

MORTGAGE LENDING DISCRIMINATION

**TESTIMONY OF THOMAS M. MENINO, MAYOR OF BOSTON
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES**

BOSTON, MA

OCTOBER 15, 2007

Good morning, Mr. Chairman and members of the Committee and welcome home to Congressmen Capuano and Lynch. My name is Thomas Menino and I am the Mayor of Boston. I welcome the opportunity to speak before this Committee and appreciate your leadership on lending issues, especially as those lending issues affect consumers.

Before I begin, Chairman Frank, let me congratulate you for your tremendous success in passing the National Affordable Housing Trust Fund in the House. This is outstanding! I hope the Senate moves the bill with just half of the determination and drive you showed in the House. You are to be commended!

Background

We're here today to discuss discrimination in mortgage lending. How frustrating it is that after all these years, after so much work on the part of government, consumer organizations, and corporate America, we even have to have a hearing like this. But here we are, truly part of a marathon, not a sprint, to bring equality to all Americans.

I want to acknowledge the important work of the Massachusetts Community and Banking Council and the academic community--- people like Jim Campen and Bill Apgar. Their years of research have quantified for us the disparities in lending. For example, among their findings:

- Higher-priced home mortgages are provided disproportionately to black and Latino borrowers in Greater Boston, almost 4 times greater for these borrowers than for whites. In Boston, Greater Boston, and throughout the Commonwealth, high priced loans account for over half of the home purchase loans to both blacks and Latinos.
- In Boston, the four neighborhoods with the highest percentages of minorities--- Hyde Park, Mattapan, Roxbury, and Dorchester, are disproportionately on the receiving end of high cost loans. High cost loans accounted for over half of the market share in these neighborhoods while they were less than 5 % in Charlestown, a predominately white community.
- When borrowers are grouped by race and income level, the proportionate share of high cost mortgage loans is consistently higher for blacks and Latinos than for whites at the same income level.
- One last piece of information from the Mass. Community and Banking Council--- here are the lenders that are among the highest providers of high-cost loans in the neighborhoods of Boston---- Ameriquest; Fremont Investment and Loan; Countrywide; New Century, and Option One. I'll say more about these lenders in a few minutes.

Impact

My blood boils when I look at the data. Not just because the families affected are paying more than they should in higher interest rates and fees and that just isn't right, but because I see the impact that these high cost loans have on the families and on our neighborhoods. And this is where discrimination in mortgage lending connects with the meltdown in the mortgage market and increase in foreclosures.

My administration has invested heavily in the City's neighborhoods, through housing and commercial development, public safety initiatives, and infrastructure improvements. When foreclosures increase, properties are often left vacant as investors and their servicers refuse to acknowledge market realities. They are holding out for sale prices that are not realistic. That is happening now in the very areas--- Hyde Park, Mattapan, Roxbury, and Dorchester where high cost loans prevail. And who are the top five lenders who have originated mortgages that are in foreclosure in Boston today? Ameriquest, Fremont, Countrywide, New Century, and Option One--- the very same high cost lenders.

In the past, we've seen that boarded up properties bring down the values of other homes in the area. We don't want to get to where we were in 1992, when housing values hit the skids and three-deckers were selling for less than \$100 thousand.

The lending industry has changed since the 1990's. Our traditional lenders, the banks, have a much lower share of the market--- about 20 %. In their place, have come the cowboys and cowgirls. The practices employed by these non-traditional lenders--- teaser rates that increase significantly, no doc loans, unsustainable loans that rely on the promise of future refinancing, loan fees upfront, the servicing fees, the fees paid to Wall Street to pool the loans and sell them to investors, all put money into someone's pockets. No one at the front end cared about the long term performance of these loans. It's all about short-term gain---taking the fees and sending the high cost mortgage forward. ---. And now cities like Boston, Brockton, Lawrence, and hundreds of communities across the country, are paying the price for these "lending malpractices"--- out of control with little oversight. Government regulators of financial markets should take a hard and honest look at this type of lending.

Discrimination and the mortgage lending crisis are not inevitable. Ten years ago, I started the Boston Home Center, a one-stop shopping place for people interested in buying homes in Boston. We offer information on mortgage products and also sponsor home buying education classes. We require participation in certified classes as a prerequisite to receiving City down payment assistance. Over 4,400 people, predominately low and moderate income, have bought homes in Boston after completing our classes and receiving our financial help.

Notably, the foreclosure rate for this group is .7 % (point 7 percent) compared to the market foreclosure rates in Boston of 2.50 %. And who receives our financial assistance? 40% are Black; 23% are Hispanic. Our Home Buying 101 and Home Buying 201 graduates confirm that minority families can succeed at home ownership. Our classes

teach people to become savvy buyers, choosing reputable lenders and asking the right questions.

Foreclosures have increased in Boston, as they have across the nation. Comparing foreclosures per thousand properties in Massachusetts, Boston is not experiencing foreclosures to the same degree as other cities in the state. I attribute our relatively good numbers to the efforts we have put into home buyer education and foreclosure prevention. We've worked on education for over a decade and on foreclosure prevention since 1999 with our *Don't Borrow Trouble* campaign.

Recommendations

I recommend that the mortgage lending industry recommit itself to home buyer education, so that every first time buyer has the opportunity to complete a certified course, much like those offered through the Boston Home Center's network of community-based counseling agencies.

I urge Congress to do everything in its power to continue to shed light on the disparities in lending by non-traditional lenders, much like you are doing today with this hearing. In addition, I urge Congress to support more national efforts like Freddie Mac's *Credit Smart Program*, which provides families with the confidence and knowledge to succeed financially, so that poverty is not a life sentence.

I recommend that the Massachusetts state legislature support pending legislation that requires mortgage companies licensed in Massachusetts to comply with laws that require them to meet local credit needs. For many years, I have supported this legislation. It has become more important now that non-bank mortgage lenders provide most of the home mortgage loans in the state. The mortgage companies have demonstrated that they cannot be trusted to "do the right thing" when it comes to lending. Passage of this legislation could lead to cooperation among lenders, advocates, and government, creating a partnership through which lenders provide good products and develop an understanding of the communities in which they do business.

I recommend that our community organizations, especially those in minority areas, become proponents of consumer education on all aspects of consumer lending. This means that financial literacy would be as common as driver's education for new drivers, with information offered through workshops, public service announcements, and adult education.

Thank you for the opportunity to share my thoughts with you. I deeply appreciate the work of this Committee.

