

# **SOUND LOANS FOR COMMUNITIES:**

## **AN ANALYSIS OF THE PERFORMANCE OF COMMUNITY REINVESTMENT LOANS**



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AN ANALYSIS OF THE PERFORMANCE OF  
COMMUNITY REINVESTMENT LOANS**

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**This study is a joint project of the Woodstock Institute and the National Association of Affordable Housing Lenders.**

**The full report of this study, entitled "Performance Analysis of Community Reinvestment Lending Programs", by Dr. Edwin Mills and Luan' Sende Lubuele, is available from Woodstock Institute.**

## **Woodstock Institute**

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past twenty years, the Institute has carried out applied research and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations, and government agencies, including applied research, policy analysis, program design, and evaluation.

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## **National Association of Affordable Housing Lenders**

National Association of Affordable Housing Lenders (NAAHL) is a trade association for banking and real estate finance executives. NAAHL presents an ongoing forum designed to help members develop greater capacity for delivering financing to affordable housing ventures. Through educational seminars, technical publications and policy advocacy activities, NAAHL seeks to advance the profession of "affordable housing lenders."

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## **Advisory Committee**

We are grateful to the Advisory Committee for their advice and assistance on this project.

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All responsibility for the content of this study rests with the project research team.

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## Section I. Overview

Over the last two decades, a growing amount of attention has been focused on the need for reinvestment in disadvantaged communities. The Community Reinvestment Act of 1977 first established the responsibility of financial institutions to address the credit needs of their overall service area. During the early 1980s, financial institutions and community organizations began negotiating lending agreements which included targeted community reinvestment programs. The number of such programs grew during the 1980s.

Over the last several years, both regulatory agencies and bankers have increased their efforts to encourage and create effective community reinvestment programs. While bankers who initiate such programs do so hoping that they will be successful by conventional standards, little if any information has been available to date as to the performance of loans made under such targeted programs.

This study represents the first systematic public attempt to gather and analyze performance data from a national sample of lenders with targeted community reinvestment programs. The study, a joint project of Woodstock Institute and the National Associations of Affordable Housing Lenders (NAAHL), represents a collaboration of several partners: NAAHL collected the loan data and interviewed banks; Dr. Edwin Mills, Gary Rosenberg Distinguished Professor of Real Estate, Kellogg Graduate School of Management, Northwestern University and Luan' Sende Lubuella, Economics Department, Northwestern University, designed and performed the data analysis; the project Advisory Committee assisted in framing, designing, and reviewing the study; and Woodstock Institute coordinated the project and prepared this report.

The study examined 2,231 individual loans made by seven lenders, all located in large metropolitan areas. These loans included 933 single-family and 1,298 multifamily loans totaling \$732 million in lending, identified by the lenders as reinvestment loans targeted to low- and moderate-income communities or borrowers. Most of the loans in this study were classified as reinvestment loans by the lender based on their location in a low- and moderate-income census tract or neighborhood. The remainder of the loans resulted from programs targeted to low-income borrowers or low-income tenants, regardless of the location of that loan.

This analysis shows that overall, the performance of the loans in this sample compares well with larger samples of loans not targeted to low- and moderate-income communities or borrowers. The single-family loans studied had substantially lower delinquency rates than for the single-family market as a whole. The multifamily loans in this analysis had somewhat higher delinquency rates than the more limited comparison data that was available; however, the combined delinquency and foreclosure rates were comparable to national data. Thus, while delinquencies were somewhat more frequent, foreclosure rates appeared comparable to, or lower than, those of multifamily loans not targeted to lower income communities. Loan losses reported for both multifamily and single-family loans were very low.

This analysis is a useful corroboration to a growing body of more anecdotal experience of banks, savings and loans, and lending consortia which are finding

that their targeted reinvestment programs are successful, and do not appear to carry significantly more risks than other loans made by the bank.

Conducting this study proved a challenging task. Differences in information tracking, storage, and retrieval systems among institutions made gathering consistent data across financial institutions difficult. This analysis is limited to those factors for which the researchers could obtain sufficient data for meaningful conclusions. The researchers believe that while this first study provides an important contribution to the knowledge about these kinds of loans, additional research can and should be performed in the future to increase the overall understanding of reinvestment performance. Suggestions for further research are included in Section V to this report.

Notwithstanding the need for further research, the conclusion that community reinvestment loans perform well suggests that financial institutions can make loans to low- and moderate-income neighborhoods a regular part of their lending program, and that such loans can be consistent with considerations of safety and soundness.

## Section II. Background

Over the last decade, in response to the Community Reinvestment Act, community pressure, or a perception that unmet credit needs represented a viable lending market, banks, savings and loans, and specialized financial institutions and intermediaries have developed targeted programs to address community development lending needs. From a small number of programs begun in the early 1980s, the field of community reinvestment lending has expanded considerably over the last several years. Most, though certainly not all, of this lending has been focused on loans for single-family and multifamily housing targeted to low- and moderate-income borrowers and communities.

The provision of credit plays a key role in the health and economy of communities. Recognition of that key role has led the range of those concerned with community development to develop and promote lending programs that can address the particular needs of lower and moderate income communities.

Throughout this period of development, there has been considerable discussion about the quality and performance of these types of targeted loans and loan programs. Data about their actual performance, however, has been largely unavailable. Individual institutions do not readily share loan performance data, and the historic lack of secondary markets for these loans has prevented a broader analysis.

Community reinvestment lending programs encompass a wide range of lending activities. Programs develop in different ways to deal with both community needs and an institution's interests and capabilities. These programs have targeted a particular market niche determined to be underserved by existing lending programs or products. They are often focused on a particular geographic community, for example a neighborhood or census tract consisting predominantly of low- and moderate-income residents. They may target a particular type of borrower, e.g., a lower-income, first time homebuyer. They may target particular types of loans, e.g., multifamily purchase and rehabilitation loans. Many, although not all, encompass modified underwriting standards (e.g., higher debt-to-income ratios), special loan terms (e.g., lower downpayment requirements), or other eligibility standards. Some programs may be particularly designed to incorporate third party subsidies or subordinated debt to make loans more accessible and affordable to targeted borrowers. In larger banks, these programs are likely to have dedicated staff.

Understanding the performance, in traditional terms, of targeted community reinvestment lending is important to the work of banks, regulators, secondary market agencies, and community organizations. To effectively enforce the Community Reinvestment Act, regulators need to understand the record of community reinvestment lending and the safety and soundness implications of such programs. The availability of information on reinvestment loan performance can encourage the development of new lending programs by financial institutions, and encourage existing programs to expand or modify their efforts. Reinvestment loan performance information can assist secondary market agencies in expanding the secondary market for community development loans.

To date, the evidence on performance of reinvestment loans has been anecdotal. Such evidence has indicated that bankers believe that their community reinvestment portfolios perform reasonably well. Anecdotal evidence has not necessarily been based on extensive in-house analysis of loan performance over time. This study represents the first independent systematic analysis of loan performance which includes a number of financial institutions.

In designing and implementing this study, it was necessary to address several key issues which together determined its nature and scope.

First, the study required collecting a substantial amount of information not normally divulged by financial institutions, including loan-by-loan characteristics and payment histories. In order to gather and utilize this information, it was necessary to assure participating financial institutions of complete confidentiality in the study. It was one of the functions of NAAHL to ensure confidentiality, by collecting data and forwarding it to the principal researcher without reference to the names of the participating institutions.

Second, it was necessary to aggregate information, requiring the standardization of collected data. When information supplied was not in a standardized form, it was necessary to either adapt it to a standardized form or eliminate it from consideration.

Third, a high level of cooperation and significant effort were necessary from participating lenders to provide the detailed information requested for the study. In the final analysis, this reduced the number of institutions which were able to participate fully in the study.

Notwithstanding the demands of the study, however, the data collected represents the lending programs of seven institutions, encompassing six multifamily housing lending programs and three single-family lending programs.

### **Limits of this analysis**

This study represents the first public, detailed multi-institution analysis of reinvestment lending performance. Because it is the first such study performed, it is important to underscore several limitations as well as the applications of this analysis.

- \* This does not represent a random sample of reinvestment loans. Data was gathered from all those qualifying institutions willing to provide it for all the loans in their portfolio from which they could extract relevant data. Nevertheless, the study's results appear to be generally consistent with the anecdotal experience of a wider range of community reinvestment lenders (see Section IV).
- \* To complete this analysis, it was necessary to utilize data that was not consistent. Due to differences in recordkeeping and accessibility of information, lenders did not provide us with strictly comparable data on their loans. Efforts were made to adjust the data so that consistent comparisons could be made without compromising the results.

- \* The study does not represent a large sample of reinvestment lenders, although it does contain a sizable number of loans, and consists of portfolios with many seasoned loans.
- \* This study did not permit an extensive analysis of the determinants of loan performance, due to the inability to collect a sufficient volume of individual loan data from the participating lenders in a sufficiently consistent format. Further data and analysis would be valuable to the understanding of bankers and regulators about the nature of the risks and record of reinvestment lending.
- \* This study does not address the issues of profitability of the loans and lending programs analyzed. It provides indications of key measures of profitability--delinquencies and defaults. Analysis of overall costs of reinvestment lending was beyond the scope of this analysis.

Section V of this report covers some of the ways in which further research and analysis could add to these results.

## Section III. The Study<sup>1</sup>

### A. Research Design

#### The Sample

The project tests the hypothesis that targeted community reinvestment loans perform as well as loans that are part of a bank's regular lending program. The major criterion for including banks in the study was that the lenders had a specific community reinvestment loan program in operation since at least 1986. That cut-off date accomplished two goals. First, the loans included in the study analysis would have time to mature. Secondly, lenders with programs in operation since 1986 would have time to gain expertise in community reinvestment lending and refine their programs.

The additional criteria for eligibility were that the loan program focus on single-family and/or multifamily loans in low- and-moderate income neighborhoods or to low- and-moderate income borrowers, and that the bank have a definition for low- and moderate-income areas and borrowers. Additionally, it was necessary that one person at the bank agree to work with the National Association of Affordable Housing Lenders to provide data on the bank's experience. (In most cases, lenders defined community reinvestment loans as residential loans made in census tracts identified by the Census Bureau as having predominantly low- and moderate-income residents.)<sup>2</sup>

The Woodstock Institute, NAAHL, and the Project Advisory Committee identified an initial pool of lenders nationwide that it was believed could meet these criteria. Telephone inquiries and a review of program descriptions identified 23 lenders which appeared to fit all the criteria, and their names were forward to NAAHL for a formal request to participate.

After NAAHL approached these banks some were eliminated from the study for several different reasons. Some lenders, rather than operating their own program, were simply acting as agents for state agency affordable housing programs. Some lenders sold all their loans without retaining servicing and therefore had no records of loan performance. Several lenders with qualifying programs were not willing or able to assist in gathering the data necessary for the analysis. Several others agreed to participate in the study,

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1. This overview of the data collection and key study results is extracted and summarized from "Performance Analysis of Community Reinvestment Lending Programs," by Dr. Edwin Mills, Kellogg School of Management, Northwestern University, principal researcher for the study, and Luan Sende' Lubuele, Economics Department, Northwestern University. Their report provides more in-depth descriptions of the data collected and their statistical analysis. The full report is published by and available from Woodstock Institute.

2. Low- and moderate-income census tracts were defined as those with median incomes of 80 percent or less of the area's median.

but were unable to follow through with sufficient data. While the final sample of lenders was small, the number of loans they held in the study period was significant. Seven lenders took part in the study, representing a total of 2,231 loans.

The sample lenders represent a variety of lending institutions. They include financial institutions from the East Coast, the Midwest and the West Coast. Participating lenders are all large institutions that do business in large metropolitan areas. Some lenders are commercial banks, and some are consortia financed by depository and other institutions for the purpose of operating community reinvestment programs.

The sample of loans analyzed in this report cannot be regarded as a random sample of residential loans that are or could be made in low- and moderate-income neighborhoods. The pool of lenders selected were those who had made a commitment to a community reinvestment lending program. Those who participated were a self-selected sample. Because the information presented was known to be confidential, it is believed that lenders participated based primarily on their ability and desire to devote the time necessary to provide requested data.

But although the lenders in this study are not a random sample of institutions that make community reinvestment loans, participating lenders provided data for all the community reinvestment loans for which they could extract relevant data from their records.

### The Data

Each participating lender completed three questionnaires: one, a general survey of lender characteristics and reinvestment loan program policies, and one each asking for information about single- and multifamily loans. The surveys included questions on the size of the banks, the details of their loan products, and the record of their lending programs.

While the reinvestment loan programs included in this study differed somewhat from each other, they had several common characteristics. The six multifamily loan programs all targeted low- and moderate-income areas or tenants. Four of them defined eligibility by geographic area, including low- and moderate-income census tracts (defined as having income of 80 percent or less of metropolitan area median income). Two of the programs defined eligibility in terms of the income levels of building residents. In these cases, at least a majority of the units had to be affordable to tenants with 80 percent or less of the area median income. All programs included acquisition/rehab loans, some also included new construction projects as eligible. Maximum loan to value was 80 percent in all multifamily programs but one, where the maximum was 90 percent. Most programs made loans at adjustable interest rates.

In the three single-family loan programs, two limited eligibility to low- and moderate-income census tracts. One of these also limited eligibility to borrowers with incomes at or below \$45,000 or \$35,000, depending on the program utilized. The third, and largest, program in the sample lent in any

census tract to first-time borrowers who earned 80 percent or less of the area median income, with a maximum loan of \$45,000 in the city or \$85,000 in the suburbs. One program had an 80 percent maximum loan-to-value ratio; the other two (including the largest program) went to a maximum of 95 percent. One single-family lender, the largest in the sample, utilized homeownership counseling programs for first time homebuyers.

Lending programs were of quite different sizes. The largest multifamily lender accounted for 48 percent of the multifamily sample. The largest single-family lender accounted for 81 percent of the single-family sample.

All programs included in this sample were in major metropolitan areas, including cities on both coasts and in the Midwest. All of the cities included in the sample experienced patterns of housing market distress during the relevant period that were typical of the country as a whole.

The key data used in this study for determining the performance of community reinvestment loans are delinquencies and foreclosures. Interviews also sought information on lenders' loan loss experience. Foreclosure leads to the transfer of legal ownership of the property from the borrower to the lender because of the borrower's failure to make contractual mortgage payments. Delinquency means the nonpayment of a contractual monthly mortgage payment for at least one month after the due date.

Typically, foreclosure procedures are started only after several months' delinquency and discussion with the borrower to arrange loan terms that the borrower can meet. Thus foreclosures are a subset of delinquencies, and delinquencies are much more common than foreclosures. Delinquencies are a straightforward measurement. Any late payment is a delinquent payment. Foreclosures are more complicated because they involve a decision by a lender to foreclose a delinquent loan. Lenders may try to avoid foreclosures by, for example, restructuring the loan for a longer period and a lower monthly payment. While delinquencies are, therefore, comparable across banks and loans, foreclosures are not. Different banks may well treat foreclosable loans differently and in different timeframes. All foreclosures, however, indicate a lender's assessment that the borrower cannot or will not repay the loan.

### Comparison Groups

The purpose of this study is to assess the success of community reinvestment mortgage loans. For this purpose it is important to compare the performance of targeted community reinvestment mortgage loans with the performance of regular mortgage loans. By far the best comparison data are for single-family dwellings and are reported by the Mortgage Bankers Association. The MBA data come from 330 mortgage servicers and covered 16.1 million mortgages at the end of 1992. The American Council of Life Insurance publishes an annual survey of members' mortgage loans. Data are for the end of each calendar year, and cover 85 percent of mortgages held by U.S. life insurance companies. At the end of 1992, insurance company data published for 1-4 residential unit loans covered 165,600 mortgages.

Unfortunately, no data of comparably broad coverage exist for multifamily dwellings. Data from the two best publicly available sources were utilized for this study. The Life Insurance Council publishes figures for numbers of rental apartment loans that are at least two months delinquent or where foreclosure has been started. At the end of 1992 the Council reported on the status of 6,500 loans. The second source of multi-unit mortgage performance data is the Federal Home Loan Mortgage Corporation (Freddie Mac). The FHLMC data represent all multifamily loans held by FHLMC at the end of 1992 and that totaled 9,700 loans.

## B. Results

### Characteristics of Sample Multi-Family Loans

Table 1 summarizes the characteristics of the multifamily loans in the study. The tables show a median loan-to-value ratio of 75 percent with a median loan term of 29 years, and that the average project has other loans, grants or subsidies as part of the financial package.

Some of the loans were on buildings that contained both residential and commercial units, although most lenders did not report whether the building had commercial units. However, most of the buildings on which this data was reported contained only a few commercial units. The loans in the sample were on average 68 months old at the time data was gathered.

Table 2 summarizes data collected on cumulative delinquency. Lenders rarely reported identical information (e.g., some reported cumulative delinquency over the life of the loans, others over the past 18-24 months). Overall, that data showed little evidence of chronic delinquencies. A significant number of loans showed some delinquency over time. However, most loans which had ever been delinquent (for 60, 90, or 120 days) were delinquent for that category only once. For almost all measures, the average number of delinquencies for loans that experienced some delinquency was less than two. Only one lender showed a significantly higher level, demonstrating that its delinquencies tended to be concentrated in a smaller number of loans.

### Characteristics of Sample Single Family Loans

Key characteristics of the single-family loans are described in Table 3. The comparatively small average loan size (the median loan reported was \$26,000) is due to two factors: 1) relatively low home prices in the areas covered by these programs, and 2) in the case of the largest lender in the sample, the use of public subsidies or grants to write down the cost of the home or the amount of the mortgage for lower-income families.

Table 4 shows summary cumulative loan delinquency data. The total number of loans ever 90 days delinquent was only four percent of sample loans and the total number 120 days delinquent was only one percent. The median delinquencies per delinquent loan was 1.0 meaning that more than half of all loans that had ever been delinquent had been delinquent only once.

TABLE 1

**GENERAL CHARACTERISTICS OF MULTIFAMILY LOANS**  
(Dollars in Thousands)

CHARACTERISTIC	Sample Size	% Values		Median	Mean	Standard Deviation	Minimum	Maximum
		Non-Zero						
Loan amount (in \$)	1309	100		301.93	536.85	703.58	5.00	7500.00
Other loans/grants/subsidies (in \$) *	1122	60.9		414.54	864.28	1338	3.71	16530.51
Rehabilitation cost (in \$) *	931	21.3		196.50	464.60	716.14	3.00	4512.00
Appraisal value (in \$)	528	100		500.00	967.38	1400.75	59.40	14500.00
Term (in years)	1035	100		29.00	24.15	7.61	.50	36.00
Interest rate (in percent)	1158	100		9.75	10.00	1.56	2.25	15.50
Total units	1292	100		26.00	37.39	40.89	5.00	415.00
Age in months as of 7/92	1179	100		58.00	68.26	46.65	-1.00	200

\* Statistics in the last 5 columns refer only to those loans for which the values were greater than zero.

TABLE 2

**CUMULATIVE DELINQUENCY FOR MULTIFAMILY LOANS**

VARIABLE *	Sample Size/ Number of Lenders	Percent of Loans Ever Delinquent	Number of Loans Ever Delinquent	Average Number of Delinquencies Per Loan	Average Number of Delinquencies per Ever Delinquent Loan
1. Delinquent 60 days cumulative **	97/1	21.65	21	.40	1.86
2. Delinquent 90 days cumulative **	137/2	6.76	10	.10	1.40
3. Delinquent 120 days cumulative **	137/2	4.73	7	.05	1.00
4. Delinquent 90 days 1/91 - 6/92	691/1	3.18	22	.24	7.41
5. Delinquent 60 days 1/91 - 12/92	334/1	4.49	15	.09	1.93
6. Delinquent 90 days 1/91 - 12/92	334/1	3.89	13	.05	1.23
7. Delinquent 120 days 1/91 - 12/92	334/1	1.50	5	.02	1.20
8. Late Payment in past 12 months	102/1	2.94	3	.03	1.00

\* Lenders reported varying measures of cumulative delinquency.

\*\* Over the life of the loan.

X  
On the average, there were 2.19 90-day delinquencies and 1.89 120-day delinquencies per ever-delinquent loan in our sample. One loan had been 90 days delinquent eight times and one had been 120 days delinquent six times. Again the data show little evidence of chronic delinquencies.

### Comparing Sample Community Reinvestment Loans to National Data for the Performance of Regular Loans

A key goal of this analysis is to compare delinquency and foreclosure rates of our sample with broader data for all loans. But there is an important difference between the sample data and the national data. While this study sought to collect delinquency data in cumulative form, to determine performance over time, the national data are snapshots as of a given date.

The cumulative data show the number of delinquencies that have occurred for each sample loan up to the date the sample was taken, about mid-1992. To provide a relevant comparison, the cumulative data from the sample loans were used to determine the probabilities of each loan being delinquent at any given date<sup>1</sup>.

National data on default rates<sup>2</sup> indicate that rates are relatively low for a year or two after origination, then rise until the loan is four or five years old and decline after that. Most sample lenders' community reinvestment lending programs became substantial during the mid-1980s, so only a few of the sample loans were originated before then. In consequence, many loans in the sample, particularly the multifamily sample, were about the ages at which default rates are highest. This characteristic of the sample loans makes the study an appropriately stern test of the community loans' performance.

### Loan Performance: Delinquency and Foreclosure

For the single-family loans no direct comparisons can be made between the sample single-family delinquency rates and the national rates. The national rates are all as of the ends of specific quarters, whereas the sample data are cumulative over the life of the loan and are, therefore, much larger. However, the researchers' use of a probit model allows an approximate comparison by providing estimates of the number of delinquencies in the sample data as a function of the ages of the loans. The effect of a one month passage of time on the probability of delinquency can then be calculated. The new figure gives the probability of a loan being delinquent at the end of any given month.

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1. In this analysis, a probit model was used to estimate the probability that a loan has ever been delinquent, and that probability was divided by the age of the loan, giving the probability of the loan being delinquent at any given time.

2. Studies on default rates primarily examine single-family loans (1-4 unit buildings).

TABLE 3

## GENERAL CHARACTERISTICS OF SINGLE-FAMILY LOANS

	Sample Size	Median	Mean	Standard Deviation	Minimum	Maximum
Loan Size (\$ thousands)	933	26.5	35.14	28.37	5.6	342.00
Loan to value ratio	173	80.00	75.27	11.37	20.00	95.00
Term (in years)	933	30.00	25.87	6.88	2.50	30.50
Interest rate	933	8.75	8.80	0.84	3.38	11.25
Age in months as of 7/92	933	27.00	27.21	16.77	1.00	131.00

TABLE 4

## CUMULATIVE DELINQUENCY FOR SINGLE-FAMILY LOANS

VARIABLE	Sample Size	Percent of Loans Ever Delinquent	Number of Loans Ever Delinquent	Average Number of Delinquencies per All Loan	Average Number of Delinquencies per Ever Delinquent Loan
1. Delinquent 90 days cumulative*	829	3.86	32	.08	2.19
2. Delinquent 120 days cumulative*	826	1.09	9	.02	1.89

\* Over the life of the loan.

TABLE 5

COMPARISON OF SAMPLE AND NATIONAL  
SINGLE-FAMILY LOAN DELINQUENCY RATES

(Percent)

Source	90+ Days Delinquent
Sample (any date)	.1
MBA (1992)	.75 - .84

The key comparison group for single-family loans is, as described earlier in this section, the 16.1 million loans reported in the Mortgage Bankers Association "National Delinquency Survey" for the end of 1992. Table 5 shows that the community reinvestment sample single-family loans had much lower 90-day or greater delinquency rates than the Mortgage Banker Association (MBA) survey data for all single-family loans for 1992. The study sample had a delinquency rate of .1 percent, compared to national rates at the end of each quarter which ranged from .75 to .84 percent during 1992. Even for the longer period back to 1988, the MBA data show no quarter in which delinquency rates were below 0.75 percent. Thus, the sample single-family delinquency rates compare extremely favorably with the MBA data.

For the multifamily sample loans the analysis first compared national data to sample data for 6/92, as that is the variable for which the most complete data are available. This result was also compared to a probit analysis of the available cumulative data. Table 6 brings together the sample data and national data described earlier<sup>1</sup>.

Table 6 indicates that the sample loans have a mixed record in comparison to the national data but that in the long run they perform on a par with the national data. The table shows that, while the multifamily community reinvestment loans have a 60-day delinquency rate three times greater than the FHMLC data, their 90-day delinquency rate is only 1.2 times as great. Adding together the sample delinquency and foreclosure rates shows that the combined rate in the sample was slightly lower than the Life Insurance Council data and 28 percent lower than the FHMLC data.

While this comparison provides only comparative delinquency over one period, a probit analysis of the cumulative data provided by the participating lenders yielded comparable results, though on a smaller sample of loans.<sup>2</sup>

### Loan Losses

Lenders who were able to report cumulative losses over the life of the programs showed very low loss levels. Five of the seven participating lenders reported cumulative losses, shown in Table 7. For multifamily loans, three lenders, including the largest lender in the sample, reported no losses to date; two lenders reported losses to date of .43 percent and .23 percent of total loans. Overall losses among those reporting was .04 percent of total dollars lent.

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1. A slight discrepancy in timing should be noted. The two national data sets are for the end of 1992, whereas the sample data sets are for the end of 6/92. That discrepancy almost certainly has only negligible influence on the data, since delinquency and foreclosure rates change only slowly through time.

2. See full report for detailed description.

TABLE 6

**COMPARISON OF SAMPLE AND NATIONAL  
MULTIFAMILY DELINQUENCY RATES**

(Percent)

Source	Delinquency Rates		
	60 Days	90 Days	Delinquent or in Foreclosure
Sample (end of 6/92)	1.02	1.17	3.6
FHLMC (end of 1992)	.34	.94	5.0
Life Insurance Council (end of 1992)			3.8

TABLE 7

**LOSSES REPORTED**

	Lender Number	Cumulative Losses as Percent of Cumulative Program Loans
<b>Multifamily</b>	1	0.43
	2	0.00
	3	0.23
	4	0.00
	5	0.00
	6	NR
<b>Single-family</b>	1	0
	2	NR
	3	NR

NR = Not Reported

\* One lender reported both single-family and multifamily.

Only one single-family lender reported cumulative losses; that lender reported zero losses since program inception.

### **C. Conclusions**

Overall, the community reinvestment loans in this sample performed well in comparison with much larger national samples of loans not directed at low- and moderate-income neighborhoods.

For the single-family loans a very large national sample was available for comparison. The comparison of that sample with our sample showed that the national delinquency rates appear to be seven or eight times as great as the community reinvestment delinquency rates.

The multifamily community reinvestment loans had considerably greater 60-day delinquency rates and slightly greater 90-day delinquency rates than the only available national samples of such data. However, a better comparison can be made using rates of loans that are in any stage of delinquency or foreclosure. The multifamily community reinvestment loans had much lower delinquency plus foreclosure rates than one of the national data sets and slightly lower rates than the other.

Both single-family and multifamily programs experienced very low loan losses over the life of their programs.

## Section IV. Other Lenders' Responses to Study Findings

Because this study included a small number of lenders, study results were shared with a group of non-participating lenders who have community reinvestment lending programs to determine whether study results are consistent with their experience.

Interviews with ten community development lenders across the country generally confirmed the study's findings.

All but one lender interviewed agreed that in their experience, single-family community development loans appear to perform better than the average single-family loan portfolio. One lender, whose program has underwriting standards considerably more flexible than those in this sample, believes their short-term delinquency rates are probably slightly higher than average, but that long-term delinquency and foreclosure are on par with conventional loans.

None of the lenders interviewed was surprised that combined delinquencies and foreclosures were better for community development multifamily properties than for a broader multifamily portfolio.

Lenders interviewed indicated, from their experience, several reasons for the findings identified:

- o Community development loans are underwritten well. Community development lenders tend to know more about their borrower than the average single-family or multifamily underwriter.
- o Problems can occur because some multifamily loans are made to borrowers who are still learning about property management. This can contribute to delinquencies, but does not necessarily lead to long-term problems.
- o Multifamily buildings in low-income communities are subject to a range of short-term conditions which affect income and expenses. For example, multifamily properties in lower-income communities can experience greater short-term rent losses due to turnover and nonpayment of rents. While long-term income may perform as expected, short-term fluctuations may contribute to short-term delinquencies.
- o Community development borrowers have a strong commitment to the property they own and work harder at keeping it. Interviewees noted they believe that community development borrowers are less likely to walk away from their loan, and that single-family borrowers work hard to protect what may be their only opportunity to own a home.
- o Banks may be more willing to restructure loans to multifamily borrowers who are in trouble because the borrowers remain committed to the project and because it is a community development loan.

Other anecdotal evidence supports the finding of this study that community development loans perform well. A recent publication of the Federal Reserve Bank of Philadelphia profiled more than 50 community development lenders who indicated positive performance of community development loans.<sup>1</sup>

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1. Community Reinvestment Advocates, Federal Reserve Bank of Philadelphia, Community & Consumer Affairs Department, July, 1993.

## Section V. Conclusions and Recommendations

There are a number of key conclusions from this study, including recommendations for future research and action.

- o Study data indicate that single and multifamily mortgage loans targeted to low- and moderate-income communities or borrowers perform well in comparison to available national data on loans not targeted. Single-family lenders in the study experienced extremely low rates of delinquencies and loan losses. Multifamily loans experienced somewhat higher rates of short-term delinquencies, but low rates of foreclosure and loan losses.

This analysis provides important evidence that targeted community reinvestment lending is being undertaken successfully. While many lenders have feared that expanded lending in low- and moderate-income communities would have a negative impact on loan performance, that has not been the case for the loans and lenders in this study. In some cases, targeted community reinvestment lending actually has performed better than conventional lending.

- o While the data which were collected for this study were limited to a relatively small number of lenders, the results are consistent with the day-to-day experience of other lenders making targeted community reinvestment loans.
- o A follow-up prospective study should be undertaken. Examining loan performance through collecting historical data from multiple lenders is extremely difficult. Comparable data is difficult to collect because institutions keep and track different types of information, and have very different methods and capacities for accessing that information. Consistent data across institutions is essential to provide a useful analysis of the factors that influence the performance of loans.

A prospective study would also permit collection of sufficient, consistent data for a reliable analysis of the factors affecting community reinvestment loan performance. It is important for regulators, banks, and community organizations to know what kinds of reinvestment programs are most effective. This current project demonstrates that retrospective data is inadequate for such analyses.

A prospective analysis would entail individual lenders participating in a joint data gathering project, collecting data on loan characteristics and loan performance on a quarterly or semi-annual basis. Such a study would likely require the assurance of anonymity to participating lenders, but has the potential to involve a far more extensive sample of institutions than was possible for this analysis. Participating lenders would benefit by being able to more closely track their own performance for targeted reinvestment loans, and compare their performance to that of other lenders

- o National data bases on loan delinquency and foreclosure, in particular for multifamily loans, have limitations when used as comparison groups. Any future prospective studies should collect data from participating institutions on a sample of their non-community reinvestment loans to provide a better comparison for their community reinvestment portfolios.
- o Over the long run, a natural source of more detailed data on loan performance is the secondary market. The fact that most of the loans in this study sample were not sold on the secondary market contributes to the difficulty of collecting consistent data on loans.

Secondary markets are becoming more aggressive purchasers of single-family community reinvestment loans, but secondary market opportunities for the multifamily loans described in this study are generally not available. As secondary markets become more active purchasers of the types of loans in this study, they should become a key source of data on loan performance and the characteristics of successful loans.

- o This study focused primarily on the quantitative analysis of loan data. Additional analysis, based on more qualitative research, of the factors contributing to the success of a wider range of community reinvestment lending programs would be valuable to understanding these types of loans and loan programs.



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