



OPERATION H.O.M.E.
HOME OWNERSHIP & MINORITY EQUITY

**Loan and Underwriting
Content Committee Recommendations**

April 26, 2007

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Executive Summary

The overall goal of Operation H.O.M.E. is to close the minority home ownership gap in Portland by 2015 and add 14,000 new home owners within Portland's communities of color.

As the United States and Oregon becomes more diverse, it is imperative that the lending industry, community organizations, schools and the greater community prepare for the changes ahead. Some predict that within the next ten years, 40 percent of all new homebuyers will be people of color and immigrants, with half being Latino¹. Therefore, the ability of organizations to improve the diversity of the workforce, lending products and ensure that their lending process meets the needs of these "emerging markets" will gain a competitive advantage within the market.

In order to achieve these goals, Operation H.O.M.E. formed the Loan and Underwriting Committee, which was comprised of a diverse set of industry professionals and community members who over the course of seven meetings met to look at a set of issues identified within the **2004, Homeownership Advisory Committee (HOAC)** report and the **Community Says** report and develop a set of recommendations.

Both of the HOAC report and the Community Says report serve as quantitative and qualitative analyses that highlighted the key issues among minority homeowners and found that among White and minority households with like incomes, the loan denial rate is as much as twice as high for minority applicants. Additionally, the reports cited that communities of color lacked trust in individuals or institutions that can help them through the process²; lack accurate information about homeownership, are reticent to disclose personal information for fear of being taken advantage of, cited language barriers and expressed fear of predatory lending³.

During the process the committee diligently discussed the issues identified in these reports and in the original framing document (sees Appendix A). In some instances the committee was not able to come to consensus or were not deemed as relevant (.e.g. I-TIN loan, branch location), but the set of recommendations within this report are those that the committee feels make business sense and will benefit to people of color in the home buying process.

To increase homeownership among communities of color in Portland, we (the industry and community) must ensure that loan products are accessible to ethnic communities of color and that the loan process meets the unique cultural needs of each community within Portland. The strategies outlined in this plan identify five key strategy areas of implementation which are Management, Product, Process, Foreclosure Prevention and Regulatory and encourages the industry to implement promising and best practices; recruit, train and retain people of color at all levels within the industry; develop support mechanisms for loan officers, mortgage brokers and underwriters to learn about all of the available products offered collectively by the industry; and educate consumers of color by providing access to these appropriate products in a fair and transparent manner.

¹ *Mortgage Banking, Strategically Correct, June, 2005*

² *Understanding America's Homeownership Gap, 2003 Fannie Mae National Housing Survey*

³ ***The Community Says...A Qualitative Report on Barriers that Prevent Home Ownership Among Communities of Color, PDC/BHCD,2006***

Lastly, this plan will require coordination with previous recommendations outlined by the Marketing and Outreach and Education and Counseling Content Committees. The recommendations within this report build upon the previous committee reports and begin to fully shape those previous recommendations. Strategies such as the implementation of the Operation H.O.M.E. seal of approval and clearinghouse are critical to informing, educating and motivating homebuyers of color and help set the stage for the loan and underwriting process.

OBJECTIVES

MANAGEMENT – Diversify Portland’s real estate and lending industry at all levels and in all disciplines. Acknowledge outstanding professionals who contribute to closing the homeownership gap and provide consistent public recognition for their efforts. Provide ongoing opportunities for industry professionals to increase their knowledge and skills to better serve communities of color.

PRODUCT – Increase consumer and industry professionals’ abilities to evaluate and access financing programs and products available in Portland.

PROCESS – Improve the loan and underwriting process to ensure that consumers of color are treated without bias and that the underwriting process is sufficiently flexible to respect and respond to cultural differences.

FORECLOSURE PREVENTION – Create a support system to help homeowners sustain ownership over time.

REGULATORY – Reduce the number of consumers that are taken advantage of by deceptive and/or abusive lending practices and better prepare the consumer to learn how to avoid loan products and professionals that do not have their best interest in mind.

STRATEGIES

Management Strategy – Design, develop, implement and evaluate a two-tiered (both for the industry and the individual professional) Operation H.O.M.E. certification program that encompasses a company certification that signifies acceptance of key management principles and practices and an individual certification that shows individual mastery of Operation H.O.M.E. competencies.

Products Strategy – Increase consumer and industry professionals’ abilities to evaluate and access financing programs and products available in Portland.

Process Improvement Strategy – Implement a consumer focused process that is flexible and responds to the needs and cultural differences among people of color.

Foreclosure Prevention Strategy – Reduce the number of consumers that are targeted and taken advantage of by predatory lending practices.

Regulatory Strategy – Increase the oversight of deceptive and abusive lending practices through increased fair housing testing, increased reporting to appropriate

regulatory agencies, and better arm consumers with knowledge of their applicable rights and remedies.

General Comments

The following general comments were themes that emerged during the committee process.

- The participants of the Loan and Underwriting Content Committee expressed strong sentiment that Operation H.O.M.E. must not be seen as a separate system for consumers, rather Operation H.O.M.E. should ensure that current systems are improved to ensure that consumers of color are treated ethically and equitably and thus are provided with the needed assistance that leads to homeownership.
- There are many definitions of “Predatory Lending” across the country, but there is no official definition of the term in Oregon. Operation H.O.M.E. needs to work with partners to create a common definition of predatory lending and actively work to minimize its victims.

General Comments about Management Practices

- There needs to be a concerted effort by the industry to increase the number of people of color recruited at all positions including management and to make efforts to retain people of color within the real estate industry and provide growth opportunities in Portland.
- Currently, several large lenders have diversity policies, procedures and training programs. The committee recommends that the lenders utilize these programs and ensure that their employees are aware and are given opportunities to increase their competencies in diversity and cultural competency. Operation H.O.M.E. needs to expand upon these training programs and engage local minority professionals within the Portland real estate industry to expand on the current tips and tools offered and make them widely accessible and standard practice within the industry in Portland.
- The committee felt that loan officers and underwriters need to be trained on the cultural differences of minority groups and there need to be more loan officers and underwriters within these positions to work effectively with communities of color.

General Comments about Loan Process

- The ability of the realtor® and the mortgage professional to develop a cooperative relationship with each other and the potential home buyers is critical within the home buying process. The number of forms and various roles within the process can make communication between the homebuyer in the process (realtor®, mortgage professional, processor and underwriter) confusing, especially when there are language and cultural differences that need to be taken into account.
- The committee looked at the effectiveness of automated and manual underwriting. While some felt the automated underwriting tools serve to remove bias, others viewed the systems to remove the personal aspect of underwriting needed to be able to respect and respond to cultural differences in the use of credit.
- Several members with experience working with communities of color cited studies and best practices that indicate that there are differences in how whites and people of color are treated regarding the “second look” process. Therefore, underwriting policies, practices and procedures need to take into account the difference in the use of credit among minority populations that are being served.

General Comments about Loan Products

- There is a need to expand the awareness and usage of Community Reinvestment Act (CRA) loan products offered by major banks which accept alternate credit history, extenuating circumstances and low down payment requirements.

General Comments about Regulatory

- There was strong sentiment that there needed to be an increase in oversight of deceptive and abusive lenders who target communities of color. The committee strongly recommends increasing consumer awareness of the State of Oregon Department of Consumer and Business Service's (DCBS) role in regulating state-chartered mortgage lenders and mortgage brokers, as well as, the various federal regulators. The committee felt that Operation H.O.M.E. can serve to better educate consumers about their lending rights and what they should do if they feel their lender violated their rights.

Loan and Underwriting Committee Recommendations

MANAGEMENT STRATEGY

The committee discussed several issues related to cultural competency, hiring, promotion and training within the industry. The committee felt strongly that organizations with Operation H.O.M.E. be committed to diversifying the industry by hiring people of color (including the executive level), providing quality training and providing mentoring opportunities for people of color within the industry and making efforts to retain people of color within the industry. Lastly, involvement in diversity councils and fair lending committees by lending institutions is strongly needed as a sign of commitment to Operation H.O.M.E. goals.

OBJECTIVE

Diversify Portland's real estate and lending industry at all levels and in all disciplines. Acknowledge outstanding professionals who contribute to closing the homeownership gap and provide consistent public recognition for their efforts. Provide ongoing opportunities for industry professionals to increase their knowledge and skills to better serve communities of color.

STRATEGY

Design, develop, implement and evaluate a two-tiered (both for the industry and the individual professional) Operation H.O.M.E. certification program that encompasses a company certification that signifies acceptance of key management principles and practices and an individual certification that signified individual mastery of Operation H.O.M.E. values and competencies.

APPROACH/TACTICS

- Commit to working under an Operation H.O.M.E. statement of shared values.
- Include dynamic diversity training as a core organizational training program and require staff at all levels to regularly participate and renew their commitment annually.
- Establish Portland area workforce diversity goals (at all levels of their organization) that link to Portland area executive compensation packages and to report on progress toward achieving those goals annually.
- Create internal mentor and cross-cultural mentoring opportunities for all employees to gain a greater understanding of the needs and differences of minority communities.
- Require all production staff to become Operation H.O.M.E. certified professionals by attending required training and by agreeing to implement the Operation H.O.M.E. shared values. Annual training and recertification of participants will be required.
- Provide financial support for an Operation H.O.M.E. scholarship fund to promote careers in the lending and real estate industry in communities of color.
- Establish annual first-time minority homebuyer production goals and directly link production staff compensation packages to achieving those goals.

- Provide annual Operation H.O.M.E. summit and banquet to recognize organizations and individuals who have made outstanding contributions to closing the homeownership gap among communities of color.

Create an Operation H.O.M.E. system to help recruit, retain and professionally develop racially and ethnically diverse real estate and mortgage lending professionals:

- Work with trade associations, industry leaders, local colleges and high schools to create a paid minority internship program such as DeLaSalle High School internship program for minority high school students.
- Work the local high schools to implement programs Expand the role of homebuyer fairs to include a career fairs component to recruit people of color into the industry.
- Operation H.O.M.E. webpage to include a real estate industry “jobs board” to share information about employment opportunities to communities of color.
- Work with existing Mortgage Lender Education Board (MLEB), real estate trade associations, regulators and licensors to create an Operation H.O.M.E. curriculum and professional certification program. Training to include more intense training of loan officers (e.g., journeyman-level skills).
- Create an Operation H.O.M.E. certified instructor pool made up of industry professionals with successful track records of creating homeownership within each community of color. Provide instructors with quality “train-the-trainer” education to help them effectively transfer their skills to others.
- Produce annual Operation H.O.M.E. homeownership conference to share best practices, promising new ideas and to fulfill continuing education credit to certified Operation H.O.M.E. professionals.
- Create Operation H.O.M.E. networking and continuing educational opportunities for industry professionals.
- Develop a customer service system to provide certification oversight to ensure certified members are providing quality services.
- Provide tools and tip sheets on how to reach and serve minority markets in Portland and generally perform better on the job.

MEASURES

- The number of companies participating in the internship program and the number of interns placed.
- The number of company and individual Operation H.O.M.E. certifications.
- The quality of the instruction provided and the number of participants at periodic network meetings and annual conference.
- Number of professionals receiving training and educational opportunities pertinent to Operation H.O.M.E.
- The number of new homeowners created by Operation H.O.M.E. professionals and through the Operation H.O.M.E. lending center specifically.

IMPLEMENTATION LEADERS

	Lead Convener	Primary Convener	Initiative Participants
TBD		TBD	TBD

PRODUCT STRATEGY

With the complexity of loan products available today and the breath of lenders active in the market place, how does Operation H.O.M.E. 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?

Within the product strategy, the Loan and Underwriting Content Committee examined if there are sufficient products to meet the goals of Operation H.O.M.E., and meet the unique needs of each community of color. The Committee also assessed whether new products are needed and, if so, what unique features these products should include.

The committee identified several gaps that included the need to educate consumer and professionals about the types of products available, as well the need to develop additional home buying assistance tools to assist home buyers of color.

The committee had significant discussion on the I-TIN loan. The “I-TIN” loan is a loan product developed for consumers who do not have a Social Security Number. During the discussions, there were strong opinions (pro and con) for the modification and utilization of the I-TIN loan. The committee was not able to reconcile differences among the members regarding the I-TIN loan, but recommends strongly that further discussion occur among the Steering Committee on the need to best serve undocumented residents, in particular within the Hispanic/Latino community who are interested in homeownership.

OBJECTIVE

Increase consumer and industry professionals’ abilities to evaluate and access the best home loan products and assistance programs available in Portland.

STRATEGY

Expand the availability and accessibility of Home Buyer Assistance (HBA) and other mortgage products/programs and create a clearinghouse of all available loan products in the Portland area, including tools to compare programs/products to individual consumer needs and match the consumer with the partners who deliver these programs.

APPROACH/TACTICS

- Develop a web-based clearinghouse of Portland area products/programs that help consumers and professionals evaluate which products/programs and the changes within these products that best fit their financial needs, connect home buyers to the lenders who are most knowledgeable about products and weigh the risks and benefits of those products. Programs/products to include mortgage products, homebuyer assistance tools, and employer assisted housing programs, developers that specialize in the first-time homebuyer market and products unique to certain professions.
- Create a Mortgage Credit Certificate program for the City of Portland.
- Expand on the Shared Appreciation Mortgage (SAM) offered by PDC citywide. Current SAM program is restricted to Urban Renewal Areas.
- Create a first mortgage program that allows credit scores to 580 and that does not require mortgage insurance.

- Create standardized criteria to provide Operation H.O.M.E. certified organizations and professionals with equal access to existing and new homebuyer assistance tools, while recognizing that some requirements are federally imposed.
- Expand awareness and usage of Individual Development Accounts (IDA) accounts (such as HomeStart) among consumers of color.
- Replicate and expand Housing Authority of Portland’s (HAP) Goals program for low-income renters to better educate and prepare them for homeownership.
- Explore if CRA loan products can be brokered out to smaller banks and mortgage brokers who serve Portland’s minority communities.
- Work with lenders and the Oregon Bond to create and utilize a 40-year amortized program.

MEASURES

- Establishment of Operation H.O.M.E. clearinghouse.
- Number of consumers accessing online clearinghouse of loan product information and tools.
- Random surveys that rate the quality and effectiveness of the information accessed on the clearinghouse by consumers and professionals.
- Number of loans made through the new home buying products and programs developed by PDC and City of Portland.

IMPLEMENTATION LEADERS

Lead Convener	Primary Convener	Initiative Participants
TBD	TBD	TBD

PROCESS STRATEGY

The ability of professional within the industry to develop a cooperative relationship with each other and the potential home buyers is critical to the home buying process. The number of forms and various roles within the process can make communication between the homebuyer in the process confusing, especially when there are language and cultural differences that need to be taken into account.

Additionally, as noted in the Town Hall meetings which were included into the **Community Says** report, each community of color expressed concerns and frustrations moving through the loan process and various barriers posed by the process. The committee looked at the effectiveness of automated and manual underwriting and how they can be improved. Automation has provided many benefits within the industry; but at the same time, it raises concerns about potential adverse impacts on applicants of color because technology also has the ability to automate biases in a manner that makes them more difficult to detect and eliminate. Technology also is inflexible to considerations of the unique needs and cultural factors impacting some consumers of color. While some on the committee felt the automated underwriting tools serve to remove bias, others that they removed the personal aspect of underwriting and that manually underwriting was need to be able to respect and respond to cultural differences.

Lastly, several members cited studies and best practices that indicate that there are differences in how Whites and people of color are treated in both underwriting an denial review process, underwriting policies, practices and procedures need to take into account the difference in the use of credit by communities of color.

OBJECTIVE

Improve the loan and underwriting process to ensure that consumers of color are treated without bias and that the underwriting process is sufficiently flexible to respect and respond to cultural differences, thus treating all consumers in a fair and equitable manner.

STRATEGY

Implement a consumer-focused process that is flexible and responds to the needs and cultural differences among people of color.

APPROACH/TACTICS

- Require Operation H.O.M.E. certified lenders to adopt a "second underwriting" standard that anonymously places denied application back in the underwriting process for a second independent evaluation versus a second look at denied files.
- Require that any loan application denied at any level through an automated underwriting process be manually reviewed by a qualified manual underwriter.
- Work with Fannie Mae, Freddie Mae and FHA to adapt automated underwriting systems to include culturally specific data analysis/sensitivity.
- Implement mandatory notification language to refer all denied loan applicants in Portland to Operation H.O.M.E. for support in addressing denial issues. Include "steps to gain approval" material with the denial letter to all denied applicants.
- Create and regularly deliver a "how to repair your credit" training program to help people work through credit issues (e.g., credit guard coach).

- Create borrower incentive programs for applicants that go through certain types of education programs.
- Create a post purchase IDA programs that extend beyond home purchase and create an incentive for home maintenance and “rainy day” fund savings.
- Negotiate with Anthem’s Fair Isaac Company (FICO) to use Portland as a test market for their “Thin File” credit scoring system (see appendix for more detail).
- Create an Operation H.O.M.E. Seal of Approval and work with the Fair Housing Council of Oregon to implement minority test shoppers to evaluate the effectiveness of real estate agents, lenders, brokers on their ability to serve minority communities. Participating industry businesses would receive feedback on strengths and areas of improvements and would receive technical assistance from Operation H.O.M.E. Businesses that successfully complete the process receive an Operation H.O.M.E seal of approval.
- Strongly encourage consumers to obtain formal pre-approvals from Operation H.O.M.E. lenders in order to assist consumers of color to be more competitive when making offers on affordable homes.
- Create an easy to understand Operation H.O.M.E. flow chart/tip sheet to provide consumers a recommended pathway to a home of their own.

MEASURES

TBD

IMPLEMENTATION LEADERS

Lead Convener	Primary Convener	Initiative Participants
TBD	TBD	TBD

FORECLOSURE PREVENTION

The committee discussed the concern about deceptive and abusive practices by some lenders within the industry, the impact of new loan products and relaxed underwriting, and the factors that contribute to foreclosure and what strategies need to be implemented to ensure that buyers are able to sustain homeownership over time.

OBJECTIVES

Create a support system to help homeowners sustain ownership over time.

STRATEGY

Reduce the number of consumers that are targeted and taken advantage by predatory lending practices.

APPROACH/TACTICS

- Work with existing education and counseling resources to expand pre-purchase education curriculum to include methods, strategies and resources to avoid foreclosure, including specific information on the importance of quality home inspections.
- Create loan products that provide job loss protection and or life change insurance at a nominal or no cost to borrower.
- Create a community based post-purchase foreclosure prevention center providing services and assistance to homeowners that experience difficulties after purchase.
- Develop an Operation H.O.M.E. approved foreclosure prevention curriculum that is translated into languages other than English and is widely distributed to minority home buyers and owners.
- Operation H.O.M.E. to provide "document review" services to provide borrowers with an independent evaluation of their loan products prior to closing.
- Create a "10-Things Borrowers Need to Know Before They Sign" tip sheet for borrowers to use independently of an Operation H.O.M.E. document review and require its distribution by Operation H.O.M.E. certified professionals.
- Publish a periodic Operation H.O.M.E., homeownership newsletter with articles of specific interest to new homeowners including resources should consumers experience financial difficulties.
- Expand the availability and awareness of loan programs that help homeowners with unexpected repairs, including energy assistance and weatherization programs.
- Create a "keep the change" type of savings program where monthly payments can be automatically grossed up to a certain number and the difference goes into a "rainy day" savings account.
- Create an "early delinquency warning system" that refers homeowners to foreclosure prevention resources and provides an alternative to predatory lenders in times of trouble.

- Work with the City of Portland, home buying, mortgage insurance, and insurance industry as a whole to promote the use of “job loss protection” or “life change insurance” for home buyers. This resource would provide assistance to distressed home buyers and reduce the risk of foreclosure.
- Develop and utilize a fact sheet on the various factors that lead to foreclosure and the available resources and steps the consumers can take to reduce the risk of foreclosure.
- Create and cultivate after-purchase “homeowner clubs” that can provide peer support after purchase. Clubs could provide education about a variety of homeownership issues (home repair/maintenance, insurance, foreclosure prevention/delinquency counseling) in a non-threatening environment and before owners experience difficulties.
- Operation H.O.M.E. lenders and the City of Portland to jointly fund a foreclosure prevention assistance program that supports homebuyers through times of trouble, so long as the homebuyer can demonstrate a financial plan that will return them to financial stability.
- Create a post purchase IDA product, such as a matched savings plan that can be utilized by owners for needed home repairs or to avoid financial emergencies.

MEASURES

- Creation of foreclosure prevention curriculum in multiple languages.
- Number of consumers accessing foreclosure prevention information.
- Implementation for an early delinquency warning system.
- Implementation of a “post purchase” newsletter to Operation H.O.M.E. clients.

IMPLEMENTATION LEADERS

Lead Convener	Primary Convener	Initiative Participants
TBD	TBD	TBD

REGULATORY STRATEGY

Several members of the committee expressed concern about the deceptive, unethical and in some cases abusive practices occurring within the industry. The committee recognized that there is no common definition of “predatory lending” but there was sentiment that more needed to be done to ensure that Operation H.O.M.E. is seen as an entity that reinforces ethical practice within the industry.

OBJECTIVE

Reduce the number of consumers that are taken advantage by deceptive and/or abusive lending practices and better prepare the consumer to learn how to avoid loan products and professionals that do not have their best interest in mind.

STRATEGY

Increase the oversight of deceptive and abusive lending practices through increased fair housing testing, increased reporting to appropriate regulatory agencies, and better arm consumers with knowledge of their applicable rights and remedies.

APPROACH/TACTICS

- Support the passage of the Oregon Home Loan Fairness Act.
- Partner with the Department of Consumer and Business Services (DCBS), the Oregon Real Estate Agency and Fair Housing Council of Oregon to increase consumer awareness and utilization of state and federal regulatory services to curb deceptive or abusive practices.
- Add cultural competency and affordable mortgage product training to state required educational licensing curriculum taught by the Mortgage Lenders Education Board.
- Operation H.O.M.E. website to have a complaint section that links consumers and lending partners to the appropriate state and federal regulatory agencies.
- Partner with the Fair Housing Council of Oregon to increase home loan test shopping program to curb sub-prime lenders from conducting abusive or deceptive lending practices.
- Develop, track and support legislation at the state and federal levels that protect real estate consumers from abusive or deceptive practices and work to assist their passage.

MEASURES

- Increase the frequency of complaints filed from Portland to DCBS, Oregon Real Estate Agency, or the Office of Fair Housing and Equal Opportunity.
- The number of secret shopper visits conducted and the outcome documented.
- Pass a state legislation which further protects real estate consumers from deceptive and abusive lending practices such as a “predatory lending” law.

IMPLEMENTATION LEADERS

Lead Convener	Primary Convener	Initiative Participants
TBD	TBD	TBD

Loan and Underwriting Content Committee Process Overview

Committee Recruitment

The Loan and Underwriting Content Committee consisted of interested volunteers and professionals from the lending industry and community organizations. The members were identified and recruited by the Operation H.O.M.E. project staff through the key informant interviews, town hall meetings and designated by organizations that are represented on the Operation H.O.M.E. Steering Committee.

Loan and Underwriting Content Committee Process

The Loan and Underwriting Content Committee met a total of seven times at First American Title and at PDC offices. Members of the committee were given an overview of the charge, structure and progress of the Operation H.O.M.E. initiative. The following were the dates, locations and stated goals for each meeting:

January 28 , 2007 *Goals for Meeting 1 –*
To ground the committee on its charge, define the process and begin to expand on the issues framed in the Loan and Underwriting framing document.

February 23, 2006 *Goals for Meeting 3 –*
To identify the barriers within the loan and underwriting process and develop recommendations on how to improve the loan and underwriting process as identified in the research phase of Operation H.O.M.E.

March 9, 2007 *Goals for Meeting 5 -* To identify strategies that will promote quality training and appropriate compensation systems, and reaffirmed by senior management involvement in diversity hiring in the workplace.

April 10, 2007 *Goal for Meeting 7 -* Finalize draft content committee report and presentation.

February 16, 2007 *Goals for Meeting 2 –*
To review the available loan products, second mortgage and down payment assistance tools and make suggested additions and changes to the matrix.

March 2, 2007 *Goals for Meeting 4 –* To identify the factors that lead to foreclosure and develop foreclosure prevention strategies.

March 29, 2007 *Goals for Meeting 6 -* Review draft content committee recommendations.

Committee Leadership

The Loan and Underwriting Content Committee members nominated Maxine Fitzpatrick and Trena Hopkins to present content committee recommendations to the Steering Committee.

Committee meetings, which were approximately 2 hours in length, were facilitated by Art Hendricks, Operation H.O.M.E. Program Manager, Javier Mena, Product Development Specialist, and Shelly Haack, Neighborhood Housing Manager with PDC; Michael Sorensen and Denise Barr with Community Solutions consulting. Staff and consultants met between

committee meetings to review meeting notes, to complete additional research requested by the committee, to draft the loan and underwriting plan for committee review and to prepare for upcoming meetings.

Committee Members

The Operation H.O.M.E. project team would like to recognize the dedication and perseverance of the members of the Loan and Underwriting Content Committee who are to be commended for their outstanding commitment to developing the recommendations contained in this report.

The following is a list of Loan and Underwriting Content Committee members:

Alison Auge

Regional Operations
Manager
US Bank Home Mortgage

Sandalene Begay-Larke

Mortgage Account
Executive
Bank of America/NAYA

Vicki Bell

Realtor
African American Alliance
for Homeownership and
Vicki Bell Real Estate

Margo Bryant

Special Needs Policy
Manager
Portland General Electric

Kelly Christensen

Account Manager
Genworth Financial

Cecilia Farley

Account Manager
Mortgage Guaranty
Insurance Corporation

Bertha Ferrán

PDC Commissioner
Mortgage Consultant
Windermere Mortgage
Services

Maxine Fitzpatrick

Director
Portland Community
Reinvestment Initiative

Trena Hopkins

Relationship Manager
Mortgage Lending,
Community Dev. Banking
KeyBank

Dona Lanterman

Homeownership Section
Manager
State of Oregon

Jennifer Larsen

Assistant Vice President
Relationship Manager
HomeStreet Bank

Paul Martinez

Senior Loan Officer
Mortgage Only

Tonya Parker

Senior Deputy Director
Fannie Mae

Earline Penson

Real Estate Broker
Coldwell Banker Barbara
Sue Seal Properties

Michelle Rodriguez

Loan Officer
The Rodriguez Group at
Pacific NW

Nancy Roll

Community Development
Manager
Umpqua Bank

Mary E. Taylor

Sales Manager
Wells Fargo Home Mortgage

Lisa Tyler

Mortgage Loan Officer
Umpqua Bank

Dory VanBockel

Escrow Officer
First American Title
Insurance Company of
Oregon

Fernando Velez

Consumer Information
Specialist
Oregon Department of
Consumer & Business
Services

Staff and Consulting Team Members

Denise Barr
CSC

Jon Gail
PDC

Shelly Haack
PDC

Art Hendricks
PDC

Javier Mena
PDC

Michael Sorensen
CSC

Barbara Weaver-Year
PDC

Appendix A

Loan and Underwriting Content Committee

Background

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.

Committee Charge

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 will 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 reinforces 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.

MANAGEMENT ISSUES

- **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.

- **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?

PRODUCT ISSUES

- **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?

PROCESS AND TECHNOLOGY ISSUES

- **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.

- **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 <http://www.operationhome.net/Resources.html>). 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?

APPENDIX B

KEY DEFINITIONS

The committee recognizes that there are many important roles and functions involved throughout the home buying process starting with the education process. For the purposes of this report, we have focused on the roles listed below which are central to the loan and underwriting process:

Lender or Mortgager – A person or entity that invests in or originates mortgage loans, such as a mortgage banker, credit union, commercial bank or savings and loan institution.

Mortgage Broker – A person, or entity, which for a commission specializes in loan originations and matches borrowers with lenders. The mortgage broker performs some or most of the loan processing functions such as taking loan applications, ordering credit reports, appraisals and title reports. Typically, the mortgage broker does not underwrite the loan and generally does not use its own funds for closing. Lastly, the mortgage broker is responsible for providing the required disclosures under the Real Estate Settlement Procedures Act and the Truth-in-Lending Act.

Realtor® - A real estate broker is a person licensed to sell and/or lease real property, acting as an agent for others, and who is a member of a local real estate board affiliated with the National Association of Realtors® (NAR). In Oregon, realtors® are either real estate brokers or principle brokers, with principle brokers having the responsibility of managing other real estate brokers and an office.

Title Company Representative or Escrow Officer - Makes arrangements for the title search, funds disbursement and the legal transfer of ownership.

Underwriter - The underwriter is the lender's representative who is responsible for evaluating the level of risk of a borrower, ensuring compliance with the loan product guidelines and conformance to investor guidelines. Underwriters review and verify all documents and information and submit it to a credit officer.