

REDLINING

Overview

REDLINING is the denial of home loans in certain geographical areas in neighborhoods showing so-called physical and/or socioeconomic decline. Mortgage lenders call it disinvestment. The term redlining is allegedly derived from the act of a lending officer drawing a red line around a deteriorating neighborhood on his map and refusing to lend money there no matter how credit-worthy the borrower may be.

Savings and Loan Associations make 70% of all mortgage loans in California. Although banks make nearly 20% of the states' mortgage loans, current redlining legislation is aimed primarily at the 101 Savings and Loan Associations chartered by the State of California. In 1974 these agencies made approximately \$6.4 billion in mortgage loans on single family dwellings.

Mortgage lenders contend that investment in decaying urban neighborhoods represents high risk. Since the lenders are handling funds of investors and depositors, they are institutions of public trust and cannot endanger this trust by making unsound loans. They say high risk or uneconomic home loanmaking would drain their reserves.

Consumer advocates, however, claim it is discriminatory to disinvest any person of sound credit. They say redlining contributes to blight and crime which is currently spreading from neighborhood to neighborhood and from city to city. This point, and redlining per se, has been subject to nationwide debate and close examination by consumer groups, associations of lending institutions, study groups and licensing agencies and is resulting in efforts to legislate solutions.

During the past 12 months, five redlining bills have been introduced in the California State Legislature and two at the federal level. To date, two of the bills have been dropped, three are awaiting hearing and two others have been incorporated into law.

Summary of Legislation

Federal, 1975

HR 8024 (St. Germain) -- Bill has been incorporated into S 1281.

Mortgage disclosure:

Sec. 302 a) The Congress finds that depository institutions have sometimes failed to provide adequate home and business financing on a non-discriminatory basis for all neighborhoods and communities from which those institutions receive deposits.

This act's purpose is to provide citizens and public officials with sufficient information to determine which depository institutions are filling their obligations to serve the housing and business needs of the communities and neighborhoods in which they are located. Each depository institution must compile and make available residential reports on real estate loans made with respect to real property located within that standard metropolitan statistical area.

S 1281 (Proxmire)

Rate Control/Anti-redlining.

- . Bill extends federal rate control of lending institutions to March 1, 1977.
- . Mortgage loan disclosure section of bill completely exempts institutions with assets of \$10 million or less from disclosure requirements. Other institutions must disclose

comprehensive reports on mortgage loans and make the reports available to the public.

Bill approved by the House and the Senate and signed into law by President Gerald R. Ford. Bill will become effective June 31, 1976.

California, 1975

AB 1285 (Sieroty) -- Dropped.

Personal Rights.

Makes it unlawful for a financial institution to discriminate against an applicant for a loan on real property solely based on the social, economic or environmental conditions of the area in which the real property is located. Applies to loans executed or refinanced on or after January 1, 1976.

SB 1003 (Holden) -- Bill is being incorporated into SB 1048.

Savings and Loan Associations.

Repeals existing law providing that the Savings and Loan Commissioner may prohibit an association from making loans in geographical areas if making the loans constitutes unsound business practice.

Requires each association to keep a loan register accounting for all real estate loans which it makes or purchases. This information must be open to the public.

Requires each association to prepare a periodic statement of geographical investment pattern.

SB 1048 (Holden) -- Awaiting hearing in Assembly Finance,
Insurance & Commerce Committee.

Loans.

Requires banks and Savings and Loan Associations to disclose to potential loan applicants that:

- 1--They have a right to file a written application for a loan secured by real property and receive written response to the application.
- 2--Applicant must be notified in writing if denied a loan.
- 3--Banks and Savings and Loans Associations must retain all loan applications for a minimum of two years.

California, 1976

AB 2593 (Hughes) -- Assembly Finance, Insurance & Commerce
Committee.

State Funds Deposit.

Prohibits the deposit of state funds in any bank which engages in the practice of denying a loan secured by a mortgage or deed of trust on the basis that the property offered as security for the loan is located in a specific geographical area.

AB 2594 (Hughes) -- Assembly Committee on Housing and Community
Development.

Discrimination in Housing; Financial Assistance.

Would extend the provisions of the Rumford Fair Housing Act to prohibit discrimination in providing financial assistance to creditworthy persons for financing the purchase, construction, or rehabilitation of housing accommodations because such housing accommodations are located within a particular geographical area.

POSITIONS

Proponents of disinvestment in areas of high risk (California Savings & Loan League, California Bankers Association, Home Savings and Loan Association) hold the following positions:

- Lending institutions are handling the funds of investors and depositors and are institutions of public trust... they cannot endanger this trust by making unsound loans.
- Redlining is a very sound practice.
- Studies show that curtailment of lending does not necessarily contribute to decline of property
 - 1) Inner City Valuation Study - the Public Affairs Commission of the Society of Real Estate Appraisers.
- A shortage of financing is only a part of the process of urban decay...not the sole cause.
 - 1) 1971 National Survey of Housing Abandonment
 - 2) MIT-Harvard Joint Center for Urban Studies, 1974
- Lending agencies are not the only ones who redline (article by Earl G. Waters cites the Federal Home Loan Mortgage Corporation and the California Veteran Home Loan Program as government agencies that also redline...)
- Experimental programs at the federal level in "throwing money" at declining neighborhoods have resulted in failure. (Article in San Diego Union, by James J. Mitchell.)

- Lending agencies should not be considered the source of the problem. The community should be responsible for decaying neighborhoods.

Some criteria associations used for redlining:

- High crime rate; low code enforcement by local public agencies; age of homes.

Some criticisms against mandatory disclosures:

- They are highly expensive to savings and loans. If depositors in a redlined area see how their bank is making loans elsewhere, they'll punish the lending agency by withdrawing their money.

Some positions generally held by opponents of redlining (Federal, State and Local officials, Consumer Advocates, Minority Groups, National Committee Against Discrimination in Housing):

- Disinvestment of creditworthy persons is discriminatory.
- Redlining contributes to and helps to perpetuate the cyclic decay of neighborhoods and inner cities.
- Redlining negatively effects taxes, police protection, quality of education and property values. Study by NCDH/HUD Urban Renewal Demonstration Project "Patterns and Practices of Discrimination of Lending; Oakland, California."
- Redlining is largely practiced against minorities and is a form of racism. ("Qualified minorities and blue collar

citizens who apply for home loans have the highest rejection rate of any group".) Survey by Federal Home Loan Bank Board.

Some lending agencies refuse to make loans in neighborhoods, yet take large deposits from those neighborhoods and are located there.

FAIR LENDING REGULATIONS

The California Business and Transportation Agency conducted hearings in December, 1975, in order to clarify positions on redlining and to amend fair lending regulations being drafted by the Savings and Loan Commissioner. The hearings resulted in a revised proposal which should become effective in March, 1976. It will regulate redlining by the 101 state chapters of Savings and Loan Associations in California.

The regulations will:

- Establish boards of inquiry to review individual complaints.
Boards are made up of -- 1 public member
1 member from the Savings and
Loan Industry
1 employee of the Commissioner
- Establish procedures for reporting, and public disclosure of most information on lending patterns of loan agencies.
- Make provisions relating to application procedures and disclosure to applicants of lending criteria and reasons for denial.
- Require heavy documentation for declaring that lending in a neighborhood is unsound.
- Provide guidelines on nondiscriminatory appraising.
- Includes exceptions to the rule prohibiting discrimination because of conditions of geographic area.

REDLINING 1976:

Prognostication and Suggestions

Prognostication

At best, current legislation will have only a slight effect on the practice of redlining. Proxmire's legislation (S 1281) requiring mortgage disclosure will make important information available to the public beginning in July. This information can be used to further document redlining, but S 1281 offers no substantive remedy or guidelines for regulation.

Holden's SB 1048 would emphasize mortgage disclosure and require greater documentation and justification of loan denials. Information derived from disclosure and justification of denials required in this bill would aid individuals in filing complaints of lending discrimination to either the Superintendent of Banks or the soon-to-be created Boards of Inquiry and help to increase consumer action.

Hughes' bills, however, (AB 2593, AB 2594) take direct aim at outlawing redlining. AB 2594 extends the Rumford Fair Housing Act to prohibit discrimination in mortgage lending to credit-worthy persons. AB 2593 prohibits deposit of State funds in any bank which engages in redlining.

Governor Brown's proposed budget for 1976 includes \$313,958 for staff support and legal counsel to assist the State Commission on Savings and Loans' Boards of Inquiry in investigating

and reviewing complaints of violations of antiredlining regulations.

The possibility of realistic change in the current situation lies with the Fair Lending Regulations for the State Commissioner of Savings and Loans. These regulations provide comprehensive guidelines for the alleviation of redlining and create boards of inquiry to review redlining complaints. The regulations include certain exceptions and qualifications which soften the implication that punitive or overly stringent regulations are being heaped on lending agencies. According to Saul Perlis, Commissioner of Savings and Loans, the regulations will serve to assist lending institutions in carrying out their function while assuring that discriminatory practices are curtailed.

Comments on the regulations from lending institutions and the public have ranged from general approval to charges of illegal content. In fact, on January 30, 1976, the California Savings and Loan League and specified associations charged the regulations were contrary to existing laws and that neither the Secretary of the Board of Transportation Agency nor the Commissioner of Savings and Loan has legal authority to enact the proposed regulations. The regulations represent the major deterrent to redlining by Savings and Loan Agencies in the state of California.

Suggestions

Suggestions for alleviating the practice of redlining have been posed by representatives on both sides of the issue. Suggestions were considered on the basis of

- Economic feasibility
- Availability of existing resources
- Ease of implementation

Use of these criteria eliminated most of the suggestions offered by the lending institutions, and consumer advocates. Following are condensed versions of suggested remedies to redlining:

1. Co-Insurance -- Posed by a representative of Citizens Savings and Loan Association.

That both State and Federal monies should join on making loans in high risk areas, an 80/20 plan. 80% would be insured by a government entity and 20% by the originating institution. Co-insurance would enable both government and private lenders to share the risks of high risk loans -- especially in situations where the risk is greater than private lenders can reasonably be expected to bear on their own. The authority to initiate loans would lie with the private lender.

2. Reassessment by Institutions -- Posed by a representative of California Banking Association.

Institutions would pool existing resources and supply

special low-interest rehabilitation loans to offset community decline on a statewide basis. Also, these institutions would reassess and readjust criteria for defining high risk areas in an effort to redefine some previously high risk loans as acceptable loans. A communications program would be developed to disseminate feelings and attitudes which have supported redlining.

3. Consumer groups -- Posed by a representative of Oakland Neighborhood Housing Services Association.

Within a community, individual consumer groups can do the following to alleviate redlining:

- Encourage neighborhood self-help cooperatives
- Create a high risk revolving fund
- Develop a mortgage counseling program in mortgage deficient areas
- Deny city funds to those institutions which practice redlining.

4. Mortgage Loan Insurance Program -- Posed by the Citizen's Research Institute of Southern California.

An insurance program should be adopted which would comprehensively insure all mortgage loans in California.

Currently, insurance companies are carrying out this function on a very small basis. This type of private

mortgage insurance has proven effective. A detailed report on the mortgage loan insurance program can be obtained by contacting the Citizens' Research Institute of Southern California. The report is titled "Redlining and Community Deterioration in Greater Los Angeles."

Model Anti-Redlining Bill -- Introduced by Art Torres, Assemblyman, California.

An act to add Section 8716 to the Financial Code and Part 6 (commencing with Section 35800) to Division 24 of the Health and Safety Code, relating to discrimination in mortgage loans, and making an appropriation therefor.

The people of the State of California do enact as follows:

SECTION 1. Section 8716 is added to the Financial Code, to read:

8716. Each association shall forthwith compile and forward to the Commissioner and make available for public inspection and purchase at the principal office and each branch of the association the following information for the association and for the principal office and each branch office of the association:

(a) The number of and total dollar amount of all mortgage loans made during the quarter ending March 31, 1976, and each quarter thereafter and during each calendar year commencing with the year ending December 31, 1976.

(b) The number of and the total dollar amount of the unpaid balance of all outstanding mortgage loans as of December 31 of each calendar year commencing with the year ending December 31, 1976.

(c) The number of, percentage of and total dollar amount of all mortgage loans foreclosed and the percentage of the loan portfolio such loans represent during each calendar year commencing with the year ending December 31, 1976.

(d) The total dollar amount of the loss due to foreclosure, computed as the difference between the book value and the actual selling price of the property held as security for all mortgage loans during each calendar year commencing with the year ending December 31, 1976.

(e) The number of, percentage of and total dollar amount of all mortgage loans refinanced and the percentage of the loan portfolio such loans represent during each calendar year commencing with the year ending December 31, 1976.

(f) The number of written mortgage loan applications denied during each calendar year commencing with the year ending December 31, 1976.

(g) The number of and total dollar amount each of all mortgage loans and of all foreclosed mortgage loans made to borrowers who did not, at the time the loan commitment was made, intend to reside on the property secured by the mortgage loan, during each calendar year commencing with the year ending December 31, 1976.

(h) The number of and total dollar amount of all mortgage loans made to purchase property located outside the state during each calendar year commencing with the year ending December 31, 1976.

(i) The number of and total dollar amount of all mortgage loans made to persons whose principal place of residence is located outside the state during each calendar year commencing with the year ending December 31, 1976.

(j) The number of and the total dollar amount of all savings accounts on deposit at the end of each quarter commencing with the quarter ending March 31, 1976, and at the end of each calendar year commencing with the year ending December 31, 1976.

(k) The number of all savings accounts opened and the total dollar amount of all deposits made during each calendar year commencing with the year ending December 31, 1976.

The information required to be disclosed by paragraphs (a), (c), (d), (f), (g) and (j) shall also be given by census tract for the principal office and each branch office of an association.

As used in this section, "mortgage loans" means each of the following categories. The aggregate of all mortgage loans; each of all conventional mortgage loans and all FHA-insured and VA-guaranteed mortgage loans; each of all family home conventional mortgage loans and all family home FHA-insured and VA-guaranteed mortgage loans; and all home improvement loans.

Family home mortgage loans shall be divided into loans for (1) structures intended for the occupancy of one family and (2) structures intended for the occupancy of two through four families.

The census tract referred to above, for mortgage loans, is the census tract where the property securing the loan is located and, for savings accounts and deposits, is the census tract where the depositor resides.

Each association shall compile and make available for public inspection and purchase the information required to be compiled quarterly within one week following the end of each quarter and the information required to be compiled yearly within two weeks following the end of each year.

SEC. 2. Part 6 (commencing with Section 35800) is added to Division 24 of the Health and Safety Code, to read:

PART 6. MORTGAGE LOAN DISCRIMINATION

Chapter 1. Findings and Declarations of Policy

§ 35800. The Legislature finds and declares:

(a) The people of the State of California have found that the subject of housing is of vital statewide importance to the health, safety and welfare of the residents of this state;

(b) A healthy housing market, where residents of this state have a choice of housing opportunities and where the housing consumer may effectively choose within a free market place, is necessary to achieve a healthy state economy;

(c) The equities which the majority of California residents in most economic strata have accumulated in family homes must be protected and conserved;

(d) The Legislature has the responsibility to direct the discontinuance of injurious practices;

(e) Mortgage lending institutions have sometimes denied mortgage loans or approved these on terms less favorable than are usually offered in other geographic areas than the real property security is located regardless of the credit worthiness of the applicant and the condition of the real property security, and that this practice:

(1) Causes or exacerbates the decline of available family housing in these areas and is likely to continue to do so.

(2) Limits the choice of housing opportunities and inhibits the operation of a healthy housing market in these areas.

(3) Adversely affects the health, safety and welfare of the residents of this state.

(4) Undermines the value of the equity of current owners of property in these areas.

(5) Retards the granting of amortized loans.

(6) Injures the residents and prospective residents of these areas and;

(7) Threatens the public convenience and advantage.

(f) The practice of denying mortgage loans or adversely varying the terms of such loans because of conditions, characteristics or trends within a geographical area in which the property securing a mortgage loan has had a discriminatory impact on the supply and availability of loans to minority applicants.

§35801. The practice of denying a mortgage loan or adversely varying the terms of such loan because of the characteristics, conditions or trends in a neighborhood or geographic area surrounding the security property for a mortgage loan is declared to be against public policy. This part shall be deemed an exercise of the police power of the State for the protection of the welfare, health and peace of the people of this State.

Chapter 2. Definitions

¶ 35810

- ¶ (a) "Applicant" means any person or persons who makes oral or written application for a mortgage loan; for an extension, renewal, refinancing or construction of an existing mortgage loan; or for an amount exceeding a previously established mortgage loan;
- ¶ (b) "Mortgage" means a mortgage, deed of trust, land contract or any other instrument that creates a lien on real property on which exists or is intended to exist a family home and includes a note or other evidence of indebtedness secured by such an instrument.
- ¶ (c) "Mortgage loan" means a loan of money on the right to defer payment of a debt that is secured by a mortgage and is made for permanent financing, including refinancing of existing mortgage obligations or legally binding commitments to make a loan.
- ¶ (d) "Family home" means a privately owned structure designed for residential use by one to four families whether in a multiunit structure or not.
- ¶ (e) "Affirmative action" means any educational activity for the purpose of eliminating discrimination in mortgage lending because of characteristics, conditions or trends within a neighborhood or geographic area.

¶(f) "Mortgage lending institution" means any institution in this State that makes mortgage loans on the security of real property and includes the officers of such institutions and their agents.

¶(g) "Secretary" means the Secretary of the Business and Transportation Agency.

¶(h) "Agency" shall mean the Business and Transportation Agency.

Chapter 3. Discrimination Prohibited

¶ 35820.

¶(a) It shall be unlawful for a mortgage lending institution to redline.

¶(b) "Redline" shall mean the refusal to grant mortgage loans, to arbitrarily vary the terms of such loans or the application procedures for such loans or to adversely affect the availability of such loans because of conditions, characteristics, or trends within a neighborhood or geographic area.

¶ 35821.

¶(a) The Secretary may adopt regulations declaring reasonable exceptions to such prohibitions where the Secretary determines that there are business or health and safety necessities to such exceptions.

¶(b) The regulations adopted by the Secretary shall not allow exceptions that have no economic basis and which are discriminatory in effect.

¶ 35822. A mortgage lending institution shall not consider the racial, ethnic, religious, or national origin composition of a neighborhood or geographic area surrounding the security property or whether or not such composition is undergoing or expected to undergo change, in appraising a security property or in determining whether or not, and under what terms and conditions, to make a mortgage loan.

¶ 35823. No mortgage lending institution shall use or engage in marketing or lending systems that have the effect of tending to exclude potential creditworthy applicants from a particular neighborhood from applying for a mortgage loan.

¶ 35824. In determining whether an applicant is creditworthy, consideration shall be given to the applicants credit history and reasonable economic prospects without reference to presumed characteristics of a group, without the use of standards which are discriminatory in effect, and without making assumptions regarding comparative differences between such characteristics as age, sex, race, national origin, marital status, language, and the age, income level and racial composition of a neighborhood or geographic area.

¶ 35825. No person, partnership, association, corporation, legal representative, trustee, trustee in bankruptcy, receiver or other fiduciary shall aid, abet, incite, compel, or coerce the doing of any of the acts or practices declared unlawful in this chapter, or to attempt to do so.

Chapter 4. Enforcement

35830. No later than February 1, 1977, the Secretary shall establish within the agency, boards of inquiry to review complaints and practices involving mortgage loan activities.

35831. The boards of inquiry created pursuant to Section 35830 shall prevent violations of Chapter 3 (commencing with Section 35820), after a verified complaint has been filed with a board of inquiry pursuant to Section 35833.

35832. A board of inquiry, in connection with its function

under this part, shall have the following powers and duties:

- ¶ (a) To meet and function at any place within the State.
- ¶ (b) To appoint an attorney and such clerks and other employees as it may deem necessary, fix their compensation within the limitations provided by law, and prescribe their duties.

- ¶(c) To obtain upon request and utilize the services of all governmental departments and agencies.
 - ¶(d) To receive, investigate and pass upon verified complaints alleging discriminatory mortgage loan practices, as enumerated in this part.
 - ¶(e) To hold hearings, subpoena witnesses, compel their attendance, administer oaths, examine any person under oath and, in connection therewith, to require the production of any books or papers at such hearings relating to any matter under investigation or in question before the board of inquiry.
 - ¶(f) To issue such publications and such results of investigation and research as in its judgment will tend to promote good will and minimize or eliminate mortgage loan discrimination because of the geographic location of the security property.
 - ¶(g) To render annually to the Secretary and biannually to the Legislature a written report of its activities and of its recommendations.
- ¶ 35833. Any person claiming to be aggrieved by an alleged violation of Chapter 3 (commencing with Section 35820) may file with a board of inquiry a verified complaint in writing stating the name and address of the mortgage lending institution alleged to have committed the violation complained of, the particulars thereof, and [REDACTED] such other information as may be required by the Secretary. However, no such complaint may be made or filed unless the person claiming to be aggrieved waives any and all rights or claims he may have under Section 52 of the Civil Code and signs a written waiver to that effect.

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The complaint must be filed within 60 days following the date upon which the alleged violation occurred. This period may be extended for a period not to exceed 60 days following the initial 60 days if a person allegedly aggrieved by such violation first obtained knowledge of the fact of such alleged violations after the expiration of the initial 60 days from the date of its occurrence.

A board of inquiry may thereupon proceed upon such complaint in the same manner and with the same powers as provided in Part 4.5 (commencing with Section 1410) of Division 2 of the Labor Code for the State Fair Employment Practice Commission in the case of an unlawful employment practice, and the provisions of that part which are not inconsistent with this part as to the powers, duties and rights of the boards of inquiry; its chairman, members, attorneys or agents; the complainant; the respondent; the Attorney General and the Superior Court, shall apply to any proceeding under the provisions of this section. However, Section 1430 of the Labor Code shall not apply to this part, and the Attorney General may not make, sign or file a complaint under this part.

¶ 35834.

¶ (a) If such verified complaint alleges facts, directly or upon information and belief, sufficient to constitute a violation of any of the provisions of Chapter 3 (commencing with Section 35820), the public member, with the assistance of the board of inquiry's staff, shall make prompt investigation in connection therewith. If such public member determines after preliminary investigation that probable cause exists for believing the allegations of the complaint, he shall immediately endeavor to eliminate the alleged unlawful practice by conference, conciliation and persuasion.

¶ (b) If, after the preliminary investigation, probable cause does not exist for believing the allegations of the complaint, the assigned public member shall dismiss the complaint. Notice of dismissal shall be sent to the respondent and the complainant by registered mail, return receipt requested, and the complainant then shall have 30 days from the receipt day to file an appeal to the dismissal.

¶ (c) If the public member fails to eliminate such unlawful practices and believes probable cause still exists, he may issue and serve, in the name of the board of inquiry a written accusation together with a copy of such complaint, as the same may have been amended, requiring the mortgage lending institution named in such accusation, hereinafter referred to as "respondent" to answer the charges of such accusation pro se at a hearing.

The written accusation, hearings and all matters pertaining thereto shall be in accordance with the Administrative Procedure Act, Chapter 5 (commencing with Section 11500) of Part 1, Division 3, Title 2 of the Government Code, and the boards of inquiry shall have all the powers granted therein.

¶ 35835. After a verified complaint has been filed with a board of inquiry pursuant to Section 35833, and the preliminary investigation thereof has been carried out or a 30-day period has elapsed from the filing of the verified complaint, if the preliminary investigation has not then been completed, an appropriate superior court may, upon the notion of the respondent, order the board of inquiry to give to the respondent, within a specified time, a copy of any book, document, or paper, or any entries therein, in the possession or under the control of the board of inquiry, containing evidence relating to the merits of the verified complaint or to a defense thereto. The Board of inquiry shall comply with such an order.

¶ 35836. The board of inquiry, at any time after a complaint is filed with it and it has been determined that probable cause exists for believing that the allegations of the complaint are true and constitute a violation of this part, may bring an action in the superior court to enjoin the mortgage lending institution from taking further action with respect to the mortgage of the security property until the Board of inquiry has completed its investigations and made its determination; but a temporary restraining order obtained under this section shall not, in any event, be in effect for more than 20 days. In such action an order or judgment may be entered awarding such temporary restraining order or such preliminary or final injunction in accordance with Section 527 of the Code of Civil Procedure.

¶ 35837. All matters connected with any conference, conciliation or persuasion efforts under this part are privileged and may not be received in evidence. The members of the boards of inquiry and their staff shall not disclose to any person what has transpired in the course of such endeavors to conciliate. Every member of the boards of inquiry or their staff who disclose information in violation of this section is guilty of a misdemeanor. Such disclosure by an employee subject to civil service shall be cause for disciplinary action under

Part 2 (commencing with Section 18500) of Division 5 of Title 2 of the Government Code.

¶ 35838. When a mortgage lending institution is contacted by the board of inquiry, a member thereof, or a member of the staff thereof, it shall be informed whether the contact is for the purpose of investigation or of conference, conciliation or persuasion; and if it is for conference, conciliation or persuasion, it shall be informed that all matters relating thereto are privileged.

¶ 35839. The board of inquiry shall without undue delay cause a copy of the verified complaint that has been filed under the provisions of this part to be served upon or mailed to the mortgage lending institution alleged to have committed the violation complained of.

¶ 35840. If the board of inquiry finds that a respondent has engaged in any unlawful practice as defined in this part, it shall state its findings of fact and shall issue and cause to be served on such respondent an order requiring such respondent to cease and desist from such practice and to take one of the following steps, which in the judgment of the board of inquiry, will effectuate the purpose of this part:

¶ 1) The making of the mortgage loan or the making of the mortgage loan on terms more advantageous to the aggrieved applicant.

¶ 2) The payment of damages to the aggrieved applicant in an amount not to exceed ten thousand dollars (\$10,000).

The board of inquiry may require a report of the manner of compliance.

¶ 35841. If the board of inquiry finds that a respondent has not engaged in any practice which constitutes a violation of this part, the commission shall state its findings of fact and shall issue and cause to be served on the complainant an order dismissing the said accusation as to such respondent. A copy of its order shall be delivered in all cases to the Attorney General and such other public officers as the board of inquiry deems proper.

Req. #5502

35842. Any order issued by a board of inquiry shall have printed upon its face references to the provisions of the Administrative Procedure Act which prescribe the rights of appeal of any party to the proceeding to whose position the order is adverse.

¶ 35843. The board of inquiry may engage in affirmative actions with mortgage lending institutions in furtherance of the purpose of this part as expressed in Section 35801.

Chapter 5. Boards of Inquiry

35850. The boards of inquiry created pursuant to Section 35830 shall be at least two in number, which two are hereby established in the City of Los Angeles and the City and County of San Francisco, with additional boards of inquiry in such other locations as the Secretary may designate.

35851. Each board of inquiry shall consist of:

- (a) One public member who shall own no stock in a mortgage lending institution, is not or has not been an employee of any agency which regulates financial institutions, is not or has not been an employee of a trade association representing the financial industry and is a resident of the area in which the board of inquiry is to operate.
- (b) One representative of the mortgage lending industry and;
- (c) One employee of the Secretary, who shall be the chairman of the board of inquiry, who shall not have been employed by a mortgage lending institution or have been a member or employee of a financial industry trade association.

35852. The members of the board of inquiry shall be appointed by and shall serve at the pleasure of the Secretary for a term not to exceed four years. The public member and the industry representative shall be compensated at the rate of \$50 per day. All members shall be reimbursed for travel expenses actually incurred in attending meetings and making preliminary investigations.

¶35853. The administrative costs which the Boards of Inquiry incur shall be paid through fees set by the Secretary as necessary to meet such costs, not to exceed _____, and assessed in advance as a portion of the licensing fee and branching fee.

Chapter 6. Miscellaneous

- ¶ 35860. Nothing contained in this part shall be deemed to repeal any of the provisions of any other law of this State relating to discrimination because of race, color, religion, national origin, ancestry, sex or marital status.
- ¶ 35861. As it is the intention of the Legislature to occupy the whole field of regulations encompassed by the provisions of this part, the regulation by law of mortgage loan discrimination contained in this part shall be exclusive of all other laws banning mortgage loan discrimination by any city, city and county, county or other political subdivision of the State. Nothing contained in this part shall be construed to, in any manner or way limit or restrict the application of Section 51 of the Civil Code.
- ¶ 35862. The provisions of this part shall be liberally construed for the purpose of effectuating the public policy contained herein.

Req. #5502

- ¶ 35863. The provisions of this part shall not be construed to promote mortgage loan making on a preferential or quota basis.
- ¶ 35864. The provisions of this part shall be applicable only to state chartered savings and loan institutions until January 1, 1978; at that time, the provisions shall be applicable to all mortgage lending institutions.
- ¶ 35865. In order to further the purposes of this part, mortgage lending institutions shall notify all applicants, whether made orally or in writing, that it is unlawful to deny a loan because of characteristics, conditions or trends within a neighborhood or geographic area and that, if the application feels so discriminate, he should notify the board of inquiry, giving the address of the nearest board.
- ¶ 35866. All regulations adopted pursuant to this part shall conform with Chapter 4.5 (commencing with Section 11371) of Part 1 of Division 3 of Title 2 of the Government Code.

SEC. 3. The sum of _____ dollars (\$ _____) is hereby appropriated from the General Fund to the State Controller for allocation and disbursement to local agencies pursuant to Section 2231 of the Revenue and Taxation Code to reimburse such agencies for costs incurred by them pursuant to this act.

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