

Testimony of
America's Community Bankers
on
Successful Homeownership and
Renting Through Housing Counseling
before the
Subcommittee on Housing and Community Opportunity
of the
Committee on Financial Services
of the
U.S. House of Representatives
on
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Durham, North Carolina

My name is William Smith. I am President and CEO of Mutual Community Savings Bank in Durham, North Carolina. I am here today representing America's Community Bankers and the MBank Council. ACB represents the nation's community banks of all charter types and sizes. ACB created the MBank Council in December 2001 as a standing committee within ACB. The MBank Council represents ACB's minority-owned institutions.

Mutual Community Savings Bank has \$98 million in assets. We are 82 years old and one of only three African-American financial institutions in the State of North Carolina. Mutual is the premier housing lender to underserved and emerging communities. We are a full service bank offering an array of competitive products and services to our customers and our community. We are proudly a community bank.

Minorities clearly have not participated fully in the homeownership dream. The 75.5 percent homeownership rate among whites is at an all time high. But, even though minority homeownership is also at a historic high, just under half of all minorities own their own home. The racial divide in homeownership remains wide: only 49.4 percent of African Americans, and 47.7 percent of Hispanics, own their own homes.

Partnerships

As part of Mutual's vision to educate customers before they are ready to buy a home, Mutual implemented the FDIC's Money Smart program in October 2002. Mutual was very impressed with the Money Smart module because it demonstrated a well thought out approach to financial education. It went right to the heart of the community to educate consumers on the importance of financial literacy as a crucial first step towards homeownership.

Mutual has three branches. To further our financial education and homeownership campaign, all branch managers must conduct a financial education session in their branches. I have charged our branch managers to actively engage customers unfamiliar with the importance of financial education. I want all my customers to understand the importance of sound financial management, and promote those values to their families.

Benefits and Necessity of Housing Counseling

Mutual hired a "trainer" to assist employees on using the Money Smart module. This was the first step in assisting my customers on buying a home. On July 17, 2003, Mutual conducted one of our first financial education and housing counseling sessions at Maple Temple Church in Raleigh, North Carolina. There were approximately 20 parishioners, which included parents and students. They were very engaged in understanding the two most important steps needed before one actually is granted a mortgage: the importance of understanding your credit, and the value of good credit when one qualifies for an interest rate.

This housing counseling education is especially important due to the increase in foreclosures. As you know, the highest foreclosure rates are for so-called subprime loans, which are disproportionately made in low-income and African-American neighborhoods. According to the

Mortgage Bankers Association's Delinquency Survey, in 2003 the foreclosure rate for conventional prime loans was 0.53%, but for conventional subprime loans it was 6.6 %.

In ACB's 2004 Real Estate Lending Survey, ACB asked members if their banks required homeowner education and/or housing counseling for any of their current home mortgage and/or consumer lending products. Of 401 responses nationwide, 52% required counseling for at least some loan products. Of those that did not require counseling, about half strongly recommended counseling. Those banks that do not require or strongly recommend homeowner education often cited the following reasons: it is not available in the area, it is not convenient, or it is too costly.

I believe that housing counseling education is a necessity. Such counseling should be made more universally available, and encouraged by efforts to streamline the process and lower cost. Therefore, I am a strong supporter of H.R. 3938.

H.R. 3938, Expanding Housing Opportunities through Education and Counseling

Scope

Specifically I agree with the language in the bill on the "*scope of homeownership counseling*" that the Department of Housing will undertake. The entire process of homeownership needs to be addressed. As the bill says: "*the decision to purchase a home, the selection and purchase of a home, issues arising during or affecting the period of ownership of a home (including refinancing, default and foreclosure, and other financial decisions), and the sale or other disposition of a home*" all need to be considered by potential homebuyers.

Homeownership consists of all the above and is not limited to just obtaining a mortgage.

Web Site and Toll free Telephone Numbers

I commend the authors of the bill for including language to establish a toll free telephone number and a Web site, which individuals can access for homeownership information. The toll free number will allow consumers to access information at any time of day, and the web site will provide a one-stop shop for finding answers to commonly asked questions in the homebuying process.

Outreach

In addition, the language in the bill that addresses outreach to vulnerable populations is essential. This multimedia campaign will certainly make all individuals aware that it is advisable to obtain homeownership counseling from a reliable source-- before seeking a mortgage. The consumer must know the process of owning a home and the responsibility that is needed when making this major decision.

Conclusion

In closing, owning a home is one of the greatest accomplishments a person can achieve, and educating consumers is one of the greatest responsibilities we in the private sector can undertake to decrease foreclosure rates and boost homeownership throughout our nation.

Thank you.