November 21, 2022

Daniel Tingley, Counsel CFPB
Consumer Financial Protection Bureau
1700 G Street NW
Washington, D.C. 20552
Via Email: Mortgage_Refinances_And_Forbearances@cfpb.gov

RE: Comment Intake Mortgage Refinances and Forbearances RFI. Docket No. CFPB-2022-0059

Dear Mr. Tingley,
Please find below the comments of the Partners for Rural Transformation in response to the Request for Information (RFI) on Mortgage Refinances and Forbearances, Docket No. CFPB-2022-0059.

Guided by a vision of a nation where persistent poverty no longer exists, six regional Community Development Financial Institutions (CDFIs) located in and serving regions with a high prevalence of rural persistent poverty came together. The CDFIs—Come Dream | Come Build (cdcb) of Brownsville, Communities Unlimited, Fahe, First Nations Oweesta Corporation, HOPE Credit Union and Enterprise Corporation, and Rural Community Assistance Corporation— formed a coalition, currently called the Partners for Rural Transformation (PRT). With a shared ethos of investing in both people and places and informed by the voices of local people, we seek to unify around opportunities in diverse communities at a time of great division in our nation. Perhaps nowhere else in the United States is the structural exclusion by race and place more self–evident than in communities of persistent poverty. Of the 395 persistent poverty counties, eight out of ten are rural. The majority (60%) of people living in persistent poverty counties are people of color. In fact, 4 out of 10 (42%) persistent poverty counties are majority people of color.

A closer look at persistent poverty America reveals how structural exclusion by place and race continues to paint a picture that is steadfastly rural and marred by racial, capital and data inequity. Rural America faces systematic, avoidable, and unjust economic, health, and racial disparities. Legacies of forced geographic and cultural displacement, enslavement, financial discrimination, residential segregation, and transitioning economies have left an indelible mark. PRT Partners are dedicated to providing critical financial services to areas that otherwise have none in order to reach communities where the racial wealth gap is at its widest.

The racial wealth gap is deep, and the economic and social benefits of closing it are vast. The financial system, particularly banks' lending practices, has been a driving factor in this gap, and must play a significant role in closing it. Ultimately, closing the racial wealth gap has the potential to increase the national Gross Domestic Product (GDP) between $1 and $1.5 trillion by 2028.[i] Closing the gap in access to capital for people and communities of color is a critical pathway to closing the racial wealth gap. Lenders and communities alike will benefit from the resulting economic activity from a fairer, more robust marketplace.

The effects of the racial wealth gap can be seen nation-wide, specifically in the clusters of persistent poverty counties, where all of PRT's Partners live in and serve. For example, in 2018, Black households only earned 61 cents per every dollar a white household made.[ii] There is no shortage of statistics showing Black and Hispanic families staggering below White families when it comes to wealth, housing, and many more areas that pertain to quality of life. In the areas our partners serve, the gap only widens and deepens with decades of disinvestment, resource extraction and marginalization in research. The Appalachian region has consistently held increased rates of poverty, low work wages, employment rates and more.[iii] Data is not collected on the wealth in Native communities by the U.S. government, but indicators show that they fare about the same if not worse off than Black families in wealth. In Mississippi the net worth of Black households is $15,900 – in contrast to over $100,000 for white households.[iv]

Homeownership is critical for wealth generation. Each additional year of homeownership increases a household's total net worth an average of $13,700.[v] The median wealth of homeowners ($254,900) is more than 40 times greater than that of renters ($6,270). The median wealth gap between homeowners and renters is even starker among households of color. The median wealth of Black homeowners ($113,130) is 60 times greater than that of Black renters ($1,830).[vi] Homeownership is a proven wealth acquisition instrument with research showing that even after the Great Recession, the financial returns of homeownership outperformed stocks and bonds.[vii]

Mortgage lending is a key component in combatting and closing the racial wealth gap in the nation. PRT Partners work with the servicer and borrowers, particularly those encountering financial struggles, keeping loss mitigation functions in house. CDFI's like cdcb and Fahe provide homebuyer education and counseling to help people who will not qualify for a mortgage through traditional mortgage options, to become homebuyer ready. With the Partners providing financial options that meet people where they are, communities and families are able to meet their full potential; starting with achieving homeownership.

PRT Partners fill these gaps and meet these challenges through mortgage loan products and practices designed to meet the needs of our borrowers and communities. Borrowers in rural areas are much less likely to have the credit scores typically required from banks to qualify for affordable mortgages than their counterparts in urban areas.[viii] HOPE addresses challenges in homeownership in the Deep South with their Affordable Housing Program (AHP) that utilizes manual underwriting and consideration of nontraditional indicators of credit repayment history. cdcb's MiCASiTA program model involves manufactured housing that is affordable but still empowering, as it allows families to design their own home and add on to their home as their family grows ("Grow Home" concept). Fahe offers their own home mortgage loan product, 8020, where a borrower has two loan payments (one loan 80% of total loan value, the other the remaining 20% loan value) but does not have to pay a costly monthly free for mortgage insurance, saving hundreds or thousands over the course of repayment.

With the racial wealth gap being so wide, it can be hard to know where to start. PRT partners are identifying and uplifting what works in persistent poverty communities and starting from there. With these innovative products, PRT is achieving homeownership in communities that, historically, have faced exclusion by race and place which have created generations of poverty. It is important to note that almost all partners who offer mortgage lending also offer assistance or solutions to borrower's with subprime credit to make sure they will become eligible for the loan, reaching even the lowest credit score borrowers.

The Homeownership Gap

While homeownership a key strategy to closing the racial wealth gap, the scale of the wealth gap also contributed to current homeownership gaps. Due to historic patterns of discrimination and exclusion in housing opportunities the racial homeownership gap remains acute. Over three-quarters of white households are homeowners while less than half (49%) of Black households are homeowners. This disparity persists at the national level and for each state within the Deep South. This gap has widened between 2009 and 2019, with Mississippi and Tennessee experiencing a seven percentage point increase during this time.[ix] Mississippi's Black homeownership rate has steadily fallen every year in the decade since to its lowest point in 14 years.[x] Eliminating racial disparities in rates of homeownership is a critical strategy for narrowing the racial wealth gap. In fact, if policy changes resulted in equalizing homeownership rates between Black and white households in the Southeast, the wealth gap would shrink by 38 percentage points.[xi]

The homeownership gap is complex and there are several points throughout the life-span of a home loan where systemic inequities should be addressed. Some of these disparities show up during the initial home purchase process, with lack of equitable access to credit. Other structural barriers, can make it more difficult for a homeowner to keep their home and build the type of equity that grows generational wealth. This RFI mainly concerns the latter aspects of homeownership including mortgage refinancing to lower payments and forbearance for homeowners during disasters and financial hardships. However, understanding some of the initial barriers to homeownership is still necessary to get a full picture of the market and the interventions that would be most effective.

One major contributor to the gap in homeownership includes uneven access to mortgage loans. Loan denial rates illustrate the failure of financial institutions to ensure fair lending. Recent Home Mortgage Disclosure Act (HMDA) Data found that 16.1% of all mortgage applications were denied, out of which, Black borrowers had the highest denial rate of over one fourth (27.1%), while White borrowers had the lowest denial rate of 13.6%. Asian and Hispanic borrowers fell in between these rates. A closer look at this data showed that the trend of White borrowers having the lowest rates in every type of loan, including home purchases, home improvements, refinancing, and cash-out refinancing, while Black borrowers consistently had the highest denial rates. Closing gaps in mortgage lending is critical to closing homeownership gaps.[xii]

Some policy options to address the gap in access to mortgage loans include providing more financial support (i.e. through GSE loan purchases) for mortgages with manual underwriting that include the assets of underserved communities, more rigorous fair lending and fair housing regulation, including an examination of mortgage lending by race in banks Community Reinvestment Act evaluations, and providing more financial support to Community Development Finance Institutions with a strong track record of mortgage lending to borrowers of color.

Mortgage Refinancing

After a home loan is closed, as this RFI contemplates, there are several further opportunities to address structural barriers to long-term homeownership. A recent study of the Urban Institute found that collectively borrowers leave tens of billions of dollars "on the table" by not refinancing after interest rate reductions, and that borrowers ineligible to refinance under current practice are disproportionately low-income borrowers of color[xiii]. Addressing these disparities would lower the probability of default of foreclosure by lowering monthly payments.

While some of these policy changes would only apply directly to government back loans, which exclude most of PRT Partner's mortgage lending, rule changes for government backed loans impact the mortgage market significantly and influence the actions of private lenders as well as those directly affected. For instance, during the Covid-19 response, while some Partner's portfolio loans were not subject to the forbearance provisions required in the CARES Act, like many other private lenders, PRT partners have made similar forbearance programs available to all of their borrowers.

The Partners have significant experience with home lending to Black borrowers and to borrowers with small loan amount. HOPE, a PRT partner located in the Deep South, is a prime example. Over the last five years, of the 777 home mortgage loans originated by HOPE, 115 (15%) were for a loan refinance. Of those 115 refinances, 77% were for Black borrowers and 57% were for loan amounts of less than $100,000[xiv].

Some of the things PRT Partners do to keep the fees down for refinancing small loan amounts is by using the original home purchase appraisal when appropriate or by directly subsidizing a portion of the closing costs. Greater financial support for covering some or all of a borrower's refinance closing costs would allow PRT partners to implement this on a greater scale. Given our Partner's extensive history and understanding of this industry, PRT suggests the following points be considered to unlock the full potential of homeowners in persistent poverty areas:

- More proactive outreach should be done for borrowers who would benefit from a refinance. One PRT partner staff member said, "Lenders aggressively contact borrowers who miss a payment, but do not reach out when something would benefit the borrower." More advertising is needed for refinancing, as overwhelming amounts of advertising in the industry are focused on purchases.

- PRT supports the recommendation of the Urban Institute that servicers be required to contact borrowers about the opportunity to refinance their loan in the case of a rate reduction that would lower a borrower's payment by a certain amount (i.e. a 10% reduction) and, as state by Urban, "with thresholds ensuring the borrower unambiguously benefits from a refinance."[xv]

- PRT is concerned about wide-scale streamlining of the refinance process without strengthening consumer protections that would ensure the refinance puts the borrower in a better position for repayment and building wealth.

- PRT is concerned about a one-way ARM for a few reasons, including the difficulty for lenders, especially small, mission-based mortgage lenders to plan for fluctuations in the income that support their work.

Forbearance

Prior to COVID-19, persistently poor, rural and Native communities were already dealing with the pre-existing crises of racial and economic inequality. The triple threat of the health, economic and social justice crises is the convergence of centuries of policies and practices that have extracted, discriminated and under invested persistently poor areas. As the nation seeks to recover from COVID-19, PRT Partner service areas, most of which are communities of color, are now even more precariously situated on the brink of economic and social devastation. Policy decisions made today have the opportunity to break, rather than repeat and worsen this cycle of inequity.

Prior to the pandemic, the Deep South was home to some of the highest rates of liquid asset poverty in the country, meaning the households did not have the resources to manage an unexpected income loss. The percentage of Deep South families without the cushion to weather a financial emergency is greater than the national average, and the racial disparities are striking. Over 60% of Black and Latino families are liquid asset poor compared to 40% of white families.[xvi] The most economically fragile households prior to the economic shock of COVID-19 were the ones most impacted by it. In the late summer of 2020, in each of HOPE's Deep South states and other Partner's service areas in the Deep South, over 50% of Black households had experienced a loss of employment income.[xvii] For Latino households, 70% in Arkansas and nearly 90% in Mississippi had experienced such a loss since the start of the pandemic.[xviii]

The unemployment rates did not abate quickly, particularly for Black and Latino workers in the Deep South. As of January 2021, more than 4.1 million people had filed for unemployment since the start of the pandemic.[xix] By comparison, throughout the duration of the Great Recession, the Deep South lost half a million jobs.[xx] The Great Recession provides important lessons about the trajectory of recovery for this crisis. Several Delta states in Partner's regions – Arkansas, Mississippi, and Louisiana – took significantly longer to recover than the US as a whole.[xxi] Mississippi, for example, did not reach its re-precession job levels until a decade later, in October 2019.

During the first 18 months of the pandemic, more than 400 of HOPE's mortgage borrowers were placed in forbearance at some point and at one time, more than 25% of HOPE's mortgage borrowers were in an active forbearance[xxii]. For context, in June 2020, the national rate of mortgages in forbearance was 8.55%.[xxiii]

These forbearances were vital to preserving homeownership during the unprecedented economic effects of the pandemic and provided an opportunity for many lessons learned in the implementation and resolution of such widespread loss mitigation challenges.

- PRT Partners have not only learned lessons from mortgage lending throughout the pandemic, but, in serving several areas of persistent poverty, the Partners have significant collective experience in managing economic challenges in a disaster. Appalachia has faced flooding and tornadoes, the rural west and Native communities have faced fires, the Jackson Mississippi water crisis, just to name a few. In these cases, PRT Partners will often offer targeted, streamlined, time-limited forbearances to borrowers in the affected areas.

- PRT Partner mortgage teams expressed concern about implementing widespread "automatic" forbearances in the future without a near term, specified end date. The combined loss of regular income from missed payments and the administrative challenges of the loss mitigation process without increased operational support would be very difficult for smaller lenders, which include many minority-owned lending institutions.

- In a future disaster, PRT would support a time limited deferral in place of a forbearance, to simplify the loss mitigation process.

- PRT sees the benefit to our members of having loss mitigation done in house, even with a subservicer that handles other servicing activities. PRT Partner mortgage teams expressed that an in-house loss mitigation team can be more hands on with members and use manual underwriting for modifications.

Forbearance and streamlined loss mitigation are critical aspects to weathering economic disasters and maintaining gains in homeownership for people of color. Those efforts must be balanced with the long-term effects on the borrower's home loan, i.e. extending the term or increasing the balance owed, as well as the sustainability of lenders, especially smaller, mission based, and minority owned lending institutions.

PRT appreciates the opportunity to contribute to this request for information. As mentioned above, after a home loan is closed there are several further opportunities to address structural barriers to long-term homeownership. Eliminating barriers to maintaining homeownership is as critical to closing the racial wealth gap as access to credit and removing barriers to becoming a homeowner. All of these areas must be addressed to realize the kind of financial inclusion and generational wealth building that will close the racial wealth gap.

For any questions or additional information in regards to PRT's comments, please contact Director of PRT, Jose Quinonez, jose@pfrt.org.

Sincerely,

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