NATIONAL
COMMUNITY
REINVESTMENT
COALITION

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December 6, 2010

The Honorable Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation (FDIC)
3501 N. Fairfax Drive
Arlington, VA 22226

Dear Chairman Bair,

The National Community Reinvestment Coalition (NCRC) requests that you promptly investigate the policies of banks that you examine for compliance with the Community Reinvestment Act (CRA) regarding their policies of refusing to lend to borrowers with credit scores that qualify them for FHA loans. We believe that these policies violate CRA's affirmative mandate for institutions to meet the credit needs of all communities, including low- and moderate-income communities. We also believe that these policies violate the Fair Housing Act and the Equal Credit Opportunity Act.

The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promotes access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families. NCRC and our member community organizations provide housing counseling services to consumers that have been adversely affected by the adoption of these unwarranted underwriting policies.

As you know, the Federal Housing Administration (FHA) will guarantee loans to borrowers with FICO scores as low as 580 provided that these borrowers have down payments equaling 3.5 percent of the loan amount. NCRC, as a United States Department of Housing & Urban Development National Housing Counseling Intermediary discovered that several lenders regulated by your agency do not offer FHA loans to borrowers with FICO credit scores between 580 and 620, 640 and even 660.

NCRC subsequently conducted fair lending "testing" and researched publicly available information about FHA underwriting, safety and soundness and securitization practice. We had testers call a number of lenders under your purview; these testers represented that they had FICO scores of under 610 and were informed that the lender does not make loans to qualified consumers with FICO scores of under 620, 640 or 660 depending on the lender and/or the respective loan channel.

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This policy violates the spirit and the letter of the Community Reinvestment Act, the Fair Housing Act, and the Equal Credit Opportunity Act.

CRA requires lenders to meet the credit needs of communities, including low- and moderate-income communities, consistent with safe and sound practices. The FHA has determined that they can offer guarantees for responsibly underwritten loans to qualified borrowers with FICO scores of 580 and above. FHA and government guaranteed lending is a major source of lending during the current financial crisis and recession, particularly for minority and low- and moderate-income communities. Research conducted by the Federal Reserve Board shows that FHA and other government guaranteed loans constituted 54 percent of all home purchase loans originated during 2009, the latest year in which the Home Mortgage Disclosure Act (HMDA) data is available. In addition, More than 80 percent, 73 percent, and 52 percent of the home purchase loans to African-Americans, Hispanics, and whites, respectively, were government-insured in 2009. About 64 percent and 65 percent of the home purchase loans issued in low- and moderate-income tracts and to low- and moderate-income borrowers were government-insured.

In addition to violating CRA, NCRC alleges that these restrictive underwriting practices violate the Fair Housing Act and the Equal Credit Opportunity Act since there is no business justification for adopting policies that disproportionately impact minority communities. NCRC's data analysis of a private sector data source reveals that FHA and VA loans are disproportionately offered to borrowers with credit scores between 580 and 620 and that communities of color disproportionately have borrowers with credit scores in this range.

According to NCRC's analysis of home purchase loans originated in 2008 to owner-occupants, 18.4 percent and 11.7 percent of the borrowers of FHA and VA loans, respectively, had FICO scores between 580 and 620. In contrast, only 1.5 percent of the conventional loans were offered to borrowers with FICO scores between 580 and 620. Furthermore, about 28 percent of FHA borrowers in predominantly African-American zip codes (more than 50 percent of the residents are African-American) have FICO scores between 580 and 620 compared to just 18 percent of borrowers in white zip codes (80 percent or more whites).

Given the gravity and seriousness of these violations, NCRC calls upon the FDIC to immediately review these underwriting practices and conduct audits of your regulated institutions. We are surprised that we have not seen these issues discussed in the fair lending reviews of recent CRA exams.

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Until the private financial sector fully regains its health, government-backed loans will remain a prominent feature of the lending marketplace. Discriminatory policies that are not justified on safety and soundness grounds will choke off credit from minority and low- and moderate-income communities in violation of CRA and the nation's fair lending laws. We seek to work with you to end these harmful practices. We look forward to your reply.

Sincerely,

John Taylor
President and CEO