



The National Association of
Real Estate Brokers (NAREB)

THE STATE OF HOUSING IN BLACK AMERICA



2013

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THE STATE OF HOUSING IN BLACK AMERICA 2013

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Back inner cover graphics examples of work by M2 Magic Media

TABLE OF CONTENTS

President’s Message..... iii
by Julius Cartwright, President, NAREB

Chairman’s Messageiv
by Lawrence Batiste, Chairman of the Board of Directors, NAREB

Forewordv
by Dr. Benjamin F. Chavis, Jr, SHIBA Advisor

The State of the U.S. Economy and Homeownership for African Americans

by James H. Carr, Katrin B. Anacker, and Ines Hernandez

Executive Summary

Introduction..... 1

The Current Housing Market and the U.S. Economy..... 2

The Foreclosure Crisis and Collapse of the U.S. Economy 2

Overview of Select Policies in Response to the Foreclosure Crisis 6

The Rebound of the U.S. Economy and the Housing Market 10

A Comprehensive Response to Rebuild the Housing Market and the U.S. Economy 19

Redesign the Housing Finance System..... 19

Ensure Adequate Credit for Rental Housing 21

Establish a Housing and Community Infrastructure Bank 24

The Market Power of the African American Community26

Conclusion28

Appendix29

by NAREB members

National Association of Real Estate Brokers, Inc. (NAREB)

Background, History, and Affiliates

National Association of Real Estate Brokers-State of Housing in Black America (NAREB-SHIBA)

NAREB-SHIBA Advisory Board

NAREB-SHIBA Focus: Foreclosure Mitigation, Neighborhood Blight, Disaster Recovery

by Julius Cartwright, President, NAREB

NAREB-SHIBA Issue Forum and Post-Recession Housing Recovery Policy Paper Methodology

by C. Renee Wilson, SHIBA Coordinator

NAREB-SHIBA Affiliate Grassroots Perspectives

NID-Housing Counseling Agency Views

by Ray Carlisle, President, and Jacqueline Carlisle, Executive Director, NID-Housing Counseling Agency

National Society of Real Estate Appraisers Valuation (NSREA) Views

by David Harmon, President, NSREA

United Developer's Council (UDC) Development Views

by Clifford Turner, Past President, NAREB

NAREB-SHIBA Collaborative Partners: Call to Action

by Keith Corbett, Executive Vice President, Center for Responsible Lending; and Shanna Smith, President, National Fair Housing Alliance

The Empowerment Network

Empower Omaha • Empower North Omaha

The African American Empowerment Network

PRESIDENT'S MESSAGE

The National Association of Real Estate Brokers, Inc. (NAREB) and its members are referred to as REALTISTS® and have taken a huge step toward researching data for the State of Housing in Black America (SHIBA). As a minority trade association in its 65th year founded in 1947, we have always fought the battles of “Democracy in Housing.” Today, some of the very same issues exist, but rather discretely and anonymously. We are a real estate association comprised of all races but primarily African Americans. Today in America, we see that there are housing issues that impact all people of color, specifically Blacks.

As this report demonstrates, the collapse of the housing market and subsequent recession has been particularly devastating to the Black community. Not only has our homeownership rate plummeted, but also accessing mortgage credit has become nearly impossible outside of government insured programs such as the FHA and VA. Unemployment also remains high, in the double digits for Blacks, and vacant and abandoned properties clutter our communities.

This report is designed to shed light on many of the issues centered around foreclosure mitigation, neighborhood blight, and disaster recovery for Blacks. More importantly, NAREB has endorsed several policy initiatives in this report. They address rebuilding the mortgage finance system to make loans more available for Black families, ensuring an adequate supply of credit to finance affordable rental housing, and creating a funding vehicle—specifically a community infrastructure bank—to provide the financing to enable broad-based community revitalization and jobs for unemployed workers.

One of the most intriguing community redevelopment initiatives I have seen to date is the African American Empower Network in Omaha, Nebraska. Launched in April of 2007, this initiative examines ways to transform communities through a comprehensive policy framework and provides recommendations about housing, transportation, employment, education, youth development, health, culture and the arts, faith, and other critical aspects of daily life. This program is so innovative that I have included a more detailed description in the Appendix of this report.

As the 27th President of this real estate trade association, I am extremely proud to present this report that will help shape, revitalize, cultivate, and restore Black communities. As we begin to engage in more community-focused activities, our long-standing, time-tested reputation as the oldest fair housing organization in America leads us into improving the State of Housing in Black America. NAREB will produce the first of many annual reports over the next decade and beyond along with measurable solutions that will improve and empower the Black community. NAREB once again will work to restore and even collaborate with various entities in certain cases to fulfill the plight of Blacks who have been disproportionately marginalized and stripped of wealth for many years to come. We ask that after you have read this report that you join the SHIBA solutions movement. There is a place as well a role for your business, trade group, nonprofit, or fraternity in this extremely important mission.

Julius L. Cartwright
27th President of NAREB

CHAIRMAN'S MESSAGE

The State of Housing in Black America (SHIBA) Report will serve as a reference resource and vital piece of the puzzle in rebuilding wealth and increasing homeownership in Black America effectively. SHIBA's objective is to obtain an accurate picture and assessment of where we are in the overall picture so we can ensure effective solutions.

The SHIBA Issues Forums confirmed that the racial disparity gap has widened since the start of the financial crisis and that heightened awareness is needed in closing this gap. Results show that there is a critical need for educating both the consumer and industry professionals. NAREB's members, also referred to as Boots on the Ground, not only see the disparity firsthand but are the first to be contacted for information and assistance by customers.

NAREB will continue to fight for equality and the opportunity to pursue the dream of sustainable homeownership for any individual desiring to own a home responsibly. The number one vehicle for wealth accumulation for Black families is through homeownership, which provides caretaking for seniors, education for children, and personal investments, among other functions.

However, NAREB is particularly concerned with the disproportionate share of subprime loans, mortgage fraud, and foreclosures where Blacks and other minorities reside. Thus, we must address the opportunity to restore and rebuild those communities and homeowners' wealth. Effective programs designed for this purpose are essential to replenishing the staggering wealth stripping that occurred in these areas.

Through SHIBA, NAREB will continue to be an advocate for underserved communities. This report and future reports will keep us apprised of the current market conditions and what the specific market needs are.

In the Realtist Spirit,

Lawrence Batiste
Chairman of the Board of Directors, NAREB

FOREWORD

The African American community and all progressives who yearn earnestly for freedom, economic justice and equality will welcome the timely State of Housing in Black American (SHIBA) 2013 report by the National Association of Real Estate Brokers (NAREB). This report contains the most updated national analyses and solutions on the myriad of critical issues, challenges, public policies and opportunities to advance the overall housing market interests of African Americans in the United States of America.

The SHIBA 2013 report is consistent with the historic mission of NAREB to achieve housing democracy, that is, economic equity and empowerment for African Americans and others without any form of discrimination. Broadly, the report categorically focuses on (1) foreclosure mitigation, (2) neighborhood blight, and (3) natural disaster recovery in terms of the short and long term impact on the status and retention of land and home ownership with particular emphases on the contemporary plight and struggles of African Americans.

We note the esteemed and effective leadership of NAREB President Julius Cartwright, NAREB Chairman of the Board Lawrence Batiste, and all the members of the NAREB Board of Directors together with the NAREB-SHIBA Advisory Board that set the policy direction and guidance to ensure the completion of the report in time for the 2013 National NAREB Convention in Denver, Colorado. James H. Carr, Katrin B. Anacker, and Ines Hernandez did an outstanding task in pulling together all of the primary research into a coherent professional report. NAREB's dedicated staff led by C. Renee Wilson also worked countless hours to assist in the final edits to prepare the document for publication. In short, this report was a collaborative effort that involved the expertise, high standards and integrity that have been the hallmarks of NAREB since its founding in 1947.

Over the past twelve months I have witnessed firsthand many of the plenary sessions, workshops, consultations and other public gatherings throughout the nation that contributed to the SHIBA process and to the distillation and subsequent printing of the SHIBA report. As documented herein, African Americans have a large buying power nowadays, yet we continue to be the most foreclosed and wealth-depleted community in America. We cannot and will not just be bystanders as the American economy continues to rebound. This report arms NAREB members and officials with recommendations and solutions so that we can not only raise awareness among the 45 million African Americans, but also position NAREB to take the strategic lead in motivating, organizing and mobilizing an ongoing national housing equity movement. As this report outlines, the issue today is beyond equal access to housing, the issue is economic equity, parity, recovery and justice in housing for African Americans that will directly enhance wealth-building once again in our communities across the nation.

The current crucial debate on how to redesign or restructure the mortgage finance system in the United States should not take place in the absence of a massive and effective movement of millions of people in our communities who will voice their housing interests and take appropriate action at the local, state and federal levels to ensure economic justice and equity. Again, this will require extensive and expanded collaboration by NAREB with other national organization such as The National Council of La Raza and Opportunity Agenda, as detailed in the report. Finally, we are all challenged and called into action with greater awareness and the benefit of the suggestions and facts presented. Let us renew and build the housing equity movement together as brothers and sisters of NAREB.

Dr. Benjamin Chavis, Jr.
SHIBA Advisor

THE STATE OF THE U.S. ECONOMY AND HOMEOWNERSHIP FOR AFRICAN AMERICANS: EXECUTIVE SUMMARY

Over the past decades, the African American community has faced several crises that have and will continue to have vast effects on the opportunities, well-being, and wealth-building potential of current and future generations. In this report we discuss the current housing market and the U.S. economy.

First, we discuss the impact of the foreclosure crisis. Second, we provide an overview of select policies in response to the foreclosure crisis. Third, we focus on the rebound of the U.S. economy and the housing market.

We find that African Americans have been disproportionately affected by the foreclosure crisis and the collapse of the economy yet have not rebounded as well as other racial and ethnic groups. In this report we also introduce a comprehensive response to rebuild the housing market and the U.S. economy, especially focusing on the future affordable homeownership, an important topic in the African American community.

Furthermore, we discuss the market power of the African American community. We find that the increasing population and the increasing household incomes for some African Americans translate into an increased buying power in the African American community. These income gains could be translated to homeownership and other wealth-building opportunities that should be facilitated by public policy.

INTRODUCTION

Over the past six years, the United States has faced several crises that have and will continue to have potentially vast negative effects on the opportunities, well-being, and wealth-building potential of current and future generations. The trigger of these crises was the national foreclosure crisis that began in 2007 and is projected to end in 2017. During the first few months of the national foreclosure crisis a major driver of foreclosure notices was the resetting of unaffordable adjustable rate mortgages. Stagnant and eventually falling home prices that began in 2006 revealed the severe weaknesses of a housing finance market that was, at that time, bloated with reckless and irresponsible subprime loan products.

Based on RealtyTrac analyses, between January 1, 2007 and May 31, 2013, almost 14.8 million foreclosure notices have been filed. The Office of the Comptroller of the Currency (OCC) estimates, based on a portfolio that comprises 57 percent of all mortgages outstanding in the United States, that as of December 31, 2012, more than 1.2 million borrowers were seriously delinquent (i.e., more than 60 days late or more than 30 days late with their mortgage payments in case of bankruptcy).

While the foreclosure crisis has had vast consequences throughout the United States, it has had a disproportionate impact on persons of color, in particular. Below we discuss the foreclosure crisis and the collapse of the U.S. economy in greater detail, focusing on African Americans, outline a comprehensive response to rebuild the housing market and the U.S. economy, and focus on the market power of the African American community, followed by a conclusion.

THE CURRENT HOUSING MARKET AND THE U.S. ECONOMY

The Foreclosure Crisis and Collapse of the U.S. Economy

Since the beginning of the national foreclosure crisis in early 2007, nearly 8 percent of both African Americans and Latinos have been foreclosed upon, compared to 4.5 percent of non-Hispanic Whites, controlling for differences in incomes among the groups.¹ These proportions are especially striking given the disproportionately high share of mortgage originations of non-Hispanic Whites.

The calculated disparity ratio in Table 1 (see below) is based on the non-Hispanic White share of originations (65.9 percent) and their share of completed foreclosures (56.1 percent), making it a disparity ratio of 1.0 (i.e., being the base case for this comparison). African Americans have 7.8 percent of mortgage originations yet 11.6 percent of completed foreclosures, leading to a disparity ratio of 1.76. Latinos have 11.2 percent of mortgage originations but 16.2 percent of completed foreclosures; thus, their disparity ratio is 1.71. Stated differently, African Americans and Latinos are greater than 70 percent more likely to have been foreclosed upon, even when controlling for income. These proportions and ratios are displayed in Table 1 below.

Table 1: Estimated 2007 to 2009 Foreclosures of Recent First-Lien Owner-Occupied Mortgage Originations (2005 to 2008), by Borrower Race and Ethnicity

Borrower Group	Share of Originations	Completed Foreclosure Rate	Share of Completed Foreclosures	Disparity Ratio
Non-Hispanic Whites	65.9%	4.5%	56.1%	1.00
African Americans	7.8%	7.9%	11.6%	1.76
Latinos	11.2%	7.7%	16.2%	1.71
Total	100.00%	5.3%	100.0%	1.18

Source: Bocian et al. (2010). <http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf>

The rapid increase in the number of foreclosure filings across the nation had a negative impact on the economy, including high levels of unemployment.

As shown in Figure 1 below, the U.S. unemployment rate was 4.6 percent in 2007, reached peak at 9.6 percent in 2010, and then decreased to 7.5 percent in April 2013. Thus, there was a positive change of 5 percentage points from 2007 to 2010 and a negative change of 2.1 percentage points from 2010 until the spring of 2013.

Differentiating among the three racial and ethnic groups, the non-Hispanic White unemployment rate was 4.1 percent in 2007, increased to 8.7 percent in 2010, and reached 6.7 percent in March, April, and May 2013. Thus, there was a positive change of 4.6 percentage points from the

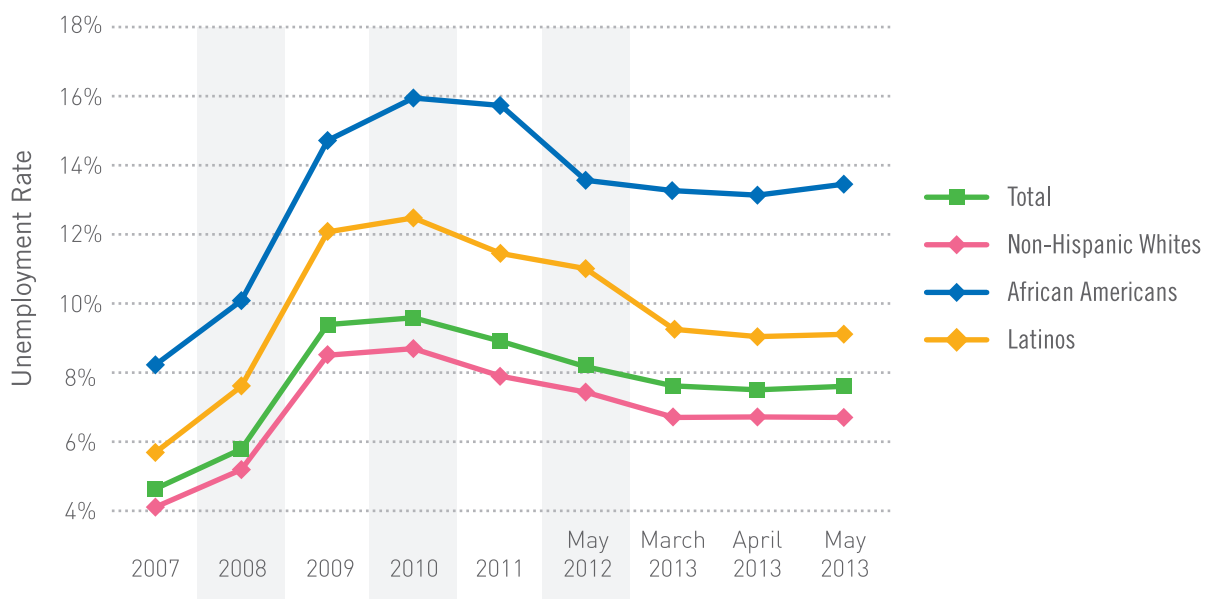
¹ D. G. Bocian, W. Li, and K. S. Ernst (2010). Foreclosures by Race and Ethnicity: The Demographics of a Crisis. Durham, NC: Center for Responsible Lending. <http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf>

beginning of the recession in 2007 to the peak in 2010 and a negative change of 2 percentage points from 2010 to the spring of 2013.

The African American unemployment rate was 8.3 percent in 2007, peaked at 16 percent in 2010, a positive change of 7.7 percentage points, and then decreased to 13.2 percent in April 2013, a negative change of 2.8 percentage points. However, the African American unemployment rate increased to 13.5 percent in May 2013 from 13.2 percent in April 2013. Interestingly, the positive change of 7.7 percentage points was the highest change among the three racial and ethnic groups.

Similarly, the Latino unemployment rate was 5.6 percent in 2007, 12.5 percent in 2010, a positive change of 6.9 percentage points, and then 9 percent in April 2013, a negative change of 3.5 percentage points. Unemployment rates are projected to remain high for all racial and ethnic groups throughout 2013.²

Figure 1: Unemployment Rate by Race and Ethnicity, 2007 to May 2013



Source: Bureau of Labor Statistics [2008, 2009, 2010, 2011, 2012, 2013]. <http://www.bls.gov/cps/demographics.htm#race>

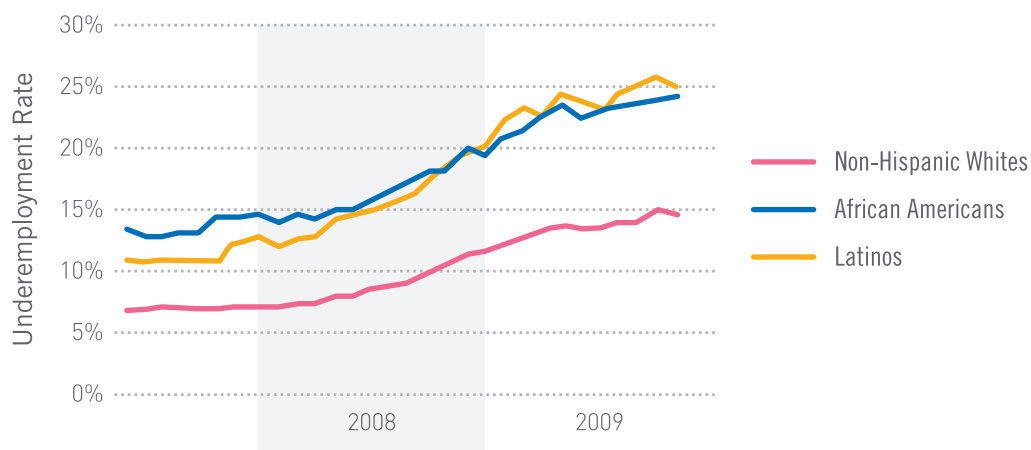
In addition to the relatively high unemployment rate, the U.S. has an even higher underemployment rate, defined as the “total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force” (p. n. a.).³ The seasonally adjusted rates were 14.3, 13.8, 13.9, 13.8, and 14.3 percent from February to June 2013, respectively. While these percentages are national proportions, the underemployment rate for African Americans and Latinos has been even higher. In November 2009, the underemployment rates for African Americans and Latinos were 24.3 and 25.1 percent, respectively, while for non-Hispanic Whites this rate was only 14.6 percent,⁴ as also illustrated in Figure 2 below.

² A. Austin (2013). *Unemployment Rates Are Projected to Remain High for Whites, Latinos, and African Americans Throughout 2013*. Washington, DC: Economic Policy Institute. <http://www.epi.org/files/2013/unemployment-rates-white.pdf>

³ Bureau of Labor Statistics (n.d.). Table A-15. Alternative measures of labor underutilization. Washington, DC: Bureau of Labor Statistics. <http://www.bls.gov/news.release/empsit.t15.htm>

⁴ A. Orr (2010). *One in Four Black, Hispanic Workers Is Underemployed*. Washington, DC: Economic Policy Institute. http://www.epi.org/publication/one_in_four_black_hispanic_workers_is_underemployed/

Figure 2: Underemployment Rate by Race and Ethnicity, July 2007 to November 2009



Source: Economic Policy Institute (2010). http://www.epi.org/publication/one_in_four_black_hispanic_workers_is_underemployed/

The relatively high unemployment and underemployment rates have had a significant negative effect on household net worth, especially among homeowners. The total homeowners' equity lost during the recession has been estimated at more than \$7 trillion.⁵ The effects of the economic crises have been enormous, both nationally and globally. Current and future generations will be impacted for decades to come.

While all racial and ethnic groups have lost household net worth, the loss in terms of median household net worth from 2005 to 2009 has been much more severe among African Americans and Latinos than for non-Hispanic Whites. While African American and Latino households lost 53 percent and 66 percent of their net worth, respectively, non-Hispanic White households lost 16 percent, as illustrated in Table 2 below.⁶

Table 2: Median Net Worth of Households with Home Equity, 2005 to 2009

	Total 2005	Total 2009	Total Change 2005-2009
Non-Hispanic Whites	\$134,992 (100%)	\$113,149 (83.82%)	-\$21,843 (-16.18%)
African Americans	\$12,124 (100%)	\$5,677 (46.82%)	-\$6,447 (-53.18%)
Latinos	\$18,359 (100%)	\$6,325 (34.45%)	-\$12,034 (-65.55%)
All	\$96,894 (100%)	\$70,000 (72.24%)	-\$26,894 (-27.76%)

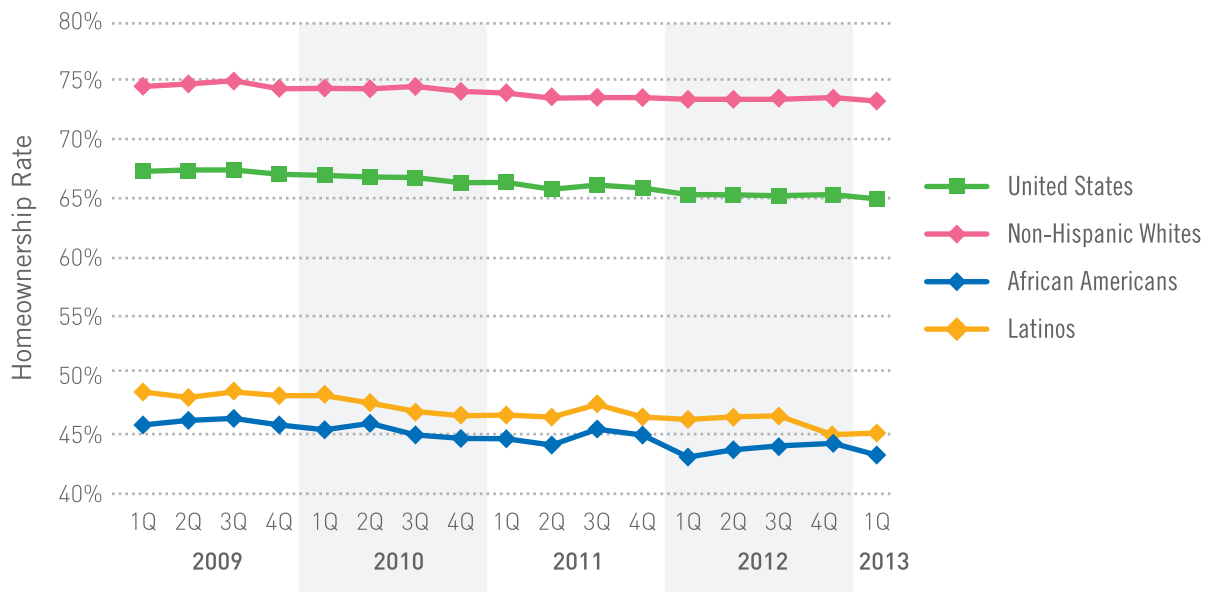
Source: Kochhar et al. (2011), slightly modified by authors, percentages calculated by authors. http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf

5 S. B. Raskin (2012). *Downturns and Recoveries: What the Economies in Los Angeles and the United States Tell Us*. Washington, DC: Federal Reserve Board of Governors. <http://www.federalreserve.gov/newsevents/speech/raskin20120412a.pdf>

6 R. Kochhar, R. Fry, and P. Taylor (2011). *Wealth Gaps Rise to Record Highs between Whites, Blacks, and Hispanics*. Washington, DC: Pew Research Center. http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf See also Federal Reserve Bank of St. Louis (2013). *Annual Report for the Year 2012*. St. Louis, MO: Federal Reserve Bank of St. Louis. http://www.stlouisfed.org/publications/ar/2012/pdfs/ar12_complete.pdf

This loss in net worth is also reflected in the decline in the homeownership rate. As of the first quarter of 2013, the non-Hispanic White, African American, and Latino homeownership rates were 73.4, 43.1, and 45.3 percent, respectively. In the fourth quarter of 2007, when the recession was officially declared, the homeownership rates were at 74.9, 47.7, and 48.5, respectively. In sum, the economic crises have caused the greatest percentage point losses among African Americans (4.6 percentage points) and Latinos (3.2 percentage points) and the smallest percentage point loss among non-Hispanic Whites (1.5 percentage points).⁷ Figure 3 below illustrates the change in homeownership rates of the three racial and ethnic groups.

Figure 3: Homeownership Rate by Race and Ethnicity of Householder, First Quarter of 2009 to First Quarter of 2013



Source: U.S. Bureau of the Census (2013). <http://www.census.gov/housing/hvs/files/currenthvspress.pdf>

While the homeownership rates for African Americans and Latinos have continued to decrease, the question remains whether they have yet reached bottom. Some have projected that the homeownership rate for African Americans and Latinos would drop to a range of 40 to 42 percent in the near future.⁸ For example, as can be seen from Figure 3 above, the African American homeownership rate has increased and decreased over the past few quarters, sometimes dramatically, for example from 44.5 percent in the fourth quarter of 2012 to 43.1 percent in the first quarter of 2013, a notable change of 1.4 percentage points. Similarly, the Latino homeownership rate decreased from 46.7 percent in the third quarter of 2012 to 45.0 percent in the fourth quarter of that year, an even larger change of 1.7 percentage points.

Future research should investigate these patterns of change for these two groups. Interestingly, unlike all other racial and ethnic groups, the African American homeownership rate actually peaked in 2004. Since then, it has declined, indicating that the foreclosure crisis among African Americans started in 2005, much earlier than the national foreclosure crisis, which started in early 2007. Not much research has been conducted on this aspect.⁹

⁷ Henry (2012) makes the interesting point that African American homeownership decreased sharply even before the recession started. L. M. Henry (2012). *The State of Housing in Black America: The Impact of the Great Recession of 2008-2009*. Cleveland, OH: Federal Reserve Bank of Cleveland.

⁸ USA Realty Group (2010). *Homeownership Rate Holds Steady*. Willowbrook, IL: USA Realty Group. <http://www.realtyusagroup.com/wordpress/?p=384>

⁹ For an exception see Y. Li and H. A. Morrow-Jones (2010). The Impact of Residential Mortgage Foreclosure on Neighborhood Change and Succession. *Journal of Planning Education and Research* 30, 22-39.

Overview of Select Policies in Response to the Foreclosure Crisis

Over the past several years, many foreclosure prevention programs and initiatives have been introduced with mixed success, for example FHA Secure; the HOPE NOW Alliance; “Mod in a Box” (for the IndyMac Federal Savings Bank portfolio); Hope for Homeowners (H4H); the Streamlined Modification Program; and the Making Home Affordable (MHA) program, which includes the Home Affordable Refinance Program (HAMP) and the Home Affordable Refinance Program (HARP).¹⁰ An overview of select key foreclosure mitigation programs and new institutions is provided below.

HOPE NOW Alliance. The HOPE NOW Alliance, established in October 2007, consists of HUD-approved counselors, representatives of mortgage companies, and investors to assist borrowers who are struggling to pay their mortgages. The Alliance provides a phone bank free of charge, outreach events throughout the United States, and a website with resources for distressed borrowers, providing help with negotiations for mortgage modifications. As of June 21, 2013, HOPE NOW states that it has assisted with 6.39 million loan modifications since 2007.¹¹

During the first two years, loan modifications granted by the servicers, facilitated by HOPE NOW, were largely short-term, temporary, and unsustainable due to the limited nature of concessions to borrowers. Loan repayment forbearance, for example, was typically of a very short-term nature, routinely lasting only three to six months. Payments were deferred (not forgiven) and interest and principal payments, along with penalty fees, were due in a lump sum at the end of the forbearance term. In many instances, restructured monthly mortgage payments were higher than the original monthly payments that had, themselves, been unaffordable to borrowers.¹² Private loan modifications conducted through the HOPE NOW channel improved considerably into 2010 and beyond.¹³

Making Home Affordable (HAMP and HARP). The MHA program is a comprehensive foreclosure prevention effort that consists of several programs, among them HAMP and HARP, both established effective January 1, 2009. HAMP provides eligible borrowers the opportunity to lower their first lien mortgage payment to an affordable level through a loan modification process.¹⁴

A HAMP modification consists of two phases: a trial modification that was originally designed to last three months followed by a permanent modification. As of the end of March 2013, about 1.1 million homeowners had obtained permanent loan modifications through HAMP, far fewer than the 3 to 4 million modifications originally projected by the Obama administration. Of the \$29 billion originally allocated for the HAMP program, so far about \$4.7 billion has been spent.¹⁵ The HAMP program is scheduled to end on December 31, 2015.¹⁶

10 K. Gerardi and W. Li (2010). Mortgage Foreclosure Prevention Efforts. *Economic Review* 95, 1-13.

11 B. Dwin (2013, June 21). HOPE NOW: 70K Loan Mods for Homeowners in April. Washington, DC: HOPE NOW.

12 J. Rao and G. Walsh (2009). *Foreclosing a Dream: State Laws Deprive Homeowners of Basic Protections*. Washington, DC: National Consumer Law Center. Dan Immergluck (2013). Too Little, Too Late, and Too Timid: The Federal Response to the Foreclosure Crisis at the Five-Year Mark. *Housing Policy Debate* 23, 199-232. http://www.nclc.org/images/pdf/foreclosure_mortgage/state_laws/foreclosing-dream-report.pdf

13 Financial Stability Oversight Council (FSOC) (2013). *2013 Annual Report*. Washington, DC: Financial Stability Oversight Council. <http://www.treasury.gov/initiatives/fsoc/Documents/FSOC%202013%20Annual%20Report.pdf>

14 MakingHomeAffordable.gov (2012). *Making Home Affordable Program: Handbook for Servicers of non-GSE Mortgages*. Washington, DC: U.S. Department of the Treasury and U.S. Department of Housing and Urban Development. http://www.makinghomeaffordable.gov/for-partners/understanding-guidelines/Documents/mhahandbook_41.pdf

15 C. Benson (2013, May 30). Treasury Extends HAMP Mortgage-Modification Program Through 2015. Bloomberg.com. <http://www.bloomberg.com/news/print/2013-05-30/treasury-extends-hamp-mortgage-modification-program-through-2015.html>

16 MakingHomeAffordable.gov (n.d.). Home Affordable Modification Program. Washington, DC: U.S. Department of the Treasury and U.S.

Multiple weaknesses have been identified in the HAMP program since its initial launch, including the voluntary nature of the program, initial absence of key program features (such as second lien modification, principal reduction, and unemployment assistance) that now make up HAMP's many subprograms and supplemental directives, the evolving guidance for the myriad of programs, low response levels of borrowers and lenders, the lack of enforcement of the program's rules, and the number of governmental entities involved in the process, adding layers of complexity and operational challenges.¹⁷ These and other issues have contributed to the HAMP program having drawn down only a modest proportion of the program's available funding.

Finally, one of the major critiques of the HAMP program has been the unwillingness of the Federal Housing Finance Agency (FHFA) to allow principal reductions for HAMP-eligible mortgages secured by Fannie Mae and Freddie Mac even though FHFA's own analyses show that it would save taxpayers a net \$1 billion while simultaneously helping tens of thousands of borrowers avoiding foreclosure.¹⁸ More recent estimates by the Congressional Budget Office (CBO) show that a well-designed principal reduction program could save taxpayers as much as \$2.2 billion if applied to loans held by Fannie Mae and Freddie Mac.¹⁹

HARP was established by the Federal Housing Finance Agency (FHFA) and the Department of the Treasury for underwater or near-underwater homeowners of existing mortgages sold to Fannie Mae or Freddie Mac who are current in their mortgage payments.²⁰ As of March 2013, about 2.4 million refinances were completed through HARP.²¹ While the HARP program has widely been considered a success, the program has been also criticized for its tight eligibility criteria that are estimated to exclude as many as two million borrowers who could benefit from HARP.²²

Consumer Financial Protection Bureau (CFPB). The CFPB was established through the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"). The CFPB provides information to consumers so they understand the terms of their agreements with financial companies. It also strives to "make regulations and guidance as clear and streamlined as possible so providers of consumer financial products and services can follow the rules on their own" (n.p.).²³ More specifically, the CFPB protects consumers by implementing federal consumer financial laws, writing rules, supervising companies, and enforcing federal consumer financial protection laws; by restricting unfair, deceptive, or abusive acts or practices; taking in consumer complaints; promoting financial education; researching consumer behavior; monitoring financial markets for new risks to consumers; and enforcing laws that outlaw discrimination and other unfair treatment in consumer finance.²⁴

One of the CFPB's activities was to issue a final rule to implement laws requiring mortgage lenders to consider consumers' ability to repay home loans before extending them credit. This

Department of Housing and Urban Development. <http://www.makinghomeaffordable.gov/programs/lower-payments/Pages/hamp.aspx>
17 D. Immergluck (2013).

18 E. J. DeMarco (2012, July 31). Letter to The Honorable Tim Johnson and to The Honorable Richard C. Shelby. Washington, DC: Federal Housing Finance Agency. http://www.housingwire.com/sites/default/files/editorial/PF_LettertoCong73112.pdf

19 M. Remy and D. Moore (2013). *Options for Principal Forgiveness in Mortgages Involving Fannie Mae and Freddie Mac*. Washington, DC: Congressional Budget Office. http://www.cbo.gov/sites/default/files/cbofiles/attachments/44114_WorkingPaper-OptionsPrincipalForgiveness1.pdf

20 Harpprogram.org (n.d.). What Is HARP? Washington, DC: Harpprogram.org.

21 Federal Housing Finance Agency (2013). *Refinance Report*. Washington, DC: Federal Housing Finance Agency. <http://www.fhfa.gov/web-files/25318/March2013RefinanceReport.pdf>

22 C. Benson (2013, March 13). Lenders expand HARP loans to more borrowers as rules change. Bloomberg.com. <http://www.bloomberg.com/news/2013-03-13/lenders-expand-harp-loans-to-more-borrowers-as-rules-change.html>

23 Consumer Financial Protection Bureau (n.d.). About Us. Washington, DC: Consumer Financial Protection Bureau. <http://www.consumerfinance.gov/the-bureau/>

24 Consumer Financial Protection Bureau (n.d.).

rule will take effect on January 10, 2014 and will cover the entire mortgage market. The rule contains several key elements, among them the ability-to-repay determinations. At a minimum, creditors generally must consider the following underwriting factors:

- Current or reasonably expected income or assets;
- Current employment status;
- The monthly payment on the covered transaction;
- The monthly payment on any simultaneous loan;
- The monthly payment for mortgage-related obligations;
- Current debt obligations, alimony, and child support;
- The monthly debt-to-income ratio or residual income; and
- Credit history.²⁵

The CFPB is also involved in discussions on the Qualified Mortgages (QM) and the Qualified Residential Mortgages (QRM) statutory provisions. While QM, which applies to all residential mortgages, has been issued, QRM, which will only apply to mortgages that are privately securitized, is still under discussion. Both provisions are designed to provide incentives for lenders to originate safe and sustainable residential mortgages.

Loans that meet the QM standard are considered to satisfy Dodd-Frank's ability to pay obligation and "will restrict the origination of loans with features associated with higher default rates, such as lack of income documentation, prepayment penalties, and loans with interest-only, negatively amortizing or balloon payments" (p. 2).²⁶ Loans that meet the QRM standard will be exempt from requirements that at least five percent of the credit risk be retained by the securitizers. One key question is whether the future QRM definition might prevent borrowers from obtaining mortgages. "By setting overly stringent regulatory thresholds for loan-to-value (LTV) or downpayment requirements, debt-to-income (DTI) ratios, and borrower credit scores (FICO), there is a risk that QRMs will disproportionately exclude lower-income households and borrowers of color from access to lower-cost credit products, thereby increasing the barriers to homeownership" (p. 4).²⁷

Attorney General National Mortgage Settlement ("AG Settlement"). In February 2012 U.S. Attorney General Eric Holder, U.S. Department of Housing and Urban Development (HUD) Secretary Shaun Donovan, Iowa Attorney General Tom Miller, and Colorado Attorney General John W. Suthers announced that the federal government and 49 state attorneys had reached a \$25 billion agreement with the nation's five largest mortgage servicers to address mortgage loan servicing and foreclosure abuses. The AG Settlement provides substantial financial relief to homeowners and establishes significant new homeowner protections for the future.

The five largest mortgage servicers are Bank of America Corporation, JPMorgan Chase & Co, Wells Fargo & Company, Citigroup, Inc., and Ally Financial Inc. (formerly GMAC). Under the terms of the AG Settlement these five servicers are required to implement new mortgage

25 Consumer Financial Protection Bureau (n.d.). Summary of the Ability-to-Repay and Qualified Mortgage Rule and the Concurrent Proposal. Washington, DC: Consumer Financial Protection Bureau. http://files.consumerfinance.gov/f/201301_cfpb_ability-to-repay-summary.pdf

26 R. G. Quercia, L. Ding, and C. Reid (2012) *Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages*. Chapel Hill, NC and Durham, NC: Center for Community Capital and Center for Responsible Lending. http://www.ccc.unc.edu/documents/QRM_Underwriting.pdf

27 Quercia, Ding, and Reid (2012).

loan servicing standards and to collectively dedicate \$25 billion toward the financial relief for consumers to resolve violations of federal and state law. Examples of these violations were servicers' use of "robo-signed affidavits in foreclosure proceedings; deceptive practices in the offering of loan modifications; failures to offer non-foreclosure alternatives before foreclosing on borrowers with federally insured mortgages; and filing improper documentation in federal bankruptcy court" (p. n.a.).²⁸

More specifically, the servicers are required to collectively dedicate \$20 billion toward various forms of financial relief to borrowers. Ten billion are dedicated to principal reduction, \$3 billion set aside toward refinancing loans; and \$7 billion dedicated to other forms of relief, including forbearance of principal for unemployed borrowers, anti-blight programs, short sales, transitional assistance, and other programs.

In addition to the funds set aside for borrowers, the agreement also requires the servicers to pay \$5 billion in cash to federal and state governments. One point five billion of the \$5 billion will be used to establish a Borrower Payment Fund to provide cash payments to borrowers whose homes were sold or taken in foreclosure between January 1, 2008 and December 31, 2011, and who meet other criteria. The remaining \$3.5 billion will go to state and federal governments to be used to repay public funds lost as a result of servicer misconduct and to fund housing counselors, legal aid, and other similar public programs determined by the state attorneys general.²⁹

Although this settlement was considered an important victory for borrowers who may have been improperly foreclosed upon, the agreement has been criticized for being weak in a number of ways including the following:

- (1) The maximum direct payment to borrowers who were found to have been improperly foreclosed upon was \$1,800 to \$2,000, regardless of the actual financial damage they suffered;
- (2) The \$3.5 billion set aside for states to fund housing-related activities did not mandate those dollars to be allocated to housing activities; thus, they could be used for any non-housing purpose, including offsetting state general revenue shortfalls;
- (3) Servicers are allowed to monitor and report their own compliance with the settlement terms;
- (4) There was no requirement for data collection by servicers on the race and ethnicity of borrowers assisted by the settlement and therefore no way of knowing the extent to which underserved borrowers are being served by the agreement; and
- (5) Servicers continue to fail to adhere to the agreement's servicing guidelines.³⁰

Independent Foreclosure Review Agreement. In February 2013 the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System reached an Independent Foreclosure Review Agreement with many servicers and their affiliated mortgage

28 The United States Department of Justice (2012). *Federal Government and State Attorneys General Reach \$25 Billion Agreement with Five Largest Mortgage Servicers to Address Mortgage Loan Servicing and Foreclosure Abuses*. Washington, DC: The United States Department of Justice. <http://www.justice.gov/opa/pr/2012/February/12-ag-186.html>

29 The United States Department of Justice (2012).

30 O. Williamson (2013). *Understanding the National Mortgage Settlement: A Guide for Housing Counselors*. Washington, DC: National Consumer Law Center. http://www.nclc.org/images/pdf/foreclosure_mortgage/counseling_resources/nms-guide-low-res.pdf. See also S. Nasiripourshahien (2013, June 6) National Mortgage Settlement Monitor Finds Few Flaws As Consumer Advocates Cry Foul. *Huffington Post*. http://www.huffingtonpost.com/2013/06/19/national-mortgage-settlement-monitor_n_3463180.html?view=print&comm_ref=false

companies.³¹ The agreement replaced an independent review process that had been launched. From the start, the review process was fraught with problems, including the facts that:

- (1) Lenders were allowed to select their own consultants to conduct reviews despite the fact that the reviews were intended to be independent;
- (2) The review consultants were not required to have had any experience or expertise in outreach to at-risk borrowers or underserved communities and, as a result, relatively few of the 4.2 million estimated eligible borrowers for the program applied to be included in the program;
- (3) Consultants were not required to speak with borrowers when determining whether borrowers had been inappropriately foreclosed upon, but rather they were allowed to rely solely on the servicers' files. This was a major flaw in the program design since the most often cited concern with servicers' behavior was the servicers' alleged loss of borrower documents; and
- (4) The fees being charged by the consultants were excessive, ultimately costing more than \$2 billion at the time the program was halted.³²

The Rebound of the U.S. Economy and the Housing Market

Recently, the economy and the national housing market have shown important signs of improvement. The stock market has repeatedly hit new highs³³ and profits for many of the nation's largest corporations have never been better.³⁴ More than 90 percent of the amount of total aggregate wealth lost during the collapse of the housing market and the subsequent recession has been recovered. However, this wealth recovery is not equally shared across households as a large proportion of this recovery has occurred for stocks that are disproportionately held by high-income, typically non-Hispanic White, households.³⁵

Also, over the past few years the unemployment and underemployment rates have increased (as discussed above) and the labor force participation rate has declined, especially for African Americans and Latinos, as illustrated in Figure 4 below. This decline has implications for future opportunities and wealth building.

31 These servicers and their affiliated mortgage companies are America's Servicing Company, Aurora Bank, Aurora Loan Services, BAC Home Loans Servicing, Bank of America, Beneficial, Chase, Citibank, CitiFinancial, CitiMortgage, Countrywide, EMC Mortgage Corporation, Goldman Sachs, HFC, HSBC, JPMorgan Chase, Litton Loan Servicing LP, MetLife Bank, Morgan Stanley, National City Mortgage, PNC Mortgage, Saxon Mortgage, Sovereign Bank, SunTrust, SunTrust Mortgage, U.S. Bank, Wachovia Mortgage, Washington Mutual (WaMu), Wells Fargo Bank, N.A., and Wilshire Credit Corporation.

32 National Consumer Law Center, National Association of Consumer Advocates, and National Fair Housing Alliance (2013, January 7). Statement Regarding Settlement with Banks to Settle Foreclosure Abuses and End Foreclosure Reviews. Washington, DC: National Consumer Law Center, National Association of Consumer Advocates, and National Fair Housing Alliance. <http://www.nclc.org/images/pdf/pr-reports/pr-banks-settlement-forecl.pdf>

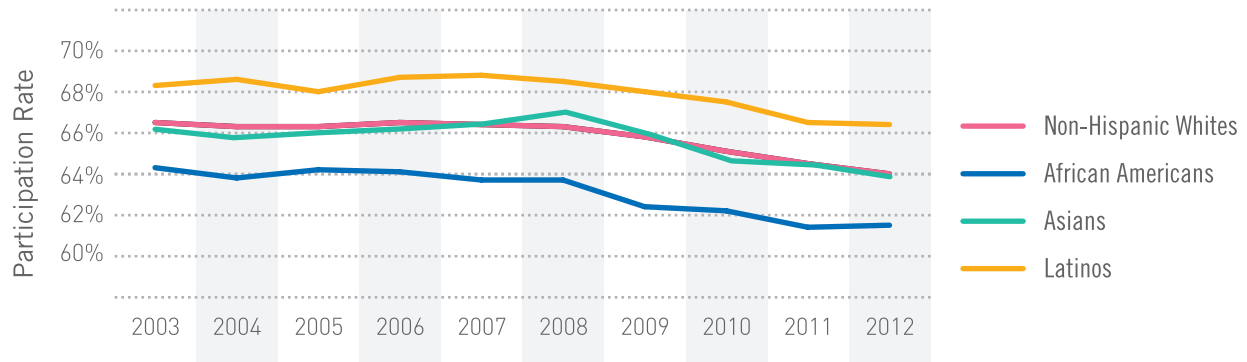
33 M. Farrell (2013, May 28). Super Tuesday: Dow closes at record high. *CNNMoneyInvest*. <http://money.cnn.com/2013/05/28/investing/stocks-markets/index.html>

34 M. Gongloff (2013, January 17). Corporate Profits Soar To Record, Now More Than Double Their Peak Under Ronald Reagan. *The Huffington Post*. http://www.huffingtonpost.com/2013/01/17/corporate-profits-record_n_2494743.html

N. D. Schwartz (2013, March 3). Recovery in U.S. Is Lifting Profits, but Not Adding Jobs. <http://www.nytimes.com/2013/03/04/business/economy/corporate-profits-soar-as-worker-income-limps.html?pagewanted=all&pagewanted=print>.

35 W. R. Emmons and B. J. Noeth (2013, June 6). Still Digging Out: Real Net Worth per Household Has Rebounded 63 Percent Since Hitting Bottom in Early 2009. *In the Balance: Perspectives on Household Balance Sheets* 4, 1-2. http://www.stlouisfed.org/publications/pub_assets/pdf/itb/2013/In-the-Balance-issue-4.pdf. M. L. Chang (2010). *Shortchanged: Why Women Have Less Wealth and What Can Be Done About It*. Oxford: Oxford University Press.

Figure 4: Labor Force Participation Rate by Race and Ethnicity, 2003 to 2012

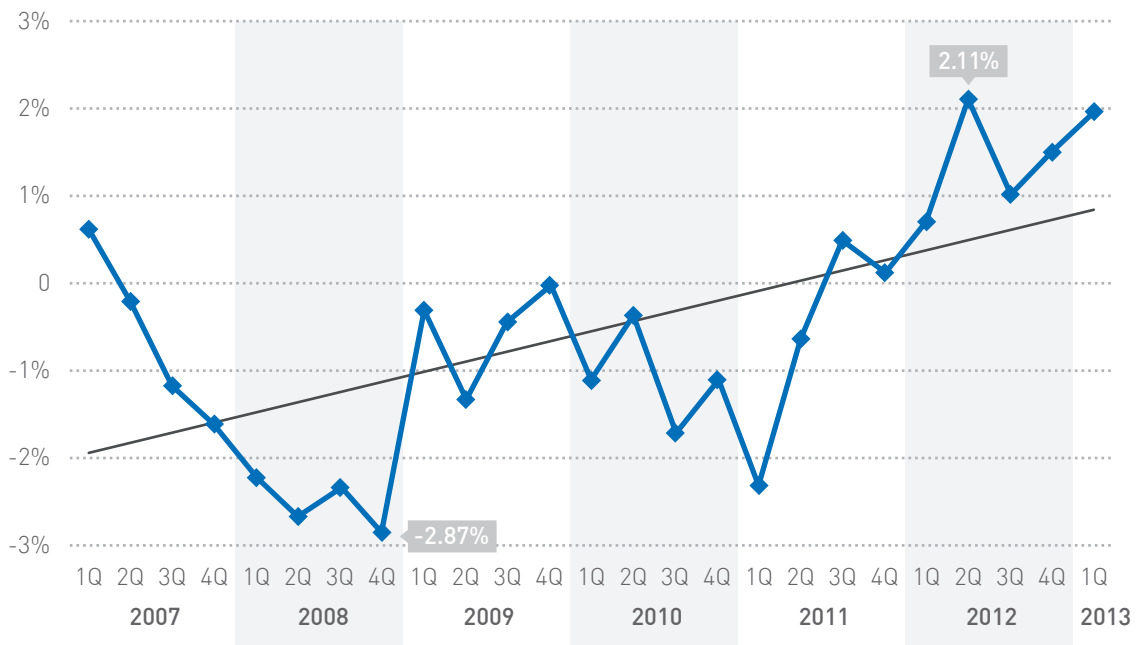


Source: Bureau of Labor Statistics (2013) <http://www.bls.gov/cps/demographics.htm#race>

Similar to the economic recovery, the housing market seems to have experienced a recovery, for example, for (1) the house price appreciation rate; (2) existing home sales; (3) new homes sold; and (4) housing units authorized.

The quarterly national house price appreciation rate has been positive since the third quarter of 2011 (i.e., for the past seven quarters), as shown in Figure 5 below.³⁶ Very recently, select communities have experienced price increases as well.³⁷

Figure 5: Federal Housing Finance Agency (FHFA) House Price Quarterly Appreciation Rate, First Quarter of 2007 to First Quarter of 2013



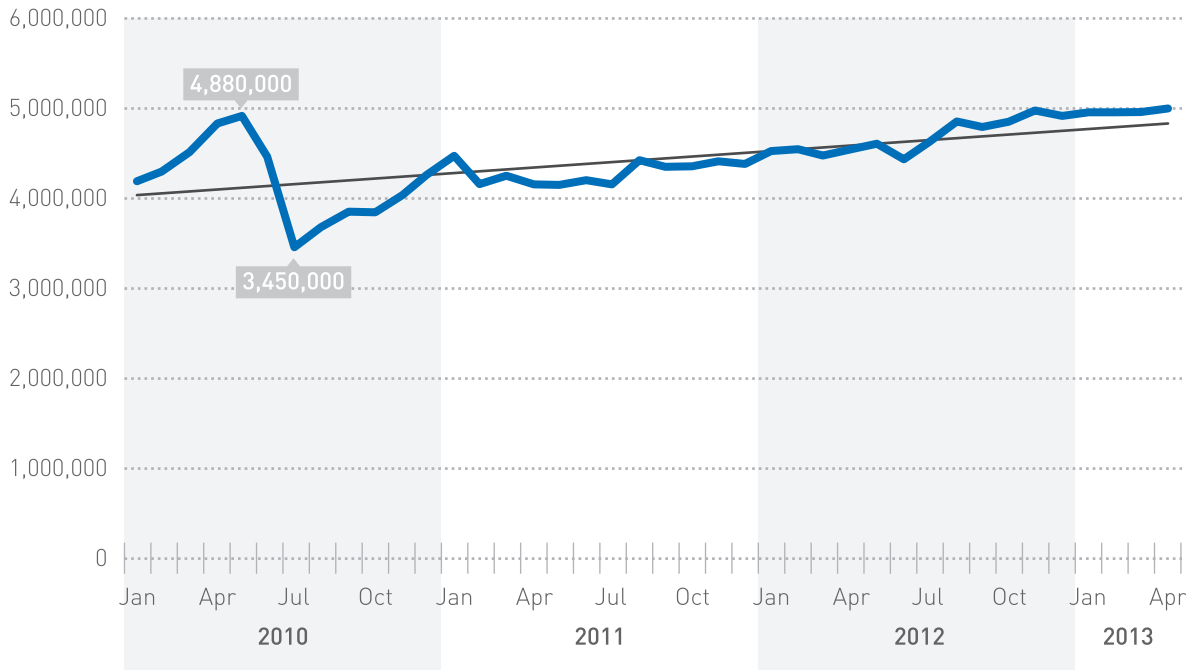
Source: Federal Housing Finance Agency (2013). <http://www.fhfa.gov/webfiles/25172/2013Q1HPI.pdf>

36 E. Nemeroff (2013, June 18). National Home Prices Continue to Rise in April. *National Mortgage News*. <http://www.nationalmortgagenews.com/dailybriefing/National-Home-Prices-Continue-Rise-April-1036735-1.html?zkPrintable=true>

37 C. Mlynski (2013, June 18). A New Bubble Forecasted in Key Real Estate Markets. *Housingwire.com*. <http://www.housingwire.com/print/news/2013/05/29/new-bubble-forecasted-key-real-estate-markets>

Also, home prices are estimated to rise 5 to 6 percent in 2013 and 2014, based on the FHFA index presented in Figure 5 above.³⁸ Similarly, the number of sales of existing homes has been gradually and steadily increasing since July 2010 when the number of sales was at its lowest since January 2010, as illustrated in Figure 6 below.

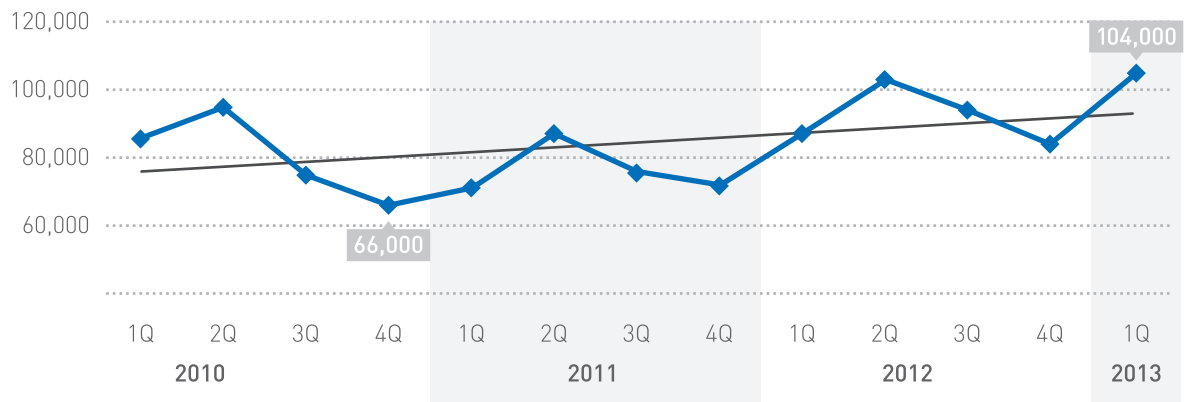
Figure 6: Number of Existing Home Sales in the U.S., January 2010 to March 2013



Source: National Association of Realtors (2013). <http://www.realtor.org/topics/existing-home-sales>

Along the same lines, the number of new homes sold from the first quarter 2010 to the first quarter 2013 has gradually increased, reflecting more homes sold during the second quarter and fewer homes sold during the fourth quarter each year, unsurprisingly. Figure 7 below illustrates these insights. New home sales are estimated to increase up to 25 percent in 2013 compared to 2012.³⁹

Figure 7: Number of New Homes Sold in the U.S., First Quarter of 2010 to First Quarter of 2013



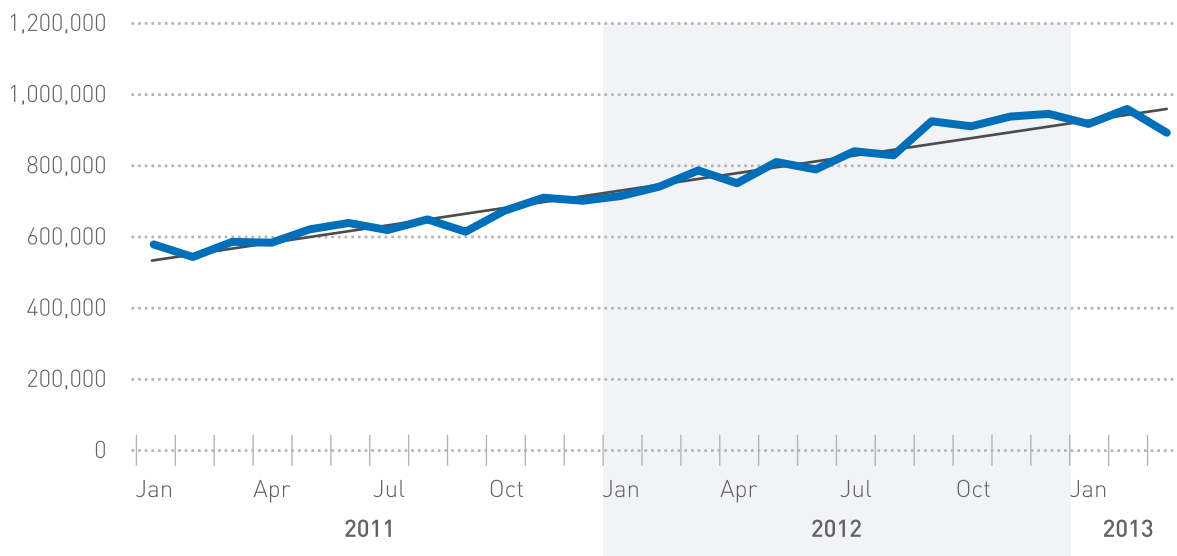
Source: U.S. Bureau of the Census (2013). <http://www.census.gov/construction/nrs/pdf/newressales.pdf>

38 B. Collins (2013, June 14). Economists See Strong Housing Recovery Going Forward. National Mortgage News. <http://www.realtyusagroup.com/wordpress/?p=384>

39 Collins (2013).

Similarly, over the past two years or so, the number of authorizations for new homes has gradually and steadily increased, from the low point of 542,000 issued authorizations in February 2011 to a recent high point of 952,000 issued authorizations in February 2013, as shown in Figure 8 below. Also, residential construction is estimated to grow by 15 percent in both 2013 and 2014.⁴⁰

Figure 8: New Privately Owned Housing Units Authorized in Permit-Issuing Places, January 2011 to March 2013



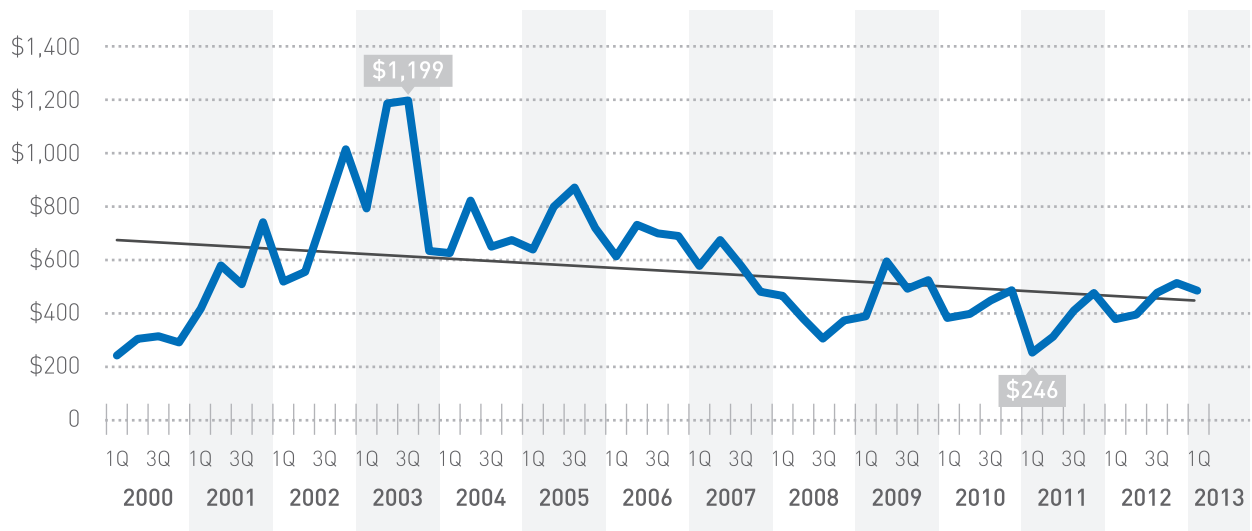
Source: U.S. Bureau of the Census (2013). <http://www.census.gov/construction/nrc/pdf/newresconst.pdf>

In sum, the four indicators discussed above, that is, the house price appreciation rate, the number of existing home sales, the number of new homes sold, and the number of housing unit authorizations, have been positive, as indicated with positive trend lines. While all these insights point to a recovering housing market, important qualifiers need to be considered. First, mortgage originations, especially purchase originations, have not increased in the mid- and long-run; second, the high proportion of investor purchases presents a mixed picture for the housing market and many communities; third, mortgage credit has remained tight; and fourth, the proportion of mortgages underwater is relatively high. These four indicators are further discussed below.

While mortgage originations have witnessed a generally positive trend since the first quarter of 2011 (when only a total of \$246 billion mortgages were originated), the overall trend line since 2000 (or 2007 or 2009) has been and continues to be negative.

⁴⁰ Collins (2013). See also J. Smialek (2013, June 18). Housing Starts Probably Rose in May as U.S. Expansion Gets Boost. Bloomberg.com. <http://www.bloomberg.com/news/2013-06-18/housing-starts-probably-rose-in-may-as-u-s-expansion-gets-boost.html>

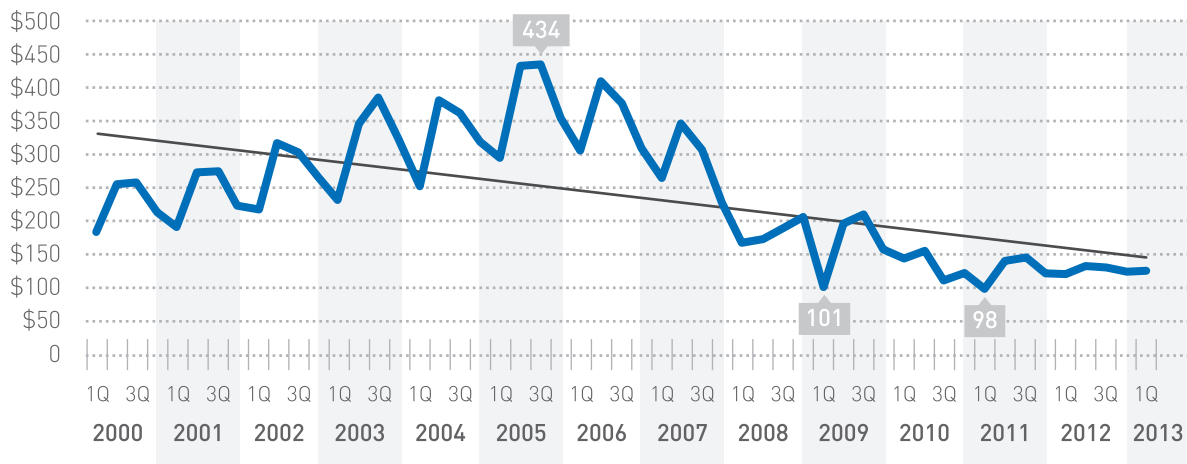
Figure 9: Total Mortgage Originations for 1 to 4 Family Units (in Bil. \$), First Quarter 2000 to First Quarter 2013



Source: Mortgage Bankers Association (2013). <http://www.mbaa.org/ResearchandForecasts/ForecastsandCommentary>

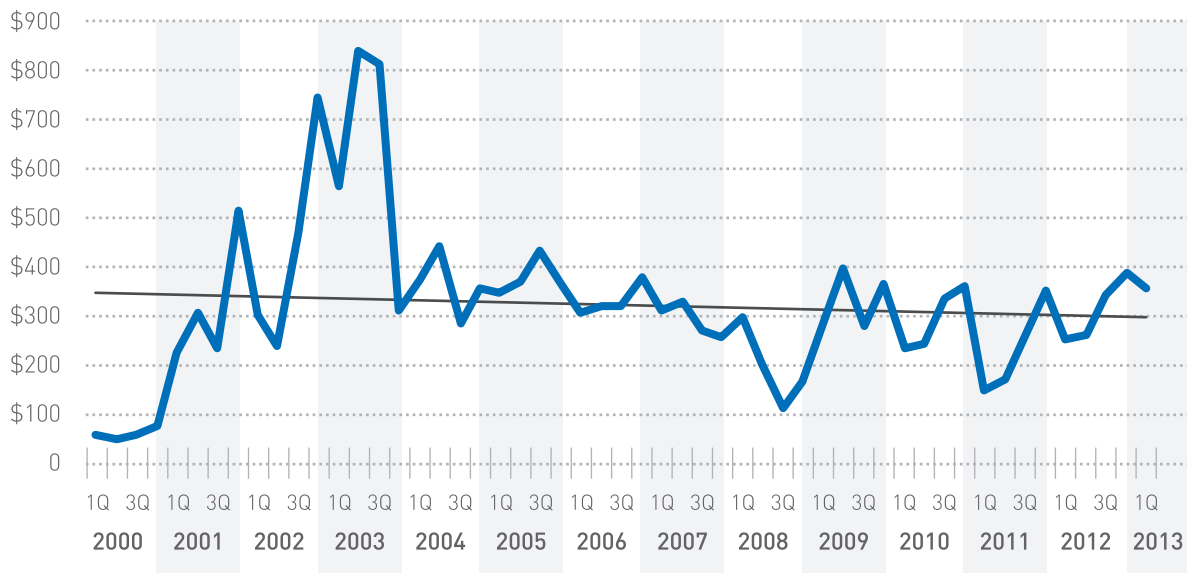
Differentiating between purchase and refinance mortgages for the same time frame, the overall trend line for purchase mortgages has been negative and quite steep (see Figure 10 below), whereas the overall trend line for refinance mortgages has been negative yet almost flat (see Figure 11 on the next page).

Figure 10: Purchase Mortgage Originations for 1 to 4 Family Units (in Bil. \$), First Quarter 2000 to First Quarter 2013



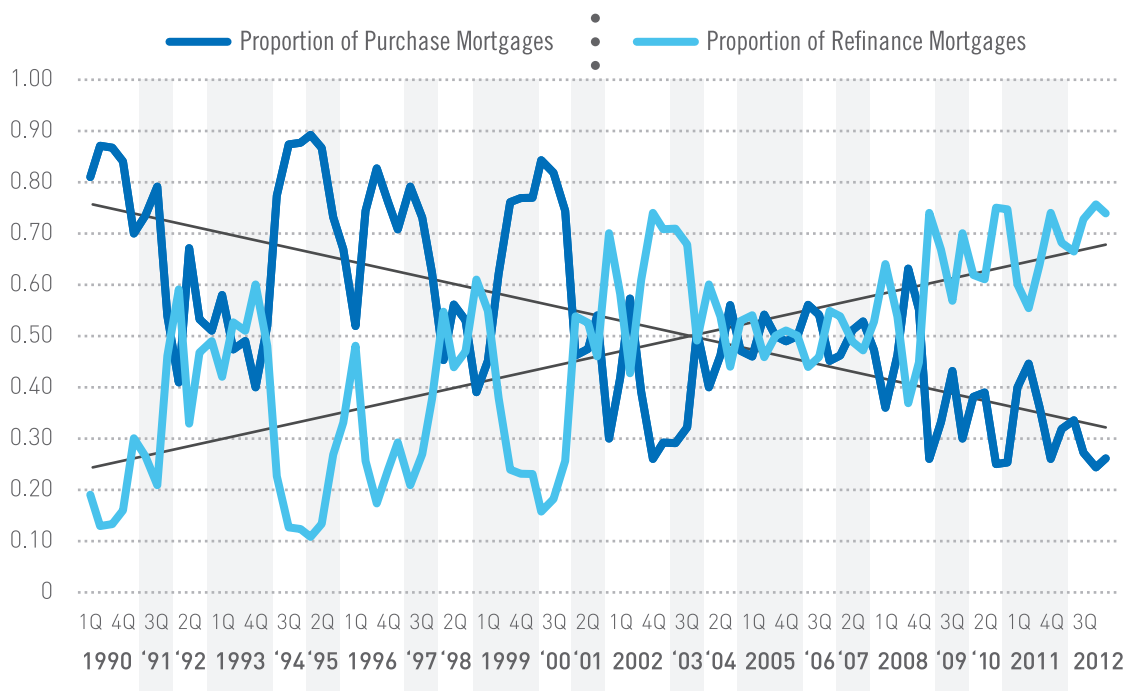
Source: Mortgage Bankers Association (2013). <http://www.mbaa.org/ResearchandForecasts/ForecastsandCommentary>

Figure 11: Refinance Mortgage Originations for 1 to 4 Family Units (in Bil. \$), First Quarter 2000 to First Quarter 2013



Source: Mortgage Bankers Association (2013). <http://www.mbaa.org/ResearchandForecasts/ForecastsandCommentary>

Figure 12: Proportions of Purchase vs. Refinance Mortgages of Total Mortgages Originated (in Bil. \$), First Quarter 1990 to First Quarter 2013



Source: Mortgage Bankers Association (2013). <http://www.mbaa.org/ResearchandForecasts/ForecastsandCommentary>

As shown in Figure 12 above, over the past two decades the proportion of purchase mortgages has declined, from about 70 to 80 percent in the early 1990s to about 20 to 30 percent in the early 2010s. During that same period, the proportion of refinance mortgages has increased, from about 20 to 30 percent in the early 1990s to about 60 to 70 percent in the early 2010s.

Refinancing helps borrowers to lower their monthly mortgage payments, avoid upward interest rate resets in adjustable rate loans, and obtain low interest rates for new purchases. But the paucity of purchase originations does not bode well for a robust and sustainable housing market recovery. In fact, the majority of loans to first-time homeowners and borrowers of color are now insured by FHA.⁴¹ Yet, households of color alone will constitute 70 percent of net household growth between 2010 and 2020.⁴²

Second, despite the recent increase in house prices, much of the gain is attributable to the high proportion of investor purchases.⁴³ In many urban neighborhoods across the United States 75 to 90 percent of all buyers are investors.⁴⁴ Nationally, 68 percent of “damaged homes” sold in April went to investors, while only 19 percent went to first-time homebuyers.⁴⁵ In the Phoenix metropolitan area, for example, 45 percent of all buyers were absentee buyers in 2009, many of them small investors.⁴⁶ While absentee landlord rental properties have long been a concern to local governments and community development corporations (CDCs), the recent wave in investor activity shows that a large proportion of purchases is made in distressed neighborhoods and that most purchases are made for properties with one to four units, causing potential management issues due to the scattered location of these investment properties.⁴⁷

While investors contribute to purchasing activity in the housing market, possibly putting a floor under the housing market, they might also distort the market by purchasing homes that are not reflective of market demand by homebuyers, who are typically associated with market demand for homes.⁴⁸ Investors may also crowd out first-time homebuyers, including African Americans and other people of color, as the former group may be prepared to pay with cash or provide proof of readily available financing, which might require time for a typical homeowner to secure.⁴⁹ Further, investors that can pay cash can pay the asking price for homes and avoid home appraisals to validate the prices. This can distort prices either in an upward or downward direction. Finally, since investors purchase homes solely to make a profit, they may be more prone to dump properties when expected returns do not meet expectations and further distort home prices. A key unanswered question is what will happen to the housing market when investors start selling these properties?⁵⁰

Third, mortgage credit outside of FHA has remained tight and has been difficult if not impossible to access for many households, including African Americans and other borrowers of color as well as first-time borrowers. The current mortgage freeze can be partly attributed to lenders now

41 E. Szymanoski, W. Reeder, P. Raman, and J. Comeau (2012). *The FHA Single-Family Insurance Program: Performing a Needed Role in the Housing Finance Market*. Washington, DC: U.S. Department of Housing and Urban Development. http://www.huduser.org/publications/pdf/FHA_SingleFamilyIns.pdf

42 The Joint Center for Housing Studies of Harvard University (2012). *The State of the Nation's Housing 2012*. Cambridge, MA: The Joint Center for Housing Studies of Harvard University. http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2012_bw.pdf

43 J. Brinkmann (2008). *An Examination of Mortgage Foreclosures, Modifications, Repayment Plans and Other Loss Mitigation Activities in the Third Quarter of 2007*. Washington, DC: Mortgage Bankers Association. A. Haughwout, D. Lee, J. Tracy and W. van der Klaauw (2011). *Real Estate Investors, the Leverage Cycle, and the Housing Market Crisis*. New York, NY: Federal Reserve Bank of New York. J. Gilderbloom, J. Ambrosius, G. Squires, M. J. Hanka, and Z. E. Kenitzer (2012). Investors: The Missing Piece in the Foreclosure Racial Gap Debate. *Journal of Urban Affairs* 34.5. 559-582. E. Strom and S. Reader (2013). Rethinking Foreclosure Dynamics in a Sunbelt City: What Parcel-Level Mortgage Data Can Teach Us About Subprime Lending and Foreclosures. *Housing Policy Debate* 23.1. 59-79.

44 A. Mallach (n.d.) *Meeting the Challenge of Distressed Property Investors*. Washington, DC: Center for Community Progress.

45 Popper (2013).

46 Mallach (n.d.).

47 Mallach (n.d.) and Popper (2013).

48 N. Popper (2013, June 3). Behind the Rise in House Prices, Wall Street Buyers. *The New York Times DealBook*. <http://dealbook.nytimes.com/2013/06/03/behind-the-rise-in-house-prices-wall-street-buyers/?pagewanted=print&pagewanted=print>

49 J. Medina and K. Q. Seelye (2013, June 8). As Home Sales Heat Up Again, Buyers Must Resort to Cold Cash. *The New York Times*. <http://www.nytimes.com/2013/06/09/us/cash-is-fueling-quick-home-sales.html?pagewanted=all&r=0&pagewanted=print>

50 Popper (2013).

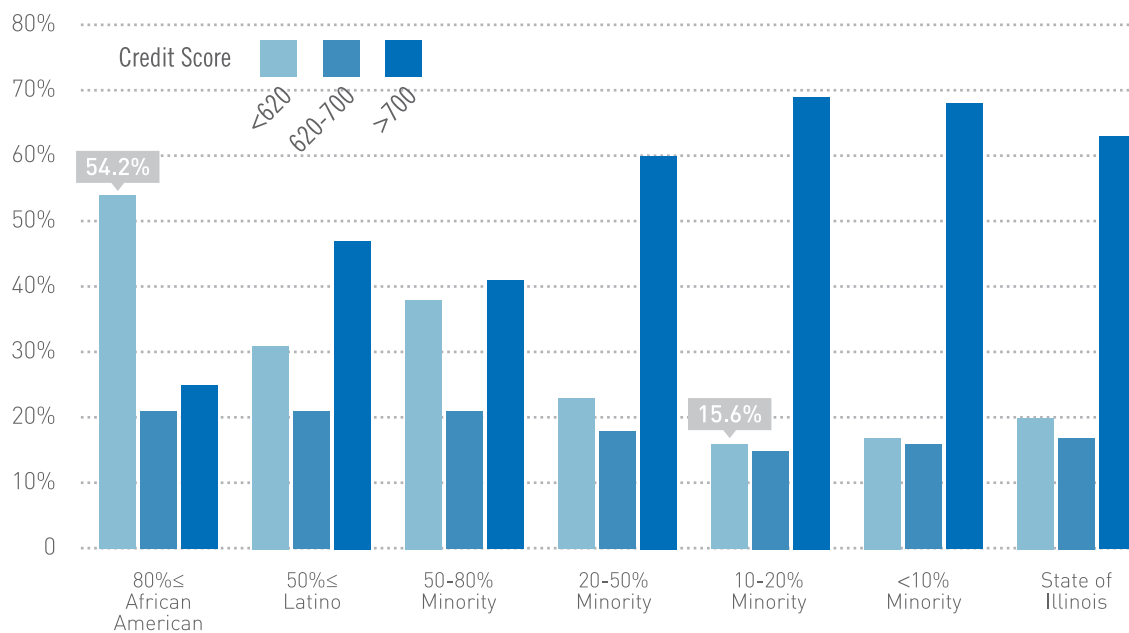
requiring relatively high FICO scores and relatively substantial down payments of at least 10, if not 20 percent, among other factors.

Fourth, as of the first quarter of 2013, 19.8 percent of all residential properties with a mortgage, or 9.7 million, respectively, were still in negative equity.⁵¹ While negative equity does not necessarily translate into delinquency or foreclosure, it may cause difficulties refinancing a mortgage. This is especially problematic if the borrower wants to accept a new job out of town.

Over the past five years or so, lenders have required higher FICO scores, effectively cherry picking borrowers with the most pristine credit profiles. Whereas in 2006 about 50 percent of mortgages had an average FICO score of 700 or higher, in 2012 about 85 percent of mortgages had this score. Phrased differently, while a FICO score of 620 was the minimum score to obtain a good mortgage before the economic downturn, a FICO score of at least 680 is now needed to obtain this type of mortgage.⁵² Average credit scores for loans backed by Fannie Mae and Freddie Mac are roughly 100 points higher, ranging from 760 to more than 780.

These requirements combined with relatively high minimum down payments (discussed above) explain why more than 60 percent of mortgages to African Americans and Latinos and more than half of mortgages to first-time homebuyers are secured through FHA. Figure 13 below shows the distribution of credit scores for different community typologies, with a different racial and ethnic mix for a five percent sample of all zip codes in the state of Illinois in June 2009. This figure illustrates that in zip codes that had 80 percent or more African Americans, 54.2 percent of consumers had a credit score of less than 620, 20.8 percent had a credit score between 620 and 699, and 25 percent had a credit score of 700 or greater.

Figure 13: Distribution of Sample Population in Different Community Typologies within Credit Score Range by Zip Code in Illinois, June 30, 2009



Source: Smith and Duda (2010), modified by authors. http://www.woodstockinst.org/sites/default/files/attachments/bridgingthegapcreditscores_sept2010_smithduda.pdf

51 CoreLogic (2013, June 12). CoreLogic Reports 850,000 More Residential Properties Return to Positive Equity in First Quarter of 2013. Irvine, CA: CoreLogic. <http://www.corelogic.com/about-us/news/corelogic-reports-850,000-more-residential-properties-return-to-positive-equity-in-first-quarter-of-2013.aspx>

52 L. S. Ranieri (2013). *Keynote Presentation: Why the Status Quo is Unsustainable. Housing Finance Reform: Is Inertia Gaining Momentum*. Washington, DC: Bipartisan Policy Center.

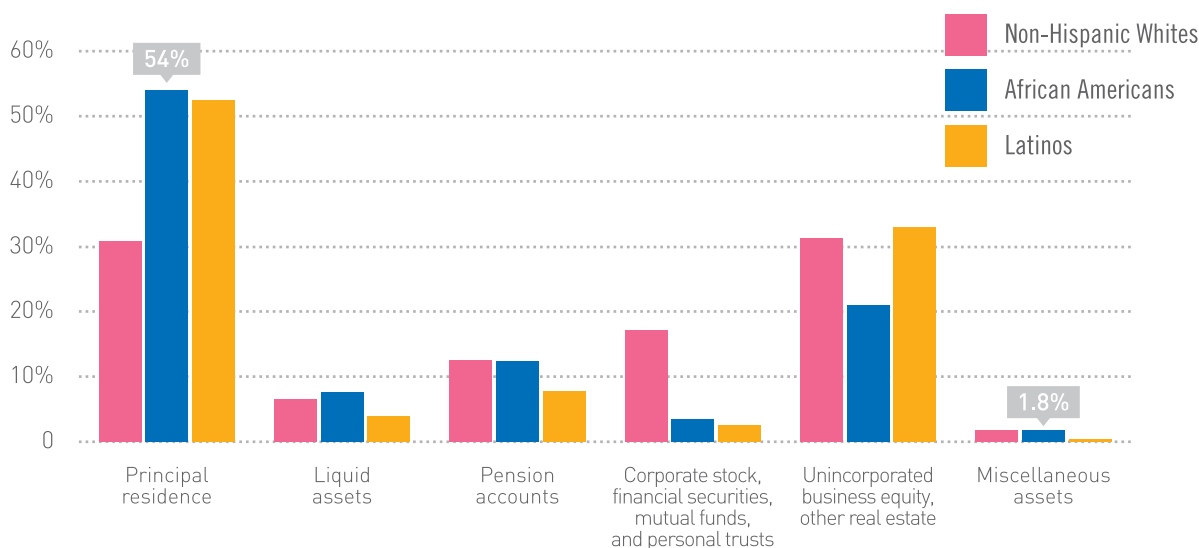
Given the current minimum threshold of a credit score of 620 yet an actual average FICO score of 700 or more, many potential homebuyers in these communities might encounter difficulties applying for a mortgage, especially a 30-year fixed-rate mortgage.

Along the same lines, over roughly the past five years, lenders have started requiring higher down payment rates of at least ten percent. Current discussions consider down payment rates of even 20 percent.⁵³ Down payment requirements in excess of 10 percent will preclude access to mortgage credit for many borrowers of color and low- and moderate-income borrowers. According to Bocian (2012), an African American median income (\$33,578, based on the 2010 American Community Survey) household would need to save 31 years for a 10 percent down payment for a house priced at the median.⁵⁴

In sum, while there has been a positive trend in terms of the house price appreciation rate, the number of existing home sales, the number of new homes sold, and the number of housing units authorized, the housing market continues to face considerable challenges on its road to recovery.

Creating a robust, affordable, and sustainable mortgage market is essential to the full recovery of the economy. As shown in Figure 14 below, owner-occupied housing is one of the largest sectors of the U.S. economy. Its contribution to the labor market is significant. For many homeowners a home makes up the largest proportion of their wealth portfolio. For many homeowners of color who have low- and moderate incomes, a home is also the largest proportion of their wealth portfolio.⁵⁵ People of color represent the greatest and fastest growing share of household growth. Thus, access to homeownership for people of color is essential for wealth building and economic recovery. Figure 14 below illustrates the composition of household wealth by race and ethnicity.

Figure 14: Composition of Household Wealth by Race and Ethnicity, 2007



Source: Wolff (2012), modified by authors. http://www.nber.org/papers/w18559.pdf?new_window=1

53 J. H. Carr, K. B. Anacker, and M. L. Mulcahy (2011). *The Foreclosure Crisis and Its Impact on Communities of Color: Research and Solutions*. Washington, DC: National Community Reinvestment Coalition. http://www.ncrc.org/images/stories/pdf/research/ncrc_foreclosurewhitepaper_2011.pdf

54 D. G. Bocian (2012). *The Negative Impact of a Government-Mandated 10 Percent Down Payment for Qualified Residential Mortgages (QRMs)*. Durham, NC: Center for Responsible Lending. <http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/QRM-10percent-issue-brief-Aug16-1-2.pdf>

55 E. S. Belsky and N. P. Retsinas (2005). *New Paths to Building Assets for the Poor*. Eds. N. P. Retsinas and E. S. Belsky. Washington, DC: Brookings Institution Press.

A COMPREHENSIVE RESPONSE TO REBUILD THE HOUSING MARKET AND THE U.S. ECONOMY

Redesign the Housing Finance System

Since the onset of the economic crises and the near-collapse of the nation's housing finance system many questions have been asked as to how to redesign the system, making it an effective, efficient, and inclusive one. Recent conversations have focused on the future of Fannie Mae and Freddie Mac, given their critical role in mortgage securitization.⁵⁶

Currently, the secondary market purchases more than 80 percent of originated mortgages.⁵⁷ In case mortgages do not meet the purchase guidelines for the secondary market, lenders may only originate mortgages at a significantly higher cost, if at all. Thus, homeownership might be more expensive for some and potentially unobtainable for others. For this reason, it is important to ensure that the secondary market of the future offers sophisticated risk-assessment models and methods in order to ensure the availability of a wide range of mortgage products to leverage superior underwriting processes and to expand lending opportunities to underserved, albeit qualified, borrowers.

Unfortunately, the majority of proposals that have been advanced to replace Fannie Mae and Freddie Mac focus on financial institutions, not borrowers, thus casting a limited role for private capital with respect to serving the needs of underserved borrowers. Indeed, many proposals explicitly reject a role for the private market to serve borrowers who can only afford relatively low down payments and who have low credit scores.

The Center for American Progress (CAP) has published a comparison of 22 proposals to reform the two GSEs, ranging from suggestions by nonprofit organizations (CAP Mortgage Finance Working Group, Brookings, Self-Help); policy makers (Campbell-Peters [H.R. 1859], Miller McCarthy [H.R. 2413], Isakson [S. 1963], Corker [S. 1834], Hensarling [H.R. 1182]); industry associations (National Association of Home Builders, Mortgage Bankers Association, American Enterprise Institute); academics and policy experts (Marron-Swagel, Hancock-Passmore [Federal Reserve Board], Zandi-DeRitis [Moody's], Millstein, NY Stern, Scharfstein-Sunderam [Harvard], Pozen); and others (Federal Reserve Bank of New York, Credit Suisse, Financial Services Roundtable, Bipartisan Housing Commission).⁵⁸ Very recently, Moody's Analytics, the Urban Institute, and Milken Institute have introduced a pragmatic plan for housing finance reform as well.⁵⁹

As part of the Home for Good campaign, The National Council of La Raza (NCLR), Opportunity Agenda, and more than 40 other nonprofit housing advocacy organizations, civil rights groups,

56 J. Millstein (2012, May 22). A Blueprint for Housing Finance Reform in America. Washington, DC: Woodrow Wilson Center. <http://online.wsj.com/public/resources/documents/WilsonCenter5.22.12.BlueprintforHousingFinanceReform.pdf>

57 L. S. Goodman (2013, May 14). Remarks. The Future of Housing Finance Conference: Managing in a Changing Environment. Washington, DC: George Washington University.

58 J. Griffin (2013). *The \$5 Trillion Question: What Should We Do with Fannie Mae and Freddie Mac? Comparison of 22 Plans to Reform Fannie Mae and Freddie Mac*. Washington, DC: Center for American Progress. <http://www.americanprogress.org/issues/housing/news/2012/08/02/12025/the-5-trillion-question-what-should-we-do-with-fannie-mae-and-freddie-mac/>

59 E. Seidman, P. Swagel, S. Wartell, and M. Zandi (2013). *A Pragmatic Plan for Housing Finance Reform*. New York, NY, Washington, DC, and Santa Monica, CA: Moody's Analytics, The Urban Institute, and Milken Institute. <http://www.urban.org/UploadedPDF/412845-Housing-Finance-Reform.pdf>

and public policy and research centers have recommend five basic principles that should be met by any major proposals to redesign the mortgage finance system, including restructuring or replacing Fannie Mae and Freddie Mac.⁶⁰ Those principles are outlined below:

- Ensure a liquid and reliable source of credit for housing in all geographies, including urban, suburban, and rural locations, and diverse products to accommodate a wide range of housing types, including co-ops, manufactured housing, senior housing, small rental structures, and energy efficient dwellings and including innovative products and services such as lease-to-own and shared equity loans and effective borrower counseling;
- Guarantee the risks involved in housing finance are fully internalized and paid for by the system (and not potentially by the American taxpayer);
- Limit excessive risk-taking (as opposed to legitimate innovation) by design and not solely by regulation;
- Affirmatively further fair housing and equal credit access; and
- Employ more sophisticated measures of credit risk appropriate to various underserved borrower groups and invest in and publicly share data and information on the effective reach of loan products by borrower and community demographic characteristics.

In response to the limited view of the role of the private market by many proposals, the Center for American Progress and National Council of La Raza have progressed beyond general goals for a newly restructured housing finance system and have developed a framework by which proposals to revamp the secondary market can be evaluated and assessed.⁶¹ Among other contributions, this work highlights research from a variety of sources that demonstrates the sustainability of flexible underwriting that should be part of the secondary market of the future. Perhaps most importantly, however, the paper highlights the need for a Market Access Fund (MAF) that would facilitate the development of innovative products and initiatives to increase homeownership by underserved borrowers. The MAF would offer grants and loan and credit enhancements and would also fund the Capital Magnet Fund and National Housing Trust Fund via a fee of less than one penny on all securitized mortgages. NAREB endorses these principles and recommendations.

The “GSE Reform Act of 2013,” introduced by Senators Bob Corker (R-TN) and Mark Warner (D-VA) on June 25, 2013, is arguably a very important legislative proposal intended to replace Fannie Mae and Freddie Mac.⁶² This bill is a bipartisan legislative initiative sponsored by Senators Heidi Heitkamp (D-ND), Dean Heller (R-NV), Mike Johanns (R-NB), Jerry Moran (R-KS), and Jon Tester (D-MT).

The bill proposes to replace Fannie Mae and Freddie Mac with a new Federal Mortgage Insurance Corporation (FMIC) that would be an independent government agency to insure mortgage backed securities issued by private financial institutions. Under the suggested legislation, the federal government would provide catastrophic insurance for the mortgage market, guaranteeing mortgages only after private investors have absorbed the first ten percent of losses.

60 J. Carr (2012). A Bolder Vision for the Secondary Mortgage Market. *Shelterforce Online*. http://www.shelterforce.org/article/2915/a_bolder_vision_for_the_secondary_mortgage_market/

61 Center for American Progress and National Council of La Raza (2013, June 5). Making the Mortgage Market Work for America's Families. Washington, DC: Center for American Progress and National Council of La Raza. <http://www.americanprogress.org/wp-content/uploads/2013/06/AccessAffordHousing1.pdf>

62 Bob Corker (2013, June 25). Banking Committee Senators Garner Broad Support for Bipartisan Housing Finance Reform Bill. Washington, DC: Bob Corker, U.S. Senator for Tennessee. <http://www.corker.senate.gov/public/index.cfm/2013/6/banking-committee-senators-garner-broad-support-for-bipartisan-housing-finance-reform-bill>

There are many strong points to this introduced legislation including, among others, the fact that it is a bipartisan legislative proposal that envisions explicit federal government catastrophic risk insurance; a single government-managed secondary market insurance platform; direct access to this platform by small and large lenders; and the establishment of the MAF to finance subsidized housing initiatives and to provide credit enhancement for mortgages to make homeownership possible for underserved borrowers and to support subsidized affordable housing production.

The bill, however, has notable weaknesses. In June 2013, a coalition of 25 organizations, led by the Center for American Progress, drafted a list of concerns with the proposed legislation. Most importantly, the proposed legislation does not promote affordable lending as a major goal despite the inclusion of the MAF. Interestingly, the bill envisions an even more restrictive lending market than currently exists, requiring that all mortgages meet the recently implemented QM regulation in addition to a five percent down payment minimum. In fact, QM, as currently written, does not establish a minimum down payment.

The proposed five percent down payment hurdle is particularly problematic for African American and Latino households, who typically purchase homes with less than five percent down payment.⁶³ The combination of the suggested QRM standard, the five percent minimum down payment, the lack of an explicit duty to serve (borrowers protected under Federal civil rights laws) requirement, and the lack of affordable housing goals (as required under current law by both Fannie Mae and Freddie Mac) will likely result in the loss of a substantial share of mortgages to underserved borrowers, despite the presence of the MAF.

Other challenges with the bill include an excessive proposed level of capitalization, the lack of an adequate funding formula for the MAF, the lack of an adequate management structure for rental housing finance activities, the burdensome requirement for all governing board members (rather than just its director) to be confirmed by Congress, a proposed governance structure that does not include consumer protection or community lending advocates on its governing board, and other operational details.⁶⁴

Ensure Adequate Credit for Rental Housing

Given that the principal focus of housing finance reform is on the restructuring of Fannie Mae and Freddie Mac, and given the fact that these two institutions provide the major financing to the multifamily sector, restructuring the lending market must consider, simultaneously, the future of the rental market. About 35 percent of the U.S. population, or 41 million, are renters. About 50 percent of renters at all household income levels pay more than 30 percent of their income for rent. About 80 percent of extremely low-income renters, that is, those with household incomes at or below 30 percent of area median income, spend 30 percent of their income on rent while about 65 percent spend 50 percent or more.⁶⁵ A moderate rental housing cost burden of 30 percent or more might result in overcrowding or doubling up or difficulties meeting expenses related to food, transportation to work, education, or healthcare, among other expenses, while a severe rental housing cost burden of 50 percent or more might potentially result in eviction and eventual homelessness.⁶⁶

63 E. Szymanoski, W. Reeder, P. Raman, and J. Comeau (2012).

64 Center for American Progress and Allies (2013, June 26). Corker-Warner Housing Finance Bill an Important Step but Falls Short on Serving America's Families. Washington, DC: Center for American Progress and Allies. <http://www.americanprogress.org/issues/housing/news/2013/06/26/68162/corker-warner-housing-finance-bill-an-important-start-but-falls-short-on-serving-americas-families/>

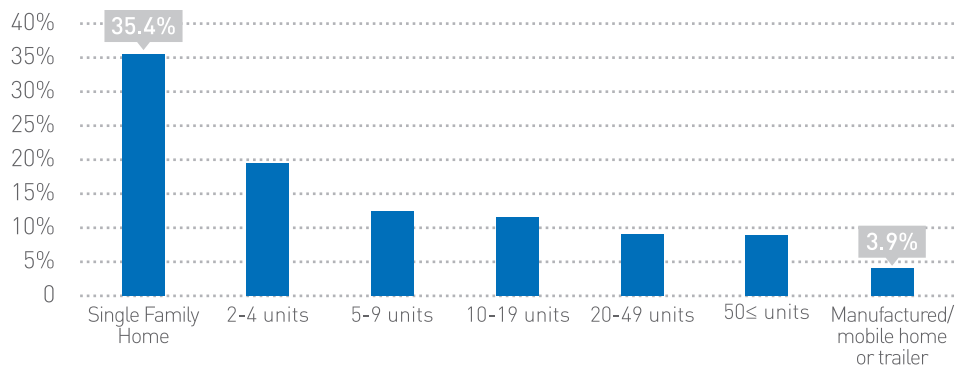
65 Housing Commission (2013). *Housing America's Future: New Directions for National Policy*. Washington, DC: Bipartisan Policy Center. http://bipartisanpolicy.org/sites/default/files/BPC_Housing%20Report_web_0.pdf

66 K. Anacker and Y. Li (n.d.). Analyzing Housing Affordability of Renters during the Great Recession, 2007 to 2009. Working Paper.

Currently, only about one in four renter households eligible for assistance actually receives it.⁶⁷ For the past years and decades, demand for affordable rental housing has been larger than supply, and some rental subsidies are often allocated through waiting lists or lotteries.⁶⁸ In the coming years and decades the number of renters is likely to grow.⁶⁹ Population gains will primarily occur among African Americans and Latinos due to relatively high fertility rates and also due to relatively high immigration rates for Latinos. These groups have moderate homeownership rates, as discussed above. In addition to these population gains, most members of the Echo Boom generation will form their own households for the first time, and many members of the Baby Boom generation will continue to downsize, thus placing even more demand on the (affordable) rental housing market.⁷⁰

As Figure 15 below illustrates, 54.85 percent of rental units are in buildings that have four units or less, dispelling the popular notion that most renters live in buildings with many units.

Figure 15: Proportion of Rental Units by Classified Units in Structure, 2011



Source: American Housing Survey (2011) <http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>

Rental properties with four units or less are financed through Fannie Mae, Freddie Mae, and the Federal Housing Administration (FHA). Thus, rebuilding the housing market through adequate credit for rental housing should focus on these market participants who provide the financial infrastructure for developers who build new and rehabilitate existing rental housing units.

The Housing Commission has several suggestions for reform, one of them a continued (but limited) role for government-guaranteed mortgage-backed securities (MBSs) to ensure adequate liquidity. This government guarantee for catastrophic risk

would cover the timely payment of principal and interest on certain MBS only in the event that the private sector credit enhancer can no longer fund its obligation to reimburse the MBS servicer for credit losses on the pool of mortgage loans underlying the MBS. [...] such a guarantee would be explicit and paid for by premiums based on sound actuarial analysis. The guarantee would apply only to the MBS and would not apply to the equity or debt of the private institutions that issue them or to any insurers of the loans or credit enhancers. Further, a new or existing public entity would be established to maintain the standards for the limited government guarantee and to collect the premiums for a guarantee reserve fund. (p. 54)⁷¹

67 E. Goetz (2013, June 12). *Housing and Marginality in the American City: At Home and on the Move in the Sub-Market*. At Home in the Housing Market. RC 43 Conference. Amsterdam/The Netherlands: University of Amsterdam/The Netherlands.

68 A. Schwartz (2010). *Housing Policy in the United States*. New York, NY: Routledge.

69 E. Goetz (2013, June 12).

70 Housing Commission (2013).

71 Housing Commission (2013).

While 54.85 percent of rental units are in buildings that have four units or less, 45.15 percent of rental units are in multifamily buildings. Thus, housing finance reform should also address units in buildings that have five units or more. The Housing Commission suggests establishing “a new catastrophic guarantee for multifamily finance predicated on the same principles as proposed for single-family finance” (p. 72). More specifically, the Housing Commission suggests the following points:

- The Public Guarantor should be charged with and authorized to provide catastrophic risk insurance for multifamily commercial mortgage-backed securities (CMBS) in return for an explicit and actuarially sound premium charged to issuers, which is designed to cover losses (after private risk-sharers absorb predominant losses) as well as the operating expenses of the Public Guarantor;
- Private firms should be the originators, servicers, credit enhancers, and issuers of multifamily mortgages and CMBS with the government backstop of MBS limited to an explicit catastrophic guarantee. The issuer/servicers and credit enhancers should be monoline entities to ensure that the capital they have is protected against other uses; and
- The interests of the Public Guarantor and its private-sector counterparties should be aligned as much as possible. (p. 72)⁷²

Recently, the Federal Housing Finance Agency (FHFA), the regulator of Fannie Mae and Freddie Mac, requested both enterprises to analyze the viability of their multifamily business absent a government guarantee. Both reports conclude that without this government guarantee, “the multifamily business of Fannie Mae and Freddie Mac have little inherent value. The reports further concludes that the sale of these businesses would return little or no value to the U.S. Treasury and to taxpayers.” (n.p.)⁷³

The assessment that “the multifamily business of Fannie Mae and Freddie have no inherent value” seems to be at odds with the facts. The government guarantee provides liquidity to the U.S. rental market that will lead to an increased number of rental units, an increased number of rental units that are better maintained, and rents that are either more stable or potentially even lower. Also, the government guarantee would provide a countercyclical role, keeping money flowing in the rental housing finance market during times when investors hold back.

In 2007, for example, just prior to the economic crises, the GSEs provided the infrastructure for less than 30 percent of multifamily loan originations, while by 2009, in the midst of the economic crises, they provided assistance for 85 percent of these originations. Furthermore, the multifamily business has been both low-risk and profitable for the GSEs, including the taxpayer.⁷⁴ Interestingly, the FHFA very recently suggested reducing the amount of the unpaid principal balance relative to 2012 “by at least 10 percent by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportions of the Enterprises’ retained risk.” (p. 2)⁷⁵

The current discussions on multifamily housing finance reform occur during a time frame when nominal and real rents have increased while household incomes for most households have lagged

⁷² Housing Commission (2013).

⁷³ Federal Housing Finance Agency (2013, May 3). FHFA Releases Fannie and Freddie Reports on Viability of Their Multifamily Businesses without Government Guarantees. Washington, DC: Federal Housing Finance Agency. <http://www.fhfa.gov/webfiles/25162/PRMF050313final.pdf>

⁷⁴ A. Jakabovics and J. Griffith (2013, May 8). America’s Renters Need a Government Guarantee. *American Banker*. <http://www.americanbanker.com/bankthink/americas-renters-need-a-government-guarantee-1058931-1.html?zkPrintable=true>

⁷⁵ Federal Housing Finance Agency (2013). *Conservatorship Strategic Plan: Performance Goals for 2013*. Washington, DC: Federal Housing Finance Agency. <http://www.fhfa.gov/webfiles/25023/2013EnterpriseScorecard3413.pdf>

behind. As discussed above, a moderate or severe rental housing cost burden will pose issues for households in terms of food, transportation to work, education, healthcare, or other expenses.⁷⁶ Thus, multifamily housing finance reform must be addressed in concert with the overall restructuring of the housing finance system.

Establish a Housing and Community Infrastructure Bank

The recent economic crises have not only resulted in high proportions of foreclosures and unemployment rates and enormous amounts of wealth lost, as discussed above, but also in a steep drop in state and local government tax revenue from the following sources: property tax revenues; transfer tax revenues; sales tax revenues; and personal income tax revenues.⁷⁷ From 2005 to 2009, about \$15 billion in revenues have been foregone, about two percent of the total state own-source revenues in 2005.

These revenue losses are particularly acute in communities that continue to experience high levels of unemployment and concentrations of vacant and abandoned properties. Having access to a fund that would allow for the rehabilitation of existing or new construction of single and multifamily properties, as well as broad-based neighborhood redevelopment, and would also enable communities to leverage housing and infrastructure investments to create jobs as well as a more attractive, safe, and livable environment could serve as the cornerstone of major economic revitalization of cities and towns across the nation. The Opportunity Agenda has proposed the creation of a Housing and Community Infrastructure Bank along these lines.⁷⁸ The Center for American Progress has also advocated the benefits of an infrastructure bank.⁷⁹

In fact, decreases in state and local revenues have resulted in billions of dollars of unmet routine infrastructure needs.⁸⁰ Over the past several decades, much of the nation's infrastructure has been aging rapidly and has been in dire need of repair or replacement. This trend has not only gradually continued but worsened due to the Great Recession. The American Society of Civil Engineers (ASCE) argues that “infrastructure is the foundation that connects the nation's businesses, communities, and people, driving our economy and improving our quality of life. For the U.S. economy to be the most competitive in the world, we need a first class infrastructure system [...]. Yet today, our infrastructure systems are failing to keep pace with the current and expanding needs, and investment in infrastructure is faltering” (ASCE, 2013, n.p.).⁸¹

Thus, long-term costs to upgrade essential facilities increase, while the ability to leverage infrastructure construction to lower unemployment is lost. To address this, a mechanism to jump start investment in local and regional infrastructure should be established in the form of a housing and community infrastructure bank, defined as “a wholly-owned government entity run by appointees [that] would supplement – and to some degree replace – the appropriations system we have now. It would be different in two ways: First, the selection of projects would be more focused and methodical. And secondly, the financing would be more varied, more privatized, and potentially unique to each project” (Berg, 2010, n.p.).⁸²

76 Anacker and Li (n.d.).

77 B. Lutz, R. Molloy, and H. Shan (2010). *The Housing Crisis and State and Local Government Tax Revenue: Five Channels*. Washington, DC: Federal Reserve Board. <http://www.federalreserve.gov/pubs/feds/2010/201049/201049pap.pdf>

78 See, for example, J. H. Carr (October 22, 2012).

79 K. Miller, K. Costa, and D. Cooper (September 2012). *Creating a National Infrastructure Bank and Infrastructure Planning Council: How Better Planning and Financing Options Can Fix Our Infrastructure and Improve Economic Competitiveness*. <http://www.americanprogress.org/wp-content/uploads/2012/09/InfrastructureBankReport.pdf>

80 J. Eberly (2012). Remarks by Assistant Secretary for Economic Policy Jan Eberly Before the Urban Institute. Washington, DC: Urban Institute. <http://www.treasury.gov/press-center/press-releases/Pages/tg1588.aspx>

81 American Society of Civil Engineers (2013). *2013 Report Card for America's Infrastructure*. Reston, VA: American Society of Civil Engineers. <http://www.infrastructurereportcard.org/a/#p/overview/executive-summary>

82 N. Berg (2010). *Defining a National Infrastructure Bank*. Planetizen.com <http://www.planetizen.com/node/47223>

This bank could support comprehensive rebuilding in three key categories:

- Housing rehabilitation and new construction for both owner-occupied and rental units;
- Rental and commercial space; and
- Infrastructure projects in water and environment, transportation, public facilities, and energy.

Investing in infrastructure could create important efficiencies to the economy, promote green jobs, improve the environment, and provide needed targeted employment and training opportunities, especially in African American communities. Research by the Economic Policy Institute finds that construction work would disproportionately fit the employment skills and experience of African Americans and Latinos.⁸³

Due to the high, fixed administrative costs associated with an infrastructure bank, they are generally designed for a minimum project size in the \$50 to \$100 million range, with special \$25 million minimums for rural projects. The funding structures to be utilized to finance the subject infrastructure in targeted areas should be flexible and provide for both government and private sector involvement and opportunities for both state and local direction, as well as certain necessary federal controls. Funding vehicles could be tax preferred bonds and a revolving credit facility.

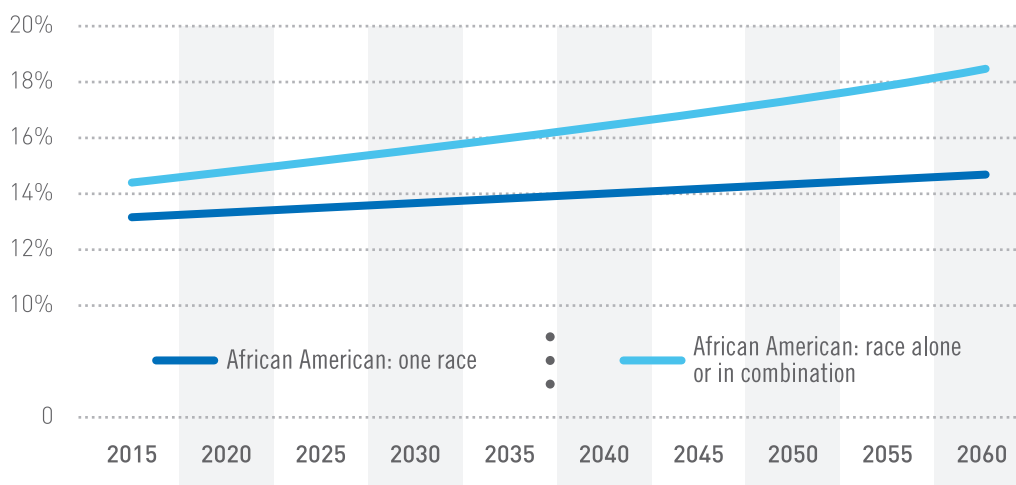
An additional attractive feature of infrastructure banks is that they can provide value beyond their financing role. For example, banks can also provide a consulting role to public-private partnerships, providing information on various grant and loan programs a project may be eligible for and shepherding projects through federal, state, and local regulations.

83 A. Austin (2013). *Infrastructure Investments and Latino and African American Job Creation*. Washington, DC: Economic Policy Institute. <http://www.epi.org/publication/infrastructure-investments-latino-african/>

THE MARKET POWER OF THE AFRICAN AMERICAN COMMUNITY

African Americans are a large and growing economic power in the United States. The proportion of African Americans in the U.S. population is projected to increase over the next few decades. This proportion is expected to increase from 13.23 percent in 2015 to 14.71 percent in 2060; in case of African Americans with one race or in combination with other races, the proportion is projected to increase from 14.39 percent to 18.41 percent during the same time frame, as illustrated in Figure 16 below.

Figure 16: Proportion of African Americans of the U.S. Population, 2015 to 2060

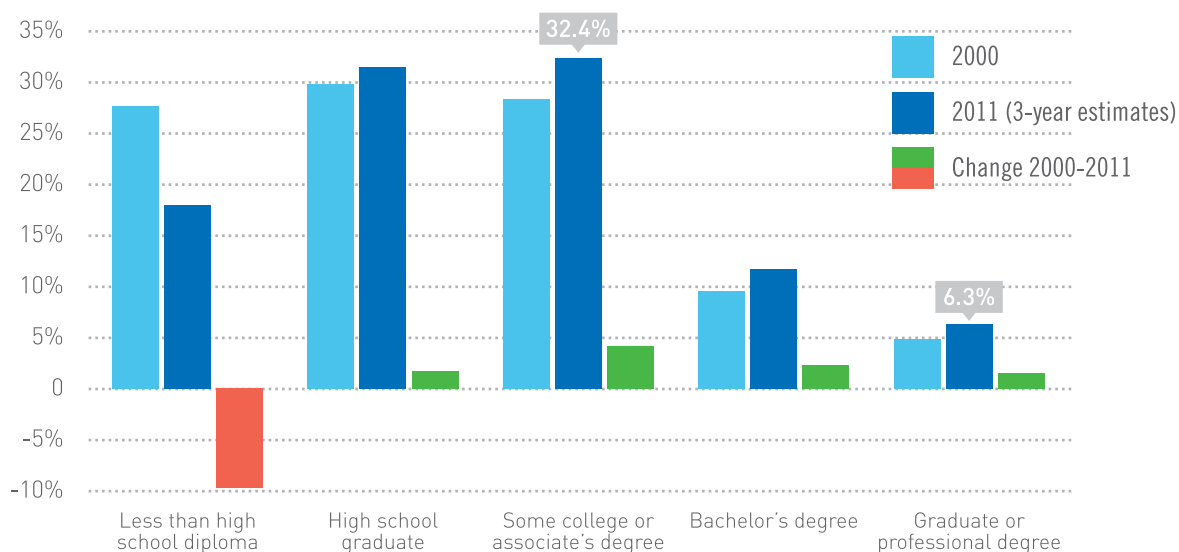


Source: U.S. Bureau of the Census (2012). <http://www.census.gov/population/projections/data/national/2012/summarytables.html>

Over the past decade or so educational attainment of African Americans has increased. While the proportion of African Americans over the age of 25 who did not obtain a high school diploma has decreased from 27.74 percent in 2000 to 18 percent in 2011, a decrease of 9.74 percentage points, it has increased in the “some college or associate’s degree” category from 28.25 percent in 2000 to 32.40 percent in 2011, an increase of 4.15 percentage points. These changes are illustrated in Figure 17 on the next page.

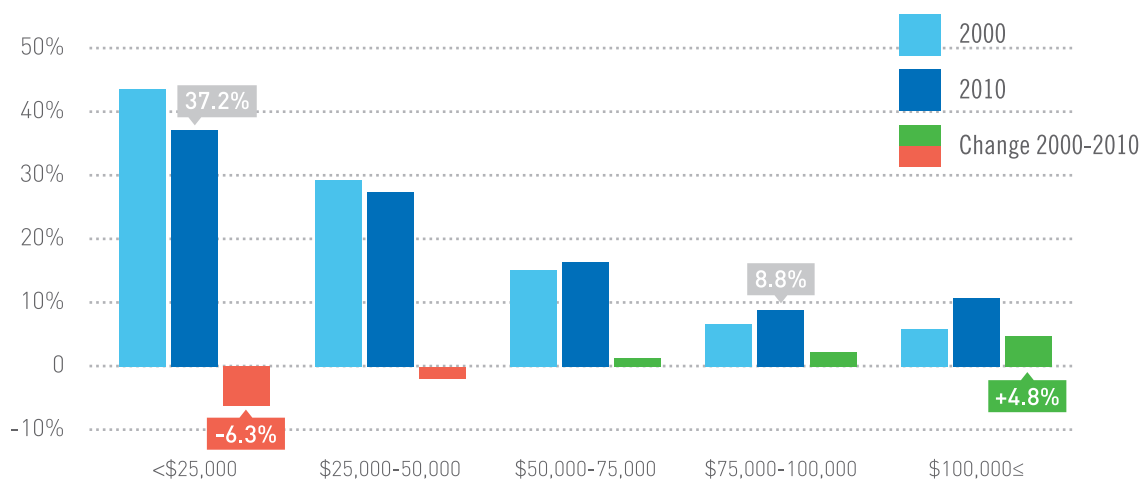
Within the same time frame, the proportions of African Americans in lower income categories have decreased while they have increased in higher income categories. More specifically, the proportions have changed from 43.47 to 37.17 percent in the income category of less than \$24,999, a decrease of 6.30 percentage points, and from 24.81 to 23.07 percent in the category from \$25,000 to \$49,999, a decrease of 1.74 percentage points. Interestingly, the proportions have changed from 6.63 to 8.82 percent, an increase of 2.19 percentage points, in the category \$75,000 to \$99,999, and from 5.81 to 10.58 percent, an increase of 4.77 percentage points, in the category of \$100,000 or more. Figure 18, also on the next page, illustrates these patterns.

Figure 17: Educational Attainment of African Americans, 2000 to 2011



Source: U.S. Bureau of the Census (2013). <http://factfinder2.census.gov/>

Figure 18: Household Income Categories for African Americans, 2000 to 2010



Source: U.S. Bureau of the Census (2013). <http://factfinder2.census.gov>

“With a buying power of nearly \$1 trillion annually, if African Americans were a country, [they would] be the 16th largest country in the world.”⁸⁴ Moreover, “the U.S. Black population is 43 million strong. Larger than 163 of the 195 countries in the world, including Argentina, Poland, Canada and Australia.”⁸⁵ In sum, the increasing population and the increasing household incomes for some African Americans translate into an increased buying power in the African American community. These income gains could be translated into homeownership and other wealth building opportunities that should be facilitated by public policy.

84 Countries that rank above the purchasing power of African Americans are the United States, China, Japan, India, Germany, Russia, United Kingdom, Brazil, France, Italy, Mexico, South Korea, Spain, Canada, and Indonesia. Nielsen (2011). *The State of the African-American Consumer*. Arlington, VA: The Nielsen Company. <http://www.nielsen.com/us/en/reports/2011/state-of-the-african-american-consumer.html>

85 Nielsen (2012). *African-American Consumers: Still Vital, Still Growing*. Arlington, VA: The Nielsen Company. <http://www.nielsen.com/us/en/reports/2012/african-american-consumers--still-vital--still-growing-2012-repo.html>

CONCLUSION

Over the past decades, the African American community has faced several crises that have and will continue to have vast effects on the opportunities, well-being, and wealth-building potential of current and future generations. Nevertheless, the African American community continues to grow and has an enormous purchasing power that should not be overlooked. Moreover, many of the economic challenges faced by African Americans are similar if not identical to those faced by America's Latino community. Together, these populations will constitute more than half of all new household formation over the coming decade. And they will increasingly grow as a share of the nation's labor force.

Furthermore, in spite of the recent economic crisis homeownership will likely continue to be the number one wealth building tool for the typical American family for decades to come. As a result, it is imperative to rebuild the housing finance system in a manner that enables it to serve the mortgage finance needs of a diverse America.

Moreover, it is essential for public policy to recognize the enormous damage that has occurred at the household and community levels. Many potential borrowers today have lost the limited wealth they once had or have badly impaired credit scores directly as a result of having accessed a reckless and irresponsible mortgage loan product that forced them into foreclosure. Yet despite that tragedy, many of those borrowers remain strong candidates for sustainable homeownership. Moreover, millions of creditworthy families, particularly African Americans and Latinos, who have never failed on a mortgage loan, nevertheless have modest wealth and lower-than-average credit scores. These families also deserve the chance at homeownership.

Finally, communities that have been damaged by both the foreclosure crisis and high levels of unemployment need help to rebuild. Housing and related community investment activity has traditionally been leveraged to both improve the quality of housing in America and provide solid employment and jobs for those who need it. Rebuilding from the rubble of the current crisis will require well-funded and thoughtfully designed programs and initiatives. The African American community must demand attention and action from the nation's policy leaders to help communities and families damaged by the Great Recession to recover from the enormous damage that has been done.

APPENDIX

National Association of Real Estate Brokers, Inc. (NAREB) Background, History, and Affiliates

The National Association of Real Estate Brokers, Inc. (NAREB) was founded in Tampa, Florida, in 1947 as an equal opportunity and civil rights advocacy organization for African American real estate professionals, consumers, and communities in an overtly racist America. Our purpose remains the same today in a covertly racially and economically discriminatory America, but we are more focused on economic opportunity than civil rights. Although composed principally of African Americans, the REALTIST® organization embraces all qualified real estate practitioners who are committed to achieving our vision, which is “Democracy in Housing.”

Local Black professional and real estate groups began forming in northern and southern communities in the 1880s. Most became members of the National Business League (NBL), founded by Booker T. Washington in the early 1900s. The NBL became the first advocacy association for Black national business trade organizations. Booker T. Washington was a noted businessman, educator, real estate investor, and advisor to several U.S. Presidents from the 1890s to the 1950s. Two local NAREB boards, founded in the 1920s in Harlem (NYC) and Dearborn (Chicago), represent the oldest, continuously active REALTIST® organizations that came out of the NBL and predate NAREB.

NAREB has played varying influential roles in the implementation of equal rights, fair housing, equal opportunity, and community development legislation at the local, state, and federal levels since its founding. Some significant policy achievements of NAREB were the first local fair housing legislation in 1962 in New York City, the first state fair housing legislation in 1963 in California, and the first national fair housing legislation in both 1947 and 1968. It was the 1963 California legislation that propelled NAREB into national prominence.

Specifically, after the 1963 Byron Rumford Fair Housing Act became law when signed by then Governor Edmund Gerald “Pat” Brown, Sr., the California Association of Realtors, backed by the National Association of Realtors, launched a successful ballot initiative campaign to overturn the law. The California Supreme Court struck down the ballot initiative, calling its results discriminatory and, therefore, against the California constitution. California REALTISTS® played the leading role in opposing the ballot initiative and arguing against it in the California Supreme Court. Although African Americans had been granted permission to join realtor organizations in many states, including California, the failed realtor effort exposed the discriminatory culture.

Other significant REALTIST® involved legislative achievements include the creation of HUD in 1964, the Voting Rights Act of 1965, the Community Reinvestment Act of 1977, the FIRREA in 1989, and establishing affordable housing goals for Fannie Mae and Freddie Mac in 1992, as well as the updates to each of these laws and the implementation of many associated new laws, regulations, and presidential orders to the present date. NAREB has a strong social activist history and culture of vigorously supporting equal opportunity and fair treatment in the real estate and community development marketplaces for African Americans. REALTIST® marketplaces, urban and rural, have changed from places to be avoided by non-Blacks to places of choice for most income, age, and ethnic/racial segments of American society, making them some of the most attractive real estate investments, workplaces, and cultural lifestyle areas in America.

NAREB continues to open doors that otherwise would remain closed to African American professionals and/or consumers. NAREB continuously strives to preserve and enhance its industry and community image with local and national government, business, and consumer interest organizations focusing on real estate and community development issues. We focus our professional practices on serving the needs of the underserved.

NAREB is comprised of its affiliate organizations: The National Society of Real Estate Appraisers (1956), Real Estate Brokers Management Institute (1968), The Women's Council of NAREB (1969), The Mortgage Bankers/Brokers Institute (1968), United Developers Council (1974), Commercial Industrial Division (1985), NAREB Investment Division (1986), Contractors' Division (1987), Sales Division (1987), Housing Counselors (1994), the Young REALTIST® Division (1998), the NAREB NATPAC (2010), and State of Housing in Black America (SHIBA) (2011). NAREB, through its University of Real Estate, founded in 1986, and each affiliate, provides professional training and education for REALTIST® members.

National Association of Real Estate Brokers-State of Housing in Black America (NAREB-SHIBA)

NAREB-SHIBA Advisory Board



Julius Cartwright
President



Lawrence Batiste
Chairman of the Board of Directors



C. Renée Wilson
Business Development Consultant
& SHIBA Coordinator



Maria Kong
Past President

NAREB-SHIBA Focus: Foreclosure Mitigation, Neighborhood Blight, Disaster Recovery

The SHIBA report's focus is to shed light, hear stories, and record the impact the housing market has had on Black communities through the eyes of REALTIST® agents, brokers, mortgage professionals, and consumers alike. SHIBA's focus is also to protect the legacy, preserve the history, and restore hope to minority communities all over the country through the development of effective solutions to the crisis. In addition to providing recommendations and solutions to stabilize minority communities, particularly as they relate the disproportionate effects on the African American community experience to: (1) foreclosure mitigation, (2) neighborhood blight, and (3) natural disasters.

The Issues Fora at the SHIBA events were designed to bring important historical and statistical data on minority housing markets to the forefront. Included in the fora were frontline perspectives and solutions from practitioners on the impact of the crisis on asset levels and wealth in African American and other communities. Effective solutions cannot be formulated without considering the impact of blight and blight eradication policies on minority communities, exclusionary policies that color disaster recovery assistance, the decreasing number of families in the Black middle class, and the increase in the percentage of Black families with no wealth.

Julius Cartwright
President, NAREB

NAREB-SHIBA Issue Forum and Post-Recession Housing Recovery Policy Paper Methodology

The primary methodology utilized to gather empirical data for this report was through a series of Issue Fora and a Post-Recession Housing Recovery Policy Press Conference. SHIBA creation evolved resulting from these series of fora with featured guests in the following locations: (1) New Orleans, LA (Wendell Pierce and Dr. Benjamin Chavis), (2) Atlanta, GA (Rev. Dr. Otis Moss, Jr.), (3) Washington, DC (Congressman Elijah Cummings and Congresswoman Eleanor Norton Holmes), and (4) Cleveland, OH (Senator Sherrod Brown). The 2012 Post-Recession Housing Recovery Policy Paper was released in Houston, TX at a press conference. Guests speakers were Congresswoman Sheila Jackson-Lee, Congressman Al Green's representative Doc Holloway, Dr. John Rudley, Dr. Wardlow, Bishop James Dixon, and Rev. Paul D. Landrew, to name a few.

During these fora various panelist shared data and information from their areas of expertise. They were as follows: Maurice Jourdain-Earl (Mortgage Compliance Tech), Dr. LaVaughn Henry (Federal Reserve Bank of Cincinnati), Paul Taylor (SRP), Cicero Wilson (SRP), Linday Jonker (Salvation Army), Keith Corbett (Center for Responsible Lending), Larry Park (Federal Home Loan Bank), Dr. Lezli Baskerville (NAFEO), and Jackie Hoyer (Federal Reserve Bank of Dallas, Texas). The fora presented detailed data on the housing crisis in Black America, including a statistical and historical overview of foreclosures in key cities, neighborhood blight, natural disasters, a discussion on emerging solutions, and a review of federal policies and the role of Historically Black College and Universities (HBCUs) in addressing the housing problems in neighborhoods near and around their institutions.

These forums identified that homeowners have been severely impacted and consumers are concerned and confused as a result of the pre- and post-financial crisis. In addition, homeowners and consumers need truthful and helpful communication to make informed decisions that will impact their quality of life today and their children's lives for generations to come. This is particularly true for African American families, whose wealth was in their homes and is now mostly lost. SHIBA determined that innovative strategies and collaborations are necessary to help create sustainable multi-generational wealth for these families. REALTISTS® are finding that the recent financial and housing crisis has further shaken and created greater uncertainty in the marketplace beyond the pre-existing challenges in reaching and educating the African American consumer about true generational wealth. Hence, NAREB's creation of the State of Housing in Black America (SHIBA) Issues Fora. The Issues Fora were not only to identify the issues but to develop effective solutions through collaboration with other community and industry partners.

NAREB believes the opportunity to impact Black America in a powerful, positive, and effective way is now. NAREB has fought for equitable and fair housing for all and is the housing expert diligently working on solutions to mitigate the foreclosure crisis that is plaguing our communities. Because the mission and values of the CBC, the Black churches, and other national organizations mirror ours in many critical areas, a partnership and collaboration is a natural progression.

C. Renee Wilson, SHIBA Coordinator

NAREB-SHIBA Affiliate Grassroots Perspectives

NID-Housing Counseling Agency Views

The foreclosure and homeownership crisis are having a disproportionate impact on minority communities across the nation. The NID-Housing Counseling Agency has faced these challenges head-on and has provided solutions. NID constantly analyzes its experiences and the research data to adjust to and advocate for possible solutions as they relate to foreclosure mitigation and maintaining and increasing homeownership.

With Congressional intervention to improve the effectiveness, efficiency, and accountability of the HUD Housing Counseling Program and creating the National Foreclosure Mitigation Counseling ("NFMC") Program, NID, along with the Urban League, Mission of Peace, HomeFree, National La Raza and others, has been extremely effective in providing the necessary services to mitigate the impact of the foreclosure crisis in the African American community. The lessons learned from NFMC are:

- 1) Housing counseling works;
- 2) Housing counseling funds are necessary to help consumer make the right choices;
- 3) To reach African American and underserved minority consumers, federal and private section programs must fund African American and minority organizations; and

- 4) African American organizations, like NID, can perform and outperform their counterparts in serving all Americans in crisis or in need of quality housing and housing counseling services.

Foreclosure Prevention, Making Home Affordable, HAMP, and African Americans

NID alone has assisted more than 40,000 families in preventing foreclosure since 2009. NID's data and the research show that race, ethnicity, gender, and income have very little impact on homeowners' direct successful participation in the Making Home Affordable-HAMP Program. The reason: NID and others who were funded by the federal government to intervene and serve African American families and communities. Nevertheless, NID's experience and data show that without the specific mandate of Congress to serve the African American community under HAMP, African Americans, Hispanics, women, and low-income people would not at least have been served in the same proportion as Whites, non-Hispanics, men, and higher-income people. Among racial groups, African Americans' share of direct HAMP activity exceeds its share of candidate borrowers at every stage but the last. For them, the positive differentials they obtain at application and trial and permanent modification stages outweigh the single small negative differential in terms of sustaining modifications. Asians' positive or neutral shares relative to Whites at every stage produce an overall positive position. Among the smaller racial groups, American Indians and Alaska Natives have positive or neutral experience compared to Whites at each state except review of eligibility for trials, and that single disadvantage is fully offset by just their positive position in trial approvals among eligible applicants for loan modifications. People of more than one race come very close to balancing between positives and negatives.

Hispanics present a slightly more mixed picture in terms of direct HAMP benefits than do populations by race. Among HAMP-eligible homeowners, their percentages of trial and permanent modifications approved are modestly smaller than for non-Hispanics. But they are more likely to be eligible, and they enter the application system more than in proportion to their share of troubled loans. Overall, Hispanics have a slender positive margin in HAMP participation through its multiple steps compared to non-Hispanics.

As a direct result of NID and other efforts, African Americans obtain more help from HAMP than do Whites in modification size (reduced payments) and in curing delinquencies and foreclosures but less help in halting foreclosure processes once begun and in sustaining cures of defaults. African Americans do benefit from HAMP in all but one of those cases, but the gains are smaller than for Whites. **Hence, there needs to be greater advocacy focus and government policy focus on servicers and halting foreclosure processes once begun under HAMP.**

Ray Carlisle, President, Jacqueline Carlisle, Executive Director of NID-Housing Counseling Agency

National Society of Real Estate Appraisers Valuation (NSREA) Views

The first issue that is impacting the valuation process in urban and suburban America is based on the growth in FHA mortgages over the past five years and the underutilization of a diversified appraisal panel. According to FHA policy there is to be at least 10 percent of the appraisal completed by women and/or minorities. Based on FHA's website that reports the lenders' use of women and/or minorities, the policy has not been fulfilled for years and has also not been addressed by FHA.

The second issue is the demolition and land reutilization policies in the areas where minorities currently reside. Many communities across the country are experiencing an aggressive demolition policy that does not consider the possibility of saving homes and renovation programs. This is due to the lack of financing and/or community reinvestment by the banks in the area. While there may be an oversupply of houses in some areas, it appears that the plan to raze homes is not directional.

The third issue is the significant decrease in the number of qualified appraisers with experience in appraising property during an unstable or declining market era. The industry has experienced a 15-30 percent decline in the number of licensed appraisers in the country. The average age of the appraisers is current 60+ years and the requirements to become an appraiser have been increasing over the past five years. This situation will result in a limited number of appraisers available to value the market once there is recovery in the markets. This is further impacted by the fact that it takes five years for a training appraiser to become seasoned enough to perform at the journeyman level. Considering the complexity of appraising in unstable markets it is critical that there is a supply of trained valuers to perform appraisal services in urban and suburban markets.

The fourth issue is consumer information and/or knowledge of the valuation process and the impact that appraising has on the community overall.

Recommended Solutions:

- 1) NSREA along with NAREB should meet with the FHA concerning its policy and procedures for assuring fairness in the selection of appraisers. There should be a training program that addresses the diversity issue and FHA's written policy. This would increase the awareness that the FHA has such a policy and is monitoring the program.
- 2) NSREA and NAREB need to review the land reutilization policies across the country, specifically in areas where minorities have a significant number of homes. Based on this study, meetings with land banks and city officials should be arranged to develop policies that include NAREB/NSREA suggestions for renovating and redeveloping the communities.
- 3) NAREB and users of appraisal reports should work with NSREA in our efforts to develop programs to train the next generation of appraisers. NSREA has a program in place that seeks out high school and college students who show potential for a career in a real estate- or finance-related field. It is titled "Training the Next Generation of Appraisers." The program is designed to use current efforts of the Appraisal Foundation and other appraisal organizations to train the future appraisers to meet industry requirements.
- 4) The Appraisal Foundation and NSREA's Executive Vice President are currently implementing a Consumer Education Program that is designed to educate the public, and specifically consumers, on the appraisal process and its impact on values and the community. NAREB's SHIBA program would benefit and serve the community as part of its efforts to communicate the valuation aspects to consumers in minority areas.

David Harmon, SRA, IFA, RA, GRI, CRP
NSREA, President

United Developer's Council (UDC) Development Views

The National Association of Real Estate Brokers recognizes the challenges that small, minority, and community-based developers face through participation in the Low Income Housing Tax Credit Program (LIHTC). The LIHTC Program is an investment tool used to leverage dollars to create the capital needed to develop a project. In some cases, the credit can maximize the dollars needed, from 75-100 percent equity for the development.

We recognize that the passage of the LIHTC Bill has created a large number of affordable housing units, but it has been extremely difficult for developers to participate in the program due to the lack of liquidity or capital that tax credit investors and financial institutions require to garner these development opportunities.

The financial risk to institutions required for undercapitalized developers often eliminate small real estate developers' access to the financial mechanism (investors, banks, etc.). Small developers have insights and vested interests in their own communities as opposed to the large, disconnected investors seeking only benefits. Small developers have a stake in their communities to revitalize the environment, eliminate blight, and reduce crime. There continues to be a growing presence for small developers that can minimize the restricted fields of opportunity but are deadlocked because of the warranties and guarantees required by financial institutions.

With the overabundant rate of foreclosure, we have observed studies that contribute to 14 percent of the existing foreclosures representing investor walkouts. This consists of multifamily and rental housing developments that investors have relinquished and added to the increasing foreclosure market.

Nonprofit organizations own and control more land in small communities than any other entity that exists. This non-revenue generating land could be a great opportunity to create wealth and viability (decent, affordable housing) in our cities. The majority of current housing stock that was created years ago is approaching maturity dates and yields a high capital revitalization demand upon these developments. This stock has reached its economically useful life, thus major improvements are necessary. As a result the asset has caused a diminishing return on the land and faith-based institutions. Government and State Housing Finance Agencies need to take a more active role in aiding small developers. Technical knowledge and training is essential for better positioning so that we are not taken advantage of in this arena. An example would be that agencies would satisfy and guarantee warranties and guarantees required in the following areas:

- 1) Construction completion guarantee;
- 2) Guarantee of delivery of tax credits;
- 3) Guarantee of funded operating reserve;
- 4) Guarantee of funded repair and replacement reserve;
- 5) Guarantee for operating deficits;
- 6) Guarantee of construction and permanent loans; and
- 7) Guarantee of tax credit compliance.

Solutions

The issues discussed above are only a few of the significant stumbling blocks imposed on many developers. Based on our unique structure of human resources, NAREB would be able to supply

the training, consulting, structural components, and support. We have the land and expertise needed to advance in this field. Efforts to assist minority developers can include the following:

- 1) Creating an equity pool with major investors for purchasing tax credits and services. Certain incentives can be given to investors for their participation in equity pools.
- 2) Creating mortgage/equity pools through various lenders, therefore creating a vehicle to advance tax credit projects.
- 3) Obtaining master commitments from secondary lending institutions (e.g., Government Sponsored Enterprises) and utilizing the NAREB to serve as a conduit. Set-asides should be developed by minority developers/general partners.
- 4) Encouraging minority participation on staffs and boards of lending institutions and state housing finance agencies that affect minority communities.
- 5) Seeking immediate action from government agencies to investigate unfair lending practices for minority developers.

Our history reflects vital support by the U.S. Department of Housing and Urban Development for creating affordable housing. However, that support has been reduced for nonprofit organizations, thereby leaving small minority developers and community organizations undercapitalized. The majority of multifamily affordable properties have utilized the assistance of HUD. The number of these aging properties has created a massive reduction of support to maintain revenue-generating assets.

Clifford Turner, Past President, NAREB

NAREB-SHIBA Collaborative Partners' Call to Action

The American Dream of Homeownership Must Be Available to All Americans

Homeownership is a cornerstone of the American Dream. It is the primary way that most Americans build wealth, and this is particularly true for persons of color and low-wealth families. On average, the equity in one's home accounts for over two-thirds of the wealth that African American and Latino families possess. However, whether or not African American and Latino families can access mortgage credit in the future is now being debated in our nation's capital.

Current bills in Congress will make accessing mortgage credit more difficult for communities of color. Those bills include H.R. 1077 and S. 949—pending legislation that would open the door for abusive lending practices to return. These bills would permit loopholes in the definition of Qualified Mortgages (QM). Congress created the QM category in the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was aimed at preventing the very risky lending practices that led to our nation's housing and foreclosure crisis. QM loans are prohibited from having risky loan features because those features have a higher correlation to producing loan defaults.

One key part of the QM definition is a limit on the amount of points and fees charged to the

borrower, which aligns incentives to originate mortgages that borrowers can afford to repay instead of ones that just generate high fees paid at the outset. However, current legislation would create loopholes—including for yield spread premiums (broker kickbacks for placing borrowers in more expensive loans than for which they qualify)—in the points and fees definition, resulting in incentives to charge borrowers higher fees when they take out a mortgage. Passage of this legislation would not only undermine the Consumer Financial Protection Bureau’s implementation of a strong QM rule, but it would also increase the cost of mortgage loans for borrowers.

Additionally, both regulators and some members of Congress have proposed imposing government-mandated down payment requirements, which would significantly restrict access to credit for borrowers of color. Regulators have made this proposal as part of the Qualified Residential Mortgage (QRM) rulemaking, and legislators have proposed down payment requirements as part of FHA and secondary mortgage market reform. The effect of any one of these proposals would be to restrict access to credit by increasing the number of years that many borrowers would need to save for a mortgage and preventing other borrowers from being able to own a home at all. For example, a five percent down payment mandate would require the typical African American family to save for 28 years, and a ten percent mandate would require the same family to save for 34 years. This savings does not reflect the additional costs for closing and escrow, which often reach an added three percent for borrowers.

Imposing these government-mandated down payment requirements could deny a generation of African American and Latino households the opportunity to become homeowners, especially when one factors in that borrowers of color account for an estimated seven out of ten new households from 2010-2020. This would not only harm communities of color, but it could also depress home prices and increase default rates across the country by dramatically reducing the pool of eligible home buyers.

African American and Latino families have been disproportionately harmed by the foreclosure crisis. Thus, our communities have already suffered greatly. We should not pay the double price of being locked out of access to mortgage credit in the future. As the housing market continues to recover, the right path forward requires maintaining recent mortgage reforms and ensuring appropriate credit access.

Keith Corbett, Executive Vice President, Center for Responsible Lending

Fair Housing Trends

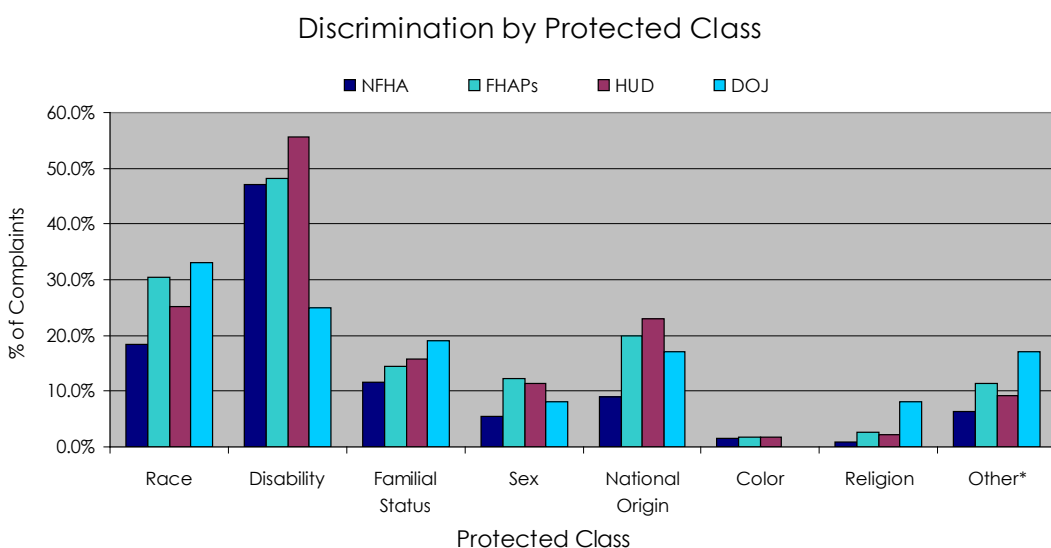
While our nation has made great strides in advancing fair housing goals and expanding equal housing opportunities, barriers still remain. More work needs to be done to ensure that those seeking housing opportunities have fair access to our nation’s housing markets. Real estate professionals have a particular role to play in advancing equal housing opportunities and affirmatively furthering fair housing.

Complaint Trends in Fair Housing and Fair Lending

In 2012, private and government fair housing agencies reported 28,519 complaints of housing discrimination in the United States, an increase of 1427 (5.267%) from the previous year.

Complaints alleging disability discrimination represented the largest basis for fair housing claims overall. However, race discrimination is the second largest basis for complaint filings, representing 18.3 percent of complaints received by private fair housing agencies, 25.2 percent of complaints received by HUD, 30.5 percent of complaints received by Fair Housing Assistance Program (FHAP)¹ agencies, and 33 percent of complaints received by the Department of Justice. Complaints based on national origin discrimination also represent a large portion of fair housing complaints as can be seen by the chart and table below.

Of the complaints reported by private fair housing organizations, 381 were reported to have occurred in home sale transactions, with the highest percentage of those complaints based on race, at 37.3 percent. HUD reported 165 sales complaints, up from 117 in 2011. FHAP agencies reported 384 complaints of sales discrimination in 2012. A protected class breakdown of HUD and FHAP complaints is not available.



Discrimination in the Marketing and Maintenance of Real Estate-Owned Properties

A number of members of the National Association of Real Estate Brokers, National Association of Hispanic Real Estate Professionals, and Asian American Real Estate Association began complaining about disparities they were witnessing firsthand regarding the way Real Estate Owned (REO) properties were being managed, maintained, and marketed.

As a result, in 2010, the National Fair Housing Alliance (NFHA) and some of its member organizations began conducting an investigation of the management, maintenance, and marketing practices of several major lenders and investors in targeted neighborhoods in 20 metropolitan areas. NFHA and 14 of its partner organizations have evaluated over 3,500 REO properties, taking into account 39 factors that contribute to the proper maintenance and marketing of each property.

REO properties in communities of color appear vacant, abandoned, blighted, and unappealing to real estate agents who might market a unit to potential homebuyers. REO properties in primarily white communities appear generally inhabited, well-maintained, and attractive to real estate agents and homebuyers.

¹ Fair Housing Assistance Program agencies are state or local government entities that have responsibility for enforcing state or local fair housing ordinances that have been deemed to be substantially equivalent to the federal Fair Housing Act.

In its 2012 report *The Banks Are Back, Our Neighborhoods Are Not*, NFHA reported on its initial findings in 9 cities. It discovered that

- REO properties in communities of color are 42 percent more likely to have more than 15 maintenance problems than REO properties in White communities.
- Trash and debris were 34 percent more likely to be found on REO properties in communities of color than on REO properties in White neighborhoods.
- REO properties in communities of color were also 82 percent more likely to have broken or boarded windows than REO properties in White communities.
- REO properties in white communities were 33 percent more likely to be marketed with a professional “For Sale” sign than REO properties in communities of color.

As a result of these findings, NFHA and its partners have filed several HUD administrative complaints against the major lenders responsible for this poor treatment of REO properties in communities of color. One of the complaints has been resolved and the others are still pending investigation with HUD.

Disparities in the maintenance and marketing of REO properties in communities of color threaten the recovery of neighborhoods most impacted by the foreclosure crisis. REO properties in communities of color with severe maintenance and marketing deficiencies are significantly more likely to be sold to investors than to owner occupants, thereby limiting the opportunities for wealth building through homeownership for a generation of people of color.

Taking Action to Combat Segregation

It is a long-standing principal in the United States to provide for fair housing throughout the country. This means that everyone, regardless of race, color, religion, national origin, sex, familial status, or disability, should have truly open access to safe, decent, and affordable housing, jobs, transportation, recreation, health care, healthy food, and the like. Given the deeply entrenched patterns of residential segregation in many parts of the country, the drafters of the Fair Housing Act recognized that this vision could only be achieved through affirmative steps taken by both public and private actors in the housing market who influence the location of and access to housing.

Thus, Sec. 3608 of the Fair Housing Act requires the Department of Housing and Urban Development, the federal agency charged with enforcing the Fair Housing Act, to administer its programs and activities in a manner that affirmatively furthers fair housing. Other provisions of the Act, along with a number of Executive Orders issued by several different Presidents, extend that duty to all federal agencies with programs relating to housing and urban (community) development. This so-called “affirmatively furthering fair housing (AFFH)” mandate had received little attention at HUD until the Obama Administration. HUD has just issued proposed new rules to clarify the steps that jurisdictions must take to identify and overcome segregation.

Realtists® have a particular interest in ensuring that HUD issues a strong regulation. NAREB was founded, in part, to combat discriminatory practices in the housing sector because NAREB’s founders realized that housing discrimination restricts markets and damages communities. The issuance of a strong and comprehensive AFFH regulation will help guarantee that Realtists® can effectively serve our customers and communities.

Fair Housing Recommendations

- 1) HUD must issue a strong and comprehensive Affirmatively Furthering Fair Housing (AFFH) regulation.
- 2) Congress should continue to support funding for the Fair Housing Initiatives Program and the Fair Housing Assistance Program at least at FY 2012 levels.
- 3) The Research Division of the Consumer Financial Protection Bureau (CFPB) must undertake research into the effects of discriminatory lending practices, and in particular the impact of the foreclosure crisis and discriminatory REO practices, on communities of color.
- 4) Realtists® and NAREB members must become more actively engaged in local efforts to identify impediments to fair housing and the AFFH process.

Shana Smith
President
National Fair Housing Alliance

THE EMPOWERMENT NETWORK

Empower Omaha • Empower North Omaha The African American Empowerment Network

Empowerment Network Mission: To transform the City of Omaha into a GREAT city, thriving and prosperous, where all citizens are engaged and empowered and have full access to the incredible opportunities that are available here.

The Empowerment Network is a collaboration of residents, elected officials, neighborhood groups, community organizations, philanthropists, educational institutions, faith communities, governmental agencies, and businesses, working together to Transform Omaha!

Vision of the Future: Omaha will be a GREAT city, in every zip code, by closing long-standing gaps in education, employment and entrepreneurship, housing, and quality of life, which have been traditionally based on race and geographic segregation.

INTRODUCTION & BACKGROUND

The Empowerment Network is a united group of leaders, residents, and organizations working to facilitate positive, measurable, and dramatic change in the Omaha community. Launched in 2006, the Network works collectively, in a coordinated and comprehensive way, to improve the economic progress and quality of life of African-Americans, North Omaha residents, and the Greater Omaha region. The movement is based on 13 Covenant Areas and a strategic plan that focuses on the empowerment of individuals, families, leaders, and organizations that serve the community.

FORMATION & FRAMEWORK

It's time to come together! That was the theme in December 2006. Earlier that year, beginning in June 2006, the Empowerment Network hosted meetings, summits, conferences, and focus groups

with residents and leaders to identify key issues and solutions. The community meetings ranged in size from 3 to over 300. The group also hosted youth summits and one-on-one meetings. The primary purpose was to gain resident and stakeholder input on issues, solutions, and priorities. This strategy continues today. The Empowerment Network made a commitment to hold monthly meetings with the community to provide updates, answer questions, provide opportunities for engagement, and periodically assess priorities and make adjustments to strategies.

Since the original meetings and launch of Empower Omaha in April 2007, the Network and North Omaha community have made significant progress on a covenant (agreement) and strategic plan (action plan) to help address issues identified by the community. George Fraser, author of *Success Runs in our Race* and *Clicking* was the keynote speaker at the public launch of the Empowerment Network. At the core of the Network are key themes that Fraser emphasizes, including African-Americans “Connecting the Dots” and “Rebuilding the Urban Village.”

The Empowerment Network and Covenant also follows the framework and model of the best-selling book, *Covenant with Black America*, produced by Tavis Smiley, with research and support from Angela Glover-Blackwell and PolicyLink. We have worked hard to gather the thoughts, ideas and involvement of our community to localize, create and implement our own action plan. We have identified issues, but have focused our attention on solutions. We have said from the beginning that we will be positive, proactive, and build partnerships.

Initially designed and launched by African-Americans and North Omaha residents, the Empowerment Network Collaboration now includes people of all races across the city, county and region. Over 500 organizations and thousands of individuals have participated. The Network model is now recognized regionally and nationally. National groups are traveling to Omaha to learn more about how they can do similar work in their own cities.

OVERVIEW

The Empowerment Network has emerged over the past six years as a catalyst for bringing together individuals and organizations to accomplish visionary and strategic objectives. The group has been successful in connecting groups and individuals from diverse backgrounds and rallying them around a common vision and mission. Significant milestones have been accomplished and the foundation is set for unprecedented collaboration and results. The Empowerment Network is a non-profit organization and received its 501 c 3 status in June 2010.

Strategies and plans have been developed in a number of areas including: community engagement; job development and training; education and youth development; business development and entrepreneurship; housing and neighborhood development; violence intervention and prevention; voter registration and participation; arts, culture, and history revitalization; and, communications and media expansion and enhancement.

The Empowerment Network is a collaboration of over 500 participating organizations and businesses, and a diverse group of individuals including elected and appointed officials, business executives, non-profit leaders, pastors and ministers, educators, violence prevention specialists, neighborhood leaders, community development experts, and residents.

The group has launched major initiatives including the Empowerment Covenant, Empower North Omaha!, Empower Omaha!, Omaha 360, North Omaha Village Zone, and the Rebuilding the Village Strategy – a comprehensive and coordinated approach to redeveloping targeted geographic areas in a holistic way.

EMPOWERMENT COMMUNITY SOLUTIONS: DO YOUR PART!

We Believe in:

- A. Personal Responsibility (Individual Covenant)
- B. Leadership Accountability (Leadership Covenant)
- C. Comprehensive Collaboration (7 Step Empowerment Plan)

We address poverty, economic and educational gaps, and quality of life disparities by Building Wealth & Income, Creating Strong Families, Preparing Successful Children, and Rebuilding Thriving Neighborhoods. Specific strategies using our experiences from the past five years are incorporated into the 7 Step Empowerment Plan. It is a holistic and comprehensive community building approach.

LEADERSHIP STRATEGIES

7 STEP EMPOWERMENT PLAN & URBAN AGENDA:

1. Employment and Entrepreneurship
2. Education and Youth Development
3. Sustainable Neighborhoods (Housing, Neighborhoods, and Transportation)
4. Faith and Hope
5. Violence Intervention and Prevention
6. Health and Healthy Families
7. Arts, Culture, History, and Media/Communications

CORE LEADERSHIP PRINCIPLES

Setting the Environment for Transformation:

Personal Responsibility, Leadership Accountability and Comprehensive Collaboration

- A. Engage Residents, Leaders, & Elected Officials regularly on issues, solutions, decision-making, and implementation: Active engagement in development, implementation, and evaluation of strategies
- B. Encourage active Neighborhood Involvement, Engagement, and Leadership
- C. Increase Civic Engagement - Volunteering, Service, Mentoring
- D. Increase Voter Education, Participation, and Empowerment
- E. Support Positive Media Outlets, Channels, and Balanced Coverage of North Omaha and African-Americans
- F. Advocate for Urban Policies to support community priorities:
including jobs (jobs and job training for youth and adults), education (investments in early childhood and innovative schools), justice (address juvenile justice system, incarceration, etc), health (access to quality health care and healthy foods), etc.

NAREB RECENT EVENTS



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MARK ALSTON
California Assoc of Realtor
3rd Vice President
STACEY WALKER
Director, Housing & Community Outreach
FREDDIE MAC
JACQUI COSGROVE
Manager Government & Industry Relations
FREDDIE MAC
LYDIA KIRKLAND POPE
Branch Manager NID HCA

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 - SHBA Report Findings

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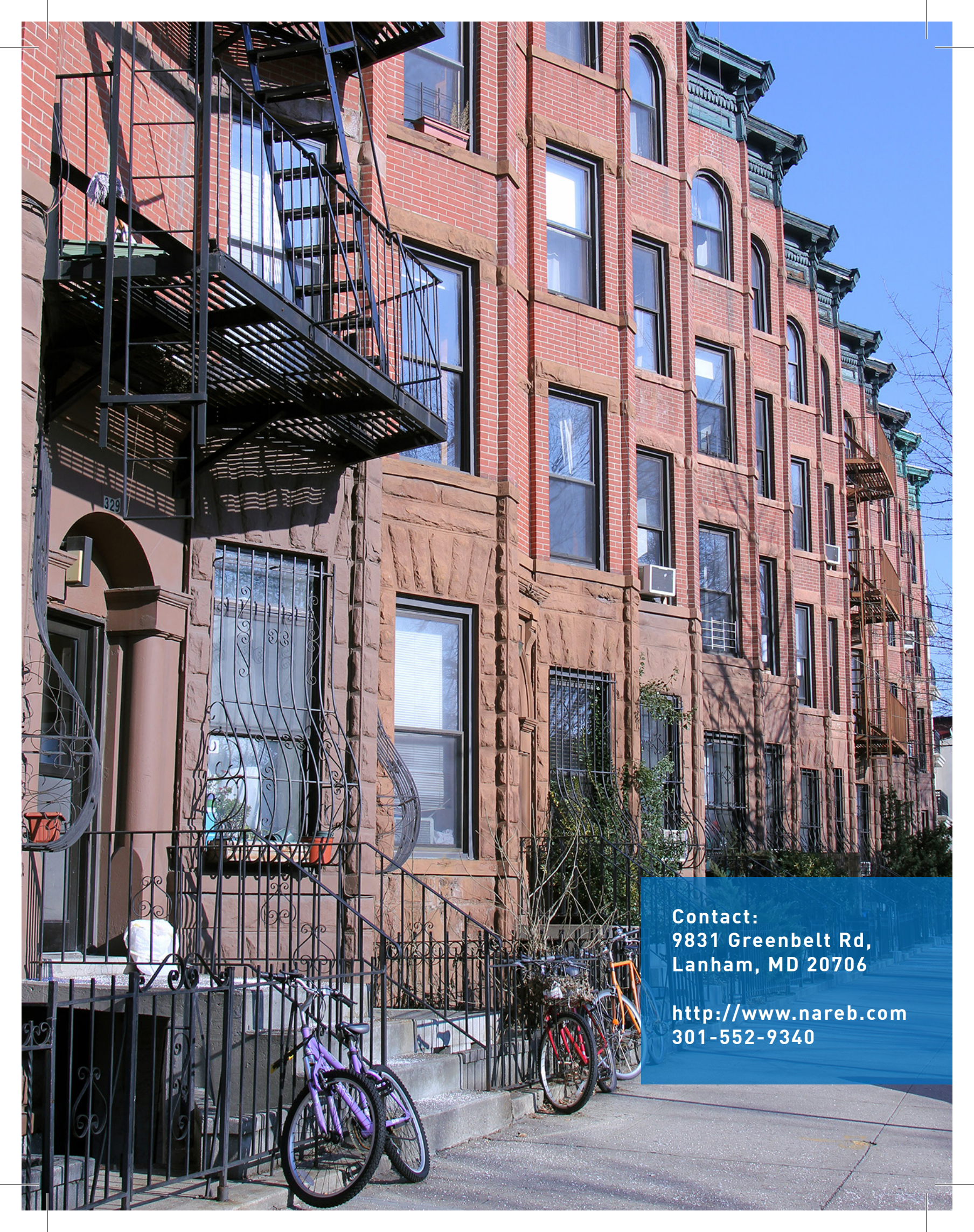
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