



A Review of Barriers to Minority Homeownership: Testimony before the House Financial Services Committee Housing, Community Development & Insurance Subcommittee Hearing

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Introduction

Good morning Chairman Clay, Ranking Member Duffy, and Committee Members. Thank you for the opportunity to testify in today's hearing on barriers to homeownership for families of color.

Four hundred years after enslaved Africans arrived in Jamestown, VA, and hard-fought battles won granting citizenship and equal protection to African-Americans, homeownership remains the driver of inequality. Our nation's housing finance system was built with discrimination as the cornerstone. The mortgage ecosystem favored whites and set them up for success while curtailing equity of opportunity for families of color. Today's racial wealth gap is the outcome of this discrimination; white families have 13 times the wealth of African-Americans and 10 times the wealth of Latinx families. The white homeownership rate is 73.2% compared to 41.1% for African-Americans and 47.4% for Latinos.

These stubborn and persistent figures will only disappear when we stop underwriting practices that falsely equate race with risk. This hearing can be a catalyst for change. A step towards addressing the federal governments' role in lending discrimination that produced winners and losers among citizens in the pursuit of the American Dream.

CRL/Self-Help

I am Executive Vice President of the Center for Responsible Lending (CRL), an affiliate of Self-Help, one of the nation's largest community economic development lenders based in Durham, NC. Self-Help has provided over \$7 billion in financing to underserved borrowers in rural and urban communities throughout the nation. Self-Help's secondary market program has helped more than 50,000 low-to-moderate income families, including African-Americans and Latinos achieve homeownership.

Address the Housing Finance System's Legacy of Discrimination

President Johnson signed the Fair Housing Act in 1968 following the assassination of Dr. MLK, Jr. Johnson stated that he was "delivering on the promise of a century," referencing Lincoln's Emancipation Proclamation.

In 1866, Congress passed a Civil Rights Act that promised fair lending. The law states that “[a]ny citizen has the same right that a white citizen has to make and enforce contracts, sue and be sued, give evidence in court, and inherit, purchase, lease, sell, hold, and convey real and personal property.” The limited private right of action weakened its enforcement manifesting 102 years of legal mortgage lending discrimination.

Race remains an impediment to fair lending. Today, African-Americans have the same rates of homeownership as they did in 1968. Home Mortgage Disclosure Act consistently show low levels of lending by conventional lenders to African-American and Latino communities, with only 3.1% of conventional loans to African-Americans and 5.8% were to Hispanic white borrowers in 2016. By contrast, non-Hispanic white borrowers received 70.2% of the conventional loans.

Discriminatory redlining birthed predatory mortgage lending. Predatory lenders targeted families of color with high-cost and risky subprime mortgages. CRL’s research found that consumers of color were steered towards these unsustainable loans even when they qualified for lower cost loans with fewer risks. The spillover cost for Black and Latinx families totaled \$1 trillion.

Today’s mortgage market delivers as designed. Conventional loans are for “whites only”. Upper income African-Americans and Latino families are disproportionately represented in FHA insured lending programs. Fair lending and housing finance laws require that the private mortgage market serve low-wealth families. Government-backed loans cannot be the only sources of credit for low-wealth families.

Post recovery, banks experience record profits. FDIC-insured institutions reported aggregate net income of \$59.1 billion in the fourth quarter of 2018, up \$33.8 billion (133.4 percent) from a year earlier. Fannie Mae data show that loans to low-income borrowers originated from 2010-2015 had a default rate of just 0.3 percent, approximately equal to that of loans to high-income borrowers originated from 2002-2004.

Rather than remedy the damage done by abusive subprime lending, excessive risk-based pricing dominates in today’s mortgage market driving out the very borrowers that a future well-functioning mortgage market depends. Harvard’s Joint Center for Housing Studies found that 7 out of ten future homebuyers will be people of color. The future is now!

How We Can Achieve This Goal

Mortgage discrimination's impact on families of color deserve a federal response equal to the problems created. Now is not the time for retreat, we need bold action.

1. Increase Down Payment Assistance;
2. National Banks Must Ensure that 10% of Their QM Mortgage Lending and Small Business Lending Occur in Communities Where at Least 20% of the Population Has Experienced Poverty for the Last 30 years in Exchange for FDIC Insurance or to Have Their Loans Sold to the GSEs or Ginnie Mae;
3. Strengthen and Fully Enforcing the Nation's Fair Lending Laws (FHA, ECOA, HMDA, CRA); and
4. Eliminate Loan Level Price Adjustments.

Conclusion

Whites have better life outcomes in wealth accumulation, housing, education, employment, and health. Our nation's mortgage lending system created these inequities.

Remediating the federal government's discrimination in mortgage lending, can level the playing field and create more equity in homeownership opportunity. This action can drive shared prosperity for all Americans.

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