

## The Color of Subprime Mortgages

**James H. Buford**

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In 2004, the African American community celebrated the historic news that nearly 50% of the black population became homeowners. Homeownership has always been viewed as the best way to accrue wealth in the U.S. economy. Two years later, the minority homeownership bubble began to burst as African Americans began to lose their homes in record numbers as ownership levels fell to 47.9%. The reason for many of these minority home foreclosures were due to the fact that 54% of black homeowners received a subprime mortgage loan.

A sub-prime mortgage is a loan that carries a significantly higher interest rate and/or an adjustable interest rate with payments that increase beyond a homeowner's income level in a short period of time. **Subprime** borrowers often do not qualify for market interest rates because of problems with their credit history. A subprime loan is one that is offered at a rate well above the prime rate, which is a benchmark that banks set for establishing interest rates for other loans. A subprime loan is, by definition, a loan made to someone who could not qualify for a more favorable rate. Subprime borrowers typically have low credit scores and histories of payment delinquencies, charge-offs, or bankruptcies. Because subprime borrowers are considered at higher risk to default, these loans typically have less favorable terms than traditional mortgages. These terms may include higher interest rates, regular fees, or an up-front charge.

In 2002, African Americans were 3.6 times more likely than whites to receive a home purchase loan from a subprime lender and four times more likely to refinance their homes with a subprime lender. According to the Center for Responsible Lending, even upper-income African Americans with high credit scores are 1.6 times more likely to receive a subprime loan than whites in similar situations. Traditionally, many blacks have shrugged off the risk of lending discrimination as a necessary evil. However, with the recent news of subprime mortgage companies going bankrupt and millions of homes going into foreclosure every year, a disproportionate number of African Americans are now facing limited options for saving their homes.

Recently, the National Urban League created a “Homebuyer’s Bill of Rights” to increase and strengthen African American homeownership through six major policy recommendations designed to reverse the negative trends of foreclosure. These policies include: Creating Individual Development Accounts for Homeownership which will allow prospective homeowners to save money for their homes in a tax-free investment fund; The expansion of the budget for the Department of Housing and Urban Development Housing Counseling programs for homeownership education; The creation of a public awareness campaign about credit scoring and its impact on wealth creation, and the establishment of a penalty structure for credit reporting bureaus that maintain inaccurate client files; The increase in the availability of affordable housing for working families; The elimination of incentives for lenders to make predatory loans, and; The creation of a HUD Task Force that actively investigates and prosecutes violations of fair housing laws and the authorization of congressional oversight hearings to hold HUD accountable for its results.

Education has become a key to many who are trapped in subprime lending situations. Those who have not yet become homeowners should seek out credit counseling and homebuyers' workshops in advance to reduce their risk of falling into a subprime loan. Organizations such as the Urban League, Catholic Charities and Beyond Housing offer homebuyers workshops to determine credit status, debt-to-income ratios and financial management techniques. Additionally, the Urban League offers foreclosure prevention programs to help with loan negotiation, individual counseling and refinancing procedures. The best advice for those who are facing foreclosure is to seek help as soon as possible for your situation and . . . Don't Panic!