

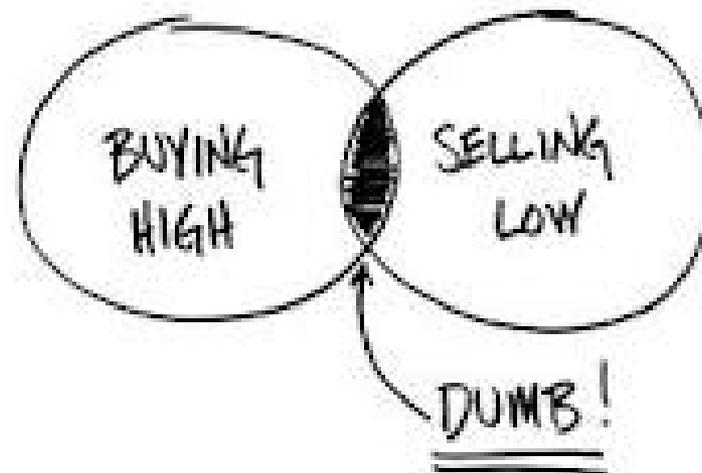
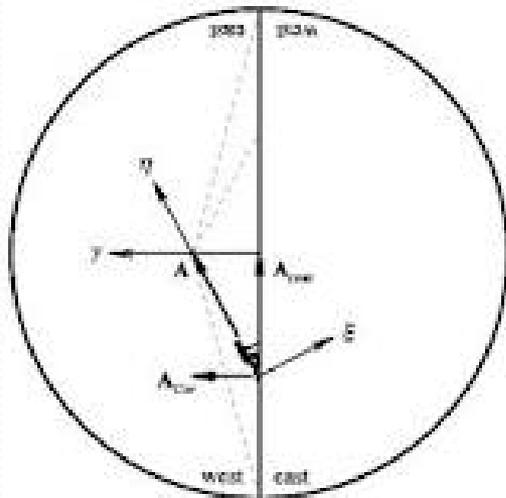
CRA and Market Shifts 2014 and Beyond



How to Make the Most of the Projections

Economic Forecasting 2014 and Beyond

Science?



Leading Indicators

- Conference Board Leading Economic Index
 - 10 components to predict activity in U.S. economy 6-9 months in the future.
 - Average weekly hours, manufacturing
 - Manufactures' new orders
 - Building permits
 - Stock prices
 - Leading credit Index
 - Interest rate spread
 - Consumer expectations



Economic Forecasting 2014 and Beyond

Or Art?



Waffle House Index

The relationship between storm damage and what the Waffle House is serving – FEMA.



If the W.H. is closed,
you're in trouble!

Leading Economic Indices

- Index of Consumer Expectations – future consumer spending or tightening
- 70% of U.S. GDP based upon consumer spending – behavioral economics is emerging field.
- Racial and ethnic diversification – changing financial needs and consumer preferences.

Market Shifts

Positive

- Employment – unemployment leveling.
- Income – reduced consumer debt.
- Sales data – strengthening.



Negative

- Industrial production yet to pick up strongly.
- Student debt poses a large and growing threat.
- The housing crisis is not over.
- Income inequality remains high.



What the Open Market Committee Thinks

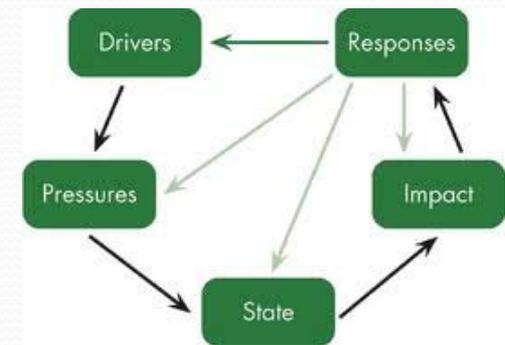
- **Change in Real GDP**
 - 2014, 2.9 to 4.3
 - Longer run 2.2 to 3.0
- **Unemployment Rate**
 - 2014, 6.3 to 7.7
 - Longer run 4.9 to 6.0
- **PCE Inflation**
 - 2014, 1.5 to 2.2
 - Longer run 2.0



Economic Projections of the Federal Reserve Board Members and Federal Reserve Bank Presidents, April 2012

Economic Projections 2014 and Beyond

- Policy Firming - Target Federal Funds Rate.
- Congressional (In)action - Uncertain fiscal drag of taxes, spending, and benefits.
- Federal elections – possible regime change.
- Uncertain global change – Europe and beyond
- Deleveraging – Decade of slow growth, deflation.



CRA Opportunities 2014 and Beyond

Opportunities for CRA

- Lending
- Investment
- Service



Lending Conditions 2012

Residential - Getting a loan is harder.

- 5 of top 9 mortgage lenders in 2007 not in business.
- Homeowners lost \$7 trillion in home equity – less than ½ the equity they had in 2006.
- Further decline expected in house prices.
- Consumer credit – Households taken on additional non-mortgage debt.
- Almost 30% of FHA loans delinquent.
- But, mortgage lending is picking up, especially refinancing.

Lending Opportunities 2014

Residential

- Nonprofit loan origination and underwriting
- Purchase-Rehabilitation (e.g., HUD 203K)
- Lease-Purchase (REO)
- Sweat Equity and construction
- Bank CDCs and public-private partnerships
- Faith-based development
- Neighborhood rebuilding initiatives

Lending Conditions 2012

Business – Firms with fewer than 500 employees account for 43% of total private payrolls and 65% of net new jobs created 1993-2009.

- Half of small public companies unprofitable in 2011.
- Job growth weaker at small firms.

Somewhat stronger demand for C&I loans, but many small businesses still not looking for credit.

Overhang of real estate development in some areas.

Lending Conditions 2012

Business – Call for prudent small business lending by regulators.

- Community banks and thrifts account for 12% of business lending, but hold 38% of small business loans.
- SBA lending is up - (504 and 7(a) programs).
- Start-ups and expansions are still tough.



Lending Opportunities 2014

Business

- Meeting the needs of credit-ready borrowers.
 - Small business & microenterprise lending (SBA)
 - Community economic development – low income neighborhoods, rural areas, Native Americans
 - Healthy foods (e.g., CDFI Fund and HHS grants to CDCs)



Lending Opportunities 2014 and Beyond

- Emerging Growth Areas
 - Employment and workforce training
 - Health Care
 - Social media and technology
 - Property management
 - Security
 - Investors becoming the new landlords
 - Exports



Investment Conditions 2012

Residential

- Uncertain future for HUD rental assistance, public housing, and voucher programs.
 - Project-Based Rental Assistance (PBRA) appropriations giving investors and lenders pause.
- Low-income Housing Tax Credits appear safe from corporate tax reform proposals.
 - Proposal to expand benefits to real estate investment trusts (REIT).
 - Pricing indicates demand is increasing; new players in the market.

Investment Conditions 2012

Business

- New Markets Tax Credits also appear safe from corporate tax reform proposals.
 - Administration proposes \$5 billion allocation for 2012 and 2013.
- CDFI Fund launching new bond program.



Investment Opportunities 2014

- Small Business Investment Companies (SBIC)
- New Markets Tax Credit
- CDFIs
- Low-income Housing and Historic Tax Credits
- Loan Funds and Trusts – back to the future.



Service Conditions 2012

- Limited access to mainstream financial services
 - Deposit and cash checks, receive deposits, pay bills, accrue savings
 - credit (close-ended)
 - Non-cash payments – credit and debit cards
- More than 25% of families earning \$15,000 or less annually are unbanked; 13% of families earning \$15,000-\$30,000.



Service Opportunities 2014

- Workforce Intermediary – Retraining, skills-building in line with industry & jobs
- Homeownership and foreclosure counseling
- Energy conservation and green building
- Economic and Financial Inclusion





NEW YORK CITY HOUSING AUTHORITY

NYCHA JOURNAL



Safety and security enhancements create employment opportunities for NYCHA residents. Innovative and complex?

In summary

- Projections call for modest improvements in the economy.
- Opportunities emerging for CRA loans, investments, and services.
- Start planning now for a better tomorrow.



- Do more with less – think creatively.