ACCESS TO CREDIT AND COMMUNITY DEVELOPMENT

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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
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.
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

Contribution to Funding

- 21.5% CNB Loan (80% USDA guarantee)
- 16.1% VEDA loan participation
- 16.1% CDBG grant/loan
- 12.0% Subord. Debt (royalty on gross sales)
- 10.4% Landlord fit-up
- 20.1% Owner Equity
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!
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

Subprime ARM mortgages, US
VT subprime ARMs (4-qtr. Avg.)
Conventional Prime mortgages, US (right scale)

Normal times: Subprime rates are higher, but manageable
Crisis times: Everyone is in a mess

Source: Mortgage Bankers Association, Haver Analytics
 Resets—not the problem

Source: Foote and Willen (2012)
Did securitization work?
A look at MBS performance

**2007 Vintage MBSs**

- Losses less than 10% on AAA
  - Why: Credit protection worked
- Much worse on CDOs

Private label RMBS
Foote and Willen (2012)
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

Complications with such a program?
- Probably want some money down
- Securitization options limited today, but could (should?) improve
- **FHA is an obvious option**
- 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**
- 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

### Vermont HH income and FICO statistics

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<th>FICO</th>
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And we don’t have time to talk about...

- ... Rental housing
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!