“SoftSecond Mortgage Loan Program: A Case Study in Reversing Racial Disparities in Mortgage Lending in Greater Boston”

Testimony before the

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by

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Chairman Frank, Congressman Capuano and other members of the Committee, I want to thank you for holding this field hearing in Roxbury today. My name is Acia Adams-Heath and I am the President of the Massachusetts Affordable Housing Alliance and a resident of Dorchester. MAHA is a non-profit organization that works to increase public and private sector investment in affordable housing and to break down the barriers facing low and moderate income first time homebuyers. MAHA's signature achievement has been the establishment and expansion of the SoftSecond loan program which, with the support of the Massachusetts Housing Partnership, has helped 10,000 families buy their first home. MAHA educates low and moderate income homebuyers and homeowners and since 1991 we have graduated over 13,600 people from one of our five Homeownership University$_{SM}$ classes. We are proud that our mortgage program and education classes have resulted in not just affordable homeownership opportunities for many lower income Massachusetts residents but sustainable ones as well. In today's testimony, I will summarize how the SoftSecond program came to be and detail some of the remarkable statistics that make the program a model homeownership initiative. Finally, I will offer some recommendations for updating state and federal laws regarding a lenders responsibilities to borrowers and to communities. I must start by thanking Professor Jim Campen, who has conducted researched the SoftSecond program over the years for the Massachusetts Community and Banking Council. Jim's research as well as the support of MCBC's Kathy Tullberg, MHP's Clark Ziegler, and participating banks have helped to make this program one of the most studied and most successful programs in the nation.

History of the SoftSecond program

To understand how this one program came to play such an important role in Boston area mortgage lending, you need to go back to 1989. On January 11, 1989, the Boston Globe's front page had a lead story on a leaked draft study from the Federal Reserve Bank of Boston. That study found "racial disparities" in bank mortgage lending patterns in Boston neighborhoods. That leaked draft kicked off a two year effort to address these racial disparities that included protests, confrontations, negotiations, and ultimately collaboration. The centerpiece of these negotiations was a mortgage program that MAHA hoped would address these patterns of racial disparities. In Janaury of 2001, almost two years to the date from the original Boston Globe story, Florence Hagins moved into a two-family home atop Jones Hill in Dorchester. Florence is an African-American single mother who had been denied a mortgage just weeks before the launch of the SoftSecond program and became its first applicant after she saw a flyer advertising a MAHA community meeting about the program. The SoftSecond program is unique in many ways, not the least of which is that the program was negotiated with low and moderate income homebuyers at the table. MAHA's Homebuyers union members at the time were led by Diana Strother and Adrianne Anderson who were both prospective homebuyers. They made sure that the program being designed worked for homebuyers of modest means and they were also focused on how the program could be sustained well into the future. They understood that mortgage lending is too important to the health of a community to let unresponsive or unregulated institutions make decisions about the best way to deliver mortgage products. Of course, all of this activity took place in the context of the Community Reinvestment Act, a law that governed virtually all of the major lenders in the Boston area in the late 1980's and early 1990's.

The SoftSecond works because it is smartly designed and truly affordable over the long term for lower income first time homebuyers. It gets it name from the fact that each borrower receives two loans, a 77% first mortgage and a 20% second mortgage that is interest-only for 10 years before becoming a fully-amortized loan over the last 20 years. Both loans are originated at slightly below-market interest rates and come with a small public subsidy that acts as a loan loss reserve for the lender and a further interest rate subsidy for the borrower.

SoftSecond statistics

While the program started with a modest beginning - three banks made one-time commitments to each do $4 million in lending – it quickly expanded as banks negotiated agreements with MAHA as they entered the state or as they sought to improve their CRA record in the community. Thanks to Professor Campen, we are able to highlight some very impressive numbers about the program some sixteen years after its launch.

In the city of Boston, the SoftSecond program was become the leading anti-redlining program. From 1991 – 2006, 3,546 people received a SoftSecond loan in the city of Boston and approximately 70% of those buyers have been persons of color. Over the last three years, the Black loan share in the program was 33% while black households account for just 21% of the city's households. Latino loan share was nearly 27% while Latinos account for just under 11% of households in the city. And Asian loan share was 8.5% while Asian households account for under 7% of the city's households. Statewide the numbers are just as impressive with Black, Latino, and Asian loan shares anywhere from two to five times higher than these groups' shares of total households in the state. The program has clearly worked to help bank lenders reverse patterns of racial disparities. It has been a significant program in terms of its impact as well – SoftSecond loans total $1.4 billion in private sector lending to low and moderate income Massachusetts residents. In the city of Boston in 2005, SoftSecond loans accounted for 20% of all home purchase loans loans to low and moderate borrowers.

And maybe most importantly, given our current foreclosure crisis, delinquency rates in the program remain low. Our SoftSecond statewide delinquency rate as of the end of 2006 is 2.2% compared to an overall statewide delinquency rate on all mortgages of 2.8% for prime mortgages and 15.4% for subprime mortgages. We are attaching a complete report on the SoftSecond loan program, authored by Professor Campen for the MCBC, to our testimony today. *Expanding Homeownership Opportunity II: The SoftSecond Loan Program, 1991-2006* provides many more details about this incredible program.

Policy Recommendations

Those of us at MAHA have learned a lot over the past twenty years. We have seen the negative effects of not enough lending in our neighborhoods, have participated in the rise in homeownership levels for many of our fellow Black, Latino, and Asian neighbors as the SoftSecond program has grown, and now are fighting the impact of too much bad lending by largely unregulated institutions. Our state's and our nation's laws have simply not kept pace with the rapid change in the mortgage lending industry. We urge four policy changes: First, we support comprehensive anti-predatory lending legislation that would apply to all mortgage lenders. What Massachusetts did in 2004 is simply not enough – the current crisis is ample evidence of that. We need anti-predatory language that strikes at the heart of the business model used by many subprime lenders – language that makes it impossible for lenders to give borrowers a loan that they know can not be paid back and requires them to clearly market the terms and conditions of such loans in all advertising. Second, we need to do more that stop bad lending; we must encourage good lending in all of our neighborhoods. We support extending CRA or CRA-like requirements to all mortgage lenders wherever they lend. We believe that this can best be done with states acting to impose CRA-like requirements on state-licensed mortgage lenders similar to Massachusetts Senate bill #2299 that is currently under consideration in the Massachusetts House of Representatives. In addition, we believe Congress should move to: (1) extend bank CRA performance evaluations not only for lending in assessment areas defined around the location of bank branches, but also for bank lending in every geographical area in which they have a significant market share – in Boston, this would mean Wells Fargo and Washington Mutual would have the same CRA responsibilities as Bank of America and Sovereign ; (2) require that CRA performance evaluations be done on a comprehensive corporate-wide level, including all related banks together with all mortgage lending subsidiaries and affiliates; and (3) independent mortgage companies and credit unions should be subject to regulations, performance evaluations, and public ratings analogous to those that the CRA imposes on banks.

We also support the recommendations made by Ginny Hamilton of the Fair Housing Center of Greater Boston around the need for greater enforcement of our existing fair lending laws.

Again, I thank you for the opportunity to testify today. I would be happy to respond to any questions that you may have.