

CRA AT FORTY

It's Time to Grow Up: Strategies for CRA's Next Evolution

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The Community Reinvestment Act was created in 1977 and since that time there have been only minor fundamental changes to its design. We've seen amendments allowing regulators to give credit for investments in minority- and women-owned banks; requiring state-by-state CRA analysis when conducting multi-state examinations; and a handful of other updates.

To put 40 years in perspective: Over that time, the world has witnessed roller rinks, disco, floppy disks, Trapper Keepers, heavy metal hair bands, "You've Got Mail," pagers, the Macarena, Gameboys and many more important and fundamental advancements and innovations. In the mortgage industry, we saw the rise of non-bank mortgage lenders who exploded with loan growth and then subsequently imploded during a sub-prime and housing crisis. We witnessed economic recessions and stock market crashes. We saw consumer expectations and communication fundamentally changed by the global, immediate connectivity of the Internet. To our regret, we've witnessed a diminishing middle class and widening income inequality coupled with war and terrorism within our borders. Change, resiliency and diversity are common traits of our great nation. These attributes have catapulted us through the past 40 years regardless of what we have faced. But in all that time, our Community Reinvestment Act has languished in the past with a mullet haircut, acid-washed jeans and a Members Only jacket.

This difference has been most evident in the past few years as stagnant wages, rapid home appreciation and lack of affordable housing inventory has made the possibility of homeownership a distant dream for many people. Per Fannie Mae, as of June 2017 only 27 percent of people state that it's a good time to buy a home, a survey low.¹ In addition, the Home Affordability Index has not seen equilibrium with historical averages since 2008.² When you take these issues and add in the reality of tighter credit standards, massive student loan debt and diminished federal,

¹ Matthew Classic, "A Seller's Market? Consumers Express Diverging Sentiment on Home Buying and Selling May," Fannie Mae, June 7, 2017, available at <http://www.fanniemae.com/portal/media/corporate-news/2017/may-home-purchase-sentiment-index-6566.html>

² ATTOM, "Q2 2017 U.S. Median Home Price at Least Affordable Level Since Q3 2008," June 29, 2017, available at <https://www.attomdata.com/news/home-prices-and-sales/q2-2017-home-affordability-index/>

state and local subsidy programs, meeting the CRA requirements for lending can prove very difficult for most banks. CRA needs to be brought current to reflect the challenges we experience today and not the world of 40 years ago.

Any manufactured home loan originated should receive CRA lending credit regardless of income or census tract.

If you research how many banks and mortgage companies actually lend on manufactured homes you would be shocked at how few accept this property type. For the ones that do lend on manufactured homes, you will typically find stringent credit "overlays" or greater down payment requirements for those borrowers. Those tighter loan standards make manufactured home applicants more difficult to approve than if the exact same borrower wanted to purchase a site-built home.

I have been amazed by how many borrowers, community groups, government housing employees and bank officers actually don't know that Fannie Mae and Freddie Mac will purchase manufactured home loans with only a 5 percent down payment; FHA loans only require 3 percent. The lack of knowledge is not their fault and only proves my point. Many lending institutions require greater down payments and higher credit scores for manufactured homes than what the GSE's and HUD require (e.g. overlays). Subsequently, fewer manufactured home applicants are approved by these institutions for a property type that is usually the most affordable per square foot for rural borrowers.³ The lack of manufactured home lending by many mortgage companies and banks has allowed two mortgage lenders to dominate this market. Per the Housing Assistance Council, "two large mortgage companies reported 41 percent of all rural manufactured home applications in 2012, neither of which was evaluated under CRA."⁴

I have been involved in lending policy for 20 years, and every bank has the right to develop lending policies that are prudent for the safety and soundness of its institution. But refusing or limiting lending on a property type that is a vital source of affordable housing to many rural communities is a concern that needs to be addressed. One way to solve this problem and promote manufactured home lending is to give CRA lending credit specifically for manufactured housing properties regardless of the borrower's income level or the property's census tract. Another alternative would be to segregate this property type into its own specific examination category with definitive metrics by which to gauge bank performance in their respective communities.

Require non-depository mortgage lending institutions to meet certain revised CRA lending requirements in states where they actively lend.

What difference is there between a bank originating mortgage loans versus a non-depository mortgage lender originating them? Absolutely none, so non-depository mortgage lenders should be held accountable to certain LMI

³ Smart Growth American, "Rural Development Policy Toolkit: Providing Well-Place Affordable Housing in Rural Communities," April 2017, available at https://smartgrowthamerica.org/app/uploads/2017/04/rural-toolkit_affordable-housing.pdf

⁴ Housing Assistance Council, "CRA in Rural America: The Community Reinvestment Act and Mortgage Lending in Rural Communities," January 2015, available at <http://www.ruralhome.org/storage/documents/publications/rtrreports/rtr-cra-in-rural-america.pdf>

lending requirements in the states they “serve.” Six out of the top 10 mortgage originators are non-bank mortgage lenders not regulated by CRA.⁵ It’s time the Community Reinvestment Act evolves to recognize this fact.

If we want to increase lending to LMI borrowers or census tracts, why are we excluding 60 percent of the largest originators from this requirement? A non-depository lender is different from a bank and not all requirements of CRA should apply to them. But revisions to the Act could be made to include certain lending requirements based on peer activity to hold these non-depository institutions accountable to LMI lending expectations.

Financial and homebuyer education should be a required aspect of the mortgage process and receive CRA credit.

You may passionately disagree with me on this next point, but every person in America should not own a home. Homeownership is not an inherent right but instead a privilege. The financial education and awareness necessary for homeownership is the responsibility of many people and organizations that educate and assist people who want to achieve this. This is no different than a parent, pastor or teacher who educates a young adult on how to achieve their dream of attending college.

Buying a home is the largest financial decision that most people make in their lifetime, but very few people actually understand the responsibilities, requirements and process to accomplish it. When I purchased my first home, I was clueless. There were a myriad of financial questions and I had no idea where to start. Then when I actually bought the home, I didn't realize all of the hard work, time and money needed to own it versus living in an apartment. It took me a week before I realized that I needed to buy a lawn mower to cut the grass. But, like many young adults with little disposable income, I was broke until payday, so the grass was going to have to wait another week.

If we want to empower as many people to own a home as possible, and if we want as many people to be homeowners as possible, we must educate people so they are as equipped as possible for the challenges and responsibilities that will come with it. Who better to educate our communities on responsible banking services than the banks that serve those communities? This is what we do every day. We are the subject matter experts and should take on that role of educator to our communities so they can make safe and sound financial decisions. We need to teach credit responsibility, safe banking practices, home buying, budgeting and many other things to ensure that our clients do not make decisions that could harm them for years to come. We should not limit education to LMI borrowers or census tracts as there are just as many first-time homebuyers at all income levels that don't understand these basic concepts. Anyone who has ever originated a mortgage loan can attest to this.

Increase the CRA-qualifying income limit dramatically or allow CRA lending credit for up to 175 percent of the current Area Median Income level.

In my career, I have developed several lending programs to specifically assist LMI borrowers. It’s incredibly frustrating when a community’s Area Median Income (AMI) is so low that most applicants will not qualify for a mortgage loan due to their lack of income compared to their existing debt. This disparity is increasingly an issue with borrowers who are LMI.

⁵ Michele Lerner, “The mortgage market is now dominated by non-bank lenders,” The Washington Post, February 23, 2017

In my state, there are counties where the AMI is only \$34,200. To keep the homebuyer's debt-to-income ratio at 41 percent, their total monthly debt, including their proposed mortgage payment and all other debt payments, must not exceed \$1,168. Now, assume the borrower has average monthly expenses and maintains a budget. Like most of us, the borrower likely has a \$250 car payment with insurance, \$230 for utilities and phone and food and household expenses of \$250, bringing those total monthly payments to \$730. That leaves the borrower just \$430 for a principal and interest monthly mortgage payment.

Let's take a step further. If the borrower is looking to stay on budget, a \$430 monthly mortgage payment roughly equates to a home purchase price of \$60,000. In most every county in my state, and most state across the nation, finding a home in a safe, desirable neighborhood to raise a family at that price is, at best, difficult. I'll use this opportunity to remind you of the importance of manufactured housing to meet affordable housing needs.

To further complicate this discussion, in many cities such as San Francisco or Washington D.C., home values are rapidly increasing, making it nearly impossible for a borrower at 100 percent of AMI to purchase a home, much less someone at or below 80 percent AMI. In addition, most down payment assistance programs, subsidies or other discounts require borrowers to meet the LMI income level to receive benefit. Those potential homebuyers, who are slightly above the AMI for their community, and also in a somewhat better financial position to purchase a home, are locked out of these programs.

Now, let's quickly adjust this scenario. Looking at the AMI of \$34,200, let's say we increase the CRA-qualifying income level to 175 percent of the AMI. This increases the borrower's allowed income maximum to \$59,850, opening up access to a higher payment and assistance programs. For perspective, in my state, the average salary for a teacher is \$50,000⁶, a police officer is \$41,300⁷ and a firefighter is \$41,923.⁸

To summarize, the HUD AMI limits have not increased or equalized with rising prices on consumer goods, stagnant wages and the regular cycles of prosperity and recession that our economy goes through. We must look at the income formula and encompass more people that are in need of mortgage assistance through down payment programs, rate subsidies and specific loan programs tailored to meet the demand.

For the sake of time, I'm only addressing one specific aspect of the Community Reinvestment Act and offering thoughts on the changes needed. Some may view these changes as far-reaching and excessively burdensome. However, if you take a look at each suggestion carefully, you will find one common thread among all of them - a focus on inclusion and acceptance in order to assist more people in need.

Our desire should be to place more potential homebuyers under CRA regulatory requirements and provide more assistance, more education and more opportunities. As community bankers, we have the duty to serve those communities that have placed their trust in us and the vast majority of us are willing and able. I'm not proposing more regulation with my suggestions. I'm simply asking that we utilize the wisdom and knowledge that comes with

⁶ Teaching Degree.org, available at <http://www.teachingdegree.org/kentucky/salary/>

⁷ Tim Hrenchir, "What Is Average Salary of a Police Officer in Kentucky?" Newsmax.com, August 20, 2015, available at <http://www.newsmax.com/FastFeatures/average-salary-police-officer-kentucky/2015/08/20/id/671085/>

⁸ Salary.com, available at <http://www1.salary.com/KY/Fire-Fighter-salary.html>

growing older and expand the reach of the Community Reinvestment Act so we may serve more people tomorrow than we have today.

ABOUT THE AUTHOR

CHIP CLEMENTS joined Forcht Bank in August 2015 as Executive Vice President of Mortgage Lending & Servicing. Prior to that role, he held similar positions at Republic Bank & Trust and New Equity Mortgage. Mr. Clements has created or turned around various bank divisions including mortgage lending, consumer lending, credit cards, indirect auto, online lending, mortgage correspondent lending, information technology security, enterprise risk management and loan servicing. He has also been heavily involved in mergers and acquisitions of FDIC failed banks. He can be reached for further comment at chipclements.me@gmail.com.

ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40th anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit www.findCRA.com/CRAat40.