



Thursday, June 16, 2022

# Special Purpose Credit Programs

Old Tool – New Potential



Janneke Ratcliffe, Housing Finance Policy Center

# About the Urban Institute

- The Urban Institute is a nonprofit research organization that provides data and evidence to help advance upward mobility and equity. We are a trusted source for changemakers who seek to strengthen decisionmaking, create inclusive economic growth, and improve the well-being of families and communities. For more than 50 years, Urban has delivered facts that inspire solutions—and this remains our charge today.

**HFPC** Provides timely, impartial data and analysis on the housing finance system and its effects on the economy, households and communities.

---

**OUR MISSION IS TO OPEN MINDS,  
SHAPE DECISIONS, AND OFFER  
SOLUTIONS THROUGH  
ECONOMIC AND SOCIAL POLICY  
RESEARCH.**

---

# Background and History

# 1974 - Equal Credit Opportunity Act (ECOA)

- ECOA bars discrimination on basis of protected class (including race) in any aspect of a credit program.
- But it allows lenders to offer programs tailored and limited to “*people who share one or more common characteristics* (for example race, national origin or sex) so long as the program is *not used for the purpose of evading the...Act*

See: [CFPB description of regulation](#); [CFPB discussion of SPCPs](#)

# ECOA lays out pathways

- Non-profits may extend special purpose credit “*for the benefit of its members or for the benefit of an economically disadvantaged class* of persons.”
- For-profits may “extend credit to a class of persons who...probably *would not receive such credit or would receive it on less favorable terms* than are ordinarily available to other applicants...” provided they do so pursuant to a *written plan*.

# Requirements of the Written Plan

- Identifies the *class of persons to benefit* (eg: minority residents of LMI areas, residents of majority-Black census tracts, woman-owned small business, LEP consumers...)
- Sets forth the *procedures and standards* - How program or product designed to increase likelihood of receiving credit (or, on more favorable terms)
- *Timeline* to end or reevaluate
- *Analysis used to determine need* for the program
  - Broad Analysis
  - Nexus to the organization's own standards

See: [CFPB guidance](#) (12/2020)

# Need for SPCPs

# Our Public Policies Are Steeped In Structural Inequality:

- Headrights System
- Slave Codes
- Early U.S. Constitution
- Land Ordinances & Grants
- Fugitive Slave Act
- Homestead Act
- Indian Removal Act
- Freedman's Savings and Trust
- Company Act
- Black Codes
- **Jim Crow Laws**
- **Home Owners' Loan Corporation Act**
- National Housing Act
- Chinese Exclusion Act
- Sundown Town Ordinances
- Racially Restrictive Covenants
- Social Security Act
- Japanese Internment
- Urban Renewal
- Model Cities
- National Highway Act

# COURTESY OF NATIONAL FAIR HOUSING ALLIANCE

## Home Owners Loan Corporation (HOLC)

- Established 1933 to prevent foreclosures in the wake of The Great Depression.
- Developed fully amortizing loan product.
- Hired real estate professionals to complete Residential Security Surveys.
- Neighborhoods graded based on characteristics including race.



# COURTESY OF NATIONAL FAIR HOUSING

## ALLIANCE

Hoyt's

## Hierarchy

(1st Chief Economist  
of FHA)

- English, Germans, Scotch, Irish, Scandinavians
- North Italians
- Bohemians or Czechoslovakians
- Poles
- Lithuanians
- Greeks
- Russian Jews of the lower class
- South Italians
- Negroes
- Mexicans

## Federal Housing Administration (FHA)

- Established 1934.
- Contributed to expansion of middle class.
- Facilitated suburbanization of America.
- **Less than 2% of loans went to People of Color.**
- Federal Government demanded residential segregation as a core tenant of the program.

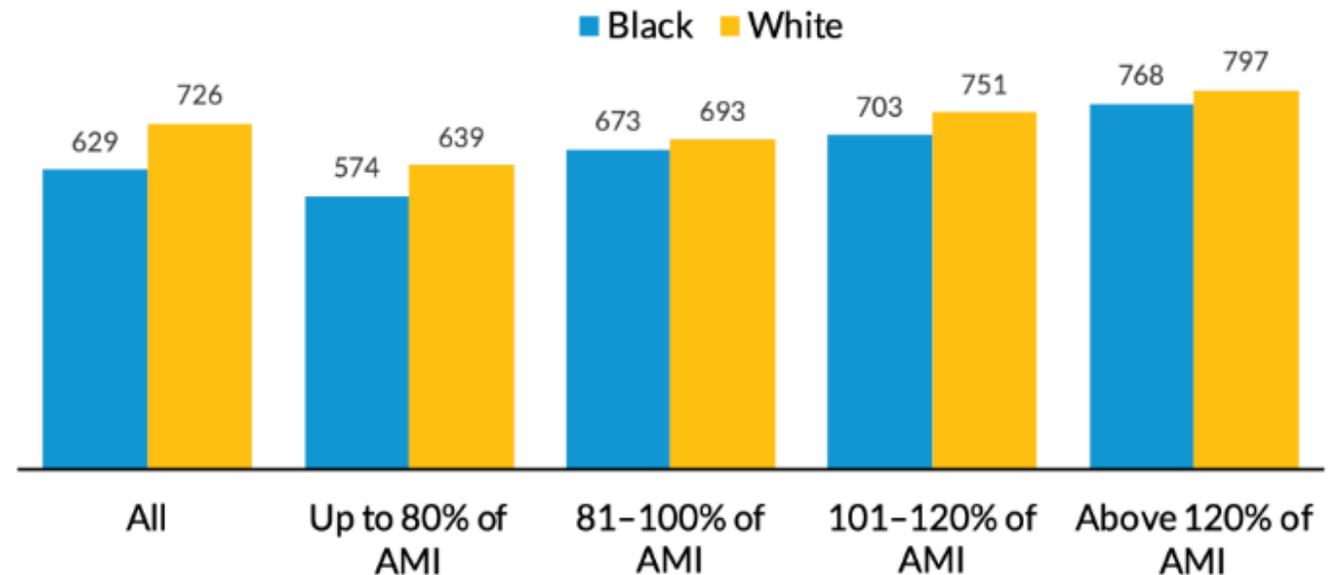


# Structural racism still imbedded in ‘3 C’s’

## Credit:

- Communities of color have lacked access to banking services; Alternative credit filled the void.
- Black HHs are 5x as likely as White HHs to be unbanked.
- Black HH are more likely to be credit invisible/unscorable and have lower scores at all income levels.

## Black Households Have Lower Credit Scores Than White Households at All Income Levels



Source: VantageScores calculated by Freddie Mac using anonymized credit bureau data for January 2021.

Note: AMI = area median income.

URBAN INSTITUTE

See: [Reynolds, Perry and Choi \(2021\)](#)

# Structural racism still imbedded in '3 C's' (cont'd)

## Collateral

- Redlining & [Restrictive Covenants](#) limited options
- Urban planning/neighborhood disinvestment/infrastructure/environmental hazards/displacement/appraisal bias/speculation/foreclosure/and more => lower wealth building and less intergenerational wealth

San Diego	Share of Households	Share of residence value
Hispanic	22.8%	12%
Black	6%	3%

# Structural racism still imbedded in '3 C's' (cont'd)

## Capacity

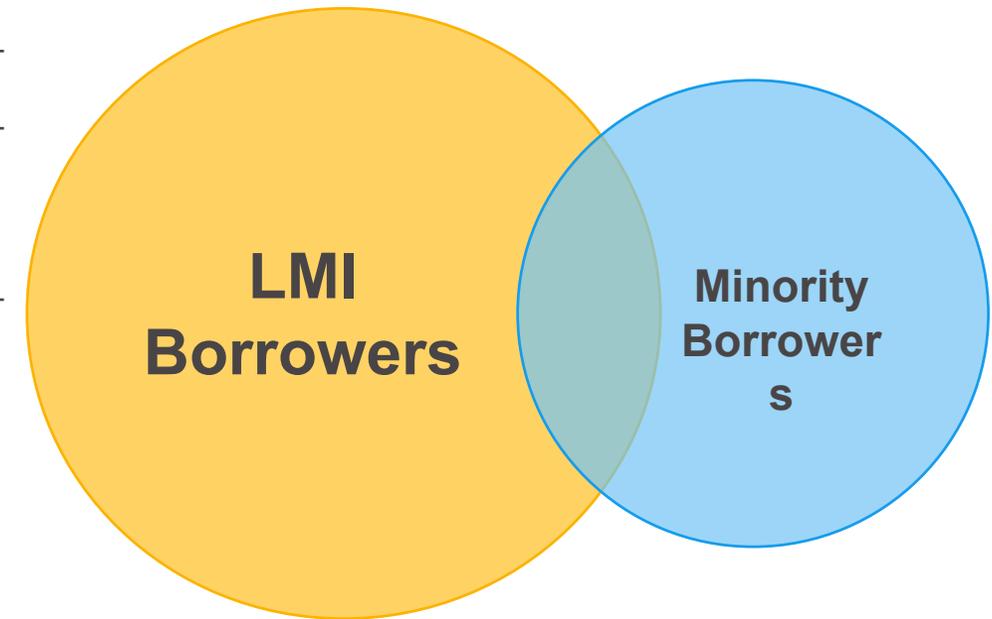
- Lack of downpayment most common barrier cited
- High Debt-to-Income (DTI) primary reason for denials
- Employment discrimination
- Lack of intergenerational wealth
- Economic shocks hit vulnerable households hardest

See: [Reynolds, Perry and Choi \(2021\)](#)

# Income has not been an effective proxy for race

At National Level, Borrower Classification

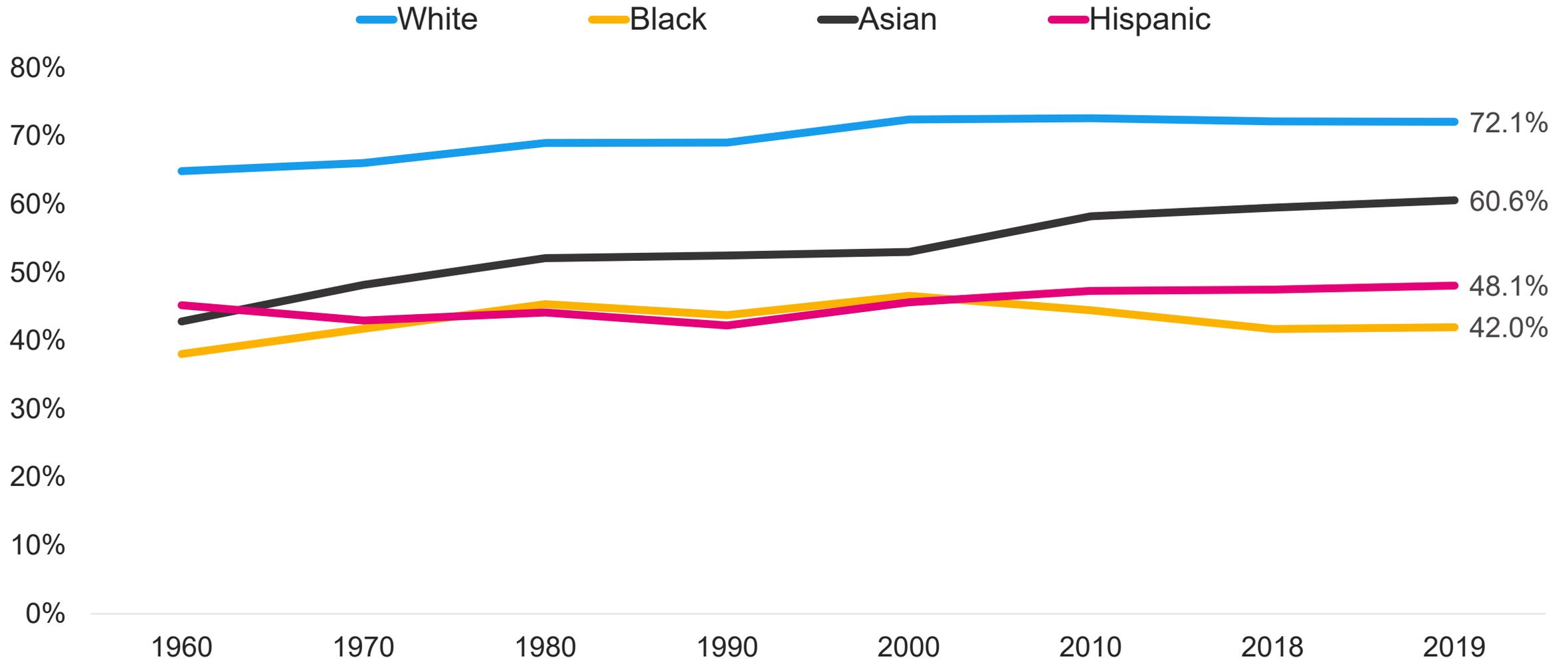
	LMI Borrowers	Middle Income Borrowers	High Income Borrowers	All Borrowers
Minority borrowers	<b>9.7%</b>	8.3%	10.5%	28.5%
White borrowers	20.5%	19.3%	31.8%	71.5%
All borrowers	<b>30.2%</b>	27.6%	42.2%	100.0%



- Out of all owner-occupied purchase borrowers nationwide, **30.2% are LMI borrowers**;
- Out of all LMI owner-occupied purchase borrowers, **only 32% (9.7% out of 30.2%) are minority borrowers**.

See: [Should the Community Reinvestment Act Consider Race?](#)

# Homeownership gaps stubbornly persist



Source: Decennial Census, American Community Survey.

# SPCP's are gaining traction

# Recent Federal Guidance and Clarification

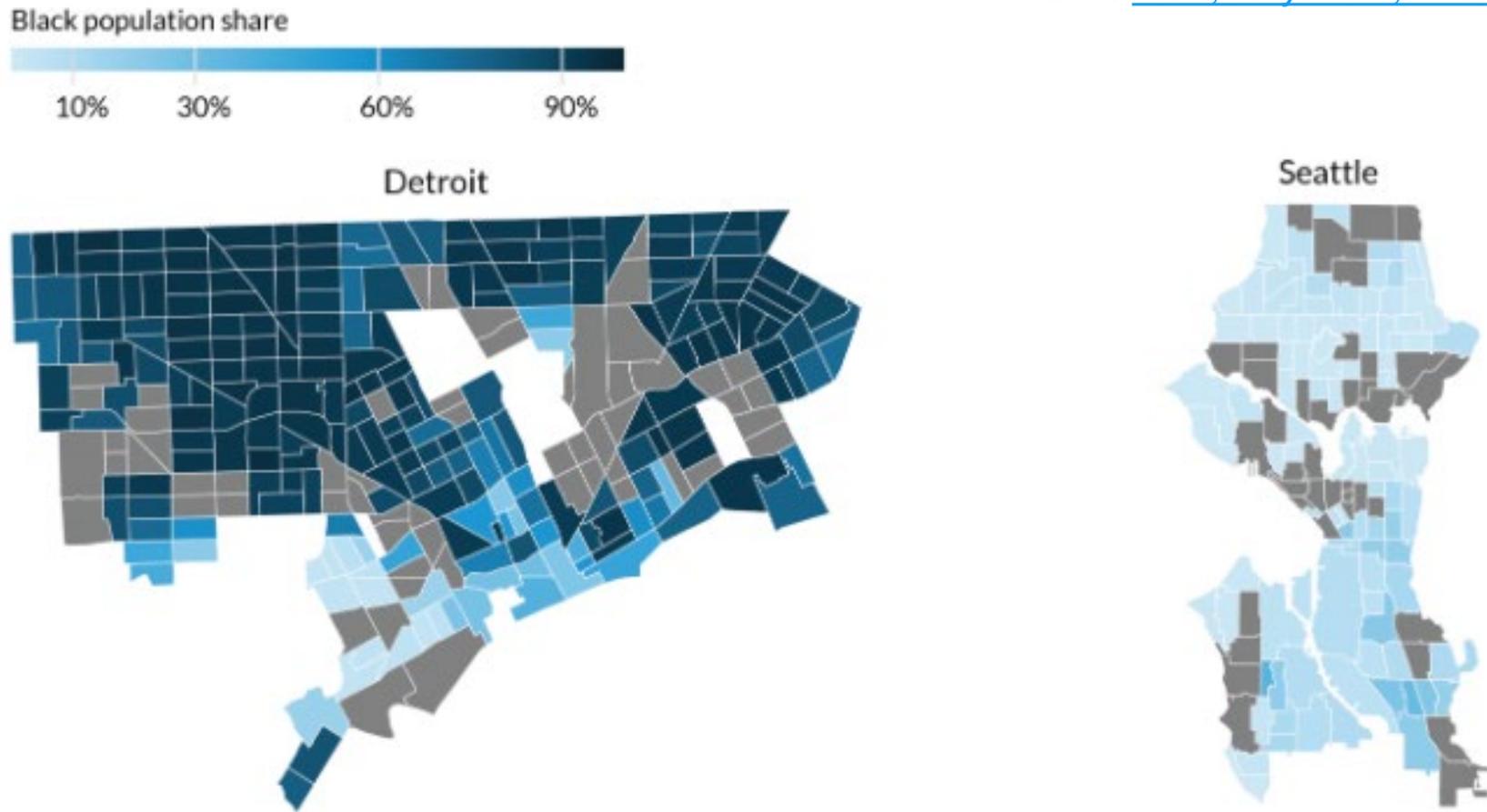
- CFPB (agency implementing ECOA) [Advisory Opinion](#) (Dec 2020)
- HUD [Guidance](#) (Dec 2021)
- [Joint Interagency Statement](#) on SPCP by the Fed, FDIC, NCUA, OCC, CFPB, HUD and FHFA (Feb 2022)
- [Interagency CRA NPR](#): Whether to include SPCPs? (May 2022)
- [Fannie/Freddie](#) Equity Plans reference SPCPs (June 2022)

# More Lender's Offering SPCPs

- [TD Bank](#) – DTI and credit flexibility and \$5,000 lender credit in Black and Hispanic communities
- [JP Morgan Chase](#) - \$5,000 homebuyer grant in predominately Black neighborhoods
- [Wells Fargo](#) - Refinancing SPCP

# Place-Based SPCPs May be More Effective in Reaching Target Population in More Concentrated Cities

See: [Choi, Reynolds, Perry and Choi \(2022\)](#)



Source: Urban Institute analysis using 2020 Census data.

URBAN INSTITUTE

# SPCP Design Considerations

- People-based or Place-based? If place-based – currently reside, or moving to?
- Barrier(s) to be addressed, Tailored to needs in market.
- Evidence-based and data-driven

***Coming Soon: NFHA/MBA Special Purpose Credit Program Toolkit (with HCA and Urban content)***

See: [Reynolds, Perry and Choi \(2021\)](#)