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Testimony of

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for the

National Association for the Advancement of
Colored People (NAACP)

before the

Committee on Banking, Housing, and Urban
Affairs

of the

United States Senate

on the

*“Chairman’s Housing Reform Outline: Part
One”*

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INTRODUCTION

Good morning, Chairman Crapo, Ranking Member Brown, and esteemed Members of this committee. I would like to thank you for asking me here today to discuss a topic that is crucial to the NAACP and all of the individuals, families, neighborhoods, and communities we serve and represent: homeownership.

While not perfect, I would counsel extreme caution when reforming our nation's housing policy. Housing currently represents approximately 20% of the national economy, so while no one would argue that this is not a very important issue to our nation and our economy, it is my hope that when drafting this policy we do not forget the impact our actions have on every American, especially those who, for a multitude of reasons, may be most reliant on a strong mortgage and secondary market: Americans of color and low- to moderate-income Americans.

My name is Hilary O. Shelton, and I am the Director of the NAACP Washington Bureau and the Senior Vice President for Policy and Advocacy. I have been with the NAACP Washington Bureau for over 21 years.

Founded in 1909, the NAACP is our nation's oldest, largest, and most widely recognized grassroots based civil right organization. We currently have over 2200 membership units in every state in the nation, as well as on American military installations in Asia and Europe. Our mission statement declares that our goal is "...to ensure the political, educational, social and economic equality of rights of all persons and to eliminate racial hatred and racial discrimination."

The desire to be a homeowner is not specific to NAACP members: homeownership is "The American Dream." It represents not only safety and stability for an individual and his or her family, but it also leads to a sense of community, and is one of the most important tools for building and passing on wealth for most middle-class families. All Americans deserve a safe and decent place to live.

Yet for too long, too many Americans have been denied the ability to follow their basic dream of homeownership. In 1968, President Lyndon B. Johnson signed the seminal *Fair Housing Act* into law. This new law made it illegal to discriminate against a person when they are renting or buying a home, getting a mortgage, seeking housing assistance, or engaging in other housing-related activities due to the race, color, national origin, religion, gender, or familial or disability status. It also prohibited discrimination based on the racial, ethnic, or income make-up of the neighborhood. At the time of the enactment of the *Fair Housing Act*, over 50 years ago,

homeownership among African Americans was just over 40%. At the same time, homeownership among White Americans was well over 60%.

In the first forty years since the *Fair Housing Act* was signed into law, homeownership rates among all races and ethnicities slowly increased, with homeownership rates among African Americans nearing 50 percent in 2005. But in the last ten years or so we have seen those rates drop. Today, sadly, the homeownership rate among African Americans is approximately back to where it was when discrimination was legal: just over 40 percent.

To what do we owe this troubling phenomenon? First, it should be pointed out that while homeownership among communities of color in the United State was never on par with that of our white counterparts, it did increase prior to the recession of the late 2000's. Then, with the economic downturn of 2008 and the related housing crisis, most homeownership gains, especially those made among low- and moderate-income Americans and people of color of our country, were wiped out.

According to the seminal study by the St. Louis Federal Reserve from the first quarter of 2017, between 2007 and 2010, mortgage delinquency surged across all groups, reaching a peak in January 2010 of just under ten percent and eight percent for African Americans and Hispanics, respectively, compared to less than three percent for White Americans. Perhaps more important is the fact that just under thirty percent and more than thirty-one percent of mortgage loans for African American and Hispanic borrowers, respectively, had entered foreclosure. That is in sharp contrast to the less than twelve percentage shares for White borrowers¹.

This loss of homeownership is one reason we have the stubborn, completely unhealthy, racial wealth gap in the United States. The typical white family currently has over \$14,000 in wealth, compared to just over \$6,000 for the average Latino family and not even \$3,500 for the average African American family². Moreover, 20 percent of African Americans currently live in poverty, compared to just over 6 percent of White Americans³.

In response to the economic downturn, Congress passed the 2008 *Housing and Economic Recovery Act* (HERA) and the 2010 *Dodd Frank Wall Street Reform and Consumer Protection Act*.

¹ Garriga, Carlos, Ricketts, Lowell R. and Schlagenhauf, Don "The Homeownership Experience of Minorities During the Great Recession" The Federal Reserve Bank of St. Louis *Review*, First Quarter 2017, pp. 139-67. <https://doi.org/10.20955/r.2017.139-67>

² Asante-Muhammed, Dedrick, et.al. (September, 2017). *The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America's Middle Class*. Prosperity Now and Institute for Policy Studies

³ U.S. Census Bureau (2017). Table S1702

Together these two laws put into place several important safety and soundness regulations that the prior system lacked, and while they were by no means perfect they did serve to protect the taxpayers as well as groups that had heretofore been targeted by unscrupulous lenders with unsustainable products.

Any changes to the current system must continue to incorporate and to protect important market segments—namely people of color and low-to-moderate income families – on which a well-functioning future system depends and a just society demands. These changes must also continue to protect taxpayers.

NAACP RECOMMENDATIONS

Successful reform of our current system would produce one that adequately serves the full universe of credit worthy borrowers, takes into account the unique needs and characteristics of communities of color, and builds on the positive innovations that have emerged after the financial crisis of the late 2000's. We should not and cannot return to the days of a loosely regulated system which led to reckless, unsustainable lending practices like those that caused the financial crisis and led to a devastating loss of wealth for people of color and cost taxpayers billions of dollars.

Any housing reform policy must remedy the historical marginalization of communities of color and discriminatory practices within the mortgage market which were sanctioned, and often encouraged, by societal constraints, and in too many cases, federal policies. The historic role that the federal government played in emboldening, and at times enforcing, mortgage discrimination and the targeting of unfair, unsustainable loans to racial and ethnic minorities in America, thereby limiting their choices and their ability to build wealth, cannot and should not be ignored. A secondary market structure that is too narrow increases the risks of perpetuating the current two-tiered lending system in which white, more affluent buyers are channeled into one system with one set of fees and racial and ethnic minorities, people of color, and low- to moderate income buyers are funneled into another.

Specifically, the NAACP calls on Congress to retain and strengthen any and all “Duty to Serve” provisions by Fannie Mae, Freddie Mac, Ginnie Mae, and any other Government Sponsored Entity (GSE) or any relevant government program. Without an enforceable, robust obligation to serve all markets, history has proven that communities of color within our nation will find it extremely difficult to access the mortgage market. In the absence of an explicit, aggressive Duty to Serve mandate most, if not all, capital will go to the “cream of the crop” mortgages, the more affluent homebuyers with traditional borrowing credits, thereby ignoring the lower-wealth and lower-income homebuyers who may nevertheless have proven themselves

creditworthy. We must preserve and enhance all Duty to Serve mandates so that underserved markets, including but not limited to loans made to people of color, low- and moderate-income Americans, as well as markets for affordable rental housing and manufactured housing are covered.

We must retain if not strengthen any and all federal mandates to ensure broad access and affordability in our nation's housing finance system. While alternative methods of achieving access and affordability may appeal to some, the NAACP is concerned that simply authorizing money to alleviate a problem is not enough, and as we have seen in the past year, even when money is appropriated it can easily be slated to be taken away.

Any alteration to our current housing system must also preserve and enhance fair housing and anti-discrimination laws. To wit, we must ensure that there is a rigorous, consistent, effective, and well-resourced structure to oversee and enforce fair lending rules and regulations. We must be able to fully and adequately measure trends in lending to make sure that fair and sustainable loans are being made to all creditworthy borrowers, regardless of where they are looking to purchase their homes.

Congress must preserve FHA insured lending, responsible low-down payment mortgage loans, and ensure access to existing down payment assistance programs as well as promote cost-effective loan modifications for existing homeowners. This will help not only first time homebuyers but those who are already in their own home stay there.

Congress must also formally recognize and boost the role of housing counseling. This entails both pre- and post- purchase counseling to help families understand what their obligations may be and how to best manage them, especially in times of unexpected stress. All HUD-approved housing counseling services must be able to reach low-and moderate income families as well as families of color, and they should be able to address any unique, but not disqualifying, characteristics.

Any future housing reform proposal must also provide broad access to capital for all borrowers as well as institutions of every size. Small lenders, including community banks and credit unions, are often the only sources of mortgage credit in underserved communities across the nation. We must ensure that small lenders, credit unions, community banks and minority-serving institutions all have fair, equal, and affordable access to the housing finance system and that their needs, sometimes unique, are met.

Any housing proposal must also protect and increase funding for the National Housing Trust Fund (NHTF). In a just-published follow-up to their in March of 2018 study⁴ the National Low Income Housing Coalition announced that within the U.S. there is a shortage of 7 million affordable and available rental homes for households with extremely low incomes at or below the poverty guideline or 30% of the area median income (AMI), whichever is higher. Seventy-one percent of extremely low-income households are severely housing cost-burdened, spending more than half of their incomes on housing. Extremely low-income renters are more likely to be severely housing cost-burdened than any other income group, accounting for 73% of all severely housing cost-burdened renters in the U.S. The NHTF is the first new housing resource exclusively targeted to households with the lowest incomes, and its success must be protected, celebrated, and preserved. There is sadly still a dire need for the NHTF throughout the nation, and until that need is met we must continue to fund and promote it. The NAACP is a proud, long-time supporter of the NHTF.

Lastly, but not of least importance, any housing reform policy must protect taxpayers. Taxpayers cannot be disproportionately exposed to risks; we must protect, and fully and rigorously implement the reforms passed in 2008 and 2010 that require strong capital standards for all parties in the housing finance system and set strong standards for sustainable mortgages for all. It is a basic responsibility of Congress to eliminate excessive and/or unfair risk to the taxpayers, their constituents as well as all of the American people.

CONCLUSION

Fannie Mae and Freddie Mac continue to provide critical mortgage capital to underserved communities. Together, they purchased more than two million home loans or refinance mortgages in 2015, including almost half a million loans to low- and moderate-income borrowers, and nearly 400,000 loans to borrowers of color⁵.

More than 50 years after enactment of the 1968 *Fair Housing Act* Congress has an opportunity to put some teeth into the promises made by that law. Although racial and ethnic minorities combined already represent a significant segment of the housing market, they are projected to be an even larger portion of the market over the next one or two decades. These households will be younger than current traditional borrowers, and therefore have less credit history and they will likely have lower incomes. As family structures and the labor market continue to

⁴ National Low Income Housing Coalition, "The Gap: A shortage of Affordable Homes" March, 2018. https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2018.pdf

⁵ Center for Responsible Lending, Testimony of Ms. Nikitra Bailey. September 6, 2018, before the United States House of Representatives Committee on Financial Services hearing *on A Failure to Act: How a Decade without GSE Reform Has Once Again Put Taxpayers at Risk*

evolve, these new “non-traditional” borrowers will require more flexible underwriting systems and access to affordable housing products in order to become homeowners.

I recognize the impact that any changes, or even no changes, to housing policy will have on our national and even global economy, and I do not envy you the task ahead. Yet I pledge to you that the NAACP stands ready to work with you to ensure that we get it right, and that we do not make changes that will create unintended and harmful consequences which we will come to regret. As I indicated at the beginning of my testimony, it is my hope that when drafting this policy we do not forget the impact our actions have today on every American, in a manner that will shape our nation’s economic future.

Thank you again for inviting me here today to speak to you about housing and homeownership. I stand ready to answer any and all of your questions.