



The Effects of the Community Reinvestment Act (CRA) on Mortgage Lending in the Philadelphia Market

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Disclaimer

The views expressed here are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.



Background

The Community Reinvestment Act (CRA)

- Enacted in 1977; requires CRA-regulated lenders to meet the credit needs of LMI communities and households
- Performance is evaluated by lending, services, and investment (large institutions) or lending alone (smaller institutions)
- Lending test focuses on lending activities made within an institution's assessment areas
- CRA performance will be considered when lenders applying for a merger, acquisition, or branch opening

Why CRA?

- Prevent redlining and discrimination
- Address issues related to information externalities



Background

Possible effects of CRA on mortgage lending:

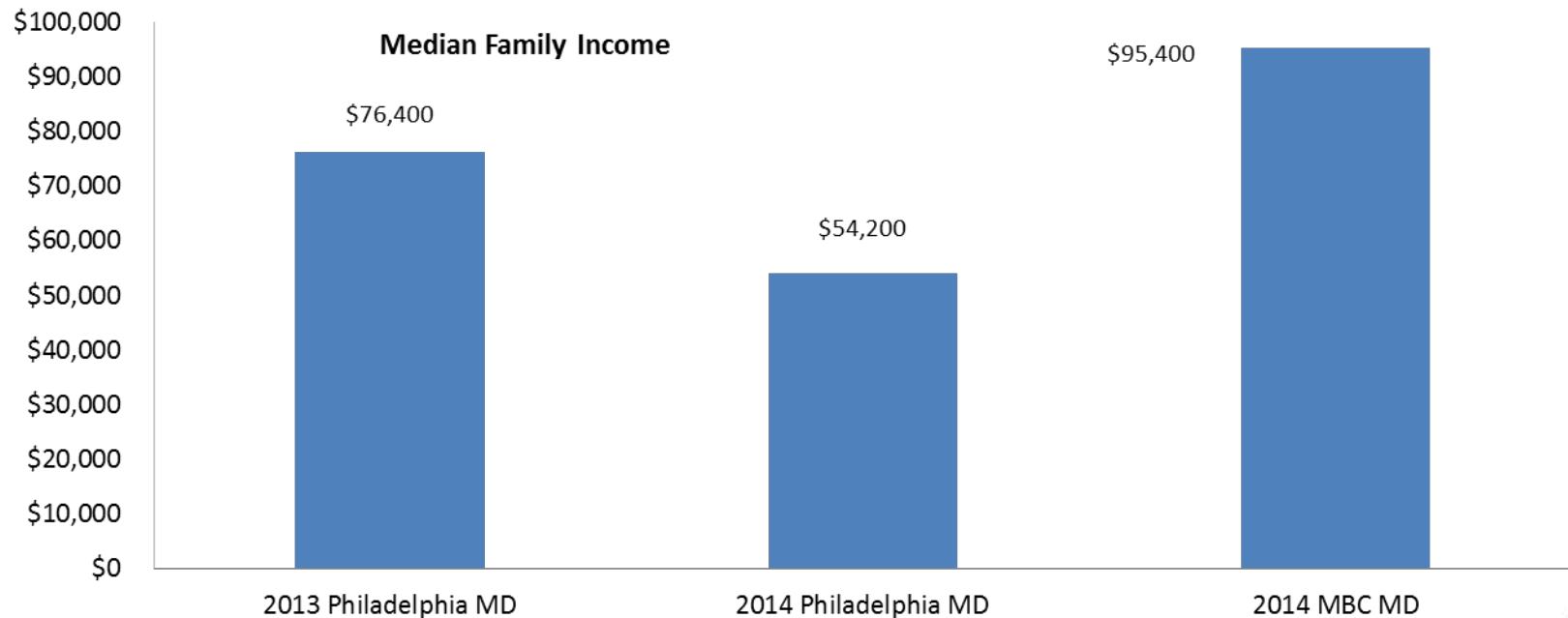
- Have little/no effect on lending; CRA does not alter the volume, pricing, or sources of credit
- Alter the sources of credit only (no net changes at the market level); lenders increase capacity and outreach/marketing and do not change pricing or underwriting standards
- Increase mortgage lending and alter the sources of credit through lower interest rates/more flexible underwriting standards (Avery and Brevoort, 2015)

With the changed landscape of the mortgage market, this study examines whether and how CRA continues to make mortgage credit more accessible



Background

- Effective January 1, 2014, the previous five-county Philadelphia MD was split into the new Philadelphia MD (Philadelphia and Delaware counties) and the MBC MD (Montgomery County–Bucks County–Chester County)



Background



Changes in area median income qualify/disqualify lending to certain LMI neighborhoods for CRA credit

Two Illustrating Examples: Changes in income levels for two tracts in the Philadelphia MD from 2013 to 2014

	Philadelphia MD		MBC MD	
Tract FIPS code	42101031900		42091201302	
Year	2013	2014	2013	2014
Median income (median family income)	44,320	43,447	76,247	75,996
Area median income	76,400	54,200	76,400	95,400
Tract to area median income ratio (%)	58.0%	80.2%	99.8%	79.7%
Income level	Moderate	Middle	Middle	Moderate
Eligibility for CRA Credit	Eligible	Ineligible	Ineligible	Eligible

Source: Authors' calculations based on 2013 and 2014 Federal Financial Institutions Examination Council (FFIEC) Census data.



Background

Unintended consequences of 2013 MSA/MD definitions:

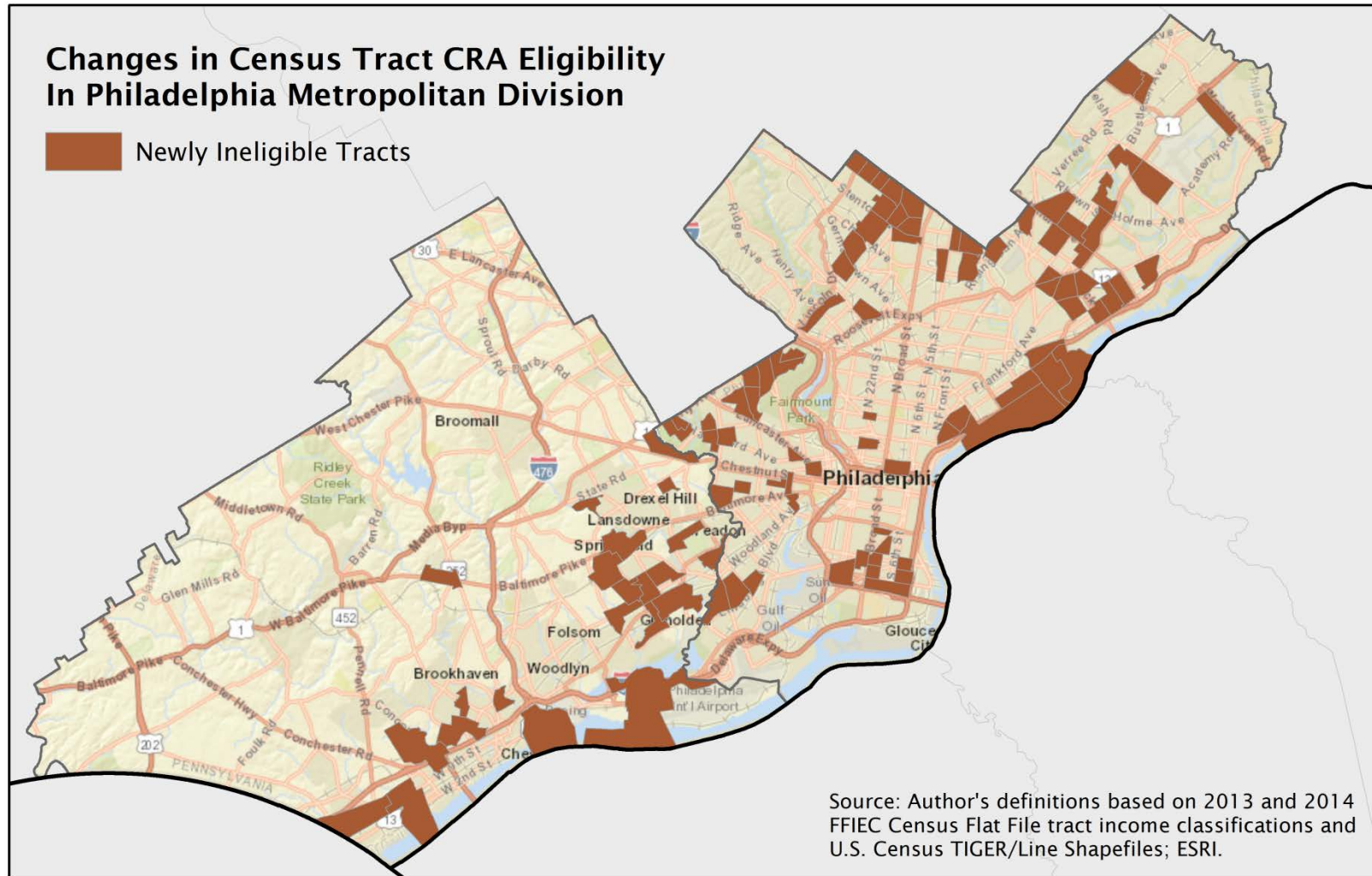
- Philadelphia MD: number of LMI tracts decreased by one-third; number of LMI applicants decreased by over 41%
- MBC MD: number of LMI tracts tripled; number of LMI applicants increased by over 40%

Tract Income Level in 2013	Philadelphia MD			MBC MD		
	Tract Income Level in 2014			Tract Income Level in 2014		
	Low- and Moderate-income (CRA Eligible)	Middle- and Upper-income (CRA Ineligible)	Total	Low- and Moderate-income (CRA Eligible)	Middle- and Upper-income (CRA Ineligible)	Total
Low- and Moderate-income (CRA Eligible)	194	102	296	40	0	40
Middle- and Upper-income (CRA Ineligible)	0	219	219	80	347	427

Source: Authors' calculations based on 2013 and 2014 FFIEC Census data.



Background





Changes in Purchase Mortgage Lending Activities in Newly Ineligible/Eligible Tracts



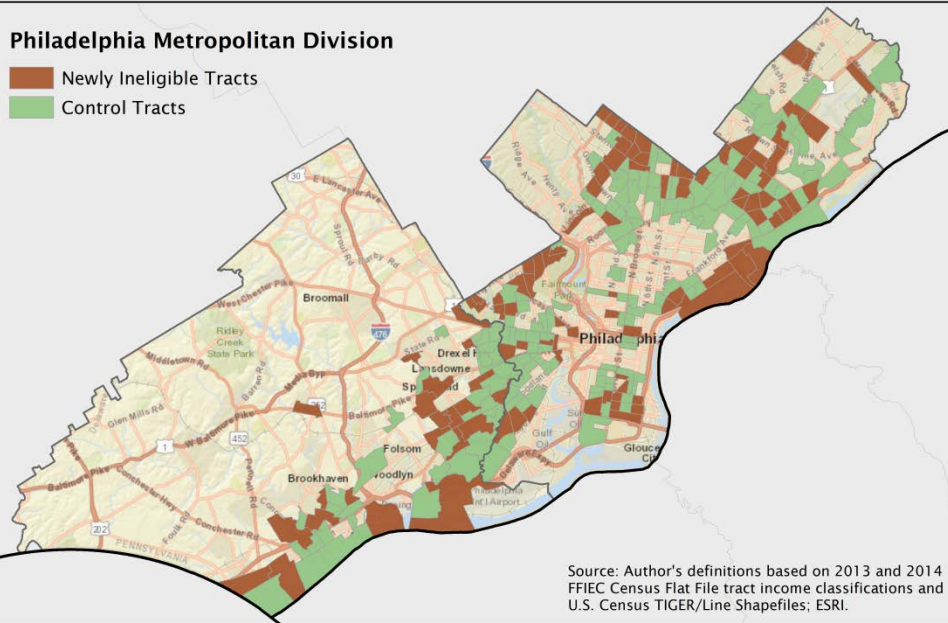
Constructing A Counterfactual

Tracts in the control group:

- within ½-mile radius,
- with unchanged CRA eligibility status, and
- with similar income (roughly between 50 percent and 90 percent of area median income)

Philadelphia Metropolitan Division

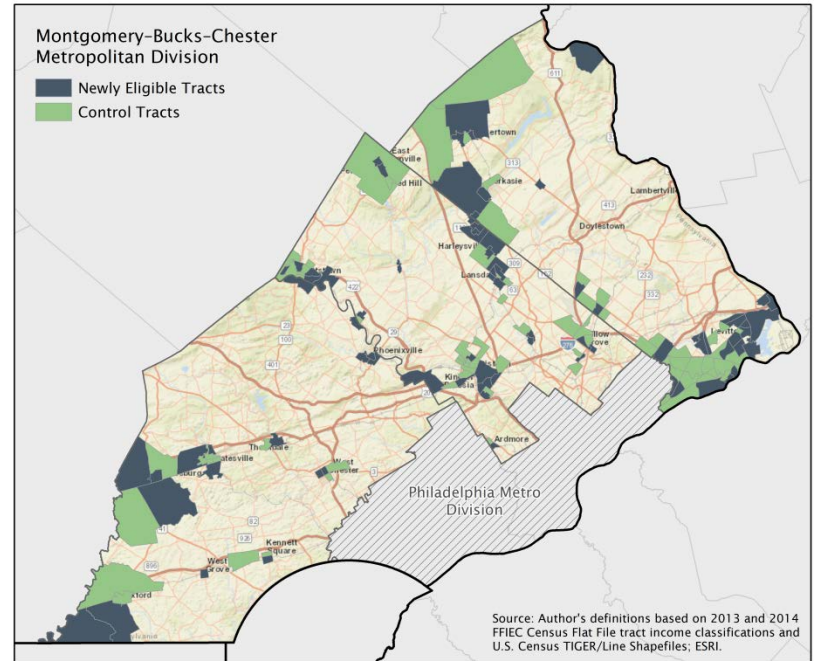
- Newly Ineligible Tracts
- Control Tracts



Source: Author's definitions based on 2013 and 2014 FFIEC Census Flat File tract income classifications and U.S. Census TIGER/Line Shapefiles; ESRI.

Montgomery-Bucks-Chester Metropolitan Division

- Newly Eligible Tracts
- Control Tracts



Source: Author's definitions based on 2013 and 2014 FFIEC Census Flat File tract income classifications and U.S. Census TIGER/Line Shapefiles; ESRI.

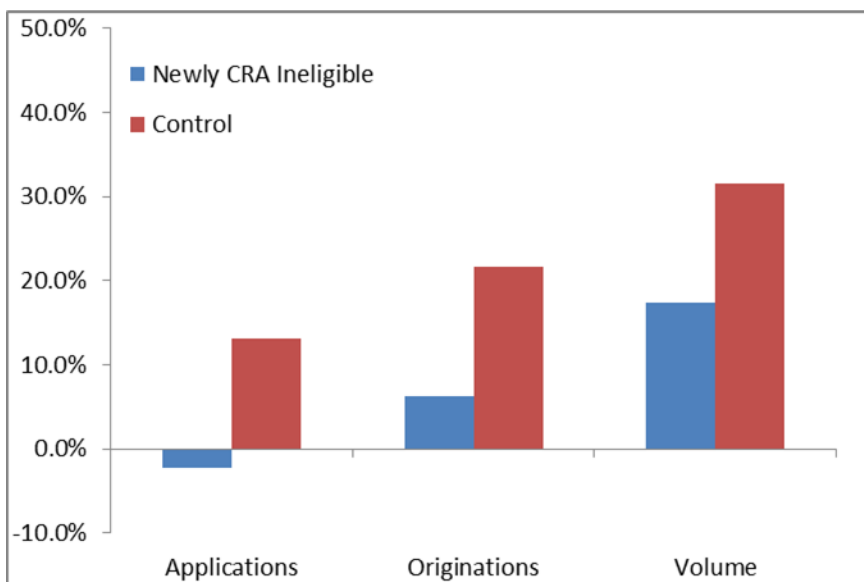


New Philadelphia MD

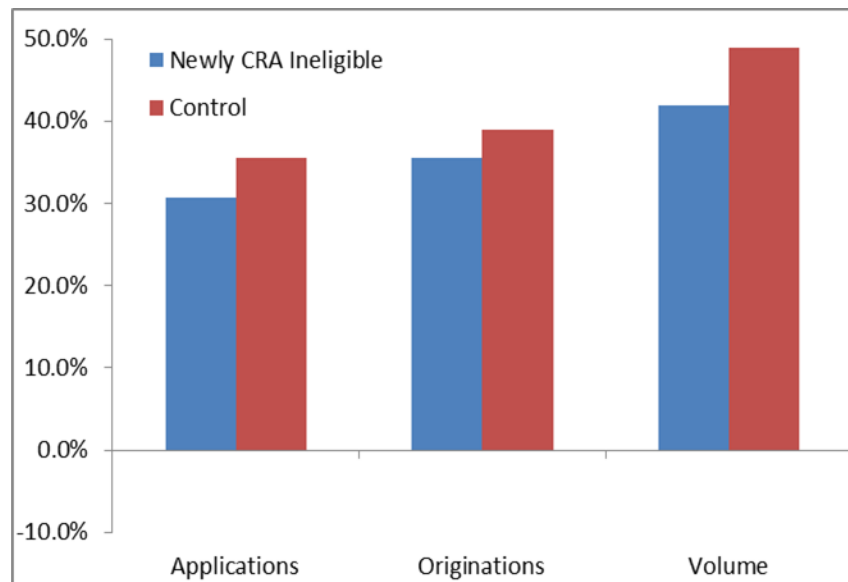
CRA-Regulated Lenders vs. Non-depository Institutions



Percent change in home purchase lending, 2014–2015 vs. 2012–2013, CRA-regulated lenders



Percent change in home purchase lending, 2014–2015 vs. 2012–2013, lenders not subject to CRA



Source: Authors' calculations based on HMDA and FDIC Summary of Deposits data.

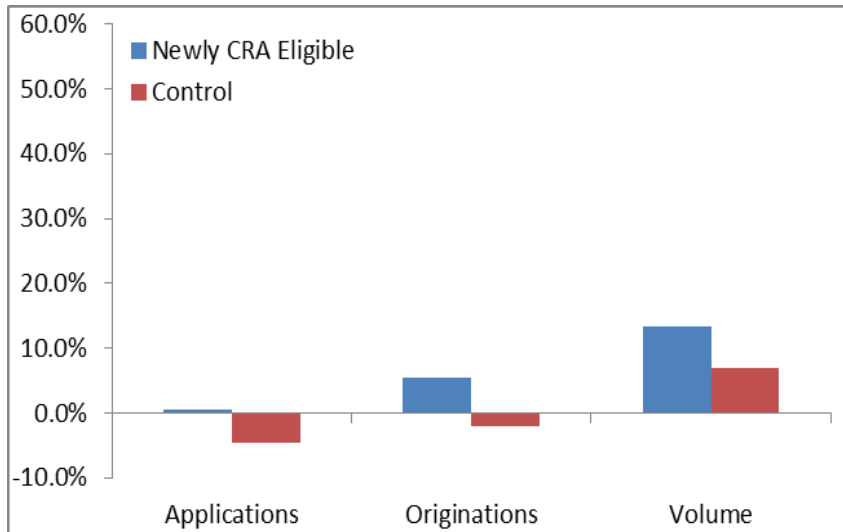


MBC MD

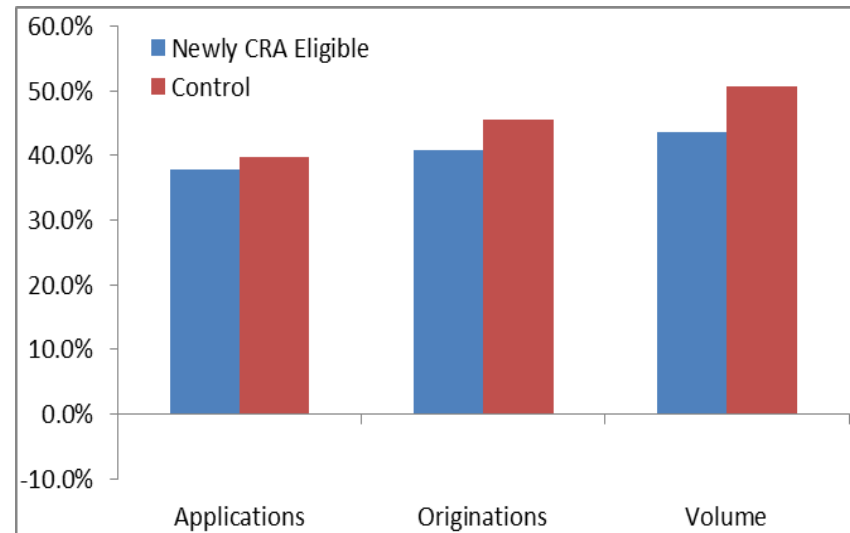
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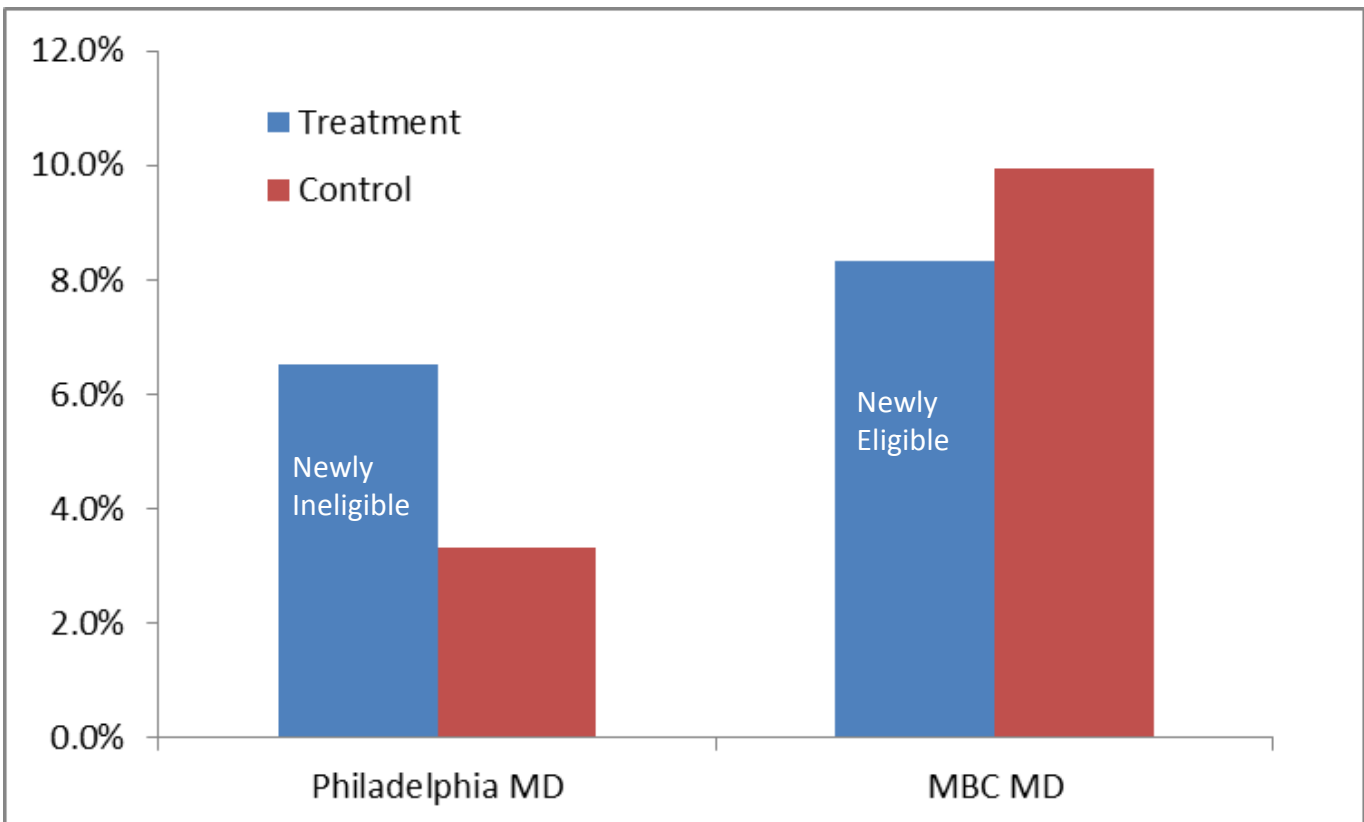
Percent change in home purchase lending, 2014–2015 vs. 2012–2013, lenders not subject to CRA



Source: Authors' calculations based on HMDA and FDIC Summary of Deposits data.



Changes in Market Share of Non-depository Institutions



Source: Authors' calculations based on HMDA and FDIC Summary of Deposits data.



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More Empirical Results



Regression Results

Losing CRA eligibility status in Philadelphia MD:

- leads to a significant decline in purchase mortgage applications/originations by CRA-regulated lenders
- has an insignificant impact on denial rates
- has an insignificant impact on the lending activities at the market level
(lower increase in descriptive analysis)

Gaining CRA eligibility status in MBC MD:

- has an insignificant impact on purchase lending activities
- could have significant impact in the long run



Regression Results

Heterogeneity in the CRA Effects

- More significant in the Philadelphia MD; generally insignificant in the MBC MD
- More significant among minority borrowers than non-Hispanic whites
- More significant among borrowers who became newly CRA-ineligible (e.g. borrowers with income above the 2013 LMI threshold in newly ineligible neighborhoods)
- More significant in 2015; generally insignificant in 2014



Summary & Implications

Results are generally consistent with the contention that CRA has made mortgages more accessible to *lower-income communities*

However, *CRA could be less effective* in a market where nondepository institution lenders play a more dominating role

And the use of MD median income to derive neighborhood income levels for CRA purposes has created *unintended but real impediments to the flow of capital* to lower-income areas in the Philadelphia MD



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Thanks!

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