



The National Urban League's Homebuyer's Bill of Rights

1. The Right to Save for Homeownership Tax-Free

Recommendation – Create Individual Development Accounts for Homeownership administered by employers as matched savings plans for the future purchase of a home.

- ❖ Similar to 529 plans, the IDA for Homeownership would be a tax-advantaged investment vehicle designed to encourage saving for the future home purchase expenses of a designated beneficiary.

2. The Right to High-Quality Homeownership Education

Recommendation – Redesign of an industry-wide system that integrates pre- and post-purchase homeownership education and counseling; and expansion of HUD's budget for housing counseling from \$42 million to at least \$80 million in FY 08.

- ❖ HUD funding does not cover all costs of homeownership education and counseling and limits non-profits' ability to collect fees for their services. The private sector contributes only a small share of funding to homeownership education and counseling efforts, and even if the industry's (banks) support matched HUD's, non-profit education and counseling programs would be grossly under-funded if services were expanded to include a larger share of first-time buyers.

3. The Right to Truth and Transparency in Credit Reporting

Recommendation – Demystify the credit reporting system through creation of a public education and awareness campaign about credit scoring and its impact on wealth creation, and establishment of a penalty structure for credit reporting bureaus that maintain inaccurate client files.

- ❖ In the United States, once every 12 months, each person is entitled to one free credit report from each of the three nationwide consumer credit reporting companies: Equifax, Experian and TransUnion. Under fear of penalty, credit reporting agencies should be required to collect, maintain, and report data that is accurate, relevant, and up-to-date.
- ❖ The Government could offer a free publication called Understanding Your Credit Report and Credit Score. This publication would provide sample credit report and credit score documents with explanations of the notations and codes that are used. It would also contain general information on how to build or improve credit history, and how to check for signs that identity theft has occurred. The publication could be made available online.



4. The Right to Affordable Housing for Working Families

Recommendation – Cities and other municipalities should require that at least 30% of all new and rehabilitated market-rate construction be made available for purchase and rental by households earning up to 80% of the locality’s area median income (AMI).

- ❖ A blend of housing types would include single-family homes, townhouses, condominiums, starter homes, and apartments that are affordable to an area’s workers such as: teachers, firefighters, municipal employees and the other workers who provide essential services in communities – policing, healthcare, manufacturing, and retail workers.
- ❖ A program that once held great promise in this regard – HOPE VI – is broken and should be re-thought and re-built. With a vague and changing mandate, HOPE VI strayed from its initial intent of rehabilitating 6% of the nation's public housing stock; instead, it has funded the demolition of housing and displaced many thousands of poor families to meet the demands of private developers. A “one-for-one” unit replacement strategy must be employed.
- ❖ New York City provides an innovative example of one such local approach to the issue. Under their current program, known as “421-a”, developers of new and rehabilitated buildings in most neighborhoods are eligible for a 10- to 15-year exemption from the increase in real estate taxes resulting from the work. Developers do not receive a tax break unless 30 percent of all the units are affordable to families earning no more than 50 percent of the median income for the area, or about \$35,000 for a family of four.

5. The Right to Fairness in Lending

Recommendation – Lenders must gauge ability to repay and offer borrowers the most affordable and well-suited products for which they qualify. Lenders should demonstrate commitment to the building of personal assets. All participants in the making, collecting, holding and buying of debt have a duty to deal fairly with the borrower. Our society should pay particular attention to communities that have traditionally been underserved or at a disadvantage when obtaining credit, including communities of color and the elderly, to ensure they have full access to the most appropriate loan products that can help them build and maintain wealth. Those who are shown to have taken advantage of vulnerable populations by offering inappropriate products or charging unjustified rates fees should be held fully accountable for their actions.

- ❖ NUL believes there must be strict limits to prepayment penalties. Prepayment penalties must not apply after the expiration of teaser rates in ARM prime and subprime loans. NUL believes at least a 90 day time period is needed so that borrowers have sufficient time to shop for and receive another loan if necessary. For fixed-rate subprime loans, prepayment penalties must not extend beyond two years. Responsible lenders have voluntarily applied limits



to prepayment penalties similar to NUL's recommendations. Limiting prepayment penalties prevents borrowers from being trapped in abusive and predatory loans.

- ❖ NUL asserts that steering borrowers qualified for prime loans into subprime loans is an unfair and deceptive practice. Numerous studies have documented that middle- and upper-income minorities are significantly more likely than middle- and upper-income whites to receive subprime loans. Consequently, borrowers lose substantial amounts of wealth when they are steered into high-cost loans. NUL further urges prohibition of incentive compensation, such as yield spread premiums, that is based on the terms of a loan.
- ❖ NUL believes that escrows must be required for all loans, prime and subprime, fixed and adjustable rate. Currently, since escrows are not required, deceitful lending flourishes when unscrupulous brokers and lenders blind borrowers to the true cost of their loans by not discussing payments for insurance and taxes.
- ❖ NUL agrees with the Comptroller of the Currency that stated income or low doc loans are prone to abuse when predatory lenders and brokers inflate borrowers' incomes to qualify them for unsustainable loans. Stated income or low doc loans must be prohibited on subprime and/or ARM loans. Clear protections and procedures must be established for reduced documentation loans including the requirement that pay stubs, tax forms, and other acceptable verification of income must be received by the lender.
- ❖ NUL maintains that lenders must be held liable for deceptive and fraudulent practices committed by brokers with whom they do business. Since up to 70% of the loans originated start with brokers, lenders must be motivated to strictly monitor broker behavior. Likewise, lenders and brokers must face serious financial penalties if they intimidate or pressure appraisers to meet certain home values, as fraudulent appraisals have contributed significantly to the rise of delinquencies and defaults. NUL further believes that individual mortgage brokers and loan officers must be licensed and registered, and required to act "in the best interest" of the consumer under guidelines comparable to those that financial advisors are subject to.
- ❖ The National Urban League supports the passage of legislation that works to better protect the consumer such as the Mortgage Reform and Anti-Predatory Lending Act of 2007 (H.R. 3915), recently passed by the U.S. House of Representatives.



6. The Right to Fair Treatment in Case of Default

Recommendation – Across the country, people have lost jobs, become temporarily disabled, incurred unexpected medical expenses or have had to make a choice between paying the mortgage or repairing the car that gets them to the job that pays that mortgage. Laws regarding mortgage default and foreclosure differ from state to state and mortgage lenders and servicing companies vary in the way they approach delinquent borrowers. NUL is generally pleased that many lenders, as well as the big mortgage gatekeepers such as Freddie Mac, FHA and the VA, have amended their approach to managing delinquencies, having finally realized that it is more cost effective to help a borrower to stay in his/her home than to pursue foreclosure and then confront the need to deal with owning, managing, and selling the resulting real estate. Consequently, there are myriad scenarios that can play out as a mortgage delinquency progresses; however, in the case of default NUL believes that three key provisions must be afforded to homebuyers:

- ❖ Opportunity for restructuring of a loan if the loan is determined to be onerous including the possibility of conversion to a fixed rate loan.
- ❖ Fair and unbiased counseling.
- ❖ Access to the holder of the loan for development of reasonable workout plans where the objective is preservation to the greatest extent possible and foreclosure is a least resort after all other measures have been exhausted.

7. The Right to Aggressive Enforcement of Fair Housing Laws

Recommendation – Create a HUD Task Force to vigorously investigate and prosecute violations of fair housing laws, and authorize congressional oversight hearings to ensure accountability.

- ❖ In a multiyear study using homebuyer “tests” funded by HUD and completed in 2005, the National Fair Housing Alliance found that potential homebuyers were steered to white or minority neighborhoods 87% of the time.
- ❖ In collaboration with non-profit organizations, the Task Force would investigate and process mortgage lending complaints, including such actions as inappropriate steering to sub-prime loans, stricter qualification standards for minority borrowers and higher rates and/or conditions for minority homebuyers.

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