ACORN

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Statement from Maude Hurd, ACORN National President

Chairman Bachus, Ranking Member Sanders, and distinguished Members of the Subcommittee on Financial Institutions and Consumer Credit.

ACORN is the nation's largest grassroots community organization with more than 850 neighborhood chapters in more than 90 cities across the country. On behalf of our 175,000 members, I want to thank the committee for holding a hearing on this very important issue and allowing us the opportunity to submit this testimony.

The history of housing discrimination in the United States is a long and shameful one – homeowners imposing deed restrictions preventing the sale of homes to people of color, the Federal Housing Administration (FHA) determining values based on a neighborhood's racial makeup, white residents violently greeting Martin Luther King's open housing marches, banks drawing redlines around certain neighborhoods where they wouldn't lend, loan officers coding applications to tell the underwriter when it was a minority applicant, white homeowners openly refusing to sell to people of color, and real estate agents steering minority homebuyers to minority areas.

Housing discrimination has continued and evolved into new forms. Over the last six years in the area of mortgage lending, community groups have focused their attention less on access to credit and more on the type of credit that is granted. Several studies have documented that

Association of Community Organizations for Reform Now
National Office: 739 8th Street S.E., Washington, D.C. 20003 • 202-547-2500 FAX 202-546-2483

when buying or refinancing a home, borrowers of color, and African-Americans in particular, receive mortgages with much less favorable terms than whites receive. African-Americans have been segregated into the subprime market where they receive loans with higher interest rates, larger fees, and onerous features such as prepayment penalties.

The Federal Reserve's revised Home Mortgage Disclosure Act (HMDA) guidelines were an important step in addressing these racial disparities and made HMDA data much more relevant.

The origination of subprime loans to prime borrowers is one of the most egregious predatory lending practices, especially when it is conducted on a large scale and is perpetrated against specific communities. Given the explosion of subprime loans, the quantity of loans originated has become much less significant on its own, and instead must be viewed in conjunction with the quality of the loans.

This new data has allowed community groups to more fully understand a lender's mortgage business. For instance, one of the country's largest lenders, Wells Fargo, has for years boasted that it is the largest lender to African-Americans. However, when ACORN reviewed the combined totals of Wells Fargo's lending operations, we found that one out of every four mortgages made to African-Americans was a high rate loan (24.71%) compared to just one out of every thirteen loans to whites (7.44%).

Many in the lending industry argue that the disproportionate concentration of subprime loans among minority borrowers is only a reflection of the greater risk that these borrowers represent based on their lower credit ratings. However, Fannie Mae has stated that the racial disparities in subprime lending cannot be justified by credit quality alone and has estimated that as many as half of the borrowers in subprime loans could have instead qualified for a lower cost mortgage.

The industry has responded to the findings from the new data the same way they responded to the findings from the old data. Lenders argue that the HMDA data only tells part of the story since it does not include other information about a borrower such as credit, loan to value, and debt to income ratios. However, it is these same lender representatives who oppose the collection and reporting of this additional loan data. We strongly believe that credit, loan to value, and debt to income ratios should be included in HMDA data.

There is additional information that we recommend including in HMDA data in order to fully capture whether there are racial disparities in loan terms, such as prepayment penalties, which are not reflected in the APR.

Another area is in the difference in cost between fixed and adjustable rate mortgages. Although technically correct, the APRs on subprime LIBOR-based ARMs originated in 2003 and 2004 failed to reflect the huge increases in costs that borrowers who received these loans would experience.

For example, a borrower who received an ARM in March 2004 that had an initial interest rate of 6.2% and a margin of 5 basis points had the same APR as a mortgage with a 6.2% fixed rate. However, just two years later, while the fixed rate interest rate remained at 6.2%, the adjustable rate would now have a fully indexed interest rate of 10.3%.

Thank you.