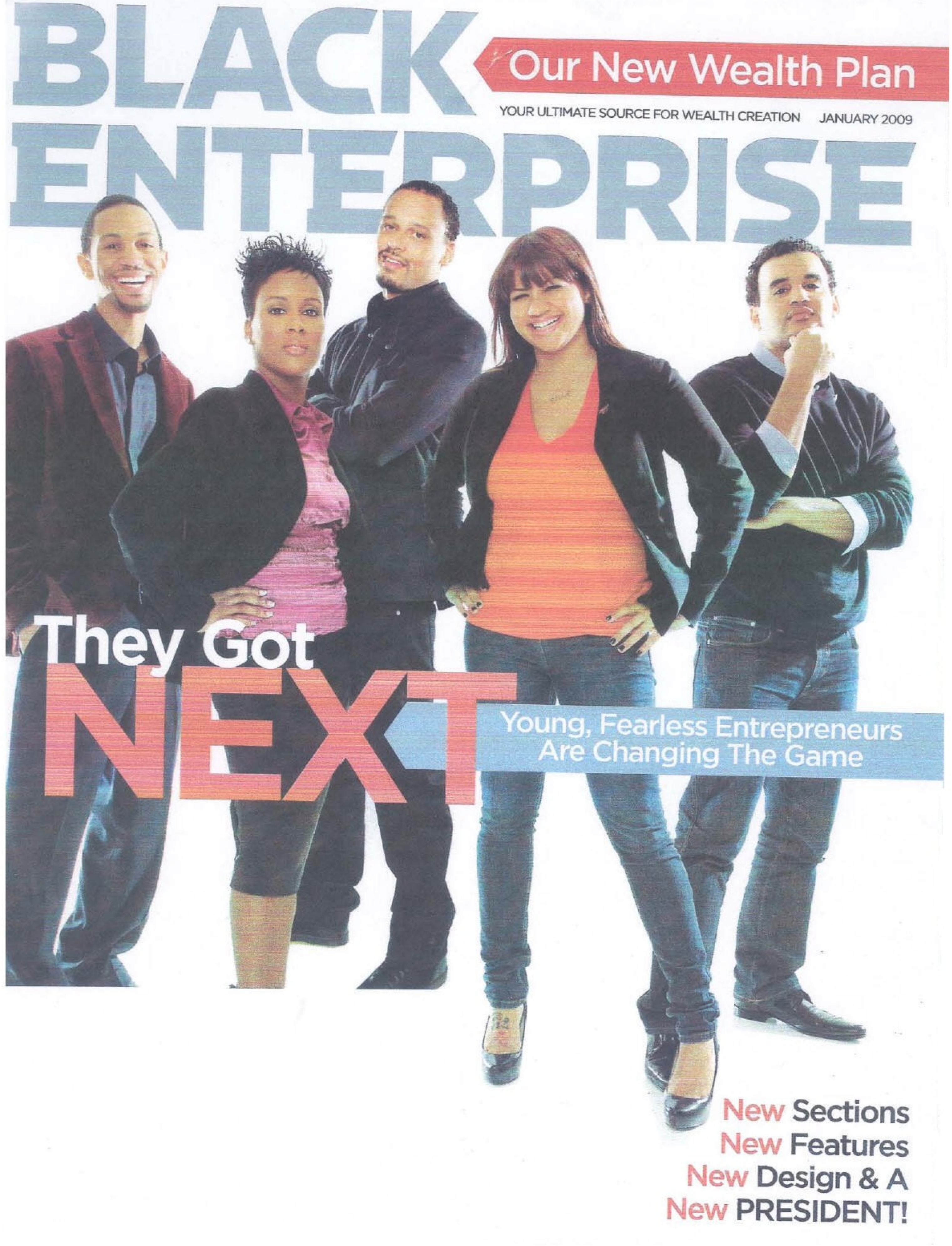
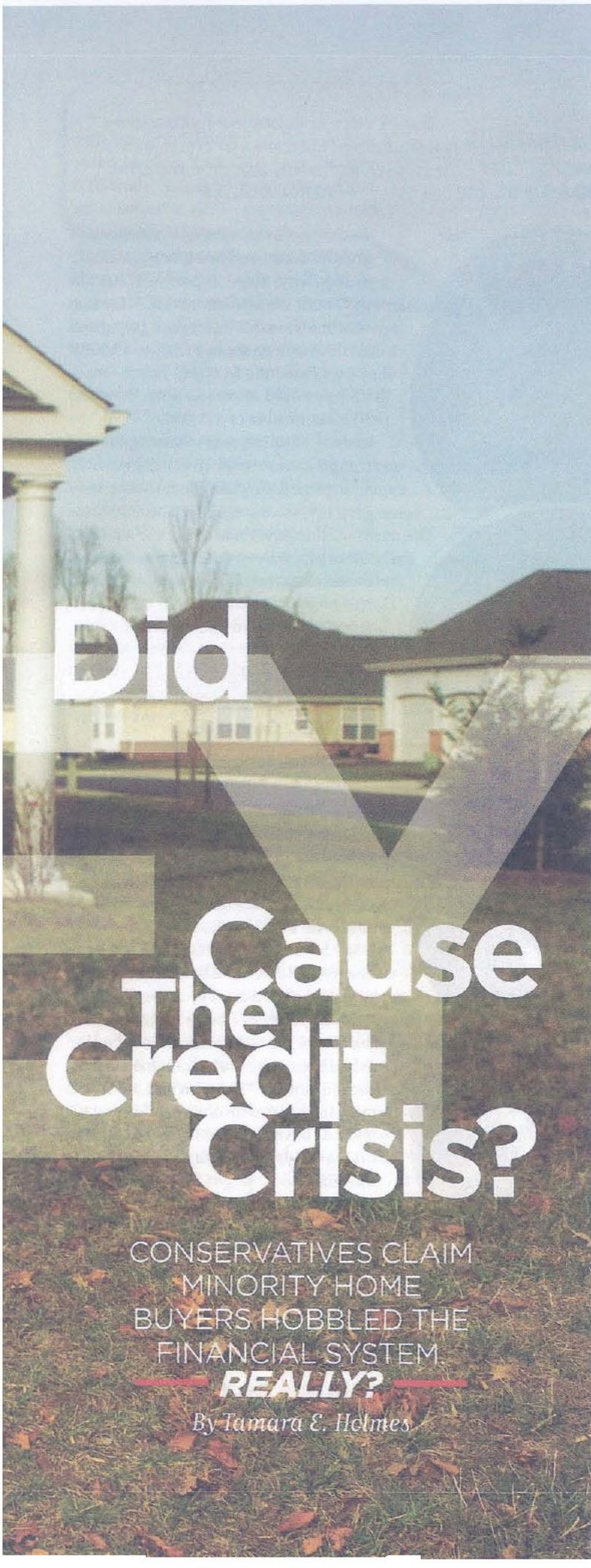

BLACK ENTERPRISE
Our New Wealth Plan
YOUR ULTIMATE SOURCE FOR WEALTH CREATION
JANUARY 2009
They Got NEXT
Young, Fearless Entrepreneurs Are Changing The Game
New Sections
New Features
New Design & A
New PRESIDENT!

THE HARRISONS WERE STEERED INTO A SUBPRIME MORTGAGE DESPITE BEING QUALIFIED FOR A PRIME LOAN.

 PHOTOGRAPH BY KEVIN ALLEN



Did Y Cause The Credit Crisis?

CONSERVATIVES CLAIM MINORITY HOME BUYERS HOBBLED THE FINANCIAL SYSTEM.

REALLY?

By Tamara E. Holmes

THE LOUD, ANGRY CHORUS OF blame began almost immediately. As big banks and brokerage houses crumbled, and the financial markets spiraled downward last fall, observers searched for someplace—anyplace—to cast culpability. Was it greedy lenders? Lax regulators? Money-hungry Wall Streeters? For some political conservatives, none of those familiar culprits would do. For them, one group played a central role in bringing the entire global financial system to its knees: minorities.

According to most objective experts, the credit crisis unfolded because ballooning home values caused Americans of all colors to take on risky mortgages they couldn't afford. Banks and financial firms realized huge profits by generating these loans and repackaging them as mortgage-backed securities. The house of cards came crashing down when home values plummeted, defaults escalated, and the underlying value of mortgage-backed securities came into question.

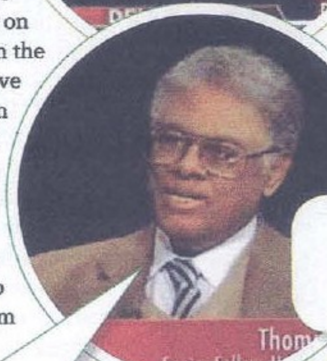
For some, that explanation wasn't good enough—not when it's so easy to blame "those people." Indeed, conservatives crafted their very own fact-free narrative, complete with all the familiar bogeymen. Their tale described how supposedly undeserving African Americans kicked and screamed about lending biases, urging the Clinton administration to extend the reach of the 1977 Community Reinvestment Act, which ensures that banks invest in the low- and moderate-income communities where they operate. That prodding, so the story goes, forced banks to loosen lending standards, leading them to create the subprime loan—the very instrument that fueled the housing bubble and destroyed financial civilization as we know it. Never mind that the top-line math doesn't seem to add up. For instance, African Americans are 13% of the U.S. population, and less than half of black families own their own homes. Many of those who do are either current on mortgages they can afford or own their home outright.

Worse than the accusation itself was how swift and broadly it spread. In September, conservative columnist Ann Coulter penned a malicious essay entitled *They Gave Your Mortgage to a Less Qualified Minority*. In the piece, she complained about "affirmative action lending policies," and wrote that "under Clinton, the entire federal government put massive pressure on banks to ►

grant more mortgages to the poor and minorities. ... Instead of looking at 'outdated criteria,' such as the mortgage applicant's credit history and ability to make a down payment, banks were encouraged to consider nontraditional measures of creditworthiness, such as having a good jump shot."

> "Banks were encouraged to consider nontraditional measures of creditworthiness, such as having a good jump shot."
> — ANN COULTER

Not to be outdone, conservative radio talk show host Rush Limbaugh insisted that Democrats went too far in their opposition to banks that discriminated against blacks. "So, to extend the American dream to everybody, [Democrats] said, 'Get rid of redlining and loan money to people that can't pay it back. That's the way we're going to fix it.' It's sort of like affirmative action. We're going to not only address the grievances of the past, we're going to go so far beyond addressing the grievances, we're going to create new ones on the other side of the stick." Others got in on the blame game too, including black conservative Thomas Sowell. On the Fox News program *Your World*, host Neil Cavuto pinned the crisis on "more minority lending." He theorized that "loaning to minorities and risky folks" was "a disaster."



It's a convenient story but far from true. Certainly, there are African Americans who received subprime loans, but many of them tell stories like Leon Harrison's. When a real estate agent approached the 79-year-old retired bill collector about buying a new home in a luxury retirement community in 2006, his first thought was, "no way." First of all, Harrison and his 81-year-old wife, Janette, a retired government worker, had lived in their Lanham, Maryland, home for 31 years. The couple still had a mortgage, only because they had refinanced to pay for their children's education. They were comfortable and had enough space to entertain their five grandchildren and two great-grandchildren regularly. More importantly, recalls Harrison, "I said, 'We can't afford this.'" Harrison saw that his monthly mortgage payments would double from about $1,500 to $3,000 if they purchased the $422,761 home—more than they could afford on a fixed annual retirement income of $51,000.

> "In our own personal lives, common sense leads us to avoid some neighborhoods. If you want to call that 'redlining' so be it. But places where it is dangerous to go are also places where it is dangerous to send your money."
> — THOMAS SOWELL

But the couple's real estate agent and mortgage broker told them differently, explaining that if they bought the house, they could get a reverse mortgage six months later. The move would allow them to use the equity in the home to supplement their income, the agent and broker explained. But six months after the Harrisons bought the house in early 2007, "the bottom dropped out," Harrison says.

> "Loaning to minorities and risky folks [was] a disaster."
> — NEIL CAVUTO

With an interest-only adjustable rate mortgage, "I owed more on the house than it was worth. The reverse mortgage was definitely out of the question." In addition to that, the broker had steered the Harrisons to a subprime loan, though they qualified for a prime loan, says Julia Rodgers, a mortgage adviser for the National Community Reinvestment Coalition, a Washington, D.C.-based group that helps distressed homeowners negotiate with lenders. And in August, money from the sale of the old house, which the Harrisons had been using to subsidize their current mortgage, ran out. "Now I'm two months in arrears, the first time in my whole life that my wife and I have been delinquent in making mortgage payments," Harrison says.

The Harrisons' plight is hardly unique. Indeed subprime mortgages are more likely to end in foreclosure when compared with conventional loans. Still, the recent financial turmoil is hardly a black problem. The best way to refute those charges is to examine the evidence.

> "[Democrats] said, 'Get rid of redlining and loan money to people that can't pay it back.'"
> — RUSH LIMBAUGH

The Majority of Subprime Loans Didn't Fall Under the Community Reinvestment Act

Nowhere in the act's language does it tell lenders to offer subprime products. In fact, it calls for loans that utilize "safe and sound banking practices," points out Warren W. Traiger, a partner with Traiger & Hinckley L.L.P., a law firm based in New York City. In a January 2008 study, Traiger & Hinckley found that banks subject to the act are two-thirds less likely to offer borrowers high-cost mortgage loans, compared with other lenders. They were 58% less likely to offer high-cost loans to low- and moderate-income borrowers. Kathleen Day, a spokeswoman for the Center for Responsible Lending, points out that the act applies only to federally insured banks. Between 2004 and 2006, however, about half of all subprime loans were made not by such banks but by independent lenders, according to the Center. In testimony before the U.S. House of Representatives Committee on Financial Services last February, Michael S. Barr, a law professor at the University of Michigan Law School, noted that an additional 30% of subprime loans were made by bank subsidiaries, which are also not subject to the act. That leaves roughly 20% of subprime loans that may have been influenced by the Community Reinvestment Act.

SUBPRIME LOAN RECIPIENTS (BY RACE) | **SUBPRIME LOAN RECIPIENTS (BY INCOME)**

56.2%	White	Upper Income	39.4%
20.8	Hispanic	Middle Income	27.6
19.2	Black	Moderate Income	21.0
2.9	Asian	Low Income	7.6
0.6	Hawaiian		
0.4	Native American		

SOURCE: COMPLIANCETECH — FOR 2006, CONSIDERED THE HEIGHT OF RECENT SUBPRIME LENDING

Subprime Products Were Risky—Not Borrowers

At the heart of the conservatives' claim, is the notion that efforts to promote minority homeownership led bankers to lend to high-risk borrowers who subsequently foreclosed on their homes. However, a study by the University of North Carolina's Center for Community Capital found that the borrowers weren't the problem. When tracking the mortgage default rate of low-income and minority borrowers with similar credit histories, researchers found that those who were issued subprime mortgages were three to five times more likely to default than those who received other types of loans. "The people weren't risky, the products were," says center director Roberto G. Quercia.

African Americans Were Steered Into High-cost Subprime Loans

African Americans are 2.7 times more likely than their white counterparts to be issued subprime loans, according to a report from the Association of Community Organizations for Reform Now on data compiled as part of the 2005 Home Mortgage Disclosure Act. "Even high-income African Americans were just as likely to be sold a bad subprime loan as a low-income white person," says Austin King, director of the ACORN Financial Justice Center. So, were blacks, like the Harrisons, steered toward subprime loans when they could have qualified for something better? Yes. An estimated 35% to 50% of minority subprime borrowers could have qualified for prime market loans, according to research by the Fannie Mae Foundation.

First-time Homeowners Benefited Least from Subprime Loans

If the subprime market flourished because of pressures to help first-time minority homeowners, it would stand to reason that those first-time homeowners would have been the recipients of the most subprime loans. Wrong again. Between 1998 and 2006, only 9% of subprime loans went to first-time homeowners, according to the Center for Responsible Lending. The majority of subprime loans—62% were issued to homeowners looking to refinance an existing home.

White Americans Overwhelmingly Took out the Most Subprime Loans

While African Americans were more likely to be steered into subprime mortgages than white Americans, whites took out 56% of all subprime loans, far more than the 19% taken out by African Americans. The proportion was 21% for Hispanics. Money also increased the likelihood of a borrower taking out a subprime loan, but not in the way that conservatives claim. Most subprime loans went to high-income borrowers, according to data compiled as part of the 2006 Home Mortgage Disclosure Act. In fact, across all racial groups, as income decreased, the number of subprime loans decreased.

With so much evidence to the contrary, it's hard to see how minorities and low-income borrowers could be the culprits behind the credit crisis. "It's easy to blame the victim," says Marc H. Morial, president and CEO of the National Urban League. "It becomes a perverted justification to discriminate. It's specious, it's hateful, and we are going to fight back against this misinformation." The false allegations could have dangerous repercussions. "If we allow scapegoating to take place," says Morial, "people will suggest fixing the problem by not lending to African Americans." BE