

I thank Chairman Takano and the members of this subcommittee for providing me the opportunity to testify this morning regarding the proposed 'VA Home Loan Transparency and Consumer Protection Act of 2022'. I am the Chief of Membership, Policy and Equity at the National Community Reinvestment Coalition (NCRC). Formed in 1990, NCRC and its more than 600 grassroots member organizations create opportunities for people to build wealth. NCRC members include community reinvestment organizations; community development corporations; local and state government agencies; faith-based institutions; community organizing and civil rights groups; minority and women-owned business associations, as well as local and social service providers from across the nation. We work with community leaders, policymakers and financial institutions to champion fairness and fight discrimination in banking, housing and business.

Since the end of the Second World War loans guaranteed by the Veterans' Administration have been a critical element in providing working class households with affordable and safe financing for the purchase or refinance of a home. From passage of the *Servicemen's Readjustment Act of 1944*, until 1955, the Veterans' Administration provided backing for 4.3 million home loans, amounting to \$347 billion in today's dollars.<sup>1</sup> This included funding for almost one-third of all housing starts made in the nation in 1955.<sup>2</sup> The post-war housing boom was largely possible due to no down-payment, low interest FHA and VA financing. Between 1940 to 1960 there was an over 50% increase in both Black and white homeownership rates though the disparity between groups was not closed.<sup>3</sup>

Returning Black servicemen contended with pervasive segregation and discrimination in lending.<sup>4</sup> While the GI Bill itself did not mention race or segregation in its text, the manner in which the lending provisions were interpreted at the state and local level allowed wide latitude for discrimination. The Veterans' Administration relied upon the underwriting manual currently in use by the Federal Housing Administration which bolstered segregation by recommending that developments with racially restrictive covenants be favored in their underwriting decisions. The result: in Mississippi in 1947 a survey by *Ebony Magazine* found that only 2 of the 3,229 loans made by the VA to

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<sup>1</sup> <https://www.defense.gov/News/Feature-Stories/story/Article/1727086/75-years-of-the-gi-bill-how-transformative-its-been/>

<sup>2</sup> Mettler, S. (2012). *How the GI Bill built the middle class and enhanced democracy*. Cambridge, MA: *Scholars Strategy Network*.

<sup>3</sup> <https://ncrc.org/ncrc-2020-home-mortgage-report-examining-shifts-during-covid/>

<sup>4</sup> Rothstein, R. (2017). *The color of law: A forgotten history of how our government segregated America*. Liveright Publishing.

farms, businesses, and for mortgages were made to Black former servicemen.<sup>5</sup> The record of discrimination in lending was not much better in New York and northern New Jersey, where only 100 of 67,000 mortgages issued under the GI Bill were made to non-white servicemen.<sup>6</sup> This created a situation in which White, middle-class families purchasing homes in the suburbs received the vast majority of FHA and VA loans. Between 1946 and 1959, Blacks purchased less than 2 percent of all housing nationally financed through FHA and VA help.<sup>7</sup> These practices were often allowed to continue until passage of the Fair Housing Act of 1968 prohibited redlining and residential steering. Even after the passage of this legislation, a lack of targeted programs aimed at increasing Black homeownership has left Black/white homeownership at best stagnant and at times growing during the last 50 years.<sup>8</sup>

Today, VA loans are crucial for maintaining the level of Black homeownership we see today. Black homebuyers use government insured mortgage programs, like the VA, for 58% of home purchases and 46% of refinances.<sup>9</sup> This is substantially higher than every other major racial and ethnic group.<sup>10</sup> Among those Black borrowers using government insured lending 28% of homebuyers (and 57% of refinance borrowers) are using the VA home loan program to meet their needs.<sup>11</sup>

To increase beyond the low levels of Black homeownership there needs to be both an expansion of government backed financing in the home mortgage market and strong accountability for consumer protection and sustainable lending. Overall just 1.8% of loans made by banks in 2018 through 2020 was a VA loan. Instead, VA lending is dominated by a relatively small group of non-bank lenders.<sup>12</sup> Almost 15% of loans made by mortgage lenders are VA loans. These lightly regulated entities are not subject to the Community Reinvestment Act (CRA). As the report from Representative Porter's office reveals, loan churning in the VA loan program is a chronic issue among a small number

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<sup>5</sup> Ebony magazine 1947 poll of VA loans made in Mississippi cited in Onkst, D. H. (1998). "First a negro... incidentally a veteran": Black World War Two veterans and the GI Bill of rights in the Deep South, 1944-1948. *Journal of Social History*, 517-543.

<sup>6</sup> <https://www.centreforpublicimpact.org/case-study/us-gi-bill-new-deal-veterans/> citation of 'When Affirmative Action Was White': *Uncivil Rights - The New York Times* ([nytimes.com](https://www.nytimes.com))

<sup>7</sup> Dreier, P., Mollenkopf, J. H., & Swanstrom, T. (2001). *Place matters: Metropolitcs for the twenty-first century* (pp. 107-10). Lawrence: University Press of Kansas.

<sup>8</sup> <https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/>

<sup>9</sup> <https://ncrc.org/ncrc-2020-home-mortgage-report-examining-shifts-during-covid/>

<sup>10</sup> CFPB <https://ffiec.cfpb.gov/> Site built, 1-4 unit, owner occupied loans 2018-2020

<sup>11</sup> The balance includes FHA and RHS loans.

<sup>12</sup> 2018-2020 the top five VA lenders reported over 30% of all VA applications and over 40% of all VA refinance loans..

of lenders.<sup>13</sup> Loan churning occurs when a lender makes an initial loan at an artificially high interest rate and then after a period of time sells the homeowner a refinance loan to bring the rate down. This generates two sets of fees for the lender, saddling the borrower with years of additional interest payments. The limited market for obtaining these loans means that Black veterans are more likely to become the victim of one of these lenders, or they instead are steered into a higher cost loan product. To support Black veterans, and reduce the opportunity for predatory lenders in the VA loan program, NCRC supports the efforts of Representative Porter's office to enact the "VA Home Loan Transparency and Consumer Protection Act of 2022". Using the non-public data reported under the Home Mortgage Disclosure Act (HMDA) the Consumer Finance Protection Bureau (CFPB) can assess the prevalence of predatory practices, such as loan churning, in the VA loan program.

NCRC supports a goal of at least 60% homeownership rates for all major racial/ethnic groups in the United States in America by 2030. This bold goal still would not close the Black/white homeownership divide in this country, which has remained virtually unchanged for 120 years.<sup>14</sup> But it would be a significant step forward in homeownership, wealth development and economic sustainability for African Americans, Latinos and Native Americans. According to the St. Louis Fed in quarter 4 of 2021 white Americans homeownership rate was 74%, Asian Americans were 61%, with Latinos at 48% and African Americans at 43%.

The broad availability of VA loans and other government backed loans is an element of achieving this goal. The limited access and use of government backed loans, and the threat of predatory lenders in this space, is a structural barrier that contributes to the continued divide in homeownership and wealth in this country. NCRC recommends a series of changes in the Community Reinvestment Act to help address these long standing disparities like including more objective measures of performance, using section 1071 data on the race and gender of small business and farm loan applicants, and adding the consideration of racial equity to CRA exams. The legislation under discussion today can help complement those important reforms.

I thank the Committee again for providing me the opportunity to express the thoughts of NCRC and our support for the VA Home Loan Transparency and Consumer Protection Act of 2022 and I stand ready to answer your questions.

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<sup>13</sup> <https://porter.house.gov/news/documentsingle.aspx?DocumentID=407>

<sup>14</sup> <https://ncrc.org/ncrc-2020-home-mortgage-report-examining-shifts-during-covid/>

