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Some GSE Reform Measures Would Hurt Minorities

BY GARY ACOSTA

By supplying capital to the mortgage market, Fannie Mae and Freddie Mac have played a central role in creating historic levels of homeownership in the United States. However, recent scandals have raised questions about their real role and purpose.

Have the government-sponsored enterprises lived up to their mission? More important, have they provided equal access to mortgage financing for all Americans?

The answers are clear as they apply to Latinos and immigrant homebuyers: The GSEs have not done enough to increase minority homeownership.

But Congress is considering imposing reforms that would, in effect, limit access to homeownership for minority consumers. This would be a move in the wrong direction, particularly when the GSEs need to do more for the underserved.

Without question, a strong, credible regulator is needed to restore confidence in the two mortgage-market giants. Unfortunately, the current legislative proposals go far beyond ensuring the safety and soundness of the GSEs.

If enacted, these provisions would disrupt the mortgage delivery system that our lawmakers hope to safeguard, limit the capital for affordable mortgages, and cut off vital education and counseling programs that promote homeownership.

The Hispanic homeownership rate already lags behind the national average by more than 20 percentage points. For Hispanics and other minority consumers, the changes proposed would add to the formidable challenges of buying a home.

Two specific proposals could have grave consequences for minority consumers:

To limit the size of portfolios held by the GSEs. This was endorsed by Fed Chairman Alan Greenspan and Treasury Secretary John W. Snow in recent testimony before Congress.

Mandated caps on portfolio size that are too low or too restrictive do not consider emerging market trends and would unfairly limit the GSEs' ability to accommodate Latino and other immigrant consumers when their growing numbers are becoming a major factor in the mortgage market.

To bar the GSEs from any outreach to consumers before a mortgage is closed. The "bright line" provision seeks to establish a boundary between the primary and secondary markets and give the new GSE regulator the responsibility of enforcing such a distinction.

This would impose restrictions on working through lenders, local real estate professionals, mortgage brokers, municipalities, and community-based nonprofit organizations on products, educational programs, and technologies that are particularly beneficial to minority consumers.

In the larger scheme of things, these changes hardly serve the greater good. Many worthy initiatives, projects, and partnerships now supported by the two companies would go away; and minority consumers would lose out when these services are needed most.

A 2004 study issued by the Tomas Rivera Policy Institute at the University of Southern California estimated that by 2010 the number of Hispanic families owning a home would grow from 4.8 million, from 4.8 million. That figure could increase by 700,000 households if

the housing finance industry increased its outreach to Latino consumers, provided more flexible mortgage products, and offered bilingual service.

The study also indicates that language, lack of information about the homebuying process, inflexible mortgage products, and a scarcity of bilingual advisers are among the chief barriers to homeownership for Latinos.

Freddie Mac and Fannie Mae have taken important steps to break down these barriers. Each has sponsored research, funded bilingual educational and counseling programs, and developed relevant technologies that are helpful to nonprofits, lenders, and other trusted advisers.

There is still much work to do. Just ask the legions of Hispanic real estate practitioners who deal directly with these homebuyers and see firsthand the critical need for grassroots programs that teach financial literacy and homebuying basics.

We cannot ask the GSEs to expand homeownership opportunities and improve their services to minority families at the same time we impose reforms that take away many of the tools they need to do the job. Rather than resort to punitive controls, Congress should mandate meaningful new standards that require the GSEs to do more to improve access to affordable credit for underserved Americans.

Both companies must live up to their original charter and become the market leaders in minority lending. Otherwise, there is no real reason for the government to continue to support them.

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