REINVESTMENT ALERT

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Expanding the American Dream: Home Lending Surges in Modest-Income Neighborhoods

Five or ten years ago, it would have been nearly impossible for Ocie Landrum to buy a home. An African-American woman in her mid-forties, she supports her two children on a modest income. She had faced difficulty in saving for a conventional down payment, and a previous application for a mortgage had been denied.

In 1993, Ocie turned to the Chicago Roseland Coalition for Community Control (CRCCC). They helped her apply for a mortgage at a local bank, which approved her application for a 30-year mortgage. Ocie describes owning her home, a bungalow in Roseland, as a wonderful feeling. "We are very happy with our home. Without CRCCC's special program, we would not be here today."

Stories like Ocie's have become increasingly common in recent years. Their significance, however, extends far beyond happy tales of individuals achieving their dreams of homeownership. Increased homeownership is a critical form of wealth creation for families and communities. Neighborhood stability is encouraged by people like Ocie who, in buying a home, are putting a stake in the area and are motivated to work for its success. Increased numbers of homeowners help contribute to the tax base, encourage healthy local economies, and maintain the physical capital of a neighborhood. Conversely, a shortage of homebuyers in a neighborhood can lead to deteriorating and abandoned properties, which can in turn damage the social fabric of the community.

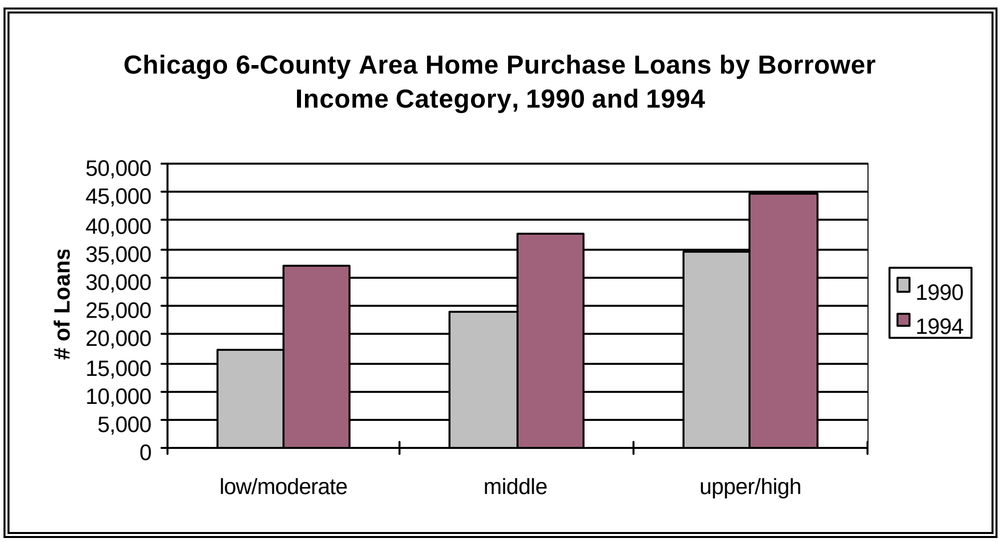
Recent increases in home loans to low- and moderate-income borrowers and communities have come as a result of years of efforts on the part of community groups, banks, and the federal government to improve the lending environment for all borrowers. Improved enforcement of the Community Reinvestment Act and fair lending laws, the development of new and more flexible loan products, and a recognition of market opportunities have all contributed to increases in lending.

Trends in Chicago

Lending for home purchases throughout the Chicago area has increased dramatically in recent years, with loan volume up by 50 percent from 1990 to 1994. Loans to low- and moderate-income individuals increased at even higher rates than overall loans, increasing by 85 percent over the same period. Similar patterns occurred in the city of Chicago, where loans to low- and moderate-income consumers increased at a rate 1.7 times greater than loans to borrowers in other income categories. These figures parallel loan increases nationally, where the growth in loans to low- and moderate-income homebuyers outpaced those to higher income individuals significantly.[1]

Figure 1 compares home purchase loans in the 6-county Chicago area (Cook, Lake, Will, McHenry, DuPage and Kane Counties) in 1990 and in 1994. The chart shows that low- and moderate-income borrowers experienced significant increases in home purchase lending over the early 1990s. For example, while home purchase loans to upper- and high-income individuals increased from 34,739 loans in 1990 to 44,626 loans in 1994, an increase of 28 percent, loans to low- and moderate-income individuals went from 17,346 in 1990 to 32,085 in 1994, an increase of 85 percent. The increases in loans to low- and moderate-income individuals compared to the increases for upper-and high-income individuals were also dramatic in the city of Chicago. Figure 2 shows that loans to low- and moderate-income borrowers increased by 58 percent from 1990 to 1994, from 5,589 loans to 8,855 loans; loans to upper- and high-income individuals, meanwhile, increased from 6,232 in 1990 to 7,843 in 1994, an increase of only 26 percent.

Figure 1

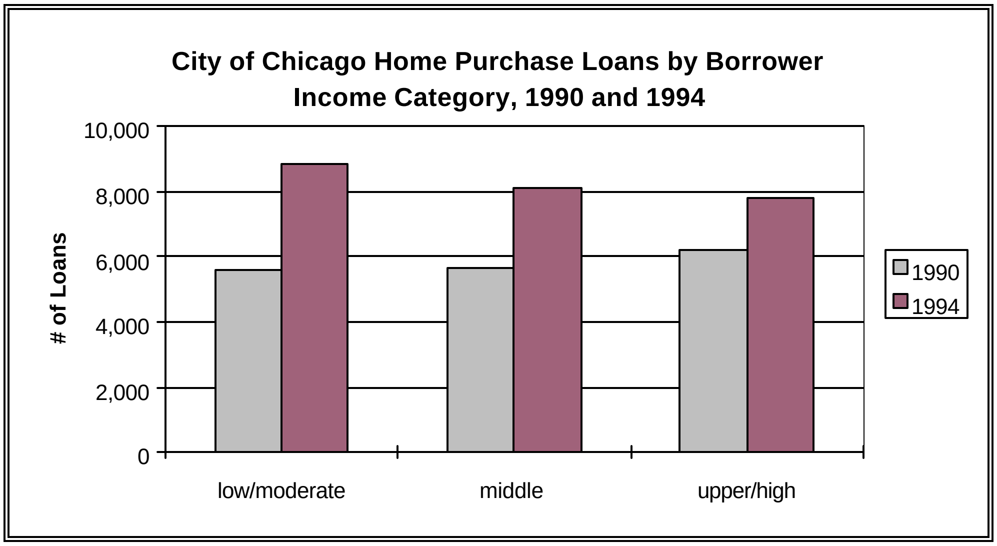


Reinvesting in Neighborhoods

The boom in lending to low- and moderate-income families and individuals has translated into a boon for investment in Chicago's neighborhoods, including many of those that have

[1] "More minority home loans, but gap persists," *Chicago Tribune*, 26 December 1994.

Figure 2



suffered a legacy of disinvestment. As Figure 3 illustrates, all but 4 Chicago community areas have experienced some increases in home purchase loans from 1990 to 1994. Moreover, the neighborhoods experiencing the highest percentage increases are concentrated mostly on the South Side and in low- and moderate-income communities that have previously seen low lending rates.

Table 1 shows the 15 community areas with the largest percentage increases in loans. Ten of the 15 areas with the highest percentage increases in loans are low- and moderate-income areas, and 12 of these are predominantly minority (10 are 90 percent or greater African-American). Table 1 also shows the raw number increases in loans from 1990 to 1994 and the percentage increase in loans going to low- and moderate-income individuals. These figures reveal that increases in lending to low- and moderate-income individuals in these areas have generally been as large or larger than increases in overall lending.

Many lenders saw increases in loans to low- and moderate-income areas of more than 250 percent from 1990 to 1994. The ten lenders with the greatest increases in lending to low- and moderate-income census tracts from 1990 to 1994 are shown in Table 2.

Explaining the Growth in Home Lending

To understand these dramatic increases in lending to lower-income households, various economic forces that affect mortgage activity must be considered. When interest rates go down, for example, loan levels are likely to increase. Similarly, when the economy weakens and unemployment rises, mortgage originations might be expected to decline, especially among lower-income households.

Figure 3

Table 1

Community Areas with the Largest Percentage Increases In Home Purchase Loans, 1990 to 1994*

Community Area	# Loans 1990	# Loans 1994	Overall % Increase	LowMod % Increase
Near South	42	157	274%	167%
East Garfield Park	21	60	186%	211%
Loop	140	364	160%	342%
Greater Grand Crossing	80	189	136%	178%
Avalon Park	45	102	127%	200%
Burnside	11	25	127%	250%
West Pullman	151	320	112%	142%
Calumet Heights	61	128	110%	163%
West Englewood	87	170	95%	103%
Near North Side	836	1,597	91%	157%
South Deering	77	146	90%	128%
Ashburn	462	864	87%	161%
Uptown	303	562	85%	80%
Roseland	183	332	81%	118%
Auburn Gresham	165	298	81%	112%

***Oakland, Riverdale and Fuller Park, low-income areas which had large percentage increases in lending from 1990 to 1994, were excluded from this analysis because they had fewer than 10 home loans each in 1990.**

Table 2

Lenders with the Greatest Percentage Increases in Low- and Moderate-Income Area Lending, 1990-1994**

Bank/Mortgage Company	# LowMod Loans 1990	# LowMod Loans 1994	% Increase LowMod
CTX Mortgage Company	3	111	3600%
MidAmerica Federal Savings Bank	9	76	744%
Bell Federal Savings and Loan	9	72	700%
LaSalle Northwest National Bank	8	63	688%
First National Bank of Chicago	46	340	639%
Norwest Mortgage, Inc.	44	275	525%
Chase Manhattan Mortgage Corp.	36	161	347%
Cole Taylor Bank	31	135	335%
The Northern Trust Company	26	102	292%
Crown Mortgage Company	17	66	288%

**** Companies having undergone consolidation or acquisitions between 1990 and 1994, such as First National Bank of Chicago, may have experienced large increases in loans to low- and moderate-income homebuyers partly due to acquisition or consolidation. Only lenders making at least 50 Low-Mod area loans in 1994 are shown.**

Figure 4 shows trends in home purchase loans to different income groups from 1990 to 1994, and shows the amount of loans in each year relative to the amount of loans in 1990. A comparison with Figure 5, which shows average interest rates and Chicago unemployment rates for 1990 to 1994, reveals that there is no definitive relationship between the unemployment rate and loan volume; loan levels increased concurrently withrises in unemployment. Interest rates, while likely to have some influence on loan volume, were also not sufficient to explain recent increases in loan volume. From 1993 to 1994, for example, mortgage volume rose although interest rates were also rising, and from 1990 to 1991 loan volume dropped even though interest rates had declined. Hence, while economic factors like these may have contributed to the increases in lending, they do not seem to be the overriding determinants of loan volume, especially for lower-income households.

Figure 4

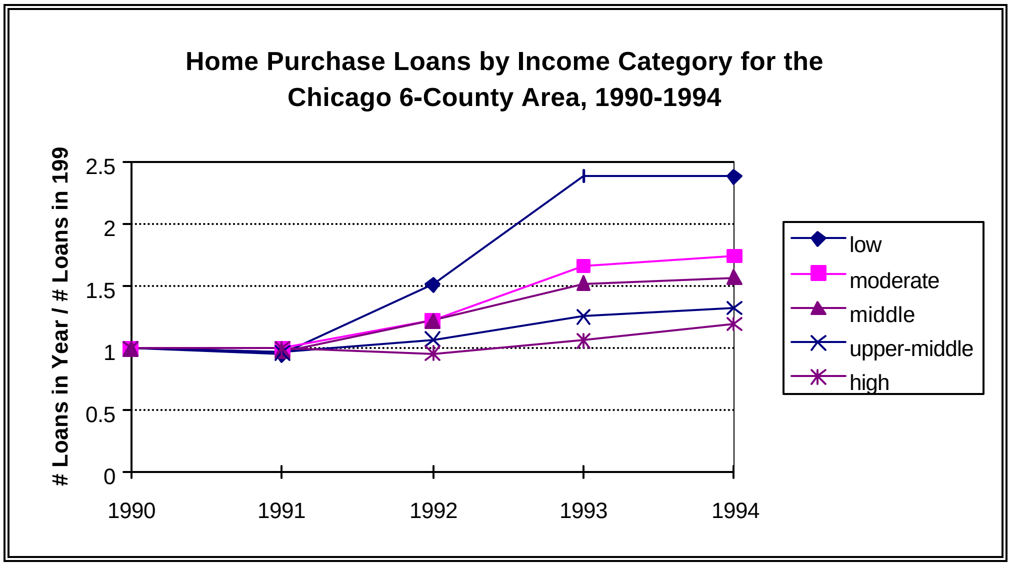
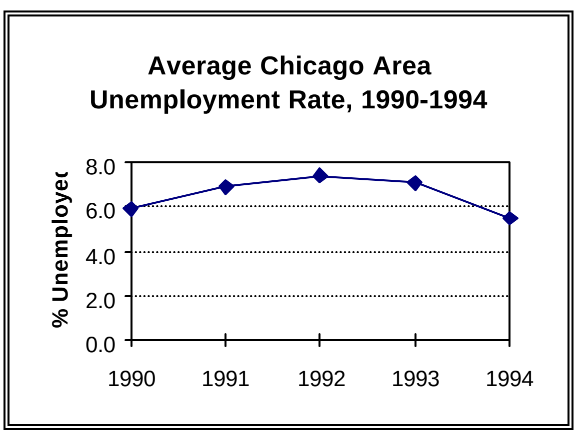
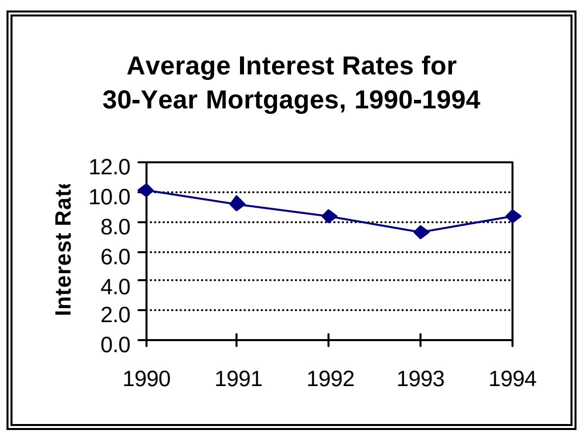


Figure 5





Source: U.S. Bureau of Labor Statistics and Freddie Mac PMMS Survey.

If external economic factors are not the main forces in increases in loans to low- and moderate-income homebuyers, what are? Three interrelated factors stand out: increased enforcement of the Community Reinvestment Act and fair lending laws, new and flexible loan products and underwriting practices, and a greater interest on the part of banks to do business in low- and moderate-income communities.

Perhaps the foremost factors in improvements in lending patterns are the increased enforcement of the Community Reinvestment Act (CRA) and fair housing and lending laws. Passed in 1977 to combat redlining and discrimination by banks, CRA requires banks to make loans accessible to qualified applicants within their service area. In doing so, banks must make efforts to invest in people and communities from which they take deposits, to have branches that are readily accessible to consumers, and to lend within their service area. Banks are examined and then rated for their CRA performance. These ratings can subsequently influence the outcome of a bank's application for a merger or acquisition.

For years, CRA ratings were taken lightly by both banks and regulators. However, in the early 1990s, the federal government stepped up enforcement of CRA laws. At the same time, the Justice Department stepped up investigation and prosecution of discriminatory lenders. Meanwhile, community groups that had advocated passage of CRA kept up pressure on local financial institutions. Given the reality that poor CRA ratings or findings of lending discrimination could hinder acquisition and merger activity, many banks became proactive in complying with CRA. Increased loan volume, particularly to minorities and low-and moderate-income individuals and communities, came directly as a result of this action.

Efforts to comply with CRA and fair lending laws have led to increased outreach by banks to low- and moderate-income customers, and to more partnerships with community groups who seek out and assist potential mortgage applicants. These organizations offer, among other things, seminars and counseling for first-time homebuyers. They also work with banks to develop innovative loan products, which comprise another force in increased lending.

Recent innovations in loan products have included "3/2" programs, where a buyer can make a down payment equal to only 3 percent of their mortgage and get the other 2 percent through a gift or subsidy, loans that cover purchase and rehabilitation of a house, and loans with no closing costs. Often times, these loan products fill a niche in a particular area; for example, purchase-rehabilitation loans in older neighborhoods. Concurrent with new product development have been changes in Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) underwriting guidelines. Since Fannie Mae and Freddie Mac are the primary secondary market for home loans, increased flexibility on their part is critical to whether or not these loans are made by smaller institutions, who rely on selling loans to the secondary market for liquidity.

A third factor is both a result and cause of the first two. Banks have recently shown interest in making these loans, recognizing them as a market opportunity rather than a "cost of doing business". Competition among banks for this market has inspired better marketing strategies, flexibility and innovations in loan products, and improved lending practice. As banks continue to learn more about how to do business with particular market segments and community groups, loan volume should continue to increase in these markets.

Conclusions

Homeownership opportunities are a key component of neighborhood reinvestment strategies. Recent increases in loans to low- and moderate-income individuals have come as the result of increased enforcement of the Community Reinvestment Act and fair lending laws, continued work by community groups, and the development of programs and products appropriate for various types of borrowers. The continued success of these policies and programs is critical to reversing a legacy of disinvestment in many urban neighborhoods.

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