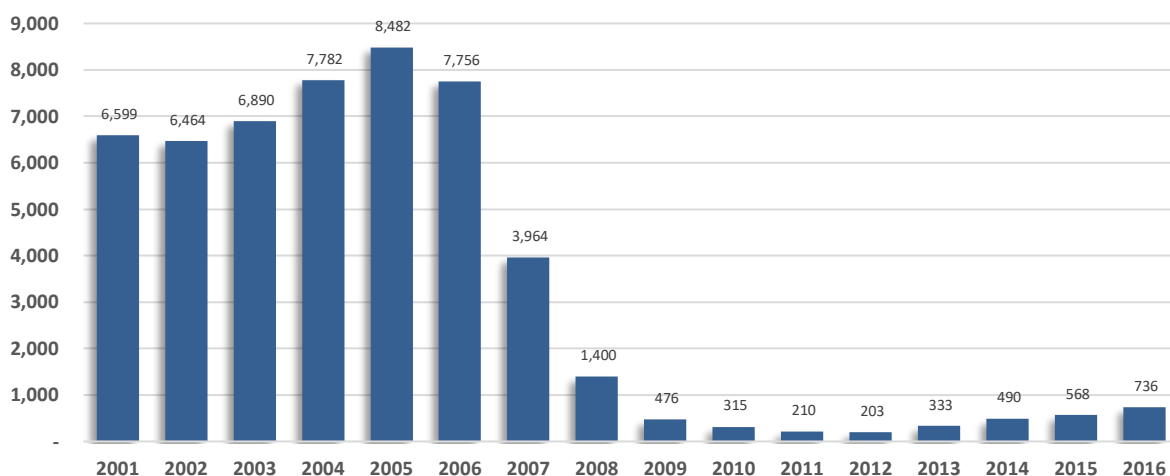


Testimony of Hector Hernandez before the Subcommittee on Oversight and Investigations, Committee on Financial Services on August 2, 2019

For historical context on homeownership in Detroit, I'd like to cite a Homebuyer Ecosystem Study authored by a local working group I participated on in 2017 and 2018. An excerpt reads that no city in the United States has experienced a housing disaster on the scale of Detroit's recent history. From 1990 to 2014, Detroit lost over 250,000 residents – more than 30 percent of its population. As a result of the population loss and the national credit crisis, Detroit's housing market crashed: Almost 110,000 housing units stood vacant that year, roughly 1/3 of all units. From 2006 to 2010, the mean home sales price in Detroit plummeted over 75 percent. Today, outside of Greater Downtown and East Riverfront, the mean home sale price has improved only marginally. Every year from 2009 to 2016, over 95 percent of home purchases in Detroit have been cash sales.

This economic hurricane blew away virtually the entire industry of experienced and knowledgeable lenders, realtors, community development corporations and homebuyer counseling agencies. "Homebuyer Ecosystem" is a short-hand label for the many parties involved in enabling a buyer to find, purchase (and if necessary, renovate) a single-family house. When the ecosystem works well, consumers easily reach a choice of experts at every step of the way. In Detroit, unfortunately, the financial crisis and recession of 2006-2010 deteriorated the ecosystem so severely that even today it is holding back the city from reaching its full potential economic recovery.

Number of Single-Family Home Purchase Mortgages in Detroit



SOURCES: THE URBAN INSTITUTE (2001-2014) / MLS (2015-2016)

The graph of number of home mortgages in Detroit over time shows how few home sales are financed with a mortgage. Detroit's lingering under-performance after the recession is due to a range of factors – from tighter credit standards, to a hollowing out of the local real estate professions, to buyers' cautious mindset. Nurturing this market back to health requires intentionally working to attract capable buyers (creating demand) and sellers at gradually rising prices (creating supply).

In last couple of years, according to realtors and lenders, demand has increased for purchasing single-family homes in some neighborhoods. In these areas, demand outpaces the supply of move-in ready homes. Hopefully, this buyer interest will spread to more neighborhoods, lifting home values and enabling more owners to reinvest. Normally, this demand would spur more acquisition/renovation/sale activity.

However, most developers with the skills to acquire and renovate a home believe that renting to tenants is more profitable than selling to an owner-occupant. With few finished homes for-sale, the purchase market is not currently in equilibrium. This situation becomes a self-fulfilling prophecy. Few quality renovations are for-sale, which creates the false impression of insufficient demand. The high number of pre-qualified homebuyers searching for homes, and the low days-on-market for finished homes indicates that as supply increases, latent demand will absorb this inventory. When more move-in ready homes are available in concentrated areas, then a critical mass of activity that changes the neighborhood perceptions can take hold (e.g., Marygrove, Grandmont-Rosedale, Bagley).

I participated in an interview with John Gallagher from the Detroit Free Press in March of 2019 and here are a few relevant quotes from that article:

White people make up just 10 percent of Detroit's population but got nearly half of the home mortgage loans made in 2017 for which the race of the applicant was known.

Data collected under the federal Home Mortgage Disclosure Act show:

► **White borrowers got almost the same number of mortgages as black borrowers despite being a much smaller percentage of the city population.** Of 1,072 mortgage loans made in Detroit in 2017, the most recent year for which full data are available, 442 went to white borrowers, 461 to black borrowers, and in the remainder the race of the applicant was not known, or, in a few cases, went to Asians or those of other ethnic groups.

► **The mortgage market doesn't exist or barely exists in more than half the city.** Of 297 Census tracts in Detroit, each tract measuring several square blocks, 139 tracts saw no mortgages at all in 2017, and another 91 saw just one to five mortgages.

► **Only nine Census tracts out of the nearly 300 saw 20 or more mortgage loans made in 2017.** Tracts where mortgages were more readily available were in the city's more upscale districts, including the east riverfront, the Palmer Woods area, and a handful of others. In those areas, poverty rates are well below the city's average and income levels are higher.

**In part because mortgages are less readily available in the city, black home buyers may be more likely to buy in the suburbs than in the city.** In 2017, just two suburbs, Southfield and Redford Township, accounted for more mortgage loans to black home buyers (747) than the mortgage loans made to black buyers in Detroit itself (461) when the race of the applicant was known.

A lack of mortgage loans does not mean there are no home sales in the city. Finance experts estimate there may be 4,000 to 5,000 home sales in Detroit each year but **up to 80 percent of those transactions were cash or some variation, like a land contract, lenders and civic leaders estimate.**

**Black borrowers more often got government-backed mortgages under either FHA or VA programs, an indication that lenders found those clients less credit worthy or of a higher risk.** White home buyers, on the other hand, tended to get conventional mortgages, made to those with good credit in stable neighborhoods.

In a vivid illustration of that last point, **just three of a total of 635 homes sold by the Detroit Land Bank Authority from November through February involved a traditional mortgage loan,** said Reginald Scott, director of dispositions for the Land Bank.

This lack of a robust mortgage market in Detroit creates a substantial drag on efforts to improve the financial life of residents. For generations, getting a mortgage has been a ticket to a middle-class life and a brighter future. The lack of mortgages for thousands of home buyers in Detroit each year holds back Detroit's full recovery.

The problem however is not limited to access to mortgages or a lack of capital available in the city.

SWS worked on strategies with the DLBA and we were strongly proposing that they make more move in ready homes available as long as 5 years ago. The problem persists today; Detroit's supply of move-in-ready houses is limited; appraised values are often too low to support a conventional mortgage, and many buyers have blemished credit histories that made them, by conventional lending metrics, unqualified for a traditional mortgage.

With 4,000-5,000 home sales in Detroit per year and roughly 1,000 of those sold via mortgage, that means the 75% of these transactions are either cash sales or land contracts. Land contract present significant dangers. Land contracts may work out if you know what you're doing and had an attorney review it, but by and large it opens that buyer up to predatory practices. Also, there is seldom a title policy or even a title search done ensure the title is clear. With a traditional mortgage, a buyer who falls behind may be able to negotiate a payment plan or otherwise not lose everything. With a land contract, they can take the property back if you miss even on payment.

### Other challenges in 2019

Per NCRC report dated 7/31/19 using Home Mortgage Disclosure Act (HMDA) data for Wayne, Oakland and Macomb Counties :

There has been a sharp decline in branches in the area this year, with 31 branches lost since June 2018 and just 7 opened. Mortgage lending is relatively good throughout all three counties, even in LMI and minority areas but within Detroit itself that changes drastically.

### Solutions and recommendations:

- Homebuyer Counseling and credit building works. The counseling we provide helps Detroiters qualify for a mortgage and often times Down Payment Assistance. These are critical components to purchase homes in Detroit, especially, rehabbed, move in ready homes for which there is a huge demand. It's not unusual for a rehabbed home to still come with valuation gaps and DPA is critical in these instances.
- We have banking partners like JPMC who provide acquisition rehab funding in addition to homebuyer counseling funding (and there are other generous partners as well). We could use additional DPA and capital to acquire and rehab homes as the demand is strong. We need to
- That said, HUD Counseling funding is wholly inadequate and does not scratch the surface in terms of need or demand. HUD also recently enacted counseling certification requirements that are very comprehensive and require at least 40-50 hours of training yet has not provided any funding to train or certify our counselors; a unfunded mandate.
- CRA Reform needs to be strengthened and not weakened as the current administration and regulators are trying to do. CRA grading must include enhanced reporting on LMI borrowers, especially borrowers of color. Protect HMDA reporting as it is critical to ensuring fair lending practices.

- Branches in LMI communities are important so we need to slow down the process to review and fully analyze the impacts of the merger on LMI communities which often experience branch closures as part of merger.