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MORTGAGE MONEY: WHO GETS IT?

A Case Study in Mortgage Lending Discrimination in Hartford, Connecticut

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U.S. Commission on
Civil Rights
Clearinghouse Publication 48
June 1974

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- Study and collect information concerning legal developments constituting a denial of equal protection of the laws under the Constitution because of race, color, religion, sex, or national origin, or in the administration of justice;
- Appraise Federal laws and policies with respect to the denial of equal protection of the laws because of race, color, religion, sex, or national origin, or in the administration of justice;
- Serve as a national clearinghouse for information concerning denials of equal protection of the laws because of race, color, religion, sex, or national origin; and
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SALE

Chapter 1
Why Study Mortgage Lending?

Homeownership is a goal most American families aspire to, but which some find difficult or even impossible to achieve. In 1970, 65 percent of all white families owned their homes but only 42 percent of all black families and 44 percent of all Spanish speaking families. In that year 68 percent of all families headed by men owned their homes contrasted to 48 percent of all families headed by women.[1] Discrimination by real estate brokers and mortgage lenders is largely responsible for this disparity.

In 1968, passage of the Federal Fair Housing Law[2] prohibited discrimination against minorities in obtaining mortgage financing. Yet real estate brokers and mortgage lenders still treat minority home buyers differently from white purchasers. White, male-dominated lending institutions use imprecise, subjective criteria in granting mortgages; and these criteria, such as motivation and eligibility, are applied differentially.

Although most families have some difficulty in obtaining the financing necessary to purchase a home, minority families and women often encounter insurmountable obstacles when they approach the mortgage lending community. A white family headed by a male whose income is sufficient by itself to carry the cost of home purchase conforms easily to the traditional criteria of the lending community and is readily approved. But minority families, families headed by women, families in which both the wife's and the husband's incomes are necessary, and single persons do not fit as well into the traditional perception of homeowners held by lending institutions. Their applications frequently are handled arbitrarily.

During a period of tight money, as at present, restrictive conditions worsen. As the pool of money available for mortgages decreases, fewer families are able to obtain financing. The access of marginal families to money in this situation, including families headed by minorities or women, is even more restricted.

The purpose of this investigation has not been to uncover individual instances of discrimination by mortgage lenders, but to examine the system of mortgage finance and its effect on homeownership opportunities for minorities and women. The Commission has examined a number of the purportedly neutral criteria that govern mortgage loan decisions to determine the extent to which they afford equal opportunity to minorities and women and assure that decisions will be made on the basis of objective factors, not personal or institutional bias.

Measuring the extent to which the mortgage finance system results in discriminatory treatment of minorities and women is a difficult task because data are unavailable, inadequate, or difficult to obtain. The responsibility for requiring data collection of the Nation's lenders rests squarely with the Federal financial regulatory agencies which have long resisted promulgating such a regulation. Many statements and actions of real estate brokers and mortgage lenders that discourage minorities and women from

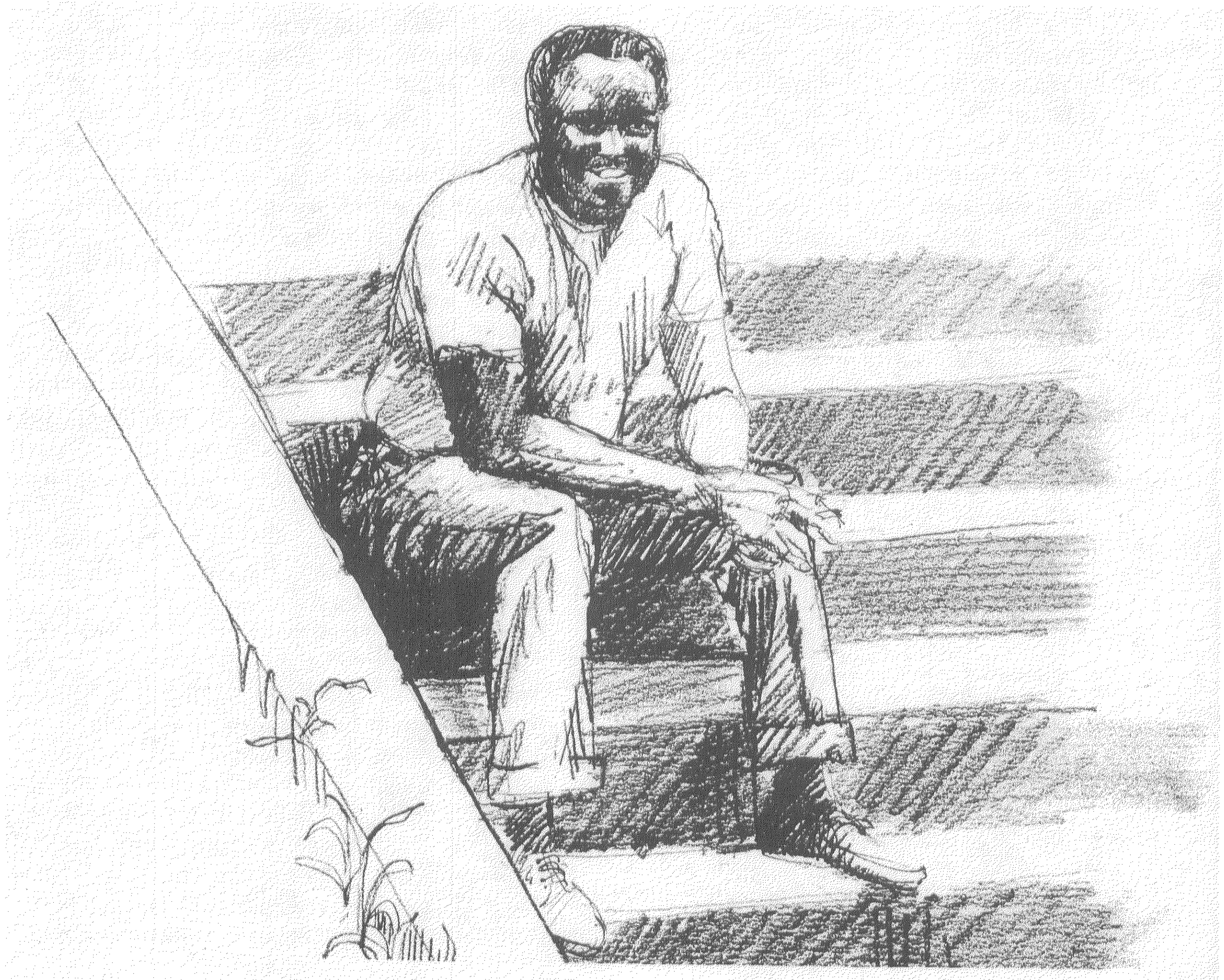
1 U.S., Department of Commerce, Bureau of the Census, *1970 Census of Housing: Metropolitan Housing Characteristics—Final Report*, no. HC(2)-1 (September 1972), pp. 9, 18. U.S., Department of Commerce, Bureau of the Census, *1970 Census of Housing: Housing Characteristics by Household Composition—Final Report*, no. HC(7)-1 (February 1973), pp. 105, 114. See also, U.S., Department of Commerce, Bureau of the Census, *1970 Census of Housing: Structural Characteristics of the Housing Inventory—Subject Report*, no. HC(7)-4 (June 1973), p. 2.

2 42 U.S.C. § 3601 et seq.

seeking to finance the purchase of a home never become part of a written record. The fact that loan inquiries and application procedures are informal serves to emphasize that ample opportunity exists for discrimination against minorities and women. Although the practices of mortgage lenders are more often covert than overt, they nevertheless have the effect of denying many qualified families the opportunity of homeownership.

This report reflects the Commission's investigation of mortgage lending policies and practices in a demonstrably typical American city—Hartford, Connecticut. A sizable minority population is clustered in the central city. Although there are both city and suburban homes priced within the income range of minorities, the incidence of homeownership is lower among blacks and the Spanish speaking than among whites, and the suburbs remain inhabited almost entirely by whites. The central city is declining in population, mainly because of the exodus of white residents to rapidly growing suburbs. In short, the population shifts occurring in Hartford and many of the factors contributing to these changes in choice of residence are characteristic of those found elsewhere. The practices and attitudes of Hartford mortgage lenders also reflect those found in cities throughout the Nation.

The Commission believes that the facts uncovered by this report are sufficiently alarming to alert the community of mortgage lenders—and their regulatory agencies—to the need for a reexamination of the policies and practices under which they operate.



Chapter 2
Population and Housing in Hartford

Hartford, the capital of Connecticut, is a conveniently located commercial center for the State. It is served by Bradley International Airport and three major interstate highways. The insurance industry started in Hartford in the early 19th century, and 39 companies have headquarters there. Like many other metropolitan areas in the country, the city of Hartford is very different from the surrounding towns which make up the rest of the Hartford Standard Metropolitan Statistical Area (SMSA).[3]

POPULATION

During the decade of the 1960's, the population of the Hartford metropolitan area grew substantially, from less than 550,000 to more than 660,000. All of this growth occurred outside of the central city, which declined from more than 162,000 people in 1960 to about 158,000 in 1970.[4]

The racial composition of the central city changed significantly from 1960 to 1970: The black population nearly doubled, from close to 25,000 to a little over 44,000, while the Puerto Rican population almost quadrupled, from about 2,300 to more than 8,500.[5] In 1970, the black and Puerto Rican population combined represented about a third of the inner-city population.[6] Over the same 10 years, more than 31,000 whites left the inner city, representing almost 25 percent of the white population.

Although the black population in the suburbs of Hartford increased from nearly 4,000 to 6,400 in the 1960's, blacks still represented barely 1 percent of the suburban population in 1970. Of the more than 9,000 Puerto Ricans residing in the Hartford metropolitan area in 1970, fewer than 700 lived in the suburbs, an

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[3] An SMSA is a county or group of contiguous counties containing at least one city of 50,000 or more inhabitants, or "twin cities" with a combined population of at least 500,000. Contiguous counties are included in an SMSA if they meet criteria for socioeconomic integration with the central city. In the New England States, SMSA's consist of towns and cities instead of counties.

[4] Unless specificially noted, population, housing, and income figures are taken from the following U.S. Department of Commerce, Bureau of the Census, publications: *1970 Census of Housing: Metropolitan Housing Characteristics—Final Report,* no. HC(2)-1 (September 1972). *1970 Census of Housing: Housing Characteristics by Household Composition—Final Report,* no. HC(7)-1 (February 1973). *1970 Census of Housing: Structural Characteristics of the Housing Inventory—Subject Reports,* no. HC(7)-4 (June 1973). *1970 Census of Population and Housing: Census Tracts—Final Report,* no. PHC(1)-87, Hartford, Conn., SMSA (May 1972). *1970 Census of Population: General Social and Economic Characteristics—Final Report,* no. PC(1)-C8, Connecticut (April 1972). *1970 Census of Housing: Metropolitan Housing Characteristics—Final Report,* no. HC(2)-89, Hartford, Conn., SMSA (May 1972). *1970 Census of Population: Puerto Ricans in the United States—Subject Reports,* no. PC(2)-1E (June 1973). *1970 Census of Housing: Detailed Housing Characteristics—Final Report,* no. HC(1)-B1, U.S. Summary (July 1972). *1970 Census of Population: Earnings by Occupation and Education—Final Report,* no. PC(2)-8B (January 1973).

[5] Data on Puerto Ricans are limited in the 1970 census because in some instances this ethnic group is classified together with Cubans and Mexican Americans as persons of "Spanish language" origin. Where possible, data pertaining exclusively to Puerto Ricans have been used.

[6] The 1970 census may have substantially undercounted Spanish speaking persons in Hartford and blacks. Nevertheless, while the undercounting of minority members distorts the actual numbers, the figures at least give indications of trends.

increase of just 5 persons over the 1960 figure. (See table 1.)

The growth of the black and Puerto Rican population in the city of Hartford has not occurred uniformly. Blacks and Puerto Ricans are concentrated largely in the northern section of the city, while the southern and western sections have remained predominantly white.

HOUSING

Housing in the suburbs of Hartford differs markedly from housing in the central city. It is newer, less likely to be overcrowded, and much more likely to be owned by the occupant. Three of every five suburban housing units have been constructed since 1950, while 80 percent of the housing in the central city was built before 1950. Fewer than 5 percent of the suburban households are overcrowded, compared to more than 10 percent of the city's households.

Of the more than 100,000 owner-occupied units in the Hartford metropolitan area, fewer than 10 percent are in the central city. Eighty-five percent of all black families living in the city of Hartford do not own their own homes; 97 percent of all Puerto Rican families in the city are renters. Of the city's female-headed families, 85 percent do not own their own homes.[7] By contrast, more than 70 percent of the housing in the suburbs is owned by the occupants, including the few blacks and Puerto Ricans who live there.

Earnings are one reason why so few black and Puerto Rican families live in the Hartford suburbs or can be counted among the area's homeowners. Median income for all families in the city as of 1970 was $9,100 a year. But for blacks it was $7,000 and for Spanish speaking

[7] Ownership figures are for two or more person female-headed households only.

TABLE 1—RACIAL AND ETHNIC POPULATION OF HARTFORD SMSA, 1960-1970

HARTFORD	1970		1960		1960–1970 Change	
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
SMSA	663,891	100.0*	549,249	100.0	114,642	20.9
White	600,805	90.5	516,784	94.1	84,021	16.3
Black	50,518	7.6	28,813	5.2	21,705	75.3
Puerto Rican**	9,236	1.4	2,995	0.5	6,241	208.4
CITY	158,017	100.0	162,178	100.0	—4,161	—2.3
White	103,319	65.4	134,720	83.1	—31,401	—23.3
Black	44,091	27.9	24,855	15.3	19,236	77.4
Puerto Rican	8,543	5.4	2,307	1.4	6,236	270.3
SUBURBS***	505,874	100.0	387,071	100.0	118,803	30.7
White	496,486	98.1	382,064	98.7	114,422	32.5
Black	6,427	1.3	3,985	1.0	2,469	62.4
Puerto Rican	693	0.1	688	0.2	5	0.7

Source: U.S., Department of Commerce, Bureau of the Census, *1970 Census of Population and Housing: Census Tracts—Final Report*, no. PHC(1)-87, Hartford, Conn. SMSA (May 1972). pp. 1, 14. See also City of Hartford, Conn., Commission on the City Plan, *Analysis of 1970 Census Data* (December 1972), pp. 2–3, table I.

* Data for American Indians and Asian minorities are included in each total but are not shown separately. Therefore, combined figures do not equal 100 percent in any category.

** Persons of Puerto Rican birth or parentage made up 59 percent of the Spanish speeking population in the Hartford SMSA in 1970 and 72 percent of the Spanish speaking population in the city of Hartford.

*** Figures for the balance of the Hartford SMSA excluding the city of Hartford.

families, $5,250. Thirty percent of the minority families in the city of Hartford had incomes below poverty level. By contrast, in the suburbs median income for all families was $13,300 a year. For blacks it was $12,600 and for Spanish speaking families, $12,400.

Economics, however, by no means fully explains the gross underrepresentation of blacks and Puerto Ricans in the suburbs of Hartford or among the area's homeowners. Despite the disparity between the annual income of minority and majority group families, a substantial proportion of Hartford minority families earn enough to enable them to buy housing at market prices. Some 20 percent of the Spanish speaking families in the city and over 30 percent of the black families in the city earn more than $10,000 a year and generally can afford housing costing as much as $25,000. Nearly half of the owner-occupied housing in Hartford's suburbs and fully 75 percent of the owner-occupied units in the city are valued at less than $25,000. (See table 2.) Nonetheless, few black or Spanish speaking families are homeowners.

The more than 18,000 female-headed families, which are almost evenly distributed between the central city and the suburbs, constitute 11 percent of all families in the area. Nineteen percent of these female-headed families are black and 4 percent are Spanish speaking.

In both the city and the suburbs, female-headed families earned substantially less than

TABLE 2—OWNER-OCCUPIED HOUSING UNITS BY NUMBER AND VALUE, HARTFORD SMSA, 1970

	Value of Owner-Occupied Units	*Number of Units in Area*	*Percentage of Total Units in Area*
HARTFORD SMSA	less than $10,000	1,006	0.9
	10,000–14,999	4,645	4.4
	15,000–19,999	18,742	17.6
	20,000–24,999	28,380	26.7
	25,000–34,999	32,892	31.0
	35,000 or more	20,580	19.4
	TOTAL*	106,245	100.0%
HARTFORD CITY	less than $10,000	75	1.2
	10,000–14,999	462	7.6
	15,000–19,999	2,109	34.7
	20,000–24,999	1,973	32.5
	25,000–34,999	1,092	18.0
	35,000 or more	366	6.0
	TOTAL*	6,077	100.0%
HARTFORD SUBURBS	less than $10,000	931	0.9
	10,000–14,999	4,183	4.1
	15,000–19,999	16,633	16.6
	20,000–24,999	26,407	26.4
	25,000–34,999	31,800	31.7
	35,000 or more	20,214	20.2
	TOTAL*	100,168	100.0%

Source: U.S., Department of Commerce, ***1970 Census*** *of Population and Housing: Census Tracts—Final Report*, no. PHC(1)-87, Hartford, Conn., SMSA (May 1972), table H-1.

* Total may not add to 100 percent due to rounding.

all families. Within the city of Hartford these families had a mean income of $6,206 compared with $10,011 for all families. Their mean income in the suburbs was $9,562 compared to $14,595 for all families. In addition, the disparity between male and female median earnings in the metropolitan area was equally severe for all races and ethnicities.[8]

Approximately 5 percent of all male- and female-headed families were living in poverty in 1970 in Hartford. Yet, of the female-headed families alone, 14 percent of the white families, 71 percent of the black families, and nearly 57 percent of the Spanish speaking families were living in poverty. These women are not potential homeowners. Still, a substantial number—about 15 percent—of those women currently renting their homes earn incomes over $10,000 and can afford to purchase inner-city or suburban housing.

Undoubtedly a variety of factors contributes to the gross underrepresentation of minority and female-headed families among Hartford homeowners. What role does mortgage finance play in denying these people homeownership opportunities?

[8] Data are not available on median *family* income by race and sex in Hartford. Median earnings of *persons* by race and sex in the Hartford metropolitan area are: all males, $8,918; all females, $4,225; black males, $6,237; black females $3,548; Spanish speaking males, $6,131; Spanish speaking females, $3,861. U.S., Department of Commerce, Bureau of the Census, *1970 Census of Population: General Social and Economic Characteristics*, no. PC(1) C–8, Connecticut (April 1972), tables 89, 93, and 99.

Chapter 3
Minority Rejection in Mortgage Lending

In Hartford, as in other communities, the process by which mortgage loans are made is complex.[9] At each stage opportunities exist for denying mortgage loans to qualified minority families on the basis of nothing more than the personal prejudice of individuals in positions to decide. Few complaints are made by minority families who have been rejected for mortgage loans because there is little objective basis on which they can complain. Usually the rejection is informal, and the minority families rarely know the precise reasons why they are rejected. Indeed, lending institution officials themselves frequently cannot explain these reasons by reference to objective credit factors.

Typically, most American families must successfully run a three-stage screening gauntlet before obtaining their first mortgage loan. They are screened initially by a real estate broker, next by a loan officer, and finally by the institution's loan committee. Minority families, however, are much more closely scrutinized than majority families, and each stage is fraught with the possibility of discriminatory rejection. The criteria considered in determining approval or rejection include several factors which are so subjective as to permit decisions on the basis of personal prejudice. Even those criteria which appear to be objective and susceptible to precise measure turn out, on close examination, to be inconsistent and open to differential application.

[9] This report is based on data obtained through interviews of real estate brokers, lenders, home buyers, public interest groups, and Federal and city housing specialists. Interviews were conducted from July 1972 through September 1973. The original written materials are on file and available for review at the U.S. Commission on Civil Rights in Washington, D.C.

THE ROLE OF THE BROKERS

The real estate broker serves several functions in a real estate transaction. Generally, brokers represent sellers and their principal obligation is to arrange for a sale on the most advantageous terms to their clients. Brokers also have a direct relationship with buyers in that buyers usually deal with them when looking for a house.

Studies have documented discriminatory rejection by brokers of minority families who are ready, willing, and able to meet the terms of sale offered by sellers.[10] White brokers have attempted to dissuade minority homeseekers from making an offer on a house they desire; they have gone to great lengths to avoid having to deal at all with minority homeseekers; and they have flatly refused to tender good-faith offers by minority families. These actions—subtle and covert—usually have been consciously discriminatory.

Often, brokers also have a direct relationship with lenders. Through continuing contacts with one or more lenders, they can help arrange for expeditious financing on favorable terms. It behooves brokers to remain in the good graces of lending institutions to assure a friendly reception for those whom they refer for financing.

Although brokers may handle sales everywhere in the Hartford metropolitan area,[11] the

[10] See Rose Helper, *Racial Policies and Practices of Real Estate Brokers* (Minneapolis: University of Minnesota Press, 1969). Bibliography included.

[11] Commission staff interviewed members of 16 real estate firms from July 1972 through September 1973. Seven of the firms were black owned; one of the persons interviewed was a black woman. This sample is approximately 10 percent of the total number of real estate

minority brokers are located and work primarily in the minority area of the city—Blue Hills and the suburb of Bloomfield. There are many more white firms and they are generally larger, some having branch offices dispersed throughout the city.

The broker's treatment of the home buyer differs somewhat according to the home buyer's race. Both black and white brokers are concerned that the homeseeker is financially able to buy a home. But several acknowledged that they expend more energy ascertaining the purchasing ability of the potential black home buyer, making the assumption that the white family will be credit-worthy and the black family unqualified in the eyes of the lender.

A black homeseeker reported that he had contacted a white broker to purchase a house in a white suburb. The broker carefully reviewed his credit report, which reflected current stability but showed a pattern of late payments 3 years previous owing to illness. In apparent response to the report, the broker discouraged the homeseeker from pursuing further his desire to buy in the suburbs and steered him toward a "more suitable" section of town (a minority neighborhood),[12] which the broker felt would be more acceptable to the lender. The black homeseeker subsequently changed brokers, found a suburban house, and obtained a mortgage.

Another crucial variable in the broker-buyer relationship is the race of the broker. Minority brokers serving minority families who are lower middle-income buyers view their role as one of counselor, confidant, and benefactor. They emphasize the importance of developing rapport with homeseekers and offering advice, based on their knowledge of lending institution policies and practices on mortgage qualifications. This advice constitutes a screening of would-be mortgage applicants before the lender is in any way involved.[13] The brokers encourage complete disclosure of social and financial data; then, if they judge the homeseekers "responsible," they make an appointment with a lender, coach the buyers in preparation for the interview, and accompany them to the lender's office.

White brokers, who generally serve more affluent and knowledgeable homeseekers, develop a much different relationship. They may advise the buyer to some degree, but it is the applicants' responsibility to canvas the mortgage market and arrange financing. The most realtors will do is provide buyers with the names of several institutions in the area and give some indication as to the kinds of terms they can expect to be offered.

By contrast, less affluent purchasers, a disproportionate number of whom are minorities, frequently need help in obtaining the necessary financing. This is especially true for first-time purchasers, who tend to be unfamiliar with the complexities of mortgage finance. In seeking this help, they turn to real estate brokers.

If it appears that a minority family is financially able to buy a home, then the broker helps them to obtain a mortgage. A number of the brokers interviewed in Hartford reported that they arrange mortgages for up to 90 percent of their sales. While this practice has been construed as a service to the families, the prequalifying process may be detrimental to homeseekers. The brokers admitted, for example, that they automatically run credit checks on minority families, but not on white families unless special circumstances appear to require it.

If brokers inaccurately assess the financial status of homeseekers, they may use any one of a number of ways to dismiss and discourage them. Homeseekers may be led to believe that they are ineligible when, in fact, they have been victims of deception, discrimination, or both. A case in point is that of a black couple who contacted a white broker in response to an advertisement for a house. The broker asked

firms in Hartford and 80 percent of the black-owned firms.

[12] The U.S. Department of Justice charged seven Hartford real estate companies in May 1974 with promoting resegregation by steering black home buyers into integrated areas and white home buyers away from them. The areas are Blue Hills and the suburb of Bloomfield. All of the firms are white owned and operated.

[13] Although not all were asked, 11 of the Hartford brokers interviewed by Commission staff asserted that mortgage lenders expect them to screen would-be applicants.

about the husband's income and employment and then informed them that they did not meet the "income standards of the community." He did not state the asking price of the house or ask how much money the couple had for a downpayment. (They had $5,000.) He simply looked through his listings and told them that he had nothing he "felt was suitable" for them. Only later did the couple think that they might have been discriminated against, but in the process they were prevented from buying the house they wanted.

Families deemed unqualified by a broker for the mortgage they seek are so advised informally and the matter usually ends there. No written record is kept, nor is a lender involved and put in the position of having to reject the applicant. Consequently, acquiring documentation on the extent of discriminatory rejection of minorities by brokers is nearly impossible.

Just as minority home buyers are dependent upon brokers to obtain a mortgage, minority brokers in Hartford have provisional relationships with white lenders. Compared with white firms, minority firms are smaller, with lower sales volume and fewer mortgages to arrange. Thus, they deal with lenders on fewer occasions; and, when they do, they feel they must present only well-qualified families because they do not have the sales volume to use as leverage in favor of marginal applicants.

Black brokers are forced to be more cautious than white brokers in dealing with lenders. If they feel that a lender is discriminating, they are reluctant to make an issue of it for fear of offending the lender. One black broker reported that she applied for a mortgage for herself to a lender with whom she dealt regularly. Her income was $13,000 and she was ready to put $2,000 down on a $20,500 house. Her credit report was favorable. The lender, however, was unusually slow in processing the application and excessively demanding in the documentation required. For example, he stipulated that cash for the closing in addition to the downpayment had to be in the bank prior to approval of the loan. She then applied to another lender and swiftly obtained a mortgage. Although this is not an overt case of discrimination, the broker believes that she was discriminated against because of her race and/or her sex. But she would not press the issue because it might threaten her working relationship with the lender.

Hartford brokers contend that they judge the ability of a potential mortgage applicant on the same basis as the lending institution. They argue that because they arrange mortgages so frequently and are in continuing contact with loan officers, they are thoroughly familiar with the criteria used by the institutions. In fact, it is virtually impossible for brokers to know precisely the policies of lending institutions because lending criteria vary widely among

TABLE 3—LENDER POLICIES ON BROKER SCREENING OF APPLICANTS

Lending Institution	*Official Interviewed*	*Do you expect the brokers to have screened the applicant?*	*Location of Office*
1 (S&L)	President & vice president	Yes	Main office
	Branch manager	Yes	Nonminority area
2 (S&L)	Vice president	Yes	Main office
	Branch manager	Yes	Minority area
	Branch manager	No	Nonminority area
	Loan officer	No	Main office
3 (Bank)	Vice president	No	Main office
	Branch manager	Yes	Minority area
	Branch manager	No	Minority area

Source: Commission staff interviews.

lending institutions in Hartford and also vary to a large degree among different offices of the same institution.

Lending institutions also differ on whether or not brokers are expected to screen potential applicants. As table 3 shows, only one of three institutions surveyed by Commission staff has a consistent policy on broker screening. Screening requirements in the other two are determined by individual loan officers. Nonetheless, a number of Hartford brokers act on the assumption that they are expected to conduct screening.

The absence of consistent objective lending criteria, coupled with the brokers' desire to remain in the good graces of lending institutions, tends to make brokers overcautious. They, thus, screen out families whom lenders might well approve. Several brokers conceded that, unless a family fits the traditional characteristics of acceptable mortgage loan applicants, they will discourage the family because they feel that the loan officer will not approve a loan.

In short, if brokers are to err in their evaluation of an applicant's qualifications, they would rather err on the side of conservatism. One lending official reported that, on several occasions when applicants referred by brokers have been rejected, the brokers have felt compelled to apologize for having inadequately screened the applicant. The same official also expressed the view that brokers could be considerably more liberal in their approval.

The process of broker screening also opens up broad possibilities for rejection on discriminatory grounds. Brokers may screen out qualified minority applicants on the basis of their personal bias or their perception, right or wrong, of the lender's discriminatory policies. Rejection at this stage is informal. No specific reason need be given; discrimination is, therefore, difficult to detect.

THE ROLE OF LOAN OFFICERS

If minority applicants successfully clear the hurdle of broker screening, they still must pass another test before reaching the stage at which their formal application for a mortgage loan is considered and decided upon by the lending institution's loan committee. This is a second screening process, this time by a loan officer. As in the case of broker screening, this stage is informal and based, at least in part, on subjective criteria. The loan officer can reject applicants for any reason, including personal bias, without having to explain why.

The basic concern of lenders in determining whether to approve a mortgage loan is security against loss. One consideration is the value of the property on which the mortgage is held. Another is the credit-worthiness of the borrower. For the latter purpose, lenders inquire into such seemingly objective factors as income, occupation, length of employment, age, and credit rating. They also inquire into less tangible factors that clearly call for subjective judgments. For example, one standard text on mortgage credit risks states:

> In judging a borrower's reasons for requesting a loan, the lender should consider the strength of his [her] attachment to the property and his [her] probable future attitudes toward it.[14]

The text goes on to assert:

> A borrower's relationship to his [her] family and friends is a significant element of risk although it is difficult to rate. Evaluators usually consider whether a borrower has an established reputation, a harmonious home life, associates with good reputations, and if he [she] is active in civic affairs or whether he [she] has been dishonest and untruthful in the past, has a troubled family life, and associates of doubtful reputation.[15]

Compounding the problem caused by the subjective nature of the factors considered by the loan officer is the fact that, at this stage of the mortgage application process, decisions are made informally. The same text advises:

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[14] U.S., Department of Housing and Urban Development, *Mortgage Credit Risk Analysis and Servicing of Delinquent Mortgages*, by Anthony D. Grezzo (Washington, D.C.: Government Printing Office, 1972), p. 14.

[15] Ibid. See also Robert H. Pease, ed., *Mortgage Banking* (New York: McGraw-Hill, 1965), p. 216, who states that some lenders visit the applicant's home to determine personal habits that indicate "those important intangibles . . . such as pride of ownership, general housekeeping standard, and reputation within the immediate community."

> An analysis of the credit risk should include an informal interview between a representative of the lending agency and the borrower and his wife [her husband].... The results [including a verification of employment, bank account, and a check against public records] should enable the lending agency to decide if the borrower should submit a formal application for a loan, or if he [she] should be told that his [her] application would be accepted.[16]

Commission staff investigations in Hartford indicate that lending institutions in that city adhere closely to the above standards and procedures. Savings and loan officers make decisions on the suitability of filing an application on a purely impressionistic basis. In fact, one savings and loan association president reported that only "eligible" persons are allowed to apply for a mortgage. When asked to elaborate concerning what he meant by the term eligible, he said that it was based on his "feeling about the applicant."

A vice president of another Hartford mortgage loan institution told Commission staff that he placed great stock in whether the applicants were "highly motivated" in deciding whether to accept their application. These criteria obviously open up broad possibilities for decisions on the basis of prejudice or other irrational factors. Nonetheless, they are widely used.

The subjective latitude exercised by a loan officer in judging the merits of individual applications is reflected in the case of a black couple who were rejected because they had "a lot of debts." The couple's combined income was $18,700, which normally would have qualified them to purchase the $32,000 house of their choice. They had on hand the 20 percent downpayment required. Yet because of a long term debt of $3,000, their application was refused by a white loan officer who argued that the debt was too much for them to handle in addition to the mortgage payments. The same loan officer counsels all minority families to save $15,000 before attempting to purchase a house. The couple subsequently obtained a mortgage at another institution.

Officials at five lending institutions reported that, following informal interviews at which various subjective factors are considered, they are expected to discourage applications from people they consider "ineligible." No reasons need be offered to the rejected applicants, nor is any written record kept to provide a basis for complaint. Applicants are merely informed that they should not make formal application because it will be rejected, revealing another opportunity for discriminatory rejection of minority applicants.

Beyond this, loan officers tend to be overcautious in accepting loan applications and forwarding them to the loan committee. Several loan officials explained that their future careers are determined in part by the default rate on applications they recommend for approval to the loan committee. Thus, they try to avoid accepting applications which they feel might be rejected by the loan committee, since this would reflect adversely on their judgment and might hinder their career advancement.

These policies inevitably result in informal rejection of applicants who might well qualify for a mortgage and never default on it. At one savings and loan institution, two branch managers reported that 80 to 85 percent of the applications they forward to the loan committee are approved. Two branch managers at a savings bank similarly indicated that nearly all of the applications they accept are approved by the loan committee. At both institutions, submission of an application is tantamount to approval. One can only speculate, however, how many applications would have been approved by the loan committee had they not been informally rejected at an earlier stage of the process.

OBJECTIVE CRITERIA

Although lending institution officials make substantial use of subjective criteria such as motivation and character in determining an applicant's qualifications for a mortgage loan, they still place heavy reliance on criteria which appear to be objective and susceptible to fairly precise measure. These criteria seemingly would not permit the latitude for decisions based on personal bias.

[16] *Mortgage Credit Analysis*, p. 9.

One such criterion is the income of the applicants in relation to the monthly payments they will be required to pay under the mortgage. The lending institution is legitimately concerned that the applicant's income be sufficient to afford the monthly payments, so as to assure against default and possible financial loss to the lender.

The credit-worthiness of the applicant is another legitimate concern of the lending institution. An applicant with an unstable financial past or a history of failing to satisfy debts is a questionable risk and the lender is obliged to be as sure as possible that the applicant, if approved, can be expected to meet the long term substantial payments that the mortgage involves.

Another legitimate concern of the lending institution is the value of the house being mortgaged. It is the lender's obligation to set the amount of the mortgage loan in reasonable proportion to the value of the property, after conducting an appraisal of the property to determine its fair market value, which may differ from the sales price.

Although these three criteria are traditional mortgage credit standards, in Hartford they are applied inconsistently and offer ample opportunities for decisions based on subjective judgments, including personal bias.

RATIO OF MONTHLY PAYMENT TO INCOME

A common formula lenders use is that one week's income should be equal to or greater than the monthly mortgage payment. Hartford lenders, however, use a variety of other formulas as well. (See table 4.)

Two institutions surveyed by Commission staff have no official policy on the ratio of monthly payment to income and leave the decision on an acceptable ratio to the individual loan officer. Although most loan officers are in a position to judge an acceptable ratio based on experience and training, without official policies or guidelines it is difficult to hold them accountable. At these institutions the apparently objective criterion of the ratio of monthly payment to income can easily be applied subjectively and discriminatorily.

Seven institutions were surveyed that do have official policies on the maximum ratio of

TABLE 4—LENDER POLICIES ON RATIO OF INCOME TO HOUSING PAYMENT

Institution	*Official Interviewed*	*Policy*
(S&L)	President and vice president	PITI* = 25% of gross or net income
	Branch manager	PITI = 25% of gross income
(S&L)	Vice president	PITI = 25% of net income
	Branch manager	PITI = 25% of net income
	Branch manager	Housing expenses** = 30% of gross income
(Bank)	Vice president	Housing expenses = 35% of net income
	Branch manager	PITI plus fixed debts = 38 to 40% of net income
(S&L)	President	Housing price = twice the gross annual income
(Bank)	Vice president	PITI = 25% of gross or net income
(Bank)	Vice president	Housing expenses = 35% of gross income
(S&L)	Vice president	No policy
(Bank)	Vice president	Housing expenses = 25% of gross income
(Bank)	Vice president	No policy

Source: Commission staff interviews

* PITI is the sum of the Principal and Interest payments on the mortgage, Taxes and property Insurance costs.

** Housing expenses are the sum of PITI, utilities, heat, and maintenance costs.

monthly payment to income. The two institutions with the most liberal ratios (a bank and a savings and loan association) require that one week's gross income equal the principal, interest, taxes, and insurance (PITI). Three institutions use differing ratios which are based not only on PITI cost but on total housing expenses, including heat, utilities, and maintenance, in relation to gross income. Two other institutions use ratios of net income to housing payments in assessing applicants.

Thus, there is little consistency among the nine lending institutions on the permissible ratio of monthly payment to monthly income. Moreover, there is also little consistency in this regard among the different offices of the same institution. At one savings and loan association, for example, while the vice president in charge of residential mortgage lending and one branch manager were in accord that the ratio should be 25 percent of net income to equal the PITI cost, another branch manager operated under the formula that 30 percent of gross income should equal total housing expenses.

Even on a day-to-day basis a bank may alter its preferred ratio of housing payment to income, permitting ample opportunity for discrimination. For example, a black couple sought a loan to purchase a condominium in a new development. They went to the lender that had financed a number of the new condominiums and were able to satisfy the institution's standard ratio requirement. The lender turned them down, however, on the grounds that they could not meet a newly imposed higher ratio. Subsequently, they obtained a loan from a different institution and were the first blacks to move into the development.

In addition to inconsistent application of the monthly payment to income ratio among Hartford lenders, there also is inconsistency in the definition of the basic term, income. Generally, income can include salary earned by the primary borrower and secondary borrower, along with commissions, overtime pay, and bonuses. All Hartford lenders agree that the income of the primary borrower should be stable, reliable, and have reasonable prospects for continuation. These same criteria apply to the income of the secondary borrower.[17] The conditions under which overtime pay and income from second jobs are counted, however, are not uniform among the institutions.

Three institutions allow overtime and second job income as effective income, provided that the same criteria as applied to the primary job are met. Two institutions do not necessarily allow such income to be counted even if the criteria are met. Each case is treated individually, and the basic criterion of income becomes less susceptible to objective definition.

The failure of Hartford lenders to accept income from overtime pay and second jobs on a consistent basis necessarily has a discriminatory effect on minority homeseekers, who often rely on these sources of income.[18] The Federal Housing Administration, however, accepts overtime pay as part of income when such pay is characteristic of the job. FHA also accepts income from a second job if the applicant has held it over a substantial period of time and is expected to continue in it during the early period of the mortgage.

CREDIT REPORTS

Reports on the credit history of mortgage applicants are necessary information for the lender to have in deciding whether to approve an application. Again, Hartford lenders are not consistent in their use of these reports. Some lenders limit their examination of an applicant's credit history to the previous 2 years, reasoning that this is sufficient to determine the financial responsibility of the applicant. Others, however, extend their examination to the previous 5 or even 7 years. By the same token, while some lenders do not accept at face value

[17] Issues relating to the secondary borrower, who is often the wife of the primary borrower, are discussed in ch. 4.

[18] This argument is supported by guidelines released by the Federal Home Loan Bank Board in December 1973. "Automatically discounting . . . income from bonuses, overtime, or part time employment will cause some applicants to be denied financing. . . . Since statistics show that minority group members and low and moderate-income families rely more often on such supplemental income, the practice may be racially discriminatory in effect, as well as artificially restrictive of opportunities for home financing." 38 Fed. Reg. 34653 § 531.8(c).

adverse reports on a family's credit but look for possible mitigating circumstances or other clarifying information, other lenders assert that any adverse information in the report automatically disqualifies the applicant. No investigation is conducted to determine the circumstances surrounding the adverse report or even to determine whether the adverse information is accurate. The discriminatory effect of this policy of automatic disqualification on minority applicants is apparent, owing to the discriminatory judgments made by credit bureaus in assigning credit ratings.[19]

A 1971 survey of savings and loan associations by the Federal Home Loan Bank Board (FHLBB) revealed that 57 percent of the associations looked at credit reports for the previous 2 years or less; 34 percent considered the previous 3 to 5 years and 9 percent looked at the previous 6 to 7 years.[20] The survey also revealed that 26 percent of the associations sought information on arrest records, and 12 percent automatically disqualified applicants who had ever been arrested, whereas 14 percent disqualified applicants if they had been convicted. Because minority persons are arrested in disproportionate percentages, the disqualification on arrest records alone has a discriminatory effect.[21]

Similarly, 73 percent of the associations require information on previous homeownership, and 23 percent automatically disqualify applicants with "unsatisfactory answer(s)." Because minority persons are overwhelmingly not homeowners in metropolitan areas, this imposes an additional, undue burden on them.[22]

APPRAISALS

If a mortgage is needed by most families to buy a house, it also is true that the mortgage must be large enough. If not, families must either obtain a second mortgage, which can be expensive, or abandon their efforts to purchase the house they desire. The amount of the mortgage a lender will offer to an applicant is based largely on the appraisal, which determines the worth and marketability of the house. One traditional way of discriminating against minority homeseekers is through underappraisal of the houses they wish to purchase.[23]

Commission staff did not attempt to conduct an in-depth investigation of the extent to which discriminatory underappraisal was prevalent in Hartford. Instead, knowledgeable local lenders and borrowers were asked for their expert opinion. As expected, most stated that discriminatory underappraisal was not a common practice, that most homes were appraised at the sales price.

Officials of one lending institution and three brokers, however, reported that appraisal value was lower than the sales price in a substantial number of cases. In their view, this happened most often when the purchaser was a minority group member or when the house was located in an area of minority concentration.[24] Transitional neighborhoods—those in the

[19] See S.N. Sesser, "Big Brother Keeps Tabs on Insurance Buyers," *New Republic,* April 27, 1968, pp. 11–12.

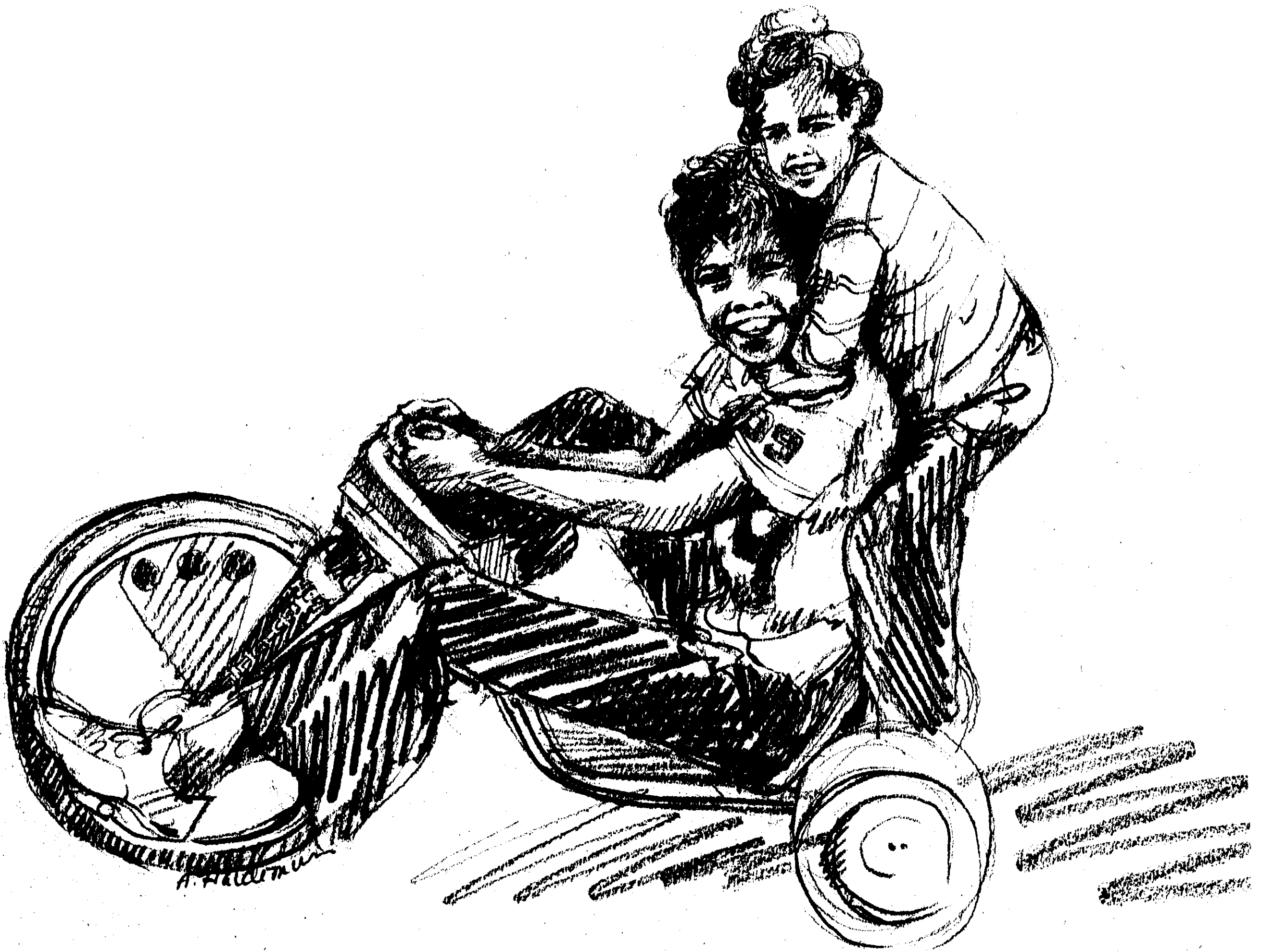
[20] Federal Home Loan Bank Board Survey (released March 1972). The FHLBB considered the results of the survey inconclusive, since it included only 74 of the 5,000 federally-supervised savings and loan associations.

[21] Figures taken from the Uniform Crime Report published by the Federal Bureau of Investigation in 1973 and interpolated with national population statistics show that the arrest record of blacks was more than three times that of whites in 1972 in proportion to their percentage in the population; Spanish speaking persons are included in the category "white."

[22] Only 34 percent of black families living in central cities and just 14 percent of the Nation's urban Puerto Rican families were homeowners in 1970. U.S., Department of Commerce, Bureau of the Census, *1970 Census of Housing: Detailed Housing Characteristics—Final Report,* no. HC(1)–B1, U.S. Summary (July 1972), p. 292. Also, U.S., Department of Commerce, Bureau of the Census, *1970 Census of Population: Puerto Ricans in the United States—Subject Reports,* no. PC(2)–1E (June 1973), p. 94.

[23] Underappraisal may be discriminatory in effect when it results in a lowered loan amount and a higher downpayment, thus forcing the homeseeker out of the market.

[24] According to the FHLBB survey, only 4 percent of the savings and loans use minority appraisers. Thus, the appraisers are overwhelmingly white and undoubtedly reflect the views of the associations: 30 percent of the associations "disqualify some neighborhoods



process of integrating—very likely fall into this category. They added that often the underappraisal was made without discriminatory intent, but rather on the basis of the traditional appraiser view that property values decline in minority and transitional neighborhoods.[25] They conceded, however, that sometimes the appraisals were the result of nothing more than the personal bias of the appraisers.

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from lending because they are low-income or minority-group areas" and 78 percent feel loans in such neighborhoods are "more risky than other loans." Additionally, 11 percent of the associations' appraisers use "different methods or factors" for such neighborhoods. For purchases in such areas, over a quarter of the associations require higher downpayments; 11 percent levy interest rates one-half of one percent higher, and almost a third give terms 7½ years shorter than loans for homes in other areas.

In May 1972 the Department of Housing and Urban Development (HUD), Office of Equal Opportunity, issued an initial report on a private lending institutions questionnaire. It showed that 18 percent of the associations surveyed refuse to make loans in areas with high minority concentrations.

The new FHLBB guidelines prohibit "redlining," the refusal to lend in a neighborhood solely because of minority concentration. "The racial composition of the neighborhood where the loan is to be made is always an improper underwriting consideration." 38 Fed. Reg. 34653 § 531.8(c).

[25] This traditional appraiser perception is prohibited by the new FHLBB guidelines: "Refusal to lend in a particular area solely because of the age of the homes or the income level in a neighborhood may be discriminatory in effect since minority group persons are more likely to purchase used housing and to live in low-income neighborhoods. 38 Fed. Reg. 34653 § 531.8(c).

Chapter 4
Sex Discrimination in Mortgage Lending

Unequal access to mortgage money for Hartford's minorities occurs largely by virtue of mortgage procedures and criteria which permit and even facilitate decisions based on personal bias and other factors not related to objective lending criteria. Whether because discrimination in mortgage lending is prohibited by both Connecticut and Federal law or for other reasons, lenders in Hartford do not generally admit that they reject applicants on the basis of their race or national origin. In fact, the criteria which govern whether mortgage applicants will be approved or disapproved are, at least on the surface, nondiscriminatory. To the extent discrimination does occur, it is subtle, often unconsciously practiced, and difficult to detect.

Discrimination on the basis of sex is a different matter.[26] Here, the major problem is not that mortgage procedures or criteria *permit* opportunities for decisions on the basis of discrimination. Rather, traditional mortgage lending criteria followed by Hartford mortgage lenders virtually *require* sex discrimination.[27] Under these criteria, women are automatically considered suspect risks.

If married and working, women's incomes are discounted for purposes of determining the family's eligibility for a mortgage. No matter how important their income is to the family budget, it is considered "secondary" for mortgage lending purposes, and the family's chances for a mortgage loan are decided largely on the basis of the husband's financial status.

If unmarried, women are viewed with great skepticism under traditional mortgage lending criteria. Regardless of their professional background or work experience, their status as unmarried women renders them suspect credit risks. Female heads of household who are separated or divorced also face unfavorable treatment by lenders. Separated women are in an ambiguous legal status in terms of debt liability, while both separation and divorce bear a traditional social stigma.

This chapter examines the barriers to homeownership only of those women who are economically capable of owning a home. The ability to purchase a house depends directly on household income, and on this point, women who are black, Spanish speaking, and white are at a severe disadvantage compared to men.[28] (See table 5.) Moreover, the impact of discrimination is felt doubly by black and Spanish speaking women who are penalized because of race and ethnicity as well as sex.

Sex discrimination in mortgage lending is not nearly as difficult to detect as discrimination

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[26] Sex discrimination in mortgage lending currently is not prohibited under Federal law. The Federal Home Loan Bank Board, which regulates Federal savings and loan associations, issued guidelines in December 1973 on nondiscriminatory lending practices with respect to age, sex, and marital status. 38 Fed. Reg. 34653. The Federal Deposit Insurance Corporation, which supervises most of the Nation's commercial banks, has had under consideration for well over a year, but has not acted on, the issuance of a regulation prohibiting sex discrimination in lending.

[27] In Connecticut, in June 1973, a State law was passed which prohibits discrimination on the basis of sex or marital status in credit transactions including mortgage lending transactions. Conn. Public Act 73–573. Evidence for this chapter was gathered prior to passage of this law; its impact has not been analyzed here.

[28] Median earnings of women in the Hartford SMSA in 1970 were only 47 percent of men's earnings.

TABLE 5—WOMEN'S EARNINGS AS PERCENTAGE OF MEN'S EARNINGS, 1969

	*Men**	*Women**	*Women's Earnings as Percentage of Men's Earnings*
White	$8,601	$4,084	47%
Black	5,809	3,280	56
Spanish speaking	6,606	3,621	55

Source: U.S., Department of Commerce, Bureau of the Census, *1970 Census of Population: Earnings by Occupation and Education—Final Report*, no. PC(2)–8B (January 1973), tables 1, 2, 7, 8.
* Ages 25–64

TABLE 6—MEDIAN INCOME OF FAMILIES WITH BOTH HUSBAND AND WIFE PRESENT, BY WORK EXPERIENCE AND RACE

	1959		1970	
Work Experience	*Dollar Amount*	*Black as Percentage of White*	*Dollar Amount*	*Black as Percentage of White*
Black, total	$3,534	62%	$8,032	82%
Only husband worked	3,025	58	5,965	66
Husband and wife worked	3,845	64	9,267	89
White, total	5,658		9,796	
Only husband worked	5,233		9,065	
Husband and wife worked	6,013		10,396	

Source: U.S., Department of Commerce, Bureau of the Census, *The Social and Economic Status of the Black Population in the United States, 1971*, P–23, no. 42 (July 1972), p. 34.
* Heads of household under 35 years of age only.

on the basis of race or national origin. Much of it is based on what lenders consider prudent and objective criteria. In Hartford, as elsewhere, sex discrimination is part and parcel of official bank policy.

This chapter will detail the various forms that sex discrimination in mortgage lending takes in Hartford. Women of different marital status—married, unmarried, widowed, separated, and divorced—are all viewed somewhat differently by the mortgage lending community. No group of women, however, has equal access to mortgage money.

THE WORKING WIFE

Married women are a substantial part of the Nation's labor force. The stereotyped pattern of women giving up their jobs once married to spend full time caring for the house and children clearly is no longer true. As of 1970, in two of every five families with husband and wife both present, both the wife and the husband worked. Increasingly, the working wife's income is being relied upon as a substantial and continuing part of a family's assets.

Important as a working wife's income is to families generally, it often is essential to minority families. As of 1970, in more than two-thirds of the Nation's black families with husband and wife both present, both worked. Table 6 demonstrates the importance of the wife's income to the economic well-being of black families.[29] Among families in which only the husband worked, black family income was less than two-thirds of that for white families. By contrast, among families in which both husband and wife worked, black family income was nearly 90 percent of the income for whites.

[29] Work experience and income data on two-earner Spanish speaking families are not available. However, median household income variation among the three groups would suggest that a similar pattern occurs in two-earner Spanish speaking households.

TABLE 7—EMPLOYMENT OF WIVES, BY RACE

	White		Black		Total	
	Number	*Percentage*	*Number*	*Percentage*	*Number*	*Percentage*
Sample	34		38		72	
Total wives employed	14	41%	22	58%	36	50%
Part-time	5	15	4	11	9	12
Full-time	9	26	18	47	27	38

Source: Commission staff interviews with home purchasers, Hartford, Conn., September 1972.

This nationwide pattern is reflected in Hartford. In 45 percent of white husband-wife households in the Hartford metropolitan area, and 60 percent of black husband-wife households, the wife works.

The importance of the working wife's income in achieving the goal of homeownership is shown by data from a sample of mortgage transactions in Hartford, for the years 1971–72.[30] As table 7 shows, in half of the 72 families in the sample, the wife worked. This was true for 41 percent of the white families and 58 percent of the black families.

These statistics strongly indicate that, to the extent mortgage lenders discount some or all of the working wife's income in determining whether to approve a mortgage loan application, all families necessarily are penalized. For minority families the penalty may be doubly severe because this form of sex discrimination, coupled with discrimination on the basis of race or national origin, effectively places minority women and their families in double jeopardy.

Traditionally, lenders have ignored the working wife's income in assessing a family's financial status. Recently, however, because of their growing recognition of the fact that married women are a substantial part of the labor force and because of pressure from various public interest groups,[31] they have come to count some portion of it. Nonetheless, the policies and practices of mortgage lenders still fall far short of fully accepting the income of working wives.

The 1971 survey by the Federal Home Loan Bank Board on practices of savings and loan associations showed that 25 percent of the respondents would not count any of the income of a wife, age 25, with two school children, who held a full-time secretarial position. More than half of the mortgage lending institutions would limit credit to 50 percent or less of her salary. Only 22 percent would count all of it.

The results of the survey not only show the overly conservative view of mortgage lenders toward a wife's income, but also demonstrate the lack of any uniform policy. This is reflected in Hartford. As table 8 illustrates, not only are there inconsistencies in policy among the nine Hartford lending institutions surveyed by Commission staff; but, even within the same institution, officers differ markedly in their view of a wife's income.

The refusal to credit the working wife's income is based on the unsupported assumption that to do so would increase the risk of default and subsequent foreclosure. In fact, to date no studies have controlled for this crucial variable. One study found, however, that as the percentage of family income earned by the husband decreased, the chance of a loan's being delinquent actually decreased

[30] Data gathered through interviews in 1972 with home purchasers. In only one instance was the female the head of the household. She was a nurse whose income was fully considered by the lenders.

[31] For example, a statement in opposition to the Federal National Mortgage Association's proposed guidelines restricting mortgage credit was issued in 1971 by 30 public interest groups including the National Organization for Women, National Association for the Advancement of Colored People, Center for National Policy Review, and Nonprofit Housing Center.

TABLE 8—LENDER POLICIES ON WIFE'S INCOME

Institution	*Official Interviewed*	*Policy*
1 (S&L)	President and vice president	100% allowance
2 (S&L)	Vice president	100% if over 35 and employed 2 or 3 years; if under 35, would take a "hard look"; might require a "baby letter."*
	Branch manager	100% if 29 or older, with no children and in a professional occupation.
	Branch manager	Requires professional occupation; would take a "hard look" at younger than 30.
3 (Bank)	Vice president	100% allowance
	Branch manager	50% allowance unless in a professional occupation, with no children and a "baby letter."
	Branch manager	75% allowance for a professional occupation if under age 30; less allowed for others.
4 (S&L)	President	50% allowance
5 (Bank)	Vice president	Depends upon the case
6 (Bank)	Vice president	100% allowance
	Branch manager	Does not count income from nonprofessional occupations.
7 (S&L)	Vice president	Depends upon the case
8 (Bank)	Vice president	Depends upon the case
9 (Bank)	Vice president	100% allowance

Source: Commission staff interviews with banking and savings and loan o__cials in Hartford, January–February 1973.

* The "baby letter" is a physician's statement attesting to sterility of husband or wife, their use of approved birth control methods, or their willingness to terminate pregnancy.

slightly.[32] Another more recent study, which related borrower characteristics to delinquency and foreclosure rates, found that none of the contributing factors related to the income of the working wife.[33] In short, there is no empirical evidence to support the widely practiced lender policy of discounting the working wife's income.

POLICIES OF CONVENTIONAL LENDERS

Age and Children.—A primary consideration in mortgage loan underwriting is the female wage earner's age. This is directly related to the probability of child-bearing. For example, a married woman in her twenties generally would not have more than 50 percent of her income counted, owing to the likelihood that she will bear children and, it is assumed, leave the labor force.[34] By contrast, 75 to 100 percent of the income of a married woman in her late thirties would qualify, according to Hartford lenders.

In addition to the wife's age, the number and

[32] Leon Kendall, *Anatomy of the Residential Mortgage Market* (Washington, D.C.: U.S. Savings and Loan League, 1964).

[33] John Herzog and James Earley, *Home Mortgage Delinquency and Foreclosure* (New York: National Bureau of Economic Research, 1970).

[34] Nationally, 38 percent of all women in the labor force have at least one child under 18 years of age. Forty-three percent of all ever-married women with children under 18 are in the labor force. U.S., Department of Labor, Bureau of Labor Statistics, *Marital and Family Characteristics of Workers: March 1972* (April 1973), p. A–18.

ages of children living at home are also considered. Lenders assume that families with young children will have additional children and discount the working wife's income accordingly. There are, however, exceptions. A married woman, even in her twenties, with no children may have all of her income counted, with certain documentation. This documentation, known in the lending trade as a "baby letter," consists of a physician's statement which attests to her or her husband's sterility, their use of approved birth control methods, or their willingness to terminate pregnancy.

Because of the absence of uniform institutional policy, the requirement of a baby letter depends entirely on the attitudes of individual loan officers. Branch managers in two lending institutions stated to Commission staff that they required the baby letter as a precondition to crediting all the income of a young wife. However, at the central offices of these same institutions opinion differed as to the need for these letters.[35] The lack of consistent policy and resultant confusion is illustrated by the following cases.

A young Hartford couple applied for a 90 percent loan on a $16,000 home. The husband earned approximately $10,000 a year; his wife, $9,500. Their only major long term obligation was a monthly $200 car payment. At first the savings and loan the couple applied to for a mortgage loan was reluctant to approve the mortgage based on the husband's income alone. In order to count the wife's income, the institution asked for a baby letter. The couple refused. Ultimately, the loan was approved, but the couple was never informed what part, if any, of the wife's income was counted.

In another case a married woman was asked by the broker-builder-seller of the property to file a baby letter, which she did. Subsequently, however, the lending institution assured her that no letter was on file. The institution also informed her that her income had not been counted. In this case the broker assumed that the wife's income was necessary and that a baby letter had to be presented. Neither assumption was correct.

Working wives with preschool age children are the least likely of any female subgroup to have their income fully counted towards maximum mortgage allowance. Lenders raise questions and make determinations relying on their own assumptions about the likelihood of more children, the costs of child care, and the length of time spent away from the job after childbirth. A branch manager at one savings and loan told Commission staff that his decisions on crediting a working wife's income are based, in part, on his observation that a woman usually does not return to work until a year after the birth of a child. During that time her income will not be available for mortgage payments. This attitude is common among Hartford lenders. They are reluctant to count more than 50 percent, if that, of a young mother's income, predicting that she will again become pregnant and drop out of the work force for at least a year during the early mortgage period.

The case of one young Hartford couple clearly illustrates the effect this policy has on the ability to purchase a home. The husband, 23 years of age, was a fifth grade teacher who earned an annual salary of $8,574. His wife, 22 years of age, was a secretary earning $5,600. They had two children, a 5 year old and an infant.

The couple first contacted a savings and loan in October 1972 and applied for a $16,150, 8 percent, 30-year mortgage on a house priced at $17,000. The wife was not then employed. Although the application was approved by the Mortgage Guaranty Insurance Corporation (MGIC),[36] it was subsequently rejected by the lender because the husband had cosigned an automobile loan for his brother.[37]

Two months later after the husband had removed his name as cosigner on the auto loan,

[35] At one lending institution, one vice president would require a baby letter while another would not. In general, executives at the central level in the lending establishments favored full inclusion of the wife's income, unlike more conservative branch managers.

[36] MGIC is one of a number of State-licensed private mortgage insurance companies which insure lending institutions against loss, generally on the top 20 percent of mortgage loans.

[37] The rejection and reason therefor were communicated orally to the applicants by their broker.

the couple reapplied to the savings and loan. By this time the wife had assumed a position as a full-time secretary with the University of Hartford. Several weeks later they received a second notice of rejection from the lending institution. This time the reason was that the wife was young, in her child-bearing years, and, therefore, likely to become pregnant and drop out of the work force.

This case illustrates the perplexing, sometimes erratic, behavior of mortgage lenders in processing applications from married couples. The fact that the application initially was approved by MGIC, although subsequently rejected by the lender, suggests that the couple was, at worst, a marginal risk for the mortgage they sought, even though the husband was subject to liability as cosigner on an auto loan and the wife was not then working. Two months later, the husband's liability as cosigner had been eliminated and the wife was working. Given these two new sets of conditions, the couple had good reason for optimism and resubmitted their application. Nonetheless, it was rejected. The fact that the wife now held a responsible, full-time position and earned a substantial income apparently counted for little in the lender's judgment.

Occupation.—Another consideration which lenders take into account in crediting the working wife's income is the type of job she holds. The income of women categorized as "professional" by lenders is counted more readily than that of women whose jobs are considered "nonprofessional." Although some central office lending officials interviewed by Commission staff insisted that type of occupation is not a determining factor in income allowance, most branch managers interviewed stated that they consistently differentiate according to professional and nonprofessional categories. A woman who is a store clerk or bank teller, for example, would not have as high a percentage of her income counted as a woman who is a business executive, teacher, or nurse. The presumptions are that professional jobs are stable, as are the women who hold them, whereas nonprofessional jobs are short term and unstable.

Type of occupation does not represent an independent factor considered by itself in determining whether and how much to credit the working wife's income. The wife's age and the number and ages of the children also figure in, and the various factors are weighed in an imprecise way that defies objective analysis. One lending institution official said that his rule of thumb in crediting wife's income was that, if the woman is in her child-bearing years, she must hold a professional position and, even then, not more than 50 percent of her income would be credited. He would not under any circumstances, however, count any income of a woman in her child-bearing years who held a blue-collar job.

A branch manager of another lending institution stated that he allows 50 percent credit toward the income of a working wife under 35 and 100 percent credit of a working wife over 35, regardless of the type of job she holds, provided that she has been employed for at least 1 year. Another branch manager of the same institution, however, stated that he would never allow 100 percent of the income of a female blue-collar worker. Jobs in that category, he said, are unstable.

The arbitrary character of the application evaluation with regard to wife's income is underscored in the following case. A Puerto Rican couple applied for a mortgage with a savings bank. They were both 29, childless, and had been schoolteachers for the previous 5 years, earning a joint income of $20,000 annually. The couple applied for a $16,000 mortgage on a $20,000 home but were told that their income was insufficient. They subsequently obtained a mortgage at a savings and loan where half the wife's income was counted, giving them an adjusted income of $15,500.

This case demonstrates two operational rules of conventional mortgage lending in Hartford. First is the arbitrary nature of lender decisions on counting a working wife's income. At the first institution, rejection on grounds of insufficient income clearly suggests that the income of the wife, who held a well-paying professional job, was totally discounted because, at 29, she was within child-bearing age. At the second institution half of the wife's income was counted. Secondly, this case reflects the traditional view of lenders that the income of the

working wife, under the best of circumstances, cannot really be relied upon. Even where credit was given to the wife's income, she was treated as half a wage earner rather than as a full wage earner.

POLICIES OF FEDERAL AGENCIES

Federal Housing Administration (FHA).—The FHA's policy on giving credit to the wife's income traditionally differs somewhat from that of conventional lenders. FHA policy is to count either all of the wife's income or none of it. By the mid-1960's, according to FHA records, all of the wife's income was counted in 75 percent of the FHA mortgages made where both husband and wife worked. Today, this figure approaches 90 percent. The significance of these statistics must be qualified by the fact that they apply only to mortgages that were actually made. FHA does not maintain records on unsuccessful mortgage applicants. Thus, there is no way of knowing how many families were unsuccessful in obtaining an FHA mortgage because the wife's income was discounted.

The standard used by FHA in crediting the income of working wives is that "income and motivating interest may normally be expected to continue throughout the early period of mortgage risk."[38] The underwriting manual still addresses somewhat conservatively the risk involved in basing net effective income on two wage earners.

> When the effective income is derived from dual sources of occupational income, as in a case when both husband and wife are expected to be employed during the early period of mortgage risk, risk due to possible reductions in total occupational income frequently will be increased because of the greater probability that one or the other mortgagor may suffer a loss of income. This factor of risk is of particular importance when the dual income is represented by the salaries of young married couples.[39]

On the relationship between the income of the working wife and pregnancy, FHA softens its position:

> The principal element of mortgage risk in allowing the income of working wives as effective income is the possibility of its interruption by maternity leave. Most employers recognize this possibility and provide for maternity leave, with job retention, as an inducement of employment. With strong motives for returning to work any failure to do so after maternity leave would represent such a very small percentage of volume that it could be accepted as a calculated risk.[40]

The "strong motive" standard, however, is vague and open to individual interpretation.

FHA policy, while liberal at the national level, is implemented at the local level according to the facts of each case, thereby permitting wide latitude in the exercise of judgment by individual FHA officials. This local autonomy causes some disquiet and misunderstanding among the real estate community. For example, despite the high national percentage of mortgages made in which the income of both husband and wife is counted, two brokers in Hartford believe that FHA will not count the income of a married woman under age 36. The brokers' belief is not groundless because the mortgage table on which many local brokers and lenders rely states, incorrectly, that FHA will not count the income of a wife under 32 years of age.[41]

Veterans Administration (VA).—Until very recently, the Veterans Administration treated wives' income more restrictively than the FHA. In February 1973, the *Washington Post* published an article which alleged that a lender required a veteran and his wife, who were applying for a GI loan, to disclose their method of birth control through a physician's statement and to take measures to prohibit conception and/or terminate pregnancy in order to qualify the wife's income.[42] In response to this incident,

[38] U.S., Department of Housing and Urban Development, *Mortgage Credit Analysis Handbook for Mortgage Insurance on One to Four-Family Properties* (1972), sec. 1–22. See also, U.S., Commission on Civil Rights, *Housing, Report for 1961*, vol. 4, ch. 3.

[39] *Mortgage Credit Analysis Handbook*, sec. 2–21.2.

[40] Ibid., sec. 1–22.b.

[41] Mortgage Guides, Inc., *The Mortgage Guide* (Portland, Oregon: 1962). The table summarizes FHA guidelines in use in 1962.

[42] *Washington Post*, Feb. 24, 1973, p. A–1. See also letter from Carol K. Lewicke to the Federal Trade

the Veterans Administration issued a circular to its field stations which attempted to establish guidelines on treatment of wives' income.[43] The circular denied the foregoing allegations:

> . . . it is not now and never has been the policy of the Veterans Administration to request or demand veterans and their spouses to make any such disclosures. . . .

Further on, it qualified this assertion by saying:

> If such a medical statement (supporting evidence that a couple are unable to have children) is voluntarily submitted by the veteran to the lender, it cannot very well be refused upon receipt in VA. However, . . . VA would prefer that any such statements received by builders and lenders be retained by them.

The circular's counsel on the treatment of wives' income was just as ambiguous:

> A proper conclusion that the wife's income may be considered toward the repayment of the loan obligation requires a determination as to whether her employment is a definite characteristic of the family life; i.e., a condition which normally may be expected to continue. Her entire income may be included if it is derived from steady employment and her age, the nature and length of her employment, and the composition of the family indicate it is reasonable to conclude that such income is likely to be reliable in the future. Unless that condition is met, only such portions of the wife's income as is determined to be reasonable may be considered.[44]

On July 18, 1973, however, the Veterans Administration approved a new circular stating "in consideration of present-day social and economic patterns, the Veterans Administration will hereafter recognize in full both the income and expenses of the veteran and spouse in determining the ability to repay a loan. . . ."[45] All of the VA's regional offices have been instructed that they should no longer discount income on account of sex or marital status in making this determination.

Commission, Bureau of Consumer Protection, Dec. 20, 1972, available in Commission on Civil Rights files.

[43] U.S., Veterans Administration, Department of Veterans Benefits Information Bulletin no. 26–73–1, Feb. 2, 1973.

[44] Ibid.

[45] U.S., Veterans Administration, Department of Veterans Benefits Circular no. 26–73–24, July 18, 1973.

The Federal Home Loan Bank Board.— Responding to a 3-year drive by 13 public interest groups, the Federal Home Loan Bank Board issued potentially far-reaching guidelines in December 1973 on nondiscriminatory lending practices. The guidelines caution against practices which may result in discrimination even without actual intent to discriminate. They state that "each loan applicant's credit worthiness should be evaluated on an individual basis without reference to presumed characteristics of a group."[46]

The guidelines describe those underwriting decisions as discriminatory which distinguish credit-worthiness on the basis of age, sex, and/or marital status. The discounting of a working wife's income may result in discrimination against race as well as sex, they argue, because of the greater reliance of the minority family on the wife's income for housing and other necessities.

THE SINGLE WOMAN

The women with the greatest difficulty in gaining access to mortgage finance are single women—unmarried, widowed, separated, or divorced women. Each is treated somewhat differently by mortgage lending institutions, but for all it is their status as women who are not part of a male-headed household that is of greatest significance to mortgage lenders.

Bias against the single individual is evident in the FHA's underwriting manual:

> The mortgagor who is married and has a family generally evidences more stability than a mortgagor who is single because, among other things, he [she] has responsibilities holding him [her] to his [her] obligations.[47]

Thus, unmarried persons—men or women—are at a disadvantage in seeking to obtain a mortgage. This disadvantage, however, is not shared equally by men and women.

A widely held view in the mortgage lending community is that single women must present a stronger paper position than single men. Their credit and income must be more secure than

[46] 38 Fed. Reg. 34653 § 531.8(b).

[47] *Mortgage Credit Analysis Handbook*, sec. 2–7a.

those of men of the same status, and their credit histories must be more closely scrutinzed. As a result, the filtering process is applied more rigidly at each stage of the mortgage application procedure, from broker to branch manager to formal application. The myth generating this stringency holds that the female is inherently unstable and incapable of conducting her own affairs. She allegedly needs the protection of a male, usually a husband or father. In the lending industry the myth translates into a reluctance to grant a woman a mortgage loan outright and often, a requirement of an assumption[48] or a male cosigner.

A peculiar consequence of the theory that women need protection is the lenders' disinclination to grant a loan to a woman who wants to purchase a multifamily dwelling, reasoning that she would be unable to perform the necessary maintenance. Normally, "a man would do the repairs himself whereas a woman has to hire someone," one lending official argued. According to this official, VA policy is even stricter than his own. He cited the case of a widow who worked part time and received social security. She wanted to buy a multifamily property. He approved the loan, but VA rejected the application on the ground of insufficient income. Based on his previous experience with VA, the lender felt that this excuse was used to camouflage the true reason for rejection, which was the repair issue.

THE UNMARRIED WOMAN

In the case of an unmarried younger woman, the principal reason cited for denying mortgages is the likelihood of marriage and pregnancy, and consequent shift in economic status, which serve as risk factors. One broker told Commission staff that in his experience, of all categories of single women, the young unmarried woman has the most trouble securing a mortgage.

Another broker said that the only way an unmarried woman can get a mortgage is through an assumption. He tried unsuccessfully to secure financing on a home for a professional woman who had worked for 23 years. Such failures not only disappoint the individual; they also influence the real estate community to discourage similar clients. Assumptions, however, are considered a safety device; should the woman default, the institution can hold the principal mortgagor liable.

Policies vary both among and within institutions with regard to unmarried women. Officials of lending institutions at the central level generally stress length of employment, while branch managers and brokers emphasize age of applicant and type of job. One branch manager went so far as to assert that an unmarried woman could obtain a loan only if she had a professional career. The marginal case, according to a loan officer, would be that of the older, unmarried woman in a nonprofessional occupation, such as a waitress or store clerk, and with only a modest downpayment. Even if she has a reasonably long record of employment, it is unlikely that she would be approved for a home mortgage, he said, because her employment is considered unstable.

THE WIDOW

The widow applying for a home loan generally has a better chance of obtaining it than other single women. She more often can rely on life insurance proceeds, social security payments, or settlement on an estate to provide a healthy downpayment and assure a regular income. One lending official said that although widows represent a variety of ages and economic circumstances, if they have a sufficient downpayment and a guarantee of regular income, their prospects for homeownership often are relatively bright.

THE SEPARATED WOMAN

In Hartford, the separated woman, particularly if informally separated, is in an awkward position in trying to purchase a home. Under Connecticut law, a husband is liable for his "wife's reasonable support while abandoned [by him]."[49] The husband's liability extends

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[48] In an assumption, ultimate responsibility rests with the original mortgagor. The second mortgagor takes on, or assumes, payments of the original loan.

[49] 22 Conn. Gen. Stat. Ann. Ch. 809, § 46–10 (1949).

even to cases where the wife has an independent income.

One of the primary concerns of lenders in making a mortgage loan is assurance of unambiguous liability. For this reason, the informally separated woman falls into a high risk category. If she were approved for a mortgage loan and then defaulted on payments, lenders could not be certain that the husband would be required to make the payments, even assuming he were financially able to do so. The reason for uncertainty is that the husband's liability exists only if the separation results from his abandoning the wife, not from her abandoning him. Thus, under an informal separation arrangement, the lender could not be entirely sure that the husband was liable.

Under formal separation, the legal rights and liabilities are much clearer. In Connecticut, legal separation carries all the conditions of a divorce except that the parties are not yet free to marry again. Neither party is liable for the debts incurred by the other, and a wife's right to alimony, support of children, and financial allowances are specified by the court. For this reason, one mortgage company requires proof of legal separation as a condition to considering separated women for a mortgage loan.

Other mortgage lenders simply will not deal with separated women at all, whether the separation is formal or informal. The vice president of one savings and loan association flatly stated that, because of ambiguous liability, separated women are not eligible for mortgage loans from his institution.

Despite the fact that FHA policy generally weighs heavily against separated women, in a recent case in Hartford, the local FHA office did approve a separated woman for a loan under the section 235 program.[50] Initially, her application was not processed because she was only separated, not divorced, from her husband. FHA counsel, however, reversed the decision because in his view there was no question of ambiguous liability, arguing that State law permits a wife to own property with clear title in her name even when informally separated from her husband.

Aside from the problems associated with their legal status, another reason why separated women have difficulty obtaining mortgages is that their status allegedly reflects domestic strife. For example, the Federal Housing Administration, traditionally skeptical of discordant marital relationships, states in its underwriting manual:

> It has been demonstrated that inharmonious domestic relationships are an important cause for foreclosure. The determination as to this risk will be dependent upon recognition of items in the credit report and personal history of the mortgagor which give evidence of family discord, pending divorce suits, reconciliation after initiation of divorce suits, and other items which point to unstable family conditions.[51]

This policy underscores the stigma imposed on "domestic strife" and is especially unfair to women who continue a long and stable informal separation. It is contradicted by a recent study that found no statistically significant relationship between marital status and loan delinquency or foreclosure.[52]

THE DIVORCED WOMAN

The divorced woman also has considerable difficulty in obtaining a mortgage, both because of the alleged probability of an unstable economic situation and because of her social position. Her financial circumstances are often complex: she may rely on alimony, child support, or an independent income alone, or any combination of these sources.

The divorced woman who has a substantial work history and a separate source of income will be treated as any other single woman. Differential treatment occurs when alimony or child support payments are listed as contributing and fundamental sources of income.

Lenders generally will not rely on support payments which are not court ordered even if

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[50] Title I, Section 235, of the Housing and Urban Development Act of 1968 provides subsidies in the form of interest reduction payments to mortgage lenders on behalf of lower-income families to enable them to purchase their own homes

[51] *Mortgage Credit Analysis Handbook*, sec. 2–7.

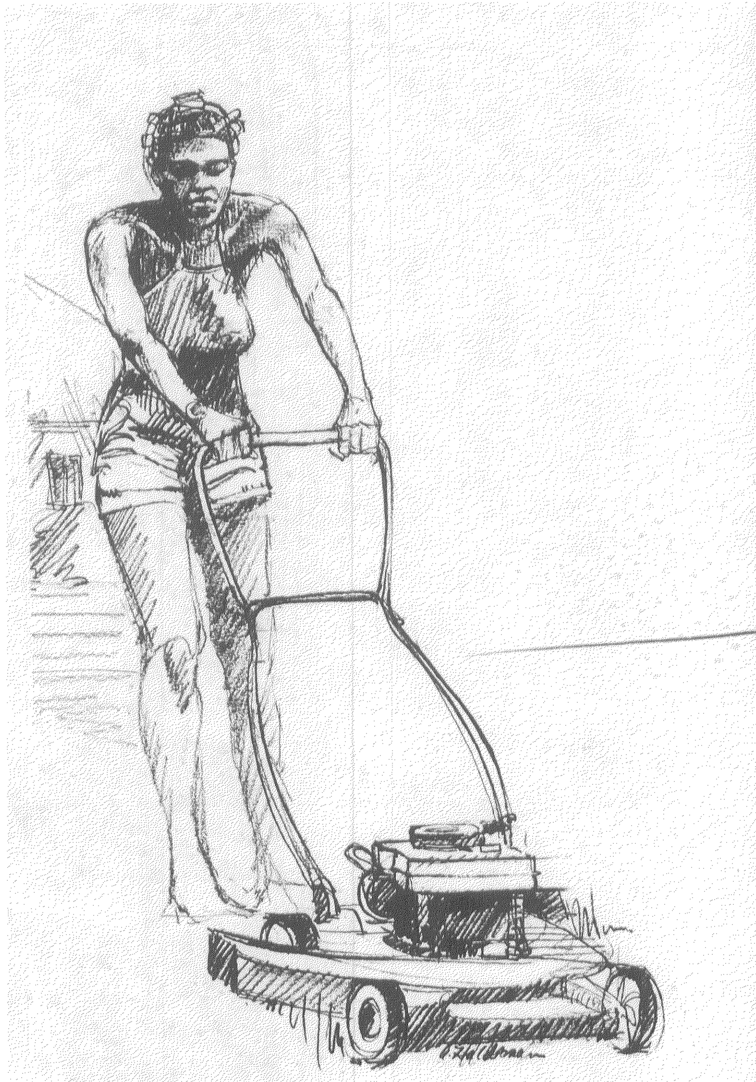
[52] John P. Herzog and James S. Earley, *Home Mortgage Delinquency and Foreclosure* (New York: National Bureau of Economic Research, 1970).

there is a long history of reliable payments.[53] One lender stated, however, that the pattern of payments would determine their inclusion in total income. The divorcee whose support is court ordered, and her sole source of income, has a fair chance of negotiating a loan if she can make a reasonable downpayment or obtain private mortgage insurance, and if her total support can sustain the monthly payments.

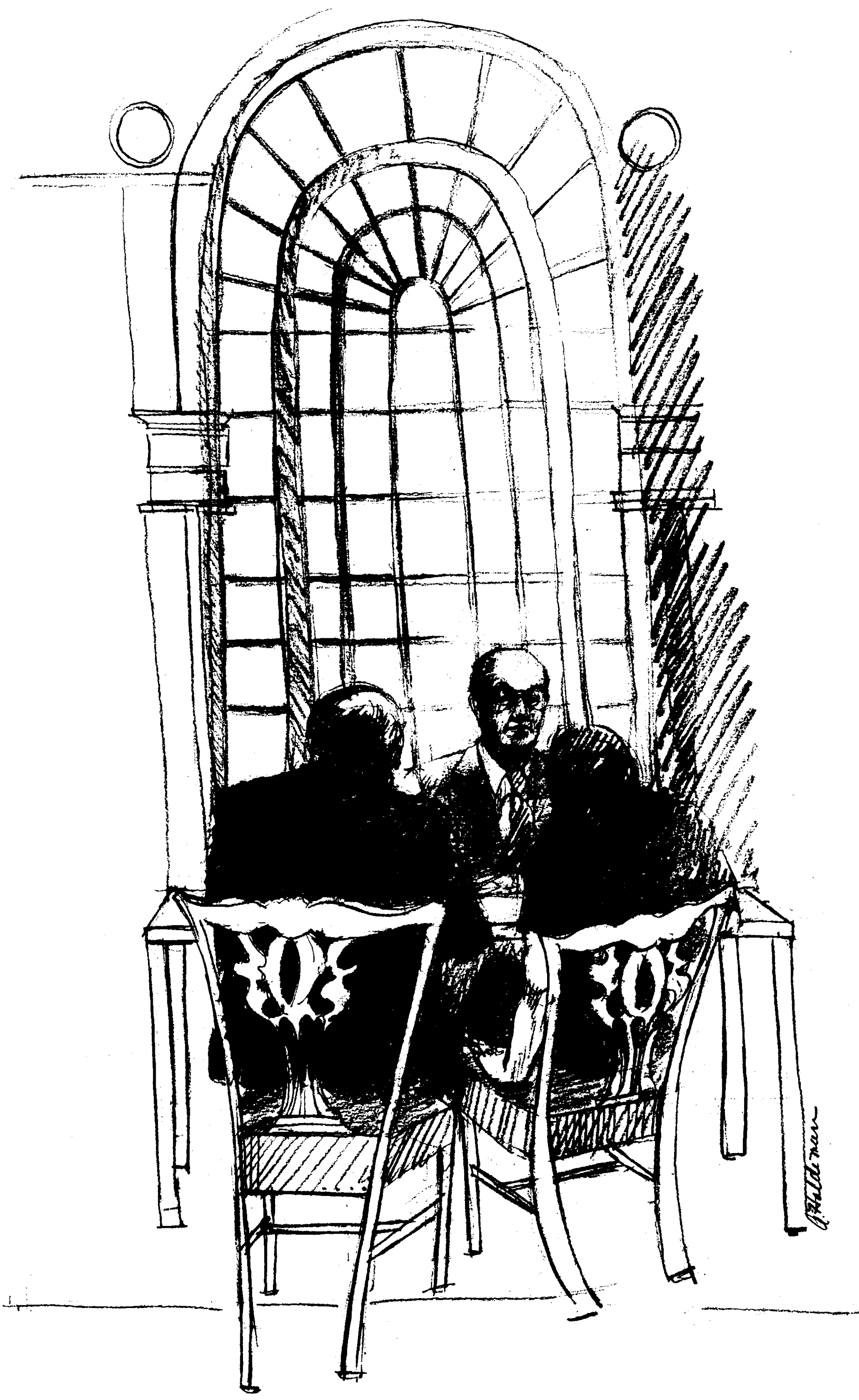
Credit ratings are a significant factor in mortgage applications, and a divorced woman finds establishing credit particularly difficult if she does not have her own credit rating already. A divorcee shares the taint of any adverse information in her former husband's rating, even if she paid their bills promptly. Thus, any negligence on his part would impair her effort to secure independent credit.

Even when income and credit ratings are sound, divorced women still may be turned down arbitrarily for mortgages as in the following case. A 51-year-old divorcee with no dependents, working as a supervisor at an insurance company in Hartford, sought to purchase a three-bedroom, two-bath house in November 1971. The asking price was $21,500; the sales price was $20,000. At the time, her annual income was $8,600, and she had worked at the insurance company for 15 years. Her credit standing was excellent and she maintained two department store charge accounts. She was willing to put $5,000 down, thus applying for a $15,000 mortgage.

She tried to apply for a mortgage at the main offices of four lending institutions. At one savings and loan she was told not to fill out an application because she was "not qualified" and the loan committee would not approve it. No explanation was offered as to why she was not qualified. At two others she was told that she did not "fit their formula," i.e., 30 percent of income for housing expenses. Having been turned down by three institutions, she went to a fourth, a savings and loan, and obtained a 25-year, 7½ percent mortgage.



[53] This criterion has no basis in fact because support, whether or not court ordered, is infrequently paid. For instance, the Citizens Advisory Council on the Status of Women has reported that in Wisconsin in 1972 only 13 percent of ex-spouses were in full compliance 10 years after the settlement; 70 percent had discontinued support altogether.



Chapter 5
Employment in Hartford Lending Institutions

The policies and practices of Hartford lending institutions discussed earlier operate with a discriminatory effect on minorities and women seeking mortgage loans. Many of these policies and practices are not overtly or consciously discriminatory but are viewed by the lending community as necessary elements of prudent banking. In fact, they can be traced to long-standing bank tradition and are based on certain assumptions concerning the subordinate role of racial minorities and women in society.

Banking traditionally has been a profession dominated by white males. Those in positions to make bank policy have been white males, and the policies they have established have been geared to facilitate credit for white males. Racial minorities and women rarely have been in positions to change or even influence these policies.

Title VII of the Civil Rights Act of 1964 [54] prohibits discrimination in employment, and all lenders in Hartford are covered by this statutory prohibition. The Commission examined the employment records of four Hartford mortgage lending institutions to determine minority and female representation generally and their representation in decisionmaking positions.[55] (See tables 9 and 10.) The basic findings of this examination are:

- Women are abundantly represented as employees of these institutions but almost entirely in low-level positions which carry no authority to influence the policies of the institutions.
- Applying the discriminatory occupational criteria which these lenders use in weighing a woman's mortgage application, these women would not qualify for a loan from the very institutions which employ them.
- Minorities—men and women—are grossly underrepresented in any positions with these lending institutions but especially in decisionmaking positions.[56]
- Of equal importance, the situation has not appreciably improved over the 3-year period between 1969 and 1972.

During this period the number of women employed at these institutions increased by 198, all in office, clerical, and service jobs. The number of female officials, managers, and professionals declined by one, although the total number of such positions increased by 29. The number of minority women working as officials, managers, and professionals increased from one to five. The number of minority men in such positions declined, from five to four.

The number of office, clerical, and service employees increased by more than 260 positions from 1969 to 1972, but the great majority of new employees (75 percent) were white women. The institutions employed an additional 64 white men in this category but added only 3 minority females and 8 minority males.

In 1969, women constituted 58.4 percent of

[54] 42 U.S.C. 2000 e–2.

[55] Data for one institution cover only the main branch for 1971 because there were no comparable data for 1969. The inclusion of this institution does not distort the interpretation because it shows the same patterns as the other institutions. For convenience, the 1971 data are treated as though they were for 1969.

[56] The May 1972 HUD Private Lending Institutions Questionnaire showed that 10 percent of the employees in 50 cities were minority employees, with 4 percent of the decisionmaking positions being filled by minorities and 12 percent of the cashiers and tellers being minority members.

the employees and by 1972 this figure had increased to 59.7 percent.[57] But, whereas in 1969, 6 percent of the female employees were officials, managers, or professionals, by 1972 this figure had declined to less than 5 percent.[58]

The comparative statistics between 1969 and 1972 of minority and female employment by Hartford lenders do not suggest that substantial progress is being made. Until minorities and women are more adequately represented in positions to determine or influence lending policy, it is unlikely that the policies and practices that serve to discriminate against these two groups of homeseekers will be changed.

[57] The percentage of female employees who were minority women remained constant at 2 percent both years.

[58] Minority women increased their percentage in this group from just under 2 percent in 1969 to 9 percent in 1972.

TABLE 9—OFFICIALS, MANAGERS, AND PROFESSIONALS, BY RACE AND SEX, FOUR HARTFORD MORTGAGE LENDERS

	1969	*1972*	*1969–72 Change*
Total number	353	382	29
Women	56	55	—1
Minority women	1	5	4
Black	1	3	2
Spanish speaking	0	1	1
Asian American	0	1	1
Men	297	327	30
Minority men	5	4	—1
Black	5	4	—1
Spanish speaking	0	0	0
Asian American	0	0	0

Source: Commission staff review of employment records of four Hartford mortgage institutions, April 1973.

TABLE 10—OFFICE, CLERICAL, AND SERVICE WORKERS, BY RACE AND SEX, FOUR HARTFORD MORTGAGE LENDERS

	1969	*1972*	*1969–72 Change*
Total number	1,250	1,513	263
Women	878	1,077	199
Minority women	19	22	3
Black	17	18	1
Spanish speaking	2	3	1
Asian American	0	1	1
Men	372	436	64
Minority men	51	59	8
Black	44	44	0
Spanish speaking	5	11	6
Asian American	2	4	2

Source: Commission staff review of employment records of four Hartford mortgage institutions, April

Chapter 6
Summary and Conclusions

This report has examined mortgage lending policies and practices in Hartford, Connecticut, that bear on homeownership opportunities for minorities and women. The Commission's purpose has not been to uncover individual instances of discrimination but to answer this question: If left to operate in accordance with traditional banking processes and standards, will the system of mortgage finance in the city assure fair treatment for minorities and women? The basic finding of this report is that it will not. For minorities and women, the mortgage finance system is a stacked deck—stacked sometimes inadvertently, often unthinkingly, but stacked nonetheless.

As the Commission and other agencies and organizations have documented, mortgage lending traditionally has been a closed community, operated largely by white male decisionmakers, and its standards have been geared to facilitate service to white male customers. Minorities and women have had great difficulty in joining this community, either as decisionmakers or customers.

The principal problem for minorities in the past was overt discrimination. Regardless of their personal or financial worth, minorities, simply because of race or national origin, were considered less desirable risks than whites. Moreover, it was deemed virtually unthinkable to provide them mortgages for houses in nonminority areas. In the past, these discriminatory policies were openly admitted by representatives of the mortgage lending community and stoutly defended as essential elements of prudent banking, even by agencies of the Federal Government charged with responsibility for supervising and regulating mortgage lenders.

Since the enactment of Title VIII of the Civil Rights Act of 1968, mortgage lending discrimination on the basis of race or ethnic origin has been unlawful. Public pronouncements advocating such discrimination are now rarely heard. It is unlikely, however, that the traditional banking attitudes and perceptions about minorities, which developed and hardened over decades, have changed substantially in the 6 short years since Title VIII was enacted. The fact that mortgage lenders no longer openly avow discriminatory practices does not mean that they no longer engage in such practices. Rather, it suggests that they have gone underground.

In examining the mortgage lending system as it relates to minorities, the Commission's principal concern was to determine the extent to which safeguards were provided to assure against decisions based on racial or ethnic discrimination rather than on objective credit criteria. It also sought to determine whether the system afforded sufficient opportunity for minorities subjected to discrimination to have their grievances redressed. The Commission found that the mortgage finance system in Hartford not only lacks sufficient safeguards to assure against discriminatory decisions but facilitates discriminatory rejection of minorities. The Commission also found that the system affords little opportunity for such decisions to be reversed.

The process of obtaining a mortgage is arduous for everyone. But running the three-stage gauntlet required to obtain a loan is even more difficult for minorities. Before reaching the final stage of formal submission of a mortgage loan application to the loan committee,

minorities must first clear two formidable obstacles: the real estate broker and the loan officer. Each of these first two stages carries broad opportunities for discriminatory or other irrational rejection.

Brokers may reject minority applicants on the basis of their own bias. Further, because brokers seek to stay in the good graces of lending institutions, they prefer not to refer questionable applicants who may not qualify or, if approved, may default on the mortgage payment. Thus, brokers may reject minority applicants because they think, rightly or wrongly, that the lending institution frowns on minority applications, or because they misunderstand the criteria used by the lending institution. Moreover, this stage of the transaction is entirely informal. Rejected minority applicants usually are merely told that they do not qualify for a mortgage loan and the matter ends there.

Even if minority applicants clear the hurdle of the broker, they are still one difficult step away from a formal application. The second hurdle is the loan officer, who also handles the transaction on an informal basis. The loan officer's decision to recommend or discourage submission of a final mortgage loan application is based upon a number of factors, including some that are highly subjective, such as motivation, character, and the quality of the applicant's domestic life. Furthermore, loan officers, whose opportunities for career advancement depend in part on the default rate on applications they refer for approval to the loan committee, prefer to err on the side of extreme caution. Indeed, they are reluctant to accept applications which they feel may be rejected by the loan committee, since this reflects adversely on their judgment.

Even criteria that appear objective on the surface often turn out on closer examination to have subjective factors that discriminate against minorities. Criteria such as the maximum permissible ratio of monthly payment to monthly income, the definition of income, credit standards, and appraisals are applied inconsistently by Hartford lenders and have the effect of screening out qualified minority applicants.

Thus, the system of mortgage finance, represented by the screening process and the subjectivity of many of the criteria on which qualifications are measured, affords ample opportunity for discriminatory rejection of minorities. Even though discrimination in mortgage lending may have gone largely underground since enactment of Title VIII, the Commission's assessment of the policies and practices of Hartford lenders offers little assurance that such discrimination has ceased to exist.

While discrimination against minorities by Hartford lenders is subtle, discrimination against women is blatant. Minority women suffer the double effect of both sex and race discrimination.

Women as a class, unlike minorities, are unprotected against discrimination in mortgage lending under Federal law. Connecticut and a number of other States now prohibit sex discrimination in credit transactions, but women, by their very status as women, nevertheless are openly considered questionable risks by mortgage lenders. Their treatment varies, depending upon whether they are married, unmarried, widowed, separated, or divorced, but none receives treatment equal to that received by men.

The income of married women, a substantial percentage of whom are gainfully employed, is considered "secondary" and rarely credited more than 50 percent, if at all, in determining a family's financial status. This policy works considerable hardship on all families for whom the wife's income is essential. However, it compounds the problems of minority families, a substantial percentage of whom rely on the wife's earnings to meet their needs. The policy of discounting some or all of a working wife's income has a doubly discriminating effect on these families, as they are thus penalized because of both race and sex.

The policies of mortgage lending institutions on the discounting of a working wife's income vary widely from institution to institution and frequently within the same institution. Some general standards do exist, however. The most favored working wife is beyond child-bearing years, holds a job considered "professional,"

and demonstrates a consistent pattern of continued employment. She has a good chance of having all or most of her income credited by the mortgage lending institution.

The least favored working wife is the young woman of child-bearing years, who may have young children, and who holds a job considered "nonprofessional." This class of working wives is viewed skeptically by the mortgage lending community as "unstable." Certain assumptions are made about her regardless of her real situation. One is that, if she has no children, she is likely to and will leave her job, at least for a time, thereby reducing the family income. Another is that, if she already has young children, she is even more likely to have additional children. Again, she allegedly will leave her job, at least for a time. The third assumption is that her "nonprofessional" job is unstable and that somehow makes her unstable. These assumptions add up to a composite picture of a person in whom lending institutions place little reliance. Therefore, her income is automatically discounted, either substantially or entirely. Moreover, whether the family is approved or disapproved, they frequently never learn if, or to what extent, the wife's income was credited.

The single woman has great difficulty in gaining access to mortgage finance. The fact that she is without the protection of a male makes her suspect to the lending community as a credit risk. The image of women as "weaker vessels" also makes lending institutions reluctant to approve mortgage loans, particularly on multifamily dwellings, on grounds that women are unable to perform the necessary maintenance.

The young, unmarried woman has the most trouble securing a mortgage, principally because of the assumption made by lenders that she will marry, have children, and stop working, thereby reducing her economic status.

The widow generally is in a more advantageous position, since she often can rely on life insurance proceeds, social security payments, or the proceeds of her husband's estate to provide a healthy downpayment and assure a steady income.

The separated woman is in an awkward position in seeking to obtain access to mortgage finance. One reason for this is her uncertain legal status for debt liability, particularly if the separation is informal. Another reason is that her status is assumed to reflect domestic strife, an added suspect factor, according to lenders.

The divorced woman also has considerable difficulty obtaining a mortgage, both because of the alleged probability of an unstable economic situation and because of the social stigma attached to divorce. If her support is court ordered, her chances for obtaining a mortgage are enhanced. If not court ordered, they are diminished. Furthermore, unless she has established independent credit, any adverse information in her former husband's credit rating reflects on her and further diminishes her chances to obtain a mortgage.

The Commission also inquired into employment of minorities and women by Hartford mortgage lenders, particularly in decision-making positions. It found that, while women constitute a majority of the employees at the institutions surveyed, few occupy positions in which they can determine or influence lender policy; the vast majority, in fact, are in clerical and service occupations. Blacks and Puerto Ricans—both male and female— are scarce in every level of mortgage finance institutions.

The system of mortgage finance in Hartford, under which minorities and women are inequitably treated, reflects a reluctance by the lending community to alter traditional policies and standards, even though many are unrealistic and others facilitate illegal acts. Discrimination on the basis of race or ethnic origin is prohibited under Federal and State law, but the mortgage lending community adheres to a system under which such discrimination persists, unabated and undetected. Sex discrimination in mortgage finance, although not yet prohibited by Federal law, is prohibited by laws recently passed in several States, including Connecticut, and is totally at odds with the reality of modern-day America in which women are an increasing and substantial part of the labor force. Yet mortgage lending institutions cling to images of women as un-

stable, unreliable, and in need of male protection.

Reform is clearly needed. One alternative is for mortgage lending institutions, themselves, to reexamine their policies and institute the changes necessary to assure that minorities and women are treated equitably. The Commission, however, recognizes the severe limitations of relying on voluntary reform. The agencies that supervise and regulate most of the mortgage lending institutions in Hartford and throughout the country should, therefore, require that the needed reforms be instituted.

On several occasions in recent years, the Commission, other Federal agencies, and private groups have sought to point the direction for such reform. These recommendations are still valid. Lending institutions should be required to maintain records of the race or ethnic background and sex of mortgage applicants and persons who make oral inquiries about home loans. Such data is urgently needed as a basis for uncovering and correcting patterns of discrimination. Otherwise, the burden of redress rests entirely on the complaint process, a most inadequate means of remedying discrimination. The regulatory agencies, especially the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board which have considered such a requirement, should move with speed to require member institutions to initiate an effective data collection system.[59]

Another way to generate reform is to require lenders to provide homeseekers with written statements of the criteria used in determining their eligibility for a mortgage. Lenders also should be required to notify in writing rejected applicants and persons advised against making application, informing them of the reasons for their rejection. These steps would discourage loan officers from arbitrarily dissuading or rejecting applicants, as such actions would be matters of public record.

Examiners from the financial regulatory agencies should be charged with the responsibility of detecting discrimination by lenders. To this end audits and examinations of lender practices must be expanded. In particular, the Federal Home Loan Bank Board should establish a monitoring system to assure that its newly established guidelines are being followed.

Title VIII of the Civil Rights Act of 1968 (the Federal Fair Housing Law) must be amended to prohibit discrimination based on sex. Single women and working wives could then more easily fight sex discrimination in the courts.

Unless these measures are instituted, equal housing opportunity will remain for most minorities and women a slogan without substance.

[59] The Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Federal Home Loan Bank Board recently have implemented an experimental program to collect racial and ethnic data over a 6-month period in 18 cities during 1974. The objective is to develop a recordkeeping requirement for racial data on the disposition of mortgage loan applications. The information required under the experiment includes the applicants' age, sex, marital status, and financial situation.

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