

# The Community Reinvestment Act and Mortgage Lending

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# Landscape of Home Purchase Lending in Delaware County PA

## Setting the Stage:

- FDIC Summary of Deposits as of June 30, 2016: 31 banks have deposits in at least one branch in the county. Branch footprint drives the regulatory requirements under CRA to be named “assessment areas”.
  
- In 2015, there were 280 separate entities that made at least one HMDA home purchase loan in Delaware County (2015) (total of 5027 loans):
  - 104 Banks (approximately 31 are subject to CRA) made 1681 loans (33%)
  - 27 Credit Unions (not subject to CRA) made 331 loans (7%)
  - 149 Mortgage lenders (potentially not subject to CRA) made 3051 loans (60%)
  
- Of the top 24 home purchase lenders with a market share of 1% or above, produced 2927 loans or 58% of total originations:
  - 8 banks (seven with CRA Obligations) made 1032 loans (36%)
  - 1 Credit Union made 110 loans (4%)
  - 15 Mortgage lenders (not CRA) made 1685 loans (60%)

**There are many players in the market that are not subject to CRA.**

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# 2015 Family Income Overviews

- For CRA, the FFIEC determines Median Family Income (MFI) annually. CRA eligible is defined as under 80% of MFI.
- HUD sets Area Median Income (AMI) using a slightly different formula. Family of four is the base and it is adjusted up and down based on family size. AMI is set in a wider area than the FFIEC (all of Philadelphia region area).
- Federal Poverty Guidelines are established annually by US Department of Health and Human Services and is the same across the 48 contiguous states. Family of four is the base, adjusted up or down by family size.

|  | <b>FFIEC 2015:<br/>CRA Low<br/>income</b> | <b>FFIEC 2015:<br/>CRA<br/>Moderate<br/>Income</b> | <b>HUD<br/>(equated to<br/>moderate<br/>income)</b> | <b>Poverty<br/>Guideline<br/>(2015)</b> |
|--|---|--|---|---|
| <b>Delaware County</b>   | \$27,694                                  | \$44,314   | \$64,250  | \$24,250                                |
| <b>Chester County</b>  | \$49,750                                  | \$79,690   | \$64,250  | \$24,250                                |
| <b>Delaware County Median<br/>Family Income % of<br/>Poverty</b> | 114%                                      | 183%   | 265%  | 100%                                    |
| <b>Chester County Median<br/>Family Income % of<br/>Poverty</b>  | 205%                                      | 329%   | 265%  | 100%                                    |

# 2015 Mortgage Data: Comparison of Delaware and Chester Counties



- CRA Lending was impacted by a low Median Family Income in Delaware County.
- 80% MFI: \$44,314 (Delaware County) vs \$79,690 (Chester County)

| BY CENSUS TRACT        | Loans in Low-income tracts | Loans In Low-income tracts | Loans In Moderate-income tracts | Moderate-income tracts |
|------------------------|----------------------------|----------------------------|---------------------------------|------------------------|
|                        | # of loans                 | % of total                 | # of loans                      | % of total             |
| <b>Delaware County</b> | 3                          | 0.06%                      | 161                             | 3.18%                  |
| <b>Chester County</b>  | 72                         | 1.13%                      | 893                             | 14.04%                 |

| BY BORROWER INCOME     | Low-income Borrowers | Low-income Borrowers | Moderate-income Borrowers | Moderate-income Borrowers |
|------------------------|----------------------|----------------------|---------------------------|---------------------------|
|                        | # of loans           | % of total           | # of loans                | % of total                |
| <b>Delaware County</b> | 114                  | 2.25%                | 539                       | 10.65%                    |
| <b>Chester County</b>  | 512                  | 8.05%                | 1,347                     | 21.18%                    |

For loans reported for CRA:

- Delaware county low-income MFI is 114% of federal poverty level.
  - Moderate income is 183% of poverty.
  - Impacts to LMI borrowers
    - Affordable Home price at 3x income: Low income borrower max \$83,000 home; Moderate, max \$132,960
    - Need for low housing prices, and/or home subsidies (i.e. Habitat).
    - Buyers may only be able to purchase older properties and/or those in less desirable locations.
    - Buyers “ability to pay” and “debt to income ratios” may not be strong enough if there is any debt or high bills.
    - Purchases usually need special loan products. Downpayment-settlement assistance is available but can be limited (Upper Darby, County, Chester City, First Front Door).
    - Affordable housing is not being developed in the county.
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# Benefits to Borrowers of HUD AMI

FFIEC Median Family Income vs HUD Area median Income:

- Downpayment and settlement assistance programs, and some mortgage products use the HUD family size income levels not the FFIEC MFI.
    - Delaware County borrowers above \$44,314 but under \$64,250 will continue to benefit from available programs but these loans will not show in CRA results.
    - Chester County borrowers will not be able to use these special programs if their income is above \$64,250; but up to \$79,690 will be counted in CRA results.
    - Is the cost of living so much higher in Chester County that LMI is higher? It's the median income that drives the difference.
      - If Delaware County were to be put back into the Chester-Montgomery-Bucks MSA, the median income would drop to around the HUD AMI levels.
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- CRA rule requires lending in LMI census tracts (any income borrower).
    - Increasing homeownership in LMI census tracts supports economic development and stabilization of communities.
    - Some lenders have specific products to support borrowers of any income purchasing in LMI Census Tracts (CT)
    - In Delaware County, CT are limited to 3 low-income and 19 moderate-income.
    - A tract with MFI of 81% would not get CRA credit.
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# Community Development Lending and Investments

- Community Development Lending:
    - Commercial lending that qualifies for CRA (revitalization of a community, building a community center in an LMI census tract, loans to nonprofits that provide services to LMI individuals, etc.)
    - The reduction of LMI census tracts may reduce dollars going into communities that need revitalization but are not considered LMI.
    - It hurts Delaware County much more than Chester County.
  
  - Community Development Investments:
    - Mortgage Backed Securities (MBS): Home Purchase loans in Delaware County with LMI borrower income are very limited.
    - Example: over 1 ½ years WSFS purchased \$29MM in MBS; and only \$2.5 were DELCO (8.6% and 13 loans).
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