Testimony

of

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On the topic of

"Predatory Lending and Reverse Redlining: Are Low-income, Minority and Senior Borrowers Targets for Higher Cost Loans?"

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Good morning. My name is James H. Carr and I am the Chief Operating Officer for the National Community Reinvestment Coalition. On behalf of our coalition, I am honored to speak with you today.

NCRC is an association of more than 600 community-based organizations that promotes access to basic banking services, including credit and savings, to create and sustain affordable housing, job development, and vibrant communities for America's working families. NCRC is also pleased to be a member of a new coalition of more than 200 consumer, civic, and civil rights organizations – Americans for Financial Reform – that are working together to restore integrity and accountability to the US financial system.

The Foreclosure and Economic Crises

Members of the Committee, recent reports of green shoots and signs of an economic recovery offer hope to the American public that the worst may have past. But when one reads the fine print and footnotes on the optimistic headlines, the positive news is less than encouraging. This is particularly true within the financial services industry.

The reason for the continuing and protracted economic downturn is that the problem that precipitated the collapse of the credit markets and erosion of the economy, namely the foreclosure crisis, continues to worsen. Already this year, more than a million homes have been lost to foreclosure and five million more homes are at risk of over the next three years (assuming Making Home Affordable achieves the full success expected by the Administration).

Origins of the Foreclosure Crisis

Many blame the foreclosure crisis on a claim that financial institutions that sought to improve homeownership among low- and moderate-income households. A variation of this argument is that the Community Reinvestment Act forced banks to lend in a reckless and irresponsible manner.

Both of these assertions have no basis in fact or logic. According to the Federal Reserve Board, only 6 percent of high-cost subprime loans to low- and moderate-income households were covered by CRA regulation. And, the Center for Responsible Lending finds that less than 10 percent of subprime loans were for first-time homeownership.

Failure to regulate adequately the US mortgage markets allowed deceptive, reckless, and irresponsible lending to grow unchecked until eventually it overwhelmed the financial system.

Almost every institutional actor in home mortgage finance process played a role, including brokers, lenders, appraisers, Wall Street bond rating agencies, and investment banks.

Not an Equal Opportunity Crisis

While few have been able to escape the financial pain completely, African Americans, Latinos, and Native Americans are bearing the brunt of this current economic disaster.

Although the national unemployment rate is an uncomfortable 9.4 percent, that rate for African Americans is 15 percent, and for Latinos, unemployment is approaching 13 percent. The unemployment rate for non-Hispanic whites remains under 9 percent.

Because African Americans and Latinos have so few savings, they are poorly positioned to survive a lengthy bout of unemployment. As a result, potentially millions of African Americans and Latino middle-class households could find themselves falling out of the middle by the time the economy recovers.

Moreover, African Americans and Latinos were targeted disproportionately for deceptive high cost loans. According to a study by the US Department of Housing and Urban Development, subprime loans are five times more likely in African American communities than in white neighborhoods, and homeowners in high-income black areas are twice as likely as borrowers in lower-income white communities to have subprime loans.

The result is that blacks and Latinos are over-represented in the foreclosure statistics. African Americans, for example, have experienced a full three-percentage point drop in their homeownership rate since the crisis began.

Further, research by the National Community Reinvestment Coalition found that predatory lenders aimed their toxic products particularly at women of color. And, because African-American children are more likely to reside in female-headed households, black children are also disproportionately harmed as a result of the foreclosure crisis and its attendant stresses.

If a family lost their home to foreclosure and could not find a suitable apartment in the neighborhood from which they were evicted, children may be forced to leave their school, social networks, and familiar community surroundings, all of which can hinder their educational performance and long-term socio-economic wellbeing.

In a separate NCRC study (The Broken Credit System, 2004), we found that after controlling for risk and housing market conditions, the portion of subprime refinance lending increased solely when the number of residents over the age of 65 increased in a neighborhood. If a borrower were a person of color, female, and a senior, she was the "perfect catch" for a predatory lender.

These levels of disparity have little to do with differences in the credit quality of the borrowers. Fannie Mae has estimated that 50 percent of consumers with subprime loans could have qualified for prime loans. In fact, in 2006, more than 60 percent of subprime borrowers had credit scores sufficient for them to have received a prime loan.

Failure to provide adequate consumer and civil rights protections explain the exceptional damage from the foreclosure crisis now being felt overwhelmingly in communities of color.

Fixing the Problems

In response to the magnitude and complexity of the current crisis, a three-fold response is essential.

1. Stem the Rising Tide of Foreclosures

Although the new "Making Home Affordable" program is the most comprehensive plan to date to address the foreclosure crisis, its success is measured in the thousands while the foreclosure crisis grows by the millions. The result: more is needed.

A "new" vintage Great Depression-era Homeowners Loan Corporation (HOLC) is warranted. The new entity would more aggressively pursue loan modifications using exceptional governmental powers to purchase high-risk loans at reasonable discounts in order to accomplish millions of loan modifications, in a relatively short span of time, and at a limited cost to taxpayers.

The new HOLC could also take possession of properties and structure foreclosure moratoria based on workers' unemployment benefits. In the event of foreclosure, this new entity could also allow families to remain in their homes under rental agreements.

2. Rebuild Communities Harmed by the Crisis

Government action also should help communities rebuild. Economic recovery funding should be focused on communities with a convergence of three factors:

1. Areas with the highest levels of unemployment
2. Areas with the greatest concentrations of foreclosures
3. Areas with historically under-funded, inferior, or poorly maintained infrastructure

3. Enact Comprehensive Anti-Predatory Lending Legislation

Comprehensive anti-predatory lending legislation should be immediately enacted. It should apply consumer financial protections to all of the institutional players in the mortgage market. In addition to purging previous predatory lending practices, the establishment of a financial consumer protection agency should be enacted. Already, in the midst of this crisis, new predatory practices are emerging.

Conclusion

In the words of Nobel Prize-winning economist Joseph Stiglitz, the financial system discovered there was money at the bottom of the wealth pyramid and it did everything it could to ensure that it did not remain there. Stated otherwise, the business model for many financial institutions was to strip consumers of their wealth rather than build and improve their financial security.

Ironically, most solutions to date have focused on rewarding the financial firms (and their executives) that created this crisis. But in spite of more than $12.8 trillions of financial support in the form of loans, investment, and guarantees, this approach is not working because consumers continue to struggle in a virtual sea of deceptive mortgage debt and a financial system that remains unaccountable to the American public.

Now is the time to shift the focus away from Wall Street and on Main Street by addressing, in a broader manner, the growing foreclosure crisis and its contagion effects on national home prices and the overall economy. This includes introducing a more robust foreclosure mitigation program, focusing recovery dollars on the communities most negatively impacted by the crisis, and enacting strong consumer protections again deceptive and reckless lending practices.