Point of View:

Subprime loans were a world of their own
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Roberto Quercia Comment on this story
CHAPEL HILL - As the national financial crisis turns into a political football, let us inject some facts about subprime mortgages and efforts to expand homeownership.

Researchers at UNC-Chapel Hill's Center for Community Capital have been studying housing policy and the homeownership finance system for years. Our findings: not all mortgages are created equal.

For 30 years, banks have had a motive in the Community Reinvestment Act (CRA) to expand access to "safe and sound" mortgages. Over time, real innovation led to changes in underwriting guidelines and servicing practices, while the U.S. homeownership rate experienced a substantial rise. From just 1995 to 2001, it grew by 3.9 percentage points, and it did so pretty soundly: By the end of 2001, only 3 percent of conventional loans were past due.

But times changed. From 2003 to 2006 the non-prime mortgage market surged from less than 10 percent of the market to nearly one third. As columnist Froma Harrop recently pointed out on this page, CRA was not a major factor driving capital into the subprime market. More likely, it was the prospect of high yields. But now a full 30 percent of those subprime loans are delinquent.

Our multi-year study of a large portfolio of CRA and affordable mortgages made to lower-income borrowers clearly confirms that traditional CRA mortgages are better for borrowers: If these borrowers had taken out typical subprime loans instead, we estimate their default rate would have been three to five times as high.

Why? A typical CRA loan is a 30-year amortizing, fixed-rate mortgage, while non-prime mortgages carry higher rates and fees, prepayment penalties and/or adjustable payments that could double overnight. Its no surprise that borrowers with similar profiles actually do much better with CRA-compliant loans in avoiding defaults or foreclosures. And, if borrowers do better, so do the lenders and investors.

Still, certain commentators (for example, Charles Krauthammer's column of Sept. 26) conflate mortgage policies aimed at advancing homeownership with the subprime market meltdown.

A large part of "what went wrong" lay in the failure of policy makers and regulators to recognize and act on this distinction. Recognizing the difference is essential to understanding the current crisis and charting a recovery and new housing policy.

Roberto Quercia is director of UNC- Chapel Hill's Center for Community Capital and a professor in the Department of City and Regional Planning.