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Underserved Markets in Indiana, 1992-1999

Richard Williams & Eileen McConnell

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Richard Williams
Department of Sociology
University of Notre Dame

Eileen McConnell
Latino Studies Program
Indiana University

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Direct all inquiries to Richard Williams, 810 Flanner, Department of Sociology, University of Notre Dame, Notre Dame, IN 46556, ph. # (219)631-6668, email Richard.A.Williams.5@ND.Edu, www <http://www.nd.edu/~rwilliam/>.

Richard Williams is Associate Professor at the University of Notre Dame. Eileen McConnell is a Visiting Assistant Professor in the Latino Studies Program at Indiana University.

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***GSEs, the CRA and Home Mortgage Lending to
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ABSTRACT

Despite decades of efforts to remove barriers to homeownership in America, significant racial, economic and geographic disparities persist. This paper argues that, while past research on housing inequality has been valuable, it has suffered from its failure or inability to simultaneously consider the many factors that affect home mortgage lending and, in particular, lending to low income and minority neighborhoods and individuals. This paper therefore examines how well both the primary and secondary mortgage markets met the needs of underserved markets in Indiana during the years 1992-1999. Results show that, while the Government Sponsored Enterprises, Fannie Mae and Freddie Mac, made gains in underserved markets during this period, at no time were they ever meeting their mandate to “lead the market.” Surprisingly, there is also no clear evidence that the Community Reinvestment Act (CRA) was a major contributor to gains made by underserved markets, perhaps because Indiana citizen groups failed to take advantage of its provisions. Other factors, such as the rise of subprime lenders and an improved economy, seem to account for much of the gains underserved markets made during this period.

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Introduction

Americans have long placed a high value on homeownership, and rightfully so. Homeownership has been shown to provide benefits to individuals in the form of stable long-term investments (Gyourko and Linneman 1993; Joint Center for Housing Studies 1994), tax advantages (Ling 1992), higher levels of life satisfaction (Rohe and Stegman 1994a) and greater community participation (Blum and Kingston 1984, Rohe and Stegman 1994b). These studies also indicate that owning one's own home provides especially important economic, psychological, and community benefits for lower-income and minority individuals.

Today, the dream of homeownership has come true for more American families than ever before (HUD, 10/26/2000). But, this success has not been shared equally or fairly across all segments of society. Despite decades of efforts to remove barriers to homeownership, significant racial, economic, and geographic disparities persist.

In an attempt to explain these disparities, social scientists have employed two main analytic strategies. Studies of the *primary* lending market have focused on the institutions that make loans directly to borrowers. Here, the emphasis has often been on how characteristics of neighborhoods and individuals affect the likelihood of a loan application being accepted or denied. A related focus has been on possible redlining, which may be occurring when minority neighborhoods receive a smaller flow of mortgage funds than comparable white neighborhoods.

Far less common have been studies of the *secondary* mortgage market. The few such studies that have been done focus on the purchasers and/or ultimate owners of loans, i.e. the lenders who assume the risk of a loan's default. In this work, the emphasis has typically been on assessing the performance and role of the Government Sponsored Enterprises (GSEs). The GSEs (Fannie Mae and Freddie Mac) are privately owned, for-profit corporations. But, because they receive significant government benefits, they are expected, indeed mandated, to promote home ownership in underserved areas. Several studies have argued that Fannie Mae and Freddie Mac could do more to achieve these goals.

This paper argues that, while both lines of research have been valuable, both have suffered from their failure or inability to simultaneously consider the many factors that affect home mortgage lending and, in particular, lending to low income and minority neighborhoods and individuals (which, for convenience, we will frequently refer to as *community reinvestment lending* or *lending to underserved markets*). Studies of the primary market are often criticized because of their inability to control for such key variables as employment history, credit history, and riskiness of the loan. We note, however, that if some types of financial institutions are able to make loans to low income and minority neighborhoods and individuals, while others do not, these criticisms hold less weight. The existence of widespread variation would suggest that lender discretion plays an important role in mortgage market outcomes and should not be simply ignored because of less than perfect data.

Studies of the secondary market have also been limited in the range of factors they consider. We note that, even if GSEs made no changes in their policies and activities across time, their performance could appear to change because of changes in the primary market. This is because the secondary market is both a reflection and a cause of what happens in the primary market. Failure to consider changes in primary market lending leaves studies of the secondary market open to spurious or misleading results, making GSE performance look better or worse than it really is. In particular, we note that the government has adopted a multi-faceted strategy to improve access to housing credit, of which GSEs are only one part; if GSEs are failing to “lead the market,” it may just be because other government policies (in particular, the Community Reinvestment and Home Mortgage Disclosure Acts) have been even more effective.

Studies of the secondary market have also been hampered by their failure to outline clear criteria by which the GSEs should be evaluated. There are many possible definitions for what “leading the market” should mean. Some definitions focus on the types of efforts made by the GSEs, while others stress performance and look at the GSEs’ actual success with underserved markets. A clear, even if debatable, definition is needed if GSE performance is to be assessed.

We therefore argue for an analytic strategy that compares different types of secondary and primary market lenders with each other. By comparing the characteristics of loans made or bought by different types of institutions, and by examining how these characteristics change across time, we can see which types of primary and secondary market lenders are “leading the market” and which are merely following behind. We offer a performance-based definition of “leading the market” and explain why we feel our criteria are reasonable. We argue that it is not enough for the GSEs to simply make efforts and offer programs; they must show that those programs and efforts produce results that are at least as good or better as those produced by entities that do not receive the GSEs’ special benefits. We test our hypotheses using a case study analysis of conventional home mortgage lending in Indiana, a state that is in many ways representative of the entire nation, for the years 1992-1999.

The American Housing Finance System¹

By the end of 1998, slightly over two thirds of all Americans lived in their own homes, a record high (U.S. Department of Housing and Urban Development, 1999). Beginning at least with the Homestead Act of 1862 and continuing through the present, American public policy and cultural norms have valued and encouraged home ownership (U.S. Department of Housing and Urban Development, 1995a). Today, surveys show that 86% of adults prefer to own a home and that two-thirds of renters would buy a home if they could afford one (U.S. Department of Housing and Urban Development, 1995a).

Most people, of course, require a loan to purchase their home, and an elaborate system involving thousands of financial entities has arisen to meet their needs. An understanding of that system, and of the rules and laws that regulate it, will help us to assess its strengths and weaknesses.

¹ Many of the details of this description of the American housing system are primarily drawn from reports by Freddie Mac (1995, 1996), Canner and colleagues (1996), Weicher (1994), and Williams and Nesiba (1997).

The American housing finance system consists of a primary mortgage market and a secondary mortgage market. In the primary market, individuals obtain mortgage loans from two types of lenders: *depository* and *nondepository*. Depository institutions primarily consist of commercial banks and savings and loans. They benefit from federal deposit insurance and from other services available only to depository institutions. In exchange, they are subject to laws and regulations that nondepository institutions are not. Among the most crucial of these is the Community Reinvestment Act (CRA). The Community Reinvestment Act states that financial institutions have “a continuing and affirmative obligation to help meet the credit needs of the entire community in which they are chartered...consistent with safe and sound operation of such institutions.” The Act further states that an institution’s record of meeting credit needs includes low and moderate-income neighborhoods (Public Law 95-128 — October 12, 1977).

Depository institutions raise mortgage funds from deposits and, increasingly, by selling their loans on the secondary market. By way of contrast, nondepository lenders also originate loans, but they almost always sell them immediately. They make their money from fees for originating and servicing mortgages. They (and also credit unions) are not subject to the CRA, although, like all lenders, they must comply with fair lending and anti-discrimination laws.

In addition, most depository and non-depository institutions are now subject to the reporting requirements of the Home Mortgage Disclosure Act (HMDA). The primary objective of the 1975 Home Mortgage Disclosure Act is to facilitate the examination of credit flows and of the geographic locations where credit is and is not available. HMDA originally required federally regulated commercial banks and S&Ls making conventional and government guaranteed (FHA and VA) home mortgage loans within Metropolitan Statistical Areas (MSAs) to disclose the geographic location of each loan originated by census tract. In 1989, HMDA data requirements were extended. HMDA now requires lending institutions to report not only the geographic location of originated loans as in the past, but also to report the gender, race and income of all applicants who are granted and/or denied home mortgage refinancing, home improvement loans, or conventional, FHA, or VA home mortgage loans (Canner and Smith, 1991 and 1992).

Many of the loans made in the primary market are sold to the secondary market. By purchasing mortgages from lenders, the secondary market channels funds back to the primary market and to new homebuyers. The secondary market has grown dramatically in recent years. In 1970, only seven percent of single family mortgage debt was held by secondary market entities; a quarter-century later, the figure had grown to 55 percent (Freddie Mac, 1995).

It is important to realize that the primary and secondary markets are interdependent. While primary market lenders make the loans, the policies and underwriting guidelines of secondary market lenders can have a major influence on their decisions. As Canner and his colleagues (1996) point out,

...the acceptance of credit risk is at the heart of mortgage lending...Originators, funders and purchasers of mortgages are numerous once an institution agrees to bear the credit risk of lending. The bearer of credit risk is therefore the crucial participant in the mortgage lending process.

Hence, if the secondary market will not buy a loan, the primary market may be unwilling or unable to take the risk of making it. Lenders who wish or need to sell their loans must be careful that they meet the standards of the secondary market.

Several types of entities are involved in the secondary market. These include mortgage bankers, life insurance companies, and pension funds. The most critical, however, are the Government Sponsored Enterprises (GSEs) – the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, more commonly known as Fannie Mae and Freddie Mac. Together, they own or guarantee \$2.3 trillion in mortgages and mortgage-backed securities (Smith, 4/2/2001). The GSEs are stockholder-owned, for-profit entities. But, Congress established them with the express goal of promoting home ownership. Toward that end, they were given both special restrictions and privileges. As we elaborate on later, these benefits are estimated to be worth billions of dollars a year to the GSEs (Congressional Budget Office, 1996; O’Neill, 1998).

How well does this system work? In Financing America’s Housing (1996), Freddie Mac proudly claims that America’s housing finance system is the best in the world, and the GSEs deserve much of the credit for that. Among other things, Freddie Mac argues that, thanks to the GSE’s, homeowners save \$10 billion a year on interest costs, home mortgage credit is readily available nationwide, and home financing opportunities are steadily expanding to more borrowers and communities.

The American housing finance system may very well be the finest in the world. Nevertheless, there are many who contend that the system does not serve all members of society equally and fairly. While homeownership rates may be at an all time high, there has actually been very little improvement over the past two decades. The homeownership rate soared from 43.6% of all households in 1940 to 65.6% in 1980, but by September 2000 the figure was only a slightly higher 67.2% (HUD, 10/26/2000). Perhaps most disturbing of all, even though studies show a widespread desire across demographic groups for achieving homeownership (Fannie Mae Foundation, 1998), substantial racial, ethnic and geographic differentials persist. While more than 70% of all non-Hispanic white households own their own home, fewer than 50% of African American and Hispanic households do (U.S. Department of Housing and Urban Development 1999, 1995a). Gaps exist regardless of income levels, with both higher income and lower income minorities being less likely to own their own homes than white households with comparable incomes (U.S. Department of Housing and Urban Development, 1995a). Similarly, homeownership rates are much lower in cities than in suburbs (50% versus 73.2%) and central city residents of all income levels are less likely to own a home than suburban residents with similar incomes (U.S. Department of Housing and Urban Development, 1999).

There are several reasons for being concerned about these disparities in homeownership. Home ownership is one of the primary means for accumulating wealth in the United States. Homeowners enjoy better living conditions than renters and have a higher sense of overall well being (Turner et al, 1999). Additionally, homeowners tend to be more involved in their communities, helping to promote strong neighborhoods and good schools (Turner et al, 1999; HUD, 1999). Home ownership contributes to economic growth through the construction of new homes, the rehabilitation of old ones, and by creating demand for household goods and services

(U.S. Department of Housing and Urban Development, 1995a). Feagin (1999) discusses how blacks in particular have suffered from a lack of homeownership.

Home equity is a major source of wealth for most families. Persistent discriminatory practices in housing and insurance sectors still seriously limit the ability of many Black Americans to build up housing equity that can be used to start a business or help the next generation get a good education (Oliver and Shapiro, 1995)... Without this housing capital Black parents often have been unable to provide the kind of education or other cultural advantages necessary for their children to compete equally and fairly with whites. (p. 86)

Given that home ownership, with all of its benefits, remains beyond the reach of many who would like to have it, critics contend that both the primary and secondary mortgage markets have not done as well as they should at meeting the needs of low income and minority neighborhoods and individuals. We review the research on these debates next.

Studies of the Primary Lending Market²

Ross and Yinger (1999b) identify several types of research that have been done on primary market lending. Two of the most common have been studies of *outcome-based redlining* and *loan denial*. Outcome-based redlining is said to occur when minority neighborhoods receive a smaller flow of mortgage funds than comparable white neighborhoods³. For example, in his Pulitzer Prize winning series entitled *The Color of Money* (1988), reporter Bill Dedman found that between 1981 and 1986 Atlanta's depository institutions made 5.2 times as many conventional home purchase loans per owner-occupied unit to middle-income white neighborhoods as they did to middle-income black neighborhoods. Dedman's series attracted widespread attention, and within weeks a coalition of Atlanta lenders pledged \$65 million for mortgage lending to low income and minority neighborhoods. Yet, when Wyly and Holloway (1999) reexamined Atlanta ten years later, they found that the white to black ratio had declined only modestly, to 4.2. Wyly and Holloway concluded "the patterns that aroused concern a decade ago are still evident today." Studies of several other cities have also shown large racial differences in home mortgage lending across neighborhoods (see Nesiba, 1996, for a review). Based on such research, Massey and Denton (1993) conclude that

Despite the diverse array of characteristics that have been controlled in different studies, one result consistently emerges: black and racially mixed neighborhoods receive less credit, fewer federally insured loans, fewer home improvement loans, and less total mortgage money than socioeconomically comparable white neighborhoods. (P. 106)

Loan denial studies, on the other hand, take a more individual-level approach, examining intergroup differences in loan denial. In a relatively early study, Schaefer and Ladd (1981) looked at loan applications in New York and California during the 1970s. In the majority of areas in both states, blacks had significantly higher chances of loan denial than did comparable whites. More recently, national studies have shown that, throughout the 1990s, the loan rejection

² See Turner and Skidmore (1999), Ladd (1998) and Nesiba (1996) for much more detailed reviews of this literature.

³ By way of contrast, Ross and Yinger (1999b) define process-based redlining as occurring when otherwise comparable loans are more likely to be denied in minority than in white neighborhoods. Process-based redlining is more difficult to determine and hence studies of it are less common.

rate for blacks seeking conventional home purchase mortgages has been twice the rate for whites (Ross and Yinger, 1999b).

As Ross and Yinger (1999b) point out though, most studies of loan denial have used HMDA data or other data sets that do not have information on the credit histories of applicants. They note that this is important because minority applicants often have poorer credit histories than do white applicants. Hence, studies may overstate the impact of discrimination or even make false claims that it exists when it does not.

A few studies have attempted to overcome this limitation in various ways. Williams and Nesiba (1997) argue that omitted variables, such as credit history, may account for aggregate differences in lending between whites and minorities, but they are much less likely to account for differences between lenders. For example, if two banks are direct competitors and one does a great deal of business with low-income areas while another does not, it is unlikely that differences in applicant credit histories alone could account for this⁴. Based on their analysis of cross-lender variation in denial rates and community reinvestment performance for financial institutions active in St. Joseph County, Indiana during the early 1990s, Williams and Nesiba argue that lender discretion plays an important role in mortgage market outcomes. The fact that some county lenders greatly improved their underserved market performance once they were pressured to do so is additional evidence of the role of lender discretion.

Avery, Beeson and Sniderman (1996) made another novel attempt to overcome problems of omitted variables in HMDA data. They looked at black/white differentials in denial rates across different types of loans. They note that, for home refinance and home improvement loans, borrowers have previously bought a home and hence been deemed credit-worthy. Thus, racial differences in credit histories would presumably be less of a factor for such loans than they are for home purchase loans. However, they found that black/white differences in denial rates were actually about the same for home purchase, home improvement and home refinance loans. While the authors are cautious in interpreting their findings, such consistency may be difficult to explain if there is no discrimination.

The third and most influential attempt to deal with the problem of omitted variables in denial rate studies is undoubtedly the Federal Reserve Bank of Boston's "Mortgage Lending in Boston: Interpreting HMDA data" (Munnell et al, 1996). These authors supplemented HMDA data with actual loan application data provided by Boston-area financial institutions, adding variables that lenders themselves identified as being important for their decisions. The Boston Fed Study found that, before applying any controls, the loan denial rate was 10 percent for whites and 28 percent for minorities, an 18-percentage point gap. After controlling for personal and property characteristics, the gap remained at 8 percentage points. Hence, using the same information that lenders themselves said they used when making their decisions, the Boston Fed Study found that

⁴ If, in fact, one lender does attract many more credit-worthy applicants from low-income areas than does its direct competitor, the question arises as to why this is so. One lender may have chosen to make low-income areas a priority while the other did not. Or, qualified applicants may favor one lender because it has established itself as being more responsive to their needs. Hence, if the quality of applicant pools does significantly differ across lenders, discretionary (and changeable) practices of lenders may be the reason why.

even if two individuals are otherwise identical, a minority applicant is much more likely to be rejected than a white applicant⁵.

Regardless of their approach, most studies seem to show that underserved markets have historically not fared as well as others with regards to home mortgage lending. However, recent trends suggest that this may be changing. As the Department of Housing and Urban Development recently noted (10/26/2000), the percentage of households owning their own homes went from 64.2% in 1994 to an all-time record high of 67.2% in September 2000. Much of this growth was fueled by disproportionate gains for minorities. A total of almost 40% of the net new homeowners during 1994 through 1999 were minorities (Joint Center for Housing Studies of Harvard University, 2000), even though minorities accounted for only 23% of the population (HUD, 4/26/2000). However, studies of recent years indicate that progress in lending to underserved markets has slowed considerably, and that black denial rates remain twice as high as whites (National Community Reinvestment Coalition, 1997; Hochstein, 8/14/1998).

Studies of the Secondary Lending Market

Research on the secondary market, and on GSEs in particular, is much more limited. This is no doubt because so little data has been available, and because the secondary market has only recently grown in importance. However, this inattention may also reflect a lack of clarity as to how the GSEs should be evaluated, and why. Hence, it will be helpful to begin by understanding why Congress mandated in 1995 that the GSEs should “lead the mortgage finance industry in making credit available for low- and moderate-income families” (Lind, 1996a). We will also consider what that mandate does (and what it arguably should) mean in practice. Finally, we will review what evidence there is about whether or not the GSEs are meeting their mandate.

As noted before, if the secondary market will not buy a loan, the primary market may be unwilling to make it. Thus, to encourage and promote homeownership, Congress gave the GSEs several special privileges. They are exempt from SEC regulations and state securities laws; they pay no state or local income tax; and they have a \$2.25 billion line of credit with the U.S. Treasury.

As June E. O’Neill, Director of the Congressional Budget Office (1998) points out, these privileges, particularly those pertaining to credit, have great value to the GSEs. Investors perceive that the government would, if necessary, act to prevent the GSEs from defaulting on their obligations. This enables the GSEs to borrow at lower interest rates than could comparable private firms. As O’Neill further points out, the benefits received by the GSEs could otherwise be sold to private investors and the proceeds used to finance other government programs. That is,

⁵ As Ross and Yinger (1999a) point out, the Boston Fed study has been subjected to a phenomenal and perhaps unprecedented amount of criticism. Critics have argued that the data had errors and that models were misspecified in various ways. Based on their own re-analysis of the data, Ross and Yinger conclude that, on some points, the critics are simply wrong; but in other cases, the Boston Fed study could overstate discrimination. Nevertheless, Ross and Yinger conclude that the Boston Fed study builds a prima facie case that discrimination exists, and that no critic has demonstrated that the observed intergroup differences in loan approval can be justified in business terms. Based on her review of the literature, Ladd (1998) similarly concludes that the Boston Fed Study provides persuasive evidence that Boston area lenders discriminated against minorities in 1990.

while the government does not provide direct cash benefits to the GSEs, it foregoes income that could be used for other purposes. Counter to claims that GSE benefits cost the government nothing, O'Neill argues that the costs of subsidizing the GSEs are as real as the costs that would be incurred if the government gave away free permits to harvest timber in national forests.

To estimate the value of these subsidies, the Congressional Budget Office (CBO, 1996) compared the yields of debt and mortgage-backed securities issued by the GSEs with the yields of similar obligations issued by private firms. The CBO estimated that the GSEs received benefits worth at least \$6.5 billion in 1995. Two-thirds of this subsidy was passed on to consumers in the form of lower mortgage rates, but the other third (\$2.1 billion) was retained by the GSEs. The retained federal subsidy accounted for more than 40 percent of the pre- and post-tax earnings of the GSEs in 1995. Today, the GSE's benefits may be worth as much as \$10 billion (Smith, 4/2/2001).

Given these substantial federal benefits, it is not surprising that, since 1968, Fannie Mae has been required to have a reasonable portion of its mortgage purchases serve low- and moderate-income families (US GAO, July 1998). However, when Congress reviewed the performance of the GSEs in 1992, it concluded that their mortgage purchase activities were not adequately serving low- and moderate-income and minority borrowers. Congress further concluded that, because of the financial benefits the GSEs enjoyed from their federal charters, they have a public responsibility to reach out to targeted borrowers. Hence, Congress mandated that GSEs should "lead the market" in financing the mortgages of targeted groups (US GAO, July 28, 1998). However, Congress did NOT define exactly what this meant or how it was to be achieved. It was left to the Secretary of the Department of Housing and Urban Development (HUD) to set final housing goals towards this end. Further, HUD was also directed to come up with goals that maintained the enterprises' financial soundness.

A study by the General Accounting Office (US GAO, July 28, 1998) examined how HUD had responded to its Congressional directives. HUD did impose higher affordable housing goals on the GSEs, goals that the GSEs have subsequently met. However, the GAO concluded that the HUD secretary had adopted a conservative approach to setting housing goals for 1996 through 1999, placing a high priority on maintaining the GSEs' financial soundness. The GAO study noted that HUD had set goals that were below HUD's estimates of targeted mortgage lending that was already occurring in the primary mortgage market. Further, June O'Neill from the Congressional Budget Office (1998) argued that the goals set for the GSEs were not difficult to achieve, and it was not clear how they had affected the GSEs' actions. Various other critics (Friedman, 1999; House, 5/8/2000) have maintained that the affordable housing goals for the GSEs were too low. HUD has recently raised the GSE goals (Department of Housing and Urban Development, 10/31/2000) but critics contend that the new goals still do not go far enough (House, 5/8/2000).

How, then, was compliance with such modest goals deemed to be consistent with the Congressional mandate that GSEs should "lead the market?" In testimony before Congress, Nancy Kingsbury of the GAO (Kingsbury, July 30, 1998) stated that

HUD defined the term “lead the industry” to mean that the enterprises should provide technical and financial assistance to mortgage lenders to encourage additional mortgage lending to targeted borrowers, rather than adopting alternative definitions that could have required the enterprises to substantially increase their targeted mortgage purchases.

The GSEs have met the goals set for them by HUD. However, whether this truly constitutes “leading the market” is, we think, highly debatable. Claims that affordable housing goals need to be low to maintain the financial soundness of the GSEs seem suspect. Certainly, the current goals do not seem to be excessively burdening the GSEs, as both Fannie Mae and Freddie Mac reported record profits in 1999 (Associated Press Online, 1/13/2000, 1/18/2000). As the GAO study (US GAO, July 28, 1998) noted, HUD did not assess the potential financial consequences for the GSEs of housing goals higher than those that were established. Indeed, various studies have suggested that well-run lending programs to underserved markets can be profitable and need not be unnecessarily risky (Mills and Lubuele, 1993; Canner and Passmore, 1997).

Given the billions of dollars in federal benefits that Fannie Mae and Freddie Mac receive, given that current goals have been easy to meet, given that there is no evidence that higher standards would necessarily endanger the financial soundness of the GSEs, and given the benefits of promoting greater rates of homeownership in underserved markets, we think it is relevant to examine whether the GSEs are “leading the market” in another, and we think more intuitive sense: namely, are the GSEs doing relatively more of their business with underserved markets than are other types of financial institutions that do not enjoy the GSEs’ special privileges and benefits?

In other words, we think that a *performance-based* definition of leadership is called for. It is not enough for the GSEs to simply offer programs or make efforts; they must show that these efforts and programs produce results. A further validation of our definition is that the GSE’s own statements suggest that they are defining leadership in much the same way. In response to studies critical of the GSEs, Barry Zigas (Inside Mortgage Finance, 12/17/99), senior vice president and executive director of Fannie Mae’s national housing impact division, stated that the GSE has “consistently” led the market in owner-occupied purchase mortgage business in metro markets. To prove his point, he claimed that, in 1998, 39.4 percent of the overall market qualified for HUD’s affordable housing targets, compared to 41.3 percent of Fannie Mae’s business.

The GSEs cite other evidence to support their claims that they are indeed leading the market. For example, Franklin Raines (2000), CEO of Fannie Mae, asserts that Fannie Mae has helped to break down the barriers to homeownership. During the 1990s, Fannie Mae pledged to do a trillion dollars in business with underserved markets, launched the largest home buyer information and education campaign in corporate history, initiated a series of low down payment mortgage products, and worked with the NAACP and others to develop unique mortgage financing products to reach underserved markets. Raines claims that, as a result, Fannie Mae leads the market in minority lending. Freddie Mac (1995) has long made similar claims, arguing that its record with underserved markets is similar to that of the market as a whole, and that where it has trailed it is partly because its portfolios reflected refinancing loans from earlier years.

However, historically, most studies seem to show that the GSEs have not led the market. Drawing on work from Canner and colleagues (1996), Blalock (1996) observes that GSEs take no more risks with loans to low income or minority homebuyers than private companies do. Likewise, Lind (1996a, 1996b) finds that, for most types of underserved markets, the GSEs are not leading the home mortgage industry. Manchester and colleagues (1998) found that between 1992-1995 GSE-related gains in home ownership opportunities to low income and minority households were modest. In testimony before Congress, HUD's Ira G. Peppercorn (Peppercorn, 1998) noted that only a small portion of the GSEs' 1997 purchases supported minorities, and that in 1996 the GSEs lagged behind commercial banks in funding affordable housing loans for very-low income borrowers and underserved neighborhoods. Peppercorn further noted that, between the GSEs, FHA, depositories and private mortgage insurers, Fannie Mae and Freddie Mac together provided only 4-5 percent of the credit support for lower-income and minority borrowers and their neighborhoods. Lind (2000) claims that the GSEs have made major improvements with underserved markets in recent years. However, in two studies covering 1997-1999, Bunce (2000a, 2000b) finds that the GSEs play a relatively small role in funding loans for African American borrowers and that they also lag in funding loans for low-income borrowers and low-income and minority neighborhoods.

Why do the GSEs' own studies reach conclusions that so strongly differ from those of others? At least part of the discrepancies may be due to methodological and substantive differences over the types of lending that should be considered. In its comment on HUD's proposed changes in the affordable housing goals, Fannie Mae (2000; p. 78) says, "In the markets in which we operate, Fannie Mae has consistently demonstrated our leadership." However, Fannie also makes it clear that it does NOT compete in all markets, nor does it think it fair or reasonable to expect it to do so, at least in the short run. For example, Fannie says (p. 10) that it needs to "learn more" about the subprime, manufactured housing, and depository portfolio markets before it will be able to completely serve them. Fannie further notes (p. 54) that it must develop credit standards and practices that protect its safety and soundness, and must operate within the constraints of its charter, which requires it to obtain private mortgage insurance or other credit enhancements for the purchase of high loan-to-value (LTV) ratio loans. Because of these constraints, Fannie claims (p. 54) that "high-LTV loans without mortgage insurance, below market rate interest loans, or poor credit quality loans without some form of acceptable credit enhancement are very difficult – if not impossible – for Fannie Mae to purchase or securitize."

Fannie also contends that there are other factors that limit or potentially limit the loans it can purchase. To improve their CRA ratings, lenders often prefer to keep low- and moderate-income loans in their portfolios rather than sell them to Fannie Mae. Indeed, because bank and thrift examiners look favorably on "innovative" (p. 74) products (where innovative is defined as products that fall outside Fannie Mae's guidelines), lenders develop portfolio products that they do not intend to sell on the secondary market. For these and other reasons, Fannie estimates that about a fourth of all low- and moderate-income loans are not available for sale to Fannie Mae at the time of origination. Fannie also notes (p. 77) that, as a government agency, the Federal Housing Administration (FHA) has significant advantages over Fannie Mae when dealing with low-income borrowers. It does not have tax and return on capital considerations, nor does it face the same standards on the credit risk it can assume. As a result, the FHA has the potential to take away loans that would otherwise go to Fannie Mae.

As discussed below, to accommodate Fannie's concerns, we will exclude from consideration many of the loans it feels it should not be expected to buy or be evaluated against, e.g. subprime, manufactured housing and FHA loans. This will also have the effect of eliminating many poor credit quality loans. Unfortunately, we do not have the ability to eliminate all the loans Fannie objects to, e.g. we have no way of identifying loans made at below market interest rates or other loans which Fannie claims are "subsidized" by banks (House, 2000). We note, however, that not everyone agrees with the legitimacy of the exclusions that Fannie wants. Part of the reason Fannie raised these issues in the first place was because it objected to HUD's proposal that things like subprime and manufactured housing loans be considered when setting GSE targets. As noted before, several have questioned the claims that higher housing goals would endanger the financial soundness of the GSEs. Fannie Mae critic Mike House further argues that

Instead of providing Wall Street investors with \$2 billion of their federal subsidy, they should be using their federal subsidy to purchase more CRA loans... Clearly, the GSEs, with their federal subsidy, can purchase loans that lenders have subsidized to meet their CRA obligations and reach out to the underserved. And, as suggested by HUD, such purchases should only count if Fannie Mae or Freddie Mac assumes a specified level of risk.

Another argument can also be raised. Suppose, through no fault of their own, the barriers faced by the GSEs are so great that they simply cannot do much more with underserved markets. If so, this raises the question of whether the benefits the GSEs receive could not be put to more effective use. For example, House's organization, FM Watch, notes that the benefits the GSEs receive could instead be used to provide \$10,000 downpayment grants or lower interest rates to more than 200,000 low- and moderate-income borrowers a year (FM Watch, 2000).

FM Watch is hardly an unbiased source; it is sponsored, in part, by organizations that feel they are financially threatened by alleged GSE abuses of their special benefits. Nevertheless, we think it raises valid points. We will, to the extent possible, exclude those types of loans that the GSEs object to. But, having done so, if the GSEs are to claim that they "lead the market" they have to show that they do at least as well with underserved markets as do financial institutions that do not receive the billions of dollars in benefits that the GSEs do.

Despite differences, most studies seem to agree that the GSEs have done better with underserved markets in recent years. The main questions are, given the Congressional mandate to "lead the market," have the GSEs improved as much as they could have and should have? Have other secondary and primary market lenders improved even more?

Critique of Previous National Research

Existing research has provided powerful documentation of racial disparities in home mortgage lending. Still, there are several limitations to these studies. As Williams and Nesiba (1997) note, studies of primary market lending are often criticized because of their inability to control for key variables. Race may be simply a proxy for other economic variables such as employment record or credit history. Unfortunately, these variables are rarely available to researchers, since federal law does not require that banks disclose this information. However, Williams and Nesiba argue

that, if some financial institutions are able to make loans to low income and minority neighborhoods and individuals, while others do not, these criticisms hold less weight. The existence of widespread variation would suggest that lender discretion plays an important role in mortgage market outcomes and should not be simply ignored because of less than perfect data disclosure on the part of financial institutions.

A similar sort of argument can be made regarding the GSEs. It is difficult to assess the performance of GSEs without having some sort of basis for comparison. This is because, while GSEs may be a cause of primary market lending, they are also a reflection of it. If the primary market changes, the secondary market will likely change too. Hence, GSE performance could appear to worsen or improve across time for reasons totally unrelated to anything the GSEs are doing. For example, an improved economy and lower interest rates could make loans accessible to members of underserved markets that previously could not afford them. GSE portfolios would improve, not because GSEs had made loans more accessible to underserved markets, but because more members of underserved markets could meet GSE criteria.

Even the most ardent supporters of GSEs would probably not claim credit for all the improvements that have occurred in recent years. What other positive influences might be at work? The most important may be the CRA. While this law has been around for some time, it has perhaps become especially effective in recent years. A change in Presidential administrations may have led to stricter enforcement (or the fear of stricter enforcement) of the law. Indeed, partially in response to complaints that regulatory agencies were not aggressively penalizing poor performance (Ludwig, 1997), revised CRA guidelines were issued in 1995 that stressed performance over effort in meeting CRA requirements (Evanoff and Segal, 1996). Also, more detailed HMDA reporting requirements likely made it easier for citizen groups to monitor how well lenders were meeting the needs of their communities. Further, as Williams and Nesiba (1997) argue, increased merger activity may have created more opportunities to bring CRA pressure to bear; since lenders want their merger plans to be approved by regulatory agencies, they may have modified their practices to keep CRA objections from standing in the way. A few studies provide supporting evidence for positive effects of the CRA. Using 1994 HMDA data, Schwartz (1998) found that banks with CRA agreements were more responsive than other banks to the credit needs of underserved markets. Shlay (1999) compared an assortment of cities and lenders for the years 1990-1995 and found that all moved to more responsible lending to minority and lower income communities. She attributed this to the establishment of a national political climate that was more favorable to serious CRA enforcement.

A key implication of the above reasoning is that primary and secondary market lending activity need to be followed across time: we cannot determine if an entity “leads the market” unless we can tell if anything is following it. If changes in the composition of GSE purchases come after similar changes in primary market lending, then GSEs are likely just reflecting the market. If increases in GSE purchases from underserved neighborhoods and individuals are followed by increased primary market lending to those groups, then GSEs are likely leading the market. A comparison of loans made by the primary markets with loans purchased by GSEs is the most direct way of testing this hypothesis. Similarly, if the Community Reinvestment Act has had an important and increasing impact on lenders, we should find that institutions subject to CRA (commercial banks, S&Ls) will have better community reinvestment records than other lenders

(credit unions, mortgage companies). Further, the relative performance of CRA compared to non-CRA lenders should have improved in recent years.

Study design /Methods and data

This section is divided into five parts: (1) unit of analysis, (2) types of underserved markets to be studied, (3) description of the data, (4) types of loans studied/sample selection, and (5) analytic techniques.

Unit of Analysis. This study consists of a detailed statistical analysis of all MSAs in the State of Indiana. Indiana represents one of the largest and most geographically diverse areas that has been studied in the home mortgage literature (other than national studies, which tend to address a narrower range of issues). Many reports have been done of individual cities, such as New York, Los Angeles, Chicago, Boston, Baltimore and Detroit (see Nesiba, 1996, for a review). Indiana is larger than most of these; indeed, if the metropolitan areas of Indiana were a single city, it would be the second largest in the United States, about the same size as Los Angeles. Further, multi-city studies often look only at large metropolitan areas (see, for example, Milczarski, Myers and Silver, 1998); Indiana, on the other hand, has MSAs that range in size from as little as 96,000 to over 1.2 million.

In addition, as a whole Indiana is fairly representative of the entire United States. According to the 1990 Census, the population of Indiana was approximately 5,540,000⁶, or about 1/50th of the nation's population. Indiana 1990 average family income of \$34,082 was similar to the national median family income of \$35,225. The state also ranks roughly in the middle nationally on percentage of population living in Metropolitan areas (71 percent – #23 among all states), percentage of persons below the poverty level (13 percent – #19), employment to population ratio (63 percent – #32), and average individual annual pay of \$21,700 (#24). The state as a whole is somewhat less diverse than the nation in terms of its racial and ethnic population, but within the state there is great variability. In 1990, only 1.8 percent of Indiana residents were of Hispanic origin, compared to 8.8 percent nationwide. Also, 7.8 percent of the Indiana population was African American compared with 12.3 percent nationwide. However, within Indiana both the Gary and Indianapolis MSAs, with almost 2 million people between them, had African American populations that exceeded the national average.

Types of Underserved Markets. The Final Rule (Federal Register No. 60 pages 61846-62005) laid out goals for GSE lending with regards to owner-occupied housing for three types of underserved markets:

1. Very low income families – income is not in excess of 60 percent of area median income
2. Low income families in low income areas – family income is not in excess of 80 percent of area median income; and the median income of the census tract does not exceed 80 percent of the area median income

⁶ About two-thirds of Indiana's population live in one of the state's thirteen MSAs that are studied in this analysis.

3. Targeted (or underserved) areas – central cities, rural areas, and other underserved areas. More specifically, a “central city” or “other underserved area” is a census tract with a median income at or below 120 percent of the metropolitan area and a minority population of 30 percent or greater; or, a census tract with a median income at or below 90 percent of median income of the metropolitan area.

There is, of course, overlap between these three markets; for example, any low income family in a low income area is also a member of a targeted area. Further, we found that lending patterns and trends for one of the underserved markets were often similar for the others. Hence, we will often combine the above into a single category we call Final Rule Underserved Markets. That is, any very low income borrower, or any low income borrower in a low income area, or anyone seeking to buy property in a targeted area, will be considered a member of a Final Rule Underserved Market. To simplify the discussion, we will often focus on lending to the three combined Final Rule Underserved Markets, and then note any important differences that may exist among the three sub-markets.

The three underserved markets listed in the Final Rule primarily emphasize economic factors in defining markets. To these, we add two race-related underserved markets that are often examined in studies of home mortgage lending:

4. Blacks – the definition of which is not straightforward. Following practices used in published HMDA reports, we define a loan application as “black” if the applicant is black and the co-applicant (if any) is not white⁷.

5. Minority neighborhoods – census tracts which are more than 30 percent non-white⁸.

As we discussed earlier, these race-related markets have received enormous attention in home mortgage lending research; but again, there is overlap between these markets and the ones defined in the Final Rule. However, as we shall see, the lenders who do best with very low income borrowers and poorer neighborhoods are not always the leaders when it comes to blacks and minority areas. Therefore, while we will often focus on the three Final Rule markets collectively, the race-related markets will generally be examined separately.

Data. Several data sets are used in this analysis. Following are key highlights:

- Wherever possible, data were collected for each of the years 1992-1999. Nineteen-ninety-two provides a good starting point because it was the last year of the Republican Bush administration and it was also the year in which GSEs were mandated to “lead the market.” As noted earlier, in 1995 GSE underserved market lending goals were spelled out in the HUD Final

⁷ Previous analyses of ours have shown that, with regards to denial rates and other important factors, “joint” applications (black and white co-applicants) are much more similar to “white” applications (both applicants white) than they are to “black” applications (black applicant and black or other minority co-applicant).

⁸ Researchers have classified the race of tracts in different ways in different cities. For instance when Shlay (1987) evaluates Baltimore she defines three tract racial categories: white, 25 percent minority; integrated, between 25 percent and 75 percent minority; Black, 75 percent or more minority. In contrast Finn (1989) defines white as a neighborhood with 70 percent or more white in his evaluation of Boston. We chose 30 percent for comparability with other studies of the GSEs (e.g., Bunce and Scheessele, 1996).

Rule and CRA guidelines were revised to stress performance over effort in meeting CRA requirements. Hence, our ending year of 1999 gives us four years to see what the impact of those changes were in Indiana.

- The HMDA loan application registers were the most critical data used. Starting in 1990, most lenders were required to provide information on every home mortgage application they received. The information included the type of loan (conventional, FHA or VA), the requested amount, the final disposition of the application (e.g., approved, denied, withdrawn, not accepted), the census tract in which the desired property was located, the income, race and gender of the applicant(s), and the ultimate purchaser of the loan (e.g. not sold, sold to Fannie Mae or Freddie Mac, or sold somewhere else). The HMDA data also include key information on census tracts, making it possible to determine whether a neighborhood is low-income or minority. A supplementary HMDA data set, the Expected Reporter Panel, made it possible to code each lender as being either a commercial bank, credit union, mortgage company or savings and loan⁹.
- There is an ongoing debate about whether manufactured housing and B&C (below-investment-grade, or subprime) loans should be included in analyses. These are generally higher-risk, higher interest loans that the GSEs will not buy. Using a list of lenders that specialize in such loans that was compiled by HUD (2000), we originally planned to include subprime and manufactured housing loans throughout our analysis and apply appropriate controls for them. However, it quickly became apparent to us that this would greatly complicate the analysis and make a fair evaluation of GSEs and CRA much more difficult. We therefore decided to leave subprime and manufactured housing loans out of most of our analysis, and then report separately at the end on their increasing importance to Indiana lending.

We should also explain why we did *not* make more extensive use of one of the data sets available to us. The GSEs have been providing HUD with loan-level data on each of their mortgage transactions since the beginning of 1993. Barry Zigas from Fannie Mae has recently criticized research that continues to rely on HMDA data, saying it “is perplexing to us because it uses a database that we believe is deeply flawed” (Inside Mortgage Finance, 12/17/1999). What Zigas did not note is that key features of the GSE data sets greatly limit their usefulness for the sort of regional analysis undertaken here. For proprietary reasons, the GSE data sets are divided into three unlinkable data sets. The sole data set that makes it possible to identify which loans are from Indiana does not indicate whether the loan was for home purchase or refinance, nor does it indicate whether the loan was conventional or FHA-insured. It was thus impossible, with the GSE data, to make the kinds of sample restrictions (described below) that we considered reasonable and necessary¹⁰.

We therefore primarily relied on the HMDA data, and where possible used the GSE data to double-check the accuracy of our results. Bunce and Scheessele (1996) found that, nationwide,

⁹ Starting in 1997, the key variables from the Expected Reporter Panels were added to the regular HMDA data sets.

¹⁰ These regional limitations of the GSE data are in marked contrast to the HMDA data, which have often been used by citizen groups to assess the performance of lenders in their communities. Given that HMDA provides similar but supposedly flawed data compared to that provided by the GSEs, we find it puzzling that Fannie Mae and Freddie Mac will not release their data in a more usable form that would presumably make it possible for others to validate their claims that they are “leading the market.”

both GSE-based and HMDA-based reports of lending to underserved markets gave similar results. Similarly, in Indiana we found that in most cases differences between the HMDA and GSE data sets were small and tended to offset each other across time. Indeed, when we changed our sample selection criteria to make the HMDA and GSE data sets as comparable as possible, HMDA showed 21.9% of GSE purchases coming from final rule underserved markets, while the GSEs' own data showed a slightly higher 22.3%. Most of this small discrepancy is due to differences in the GSE and HMDA reports for Fannie Mae in 1995. In that year, Fannie Mae reported that 20.4% of its purchases were from very low-income borrowers, while HMDA reported only 11.5%. The 20.4% figure is more than double what Fannie Mae reported in 1994 and 1996 and is almost double its average for the entire eight-year period. When 1995 is excluded, HMDA reports 21.7% of the GSE loans going to final rule underserved markets while the GSEs report 21.8%. It may be that Fannie's own data are flawed for 1995 or that it made some atypical purchases that year that for some reason are not reflected in HMDA.

Types of Loans/Sample Selection. For reasons outlined below, we do not think it would be appropriate to include every type of home mortgage loan possible in our analysis. The following criteria were therefore used when selecting loans for inclusion in our sample. *These criteria must be kept in mind when considering the study's results.* Different criteria would have led to some very important differences in the conclusions we reach. We will therefore discuss the rationale and implications for each criterion in detail.

1. For most of the analysis, conventional loans only were selected; government-backed loans (FHA, VA, FMHA) were not. This is a very common criterion in home mortgage studies, particularly those involving GSEs. GSEs almost exclusively buy conventional loans. Since FHA, VA and FMHA loans are government backed and often targeted at first-time homebuyers who could not qualify for conventional loans, the GSEs maintain that it would be unfair to expect the loans they purchase to be as good as the government-backed loans they do not. In addition, it would be unfair to commercial banks and credit unions, which also deal primarily in conventional loans.

Conversely, it could be argued that it is unfair to S&Ls and mortgage companies to exclude FHA and other government backed loans when evaluating their performance. For these lenders such loans are a major part of their business. Not surprisingly, the underserved market performance of these lenders appears far better when FHA and other government-backed loans are included than when they are not.

However, even though many FHA loans go to members of underserved markets, the beneficial impact of these loans has been hotly disputed. Based on studies done by the Chicago Area Fair Housing Alliance of housing market patterns in Cook and Dupage County, Bradford (1998) contends that FHA lending "is inordinately concentrated in minority and racially changing communities"; [has resulted in] "undue levels of blight and disinvestment"; "limits housing opportunities, contributes to segregation, [and] perpetuates the myth of race as a contributor to community disinvestment"; "ultimately leads to community decline itself"; and "is a measure of the discrimination that needs to be overcome [in the conventional markets]."

Bradford mentions several policies and practices that have led to these harms. Generous service fees entice mortgage lenders to produce high volumes of FHA loans. At the same time, insurance protects 100 percent of the loan for investors, hence reducing any concern on the part of the lender for the soundness of the loan. Bradford also maintains that the government has failed to monitor the quality of lending in minority and racially changing areas. Defaulted borrowers whose homes might be saved have not received effective relief; and then, rather than return foreclosed properties back into the market in sound condition, HUD (which runs FHA) often allows these properties to sit vacant and deteriorate, contributing to neighborhood blight and the impression that racial change causes neighborhood decline.

We have no direct evidence of our own to either confirm Bradford's findings or to show that the same problems exist in Indiana. Further, it should also be noted that the FHA has been praised for helping 30 million families achieve homeownership; and during the 1990s, HUD implemented numerous reforms to strengthen the agency and provide consumers with protection and benefits (HUD, 10/30/2000). However, given that (1) a key interest of ours is in evaluating GSEs (who largely deal with conventional loans), (2) the beneficial impact of FHA lending to underserved markets is a subject of considerable dispute, and (3) nothing prevents a lender who makes government backed loans from also making conventional loans (and indeed, if Bradford is correct, more minorities ought to be receiving conventional rather than FHA loans), we think there is a powerful rationale for primarily focusing on the conventional loan market. This is the fairest way of evaluating the GSEs, and is also a fair way of evaluating the conventional lending of primary market institutions.

2. Subprime and manufactured housing lenders are generally excluded from the analyses. As explained earlier, we originally planned to include such lenders throughout our analysis. It quickly became apparent that this would greatly complicate things. Hence, at the end, we separately assess the impact these lenders are having on Indiana home mortgage lending.
3. Records with high loan to income ratios (6 or above) are excluded. Bunce and Scheessele (1996) make the same restriction in their study, noting that high loan-to-income mortgages appear to be data errors in HMDA, e.g. lenders reporting monthly rather than yearly income. An additional implication of this restriction is that any case that is missing data on either applicant income or loan amount gets excluded from the analysis. We think that, without such basic information, the usefulness and validity of the record is called into question. Further, we found that records missing income were also often missing other crucial information, such as race.
4. All loans are for owner-occupied home purchases. Again, this is a very common restriction. While refinancing and home improvement loans are important, the most critical concern for most people is whether they can get a home at all. Further, the factors that affect a home purchase are likely very different from the factors affecting home refinance and home improvement.
5. The case must be from an Indiana MSA and not be missing census tract information. HMDA data are of little use for studying non-MSA areas, and in any event the factors affecting home mortgage lending in MSAs may well be different from the factors affecting other areas. Also, if the census tract number is missing, it is impossible to tell if the case belongs to an underserved area, plus other information is often missing as well.

6. Only applications that resulted in either originations or denials are included. Withdrawals, loans not accepted, and files closed for incompleteness are excluded. Denied loans are of course also excluded in analyses that focus on characteristics of the loans made by primary market lenders and those purchased and not purchased by GSEs. This too is a frequent practice. Each of the excluded types of applications may represent something the lender has little control over. The applicants may not have been that serious to begin with, or something may have come up that caused them to change their minds (e.g. found problems with the home, found something they liked better, had a change in their family or work situations). Deciding whether to make the loan or deny it, however, is something over which the lender does have control¹¹.

7. “Jumbo” loans are excluded. There are dollar limits on the size of the loans GSEs can purchase (\$240,000 in 1999). These account for only a very small percentage of home mortgage loans made in Indiana.

Analytic Techniques. By examining primary and secondary market lenders simultaneously and across time, we determine which types of lenders are “leading the market” and which are merely following behind. We see how the loans that GSEs purchase compare to the ones that they do not, and whether and how that relationship has changed across time. We do the same thing for comparing CRA versus non-CRA institutions and for specific types of primary market lenders (banks, S&Ls, credit unions and mortgage companies). While presenting a wide variety of tables and statistics, we rely heavily on charts to vividly display some of the most crucial points in our comparisons.

Overall Lending Patterns, 1992-1999

Table 1 describes home mortgage applications, originations, and denial rates for each of the years 1992-1999.¹² Tables 2 and 3 present the frequency counts from which the percentages in Table 1 were computed.¹³ We show statistics for all lenders statewide and for the various types of underserved markets and primary and secondary lenders examined in this study.

Tables 1, 2 and 3 about here

As Table 1 shows, overall there were 364,690 conventional home mortgage applications and 325,545 originations in Indiana between 1992-1999, with an overall denial rate of 10.7%. There were, however, substantial variations across years, markets and lenders. Both the number of applications and originations was higher in 1999 than in 1992, while the overall denial rate was lower.

¹¹ Withdrawals and non-acceptances may be worthy subjects for a study of their own however. If a lender has a high withdrawal rate, it may indicate that it is doing something that drives would-be borrowers away. It may also be, too, that after an initial screening some lenders encourage applicants to withdraw (perhaps returning any fees that may have been received) rather than have their loan denied.

¹² Since GSEs do not deny loan applications, we only present information on the loans they purchased.

¹³ Tables 2 and 3 indicate when and where missing data are present. Missing data are not included when calculating percentages or other statistics.

Underserved markets consistently had denial rates that were two to three times as high as their served (i.e. markets not classified as underserved) counterparts. Still, they made gains during this period. The three Final Rule Underserved Markets pooled together went from 20.3% of all loan originations in 1992 to 24.8% in 1999. This occurred partly because they disproportionately increased their number of applications (from 23.5% of all applications in 1992 to 27.6% in 1999) and also because their denial rates went down more (from 23% to 19.2%, compared to the smaller drop from 6.9% to 6.5% of the served markets). Further, these patterns of above average increases in the number of applications, combined with greater than average declines in denial rates, held for every type of underserved market. Gains were not consistent across time, however; for every underserved market, the share of all loans peaked in 1994 or 1995 and by 1999 was showing noticeable decline (although still ahead of the 1992 situation).

There were also changes among lenders. CRA institutions (Banks and S&Ls) lost market share, going from 64% of all originations in 1992 to 58.2% in 1999. This occurred not because they made fewer loans (indeed, Table 3 shows they made more) but because of a surge in the number of loans reported by mortgage companies. Mortgage companies made almost 6,000 more loans in 1999 than they had in 1992 (17,085 versus 11,160) and climbed from 33.9% of all originations to 38.3%. This occurred despite the fact that denial rates actually went up for mortgage companies during this period while declining for other types of primary market lenders.

Comparisons of GSE and CRA Lending to Underserved Markets

Table 4 describes the lending to underserved markets of primary and secondary market lenders. The numbers indicate, for any given year, the percentage of loans made or purchases from a particular underserved market.

Table 4 about here

For GSEs, there were major shifts during this period. In 1992, only 15.4% of GSE purchases were from one of the final rule underserved markets; by 1994 the figure was 23%. After 1994, there was some decline, but the 1999 tally (21.9%) was still well above where the GSEs had started in 1992. Further, these improvements occurred in almost every category of underserved markets: very low-income borrowers, low-income applicants in low-income areas, targeted census tracts, and blacks.

Institutions covered by CRA achieved similar, albeit smaller improvements during this period. The three combined Final Rule Underserved Markets went from 22.9% of CRA lender loans in 1992 to 29.1% in 1995 before dropping to 26.1% in 1999. Again, improvements were generally across the board, although in some categories much of the gains seen in 1994 and 1995 had noticeably diminished by 1999.

Taken in isolation, these numbers might seem to be impressive tributes to the benefits of GSEs and CRA in the 1990s. Clearly, underserved markets fared better with them during this time. However, these numbers mean little unless they are placed in context. One needs to see how the entire conventional home mortgage market performed before one can fully evaluate the relative performance of GSEs and CRA institutions.

The rest of Table 4 provides the figures for non-GSE and non-CRA loans as well as for all lenders pooled together. For All Final Rule Underserved Markets, this information is presented visually in Chart 1. An examination of the chart and table make several things apparent.

Chart 1 about here

- Most categories of lenders showed similar patterns of improvement and decline during the 1990s. At the same time that GSEs and CRA lenders were increasingly doing business with underserved markets, so were non-CRA institutions and non-GSE loan purchases. For most lenders, underserved markets made major gains up until 1994 or 1995. Subsequent years subsequently saw declines or much more modest improvements.
- At no time during this period were GSEs ever “leading the market.” The percentage of underserved market loans purchased by GSEs was, over the eight-year period, more than 7 percentage points lower than it was for the loans they did not purchase (20.2% for GSE purchases, 27.5% for non-purchases).
- While GSEs never led the market, across time they did at least close part of the gap. The 1992 differential of 8.3% between the loans they purchased and those they did not (GSE 15.4%, non-GSE 23.7%) was more than one-third smaller (4.8%) by 1999 (21.9% GSE, 26.7% non-GSE). More specifically, the GSEs narrowed the gap between 1992 and 1994, then lost ground between 1995 and 1998, but then narrowed the gap sharply in 1999. This latter development was partly a function of improved GSE performance in 1999 combined with weaker non-GSE performance.
- Conversely, CRA lenders did consistently lead non-CRA lenders, by an overall margin of 4.9 percentage points (26.7% for CRA, 21.8% for non-CRA). However, counter to what we hypothesized, their lead actually *diminished* over the course of the decade. A lead of 7.5% in 1992 (23% CRA, 15.5% non-CRA) shrunk to 3.1% in 1999 (26.1% v. 23%).

Table 5 provides a more detailed examination of lending to underserved markets. In addition to again describing CRA/non-CRA and GSE/non-GSE differences, the table provides information on the specific types of primary market lenders (Banks, S&Ls, Credit Unions and Mortgage Companies), and buyers of loans (Fannie, Freddie, Sold to others, and Loans not sold). With regards to GSE and CRA comparisons, we find that the general patterns that exist for Final Rule Underserved Markets pooled together also exist for each of those markets separately and hence we will not elaborate on them here.

Using the information from Table 5, Chart 2 visually compares the GSEs with primary market lenders for the combined Final Rule Underserved Markets. Several things stand out.

Table 5 and Chart 2 about here

- First and foremost, for most years *GSE performance almost perfectly mirrors mortgage company performance or else trails behind it*. Indeed, the two lines are virtually indistinguishable for 1992-1995, after which GSE performance becomes somewhat weaker.

- Further, *mortgage companies are consistently about the worst performers with regards to lending to underserved markets*¹⁴. Commercial banks and credit unions consistently do much better, while savings and loans do somewhat better in most but not all years.

In short, GSEs are *not* leading the market; rather, they are consistently shadowing the lenders who always trail the rest. However, by 1999 mortgage companies had closed some of the gap that existed between them and other lenders hence GSEs showed relative improvement as well.

What accounts for this strong relationship between mortgage company and GSE performance in underserved markets? As non-depository institutions, mortgage companies are the primary market lenders that are most dependent on the secondary market. Thus, mortgage companies may be unwilling to make a conventional loan unless they are certain the GSEs (or some other secondary market entity) will purchase it. Hence, it is not surprising that their underserved market performance is no better than that of the GSEs.

However, the opposite need not also be true: there is nothing that precludes the GSEs from doing more business with underserved markets than mortgage companies do – or at least more business than mortgage companies are currently doing. Indeed, the strong relationship between GSE and mortgage company performance raises the possibility that mortgage companies might be willing to make more conventional loans to underserved markets if they were confident that the GSEs would purchase them. If the relatively weak underserved market performance of mortgage companies is due to limitations on the types of loans that GSEs are willing to purchase, then it might be said that GSEs are indeed “leading the market” – but unfortunately, they are leading it in the wrong direction. Primary market lenders who are not as dependent on selling their loans to GSEs perform better with regards to the share of their loans going to underserved markets.

Chart 3 about here

Chart 3 provides another way of viewing GSE performance. Here we compare the various buyers and non-buyers of loans. As the chart shows, the “best” loans (in terms of share going to underserved markets) are the loans not sold to anyone. Perhaps these are loans that did not meet secondary market underwriting guidelines. However, next best are the loans sold to others. Generally well behind for most of the period are the two GSEs. In short, among secondary market lenders, Fannie and Freddie consistently did less in Indiana for underserved markets than did their secondary market competitors. But, the gap narrowed somewhat across time, particularly in 1999.

Chart 4 about here

So far, we have focused on the underserved markets listed in the final rule. The story is somewhat different for the race-related markets we also decided to examine. As Chart 4

¹⁴ It must be remembered that only *conventional* loans from *non-subprime* lenders are included in the analysis. If government-backed or subprime lender loans were included, mortgage company performance would appear much stronger, and GSE performance would appear much worse. As noted earlier, we feel that our approach is the most reasonable and fair one when examining GSEs, but the selection criteria must be kept in mind when interpreting results.

illustrates, there are only small differences in the proportions of GSE and non-GSE loans that go to blacks. Further, between CRA and non-CRA lenders, it is actually the *Non-CRA* that do better, and their lead has widened with time.

Given the strong relationship between race and income, these differences may seem surprising. Chart 5 shows that part of the CRA/non-CRA differential exists because mortgage companies do a little better than commercial banks in minority neighborhoods; but another major reason is that S&L's consistently do worse than any other type of primary market lender (although by 1999, differences between the different types of lenders had diminished, as the performance of most weakened while that of savings and loans improved.)

Chart 5 about here

Why do mortgage companies fare better here than elsewhere? We have no hard evidence, but we offer the following speculations. Blacks and minorities may feel alienated from the banking system. Having developed only weak relationships with depository institutions in other areas (e.g. checking, savings, other types of loans), they may have less motivation than whites to do their home mortgage lending there. Also, As Bunce and Scheessele (1996) note, blacks nationwide receive a much higher proportion of FHA loans than they do conventional loans, and FHA loans are disproportionately made by mortgage companies. This suggests that, because of FHA loans, mortgage companies have made strong inroads into black markets, an advantage that sometimes gets carried over into their conventional loans as well. Because of their ties with mortgage companies, the GSEs also do better with minority markets than they do with other underserved groups.

The weak performance of savings and loans in all types of underserved markets is also puzzling, particularly since both S&Ls and commercial banks are subject to CRA. One difference between S&Ls and commercial banks is that S&Ls do much more business in the secondary market and with GSEs in particular. However this does not explain why S&Ls also trail behind mortgage companies. Another important difference is that S&Ls rely much more on FHA loans than do commercial banks¹⁵. It may be, then, that S&Ls rely heavily on their FHA loans to meet their CRA obligations to underserved markets, while commercial banks are much more dependent on their conventional loans for doing so. While this might explain the weaker performance of S&Ls in conventional markets, we repeat our earlier contention that we do not think it justifies it. Just because a lender makes a lot of government-backed loans to underserved markets does not mean it could not make more conventional loans to those markets as well.

Fannie Mae versus Freddie Mac

In most of the above discussion, we have not focused on the differences between Fannie Mae and Freddie Mac. Table 6 directly compares the Final Rule Underserved Market performance of the two, both statewide and in individual MSAs. In general, Fannie Mae tends to do modestly better

¹⁵We again caution that, when comparing primary market lenders, it makes a big difference whether or not FHA and other government-backed loans are included in the sample: much of the gap between S&Ls and commercial banks disappears if government-backed loans are included.

than Freddie, although this advantage is not consistent across all years and all MSAs. In any event though, the differences between Fannie and Freddie are much smaller than the differences between the loans they purchase and the loans they do not.

Table 6 about here

The Post-1995 Decline

One mystery not addressed by any of the above analysis is the decline in lending to underserved markets that occurred after 1994 and 1995. Recall that our sample is limited to conventional, non-subprime loans. Hence, one possibility is that there was not a decline, but rather, a shift: conventional loans were replaced by government backed loans (FHA, VA, and FMHA) and subprime/manufactured housing loans. Table 7 examines this possibility. For each type of underserved market, we again show the percentage of loans from our current sample of conventional loans from non-subprime lenders. We then add FHA loans and show how the percentages change. Finally, we add subprime and manufactured housing lenders to the mix. Chart 6 visually displays the results for the three Final Rule Underserved Markets combined.

Table 7 and Chart 6 about here

As we would expect, the percentage of loans going to underserved markets increases once government-backed loans are added to our conventional loans/non-subprime sample. For conventional non-subprime lenders, there was a 1.4 percentage point drop between 1995 and 1999 (26.2% in 1995 versus 24.8% in 1996). Once the government-backed loans are added to the mix, the percentage of all loans going to underserved markets varied little between 1994 and 1999. Hence, the decline in lending to underserved markets that occurred in the conventional loan market after 1995 was made up for by increases in FHA and other government-backed loans.

When subprime and manufactured housing loans are factored in, an even more striking result occurs: from 1992 on, lending going to the combined Final Rule Underserved Markets increases in almost every year.

Hence, the changes in lending to Final Rule Underserved Markets that occurred after 1994 were not so much declines as they were shifts: conventional loans from regular lenders were more than replaced by FHA and VA loans and loans from subprime and manufactured housing lenders. But, it must be stressed that at least some of these changes probably were NOT for the better. For borrowers who can qualify for a conventional loan, an FHA loan is generally less desirable because FHA relies on insurance premiums paid by lower-risk borrowers to cross-subsidize the costs imposed by those who are higher risk (Canner, Passmore and Surette, 1996). Further, some critics claim that abuses and mismanagement of the FHA program have led to white flight, high concentrations of abandonment and foreclosure, and the driving out of conventional lenders from markets (Bradford and Cincotta, 1992; Bradford, 1998).

Subprime and manufactured housing loans have also been subjects of controversy. Both types of loans have been praised for expanding homeownership opportunities in low-income and minority

markets. Both offer credit to individuals who might not otherwise be able to get it, while manufactured housing (which has improved in quality in recent years) offers the additional advantage of providing a less-expensive alternative to traditional site-built homes (Miller, 6/16/1999; Matesi, 2000; Baldwin, 1/17/1999). However, subprime loans have been criticized because of their high interest rates and the sometimes-questionable (which some label “predatory”) practices of the lenders who make them (Consumer Reports, July 1998; Sanders, 5/13/1999; Bradley and Skillern, 2000)¹⁶. Based on its two-year study of the industry, Consumer Reports (February 1998) concluded that manufactured-home ownership, while much better than it used to be, can still be beset with problems. These include installation and safety issues, costly financing, and high rates of depreciation (although this may be changing). Similarly, research by the AARP found that more than three fourths of owners of manufactured housing had had significant problems with their homes (e.g. with construction, installation, systems or appliances). AARP President Joe Perkins concluded that “Manufactured housing is affordable housing, but there is more to affordability than a low price. Mobile home buyers are not protected sufficiently now and will not be in the future without tougher standards” (AARP, 7/21/1999).

Despite these criticisms, we agree that, in many cases, subprime and manufactured housing loans can be a valuable and worthwhile way of expanding homeownership to groups that otherwise could not obtain it. However, Chart 6 raises the disturbing possibility that subprime and manufactured housing lenders may have stolen away borrowers who could have gotten better deals elsewhere. Indeed, Franklin Raines, CEO of Fannie Mae, claims that about half the borrowers in the high-cost subprime market could qualify for lower-cost conventional financing (Raines, 2000).

Discussion and Conclusions

The 1990s have been a time of progress and change in home mortgage lending. Both in the United States (Bunce and Scheessele, 1996) and in Indiana, the proportion of home mortgage loans going to low-income families, minorities, and other underserved markets increased substantially between 1992 and 1995. In Indiana, disproportionate increases in the numbers of applications from underserved markets and above average drops in their denial rates contributed to this growth. Recent reversals and a shift to less desirable types of loans are a matter of concern, especially if they continue, but at least as of 1999 underserved markets were still faring better than they had earlier in the decade.

Who should get the credit for this change? Most social science studies of the past would have limited themselves to an examination of primary market lenders in seeking an answer. This study, on the other hand, began with the assumption that there were two prime contenders: the Community Reinvestment Act, possibly reinvigorated by a change in Presidential administrations; and the Government Sponsored Enterprises (GSEs), who were mandated by Congress in 1992 to “lead the mortgage finance industry in making credit available for low- and moderate-income families” (Lind, 1996a). We now review the case for each of these challengers.

¹⁶ Concerns about subprime lending are probably even greater for home refinance loans, where borrowers risk losing the equity they have already established.

We strongly suspected that CRA would prove to be one of the major influences driving the changes of the 1990s. A change in Presidential administrations may have led to stricter enforcement (or the fear of stricter enforcement) of the law. More detailed HMDA reporting requirements likely made it easier for citizen groups to monitor how well lenders were meeting the needs of their communities. Further, as Williams and Nesiba (1997) argue, increased merger activity may have created more opportunities to bring CRA pressure to bear; since lenders want their merger plans to be approved by regulatory agencies, they may have modified their practices to keep CRA objections from standing in the way.

Surprisingly, at least to us, the evidence was not as strong as we expected. Certainly, as we hypothesized, throughout the period studied, CRA lenders did better than non-CRA institutions with respect to the underserved markets specified in the Final Rule. But, counter to what we had predicted, their lead over non-CRA institutions actually *declined* over the course of the decade. And, for the race-related underserved markets we added to our study, CRA lenders actually did *worse*. Further, the very notion of classifying lenders as CRA or non-CRA was called into question when we discovered that commercial banks and S&Ls differed radically in their underserved market performance.

It would be wrong, however, to conclude that CRA has had no value in the 1990s. Given that CRA institutions did generally improve their performance across time, it may just be that different influences (including the GSEs) caused other lenders to improve even more. And, CRA, which has been around for many years, may have played an important role in maintaining gains made in the past even if it did not add to them.

It may also be, too, that CRA has the *potential* to do much more, and that that potential has been realized more in other parts of the country than it has in conservative Indiana. CRA could be primarily effective when citizens' groups use its provisions to encourage local lenders to do better. Nationwide, the National Community Reinvestment Coalition (NCRC) estimates that, as of July 15, 1998, banks and savings and loans have made CRA commitments of more than \$1 trillion dollars since CRA was enacted in 1977. But in Indiana, we only know of one citizen group (CASH PLU\$ in South Bend) that lobbied lenders to make CRA agreements during the period we studied.

But regardless of the good the CRA has done in the past – and regardless of what good it may have done in other parts of the country – and regardless of the potential it may have to do good in the future – there does not seem to be any strong evidence that it was the primary contributor to the gains underserved markets experienced in Indiana during the early to mid- 1990s¹⁷.

¹⁷ Various readers of this research have warned that our expectations for CRA may have perhaps been too high. CRA does not technically say that lenders must serve underserved markets; rather, it says lenders must serve those communities from which they take deposits. Nevertheless, over the years CRA has come to provide a forum by which community activists can assert their claims. Given NCRC claims of more than a trillion dollars in CRA commitments nationwide, and the numerous other factors we cite, we do not think our optimistic projections for CRA were without merit. Further, it remains to be seen whether Indiana, with its very limited CRA activity during this time, was typical of the nation as a whole.

What, then, is the case for the GSEs? While CRA institutions lost ground relative to non-CRA lenders, the GSEs narrowed the gap between them and others. In 1992, the loans GSEs purchased contained 8.3 percentage point fewer loans from underserved markets than the loans they did not purchase. By 1999, the gap was only 4.8 percentage points. It may be especially encouraging that, in 1999, the GSEs were increasing their business with underserved markets at a time that other lenders were cutting back. Still, to say that the GSEs made gains is a long way from saying that they “led the market.” At the same time that the GSEs were doing better, other primary and secondary market lenders improved almost as much. Indeed, rather than leading the market, the GSEs almost perfectly mirrored or trailed the performance of mortgage companies – the primary market lender that consistently trailed all others in underserved markets performance. This was true, not only in the entire state of Indiana, but also in most Indiana MSAs for most years. Further, despite the significant and unique government benefits they receive in exchange for promoting home ownership, the GSEs purchased relatively fewer loans from underserved markets than did their secondary market competitors.

The very strong link between the GSE and mortgage company performance makes it difficult to tell who should get the credit for the improvements the GSEs did make. Are GSEs influencing the home mortgage market, or are they merely reflecting it? If improvements in GSE performance had preceded improvements in mortgage company performance, there would be a strong case for believing the GSEs deserved the credit. If, on the other hand, GSE changes always trailed the changes in mortgage companies, it would be clear that GSEs were simply responding to what others did. But, given that the changes in GSE and mortgage company performance were virtually simultaneous, it is impossible to tell (at least with these data) which one was leading the other.

Nevertheless, given that mortgage companies are so heavily dependent on selling their loans to others, it is not unreasonable to think that they will be heavily influenced by their perceptions about what GSEs will purchase. Hence, greater flexibility and new programs on the part of GSEs might very well have accounted for improvements in both mortgage company and GSE underserved market performance. If so, however, this suggests that, if GSEs were even more willing to buy loans from underserved markets, mortgage companies (and other primary market lenders) might be more willing to make them.

In any event, one thing is clear: regardless of what caused the improvements in their performance, by 1999 GSEs still had a long way to go before they would be leading the market, at least in Indiana. Given the substantial government benefits GSEs receive, policy makers may wish to require them to do more for underserved markets in the future. It could of course be that GSE performance was atypically weak in Indiana. This seems unlikely given all the other studies that have faulted GSE performance, but if this is the case then new requirements might include regional obligations, so that strong performance in one part of the country did not relieve the GSEs of duties to also serve other areas.

Like many other researchers, we found that, between the two GSEs, Fannie Mae’s underserved market performance was somewhat better than Freddie Mac’s. But, the differences were small and inconsistent across years and MSAs. Whatever differences did exist between the GSEs were

far smaller and less important than the differences between the loans the two GSEs together did and did not purchase.

If the CRA and the GSEs cannot lay clear claim to the improvements in Indiana conventional home mortgage lending during the 1990s, who can? It may be that one of the most important developments among lenders is the one we gave only secondary attention to: the rise of subprime and manufactured housing lenders. Along with the FHA, these lenders are playing an increasingly critical role in underserved markets. Indeed, if it were not for these lenders, loans to underserved markets would have declined after 1995 rather than going up. The relative weakness of the GSEs and of the conventional lending of CRA institutions may just reflect the growing popularity of these alternative forms of lending. The FHA was reformed and strengthened during the 1990s (HUD, 10/30/2000), helping it to serve more borrowers. In a time of rising housing costs, manufactured housing provided a low cost alternative to many (Vermeer and Louie, 1997; Matesi, Jan 2000), causing its sales to nearly double during the 1990s (Manufactured Housing Institute, 2001). Aided by weaknesses in federal oversight (Immergluck and Wiles, Nov 1999), subprime lenders used effective marketing (Lee, May 1999; Timmons 7/8/1996; Kulkosky 5/6/1997) and offered loans to many not served by more traditional lenders.

Given the questions and controversy concerning the practices of some of these lenders and/or the quality of the homes they provide, these changes are not necessarily for the better. While they may be expanding homeownership opportunities for some, trends in market share raise the disturbing possibility that subprime lenders may be stealing away borrowers who could have gotten better deals elsewhere. The GSEs could play a beneficial role here. Fannie Mae says it needs to “learn more” about the subprime and manufactured housing markets before it can completely serve them. Hopefully, it will learn soon. Lind (2000) argues that the entry of the GSEs into subprime markets should be beneficial because the GSEs attach conditions to their purchases that curb predatory lending. Greater involvement by the GSEs in the manufactured home markets could make such houses even cheaper by leading to greater competition among financiers and lowering interest rates (Mortgage Marketplace 9/7/98). In any event, it will be increasingly important for future researchers to examine the role of subprime and manufactured housing lenders when looking at developments in home mortgage markets.

It may also be that the GSEs and the CRA were secondary players to the influence of an improved economy and enhanced competition among lenders. As interest rates fell and incomes rose, home ownership may have become a reasonable goal for many that could not previously afford it. It may be too that regular lenders, not just the subprimes, decided that underserved markets offered untapped opportunities for future profits.

Even if the economy does get much of the credit, though, its positive influence may be fleeting. Given the rapid pace of change in home mortgage lending and the recent adoption of new programs by GSEs, the key findings of this study may soon need to be updated. The year 1999 may have been too soon to assess the effectiveness of recent GSE efforts to “lead the market”¹⁸,

¹⁸ For example, the GSEs have recently introduced more flexible standards for sources of downpayments for first-time homebuyers (Brockman, 11/12/98), pushed lenders to help individuals become more “loan ready” (Macdonald, 1998), and have announced plans for moving into the subprime secondary market (Brockman, 11/3/98).

and new HUD guidelines may improve GSE performance in the future. An economic downturn could give the CRA and the GSEs increased importance. And, even with recent improvements in home mortgage lending, there is still a long way to go. Blacks, very low-income families, and minority and low-income neighborhoods still receive far fewer loans than their population sizes would warrant. The GSEs or anything else that can close that gap still have the opportunity to claim a lot of credit.

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¹⁹ Wherever possible, we have given URLs for information that can also or only be found on the World Wide Web. All web pages were last accessed on April 10, 2001. The content and location of pages may of course have changed since then. In a few cases, when it was not possible to determine when a web page was created, we have assumed that it originated in the year during which we first accessed the material. Other sources may be available on the Internet via paid services such as Ebscohost and Lexis/Nexis.

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**Table 1: Application, Origination, and Denial Rates by Year
Indiana MSAs, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
ALL LENDERS									
<i>N of applications</i>	36,891	41,280	45,712	44,811	49,704	46,011	50,743	49,538	364,690
<i>N of originations</i>	32,961	37,590	41,383	40,169	43,884	39,600	45,358	44,600	325,545
Denial Rate	10.7%	8.9%	9.5%	10.4%	11.7%	13.9%	10.6%	10.0%	10.7%
<hr/>									
Not Final Rule Underserved Markets									
<i>% of applications</i>	76.5%	75.2%	71.1%	71.0%	71.1%	70.4%	72.3%	72.4%	72.3%
<i>% of originations</i>	79.7%	77.5%	73.8%	73.8%	74.5%	74.6%	75.1%	75.2%	75.4%
Denial Rate	6.9%	6.1%	6.1%	6.8%	7.5%	8.8%	7.1%	6.5%	7.0%
All Final Rule Underserved Markets									
<i>% of applications</i>	23.5%	24.8%	28.9%	29.0%	28.9%	29.6%	27.7%	27.6%	27.7%
<i>% of originations</i>	20.3%	22.5%	26.2%	26.2%	25.5%	25.4%	24.9%	24.8%	24.6%
Denial Rate	23.0%	17.4%	17.8%	19.1%	22.2%	26.2%	19.8%	19.2%	20.6%
<hr/>									
Not very low income borrowers									
<i>% of applications</i>	87.1%	85.8%	83.0%	84.2%	84.0%	82.7%	83.5%	83.0%	84.1%
<i>% of originations</i>	89.7%	87.7%	85.1%	86.3%	86.9%	86.4%	85.7%	85.2%	86.5%
Denial Rate	8.0%	7.0%	7.2%	8.1%	8.7%	10.1%	8.3%	7.6%	8.1%
Very low income borrowers									
<i>% of applications</i>	12.9%	14.2%	17.0%	15.8%	16.0%	17.3%	16.5%	17.0%	15.9%
<i>% of originations</i>	10.3%	12.3%	14.9%	13.7%	13.1%	13.6%	14.3%	14.8%	13.5%
Denial Rate	28.7%	20.9%	20.7%	22.5%	27.5%	32.2%	22.6%	21.4%	24.5%
<hr/>									
Not low income applicant in low income area									
<i>% of applications</i>	95.2%	94.8%	93.4%	93.4%	94.1%	94.5%	95.4%	95.2%	94.5%
<i>% of originations</i>	96.2%	95.7%	94.3%	94.2%	95.2%	95.4%	96.1%	96.0%	95.4%
Denial Rate	9.7%	8.1%	8.6%	9.5%	10.7%	13.1%	10.0%	9.2%	9.9%
Low income applicants in low income areas									
<i>% of applications</i>	4.8%	5.2%	6.6%	6.6%	5.9%	5.5%	4.6%	4.8%	5.5%
<i>% of originations</i>	3.8%	4.3%	5.7%	5.8%	4.8%	4.6%	3.9%	4.0%	4.6%
Denial Rate	30.4%	23.7%	21.9%	22.1%	27.2%	27.5%	23.3%	25.4%	24.9%
<hr/>									
Non-targeted tracts									
<i>% of applications</i>	84.4%	84.1%	81.0%	79.9%	80.8%	81.2%	83.2%	83.5%	82.2%
<i>% of originations</i>	86.3%	85.4%	82.5%	81.6%	82.6%	83.1%	84.9%	85.3%	83.9%
Denial Rate	8.5%	7.4%	7.7%	8.4%	9.8%	11.9%	8.9%	8.1%	8.9%
Targeted tracts									
<i>% of applications</i>	15.6%	15.9%	19.0%	20.1%	19.2%	18.8%	16.8%	16.5%	17.8%
<i>% of originations</i>	13.7%	14.6%	17.5%	18.4%	17.4%	16.9%	15.1%	14.7%	16.1%
Denial Rate	21.5%	16.5%	16.7%	18.0%	19.8%	22.7%	19.3%	19.7%	19.3%
<hr/>									
Non-Blacks									
<i>% of applications</i>	98.0%	97.6%	96.3%	96.0%	96.9%	96.9%	97.3%	96.8%	97.0%
<i>% of originations</i>	98.4%	97.9%	96.7%	96.3%	97.1%	97.2%	97.7%	97.2%	97.3%
Denial Rate	10.1%	8.4%	8.7%	9.8%	10.9%	12.9%	9.3%	8.8%	9.9%
Blacks									
<i>% of applications</i>	2.0%	2.4%	3.7%	4.0%	3.1%	3.1%	2.7%	3.2%	3.0%
<i>% of originations</i>	1.6%	2.1%	3.3%	3.7%	2.9%	2.8%	2.3%	2.8%	2.7%
Denial Rate	26.2%	19.3%	18.7%	16.3%	17.9%	21.8%	20.6%	20.7%	19.6%

[Continued]

**Table 1: Application, Origination, and Denial Rates by Year
Indiana MSAs, 1992-1999 [Continued]**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
Non-minority tracts									
<i>% of applications</i>	96.8%	96.5%	95.7%	95.5%	96.4%	96.8%	96.8%	96.7%	96.4%
<i>% of originations</i>	97.2%	96.8%	96.2%	95.9%	96.7%	97.1%	97.2%	97.1%	96.8%
Denial Rate	10.3%	8.6%	9.0%	10.0%	11.4%	13.7%	10.2%	9.6%	10.4%
Minority tracts									
<i>% of applications</i>	3.2%	3.5%	4.3%	4.5%	3.6%	3.2%	3.2%	3.3%	3.6%
<i>% of originations</i>	2.8%	3.2%	3.8%	4.1%	3.3%	2.9%	2.8%	2.9%	3.2%
Denial Rate	22.2%	18.7%	20.2%	18.5%	19.5%	21.9%	22.7%	22.0%	20.6%
<hr/>									
Lender not subject to CRA									
<i>% of applications</i>	34.1%	41.1%	42.5%	43.9%	42.0%	42.6%	43.4%	41.6%	41.6%
<i>% of originations</i>	36.0%	42.4%	42.8%	44.9%	42.4%	44.5%	44.4%	41.8%	42.6%
Denial Rate	5.8%	6.1%	8.9%	8.2%	10.8%	10.2%	8.6%	9.6%	8.7%
Lender subject to CRA									
<i>% of applications</i>	65.9%	58.9%	57.5%	56.1%	58.0%	57.4%	56.6%	58.4%	58.4%
<i>% of originations</i>	64.0%	57.6%	57.2%	55.1%	57.6%	55.5%	55.6%	58.2%	57.4%
Denial Rate	13.2%	11.0%	9.9%	12.1%	12.3%	16.7%	12.2%	10.2%	12.2%
<hr/>									
Loan not sold to a GSE									
<i>% of originations</i>	58.9%	54.9%	68.7%	67.4%	62.6%	60.8%	50.5%	60.3%	60.5%
Loan sold to a GSE									
<i>% of originations</i>	41.1%	45.1%	31.3%	32.6%	37.4%	39.2%	49.5%	39.7%	39.5%
<hr/>									
Commercial Bank									
<i>% of applications</i>	35.0%	32.6%	32.7%	30.4%	29.9%	31.5%	32.1%	35.1%	32.3%
<i>% of originations</i>	31.8%	31.1%	31.4%	29.2%	28.9%	31.1%	30.9%	33.7%	31.0%
Denial Rate	18.9%	13.2%	13.1%	13.7%	14.7%	14.8%	13.8%	13.5%	14.4%
Savings & Loan									
<i>% of applications</i>	30.9%	26.3%	24.8%	25.8%	28.0%	25.9%	24.5%	23.3%	26.0%
<i>% of originations</i>	32.3%	26.5%	25.8%	25.9%	28.7%	24.4%	24.7%	24.5%	26.4%
Denial Rate	6.6%	8.2%	5.7%	10.1%	9.8%	19.1%	10.1%	5.2%	9.4%
Credit Union									
<i>% of applications</i>	2.0%	1.8%	2.5%	2.2%	2.4%	2.7%	2.5%	3.4%	2.5%
<i>% of originations</i>	2.1%	1.8%	2.7%	2.4%	2.6%	2.8%	2.6%	3.5%	2.6%
Denial Rate	8.2%	7.5%	4.9%	4.5%	6.2%	9.2%	7.5%	6.9%	6.8%
Mortgage Company									
<i>% of applications</i>	32.1%	39.4%	40.0%	41.6%	39.6%	39.9%	40.8%	38.3%	39.1%
<i>% of originations</i>	33.9%	40.6%	40.1%	42.6%	39.9%	41.7%	41.8%	38.3%	40.0%
Denial Rate	5.7%	6.0%	9.2%	8.4%	11.1%	10.2%	8.6%	9.9%	8.8%
<hr/>									
Fannie Mae									
<i>% of originations</i>	24.7%	26.4%	19.1%	21.0%	21.3%	24.2%	30.5%	22.4%	23.7%
Freddie Mac									
<i>% of originations</i>	16.4%	18.7%	12.2%	11.5%	16.1%	15.0%	19.1%	17.3%	15.8%
Sold to other									
<i>% of originations</i>	10.0%	10.3%	16.0%	18.6%	13.9%	12.6%	14.5%	16.8%	14.3%
Not sold									
<i>% of originations</i>	48.9%	44.6%	52.7%	48.8%	48.7%	48.1%	36.0%	43.5%	46.2%

**Table 2: Number of Applications, by Year
Indiana MSAs, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
ALL LENDERS	36,891	41,280	45,712	44,811	49,704	46,011	50,743	49,538	364,690
Not Final Rule Underserved Markets	28,208	31,023	32,524	31,811	35,332	32,397	36,695	35,858	263,848
All Final Rule Underserved Markets	8,683	10,257	13,188	13,000	14,372	13,614	14,048	13,680	100,842
Not very low income borrowers	32,144	35,413	37,921	37,724	41,758	38,051	42,395	41,121	306,527
Very low income borrowers	4,747	5,867	7,791	7,087	7,946	7,960	8,348	8,417	58,163
Not low income applicant in low income area	35,113	39,142	42,675	41,844	46,794	43,480	48,415	47,148	344,611
Low income applicants in low income areas	1,778	2,138	3,037	2,967	2,910	2,531	2,328	2,390	20,079
Non-targeted tracts	30,184	33,897	36,319	35,280	39,901	37,310	42,165	41,372	296,428
Targeted tracts	5,575	6,418	8,533	8,859	9,460	8,627	8,499	8,154	64,125
Missing	1,132	965	860	672	343	74	79	12	4,137
Non-Blacks	35,279	39,433	43,413	42,166	46,921	42,931	46,993	45,089	342,225
Blacks	702	963	1,662	1,740	1,522	1,362	1,287	1,504	10,742
Missing	910	884	637	905	1,261	1,718	2,463	2,945	11,723
Non-minority tracts	35,707	39,816	43,749	42,810	47,920	44,520	49,104	47,889	351,515
Minority tracts	1,184	1,464	1,963	2,001	1,784	1,491	1,639	1,649	13,175
Lender not subject to CRA	12,587	16,970	19,434	19,650	20,880	19,615	22,010	20,625	151,771
Lender subject to CRA	24,304	24,310	26,278	25,161	28,824	26,396	28,733	28,913	212,919
Commercial Bank	12,912	13,458	14,958	13,604	14,884	14,479	16,277	17,375	117,947
Savings & Loan	11,392	10,852	11,320	11,557	13,940	11,917	12,456	11,538	94,972
Credit Union	754	725	1,155	991	1,197	1,235	1,282	1,674	9,013
Mortgage Company	11,833	16,245	18,279	18,659	19,683	18,380	20,728	18,951	142,758

**Table 3: Number of Originations, by Year
Indiana MSAs, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
ALL LENDERS	32,961	37,590	41,383	40,169	43,884	39,600	45,358	44,600	325,545
Not Final Rule Underserved Markets	26,272	29,117	30,539	29,651	32,695	29,546	34,084	33,544	245,448
All Final Rule Underserved Markets	6,689	8,473	10,844	10,518	11,189	10,054	11,274	11,056	80,097
Not very low income borrowers	29,576	32,950	35,202	34,679	38,124	34,205	38,894	37,981	281,611
Very low income borrowers	3,385	4,640	6,181	5,490	5,760	5,395	6,464	6,619	43,934
Not low income applicant in low income area	31,724	35,958	39,010	37,857	41,766	37,765	43,573	42,816	310,469
Low income applicants in low income areas	1,237	1,632	2,373	2,312	2,118	1,835	1,785	1,784	15,076
Non-targeted tracts	27,622	31,405	33,523	32,319	35,984	32,858	38,430	38,038	270,179
Targeted tracts	4,378	5,359	7,111	7,269	7,586	6,672	6,856	6,552	51,783
Missing	961	826	749	581	314	70	72	10	3,583
Non-Blacks	31,721	36,121	39,622	38,056	41,820	37,385	42,645	41,105	308,475
Blacks	518	777	1,351	1,457	1,250	1,065	1,022	1,192	8,632
Missing	722	692	410	656	814	1,150	1,691	2,303	8,438
Non-minority tracts	32,040	36,400	39,816	38,539	42,448	38,435	44,091	43,313	315,082
Minority tracts	921	1,190	1,567	1,630	1,436	1,165	1,267	1,287	10,463
Lender not subject to CRA	11,852	15,943	17,705	18,045	18,618	17,620	20,126	18,644	138,553
Lender subject to CRA	21,109	21,647	23,678	22,124	25,266	21,980	25,232	25,956	186,992
Loan not sold to a GSE	19,418	20,632	28,425	27,085	27,462	24,061	22,895	26,906	196,884
Loan sold to a GSE	13,543	16,958	12,958	13,084	16,422	15,539	22,463	17,694	128,661
Commercial Bank	10,473	11,679	13,006	11,738	12,693	12,334	14,034	15,023	100,980
Savings & Loan	10,636	9,968	10,672	10,386	12,573	9,646	11,198	10,933	86,012
Credit Union	692	671	1,099	946	1,123	1,122	1,186	1,559	8,398
Mortgage Company	11,160	15,272	16,606	17,099	17,495	16,498	18,940	17,085	130,155
Fannie Mae	8,131	9,942	7,909	8,449	9,347	9,587	13,812	9,971	77,148
Freddie Mac	5,412	7,016	5,049	4,635	7,075	5,952	8,651	7,723	51,513
Sold to other	3,305	3,876	6,633	7,490	6,098	5,002	6,578	7,484	46,466
Not sold	16,113	16,756	21,792	19,595	21,364	19,059	16,317	19,422	150,418

**Table 4: GSE, CRA Lending to Underserved Markets
Indiana MSAs, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
GSE Purchases									
All Final Rule Underserved Markets	15.4%	17.8%	23.0%	21.7%	20.9%	20.0%	20.5%	21.9%	20.2%
Very low income borrowers	6.8%	9.0%	13.1%	10.0%	10.1%	9.9%	11.8%	13.3%	10.6%
Low income applicants in low income areas	2.4%	2.7%	4.0%	4.0%	3.5%	2.9%	2.8%	3.0%	3.1%
Targeted tracts	10.7%	11.5%	14.5%	15.6%	14.4%	13.0%	12.0%	12.4%	12.9%
Blacks	1.4%	1.8%	3.4%	3.6%	2.9%	2.5%	2.1%	2.7%	2.5%
Minority tracts	2.3%	2.8%	3.6%	3.6%	3.0%	2.5%	2.4%	2.3%	2.8%
CRA Institutions									
All Final Rule Underserved Markets	23.0%	25.4%	28.2%	29.1%	27.5%	27.7%	26.3%	26.1%	26.7%
Very low income borrowers	12.5%	14.7%	16.0%	16.0%	14.4%	15.1%	14.6%	15.6%	14.9%
Low income applicants in low income areas	4.6%	5.5%	6.6%	6.5%	5.1%	5.1%	4.1%	4.2%	5.2%
Targeted tracts	15.2%	16.3%	19.5%	20.1%	18.5%	18.4%	16.5%	15.6%	17.5%
Blacks	1.3%	1.8%	2.7%	3.1%	2.2%	2.1%	1.9%	2.3%	2.2%
Minority tracts	2.4%	2.7%	3.3%	3.4%	2.6%	2.5%	2.5%	2.7%	2.8%
Non-GSE Loans									
All Final Rule Underserved Markets	23.7%	26.4%	27.7%	28.3%	28.3%	28.9%	29.1%	26.7%	27.5%
Very low income borrowers	12.7%	15.1%	15.8%	15.4%	14.9%	16.0%	16.7%	15.9%	15.4%
Low income applicants in low income areas	4.7%	5.7%	6.5%	6.6%	5.7%	5.7%	5.0%	4.6%	5.6%
Targeted tracts	15.8%	17.2%	18.9%	19.7%	19.3%	19.4%	18.3%	16.2%	18.2%
Blacks	1.7%	2.3%	3.3%	3.7%	2.9%	2.9%	2.5%	2.9%	2.9%
Minority tracts	3.1%	3.4%	3.9%	4.3%	3.4%	3.2%	3.2%	3.3%	3.5%
Non-CRA Institutions									
All Final Rule Underserved Markets	15.5%	18.7%	23.5%	22.6%	22.9%	22.5%	23.1%	23.0%	21.8%
Very low income borrowers	6.4%	9.2%	13.5%	10.9%	11.4%	11.7%	13.8%	13.9%	11.6%
Low income applicants in low income areas	2.3%	2.8%	4.5%	4.9%	4.4%	4.1%	3.7%	3.8%	3.9%
Targeted tracts	11.1%	12.3%	15.0%	16.3%	16.0%	14.9%	13.5%	13.5%	14.2%
Blacks	2.2%	2.6%	4.1%	4.5%	3.9%	3.7%	2.9%	3.7%	3.5%
Minority tracts	3.5%	3.8%	4.5%	4.9%	4.2%	3.5%	3.1%	3.2%	3.8%
All Lenders									
All Final Rule Underserved Markets	20.3%	22.5%	26.2%	26.2%	25.5%	25.4%	24.9%	24.8%	24.6%
Very low income borrowers	10.3%	12.3%	14.9%	13.7%	13.1%	13.6%	14.3%	14.8%	13.5%
Low income applicants in low income areas	3.8%	4.3%	5.7%	5.8%	4.8%	4.6%	3.9%	4.0%	4.6%
Targeted tracts	13.7%	14.6%	17.5%	18.4%	17.4%	16.9%	15.1%	14.7%	16.1%
Blacks	1.6%	2.1%	3.3%	3.7%	2.9%	2.8%	2.3%	2.8%	2.7%
Minority tracts	2.8%	3.2%	3.8%	4.1%	3.3%	2.9%	2.8%	2.9%	3.2%

**Table 5: Detailed Profile of Lending to All Final Rule Underserved Markets
Indiana MSAs, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
ALL LENDERS	20.3%	22.5%	26.2%	26.2%	25.5%	25.4%	24.9%	24.8%	24.6%
Lender not subject to CRA	15.5%	18.7%	23.5%	22.6%	22.9%	22.5%	23.1%	23.0%	21.8%
Lender subject to CRA	23.0%	25.4%	28.2%	29.1%	27.5%	27.7%	26.3%	26.1%	26.7%
Loan not sold to a GSE	23.7%	26.4%	27.7%	28.3%	28.3%	28.9%	29.1%	26.7%	27.5%
Loan sold to a GSE	15.4%	17.8%	23.0%	21.7%	20.9%	20.0%	20.5%	21.9%	20.2%
Commercial Bank	27.0%	28.7%	33.1%	32.0%	29.8%	28.6%	27.8%	28.8%	29.5%
Savings & Loan	19.0%	21.5%	22.2%	25.8%	25.1%	26.7%	24.3%	22.4%	23.4%
Credit Union	26.6%	30.9%	29.3%	28.9%	35.0%	25.7%	26.5%	25.8%	28.4%
Mrtg Co	14.9%	18.2%	23.2%	22.3%	22.1%	22.3%	22.9%	22.7%	21.4%
Fannie	14.9%	18.0%	24.7%	22.0%	21.4%	19.5%	21.0%	21.1%	20.3%
Freddie	16.2%	17.6%	20.3%	21.1%	20.2%	20.8%	19.8%	23.0%	19.9%
Sold to other	19.9%	24.0%	25.1%	26.8%	27.7%	23.5%	28.0%	23.9%	25.3%
Not sold	24.5%	27.0%	28.5%	28.9%	28.4%	30.3%	29.5%	27.7%	28.2%

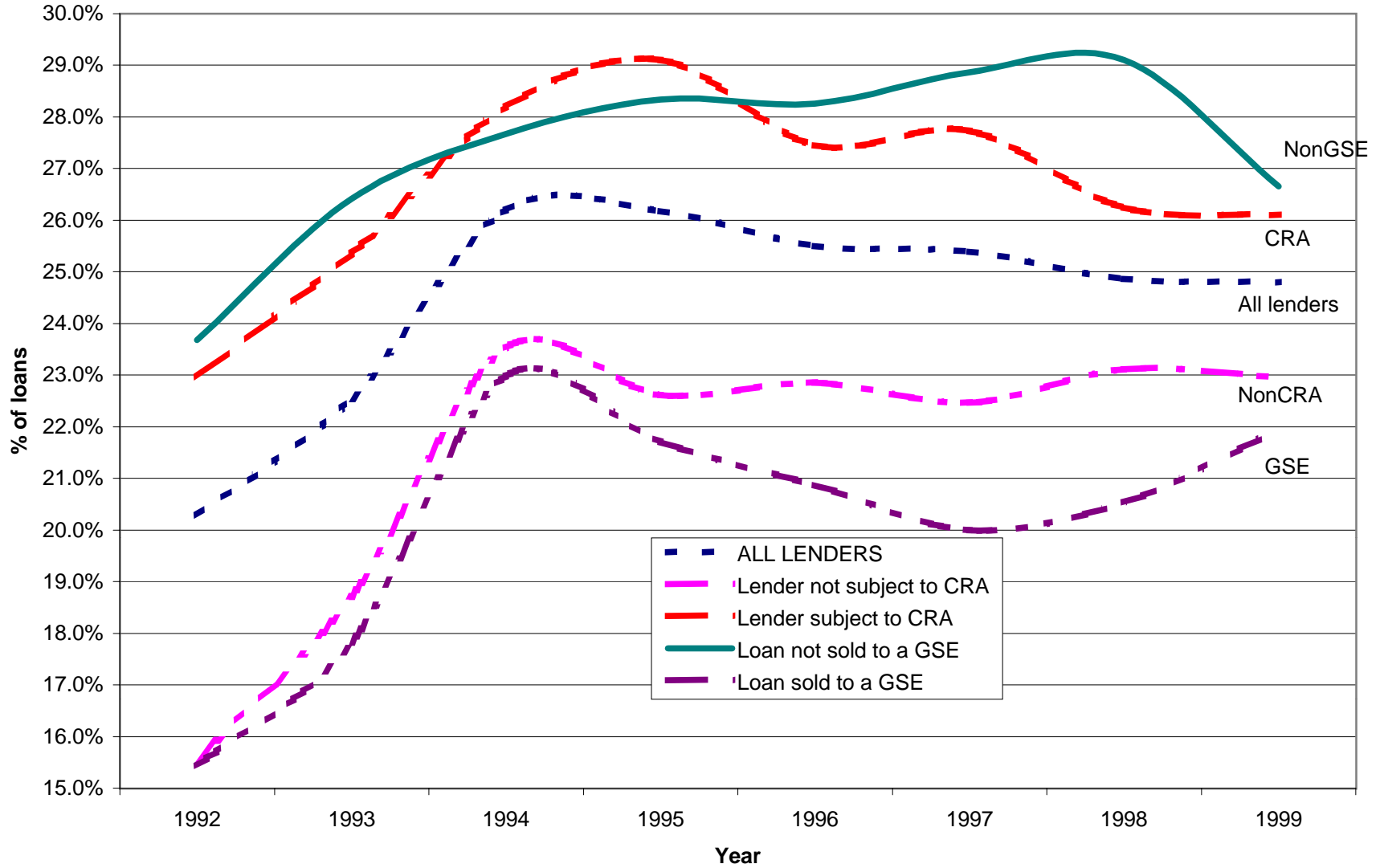
**Table 6: Percentage of Loans Going to Underserved Markets,
Fannie Mae Compared to Freddie Mac, All Indiana MSAs**

		1992	1993	1994	1995	1996	1997	1998	1999	TOTAL
ALL OF INDIANA	Fannie Mae	14.9%	18.0%	24.7%	22.0%	21.4%	19.5%	21.0%	21.1%	20.3%
	Freddie Mac	16.2%	17.6%	20.3%	21.1%	20.2%	20.8%	19.8%	23.0%	19.9%
	Non GSE Loans	23.7%	26.4%	27.7%	28.3%	28.3%	28.9%	29.1%	26.7%	27.5%
	<i>Ratio of Fannie to Freddie</i>	0.92	1.02	1.21	1.04	1.06	0.94	1.06	0.92	1.02
	<i>Ratio of Fannie to Non-GSE</i>	0.63	0.68	0.89	0.78	0.76	0.68	0.72	0.79	0.74
	<i>Ratio of Freddie to Non-GSE</i>	0.68	0.67	0.73	0.75	0.72	0.72	0.68	0.86	0.73
Bloomington	Fannie Mae	12.7%	10.4%	20.3%	17.1%	23.3%	22.8%	27.0%	25.8%	21.5%
	Freddie Mac	19.3%	25.7%	20.6%	14.3%	21.4%	25.0%	28.7%	22.2%	23.0%
	<i>Ratio of Fannie to Freddie</i>	0.65	0.41	0.99	1.19	1.09	0.91	0.94	1.16	0.93
Cincinnati	Fannie Mae	15.9%	9.8%	23.9%	16.2%	21.2%	20.8%	14.9%	23.2%	18.2%
	Freddie Mac	23.1%	15.6%	15.5%	19.7%	17.7%	26.5%	30.7%	27.7%	24.2%
	<i>Ratio of Fannie to Freddie</i>	0.69	0.63	1.54	0.82	1.20	0.78	0.48	0.84	0.75
Elkhart-Goshen	Fannie Mae	18.4%	21.8%	26.0%	19.6%	23.2%	15.1%	20.4%	22.9%	20.6%
	Freddie Mac	16.2%	18.6%	20.8%	9.7%	19.6%	25.9%	16.0%	24.7%	19.5%
	<i>Ratio of Fannie to Freddie</i>	1.14	1.17	1.25	2.02	1.18	0.58	1.28	0.93	1.06
Evansville	Fannie Mae	23.7%	21.1%	27.5%	27.4%	17.1%	21.4%	20.6%	25.2%	22.4%
	Freddie Mac	17.2%	18.5%	23.1%	19.8%	25.5%	17.5%	18.9%	25.4%	20.4%
	<i>Ratio of Fannie to Freddie</i>	1.38	1.14	1.19	1.39	0.67	1.22	1.09	0.99	1.10
Ft. Wayne	Fannie Mae	13.7%	18.2%	30.2%	23.6%	22.0%	19.8%	22.4%	25.1%	21.9%
	Freddie Mac	19.3%	18.5%	22.9%	21.4%	23.3%	24.8%	21.1%	26.9%	22.7%
	<i>Ratio of Fannie to Freddie</i>	0.71	0.98	1.32	1.10	0.95	0.80	1.06	0.93	0.97
Gary	Fannie Mae	15.0%	15.2%	21.4%	17.3%	17.0%	14.3%	14.8%	17.8%	16.7%
	Freddie Mac	10.9%	9.3%	14.1%	16.0%	13.7%	14.8%	15.6%	15.8%	13.7%
	<i>Ratio of Fannie to Freddie</i>	1.37	1.63	1.51	1.08	1.24	0.97	0.95	1.12	1.22
Indianapolis	Fannie Mae	14.6%	18.7%	23.8%	21.8%	21.0%	19.3%	20.2%	18.9%	19.8%
	Freddie Mac	13.6%	17.0%	20.3%	21.1%	18.3%	20.0%	17.4%	19.3%	18.5%
	<i>Ratio of Fannie to Freddie</i>	1.07	1.10	1.17	1.03	1.15	0.96	1.16	0.98	1.07
Kokomo	Fannie Mae	13.3%	5.7%	29.1%	24.6%	25.2%	30.2%	30.3%	30.2%	27.4%
	Freddie Mac	27.2%	28.1%	28.9%	29.0%	30.6%	28.8%	31.3%	33.6%	29.2%
	<i>Ratio of Fannie to Freddie</i>	0.49	0.20	1.01	0.85	0.82	1.05	0.97	0.90	0.94
Lafayette	Fannie Mae	13.8%	10.1%	18.5%	14.7%	13.2%	13.1%	15.5%	15.0%	14.3%
	Freddie Mac	11.4%	18.8%	20.0%	23.0%	24.3%	18.4%	27.3%	28.3%	20.9%
	<i>Ratio of Fannie to Freddie</i>	1.21	0.54	0.93	0.64	0.54	0.71	0.57	0.53	0.69
Louisville-New Albany	Fannie Mae	17.6%	17.3%	27.6%	24.9%	23.2%	26.4%	28.6%	30.0%	25.2%
	Freddie Mac	23.0%	23.7%	24.6%	20.5%	21.7%	26.2%	23.6%	23.0%	23.3%
	<i>Ratio of Fannie to Freddie</i>	0.76	0.73	1.12	1.22	1.07	1.01	1.21	1.30	1.08
Muncie	Fannie Mae	19.6%	27.7%	34.1%	35.8%	44.5%	26.3%	34.5%	30.1%	33.8%
	Freddie Mac	17.4%	15.7%	20.2%	28.6%	24.6%	30.3%	26.0%	31.5%	24.1%
	<i>Ratio of Fannie to Freddie</i>	1.13	1.77	1.68	1.25	1.81	0.87	1.33	0.96	1.40
South Bend	Fannie Mae	13.2%	19.3%	27.3%	29.9%	26.6%	27.3%	22.9%	21.2%	21.6%
	Freddie Mac	13.9%	13.4%	14.9%	26.8%	22.7%	16.3%	24.6%	26.5%	21.1%
	<i>Ratio of Fannie to Freddie</i>	0.95	1.44	1.83	1.12	1.17	1.67	0.93	0.80	1.02
Terre Haute	Fannie Mae	11.1%	15.4%	60.0%	16.3%	19.2%	16.0%	32.5%	20.4%	23.9%
	Freddie Mac	18.8%	13.0%	24.1%	14.8%	22.6%	20.0%	18.2%	23.8%	18.9%
	<i>Ratio of Fannie to Freddie</i>	0.59	1.18	2.49	1.10	0.85	0.80	1.78	0.86	1.26

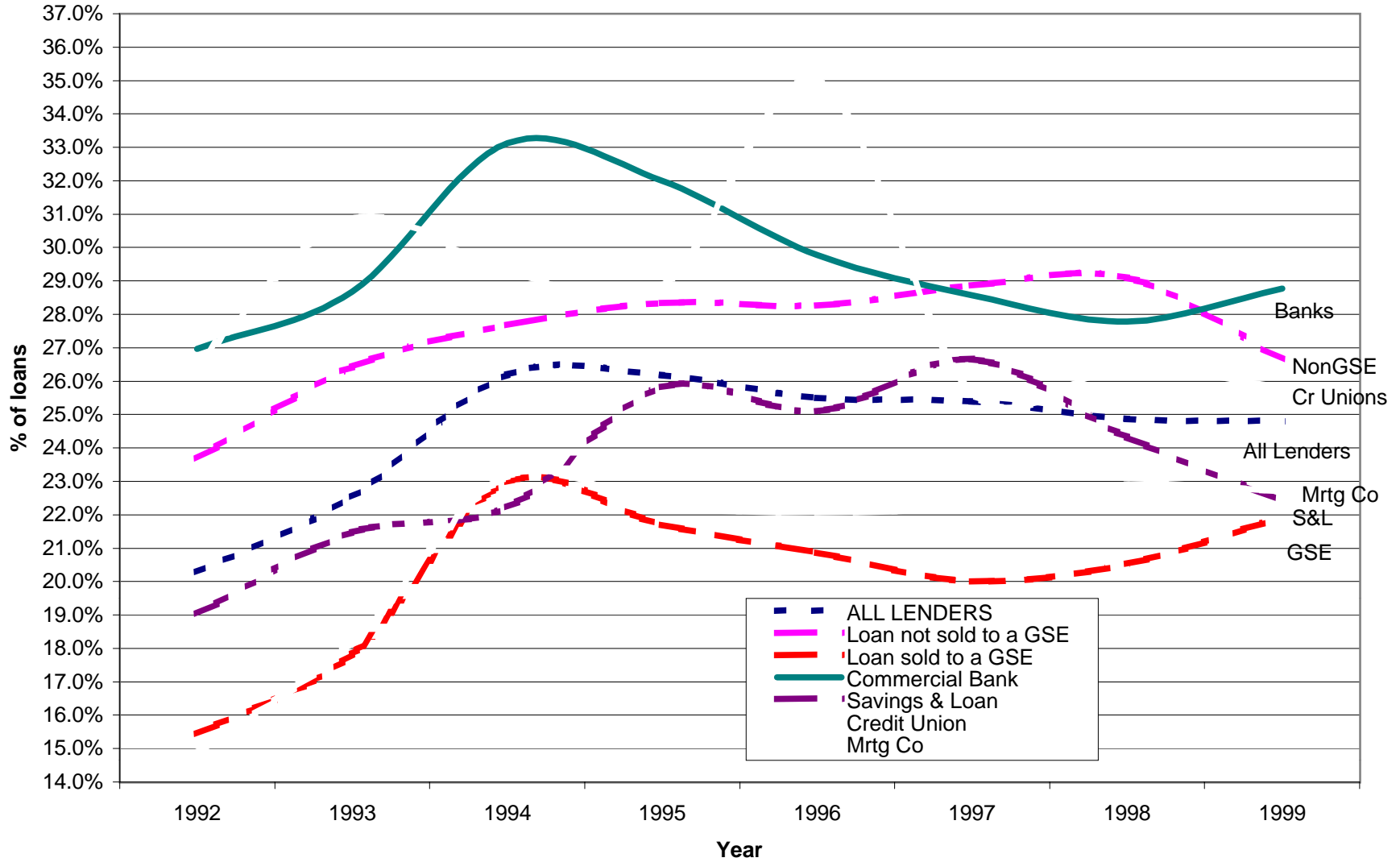
**Table 7: Percentage of Loans Going to Underserved Markets
Conventional, FHA, & Subprime/Manufactured Housing Loans
All Indiana MSAs, 1992-1999**

	1992	1993	1994	1995	1996	1997	1998	1999	All Years
Final Rule Underserved Markets									
Conventional	20.3%	22.5%	26.2%	26.2%	25.5%	25.4%	24.9%	24.8%	24.6%
Conventional + Gov backed	24.7%	27.4%	29.9%	29.9%	29.5%	30.8%	29.9%	29.9%	29.2%
Conventional + GOV + Subprime & MH	25.0%	28.0%	30.5%	31.0%	30.7%	32.1%	32.0%	33.3%	30.6%
Very Low Income Borrowers									
Conventional	10.3%	12.3%	14.9%	13.7%	13.1%	13.6%	14.3%	14.8%	13.5%
Conventional + Gov backed	11.9%	14.8%	16.4%	15.4%	15.5%	17.5%	17.6%	18.4%	16.1%
Conventional + GOV + Subprime & MH	12.2%	15.2%	16.9%	16.3%	16.4%	18.3%	19.1%	21.1%	17.2%
Low Inc Borrowers in Low Inc Tracts									
Conventional	3.8%	4.3%	5.7%	5.8%	4.8%	4.6%	3.9%	4.0%	4.6%
Conventional + Gov backed	5.3%	6.2%	7.2%	7.2%	6.6%	6.8%	5.7%	6.0%	6.4%
Conventional + GOV + Subprime & MH	5.4%	6.4%	7.2%	7.4%	6.7%	7.0%	6.5%	7.1%	6.7%
Targeted Areas									
Conventional	13.7%	14.6%	17.5%	18.4%	17.4%	16.9%	15.1%	14.7%	16.1%
Conventional + Gov backed	17.8%	18.8%	21.1%	21.8%	20.9%	20.8%	19.1%	18.5%	19.9%
Conventional + GOV + Subprime & MH	18.0%	19.0%	21.2%	22.4%	21.5%	21.5%	20.4%	20.6%	20.7%
Blacks									
Conventional	1.6%	2.1%	3.3%	3.7%	2.9%	2.8%	2.3%	2.8%	2.7%
Conventional + Gov backed	2.9%	3.5%	4.7%	5.5%	4.8%	5.0%	4.3%	5.3%	4.6%
Conventional + GOV + Subprime & MH	2.9%	3.5%	4.7%	5.5%	4.7%	5.1%	4.7%	5.7%	4.7%
Minority Neighborhoods									
Conventional	2.8%	3.2%	3.8%	4.1%	3.3%	2.9%	2.8%	2.9%	3.2%
Conventional + Gov backed	4.3%	4.6%	5.3%	5.6%	4.8%	4.5%	4.3%	4.2%	4.7%
Conventional + GOV + Subprime & MH	4.3%	4.6%	5.3%	5.7%	4.8%	4.7%	4.7%	4.9%	4.9%

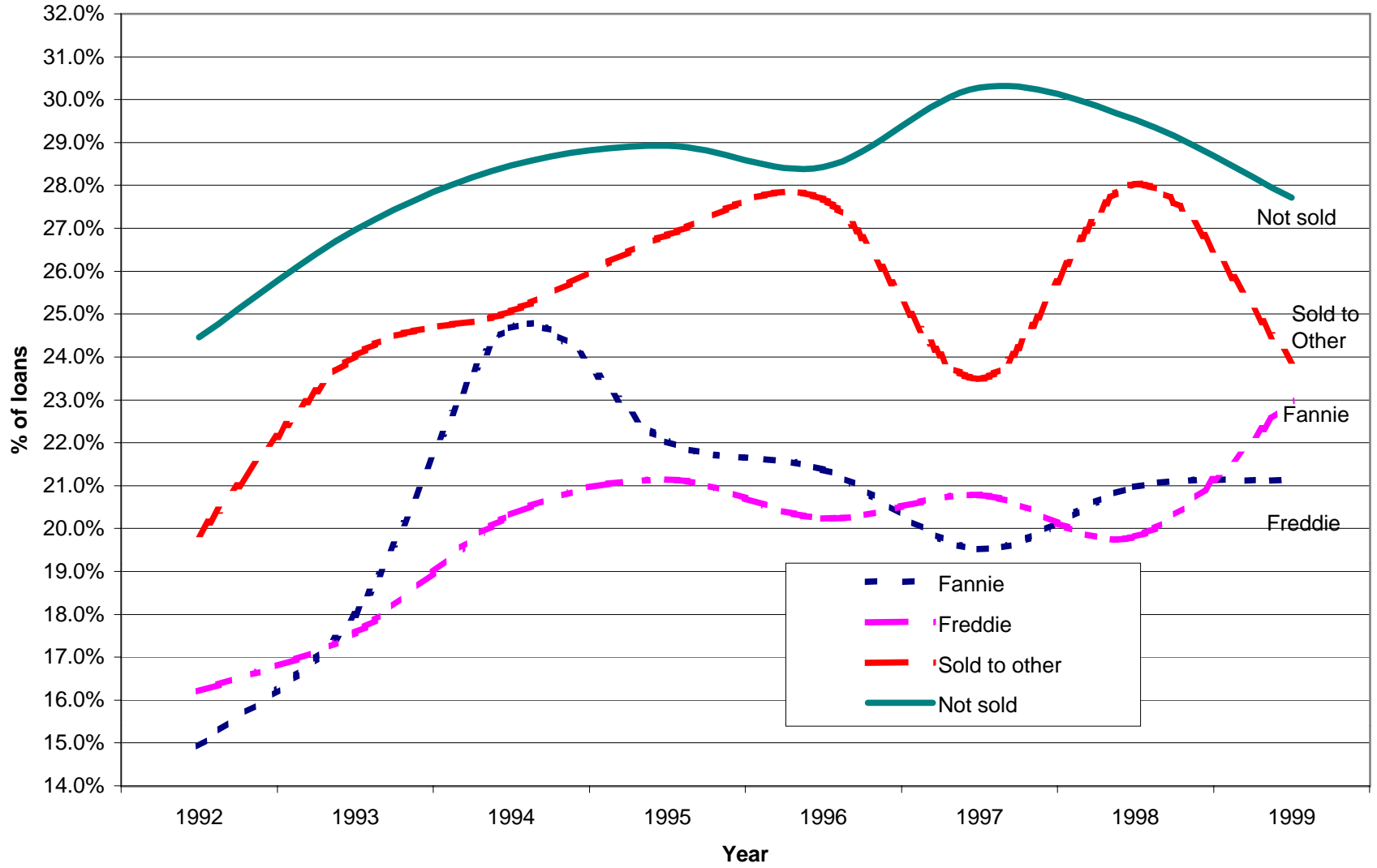
**Chart 1: Percentage of Loans Going to Final Rule Underserved Markets
GSE V. CRA Comparisons, Indiana MSAs 1992-1999**



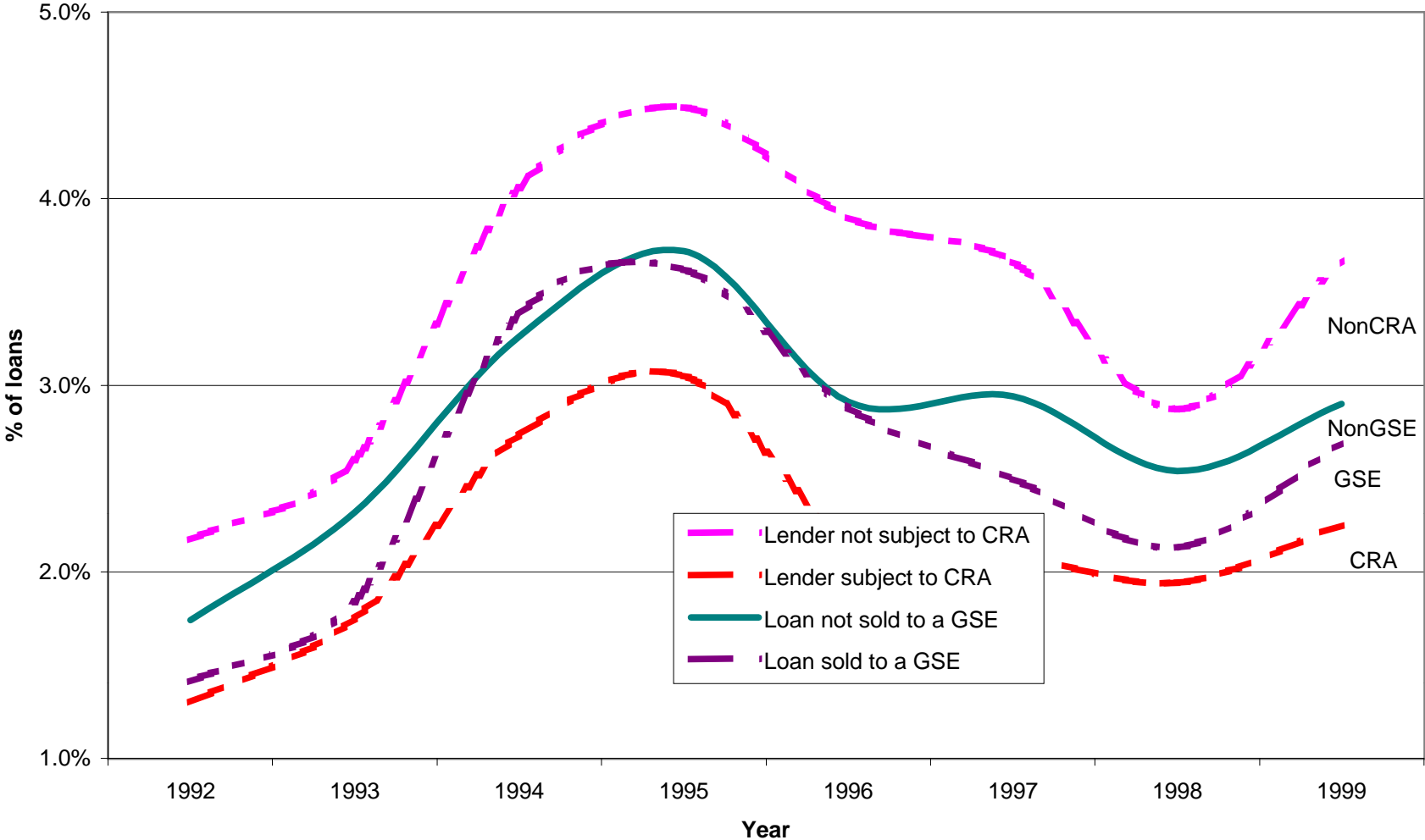
**Chart 2: Percentage of Loans Going to Final Rule Underserved Markets
GSE v. Primary Market Lender Comparisons, Indiana MSAs, 1992-1999**



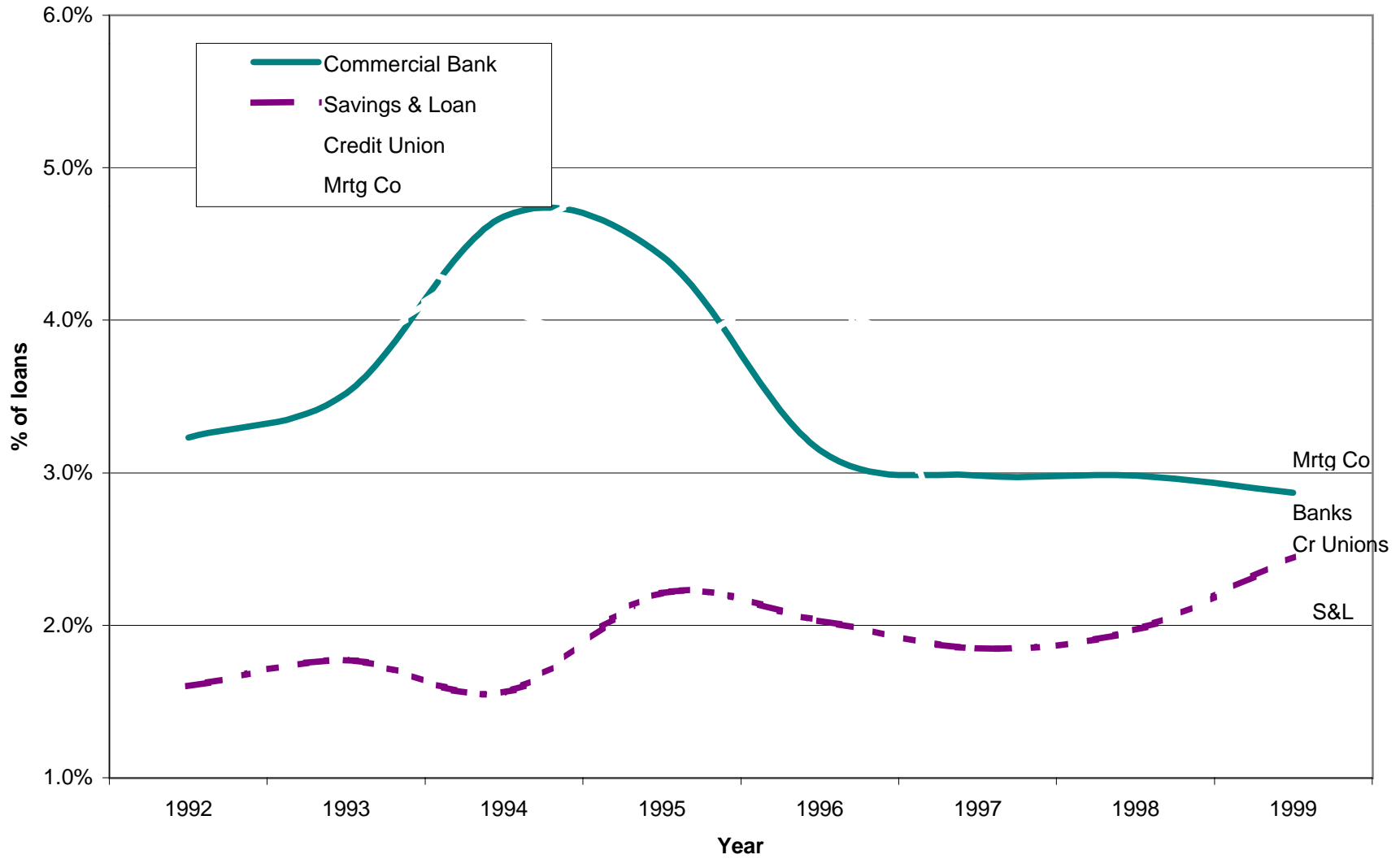
**Chart 3: Percentage of Loans Going to Final Rule Underserved Markets
Buyers of Loans Compared, Indiana MSAs, 1992-1999**



**Chart 4: Percentage of Loans Going to Blacks
GSE V. CRA Comparisons, Indiana MSAs 1992-1999**



**Chart 5: Percentage of Loans Going to Minority Neighborhoods
Primary Market Lender Comparisons, Indiana MSAs 1992-1999**



**Chart 6: Conventional, FHA, and Subprime/ Manufactured Housing Lending to Final Rule
Underserved Markets, Indiana MSAs, 1992-1999**

