



**FAIR HOUSING and FAIR CREDIT**

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# RESEARCH MEMO

**TOM FITZPATRICK**

**PRESENTED BY**

**KIRWAN INSTITUTE**  

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**FOR THE STUDY OF RACE AND ETHNICITY**

THE OHIO STATE UNIVERSITY  
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The **Kirwan Institute for the Study of Race and Ethnicity** is a university-wide interdisciplinary research institute. We generate and support innovative analyses that improve understanding of the dynamics that underlie racial marginality and undermine full and fair democratic practices throughout Ohio, the United States, and the global community. Responsive to real-world needs, our work informs policies and practices that produce equitable changes in those dynamics.

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**MEMORANDUM**

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**TO:** CHRISTY ROGERS, KIRWAN INSTITUTE  
**FROM:** TOM FITZPATRICK  
**SUBJECT:** ADVISORY BOARD MEMORANDUM: TOPICS AND RESEARCHERS  
**DATE:** 1/27/2010  
**CC:**

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POTENTIAL TOPICS

Per our telephone conversation, I believe there is the opportunity to conduct very interesting research on Low and Moderate Income (LMI) and minority access to credit. The topics that I think would be particularly interesting fall into two general categories: (1) the role of Government Sponsored Entities (GSEs), such as Fannie and Freddie, and (2) alterations to the Community Reinvestment Act (CRA).

Altering the role of the GSEs would focus exclusively on access to home mortgage credit. Since the 1990s, the GSEs have substantially increased the size of their loan portfolio (the loan portfolio contains the loans that have not been securitized). Many critics of the GSEs believe that strict limits on their long-term portfolio size need to be imposed (long-term portfolio holdings are those loans the GSEs plan to hold to maturity). Rather than imposing hard limits on the size of the GSE's long-term portfolio, I think an interesting proposition would be to limit the type of loans the GSEs can hold in their long-term portfolio. If, for example, the GSEs were only allowed to hold "fair housing" or "LMI census track" loans, what effect would that have on the social goal of promoting minority and LMI homeownership? What effect would it have on the GSEs? Would it naturally limit the size of their long-term portfolio?

While I believe it is undeniable that the CRA played no direct role in the subprime crisis, I think that aspects of the CRA need to be reevaluated. The CRA has historically focused on home mortgage lending. While that was certainly the most critical need for LMI borrowers when the CRA was established, I am not sure that the same can be said today. The CRA has three tests, each with a specific weight: the Service Test (25%), the Investment Test (25%), and the Lending Test (50%). Institutions have primarily engaged in home mortgage lending to satisfy the Lending Test (though other lending is also factored in). In light of this, and current circumstances, I think there are two ways in which the CRA should be reevaluated. First, it would be interesting to research ways in which the Lending Test can be altered to focus more on lending other than home mortgage lending. If the goal of the CRA is to encourage economic development in assessment areas, then perhaps more emphasis should be placed on lending to local businesses. What effects would this have on depository institutions? What effects would it have on LMI communities?

Second, it would be interesting to think about ways to rebalance the weighting in the three tests. I think depository institutions could focus more on developing credit products, as well as banking

services, geared towards LMI borrowers. There are a number of reasons they do not do this, one of which is the first mover disadvantage. That is, developing a product or service requires the expenditure of resources, but as soon as the product is developed other institutions can essentially copy it at little or no cost. Would reweighting the tests to put more emphasis on the Service Test encourage banks to develop more credit products and banking services for LMI borrowers? Are there other ways to alter the weighting of the tests, or the factors counted towards each test, to encourage product and service development for LMI borrowers? Could the CRA service test be used to develop alternative credit score models for LMI borrowers who regularly pay bills that are not reported to credit bureaus?

A final area of interest that is not necessarily directly related to either the GSEs or the CRA is products that disproportionately harm LMI borrowers. I think more research could be done to identify these products and develop policy responses. For example, many claim that overdraft fees, which represent a substantial stream of revenue for depository institutions, disproportionately affect LMI borrowers. Another example would be the paycheck advances that some institutions are offering in the wake of states passing payday lending regulation. Such products have stringent requirements that essentially guarantee institutions will have the loan paid back (e.g. they usually require direct deposit), and they charge a significant APR for the loans (usually over 100% APR). Do these types of products disproportionately harm LMI borrowers? If so, should they be tied to CRA evaluations? Are there other appropriate policy responses?

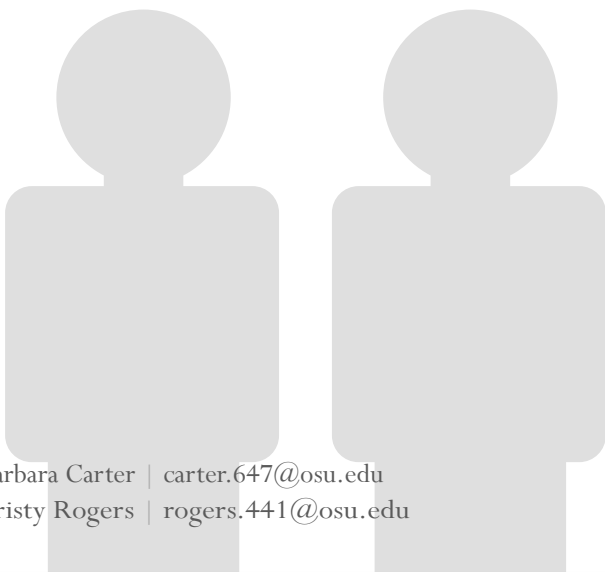
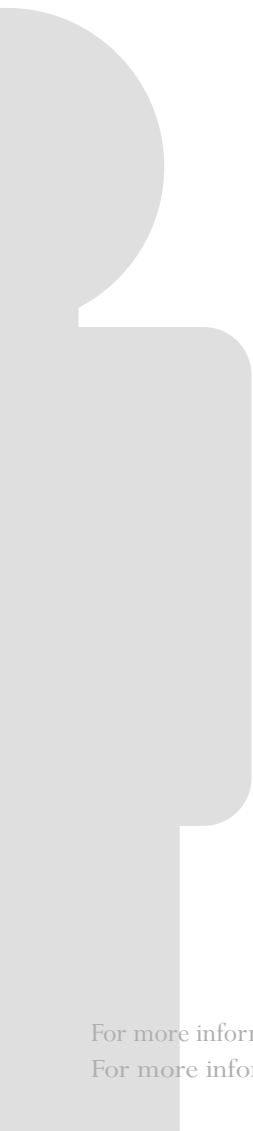
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## COVER DESIGN

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