

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

June 24, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: Wednesday, June 29, 2022, Full Committee Hearing entitled, “Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market”

The full Committee will hold a hearing entitled, “Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market” on Wednesday, June 29, 2022, at 12 pm E.T. on Cisco Webex. There will be one panel with the following witnesses:

- **Michael Calhoun**, President, Center for Responsible Lending
- **Sam Chandan**, Professor of Finance & Director of Stern School of Business, New York University
- **Jung Hyun Choi**, Senior Research Associate for Housing Finance Policy Center, Urban Institute
- **Lydia Pope**, President, National Association of Real Estate Brokers
- **Norbert Michel**, Vice President and Director of the Center for Monetary and Financial Alternatives, Cato Institute

Background

For decades, homeownership has been the primary driver of household wealth in the United States with homeowners holding over 40 times the median net worth of renters in 2019.¹ Homeownership not only financially outperforms stocks and bonds in terms of an investment vehicle, but it has a practical utility of housing families, and its returns make it more beneficial than renting for most.² The economic security obtained through owning a home can serve as a cushion in a time of crisis, like during the COVID pandemic, as home equity reached a record \$27.8 trillion in 2022.³

Mortgage rates have increased significantly this year due to Federal Reserve interest rate hikes.⁴ Earlier in the pandemic, however, interest rates were historically low.⁵ Many homebuyers and owners were able to take advantage of low rates to refinance into lower monthly payments or purchase a new home, while people of color were disproportionately denied refinance applications or remained locked out of homeownership due to a lack of downpayment or other barriers.⁶

Homebuying During the Pandemic

When the pandemic hit the U.S. in March 2020, the country and the economy were brought to a halt. As COVID infection and death rates began to skyrocket, families across the country were forced to quarantine and businesses shut their doors, leading to a significant loss of work, pay, and financial stability

¹ Federal Reserve, *2019 Survey of Consumer Finances* (Sep. 2020).

² Urban Institute, *Homeownership is still financially better than renting* (Feb. 21, 2018).

³ The Hill, *Home equity in US hits record \$27.8 trillion* (Jun. 15, 2022).

⁴ NPR, *The Fed raises interest rates by the most in over 20 years to fight inflation* (May 4, 2022); See also NY Times, *What the Fed's rate increase means for mortgages*. (Jun. 15, 2022).

⁵ St. Louis Federal Reserve, *30-Year Fixed Rate Mortgage Average in the United States* (Jun. 16, 2022).

⁶ Realtor.com, *Can Homebuyers With FHA Loans Compete in Today's Hot Housing Market?* (Oct. 14, 2021).

for many, especially among lower income households and households of color.⁷ In order to jumpstart an unstable economy at the outset of the pandemic, the Federal Reserve lowered already historically low interest rates, and while many families struggled to make ends meet, others were able to take advantage of the low-interest rate environment. Due in part to the aggregate trends of increased consumer purchasing power driven by historically low mortgage interest rates, a buildup in demand, a more mobile workforce, and a worsening housing supply shortage, home prices began to skyrocket during the pandemic and the U.S. housing market quickly turned red hot.⁸

Mortgage originations reached record highs in 2021 at \$4.8 trillion, surpassing the previous record of \$4.1 trillion in 2020 and more than doubling 2019 pre-pandemic levels (\$2.4 trillion).⁹ Leading up to the pandemic, home prices were rising at an average of 5.9% annually between 2014 and 2019, with a 64.1% national homeownership rate in 2019.¹⁰ In stark contrast, home prices increased by 10.8% between the fourth quarters (Q4) of 2019 and 2020 and increased another 17.5% between Q4 2021 and 2022.¹¹ The pace of home sales also accelerated; in 2020, homes tended to stay on the market for about 17 days, decreasing by nearly a month between December 2019, when homes were on the market for approximately 42 days, and December 2020.¹² As of mid-May 2021, half of all homes in the U.S. sold for above the listing price and the number of homes selling for more than \$100,000 over the listing price increased by more than 260% from 2021 to 2022.¹³ Many borrowers were driven into intense bidding wars, and in many cases, homebuyers either fully or partially waived contingencies.¹⁴

Despite record originations, analyses of 2020 Home Mortgage Disclosure Act data show that people of color did not stand to benefit equitably from these origination trends.¹⁵ The National Community Reinvestment Coalition (NCRC) found that while Latinx and Asian American borrowers saw a slight uptick in home purchase lending of 1.5% and 1%, respectively, Black borrowers were the only subgroup to experience a decline in purchase lending.¹⁶

Federal Housing Administration (FHA) Borrowers

FHA borrowers have been reported to be at a competitive disadvantage in the hot housing market during the pandemic due in part to home sellers being reluctant to deal with the additional requirements and potential delays in mortgage processing associated with FHA mortgages.¹⁷ This is significant because FHA borrowers are overwhelmingly first-time homebuyers, disproportionately people of color, and who, on average, have less financial flexibility and have lower downpayments—typically 3.5% of the purchase

⁷ Federal Reserve Bank of Minneapolis, [Occupational segregation left workers of color especially vulnerable to COVID-19 job losses](#) (Feb. 7, 2022); See also Prosperity Now, [The Unequal Impact of the COVID-19 Crisis on Households' Financial Stability](#) (Apr. 2020).

⁸ Federal Reserve Bank of Dallas, [Why House Prices Surged as the COVID-19 Pandemic Took Hold](#) (Dec. 28, 2021).

⁹ Urban Institute, [Housing Finance At A Glance: A Monthly Chartbook](#) (Feb. 2020); See also Urban Institute, [Housing Finance At A Glance: A Monthly Chartbook](#) (Jan. 2022).

¹⁰ FHFA, [House Price Index](#) (Accessed June 2022); See also U.S. Census Bureau, [Homeownership in the United States: 2005 to 2019](#) (Mar. 2021).

¹¹ FHFA, [House Price Index](#) (Accessed June 2022).

¹² Zillow, [How a Faster Market Enabled More Home Sales in 2020, Despite Falling Inventory](#) (Jan.29, 2021).

¹³ Redfin, [Housing Market Update: Half of Homes Are Now Selling Above List Price](#) (May 21, 2021); See also Redfin, [Nearly 6,000 U.S. Homes Have Sold For \\$100,000+ Above Asking Price This Year](#) (Mar. 8, 2022).

¹⁴ Washington Post, [Competitive home buyers waive contingencies to score homes in tight market](#) (Jun. 3, 2021); “A real estate contract contingency refers to something that must be completed before the contract can move forward, such as a home inspection or an appraisal.”

¹⁵ NCRC, [NCRC 2020 Home Mortgage Report: Examining Shifts During COVID](#) (Jan. 18, 2022).

¹⁶ *Id.*

¹⁷ *Supra* note 6; See also HousingWire, [Hispanic homeownership held back by FHA borrower discrimination, survey says](#) (Mar. 16, 2021); See also Philadelphia Inquirer, [Loan preference is shutting some FHA-backed buyers out of Philly area's hot housing market](#) (May 24, 2021).

price as required by FHA.¹⁸ The share of FHA-insured mortgages for home purchases fell from 23% in March of 2020 to 18% in June of 2020, and in 2021, continued on a downward trend toward the lowest level since at least 2012.¹⁹ With limited housing supply and high buyer demand, a highly competitive market has advantaged homebuyers who can offer to pay above asking price, offer a higher downpayment with conventional financing, and waive contingencies. However, misconceptions about FHA lending have also served to disadvantage many of those borrowers.²⁰

While paying for a home above asking price and waiving contingencies is often possible with conventional financing through jumbo mortgages and less restrictive lending requirements, FHA borrowers must meet various underwriting, appraisal, and inspection requirements. The National Association of Hispanic Real Estate Professionals (NAHREP) reported in 2021 that many Latinx homebuyers—who are 81% more likely than their White counterparts to be denied conventional lending—were unable to access homeownership when relying on FHA-insured financing.²¹

Cash Buyers

Many individual homebuyers faced steep competition for homes during the pandemic as they were outbid by a greater share of cash buyers, including institutional investors, and instant buyers (iBuyers), which are real estate companies that use technology to quickly purchase, upgrade, and resell homes to individual homebuyers.²² According to Redfin, cash buyers were four times more likely to win a bidding war against buyers with mortgage financing in 2021.²³ Based on a Financial Services Committee survey, the largest five companies that own and operate single-family rental homes, nearly all of which also purchase homes with cash to rent out to families, collectively grew their portfolios by more than 76,000 homes, representing a net property growth of 27.2% between March 31, 2018 and September 30, 2021.²⁴ Individual and investor cash buyers exacerbated rising home prices, which has contributed significantly to rising inflation, and also pushed many FHA borrowers and buyers relying on mortgage financing through the Veterans Administration (VA) out of the running for homes, especially starter homes.²⁵

Inequities in Refinancing

Historically low interest rates during the pandemic also motivated a tremendous number of homeowners to seek to refinance their mortgages. Nearing a cumulative \$5 trillion, mortgage refinances reached \$2.8 trillion in 2021 and \$2.6 trillion in 2020, as compared to less than half of that in 2019.²⁶ However, in 2020, Black and Latinx homeowners had the lowest approval rates for refinancing: 70% and 78%, respectively, as compared to 87% for White homeowners.²⁷ These disparities were even more stark

¹⁸ HUD, [Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund](#) (Nov. 15, 2021).

¹⁹ Bloomberg, [First-Time Homebuyers Are Getting Crushed in a Cutthroat U.S. Market](#) (Sep. 29, 2021).

²⁰ NAHREP, [Dispelling Myths About FHA](#) (Mar. 24, 2022); See also *supra* note 18.

²¹ NAHREP, [2021 State of Hispanic Homeownership Report](#) (2021).

²² HousingWire, [Cash buyers are scooping up homes like mad](#) (Jul. 16, 2021); See also Mike DelPrete, [The 2022 iBuyer Report](#) (Apr. 2022).

²³ Redfin, [All-Cash Homebuyers Are Four Times More Likely to Win a Bidding War](#) (Mar. 14, 2022).

²⁴ Financial Services Committee, [Where Have All the Houses Gone? Private Equity, Single Family Rentals, and America's Neighborhoods](#) (Jun. 28, 2022); See also Zillow, [Buyers: Results from the Zillow Consumer Housing Trends Report 2021](#) (Sep. 1, 2021).

²⁵ Realtor.com, [Can Homebuyers With FHA Loans Compete in Today's Hot Housing Market?](#) (Oct. 14, 2021); See also *supra* notes 6 and 19; See also Bureau of Economic Analysis, [Table 2.4.5U, "Personal Consumption Expenditures by Type of Product"](#) (Accessed Jun. 24, 2022).

²⁶ Freddie Mac, [Trends in Mortgage Refinancing Activity](#) (Apr. 25, 2022); See also Freddie Mac, [Refinance Trends in 2020](#) (Mar. 5, 2021).

²⁷ Bloomberg, [Wells Fargo Rejected Half Its Black Applicants in Mortgage Refinancing Boom](#) (Mar. 11, 2022).

among certain lenders: Wells Fargo approved just 47% of Black homeowners' refinancing applications and 53% of Latinx homeowner applications, as compared to 72% for White homeowners.²⁸ Overall, U.S. homeowners who refinanced between January and October 2020 saved a collective \$5.3 billion in reduced mortgage payments, \$3.8 billion of which went to White homeowners while just \$198 million (or 3.7% of total savings) went to Black homeowners.²⁹ Marking a drastically unequal loss of wealth not seen since the post-2008 foreclosure crisis that was estimated to have drained communities of color of \$1 trillion in home equity, the racial and ethnic gaps in home purchase and refinance lending stand to exacerbate the racial wealth and homeownership gaps.³⁰

As home values soared, even the wealthiest Black communities were unable to access their own increased home equity due to bias and discrimination in home valuations.³¹ Ongoing appraisal bias and discrimination has led average homes in Black communities to be valued at 23% less than homes owned by White families or located in White neighborhoods, despite similar neighborhood and property characteristics and amenities.³² This devaluation has cost Black homeowners a cumulative loss of \$156 billion in home equity.³³ To combat appraisal gaps, the Biden Administration launched the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE) in June 2021, reflecting a proposal advanced by the Financial Services Committee.³⁴

Homeowners Struggling During the Pandemic

In March 2020, Congress passed the CARES Act to respond to the coronavirus pandemic, which included relief measures directed to homeowners with federally-backed mortgages. Relief included a federal foreclosure moratorium and up to 12 months of forbearance assistance.³⁵ Later, in March 2021, Congress passed the American Rescue Plan Act, which included \$10 billion for the Homeowner Assistance Fund to help struggling homeowners avoid unnecessary foreclosures.³⁶

In accordance with the CARES Act, homeowners with federally-backed mortgages who were behind on their mortgage payments due to the pandemic could request up to twelve months of forbearance.³⁷ Despite this critical relief, Financial Services Committee investigations found that many servicers of federally-backed mortgages concealed and misrepresented these options from homeowners, making it hard to find information, offering only three months of forbearance, and asking homeowners to repay lump sums at the end of the forbearance period.³⁸ Following the CARES Act statutory sunset of the federal foreclosure moratorium in 2020, the FHA, the Federal Housing Finance Agency (FHFA), the Department of Agriculture (USDA), and the VA administratively extended the moratorium several times until the final extension ended on July 31, 2021, with an eviction moratorium extended through September

²⁸ *Id.*

²⁹ Federal Reserve Bank of Boston, [Racial Differences in Mortgage Refinancing, Distress, and Housing Wealth Accumulation during COVID-19](#) (Jun. 22, 2021).

³⁰ *Id.*; See also Center for Responsible Lending, [Collateral Damage: The Spillover Cost of Foreclosures](#) (Oct. 24, 2012).

³¹ The Washington Post, [Home values soared during the pandemic, except for these Black families](#) (Mar. 23, 2022).

³² *Id.*

³³ *Id.*

³⁴ Financial Services Committee, [What's Your Home Worth? A Review of the Appraisal Industry](#) (Jun. 20, 2019); See also Financial Services Committee, [Devalued, Denied, and Disrespected: How Home Appraisal Bias and Discrimination Are Hurting Homeowners and Communities of Color](#) (Mar. 29, 2022).

³⁵ CARES Act, [Pub. L. No. 116-136](#) (2020), e.g. § 4022(b)(1).

³⁶ American Rescue Plan Act, [Pub. L. No. 117-2](#) (2021).

³⁷ Congressional Research Service, [COVID-19: Consumer Loan Forbearance and Other Relief Options](#) (Updated Oct. 23, 2020).

³⁸ Financial Services Committee, [Protecting Homeowners During the Pandemic: Oversight of Mortgage Servicers' Implementation of the CARES Act](#) (Jul. 16, 2020).

2021 for foreclosed borrowers living in real estate, or lender, owned properties.³⁹ In June 2021, the CFPB finalized a mortgage servicing rule to continue to protect homeowners from unnecessary foreclosures while they were still struggling during the pandemic and in the absence of the foreclosure moratorium.⁴⁰ As a result of the protections provided by Congress and various federal agencies “foreclosure filings in 2021 were at a historic low with 29% fewer filings than in 2020 and 95% below the 2010 peak experienced in the previous economic downturn during the Great Recession.”⁴¹

Foreclosure protections and forbearance relief, however, did not eliminate the obligation of homeowners to pay mortgage and other housing cost arrears, especially for homeowners with private mortgages who did not have access to federally required foreclosure or forbearance relief. To address the concern that some homeowners would not be able to afford their mortgage payments and could be foreclosed upon, Congress included \$10 billion for a new Homeowner Assistance Fund (HAF) in the American Rescue Plan Act (ARPA).⁴² ARPA also included \$100 million in funding for housing counseling and \$20 million in fair housing enforcement funds, which Congress provided to offset increased discrimination and aid in housing stability for homeowners and renters.

Current Housing Outlook

Housing costs were a key component of rising inflation rates through 2021 and into 2022. This is because shelter comprises a third of the Consumer Price Index (CPI), which means that even small increases in rent and home prices can have a noticeable effect on overall inflation.⁴³ After the Fed’s June announcement, average 30-year fixed-rate mortgage rates increased to nearly 6% in one week from 3% a year ago.⁴⁴ Even with rate hikes and a decrease in mortgage application volume, experts still predict that home prices will continue to rise in 2022, albeit at a slower pace.⁴⁵ Rising mortgage rates exacerbate the already high cost of purchasing a home, putting homeownership further out of reach for families unable to take advantage of the pandemic homeownership boom or pushing them into potentially risky lending products.⁴⁶

³⁹ FHA, [Federal Housing Administration Extends Single Family Eviction Moratorium](#) (Jul. 30, 2021); See also FHFA, [FHFA Extends COVID-19 Foreclosure and REO Eviction Moratoriums](#) (Jun. 30, 2021); See also U.S. Dept. on Veterans Affairs, [Information for VA home loan borrowers during COVID-19](#) (Accessed Jun. 2022); See also USDA, [USDA Extends Foreclosure and Eviction Moratorium for Single Family Housing Direct and Guaranteed Loan Borrowers](#) (Jun. 25, 2021).

⁴⁰ Consumer Financial Protection Bureau, [CFPB Issues Rules to Facilitate Smooth Transition as Federal Foreclosure Protections Expire](#) (Jun. 28, 2021).

⁴¹ The White House, FACT SHEET: [The Biden-Harris Administration Advances Equity and Opportunity for Black Americans and Communities Across the Country](#) (Jun. 19, 2022).

⁴² *Supra* note 36.

⁴³ Bernstein, J., Tedeschi, E., and Robinson, S. “*Housing Prices and Inflation*” The White House (Sept. 9, 2021).

⁴⁴ Forbes, [What the Fed Interest Rate Hike Means for Home Buyers](#) (Jun. 16, 2022).

⁴⁵ Realtor.com, [National Housing Forecast Update 2022](#) (2022).

⁴⁶ *E.g.* in May 2022, the share of adjustable rate mortgage (ARM) applications more than doubled from the year before, representing nearly 10% of mortgage applications. ARMs can be risky as they typically have a lower interest rate at the beginning of the loan term compared to 30-year fixed rate mortgages but later have variable interest rates that change over time, potentially increasing their housing costs; NY Times, [Why Adjustable-Rate Mortgages Are Still Risky](#) (Jun. 3, 2022).

Appendix: Legislation

- **H.R. 4495, the “Downpayment Toward Equity Act,” (Waters)** would authorize \$100 billion for a new HUD grant program to provide financial assistance to first-time, first-generation homebuyers to put towards a downpayment and other upfront costs to purchase a home. This funding would help address multigenerational inequities in access to homeownership and help close the racial wealth and homeownership gaps in the United States.
- **Title IV of H.R. 5376, the “Build Back Better Act,” (Yarmuth)** would, among other things, provide over \$150 billion in fair and affordable housing investments to build, rehabilitate, and retrofit over one million homes, reduce the cost of housing, address homelessness, and increase access to homeownership.
- **H.R. ____, the “Preventing Unfair Foreclosures Act of 2022,”** would provide additional protections for homeowners with the goal of ensuring they can remain in their homes whenever possible, including by codifying CFPB’s Regulation X rule requiring 120 days of delinquency before the start of a foreclosure, improving written notices during the mortgage servicing process, improving data collection and reporting, establishing the Office of the Homeowner Advocate at the CFPB, improving language access, and otherwise improving the mortgage servicing process for homeowners.