

issue brief | april 2009

ANNUAL REPORT ON HOMELENDING

Credit Crunch Rolls Back Homeownership Dreams for California's Communities of Color

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Introduction

Americans are facing a jarringly new economic reality that threatens the conventional wisdom of wealth-building and middle class security that has counseled us for the past half-century.

Communities of color are facing even more acute changes. After decades of redlining and disinvestment in minority communities that deprived them of the powerful new wealth-creating capabilities of the majority, homeownership among underserved minorities had increased more rapidly during the Clinton and early Bush years, due in part to innovative mortgage instruments that expanded the base of potential homeowners.

However during a heady time of rapidly increasing home prices, lack of oversight on the part of federal regulators conspired with the greed of financial institutions and individual mortgage brokers to cripple our financial services infrastructure and roll back the gains in minority homeownership more quickly than they had been built up.

For too many Latino and African American homeowners, the American Dream that had once been explicitly denied to them in decades past has become a nightmare.

In fact, Home Mortgage Disclosure Act (HMDA) data show that in fiscal year 2007, Latino borrowers received 23.3% of all home loans originated by the mortgage industry *as a*



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Lending Has Dropped Significantly From Fiscal Year 2006 to 2007

The Number of Loans Originated to...	Has Decreased by...
Lower-Income African Americans	72.4%
Latinos – Industry Average	39.3%
Lower-Income Latinos	35.5%
African Americans – Industry Average	34.1%
Moderate Income Latinos	29.3%
<i>Industry Average</i>	25.8%
Latinos	8.0%
<i>Total Loans by the 9 Major Banks</i>	2.9%
Moderate Income African Americans	0.4%
African Americans	-18.6%

whole, which is down from 28.4% in fiscal year 2006. African American borrowers received slightly lower percentage of loans in 2007 than in 2006; 3.2% in 2007 versus 3.7% in 2006.

In terms of the *number of loans originated* to African American and Latino potential homebuyers in 2007 versus 2006, the decreases in credit extended were more dramatic. The mortgage industry as a whole originated 39.3% less loans to Latinos this fiscal year, and 34.1% less loans to African Americans.

Top Banks Decrease Lending to Latinos, Increase Lending to African Americans

The lending decreases in terms of number of loans originated were not as dramatic among the top nine institutions in California when compared to the industry as a whole. The number of loans originated to Latino homebuyers by these nine banks decreased by 8% since 2006, while the number to African Americans actually increased by 18.6%!

However, lower-income Latinos and African Americans suffered the most from the credit crunch; loan originations to lower-income Latinos dropped 35.5% since 2006, and originations to lower-income African Americans dropped 72.4%.

In comparison, all mortgage originations by the top nine banks dropped 2.9% from 2006 to 2007.

Large Banks Differ Significantly in their Commitment to African American and Latino Homebuyers

This report ranks the top mortgage-originating financial institutions in California in terms of the percentage of prime-rate conventional home loans they originated to Latinos and African Americans in California of different income ranges in 2007 (The latest year for which HMDA data are currently available.)

Our report finds that the top ten home loan originators in California differed greatly in their commitment to serving diverse communities, and that neither the size of the bank, nor the total volume of loans it originated was a determinant of what share of its loans were made to Latinos and African Americans.

FHA Data Inconclusive

This year's report includes data on FHA lending to African American and Latino homebuyers. FHA loan regulations have undergone reform this past year, such as that effected by the November 2008 decision to raise the maximum high-cost area loan origination amount from \$362,790 to \$625,500.⁴ This should make FHA-backed loans more relevant in high-cost areas like California.

However, all nine major banks together originated only 506 FHA-backed loans in 2007, making the number of loans originated to each racial/ethnic and socioeconomic group too small to draw useful comparisons. Please refer to the full report on our website for figures.

CRA Under Attack

The Community Reinvestment Act (CRA) rates large financial institutions based on three practices: their lending, their investments, and their services. Financial institutions must demonstrate to regulators that its activities in each of these three sectors are adequately serving the communities in which they have market presence.

However, the right wing media seems eager to deflect responsibility from the top echelons of the financial world, and instead place the blame at the feet of lower-income aspiring homeowners, many of whom are racial and ethnic minorities.

Charles Krauthammer of the Washington Post wrote¹ that CRA, "led to tremendous pressure on Fannie Mae and Freddie Mac -- which in turn pressured banks and other lenders -- to extend mortgages to people who were borrowing over their heads." Neil Cavuto, a Fox News anchor, was much more explicit², saying that, "[I]oaning to minorities and risky folks is a disaster." However, these claims are completely false, show a complete disregard for the facts, and especially in Cavuto's case, are overtly racist.

Analysis of federal mortgage records shows that only 25% of the subprime mortgages that are now causing the collapse of the credit markets were originated by CRA-regulated institutions, which include all institutions also regulated under the FDIC. The remaining 75% of subprime mortgages were originated by independent

Summary of Rankings of Financial Institutions in Lending to Latinos and African American Potential Homebuyers

Ranking by Percent of Loans to Latinos of ALL INCOME Levels		
Rank	Bank	% Loans
1	JP Morgan Chase	29.04%
2	Wachovia Bank	26.43%
3	Bank of America	23.83%
4	Washington Mutual	21.96%
5	United Commercial Bank	15.98%
6	Wells Fargo & Co.	15.62%
7	Citibank	14.30%
8	Bank of the West	13.35%
9	Union Bank of California	6.37%
Total for Top 9 Banks		19.45%
<i>Industry Average and Totals</i>		<i>23.3%</i>

Ranking by Percent of Loans to African Americans of ALL INCOME Levels		
Rank	Bank	% Loans
1	United Commercial Bank	8.22%
2	Wachovia Bank	4.66%
3	Wells Fargo & Co.	4.52%
4	Bank of America	4.04%
5	JP Morgan Chase	3.32%
6	Washington Mutual	3.28%
7	Bank of the West	2.18%
8	Citibank	2.13%
9	Union Bank of California	0.78%
Total for Top 9 Banks		3.62%
<i>Industry Average and Totals</i>		<i>3.24%</i>

Ranking by Percent of Loans to MODERATE-INCOME Latinos		
Rank	Bank	% Loans
1	Bank of America	2.62%
2	Wachovia Bank	1.42%
3	United Commercial Bank	0.91%
4	Citibank	0.81%
5	Wells Fargo & Co.	0.66%
6	Washington Mutual	0.50%
7	JP Morgan Chase	0.25%
8	Union Bank of California	0.20%
9	Bank of the West	0.00%
Total for Top 9 Banks		1.13%

Ranking by Percent of Loans to MODERATE-INCOME African Americans		
Rank	Bank	% Loans
1	United Commercial Bank	2.74%
2	Bank of America	0.61%
3	Wachovia Bank	0.38%
4	Bank of the West	0.31%
5	Wells Fargo & Co.	0.31%
6	Citibank	0.10%
7	Washington Mutual	0.10%
8	JP Morgan Chase	0.04%
9	Union Bank of California	0.00%
Totals for Top 9 Banks		0.27%

Ranking by Percent of Loans to LOW-INCOME Latinos		
Rank	Bank	% Loans
1	Bank of the West	0.93%
2	Wachovia Bank	0.24%
3	Bank of America	0.21%
4	Citibank	0.10%
5	Wells Fargo & Co.	0.08%
6	Washington Mutual	0.06%
7	JP Morgan Chase	0.02%
8	United Commercial Bank	0.00%
8	Union Bank of California	0.00%
Total for Top 9 Banks		0.12%

Ranking by Percent of Loans to LOW-INCOME African Americans		
Rank	Bank	% Loans
1	Wells Fargo & Co.	0.04%
2	Citibank	0.03%
3	Bank of America	0.03%
4	Washington Mutual	0.02%
5	Wachovia Bank	0.02%
6	JP Morgan Chase	0.00%
6	United Commercial Bank	0.00%
6	Union Bank of California	0.00%
6	Bank of the West	0.00%
Totals for Top 9 Banks		0.02%

mortgage brokers or by lightly-regulated subsidiaries of regulated banks.³ What this fact uncovers is that the subprime crisis is not a result of too much regulation, but rather the result of nonexistent regulation over the activities of independent mortgage brokers.

In addition, many of the top players in the mortgage crisis that have gone bankrupt or received a government bailout: Bear Stearns, AIG, Lehman, Merrill Lynch,

Goldman Sachs, Morgan Stanley and IndyMac, as well as the failed hedge funds, are not bound by CRA regulations.

A January 2008 report⁵ by Traiger & Hinckley LLP, a corporate law firm that specializes in CRA compliance, demonstrates the extent to which the mortgage market had been given over to unregulated brokers. The report states that CRA-regulated banks held only 22.8% of the

mortgage market in the 15 most populous metropolitan areas in the country. In addition, CRA-regulated banks held only 9.2% of the market for high-cost loans, defined as those loans where the rate spread with the Treasury yield is three percentage points or greater. Overall, CRA-regulated banks were 66% less likely to originate high-cost loans than non-regulated banks. The same holds true for low- and moderate-income borrowers; CRA-regulated banks were 58% less likely to originate high cost loans to such borrowers.

Recommendations

1. Expand CRA to all financial institutions.
2. Support a 30-year, government-guaranteed mortgage available for all families at 120% or below the median income, with a maximum fixed rate of 4.5%. These loans should be available only for up to the
3. median regional home price.
3. Develop new alternative credit scoring models to ensure that communities of color have access to capital and credit.
4. Eliminate mortgage insurance to first-time homebuyers at 120% or below median income.
5. Ensure that the proper safeguards are in place during the home appraisal process.
6. Continue to enact measures to protect homeowners who are currently in or in danger of foreclosure, including moratoria.
7. Develop new and creative products and marketing to serve and build trust with the unbanked, immigrants, and the poor.
8. Provide mortgage terms in plain language to all borrowers before signing.
9. Ensure that banks uphold their fiduciary duty to borrowers with each mortgage origination.

References

- ¹ Krauthammer, Charles. "Catharsis, Then Common Sense," *Washington Post*, September 26, 2008.
- ² Media Matters. "Cavuto suggests Congress should have warned that '[l]oaning to minorities and risky folks is a disaster.'" September 19, 2008. Available at www.mediamatters.org.
- ³ Prepared Testimony of Michael S. Barr Professor of Law, University of Michigan Law School Before the Committee on Financial Services U.S. House of Representatives Hearing On "The Community Reinvestment Act: Thirty Years of Accomplishments, But Challenges Remain." February 13, 2008.
- ⁴ "HUD Announces New, Permanent FHA Mortgage Loan Limits." Available at http://portal.hud.gov/portal/page?_pageid=73,7682235&_dad=portal&_schema=PORTAL. Accessed April 20, 2009.
- ⁵ Traiger & Hinckley LLP, *The Community Reinvestment Act: A Welcome Anomaly in the Foreclosure Crisis*. January 7, 2008.

The Full Report is Available at:

www.greenlining.org/initiatives/community-reinvestment/our-research



THE GREENLINING INSTITUTE

Greenlining is a multi-ethnic advocacy, research, leadership development, and public policy organization whose ultimate goal is to increase the role that low-income and minority Californians play in the civic arena in order to create equitable policies and improve quality of life for all communities.

Our mission is to empower communities of color and other disadvantaged groups through multi-ethnic economic and leadership development, civil rights and anti-redlining activities.

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