ACCESS TO CREDIT FORUM

Tuesday, April 3, 2018
Marriott Marquis | Washington, DC

Lisa Rice, President & CEO
National Fair Housing Alliance
@NatFairHouse
Bifurcated U.S. Financial System

Capital Markets
REITs, Mutual Funds, Pensions, 401(k)s, Stocks, Bonds, GSEs
AAA Rated Mortgage-Backed Securities

Mainstream Financial Services
Prime Mortgages, Savings and Checking Accounts, Home Equity Loans, Lines of Credit, CDs, Money Market Accounts
Prime Market
Jumbo Market

Alternative Financial Services
Pawnshops, Check Cashers, Payday Lenders, Rent-to-Own Shops, Auto Title Lenders, Finance Lenders, Sub-Prime Lenders, Alternative Credit Sources

Predominately Communities of Color
Predominately Caucasian Communities
Who is Using Alternative Financial Services?

- **African American**: 46%
- **Latino**: 40%
- **American Indian/Alaska Native**: 38%
- **Hawaiian/Pacific Islander**: 27%
- **Asian**: 19%
- **White**: 18%

Lisa and Shanti Abedin from data provided in 2013 FDIC National Survey of Unbanked and Underbanked Households
Evidence for Expanding Access to Credit
Excessively Tight Credit is Keeping Many Credit Worthy Individuals out of Homeownership

Cumulative missing loans, 2009-2015: **6.3** million and growing

Why: zero default risk tolerance

2001-2003: reasonable lending standards

All product risk has been eliminated

Tight borrower underwriting risk profile requirements (credit score, income, etc.)
Today's loans outperform by historical standards. There is room to expand.

Default rates for loans with FICO < 700 and 80-90 LTV

Source: Fannie Mae Single Family Loan Level Credit Data.
Barriers to Homeownership Persist

**Savings/Down Payment:** consumers often lack awareness of low down payment options
- 53 percent of renters say they rent because they can’t afford a down payment- more than any other reason
- Only 19 percent of borrowers are aware of low down payment options
- High rents make it difficult to save, low interest rates make it hard for basic savings to grow

**Credit:** access is tight by historical standards
- The median FICO score has drifted up 20 points over the past decade
- Both the FHA and VA serve more borrowers at the lower end of the spectrum

**Income:** stagnant wages and variability in income sources hasn’t caught up to current underwriting
- Rents growing faster than incomes

**Affordability:** home price appreciation and rising interest rates will cause affordability to decline
- If interest rates rise to 5.5 percent, the share of median income devoted to a mortgage payment will surpass the 2001-03 average

**Language:** Limited English proficiency
- If we control for other factors that influence homeownership (e.g., income, age, and race), neighborhoods with the highest concentrations of LEP residents have homeownership rates 5 percentage points lower than rates in neighborhoods with the median concentration of LEP residents

**Sources:**
Blacks experiencing slowest recovery, losing all homeownership gains made over last 50 years.

All gains in black homeownership since the Fair Housing Act have been erased since 2000.

No major US city has come even close to closing the gap between black and white homeownership.

Percentage-point change in homeownership rate

Source: US Census Bureau, American Community Survey, and Urban Institute.

Note: Data as of 2016.
Government channels have provided expanded access to credit with FHA and VA lending

**Agency Credit Distributions**

<table>
<thead>
<tr>
<th>Credit score</th>
<th>GSE</th>
<th>FHA</th>
<th>VA</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;640</td>
<td>1%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>640–660</td>
<td>2%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>660–680</td>
<td>4%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>680–700</td>
<td>7%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>700–760</td>
<td>35%</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>≥760</td>
<td>50%</td>
<td>8%</td>
<td>26%</td>
</tr>
</tbody>
</table>

**Agency Loan-to-Value Ratio Distributions**

<table>
<thead>
<tr>
<th>LTV at origination</th>
<th>GSE</th>
<th>FHA</th>
<th>VA</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤80%</td>
<td>55%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>80–95%</td>
<td>40%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>95–96.5%</td>
<td>0%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>&gt;96.5%</td>
<td>77%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** eMBS and Urban Institute.

**Note:** Based on purchase originations.
Nonbanks playing a key role in opening up access to credit FICO, LTV and DTI across channels

GSE FICO: Bank vs. Nonbank

GSE LTV: Bank vs. Nonbank

GSE DTI: Bank vs. Nonbank

Source: eMBS and Urban Institute.
Note: Based on purchase originations.
### How predictive is DTI? Delinquency rates by year of origination and credit characteristics

#### 2002

<table>
<thead>
<tr>
<th>FICO</th>
<th>LTV</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≤ 80</td>
<td>80-95</td>
<td>&gt; 95</td>
</tr>
<tr>
<td>≤ 700</td>
<td>6.2</td>
<td>10.7</td>
<td>11.7</td>
</tr>
<tr>
<td>700-750</td>
<td>2.0</td>
<td>4.5</td>
<td>5.4</td>
</tr>
<tr>
<td>&gt; 750</td>
<td>0.8</td>
<td>2.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

#### 2007

<table>
<thead>
<tr>
<th>FICO</th>
<th>LTV</th>
<th></th>
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<tbody>
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<td>38.5</td>
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<tr>
<td>700-750</td>
<td>13.4</td>
<td>20.4</td>
<td>21.5</td>
</tr>
<tr>
<td>&gt; 750</td>
<td>5.3</td>
<td>11.6</td>
<td>13.8</td>
</tr>
</tbody>
</table>

#### 2011

<table>
<thead>
<tr>
<th>FICO</th>
<th>LTV</th>
<th></th>
<th></th>
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</thead>
<tbody>
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<tr>
<td>≤ 700</td>
<td>4.6</td>
<td>4.8</td>
<td>3.2</td>
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<tr>
<td>&gt; 750</td>
<td>0.4</td>
<td>0.8</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**DTI Breakdown:**
- **FICO ≤ 700 and LTV 80-95**
  - ≤ 30: 30-45 > 45
  - 10.5 10.7 11.1
- **FICO > 700 and ≤ 750, LTV 80-95**
  - ≤ 30: 30-45 > 45
  - 1.2 2.4 1.1

Source: Fannie Mae and Freddie Mac Single Family Loan-Level Credit Data
Zillow® GROUP

CONSUMER BRANDS

Zillow® trulia StreetEasy
hotpads out east nakedApartments

BUSINESS BRANDS

PREMIER AGENT Bridge dotloop Retsly MORTECH

trulia
Research Focus: Where You Live Matters

Financial Services
Health Care
Healthy Food
Active Life
Mapping and Measuring Proximity to Financial Services

**Metros:**
- Atlanta
- Detroit
- Houston
- Oakland

**Traditional Financial Services:**
- Banks
- Credit Unions
- Mortgage Lenders

**Alternative Financial Services:**
- Check-Cashing / Pay-Day Loans
- Debt Relief Services
- Installment Loans
- Title Loans
Analysis
Majority-minority census tracts across Atlanta, Houston, Oakland and Detroit have roughly 33% fewer traditional banking establishments than majority-white tracts.
Houston has the largest disparity in traditional financial service establishments between majority-minority and majority-white census tracts.

* Difference is not statistically significant.
The extent of racial disadvantage in terms of proximity to traditional financial services varies by metro; in Houston, majority-black tracts are the most disadvantaged. In Detroit, it’s majority-Hispanic.
Alternative Financial Services, Findings Across All Metros

There are twice as many alternative banking service establishments in majority-minority census tracts than in majority-white census tracts.
Alternative Financial Services, Findings by Metro

The largest disparity is in Oakland, where there are 2.3 times as many alternative financial service providers in majority-minority tracts than white tracts.
Across all four metros, majority-white census tracts have significantly fewer alternative financial service establishments than majority-black or Hispanic tracts.
Key Takeaway: Where you live matters.
Thank you.
Modernizing FHA to Improve Consumer Access

Laurie Goodman  
Co-Director, Housing Finance Policy Center  
Urban Institute

National Access to Credit Forum  
Washington, DC  
April 3, 2018
Originators charge more for weaker borrowers; even though FHA does not do risk-based pricing.
Cost of Servicing

- Servicing nonperforming loans is much more expensive than servicing performing loans.
- FHA servicing is still more expensive; servicing FHA nonperforming loans is 3 times as expensive as servicing GSE nonperforming loans.

Housing Counseling Facilitates LMI Lending
Overcoming the Cost of Origination Using Housing Counselors

Reducing Cost of LMI Originations

- Cost of Origination has risen by $3,000 since 2008
- Effectively Using Housing Counseling Saves Money in 4 ways
  - UnidosUS has models that links together our network allowing us to increased counseling capacity and market reach
  - Layering modes of counseling to reduce cost and increase effectiveness of communication.
Spreading the Aspiration of Owning Home

- Communities of color and LMI families generally have lost wealth since the crisis – makes families cautious.
- There is distrust of messengers around homeownership.
- Many prime lenders have reduced their focus in LMI markets as the segments revenue potential has significantly decreased.
- Counseling can help in raising aspirations for homeownership and its potential for wealth promotion in our communities.
Access to Homeownership Supported By MI

MI helped nearly 860,000 HOMEOWNERS purchase or refinance a mortgage in the past year

Source: USMI Member Companies

Forty Percent With Incomes Less Than $75,000
More Than 50% Are First Time Homebuyers
Accessible Through Prudent Low Down Payment Lending with MI
Support Access By Alignment to GSE Programs, Education, and Training

We Help People Buy a House, and Keep it Their Home
Improve Access Through Fee Re-Evaluation

Annualized Fee Example
680 Credit Score / 90 LTV

GSE/MI Eligibility Matrix

Fees Impact Access And Limit Choice

Unchanged View of Remote Exposure Since Crisis

Recommend Re-evaluation To Increase Access to Efficient Execution
What’s the Goal: Really?

LIQUIDITY

WEALTH

CREDIT ACCESS
So What’s Better?

<table>
<thead>
<tr>
<th>75 new owners &amp; 5 lose their homes</th>
<th>OR</th>
<th>10,000 new owners &amp; 2000 lose their homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>000’s new owners</td>
<td>AND</td>
<td>&lt; 10% lose their homes</td>
</tr>
<tr>
<td>3% Down</td>
<td>OR</td>
<td>2.5% Reserves</td>
</tr>
</tbody>
</table>

**SO...**
The Groundwork

1. **Educate**
   a) Get the under-banked into the system
   b) Get merchants to report their payments

2. **Data Access**
   a) Build better scores for under-banked and under-served populations and markets
      • FICO XD, Vantage 4.0, Finicity, etc.
   b) A data utility with historic performance including new and old scores
**WHAT:** Funds for short-term income interruptions and major maintenance items

**WHO:** Under-served populations & markets

**WHY:** Keep those with fragile liquidity in homes

**HOW:** 2% borrower reserves instead of 3% down + 0.5% from the GSEs: from 10 bps Guar. Fee on all loans

**WHERE:** Administered by: servicers, Board of non-profits and the GSEs?
Outcomes

RISK: Might be lower than low down-payments

FUNDING: 80% by the borrowers themselves

EFFICIENCY: Mutual structure diversifies risk and extends coverage (4%? per borrower)

FOCUS: The key risk facing new buyers: volatility

ALIGNMENT: Targeted borrowers, GSEs, Budget
Evidence for Expanding Access to Credit

NFHA

April 03, 2018
Home Purchase Lending to Low Credit Score Borrowers Collapsed and Has Not Recovered

Share of Purchase Originations to < 640 Credit Score Borrowers

Source: CoreLogic
Low Credit Purchase Lending Lowest in High Cost Markets
Share of Purchase Loans with Credit Scores < 640

Top 10 Metros

<table>
<thead>
<tr>
<th>Metros</th>
<th>Share of Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Battle Creek, MI</td>
<td>10.6%</td>
</tr>
<tr>
<td>Alexandria, LA</td>
<td>8.3%</td>
</tr>
<tr>
<td>Danville, IL</td>
<td>8.2%</td>
</tr>
<tr>
<td>Rocky Mount, NC</td>
<td>7.8%</td>
</tr>
<tr>
<td>Lawton, OK</td>
<td>7.7%</td>
</tr>
<tr>
<td>Bloomsburg-Berwick, PA</td>
<td>7.5%</td>
</tr>
<tr>
<td>Beckley, WV</td>
<td>7.5%</td>
</tr>
<tr>
<td>Springfield, OH</td>
<td>7.4%</td>
</tr>
<tr>
<td>Carbondale-Marion, IL</td>
<td>7.1%</td>
</tr>
<tr>
<td>Mansfield, OH</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Percent Share

- > 6%
- 4% - 6%
- 2% - 4%
- < 2%

Source: CoreLogic, 2018
Collapse in Credit Scores Due More to Demand Not Supply

Source: CoreLogic
Market is Producing a Deficit of 130,000 Low Income Loans Per Year

Low-to-Moderate Area Share of Purchase Loans

Source: CoreLogic
Market is Producing a Deficit of 250,000 Minority Loans Per Year
Minority Area Share of Purchase Loans Remains Low

7 Percentage Points Below Normal

Source: CoreLogic
Affordability Gap is Rapidly Rising
Supply Gap Between Entry Home Prices and Luxury Home Prices Rapidly Widening

Source: CoreLogic, Home Price Index
Where to find more information

Look for regular updates to our housing forecast, commentary and data at

https://www.corelogic.com/insights-index.aspx

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