



Center for Responsible Lending

Oral Testimony Before the United States Senate Committee on Banking, Housing, and Urban Affairs

Michael D. Calhoun, President

March 27, 2019

I am the 12th witness this week on this technical and incredibly important topic. You have learned a lot from the previous witnesses and questions, and I do not want to repeat any of that covered ground. My remarks will focus on three things: I first will set out the settled part of the landscape of housing finance reform-where are things today. Second, I'll frame the essential question- that is, how do you best harness the necessary government guarantee to further the public mission that it is intended to accomplish. And finally, I will set out a path forward that best serves that public mission while protecting taxpayers and the private market.

A quick description of CRL's background. We are the policy arm of a community-based lender that has focused on home loans for nearly 40 years. Through direct lending and partnership programs with many of the national and regional banks we have provided over \$5 billion dollars of financing for first time home buyers of modest means. I previously worked in and headed those programs.

First, on where we are in housing finance reform. As you heard yesterday, measures have thankfully already been put in place to make our housing finance system safe and protect taxpayers. Mandatory mortgage standards, prohibitions on unnecessary loan portfolios, and robust capital standards and G fees combine to raise sufficient funds to fully cover a repeat of the 2008 crisis and far more. We owe thanks to those who did this hard work.

Second, the essential question for housing reform. We need a government guarantee to preserve the 30-year fixed rate mortgage and the ability of borrowers to lock into interest rates when buying a home. However, that guarantee can be used by entities to maximize revenues by focusing on only the most lucrative markets, failing to serve rural areas, lower wealth borrowers and community banks, and the guarantee also can be used to unfairly compete with other parts of the housing market.

One approach is a multi-guarantor model. However, it comes with several tradeoffs. It is a major change from the current system and interjects substantial risks into whether the system will perform well. Also, multi-guarantors will face heavy pressure to fight for the most lucrative parts of the market; this approach doubles down on the conflict between the provision of the government guarantee and the use of it to maximize private gain. Specifically, on the issue of the impact on community banks, the provision of a cash window and a prohibition on volume discounts does not solve that problem. It is much more profitable to securitize loans by the thousands by large lenders than to buy loans by the handful from community banks at a cash window. In order for community bank mortgage business to play on a level field, loans must get the same price for both of those options, and that requires the regulator to mandate and enforce that parity. This is a reason why there is a dearth of small lender support for the multi-guarantor model. The multi-guarantor model also frustrates affordable housing. It takes away the more level pricing of the current system, at a cost of \$4-6 billion a year in assistance. It also increases the incentive for the entities to serve only the most well-off borrowers and lenders. The

last thing we need today is more headwinds for affordable housing. We need to be addressing the affordable housing crisis and correcting the decades of housing discrimination.

That leads me to my final point- a key part of a path forward. In order to make sure the government guarantee is used to further and focus on the public mission, the entities need to function as utilities, with utility oversight. That prevents misuse of the guarantee, and also delivers far lower prices for borrowers. A wide variety of organizations have endorsed utility regulation. This includes such diverse groups as the Independent Community Banks, the National Association of Realtors, a broad array of civil rights groups, and the Mortgage Bankers Association and others. Some of these groups call for one entity, some for the current two, and some for multi-guarantors. For the reasons I have discussed, we believe there is a compelling case to continue with the current two GSEs, with utility regulation and other reforms detailed in our written testimony imposed before there is any release from conservatorship.

Thank you again for the opportunity to testify. We look forward to working with the committee as it addresses this issue that so profoundly affects American families, the housing industry and our overall economy.