

The Foreclosure Crisis and Minority Communities

A Research Reconnaissance

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*Research and analysis on the
transformative power of capital*



Outline of Presentation

- Blaming the CRA... really?
- Positive impacts of state consumer protection laws
- Negative impacts of federal preemption of state laws
- Disproportionate impact on minority communities
- What can we do? Looking ahead

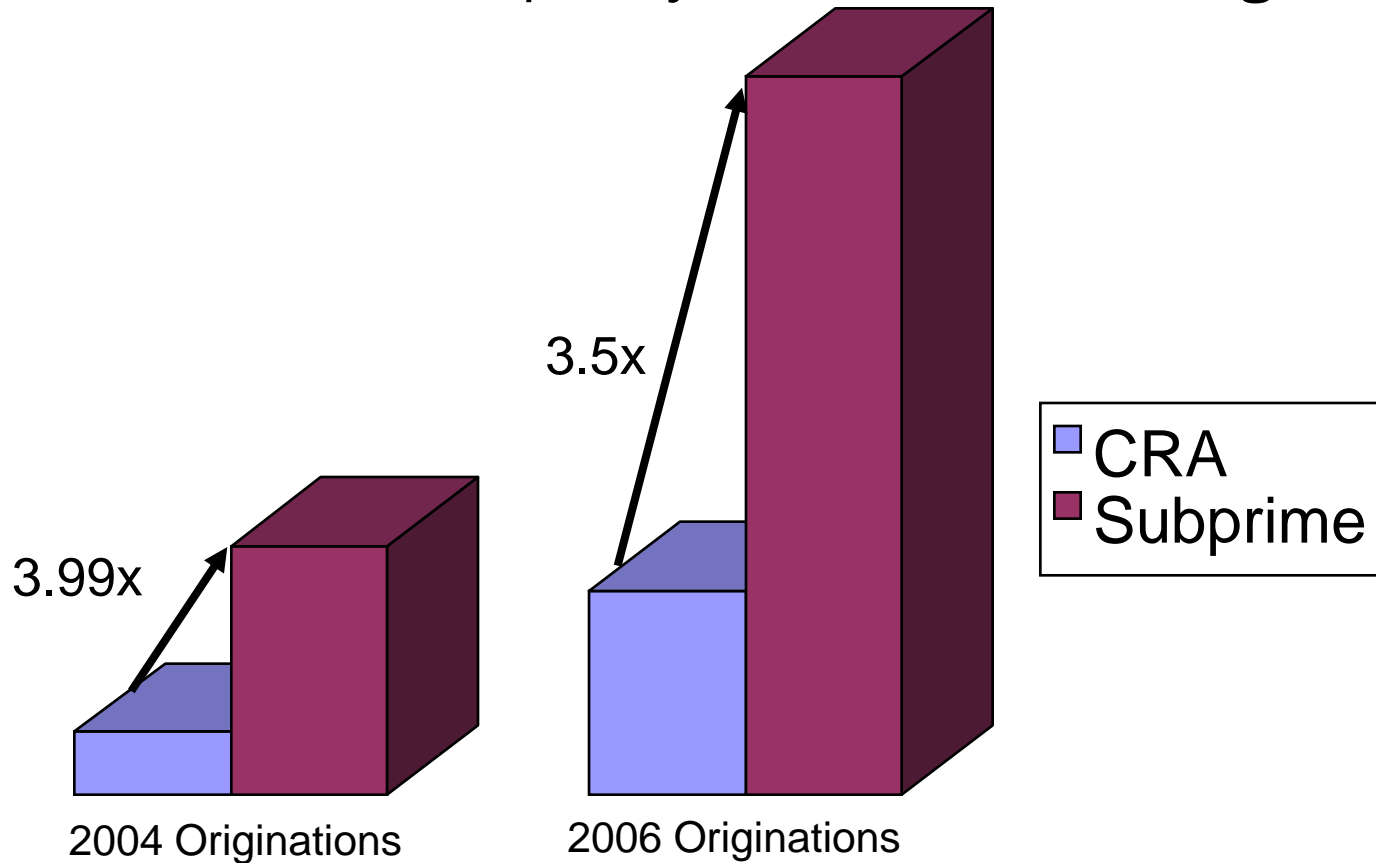
The Right Way to Expand Credit to Minority Households

- **CRA Partnership between Self-Help, Ford Foundation, Fannie Mae**
 - Secondary market outlet for CRA/Affordable Housing loans
 - Fixed rate, 30-year, prime mortgages
 - 50,000 loans funded; \$4.5 Billion
- **Who is served?**
 - Low down-payments
 - More than half had original LTV of 97% or above
 - Flexibility on credit and income
 - More than 40% minorities; more than 40% female-headed
 - Average income \$32,600 (62% of Area Median Income).



For Similar Borrowers – Subprime Loans Do Worse

Predicted Serious Delinquency 24 Months after Origination



Note: Estimation is based on a borrower with a FICO score between 580-620 with the mean value of other regressors. Controlling variables include borrower DTI, FICO score, home equity, loan age, loan size, area credit risk, area unemployment rate, and interest rate environment.



Subprime Features are Linked to Elevated Default Risk

Subprime Loan Feature			Default Rate of subprime vs CRA	
ARM	Prepay Penalty	Broker	2004 Loans	2006 Loans
●	○	○	1.6 x	1.26 x
●	●	○	3.3 x	3.3 x
○	○	●	5.9 x	3.04 x
○	●	●	5.7 x	3.6 x

¹¹ The predicted cumulative default rate is defined as 90-day delinquency as of 24 months after origination for a borrower with a FICO score between 580-620 and holding a mortgage originated in 2004 or 2006, with the mean value of other regressors. The estimation is based on regression results to be found in the full paper. The subprime default is compared to the level of default for CAP loans, which are retail originated, fixed-rate loans without prepayment penalty.



Findings

- Default risks can be significantly mitigated by product and origination process
- Subprime features increase risks: Variable interest rates, repayment penalties, and broker origination
- Subprime products/broker channel are root causes
- With sustainable CRA mortgages, many foreclosed families would still be in their homes



Positive Impacts of State Consumer Protection Laws

- State anti-predatory lending laws (APLs) enacted to expand consumer protections. NC first state to enact law
- APLs copied or extended restrictions beyond HOEPA. NC is an example of a strong law (extended restrictions)
- Longitudinal analysis file merges HMDA and Columbia Collateral file (4.5 million loans)



Positive impacts of State Consumer Protection Laws

- State laws lower default rate for neighborhoods in states with laws that extended federal coverage and/or restrict more contract terms, such as prepayment penalties
- Strong state laws lower neighborhood default rates by 4.1 percent to 18 percent, depending on the default risk measure considered.
- Thus, strong state laws made the crisis less severe



Negative Impacts due to Federal Preemption of State Laws

- What were the impacts of the 2004 OCC preemption of state APLs?
- After preemption, OCC-preempted lenders increased their share of loans originated with risky subprime characteristics
- Loans originated by OCC-preempted lenders were more likely to default after preemption

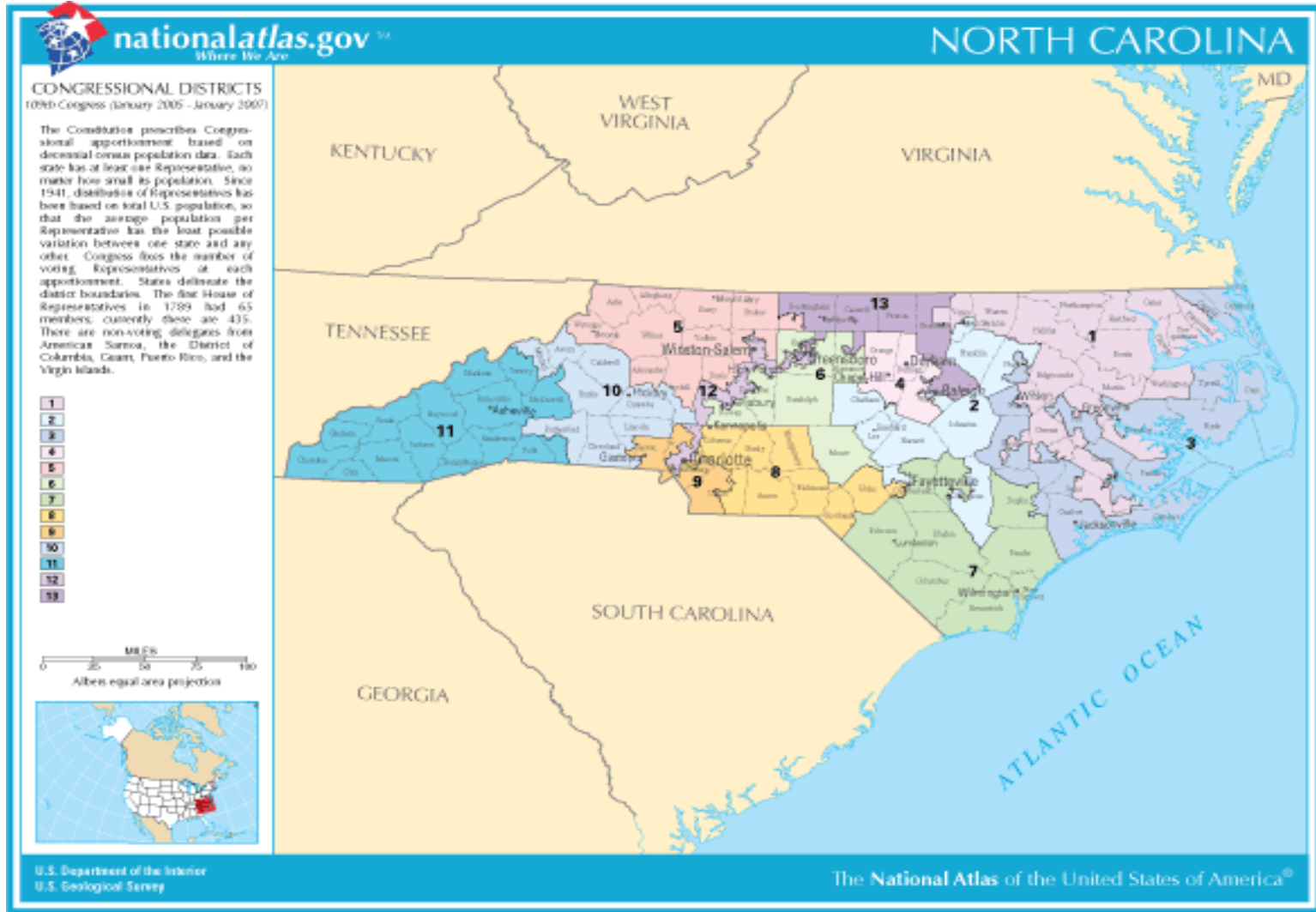


After Preemption, for 2004 OCC-Preempted Loans...

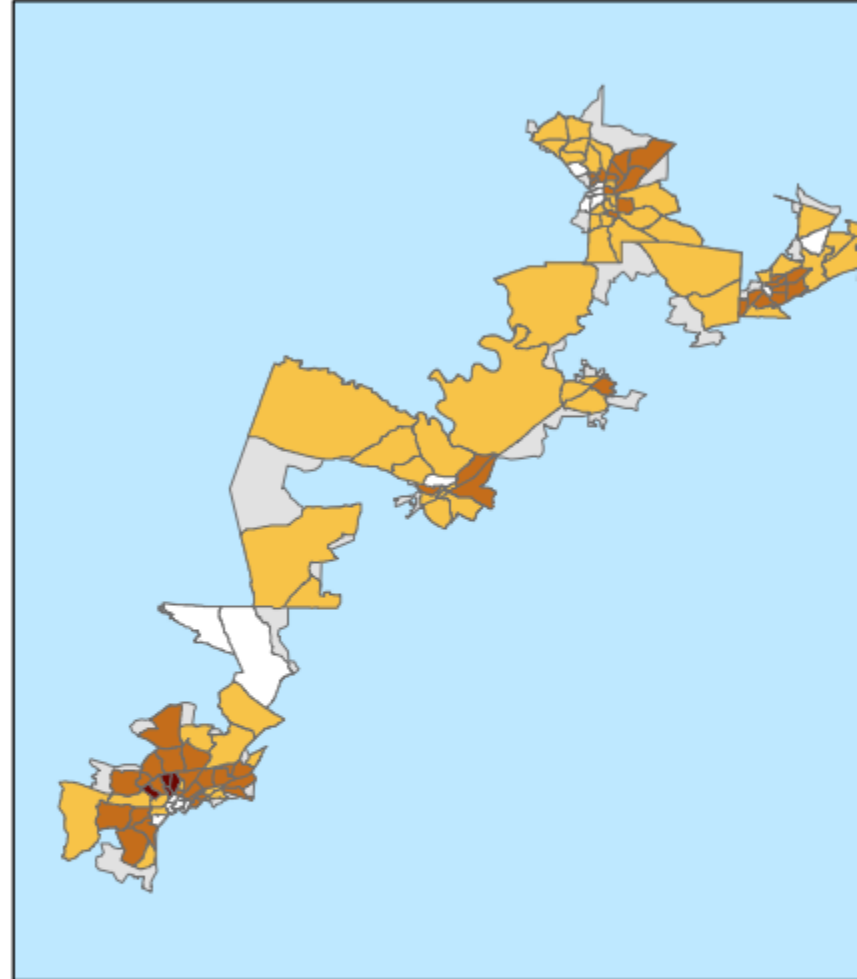
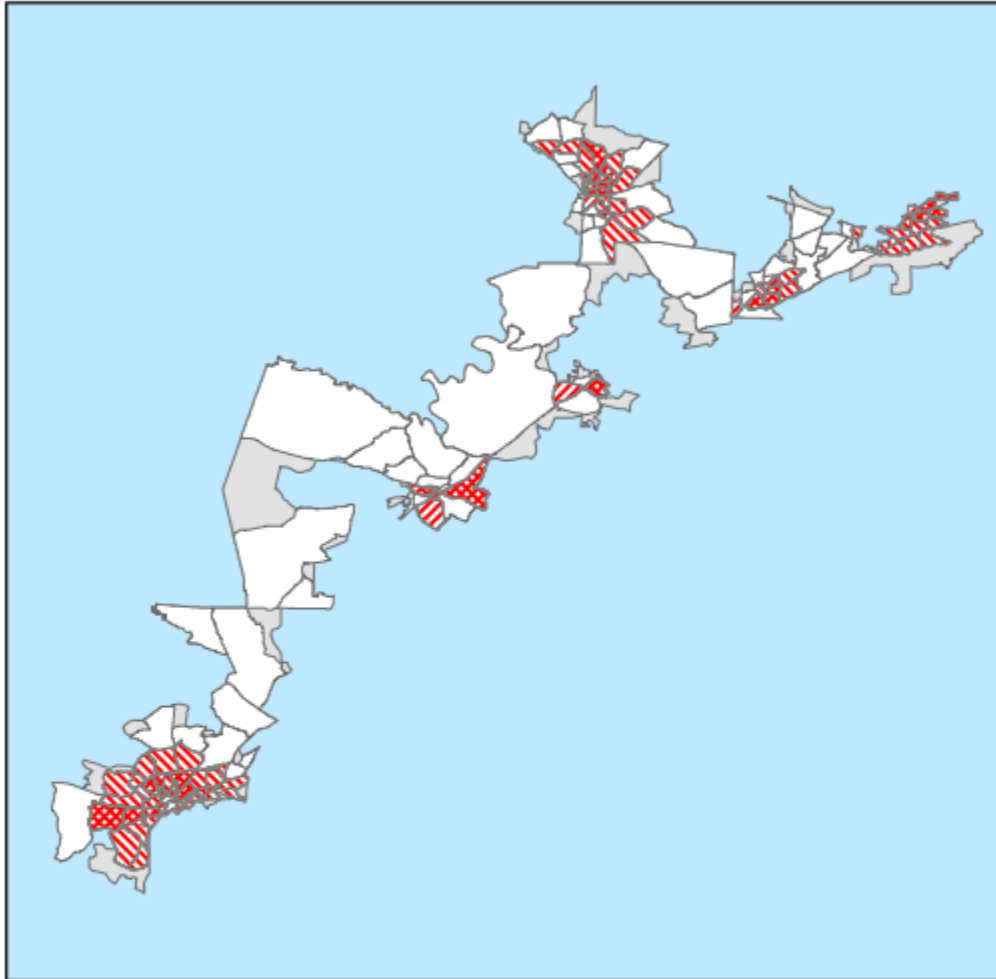
- Purchase fixed-rate loans were 7% more likely to default
- Refinance adjustable-rate mortgages 41% more likely to default
- Default rates outpace those of independent mortgage companies that remained subject to stronger APLs.
 - Increase in the default rate of fixed-rate refinance mortgages 20 % higher











Subprime Lending, Minority Communities And the Foreclosure Crisis in North Carolina



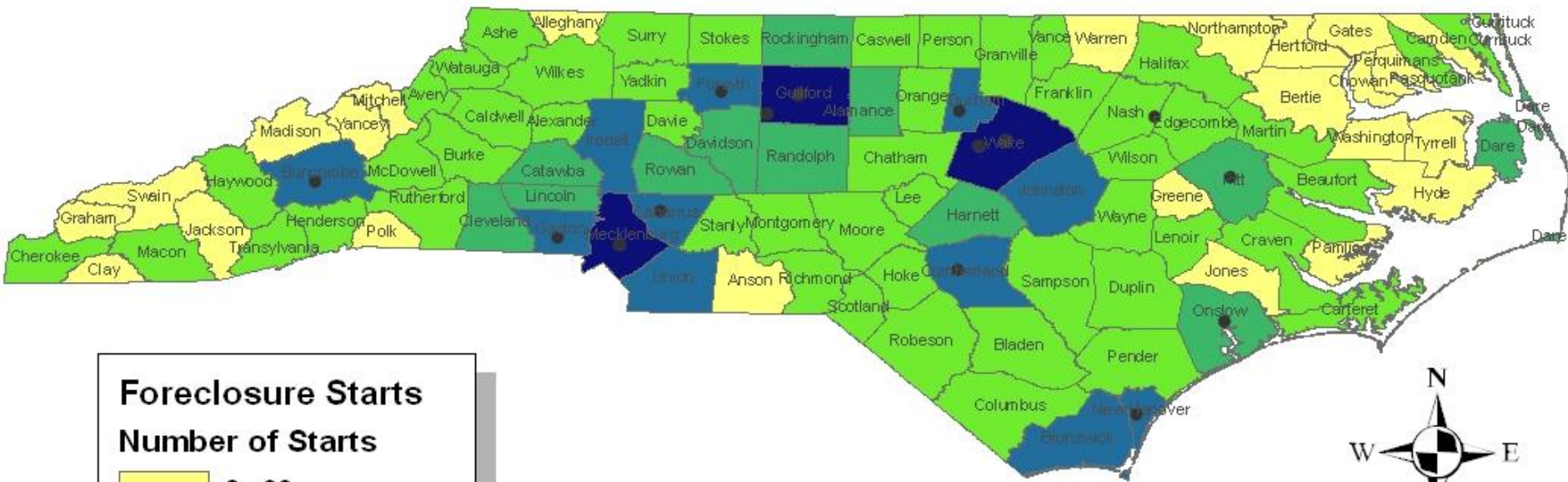
Subprime Lending Concentrations (2005 and 2006) North Carolina - Congressional District 12



-  Below 80% District Median Income
-  Above District % Black/Latino
-  N/A

-  Below 20% Subprime
-  20% - 40% Subprime
-  40% - 60% Subprime
-  Above 60% Subprime
-  N/A

Number of Annual Foreclosure Starts in October 2008 - September 2009 by North Carolina County



Source: North Carolina Administrator of Courts Foreclosure Start Data
September 2009

Compiled by: The North Carolina Commissioner of Banks

The Center for Community Capital at
The University of North Carolina at Chapel Hill



Effective Loan Modifications Can Help Minority Communities

- Payment relief mods generally reduce the redefault risk but do not have very consistent impacts
- Principal reduction has consistent impact in reducing redefault risk.
- Principal reduction can create better cash flow for investors in some markets
- Principal reduction found most effective in areas with a high incidence of subprime activity prior to the crisis



Looking Ahead

- Some is known about the impact of the crisis on minority communities. Much remains to be examined
- Important to document the impacts of the crisis, in all its facets. Difficult to quantify because of lack of data
- There is a reality about the crisis that is hidden behind the national conversation about rates and numbers
- Important to document the long term impacts of the crisis on families and children



For copies of the studies, please visit...

<http://www.ccc.unc.edu/>

Thank you