



Housing Initiative Partnership, Inc.

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Testimony of Carmen Castro

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Before the U.S. House Financial Services Committee

Subcommittee on Housing, Community Development and Insurance

A Review of the State of and Barriers to Minority Homeownership

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Chairman Clay, Ranking Member Duffy, and members of the committee:

Thank you for the opportunity to testify today. My name is Carmen Castro, and I am the Managing Housing Counselor at Housing Initiative Partnership. We are a non-profit affordable housing developer and HUD-approved Housing Counseling Agency located in Prince George's County and Montgomery County, Maryland. Our Housing Counselors have provided direct counseling, education and advocacy to over 20,000 households over the past 20 years to help them enter homeownership, avoid foreclosure, secure affordable rental housing and strengthen their personal finances.

It is a privilege for me to have this opportunity to share the experiences of our housing counselors and the households with whom they work. Housing counselors are impartial advisors to low-and-moderate income households, exploring all aspects of their finances and financial decisions, with the goal of helping households successfully navigate today's complex housing realities. Housing counselors are often the only persons to whom low-and-moderate income households have revealed their private financial habits. Counselors take a deep look at client's monthly bank statements, spending habits, debts, credit reports, employment history, income, and housing dreams and goals. The counselor uses this personal information to help their client make informed decisions to secure safe and affordable housing.

Housing counselors at Housing Initiative Partnership have witnessed first-hand the barriers minority communities confront in their quest for sustainable homeownership. Our agency has the privilege of working in two very different communities. Prince George's County, Maryland is one of the most affluent majority African American communities in the country. The county is 64% African American, 19% Hispanic, and 13% White, with an average household income of \$81,000. Neighboring Montgomery County ranks as the country's 25th most diverse county: 33% of the population in the county is foreign born; of those, 38% came from Latin America, 36% from Asia, 15% from Africa, 10% from Europe, 1% from North America, and less than 1% from the Pacific Islands.

Despite the distinct profiles of these counties, and the very distinct histories of African American households as compared with immigrant households, the minority households our counselors work with in both counties confront similar homeownership challenges. The two primary challenges to securing homeownership are the lack of generational wealth and its repercussions, and the shortage of affordable housing.

Most of the African American and immigrant populations we work with do not have parents, grandparents or great-grandparents that benefitted from the federal programs and consumer protections that allowed white families to build generational wealth. With regard to building wealth through homeownership, African Americans in generations past were intentionally excluded from access to mortgage programs through red-lining and other discriminatory lending practices. Foreign-born immigrant households lack family wealth, having frequently arrived in the US with little savings after fleeing economic hardship in their home countries.

During the early days of the foreclosure crisis, our agency saw first-hand the way in which the housing market exploited these minority households that lacked generational wealth. In 2008, the year of the

housing collapse, our office was inundated with calls for assistance. We worked with 569 defaulting households in 2008, double that number in 2009, and triple that number (1,538 households) by 2010. A vastly disproportionate percentage – **98%** – of those defaulting homeowners were minority households. On average during the crisis, the homeowners with whom we worked were 63% Black or African-American, 31% Hispanic, and 4% Asian. To a person, our clients presented their counselors with the most toxic loan documents we had ever seen. Among the predatory features included in our clients' loans were high fees, interest-only payments, prepayment penalties, and teaser rates that spiked to double digits within the first two years.

We now know that minority populations were specifically targeted for the most dangerous predatory loans during the housing bubble. We know that lenders created these predatory products to be easily accessible specifically to these populations that had been historically excluded from access to credit.

The result? The African-American and immigrant households we worked with watched as their hard fought financial gains and accumulation of equity slipped through their hands like sand, draining their wealth away at an alarming and devastating rate. One example is an African-American family who sought our foreclosure prevention services in 2008. They had a solid income – the mother worked full-time for the federal government and the father had a job with UPS. They had saved \$9,000 for a downpayment, and purchased a home for \$300,000, with what turned out to be a predatory loan with large balloon payment, and an interest rate that spiked to 15% by the time we met with them in 2008. A housing counselor helped him negotiate a loan workout that reduced the interest rate to 4% for the life of the loan. That positive outcome was overshadowed by an unfortunate financial legacy of the housing bust: they were saddled with negative equity in the amount of \$110,000.

Not only have homeowners like the above African-American family lost their savings and good credit, but also their home values have not recovered to the pre-recession value. In Bowie, Maryland, for example, as many as 1 in 5 homeowners are underwater on their mortgages, and many of these homeowners are still as much as \$50,000 to \$100,000 underwater. These underwater homeowners choose to stay in their homes despite the financial burden of negative equity for many reasons: family stability, schools, connection to their home and neighborhood, and lack of other affordable rental housing options.

Homeownership plays a central role in shaping family wealth for the middle class. The minority households that have been both historically excluded from access to credit, and then exploited by predatory lenders in the housing bubble, deserve large-scale responsive policies that will redress the harms caused by exclusive and predatory practices, and create access to sustainable homeownership.

On the purchase side, many minority households we work with have sufficient employment income to enter homeownership, but living in the high cost DC area rental market has strained their ability to save for a down payment and pay down debts – both of which are required to qualify for a mortgage. One of our client's experiences illustrates these challenges. Her family emigrated from the Republic of Congo in 1995 and she began working as a nursing assistant, and her husband later secured work at an auto shop. When she met with a counselor in 2016, her gross household income was \$6,000 a month but her credit was low due to the high cost of living in Montgomery County. She worked steadily with a housing counselor for over two years, often meeting monthly, to adhere to a very strict budget in order to pay down credit card debt and accrue \$12,000 in savings. In July 2018, she qualified for an FHA loan to purchase a \$320,000 townhouse in Frederick, Maryland. The FHA loan included \$5,000 of down-

payment and closing cost assistance. While this product allowed her to access homeownership, it comes at a high cost. She was provided a higher than market interest rate, and required to pay high mortgage insurance fees. Between the upfront mortgage insurance premium and the \$218 monthly mortgage insurance payments, she will pay an additional \$89,000 over the life of her mortgage loan.

The advantages of current mortgage products designed for low wealth moderate-income purchasers are often offset by high fees. The availability of safe affordable loan products without these increased often-prohibitive fees (mortgage insurance premiums, lifelong mortgage insurance, higher interest rates) are needed to provide the on-ramp for households of color so that they can accrue the benefits of homeownership. We would like to see federal loan products provide low-wealth mortgage borrowers safe and sustainable mortgages without the accompanying fees.

Finally, any federal response to increase homeownership for low-wealth minority communities should include housing counseling. Research has consistently demonstrated that loans made to borrowers who have received pre-purchase counseling perform better than loans made to comparable borrowers who did not receive pre-purchase counseling.¹ A 2013 study looked at 75,000 mortgages and found that borrowers who received pre-purchase counseling and education were more than 30% less likely to become seriously delinquent than similar borrowers who did not receive pre-purchase counseling and education.²

In conclusion, we hope Congress will improve access to sustainable homeownership for the minority communities we work with by creating lower cost loan products for low-wealth families, and embedding housing counseling into the purchase process.

¹ See, e.g., Neil S. Mayer & Kenneth Temkin, *Pre-Purchase Counseling Impacts on Mortgage Performance: Empirical Analysis of NeighborWorks America's Experience* (p. iii) (March 7, 2013); Marvin M. Smith et al., *The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills* (April 2014).

² Mayer & Temkin, *supra* note 1.