Homeownership
Alliance

Testimony of Kristin Siglin
Federal Housing Finance Agency Listening Session
Closing the Gap to Sustainable Homeownership
June 29, 2021

Thank you for holding this listening session on "Closing the gap to Sustainable Homeownership" to examine the racial homeownership gap and explore what more Fannie Mae and Freddie Mac can do to close this gap.

I am Kristin Siglin, Vice President of Policy and Partnerships at the National Community Stabilization Trust and I manage the Homeownership Alliance, a coalition of nonprofit developers and lenders that will advocate for more resources and better policies to increase affordable homeownership opportunities for American families. The Homeownership Alliance's members comprise some of the leading nonprofit, mission-focused homeownership practitioners from across the country.[1] These organizations prepare families to become successful homeowners and finance, renovate, and develop affordable homes that are assets for communities and the families that live in them.

The Homeownership Alliance's policy agenda to create new resources for affordable homeownership includes both legislative proposals and suggestions for regulatory improvements in existing programs that fund affordable homeownership such as the Capital Magnet Fund, New Markets Tax Credits, government property disposition, the Federal Home Loan Bank System and the HOME program. My comments today will be divided into two sections: what the problem is and potential solutions that build on successful work going on right now.

Homeownership Alliance members are united in the belief that it is time for a renewed effort to boost the U.S. homeownership rates among people who have been shut out from

[1] The Homeownership Alliance has 22 Founding Members. They are: Atlanta Neighborhood Development Partnership (GA); cdcb (TX); Center for Community Self-Help (NC); Champlain Housing Trust (VT); CHN Housing Partners (OH); Cinnaire (MI); Community Housing Capital (GA); Fahe (KY); Homewise (NM); Hogar Hispano (DC); Housing Development Fund (CT); Indianapolis Neighborhood Housing Partnership (IN); MaineStream Finance (ME); Michigan Habitat for Humanity (MI);Neighborhood Housing Services of Chicago (IL); NeighborWorks Columbus (GA); NeighborWorks Southern Colorado (CO); NeighborWorks Western Vermont (VT); New Jersey Community Capital (NJ); Renaissance Community Loan Fund (MS); The Housing Partnership, Inc. (KY); and The Resurrection Project (IL).

our primary path to build assets. There is no investment alternative that is as beneficial as homeownership for wealth building for middle class Americans. Homeowners benefit from both equity that builds up as they pay down a mortgage and any appreciation in the value of the home. Thus, homeowners can enjoy a more secure retirement even if they don't have a pension. Homeownership also offers families stable housing costs because mortgage payments on fixed rate loans don't increase, unlike rents. In addition, in half of the largest US cities, it is cheaper to buy a home than to rent.[2]

Homeownership also offers a range of nonfinancial benefits. As the Joint Center for Housing Studies points out, "Americans have long found the idea owning one's home deeply appealing, associating homeownership with increased privacy, independence from landlords and rent increases, control over one's living space, greater wealth, better outcomes for children, and opportunities such as higher-quality schools and safer communities that, for a multitude of reasons, often accompany living in areas dominated by single-family owner occupied housing."[3]

Unfortunately, the benefits of homeownership are not evenly distributed throughout our society. America's growing racial wealth gap and homeownership gap are well documented and interrelated. According to the Urban Institute, while 72.1% of white households own their own home, while only 42% of Black households and 48.1% of Hispanic households are homeowners.[4] This disparity in homeownership rates is then reflected in statistics on household wealth. According to Federal Reserve's Survey of Consumer Finances (Sept. 2020) the median wealth of white households is $188,200 compared to only $24,100 for Black households and $36,200 for Hispanic households.[4]

This matters because as noted in *Closing the Gaps*, "Wealth and income are both critical to building financial security. Wealth (e.g. savings and real estate or business holdings) cushions families against emergencies, provides the means for moving up the economic ladder, potentially grows over time, and can be transferred from generation to generation. Income allows a family to pay monthly bills and to build more wealth. But income is often volatile, and vanish with job loss, or can be curtailed suddenly. During economic crises, households with less wealth are worse off than households with more wealth because they have less savings and fewer liquid assets with which to adapt and recover."[5]

Research by Brandeis University's Institute for Assets & Social Policy and the Thurgood Marshall Institute of the NAACP Legal Defense and Educational Fund shows that the homeownership gap is the most significant driver of the racial wealth gap, more significant than unequal incomes and access to higher education. "Among the main drivers were

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[2] *The Case for Homeownership*, Alanna McCargo, Urban Institute, October 2018

[3] *Homeownership Built to Last*, Joint Center for Housing Studies, 2014

[4] *Closing the Gaps*, Alanna McCargo and Jung Hyun Choi, Urban Institute, 2020 [4] McCargo and Choi, page 2

[5] McCargo and Choi, p. 2

homeownership and the long lasting effects of residential segregation with lower returns from home equity going to Black families than White families…..As homeownership is the principal source of wealth for most American families, the racial wealth gap is less a product of differences in income than of unequal access to homes in good neighborhoods, which in turn produces racialized differences in homeownership, property values and the accumulation of home equity.” [6]

Thus, racial disparities in wealth in the U.S. are the outcome of generations of differential treatment, and solutions will have to address all of the different barriers that account for the wide gaps in homeownership rates. Action on homebuyer education, the supply of starter homes in growing regions, renovation of older homes in economically distressed areas, down payment assistance programs, access to sustainable mortgages, including lower balance mortgages, and enforcement of the laws against housing and lending discrimination are all necessary to eliminate the disparities in access to homeownership. We need a systematic approach to affordable homeownership. Homebuyer education doesn’t help if there are no homes to buy or no lenders making mortgages.

What Homeownership Alliance members do that is relevant and important to the questions we are considering today is that they work with families through the entire home buying process. They work with families on financial education, they increase the supply of starter homes, they do mortgage lending themselves or partner with responsible lenders, and they offer advice and support to sustain families when homeownership challenges arise. You are going to hear from Mike Loftin of Homewise about how Homewise works with families in New Mexico, and his work is typical of what Homeownership Alliance members do.

If we want to narrow disparities in homeownership rates, the solution needs to be systemic and scaled. Fannie Mae and Freddie Mac’s secondary market activities occur at the end of the home buying process. If we want different outcomes we need to fund the organizations that are making a difference in helping families access homeownership. The Enterprises need high-performing partners to create a pipeline of mortgage ready buyers, suitable starter homes, and sustainable mortgages. FHFA should direct the Enterprises to find partners in target markets to ramp up the production of affordable homeownership, with a focus on loans to Black families. The Enterprises might work with one organization in some places, or they could work with a local partnership that includes housing counseling agencies, realtors, nonprofit developers and lenders.

You are also going to hear from David Dworkin of the National Housing Conference about the Black Homeownership Collaborative’s 7 point plant to increase Black homeownership by three million households by 2030. This plan also demonstrates holistic thinking that targets the whole system as NHC has assembled a broad array of partners from the civil

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[6] *The Black-White Racial Wealth Gap,* Institute on Assets and Social Policy and Thurgood Marshall Institute, 2020, p.3

rights groups to the state trade associations. FHFA should build on this listening session, and invite Homeownership Alliance members, Black Homeownership Collaborative members, and other well-respected affordable homeownership practitioners to a session with the Enterprises with the goal of ramping up the Black homeownership rate. The focus of the conversation should be on creating an action plan so the Enterprises can use their scale and market power to narrow the homeownership gaps and greatly improve their performance on the affordable housing goals and Duty to Serve, and increase the percentage of loans from Black borrowers that they buy. In 2020, 3.06% of the loans that Fannie Mae bought and 3.28% of the loans that Freddie Mac bought were from Black borrowers. There is room for improvement here.

The Enterprises need to approach the homeownership gap with the seriousness that a problem that is this pervasive, pernicious, and persistent deserves. While it is true that the Enterprises are the end of the pipeline of the home buying process, they need to be held to the standard of being good partners of the nonprofits and CDFIs that are doing the hard work of helping families prepare to be successful homeowners. One member of the Homeownership Alliance points out, “We see 10 new clients before we have a client ready to buy a home within 3 months. It takes time and lots of education, debt/credit repair and helping families to save. It takes our average buyer 8 to 10 months of counseling to be ready.” Fannie and Freddie need to compensate nonprofit partners for the education, counseling, real estate services or construction services and the loan servicing work they do to reach nontraditional borrowers.

In addition FHFA using its convening power to foster partnerships to tackle the racial homeownership gap, FHFA should also reconsider its own policies that make it harder to close the gap. If the Enterprises were allowed to make equity investments in Community Development Financial Institutions (CDFIs), this could help these mission-driven lenders expand and serve more minority borrowers. CDFIs are able to work with borrowers that need nontraditional underwriting or that need low balance loans. CDFIs are set up to do lending mainstream financial institutions can’t or won’t do.

CDFIs could provide the Enterprises with a means of achieving the affordable housing goals and Duty to Serve objectives. CDFIs can lend to homeowners and they can lend to the developers that build and rehabilitate affordable homes for owner-occupants. Both types of lending are necessary to expand the supply of affordable homeownership and narrow the racial wealth gap. If the Enterprises were allowed to make equity investments in CDFIs, this would allow CDFIs to scale up their lending. This policy change would leverage the financial underwriting prowess of the Enterprises to improve the affordable homeownership delivery system.

Finally, FHFA should rethink the January 2021 agreement with the Treasury Department on the senior preferred stock purchase agreements (PSPAs) that placed restrictions on what types of loans the Enterprises can buy. They limit the GSEs’ purchase of “high-risk” single-family loans to 6 percent of their purchase money mortgages and 3 percent of their refinancing mortgages. “High-risk” loans are defined as loans with at least two of the following characteristics: the loan is more than 90 percent of the home’s value, the borrower’s debt is more than 45 percent of their income, or the borrower has a credit score below 680. It is not clear that these limits are necessary or advisable. The research on defaults during the Great Recession indicates that it was the product features of loans like predatory ARMS or interest-only mortgages that caused borrowers to default, not the characteristics of the borrowers per se. These arbitrary restrictions on Enterprise loan purchases could restrict credit to low wealth borrowers at a time when we want the Enterprises to step up and help close the homeownership gap.

A systemic and thoughtful approach to closing the homeownership gap should harness the work of mission-driven housing developers and lenders who build affordable homes and work with families to access mortgages on fair terms. The mortgage refinance boom last year generated record profits yet homeownership gaps persist. This needs to change because homeownership is a key building block for stable, vital neighborhoods as well for the health, education and prosperity of individual families. Communities with low rates of homeownership are vulnerable to gentrification-driven displacement in good times or a downward spiral of decline in bad times. If America is going to make progress in lessening economic inequality, it must close its homeownership gap.