



Biden / Harris Administration POLICY RECOMMENDATIONS

In the second quarter of 2020, the homeownership rate was 47 percent for Black and 73 percent for White households. The recent uptick in Black homeownership due to a strong economy and low-interest rates has ended abruptly due to the COVID-19 pandemic and its far-reaching and devastating effects, particularly to the Black community. However, as in past economic crises, the adoption of substantial, immediate, multi-level, and coordinated policy interventions directed towards boosting homeownership could ‘save the day’ by driving economic growth and opportunity for Black households and families. Taxpayers subsidize housing for the wealthy via the tax code, zoning restrictions, and other mechanisms. These benefits should be extended to those who face historical disadvantages.

The following policy recommendations are intended to address the current and systemic issues in housing in the U.S.

1. Aggressive loan forbearance and credit reporting mandates are necessary to protect Black homeowners and potential homebuyers from financial devastation due to the COVID-19 pandemic.

One recommended approach, described as ‘suppression and deletion,’ restricts lenders’ reporting of late payments to credit bureaus during the pandemic. Due to discrepancies with consumer dispute resolution processes and other potential data inaccuracies, legislators and regulators will need to be more specific and vigilant about protecting consumers.⁷⁰

2. Federal-level rent relief and eviction bans are necessary to help Black homebuyers and potential homebuyers nationwide.

The CARES Act includes a moratorium on evictions for rental properties financed by Freddie Mac, Fannie Mae or FHA loans, or Low-Income Housing Tax Credits. These only accounts for approximately 28 percent of rental units⁷¹.

3. Restoring fair housing regulatory protections and increasing enforcement can reduce barriers to homeownership due to historical redlining and discrimination.

- Restore the Affirmatively Furthering Fair Housing (AFFH) rule, issued by HUD in 2015, which required HUD’s program participants ‘to take significant actions to overcome historic patterns of segregation, achieve truly balanced and integrated living patterns, promote fair housing choice, and foster inclusive communities that are free from discrimination’ should be restored. As recently as July 2020, Secretary of HUD Ben Carson and President Trump have expressed intentions to eliminate this regulation altogether.
- Restore and enforce HUD’s 2013 regulation formalizing the Fair Housing Act’s disparate impact standard. Given the increasing reliance on artificial intelligence, machine learning, and big data in the housing industry, this rule, and its enforcement are critical to correct for the effects of cumulative disadvantage and curtail forms of systemic discrimination in housing markets.

4. Regulatory reforms can improve access to and costs of mortgage credit in the conventional market for Black homebuyers.

- Reform the secondary market system and strategically align the roles of Fannie Mae, Freddie Mac, FHA, and their regulators.
- GSE reform, i.e., release from conservatorship and restructuring of the secondary mortgage market, should refocus the GSEs’ original mission, which at least since the 2008 crisis has failed to serve the Black community in any meaningful way.
- Appoint FHFA as a regulator.
- Require Fannie Mae and Freddie Mac, as recommended by the FHFA Office of the Inspector General, to monitor their seller/servicers’ compliance with fair lending and other consumer protection laws.

- Eliminate Loan Level Price Adjustments (LLPAs) and re-evaluate risk-based pricing. As discussed elsewhere in this report, LLPAs and accompanying capital standards result in Black homeowners having to pay more for their mortgages because of the misdeeds of lenders and the failure of policymakers to regulate bad lending practices which led to the 2008 crisis. These additional costs should be priced uniformly across all mortgages. FHFA should remove capital buffers on low FICO or high LTV mortgages, or could use the LLPAs towards capital requirements. To the extent risk-based pricing continues, FHFA and lenders should explore incorporating prepayment rates in pricing models.
- Revise the Community Reinvestment Act to modernize banks' requirements to serve Black communities in ways that do not exacerbate gentrification and segregation.
- The CFPB and other regulatory agencies, including FHFA and HUD, should encourage banks to make better use of Regulation B of the Equal Credit Opportunity Act, Section 1002.8 which allows a creditor to extend special-purpose credit to applicants who meet certain eligibility requirements, such as for the benefit of an economically disadvantaged class of persons or special social needs.
- Expand enforcement of Dodd-Frank Section 349 on Diversity and Inclusion for the workforce, minority business utilization, and Board diversity in the financial industry.
- Provide additional support for technological innovation for FHA and VA
- Reduce the MI requirements for FHA borrowers
- Expand and reform the FHA Title I rehab loan program, and to include rehabilitation loan purchases in the GSE 'Duty to Serve' regulations. Not only does this support environmental sustainability priorities, but rehab loans can be used to improve the resiliency of existing housing stock, which lowers the costs and risks of exposure to natural disasters for homeowners.
- Reform the HUD 203k program. One of the significant barriers to maintaining a homeowner's property value is having access to capital to purchase or keep up the home. This could create new homeowners, jobs, and opportunities for minority-owned construction businesses.

5. FHA and HUD could increase Black homeownership opportunities with additional resources.

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- Establish an African-American Homeownership program for affordable residential mortgages, modeled after the Section 184 program for Native Americans.

6. Down payment assistance can offset wealth constraints for Black homebuyers.

Evidence suggests that wealth constraints, i.e. down payments, are the most significant impediment to homeownership for income-constrained households and minority households in particular. Several studies have found that down-payment assistance provided by non-profit or

- Pass the American Dream Down Payment Savings Plan Act. This bill would create tax-advantaged plans designed for down payment savings, like a 529 college savings plan. These plans also allow for family members (immediate and extended) to contribute to a beneficiary’s account.
- Increase FHA lending and other down payment assistance programs in areas with low Black homeownership rates.

7. Student loan relief can alleviate debt burdens due to wealth constraints of Black homebuyers.

The DTI formula should include only the reported payment amount rather than 1% of the outstanding balance. Policy interventions such as the Employer Participation in Repayment Act proposed in 2020 could make it easier for employers to provide tax-free assistance to help graduates offset their student loan debt.

The CARES Act suspended all federal student loan payments and debt collections until September 30, 2020, without penalty to borrowers' credit history; also, these loans are charged 0 % interest during this period. This practice should be extended.

8. Accounting for race in credit scoring and underwriting models can reduce negative disparate impact.

Credit models currently in place in the mortgage market should account for advances in financial technology or alternatives to traditional banking. Elsewhere, new models that go beyond credit repository data are being developed that allow rental payments, utilities, remittances, and digital transactions to be used to establish credit histories. These innovations would benefit unbanked consumers, who are disproportionately Black. It is also important to address formally the hidden biases in the algorithms used to develop these tools and to assess the disparate impact on protected classes of borrowers.

9. HUD 203K Reform

Making it easier for consumers and mortgage professionals to access and utilize the program for the purchase of existing homes. The program and underwriting needs to be streamlined.

10. National Homeownership Marketing & Awareness Campaign

Leveraging resources from HUD various federal agencies and the GSEs to market and promote the importance and benefits of homeownership. According to data from Freddie Mac, there are over 3 million mortgage-ready Black Americans in the U.S.