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Title: Commending the Federal Reserve Bank of Philadelphia's Research Department for its important analysis of the effects of the Community Reinvestment Act (CRA) on the mortgage market in the aftermath of the Great Recession and urging the City's Department of Planning and Development to identify potential solutions to recent federal policy changes that have resulted in more Philadelphia neighborhoods becoming CRA ineligible, leading to CRA-regulated lenders decreasing their mortgage lending in these neighborhoods.

Sponsors: Councilmember Parker, Councilmember Henon, Councilmember Johnson, Councilmember Jones, Councilmember Squilla

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Date	Ver.	Action By	Action	Result	Tally
6/22/2017	0	CITY COUNCIL	Introduced and Ordered Placed on This Week's Final Passage Calendar - Rules Suspended	Pass	
6/22/2017	0	CITY COUNCIL	ADOPTED		

Commending the Federal Reserve Bank of Philadelphia’s Research Department for its important analysis of the effects of the Community Reinvestment Act (CRA) on the mortgage market in the aftermath of the Great Recession and urging the City’s Department of Planning and Development to identify potential solutions to recent federal policy changes that have resulted in more Philadelphia neighborhoods becoming CRA ineligible, leading to CRA-regulated lenders decreasing their mortgage lending in these neighborhoods.

WHEREAS, The Community Reinvestment Act (CRA) was enacted in 1977 to encourage federally regulated depository institutions to meet the credit needs of all communities, including those of low- and moderate-income (LMI); and

WHEREAS, CRA provides a “carrot” to depository institutions by providing them with a good CRA rating if they have a solid record of providing loans and other financial products and services to LMI neighborhoods. In turn, having a satisfactory or better CRA rating is desirable when banks apply for a merger, acquisition, or branch opening, in addition to the reputational considerations; and

WHEREAS, The aftermath of the Great Recession resulted in a dramatically changed mortgage market, which shifted from a market dominated by large banks to one in which more loans are originated by nondepository institutions. However, CRA-regulated lenders remained an invaluable resource in LMI neighborhoods; and

WHEREAS, In 2013, the Office of Management and Budget published a new set of metropolitan statistical area/metropolitan division (MSA/MD) definitions. According to the revised MSA/MD definitions, the previous five-county Philadelphia MD was split into the new Philadelphia, PA MD (Philadelphia County and Delaware County) and the Montgomery County-Bucks County-Chester County, PA MD (MBC MD); and

WHEREAS, A recent report by the Federal Reserve Bank of Philadelphia's Research Department analyzes the impact of OMB's revision. The title of the report is "Don't Know What You Got Till It's Gone' - The Effects of the Community Reinvestment Act (CRA) on Mortgage Lending in the Philadelphia Market"; and

WHEREAS, The Philadelphia Fed found that OMB's revision had unintended consequences and led to radical changes in area median family income (MFI), which is defined as the MFI of the corresponding MD. There was a decrease of $22,200 in area MFI from 2013 to 2014 for neighborhoods in the new Philadelphia MD (from $76,400 in 2013 to $54,200 in 2014) and an increase of $19,000 for those in the new MBC MD (from $76,400 in 2013 to $95,400 in 2014); and

WHEREAS, These changes to income designations had a drastic impact on which neighborhoods were eligible for CRA lending or not. For example, the income designations for 102 tracts in the Philadelphia MD were changed from moderate-income in 2013 to middle-income in 2014, thus making lending in these census tracts generally ineligible for CRA credit, even though their economic conditions or population profiles remained largely unchanged. Conversely, the income levels of 80 tracts in the suburban MBC MD were changed from middle-income in 2013 to moderate-income in 2014, thus making them CRA eligible; and

WHEREAS, Over one-third (34.5 percent) of previously CRA-eligible tracts in the new Philadelphia MD became CRA ineligible after 2014, while the number of CRA-eligible tracts in the MBC MD tripled from 2013 to 2014 (going from 40 tracts to 120 tracts); and

WHEREAS, The Philadelphia Fed found that CRA-regulated lenders decreased their mortgage lending in neighborhoods that become newly CRA-ineligible. In fact, they found that, after 2014, the home purchase originations by CRA-regulated lenders would have been at least 10 percent higher had a neighborhood not lost its CRA eligibility status; and

WHEREAS, Only about half of the decrease in CRA lending can be offset by the increased lending by nondepository institutions, which have been blamed for the relatively poorer quality of mortgages originated during the subprime boom and have caused many to be concerned about the about the access, quality, and costs associated with these institutions. This increased market share of nondepository institutions in previously CRA-eligible neighborhoods has been accompanied by a greater involvement in riskier FHA lending; and

WHEREAS, The Philadelphia Fed further found that the change in neighborhood CRA eligibility impacted minority borrowers and certain lower-income borrowers to a greater extent than their respective counterparts. For example, in the Philadelphia MD, the number of purchase originations to minority borrowers by CRA lenders increased by only 4.9 percent in the newly ineligible tracts but increased by a substantial 25.9 percent in their control group, a differential of about 21.0 percentage points; and

WHEREAS, Part of the mission of Philadelphia's Department of Planning and Development is to ensure the "stability of housing opportunities for low- and moderate-income households". The Division of Housing and Community Development (DHCD) is strategically tasked with sustaining homeownership in the City of Philadelphia; and

WHEREAS, The Department of Planning and Development, and DHCD in particular, must be keenly aware of the new landscape of mortgage lending after OMB's revision of the metropolitan statistical area/metropolitan division definitions. The Department must work to counteract these federal changes with any and all available local policy solutions; and

WHEREAS, Inaction could mean an even quicker decline in Philadelphia's already steadily declining homeownership rate, while those residents who are still able to get a mortgage will risk paying more and getting less if they can only get their mortgage product from a nondepository institution; now, therefore, be it

RESOLVED, BY THE COUNCIL OF THE CITY OF PHILADELPHIA, That it hereby commends the Federal Reserve Bank of Philadelphia's Research Department for its important analysis of the effects of the Community Reinvestment Act (CRA) on the mortgage market in the aftermath of the Great Recession and urges the City's Department of Planning and Development to identify potential solutions to recent federal policy changes that have resulted in more Philadelphia neighborhoods becoming CRA ineligible, leading to CRA-regulated lenders decreasing their mortgage lending in these neighborhoods.