



Lessons to Learn from CRA Lending

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Reinventing Older Communities
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Center *for* Community Capital
*Research and analysis on the
transformative power of capital*



CRA Case Study: CAP Reaching Target Market

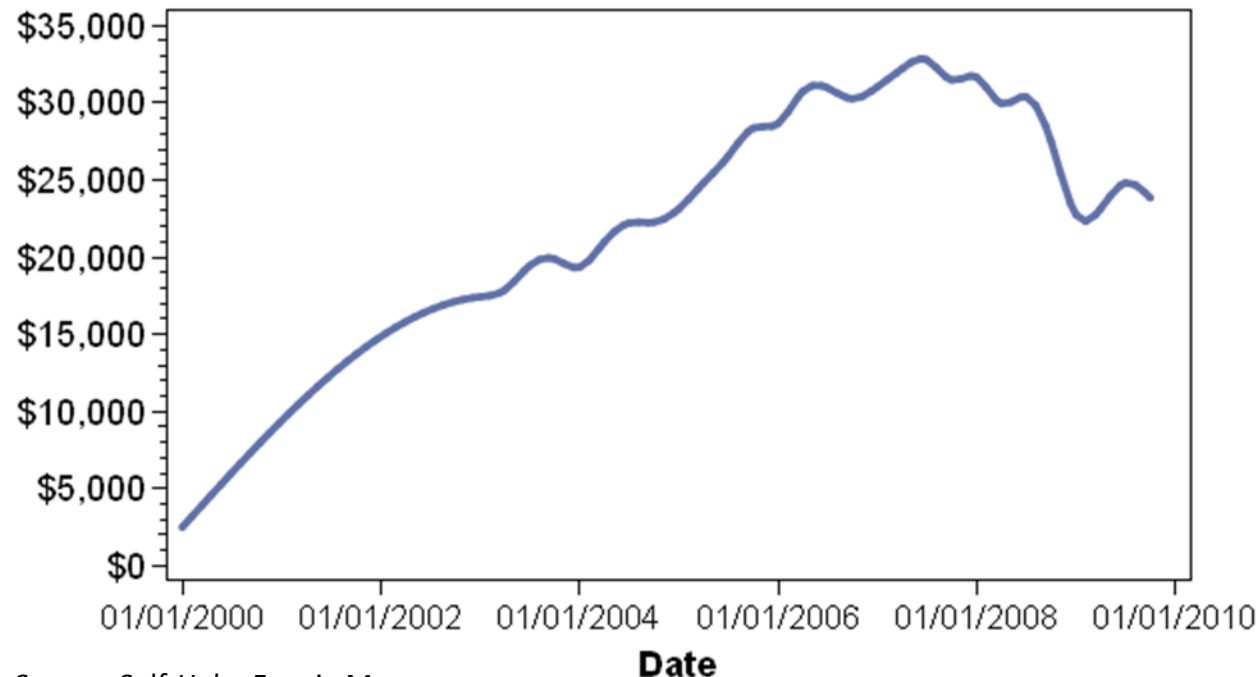
46,000 loans	
Median Original Loan Balance	\$79,000
Percent with Original LTV >95%	69.3%
Median Annual Income	\$30,792
Median Annual Income as % of AMI	60.0%
Percent with Original Credit Score <660	46.1%
Percent Female-Headed Household	40.5%
Percent Minority	39.3%

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.

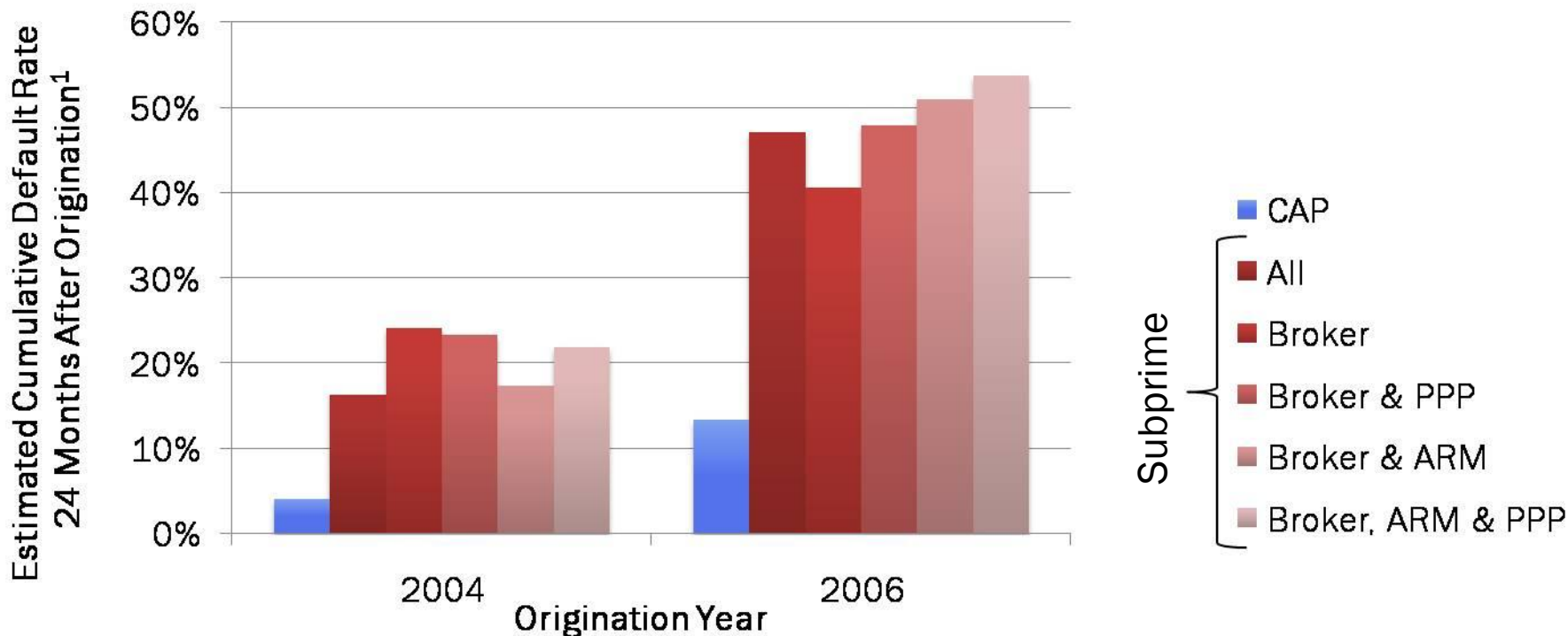
Median Total Equity Accumulated Since Origination



Equity gains have been mostly retained, despite the financial crisis



Performance



CAP loans continue to outperform subprime ARM, subprime FRM, and even prime ARM as of 2009Q4²

Sources: ¹Lei 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.

²MBA National Delinquency Survey; Self-Help



What is Subprime? Risky Borrowers or Risky Mortgages?

Predatory

CAP/CRA

Product

High Rates and Fees

Borrower

Poor Credit, Low Income

“Risk-Based”



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.

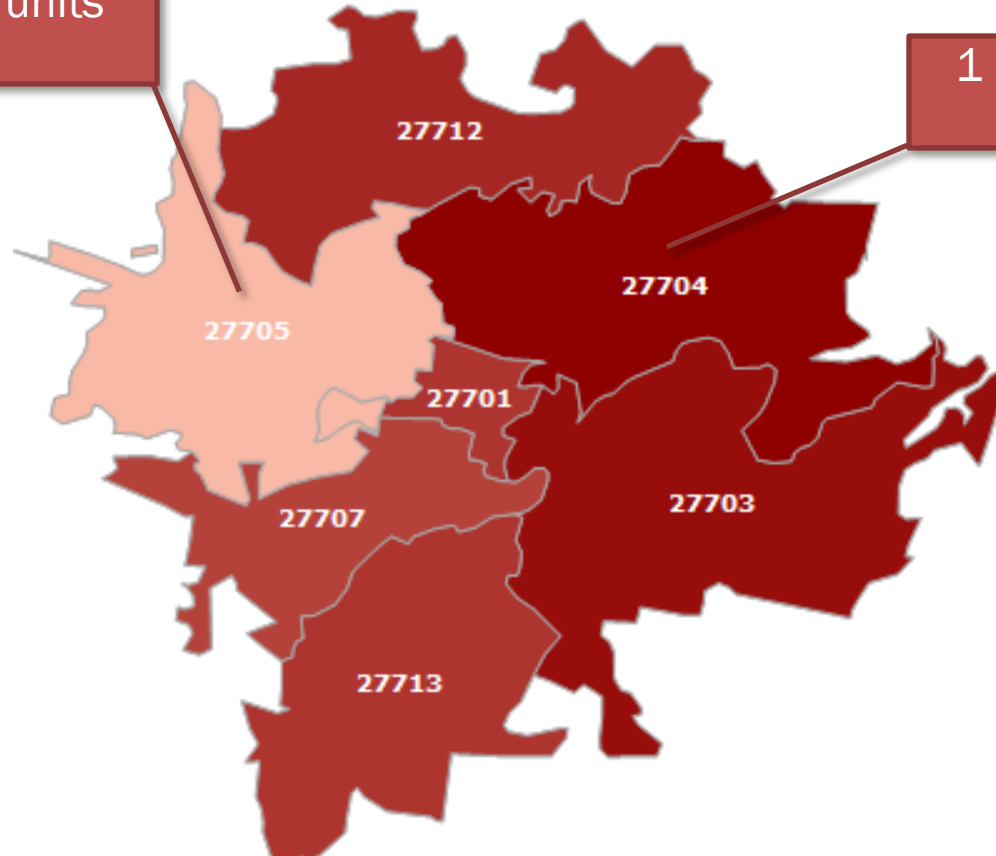
Foreclosures are not evenly distributed

Durham, NC

March 2010

1 in every 23,062 units
(0.004%)

1 in every 736 units
(0.136%)





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.