

Discussion of:

--Don't Know What You Got Till It's Gone

--Mortgage Experience of Borrowers in Non-Metro Counties: Evidence from NSMO

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Context of Research

Similarities:

- Motivated by “Special” Class of Borrowers
- Both Groups Are Lower-Income
- Suffer from Potential Info Asymmetries

Differences:

- CRA: Democrats Borrowers
- Rural: Republican Borrowers

Is Rural America the “New” Inner City?

Paper #1: Research Question

Does CRA Expand Supply of Mortgages in Targeted Areas?

Motivation

- Controversial Policy / Mixed Earlier Results
- Facing Lower Enforcement or Future Repeal

Empirical Strategy

- Exploit Variation in Metro Area Definitions Due to Decennial Census
- Focus on Loan Applications and Originations in Philadelphia using HMDA Data

Community Reinvestment Act

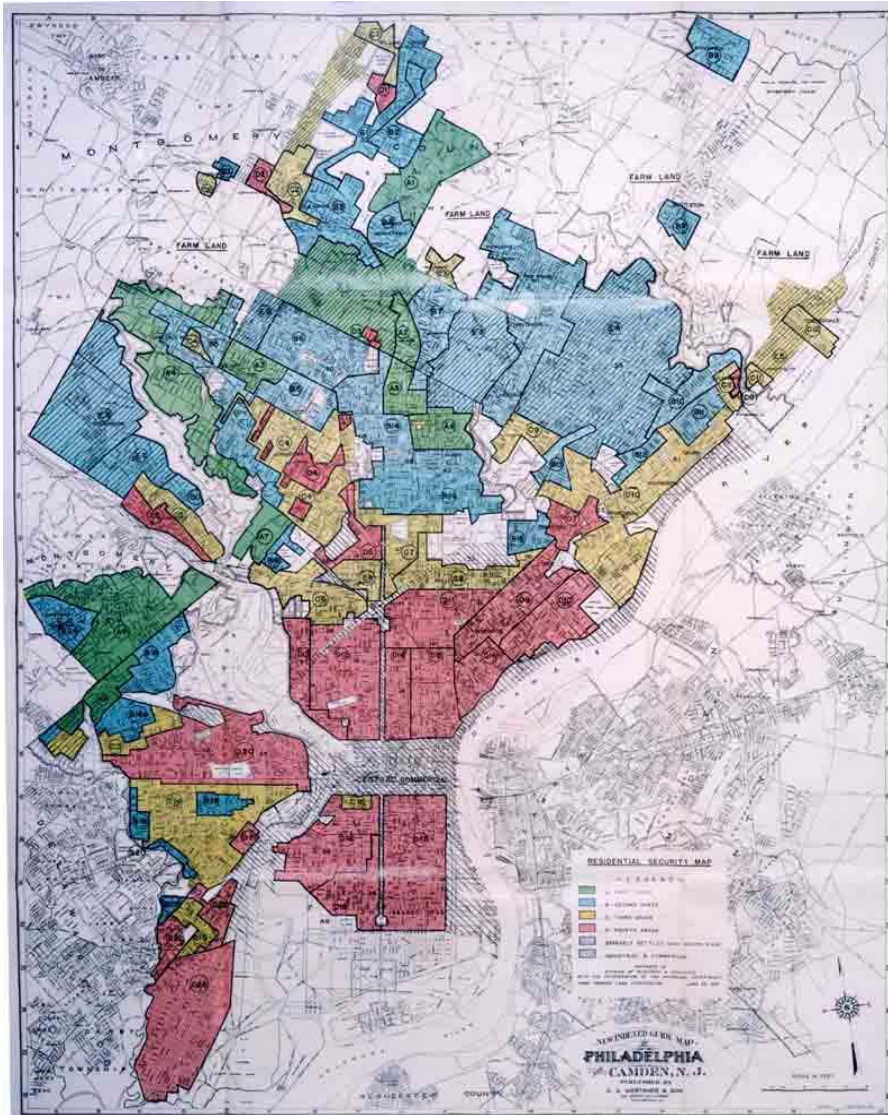
Passed by Congress in 1977

- Encourage Depository Institutions to Meet Credit Needs in Communities Where Operate
- Focus on Distressed and Underserved Areas
- Affects M&A's, Possible Social Stigma

What We Already Know?

- Increases Supply (Gabriel and Rosenthal, '09)
- Significant Heterogeneity Based on Monitoring and Across Time (Bhutta, '11)
- Unclear Effects After Financial Crisis

Red-Lining in Philadelphia



Guilt by Association

- Gov't Loans Penalized in High Minority Areas
- Practice Continued by Private Lenders in 1970's

HOLC Scoring Criteria

4. DETRIMENTAL INFLUENCES. Concentration of undesirables.
Low class whites and negro
5. INHABITANTS:
- a. Type Laborers - Relief ; b. Estimated annual family income \$ 800.
- c. Foreign-born Italian ; 80 % ; d. Negro Yes ; 55 % ;
(Nationality) (Yes or No)
- e. Infiltration of Negro ; f. Relief families Very Heavy ;
- g. Population is increasing _____ ; decreasing _____ ; static.
6. BUILDINGS:
- a. Type or types 2 story rows ; b. Type of construction Brick ;
- c. Average age 10 - 30 yrs. ; d. Repair Poor to fair

Main Contributions

Removal of Designation (Philadelphia)

- Fewer Loans by CRA Lenders in Previous Tracts
- Increased Loans by Non-CRA Lenders & FHA

Expansion of Designation (Suburbs)

- No Impact on Lending Behavior

Implications of Research

- CRA Designation Still Matters!

Contaminated Treatment?

Empirical Concern:

- Currently Use Tracts w/n 0.5 mile radius
- CRA Lenders May Have to Increase Lending in those Tracts to Meet Targets After Contraction

Possible Solutions:

- Aggregate Results at Metro-Level
- Adopt a DiffnDiffnDiff Strategy with Pittsburgh
- Incorporate Lender Fixed Effects
- Consider Regression Discontinuity

Possible Extensions

Effects of CRA on Neighborhood Mobility?

- Higher Income Eligible in CRA Neighborhoods
- LMI Borrowers could be more likely to Move to Better Neighborhoods After Removal

Effects of CRA on Leverage?

- Use as an Instrument for Downpayment Size
- Eventually Test for Default (see Ringo, 2015)

Effects of CRA on Interest Rate?

- Fewer Loans w/ 300bp of Margin

Paper #2: Survey Evidence

Research Objective

- Lending Experience of Non-Metro Borrowers
- Compare to Experiences of Metro Borrowers in National Survey of Mortgage Originations

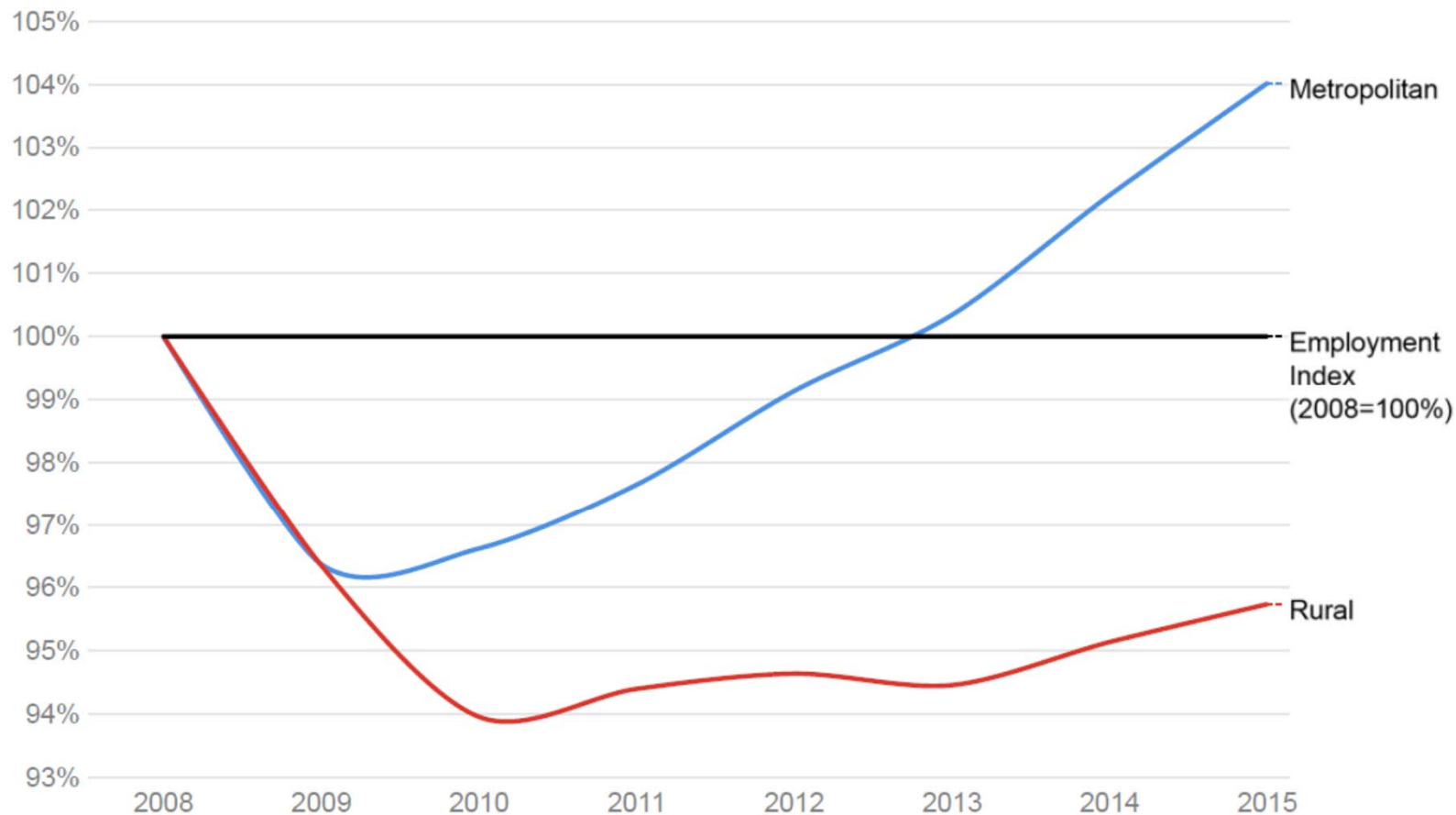
Key Findings for Rural Borrowers

- Prevalence of Manufactured Housing
- Higher LTV, Lower Debt-to-Income Ratios
- Valued Physical Presence and Relationships
- Least Satisfied w/ Borrowing Experience

Differences in Job Recovery

Job growth in America

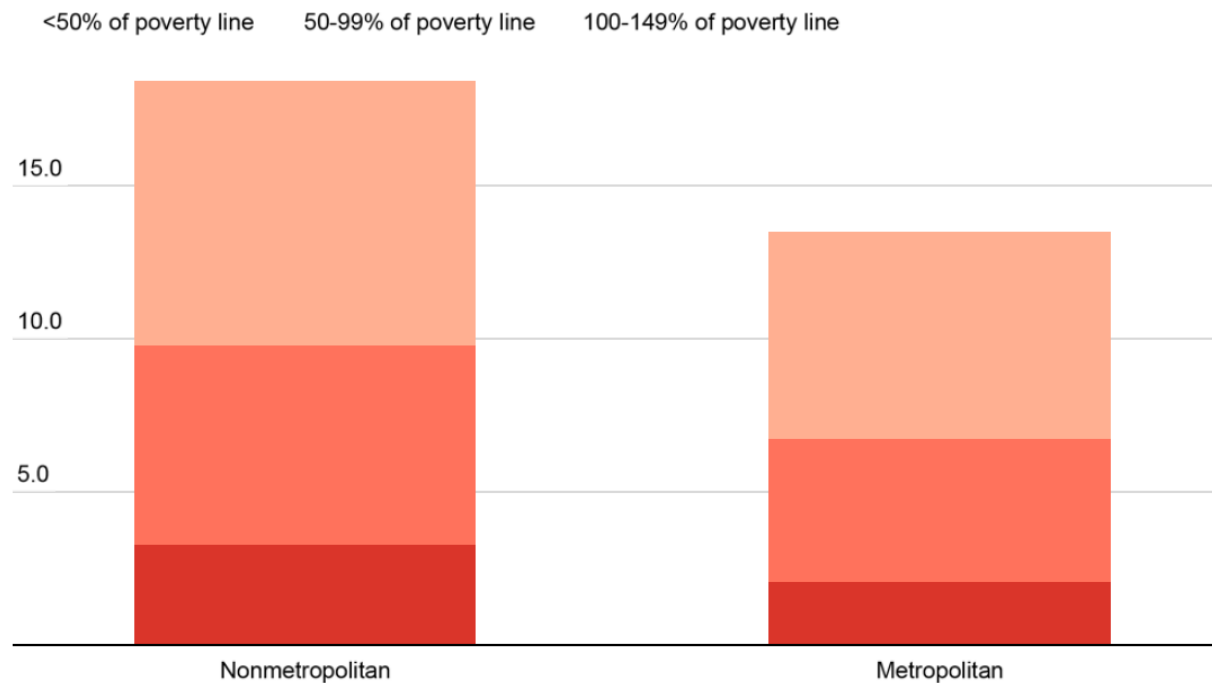
Since 2008, job growth in metropolitan areas has outpaced that in rural areas.



Higher Poverty Rates

American workers in poverty

Percent of U.S. householders aged 25-54 that worked at least part of the year in 2015, by poverty threshold.



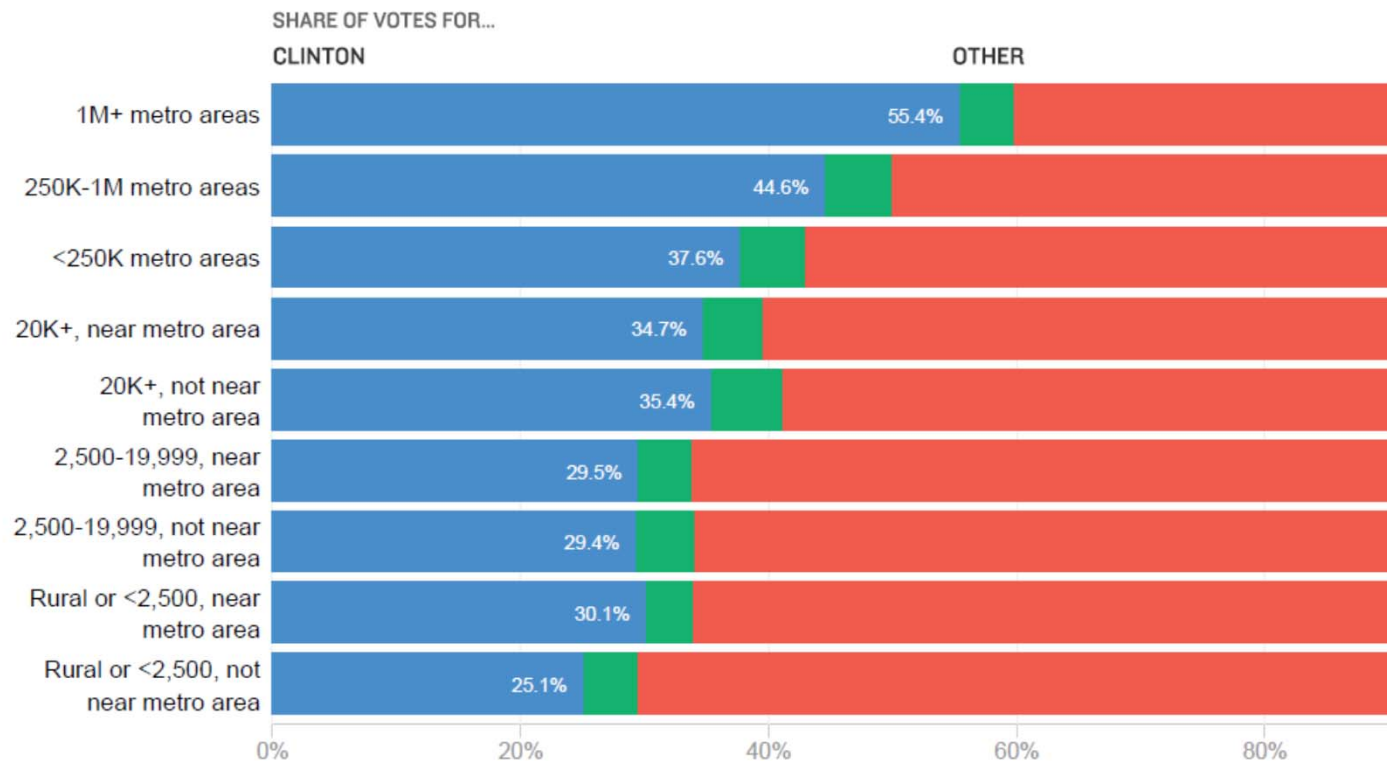
The Conversation, CC-BY-ND

Source: 2016 March Current Population Survey Public Use Microdata [Get the data](#)

Politically Important

How The 2016 Vote Went, By Population Area

The USDA breaks down counties into varying levels of urban- or rural-ness, using what are called “rural-urban continuum codes.” When separated out into these buckets, it’s striking how steady the shift from Democratic to Republican is as areas get increasingly rural.



Source: NPR analysis of AP data, using *Rural-Urban Continuum Codes* from the U.S. Department of Agriculture

Credit: Tyler Fisher and Alyson Hurt/NPR

Suggestion to Authors

Besides Politics, Why Rural Matters?

- Small and Decreasing Share of US Population
- Market Failure v. Redistribution Motivations?
- Identify Research Questions Upfront

Focus on Metro v. Non-Metro Differences

- Overwhelming Number of Cross-Tabulations
- Metro v. Non-Metro (Remote v. Non-Remote)
- Purchase (Seasoned v. 1st Time)
- Refinance (Rate/Term v. Cash-out)
- Start w/ Pooled Sample, then Test for Hetero

Suggestion to Authors

Greater Importance on Regressions

- Interesting Results Currently in Appendix
- Increased Power in Pooled, Simpler Model

Test Specific Hypotheses

- Evidence of Less Competition in Rural Areas?
- Were Appraisals Less Accurate / Biased?
- Did Rural Borrowers Actually Pay Higher Rates?

Implications of Research

- Are There Policy Prescriptions Based on Results?
- What, if any, role for CRA in rural areas?