UNC COLLEGE OF ARTS & SCIENCES

CENTER for COMMUNITY CAPITAL
Research and analysis on the transformative power of capital

Lessons to Learn from CRA Lending

Roberto G. Quercia and Janneke Ratcliffe

Reinventing Older Communities
Federal Reserve Bank of Philadelphia
May 13, 2010

Center for Community Capital
Research and analysis on the transformative power of capital

UNC COLLEGE OF ARTS & SCIENCES

CRA Case Study: CAP Reaching Target Market

46,000 loans	
Median Original Loan Balance	$79,000
Percent with Original LTV >95%	69.3%
Median Annual Income	$30,792
Median Annual Income as % of AMI	60.0%
Percent with Original Credit Score <660	46.1%
Percent Female-Headed Household	40.5%
Percent Minority	39.3%

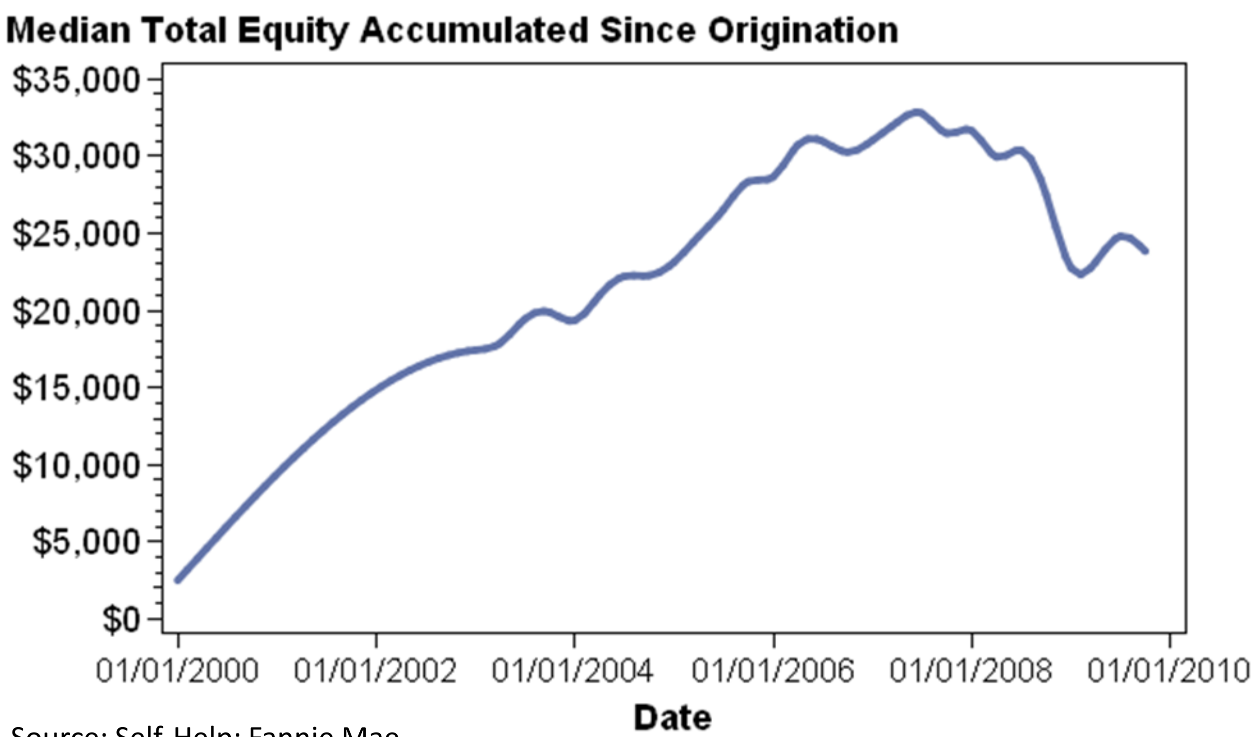
Source: Self-Help

Research Funded by the Ford Foundation

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.

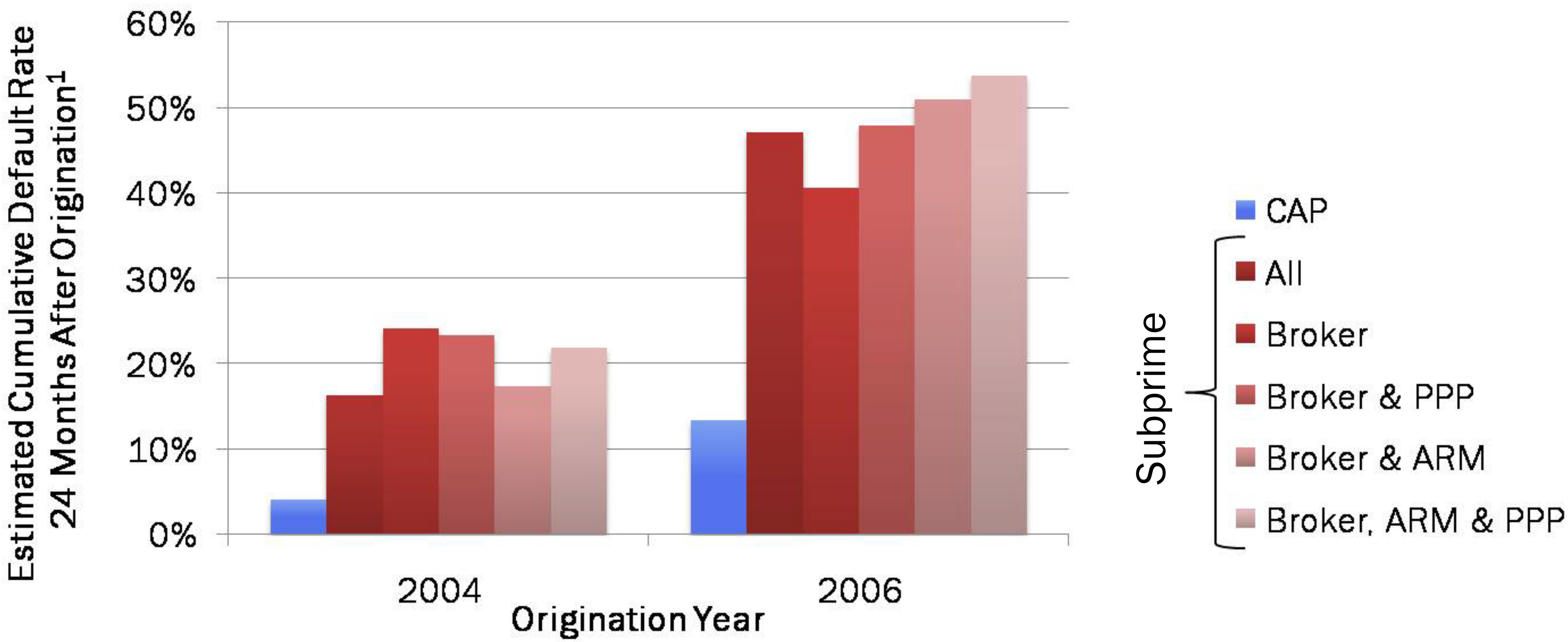


Equity gains have been mostly retained, despite the financial crisis

Source: Self-Help; Fannie Mae

Research Funded by the Ford Foundation

Performance

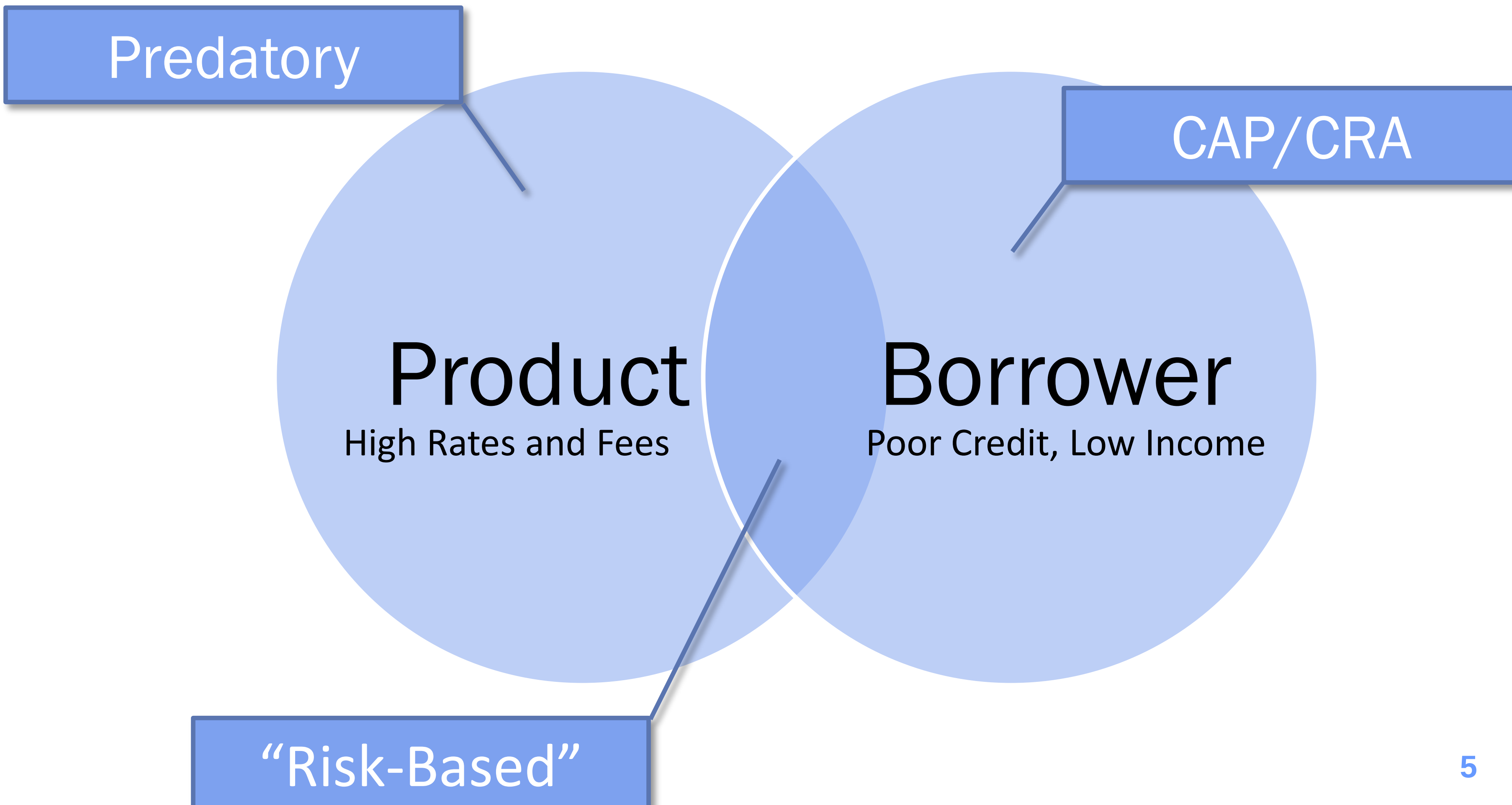


CAP loans continue to outperform subprime ARM, subprime FRM, and even prime ARM as of 2009Q4[2]

Sources: [1]Lei Ding, Roberto G. Quercia, Wei Li, Janneke Ratcliffe (2009). "Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models." Center for Community Capital. Exhibit 11. Estimation is based on a borrower with a FICO score between 580-620 with the mean value of other regressors. "Broker" indicates broker-originated loans, "PPP" indicates loans with prepayment penalties, and "ARM" indicates adjustable-rate mortgages.
[2]MBA National Delinquency Survey; Self-Help

Research Funded by the Ford Foundation

What is Subprime?
Risky Borrowers or Risky Mortgages?



Research Funded by the Ford Foundation

Implications Going Forward

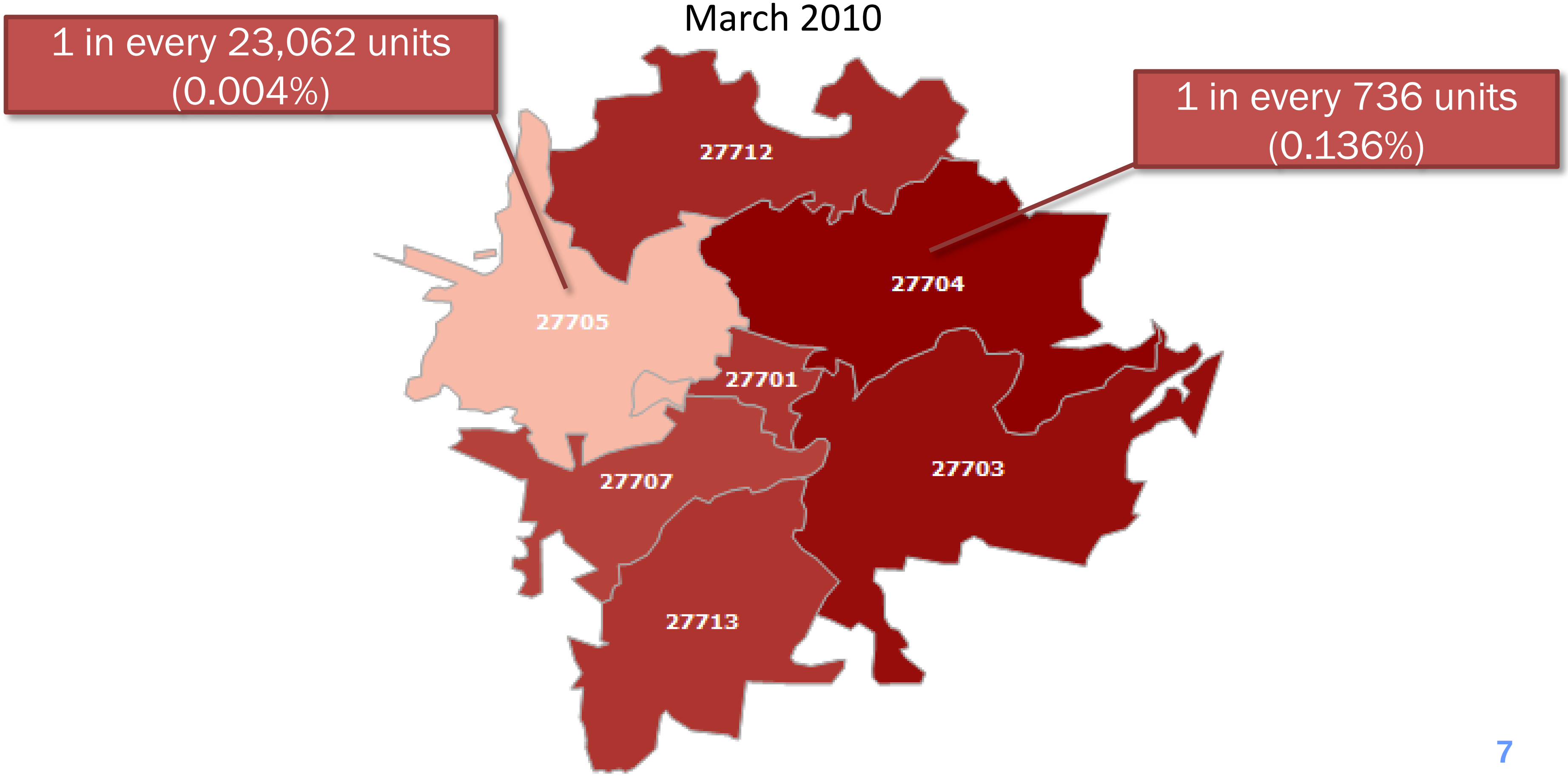
- CRA lending did not cause the crisis.
- Vital to distinguish between borrowers with low credit and products with high risk.
- Mortgage lending and homeownership can still expand financial opportunities of underserved households
- Traditional mortgage products perform better than exotic products for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

Research Funded by the Ford Foundation

Foreclosures are not evenly distributed

Durham, NC

March 2010



Source: RealtyTrac

Research Funded by the Ford Foundation

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

Research Funded by the Ford Foundation

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.

Research Funded by the Ford Foundation