

United States Senate

WASHINGTON, DC 20510

June 23, 2015

The Honorable Julián Castro
Secretary
U.S. Department of Housing and Urban
Development
451 7th Street, SW
Washington, DC 20410

The Honorable Janet Yellen
Chair
Federal Reserve Board of Governors
20th Street and Constitution Ave, NW
Washington, DC 20551

The Honorable Thomas Curry
Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

The Honorable Martin Gruenberg
Chair
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

The Honorable Melvin Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

The Honorable Debbie Matz
Chair of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Secretary Castro, Chair Yellen, Comptroller Curry, Chairman Gruenberg, Director Cordray, Director Watt, and Chair Matz:

We write to bring to your attention troubling reports of disparities in the maintenance and marketing of foreclosed homes based on the racial makeup of communities in which the properties are located. We know you share our strong commitment to protecting all Americans from discrimination, regardless of race, background, or belief, so we respectfully urge you to investigate these reports and take appropriate actions to remedy these problems.

We have reviewed with great interest and concern a report of the National Fair Housing Alliance (NFHA), which details findings from inspections of more than 2,400 real estate owned (REO) properties in 29 metropolitan areas, owned or managed by 11 different lenders, the Federal Housing Administration, or the government-sponsored enterprises.¹ The report found that REO properties in communities of color were much more likely to have a higher number of

¹ National Fair Housing Alliance, "Zip Code Inequality: Discrimination by Banks in the Maintenance of Homes in Neighborhoods of Color" (2014) http://www.mvfairhousing.com/pdfs/2014-08-27_NFHA_REO_report.PDF.

maintenance and marketing deficiencies, leading to destabilizing outcomes for families and neighborhoods.²

As you know, subprime mortgage lending has inflicted especially high damage in communities of color. According to the Center for Responsible Lending, for mortgages originated between 2004 and 2008, African Americans and Latinos were nearly twice as likely as white borrowers to have at least one “high risk” feature or condition in their loan, placing them at much greater risk of delinquency and default.³ When all other factors are held equal, including credit score and income, African American and Latino homebuyers were 80 percent and 70 percent, respectively, more likely to receive a subprime loan than comparable white homebuyers.⁴ Improper and discriminatory steering of borrowers of color into higher cost, subprime mortgage loans likely significantly contributed to these disparities, as demonstrated by high-profile litigation settlement agreements with mortgage originators such as Countrywide.⁵

According to NFHA’s report, the same communities who were victimized by predatory mortgage lending practices may now be facing additional burdens from unequal and inadequate management of foreclosed homes. NFHA found that bank-owned properties in communities of color were 2.2 times more likely to have significant amounts of trash and debris on the premises and 2.3 times more likely to have unsecured, broken, or damaged doors than properties in comparable predominantly white communities.⁶ Some cities had even more pronounced disparities, such as Memphis, Tennessee, where REO properties in communities of color were almost 9 times more likely to have significant amounts of trash and debris than REOs in majority-white communities, or in Hampton Roads, Virginia, where REO properties in neighborhoods of color were 6 times more likely to have unsecured, damaged, or boarded doors than properties in comparable predominantly white communities.⁷ These statistics provide a mere snapshot of the far-reaching and serious consequences facing communities with high volumes of REO properties that receive inadequate attention from the banks and lenders responsible for their maintenance.

As NFHA’s report illustrates, beyond the families who directly lose their homes, the costs of foreclosures extend to those who remain in neighborhoods with foreclosed properties. Particularly if foreclosed homes are not properly maintained, neighbors can see their own property values decline and experience deep losses in local revenues to fund public schools, public safety, and other community priorities.⁸ They can also be stuck with the bill as taxpayers if municipalities are left accountable for costly expenses in the upkeep of neglected properties.

² *Ibid.*

³ Center for Responsible Lending, “Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures,” November 17, 2011, <http://www.responsiblelending.org/mortgage-lending/research-analysis/lost-ground-2011.html>.

⁴ “Discrepancies detailed in minority foreclosures,” *Washington Post*, April 28, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/04/27/AR2010042705238.html>.

⁵ “Countrywide Will Settle a Bias Suit,” *The New York Times*, Dec. 21, 2011, <http://www.nytimes.com/2011/12/22/business/us-settlement-reported-on-countrywide-lending.html>.

⁶ “Zip Code Inequality: Discrimination by Banks in the Maintenance of Homes in Neighborhoods of Color.”

⁷ *Ibid.*

⁸ The Center for Responsible Lending, for example, estimates that foreclosures have caused \$2.2 trillion in property value losses to residents who live in close proximity to foreclosed properties, including an estimated \$1.1 trillion in reduced home equity for minority households due to the high concentration of foreclosures in communities of color.

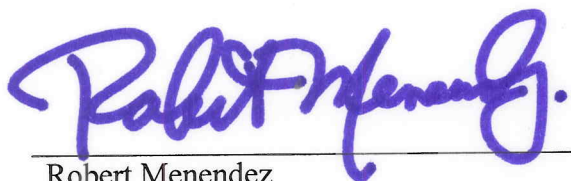
As you are well aware, the Department of Housing and Urban Development's regulations implementing the Fair Housing Act make clear that the differential treatment of REO properties based on the racial makeup of a community or neighborhood is a violation of the Fair Housing Act.⁹ The findings of NFHA's report are troubling at best, and at worst, indicate illegal discrimination that must be remedied.

We strongly urge you—as regulators of the entities responsible for ensuring these properties are maintained, marketed, and sold to qualified buyers—to investigate this issue. We also urge you to take appropriate actions to remedy these problems and ensure they do not happen again in the future, including consulting with fair housing advocates and representatives of the affected communities to identify additional regulatory, supervisory, or enforcement steps that might be needed to cure existing disparities and prevent future deficiencies.

Residents and communities across the country look to your agencies for assurances that mortgage lenders and servicers will act equitably in the disposition of REO homes, not improperly concentrating resources in some communities while withholding funds from others. As we are sure you agree, stabilization for our country's communities most impacted by the foreclosure crisis will require financial institutions to properly maintain and market REO homes regardless of the color of the skin or nation of origin of the other homeowners who live on the block.

Thank you for your prompt attention to this matter. We look forward to your response.

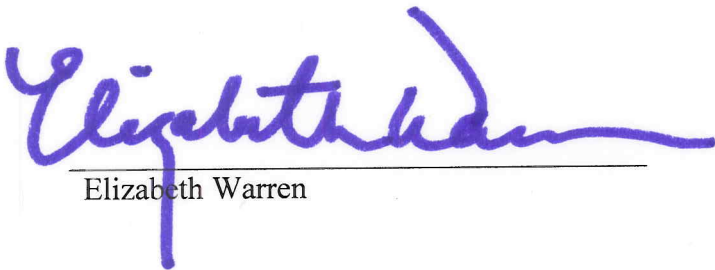
Sincerely,



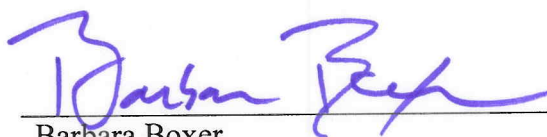
Robert Menendez



Sherrod Brown



Elizabeth Warren



Barbara Boxer

Center for Responsible Lending, "2013: Update: The Spillover Effects of Foreclosures," August 19, 2013, <http://www.responsiblelending.org/mortgage-lending/research-analysis/2013-crl-research-update-foreclosure-spillover-effects-final-aug-19-docx.pdf>.

⁹ 24 C.F.R. § 100.65.

Kirsten Gillibrand

Kirsten Gillibrand

Mazie Hirono

Mazie Hirono

Cory A. Booker

Cory A. Booker

Martin Heinrich

Martin Heinrich

Benjamin L. Cardin

Benjamin L. Cardin

Tammy Baldwin

Tammy Baldwin

Richard J. Durbin

Richard J. Durbin

Richard Blumenthal

Richard Blumenthal

Dianne Feinstein

Dianne Feinstein

Charles E. Schumer

Charles E. Schumer

Tim Kaine

Tim Kaine