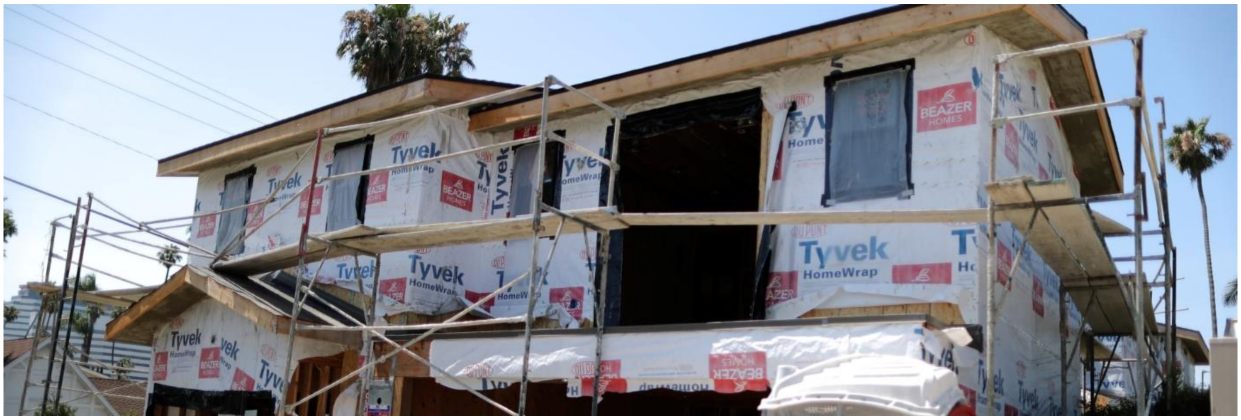


Lessons from the financial crisis: The central importance of a sustainable, affordable and inclusive housing market

Michael Calhoun

Tuesday, September 4, 2018

Editor's Note: This report is part of the Series on Financial Markets and Regulation and was produced by the Brookings Center on Regulation and Markets.

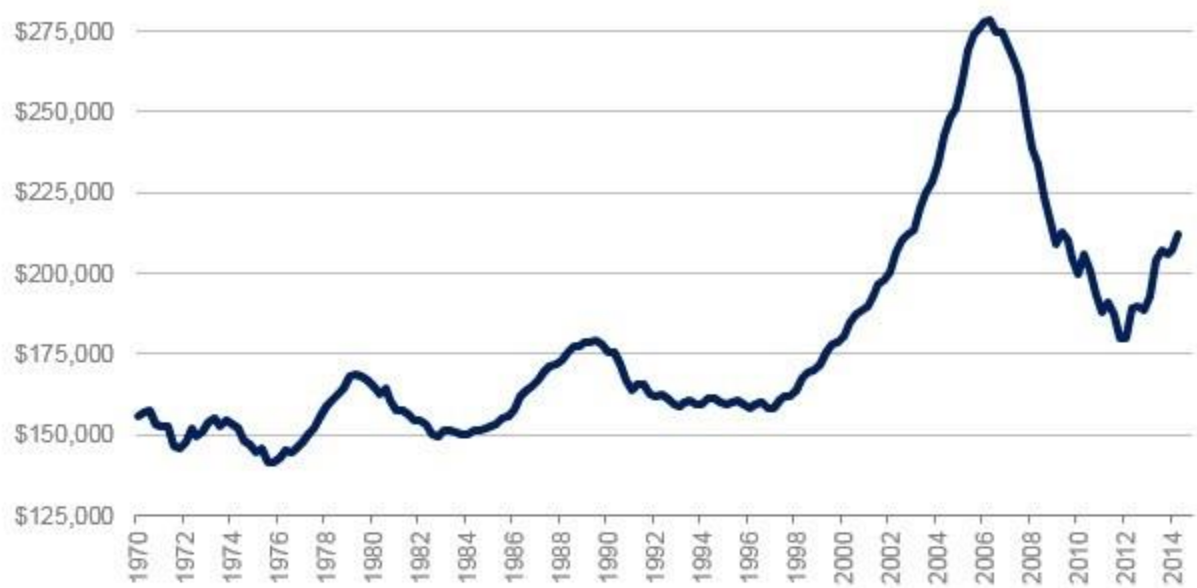
On this tenth anniversary of the financial crisis, there have been many retrospectives on the US government's response to that catastrophe, with more to come. The commentary to date has largely focused on the extraordinary measures taken to prevent a much deeper collapse of the American and global economies. Measures were implemented to address the immediate crisis and reduce the likelihood of a repeat event. Both had a significant impact. But in examining the crisis and its responses, it is critical to remember that it was triggered and substantially driven by a dysfunctional housing market. The immediate assistance reduced the depth of the housing market collapse. The subsequent regulatory safeguards and consumer protections have made today's housing market much safer and resilient. However, more could have been done to aid homeowners in the crisis and work remains to provide families with sufficient affordable, sustainable housing for today and in the coming years. As the responses to the crisis are examined, the key role that housing plays in both family financial health and the health of the national economy must be one of the central lessons. Proposals to adjust or roll back the post-crisis reforms are being made, and it is essential to preserve the core advances that have been implemented. Most importantly, critical issues remain pending, and they provide major opportunities to advance a sustainable and affordable housing market that supports families, communities and the overall economy.

Four key issues are highlighted for discussion below. How they are addressed will significantly impact the future of housing in America. Before turning to those four, a recap of the role of housing in causing the crisis and policy makers' responses (and lack of responses) in addressing problems in the housing market.

Housing Failures Trigger and Prolong the Crisis

Unsustainable home mortgages were at the heart of the crisis, coupled with general undercapitalization and insufficient safeguards in the financial system. Despite the pre-crisis perception that United States national housing prices only increased, in fact, the housing market in the US has been a story of home prices moving up and down. Real home prices rose and declined on a national basis by more than ten percent at various periods during the 1980's and 90's. However, inflation masked most of the downward impact on nominal home prices in those corrections. In the 2000's, though, the level of appreciation was far greater than in previous cycles; real home prices increased nationally by over 60% (Figure 1). This was fueled by an explosion of products pushed by mortgage brokers and lenders that artificially lowered the initial monthly payments on mortgages. It started with interest-only loans, and then expanded into teaser payments and negative amortization loans, with the borrower being evaluated only on the ability to make the initial starting payment, and often without documentation to even establish that. These loans greatly lowered initial mortgage payments, but this structure only worked when mortgages could be refinanced before full amortizing payments came due.

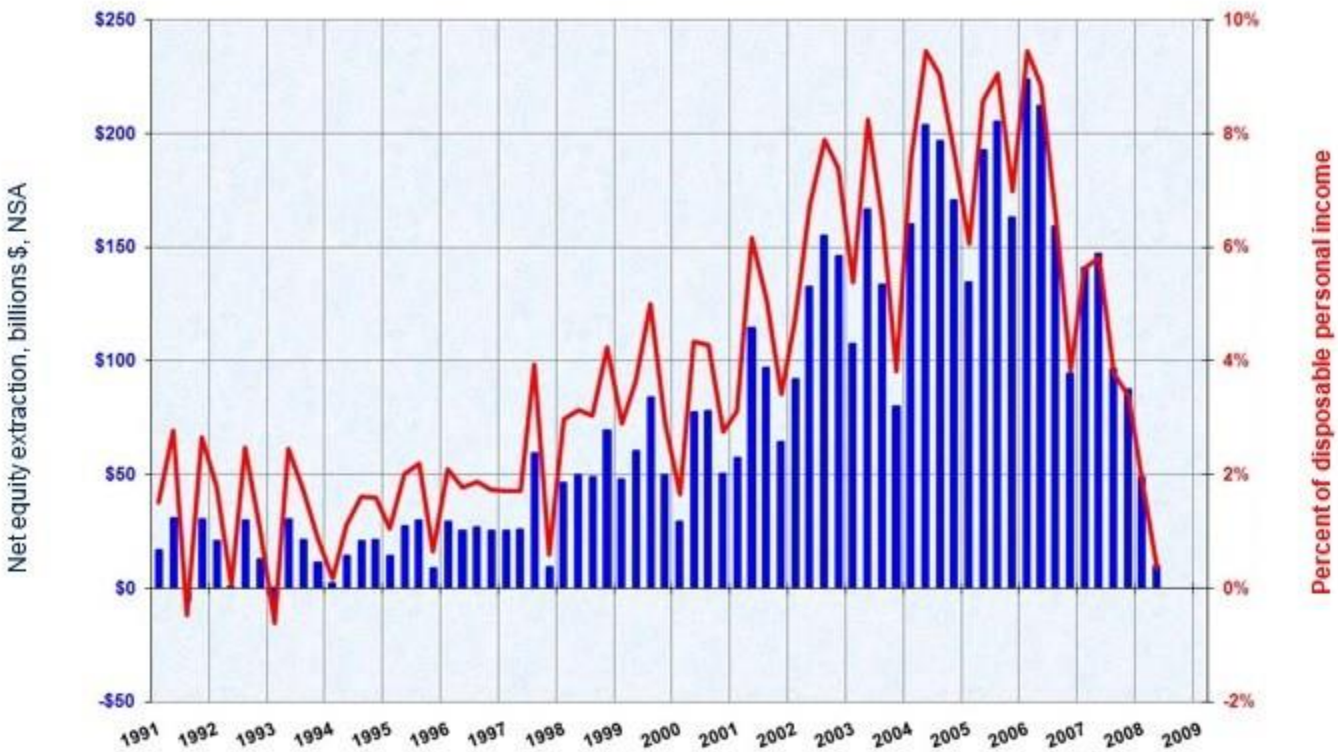
Figure 1. Market value of median-priced homes, adjusted for inflation, 1970 to 2014



Source: jparsons.net/housingbubble

The ability to refinance depended on continued, unsustainable home appreciation. Eventually, home price growth slowed, and the delinquencies and foreclosures started to pile up. Home prices then plunged dramatically, pulling the entire economy into a deep recession. This exposed weaknesses in capitalization and oversight of financial institutions, threatening a full economic collapse. The aftermath of falling home prices spread through highly-leveraged securitizations that had amplified profits and now amplified losses. The boom of rising home prices had also funded massive withdrawals of home equity that were funding consumers' spending past their income capacity. The availability of these cash-out refinances dried up overnight, markedly reducing consumer spending – the largest portion of the economy (Figure 2).

Figure 2. Home equity withdrawals in dollars and as a percent of disposal income



Source: calculatedrisk.blogspot.com

The Response to the Crisis

The officials charged with responding to the financial crisis faced a daunting task. The economy was in free fall, the regulatory framework had been inadequate to prevent the crisis, and it also failed to provide the necessary tools to contain it. Politically, regulators faced the unpopular task of preventing the collapse of major institutions, many of which had contributed to the crisis. While telling Americans that the economy was at risk of a cataclysmic collapse might have increased support for drastic interventions, it would also elevate the risk of families and companies exacerbating a collapse by further withdrawing from economic activity. The regulators needed to take drastic action while simultaneously reassuring the public that a depression was not about to occur and that depositors should not withdraw their savings from their banks. The risk of a bank run was real.

Under these circumstances, the successes of the interventions are commendable. Further financial collapse was averted, and the financial system remained functional. Moreover, as has been often pointed out, the government was fully repaid the assistance it provided, plus a return on that assistance. Yet, the Troubled Asset Relief Program (TARP), more commonly referred to as "the bailout," was, and remains, deeply unpopular with the public.[1] Some of this disapproval reflects the challenges described above. Also, notwithstanding the interventions and their impact, the public still experienced deep pain, including 8.7 million jobs lost[2] over 8 million homes foreclosed, and over 500 community banks shuttered.[3] Even those not directly hit were harmed: an estimated 95 million households lost home equity because of neighbors' foreclosures.[4] The recovery has been consistent, but it has often been slow, and the bulk of the gains in wages and wealth have gone to the top households.[5] Regulators' messaging about the crisis, such as not castigating the financial companies and their leaders, much less pursuing them with criminal accountability, further aggravated the public assessment.

The responses directed to the housing market maintained a functioning market for the best-qualified borrowers and provided substantial, but insufficient, aid for families facing foreclosures. First, the Federal Housing Administration (FHA) and the Government-Sponsored Enterprises (GSEs) stepped in with government support to provide a supply of new mortgage funding when private label security funding evaporated. Without this essential FHA and GSE home funding, the crisis would have been much deeper and longer and the recovery much slower. The Home Affordable Refinance Program (HARP) program further helped millions of families refinance their loans to lower interest rates and monthly payments. For the millions of families facing foreclosure, the Home Affordable Modification Program (HAMP) aided loan modifications, and so-called proprietary mortgage modifications, outside of HAMP but in part spurred on by it, reached millions more families.

These programs, though, faced external and internal challenges. First, the loan servicing industry had been designed as a high-volume, low touch system to collect payments, rather than a system to fix troubled loans. Loan servicing operations were overwhelmed with the volume and nature of the needed services. Reports of nonresponsive loan servicers and repeatedly lost modification applications abounded.[6] Conflicts of interest were common, with servicers often not holding the credit risk on the loan and modifications costing servicers more than foreclosing. These factors resulted in many homes being foreclosed on when a modification would have been better for the borrower and the lender bearing the loss.

The provisions and design of homeowner assistance also limited its effectiveness. Funds for assistance to homeowners and hardest hit communities were included in the $750 billion package Congress created in the TARP program. But two key elements were missing: a requirement making participation in homeowner assistance programs mandatory– at least for banks receiving TARP assistance — and provisions enabling homeowners to restructure their mortgages in bankruptcy.

This contributed to a pattern of supplying banks with hundreds of billions of dollars for capital, which was needed to keep our economy afloat while failing to place a corresponding reciprocal obligation on the banks. HAMP provided important relief, but it was restricted by the fact that it was a voluntary program. The program lived under the constant threat that if it was too much trouble for the banks, then they could walk away. As a result, while providing important assistance to many homeowners, HAMP fell substantially short of its goals.[7]

The federal response to the crisis also did not provide any support for families to restructure their mortgages in bankruptcy. While businesses can avail themselves of this key procedure for their mortgages and other debt, homeowners are barred from using this procedure. Advocates urged that this restructuring option be tied to one of the must-pass bills moving through Congress with relief that banks were receiving, such as the bill substantially increasing the amount of deposits covered by the Federal Deposit Insurance Corporation.[8] If homeowners had this tool, it would have given lenders further incentive to consider loan workouts before foreclosing. Ultimately, the measure was instead brought up as a stand-alone bill, unconnected from bank assistance, and it was defeated through a filibuster in the Senate.[9]

In contrast to the federal government's voluntary approach, in 2008 and early 2009, California passed laws with mandatory requirements for lenders and servicers. A recent study shows that these requirements achieved substantial additional benefits beyond the voluntary HAMP program. California's laws required lenders to make reasonable efforts to modify loans before they could begin foreclosure proceedings. The study found that these provisions reduced foreclosures by 16 percent, preventing an additional 124,000 foreclosures from occurring.[10] Since foreclosures further push down home prices, this reduction in foreclosures also preserved over $310 billion in housing wealth in California.[11]

During the crisis, there were calls for more assistance to homeowners and for making assistance to homeowners a requirement of the financial industry. Sheila Bair, Chair of the Federal Deposit Insurance Corporation, repeatedly raised the concerns of homeowners. Additionally, she pioneered streamlined loan modifications to break through the impenetrable obstacles that homeowners faced when working to keep their homes.[12] She also called for more reciprocal responsibility from the large banks and financial companies that were receiving government assistance.

The lasting damage of the housing crisis includes a US homeownership rate that has plunged to the lowest levels in many decades, far lower than other developed countries.[13] Additionally, the Great Recession exacerbated the already large racial homeownership gap, with black homeownership rates falling to levels that predate the passage of the Fair Housing Act more than 50 years ago.[14] Lenders during the subprime boom targeted borrowers of color, and subsequent foreclosures hit neighborhoods where homeowners of color were concentrated the hardest. This damage has had lasting effects. The current homeownership rate for black families is only 41.6%, as compared to 72.9% for white families.[15]

Overall, home loans today are challenging for many families with sound credit histories to obtain, with average credit scores for FHA loans and GSE loans far above historical norms. The Urban Institute estimates that compared to normal housing markets going back to 2000, before the boom, millions fewer quality mortgages, primarily to lower credit borrowers, have been made since the crisis.[16] In addition, the single-family housing construction market has been slow to recover from the crisis.[17] While new home construction immediately prior to the crisis was at unsustainably high levels, the construction market effectively collapsed and is only now beginning to approach normal production levels. Usually, housing, which is 20% of the total economy, leads the economy out of the recession. In this case, it was a drag on the overall economic recovery.

The market for more modestly priced starter homes for first-time homebuyers is especially tight. One factor aggravating this scarcity of modest homes is the distressed asset sales begun by FHA and the GSEs during the crisis. These entities accrued large numbers of loans facing foreclosure. Rather than selling them individually as a local bank would do, they auctioned them off in large pools. While this helped FHA and the GSEs increase their reserves and capital more quickly, hedge funds – the largest buyers of these pools –converted many of the ultimately foreclosed loans into rental properties. This reduced the supply of modest homes for purchase by individuals and altered the character of neighborhoods where the percentage of homeowners declined. The sale of these distressed pools has continued, and hedge funds have announced plans to expand their conversion programs.[18] This, along with other factors limiting new starter home construction, including labor and materials shortages and increased costs of both, created a shortage of these starter homes and a substantial barrier to families trying to enter home ownership.[19]

Affordable rental housing faces a similar crisis. Since 2008, the shortage of affordable housing has grown, the percentage of families burdened by the cost of rent remains high, and the problem is remaining dire today. Even in the housing boom years, many families were struggling with unaffordable rent. The percentage of cost-burdened renters, those paying more than 30% of their income for rent, grew from 40% in 2001 to 46% in 2007.[20] Since then, this increased to 50%, before reducing somewhat to 47% today. Even more troubling, vulnerable households are often severely rent burdened, paying over half of their income just for rent. More than half of families making less than $30,000 per year and over half of families age 65 and older that rent are severely rent burdened today. And, more than 30% of all black renters and 28% of all Hispanic renters pay over half of their incomes for rent.[21] Following the crisis, construction of multifamily housing increased, but this was primarily the construction of higher-end rental housing. Overall, the stock of affordable housing has declined since the crisis, with more units becoming unavailable or being priced unaffordably. Federal support for affordable housing has been far below needed levels for many years, and it is falling further behind. Available housing subsidies only reach a small portion of families who are rent burdened. Looking forward, the major funding source for affordable housing, the Low Income Housing Tax Credit, faces challenges resulting from the recent tax changes. The reduction in the corporate tax rate has reduced the value of the housing tax credit. In order to start making progress, support for affordable rental housing must dramatically increase.

There is a Catch-22 problem here that must be broken. Low-wealth families today face a crisis in both affordable homeownership and rental housing, but access to these assets is essential to building wealth and financial stability for renting or buying. Even in today's increasingly-expensive housing market, home purchases remain relatively affordable compared to previous markets. This is largely due to still historically low mortgage interest rates. Moreover, housing costs of homeownership are often lower than rental costs for a family. However, the strain of high rents hampers many families from qualifying for mortgages, especially the ability to save for substantial down payments.

Four Key Issues that Will Determine the Future of the Housing Market

Numerous housing issues are being reviewed today or were not resolved in the aftermath of the crisis. How these are decided will greatly determine the future of housing for American families. First, many of the regulatory provisions put in place after the crisis are under review, with the Administration seeking to reduce regulations. Mortgage lending rules are among these. The ability to repay provisions and fair lending rules, put in place after the crash, are fundamental in making the housing market safer and more equitable and should not be repealed. Second, the shortage of affordable homes for sale must be addressed. Finally, for housing finance, two additional issues were not resolved after the housing crisis and are now up for determination: False Claims Act liability, and the federal support for the secondary home mortgage market, including the GSEs. How these four issues are decided will profoundly affect the future of housing in the country and will also have broad impacts on the overall economy and society.

1. Ability to Repay and Fair Lending Rules

Two pillars of a sustainable and inclusive housing structure are the Ability to Repay/Qualified Mortgage (QM) rule and Fair Lending rules, including Affirmatively Furthering Fair Housing and Disparate Impact lending standards. As discussed above, home loans with unaffordable payments were the driving force of the crisis. The ensuing home price correction not only took away unrealistic home appreciation, but it also took away borrowers' ability to continually refinance into new teaser rate loans and avoid facing unaffordable, fully amortizing payments. The most important reform to the housing market was the requirement that lenders determine and document a borrower's ability to repay the loan, based on a fully amortizing payment. This provision protects borrowers, who rely heavily on lenders and brokers for advice on what they can afford for a monthly mortgage payment. Equally important, it restores the essential check on housing bubbles with unsustainable house price increases, as resulting increasing mortgage payments will dampen demand and bring the market back into a sustainable price trend. The current period of housing price growth has been long and steep, fueled in large part by historically low mortgage interest rates. Recent data, though, indicate that rising mortgage rates and higher house prices are starting to dampen demand, which should occur in a properly functioning market.[22] The ability to repay rule ensures that these necessary market corrections are not disrupted by mortgages that artificially lower buyers' initial mortgage payments but are unsustainable over the longer term.

The most important reform to the housing market was the requirement that lenders determine and document a borrower's ability to repay the loan, based on a fully amortizing payment.

There are efforts, including some already implemented, to weaken this essential protection.[23] Arguments are being repeated about why lenders will naturally want to determine affordability, and thus, some contend, a rule is unnecessary. But these arguments ignore the history of the crisis and the nature of the mortgage market. First, lenders do not set standards in isolation. In order to stay competitive, lenders must meet the offers of other companies and borrowers still focus heavily on initial monthly payments to decide on a mortgage. This can result in a race to the bottom – as occurred in the run-up to the crisis; lenders competed to provide the lowest initial monthly payments, sacrificing longer-term sustainability. Second, loan originators in the mortgage market often sell the loan without bearing the risk of its loss. This encourages pushing the envelope to qualify borrowers. Finally, many loans are refinances with substantial borrower equity. With these loans, lenders are protected by the borrowers' equity in the event the loan defaults.

While, like all rules, refinements can be made as experience is developed, the Ability to Repay rule has performed well, and it is the foundation of a sustainable home market. Studies repeatedly show that loans meeting QM standards performed far better in the crisis, reducing losses by half or more.[24] These safeguards are the foundation of a sustainable housing market, and efforts to significantly weaken them must be rejected.

The second pillar of a strong housing market – inclusiveness – depends on efforts to overcome the history of racism in America. Housing in America reflects many decades of unequal access and segregation. For example, after World War II, FHA lifted millions of white families into the middle class with affordable home loans. At the same time, black borrowers and neighborhoods were literally redlined out of these loans, with FHA manuals and maps designating these communities as ineligible for FHA loans. Today's housing market, while much more inclusive, still carries the legacy of these practices, with families of color having far less wealth for down payments and financial cushions, and still facing discrimination in the market. Also, housing remains extremely segregated.[25]

These circumstances called for the Department of Housing and Urban Development (HUD) to issue its long overdue, and statutorily established, Affirmatively Furthering Fair Housing Rule, requiring local communities to develop plans to alleviate segregation. The rule was issued in 2015 after years of development and review. In August 2018 HUD announced that it is revisiting this rule, and there are even calls to repeal it.[26] But weakening the rule would be a major step backward and would delay community unification and equity. Similarly, there are calls to hobble or even repeal the use of disparate impact analysis and enforcement in lending.[27] This analysis provides that when a practice produces a disparate negative impact on groups, it should continue only if there is a business need for the practice and an alternative approach is unavailable. Continuing this approach is especially important given the exponential growth occurring in the use of artificial intelligence in decision making, including loan eligibility. Machine learning holds much promise, but it also can bring in discriminatory and unnecessary factors. Disparate impact analysis encourages creative approaches that both increase effectiveness and inclusiveness. This process and the value of disparate impact analysis was recently pointed out, and endorsed by, the largest personal loan company in the country, Lending Club, in its responses to requests for input by the CFPB.[28] Taking care to reach rapidly-growing markets of borrowers of color when structuring business practices is good business. And it is a false choice that inclusiveness is incompatible with growth and efficiency.

2. Housing Supply

Providing sustainable credit for home lending is only half of the equation of a healthy housing market: there also must be an adequate supply of housing to be financed. In the starter home market, as discussed above, there has been a major shortage of homes. Structural obstacles prevent the shortage from being corrected, particularly in growing markets, and several factors depress the number of affordable modest homes. The largest factor is the unmet need for additional new homes to keep up with the growing number of households and the natural obsolescence of homes no longer being usable. Overall, the housing construction market recovered very slowly from the recession, with volumes only now approaching normal levels that predated the housing boom and crisis. Builders are focusing, though, on larger homes that are more profitable. Indeed, average new home sizes continue to grow to record levels. First, this reflects the substantial fixed costs in developing and building a new house, which proportionately are a greater burden on smaller homes.[29] Second, it has been challenging for builders to secure land and permits for new construction, and especially for higher-density construction. This has led California to enact new limits on the power of local communities to block additional housing. Further efforts are needed to encourage and facilitate new construction to meet the increasing demand for affordable houses. Most of this reform must occur at the state and local level. A second factor, discussed above that reduces the supply of modest homes for sale is the substantial number of – often modest – homes pulled out of the ownership market through bulk distressed loan sales by FHA and the GSEs. While crisis era pressures may have justified these measures to more quickly restore the financial stability of these entities, today these public interest entities should recycle ownership properties back into the ownership market to both preserve that market and the communities where the houses are located.

3. False Claims Act

The False Claims Act (FCA), a Civil War-era statute, provides treble penalties for those who submit fraudulent claims to the government for payment, including payment for claims on government-provided insurance. Following the crisis, investigations showed that many mortgages that were sold or guaranteed in the secondary market were poorly underwritten. Legally, they failed to meet the representations and warranties provided when the loans were sold or guaranteed. Much litigation ensued by private parties, the GSEs, and for FHA loans through the False Claims Act. To be clear, there were many negligent, reckless and even fraudulent loans originated and passed on to others, and these actions deprived private and governmental parties of their legal right to receive loans that met the promises of the seller. Recoveries are appropriate to those injured by these practices. In the case of the FHA and the False Claims Act, however, an overly broad scope of liability and potentially catastrophic damages have chased many large lenders largely or completely out of the FHA market. Reform is crucial to restoring proportionality and balance to this enforcement mechanism.[30]

In the FHA context, lenders are required to make certifications when they submit loans to FHA for insurance. These include statements that the loan complies with the FHA eligibility standards, which are quite extensive and leave little room for even clerical mistakes. The FCA does not require an intent to defraud, so these errors generate potential liability, even when they have little or no impact on the safety of the loan. And that potential liability is huge. For example, for a $100,000 FHA-insured loan that goes into foreclosure, the amount recovered from the foreclosure is around $50,000, or half the value of the loan. Under the False Claims Act, if there was an error in the underwriting or papers submitted, the lender could be liable for three times the amount of the insurance- or in this case $300,000, less the $50,000 recovered in foreclosure, for a net penalty of $250,000. When this is applied to lenders who submit thousands of loans each year to FHA, the potential liability with even a low error rate is catastrophic.

Lenders have paid billions of dollars to settle these claims brought by the Justice Department. As a result, lenders have taken several steps to avoid this liability. Some major lenders have exited FHA lending entirely. Many have added "credit overlays"- not making loans to lower credit score families, even though the loans are sound loans because they still have a higher risk of default and FCA liability only comes when a loan defaults. Others have added additional fees to the loans to try to offset the cost of this liability.

The underlying problem is that FHA badly needs additional resources to update antiquated technology and add key staffing.[31] It has developed a so-called defect taxonomy that categorizes different errors and provides appropriate, proportional remedies, but it has not had the resources to operate this system. This targeted quality control is more effective for providing high-quality loans than the FCA catastrophic penalty, which is an all or nothing approach. Fortunately, the authority to correct this problem lies with FHA, which can change the certification and implement a rational set of remedies. This should be paired with additional congressionally approved funding for FHA, potentially recouped through a modest fee per loan that has been proposed for FHA loans, so that an effective and fair quality control system can be operated.

4. Housing Secondary Market Finance

Finally, the issue that will have the largest impact on the housing market is the future design of the federal support for housing finance through its purchases and guarantees of loans in the secondary mortgage market. The two GSEs are nearing the tenth anniversary of their placement in conservatorship, an interim status that none intended or expected to last this long. There are substantial efforts underway to resolve this status, through administrative action, legislative action, or a combination of the two. Key issues include whether the GSEs should continue and if so, in what form and role. Through the crisis and in milder downturns, private secondary market funds have become scarce and expensive. The GSEs and FHA provided essential funding in the last crisis when it was largely unavailable or unaffordable from the private label securities market. This countercyclical role is critical for the housing market and for overall economic stability. At the same time, there are concerns that the GSEs have in the past, and may in the future, look to increase their business by expanding into areas that are well served by private entities. For these reasons, many, including the Center for Responsible Lending, have called for the GSEs to continue, but with substantial reform, including structuring them as public utilities, with a regulated rate of return and the required approval of new products and services. This preserves the efficiencies and the key countercyclical role they play while protecting private entities from unfair competition. It also builds on the substantial GSE reform that has occurred through the passage of a strong oversight statute, the Housing and Economic Recovery Act, enacted in 2008, and subsequent administrative reforms that have eliminated past risky practices.[32]

One of the most challenging issues in the housing finance debate has been how to ensure that the GSEs support a broad housing market, and not just serve the wealthiest and most profitable borrowers. This is done presently through several mechanisms, including more level pricing of the guarantee fee the GSEs charge, an explicit duty to serve underserved markets, and affordable housing metrics and goals.[33] A healthy housing market, especially in the upcoming years, requires that this strong focus on affordable housing continues. As shown by the current market, more modest home loans are harder to serve because they come with substantial fixed costs and less wealthy borrowers that may require additional work to underwrite. Looking forward, the housing market is increasingly comprised of more families without as much intergenerational wealth. Households of color – especially Latino families – account for the largest growth in households today, making it increasingly important that they are served.

Another key role of the GSEs is financing affordable rental housing. They are the largest provider of funding for multi-family housing, and this support is particularly vital in the current rental housing crisis. There have been calls to constrict or eliminate this support but doing so would aggravate an already dire rental housing market and further stress families struggling to secure a decent place to live.

Equally important for affordable housing, there have been calls to scale back the scope of FHA. FHA provides a large share of first time home purchase loans, and the majority of these loans for borrowers of color, so reductions in this support would significantly impact affordable lending.[34] Serving these borrowers is important both for the impact on these families and the role these loans play in the overall market. Also, FHA, like the GSEs, provided essential funding for home mortgages in the crisis and in prior downturns. For the sake of its borrowers and the economy, the FHA must continue as a steady source of affordable housing financing. Starter homes are both an entry point for new homeowners and a rung in the ladder to those moving to a subsequent home. Without available financing, both parts of the market are stymied and drag down the overall market. In summary, the determination of the role of the GSEs and FHA will be a major determinant in whether our housing finance system serves the broad group of qualified families who seek to become homeowners.[35]

There must be broad, inclusive and sustainable homeownership opportunities in order for there to be substantial progress in addressing the country's extreme racial wealth gap.

Finally, homeownership continues to have a profound impact on wealth building for families moving into the middle class, and this is particularly the case for families of color. It is an opportunity to both obtain stable housing and gradually build equity. Research shows that it is the primary means by which most families build wealth, and that was true even through the catastrophic financial crisis. It was a successful strategy for the overwhelming bulk of families who became homeowners in the years preceding the crisis, with the overwhelming majority of these families having substantial gains from homeownership even with the severe reduction in home prices that occurred.[36] For families of color, the majority of their wealth comes from their home equity, and often it is the only substantial asset.[37] Today black families average less than fifteen percent of the wealth of white families, and Hispanic families have twenty percent of white wealth.[38] Increased homeownership will not by itself close the large racial wealth gap, it will take multiple strategies, but it is one of the most effective measures to address it. There must be broad, inclusive, and sustainable homeownership opportunities in order for there to be substantial progress in addressing the country's extreme racial wealth gap.

Conclusion

As the analyses and reviews of the crisis continue, housing and its central role must be highlighted. A clear lesson of the financial crisis is that a stable supply of sustainable, affordable home loans and an inclusive market are essential to the financial health of families and the broad economy. The failure to provide more support to assist homeowners during the crisis reduced the effectiveness and public support of the overall emergency interventions that were implemented. Going forward, we must preserve the measures adopted after the crisis that have supported this housing, and, most importantly, the additional decisions to be made about how homes and home loans are provided must further the goal of fully serving American families and providing a stable home market and the overall economy.

The author did not receive financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. Neither is currently an officer, director, or board member of any organization with a financial or political interest in this article.

Footnotes

1 Seth E. Masket and Steven Greene, When One Vote Matters: The Electoral Impact of Roll Call Votes in the 2010 Congressional Elections (2011), available at http://static.usnews.com/documents/whispers/104076.pdf.

2 Center on Budget and Policy Priorities, Chart Book: The Legacy of the Great Recession (July 10, 2018), available at https://www.cbpp.org/research/economy/chart-book-the-legacy-of-the-great-recession.

3 Michelle Park Lazette, The Crisis, the Fallout, the Change: The Great Recession in Retrospect, Federal Reserve Bank of Cleveland (Dec. 18, 2017), available at https://www.clevelandfed.org/newsroom-and-events/multimedia-storytelling/recession-retrospective.aspx.

4 2013 Update: The Spillover Effects of Foreclosures, Center for Responsible Lending (August 29, 2013), available at https://www.responsiblelending.org/research-publication/2013-spillover-costs-foreclosure.

5 Elsie Gould, The State of American Wages 2017, EPI (March 1, 2018), available at: https://www.epi.org/publication/the-state-of-american-wages-2017-wages-have-finally-recovered-from-the-blow-of-the-great-recession-but-are-still-growing-too-slowly-and-unequally/; Moritz Kuhn, Moritz Schularick, Ulrike I. Steins, Income and Wealth Inequality in America, 1949-2016, Federal Reserve Bank of Minneapolis, (June 2018), available at: https://www.minneapolisfed.org/institute/working-papers-institute/iwp9.pdf.

6 Ben Hallman, Foreclosure Crisis: The Twisted World of Mortgage Modifications, Huffington Post (January 27, 2012), available at https://www.huffingtonpost.com/2012/01/27/foreclosure-crisis-twisted-world-mortgage-lender-error_n_1236634.html.

7 Initially, Treasury announced a goal of 3 to 4 million mortgage modifications. The actual tally appears much lower, with the Treasury reporting a total of 1.74 million permanent modifications started under HAMP through January 2018. So-called "proprietary" mortgage programs offered by lenders outside of the HAMP program are estimated at a rate of .84 of HAMP (Argarwal et al, 2017), which would equal about 1,5 million additional proprietary modifications. Argarwal et al, (2017) study but find no evidence that HAMP modifications "crowd out" proprietary modifications. Questions remain about the terms and effectiveness of proprietary modifications. Hope Now, the industry sponsored modification program offering proprietary loan modification, stated they engaged in over 6 million loan modification between 2007 and 2015. Cynthia Barraza, HOPE NOW 1.45 Million Homeowners Rescued From Foreclosure in 2015, Housingwire (March 4, 2016) available at: https://www.housingwire.com/articles/36455-hope-now-145-million-solutions-available-to-homeowners-in-2015.

8 In 2008 Congress had temporarily increased FDIC insurance to $250,000, but it was scheduled to expire in 2010. In 2009, at the time the bankruptcy modification provision was pending, Congress extended the expanded coverage to continue through 2013, but did not include bankruptcy reform in the package. In the Wall Street and Consumer Protection Act of 2010 (known as the Dodd-Frank Act), the increase in insurance coverage was made permanent. FDIC, Basic Insurance Coverage Permanently Increased to $250,000 Per Depositor (July 21, 2010), available at: https://www.fdic.gov/news/news/press/2010/pr10161.html.

9 Maurana Desmond, Cramdown Bill Fails in Senate, Forbes (April 30, 2009), available at: https://www.forbes.com/2009/04/30/mortgages-cramdowns-senate-business-cramdown.html#380163e7146e.

10 Stuart Gabriel, Matteo Iacoviello, and Chandler Lutz, A Crisis of Missed Opportunities? Foreclosure Costs and Mortgage Modification During the Great Recession (Feb. 27, 2017), available at https://www2.bc.edu/matteo-iacoviello/research_files/CMO.pdf

11 Ibid.

12 Sheila Bair served as board member and chair of the board of the Center for Responsible Lending prior to confirmation as Chairman of the FDIC.

13 Laurie Goodman, Christopher Mayer, Monica Clodius, The US Homeownership Rate Has Lost Ground Compared with Other Developed Countries, Urban Institute (Mar. 12, 2018), available at https://www.urban.org/urban-wire/us-homeownership-rate-has-lost-ground-compared-other-developed-countries. The rate fell from a peak of 69.2 percent in 2006, to a low of 62.9 percent in the second quarter of 2016, and has increased since then to 64.3 percent as of the second quarter of 2018. FRED Economic

Data, Homeownership Rate of the United States, St Louis Federal Reserve Bank (July 16, 2018), available at: https://fred.stlouisfed.org/series/RHORUSQ156N.

14 Laurie Goodman, Alanna McCargo, and Jun Zhu, A Closer Look at the Fifteen-Year Drop in Black Homeownership, Urban Institute (Feb. 13, 2018) available at https://www.urban.org/urban-wire/closer-look-fifteen-year-drop-black-homeownership.

15 U.S. Census Bureau, Quarterly Residential Vacancies and Homeownership, Second Quarter 2018 (July 26, 2018), available at https://www.census.gov/housing/hvs/files/currenthvspress.pdf.

16 Laurie Goodman, Jun Zhu, and Bing Bai, *Overly Tight Credit Killed 1.1 Million Mortgages in 2015,* Urban Institute (Nov. 21, 2016), *available at* https://www.urban.org/urban-wire/overly-tight-credit-killed-11-million-mortgages-2015 (stating that lenders would have issued 6.3 million additional mortgages between 2009 and 2015 if lending standards had been more reasonable).

17 Michael Neal, Residential Construction Down in June, Eye on Housing, National Association of Homebuilders (July 18, 2018), available at: http://eyeonhousing.org/2018/07/residential-construction-down-in-june/?utm_campaign=EOE2018&_ga=2.126940237.1759872631.1535413976-631253769.1535413976

18 Julia Gordon, The Dark Side of Single-Family Rental, ShelterForce (July 30,2018), available at https://shelterforce.org/2018/07/30/the-dark-side-of-single-family-rental/. Others have argued that these sales are beneficial in that the buyers have fewer restrictions on the loan modifications they can offer. Laurie Goodman and Dan Magder, Selling HUD's Nonperforming Loans: A win-Win for Borrowers, Investors and HUD, Urban Institute (January 2016) available at: https://www.urban.org/sites/default/files/publication/76626/2000568-Selling-HUD-s-Nonperforming-Loans-A-Win-Win-for-Borrowers-Investors-and-HUD.pdf. A better approach is reform of the HUD foreclosure process; substantial improvements have been implemented in the GSE process.

19 Michael Neal, Residential Construction Down in June, Eye on Housing, National Association of Homebuilders (July 18, 2018), available at: http://eyeonhousing.org/2018/07/residential-construction-down-in-june/?utm_campaign=EOE2018&_ga=2.126940237.1759872631.1535413976-631253769.1535413976

20 Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing 2018, available at http://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2018.pdf.

21 Joint Center for Housing Studies of Harvard University, Renter cost Burdens By Race and Ethnicity, available at: http://www.jchs.harvard.edu/ARH_2017_cost_burdens_by_race.

22 Sho Chandra, U.S. Sales of Previously Owned Homes Decline for Third Month, Bloomberg (July 23, 2018) available at: https://www.bloomberg.com/news/articles/2018-07-23/u-s-sales-of-previously-owned-homes-decline-for-a-third-month
https://www.bloomberg.com/news/articles/2018-07-23/u-s-sales-of-previously-owned-homes-decline-for-a-third-month.

23 *See* Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. 115-174 (Section 107 weakens protections for consumers purchasing manufactured homes.)

24 Carolina Reid, Lei Ding, Roberto G. Quercia, Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages, University of North Carolina Center for Community capital (January 2012), available at: https://communitycapital.unc.edu/research/balancing-risk-and-access-underwriting-standards-for-qualified-residential-mortgages/.

25 *See* National Fair Housing Alliance, Making Every Neighborhood a Place of Opportunity: 2018 Fair Housing Trends Report (Apr. 30, 2018), available at https://nationalfairhousing.org/wp-content/uploads/2018/04/NFHA-2018-Fair-Housing-Tren

26 Affirmatively Furthering Fair Housing: Streamlining and Enhancements, 83 Fed. Reg. 159 (August 16, 2018) ds-Report_4-30-18.pdf.

27 The Supreme Court recently held that disparate impact claims are cognizable under the Fair Housing Act. *Texas Dept. of Housing and Community Affairs v. Inclusive Communities Project*, 135 S.Ct. 2507 (2015).

28 Comment of Lending Club on CFPB Request for Information Regarding the Bureau's Inherited Regulations and Inherited Rulemaking Authorities; Maintain Disparate Impact Policy (June 23, 2018), available at https://www.regulations.gov/document?D=CFPB-2018-0012-0075.

29 Ashok Chaluvadi, National Association of Home Builders, Builder Materials Prices and Labor Access Top Challenges for 2018 (Jan. 16, 2018), available at http://eyeonhousing.org/2018/01/building-materials-prices-and-labor-access-top-challenges-for-2018/; Carmel Ford, Cost of Constructing a Home, National Association of Home Builders (Dec. 1, 2017), available at http://www.nahbclassic.org/generic.aspx?genericContentID=260013/.

30 Peter Smith and Melissa Stegman, Repairing a Two-Tiered System: The Crucial but Complex Role of FHA, Center for Responsible Lending, at 20 (May 2, 2018), available at https://www.responsiblelending.org/research-publication/repairing-two-tiered-system-crucial-complex-role-fha.

31 FHA cannot use premium dollars and is dependent on separate Congressionally approved HUD appropriations for operation expenses. Brian Collins, FHA Can't Put Off Technology Upgrades Any Longer, National Mortgage News (April 10, 2017), available at: https://lusk.usc.edu/news/national-mortgage-news-fha-cant-put-technology-upgrades-any-longer.

32 These include eliminating excessive portfolios of loans used for arbitrage and establishing much higher capital standards that raised the guarantee fees. Under conservatorship, the net profits generated by these additional fees are swept each quarter by the Treasury Department.

33 The claim that the affordable housing goals caused the financial crisis has been repeatedly debunked. *See, e.g.*, Financial Crisis Inquiry Commission, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, at xxvii (2010), available at https:// www.gpo.gov/fdsys/pk g/GPO-FCIC/pdf/GPO-FCIC.pdf.

34 Peter Smith and Melissa Stegman, Repairing a Two-Tiered System: The Crucial but Complex Role of FHA, Center for Responsible Lending, at 18 (May 2, 2018), available at https://www.responsiblelending.org/research-publication/repairing-two-tiered-system-crucial-complex-role-fha.

35 Rob Wile, Here's More Proof that We Jumped to Conclusions About Millennials, Time (Apr. 12, 2017), available at http://time.com/money/4736057/millennials-homeown.

36 Christopher E. Herbert, Daniel T. McCue, and Rocio Sanchez-Moyano, Is homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was it Ever?), Harvard University, Joint Center for Housing Studies (September 2013), available at: http://www.jchs.harvard.edu/sites/default/files/hbtl-06.pdf.

37 Lisa J. Dettling, Joanne W. HSU, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson, Recent Trends in Wealth-Holding by Race and Ethnicity; Evidence from the Survey of Consumer Finances, Fed Notes, Board of Governors of the Federal Reserve System (September 27, 2017), available at: https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm

38 Urban Institute, Nine Charts about Wealth Inequality in America (Oct. 5, 2017), available at http://apps.urban.org/features/wealth-inequality-charts.; https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm