FURMAN CENTER
FOR REAL ESTATE & URBAN POLICY
NEW YORK UNIVERSITY
SCHOOL OF LAW • WAGNER SCHOOL OF PUBLIC SERVICE

THE INSTITUTE FOR AFFORDABLE HOUSING POLICY

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## Before the CRA Interagency Public Hearing

## Community Development and CRA
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I would like to thank you for inviting me to testify today about CRA and community development. My testimony draws upon the research of my colleagues at New York University's Furman Center for Real Estate and Urban Policy and its Institute for Affordable Housing Policy; from two discussions the Institute hosted this spring regarding the Power and Potential of CRA; and from my experience with community development programs while working in various government, nonprofit and private sector positions.

The stated purpose of Title VIII of the Housing and Community Development Act of 1977 is "to require each appropriate Federal financial supervisory agency to use its authority when examining financial institutions, to encourage such institutions to help meet the credit needs of the local communities in which they are chartered consistent with the safe and sound operation of such institutions." We welcome today's broad review by regulators to assess whether CRA implementation can be better structured to meet the statutory objectives which are perhaps even more relevant today than they were when passed in 1977. The credit needs of local communities and the programs available to financial institutions to address those needs have changed dramatically over 33 years. CRA can and should be an important, flexible tool to help restore low-income communities and individuals to financial health. CRA can and should also be used to leverage other public and private initiatives that have parallel or related objectives in order to maximize the long-term impact on community credit needs.

Based on research and experience, we would like to make two observations for you to consider in the course of your review. First, regulators should invest in consistent, timely and rigorous data-driven analysis to measure both local community credit needs and also the impact of CRA programs in meeting those needs. Second, there should be more incentives for financial institutions to support a broader range of community development activities, especially those that leverage other public and private investments to maximize their impact.

Regarding the first observation, it is critical to measure both credit needs and program impact in order for CRA to succeed. The regulatory yardstick of counting loans or investments to low or moderate-income households or census tracts is a blunt tool that too often leaves important credit needs unidentified and unaddressed. Two examples from our research are illustrative.

> a. The mortgage crisis has hit certain population groups and certain neighborhoods particularly rapidly and hard; and the needs of the communities now are quite different from their needs in previous decades. In New York City, foreclosures have been highly concentrated in certain communities; in 2009, 16% of the City's community districts were home to 57% of the foreclosure filings. The effects of foreclosures reach beyond individual homeowners: they also impact neighboring homeowners by driving down property values; they affect others in the community who suffer the effects of vacancy, crime, and disinvestment; and they affect the renters who occupy 2-4 family homes and the apartment buildings that recently have begun to see disinvestment and even foreclosure. The neighborhoods in NYC that have been hardest hit by the foreclosure crisis and are in need of responsible investment and stabilization are overwhelmingly non-white but may not qualify for CRA programs due to lagging census data or higher overall income levels. Other research, on patterns of

mortgage default, tells us that these neighborhoods are vulnerable -- either to inadequate underwriting, unreliable mortgage channels, or special risks such as widespread job loss. So it is especially important for the regulators and lenders implementing CRA to fully understand the credit needs of these neighborhoods and be in a position to support timely responses to these problems.

b. Another reason for regulators to increase their own capacity to rigorously measure credit needs is the rapid deterioration of neighborhood credit conditions that we have seen recently. The Furman Center has tracked mortgage lending trends in New York City for ten years. In the last few years, we've seen significant changes in trends such as in the racial composition of new borrowers. In 2006, black borrowers made up 20% of new originations, but by 2008, they made up only 11%. This is not simply a reflection of the subprime market disappearing—black borrowers and neighborhoods of color in NYC have seen big declines in prime loan originations as well. Between 2006 and 2007, the number of prime loans awarded to black borrowers fell by 23%, while the number of prime loans issued to white borrowers rose by 4% during this time period. As credit needs of individuals and communities change over time, regulators and financial institutions require timely and rigorous measures of need in order for CRA to remain effective and relevant.

Our second observation is that regulators should also use this opportunity to review how to reward CRA initiatives that have major positive impacts on communities and household credit needs over time because they were thoughtfully designed and they leveraged other public and private resources. Investment in organizations providing services that benefit entire communities, especially if done as part of a targeted, coordinated local strategy, can be as valuable a tool for community development as investment in individual families, businesses or projects. Preservation of mixed-income developments or provision of social services, for example, serve a critical function in stabilizing people and neighborhoods but are difficult to structure to obtain CRA credit unless they are located in a census tract that was below 80% of AMI in the 2000 census. Some examples from our research are instructive in this regard:

> a. Different types of credit can have a different impact on household and community stability, and these distinctions should be recognized by CRA. For example, research on 15 years of Real Estate Owned (or "REO" properties) in New York City finds that many recent investments in distressed neighborhoods have been unsustainable. We found that one-third of all purchases of REO properties in 2007 were resold, or flipped, within a year. These trends of high turn-over and price inflation should be evaluated to make sure they constitute responsible investment for CRA purposes. In addition, thoughtful partnerships with a track record of long-term sustainability should be rewarded under CRA. For example, as of March 2010, out of more than 60,000 homes built by the City of New York in partnership with nonprofit groups, less than 1% had gone into foreclosure according to the New York Times). Lest you think the bulk of these homes predated the current crisis, a tally by the city's housing agency shows that of 20,614 such homes sold since 2004, only 13 have gone through foreclosure auctions.

b. Successful and sustainable investments should be encouraged and replicated, especially when they encourage productive partnerships and leverage public and private investments. Furman Center research has demonstrated that investment by local government in affordable housing and community development improves communities as measured by significant increases in surrounding property values and may help insulate communities from episodic downturns in housing prices. Much of New York City's public investment in subsidized housing leveraged private funds that qualified for CRA. According to panelists at our recent policy discussions, dialogue facilitated by CRA regulators among financial institutions, nonprofits and government also motivated productive public/private partnerships resulting in effective and long-lasting improvements to family and community wealth. The homeownership programs described above, for example, resulted from community development experts in banking, government and neighborhood organizations designing the programs together and evaluating them together. CRA should encourage these initiatives beyond giving credit for the individual mortgage the bank issues on the completed home.

The two points we are highlighting today—investing in timely and objective measures of need and impact, and rewarding CRA programs that have demonstrated impact in meeting those needs-- are easy to posit, yet challenging to accomplish. There is an inherent tension between flexible, responsible community reinvestment on the one hand and fair and predictable measures and standards on the other hand. It is hard for government to measure and reward innovation, but innovation has been an important outcome of CRA in the past and is necessary to address major challenges facing communities today and in the future.

Transparent, standard and clear guidance on community needs and on the impact of CRA strategies would benefit regulators, banks, government and most importantly underserved communities and families. Reforms to CRA should include an explicit allocation of resources to identify credit needs objectively, and to measure the impact of CRA initiatives in meeting those needs. Regulators should commission regular studies of local credit needs for CRA purposes that use empirical data and analysis. These results should be published so that CRA can become a local tool for planning and leveraging investment to meet the identified needs. Determining impact of community investment is very challenging, but it can and should be done in an objective way. The CRA regulatory agencies also should invest in research to identify effective strategies that result in sustainable credit leading to meaningful community development.

CRA can be a useful vehicle to respond to the current crisis and we are pleased that it is not being overlooked as a tool for financial reform. CRA's core objective of meeting the credit needs of underserved communities takes time to design, implement and assess. Financial institutions should not be encouraged by CRA regulation to provide superficial, one-shot solutions but should be rewarded for being part of collaborations that meet objective needs and have measurable, long-term results.

Relevant research, white papers and policy briefs can be accessed at
http://furmancenter.org/research/

**About NYU's Furman Center**

The Furman Center is a joint research center of the New York University School of Law and the New York University Robert F. Wagner School of Public Service. The Furman Center is directed by Vicki Been, the Boxer Family Professor of Law. Ingrid Gould Ellen, Professor of Public Policy and Urban Planning, is the Co-Director of the Center and Sarah Gerecke is the Executive Director.

Since its founding in 1995, the Furman Center for Real Estate and Urban Policy has become a leading academic research center devoted to the public policy aspects of land use, real estate development and housing. The Center is dedicated to the following three missions:

- **Providing objective academic and empirical research** on the legal and public policy issues involving land use, real estate, housing and urban affairs;

- **Promoting frank and productive discussions** among elected and appointed officials, leaders of the real estate industry, leaders of non-profit housing and community development organizations, scholars, faculty and students about critical issues in land use, real estate and urban policy;

- **Presenting essential data and analysis** about housing and neighborhoods to all those involved in land use, real estate development, community economic development, housing, urban economics and urban policy.

In February 2010, The Furman Center launched the Institute for Affordable Housing Policy to improve the effectiveness of affordable housing policies and programs by providing housing practitioners and policymakers with information about what's working and what isn't, and about promising new ideas and innovative practices.

Sarah Sheon Gerecke has worked in the field of community development and affordable housing for over 30 years. In addition to her position at the Furman Center and the Institute for Affordable Housing Policy, Ms. Gerecke is also an Adjunct Assistant Professor of Planning at the NYU Robert F. Wagner School of Public Service where she has co-teaches a graduate law and policy seminar in land use, housing and community development in New York City. Until July 2009, Ms. Gerecke was CEO of Neighborhood Housing Services (NHS) of NYC, where she supervised lending, education, community development and real estate programs, assisting over 10,000 residents each year. She joined NHS as Chief Operating Officer in 2001. From 1994-2001, Ms. Gerecke was Vice President for Housing Programs at Westhab, Inc., Westchester County's largest provider of housing for homeless and disadvantaged residents. Ms. Gerecke served in various positions in New York City government between 1986 and 1994, including Assistant Commissioner for Production and Planning for the Department of Housing Preservation and Development and Assistant to Deputy Mayor Robert Esnard for housing issues in the Koch Administration. From 1984 – 1986, she practiced real estate law at Paul, Weiss, Rifkind, Wharton & Garrison. She is a graduate of Harvard Law School and Princeton University's Woodrow Wilson School of Public and International Affairs.