Remarks by Nikitra Bailey for HFSC Subcommittee on Housing and Insurance: "Sustainable Housing Finance: Private Sector Perspectives on Housing Finance Reform"

October 25, 2017

A. Introduction

Good morning Chairman Duffy, Ranking Member Cleaver, and Members of the House Committee on Financial Services' Subcommittee on Housing and Insurance. Thank you for the opportunity to testify regarding our nation's housing finance system, an issue that profoundly affects American families and is critical to the overall housing industry, which is nearly 20 percent of the United States' economy.

B. CRL/Self-Help

I am Executive Vice President of the Center for Responsible Lending (CRL), a nonpartisan research and policy organization dedicated to protecting wealth and eliminating predatory lending.

CRL is an affiliate of Self-Help, a community economic development lender based in Durham, NC. Since 1980, Self-Help has provided over $7 billion in financing to underserved borrowers who are homebuyers, nonprofits, community health facilities, public charter schools, and create commercial real estate development. Self-Help has a credit union network, that serves over 130,000 people in North Carolina, California, Chicago, Florida and Wisconsin.

C. Homeownership is vital for American families

Reforming the housing finance system presents Congress with the chance to make America as good as its promise. For most families, the secondary mortgage market's purpose is simple. It is about providing opportunity to pursue homeownership and the security that homeownership offers. Homeownership is the engine that drives the economy by creating jobs that stabilize communities across the nation for hardworking families such as -HVAC installers, tile layers, plumbers, and clerks at local home improvement stores. It is the primary vehicle that most families used to build wealth and remain in the middle class.

D. Congress must address the housing finance system's legacy of discrimination

Sadly, our housing finance system is rooted in discrimination. Federal policies created as a response to the 1930's Great Depression were designed to help spur economic growth and appeared to treat everyone the same. However, those policies provided affirmative benefits to white families with European ancestry while denying mortgage credit to African-Americans and other people of color. This federal action prevented families of color from building wealth through homeownership like whites.

In the first 35 years of the administration of the Federal Housing Administration's (FHA) insured mortgage program, 98% of loans went to white families with only 2% to families of color. In Mississippi, 2 out of 3,229 Veteran Affairs' GI bill loans went to Black servicemembers in the first three years of the programs' implementation.

White families ended up building wealth faster, and now have higher levels of wealth than others. They have 13 times the wealth of African-Americans and 10 times the wealth of Latinos. This wealth has also been transferred over multiple generations.

Unjust redlining along with predatory mortgage loans targeted at families of color put them at risk to received loans with dangerous features that made foreclosure more probable. These families lost significant wealth during the foreclosure crisis-$1 trillion dollars.

Today, African-Americans have the same rate of homeownership as they did in 1968 when Congress enacted the Fair Housing Act to honor the recent death of Dr. Martin Luther King Jr.

The federal government's role in perpetuating discrimination in the secondary market must be fixed. The families stymied by the millstone of racism deserve a chance to succeed.

E. Future reforms must build on the strong reforms in HERA and the new mortgage protections by Dodd-Frank and the CFPB

Future reforms to the system must build on the good work already done by Congress. A bipartisan Congress passed the Housing and Economic Recovery Act of 2008 that provided strong oversight of the government sponsored enterprises, Fannie Mae and Freddie Mac.

The duty-to-serve provisions that began in the GSEs's charters and remain in HERA require that credit is available in all markets at all times. This directive creates liquidity for loans in all communities, including rural communities and for community banks and credit unions. These requirements, ensure that lower wealth borrowers get a fair chance to succeed in homeownership.

Small lenders must remain on equal footing with national banks and not forced to work through their large competitors to sell and pool their loans. They must also keep direct access to the enterprises' cash window.

F. Conclusion

In reforming the system, Congress should be careful to build on existing reforms that have restored the mortgage market, which is experiencing steady returns. Contrary to theories that Dodd-Frank stifled growth, the financial sector has returned to record profits. In 2016 U.S. financial institutions had total annual profits of $171.3 billion, the highest level since 2013. Community bank profitability has also rebounded strongly and meets pre-recession levels. By the end of 2015, over 95 percent of community banks were profitable.

Thank you for this opportunity, I look forward to answering your questions.