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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING POLICY IN THE NEW MILLENNIUM

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AFTERNOON PLENARY SESSION: Part II

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MR. APGAR: - So hopefully we'll be able to give some information through the presentations and continue some discussion and tee up to what, I know, is going to be an amazing dinner.

For those of you who have not had an opportunity to hear Secretary Cuomo articulate his vision for housing policy in the United States, you're in for a rare treat. And for those of you who follow along, you'll know that today marks a very important day in the history of HUD; at this very minute our budget which we perceive will be the best budget in a long time, even better than that of last year, is being negotiated on the Hill.

So hopefully we'll be able to bring some news on that. Certainly a number of the people in the room who have been working on this budget effort from our advocacy organization, friends here in the Washington area, and our OMB colleagues who have been working hard on crafting that.

So we can't claim victory before it's there. But that reminds me of just a way of putting together some of the remarks that Peter Dreier mentioned. I think he said that we had this problem that our budget cut dramatically. Of course, that's in the

0003

budget authority. Our actual outlay of how much we spend has gone up some over the years. But obviously the budget authority, as we pull back those long-term contracts, has been cut dramatically. And he also said we ought to send all our legislative friends on a bus trip to Canada.

So I thought I'd put those to facts together and what we'd do is give them all one way tickets and not let them come back until they'd learned the lesson of Canada and were committed to fully funding an aggressive housing policy in the country. So that would be a little variant on Peter's remarks, but I think it might help.

We've got a fine panel assembled here. I'll introduce them later. I just wanted to give you a little bit of update on where HUD has been on our efforts to promote home ownership. Again, as you know, in 1994, President Clinton set a goal of raising the home ownership rate to 67.5 percent by the year 2000. It was an ambitious goal. HUD set about working on this. It's a key part of my own work.

You know, I came here in September of 1997. And by October of 1997, we set the first of what was many all-time records of home ownership rates. Not a bad job, pretty good work. And, of course, I took full credit for that record home ownership rate, as

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I have for every one since.

But we are starting to make some significant growth that we're now up to within reach, just a couple of tenths of a point from reaching that 67.5 percent goal. And, in fact, the department has issued as part of its strategic plan I guess you call it to commit to even higher rate. We're going to talk about that. What are the merits of home ownership? Are these expanded goals likely? What the right range of policies and involvement of the private sector to make it possible.

But one of the things, of course, that's of most interest, and hopefully it's a trend will continue, is a disproportionately large share of the growth in home ownership has been among minorities. We know that over the past several years, minorities have now been accounting for as much as 40 percent of the growth in the number of homeowners, even though they only represent about 24 percent in the population. And there's been particularly strong growth among African-Americans and Hispanics, two groups that over the years had not participated in the earlier surges in home ownership that the nation had experienced.

Obviously a strong economy is a large part that. We like to think that HUD had at least some role in promoting this growth of home

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ownership. And it's a record that we're pretty proud of.

You've heard a little bit about our efforts to reform HUD and the FHA earlier. The turnaround, I think, has been fairly dramatic, as illustrated just by our bottom line. But I think it's also important to note that we've had a substantial turn around in our ability to reach target markets and deal with a broader social function.

In 1993, only about two-thirds of the FHA loans went to first-time buyers. Now that percentage is 81 percent. Over that period, we've assisted 4.2 million homeowners. So if you look at the total growth of home ownership and you look at the FHA chunk, we're obviously a major component of the number of new home owners we've had over the period.

And again, I'm magically proud of our own record at expanding home ownership opportunities for African-Americans and Hispanics. Over that same time period, from 1993 to the current year, the share of FHA loans going to these two groups moved from 19.5 percent to 34 percent.

One last statistic which I think is of interest is that although FHA accounts for about 21 percent of metropolitan area loans as measured by Harold Buntz using HMDA data, our share of loans to

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African-Americans, 42 percent. For out of ten African American loans as measured by HMDA in metropolitan areas is an FHA loan.

It strikes me that Peter ought to look at our statistics a little bit. Because I'm saying I believe that FHA is helping the broad middle-class of Hispanic and African American communities get established in urban America. It may not be the suburban voters that he was talking about, but we have a fairly substantial record. Over seven million families have FHA loans today, about one in ten homeowners. And they're mostly in this moderate income range. And increasingly, as we noted, African American and Hispanic. So there's some - I believe some power in those notes.

It's probably true that people don't necessarily relate FHA to HUD. We've been trying to do a little bit better job of reminding folks that ultimately FHA is a part of government as opposed to just the latest finance company that offers you a good deal on your mortgage. And that's something we need to work on.

We've made a lot of changes in our programs. We've tried to sort of keep up with the trends in the industry. Four years ago we operated our single-family programs out of 81 separate offices,

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relatively low-tech, relatively paper intensive, not much capacity to use the modern business practices.

And that's been a goal of the department to try to operate our programs, and certainly programs like the FHA, more like a business. It used to take weeks to give a home buyer a decision. And now we're working in partnership with Fannie Mae and Freddie Mac. We've developed the state-of-the-art underwriting systems.

It's one of those classics where the fact that we didn't get muddled up with all that development work that Fannie and Freddie did over the years, that didn't hold us down. We were able to move right to the head of the class by partnering with them and bringing the best systems to bear. And I think we were able to do that.

We've now developed a scorecard of our own. And so what used to take weeks to get a decision about an FHA loan, now the customer knows in minutes. And well over half of our loans are running through automated systems. And we're moving on that to be the dominant form of FHA underwriting.

We've dramatically expanded the use of the Internet as part of our world moving to e-business. We have to collect premiums every month on

0008

seven million loans. And in the paper processing world, that got pretty cumbersome. And so now most of our processing of payments of all these transactions is on an Internet e-commerce system.

So we are working more like a business. We're also working hard to root out waste, fraud and abuse. I think our ability to control fraud in the FHA program is what's going to give us our next life. Because you wonder why hasn't FHA been beat out by the bad guys? Why aren't we adversely selected?

And the answer is we are. Every year we're losing business to folks in the private sector who can do it better than we can. But we keep reaching out to new folks. And if we can do that while at the same time minimizing our losses due to fraudulent behavior, then we'll be able to maintain actuarially sound activity, even as we move down the income distribution. Certainly, that's what our goal is.

We've instituted a new appraisal monitoring a system that requires a detailed review and quality assurance of each of our appraisers. We've done something that's pretty simple if you think about it, but is pretty fundamental. It used to be that people write in - call in and get an FHA case number. And they'd go out and do their business and they'd send us

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the loan. And after the fact if that loan looked funny, we might identify it in one of our post- technical reviews.

You've got to be a little nervous when you're a hundred percent insurer that these guys are going to act in your behalf. So we have to watch them pretty closely. Well, we've done something now that may seem simple, but it's pretty basic. Before we get their case number, we say what property are you going to insure? And how much are you asking for the insurance for it? And then go run a records check on it and say why are they asking for $150,000 insurance on a property that sold last week for $75,000?

We need a little more documentation even before we begin the process. And so our capacity to use automated systems to do basic fraud detection work is enhanced substantially and we're beginning to benefit from that.

We're also trying to arm our

consumers so that they can be better watchdogs on behalf of their own best interest. We provide consumers more information about the appraisal and about critical defects that the appraiser uncovered. We encourage them to get an inspection and do all those other things that maybe are commonplace for a household that's used to the home buying

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process. But for our first time buyer customers, we work hard to make sure that they know about it.

And we're also trying to make sure that our programs work in the marketplace. We worked hard to raise the FHA loan limits. Because quite frankly, there were a whole lot of customers that needed FHA insurance, meaning it was hard for them to get a mortgage outside of an FHA type program. But they weren't within our loan limit reach.

We estimate in 1999 we did about $10 billion worth of business to about 60,000 home buyers. And that home buyer group that was in that notch created by raising the FHA loan limit were a lot of folks who were living in higher cost portions of the country. Many of them were minority folks who still had difficulties with credit or other issues and we opened home buying opportunities for them. So we're pretty excited about that.

Anyway, so this is just some of the things that are happening with the FHA. Of course, HUD has other involvement in home ownership. And we'll talk about that throughout the panel. Last year, for example, we challenged the GSEs, Fannie and Freddie, to increase the share of loans that they made that benefit low and moderate income borrowers or folks that lived in

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geographically under served areas or benefitted particularly low income folks or people that lived in low income areas, our three housing goals. And I was most appreciative that the GSEs accepted this challenge and are moving aggressively to expand their lending in each of these areas.

By our calculations, and there's different estimates of this, but our calculations minimally these goals will require the GSEs over the first decade of the century to purchase an additional half trillion dollars of loans over what they might have done benefitting these targeted groups, allowing an additional seven million low and moderate-income families to achieve affordable housing options. So we're pretty excited about that.

The administration as we heard is also challenging the larger banking and finance community to expand lending in under served areas through the Community Reinvestment Act. I know my colleagues at the Joint Center have been very active in working with Treasury on CRA evaluations. And clearly, it's been judged that CRA works. It's expanded lending significantly in targeted areas and done so in a way that didn't necessarily impinge on the financial safety and soundness of the lending institutions. Most lenders

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suggested in a recent survey that they did sort of as well or nearly as well in terms of the bottom line on CRA loans as they did with other conventional lending.

So there's been a big list of activities that have had a reasonable track record and some new ideas that were just coming through. This home ownership voucher idea in which many communities people take a voucher out and they can't find a rental apartment. That's because that community may be one where the best housing buys in that area are in the home buying market. And to allow people to use that to help underwrite the cost of home ownership we think will expand housing choices for a lot of folks.

And finally, HUD continues to crackdown on housing discrimination. I remember the first day I was at HUD, literally the first day. It was the day that President Clinton had a press conference highlighting some of the discrimination cases that HUD had cranked up as part of its effort to double enforcement on discrimination. And it was just amazing.

For folks in business who follow the literature, we understood that these weren't isolated incidences. But literally the fact that discrimination that day was front page news in the New York Times just reminds us how complacent the United

0013

States has gotten about the persistent continuation of racial and ethnic discrimination in our housing markets.

The particular case was a rental agent who essentially was only renting to whites or had some landlords who would only accept white applicants. And so in order to identify those landlords who they had under contract as a management agent, they wrote the word Archie up in the corner. Now, this was in pencil so they could erase it. It was just their code word for this owner is an Archie Bunker kind of guy, wouldn't rent to a minority. Okay?

Archie Bunker is alive and well in our rental communities. It's alive and well in the United States. And that was news. But for minorities across country who go out and encounter the rental agents who won't provide them rent accommodations, but provide them just the run around, this was all too common. So we work on continuing to route out discrimination.

And as you see, the disparity between owners and renters, black and white, Hispanic and others, there's tremendous room to expand home ownership higher if we begin to reach out to those folks who but for discrimination, but for knowledge of the system, but for a lot of obstacles to home ownership could move in.

We have our goal now of

0014

moving home ownership past 67.5 to 70 percent. And we're going to talk about that in the penal and other issues. We have a distinguished panel. I'll just quickly name them and then have just a snapshot of what they're going to say and then sit down and let our panel take over.

But Stuart Gabriel will speak first. He's the Deputy Dean for Academic Programs and Professor of Finance and Business Economics in the Marshall School of Business at the University of Southern California. He's going to talk a bit about how to think about this 70 percent home ownership rate, what his research has shown about why people choose housing and what that leads them to think about some of the things that are going to have to happen in the broader financial market in order to achieve these goals. Or something approximate to that, whatever he's decided he's going say. But that's what I at least think he might say.

He's going to be followed by Richard Green who is an Associate Professor of Business and a Weingart faculty scholar at the University of Wisconsin Madison. Quite a great housing crew out there in Wisconsin, including a few Cambridge transplants. But he's going to talk to us about his research on the social effects of housing and other broad matters.

Then we have Jim Carr, Senior

Vice President for innovation, research and technology of the Fannie Mae Foundation. My connection with Jim, of course, goes way back. He gave me the opportunity to write Article 1 in the housing policy debate which is now for most people the mainstay of faculty across the country. Because you don't have to pay big copyright fees. And all the best people publish in that.

But it came to mind because it was about which housing policy is best. And so I was just reliving what was in maybe ten years ago, the same arguments about supply and demand and what we need to do with national housing policy. And I loved writing that article, but I love better being here in D.C. working on implementing some of these ideas. But Jim is going to talk about how to better organize financial markets to promote expanded home ownership.

And then Marge Turner, she's a HUD plant, obviously used to be at HUD and now is with the Urban Institute. And she's going to talk about some of her research on racial discrimination and housing finance.

So without further ado, let's start off with Stuart.

MR. GABRIEL: Good afternoon everybody. And it's a tough time of the day. Hattie

suggested that we stretch. Why don't you take off your coats and stand up or whatever you need to do and we'll try to enjoy ourselves here.

Well, Bill has told us that there is a lot of good news out there today as pertains to home ownership attainment. And we've heard some of that data over the course of the day. Record home ownership rate. A home ownership rate that's risen by upwards to three percentage points in a very short period of time. Record gains in home ownership for minority communities. Black home ownership rate that's gone up by 4.6 percentage points over the course of the last five years. A Latino home ownership rate that's gone up by 5.2 percentage point rates over the last five years. A white home ownership rate that's gone up by 3.7 percentage points. If you translate those percentage point gains, they spell 11 to 13 percent increases in home ownership for blacks and Latinos relative to a five percent gain for whites.

So with all this good news, what are we worried about? Or what's going on here? Well, what we have to say is, well, even with all this good news, we have a stubborn and persistent home ownership gap in the country.

For instance, over this period of minority home ownership gain, the gap between

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whites and minorities has contracted only by about a percentage point. The gap remains in the neighborhood of 26 or 27 percentage points. The reality of home ownership in this country today is that 3/4 of the white households our homeowners and less than half of the black and Latino households are homeowners.

Now, at the same time, HUD is telling us that we are going to reach a 70 percent home ownership rate over the course of the period between now and 2006. It's a stated policy goal. The question is how? And the answer is through ongoing and significant gains in home ownership on the part of minority communities.

What we've done at the University of Southern California in what's called the Welch Center for Real Estate in concert with a grant from the Research Institute for Housing America is we've looked at these home ownership rate gaps and we've looked at how we might close these gaps.

And we've done this in the contexts of a study of Los Angeles County. Not all of you know Los Angeles County as well as a few of us in the room. It's geographically and population-wise clearly one of the largest counties in the country. It's a county that has an amazing diversity of neighborhood living

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environments and residential composition and all the rest. And what we did in the context of the study is we sought to sort of sort out determinants of home ownership across different racial and ethnic and immigrant groups.

You all probably know that in California we face extra challenges. While home ownership rate over the period of analysis for our study nationally was something like two-thirds. In California, it's significantly less than that. In coastal California, Los Angeles County, we had a home ownership rate of one-half. Housing is not affordable in coastal areas of California. On the contrary, in all of the discussion you had previously in the prior session pertains to coastal areas of California, be it in terms of supply side constraint that relates to housing production or what have you. We, of course, have our own very significant racial and ethnic variations in home ownership and, of course, in median household income.

Now, what we did in our study is we looked at the home ownership choices of movers. And you may ask why movers. And movers are really the perfect group to look at because movers are making a decision. They're making a decision whether to own or to rent. And we can carefully cull out of those decisions determinants of a choice to own.

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We used microdata. We used data from the census. And this data provides us with the very large number of demographic and economic controls as to what causes home ownership. And the database is sufficiently large that we can segment out black population, Latino population, white population, immigrant population, et cetera, and look at how the determinants play out in terms of their relevant importance across these groups.

Well, after controlling for this myriad of factors, a very clear signal came through from the work. And the signal is a theme that was picked up on in the Q&A of our last session. And that is that economic status matters and that educational attainment matters. And far and away home ownership is boosted by income achievement, by educational achievement and all the rest. In fact, we're able to suggest that if you give a dollar to a Latino family or to a black family, that dollar is going to get you a higher probability of owning than if you give that same dollar to a white family.

What we did at that point then was we used a simulation technique to try to infer how home ownership gaps would close if we were to ascribe to our minority populations the socioeconomic and the

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educational status of our median wide households. So, for instance, if you take the Latino-White home ownership gap in LA County at this period of time, it was a full 15 percentage points. And by ascribing to that Latino population the income status and the educational status of your median wide household in your sample, you can essentially take those 15 percentage points in home ownership gap and bring it down to about two or three percentage points. You close the lion's share of the gap by elevating economic and educational status in the way that I suggested.

In the case of the Black-White gap, for our sample and for our period of time, that gap was a full 22 percentage points. We find that by ascribing to the white population the educational status and the income status of whites, we close that gap by 11 percentage points.

Now, what this means to us is

that we still have a gap. We still have a residual gap. The question is what's driving that gap? Well, certainly it's well-established, and Bill has spoken to this, that there are long-standing difficulties in access to housing and housing finance markets. And certainly a depressive effect that drives there from with respect to black ownership.

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But what we did on a followup study - and some of you may have grabbed our first study on this because it was out on the table. It's not in the binder. But what we've done in a followup study, a study that isn't even available. It's not even written up. It's just sort of as speaking with my colleague Richard, we sort of ran the regressions on the plane on the way here is basically what it boils down to.

But the question we asked is whether some of this residual gap in home ownership in Southern California derived from selective black household suburbanization? In other words, suburbanization by black households intending to own.

And what we have is indeed some very strong confirmation of that particular idea, that there is indeed this selective out migration to areas east of L.A. to what we in Southern California euphemistically referred to as our Inland Empire. The Inland Empire is San Bernardino and Riverside County.

But what we see is a significantly smaller, unexplained gap in home ownership choice amongst black movers to San Bernardino County. We know that housing in San Bernardino County is substantially more affordable then it is in L.A. County.

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We know that black movers to San Bernardino County, while they had incomes that were below the average of owners in the county, they also had incomes that were above those of black movers in L.A. County.

And so, our reading of these results is suggestive of the fact that relatively more black households in L.A. County in choosing to own are choosing to do so in places other than L.A. County.

We also find the black/white gap in home ownership choice further contracts if you simulate in San Bernardino County for integrated middle income neighborhoods.

Now, what's this all mean in terms of lessons that you might draw for public policy and all the rest? The first lesson is that I have a response to a question that was raised earlier about the role of incomes policy and the like with respect to ownership attainment. And our research suggests that the answer is yes and there's no ambiguity there. And that if you take Latino households, and to a significant degree black households as well, and were able through educational attainment, educational policy, inner city development policy, employment policies and all the rest, to achieve higher levels of income and education, you are as a byproduct of that going to get high rates of home

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ownership. And that is very clear in our work.

Another aspect of our work that I think is clear is that for all of us as a research community, when we look at home ownership disparities in small areas such as at the county level or at the city level, we must be aware of selective within region migration of particular racial and ethnic groups and all the rest and account for that just as we did in this particular work. And it goes some distance.

And finally, I would say that neighborhoods socioeconomic status and neighborhood racial composition matter for the achievement of black home ownership. For all of us who study home ownership, we know that home ownership is part consumption and part investment. And, of course, minority households seek out home ownership in economically healthy neighborhoods. And, of course, with the prospect of positive return on the housing investment.

That all having been said, if Bill will permit me, I'd like to take just another couple of minutes - oh, I have a lot - to say a couple of words about housing finance. Bill has suggested, and I think we've heard over the course of the day, that HUD is very involved through the FHA in the provision of affordable and available housing finance. I'm not going to run

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through the numbers. Bill has run through the numbers. Certainly FHA market share is highly dominant with respect to the financing of mortgages and minority communities and under served neighborhoods and all the rest. And I think we can just sort of cut to the chase and say that the FHA is indeed vital to these particular markets and population groups.

The point that I want to add to the discussion is the fact that FHA can support the HUD housing goals only to the extent that this instrument itself is supported by the secondary mortgage markets. And perhaps I'm straying a bit into topics that are going to be covered by Jim here.

This is where the GSE's come in, the government sponsored enterprises, Fannie Mae, Freddie Mac, the Federal Home Loan Bank. And it's certainly where Ginnie Mae comes in. Historically, Ginnie Mae has been the 800 pound gorilla here, 95 percent market share of all securitized FHA and VA mortgages are then pooled into Ginnie Mae mortgage backed securities.

Now, Ginnie Mae, of course, offers the full faith and credit of the U.S. government. It means that investors take on less risk. They require less yield on Ginnie Mae mortgage-backed securities. And the intention, of course, is that they be passed onto home

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buyers in the form of lower mortgage interest rates.

Recently, however, Ginnie Mae

has fallen onto some challenging times. And you can see that by looking at the Ginnie Mae market share. The Ginnie Market share at the beginning of this year, at the beginning of 2000, was in the mid 90 percent range as it has traditionally been. By the middle of this year, the Ginnie Mae market share had fallen to 75 percent, a drop of close to 20 percentage points in market share. That's a precipitous drop over a period of six months. The Ginnie Mae market share is moving back up at this time. Well, it's appropriate to ask why the drop in market share? And sort of how we think about this from a policy perspective.

Well, first and foremost - and I think we heard this even in Bill's remarks - and I've got 10 minutes left, right? Okay. The GSEs, Fannie, Freddie, Federal Home Loan Bank, have all developed targeted security programs that focus on the FHA and VA market. And all of those entities have increased their share of activity in these markets.

Now, why are the GSEs doing this? Well, Jim's going to tell us. And so he will provide some really well focused remarks here. But I have a couple of hypotheses.

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One is that the GSEs simply seek to broaden their coverage in the primary markets. The GSEs seek to become, if you will, sort of full-service, one-stop providers for those that seek to sell their loans into the secondary market.

Secondly, there is some possibility - and Jim, you'll tell me if we're right or wrong here - that in recent years we've seen fall off in conventional loan originations. We've seen slowdown in the housing market. We've seen a fall off in home purchase loans. We've seen a fall off in refinancing activity. And with that, the GSEs have compensated in part by looking to the government backed market and to grabbing some market share there.

And the third perhaps rationale is that which Bill suggested that HUD is putting some pressure on the GSEs with respect to their focus on legislation as well on low and moderate income home buyers. We see a variety of examples of programs.. So I won't going into details there at this point.

Let me add one other point or a couple of other points. Ginnie Mae's loss of market share can also be traced perhaps to its lack of portfolio capability. So if you ask Bob Vanorderback there from Freddie or if you ask Jim here from Fannie about their

0027

portfolio capabilities, they will suggest to you that they hold very significant portfolios and that those portfolios are utilized to achieve outcomes in the secondary mortgage market that are favorable to the support of their programs.

Ginnie Mae is not allowed to undertake portfolio activity. And it's not allowed to support programs for low or moderate income home buyers in this manner.

Now, one of the experiments that we did recently in this regard is we looked at yield spreads between current coupon Ginnie Mae and Fannie Mae and Freddie Mac mortgage-backed securities. And we attempt to sort of statistically disaggregate what was causing for yield differentials between those securities.

And the bottom line here - and then I'm out. I'm out - is that Ginnie Mae yields would be below those of Fannie and Freddie and not above them as they are today if Ginnie Mae had the same sort of portfolio capability that Fannie and Freddie in fact have.

What's the bottom line to all of this? I think the bottom line is that Ginnie Mae is integral to the housing finance system that we've put together in this country to the pursuit of federal housing policy objectives. Ginnie Mae has a mandate that's

0028

different from Fannie and Freddie. And that we have to be concerned that Ginnie has the opportunity to look at a portfolio, has the opportunity to deal with odd coupons and with some of the other impediments to play with the big boys in the secondary mortgage market. Thank you.

MR. APGAR: I should have said that you ought to keep your cards handy. So if you want to put some questions down for when we get to the question period. And my role as a moderator is to make sure that we have some time left over for questions. So, Richard, do you want to go to the podium? Maybe that will be more convenient.

MR. GREEN: Thank you, Bill. I've been asked to spend a few minutes talking about the social implications of homeownership, of tenure choice and then a few minutes about why some people become homeowners and some of the policy implications. Though a lot of these policies were actually covered quite well by Stuart in his talk.

I'm going to break down the social implications of homeownership into four categories and I'm just going to discuss the things that have been researched to this point in the academic literature. Those four areas are maintenance or the physical characteristics of housing, civic participation of those

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who are owner occupied who are homeowners instead of renters, housing and labor mobility, tenure trust and labor mobility and the importance of tenure on children.

The literature on the social outcomes of home owning goes back essentially 200 years when Alexis de Toqueville - it's a little less than 200 years, 150 years - Alexis de Toqueville extolled the virtues of home owning as being an important part of the civic fabric of a democracy.

But I think the first formal papers that were done on this issue were done about 20 years ago. An important paper by Henderson & Neonides in

1981 in "The American Economic Review", which talked about the fact that homeowners have a set of incentives with respect to home maintenance that are not in place for renters. Which is to say that for homeowners, the incentives of the tenant and the landlord are perfectly aligned since it's the same person. Whereas for renters, you don't have that perfect alignment incentive. And this led to the possibility of sub-optimal maintenance in the renter context were it didn't exist in the homeowner context.

There have been for empirical papers that I know of that have looked at this, one by George Gagster from 1983, one by Rowe and - oh, I'm sorry

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- from "Housing Policy Debate" in 1996, one by Shillings, Sherman and Dumbrow in 1991 and one that I did with David Ling and Dean Gastloff a few years back.

The bottom line of these papers is in general renter occupied housing is not as well maintained as owner occupied housing, after one controls for location, after one controls for the quality of the house, et cetera.

The range of the parameters in terms of how much it matters varies from paper-to-paper. As it happens, the paper that I wrote with Gastloff and Ling had a smaller differential. But in all cases there was a statistically significant differential in terms of home maintenance. And we do tend to think that better maintained houses probably lead to better neighborhoods.

With respect to civic participation, there have been a couple of papers. A paper by Peter Rossi and Eleanor Webber and a paper by Edwin Glazer and Denise DePasquale. They've both appeared within the last five years. And they show that after one controls for a long list of their rules, particularly in the Glazer/DePasquale piece, a very fine paper, that in fact homeowners are more likely to participate in civic activities from participating in local bodies, community

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organizations to voting, to reading the newspaper, to knowing who their Congressman is, et cetera, than renters. So there's some evidence there.

With respect to mobility, this may be the one dark side of home owning. A rather notorious paper by Andrew Oswald that came out as a working paper in 1996, that was sort of boiled down into a letter to "Journal of Economic Perspective" in 1997, purports to show a correlation between - well, it doesn't purport it - it does show a correlation between homeownership rates and unemployment. And the argument is that because there are large transaction costs to moving when one is a homeowner, homeowners when faced with unemployment are less in a position in order to change their employment status as quickly as possible relative to renters.

There was a follow-up piece

to this by Patrick Hendershott and I. And what we found is that this may have been true for owners in the 35-65 age category, and particularly the secondary earners in a household. And to the extent there are negative externalities arising from unemployment, this may be a problem.

That said, Pat and I are working right now on a micro-data paper looking at the

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same issue of actually following households who are unemployed to see what their duration of unemployment is. Those are the regressions I was running on the plane that Stuart was talking about. I won't know until I take the plane trip home how that turns out.

The final category is effect on children. And here again the evidence is pretty unambiguous in favor of homeownership. There are a couple of papers, one that Shelley White and I did and a very impressive working paper, I think a really fine paper by Don and Jean Horan and Toby Parcell at Ohio State that looks at outcomes of children of homeowners relative to renters after controlling for a long list of variables and selectivity bias.

And the bottom line seemed to be that children of homeowners are more likely to finish high school, less likely to get pregnant while they're girls [laughter] Yes, young girls, under the age - we were looking at under the age of 18, yes.

VOICE: You heard it here first.

MR. GREEN: Right. No, there was no difference among boys. [laughter] And in terms of math scores, reading scores, a whole list of other variables, kids of homeowners seem to do better than

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renters.

So you take this whole package of evidence and it would appear that there are social benefits on net to home owning. And this is something I was very skeptical about when I started working in this area of research seven or a years ago. I think the Horan paper, the Horan, Horan and Parcell paper, is a particularly convincing paper. And I would commend it to all.

All right. So having said that, let's just say for the sake of argument that home owning is a good thing. We have some evidence to support this. So, two questions to me remain. How do we make people homeowners? And I think there are two important issues here. And I'm glad that the second one has been coming up in this conference.

The first is can you make it accessible to people? Is it possible for people? But that's just a necessary condition for people to become homeowners. It must also be financially desirable for people to choose to become homeowners. And I think that's the part of the equation we don't always remember.

And that's why Stuart's work where he's talking about the desire to go to those places that are economically healthy, where the return on the

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investment is better, is a particularly important component in thinking about the home running puzzle. It's not enough to give people to the opportunity to buy a house in the neighborhood that they don't particularly want to live that might earn a return that they don't find particularly attractive. That's just the necessary condition. It's not sufficient by itself.

All right. So that said, what are the policies that need to be focused on? Well, two have been mentioned already. So I'm just going to cite them again to go along. One is income support is particularly important. I think the earned income tax credit is a wonderful and particularly efficient way to achieve the outcome. Enforcement of fair housing laws is particularly important because homeownership rate among whites is pretty high. We're not going to increase it that much more. But among minorities it really is an issue.

But let me add one third point while I have my I think 60 seconds left here. And that is come back to the question that was asked in the last session, what do we do about people who on middle-class incomes can't afford to buy owner occupied housing? And we have to step back and ask ourselves why are there places where that is true? And the reason has a lot to do

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with I think land-use regulation.

And there's a line I like in particular. Of course, will think smart growth is good. None of us wants to grow dumbly. But we shouldn't use smart growth as an excuse for new exclusionary zoning laws. And I fear that that is something that might happen.

And we can go back and look the other way. As we had housing developments in the post World War II era, Levittown, where we built 700 square foot houses on 6000 square foot lots. And if you look at construction costs and the cost of developing land, you can build houses, it is physically possible to build houses, in this economy that middle-class people can afford in just about any city in the United States.

The problem is that we don't allow the building of those houses anymore. Now, this isn't to say that Levittown didn't have its down sides, particularly the racial covenants and a variety of other things. Levittown wasn't entirely a good thing. But I think the 700 square foot house without a whole lot of design features when it was originally built on a small lot was a particularly useful way of getting at the issue of providing people with affordable, detached, owner occupied housing. And we don't see a lot of that going on

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around the country.

So, final comment on this. I think Vancouver is an absolutely gorgeous city and I would recommend that anyone visit there. But try being a faculty member at the University of British Columbia and buying a house there right now. It may be a model for a lot of things in our country. But for affordable housing, I don't think it quite fits the bill. Thank you very much.

MR. APGAR: Thank you, Richard. Jim's going to show a few slides. So direct your attention to the two screens. Our high tech HUD will be able to show these slides. There we are.

MR. CARR: Good afternoon. I'm very pleased to join you this afternoon. I must say that I'm very glad that Richard clarified that point on pregnancy while girls. Because I thought it was just the heat getting to me and I was about to - the next step was to pass out.

Just to comment real quickly on Bill's statement about the article that he wrote. It's quite fascinating that to this day we are still receiving requests - I actually just got one no more than about three weeks ago - on an Apgar article titled "Which Housing Policy is Best?" Which he penned about 10 years

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ago. So not only was it the first, but it was one of the best and one of the most long-lasting. So we're very appreciative for him helping us launch the journal. Because at that time we had no name or credibility or recognition at all because we didn't exist. And Bill was big kid on campus who jumped onboard and said I'll help you launch it. And he did. And the rest is history. So thank you, Bill.

Now, at the outset, I'd like to just point out a monograph that was recently published by the Fannie Mae Foundation called "Making New Mortgage Markets". If you have not seen this monograph, copies should have been provided this afternoon. And if not, some copies will be developed by or delivered by tomorrow at the latest.

It is arguably the most comprehensive series of case studies on how to go about pursuing emerging mortgage markets. And it looks at everything. It looks at internal financial management and HR policies of institutions. It looks at the innovative programs and products. It looks at the value of mission statements. It also looks at post- purchase review policies. It just is a fascinating peace. It looks at outreach mechanisms and systems and processes and marketing strategies.

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Also, it should be on the Fannie Mae Foundation Web page now. And we are also putting a nice slide presentation out there that walks through the major findings of that study so that you can really get it in a very brief period of time.

So, again, if you're not

familiar with it, look for it here at the tables. But if you don't see it, feel free to contact the Fannie Mae Foundation through the Web site. I think you'll find it's well worth the time that you spend with it.

Now, my charge today is not to focus on those strategies, but rather to focus on something slightly different. And that is the role of the financial markets and what can be done to promote homeownership by better organizing the financial markets for low and moderate income and minority households.

When we think about affordable homeownership, we most often think of one or a series of or combinations of the following three things. One is ways to lower the cost of housing production. A second is ways to reduce the cost of financing that construction. Obviously not as significant as the first. And then the third is ways to lower the cost of the mortgage product itself. And this includes also providing better information about those mortgage products as well

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as providing better access to them.

Rarely do we focus on how to better leverage the financial resources that low or moderate income households already have access to. So as to assure that their dollars are best leveraged to buy into homeownership.

To the extent we do focus on that side of the equation, we tend to look at broad-based issues like how to improve employment which then might require that you look into policies to improve education and training and location issues such as transportation and labor market discrimination and on and on. But we often just ignore the fact that low and moderate income households have access to enormous sums of money, billions and billions of dollars that literally each year go up in smoke because of the way their community f financial institutions are organized. We need to take a second look at this issue because there is enormous power in the financial wealth building capabilities of low and moderate income, and particularly minority communities.

Without doing this, we stand to lose out in at least three ways. First, the estimates of a full financial potential of low and moderate income and minority households to become homeowners is greatly underestimated. Because we're really under estimating

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their financial power.

Second, credit history data provides an overly negative picture of those households credit readiness.

And third, performance of owner occupied housing as an investment in terms of house price appreciation is greatly limited due to the inability of households to save for home purchases so as to make more liquid housing markets as well as to save for home repairs and improvements.

Finally, it's worth noting

that the failure to ensure that low income and minority households have access to wealth building, financial services can limit the overall effectiveness of subsidized or other targeted homeownership initiatives.

In the interest of time, I cannot reasonably discuss all of these issues in detail. Most importantly, I can't take the time to discuss the solutions. Because I think it's more important to you to present the problem which I think once you see it, you will be quite amazed. Each year billions - literally billions - of dollars evaporate from the hands of low and moderate income households due to a lack of access to or understanding of the wealth building tools of mainstream financial institutions.

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As the first diagram illustrates, the financial system that increasingly serves low income residence of distress communities varies significantly from the mainstream financial services available to middle and upper income residents of vibrant communities. The difference can be described simply as wealth building versus wealth stripping. Lower income and minority households are increasingly the home of check cashing outlets, pawn shops and auto title lenders, cash leasing storefronts and a variety of additional institutions that actively and aggressively undermine the wealth building potential of residents of distressed communities.

The diagram illustrates how individuals in vibrant communities benefit from their connections with financial institutions. The looping arrows basically indicate wealth building. Whereby individuals connect with financial institutions specifically to enhance their wealth building opportunities or to enhance their financial well-being. Notice that there are no looping arrows from fringe financial lenders to distressed community residents. Check cashiers, pawn shops and title lenders and related financial storefronts do not build wealth for their customers.

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In addition, fringe lending is growing exponentially in low and moderate income and minority communities. As they do, the negative impact on low income and minority households worsens. As well, our ability to effectively promote homeownership as well as to promote vibrant sustainable community reinvestment.

According to a recent book titled "Savings for the Poor" by Dr. Michael Stegman, payday lending has grown significantly. From 300 stores just seven years ago to 8,000 stores in 1999. Further, an April report by Dove Consulting for the U.S. Department of the Treasury reveals there are about 11,000 check cashing outlets in the United States. They cash more than 180 million checks annually worth more than $60 billion.

According to Norman d'Amours, Chairman of the National Credit Union Administration, there are somewhere between 12,000 and 14,000 pawn shops across the country, out numbering credit unions and banks. There are nearly 10,000 retailers offering payday loans. They make more than 55 million loans for gross revenues that top $10 billion according to research by the Consumer Federation of America.

If we could go to the next slide. Further, there are 8,000 rent-to-own stores that serve 3 million customers and gross $4.7 billion in 1996

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according to an FTC survey.

And finally, all of these institutions are not evenly spread out across the United States. They are heavily concentrated in minority communities across the country.

The next slide shows that fringe lending is real money. Make no mistake about it. When you hear there is not enough money in low and moderate income and minority communities to support financial services, mainstream, wealth building financial services, it is a myth. This slide shows that the fees charged by the fringe financial storefronts are excessive.

Cashing a check can range from as little as 1 to more than 15 percent of the face value of the check. Payday lenders charge as much as 15 percent for two-week pay day loans. Wiring money, a critical service in immigrant communities, can cost from less than 7 percent to more than 15 percent of the wired amount. And title lenders charge as much as 25 percent per month for small consumer loans. These fees are usually quoted on a bi-weekly or monthly basis and therefore hides the true annual percentage rates that can range from as little as 300 percent to more than 1000 percent annually and more.

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Further, many of these institutions engage in additional wealth stripping practices that although smaller than what you find in predatory lenders in the mortgage markets would rival the most sophisticated and notorious predatory lenders. Looked at another way, the $5.45 billion that I'm able to track on this chart - and remember that lots of these institutions are unregulated or loosely regulated. So we don't know all of the fees. But for the fees we're able to account for, we've totaled up $5.45 billion. That's just a little less than the entire asset base of all community development financial institutions functioning in the United States, just a little less. And that's an annual funding stream.

In addition to fringe lending, excessive targeting of sub prime loans to households that could reasonably qualify for prime market loans greatly encumbers those households with unnecessary debt and inhibits their wealth building capacity.

While the rates of interest need not necessarily be excessive, they are conservatively

200 to 400 or more basis points for a comparable prime market loan, paying as little as one percent more then you need to represent losing or stripping of wealth for a household.

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Go to the next slide, please. As with fringe lenders, sub-prime lending has experienced tremendous growth in recent years. I won't go through all of the statistics. Since this will be a specific focus of a panel yesterday. By I'd just like to point out that refinanced loans grew 10-fold over the last several years from just under $80,000 - from about 80,000 loans to just under 800,000 loans just between 1993 and 1998 according to a report by HUD.

Further, HUD indicates sub-prime lending is heavily concentrated in minority communities, the same exact communities that are the target of wealth stripping, fringe lending institutions.

Data by Freddie Mac, as well as others, suggest that a lot of sub-prime lending does not relate to risk. For example, Freddie Mac's estimates is that from 10-35 percent of households in the sub-prime market could qualify for prime market loans. Assuming this is correct, it means hundreds of millions of dollars are wasted each year in the form of overpriced mortgages by the very households who can least afford it.

The next slide very quickly shows a simple calculation of an $85,000 affordable loan product, assuming a five percent down payment.

The next slide shows the

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value of the one percent. As you can see, the one percent over the lifetime of the loan would total about $21,000. Over the life of the loan, a two percentage point difference would total about $42,000 or about half of the original principal of the mortgage.

As you can see, and as many of you know, sub-prime loans generally are not just one percentage point or two percentage points higher. They are four, five and six percentage points and more higher.

The point of this slide is to show that it doesn't take a lot of money to represent undermining of a household's ability to save.

Now, in the interest of time, let me say just very quickly that the existence of these financial institutions in these communities and the way they operate greatly undermines the ability of households to perform in a reasonable manner with respect to financial institutions. Said another way, comparing households who have access to mainstream financial institutions and their credit behavior to households who are attached to fringe financial lenders who actually have an incentive to undermine the financial credibility of their customers is like comparing apples to oranges for a number of reasons. Again, not enough time to go into them

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in detail today.

Let me just skip to the next slide and conclude on this point. This slide shows a model of the community investment cycle and the important role that connecting individuals to financial institutions plays in creating vibrant housing markets and strong communities. The community reinvestment cycle begins with individuals being connected to the engines of wealth creation. As households grow wealth, they eventually build sufficient financial resources to afford a down payment on a home. Housing remains the single most significant asset of the typical American household.

The purchase of homeownership then precipitates an economic chain of events which eventually leads to increased demand for a variety of community services, ultimately rising property values. And as you notice at the end of the cycle, there is something called capturing community wealth that is done in the form of home ownership. In other words, individuals are anchored to their communities. So they benefit from it in the form of home ownership.

By focusing on home ownership alone without attaching individuals to the engines of wealth creation, we can create a number of problems for our initiatives.

One, subsidies are focused on households who could ordinarily have and would have preferred to rely on their own savings.

Second, households remain unaware of how to save, and therefore lack access to financial wealth building that would enable them to experience better economic crises that may befall them or to make home improvements and repairs on a timely basis.

Third, financially unsophisticated households, if we leave them on attached to financial systems, will be vulnerable to unscrupulous and otherwise predatory lenders once they've begun to build wealth in their homes.

So connecting individuals to wealth building institutions is important both on the front side of getting into home ownership, but it is equally important to keeping them in homeowners.

Now, I have one final slide. So you can hold that. And I'm done in 60 seconds. This last slide shows the value of savings and it's a very simple slide. And I wanted to show it because if we were, for example, to be able to capture just a small amount of the fees that are siphoned off each year by fringe lending storefronts, let's say 20 percent of that $5.45 billion, that would represent more than $1 billion - more than $1

billion - of additional private market generated funding for homeownership initiatives. If we could capture just a fifth of it, not all of it.

What this slide shows is that he even if you were not dealing with fringe lenders, you just simply didn't have access to main stream wealth building institutions, you wouldn't do very well. It shows that over a ten-year period of time saving $3000 in a shoe box grows down as a result of erosion from inflation to just over $2200. Whereas, if you had access to Treasury notes, it would be worth more than $5,000; the S&P 500, more than $9,000. And if you discovered this company called Micro something - soft - you'd be able to buy the house for cash and a car on a side and still have a little money left to put $3,000 back in the bank.

The point of this demonstration is that there is a difference between low income households and minority households in distressed inner city minority communities and other low income households who still enjoying great upward mobility in America. America remains a country of phenomenal upward mobility. But there are certain households that happen to be the target of many, if not most, of our homeownership initiatives. And those households are trapped. They are locked in a cycle where they are excluded from the wealth

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building institutions that make America the financial envy of the world.

And if we want our homeownership initiative to be as powerful as we want, yes, teaching people about homeownership is important, creating the financial products and services is important, doing the outreach and education is essential. But it is equally essential to make sure that everyone of these households has access to the engines of wealth building opportunity that are available to all Americans. So that they can leverage their wealth as well and become firmly rooted in the system that is a great financial infrastructure and an envy to the world. Thank you.

MR. APGAR: Thank you, Jim. Great.

MS. TURNER: So, I'm going to talk explicitly about the racial - the issue of racial and ethnic discrimination in home mortgage lending, a topic that's kind of been lurking sometimes below the surface or right on the surface in the rest of the presentation.

Several people have pointed out that despite really significant progress over recent years, there are stubborn inequalities that persist in outcomes, particular for blacks and Hispanics. Big gaps in homeownership rates, in loan denial rates and in loan

0051

amounts and loan terms.

While I think there's broad agreement, both about the progress and the persistence of the gaps, there is not agreement about the role that racial and ethnic discrimination may be playing in contributing to those unequal outcomes.

And this is not an issue of not enough research on the topic. There's really been a tremendous amount of research on the issue of racial discrimination in home mortgage lending. And despite all that research, tremendous disagreement and dispute remains on the question.

I think this is a tough issue to come to terms with because of three big sets of complicating factors. The first is that on average whites and minorities have unequal qualifications for loans. There are significant differences in income, education, pre-existing wealth, family wealth, between whites and minorities. And to some extent, to a large extent, that may be the result, the consequence of pass discrimination. So that as sort of standard underwriting procedures continue to be implemented on into the future, they can just perpetuate the effects off past more extreme discriminatory practices.

So that leads to the second

set of complicating issues which is that we can think about discrimination in two different and important forms. One is the form that people are most comfortable thinking about, differential treatment of equals, where a white and a minority who are equally qualified get treated differently, intentionally or on intentionally, but treated differently where race is really the only difference between them.

But the other kind of discrimination is disparate impact. The equal implementation of policies that disproportionately disadvantaged minorities. When there is an alternative that would serve the same business practice or almost as well serve the same business practice.

And the attention to disparate impact discrimination is important because of the legacy of past discrimination. If we allow business practices to simply continue when there are alternatives that would work just as well, we are simply perpetuating and further institutionalizing inequality and discrimination.

The last factor that makes research on home mortgage lending discrimination so complicated and contentious I think is that the lending process is a complicated one that has a lot of steps along

away. So one researcher can find no discrimination among one group of lenders at one stage, while other researchers are finding significant levels of discrimination, perhaps by other institutions or at another stage. Practices at one stage can influence who makes it into the next stage. So as a complicated process coming to closure on issues of discrimination is a very complicated undertaking.

A couple of years ago with funding from HUD, the Urban Institute conducted a review of what the existing social science evidence tells us on the issue of discrimination in home mortgage lending. And this was a study that not only Urban Institute researchers but also John Yinger of Syracuse University and Steve Ross of the University of Connecticut.

We didn't do a lot of new

data gathering or new research in this study, but really looked at the existing body of social science evidence, including a re-analysis of some paired testing data collected by the National Fair Housing alliance, including a rigorous review of the existing statistical studies which rely primarily and heavily on HMDA data, and including some new analysis of the Boston Fed study.

And I'm going to very briefly run through what that social science evidence tells us about mortgage lending discrimination at four big steps

along the way in the home mortgage lending process.

And the first step is before the mortgage lending process even gets underway in a formal sense, and that is the advertising and outreach stage. How do financial institutions open their doors to different categories of customers? And as Jim Carr has just said, where do financial institutions of different types open their doors to different types of customers?

This is clearly a really important step in the process in terms of people knowing about mortgage lending opportunities, homeownership opportunities, types of products, types of loan terms. There are some examples of discrimination in branch locations and closings of branches, in the use of mailings and solicitations to customers in different types of neighborhoods, and in the referrals by real estate agents to mortgage lending institutions.

All of those kinds of anecdotal evidence and litigation based evidence suggests that there are problems, issues, in this stage of the process. But there hasn't been much systematic research on the issue. It's a complicated area to research and one that we really need to investigate further. And I think Jim's analysis of the alternative set of institutions that do exist in minority and low income neighborhoods is

really an important part of the picture.

The second stage is the pre-application or inquiry stage. You're not ready to borrow yet. You haven't chosen a house yet. You're not at the signing of papers stage. But you're walking into lending institution and trying to find out how much house can you afford? What kind of loan terms and products would be made available to you?

And here we re-analyzed some paired testing data collected by the National Fair Housing Alliance of lending institutions in several large metropolitan areas. And their work was conducted early in the '90s.

Our reanalysis of key variables from their tests suggested some significant evidence of differential treatment. And this is the differential treatment form of discrimination, unequal treatment of equally qualified whites and minorities. We saw evidence that minorities were more likely to be denied information all together when they walked in the door, more likely to be given less time and less information from a loan officer, and more likely to be quoted higher interest rates.

There was tremendous variation between cities in this study, suggesting that

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there may be significant differences between markets in the kinds of practices that minorities experience. And the National Fair Housing Alliance sample was not designed as a random research sample. So it's hard to tell how representative it is of the market as a whole.

The third stage in this kind of stylized loan process is the loan approval or denial stage. And there's been a tremendous amount of statistical work, as I said, largely relying on HMDA data, investigating this stage in the process.

The strongest evidence, I think most would agree, comes from the Boston Fed study which combined the Home Mortgage Disclosure Act data with detailed information on the credit worthiness of applicants, both applicants who were approved and applicants who were denied. And that extra data was provided by lending institutions in the Boston area.

That study found that minority status had huge effects on the probability of denial with substantially higher denial rates for both blacks and Hispanics after controlling for the whole list of other things that are supposed to be relevant to the lending decision.

Now, that study has been the subject of intense scrutiny and a great deal of criticism

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over the years since it was published. Many researchers have published numerous articles questioning specific methodological and data details of that study. And the criticisms are complicated and many.

John Yinger and Steve Ross essentially re-analyzed the public use file from the Boston Fed study in an attempt to address all of those criticisms. So essentially, each of these technical criticisms said, okay. If that was the case, how would we address it? How would we re-specify the model? Which cases should we omit? Which variables should we leave out?

And they found that the big differences in denial rates on the basis of race could not be explained away. So they confirmed that fundamental finding their race is playing a role after controlling for pretty much everything else.

However, Yinger and Ross also concluded that it was impossible with that data set to disentangle the possible effects of differential treatment from disparate impact. It would be possible to get the results of the Boston Fed study in a world with a lot of differential treatment discrimination. But it would also be possible to get the results of the Boston Fed study in a world with little differential treatment discrimination

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and a significant amount of disparate impact discrimination.

So these results still leave important questions unanswered, but I think they really shift the burden of proof to people who want to argue that there is no discrimination, that the process has become color blind like we'd like it to become. That really instead of having to persuade people that there's evidence of discrimination out there, it's time to begin persuading people that the discrimination has been fully addressed.

Briefly, the last stage I want to talk about is the loan administration stage. And here again, there is some anecdotal evidence of differential treatment - I'm out of time. Okay. Let me go for just one more second - minute.

There is anecdotal evidence of differential treatment in loan servicing, how quickly lenders go to default in foreclosure, the kind of help they give their customers in terms of workouts when there are problems. But there has been no systematic social science research on this stage in the process that we could find.

So, in closing, the social science evidence strongly confirms that while discrimination is not going to explain the full gap

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between minorities and whites in terms of homeownership outcomes, that there's real reason for concern about the persistence of both differential treatment discrimination and disparate impact discrimination potentially at all stages in the mortgage lending process. And that while there is enough evidence, we know enough to support the kind of aggressive monitoring and enforcement that HUD has been doing over the last several years. We also need to understand this problem better in order to design effective enforcement strategies and effective remediation strategies for lending institutions that want to do better.

MR. APGAR: Thank you. While we're waiting for some of the cards to come up of questions from the audience, I thought I'd start off with a question. It struck me today that it was somewhat ironic that at one level we have this sense - and maybe it's true - that in the broad housing market it's reasonably efficient. Therefore, voucher type programs may have some hold in the sense that ultimately the demand side is realized. But yet, here we've heard a story of relatively persistent failure of the market to provide appropriate financial services to large communities.

We talked about significant profits being made in the delivery of financial services

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in these markets as Jim did. A lot of money is being detracted. What are the market barriers, do you think, that keeps financial services organizations of the more mainstream variety from moving into these markets? Why hasn't some legitimate business figured out how to cash a check for less than 15 percent of the face value of the check in our inner city neighborhoods? Stuart, you have any thoughts on that?

MR. GABRIEL: I'll cite one example. In Los Angeles, we've had a lot of activity, and may be elsewhere around the nation, with respect to supermarket banking and with respect to the positioning of small branches of financial institutions in supermarkets. The bottom line on that experiment after a couple of years is that Wells Fargo Bank is essentially closing out that experiment and virtually closing all of their inner city branches.

There are efforts that are underway, but there are also, as we see, markets for other sorts of services. In the case of the immigrant populations, you sort of have to think about education that pertains to the use of banking services as well and the fact that banking services are not well proliferated often times in the countries from which they come. And personal finance operations are relatively simplistic. So

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as always, these things are complicated.

MR. APGAR: Any thought, Richard? Or Jim, would you like to followup on that? You didn't say why this occurred. You pointed out some pretty powerful statistics on the presence of these kinds of differences.

MR. CARR: My goal was just to make a point. Because without getting into the details, it's hard to understand how significant they are. But let me just say that the issue had such roots in discrimination. Make no mistake about that. But as a result of discrimination, there is a reality which exists now that can be looked that three ways. One, there's simply a lack of products and services that are customized to the unique customer needs and desires and preferences of those households. That's part of the problem.

Another part of the problem is that there's a real lack of understanding of real risk versus perceived risk by financial institutions that have avoided those markets. And as a result, if you're not in the markets, you really can't understand them.

And then a third issue is that there is a lack of financial sophistication on the part of the borrowers themselves to know what to demand in terms of services.

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And then finally, there's still existing discrimination.

Now, having said all of that, we should recognize that in fact mainstream financial institutions are in these communities. And one of the reasons for the explosive growth, some would argue the most significant reason for the explosive growth, is that if you noticed that slide very carefully, you noticed that there was a loop between the fringe financial institutions and the capital markets, including both major financial institutions and Wall Street.

The funding is coming from those institutions. And they are in these markets because they recognize that they are lucrative. Why go in for a 6 percent or a 12 percent return when you can get 30 percent after two weeks? And the answer is only if you're nuts. The reality of it is that these institutions are allowed to function the way they do in a well stripping way. And as long as they're allowed to function in the way that they will, they will attract major financial institutions to support them rather than spending the time and energy to develop much more cost-efficient products and services simply because of one thing. It's more profitable.

So if you look at it in terms of the environmental debate, it actually makes a very good

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analogy. If all institutions are allowed to pollute, even institutions that recognize that pollution is in the worst interest of their own communities, they will continue to pollute because simply they cannot compete with institutions that are polluting. They can't afford to invest in environmentally sensitive products and services.

So the key for us is to first and foremost make it illegal for these institutions to practice a lot of the behaviors that they do that, as I said in my remarks but did not have time to going to detail, go far beyond just a charging of ain interest rate, of high interest rates. And once we level the playing field and we preclude those of kinds of activities from occurring, then the next age is that we now prepare the platform whereby financial institutions will be incented to go in. Because I believe that slide showed that out of those $4.54 billion there was actually more than $168 billion changing hands. And that is money to anyone.

MR. APGAR: You were talking earlier about the up side and down side of homeownership. And I thought Stuart's comments were particularly interesting. In this sense, if you just look at a small geographic area, you may miss the homeownership gap. Because in fact, the way in which people get homeownership

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is to move out of that area. And we've seen that throughout the time, especially in the postwar period, in which the surge of homeownership, of course, one of the main downsize has been draining a population base away from core areas, undermining the economic - sometimes economic vitality of that area. Do you share that concern? And what would you suggest as ways of expanding the choices so people don't have to make these distance moves in order to realize homeownership?

MR. GREEN: Well, I think a number of issues were brought out in our prior panel that were quite pertinent. Urban locational choices are dynamic. They're evolving overtime as our congestion, costs and location of business and all the rest. We see in many of our metropolitan areas that locations that have been problematical with respect to homeownership have all of a sudden become quite desirable locationally.

From a policy perspective, what I mentioned in terms of the results of our study is invest in neighborhoods. Invest in economic viability of neighborhoods. Make those neighborhoods more economically attractive and you'll see that homeownership will stem therefrom.

MR. APGAR: Any thoughts, Richard, on that?

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MR. GREEN: Well, I guess, you know, there are a lot of ways you would like to go back and do things differently than the way they were done in the postwar era. I mean, FHA in the '40s and '50s was very much a program that favored suburban single-family detached development over central city housing. Something I like to tell my students about is if you look at the FHA program, it would rank neighborhoods based on ethnic composition. And that was one of the bases for underwriting neighborhoods. And clearly, that combined with a variety of other programs, the development of highways and infrastructure and so on, led the development of people to leave the center cities to find homeownership on the periphery.

That said now that that has been done and there's 40 to 50 years of history behind us, it's important to realize that when we're making people new homeowners now we have to - the only way they're going to want to be homeowners is if they can be so in places that are, as Stuart said, economically desirable places where there's a prospect for a good rate of return on their investment.

MS. TURNER: Just to follow on a little bit. It's extremely important because people assume that promoting home ownership for minority

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households is going to promote homeownership in inter city minority neighborhoods. And that might not be people's choice. It may not be the house value appreciation best choice. Unless higher income, including white families, are also finding those inner city neighborhoods attractive.

MR. APGAR: Here's one just to follow up on that. It was to me, but I don't have the answer. So I'll throw it out to the panel. What good is homeownership rates in such places as Youngstown, Ohio where the real value of homes has fallen since 1980. I can't read your handwriting. But it's roughly there are a lot of places were homeownership is a drag because obviously it's just investing in an asset that's not appreciating. Any thoughts on that? Sorry, Youngstown. I guess we're out of luck.

MR. CARR: I'd like to answer, but not in the Youngstown context. I think clearly if an area is facing economic distress and the house prices have been falling for 20 or 30 years, that's probably not the best place to invest.

But there are a lot of communities for which we are targeting our housing and specifically our homeownership initiatives. And when I say we, the industry. With the assumption that house

0067

price appreciation will follow. And it's not necessarily true at all. And I think that's an issue that the industry needs to study much more carefully to see if in fact this homeownership model of an American Dream really does fit a lot of the communities in which we're targeting.

Second of all, I'd like to just point back to that community reinvestment cycle that I've put up on the board. Many communities have the capability to create vibrant and rising house priced environments. But without a connection to financial institutions, we're targeting in the middle of the process. And we're not allowing individuals to build wealth in the most practical manner in which most households do. And so as long as we have this bifurcated system we're going to have bifurcated outcomes.

MR. APGAR: Okay. Here's another one. And this is near and dear to my heart because we did a lot of work at the Join Center on manufactured housing. But what are your thoughts on the role of manufactured housing, particularly in the rural areas as a form of affordable homeownership given the reduced level of investment value and wealth building capacity?

And I'll add to that is that

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if you look at the growth of the number of homeowners in manufactured homes, it actually can account for a significant share of the growth in total number of homeowners in a recent period. Stuart, any thoughts on manufactured housing? Anybody? No?

MR. CARR: I was just going to say I think manufactured housing sufferers from a stereotypical view that you can drop it off and pick it up and drive it away a couple of weeks later. And the manufactured housing industry has come a long way. And I think there is real opportunity. And I think it would be an important thing for the housing industry to focus a little bit more time on current methods and practices of manufactured housing because I think it offers an enormous amount of real opportunity. And I think that we as an industry overlook that component of the market sometimes a little too much.

MR. GABRIEL: The largest home builder in Mexico, the largest affordable home builder in Mexico, the person who's creating home ownership in Mexico, is an individual who sells the small lot, two rooms and a set of plans. And there's lots of opportunity to talk about building methods and innovations in terms of production and how that might be consistent with affordable housing.

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MR. GREEN: I think one thing that is - I think manufacturing housing is a very good way to provide affordable housing. But I think it's important that, therefore, we think about ways to provide lots that people can buy to put those housing units on. Because when manufactured housing is put on rental lots since one lacks security of tenure. And I think it's likely that one of the things that causes home ownership to produce benefits is security of tenure. There aren't a lot of lots available to put manufactured housing on that individuals can go out and buy.

MR. APGAR: Very good. Here's one for Stuart and Marge and others. Have you studied the gap for women headed households? A lot of focus was on the gap between racial and ethnic minorities, but there also is a noticeable gap between women headed households. Have you done that? Or do you know others who have?

MS. TURNER: I haven't and I haven't done it. But I think it's an interesting topic to take on.

MR. APGAR: Okay. So we add that to the list of research that Susan's going to fund. Are you aware of any on that? I mean, this whole gap analysis which is trying to slice and dice which groups are lagging and how you attribute those to differential

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attributes versus some evidence of disparate treatment or what have you with women headed families. Are you aware of anything?

MR. GABRIEL: There's been a lot of work of that sort in the case of mortgage lending as well that I'm sure that Marge and Jim are aware of and results that are supportive.

MR. APGAR: Okay. Here's one for Jim. Should a personal finance course be offered to high school students or required? How far do you go towards solving the problem we discussed? This whole issue of financial literacy, do you view that as a promising approach? Which is kind of almost a customer awareness as away a sort of pulling this through as opposed to pushing more on promoting institutions to involve themselves in these communities.

MR. CARR: Sure. I think it's part of the puzzle. So that you have to be aware of what your financial options are. And you also need to be aware of what kind of damage you do to yourself by not understanding how to access institutions. But the institutions also have to be there.

Probably one of the most frightening comments that we found in surveys about why people use fringe lending institutions, including the most

0071

notorious practices, is that they feel that those institutions respect them. Now, clearly they don't respect them or they wouldn't be taking them to the cleaners. But what it shows is that they have very aggressive and very refined marketing strategies whereby they make people feel like human beings. They make them feel respected. And so they go to them even though in many cases the surveys indicate people recognize they're actually losing money, but they feel respected.

So it's a very complex issue. So we if you teach people about financial literacy, but they feel they're being disrespected, will they necessarily go to a major financial institution that's doing no marketing, no outreach, and in fact is actively acting as if they do not want a relationship with them?

As I said before, I believe the most effective strategy has to be one that's right across the board. First of all, those practices need to be illegal. Period. And then second of all, there needs to be an opening of the door such that financial institutions recognize that they cannot link with these institutions that are practicing all sorts of predatory lending practices themselves. Once that link is gone, then I think you'll see financial institutions positioning themselves to enter the doors for opportunities that we've

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never seen before. And then financial literacy becomes an important component with that. But one piece all by itself won't work.

MR. APGAR: It was interesting. In our predatory lending task force, we went around five cities in three days, or whatever we did on that whirlwind tour. But what was interesting is people came forth and told their stories. And they were embarrassed because they ultimately knew they had done a really dumb thing. They had bought into a loan product that even they understood at some level couldn't possibly be in their best interest.

But they also invariably commented on the fact that the person who showed up at their door, a complete stranger, within a matter of minutes, if not an hour, created a total empathy with the borrower, got them to convince them that they could trust them with the most important financial terms. And one of the people that was at the hearing I thought said it just swell. Wouldn't it be nice if we got those guys working for the legitimate, affordable lenders? They would be a great marketing arm. Because this capacity as you say to sort of develop trust in an area where people are inherently mistrustful of the banks and financial institutions. So much to the extent to which their better

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judgment is completely overtaken by this was quite interesting.

MR. CARR: If I could just real quickly, there is also the issue of when services are made available if they're not offered in a timely manner meaning that reflect the hours of operation that are essential for people who have very low wage jobs, maybe working late at night, that sort of thing.

One of the things that we found is that the predatory fringe lenders will actually come to your home, as well as the predatory lenders, in mortgage market. They come to your home. They sit down with you. They dress respectfully. And these are just marketing gimmicks.

MR. APGAR: Right. One of the studies we did - one of the student projects at Harvard not too long ago was looking at one of these storefront banks and trying to see why it was they were doing such a poor job of getting customers. Because they were sitting there right in the middle of a place where it there was slick check cashing around. And they were having a hard time making a go.

And what they realized, of course, is there are a whole a lot of subtleties about how they engage with the community. It was just a total put

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off. The fact that the tellers - maybe if they had the right skin color or racial background was okay, but they weren't from the community. So they still look like outsiders. And other things, hours, time frames, all kinds of other stuff. Which even when they physically located in the community had a difficult time in meeting the terms and conditions of the folks who really knew how to engage that community, even if it was a check cashing operation which would charge very high rates.

Let me see. We have something else here for Marge. This was from your mother. Excellent job. Okay? Glad that you decided to come and help HUD out, even though you no longer work for them. But why did you decide to revisit the Fed study? It's out of date now. Why not do a new Fed study?

MS. TURNER: I think a new and better Fed study that's not focused only on one market is definitely a good idea. It should be on the PD&R list.

MR. APGAR: Okay. The genius of the work of the Urban Institute was it was low-budget. It was an effort to sort of get as much as you could out of the data that was already collected. Remembering that data collection is often the hardest part of a new study. And so by combining the various data sources from the fair housing councils, they were able to match of the a lot of

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matched paired testing to get more statistical power. By reviewing the Fed study in other places, they were able to get a lot of energy out of a real budget operation that we're running here in terms of our research programs. So, thanks for that.

What do you think is the relative importance of residential discrimination versus self-selection by blacks as it goes to the concentration of minorities in particular neighborhoods? There was this earlier discussion about that phenomenon, about whether or not it really was an element of self-selection still going on here in terms of choosing to live in concentrated areas.

MS. TURNER: First of all, I think those two issues are virtually impossible to disentangle. First of all, we have very few stable racially mixed neighborhoods in this country. So, if you're looking out at your range of neighborhood choices, you're either looking at a predominantly white neighborhood or you're looking at a predominantly minority neighborhood. So, very few of us have the option of choosing what many of us say we want, which is a stable mixed neighborhood where we can feel comfortable. So that's part of it.

And second, if you anticipate
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discrimination, if you anticipate that your kids are going to be ostracized in school, if you anticipate that it's not going be a comfortable neighborhood to be home in, you may express a preference for living in a segregated neighborhood. I really think trying to disentangle the concept of preference from the concept of discrimination and segregation is a mistake.

MR. APGAR: Stuart.

MR. GABRIEL: I was just going to tell another story from Los Angeles. The oldest and largest black own financial institution in the city was burned down in 1992 when we had our civil unrest in South Central LA. This was an institution that was around for in excess of 100 years. They faced the question where to rebuild. And the question was not an easy question since the population that they were dedicated to serving no longer a lived in the areas where they had branches.

In fact, if you look at Los Angeles today, you might think of Watts as a black neighborhood. It's a Latino neighborhood in L.A. today. And the population dynamics with respect to geography are absolutely profound. And part of the story that we sought to tell today. So there's a lot of churning. And there are options that are available today that were not available a decade or so ago.
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MR. APGAR: Very good. One question here is we've been assuming that promoting this goal of 70 percent home ownership or higher ownership is appropriate. Do you think there's a homeownership rate which is too high? And if so, what would that be? And how would we begin to think about when it is that we're promoting too much homeownership relative to the concerns about mobility or other issues?

MR. CARR: I'll answer it. I think it's an interesting question. Because in fact one of the very, very far end goals by some housing market specialist would be to make tenure choice indistinguishable between rental and owner. Mean that as long as you have to pay rent, you might as well effectively be paying it to yourself.

And so if you look at reasons why people rent versus own, some of those reasons include things like they want greater mobility. They want less risk in the investment of a home. But there are lots of approaches that can be used to in fact greatly limit if not remove those concerns completely. For example, there are firms now that specialize in taking over your home if you have to move to change jobs. And so those firms as they develop in sophistication, if you can get that as part of your mortgage contract that a firm will takeover

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and sell your property, well, that concern kind of begins to wain.

Well, what about if you begin to eliminate distinctions such as maintenance? Some people don't want to have to maintain a home. But what if you in the course of - in the mortgage product it actually has a maintenance provision, whereby a company in your local area was responsible for plumbing and heating and fixing and all these other things, they're called bundled services.

One of the reasons I mentioned the bundled services is that if the bundled services package can be robust enough, it could actually have the potential of lowering the total cost of owning a home which could have important implications for the affordable housing market. That is to say that tinkering around with a basis point or two on the mortgage itself is not necessarily is powerful as saying all costs associated with this housing, including perhaps something like home equity insurance. That is to say insure you against the loss of equity in your home. Sounds far out, but the reality of it is that over the long-term house prices do pretty well. Just like the stock market over the long-term.

So there are a lot of

0079

financial engineers who are looking at this issue. And I guess where I would land is to the extent you have to pay rent, why not pay it to yourself? Unless you're in an obviously losing position.

MR. APGAR: The capacity to slice and dice all of these possible service contracts is pretty amazing and whole new markets emerge overnight. In the auto industry, of course, the emergence of lease markets, of course, had some of that maintenance features and other things that Jim was talking about. Richard, do you want to jump in here?

MR. GREEN: Yeah. I think right now the homeownership rate for married white people in the U.S. is probably just fine. In a sense, Bill understates the success when he talks about the 67 point whatever it is rate right now. Because if you look at 50 year olds in the United States, the homeownership rate is nearly 80 percent. At least the most recent slice of the data that I saw. And I can't imagine that we really need to do much better than that.

The problem I think is the area of focus needs to be in two places. One is minorities. If you look at the ownership rate, we talked about the gap. And it's hard for me to believe that the gap is a result differences in preferences between whites

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and minorities. So that suggests to me that there's a problem.

The other issue which we really haven't dealt with much in this conference - although the question about women headed households sort of got at this - is the other major source of differential homeownership is between married couples and singles - is a rate of married couples. And, forgive me. I don't have the exact numbers in front of me. But it was somewhere in the neighborhood of 75-80 percent. Ownership rate among singles, is about 43 percent.

Now, to the extent that we're talking about 22 year old singles, this is probably just fine. Because these are people who need to be mobile. And so because of the fixed cost of home owning, owning is just not a desirable financial alternative.

But I think the issue of particularly divorced people in their 40s, single parents in their 40s, et cetera, and their homeownership rate, that's a place where arguably we would be better off with a higher homeownership rate than we have. And it's the lack of opportunities that has prevented that from happening. So I know that doesn't give you a number, but I do think it sort of slices up - there are groups of people for whom I don't think we really have to worry very

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much about it getting any higher. But there are others for whom I think it's still a concern.

MR. APGAR: Okay, fine. Now, there's one other question I've got. It's from somebody in the audience who's identified herself, Marcia Griffin. And what she'd like to do is share her experiences with you from a program called Home Free USA that deals with thousands of home buyers over the course of the months and has a lot of information that she'd like to share. And I'm sure there's others in the audience who have their own research bases and other backgrounds.

So maybe the best thing to do is to break and have our refreshments and our reception. And then we'll have dinner. And Secretary Cuomo will address us at dinner. But before I break up the formal part of the panel discussion and move to the equally important informal part of the panel discussion, and folks ought to approach Marcia - she's seated up front - and others, I know that are here and want to add their thoughts, I thought we'd give our panel around of applause for their good work and see you at dinner. [applause]

(Whereupon, at 6:00 p.m. the afternoon session was adjourned.)