REINVESTMENT ALERT

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CRA BOOSTS MULTIFAMILY HOUSING LOANS IN CHICAGO

Introduction

The Community Reinvestment Act has brought solid benefits to a critical part of the Chicago economy -- the multifamily housing market. Good quality rental housing is essential to the well-being of low- and moderate-income families in Chicago, and is a sign of neighborhood stability particularly in neighborhoods where a high percentage of the housing stock is multifamily.[1]

The Community Reinvestment Act is now under attack in the United States Congress. Bills have been introduced in both the House and the Senate which would seriously weaken the legislation. **The Chicago multifamily housing story shows that the CRA can dramatically improve lending in low- and moderate-income neighborhoods, significantly increase the number of lenders extending credit, and be a force for neighborhood stability and revitalization.** It is partly due to the bank regulators' failure to implement CRA in the small business arena that economic development has not proceeded as fast as the development of multifamily housing. Absent a strong Community Reinvestment Act, lending for multifamily housing and other purposes in lower-income communities will diminish and the economies of those communities will suffer.

Increases in Multifamily Housing Lending in Chicago

Although the Community Reinvestment Act was enacted in 1977, financial institutions and bank regulators only began taking the law seriously in the mid-1980s.

From 1983 to 1985, the total number of multifamily loans made for buildings in Chicago's 45 low- and moderate-income neighborhoods averaged 361 a year. From 1991 to 1993, multifamily loans almost tripled averaging 992 per year (see Table I).

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[1] Multifamily housing refers to buildings with five or more units.

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In 1993, 1,105 such loans were made compared with 278 in 1984. The total constant dollar amount of multifamily loans showed similar increases. In the first period, 1983-85, the dollar amount of multifamily lending averaged $53 million per year compared to a yearly average of $240 million between 1991 and 1993 (see Table II).

Table I
Number of Multifamily Loans Made in Low- and Moderate-Income Community Areas in Chicago
From 1983-1985 and 1991-1993

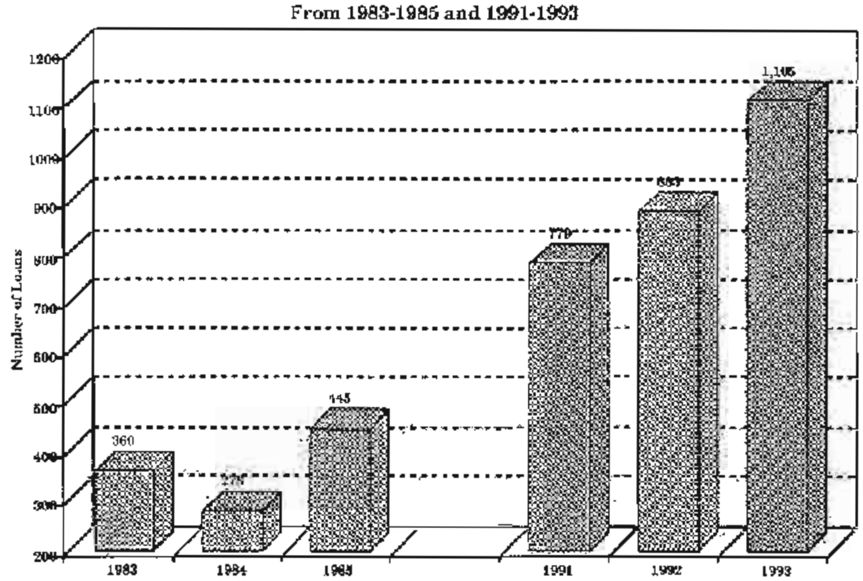
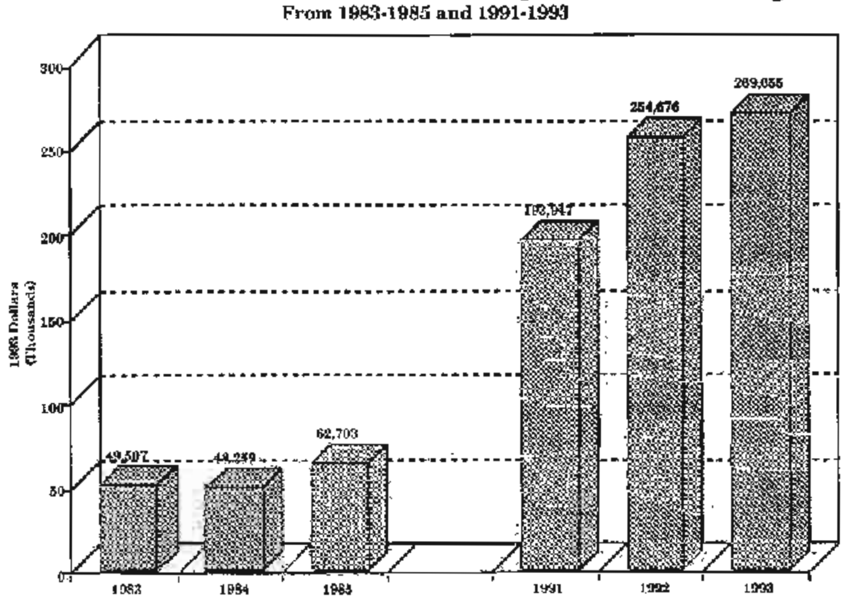


Table II
Multifamily Lending in 1993 Dollars in Low and Moderate-Income Community Areas in Chicago
From 1983-1985 and 1991-1993

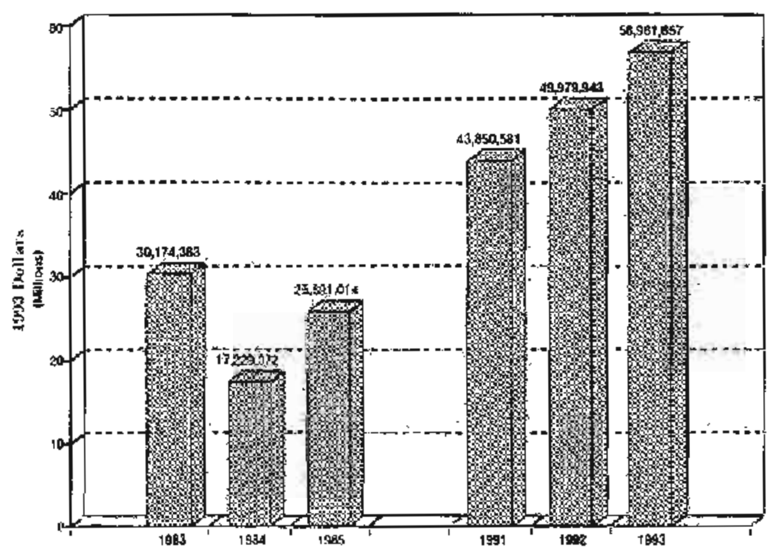


These figures combine loans used for purchasing property and loans used for rehabbing buildings. Purchase loans are necessary for the regular business of buying and selling property. But they only tell part of the story. Owners also need credit for rehab. While Home Mortgage Disclosure Act data does not break down multifamily loans by purchase and rehab, City of Chicago building permit data show major increases in rehab activity over the same ten years.

Building permit data undercount the amount of rehab activity because permits are not pulled on all such projects. Increases in the number of smaller projects may be missed by the permit data. But permit data will signal the general direction of rehab activity.

Between 1983 and 1985, an average of 473 permits were pulled each year for repair and improvement projects on multifamily buildings located in low- and moderate-income neighborhoods in Chicago. For 1991-1993, the figure was 564 permits a year -- an almost 20 percent increase. The number of permits for new construction of multifamily housing is much lower, but the trend in such activity shows a dramatic improvement increase, with an average of 18 new construction permits each year in the first period and 41 a year in the second period, a 128 percent increase. The dollar value of these multifamily repair and improvement permits increased from an average of $24 million[2] annually in the first period to $50 million annually in the second period, a 106 percent increase (Table III).

Table III
Estimated Value of Multifamily Repairs & Improvements
In Low- and Moderate-Income Community Areas
From 1983-1984 and 1991-1993



Based on City of Chicago Permit Data

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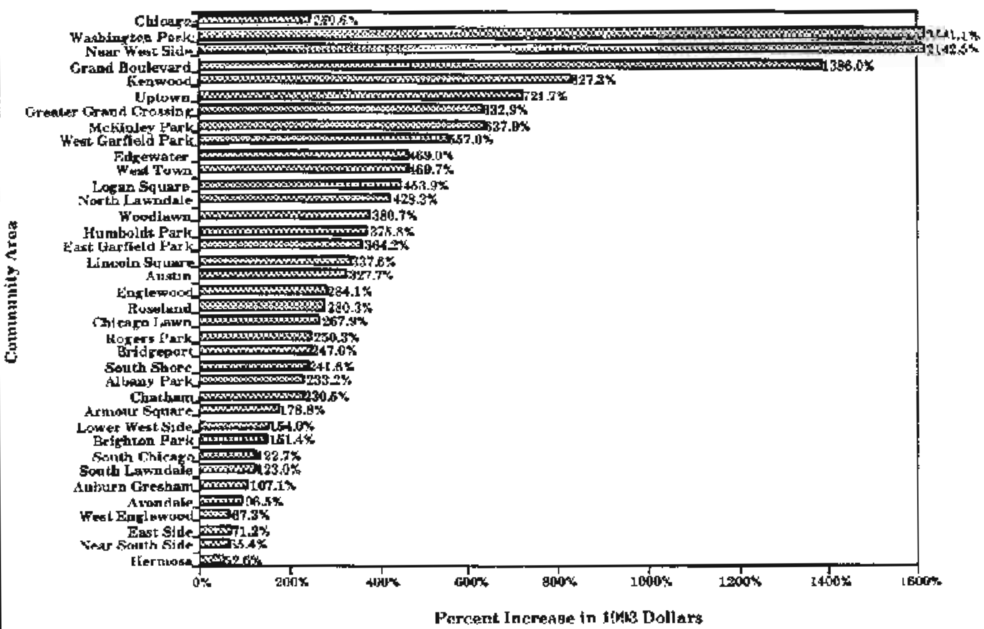
[2] All loan and residential amounts are in 1993 constant dollars.

The Neighborhood Story

The city story is even more dramatic when we focus on individual low- and moderate-income neighborhoods. Table IV depicts the trends in multifamily lending for those lower income neighborhoods where the 1993 constant dollar value of multifamily housing loans increased by more than 50 percent between 1983-85 and 1991-93. The table lists 36 out of Chicago's 45 low- and moderate-income neighborhoods; 25 of them saw the dollar value of multifamily housing lending increase by more than 200 percent, eight by more than 500 percent, and three by more than 1,000 percent.

Table IV
Percent Real Increase in Multifamily Lending in Selected Low- and Moderate-Income Community Areas in Chicago
From 1983-1985 to 1991-1993



To illustrate this trend, we chose four lower-income neighborhoods that reflect the city's geographic and racial diversity: Uptown, West Town, Austin, and Greater Grand Crossing.

Uptown, located on Chicago's North Side, is a racially-mixed community with a median household income of $19,711. West Town on the Near Northwest Side of Chicago is 62 percent Hispanic with a median household income of $19,236. Austin, on Chicago's West Side, is 86 percent African American, with a median family income of $24,877. Greater Grand Crossing on the South Side is 99 percent African American with a median household income of $18,529.

Table V graphs the increase in the number of multifamily loans[3] for the four neighborhoods from 1983-1993, and Table VI graphs the increase in the dollar value of those loans.

Table V
Number of Multifamily Loans Made
In Selected Community Areas
From 1983-1993

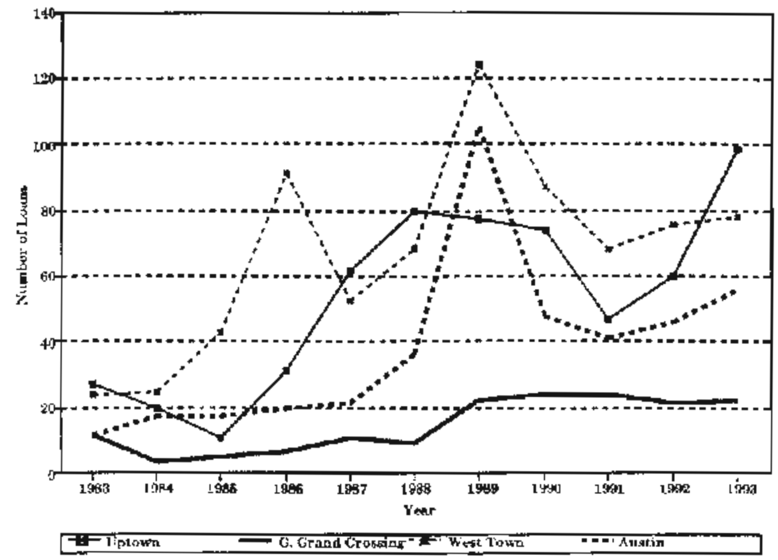
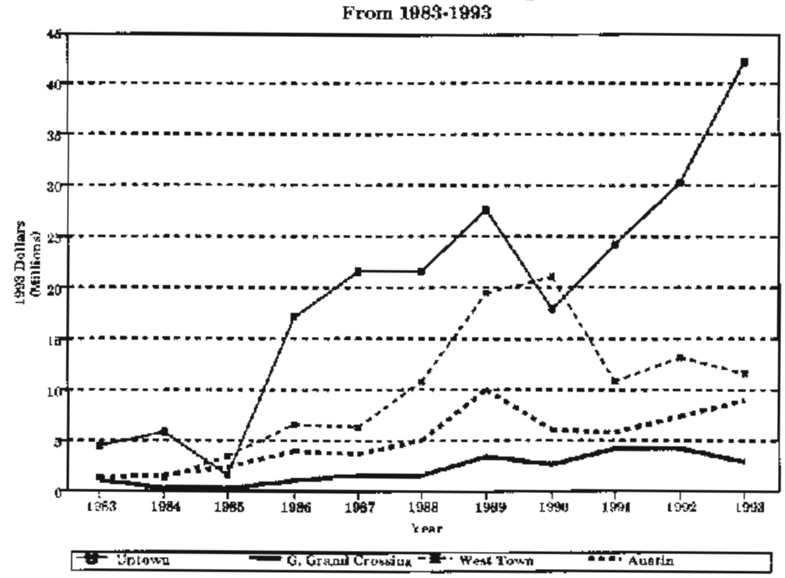


Table VI
Multifamily Lending in 1993 Dollars
In Selected Community Areas
From 1983-1993



[3] The loan analysis in this Alert is derived from Home Mortgage Disclosure Act (HMDA) data. The most recent year for which HMDA data is available is 1993.

The most spectacular increase in lending occurred in Uptown, where the 721.7 percent increase fed off a very strong base of lending in 1983. The comparatively large number of loans in Uptown in 1983 reflects the fact that ninety percent of Uptown's residential units are in multifamily dwellings. Austin's figures show a large increase in multifamily housing activity from 1988 to 1991 with a moderation in 1992 and 1993. (32 percent of Austin's housing units are multifamily.) West Town (27 percent multifamily) experienced a steady upward trend throughout the ten years, and Greater Grand Crossing (40 percent multifamily) demonstrates a similar, though not as strong, consistent, upward trend.

The conditions for reinvestment in these neighborhoods vary. In Austin private developers followed the lead of community development groups. In West Town some of the increase represents gentrification. In Greater Grand Crossing, one bank, Shore Bank, accounted for 40 percent of the loans in the two study periods. Uptown benefits from an unusual richness of nonprofit groups active in community development.

Increased Multifamily Housing Activity and the Community Reinvestment Act

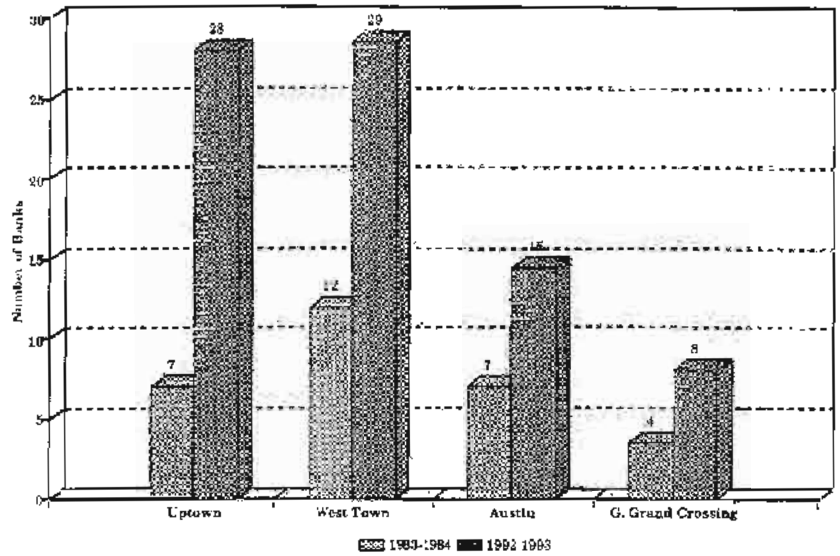
Community reinvestment builds on itself. The improvement of an anchor building on a block encourages the owners of neighboring buildings to improve their properties. A neighborhood with a core of multifamily housing improvement produces a new generation of skilled loan officers, developers, rehabbers, owners and property managers.

But neighborhoods which suffered years of disinvestment and decay need help to jump-start their economies. The Community Reinvestment Act has been the essential and primary catalyst for the increase in multifamily lending.

One important, direct result of CRA enforcement is the increase in the number of financial institutions lending in lower-income communities. Table VII shows that the increased lending has been the consequence of a large increase in the number of lenders making multifamily loans in our four exemplary neighborhoods. The number of lenders operating in those neighborhoods increased between 100 and 300 percent between 1983-84 and 1992-93.

While the Community Reinvestment Act mandate that regulated financial institutions lend throughout their designated service area was a prime reason for the increased multifamily lending, other conditions, incentives, subsidies, and institutional expertise contributed to the increase. Declining real wages among large sections of the work-force, for example, increased the demand for rental housing. Community development corporations planned and implemented early projects that spurred private development.

Table VII
Average Number of Multifamily Lenders
In Selected Community Areas
From 1983-1984 and 1992-1993



The financial inputs into multifamily purchase and rehab projects include low-income housing tax credits, Community Development Block Grant and HOME program low-interest second mortgage loans, Federal Home Loan Bank Affordable Housing Program loans, Illinois Housing Development Authority and Chicago Department of Housing loans, and the Cook County Assessor's Class 9 property tax reductions. The Community Investment Corporation with a $63 million investment over 11 years in just two of the exemplary neighborhoods (Austin and Uptown), provided not just financing but tax-reactivation, rehabbing and property management expertise throughout the city.

Conclusion

The maturing implementation of the Community Reinvestment Act has had a striking impact on multifamily housing lending in Chicago. (One reason single-family loans have not kept the same pace is that a substantial source of single-family lenders, mortgage companies, are not regulated by the Community Reinvestment Act, whereas the vast majority of multifamily lenders are covered.)

The number of purchase, rehab, and new construction multifamily loans has increased dramatically in this ten-year period. Multifamily rental housing is the primary source of housing for a large percentage of lower-income urban families. The maintenance of a strong multifamily housing market and ongoing rehab contributes to those families' well-being, and also impacts more broadly the social and economic life of lower-income communities.

A prior Woodstock Institute study, Sound Loans for Communities: An Analysis of the Performance of Community Reinvestment Loans, demonstrated from national data that multifamily loans in lower income neighborhoods were safe and sound loans. Some such loans require subsidies of various kinds, some do not. The key, however, to financial institutions re-entering markets they abandoned in the 1960s and 1970s is an effective Community Reinvestment Act. An ineffective CRA will destroy years of slow rebuilding that have resulted in the successes exemplified by the multifamily housing story in Chicago.

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