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Janet Murguía, President

May 2, 2005

Banking Committee  
 U.S. Senate

Financial Services Committee  
 U.S. House of Representatives

Dear Banking and Financial Services Committee Members:

On behalf of the National Council of La Raza (NCLR), I am writing to inform you of our views regarding the pending Government-Sponsored Enterprise (GSE) reform bills S. 190 and H.R.1461. NCLR is the largest national 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 serves as a funding and technical assistance intermediary for 37 organizations providing prepurchase homeownership counseling to more than 20,000 families a year; the network, known as the NCLR Homeownership Network (NHN), has benefited from significant support from the financial services industry, the GSEs, and the Department of Housing and Urban Development (HUD). NCLR recognizes that in order for the GSEs to fulfill their mission of facilitating homeownership for all Americans, especially those who are underserved, there is a need for a regulatory structure that will improve their safety and soundness and enhance their responsiveness to the market. In addition, NCLR calls on the Administration and Congress to do their part to close the homeownership gap between Whites and minorities.

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 Latino households have grown faster than new homeowners; according to the Department of Housing and Urban Development, Hispanic homeownership was 46.7% in 2003, down from a high of 47.3% in 2001.<sup>1</sup> 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. The success of Hispanic families in their endeavor to capture the American Dream is crucial to the economic success of all Americans; therefore, Congress must act to increase the access of eligible Hispanic families to affordable mortgage products; sensible, rational GSE reform should be only one part of that effort.

<sup>1</sup>U.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

Clearly, the work of the GSEs has gone a long way to advance the homeownership market for all Americans. 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 marketplace; 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, the liquidity provided by the GSEs creates stability in the marketplace, the true value of which may be underappreciated at a time of record-low interest rates, but will be realized in an economic slump.

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. If the Bush Administration's goal of increasing minority homeownership by 5.5 million by the end of the decade is going to be accomplished, it will take a concentrated effort by all sectors of the homebuying industry, as well as by Congress and the Administration. NCLR has concerns and suggestions about how legislative proposals to improve regulatory oversight of the GSEs can be used to further this goal. Specifically:

- **“Bright Line” Provision:** The “bright line” provision, as it appears in S. 190, will roll back the advancements the GSEs have brought to the mortgage industry by shifting the definition of primary and secondary mortgage. If enacted, this provision will prohibit the GSEs from a) using their Automated Underwriting Systems (AUS), which have decreased intentional discrimination and kept smaller lending institutions competitive with larger institutions, b) engaging in anti-predatory lending initiatives, and c) supporting homeownership counseling.
- **Mission:** Clearly, the GSEs need a regulator that is competent and empowered to monitor the fiscal health of these agencies. However, this can be accomplished without undermining the mission of the GSEs, which is to provide affordable homeownership opportunities to low-income and minority families as well as provide liquidity to the market. In this spirit, NCLR supports the concept of three “deputy directors” where one deputy director is charged with maintaining the GSEs’ mission and housing goals. In addition, NCLR has advocated for meaningful affordable housing goals that will stretch the GSEs to better serve first-time Hispanic homebuyers.
- **Product Approval:** The GSEs’ ability to respond quickly and innovatively to a dynamic housing market is critical for increasing Hispanic homeowners’ access to affordable mortgages. By defining what rises to the level of new “product” or “program” and the timeline for approval, the regulator can at once ensure safety and soundness while protecting the critical innovative role of the GSEs.
- **Affordable Housing Fund:** NCLR supports the creation of an affordable housing fund that would direct 5% of the GSEs’ profits to mission-oriented, supply-side projects. Eligible activities of the fund should include capital and equity investments in affordable housing development, a loan loss reserve to support innovative product design, and supply support activities such as capacity-building for community-based organizations, financial literacy, and housing counseling.

In addition to the above elements of GSE reform, NCLR calls on Congress and the Administration to better serve would-be minority homeowners. Such actions include:

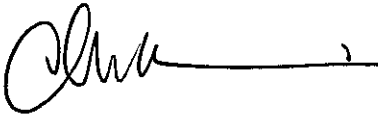
- **Increasing support for housing counseling:** Community-based housing counseling agencies are often the first point of contact for Latino and immigrant families looking for trustworthy information regarding homeownership, and play a critical role in filling the market gap that exists for low-income Hispanic families. Congress and the Administration must continue to support this program through increased funding and regulatory support of agencies' ability to generate revenue through fee-income, and related issues.
- **Passing the *Renewing the Dream Tax Credit Act*:** This legislation (H.R. 1549), which has considerable bipartisan support, creates a tax incentive for the development of affordable homeownership stock. Excessive housing prices are a principal barrier to homeownership for many Hispanic families, and it is entirely appropriate to support the production of new affordable homeownership units.
- **Curb Predatory Lending and Racial Steering:** Congress must work with industry stakeholders and consumer advocates to enact legislation that will curb predatory lending and racial steering in the mortgage marketplace by expanding the reach of the Homeowner's Equal Protection Act (HOEPA), increasing protections available to vulnerable families, and holding all lending institutions and mortgage brokers accountable for the loans they make.
- **Increasing the capacity of minority-serving organizations:** Community-based organizations (CBOs) serving minority and immigrant populations need tools, such as training and partnerships, and resources, such as operating support and development capital, which will allow them to expand their operations and increase their depth of service.
- **Promoting Fair Housing:** Recent research, including a report commissioned by HUD, revealed that 1 in 5 Hispanic homebuyers faces some incidence of discrimination during the homebuying process, especially in the areas of distribution of funding options and information. Given this, the Administration must make prosecution of discrimination, especially on the basis of race and national origin, a priority and send a clear message to would-be discriminators.
- **Support Rental Housing:** More than 1 in 6 Hispanic families pays more than 50% of their income toward housing, making it virtually impossible to save for homeownership let alone manage other household expenses. Congress and the Administration must support the National Housing Trust Fund, which will create a dedicated funding stream targeted to the housing needs of America's lowest income families.

As the nation's largest minority, the needs of Hispanic homebuyers cannot be ignored. Clearly GSE reform is one strategy that can increase the access of Hispanic families to the homeownership market. However, the responsibility for improving Hispanic homeownership does not rest solely with the GSEs, lenders, and other market stakeholders. Congress and the administration have not done enough to close the White-Hispanic homeownership gap. While considering ways to reform the GSEs, Congress and the administration should also be examining

methods within their power to increase homeownership among low-income, minority, and immigrant.

Thank you for taking time to review our comments and suggestions. Should you have any questions regarding these issues, please do not hesitate to contact Janis Bowdler, Housing Policy Analyst, at (202) 776-1748 or [jbowdler@nclr.org](mailto:jbowdler@nclr.org). We look forward to working on this and other affordable housing initiatives with you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Charles Kamasaki', with a long horizontal line extending to the right.

Charles Kamasaki

Senior Vice President