

Good for people, good for banks: The Philadelphia Mortgage Plan

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We could debate for another hundred years about whether bank disinvestment in older, urban areas is the result or cause of declining neighborhoods. But wrangling serves no purpose; mere talk does not delay or turn around our cities' deterioration.

Cognizant of this, Philadelphia bankers and community leaders abandoned their tug of war in 1975 and channeled their energies into the development of the Philadelphia Mortgage Plan (PMP), a basic rethinking of mortgage lending policy.

Under the aegis of the Greater Philadelphia Partnership, which is a consortium of business and civic leaders, M. Todd Cooke, Frederick Heldring (the presidents of the Philadelphia Savings Fund Society and Philadelphia National Bank, respectively), and I met with community leaders to seek a way to make residential mortgage money available to credit-worthy individuals seeking urban properties.

The PMP planning was an outgrowth of the Neighborhood Housing Services, Inc., a Partnership-sponsored neighborhood conservation effort that designated two marginal neighborhoods for comprehensive rehabilitation. The NHS site selection process was a long and difficult one because many city neighborhoods needed NHS's concentrated focus, and limited resources permitted only two selections.

After five months of planning, we announced the PMP to Philadelphia on October 9, 1975.

Previously, a neighborhood usually meant an area measured in square miles. Under the PMP, we have radically shrunk the concept so that it encompasses only the block on which a property is located. We then evaluate that street on its own merits.

The following criteria are regarded as favorable to mortgage lending:

- An abandonment and vacancy rate of no more than 10%.
- A median property value of \$6,000 on the block.
- The existence of a strong neighborhood organization.
- The presence of a non-profit developer who is rehabilitating abandoned units, or the existence of other ongoing programs by public agencies or private groups to improve housing.
- Cooperation of absentee owners with neighborhood residents to improve housing and make needed repairs.

FLEXIBLE REQUIREMENTS

Regarding applicants, welfare payments are treated as effective income and the income of the borrower's spouse/co-mortgagor is recognized. Loan-to-value ratios of up to 90-95% are acceptable if they are coupled with private mortgage insurance of the amount of the loan in excess of 75% of the appraisal. The maximum loan is \$15,000; the top sales price is around \$17,500. Mortgage terms may extend as long as 30 years, and mortgage payments are limited to 25% of gross family income.

While participating banks follow common underwriting procedures and standards, they act independently in setting rates and other terms of mortgages. Any bank which receives a disproportionate share of mortgage applications may transfer them, including the fee, to one of the other banks.

Most banks have had to go through an adjustment process to bring themselves in line with PMP standards. Some banks had a \$15,000 minimum loan requirement, for example. Several would not take mortgages on properties that were more than 75 years old. Some would make loans only to depositors, and still others required down payments of at least 20%. A couple of banks, including First Pennsylvania, were simply not making any mortgages.



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Savings Fund Society.*



*Frederick Heldring, president,
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Mortgage officers from each of the participating institutions meet weekly to discuss any operating problems, compare results, and ensure that procedures and guidelines are being applied consistently. Each bank provides a list of its prospective rejections and other bank officers have the opportunity to question or comment upon the reasons for rejection. If the committee agrees with the recommendation, the bank sends a formal rejection letter to the applicant. If the committee feels the application should not be rejected, the bank is asked to reconsider its position; peer pressure is usually effective.

Since several mortgage officers are relatively new to inner city mortgage lending, these weekly sessions also serve a useful educational function. The more experienced mortgage officers are able to provide valuable guidance and advice. A Partnership staff member often attends these meetings,

also, acting as a link between the community and financial establishment.

Every two months a review committee consisting of bank executives, mortgage officers, community representatives, city and HUD officials, and Partnership staff is convened to review PMP lending activity. This forum gives the community participants the opportunity to raise questions or problems they may have about bank policy.

I recall that during the press conference in which we announced PMP, the news media kept trying to pin us down to a target figure. There was not one then, nor will there ever be.

Community representatives insisted that they did not want banks to establish quotas, mortgage pools, or any sort of program that would be specialized and temporary. They were all too familiar with "special programs" that had been launched with great fanfare, only to fizzle out a short time later. **When we truly attain a permanent alteration of our mortgage lending practices, there will be no further need to attach a name to what we are doing.**

The end result of our labor is a program we are all proud of, but perhaps our finest accomplishment is the working partnership of neighborhood and downtown interests that was created along the way.

The community leaders most active in the start of the PMP were W. Wilson Goode, head of the Philadelphia Council for Community Advancement; Father Joseph Kakalek, a Jesuit priest who is the organizer and first president of a city-wide council of neighborhood organizations; Shirley Dennis, the managing director of the Housing Association of Delaware Valley; State Representative Robert O'Donnell, a one-time victim of redlining when he tried to finance a home in Germantown, one of Philadelphia's oldest neighborhoods; Reverend William Gray, a North Philadelphia Baptist minister; and Julia Robinson, director of Philadelphia Neighborhood Housing Services, Inc.

Community representation was expanded several months after the plan's implementation to include Nelson Diaz, a lawyer and leader of Philadelphia's Spanish-speaking community, and Bertha Brown, president of one of the city's most active civic groups.

The PMP has been termed a "smashing success by any criteria" by none other than Senator William Proxmire (D-Wis.), a man more known for his criticism of the banking community than his compliments.

The three original banks have been joined by all the city's commercial and mutual savings banks and one savings and loan association. We have backed more than 1,900 mortgages worth \$20.4 million, for an average value of \$10,700. Currently more than \$1 million is being settled monthly.

A big surprise has been the low de-

linquency rate that has characterized PMP loans; at present that rate is 0.6% and we have not experienced a single foreclosure.

The rejection rate for PMP applications is about 20%. This is a fairly high rate, but I think it bears out the banks' determination to protect their shareholders' and depositors' interests and to make the PMP work over the long run.

REASONS FOR REJECTION

About one-third of the applications turned down have been because of the condition of the property or the block on which it was located. Credit backgrounds accounted for another quarter of the rejections, and the rest are explained by insufficient income, job instability, and miscellaneous factors. Twenty percent of the individuals whose applications are rejected are referred to counseling agencies for assistance with financial, housing, or family problems.

A number of the rejections came early in the game. Many real estate brokers originally perceived the plan as a giveaway, despite everything we said to the contrary. They attempted to sell some badly deteriorated "junk" properties through the bank and we would not go along with them. Now, as their experience with the PMP has grown, these brokers have been more discriminating about the kinds of properties they refer to us.

Brokers also initially inflated the rejection rate by performing sloppy screening jobs. In their eagerness to market their properties, they were referring individuals to us whose incomes were nowhere near sufficient to support a home mortgage. They seem to have corrected their tendencies here, too.

A program such as the PMP needs more than executive commitment to work; your line officers must accept it and truly care about its success. Our mortgage lenders at First Pennsylvania thought I was crazy when I first started talking up the PMP. I am sure Todd Cooke and Fred Heldring encountered the same incredulity at PSFS and PNB.

But experience has erased their skepticism and one lender has even remarked that a settlement "is like giving birth. It's a very fulfilling experience." Our officers have generally been surprised by the quality of the properties and the applicants. The low delinquency rate has scuttled a few stereotypes, too.

Some demographic data may be of interest. Three-quarters of our applicants are between 20 and 40 years old. Family incomes are generally in the \$9,000-to-\$15,000 range, and the majority of the applicants are seeking their first home. About 70% of the applicants are black, 20% are white, and the rest are Oriental, Spanish-speak-

ing, or other.

By and large, we are extremely pleased with the achievements of the PMP. I feel, however, that the plan will not realize its full potential until a significant number of the city's savings and loan associations participate. The Community Federal Savings and Loan Association came on board this spring, and hopefully its entry is a prelude to others.

We have not yet reached the point where the community is patting our backs and telling us how wonderful we are, but it does seem cautiously satisfied with the PMP's track record. Philadelphia has been spared many of the hostile confrontations that have occurred in other cities. Last spring, the local chapter of PUSH (People United to Save Humanity) bestowed its annual service award to the PMP lending institutions "in recognition of their commitment to the citizens of Philadelphia by giving them an opportunity to obtain dignity and security through home-ownership via PMP."

Seattle and Detroit have already modeled programs after the PMP, and there is no reason why other cities cannot do the same. Queries have come from Chicago, New York, and Washington, D.C.

This is a matter of broadening lending policies to more accurately reflect the city's housing needs and market demands. Standards have been expanded, not lowered.

I lament the tendency of some to regard PMP as a special charitable "do-gooder" effort. This is precisely what the PMP is not. It is a sound business proposition and should continue to be a good investment for Philadelphia's financial institutions. Banks can earn a profit on the lending activity that has been stimulated through the PMP and, of greater significance, we recognize that our future well-being is inextricably linked to the health of a stable and vital residential community in Philadelphia. **The PMP demonstrates that the financial establishment can be responsive to community concerns and problems without sacrifice to its own economic well-being.**

The PMP is not going to cure all of Philadelphia's urban maladies. It does not apply to severely deteriorated areas where, perhaps, the only solution is demolition and reconstruction. The PMP is not the answer in situations where extensive rehabilitation is required, but it has led to a program with that objective.

Although it is not at full throttle yet, First Pennsylvania and Philadelphia National Bank recently started making rehabilitation construction financing available.

Once our housing programs are going full tilt, there is so much more that we must do. Bringing companies back to the city so urban residents can secure employment is certainly one key objective. ■