How “Occupy Our Homes” Speaks to Communities of Color

Housing is Essential to Economic Equality

Sophia Kerby, Jasmin Jones, and John Griffith

December 2011

Introduction

The 99 Percent movement hit Main Street earlier this month as protesters began reclaiming bank-owned homes and other properties at risk of foreclosure or eviction. Activists are gathering at homes of people such as Mary Lee Ward, an 82-year-old Brooklyn resident who is struggling to fend off foreclosure procedures on her home of 44 years after falling victim to a mortgage refinancing scam.

The home mortgage market is a worthy target of the collective angst of the 99 Percent. Today’s leaden housing market has brought unmanageable debt and economic insecurity to millions of American families, while the financial institutions that pursued reckless lending policies and brought us a global financial crisis have been given taxpayer assistance and shown government leniency.

As thanks, these banks and Wall Street firms have foreclosed on millions of homes since the housing crisis began—nearly three million in 2010 alone—and an estimated 7 million more are still at serious risk, according to analysis from Morgan Stanley. With home prices down 30 percent from their peak, about one in four homeowners is currently “underwater,” owing more on their homes than the properties are worth.

Indeed, the “Occupy Our Homes” protesters have plenty to be angry about. As they call for big banks to recognize their duty to struggling communities across our country, there should be no louder voices as part of those “human microphones” than those of people of color, who were hit especially hard by the housing crisis.

Borrowers of color like Ms. Ward were disproportionally targeted for risky subprime mortgage loans as the housing bubble grew, resulting in a lopsided number of foreclosures when the bubble burst. Today, homeowners of color are at a higher risk of
foreclosure than their white counterparts. At the same time, tightened credit standards in the wake of the financial crisis have made it harder for borrowers of color to access affordable mortgages, possibly creating new barriers to homeownership.

To be sure, white households, which took out the majority of high-cost, risky, and sub-prime loans, have been shaken by recent shocks in the housing market. But no matter how you measure it, communities of color were at the epicenter of the quake, and they’re still feeling the aftershocks. This issue brief explores what happened and the consequences of predatory lending among communities of color, and then makes a series of recommendations about how to resolve the crisis so aptly highlighted by the Occupy movement.

Communities of color were a primary target of predatory lending during the housing bubble

A major contributor to the foreclosure crisis was the introduction and rampant spread of predatory mortgage products such as adjustable-rate mortgages with pricing gimmicks designed to encourage potential homeowners to borrow far more than they could manage. Much of this lending was done in the so-called private-label securities market created by Wall Street, with many lenders fully aware that borrowers would not likely be able to pay back the loan in full.

Communities of color were disproportionately targeted for these predatory loans. For decades, these areas had struggled to get access to good, traditional forms of credit. As the housing bubble grew between 2004 and 2008, African-American or Latino borrowers with “good credit” were almost three times as likely to receive risky subprime loans compared to their white counterparts, according to the Center for Responsible Lending. Asian borrowers with good credit were almost twice as likely to receive an adjustable-rate mortgage. All told, borrowers of color were more than 30 percent more likely to receive more costly mortgages, despite often boasting credit ratings and other credit qualifications that would have enabled them to get a better mortgage.

The ongoing foreclosure crisis disproportionately hit communities of color

African-American and Latino borrowers are almost twice as likely to have been harmed by the foreclosure crisis, according to the Center for Responsible Lending. For loans originated between 2004 and 2008, roughly 25 percent of African Americans and Latinos have either lost their homes to foreclosure or are at least 60 days behind on their mortgage payments, compared to just 12 percent of their white counterparts. The gap is even larger in neighborhoods of color, where foreclosure rates are almost three times those in predominantly white areas, according to Harvard’s Joint Center for Housing Studies.
This disparity persists even after adjusting for differences in borrower incomes. About 10 percent of higher-income African-American borrowers and 15 percent of higher-income Latino borrowers have lost their home to foreclosure, compared with less than 5 percent of higher-income white borrowers, according to the Center for Responsible Lending.

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**Homebuyers of color are much more likely to be “underwater” today**

In general, homebuyers with high debt and low equity in their home are at much higher risk of default because they probably are “underwater”—they owe more on their homes than the homes are worth. As of 2007, the median mortgage debt among borrowers of color was about 14 percent higher than that of white borrowers, while their median home equity was 27 percent lower, according to the Joint Center for Housing Studies.

At the same time, homeowners of color were hit especially hard when home prices began to fall. The median value of homes owned by people of color fell 20 percent between 2007 and 2009, compared to just 13 percent for white-owned homes, according to the same report. Today homeowners of color are much more likely to be underwater: a recent survey from Fannie Mae estimated that 31 percent of mortgage borrowers of color are currently underwater, compared to 23 percent of white borrowers.

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**Communities of color face new barriers to affordable and sustainable homeownership**

Racial disparity and discrimination in mortgage lending is nothing new and has been well-documented for decades, beginning with a watershed 1992 report from the Federal Reserve Bank of Boston. Since then, federal and state governments have taken meaningful strides to put homebuyers of color on an equal playing field, in efforts to ensure that all creditworthy Americans have access to an affordable and sustainable mortgage loan. These made slow but sure headway in reducing the racial homeownership gap through the 1990s and early 2000s.

But in the wake of the financial crisis, private lenders have drastically scaled back lending activity by tightening underwriting standards for mortgage loans, with serious consequences for communities of color. The Federal Housing Administration, the government-run mortgage insurer that’s often considered the mortgage industry’s “lender of last resort,” insured about 60 percent of African-American and Latino homebuyers in 2009. By comparison, FHA insured just 10 percent of African-American and 6 percent of Latino home-purchase loans at the height of the bubble in 2006.

Since their post-2000 peak, homeownership rates have declined by about 4 percentage points for black households and 2 percentage points for Hispanic households, compared
to just 1.5 percentage points for white households, according to the Joint Center for Housing Studies. This has “erased most of the improvement in the white-minority gap made over the last two decades,” according to the report.

Communities of color face a broad affordability crisis

While the mortgage market in many ways got us into the current mess, it’s important to acknowledge that the Great Recession has devastated many nonhomeowners as well, especially in communities of color. After all, about half of all households of color rent, and people of color account for about 45 percent of all renters nationwide, more than twice the share of homeowners. At the same time, persons of color make up about 58 percent of the country’s homeless population, according to the Department of Housing and Urban Development.

As foreclosure rates skyrocketed in recent years, so too did demand for rental housing and monthly rent prices. When coupled with weak income gains in the wake of the recessions, renters are facing the most severe affordability crisis in half a century. Roughly half of renters nationwide are “rent impoverished,” paying more than a third of their income in rent, while more than a quarter are “severely burdened,” paying more than half their income, according to the Joint Center on Housing Studies.

Communities of color are critical to a strong housing market in the future

The best prospect for long-term strength in the U.S. housing market is the formation of new households, traditionally from immigration or young adults deciding to live on their own. As many as 14 million new households are likely to form over the next decade, and due to demographic changes, communities of color will be at the forefront of this growth.

An estimated one in four children today are of immigrant parents, and future trends in immigration will be a “major factor in future household growth,” according to the Joint Center for Housing Studies. Meanwhile, the Hispanic community is expected to grow rapidly in the coming decades, from 14 percent of the U.S. population in 2005 to 29 percent in 2050, according to the Pew Hispanic Center.

But population growth is only part of the equation. Young adults also need a certain level of economic stability to create new households. Unfortunately, persons of color and the foreign-born have seen some of the largest declines in income of any demographic group over the past decade, according to the Joint Center for Housing Studies. Today 28 percent of Hispanics are in poverty—the highest rate of any racial group—based on a new measure developed by the U.S. Census Bureau.
To be sure, the Obama administration has already taken critical steps to help lessen the blow of the housing crisis, many of which have benefitted communities of color. For example, the Neighborhood Stabilization Program authorized roughly $7 billion in grants to states, local governments, and nonprofits to purchase and redevelop foreclosed and abandoned homes. Also, the Housing Affordable Modification Program and the Housing Affordable Refinance Program have helped hundreds of thousands of struggling homeowners avoid foreclosure, reduce their mortgage debt, and take advantage of today’s historically low interest rates.

Though these and other programs are steps in the right direction, they have not made a meaningful enough dent in the problem. But the government still has tools at its disposal to revive the sluggish housing market—many of which can be implemented right away without congressional action or new government spending. There are nine promising ideas that speak directly to the concerns of the “Occupy Our Homes” movement, with a particular focus on communities of color:

- Help at-risk families stay in their homes through “deed-for-lease” agreements
- Help more underwater homeowners refinance at lower interest rates
- Convert vacant government-owned foreclosed homes into affordable rental housing
- Establish an automatic foreclosure mitigation program
- Establish a large-scale principal reduction initiative
- Pass and fund “Project Rebuild”
- Capitalize the National Housing Trust Fund
- Implement the CDFI Bond Guarantee program
- Implement a comprehensive housing policy that supports access to affordable, sustainable homeownership finance for households of color

Let’s examine each of them in turn.

**Establish a large-scale principal reduction initiative**

Large-scale mortgage principal reduction—lowering the amount of money underwater borrowers actually owe on their mortgage—is perhaps the most powerful tool at the government’s disposal to deleverage household debt and lower monthly housing costs. But it’s also remarkably controversial, so any write-down initiative must be carefully crafted to limit losses to lenders, investors, and taxpayers. One opportunity (and one that would not require congressional action) is the ongoing settlement negotiations between state attorneys general and mortgage servicers accused of faulty foreclosure practices. The AGs should set aside most—if not all—settlement dollars to principal reduction and restitution.
Help at-risk families stay in their homes through “deed-for-lease” agreements

Though many at-risk families can no longer make their monthly mortgage payments, many would be able to afford a fair-market lease on the same property. By expanding a “deed-for-lease” program already in place at Fannie Mae, in which eligible homeowners have the option to exchange their mortgage for a monthly rental agreement, the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac as their government conservator, can keep struggling families in their homes and avoid a lengthy and costly foreclosure process. And through a carefully-designed “lease-to-own” option, some of these tenants could be given the opportunity to rebuild equity in the home through slightly higher rent payments, keeping the dream of homeownership alive for struggling families.

Help more underwater homeowners refinance at lower interest rates

The Home Affordable Refinance Program, or HARP, was established in 2009 to allow current but underwater homeowners to refinance at today’s historically low interest rates of around 4 percent. After relatively slow uptake in the program’s inaugural years, President Obama recently announced major changes to the HARP program to attract more participants. The Obama administration should vigorously implement these new rules to help as many as 2.9 million homeowners lower their monthly house payments, but action shouldn’t stop there. Lenders should at the very least be required to publicly report the number of HARP loans they have provided, creating public pressure for taking up the program. FHFA could also establish numerical targets for HARP refinancing that must be met by mortgage-servicing companies of Fannie and Freddie loans.

Convert vacant government-owned foreclosed homes into affordable rental housing

The Federal Housing Administration and the nation’s two leading mortgage finance companies, Fannie Mae and Freddie Mac—both currently in government conservatorship—own about 230,000 foreclosed homes, mostly from mortgages insured or securitized before the housing bubble burst. The Center for American Progress recently laid out a set of priorities for removing a portion of these so-called “real estate owned,” or REO, assets from the glutted for-sale market by converting them to affordable rental units. The federal government, with the help of for-profit investors and nonprofit, mission-driven groups, can often maximize the economic value of these homes by rehabilitating them, retrofitting them for energy efficiency, and renting them at affordable rates.
Establish an automatic foreclosure mediation program

Automatic foreclosure mediation can be an effective mechanism for avoiding foreclosure, keeping defaulted mortgages from adding to the glut of homes on the market. In foreclosure mediation the homeowner and mortgage lender or servicing company negotiate terms of the delinquent mortgage in the presence of a neutral third party. Though there is no requirement that mediation end in a settlement, more than 70 percent of mediations do, often restructuring debt to sustainable levels while increasing lender recoveries over foreclosure. To the extent possible, the federal government should also ban so-called “dual track” approaches, in which borrowers negotiating with lenders in good faith to save their homes are simultaneously processed for foreclosure.

Pass and fund “Project Rebuild”

President Obama’s American Jobs Act proposed a new $15 billion program to refurbish hundreds of thousands of vacant and foreclosed homes and businesses. If passed and appropriately funded, “Project Rebuild” would put thousands of construction workers back to work while reducing blight and stabilizing neighborhoods hard hit by the foreclosure crisis, many of which are in communities of color. The government’s modest investment will leverage significant private investment, and a focus on distressed commercial properties will help encourage new businesses to come into communities that were hit hard by the economic downturn.

Capitalize the National Housing Trust Fund

The National Housing Trust Fund was established by the Housing and Economic Recovery Act of 2008 to help expand affordable housing for extremely low-income households. Almost all NHTF funds are dedicated to projects to acquire, construct, rehabilitate, or maintain affordable rental units. President Obama has requested funding for the NHTF each year since he took office, but Congress has so far refused to act. A $10 billion injection into the fund would drastically reduce housing costs for economically vulnerable populations, a disproportionate percentage of which are people of color.

Implement the CDFI Bond Guarantee program

President Obama signed the CDFI Bond Guarantee program into law in September 2010, authorizing the Treasury to guarantee up to $1 billion in long-term debt issued by large Community Development Financial Institutions. With lower borrowing costs and access to long-term, patient capital, CDFIs are able to offer low-interest loans to businesses, affordable housing projects, and consumers in low-income communities and communi-
ties of color traditionally underserved by mainstream financial institutions. But a year after its creation, the guarantee program is still not operational. Given the immediate needs in these communities, the Treasury Department and the Obama administration should work to get this program up and running within the next six months, starting with appropriate rules and procedures to ensure the program operates according to plan.

**Implement a comprehensive housing policy that supports access to affordable, sustainable homeownership finance for households of color**

There is no way that America’s housing market can return to stability unless households of color are given fair access to responsible mortgage products. Trends in demographics and household formation clearly show that the mortgage finance system must work for all if it is to work for anyone. Federal housing policy should incorporate a range of tools, including housing counseling, incentives and tools for mortgage lenders, and a secondary market structure that equitably serves all creditworthy borrowers.

To be sure, these policies alone will not jump-start a full recovery in the housing market. But they would be meaningful strides toward a housing market—and a broader economy—that works for all Americans, not just the privileged few.

*John Griffith is a Research Associate with the Center’s housing team. Jasmin Jones is the Special Assistant for External Affairs at American Progress. Sophia Kerby is the Special Assistant for Progress 2050 at American Progress.*