution in the country now in that
12 direction. And I certainly would hope that the federal
13 government might have an attack of sanity -- but it is
14 doubtful -- and do some of those things that were suggested.
15 You know, recognizing the things we're talking about is a
16 subsidy process. We did not intend for example in these
17 rehab loans and so on -- the federal government used to make
18 them 3 percent loans in renewal areas, and we wish them to
19 continue to do it and augment it.

20 But they are not. What we did is they said they're
21 closing it down and we're stepping into the breach. But
22 the city does not have an economy that can afford the very
23 obvious enormous subsidy that is involved in a 3 percent
24 loan; but we can go into the 5-1/2 to 6-1/2 percent loan
25 which is still -- well, it's not an out of pocket city

jrb 23 1 subsidy, because it is a part of our loan rate and it is a
2 subsidy to the purchaser of anywhere from 4 to 5 to 6 percent
3 between the private market, which is a pretty healthy slug.

4 BOOTH: Are there other questions?

5 SMITH: I have a short series of questions,
6 Mr. Orlinsky.

7 I found your opening remarks very interesting
8 in terms of the role the city is playing -- quite an active
9 role -- in helping improve the housing depression in the
10 city.

11 I would like to approach the problem
12 from a somewhat different point of view, however. I wonder
13 could you tell me where the city deposits its money and how
14 that decision is made?

15 ORLINSKY: Yuh, the City of Baltimore within the
16 past four years has deposited its overwhelming bulk of its
17 money in banks based on competitive bids on the interest
18 rates they are willing to pay. We have decreased the size
19 of the flow, which is the traditional thing that housing
20 enthusiasts look at when they are trying to get city, state,
21 etcetera, involved in making -- in keeping their monies
22 deposited and active in ways that help housing and other
23 ancillary things.

24 Our float is almost nil now, so that there are
25 no banks that are enjoying a couple of million dollars laying

jrb 24 1 around for a couple of weeks, and they are getting the
2 interest that we are not. We have squeezed that out. And what
3 we are doing is augmenting I might say rather significantly
4 augmenting municipal income because we are now getting on our
5 money -- four years ago we were getting 1 or 2 percent; we
6 are now getting 6, 7, 8 percent on federal monies, for example,
7 deposited on projects. In bonds there is a longer payoff.
8 We get a full market rate.

9 We are also investing in federals, 90 days, you
10 know, 90-day notes, getting the 9 percent, and so on, which
11 is one of the reasons -- not a large -- but not an insignifi-
12 cant reason why we have had a somewhat better economic
13 prognosis over the last year and a half than most other
14 subdivisions have had.

15 SMITH: Has any thought ever been given to using
16 your ability to deposit money as a weapon or a means to exert
17 some pressure on the banks?

18 ORLINSKY: Yes.

19 In terms of lending, home lending, the banks
20 are by and large the relatively insignificant part of the
21 market. Where the banks lend on houses they tend to lend
22 with fairly substantial downpayments. Commercial banks are
23 not in the housing markets. They service their clients who
24 are paying 25 and 30 percent down purchasing the expensive
25 houses and don't need help from us; they are able to help

jrb 25 1 themselves. There are some restrictions on our depositing
2 money in savings and loans, legal restrictions, some of which
3 are reasonably sensible in terms of security that we get in
4 terms of the money, and a substantial number of the S&L's
5 would not want our money laying around in terms of how we
6 withdraw and put in and out. Because we would make them
7 broke, and they certainly can't afford to pay the interest
8 rates the commercial banks are paying.

9 As a municipality, as an old municipality, we are
10 torn between the relationship which exists between government
11 and taxpayer, of how best you use your money; and is it better
12 for the city as a whole for us to have augmented our interest,
13 which has been rather significant in the dollars that come into
14 the general funds as a result of it, or to take substantially
15 less money -- again I stress there aren't that many places
16 where we can get substantially less money -- and effectively
17 toss off other social benefits.

18 That's also true, by the way, with out pension funds
19 which the city has no control; it's a venture between the
20 city and employees, and I can assure you the city has
21 approached the employees, and the employees are not willing
22 to invest their money at 5 percent or 4 percent where they
23 can make 7 or 8 percent in terms of their pensions on behalf
24 of greater social benefits.

25 SMITH: We had testimony yesterday from Father

jrb 26 1 Baroni, who shared with us some experience in Chicago, and
2 talked quite specifically about action taken by the city
3 council in Chicago in order to prohibit the patterns which
4 result in urban disinvestment or in redlining -- whatever
5 name you want to use for it.

6 Do you feel that there is a similar need in
7 Baltimore? Or do you feel that there are other ways which
8 you have devised to deal with this problem?

9 ORLINSKY: I am not totally familiar with the
10 extent of the Chicago local government control over lending
11 institutions and so on, as opposed to ours: ours are nil.

12 I would say that on an overall basis what we did
13 by forcing the banks and, say, S&L's to sign the agreement,
14 and to allow us to participate in monitoring the agreement,
15 probably was the single most effective thing that anybody
16 in America has ever tried and succeeded in pulling off in
17 terms of changing the financial institutions' relationship
18 with disinvestment. And most other techniques that are used
19 would fall far short -- no matter how nice they sound -- than
20 this one thing, as I say that was just a happy, crazy
21 confluence of circumstances.

22 SMITH: I am sure it was some skill, also.

23 ORLINSKY: Some skill perhaps in picking it up at
24 the time, but it was a practical time; you know, not many
25 places have that opportunity to pull that off. We just

jrb27 1 stumbled into it. But we at least recognized what we stumbled
2 into.

3 SMITH: Let me ask you one last question:

4 About 10 days ago the Secretary of Housing and
5 Urban Development in public testimony appearing on the public
6 record made a statement about the fact that she felt very
7 strongly that some programs to provide the means for the poor
8 or lower middle class to buy housing were wrong, that it was
9 putting a burden on HUD's limited income which they could
10 not successfully meet.

11 She talked about something you referred to before,
12 what happened the first time the roof needs repairing? She
13 felt very strongly that what the federal government should be
14 doing is beefing up its programs in the rental area, rental
15 subsidies and related programs, rather than pushing programs
16 which would make it possible for people with limited incomes
17 to buy housing.

18 Based on some of your earlier remarks it would
19 appear to me that you feel people who can be given the
20 opportunity to buy houses are able to make a more significant
21 contribution to their own well-being and the well-being of
22 the city. I wonder how you would look at Mrs. Hill's comments
23 with relation to your experience in Baltimore?

24 ORLINSKY: I think that by and large, given the
25 fact that new housing has outstripped the average American's

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1 ability to pay for it, that Mrs. Hill is correct that we
2 ought to reorient a proportion of our thinking of what we can
3 do in the rental area, because the increased reality is that
4 in order to provide housing at all, rentals are considerably
5 more significant. They have been for a while. But I think
6 we are first realizing it.

7 And I think it would be correct to say that that
8 is an area where the question of subsidy and how and why
9 has to be addressed considerably more seriously than it has
10 been in the past. The man on the corner lot of a quarter of
11 an acre and a lawnmower is rapidly dying. In the city we
12 have been working with some coop housing very successfully
13 as a municipal alternative to the private market condominium.

14 And when I say "very successfully," we are
15 coming at pretty reasonable rentals and we are getting a lot
16 of people interested. We don't have broad enough experience
17 now for me to tell you what happens the first time maintenance
18 really begins to go up. It's happening in all of the federal
19 housing.

20 But the city and cities generally escape that
21 overall national picture about what kind of housing is
22 available. Cities are sitting there with enormous stocks of
23 under-utilized houses that are available at rates that are
24 affordable for a majority of Americans. They are not
25 \$35,000, \$40,000 and \$50,000 houses. They pass for middle

jrb 29 1 income housing. They range from \$6,000 to \$7,000 to \$10,000
2 to \$14,000 to \$15,000 to \$25,000, and so on.

3 With a program of subsidized rehabilitation as we
4 are doing there is an enormous reservoir of houses available
5 for ownership in our cities that can rationally be exploited,
6 whereas, it may very well be economically irrational to
7 attempt to subsidize the building of new housing in the
8 suburban areas. It's cheaper, it works better, and it
9 strengthens on a major national problem, those festering pains
10 in the neck of the inner cities.

11 So, you know, she's right and she's wrong, and I
12 think if you take a look at the total picture, yes, you have
13 got to be doing some stuff in the rental area. You'd be
14 crazy not to at this point.

15 But, at the same time, you can retain for the
16 foreseeable future some of that myth about everyone being able
17 to own a house, if not on a quarter acre with a lawnmower --
18 city housing doesn't necessarily have that; but has very
19 find available housing that can be utilized. And to the
20 extent that it can be owned, I suspect it can be owned
21 and we ought to exploit that resource that's sitting there
22 and available to us.

23 SMITH: Thank you.

24 ORLINSKY: Let me posit one other things, because
25 I played with this in the legislature. We didn't do it, but --

1 it may solve the problem if you adopted it.

2 One of the things you can do for that person that
3 you are not sure if they buy the house and pay their mortgage,
4 and the boiler breaks or the roof leaks, you might want to
5 factor into a mortgage payment a sum per month that should
6 be interest-bearing, that caps itself at some figure relative
7 to the value of the house as a holding fund against major
8 repair.

9 A lot of people say that smacks of paternalism
10 and everything else. If you are looking for -- you know, the
11 banks do this now for example with taxes; they are terribly
12 afraid you won't pay the taxes at the end of the year. And so
13 they add to your mortgage payment by and large a prorated
14 sum that will equal your anticipated taxes, and at least at
15 the end you are only stuck for a small, relatively small,
16 additional amount. And the bank automatically pays your taxes
17 for the most part.

18 That same philosophy could be applied to the
19 question of large maintenance; and if you make it interest-
20 bearing, there is no reason why that cannot solve that
21 legitimate fear, and again make it possible to make loans
22 perhaps to people which you would ordinarily reject because
23 of your fear of their marginal ability to handle the mortgage.

24 WICKWIRE: I have one question:

25 It is my understanding you have been in Europe and

jrb 31 1 looked at other cities and their problems, and yesterday we
2 had some testimony that indicated that in Sweden the
3 government plays a large role in determining where private money
4 is to go in terms of location, amounts, and that sort of
5 thing.

6 I wonder whether -- I know you've already touched on
7 this -- but did you get some insights abroad in the way
8 things were handled in the cities that you would find useful
9 in terms of our own situation?

10 ORLINSKY: First of all I think the major and
11 underlying problem we have to recognize is that most if not
12 all of the European countries are socialist countries with
13 tremendously different patterns of government intervention
14 from anything we are traditionally aware of here, and that
15 largely in this country to the extent we practice socialism
16 we practice it for the rich. And if you're lucky, you can
17 get a loan; if your Orlinsky, you're not going to get one.

18 And, you know, you are talking about a reorienta-
19 tion in terms of society's understanding of responsibility
20 and allocation of resources, that is enormously complex and
21 one which there seems to be hardly an indication that the
22 country is willing to undergo.

23 There are some other very interesting differences,
24 and it's one of the reasons why it is extremely difficult
25 to export good European ideas to this country. Most of the

jrb 32 1 European countries are unitary in nature. There is no
2 federal system, and so the national governments have an under-
3 lying responsibility to provide average floors for basic
4 needs and services.

5 In this country, because of our federal system,
6 we don't have that kind of a national responsibility that is
7 coherent. We sometimes try it but it's rarely coherent. And
8 one of the disturbing things to me is that while you
9 can't transpose European realities into experimentation, in
10 housing and in a variety of other areas, between their
11 governments, national governments, and our national government,
12 our states are not federal; our states are unitary governments.

13 This balderdash about county and municipal lines
14 is nothing more than that. There is nowhere written in the
15 Great Book in the Sky that "thou must have county and state
16 lines," "county and municipal lines". It is written in the
17 Great Book in the Sky that "thou shalt have state governments".

18 A lot of people are asking why now, and they
19 ought to be asking that, because it is basically becoming
20 irrational in a number of areas. But state governments have
21 no legal responsibility to maintain any of that claptrap.
22 And state governments are in fact fully capable of transposing
23 European methodologies and experiments within the boundaries
24 of their state, and dealing with it at the same level that
25 European do.

rb 33 1 We don't do that. We don't recognize it. Now,
2 you take a look at this absurd thing that we call the City of
3 Baltimore: it is perfectly obvious that some surveyor
4 in 1919 when the Mayor pulled it out of Baltimore County
5 sat down and drew a series of straight lines and varied it
6 only to the extent that water interfered.

7 You know, there is no magic in those lines. God
8 didn't carve it on the tablets and give it to the Mayor. It
9 was a convenient way. And for the most part in Maryland the
10 system of county and municipal governments is one of our
11 less lovable features. And for all the county executives and
12 mayors who are constantly bemoaning their sad fate that so
13 much of their decision-making power is moving to other levels
14 of government, I can only suggest that those same people are
15 seen all the time in Annapolis asking the state to take over
16 those responsibilities because the irrationality of the
17 boundary lines makes it impossible for them to handle it. Or
18 the fact of the matter is the irrationality of the lines in
19 terms of economics, or the problems themselves transcend the
20 political capacity because the problem spills over into other
21 areas.

22 It is constantly escalating upward because that's
23 the only way it can go.

24 Ten years ago I suggested the state be divided
25 into 8 to 10 regions and that the regions be reviewed on the

jrb 34 1 with every census and adjusted so that you could get a better
2 distribution in terms of governmental services and economic
3 realities within the regions. Obviously it's heresy, nobody
4 likes it; and if you were coming to lunch in an hour with me,
5 my opponent and our friend will tell you that I have been
6 trying to disenfranchise blacks and so on.

7 But the fact of the matter is the system is of
8 no social value that I have been able to discern.

9 DARDEN: From what I have seen of Baltimore
10 -- we took a tour not long ago -- construction of houses here
11 seems to be uniquely suited for individual home ownership.
12 You talked about a pledge of \$30 million and I guess if it
13 includes the banks, \$45 million; I would like to know if you
14 have any way of determining whether that pledge meets any
15 demand -- or meets the demand for home ownership?

16 Have you a way of determining what the actual
17 demand is, or a way of determining what the potential demand
18 for home ownership is, so that, you know, you can accurately
19 say whether that pledge meets the demand, or at some point
20 that pledge ought to be raised or lowered to reflect the
21 actual needs of the city?

22 ORLINSKY: The fact that the money has not been
23 used, and the level of complaint has dropped to almost nil would
24 would tend to indicate that the demand does not equal the
25 amount available.

jrb 35 1

2 As I indicated I think the pledge came at a time
3 when the demand for external economic reasons was bound
4 to drop off somewhat. Let's face it: we're still in a hell
5 of a depression for about two years at least. I can tell
6 you when I go down to Bethlehem Steel and shake hands at
7 5 o'clock in the morning that there's a depression going on.
8 That is our largest single private employer -- potentially,
9 it hasn't been for a long time.

10 And that is in part why the city has responded
11 on its own initiative to attempt to go below market and make
12 money available, and that obviously increases demand on the
13 market. And again I have to stress that in the area where
14 we have gone below market and made it available on our
15 grandiose hyper-scale I am not sure that one could ask the
16 banks to reasonably make loans, given the millieu we are
17 in.

18 Now, if you want to change the social context of
19 the argument I'd probably be on your side, but I can't within
20 the framework we are not operating, say, I demand that they
21 do it. We have to change the ballgame, and they wouldn't
22 like it; but I wouldn't mind it.

23 That goes back to the question Dr. Wickwire asked,
24 you know, if we are going to increase the level of subsidies,
25 whether by doing it through the banks or by doing it directly
from federal, state and local government, I am all for it.

jrb 36 1 I think it will change the demand, although I would suggest
2 that it probably will not change it as much as we would like
3 to think it would.

4 I think there are a lot of other factors, and there's
5 an awful lot of people who don't want the responsibility of
6 a house, and who are not accustomed to a lifestyle of having
7 one. And, you know, that may change over time; that's fine,
8 that's nice; and then we're going to have to meet that
9 demand.

10 I think that unfortunately most of us who discourse
11 on these things tend to be middle or upper middle income
12 people, and tend to transpose their values on everyone else
13 we are talking about. We tend to overestimate the demand
14 for things we think are valuable.

15 SMITH: One more quick question:

16 When I ask the banks this question sometimes I
17 have difficulty understanding the answers, and I thought
18 perhaps you could act as an intermediary for me and explain
19 something.

20 When a bank collects tax money monthly on a
21 mortgage, do they put that immediately into city accounts,
22 or do they hold that in an escrow arrangement?

23 ORLINSKY: They hold it in escrow.

24 SMITH: Does that permit them to hold that money
25 with their reserves so that they can invest it with other

jrb 37 1 money?

2 ORLINSKY: I wish there was a banker here to
3 backcheck what I say.

4 (Laughter.)

5 First of all that would vary between whether you
6 are talking about a commercial bank or a savings bank or
7 a savings and loan; certainly a commercial bank is in a
8 position to use that money as part of their flow, which is
9 a nice little nestegg in every bank that's worthwhile if it's
10 a commercial bank wants to have.

11 The other, the savings and loan and savings
12 banks have different regulations and restrictions and
13 I think they would have somewhat more difficulty using that
14 as something -- as a flow, that average amount. Remember,
15 you're also dealing with an average amount. On July 1 all
16 that money goes out when the bill is due, and then it increases
17 steadily.

18 And I guess as an absolute guarantee if they
19 can figure out that their first month is always no less than
20 X-number of dollars, they have found a way to use it, no
21 matter what they say. But thereafter it becomes more
22 complicated.

23 We have toyed with as a city the idea of trying
24 to force the banks to make payments to the city. As a matter
25 of fact I think we may have even attempted to do that by

1 legislation. It didn't go very far. But I think it may have
2 gone in at one time. Mostly the legislature goes after that
3 in trying to say that the banks should pay interest even if
4 it is a reduced interest, it should pay some interest, which
5 I think is reasonable. They don't like to do it, obviously;
6 nobody likes to pay money they don't have to pay if they
7 can get away with it.

8 That's part of the conflict of society. The city
9 would benefit in a very real way by getting that money to the
10 banks and collecting it by the month. There are some legal
11 complications of doing that, that transcends just the absence
12 of the law requiring that.

13 BOOTH: Thank you very much, Mr. Orlinsky.

14 ORLINSKY: Thank you.

15 BOOTH: Now we have Daniel Searing.

16 JEFFERS: Mr. Searing, would you please state your
17 name for the record, please?

18 SEARLING: Yes.

19 I am Daniel J. Searing, Staff Attorney, National
20 Committee Against Discrimination in Housing, Incorporated.
21 otherwise known as NCDH, in Washington, D. C.

22 JEFFERS: Okay. Excuse me just for a second. I
23 have noticed some faces in our audience who were not here
24 yesterday, so I just want to explain to them the procedure
25 we are using. We are asking all of our participants to refrain

jrb39 1 from using the names of specific individuals or specific
2 financial institutions. We had some problems with that, so
3 we're just trying to refrain from using those names.

4 Now let us go ahead. Actually, I will turn this
5 over to Bert Booth, and she will ask you some questions.

6 BOOTH: Do you have a statement?

7 SEARLING: Yes, I have a statement.

8 NCDH is pleased to accept your invitation to
9 testify on the problem of equal opportunity for minorities
10 and women in the Baltimore Savings and Loan institutions.
11 NCDH strongly supports the type of fact-finding process which
12 you are engaged in today and yesterday.

13 On the basis of our 25-year experience in the
14 field of housing discrimination, we are convinced that public
15 hearings on the issue of discrimination of home financing
16 are very beneficial. Such hearings represent a major step
17 in educating the public to the often subtle nature of
18 financial discrimination.

19 Such hearings serve as a sounding board to
20 identify the problems, to generate new ideas for their
21 solution, hopefully to provide a stimulant to a dialogue
22 between community and industry leaders.

23 NCDH is a nonprofit, public interest organization.
24 It has been working since 1950 to end housing discrimination
25 in all its forms against racial minorities. In the course of

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1 our work we have been deeply concerned over the various
2 practices of discrimination in mortgage lending, including
3 the practice of redlining, and the effects of these practices
4 on housing opportunities for minorities, and the quality of
5 life in the nation's urban centers.

6 From this perspective I would like to take the
7 opportunity to speak with the Commission in two areas:
8 initially, some brief comments on the problem of financial
9 discrimination; and secondly, a review of the legal protections
10 that are available to curb discriminatory practices.

11 Recent publicity concerning the practices of
12 redlining, such as newspaper articles, citizens housing
13 conferences, passage of legislation in Illinois, Senate
14 hearings by the banking and currency committee, could easily
15 lead one to conclude that redlining is a new issue, and that
16 redlining, per se, is the only issue in equal opportunity in
17 the financial area.

18 Neither conclusion would be correct.. Discrimina-
19 tion based on race is certainly not a new phenomena.
20 Herbert Swann in the housing market of New York City, 1934,
21 published in 1944, stated the following, and I quote:

22 "The policy of lending institutions to mark out
23 areas within which they will not make loans for new buildings,
24 though designed to safeguard the funds of depositors,
25 policy holders, and clients, practically dooms the

jrb 41 1 regeneration of mature areas for new construction. If the
2 practice is persisted in for a sufficiently long time, the
3 entire city will ultimately be eliminated as an eligible
4 location for new homes, and present blight areas will be
5 steadily enlarged."

6 In 1961 the U. S. Commission on Civil Rights
7 concluded that mortgage lending institutions "are a major
8 factor in the denial of equal housing opportunity".

9 This excellent early report on this subject
10 started out with a quote from the Ohio Advisory Committee
11 on Housing, a conference reported in 1961, "banks dictate
12 where the Negroes can live." I would venture to say that that
13 statement applies in equal force today to savings and loan
14 institutions.

15 It has been seven years since discrimination in
16 home loan finance was specifically forbidden by Title 8
17 of the 1968 Civil Rights Act. Thus it is important in
18 reviewing and listening to the testimony to keep in mind that
19 this problem has been around for a long time.

20 Now, my second concern in this area is that
21 redlining is often perceived as the only issue. Redlining
22 by itself, while it has received the most attention recently,
23 represents only one practice in an umbrella of financial
24 discrimination on account of race. The outright refusal to
25 deal with black loan applications, the imposition of harsher

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1 terms, and the institution of policies which have the effect
2 of eliminating minorities from their mortgage market are but
3 a few examples of what could be a very lengthy list.

4 Your examination in this area should not be
5 confined to redlining.

6 Now, I know from the agenda that this is not so,
7 and NCDH notes especially you are inquiring into the
8 employment and management area, and that is to be highly
9 complimented. In our opinion this is an area that has much
10 too long been ignored as a matter of exploration.

11 Time and again over the past few years civil rights
12 and other public interest groups have attempted to focus
13 attention on the problems of financial discrimination; both
14 the industry and the regulating institutions said there was
15 no such problem. I am happy to report today that we are
16 witnessing some change. There can no longer be any reasonable
17 doubt that there is a problem in this area.

18 And secondly, we are fortunate to witness
19 increasing amounts of administrative, legislative, and
20 legislative action designed to curb or to eliminate discrimina-
21 tion in home finance.

22 I know that you have had or will have an
23 opportunity to examine the studies that have been conducted
24 in the Baltimore area, and to hear from citizens and community
25 groups working on this particular problem. I hope

jrb 43 1 Vitarello mentioned yesterday -- and I can assure you that
2 there are some of our citizens groups conducting important
3 research, undertaking organized efforts in Boston, Cincinnati,
4 Los Angeles, Washington, D. C., of course, St. Louis,
5 Indianapolis, Gary, Indiana, Philadelphia, and Dallas.

6 While these studies and organizing efforts have
7 been extremely useful in documenting redlining and other
8 types of financial discrimination on account of race, it
9 is only revealing the tip of an iceberg. There has been an
10 absence of systematic information on mortgage lending
11 policies and practices both in the race of the applicant and
12 the racial composition of the neighborhood in which the
13 property is located.

14 Now, to some degree this lack of information has
15 been corrected by a six-month 18 SMSA -- which is the
16 Metropolitan Statistical Area Research Project --which, was
17 recently completed by the four federal financial regulatory
18 agencies. Although each of the agencies has been busy pointing
19 out the technical problems, the collection and analysis
20 of the data, the findings are remarkably similar: black
21 people are denied loans at twice the rate of white people.

22 What further proof would you need that a signifi-
23 cant problem exists? This problem hurts not only minority
24 applicants for loans and for employment in the lending
25 agencies, but also is extremely destructive of city areas

1 and neighborhoods; neighborhoods which are now integrated
2 and wish to stay that way, or neighborhoods that could be
3 integrated once again, are hurt.

4 The achievements gained through all the research
5 mentioned above must not be allowed to wither and wilt on
6 the grounds that further research is needed.

7 NCDH and the other national groups are urging
8 that minorities in urban areas need action now to correct
9 this type of discrimination. I hope this Committee can adopt
10 a similar recommendation for the Baltimore area.

11 Now, what can be done?

12 Having briefly outlined some of the scope of
13 the problems as we see it, I would like to discuss what legal
14 protections exist to combat it.

15 In March of 1971 NCDH and 12 other civil rights
16 and public interest groups formally petitioned the four
17 federal financial regulatory agencies, the Comptroller of the
18 Currency, Federal Deposit Insurance Corporation, Federal
19 Reserve Board, and Federal Home Loan Bank Board, to take a
20 variety of steps to end discrimination in home finance.

21 These steps included detailed recordkeeping of
22 loan applications, posting of clear statements of standards
23 and criteria, used on reviewing and deciding on loan applica-
24 tions, the undertaking of affirmative action to inform
25 customers and potential customers of nondiscriminatory

lending policies; and the establishing of working relationships with brokers and other agents who serve members of minority groups.

We also advocated the development of a national data collection system for a comparative analysis of lending data throughout the country. A recently completed pilot project is an outgrowth of this, as are the equal opportunity in lending posters found in institutions making real estate loans.

NCDH can assure you, however, that the display of a few posters in the institution of a pilot study is simply not enough.

Title 8 of the 1968 Civil Rights Act has a requirement that all executive departments and agencies shall administer their programs and activities relating to housing and urban development in a manner affirmatively to further the purposes of the housing. The Federal Home Loan Bank Board which has authority over by far the most significant section of home mortgage lending has adopted regulations designed to halt racial discrimination in lending.

They are considering whether or not to launch a national data collection. They have only begun systematic enforcement of their own regulations through the use of an updated examination manual.

NCDH would urge that increasing efforts in this

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1 area be a primary recommendation as a result of these hearings.

2 Now, as an aside, I might add that these agencies
3 have done very little of substance, other than to issue
4 policy statements to end the practices in this area. They,
5 too, are now studying instituting a national data collection
6 effort.

7 I might also add that petitions filed even as
8 far back as 1971 are still legally active, and steps can still
9 be taken to implement the requests in those petitions that
10 have been denied or ignored by the agencies.

11 While this provision of Title 8 provides some
12 leverage over those institutions which have a major influence
13 if not the major influence in ending these discriminatory
14 practices, other provisions of Title 8 apply and provide
15 protection for the individual.

16 And it is these sections, I think, that deserve
17 a major publicity effort to acquaint individuals with their
18 legal rights and their legal remedies in this area.

19 Section 3605 of Title 8 is undoubtedly the most
20 important of the provisions for preventing redlining. This
21 section of the Act is devoted exclusively to financial
22 discrimination and prohibits a wide variety of practices,
23 including redlining.

24 The language of 3605 clearly contemplates the
25 prohibition of discrimination because of the race or the

1 presence of prospective owners of dwellings in the neighborhood
2 in which the loan is to be made. Now, both the Department
3 of Housing and Urban Development and the Federal Home Loan
4 Bank Board have interpreted this section in this manner.
5 NCDH is currently engaged in two lawsuits designed to
6 secure favorable judicial construction of this section.

7 Secondly, Section 3604(a) of the act makes it
8 unlawful among other things to make a dwelling unavailable
9 to a person or to deny a person a dwelling because of the
10 race. In a typical redlining situation the applicant's
11 house was made unavailable to them through the refusal to
12 process a loan because of race -- not necessarily the race
13 of the applicant, but the race, the racial character of the
14 surrounding neighborhood. The authorities have uniformly
15 held that this section should be read expansively and have
16 applied it broadly to factual circumstances other than the
17 refusal to sell or to rent.

18 Finally, redlining is prohibited under Section
19 3617 of Title 8, that provision makes it illegal to interfere
20 with any person in the exercise of enjoyment of the right to
21 be free from housing finance discrimination as secured by
22 Title 8.

23 Now, the foregoing protections can be invoked
24 by a complaint directly to HUD or to the regulatory agency
25 or by the institution of a civil suit in federal court within

jrb 48 1 180 days of an act of discrimination. The ability to enforce
2 one's right in this area is often unrecognized because of
3 the subtle methods of discrimination.

4 Indeed, as the more overt forms of discrimination
5 disappear, they are being replaced by more sophisticated
6 means. The courts have held that Title 8 applies especially
7 to these sophisticated methods as well as the more overt
8 kind.

9 Now, the prohibitions in the Fair Housing Act
10 apply not only to purposeful, deliberate discrimination, but
11 also to conduct which actually or predictably results in
12 racial discrimination, irrespective of the institution's
13 motives. The yardstick by which financial institutions need
14 to measure their conduct is not the motive or the intent,
15 but the result.

16 Thus, while the consideration of the race, color,
17 religion or national origin of the present or prospective
18 residents of a neighborhood as a sole factor, or one of
19 many factors entering into a lending decision is prohibited,
20 practices which have the effect of discriminating are also
21 similarly constrained.

22 Such factors could include the failure to include
23 a wife's income, which is now specifically prohibited by
24 regulation effectuated in an amendment to Title 8. More
25 stringent credit checks, a flat prohibition on lending on

rb49 1 homes over a certain age, or consistent under-appraisals in
2 minority neighborhoods. Additionally such prohibition would
3 run as explained by Mr. Orlinsky this morning -- the width
4 of a house or, obviously, the age of a home, if you can show
5 that such a practice has an effect of racially discriminating
6 or if it falls most burdensomely on a minority.

7 Now, where the consequences of such actions are
8 discrimination by race the burden of proof shifts to the
9 defendant institution to explain their activities, to explain
10 why their actions are not discriminatory. Now, this can only
11 be done on the grounds of what the courts call "business
12 necessity".

13 Now, in our view the showing of such necessity
14 must also demonstrate that the same business result cannot
15 be achieved through other practices which are less discrimina-
16 tory in nature, and there is case law to support this point.

17 This brief review only illustrates that federal
18 legislation does contain protections which can be invoked
19 by both the regulatory agencies and by the individuals to
20 prevent discrimination in home finance. There is no question
21 but that there is discrimination in this area. There is
22 no question but that decisions on where mortgage money goes
23 and to whom it goes have been made by and known only to a
24 handful of persons in the executive ranks of financial
25 institutions.

1 Now, many times these decisions have been based
2 not on the objective facts, but on stereotyped notions of
3 race, property values and character, which are unsupported by
4 fact.

5 Official review of these decisions is often
6 superficial, if at all, and is conducted by individuals
7 reflecting many of the identical stereotypes.

8 Now, these decisions, as everybody knows, have
9 often made neighborhoods, and they have often broken neighbor-
10 hoods. NCDH feels that the future vitality of our urban
11 areas cannot be left to these arbitrary decisions which are
12 made in private on the basis of preconceptions unsupportable
13 by fact.

14 Public awareness of discrimination in home finance
15 which you have been provided at this hearing can be of
16 considerable force in generating the reforms that are necessary.

17 That is the end of my prepared statement.

18 One thing I think Mr. Orlinsky said this morning
19 in commenting on the demand for housing and indicating that
20 very often people working in this area were upper middle class
21 or upper income who were imposing their own values on
22 whether such demands exists or should exist -- we have found
23 that very often in terms of making decisions on who gets
24 a home, people who are making lending decisions often impose
25 their values, their constraints; and this alone may have a

rb 51 1 great effect on the type of demand or in the type of expect-
2 tation of treatment minorities will receive from public
3 institutions.

4 BOOTH: Are there questions?

5 DARDEN: I have a question.

6 You were outlining the legal structure or the
7 legal restraints on lending institutions; are you saying, then,
8 that if an individual, say, a minority individual, found
9 himself in an area that might appear to be redlined, that it
10 would be possible for them to bring a civil suit against,
11 you know, a lending institution within the city -- or all
12 the lending institutions within the city?

13 SEARING: It's possible. Obviously our court
14 system is so structured that you have to have a case or
15 controversy before you can bring a lawsuit; so if you had
16 a minority person who is in an area in which believed was
17 redlined, and he, himself, had applied for a loan and been
18 turned down; and could conceive of no other reason except for
19 race why this was so, then you might have grounds for explor-
20 ing such a situation.

21 DARDEN: What kind of remedy could that person
22 expect?

23 SEARING: I think the remedy in most of the
24 situations would be of two kinds: First, injunctive relief,
25 to prevent or halt the practices which were identified in

1 any hypothetical indication; and secondly, affirmative relief
2 on the part of the defendant institution to make up for past
3 discrimination in the area -- and many of those have been
4 around for years in establishing working relationships with
5 brokers to serve the minority community, making it known
6 that policies are being reviewed to discover their discrimina-
7 tory impact; the establishment of affirmative employment
8 action programs designed to increase minority employment, and
9 designed to increase minority presence in management.

10 Obviously in cases where money damages can be
11 proved, there is no question that those also should be
12 requested.

13 DARDEN: In other words we heard testimony yester-
14 day about a woman who said that houses in here area were
15 downgraded, the selling prices were much lower than comparable
16 houses very close by. Well, could that person in a hypothetical
17 case, if someone brought a suit against the lending institution
18 they would be able to claim monetary damages for the
19 difference in the selling prices?

20 SEARING: They might be able to, yes; that would
21 certainly be a factor, a consideration in litigation.

22 We have also run into a situation in which
23 a potential buyer was forced to seek elsewhere for a loan
24 at a much higher interest rate; and we feel that the difference
25 in the amount of interest rate charged over time represents

1 an item of damage, -- without commenting on whether or not
2 that will ever be awarded.

3 JEFFERS: Please correct me if I am wrong, but I
4 believe I heard you say that the Federal Home Loan Bank Board
5 has just begun a systematic enforcement of its regulations in
6 dealing with discrimination.

7 My understanding is that those regulations have
8 been in force for a year or two years; now, I was wondering if
9 you could give us your opinion as to why there has been a lag
10 in beginning systematic enforcement.

11 SEARING: The regulations have been in effect for
12 a year and a half or two years and, theoretically, they have
13 been enforced as all regulations are theoretically enforced.
14 Often an agency can determine where it is going to put its
15 emphasis in terms of enforcement.

16 We have been requesting the Home Loan Bank Board
17 ever since 1971 to include in its examination procedures
18 the specific civil rights examination steps that would be
19 designed to determine whether an institution was redlining or
20 was discriminating on mortgages.

21 Now, our feeling is that these techniques work
22 very similar to those used to examine for financial soundness
23 and a spot check of the record to determine where loans were
24 going and where such data was available, the race of the people
25 getting the loans -- this is one of the things we are trying

jrb56 1 to achieve through this racial data collection system which
2 now you can't collect, or most places do not collect racial
3 data; and you have no way of knowing how effective any
4 purported affirmative action policy is.

5 The Bank Board has been updating their procedures
6 and including a new chapter in their examination, and they
7 are now in the process of implementing this. This is what
8 I meant when I said that while there has been selective
9 enforcement in the past, hopefully this will become an
10 integral part, an important part, a stressed part, of the
11 examination procedure. It is only when the federal examiners
12 come down to the institutions and say, "Have you been doing
13 this? We are going to spot-check your loans for this.", that
14 I think you are going to achieve some real action in this
15 area.

16 And this is just one of four or five other key
17 spots that you can identify. The big problem here is one
18 of attitude, as it often is. For many, many years bankers
19 or savings and loan officers were criticized because of the
20 loans that they made. They were either risky loans, they
21 were poor loans; they shouldn't have been made, et cetera.

22 We are now trying to tell these examiners, "Shift
23 that focus"; and criticize the loan officers for loans that
24 they perhaps should have made. And this is quite a bit of
25 conflict and it requires somewhat of a change in viewpoint.

jrb57 1 But we feel it can be achieved with practice. It's not that
2 hard.

3 Does that answer that?

4 JEFFERS: That answers that.

5 THOMPSON: Mr. Searing, some of your testimony
6 indicates that you are going to depend quite a bit on
7 statistics, perhaps to determine just how well some of these
8 institutions are performing. We heard testimony yesterday
9 that many people are turned down by the persons taking
10 applications, verbally; so that there is no written record,
11 really, of what goes on.

12 Would you have any recommendation as to how we
13 might get around a practice such as this?

14 SEARING: That is a real problem. That goes back,
15 I think, to our recommendation several years ago that banks
16 be encouraged to establish an affirmative relationship with
17 brokers who work with minority people so that that factor of
18 verbal putdown or discouragement, which, indeed, often takes
19 place much earlier.

20 It has been our experience that having established
21 a relationship with a financial institution, brokers -- white
22 or black -- will not step out of bounds to seek an agreement
23 with another institution; or, conversely, they will not
24 complain about the institution they are working with for fear
25 of being cut off.

jrb58 1 At one time we were advocating a log of telephone
2 inquiries or of walk-ins or a log of referrals for brokers
3 to determine out of the number of people who actually received
4 information what was the percentage of people who went on
5 to either making an application and being denied, or accepted.
6 And I think basically that is a problem, but basically that is
7 the only answer.

8 Two years ago in the hearings of the FDIC, when
9 we were advocating a telephone -- collection of data over
10 the telephone, one of the FDIC Commissioners said, "Well,"
11 -- he was talking to Mr. Martin Sloan who at that time was
12 the Assistant Staff Director of U. S. Civil Rights Commission,
13 and he said, "Mr. Sloan, that's the first question you'd
14 ask? That's the first thing you'd say to someone over the
15 phone -- what is your race?"

16 Mr. Sloan said, "No, I'd say 'hello'", and then
17 to on to other questions.

18 When I heard that story, I couldn't believe it.
19 Mr. Sloan is now the general counsel at NCDH and I had to go
20 back and check the testimony; and it is right there. So,
21 obviously that poses some problems, but I don't think they
22 are insurmountable to establish that kind of a record. There
23 is no question in my mind in reviewing the specific institu-
24 tion-by-institution data or the area data provided by two
25 of the agencies engaged in the studies that there was

jrb59 1 some skewing of the collection. In other words, people
2 weren't given a form to fill out, although they were pretty
3 sure they were going to be accepted in some situations; or
4 they were -- it's easy to discourage someone, whether
5 minority or majority, in filling out this. There is no
6 question that this kind of problem is going to be encountered.

TAPE2 7 As in the employment area, discrimination in the
8 financial area is going to be a matter of statistics, as I
9 said in my statement. A lot of that is because purposeful
10 discrimination is, I think, mostly going underground or
11 being done away with, or being practiced by practices which
12 have the effect of discriminating, which are equally as
13 illegal; but it is only through collection and analysis
14 of statistical information that we will be able to make a
15 record of this.

16 It has been our feeling for a long time that
17 the federal regulatory agencies, state regulatory agencies,
18 collect massive statistics relating to financial safety
19 and soundness; there is no reason they cannot collect additional
20 data to determine the status of civil rights actions.

21 BOOTH: Thank you very much.

22 Mr. Tucker and Mr. Kavanagh?

23 TUCKER: Mr. Kavanagh is in the audience. I will
24 do most of the testifying for American National, and if I
25 have difficulties in the personnel area, I will call upon him.

jrb 60

1 BOOTH: Okay.

2 JEFFERS: Mr. Tucker, could you please state your
3 name and the name of your institution for the record?

4 TUCKER: Yes.

5 My name is Bruc Tucker. I am a Vice President
6 of the American National Building and Loan Association.

7 JEFFERS: Can you give the address of your
8 institution?

9 TUCKER: Lexington and Liberty Streets, Baltimore.

10 JEFFERS: If you have a prepared statement we would
11 like you to read that first, and if not, we would turn our
12 questioning over to Mary Loker, to my right.

13 TUCKER: With a five-minute constraint on the
14 statement I felt as though I couldn't do justice to what I
15 really wanted to address myself to; so I think I will just
16 start with the questions.

17 JEFFERS: Okay.

18 LOKER: Mr. Tucker, do you have a written affirma-
19 tive action plan?

20 TUCKER: Yes, we do.

21 LOKER: Did you bring a copy of it with you?

22 TUCKER: Yes.

23 LOKER: How long have you had this plan?

24 TUCKER: Well, I can't say exactly. I think that
25 we started it -- I know it was revised in 1974; I can't tell

1 you exactly how long we've had a written one. We always had
2 a plan that we felt was not discriminatory.

3 LOKER: Can you tell me how you implement your
4 402 action plan?

5 TUCKER: Well, as I say, I am not quite familiar
6 with the program. I would be happy to read some sections
7 from it. Obviously I am more oriented to the mortgage
8 part of the association, so I am not familiar with the
9 personnel part.

10 We actively group employees with, you know, based
11 on equal treatment as far as race, sex, religion and national
12 origin is concerned. I am sure we comply with all the require-
13 ments of government regulations as to what the affirmative
14 action program should contain.

15 We maintain liaison with the state employment
16 commission, state job corps, placement bureau, National
17 Alliance of Businessmen, concentrated employment programs;
18 we recruit on minority campuses; we have contacts with boards
19 of education, and request that these agencies refer minority
20 applicants to the Association.

21 LOKER: Okay.

22 Can you tell me your current employment statistics
23 for minority men and women and non-minority men and women?

24 TUCKER: Well, we got the request for that Monday
25 afternoon, the data went back to 1972. Quite frankly, for an

1 institution of our size it has been a little difficult to
2 compile. I will be happy to have that information for you
3 and I will submit it to you later. I don't have it with me.

4 LOKER: Okay.

5 We would like to have it if you could get it to us?

6 TUCKER: Yes.

7 LOKER: Can you tell me if you do have minority
8 men and women and non-minority men and women in supervisory
9 positions for the bank?

10 TUCKER: Well, currently, we do not have minority
11 men or women in supervisory positions. We do have women --
12 we have several women officers. We currently have a black
13 gentleman who is training with us on our management training
14 program; and will probably be in a position -- I guess we
15 could assume he has, he does do some supervisory work now,
16 since his current title is Assistant Manager in one of our
17 branches.

18 Currently we plan to bring him to our mortgage
19 application department.

20 LOKER: Okay.

21 You do have training programs for minorities?

22 TUCKER: Yes. We have currently in our training
23 program, we have a young lady who is an Assistant Manager of
24 one of our branches; a continuous training program. Currently
25 we have two Branch Managers who are women, who are titled

1 Assistant Vice President. We have several women that have
2 various capacities within the Association that are titled
3 Assistant Secretaries. We have a woman Loan Officer, and
4 another woman who is on our Board; and also we have a woman
5 on our loan committee.

6 LOKER: Okay.

7 Can you tell me about the composition of your
8 loan review board?

9 TUCKER: Our loan committee is made up of -- well,
10 how do you want me to do this?

11 LOKER: Male and female, and minority and non-
12 minority, and as to members who live in the city as opposed
13 to those who do not.

14 TUCKER: Currently we have no minority members on
15 our loan committee. As so stated, we have one woman on our
16 loan committee; out of seven people who are on our loan
17 committee, we have two people who live in the city.

18 LOKER: Okay.

19 What are the qualifications for membership on your
20 loan committee?

21 TUCKER: Well, obviously, mortgage background and
22 experience and knowledge, qualifications in underwriting
23 techniques.

24 LOKER: Okay.

25 Now, the woman you have on your loan committee,

1 does she meet all these qualifications?

2 TUCKER: Yes, she has been with the Association
3 for quite some time and has been active, and has always been
4 active in the mortgage application section.

5 LOKER: Okay.

6 Can you give me the same sort of information about
7 the Board of Directors?

8 TUCKER: Well, out of eight members of the board,
9 there are no minority members; there's one female board
10 member; four of the board are city residents.

11 LOKER: And how are the Board members chosen?

12 TUCKER: Well, obviously, I am not on the Board
13 and have never participated in choosing a Board Member.
14 From the ability of the people who are on the Board and
15 their background I am sure as in other businesses -- and we
16 do have the one female board members, who has been a long-
17 term employee of the Association and has a good working
18 background as far as S&L's, and American National is concerned,
19 I can safely say I would assume that it is certainly qualities
20 and the ability to direct a major S&L institution, based
21 either in experience in the business, American National itself,
22 or certain qualities to be derived from businesses that are
23 outside the S&L.

24 LOKER: Do you expect to increase the percentages
25 of women and minority members on your board?

1 TUCKER: Well, there again, I am not a board
2 member. I could not address myself to that question. I have
3 no knowledge of what the board might anticipate doing.

4 LOKER: Well, would you make any suggestions for
5 making these increases of women and minority members?

6 TUCKER: There, again, that is a difficult question
7 to address oneself to. I can't -- because of my position with
8 the Association, not being a board member, I really don't
9 feel as though I can safely address myself to that question
10 and reflect what the Board's thinking would be.

11 LOKER: I can understand that..

12 SMITH: Mr. Tucker, I am going to move into an
13 area in which you have much more familiarity -- lending
14 policies. I wonder if you could share with us how many
15 applications for home mortgages your organization processes
16 in each of the years '72, '73, '74; and then '75 -- I assume
17 your figures are at least for the first six months?

18 TUCKER: Right.

19 Okay, in 1972, the Association processed 830
20 applications. It amounted to approximately \$27,500,000.

21 In '73, we processed approximately 1,000 applica-
22 tions, total amount of loans were approximately \$52 million.

23 In '74, we processed 393 loans and we put on our
24 books approximately \$12,700,000 worth of loans.

25 So far in '75, we processed 289 loans and we are

1 -- the loans that have been put on the books have been
2 \$8,313,650.

3 SMITH: Do you have any information on the number
4 of applications accepted as against those which are rejected?

5 TUCKER: Well, I have the number that were
6 rejected. And the dollar amounts -- in '72 we rejected 35
7 loans amounting to \$1,097,000.

8 In '73 we rejected 29 loans which amounted to
9 \$1,071,000.

10 In '74 we rejected 23 loans that totaled \$389,000.
11 And so far in '75, 14 loans, \$345,000.

12 SMITH: Thank you very much.

13 Do you have information in terms of minority and
14 non-minority applications which are accepted and rejected?

15 TUCKER: No. Unfortunately, except for the program
16 that was alluded to where we were asked to keep records for
17 a six-month period for the Federal Home Loan Bank Board,
18 in the Association there are no such records.

19 SMITH: Does that same answer apply to male and
20 female applicants?

21 TUCKER: The majority of our applications are
22 couples, and we have never seen the necessity of trying to
23 keep it as male and female. I would say the majority of these
24 were both male and female.

25 SMITH: Do you keep any track of telephone

1 inquiries, of what ordinarily be a mortgage application which
2 you turn off before the papers are even initiated?

3 TUCKER: No, ma'am, we don't. Under the new law
4 as a matter of fact it is a question of area when you get on
5 the phone, and the information you quote as to whether it is
6 considered an application, and how you can comply with the
7 requirements of Wrestler. And we have been very hesitant
8 to get into any lengthy telephone conversations because we
9 are concerned that the person might consider that a commitment
10 and then we would not be able to comply with all the other
11 requirements that go hand in hand with mortgage commitment.

12 I think based on our rejection rate and probably
13 a total I should have given you that I didn't give you is that
14 the amount of loans that were cancelled either by, you know,
15 cancelled by the applicant, leads me to believe that almost
16 always we encourage the person to come in and make an applica-
17 tion; and later, if he finds out he doesn't like the rate,
18 he doesn't like the institution, or he doesn't like the
19 information we are asking, or he finds through counselling
20 that perhaps this is not the house he wants to buy, so he
21 cancels the application on his own; as far as keeping actual
22 track of telephone calls, no.

23 SMITH: I wonder would you be able to leave with
24 us those figures which you quoted?

25 TUCKER: Yes.

1 SMITH: Do you have any explanation or could you
2 enlighten us as to the differences in the dollar amounts in
3 those years? There seem to be significant changes?

4 TUCKER: Well, in '72, the Association, because
5 of deposits, had considerable money for lending. In '73 and
6 '74 we went through a tremendous -- well we call it a money
7 crunch. There was more disinvestment, which, instead of
8 putting their funds with us, most individual deposits went
9 into direct investments, Treasury bills, or other investments
10 that guaranteed a higher yield than we could give.

11 And during those years we didn't have the funds
12 to lend. In the first part of '73, disenchantment with the
13 general stock market, and the fact everyone seemed to be more
14 concerned with saving money and not buying items, or going
15 from Treasury bills at that time -- they were at their very
16 lowest rate, and we are already beginning to see Treasury
17 issues which have fallen off, and savings have fallen off
18 considerably; and probably towards the end of the year we
19 will not have monies to lend in the same volume that we did, say,
20 in '70 and '72.

21 SMITH: Would it be fair, then, to assume that
22 these dollar figures are in exact proportion to the total
23 available pool you have for lending?

24 TUCKER: Yes.

25 Yesterday in someone's testimony I heard them say

jrb69 1 that, you know, they thought that S&LS -- they faulted
2 S&L's for not advertising for mortgages, and, actually, very
3 seldom do I know, you know -- I know American National
4 has never to my knowledge in its history since I've been there
5 advertised for mortgages, because we are always advertising
6 for savings.

7 Because, obviously, the mortgage demand has
8 always exceeded normally what we have available to lend out.

9 SMITH: Thank you.

10 Sir, what criterion are used to approve
11 applications?

12 TUCKER: Well, on an individual basis, we are
13 primarily concerned with the applicant's employment, his
14 job history, ability in his employment, his credit, how well
15 he has lived up to his obligations in the past, his ability
16 to meet the downpayment requirements whatever they may be;
17 and settlement costs.

18 On the property analysis we are concerned with
19 -- probably the two main items are: what the current market
20 value is of the property based on other sales prices, and
21 the market within the area, and probably then the second most
22 important area we call "remaining items," where the appraiser
23 sort of estimates as to what he thinks the expectancy for
24 the house as far as its quality and livability will be in the
25 future.

jrb70 1 SMITH: We are going to get back to matters of
2 appraisal a little later. I think they play an important role
3 in all of this.

4 But let us just for the moment continue through
5 with our discussion of the application, and then pick up the
6 appraisal.

7 You gave us then the criterion to approve applications;
8 what criterion are used to reject applications?

9 TUCKER: Well, normally we are concerned with
10 the ability of the prospective purchaser to meet his monthly
11 mortgage obligations and his long-term debt; so we would be
12 looking at what disposable income he would have as opposed
13 to whatever his new mortgage payment would appear to be in
14 terms of long-term debt; and secondly, how well he is going
15 to -- based on his previous experience and verification -- we
16 get a credit report in our interview -- whether he is an
17 individual who meets his obligations in the past and has been
18 able to manage his money to the point that he is able to
19 keep a reasonable ratio between his incomes and whatever is
20 his monthly debts would come to.

21 SMITH: When you have occasion to reject an
22 application do you discuss alternative means of financing?

23 TUCKER: Yes. Well, we do discuss, we give
24 written notices to everyone as to why their applications was
25 rejected. If it's a matter of credit, obviously -- of their

1 credit practices, we are restricted on exactly what we can
2 tell them. And that is a difficult area.

3 We advise them that -- but normally, we do. If
4 for some reason the monthly mortgage payment is more than he
5 can handle, we certainly suggest to him that if everything else
6 was good, perhaps he was looking for housing that was a little
7 beyond his means now.

8 If we find out that perhaps we think there is
9 an increased risk because of the amount of the mortgage
10 payment and disposable income, we might suggest to him that
11 rather than lose the house we process his application with
12 a housing fund that would allow us to give him more of a
13 mortgage, and also would probably insure the institution
14 against this increased risk.

15 We do suggest other alternatives. Obviously the
16 biggest suggestion is his employment, if his salary should
17 increase that would allow him to buy the house, or acquire
18 more money to put down on a mortgage so his monthly mortgage
19 might not be so great, to come back and talk with us.

20 SMITH: You made reference to your Association's
21 policy for a downpayment; you said whatever that policy is.
22 What is that policy?

23 TUCKER: Well, the policy ranges -- we obviously
24 have rates that would encourage people to put more money
25 down. The Association also lends on mortgages that require

1 no downpayment. And it goes up and down the spectrum. Some
2 people fortunately have 30 percent down; some have none.

3 SMITH: Under what conditions would you give a
4 no-downpayment loan?

5 TUCKER: FHA, they normally don't require down-
6 payments; 100-percent-GI's don't.

7 SMITH: In those cases where there is insurance?

8 TUCKER: Yes. Because of regulation we are
9 required to have insurance over mortgages that exceed 80
10 percent; so we use the housing fund extensively, the Maryland
11 Housing Fund, which has a program which allows us to
12 borrow 100 percent of the sales price, plus some settlement
13 costs, and put a very minimum downpayment, \$500, to be applied
14 against downpayment, settlement costs, or however they want
15 to apply it; and then they insure the loan as a matter of
16 coinsurance behind the institution.

17 SMITH: What is the smallest loan you will make,
18 smallest mortgage?

19 TUCKER: Well, we have changed our attitude
20 in that -- over the years -- currently -- I can remember now
21 that we have no minimums. I think the lowest one we put on
22 our books in the last several years to my personal knowledge,
23 was around \$2,000 to \$3,000; but we have no minimum.

24 Obviously if someone came in and asked us for
25 \$1,000 loan we would take a look at it, and we could suggest

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1 to him some alternative that might get around settlement
2 costs and some of the expenses. But if he insisted, we would
3 certainly process it, while we would think he didn't show
4 very good judgment.

5 SMITH: What percentage of your home mortgage
6 loans were made in Baltimore City in each of those years:
7 '73, '74, and the first six months of '75?

8 TUCKER: Okay.

9 In '72, investment in the city was approximately
10 2 percent. The same in '73; and '74, '74 it was 18 percent.

11 SMITH: Can you give us any explanation?

12 TUCKER: There again I think probably, well,
13 obviously, the pledge was one major factor, so I'll discount
14 that.

15 But the other thing I think that has been crucial
16 to American National particularly was the fact that this
17 State was willing to step in behind these Associations and
18 coinsure mortgages. The Housing Fund is only several years
19 old and we have begun to use that quite extensively. And in
20 an area where people are not able to put down the normal
21 downpayments, and while a lot of people discount this, at least
22 it is in the eyes of savings and loans, certainly more risk
23 -- not individual, but because of the fact that he doesn't
24 have any of his own personal money into the property, he
25 could easily walk away from the property without any financial

jrb74
1 problems of his own.

2 The fact that the State was willing to come up
3 with this Housing Authority, I think, had a lot to do with
4 our ability to come into the city.

5 SMITH: What percentage of such loans were made
6 in Baltimore County during this same period?

7 TUCKER: I -- your question came to me, came
8 asking specifically for the City; and I didn't prepare for
9 the County.

10 SMITH: Would it be possible for you to prepare
11 that for submission in the future?

12 TUCKER: I think so.

13 SMITH: We would appreciate that.

14 Do you make loans outside of Baltimore City and
15 County?

16 TUCKER: Yes, we make loans in all the counties
17 that surround Baltimore City, what we classify as the
18 Baltimore metropolitan area, Howard, Hartford, Harold,
19 Ann Arrundel, Prince George's, Montgomery County.

20 SMITH: Do you have any loans out of state?

21 TUCKER: To my knowledge we have only one, and
22 that was recently put on, a participation loan with a group
23 of savings and loans on properties in Florida; but it is a
24 very minute percentage of our portfolio.

25 With that exception I would say our entire

jrb 75

1 portfolio is within the State of Maryland.

2 SMITH: Thank you.

3 BOOTH: Do you ever make decisions based on,
4 oh, the amenities in a house, the plumbing?

5 TUCKER: I don't quite understand the thrust of
6 your question.

7 You mean are we more apt to lend if the house
8 has two bathrooms rather than one?

9 BOOTH: Yes, that sort of thing.

10 TUCKER: No.

11 An individual comes to us with a signed contract,
12 tell us this is the house he wants to buy; we take a look at
13 the house and decide whether we think it is a reasonable
14 value for the existing market in that area, and the gentleman's
15 qualifications or woman's qualifications, or combination of
16 those are sufficient to purchase the house.

17 BOOTH: You talked about the livability of a house?

18 TUCKER: Well, we have taken a look -- we call it
19 the "remaining economic life". It's a theoretical thing.
20 In the appraisal obviously the assumption is a new home will
21 last for 50 years. You have to start with some assumption,
22 and appraisers have done this.

23 And depending on how the house has been maintained,
24 if it were a hundred-year-old-house in the city it would have
25 a remaining economic life still of 50 years, because the house

jrb76 1 the plumbing has been updated, the electrical has been
2 updated, so that theoretically the house is still, you know,
3 livable.

4 We have other houses where there is -- people
5 come to us and they don't have furnaces -- space heaters --
6 and the bathrooms, there might not be a bathroom; I think
7 that's a particular problem in the city; furnaces are inoperable
8 -- those would naturally tend to bring down what we call
9 the "livability" of the house. This is certainly not what we
10 call shelter.

11 BOOTH: Don't you think those could be added?

12 TUCKER: Well, yes. You read something into my
13 question or my answer.

14 That is not saying that if somebody came to us
15 and said, "I want to buy this house, and I have X-number of
16 dollars to bring this house up to what we call 'code' or
17 'standard'", certainly we would consider that. Underwriting
18 -- let me stress this a little bit more:

19 Ultimately in underwriting you are looking at
20 an investment. You are putting people in housing, and that
21 is certainly not the major portion of it; but always you have
22 in the back of your mind whether you are lending on a few
23 thousand dollar house or a \$70,000 house, the responsibility
24 you have to the Association. And if for some reason a person
25 is unable to complete the payments, that you have to take

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1 this house back; and it has to be held in the portfolio.
2 S&L's are not in the real estate business. Therefore,
3 ultimately we are not interested in taking them back.

4 We are interested in getting income from the loan
5 so that we can put that out in dividend for our investors
6 that have deposits, or putting it out into other mortgages.
7 So ultimately in the back of your mind is what happens if
8 you have to take this house over, and you have to dispose of
9 it?

10 And, you know, while we do and some people come in
11 and they'd love to renovate barns, aesthetically, that's
12 wonderful. But, ultimately, in our view, decision-making is,
13 you know: what is the market for this if you have to take
14 it back? And houses that are below standard for the area
15 ultimately we are concerned with -- if we have to take them
16 back -- is what is the market for that house, and how can we
17 sell it to recoup whatever current mortgage balance there is.

18 So we don't have standards, we don't have property
19 standards, but so long as there is a market for that
20 particular dwelling in that area, that's what we based our
21 appraisal on; that is how we determine what we think the
22 purchase price should be.

23 That would be the perimeter of our thinking so
24 far as standards are concerned.

25 BOOTH: Are you saying as a part of this, the

jrb78 1 the evaluation of the entire house, you have to consider
2 the house in the context of its neighborhood?

3 TUCKER: No, only in its marketable area. In
4 appraising we consider what we call the market value of the
5 house against -- that's the primary consideration; and that
6 is determined by taking comparable properties, as similar
7 as possible. Obviously, the best would be a group of homes
8 where we have one house after the other which are the same,
9 and determining what the market is in that particular area
10 based on the houses that are sold.

11 BOOTH: Do you restrict the amount of loans on
12 older houses?

13 TUCKER: Only in the context of "what is the
14 remaining economic life" -- on a theoretical basis; if
15 remaining economic life of the house is, let's say, 35 years,
16 and -- normally you would have no problem with that. We
17 might take a look at it, but normally we don't.

18 Most of our mortgages at least we assume would
19 be the maximum we could lend which is 30 years, and taking
20 a look at the property we might offer a different term. But
21 ultimately we always assume that the house is going to be
22 30 years, that the loan will be a term of 30 years.

23 BOOTH: Do you find your appraisers use different
24 criteria now than they did a year or so ago?

25 TUCKER: In what respect?

jrb79 1 BOOTH: I don't know, I am just wondering whether
2 your assessment of housing worth is changing?

3 TUCKER: Well, the estimate of housing worth is --
4 the primary thrust of the thing is the marketability of the
5 area, and it is derived from free market sales within the
6 area. So I would say not necessarily; there has been some
7 change in appraisal technique as far as years ago. I can
8 remember the ultimate value of the house was what it cost
9 to build. Now you have houses in the city you couldn't
10 duplicate them at the prices they are selling, the quality of
11 the construction.

12 And so we have discounted, certainly, the cost
13 approach, what we call the "cost approach" to appraising in
14 the city because there is just no way we could duplicate the
15 building of some of these brick row houses which would cost
16 \$150,000 now; and they may be selling for \$14,000.

17 Basically it is based on whatever the free market
18 is.

19 BOOTH: So it is bound to fluctuate?

20 TUCKER: Yes.

21 BOOTH: Do you use appraisers -- outside
22 appraisers, or are they employed?

23 TUCKER: We use our own appraisers.

24 BOOTH: And what plans -- if you have any plans --
25 have you, for the increasing the amount of mortgage money

jrb80 1 available in the city?

2 TUCKER: Well, we have done nothing to actually
3 deter minorities or women from coming in our shops. We
4 take mortgage applications, we solicit mortgages through
5 minority realtors.

6 I would say the only thing that we have construc-
7 tively done that would change this thrust is probably that
8 we are trying to attempt to develop a program to do more
9 with 221(b)(2) problems. We haven't had a great request
10 for that, and we didn't have the personnel to handle it; but,
11 obviously, with money tightening up a little bit, normally
12 when money begins to tighten up, the general thrust is to
13 go into governmental mortgages. As rates begin to move up,
14 governmental mortgages go low; so we think we can service
15 the area best in that program.

16 SMITH: You indicated at the beginning
17 Mr. Kavanagh was there, and I know that you had some diffi-
18 culty in answering questions about the affirmative action
19 program; I wonder if we might want to inquire now as to
20 whether Mr. Kavanagh has anything to add to your discussions?
21 I would assume that he would have primary responsibility?

22 TUCKER: Well, I would be happy to ask him that.
23 We are going to give you copies of the program, but I would
24 be happy to ask him that.

25 Do you have anything to add to that?

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KAVANAGH: Yes.

JEFFERS: Why don't we just get your name and title for the record?

KAVANAGH: Gerald Kavanagh, Vice President, American National, Baltimore.

I think Ms. Smith had a question -- one of the questions asked in the beginning, and I thought --

LOKER: Do you know how long you have had this affirmative action plan?

KAVANAGH: Yes, approximately 1969.

LOKER: Was it written then?

KAVANAGH: Yes, it was written then, and it was approved by the president; and we updated it annually.

LOKER: Okay.

And how do you implement the plan?

KAVANAGH: Well, I am involved -- or was -- I am still a member of the Personnel Administration Association, which at the time was just Baltimore City. First I should say that this is not my only function, so I have to attend this thing as Vice President in Charge of Personnel, Marketing, Advertising, and a new thing we just threw in which is called Urban Services. So I have to keep abreast of all these changes, rules and regulations in all the areas that I possibly can.

And my relationship with Personnel Administration

1 Association of Baltimore I come in contact with many people
2 in various industries, not just in our field, but also
3 industry as well. And we knew then by law that you have to
4 have an affirmative action program regarding race discrimina-
5 tion.

6 So therefore we implemented it in '69 and we have
7 updated it ever since. I have kept close contact with the
8 Federal Reserve Bank, its member institutions, the other
9 companies; and we feel we have a pretty good one.

10 Now, I am going to be perfectly honest: we do
11 our best to keep up with this thing, and do what we put in
12 writing. There are some cases that I'm sure we're not the
13 only ones that are "guilty" of this: sometimes you can't
14 do all the things that you want to do and put down on paper.

15 To give you an example, in the very beginning -- in
16 fact, we still do -- we send all of our requests to the State
17 of Maryland; okay, it's a one-man operation. They do send
18 down -- respond quite good, in fact. But they send down
19 perhaps 70 or 75 individuals that we have to take a look-see
20 at, and select from that for possibly one position. This is
21 time-consuming to say the least.

22 They also request that we should -- I'm not saying
23 they "demand" -- they request we run ads in various minority
24 papers as well as local papers. Well, as Mr. Tucker has
25 already testified, because of the crunch, what we do, our

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1 policy is, we go through the local agencies; we also --
2 job placement center -- we also advertise in The Sun. We
3 feel that this is mostly read by all minorities, and, hopefully,
4 this is where we get our largest response from.

5 But we have not had much success with the State.
6 We have notified various city agencies and have worked with
7 these people.

8 I would just like to say, Charlotte Renee -- I
9 don't know how many of you know her -- she's a tremendous gal
10 in industry in the Baltimore City area; she has worked hard
11 and I've worked with her in many cases.

12 However, she has a certain function and she needs
13 a certain amount of help, and that help has not always been
14 the best in getting the school kids prepared for when they
15 get out of high school to come in for the interview. And I
16 suggested what we do -- we have a group of maybe five or six
17 individuals in the personnel area to go out to the high
18 school and talk to these young men and women as how to properly
19 come in and be interviewed.

20 But it has not met with much success. In fact I
21 don't know of anyone who does it now because we have not
22 been offered the opportunity to come back. There was a time
23 when we did this. That's another story.

24 LOKER: You don't have statistics, either, of --
25 regarding the minorities?

jrb84 1 KAVANAGH: In our organization?

2 LOKER: Yes?

3 KAVANAGH: Mr. Tucker said he was going to send it
4 in.

5 TUCKER: Yes, we are compiling those.

6 KAVANAGH: There are 119 employees in our organiza-
7 tion, and it's somewhere in the area of about eight or nine.

8 SMITH: Are what?

9 KAVANAGH: Minority.

10 LOKER: Okay.

11 Mr. Tucker answered all the other questions to
12 my satisfaction.

13 I would like to ask Mr. Tucker another question.

14 TUCKER: Sure.

15 LOKER: When you have a married couple that comes
16 in to try for a mortgage with your S&L, what percentage of
17 the wife's income do you consider?

18 TUCKER: All of it.

19 LOKER: In all cases?

20 TUCKER: Well, yes, I would say once portions of
21 it were discounted; but currently we're counting all of it.
22 The thing we are concerned about when we're looking at her
23 salary is -- no, no, we count all of it.

24 For a while we were looking at the job stability,
25 you know, how long had she been on the job; obviously, somebody

1 who had just started on a job, been there two weeks, and
2 had graduated from high school, we were less apt to count all
3 of her salary. We looked at her salary as monies that they
4 would be saving for downpayments, and used for that. But
5 since that time we, you know, have changed.

6 There are more women working, the economy is taking
7 a dip; more people are having to work; there are better
8 programs with maternity benefits, and more women having
9 children are returning back; so we count all of it.

10 LOKER: Well, in the case where the husband and
11 wife have both been working a short length of time, and they
12 come in to buy a house --

13 TUCKER: Do we value them separately? No. We
14 would do the same -- use the same criteria. If the gentleman
15 had only been on the job for a few weeks, we would be
16 concerned about his job stability.

17 KAVANAGH: Can I interject something?

18 I am not sure how the testimony went earlier, but
19 we do have one minority who is Assistant Manager of one of
20 our branches.

21 LOKER: Mr. Tucker said that.

22 KAVANAGH: I wasn't sure it came out. We are
23 presently looking for management trainees, actively at the
24 present time.

25 DARDEN: I have a few questions -- they are not

1 personal wquestions; but, Mr. Tucker, can you describe
2 a typical borrower that you service in the institution? And
3 could you give us some idea of how many loans that you make
4 that don't necessarily fit that typical borrower's description?

5 TUCKER: "Typical borrower"?

6 DARDEN: Yes?

7 TUCKER: Well, that's such a difficult description,
8 particularly since we lend to such a broad area; we lend
9 mortgages with no downpayment to 50 percent down. There's
10 just no way to come up with a "typical borrower". I would
11 do you a disservice and myself a disservice if I tried to.

12 I have never compiled any statistics to say, you
13 know, I could tell you what the average loan is -- I run that
14 every month based on our portfolio. It's running between
15 \$30,000 to \$35,000. However, I would say the majority of the
16 loans we place in the city are probably \$29,000 or less.

17 So in some cases, then, we are certainly away
18 from the typical or the normal in that area. But to try to
19 come up with what the average salary would be, or the average
20 age, or -- unless you give me some more areas of description,
21 I can't do that.

22 DARDEN: Let me ask you, then, in a different
23 way: would, say, a single woman, head of household, single
24 minority woman head of household, have a difficult time getting
25 a loan, assuming that all other --

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1 TUCKER: No, not at all.

2 DARDEN: The other one you mentioned --

3 TUCKER: As a matter of fact, if you took a survey
4 you would find in some cases we probably have accepted more
5 of those loans than individual men, because apparently the
6 women are much more realistic with what they can afford than
7 men, who come in to buy houses, or go into coops, or
8 condominiums that are far beyond their earning capacity at
9 this particular time.

10 DARDEN: The other question is a short one, too.
11 You mentioned that your mortgage demand usually exceeds the
12 availability of mortgage money?

13 TUCKER: Yes.

14 DARDEN: Would the availability be increased, well,
15 I guess there's two questions:

16 First, does your organization invest in federal
17 securities packages, and would your availability be increased
18 if you did less of that and made more money available to
19 the individual home loans?

20 TUCKER: Well, the Association is required by law
21 to have what we call "reserve requirements". Reserve require-
22 ments are the hedge against possible -- I don't want to get
23 into a lengthy description of it, but we are required by law
24 to put a certain amount of money aside in what we call
25 reserves. When you talk about the strength of an

jrb88 1 institution, you may have to maintain a certain liquidity
2 because of the number of withdrawals we can anticipate at
3 any time; so we do get in these governmental programs. We
4 do get in these investments because they are classified as
5 liquidity, and because we are required -- no, we do not get
6 into them because they'll get us a better yield than our
7 mortgage money. We would prefer when mortgage money is tight
8 the Government normally lowers your liquidity, so you can
9 put more money out into mortgages; so you have just the
10 opposite effect.

11 But when money is tight what we do do is try
12 to sell off to different organizations interests in our
13 portfolio; Federal Home Loan Mortgage Corporation -- and they
14 perform a great service for S&L's, and we have this portfolio
15 of good investments that were mortgages, and no one else,
16 out of state, when the money got tight, had any money to buy
17 them. The government did set up the program, and they
18 bought interest in these places. We sold off 50 percent of
19 these mortgages, millions of dollars; and if we hadn't had
20 that vehicle through the government, we probably wouldn't
21 have had any money to lend in these areas.

22 THOMPSON: I want to ask a question: we have
23 heard testimony that some people who sell homes -- you cer-
24 tainly get the message from people who take applications
25 from S&L's -- it's not necessarily your institution -- for

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1 example, a message is sometimes asked -- if you're married
2 and have two children, you have a better chance of getting
3 a loan?

4 I have found in some of my dealings that the
5 administrators of institutions -- is there any checking of
6 policy -- do you have or every try to figure out or have a
7 feel for --

8 TUCKER: A policy of soliciting loans? -- if that's
9 the term you use?

10 It's set up by the loan company. We take a look
11 at several things: obviously, the most important is the
12 availability of funds. And we do not -- as one person said,
13 we do not wine and dine, whether they be minorities or others;
14 so I would assume that whatever our requirements are, and
15 we advise realtors what we are looking for -- the only thing
16 we stipulate is the amount of downpayment t-hat we are looking
17 for and what we consider would probably be the interest
18 rate.

19 That is the only thing we put on our sheet. Any
20 other thing we put on the notice is what our current point
21 structure would be, so if you get one of our sheets, you
22 probably would see a lot of it would be dependent on what
23 money we had available, and it would probably say we were
24 accepting applications immediately, an 80-percent loan will
25 have an interest rate of so-and-so, and anticipate 30 years

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1 of VA depending on what the market was at that time. But
2 it would say we are accepting VA mortgages at the government
3 regulated rate. And that's the only definition.

4 THOMPSON: Okay, fine.

5 You are very confident the people who are taking
6 applications actually reflect the policy of the institution?

7 TUCKER: Yes, sir.

8 THOMPSON: Does it cost more to service a loan
9 between \$5,000 and \$15,000 than perhaps a higher priced loan?

10 TUCKER: Well, we have never run a survey on that.
11 We would have to assume that, obviously, the return you would
12 get on a more sizeable loan, depending on the interest rate
13 would be greater than a smaller loan. We have not run any
14 test on that. I would assume it would be, but that doesn't
15 stop us from making the loan.

16 THOMPSON: Do you have any particular pecking
17 order for your loans? If I came and asked for \$100,000 and
18 my brother came and asked for \$15,000, would there be any
19 choice your institution might make between us?

20 TUCKER: Well, depending on the money available.
21 Normally, because of the money crunch we do put limits on
22 our loans. But, no, we don't have any pecking order.

23 Most of our loans are called conforming loans
24 because they are more easily saleable, and we try to keep
25 the maximum loan in the area between \$55,000 and \$65,000.

1 But if a qualified buyer came for more than that,
2 we might consider his loan. We do have some that are worth
3 \$65,000 and on a month to month basis we keep tabs on what
4 our average in the portfolio is; and I would say for the past
5 several years it's been averaging between \$30,000 and \$35,000.

6 THOMPSON: Okay.

7 Conversely someone comes to you with a request for
8 between \$5,000 and \$15,000, do they get the same consideration
9 as a person asking for \$55,000; or are there other criteria?

10 Do you think the criteria are different for a
11 lower amount?

12 TUCKER: Well, no.

13 The tendency would be to be more deliberate with the
14 higher amount of money.

15 THOMPSON: Thank you very much.

16 WICKWIRE: You said before and I understand that
17 there has been a very dramatic drop in terms of home mortgage
18 business, going from like 73 to 74; and then later you indicated
19 that as far as the city is concerned there has been a
20 phenomenal increase in your writing of mortgage loans?

21 TUCKER: That is right.

22 WICKWIRE: It's gone from 2 percent to 18 percent
23 in '74; 22 percent in '75?

24 Does this mean -- I think you've touched on it
25 already, and maybe we could expand on it -- could this mean

jrb92 1 the home mortgage business is generally pretty bad? Does it
2 suggest maybe this is a trend?

3 You are going to be putting much more money into
4 the inner city in terms of mortgage because of some attractive
5 features that are not available elsewhere?

6 TUCKER: The city pilot program, the pilot
7 program of the Maryland Housing is there so you can lend more
8 loans in the city thar are insured.

9 Basically I would say that the dramatic increase
10 was based on our pledge to the city, to be quite frank with
11 you. I can recall when we were making no loans for a
12 period in '74, and the only processing was city loans. We
13 don't anticipate obviously in our performance in '75 that once
14 we felt as though we settled this obligation that we're going
15 to step out on making loans in the city.

16 I think -- I did not run any total for the
17 portfolios, but, obviously, when you have money, the money
18 runs with the demand. During that period of '72 and '73
19 we weren't as actively participating -- we were very active
20 in the counties where there was a tremendous demand for
21 mortgages. Normally the money follows the demand.

22 People think the demand follow the money, and
23 that's not necessarily true; and you can get into long
24 discussion of that. But I would have to qualify: the money
25 normally follows the demand.

jrb93 1 Because of various programs, homesteading,
2 et cetera, there is a greater demand in the city than there
3 was in '72.

4 JEFFERS: Mr. Tucker, you mentioned somewhat
5 earlier a hypothetical situation of someone coming in and asking
6 for a \$1,000 mortgage, and I believe you indicated you would
7 suggest some sort of alternatives to him.

8 And the question I want to ask you is: what would
9 those alternatives be, and would they also be feasible for
10 someone coming in for, say, a \$5,000 mortgage, or somewhere
11 in between?

12 TUCKER: The obvious alternative would be in an
13 individual is looking to borrow \$1,000 to buy a piece of
14 property, it probably would be easier for him to make some
15 sort of a personal loan and buy it for outright cash. The
16 process of that loan is expensive, so if he could pay cash
17 for the property, he might get a better sales price for it.

18 I can't, you know, I can't think of any alternative
19 with the lower priced mortgages.

20 JEFFERS: That would be it, just have a cash sale?

21 TUCKER: Well, if he had other collateral he
22 could pledge to a commercial bank, then it would be cheaper
23 to go that way than to pay -- every loan that the Association
24 has to put on the books requires certain things in the
25 federal regulation, an appraisal and a credit report. So there

jrb94 1 are a few fees involved there. If the man thinks definitely
2 he wants this house, no matter what the appraisal is, well
3 he pays a fee and it is costing him to purchase a \$1,000
4 house through the mortgage route; it's much more expensive
5 than he could do it just on a cash sale basis.

6 JEFFERS: Assuming he could get the cash?

7 TUCKER: Yes, assuming he could get the cash.

8 But I think I qualified that -- if he insisted he wanted to
9 mortgage, we would certainly process it for him. I don't
10 think it would be in his best interest. If it was something
11 he could get a personal loan for, or had a relative to make
12 the loan from, or if he had a savings account he could make
13 a loan against his savings account. There are other avenues
14 I think he could use for a loan of that type.

15 While I'm here, though -- no one asked me a
16 question that I came somewhat prepared to address.

17 (Laughter.)

18 BOOTH: That might be my last question then.

19 TUCKER: In the discussion yesterday several
20 people alluded to a program of American National and several
21 S&L's have been very active in called Neighborhood Housing
22 Services. One of the participants discounted it when he
23 said it "didn't have any teeth".

24 When he said that I felt as though he didn't
25 understand what the program was designed for. Neighborhood

jrb95 1 Housing Services is a coalition of people who are -- that
2 represent community involvement, S&L's in Baltimore City,
3 and in any program that has been successful under this
4 particular concept that needs the city's help.

5 The program is not designed to get into an area
6 that is totally demolished or -- I've seen some articles
7 called "bombed out", where there is a lack -- where most of
8 the properties are owned by absentee landlord.

9 The program is designed to get into an area and
10 it has been very successful where there is still a lot of
11 community action, where there are a lot of owner-occupants,
12 and these people have seen urban blight gradually moving
13 on a block-to-block basis towards their particular development.
14 And they are interested.

15 So, what the Neighbors Program was designed to
16 do was to step in and before the neighborhood got into
17 complete decay, to step in and see if we could not reverse
18 the trend. What we have done is to work together in this
19 coalition and -- on a two-pronged process: one is code
20 enforcement. That's where you need the city's action.

21 Everybody has talked about urban decay and
22 redlining, and we won't get into it now, because I know I
23 am a little bit beyond my time; but no one mentioned or got
24 into some of the reasons for this. So we won't dwell on it
25 now.

1 But, one -- and that was probably one of the basic
2 reasons, was a lack of code enforcement by the city. Everyone
3 assumed that one day some S&L loan officer came in and
4 decided that they were not going to lend in that neighborhood.
5 I don't think it operates quite that way.

6 That's a very general statement, but I don't think
7 it operated that way. If it was a good area that was viable,
8 that improvements could be made, if there was a market for it,
9 I don't think any loan officer walked away. And I am
10 qualifying that.

11 So basically what happened in some of these
12 areas is that people owned houses and were affluent enough to
13 move into other areas, and because of their affluence they
14 were able to rent. And we got this pattern of absentee
15 landlords.

16 And so, getting back to my main topic, we
17 concentrated heavily on turning around the occupancy in the
18 neighborhood to owner-occupants. We found out that was
19 primary, that the only way you are going to get them interested
20 -- and I think one of your participants yesterday alluded
21 to the fact that people, that renters weren't interested in
22 improving the area.

23 We were looking for owner-occupants and strength
24 and interest in that particular neighborhood.

25 The other thing we did was to talk to the city and

1 tell them how important we felt code enforcement was, that
2 these houses had to be maintained, and that was a difficult
3 task.

4 So under the auspices of the urban task force we
5 held a workshop, and we selected a target community that we
6 could see was in the process of slowly decaying; but there
7 were still enough residents in that area that were interested
8 in saving the neighborhood.

9 We held a workshop. We overcame some intrinsic
10 problems in this -- that the residents didn't know or
11 understand or appreciate S&L's loan officer's point of view,
12 and other things. We got the program off on a very active
13 footing in January of 1975.

14 That is an incorporated, nonprofit -- our biggest
15 problem was to get together with S&L's in the city and
16 be sure that the S&L's would make a commitment to this area
17 to lend on what we call bankable mortgages; "bankable is
18 defined as those loans that lenders would normally make
19 giving the value of the property and the credit stability
20 and employment stability of individuals buying the property.

21 And the reason we needed that particular pledge
22 at that particular time is not that they were not lending
23 in the area; it was because at that particular time money was
24 tight.

25 But we needed that particular pledge to be sure that

1 even though money was tight and funds might not normally be
2 available that the savings and loans would try, if they had
3 to borrow -- whatever route they had to take to get this
4 money together to lend in this area. And we were successful
5 in that.

6 We then went to the city and asked for a very
7 active program of code enforcement. There wasn't enough
8 that we could come up with. Code violations were needed
9 to be enforced by the city. Because of the public group we
10 could not do this. The city was very helpful.

11 And not only did they help us on the code enforce-
12 ment program, but in addition to that, they also increased --
13 and I think that this is particularly important in the
14 context I am giving this presentation -- in the city's
15 responsibility, they also upgraded the services to the area.
16 Trash collection was increased because there was a need to
17 have trash collection. Better lighting was put up because
18 there was a need for better lighting. Curbings were put up
19 because there was a need.

20 It wasn't that this was to be a showplace. The
21 city realized that in this concentrated effort they had to
22 get back in and perform the city services that they should
23 have been performing.

24 So we got that commitment from the city. Our
25 next biggest problem was to be concerned with how about the

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1 people who live in the area who are not bankable loaners?

2 This was a major hurdle to overcome. And based
3 on some experiences we heard about where the program was
4 derived in Pittsburgh, we set up what we called a "high risk
5 fund", and this is a unique lending fund in the fact that
6 the high risk fund is composed of money gotten from private
7 philanthropic groups; the one who helped us the most in
8 Baltimore is Barbara Mikulski who helped get a grant from
9 the Ford Foundation.

10 And we were able to get a pledge from the Ford
11 Foundation that they would contribute \$100,000, but that was
12 a \$50,000 pledge; and we had to meet double that pledge. It
13 was a two-for-one basis and we had to, in order to get the
14 program moving, we had to come up with \$100,000.

15 And initially our thrust in trying to get the local
16 merchants' funds were not very successful at all. At that
17 time money was tight with everyone, including everybody was
18 in the throes of a recession; and money was not available
19 for these particular type of enterprises.

20 There again the City of Baltimore I think did a
21 very realistic approach; the mayor was behind the program.
22 The housing people were behind the program. So what the city
23 arranged to do for S&L's in Baltimore was to give us or to
24 lend us the \$100,000 we needed on the basis of a loan, but
25 it was as close to a grant as we could get, since the loan

1 had no interest and it was long-term.

2 With this money we set up what we called a high
3 risk revolving loan fund, and then we actively got into the
4 area with this loan fund. The loan fund is administered by
5 people in the community that are members of NHS Corporation.
6 The loan fund makes whatever loans it has to on whatever
7 terms -- a 70-year old person has a 45-year term loan. They
8 can make that. S&L's could never do that, because of certain
9 lending requirements and federal regulations. They can do
10 whatever has to be done.

11 In addition to the purchase of properties to put
12 owner-occupants back in the properties, we were able also
13 through S&L's that were active in home improvements to get
14 a home improvement loan.

15 So now we have three things that we thought were
16 most important: a commitment from the city; we had a pledge
17 from S&L's to make the loans they could within their lending
18 authority; and finally we had a high-risk loan.

19 And we went out into the community and began to
20 sell the mortgages. And, frankly, we are delighted with the
21 results. NHS Baltimore has only been in existence from
22 January of '75 to today, and it has a very impressive record.

23 And so I don't misquote I want to read off these:

24 In addition to the Ford Foundation it has come back
25 and rated us and found out NHS Baltimore is probably the

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1 second most active NHS program in the country. The other
2 one that is more active is the program in Pittsburgh, and it
3 has been in effect for over seven years.

4 Currently from January through September of 1975
5 institutional mortgage lending in the area and the area was
6 roughly from the western down to -- I don't know if you are
7 familiar with the area we chose, it was an area around
8 Patterson Park, north of Patterson Park. The western
9 boundary was Chester Street, and the eastern boundary was
10 Linwood Avenue.

11 The loans made in that area through financial
12 institutions, 28, and the amount \$231,550. The loans in
13 process now in financial institutions are 3; so so far to
14 September we are talking about actual loans of approximately
15 \$250,000.

16 Our institutional home improvement financing
17 loans, \$26,400; there is one loan in process for total
18 improvement loans through institutions of 10, and they
19 are amounting to close to \$30,000.

20 The NHS high risk loan fund, through this fund
21 they have made 26 loans, 22 are in process, total 28, and
22 they now amount to \$120,000.

23 The city in their homesteading program have made
24 12 loans; they have 3 in process, currently talking about
25 \$250,000.

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1 In a period of six months we have 75 loans,
2 \$546,900 of loans on the books, \$74,000 in loans in process;
3 total loans of the investment in that area in six months
4 has been \$600,000.

5 In addition to that is the code enforcement. That
6 is a difficult program. When they found out it was totally
7 voluntary -- you couldn't force the people to submit to
8 allowing the inside of their homes to be rated as far as
9 code is concerned. We went on a block-to-block basis, the
10 total number of blocks to date that have been inspected is
11 11; 11 blocks; total number of homes have been 250. And so
12 far the total number of homes that have been improved and
13 brought up to code is about 125.

14 We think certainly we are achieving results
15 in that area, and we think the thing we would like to mention
16 probably most enthusiastically is that this was done without
17 federal monies, and with the exception of the loan from the
18 city, it was done without city governmental money.

19 And we think in certain areas that this particular
20 program is certainly going to be most successful.

21 We would hope that after we have completed our
22 area, work in the target area around Patterson Avenue,
23 that we would allow the program to expand to other areas,
24 and certainly to help set up other programs.

25 I think the next speaker, as a matter of fact,

jrb103 1 a gentleman by the name of Tom Guidera, Vice President of
2 First Federal Savings and Loan -- if you will allow Tom to
3 tell you, they let Tom work with NHS for a three-month
4 period -- he is a lot more familiar with the results than I
5 would be.

6 So if you want to pursue it any further, I am
7 sure you will want to talk to him.

8 BOOTH: Glad you told us about that.

9 JEFFERS: I have one question:

10 How many S&L's in Baltimore are working with this?

11 TUCKER: Sixteen.

12 JEFFERS: Are they all federally-chartered and
13 insured? Yours obviously isn't.

14 TUCKER: They are both, both state and federal.

15 The other thing I probably didn't mention about
16 S&L participation, S&L's have undertaken responsibility to
17 underwrite total operating budget -- that is averaging
18 approximately \$50,000. So we are underwriting that in addition
19 to going in and making our bank loans, the things that we
20 can do within our regulatory authority.

21 JEFFERS: My other question is what is the rate
22 of assistance you are getting from the Federal Home Loan Bank
23 Board?

24 TUCKER: Well, the Federal Home Loan Bank Board,
25 with the exception of financing the original workshop,

1 as far as financial contributions, has been none. But
2 obviously the prestige of the Board behind this particular
3 endeavor, I think, probably encouraged S&L presidents to look
4 into it -- probably helped us in our contacts with the city.

5 So often these programs come out, you work and you
6 work, and nothing happens; and they look beautiful on paper,
7 but there are no results.

8 We were able, I think, through Federal Home Loan
9 Bank Board, in lending their prestige to this, being a member,
10 to get us to some areas where we could look at some people,
11 and say, "Let us take you by the hand". And on one occasion
12 we did take representatives of the city and the state up to
13 Pittsburgh to see how the thing operated and the results.

14 And I think, you know, that helped. In addition
15 to that the state has sent regulatory -- well, state examiners
16 to take a look. And we are trying to take a look at what our
17 regulations are now, and why S&L's can't do something that
18 high risk loaners can do and maybe change some of the regs
19 to allow us to make these loans.

20 JEFFERS: I have more questions, but in view of
21 the time I'll save those for the next witness.

22 BOOTH: Thank you.

23 Mr. Tucker, please convey our thanks to Mr. Kavanagh.

24 SMITH: And you will be sending us that information?

25 TUCKER: Yes. I have your number and I'll call you.

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1 The amount of lending we did in Baltimore County in '72 to
2 '75, and I think you were interested in the figures on what
3 '72 to '75 -- our profiles of minority employment?

4 SMITH: Thank you very much.

5 BOOTH: We are running so late that what we would
6 like to do if you don't mind is talk to you about employment
7 practices generally, and then take a break. All of us have to
8 get some lunch, and then come back.

9 SMITH: Did you have another commitment this after-
10 noon?

11 GUIDERA: Not until about 3 o'clock.

12 JEFFERS: Okay.

13 Would you please state your name and your institution
14 for the record?

15 GUIDERA: Thomas J. Guidera, Senior Vice President,
16 First Federal Savings and Loan Association of Annapolis.

17 JEFFERS: Do you have a prepared statement which you
18 would like to read?

19 GUIDERA: I think I ought to say briefly what
20 Federal of Annapolis is doing in Baltimore: We are an Annapolis-
21 based association with 17 branches. The Association is present
22 here as a result of a merger of Union Federal, of which I am
23 President, and Sterling Federal, which is a city association.

24 As a result of that, we have three branches in the
25 City of Baltimore and one branch in Baltimore County.

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1 The asset size of the Association is about \$200 million.
2 We are the third-largest federal association in the state.

3 THOMPSON: Mr. Guidera, may I ask if you have
4 a written affirmative action plan?

5 GUIDERA: We do.

6 THOMPSON: Could you let us have a copy of that?

7 GUIDERA: Yes.

8 THOMPSON: Do you recall how long you have had
9 your plan?

10 GUIDERA: The plan was written in May of 1973.

11 THOMPSON: Can you explain to us or walk us through
12 the implementation? How do you implement your affirmative
13 action plan?

14 GUIDERA: On the practical side it is implemented
15 primarily through the personnel office of the association
16 and the department heads -- we had several sessions on the
17 affirmative action plan. The purpose of the plan, the goals,
18 the law at the time it was put into effect, we met with the
19 department heads and we had knowledge of it and the depart-
20 ment heads are primarily responsible for carrying it out.
21 It works on the basis of five levels of employment, tellers,
22 secretaries, clerks; the second level, assistant manager;
23 the third level, branch manager; and the loan and savings
24 officers; fourth level, assistant officers; fifth level,
25 is the vice presidents and corporate secretaries, treasurer,

jrb1071 senior vice president and president.

2 I can review the progress of it for you. I think
3 I have it pretty well condensed here.

4 In October '73, which is the time we had the
5 first six months review, there were 78 employees, 56 were
6 female and 3 minority at the entry level; female employment,
7 the entry level -- the second level, five at that time were
8 assistant officers and one female was vice president, secretary
9 to the corporation.

10 The last review which was the end of September
11 there were 123 employees, this includes custodial personnel;
12 88 female employees, 16 minority; on a level basis there were
13 12 minority employees at level 1, 62 female employees,
14 2 minorities at level 2, assistant managers, and 12 female
15 employees; 2 minorities both of which are branch managers
16 at level 3; 11 female employees, officers; and most of those
17 are branch managers. There was one assistant officer and
18 there's now two vice presidents, female, at level 4 and 5
19 there are no minority employees.

20 The way we developed the program is mainly through
21 the branch system, virtually all the people in the
22 association came up into better positions in the association
23 and at one time or another worked in the branches, or are
24 ordinarily employed in the branches; and most of the branches
25 we find the best source for minority employment, particularly

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1 in our savings customers in the association who refer people
2 in the community. That seems to be the single most acceptable
3 source we have.

4 THOMPSON: Do you have any training programs
5 on the premises for minorities and women?

6 GUIDERA: Not specifically aimed at minority
7 people or women. Most of our training comes -- beyond the
8 orientation training at basic levels -- any formal training
9 beyond that is done through the Maryland League's education
10 program. They deal with specialized areas.

11 THOMPSON: Can you give us an idea what the
12 composition of your loan review board is?

13 GUIDERA: As far as male-female breakdown, as
14 far as minority, non-minority?

15 We have two committees through which loans are
16 reviewed, a management committee which consists of the
17 President and three Senior Vice Presidents, who review any loans
18 in excess of \$60,000.

19 Loans under that we made are reviewed and passed
20 by a separate loan committee that consists of the Vice
21 President in Charge of Loan Department, the Assistant Loan
22 Officer, and one person that rotates on that committee each
23 week I believe, and the rotating person is usually someone
24 connected with the mortgage function.

25 There are no minority or female persons permanently

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1 on that committee. The two people that are there are both
2 white males.

3 THOMPSON: Okay.

4 I believe now you said your institution is based
5 in Annapolis? We have been asking everyone whether they had
6 any residents of Baltimore City on their loan review board.

7 GUIDERA: The residential loan review board -- no,
8 I am the only resident of Baltimore City who passes on loans,
9 but typically not the residential loans.

10 THOMPSON: Are there any particular qualifications
11 you have for membership on the loan review board?

12 GUIDERA: Primarily technical competence in the
13 lending area, and both of the people permanently on the loan
14 committee are people who have had a number of years experience
15 in underwriting -- mortgage underwriting.

16 THOMPSON: Mr. Guidera, did you go over your Board
17 of Directors -- male or female, minority or non-minority?

18 GUIDERA: We have eight Board members, no females,
19 no minorities.

20 THOMPSON: Are all of your members from Annapolis,
21 or are there some from the city?

22 GUIDERA: I can give you a breakdown: we have
23 17 branches so the area we operate in stretches from Baltimore
24 County down to St. Mary's County and over on the Eastern Shore,
25 and fairly substantially into the suburban Washington area.

1 We have eight directors, five in Ann Arrundel County,
2 one in Calvert County, one in Prince George's County, and
3 one Baltimore County.

4 We have one member from Baltimore City who retired
5 I think last year; we now have no member from Baltimore City.

6 THOMPSON: Can you relate to us how Board members
7 are chosen?

8 GUIDERA: Like Mr. Tucker, I don't serve on the
9 Board. I will have to give you a little bit from having served
10 on a Board before. I assume it is fairly consistent here.

11 Generally a person is recommended by another
12 Board member. It's got to be for some business or professional
13 background and with some capacity to be able to understand
14 the operation of a pretty large financial institution. I
15 assume you know the process formally for selecting directors
16 is that the savers theoretically vote for the directors once
17 a year. But generally this is done by proxy. And I think it
18 is fairly typical of most Boards it is pretty much a recommen-
19 dation process from within the Board.

20 THOMPSON: Do you expect to increase the number
21 of minorities and/or women in decision-making positions in
22 your institution over this coming year?

23 GUIDERA: Our affirmative action program is, if
24 you read it, aims at that over a period of time. I think we
25 are a littlebit behind in the time frame in the top levels;

1 but it is pretty hard to get anybody out of the top level,
2 as well as to get in.

3 (Laughter.)

4 THOMPSON: Are there any suggestions you might
5 have for increasing the number of loans by minorities, women
6 in the city by your institution?

7 GUIDERA: I think particularly given the markets
8 we deal with and the varied nature of the housing markets,
9 especially in the Baltimore City area, it is important if you
10 have a successful loan program to have people who can relate
11 to the markets you are working in. I hope we can gear our
12 promotion operations into these areas.

13 That is a priority.

14 THOMPSON: Thank you very much.

15 SMITH: Why are the numbers of those sitting on
16 a Board of Directors so small -- six, seven, four, eight?

17 GUIDERA: I can only give you my personal opinion
18 and that is not a universal thing, why the number is small.
19 It is fairly typical.

20 Having been officer of an association myself
21 much smaller than the one we are in now, and having to
22 conduct a Board meeting every month, one benefit I found was
23 that there were just fewer people to have to respond to and
24 contend with -- being very practical.

25 I think in a smaller association from an

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1 operational standpoint it is fairly important. With a larger
2 association I think there is a lot to be said for having
3 full Boards, 15-member boards, particularly, say, when you
4 are dealing with a number of different projects and as spread
5 out as most associations are.

6 SMITH: I would think the very reason why you like
7 a small board is why I don't, because it is possible to be
8 much more homogeneous when you are dealing only with a few
9 people.

10 GUIDERA: That is quite true.

11 I would have to wear two hats and give two answers
12 there. As I say, I've been in the position of having
13 to conduct board meetings for a long time; I found it much
14 easier to deal with a small number of people.

15 SMITH: Thank you.

16 DARDEN: This question relates to work competition.
17 We have heard a suggestion on the part of some other people
18 that it might be a good idea to tie participation on boards
19 with some geographical designation. And if an S&L serves
20 the city, you know, you might require that some percentage
21 of the board should come from that city.

22 How do you feel about that? Do you see it as
23 being in any way advantageous to increasing the responsiveness
24 of the institution to the needs of the city?

25 GUIDERA: I think in the future it is probably

1 going to be a critical thing. The S&L's started out 125
2 years ago as small clubs operating simply to meet the
3 housing needs, the home financing needs of the people
4 that put a little money in each week. And they operated that
5 way, I guess, up through the 1940's, in most cases strictly a
6 local neighborhood base, in most cases, until into the 50's,
7 there wasn't any branching among S&L's.

8 So we are still operating, even though we are larger
9 institutions, on a pretty localized basis. The major change
10 in the last 10 years, particularly, is we have added 10
11 branches in the -- since I have been with the association,
12 which has been three years. And while that is an unusual
13 number, I think it is not atypical of what is going on.

14 Our institution, for instance, was based in
15 Annapolis, pretty much dealing with one community. In larger
16 institutions, that's no longer the case. You have a large
17 population area if you are a larger association. And the
18 Board sets the broad policies.

19 DARDEN: One follow-up question:

20 If that is a good suggestion, do you think it would
21 best be accomplished through voluntary action on the part
22 of institutions or through some stimulation by the Federal
23 Home Loan Bank Board?

24 GUIDERA: I think the Federal Home Loan Bank Board
25 is in the process of amending regulations right now. They have

jrb1141 been out for comment all year; and I understand they are
2 about to issue for the first time ever a good deal to say about
3 Board representation.

4 I think they can modify it considerably. I think
5 the Board can do a great deal to get this sort of thing done
6 and unlike an ordinary corporation it probably isn't
7 out of order for the Board to have something to say about it.

8 BOOTH: Does anybody else have any questions
9 dealing with this subject?

10 (No response.)

11 BOOTH: Then we'll break now and come back at 2.

12 (Whereupon, at 1:20 p.m., Thursday,
13 2 October 1975, the hearing was recessed, to
14 reconvene at 2 p.m., this same day at the same
15 place.)

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AFTERNOON SESSION

(2 p.m.)

BOOTH: Can we come to order.

As required by law I must make a policy statement.

On September 27, 1975 the Privacy Act of 1974 became effective. Pursuant to that Act, the U. S. Commission on Civil Rights and the State Advisory Committee are required to inform the public and individuals with full and correct information as to their statutory authority to collect that information. The Commission's authority to do so is set out in 42 United States Code, Section 1975(b). Its Advisory Committee authority is set out in 42 United States Code, Section 1975(d)(c).

Any information collected by this Advisory Committee from any individuals prior to this hearing was given voluntarily. All individuals participating in this hearing have volunteered to do so, and any information this Advisory Committee collects from you during the course of this hearing will be voluntarily supplied by you. The Advisory Committee will not impose any sanctions on any individual who chooses not to answer particular question or divulge certain information.

The Advisory Committee's principal purpose for collecting information is to obtain enough information for the Committee to prepare a report to the U. S. Commission

1 on Civil Rights regarding the employment and lending
2 practices of savings and loan institutions in Baltimore,
3 Maryland. Information obtained in the course of this hearing
4 will also be used for other purposes as set out in the U. S.
5 Commission on Civil Rights Notice in the Federal Register
6 pursuant to the Privacy Act concerning its State Advisory Com-
7 mittee Project Files.

8 Copies of the U. S. Commission on Civil Rights'
9 statement on the relationship of the Privacy Act of 1974
10 as to information collected by the Commission and its
11 Advisory Committee are freely available to all participants
12 and members of the audience. Copies are located on the
13 table at the rear of this room.

14 And also on that table are copies of other studies
15 which have been done by the Commission on Civil Rights.

16 Now, Mr. Guidera?

17 SMITH: We are going to proceed this afternoon by
18 discussing with you some issues relating to lending policies.
19 I wonder if you could share with us how many applications
20 for home mortgages your organization has processed in each
21 of the years 1972, '73, '74, and '75.

22 Now, as part of that, we are also going to want to
23 know the number accepted, the number rejected, and then what
24 information you have in terms of male and female or minority,
25 non-minority -- any way that you would like to answer that

1 question?

2 GUIDERA: I am going to have to give you that
3 information later. As Mr. Tucker said, I am up here working
4 full-time for three months with NHS, and I got this assignment
5 a couple of days ago, so what I have gotten, I have gotten
6 over the phone.

7 Can I tell you what I have here?

8 SMITH: We would like that very much.

9 GUIDERA: And then the rest of it we'll have to
10 get together and submit.

11 What I've gotten is the Association's total
12 loan volume for the four years, Baltimore City loans, the
13 number of Baltimore City loans, and the total number of
14 Baltimore City loans that are on our book.

15 As far as application rejection and acceptance,
16 I don't have that available.

17 SMITH: Could you share what you do have with us,
18 sir?

19 GUIDERA: The association's total in 1972, that
20 was the first year of the merger between New Federal and
21 First Federal, the association's total loan volume was
22 \$51, 891,800. Of that, there were 150 Baltimore City loans
23 in the amount of \$2,292,200. So that's an average loan of
24 \$16,600 for Baltimore City.

25 In 1973 there were 106 loans totalling \$2,082,710,

jrb118 and the association's total was \$37,644,800.

2 In 1974 Baltimore City loans were 31 for a total
3 of \$812,250, an average loan of \$19,800. The association's
4 total was \$43,494,372.

5 For six months in 1975, I don't have the
6 association total loans, but Baltimore City loans were
7 17, totalling \$131,200, with an average of \$7,700.

8 The association is servicing 808 loans currently
9 in Baltimore City, and that is approximately 12 percent of
10 the family loans on the association's book.

11 SMITH: Thank you.

12 What criteria are used to approve applications?

13 GUIDERA: The application process, and that's
14 part of the approval or disapproval process, involves
15 evaluating the applicant's income as a proportion -- let
16 me put it in another way.

17 It involves evaluating the applicant's housing
18 expense based on the loan he is applying for as a portion
19 of total income, their credit pattern, and an appraisal of
20 the property; those are the three basic things we get together
21 in an application. Typically if the ratio of the family's
22 debt service or mortgage service to their verifiable
23 income is 25 to 26 percent or less, and there is a reasonable
24 credit pattern, the appraisal bears a close relationship to
25 the purchase price, then the loan is approved.

1 I think from what I have seen over the years
2 the chief reason for disapproval is what we consider to be
3 a disproportion between a person's verifiable income and
4 the mortgage installments to be taken on. Occasionally there
5 will be rejections on the basis of credit. Generally if it
6 is not a serious credit problem there is an attempt made to
7 find out the reason and work it out if we can.

8 SMITH: Thank you.

9 What criteria are used to reject applications?

10 GUIDERA: As I say, the principal reason, as far
11 as I can determine, has been that the proportion of a person's
12 -- the ratio of a person's mortgage payment to their income
13 gets up over, exceeds 30 percent, then we generally don't
14 pass the case. There will be exceptions to this.

15 SMITH: Are there any other reasons for which an
16 application is rejected?

17 GUIDERA: Occasionally we will find a property
18 is so obsolete or so run down, particularly in terms of
19 a person's projected ability to get it back into shape, that
20 it will be rejected on the basis of the property. I would
21 say that is pretty unusual.

22 SMITH: I think you were here this morning when
23 Mr. Tucker was speaking, what he referred to as the length
24 of livability; would you include in that category, then,
25 houses which are conceivably not likely to last? He was

1 speaking economically.

2 GUIDERA: We don't reject an application because
3 the property doesn't have, for instance, the appraiser's
4 opinion of a 30 or 40 year economic life, but typically we
5 won't grant a mortgage for a longer term than the estimated
6 remaining life of the improvements. And as he pointed out,
7 you could have a property that would go for 75 or 100 years
8 old with an economic life possibility of 50 years because
9 you have brought it back in its mechanical systems, kitchen,
10 bath, that sort of thing, to the equivalent of a much newer
11 home.

12 Occasionally we run into one where nothing has
13 been done of any consequence for 30 or 40 years, and if the
14 application -- there has to be an ability somewhere on the
15 part of the borrower to do the work necessary to bring it
16 back into a much longer economic life.

17 SMITH: If you reject an application, do you
18 tell the applicant the reason for that rejection?

19 GUIDERA: As far as I know in the rejection letter
20 we don't, but we call and discuss it; and there is some
21 occasion for doing that now under the Fair Credit Disclosure
22 Act. But if it is a credit problem, we are pretty much
23 obliged to refer him to the Credit Bureau rather than to
24 discuss the particular problem with him. We strictly follow
25 the law as we understand it.

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1 If it is for some other reason, say, an imbalance
2 in the ratio of mortgage payment to income, we will
3 generally try to discuss some other alternatives particularly
4 in the way of finding maybe a lower priced property or something
5 of that sort.

6 SMITH: The main way you would discuss it -- an
7 alternative way -- would be to suggest that they look at houses
8 with a lower cost rather than come up with other funds and
9 sources for that house they were interested in financially?

10 GUIDERA: Generally we find from experience
11 that the loan the people applied for is probably the most
12 generous I suppose we have available, as far as length of
13 time, type of loan, we can occasionally suggest to a family,
14 if they are very short on downpayment, we'll put it through
15 FHA. But we don't have the latitude a state charter has to
16 the federal charter to use the Maryland Pilot Program, where
17 they can get 100-percent financing in some cases without going
18 through FHA.

19 SMITH: I believe you told us that 12 percent
20 of your total portfolio -- would that word be correct -- of
21 your institution is now invested in Baltimore mortgages? That
22 I assume takes into account all those mortgages which were
23 given by the separate institutions which have now merged?

24 GUIDERA: Yes.

25 SMITH: One of those institutions was once based

1 Would it be possible for you to tell us what
2 percentage home mortgage loans were made in Baltimore City
3 for each of these years, but I realize that these dollar
4 figures have already given us that.

5 GUIDERA: Percentagewise it is roughly, 1972,
6 around 4 percent of the volume was done in Baltimore City;
7 1973, about 6 percent; 1974, it fell off to about 2 percent;
8 and 1975, the amount is very small.

9 SMITH: Is there any reason for that?

10 GUIDERA: There are several.

11 I have been particularly looking at it because
12 of my interest -- I live here. One in 1974 we obviously
13 got a great deal of competition; Union Federal particularly
14 has its main office right in the middle of downtown, and
15 for a number of years we had I think a pretty aggressive
16 city lending program. We had no small loan limits and the
17 Board actually established a certain sum of money each year
18 that was to go to loans in the city whose families did not
19 exceed a certain amount. I think that was a little unique
20 in the city, and as a result, well, and some other things,
21 we developed a pretty good loan volume in Baltimore City.

22 With all the things you heard before, 1974, there
23 came to be a great deal of competition for loans. At the same
24 time in '74 we ran into a position where we were heavily
25 committed in advance on a number of new house projects and

1 money slowed down substantially; so we cut back considerably.

2 And I think in looking at it, probably the most
3 important thing -- I think it bears on a lot of what we
4 heard here -- is that we've done some things that I think
5 we're just beginning to try them again. We moved our loan
6 processing to Annapolis.

7 We did origination up here, but those of us who
8 had been involved in the loan program before got some substan-
9 tial additional responsibilities, and I think we got sort of
10 a bright young man syndrome that we could put someone up here,
11 as long as they were bright young men, and they would pick
12 all this up.

13 SMITH: You didn't have any bright young women,
14 by any chance?

15 GUIDERA: We didn't have that syndrome.

16 (Laughter.)

17 But the bank was -- we had two people -- we found
18 this generally worked in the other branches, some of them go
19 to a branch and if they understood the processing, they'd
20 develop and keep the loan business going. In both cases the
21 person was black and the second was white, both capable people,
22 but I think we learned something we should have known before:
23 that this is a much different type of lending up here.

24 Neither one of them lived in the city or knew all
25 that much about the city, had little relationship with the

1 real estate brokers up here, and I don't think -- having
2 been exposed to mortgage work in suburban areas, this did not
3 strike them maybe as easy. It's certainly not as easy.

4 What I am getting to -- no reflection on these
5 individuals because they've done quite well in other areas
6 of the association's work, but I think we have learned some-
7 thing that to do city lending, particularly in the lower
8 and very moderate income areas, there has to be an individual
9 that has a good deal of experience in the city, that knows
10 the city, that can establish some special relationships.
11 I think Mr. Johnson discussed some of them yesterday; they
12 are very important.

13 Those are the sort of things that were lost when
14 we sort of moved the operation out of the city, and did not
15 have that sort of thing. Now we are working on trying to change
16 that in terms of what we have learned out of this.
17 But it is something that should apply in almost any city loan
18 program, aside from the criteria, whoever has the decision-
19 making responsibility, has to be here, has to have an extensive
20 real estate knowledge, special knowledge of the city, and
21 have very positive feelings towards this kind of work, and
22 be able to -- well, relate particularly to the minority real
23 estate firms and other real estate firms that specialize in
24 city sales.

25 It is a much different situation in town than in the

1 typical suburban area.

2 SMITH: I would say that not only would your bank
3 officer have difficulty relating with the minorities, but also
4 with some of the majorities?

5 GUIDERA: Well, there's nothing like competition.

6 SMITH: I understand of course that you are based
7 in Annapolis and your portfolio goes on to St. Mary's County
8 and on; can you give us some idea in percentages, where your
9 money goes -- 2 percent to Baltimore City, well, where's the
10 other 98 percent?

11 GUIDERA: We are pretty heavily involved, or at
12 least were until the market slowed down, in new housing,
13 pretty heavily involved in project development. We did some
14 of the 235 program on some large projects that ran out, I think
15 but I think most of our lending is concentrated in the
16 Washington area, Prince George's and Montgomery County, some
17 parts of Ann Arrundel County, and as I say, until this year
18 we have been involved in new construction. But I don't
19 have a breakdown of the percentages that went to any particular
20 area. Probably 10 percent of our lending was done out of
21 state on a participation basis; we in turn probably sold 10
22 percent of our loans to other institutions over that period,
23 outside of the state.

24 SMITH: Would it be possible for you to give us
25 those figures?

1 GUIDERA: A breakdown as to areas? Yes.

2 SMITH: Thank you. We'd appreciate that.

3 Do you have a limit, a lower limit, on the size of
4 a mortgage that the institution will consider?

5 GUIDERA: No, we have never had a minimum limit.
6 And that from experience is why we had a pretty active loan
7 program in the city prior, I would say, to 1973; there evidently
8 was considerable difficulty in getting a loan below a certain
9 amount. I think the smallest mortgage we have on the book,
10 we have in process -- it will be the smallest mortgage on the
11 book -- for a \$2,500 purchase over in this neighborhood of
12 the Housing-Service area that Mr. Tucker was talking about.

13 WICKWIRE: In terms of dollars, county and city,
14 do you take into account the population ratios?

15 GUIDERA: That is not a factor in setting loan
16 policy -- where it goes. I think it is something that should
17 be considered.

18 We probably have in the areas we serve a population
19 somewhere around 3 million people, maybe a little more; 900,000
20 of those people live in Baltimore City. And that is why you
21 do have more association with the lending institutions. I think
22 it is a factor that should be considered.

23 WICKWIRE: Can you suggest anything that might be
24 done to have S&L institutions consider the population issue
25 more?

1 GUIDERA: Again, I think a lot of these sort of
2 priorities may be suggested by the Federal Home Loan Bank Board.
3 I don't know if it's specifically done in those terms. It
4 seems to me a factor that where we overlook the forest for the
5 trees -- where the greatest number of people live, and where
6 the largest number of housing challenges exist. I think we
7 are wrong in setting these priorities.

8 SMITH: Moving in another direction, this is a
9 question brought up before, but at your institution do you
10 make decisions on home loans that deal with restrictions,
11 plumbing age and that sort of thing? Is the decision appreciably
12 affected by these factors?

13 GUIDERA: No, not since I've been associated with
14 the association we have never had that problem.

15 SMITH: What kind of criteria do your appraisers
16 use in determining the value of a single family home?

17 GUIDERA: Single family lending -- other than new
18 houses the only data we can consider substantive in arriving
19 at value is going back to the market. The appraisal process
20 is a fairly formalized process. It doesn't vary from one area
21 to another at least in single family lending. It is mainly
22 the appraiser's job to learn what people are paying for
23 comparable properties, preferably within the area that he is
24 doing the appraisal, and have enough of that sort of data so
25 that he knows there is a reasonable number of those sales. And

jrb1281 presumably the price that was arrived at in those other sales
2 over a fairly recent period was a result of the seller having
3 seen a number of people come through the property, and make
4 him offers, and the buyer having visited a number of properties,
5 and made offers, and finally that seller and buyer got
6 together, and the price they arrived at was the best deal they
7 could do.

8 That's the best explanation I can make of what
9 the appraiser is looking for. Of course, from there on, the
10 qualifications of the appraiser, his knowledge of the area in
11 which he is working becomes a big point.

12 SMITH: These are your own appraisers you use,
13 then?

14 GUIDERA: In the Annapolis area we have two
15 affiliated appraisers, in the Baltimore area we use
16 independent free appraisers, usually they are required to
17 have a professional designation. But our staff appraisers
18 don't work in the Baltimore area, but in some of the other
19 areas.

20 WICKWIRE: Have criteria for appraisals changed
21 any in the last few years, or have they remained pretty much
22 the same?

23 GUIDERA: I would say the process and the
24 criteria are pretty much now what they were a few years ago.
25 I think there is a greater emphasis on finding independent

1 appraisers to do the work. The Federal Home Loan Bank Board
2 is pushing that. That itself has done a good deal to make
3 us look for professionally designated appraisers and to make
4 a case that they know the area they are working on.

5 WICKWIRE: Does your S&L have plans to increase
6 the amount of mortgage money available to Baltimore City in
7 the immediate future?

8 GUIDERA: Well, I think that's a priority. I didn't
9 realize myself that the volume had gone the way it has this
10 year. But we I think collectively as a management committee
11 would recognize the need to get back to the sort of services
12 we offered here before, to bring a person into this position
13 now that, as I said before, knows the city and can relate
14 well, get active in the city, particularly in minority groups,
15 and who is actively interested in this sort of a lending
16 program.

17 I think that and we plan to give away a dollar
18 sum of money and that in itself should increase the dollar
19 amount alone in the city.

20 WICKWIRE: Does the Home Loan Bank Board give you
21 good direction and guidance in this sort of troubled time
22 in terms of the institution?

23 GUIDERA: We have -- one of the purposes of the
24 Home Loan Bank back in the 1930s was to provide a credit line
25 for S&L's so that they did not have to be concerned with the

1 ups and downs of the ordinary commercial banks. And as I
2 recall currently we can theoretically borrow up to 25 percent
3 of our savings accounts for additional lending, and of course
4 that money is always available to meet withdrawals. So if
5 a great many people went into their institution and wanted
6 their savings accounts today, that is another purpose of the
7 Federal Home Loan Bank to be in existence, to make sure the
8 money is always there.

9 But it's like many times they reduce the liquidity
10 we are required to keep, the cash on hand, so presumably a
11 little more money will be available. The borrowed money line
12 is always there, although if money is tight, the Home Loan
13 Bank goes into the market and borrow this money, and generally,
14 not always, pays the rate they pay on the market.

15 In the last couple of years that has become a
16 problem because the rate at which we borrowed money for a
17 while from Home Loan Bank was at the same level with the
18 interest ceiling of the state which from an economic standpoint
19 cancels out any advantage to using it.

20 Beyond that we've got the secondary market program
21 which I think has been discussed here, which has been coming
22 into existence in the last few years and it has been a big
23 factor in keeping particularly the larger associations in
24 the lending market because it qualifies for sale to the Home
25 Loan Bank. You can sell it, get your money back right away.

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1 That's simply servicing a loan through the Home Loan Bank.

2 DARDEN: In your opinion would it be an advantage
3 to minorities, women, in Baltimore City if federally-chartered
4 institutions could participate in state housing plans?

5 GUIDERA: I don't think there's any question.
6 about that.

7 In fact, one of the things I'm doing with my
8 time over here during this three months is to try to get
9 that started between the federal housing fund and Federal
10 Home Loan Bank. There is someone in the Atlanta bank they
11 have assigned to work on this problem, and it will take
12 regulatory change.

13 I didn't know it before, but working at the lowest
14 priced level of housing in the city, single family houses,
15 where the tenants who have rented there for years would like
16 to own the property, but have little or no cash. So we
17 could do this on the part of the federal with a new program
18 like that.

19 There is another thing I read yesterday that
20 maybe will help: The Home Loan Bank has just come out with
21 an idea of providing coinsurance of up to 80 percent on city
22 loans; and it's somewhat like FHA insurance, but the
23 institution would only undergo 20 percent of the risk and
24 the insurance program would absorb 80 percent. I think
25 that would change the regulations to allow associations to

1 make 100 percent conventional loans up to a fairly
2 moderate amount; and that would open up the market consider-
3 ably to minority people and women.

4 DARDEN: One final one: Did you have anything
5 more to add about the National Housing Service?

6 GUIDERA: I think Mr. Tucker covered the structure
7 of it very thoroughly. I am working closely with it, and
8 I have worked on other housing programs over the years in
9 the city and different organizations. I think it is maybe
10 particularly adaptable to a city like Baltimore, where you
11 have mile after mile of row houses that structurally are
12 sound, that are very low priced, that literally poor people
13 can reach, with prices getting down to \$3,000, \$4,000, \$5,000.

14 And we have seen it after it began to turn around,
15 the tenancy owner ratio, block by block, you see within a
16 month or two it's beginning to change, the appearance of that
17 block. A lot of things happen.

18 These loans have to be structured in a way to give
19 the people buying some money to work on the house, work that
20 the landlord couldn't do on the rent they typically get
21 for those houses -- \$90 to \$100 a month; that's very little
22 to do much work on the house. That's one of the reasons
23 I think there are a lot of abandonments. But it's a clear
24 example of what happens when you have an infusion of capital
25 into a low income neighborhood on terms that are responsive

1 to the problems of the neighborhood, and deal with the question
2 of turning around home ownership. And it provides something
3 that pretty near anybody can take advantage of. Most of the
4 applicants we have seen through the high risk fund are people
5 who live on very limited incomes, either public assistance
6 or social security, things of that nature.

7 And so far the payment experience has been very
8 successful. Most of these people never go downtown. They
9 don't have checking accounts and that sort of thing. This is
10 a big factor in what is going on here.

11 The big challenge I think is to keep this alive,
12 keep these resources alive in the neighborhood over a long
13 period of time. If it were withdrawn again I don't think it
14 would take very long before conditions would go back to what
15 they were.

16 So I think the program -- it's eight months old,
17 it has been, as Mr. Tucker pointed out, a lot of working
18 together on the part of the city, banks, institutions,
19 S&L's, and it is in a very limited area. I suppose there's
20 approaching 100,000 properties in the city that need something
21 of one sort or another. It shows what can happen in
22 response to financial resources working together with the
23 city and the neighborhood people who, incidentally, pretty
24 much run the program.

25 The neighborhood people are the most numerous on

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1 the board. They are also in the majority on the loan
2 committee for the small loan fund. You see, all these
3 things work together, and you get a pretty good feeling
4 about it.

5 And, incidentally, I would like to respond to
6 a question of whether poor people should own homes: I don't
7 know what it is like in other cities, but in a city like
8 this I don't think there's any question but there is the
9 ability and in most areas, not all of them, where tenants
10 are anxious to own their properties. They quite often have
11 an impression going way back that there is just no way
12 they can own a property, but one of these loans we're making
13 that will be paid off in four years, and that probably is
14 the only money that family has ever saved.

15 BOOTH: How many of the S&L's are cooperating in
16 this?

17 GUIDERA: Right now I think there's 16. The
18 four largest in the area are predominantly doing the funding.
19 The funding for staff is based on asset size. We are hoping
20 to get -- we are going to need -- this program has worked on
21 a budget of \$50,000, staff, overhead, everything else; that
22 is a staff of five people. We are running in fact a contract-
23 ing service, lending service, counseling service; if any of
24 us thought we had all that in our own institution we'd think
25 we'd died and gone to heaven.

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(Laughter.)

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But we can't do all the things that need to be done in the long term on a budget of \$50,000 a year in a program like this.

5

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BOOTH: Is it feasible to do this on a larger scale, or at least to expand it over a long period?

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GUIDERA: Well, in larger cities I think you need to have two or three of them going at one time. One of the important factors, the important thing- that starts to make it work, is a strong sense of community identity, and a community organization that institutions can work through to get going for credibility if nothing else.

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That is also the theme of SECO over in this neighborhood, while they don't take a hand day to day in this program, they are the ones to introduce this in the area, put their stamp of approval on it; the director was a SECO community organizer.

18

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20

21

22

23

If you attempt to spread it out over a large geographical area I don't think it will work. This area takes in 4,000 housing units. A great many of them don't need any work. We are trying to keep the blight from spreading into the other areas; but that is as large an area as I can conceive that it would work in.

24

25

If all those houses needed work, you would have to reduce the geographical area.

1 BOOTH: Okay, thank you.

2 Is Mr. Brown here? Would you like to come forward
3 now?

4 JEFFERS: Would you please state your name?

5 BROWN: My name is Theodore E. Brown, Sr.

6 JEFFERS: Would you please state the name and
7 address of your savings and loan?

8 BROWN: 1611 West North Avenue, also, it is the
9 Advance Federal Savings and Loan Association.

10 BROWN: Would you give us your position in that
11 association?

12 BROWN: Yes, I am the Secretary.

13 JEFFERS: Do you have a prepared statement you
14 would like to read or some sort of opening remarks?

15 BROWN: I don't necessarily have a set of
16 opening remarks, but I would like to say that the constitution
17 I am connect-ed with is 17 years old. We started off back
18 in 1958 with around \$7,000 as capital, and today we have
19 \$12,500,000, and assets of about \$14 million.

20 We started off with a Board of Directors of 15
21 members and we have gradually reduced the Board to 9 members
22 at the present time.

23 JEFFERS: Bill Thompson, will you start the
24 questioning?

25 THOMPSON: Mr. Brown, the first question I would

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1 like to ask you is about the composition of your loan review
2 board, that is, do you have males, females; do you have
3 minorities, some minorities? Would you give us an idea? -

4 BROWN: Yes.

5 We have all minorities. We have the President
6 and First Vice President, Secretary and Treasurer that
7 constitute the board; and all of them are male.

8 THOMPSON: Are they all residents of the city,
9 or do some live in the country? Do you have any idea where
10 they live?

11 BROWN: Well, all of the members of the
12 executive committee and the board lived in the city up until
13 last month; one of them, the treasurer of our organization,
14 moved to the county, Mr. Wilson.

15 JEFFERS: I don't think you were here, but what
16 we tried to do is to avoid mention of names unless it is in
17 a favorable light.

18 BROWN: Okay.

19 THOMPSON: Mr. Brown, can we do the same thing
20 as far as the composition of your Board of Directors --
21 male, female, minority, non-minority?

22 BROWN: At one time we had one female -- no, we
23 had two females, and they resigned; and we did not replace
24 them. As I say, we gradually reduced the composition of the
25 board.

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1 It is nine at the moment.

2 THOMPSON: And I take it again they are all
3 residents of the city?

4 BROWN: Yes.

5 THOMPSON: Would you give me an idea of what the
6 qualifications for membership on the Board of Directors might
7 be? Have you any particular criteria you use?

8 BROWN: I don't think that there is any particular
9 criteria. We try to get people who are in a position,
10 financially, to maybe contribute toward the success of the
11 organization financially, and also education-wise. Those
12 are the only criteria I would say that we would have.

13 THOMPSON: All right.

14 Would you -- if a vacancy came up would you be
15 advertising in the paper, or would perhaps the name of someone
16 come to you through another avenue?

17 BROWN: No, we would not advertise in the paper.
18 We would simply discuss the matter with other members of
19 the Board, and through that channel we get our Board members.

20 THOMPSON: Can you give us any idea how many
21 applications for home mortgages your institution processed
22 in each of the years '72, '73, '74 and whatever figures
23 you have for the current year?

24 BROWN: Yes.

25 THOMPSON: We would appreciate that.

jrb139 1 BROWN: Now, if I step out and say the wrong thing
2 do the same as you did just now.

3 We'll start off with 1972, and move up. Now, in
4 1972 we had two male white, three female white, and 23
5 husband and wife applications. Those are applications.

6 In 1973, we had two male white, two female white,
7 three husband and wife.

8 In 1974, no whites, male or female applications.
9 There was one husband and wife application, white.

10 All right, in 1975, we haven't had any in either
11 category.

12 All right, we will go back to 1972. Black, we had
13 male, 23 applications; female, 30 applications; husband and
14 wife, 88 applications.

15 In 1973, we had 28 male, 53 female, and 101
16 husband and wife.

17 In 1974, we had 13 male, 12 female, and 24
18 husband and wife.

19 In 1975 we had 13 male, 12 female, and 15 husband
20 and wife.

21 Now those are all people who applied for, you know,
22 mortgage loans.

23 All right, now, we had a total of -- the whole
24 thing for male was 26, total females 33, and total for husband
25 and wives, 111; that's since 1972.

1 Now, is this too much detail?

2 BOOTH: No.

3 THOMPSON: No, you give us what you want to; that's
4 fine.

5 BROWN: All right, then.

6 Now, in 1973, total male, 30; female 55; husband
7 and wife, 104. That is all inclusive.

8 And 1974, we had 13 male, 12 female, and 25
9 husband and wives.

10 1975, 13 male, 12 female, 15 husbands and wives.

11 We didn't have any rejections -- no, wait a minute:
12 in 1974 we had one rejection, a white; 1974.

13 And we had three rejections of blacks in 1974.

14 A total of 4. That is all we've had, 4 rejections since
15 1972, through 1975 to the present time; 4 rejections.

16 Please note that during the months of June 1974
17 to November 30, 1974 the Federal Deposit Insurance Corporation
18 Board of Governors, Assistant Comptroller of the Currency,
19 and Federal Home Loan Bank, jointly sponsored a Fair Housing
20 Information Statement which required a breakdown by zipcode
21 and purpose of the loan. For the other years involved we did
22 not keep records of those so far as race:

23 I sit on the Executive Committee; so far as the
24 processing of loans and whatnot is concerned, and we never
25 think of the race -- whether he's white, black or any other.

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1 We just present the application and the information that we
2 want to know is that this person is in a position financially
3 to take care of his obligations on this loan. And we have to
4 have a credit report. We have to have an appraisal.

5 We review this application thoroughly and as a
6 rule, the applications are generally approved subject to
7 satisfactory credit report and appraisal; and then it comes
8 back to the committee after we get the appraisal and a credit
9 report, and get ready to discuss the details again.

10 And as a rule those applications are approved.

11 THOMPSON: Can you tell us what criteria you use
12 when you reject applications? Can you think of anything that
13 will go across the board when that happens?

14 BROWN: Well, sometimes a person's credit is in
15 pretty bad shape, and if we can in some way make an adjustment
16 by having the person come into the office, we sit down and
17 talk with him and maybe sometimes there is a mistake so far
18 as the Credit Bureau itself is concerned as to this
19 individual.

20 Now, on the other hand, sometimes this person is
21 in a position to go back to the Credit Bureau and explain
22 why such and such a thing prevailed. To give you an example:
23 sometimes there is sickness and whatnot.

24 Now, we look back over a person's record to
25 see that over a period of years they have assumed their

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1 obligations and it just happened for a period of a year, year
2 and a half, something like that, they run into a situation
3 where there is illness in the family and so on; and we find
4 that they are not able to take care of their obligations.

5 Well, now, that is taken into consideration.
6 Here is a person that is completely recovered from a serious
7 illness or something like that, really trying to get back on
8 their feet again; and prior to that time their records were
9 good. So, therefore, we try to take care of them, that
10 situation.

11 And if there is any way possible we will approve
12 that application. That's just an example.

13 THOMPSON: Do you have any particular criteria
14 you use to approve applications? Can you discuss some of the
15 things -- that there are some things you like to see in
16 applications which you approve?

17 BROWN: Well, we like to see that a person is
18 employed, that's No. 1. And we don't like for a person to
19 be overloaded with obligations and things of that kind; and
20 if there is any way possible to scrutinize their whole
21 application and come up with something that would contribute
22 to why we should make this loan, we usually make the loan;
23 because our organization was organized 17 years ago for
24 the purpose of helping in the community.

25 And if you read the records of our organization

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1 there was one year we made more loans in the city of
2 Baltimore than any other organization, federal organization,
3 in the city.

4 THOMPSON: Do you recall which year that was?

5 BROWN: That was '74, I think it was. That was
6 when we had a tight money market.

7 THOMPSON: Is the applicant told the reason for
8 rejection when you have to reject him?

9 BROWN: Absolutely. We have them to come in the
10 office and we sit down and talk with them and explain why
11 and if they are in a position to tell us or justify why
12 that thing exists and what their problems might be, if there
13 is any way possible we can rectify that situation, or do
14 something about it, we try to do it.

15 Our organization is there for the purpose of
16 helping the people -- no question about it.

17 THOMPSON: Are there any situations wherein you
18 discuss alternate methods of financing, when a person has
19 been rejected?

20 BROWN: Yes, we will tell them that, you know,
21 maybe there is a possibility that they might be able to
22 get this financed through FHA or some other financial
23 organization. We encourage them, give them all the information
24 that is at our disposal to encourage them in the purchase
25 of a home.

1 LOKER: Can you -- what percent of your mortgages
2 were made in Baltimore City since 1973?

3 BROWN: Yes. I can give you the full picture if
4 you want it.

5 LOKER: I'd like to know Baltimore County and
6 Baltimore City, if you have it?

7 BROWN: I don't have the breakdown of Baltimore
8 City and Baltimore County. We don't have too much of a
9 breakdown there; but we do have all the figures and percen-
10 tages and whatnot for Baltimore City.

11 Now, the percent of one to four family units in
12 Baltimore City, that's talking 1972, if that's all right
13 with you?

14 LOKER: That's fine.

15 BROWN: All right.

16 The number that -- of loans, 156, amounting to
17 \$2,695,635.

18 Now, a loan made in Baltimore City in 1973, we
19 had 68 percent of our loans were made in Baltimore City,
20 in the amount of 191 loans, worth \$2,592,252.

21 In 1974, 52 loans amounting to \$1,184,872.

22 In 1975, -- this is for six months -- 41 percent,
23 we had 43 loans, amounted to \$791,200.

24 We have a total for the whole period of
25 \$7,263,959.

1 Does that answer your question?

2 LOKER: Well, if you take 1973, for example,
3 68 percent of the loans were made in Baltimore City; can
4 you tell me where the other percentage amounts were made?

5 BROWN: Well, they are made in surrounding areas,
6 that is in Baltimore County and Ann Arrundel County in the
7 amount of \$740,665 -- that's what was made in the surrounding
8 counties; it was 37 loans total.

9 LOKER: And which year?

10 BROWN: 1973.

11 LOKER: Okay.

12 Do you make any loans outside the state?

13 BROWN: Outside the State of Maryland?

14 LOKER: Yes?

15 BROWN: No.

16 LOKER: Never have?

17 BROWN: No.

18 We have seldome made one outside the City of
19 Baltimore.

20 LOKER: I see.

21 Can you tell me what criteria your appraisers use
22 in determining the value of a home?

23 BROWN: Well, usually they arrive at the value
24 of property, the market price of houses in a certain given
25 area; and they usually our organization requires they submit

1 at least three comparables to the house that they appraise.
2 And they submit that appraisal to our organization. And
3 then we have a person within our organization that usually
4 follows up the appraisal to find out -- be sure that
5 everything is in order.

6 It just happens that I happen to be that person --
7 by chance -- to follow up on all appraisals in this
8 organization.

9 LOKER: Well, besides using comparables, what
10 other criteria do they use in determining value?

11 BROWN: Well, they look at the community itself,
12 whether the streets are paved, whether the community is on
13 decline or if the community is going up -- there are many
14 things to look at when you make an appraisal of these
15 properties.

16 Another thing you take into consideration the
17 type of plumbing, the roof, the type of floors, the additions,
18 just everything in general that you look at when you go in
19 to make an appraisal; and after you evaluate all those things
20 you come up with a figure as to what you feel that house
21 is actually worth.

22 And then the next move is to check out on other
23 properties within that neighborhood and also neighborhoods
24 that are comparable to this neighborhood. And then you
25 arrive at a value of the property.

1 LOKER: Okay.

2 Now, in line with that, when you consider accept-
3 ing a mortgage application, do you place any restrictions
4 on the loan amount? Is there a minimum loan amount you will
5 make?

6 BROWN: Minimum loan? No.

7 LOKER: None at all?

8 BROWN: None whatever.

9 We make it based on the value of what the appraisal
10 is.

11 LOKER: But you would make a smaller loan, under,
12 say, \$10,000?

13 BROWN: Oh, yes.

14 LOKER: How about width restrictions, the width
15 of the house? Would you place any restrictions on that?

16 BROWN: No.

17 LOKER: And plumbing?

18 BROWN: That wouldn't have anything to do with
19 it. The only thing about plumbing is it has to do with the
20 value of the property; that's about the only thing.

21 LOKER: What about age restrictions?

22 BROWN: No. No, because a house could be 75 years
23 old and it could be practically a new house. In areas of
24 the city being developed today are houses that sold for,
25 say, \$10,000, \$12,000, today are selling for \$40,00 and

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1 \$50,000. Those properties have been rehabilitated and in
2 many areas that is happening.

3 LOKER: Do you place restrictions on the length
4 of the loan you will make?

5 BROWN: Yes, we do, the maximum loan is 30 years.

6 LOKER: Okay.

7 The appraisers you use, are they employed by
8 your savings and loan, or are they outside appraisers?

9 BROWN: Outside appraisers.

10 LOKER: You are the person who looks over the
11 appraisal?

12 BROWN: That's right.

13 LOKER: Are the appraisal criteria used now
14 different than during the tight money period in 1974?

15 BROWN: I don't think so. I think the same
16 appraisal procedure is used as was used at that time.

17 LOKER: Can the neighborhood or small-sized
18 S&L be more effective in increasing home ownership in the
19 area it serves than other institutions which might be 10 or
20 20 times larger, in your opinion?

21 BROWN: That's a little difficult question: can
22 small agencies do a better job? I don't know. I couldn't
23 say. A smaller agency, institution like we have, we might
24 be a little closer to the people, you might say; and there
25 may be a little better understanding sometimes. But I don't

1 know; I wouldn't be in a position to determine that.

2 LOKER: Well, what exactly do you feel the value
3 of being a small S&L is? Do you consider yourself a
4 neighborhood S&L?

5 BROWN: No, no. We hope to have \$100 million or
6 more within time. We are working on that all the time.

7 (Laughter.)

8 LOKER: Do you think it is important to be close
9 to the people you would be lending to? Do you see
10 any value in that?

11 BROWN: Oh, yes; I tell you, that is a trend at
12 this particular time.

13 The Federal Home Loan Bank is advocating that
14 you try to establish offices within neighborhoods. That is
15 the reason there are so many branch offices connected with
16 these organizations, not only the Federal Home Loan Bank
17 operation but other banks as well.

18 Now, we started off with one office and now we
19 have two; and we hope in the next maybe six months or a year
20 to establish two more, because you are a service organization.
21 You are out there to serve the public, and the closer you are
22 to the public, the better service I think you can give.

23 That is my thinking.

24 LOKER: When you have a couple, a married couple,
25 come into your savings and loan to take out a mortgage

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1 how do you treat the wife's salary? How do you consider the
2 wife's salary?

3 BROWN: That's taken into consideration. You
4 combine both salaries.

5 LOKER: Do you consider 100-percent of her salary
6 in all cases?

7 BROWN: Oh, yes.

8 LOKER: You always do that?

9 BROWN: Absolutely.

10 In other words, if the wife is making -- you find
11 sometimes where the wife makes more money than the husband,
12 and the only way we could process the loan sometimes is to
13 go on the strength of the wife's salary.

14 LOKER: Okay, that's all the questions I have.

15 SMITH: I must have zigged when you zagged: the
16 statistics you gave us, the first detailed statistics you
17 gave us, I thought was a list of the mortgages, the
18 applications you had approved, by race -- when you had 23
19 black male, 2 white male -- what was that?

20 BROWN: That was the number of applications that
21 were made, you know, to the organization.

22 SMITH: How can the number of applications be
23 fewer, be lower, than the --

24 BROWN: I correct myself. This is a group of
25 applications accepted. Now, see, there may be other

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1 applications, but these are the ones that were accepted by
2 our organization.

3 SMITH: But then you gave us a total in Baltimore
4 City, and unless I wrote the numbers down -- Baltimore
5 City total was significantly higher than your total total;
6 1975, 43 mortgages, and yet 15, 12, 27 -- I get 40 applications.

7 BROWN: In 1975, 41 percent, 43 applications,
8 to the amount of \$791,000 -- is that what you have?

9 SMITH: Yes.

10 But in the earlier figures you went 13 black
11 males, plus 12 black females, plus 15 couples, which equals
12 40.

13 BROWN: That was 1975, is that right?

14 SMITH: Yes?

15 BROWN: All right. 1975 we didn't have any
16 applications for whites at all. Now we had 13 male and
17 12 female and 15 husband and wife. Now what does that add
18 up to?

19 SMITH: That adds up to 40. But you said you had
20 43 in the city for that year, which is a total of 41 percent
21 of your total mortgage investment. So somewhere --

22 BROWN: There might be a fallacy there somewhere.
23 After all, these figures were prepared for me, and I didn't
24 check them thoroughly. So there might be a slight fallacy
25 there.

1 SMITH: It's like that each year, in '73, again
2 the same thing. You have a total of 180 people, and 191
3 mortgages, which is only 68 percent of your total. If you
4 could possible -- I am sure it's just an accounting error
5 someplace -- if you could check those back in your office
6 and send us --

7 BROWN: I'd be glad to do that.

8 SMITH: -- I would really appreciate it.

9 You mentioned one particular thing: you said you
10 had four rejections; now, assuming there might be some error
11 in these figures, let's just talk in relative terms it would
12 appear that you accept virtually all of the applications?

13 BROWN: That's right.

14 SMITH: Does this mean that you have a screening
15 or counseling process under which you stop a potential
16 applicant before he has actually filed? Perhaps you feel
17 there's just no way he could support that house for whatever
18 reason, do you actually stop people from applying?

19 BROWN: No.

20 The thing is this, now, we have a person who
21 works on applications in our office. You go through the
22 office and you apply. All right, now, this person will
23 somewhat screen you and this person might discourage you because
24 of what information you have presented.

25 Now, the person who handles the applications is a

1 well-training individual who is in a position pretty much
2 to determine whether this person can take care of this
3 obligation. Just like the -- she knows sometimes even more
4 than the Committee, so far as that goes; and maybe she might
5 discourage that.

6 SMITH: What factors would she take into
7 consideration?

8 BROWN: Well, income -- I think the income would
9 be one of the main things, and the obligation that the
10 person has. Now, suppose this individual has purchased a
11 long-term automobile, things of that kind, and with the
12 obligations as they are, she is in a position to determine
13 right away that in order to be able to buy a house you ought
14 to have at least four times the amount of money that you
15 make a week in order to take care of this in the manner in which
16 it should be taken care of.

17 Does that answer your question?

18 SMITH: Yes. I think that's fine.

19 Is it possible to give us an idea of your failure
20 rate, whether it be in terms of foreclosures or whatever?

21 BROWN: Well, our foreclosures are very limited.
22 We have a few. I doubt whether we've had over six foreclosures
23 during the whole period that we have been operating.

24 SMITH: Why do you think that is so? Is it just
25 that you are better businessmen than the other S&L's in town?

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BROWN: I don't know. I wouldn't say that.

But I think that we have been a little more lenient on people. I must confess that we have quite a number of delinquent loans that we have tried to encourage the people as much as possible to try to catch up, and if there's any way at all that they can work out some kind of an arrangement to pay up, we are willing to go along with them to a great extent.

Just as I gave you an example a few minutes ago of sickness and things like that, that may cause people not to do the things consistently as they would like to; and with us, normally, as a minority group, realizing the problems of minority groups, naturally, we extend ourselves as far as we can. We are not out there throwing away money, I'll tell you that; but at the same time we want people to retain their homes if they possibly can.

SMITH: Do you have a formal counseling program or is this just something you do for people who find themselves in financial difficulty?

BROWN: Do we have a formal counseling program?

SMITH: Yes, in which you provide some hand-holding?

BROWN: Well, no, we don't have a regular set-up like that, but where there is a need we have them come in the office and someone will sit and talk to them, and try to

1 work out some kind of a program with them.

2 I'll give you an example: we have a man that
3 was almost two years in arrears with his mortgage, and on
4 top of that, he also had an improvement loan; and he was
5 in arrears with that. And the only thing we could do was
6 foreclose on him.

7 So finally we asked he and his wife to come to
8 the office, and we sat down and we talked with him, and
9 he was a man making a reasonable salary. I don't know what
10 his problem -- he just tried to extend himself too much.

11 So finally we advised him, and asked him to try
12 and make, say, two payments a month on his mortgage; as a
13 result of that, that fellow has reduced that mortgage and
14 also paid the improvement loan.

15 Now, he had fallen back to almost two years, but
16 in most cases that property would have been foreclosed.
17 You have to foreclose on them.

18 SMITH: I notice with interest that you regard
19 yourself as a service institution. I got the feeling after
20 sitting here for a couple of days that a number of other
21 S&L's in the city tend to regard themselves as retail
22 establishments, not necessarily providing a service.

23 Are you able to fulfill your obligation to your
24 investors and continue to have the profits that you must
25 show or that you choose to show, and carry somebody for

jrb 156 1 two years?

2 BROWN: Yes, so far we have been able to do it
3 very successfully.

4 SMITH: How -- you said one of the things you
5 looked at was whether a neighborhood was on the "decline".

6 BROWN: Yes.

7 SMITH: And that would cause some concern. How
8 do you determine that a neighborhood is on the decline?
9 What do you look for?

10 BROWN: Well, you begin to observe the lawns,
11 you observe the streets, how they are kept up, and so on.

12 SMITH: I am going to have to go home and mow
13 the lawn; you are making me nervous.

14 (Laughter.)

15 BROWN: Then you look at the property as to how
16 well it is kept. You see, some people obtaining and trying
17 to keep the property up; everyday you see them working on it.
18 That has its effect on the total community and keeps that
19 community in pretty good shape.

20 But now there are many communities where people
21 just don't care, they let the grass grow; they don't never
22 paint, never try to keep the place up. And pretty soon,
23 you know, you see signs of deterioration; and as a result
24 of that, that community within a very short time will be
25 gone down.

1 SMITH: Do changing racial patterns in the
2 neighborhood --

3 BROWN: That has its effect.

4 SMITH: In what way?

5 BROWN: Well, I think it's slowing down somewhat
6 now, so far as the white and black -- when the black family
7 moved in a neighborhood, the whites have a tendency to get
8 nervous, and begin to move out first chance they get.

9 But now there is a little leveling off on that
10 situation now. I don't know whether it is because there's
11 no other place to run or what the situation is.

12 SMITH: Don't you really find that if perhaps
13 a black family does move in and the white family sells
14 that what they are going to end up doing is selling to a
15 broker rather than to someone who wants to -- or to a
16 speculator? Don't you find that the next black who comes in
17 to buy that house pays even more?

18 BROWN: Well, it happens. Oh, yeah, that happens.
19 There's no question about it. You're right about that.

20 But as a rule when you get the Negro family
21 move in, as I say --

22 SMITH: Are you telling me that if you had a
23 black come to you and he wanted to buy a house in a white
24 neighborhood that you would have some concern?

25 BROWN: My organization? Oh, no. I was talking in

1 a general way, not so far as my institution is concerned.
2 We don't care where it is. If you want to buy a house in
3 a given neighborhood, our organization will let you have the
4 money. That is the thing that brought our organization into
5 existence' and that was because there were certain lending
6 institutions in this community where you could not borrow
7 money -- that is, blacks -- and as a result of that our
8 organization was born.

9 SMITH: You did say one of the ways of identifying
10 a declining neighborhood is to have a neighborhood where
11 blacks are moving in?

12 BROWN: That's been true. That's been true.

13 You see, over the years in the neighborhoods
14 where blacks have moved in, whites have a tendency to move
15 out. There's no question about that. And anybody with any
16 experience at all in dealing with property is aware of that
17 fact very much; now it isn't always because the blacks move
18 in that that means that the community is going to go down,
19 because, in some of the communities they are kept better
20 than when you just had whites in them.

21 And you couldn't just say it's because the Negro
22 or blacks move in.

23 SMITH: If you would let me just ask one other
24 question:

25 You mentioned one of the criteria used for

1 determining board membership was whether or not a board
2 member could contribute financially; by that do you mean
3 that he or she would invest in your institution? Or did you
4 mean he or she might have contact to be able to bring in
5 deposits?'

6 BROWN: That's exactly what it is. And he might
7 have money to invest, he might have contacts with others who
8 would invest; and we have to get the money from the community
9 in order to run our institution. That is the purpose of
10 trying to get people of influence on the Board of Directors.

11 WICKWIRE: I have one question:

12 Do you deal primarily with black brokers?

13 BROWN: It doesn't matter, makes no difference.
14 We have -- the majority are black brokers, but we have quite
15 a number of white brokers; and it doesn't make any difference
16 who you are, if you are in a position financially, we'll
17 loan you the money -- whether you are white or black.

18 WICKWIRE: I got the impression some of the
19 black brokers found it easier to deal with mortgage bankers;
20 they seem to go out of their way to cultivate them more, . .
21 take them out, wine and dine them?

22 BROWN: They don't do nothing like that. . . .

23 WICKWIRE: No, sir. No, sir, absolutely. If you
24 come to us and place your application, and you have the
25 proper credentials and whatnot to justify that, so far as your

1 employment, so far as your credit, and we find you are able
2 to meet your obligations and are not overloaded, your applica-
3 tion will be approved.

4 It makes no difference whether you are white
5 or black; it doesn't matter.

6 DARDEN: I have a question:

7 You said a couple of things, one, during 1974
8 which happened to be the year most of the other S&L's made
9 their largest amounts, largest number of loans in the city,
10 during that year your institution still made the largest
11 number of loans in the city than any other institution?

12 BROWN: Yes.

13 DARDEN: Your institution is considerably smaller?

14 BROWN: It is.

15 DARDEN: Than the ones we have heard from so far.
16 And I would like to ask two questions: one, on the loans
17 that you made in 1974, we have a map over here (indicating).

18 Would you say that the majority of them fall within
19 the purple or the green sections of that map?

20 BROWN: Let me see how well I know that map?

21 DARDEN: It's a map of Baltimore City, the purple
22 sections indicate areas between 75 and 100 percent black
23 population; green, between 50 and 75 percent black population.

24 BROWN: I would say that the area in green is
25 where most of the loans were made.

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1 DARDEN: So most of your loans were made in
2 neighborhoods having high black population?

3 BROWN: That's right.

4 DARDEN: Would you say that there is an indication
5 on the part of other -- there is a reluctance on the part
6 of other S&L's to lend within black communities?

7 BROWN: Well, I wouldn't want to come right out
8 and make a bald statement in that connection, but I do know
9 that a lot of the larger institutions send their money out
10 of the state, out of the city; and made big loans to
11 condominiums, other, you know, institutional bids; whereas
12 with us, if we did that, we would not be financially able to
13 go into that kind of operation so far as our money is
14 concerned.

15 Therefore, our interest has been simply right around
16 in the city of Baltimore.

17 DARDEN: Is there in your opinion, is there any
18 basis to a statement that there is discrimination on the part
19 of major S&L institutions towards neighborhoods with high
20 black populations?

21 BROWN: Well, now, I wouldn't come out and say that,
22 but there have been signs to that effect so far as discrimina-
23 tion, because you find that in 1974 most of your larger
24 institutions -- very few loans were made in the inner city
25 at all. So there must be something. I am not here to justify

jrb162 1 it one way or the other.

2 But the way I see it, that's the way I see it.
3 I wouldn't want to come out and say it, that these institutions
4 actually discriminated; but from a personal point of view:
5 I would say yes.

6 (Laughter.)

7 BOOTH: Are there any other questions?

8 THOMPSON: Mr. Brown, what was the average sized
9 loan that you have on the books, do you have any idea what
10 that is?

11 BROWN: We have loans up to \$230,000, that's
12 a church. We have one loan that was just recently made
13 for a dentist of \$110,000 to build a home out in the
14 Eagle's Nest area. And we have made quite a number of loans
15 ranging, say, \$50,000, \$60,000, \$75,000 in the Columbia
16 area.

17 So it varies.

18 THOMPSON: Do you have an idea what the average-
19 sized is -- \$7,000, \$8,000, \$9,000?

20 BROWN: The average size loan would run \$10,000,
21 \$15,000.

22 THOMPSON: One of our concerns is how well S&L's
23 are servicing the neighborhood or area in which they are
24 located; and in our investigation one of the problems we
25 found was making small loans, whether or not a profit could

1 be made, or whether or not a savings and loan could exist,
2 and the question I would like to ask you is:

3 Do you feel or recommend that a large number of
4 loans be made within the service area of an S&L? In other
5 words, has your experience been that you have made a profit
6 in servicing the community?

7 BROWN: Oh, yuh. Most of ours are small loans.
8 And we have been able to make, you know, a fair profit.

9 Now, one thing I want to make clear here: I am
10 not an expert on this whole thing, so far as S&L's. I am
11 just pinch-hitting for the President of the organization.
12 However, I do have a lot of experience as a result of
13 serving as its secretary for 17 years. But I do not have all
14 the answers.

15 THOMPSON: Thank you very much.

16 BOOTH: Thank you very much.

17 Mr. Kresslein?

18 JEFFERS: Mr. Kresslein, would you please state
19 your name and the name of your organization for the record?

20 KRESSLEIN: My name is Charles H. Kresslein, Jr.,
21 Execucutive Vice President, Maryland Savings and Loan
22 League.

23 JEFFERS: Would you give us the address for the
24 record?

25 KRESSLEIN: The address is Suite 511, 1 Charles

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1 Center, Baltimore, 20211.

2 JEFFERS: Do you have a prepared statement or
3 opening remarks you would like to give?

4 KRESSLEIN: No. I have no prepared statement.
5 I was not given a specific set of questions.

6 WICKWIRE: Let me ask you a little about the
7 goals of your organization?

8 KRESSLEIN: Mayrland Savings and Loan League --
9 it's a trade organization for the industry in the State of
10 Maryland. We are somewhat of a child of the U. S. Savings
11 and Loan League, out of Chicago, which represents the industry
12 throughout the country.

13 We presently have approximately 165 savings and
14 loans who are members, which comprises about 97, 98 percent
15 of the assets in the industry in the state.

16 Our main function is strictly to being of service
17 to our member institutions. By that I mean we do legislative
18 work in Annapolis as well as before Committees of the Congress
19 of the United States. We analyze and write position papers
20 regarding implementation of rules and regs, new laws and
21 have an educational process for our members.

22 As an example, most recently on a new real estate
23 act, we did extensive surveys, seminars, over the state
24 advising our members of what they had to do to comply with
25 the law; we held similar type seminars throughout the state

1 regarding direct deposit of social security checks which just
2 began in the State of Maryland yesterday. And with the
3 enactment of any law out of Annapolis, we sit down, analyze
4 it, maybe have six or eight members of our League look at
5 the law, and advise the members of what they have to comply
6 with.

7 WICKWIRE: One of the problems we've heard a good
8 bit about is Neighborhood Housing Services; would you tell
9 us about that?

10 KRESSLEIN: Yes.

11 Well, we were approached, I guess now it is about
12 a year ago, with a concept -- having read about it and having
13 discussed it with the officials in Pittsburgh, Pennsylvania
14 -- and we were approached by the Urban Reinvestment Task
15 Force, which is an arm of the Federal Home Bank Loan system,
16 and asked to cooperate or investigate the possibility of
17 becoming involved in something like this.

18 So after an extensive investigation, -- usually
19 when you hear about a program, you have something of apprehen-
20 sion about whether it is going to work, or whether it's just
21 another Committee, and you meet and meet and meet, and nothing
22 ever happens.

23 Well, ironically, this one did begin to move
24 very rapidly. We got together on an initial meeting with
25 members of our industry, the members of a community which was

1 through the SECO organization in Southeast Baltimore; and
2 we began discussions.

3 We then went away down to Eastern Maryland -- we
4 all lived together for three days, the City of Baltimore,
5 representatives of the housing industry, or lenders, and
6 people from the community. We began to discuss how we could
7 implement this NHS concept. I think the initial number was
8 about 40 people.

9 We broke them down into committees, fund raising
10 committees, housing committees, budget committees -- these
11 types of things.

12 We then looked at charters for corporations,
13 for a model organization. We drew up our own charter
14 and applied for a 501. We were granted that. Our initial
15 funding was for \$50,000 grant by the Ford Foundation, which
16 was to be used at their insistence for what might be termed
17 a high risk loan fund.

18 Lending institutions such as S&L's had to
19 match that, two for one, at which time Ford Foundation would
20 come back and grant another \$50,000.

21 Additionally the lending institutions had to
22 agree to underwrite the operating budget, which was estimated
23 to be in an area of \$50,000 for the first year, and maybe
24 \$50,000 to \$60,000 the second year.

25 So we embarked on a program, opened another

1 office in the Southeast section of the city, fully staffed,
2 executive director, a home improvement specialist who was
3 supposed to work very closely with the city as far as
4 inspections. And I guess they were in full operation around
5 January '75.

6 I don't have these figures with me regarding
7 NHS, but I would guess in looking at them -- because we had
8 a meeting just the day before yesterday -- I guess they
9 probably have expended somewhere in the vicinity of
10 close to a million dollars in financing between the private
11 sector and the -- what could be termed the high risk loan
12 fund.

13 We are now going back to our institutions, we
14 originally started with 12 S&L's who participated, and we
15 are up to 16, I believe, now, with the expectation that
16 more are going to come in.

17 And we not only asked them to help underwrite
18 the operating budget, but also to become very involved in
19 making improvement-type loans as well as purchasing
20 money orders.

21 Most of those houses in that area sold in the
22 retail market for anywhere from \$3,500 to \$15,000; so you
23 are talking about a small mortgage. One right next to the
24 office was owned by someone, and it had been vacant for
25 a considerable period of time; and NHS was instrumental

1 in putting tog ether a purchase for a potential homeowner
2 for \$3,500. And then they loaned him about \$7,000 to put
3 the property back together.

4 WICKWIRE: I understand this area is 80 percent
5 white, 20 percent black; do you have in mind expanding to
6 other areas, maybe some that are all black?

7 KRESSLEIN: Yes.

8 We had to begin somewhere, and the main reason
9 I would suspect for beginning in that area is because Ford
10 Foundation had been working with SECO in the past and had
11 a very good rapport with SECO.

12 And I would suspect that was the real reason that
13 area was chosen as a beginning area, with the idea being
14 that will perpetuate into other areas of the city.

15 I might add, that is a growing concept within the
16 nation. I think probably about -- if I remember the statistics
17 correctly -- there are about 12 NHS's in existence at the
18 moment.

19 BOOTH: To change the subject a little now, I
20 would like to talk about a pledge S&L's made to put money
21 into the city. Would you like to tell us how it evolved?

22 KRESSLEIN: Yes.

23 The city approached us -- there was a gentleman
24 here this morning -- I guess it all began with a study
25 which concluded that the S&L's did redlining, refused to make

1 loans on 12-foot houses, that type of thing; and in a
2 particular neighborhood.

3 We disagree with that finding.

4 And then we started to talk to the housing people
5 in the city about making a sincere effort to make small
6 loans in all areas of the city and revive all areas of the
7 city.

8 We wrote a letter to the Mayor of the city of
9 Baltimore back in January of 1974, and in that letter we
10 told him that we would begin to keep records that were never
11 kept before as to where a demand -- we felt that there was
12 not the demand that the study had indicated; and we were
13 meeting the demand that was put forward.

14 We wrote to the Mayor and told him what we would
15 do; and if the conclusion was a type of redlining, we would
16 agree not to consider the width of a house, the age of a
17 house, or the size of the loan and some other things that
18 we agreed to do.

19 We received a reply from the Mayor at that time
20 that because of the fact -- incidentally in our initial
21 letter to the mayor we made no reference to any legislation
22 that was being promulgated or had been considered at that
23 time. So the Mayor wrote back and said he appreciated the
24 commitment but he would like it if the S&L industry would
25 give him a similar type agreement that he had received from

1 the commercial banking -- and that being a dollar amount.

2 We were very reluctant to do so, because at the
3 time we were going through what we would call a mass
4 disinvestment period -- and I can give you some numbers.
5 The money went out of our industry for various reasons. So
6 we were very reluctant to give him that amount -- dollar
7 amount -- initially.

8 Then the Mayor came back and said "that's the
9 type of commitment we want."

10 So we discussed, and we were still reluctant,
11 but we thought we would make a realistic commitment; so we
12 made the commitment, in the third letter dated from my
13 office February 15, made a commitment of \$30 million for
14 mortgages in Baltimore City, either VA, FHA or conventional
15 to qualified homebuyers.

16 We were asked to make the commitment using-
17 normal underwriting criteria. We were not asked for 100-
18 percent financing or 110 percent; most of our institutions
19 are prohibited by law from making 100-percent financing.
20 So we made that commitment.

21 And this didn't get off the ground until March
22 or April. And the activity for the first two or three
23 months that this discussion was going on was very minimal.
24 We made a sincere effort to meet that commitment.

25 The commitment made for \$30 did not specify any

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1 particular period of time, and we were in communication
2 with -- we wanted to make a sincere effort of doing this
3 as quickly as we could.

TAPE4

4 So within the course of nine months to ten months,
5 let's say, we made the commitment in 1974, and --

6 BOOTH: Okay.

7 KRESSLEIN: We concluded in December of '74, that
8 year, in making approximately 1,850 mortgage loans, totaling
9 \$30.5 million -- if my numbers are correct. I think that's
10 somewhere around \$17,000 per mortgage.

11 At the same time to show what an effort it was
12 and what it entailed, during that same period of time, which
13 had really begun in July of '73 through December '74,
14 our industry had experienced a net outflow of savings in
15 the area of \$50 million. To get it down even closer, because
16 of the time element, in July '73 through September '74,
17 the outflows were \$80 million.

18 That is withdrawals that exceed deposits. So we
19 termed this a significant effort on the part of our industry
20 in providing financing for the city home owner and, number
21 two, in meeting our commitment. This had to be done during
22 the worst economic period, a period of money restraints,
23 the worst the S&L industry had ever gone through in the
24 history of the business since 1932.

25 But we wanted to show the people; we met with

1 realtors, institutions, people on the street, to contact
2 people in every section of the city to ask them to bring
3 them applications. We had agreed with the City of Baltimore
4 we would review any declined mortgage application and
5 place it with another lending institution.

6 To my knowledge, we never even had to meet.

7 The city people would review applicants prior to
8 coming to us. So that is where we stood.

9 Insofar as 1975 is concerned we indicated this
10 was not a one-shot thing, or a one-time commitment. Through
11 1975, for the first eight months, we have made approximately
12 1,100 mortgages, totaling close to \$21 million.

13 Now, the market is beginning to turn around
14 again. I have no idea of the projection as to whether or not
15 we will do another \$30 million in '75. Out-flows have
16 stabilized at probably a breakeven point for the months of
17 July and August.

18 BOOTH: This is an ongoing program? It wasn't
19 a one-shot deal?

20 KRESSLEIN: No, it wasn't a one-shot deal as
21 far as our commitment to do financing in the City of
22 Baltimore. We still do not restrict a house as far as
23 size or width or age or the amount of a loan. Loans are being
24 made for \$2,000 to \$25,000. As you can see from my figures
25 in '74, the average loan was \$17,000.

1 BOOTH: How did you come up with \$30 million?

2 KRESSLEIN: That was a number that was pulled out
3 of the hat, and I would suspect one of the reasons for the
4 \$30 million figure was commercial bankers committed \$15
5 million; our industry does about 53 percent of all mortgage
6 financing, and in Maryland the industry does probably 60
7 percent -- that is vis-a-vis the commercial banks, the
8 insurance companies and everybody else combined.

9 That is the only type of investment the S&L
10 can do.

11 BOOTH: Do you think you are going to need to take
12 any special steps to continue this?

13 KRESSLEIN: Special steps in terms of -- ?

14 BOOTH: I don't know what.

15 KRESSLEIN: I don't think so, to be quite honest
16 with you, because my view is that the progress in the city
17 is much on the upgrade. A lot of areas that were in the
18 \$8,000 to \$10,000 category may now be selling for \$15,000 to
19 \$20,000, Woodbine Avenue you are finding houses over there
20 selling for \$25,000 now. Take East Baltimore or West
21 Baltimore, the markets are appreciating.

22 So as a consequence I don't think we are going to
23 to have to develop any special programs. There are a lot of
24 sources available to 90 and 95 percent financing.

25 LOKER: Mr. Kresslein, can you tell me if most

1 members of the Maryland State S&L have affirmative action
2 plans?

3 KRESSLEIN: I would not be able to answer that,
4 to be quite honest with you; I would suspect most of them
5 do not. There are 226 S&L's in the state, many of whom
6 are in very small one-night operation type things. 150
7 state charter, 9 FSIC insured, many of which are as small as
8 \$100,000 in total assets. They are open Tuesday nights from
9 6 to 8; they might make 5 loans in the whole year -- if they
10 make that.

11 So I do not think that I would say in terms of
12 numbers -- I would probably have to say probably most of them
13 do not have one.

14 LOKER: Would you encourage the ones without one
15 to implement one?

16 KRESSLEIN: Well, again, you know, going back to
17 the numbers, just to give you some idea -- 150 state charter
18 association, there are 60 with less than a million dollars
19 assets. How many loans can they make? They make three in
20 a community in which they are located, or five; they can't
21 be out soliciting business because they just cannot fund them
22 to begin with.

23 They don't have the flow of savings. They are
24 not competitive insofar as rates that can be paid for the
25 savings dollars so, consequently, they are not going to

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1 attract any dollars.

2 LOKER: Maybe you are not familiar with what
3 I am talking about:

4 Affirmative Action Plan has to do with recruiting
5 minorities and women into your organization as employees.

6 KRESSLEIN: I wasn't addressing myself to that
7 aspect of it, no.

8 In that regard I can't answer how many do have
9 and how many do not have. Again, relating it to the number
10 of institutions that are so small, you might have a total
11 of two or four people in that organization that do all the
12 work for the one night or the one day, keep the books, take
13 the payments, and so forth. But I would not be in a position
14 to say how many of them have an affirmative action program..
15 We do not get involved in that type of thing with our
16 members.

17 LOKER: Why not?

18 KRESSLEIN: You've got to realize one thing:
19 we are a trade organization, we have no control over telling
20 anyone what they can do and what they can't do, what they
21 should do and what they should not do.

22 That would be a personal affront on our part. We
23 are to provide them with services such as statistics,
24 educational type things; we are not in a position of telling
25 them what to do or what they must do.

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1 LOKER: Do you have any statistics on
2 the number of minorities and women who work in the
3 institutions?

4 KRESSLEIN: No.

5 LOKER: You don't keep those?

6 KRESSLEIN: No.

7 LOKER: Okay, that's all I have.

8 THOMPSON: Mr. Kresslein, do any of your members
9 have any minorities or women occupying supervisory positions?

10 KRESSLEIN: Oh, yes.

11 LOKER: Do you have any idea of how many you
12 are talking about?

13 KRESSLEIN: I would say we have 165 members and
14 I believe to my knowledge there are about -- I can't answer
15 as far as management type positions. I can say in
16 Presidents or Chief Managing Officers -- because that's the
17 only portion we normally deal with, we don't deal with
18 staffs -- and we have three that have women presidents.
19 I know two who have black presidents. Other than that, that's
20 the only knowledge I have.

21 LOKER: Are these instances of relatively recent
22 vintage or old, or what?

23 KRESSLEIN: Well, the three women I'm aware of,
24 one has been president for 20 years, I guess; the second one

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1 has been president for two years; the third one maybe five
2 years.

3 The two blacks have been president as long as I,
4 have been around the business.

5 LOKER: Can you tell us generally what the
6 qualifications are for membership on the loan review
7 boards of your member institutions?

8 KRESSLEIN: No, I would not be able to.

9 LOKER: The same would be true for the Boards
10 of Directors, you are not aware of the qualifications
11 required for those?

12 KRESSLEIN: No.

13 SMITH: You said in your understanding with the
14 city that you were under no obligation to put any loans into
15 the ghetto. How would you define ghetto?

16 KRESSLEIN: An oral definition or pointing at
17 the map?

18 Well, relating again to qualified -- a qualified
19 appraised property. I don't think we were doing anything-in
20 terms of specific areas. Maybe that was the wrong terminology
21 but let's take a piece of property that has been completely
22 vacant or vandalized -- or maybe the whole-block had been,
23 and boarded up. In terms of meeting or coming out with any
24 kind of appraisal on the property, or what is one willing
25 to pay for that piece of property -- if they were willing to

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1 pay \$5,000 for it, maybe an appraiser could not substantiate
2 that purchase price.

3 SMITH: Wouldn't that just as easily apply to
4 someone who wanted to buy a \$100,000 house and you might have
5 an appraiser who couldn't substantiate the \$100,000?

6 KRESSLEIN: Yes.

7 SMITH: So would that be a ghetto area?

8 KRESSLEIN: No.

9 SMITH: Okay, tell me what you meant by ghetto
10 area? You said you clearly had in your mind an understanding
11 that number one, the city did not expect you to make any
12 -- to have the industry make any loans which would be a
13 violation of responsible fiduciary -- a normal underwriting
14 criteria?

15 KRESSLEIN: Okay.

16 SMITH: That's one. You made that quite clear.

17 The next thing you said is the city, your under-
18 standing with the city, obligated you in no way to make
19 no loans in the ghetto area. I am just trying to find out
20 what that means.

21 KRESSLEIN: I don't think it's specifically
22 defined; we never defined it.

23 SMITH: Well, when you walk around with an image
24 in your head and you have all these educational meetings
25 with your S&L's and you are trying to explain to them what

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1 they are obliged to do with reference to the agreement with
2 the city, how do you tell them? How do you convey an idea?

3 KRESSLEIN: We do not as a result of that
4 commitment have any type of education to our members to tell
5 them where they could lend, where they couldn't, or how.

6 They were aware of the commitment, that we
7 indicated to the mayor we would make loans throughout the
8 entire city of Baltimore, that is the only thing they are
9 aware of.

10 SMITH: So in other words perhaps you meant
11 that you wanted to make it clear that the city did not in
12 any way say to you "go ahead and invest in areas that you
13 might be unwilling to invest- in before, or go ahead and
14 take loans which some people might consider chancey for reasons
15 as yet undefined."

16 You want to stress that all this was was a question
17 of being willing to spend \$30 million in the city for
18 very sound mortgages rather than spend that same \$30 million
19 in a county or Ocean City or Dubuque, Iowa.

20 KRESSLEIN: Yes. I'll buy that.

21 SMITH: So that if you were to go back in your
22 mind over what you said before I assume you would then
23 want to take out of your comment anything related to the
24 fact the city did or did not --

25 KRESSLEIN: Strike "ghetto area".

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1 SMITH: This is not a court of law in that sense.
2 You know, there's no judge and jury. I was somewhat confused
3 by your use of that term.

4 You did indicate you are a trade organization
5 and one of your major responsibilities is providing education
6 keeping your members up to date on legislation on trends,
7 wouldn't that be an obvious vehicle, then, for discussing
8 ways to bring the S&L industry into dealing more directly
9 with some of the problems of the last third of this century?

10 KRESSLEIN: Oh, yes. We do that right now we are
11 talking with the S&L's regarding possible funding to
12 provide financing for a massive homesteading project through
13 private financing, that is financing by the S&L industry
14 versus city or state funds. We do that constantly with the
15 city, talking-to them about programs.

16 SMITH: In those cases you would get yourself
17 in the business of making loans to those boarded up houses;
18 right?

19 KRESSLEIN: Possibly, yes. There's a lot of
20 things that have to be worked out. We have investigated
21 what we can do now under our existing regs, and what we cannot
22 do because of certain practices by the city, and we try to
23 work those things out. If we can work t-hem out, then we
24 will go ahead and attempt to have a member institution get
25 involved in such a program.

jrb 181 1 SMITH: Do you provide any sort of central
2 referral service in terms of appointments so that people who
3 are interested in seeking employment -- I am fascinated with
4 your term "thrift industry" --

5 KRESSLEIN: I like that one, too.

6 SMITH: I wasn't sure whose thrift.

7 Do you act in any way as a source for employment?

8 KRESSLEIN: On a very isolated basis we might
9 get a call from a particular individual who would like to
10 come or become involved in the S&L business, who would like
11 to be employed -- particularly now, would like to know what
12 he has to do to get into the S&L business, learn the financial
13 aspects of it. We do not have a personnel service. I may
14 be aware of an institution that may be looking for some
15 particular type individual, a teller, or what, and if I know
16 of that at the time, I am glad to tell him, "Call X, Y, Z."

17 SMITH: Do any of your member S&L's charge you
18 for advice when they are trying to fill a vacancy on a
19 board?

20 KRESSLEIN: Oh, no.

21 SMITH: No one has ever asked you to select
22 people who could help broadened the board membership?

23 KRESSLEIN: No.

24 SMITH: Do you have any idea of the usual
25 composition of the board of directors of one of your

1 member S&L institutions?

2 KRESSLEIN: In terms of numbers?

3 SMITH: Well, how about in terms of male-female?

4 KRESSLEIN: I have no knowledge, we have no
5 record of who is on any institution's board. I may have
6 walked into a room and, say, picked up a financial statement
7 off the counter and read seven names, and I would probably
8 then know if they are female or male. I would not know if
9 they were minority groups or what.

10 SMITH: Do you tend to deal with the top operating
11 officer of the S&L? Is that who your contact is?

12 KRESSLEIN: Normally, yes, with the top officer.

13 SMITH: Does the Maryland S&L League aid its
14 member institutions indirectly in -- or directly -- in
15 increasing the number of qualified minorities and women in
16 decision-making positions in the institutions.

17 KRESSLEIN: We have not.

18 SMITH: Do you plan to do that?

19 KRESSLEIN: We have not discussed it.

20 SMITH: When you say "we have not discussed it,"
21 do you mean your office?

22 KRESSLEIN: My office has not discussed it.

23 SMITH: Do you think that that might be a role
24 you could play?

25 KRESSLEIN: How? Recommending to them that they

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1 consider appointments to Boards of Directors?

2 SMITH: How about employees? Let's begin with
3 that? We recognize that all these small S&L's you talked
4 about frequently, you know, their Board is a group of people
5 who got together and played poker every Thursday night, and
6 one night they decided "Hey, let's start an S&L". And I
7 can understand the difficulties of expecting that particular
8 group to want to broaden its board of directors.

9 Let's begin with some of the larger ones, talk
10 about their own staffing patterns. Can you not see a way
11 in which you might help remind the S&L's, institutions of
12 this obligation to the public in terms not only of the way
13 in which they grant mortgages but also in terms of their
14 employment practices.

15 KRESSLEIN: We possibly could assist in that.
16 We have not done it to this point in time.

17 You know, when you speak of the larger institutions,
18 in most cases I view the more senior officer involved in that
19 as being more knowledgeable than I am on the structure of
20 their organization and management.

21 To answer you specifically, we have not done it.
22 I would not be adverse to entering into discussions with
23 them.

24 SMITH: Do you have a staff?

25 KRESSLEIN: A total staff of three people.

1 SMITH: How is it financed? Where does the money
2 come from?

3 KRESSLEIN: Membership dues.

4 SMITH: Does each organization pay the same dues?

5 KRESSLEIN: Sliding scale.

6 SMITH: Based on the assets?

7 KRESSLEIN: Yes.

8 SMITH: I guess I have no further questions.
9 Thank you.

10 LOKER: Mr. Kressleir, we invited quite a few
11 S&L's to come to these hearings, can you give us any
12 indication of why only four came?

13 KRESSLEIN: No, I can't, to be quite honest with
14 you I think Ms. Booth indicated it might be 8 or 10; I have
15 no knowledge of who was coming and who wasn't.

16 LOKER: We were advised that there was a meeting
17 of a number of the S&L associations with you on Monday
18 where these hearings were discussed. Can you tell us what
19 the results of that meeting were?

20 KRESSLEIN: Well, all we did discuss was that the
21 hearings were taking place and some of the feedback I got was
22 that the questions that were raised in the communication to
23 the institution was maybe two or three days prior to the
24 hearing, and in most cases some of the questions asked would
25 be impossible to answer in terms of number of mortgages

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1 city versus county, because of computer problems - or just
2 impossible to answer.

3 I did not ask anyone to be here or not to be here.
4 Nor did they indicate to me that they would work on it or not.
5 I was just aware from reading this morning's newspaper that
6 Mr. Hecht was here yesterday.

7 LOKER: Why was there a need to have a meeting
8 about the hearings?

9 KRESSLEIN: I think it was three or four people
10 came by the office and said, "Are you going?" You know,
11 "What is this hearing about?"

12 I said, "I don't know." I just had a discussion
13 with Ms. Booth and a letter asking me to appear on Thursday
14 at 3 o'clock. I have no questions that have been raised to
15 me. I suppose it relates generally to the affairs of the
16 industry."

17 LOKER: Well, do you think that the S&L's that
18 were invited to come realized that what we are trying to do
19 here is hold an impartial hearing and get all points of view;
20 and it is very hard to do that unless different points of
21 view will represent themselves.

22 Do you think they would realize that?

23 KRESSLEIN: Possibly not. I would suspect --
24 maybe it was yesterday or the day beforeyesterday, I talked
25 to Mr. Jefferson Jeffers, and he indicated to me that this

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1 would be an informal type hearing, no name calling,
2 badgering of witnesses, that type of thing, -- which I
3 was glad to hear. And I would suspect probably if that had
4 been proposed to anybody else or everybody else a week
5 ago at the time the hearing was being talked about that
6 possibly you may have gotten more participation.

7 I don't know definitely. But that may have very
8 well been one of the reasons some of them didn't show up.
9 I can't answer it, but I would suspect that had that been
10 conveyed there may have been more here, because I think it-
11 has been the experience of our-industry in the last several
12 years to have constantly been subjected to criticism through
13 the news media and in most cases, we felt, unjustifiably
14 so, for an industry that does do 53 or 54 percent of the
15 financing of homes, and 60 percent in this state; and what
16 we have attempted to do in the City of Baltimore in the last
17 two years -- \$30 million, a neighborhood housing concept --
18 I think maybe there may have been reluctance on the part
19 of some.

20 That's my own personal opinion.

21 JEFFERS: I am going to say some of them were
22 informed we would be using no names and no badgering and
23 they still have not shown up. And I think we need to just
24 clear the record on that.

25 THOMPSON: Mr. Kresslein, in discussing some of

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1 experience black realtors have in the City of Baltimore
2 the idea of mortgage bankers came up in relationship to the
3 S&L industry, and most I talked to said they would rather
4 deal with S&L's in town than they would mortgage bankers.
5 Several mentioned that immediately after the \$30 million
6 deal was consummated that the S&L's had a great atmosphere:
7 doors were open and everyone let these black realtors
8 know they were open for business, something- that just
9 hadn't occurred before.

10 Now, they describe this atmosphere changing;
11 and I understand in the past few months the atmosphere has
12 changed again, and the cold feeling that had been in existence
13 prior to the deal has come back on the scene.

14 And I was wondering whether you could tell me if
15 you know anything about this, whether this is true or not,
16 and if it is true, what in your judgement would be the cause
17 for a change in atmosphere on the part of the S&L's?

18 KRESSLEIN: Well, Mr. Thompson, I think if there
19 has been a change, -- I strongly feel that there has not
20 been -- if there has been a change it would not have been
21 in terms of the attitude. - The change that may have occurred
22 in the last 30 days has been the very cautious type approach
23 by many institutions as to what may be down the road 30
24 days or 60 days or 90 days, with respect to money coming into
25 the market for funding, mass disintermediation again beginning;

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1 we saw it starting to level off the first six months to a
2 very low level in July, and short-term rates starting to
3 increase dramatically.

4 I think a lot of them have taken a very cautious
5 attitude in an attempt to build up liquidity so that they
6 could meet these next 30, 60, 90 days. If there is a change
7 in attitude, I don't think it was in terms of not making
8 mortgages in Baltimore City, it is just in terms of being
9 cautious in making any mortgages.

10 THOMPSON: That message has not been perceived
11 as it should be. In other words some people are afraid the
12 attitude of the industry has gone back to what it was.

13 KRESSLEIN: Maybe that is the -- the attitude may
14 be right in that respect; maybe we should do something in
15 terms of information in marketing or whatever term you want
16 to use.

17 It has been my experience back in real bad
18 times when I have sat down in my office with black realtors
19 and tried to generate activity to meet this \$30 million
20 commitment, we informed them of the statistics in those
21 months and they were somewhat concerned that we were in that
22 financial position; -and they left that meeting feeling much
23 better about the fact that if they were denied a loan it
24 was for justifiable reasons, so far as having the money
25 available.

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1 And at that time the money was being borrowed by
2 industry at the rates of 10 percent, 11 percent; money
3 was being borrowed to meet withdrawals and commitments that
4 were made. They said, "Well, we could understand, you
5 can't continue to borrow money at 10 or 11 percent and loan
6 it out at 8 or 9."

7 They understood that. I would tend to agree with
8 you that maybe in terms of our educational process
9 maybe our communications should be a little bit better
10 with the realtors in the community and in terms of why things
11 happen.

12 THOMPSON: Yes, they may be oriented to the
13 last 30 years rather than the last 18 months and so maybe it
14 would be a good idea if you could reinforce the idea that
15 nothing has really changed.

16 KRESSLEIN: I welcome that suggestion.

17 WICKWIRE: One quick question: give me a
18 rough idea how the League has felt about the whole mortgage
19 disclosure act?

20 KRESSLEIN: The redlining- bill on the Senate?

21 WICKWIRE: Senator Proxmire's bill.

22 KRESSLEIN: The only objection the industry had
23 is that the mass of work that would have been involved
24 in coming up with these details would have involved very expen-
25 sive programming of computers. We would much rather have

1 done it on a zipcode basis, because we could have gotten that
2 out of the computer.

3 DARDEN: Would you rather see no usury law at
4 all in the State of Maryland?

5 KRESSLEIN: Yes.

6 DARDEN: Would you say that there is any evidence
7 or indication of present or past discrimination on the part
8 of the industry towards mortgages in the city and particularly
9 towards minorities? Any indication of discrimination in
10 mortgage lending, either current or past towards minorities
11 in Baltimore?

12 KRESSLEIN: I have not seen any discrimination.

13 DARDEN: Can you then tell me why the city
14 would request the pledge from you for more lending in the
15 city? How did they express that desire to you? What reason
16 did they give you for asking?

17 KRESSLEIN: In asking for the \$30 million?

18 DARDEN: I think you said earlier they didn't
19 ask you for \$30 million, you came up with that figure?
20 The mayor asked you for a dollar pledge; all right, why were
21 they that specific?

22 KRESSLEIN: I would suspect, Mr. Darden, a lot of
23 it had to do with the legislator, that in order for him to
24 go back to his constituents and say he extracted \$30 million
25 from us, an out-right commitment of those dollars; by not

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1 extracting a dollar amount --

2 DARDEN: Are you saying it was just political?

3 KRESSLEIN: I would.

4 DARDEN: Had nothing to do with the actual amounts,
5 actual number of loans that are made in the city as
6 compared to loans made outside the city?

7 KRESSLEIN: I found the relationship of the
8 \$30 million --

9 DARDEN: Why did you consent to the pledge?

10 KRESSLEIN: That's what they wanted. We said,
11 if that's what you want in terms of dollars, we'll go back
12 and see if it's possible.

13 DARDEN: Are you usually so agreeable?

14 KRESSLEIN: I guess it was a reaffirmation of
15 our commitment to the city. We made the commitment. They
16 insisted upon our sincere effort. We wanted to make
17 the decision. They deemed a dollar commitment necessary.
18 They deemed that a prerequisite. We backed off and gave it
19 to them.

20 In terms that the banking industry gave them
21 \$15 million, it was viewed by many as a blackmail type
22 situation. In turning it around, reversing that idea, we
23 almost viewed that \$30 million as a blackmail by the city.

24 DARDEN: It just seems very strange to me if you
25 made a voluntary commitment in good faith and that was then

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1 used against you in a blackmail effort by the city, I would
2 expect that, you know, that situation would then give you an
3 opportunity to reconsider your original good faith offer.
4 But you seem to continue to be obligated by that and usually
5 you can't blackmail someone unless they are afraid of what
6 it is you've got on them.

7 How were you blackmailed? How could they
8 blackmail you?

9 KRESSLEIN: The reason they did not accept our
10 first commitment, which did not encompass a dollar amount
11 was because of the preconceived type feeling toward the
12 industry. We just gave them a commitment that said, we'll
13 open our doors and make mortgage loans to anyone who's
14 qualified in the city. And it was just another overture by
15 us that we would not -- or that they could come back and say,
16 okay you didn't meet in May; there was a demand for \$30
17 million; you opened the doors but you only did \$10 million.
18 We would have to say then, that's all the demand was.

19 Well, maybe then they come back and -- and in
20 my eyes they just did not trust us, so to speak in that
21 overall type commitment. They wanted to pin us down to a
22 dollar amount.

23 DARDEN: Are you happy now that you made that
24 commitment?

25 KRESSLEIN: We are happy that we met it. We would

1 have been very unhappy had we not met it.

2 BOOTH: Further questions?

3 Mr. Kresslein, could I just ask you one other?

4 Could you show us a copy of the pledge agreement?

5 KRESSLEIN: I have it with me. Here.

6 BOOTH: Oh, my.

7 KRESSLEIN: This is the press release that was
8 issued January '75 indicating the dollar amount. This is a
9 copy of the letter to the mayor dated February 15, 1974,
10 which included the \$30 million pledge.

11 (Recess.)

12 BOOTH: Okay, are we ready to go?

13 Mr. Windsor, I understand you are authorized to
14 speak for Mr. Embry?

15 WARNWICK: You might say I have never felt I
16 have been authorized to speak for him. I can represent the
17 view of our department.

18 I am Roger Windsor, Director, Home Ownership
19 Development Program, Department of Housing and Community
20 Development.

21 I would like to introduce to you, Dr. Wickwire,
22 a Johns Hopkins Mayor's fellow, Andy Wachtel, who is a
23 junior at Johns Hopkins University, Economics major; who
24 is working with us for the next few months as part of his
25 course work. One of the things I have him doing is

1 take some further looks at mortgage lending in the city,
2 a follow-up of the study we did a few years ago. I don't
3 know how far we'll get, because it is an expensive proposition
4 to run that computer.

5 BOOTH: Before you start, may we ask the
6 spelling of his name?

7 WINDSOR: W A C H T E L.

8 He has been with us now for a couple of weeks.

9 I might also mention when we conducted our study
10 at that time there was another Hopkins fellow working with
11 us who had no small part in the development of this study
12 of this approach and technique, and a lot of the paper-
13 shuffling that went on as well. And we were very pleased to
14 have him.

15 So I told Andy when he came to work for us that
16 he has good shoes to fill. It is an exciting program.

17 I'd like to apologize for Mr. Embry, due to
18 the number of commitments he could not be here today. He
19 asked that I come and represent the Department in any way I
20 could and answer questions.

21 If I can I would like to take a couple of minutes.
22 I am under the impression -- if I am wrong, now is the time
23 to correct me -- that my primary reason for being here stems
24 from the study we did a few years ago entitled "Home
25 Ownership in the Baltimore Mortgage Market." I ran out of

1 copies. I'm using the Senate's copy.

2 The study was performed -- and there is no date
3 on it -- and if we can do it all over again, I think in
4 reading it some months ago, I think it should probably be
5 rewritten for style if for no other reason.

6 The study was performed over the year 1973 and
7 it was published in December of that year. I don't think
8 that's indicated anywhere in the study itself, in the copy
9 you have.

10 We feel that the significance of the study, because
11 it wasn't intended when we started to end up with a printed
12 document such as we have, but to take a look at mortgage
13 lending in Baltimore city for a lot of reasons.

14 And it was the development of certain -- using
15 computer technology rather than research study in the formal
16 sense of the word, using certain printed materials; at the
17 end it was only after there was a fair amount of concern
18 that we were doing a lot of work that had broad implications,
19 to put it on paper and disseminate it in the fashion we did.

20 So it was at best a hurried job to get a lot
21 of material condensed and put in its own quasi-readable
22 fashion, perhaps so that we could share this with neighborhood
23 groups, with the industries we were talking about, as well
24 as with certain other agencies.

25 And I believe one of the persons or groups we

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1 sent copies to was the U. S. Civil Rights Com mission.

2 The study we feel, attempted to, or the effort
3 attempted to look at lending from several points of view:
4 where the loans are made, how they are made, and who made
5 them.

6 Some looked at contrasts between the loans and
7 their placement and characteristics of neighborhoods; and perhaps
8 another thing, one section is devoted to new ways of looking
9 at data, perhaps to use that in a more positive fashion.

10 Primarily in the realm of appraisal, and in
11 the realm of appraisal in assessing some kind of value
12 for properties, the report -- one of the pressures on us
13 to publish the report was preceding this for about a year
14 and a half I met along with members of my staff with
15 key officials of S&L's, savings banks, commercial banks,
16 trying to find out how we could reach some reasonable levels
17 of lending in the city because we were faced at that time
18 with trying to assist people in buying housing in the city,
19 only to find that with all of the counseling we could give
20 them that they couldn't end up with the money to buy the
21 house.

22 So we were kind of chasing after our shadows.

23 So what we did is we met with lenders and tried to share with
24 them the experiences we were having. And among the lending
25 group of course were some skeptics, and there were some other

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1 people that I think took us very seriously.

2 But one thing that did come out of these meetings
3 was perhaps the need to document a lot of the things that
4 we were off the cuff saying was happening. We could share
5 with them an experience where somebody walked into their
6 offices -- for example, a broader experience we had, but to
7 be able to document that with cold, hard figures was at
8 best difficult.

9 So one of the primary reasons, one of the major
10 reasons for publishing the report was to establish perhaps
11 once and for all our experiences. I think significant also
12 was that this is not a sample survey, which a lot of people
13 were doing at the time; it is in effect a whole universe.
14 Hopefully it is every loan or almost every loan that was
15 made in the City of Baltimore over a period of three years.

16 The significance of this was that many of the
17 areas where we were leaning and talking with people that in
18 trying to pin down whether or not there were patterns
19 emerging, one of the criticisms was the size of the sample,
20 choice of the sample, and Lord knows what all. And it was
21 very easy for us given the approach we have taken to
22 kind of come up with a 100-percent sample.

23 But what we did is to take the LESS reports,
24 which are commercial reports showing the location of property,
25 selling price, FHA, VA-insured, name of the lender and we were

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1 able to take this and some existing programs that were
2 available through our planning department to translate street
3 locales into census tracts, and they were able to combine
4 all this information -- I am oversimplifying -- but we
5 were able to come up at least for the first time a simple
6 listing by census tracts of all the loans that were being
7 made in that census tract, as well as who, to whom, what
8 rate, and so forth.

9 I think in the report, and it is on page 1482,
10 the book that you have, we said that we hoped that the
11 information provided in this report can be used to correct
12 some of the imbalances in the availability of home ownership
13 opportunities to people in the city.

14 So our intention was to try to use this report
15 as another tool in correcting what we saw were some of the
16 major deficiencies, to the increase of home ownership in
17 Baltimore City, which our charter call in part for us to do.

18 We wanted to shed some light on lending policy
19 because we had the feeling after talking with a lot of
20 people that there were certain patterns emerging, that in
21 summary spelled I think a rather critical future for
22 Baltimore City.

23 For instance, we found as a matter of practice
24 the lending industry -- that is a misnomer in and of itself
25 because there is no such thing as a lending industry in

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1 Baltimore. There are a lot of segments that make up a group
2 of lenders; but we found the lending industry had a policy
3 where for instance it was moving in the direction of not making
4 loans under \$12,000, \$13,000, \$14,000, \$18,000, whatever
5 the individual firm policy or association was, contrasted with
6 the fact that 75 percent of the sales transactions in
7 Baltimore City at the time were \$15,000.

8 That meant soon they were going to reach a point
9 where the lenders were in effect saying we are not going to
10 finance any purchases in Baltimore City. I believe they
11 did not realize that the substance of their individual
12 policies were leading to such drastic effects on the
13 Baltimore marketplace.

14 I think the study itself was significant not so
15 much in what it says, but that for us in having to deal with
16 this question it pointed out I think certain significant
17 factors. For instance, one that I said earlier was that
18 there is no industry, and yet when we attempted to address
19 the problem of mortgage lending, we attempted to do it on
20 an industry-wide basis; and we found out that there are major
21 segments and the segments operate quite differently from
22 each other. We were not experienced lenders, and this was
23 I think important because we could talk perhaps to one lender
24 or one group of lenders, about a facet of something and if
25 they weren't in that facet of business we weren't going to get

jrb 200 1 anywhere. We hadn't realized that.

2 So we found out that there were -- that the lenders
3 themselves began to operate in quite different fashions
4 among themselves, or contrasted with themselves. That I
5 think was very important.

6 The fact about the \$15,000 mortgages or the
7 policies reaching in that direction I think was significant.

8 The need for insurance, I think began to become
9 very clear to us when we were working with the data, some
10 of which is in here and some of which is not; but I think
11 that was more significant than what is shown in here.

12 I think the changing patterns of lending, as
13 a neighborhood changes, was important to us, because I think
14 it began to point out for instance the shift and need
15 based on historical patterns to make for instance as they
16 did work in neighborhoods where they had very little track
17 record up to that point in time -- so that was significant
18 to us.

19 I think we had to view the lenders' roles as
20 they changed their traditional roles, as they moved from
21 one neighborhood to another. I am not saying we understood
22 all of these, but at least we had to be aware that these
23 were all considerations.

24 I think we had to in working with the lending
25 industry and its participants, I must say we did have fairly

jrb 201 1 good learning experience and we did find that there was
2 need for regulatory change, certain things that they were
3 attempting to do could not be done because of regulation.

4 And I think we had to really take a look at the
5 industry and break it down just to find out where we were
6 going in the future, because our role was defined by the
7 desire to purchase a house, simply stated.

8 If you have this -- I'm sure you've read it --
9 if not, the data is in there; and you may have questions
10 about it, and I hope I can answer.

11 But coming back to the commitment we talked about
12 -- that you talked about with Mr. Kresslein, there was
13 a commitment made. I think the significance of this
14 commitment is not so much in dollar amounts. The significance
15 of the commitment was that the lending industry, either
16 recognized or at least moved in the direction that they
17 were willing to entertain any bankable loan from a prospective
18 home buyer in the City of Baltimore.

19 I think that is significant. Now, whether it
20 was \$10 million or \$15 million or \$40 million or \$100 million,
21 because all of those numbers, I think if we examined the
22 documents saying those amounts of money were above the
23 previous year's lending -- and all we were interested in was
24 that the buyer who had come to the marketplace with a
25 willingness and the desire to buy, would get some fair

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1 treatment at the lending marketplace, so that that buyer
2 could have some idea of whether or not they were going to
3 be able to be financed, that they would not be faced with the
4 problem of, well, that neighborhood has houses over 20 years
5 of age; therefore, we are not making loans on those kind of
6 houses.

7 So the significance is the lenders agreed I
8 believe to make loans, and if -- I think more importantly
9 that if a person felt that they were unduly denied a loan,
10 by that lender, that we set up a mechanism between the city
11 and ourselves to review anybody who felt he or she felt
12 was discriminated for the loan for a review committee to
13 look at that person's loan application. And we had the
14 commitment from the lenders -- if not in writing-, verbally --
15 t-hat they would attempt to place that loan within their
16 member agencies if that proved to be the case, where there
17 was some discrimination, whatever that discrimination came
18 to be.

19 We have found that in two years now of the
20 operation of that commitment that we have never had to call
21 that committee together; that is not to say there are not
22 people out there who perhaps have been denied a loan; but
23 we have not had anybody approach us. It is our experience
24 that the lending industry has been apprised of this condition,
25 and every time I talk to lenders I always will bring up --

1 I recently, several months ago, apprised the public of this.
2 I know that the industry associations have gone back to their
3 legislative representatives on more than one occasion and
4 restated that principle again.

5 And we have yet to have anybody come in and
6 complain. So I don't know what that means except that if
7 there are person out there who still have this problem, we
8 can still call that committee together.

9 I have met with the committee on other subjects,
10 and as Mr. Kresslein mentioned about financing of homesteading
11 with his segment, and also the commercial banks have a
12 similar committee. So I think where we are heading is --
13 one thing I have, it's rather curious to me, one stance I
14 have always had with the question of lending in Baltimore is
15 that if we permitted loans to be made freely -- freely as
16 long as they were good, bankable loans -- that perhaps
17 neighborhoods would turn around; and we would have viable
18 and vital neighborhoods.

19 I was curious to hear Mr. Kresslein suggest
20 that neighborhoods are on the upswing and maybe there is a
21 caus-effect relationship there; I think that it is.

22 That is the end of my introduction. I am happy
23 to answer any questions.

24 THOMPSON: I am going to ask you some questions
25 about your study.

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1 Can you relate to us the proportion of home
2 mortgage loans made by Baltimore S&L's in the city versus
3 the county?

4 WINDSOR: I was kind of hoping you wouldn't get
5 into the specifics of the study, because it's been a while.
6 It's in the report, and I believe that what we found for
7 the year 1972 -- here's the chart on page 1502 -- in 1971
8 there were approximately 10,000 sales in Baltimore city.
9 And of those sales we estimated that about 6,000 of them are
10 what we call single mortgages which we would consider would
11 have a bankable loan flowing to it; and in Baltimore county
12 in the same year, there was about 8,000 sales of which
13 6,300 of them went to the traditional lending industry.

14 So 6,000 out of 10,000 went to the traditional
15 lending industry in Baltimore county.

16 THOMPSON: Can you give us a general idea what
17 the total dollar investment in the city was during that year
18 by S&L's?

19 WINDSOR: By S&L's? No, I cannot. I would only
20 be guessing at the numbers; it's in here. It is in one of
21 these charts. About \$60 million was the total.

22 But without getting into the specifics I would
23 be hesitant to quote.

24 THOMPSON: Does your agency provide any specific
25 support to minorities, women, who are seeking home mortgage

jrb205 1 loans?

2 WINDSOR: Yuh.

3 So that you might understand our division better,
4 we are among other things a counseling agency funded by the
5 city to assist any homebuyer in purchasing a house in
6 Baltimore city.

7 That would flow to anybody; the service is free.
8 So we've had people come in over the course of the last
9 four years, from a person who had a very specific question
10 about an arrangement to somebody who said, "Gee, I'd like
11 to buy a house, how do I go about doing it?". We go through
12 the whole process.

13 THOMPSON: Do you have any specific programs
14 other than the support you mentioned that would help to
15 increase the number of minorities and women receiving
16 mortgage loans?

17 WINDSOR: No, sir, no programs as such. We act
18 as agent for the state in home financing their direct loan
19 program.

20 THOMPSON: Are there any programs otherwise that
21 you know of in the city that are designed to increase
22 employment opportunities of minorities and women?

23 WINDSOR: I am sure there are a lot of them. I
24 specifically don't know of any.

25 LOKER: Can you give us your views on what

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1 responsibilities savings and loans have for granting mortgage
2 loans?

3 WINDSOR: Well, I think the obligation for the
4 savings and loans -- particularly the savings and loans --
5 or most lenders in the mortgage business is generally set
6 out in their charter. Historically the thrift institutions,
7 as they are known, were designed to provide -- particularly
8 the S&L industry -- designed to provide purchase money
9 mechanism, mortgages, for persons wishing to buy their house.
10 And that is their primary obligation, is to finance home
11 purchases. It's set out in everyone's charter.

12 LOKER: Do you think there is any need for the
13 city now to foster that original reason why S&L's were set
14 up?

15 WINDSOR: I'm not sure how you mean to "foster"
16 it.

17 LOKER: To make sure that they continue to meet
18 the needs of city residents?

19 WINDSOR: Well, it's obviously the city's interest
20 to have homebuyers, if we subscribe in any way to the theory
21 of sociologists that home ownership brings with it certain
22 other positive social-economic characteristics -- yes; I
23 think it is in the city's interest to make sure that home
24 ownership remains at its usual levels; and, perhaps, even
25 increases.

jrb207

1 One of the purposes of our charter is to monitor
2 that kind of activity, and to look at obstacles to home
3 ownership, and to come up with suggested solutions in removing
4 those obstacles. That's what I spend a good part of my
5 time doing.

6 LOKER: Have you observed any changes in
7 mortgage lending practices in Baltimore City since 1973.

8 WINDSOR: Since 1973? Again, perhaps the persons
9 on my staff who counsel people who come in my door to buy
10 houses could -- I have not had -- let me contrast for you
11 where I was when I arrived, and where we are today:

12 Back in 1971, when we started the program, I was
13 having everybody -- lots of people -- call and say, "Gee,
14 we're having trouble financing houses all over the city."
15 Today we seem -- to the best of my knowledge, my counsel --
16 seem to be able to place most buyers with reasonable mortgage
17 loans. We don't seem to have the difficulties that we had
18 before.

19 Now, I'm sure that doesn't mean that there aren't
20 people out there who are not having difficulties. We just
21 aren't running into it as frequently as we were. Occasionally
22 we have somebody that perhaps introduces into the scheme of
23 things difficulties beyond just the ability to pay the
24 loan.

25 For instance, things like open-ended divorce

1 agreements, things like that, that we have to look into. But
2 we have had no difficulty placing mortgages.

3 LOKER: Since when?

4 WINDSOR: Since the time of the commitment by
5 the lenders.

6 LOKER: Why do you think there was difficulty prior
7 to that?

8 WINDSOR: Lack of understanding of what was
9 happening in the city; part of it stemmed from the lack of
10 knowledge of the neighborhoods; part of it is the opportunities
11 that existed: remember, at the time we negotiated, the
12 time we entered on the scene, was a time of great expansion,
13 a time of great growth in the housing field. There were
14 virtually limitless opportunities. There were houses being
15 built everywhere, and you had the lending industry looking
16 at it generically. They are in business to provide financing
17 for that growth, and it was a question, in my mind at least,
18 in part of more attractive loans elsewhere, more attractive
19 in terms of income, earning ability, more attractive loans
20 in perhaps their size.

21 I don't know. We felt there were a lot of factors.
22 We felt that was part of it.

23 Another part was the lack of understanding about
24 what was happening in the city to the extent that when I
25 came on board, we took at least 25 or 30 presidents or vice

jrb209 1 presidents -- a lot of these local lenders -- put them on
2 a bus and took them around neighborhoods and showed them what
3 was happening. After that time we began to loosen up in
4 some neighborhoods in Baltimore. That was a part of it as
5 well.

6 LOKER: Do you feel it was more of not understand-
7 ing the city on the part of the people in the position to
8 make the mortgage rather than conscious discrimination?

9 WINDSOR: I think in part it was. You know, again,
10 I can't get into the motivation of why; I can only look at
11 facts. I don't sit on loan committees; I am not privy to
12 the reasons for which lenders turn down applicants.

13 When we looked, in the study, there is one
14 section devoted to the racial implications of lending patterns;
15 we prefaced that section by saying we don't know whether
16 there is conscious discrimination. But some of the patterns
17 are very interesting. And yet, does that mean there's
18 discrimination?

19 Well, one of the conclusions we drew in looking
20 at some of these patterns was that in lending generally as
21 incomes went up, the volume of lending, the dimension of
22 lending, went up -- be that black or white. In low income
23 neighborhoods there was a much higher ratio than in white
24 neighborhoods; yet when we look at it, I think the S&L
25 industry in general, there was nothing to discern. And then

1 we found that the state savings and loans, these little
2 Ma and Pa's, such as Mr. Kresslein talked about, that
3 proliferate in particularly white ethnic neighborhoods, that
4 they were there: it was my next-door neighbor who, as you
5 described, met for poker one night and all of a sudden they
6 started an S&L that they were making the small loans in these
7 white neighborhoods.

8 And apparently there was no counterpart to that
9 mechanism in black low income neighborhoods. In fact there
10 are only two black S&L's in the entire city, one a state
11 and the one Mr. Brown, a federal S&L. So we felt there was
12 some connection between those facts.

13 LOKER: Do you have any suggestions for increasing
14 the number of mortgage loans made to minorities?

15 WINDSOR: Again, I have no evidence -- this is a
16 strange position for me to be in, because I was arguing the
17 other way two years ago: I have no evidence that there is
18 a greater demand for bankable loans at the, you know, what
19 they would consider an approved loan. There are obviously
20 a lot of demands for lower income minorities to get a stake
21 in the action; and I think that is not necessarily a legitimate
22 role for the private sector.

23 And we in government in Baltimore are addressing
24 those problems to see what we can do to make home ownership
25 a possibility for those persons, with, say, lower

jrb211

1 than average income.

2 But when you talk about the normal marketplace,
3 our doors have been open for anybody -- we're almost wishing
4 someone would walk in. I can't believe there isn't somebody
5 out there that has been turned down. But when you have an
6 industry, real estate industry -- I think it was Mr. Jeffers
7 mentioned earlier, the real estate industry is beginning to
8 feel a change in business, some change recently; but if the
9 real estate industry goes out there with vested interest in
10 selling this property and are producing people they can't
11 finance, I get a warmer feeling that all of the demand is
12 being met -- the normal demand.

13 Again when we have to stop to talk about subsidies
14 and things like that, I think that is outside the periphery
15 of industry.

16 DARDEN: You said earlier in your presentation
17 that the dollar amount of the pledge really wasn't as
18 significant.

19 WINDSOR: I said it wasn't significant to me.

20 DARDEN: Okay, fine.

21 Mr. Kresslein called it "blackmail", but the one
22 thing he did say was that in his opinion the reason for a
23 specific dollar amount -- was asked for -- was because the
24 city did not trust the local lenders to meet a generalized
25 commitment; is that true? Can you shed any light on that?

1 WINDSOR: Again, I guess there is no one party
2 who was privy to all of the discussions, other than
3 Mr. Embry; but I was probably there most of the time, meetings
4 with the mayor, and the general assembly.

5 Again, you have to examine what happened, I think,
6 in the context of the times: There was pending before
7 the general assembly a whole host of bills related to the
8 usury rate, and there were hearings being held. I think
9 there were bills coming from both ends, the house and senate;
10 and there were hearings being conducted on these bills.

11 And on one particular day as I recall there
12 was a hearing on usury, I think it was a hearing on everything,
13 the whole subject. And that day there was some feeling we
14 could reach, accord, on a commitment; because what we felt
15 we needed -- what happened is that the first attempt --
16 not in that session but in the previous special session --
17 which was held I believe in August preceding this session;
18 I guess it was in 1973 -- this matter of usury came on the
19 floor of the special session, and I think the city delegation
20 as a block voted down the bill, and killed it for that
21 special session.

22 At that time, saying that what they wanted before
23 they, the legislators, were willing to give an increase in
24 interest rate, they wanted some commitment that they would
25 meet the city demand, because we were on the other side

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1 talking about steady demand, negotiating and talking about
2 loosening up the money.

3 We got into the '73 session and this question
4 still came back; and I think at that time -- I don't know
5 the exact chronology -- commercial banks came up with a
6 figure of \$15 million; and more importantly, as I said, it
7 was not the commitment of dollars, but the fact that they
8 would entertain loans. And if it didn't work out, they
9 would review them; and if the fact was unreasonable denial,
10 they would re-place them.

11 The legislators wanted as I recall at the time
12 a dollar commitment. They were not content with a statement
13 from the industry saying "we will make the loans." They
14 wanted to be able to pin it down in cold, hard dollars and
15 cents as to what that commitment was going to be.

16 And I think they said at the time when they got
17 a dollar commitment they would then be willing to entertain
18 passage of the legislation; they wouldn't consider it until
19 we got at that point.

20 So there was a hearing on that day we arrived
21 at the \$30 million; I think there was no magic formula that
22 came up with a figure because, again, I think if you read
23 -- I would have had these -- it was an amount of money
24 above the previous year's lending; and the dollar amount was
25 just something cold and hard that you could look to and say,

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1 if you did, you made it; and if you didn't you didn't make it.
2 And at a minimum you are starting -- whatever the amount was,
3 \$60 million bucks was the entry fee, the \$15 million or
4 \$30 million was above that previous year's lending.

5 So that's how we arrived at numbers and the
6 \$30 million came from a very quick calculation of what the
7 industry did, took a proportion, and added it on; it was
8 something we did in the middle of a hearing.

9 DARDEN: One follow-up question:

10 Does that mean, then, that the city perceived
11 a need for home lending that was not being met, and also
12 -- what in past performance in local lenders had made you
13 believe you needed that kind of commitment in order to get
14 action?

15 WINDSOR: We wanted an increase in market at
16 a time when lending demands were increasing. Unfortunately
17 since that time the demand has been down because of
18 economic conditions.

19 But one of the things that disturbed us was
20 that at the lower end of the economic scale in terms of
21 price a substantial amount of the transactions had to be
22 financed through what we would call private transactions;
23 and we felt that the amount of money -- whatever the figure
24 was in that year only ran to a portion of what we would
25 consider to be the normal bankable loan. And we were after

1 additional commitment anticipating the growth rate as it
2 had been over the past two years preceding that, which still
3 would be up; but we wanted to be sure we were covered in
4 terms of the amount of dollars to meet that obligation,
5 because they were saying, "we're going to pull the lid off
6 of the small loans restriction." And if they were going to
7 do that, the numbers from the previous year indicated
8 at the previous year's lending they would not be able to.
9 And that's why we ended up with some additional money beyond.

10 What happened as I said in fact is that the
11 market -- I don't think the numbers of loans since 1972
12 have been at the level they were in 1972.

13 DARDEN: My final question is:

14 What effect can you foresee on the availability
15 of mortgage money if there were no usury limit in the
16 State of Maryland?

17 WINDSOR: That is a very, very complicated
18 question, that economists can tackle. Nobody seems to know.

19 There is the argument of the free economy, and
20 it will find its own level. And there is support to that
21 argument.

22 And there is the restriction argument, that it
23 tends to keep the prices down, where there is a limit; and
24 there is support for that.

25 It almost defies description. You can pick a

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1 side and find support for the side chosen.

2 One of my concerns is that in the industry
3 there is a lot of regulation, and the regulation increasingly
4 is moving in the direction toward federal regulation, even
5 state; little Ma and Pa state savings and loans, they are
6 federally insured and have to comply with federal regs.

7 And the state usury limit, for whatever it is
8 worth, is at least one vestige of regulation or control that
9 is still being exerted locally by the state over this rather
10 broad industry. Whether that makes sense or not, I am not
11 sure I could offer anything other than my opinion.

12 But I think that is at least another argument I
13 have heard proposed time and again for a continuation of the
14 usury limit.

15 Some people say it is artificial, others say it
16 works to keep the lid on the market. I don't know. It's
17 peculiar.

18 I am not a lender. I am a simple lawyer. One
19 thing I have learned about it is it is a very, very complex
20 business; it's getting more complex every day because we
21 are moving away from a localized structure to a broader,
22 maybe regional structure, a national structure. And if you
23 look at participation, you've even got an international
24 structure.

25 How it all fits in with limitations of the usury

1 rate in the state, and the effect that would have on the
2 supply of money -- I don't know.

3 One thing that is clear to me and that has not
4 been changed is that the primary obligation of the lender,
5 according to the charter is to their local market, something
6 the federal regulatory agencies are starting to define. And how
7 local is that? It extends up to Cumberland for Baltimore
8 lenders.

9 WICKWIRE: This disinvestment, at times has it been
10 due to oversight because lenders were unaware of a geographical
11 pattern that had developed -- lack of awareness?

12 WINDSOR: When you say "disinvestment" does that
13 trigger something? I've learned some of the jargon
14 of the industry.

15 Are you saying do I think the lenders were
16 unaware of the comprehensive effect of their individual
17 policies? Is that your question?

18 WICKWIRE: Yes, or that they were unaware, for
19 instance, that the money -- where the money was going,
20 a geographical pattern was developing?

21 WINDSOR: Again, I'll tell you what we did, and
22 I'll tell you what the response was:

23 We took the patterns in terms of profiles of
24 many of the key firms, and we submitted that profile to
25 them; and in that profile there was just a brief plot that

jrb218

1 began to recite, based on data we were collecting, that
2 where they were making the loans, where the concentrations
3 were, the amount, and FHA -- and we asked them before we
4 filed this report: "Is that correct?"

5 And most of them came back and said, "We can't
6 really tell you because we don't keep data that way."
7 So whether they knew it or not? The implication is that
8 they did not.

9 WICKWIRE: How do you feel about the home
10 mortgage disclosure act?

11 WINDSOR: Senator Proxmire's bill? We testified
12 in favor of it, and asked that they change it from zipcode
13 to census tract.

14 One interesting thing, the zipcode I live in
15 it covers Guilford, Waverly and Owen only; there is nothing
16 consistent or homogeneous about those three areas.

17 WICKWIRE: Lenders don't like the census tract
18 idea?

19 WINDSOR: I understand it is difficult because
20 even when we did this study, we did it by census tract;
21 but we had a program developed to translate street address
22 into zipcode into census tract. So it was a relatively
23 simple task.

24 But, you know, again, we didn't want to put
25 zipcodes on our letters 10 years ago; we do it now.

1 SMITH: Mr. Orlinsky this morning suggested we
2 were perhaps using middle class and upper middle class
3 values and imposing those values on other segments of
4 society in terms of our assumption that -- an assumption
5 that everyone wants to own a home.

6 We began this discussion talking about the recent
7 testimony by Ms. Hill of HUD that we should keep pushing
8 for more rental programs than ownership programs, because
9 the first time the roof leaks somebody with limited income
10 and who has bought a house is going to be unable to meet
11 those added burdens.

12 In your comments earlier you seemed to disagree
13 somewhat with Mr. Orlinsky's position?

14 WINDSOR: No, I don't disagree with him.

15 I do feel, and we have done this on a number
16 of occasions I am personally aware of in the office -- not
17 everybody is suited to be a homeowner; and it would be a
18 superimposition of our own middle class values to try to
19 force them in that direction.

20 I think any good counselor or agency will have
21 the foresight to tell somebody that, and perhaps put them
22 in the position of being a homeowner if they want to go in
23 that direction, but not force them into something that
24 can only be a subjective judgment in a situation that appears
25 not to be in the best interest.

jrb 220

1 On the other hand, I think what we need to do
2 is if homeownership -- and I say if, because that's another
3 issue where you can get both sides and find support --
4 if it is good for the individual or good for the neighborhood,
5 and there seems to be some evidence with regard to the
6 neighborhood, if it is desirable, I think we've got to make
7 some changes in the way we do business so that we can
8 enable people to participate.

9 Some took the position a few years ago that the
10 235 program was an absolute disgrace, terrible, it wasn't
11 meeting the needs, full of problems. There was a lot of
12 evidence to support that.

13 There is a lot of evidence, also, to support
14 that the program was abused.

15 We have some 235 houses in Baltimore that on
16 the average we think the neighborhood is a pretty good
17 neighborhood, and that the program did work. But it worked
18 because we brought a lot of new innovations into the
19 program.

20 I think the same thing holds true for a lot of
21 other neighborhoods wherein today's market at today's
22 going approach, maybe home ownership isn't the best thing.
23 But I think that's not to say it can't be changed, and that
24 we can't introduce more people to it if they want to be
25 there.

1 But don't force anybody there. I think that's
2 what's happened in a lot of places.

3 SMITH: I am concerned with the cyclical nature
4 of a lot of this. You see communities where you have
5 more and more absentee ownership, where you have higher and
6 higher rentals, percentages; and it frequently seems to go
7 with a community like that, particularly in urban areas
8 where the housing is old to begin with, there is an
9 increased rate of deterioration.

10 Some of that seems to be able to be turned
11 around when home ownershkp becomes possible for these
12 people who might not otherwise have been able to become
13 involved in homeownership.

14 Of course the National Housing Service Project
15 at Patterson Park is an example. Mr. Kresslein is talking
16 about communities improving. He mentioned one which made
17 me laugh when he mentioned Charles Village, which I think
18 is an ideal case of what happens when in very recent years
19 S&L's were unwilling to provide mortgage money in that
20 area; and it was only because that middle class with other
21 means of finding financing began to go in and fight that
22 they did two things:

23 They began to demonstrate the livability,
24 viability, of that community; and then eventually began to
25 be able to convince the S&L that it was a good investment.

jrb 222

1 And now you see significant changes in housing values in
2 that area.

3 And I am sure there is not an S&L in the city
4 who would be unwilling today to put money in there, whereas
5 as recently as five years ago they might not have. The
6 community was able to find the resources to turn the place
7 around.

8 WINDSOR: I would also like to think that
9 our bus tour had something to do with it.

10 SMITH: I would be delighted to have you take
11 credit for it.

12 WINDSOR: I'm not trying to take credit for it.
13 That was my classic case in point, was Charles Village.

14 SMITH: Charles Village is an easy one, there's
15 a lot of others out there in the great beyond where you have
16 the same circumstances, where you have communities that
17 could be very livable, where people choose to live, where
18 there could be a sense of community and neighborhood and
19 permanence, and all the other intangibles.

20 And how do you convince the S&L to go in there
21 when the S&L's say they don't really know where their loans
22 are, they just look at the qualified applicant?

23 Well, their appraisers have to be able to figure
24 out how to get from the home office to the house house and
25 they would have, at some point, to look at a map and say

jrb 223

1 we're going to look at a house here, and this is where it
2 is. Somebody has to know where those houses are, you know,
3 in relation to the whole city.

4 We heard somebody yesterday who talked about
5 his dedicated dollar program, and we said, marvelous; now
6 you can tell the other S&L's to keep track of where your
7 loans are. Obviously you must know, since this is part of
8 your program. He said, "Oh, no, we don't know where they
9 are." But they do. They have to.

10 And there has to be a way to use your office
11 and other public offices and hopefully private pressures to
12 be able to bring about a more universal or uniform willingness
13 to invest in the city.

14 WINDSOR: One of the things we do in our work is,
15 now, a lot of the basic data we used in basic generation of
16 this data for the city, is transmitted now directly to
17 the city and their monitoring based on the system developed
18 a few years ago -- again, I have a very limited staff as
19 well; and each day tends to bring a different kind of
20 program. If we had worked on this one for the last couple
21 of years, we wouldn't have done anything else.

22 I think the point-is also well-made, also, I
23 have to keep in mind that the world is changing every day.
24 And unfortunately maybe lenders don't change as quickly as
25 the world does -- at least lenders in Baltimore.

jrb224

1 And lots of things that really impact lending --
2 I've been around cases where lenders like to do something
3 and they can't because of regulatory problems. And again,
4 the more we get removed from the local scene, the more
5 difficult it is going to be to adjust the local scene.
6 Things like appraisals are just very classic because one
7 of the approaches to the old appraisal technique we are
8 using today is looking at comparables.

9 And when you have a down market and all of a
10 sudden it turns around, your comparables at least for a
11 period of ;time are still down; so it's not going to give
12 an appraiser a warm feeling when he looks back. If he's
13 going to err, he'd rather err on the low side than the
14 high side.

15 So, for instance, Jim Hunter at the Baltimore
16 Federal, is espousing a new appraisal technique, that he is
17 hoping will at least get some support in his industry that
18 looks more to the ability of the borrower rather than the
19 brick and mortar. But this is going to take a great amount
20 of change within the structure of the S&L industry to reach
21 adoption if in fact it ever does.

22 Because, in a sense, it is rocking the boat.

23 SMITH: One quick thing:

24 When Mr. Orlinsky testified this morning
25 one of the things he talked about was a secret impact

jrb225

1 program in the City of Baltimore where an effort was made
2 to funnel lots and lots of resources into one area in the
3 city and see what would happen if that could help increase
4 the vitality of the area. He doesn't know much about it.

5 He assumes the project wasn't terribly
6 successful or it would have been made public by now.

7 You mentioned that in your 235 project you tried
8 to put lots of resources in it?

9 WINDSOR: If I said that -- a secret project is
10 a secret to me.

11 SMITH: Okay.

12 WINDSOR: And it wasn't Rosemont where the 235
13 took place.

14 DARDEN: I understand the city planning department
15 has developed data on every mortgage transaction in the
16 city with, you know, descriptive information with some kind
17 of time-line from '72 to '75.

18 Are you familiar with what I am talking about?

19 WINDSOR: It would only be conjectural on my
20 part as to what in fact they are doing.

21 The data that we used -- I think I know what
22 you are talking about -- the data we used was in a sense
23 second-hand, because we got it from a commercially available
24 source. They did the legwork down at the land record office.
25 We ran a statistical check on this and found it to be

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1 reasonably accurate.

2 Now there has been instituted a new policy
3 at the land record office, a new form is filled out and
4 the data goes directly from that source rather than through
5 LESS. They are just little cards that come through my office
6 and we code them for lender and maybe even neighborhood.

7 But we are getting it directly from the source
8 rather than through the commercial source.

9 DARDEN: That's not what I am talking about.

10 The question was going to be: what is it going
11 to be used for?

12 My understanding was that your office is
13 developing some new follow-up looking at mortgage lending
14 practices in this city since the publication of the '73
15 report?

16 WINDSOR: All I can say to you is that among
17 other things we do, we manage a lot of tax sale buildings;
18 we have recently enhanced our own direct computer capability
19 by getting a remote terminal. We are planning to do some
20 things, but we are not capable of putting in a massive job
21 like all the records in here (indicating).

22 So I don't know what kind of information you are
23 getting, but certainly I would be interested in hearing more
24 about it myself.

25 DARDEN: So you are not planning a study or a report

1 that would update?

2 WINDSOR: No, as I said earlier, I have asked
3 Andy to take a look at this and see perhaps what can be
4 done to improve on it; and the data is available. --Because
5 I know planning department has collected data since 1972;
6 it's just a question of defining what it is that we want
7 to do. And Andy can do that under my direction, and maybe
8 we'll know how to do it.

9 There is nothing right now, no plan that is
10 specific.

11 BOOTH: Thank you, Mr. Windsor, Mr. Wachtel.

12 AIKEN: First of all I am Milton Aiken; Mr.
13 Robert Miller, Assistant Secretary, Maryland Departme nt
14 of Economic and Community Development, had a last-minute
15 pressing problem and couldn't be here.

16 With your permission I would like to read a
17 prepared statement.

18 This is Ms. Sam Heath, Director of Division of
19 Home Financing of the Department.

20 Mr. Miller is Assistant Secretary, and in his
21 capacity he is responsible for a number of housing programs
22 of the State. They are directed toward helping families
23 attain homeownership. Although there are a number of other
24 programs concerned with rental occupancy, our remarks will
25 be addressed to homeownership activities only.

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1 There are essentially three programs available
2 with the state for homeownership: Maryland Housing Fund,
3 Maryland Home Finance Program, and Development and Financing
4 Program.

5 The Maryland Housing Fund is an insurance
6 program enacted in 1971 by the Maryland General Assembly.
7 The purpose of the fund is to stimulate investment of capital
8 in the Maryland mortgage market. It provides mortgage
9 guarantee insurance to qualified lending institutions in
10 the state. This coverage protects the lender against loss
11 in nonpayment of mortgages and thereby expands housing
12 opportunities in Maryland.

13 Under the fund they attempt to establish individual
14 programs to meet local needs that would help in stimulating
15 investment for purchase of single family residences. An
16 example of this is the Baltimore City Pilot Program where
17 we insure the total mortgage loan up to a stipulated amount.
18 This pilot program has generated 310 insured loans for a
19 face value of over \$2-1/2 million.

20 We also have regular programs for 438 loans at
21 face value of \$7-1/2 million.

22 On page 7 of our enclosed summary -- I think we
23 handed that out, you may have a copy -- we have identified
24 short mortgage loan characteristics: 82 percent of the
25 families investing \$18,000 a year; 21 percent single heads of

1 households; other single heads of households, 32 percent were
2 female; 48 percent of the families were under 30 years of
3 age; the average property value was \$15,500.

4 Maryland Home Financing Program was enacted
5 by the General Assembly in 1972 to provide direct loans
6 at a preferred rate of interest to residents of the state
7 unable to obtain mortgage financing from conventional
8 financial institutions at favorable terms and rates. This
9 program was essentially for families seeking homeownership
10 for the first time. This is on page 9 and 10.

11 Mortgage characteristics are now broken down on
12 this program; however, relative statistics indicate that
13 average age of the applicant is 30, with family size of 3;
14 over 95 percent of the mortgages made were for families with
15 an annual income of less than \$15,000; average mortgage
16 amount about \$21,000. Mortgage money under this program
17 is directed toward every political subdivision within the
18 state.

19 The Development and Finance Program is a more
20 recent effort by the state to produce housing in those areas
21 where there is a shortage of families of moderate income.
22 Our first step in this area was a 116-unit project in
23 Columbia, which is now being marketed by the sponsor,
24 Thomas B. Harkinson, Incorporated. Efforts are being directed
25 at families who normally would not be able to pay for

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1 financing from private sources, or where there is limited
2 investment capacity or limited availability of housing
3 at a price meeting income needs.

4 BOOTH: We were told earlier today that
5 federally insured -- federally chartered savings and loans
6 cannot take advantage of Maryland's Housing guarantee?

7 AIKEN: They can't. The housing fund is available
8 to Maryland S&L's. However, federally chartered savings
9 and loan cannot make a loan, a hundred percent of loan value;
10 they can make a 90 percent loan under our city pilot program
11 or even our regular program.

12 BOOTH: I see what you are saying.

13 AKIEN: They must require 10 percent downpayment;
14 however, that 90 percent loan can be insured and guaranteed
15 100 percent under the pilot program, provided there is a
16 loan limitation in the city -- a 3-bedroom -- we just increased
17 these -- 3-bedroom was originally \$14,000 max sales price;
18 it increased from \$14,000 to \$16,000 for a 3-bedroom; and
19 the original 4-bedroom, \$16,000 has increased to \$18,000.
20 So there are a number of federal institutions in the city
21 using us a great deal. As I say, out of 300 loans under this
22 special pilot program a goodly number of those loans were
23 from federally chartered savings institutions.

24 BOOTH: Would there be more opportunity for
25 minorities if federally-chartered savings and loans could

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1 issue 100 percent?

2 AIKEN: Yes. We don't keep any particular statis-
3 tics on minorities. We can go into female because of the
4 application of the individual, but we did have an actuarial
5 study of our program, and we found in general the institutions
6 have availed themselves of the housing funds, are directing
7 their loans to the minority singles.

8 So in effect actually we have \$2-1/2 million
9 special pilot program, the state will guarantee the entire
10 loan amount.

11 We have another 300 loans in the city of Baltimore
12 of about \$5 million, where we will cover a top 20 or 25
13 percent portion of that loan. In other words, the exposure
14 of the lending institution --

15 So really what we are saying is that the
16 lending institutions in the City of Baltimore are using this
17 fund, are directing their loans towards minorities and
18 females, because, really, basically, the City is made up
19 majority-wise of minority groups. So of 600 loans insured
20 let's say the great bulk of those loans were towards minority
21 and singles.

22 So by use of the fund lending institutions
23 can avail themselves of that type of loan, and they are
24 doing it.

25 BOOTH: How about other programs you have?

tape 5

jrb 232

1 AIKEN: Well --

2 BOOTH: Are they doing these in the city?

3 HEATH: Mr. Windsor's group, as he said, was
4 an agency for us in the Baltimore city area and referrals
5 come also from real estate people. Industry is very familiar
6 with our program.

7 And other than that, people apply to us directly.
8 The read about our program or heard about our program
9 somewhere, neighbors told them about it. So they apply
10 directly to us.

11 In this activity on page 11 you will find that
12 \$30 million we have spent since May of '73, -- we're out of
13 money right now, have been since June -- '22.72 percent
14 has gone into the city; and that compared to a state
15 population, that proportion is 23.10 percent.

16 So I think we really do get into the city.

17 We also do not keep statistics on minorities.

18 We do keep statistics on single heads of household, but I
19 could not tell you whether it was male or female.

20 DARDEN: First, is it possible that some of the
21 federally chartered S&L's are using the state, Maryland State
22 Housing Fund and don't know it?

23 AIKEN: That is highly unlikely.

24 DARDEN: The second question:

25 Is it likely that some of what we have heard

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1 to be the \$30 million pledge, you know, lending that was
2 made in Baltimore City, also includes the loans you are
3 talking about?

4 AIKEN: I would, not knowing for certain I would
5 have to say yes, depending on the availability of the
6 funds, when they committed out, how they committed I don't
7 know. But I would assume that some of it was insured by
8 Maryland.

9 I can only make that assumption. There's no way
10 of telling you for sure. That would be up to them to say.
11 I would just have to make the assumption they did.

12 DARDEN: An S&L makes a loan under the Housing
13 Fund that is insured by you, does that represent any risk
14 to them, you know?

15 AIKEN: Depending on what type of loan they make,
16 if it is made only with 5 or 10 percent down, the federal
17 savings would have to have some type of insurance. In any
18 loans federals make where the home value is over 75 or 80
19 percent, they must have some insurance whether it be VA, FHA
20 or private mortgage insurance; they are restricted by
21 regulations.

22 DARDEN: When you say "insurance" you mean
23 insurance to cover the difference or the entire --

24 AIKEN: Not the entire, just the difference.

25 One feature of the Maryland Housing Fund is based

1 on providing -- we can guarantee that loan 100 percent,
2 the entire amount; we will cover the entire risk. Otherwise
3 they put down 25 percent to cover that top 20 percent.
4 A 10 percent down will cover the top 20 percent. So in effect
5 it brings down the exposure in a loan value of the institution
6 whereby if applicant puts down 10 percent, we cover the top
7 20 percent. So it brings it down to an effective ratio
8 of 76 percent.

9 DARDEN: So any loan you make is easily considered
10 a bankable loan?

11 AIKEN: They thought it was a bankable loan to
12 start with, but if it didn't meet the requirements of
13 regulations covering federal S&L's as to the loan amount
14 the state acts as the vehicle to provide housing for low
15 and moderate income persons which encompasses a great many
16 of the minority and single.

17 We are not finished. We are continuing on,
18 hopefully, there will be other programs.

19 WICKWIRE: I have one question:

20 People know about your services?

21 AIKEN: As far as this housing fund there is a
22 constant contact with the lending institutions, personal
23 visits, letters; this is an ongoing thing, trying to promote
24 lending institutions who are not members of the fund to
25 become members of the fund.

1 Presently we have some 71 institutions throughout
2 the state. In the City of Baltimore we have over 45
3 members who are members now. Most of your real estate
4 industry is aware of the program, and the direct loan program.
5 It's been in the new media. Everyone is quite well aware
6 of the program.

7 HEATH: They are so aware of our funds that
8 our first \$10 million allocation lasted not counting the
9 moratorium we imposed in some areas for five months; and
10 the secone \$20 million lasted 8 months. So they are very
11 well aware that we are there.

12 BOOTH: The pilot project, how long did that
13 last?

14 AIKEN: The insurance will last as long as we
15 feel it should be necessary or until the loan is paid off.

16 BOOTH: How long will the pilot program last?

17 AIKEN: That's in effect for infinity.

18 BOOTH: It's not a pilot in the sense it's limited
19 in time?

20 AIKEN: No, it's an open-ended program, it will
21 go on as long as there are people willing to use the program.

22 BOOTH: Any other questions?

23 (No response.)

24 BOOTH: I just want to say that our last witness
25 was to have been Mr. Warwick from the Federal Home Loan

jrb 2361 Bank Board. We received a letter from him on Monday saying
2 he was -- it was impossible for him to be here, and we
3 have written a letter in return including the questions we
4 would have asked had he come.

5 So we would like to enter both of these letters
6 into the record.

7 (The documents follow:)

8 Mr. Bert Booth, Chairperson 9/26/75
9 Housing Taskforce
10 Maryland Advisory to the U.S.
11 Commission on Civil Rights
12 Mid-Atlantic Regional Office
13 2120 L Street, N. W.
14 Room 510
15 Washington, D. C. 20037

16 Dear Mr. Booth:

17 Thank you for your letter of September 18, 1975
18 describing your upcoming two-day public hearing on urban
19 disinvestment in Baltimore and your letter of September 24
20 requesting that I make a presentation on Thursday, October 2,
21 1975, at 4:00 p.m. Unfortunately, my schedule on those two
22 days is such that I will not be able to appear in person to
23 participate in this informal hearing.

24 To assist you in your examination of certain aspects
25 of mortgage lending in Baltimore, I am enclosing a copy of a

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statement containing the Board's thoughts on a number of issues related to urban disinvestment, originally presented by former Chairman Thomas R. Bomar to the Senate Committee on Banking, HOusing and urban affairs on May 7, 1975. Attached to this statement are the Federal Home Loan Bank Board's nondiscrimination regulations, related legal opinions from the Board's Office of General Counsel, information concerning minority-owned savings and loan associations, and a number of items describing various aspects of the Board's Neighborhood Housing Services program and its Urban Reinvestment Taskforce. A complete listing of these attachments appears at pages 19 and 20 of the statement. I am also enclosing a copy of a major address by Acting Chairman Garth Marston entitled "Fulfilling the Promise of Urban Neighborhoods," which he delievered to the California Savings and Loan League Annual Convention on Wednesday, September 24, 1975.

Although it is unfortunately too late to be of assistance to you in your upcoming hearings, I might also suggest that future questions which might arise concerning federally-chartered FSLIC-insured savings and loan associations in the State of Maryland be addressed to Mr. Carl O. Camp, Jr., President of the Federal Home Loan Bank of Atlanta and the Board's principal Supervisory Agent for District Four, which includes the State of Maryland. The Bank Board's Office of Housing and Urban Affairs here

1 in Washington works with and provides assistance to all 12
2 Federal Home Loan Banks in urban affairs matters, but the
3 Regional banks themselves are usually the best source of
4 information concerning specific cities and states.

5 Again, I regret that I will be unable to appear
6 at the hearings you have scheduled next week, but I would be
7 pleased to attempt to respond as soon as possible to any
8 questions which you may have about the materials I am
9 enclosing which might arise during the course of these
10 hearings.

11 Sincerely,

12 (SIGNED)

13 ROBERT S. WARWICK

14 Deputy Director -

15 Office of Housing and Urban
16 Affairs

17 Federal Home Loan Bank Board

18 320 First Street, N. W.

19 Washington, D. C. 20552

20 Enclosures

21 - - -

22 Mr. Robert S. Warwick

23 Deputy Director

24 Office of Housing and Urban

25 Affairs

1 Federal Home Loan Bank Board
2 320 First Street, N. W.
3 Washington, D. C. 20552

4 Dear Mr. Warwick:

5 Thank you for your letter of September 27, 1975,
6 informing us of the scheduling conflicts which prevent you
7 from participating in the Maryland Advisory Committee's
8 hearing on urban disinvestment on October 1 and 2, 1975
9 in Baltimore.

10 As you know, we had hoped that either you or any
11 other representative of the Federal Home Loan Bank Board
12 would be able to provide important information about home
13 mortgage lending and employment practices in Baltimore
14 savings and loan institutions at our public hearing. In
15 addition, we had hoped to ask you or another representative
16 of the Federal Home Loan Bank Board the following questions
17 during our hearing:

18 1. How do you think the number of decision-making
19 positions for qualified women and minority group members may
20 be increased in savings and loan institutions?

21 2. What monitoring means does the Federal Home
22 Loan Bank Board employ to ascertain compliance with its
23 nondiscrimination regulations by savings and loan institutions?

24 3. What steps does the Federal Home Loan Bank
25 Board take to ensure future compliance when noncompliance

1 is discovered?

2 4. How do you think the number of home mortgage
3 loans to minorities and women may be increased by savings
4 and loan institutions?

5 5. What were the results of the pilot fair housing
6 study conducted by the Federal Home Loan Bank Board?

7 Although we recognize that time constraints will
8 not allow you to personally participate in our hearings
9 this week, we respectfully request that you provide us
10 with written answers to the foregoing questions so that your
11 information can be included in our written report to the U. S.
12 Commission on Civil Rights.

13 Thank you for sending us the materials regarding
14 the Federal Home Loan Bank Board's nondiscrimination
15 regulations as your staff requested several weeks ago. We
16 appreciate your cooperation and will be back in touch with
17 you.

18 Cordially,

19 BERT BOOTH, Chairperson

20 Housing Taskforce

21 Maryland Advisory Committee to the U. S.

22 Commission on Civil Rights.

23 - - -

24 BOOTH: I believe that will conclude our hearing.

25 For two days, the Maryland Advisory Committee to the

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1 U. S. Commission on Civil Rights has been conducting
2 a public hearing focused on urban disinvestment, specifically
3 mortgage lending and employment practices of federally
4 chartered or insured savings and loan institutions in
5 Baltimore. Based on the information gathered in these
6 hearings, and by staff and committee investigation, the
7 Maryland Advisory Committee will submit a public report of its
8 findings, conclusions and recommendations to the U. S.
9 Commission on Civil Rights. The Committee intends to
10 direct recommendations to the Commission itself, to federal
11 and state authorities charged with regulating savings and
12 loan institutions, and to other organizations or agencies
13 as appropriate.

14 The Committee is deeply grateful to the
15 individuals, organizations, and agencies whose cooperation
16 made this hearing possible. Your thoughtful comments have
17 been enlightening and helpful.

18 If there is anyone in the audience who would like
19 to offer information for consideration by the Committee,
20 please submit your statement in writing to the Maryland
21 Advisory Committee to the U. S. Commission on Civil Rights,
22 2120 L Street, N. W., Washington, D. C. 20037, by
23 November 1, 1975.

24 Commission staff people are wearing badges and
25 will be happy to receive your written statements or answer

1 your questions today.

2 Reports by the U. S. Commission on Civil Rights
3 are available to all on the back table in this room.

4 Thank you for being with us. The hearing is
5 adjourned.

6 (Whereupon, at 6:10 p.m., Thursday,
7 2 October 1975, the hearing was
8 adjourned.)

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