

Community Reinvestment Act Joint Public Hearing, August 12, 2010
Panel Three: Lez Trujillo

Lez Trujillo:

Thank you for the opportunity to be here today. I am Lez Trujillo, Deputy Director for the Affordable Housing Centers for America. Our mission is to create and sustain affordable housing for low and moderate income families and communities. Since 1985, we've provided housing counseling to over 400,000 households. Over 106,000 of them have acquired a home, and more than 65,000 homeowners have received foreclosure prevention services.

There has been much said about all the changes that took place in the credit markets and with financial service providers since the CRA was enacted. Many of our colleagues have made a number of full, specific recommendations for modernizing and improving the CRA. Several of the ideas are including in our written testimony. Today I wish to focus on the conditions found in low and moderate income in minority neighborhoods. We believe that the CRA modernization needs to be a critical part of the redesign of our nation's mortgage finance system and that this redesign must be grounded in our new harsh realities. Of particular relevance with this discussion is the impact of the recession on incomes, creditworthiness, and affordable housing stock. Millions of Americans now derive income from sources that pay less and provide less stability. Millions of former and current homeowners have had their dreams and lives destroyed. Half a million homes sit empty with large concentrations in lower income communities. Unfortunately, this is likely to be the new normal for years to come.

The quest for solutions to these difficult issues facing LMI communities needs to be a primary driver of CRA reform and the creation of a new housing finance system. We suggest that the answers begin with the basics. Financial institutions must not be allowed to write off large segments of society or disinvest entire communities or types of housing. Our new housing finance system must offer paths for those who have lost their homes or been damaged by the recession to regain homeownership once they're ready. Responsibility for providing suitable financing for all types of affordable housing must be shared by all actors and not relegated to the exclusive responsibility of the government.

The new system must align the interests of homeowners and investors for sustainability at all levels: primary, secondary, and regulatory. As part of this alignment, our new system should create funding streams that build in and sustain a robust nationwide nonprofit housing counseling structure. For home buyers with multiple risk factors, counseling should be a mandated condition for receiving financing. Clearly, the new housing finance system needs to prevent a recurrence of predatory lending, which was disguised as innovation. Several of our colleagues have suggested that the principle of sustainable mortgage and creative finance should be factored into CRA regulations as should be the concept of negative credit for institutions or their subsidiaries or affiliates that provide abusive loan products. We support those recommendations. Innovation has gotten a bad name at a time when we need more genuine innovation than ever before.

Since the housing bubble burst, many successful mortgage underwriting innovations adopted by CRA lenders have been eliminated. For example, banks have eliminated the use of letters of

explanation and compensating factors for worthy borrowers that have experienced unusual hardship, such as medical emergency. And had their credit scores reduced as a result. Such flexibilities were proven to be safe and sound alternatives to the old one-size-fits-all approach to underwriting and lead to sustainable housing loan for millions of first time home buyers.

Going forward, innovation in determining creditworthiness is going to be more important than ever; and the CRA needs to provide incentives for lenders who undertake it. We need to create way for damaged households to mitigate debt and credit history in a very short time so they get a fresh start. The current inadequate credit score-driven approach will deny mortgages, rental options, and other credit facilities to Americans hurt by the recession, even after they stabilize their income. Unless we're prepared to say that a very large slice of the population can never buy or refinance a house, the new housing finance system is going to have to develop alternative ways for determining ability to pay and new mechanisms for helping the homeowners sustain the ability to pay when hardest times hit. Millions of homes in the stressed low income communities currently cannot be sold because the only people willing to buy those homes cannot qualify for a mortgage. We need financing that enables this enormous pool of affordable housing stopped being serve and reoccupied, and some of that will require innovative approaches to the different kinds of ownership available.

We also believe that a reformed CRA must provide incentives for provisional innovative financing for rehab and retrofitting for energy efficiency of housing units, particularly for affordable units. High maintenance costs and high utility bills are a major threat to their sustainability.

I have described a few of the situations that require innovation and if they are to be addressed. Together, they're too large to be solved only by the housing trust fund or declining grant dollars. All components of the housing finance system, particularly the big banks, must be required to play a role. It will require innovation, incentives, mandates, and leveraging. As a start, the portfolio capacity of the largest lenders is going to have to be expanded and made available for CRA lending. Michael Stegman, former HUD Secretary For Policy Development and Research suggests that the top tier of the nation's CRA-covered institutions should have a duty to serve as beacons of innovation and creativity and the development of innovative affordable and sustainable credit products for underserved markets. Their performance at meeting this obligation should be evaluated by regulators separately from the performance assessment on the existing lending service and investment tests, and we could not agree more. Thank you for your time.