

Center for Race & Ethnicity

Race, Ethnicity, and the Subprime Mortgage Crisis

The mortgage crisis has “lead to 200-300 billion dollars in financial losses and counting.” – David Listokin

“57,000 foreclosures are projected in NJ alone, yielding an estimated 19.6 billion dollars in lost property value.” - Kathe Newman

Many of these are due to subprime lending. Today, almost a quarter of subprime loans are past due compared to 4 percent of all loans. Critics refer to subprime loans as ‘predatory lending’

Predatory lending is “not an attack on impoverished neighborhoods... but instead, these policies actively impoverished neighborhoods” – Beryl Satter

“Since places not just people are isolated from mainstream credit, some individuals failed to secure prime loans even though they were individually qualified.” – Kathe Newma

Selected Events—Center for Race & Ethnicity—191 College Ave

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| Graduate Forum on Race & Ethnicity: Student Conference | Friday Mar 7 |
| Brother Outsider: Film Screening and Discussion | Thursday April 17 |
| DNA, Race, and History: Interdisciplinary Conference | Fri-Sat Apr 18-19 |
| Between Privilege and Poverty: Perspectives on NJ Disparities—A facilitated discussion | Friday April 25 |

Mortgage lending practices have long been linked to the “American dream” of home ownership and also to differences in racial and ethnic opportunity. In a recent roundtable discussion, Rutgers experts described how their research illuminates the origins, meaning, and impact of the subprime mortgage crisis for business, banking, and opportunity in America

Panelists: Kathe Newman, Bloustein School for Planning and Public Policy; David Listokin, Center for Urban Policy Research, Bloustein School for Planning and Public Policy; Beryl Satter, Department of History, Rutgers-Newark

According to one recent news report, the “High-cost subprime mortgages have often been framed as loans that catered to people with blemished credit records or little experience with debt. There has been less attention paid to the concentration of these loans in neighborhoods that are largely black, Hispanic, or both.” (“What’s Behind the Race Gap?,” New York Times, November 4, 2007)

RACE, ETHNICITY AND HOMEOWNERSHIP

“The Federal government has long encouraged homeowner ship, with a variety of important incentives like the mortgage interest tax deduction.” – David Listokin

Racial covenants, redlining, and FHA policies have kept levels of home ownership among blacks and other minority groups much lower than the high levels of homeownership enjoyed by whites. In recent years, limited access to credit has retarded minority group homeownership.

THE CAUSES OF SUBPRIME CRISIS

“Ironically, increased access to credit, through subprime mortgages, helped create the current crisis.” – David Listokin

Billed as a “democratization of the credit market,” subprime loans extend credit to people

with less than prime credit predominately in poor and minority markets and partly because these markets are cut off from mainstream credit.

“Since places not just people are isolated from mainstream credit, some of those with subprime loans were individually qualified for prime ones.” – Kathe Newman

Kathe Newman pointed out that many cite “irresponsible borrowers” as the cause of the mortgage crisis. However, this ignores, “the evolution of the mortgage banking industry and its role in creating the structural basis for the crisis.”

David Listokin argues that the “anything goes policies of the 1990s – like deregulation and lack of oversight led to higher interest rates, additional charges, and loose credit which together created a perfect storm that has imploded”

David Listokin also cited an emphasis of homeownership at all costs, the housing bubble, deregulation, greed, fraud, and discrimination that had lead to 200-300 billion dollars in financial losses and counting.

This “perfect storm” was not without warning signs. As Kathe Newman noted, “foreclosures are not a recent phenomenon in black



Homeownership Rates

| Year | All | White | Black |
|------|-----|-------|-------|
| 1985 | 64% | 69% | 44% |
| 1990 | 64 | 69 | 43 |
| 1995 | 65 | 71 | 43 |
| 2000 | 67 | 73 | 47 |
| 2006 | 69 | 76 | 48 |

Homeownership by Income (2006)

High Income – 85%
Low Income --53%

Median Household Assets by Race:

White Homeowners: \$11000

Black Homeowners: \$1600

neighborhood such as Irvington, New Jersey. Black communities have been facing this crisis for years before the media picked up on it.

A HISTORY OF PREDATORY LENDING

The current racial dimensions of the subprime crisis are not unique. Beryl Satter noted that “blacks have been a major target of predatory lending since Reconstruction.”

The debt peonage of black sharecroppers in the post-emancipation South is well known, but less well known are the exploitative credit practices that fleeced the millions of blacks who migrated North during the mid twentieth century.

The sale of housing “on contract” in Chicago, the

subject of Satter’s forthcoming book, entitled *Family Properties*, is a prime example of the phenomenon.

“In the 1950s and 1960s, speculators took advantage of the restricted home buying opportunities of blacks, who had little or no access to credit due to redlining. Speculators swept into emerging black neighborhoods, bought homes vacated by whites and resold them on credit contracts that usually charged black buyers at least double their original purchase price.” – Beryl Satter

These creditors then could evict residents without paying them any equity.

“These tactics were not an attack on impoverished neighborhoods as the phrase predatory lending suggests, but

instead, these policies actively impoverished neighborhoods” – Beryl Satter

“Predatory lending is about wealth extraction, primarily from those neighborhoods isolated from mainstream banks.” – Beryl Satter

Considering the wealth gap is the biggest and most significant gap between blacks and whites, the extraction of wealth from black communities and the denial of the opportunity to build wealth is the lynchpin of racial inequality.

POTENTIAL POLICY SOLUTIONS

Exploited as a major market for unregulated subprime mortgage loans, minority communities are filled with properties on sale for “cash.”

As a result, residents have begun to organize in these communities.

“Perhaps this crisis will force us to rethink our mindless march to homeownership.” – David Listokin

Or perhaps we will rethink the financialization of our economy.

“With the decline of manufacturing in United States, banks have increasingly turned to the mortgage market a source of profit. We used to make things, now we make mortgages,” maintains Kathe Newman.



Rutgers University Center for Race and Ethnicity

GENERAL INFORMATION about the Center for Race and Ethnicity and its activities.

<http://raceethnicity.rutgers.edu>

Teaching Race and Ethnicity across Disciplines (syllabus exchange)

<http://raceethnicity.rutgers.edu/TeachingRaceAndEthnicity.html>

Katrina conference and forthcoming volume

<http://raceethnicity.rutgers.edu/KatrinaAuthorMeeting.html>

Other Roundtable Discussions

<http://raceethnicity.rutgers.edu/TeachingUnimaginableExperiencesSummary.htm>

Address: 191 College Avenue; (732) 932-2181; raceethnicity@sas.rutgers.edu. **Director:** Keith Wailoo, History/Institute for Health. **Associate Director:** Mia Bay, History.

Senior Program Coordinator: Mia Kissil

Graduate Assistants/Editors: Nadia Brown, Jeffrey Dowd, Melissa Stein, Anantha Sudhakar, Dora Vargha

- Facilitating research and enriching education on matters of race and ethnicity in contemporary life in America, in New Jersey, and the world
- Promoting collaborations and fostering cross-disciplinary seminars and discussions on topics from immigration and work, to ethnic politics and racial classification, from preservation of cultural identity to its transformation, and including questions of poverty, discrimination, advancement, integration, and privilege
- Identifying critical areas for future research and supporting race and ethnicity research and policy development.