Social Justice and Fair Distribution of Resources for Affordable Housing

An essay submitted in partial fulfillment of

the requirements for graduation from the

Honors College at the College of Charleston

with a Bachelor of Science in

Finance

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Executive Summary

Introduction

As I tackle the subject of 'Social Justice and Fair Distribution of Resources for Affordable Housing' there are three main areas of focus that will drive my analysis; the socioeconomic perspective like how owning a home helps people and helps the economy, the economic/finance legislation component like Fannie Mae, Freddie Mac, and Ginnie Mae, and lastly the ethical implications of who wins and who loses. I will conduct my research in a couple of different ways including a literature review of many sources and a complete data analysis of the research I find. These methods will help me grow my understanding of the 2007-2008 mortgage crisis, the recurring implications of that, and where the united states housing market is today. Through this research I will also develop my own opinions about how the united states government is making progress, passing legislation, and where the future of the market is going. I will review proposed solutions to the affordable housing crisis in our country as well as the ethical socioeconomic implications of these solutions.

Although the most well-known event in the housing market for the past 30 years was the housing crisis of 07/08/09, it was important for me to learn about the market far before this crisis to learn about how this happened. In order to develop a framework for this event one must start researching as far back as the 1930s. In the early 1930's the New Deal was created after the

Great Depression to allow homeownership to become more accessible to more Americans. Out of the New Deal, Fannie Mae was created by the government as a resource that bought mortgages so that mortgage lenders were able to originate more mortgages. Also, as part of the New Deal, the National Housing Act of 1934 was created which was essential because this lead to the creation of the Federal Housing Association, the United States Department of Housing and Urban Development, and the Federal Savings and Loan Insurance Corporation. These three key developments were all created in an effort to produce more affordable housing and affordable mortgages to American people.

Between 1939 until 1968 there were few key developments in the housing sector of the United States. In 1968 Fannie Mae was converted to a government sponsored entity (GSE) and was no longer a government entity so therefore, the government was no longer liable for the financial transactions of the organization. Fannie Mae was active on the primary market but on the secondary market Freddie Mac was created as another GSE to sell mortgage-backed securities to investors. Next, in 1977, the Community Reinvestment Act was passed which was created to make sure banks and loan associations offered loans to individuals with low incomes. Before this was passed there was a big problem with these banks not doing business with individuals under a certain income level which only widened the affordable housing gap. Although this was passed in 1977, it wasn’t until 1981 that every Federal Reserve bank was forced to open a Community Affairs Office to make sure they were complying with the rules of the Community Reinvestment Act.

In 1985 the Savings and Loan Crisis hit due to rising interest rates and lack of regulation in lending standards. The following year the Tax Reform Act of 1986 encouraged home equity lines of credit and second mortgages because it took away the tax advantages of financing debt through credit cards. This created a perfect storm for the housing market as regulation decreased, interest rates rise, and more and more people wanted to finance mortgages. These incentives for consumers only increased when the Taxpayer Relief Act of 1997 passed which offered the exclusion of capital gains taxes on the sale of homes. 1999 was a key turning point in the housing market because the HUD announced they would provide $2.4 trillion in mortgages for affordable housing for low income families by partnering with Countrywide Financial which led to Countrywide becoming the most prominent mortgage lender to minorities and low-income families in America (Fay, 2014). In this same year, the Gramm-Leach-Bliley Act repealed the Glass-Steagall Act which allowed for the deregulation of banks and insurance companies. At the end of this year the Dot-com bubble hit and housing prices leveled out for a short time. Two very contradictory events happened in 2000; Fannie Mae ordered HUD to use 50% of its business for low and moderate-income families (Fay, 2014), while at the same time the Commodity Futures Modernization Act allowed the trade of credit default swaps by banks and insurance companies. This was foreshadowing for the ultimate crisis in 2008.

From 2001-2005 the United States experienced one of the biggest housing bubbles in our history. This was due to many factors including; the Federal Reserve lowering the Federal funds rate from 6.5% to 1.75%, a reduction in the mortgage denial rate by 50% in 4 years, various tax breaks that incentivized home purchases, and lastly that Fannie Mae and Freddie Mac bought $81 billion worth of subprime loans (Fay, 2014). In 2004 homeownership peaked and Fannie Mae and Freddie Mac continued to purchase $434 billion in subprime mortgage securities. At this same time a lot of the big banks were no longer restricted by government debt limits, so they took advantage of this. Simultaneously, the Federal Reserve increased interest rates which caused a ton of subprime borrowers' mortgage payments to increase and double in some cases which they could not afford and therefore defaulted on their payments. This was the start of the downfall of the housing market and a snowballing effect came into play in the third quarter of 2005 when the bubble was burst, and home prices began to fall. This continued into 2006 and in February 2007 25 mortgage lenders declared bankruptcy (Fay, 2014). The government went into emergency mode and a lot of desperate measures were taken to bailout certain individuals and companies. In 2008 home sales only continued to fall and the stock market plummeted in early January. In July the Housing and Economic Recovery Act of 2008 passed which took away the capital gains exclusions on second homes and rental properties. The passing of this act increased mortgage default rates and home foreclosure rates because borrowers no longer had the tax advantages on these properties. Trends like these only continued to increase for the next few years.

This framework is so important to know when researching the housing market in America because often people don't understand why this crisis happened or what events led to the downfall of the economy. It is also important to understand the relationship between the housing crisis and the financial crisis of this time and that is something that will be discussed in great detail throughout the paper. Looking back on the past 100 years or so in this in-depth research, it is important to compare these events and legislation to what is happening today and what may happen in the future with the housing market.

Literature Review

One of the most important sources for my bachelor's Essay has been "The Community Reinvestment Act and Mortgage Lending to Lower Income Borrowers and Neighborhoods" by Neil Bhutta. The Community Reinvestment Act was passed in 1977 and it stated that federally insured banks have an obligation to help meet the credit needs of their local communities. It also required bank regulators to periodically assess the records of each bank to ensure they are meeting the needs of everyone in their community, including low-and moderate-income neighborhoods. The Community Reinvestment Act had a big impact on the availability of mortgages over the past two decades. Bhutta summarizes this when he says, “Many now argue that the CRA helped promote the recent financial crisis by pressing banks to take undue risks”. This was evidenced by the steep increase in homeownership in the U.S. between the mid 90s and mid 2000s. One of Bhutta’s goals was to analyze mortgage lending to targeted lower income households. Lower income households have been defined in this paper as those with income less than 80 percent of the metropolitan statistical area median family income. Lower income households are more likely to only put down a very small down payment and therefore being stuck with suboptimal credit supply.

Another possible effect of the CRA when it was passed was that it would crowd out non-regulated banks because they wouldn’t have to adhere to these rules. Something interesting that Bhutta found was that there was a small increase in non-regulated bank lending to CRA-targeted neighborhoods in large metropolitan areas. This is because it is in the best interest of the government to provide incentives to lend more which leads to an increase in transactions in lower income areas. This is an indirect effect of the CRA that is important to note. One of the motivators behind the creation of the CRA was the belief that higher levels of homeownership lead to positive attributes within a community. As a result, in 1995 some regulatory changes were made to the CRA to shift its focus to enforcing lending in low income areas and less on the credit needs of these individuals. However, the CRA examinations, take into account the “capacity of each institution to extend credit to lower income groups and the local economic and market conditions that might affect the income and geographic distribution of lending” (Bhutta, 960). Therefore, the CRA did not set a minimum number of loans that must be made because of these other factors. The CRA applies to banks but not independent nonbanks. One of Bhutta's primary arguments in this paper is that the CRA has been effective primarily in large metropolitan areas but not in small or medium sized areas. Overall, Bhutta concluded that "looking at the nation as a whole, the effect of the CRA is small ad difficult to detect" (Bhutta, 980). He found that on average, the CRA increased the number of loans to low income households in large metropolitan areas by 7% (Bhutta, 980). It was more successful in larger areas because the rules were enforced in those areas more. Bhutta also recognizes that although some have blamed the CRA for the recent financial crisis, but he does not agree that the CRA led to the rise in lending that led to that crisis. Bhutta wraps up his thoughts by saying "The results in this paper support the contention that the CRA can induce bank lending that further stimulates market-based lending, and thus the CRA may be a useful policy tool if credit conditions in lower income neighborhoods deteriorate excessively" (Bhutta, 979). Bhutta gave a really interesting perspective on the Community Reinvestment Act and I feel like I have a good base level understanding of its effects and impacts.

The next source I read was an article from the National Community Reinvestment Coalition called "Intermediate Small Banks: The Forgotten but Significant Resource for Affordable Housing and Community Development". This article focuses on intermediate small banks and their levels of community development financing and how it would be affected by changes to the CRA. An Intermediate Small Bank is characterized as "a depository institution with assets ranging from $307 million to $1.226 billion" (Dettelbach, 5). The CRA tests I discussed from the previous article is used for these size institutions but there is also a Community Development (CD) test they must take that analyzes the dollar amount of CD loans and investments for affordable housing, economic development, and community facilities. In addition, CD test also measure services like financial counseling that is accessible for those in low income areas. There have been proposals to eliminate the CD test and this article analyzes the benefits of the CD test, whether or not it promotes loans to low income individuals, and the issues that could come up if this was eliminated altogether. This article concludes that by a neighborhood losing CRA eligibility status leads to decrease in volume of mortgage originations by 10 to 20 percent (Dettelbach, 5). While in contrast, giving one bank CRA incentives raises the volume of mortgage originations by 4 percent (Dettelbach, 5). It has been shown in my previous article that this is true of larger banks and of all CRA-regulated banks in general, but this paper specifically looks at ISB banks. Although it is not possible to determine an exact number of CD finance that is due to the CRA, the NCRC was able to predict the losses that would occur if the CRA was taken away or modified to not include the CD test for ISB banks in three different scenarios. In the first scenario estimated losses were $561 million per year, the second scenario it was $1.773 billion per year, and in the third scenario it was $2.15 billion per year (Dettelbach, 5). These numbers are 19%, 60.1%, and 72.8% of the current annual total. In conclusion this article offers 5 recommendations including keeping the CD test, develop measures of performance for CD services, and develop a method to evaluate the rigor of CRA exams. Their research proved that CD tests generate billions of dollars for affordable housing and community development and definitely shouldn’t be taken away. Finally, this article shows that CRA exams motivate ISB banks to issue billions of CD finance and that is beneficial to their communities.

I also read an article called “Why Have Banks Stopped Lending to Low-Income Americans?” by Amanda Abrams. This article was written in December of 2017 so it’s not completely current but at this time the three largest banks, Wells Fargo, Bank of America, and

JPMorgan Chase, have declined their mortgages issued to low-income borrowers from 32% in 2010 to 15% in 2016 (Abrams). This shows that these three large banks have drastically cut their lending to low income individuals in the past few years. In addition to this, in 2016 black and Hispanic borrowers had more trouble getting a loan than a whiter person. This lead to an increase in loans for low income individuals from non-regulated financial institutions like Loan Depot or Quicken Loans. These kinds of institutions will often lend to low income individuals but then charge them higher fees and rates. Research has shown that homeownership is a good stepping stone for lower class citizens to be able to move up into the middle class and these banks not allowing them to get good clean loans is hindering that. Most banks have considered low income families and minorities to be credit risks, so they rarely provide them with conventional mortgages. Jim Parrot, a fellow at the Urban Institute, said “There’s been a real struggle to figure out how to expand homeownership into that segment at the margin of sustainable credit in a way that works” (Abrams). This led to predatory lending practices where people of color who made more money than a white person were more likely to receive a subprime loan than the white person. Although these practices have been stopped for the most part, credit to low-income communities has dried up since the foreclosure epidemic that stemmed from these unethical lending practices. In fact, African American homeownership is at its lowest level in 40 years and the gap between black and white homeownership is the biggest it’s been since World War II (Abrams). This article was concluded with “despite a decade of setbacks, the game is definitely not over for low-income borrowers” (Abrams). This shows there is still hope for these families and it is apparent that there is an issue to be fixed.

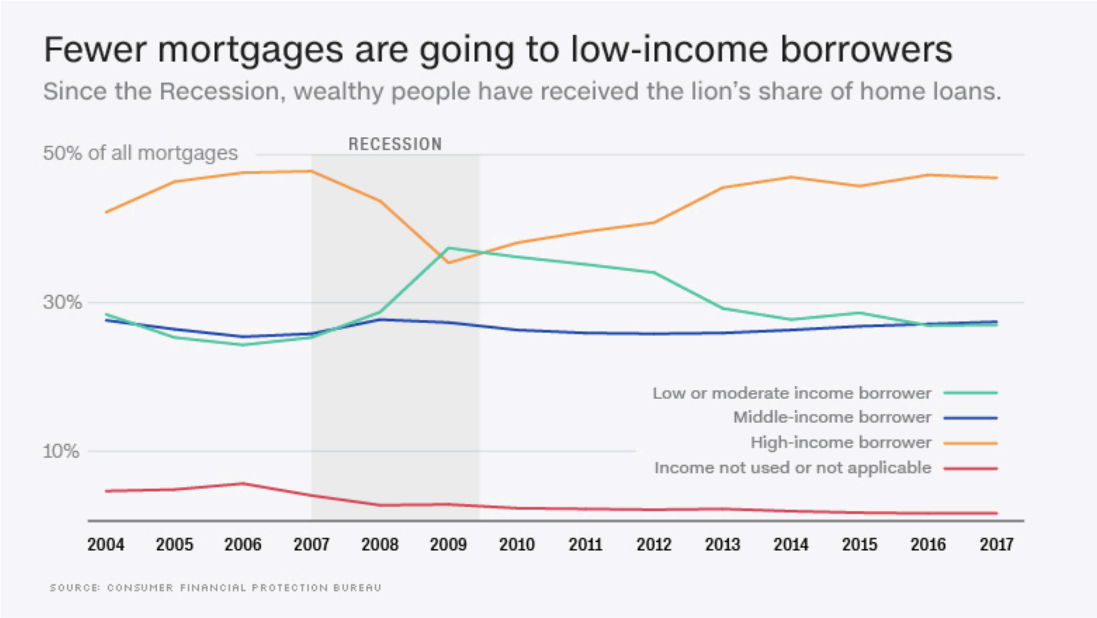
The next article I read was “5 Best Lenders for Bad Credit Home Loans” by Joel Anderson. The U.S. Federal Housing Administration backs home loans which are a good option for those with lower credit scores. The FHA insures loans from lenders so that the lenders can give better deals like low closing costs and easy credit qualifications to help borrowers. The first financial institution on this list is Ditech Home Loans, which offers FHA loans that only require a 3.5% down payment (Anderson). Second on the list is Primary Residential Mortgate Inc., which has a minimum credit score requirement of 640 and offers a wide range of loan length terms from 10-30 years (Anderson). Third on the list is Bank of America, which offers an Affordable Loan Solution program aimed at medium income borrowers who can only put down a small down payment. There is an income requirement and loan limits, but mortgage insurance is not required, and you only have to put 3% down (Anderson). Next on the list is Quicken Loans, which only requires a 580-credit score, and is one of the more recognizable lower credit lenders (Anderson). Lastly, Wells Fargo offers a few programs to help those with lower credit like qualifying with a co-applicant with a higher score, or VA loans, as well as its Easy to Own Guaranteed Rural Housing Program (Anderson). All of these banks are backed by the government, so they are able to give better offers than a normal non-regulated financial institution. These are all good options for those with lower credit scores, but it still doesn’t solve the problem of the lack of affordable housing in America.

The next article I read was “Fannie Mae Affordable Housing Loans and LIHTC Program Overview” on the Commercial Real Estate Finance Company of America’s website. The Low-Income Housing Tax Credit Program was designed to give incentives to preserve and build affordable housing properties. This program gives tax credits to those who invest in rental properties that qualify and are affordable where renters earn 60 percent or less of the area median income (CREFCA). With this program there are a lot of guidelines like a $1 million maximum loan size, maximum LTV of 80 percent, and a minimum physical occupancy of 85 percent or economic occupancy of 80 percent for 90 days prior to closing (CREFCA). There are also sponsor requirements like a minimum 680 credit score, and a minimum experience with rent/income restricted property requirement (CREFCA). Fannie Mae also requires minimum expenses for certain items like repairs, payroll, and replacement reserves. The more important guidelines dictate what properties are eligible and set income restrictions. For example, Section 8 HAP contracts and properties with existing RD 515 insured under section 202 and 236 of the National Housing Act are eligible (CREFCA). The income restrictions include 20 percent or more units are rented to families earning 50 percent or below the area median income or 40 percent or more units are rented to families earning 60 percent or below the area median income (CREFCA). And lastly, a restabilization reserve equal to 6 months of the debt service is also required. In conclusion, although this is a great program that can help a lot of people, there are a lot of requirements to meet these guidelines for the Low-Income Housing Tax Credit Program, and therefore it becomes less effective.

I have done research on a variety of topics surrounding affordable housing in America and these have been some of the most helpful sources I've read so far. I will use these sources as a framework and begin to deeply analyze the financial implications of affordable housing in America.

Data Analysis

1.



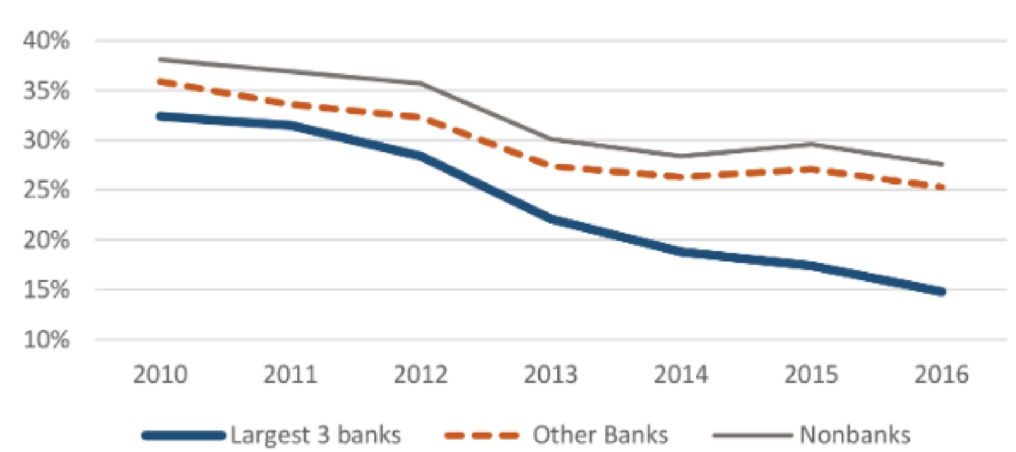
Source: (Consumer Financial Protection Bureau)

Analysis:

This graph from the Consumer Financial Protection Bureau shows that in general more mortgages are being given to high-income borrowers, fewer mortgages are being given to low or moderate-income borrowers, and the number of mortgages given to middle income borrowers has stayed the same over the past 13 years. High income borrowers received close to 50% of all mortgages in 2017, while the volume of mortgages lent to low income borrowers has dropped more than 15% since 2011. This graph does not show which banks these mortgages are coming from, just an overall picture of mortgage volume per sector. This shows the level of inequality in the number of loans per demographic sector, and how this pattern has developed over time. This is an important piece of data for my bachelor's essay.

2.

Figure 1: Share of Mortgages to LMI Borrowers



Note: The nonbank category excludes lenders identified as subsidiaries or affiliates of depository institutions. Source: Federal Financial Institutions Examination Council (U.S.).

Accessible version

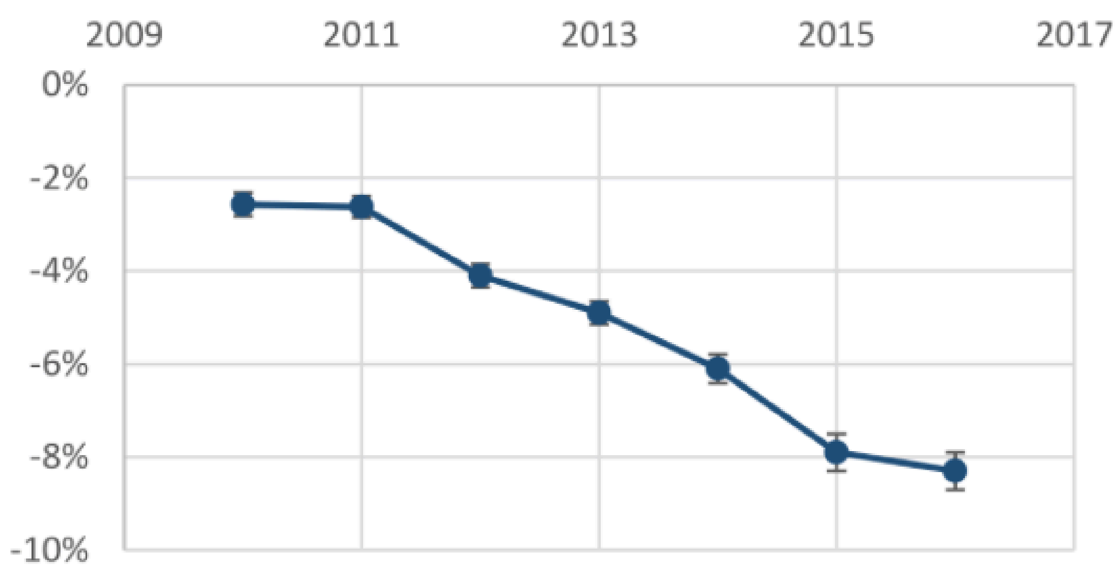
Source: Consumer Financial Protection Bureau

Analysis:

This graph from the Federal Financial Institutions Examination Council shows where mortgages to low to moderate income borrowers are coming from. In 2010 it is shown that 38% of mortgages for low income to moderate income borrowers came from nonbanks. These are financial institutions that are not federally regulated. As a result, often times these loans are of lower quality and can end up putting borrowers in a worse position in the end. Also, in 2010, 35% of mortgages to low and moderate-income borrowers came from smaller, other banks. And lastly, 31% of mortgages to low and moderate-income borrowers in 2010 came from the three largest banks. These percentages are pretty even. Then, 6 years later in 2016 those percentages have all decreased. This shows that overall, banks are lending less to low and moderate-income borrowers. In 2016, nonbanks lent 28% of the mortgages to low and moderate-income borrowers, small/other banks lend 26% of the mortgages to low and moderate-income borrowers, and the three largest banks only lend 14% of the mortgages to low and moderate-income borrowers. All of these percentages are drastically lower than the statistics from 2016. However, the important one to focus on is the decrease in the percentage of mortgages lent to low and moderate-income borrowers from the three largest banks. This shows the unjust inequality in the mortgage lending market in the United States over the past 8 years. This is contributing to the lack of affordable housing because high quality banks are not lending as much to these low-income individuals, so they must resort to lower quality mortgages from nonbank bank's that are not federally regulated. This is not a good option for everyone and can further the socioeconomic divide between these groups in the United States.

3.

Figure 2: Difference in Within-County LMI Share for Largest Banks



Note: Graph shows coefficients on a dummy variable for the lender being Wells Fargo, JPMorgan Chase or Bank of America in a regression estimating the probability that the borrower was LMI, controlling for county fixed effects. Error bars show standard errors, which are clustered by county. Source: Federal Financial Institutions Examination Council (U.S.).

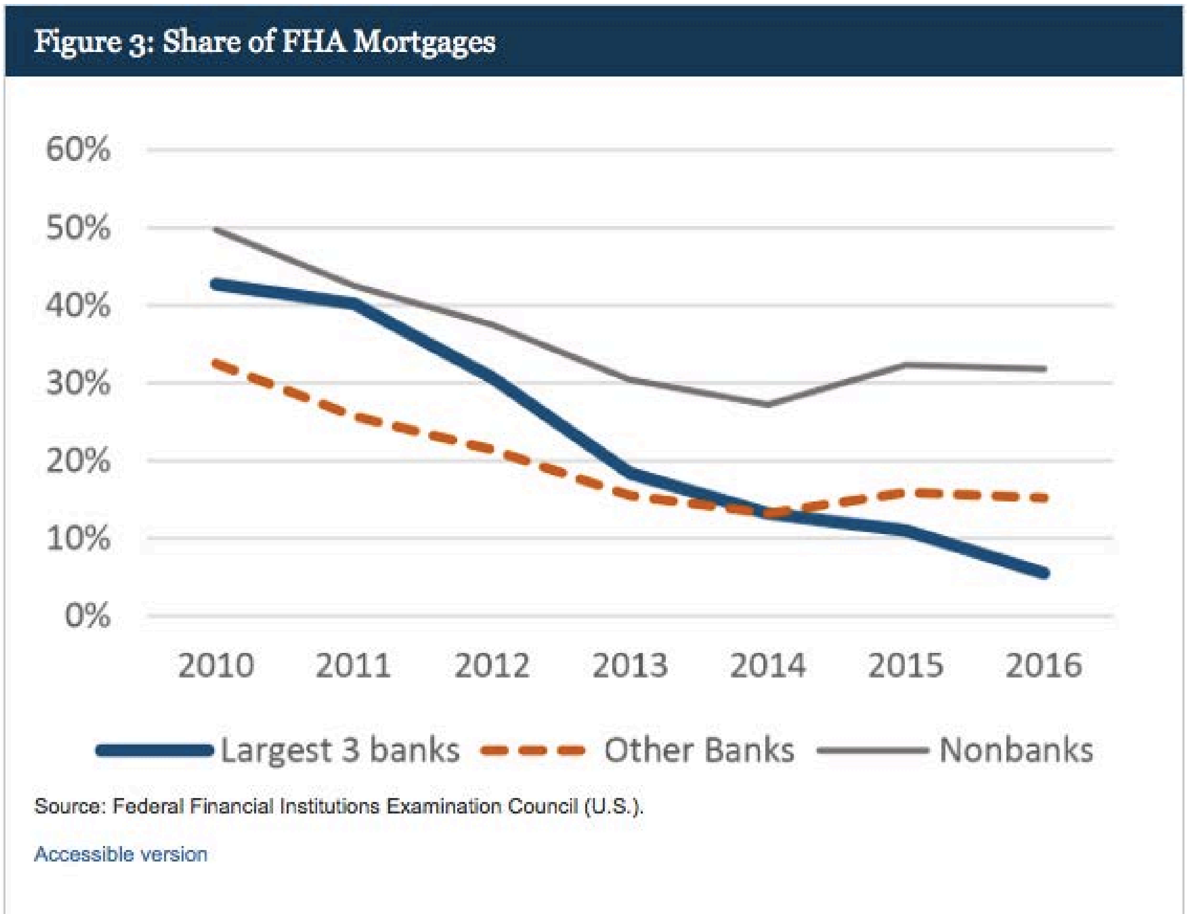
Accessible version

Source: Consumer Financial Protection Bureau

Analysis:

This second graph from the Federal Financial Institutions Examination Council shows a common trend of lending behavior of the three largest banks from 2010 to 2016. The three largest banks have drastically decreased the amount of loans made to low to moderate income borrowers from 2010 to 2016. This is in line with the two previous charts, but one important element of this chart is that it includes the names of the three large banks: Wells Fargo, JPMorgan Chase and Bank of America. This decrease in loan origination by these big banks is plausible because low to moderate income borrowers are almost always considered high risk borrowers with lower credit scores. One contributing factor to this trend is that since the housing crisis of 2008 big banks like these have been stricter about the criteria they hold borrowers to in order to lend to them. Many low to moderate income borrowers do not fit these criteria and are therefore turned down by these bigger banks. Another factor that is contributing to this is that a lot of low to moderate income borrowers in America live in rural or poorer areas where big names like these do not have branches and therefore borrowers don't have access to their services.

4.



Source: Consumer Financial Protection Bureau

Analysis:

This last chart from the Federal Financial Examination Council shows the percentages of the mortgages lent by these three sectors that are Federal Housing Association mortgages. In 2010 50% of the loans nonbanks lent were FHA mortgages, 42% of the loans the three largest banks lent were FHA mortgages, and 32% of the loans that other smaller banks lent were FHA loans. Then in 2016, nonbanks had 30%, the three largest banks had 6%, and other banks had 15%. This shows a very drastic decrease in volume of FHA loans from 2010 to 2016 and all three sectors hit an all-time low in 2014. This shows that there has been progress in increasing the volume of FHA loans since 2014 but that the numbers are not back to their pre-crisis numbers. This means that regulations and incentives to combat these decreases in loans to low to moderate income borrowers have helped the situation. However, this is not a sustainable solution because this graph still shows a downward trend going forward. More needs to be done to fix this problem of mortgage inequality, as it directly relates to affordable housing solutions in America.

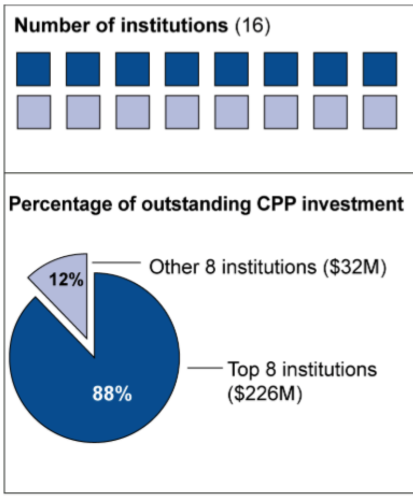
All of this data suggests the same thing: this problem is getting worse. Fewer lenders overall are lending to low and moderate-income individuals which makes it difficult for these borrowers to get the loans they need. In addition to that, bigger banks, and banks in general are lending to these individuals at a much lower rate than nonbanks. These nonbanks are not regulated by the government and therefore are not as high quality. This means the loans that low and moderate-income individuals do have access to are of lower quality and are setting up these borrowers to be worse off in the end. These data points show that all lenders are responsible for a part in this issue, not just the large banks. There isn’t a perfect solution to this issue but right now all of these trends are all contributing to the problem of the lack of affordable housing in America right now. More regulations and incentives may be the answer as there was a slight positive impact when these were issued in the past. I will use this data to support my argument in my bachelor’s essay and research what, if any, solutions are in progress to combat this issue of affordable housing in America today.

Conclusions

There are obviously many problems with the lending industry today and these problems will continue unless something changes. Some of these problems that need to be fixed are that nonbanks are only regulated under the SEC. These nonbanks include investment banks and mortgage lenders. This means they are not operating within the bank regulatory system and could be giving out loans to increase money supply. Which leads to the second problem that the money supply is out of control of the treasury. In addition, the size of shadow banking industry is growing and the problem with this is that they are not insured by the FDIC. Regulated banks use depository insurance on their mortgages so if they are too risky they get in trouble. In contrast, nonbanks have no FDIC insurance and are lending long term loans like mortgages from very short-term funding like bank loans. Their solution to alleviate the liquidity risk was to securitize them but the problem with this is systematic risk and that there is a very high risk of short term interest rates increasing and so the value of their loans would go down. Next, a conventional loan that it can’t be over $400,000 in most states, otherwise it is a jumbo-loan and many nonbanks are issuing these when they aren’t supposed to. According to NonPrime, the top 10 jumbo lenders of 2019 are US Bank, Amifund Home Mortgage, Bank of America, Bofl Federal Bank, Quicken Loans, Sprout Mortgage, BMO Harris Bank, SunTrust Mortgage, New American Funding, and Prime Lending. Also, the FHA is guaranteeing loans outside the regulated amount at places like Quicken Loans and Countrywide. This means that these nonbanks that are not regulated by the government are backing loans that are outside of the standard loan requirements. This is a problem for many reasons. First, they are not regulated, except by the SEC, so if they default, no one is going to bail them out since they aren’t insured by the FDIC. Second, the standard loan requirements were passed in order for another housing crisis to be avoided, if possible, and they aren’t following these new standards. Third, by lending to risky borrowers and by lending to a high volume of risky borrowers, they could see very high default rates if the economy takes a slight dip. Lastly, if big banks like Lehman Brothers and Merrill Lynch tried to have this strategy previously and couldn’t survive, these smaller non-regulated companies like Countrywide and Quicken Loans are not going to be able to sustain themselves if they continue to make these risky loans much longer. Another issue that FHA loans cause is that FHA financing kills the market for loans over the standard limit. According to debt.org, 6 of the top 10 mortgage originators in 2017 were nonbanks. These nonbanks were Quicken Loans, PennyMac, Freedom Mortgage, Caliber Home Loans, loanDepot, and AmeriHome mortgage. These 6 made up 51% of loan origination in 2017, which was just 9% in 2009. This trend is a result of a lot of issues, but restrictions and regulations were so tight after the housing crisis in 2009 so banks were not able to originate very many loans, so nonbanks stepped in to take up more of the lending market. As time has passed and the economy has recovered, these nonbanks are making more and more loans while at the same time, bigger banks are starting to make a comeback as regulation have loosened a little bit. However, as more and more loans are approved this could lead to a liquidity crisis in the near future because these loans are funded with equity and short-term debt. This will be something to keep an eye on in the coming months and years.

Another unresolved issue regarding the mortgage market is TARP. The efforts of TARP have been more focused on Fannie Mae and Freddie Mac even though they aren't the riskiest and they usually use conventional loans. TARP should be focused on the FHA because they issue most of the riskiest loans across the country. In addition, a lot of the big banks like Wells Fargo Bank never paid back their fines due to the liquidity crisis and taking money from the government to be bailed out of all their debt. The Government Accountability Office produced a report regarding TARP and specifically the Capital Purchase Program (CPP). This report was published in 2016 and shows the efforts of CPP and which 16 institutions have yet to pay back their government bailouts, 8 years after the crisis ended. As this figure shows, those 16 institutions are First BankCorp, OneFinancial Corporation, Liberty Shares, Broadway Financial Corporation, Tidelands Bankshares, HCSB Financial Corporation, OneUnited Bank, Cecil Bancorp, Harbor Bankshares Corporation, Citizens Commerce Bankshares, Allied First Bancorp, Grand Mountain Bankshares, St. Johns Bancshares, US metro Bank, and Saigon National Bank.

Figure 3: Remaining Capital Purchase Program Investments, as of February 29, 2016



Outstanding Capital Purchase Program (CPP) investment by institution

	Institution	Location	Investment amount (dollars in millions)	Percentage of total outstanding investment
1	First BanCorp	San Juan, PR	$124.97	49%
2	OneFinancial Corporation	Little Rock, AR	17.30	7
3	Liberty Shares, Inc.	Hinesville, GA	17.28	7
4	Broadway Financial Corporation	Los Angeles, CA	15.00	6
5	Tidelands Bancshares, Inc.	Mount Pleasant, SC	14.45	6
6	HCSB Financial Corporation	Loris, SC	12.90	5
7	OneUnited Bank	Boston, MA	12.06	5
8	Cecil Bancorp, Inc.	Elkton, MD	11.56	4
9	Harbor Bankshares Corporation	Baltimore, MD	6.80	3
10	Citizens Commerce Bancshares, Inc.	Versailles, KY	6.30	2
11	Pinnacle Bank Holding Company, Inc.	Orange City, FL	4.39	2
12	Allied First Bancorp, Inc.	Oswego, IL	3.65	1
13	Grand Mountain Bancshares, Inc.	Granby, CO	3.08	1
14	St. Johns Bancshares, Inc.	St. Louis, MO	3.00	1
15	US Metro Bank	Garden Grove, CA	2.86	1
16	Saigon National Bank	Westminster, CA	1.55	1
	Total top 8		**$225.5**	**88%**
	All other CPP outstanding		$31.6	12%
	All CPP outstanding		**$257.1**	**100%**

Of these 16 institutions, 8 are considered to still be in financial trouble and have had negative yields for multiple years since the crisis. This is likely why their debt has not been paid back, however, the top 8 institutions in this chart account for $226 million dollars of government funding that has not been paid back. It is argued that there has to be some sort of consequence for this, or else why would current institutions not follow the same behaviors as these banks did, knowing they will just be bailed out by the government and won't be forced to pay back their debt.

I complied I list of my own below of more banks than in the previous figure who were issued millions, if not billions, of dollars of money from the government during the housing crisis and many have paid back some of it but many also haven't made much progress on their government debt, and probably never will. The complete list on "Bailed out Banks" by CNN

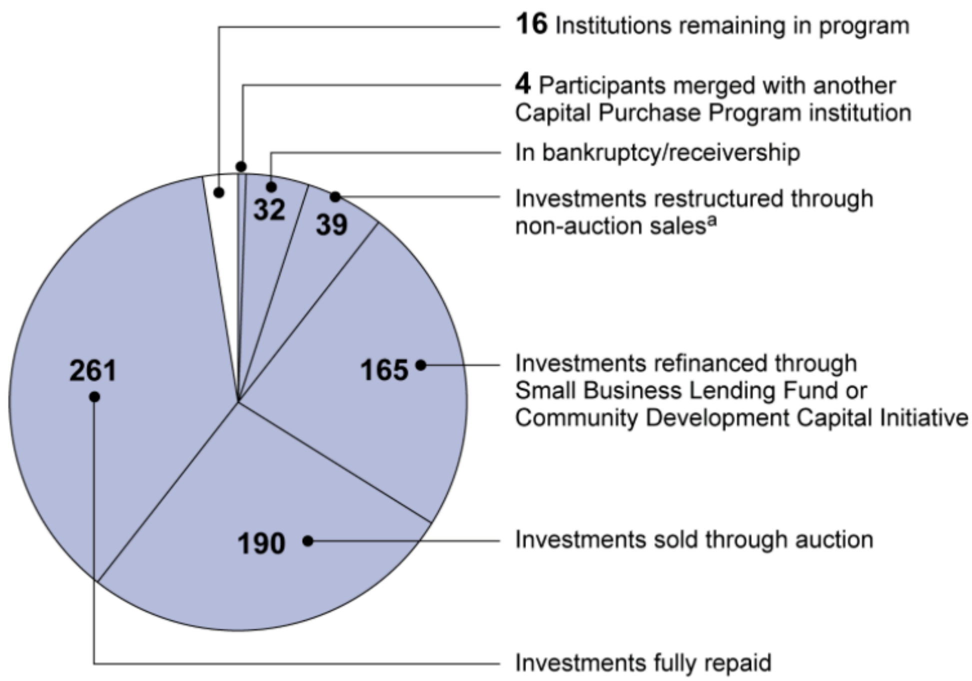
Money has over 250 banks on it in total and the amount of funds received by these banks adds up to over $108.5 billion and the total amount that has been repaid is around $98 billion.

Financial Institution	Amount Received (in millions)	Amount Paid Back
Wells Fargo & Co.	$25,000	$8,000
Citigroup Inc.	$25,000	$9800
Regions Financial Group	$3,500	$2500
UCBH Holdings Inc.	$298.737	$290
SunTrust Banks, Inc.	$3,500	$1050
Provident Bancshares Corp.	$151.5	$108
KeyCorp	$2,500	$1598
First BanCorp	$124.97	$63.73
OneFinancial Corporation	$17.30	$16.09
Liberty Shares, Inc.	$17.28	$16.07
Broadway Financial Corporation	$15	$14.1
Tidelands Bancshares, Inc.	$14.45	$13.58
HCSB Financial Corporation	$12.9	$12.25
OneUnited Bank	$12.06	$11.45
Cecil Bancorp, Inc.	$11.56	$11.09
Harbor Bankshares, Inc.	$6.8	$6.59

Citizens Commerce Bancshares, Inc.	$6.3	$6.1
Pinnacle Bank Holding Company, Inc.	$4.39	$4.3
Allied First Bancorp, Inc.	$3.65	$3.6
Grand Mountain Bancshares, Inc.	$3.08	$3.04
St. Johns Bancshares, Inc.	$3	$2.97
US Metro Bank	$2.88	$2.85
Saigon National Bank	$1.55	$1.53
Huntington Bancshares	$1,398.071	$1,090
Comerica Inc.	$2,250	$1,790
Zions Bancorporation	$1,400	$940
Capital One Financial Corp.	$3,555.199	$3,432
Marshall & Ilsley Corp.	$1,715	$1,563
City National Corporation	$400	$380
Banner Corporation	$124	$112
Associated Banc-Corp	$525	$453
First Midwest Bancorp, Inc.	$193	$178

Source: https://money.cnn.com/news/specials/storysupplement/bankbailout/

Figure 2: Status of Institutions That Received Capital Purchase Program Investments, as of February 29, 2016



This figure from the GOA report shows that out of all the institutions that were bailed out by the government, only 261, which is less than half, fully paid back their investments. 16 are the institutions remaining, 4 merged with another institution, 32 have gone bankrupt, 39 had their investments restructured, 165 refinanced through other organizations, and 190 sold their investments through auction. All of these different outcomes were ways of not paying back this debt. This shows that repayment was not strictly enforced and does not hold true going forward as far as consequences for banks and nonbanks in the future. A lot of the biggest banks were not required to pay back this money; however, they are not to blame for this entire problem. A lot of these banks were restrained with a lot of new restrictions and legislation which may have had a worse impact on their profits than paying back this money in the first place so it seems many of them have learned their lesson.

A positive development that has been make up for some of the slack that nonbanks have had in the past is the Consumer Financial Protection Bureau. This is a government entity that is an intermediary between the nonbanks and the consumers. It was created so that nonbanks did not have free reign to act and lend as they choose without any repercussions of making bad loans or of performing illegal activities. The CFPB has played an important role in leveling the playing field between banks who are regulated by the government and by the SEC, and the nonbanks who previously really had no regulation. The CFPB was created in 2010 as part of the Dodd Frank act to protect consumers after the financial crisis and although it has had different leadership since its creation, its implementation of regulation has been consistent until spring of 2018. In May 2018 President Trump signed into legislation an amendment that exempts dozens of nonbanks from being regulated by the Consumer Financial Protection Bureau (Merle, 2018). Although the creation and implementation of the CFPB has been very good for nonbank regulation from 2010 to 2017, the passing of legislation and political agendas like these by President Trump, could lead to the CFPB being ineffective if it no longer regulates all nonbanks. This is a problem that will be ongoing with the uncertainty and volatility of politics in the United States and it could lead to bigger problems surrounding the economic health of our country.

There have been a series of developments to stop this cycle from continuing like the CFPB, the FSOC, and the creation of liquidity, leverage and capital requirements for banks and nonbanks. There are 17 consumer financial laws that the CFPB enforces on nonbanks: Alternative Mortgage Transaction Parity Act, Consumer Leasing Act, Electronic Fund Transfer Act, Equal Credit Opportunity Act, Fair Credit Reporting Act, Home Owner’s Protection Act, Fair Debt Collection Practices Act, Federal Deposit Insurance Act, Gramm-Leach-Bliley Act, Home Mortgage Disclosure Act, Home Ownership and Equity Protection Act, Real Estate

Settlement Procedures Act, S.A.F.E Mortgage Licensing Act, Truth in lending Act, Truth in Savings Act, Omnibus Appropriations Act, and Interstate Land Sales Full Disclosure Act (Consumer Financial Protection Bureau). Any nonbank that lends to consumers was regulated by the CFPB and upheld to following these laws, until Trump made an exception for dozens of them in May 2018. The next development of the FSOC was to enforce regulation by threat of legal repercussions for not following strict lending standards. Lastly, the liquidity, leverage and capital requirements enforced on banks and nonbanks alike were implemented as a final step for institutions to be tested so that even if they are lending legally and following the regulations set by the CFPB and FSOC, they also have to have a certain amount of capital, a certain level of liquidity, and meet certain leverage requirements. This was implemented as a way to protect consumers but to also protect the institutions and the government in case of an economic downturn and the hope is that if they are held to all of these requirements then they would be able to survive the next financial crisis and there wouldn’t be as many institutions filing for bankruptcy and in-turn needing the government to bail them out of their debt. In essence, these requirements are a way to combat the problem of institutions being “Too Big to Fail”.

Although these are all positive developments, there are several problems with a lot of these regulations. For example, the problem with the FSOC is, they encourage risk taking, especially for the firms that are too big to fail, and only warn the rest. The list of all the banks that have been fined, because of no capital requirements for nonbanks, is extraordinarily long and many of them have never paid it back. One suggestion for this would be for the Federal Reserve and other regulators to step in and help with this issue of systematic risk. The Federal Reserve needs to make adjustments to their policies so that nonbanks have to be regulated by them, or by some other entity, or this problem is just going to continue until we see crisis after crisis for the same reasons. For example, a new rule could be if you issue a certain number of mortgages or a certain percentage of your businesses comes from issuing mortgages then you must be treated like a normal bank and be regulated by the Federal Reserve. The Federal Reserve can’t go back in time and force banks and nonbanks to pay their fines, which caused this problem of no fear of consequences in the lending industry, but going forward a solution could be to start enforcing stricter standards across a wider range of lenders to keep some of these risky loans from being approved, and hopefully stop a repeat of the 08’ crisis from happening again soon.

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