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?
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 undesirable: Low class whites and negro

5. INHABITANTS:
   a. Type Laborer — Retailer
   b. Estimated annual family income $ 900
   c. Foreign-born Italian 80%  
   d. Negro Yes 35%
   e. Infiltration of Negro
   f. Belief families Very Heavy
   g. Population is increasing decreasing Static

6. BUILDINGS:
   a. Type or types 5 story row
   b. Type of construction Brick
   c. Average age 10 – 20 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
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
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.

<50% of poverty line  50-99% of poverty line  100-149% of poverty line

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Source: 2016 March Current Population Survey Public Use Microdata Get the data
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.

SHARE OF VOTES FOR...

<table>
<thead>
<tr>
<th>Population Size</th>
<th>Clinton</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1M+ metro areas</td>
<td>44.6%</td>
<td>55.4%</td>
</tr>
<tr>
<td>250K-1M metro areas</td>
<td>37.6%</td>
<td>62.4%</td>
</tr>
<tr>
<td>&lt;250K metro areas</td>
<td>34.7%</td>
<td>65.3%</td>
</tr>
<tr>
<td>20K+, near metro area</td>
<td>35.4%</td>
<td>64.6%</td>
</tr>
<tr>
<td>20K+, not near metro area</td>
<td>29.5%</td>
<td>70.5%</td>
</tr>
<tr>
<td>2,500-19,999, near metro area</td>
<td>29.4%</td>
<td>70.6%</td>
</tr>
<tr>
<td>Rural or &lt;2,500, near metro area</td>
<td>30.1%</td>
<td>69.9%</td>
</tr>
<tr>
<td>Rural or &lt;2,500, not near metro area</td>
<td>25.1%</td>
<td>74.9%</td>
</tr>
</tbody>
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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
- 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?