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451 7th Street, SW
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To Whom It May Concern:

On behalf of the National Council of La Raza (NCLR), please accept these comments on the proposed affordable housing goals for the Government-Sponsored Enterprises (GSEs). NCLR is the largest constituency-based Hispanic organization in the U.S., dedicated to improving life opportunities for the nation's 38.8 million Hispanics, and as such has a deep interest in improving Hispanics' access to mortgage financing and homeownership. NCLR applauds the spirit of the goals, in that they challenge the nation's largest financial institutions to better serve minority markets. However, NCLR also believes that regulators and policy-makers should consider a number of other steps to close the homeownership gap.

Overview

According to the American Housing Survey (AHS), Hispanic homeownership grew by 94% between 1991 and 2001. However, despite this rapid growth, it appears that in the last two years households have grown faster than new homeowners: according to the Department of Housing and Urban Development (HUD), Hispanic homeownership was 46.7% in 2003, down from a high of 47.3% in 2001.1 Though absolute numbers have grown steadily, the declining rate warns of Latinos' lack of access to services and lack of market penetration by the mortgage industry. Despite notable improvements in Hispanic housing conditions, Hispanic families still face a number of other housing concerns, including overcrowding, poor-quality units, and excessive cost. As the nation's largest minority, the success of Hispanic families in their endeavor to capture the American Dream is crucial to the economic success of all Americans.

1U.S. Department of Housing and Urban Development. U.S. Housing Market Conditions: Fourth Quarter 2003, See "Table 29: Homeownership Rates by Race and Ethnicity: 1983-Present," February 2004.



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LA RAZA: The Hispanic People of the New World

NCLR has a long history in the field of housing and community development on which it bases its comments and recommendations:

- From a public policy perspective, NCLR began testifying on Hispanic housing conditions and advocating for more flexible underwriting guidelines and affordable housing products in the mid-1980s.
- In the early 1990s, NCLR partnered with Fannie Mae and First Interstate Bank to design and implement one of the earliest pilot projects to test the feasibility of new approaches to homeownership. In conjunction with the Arizona Housing Alliance, a coalition of NCLR affiliates, a model was implemented incorporating an affordable housing product with more flexible underwriting guidelines; pre-purchase housing counseling; and credit enhancements including downpayment assistance. Called "Home To Own," this pilot provided mortgages to nearly 500 families, all of whom earned below 80% of Area Median Income (AMI), with half going to families below 60% of AMI.
- The NCLR Homeownership Network (NHN), a network of 35 community-based organizations (CBOs), is in its eighth year of providing homeownership counseling services to more than 20,000 families annually, and averages more than 2,500 closings a year.
- The Partnership of Hope Institute Program (POHIP), NCLR's unique training program for community development corporations (CDCs), consists of a two- to three-year educational program combined with mentoring/technical assistance from experienced affiliates.
- The Raza Development Fund (RDF), NCLR's wholly-owned Community Development Financial Institution (CDFI), provides capital to NCLR affiliates for community facilities including charter schools, day care, primary health care, and affordable housing development. Since 1999, RDF has approved \$47 million in loans, leveraging approximately \$234 million in total project costs.

In interest of full disclosure, Fannie Mae and Freddie Mac have been significant supporters of NCLR's and RDF's housing and community development activities. The Fannie Mae Foundation has been a funder of NCLR's homeownership programs housing policy work, and was one of three original investors in RDF. Freddie Mac has been integral to the work of NHN, providing strong financial and technical support and leadership in creating public-private innovative partnerships.

That said, with the GSEs' sheer size and implicit public subsidy comes a responsibility to also be true to their mission of increasing homeownership opportunities for minorities and first-time homebuyers. As mentioned above, the percentage of Hispanic homeowners is stagnant and at risk of decreasing; closing the White-Latino homeownership gap is going to take a concentrated effort by all sectors of the homebuying industry. For this reason, the affordable housing goals set forth for the GSEs are of the utmost importance to the Latino community. In support of the Bush Administration's goal of increasing minority homeownership by 5.5 million by the end of the decade, NCLR encourages HUD to challenge the GSEs to improve their role in increasing Hispanic and minority homeownership rates.

Analysis of the Rule

NCLR recognizes the significant and important functions of GSEs in the homebuying system. While some critics have questioned the value of their contribution to market liquidity and lower mortgage costs, it is only fair to recognize that homeownership has reached record highs during a time when the GSEs have rapidly expanded their role in the market place. Even the most severe critics acknowledge that the GSEs' presence in the market lowers consumer costs; although estimates vary widely, all recognize that aggregate savings are quite significant. Similarly, few would deny the important innovations that the GSEs have brought to the marketplace, including automated underwriting tools and other improvements that reduce costs to originators and consumers. Finally, although the liquidity provided by the GSEs may be taken for granted at a time of record-low interest rates, business cycles are unpredictable. Their true value will likely become apparent if the economy ever repeats the "stagflation" of the 1970s or the "capital shortages" once predicted in the 1980s.

Clearly, however, the GSEs have been underperforming compared to the market and need new incentives to increase their participation in, and change their interface with, minority markets. While the GSEs have created many successful products and initiatives that cater to Latino homebuyers, all too often they remain "boutique" products and systems that are not integrated into the core line of business of the companies. Thus, their volume remains small in comparison to the total GSE business. Examples of products and initiatives that have not been incorporated into core business plans are described below.

- GSEs have had several successful initiatives that make use of alternative credit and flexible underwriting criteria, and report lower-than-average delinquency and default rates. Unfortunately, they have not used this new performance information to modify their automated underwriting system, adjustments to which could significantly reduce underwriting costs and facilitate more loans to Latino families.
- Related to the first point, the GSEs' high loan volume affords them an opportunity to study and experiment with the impact of standard underwriting criteria and guidelines versus alternative approaches. Rather than use their internal resources to produce new knowledge and products that meet the needs of Latino families, GSEs' main business consists of traditional products and an underwriting system that create barriers to Latino homeownership. As a result, they have underserved Latino markets and have failed to make serious impacts in emerging markets where flexible products and underwriting are even more critical.
- The GSEs have not lent their considerable political support consistently to critical public policy issues that could advance Latino homeownership, including supply-side initiatives (production of affordable housing), RESPA reform, and appropriations.
- Although both GSEs have promoted the concept of homeownership to the American public through their foundations and in corporate advertising, the quality and quantity of this public education and marketing activity targeted to underserved groups has been far too limited.

For these reasons, NCLR is convinced that HUD must take the necessary steps to maximize the GSEs' capacity to shape markets and impact homeownership gaps. However, NCLR itself does not claim to have the expertise to assess the appropriateness of the specific goals and subgoals, and cannot speak to whether these are the "correct" percentages, or the extent to which they are

based on accurate calculations of the market. Nevertheless, there are several significant issues that HUD should address to ensure that the goals are reasonable and meaningful:

- Instead of issuing new affordable housing goals for the GSEs for 2003, HUD allowed the bonus points for which the GSEs were eligible with their investments in multifamily rental housing. The result was a *de facto* increase in their goals for 2004; removing these bonus points translates into a larger increase from 2004 to 2005 than what would appear otherwise. Without a transition period, and given the sheer magnitude of the proposed changes, NCLR is concerned that the result will be unintended market distortions whereby the GSEs' put time, effort, and resources into meeting the goals, but at the cost of reengineering their businesses in order to have true, sustainable impact in closing minority homeownership gaps.
- The scope of the refinancing boom in recent years, which is obviously not sustainable, may have inflated the estimates of market size on which HUD based the goals. Since refinancings essentially have no impact on closing homeownership gaps, NCLR is concerned that their inclusion in HUD's market studies may undermine, rather than promote, the intended impact of the goals.
- GSEs should and will need to make significant new investments in emerging markets, incorporating the needs of low-income, minority, and immigrant markets into their core business strategy. NCLR supports these changes, but acknowledges that they will take time. The absence of any form of transition period may have the unintended effect of delaying needed reforms while the GSEs work to meet short-term goals through various "band-aid" techniques that may also create severe market distortions.

Recommendations

NCLR fully supports the establishment of goals that will require the GSEs to "stretch," but cautions against setting goals so stringent that their mission and financial health are endangered. NCLR offers the following recommendations in finalizing the affordable housing goals:

- HUD should consider a transition period that would allow the GSEs to make the internal modifications necessary to achieve the stated goals. During such a transition, they would still be required to improve their performance in each goal category, though at a less rapid pace; in addition, they should produce a written document that briefly outlines their strategies to increase their role and impact in the marketplace.
- HUD should account for the removal of bonus points by adjusting the goal/subgoal design, or creating a new mechanism to take their place. The bonus points were incentives created to correct the GSEs' lack of participation in multifamily markets. Further, it seems HUD has eliminated the bonus points precisely because they achieved their objective. Rather than abandoning the concept altogether, HUD should consider other ways this strategy can be employed to shape GSE investment.
 - ▶ One example is a Community Reinvestment Act (CRA)-type bonus that would encourage, and take into consideration, investments in affordable housing pilots to promote innovation, then taking innovations to scale, and building capacity in ancillary industries such as housing counseling and community development. Such participation would essentially "grow" markets and achieve impact further down the income scale.

- Exclude or discount refinances in calculating the goals performance of the GSEs. The focus should be purchase money mortgages that increase homeownership and affordable rental housing.

Efforts by HUD and the Administration to increase housing affordability, connect minority families to homeownership resources through downpayment assistance programs, and increase housing counseling appropriations have been supported by NCLR. However, both the Administration and HUD need to do far more to achieve the President's goal of 5.5 million new minority homeowners by close of the decade. NCLR has a number of policy recommendations.

- FHA/VA loans have the highest delinquency and foreclosure rates in the market. In the interest of both homebuyers and taxpayers, HUD must create an incentive system to connect FHA borrowers to housing counseling services before they make their loan decision, and require counseling in the event of default or delinquency.
- The demands on local housing counseling agencies are growing as a larger number of homebuyers and owners rely on their services to guide them through the homebuying and refinancing processes. In order to preserve their ability to provide these services, the agencies must have access to a consistent and reliable earned-fee income to supplement HUD funding. HUD must issue a policy statement that clarifies Real Estate Settlements Procedure Act (RESPA) regulations allowing counseling agencies to charge a fee for *bona fide* services rendered.
- Despite widespread support from the housing community and both parties, the Community Homeownership Tax Credit legislation has not been made a priority. The legislation would spur affordable for-sale development in many low-income and minority communities, where lack of affordable housing stock is a real barrier to Latino homeownership.
- Given recent research that highlights the high levels of discrimination in the homebuying process, proactive enforcement of fair housing and fair lending laws should be a main concern to HUD, the Department of Justice, and the Administration. Improved coordination between agencies and field offices, faster turnaround on complaints, increased funding for private fair housing groups, and vigorous prosecution of offenders are necessary to even begin making a dent in widespread and systemic discrimination.

In this connection, we do find it somewhat disturbing that HUD and the Administration are doing far less that they could do to help reach the President's goals, while at the same time calling for the GSEs to undertake major reforms.

Sincerely,



Raul Yzaguirre
President/CEO