Lessons to Learn from CRA Lending

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Reinventing Older Communities
Federal Reserve Bank of Philadelphia
May 13, 2010
CRA Case Study: CAP
Reaching Target Market

<table>
<thead>
<tr>
<th>46,000 loans</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Median Original Loan Balance</td>
<td>$79,000</td>
</tr>
<tr>
<td>Percent with Original LTV &gt;95%</td>
<td>69.3%</td>
</tr>
<tr>
<td>Median Annual Income</td>
<td>$30,792</td>
</tr>
<tr>
<td>Median Annual Income as % of AMI</td>
<td>60.0%</td>
</tr>
<tr>
<td>Percent with Original Credit Score &lt;660</td>
<td>46.1%</td>
</tr>
<tr>
<td>Percent Female-Headed Household</td>
<td>40.5%</td>
</tr>
<tr>
<td>Percent Minority</td>
<td>39.3%</td>
</tr>
</tbody>
</table>

Source: Self-Help
Building wealth

Median annualized CAP house price appreciation since origination stands at 2%, with annualized return-on-equity at 30%. This appreciation translates into median wealth gains of $20,500, or between 60% and 100% of borrower annual income.

Equity gains have been mostly retained, despite the financial crisis

Source: Self-Help; Fannie Mae
CAP loans continue to outperform subprime ARM, subprime FRM, and even prime ARM as of 2009Q4\(^2\)


²MBA National Delinquency Survey; Self-Help
What is Subprime?
Risky Borrowers or Risky Mortgages?

Predatory

Product
High Rates and Fees

“Risk-Based”

Borrower
Poor Credit, Low Income

CAP/CRA
Implications Going Forward

- CRA lending did not cause the crisis.
- Vital to distinguish between borrowers with low credit and products with high risk.
- Mortgage lending and homeownership can still expand financial opportunities of underserved households.
- Traditional mortgage products perform better than exotic products for comparable borrowers.
Foreclosures are not evenly distributed

Durham, NC
March 2010

1 in every 23,062 units (0.004%)

1 in every 736 units (0.136%)

Source: RealtyTrac
Why is this concentration alarming?

- Households affected by foreclosure likely to cluster
- Prime credit likely to shrink due to weak appraisal values, neighborhood conditions, etc.
- Low wealth and minority households - the groups disproportionately affected by the recent crisis – will experience brunt of these impacts
- Racial gap in wealth and in other benefits associated with owning a home will widen and become more firmly entrenched
Conclusions

- CRA lending did not cause the crisis.
- Vital to distinguish between borrowers with low credit and products with high risk.
- Already disadvantaged households more likely to experience acute neighborhood impacts of foreclosure crisis.
- Important to continue and strengthen CRA requirements.
- Institutions like Self-Help are needed to maximize the impact of CRA, especially in the aftermath of the crisis.

The CRA delivery system is *too important to fail* given the rebuilding work that is ahead of us.