ACCESS TO CREDIT AND COMMUNITY DEVELOPMENT

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JUNE 8, 2012

So dating is relatively easy. How is marriage?

- Not as easy
  - The easy deals have (for the most part) already been made
  - So the next deals will be more complicated
- The complications
  - Multiple funding sources
  - Long time horizons
  - Regulations and compliance issues
  - No one entity knows how to do every piece of this

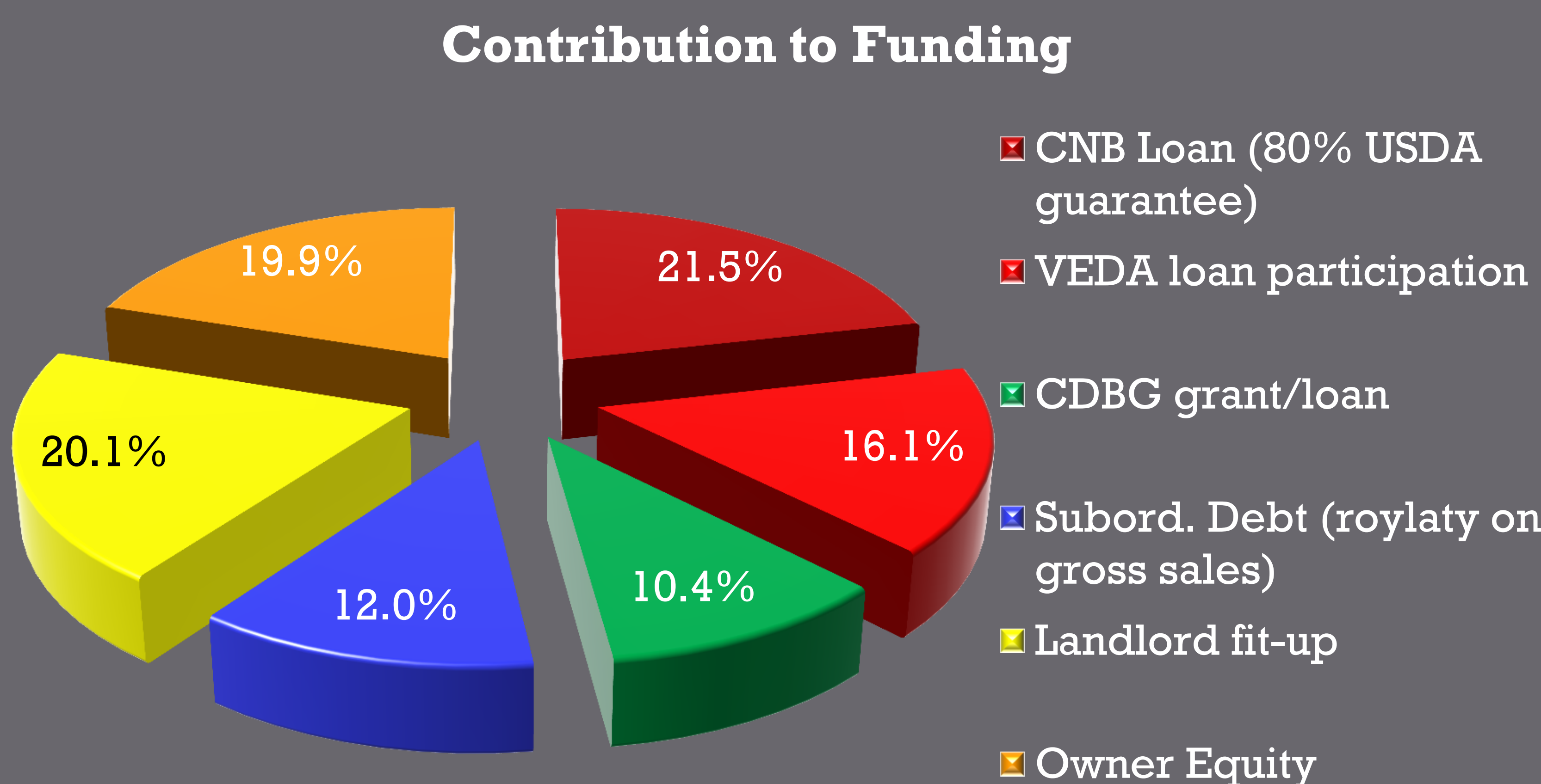
Collaboration is the cornerstone…

- In our "Resurgent Cities" research, collaboration is identified as a vital prerequisite
  - "Time and again, our examination of the resurgent cities' histories indicated that the resurgence involved *leadership* on the part of key institutions or individuals, along with *collaboration* among the various constituencies with an interest in economic development." (Kodrzycki and Muñoz, 2009)
- Collaboration—across private financial institutions, CDFI's, economic development agencies, government orgs, regulatory experts, etc.—is just as critical to community development deals

…and Patience

- At our most recent Community Development Advisory Council (CDAC) meeting, it was noted that
  - Deals routinely take a long time to reach maturity—from a couple years to as long as five years or more
  - This requires building enduring relationships among the many partners
    - Partners need to **seek each other out** and nurture these relationships while the pipeline is being built
  - CDAC members noted the need for "patient and flexible capital"

A Picture of Collaboration: VT Smoke and Cure Financing



Some thoughts on affordable housing

- First: Employment matters most
- Second: Two viable models
  - Manufactured housing, and
  - Subprime lending!!! (yes, you heard that right)
    - (But we'll call it something different)

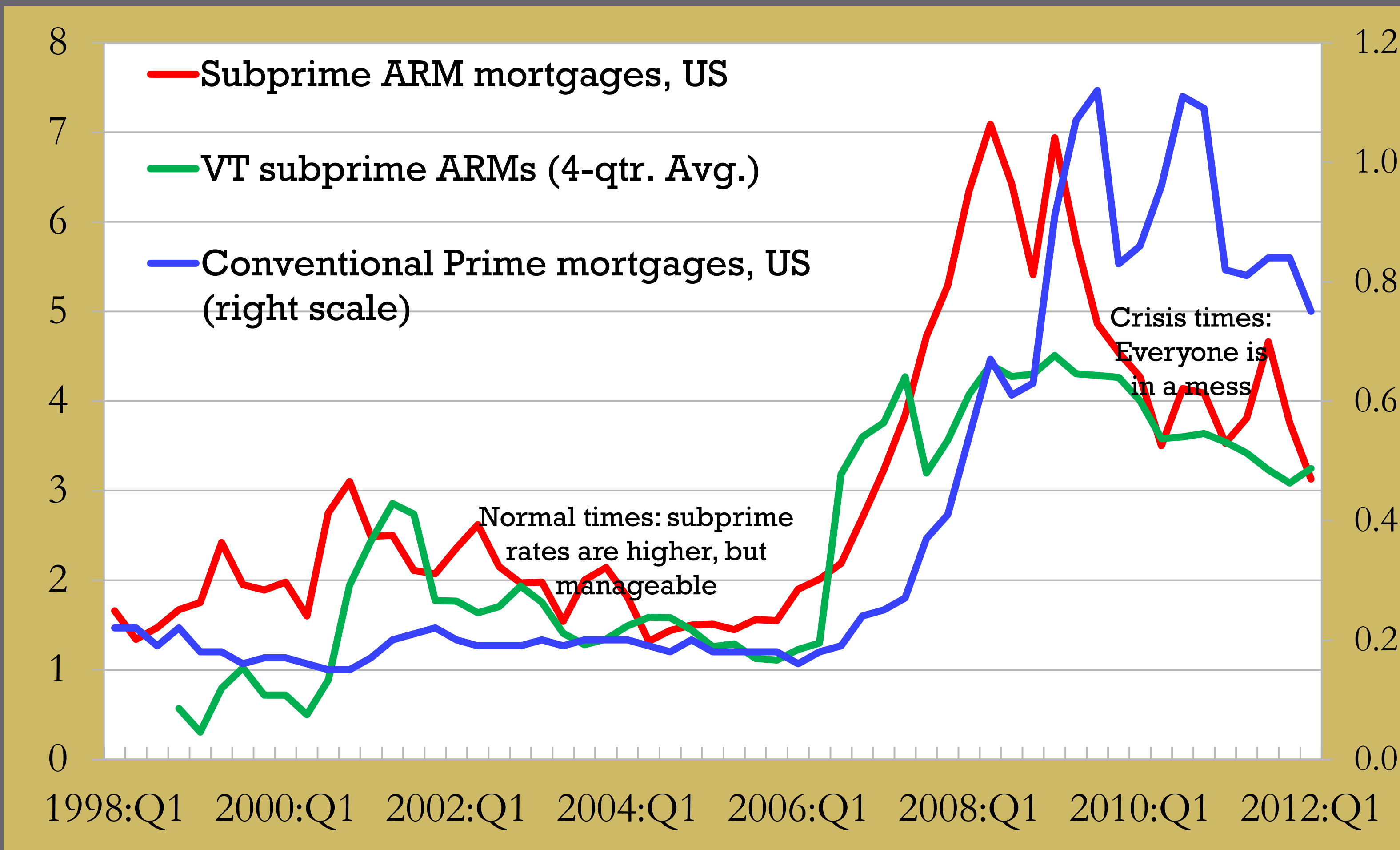
The manufactured housing model

- ROC-NH rocks
  - Housing is affordable ($41K average loan)
    - 57% low and very low income borrowers since inception
    - 67% low and very low income borrowers 2011
    - 56% first time homebuyers
  - Housing can be clustered and thus environmentally beneficial
- The default rates can be very low
  - For ROC: Cumulative loss rate = 1.4%
- How does that happen?
  - They work closely with borrowers who experience trouble
- That sounds expensive
  - But it's profitable!

Subprime "facts" and myths
Why an LMI mortgage program might make sense

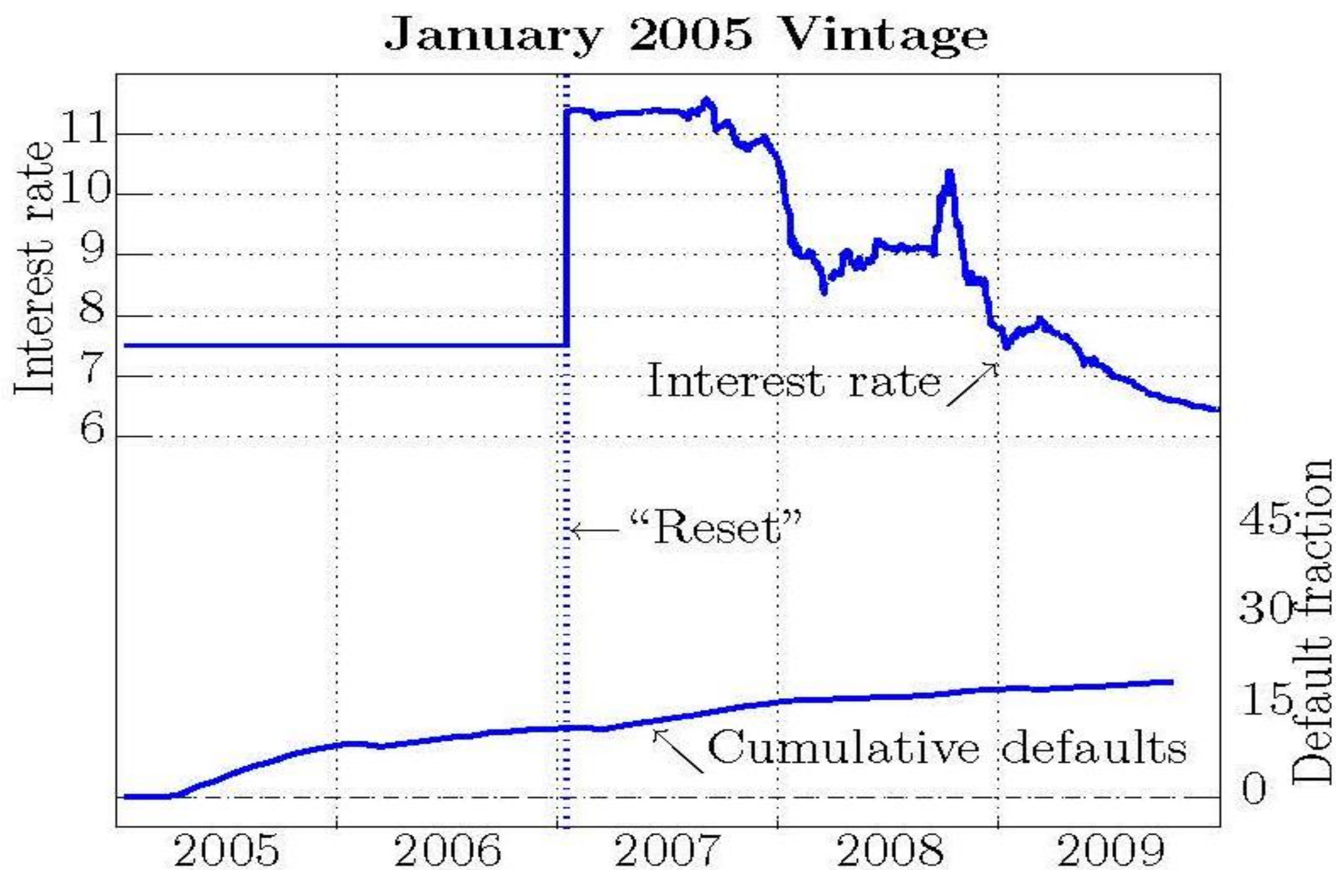
- The subprime population is too high risk, and should not get mortgages
  - Historical defaults rates for subprime about 2% in US
- Subprime mortgages are "exotic": Option-ARMs, Neg-Ams, IO, etc.—we should stay away from predatory products
  - NO: In fact, VERY FEW of subprimes were this type of mortgage
  - Almost all were 2/28 or 3/27 ARMS
- OK, but that's why they defaulted—the ARM resets!
  - NO: Little or no evidence of any reset effect
  - (In fact, many reset to lower interest rates)
- Securitization was a bad idea—Subprime MBS securities all lost huge amounts, and were a dumb idea
  - NO: In fact, losses on AAA "vanilla" MBS < 10%

Default rates



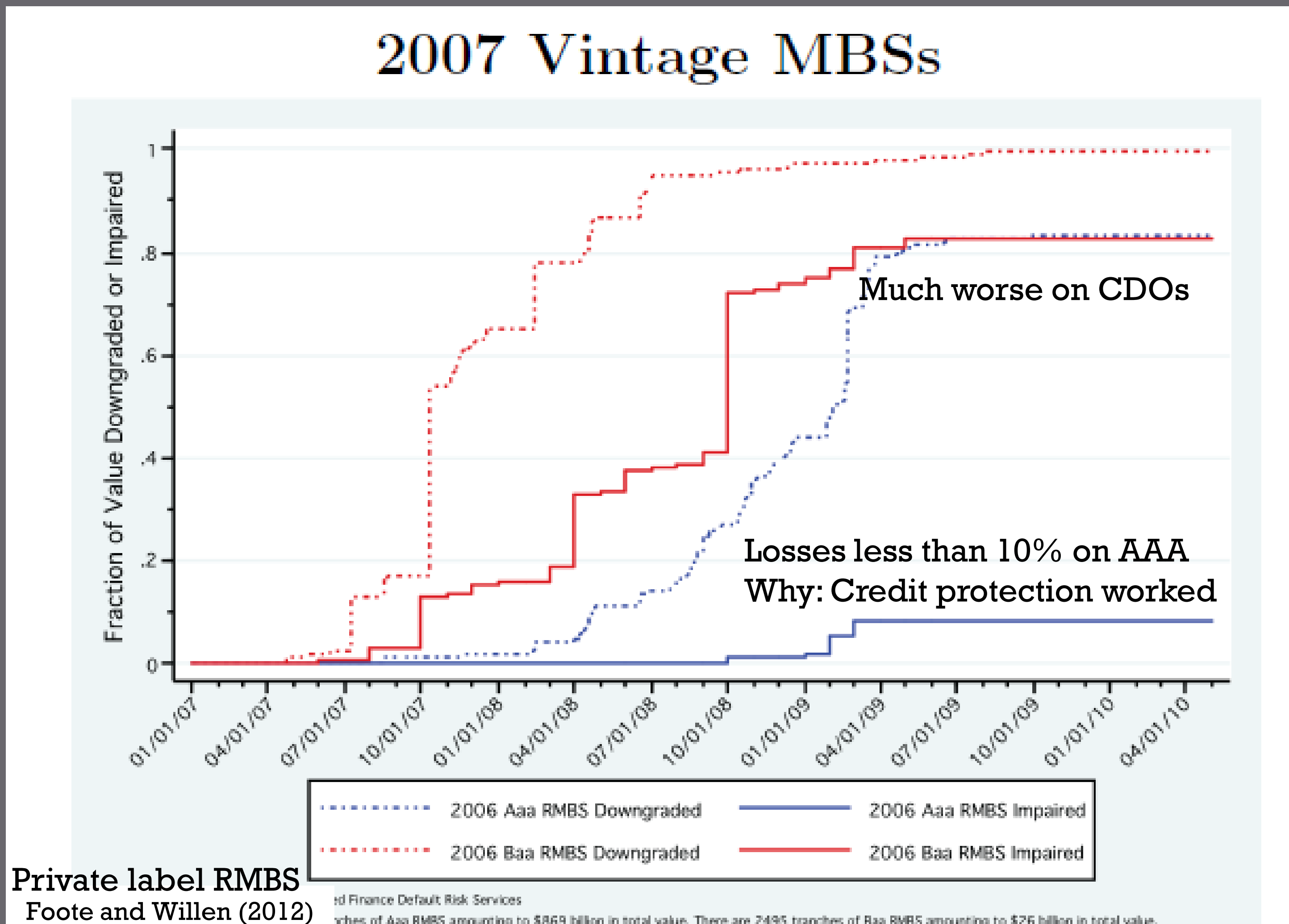
Source: Mortgage Bankers Association, Haver Analytics

Resets—not the problem



Source: Foote and Willen (2012)

Did securitization work?
A look at MBS performance



Prospects for an LMI mortgage program in VT and all of NE?

- Market*:
  - 23% have HH income below $25,000
  - 1/3 have FICO scores below 680

Vermont HH income and FICO statistics			
HH income	%/cum. %	FICO	%/ cum. %
<$10,000	6.1/6.1	<619	18/18
$10-25,000	16.7/22.8	620-679	14/32
$25-50,000	25.4/48.2	>680	67/100

- Complications with such a program?
  - Probably want some money down
  - Securitization options limited today, but could (should?) improve
  - **<u>FHA is an obvious option</u>**
  - Hold in portfolio? Depends on examiner tolerance.

- Still, worth thinking about a well-run LMI residential lending program
  - Money down, documentation
  - **Additional counseling/borrower contact appears to help**
  - FHA? Portfolio? Re-emergent securitization program? MA "Soft Second?"
  - Houses that are affordable now and later, without appreciation of the home

***Thanks to Ana Patricia Muñoz for compiling these statistics**

Source: Bureau of the Census, Equifax

And we don't have time to talk about…

- … Rental housing

In summary

- The Fed is eager to help facilitate new partnerships to accomplish commercial and residential lending, especially in LMI communities
- We know these deals will be complex
- So collaboration is key
- Successful examples and models for both commercial and residential lending exist
- Improving employment will help everything
  - That's my other job—we're trying!