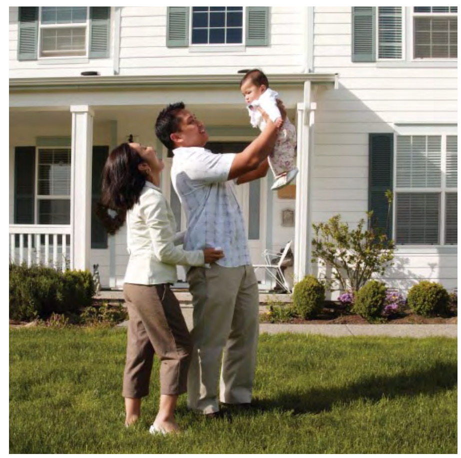
THE FIVE-POINT PLAN

Refocusing the Future of Minority Homeownership





AREAA
Asian Real Estate Association of America

National Association of
NAHREP
Hispanic Real Estate
Professionals

NAREB
REALTIST
National Association of Real Estate Brokers

The Asian Real Estate Association of America (AREAA), the National Association of Hispanic Real Estate Professionals (NAHREP), and the National Association of Real Estate Brokers (NAREB) represent more than 70,000 real estate practitioners of color and the growing minority community of America.

AREAA
Asian Real Estate Association of America

Founded in 2003, the Asian Real Estate Association of America is a non-profit professional trade organization dedicated to promoting sustainable homeownership opportunities in Asian American communities by creating a powerful national voice for housing and real estate professionals that serve this dynamic market. AREAA's membership represents a broad array of real estate, mortgage and housing-related professionals that serve the diverse Asian American market. For more information, visit www.areaa.org.

National Association of
NAHREP
Hispanic Real Estate
PROFESSIONALS

The National Association of Hispanic Real Estate Professionals, a non-profit 501(c)(6) trade association, is dedicated to increasing the home-ownership rate among Latinos by educating and empowering the real estate professionals that serve them. Based in San Diego, NAHREP is the premier trade organization for Hispanics and has more than 17,000 members in 48 states and 62 affiliate chapters. For more information, visit www.nahrep.org.

·NAREB·
REALTIST
NATIONAL ASSOCIATION OF REAL ESTATE BROKERS ®

NAREB, founded in 1947, was formed out of a need to secure the right to equal housing opportunities regardless of race, creed, or color. Since its inception, NAREB has participated in and promoted meaningful challenges and legislative initiatives to ensure fair housing for all Americans now with 88 Local Chapters nationwide. For more information, visit the website at: www.nareb.com.

OVERVIEW

There has been much debate about what went wrong with the housing market, and whether the new legislative and regulatory remedies will ensure a different and better outcome. From the establishment of the Consumer Financial Protection Bureau to the SAFE Act, the Federal government has made the transparency of mortgage products and the protection of borrowers a renewed priority. Yet, as consumers and real estate markets continue on the long road to recovery, we need to ensure our policy actions today set a strong foundation for sustainable homeownership for the years to come and not hamper the ability of multicultural homebuyers to achieve their dreams of homeownership.

Some have used this housing crisis to point fingers at the Community Reinvestment Act, GSEs' Affordable Housing Goals and other government efforts to drive access to credit for traditionally underserved borrowers. We reject this misguided and misinformed assertion. While there is a clear need for more affordable rental housing options in America, it must not come at the expense of reducing the focus on homeownership in America, particularly as minorities continue to lag behind in homeownership rates. If we do not thoughtfully rebuild the housing and mortgage market, the dream of homeownership for the diverse communities may be permanently deferred.

Our collective belief is that sustainable homeownership transforms communities, fosters economic growth and strengthens families. Both the White House and Republicans have questioned the underlying value of homeownership in America in the aftermath of the foreclosure crisis. The three multicultural real estate associations reject this view and firmly believe that homeownership is still a noble policy goal and worthy personal aspiration for all Americans.

The Multicultural Real Estate Coalition, made up of the Asian Real Estate Association of America, the National Association of Hispanic Real Estate Professionals and the National Association of Real Estate Brokers, is putting forth a Five-Point Plan to bring a balanced and common sense approach to restoring the dream of homeownership while making the housing market more vibrant and stable. Our Five-Point Plan looks forward and focuses on sustainability, accountability and responsibility on the part of all parties in the real estate transaction. This plan is an affirmative statement about the value of homeownership and its potential to transform communities. Our plan calls for more diverse solutions to meet the future housing needs and demands more preparation and responsibility on the part of consumers and the industry alike. It also calls on the industry to develop unique and innovative solutions to the housing challenges facing the multicultural communities today and in the future. We need a practical and balanced regulatory approach to overseeing systematic risk and protecting consumers so that we maintain the important flow of mortgage capital. We strongly oppose the perspective that homeownership strategies must be curtailed and that government must step back from its support of the secondary market. The future of the multicultural community depends on a strong real estate market and continued access to stable sources of reliable mortgage credit. Without it, the progress we have made as a community will be lost for generations to come.

Our Five-Point Plan specifically calls for:

1. A balanced regulatory approach that will support and encourage sustainable homeownership for qualified and responsible consumers seeking to purchase a home;
2. Increased diversity in the financial services arena and adequate oversight of minority business utilization and senior management hires;
3. Maintaining strong government support of the secondary market system that includes the broad network of primary lenders, government-supported securitization agencies, and FHA that collectively works to broaden credit availability for all communities at all times;
4. Strong consumer protection oversight to restore consumer and market confidence in homeownership; and
5. Mandatory financial education for all first-time homebuyers that prepares them for the responsibilities, risks and rights associated with homeownership.

Common Sense Regulatory Approach
Qualified Residential Mortgages and Ability to Pay

The passage of the Dodd-Frank Act brought about some of the most significant regulatory changes in modern history. From broad financial systematic risk oversight to a "qualified residential mortgages" (QRMs) definition, the law attempts to govern the way housing finance is conducted from top to bottom.

The Coalition appreciates the overall thrust of the Dodd-Frank Act and its effort to provide added oversight and protection to consumers and the financial market alike. However, we believe that regulatory bodies must carefully implement the law in a way that minimizes unintended outcomes. For instance, we believe careful calibration of the QRM exemption and ability to pay definition is critical to ensuring that diverse housing consumers continue to have appropriate access to credit in America.

While the risk retention provision in the Act is intended to align the interests of borrowers, lenders and investors by requiring a hold back of capital, it could increase the cost of mortgages funded through securitization thereby increasing the cost of credit for many borrowers. Recognizing this challenge, an exemption from the risk retention requirements for certain high-quality, lower risk conventional mortgages were added to the Act. The statute requires the QRM definition to be based on "underwriting and product features that historical loan performance data indicate result in a lower risk of default," and provides clear guidance on the types of factors to be used:

- Documentation of income and assets;
- Debt-to-income ratios and residual income standards;
- Product features that mitigate payment shock;
- Restrictions or prohibitions on non-traditional features like negative amortization, balloon payments, and prepayment penalties; and
- Mortgage insurance on low down payment loans.

The Coalition believes that an overly narrow definition of QRM standards can hurt borrowers, particularly minority and traditionally underserved consumers. Some have suggested that the QRM standards should include a very high down payment requirement or high FICO cut-off in order to limit QRM eligibility to a narrow segment of the market. We believe those actions could have significant unintended impact on the diverse communities.

RECOMMENDATION

The Coalition strongly urges a balanced approach to QRM exemption definition. If the agencies establish a QRM that is significantly tighter than current market standards, it would mean that countless creditworthy borrowers would be labeled as higher risk borrowers. A potentially perverse impact of such action would limit many minority and underserved borrowers to higher cost mortgages.

A QRM definition that does not recognize the unique borrowing characteristics of multicultural homebuyers will create excessive barriers to homeownership. For instance, the minority community is more likely to be self-employed small business owners, which makes the documentation of income a challenge. Rather than automatically categorize these borrowers as high risk, the regulatory framework should provide lenders some flexibility and discretion to allow compensating factors in its underwriting for small business owners. Also, a minimum down payment requirement would create a disadvantage in the minority community and for first-time buyers. Rather than limiting QRMs to loans with minimum down payments, we recommend a return to more prudent product and underwriting practices. We do not want to lose the long history of responsible and sustainable lending to low-down payment borrowers in underserved markets.

We support the overall goal of the QRM and the regulatory agency's effort to create a strong underwriting framework that promotes responsible lending and borrowing. Yet, we must proceed with caution. Narrow underwriting guidelines for "prime" loans created the opportunity for the proliferation of "subprime" lending. If we do not strike the right balance around QRM definition, we will unintentionally create a similar scenario for non-QRM lending. In the end, the diverse markets will once again face high rates and fees in the mortgage market and jeopardize the housing recovery.

Diversity in Financial Services

According to a 2008 study by the General Accounting Office, less that 10 percent of employees in financial services firms are minority. The industry figures for contracts awarded to minority-owned businesses are even lower.

THE NEED FOR PROGRAMS THAT SUPPORT DIVERSITY

While there is ongoing debate about whether racial discrimination still exists in mainstream America today, there is little disagreement that institutional discrimination was the status quo in our country just a few decades ago. What is not widely recognized today is that this legacy of discrimination and significant residual effects still exist. The notion that hiring decisions are made solely on merit is simply untrue. In reality, personal relationships and connections are as important as anything else and, for the reasons stated above, minorities are less likely to have these relationships in place. Therefore the federal government must continue to support proactive efforts to increase diversity, especially in the financial services sector where government and taxpayer support has been widely leveraged yet the industry maintains an extremely poor track record for inclusion and diversity.

Additionally, diversity in financial services is critical for the long term health of the industry itself for two primary reasons: the ability to serve the growing minority consumer base and the value of having diverse perspectives when it comes to a firm's planning process.

CONGRESS' SOLUTION

Recent enhancements to the Housing and Economic Recovery Act (HERA) and Section 342 of the Wall Street reform bill (aka Dodd/Frank) among other things, require the establishment of an office of minority and women inclusion. This office will be designed to compel many of the participants of the financial services industry to create policies and programs that will result in increased diversity within their employment ranks and their suppliers. The new laws could also provide educational services for small businesses looking to provide services to large financial institutions and should create unprecedented transparency into how the financial industry is performing with respect to diversity.

In addition to their employment roles, banks, the GSEs and other financial institutions employ thousands of real estate brokers, appraisers and other small businesses to assist them in a myriad of different areas including the acquisition and disposition of bank-owned real estate. Minority communities have been disproportionately impacted in the foreclosure crisis. Economic recovery in many of these local communities is directly tied to the employment of minority-owned small businesses by the financial services industry.

RECOMMENDATION

The bottom line outcomes of Dodd/Frank and HERA for America's minority communities will depend on whether congress ensures that the elements related to diversity are adequately enforced. Laws that are not enforced have little effect on the status quo, however, if the spirit of these new laws is fulfilled the result can be profoundly positive for our minority communities. NAHREP, AREAA and NAREB strongly urge congress to pursue the vigilant enforcement of section 342 of Dodd/Frank and the recent diversity enhancements to HERA.

Preserving the Important Government Role in Secondary Mortgage Finance

A healthy and robust secondary market, with targeted government assistance for affordable housing, is necessary for mortgage lending to remain affordable and accessible to current and future homebuyers. Unfortunately, both the Obama Administration and House Republicans have taken an aggressive stance to unwind the operations of Fannie Mae and Freddie Mac, without adequate assurance that the needs of low-income and first-time homeowners will continue to be met. There are some noticeable differences in the two proposals, but both plans fundamentally signal a full retreat of the Federal government from mortgage guarantee programs for a large portion of underserved future American homeowners. These proposals, if adopted, would significantly roll-back the progress the diverse communities have made in terms of homeownership attainment and wealth creation. The Coalition believes that these options will damage our community's access to a legitimate source of mortgage credit, and will lead to a two-tiered system of mortgage finance for the well-to-do and everyone else.

While we share the goal of bringing private capital back into the mortgage market, we fear these proposals, if adopted, will leave behind large pockets of unmet financing needs and will ultimately come at the expense of the multicultural homebuyers throughout the country.

Certainly, the public-private nature of the two government-sponsored institutions created conflicting goals and misaligned incentives at times. However, the GSEs did bring into the mortgage market trillions of dollars of capital that helped homeowners and neighborhoods throughout America. Before taking a drastic response to the current crisis, the Coalition believes that we must preserve the benefits of the government's Secondary Market initiatives that have worked for America's neighborhoods and multicultural homebuyers.

Over the last several decades, the GSEs established the 30-year fixed rate mortgage, the ability for consumers to "lock in" a mortgage rate prior to closing, and maintained a liquid mortgage market in all parts of the country. These innovations have helped homeowners access a stable and predictable financial instrument that provides the best combination of lower payments and equity accumulation.

Additionally, the GSEs have traditionally played an important role in meeting the affordable housing needs of America. With a significantly reduced affordable housing role, we are concerned that the needed focus on the underserved communities that requires innovation and stable sources of financing will be unmet for years to come. Government's role in the secondary mortgage market should remain strong. As the market stabilizes, it should be primarily focused on affordable and underserved markets as well as other market segments that are not well served by the private sector.

We do not insist on the preservation of Fannie Mae and Freddie Mac, but we do insist that the affordable housing mission they served continue to be met through one or more other mechanisms of the government. Those other mechanisms could include a combination of FHA and VA loan guarantees, a government reinsurance program (option 3 of the Treasury report), or some other expanded or new government program. The key consideration for us is how the plan impacts government support to underserved communities. If the impact is a net decrease, we will oppose the plan.

RECOMMENDATION

The Coalition believes that:

- There must be an orderly transition of the current portfolio and guaranteed book of business to minimize any disruption to the mortgage market;
- There must not be a net decrease in government housing finance support for underserved communities. The lack of a specific proposal by the Administration gives us little assurance in this regard, and so it falls short in meeting the needs of the growing multicultural homebuyer segment;
- Affordable housing goals must be a critical element of the new secondary market institutions that have an implicit and/or explicit government-guarantee; and
- With adequate safeguard against excess risk, Government must continue to support the development of new products and an innovative approach to lending, particularly for first-time homebuyers and other traditionally underserved communities

Protect Consumers and Restore Market Confidence
The Consumer Financial Protection Bureau (CFPB)

The Consumer Financial Protection Bureau (CFPB) is the new Federal consumer agency established by the Dodd-Frank legislation. The aim of the bureau is to help protect families by ensuring stronger consumer protections from financial products and by preventing abusive practices in the financial industry. During the passage of the Dodd-Frank legislation, this element was one of the most controversial parts of the bill. Many stakeholders expressed concerns that the agency will over-reach its authority and begin stifling innovation and commerce.

Starting July of 2011, the CFPB officially begins its operation. Once fully established, the agency will be one of the largest consumer agencies this nation has seen. Yet, before the agency even begins to implement its regulatory responsibilities, some have already called on the abolishment of the agency.

RECOMMENDATION

The Coalition strongly believes that the bureau is a central element of rebuilding the Nation's housing and financial market. A strong and balanced regulator is critical to restoring confidence not only to consumers, but for investors and housing-related firms alike. The basic trust was lost over the past five years in the housing market. That trust can only be restored if everyone believes there is fairness, transparency and enforcement in the market. Without that trust in the system, multicultural communities will be hesitant to fully re-engage in the market. The Coalition is hopeful that the new agency will help to reestablish the much needed trust and oversight of the financial market. The Coalition rejects the idea that the CFPB must be dismantled or altered before it has an opportunity to help bring about thoughtful consumer protection regulation and market oversight.

Mandatory Homebuyer Education for All First-Time Buyers

Financial literacy and access to financial education are critical for the growth and sustainability of minority homeownership and, subsequently, the material well-being and accumulation of wealth in the U.S.

Treasury Deputy Secretary Neal Wolin noted recently that, "as America recovers from the most severe financial crisis since the Great Depression, it is critical that we strengthen every aspect of our financial system. That means not only strong reforms and consumer protections, but also improved financial literacy and access."

The Coalition seeks to preserve equitable access to homeownership and believes that financial literacy and the access to adequate tools, skills and an understanding of personal finance are especially important to those minority communities that already face indelible barriers to homeownership (e.g. language barriers, lack of traditional credit history and some predatory lending practices).

RECOMMENDATION

The Coalition strongly recommends that all first-time homebuyers receive mandatory education that adequately prepares homeowners for the risks, responsibilities and rights associated with owning a home. While some may express concern that this mandatory first-time homebuyer counseling will add cost to homeownership, we believe strongly that unsuccessful homeownership pursuits create even larger costs to homeowners and neighborhoods alike.