

Highlights of [GAO-04-21](#), a report to congressional requesters

Why GAO Did This Study

Community economic development (CED) lenders serve the credit needs of nonconventional borrowers and economically distressed areas across the nation. However, little is known about this industry, its ability to tap private sources of capital, and loan performance and volume in the industry. To provide information that would be helpful in considering the role that the federal government might play in facilitating the creation of a secondary market for CED loans, GAO was asked among other items to (1) determine the barriers to more widely securitizing CED loans and (2) identify options for overcoming these barriers and the likely implications of these options.

COMMUNITY AND ECONOMIC DEVELOPMENT LOANS

Securitization Faces Significant Barriers

What GAO Found

CED lenders rely on multiple federal programs that offer grants, loans, guarantees, and other support to help fund lending activities. Some of these lenders have expressed an interest in finding alternative sources of funding, including securitizing the loans that they make. However, the volume of CED loans potentially available for securitization is not known. In addition, the community economic development industry is characterized by nonstandard underwriting, loan documentation and loan performance information, and limited mechanisms for securitizing loans. Without greater understanding of available loan volume, the capital markets have little interest in developing standards or mechanisms for securitizing CED loans.

CED lenders also face barriers to securitizing their loans. Some of these barriers are unique to CED lending, including: limited lender capacity to manage a securitized portfolio of loans; the external legal and regulatory limitations and requirements governing the use of the funds that these lenders receive; and the high cost of originating and servicing CED loans.

This report describes options that the federal government might exercise to address the identified barriers. This report also describes the implications that implementing each option might have, including the potential for increased federal costs and changes in lenders' missions. Ultimately, securitization may not be a significant alternative for CED lenders until the volume of loans available for securitization is better known and lenders are convinced of the benefits of participating.

Wall Street and Main Street Face Barriers to Securitizing Economic Development Loans



Sources: Corbis Images (left photo); GAO (right photo).

www.gao.gov/cgi-bin/getrpt?GAO-04-21.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William Shear at (202) 512-4325 or shearw@gao.gov.