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TESTIMONY OF HILARY O. SHELTON

Director, NAACP Washington Bureau &
Senior Vice President for Policy and Advocacy

Before the Senate Committee on
Banking, Housing, and Urban Affairs

On

"Housing Finance Reform: Essential Elements to Provide Affordable Options for Housing"

Thursday, November 7, 2013

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Good morning, Senator Johnson, Senator Crapo, and esteemed members of this panel. Founded more than 104 years ago, in February of 1909, the National Association for the Advancement of Colored People, the NAACP, is our nation's oldest, largest, and most widely-recognized grassroots based civil rights organization. We currently have more than 2,200 membership units across the nation, with members in every one of the 50 states.

My name is Hilary Shelton, and I am the Director of the NAACP Washington Bureau and the Senior Vice President for Policy and Advocacy. I have been the Director of the NAACP Washington Bureau, our Association's federal legislative and political advocacy arm, for over 16 years.

Owning a home remains the American dream. For many, it represents a degree of financial success as well as an opportunity to build and retain wealth, which in turn can be passed down to future generations, used as collateral for college tuition, or used as a nest egg in one's senior years. Our nation, our communities, and our people, all benefit from safe, affordable, secure housing, whether it be through homeownership or rental housing. Furthermore, it has been estimated that the housing market currently generates more than $10 trillion per year in domestic economic activity. Given that our nation's overall economic activity is estimated at roughly $17 trillion, we all have a vested interest in a healthy housing market.

Yet the communities served and represented by the NAACP have long been underserved by the housing market; were, for decades targeted by predatory lenders; and, as a result have been denied the opportunity to build wealth through housing or worse yet have had their wealth stripped from them because they, like almost every other person in our nation, were chasing the American dream. Furthermore, many of our communities, in fact a disproportionate number of communities of color, continue to suffer from the foreclosure crisis and continue to be neglected by too many mainstream financial institutions.

As Congress considers and debates the future of the housing market and the role to be played by the federal government, I cannot stress enough how important it is that any future housing finance system must affirmatively establish pathways to sustainable and affordable homeownership for a wide range of qualified buyers as well as assure an adequate supply of safe and affordable rental homes. It is vital that the federal government uses its authority and its might to ensure that the secondary market serves all borrowers in a fair and equitable manner, and that some of the profits from the housing market be reinvested in the American people and in our economy through the construction, renovation, and preservation of safe and affordable rental housing.

The Origins and the Impact of the Housing Crisis on Communities of Color

The 2008 "burst" of the housing bubble had repercussions which are still being felt today, especially in communities of color across the United States. An estimated 4.5 million homes have been foreclosed upon since the crisis began[1], and many more are still at risk of foreclosure. Due largely to the targeted predatory lending which had been going on for years in communities of color, the rate of foreclosures is currently twice as high for borrowers of color when compared to white borrowers[2].

In addition to the households actually facing the prospect of foreclosure, the crisis has also impacted homeowners who live in neighborhoods with high levels of foreclosures. This so-called "spillover" effect has reduced property values and home equity for many homeowners, including a large number of homeowners of color. One study estimated that racial and ethnic minority neighborhoods will lose $1 trillion in home equity because of the impact that homes going through the foreclosure process has on overall neighborhood property values, fully half of the overall national total[3]. Furthermore, too many homeowners have found that as a result of unscrupulous loans and the "spillover" effect their homes are now "underwater," whereby they owe more than their home is currently worth.

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[1] http://www.nasdaq.com/article/1-in-5-predicted-to-default-cm95228

[2] Center for Responsible Lending, *State of Lending in America*, December 2012, available at:): http://www.responsiblelending.org/state-of-lending/reports/3-Mortgages.pdf

[3] Center for Responsible Lending, August, 2013, available at: http://www.responsiblelending.org/mortgage-lending/research-analysis/2013-crl-research-update-foreclosure-spillover-effects-final-aug-19-docx.pdf

One result of this disproportionate impact of the foreclosure crisis on communities of color has been that they have, in recent times, suffered a disproportionately extreme loss of wealth. Between 2007 and 2010, African Americans lost an estimated 31% of their wealth; Hispanic families lost 44% of their wealth; and White families lost 11%[4].

Despite the disproportionately devastating impact the housing burst and foreclosure crisis has had on communities of color across the United States, there is strong evidence to indicate that we neither profited from the calamity nor did we cause it.

According to the Financial Crisis Inquiry Commission, the crisis was triggered by the rapid growth in the origination and securitization of subprime loans in the private-label market[5]. Furthermore, according to a careful analysis of the housing crisis released just last year by the Federal Reserve Bank of St. Louis, Fannie Mae and Freddie Mac's affordable housing goals were not to blame for the rapid increase in subprime originations. Although Fannie and Freddie purchased securities backed by subprime loans, and some of those purchases helped fulfill their affordable housing goals, the study's authors found that the housing goals had no impact on either the number of subprime loans originated or the price of those loans in the private-label market[6].

In short, while the communities served and represented by the NAACP have suffered disproportionately from the housing crisis and subsequent recession, they were not caused by laudable affordable housing goals.   Nor was the housing crisis caused by compliance with the Community Reinvestment Act, as some have tried to claim. In fact, studies show that loans made to low–wealth homebuyers as part of banks' efforts to meet their CRA obligations have actually performed better than the rest of the subprime market [7].

Rather, the source of too many of our economic woes was the desire of Fannie and Freddie to make money for their private stakeholders, and the willingness of the private-label market to

[4] Signe-Mary McKernan, Caroline Ratcliffe, C. Eugene Steuerle, and Sisi Zhang, *Less Than Equal: Racial Disparities in Wealth Accumulation* (Washington, DC: The Urban Institute, 2013).
[5] Financial Crisis Inquiry Commission, The Final Crisis Inquiry Report, January 2011
[6] Ruben Hernandez-Murillo, Andra C. Ghent, and Michael T. Owyang, Federal Reserve Bank of St. Louis, *Did Affordable Housing Goals Contribute to the Subprime Securities Boom?* (Aug. 2012), *at* http://research.stlouisfed.org/wp/2012/2012-005.pdf.
[7] In an analysis of CRA–motivated loans sold to CRL's affiliate Self–Help, a community development financial institution (CDFI), Ding, Quercia, Ratcliffe, and Li (2008) found that the default risk of these loans was much lower than subprime loans made to borrowers with similar income and credit risk profiles.
A study by the Federal Reserve Bank of San Francisco found that CRA–eligible loans made in California during the subprime boom were half as likely to go into foreclosure as loans made by independent mortgage companies (Laderman & Reid, 2008).

accommodate their desires. To quote an esteemed member of this panel, the gracious and brilliant Senator from Massachusetts, who happens to be a former professor at Harvard specializing in bankruptcy law and who helped create the Consumer Financial Protection Bureau, "Affordable housing goals have been scapegoated by those who have been itching to get rid of the goals for a long time, but I think it's time to drop that red herring[8]." The NAACP could not agree more.

Necessary elements of genuine reform

Chairman Johnson, Members of this Committee, I do not need to tell you that the American housing market is incredibly complicated and complex; its needs and fortunes vary from region to region, income to income, and year-to-year. Nobody, including me, has all the answers to reforming the current system, ensuring that all the housing needs of the American people are met, and reducing if not eliminating the risk to tax payers of another bailout and another recession.

Yet I do know that as we take steps to reform the housing market we must do all that we can to ensure that every American has access to safe, affordable, sustainable housing. For low income Americans, this means that we must ensure that there is an adequate stock of safe and affordable rental units throughout the country, and for qualified, middle income Americans this means that we must make sure that sustainable, affordable mortgages are available.

Nationwide, there are currently approximately 7.1 million American households for whom even a modest rental home is unaffordable and unavailable. Families in this situation find themselves making impossible choices between food, clothing, medicine, and rent. When illness, job loss or other tragedy strikes, they often become homeless. The NAACP has long been a strong supporter of the National Housing Trust Fund (NHTF) and as such, we are extremely pleased to see the current debate focusing on how to best ensure that it is fully and adequately funded, not ***if*** it should be funded at all.

In short, a solid stock of safe and affordable rental housing, such as that which could be supplied by the NHTF, is sufficiently important to the NAACP that we were pleased when the original source of funding for the NHTF was a dedicated source of revenue, namely contributions from Freddie Mac and Fannie Mae. In these days of sequestration and other budgetary cuts, this meant that the NHTF would not be subjected to the annual budget process. Furthermore, we felt strongly that the NHTF should never compete with existing HUD

[8] Warren, Senator Elizabeth, Speech Before the Mortgage Bankers Association, Washington, D.C., October 29, 2013

programs. Yet as history has shown us, the GSE funding stream proved to be unstable, and as a result, crucial funding for the NHTF has been suspended.

With this history in mind, and given that at least 90% of the funds set aside for the NHTF must be used for the production, preservation, rehabilitation, or operation of rental housing, and that it is intended to help extremely low income and very low income households, I will reiterated the NAACP's support for an inclusion of a consistent, adequate funding stream for the NHTF in any GSE reform. The NAACP is confident that the NHTF, once fully funded, will go a long way towards addressing many of our nation's most urgent housing needs. The NAACP is dedicated to working with Members of Congress, the Administration, and private non-profit groups at the local, state, and federal levels to ensure that consistent, adequate funding for the NHTF is included in any GSE reform.

In addition to ensuring adequate, affordable rental stock, the future housing finance system must also affirmatively establish affordable, sustainable pathways to homeownership for all qualified buyers.

Allow me to back up a little, to the late 1990's and the early 2000's. As I have previously stated, targeted predatory lending – offering mortgages to people which were much more expensive than what they qualified for and which they could not afford – was rampant in the communities of color across the United States. These subprime loans were driven by greed, pure and simple, and they played upon the desire of people to live in their own homes. These nefarious loans were abetted and often encouraged by legal policies and practices such as steering and yield spread premiums.

Every time the NAACP or other, like-minded groups spoke out in opposition to these predatory policies and practices we were told that making them illegal would be contrary to "Preserving access to credit." It took the financial crisis of 2008 to get to the point at which our words sank in. In 2010, we were finally able to pass legislation, the Dodd / Frank Wall Street Reform bill, to curb many of these abuses. The NAACP strongly supported the enactment of Dodd / Frank, and we continue to support the strong regulations which are resulting from it; regulations which we believe will strengthen the underlying market.

Ensuring that all Americans have access to fair and sustainable credit opportunities is crucial to our sustained economic recovery. The federal government is obligated to promote nondiscrimination, residential integration, and equal access to the benefits of decent and safe housing and ownership opportunities. Therefore, any reform of the secondary market must require all lenders and securitizers receiving a government guarantee of any kind to affirmatively market and offer credit in a manner that promotes equal opportunity in all neighborhoods.

The receipt of federal support, including insurance and guarantees, invokes the mandate to affirmatively further the objectives of the Fair Housing Act. Therefore, the delivery of government-supported mortgage credit or rental financing cannot be withheld from any geographic location or neighborhood. Instead, the delivery infrastructure must make deliberate provisions for the flow of credit to all qualified borrowers and neighborhoods. Moreover, the infrastructure must include a mechanism for monitoring and enforcing compliance, both by the government and the public. Simple, transparent, and timely data must be made publicly available to measure the market's progress in providing fair, sustainable capital to underserved people and communities.

Furthermore, without an obligation to serve all markets, communities of color in particular will find it extremely difficult to access mortgage credit. Without a duty to serve all communities, as is dictated by the Community Reinvestment Act, private capital will gravitate to the elite homebuyers --those with traditional borrowing profiles – while middle class and first time homebuyers, as well as purchasers of color – will be left without. This will result in the exacerbation of an unsustainable housing finance market in which qualified but lower-wealth and lower-income buyers, especially minorities, will be underserved. Sadly this trend is already evident; the private market overwhelmingly caters to traditional borrowers in well-served locations[9].

This trend does not just harm borrowers in minority communities, but rather the whole housing sector. Although African Americans and Hispanics are already significant segments of the housing market, they are projected to be an even larger portion of the market over the next 10–20 years. According to the Joint Center for Housing Studies at Harvard, minorities will account for 70% of net new households over this period and 33% of all households by 2020. These households will be younger than traditional borrowers and will likely have lower incomes and less credit history. These new borrowers will therefore need access to affordable housing credit. Without affordable access to credit for these prospective buyers, there will be a large supply of housing stock left unsold, leading to decreasing prices and wealth[10].

[9] Bhutta, Neil, and Glenn B. Canner. 2013. "Mortgage Market Conditions and Borrower Outcomes: Evidence from the 2012 HMDA Data and Matched HMDA–Credit Record Data," *Federal Reserve Bulletin* . http://www.federalreserve.gov/pubs/bulletin/2013/pdf/2012_HMDA.pdf. Accessed on October 25, 2013

[10] Joint Center for Housing Studies of Harvard University. 2013. "The State's of the Nation's Housing," Harvard University. http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2013.pdf. Accessed on October 25, 2013

Thus, it behooves all of us to ensure the availability of safe, sustainable, credit access and affordability for all homeowners and prospective homeowners alike. Reforming our nation's current housing finance system requires a great balance. Reform must facilitate a stable, liquid secondary market—accessible to small and large lenders alike—which will extend credit and capital on an equitable basis to all qualified borrowers and in all communities. While the NAACP does not agree with every provision in the legislation proposed by Senators Corker and Warner (especially provisions which will negatively and disproportionately affect racial and ethnic minorities, including the mandated 5% down payment), and we will be quick to point out areas in which the proposed legislation is lacking, we do congratulate them on moving the debate forward. Likewise, we are strongly encouraged by these hearings, being held by Chairman Johnson and Ranking Member Crapo, intended to look into necessary elements of GSE reform.

Members of this esteemed panel, I look forward to your questions, to the ensuing debate regarding GSE reform, and to working with you to ensure that any reform will benefit all homebuyers, renters, and our nation as a whole. Thank you again for holding this hearing and for seeking the perspective of the NAACP.