

Testimony of Michael D. Calhoun

President, Center for Responsible Lending

**United States House of Representatives
Committee on Financial Services**

**“Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the
Hot Housing Market”**

June 29, 2022

I. Introduction

Good afternoon, Chairwoman Walters, Ranking Member McHenry, and Members of the Committee. Thank you for the opportunity to testify on the state of homeownership and the US housing market, which so profoundly affects American families and comprises nearly 20% of the United States' economy.

I am the President of the Center for Responsible Lending (CRL), a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a community development lender headquartered in Durham, NC. Since 1980, Self-Help has provided over \$7 billion in financing to 131,000 families, individuals and businesses under-served by traditional financial institutions. It helps drive economic development and strengthen communities by financing hundreds of homebuyers each year, as well as nonprofits, child-care centers, community health facilities, public charter schools, and residential and commercial real estate projects. Through its credit union network, Self-Help's two credit unions serve over 170,000 people in North Carolina, South Carolina, California, Illinois, Florida, and Wisconsin and offers a full range of financial products and services. Learn more at www.self-help.org and www.self-helpfcu.org.

In recent years, the federal government took measures to protect families' housing security from COVID-19 harm. However, increased house prices, rents and interest rates make it even harder today than pre-COVID for families to rent or buy a home in both rural and urban areas. These trends also have blocked progress on addressing America's huge racial homeownership and wealth gaps. As a result, housing stability and financial security continue to grow for those with higher incomes and wealth, while many families face dire prospects in today's housing market.

Today, I will first assess the housing policy response to COVID and then identify the work that is yet to be done on housing in response to COVID along with the lessons to be drawn going forward. Next, I will describe the state of housing affordability and ownership, including the major challenges we face. Finally, I will set out critical reforms required to advance equitable homeownership opportunities and housing security.

II. Federal Government's COVID-19 Response

There are three conclusions to be drawn from the federal government's response to COVID from a housing perspective. First, the government's fast and systemic response to help homeowners prevented the mass foreclosures initially feared. Second, by stopping avoidable tenant evictions, health and housing crises were averted along with long-term harm to families. Third, the government's actions protected families, the housing and housing finance markets, and the wider economy.

Congress enacted the critical *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act),¹ to both protect homeowners, renters, loan servicers and others from COVID financial disruption and to stabilize markets and the economy. The CARES Act succeeded on both counts.

Under the CARES Act, Fannie Mae and Freddie Mac, the Government-Sponsored Enterprises (GSEs), provided homeowners unable to make their mortgage payments with long-term forbearance and loan modification options. Missed mortgage payments could be deferred through deferral loan modifications. These work in two ways. First, mortgage payments that homeowners cannot make are added to the end of the first mortgage term or whenever the first loan is repaid. Second, no additional interest is charged to the borrowers, so the modification does not increase homeowners' monthly payments or total costs. Homeowners do not have to make up missed payments in a lump sum once forbearance ends or pay any more interest than if COVID had not struck. FHA provided similar loan modification using its partial claims process.

Even before the CARES Act, the GSEs, as directed by Federal Housing Finance Agency (FHFA), led the market in offering long-term forbearance for borrowers affected by COVID. Thanks to all these efforts mortgage payment delinquency is now at very low levels,² but homeowners exiting forbearance need assistance, including from expanded loan modification options described in section IV below.

The government also supported mortgage loan servicers during the COVID disruption. FHFA directed the GSEs to cover servicers' advancement of suspended mortgage payments to investors holding mortgage-backed securities. Maintaining these payments prevented severe financial strain accumulating on non-bank servicers and disruption to the mortgage market.

The CARES Act also helped tenants and their landlords with rental assistance to avoid mass evictions and maintain landlords' income. Families were also provided with income replacement support to ease their COVID burden, pay for necessities, and keep the economy from freezing.

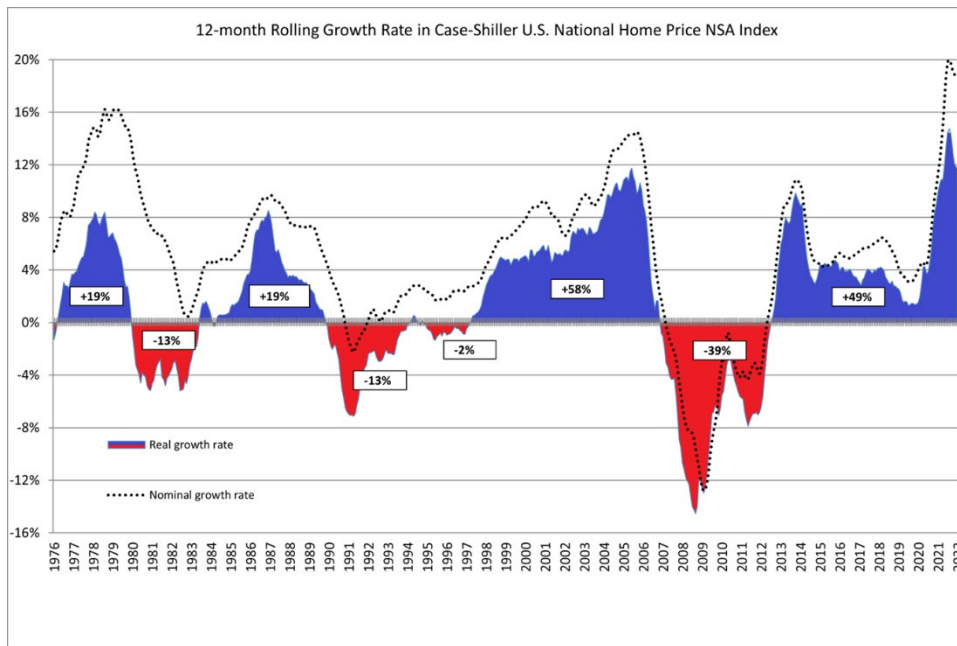
III. Families' Housing Experiences in Recent Years and Today

Recent years have produced historic changes in the housing market, with COVID disruptions, house price appreciation, and shocking shortages in affordable properties to rent and buy. These trends have benefits and costs, but the benefits have disproportionately gone to the wealthy, while many working families and families of color fall further behind.

The Case-Schiller index tracks growth in house price appreciation. As the chart below shows, recent house price appreciation has been massive and comparable in size to that of the 2000s, with important differences in the dynamics that produced the growth.

¹ 15 U.S.C. § 9001 et seq.

² Connie Kim, *Mortgage delinquency rate falls to historic low*, Housing Wire (June 27, 2022), <https://www.housingwire.com/articles/mortgage-delinquency-rate-falls-to-historic-low/>.



While both the current and previous house price appreciation periods were heavily driven by additional credit fueling a housing price boom, expansive credit in the 2000s was due to unaffordable mortgages with teaser interest rates. Recently, it was historically low interest rates increasing home buyers’ purchasing power. The difference is that homebuyers now have sustainable mortgages that are fully underwritten for ability to repay, as required by Dodd-Frank.

A persistent pattern in house prices, as shown in the chart, is that they move in cycles, with booms followed by corrections that return prices to the long-term trend. Unsustainable mortgages in the 2000s led to high foreclosure rates, ultimately reaching 10%. In contrast, foreclosure rates are now historically low due to sustainable mortgages and COVID support that protected jobs. Going forward, we are likely to see home price appreciation flatten as conditions normalize and real home prices return to their historic mean.

Rapid house price appreciation in recent years has created record levels of home equity.³ This in turn has contributed to record levels of household wealth, at over \$141 trillion.⁴ However, these benefits are not shared equitably among American families. The distribution of wealth is skewed towards the wealthiest households at historic levels. Today, the top 1% have over 30% of total

³ Andrew Martinez, *Borrowers have a record \$11 trillion in tappable equity*, National Mortgage News (June 6, 2022), <https://www.nationalmortgagenews.com/news/borrowers-have-a-record-11-trillion-in-tappable-equity>.

⁴ Board of Governors of the Federal Reserve System (U.S.), *Households; Net Worth*, retrieved from FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/BOGZ1FL192090005Q>.

wealth, and the top 10% hold nearly 70% of total wealth. In contrast, the bottom half of households have only 2.6% of the nation's wealth.⁵

Wealth disparities are reflected in homeownership rates, where large racial homeownership gaps persist, with Black households over 30 percentage points behind whites and Latino households 24 points behind.⁶ This means that fewer Black and Latino families enjoy any house price appreciation. Those Black and Latino families who are homeowners attain far less home equity growth on average than whites due to owning less valuable houses.⁷ Recent high house price appreciation has caused an overall greater concentration of wealth in America, and an increase in the racial wealth gap.

As the COVID-19 pandemic stretched on, the extraordinary measures taken by the Federal Reserve kept mortgage interest rates at record lows for many months. As a result, rate-term refinances dominated the mortgage market in 2020 and 2021, and millions of homeowners were able to complete a rate/term refinance to lower their monthly mortgage payments during a time of great financial difficulty. However, research provides clear evidence that the benefit of refinancing was not evenly enjoyed, given the slower refinancing rates among lower-income and Black and Latino homeowners.⁸

A major risk going forward is homeowners pressured into very expensive cash-out refinance loans. As mortgage volumes decline due to higher interest rates, there are increased efforts to market cash-out refinance loans, touting homeowners' greater home equity. These loans pose a major risk of stripping homeowner equity through new closing fees and the loss of currently lower interest rates. To keep monthly mortgage payments from rising with now higher interest rates, these loans will offset higher interest rates by renewing the long to the original term, wiping out the borrower's progress in paying off the loan. The CFPB, the GSEs and government housing agencies must protect families from abusive lender loan flipping.

This house price appreciation and rent increase reflect housing shortages that particularly impact affordable housing. This was caused by multiple factors, including many years of underbuilding single-family homes and affordable rental units. Contributing factors include land and labor shortages, local and state obstacles to new housing, and construction material price increases and shortages. GSE and government agency sales of distressed loans have resulted in the underlying

⁵ Board of Governors of the Federal Reserve System (U.S.), *Distribution of Household Wealth in the U.S. since 1989*, <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/>.

⁶ Alanna McCargo and Jung Hyun Choi, *Closing the Gaps: Building Black Wealth Through Homeownership*, Urban Institute (November 2020) ("*Closing the Gaps*"), Figure 3 at p. 4, https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.

⁷ *Closing the Gaps*, at p. 12.

⁸ See *Inequality During the COVID-19 Pandemic: The Case of Savings from Mortgage Refinancing*, by Sumit Agarwal, Souphala Chomsisengphet, Hua Kiefer, Leonard C. Kiefer, Paolina C. Medina :: SSRN and *Mortgage Prepayment, Race, and Monetary Policy* - Federal Reserve Bank of Boston (bostonfed.org); Freddie Mac, *Almost 50% of Black and Hispanic Borrowers Could Save \$1,200 Annually by Refinancing* (May 12, 2021), <https://www.freddiemac.com/research/insight/20210512-black-hispanic-borrowers-save-refinancing>.

properties going to investors that take them out of the homeownership market and into the rental one, where rents are raised aggressively. Addressing the housing shortage is imperative to improving America's housing security and homeownership opportunities. The Administration's recent housing cost initiatives, Build Back Better housing provisions, incentives for state and local zoning reforms, and ending distress loans/REO sales are key steps in addressing the supply problem. Progress will require significantly expanded efforts across these many fronts.

Finally, the sudden and dramatic rise in mortgage interest rates combined with housing price increases has produced one of the largest and quickest housing affordability shocks in many decades. Monthly mortgage payments have more than doubled in barely two years, with house prices up over 30% and mortgage rates nearly doubling. House prices typically normalize after such appreciation booms, but that can take a number of years. Mortgage interest rates have risen dramatically, but previous rates reflected years of accommodating monetary policy that kept interest rates at historic lows. Future rates are likely to be closer to historic norms and above those atypically low rates. These rising costs hit new homeowners and lower wealth families, including families of color, the hardest, as they are the most dependent on mortgage financing and have much less home equity, if any. They also make it much more difficult for families who currently rent to make the transition to owning. This makes renewed efforts and new strategies to advance affordable housing and housing equity even more important.

IV. Required Reforms to Advance Housing Opportunity and Security

Housing discrimination in America has a long legacy, including explicit government redlining and exclusion from FHA lending, VA loans and other housing programs. Research shows that present housing practices and policies continue to discriminate far too often. Black buyers were shepherded into lower growth areas and treated differently to white buyers almost half the time in one investigation.⁹ Black and Latino homebuyers also pay more for their mortgages, even after controlling for all factors used in the pricing.¹⁰ Another recent study found that loan officers of color approved more borrowers of color. These loans performed well and significantly reduced the denial rates for these borrowers.¹¹ Disparities in home appraisals have been widely

⁹ Ann Choi, Keith Herbert, Olivia Winslow, and Arthur Browne, *Long Island Divided - Undercover investigation reveals evidence of unequal treatment by Long Island real estate agents* (November 17, 2019), <https://www.nareb.com/long-island-divided-an-investigation-by-newsday/>; *The Jim Crow South? No, Long Island Today*, The New York Times (November 21, 2019), <https://www.nytimes.com/2019/11/21/opinion/long-island-real-estate-discrimination.html>.

¹⁰ Stephen J. Popick, *Did Minority Applicants Experience Worse Lending Outcomes in the Mortgage Market? A Study Using 2020 Expanded HMDA Data* Federal Deposit Insurance Corporation, Federal Deposit Insurance Corporation (June 2022), <https://www.fdic.gov/analysis/cfr/working-papers/2022/cfr-wp2022-05.pdf>.

¹¹ W. Scott Frame, Ruidi Huang, Erik J. Mayer & Adi Sunderam, *The Impact of Minority Representation at Mortgage Lenders* (June 2022), <https://www.nber.org/papers/w30125>.

publicized this year and are being investigated.¹² It is a moral and economic imperative to aggressively root out this discrimination and move closer to fair lending.

Historic discrimination is also reflected in racial wealth disparities that pose steep barriers to homeownership opportunities for people of color. There is an 8 to 1 disparity between median white and Black household wealth and a 5 to 1 disparity between white and Latino wealth.¹³ But racial disparities are yet starker when excluding from this often-cited statistic durable goods, like cars and furniture, that cannot be converted into cash without dramatically reducing their value. When these basic household items are excluded, and only financial assets are counted, the disparity balloons to over 20 to 1 between whites and Latinos and over 40 to 1 between whites and Blacks.¹⁴ Given that financial assets are required to buy a house, weather financial stress or send a child to college, and this second metric more accurately captures that capacity.

This legacy wealth disparity profoundly impacts housing opportunity. Individual and family wealth directly affects the ability to make a down payment to buy a home. It also drives credit scores and other key requirements for both homeownership and rental housing. Wealth provides a cushion to weather financial disruptions in both expenses and income. The absence of this wealth forces families to push out payments to catch up, with heavy damage to their credit scores to qualify to buy or rent a house or the ability to sustain a mortgage when financial disruptions occur. Providing equal lending under our current housing system is vitally important but, studies show, the legacy of unequal wealth still leaves much of the racial homeownership gap unaddressed.¹⁵ This is because our current system best serves those with financial security and compounds the legacy of discrimination.

Updated Housing Policies to Broadly Serve Americans' Housing Needs

Many homeowners have recovered from pandemic-induced financial stress. However, as of the end of May, there were 1.46 million homeowners 30 days or more past due and another 146,000 in the foreclosure process.¹⁶ Many of these homeowners are suffering from ongoing hardship due to the pandemic and will need mortgage modifications to create an affordable payment.

The GSE's and FHA's modifications for COVID-19-impacted borrowers had substantial payment reduction targets, and those homeowners who were able to complete a modification in 2020 or 2021 were able to benefit. However, mortgage rates have increased 250 basis points

¹² PAVE Interagency Taskforce on Property Appraisal and Valuation Equity, <https://pave.hud.gov/>.

¹³ Alanna McCargo and Jung Hyun Choi, *Closing the Gaps: Building Black Wealth Through Homeownership*, Urban Institute (November 2020), https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.

¹⁴ Chuck Collins, Dedrick Asante-Muhammad, Josh Hoxie, and Sabrina Terry, *Dreams Deferred - How Enriching The 1% Widens The Racial Wealth Divide*, Institute for Policy Studies - Inequality.org (2019), p. 19, https://inequality.org/wp-content/uploads/2019/01/IPS_RWD-Report_FINAL-1.15.19.pdf.

¹⁵ Jung Hyun Choi, Alanna McCargo, Michael Neal, Laurie Goodman, Caitlin Young, *Explaining the Black-White Homeownership Gap: A Closer Look at Disparities across Local Markets*, Urban Institute (October 10, 2019), <https://www.urban.org/research/publication/explaining-black-white-homeownership-gap-closer-look-disparities-across-local-markets>.

¹⁶ Source: [Black Knight's First Look at May 2022 Mortgage Data – Black Knight, Inc. \(blackknightinc.com\)](https://www.blackknightinc.com/).

since the beginning of 2022¹⁷ and the continued rise in house prices already discussed has reduced the amount of payment reduction the GSE and FHA modifications can deliver. As a result, most modifications undertaken today will fall well short of the payment reduction targets. As a near term response, the GSEs and FHA should adjust their COVID-19 modification waterfalls to include additional payment reduction steps and/or change their loan-to-value-related eligibility requirements to provide those borrowers facing ongoing pandemic-related hardship with payment reductions at their targets that create an affordable payment. Without these adjustments, many of the nearly 1.5 million borrowers may instead lose their homes to foreclosure.

Over the medium term, the government housing agencies (the GSEs, FHA, and VA) should use the valuable lessons provided by the combined experiences from the aftermath of the Great Recession and the pandemic to improve their loss mitigation programs.

Recent research provides compelling evidence that mortgage defaults and foreclosures are caused by income or expense shocks and indicate the need for permanent programs that address these causes, whether they are specific to the borrower or systemic in nature.¹⁸ The pandemic provides an all-too-real example of a systemic shock: more than 8 million homeowners used CARES Act forbearance over the course of the pandemic. While the exact number of prevented defaults and foreclosures is difficult to estimate, so far over 80% have either returned to making on-time monthly payments or paid off their mortgage in full.¹⁹

As an initial step, the government housing agencies should consider making some or all of the temporary changes implemented to address the COVID-19 emergency a permanent part of their loss mitigation waterfalls. Streamlined modifications with term extension to 40-years, interest rate reductions, and principal deferral have proven to be powerful tools that, when used appropriately can create affordable payments for homeowners suffering from financial hardship.

In addition, normalizing the use of temporary forbearance as an early step in loss mitigation waterfalls in non-systemic situations would provide an effective countermeasure for homeowners facing an income loss or expense shock and could provide assistance to homeowners before they fall behind on their payments.

Similarly, mortgage reserve accounts that are funded at origination and provide borrowers experiencing an expected life event with immediate liquidity or income disruption insurance contracted by the government agency or GSEs that fills in for lost income are promising ideas that merit serious consideration.

Given the fact that low-income borrowers and families of color did not substantially benefit from the low mortgage rates through refinancing, the agencies should prioritize making streamline refinance programs effective. CFPB should issue a regulation to permit the GSEs to establish streamline refinance programs, and FHFA should implement a streamline GSE program for low-

¹⁷ Source: OPTIMAL BLUE MORTGAGE MARKET INDICES – Optimal Blue.

¹⁸ See Ganong_Noel_Mortgage_Default_April_2022.pdf (cpb-us-w2.wpmucdn.com) and What Triggers Mortgage Default? New Evidence from Linked Administrative and Survey Data by David Low:: SSRN.

¹⁹ Source: BKI_MM_Apr2022_Report.pdf (blackknightinc.com).

balance loans. FHA should improve its existing streamline refinance program.²⁰ Taking these steps could remove some or all of the barriers that make refinancing inaccessible for many low-income, Black and Latino homeowners, creating more equitable rates of refinancing during future refinancing waves.

Finally, increased house prices and interest rates make it even more important for the GSEs and federal housing agencies to avoid unnecessary charges to working families seeking to become homeowners. One of the largest costs in mortgages is coverage of the risk of systemic crises, like the COVID pandemic. Currently, this cost is imposed most heavily on lower wealth borrowers in more vulnerable jobs. The COVID response forcefully demonstrated that these systemic crises require broad responses, and that the cost of the programs should be distributed evenly across all loans. Similarly, fees like Loan Level Price Adjustments, which are surcharges on GSE mortgages to these working families, should also be as evenly distributed as feasible while maintaining the GSE's overall mortgage portfolio.

V. Other Policy Decisions That Profoundly Affect Housing Opportunities and Stability

Affordable rental housing and homeownership opportunities are rightly seen as fundamental for families to thrive and advance, including to build wealth. At the same time, these housing conditions are also driven by other policies that impact financial stability and provide the means for a family to secure housing. For example, while homeownership builds wealth, existing family and intergenerational wealth is also a key means for enabling homeowners to be able to purchase a home. It is true that wealth begets wealth. Policies that fundamentally improve families' financial position and the ability to purchase and sustain housing deeply impact housing opportunities, and it is important to holistically consider them.

Today, secure housing is hindered by our broken student debt system that leaves too many graduates, and particularly graduates of color, with unaffordable student debt. Because these families have less personal and intergenerational wealth, they are forced to borrow more for college, with Black women borrowing the most.²¹ After graduation, Black graduates again do not have the family wealth to help pay for school as they start out in careers and face their own financial challenges. Studies also show that graduates of color earn less than their peers as a result of continuing employment discrimination.²² As a result, while white graduates are able to

²⁰ See, for example, *Adjustments to Help the FHA Streamline Refinance Program Reach More Low-Wealth Families*, Center for Responsible Lending.

²¹ The Center for Responsible Lending, *Necessary Relief: Substantial Cancellation Will Ease the Burden of Unaffordable Student Debt (and Boost the Economy)* (May 2022), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-student-loan-cancellation-9may2022_2.pdf.

²² Valerie Wilson, *African Americans are paid less than whites at every education level*, The Economic Policy Institute (October 4, 2016), <https://www.epi.org/publication/african-americans-are-paid-less-than-whites-at-every-education-level/>; Valerie Wilson and William M. Rodgers III, *Black-white wage gaps expand with rising wage inequality*, The Economic Policy Institute (September 20, 2016), <https://www.epi.org/publication/black-white-wage-gaps-expand-with-rising-wage-inequality/>.

pay off student debt after graduation, Black and Hispanic graduates often remain saddled with a continuing, and often growing, debt for decades after graduation.²³ This debt has been shown to thwart many activities, including buying a home, starting a small business and even beginning a family. This barrier makes it challenging to make progress on closing the racial homeownership gap without addressing student debt. Solutions include broad debt cancellation and reform of the income-driven repayment program.

Medicaid expansion is another program that significantly affects families' financial stability. A dozen states, primarily in the South, have not yet approved Medicaid expansion. As medical debt often pushes families into financial distress, and collectors aggressively pursue the debt, it is not surprising that providing reliable health insurance coverage has a significant impact on financial security. Recent research confirms this and shows a positive impact on homeownership as well.²⁴

Finally, the termination this January of the expansion of the Children's Tax Credit immediately consigned millions of families with children back into poverty and reduced financial stability for many more.²⁵ The resulting reduced opportunities include short and long-term safe and secure housing.

VI. Conclusion

The COVID response actions taken to support housing were hugely successful in preventing the pandemic's impact from being far worse. At the same time, COVID's economic disruptions revealed longstanding disparities and weaknesses in our housing system. The housing price boom and widespread rate-term refinances expanded wealth and racial disparities. Today's housing affordability crisis demands that we use this time to update our housing policies, using the lessons and successes learned, to provide broad housing opportunity and finally make progress on closing the racial homeownership gap.

²³ The Heller School for Social Policy and Management, Brandeis University, *Stalling Dreams How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap* (September 2019), <https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/stallingdreams-how-student-debt-is-disrupting-lifechances.pdf>.

²⁴ Margot Jackson, Chinyere Agbai, Emily Rauscher, *The Effects of State-Level Medicaid Coverage on Family Wealth*, The Russell Sage Foundation Journal of the Social Sciences (August 2021), <https://www.rsfjournal.org/content/7/3/216>.

²⁵ Center for Budget and Policy Priorities, *If Congress Fails to Act, Monthly Child Tax Credit Payments Will Stop, Child Poverty Reductions Will Be Lost* (December 3, 2021), <https://www.cbpp.org/research/federal-tax/if-congress-fails-to-act-monthly-child-tax-credit-payments-will-stop-child>; Isaac Chotiner, *The Devastating Effects of Losing the Child Tax Credit*, The New Yorker (March 4, 2022), <https://www.newyorker.com/news/q-and-a/the-devastating-effects-of-losing-the-child-tax-credit#:~:text=The%20reason%20for%20the%20sharp,children%20are%20living%20in%20poverty.>