

U.S. House Committee on Financial Services
Subcommittee on Housing, Community Development and Insurance Hearing:
“A Review of the State of and Barriers to Minority Homeownership.”

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Chairman Clay, Ranking Member Duffy and Distinguished Members of this Committee, thank you for holding this hearing, and for giving me the opportunity to testify about the important issue of minority homeownership in America.

My name is Jeffrey Hicks, from Atlanta, Georgia, and I am the National President of the National Association of Real Estate Brokers (NAREB). Founded in 1947, NAREB is the oldest predominately Black real estate trade association in America. The primary mission is reflected in NAREB’s motto, *Democracy in Housing*. For 72 years the association has worked to ensure that all Americans have equal access to homeownership opportunities in urban, suburban and rural communities throughout the United States and equal opportunity in the real estate profession for Black Americans. I am honored to be here today to provide our perspectives on what NAREB believes to be the Barriers to Minority Homeownership in the United States.

BACKGROUND

Annually, NAREB publishes the State of Housing in Black America Report (SHIBA). **The 2018 edition examined the need for federal policies to address and to bolster the rate of Black American homeownership since previous federal policies discriminated against Blacks which helped to create a disparity in Black American homeownership which lags a whopping 30% behind that of White Americans.** Jim Carr, Coleman A. Young Endowed Chair of Urban Affairs at Wayne State University and senior writer of the 2018 SHIBA Report writes, *“Federal housing regulators and agencies have aggressively pursued lending practices and policies that make access to homeownership more challenging for Black Americans.”* It is against this backdrop that I give my testimony.

Our nation has a very complicated and checkered history with providing equal and equitable access to homeownership to Black Americans. At the end of World War II, when Black Americans sacrificed their lives for the cause of freedom, dignity and human rights, the United States federal government created an economic divide

between Blacks and Whites. *“Black veterans and their families were denied the multi-generational, enriching impact of home ownership and economic security that the G.I. Bill conferred on a majority of white veterans, their children, and their grandchildren.”* Unequal implementation of the G.I. Bill, along with federal government policies and practices at the Federal Housing Administration (FHA) including the redlining of Black neighborhoods were leveled against Black veterans. But at the same time financing the construction of suburbs restricted to Whites-only and providing subsidized mortgage financing for Whites-only set the stage for today’s wealth and homeownership gap statistics.

In 2015, NAREB launched the “Two Million New Black Homeowners in Five Years Program (2MN5)” with the goal of creating two million new Black American homeowners over five years’ time. As NAREB has implemented this program, it has become painfully clear that in order to meet this objective we must have reforms to the public policies and private practices that address the structural and systemic discrimination embedded in the housing finance system. Together with Congress, we must overcome the discrimination that continues to limit Black homeownership.

The homeownership rate for Black Americans is lower today than before the passage of the Fair Housing Act of 1968...**41.1% Black vs. 73.2% White**, U.S. Census data for First Quarter 2019. The reason for this “dismal reality,” as stated in NAREB’s most recent SHIBA report, is “that Blacks have never enjoyed equal and equitable access to mainstream mortgage credit. Rather, Black families attempting to become homeowners have largely been trapped in a vicious cycle of predatory mortgage schemes or by an absolute denial of access to home loans.”

Access to mortgage credit is the largest gatekeeper to the American Dream of homeownership. Since the Great Depression or for the last 80 plus years, the U.S. government and its quasi-government agencies and enterprises have created winners and losers for those that want to become homeowners. For Black people, the path to homeownership is often filled with racial and discriminatory barriers, both individual and institutional.

Again, as stated in the 2018 edition of the SHIBA Report, “The Federal Housing Finance Agency (FHFA) continues to support Fannie Mae’s and Freddie Mac’s reliance on an outdated credit-scoring model and their practice of charging fees that far exceed reasonable prospective losses resulting from loans insured by the agencies.” The SHIBA Report also notes that based on the current credit models used by Fannie Mae and Freddie Mac which are based upon 2017 Home Mortgage Disclosure Act data,

Black applicants, overall denial rates for home-purchase loans at 18 percent were more than double those of non-Hispanic White applicants at 9 percent.

NAREB continues to make access to affordable and sustainable home loans a high priority on our advocacy agenda. In fact, the last three NAREB State of Housing in Black America Reports, highlighted the promise of newer credit scoring models to expand mortgage-credit access to borrowers who are potentially shut out by the outdated credit models used by FHFA, Fannie Mae and Freddie Mac. When Congress passed legislation to increase competition for scores, it represented a positive and bold step forward for the mortgage and real estate industries, and potential Black homeowners.

Our annual State of Housing in Black America report has repeatedly noted that homeownership rate among Blacks has been declining from its high of nearly 50 percent in 2004 to just above 41 percent today. Sadly, that rate is largely unchanged from the Black homeownership rate in 1968. It is testament to the impact of federal policy and racial bias. Discrimination throughout the homebuying process, as well as cutbacks in government support for homeownership is taking a toll on potential Black homebuyers, even as our unemployment rate improves.

The reality is that the Fair Housing Act of 1968 had cracks and flaws that were and are being easily exploited. Even with many amendments over the years, the law is not stemming discrimination in the housing market. The National Fair Housing Alliance estimates that more than four million instances of housing discrimination take place each year, and only a handful are ever challenged. Housing experts, such as scholar Richard Rothstein, find that segregated neighborhoods are not an accident, but the result of laws and policies passed by local, state and federal governments that promote segregation and discriminatory practices. These practices continue to restrict families of color from certain communities and neighborhoods.

It is not just lending practices and modern versions of redlining that are threats to minority homebuyers. Government policies are also of grave concern. At some point, Congress will consider legislation to reform the housing finance industry, and some of the proposals already aired – covered bonds, higher down payments, prepayment penalties, elimination of the 30-year mortgage and payment for government guarantees – would limit homeownership to the wealthy and the privileged, as it was before the 1930s. Homeownership for Blacks and working families would drift even further away and become unattainable for many people.

Buying a home is one of the few vehicles that working families and people of color have used to accumulate wealth and create financial security. Equity built up in homes over

the decades allowed many Blacks to comfortably retire, pay for college educations for their children and start new businesses. On average, home prices appreciate annually about 3.6 percent, allowing owners to build equity. **Homeownership has also been linked to higher academic achievement for children, safer neighborhoods and better health outcomes.**

For these reasons, NAREB has adopted three policy principles and practices that can work to increase homeownership among minorities.

NAREB Policy Recommendations to Increase Black Homeownership

1. Promoting Homeownership as a High Priority for Public Policymakers:

- NAREB calls for the passage of The **American Dream Down Payment Savings Plan**, a proposal with bipartisan support that would function, from a tax perspective, like the 529 College Savings Plan. Potential homebuyers and existing homebuyers desiring a move up home would be allowed to save in an authorized account, where the savings could grow and be removed for the specified purpose of a tax-free down payment for purchasing a home.
- Preservation of an affordable 30-year fixed-rate mortgage
- Support for Mortgage Interest Deduction

2. Loan Level Equality: The absence of hereditary or arbitrary class distinctions, biases or privileges in the mortgage origination process:

- Same approval rates
- Same pricing
- Same terms offered for similarly situated borrowers
- Eliminate neighborhood, zip code, or census tract price adjustments
- Eliminate Loan Level Price Adjustments (LLPAs)
- FHA Down Payment Assistance and underwriting changes of 2019 (rollback)

Our nation needs a fairer mortgage and underwriting process. When borrowers meet a minimum threshold for approval, then all interest rates and costs must be the same for everyone. We must have loan level equality -- the same approval rates, pricing and terms for similar borrowers without adjustments for neighborhoods, zip codes or census tracts. We must stop lenders and secondary markets from cherry picking and charging more for applicants of color, making their costs prohibitively higher.

3. Non-Bank Financial Institutions Should Have an Accountability Structure:

- Examine their lending practices to ensure fair, equitable, and non-discriminatory origination, pricing, and terms. This would also include greater accountability and modernization of the Community Reinvestment Act to eliminate loopholes that limit access to mortgage credit to existing and potential Black homeowners.
- There is a growing concern about the lack of regulations for non-deposit mortgage lenders. While these entities are the growing force, now more than 50 percent of all mortgage originations, yet there is very little federal regulatory accountability. Thus, there are no requirements of the Community Reinvestment Act or data collection under the Home Mortgage Disclosure Act. On the one hand, they have expanded lending to underserved populations, but they do so without examination or review of their lending patterns, pricing practices or approval and denial rates. We are concerned about this lack of accountability, and what it could mean in the future with a slower economy.

IN SUMMARY

NAREB believes these policy changes can help boost homeownership, not only for Black Americans, but also for all Americans, and allow more working families the opportunity to achieve the American Dream of homeownership. We must make homeownership a priority again!

Over my 26-year career, I've experienced the joy when a family walks through the front door for the first time as a homeowner, the pride that emboldens them and the opportunities homeownership creates. I have also experienced the pain and sorrow, when prospective minority homebuyers have played by the rules, had decent credit, good salaries, strong work history and their mortgage application was denied or priced out of what they could afford.

This shouldn't be happening in our America.

Black Americans are experiencing housing discrimination that is limiting financial growth, fueling the wealth gap and robbing them of financial security. Far too many people of color are missing out on the American Dream of homeownership. One of the few pathways to prosperity is being denied for too many Black families. This must change.

In addition to the adoption of NAREB's policy agenda, we need lawmakers, policymakers, local officials, homebuilders and the housing finance industry to promote

homeownership. I fear the value of homeownership is being lost on our young people and will be lost on future generations. We need to vigorously renew the importance of homeownership to all families, regardless of their race or ethnicity. And, we need to promote the positive effects on local and national economies and communities across the country. We need for families to reject the false narrative that renting is better than homebuying. We must restore the nation's faith and commitment to homeownership so we can envision and experience a better America.

Homeownership must remain the American Dream so future generations can flourish.

Our great nation will never achieve its promise of a truly integrated and equitable society until the barriers to minority homeownership and economic justice are torn down. That will require an honest, concerted and consistent effort by the U.S. Congress, the White House, the courts, local officials, state and federal housing and agencies, and the housing industry to make homeownership a priority again.

Today, on behalf of NAREB, I am issuing a Call to Action to Congress to address and remedy key public policy issues and practices perpetuated by federal government actors that stymie Black homeownership rates. NAREB will continue to be the conscience of the real estate industry forever promoting *Democracy in Housing*.

Thank you.