AN EXAMINATION OF THE HOUSING CRISIS IN MICHIGAN, 11 YEARS AFTER THE RECESSION

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AN EXAMINATION OF THE HOUSING CRISIS IN MICHIGAN, 11 YEARS AFTER THE RECESSION

Friday, August 2, 2019

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12 p.m., in the Larry K. Lewis Education Center, Wayne County Community College, NW Campus, Detroit, Michigan, Hon. Al Green [chairman of the subcommittee] presiding.

Members present: Representatives Green, Tlaib, and Garcia of Texas.

Also present: Representatives Lawrence and Dingell.

Chairman GREEN. The Oversight and Investigations Subcommittee will now come to order. The title of today's hearing is, "An Examination of the Housing Crisis in Michigan, 11 Years After the Recession."

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the House of Representatives who are not members of the subcommittee may participate in today's hearing for the purposes of making an opening statement and questioning the witnesses.

The Chair is going to recognize, first, the Congressperson from this area, the Honorable Rashida Tlaib, to give her opening statement, and I, as Chair, have indicated already that we may give her a little bit more latitude because we are in her congressional district.

So we do now recognize you for a 3-minute opening statement.

Ms. TLAIB. Thank you so much.

Chairman GREEN. By the way, we have a little bell here that will give you an indication that you have one minute left.

Ms. TLAIB. He will use it too.

I want to thank you so much, Chairman Green, and, of course, our incredible Financial Services Committee Chairwoman, Maxine Waters, for agreeing to bring Congress to Detroit, to bring a field hearing of a critical issue to the 13th Congressional District, which we all know is a very challenged district, as the third-poorest congressional district in the country, but also with the most resilient people, the folks on the ground who have been working on this issue of housing justice, whom we need to hear from and get the information in the hearing record.

I do want to thank, also, our incredible colleague, Congresswoman Sylvia Garcia, for traveling all the way from Texas to come here, as well as my colleagues, Congresswoman Debbie Dingell and Congresswoman Brenda Lawrence, for their continued partnership on this issue.

This morning, all of my residents need to know, was really important. We always want people in Congress to see our neighborhoods, to see what is going on, and I want to thank Representative Garcia and Chairman Green for coming with the Detroit People's Platform this morning to travel throughout the community, many of the communities and neighborhoods, to see exactly what is going on, on the ground. It is something that I think is going to help, especially around the issue of housing justice, being much more committed to addressing some of those concerns. But I want to thank you all so much for being here and being rooted in the community and helping bring a voice, and to all those who are testifying before our committee, thank you so much for agreeing to do this, and thank you for sharing your stories, and thank you for your continued commitment.

I am so thrilled that this is the first field hearing of the Financial Services Committee, and that they chose to hold it in our beautiful City, so I want to thank you guys all so much, my colleagues, for your continued leadership.

I hope this hearing helps you feel heard and feel seen. That is so critically important. And I know Chairman Green knows I am very tenacious, and when I said to him, this is one of the most critical issues for our district is increasing home ownership but also the fact that it is so interconnected to racial justice, environmental justice, economic justice, and all of those things.

So again, thank you so much, Chairman Green.

Chairman GREEN. Thank you. Let me add this: The media is in attendance today, and I would like to make note that, without objection, members of the local media are invited to this hearing and may engage in audio and visual coverage of the subcommittee's proceedings. Such coverage is solely to educate, enlighten, and inform the general public, on an accurate and impartial basis, of the subcommittee's operations and consideration of legislative issues, as well as developing an understanding and perspective of the U.S. House of Representatives and its role in our government. This coverage may not be used for any partisan political campaign purpose or made available for such purposes.

With this said, I shall now yield to the gentlelady from Michigan's 12th Congressional District, the Honorable Debbie Dingell.

Mrs. DINGELL. Thank you, Chairman Green. Thank you for convening this subcommittee hearing. And thank you, Representative Garcia, for coming, and most importantly, thank you, Representative Tlaib, for your dedication and passion, and for bringing them here to Detroit to talk about an issue.

You are in Detroit, and it is an issue that significantly impacts the City of Detroit and its neighborhoods, but it is also an issue that hits people throughout this State. And, Chairman Green, I would say, too, there are many elected officials in the audience from many of the suburban cities that Rashida and I both share, that have been heavily impacted.

The 2008 recession hit everyone hard, but Michigan especially. We saw businesses shuttered, hard-working women and men were put out of work by the thousands, the near collapse of the U.S. auto industry, and a long, slow, painful recovery, and, quite frankly, I don't think anybody has lost that fear or anxiety in their hearts and souls that they used to take for granted.

When we are faced with trying times we tend to sit around our kitchen tables, often with families, in our homes, but after 2008, that was no longer an option for too many people. They lost their homes. You will still see today now-vacant lots, and while there has been an incredible effort by the City and the State and other groups to clean up blighted neighborhoods and vacant homes, they remain unoccupied after 10 years, and we have many challenges.

These homeowners didn't cause the Great Recession. They didn't make a house of cards doomed to fail, they didn't buy credit default swaps, and they didn't make risky trades on Wall Street. All they did was pursue the American Dream, to make enough money to buy a home, to live in a safe neighborhood, and to start a family.

So, I thank the committee for being here, and I look forward to hearing the testimony today.

Chairman GREEN. Thank you very much. At this time, we will hear from my colleague from Houston, Texas, the Honorable Sylvia Garcia, the Representative from the 29th Congressional District of Texas.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and I, too, want to start by thanking Chairwoman Waters of the Financial Services Committee, of which we are a subcommittee, for allowing us to come here and join your great Congresswoman Tlaib in hearing from Detroit directly on some of the housing issues. And thank you, too, to Representative Dingell and Representative Lawrence for coming, for joining us, because, as Chairman Green said, we are here to listen. He and I are not here, coming from Texas, to tell you to do anything the Texas way, so don't worry. We are not here to Texan-ize you. We are here to listen to you and to find the right solution for you here in Detroit.

I appreciate that we have a robust group of panelists to talk to us about the things going on here, and I do want to especially thank everyone concerned for the great welcome and for the tour that we had this morning, to show us about the housing crisis here after the Great Recession.

This committee, and the Congress as a whole, must learn from lessons today and focus on how to build a basket of national policy that is flexible enough to adapt to the concerns of different regions and even to different neighbors, based on need. As Chairman Green knows, the Houston region has different challenges from Detroit. We have faced decades of growth and gentrification in our region, which has put pressures on our housing stocks.

Recently, we saw an uptick in foreclosures following Hurricane Harvey. That storm, particularly, was a setback to low-income owners and renters, as much of the money of the recovery aid was targeted to more valuable properties. I have said many times, back home, that Hurricane Harvey just made poor people poorer. They were poor before the storm, and they are poorer today, as they wait in their rental properties.

It is important to consider not just homeowners and those who want to become homeowners, but we must also consider renters. About 48 percent of the households in my district rent, which is comparable to this district, which is at 45 percent. And just as we have seen home ownership slip out of reach for many people, we know that rent prices have increased in some neighborhoods, pushing more families to the financial edge.

So finally, working together, I am convinced that we can focus on the issues related to housing, to make it better for all Americans.

Thank you, again, for being here and joining us, and thank you, again, Mr. Chairman, for allowing me to make a few remarks.

Chairman GREEN. I would like to, at this time, thank you, and recognize myself for 3 minutes.

I want to thank Ms. Tlaib and her staff. They have done an outstanding job in helping us to facilitate this hearing. The full Financial Services Committee also has staffers who are here, and they have been very helpful.

The Honorable Maxine Waters is the Chairwoman of the full Financial Services Committee. She is the person who authorized this field hearing, so we owe her a debt of gratitude for allowing it to take place as well.

I want to talk to you very briefly, in my opening statement, about a complete recovery. The recovery is not complete unless everybody benefits from the recovery. And I am here today because, as often is the case, African Americans, minorities, are the canary in the coal mine. Some of the information that has been shared with me causes me great concern.

Example: In the second quarter of 2019, the Black home ownership rate was at a 50-year low, at 40.6 percent in Michigan. The current rate of Black home ownership in Michigan is lower than before the passage of the Fair Housing Act in 1968. Currently, you are experiencing foreclosures wherein 21 percent of the homeowners don't know that they are behind on their taxes. I want to know why. How can this happen that you are foreclosed upon and don't know that you are behind on your taxes?

I am also interested in what is happening to renters. I have been informed that some 61 percent don't know the tax status of the property that they are living in, and they, too, find themselves being the victims of foreclosures when owners are foreclosed upon; renters have paid their rent, but find that they have to relocate.

So there are many things that would cause me a good deal of consternation, but the thing that concerns me most is the fact that we don't have a complete recovery. It appears to me that we, in Congress, did a good thing when we bailed out the auto industry, but we expect the auto industry to help bail out the people who buy their products. We did a good thing when we bailed out the banks, but we expect the banks to bail out their customers, their depositors.

We are here today to try to complete the recovery. We don't want the industry to recover without the people who are a part of the tax-paying public who helped the industry to recover, to not benefit from the recovery. The recovery is not complete and we are here to find out what we can do to help have a complete recovery.

With this I will now introduce the witnesses, and each witness will be given approximately 5 minutes for your statements.

And our witnesses are Professor Bernadette—I am going to take a stab at your name one time, but I will have you tell me first.

Ms. ATUAHENE. "Atuahene."

Chairman GREEN. "Atuahene." All right. And she is a professor of law at the Chicago Kent College of Law. We also have Mr. Hector Hernandez, who is executive director of Southwest Economic Solutions Housing Opportunity Center; Mr. Ted Phillips, executive director, United Community Housing Coalition; Ms. Vanessa Fluker, who is an attorney with Vanessa G. Fluker, Esq., PLLC; Ms. Lauren Mason, who is the housing committee chair for Detroit Action; and Mr. Taz George, senior research analyst, Federal Reserve Bank of Chicago, Community Development and Policy Studies Division.

We welcome all of you. We greatly appreciate you taking the time to be with us. You will each have 5 minutes, and without objection, each witness' written statement will be made a part of the record. Once the witness has finished testifying, each member of the subcommittee will have 5 minutes within which to ask questions. I am the timekeeper and I will give you a signal when you have one minute left. This is the signal [rings bell], and after this, your time will expire one minute later.

The witnesses will now make their opening statements, and we will start with Professor Atuahene.

STATEMENT OF BERNADETTE ATUAHENE, SENIOR RESEARCH SCHOLAR, UNIVERSITY OF MICHIGAN

Ms. ATUAHENE. Thank you, Chairman Green.

Between 2011 and 2015, one in four properties has been subject to property tax foreclosure: one in four. We haven't seen this number of property tax foreclosures in American history since the Great Depression. So the real question is, what in the world is going on?

Well, the Michigan State Constitution is quite clear. No property can be assessed at more than 50 percent of its market value. Although the Michigan State Constitution is quite clear, we did a study and we found that between 2009 and 2013, in each of those 7 years, anywhere between 53 and 83 percent of properties were being assessed in violation of the Michigan State Constitution. And I need you to understand that these estimates are the most conservative estimates possible.

The second step was we then broke the data into what we call five quintile, quintile 1 being the lowest-valued homes, all the way to Quintile 5 being the highest-valued homes. And what we found is that in the lowest-valued homes, 95 percent or more were being assessed in violation of the Michigan State Constitution, but when you got to the highest-valued homes, less than 20 percent were being assessed in violation of the Michigan State Constitution, which means that the most vulnerable amongst us are being subjected to these unconstitutional property tax assessments.

The next study we did is lots of things cause tax foreclosure, right? Not just these illegally inflated property tax assessments but also poverty, divorce, lots of things. So the challenge in the second study was to hold all those things constant so we can measure the effect of unconstitutional property tax assessments on foreclosure rates, and our findings were astounding. We found that 10 percent of all property tax foreclosures that happened between 2009 and 2013 would not have happened but for these unconstitutional property tax assessments. And when you look at just that lowest quintile, the lowest-valued homes—remember, I said of those ones, 95 percent or more were being assessed in violation of the Michigan State Constitution—for just that quintile, 25 percent of those homes would not have gone into property tax foreclosure but for these unconstitutional property tax assessments.

The next study we did has to do with race, specifically, because if you are doing work in Detroit and you don't address race directly, you are doing everyone a disservice. What we did is we looked at all of the cities in Wayne County, and what we found is that the predominantly African-American cities in Wayne County were being subject to unconstitutional tax assessments and foreclosures at a greater rate than the predominantly white cities in Wayne County.

What I need you to understand here is that these unconstitutional property tax assessments are just the latest chapter in a longer history of racially discriminatory housing policies that start at the beginning with racial zoning, racially restrictive covenants, urban renewal, racially biased mortgage rates, and I can go on and on. So, it is important to understand these racially based, unconstitutional tax assessments, again, not as an isolated incident but part of a larger legacy.

And the key here, for all of you who are not from Detroit, is that this is not just happening in Detroit. The Chicago Tribune just published a Pulitzer Prize-nominated series called, "The Tax Divide," and it finds that these same patterns of racially discriminatory property tax administration are also happening in Chicago. One of my co-authors, Christopher Berry, who is at the University of Chicago, is currently doing a study, and he is looking at the seven most populated cities in America, and he is finding similar patterns in each of these cities.

So the real question is, we have this evidence before us—what do we do? What do we do about it? One thing that Congress can do about it is what I am asking for today, that Congress initiate a congressional investigation into how the Fair Housing Act can address this ominous threat, can address this latest chapter in this racially discriminatory housing policies. Because at the end of the day, your children, your grandchildren, and your great-grandchildren are going to look back in history and ask, "What did you do when faced with this astounding injustice? What did you do?"

And at the very least, again, a congressional investigation into how the Fair Housing Act can be adopted to address this issue.

I know my time is running out, so I want to end with the story of Mr. Jones. I met Mr. Jones in my empirical work when I was interviewing. He used to work at a factory—remember when working at a factory put you comfortably in the middle class? And when the factory jobs went away, Mr. Jones, like many other faithful Detroiters, stayed, and they stuck it out here.

In 2012, Mr. Jones was able to finally buy his first home, which was a threadbare home that he bought for $2,500. The home had no—it was stripped, as we know here in Detroit. It was just a shell of a home. Despite that, the fact that he bought the home for $2,500, and similarly situated homes cost just the same, the City of Detroit taxed his home as if it was worth $50,000—20 times what he paid for it.

Mr. Jones qualified for something called the poverty tax exemption, because all he had was his pension and he lived below the poverty line. But because the City of Detroit erected so many barriers to people finding out about the poverty tax exemption, he didn't qualify. He didn't even apply.

So, we have a situation for Mr. Jones, and in Detroit—and these are my last words; I am wrapping it up—where, number one, people were subject to unconstitutional tax assessments. When they couldn't afford to pay these illegally inflated property tax assessments, they were foreclosed on, at record rates, for property taxes they shouldn't have been paying in the first place, because 40 percent of Detroiters live under the poverty lines and qualify for the poverty tax exemption. My God.

In my last sentence, I want to just give you a quote from Mr. Jones, that really perfectly describes the structural violence that is perpetrated by these unconstitutional tax assessments. And he said, "This whole mess makes me feel like I was stuck up and robbed."

Chairman GREEN. Thank you for your testimony, Professor Atuahene.

We will now hear from Mr. Hernandez. You have 5 minutes, sir.

STATEMENT OF HECTOR HERNANDEZ, DIRECTOR, HOUSING OPPORTUNITY CENTER, SOUTHWEST ECONOMIC SOLUTIONS

Mr. HERNANDEZ. Thank you, and I appreciate the opportunity to speak before this honorable body.

For historical context, I am going to focus on home ownership. I would like to cite a homebuyer ecosystem study that was authored by a local working group that I participated in, and they did a really comprehensive review of the challenges in Detroit to make some good recommendations.

From 1990 to 2014, Detroit lost over 250,000 residents, more than 30 percent of its population. As a result of that population loss and the national credit crisis, Detroit's housing market obviously crashed. Almost 110,000 housing units stood vacant that year, roughly a third of all units. From 2006 to 2010, the median home sale price in Detroit plummeted by over 75 percent. Every year from 2009 to 2016, over 95 percent of home purchases in Detroit have been cash sales.

This economic hurricane blew away virtually an entire industry of experienced and knowledgeable lenders, REALTORS, community development corporations, and homebuyer counseling agencies. The homebuyer ecosystem, in effect, was devastated by that crisis and it is still attempting to recover. It is coming around but it is still slow.

To give you another snapshot of the challenges in Detroit, from 2001 to 2006, there were, on average, 6,000 to 8,000 mortgages per year. In 2007, that dropped to 3,900 mortgages, and in 2008, it dropped to 1,400 mortgages. Get this—from 2009 to 2016, the average number of mortgages per year in Detroit was 416. That is not a functioning mortgage market. Even though there are, on average, 4,000 transactions per year, and only 400 of those, on average, were with a mortgage, that leaves you with cash sales and land contracts, and I will talk more about that later. It is starting to recover but it is awfully slow. In 2017, we had 1,000 mortgages issued in Detroit.

Detroit's lingering underperformance after the recession is due to a range of factors, from tighter credit standards to the hollowing out of the local real estate professions, to buyers' cautious mindsets. Nurturing this market back to health requires intentionality, working to attract capable buyers and creating demand so that sellers can gradually create a viable market and sell at a reasonable price. Valuation has been really challenged during this time as well.

In the 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. So we have a really distressed portfolio of properties. Most developers with the skills to develop these blighted properties and renovate homes 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. When move-in-ready homes are available in concentrated areas, then a critical mass of activity that changes the neighborhood perceptions can take hold. Think of Marygrove. Think of Grandmont Rosedale. There is a litany of other neighborhoods that fall into that category.

I also recently participated, in March of this year, in an interview with John Gallagher, and he cited really good data and really current data, and I am going to reference a few things from his article.

White people make up just 10 percent of Detroit's population, yet make up nearly half of the home mortgage loans made in 2017, for which the race of the applicant was known. And then citing Home Mortgage Disclosure Act data, white borrowers got almost the same number of mortgages as Black borrowers, just by being a much smaller percentage of the City's population. Of the 1,072 mortgage loans made in Detroit in 2017, the most recent year for which data is available, 442 went to white borrowers and 461 to Black borrowers.

The mortgage market doesn't exist, or barely exists in more than half of the City. Of the 297 census tracts in Detroit, each tract measuring several square blocks, 139 tracks saw no mortgages at all in 2017, and another 91 saw just 1 to 5 mortgages. So, you can see how the challenge really impacts the whole City.

In part because mortgages are less readily available in the City, Black buyers may be more likely to buy in the suburbs than in the City. In 2017, just two suburbs locally, Southfield and Redford, accounted for more mortgage loans to Black homebuyers than mortgage loans made to Black homebuyers in Detroit.

The lack of mortgage loans does not mean that there are no home sales in the City. Finance experts estimate 4,000 to 5,000 home sales in Detroit each year, but up to 80 percent of those transactions are cash or land contracts that open up individuals to obviously predatory loans. They obviously open themselves up to a lot of other legal challenges as well, in terms of losing that property much quicker than they would if they had a mortgage.

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

Chairman GREEN. You can wrap up.

Mr. HERNANDEZ. Okay. Thank you. Southwest Solutions worked with a land bank to create an appetite for more properties, and still the demand for move-in-ready products is strong.

Other challenges, in 2019, there is a sharp decline in branches in the area. So if you think of the amount of mergers that are happening in the City, that typically results in a loss of branches, so that is a challenge. Home-buyer counseling works, so some of the strategies—if you provide homebuyer counseling to help homebuyers in communities, they often can purchase a home. HUD, however, only makes $47 million available nationwide for home buyer counseling. Michigan had a miniscule amount and it is not nearly enough to meet the demand. There are other opportunities for CRA reform that could help improve the access to credit, be it through protecting the reporting as well as ensuring that you expand that to credit unions and fintech agencies. Thank you.

[The prepared statement of Mr. Hernandez can be found on page 89 of the appendix.]

Chairman GREEN. Thank you for your testimony, Mr. Hernandez.

We will now hear from Mr. Phillips. You are recognized for 5 minutes, sir.

STATEMENT OF TED PHILLIPS, EXECUTIVE DIRECTOR, UNITED COMMUNITY HOUSING COALITION

Mr. PHILLIPS. Thank you very much for the opportunity today. I am the executive director of the United Community Housing Coalition (UCHC), and I am also a life-long Detroiter, living a few miles from here. At UCHC, we provide a wide range of social and legal services focused on resolving various kinds of housing problems, primarily related to affordability and quality for low-income residents.

The foreclosure crisis, nationally and in Detroit, was well described in the memo that you had before this committee and has been elaborated on by the two previous speakers. I would like to add to some of what was said on that, that we recognize that there has been a massive loss of home ownership, particularly Black home ownership, and we have also an overwhelming abandonment problem, which I don't think has been mentioned much yet, and a glut of homes that became available for sale, all of which contributed to as much as a 90 percent reduction in value in some communities in the City of Detroit.

Concurrent with the mortgage crisis, and basically caused by the mortgage crisis, but concurrent with the mortgage crisis has been a tax foreclosure crisis. Much of this has been driven by over-assessments, as Professor Atuahene has mentioned, that were created, in large part, by a loss in value and the inability of local government to keep up with the new assessments.

Federal hardest-hit funds have been allocated to Michigan, but not nearly as much as what was needed to do the job, and they were not used nearly as effectively as they should have been.

Homes that were lost to foreclosure, mortgage, and taxes were often channeled to investors or companies doing rental agreements and what have you. Where many lenders would not offer the occupants of the foreclosed homes, sometimes even tenants, any discounted purchase amount, they would often sell or transfer to investors just to get them off of their inventory.

Tax-foreclosed homes were often purchased at tax auctions for as little as $500. Many of these were flipped on bad land contracts to avoid local rental housing laws and to ensure that the investor would be better able to declare a default and take the property back and sell it again and again until there was no value left.

The response that we have tried to make at United Community Housing Coalition, and in the advocacy community in general, has been to work with individual homeowners and occupants of foreclosed homes to keep people in their homes through counseling—I would agree with Mr. Hernandez on that part—through litigation and some financial assistance. This has been either by resolving whatever their issues were or assisting them in being able to repurchase their homes. Most cases that we have resolved have been without buybacks.

But this month, with about 500 purchases, we are going to make in collaboration with the City of Detroit, the Wayne County Treasurer, and several individual funders, one of them being the Quicken Loan Community Fund, we will have purchased, for the occupants of the home, over 4,000 homes in the last 10 years, 1,100 of them through the program with the City of Detroit. Other purchases have been buying out bad land contracts, tax auction purchases, and other things like that. I should note that all of these purchases have been for the occupant. All of them have been at cost for the occupant.

And that brings me to some of the suggestions that I have had in the written testimony that was provided. We would like to see an expanded use of the hardest-hit funds, to provide additional resources for them to be able to be used for purchases, for redemptions, for buying out of predatory land contracts, as well as repairs. Right now, we use hardest-hit funds to eliminate blight, but we only seem to define that as demolition of properties. Why not prevent blight by some of these other methods?

For federally insured mortgages, we believe we should hold the financial institutions more accountable for providing significant forbearance relief.

We should recognize that conventional mortgages are needed. One of the reasons why so many people go to land contracts is that there is not any loan product available. Many homes can be purchased still in the City of Detroit for $10,000 to $20,000 to $30,000. Lenders are not providing those kinds of loans.

We would also like to look at some reform around the land contract, and we do not believe land contracts should be eliminated, but we do think there is a lot of need for transparency concerning property conditions. Very often, people are not told of the conditions that exist in a property. Disclosing true housing values requiring independent assessments as a condition of getting into a land contract.

Classifying hybrids. There are a lot of lease purchase agreements that people enter into that are even worse than land contracts. They require substantial down payments. They require rehabbing property. They require paying taxes and insurance. They are every bit as much as a land contract but they are sold as a lease-to-purchase, so that when somebody defaults on them they are simply brought into court as a tenant and evicted, and they lose all of their equity and all that they have put into it. We would like to see those defined in such a way that they are legally a land contract.

And in conclusion, to provide help in the efforts to enforce this, we do need additional legal assistance. In the City of Detroit, there are 30,000 cases brought in the 36th District Court annually. About 4 percent of those have legal help. So when you have all of these predatory land contracts and hybrid agreements there is a need for help, and we urge you to look at ways to do that.

Thank you.

[The prepared statement of Mr. Phillips can be found on page 94 of the appendix.]

Chairman GREEN. Thank you, Mr. Phillips.

Ms. Fluker, you are now recognized for 5 minutes.

STATEMENT OF VANESSA FLUKER, FELLOW PRACTITIONER, VANESSA G. FLUKER, ESQ., PLLC

Ms. FLUKER. Thank you very much, and thank you for the opportunity to testify here today. I certainly appreciate it.

I would like to first start by kind of looking back. We are talking about tax foreclosures, installment contracts, the decline of home ownership, but you cannot look at that without looking at where all this is emanating from, which was the foreclosure crisis. Yes, there was a recession, but the bulk of our home ownership issues came from the foreclosure crisis.

And I just want to use a quote from the 2010 House Judiciary Committee hearing that was held on December 2, 2010, and I was honored and privileged to have an opportunity to testify at that hearing about the outrageous foreclosure conditions here in Detroit. At the end of my testimony, Congressman Trent said this:

"But the end result, Ms. Fluker is correct; the end result is that because of government involvement here and the lack of market discipline that seems to hold the system together, we are in a situation now where banks have an incentive oftentimes to foreclose rather than working things out with the homeowner. And I think there is something desperately wrong with all of that."

That has not changed.

I am in court every day. I am on the front lines every day. The government funded a foreclosure trend. They gave a huge bill up to the banks, who have, in turn, infused all types of law firms to fight tooth and nail to foreclose on people. They are not trying to engage in loss mitigation—never have, despite the HAMP program. They will litigate this stuff ad nauseum. And this has disparately impacted minorities, particularly African Americans, closely followed by Hispanics, and here in Michigan, people of Middle Eastern descent.

The very programs that were designed to help the homeowners failed the homeowners, which is why we have the 90 percent property value drop. It is not like the property value just dropped. It dropped because it was artificially depressed by the banks after they were infused with our tax dollars.

Now we bring this forward, and as Mr. Phillips has stated, rather than work with a homeowner, give them a modification or forbearance or anything, they would rather turn around and sell it to an investor for $1. And I don't say that flippantly. I actually litigated a case for a senior citizen, where they sold her property for $1 rather than working with her. They get these properties and they start putting people into these installment contracts.

I am fighting a case right now—I am in and out of court every other week. They are trying to evict this woman, after they locked her out, under Fannie Mae, I might add. She entered into a contract with deed with someone, had saved up her money, put down $9,000, $1,000 a month, and thinks she is safe. She comes home one day and all of the locks are changed, and all of her stuff is gone, including her dead daughter's ashes. She finds out the house was in foreclosure and they sold it to her. Do you think Fannie Mae is trying to work with that lady? Do you think they are trying to say, "You know what? You put $9,000 down. You are paying $1,400 a month, which is above what you contracted for in escrow, just to try not to be homeless." No. They are trying to throw her out on the street.

And as a side note, just so we can get a little true understanding of the role of Fannie Mae and Freddie Mac, between January 2014 and August 2017, there were about 109 eviction cases in the 36th District Court filed. Fannie Mae and Freddie Mac actually represent the two biggest entities engaging in evictions at 36th District Court, the court here in Detroit.

So, at the end of the day, we are looking at a scenario where, if we do not go back and correct this whole role of the banks and the financial institutions, doing something on the back end is not going to help. Now, you are talking about solutions. There is a lot of talk now about reparations, things of that nature. Make these banks give some reparations to the City of Detroit. Make them give some money back to the community—for all the property wealth that they have taken out of the community. That is something that needs to be looked at, and it needs to be given to the community, not to the municipalities. It needs to be given to grassroots organizations, so you can make sure it is channeled within the community, not siphoned off through some political process and not given to pseudo-investors to gentrify out the areas.

At the end of the day, we must look at everything, the totality of the circumstances—we can't just look at things in a vacuum—to truly get an understanding and create some solutions that will be viable for the City of Detroit.

[The prepared statement of Ms. Fluker can be found on page 38 of the appendix.]

Chairman GREEN. Thank you for your testimony, Ms. Fluker.

We will now hear from Ms. Mason for 5 minutes.

STATEMENT OF LAUREN MASON, MEMBER AND HOUSING COMMITTEE CHAIR, DETROIT ACTION

Ms. MASON. Thank you for allowing me to be here and to speak. My name is Lauren Mason, and I am a life-long resident of Detroit, Michigan. I reside in the 13th Congressional District. I am a member of Detroit Action, where I am a member and the Chair of our Housing Committee. I would like to tell you a story, which is my story, of how the effects of the foreclosure crisis still play out in unique ways, here in Detroit.

My fight for affordable housing is what led me to Detroit Action, where we fight for economic and social justice for our neighborhoods. I also work at the United Community Housing Coalition (UCHC) where I am on the tax prevention team, working hard to keep people in their homes. I do this work with Detroit Action and UCHC because I have experienced this pain firsthand.

My grandparents bought our home in Detroit in 1968. My family owned and occupied 1714 Seyburn for 46 years. Our home was passed down through 3 generations, with 6 generations growing up in our home. Always knowing this to be home, it was our legacy, my family's wealth, and a piece of what is called the American Dream.

I was working part-time when I noticed a hike in our property taxes in 2008, but by 2012, I noticed a larger hike. My home was assessed at $70,000, which meant it was worth $140,000. I was taxed over $900 for the year. At the time, I was unaware that my property had been illegally and unfairly assessed by Wayne County and the City of Detroit.

Home assessments, on which taxes are based, had little relationship to the market value of our home after 2008, which significantly increased taxes and led to the waves of tax foreclosures that we have seen. As a result, nearly 100,000 homes were foreclosed on since 2011, with almost 10,000 foreclosed on last year. Nearly all of the people who were at risk of losing their homes were working-class Detroiters, like me.

At the time, I asked for my property to be reassessed. It never happened. I applied for the tax exemption, which is the home tax application. I even applied for Step Forward and State emergency relief (SER), but I was denied everywhere I went, even though I qualified. There was no help for me.

I felt the weight of the universe and it was breaking me down. I was my mother's caregiver for 9 years until she died in 2009, then I had to care for my nephew, who was like a son to me, until he died in 2012. I also was sick, constantly having surgeries at the time, and working a part-time job that I couldn't afford to take the time off to care for myself.

In 2014, my house was sold to an investor in a tax auction.

The pain of losing my home still stings to this day, because I still go through the trauma of just being locked out of my own home and not having it. I was in North Carolina for a healing trip and was unaware of the foreclosure process, like most Detroiters are. The process began to take place.

I came back working, hoping to catch up on the property taxes, but one night, basically in the middle of the night, I came home from work and was locked out. My gold color locks were now silver. I had nowhere to go at 4:00 in the morning. I would sleep in my car and couch-hop from friends and family for years. I would leave notes for whoever had bought my home, to see if I could get my things. I watched my mail pile up in the door, and I never got a response from them.

After the county sold my home to the buyer, and I was illegally evicted and my possessions were thrown out without proper notice, I lost everything—my siblings, my husband, as she stated, my child's ashes that I can never get back. All of my family heirlooms. These are the things that can never be replaced. There was no restitution or retribution for people like me whose house was taken for profit.

Just recently, I have found housing for myself, even though I have always been employed. In Detroit, it seems impossible to find adequate affordable housing.

In Detroit, we see homes like my family home bought at a low rate. My taxes were only $6,000. My house was sold for over $40,000.

The speculators have changed the face of our neighborhoods for the worse. There must be something done locally and nationally to keep families from falling prey to these vultures, just like we know there needs to be something done to keep families from falling prey to the same type of subprime loans that caused our housing collapse.

There is more that Congress can do at the Federal level to fight for working-class Detroiters and people in other cities. My organization, Detroit Action, endorses a broad set of policies. We need more investment from HUD in affordable housing for people like me to improve home ownership. There is also a lack of affordable housing for middle- and low-income residents and without that investment, Detroiters like myself will continue to be displaced,

There is about $500 billion that is needed to be invested in affordable housing and home ownership for the type of housing that middle- and low-income Americans will need. Legislation like the American Housing and Mobility Act will help people like me stay in our homes and have the freedom to thrive in our communities.

Chairman GREEN. Thank you for your testimony, Ms. Mason.

We will now hear from Mr. George for 5 minutes.

STATEMENT OF TAZ GEORGE, SENIOR RESEARCH ANALYST, COMMUNITY DEVELOPMENT AND POLICY STUDIES DIVISION, FEDERAL RESERVE BANK OF CHICAGO

Mr. GEORGE. Thank you. I am a senior research analyst in the Federal Reserve Bank of Chicago's Community Development and Policy Studies Division. This division works to promote fair access to credit and financial services, and conducts policy-oriented research on the economic resilience and mobility of low- and moderate-income households. All views and comments related to my testimony are my own and not those of the Federal Reserve Bank of Chicago or the Federal Reserve System.

Today, I will discuss research I conducted with colleagues from the Urban Institute, a nonpartisan policy research organization in Washington, on the challenges of financing the purchase of lower-cost, single-family homes. In our study, these are properties valued under $70,000, which is about the lowest 15 percent of home sales nationwide. Our research suggests that this segment of the housing market is not well served by existing mortgage financing products, in part due to profit, liquidity, and risk constraints associated with small loans. Lower-income homebuyers and homebuyers in low-cost areas, are particularly at risk of facing challenges obtaining financing.

Here are some of the high-level findings from our study.

In many parts of the country, including here in Wayne County, lower-priced homes are a significant share of the housing market. In 2015, about 45 percent of sales in this county involved homes with values below $70,000. Low-cost sales are far less likely to be financed by a mortgage and are, instead, more likely to be financed with cash or other means. This means that low-income buyers must either save more or pursue alternative financing products that do not offer the same consumer protections of a mortgage.

In cases where buyers of low-cost homes were able to obtain loans, we found, in our research, that these loans stayed disproportionately on the originating bank's balance sheet. This suggests that access to the secondary market, which is a key source of liquidity for lenders, is more limited for these smaller mortgages, compared to larger loans.

If buyers of low-cost homes cannot obtain a mortgage and are unable to pay in cash, they may turn to sellers for financing, in what we have discussed today as land contracts or contract for deed. Under these contracts, buyers may have no means of accruing equity in their home, and they have few of the consumer protections of a mortgage or a rental contract. The combination of limited access to credit and the prevalence of these contract for deed transactions compounds the risk of homebuying for low-income households, including those in Wayne County.

Now, I would like to discuss some of the factors impacting the supply of small-dollar mortgage credit that makes these smaller loans so difficult to obtain.

The structure of mortgage lending, in terms of the compensations and incentives for lenders, works to the disadvantage of small-dollar loans, as these loans are typically less profitable for lenders to originate. Smaller loans generate lower revenues, yet the costs borne by the lender for appraisals, underwriting, and administrative procedures could be similar to those of larger loan amounts.

Another factor inhibiting the flow of credit for these properties is that they may need repairs to meet code requirements before a lender can underwrite a loan on the home. Finally, prospective low-cost homebuyers may experience greater challenges with qualifying for a mortgage due to their credit scores, income, and ability to finance a down payment on a property.

Today there are organizations that may help address some of these challenges, like the ones represented on this panel today. For example, community development financial institutions can help households build credit to obtain home ownership. To address challenges with housing stock condition, mission-driven lenders and other organizations may combine purchase and rehabilitation loans so that buyers can acquire and repair homes in poor condition.

Other organizations promote land banking and other rehabilitation strategies, which have helped to stabilize housing markets and support affordable home ownership.

Thank you again for the opportunity to testify today, and I look forward to discussing this further.

[The prepared statement of Mr. George can be found on page 48 of the appendix.]

Chairman GREEN. Thank you, Mr. George, for your testimony. Now, we will hear from the Congresspersons.

First, Ms. Tlaib is recognized for 5 minutes to ask questions.

Ms. TLAIB. Thank you, Mr. Chairman. As we all know, across our district, across the 13th Congressional District, and the State of Michigan, we are seeing more and more families renting instead of owning their own homes. From Redford Township to Inkster, all the way to Wayne, Michigan, I have seen the economic instability it is causing for our residents and communities, especially when I saw 56.8 percent of our households in the 13th Congressional District pay more than 30 percent of their income for housing.

Just last year, a series of reports released by the Urban Institute showed that Michigan suffered the steepest decline in Black home ownership. While there are a number of contributing factors, one thing is certain, and I truly believe this, that provisions in the Fair Housing Act of 1968 had cracks and flaws, and simply did not go far enough to protect our communities in the time of corporate-driven economics that put profits before people.

And so with that, I wanted to ask the professor specific questions. One of the things that we talked about, even during the tour, was the assessment and the flaws, and the fact that basically, we were not provided our constitutional right to the assessment. What can we do, and is this not only a Detroit issue but is this a Wayne County-wide issue?

Ms. ATUAHENE. Thank you. Yes, absolutely. First, in the study I had mentioned, we looked at each of the municipalities in Wayne County, and we found that the three municipalities with a super majority of African Americans, which is Detroit, Inkster, and Highland Park, were far more likely to experience these property tax foreclosures and these unconstitutional tax assessments than the counties that had a super majority of whites. So, this is a Wayne County issue, for sure, but it is also a racialized issue.

Second, it is not only in Wayne County or in Michigan. This is a national issue of this racialized property tax administration. I mentioned the problem in Chicago, brought to light by the Chicago Tribune, and also the study my co-author is doing of the seven most populated cities.

So this is a Detroit problem, this is a Michigan problem, and this is a national problem. And as far as what we can do about it, in the Detroit context—you have been a huge supporter of the Coalition to End Unconstitutional Tax Foreclosures, and we have three solutions.

The first solution is we want to stop these unconstitutional tax assessments. At the top of 2017, the City finally did a parcel-by-parcel reassessment of all the properties. We redid our study after that and found that there was lots of improvement, which is the good news, but the lowest-valued homes are still being over-assessed. And we are calling on Assessor Alvin Horhn to do an across-the-board cut of those low-valued homes, to get it right. And again, it is not that these are evil people. It is just, as many people mentioned, a home worth $500 is hard to value. And so, there is some of that going on.

The second solution is we want to have zero owner-occupied homes going into the tax foreclosure auction. We cannot have this empirically proven, unconstitutional tax assessment and continue to foreclose on people as if the problem is they don't want to pay. I did several interviews and I asked one Detroit official—I won't mention his name here—"Why do you think we are having this property tax foreclosure crisis?" And he said, "Professor, when people have a choice between buying a purse and paying their taxes, unfortunately, they buy the purse." It is these narratives that put the blame on the individual. And I need you to understand these narratives as strategic narratives, because the work that they are doing is moving our gaze from the structural injustice, which are these unconstitutional property tax assessments, into the failure of personal responsibility of individuals, and we need to resist that.

Ms. TLAIB. Thank you so much, Professor.

Mr. Phillips, as you know, my office has been working—actually, I have spoken to Chairwoman Maxine Waters about the issue of land contracts, or land installments, processes that I know have been impacted all throughout Wayne County. Can you talk and take a deeper dive into what are some of the changes that you want to see? You talked specifically about values, but there are other protections that we need to see, because a lot of folks think that you have the same protections with a land contract as you would with the mortgage foreclosure process.

Mr. PHILLIPS. Right, and you don't, because very often in these situations the person is—with a mortgage, you are going to have the mortgage company there, you are probably going to have a title company there, you may have an attorney or two there to protect your interests. In many of these you are going to have the seller and you are going to have the buyer, who maybe is buying a home for the first time, and is believing whatever he or she is told.

So certainly requiring that there be inspections done before a purchase can be had, it would be very beneficial, at least to put the buyer on notice. Requiring that there be complete disclosure. We very often see homes in tax foreclosure that are sold in late March—those are usually cash sales, not usually land contract sales—but sold in late March. The significance of that is that April 1st is the deadline for the redemption of properties when they are going into tax foreclosure. So, the requirement that there be full disclosure on those kinds of things.

Certainly, in terms of the hybrid ones, that we eliminate them by saying that any agreement that has certain features to it, such as requiring the buyer, whether you call the buyer a tenant or a buyer, the tax is a super down payment that is above and beyond the security deposit limits in the State of Michigan, that requires them to rehab—not repair, but rehab—property, is what these are often defined as. Those kinds of things, it should be clear that those are clearly land contracts.

And where that becomes a problem—it is not so much of a problem when you can have an attorney representing somebody in court when those cases come up, but again, very few people have an attorney, and judges will tend to look at, well, it says it is a lease, so regardless of what it says in this lease, that is what it is.

I think there are other reforms that could be made as well. I do think that there is a need for not eliminating land contracts, because they do, in some instances, work. We use land contracts for some of the 4,000 homes that we are able to sell. It is a convenient tool and there are some individuals for whom that is the only—they may have been in their home for 40 years and legitimately want to sell it, but the buyer can't get a mortgage anywhere. So how do you deal with those kinds of things?

So, there is a need for keeping them, to some degree, but there certainly are a lot of reforms that need to be made to make them fair.

Ms. TLAIB. Thank you so much, and if I may, Mr. Chairman, I do want to recognize a number—not individually, but a number of our elected officials, local elected officials who are here. We do appreciate their presence.

Chairman GREEN. Thank you very much. We may have an opportunity for you to ask some additional questions, Ms. Tlaib.

At this time, we will now yield to Ms. Garcia, from Texas, for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and thank you to all the witnesses for being here.

I was really struck this morning, during the tour, by the number of what appeared to be abandoned homes, and I was very curious about that, so I googled you all, just like every time we have a question and we don't have an encyclopedia, those of you who still remember encyclopedias, and it says here, "Is Detroit an abandoned city?" An abandoned city. It says, "A significant percentage of housing parcels in the City are vacant, with abandoned lots making up more than half of total residential lots in large portions of the City. With at least 70,000 abandoned buildings, 31,000 empty houses, and 90,000 vacant lots, Detroit has become notorious for its urban blight."

Now, urban blight is a difficult problem to solve. I don't know that Congress has an answer, and I don't know that we will come up with an answer today. But I wanted to ask the professor and Ms. Fluker the question—give us a recommendation, at least one, of what you think Congress can do to help solve that, so that when we Google Detroit, we don't come up with this abandoned City, because I am sure that is not what you all want. So, help us get there. What are your recommendations? Just one or two.

Ms. ATUAHENE. Let me give you my main recommendation—

Ms. GARCIA OF TEXAS. One would be good.

Ms. ATUAHENE. —which is, again, you have to understand the scourge of unconstitutional tax assessments as the latest chapter in a larger history of racialized—

Ms. GARCIA OF TEXAS. Right. You have talked about that.

Ms. ATUAHENE. —housing. That is exactly right. And so to stop—the reason why we are going to have another chapter, and another chapter, and another chapter until people are held to account, right?

So, the real solution here is to provide some compensation. You can't have this empirically proven instance of these unconstitutional tax assessments and people then get their houses foreclosed upon, and you say, "Oops, I'm sorry." There is no "oops" here. We need compensation. And providing compensation is the only way that we can ensure people are held to account so that there will not be yet another chapter, another chapter of this kind of—

Ms. GARCIA OF TEXAS. But is that the role of your State Government or the role of the Federal Government?

Ms. ATUAHENE. We need both. To really provide compensation, we are going to need Federal dollars and State dollars. The City of Detroit doesn't have money, and so we are going to need the Feds to come in and we are going to need the State of Michigan to come in. We need all hands on deck in order to provide compensation.

Ms. GARCIA OF TEXAS. Okay. Ms. Fluker?

Ms. FLUKER. Yes. Thank you very much for the question. I appreciate that. Everything I am citing is attached to my testimony. I attached a data sheet.

And it is very important that we understand that prior to the housing crisis, the housing bubble, statistics have shown that 78 percent of the foreclosed homes in Detroit were predatory subprime loans. The reason that becomes very, very significant is because now we have a scenario, after the bailout, after Fannie Mae and Freddie Mac, "sheared the toxic loans", that they are a large percentage of the owners of the abandoned property. And, in fact, according to the 2015 study, Fannie Mae had about 46 percent of the abandoned housing and 58 percent of the housing owned by Fannie and Freddie was abandoned here in Detroit. I find that extremely—

Ms. GARCIA OF TEXAS. But what can we do to change it, Fannie Mae and Freddie Mac? What is your recommendation there?

Ms. FLUKER. Stop throwing people—

Ms. GARCIA OF TEXAS. I only have only 5 minutes, and I am trying to get you to answer my question.

Ms. FLUKER. Yes. Stop throwing people out on the street. Allow them to purchase these homes. Particularly when the mortgage was subprime, things of that nature, give them an alternative to purchase the homes. Or in the case of my lady who did the contract, the deed was defrauded, why are you throwing somebody out when they are willing to pay a reasonable price and they are trying to purchase a home?

And it is sad because so many of my clients that we are not successful on for mortgage foreclosures, things like that, they go back to their house 5 years later, or 7 years later, and the house is sitting there abandoned, when no one will work with them to allow them to pay a reasonable amount, when they knew the mortgage was subprime. That hasn't gone away. We still have those mortgages. Most of those were 30-year mortgages and it hasn't been 30 years, but we still have a consistent foreclosure process going on in Detroit, and it is feeding into this abandonment. And if we just allow people to stay in their homes, pay for the homes, rather than just letting them sit there and be abandoned, particularly government-owned property.

Ms. GARCIA OF TEXAS. All right. Thank you.

And my question now is for Mr. George. I listened to your testimony and you were talking about the low-cost homes and the high foreclosure rate. What can we do to work with the Federal Reserve Bank, in terms of some of our mandates to regulation, to improve that situation and also to make changes and reform and modernize the Community Reinvestment Act (CRA), to get the banks to work with the community? It shouldn't be the other way around. You are the regulator up there. What could we be doing?

Mr. GEORGE. I think that is a really important question. It is beyond the scope of the research that I have presented today. I think that there may be others within the Federal Reserve that are working on those issues.

When I think about potential solutions to address the lack of credit flowing to these communities, I think of the organizations that are active there today and what they are doing, in particular, community development financial institutions (CDFIs). They may not face the same profitability pressures of a private lender, where, for a smaller mortgage that is going to have a thinner profit margin or maybe not be profitable, a private bank may have a minimum loan size or incentives that discourage their loan officers from being active in that segment of the market, whereas a CDFI, if it aligns with their mission to serve the needs of their community, they are going to be more motivated to try and address those kinds of credit gaps.

So I can't speak to the regulatory matters you mentioned, but I can think of what organizations—

Ms. GARCIA OF TEXAS. But did any of the studies that you cited make recommendations as to what we can do to make the banks more accountable under the CRA?

Mr. GEORGE. Under CRA? I would have to think about that question more and get back to you.

Ms. GARCIA OF TEXAS. All right. I yield back. Thank you, Mr. Chairman.

Chairman GREEN. Thank you. Without objection, we will have a second round of questioning, and Ms. Tlaib, we will yield to you for an additional 5 minutes.

Ms. TLAIB. Thank you. So right now, I know about 65,000 foreclosures—this is for you, Ted—65,000 properties in foreclosure in 2019. Twenty-one percent of them didn't even know that it was in foreclosure. I think, what, back in 2018, they were saying there was a high percentage that didn't even know.

But the one issue that came up during the tour, Ted, is specifically around this move for community groups, who are so tired of trying to deal with the banks or trying to get the Federal Government to do something, that they are now creating community trust funds, basically saying that we are going to go on the auction, we are going to buy these homes back for our neighbors, and we are going to help them stay in their homes.

And they were saying how the Wayne County tax foreclosure process now, and that it is online during the auction. The one that I have—always, my colleagues, even, were kind of taken aback by that process. Can you talk a little bit about that, because it is not very accessible? People think that somebody in the audience right now can just go online and try to buy their home back, that there is this process that you can get it back for $500. There are a lot of misconceptions out there.

I know the Wayne County tax foreclosure process online, the auction, is broken. It is so lenient and easier for investors, and out-of-State investors, specifically, to buy people's homes versus non-profit organizations and others who are trying to get folks to stay in their homes.

Mr. PHILLIPS. Well, there are a lot of impediments, certainly, and it has gotten much more difficult.

Ms. TLAIB. Can you go through the process?

Mr. PHILLIPS. Yes. Basically, you have to register, you have to have money to register, a deposit to put down.

Ms. TLAIB. How much?

Mr. PHILLIPS. At least $2,000, I think. In the September auction, you have to be prepared to bid all of the back taxes. A lot of investors don't do that. For the October auction, a month later, the minimum bid is $500, so it is a little bit easier. But you also have to do it online. It is a quick process. They list all the homes. There are like 15-minute increments they do closings on. It can get somewhat cumbersome.

What has been the biggest problem of the last couple of years has been that there has been a rebound in some property values. Last year, we were able to get 520 homes through the process we have worked out with the City of Detroit, through using their right to take property before the auction. We were able to get those homes for generally between $2,000 and $5,000, and give the people a year to pay back what we paid.

When we participated last year in the October auction, we got 3 properties. Five years ago, we had as many as 300 properties we were able to get through that process. Five years ago, $500, $600, $1,000.

Ms. TLAIB. Why only 3? Why now only 3?

Mr. PHILLIPS. There are fewer properties. That was one thing. But the other thing is that there is much more competition for the properties that are left, and it is a much more difficult process to get them. Notwithstanding that, still, for investors to pay, instead of $500, $5,000 for a property is not that big of a deal, and they are still buying properties for $5,000 and letting them sit there and rot, or flipping them on bad land contracts and basically doing the equivalent when they get it back after one or two or three, and let it rot. So we are still having that kind of problem.

But it is not easy for an individual. We, for a number of years—and we still—offer to bid, on behalf of people, to be able to get the home that they are in.

There also was legislation passed in Michigan banning the former homeowner from bidding, which was a huge mistake. It was supposedly to keep investors from buying back the properties that they weren't paying taxes on. They simply changed their name.

They are bad as Smith Corporation 1, so the next year they are Smith Corporation 2, and there is a number like that. One of them is up to 16, and they are that blatant, but yet they get away with it. Same people, different name, so they are considered a different company and they are allowed to do it. But individual homeowners who lose are not allowed to bid in the October auction.

So there is a lot of cumbersome—and it is online. If you are not used to doing that, it can be very difficult to do.

Ms. TLAIB. And the last—one of the things, and, Ms. Fluker, if you can—what have you seen in regards to how this movement around foreclosure has been so aggressive, especially in Wayne County, how that is connected to what is happening with water shutoffs, how that is all interconnected? Because I know that people's water bills were somehow attached to their tax bills and all of that, and trying to unpackage that and understanding how that really fed into the crisis that we have.

Ms. FLUKER. It is very significant, particularly—there are actually two or three layers and I am going to try to do it as quickly as I can.

Layer one is, if you have a water bill and it is converted onto your taxes, if you have a mortgage, that can actually accelerate that mortgage, because now you are in breach, encumbered to property and property with taxes, things of that nature. So it can be problematic from that perspective.

It is also problematic from the perspective of many times, people who may have owned their home outright, have a water problem, and suddenly it becomes a tax bill, collecting 25 percent interest, I might add. So if you don't have that immediately, in a year's time it is just going to be out of control. And without the ability—obviously, if you couldn't pay it initially, a year later, 25—

Ms. TLAIB. Ms. Fluker, we didn't always have that as an issue. They didn't put it on your tax bill before, correct?

Ms. FLUKER. That is correct. That is a tool that is being used to gentrify our property. They are doing it a lot with churches, particularly Black churches. In fact, they are doing it with Black churches who don't have outstanding water bills. I represent a pastor right now. It is the third time. The same investor has allegedly bought his property at a tax sale, but it is a tax-exempt church and it has been for about 40 years, because certain areas, I guess, are designated to be, certain development areas, whatever the case may be.

So, actually, water bills are being used as a tool to create an encumbrance, to take property. So it is all interrelated, not to mention the ancillary health issues, things of that nature.

Ms. TLAIB. Thank you, Mr. Chairman.

Chairman GREEN. Thank you. We will again hear from Congresswoman Garcia for an additional 5 minutes.

Ms. GARCIA OF TEXAS. I am just sitting here, almost shocked. You are telling me they are using the water bill to add it to the tax bill?

Ms. FLUKER. At 25 percent interest.

Ms. GARCIA OF TEXAS. So that is a State law that allows them to do that? Well, you all need to go in and change that. That is just outrageous. No, that is not a Federal law. And I just can't believe, because I know during the tour they mentioned the water bills being so high. Because I am one of those who pays things per quarter because I am in Washington and I don't have to worry about the bills, right? If I send $100 to the water company in Houston, that does me good for like 3 months, and I don't have to worry about paying another bill.

I am sitting here just sort of in shock. And you are talking to someone whose first job out of law school was a Legal Aid lawyer, and my favorite tee-shirt said, "Housing for people, not for profits." To me, it sounds like you are giving me a perfect example of the kind of case I used to love to have when I was in Legal Aid, because that sounds like it is purely for profits, and to take over the homes.

So I am just aghast and certainly will work with your Congresswoman to see if there is anything we can do at the Federal level. But it sounds to me that this needs to be done at the State level, to go in and repeal that law.

But like I said, I didn't come here to tell you how to do things the Texas way, but it is just shocking. You live next to the water. Why is your water bill so high?

It should be easier. But I will move on, Mr. Chairman. I do have a question for Mr. Hernandez.

I listened to your numbers about the number of mortgages. You said only 416?

Mr. HERNANDEZ. On average.

Ms. GARCIA OF TEXAS. On average. So is that traditional financing or is it also any secondary financing?

Mr. HERNANDEZ. Correct. It is traditional.

Ms. GARCIA OF TEXAS. Traditional financing. So what is it that we can do with Fannie Mae and Freddie Mac and other lenders to hold them accountable, give them incentives, make them be fair, and provide home financing to increase home ownership in this City?

Mr. HERNANDEZ. So fundamentally, strengthening CRA. Right now, it is under attack, right? They are trying to weaken it, trying to aggregate data so that you are not tracking it specifically in LMI areas. And then, even more specifically, who was actually the borrower?

So putting some teeth into the CRA, strengthening it, not weakening it, helping ensure that—

Ms. GARCIA OF TEXAS. But how, specifically, do you want us to strengthen it? I asked Mr. George and he told me I need to talk to the regulators. So tell us how to do that. What is it that you recommend we do?

Mr. HERNANDEZ. Well, if you look at the reviews that the regulators perform, they kind of skim over a lot of things and they don't really—they don't put the hammer down when they can. And so if they are not enforcing the way they should and can, because CRA is a really powerful tool.

When a bank gets a ding on your CRA, they are meeting with local community groups and listening, and incorporating feedback to generate a community benefits plan and strategy on how to rectify that challenge. We have done it successfully with a couple of local banks, and in a couple of instances that I have been involved in CRA negotiations, where the banks either had a challenge with a merger or a CRA—we were negotiating with, I think, Fifth Third, I think, like $30 billion.

And it is an investment, for sure. They didn't have to, but they were willing to because it is a sound business strategy to partner with a couple hundred community groups, to rectify and enhance their business model, to ensure that they are meeting goals and lending in LMI communities.

Ms. GARCIA OF TEXAS. Thank you. I yield back, Mr. Chairman.

Chairman GREEN. Thank you. Without objection, I am going to give Ms. Mason some additional time. We did interrupt your statement, Ms. Mason. Do you have anything else you would like to say before I ask my questions?

Ms. MASON. Well, yes, I do have something I would like to say. I do believe that this is unjust, unfair, and unconstitutional, the evictions, the foreclosures. It is just not right. We have DTE as well as water connected to the properties that are foreclosed upon, and it makes it hard for people to become homeowners as well as stay in their homes, even if they get them.

So we need laws, we need policies, most definitely, because this all is intentional. It is strategically intentional. And I lost my home, that I watched my grandparents buy for me and my family to stay in. My mother struggled, along with me helping her, to make sure that the home was bought and paid for, only for us to lose it to illegally assessed taxes.

Chairman GREEN. At this time—thank you for your testimony—I am going to yield myself 5 minutes for some questions. Let's start with Mr. Phillips.

Mr. Phillips, you indicated that you have an instrument called a lease-to-purchase contract. With the lease-to-purchase contract, is that regulated by the State in some way?

Mr. PHILLIPS. Not really. What we argue legally is that it they are effectively our land contracts, and when we argue under the State land contract law to try to get greater benefits. So if they are a tenant, for example, if they miss a payment, they are in court, in a short period of time they have a judgment to pay in 10 days, and they win the right to continue to pay rent. If they have a land contract, they get a longer period to redeem. If they pay off the land contract, they get ownership.

So the problem is that many of the lease purchase agreements are written in a way that the person is called a tenant, they are treated as a tenant, but everything in the agreement reeks of land contracts.

Chairman GREEN. Would it be beneficial, Mr. Phillips, to have lease-to-purchase contracts, land contracts, contracts for deed, all of them to be identified as a single entity, such that clever people won't be able to call it something else in an effort to get around the law? Would it be helpful to have all of these things identified in a such a way?

Mr. PHILLIPS. And the criteria for them, yes.

Chairman GREEN. Yes.

Mr. PHILLIPS. I think it absolutely would be.

Chairman GREEN. And let's move to the bidding. It is my understanding, from the testimony, that the owner is prohibited from bidding on the property. Is that correct?

Mr. PHILLIPS. They can bid at the September auction where all the taxes have to be paid, but other than that, they cannot bid.

Chairman GREEN. They cannot bid. Would it be appropriate to have the owner given the opportunity to have the right to purchase the property at the bid price, and if not, then the person who actually prevails with the bid can purchase the property at that price? Are you following me?

Mr. PHILLIPS. Yes, and that would be very helpful for persons who did not owe a lot of taxes. The practical problem at that point, by September, is that very often, low-income people don't have $3,000, $4,000, or $5,000 in their pocket. But for those amounts, those are the kinds of ones that we try to buy—have the City intervene on in July and August.

Chairman GREEN. This would be somewhat of a last-chance opportunity for an owner to continue to have ownership of the property?

I read one case where a person's home was taken at an auction for $500. Attorney Fluker, you mentioned $1. If that is the bid price, and the owner has paid thousands of dollars to purchase, giving the owner that one last opportunity to purchase the home now for the $500, or, in your case, the $1 purchase price, it seems to me that might be beneficial, if the law allowed that.

Your thoughts, Ms. Fluker?

Ms. FLUKER. I think it would be beneficial to permit the owner to purchase at the bid price before the bid price is finalized. I think that owner should have every opportunity to retain home ownership, particularly in light of the owner's process, the excess not just taxes but the excessive interest and fees. So many times—you know, you can start off with a basic bill. Okay, yes, $500—let's use a hypothetical—but at 25 percent interest, it doesn't take long for that to spiral out of control, particularly if you are working with limited means.

So, if they have an opportunity at that bid to be able to almost go back to square one for that last chance, I do believe that would be helpful, for sure.

Chairman GREEN. Thank you. Ms. Mason, a quick question for you, please. I have another Member here and will be yielding to her in just a moment. But do you recall what the bid price was for your property?

Ms. MASON. I don't know how much it started off at, but it did sell for like $44,000 to $46,000.

Chairman GREEN. That is what your home ultimately sold for?

Ms. MASON. Yes.

Chairman GREEN. But you don't know what it was purchased for at auction?

Ms. MASON. $44,000 to $46,000.

Chairman GREEN. Okay.

Ms. MASON. I think.

Chairman GREEN. We will now have a final round, without objection, and we will start with the Member who is here, Congresswoman Lawrence of Michigan, and we welcome you.

Mrs. LAWRENCE. Thank you.

Chairman GREEN. We are grateful that you were able to make it. We didn't know that you were coming. And Congresswoman, you hail from the 14th Congressional District?

Mrs. LAWRENCE. Yes.

Chairman GREEN. All right. You are recognized for 5 minutes.

Mrs. LAWRENCE. I want to thank the chairman and my esteemed colleague, Congresswoman Tlaib, from the neighboring 13th District, for convening this important hearing. Minorities have always faced historic patterns of discrimination when it comes to home ownership, and if you look at the numbers on a national level, the number of minorities, African Americans, home ownership is dropping in America.

Black, Hispanic, and Asian households face neighborhood segregation, and in 2008, the financial crisis devastated homeowners all across this country, but it significantly decimated the Black community, where home ownership is a larger part of the overall wealth in our communities.

I have a question, and this is going to those of you who have the opportunity to provide loans. Can you describe what funds—Federal, State, local, or private—your organization relies on to fight discrimination in housing, and to have affordable and adequate housing? I need to know, as I sit on the Appropriations Committee, and so my job is funding. I want to know what funds you are relying upon to help us in this fight?

Mr. PHILLIPS. Well, we have developed a very small pool of money that we have built up over the years. We started buying properties about 10 years ago. As I mentioned earlier, we have bought, I think it is 3,500 properties to date.

Mrs. LAWRENCE. Is that private funds?

Mr. PHILLIPS. It is private funding.

Mrs. LAWRENCE. Do you get any Federal, State—

Mr. PHILLIPS. There is no Federal funding in that particular—that was mostly foundation funds, the United Way. More recently, the Quicken Community Loan Fund has been a huge participant in that. And what we have done is we have provided loans to people that they pay back, and then we use that money the following year to help people purchase homes.

Mrs. LAWRENCE. If I could, is there anyone on this panel who knows that they can use Federal dollars to fight discrimination or to help in housing for people in poor and underrepresented communities? I am getting a "no."

So, this is a very powerful statement to say. Yes, did you have a statement?

Ms. ATUAHENE. Are you talking about the Fair Housing Act, money through the Fair Housing Act?

Mrs. LAWRENCE. Yes.

Ms. ATUAHENE. Okay.

Mrs. LAWRENCE. So tell me about that. What are you getting and how is it being used?

Ms. ATUAHENE. No.

Mrs. LAWRENCE. You don't get any?

Ms. ATUAHENE. No.

Mr. PHILLIPS. I think the Detroit Fair Housing Center would be who would get that, and none of us are directly connected to them.

Mrs. LAWRENCE. Why aren't you connected?

Mr. PHILLIPS. We work with them, but we are not—our division of labor is that generally we represent tenants and others facing eviction and they will handle discrimination cases.

Mr. HERNANDEZ. Our organization does receive counseling funding through HUD.

Mrs. LAWRENCE. Counseling funding?

Mr. HERNANDEZ. Yes, but it's wholly inadequate. And there is now a certification requirement. They have expanded the requirements to provide counseling. It is very comprehensive. Everyone has to be licensed by August 1st of next year, and pass that exam. But the funding is wholly inadequate. I think the funding we received last year to provide that, and that includes Fair Housing, was $40,000, and we have counseled 300 people and produced at least 125 homebuyers. And so, we have had to supplement that with just lots of fundraising.

Mrs. LAWRENCE. This will go into my next question. How can the Federal Government do a better job of supporting the expansion of affordable housing? Ms. Mason, I understand you were a victim. What can the Federal Government—what would you recommend we do better? Do you have any recommendations?

Yes, sir?

Mr. PHILLIPS. With $47 million appropriated to HUD for housing counseling nationwide, and I think Michigan's cut was $3 million, and $2 million of that went to one organization that is a nationwide organization, it is just not enough. There are hundreds, literally hundreds, and probably thousands of prospective homebuyers in Detroit who could receive credit-building counseling, and in 6 to 12 months could be eligible to buy a home versus rent, which is what they are doing now, because the rental rates typically are higher than what they can do if they bought, if they only knew and understood the process.

Mrs. LAWRENCE. Right.

Mr. PHILLIPS. Plus, there are hardest-hit funds still out there with Michigan, and there is no reason why there shouldn't be others. And their limitations on that are ridiculous. The fact that you can use the funds to tear down homes, to eliminate blight, but you can't use the same damn funds to help people stay in their home to prevent blight is ridiculous.

Mrs. LAWRENCE. I agree.

Ms. ATUAHENE. And I would just say, we really do need—you are asking what Congress can do, what you all can do, and I said it before and I will say it again. We really do need a congressional investigation into this abusive property tax administration that is happening not only in Detroit but most other Black cities in America. So we really need, as a first step, a congressional investigation, and then from that investigation is where we can answer your question as to where exactly the Federal Government can plug in. But as a first matter, order of business, is we need an investigation.

And I just want to also thank Representative Tlaib who has been fighting this fight way before she got into Congress, on the property tax foreclosure, fighting with us here in Detroit. And thank you so much for bringing Congress here and lifting up this issue. But that is exactly what we need from you all, is an investigation.

Mrs. LAWRENCE. Thank you. I yield back my time.

Chairman GREEN. Thank you very much. We will now hear from Congresswoman Tlaib for a final 5 minutes.

Ms. TLAIB. Thank you so much. Mr. Hernandez, we talked about the CRA, and I have been really a big critic of just not feeling like the enforcement is there. You called it teeth, but it is enforcement, and they do skim through it, and they get—and for folks to know, the Community Reinvestment Act was all about forcing the banks to do what they were supposed to do, which is to help low- and moderate-income communities.

The loophole I see now, especially in Wayne County, is they are making mortgage loans in low- and moderate-income communities, but they are not minority communities, communities of color. So the majority of loans are still going to white families who are moving into Detroit versus Black families, and they are getting credit for that, which wasn't really the true intent of the Community Reinvestment Act. It was to desegregate. It was to force banks to open up branches in communities that lacked access to financial stability and access.

And so in there, what is it—and we talked about this—but Hector, what would go wrong if we said it can't be based on geography, that it has to be based on the makeup of the family who is applying for the mortgage?

Mr. HERNANDEZ. I think it should be both, and right now they are watering it down by taking a larger swath of the lending they are doing in certain areas and geographies, and not drilling down in specific communities, and then the ethnicity, demographics of that bower. That is how they get around it right now, and I think we need to strengthen it.

I also think we need to enhance it by asking or requiring your fintech financial institutions and your credit unions to also report on the data. I think they are both doing good work but you should level that playing field so we know who is lending what to whom.

Ms. TLAIB. And one thing that we talked about—and this is for Ted—in regards to land contracts and so forth, you talked about the fact that most—I think it is only 4 percent of those who end up at 36th District Court have access to legal services, even though there were, what, 30,000 cases?

Mr. PHILLIPS. Right.

Ms. TLAIB. And you said it would be really great to try to find support and funding towards expanding access to free legal support at the courts or at that level for specific things around land contracts and so forth.

Where have you seen it done the best? Where have you seen for there to be that direct connect? Because I know, when my residents go down there, it is like speed dating, literally. No, really, it is. They lose their homes within minutes. They don't know what happened. They have no idea what exactly was going on.

And, Ms. Fluker knows. She was my first boss chairman. I don't know if you know that. That is probably why I turned out the way I am.

[laughter]

It is all Vanessa's fault.

But, Mr. Phillips, one of the things that—we talk about more money and sometimes I worry about that. I worry about throwing more money at something that is already broken. And so I am cautious about—when you mentioned it, of course, it is something that sounds great, but explain to me how that would really look like at the 36th District Court? Would it be extended more to organizations like yours? I think there is a culture there, because there are so many. We are talking about thousands of people who go through there, who lose their homes to all kinds of things—land contracts, tenants, you name it, it is happening there. If you could talk a little bit more about that.

Mr. PHILLIPS. Currently, there are essentially three organizations that provide legal representation: ours, which provides the most; Lake Shore Legal Aid, which is the federally funded legal services organization in this area, but they cover three counties, including Detroit, but three counties; and Michigan Legal Services. With our combined resources, we are able to do roughly 4 percent of the 30,000 that go through. There are 200 to 300 cases a day that are heard by three judges. We have the capacity to run a clinic at the court three mornings a week. Lake Shore does two other times.

So, there are just not enough people there. We will very often have to cut off intake 15 minutes into getting there, because there are just not enough folks to do it. If we had the ability to have more, if those three organizations had the ability to have more attorneys, like New York and other places have had, that are moving to the right-to-counsel concept—Philadelphia, and a few other places that have gone to that—they are seeing a dramatic reduction in the number of evictions that not only impact land contract situations but people in subsidized housing that are massively losing their vouchers, losing their housing, becoming homeless because they are, in some ways, even more dire because their $50 a month rent—where do you go if you are paying $50 a month rent and you lose your voucher?

So, there is a desperate need for more attorneys, but you are right, they have to be attorneys who are part of a system that works, and not just necessarily turning to the private bar or something like that, or allocating the funds to the court. I am not advocating allocating the funds to the court. The court has been supportive in terms of providing space and working cooperatively to let us be there, and that shouldn't be a big deal, but it is. There was a time that we couldn't even do that.

But there is a desperate need for more bodies to represent people of all types, and certainly one of those types is people losing their homes.

Chairman GREEN. Thank you. We will now hear from Congresswoman Garcia for a final 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and I wanted to go back to the call for an investigation, I believe you called it. You have said it now twice so I always think that the third one is the charm, so I think we are listening. We have heard you.

I just want to be clear on what you think we need to do with that, because in your writings you note that unjust property tax administration was frequently used to dispossess African Americans of their land and other property during the Jim Crow era.

Ms. ATUAHENE. That is right.

Ms. GARCIA OF TEXAS. Do you believe that the administration in Detroit is operating in a similar fashion today? Is this just modern redlining? What is it you think we need to specifically look at, in terms of the structural challenges involved here?

Ms. ATUAHENE. I think the investigation needs to look at the property tax administration practices in majority Black cities. That is basically what I am talking about.

Ms. GARCIA OF TEXAS. In Detroit and major cities across America?

Ms. ATUAHENE. Yes, cities with a substantial number of African Americans. Because, again, the empirical work is finding that it is these especially vulnerable communities of African Americans in urban areas who are being subjected to this abusive property tax administration.

So I would suggest that the investigation start with the five most populated cities that have a significant population of African Americans, and look into it. Again, we would be more than happy to come provide the empirical evidence showing the racial disparities, and then starting there and unpacking it from there would be my suggestion.

Ms. GARCIA OF TEXAS. What other areas do you think we need to look at?

Ms. ATUAHENE. Besides abusive property tax administration?

Ms. GARCIA OF TEXS. Yes.

Ms. ATUAHENE. Goodness gracious.

Ms. GARCIA OF TEXAS. Well, the lending practices, I would suggest.

Ms. ATUAHENE. The whole shebang, actually. Well, yes, lending practices have been talked about today. The availability of credit. The land contracts. Those people who only have access to land contracts versus mortgages and all of the disclosure and protections that go along with it would be the things I would suggest, so, the abusive property tax administration, access to credit, abusive land contract practices.

Ms. GARCIA OF TEXAS. Ms. Fluker, do you have any additional specific items? I just want to make sure that we leave today on a more positive note of where are we going from here.

Ms. FLUKER. I definitely do. I think that we need to actually look at the whole judiciary with respect to this and how people are treated. As our Representative Tlaib said, you go down to the 36th District Court, you can have an attorney and they will just throw you under the bus. But if you are just there, even trying to ask a basic question, or whatever the case may be, you are not going to be—what should I say?—treated as justly as you should.

Ms. GARCIA OF TEXAS. But do you have meaningful due process? The very idea that Ms. Mason came home and found her door locked, with everything she owned, including the ashes that she had there, is just shocking to me. Is there not due process?

Ms. FLUKER. That is why I think it is something that should be investigated, because there is due process, in theory. We actually have a statutory anti-lockout statute here. But getting that enforced and actually being able to get people damages for what they have actually experienced is a whole other ball game, and the further you go up the food chain, as far as the economic status is concerned, versus mom-and-pop, versus investor, versus Fannie Mae, Freddie Mac, or the bank, determines the type of relief that you are going to get.

Ms. GARCIA OF TEXAS. But did she have due process at the beginning, when she was first in arrears of her taxes?

Ms. FLUKER. I can't speak to that because I don't know if she got notices.

Ms. GARCIA OF TEXAS. Ms. Mason, did you?

Ms. MASON. No. I did not.

Ms. GARCIA OF TEXAS. Did they give you a right to challenge the amount of taxes, the assessment, and to have a hearing before some administrative level before they took you to court?

Ms. MASON. No. I didn't even get a notice to come to court.

Ms. GARCIA OF TEXAS. You didn't even get a notice to come to court?

Ms. MASON. No, ma'am.

Ms. GARCIA OF TEXAS. So did you have a lawyer?

Ms. MASON. No.

Ms. GARCIA OF TEXAS. You didn't. Is there a Legal Aid office in town?

Ms. MASON. Yes. I didn't even know that my house was—what the process was, of foreclosure. I came home—

Ms. GARCIA OF TEXAS. And your door was locked?

Ms. MASON. I came home from work, hoping to catch up on my taxes. I came home in the middle of the night and my key didn't fit, and it took me a couple of minutes to realize the reason why my key didn't fit. It was because my locks were changed.

Ms. GARCIA OF TEXAS. Thank you. Mr. Chairman, if you will indulge me, I believe Mr. Phillips wanted to respond to part of this question, about this issue. I think it is important.

Chairman GREEN. We will hear his response, and then—

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman.

Chairman GREEN. —just let me remind all of the Members, if I may, I have not had my 5 minutes, but we will have a one-minute closing for each Member.

Mr. PHILLIPS. Just really quickly, these are tough cases, but if you don't even have an attorney to get off the ground level one, you are not going to go anywhere. I wish I had known Lauren back in that era, but there just aren't enough attorneys to deal with what needs to be done. I talk about 4 percent represented. Those are the cases coming to court. And then there are the lockouts and there are the utility shutoffs and everything else. So there just is a dearth of available attorneys to take these cases, and that is the start of it. It is not the end of it because there are problems with the courts, as well, but that is part of it.

Ms. GARCIA OF TEXAS. But is there is a Legal Aid office in town?

Mr. PHILLIPS. I'm sorry?

Ms. GARCIA OF TEXAS. Is there a Legal Aid office in town?

Mr. PHILLIPS. Yes, there is a Legal Aid office. There is our office dealing with housing issues. None of them have the capacity to do what needs to be done

Ms. GARCIA OF TEXAS. Well, because that goes to funding for Legal Services. I wanted to get that on the record, because our colleague, Representative Lawrence, is here. She is an appropriator.

Mr. PHILLIPS. In that era, there was a different legal services organization funded, but yes, there was a legal services funded organization in Detroit then.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman. I yield back.

Chairman GREEN. Thank you. I now yield myself 5 minutes.

If you believe that discrimination in lending is taking place on the panel—this is not for the audience, please friends. I know that you have much that you would like to say, and I trust that you will believe that we have been generous in allowing people to ask question and getting answers. But this is for the witnesses only.

If you believe that discrimination in lending is taking place currently here, in your area, will you kindly extend a hand into the air—discrimination in lending?

[show of hands]

Chairman GREEN. All right. Let the record reflect that all of the members of the panel, all of the witnesses, have indicated that they believe it is taking place.

Now, if you are familiar with a process known as testing, where you test to determine whether or not discrimination is taking place, and you are on the panel—I can understand that some of you may not be, but if you are familiar with it, would you kindly extend a hand into the air?

[show of hands]

Chairman GREEN. Okay, good. The persons that I would expect, all but Ms. Mason. And Ms. Mason, I wouldn't expect you to know.

Do you believe that testing would be an effective tool to determine whether this discrimination is taking place, as with testing you can acquire what is called empirical evidence of whether or not you are getting fair treatment when you apply for a loan?

So if you believe that testing would be beneficial—and for the benefit of the audience, testing would allow maybe three persons to go in and apply for a loan. Perhaps two of them would be persons of African ancestry and one of another ancestry. And let them go in at or near the same time, and they would be equally qualified. Sometimes, the person who is of African ancestry may be more qualified than the one who is not. And then, let's see if the one gets the loan and the two are denied. That is called testing.

If you think that this would be an efficacious tool to ascertain whether or not we, in fact, have invidious discrimination, would you kindly raise a hand? This is for members of the panel.

[show of hands]

Chairman GREEN. Okay. I see two persons did not. Mr. George, is it because you didn't quite understand the question or do you believe that testing would not be effective?

Mr. GEORGE. I think I understand the question. I would just want to look at more evidence to provide a yes or no answer. I am not sure, off the top of my head.

Chairman GREEN. Okay. Are you familiar with testing, Mr. George?

Mr. GEORGE. Yes.

Chairman GREEN. Okay.

I am going to go to the professor.

Ms. ATUAHENE. Chairman Green?

Chairman GREEN. As briefly as you can now, Professor.

Ms. ATUAHENE. I understand the question perfectly. I am an empirical researcher, and I don't believe we need testing because we have all the empirical evidence already. And I am going to say, quickly, in Detroit—

Chairman GREEN. No, no, ma'am.

Ms. ATUAHENE. —it is an 80 percent—

Chairman GREEN. If you would—

Ms. ATUAHENE. —Black City—

Chairman GREEN. —if you would, Professor—

Ms. ATUAHENE. —but 90 percent—

Chairman GREEN. —Professor—

Ms. ATUAHENE. —of the loans go to white people.

Chairman GREEN. Professor, would you just respect the Chair for a moment, please?

Ms. ATUAHENE. I'm sorry.

Chairman GREEN. Thank you very much. Do you agree that the Chair has been very generous with his time? So let me just ask you this. Please, now, listen.

What you are telling me is that you already know that it exists. But if I am to act on it, I have to have proof that I can use. Testing gives me the proof that I can use. Now I can say that I know it exists, intuitively. I can say that it exists because I see people being turned away. But when I have three people, equally qualified, and two are denied and one is not, that gives me some additional evidence.

I am not saying to you that all of these other things can't be litigated, but if I have that evidence it seems that it would be beneficial.

Now I am going to give you a minute to respond.

Ms. ATUAHENE. I totally understand what you are saying, but what I am saying is we have even stronger evidence than this testing evidence, of this racial discrimination, that we already have stronger evidence than testing, is what I am saying.

Chairman GREEN. Okay. Well, let me ask you this: Can we use the stronger evidence and not preclude the testing? Is there a reason that we should preclude it?

Ms. ATUAHENE. No, we don't need to preclude it. But the point is we already have sufficient—if the testing came in addition, it wouldn't be harmful, but I want to make the point that we don't need the testing to move forward.

Chairman GREEN. Okay. I believe you do, and I suggest that you move forward. Move forward with what you have, but for Congress, it may be wise for us to have a law that allows us to test, because it is not just your area that I am concerned about. I am a United States Congressman, and I care about every place in this country. Not every place has the empirical evidence. Are you with me?

Ms. ATUAHENE. I am.

Chairman GREEN. Thank you very much.

All right, with that said, we will now have each Member accorded one additional minute to close, and, Members, we are running short on time, so if you would, try to adhere to the one-minute timeline. And we will start with Congresswoman Lawrence.

Mrs. LAWRENCE. Again, I want to thank everyone for being here.

I want you to know I serve on Government Oversight with my colleague here, but I also serve on Appropriations, and I serve on THUD, which is Transportation and Housing. And one of the things we have put into the appropriations for this next Congress is funding for programs for disadvantaged homeowners and renters. So I hear, clearly, there needs to be an investigation in either Oversight or in THUD, on discrimination in multiple places, because what we are hearing here we hear in Baltimore, we hear it in Seattle, we hear it in all these places where normally there are large groups of minorities and poorer populations, and it is changing.

The other thing is that when we allocate funds, we have the oversight ability to ensure they are doing what they are supposed to do, and what I heard today is that while we put funding out for counseling, it is not doing what it needs to be done.

I know for a fact that if you do not know your rights, you can't demand them. And so that is a place that I feel, from the short time I have been here, that we need to do a better job mandating, before you take house from anyone, that they have been given the proper notification and knowledge of their rights.

Thank you so much.

Chairman GREEN. Congresswoman Tlaib?

Ms. TLAIB. Thank you so much, and again, I want to uplift the phenomenal team, the House Financial Services Committee's Oversight Subcommittee staff. Thank you so much for working with my staff here on the ground. I also want to uplift Detroit's People's Platform, who gave us an incredible tour this morning. I think it really made a profound impact on a lot of my colleagues to understand the sense of urgency that we have.

This is happening across our country and across the nation, but I think many of us know that we feel like we are at the front lines of how bad it got and how much work we still have.

I really appreciate the fact that I am hearing, over and over again—and I agree, I think even Chairwoman Waters has said the Community Reinvestment Act needs to be looked at and it needs to be enforced.

I also agree that there needs to be more dollars towards housing counseling services, and we have to look at that.

I also agree that we have to really look at this definition of rent-to-buy and really lock down some protections for folks who are now entering into land contracts.

I really do appreciate the insight on what is happening in the courts and the fact that only 4 percent of over 30,000 cases going in—I can't imagine what it is across the State—that don't have legal representation when they get there. Even me, as an attorney, I will always be seeking out a Vanessa Fluker in my community to try to get me representation if I was facing that.

The tax assessment in our State, that is something that I don't care if you are from Detroit or across any other part of Wayne County, have felt the burden of the fact that our homes were not assessed properly. And so we want to uplift, I think, Professor, thank you for bringing that lawsuit forward. I know we still have a lot of work to do in regards to that, in at least getting people some support.

I also, lastly, want to uplift those who talked about reparations. I think that is really important. This is just one element that recently happened in our decade, but we knew decades before that, that reparations is something that was caused by structuralism, needed because of structural racism that continues, of some of the sins of our country. And I think this was proof that we still have some really deep-rooted racism within our policy that does not lean towards people who look like us, that helps people like us but also mostly hurts people like us.

So I want to thank you again, Chairman Green, and thank you so much, you and Congresswoman Sylvia Garcia, for taking the time. They were there at 7:00 in the morning, and toured with us all throughout Detroit and Highland Park, and I want to thank them so much for that. And thank you to the community organizations who helped put this together.

Thank you.

Chairman GREEN. Thank you. Congresswoman Garcia, you are recognized for one minute.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and I, too, want to join with Representative Lawrence and Representative Tlaib's remarks. I think they pretty much have stated what has happened here today, and under your leadership, thank you for having us here and making sure that we were here to listen, and now perhaps working together, develop some solutions for this area.

I just wanted to underscore the points of due process, which are really very important. Perhaps it is because I am an old Legal Aid lawyer at heart, and I just cannot believe that someone could just come home and be locked out of their own home, and can't turn the key. So I think we should really address some of those issues, particularly when it comes to any more of these remaining Fannie Mae and Freddie Mac, which obviously would be under our jurisdiction.

And to the professor, I heard you loud and clear: investigation. You have given us somewhat of a road map, and I think we will have to pick up from there and see how we can get that done.

So, thank you again to all the panel for being here, and thank you, Detroit, for your hospitality, and for a great tour. And I love my little box of chocolates. Thank you all very much.

Chairman GREEN. This is going to conclude our hearing. I am appreciative for many reasons. First of all, I had an opportunity to see what I have heard others talk about, and it was important for me to see it, because when I go back to Congress I can tell my colleague what I have seen in Detroit.

I am also appreciative because we have had some outstanding witnesses give us testimony that we will be able to use when we have future hearings. This won't be the last hearing on this issue.

It is the first field hearing that we are having, and we are having it here in your City, but it won't be the last.

And I want you to know that the Members of Congress have not forgotten Detroit. You are not alone. We are going to do what we can to be of service to you. And that includes Members who are not at this table. We represent some Members who would dearly like to be here, but their schedules did not permit it.

So, I am grateful that you are here, I am grateful to the staff, the committee staff, as well as our very own staff. Each Member has a staff and we are grateful to them for helping us to acquire all of this intelligence today.

And we will be leaving, but I want you to know that we will not be leaving you behind when we leave. With this said, the witnesses are greatly appreciated. Your testimony today has helped to advance the important work of the Subcommittee on Oversight and Investigations.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Without objection, the hearing is now adjourned.

[Whereupon, at 1:59 p.m., the hearing was adjourned.]

A P P E N D I X

August 2, 2019

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
WRITTEN HEARING TESTIMONY ON
"AN EXAMINATION OG HE HOUSING CRISIS IN MICHIGAN 11 YEARS AFTER THE RECESSION, HEARING DATE: AUGUST 2, 2019

Introduction and Problem Examination

We cannot move forward until we look back and truly understand the catalyst for the ongoing housing crisis that still plagues our country, and has hit the City of Detroit, and Michigan extremely hard. I am drawn back to the hearings in the House Judiciary on Foreclosed Justice: Causes and Effects of the Foreclosure Crisis, held on December 2, 2010 and December 15, 2010. I am quoting from the transcript from Representative Trent in response to my testimony:

> "But the end result, Ms. Fluker is correct; the end result is that. Because of government involvement here and the lack of market discipline that seems to hold the system together, we are in a situation now where banks have an incentive oftentimes to foreclose rather than work thing out with the homeowner. And I think there is something desperately wrong with all of that." Pp. 522.

This government funded foreclosure trend, with Fannie Mae, Freddie Mac, and FHA paying banks full mortgage balances to banks and financial institution when for mortgage foreclosures that disparately minorities, especially African Americans, closely followed by Hispanic populations, senior citizens and the working poor. Programs designed to assist homeowners to retain their homes failed, such as the such as the Making Homes Affordable Program, as banks and their servicers after being infused with billions of government dollars, chose to litigate these cases to remove distressed homeowners with the aid and intervention of the federal government, placing homeowners in a losing battle, instead of engaging in loss mitigation in accordance with the law.

The banks created this crisis and to date have not been held accountable for the tremendous loss of minority wealth, especially Black wealth, through real property loss. This outrageous conduct sets the stage for other abuses such as the land contracts and deed for contract. We must be very clear, it is not only the investors involved but quasi-governmental entities, such as Fannie Mae, Freddie Mac and HUD, in their quest to sell properties which they obtained post-foreclosure, who are bringing a significant percentage of eviction cases in Detroit.

I have one such case right now that is truly egregious as the single mother purchased a home via a deed of trust, putting a $9000.00 deposit down agreeing via a written contract for deed for trust to pay $1000.00 per month. This home was foreclosed and owned by Fannie Mae. The woman discovered this when she was illegally locked out and all her personal property discarded, including her deceased daughter's ashes. At no time during the course of this legal battle has Fannie Mae attempted to work something out to save the home. No, they have consistently over and over tried to have the woman and her children evicted, despite them paying $1400.00 per month into a court escrow. The victim, the defrauded individual is being treated as a criminal, when she only wanted someplace for her children to call home. This case is ongoing right now.

If the issue of homeownership trends, the impact of tax foreclosures and installment contracts are to be addressed and placed in the proper perspective to create effective solutions, these issues cannot be analyzed in a vacuum, but must be done reviewing the totality of the circumstances. This includes the banks' role in creating this scenario, and their ongoing role of keeping this crisis going through continued foreclosures, failing to provide fair reasonable mortgages to minorities, and failing to work with minorities to retain housing. Instead, they continue with their foreclosures and sale to investors, who then resell the homes to unknowing families, in many instances via abusive installment contract transactions.

The Historic Role of Banks and Current Solutions

The role of banks in the housing crisis is undeniable, yet the banks received hundreds of billions in bailout funds, and other incentives that made foreclosures and predatory lending very profitable.

Interestingly, many of the same banks including **J.P. Morgan, RBS-Citizens Bank, Lehman Brothers, Bank of America, Wachovia (now owned by Wells Fargo) and Barclays were also funders and fianciers of the Black historic slave trade in the United States.** This predatory and oppressive process against Black Americans has been ongoing with the biggest financial institutions. There are many discussions regarding reparations and whether appropriate or viable solutions. In communities such as the City of Detroit, banks should be made to pay reparations for the destruction and elimination of Black wealth through the improper and illegal dispossession of real property from black property owners. These funds should be specifically provided to Black communities, with the community groups, not developers and government officials serving their interests who are tainted by their sanctioning of and participation in the foreclosure process, deciding what is best for each community to revitalize and restore homeownership, viability and stability to black communities. In a community like the City of Detroit, where government funds, and retiree pensions were sucked out by the same banks who destroyed neighborhoods and then placed the city in predatory loan instruments producing a bankruptcy that bailed out the banks at the expense of the city's workers and retirees, there must be an infi\usion of funds to bring the community back in functional and effective fashion. The banks should be the first line contributors, as it was the discriminatory and illegal practices of the banking community that resulted in the trillions in black wealth loss through real property loss.

Once the communities are infused and stabilized, the need for alternative financing such as abusive installment contracts will be minimized as will the tax foreclosures. There must be a financial contribution to this problem, and the creators of the problems should be providing funds to correct the wrong and losses incurred as a result of the wrongs. We cannot just sit by and act as if this problem will correct itself. People are being foreclosed and evicted at record rates here in Detroit, and if we do not address these issues immediately, out homeless population will continue to skyrocket, as well as the continue demise of a viable black community. I have attached as Exhibit 1, a fact sheet providing important statistical data related to the number of foreclosure in Detroit and the impact on population and other significant information that must be considered when addressing the housing crisis issue.

Respectfully submitted,

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August 1, 2019

EXHIBIT 1

REPORT ON CITY OF DETROIT CONDITIONS IN LIGHT OF FORECLOSURE CRISIS BROUGHT ON BY PREDATORY AND RACIST LENDING PRACTICES OF BANKS & FINANCIAL INSTITUTIONS

Mortgage Foreclosures

1. More than one in three Detroit homes were foreclosed the between the years 2005 and 2015. Since 2005, 139,699 of Detroit's 384,672 homes were foreclosed because of mortgage defaults or unpaid taxes.
2. There have were 65,000 mortgage foreclosures since 2005 and 2015. This doesn't include so-called zombie foreclosures in which lenders initiated foreclosure, and may have evicted tenants, but abandoned proceedings before they were complete. Zombie foreclosures were more prevalent in Detroit than anywhere else in the United States.
3. Fifty-six percent of all mortgage foreclosures are now blighted properties or have been foreclosed again for nonpayment of taxes; 13,000 homes are slated for demolition at a projected cost of $195 million.
4. Of the 84,000 properties on the city's blight list, 76 percent are foreclosures.
5. Homes sold for $22,000 on average in Detroit in 2014, down 73 percent from the peak before the housing crash and the lowest among 50 big cities. Detroit's decline in property values cost homeowners an estimated $1.3 billion in lost personal wealth.
6. OF Detroit's population fell by nearly 240,000 residents from 2000 to 2010, with the bulk of the population loss occurring after 2005.
7. Of all mortgages written in 2005 in Detroit, 68 percent were subprime, compared to 27 percent statewide and 24 percent in the U.S., meaning that they were at interest rates at least 3 percentage points higher than the national mortgage interest rate.
8. In Detroit, which formerly enjoyed the highest rate of African-American homeownership of any U.S. city, $4 billion in subprime loans were written in the four years before the 2008 housing and financial crash. 78 percent of foreclosed homes financed through subprime loans are now in poor condition or tax foreclosed.All banks and lenders were active participants in the subprime market because the rate of profit on subprime loans when sold to investors was eight times greater than the comparable rate on traditional fixed-rate loans.
9. Fannie Mae and Freddie Mac, government corporations operated by the Federal Housing Finance Agency, are listed as the foreclosing entity on 7,700 homes in Detroit, of which 46 percent and 58 percent are respectively blighted or abandoned.
10. The Federal Housing Authority was listed as the foreclosing entity on 2,453 homes in Detroit, of which half are blighted or abandoned.
11. Fannie Mae, Freddie Mac and the FHA stand behind the banks that actually foreclose on homes, with the government then paying the banks the full value of the inflated mortgage after foreclosure.

Statistics from Detroit News Special Report on Foreclosures, June 2015

According to the Wasted Wealth Report published by the Alliance for a Just Society in May 2013, ,primarily as a result of the foreclosure crisis and its disproportionate impact on people of color, From 2005 to 2009, white median net worth fell 16% to $113,149, but net worth fell by 66% for Latinos to $18,359, and 53% for African Americans to $12,124. In 1995, the ratio of white to Black wealth was 7-to-1. In 2004, it was 11-to-1. By the reported end of the Great

Recession 2009, it had ballooned to 19-to-1. For Latinos, the White-to-Hispanic wealth ratio was 7-to-1 in 2004. Five years later, it was 15-to-1.
Across the US, the African American home ownership rate declined from just under 50% in 2004, to 43% in 2013. – State of Housing in Black America, 2013.

Tax Foreclosures

1. Between 2011 and 2015, one in four properties in Detroit was foreclosed on for unpaid property taxes by the Wayne County treasurer, a number not seen since the 1930's depression.
2. Detroit has approximately one-third fewer occupied homes now than ten years ago.
3. Property tax rates are calculated based on the home's tax assessment.
4. Despite the Michigan Constitution explicitly providing that no property can be assessed at more than 50 percent of its market value, between 2009 and 2015, 55 to 85 percent of homes in Detroit were over-assessed. The taxes levied based on the inflated assessments on these homes and the ensuing foreclosures for unpaid taxes that occurred, were in blatant violation of the Michigan Constitution.
5. Home property values in Detroit declined from $80,000 in 2007 to less than $20,000 in 2011, and are at around $30,000 today.
6. Thousands of Detroiters who should have not been paying property taxes due to entitlement to the poverty tax exemption have lost or not are in danger of losing their homes due to tax foreclosure.

Study by Professor Bernadette Atuahene 2017 on Detroit Unconstitutional Tax Foreclosures

Home ownership decline in Detroit -- *Per U.S. census bureau statistics –*

349,170 households in Detroit in 2010 x 54% home ownership rate = 192,043 – home owners

232,780 households in Detroit in 2016 x 45% home ownership rate = 104,751 –home owners

Evictions in Detroit

1. Detroit has averaged 35,000 eviction cases a year since 2009, despite the city losing an estimated 41,000 residents since 2010. The News mapped the addresses of nearly 109,000 cases filed between January 2014 and August 2017 and found areas of the city hit much harder than others.
2. Families in one out of five Detroit rentals face eviction every year.
3. Last year, just 4,174 addresses were registered and inspected, in a city the U.S. Census Bureau estimates as having 140,000 rental units. That's down from the 5,235 addresses the city said were registered 10 years earlier under former Mayor Kwame Kilpatrick.
4. Judges don't require landlords to prove they've registered and passed city inspections before ruling on eviction cases. In 2015, for example, only one of every 13 eviction cases was filed on an address legally registered with the city.
5. Since 2014, when Mayor Mike Duggan took office, the city has issued fewer than 5,000 tickets for landlords who didn't register. That's fewer than the number of tickets written for residents for improperly placed garbage cans during that time, as of last month.
6. Even when landlords are found responsible for blight violations, they frequently avoid paying fines. Nearly 85 percent of "rental" blight violations, amounting to almost $2 million in fines, remain unpaid from that time frame.

7. Entity filing most eviction cases in 36th District Court between 2009-2017 – Fannie Mae/Freddie Mac (i.e. the federal government) with 7,353. Most of the evictions happened between 2010 and 2013, tapering off after that. The News found in a 2015 investigation 46 percent of Fannie Mae's Detroit foreclosures were blighted, needed to be demolished or were foreclosed for unpaid taxes. For Freddie Mac, that number was 56 percent.

Detroit News Special Report on Evictions, October 2017.

Detroit Bankruptcy

1. The City of Detroit was pushed into bankruptcy as a result of fraudulent bond deals imposed on the city by the banks supported by the credit agencies they funded.
2. These bond deals included interest rate swaps on the City of Detroit's pension obligation certififcates, in which Bank of America and UBS netted $300 million in termination fees between 2008-2015 by benefitting from their own mortgage fraud when interest rate collapsed in 2008. City casino tax dollars went directly to US bank and bypassed the City treasury to insure payment of these termination fees During the bankrutpcy, Judge Rhodes allowed these banks another $809 million in termination fees on these interest rate swindles.
3. Of the 7.1 billion in debt reduction accomplished through the Detroit bankruptcy, $3.85 billion was accomplished by the virtual gutting of retiree health benefits, with expenditures reduced from $4.3 billion to $450 million. An additional $1.7 billion came through cuts in pension payments, with the city not even contributing directly to the pension fund for the next 10 years. Thus, a total of $5.5 billion, or 78% of the total bankruptcy relief, came off backs of the city's retirees, despite the fact their pensions were supposed to guaranteed under the Michigan constitution.
4. Along with the gutting of their health benefits, General city retirees received a 4.5% cut in base benefits and 15.5% additional pension reduction if they are subject to the annuity recoupment. In addition, cost of living annual increases are eliminated, adding another approximately 20% to the real reduction in pension payments.
5. The Jones Day lawyers and their consultants pocketed $170 million in fees and then left town and returned to their palatial estates.

Water Shutoffs

Water shut-offs since Detroit first launched an aggressive campaign to collect on delinquent accounts in 2014:
2014 – 33,000
2015 – 23,200
2016 – 27,552
18,000 faced shutoff this year
Bridge Magazine, May 2, 2017

The Detroit Water and Sewerage Department issued $1.1 billion in bonds to fund infrastructure repair in 2011-2012. Of the that amount, $537 million was used to pay termination fees on interest rate swaps (swindles) to banks such as Chase, Citi, Goldman Sachs, Bank of America, UBS, etc.

Median income in Detroit per U.S. Census Bureau Statistics

Median Income – 2016 – *U.S. census bureau statistics*

Detroit -- $28,099 --

Livonia -- $71,692

Warren -- $46,249

(Livonia and Warren figure in the calculation for the Annual Detroit Metro median income of $56,142 used in affordability calculations in the new Detroit Affordability ordinance.)

In 2015, when Detroit's median income was $25,980, 21.2% of Detroit households had income less than $10,000, 19.5% had incomes between $10,000 and $20,000, and 14.7% had incomes between $20,000 and $30,000.

Median per capita in come in Detroit in 2015 was only $14,446 in 2015, compared to $33,123 for all of Michigan

Poverty in Detroit *per U.S. Census Bureau Statistics* –

Poverty rate --all people below the poverty line, which for a family of four is $24,563.

Detroit – 2016 -- 35.7% 2015 – 39.8% (Michigan 15%)

Under 18 years old, Detroit -- 50.8%*

Detroit remains the poorest big city in the nation, just above Cleveland, where the poverty rate was 35 percent.And a deeper look at the income data suggests the incomes of Hispanic and white Detroit residents grew significantly more than blacks, who make up 79 percent of the city, said Kurt Metzger, a demographer and director emeritus of Data Driven Detroit. The 2016 income data shows the gains were seen by Hispanic and white residents, although the survey data for whites was just within the margin of error, he said. The income rise wasn't statistically significant for blacks, Metzger said. (Taken From Detroit News, September 2017)

Hardest Hit Homeowner funds

The federal government has appropriated $7 billion to assist struggling homeowners remain in their homes from 2010 to the present. These funds are the poor's pittance from the $700 billion bank bailout.

Of the $760 million sent to Michigan, $380 million have been diverted to "blight" removal, with little supervision over the Detroit land banks and other entities who manage the blight removal projects. There have been numerous investigations, criminal and civil, documenting the fraud by these entities.

In contrast, homeowners are subject to rigorous restrictions and regulations I getting access to these funds. As a result, of the thousands of homeowners facing tax foreclosure in Wayne County in 2017, according to Step Forward figures only 193 received assistance via the Hardest Hit program.

Many of the same banks who were perpetrators of the racist, predatory lending practices that led to the massive foreclosure epidemic and the destruction of over 50% of Black wealth that ensued, also implicated in the slave trade, including, but not limited to: J.P. Morgan, RBS-Citizens Bank, Lehman Brothers, Bank of America, Wachovia (now owned by Wells Fargo) and Barclays.

This gives even more significance to the demand for reparations to rebuild our communities and implement a real Green New Deal, with funds not to developers, but to community organizations and unions representing the people.

Testimony of Taz George

Senior Research Analyst
Community Development and Policy Studies Division
Federal Reserve Bank of Chicago

Before the U.S. House Committee on Financial Services
Subcommittee on Oversight and Investigations

"An Examination of Homeownership in Michigan 11 Years After the 2008 Housing Crisis"

Chairman Green, Ranking Member Barr, and Members of the Committee,

Thank you for inviting me to testify today. My name is Taz George, and I am a Senior Research Analyst in the Federal Reserve Bank of Chicago's Community Development and Policy Studies Division (CDPS). CDPS works to promote fair access to credit and financial services, and conducts policy-oriented research on the economic resilience and mobility of low- and moderate-income households and communities. Prior to joining the Federal Reserve, I was a Research Associate at the Urban Institute's Housing Finance Policy Center. All views and comments related to my testimony are my own, and not necessarily those of the Federal Reserve Bank of Chicago or Federal Reserve System.

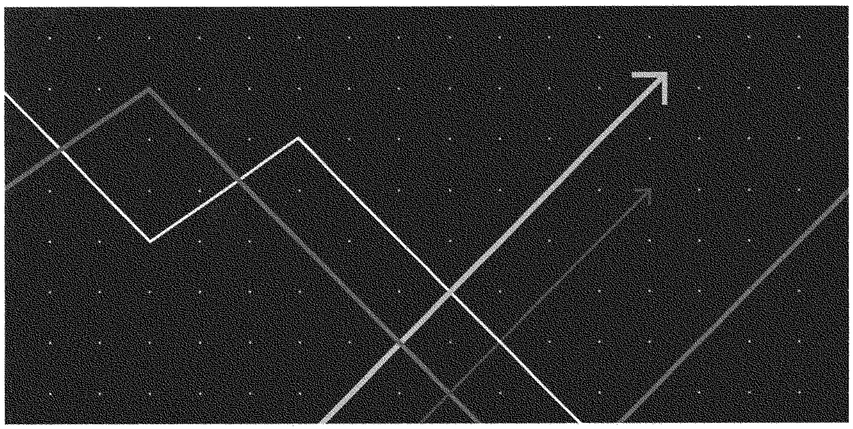
Today, I will discuss research I conducted with Urban Institute colleagues on the challenges of financing the purchase of lower-cost single-family properties. In our study, these are properties valued under $70,000. Our research suggests that this segment of the housing market is not well served by existing mortgage financing products, in part due to profit, liquidity, and risk constraints associated with small loans. Lower-income homebuyers, who typically buy low-value properties, are particularly at risk of facing financing challenges, including buyers in Detroit, where many homes have relatively low values.

Please accept the following publication as my written testimony.

Sincerely,

Taz George
Senior Research Analyst
Community Development and Policy Studies Division
Federal Reserve Bank of Chicago

HOUSING FINANCE POLICY CENTER



RESEARCH REPORT

Small-Dollar Mortgages for Single-Family Residential Properties

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April 2018

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FEDERAL RESERVE BANK OF CHICAGO SEVENTH DISTRICT

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ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

ABOUT THE FEDERAL RESERVE BANK OF CHICAGO

The fundamental mission of the Federal Reserve System is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems in order to promote optimal macroeconomic performance. To this end, the Federal Reserve Bank of Chicago participates in the formulation and implementation of national monetary policy; supervises and regulates state member banks, bank holding companies, and foreign bank branches; and provides financial services to depository institutions and the US government. The Bank's Community Development and Policy Studies division works to improve the socioeconomic prospects of low- and moderate-income people by conducting research and working with community leaders to bring development and reinvestment opportunities to underserved areas.

Contents

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Ongoing support for HFPC is also provided by the Housing Finance Innovation Forum, a group of organizations and individuals that support high-quality independent research that informs evidence-based policy development. Funds raised through the Forum provide flexible resources, allowing HFPC to anticipate and respond to emerging policy issues with timely analysis. This funding supports HFPC's research, outreach and engagement, and general operating activities.

This report was funded by these combined sources. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Chicago, the Federal Reserve System, the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

We thank Ellen Seidman and Laurie Goodman from the Urban Institute and Alicia Williams, Mike Berry, Robin Newberger, Susan Longworth, and Gene Amromin from the Federal Reserve Bank of Chicago for reviewing earlier versions of this report.

Executive Summary

This report examines the availability of small-dollar mortgages (up to $70,000) for home purchases, refinances, and improvements.[1] We find evidence of a substantial number of low-cost property sales taking place across many diverse housing markets, but access to credit via traditional mortgage lending is limited for these properties. Low-cost properties could be a larger source of affordable housing if credit access for purchasing and rehabilitating these properties were expanded and improved.

The objectives for this report are to

- define the small-dollar mortgage problem,
- identify and describe the characteristics of the counties and populations most affected by the lack of small-dollar mortgage options,
- describe the loan characteristics and production channels of available small-dollar mortgages, and
- discuss the challenges contributing to the problem and potential solutions for policymakers to consider.

The Importance of Low-Cost Properties

Homeownership is an important wealth-building mechanism for many American families (Goodman and Mayer 2018). Many first-time homebuyers and low- and middle-income (LMI) families rely on low-cost properties to move from renting to owning a home. Yet, low-cost properties remain largely inaccessible to LMI households because traditional mortgage financing is too difficult to obtain on these properties.[2]

The US housing finance system has long failed to meet the needs of people at low socioeconomic levels (Sarkar and McKee 2004), and the problems in low-cost housing markets are one manifestation of this failure. Despite expansion in mortgage finance products for LMI households from the conventional finance market and requirements for banks to lend fairly throughout their assessment areas under the Community Reinvestment Act, LMI borrowers often cannot access available products. Moreover, successful innovations have not been brought to scale (Engel, Keller, and George 2016). Challenges to accessing mortgage credit, including for LMI households, stemming from regulatory changes and tight mortgage lending standards after the latest recession have generated research and discussion (Goodman, Zhu, and George 2014). But the dearth of mortgage credit available for low-cost home purchases has received less focus. Addressing the small-dollar mortgage problem would open pathways to homeownership for many traditionally underserved groups, including LMI households and people of color,[3] especially in low-cost geographies.

This issue disproportionately affects economically challenged communities that have low-cost housing inventory, but the problem is not limited to those areas. Low-cost single-family properties can be found in virtually all cities and in rural areas, and while some of the housing stock is old and dilapidated, there are significant pockets of inventory and sales that constitute decent affordable housing in areas seeing home price appreciation. Factors contributing to the lack of mortgage lending activity for low-cost properties vary across markets and property types. These contextual factors include the severity of the foreclosure crisis and rate of distressed sales, the composition and condition of the residential housing stock, investor competition, and the property appraisal gap. And regardless of local market conditions, mortgage lending standards have been elevated in the postrecession period amid higher origination costs and heightened regulatory scrutiny. Moreover, lenders have less economic incentive to make small loans because they generate lower sales commissions, spreads, and servicing income.

Our analysis focuses on traditional purchase financing, but access to financing for home improvement and refinancing for low-cost properties is also limited. Property and structure type also play an important role in determining the financing options, or lack thereof, for low-cost properties. Much manufactured housing is financed as personal property (chattel), with higher rates, shorter terms, and fewer consumer protections than secured mortgage lending. In 2016, only 17 percent of new manufactured homes were titled as real property.[4] Improving access to small-dollar mortgages or introducing new products for the low-dollar segment could support the market for purchasing low-cost single-family and manufactured houses and help LMI borrowers access safe and fairly priced financing for home improvements, repairs, rehabilitation, or refinancing of small-dollar loans.

Small-Dollar Mortgages for Single-Family Residential Properties

Defining the Small-Dollar Mortgage Problem

Small-dollar credit can help low-income households meet basic financial needs. Often referred to as microloans, these loans for standard consumer use are typically under $5,000[5] and are personal unsecured loans that have short repayment terms. Microloans for underserved small-business lending communities have gained traction, becoming a source of financing that enables small-business owners to expand and thrive. The concept of small-dollar credit, or microfinancing, for meeting housing needs for low- and moderate-income (LMI) families is still in its infancy in the United States. Extending small-dollar financing, collateralized by real property, may present an opportunity for the underserved low-cost segments of the housing market.

For the analysis and recommendations in this report, we define small-dollar mortgages as secured financing for single-family residential properties that, beginning in 2009, are valued between $10,000 and $70,000.[6] Of the single-family homes sold in 2015 in the US, 14 percent, or 643,000 homes, sold for $70,000 or less, of which slightly more than one-fourth were financed with a traditional mortgage loan product.[7] In contrast, among homes worth between $70,000 and $150,000, close to 80 percent of homes sold were financed with a traditional mortgage product. The large proportion of low-cost homes sold without a mortgage reveals the difficulty many prospective homebuyers face in competing against investors and all-cash buyers to purchase affordable homes. We explore these dynamics at the local and national levels, shedding light on the lack of financing and how it affects families and communities.

State of the Market

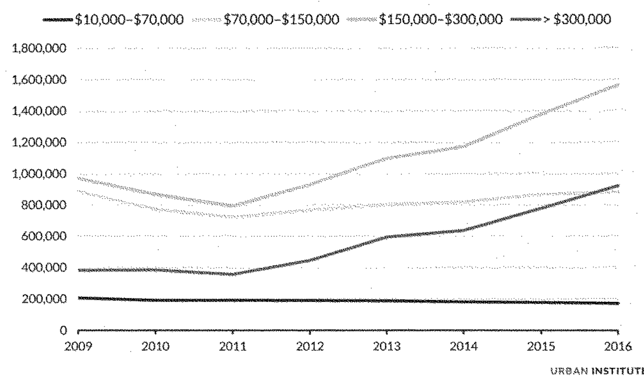
The Lack of Small-Dollar Mortgages for Home Purchases

Relative to the years before the housing bubble, access to mortgage credit for purchase remains limited and lending standards remain unusually strict, especially borrower credit scores.[8] One result is that 16 percent fewer mortgages were originated in 2016 than in 2001 (when the population was smaller).[9] Although the number of new mortgages has rebounded from the trough in 2011, the growth in lending volume has not extended to mortgages with an origination balance of $70,000 or less. Figure 1, using

Home Mortgage Disclosure Act (HMDA) data, shows the number of first-lien, owner-occupied, single-family purchase originations from 2009 to 2016 by origination amount. In 2009, there were 205,797 new mortgages with a balance between $10,000 and $70,000, or 8 percent of all originations. By 2016, the number of loans in this range had fallen 17 percent and made up only 5 percent of all originations. Originations between $70,000 and $150,000 declined less than 1 percent. Loans between $150,000 and $300,000 increased 61 percent, and loans greater than $300,000 increased 142 percent, nearly doubling in market share. Home price appreciation accounts for some of the shift. From January 2009 to December 2016, the national Home Price Index increased 33 percent while the market share of new loans up to $70,000 decreased 43 percent.

FIGURE 1

New Mortgages by Origination Amount



Source: Home Mortgage Disclosure Act records.

Note: Includes first-lien, owner-occupied, single-family purchase originations.

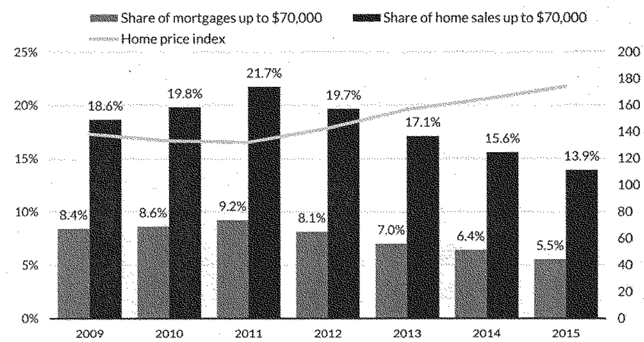
Only One in Four Homes Sold for $70,000 or Less Has a Mortgage

We can see the scarcity of small-dollar home loans by comparing the share of purchase mortgages originated for $70,000 or less with the share of all home sales for $70,000 or less.[10] Nationwide, the share of mortgages and small-dollar home sales have both declined, especially when compared with the home price rebound after the crisis (figure 2). In 2015, only 5.5 percent of purchase mortgages were $70,000 or less, about 40 percent of the low-cost home sale share of 13.9 percent.

This mismatch of small mortgages is even more apparent when we compare the number of new mortgages of $70,000 or less with the number of homes sold for $70,000 or less. In 2015, more than 643,000 homes sold for $70,000 or less, yet just over 177,000 borrowers took out a mortgage of $70,000 or less to purchase a home, accounting for 27.5 percent of home sales (figure 3). In other words, for homes sold for $70,000 or less, one in four sales was financed with a mortgage. The share of small-dollar home sales financed by mortgages has been between 25 and 29 percent from 2010 to 2015, highlighting the fact that this is not a new problem and that financing has been constrained for this part of the market for some time.

FIGURE 2

Share of Home Purchases and Home Sales up to $70,000



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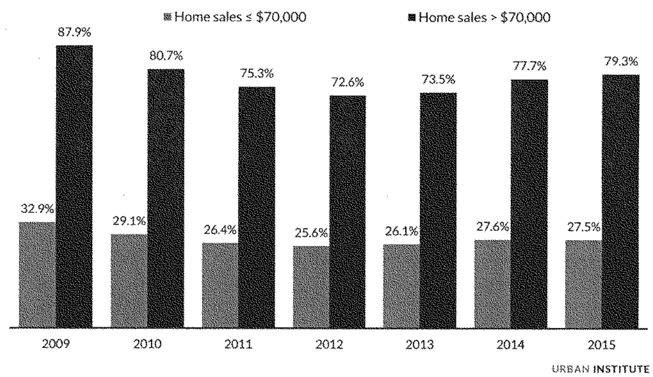
Sources: Home Mortgage Disclosure Act records and CoreLogic Home Price Index.
Note: Includes first-lien, owner-occupied, single-family purchase originations.

FIGURE 3

Share of Sales Financed by Mortgages



Sources: Home Mortgage Disclosure Act records and CoreLogic.

Comparison of Sales and Mortgages by Price Buckets

We compare these numbers with homes purchased in the $70,000-to-$150,000 price range. Home sales in this higher price range are more likely to be financed by a traditional mortgage. In 2015, 79.3 percent of home sales between $70,000 and $150,000 were mortgage financed (figure 3).

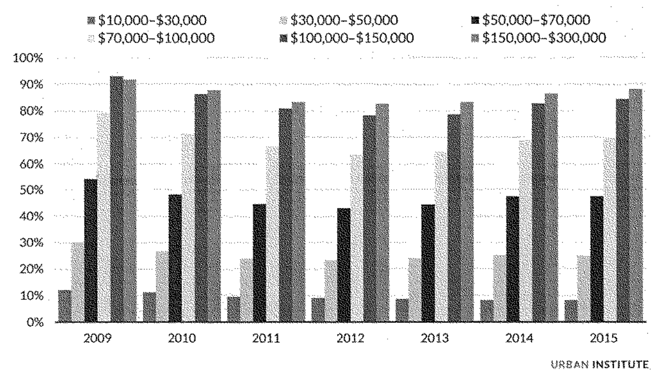
The difference between the mortgage shares of low-cost homes and more expensive homes has persisted, despite the recent housing market recovery, indicating continued strain on accessing credit for low-cost properties. Home purchases that do not involve a mortgage are generally paid for with cash and are often distressed sales or foreclosures sold through auction or other distressed-asset programs. Without access to mortgage products for small dollar amounts, many creditworthy LMI households that could afford a home cannot compete to purchase these properties.

Why We Define Small-Dollar Mortgages at $70,000

In prior work, we defined small mortgage loans as having dollar amounts up to $50,000. For this analysis, we propose a new dollar amount, $70,000, based on an observed decline in mortgage financing relative to sales volume at this level.[11] Figure 4 represents the share of sales financed by a mortgage in various price buckets. A typical home purchase transaction usually involves a down payment. For context, a $70,000 mortgage could be for a $72,450 home with a 3.5 percent down payment up to an $84,000 home with a 20 percent down payment. This price range for home purchase is affordable in many metropolitan and rural areas. This definition of small-dollar mortgages is intended to show what price point potential borrowers are likely to encounter difficulty in obtaining a traditional mortgage loan via standard mortgage channels. Having a standard definition of small-dollar mortgages will also help policymakers and industry stakeholders define solutions and alternatives for the lack of housing finance options in this price range.

In 2015, 8 percent of properties sold between $10,000 and $30,000 were financed by a mortgage (figure 4). The share is 48 percent for properties sold between $50,000 and $70,000, still less than half of total home sales in that range. The mortgage-financed share jumps up to 70 percent for homes sold between $70,000 and $100,000. Because of the financing disparity between these price buckets, we established the limit for small-dollar mortgages at $70,000. Although we use $70,000 as a threshold, many factors affecting small-dollar mortgages are relevant to home sales above the threshold, especially in high-cost markets where a sale of $125,000, for example, would be considered small.

FIGURE 4
Share of Sales Financed by Mortgages



Sources: Home Mortgage Disclosure Act records and CoreLogic.

How Does Recent Price Appreciation Affect Small-Dollar Mortgages?

Home prices bottomed out in 2011 and increased 33 percent through 2016. From 2011 to 2016, the share of owner-occupied homes valued at $70,000 or less dropped from 14 percent to 12 percent (see figure 11, page 13), the share of sales at $70,000 or less fell from 22 percent to 14 percent, and the share of purchase loans of $70,000 or less decreased from 9 percent to 6 percent (see figure 2, page 3).

We set our small-dollar mortgage threshold at $70,000 for all years using nominal dollars. The data on share of sales financed by a mortgage (see figure 4, previous page) suggest that despite the change in home prices, the share of home sales financed by mortgages for each price bucket stayed stable. That is, as higher prices pushed more homes into higher price buckets, the share of the sales at $70,000 or less purchased with mortgages still hovered between 25 and 28 percent (see figure 3, page 4).

An alternative way to set the small-dollar mortgage limit would be to adjust it with home prices over time. The share of sales at $70,000 or less fell from 22 percent to 14 percent from 2011 to 2015 because of home price appreciation. If we set the limit at $70,000 in 2011 and adjust it to $100,000 in 2015, sales from $70,000 to $100,000 would add another 8 percent of sales in 2015, making the small-dollar-sales share with the higher limit in 2015 about the same level as 2011 at 22 percent. However, because sales between $70,000 and $100,000 have had a much higher mortgage share (figure 4), the share of small-dollar home sales financed would be 43 percent in 2015, much higher than 2011's 26 percent with the lower $70,000 small mortgage limit. Instead, we impose a constant nominal $70,000 cutoff, which results in a stable mortgage sales share from 2011 to 2015 for the sales up to the same limit in figure 3.

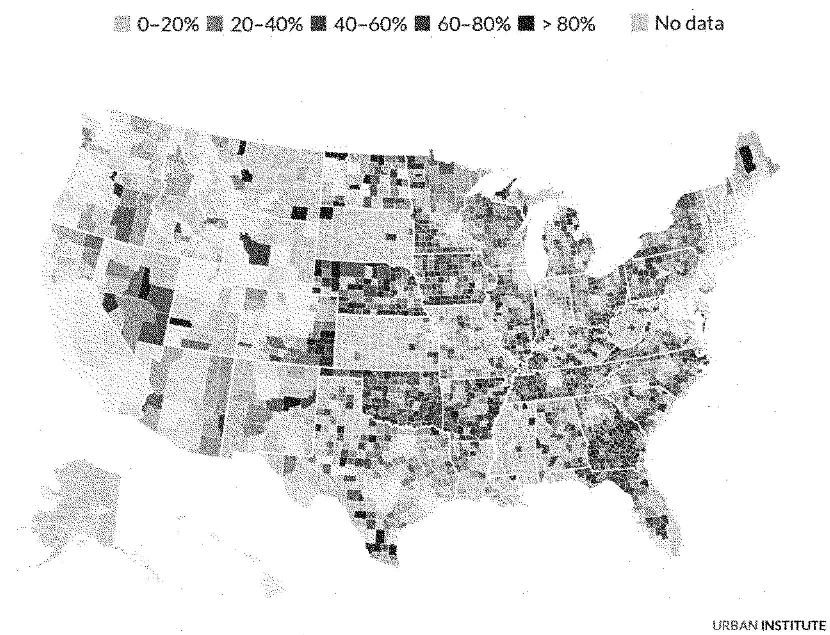
Why We Need Small-Dollar Mortgages

Small-Dollar Home Sales Are Widespread throughout the US

Housing affordability and the challenges of high-cost markets such as San Francisco get much attention in the press and academic research, but many communities have a significant share of low-cost home sales. Figure 5 shows the share of home sales up to $70,000 for every US county with data available.[12] Suburban, rural, and urban counties have sales in this price range, and in many counties, small-dollar sales make up most home sales. If creditworthy potential homebuyers cannot obtain financing for these houses, they may miss out on that important first rung on the homeownership ladder that helps families and neighborhoods gain economic stability and begin wealth building through ownership.

FIGURE 5

Share of Home Sales up to $70,000, by County



Sources: CoreLogic and the US Census Bureau.

Where Are These Low-Cost Counties?

To better understand the housing markets that have large concentrations of low-cost properties, we selected the 300 counties with the highest shares of home sales up to $70,000 among all counties that had at least 500 home sales in 2015. These "low-cost counties" are highlighted in figure 6.

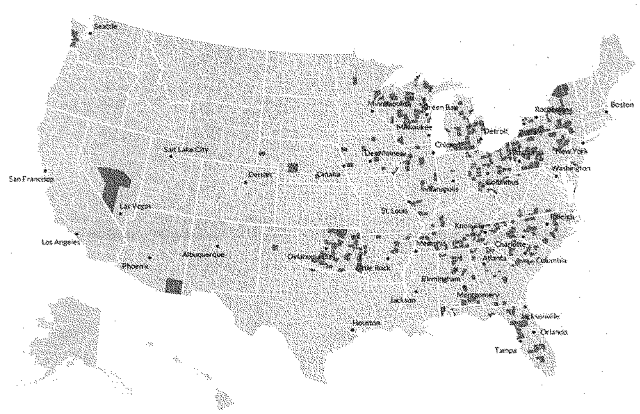
There were 449,000 homes sold in the low-cost counties in 2015, accounting for about 10 percent of all US home sales. Thirty-nine percent of these home sales were for $70,000 or less, compared with only 14 percent in the US (figure 7). The high concentration of homes in the low-cost counties means that the lack of mortgage lending available in these markets affects a larger share of the housing market.

Twenty-one percent of low-cost counties are not part of a core-based statistical area,[13] while 42 percent are part of a micropolitan statistical area and the remaining 37 percent are part of a metropolitan statistical area. The counties include a mix of almost or entirely rural areas, counties that include small cities, and counties that are part of large metropolitan areas. They include counties that contain larger cities, such as Wayne County, Michigan (Detroit), and Cuyahoga County, Ohio (Cleveland), and others that are predominantly suburban outlying areas of large cities, such as Clayton County, Georgia (adjacent to Atlanta).

The actual and potential strength of the housing markets in these counties depend not only on mortgage credit access but on broader considerations, such as demographic trends, economic activity, and the quality and proximity of schools, jobs, health care facilities, and basic services. In many cases, these markets overlap with distressed areas that have struggled to recover from the foreclosure crisis and from long-standing trends of low (or declining) population growth. Other low-cost counties include rural areas where housing is generally less costly and where manufactured housing sometimes makes up a substantial market share. As with metropolitan low-cost counties, rural low-cost counties cannot be easily generalized. For example, nearly all of Oklahoma's 23 low-cost counties overlap with tribal jurisdiction areas.

FIGURE 6

300 Counties with the Highest Shares of Home Sales up to $70,000



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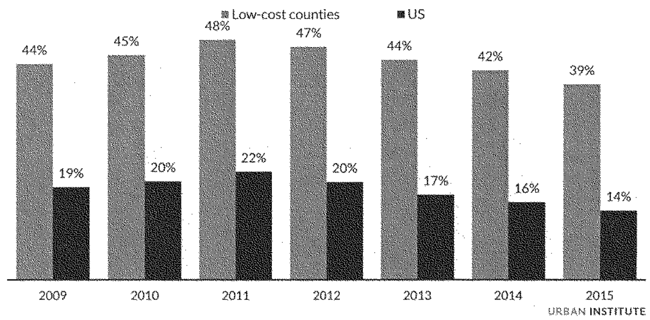
Sources: CoreLogic and the US Census Bureau.

FIGURE 7

Share of Home Sales up to $70,000



Sources: CoreLogic and the US Census Bureau.

Who Lives in Low-Cost Counties?

Households in low-cost counties are more likely to be low income and live in older houses in need of repairs (table 1). Although low home prices may suggest it is more economical to own a home in low-cost areas, homeownership rates are only slightly higher than the US average, at least in part because of the lack of small-dollar mortgage financing. In 2015, only 21 percent of homes that sold for $70,000 or less in low-cost counties were financed by a traditional mortgage (figure 8).

TABLE 1

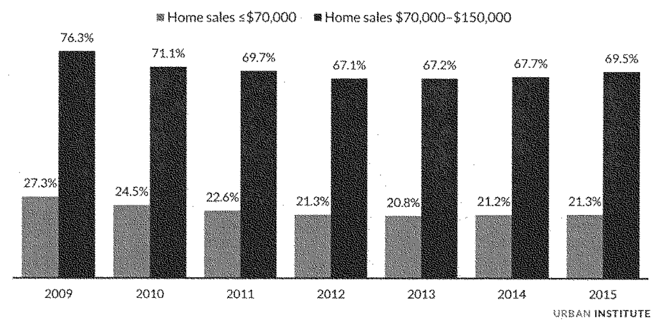
Demographic Comparison of Low-Cost Counties and Other US Counties

	Median Income ($)		Minority Share (%)		Houses Built before 1980 (%)		Homeownership Rate (%)	
	Low-cost counties	United States	Low-cost counties	United States	Low-cost counties	United States	Low-cost counties	United States
2009	41,000	50,800	20	24	51	42	69	66
2010	40,200	50,000	20	25	49	41	69	65
2011	40,400	50,000	20	25	48	41	69	64
2012	41,600	51,500	21	25	49	40	68	64
2013	42,500	52,700	21	25	48	40	67	63
2014	43,500	54,200	21	26	48	40	67	63
2015	45,000	56,400	21	26	47	39	67	63
2016	46,000	58,200	22	26	47	39	67	63

Source: American Community Survey.

FIGURE 8

Share of Sales Financed by a Mortgage in Low Cost Counties

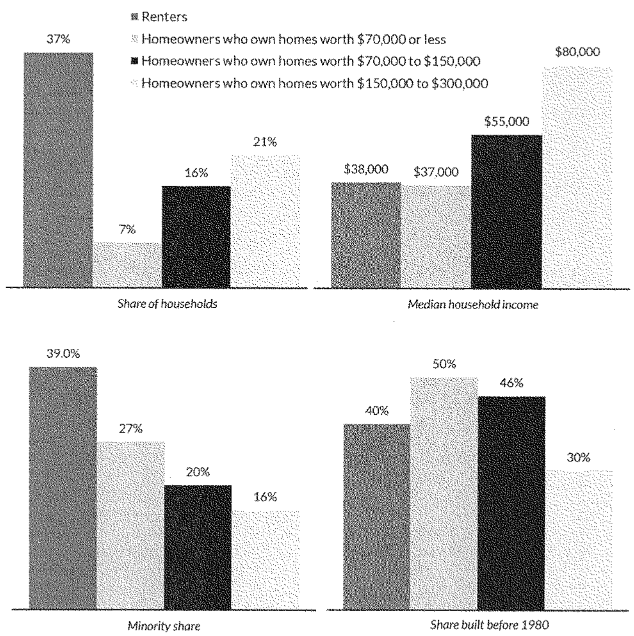


Sources: Home Mortgage Disclosure Act records and CoreLogic.

We can gain insight about who would be served by small-dollar mortgages by looking at the household demographics of renters in low-cost markets and owners of low-cost homes. Demographic characteristics of households in homes valued up to $70,000 and households currently renting are good indicators of potential borrowers who could benefit from small-dollar mortgages and move from renting to owning. Figure 9 summarizes the demographic insights for the US, and figure 10 provides similar information for low-cost counties.

FIGURE 9

Demographic Characteristics of US Renters and Homeowners, 2016

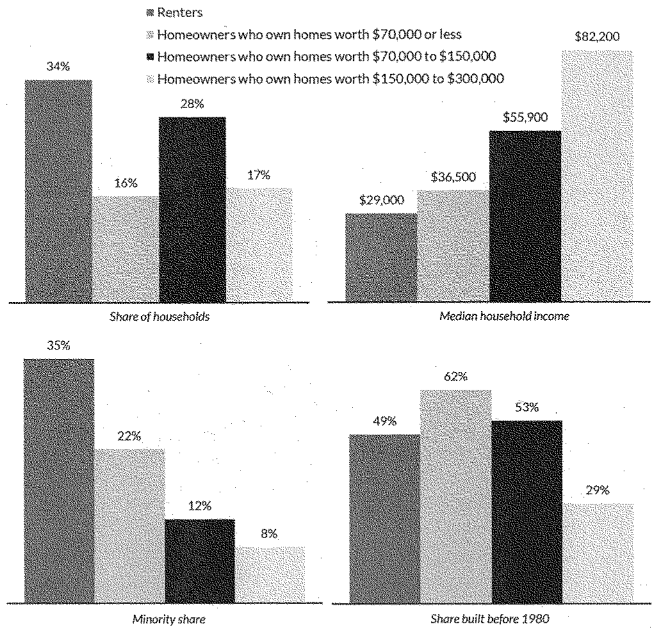


Source: American Community Survey.

Nationwide, 43 million households were renters in 2016, or 37 percent of all households (figure 9). The median income of renters is comparable with that of homeowners who live in homes valued up to $70,000, indicating that some renters could move into homeownership if they had access to small-dollar mortgages. Such access could also help minority and low-income households become homeowners. A higher share of renters than homeowners are minorities; in 2016, the minority share of renters was 39 percent, higher than the 27 percent of homeowners in homes worth $70,000 or less.

FIGURE 10

Demographic Characteristics of Renters and Homeowners in Low-Cost Counties, 2016



Source: American Community Survey.

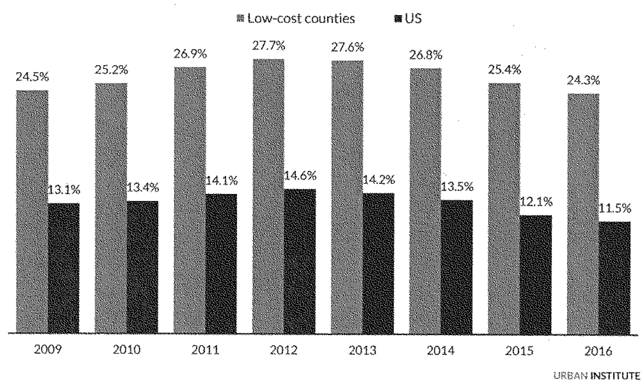
Nearly 34 percent of households in low-cost counties, or 3.7 million, are renting (figure 10). These renter households have the lowest median income ($29,000) and highest minority share (35 percent) compared with other households. The median renter income is 20.5 percent below the median income of households who own a house worth $70,000 or less, but the median renter household with income of $28,000 could afford a $127,000 house with zero down payment if the median family can use 34 percent of its income to pay for a 30-year fixed-rate mortgage, at a 4.4 percent mortgage rate, and property tax and insurance at 1.75 percent of the house's value.[14] This suggests that many renters might be in the market for low-cost starter homes if they had adequate credit scores and could access reasonably priced small-dollar mortgages.[15]

Existing Low-Cost Owner-Occupied Housing Stock

Compared with the country as a whole, a larger share of the owner-occupied housing stock in low-cost counties is worth $70,000 or less. In 2016, 12 percent of US owner-occupied homes were worth $70,000 or less. In the low-cost counties, this share was 24 percent (figure 11).

FIGURE 11

Share of Owner-Occupied Homes Worth $70,000 or Less



Source: American Community Survey.

Because of home price appreciation, the availability of low-cost housing has decreased. From 2012 to 2015, the share of the US housing stock worth $70,000 or less decreased from 15 percent to 12 percent. Homeowners who purchased low-cost homes are benefiting from this appreciation, while renters in markets that experienced rapid appreciation may have been displaced and priced out of the market.

Small-Dollar Mortgages for Home Renovation

Small-dollar mortgages for renovation could help homeowners in low-cost markets maintain their homes, deal with rising costs, or realize the benefits of neighborhood price appreciation. A small-dollar financing could help return distressed rental or vacant property to the owner-occupied housing stock or help landlords of rental properties improve homes for tenants and revitalize their communities. Fifty percent of US homes worth $70,000 or less were built before 1980, and the share was 62 percent in low-cost counties. Low-cost homes are often older than high-priced properties, and many need renovation. The Neighborhood Stabilization Program,[16] a program put in place in 2008 amid the foreclosure crisis, allocated emergency funding to states and localities so they could help purchase, rehabilitate, redevelop, and resell foreclosed or abandoned properties in distressed neighborhoods. As those programs expire or suffer budget cuts, new ideas are emerging that can become a catalyst for expanding access to small-dollar mortgages for home purchase and renovation, supporting communities, and directing needed capital into communities for long-term sustainability. Detroit Land Bank's Rehabbed and Ready program[17] helps buyers buy and renovate homes and put them back to productive use. Another example is Philadelphia's Healthy Rowhouse Project,[18] which is improving substandard conditions in row houses occupied by LMI families.

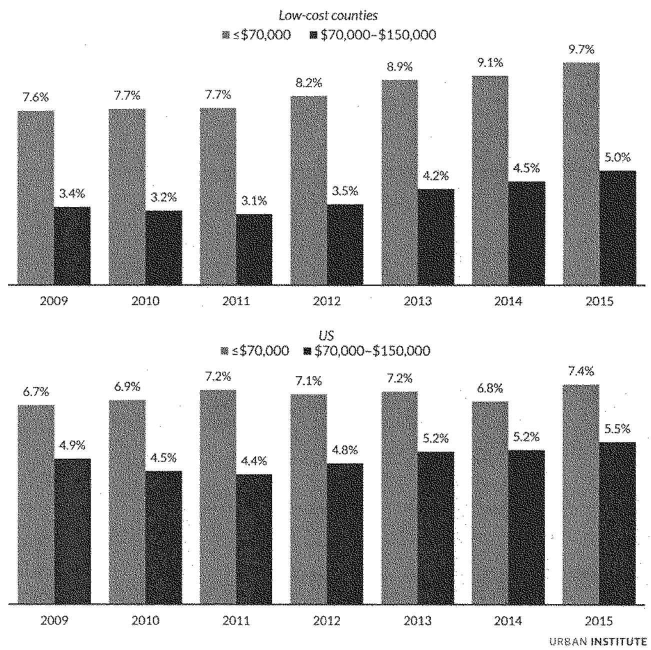
Low-Cost Homes Have More Frequent Home Sales

Low-cost homes are sold more frequently than their high-valued counterparts. In 2015, sales of homes worth $70,000 or less across the US accounted for 7.4 percent of the owner-occupied housing stock, compared with a 5.5 percent turnover of homes worth $70,000 to $150,000.

This trend is more pronounced in low-cost counties, where there were 182,000 sales of homes worth $70,000 or less in 2015, accounting for nearly 10 percent of the nearly 1.9 million owner-occupied households worth $70,000 or less in these areas. In comparison, only 5 percent of homes worth $70,000 to $150,000 turned over in 2015.

FIGURE 12

Home Sales as a Share of Housing Stock in Low-Cost Counties and the US



Sources: CoreLogic and American Community Survey.

A reasonable hypothesis for this difference can be partly attributed to non–owner occupants (e.g., investors in single-family residential property) purchasing low-cost homes. Just 27.5 percent of US home sales up to $70,000 in 2015 were financed by a mortgage, and the share is 21.3 percent in low-cost counties. Home sales without a mortgage were primarily cash sales, most by investors who fixed up and rented or flipped the homes. Some of the housing was seller financed, and others represented sales managed by land bank authorities.

Who Received Small-Dollar Mortgages and through Which Channels?

Characteristics of Small-Dollar Mortgage Borrowers

Data from HMDA allow us to describe demographic attributes of households that could obtain a small-dollar purchase mortgage. Such borrowers represent only a fraction of small-dollar homebuyers and of households (owners and renters) who live in low-cost homes. Nevertheless, the data reveal how access to small mortgages could make homeownership attainable for more people.

INCOME

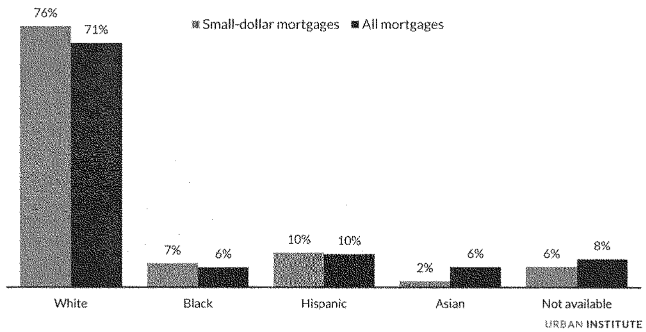
Income is a critical factor in obtaining financing for a home purchase. Lower loan amounts are associated with lower borrower incomes, based on HMDA data from 2009 to 2016. A typical borrower of a mortgage loan up to $70,000 has a median income of about $35,000, compared with a median income of $71,000 among all borrowers. Small-loan borrowers also have lower typical core-based statistical area– and census tract–level incomes than all borrowers overall, meaning small loans are more likely to occur in low-income core-based statistical areas and neighborhoods.[19] Other key neighborhood differences between small-loan borrowers and large-loan borrowers are that small loans typically have a higher neighborhood vacancy rate (median of 9 percent versus 6 percent) and a lower neighborhood homeownership rate (median of 75 percent versus 79 percent). These figures include only approved, originated loans. Homeownership rates may be lower in markets where potential small-loan buyers remain renters because of a lack of financing available to fit their needs.

BORROWER RACE OR ETHNICITY

The racial and ethnic composition of small-dollar mortgage borrowers varies modestly from borrowers overall, according to data from HMDA and the American Community Survey. Among borrowers with loan amounts up to $70,000, 76 percent are white, compared with 71 percent of borrowers overall (figure 13). The loan share of black borrowers is slightly higher for small-dollar mortgages than for all loans, while the loan share for Hispanic borrowers is the same as the overall share. The share of loans to Asian borrowers is only 2 percent for small-dollar mortgages but is 6 percent overall. The share of borrowers for whom race or ethnicity information is unavailable increases as loan size increases, making it difficult to interpret, as the borrowers without race or ethnicity information could disproportionately come from one racial or ethnic group.

FIGURE 13

Purchase Loan Originations by Race or Ethnicity



Source: Home Mortgage Disclosure Act records.

Notes: Based on purchase mortgage originations from 2009 to 2016. White people and black people are non-Hispanic.

Loan Type

We analyzed HMDA data to shed light on the mortgage financing channels primarily used for small-dollar mortgage originations. The loan type field indicates whether each originated loan type was from the Federal Housing Administration (FHA), the US Department of Veterans Affairs (VA), or the Rural Housing Service or was from conventional financing, with the conventional category including government-sponsored enterprise (GSE) and portfolio loans. We then used loan-level single-family mortgage data from the GSEs to further break down the conventional type into GSE and portfolio loans. Because the GSE data were available only since 2013, we analyzed purchase loans by loan type originated from 2013 to 2016 (figure 14).

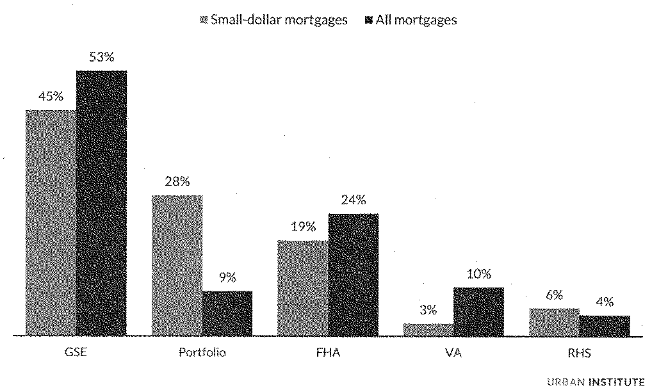
Government-sponsored enterprise loans compose 53 percent of all originations but only 45 percent of small-dollar mortgage originations. The FHA serves 19 percent of the small-dollar mortgage market and 24 percent of the overall market, while Rural Housing Service loans serve 6 percent of small-dollar mortgages and 4 percent of the overall market. The largest gaps in market share of small loans relative to the overall market are in portfolio and VA lending, though in the opposite direction. The VA financed about 10 percent of purchase loans from 2013 to 2016 but only 3 percent of small-dollar purchase mortgages. Veterans Administration lending for low-cost properties may be particularly affected by the

VA's residual income test, which could require buyers at small dollar amounts to have a low debt-to-income ratio to have sufficient residual income to qualify for a loan.

Twenty-eight percent of small purchase loans were retained in portfolio, which is more than three times as large as its portion of all purchase loans. This significantly higher share of small mortgages in portfolio is largely because many of these loans are originated and retained by small community banks, credit unions, and large lenders who work with local partners and are sources of liquidity where secondary market options are not as accessible. These small-dollar mortgages can also have unique servicing needs that lenders wish to closely manage.

FIGURE 14

Market Share by Loan Type



Sources: Home Mortgage Disclosure Act records and eMBS.
Notes: Based on purchase mortgage originations from 2013 to 2016. FHA = Federal Housing Administration; GSE = government-sponsored enterprise; RHS = Rural Housing Service; VA = US Department of Veterans Affairs.

Borrower Credit Characteristics

Although HMDA provides rich information on borrower demographics and loan types, it does not contain key credit risk characteristics, such as borrower credit score, loan-to-value ratio, and debt-to-income ratio. HMDA also has a one-year lag, with the 2017 HMDA origination data scheduled to be released in 2018. To examine the credit profiles of borrowers who obtained small-dollar purchase mortgages, we used complete loan-level single-family purchase-money mortgage data released by the GSEs (i.e., Fannie Mae and Freddie Mac) and by Ginnie Mae, which securitizes government-guaranteed loans from the FHA, VA, and US Department of Agriculture. Most first homes have been financed through these channels in recent years. The data we used for 2016 contain more than 70 percent of new purchase loans. Notably, these data exclude portfolio originations, so originations with a loan amount exceeding the agency limits are not included. Although about 28 percent of small-dollar mortgages were made through the portfolio channel, GSE and government loans cover about 72 percent of the market of loans up to $70,000.

Table 2 shows the credit characteristics by loan amount and agency for purchase loans originated in 2017 for small-dollar and larger purchase mortgages. New small-dollar and large mortgage borrowers exhibit high median FICO scores, with small-dollar borrowers' scores slightly lower across all channels (722 versus 730). But small-dollar mortgages are also associated with lower loan-to-value and debt-to-income ratios, with the typical small-dollar borrower in the GSE channel making a 20 percent down payment. The interest rate on loans up to $70,000 is higher across all channels, with the widest disparity for VA loans (4.25 percent for loans up to $70,000 compared with 3.88 percent for loans above $70,000). The share of first-time homebuyers is similar for small-dollar and large mortgages across all channels, yet small-dollar mortgage borrowers in the FHA and VA channels are more likely to be first-time homebuyers than large-loan borrowers in those channels.

TABLE 2

Borrower Credit Characteristics by Loan Amount

2017 purchase mortgage originations in the agency market

	GSE		FHA		VA		Other		All	
	≤$70K	>$70K	≤$70K	>$70K	≤$70K	>$70K	≤$70K	>$70K	≤$70K	>$70K
Loan count	74,417	1,837,146	24,240	779,478	4,111	359,619	7,739	110,699	110,507	3,086,942
Share	4%	96%	3%	97%	1%	99%	7%	93%	3%	97%
First time-homebuyer share	40%	40%	83%	76%	69%	53%	86%	81%	53%	53%
Owner-occupied share	70%	87%	100%	100%	100%	100%	100%	100%	80%	92%
Median loan amount	$56,610	$222,562	$59,000	$189,000	$60,000	$239,000	$60,000	$141,000	$58,000	$211,000
Credit score	748	758	667	672	690	711	686	694	722	730
Loan-to-value ratio	80.0%	80.0%	96.5%	96.5%	100.0%	100.0%	101.0%	101.0%	86.8%	95.0%
Debt-to-income ratio	33.00%	36.00%	37.02%	43.52%	33.79%	41.02%	32.45%	36.17%	33.58%	38.94%
Note rate	4.38%	4.25%	4.38%	4.13%	4.25%	3.88%	4.25%	4.00%	4.38%	4.13%

Source: eMBS.

Note: FHA = Federal Housing Administration; GSE = government-sponsored enterprise; VA = US Department of Veterans Affairs.

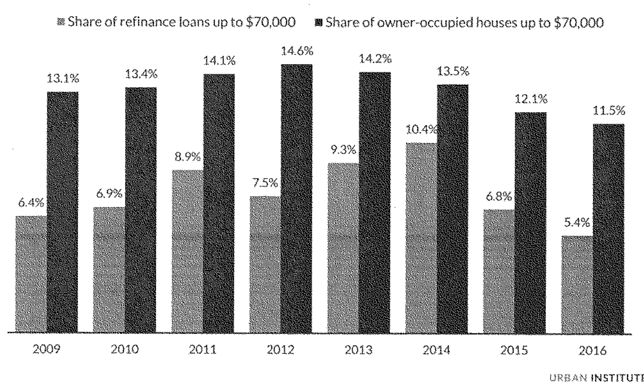
How Small-Dollar Mortgages Can Help in the Home Improvement and Refinance Markets

The lack of small-dollar mortgages also affects home refinance and home improvement lending. But origination costs of certain refinance and home improvement loans are lower when the borrower qualifies for a waiver of appraisal or other fees. For example, the FHA offers a streamlined refinance program for FHA borrowers that requires no appraisal and no credit report.

The mismatch between housing stock and small mortgage originations affects refinance and purchase loans (figure 15). In 2016, 11.5 percent of owner-occupied houses were worth $70,000 or less, while only 5.4 percent of refinance mortgages were made for $70,000 or less. The lack of small-dollar refinance mortgages for owners of low-cost properties could be more serious than these numbers indicate because many of these small-dollar refinance loans were taken out by homeowners of more expensive homes who paid down their mortgages to $70,000 or less.

FIGURE 15

Mismatch between Small-Dollar Refinance Originations and Low-Cost Housing Stock



Sources: Home Mortgage Disclosure Act records and CoreLogic.

A few small-dollar refinance originations continued even during refinance boom years in 2012 and 2015, when refinance originations up to $70,000 did not increase as much as higher-balance loan refinances; small refinance loans even declined in 2015 (table 3). The lack of a small-dollar refinance credit makes it more difficult for owners of low-cost homes, who are more likely to be low-income households, to refinance their mortgages to more favorable rates and terms or leverage home equity.

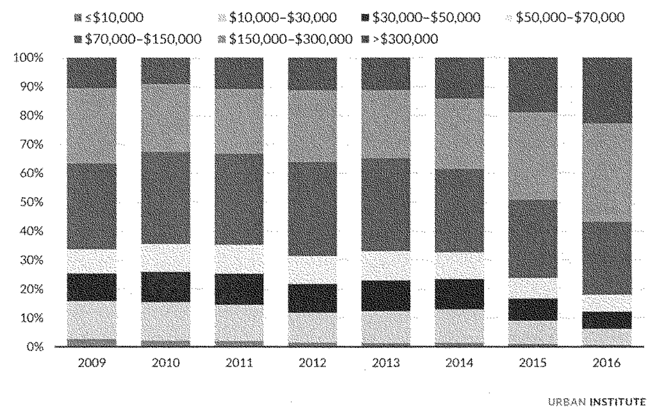
The scarcity of small-dollar mortgage credit extends to home improvement loans. These are especially important to owners of low-cost homes, as these properties are more likely to be older or to have been purchased in a distressed sale and could benefit from a cost-effective renovation to continue or return these homes to safe, habitable, and affordable housing. Figure 16 shows that the share of small-dollar home improvement loans up to $50,000 has been low historically and has declined rapidly. For buyers and owners of low-cost properties, access to small financing amounts for improvements can be a significant opportunity for an LMI household that needs to maintain or rehabilitate a home they own or would like to purchase. Constraining home improvement lending to these owners exacerbates problems with upkeep in these communities.

TABLE 3
Refinance Loans by Price Bucket

	Number of Refinance Loans			Share of refinance loans
	≤$70,000	$70,000–$150,000	>$150,000	≤$70,000
2009	332,225	1,610,033	3,341,355	6.3%
2010	308,373	1,434,479	2,763,552	6.8%
2011	341,061	1,281,205	2,215,507	8.9%
2012	440,152	1,816,378	3,642,154	7.5%
2013	403,657	1,505,366	2,473,871	9.2%
2014	206,363	667,972	1,118,719	10.4%
2015	192,534	785,785	1,861,279	6.8%
2016	179,236	831,806	2,358,641	5.3%

Source: Home Mortgage Disclosure Act records.

FIGURE 16
Home Improvement Loans by Price Bucket



Source: Home Mortgage Disclosure Act records.

Issues Contributing to the Lack of Small-Dollar Mortgages

Many factors contribute to the lack of small-dollar mortgages. Some factors are tied to local market conditions, including severity of the foreclosure crisis and resulting distressed properties, the composition and condition of the residential housing stock, investor competition, and the property appraisal gap. In markets that have experienced population decline and high vacancy rates, an appraisal gap can occur when a home for sale fails to appraise up to the value necessary for a lender to underwrite a loan for the price consistent with what the purchaser has agreed to pay. The appraisal gap is not specific to small-dollar loans, but some areas experiencing this challenge are among those with the greatest concentrations of small-dollar sales, such as Wayne County, Michigan.

In many low-cost housing markets, competition from investors purchasing with cash suppresses would-be low-cost property buyers. Sellers eager for the speed and certainty of an all-cash closing give an advantage to investors, who will typically rent out the property, over an owner-occupant purchasing with a mortgage. Cash sales are quicker and more certain because they do not involve a lender and usually have reduced appraisal and inspection requirements. This issue may not be solved by a traditional mortgage product but may require alternative strategies (e.g., community land trusts with funds to act quickly when homes come on the market) to give first-time homebuyers and owner-occupants a fair shot at purchasing low-cost homes.

Housing stock composition affects whether mortgage lending is viable for low-cost properties. Manufactured homes can be difficult or impossible to finance with a traditional mortgage, especially when the house will be placed on leased land, often leading prospective buyers to turn to more costly and risky forms of credit. Borrowers who owned land and took out a loan to purchase a manufactured home often financed the home purchase with a chattel loan (CFPB 2014). To a lesser degree, low-cost condominium units can be more complicated to finance with a mortgage, especially via the FHA, but condos can be a source of more affordable ownership in certain markets.

Irrespective of local market conditions, many factors contributing to today's tight mortgage credit box are exacerbated for borrowers seeking loans for low-cost properties. Since the Great Recession, lenders have reported higher origination costs, greater regulatory scrutiny on representations and warranties and indemnification issues subjecting them to higher costs of delinquency, higher servicing costs for nonperforming loans, and reputational and monetary penalties from mortgage settlements in the aftermath of the crisis.

Mortgage lenders seek to compensate for these higher costs with higher profits on individual loans. But the structure of mortgage lending compensation and incentives works to the disadvantage of small-dollar loans. Loan origination costs are largely fixed and recovered either through the sale of the loan or through the financing spread and payment for servicing. Smaller loans generate lower sales prices, spreads, and servicing income, making them less economically attractive to lenders.

What then are the options for transacting on low-cost properties? The three possibilities are no sales, more all-cash purchases (which tend to be to investors, rather than owner-occupants), and greater use of seller financing vehicles, including land contracts, which often have fewer protections for borrowers than traditional mortgages. None of these is optimal for potential homeowners or communities who might benefit from purchasing or renovating low-cost properties for use by owner-occupants.

Recommendations

Evidence suggests that it is difficult to purchase low-cost properties using traditional mortgage financing because the loan size is too small. This affects housing stock of all kinds, including single-family, site-built, and manufactured housing, as well as condominiums, which are all sources of affordable single-family housing for low- and moderate-income households. Our nation is facing an affordable housing crisis, where high rents and slow and variable income growth, combined with renewed household formation, have generated a growing and unmet demand for more affordable housing. The supply of low-cost properties could be a part of the solution, but first-time homebuyers and those with limited funds who cannot buy these properties outright with cash need access to housing finance solutions. Given the age of the single-family housing stock in many low-cost markets, affordable finance for purchase and rehabilitation as well as renovation options for families needing reinvestment in their homes to retain value and grow equity should be important components of any solution.

Our research indicates that ideas such as the following could create new sources of capital and financing that could improve opportunities for LMI families who wish to purchase, rehabilitate, or refinance with a small-dollar mortgage. They deserve further exploration and experimentation.

- **Review regulations and business practices** in the real estate and mortgage finance space that might be creating barriers to lending on low-cost properties. Taking a fresh look at government lending guidelines for the FHA and VA and at opportunities for conventional conforming financing of low-cost single-family properties could bring needed liquidity to LMI borrowers. The FHA and VA supplied surprisingly few of the small loans originated in recent years, and with higher interest rates and lower DTI ratios than larger loans, despite only modestly lower borrower FICO scores. Reviewing mortgage underwriting and lending practices with an eye toward low-cost markets could uncover areas where traditional mortgage lending rules and practices may be putting potential LMI borrowers at a huge disadvantage.
- **Expand the role of local and federal government, the secondary market (the GSEs), and community-based organizations in small-dollar housing finance.** Introducing new programs and leveraging the capacity of community-based nonprofit organizations, land banks, state housing finance agencies, credit unions, and community development financial institutions could expand the market for small-dollar mortgage lending. This includes experimenting with new partnerships with public and private groups and exploring new models for bringing liquidity to the small-dollar market through capital markets execution. Leveraging the Federal Housing Finance Agency Duty to Serve rules to help foster and promote more active lending for

rural and underserved markets, as well as testing new products or instruments to address these challenges and expand lending to LMI households would be an ideal outcome as Duty to Serve market plans are implemented. The 2018 scorecard for the GSEs requires the enterprises to safely expand access to credit for creditworthy and underserved borrowers and markets (FHFA 2017). As they assess the availability of low-balance loan financing and define approaches to making access to financing more available, new partnerships and product innovations should be considered.

- **Create new consumer-friendly, fairly priced small-dollar mortgage alternatives to traditional mortgages for home purchase, renovation, and refinance.** The typical mortgage process might not be the best way to serve and lend to prospective borrowers who are looking to enter homeownership. Mortgage products tend to be long term and subject to primary and secondary market requirements that may be overly burdensome for small loans. Several parts of the mortgage process and the associated fees and costs make it prohibitive for lenders to make money, make it excessively expensive for low-income borrowers who wish to buy, and give little incentive to other players in the real estate market (e.g., real estate agents) to participate. Exploring waivers on appraisals, standardizing loan officer compensation for smaller loans, or streamlining other parts of the mortgage process that would speed up financing and the ability to close would help buyers who finance their purchases with a small mortgage be more competitive with cash buyers. Incentives for sellers and investors of low-cost properties to consider owner-occupant buyers first could help with cash-buyer competition.
- **Expand "first look" programs** that allow first-time homebuyers, low-income borrowers, and minorities in affordable communities the ability to purchase over cash investors through a fund or pool. Establishing and testing programs with large single-family investors and with some home improvement retailers to promote mobility from renting to owning is another avenue to explore. Some single-family rental investors and community nonprofits that own real estate have made significant investments in improving properties and supporting families who wish to become homeowners. More partnerships, collaboration, and cooperation among investor-owners, community nonprofits, lenders, and potential borrowers to restore and revitalize low-cost communities could change the trajectory of these properties and convert them from renter occupied to owner occupied.
- **Explore opportunities to improve and expand secured, affordably priced manufactured housing finance**, including safer, scalable, market-priced, secured products for chattel lending. Looking at ways to bring manufactured housing finance into a more mainstream and affordably

priced lending structure could increase the production and sale of manufactured housing as an affordable option. This is especially important for resale of manufactured housing—a more common transaction as the quality of such housing has improved.

Conclusion

The limited access to mortgage credit for low-cost properties has led to a growing imbalance in America's housing that affects both demand and supply. Numerous studies have pointed out a growing affordability crisis, for both renters and homeowners, with a widening gap in the affordable housing supply available for families in need. America's housing infrastructure is aging, and economic forces continue to drive home prices up, putting increased pressure on rents and rendering homeownership out of reach for many would-be first-time homebuyers and low-income families. Yet, large swaths of the housing stock provide substantial opportunities for low-cost homeownership. Our analysis shows that sales of low-cost housing are dominated by cash buyers and investors, and borrowers who are creditworthy and able to purchase a low-cost property with a mortgage (in the agency market) typically pay a higher interest rate and put more money down in percentage terms, despite having similar credit scores and lower debt-to-income ratios. Addressing this access-to-credit issue for small mortgages would extend opportunities for affordable homeownership to additional creditworthy borrowers, especially in low-cost markets, which include many rural, urban, and suburban areas. In addition, small refinance and renovation loan options could help owners with low-balance properties improve their homes and assist with needed changes that will improve livability and neighborhood appeal.

Building robust tools to support small-dollar mortgage lending could expand the opportunity to turn renters—especially traditionally underserved families, such as low- and moderate-income households, first-time homebuyers, and minority households—into homeowners. It could also bring more capital for renovation to homeowners and provide much-needed investment in our naturally occurring affordable single-family housing stock, an investment that is needed now so that future generations can benefit.

Notes

[1] We exclude the limited number of properties sold for less than $10,000 because these transactions are often not arms-length sales.

[2] Ellen Seidman and Bing Bai, "Where Have All the Small Loans Gone?" *Urban Wire* (blog), Urban Institute, April 18, 2016, https://www.urban.org/urban-wire/where-have-all-small-loans-gone.

[3] Alanna McCargo and Sarah Strochak, "Mapping the Black Homeownership Gap," *Urban Wire* (blog), Urban Institute, February 26, 2018, https://www.urban.org/urban-wire/mapping-black-homeownership-gap.

[4] Laurie Goodman, Edward Golding, Alanna McCargo, and Bhargavi Ganesh, "Manufactured Homes Could Ease the Affordable Housing Crisis. So Why Are So Few Being Made?" *Urban Wire* (blog), Urban Institute, January 29, 2018, https://www.urban.org/urban-wire/manufactured-homes-could-ease-affordable-housing-crisis-so-why-are-so-few-being-made.

[5] "Small Dollar Credit," Center for Financial Services Innovation, accessed April 3, 2018, https://cfsinnovation.org/research/small-dollar-credit/.

[6] See page 4 for a discussion of why we chose $70,000 as the defining price and mortgage size.

[7] Property sales records were obtained from the Deeds file of CoreLogic Real Estate data. By comparing mortgages up to $70,000 with properties and home sales up to $70,000, we are assuming zero down payment. Small-dollar mortgage loans generally have high loan-to-value ratios (the median loan-to-value ratio on agency loans in 2017 was 87 percent). Because a $70,000 loan with the standard 3.5 percent Federal Housing Administration (FHA) down payment would support a home purchase price of $72,539, our analysis might understate the difficulty of purchasing a low-cost home with even an FHA mortgage but especially with government-sponsored enterprise financing (see table 2 for credit characteristics of agency loans by channel and loan size). That is, if you consider borrowers who have a down payment and could thus afford a home worth more than $70,000, the small-dollar mortgage shortfall is even more significant.

[8] "Housing Credit Availability Index," Urban Institute, accessed April 3, 2018, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index.

[9] See Laurie Goodman, Jun Zhu, and Bing Bai, "Overly Tight Credit Killed 11 Million Mortgages in 2015," *Urban Wire* (blog), Urban Institute, November 21, 2016, https://www.urban.org/urban-wire/overly-tight-credit-killed-11-million-mortgages-2015. Calculations updated with 2016 Home Mortgage Disclosure Act data.

[10] The property sales data are based on CoreLogic property record data. Our data have good market coverage through 2015.

[11] Ellen Seidman and Bing Bai, "Where Have All the Small Loans Gone?" *Urban Wire* (blog), Urban Institute, April 18, 2016, https://www.urban.org/urban-wire/where-have-all-small-loans-gone.

[12] The counties with missing 2015 sales data accounted for only 1.6 percent of total purchase originations in 2015 based on Home Mortgage Disclosure Act data.

[13] A core-based statistical area is a geographic area that includes an urban center of at least 10,000 people as well as one or more adjacent counties. Core-based statistical areas with an urban center with between 10,000 and 50,000 people are micropolitan statistical areas, while those with an urban center with more than 50,000 people are metropolitan statistical areas.

[14] The median debt-to-income ratio for mortgages up to $70,000 was 34 percent, and the median note rate was 4.4 percent, in 2017 (table 2).

[15] Of course, potential homeowners have to overcome barriers beyond income. In particular, renters tend to have lower credit scores than owners. Approximately 49 percent of renters have a credit score above 650 (only 33 percent have credit score above 700), compared with 81 percent of homeowners (Li and Goodman 2016).

[16] "Neighborhood Stabilization Program," US Department of Housing and Urban Development, accessed April 3, 2018, https://www.hudexchange.info/programs/nsp/.

[17] "Who We Are," Detroit Land Bank Authority, accessed April 3, 2018, https://buildingdetroit.org/overview/.

[18] "About the Healthy Rowhouse Project," Healthy Rowhouse Project, accessed April 3, 2018, http://healthyrowhouse.org/about/

[19] The core-based statistical area median income was $59,200 for small-dollar mortgage borrowers versus $66,000 for all loans. The census tract median income was $47,632 for new small-loan borrowers versus $65,575 for all new borrowers.

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About the Authors

Alanna McCargo is codirector of the Housing Finance Policy Center at the Urban Institute, where she focuses on center development and strategy, including the cultivation of innovative research partnerships and initiatives within Urban and with external stakeholders. She is also executive director of Urban's Mortgage Servicing Collaborative. Before joining Urban, McCargo was head of CoreLogic Government Solutions, working with federal and state government agencies, regulators, government-sponsored enterprises, and universities to deliver custom data, analytics, and technology solutions to support housing and policy research. Previously, she held leadership roles with Chase and Fannie Mae, managing mortgage product development, servicing portfolios, policy efforts, and mortgage servicing transformation and alignment efforts. From 2008 to 2011, she worked on behalf of the US Treasury Department on implementing federal housing programs, including the Making Home Affordable loss mitigation and foreclosure prevention initiatives with lenders, servicers, and investors nationwide. McCargo has a BA in communications from the University of Houston and an MBA from the University of Maryland.

Bing Bai is a research associate with the Housing Finance Policy Center, where he helps build, manage, and explore data to analyze housing finance trends and related policy issues. Formerly an economic modeling senior at Freddie Mac, Bai conducted research on housing and mortgage markets and developed models to evaluate foreclosure alternatives for nonperforming mortgage loans. He holds a PhD in economics from Clemson University.

Taz George is a senior research analyst in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago. His research examines a range of community development topics, including housing affordability and access to credit in underserved areas. George holds a bachelor's degree in sociology with honors from Stanford University, and he is an MBA candidate at the University of Chicago Booth School of Business.

Sarah Strochak is a research assistant in the Housing Finance Policy Center. She works with researchers to analyze data, write blog posts, and produce data visualizations for the center's work on access to credit, homeownership, and affordable housing. Strochak received a BA with honors in economics from the University of California, Berkeley, with minors in city and regional planning and geospatial information science and technology. While at Berkeley, she was a student fellow for the University of California Carbon Neutrality Initiative and a research assistant at the Terner Center for Housing Innovation. For her senior honors thesis, she developed a methodology for analyzing mandatory foreclosure mediation laws.

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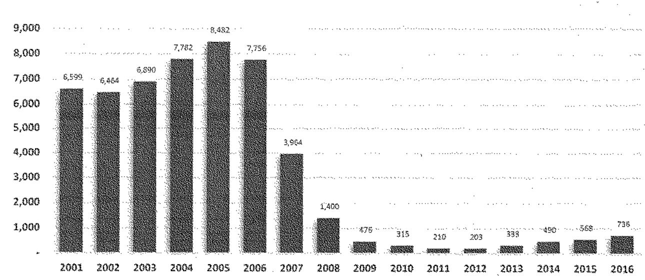
Testimony of Hector Hernandez before the Subcommittee on Oversight and Investigations, Committee on Financial Services on August 2, 2019

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 comprehension 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.

Congressional Testimony of Ted Phillips, Esq. on August 2, 2019
Executive Director, United Community Housing Coalition
Ad Junct Professor of Law, University of Detroit-Mercy School of Law

RE: "An Examination of the Housing Crisis in Michigan, 11 Years After the Recession",

History and Background

Thank you for this opportunity to testify today. My name is Ted Phillips and I am the Executive Director of the United Community Housing Coalition (UCHC), a nonprofit organization delivering comprehensive housing services to low income households in Detroit for more than 40 years. I have served in this capacity since 1986 with the exception of two years during the Archer Administration when I was the general manager for program, planning and budget for public housing at the Detroit Housing Commission. I have been a licensed attorney for 36 years.

At UCHC we provide a wide range of legal and social services focused on resolving various housing problems (primarily related to affordability and quality) for low income residents of Detroit. These services include legal to prevent evictions and improve rental housing quality, relocation assistance to provide for soft landings when displacement cannot be prevented, and organizing efforts to protect federally subsidized housing developments at risk of loss. We also operate large programs to protect and promote homeownership, annually preventing thousands of mortgage and tax foreclosures as well as land contract forfeitures. Until December 2018 when HUD eliminated the program, we also provided permanent housing placement services for homeless families in Detroit.

The foreclosure crisis nationally and in Detroit is well described in the July 30, 2019 memorandum prepared for this committee by the FSC Majority staff. In addition to the facts cited in that document, I would emphasize that the percentage of Black home-ownership dropped in Michigan more than any other state, down to 40% from just over half in 2000.[1] Much of that decline was in Detroit which until the turn of the millennium had some of the highest levels of Black homeownership in the country. In comparison, during the same period, White homeownership rates dropped only 3%. Detroit also endured one of the highest rates of subprime lending in the country. Currently, new conventional mortgage loans remains scarce. In 2017 there were only 994 mortgages provided in the entire city. This number represented an increase over the 736 mortgage loans in 2016.[2] Redlining continues unabated and other discriminatory lending practices remain a major problem. The Center for Investigative Reporting found that in the Detroit metropolitan area, Black applicants were nearly twice as likely to be denied a conventional home purchase loan as White applicants in 2016. [3] In less than a decade, the mortgage and tax foreclosure crisis has converted Detroit from a majority owner-occupied to majority renter-occupied city.

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[1] Christine MacDonald, Black home ownership plunges in Michigan, The Detroit News (July 10, 2015)

[2] *Id.*
[3] *Id.*

Blight caused by the foreclosure crisis destroyed whole neighborhoods in Detroit in a few years. A Detroit News report found that 56% of mortgage foreclosed homes were blighted or abandoned. Of those 36,400 homes, at least 13,000 were slated for demolition at a projected cost of $195 million. As property values dropped by 90% and assessments were not adjusted, a wave of tax foreclosures brought additional cascading numbers into the crisis. Compared to the size of the problem, federal relief efforts were miniscule or misdirected. Initially federal Hardest Hit program funds were limited to payments to banks to reinstate predatory mortgages, but most refused to accept the payments to stop foreclosures. Eventually the program was expanded to cover tax foreclosures and pay for demolitions caused by the foreclosures. The lending industry which had caused the problem was largely absent with respect to solutions. Instead it dumped thousands of REO properties on the market, at bargain basement prices, often to unscrupulous investors who repeated the process with predatory land contracts offered to former homeowners who could not qualify for mortgages as a result of their prior foreclosures.

Remedies and Model Interventions

Expanded use of Hardest Hit Funds is a viable solution that can help with federal approval to spend funds for low sheriff sale redemptions, predatory land contract buy-outs and repurchases of tax foreclosed homes, in addition to current uses. The continuation and expansion of the program is needed to effectively address foreclosure issues.

With respect to mortgage foreclosure prevention, lenders and servicers managing federally insured mortgages should be held accountable for their failure to provide significant forbearance relief to prevent foreclosure. Instead, it appears that the opposite occurred – since the lenders could recover full payment for a foreclosed mortgage, this provided an incentive to foreclose rather than forbear. They could recapture loaned funds quickly and repeat the process, leaving in the wake, a wreckage of vacant properties subject to blight, and homeless families with decimated credit, unable to purchase other homes. New rental housing for these foreclosure victims was often no more affordable and in substandard condition, and this further destabilized our neighborhoods.

Conventional mortgage lending is central to homeownership opportunities. Therefore this type of activity should be reported, measured by race and ethnicity, and more closely monitored in CRA and CFPB reports. Financial institutions with foreclosed inventory and federal property holdings at the VA and HUD should gift or otherwise make these properties available at steeply discounted prices, for minority homeownership programs aimed at redressing the lending discrimination and the foreclosure crisis.

Significant resources from the federal government and the banks are needed to pay for repairs to blighted foreclosed properties that can yet be saved, rendered habitable and made available to families who lost their homes as a result of the predatory lending and foreclosure practices of financial institutions. Funds for demolition and new construction are required for the properties that are beyond repair and impair neighborhood property values, as well as safety and rebuilding efforts. Local governments in urban communities have been saddled with the entire cost of addressing the mortgage foreclosure crisis which they did not create. A decade later, the enormous residue of the problem persists with few resources in credit starved communities, to remedy it.

After nearly 20 years of tax foreclosures under Michigan's amended foreclosure statute which accelerated the process, Detroit is intervening to utilize its statutory first right of refusal, in advance of the public auctions, to take homes and return them to homeowners who qualify for poverty exemptions or to tenant occupants of leased properties. In the past two years, this process has returned 600 properties to these occupants for the cost of the unpaid county taxes or less[4], retaining and promoting homeownership in the city. Our office is managing this program and this year we are on track to return properties to homeowner-occupants or create new homeowners among tenant occupants for another 500 homes. As a result, in this short period of time, our small tax foreclosure prevention program with 6 staff will have essentially provided or preserved more homeownership opportunities for families who lost their homes in tax foreclosure[5], than most of the mortgage lenders combined. To be fair, I should note that this has been with the help of many foundations, the City of Detroit and the Wayne County Treasurer's office. Two of those foundations have been the Quicken Community Loan Fund and the JP Morgan Chase Foundation. The total cost of our purchasing these homes will be a little over four million dollars ($4,000,000). However, if these families are to be truly provided with a fresh start, there needs to be a significant investment in additional home repair grants that are largely unavailable. In our program the current financial resources available to help families with repairs is limited to approximately 50 homes.

This successful program in Detroit needs to be replicated in other minority communities across Michigan with financial support from the federal and banking industry to re-purchase the homes.

Finally, as mentioned earlier, the mortgage foreclosure crisis generated a glut of properties in bank owned inventories that were dumped on the Detroit market in donations and sales to unscrupulous investors. The purchasers of these and tax foreclosed properties are restarting the churning property cycle in sales of these often substandard properties on high cost predatory land contracts or lease-to-own hybrid arrangements, which are largely unregulated. These methods for achieving homeownership must be carefully regulated to protect buyers from predatory terms, while at the same time permitting a pathway for homeownership for households otherwise barred from homeownership opportunities due to limited income, wrecked credit as a result of prior predatory mortgage foreclosures, or low cost housing that will not generate a sufficiently large price for a conventional loan[6]. The financial services industry must be pressed to generate smaller low cost mortgage loan products for lower priced homes in depressed housing markets. Transparency concerning housing conditions and repair needs (supported by inspections), true value (supported by assessments) and cost elements (taxes, insurance, price, interest, term, monthly and total cost, repairs and rate of accumulating of equity) as well as default remedies (court ordered forfeiture or foreclosure) are critical items to consider in the regulation of these purchase agreements. All hybrids (e.g., rent-to-own agreements) should be treated as purchases

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[4] One thousand dollars for poverty-exemption eligible former homeowners as a result of the settlement of an ACLU suit. For tenants occupying tax foreclosed homes, the prices generally range from $2,000 to $5,000 with a one-year term for repayments. Funding for the program was provided by a local foundation and the city which did not charge the taxes owed to it.

[5] This does not include the over 6,000 households successfully assisted in this period to prevent tax or mortgage foreclosure or land contract forfeitures, through a wide range of counseling and advocacy efforts.

[6] Many mortgage lenders insist on minimum loans of $50,000. A large percentage of the housing stock in Detroit will not generate that value. Smaller loans also provide for lower, more affordable payments for low income families. .

rather than rentals to prevent confusion and forfeiture of equity and repair investments in tenant eviction proceedings. Also, if these regulatory reforms are to be enforced, and foreclosures as well as evictions related to foreclosures prevented, additional funding for free legal resources is essential.

Concluding Recommendations:

1. Expand the Hardest Hit Funds program to provide for additional resources and uses for these funds to effectively address continuing foreclosures and problems caused by the crisis, including federal authorization to expend funds for tax and mortgage foreclosed property purchases, redemptions, and predatory land contract buyouts, as well as for repairs/demolitions.

2. For federally insured mortgages, hold financial institutions accountable to provide for significant forbearance relief to prevent foreclosures.

3. Recognizing that conventional mortgage lending is central to affordable homeownership opportunities, vigorously monitor these activities by race and ethnicity in CRA and CFPB reports, with significant consequences for failure to address poor performance.

4. Require lender to provide substantial commitments of resources to pay for repairs to blighted foreclosed properties that can be rendered habitable and made available to families who lost their homes as a result of predatory and discriminatory lending and foreclosure practices. Identify and commit federal sources that can also cover these costs.

5. Identify and commit significant resources from the federal government and lenders to cover demolition and new construction costs in urban areas devastated by the foreclosure crisis.

6. Require lenders to develop small low cost mortgage loan products for lower priced homes in depressed housing markets.

7. Regulate land contracts to

a. Increase transparency concerning property conditions and repair needs as well as estimated costs of repairs (supported by independent inspections)

b. Disclose true housing values (supported by independent assessments) and cost elements (including taxes insurance, interest, terms, price, repairs and methods by which equity is accumulated)

c. Classify hybrids (e.g., rent to own agreements) as purchase rather than rentals to prevent confusion and forfeiture of equity and repair investments in tenant eviction proceedings.

d. Render all hybrid agreements subject to court ordered forfeiture or foreclosures for defaults.

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