NCRC

OPENING DOORS TO ECONOMIC OPPORTUNITY

2016 Policy Agenda

Investing in a Just Economy

Contents

Who We Are

NCRC and its grassroots member organizations help create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fair access to credit, capital, banking and housing.

We represent Main Street—the hundreds of millions of hardworking men and women across the country who are striving to make better lives for themselves and their families. Our goal is to promote fair and equal access to financial services to ensure that every person living in this country, regardless of their ZIP code, race, ethnicity, gender, age, or socio-economic status, has the opportunity to build wealth and realize the American dream.

Since its founding in 1990, NCRC has grown to a coalition of nearly 600 organizations committed to bringing responsible investment back to communities and helping individuals and communities build wealth and opportunity. We work in communities in every state in America.

Our coalition includes:

Community Development Financial Institutions

State and Local Governments

Community Organizers

Small Business Associations

Academics

Housing Counseling Organizations

Civil Rights Groups

Community Development Corporations

Women- and Minority-Owned Business Development Groups

Faith-Based Institutions

Investing in a Just Economy

For 25 years, NCRC has worked to create a just economy. We believe private capital of various forms – including a wide variety of financial institutions – must be engaged in building an equitable and fair economy. There is both a legal and moral obligation for banks and other institutions to invest and lend in low- and moderate-income communities.

Given rising inequality, shrinking economic mobility, and tight access to credit and other means of opportunity, we call for modernizing and strengthening the Duties to Serve in lending – those "affirmative obligations" for financial institutions to serve traditionally underserved communities and borrowers.

> *"Fair lending concerns the obligation not to discriminate on unlawful ground in the actual granting of credit and its terms. But, the Duties to Serve concept is broader and it recognizes that merely prohibiting discriminatory lending is insufficient to address the disparity of financial opportunity."*[1]

CRA

The Community Reinvestment Act (CRA) is an affirmative obligation in the primary lending market. Under the CRA, depository institutions "…have a continuing and affirmative obligation to help meet the credit needs of their local communities in which they are chartered." Those obligations are to be met "consistent with the safe and sound operations of such institutions." Depository institutions, for example, are compelled to meet their affirmative obligation in exchange for taxpayer support, such as bank charter status and federal deposit insurance. Together with anti-discrimination, consumer protection, and disclosure laws, CRA remains today a key element of the regulatory framework, encouraging the provisions of mortgage, small business, investments and other financial services in low- and moderate-income neighborhoods.

The Affordable Housing Goals

In the secondary mortgage market, Fannie Mae and Freddie Mac have "an affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income families…" (12 U.S.C. 2901). The affordable housing goals at the Enterprises exist because of this statutory affirmative obligation and require the two Enterprises to purchase a set percentage of conventional loans made to low- and moderate-income borrowers from financial institutions in the primary market each year. For decades, the two Enterprises have provided leadership in developing loan products and flexible underwriting guidelines and have taken other steps to increase the flow of responsible mortgage credit to low- and moderate-income borrowers and communities. As just one example, the willingness of the Enterprises to purchase three percent down payment mortgage loans from financial institutions in the primary market over the years has provided homeownership opportunities to millions of low- and moderate-income borrowers across the country.

The Challenge Post-Crisis

In response to the financial crisis of 2007-2009, many traditional banks have restricted credit to small businesses and homebuyers. For example, mortgage lenders have applied credit overlays, such as underwriting Federal Housing Administration (FHA) loans with higher credit standards than FHA insurance requires.

Also, critical trends in the financial marketplace have escalated. The rising market share of financial technology, or FinTech, including online lending platforms, as well as credit unions, non-bank and non-depository lenders in both

1 *Rethinking the Duties to Serve in Housing Finance*, Adam J. Levitin and Janneke H. Ratcliffe, Joint Center for Housing Studies, Harvard University, October 2013.

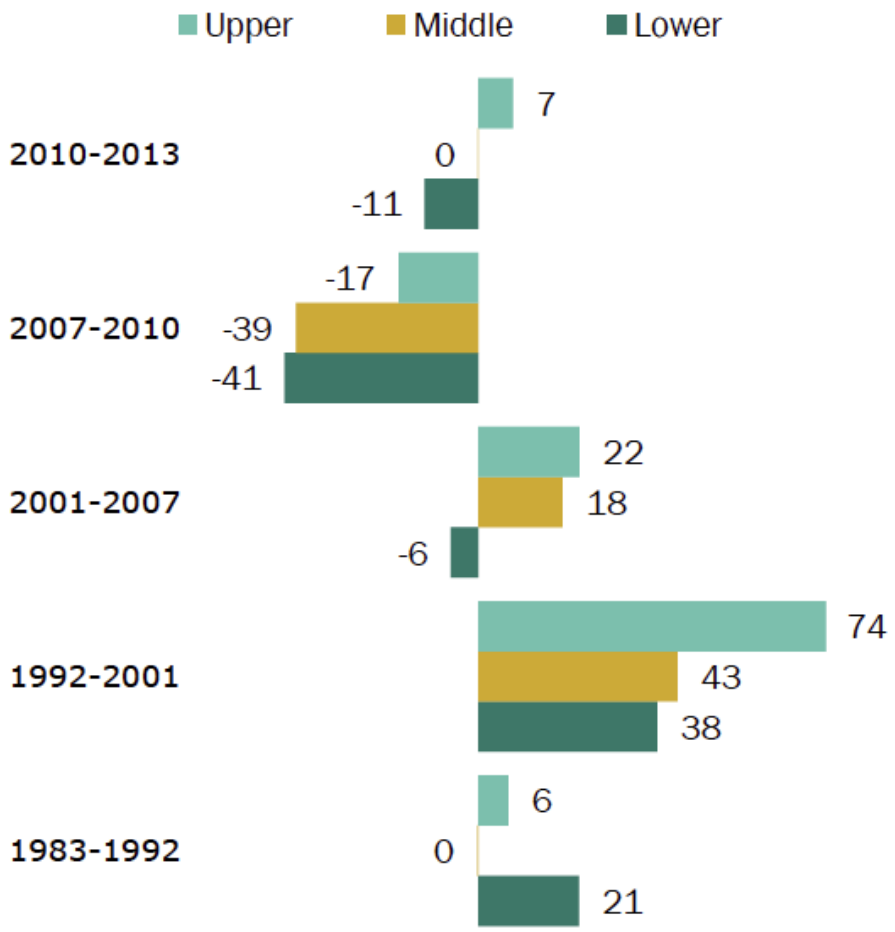
the private market and in public programs have meant that there are a host of new lenders in the primary market that have no affirmative obligations. They also have varying levels of legal and regulatory requirements that create competitive advantages in the financial marketplace.

In the secondary market, the U.S. Congress has considered several proposals in recent years that would scrap Fannie Mae and Freddie Mac and replace them with a new housing finance system without affordable housing goals.

This year, NCRC's advocacy challenge of the last quarter century has gained new urgency: to protect, modernize and strengthen the affirmative obligations for financial institutions to serve communities. It is critical to bring CRA into the modern age, and ensure that any new housing finance system enacted by the U.S. Congress includes an affirmative obligation at least as strong as the one currently in existence.

Families in all income tiers lost wealth since 2007, but only upper-income families have started to recover

% change in median family wealth, by income tier



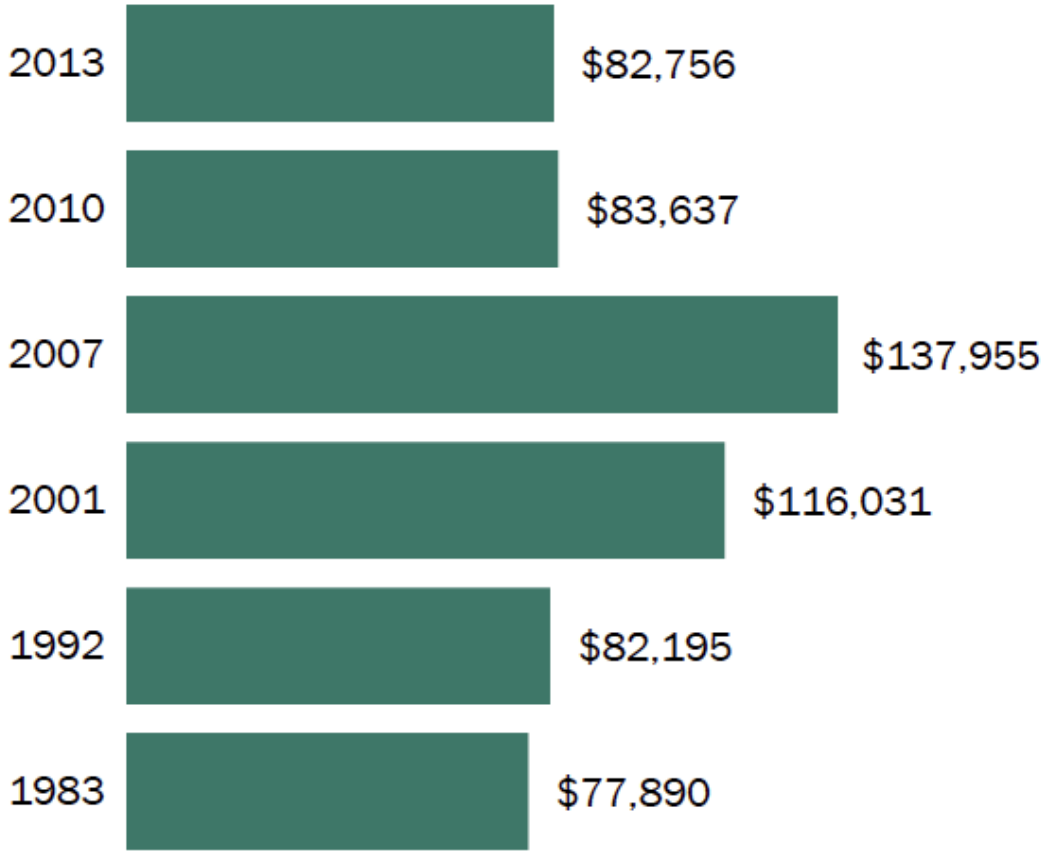
Note: Net worth is the difference between the value of assets owned by a family and the liabilities it holds. Families are assigned to income tiers based on their size-adjusted income. Net worth is not adjusted for family size.

Source: Pew Research Center analysis of Survey of Consumer Finances public-use data

PEW RESEARCH CENTER

The wealth of U.S. families increased from 1983 to 2007, fell sharply since

Median net worth of families, in 2014 dollars



Note: Net worth is the difference between the value of assets owned by a family and the liabilities it holds. Families are assigned to income tiers based on their size-adjusted income. Net worth is not adjusted for family size.

Source: Pew Research Center analysis of Survey of Consumer Finances public-use data

PEW RESEARCH CENTER

Invest Local

The duty that financial institutions have to invest in their communities must be expanded and enforced. The more all financial institutions invest in and serve the local economies where they sell their products and services, the more those communities can keep financial resources circulating through their businesses and neighborhoods, building wealth and prosperity for years to come.

Invest Forward

Building community prosperity requires a long-term plan to expand and preserve access to credit and capital. We must commit to thoughtful legislative and regulatory reforms and promote policies that not only stabilize our communities, but also position them for future growth. As more lending shifts to online platforms, non-banks, credit unions and others, the challenge is to ensure that all new forms of lending have the same affirmative obligations to serve their communities.

Invest Fair

Every person in a community, regardless of their race, age, or socioeconomic status, should have the opportunity to build wealth. Equal access to financial products and services is critical.

Invest Period

Funding plays a critical role in building community prosperity. The President, the U.S. Congress, regulators, and the financial services industry must continue the nation's economic recovery by investing in communities.

Invest Local

The duty that financial institutions have to invest in their communities must be expanded and enforced. The more all financial institutions invest in and serve the local economies where they sell their products and services, the more those communities can keep financial resources circulating through their businesses and neighborhoods, building wealth and prosperity for years to come.

ISSUE: Protect, Modernize and Strengthen the Community Reinvestment Act (CRA)

The Community Reinvestment Act (CRA) is an important tool used to drive private investment into America's underserved communities. For the first 30 years of its existence, from 1977 to 2008, CRA generated more than $6 trillion in private investments[2] for America's low- and moderate-income communities. Since that time, there have been billions more in CRA commitments made. Weak enforcement by the federal banking regulators during CRA performance examinations has constrained the effectiveness of CRA. Also, changes in the financial marketplace – technological innovations in lending and increasing market share by different types of lenders – are magnifying the gaps in the law.

Who Can Act:

The U.S. Congress the Office of the Comptroller of the Currency (OCC), the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC).

NCRC's Position:

CRA continues to be a chief motivating factor for banks to serve communities in need of investment and it should be modernized and strengthened. CRA should cover the entire primary market – bank-holding companies, independent mortgage companies, credit unions, non-depository online lenders, insurance companies and hedge funds – because a changing financial landscape has resulted in a drop in community investments in underserved communities, both rural and urban. CRA coverage should depend on the activities and not on the identity of the financial institution. CRA continues to be a motivating factor for banks to serve communities in need of investment.

2 *CRA Commitments*, NCRC (2007); *CRA Toolkit: Protecting & Preserving the Community Reinvestment Act*, NCRC (2008)

ISSUE: Address Capital Flight From Main Street America by Strengthening CRA at the Regulatory Level

Who Can Act:

The OCC, the Federal Reserve System, the FDIC, and the Federal Financial Institution Examination Council (FFIEC), the U.S. Congress in its oversight role

Improve Accountability for CRA Activities With Tougher Bank Examinations Standards: The Problem of Grade inflation

A strong CRA is key to driving better basic banking services, increased mortgage and business lending and improving community development in low- and moderate-income communities nationwide. Across the country, numerous examples of financial disinvestment and malpractice highlight the need for strong enforcement of CRA and improvement in the CRA ratings for banks. There is a sizable segment of U.S. households going unbanked and under-banked and relying on alternative financial services (e.g. money orders, check cashing services, pawn shop loans, auto title loans, paycheck advance/deposit advances, or payday loans).[3] Wide swaths of communities in the U.S. lack adequate small business lending.[4] And recent investigations and enforcement actions by the Consumer Financial Protection Bureau (CFPB) and the DOJ have exposed on-going redlining.[5] However, over 98 percent of banks examined by federal regulators from 2012 to 2014 received a passing grade on their CRA exams.[6] In comparison, in the 1990s – a period of significant investment in low- and moderate-income communities – many more banks failed. When ratings first became public in 1990, around 10 percent of banks failed their CRA exams.[7] During the first five years of the public availability of CRA ratings, more than five percent of banks failed their CRA exams every year. That number has steadily trended downward, but the higher ratings are not reflected by the experiences of working communities.

NCRC's Position:

Federal banking regulators must act now to update CRA regulations to reflect the changing dynamics of the banking industry and make them a more accurate measure of lending, investment and the provisions of basic banking services. Among other improvements, updates should include:

- Exam criteria that weight originated loans more heavily than purchased loans
- More rigorous fair lending reviews, including better coordination between the federal banking regulators and the CFPB
- Easier ways for the public to provide input
- Improvements to the CRA Service Test
- New grades added to the current ones of "Outstanding," "Satisfactory," "Needs to Improve," and "Substantial Non-Compliance," and replacing the confusing 1-24 points scale with a 1-100 scale.

3 *2013 FDIC National Survey of Unbanked and Underbanked Households*, FDIC (2014)

4 *Small Business Lending Deserts and Oases*, NCRC (September 2014); *Home Mortgage and Small Business Lending in Baltimore and Surrounding Areas*, NCRC (November 2015)

5 CFPB and DOJ ordered Hudson City Savings Bank to pay $27 million for discriminatory redlining practices after the bank excluded most majority-Black and -Hispanic neighborhoods from its CRA assessment areas. Hudson City had a Satisfactory CRA Rating; Evans Bancorp agreed to $825,000 to mortgage redlining lawsuit brought by the New York Attorney General. Evans Bancorp had a Satisfactory CRA Rating.

6 *How Well Are Regulators Evaluating Banks Under the Community Reinvestment Act?* NCRC (May 2015)

7 The Community Reinvestment Act: 30 Years of Wealth Building and What We Must Do to Finish the Job, NCRC (2009)

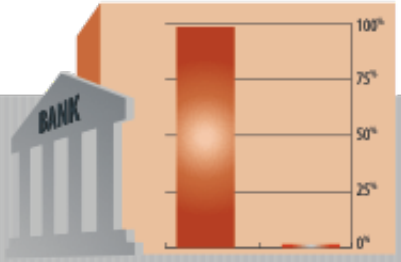
How Well Are Regulators Evaluating Banks Under The Community Reinvestment Act?

PERFORMANCE EVALUATIONS

In 2014, **98.26%** of banks passed their performance evaluations.

Only **1.74%** failed.

This closely mirrors the pass rate for both 2012 and 2013.
2012: 97.92% passed/2.19% failed
2013: 97.60% passed/2.39% failed



1,698 BANKS PASSED **30** BANKS FAILED

STATE PASS RATE

In 2014, **76%** of states in the U.S. had **100%** of banks headquartered in their state and up for exams pass thier CRA performance evaluations.

* Idaho is the only state that didn't have a bank examined in 2014.

GRADES

In the last ***THREE*** years, among all regulators...

400 banks received ***Outstanding***, the highest possible grade, on their CRA performance evaluation

10 banks received ***Substantial Noncompliance***, the lowest possible grade, on their CRA performance evaluation

= 10 Banks

SOURCES:
http://www.federalreserve.gov/apps/cscp/BankRating.aspx
https://www.fdic.gov/regulations/community/monthly/
http://www.occ.gov/topics/compliance-bsa/cra/performance-evaluations-by-month.html

Do outstanding CRA grades lead to outstanding reinvestment in your community?
To speak to one of our Regional Organizers about CRA and bank evaluations in your community, call 202-628-8866.

Source: NCRC

CRA Assessment Areas Should Reflect Where Banks Do Business

CRA would motivate more investments in rural and other underserved areas if federal banking regulators evaluated a bank's record of helping to meet the credit needs of the communities where they do business rather than on where a bank's physical branch network is located. As more and more banking occurs electronically, including online or through correspondent lenders, the current assessment area definition based on bank branches no longer truly reflects where a bank does business.

NCRC's Position:

The federal banking regulators must undertake meaningful assessment area reform to ensure that a bank's CRA obligation does not exclude communities where a bank operates but does not have physical branches. In 2014, the banking regulatory agencies proposed an update to the *Interagency Questions and Answers Regarding Community Reinvestment* document but did not address this important issue. While the updates acknowledge changes in banking with respect to online and mobile services, assessment area reform was not undertaken.

An alternative to delineating new assessment areas would be to examine retail lending in areas without branches where lending is of a high volume. If the lending performance is worse outside of the assessment areas than inside the areas, the rating on the CRA exam would be downgraded. Conversely, if retail lending performance is better outside of the assessment areas, the rating would be upgraded. Currently, banks receive favorable consideration for community development lending and investing outside of assessment areas, but there is no consideration for retail lending (positive or negative) outside of assessment areas. A consideration of retail lending outside of assessment areas should be undertaken by CRA examiners to more accurately assess bank CRA performance.

ISSUE: Improve the Examination of Service Delivery to Low- and Moderate-Income Communities Under the CRA Service Test

Who Can Act:

The OCC, the Federal Reserve System, the FDIC, and the Federal Financial Institution Examination Council (FFIEC), the U.S. Congress in its oversight role

Bank Branches and Alternative Delivery Systems – Online and Mobile

Financial institutions and even the federal banking regulators have argued that bank branch closures are a natural reaction to a consumer shift to online and mobile banking. However, low-income communities, rural Americans, minorities, and the elderly lag in their shift to electronic platforms. About 20 percent of American adults do not use the Internet at home, work and school, or by mobile device – about 60 million people.[8]

Federal regulators proposed changes to the *Interagency Questions and Answers Regarding Community Reinvestment* document in late 2014 that partially addressed the issue of electronic banking, but did little to ensure that low- and moderate-income, rural Americans, minorities and the elderly are fully served through either electronic or brick-and-mortar service delivery methods.

8 *Most of U.S. Is Wired, but Millions Aren't Plugged In*, New York Times (March 13, 2013); *Exploring the Digital Nation*, U.S. Dept. of Commerce (2013); *Consumer and Mobile Financial Services,* Federal Reserve Board (March 2015)

NCRC's Position:

The federal banking regulatory agencies must ensure that CRA regulations and examinations hold banks accountable for providing services to low- and moderate-income communities. The regulatory agencies should:

- Give negative marks on the service test when banks pull out of low- and moderate-income neighborhoods through branch closures, particularly when no viable alternative service delivery method exists there;
- Encourage creativity and innovation among financial institutions in serving low- and moderate-income areas through face-to-face interactions with tellers or loan officers, or mobile and online branching.

Number of Bank Branches Open to the Public, by MSA

CITY	2006	2014
Atlanta, GA	1,400	1,313
Baltimore, MD	829	770
Birmingham, AL	337	349
Chicago, IL	3,152	3,031
Cincinnati, OH	820	771
Cleveland, OH	734	707
Detroit, MI	1,192	1,083
Jackson, MS	228	227
Los Angeles, CA	2,331	2,507
Milwaukee, WI	598	554
Minneapolis, MN	859	827
New York, NY	5,657	5,905
Philadelphia, PA	1,918	1,783
Pittsburgh, PA	874	853
Washington, DC	1,611	1,719

Source: FDIC

Alternative Financial Service Providers, post-HAMP and the CRA Service Test

The reliance on high-cost alternative financial services (e.g. payday loans, money orders, check cashing services, pawn shop loans, auto title loans, and paycheck advance/deposit advances) in low- and moderate-income communities highlights the enforcement weaknesses of CRA's service test and evaluates the extent to which a banks service network serves low- and moderate-income communities. In fact, the CRA service test is often the grade-inflator on bank examinations.[9]

9 *Creating a Scorecard for the CRA Service Test: Strengthening Basic Banking Services under the Community Reinvestment Act,* Center for Community Capital, University of North Carolina (2001); *Measuring the Provision of Banking Services for the Underbanked: Recommendations for a More Effective Community Reinvestment Act Service Test,* Woodstock Institute (March 2007)

The CRA service test, as well as the lending test, should have an important role in examining loss mitigation practices by banks following the expiration of the Home Affordable Mortgage Program (HAMP) and the Home Affordable Refinance Program (HARP), programs which set important standards for the industry when dealing with distressed and defaulting homeowners. The CRA service test should also be changed to:

- Improve the collection of data on the number and percent of deposit accounts and basic banking services that are offered to low- and moderate-income customers;
- Improve data and incorporate more quantitative measures and benchmarks;
- Rigorously review for harmful practices (e.g. excessive overdraft fees);
- Examine for loss mitigation practices, particularly with the expiration of HAMP and HARP;
- Apply the service test to more institutions, including small intermediate banks and credit card lenders.

ISSUE: Identify and Enforce Public Benefits Claimed by Banks in Mergers and Acquisitions

For 50 years, the law has required federal regulators to consider the public's interest when approving bank mergers and acquisitions. Both the Bank Holding Company Act and the Bank Merger Act require regulators to consider the "the convenience and needs of the community to be served."[10] Regulators must assess if mergers provide benefits to the public beyond the gains for financial institutions through increased profits and market power.

If mergers only benefit financial companies while communities suffer through plummeting loan levels, branch closures and increased prices, then society has been made worse off since inequality will increase, employment will decrease, and economic activity in communities will be depressed.

The only way to assess the potential public benefits of a merger is through a specific and concrete plan described in the bank's application regarding future levels of lending, investments, and services in low- and moderate-income communities. But the regulatory agencies do not require submission of these plans. Instead, NCRC and its members are left to appeal directly to the bank regarding their intentions to serve the lending needs of low- and moderate-income communities. Without the intervention of the regulatory agencies, the merger application process is burdensome for both banks and community organizations.

Who Can Act:

The OCC, the Federal Reserve System, the FDIC, and the Federal Financial Institution Examination Council (FFIEC), the U.S. Congress in its oversight role

NCRC's Position:

To benefit communities, federal agencies must clarify the public benefit standard in their regulations so that both the public and financial institutions can better understand this factor's importance and its requirements. After mergers, regulators must also consistently monitor and enforce banks' claimed public benefits to ensure that institutions fulfill their promises. The regulatory agencies could:

10 "In every case, the responsible agency shall take into consideration…the convenience and needs of the community to be served." (12 U.S.C. 1283(c)(5)(B)); Anti-competitive effects must be "clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served." (12 U.S.C. 1842(c)(2)). See more at: *Protecting the Public's Interests: A Consumer-Focused Reassessment of the Standard for Bank Mergers and Acquisitions*, Banking Law Journal, Vol. 130, No. 4, April 2013.

- Offer a template for banks to outline the public benefits of a proposed merger;
- Describe the required items that would constitute an acceptable public benefits plan;
- Ask banks to describe their lending goals in terms commonly found on CRA exams, such as the percent of loans to low- and moderate-income borrowers compared to peer banks;
- Ask for anticipated community development lending and investment levels using ratios of investments to assets and ask banks to compare themselves against their peers;
- Ask for anticipated levels of loans, investments, and services, recognizing that business forecasting is an imperfect process but also making sure that banks are not decreasing and instead increasing the future level of activities.

ISSUE: Update the Historic Tax Credit Program to Further Encourage Reuse and Redevelopment in Small, Midsize and Rural Communities

Historic Tax Credit projects create more jobs in underserved communities than new construction and other widely used stimulus strategies. More than 84 percent of historic tax credit projects from 2002 to 2008 and 60 percent of certified rehabilitation projects in Fiscal Year 2014 were located in low- and moderate-income neighborhoods.[11]

Who Can Act:

The U.S. Congress

NCRC's Position:

The U.S. Congress should enact the Historic Tax Credit Improvement Act of 2015 (H.R. 3846). The bill would make long overdue changes to the federal Historic Tax Credit to further encourage reuse and redevelopment in small, midsize and rural communities. Main Streets across America would have a stronger tool to help breathe new life into their historic buildings. The bill would increase the credit from 20 to 30 percent for projects with rehabilitation expenses of less than $2.5 million, which would help inject new private investment into smaller and more rural communities. It would also make the rehabilitation of community projects like theaters, libraries, and schools easier while maximizing the impact of state historic tax credits. The bill's updates would also make more historic properties eligible to use the credit. The bill's provisions would be the first major changes to the federal Historic Tax Credit since the 1986 tax bill.

11 *Historic Tax Credit Fact Sheet*, National Trust for Historic Preservation; *Annual Report on the Economic Impact of the Federal Historic Tax Credit for FY 2014,* National Park Service.

ISSUE: Expand the Low-Income Housing Tax Credit and Better Fund the HOME Investment Partnership Program to Improve and Increase Affordable Housing

The Low-Income Housing Tax Credit (LIHTC) remains the principal federal resource for both expanding and preserving affordable housing in the country. Still, the LIHTC program has supported only 76,000 additional affordable units annually on average in recent years, with about half of its funding going to acquisition and rehabilitation of existing subsidized developments and half to new construction.[12] Created by the Tax Reform Act of 1986, the LIHTC program gives state and local LIHTC-allocating agencies the equivalent of nearly $8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.[13] This allows individual and corporate investors to claim tax credits on their federal income tax returns. The tax credit is calculated as a percentage of costs incurred in developing the affordable housing property, and is claimed annually over a 10-year period. The LIHTC database, created by HUD, contains information on 40,502 projects and 2.6 million affordable housing units placed in service between 1987 and 2013.[14]

Importantly, in December, the U.S. Congress enacted a permanent minimum nine percent LIHTC rate for new construction and substantial rehabilitation and extended the New Markets Tax Credit through 2019 at its current annual funding level of $3.5 billion.[15] However, the shortage of affordable housing units demands a greater federal response.

The HOME Investment Partnership Program provides grants to states and local governments to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income Americans. Funding for the program is down by more than half from Fiscal Year (FY) 2010 to FY 2015 in real terms. However, severe cuts proposed to the program in FY 2016 were reversed in the final FY 2016 spending bill enacted in December. Since HOME funding is often used in conjunction with tax credits to help subsidize housing for very low-income households, cutbacks to the program also undermine the LIHTC program's ability to support development and preservation of affordable rentals.[16]

Who Can Act:

The U.S. Congress

NCRC's Position:

To make a meaningful dent in the affordable housing supply gap, we urge the U.S. Congress to increase the cap on LIHTC authority by at least 50 percent. Such an expansion would support the preservation and construction of 350,000 to 400,000 additional affordable apartments over a ten-year period.[17] Funding for the HOME Program should also increased in FY 2017 to $1.2 billion.

12 *America's Rental Housing: Expanding Options for Diverse and Growing Demand*, Joint Center for Housing Studies of Harvard University (December 9, 2105).
13 *About the LIHTC Database*, HUD Website (2016).
14 Ibid.
15 *Affordable Housing Finance*, December 15, 2015.
16 Ibid, at 12 (*America' Rental Housing*).
17 Affordable Housing Resource Center (March 2016).

ISSUE: Ensure That Neighborhoods are Further Stabilized When FHA and FHFA Sell Delinquent Mortgages to Private Investors

Both the Federal Housing Administration (FHA) and the Federal Housing Finance Agency (FHFA), which regulates Fannie Mae and Freddie Mac, have been selling pools of delinquent mortgages (known as "non-performing loans" to private investors [e.g. hedge funds, private equity funds]). From 2013-2014, for example, FHA sold pools of over 98,000 severely delinquent mortgages.[18]

Last year, both FHFA and FHA made modest improvements in their note sales programs to enable community stabilization and to encourage some nonprofit participation; however, 2015 brought several news headlines from across the country about poor outcomes for homeowners and communities where properties have been sold to the highest bidders at bulk note sale auctions.[19] In October 2015, the New York Attorney General opened an investigation into Lone Star Funds and its subsidiary Caliber Home Loans following numerous complaints about the company's loan servicing practices.[20] Housing advocates and local officials have raised concerns that investors are simply abandoning and leaving vacant those properties included in bulk sales that have the most challenging mortgage loans. FHA and FHFA have also made it difficult for nonprofit agencies to be direct purchasers of non-performing loan pools. U.S. Senator Elizabeth Warren (D-MA) and U.S. Representative Michael Capuano (D-MA) have joined others in the U.S. Congress in urging FHA and FHFA to make a number of changes to their note sale programs, including greater partnership and involvement by local nonprofits.[21]

Who Can Act:

FHA, FHFA, the U.S. Congress in its oversight role

NCRC's Position:

Both FHA and FHFA have a mission to promote affordable housing and homeownership. They should therefore have one consistent and effective approach to preserving communities when selling delinquent mortgage loans to bidders at auction. Neither of the approaches currently being utilized by these agencies generates clear and observable benefits to homeowners, homebuyers or the communities affected by these note sales. Both agencies should:

- Disqualify the participation of bad actors from future auctions of bulk note sales;
- Increase transparency around the program, including:
    - The results of the loan sales to date and what investors are doing with the loans in their pools;
    - How the loan pools are constructed;
    - How properties get assigned to different auction pools; and
    - How vacant properties are treated versus occupied properties.

18 *Report to the Commissioner on FHA Single Family Loan Sales*, HUD-FHA (February 6, 2015)
19 *The Government is Selling Thousands of Homes to Hedge Funds without Their Owners' Knowledge*, The Atlantic, September 23, 2015.
20 *As Banks Retreat, Private Equity Rushes to Buy Troubled Home Mortgages*, New York Times, September 28, 2015.
21 *Senator Elizabeth Warren to Join Call to Alter Sales of Distressed Loans*, New York Times, September 30, 2015.

- Recognize the added value provided by purchasers that commit up front to foreclosure prevention efforts that include quality loan modifications and purchasers that commit to property disposition strategies that prioritize affordable housing;
- Streamline direct sales of loan pools to nonprofits that have the capacity and a track record of rebuilding neighborhoods; and
- Better consult with state and local governments, including state and local housing finance agencies.

Exhibit 6: Historical SFLS and DASP Geographic Distributions

State	Count	UPB	Percentage of Total
Florida	14,149	$2,139,443,553	14%
New Jersey	10,946	$2,614,540,652	11%
Illinois	8,606	$1,444,328,255	9%
New York	6,400	$1,440,515,548	7%
Ohio	5,336	$613,481,620	5%
Maryland	3,899	$864,764,130	4%
Pennsylvania	3,713	$551,438,621	4%
Georgia	3,624	$509,766,576	4%
California	3,294	$795,239,881	3%
Indiana	3,253	$365,677,006	3%
North Carolina	2,588	$349,156,285	3%
Texas	2,373	$294,045,507	2%
Washington State	2,196	$461,617,467	2%
Wisconsin	1,720	$244,234,177	2%
South Carolina	1,710	$234,101,936	2%
Massachusetts	1,571	$339,427,551	2%
Oregon	1,542	$293,815,379	2%
Connecticut	1,525	$315,223,141	2%
Kentucky	1,381	$163,450,473	1%
Nevada	1,339	$253,090,061	1%
Others	16,842	$2,436,293,847	17%
Total	**98,007**	**$16,723,651,666**	**100%**

Notes:

1. The Exhibit above includes loans from SFLS 2010 through SFLS 2014-2, Part 2.
2. The loan counts for the more recent transactions continues to be subject to change as the final Post-Sale Reporting and Settlement data becomes available, and any repurchases under the representations and warranties are finalized.

Single Family Loan Sale (SFLS)

Distressed Asset Stabilization Program (DASP)

Unpaid Principal Balance (UPB)

Source: Report to the Commissioner on FHA Single Family Loan Sales, HUD-FHA (February 15, 2015)

Invest Forward

Building community prosperity requires a long-term plan to expand and preserve access to credit and capital. We must commit to thoughtful legislative and regulatory reforms and promote policies that not only stabilize our communities, but also position them for future growth. As more lending shifts to online platforms, non-banks, credit unions and others, the challenge is to ensure that all new forms of lending have the same affirmative obligations to serve their communities.

ISSUE: Continue to Prioritize Affordable and Accessible Loan Modifications in Loss Mitigation After the Expiration of HAMP and HARP

Since 2009, the Home Affordable Modification Program (HAMP) and Home Affordable Refinance Program (HARP) and the related monitoring and data collection have been critical in setting and adjusting standards throughout the financial industry for how effective loss mitigation and loan modifications should be done to best preserve homeownership for distressed homeowners, and to stabilize and recover hard-hit neighborhoods. Both programs are set to expire at the end of 2016, and key discussions between the Obama Administration, financial institutions and housing advocates have been taking place about what loss mitigation and mortgage loan modifications will look like going forward.

The standards post-HAMP and post-HARP are critical because the foreclosure crisis is not yet over. Roughly four percent of outstanding mortgages are still in foreclosure or 90-plus days delinquent, compared with just two percent pre-crisis.[22] Importantly, although housing continues to improve modestly, homeowners with negative equity or "effective" negative equity remain very high across the country[23] – 24 percent of homes priced in the bottom tier are underwater, compared to 13 percent in the middle tier, and eight percent of the top value tier.[24]

22 *Is principal reduction an effective way to modify troubled mortgages?* Urban Institute (August, 2015)

23 *Q3 2015 Negative Equity: Still Coming Down, Still Messing Things Up*, Zillow Research (December, 2, 2015). Effective negative equity includes

24 *Q2 2015 Negative Equity: Improvement at the Bottom, Condo-Owners More Impacted*, Zillow Research (September 4, 2015)

HARDEST-HIT PEOPLE: COMMUNITIES OF COLOR

In 71 of the 100 hardest-hit cities, African Americans and Latinos account for at least 40% of the population.

In 146 of the 395 hardest-hit ZIP codes, African Americans and Latinos account for at least 75% of the population.

In 64% of the 395 hardest-hit ZIP codes, African Americans and Latinos accounted for at least half of the population.

Source: UC Berkeley[25]

Among other benefits, HAMP and HARP provided principal reductions for distressed homeowners, lowered monthly payments, and allowed refinancing at lower interest rates. The program also shielded communities from devastating foreclosures and the various consequences that follow.[26] Echoing other post-crisis research, two government researchers in separate studies last year also analyzed HAMP modification and Core Logic data and concluded that among the various mortgage modification techniques, loan principal reduction was highly effective at reducing homeowner defaults and foreclosure.[27]

Who Can Act:

The U.S. Congress, FHFA, FHA, the U.S. Department of the Treasury and the CFPB

NCRC Position:

Loss mitigation going forward should include affordable and accessible loan modifications that, among other features, provide principal reduction and monthly payment relief. In addition to the protections provided by the CFPB Mortgage Loan Servicing Rules, the Administration – including FHFA, FHA, the Treasury Department and the

25 *Underwater America*: *How the So-Called Housing 'Recovery' is Bypassing Many Communities*, U.C. Berkeley Haas Institute for A Fair and Inclusive Society (May 2014).

26 Through September of 2014, more than 1.5 million homeowners benefited from HAMP and over 3 million had benefited from HARP. *The Strength of the Partnership: Resources to Support the Communities You Serve*, Fact Sheet, Making Home Affordable, U.S Treasury and U.S. HUD (2014).

27 *The Determinants of Sub-Prime Mortgage Performance Following a Loan Modification,* J Real Estate Finan Econ. (2015). *The Effect of Negative Equity on Mortgage Default: Evidence from HAMP PRA*, OFR Working Paper (2015).

CFPB – should work jointly and with private financial institutions to develop standards for the future of loss mitigation and loan modification for distressed homeowners building on the lessons of HAMP and HARP. Servicers should also publicly report loan modification outcomes and borrower characteristics, including the race, ethnicity and census tract of all applicants. Distressed homeowners should be entitled to a fair and straightforward process, including a single point of contact and careful consideration of their mortgage modification application.

ISSUE: Preserve Federal Funding for HUD-Approved Housing Counseling Agencies to Build and Maintain Strong Homeownership

Last year, more than 1.3 million households received assistance from HUD-approved housing counseling agencies. Whether preparing first-time homebuyers for the financial commitment of homeownership, helping homeowners to resolve mortgage delinquencies and avoid foreclosure, helping renters find affordable rental options, or working with older adults to help them stay in their homes, the services HUD-approved housing counseling agencies provide are essential to meeting the housing needs of families in communities all around the country. The federal funding provided for housing counseling is critical to ensuring that HUD-approved housing counseling agencies can continue to serve families in need.

The demand for pre-purchase counseling increased by 33 percent between FY 2013 and FY 2015.[28] Pre-purchase housing counselors work to prepare families for responsible homeownership, and research consistently demonstrates that pre-purchase counseling works. A 2014 analysis by the Federal Reserve Bank of Philadelphia found that a two-hour pre-purchase homeownership workshop and one-on-one pre-purchase counseling improved the participants' financial creditworthiness as they prepared to qualify for a home mortgage.[29] Homeowners and prospective homeowners who receive counseling have higher credit scores, less overall debt and lower delinquency rates. A 2013 study that looked at 75,000 mortgages found that borrowers who received pre-purchase counseling and education were one-third less likely to become seriously delinquent than similar borrowers who did not receive pre-purchase counseling and education.[30]

Demand for default and delinquency counseling also remains high, with more than 446,000 households, or 46 percent of all counseling clients, seeking counseling to help resolve or prevent a mortgage delinquency or default in FY 2015. The National Foreclosure Mitigation Counseling (NFMC) program has a proven track record of helping distressed homeowners to reach positive outcomes. For example, the December 2014 report to the U.S. Congress on the NFMC program found that NFMC clients were nearly three times as likely to receive a loan modification cure than non-counseled homeowners and were 70 percent more likely than non-counseled homeowners to remain current after receiving a modification – outcomes that benefit the homeowner, the mortgage servicer, and the investor.[31]

Nonetheless, federal funding for housing counseling has steadily declined in recent years. After the U.S. Congress funded the HUD Housing Counseling Assistance Program at $87.5 million dollars in FY 2010, funding for the program has declined to $47 million in the current budget. Likewise, funding for the NFMC program is being steadily wound down, from $180 million during the peak of the foreclosure crisis to $40 million in the current FY 2016 budget, despite foreclosure and delinquency remaining major issues in many parts of the country. Roughly four percent of outstanding mortgages are still in foreclosure or 90-plus days delinquent, compared with just two percent pre-crisis.[32] As a result of funding cuts, there has been a significant decrease in the capacity of HUD-approved housing counseling agencies to provide services to the families who desperately need them.

28 See *HUD Office of Housing Counseling, HUD-9902 Quarterly Reports*, available online at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hcc/ohcqrpt.

29 *The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills*, Federal Reserve Bank of Philadelphia (April 2014)

30 *Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks America's Experience*, Neil S. Mayer and Kenneth Temkin (March 7, 2013)

31 *National Foreclosure Mitigation Counseling Program Congressional Update*, NeighborWorks America (December 8, 2014)

32 Ibid. Note 12.

Who Can Act:

The U.S. Congress, HUD, FHFA

NCRC's Position:

We urge the House and Senate Appropriations Committees to include $60 million for the HUD Housing Counseling Assistance program and $40 million for the NFMC program in their programmatic funding request.

Hawk Prohibition: Oppose language in the Transportation-HUD (THUD) bill prohibiting funding for HUD's Homeowners Armed with Knowledge (HAWK) pilot program. HAWK provided reduced mortgage insurance payments for FHA homebuyers who received housing counseling from HUD-approved housing counseling agencies.

ISSUE: Allow Fannie Mae and Freddie Mac to Rebuild Their Capital Reserves, End the Conservatorship and Improve the Affordable Housing Goals

Who Can Act:

FHFA, the Treasury Department, the U.S. Congress

Fannie Mae and Freddie Mac have a critical role in housing finance, supporting over $5 trillion in mortgage loans and guarantees.[33] In 2008, the U.S. Congress passed the Housing and Economic Recovery Act (HERA), which created FHFA and enacted sweeping new powers for the agency as a regulator and conservator of the Enterprises. Shortly after passage of the law, the federal government seized control of the Enterprises and placed them in conservatorship – a conservatorship that is now in its eighth year. In conservatorship, FHFA and the Treasury Department have entered agreements calling for all of the Enterprises' profits to be swept into the Treasury Department on a quarterly basis and for both Enterprises to be wound down in preparation for a new housing finance system to be enacted by the U.S. Congress. There is no consensus in the U.S. Congress, however, on a new housing finance system, and all the proposals seriously considered to date would have eliminated the affordable housing goals and the current affirmative obligation language in the law that directs publicly-supported secondary mortgage market institutions to facilitate the financing of affordable housing for low- and moderate-income families.

By January 1, 2018, due to the wind down, the Enterprises will have zero capital reserve to absorb quarterly losses that may occur. Lenders and borrowers, however, are paying very high credit risk guarantees fees, as if the Enterprises were holding the capital reserves they would need to support their guarantee businesses if they were not in conservatorship.[34] Guarantee fees have increased 250 percent since 2009.[35] In addition, the Enterprises' retained portfolios, which hold the loans they purchase from banks and other financial institutions, and which were once a source of substantial income for both Enterprises, are also declining rapidly due to the wind down.

Both Enterprises have been serving a critical countercyclical role since the housing crisis of ensuring both the continued flow of credit in the overall mortgage market and the functioning of a secondary mortgage market. However, the conservatorship has severely constrained both Enterprises' ability to meet their affirmative obligation to facilitate the financing of affordable housing for low- and moderate-income borrowers and communities and to

33 *Prepared Remarks of Melvin L. Watt Director of FHFA at the Bipartisan Policy Center* February 18, 2016.
34 *Results of Fannie Mae and Freddie Mac Guarantee Fee Review*, Fact Sheet (April 17, 2015)
35 *Fannie Mae and Freddie Mac Single Family Guarantee Fees*, FHFA (June 30, 2015).

respond to what are very tight credit conditions in the primary mortgage market. Tight credit standards are estimated to have prevented 5.2 million mortgages between 2009 and 2014.[36]

How Many Purchase Loans Are Missing Because of Credit Availability

Loan Category		2001 Total	2014 Total	% Decline	Assumed Decline for missing loans analysis	2014, assuming no constraint >700	Missing Loans
CoreLogic-HMDA Merged Database	<660	1,445,629	329,961	77%	7.50%	1,337,023	1,007,062
	660-700	838,610	583,816	30%	7.50%	775,607	191,791
	>700	2,367,078	2,189,247	7.5%	7.50%	2,189,247	0
	Total	4,651,317	3,103,024	33%	.	.	1,198,854

Sources: Urban Institute calculations from HMDA and CoreLogic data

URBAN INSTITUTE

In conservatorship, both Enterprises have performed poorly on their annual affordable housing goals that were already set at low levels – missing several loan purchase goal targets and underperforming the private market on others. They have underperformed the market on loan purchases affecting minority borrowers, ceased making both grants for local capacity-building and important equity investments including minority financial institutions such as CDFIs, withdrawn from LIHTC investments in smaller and third-tier markets in the country and failed to offer loan products that have a history of providing safe and sound mortgages for creditworthy borrowers in low- and moderate-income and minority communities.

NCRC's Position:

FHFA should direct the Enterprises rebuild their capital reserves, because a zero capital buffer will further undermine the Enterprises' ability to meet their affordable housing goals and affirmative obligation, and respond to tight credit conditions in the primary mortgage market. NCRC also believes it is time to end the conservatorship of the Enterprises.[37]

An Effective Duty to Serve Rule cannot be Implemented With Zero Capital Reserves at the Enterprises While They Remain in Conservatorship

Alongside the affordable housing goals, the Housing and Economic Recovery Act (HERA) created a new *Duty to Serve* on Fannie Mae and Freddie Mac for three underserved markets – manufactured housing, affordable housing preservation and rural housing. The new rule will require the Enterprises to provide leadership in creating loan products and flexible underwriting guidelines for those three markets. Unlike the affordable housing goals, which evaluates the Enterprises based solely on quantitative loan purchase targets each year, the proposed Duty to Serve rule prohibits setting "specific quantitative targets" or evaluating the Enterprises "based solely on the volume of loans purchased."[38] Public comments are due March 17.

36 *Tight credit standards prevented 5.2 million mortgages between 2009 and 2014*, Urban Institute (January 28, 2016).

37 See more at *Protecting the Duties to Serve and Responsible Next Steps for Reforming the Secondary Mortgage Market: The Case for the Recapitalization and Continued reform of Fannie Mae and Freddie Mac*, NCRC (2015).

38 12 U.S.C. 4565(d)(2(C)

Who Can Act:

The U.S. Congress, FHFA

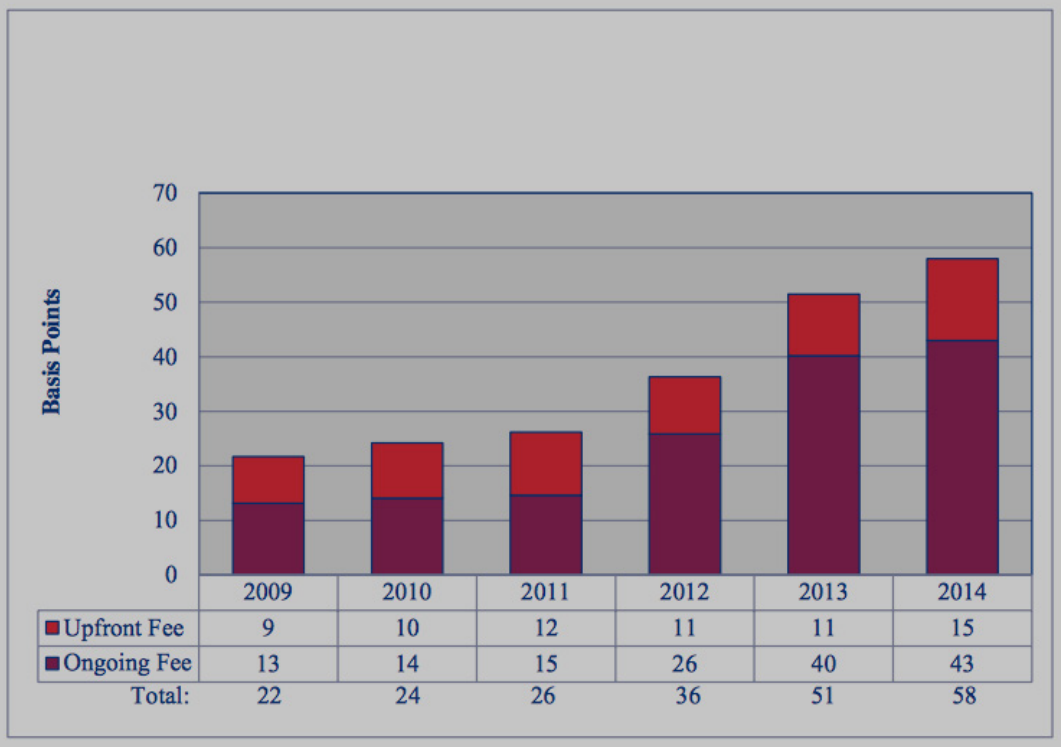
NCRC's Position:

For the U.S. Congress, it is critical that the charter or statute to create a new housing finance reform system includes an affirmative obligation to facilitate the financing of affordable housing to low- and moderate-income families and that the U.S. Congress strengthen the affordable housing goals and loan purchase targets for mortgage loans going to low- and moderate-income borrowers and minority communities.

For FHFA, congressional and public comments should acknowledge the difficulty for the Enterprises to implement a strong Duty to Serve rule under the limits imposed by the conservatorship, including zero capital reserves and a shrinking retained portfolio, where many loans for underserved markets that cannot be securitized are held. Already, the Enterprises are performing poorly on the affordable housing goals. FHFA should end the conservatorship, but in the meantime the Enterprises should be able to make equity investments, including in minority financial institutions, CDFIs, make grants, and re-introduce loan products that have a history of providing access to mortgage credit in a safe and sound way to low- and moderate-income borrowers.

Among other provisions included in the final Duty to Serve rule, FHFA should place the greatest scoring priority on loan purchases in the underserved markets and increase the use of numeric benchmarks in the Enterprises' underserved market plans for manufactured housing, affordable housing preservation and rural housing.

Figure 1: Average Estimated Single-Family Guarantee Fees, 2009-2014

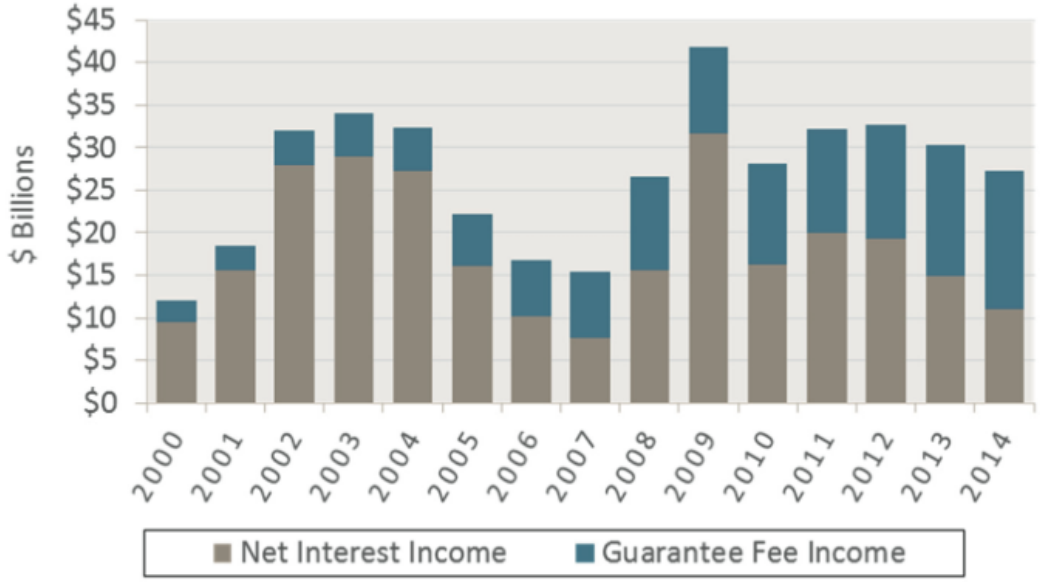


	2009	2010	2011	2012	2013	2014
Upfront Fee	9	10	12	11	11	15
Ongoing Fee	13	14	15	26	40	43
Total:	22	24	26	36	51	58

Note: Components may not sum to total due to rounding. All fees for deliveries starting April, 2012 include 10 basis points passed to Department of the Treasury for TCCA.

Source: FHFA (June 30, 2015)

FIGURE 4. THE ENTERPRISES' COMBINED GUARANTEE FEE AND NET INTEREST INCOME (2000-2014)



Source: OIG analysis of information contained in the Enterprises' Annual Report filings with the Securities and Exchange Commission on Form 10-K.

Source: FHFA Office of Inspector General (OIG) (March 18, 2015)

ISSUE: Protect Funding of the National Housing Trust Fund and Capital Magnet Fund Even as the Enterprises Remain in Conservatorship

After Fannie Mae and Freddie Mac were placed in conservatorship in 2008, FHFA Director Edward DeMarco temporarily suspended the allocation of funds to the National Housing Trust Fund (HTF) and the Capital Magnet Fund (CMF). HERA also provides FHFA with the authority to temporarily suspend these allocations upon certain findings. On December 11, 2014, current FHFA Director Melvin L. Watt ended the temporary suspension of those allocations, and directed the Enterprises to begin setting aside and allocating funds to the HTF and the CMF.

Both the HTF and the CMF were created by HERA to increase affordable housing and promote community development investments for underserved and distressed communities. HERA requires the Enterprises to set aside an amount equal to 4.2 basis points for each dollar of their unpaid principal balances of total new loan purchases to be allocated both funds. Following Director Watt's decision to fund the HTF and the CMF in 2014, several members of the U.S. Congress attempted to eliminate funding for the HTC during consideration the FY 2016 appropriations cycle.

Who Can Act:

The U.S. Congress

NCRC's Position:

Oppose efforts to defund the National Housing Trust Fund or the Capital Magnet Fund. Even while in conservatorship, both the HTF and CMF should be fully funded by the Enterprises. Both programs will help alleviate the shortage of affordable rental housing, increase affordable homeownership and increase investments in community development in underserved and distressed communities.

ISSUE: Continue to Improve the FHA Quality Assurance Framework and Loan-Level Certification Process to Ensure Greater Lender Participation and Better Credit Access for Underserved Borrowers

With its low down payment requirement, FHA mortgage insurance has served as an important pathway to homeownership for first-time homebuyers, as well as minority homebuyers. In FY 2015, 82 percent of all FHA purchase originations were to first time homebuyers and a third of FHA mortgages went to minority buyers.[39]

Nonetheless, several large banks around the country have been decreasing their participation in the FHA program and raising their borrower credit score requirements and pricing above the requirements to obtain FHA insurance. In January 2016, the average FHA purchase FICO score was 687, well above the 580 FICO score generally considered the minimum credit score allowed to qualify for FHA insurance.[40] And non-banks now dominate the market for home-purchase loans insured by FHA, with their share rising from 29.75 percent in November of 2012 to 62.23 percent in February of 2015.[41]

Lenders have cited three reasons for pulling back from the FHA lending: the risk that they will be required to indemnify FHA if a loan defaults; the high costs of servicing delinquent loans; and the risk of lawsuits due to recent enforcement actions by both HUD and DOJ under the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) that have resulted in large settlements and damages awards.[42]

Who Can Act:

FHA, the U.S. Congress in its oversight role

NCRC's Position:

The loan-level and annual certifications that lenders are currently required to sign contain broad language that does not adequately inform those lenders of the type of defects that will trigger liability and enforcement action under the False Claims Act and FIRREA. FHA can help to expand credit access to underserved borrowers by providing greater certainty for lenders as to which defects will lead to lender buybacks and enforcement action by HUD and/or DOJ.

39 Written Testimony of Edward L. Golding, Principal Deputy Assistant Secretary for the Office of Housing U.S. Department of Housing and Urban Development (HUD), U.S. House Committee on Financial Services (February 11, 2016).

40 *Origination Insight Report*, Ellie Mae (January 2016)

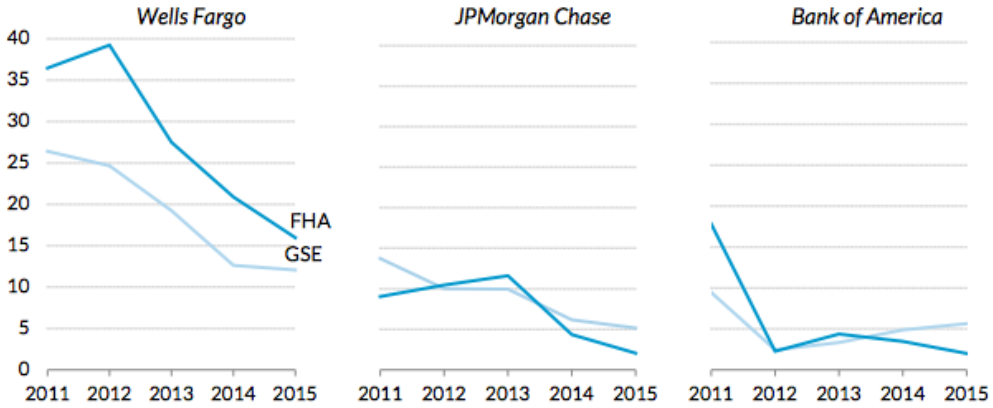
41 *Nonbanks Mortgage Lenders Bite Back,* National Mortgage News (April 8, 2015)

42 *Wielding a Heavy Enforcement Hammer Has Unintended Consequences for the FHA Mortgage Market*, Urban Institute (May 2015)

Improved loan-level certifications should provide enough clarity and transparency to facilitate robust lender participation in the FHA insurance program and greater access to mortgage credit for borrowers.

FIGURE 1

FHA and GSE Market Share for the Three Historically Largest Lenders (percent)



Source: Urban Institute calculations from eMBS data.

ISSUE: Prioritize the Affordable Housing Needs of Rural Americans

More than 59 million Americans live in rural America, where getting access to credit and capital for affordable housing is especially difficult. The U.S. Department of Agriculture's (USDA) Section 502 Single Family Direct Loan Program, Section 515 Rural Rental Housing Direct Loan Program and the Section 521 Rural Rental Assistance Program are all critical to homeownership and rental housing in rural communities. The Section 502 Program Direct Loan program offers mortgages for low-income homebuyers in rural areas. At least 40 percent of the funds appropriated each year must be used to assist families with incomes less than 50 percent of area median income (AMI). In the past 60 years, Section 502 Direct Loans have helped more than 2.1 million rural families buy homes and build their wealth by more than $40 billion.[43]

43 See more at *USDA Section 502 Direct Fact Sheet*, The Housing Assistance Council (January 2014); *Homeownership in Rural America*, Rural Research Brief (July 2012)

The Section 502 direct and guarantee programs serve largely different populations.

In FY 2013, the average household income for direct borrowers was $28,600 while guaranteed loan recipients earned an average of $54,200. In addition, while slightly over 35 percent of direct loans went to non-whites and Hispanics in FY 2013, under 15 percent of guaranteed borrowers were rural minorities.

Source: The Housing Assistance Council (2014)

The Section 515 Program has financed more than 550,000 decent, safe, sanitary and affordable homes, often the only such housing in rural communities.[44] The median annual income of those families ranges from $10,000 to $12,000 and over 60 percent of them are elderly or disabled.[45] Because mortgages in the rental portfolio are reaching maturity and increasing number of owners are prepaying their government-subsidized mortgages before the loan term expires, rural communities face the potential loss of close to 300,000 affordable units in the next several years.[46] In the case of loan prepayments, USDA is either permitted or required to offer owners incentives not to prepay, and in exchange the property continues to be restricted to low-income occupancy for 20 years.

Many Section 515 properties are also aging and must be preserved against physical deterioration. The most recent data available is from a 2004 Comprehensive Property Assessment (CPA) prepared for USDA by a team of consultants, which found that the physical conditions of Section 515 properties were an even greater problem than prepayments.[47] None of the properties had enough money in reserve to address physical needs over time. Researchers calculated the total cost to prevent physical deterioration of Section 515 properties would be $2.6 billion over 20 years.

USDA's Section 521 Rental Assistance (RA) program helps tenants whose incomes are so low they cannot afford the rent in certain USDA-financed properties.

Who Can Act:

The U.S. Congress

NCRC's Position:

The U.S. Congress and the Administration should prioritize and support capacity-building for Section 502 Direct Loans so that more rural Americans can access and use the program. Although the program has recently been automated, it still takes far too long to process loan applications. The House and Senate Appropriations committees should also maintain funding for all USDA rural housing programs, including Section 502, 515 and 521.

Congressional appropriators should also provide enough funding to renew all Section 521 rental assistance contracts, oppose implementing minimum rents in Section 521-assisted units or other USDA rentals, and work with USDA Rural

44 *USDA Rural Rental Housing Loans (Section 515)*, The Housing Assistance Council (April 2011)
45 *USDA Rural Housing Programs for Seniors,* The Housing Assistance Council (September 2011)
46 Housing Assistance Council.
47 *USDA Rural Rental Housing Programs Fact Sheet*, National Low Income Housing Coalition (2014)

Development to find positive ways to reduce Section 521 costs through energy efficiency measures, refinancing USDA mortgages and reducing administrative costs.

Invest Fair

Every person in a community, regardless of their race, age, or socio-economic status, should have the opportunity to build wealth. Equal access to financial products and services is critical.

ISSUE: Oppose Any Amendments or Riders to Fiscal Year 2017 Spending Bills That Would Undermine Fair Housing Enforcement

There were important fair housing gains in 2015. In *Texas Department of Housing and Community Affairs vs. Inclusive Communities Project*, the U.S. Supreme Court upheld the disparate impact doctrine under the Fair Housing Act. The disparate impact doctrine bars policies that have a discriminatory impact even if there is no intention to discriminate. This tool is very important to fair housing and fair lending advocates combating modern-day redlining where an intention to discriminate can be nearly impossible to prove.

Additionally, HUD released its Affirmatively Furthering Fair Housing (AFFH) rule, which implements the requirement in the 1968 Fair Housing Act that local jurisdictions receiving funding from HUD work to actively promote housing integration, inclusive communities, and housing choices. HUD's strong AFFH rule provides clarity and teeth to these long-standing obligations, while also providing a number of tools communities can leverage to implement strong local fair housing programs.

During the FY 2016 appropriations process last year, there were several amendments offered to spending bills that would have undermined federal fair housing enforcement.

Who Can Act:

The U.S. Congress

NCRC's Position:

Oppose any amendments or riders to FY 2017 appropriations and other future legislation that prohibits the use of federal funds to provide grants for private enforcement under the Fair Housing Initiatives Program. Oppose any amendments to FY 2017 appropriations that prohibit federal agencies from using appropriated funds to enforce HUD's Discriminatory Effects Standard (Disparate Impact) or AFFH regulations.

ISSUE: Fully Implement the Final Rule on Affirmatively Furthering Fair Housing Before the End of President Obama's Term

HUD's AFFH rule is a positive step and the next Administration must ensure that it is fully implemented and enforced. Unsuccessful attempts in the U.S. Congress to prevent the enforcement of HUD's AFFH and disparate impact rules show that fair housing enforcement is likely to continue to be the subject of attack.

Who Can Act:

HUD, FHFA, federal agencies

NCRC's Position:

HUD should continue the important work of fully implementing the AFFH rule for all covered entities. In addition, Executive Order 12892 signed by President Bill Clinton requires that all federal agencies affirmatively further fair housing through their activities, and this order should enforced.

FHFA's Proposed Duty to Serve Rule requires Fannie Mae and Freddie Mac to provide leadership in creating loan products and flexible underwriting guidelines to serve three underserved markets – manufactured housing, affordable housing preservation and rural housing. NCRC supports provisions in the proposed rule providing extra credit for financing projects that promote residential economic diversity. FHFA's proposal reinforces AFFH and aligns with CRA, which also encourages banks to participate in community plans that promote mixed-income housing and integration in gentrifying neighborhoods.[48]

ISSUE: Make Public Better Data About the Mortgage Market, Loan Products and Borrowers

Prior to the 2007-2009 financial crisis, the U.S. General Accountability Office (GAO), consumer advocates and others noted that the lack of data on consumer finance products hindered federal oversight in areas such as mortgages and fair lending.[49] As a result, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 made a number of improvements to mortgage market data collection under the Home Mortgage Disclosure Act (HMDA). HMDA data is a powerful tool in fighting for a more just economy. In 2014, 7,062 financial institutions reported information about approximately 11.9 million mortgage applications, preapprovals, and loans.

On October 15, 2015, the CFPB issued its final rule improving the quality and the type of HMDA data it collects. This new information includes the property value, the term of the loan, and the duration of any teaser or introductory interest rates to help identify emerging risks and discriminatory lending practices.[50] The new HMDA data could provide better information about certain loan features that helped contribute to the mortgage crisis, such as adjustable-rate mortgages and non-amortizing loans.[51] The new data could also shed light on lending activities and ultimately allows us to find disparities and inequities.[52] Fair lending screenings could also be enhanced because financial institutions will be required to provide more information about mortgage loan underwriting and pricing, such as an applicant's debt-to-income ratio, the interest rate of the loan, and the discount points charged for the loan.

48 *Interagency Questions and Answers Regarding Community Reinvestment*, Q&A §.22(b)(2) &(3)-5

49 See GAO, Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System, GAO-09-216 (Washington, D.C.: Jan. 8, 2009); also see GAO 14-758, footnote 2 for other reports.

50 Ibid.

51 Ibid.

52 CFPB Final Rule Press Release http://www.consumerfinance.gov/newsroom/cfpb-finalizes-rule-to-improve-information-about-access-to-credit-in-the-mortgage-market/

Who Can Act:

The CFPB

NCRC's Position:

The CFPB has issued a strong final HMDA rule, which could do much to shed light on lending activities. However, the effectiveness of the new rule will be contingent on how the CFPB chooses to disclose data to the public. This year, the CFPB will determine how and what data to release to the public. We believe that HMDA is a public disclosure statute, and that the CFPB should lean towards full public disclosure, while taking steps to ensure that the privacy interests of borrowers are protected.

The CFPB interprets HMDA to call for the use of a balancing test to determine whether and how HMDA data should be modified prior to public release in order to protect privacy while also fulfilling the public disclosure requirements of the statute.[53] Given that the mortgage data that the CFPB collects presents minimal risk for identity theft and that the CFPB uses anonymizing techniques to protect data from being reversed engineered to identify consumers, the CFPB should release the new HMDA data to the public in the broadest manner possible. [54]

ISSUE: Collect and Make Public Better Data About Small Businesses Lending

Last year, NCRC led an advocacy effort that included U.S. Senator Cory Booker (D-NJ) and 18 other U.S. Senators, and U.S. Representatives Maxine Waters (D-CA), Donald Payne, Jr. (D-NJ), Chris Van Hollen (D-MD), and 82 others in the U.S. House of Representatives calling on the CFPB to propose a long-delayed rule on small business lending data. Under the Dodd-Frank Act, the CFPB is required to collect and improve data collection on small business lending. The agency is preparing to issue a proposed rule.

While sophisticated data exists on the housing market, made better with the enhancements to HMDA under Dodd-Frank, there are significant gaps in the small business lending data that regulators collect. In particular, the existing data does not provide much insight into the treatment of businesses of different revenue sizes or backgrounds, such as women- and minority-owned businesses. Without more information on the demographics and financial situation of small business owners who received or were denied loans, possible fair lending discrepancies are impossible to identify. Without understanding precisely who the borrowers seeking small business credit are, the market is less able to create the kinds of products that best serve their needs. Additionally, the lack of data makes it more difficult to assess government efforts to stimulate the economy and assist businesses in accessing credit.

Who Can Act:

The CFPB

53 CFPB Proposed Rule on Home Mortgage Disclosure http://files.consumerfinance.gov/f/201407_cfpb_proposed-rule_home-mortgage-disclosure_regulation-c.pdf

54 GAO 14-758 Consumer Financial Protection Bureau Report http://www.gao.gov/assets/670/666000.pdf

NCRC's Position:

The CFPB should require, at a minimum, the following small business data elements:

- Race and ethnicity data that incorporates several sub-categories to capture the full experience of all races and ethnicities including Asians and Hispanics;
- Revenue size disclosures that fully capture the experiences of micro-businesses;
- Data on all applications, including denials;
- Pricing of loan products; and
- A new database that captures a plethora of loan purposes and types so that regulators and members of the public can track lending and be able to determine if it is responsibly meeting the credit needs of underserved borrowers and communities.

Top business challenge

23% difficulty attracting customers

18% lack of credit availability

18% uneven cash flow

13% increasing costs of running business

CREDIT APPLICATIONS

22% applied for credit, of those:

- **72%** sought less than $250K
- **28%** sought more than $250K

24 average number of hours researching and completing financing applications

20% were too discouraged to apply

Source: Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia (Updated February 17, 2015)

Issue: Implement More Borrower Protections for Online Marketplace Lending Platforms

Online marketplace lending is growing rapidly, and accounted for $12 billion in new loan originations in the last year.[55] Online marketplace lending involves the facilitation of loan originations outside of the traditional consumer banking system by connecting borrowers and lenders over an Internet platform. The goal of online marketplace lending is to create a user-friendly Internet-based platform that allows for the matching of those with investment capital with consumers seeking credit. To meet this goal, platform operators design and manage a website that registers and collects information from potential borrowers and potential lenders.[56]

Lending platforms typically issue loans in amounts ranging from $1,000 to $35,000 with fixed interest rates and maturities of three to five years, and often set minimum FICO credit scores (e.g., 660 and 640). The lending platform that makes the loan then receives origination fees (usually one percent to two percent of the loan balance) and servicing fees (typically one percent of the outstanding loan balance).[57]

The primary regulatory challenge for platform operators is complying with federal and state securities laws, but these laws focus on lender protection rather than borrower protection. The absence of a single federal regulator for online marketplace lending presents concerns that the existing regulatory structure does not protect borrowers. To this end, the Treasury Department issued a Request For Information (RFI) in late 2015 to gather more information regarding online marketplace lending platforms.

Who Can Act:

The Treasury Department, the U.S. Securities and Exchange Commission (SEC), the CFPB, the U.S. Congress in its oversight role

NCRC's Position:

Federal regulators should establish borrower protections for peer-to-peer lending platforms and should consider an ability to repay standard consistent with other consumer lending.

Marketplace lending is a growing segment. The U.S. Congress and federal regulators should conduct more oversight of various aspects of marketplace lending, including:

- Issues around risk retention and retained loan portfolios for platform lenders;
- How and whether capital reserve requirements apply to platform lenders; and
- The application of truth in lending standards to platform lenders comparable to those for other types of lenders.

ISSUE: Finalize a Strong Payday Lending Rule and Enact a National Interest Rate Cap to Encourage Responsible Lending

Americans need access to safe and sustainable credit options, not high-cost, poorly underwritten debt. Payday loans are a debt trap by design, with a business model that depends on repeat borrowing at interest rates that average 391 percent. The CFPB has found that half of all payday loans are part of a series of ten loans or more and that the average

55 "*The Future of Finance,*" Goldman Sachs Equity Research (March 3, 2015)
56 "*Global Marketplace Lending: Disruptive Innovation in Financials,*" Morgan Stanley Research (May 2015)
57 "*Peer Pressure: How peer-to-peer lending platforms are transforming the consumer lending industry*", Price Waterhouse Coopers Research Report (February 2015)

payday borrower is in debt at triple digit interest rates for more than half the year.[58] As a result, payday lending is closely tied to the increased frequency of expensive overdrafts and closed bank accounts.[59]

Last year, the CFPB issued a list of possible consumer protections under consideration for inclusion in the proposed rule expected in Spring of 2016.[60] It is critical that the CFPB issue a strong final rule without delay. Since the CFPB is prohibited from curtailing abusive interest rates, the U.S. Congress should also enact an interest rate cap to protect consumers from abusive interest rates and oppose any legislation that delays or weakens the CFPB's ability to protect consumers. The U.S. Congress should also enact new protections to eliminate abusive practices in the online payday market.

Who Can Act:

The U.S. Congress, the CFPB

NCRC's Position:

The CFPB should adopt a strong final payday rule that requires lenders to consider a borrower's income and expenses for every loan and reaffirm the importance of state interest rate caps.

The U.S. Congress should enact the *Protecting Consumers from Unreasonable Credit Rates Act of 2015* (H.R. 1565 and S. 838) that establishes a national 36 percent rate cap to encourage responsible lending and the *Stopping Abuse and Fraud in Electronic Lending Act* to prevent abuses in the online payday loan market.

The U.S. Congress should reject the *Consumer Protection and Choice Act* (H.R. 4018) that will delay a CFPB payday rule by two years or longer and weaken the rule by exempting lenders in some states from meaningful oversight.

ISSUE: Provide Incentives for Financial Institutions to Adopt Age-Friendly Banking

With an expected 72 million older adults living in the United States by 2030,[61] the "Silver Tsunami" of American seniors will need age-sensitive financial products and services in order to continue living healthy and independent lives.

Who Can Act:

The FDIC, the Federal Reserve, the OCC, the U.S. Congress in its oversight role

58 See *Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings*. Washington, DC: Consumer Financial Protection Bureau, April 13, 2013. http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf and *CFPB Data Point: Payday Lending*. Washington, D.C.: Consumer Financial Protection Bureau (March) http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf.

59 *Overdraft Frequency and Payday Borrowing: An Analysis of Characteristics Associated with Overdrafters*. Washington, DC: The Pew Charitable Trusts (February 2015) http://www.pewtrusts.org/~/media/Assets/2015/02/ConsumerBanking_OverdraftSupplementBrief_v9.pdf.

60 "Small Business Advisory Review Panel for Potential Rulemakings for Payday, Vehicle Title, and Similar Loans: Outline of Proposals Under Consideration and Alternatives Considered." Washington, DC: Consumer Financial Protection Bureau (March 26, 2015) http://files.consumerfinance.gov/f/201503_cfpb_outline-of-the-proposals-from-small-business-review-panel.pdf.

61 *The State of Aging and Health in America* (2013)

NCRC's Position:

The financial industry must do more to ensure that they are equipped to meet the unique banking needs of older adults. NCRC has defined six core Age-Friendly Banking principles that banks need to implement to effectively serve the older adult population:

- Make financial management affordable;
- Ensure older adults' access to critical income supports;
- Implement financial abuse protections and training;
- Facilitate aging in the community;
- Support aging services and advocacy; and
- Increase the accessibility of locations and services.

Invest Period

Funding plays a critical role in building community prosperity. The President, the U.S. Congress, regulators, and the financial services industry must continue the nation's economic recovery by investing in communities.

Issue: Improve Technical Assistance and Procurement Goals for Underserved Businesses

Small, women-owned, and minority-owned businesses are critical to the success of the American economy. As a significant business partner, the federal government needs to do a much better job of helping these economic engines grow. For years, the government has failed to meet its goals of awarding a mere 23 percent of federal contracts to these businesses, depriving them of at least $25.7 billion. In addition, many federal programs aimed at providing technical assistance have arbitrary and unnecessarily limiting constraints.

Who Can Act:

The U.S. Congress, the U.S. Small Business Administration

NCRC's Position:

To ensure that small, women-owned, and minority-owned businesses can continue to grow, the federal government should increase the small business goal of federal contracting and procurement from 23 percent to 25 percent and actually adhere to that standard.

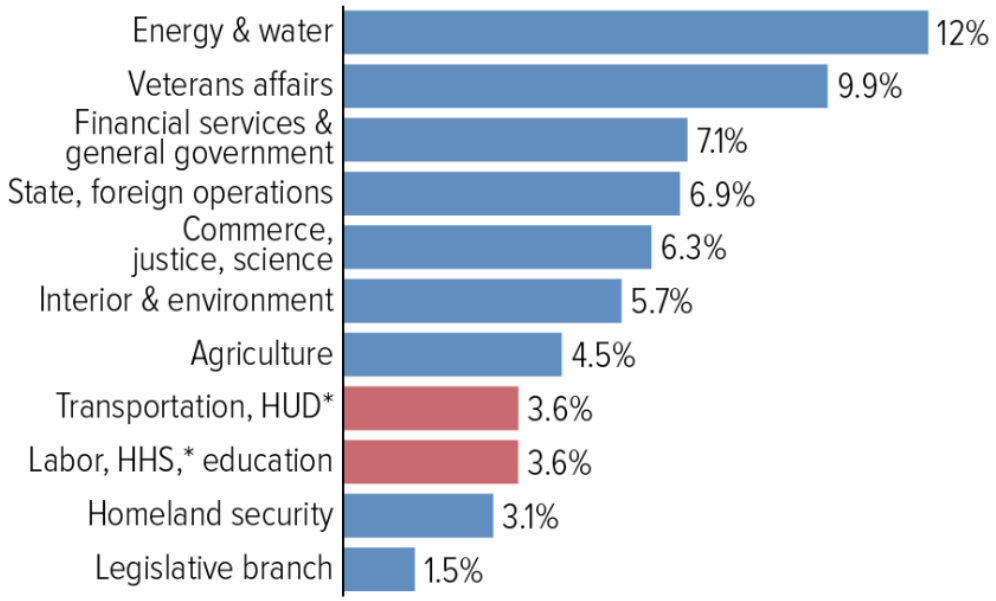
Support the Women's Small Business Ownership Act (S. 2126), introduced by U.S. Senator Maria Cantwell (D-WA), which reauthorizes and increases funding for the Women's Business Center program.

ISSUE: Increase Fiscal Year 2017 Funding for Housing and Other Federal Programs Assisting Low- and Moderate-Income Households and Communities

The FY 2016 Omnibus appropriations legislation enacted in December 2015 included a number of beneficial funding increases, but programs that assist households with low- or moderate-incomes fared considerably worse than others, on balance.[62] The final FY 2016 federal spending bill provided significant increases for both defense and non-defense programs that were made possible by a bipartisan budget agreement in October 2015. That agreement rolled back part of the sequester, or automatic spending cuts, imposed by the 2011 Budget Control Act. Despite easing the 2011 spending caps, however, overall non-defense spending for FY 2016 remained well below the 2010 level, after adjusting for inflation. In addition, lawmakers allocated considerably smaller increases to the appropriations subcommittees responsible for most low-income programs than most other subcommittees. Overall, appropriated low-income programs received less than half the average increase given to the other non-defense programs.

Two Bills That Fund Bulk of Low-Income Programs Were Given Low Priority in 2016

Percentage increase in non-defense appropriations from fiscal year 2015



*HUD stands for Housing & Urban Development; HHS for Health & Human Services.

Note: Figures include funding for Overseas Contingency Operations but exclude changes in mandatory programs and mortgage insurance receipts and expenses. The Transportation-HUD and Labor-HHS-Education bills together account for more than four-fifths of annual appropriations for low-income programs.

Source: CBPP analysis of data from the Congressional Budget Office.

62 *2016 Appropriations Placed Low Priority on Low-Income Programs; Better Priorities Needed in 2017*, Center for Budget and Policy Priorities, David Reich and Douglas Rice (January 27, 2017).

Ensuring proper allocations of funding will be even more important for 2017, when the budget agreement doesn't allow for any overall increase above 2016 levels. If the U.S. Congress gives low-income programs the same low priority in 2017 as in 2016, they could face cuts.

Who Can Act:

The U.S. Congress

NCRC's Position:

The House and Senate Appropriations committees should make FY 2017 THUD funding a priority. A strong FY 2017 THUD subcommittee allocation will equip the nation's communities to address pressing housing priorities, improve roads, bridges, transit and other infrastructure and spur community development. Each of these efforts is tied to the economic prosperity of cities, counties and states nationwide. Communities rely on adequate funding of THUD programs to help create new jobs and maintain healthy, accessible, and thriving surroundings for all of their residents.

ISSUE: Continue to Invest in the Critical Infrastructure of the Country

From public housing to public schools, from water resources and infrastructure to the energy smart grid, transportation, airports and other public infrastructure, U.S. lawmakers must prioritize investments in the nation's infrastructure. Communities around the country needs strong infrastructure to grow, thrive and prosper.

Who Can Act:

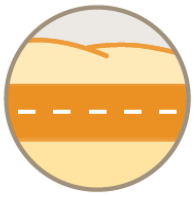
The U.S. Congress, state and local governments

NCRC's Position:

The U.S. Congress and state and local governments should prioritize investments into the nation's crumbling infrastructure.

The Nation's Infrastructure Needs Improvement

American Society of Civil Engineers gave U.S. public infrastructure a D+ or "poor" rating in its most recent report. The engineers estimated the cost of bringing America's infrastructure to a state of good repair (a grade of B) by 2020 at $3.6 trillion, of which only 55 percent has been committed. State and local governments, the stewards of most of the country's public capital, should address these needs.



Roads
Funding gap - 50%
($846 billion)

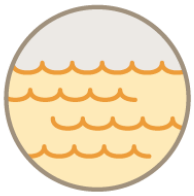
Electricity
Funding gap - 15%
($107 billion)

Schools
Funding gap - 69%
($271 billion)

Parks & Rec
Funding gap - 44%
($104 billion)

Airports
Funding gap - 29%
($39 billion)

Dams/Levees
Funding gap - 79%
($103 billion)



Water/Sewer
Funding gap - 67%
($84 billion)

Rail
Funding gap - 11%
($11 billion)

Waste
Funding gap - 82%
($46 billion)

Source: American Society of Civil Engineers 2013 Report Card for American Infrastructure and Failure to Act series, published 2011-2013

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Appendix

Table 2. Distribution of home loans, by purpose of loan, 2004–14

Percent except as noted

Characteristic of borrower and of neighborhood	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
A. Home purchase											
Borrower race and ethnicity[1]											
Asian	4.8	5.0	4.5	4.5	4.9	5.3	5.5	5.2	5.3	5.7	5.4
Black or African American	7.1	7.7	8.7	7.6	6.3	5.7	6.0	5.5	5.1	4.8	5.2
Hispanic white	7.6	10.5	11.7	9.0	7.9	8.0	8.1	8.3	7.7	7.3	7.9
Non-Hispanic white	57.1	61.7	61.2	65.4	67.5	67.9	67.6	68.7	70.0	70.2	69.1
Other minority[2]	1.4	1.3	1.1	1.0	.9	.9	.9	.8	.8	.7	.8
Joint	2.3	2.3	2.3	2.5	2.8	2.8	2.7	2.8	2.9	3.1	3.3
Missing	19.8	11.5	10.5	10.1	9.6	9.3	9.1	8.6	8.2	8.2	8.3
All	100	100	100	100	100	100	100	100	100	100	100
Borrower income[3]											
Low or moderate	27.7	24.6	23.6	24.7	28.1	36.7	35.5	34.4	33.3	28.4	27.0
Middle	26.9	25.7	24.7	25.2	27.1	26.7	25.6	25.2	25.2	25.2	25.6
High	41.4	45.5	46.7	47.0	43.1	34.7	37.4	38.8	40.0	44.8	46.1
Income not used or not applicable	4.0	4.2	5.0	3.1	1.7	1.9	1.5	1.6	1.5	1.6	1.3
All	100	100	100	100	100	100	100	100	100	100	100
Neighborhood income[4]											
Low or moderate	14.5	15.1	15.7	14.4	13.1	12.6	12.1	11.0	12.8	12.7	13.3
Middle	48.7	49.2	49.5	49.6	49.8	50.2	49.4	49.4	43.6	43.7	44.6
High	35.8	34.7	33.7	35.1	35.9	35.8	37.7	39.1	43.2	43.2	41.8
All	100	100	100	100	100	100	100	100	100	100	100
B. Refinance											
Borrower race and ethnicity[1]											
Asian	3.5	2.9	3.0	3.1	3.1	4.1	5.2	5.4	5.5	4.7	4.4
Black or African American	7.4	8.3	9.6	8.4	6.0	3.5	2.9	3.1	3.3	4.4	5.3
Hispanic white	6.2	8.6	10.1	8.7	5.3	3.2	3.0	3.3	3.9	5.0	6.2
Non-Hispanic white	57.2	60.9	59.6	62.7	70.7	74.6	74.3	73.5	72.5	70.5	67.8
Other minority[2]	1.4	1.4	1.3	1.1	.8	.6	.5	.6	.6	.7	.9
Joint	2.1	2.1	1.9	2.0	2.2	2.6	2.7	2.8	3.1	3.1	3.3
Missing	22.1	15.7	14.6	14.1	11.9	11.4	11.4	11.3	11.1	11.6	12.2
All	100	100	100	100	100	100	100	100	100	100	100
Borrower income[3]											
Low or moderate	26.2	25.5	24.7	23.3	23.5	19.6	19.0	19.2	19.6	21.1	22.2
Middle	26.3	26.8	26.1	25.6	25.5	22.5	22.5	21.3	21.8	21.7	22.2
High	38.8	40.8	43.7	46.1	44.8	45.8	49.6	48.1	47.7	46.3	45.6
Income not used or not applicable	8.7	6.9	5.5	5.0	6.2	12.1	8.9	11.4	10.9	10.9	10.0
All	100	100	100	100	100	100	100	100	100	100	100
Neighborhood income[4]											
Low or moderate	15.3	16.5	17.9	16.1	11.9	7.7	7.2	7.4	10.1	12.1	13.1
Middle	50.0	51.3	52.0	52.2	51.9	47.5	46.1	46.1	41.9	43.8	45.2
High	33.9	31.6	29.4	31.0	35.2	43.5	46.0	46.0	47.6	43.9	41.4
All	100	100	100	100	100	100	100	100	100	100	100
Memo											
Number of home-purchase loans (thousands)	4,660	4,836	4,298	3,331	2,533	2,391	2,157	2,018	2,284	2,615	2,737
Number of refinance loans (thousands)	6,412	5,692	4,397	3,588	2,869	5,243	4,481	3,823	5,888	4,341	1,921

Note: First-lien mortgages for one- to four-family family, owner-occupied, site-built homes. Rows may not sum to 100 because of rounding or, for the distribution by neighborhood income, because property location is missing.

[1] Applications are placed in one category for race and ethnicity. The application is designated as *joint* if one applicant was reported as white and the other was reported as one or more minority races or if the application is designated as white with one Hispanic applicant and one non-Hispanic applicant. If there are two applicants and each reports a different minority race, the application is designated as *two or more minority races*. If an applicant reports two races and one is white, that applicant is categorized under the minority race. Otherwise, the applicant is categorized under the first race reported. "Missing" refers to applications in which the race of the applicant(s) has not been reported or is not applicable or the application is categorized as white but ethnicity has not been reported.

[2] Consists of applications by American Indians or Alaska Natives, Native Hawaiians or other Pacific Islanders, and borrowers reporting two or more minority races.

[3] The categories for the borrower-income group are as follows: Low- or moderate-income (or LMI) borrowers have income that is less than 80 percent of estimated current area median family income (AMFI), middle-income borrowers have income that is at least 80 percent and less than 120 percent of AMFI, and high-income borrowers have income that is at least 120 percent of AMFI.

[4] The categories for the neighborhood-income group are based on the ratio of census-tract median family income to area median family income from the 2006–10 American Community Survey data for 2012 and 2013 and from the 2000 census for 2004–11, and the three categories have the same cutoffs as the borrower-income groups (see note 3).

Source: Board of Governors of the Federal Reserve System

Table 5. Denial rates, by purpose of loan, 2004–14
Percent

Type of loan and race and ethnicity of borrower	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
A. Home purchase											
Conventional and nonconventional[1]											
All applicants	14.4	16.0	18.0	18.7	18.0	15.5	15.6	15.8	14.9	14.5	13.2
Asian	13.7	15.9	16.9	17.5	19.2	16.3	15.8	16.5	15.8	15.1	13.9
Black or African American	23.6	26.5	30.3	33.5	30.6	25.5	24.8	26.0	26.0	25.5	22.7
Hispanic white	18.3	21.1	25.1	29.5	28.3	22.2	21.8	21.1	20.2	20.5	18.1
Non-Hispanic white	11.1	12.2	12.9	13.3	14.0	12.8	12.9	13.1	12.5	12.2	11.0
Other minority[2]	19.4	20.8	24.0	26.7	25.5	21.2	21.9	20.9	20.8	21.5	18.8
Conventional only											
All applicants	14.6	16.3	18.5	19.0	18.3	15.8	15.2	15.1	13.6	12.9	11.7
Asian	13.7	16.0	17.1	17.5	19.1	15.8	14.8	15.5	14.4	13.9	13.0
Black or African American	25.0	27.8	31.9	35.7	37.6	35.8	33.6	33.2	32.0	28.5	24.6
Hispanic white	18.6	21.4	25.7	30.5	32.5	26.9	24.9	24.2	22.4	21.5	18.7
Non-Hispanic white	11.2	12.3	13.2	13.3	14.1	13.3	12.9	12.7	11.6	10.9	9.8
Other minority[2]	19.7	21.2	24.8	27.8	29.0	25.9	28.0	24.6	23.6	22.6	20.1
Nonconventional only[1]											
All applicants	13.3	12.5	12.1	16.2	17.4	15.3	16.0	16.5	16.3	17.0	15.6
Asian	12.6	11.6	10.6	15.5	20.2	17.7	18.6	19.3	20.2	20.7	18.6
Black or African American	17.7	16.8	16.2	22.8	25.3	22.6	22.7	23.9	24.0	24.2	21.7
Hispanic white	16.3	17.2	15.7	20.5	23.1	20.4	20.7	19.9	19.3	20.0	17.7
Non-Hispanic white	10.7	10.2	10.0	13.1	13.9	12.5	13.0	13.6	13.7	14.4	13.2
Other minority[2]	16.8	16.3	15.2	18.6	20.9	18.7	18.7	18.8	18.9	20.5	17.7
B. Refinance											
Conventional and nonconventional[1]											
All applicants	29.5	32.6	35.4	39.6	37.7	24.0	23.3	23.8	19.9	22.7	30.6
Asian	18.8	23.5	27.5	32.6	32.5	21.4	19.5	20.1	17.3	20.5	27.5
Black or African American	39.9	42.2	44.1	52.0	56.0	42.2	41.7	40.0	32.8	33.9	45.4
Hispanic white	28.7	30.1	33.2	43.0	49.1	36.4	33.4	33.2	27.5	28.7	36.0
Non-Hispanic white	24.1	26.9	30.1	33.7	32.2	20.7	20.6	21.3	17.8	20.0	27.1
Other minority[2]	33.7	35.5	40.6	52.0	57.4	37.3	35.3	34.4	30.0	30.5	41.3
Conventional only											
All applicants	30.1	32.9	35.6	39.9	37.0	22.1	21.3	22.3	19.4	22.0	29.0
Asian	18.8	23.5	27.5	32.5	31.5	20.2	18.5	19.4	17.0	20.0	26.6
Black or African American	41.7	43.0	44.7	53.3	60.9	48.6	41.4	40.6	34.8	35.1	46.5
Hispanic white	29.3	30.2	33.3	43.2	50.2	38.9	33.6	33.5	28.9	29.8	36.5
Non-Hispanic white	24.6	27.1	30.4	33.9	31.5	19.1	18.9	20.1	17.4	19.4	25.7
Other minority[2]	34.5	35.7	40.9	52.6	59.4	38.4	34.8	34.4	31.1	31.0	40.3
Nonconventional only[1]											
All applicants	15.0	20.1	21.9	31.6	40.9	31.1	33.3	32.2	22.2	25.9	36.5
Asian	15.0	20.0	22.0	38.5	48.9	37.2	34.2	32.7	22.2	26.1	37.5
Black or African American	17.5	23.6	24.6	33.7	43.5	35.1	42.2	39.1	29.5	31.6	43.8
Hispanic white	15.7	23.6	26.3	34.6	43.4	31.4	33.0	32.3	23.3	25.4	34.4
Non-Hispanic white	12.0	17.6	19.7	28.3	36.1	27.4	29.3	29.0	19.7	23.0	33.7
Other minority[2]	15.2	25.8	22.2	34.8	45.4	34.1	37.0	34.4	26.6	28.9	43.9

Note: First-lien mortgages for one- to four-family, owner-occupied, site-built homes. Excludes applications where no credit decision was made. For a description of how borrowers are categorized by race and ethnicity, see table 2, note 1.

[1] Nonconventional loans are those insured by the Federal Housing Administration or backed by guarantees from the U.S. Department of Veterans Affairs, the Farm Service Agency, or the Rural Housing Service.

[2] See table 2, note 2.

Source: Board of Governors of the Federal Reserve System