



## Loan and Underwriting Content Committee

### Committee Charge

America's housing and mortgage markets are in the midst of a dramatic transformation. After generations of discrimination and disinvestment, low-income and minority borrowers and neighborhoods have been recast as the growth potential for homeownership and mortgage lending. In a movement that seems to reconcile socioeconomic equity with the imperatives of profitability in a competitive and turbulent industry, mortgage lending has emerged as a key to revitalizing neighborhoods, opening access to housing markets, and promoting household wealth accumulation. These changes, and favorable employment and interest rate environments, have yielded considerable progress in lending to borrowers and neighborhoods that were traditionally excluded from homeownership. That said, this "transformation" is in progress and challenging work is still ahead if we are to fully realize the social and economic benefits that can be accomplished through expanded homeownership opportunities.

The charge of the Loan and Underwriting Content Committee is examine various aspects of mortgage lending industry including the loan application and underwriting process and to develop prioritized strategy recommendations for system changes that would increase access to mortgage financing in communities of color. Strategies should include an estimate of the resources needed to implement each strategy and identify an "owner" of each strategy that will move it towards implementation.

### The Challenge

The mortgage lending industry is complex and competitive. If commitments to service underserved markets are to succeed they must be institutionalized and consistently reinforced by senior management. We offer the following topic areas for consideration as the Loan and Underwriting Content Committee deliberates on the issue of increasing access to mortgage financing.

- **Institutional Management**

While it may appear obvious, an important prerequisite for reaching communities of color is a clear, high-profile management commitment to expand homeownership opportunities in these communities. A commitment that is reflected in corporate goals and reinforced through diversity in hiring (including the executive level), quality training and appropriate compensation systems, and reaffirmed by senior management involvement in diversity councils and fair lending committees.

- **Compensation Policy**

Compensation policy plays a crucial role in promoting lending in underserved markets. Many lending institutions employ some form of percentage based compensation system that rewards dollar volume over number of loans. A

system that does not encourage smaller loans or working with borrowers that may take longer to qualify. What specialized compensation package would encourage loan officer support of this market and how can that compensation system be tied to mid, regional and senior management compensation packages?

- **Technology**  
Technological advances combined with increasingly sophisticated analytical tools have transformed the mortgage lending process. As a result of automated underwriting, credit and mortgage scoring the industry's understanding of risk has never been better. Borrowers who stand to benefit the most from this technological transformation are those who found the traditional processes the most difficult. But, automation also raises a variety of concerns about potential adverse impacts on minority applicants because technology also has the ability to automate biases in a manner that makes them more difficult to detect and eliminate.
- **New Loan Products**  
Do the products on the market today adequately meet the unique needs of each community of color? Are new products needed and if so, what unique features would they included?
- **Matching Loan Products with Need**  
With the complexity of loan products available today and the breath of lenders active in the market place, how do we ensure that consumers get the right product for their financial needs at the most competitive price and terms – even if that product is not offered by “my” institution?
- **The Loan Process**  
During the Town Hall meetings, each community of color expressed concerns and frustrations moving through the loan process (See “Community Says...” report for more details). What changes are necessary in the loan application and underwriting process to more effectively serve minority markets?
- **Foreclosure Prevention**  
With new loan products and relaxed underwriting, the mortgage industry is doing much more to attract historically underserved households and qualify them for mortgages, but are we doing enough to ensure that these buyers are able to sustain homeownership over time?
- **Branch Locations/Access**  
Are there adequate retail delivery systems to serve the unique needs of Portland's minority markets? What impact have past bank mergers and branch closures had on access in communities of color?