THE PROBLEMS CREATED BY THE PRACTICES
AND REQUIREMENTS OF HOME MORTGAGE LENDERS
ON HOME OWNERSHIP

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by
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CHAPTER I

INTRODUCTION

Financial institutions play a very important role in satisfying the housing demand. There is growing interest as to the effects of the financial institution's policies and the functions they perform on the likelihood of home ownership by low-income minority groups.

Adequate housing for United States citizens has long been a goal of this country. Property ownership is considered desirable in our society and important to the well-being of our people. It is with this in mind that we investigate the financial institutions' role and attempt to make an objective analysis of the present conditions along with positive suggestions for improvements. The immenseness of the housing dilemma must be noted and recognized as a constraining factor in studying the problem. It is virtually impossible on a limited basis to consider the effects of any one group on the entire housing industry. This does not limit the usefulness of this study in any way, but rather recognizes its limitations.

The sources for this study's information include periodicals, newspaper articles, books and other library sources. In addition, official Federal government documents and publications were valuable. Private industry also contributed a great deal of information. It is interesting to note the efforts that have been made in analyzing the housing problem by large corporations. Firms like Westinghouse, Aluminum Company of America, Boise Cascade, Gulf Oil, American Standard, and
Kaiser Industries, to name a few, have spent many man hours researching the problem. Of course, all these firms are heavily oriented to the building products industry, but their studies are far more detailed and conclusive and do not concern themselves with only the additional sale of their respective products. Finally, information was also obtained from concerned officials such as Senator William Proxmire, Democrat, Wisconsin.

In analyzing the relationship between financial institutions and low-income minority borrowers, it is necessary for one to fully understand the role of the lender as it relates to establishing home ownership. Therefore, the seller, the buyer, and the escrow holder relationship will be explored first. This explanation will not only show the importance of the lender, but will raise important questions with regard to the influence of the lender on home ownership by low-income minority groups.

Governmental and private programs have become very important to the financial aspect of home ownership, especially, by low-income groups. A discussion of these programs and their advantages and disadvantages are important in trying to determine what changes need to be made.

Minority groups, like many other groups in the private sector, are undergoing changes. These trends are important factors in deciding on the policies and programs that will be necessary to satisfy the demand for housing by low-income minority groups.

Conferences, congresses, conventions, and committees have been used to develop suggestions for financing mortgages to minority and low-income groups. These proposals fall into two categories, i.e.,
governmental assistance and assistance from the private sectors. These proposals have advantages and disadvantages which must be evaluated. Many of these proposals can alleviate the problems of supplying low-income minority groups with mortgage funds.
CHAPTER II

THE ESCROW CONCEPT

In purchasing property and homes, it is customary today to have three parties involved in the agreement. The seller, the buyer, and the escrow holder are the parties to the agreement. The escrow holder is usually a bank, an attorney, or title institution. The average citizen today uses his home mortgage lender as the escrow agent. This is an important fact to remember when the effects of financial institutions' policies on home ownership are discussed later.

The escrow concept dates back to early English law. English lawbooks express the escrow concept as a writing under seal delivered to a third person. This third person, the escrow holder, is to convey the writing to the person whom the writing purports to benefit when certain conditions have been performed or satisfied. The writing does not require the force of a deed until such time as the conditions are satisfied.¹

An escrow agent is an independent third party. The agent receives a copy of the contract of sale and specific instructions to see that the terms are fulfilled by both the buyer and seller. The escrow agent may clear the title, probate all expenses including taxes and insurance, record necessary legal documents pertaining to the sale, and

other tasks as instructed. ²

The grantor or seller deposits his deed with the escrow agent with all necessary written instructions. These instructions state what the seller is depositing and the amount of money or other consideration that he is to receive. Moreover, it states the amount of taxes, interests, mortgages, or other items which are to be paid off from funds due the seller. Finally, the instructions stipulate the kind of evidence of title which the seller agrees to furnish.³

The grantee or purchaser also must deposit his funds with definite written instructions as to what he is to receive in return for his money. The purchaser should definitely state the condition he expects the title to be in. Finally, the purchaser should mention taxes or other liens which he is to assume, as well as an agreement as to purchasing the fire insurance from the seller.⁴

Prior to paying over any money, both the buyer and the seller should insist that the entire deal be placed in escrow to be handled by a referee in whom they have complete and full confidence. If a third party is not involved in the arrangement, there might be many things which intervene that are not contemplated by either the buyer or seller and, thus, cause great consternation between the parties. Transferring in escrow avoids these risks.

Under this three-party relationship, the seller receives no money until his title is searched and found to be marketable. On the

³McMichael, op. cit., p. 211.
⁴Ibid., p. 211.
other hand, the seller knows that if the title is found to be marketable, he is assured of being paid and the contract will be carried out. Also, neither the buyer nor the seller needs to be present at the closing of the title. In addition, the seller is able to instruct the escrow agent to use the money to pay off present incumbrances and liens not assumed by the buyer. This makes it unnecessary for the seller to have to look for other financing.

The escrow relationship allows the buyer to know the conditions of the title and the property up to the time he considers purchasing it. If escrow isn't used, the buyer can only ascertain the condition of the title up to an approximate date. Furthermore, the buyer has the advantage of raising part of his purchase price by mortgaging the real estate. The buyer can then use these mortgage funds towards the purchase of the property. He will be willing to deposit these funds knowing they are protected by the escrow arrangement. The mortgager is also protected because his funds are not used until his mortgage appears on record as a first or second mortgage, as the case may be. Both the buyer and the seller have the advantage of knowing that all computations of interest, rents, fire insurance premiums, and so forth, will be made by individuals especially trained in this area.

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CHAPTER III

EXISTING PRIVATE AND GOVERNMENTAL PROGRAMS

The difficulty low-income and minority groups have experienced in obtaining mortgage funds has resulted in a number of federal programs as well as some private programs.

Rockford, Illinois was one of the first communities that attempted to solve the housing crisis without building public housing. In the late 1960's, this northern Illinois community constructed a number of homes in the $16,000 to $19,000 price range. The homes were built by private contractors and financed with bank loans guaranteed by the U.S. Department of Housing and Urban Development. The owners have no down payment and, instead, agree to pay 22% of their monthly income for 25 years. In contrast to other programs of this type, the tenants are not asked to vacate the premises once their incomes reach a certain level. As in most other things when dealing with the public, the key to the "Rockford Program" seems to be education. Tenants are carefully screened and required to attend classes on how to maintain their houses as middle class residences. Moreover, there are regulations that result in eviction if inspections indicate the house is becoming an eyesore.

Pent up fears of those neighbors who paid a mortgage down payment proved to be less. The poor behaved so well by community standards that they were criticized for not being poor enough.7

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The houses themselves consisted of from two to six bedrooms, two bathrooms and a full basement. There is no garage however. In some areas, the homes fit esthetically alongside private dwellings costing as much as $35,000. The occupants of these houses stated that most of the complaints came from people whose homes weren't half as nice as theirs.  

The "Rockford Program" is an example of a successful effort by a community to solve the problem of home ownership among low-income and minority groups. Education and local support have kept the program from being a failure like so many others.

In 1965, the Department of Housing and Urban Development reported that two families in five could afford a house with a conventional or government insured mortgage. Today only one family in five can afford to buy homes in this manner. These difficulties for families between $4,000 and $10,000 led to Federal programs such as Section 235 of The Housing Act of 1968.

It is a H.U.D. administered law that Federal subsidies can pay all but one per cent of the cost of borrowing on a mortgage. Loans under Section 235 are made by private lending agencies at the going interest rated. The home buyer makes a small down payment of about $200 to cover legal fees and other "closing costs." Thereafter, one pays 20% of his monthly income. This last aspect is similar to the "Rockford Program." However, if it is determined that the payments would amount to more than 20%, the family is usually disqualified unless it is proven that the family already is paying over 20% of its income for

8 Ibid., p. 61.
other housing. 9

The average home under the H.U.D. program is priced at $16,000 with monthly payments of $106.40 on a 30 year mortgage. This compares very favorably with the normal $164.68 for principal, interest, insurances, taxes, and other charges if the buyer has to pay full interest. The average salary of home buyers under Section 235 is $5,800 per annum. Applicants for these loans must prove that they cannot obtain credit through ordinary channels to purchase a home. Secondly, the family must have sufficient income to meet the monthly mortgage payments. Statistics indicate that 60% of the family wage earners applying for these government subsidized homes are under 30, married, and have two or more children. Furthermore, nearly 50% of these people work in some service industry. 10

There are other federal programs administered by other governmental agencies. The Farmers Home Administration runs its own housing programs in rural areas and towns of under 5,500 population. This agency lends its own funds at the average interest rate of Treasury Securities. If a family's income is adequate, the interest rate can be trimmed all the way down to one per cent. As in the Sect. 235 plan, the Farmers Home Administration has down payment requirements as well as a monthly-payment limit of 20% of personal income. Family income is closely scrutinized and checked. In fiscal 1969, 38,200 units were constructed under this program; 1970 - 52,780 units, 1971 - 132,650 units. According


10 Ibid., p. 50.
to Louis D. Malotky, Director of The Housing Division of F.H.A., the largest area of activity is in the Southeastern States and Texas.\footnote{Ibid., p. 51.}

The Federal legislation affecting home ownership by low-income and minority groups over the years has been voluminous. Generally, the legislation has been criticized for its costs, lack of success, and tendency to bring the Federal Government into control of one more aspect of our private lives. However, as it was stated earlier, the Federal Government rightly feels it is virtually impossible for poor families, with their own resources, to afford homes on the private market. Moreover, the Federal Government feels it to be in the best interest of the nation that some form of Government help is necessary if the poor are to have a decent shelter.

The Federal Government began their efforts in 1934 by sponsoring low-cost housing on an experimental basis. Franklin Roosevelt and the 75th Congress launched the Public Housing Program in 1937 as a permanent program to supply low-cost housing to the poor. The 1934 National Housing Act established the F.H.A. to insure private housing loans and assist private home-builders and home-buyers.\footnote{Arthur Simon, "A Stroke of the Pen," Commonweal, 93 (January 22, 1971), pp. 391-392.}

The years since Roosevelt's historic legislation in 1937 have seen every new President make some legislative act to reinforce the poor's beliefs that the Government was committed to housing for this group. In 1947, President Harry S. Truman pledged "a decent home and
suitable living environment for every American family" and initiated urban renewal. President Eisenhower expanded the program of urban renewal by passing the 1954 Housing Act. It was President Kennedy who first initiated programs to bring decent homes into the reach of families with moderate income. This group had been neglected previously.  

Since 1937, there was really very little legislation in the Housing area that would be considered innovative. The years of Eisenhower, Truman, and Kennedy saw simply refinements and expansion of President Roosevelt's Public Housing Program.

President Lyndon B. Johnson was responsible for more important and more visionary legislation in the housing area than perhaps any other President. The significance of his legislation in housing closely paralleled and related to his civil rights legislation. In 1964, Title VI of the Civil Rights Act provided for the withholding of federal funds from recipients that exclude persons from the use of those funds on the basis of race, color, or national origin. This meant that realtors, builders, and lending institutions would not be able to obtain federally backed mortgages if it was proven that they had been guilty of discriminating against persons for one of the above reasons while conducting business. The same year, 1964, saw President Johnson establish the Department of Housing and Urban Development.

In 1968, Title VIII of the Civil Rights Act prohibited discrimination in the renting and selling of most housing. Single-family homes not

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listed with a broker were the main exception to this law.\textsuperscript{14}

The Housing and Urban Development Act of 1968 introduced a program of Rent Supplements, and inaugurated the Model Cities Program. This new legislation would accomplish the following:

1. Provide 300,000 lower income family units during fiscal 1969 and 6 million such units during the next ten years.

2. Enable 100,000 low-income families to buy or repair their own houses.

3. Authorize 72,500 units under the Rent Supplement Program to provide shelter for almost 250,000 low-income citizens.

4. Begin to build 90,000 rental housing units for 360,000 members of moderate income families.

5. Pump $2 billion in Government money into housing development every year for the next ten years and thus stimulate twenty times that amount of annual private spending.

In addition, this legislation would authorize the HUD Secretary to guarantee the bonds, debentures, notes, and other obligations issued by new community developers to help finance new community development. These government guaranteed obligations were to be secured by "a pool" of mortgages. Proceeds from the sale of such instruments (bonds and notes) were to be used to purchase mortgages. Advantages of this method are:

1. the bond will be more attractive to lenders;

2. the cost to the Government is lower;

\textsuperscript{14} Simon, \textit{op. cit.}, p. 392.
(3) the programs are certain to obtain needed funds.\textsuperscript{15}

Significant accomplishments in the legislative arena were made in 1968. No less important was the Jones vs. Mayer decision in this same year. The U.S. Supreme Court outlawed all discrimination in the selling or renting of property, on the basis of an 1866 Reconstruction Law that said, "All citizens of the United States shall have the same right, in every state and territory, as is employed by white citizens there of to inherit purchase, lease, sell, hold, and convey real personal property."\textsuperscript{16} Two years later, the Civil Rights Commission issued a comprehensive report on the nation's failure to enforce laws, orders, and court decisions on Civil Rights Commission. Chairman Rev. Theodore M. Hesburgh summed up the truth on civil rights legislation when he said, "In the final analysis, achievement of civil rights goals depends on the quality of leadership exercised by the President."\textsuperscript{17} This statement basically is one aspect of three not mutually exclusive ways in which an open America could come about. One is through the courts. The main objection to this is that it takes too long. Second is the legislative path which often leaves laws without enough "teeth" to really be effective. Finally, the Executive Branch can enforce laws that are already on the books.

The Administration's 1970 housing bill put us a step closer to

\textsuperscript{15}The Report of the President's Committee on Urban Housing, A Decent Home, Washington, D.C. (December 11, 1968), p. 131.

\textsuperscript{16}Simon, \textit{op. cit.}, p. 393.

\textsuperscript{17}Ibid., p. 393.
the adoption of a national policy for more national use of land to control the country's chaotic patterns of growth. The measure empowered Attorney General to file enforcement suits against local governments and also allowed potential recipients of housing aid to sue in either federal or state courts to overturn local rules.\textsuperscript{18}

Established in 1932, the Federal Home Loan Bank Board supervises the $167 billion dollar savings loan institution. The Board is an independent federal agency that oversees a system of 12 regional home loan banks that borrow collectively in the capital markers and advance the funds to its members. The Board's funds represent approximately 25\% of the funds that went into mortgages on new and existing one-to-four family homes in 1970. The Emergency Home Finance Act of 1970 appropriated $250 million to the Federal Loan Bank System that allowed member lending institutions to provide home owner's mortgages at 7\%.\textsuperscript{19}

The above examples illustrate the efforts made by Federal and local governments to handle the enormous problem of building and financing adequate housing for the low-income and minority groups. As far back as 1932, during F. D. R.'s administration the Federal Government began playing an important role in the housing industry. Every administration since President Roosevelt has made some effort to improve the housing conditions for those millions of Americans at the bottom of the sociological and economic scales. Agencies have been formed, huge funds have been


established, programs conceived, and still the lack of housing exists. Each president during the last twenty-five years has created some new "form" to solve the problem. Some have worked and others have failed.
CHAPTER IV

TRENDS IN HOUSING FOR MINORITY GROUPS

Factory built houses are a reality, not a thing of the future. It is true that they have not as yet gained wide acceptance, but the future will see many more houses and apartments factory-made. In addition, planned communities will be developed. Shopping, theaters, offices, and recreation will be all part of these "micro" cities. The overall trend, according to some experts, indicates that fewer single-family houses will be made and that by 1980 there will be more apartments than single family houses even in the suburbs.20

Twenty per cent of personal income is spent on housing. The period from 1968-1978 should see mortgage requirements of $40 billion of new funds, which are not available. Pension funds represent one of the fastest growing and least tapped source of mortgage money. In 1970, approximately 43% of new housing units started that year, including apartment buildings, townhouses, and single family homes, were built under some kind of federal program. In 1969, the figure was 25.6%. During the past five years, the average monthly mortgage payment has jumped from $90.90 to $156.68.21 George Romney, Secretary of H.U.D., stated in 1970 that 50% of the people in this country couldn't afford a


decent home. As in the past, money continues to be the number one problem. The cost continues to climb higher and higher because of competition for the funds and consequently the number of housing starts drops. Instead of closing in on the problem, the country continues to take one step forward and two steps backward.

The demand for housing is most definitely going to show a trend in terms of race and age groups based on the results of the 1970 census. In terms of race, black people's demand for housing will increase at a faster rate than any other single race group. Although there is no single statistic supporting this claim, the fact can be supported with statistics that are known to have a major influence on the demand for housing. First, housing demand is affected by the population. The total black population between 1960-1970 grew by 20.1 per cent. On the other hand, the entire white population grew by 11.8 per cent. Therefore, the black population's rate of growth was 9.3 per cent greater than the whites. Furthermore, 10 per cent of the blacks had college degrees in 1970 compared to 1.6 per cent in 1960. This does not mean, by any stretch of the imagination, that the total demand for housing by black people will be greater than that by white people. There are, of course, more white people than black people in the United States. If the black population is increasing at a faster rate than the white population, it is reasonable to conclude that the demand for housing by black people will increase at a faster rate than that by white people.22

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The demand for housing can also be categorized in terms of age. Young adults (20-34 years of age) obviously form new families at a much greater rate than other age groups. Once a new family is formed, there will be a demand for a home within the short term (5 years). The 1970 census again supports the proposition that housing demand will be greater because of the young adult. The period of 1950-1960 saw the young adult group increase by 6.5 per cent. In contrast, the 1960-1970 period saw this same group increase by a whopping 51.6 per cent. This group will definitely be a major factor in the demand for housing.23

Consequently, the increase in the black population and the young adults will cause the demand for homes by these groups to increase. This demand will also cause a greater demand for mortgage money by these groups. This is the subject we are concerned with, because without mortgage money these groups will be deprived of adequate housing.

CHAPTER V
FINANCING HOME MORTGAGES FOR MINORITY AND LOW INCOME GROUPS

It is no secret among students of banking policies that present credit evaluation standards and methods are totally inadequate when dealing with low income and minority groups. In private, bankers and leaders of other institutions which lend money for financing home mortgages can argue successfully that it is in the best interest of their stockholders and owners to loan money based on the least risk and highest expected return. It is not the purpose or intent of this paper to challenge this premise or to suggest that financial institutions are simply a group of unsympathetic money changers. It is hoped that the paper will identify some areas that need strengthening and may suggest new profit potential while at the same time solving a critical national problem.

Present credit evaluation techniques are carried out in three distinct steps. First, the application for a loan is filed while at the same time a very short and shallow interview is conducted. Thirdly, an investigation is conducted into the applicant's previous credit experiences. The evaluation is generally based on five things: (1) Character; (2) Capacity; (3) Capital; (4) Collateral; (5) Conditions.\(^\text{24}\)

The five criteria that banks claim to use could suffice if they carried out an adequate investigation and used common sense. Most established bank loan programs unwittingly discriminate against the average minority group person. The reason for this is the inability of most humans to relate to and take into consideration the different life styles of others. The minority group loan applicant is generally an individual with a past which indicates instability. This one factor is difficult for bankers to cope with since there haven't been too many unstable bankers since 1939. Just as 1939 is history, so is the past of many of these minority people. The application sheet used by financial institutions automatically rejects the great majority. This is due to the application's heavy emphasis on previous bank associations, age, years on job, years at residence, and home and property ownership.

All of the things mentioned indicate how important the signs of stability are when attempting to borrow money. Low income and minority groups can show stability in a different manner than is normally considered for middle income groups. For example, an increasing number of points could be given for every year in elementary school. Secondly, rank obtained in the armed forces if the individual was in the service. Advancement of several ranks should indicate the type of character being sought. Furthermore, membership in organizations that show the applicant is a leader and/or responsible member of his community should be a good indication of his stability.\(^{25}\) These are but a few of the examples where a little common sense could help in a difficult situation and benefit

\(^{25}\text{Ibid.}, \text{p. 40.}\)
all those concerned.

Unless new evaluation standards are used to measure minority groups in terms of credit risks, a bank cannot provide creative financing for people formerly ineligible for financing. Bankers need to do some market research to see if they cannot provide financing to some new markets. The low-income and minority group market would be a new effort for banks not only in terms of a market but also a new culture. The "culture of the ghetto" is quite different from that of "middle class America," and it is absolutely necessary that bankers understand how these people have learned to survive in their own culture.

The Mortgage Bankers Association has over the years attempted to develop proposals to solve the lack of funds available to the low-income and minority groups. The Association has tried to apply pressure on pension funds to place their assets in federally insured mortgages. Pension funds are an enormous reservoir of money which could increase the supply of mortgage money significantly enough to force lenders to choose less desirable investments such as mortgages to low-income and minority groups.

Other proposals by this Bankers Association include urging the Federal Reserve to purchase obligations of federal agencies and the setting up of a housing bank to make direct loans for moderate and low-income housing. Senator Charles Percy (R-Ill.) told the Mortgage Bankers Association that the housing crisis is the nation's top priority,

perhaps second only to the problem of feeding the nation's hungry.

There is no question that the Federal Government will continue to play a very influential as well as necessary role. As noted earlier, there has been a tremendous amount of Federal legislation in this area. Perhaps, the legislation has been in quantity rather than quality, but nevertheless the Federal Government is here to stay. Senator W. Proxmire of Wisconsin proposed an amendment which would authorize the Federal Government to buy such agency securities either in the open market or directly from the agencies "when alternative means could not effectively be emphasized to permit financial institutions to continue to supply reasonable amounts of funds to the mortgage market during periods of monetary stringency and rapidly rising interest rates." The obvious argument for this concept is that tight money hits the housing industry harder than any other sector of the economy. Therefore, the housing industry needs direct support from the Federal Government as a cushion. Opponents argue that the central banking system of the Federal Government should not depart from dealing with the money supply as a whole. In other words, the opponents feel that if the Federal Government is asked to support one industry it will also be asked to subsidize others.

The Housing Industry itself has often tried to explain its role in the overall scheme of things. It appears that in spite of the tremendous size of the housing industry there is a real shortage of adequate housing today, particularly for low-income families. It appears that

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there is no disagreement with regards to the shortage, but there is widespread disagreement on why the shortage exists. The blame has been placed on many things, such as shortage of skilled labor, lack of funds, lack of new technology, inadequate government programs, and on and on. Various companies and industry groups have attempted to develop better technology in building with the object of lowering costs by mass producing housing in factories. Several spectacular efforts have been made, but the bulk of housing in the United States today has seen little change.

Throughout the years, there have been a number of technological innovations which have attempted to increase the efficiency of home construction. Theories that new technology can cut costs continue to confuse the issue. The reason is that most innovators have concentrated on the shell of building--the bare walls, the floor, and the roof. The fact of the matter is that the shell is the cheapest part of the cost build-up of a house. For example, the elimination of all the walls in a house would cut the total price by less than 5%. The majority of the cost of a home is in the land, financing, overhead, profit, interior finishes, and mechanical equipment. The December-January issue of the Appalachia magazine showed the breakdown of the "Housing Dollar" on a typical $25,000 suburban builders home as follows:29


These figures show the importance of other factors to the cost of a house, rather than placing all the emphasis on the cost of construction. An interesting example shows that only a 1% increase in the interest rate on a 40 year mortgage for a $15,000 home would increase the owner's monthly costs by more than $10.00.\footnote{Ibid., J. M. Vann, Jr., p. 5.} This 1% increase in the interest rate has an effect on monthly ownership costs comparable to a 13% increase in total development and construction costs. Furthermore, it has been pointed out that all on-site labor costs in housing construction are so small a percentage of monthly occupancy costs that for a typical dwelling unit a 20% reduction in labor costs would achieve only a $2.00 reduction in monthly rents. The housing industry can help in reducing costs, but the above examples should indicate that expensive housing is not only the result of expensive and inefficient construction unions. The whole is much greater than this one factor.
SUGGESTIONS AND SOLUTIONS

Home ownership for low-income and minority groups has been identified as a serious problem in this country and one that must be solved. Government has concerned itself with this problem for over one hundred years and has made remarkable strides in making Americans among the best-housed in the world today. Most of these programs, including the Homestead Act, FHA, VA home mortgage guarantee programs, and federal tax incentives have had remarkable success within their realm. However, we are still a long way from providing one of the essentials to making our people independent and happy—a home.

Our objective is to make mortgage funds available to low-income and minority groups so they will be able to own a home. The key word here is ownership. We want to do more than merely put a roof over someone's head. In order to reach our objective, the problems created by the practices and requirements of home mortgage lenders must be reduced.

General requirements from mortgage lenders fall into various classifications: character, capacity, capital, collateral, and conditions. These requirements can be put into two categories such as tangible and intangible. The tangible category includes capital and collateral, and the intangible category includes character, capacity,

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31 Lewis B. Stone, "The Urban Housing Crisis," Current, 149 (March, 1973), p. 3.
32 Del Behrend, op. cit., p. 39.
and conditions. Low-income groups find it difficult to meet these tangible requirements which include the down payment, insurance and escrow funds. This so-called front-end money and lack of it severely limits the ability of low-income groups to obtain the mortgage funds they need to buy homes. Furthermore, the socio-economic level of these groups make their ability to satisfy the intangible requirements impossible. In most cases, these groups have never had the opportunity to accumulate the wealth required to provide the front-end money. Their lives have been spent meeting their current financial obligations which are comprised mainly of the bare necessities.

This inability to meet the lending institutions' normal requirements for loans forces the members of the low-income and minority groups to either pay higher initial costs to get the mortgage money or to abandon their hopes of borrowing the money. If a member of this group is fortunate enough to meet the minimum requirements, he generally experiences higher front-end costs because he is considered to be in a higher risk category. This higher cost takes many forms, such as extra points (interest rate), a larger down payment, or added insurance. All of these things result in the individual paying a larger amount initially which increases his overall cost of financing. These facts are hard to come to grips with because the forces of the free enterprise system are working properly, but yet they make it difficult to realize our objective of home ownership and mortgage funds for the low-income and minority groups. It is like a regressive tax in that the ones who can least afford the additional costs are the ones who pay them.

Primarily, we are concerned with providing suggestions and
solutions that will reduce the effect of the current practices of home mortgage lenders on the low-income and minority groups. However, we must note that we are dealing with a very sensitive market—the housing industry and the funds that supply it. There are some premises which must be addressed before stating the specific methods for making it easier for these groups to obtain funds. First, the housing industry is a very fluid market that is extremely sensitive to the law of supply and demand. Any solutions that will affect the supply of money to one group in favor of another will definitely affect the financing rates of the discriminated group. Therefore, our solutions must be based on the premise that we will maintain at least the status quo with regard to other programs already in existence for the sole purpose of providing mortgage funds to certain groups. Failing to do this will only increase the rates of interest such a group will have to pay. Secondly, an increase in funds for the low-income and minority groups or any other group assumes that the supply of housing is available. If the construction industry cannot provide the supply that is required by the increase in funds, then we will only succeed in causing too many dollars chasing too few units. The result is an increase in the cost of the unit because of competitive bidding.

To reduce and remove the difficulties of obtaining home-ownership by the low-income and minority groups because of the practices and requirements of home mortgage lenders, there are primarily three bodies involved. The federal government, lending institutions, and the public. With a firm belief in the free enterprise system and its mechanics, the writer made every effort to perceive how the problems could be solved
without the government playing a major role. However, the immensity of the problem and the government's already overwhelming commitment to and influence on the housing industry thrusts it to the forefront of the solution. To suggest that the problem could be handled without the government playing an important role would be ludicrous. It plays a large role presently and will continue to be an integral part of any housing program.

The government must follow a policy which singles out and recognizes the difficulty of the low-income and minority groups in the same way it has for the veterans and other groups. The policy must include legislation in a number of areas. First, there must be an effort to revamp the intangible requirements a borrower must satisfy in order to qualify for a loan. This would be similar to the Senate's efforts to revamp existing conventional mortgage forms to be more equitable to all parties.\(^{33}\) This effort should concern itself with evaluating the borrower's character, capacity, and conditions based on his future potential. Presently, the past carries far too much weight in the final analysis. This step would recognize the obvious fact that education for all groups is not equal, and people mature at different stages of their life.

Secondly, the government must provide tax incentives and other economic incentives to encourage lenders to provide funds to these groups. The problem is too large for any single lending institution to be ex-

pected to do what may seem to be beneficial to society. Mortgage funds for low-income and minority groups must be able to compete equitably in the capital markets. Preferably, these incentives will encourage lending institutions to revamp their existing requirements to seek out those members of low-income and minority groups who truly will be excellent prospects for a mortgage loan.

These incentives should provide the lending institutions with the necessary tools to attract private funds. This method, of course, will keep to a minimum the need for additional taxation to support the program.

Along with or in addition to the economic incentives to encourage lenders to provide funds to these groups, a method of protection for the lender should be implemented to reduce his exposure or risk. This could take the form of public or private insurance which would guarantee the lending institution some reimbursement in the case of default. This method of protection would, of course, require the borrower to meet certain conditions.

In addition to the purely economical considerations, the government must also provide assistance to these groups to educate them in the terminology and operation of basic economics. This will enable individuals of the low-income group to prepare themselves for the obligation they have made with the lending institutions. This acquiring of pride will go a long way towards providing the knowledge that is necessary to maintaining a home. This education can take various forms, such as printed material or actual personal instruction.

The lending institutions also have a very important role in
seeing that needed funds are distributed to the low-income and minority
groups. First and foremost, they have a responsibility to understand
what motivates the individuals of these groups. Lending institutions,
like most business enterprises, can be very resourceful and creative if
there is opportunity for them. With proper economic incentives, the
lending institutions would make it their business to understand this
segment of our society and attempt to provide a sound business approach
to the problem of making home-ownership a reality to these people. De­
partments to handle this aspect of their business could be established
and headed by individuals knowledgeable in this segment of the market
place. The responsibility of such a department would be more than just
an understanding of the market place; it would also involve the education
in the banking language of those individuals seeking loans so that they
can properly communicate their questions and desires. The lending insti­
tutions' practices and requirements in screening an individual for
mortgage funds would become more forward-looking with respect to the
individual's future potential rather than with so much concern about the
past.

The responsibility of the government to revamp and standardize
the requirements for low-income and minority groups to secure mortgage
funds is only half of the achievement. The other half is the successful
interpretation and use of these requirements by the lending institutions.
As was discussed in Chapter V, there are much better methods by which to
judge the future stability of an individual than simply his past history.
The potential of this area is only as limited as our vast knowledge of
human behavior.
Finally, it is the interaction between the government and our lending institutions which can bring the requirements and practices of lending money to low-income and minority groups out of the dark ages into the twentieth century. The government can instill the motivation both economically and politically which will create the necessity and desire of our lending institutions to be more creative in their efforts to find mortgage money for these groups. The public will play an important part in this interaction since it is desirable to make the incentives such that private capital from many sources will be attracted to this segment of the housing market. All we have to do is look at the huge sums of capital that are sitting in savings accounts and other funds to see that the money is available. As with other goals such as the exploration of oil, space, and capital goods spending, the government must direct our priorities and set the guidelines for investment, development, and solution of home-ownership for the low-income and minority groups. Once the wheels are set in motion, the private sector can and should do the job.
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