NCLR

**Principles for Reforming the Mortgage Market to Promote Sustainable Mortgages for Latino Families**

Presented at:

**"Mortgage Lending Reform:**
**A Comprehensive Review of the American Mortgage System"**

Submitted to:

**U.S. House Committee on Financial Services**
**Subcommittee on Financial Institutions and Consumer Credit**

Submitted by:


**Graciela Aponte, Legislative Analyst for the Wealth-Building Policy Project**
**National Council of La Raza**

NATIONAL COUNCIL OF LA RAZA
Raul Yzaguirre Building
1126 16th Street, NW
Washington, DC 20036

March 11, 2009

My name is Graciela Aponte, Legislative Analyst for the Wealth-Building Policy Project for the National Council of La Raza (NCLR), the largest national Hispanic[1] civil rights and advocacy organization in the U.S. which is dedicated to improving opportunities for Hispanic Americans. I conduct legislative analysis and advocacy on affordable homeownership, foreclosure prevention, and credit scoring. I have been working on issues that have an impact on low-income families for more than six years, providing assistance to constituents and nonprofit community-based organizations on behalf of their congressional representatives in Maryland and New York City. Prior to my joining NCLR, I worked as a bilingual housing counselor for a HUD-certified housing counseling agency in Prince George's County, Maryland. I was honored by the U.S. Department of Housing and Urban Development for outstanding assistance and having a direct impact on the Latino community, making homeownership a reality for many. Today's hearing is timely, and we applaud the Committee for proactively addressing the need for reform in the mortgage market.

For more than two decades, NCLR has engaged in public policy issues that focus on supporting strong fair housing and fair lending laws, increased access to financial services for low-income people, and promoting homeownership in the Latino community. Moreover, ten years ago, NCLR created the NCLR Homeownership Network (NHN), now a network of nearly 50 community-based housing counseling providers working with more than 30,000 families annually. Despite producing more than 25,000 first-time homebuyers in its first decade, our counselors' focus has shifted to foreclosure prevention; NHN members have counseled more than 7,000 homeowners facing foreclosure. In addition, NCLR's subsidiary, the Raza Development Fund (RDF), is the nation's largest Hispanic Community Development Financial Institution (CDFI). Since 1999, RDF has provided $500 million in financing to locally-based development projects throughout the country, building the capacity of local nonprofits and creating opportunities for Latino communities. Our research, programs, and market investments have increased NCLR's institutional knowledge of how Latinos interact with the mortgage and financial markets and the impact on their communities.

I would like to thank Chairman Gutierrez and Ranking Member Hensarling for inviting NCLR to testify on an issue that has had such far-reaching consequences for families nationwide. For years we have been pointing to the ways in which the mortgage market has failed to serve Latino and other minority communities well. As a result of flaws in the system, unethical and deceptive practices have replaced sound lending strategies, and the wealth built in our communities through homeownership is quickly deteriorating. We need a financial system that will level the playing field for borrowers, promote sound and innovative lending, and make wealth-draining foreclosures far less common.

In my testimony today I will describe the flaws in the mortgage servicing industry which make it difficult for families to save their homes from foreclosure, the unique barriers that Latino families face which make achieving homeownership difficult, and how we can learn from innovative programs offered by the nonprofit sector to build and sustain homeownership.

[1] The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

**Background**
For decades stakeholders have worked together to increase homeownership rates in Latino and other underserved communities. Like most Americans, Latino families build their family wealth, and therefore their financial security, through the equity in their home. Home equity can help families save for retirement or a college education for their children, be leveraged to start a small business, and provide a financial safety net for emergencies. Unfortunately, the conventional mortgage market has not served Latino and immigrant communities well. Latinos and immigrants often have unique borrower profiles that make them unattractive to many lenders who rely heavily on automated underwriting. For example, 22% of Latinos have a "thin" credit file, or no credit history, which usually results in a "0" credit score, compared to only 4% of Whites.[2] Multiple wage earners, additional co-borrowers, and cash income are also common among Latino borrowers.

Since mainstream and prime lenders have relied heavily on automated underwriting, there has been little incentive to work with "hard-to-serve borrowers," such as Latinos, immigrants, and other underserved populations. In some cases, lenders refer borrowers to their subprime affiliates. Others simply do not reach out to such borrowers, leaving a vacuum that subprime and predatory lenders are quick to fill. As a result, many Latino homeowners have been steered into subprime, risky, and expensive mortgages, even when they have good credit. Research shows that Latinos are 30% more like than Whites to receive a high-cost loan when purchasing their home. Other research shows that nontraditional mortgage products such as Option Adjustable Rate Mortgages (Option ARMs) and interest-only mortgages are disproportionately concentrated among minority borrowers; Latinos are more than twice as likely as Whites to receive an Option ARM.

Through NHN, NCLR has served more than 150,000 low- and moderate-income families seeking to become homeowners. Each year, we help more than 3,000 families purchase their first home with a prime mortgage product. Moreover, NCLR moved quickly to respond to the foreclosure crisis by providing funding and training to more than 40 community-based housing counseling agencies throughout the country. This year, NCLR is launching a campaign with the National Urban League (NUL) and the National Coalition for Asian Pacific American Community Development (National CAPACD) to expand efforts to help community-based organizations address the rising rates of foreclosures. In addition, NCLR has conducted research and analysis on homeownership and foreclosure issues in the Latino community for decades. We understand the credit needs of low-income families. When paired with a safe and affordable loan product, families are much less likely to default, even when facing tough economic times.

**Principles for Reforming the Mortgage Market**

Now more than ever it is clear that stronger oversight and consumer protections are vital for ensuring the safety and soundness of our financial markets as well as the long-term financial stability of American homeowners. It is also clear that we will not be able to move forward without resolving our current crisis. Forecasters are predicting eight million foreclosures in the

---

[2] Michael Stegman et al., "Automated Underwriting: Getting to 'Yes' for More Low-Income Applicants," Presented before the 2001 Conference on Housing Opportunity, Research Institute for Housing America Center for Community Capitalism (Chapel Hill: University of North Carolina, April 2001).

next four years,[3] and the height of the crisis for Latinos will likely come in 2009 and 2010 when their Option ARMs are scheduled to adjust. In our testimony today, NCLR offers three principles on which to organize a strategy to reform and revitalize our mortgage markets.

*Reform the Loan Servicing System*

To ensure the success of mortgage market reform, Congress must start by restoring stability in the current housing market. However, despite several attempts to resuscitate the market, several barriers still exist. Willing borrowers who are able to make reasonable mortgage payments are being turned down for loan modifications. Others are receiving their approved modifications mere days after their home is sold in a foreclosure auction. The voluntary efforts of mortgage servicers and investors have not kept pace with market demand. Poor quality modifications are leaving some borrowers worse off than when they started, and housing counseling agencies are overburdened and underfunded.

In the meantime, fraudsters have stepped up their marketing efforts. As borrowers grow increasingly frustrated with their servicers and more desperate to keep hold of their homes, they are more likely to turn to predatory foreclosure rescue scams for help, unaware of the dangers. In some communities, companies charge as much as $8,000 or more for processing a loan modification. In absence of strong servicing standards and accountability, many borrowers are not getting service.

The administration's "Making Home Affordable" plan takes several steps to address a number of these issues. The plan includes a formula for modifying at-risk mortgages based on the Federal Deposit Insurance Corporation's (FDIC) "Loan Mod in a Box" program and a series of incentives designed to encourage maximum participation. However, the components of the plan need to be strengthened to prevent eligible borrowers from getting left behind. We are concerned, for example, that despite Financial Stability Program participants being required to participate, there is no consequence for allowing an eligible borrower to go to foreclosure. Given the significant investment of taxpayer funds, there must be appropriate enforcement and oversight mechanisms to ensure that borrowers do not fall through the cracks of a strained servicing system.

Recent experience also shows that many at-risk borrowers, especially those with limited education or language barriers, do not have the necessary information or easy access to sources of culturally competent help. Thus, this program needs to be accompanied by significant support—in the President's budget and from the private sector—for housing counselors and other trusted sources of information.

*Promote Sustainable Homeownership*

For most Americans, their home is their primary source of wealth. Rather than viewing real estate as a get-rich-quick scheme like some unscrupulous lenders and investors, homeowners are purchasing an asset that will provide long-term financial security. However, the mortgage industry has strayed far from this once common goal.

---

[3] Rod Dubitsky, Larry Yang, et al., *Foreclosure Update: Over Eight Million Foreclosures Expected* (New York, New York: Credit Suisse, December 4, 2008).

As described in the background section, many minority homebuyers are set on a path with limited mortgage options from the very beginning. Subprime lenders rushed in to fill the void left by prime and mainstream retailers. In addition, most compensation incentives were based on short-term goals rather than long-term success. Commission-based loan officers and mortgage brokers were paid more for expensive and risky loan features or characteristics. For example, a review of the rate sheets of subprime lenders, many of whom are now out of business, reveals that lenders paid extra for loans that were stated-income, had interest-only features, or had higher interest rates. Since borrowers tend to trust their brokers and lenders, the lack of transparency and accountability, as well as the increasing complexity of mortgage products, makes it difficult for even the most diligent borrower to shop effectively.

Take the case of Luis and Sara Rodriguez in Stockton, California. Luis and Sara bought their first house four years ago. They watched the home prices in their hometown going up quickly and decided to buy before the market got too unaffordable. The couple worked with a mortgage broker and realtor who had been suggested by a co-worker. However, a few months ago they received a notice that their mortgage was about to adjust. Confused, they reached out to Visionary Home Builders, an NHN housing counseling organization, for help. Their counselor reviewed their mortgage paperwork and had to explain to the Rodriguez family that the broker had saddled them with a stated-income, Option ARM loan and had used white-out to overwrite their income, making it appear as though they earned double their actual salaries.

Unfortunately, NHN housing counselors are finding that similar stories have become all too common throughout the country. Weak oversight and protections, coupled with misguided incentives, are leaving many innocent borrowers on the verge of foreclosure. A reformed mortgage market must hold all players accountable, from origination to the sale of the loan and servicing. Borrowers who play by the rules should be able to trust the deal they get from their mortgage professional.

*Learn from the Nonprofit Sector*

As Congress considers reforming the mortgage market, it must also examine the positive lending examples set by the nonprofit sector, as well as many community banks. While mainstream financial institutions have been servicing the easiest to process and non-bank institutions have been offering high-risk products, credit unions, CDFIs, and community lenders using Community Reinvestment Act (CRA) products were making loans to modest-income families and underserved communities. Housing counselors also played a critical role by preparing consumers for homeownership and then matching them with the appropriate loans.

A recent comparison of loans made by Self-Help Credit Union to subprime loans made to consumers with similar borrower profiles showed that when paired with a properly underwritten and priced loan, borrowers are far less likely to default.[4] Moreover, many community-based lenders have demonstrated that innovation does not have to suffer in the name of profitability or fairness.

---

[4] Lei Ding, Roberto G. Quercia, Wei Li, and Janneke Ratcliffe, *Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models* (Chapel Hill: University of North Carolina, September 2008).

The story of Maria Martinez, a single mother living in West Humboldt Park in Chicago, is an excellent example of how a consumer can be matched with an affordable and sustainable mortgage product. Maria came to the Spanish Coalition for Housing, an NHN housing counseling agency, four years ago for assistance in finding affordable rental housing. She was displaced and facing homelessness. The counselor was able to assist her in finding rental housing and set her on a path of building up her credit and saving money. After several years of working together, a door opened for Maria when the first community land trust program in Chicago offered affordable homeownership opportunities for low- to moderate-income families. She went to closing two weeks ago.

Responsible lenders and nonprofits instruct their clients to wait until the right moment to purchase their home and connect them with financial products that will guarantee success. We urge Congress to review the positive lending models that nonprofits and community banks use to serve those of modest means. Their models can serve as a blueprint for reform.

**Recommendations**

For decades the financial system has not worked well for Latino and other underserved communities. NCLR has supported a number of policies, best practices, and legislative proposals aimed at reforming the financial system to promote sustainable homeownership and wealth-building opportunities.[5] NCLR offers the following recommendations to ensure that families have the opportunity to enter the homeownership market and to help those who are facing foreclosure:

- **Restore balance to the mortgage market.** Latino families face significant barriers and abuse in the homeownership market. Congress needs to create new tools to help Latino families enter the mortgage market safely by strengthening enforcement and consumer remedies, improving accountability standards throughout the entire mortgage process, and reining in unscrupulous compensation schemes. Congress should also invest in homeownership and foreclosure prevention counseling for first-time homebuyers and other vulnerable populations.

- **Reform the loan servicing system.** Borrowers in danger of foreclosure face many challenges when trying to work with their loan servicer, especially as foreclosure rates continue to rise. Servicers should be required to provide loss mitigation services to struggling borrowers, offer loan modifications that are sustainable over the long term, disclose the investor upon request, and prohibit foreclosure during loss mitigation.

- **Promote positive lending models.** Innovative and safe lending models have been effective in matching consumers with appropriate loan products in which borrowers are

---

[5] NCLR has published several reports, public statements, and testimony on each of these issues. Reports are available at www.nclr.org. Key publications include: Janet Murguía, *Rethinking TARP Implementation: Strategies to Reduce Latino Foreclosures* (Washington, DC: National Council of La Raza, 2009); Janis Bowdler, *Improving Loan Servicing to Prevent Latino Foreclosures* (Washington, DC: National Council of La Raza, 2008); and Janis Bowdler, *Challenges to Building Sustainable Homeownership in Latino Communities* (Washington, DC: National Council of La Raza, 2007).

less likely to default. Congress should use credit unions, CDFIs, and community lenders using CRA as models on which to base reform.

Furthermore, NCLR calls on Congress and the administration to act swiftly to address the foreclosure crisis and reform the financial system to promote safe and innovative lending, giving Latino families and families of other underserved communities the opportunity to build wealth and financial security.

I will be happy to answer any questions you may have. Thank you.