

Civil Rights Statement of Principles for Secondary Market Reform

Equal access to mainstream financial services and affordable rental and owner-occupied housing is a critical step toward providing all families with access to wealth-building opportunities, good jobs, schools, transportation, health care, and other factors that determine positive life outcomes. Providing this access has been, and must remain, an important government policy goal.

One of the lessons of the current financial crisis is that our nation's housing finance system has not worked well for people of color and other underserved groups. Perverse incentives in the secondary market often drove unregulated brokers to target borrowers in communities of color with unsustainable loans. This fed a securitization regime so poorly understood and regulated that it ultimately destabilized the global economy. As the secondary market helped to drive this phenomenon, it also failed to make necessary investments in rental housing that met the needs of communities and opened opportunities for people.

Unregulated and often predatory subprime lending not only failed to maintain or promote sustainable homeownership opportunities but also established a dual credit market where factors other than a borrowers' creditworthiness determined the type and terms of the mortgages that were sold. All too often, families were denied the best credit for which they qualified, and their communities were flooded with unsustainable mortgage credit. As these unsustainable loans failed, the housing finance system failed to provide these families with the home-saving options that they were due. Instead of being able to use homeownership as the path to wealth-building and financial stability that our public policy promises, families have had their wealth stripped away and are facing financial setbacks that will take a generation or more to overcome.

It is because of this unfortunate history of exclusion of underserved communities from sustainable credit and housing options that civil rights organizations are invested in the housing finance reform debate and should be counted on as important civic partners. This debate is unfolding in the context of four decades of widening income and wealth inequality that have kept many borrowers from accessing the financial tools and options that provide an economic ladder to the middle class. Federal housing policy must reverse this and incorporate bold policy solutions to address inequality and segregation in the United States. It is in this spirit that we offer the following principles for secondary mortgage market reform. The principles were drafted by a group of more than 20 organizations that serve millions of members of underbanked communities throughout the United States, including African-American, American Indian, Asian-American, Pacific Islander, Latino, and low-income populations, as well as people with disabilities and the elderly. The points below are critical in shaping the future secondary mortgage market.

- 1. Federal housing finance policy must align with and support longstanding federal housing goals to protect against discrimination.** The secondary mortgage market must promote residential integration, the elimination of housing discrimination, and the provision of safe, decent, and affordable housing for all.

2. **The federal government has a responsibility to ensure that the secondary market serves all borrowers in a fair and equitable manner and to foster the equalization of homeownership rates.** Despite clear demand from qualified families, the mortgage market does not reach all segments of borrowers and geographic areas. It is incumbent upon the federal government to use its resources to facilitate a stable, liquid housing finance system that will extend credit and capital on an equitable basis to all borrowers and in all communities, with the goal of achieving the same rates of homeownership among communities of color as among whites. While not all household heads must become homeowners, a commitment should be made to achieve similar homeownership levels across all communities. In addition, the system must be made accessible by a wide range of lending institutions for both owner-occupied and rental housing.
3. **A reformed housing finance system must eliminate the dual credit market.** Such a market has relegated people of color and other underserved groups and communities to riskier, higher cost forms of credit that strip wealth and undermine financial security. To accomplish this goal, reform of the secondary market must be coordinated with reform in the primary market for housing and other types of credit.
4. **Regulatory oversight of the housing finance system must be rigorous and comprehensive and must include effective fair lending enforcement.** Further, oversight and enforcement must extend to all secondary market entities, whether or not they avail themselves of any federal guarantee or other support.
5. **Secondary market transactions must be transparent and accountable to the public.** Detailed, granular data about the operations of all secondary market entities must be made available to the public on a timely and consistent basis. This includes data about the race, gender, national origin, and other relevant characteristics of borrowers; how a loan was serviced, purchased, and securitized; and the terms and conditions of the loans.
6. **The system must have an affirmative obligation to offer capital and credit in communities devastated by the foreclosure crisis and offer access to families who were targeted for inappropriate and unsustainable mortgages.** It must engage with community-based financial institutions and community-based organizations to design sustainable solutions that are appropriate for specific locales.
7. **The housing finance system must provide capital for sustainable rental and ownership development in all communities.** Neighborhoods require affordable and sustainable rental and homeownership opportunities to thrive. Capital, especially that which comes with a government subsidy or guarantee, should be directed to underserved areas and investments in opportunity-rich neighborhoods. This balance will provide the maximum range of housing choices for all, as there is not currently an adequate supply of affordable housing for underserved families.

- 8. The housing finance system must support product flexibility and sustainable innovation and offer access to institutions of all sizes and in all geographic areas.** To do so requires that the secondary market avoid over concentration and that secondary market institutions have the ability to retain loans in their portfolio. Local institutions are often the first responders to local needs, adapting underwriting models to fit their clientele and funding innovation through their own deposit-based portfolios. Without a secondary market outlet, the volume of these loans will always be constrained. Further, because innovation is not always immediately scalable or easily standardized, it runs the risk of being overlooked by large financial institutions or secondary market purchasers.

The following organizations contributed to and support the principles above:

Center for Responsible Lending
David L. Bazelon Center for Mental Health Law
Kirwan Institute
NAACP Legal Defense & Educational Fund, Inc.
National Community Reinvestment Coalition
National Council of La Raza
National Council of Negro Women
National Fair Housing Alliance
National Urban League
North Carolina Institute of Minority Economic Development
National Coalition for Asian Pacific American Community Development
PICO National Network
PolicyLink
Poverty and Race Research Action Council
The Leadership Conference on Civil and Human Rights
The Opportunity Agenda