



Neighborhood Economic Development Advocacy Project

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Paying More for the American Dream: The Subprime Shakeout and Its Impact on Communities of Color and Low Income Neighborhoods

Subprime mortgage lenders that ceased operations in 2007 saturated communities of color across the country with high-cost home loans before going under, according to a report released by a multi-state collaboration of research, policy, and advocacy organizations.

Most of these lenders captured large market shares in communities of color and made few, if any, loans elsewhere. As these institutions' loans enter into default and foreclosure, lower-income and communities of color are bearing the brunt of the negative impacts, such as increased crime and depressed property values.

"The aggressive and deceptive marketing and lending practices of these failed lenders represented many of the worst excesses of the subprime market," says Jim Campen of the Massachusetts Affordable Housing Alliance. "They are out of business while minority and lower-income communities suffer the fallout from their toxic loans."

The report, *Paying More for the American Dream: The Subprime Shakeout and Its Impact on Lower-Income and Minority Communities*, examines the geographic lending patterns of 35 now-defunct subprime lenders in seven metropolitan areas in the United States. These areas include large urban areas - New York City, Los Angeles, Chicago, and Boston - as well as the smaller urban areas of Cleveland, Charlotte, NC and Rochester, NY.

The report's key findings show:

- The 35 subprime lenders examined made 20 percent of all mortgages in predominantly Black and Latino neighborhoods in these seven cities, compared to 4 percent of all loans in predominantly white neighborhoods in 2006.

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- Over 40 percent of loans made by these 35 lenders in the seven metro areas were in neighborhoods where 80 percent or more of the residents were people of color. Fewer than 10 percent of their loans were made in areas where people of color made up less than 10 percent of the population.
- Comparing the 35 subprime lenders' market share in neighborhoods with over 80 percent Black or Latino population to neighborhoods with less than 10 percent Black or Latino population shows:
 - In Los Angeles, the lenders' market share was 9.5 times greater in communities of color than in white neighborhoods
 - In Cleveland, the lenders' market share was 4.4 times greater in communities of color than in white neighborhoods
 - In Chicago, the lenders' market share was 3.7 times greater in communities of color than in white neighborhoods
 - In New York City, the lenders' market share was 3.5 times greater in communities of color than in white neighborhoods
- In the seven metro areas as a whole, these 35 subprime lenders captured almost 20 percent of the market in low-income neighborhoods, while they made less than 7 percent of loans in upper-income neighborhoods.

“These are the same neighborhoods that have been historically redlined by mainstream financial institutions,” says Saara Nafici of the Neighborhood Economic Development Advocacy Project (NEDAP) in New York City. “Without access to fair and responsible mortgage credit, these communities will continue to be the epicenter of abusive lending practices, and subsequent defaults and foreclosures.”

“The Federal government needs to take the lead and require servicers and investors to modify these abusive loans to affordable rates,” says Kevin Stein from the California Reinvestment Coalition. “If families are not able to stay in their homes, many of these communities may be lost.”

The full report can be found at www.nedap.org.

Collaboration

The *Paying More for the American Dream* series is a collaborative effort of the California Reinvestment Coalition, Community Reinvestment Association of North Carolina, Empire Justice Center, Massachusetts Affordable Housing Alliance, Neighborhood Economic Development Advocacy Project, Ohio Fair Lending Coalition, and Woodstock Institute. This is the collaboration's second annual report examining systematic inequalities in the housing finance system and their impact on lower-income neighborhoods and communities of color. The previous report, released in March 2007, examined disparities in mortgage pricing by several of the country's largest mortgage lenders that offered both prime and subprime loans.

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