

# **TESTIMONY OF BRUCE MARKS**

## **Chief Executive Officer**

### **Neighborhood Assistance Corporation of America (NACA)**

My name is Bruce Marks. I am Chief Executive Officer of the Neighborhood Assistance Corporation of America (NACA), a non-profit housing services and community advocacy organization. NACA is known for its “Best in America” mortgage program which offers low and moderate income Americans home mortgages with low interest rates, no down payment, no closing costs and no fees. Perfect credit is not required.

Through the NACA program thousands of Americans have realized the dream of home ownership. NACA provides prime loans for “sub-prime borrowers.” NACA has 22 offices across the country with \$4.3 Billion committed to the best mortgage in America. The current interest rate for NACA mortgages is 7.2% fixed for 30 years with no down payment, no closing costs, and no fees. In addition, NACA provides comprehensive housing services at no cost to the borrower. It may sound too good to be true but it is the reality for thousands of working people. People can call NACA at 1-888-302-NACA to participate.

NACA is also known for its advocacy campaigns against predatory lenders. NACA has worked in the streets, in boardrooms, in statehouses, and in this building to fight these exploitative lending practices with a great deal of

success. However, despite our efforts, these practices continue. As has been made clear to anyone who had been following the news, there are still predatory lending companies out there who use misleading sales tactics to take advantage of those who have, through little or no fault of their own, been excluded from mainstream credit institutions.

The GSE's, and in particular Fannie Mae, have been a big part of both the creation and the continuation of predatory lending practices. With over a Trillion dollars in assets, they set the standards in this country for access to home ownership for working people. They determine what is a conventional loan and what is considered a sub-prime loan. A conventional loan is considered to be one that meets Fannie Mae's criteria and is known as a Fannie Mae loan. Non Fannie Mae loans are considered sub-prime loans. Those who receive sub-prime loans are considered sub-prime borrowers and are excluded from the conventional; "Fannie Mae" loans. They are the ones who become the victims of what we know as predatory loans. By creating the system that excludes these borrowers from conventional affordable financing, Fannie Mae and the GSE's set them up to become victims of predatory lending.

In contrast to the GSE's, NACA provides Prime loans for subprime borrowers. Over 65% of NACA homeowners have a FICA score of less than 620 and almost half have a score of less than 580. Fannie Mae considers borrowers with FICA scores less the 620 to be too risky. In addition, 75% of NACA home

owners have less than \$4,000 in assets, 37% are single head of households, and the vast majority are the first generation of home owners in their families. They are stabilizing communities nationwide.

The GSE's are aware of the NACA program and have learned from our example. They understand that the working people participating in the NACA program do not have perfect credit but pay their mortgage and do whatever it takes to pay their mortgage. The GSEs now want to lend on a massive scale to working people who have good but not perfect credit. But, instead of recognizing the commitment and credit worthiness of working people, they want to exploit them with sub-prime loans.

The subprime industry began as a means to provide short-term financing to those with major financial difficulties. It was not there for good credit borrowers nor was it meant to devastate the finances and lives of hard working people. Now, however, almost all who don't have perfect credit are considered subprime borrowers and all subprime borrowers are potential even likely victims of predatory lending. The GSEs have created this \$300 Billion sub-prime market and now want to profit from it. The vast majority of sub-prime borrowers are considered A- or B+ borrowers. They are hard working people who should absolutely meet the criteria of a conventional borrower. They may not have substantial savings, but they always pay their rent and mortgage. The GSEs want to make 100 to 200 basis points (one or two percent) on these borrowers

who should be treated as the best and most reliable borrowers. In the mortgage business this is a huge spread. It is insulting and worse to call these borrowers sub-prime. The GSE's allow brokers to make thousands of dollars to originate these loans and make it worse by encouraging pre-payment penalties and other terms that further exploit the borrowers.

Predatory lending has become a major national issue, as it should be. NACA has been in the forefront of taking on predatory lenders and was instrumental in passage of HOEPA. The focus at that time was Fleet Finance. When NACA had over 500 Fleet borrowers from around the country participate at the Senate Banking committee, Senators from both parties pushed through this legislation. Everyone understood that it did not solve the problem but was a first step. NACA has continued the fight against these predatory lenders. However, once one of these predators is defeated others will appear like roaches until the market and profit for these loans is substantially reduced.

GSE's, like Fannie Mae, which are subsidized by the American taxpayer, are the major cause of predatory lending. If the majority of the sub-prime loans are correctly evaluated as conventional, the abuses will be dramatically reduced. But the GSE's will not do so because there is too much money in it for them. Why lend to a family at 8% when you can get 9%, 10% or more? The most galling aspect is that Fannie and Freddy Mac's charters each call for lending to low and moderate income buyers not exploiting them.

There is no question that at one time the GSE's provided an important function. They provided liquidity to mortgage lending and standardized mortgage lending. They now need to declare victory and compete on the same level as other non-government entities. The GSE's have provided an extraordinary return for their stockholders but have failed in their mission of providing affordable mortgage access to low and moderate income people. As has been clearly documented by HUD and in other testimony, the GSEs fund a lower percent of loans to low and moderate income people than to upper income borrowers. For example in 1997, the GSEs purchased 39% of all owner-occupied and rental property available during the year while it purchased only 30% of the units purchased by low and moderate income families. It is an outrage that Fannie Mae and Freddie Mac, with over \$10 Billion in subsidies, do less for working people than the for-profit lenders. There is so little fact and substance to their commitments to lend to working people that it is almost incomprehensible. NACA has offices in one-third of the areas where Fannie Mae has Partnership offices . NACA provides hundreds of mortgages with excellent results in each of these cities to working people who Fannie Mae deems too risky. All the while, the GSE's are protected from scrutiny and even regulatory inquiry by their public relations machine.

The GSE's financial might to politically lobby and silence any critic they choose, in and of itself represents one of the most frightening aspects of their

power. Reverend Graylan Hagler, Senior Minister at the Plymouth Congregational United Church of Christ, has been a witness to this power. He and I have attended numerous conferences, which have been financially underwritten by Fannie Mae and Freddy Mac. Fannie Mae and Freddy Mac have used the opportunities presented by these forums to sell their plan to engage in sub-prime lending to advocacy groups like the Civil Rights Leadership Conference, the National Community Reinvestment Coalition, and the Neighborhood Reinvestment Corporation.

An example of a GSE's power the censor occurred nearly three years ago. Reverend Hagler participated in a conference on community lending sponsored by a non-profit organization, and partially underwritten by Fannie Mae. Reverend Hagler and other participants challenged James Johnson, who at that time was CEO of Fannie Mae, about his stance on the issue of "zero down" lending. Approximately a week after the conference he received a note from the executive director of the sponsoring organization saying "Fannie Mae has canceled an \$ 80,000 grant with us. Are you happy?." The director believed that Reverend Hagler's criticism of Fannie Mae at the group's conference led directly to the grant's cancellation even though Reverend Hagler was simply a participant in the conference and not even a spokesperson for the organization. The anecdote illustrates that Fannie Mae and Freddie Mac do not simply use their power to make to own voice heard; they use it to stifle those who disagree. As Chief

Executive Officer of NACA, we have been one of the few non-profit organizations to be outspoken against the policies and practices of the GSE's.

It is dangerous, frightening, and undemocratic that GSE's like Fannie Mae, while receiving government subsidies worth millions of dollars, use millions of dollars to lobby congress, fund political campaigns and silence critics. This is an unfair and outrageous advantage for the GSE's and should be corrected. Fear of losing funding makes the other housing advocacy and community organizations uncomfortable in making any criticisms of the GSE's.

The fear advocates, community groups and politicians have in questioning the GSE's is unfortunate because the GSE's need more scrutiny and accountability not less. The GSE's are hybrids, both owned by their shareholders and enjoying generous government subsidies. The GSE's public relations strategy is to be all things to all people. On the one hand, they claim to do good, by presenting themselves as making monies available for homeownership and attempting to come up with strategies to help larger segments of the American population achieve that dream. Yet at the same time, these GSE's tell their shareholders that they are fiscally responsible private corporations who will maximize their return on investment. I believe that this desire to maximize return has led Freddie Mac and Fannie Mae to enter the subprime market. While the sub-prime market is not a large segment of the GSE's business at this time, they see it as a tremendous growth area where

substantial profits can be made as well as meeting their lending commitments to low and moderate income buyers. Of course, Fannie and Freddie publicly claim that by entering those markets they will have the ability to regulate the flow of their dollars and product in the arena. However, the real reasons for their entry into this market can be found in the higher interest rates, greater fees, prepayment prohibitions, and greater profits that participation in subprime will offer to the GSE's and their shareholders.

H.R. 3703 would not in itself stop all of the inequities created by Fannie Mae and the GSE's. It would, however, point us in the right direction. The creation of a Housing Finance Oversight Board that would be both interdepartmental and bipartisan would mean that there would be, for the first time since privatization, meaningful oversight of Fannie Mae and the other GSE's. This oversight would be particularly significant since the legislation also requires public disclosure of information by each enterprise as the Board deems necessary. While H.R. 3703 does not specify what information each enterprise will need to disclose, one would hope that such information would include the salaries of each enterprise's directors and officers, the amount of money spent on public relations, lobbying, and campaign contributions, meeting fair housing objectives, involvement with subprime lenders, specifics on their lending to low and moderate income buyers, and the extent to which the tax payer support provided for these enterprises is actually used to help those in need of it. It appears that Fannie Mae and the GSE's have much to hide which explains why



these GSE's, even though they were created with government funding and have continually relied on government subsidies, have opposed having to reveal information to the government about what they do with their money.

H.R. 3703's requirement of prior board approval of new activities is also significant and something that advocates of fair housing should get behind. Without such controls Fannie Mae will continue to expand its reach into the subprime market. The committee would also be in a position to control the GSEs' participation in potentially profitable but also potentially risky investments schemes. The GSE's participation in these schemes poses risks for the housing and banking industry and for the economy in general.

Of particular significance is the bill's effort to cut treasury department guarantees and other subsidies to Fannie Mae and the GSE's. As prior testimony has shown, Fannie Mae and Freddie Mac received a subsidy of ten billion dollars from the federal government of which 3.5 billion was for the benefit of stockholders and management. The government has created and supported Fannie Mae and the GSE's in order to bring stability to the secondary mortgage market and make it possible for ordinary Americans to own a home, not to enrich their executives and investors.

H.R. 3703 makes Fannie Mae and the other GSEs accountable to the American working people whose taxes brought them into being in the first place.

Fannie Mae is a government entity when it needs something from the government but a private corporation beholden only to its bondholders when it is asked to be accountable. This is corporate welfare at its worst. The American taxpayer is providing billions of dollars to private government chartered institutions that are exploiting and profiting from the intense desire of working people for home ownership. This situation needs to be changed and this bill is an important step in this direction.