

Fighting against ethnic disparities in subprime lending

Written by April Graves

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One of the most important milestones in anyone's life is the purchase of their own home. Throughout history, homeownership has served as the defining symbol of prosperity and accomplishment—yet it is a symbol that has not always been equally accessible for all those seeking it.

Primed to Fail

One answer to the problem of home loan availability has been the deregulation and growth of subprime lending. The result has been that prospective homebuyers who wouldn't normally qualify for mortgage loans have found an opportunity to make homeownership a reality. The problem is the opportunities they're offered, once influenced by unfair and biased loan practices, end up more like traps.

The roots of the current subprime lending boom can be traced to decisions made by Congress more than a decade ago. One inducement came with the potential profit to be made in subprime lending, which ballooned when Congress deregulated the home mortgage lending market. The deregulation effectively removed the limits on how much interest lenders could charge. "State usury caps don't apply in first mortgage transactions," says Alys Cohen, an attorney at the National Consumer Law Center in Washington, D.C. "Which means basically lenders can charge very, very high rates, and they're not subject to state law."

Placing the Blame

African Americans have historically been underrepresented in both homeownership and the ability to secure home mortgage loans. The recent foreclosure and subprime lending crisis has amplified the disproportion in availability of fair and reasonable loans. The disparity is particularly evident with African Americans, who make up the greatest percentage of those who have applied for and received subprime loans.

Why did they apply for these loans if they were so awful? Didn't they read the fine print and understand what they were signing? The answers to these questions continue to be debated, making it clear that the only thing that is for certain is that the truth isn't always obvious. The answers lie in the grey area of our complicated history as a country and the persistent perceptions of success and stereotyping that have systematically existed within our society.

Recent research seems to support what many people of color have long known from experience: when it comes to an equal opportunity at homeownership, a lot of the time what color your skin is makes more of a difference than the size of your wallet.

In a March, 2009 article published by The Associated Press, Austin Tighe, the co-lead counsel for the NAACP, was quoted as saying, "Black homebuyers have been 3 ½ times more likely to receive a subprime loan than white borrowers, and six times more likely to get a subprime rate when refinancing ...

Blacks were disproportionately steered into subprime loans when their credit scores, income and down payment were equal to those of white homebuyers."

So is the answer as simple as racist mortgage brokers and banks? The truth lies somewhere between the two extremes of racist banks or dumb and disserving Blacks. The truth isn't clear

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until you start to explore the roots of our country's housing market and the devices employed way before the current foreclosure crisis.

Red-lining or Black-lining?

In June of 1933, FDR signed into law an innovation of the new deal, the Home Owners Loan Corporation (HOLC). Its creation was spurred by a rise in foreclosures, caused by the unworkable direct loan provisions of the Hoover's Federal Home Loan Bank Act. Between July of 1933 and June of 1935, about 40% of eligible Americans sought HOLC assistance and HOLC supplied more than \$3 billion for over 1 million mortgages nationally. More importantly, however, was the system of appraisal HOLC established—and the fact that its continued implementation in successive programs like the Federal Housing Administration and the nation's banking industry affects people's lives to this day .

The system of appraisal consisted of a ranking of neighborhoods that determined whether or not to approve loans for individuals living in specific areas. The First category—also known as A or Green neighborhoods—was described as “new, homogeneous and in demand as residential locations in good times and bad.” Conversely Fourth, D or Red neighborhoods were defined as areas “characterized by poor maintenance, vandalism and the undesirable element.” Second and Third neighborhoods were considered a step down or up respectively from First or Fourth neighborhoods. Invariably, Black neighborhoods were always rated as Fourth grade areas, making it almost impossible for blacks to attain loans for homes or refinancing.

Closing the Homeownership Gap

With few other options for homeownership, Blacks and other people of color are often forced by circumstances to seek loans that are subprime. Once accepted for those loans, however, they are more likely than whites to have stricter guidelines and restrictions applied to them. A study completed in 2006 by the Center for Responsible Lending found that “for most types of subprime home loans, African American and Latino borrowers are at greater risk of receiving higher-rate loans than white borrowers... For many types of loans, borrowers of color in our database were more than 30 percent more likely to receive a higher-rate loan than white borrowers, even after accounting for differences in risk.”

Being able to own a home is about more than just a place to live. Homeownership has been directly linked to the level of educational achievement a child is able to accomplish, as well as the level of economic earnings they're able to attain as adults. Children whose parents owned their homes are also more likely to achieve homeownership as adults than children whose parents only rented. Homeownership is a huge economic advantage to obtain, not only for that specific family, but for generations of that family yet to come.

Ensuring that all families have an equal shot at homeownership is a noble and worthwhile cause, even if that means totally revamping our nation's mortgage loan system to make sure that no one is intentionally or unintentionally being unjustly excluded. With all the economic hurdles American families already face in today's economy, unequal access to the American Dream should not be one of them.

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