

TARP banks cut lending to Rochester minorities

Daily Record (Rochester, NY), May 20, 2010 by John Fulmer

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A report released May 13 says the number of low-cost home loans made between 2006 and 2008 dropped significantly and that minorities were affected most by the decline in lending.

"Paying More for the American Dream IV" examines mortgage- lending patterns of banks, including the nation's four largest, in Rochester and six other cities. The report was a collaborative effort of seven advocacy groups, including the Empire Justice Center.

The report found those in minority neighborhoods took out many of the irresponsible loans that fueled the subprime debacle. Banks limited lending in low-income minority neighborhoods prior to last decade's housing boom but increased it during the boom with the help of federal agencies such as Freddie Mac and Congress.

Barbara van Kerkhove, an Empire Justice Center researcher and policy analyst, said the findings were troubling since the banks receiving Troubled Asset Relief Program funds have made significantly fewer loans in the neediest neighborhoods. Taxpayers were led to believe banks would use their money to invest in minority neighborhoods, van Kerkhove said.

The advocacy groups started working on the report about four years ago, van Kerkhove said. She and other advocates had been crunching numbers on mortgages and were alarmed at the results.

"We were seeing patterns of higher-cost loans in communities of color -- those with predominately African-American and Hispanic populations -- that raised red flags, that looked like predatory lending," she said.

"Communities of color" or minority neighborhoods were defined as census tracts in which 50 percent or more of the residents were classified as other than non-Latino whites.

Alexis Iwanisziw, a researcher with the Neighborhood Economic Development Advocacy Project in New York, said her group and the others involved in the study will use the findings to lobby for reform and to push banks and the Federal Reserve to be more open on lending and fiscal policy.

"It's a very clear opportunity to get them to uncover more data," she said.

In a release, Geoff Smith, senior vice president of the Woodstock Institute, said banks with a history of harming minority neighborhoods with troublesome subprime and option adjustable-rate mortgages have pulled back when those communities need responsible lending most.

"We are concerned that we have gone from a period of reverse redlining, to a period of re-redlining," Smith said.

Key findings of the report include:

The decline in prime mortgage lending in minority neighborhoods more than doubled compared to predominantly white communities. Prime lending decreased between 2006 and 2008 in all seven cities, but neighborhoods in which minorities made up 80 percent of the population saw a 60 percent decrease compared to a 28 percent decrease in predominately white neighborhoods.

In Rochester, prime lending in minority neighborhoods fell by 53 percent compared to 25 percent in white neighborhoods.

Overall, refinance loans for minorities also fell at a precipitous rate -- 66 percent -- while falling only 14 percent in white neighborhoods.

In Rochester's minority neighborhoods it dropped 71 percent and 20 percent in predominantly white neighborhoods.

Between 2006 and 2008, the share of prime refinance loans made in minority neighborhoods dropped 35 percent; in white neighborhoods it increased by 11 percent.

Prime refinance lending in the seven cities' white communities by the nation's four largest banks -- Bank of America, Citibank, JPMorgan Chase and Wells Fargo -- was up by 32 percent between 2006 and 2008, but decreased in minority neighborhoods by 33 percent.

In Rochester, white neighborhoods saw a 15 percent decrease and minority neighborhoods saw an 89 percent decline in refinancing by the four banks.

The report recommends:

- An overhaul of the federal Community Reinvestment Act so financial institutions can increase lending in low- and moderate- income neighborhoods;
- The creation of a national Consumer Financial Protection Agency;
- A update to the federal Home Mortgage Disclosure Act to keep pace with changes in lending and better identify discriminatory lending;
- Enforcement of federal and state fair lending laws; and
- A push on banks to repair neighborhoods swamped by foreclosures.

The other cities studied were Boston, Charlotte, N.C.; Chicago, Cleveland, Ohio; Los Angeles and New York. The California Reinvestment Coalition, the Community Reinvestment Association of North Carolina, the Massachusetts Affordable Housing Alliance and the Ohio Fair Lending Coalition all participated in compiling the report, the coalition's fourth. The report can be read in its entirety online at www.empirejustice.org.