



Foreclosures by Race and Ethnicity: The Demographics of a Crisis

CRL Research Report

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Addendum: On July 1, 2010, we adjusted our estimates of property depreciation in communities of color related to foreclosures. Between 2009 and 2012, the updated estimate for African Americans is \$194 billion, versus \$193 billion, and the estimate for Latino communities changed from \$180 billion to \$177 billion. This report reflects those changes on pages 3 and 11 and in an accompanying note.

EXECUTIVE SUMMARY

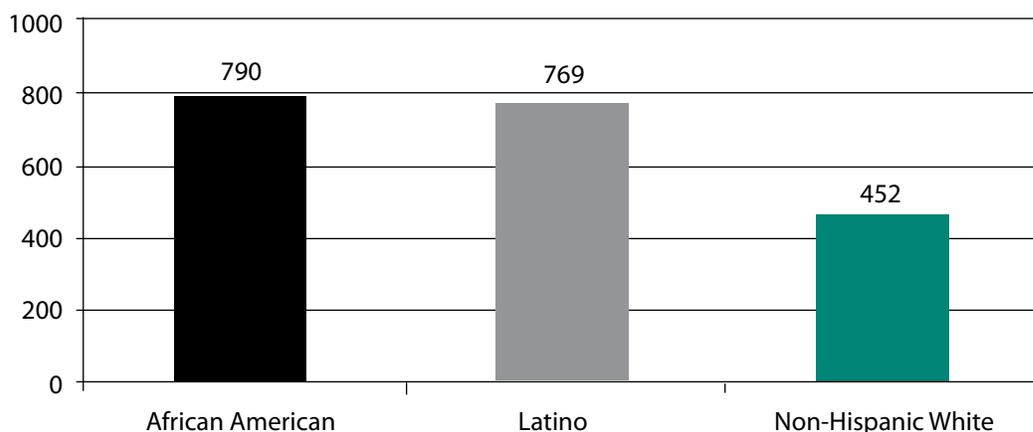
Since housing prices began their precipitous decline in January 2007 and foreclosure rates skyrocketed, no one has assessed exactly how many mortgages have ended in foreclosure or who has been affected. Although a number of useful mortgage databases are available, there is no official, nationwide, publicly available census of completed foreclosures or associated demographic information. In this report, we seek to shed light on the nation's foreclosure crisis by using government and industry data to estimate the number of foreclosures in recent years and their impact by race and ethnicity. More specifically, we calculate foreclosure rates from 2007 through 2009 for 1,632 combinations of loan types, geography, occupancy types and closing years, and apply these rates to mortgage origination data. The results are these key estimates on completed foreclosures:

During the first three years of the foreclosure crisis, from January 2007 through the end of 2009, we estimate that 2.5 million foreclosures were completed. The vast majority of these foreclosures were on owner-occupied properties with mortgages that were originated between 2005 and 2008.¹

- The majority (an estimated 56%) of families who lost homes were non-Hispanic and white, but African-American and Latino families were disproportionately affected relative to their share of mortgage originations.
- Among recent borrowers, we estimate that nearly 8% of both African Americans and Latinos have lost their homes to foreclosures, compared to 4.5% of whites.
- The racial and ethnic disparities in these estimated foreclosure rates hold even after controlling for differences in income patterns between demographic groups.

The figure below shows completed foreclosures per 10,000 loans for African Americans, Latinos and non-Hispanic whites:

2007-2009 Completed Foreclosures per 10,000 Loans (on loans made in 2005-2008 to owner-occupants)



In addition to the 2.5 million foreclosures already completed, available figures suggest this crisis is far from over. According to data from the Mortgage Bankers Association's National Delinquency Survey (NDS), the proportion of mortgages in the foreclosure process is at a historical high at 4.63%, nearly five times higher than the average of all quarterly rates reported in the NDS from 1979 to the start of the crisis and three times higher than the next closest pre-crisis high.² Combining borrowers who are two or more payments behind on their mortgage with those who are in the foreclosure process, we estimate that there are 5.7 million borrowers at imminent risk of foreclosure.

Looking ahead, independent analysts have projected that between 10 and 13 million foreclosures will have occurred by the time the crisis abates.³ Examining the set of borrowers at imminent risk of foreclosure, as defined above, we see that the racial and ethnic patterns we have identified here are likely to continue into the future:

- Non-Hispanic whites represent the majority of at-risk borrowers, but African-American and Latino borrowers are more likely to be at imminent risk of foreclosure (21.6% and 21.4%, respectively) than non-Hispanic white borrowers (14.8%).
- American Indian (16.5%), Native Hawaiian or other Pacific Islanders (18.6%), and Asian borrowers (15.7%) all also show an increased likelihood of being at-risk.

When the number of homes that are in imminent danger of foreclosure is combined with homes already lost, it is clear that the foreclosure crisis is affecting a large number of families. Expressed as a share of the population of homeowners as of 2006, we estimate that 17% of Latino homeowners, 11% of African-American homeowners, and 7% of non-Hispanic white homeowners already have lost or are at imminent risk of losing their home.

Even if foreclosures represented nothing more than a one-time cost only to the families involved, these findings would be troubling. But the costs are extensive, multifaceted and long-term, extending far beyond individual families to their neighbors, communities, cities and states. As the foreclosure crisis threatens the financial stability and mobility of families across the country, it will be particularly devastating to African-American and Latino families, who already lag their white counterparts in terms of income, wealth and educational attainment. Furthermore, the indirect losses in wealth that result from foreclosures as a result of depreciation to nearby properties will disproportionately impact communities of color. We estimate that, between 2009 and 2012, \$194 and \$177 billion, respectively, will have been drained from African-American and Latino communities in these indirect "spillover" losses alone.

The high cost of foreclosures highlights the negative consequences of reckless and inadequately-monitored lending. With millions of foreclosures still ahead, there is an urgent need for policymakers to take stronger actions to stabilize the housing market, keep families in their homes and prevent destructive lending practices in the future.

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I. INTRODUCTION

The United States is in the midst of the largest mortgage and financial crisis since the Great Depression. Across the country, mortgage delinquencies and foreclosures have hit an all-time recorded high, with 11% of loans currently two or more payments behind.⁴ Complicating matters, 24% of borrowers are “underwater,” having mortgage balances greater than the values of their homes.⁵ Given the magnitude of the crisis resulting from this combination, it is somewhat surprising that more and better data on its scope and the populations affected are not available. By estimating the number of completed foreclosures and the racial and ethnic composition of those foreclosures, this report provides additional insight into these issues.

Owning a home has long been the most accessible way to build wealth and gain a foothold in the middle class. As a result, the current foreclosure crisis has undercut the economic progress and security of families across the country. When families lose their homes, the resulting damage is multifaceted. First, there are the immediate impacts associated with the disruption and upheaval of eviction. A recently released study of Latino families by the University of North Carolina at Chapel Hill and the National Council of La Raza found that families facing foreclosure experienced high rates of depression, marital discord, and a decline in academic performance by affected children.⁶ Second, there are the longer-term consequences of foreclosure. Families who lose a home cannot tap home equity to start a new business, pay for higher education or secure their retirement. Loss of a home also removes a financial cushion against unexpected financial hardships, such as job loss, divorce or medical expenses, and eliminates the main vehicle for transferring wealth inter-generationally. Finally, foreclosures have ramifications that extend beyond the families who lose their homes. Communities with high concentrations of foreclosures lose tax revenue and incur the financial and non-financial costs of abandoned properties and neighborhood blight.⁷ Homeowners living in close proximity to foreclosures suffer depreciated home values—last year, CRL estimated that, by 2012, surrounding property owners would lose \$1.86 trillion in home value.⁸

Even before the foreclosure crisis, our nation evidenced wide socioeconomic disparities. Homeownership rates are much lower for African Americans and Latinos and, while homeownership rates have dropped for all populations since the beginning of the foreclosure crisis (down to 45.6% for African Americans, 48.5% for Latinos and 74.5% for non-Hispanic whites),⁹ these declines represent greater percentage changes for communities of color. In 2007, the median non-Hispanic white family reported \$171,200 in net worth versus only \$28,300 for non-white and Hispanic families¹⁰ and there are large gaps in educational attainment, with 46.8% and 33.1% of African-American and Latino adults having at least some college, compared to 59.3% for non-Hispanic whites.¹¹ Communities of color also commonly experience higher crime and lower tax bases than predominately white neighborhoods. If foreclosures disproportionately impact communities of color, these economic and social disparities stand to grow worse.

While much has been reported on the foreclosure crisis, it is unclear exactly how many homes have already been lost to foreclosure or who has been affected. The degree to which foreclosures are reported and aggregated in a timely way and how accessible these records are varies tremendously, not just from state to state, but from county to county. Furthermore, official data sources do not collect information on the race, ethnicity or income of homeowners who lose their home to foreclosure. However, statistics on the number of foreclosed properties and who has been affected are important precedents both for understanding the long term consequences of the crisis and for determining appropriate policy responses. In this paper, we estimate both the total number of foreclosures that have been completed across the country as well as the foreclosure rates for different racial and ethnic groups.

II. DATA AND METHODS

Our analysis relies on mortgage data collected by the federal government under the Home Mortgage Disclosure Act (HMDA) and data compiled by a private company, Lender Processing Services (LPS). HMDA is the largest publicly available database of U.S. home lending activity. In this report, it serves as our proxy for the “universe” of first-lien mortgages. HMDA includes both data on the terms of the mortgage as well as demographic information on borrowers, including race, ethnicity, and income. Loan performance is not reported in HMDA.

LPS is a private proprietary database that also contains information on individual loans. While LPS does not contain any demographic information on the borrower, it does contain data on loan performance—that is, whether loan payments were timely and the delinquency status of a loan. We estimate that LPS has extensive coverage, equal to approximately 70% of the first-lien mortgages reported to federal regulators in HMDA data from 2005 through 2008.

We define completed foreclosure rates as the proportion of first-lien mortgage originations that completed the foreclosure process or otherwise became real estate owned by the creditor between January 2007 and December 2009.¹² Using LPS, we then stratify the loan-level data into groups based on loan segment (i.e., subprime, non-subprime jumbo, non-subprime conventional, nonconventional), occupancy type, state and year of origination.¹³ For each stratification, we calculate the completed foreclosure rate and apply the resulting 1,632 foreclosure rates to the corresponding loan originations in the 2005-2008 HMDA files, implicitly assuming that the likelihood that a given mortgage in HMDA will have foreclosed will be equal to the rate of completed foreclosure for its corresponding group in LPS.¹⁴ Finally, we aggregate the resulting foreclosure likelihood estimates across all HMDA loans, as well as by various subsets (e.g. race, ethnicity, loan segment and occupancy).¹⁵

In addition, we perform a similar analysis looking at year-end delinquency rates, rather than completed foreclosures. That is, we used data reported for December 2009 in LPS to calculate year-end delinquency rates for each group and applied those to HMDA to explore the distribution of mortgages that were 60 or more days delinquent.

Like all estimates, ours has limitations. Most importantly, our method only captures differences in foreclosure rates between racial and ethnic groups that are due to differences in distributions of loans along the four dimensions that we use when calculating foreclosure rates (i.e. loan year, state, occupancy and loan segment). That is, our estimated foreclosure rates will reflect differences in where different demographic groups live, when they received loans and what types of loans they received, but they will not capture any differences in foreclosure rates that are due to other factors.

Within the list of potential factors not included in our analysis, several tend to be associated with both higher foreclosure rates and borrowers of color. As a result, our results are likely to underestimate racial and ethnic disparities for at least three reasons.

First, not only were borrowers of color more likely to receive subprime loans than white borrowers, but within the subprime market, borrowers of color were more likely to receive the most expensive loans and were more likely to receive subprime terms associated with increased default risk, such as prepayment penalties. Previous research has shown that African-American and Latino borrowers were about 30% more likely to receive the highest-cost subprime loans relative to white subprime borrowers with similar risk profiles and that subprime loans in communities of color were more likely to carry prepayment penalties than subprime loans in majority communities.¹⁶ Our methodology, however, applies the same foreclosure rate to all borrowers within a given state-cohort-occupancy-loan type stratification. While our estimates will reflect differences in the foreclosure rates between loan types, it will not reflect differences *within a loan type* that may be correlated with race or ethnicity.¹⁷

Second, while the foreclosure crisis began with massive defaults on subprime mortgages, loan defaults are increasingly being associated with unemployment. Our methodology does not incorporate the higher unemployment rates of African Americans and Latinos, relative to non-Hispanic whites, and, therefore, is likely to understate the disparate foreclosure rates among these groups.¹⁸

Third, on average, families of color have fewer resources for fending off foreclosure. As noted earlier, families of color generally have lower levels of wealth than white families. In addition, the composition of wealth between racial and ethnic groups is quite different. Non-Hispanic white families tend to have a wider distribution of asset types than other families, with a higher proportion of non-Hispanic white families holding every category of financial and non-financial asset. So, in addition to the lower levels of wealth, lower levels of asset diversification makes families of color more vulnerable to downturns in the housing market.¹⁹

All of these factors suggest that the disparities in foreclosure rates between racial and ethnic groups are likely to be greater than indicated by our estimates.

III. ANALYSIS

Based on our application of LPS completed foreclosure rates to the universe of HMDA loans, we calculate the following:

Estimate 1. 2.5 million foreclosures have been completed since housing prices began their precipitous decline in January 2007.

A large number of homes—we estimate 2.5 million (2,480,650)—completed the foreclosure process in the three-year period beginning in January 2007 when housing prices began their precipitous decline.²⁰ This figure is equivalent to roughly 1 in every 20 mortgages outstanding at the onset of the crisis.²¹ During this same time period, more than twice as many foreclosures were initiated as have been completed: we estimate that there were 6.9 million foreclosure starts between 2007 and 2009.²²

2005-2008 Originations: Loan Type, Owner-Occupancy, Race and Ethnicity

Looking more closely at the subsample of loans that were originated between 2005 and 2008, we estimate that subprime loans have accounted for 64% of these foreclosures, despite the fact that they comprised only 22% of originations during these years. In fact, at 16.5%, the estimated completed foreclosure rate for subprime loans dwarfs the next highest category (non-subprime jumbo loans, at 4.4%).

Table A: Estimated 2007-2009 Performance of Recent First-Lien Mortgage Originations (2005-2008)

	Share of Originations	Completed Foreclosure Rate	Share of Completed Foreclosures
Subprime	22.0%	16.5%	63.6%
Jumbo	7.5%	4.4%	5.9%
Government Insured	7.6%	3.8%	5.1%
Conventional	62.9%	2.3%	25.5%
Total	100.0%	5.7%	100.0%

Estimate 2. The vast majority—82%—of foreclosures have been on primary residences, not investment properties.

Contrary to some reports, the vast majority of foreclosures are not the result of reckless speculators who “made bad bets” on investment properties. Our findings suggest that, while investment properties completed the foreclosure process at a much higher rate than primary residences (8.5% vs. 5.3%), 82% of completed foreclosed 2005-2008 loans were on owner-occupied properties (see Table B).²³ Applying this proportion to all loan cohorts, we estimate that 2 million of the 2.5 million completed foreclosures have been on owner-occupied properties.

Table B: Estimated 2007-2009 Performance of Recent First-Lien Mortgage Originations (2005-2008), by Occupancy Type

	Share of Originations	Completed Foreclosure Rate	Share of Completed Foreclosures
Owner-Occupied	87.9%	5.3%	82.0%
Non Owner-Occupied	12.1%	8.5%	18.0%
Total	100.0%	5.7%	100.00%

Estimate 3. The foreclosure crisis has disproportionately affected African-American and Latino borrowers, who are 76% and 71% more likely, respectively, to have lost their home to foreclosure than non-Hispanic white borrowers. Other groups comprised of borrowers of color also had higher foreclosure rates.

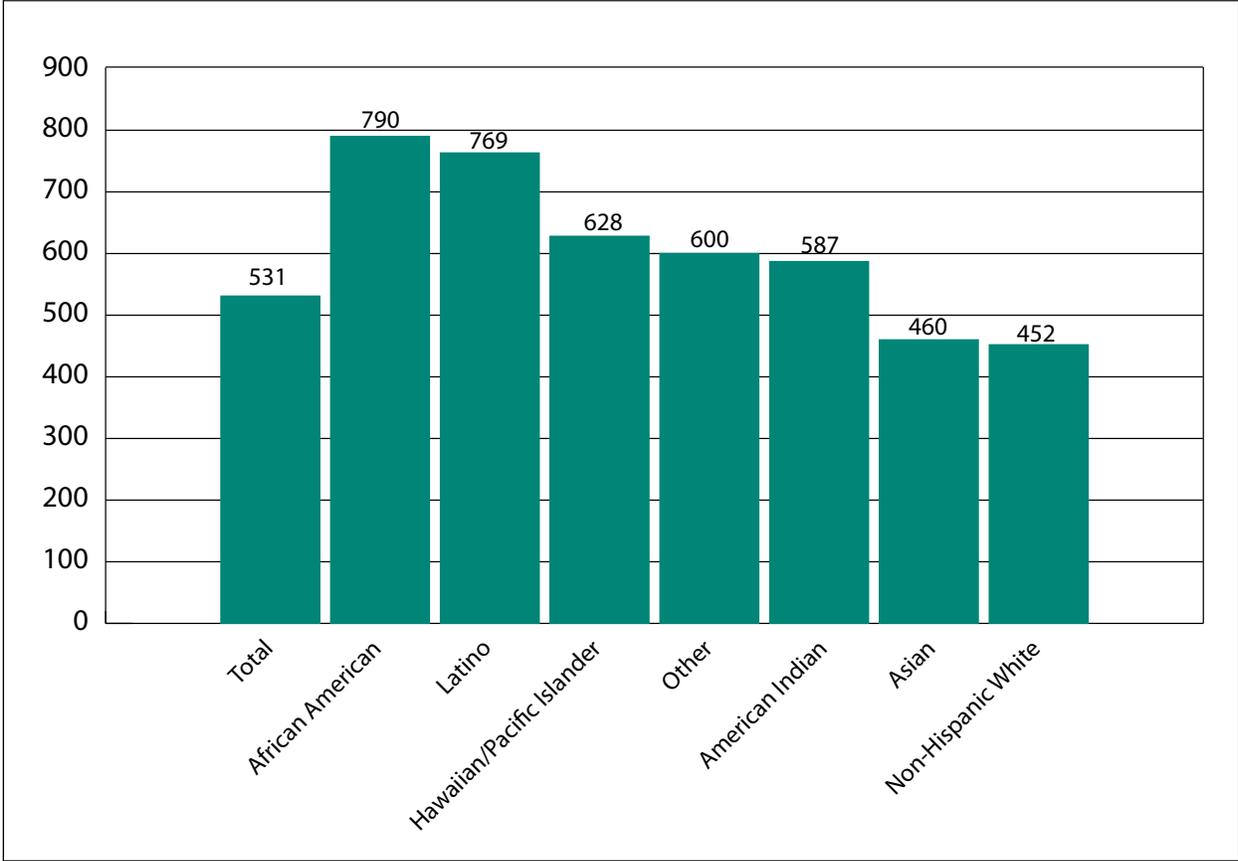
African-American and Latino borrowers have been particularly hard-hit by the foreclosure crisis. Among owner-occupants, our estimates suggest that 7.9% of African Americans and 7.7% of Latinos who received loans to purchase or refinance their primary residence between 2005 and 2008 have lost their homes to foreclosure between 2007 and 2009, compared to an estimated 4.5% of non-Hispanic whites (see Table C). The last column of Table C reports the disparity among the completed foreclosure rates of various groups relative to that of non-Hispanic whites. It shows that African Americans and Latinos were 1.76 and 1.71 times as likely (or, in other words, 76% and 71% more likely) to have experienced a completed foreclosure. American Indians and Hawaiian/Pacific Islanders also have relatively high estimated completed foreclosure rates (5.9% and 6.3%).

Table C: Estimated 2007-2009 Foreclosures of Recent First-Lien Owner-Occupied Mortgage Originations (2005-2008), by Borrower Race and Ethnicity

Borrower Group	Share of Originations	Completed Foreclosure Rate	Share of Completed Foreclosures	Disparity Ratio
Non-Hispanic White	65.9%	4.5%	56.1%	1.00
African American	7.8%	7.9%	11.6%	1.76
Latino	11.2%	7.7%	16.2%	1.71
Asian	3.9%	4.6%	3.3%	1.02
American Indian	0.4%	5.9%	0.4%	1.31
Hawaiian/Pacific Islander	0.4%	6.3%	0.5%	1.40
Other	10.5%	6.0%	11.8%	1.33
Total	100.0%	5.3%	100.0%	1.18

Applying the share of completed foreclosures for each demographic group from the 2005 – 2008 cohorts to the 2 million foreclosures on owner-occupied properties completed between 2007 and 2009, we estimate that African-American and Latino families have already lost 240,020 and 335,950 homes, respectively, since the beginning of the crisis.²⁴

Figure 1: 2007-2009 Foreclosures per 10,000 Loans to Owner-Occupants Originated in 2005-2008



The disparity in the foreclosure rate estimates between African Americans, Latinos and non-Hispanic whites is not simply the result of differences in income. As shown in Table D on the next page, even within income categories, the estimated share of completed foreclosures affecting African Americans and Latinos is disproportionate compared to their share of originations.²⁵ For example, though African-American and Latino borrowers received 25.8% of all loans to low-income borrowers, we estimate that they were affected by 32.9% of completed foreclosures for this group. This pattern is found for all income categories and is consistent with studies that have found borrowers of color to be more likely to receive higher-rate subprime loans even after controlling for income.²⁶

Table D: Estimated 2007-2009 Performance of Recent First-Lien Owner-Occupied Mortgage Originations (2005-2008), by Borrower Income, Race, and Ethnicity

Borrower Group	Share of Originations	Share of Completed Foreclosures	Disparity Ratio
Low-Income			
African American	14.8%	21.0%	1.6
Latino	11.0%	11.9%	1.2
Non-Hispanic White	74.1%	67.1%	1.0
Moderate-Income			
African American	12.3%	18.0%	1.6
Latino	12.3%	15.5%	1.4
Non-Hispanic White	75.4%	66.5%	1.0
Middle-Income			
African American	9.8%	14.5%	1.7
Latino	13.2%	19.0%	1.7
Non-Hispanic White	77.0%	66.5%	1.0
High-Income			
African American	6.4%	9.9%	1.8
Latino	13.9%	22.8%	1.9
Non-Hispanic White	79.6%	67.3%	1.0

Estimate 4. At the end of March 2010, 5.7 million borrowers were at imminent risk of foreclosure by virtue of being two or more payments behind on their mortgage. African-American and Latino borrowers continue to be disproportionately at risk relative to non-Hispanic white borrowers.

In addition to the 2.5 million foreclosures that have already been completed, we estimate that 5.7 million borrowers are currently at risk of losing their homes.²⁷ Within this group of at-risk borrowers, we estimate the majority of at-risk borrowers are non-Hispanic white, with these borrowers accounting for 60% of all homes at risk of foreclosure. However, as was the case with completed foreclosures, borrowers of color continue to be disproportionately at risk of losing their homes relative to their share of outstanding mortgages. Specifically, African Americans and Latinos are, respectively, 47% and 45% more likely to be facing foreclosure than whites. Extending this analysis, we estimate that 494,930 African-American and 731,660 Latino homeowners are at imminent risk of foreclosure.²⁸

When combined with our estimates of completed foreclosures, the total number of African Americans and Latinos who have lost or who are in imminent danger of losing their homes is 734,950 and 1,067,610, respectively. Expressed as a share of the total number of homeowners as of 2006, we estimate that 11% of all African-American homeowners and 17% of Latino homeowners have already lost or are likely to lose their homes—compared to 7% of non-Hispanic whites.²⁹

Table E: Estimated Owner-Occupied Loans at Imminent Risk of Foreclosure (60+ days delinquent or in foreclosure) by Race and Ethnicity, 2005-2008 Originations

Borrower Group	Portion at Risk	Disparity Ratio
Non-Hispanic White	14.8%	1.00
African-American	21.6%	1.47
Latino	21.4%	1.45
Asian	15.7%	1.07
American Indian	16.5%	1.12
Hawaiian/Pacific Islander	18.6%	1.26
Other	17.8%	1.21
Total	16.4%	NA

Finally, in addition to the losses experienced by those who go through foreclosure, there are financial and nonfinancial consequences for homeowners who live nearby foreclosed properties. As a result of the disproportionate number of foreclosures borne by African Americans and Latinos, the “spillover” costs, in the form of depreciated home values, increased crime rates, and community blight, are likely to hit communities of color particularly hard. Based on their share of total home value and our estimated foreclosure rates, we calculate that the spillover wealth lost to African-American and Latino communities between 2009 and 2012 as a result of depreciated property values alone will be \$194 billion and \$177 billion, respectively.³⁰ Furthermore, this crisis is not over. Though we have estimated that 2.5 million foreclosures have been completed and 5.7 million more borrowers are at imminent risk, industry experts predict many more are to come. In connection with the crisis, Credit Suisse has projected 10 million defaults by 2012; Goldman Sachs has forecast 13 million by 2014.³¹

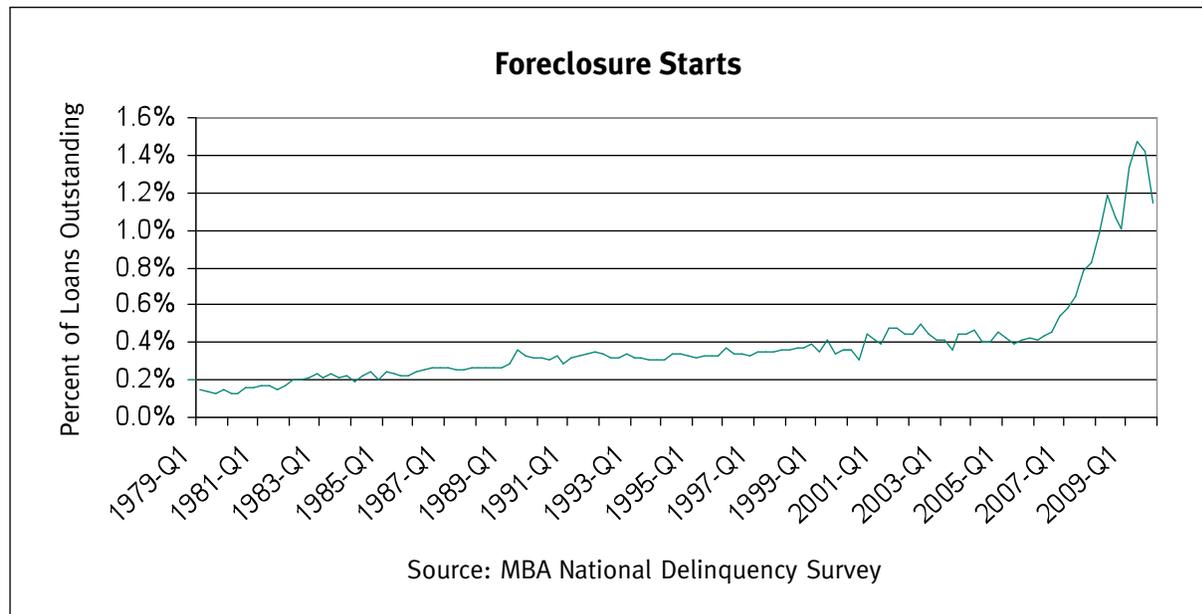
IV. DISCUSSION

Our estimates of the number and demographic distribution of foreclosures raise two central questions. First, what led to 2.5 million completed foreclosures in such a short period of time? Second, why were African-American and Latino borrowers hit particularly hard? Below we examine how the structure, operations and weak regulation of our mortgage system contributed to the overall foreclosure crisis and to the disproportionate impact on communities of color.

A. What Caused the Foreclosure Crisis?

Because there are no publicly-available data sources on the number of completed foreclosures, we cannot compare our estimated 2.5 million completed foreclosures to a historical benchmark. However, according to MBA data on foreclosure starts (see Figure 2), the spike in foreclosures over the last three years has been dramatic. In addition, the proportion of mortgages at some point in the foreclosure process (4.63%) is at a historical high, nearly five (4.9) times higher than the average of all quarterly rates from 1979 to the start of the crisis and three (3.1) times higher than the next closest pre-crisis high (1.51% in 1Q-2002).³² What caused this historic spike in foreclosures?

Figure 2. Trends in Foreclosures



Maryland’s “Foreclosure Capital”: Prince George’s County

Until recent years, foreclosures typically were isolated events with occasional regional concentrations. Now, with millions of home loans failing in rapid succession across the nation, entire communities—particularly communities with predominantly African-American and Latino residents—are being severely affected.

A prominent example is Prince George’s County, Maryland, one of the nation’s largest African-American-majority counties. With a higher rate of foreclosures than any other place in the state, Prince George’s has become Maryland’s “foreclosure capital.”

PG County has less than 14% of the state’s housing units, yet in 2009, the county recorded 13,412 foreclosure filings—accounting for 31% of the state’s total filings. One out of every 24 homes in PG County is in the foreclosure process, compared to a statewide rate of one out of 54.

For more details and information, including a profile of a Prince George’s resident facing foreclosure, go to www.responsiblelending.org/mortgage-lending/research-analysis/foreclosure-capital.html.

1. Dangerous Loan Products, Faulty Underwriting and Inadequate Regulation

We have estimated that 64% of completed foreclosures resulted from subprime mortgages, despite these loans comprising only 22% of originations at their peak. This supports the substantial body of evidence—including statements and testimony by banking executives—that the foreclosure crisis resulted from dangerous loan products combined with unsound underwriting practices.³³ This is also the conclusion reached in a report mandated by lawmakers. In January, the Department of Housing and Urban Development (HUD) Office of Policy Development and Research issued its final report to Congress on the causes of the financial crisis. According to HUD’s findings, while softening housing prices were clearly a triggering factor, the crisis itself is “fundamentally the result of rapid growth in loans with a high risk of default—due both to the terms of these loans and to loosening underwriting controls and standards.”³⁴

These dangerous products and practices were primarily, although not exclusively, concentrated in the subprime and Alt-A markets, where

remarkably rapid growth was made possible by two major changes in the structure of the mortgage market. First, lenders began to rely heavily on mortgage brokers to originate their loans, particularly in the subprime market. Second, Wall Street became increasingly willing and able to create investment products derived from riskier loan products, providing massive amounts of capital for their origination.

These two factors—reliance on mortgage brokers and private securitization—fundamentally changed the dynamic of the mortgage market. Under the traditional lending model, where lenders both originate and hold their mortgages, there is a vested interest in making sure that borrowers can afford to repay their loans. In this new system, however, brokers are making loans on behalf of lenders who are then selling these mortgages to investment banks, who ultimately pool and sell complex securities backed by these loans to investors all over the world. The quality of the loans and their ultimate sustainability became far less important to those who were driving the market, especially since their compensation was based on the volume of their transactions, not loan performance. In other words, the interests of the various links in the mortgage origination chain were far removed from the interests of the homebuyers.³⁵

Consequently, many lenders aggressively marketed and originated loans without due regard for borrowers' ability to repay them. As a result, the market became inundated with products that had been uncommon—such as products with introductory “teaser” rates that reset after a few years to a much higher rate, loans that did not require income verification, and negatively-amortizing payment-option products where the balance of the loan could grow over time. These loans were often made on the basis of weak underwriting and distributed without regard to whether they were suitable for their borrowers.

Finally, the regulatory system failed by not adapting to the changing structure of the mortgage market and the increased complexity of mortgage products. Much has been written about the failure of regulators to identify systemic risks to the safety and soundness of the financial sector. Less has been written about how the consequences of this failure could have been blunted, at least somewhat, had the regulators provided and enforced sufficient consumer protections. In fact, federal regulators actively hindered consumer protection at the state level, ruling that strong state anti-predatory lending laws could not be enforced on nationally-chartered banks or thrifts.³⁶

Even when agencies focused limited attention on consumer protection, they tended to rely on disclosure rules and the issuance of non-binding “guidance” over hard and fast rules. It was not until July 2008, 14 years after Congress had authorized the Federal Reserve Board to prohibit mortgage lending acts and practices for all originators that were abusive, unfair or deceptive, that the Fed implemented any rules to ban some of the more abusive practices, despite the fact that borrowers, state regulators and consumer advocates had repeatedly raised concerns about abuses in the subprime market and pointed to evidence demonstrating the destructive consequences of such practices.

The foreclosure crisis is “fundamentally the result of rapid growth in loans with a high risk of default—due both to the terms of these loans and to loosening underwriting controls and standards.”

- Report to Congress on the Root Causes of the Foreclosure Crisis, U.S. Department of Housing and Urban Affairs (page vii).

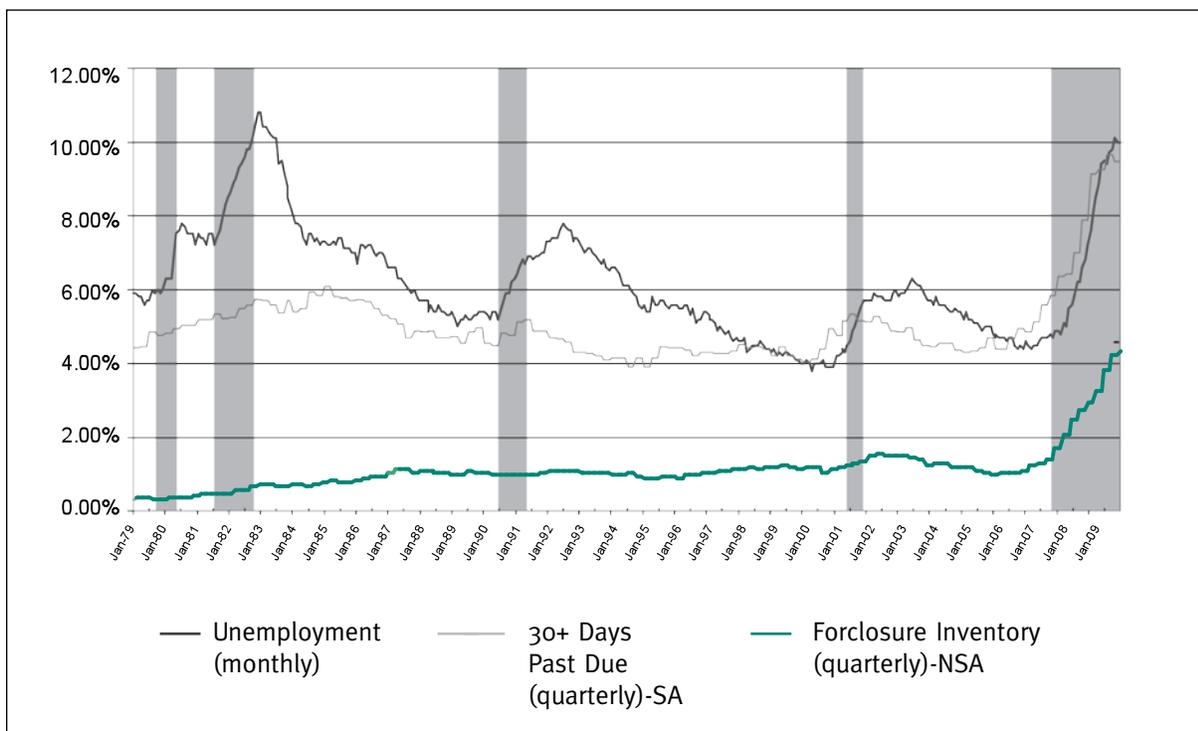
2. The Red Herrings: Unemployment, the CRA and the GSEs

While the foreclosure crisis is clearly a complicated event with multiple causes, there are at least three factors whose influence has been overstated: unemployment, the Community Reinvestment Act (CRA), and the role of the Government-Sponsored Enterprises (GSEs).

Unemployment

In light of today's high unemployment rates, some observers have claimed that unemployment has been to blame for the foreclosure crisis. To consider the validity of this claim, it is useful to examine historical trends—that is, to review how the housing market typically behaves during periods of high job losses. The chart below shows that, over the past few decades, the connection between unemployment and foreclosures has been weak. During previous periods of high unemployment, while delinquency levels did rise, foreclosure numbers remained essentially flat. This strongly suggests that unemployment, while certainly exacerbating the current foreclosure epidemic, is not a necessary and sufficient causal factor.

Figure 3: Mortgage Performance and Unemployment



Source: MBA National Delinquency Survey, Bureau of Labor Statistics.

Note: Light gray shaded areas represent periods of recession, according to the National Bureau of Economic Research.

Of course, even if the connection is not as simple as some may have suggested, the current foreclosure crisis and unemployment are related. The large-scale failure of subprime loans and the financial derivatives backed by them triggered turmoil in the housing and financial markets, contributing significantly to the most recent recession and resulting high levels of unemployment. The increase in unemployment, in turn, has exacerbated the foreclosure epidemic, as many people were losing their jobs at the same time that they were also facing negative equity positions on their homes.³⁷ In addition, long-term unemployment has grown to 6.7 million as of April 2010 compared to an average of 700,000 in 2006.³⁸ But even these families would most likely be able to avoid foreclosure if they could sell their home for enough to pay off their mortgage balance.

The Community Reinvestment Act

There have been persistent attempts to pin the foreclosure crisis on the Community Reinvestment Act (CRA), a law passed in 1977 designed to encourage depository institutions to increase lending in lower-income communities. Critics of the CRA used the foreclosure crisis to suggest that lending to “risky” borrowers who are the beneficiaries of the CRA is at the root of the problem. However, this accusation is simply not backed by the facts, and banking and government leaders as diverse as OCC head John Dugan, FDIC Chairman Sheila Bair, Federal Reserve Governor Randall Kroszner and others have publicly and explicitly stated that CRA did not cause the financial crisis.³⁹ Among the empirical evidence that dispels the CRA myth are these items:

- CRA has been on the books for three decades, while the rapid growth of subprime and other non-prime loan securitization and the pervasive marketing of risky loan products did not occur until recent years.
- Studies have shown that loans made to low- and moderate-income borrowers under CRA perform better than loans made by originators not covered by CRA or outside of CRA-assessment areas.⁴⁰
- The Federal Reserve estimates that CRA lending accounted for a mere 6% of all subprime lending.⁴¹ The predominant players in the subprime market—mortgage brokers, mortgage companies and the Wall Street investment banks that provided the financing—were not covered under CRA.

The failure of the public sector was its inability or unwillingness to adequately address predatory lending practices, not in its support of lending to historically underserved communities. Blaming CRA when approximately 94% of subprime loans were not covered by the Act’s requirements serves only to distract attention from the real shortcomings of the mortgage and regulatory system.

GSEs

Attempts to blame public policy initiatives also have extended to Fannie Mae and Freddie Mac, the government-sponsored enterprises charged with expanding affordable housing by providing capital to private lenders. Those blaming the GSEs point to their decision to purchase subprime securities from Wall Street. Although in hindsight it is clear that these purchases were a mistake, it is important to note that the GSEs’ role in supporting toxic loans was small in comparison with that of private industry. As CRL has previously noted in testimony,⁴² all subprime mortgage-backed securities were created by Wall Street. By and large, Fannie Mae and Freddie Mac did not directly purchase these loans from lenders because the loans did not meet their underwriting guidelines. When they did begin to purchase subprime mortgage-backed securities as part of their *investment* portfolios, they were relative late-comers to a market that had been created by private sector firms. For more details, see CRL’s January 2010 testimony before the Financial Crisis Inquiry Commission.⁴³

B . What caused the foreclosure crisis to have such disparate impacts on different racial and ethnic groups?

The second major issue raised by our research is the disparate impact of the foreclosure epidemic on communities of color. We have emphasized that our findings are estimates, not precise measures, but even with this caution in mind, our analysis suggests dramatic differences in how the foreclosure crisis has affected racial and ethnic groups. It is beyond the scope of this report to explain all of the historical and economic factors that may have produced these disparities, but a few facts about the development of the subprime market seem relevant in explaining why borrowers of color were particularly vulnerable to the lending practices that led to the foreclosure crisis.

1. The subprime market was less transparent and less competitive.

Risk-based pricing, that is, the ability for lenders to charge different rates to different people based on their risk, is an established and legal practice in the United States and has undoubtedly opened up the credit markets to people who would otherwise be denied access. The growth of the subprime market was made possible, in large part, by the development of risk assessment techniques that caused lenders to become more comfortable pricing loans based on the perceived risk of default. However, risk-based pricing has also led to two distinct segments in the mortgage market—one prime, one subprime—which operated very differently from one another.

In the subprime market, the lack of market transparency and the prevalence of complicated non-traditional products made price comparisons much more difficult.

In the prime market, competition and the dominance of traditional loan products and practices have resulted in a relatively efficient system where borrowers can more easily compare prices and products offered by different lenders. In the subprime market, however, the lack of market transparency (subprime lenders seldom advertised their interest rates) and the prevalence of complicated non-traditional products made price comparisons much more difficult.

This market segmentation, discretionary pricing and lack of transparency in the subprime market often resulted in inefficient, confusing, and even unfair loan prices. According to a recent analysis by Vertical Capital Solutions, loan originators frequently steered customers to loans with risky features and higher interest rates than those for which they qualified.⁴⁴ It found that 30% of the borrowers in the sample (which included all types of loans and borrowers) could have received a more affordable loan. Similarly, the *Wall Street Journal* reported on a study that found 61% of subprime loans originated in 2006 “went to people with credit scores high enough to often qualify for conventional [i.e., prime] loans with far better terms.”⁴⁵ Even applicants who did not qualify for prime loans could have received sustainable, 30-year, fixed-rate subprime loans for—at most—half to eight-tenths of a percent above the initial rate on the risky ARM loans they received.⁴⁶ In this market, African-American and Latino borrowers were particularly vulnerable, as originators targeted traditionally underserved communities for subprime loans and steered borrowers of color to higher-cost loans. Indeed, court cases and information provided by former employees of subprime lenders describe the systematic targeting of African-American neighborhoods and other communities of color.⁴⁷ In addition, research previously issued by the Center for Responsible Lending shows that African-American and Latino borrowers were about 30% more likely to get higher-rate subprime loans than white borrowers with similar risk characteristics.⁴⁸

2. The subprime market focused primarily on refinances, often draining equity from lower-income, cash-strapped homeowners.

Despite myths, often perpetuated by the media, of subprime borrowers using loans to purchase “McMansions,” the subprime market was predominately a refinance, not a purchase market. From 2004–2008, 58.5% of subprime loans were refinance or home improvement loans.⁴⁹ Often, borrowers were not even looking for a mortgage. Rather, lenders or brokers aggressively marketed their products and lured homeowners through deceptive initial “teaser” rates and relatively small amounts of money generated from cash-out refinances, all the while stripping equity through high fees and making it all but impossible for the borrower to stay in the home without refinancing again when the rate reset. Borrowers with few assets, low and sometimes volatile incomes, and a history of being underserved by mainstream banks were particularly susceptible to these practices.

3. Brokers had strong incentives to steer borrowers into riskier, more expensive loans.

The dominance of broker originations in the subprime market added a further complication, as the brokers’ compensation structure encouraged them to increase interest rates without regard to a borrower’s objective qualifications. Specifically, as part of their compensation, brokers are often paid a yield-spread premium (YSP), which is paid by the lender to the broker and is a function of the loan amount and the difference between the par rate of a loan (i.e., the rate the borrower qualifies for) and the actual rate that the borrower receives. YSPs are essentially kickbacks from lenders to brokers for steering borrowers into over-priced loans. Because broker compensation is not tied to loan performance, there is little or no incentive to consider borrowers’ ability to afford a loan. As we now know, the lack of interest in a borrower’s ability to repay had a profound effect on losses in the Alt-A market as well as the subprime market.

Because broker compensation is not tied to loan performance, there is little or no incentive to consider borrowers’ ability to afford a loan.

In addition, loans made by brokers often cost more. A 2008 CRL study that analyzed the cost differences between loans originated by independent mortgage brokers and those originated by retail lenders found that for subprime borrowers, broker-originated loans were consistently far more expensive than retail-originated loans, with additional interest payments ranging from \$17,000 to \$43,000 per \$100,000 borrowed over the scheduled life of the loan. Even in the first four years of a mortgage, a typical subprime borrower who used a broker paid \$5,222 more than a borrower with similar creditworthiness who received a loan directly from a lender.⁵⁰

Because borrowers of color disproportionately received subprime loans, the dominance of brokers in this market is particularly problematic for these groups. A recent court case provides an example of the impact of brokered loans on communities of color. In early March of this year, two subsidiaries of American International Group agreed to pay at least \$6.1 million in response to a claim that mortgage brokers working for these companies overcharged African Americans on thousands of loans made between July 2003 and May 2006.⁵¹ In connection with this case, Assistant Attorney General Thomas E. Perez said, “Discriminatory practices by lenders, brokers, and other players in the mortgage market contributed to our nation’s housing crisis and economic meltdown.”⁵²

4. Fair lending and laws against discrimination received scant attention.

The Fair Housing Act and Equal Credit Opportunity Act (ECOA) explicitly outlaw discrimination on the basis of race or ethnicity whether through steering or targeting. However, responsibility for enforcing anti-discrimination statutes has been fragmented among various federal regulators. The record suggests that even though federal regulators received numerous complaints, they took very few actions. For example, despite significant evidence that national banks were engaged in potentially discriminatory practices,⁵³ their primary regulator, the Office of the Comptroller of the Currency (OCC) brought only four formal enforcement actions under ECOA from 1987 to July 2009. From 2000 to 2009 the OCC made *no* referrals to the Department of Justice under ECOA for cases involving race or national origin discrimination in mortgage lending.⁵⁴ Similarly, from 2000 to 2006, the Office of Thrift Supervision (OTS), which regulates thrift institutions (all federal thrifts and many state-chartered thrifts) made no referrals for race or national origin discrimination in mortgage lending, even though the Department of Justice filed a complaint in 2002 alleging that Mid America Bank, regulated by the OTS, engaged in a pattern of racial redlining.⁵⁵

V. CONCLUSION AND POLICY RECOMMENDATIONS

We have estimated that two million families have lost their primary homes and that African-American and Latino borrowers have borne and will continue to disproportionately bear the burden of foreclosures. Our estimates were generated by calculating foreclosure rates in a large proprietary dataset and applying them to origination data, including information about borrowers' demographic profiles. Future research could make additional contributions by merging such datasets to allow the direct calculation of foreclosures.

We have shown that foreclosures will likely continue to grow substantially while continuing to have a disproportionate impact on communities of color. To respond effectively, policymakers should strengthen their efforts to prevent needless foreclosures. Currently, the government is attempting to curb foreclosures through its voluntary Making Home Affordable program, particularly the Home Affordable Modification Program (HAMP). It has become clear, however, that to make a significant difference for families at risk, voluntary measures alone will not be sufficient. In addition to continuing to improve HAMP's performance, we recommend a multi-pronged approach that includes requiring all servicers to engage in loss mitigation and providing authority to bankruptcy judges to modify mortgages on principal residences.

As of this report's release date, the Senate and House of Representatives have both passed legislation creating a Consumer Financial Protection Agency to provide necessary regulatory oversight, setting basic mortgage underwriting standards, and removing financial incentives for loan originators to steer borrowers into worse loans than those for which they qualified. Assuming this legislation is

signed into law and effectively implemented, we believe it will make a significant difference in helping to prevent similar crises from occurring in the future.

Finally, policy decisions should reflect the demographic realities of the foreclosure crisis. Loan servicers need to have an adequate number of bilingual staff to assist non-English speakers.

Policymakers should prepare for additional strains on social service organizations, particularly those that serve communities of color. Federal and state enforcement authorities should renew their commitment to abolishing discrimination in mortgage lending through enforcement actions and also pay special attention to fair housing enforcement as these displaced families enter the rental market again. Finally, policymakers must vigilantly guard against efforts to use the current crisis as an excuse to roll back policies designed to support homeownership for disadvantaged communities. Indeed, in the wake of this crisis, communities that have historically been the beneficiaries of such policies will need access to responsible and fairly-priced credit more than ever as they seek to rebuild financial security.

Policy decisions should reflect the demographic realities of the foreclosure crisis.

NOTES

1 We estimate that 83% of foreclosures during our time frame were originated between 2005 and 2008. Because of data limitations, our estimates of completed foreclosure rates by race and ethnicity are limited to loans originated during these years.

2 The historical average was 0.95%, and the next closest pre-crisis high was 1.51% in 1Q-2002.

3 Rod Dubitsky, Larry Yang, Stevan Stevanovic and Thomas Suehr, *Foreclosure Update: Over 8 million Foreclosures Expected*, Credit Suisse (December 4, 2008) (projecting 10 million foreclosures by 2012 at current unemployment rates) and Jan Hatzius and Michael A. Marschoun, *Home Prices and Credit Losses: Projections and Policy Options*, Goldman Sachs Global Economics Paper (Jan 13, 2009) (projecting 13 million foreclosures by 2014) at 16.

4 Delinquency data from Mortgage Bankers Association, National Delinquency Survey (1Q-2010); estimates of underwater borrowers from First American Core Logic as of the end of the first quarter of 2010 (CoreLogic Real Estate News and Trends, May 10, 2010).

5 First American Core Logic as of the end of the first quarter of 2010, CoreLogic Real Estate News and Trends, (May 10, 2010).

6 Bowdler, Quercia and Smith, *The Foreclosure Generation: The Long-Term Impact of the Housing Crisis on Latino Children and Families*, National Council of La Raza (February 2010) available at <http://www.nclr.org/content/publications/detail/61725>.

7 A recent report by the Urban Institute estimated the financial costs to local governments of a single foreclosure at \$19,229, available at http://www.urban.org/UploadedPDF/411909_impact_of_foreclosures.pdf, page 21. Also see Daniel Immergluck and Geoff Smith, *The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values*, Housing Policy Debate (17:1) Fannie Mae Foundation (2006); and Daniel Immergluck and Geoff Smith, *The Impact of Single Family Mortgages on Crime*, Housing Studies 21 (6):851-866 (2006).

8 *Soaring Spillover: Accelerating Foreclosures to Cost Neighbors \$502 Billion in 2009 Alone*, Center for Responsible Lending (May 2009), available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf>.

9 At their peaks this decade, slightly more than 76% of non-Hispanic white households owned their home, while the shares for African Americans and Latinos were only 49.4% and 49.8%, respectively. U.S. Census Bureau, "Census Bureau Reports on Residential Vacancies and Homeownership" (April 26, 2010) (available at <http://www.census.gov/hhes/www/housing/hvs/qtr110/files/q110press.pdf>).

10 Average levels of wealth were \$629,000 and \$229,300, respectively. *2007 Survey of Consumer Finances*, Internal Data, Nominal Dollars at Table 4.

11 Based on the 2006-2008 American Community Survey for Adults ages 25 and over.

12 For example, a homeowner might give title to the lender to avoid foreclosure in a transaction commonly referred to as deed-in-lieu of foreclosure. It is important to note that our calculations differ from commonly-reported figures concerning foreclosure starts or foreclosure filings. Here, we are concerned only with those mortgages where a home has been lost.

13 In LPS, we define "subprime" as loans given a B or C credit rating or non-negatively amortizing adjustable rate loans with margins of at least 300 basis points.

14 In HMDA, we use the higher-rate reporting status as a proxy for subprime. Our confidence in matching foreclosure rates to loans reported under HMDA is greatest on loans originated in 2005-2008 because of data limitations in HMDA filings for other years. As a consequence, most of our estimates are restricted to this subset of mortgages. However, since the 2005-2008 origination cohorts have accounted for the vast majority (83%) of recent foreclosures and in all likelihood will continue to account for the large majority of foreclosures, this limitation is not overly constrictive. Furthermore, to arrive at our total number of completed foreclosures, which does include pre-2005

cohorts, we use the proportion of LPS foreclosures that were comprised of pre-2005 cohorts for each product/state/occupancy combination and adjust our HMDA aggregate estimates to account for these earlier originations.

15 HMDA codes race and ethnicity separately. Specifically, there is one ethnicity variable that indicates whether the borrower is Hispanic or not Hispanic (as well as one ethnicity variable for the co-borrower) and five race variables, which allow borrowers to specify multiple racial identities. For our purposes, we relied solely on the first borrower's racial and ethnic identities. We considered any borrower in HMDA with the ethnicity variable coded as Hispanic/Latino to be Latino, regardless of their racial coding. Any non-Hispanic borrowers who list African American as any of their five racial categories is considered to be African American. Borrowers are only considered to be non-Hispanic white if they did not list any other racial designation in any of the five race variables.

16 Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, *Race, Ethnicity and Subprime Home Loan Pricing*, Journal of Economics and Business, 60, 110–124 (2008); and Debbie Gruenstein Bocian and Richard Zhai *Borrowers in High Minority Areas are More Likely to Receive Prepayment Penalties on Subprime Loans* (2005), available at http://www.responsiblelending.org/mortgage-lending/research-analysis/rr004-PPP_Minority_Neighborhoods-0105.pdf.

17 A report published by the University of North Carolina showed that risky loan products, such as those with adjustable rates and prepayment penalties, are what drive loan defaults, not risky borrowers. See Ding, Quercia, Li and Ratcliffe, *Risky Borrowers or Risky Mortgages: Disaggregating Effects Using Propensity Score Models* (May 2010) available at <http://www.ccc.unc.edu/documents/Risky.Disaggreg.5.17.10.pdf>.

18 As of May 2010, for example, 14.7% of African Americans and 11.8% of Latinos are unemployed, compared to 8.3% of whites (Bureau of Labor Statistics, non-seasonally adjusted data for May 2010).

19 2007 Survey of Consumer Finances Internal Data, Nominal Values, Tables 4, 6 and 9.

20 This figure is consistent with data published by HOPE NOW. According to their data reports, between 2007 and 2009, approximately 2.4 million foreclosure sales took place.

21 1Q-2007 Mortgage Bankers Association National Delinquency Survey, scaled up to adjust for market coverage.

22 Estimates of foreclosure starts are derived from the Mortgage Bankers Association's National Delinquency Survey, scaled up to adjust for market coverage.

23 We also used LPS to calculate the proportion of foreclosures that were comprised of pre-2005 originations. After calculating these proportions by occupancy, loan type and state and weighting them to HMDA, we estimated that 84% of foreclosures were on owner-occupied properties. We use 82% in our analysis to be conservative and for ease of explanation.

24 Although these estimates of the racial and ethnic composition of completed foreclosures are based on the sample of loans originated between 2005 and 2008, it is reasonable to assume that the composition is approximately the same for the entire set of completed foreclosures. As previously noted, we estimate that the vast majority (83%) of completed foreclosures were on loans originated between 2005 and 2008, the years on which are racial and ethnic composition is based. Furthermore, we have estimated that an additional 10% of completed foreclosures were from 2003 or 2004, which are likely to have similar compositions. Given that only 7% of our completed foreclosures were originated more than two years outside of the data range that we are using to determine the racial and ethnic composition, we believe the likelihood that this assumption would bias results meaningfully is acceptably low.

25 Income groups are defined as follows: low-income is less than 50% of the area median income (AMI); moderate income is 50-80% of AMI; middle income is 80-120% of AMI; high income is greater than 120% of AMI.

26 See, for example, *Foreclosure in the Nation's Capital: How Unfair and Reckless Lending Undermines Homeownership*, National Community Reinvestment Coalition (April 2010); Debbie Gruenstein Bocian, Keith S. Ernst and Wei Li, *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*, Center for Responsible Lending (May 31, 2006).

27 “At-risk” borrowers are those who are 60 days or more delinquent on their mortgage, including those who are in default or in some stage of the foreclosure process. Though the 5.7 million total comes from the 1Q-2010 MBA National Delinquency Survey, adjusted for market coverage, our racial and demographic breakdowns are estimated using a methodology similar to our completed foreclosure methodology. That is, we apply imminent risk rates from LPS as of December 2009 to HMDA originations by the same stratified groups.

28 These figures are derived by applying our demographic distribution to the estimated 5.1 million owner-occupied loans at imminent risk of foreclosure (based on our LPS/HMDA analysis, 89% of loans at imminent risk of foreclosure are owner-occupied, which we applied to the 5.7 million figure from MBA).

29 Based on data from the 2006 Current Population Survey, we estimated that the total number of African-American and Latino homeowners in 2006 was 6,748,964 and 6,196,905, respectively. The total number of estimated and imminent foreclosures for non-Hispanic whites is 4,244,907. Based on data from the 2006 Current Population Survey, we estimated that the total number of white homeowners in 2006 was 62,322,280.

30 CRL has previously estimated that \$1.86 trillion will be lost between 2009 and 2012 due to depreciated home values associated with nearby foreclosures. We combine the 2007 Survey of Consumer Finances data with household and homeownership data from the 2006 Current Population Survey to estimate the total amount of residential property value held by each demographic population at the beginning of the crisis. Assuming that each group's spillover exposure reflects their foreclosure incidence, we weight each group's total residential property value amount by a combined foreclosure disparity ratio (weighted between our completed foreclosure and imminent foreclosure disparity ratios to reflect the 2009-2012 time frame of the spillover estimate). Finally, we multiply each group's share of this weighted property value to the overall spillover cost. Importantly, these lost wealth estimates do not include the impact of 2007 or 2008 foreclosures nor do they include direct losses to foreclosed homeowners, only the depreciated property values sustained by surrounding property owners.

31 Note 3 (Rod Dubitsky, Larry Yang, Stevan Stevanovic and Thomas Suehr - Credit Suisse; Jan Hatzius and Michael A. Marschoun - Goldman Sachs).

32 Mortgage Bankers Association, National Delinquency Survey.

33 See, e.g., “What Caused the Financial Crisis? Quotes by Bankers and Other Experts,” available at <http://www.responsiblelending.org/mortgage-lending/tools-resources/Quotes-What-Caused-Crisis.pdf>.

34 *Report to Congress on the Root Causes of the Foreclosure Crisis*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, (January 2010), available at http://www.huduser.org/Publications/PDF/Foreclosure_09.pdf (page 29).

35 Investors were additionally harmed when the prices charged for such loans failed to cover the default risk. The fact that lenders were able to set such prices (which undoubtedly helped drive up origination volumes), is itself testament to the failure of investors, independent ratings agencies, and others to perform due diligence.

36 *Neglect and Inaction: An Analysis of Federal Banking Regulators' Failure to Enforce Consumer Protections*, CRL Policy Brief (July 2009), available at <http://www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/regulators-failure-to-enforce-consumer-protections.html>.

37 This two-part explanation of mortgage default is well-represented in economic research. See, e.g., Chris Foote, Jeff Fuhrer, Eileen Mauskopf, and Paul Willen, *A Proposal to Help Distressed Homeowners: A Government Payment-Sharing Plan*, Federal Reserve Bank of Boston Public Policy Briefs, No. 09-1 (July 9, 2009).

38 Bureau of Labor Statistics data on 27+ week unemployment. <http://www.bls.gov/news.release/empsit.nr0.htm>

39 See “CRA is Not to Blame for the Mortgage Meltdown” at www.responsiblelending.org/mortgage-lending/policy-legislation/congress/cra-is-not-to-blame-for-blame-for-the-mortgage-meltdown.html. See also Governor Randall S. Kroszner, “The Community Reinvestment Act and the Recent Mortgage Crisis,” (December 3, 2008) at www.federalreserve.gov/newsevents/speech/kroszner20081203a.htm; “Sheila Bair: Stop Blaming the Community Reinvestment Act” U.S. News and World Report (December 17, 2008).

40 See, e.g., Elizabeth Laderman and Carolina Reid, “Lending in Low- and Moderate-Income Neighborhoods in

California: The Performance of CRA Lending During the Subprime Meltdown” Working Paper from the Federal Reserve Bank of San Francisco (Nov. 26, 2008).

41 Canner, Glenn and Neill Bhutta. Staff Analysis of the Relationship Between the CRA and Subprime Crisis. http://www.federalreserve.gov/newsevents/speech/20081203_analysis.pdf.

42 See testimony of Julia Gordon before Financial Crisis Inquiry Commission, (January 13, 2010) at 12, available at <http://www.responsiblelending.org/mortgage-lending/policy-legislation/Reckless-Lending-and-Toxic-Products-Caused-the-Foreclosure-Crisis.html>.

43 Note 42.

44 *Historical Performance of Qualified vs. Non-Qualified Mortgage Loans*, Vertical Capital Solutions (February 2010), on file with CRL.

45 Rick Brooks and Ruth Simon, *Subprime Debacle Traps Even Very Credit-Worthy As Housing Boomed, Industry Pushed Loans To a Broader Market*, Wall Street Journal at A1 (Dec. 3, 2007).

46 Letter from Coalition for Fair & Affordable Lending to Ben S. Bernanke, Sheila C. Bair, John C. Dugan, John M. Reich, JoAnn Johnson, and Neil Milner (Jan. 25, 2007) at 3.

47 See Michael Powell, *Bank Accused of Pushing Mortgage Deals on Blacks*, New York Times, (June 6, 2009), available at http://www.nytimes.com/2009/06/07/us/07baltimore.html?_r=1&partner=rss&emc=rss.

48 Note 16, 110–124.

49 CRL analysis of 2004-2008 Home Mortgage Disclosure Act Data.

50 Center for Responsible Lending, *Steered Wrong: Brokers, Borrowers and Subprime Loans* (April 8, 2008), available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/steered-wrong-brokers-borrowers-and-subprime-loans.pdf>.

51 Bob Van Voris and Justin Blum, *AIG Settles U.S. Claims of Black Mortgage Fee Bias*, Bloomberg Businessweek (March 4, 2010) at <http://www.businessweek.com/news/2010-03-04/aig-settles-u-s-claims-of-black-mortgage-fee-bias-update1-.html>.

52 *Financial Fraud Enforcement Task Force Announces Settlement with AIG Subsidiaries to Resolve Allegations of Lending Discrimination*, U.S. Department of Justice press release (March 4, 2010) available at <http://www.justice.gov/opa/pr/2010/March/10-crt-226.html>.

53 One study showed that national banks were 4.15 times as likely to make higher-cost refinance loans to African Americans than to white borrowers. In addition, two former Wells Fargo employees have signed declarations that the bank’s sales staff steered minorities into high-cost subprime loans (affidavits by Elizabeth M. Jacobson and Tony Paschal in *Mayor and City Council of Baltimore v Wells Fargo Bank*, no. 1:08-cv – 00062-BEL).

54 Information on OCC’s enforcement actions is contained in annual reports that the US Attorney General provide to Congress. See 2001-2010 U.S. Attorney General Annual Reports to Congress Pursuant to the Equal Credit Opportunity Act.

55 *United States of America vs Mid America Bank*. See <http://www.usdoj.gov/crt/housing/documents/midamerica-comp.php>.

About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation's largest community development financial institutions.

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