The Community Reinvestment Act and Neighborhood Stabilization

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Amendments to the CRA Regulations

- Final rule published by agencies on December 15, 2010 (75 FR 79278)
- Revises the term "community development" to include loans, investments, and services that support, enable or facilitate projects or activities that:
  - Meet the "eligible uses" criteria in the Housing and Economic Recovery Act of 2008 (HERA); and
  - Are conducted in designated target areas identified in NSP plans approved by HUD

What do the Amendments Accomplish?

- Provide for CRA consideration of neighborhood stabilization activities for low-, moderate-, **and middle-income** areas and individuals.
  - Designated as areas of "greatest need"
- Activities **outside** an institution's assessment area are also considered in the context of its CRA evaluation, as long as the institution has adequately addressed the community development needs of its assessment areas.
- Favorable consideration under the revised rule will be available until no later than two years after the last date appropriated funds for the program are required to be spent by the grantees.

Why Amend CRA?

- Pressing need to provide housing-related assistance to stabilize communities affected by high levels of foreclosures
  - Congress recognized this need by providing funds for neighborhood stabilization efforts.
  - Agencies interested in leveraging federal programs to have maximum impact on communities
- Public comments on the proposal showed broad support for this temporary expansion of CRA

What do the Agencies Expect the Rule to Accomplish?

- Demonstrate Agencies commitment to addressing foreclosures and their impact on communities
- Provide regulatory clarity at a critical time
- Ensure that financial institutions are engaged in helping communities recover
- Amendment to rules introduced as the larger issues of modernizing CRA were opened for comment
  - Interagency CRA regulatory review underway

NSP and CRA
A Banker's Perspective

Mike Griffin, SVP

Community Development Banking

KeyBank

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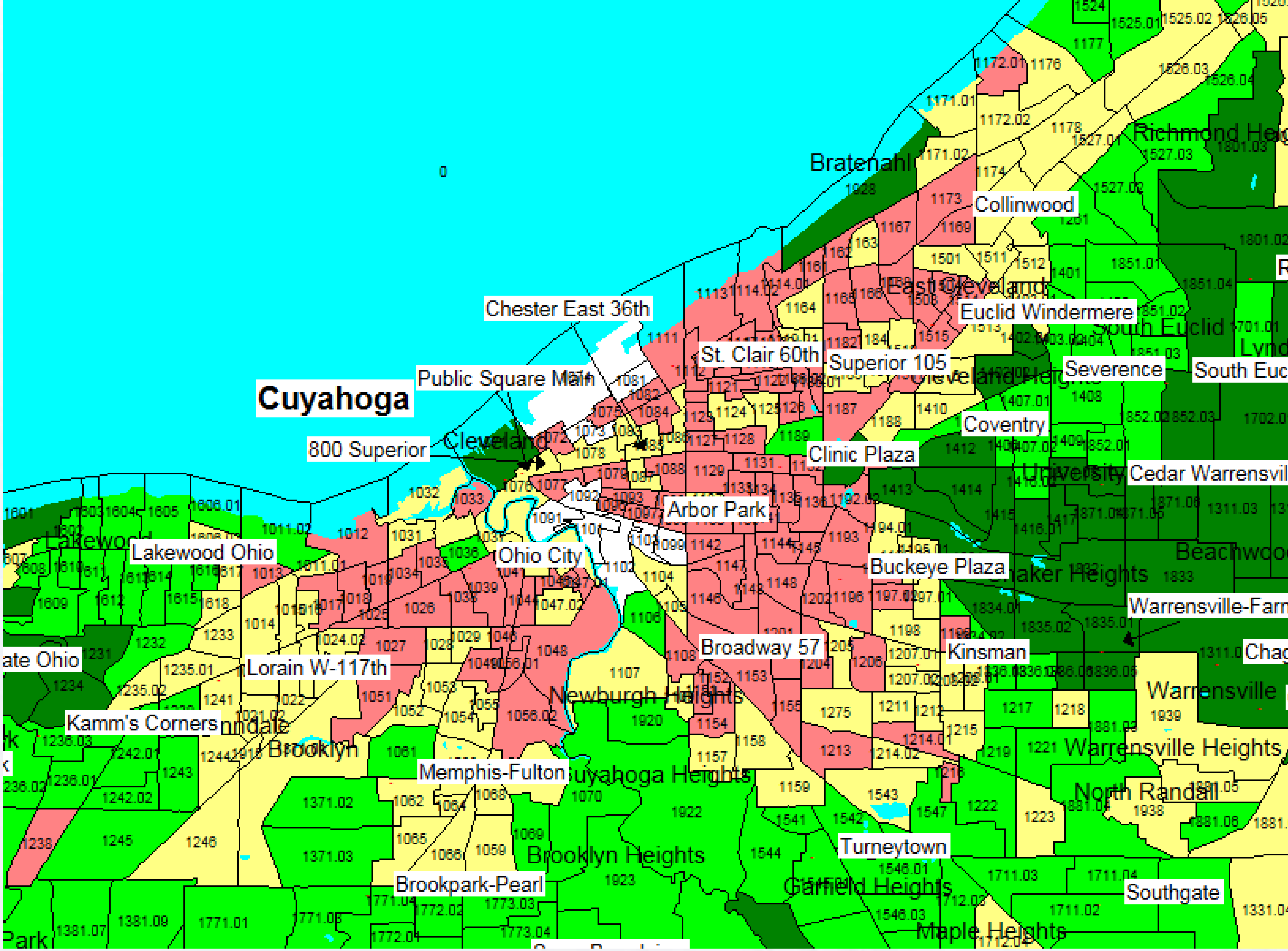
Positive Signs

- Regulatory responsiveness to the changing Community Development landscape
- Eliminates the second guessing about whether or not an activity will qualify
- Specifically addresses grey area of middle-income geographies and middle-income clients when it comes to NSP qualifying activities

Positive Signs *(continued)*

- Positions communities for the future as NSP activities expand out from core urban areas
- Provides promise for CRA regulatory reform discussions that are currently underway



City of Cleveland - Cuyahoga County

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Opportunity Homes – Cleveland

- $8 million project
- NSP project to focus on six target neighborhoods of Cleveland
  - Redevelop 121 vacant homes and sell for homeownership
  - Demolish 100 vacant blighted structures
  - Keep 100 families at risk of foreclosure in their homes
- Targeting buyers at 60%-120% of AMI

Addressing Foreclosure: Trends in the Industry

How Financial Institutions Can Support New Stabilization Activities

Matt Perrenod, Chief Lending Officer

Housing Partnership Network

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The Numbers Aren't Pretty

- According to 11/10 MBA Survey, 8 million (14%) of mortgages in default or foreclosure
  - 56% likelihood that loans 30 - 59 days in arrears will go to foreclosure
  - 95% likelihood that loans 90+ days in arrears will go to foreclosure
- Possibility that increasing cost of foreclosure is increasing abandonment of liens and growth of shadow inventory

Implications for Communities

- Continued drag on market
- Some communities already severely depressed, more likely to be affected
  - Softening in markets previously resilient
- Correction was needed, but has the pendulum already overshot?
- Market & government response tiny in comparison to problem.

Going Upstream

- Strategies to get to owners & assets earlier
  - Increase reperformance & foreclosure prevention
  - Where homeowner can't be saved, get to asset before vacancy, theft & vandalism
- Where servicers can't respond, private purchase of notes by mission actors
- Strategy to expand to communities at risk, rather than just those already heavily impacted

Barriers

- Patient capital
  - Private leverage on public funds
- Establishment of practice & preference to sell to stabilization entities
  - "First Look" for notes
  - "Reverse Look" for borrowers in counseling
- Low-Value Assets
  - GAO estimates 80,000 charge-offs w/ geographic concentration
  - Lack of established practice for donation
  - Dealing w/ costs of derelicts

Questions