

AMERICAN BANKER

Today's Mortgage Reform Could Become Tomorrow's Redlining

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"Those who cannot remember the past are condemned to repeat it," George Santayana famously said. This premise holds true in the context of national mortgage market reform, especially as it pertains to underserved communities of color.

There are three serious reform proposals on the table: one from the Obama Administration, legislation co-sponsored by Senators Corker and Warner, and the PATH Act sponsored by Rep. Jeb Hensarling in the House. All three proposals share a surprising lack of forethought towards people of color, despite the fact that today we play an important role in the housing market that will continue to grow in significance in the coming decades. We know that people of color will be the majority population by 2040, but what we do not yet know is the kind of impact these proposed reforms will have on our communities. Will mortgage reform rectify past discriminatory practices? Will it close the gap between white and nonwhite rates of homeownership? If our communities and their unique needs are left out of this important discussion, today's mortgage reform could become tomorrow's redlining.

As Santayana recommended, it is important to keep in mind how our system of housing finance came to be. Prior to the Great Depression, the mortgage market was completely private, and the common 30-year, fixed-rate home loan did not exist. Most loans had five to ten year terms, variable interest rates, and a required down payment of at least 50%. At the height of the Depression, one in two homes was in default and housing starts had dropped 90% from their peak in the 1920s. In response, the Roosevelt Administration created the Federal

Housing Administration to bring stability and confidence back to the market. In 1938 Fannie Mae was created to increase mortgage liquidity, and a few years later the Veterans Administration (the predecessor to today's Department of Veterans Affairs) made guarantees available for zero down payment loans to returning veterans. Thanks to these efforts, homeownership rates between 1940 and 1960 rose by half to 60%, and an entire generation moved from urban working class to suburban, middle class homeowners.

Disappointingly, this massive government intervention did not benefit all Americans. At its inception, the FHA used color-coded maps to determine areas of a city in which it would make its loan products available; nonwhite neighborhoods were usually outlined in red as "too risky"—a process known as "redlining." The VA left the management of its mortgage program up to the states, which at the time were notorious for denying black and Latino servicemen.

After anti-discrimination laws were passed in the 1960s and 1970s, predatory lending became one of the primary problems facing homeowners of color. Banking deregulation in the 1990s, coupled with a global glut of capital in the early 2000s, led to a surge in subprime lending that concentrated in communities of color. In 2006, black and Latino families were almost three times more likely than white families to be denied a prime rate mortgage, but more than two times as likely to receive a high-cost subprime loan, even when they had similar income and credit profiles.

Due to past discrimination and more recent predatory lending, barely more than four out of ten black and Latino families owned their own homes in 2012, compared to seven out of ten white families. The homeownership gap has, in turn, led to a racial wealth gap where for every dollar held by a white family, families of color have only 15 cents. Martin Luther King, Jr.'s words remind us, we should no more accept economic injustice than we do racial prejudice.

Mortgage reform and the homeownership gap are incredibly complex issues, but low-hanging fruit does exist that can be picked immediately.

First, we recommend that the Congressional Research Service conduct an in-depth study on the three major proposals to ascertain what their impacts could be on homebuyers of color. We will be meeting with members of Congress this fall to request just that.

Second, leaders in Congress should hold bipartisan hearings to discuss the study's findings. Even informal fact-finding hearings would be an improvement over the current silence.

Lastly, we call on President Obama and leaders in Congress to sit down with representatives from community organizations, faith groups, and ethnic business chambers to discuss the creation of a Marshall Plan for building wealth in underserved communities of color. This discussion would encompass not just homeownership, but access to small business loans, affordable housing, and access to credit.

Our nation is counting on the for-sale housing market to finally bring us out of the Great Recession; housing reform failure could derail the recovery that seems to be picking up steam every day. We know that open and honest discussion today will result in a better, more equitable future for all Americans tomorrow.

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