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A William C. Velasquez Institute White Paper

The End of the American Dream for Blacks and Latinos

How the Home Mortgage Crisis is Destroying Black and Latino Wealth, Jeopardizing America's Future Prosperity and How to Fix It

By Dr. Raul Hinojosa Ojeda, Albert Jacquez, and Dr. Paule Cruz Takash

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Dr. Raul Hinojosa Ojeda[1]
Albert Jacquez
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Executive Summary

As the United States slips deeper into its most severe economic downturn since the Great Depression, a crippling blow to families and the long term health of the nation's economy will occur through massive foreclosures and the spillover destruction of household wealth. Recent foreclosure projections estimate a total of 2.4 million homes lost in 2009 and 9 million lost during 2009-2012. Goldman Sachs estimates a total of 13 million foreclosures on all types of loans through 2014. These projections are based on the mountain of mortgage debt awaiting resets over the next few years, including 2 million more homeowners with sub-prime mortgages scheduled to be reset in early 2009.

Left unaddressed, the housing foreclosures caused by mortgage resets, rising unemployment and crashing property values may trigger catastrophic failure in the housing industry, affecting as many as 4 million more market rate mortgages. It could also cause additional financial sector crises, while increasing unemployment and business failures in the closely related home building, mortgage and appliance sectors. A multi-trillion dollar spill-over impact is also likely as foreclosures in 2009 will cause 69.5 million neighboring homes to experience a devaluation of $501.9 billion in total.

Over the next four years, foreclosures could affect 91.5 million nearby homes, reducing property values by $1.86 trillion in total, or $20,300 per household. As estimates of foreclosures from late 2008 to the end of 2009 have increased from 1.1 million to 2.2 million, so have the estimated total loss of housing wealth for homeowners, increasing from $2.2 trillion to $2.7 trillion.

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[1] Dr. Raul Hinojosa Ojeda is the Founding Director of the UCLA North American Integration and Development Center and Associate Professor at the UCLA César Chávez Department of Chicana and Chicano Studies. Albert Jacquez is Principal at Strategic Solutions in Washington D.C. Dr. Paule Cruz Takash is the Reserch Director at the UCLA NAID Center. The authors would like to thank Josue Lopez and Sergio Orzynski of the UCLA NAID Center for valuable research assistance.

The historic significance of this momentous economic crisis is not only the overall size of this housing market impact, but also the central role played by long-standing inequitable practices and policies that have seriously limited economic opportunities and wealth building for non-white groups in this country. The subprime targeting of Blacks and Latinos within the housing market is one more recent example of such practices and policies. What Americans of all backgrounds must come to appreciate is that the current unequal impact of the crisis on Black and Latino homeowners severely threatens the future recovery of the entire national housing market, and thus, the economic health of the country.

The Black and Latino experience is crucial for understanding both the origins and resolution of the current crisis in a way that establishes a prosperous middle-class based economic recovery. In essence this crisis raises the fundamental question concerning the future viability of the United States as a middle class economy in the 21st Century; one with the ability of creating, expanding and transmitting wealth not only between generations but in the context of a dramatic changing demographic transformation.

The secret of America's 20th century success was the ability to turn the Great Depression into a recovery opportunity by establishing mechanisms to enable working families to begin owning homes and thereby build assets over time. These mechanisms created a generation of first time homeowners with the ability to create the wealth needed for their families to become economically secure, to prosper and to pass on assets to succeeding generations that could further build on this wealth.

The most ominous threat to the future recovery from the current crisis is that the concentrated impact of sub-prime foreclosures on Blacks and Latinos is occurring just as these "minority" populations are emerging as the new majority of next generation homebuyers poised to replace an aging primarily white homeowner population in the coming decades.

At this critical juncture, lack of decisive action is not an option. We must also avoid the false dichotomy that maintains we should give up on supporting homeownership in favor of alternative urban design. Abandoning this nation's commitment to affordable homeownership is also not an option either socially or politically, and it will only hasten a deflationary spiral while destroying the best option we have for financing the next feasible wave of sustainable regional development in this century.

Like the post-depression federally supported housing and mortgage programs that ushered generations of white home owners into the middle class, the United States again needs new mechanisms for financing mortgages for the housing of the future (including higher density, energy efficient alternative housing development). <u>Of immediate importance for this agenda is the halting of housing wealth destruction and its disproportionate impact among Blacks and Latinos.</u>

Second, we must deliver low cost, long term financial products (not high cost and unsustainable prime loans) to the next generation of potential homeowners. Creating the same economic opportunities for the next generation of homeowners is not only critical to maintaining the economic prosperity of our aging population, but is essential for America's 21st Century sustainable economy and middle class democracy.

Action Plan to Save Families and Homes, Return the Economy to Health

Given the dimension of the policy challenges ahead, immediate action is urgently needed both inside and outside Washington, DC by a variety of broad-based coalitions. As the mortgage foreclosure crisis has grown, a number of Latino and African American advocacy organizations have urged federal policy makers to address the problem. At the 2007 National Latino Congreso, delegates from 300 endorsing organizations and individuals from 15 states passed a resolution urging the Congress and the Federal government act on the problem. In October 2008, the National Black Latino Summit, which was lead by the Conveners of the National Latino Congreso, Policy Link and over 30 other national Latino and African American advocacy organizations, issued a "Call to Action" on the housing crisis. Numerous other Latino and African American organizations and leaders have identified the housing crisis as one of the most important issues facing the nation today. These proposals echo and augment the ideas of Sheila Bair of the FDIC with contributions from "Fix Housing First", Former Texas Comptroller John Sharp, Barron's Magazine, the National Latino Congreso, the National Black Latino Summit, and many others.

1. **Mortgage Foreclosure Relief: Allow bankruptcy judges to modify mortgage terms to help homeowners avoid foreclosure and stabilize home values.**

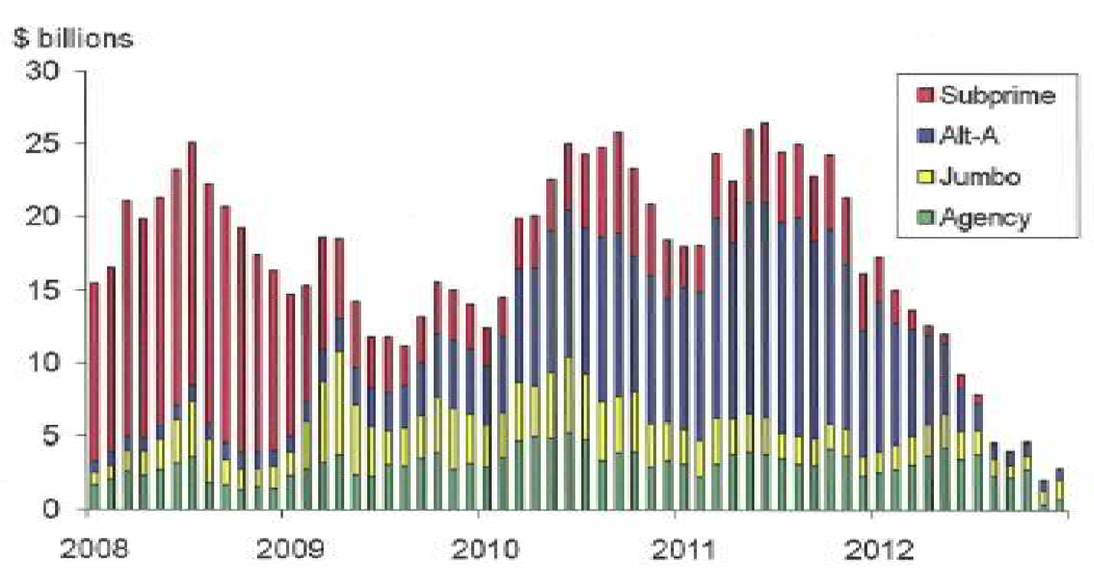
2. **Affordable Down Payments for New Homebuyers though Homebuyers' Tax Credit:** Enact a permanent $130 billion Home Buyer Tax Credit, similar to the earned income tax credit, that can be monetized and used for down payments of new home purchases ($10,000 to 22,000 per taxpayer as a percentage of the price of the home). This would stimulate home purchases and help the next generation of Latinos and Blacks attain the American dream of homeownership.

3. **Sustainable Mortgages for Next Generation Homeowners:** Authorize $100 billion to Fannie Mae and Freddie Mac to allow refinancing of at risk private sector mortgages at a 4.5 percent interest rate in 2009. This would help create a generation of minority homeowners to share in the wealth building opportunities that have historically characterized homeownership.

Introduction

As the United States slips deeper into its most severe economic downturn since the Great Depression, a crippling blow to families and the long term health of the nation's economy will occur through massive foreclosures and the spillover destruction of household wealth. Recent foreclosure projections estimate a total of 2.4 million homes lost in 2009 and 9 million lost during 2009-2012.[2] Goldman Sachs estimates a total of 13 million foreclosures on all types of loans through 2014.[3] These projections are based on the mountain of mortgage debt awaiting resets over the next few years (Figure 1), including 2 million more homeowners with sub-prime mortgages scheduled to be reset in early 2009.

Figure 1: Adjustable-Rate Mortgage Resets, 2008-2012



Left unaddressed, the housing foreclosures caused by mortgage resets, rising unemployment and crashing property values may trigger catastrophic failure in the housing industry, affecting as many as 4 million more market rate mortgages. It could also cause additional financial sector crises, while increasing unemployment and business failures in the closely related home building, mortgage and appliance sectors. A multi-trillion dollar spill-over impact is also likely as foreclosures in 2009 will cause 69.5 million neighboring homes to experience a devaluation of $501.9 billion in total.[4] Over the next four years, foreclosures could affect 91.5 million nearby homes, reducing property values by $1.86 trillion in total, or $20,300 per household. As estimates of foreclosures from late 2008 to the end of 2009 have increased from 1.1 million to 2.2 million, so have the estimated total loss of housing wealth for homeowners, increasing from $2.2 trillion to $2.7 trillion.[5]

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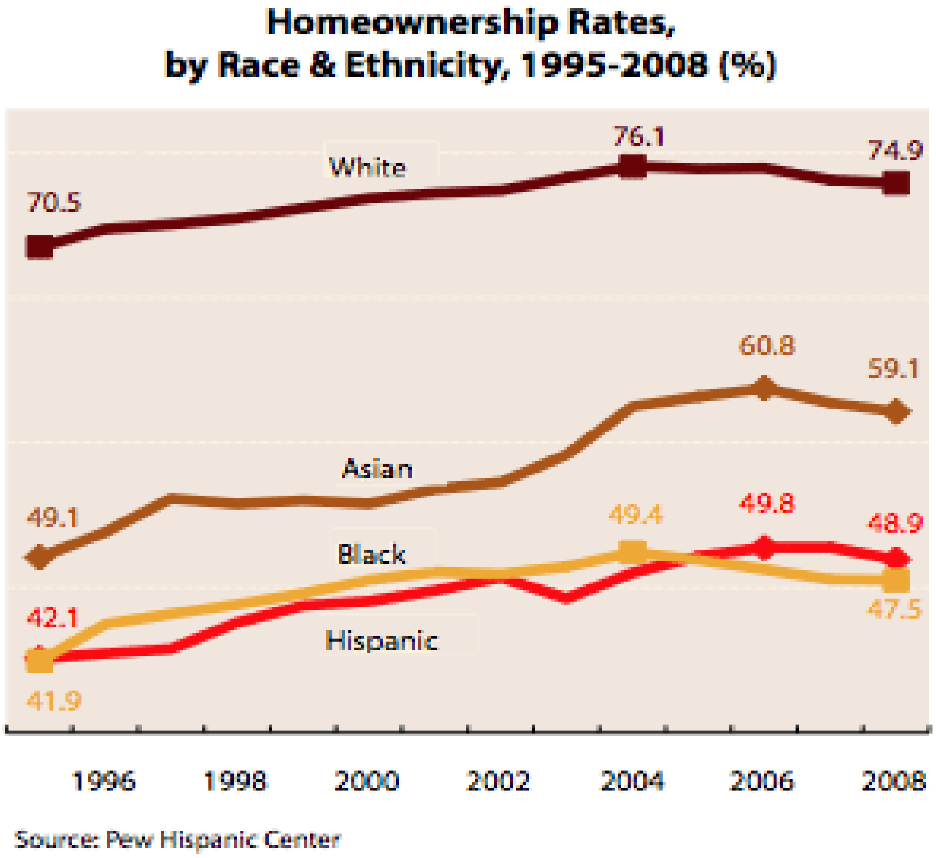
[2] Center for Responsible Lending. http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf.
[3] Jan Hatzius & Michael A. Marschoun, *Home Prices and Credit Losses: Projections and Policy Options*, Goldman Sachs Global ECS Research (January 13, 2009)
[4] This means homeowners living near foreclosed properties will see their property values decrease about $7,200 on average. http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf
[5] United for a Fair Economy, *State of the Dream 2008: Foreclosed* in January, 2008 p. 48.

The historic significance of this momentous economic crisis is not only the overall size of this housing market impact, but also the central role played by long-standing inequitable practices and policies that have seriously limited economic opportunities and wealth building for non-white groups in this country. The subprime targeting of Blacks and Latinos within the housing market is one more recent example of such practices and policies. What Americans of all backgrounds must come to appreciate is that the current unequal impact of the crisis on Black and Latino homeowners severely threatens the future recovery of the entire national housing market, and thus, the economic health of the country. From 1995 through the middle of this decade, homeownership rates rose more rapidly among all non-white minorities than among whites, averting a predicted demographic driven decline in housing demand. Since the start of the housing bust in 2005, however, homeownership rates have fallen more steeply for two of the nation's largest racialized minority groups—Blacks and native-born Latinos—than for the rest of the population (Figure 2). The targeted introduction and subsequent collapse of high cost yet inferior quality subprime loans severely eroded this important progress among Blacks and Latinos and is now driving a return to housing inequality. High-cost subprime loans were issued 2.7 times more often to African American borrowers and 2.3 times more often to Latino borrowers than to White borrowers,[6] causing Latino and Black communities to suffer an "extreme geographic concentrations of foreclosures." [7] Total loss of housing wealth for people of color who took out subprime loans during the past eight years is now estimated to be between $164 billion and $213 billion,[8] representing the greatest loss of wealth for racialized minorities in modern U.S. history. From subprime loans, African American borrowers will lose between $71 billion and $92 billion. Latino borrowers will lose between $75 billion and $98 billion for the same period.

[6] According to the 2007 Home Mortgage Disclosure Act (HMDA) data reported by the U.S. Federal Reserve, about 47 percent of Hispanics and 48 percent of Blacks who purchased mortgages in 2006 got higher-cost loans, compared with about 17 percent of whites and Asians. http://www.federalreserve.gov/pubs/bulletin/2008/pdf/hmda07final.pdf
[7] Jason Reece, Kirwan Institute for the Study of Race and Ethnicity. (http://www.areaa.org/cms/2007%20Annual%20Minority%20Lending%20Report.pdf) foreclosure statistics by race, ethnicity or nativity are currently not available. However, the relationship between demography and foreclosure activity at the county level is discerned in various reports through the marriage of different sources of data. See also Kochhar, Rakesh, Ana Gonzalez-Barrera and Daniel Dockterman. "Through Boom and Bust: Minorities, Immigrants and Homeownership," Pew Hispanic Center, Washington, D.C. (May 12, 2009).
[8] *Foreclosed: State of the Dream 2008. Boston:* United for a Fair Economy

Figure 2: US Home Ownership Race by Race/Ethnicity, 1995-2008



The Black and Latino experience is crucial for understanding both the origins and resolution of the current crisis in a way that establishes a prosperous middle-class based economic recovery. In essence this crisis raises the fundamental question concerning the future viability of the United States as a middle class economy in the 21st Century; one with the ability of creating, expanding and transmitting wealth not only between generations but in the context of a dramatic changing demographic transformation. The secret of America's 20th century success was the ability to turn the Great Depression into a recovery opportunity by establishing mechanisms to enable working families to begin owning homes and thereby build assets over time. These mechanisms created a generation of first time homeowners with the ability to create the wealth needed for their families to become economically secure, to prosper and to pass on assets to succeeding generations that could further build on this wealth. The most ominous threat to the future recovery from the current crisis is that the concentrated impact of sub-prime foreclosures on Blacks and Latinos is occurring just as these "minority" populations are emerging as the new majority of next generation homebuyers poised to replace an aging primarily white homeowner population in the coming decades.

In the 21st Century context of the rapid ethno-racial transformation of the U.S. population, it is imperative to turn this deep crisis into an opportunity to reconstruct mechanisms for financing these new generations of homeowners thereby ensuring the needed transfer of housing wealth between generations. This facilitation also makes sense given the long term trends of increasing housing affordability. The positive irony now is that affordability conditions are ripe for Blacks and Latinos to become the next generation of home buyers. This helps not only aging homeowners in the short run, but more importantly establishes the basis for future wealth creation and transmission as well as the maintenance of a middle class based economy for generations to come.

At this critical juncture, lack of decisive action is not an option. We must also avoid the false dichotomy that maintains we should give up on supporting homeownership in favor of alternative urban design.[9] Abandoning this nation's commitment to affordable homeownership is also not an option either socially or politically, and it will only hasten a deflationary spiral while destroying the best option we have for financing the next feasible wave of sustainable regional development in this century. Like the post-depression federally supported housing and mortgage programs that ushered generations of white home owners into the middle class, the United States again needs new mechanisms for financing mortgages for the housing of the future that must include new green, higher density energy efficient alternative housing development. Of immediate importance for this agenda is the halting of housing wealth destruction and its disproportionate impact among Blacks and Latinos. Second, we must deliver low cost, long term financial products (not high cost and unsustainable prime loans) to the next generation of potential homeowners. Creating the same economic opportunities for the next generation of homeowners is not only critical to maintaining the economic prosperity of our aging population, but is essential for America's 21st Century sustainable economy and middle class democracy.

[9] Richard Florida, How the **Crash Will Reshape America** - The Atlantic (March 2009)

I. Historical perspective on Black and Latino Homeownership

The 20th Century displays an uneven history of housing trends: from the Great Depression to extraordinary expansion, followed by a return of deep crisis. It contains both very successful policy interventions that built solid middle class growth for some, while producing exclusion and inequality for others, particularly Blacks and Latinos. The contours of the current crisis, in terms of who was targeted with subprime loans and who is currently suffering foreclosures, is clearly rooted in a long history of radicalized discrimination and inequality in the U.S. housing market. This history of discrimination and inequality was facilitated and maintained by a pattern of selective government-to-industry subsidies largely benefiting European Americans, while marginalizing non-white groups. The resulting inequality helped create both the conditions for sub-prime financial abuse as well as the current foreclosure crisis, a vicious cycle that remains highly concentrated by racial, ethnic and economic status. This gaping ethno-racial disparity, however, provides a major opportunity for repairing the ability of rapidly emerging Black and Latino "minority-majorities" to access housing, producing win-win dynamics for all homeowners and the national economy. Just as in the Great Depression, there is now a need and opportunity to resolve the current crisis through the renewal of policy interventions which helped a generation of low income white working families move into homeownership and build a robust middle class. Lessons learned from this historic policy framework may contribute toward resolving the current challenges posed by the interdependence of a declining and aging white population and emerging Black and Latino generations.

Few Americans owned a home before the Great Depression. New federal government policies implemented in the 1930's and 1940's, provided longer-term mortgages that lowered payments and enabled more people to buy a home. The Federal Housing Administration (FHA) was created as part of the National Housing Act of 1934. During the Depression when the rates of foreclosures and defaults rose sharply, the program was intended to provide lenders with sufficient insurance, targeting the low to moderate income population for becoming homeowners who didn't have adequate financial resources and great credit score for securing loans.[10] Fannie Mae was created in 1938 to purchase those mortgages and lubricate the system.[11] The tax deduction on mortgage-interest payments which had existed since 1913 when the federal income-tax system was created, favored home purchases over other types of spending. Between

[10] **FHA mortgages** down payments could go as low as 1 percent when conventional loans mostly needed 26 to 36 percent. Typically, the payments wouldn't exceed more than 29 percent of monthly income and the total debts could not over 41 percent of the gross income. **FHA mortgages** are mostly on fixed rate mortgages with terms for about thirty years. With the **FHA mortgages,** mortgage insurance premium need to be paid to the HUD every monthly. In thirty years period, about 1.5 percent of the loan would be paid upfront for insurance and about 0.5 percent of remaining balance would be paid each month.

http://www.fhamortgagecenter.com/fha_lending_guide/fha_loan_history.html

[11] In 1968, the government converted Fannie Mae into a private shareholder-owned corporation in order to remove its activity from the annual balance sheet of the federal budget. Consequently, Fannie Mae ceased to be the guarantor of government-issued mortgages, and that responsibility was transferred to the new Government National Mortgage Association (Ginnie Mae). In 1970, the government created the Federal Home Loan Mortgage Corporation (FHLMC), commonly known as Freddie Mac, to compete with Fannie Mae and, thus, facilitate a more robust and efficient secondary mortgage market.

1940 and 1960, the homeownership rate rose from 44 percent to 62 percent. Demand for housing was symbiotic with demand for cars. Both were expedited by federal highway construction among other federal and state supported infrastructure projects that subsidized a new suburban lifestyle that in turn, fueled demand for all manner of household goods.

These unprecedented and highly successful set of government interventions were also highly targeted to particular populations at the same time others were excluded from these benefits. While the Federal Housing Act of 1934 brought home ownership within reach of millions of citizens by placing the credit of the federal government behind private lending to home buyers, overtly racist categories in the Federal Housing Agency's "confidential" city survey's and appraisers' manual channeled almost all of the loan money toward Whites and away from communities of color.[12] The FHA and the Veterans Administration financed more than $120 billion worth of new housing between 1934 and 1962, but less than 2 percent of this real estate was available to nonwhite families- most of it located in segregated areas.[13]

At the same time that FHA loans and federal highway building projects subsidized the growth of segregated and primarily White suburbs, urban renewal programs in cities throughout the country devastated minority neighborhoods. During the 1950's and 1960's, federally assisted urban renewal projects destroyed 20 percent of the central-city housing units occupied by Blacks, as opposed to only 10 percent of those occupied by Whites.[14] More than 60 percent of those displaced by urban renewal were African Americans, Puerto Ricans, Mexican Americans, or members of other radicalized minority groups.[15]

As a U.S. civil rights commission investigation later revealed, FHA officials collaborated with "blockbusters" in financing the flight of low income Whites out of inner city neighborhoods, and aided these unscrupulous realtors and speculators' sale of substandard housing to minorities desperate to own their own homes. The resulting sales and mortgage foreclosures brought great profits to lenders most of them White, whose actions between 1968 and 1972 led to price fixing and a subsequent inflation of housing costs in the inner city by more than 200 percent. Bankers then foreclosed on the mortgages of thousands of these uninspected and substandard homes, ruining many inner-city neighborhoods. In response, the Department of Housing and Urban Development essentially "red-lined" inner cities, making them ineligible for future loans, a decision that destroyed the value of inner-city housing for generations to come.[16]

When housing prices increased dramatically during the 1970's, European Americans home owners who had been able to take advantage of discriminatory FHA financing policies in the past realized increased equity in their homes. Those excluded from the housing market by

[12] Kenneth Jackson. Crabgrass Frontier. The Suburbanization of the United States. NY: Oxford U Press, 1985.; Douglas Massey and Nancy A. Denton, American Apartheid. Segregation and the Making of the Underclass. Cambridge: Harvard U Press, 1993.

[13] Jill Quadagno. The Color of Welfare: How Racism Undermined the War on Poverty. NY:Oxford U Press, 1994, 92,91.

[14] John R. Logan and Harvey Molotch, Urban Fortunes. The Political Economy of Place. Berkeley and Los Angeles: UC Press, 1987, 114.

[15] Arlene Zarembka. The Urban Housing Crisis: Social Economic and Legal Issues and Proposals. Westport Conn.: Greenwood, 1990, 104.

[16] Jill Quadagno. The Color of Welfare, 105, 113; Massey and Denton, American Apartheid, 204-5.

earlier policies faced even higher costs of entry into the market in addition to the traditional obstacles presented by the discriminatory practices of sellers, realtors and lenders. The contrast between European Americans and African Americans is instructive in this regard. Because Whites have access to broader housing choices than Blacks, Whites pay **15 percent less** than Blacks for similar housing in the same neighborhood. White neighborhoods typically experience housing costs **25 percent lower** than would be the case if the residents were Black.[17]

Nationwide, financial institutions receive more money in deposits from Black neighborhoods then they invest in them in the form of home mortgage loans, making home lending a vehicle for the transfer of capital away from black savers and toward White investors.[18] In many locations, high-income Blacks were denied loans more often than low- income Whites.[19] Most White families have acquired their net worth from the appreciation of property that they secured under conditions of special privilege in a discriminatory housing market. In their prize-winning book *Black Wealth/White Wealth*, Melvin Oliver and Thomas Shapiro demonstrate how the history of housing discrimination makes White parents more able to borrow funds for their children's college education or to loan money to their children to enter the housing market. [20]

- **New Trends in Homeownership Rates and Geographic Migrations**

It is important to note that the wide gaps in home ownership that were established in the decades after the Great Depression would remain almost intact until the early 1990's. Figure 3 shows that as late as the 1970s, Blacks and Latino generational cohorts from the World War II era lagged significantly behind Whites. Subsequent Black and Latino cohorts thus entered the housing market at a significant disadvantage, despite showing similar trajectories of intra-cohort advancement over time. It was only after decades of a legacy of unequal access to housing, which actually worsened in the 1980s, that a major qualitative/quantitative leap forward began to occur (Figure 4). From 1995 through 2005, homeownership rates rose more rapidly among all minorities than among Whites, making significant and unexpected progress in closing the historic ethno-racial housing gap. By 2004, the homeownership rate was 49.1 percent for African Americans and 48.1 percent for Latinos, compared with 76 percent for Whites. According to the U.S. Census Bureau as the Latino population has grown over the past decade, Latino homeownership has grown at an even faster rate, increasing by 47 percent, to 6.1 million from 4.1 million. Over that same period, homeownership nationally grew by 8 percent.

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[17] Massey and Denton, American Apartheid, 61

[18] Logan and Harvey Molotch, Urban Fortunes, 129.

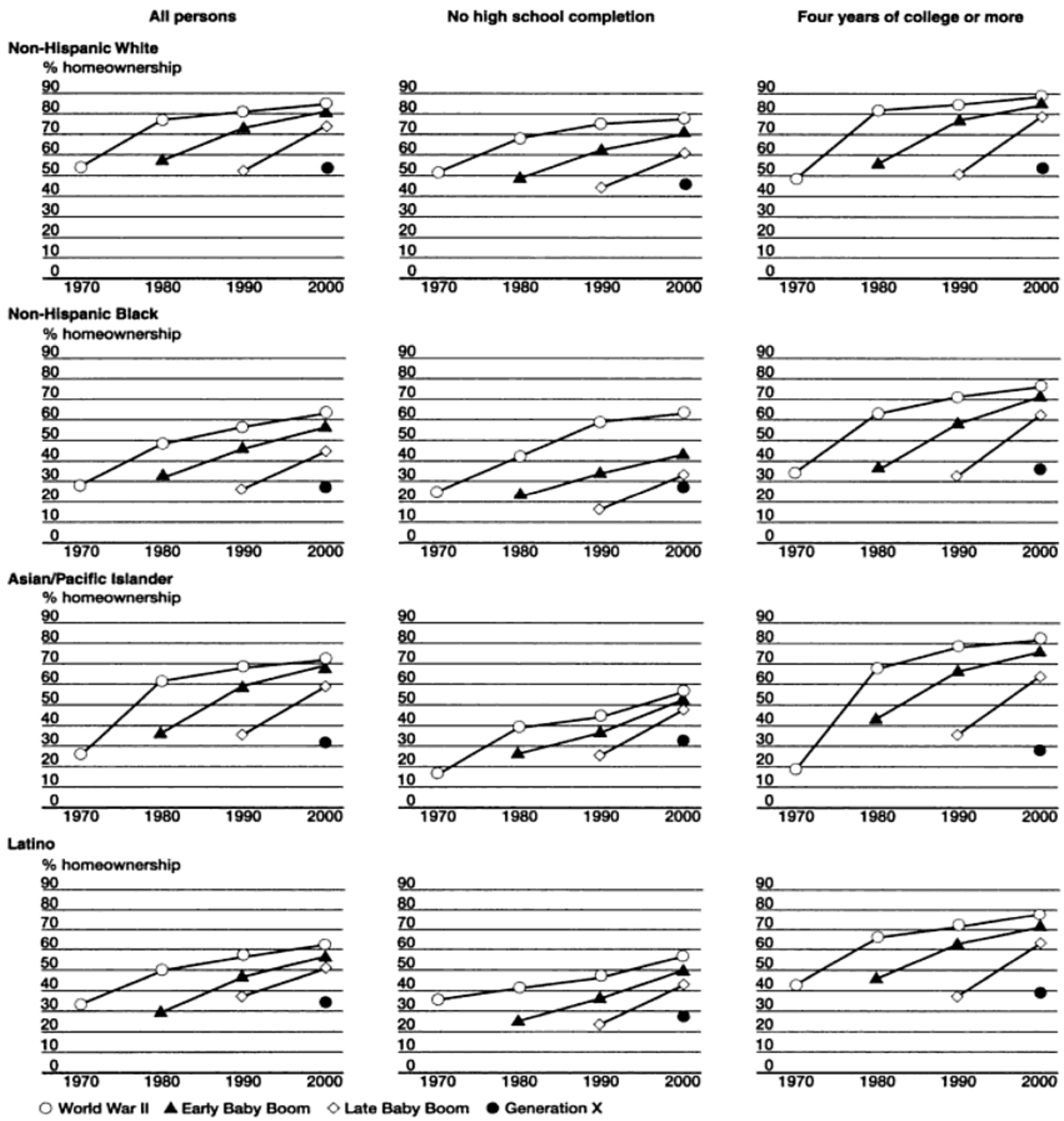
[19] Jim Campen. "Lending Insights: Hard Proof that Banks Discriminate," *Dollars and Sense*, January-February 1991, 17.

[20] Melvin L. Oliver, Thomas M. Shapiro. Black wealth/white wealth: a new perspective on racial inequality. Routledge, 1995

Figure 3: US Home Ownership Race by Race/Ethnicity, 1970-2000

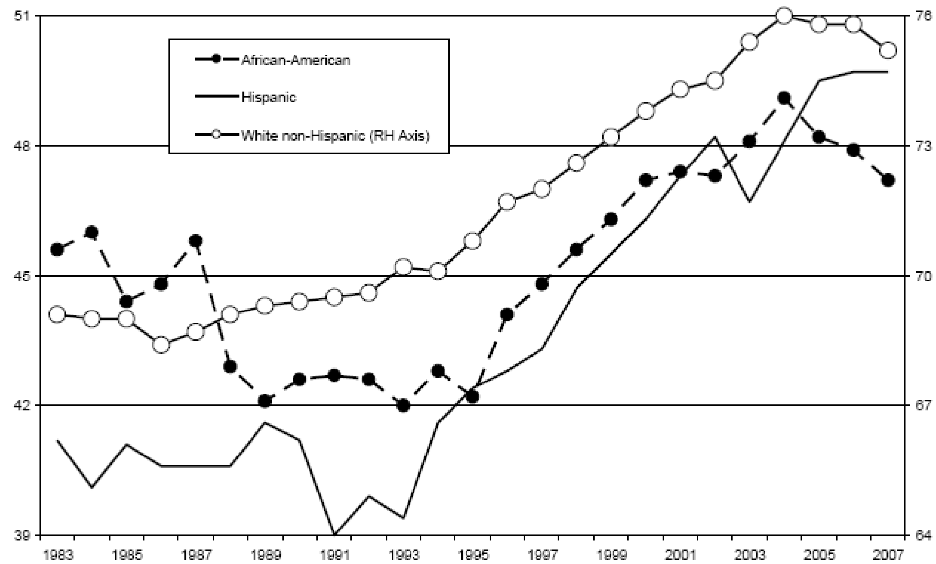
Figure 8

HOMEOWNERSHIP TRAJECTORIES OF COHORTS LAUNCHED INTO ADULTHOOD EACH DECADE, FROM AGES 25–34, BY RACE/ETHNICITY AND EDUCATIONAL ATTAINMENT



Source: Author's calculations using the Integrated Public Use Microdata Series (IPUMS), 2003.

Figure 4: US Home Ownership Rate by Race/Ethnicity, 1983-2007
(% on left are for minorities, % on right are for White Non-Hispanics



Despite predictions of a housing collapse due to slowing baby boomer housing demand, the housing market in the U.S. actually experienced a dramatic revival due to a new generation of buyers, including rapid improvements in home owner ship rates among Blacks, Latinos and immigrants. Mankiw and Weil (1989) predicted a 47 percent decline in house prices during the 1990s, based largely on their modeling of declining demand as baby boomers aged. Instead, we have seen baby boomer demand for housing grow and prices double. Housing economist Karl Case recently called the Mankiw-Weil prophecy "one of the worst forecasts in the history of mankind."[21]

A variety of factors have been identified to help explain this renewal of housing demand in the 1990s, including the decades long progress in eliminating discriminatory housing covenants and the closing of education and income inequalities between whites and non-white minorities following the 1960s civil rights movement. Research examining this trend and the factors contributing to it found that: (1) homeownership rose for all racial, ethnic, and income groups; (2) the differences in homeownership between minority and nonminority families and between middle-income and lower-income families declined significantly; and (3) changes in family-related characteristics explain homeownership trends among only the top two income quintiles. Among the lower two income quintiles, family-related characteristics explain almost none of the increase in homeownership. This pattern suggests that the favorable economic climate of the decade, changes in mortgage and housing markets, and changes in the regulations

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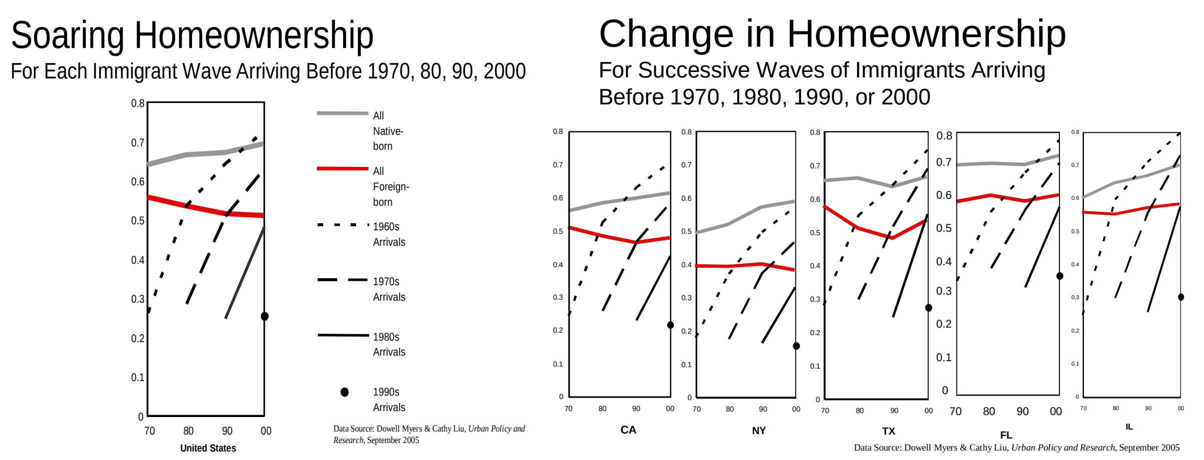
[21] Dowell Myers SungHo Ryu, "Aging Baby Boomers and the Generational Housing Bubble: Foresight and Mitigation of an Epic Transition" Journal of the American Planning Association, Volume 74, Issue 1 December 2008 , pages 17 - 33

governing those markets (including the Community Reinvestment Act), account for the increase in homeownership among lower-income families.[22]

Figure 5: Homeownership Rates of Immigrants, 1970-2000



The dramatic rise in immigration also has been shown to have played a significant role in housing demand during this period, particularly on a regional level. With reference to the decades between 1970 and 2000, a variety of studies have documented the explosive growth of immigrant housing demand, particularly growth trends in occupied housing in the United States and in the five individual states with the largest immigrant population (Figure 5). California, New York, Florida, Texas and Illinois foreign-born households constitute increasingly large shares of total households in the U.S. (11 percent in 2000), especially in renter-occupied housing (17 percent in 2000). In particular, immigrants constitute much of the growth in demand and are emerging as an important force in the U.S. housing market.[23] In the 1990s, they accounted for 32 percent of all household growth and 67 percent of all rental growth nationwide. In California and New York, immigrants accounted for 100 percent of all rental growth and over half of all growth in owner-occupied housing. There are also surprisingly steep upward trajectories into homeownership as immigrants settled longer in the U.S. This upward mobility occurs equally in all the gateway states for immigrant settlement, which are increasingly expanding beyond the traditional immigrant gateways (Figure 6).

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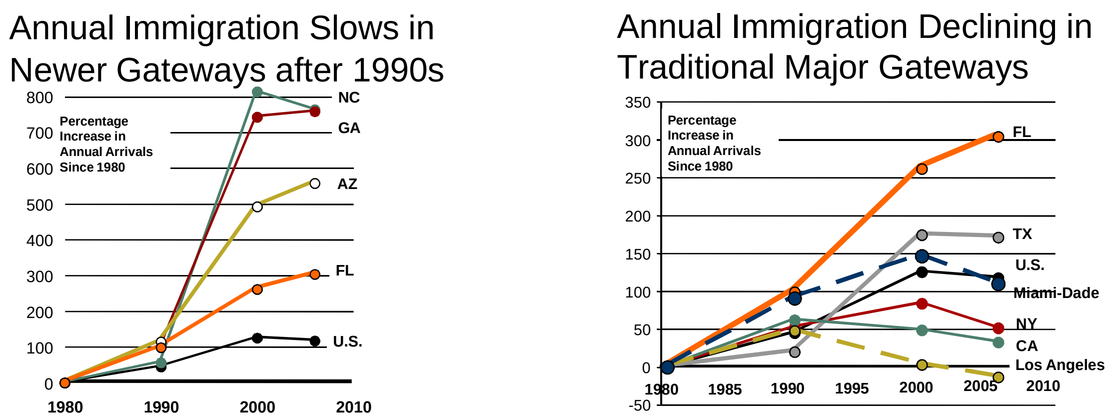
[22] Bostic, Raphael W. and Brian J. Surette, "Have the Doors Opened Wider? Trends in Homeownership Rates by Race and Income" The Journal of Real Estate Finance and Economics Volume 23- 3, p. 411 – 434 (November 2001).

[23] Myers, D. and C. Yang Liu, "The Emerging Dominance of Immigrants in the US Housing Market 1970-2000"; *Urban Policy and Research*, 23(3): 347-65; 2005.

Figure 6: Dispersal of Immigrant Gateways, 1980-2010



Immigration has recently been defined as one of the most significant factors impacting housing over the coming years. In a new study by the Mortgage Bankers Association, the most significant factors impacting housing over the coming years are (1) where aging baby boomers decide to grow old, (2) where they are, and (3) where young immigrants decide to settle. The two components driving the changes that will transform the U.S. population and the housing market over the next several decades are the aging of boomers and immigration of Latinos and Asians.[24]

<u>II. The Central Role of Latinos and Blacks: Sub Prime Targeting and Foreclosures</u>

As aforementioned, the historic significance of the current economic crisis is not only the overall size of this housing market impact, but also the central yet still poorly understood role played by the structured exclusions, inequalities and subprime targeting of Blacks and Latinos within the housing market. From 1995 through the middle of this decade, homeownership rates rose more rapidly among all minorities than among Whites. Innovations in finance like adjustable-rate mortgages and securitized subprime loans expanded homeownership further and kept demand high. But since the start of the housing bust in 2005, rates have fallen more steeply for two of the nation's largest minority groups—Blacks and native-born Latinos—than for the rest of the population (Figure 2). While the historic progress closing the gap in housing inequality was extremely important for continued housing market turnover and long term wealth transfers between sellers and buyers of housing, the introduction and growth of subprime loans and their subsequent collapse has severely eroded this progress.

It now appears that the introduction of high cost yet inferior quality subprime loans was closely targeting minority homeowners.[25] According to the 2007 HMDA data reported by the

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[24] William H. Frey, "America's Regional Demographics in the '00s Decade: The Role of Seniors, Boomers and New Minorities," Brookings Institution, 2008.

[25] Throughout this paper, we adopt the convention of "high cost" as a measure of subprime lending. First lien loans are classified as high cost if they have an interest rate more than 3 percentage points higher than the federal treasury rate of like maturity. For junior lien loans (included in our refinance loan observations), the threshold is 5 percentage points. This commonly used definition of subprime lending is more dependable than other measures, such as identifying loans made by subprime lenders (using the HUD Subprime Lender list), for two main reasons. First, the high cost classification identifies subprime loans based on loan characteristics instead of lender characteristics.

U.S. Federal Reserve, about 47 percent of Latinos and 48 percent of Blacks who purchased mortgages in 2006 received higher-cost loans, compared with about 17 percent of Whites and Asians. High-cost subprime loans to minority communities were issued 2.7 times more often to African American borrowers and 2.3 times more often to Latino borrowers than to White borrowers. In fact, more than 55 percent of the loans made in 2006 to African American homebuyers and more than 46 percent of loans made to Latinos were high-cost subprime loans. In 2005 alone, mortgages to Latinos increased by 29 percent, with expensive nonprime mortgages soaring 169 percent, according to the Federal Financial Institutions Examination Council.[26]

A broad variety of researchers of the mortgage market have similarly found persistent racial disparities in the incidence of subprime and high cost lending.[27] Across the United States, larger shares of Black and Latino borrowers than White borrowers originated high cost loans in 2006.[28] That year, 53.3 percent of first lien home purchase loans issued to Black borrowers were high cost, and 46.2 percent of first lien home purchase loans issued to Latino borrowers were high cost, compared to only 17.7 percent of loans issued to White borrowers.5[29] The rates of high cost refinance loans follow a similar pattern: over half of refinance loans issued to Black

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Second, the latest Subprime Lender list was released in 2005, making it a less accurate strategy for identifying subprime lenders in 2006 and 2007. Further discussion of the benefits and drawbacks to these measures can be found in Kristopher Gerardi, Andreas Lehnert, Shane Sherlund, and Paul Willen, *Making Sense of the Subprime Crisis*, BROOKINGS PAPERS ON ECONOMIC ACTIVITY, (2008); Avery, Bevoort & Canner, supra note 1; and Furman Center for Real Estate and Urban Policy,
Declining Credit and Growing Disparities: Key Findings from HMDA 2007 (2008).

[26] The Council is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS), and to make recommendations to promote uniformity in the supervision of financial institutions. In 2006, the State Liaison Committee (SLC) was added to the Council as a voting member. The SLC includes representatives from the Conference of State Bank Supervisors (CSBS), the American Council of State Savings Supervisors (ACSSS), and the National Association of State Credit Union Supervisors (NASCUS). http://www.ffiec.gov/

[27] See, e.g., U.S. Department of Housing and Urban Development, *Unequal Burden: Income and Racial Disparities in Subprime Lending in America*, http://www.huduser.org/Publications/pdf/unequal_full.pdf; and Robert B. Avery, Kenneth P. Bevoort, and Glenn B. Canner, *The 2007 HMDA Data*, forthcoming (FEDERAL RESERVE BULLETIN, 2008).

[28] Our calculations use mortgage loan data reported by lenders under the Home Mortgage Disclosure Act (HMDA) and made available by the Federal Financial Institutions Examination Council. Although 2007 HMDA data is now available, because of the turmoil in the real estate markets and mortgage lending industry beginning in 2007, several institutions that originated loans that year did not survive long enough to report their lending activity. Accordingly, for our national analysis, we use HMDA data for loans issued in 2006, which we believe represents the most recent complete set of single-year mortgage lending data.

[29] In this article, we analyze home purchase loans and refinance loans separately because their origination patterns are often tied to different macroeconomic contexts and borrower motivations. For home purchase loans, we look only at first lien loans to avoid the inherent double counting of borrowers that results from including junior lien home purchase loans (which, by definition are issued to borrowers simultaneously receiving a first lien home purchase loan).

borrowers in 2006 were high cost, compared to over a third of refinance loans issued to Latino borrowers, and only a quarter of those issued to White borrowers.[30]

The 2007 Annual Report on Minority Lending compiled and released by Compliance Technologies and Genworth Financial is also based on Home Mortgage Disclosure Act (HMDA) data for 2004-2006. The report analyzes the change in new minority home buying in the U.S. and territories for 2006 over 2005 and compares it to those for Whites. The report also analyzed the rate of subprime lending within the minority and White populations. New home buying refers to new mortgage originations which includes first liens and refinanced loans.[31] Among the key findings of the report include the following:

- New home loans among minorities on the whole and White Americans were down 11.83 percent in 2006 over the previous year. That is in stark contrast to the 6.5 percent increase in 2005 over 2004.
- All minority groups and Whites experienced a decline in home purchases last year compared to 2005 except African-Americans, which saw a modest increase of 0.6 percent.
- Among minorities, the greatest decrease in home buying was among Asian-American homebuyers with a drop of 21.5 percent in 2006.
- While Latino home buying declined by 5.2 percent, the number of Latino mortgage originations still outpaced all other minority groups with a total of 692,014.
- California, the state with the highest volume of overall mortgage originations, experienced the sharpest decline in overall home buying (-26.2 percent).
- Utah, Texas, New Mexico, Oklahoma and Louisiana top the list of states that experienced minority home buying growth from 2005 to 2006.
- Nearly four out of every 10, or 39.1 percent, of new mortgages made to minorities in 2006 were subprime – more than double the rate for white borrowers (18 percent).
- African-Americans had the highest share of subprime mortgages – 48 percent of all mortgages made to African-Americans were subprime

The proliferation of subprime lending over the last decade has led a handful of researchers to look at the relationship between subprime lending and segregation. A 2005 report by the National Community Reinvestment Coalition (NCRC)[32] looked across 177 metropolitan statistical areas (MSAs)[33] and found, among other things, that in 2003, Black borrowers in

[30] The disparities in high cost lending between whites and blacks and whites and Hispanics highlighted at the national level persist across the nine Census regions, although the magnitudes of the disparities differ.
[31] http://www.areaa.org/cms/2007%20Annual%20Minority%20Lending%20Report.pdf
[32] The NCRC Report posits: "When subprime lending crowds out prime lending in traditionally underserved communities, price discrimination and other predatory and deceptive practices become more likely as residents face fewer product choices." NCRC, *Fair Lending Disparities by Race, Income and Gender in All Metropolitan Areas in America* (2005).
[33] The US Office of Management and Budget defines a metropolitan statistical area as a "Core Based Statistical Area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.." Federal Register, Office of Management and Budget, "Standards for Defining Metropolitan and Micropolitan Statistical Areas," Federal Register / Vol. 65, No. 249 / Wednesday, December 27, 2000 / Notices. P. 82238.
http://www.whitehouse.gov/omb/fedreg/metroareas122700.pdf

MSAs with higher Black-White segregation tended to have higher ratios of subprime to prime lending.[34] While there was no significant analogous interaction between Latino-White segregation and lending to Latino, the study found that Latino borrowers in MSAs with higher percentage of Latino residents tended to enjoy lower ratios of subprime to prime loans.[35] The study also found that for borrowers living in minority tracts (regardless of their individual race), higher MSA-level Black-White segregation was associated with higher MSA-level ratios of subprime to prime lending.[36] Carolyn Bond and Richard Williams assessed whether increased access to lending for Blacks fostered or hindered Black-White integration in a study published in 2007.[37] Their analysis looked at changes in lending and segregation patterns between 1990 and 2000 across MSAs and found that increased lending to Blacks increased their homeownership and Black-White integration in general.

A report from the Center for Responsible Lending (CRL) found that Blacks were more likely -- 31 to 34 percent -- to be issued more expensive subprime loans than were Whites with equal creditworthiness and credit risk. The Center for Responsible Lending (CRL) report suggest that only about half of the disparity can be explained by differences among borrowers in income, gender and loan size; by whether a borrower has a co-signer; or by the location of the home. Research by CRL and others shows that a high share of these families could have qualified for less expensive loans -- loans that would have provided a basis for successful home ownership.

The NAACP suggest that these disparities in national trends are largely due to discriminatory lending practices that adversely impact the accumulation of wealth in African American communities:

- Disparities in lending were "particularly worrisome for African Americans" with respect to very high□cost loans covered by the Home Ownership and Equity Protection Act (HOEPA). In 2005, African Americans were the **only racial group** to receive a substantially higher percentage of very high□cost loans than market□rate loans.[38]
- In 2007, African Americans paid an average of **128 basis points more** for loans than did their white counterparts; and in the subprime market, the difference was **275 basis points more** than their White counterparts.
- Even when income and credit risk are equal, African Americans are **up to 34 percent more likely** to receive **higher□rate and subprime loans** with a prepayment penalty than are their similarly situated White counterparts.
- African Americans are **15 to 16 percent more likely** to receive a higher□rate ARM purchase loan than if they were White.
- These practices have placed at least **one million African Americans** and other people of color at great risk of loss of wealth—an estimated **loss of at least $164 billion**.

In July 2007 Los Angeles, the **National Association for the Advancement of Colored People** filed suit in federal court against two major banks alleging that they intentionally

[34] NCRC, supra note 47, at 13.
[35] Id. at 15.
[36] Id. at 16.
[37] Carolyn Bond & Richard Williams, *Residential Segregation and the Transformation of Home Mortgage Lending*." 86 SOCIAL FORCES (2007).

[38] http://www.naacp.org/about/resources/reports/Lending_Discrimination_Campaign_Document_Edited_FINAL.pdf

assigned Black customers subprime mortgages while giving Whites better rates.[39] The civil rights group is accusing Wells Fargo and HSBC of forcing Blacks into subprime mortgages while Whites with identical qualifications got lower rates. The NAACP has previously filed suit against 12 subprime lenders, charging that racial discrimination was a factor in determining which clients were offered the lowest rates.[40]

Disparate Economic Impacts of the Crisis

As a result, the predatory lending practices that targeted minority communities have now resulted in an "extreme geographic concentrations of foreclosures," [41] Data on foreclosure rates for specific population groups are not available from either government or industry sources. There is, however, a correlation between high rates of foreclosures in an area and the share of the population that is minority[42]. For example, eight of the 10 metropolitan areas with the highest foreclosure rates in the country, based on third-quarter 2008 data from Realty Trac®, have shares of minority populations that are above average. In four of those areas—Riverside/San Bernardino, Bakersfield, Fort Lauderdale and Fresno—at least half of the population is Latino or Black. The observed correlation is confirmed in more detailed research by Bostic and Lee (2008). Their research also shows that a high burden of housing costs—typical of low-income households with high-cost loans—is also associated with a greater risk of foreclosure.

Foreclosure risk is elevated in many areas with large or rapidly growing Latino populations. According to Realty Trac® the 10 states with the highest rates of foreclosure filings in the third quarter of 2008 included Nevada, California, Arizona, Florida, Illinois, Georgia and Colorado. About 50 percent of the U.S. Latino population resides in those seven states.

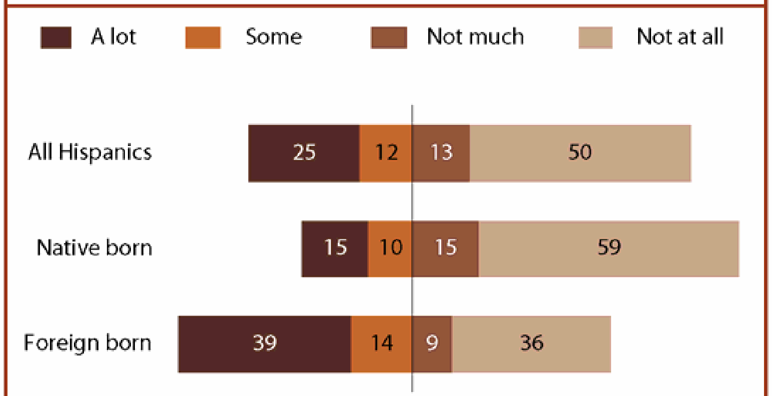
Like the U.S. population as a whole, Latinos are feeling the sting of the economic downturn. Almost one-in-ten (9 percent) Latino home owners say they missed a mortgage payment or were unable to make a full payment and 3 percent say they received a foreclosure notice in the past year, according to a new national survey of 1,540 Latino adults conducted by the Pew Hispanic Center.[43] According to this new survey, half of Latinos say they own their homes, a similar share that is reported by the Census Bureau (49.5 percent) in the third quarter of 2008. Among Latinos, 5 percent say they had a home that went into foreclosure in the past year. Taken together, 7 percent of all Latinos have either experience home foreclosure in the past year or have missed a mortgage payment and are at risk of foreclosure. Moreover, more than six-in-ten (62 percent) Latino homeowners say there have been foreclosures in their neighborhood over the past year, and 36 percent say they are worried that their own home may go into foreclosure. This

[39] http://www.naacp.com/news/press/2009-03-13/index.htm
[40] http://findarticles.com/p/articles/mi_qa4081/is_200801/ai_n24393448/
[41] Jason Reece, Kirwan Institute for the Study of Race and Ethnicity. (http://www.areaa.org/cms/2007%20Annual%20Minority%20Lending%20Report.pdf)
[42] While foreclosure statistics by race, ethnicity or nativity are currently not available, the relationship between demography and foreclosure activity at the county level is discerned in various reports through the marriage of different sources of data. See also Kochhar, Rakesh, Ana Gonzalez-Barrera and Daniel Dockterman. “Through Boom and Bust: Minorities, Immigrants and Homeownership,” Pew Hispanic Center, Washington, D.C. (May 12, 2009).
[43] Hispanics and the Economic Downturn: Housing Woes and Remittance Cuts .http://pewhispanic.org/reports/report.php?ReportID=100

figure rises to 53 percent among foreign-born Latino homeowners. More than half of them (53 percent) say they worry that their home may end up in foreclosure in the next year. Nearly one-in-ten (8 percent) Latino home-owners say they have had a home equity loan denied in the past year, and 8 percent say they have had a home refinance application denied. In 2006, 18 million households spent more than 50 percent of their income on housing. That number has since surged by almost 4 million.[44]

The mortgage foreclosure crisis is having its greatest impact on African American and Latino homeowners, threatening to wipe out decades of economic gains and growth in homeownership rates. Total loss of housing wealth for people of color is now estimated to be between $164 billion and $213 billion for subprime loans taken during the past eight years,[45] believed to represent the greatest loss of wealth for people of color in modern U.S. history. From subprime loans, African American borrowers will lose between $71 billion and $92 billion, while Latino borrowers will lose between $75 billion and $98 billion for the same period. According to the National League of Cities, communities with high foreclosure rates are showing increases in crime, homelessness, as well as abandoned and vacant property and urban blight. These problems are most severe in African American and Latino communities.

Figure 1
Latino Homeowners Worry About Foreclosure
Question: How much do you worry, if at all, that your home could end up in foreclosure in the next year? (%)



Note: Responses of "Don't know" and "Refused" not shown.
Source: Pew Hispanic Center National Survey of Latinos 2008, Economics and Politics

· **Major Challenges: Down payment, Availability of credit and credit scores**

Clearly, prompt and comprehensive action to address the mortgage crisis must be taken to ensure the continued economic stability and financial security of these communities. The CRL estimates that, in 2009 alone, foreclosures will cause 69.5 million nearby homes to suffer price

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[44] http://www.faireconomy.org/files/pdf/state_of_dream_2009.pdf (p. 22)
[45] *Foreclosed: State of the Dream 2008. Boston:* United for a Fair Economy

declines averaging $7,200 per home and resulting in a $502 billion total decline in property values. During the period 2009-2012, foreclosures are projected to cost 92 million U.S. families some $1.9 trillion in lower home values--an average of $20,300 in lost wealth per household.[46] The CRL has issued various reports on the spillover impact of mortgage foreclosures. A recent report is based on new CRL projections of 2.4 million foreclosures for all loans (not just subprime) in 2009, and 9.0 million during 2009-2012. This report also reflects a somewhat more conservative methodology for calculating the spillover impact. Based on current market data, the CRL now projects that some 2.4 million foreclosures will occur in 2009, and 9.0 million during 2009-2012. In addition to the devastating impact these foreclosures will have on the affected households, they will also cause a "spillover" effect by depressing the value of nearby homes—most owned by families who are paying their mortgages on time. According to the National Association of Realtors, almost half of all home sales today are foreclosures or "short sales" of properties sold at substantial discount. This has resulted in lower property values for homeowners and a reduced tax base for communities.

The widespread decline in home values has also affected Latino homeowners. Almost half (47 percent) say the value of their home has declined in the past year, with foreign-born homeowners more likely than native-born homeowners to report this—54 percent versus 42 percent. Furthermore, many of these home value declines are steep. Among Latinos who say the value of their home has gone down in the last year, more than half (53 percent) say the decline in value has exceeded 10 percent.

Obtaining a loan to access home equity, refinance a mortgage or purchase a home has also been more difficult in the past year. More than four-in-ten (44 percent) Latinos, and half of the foreign born, say they have delayed or canceled plans to buy a home or make a major home improvement in the past year. Among Latino homeowners, 8 percent say a home equity loan application has been denied, and 8 percent say a home refinance application has been denied. Among renters, one-in-ten say a home loan application has been denied in the past year.

A recent analysis using metropolitan area samples of the American Housing Survey (AHS) for 1998, 2002, and 2004 to investigate differences in the terms, conditions, and use of mortgage financing alternatives, and to determine how financing and mortgage rates differ for Latinos as compared to other ethnic groups across a number of different U.S. housing markets. The principal focus of the study was to examine the extent to which differences in the interest rates obtained by homeowners of different race/ethnicity and income levels can be explained by differences in characteristics of the borrowers, the property, and the loan itself. First, mortgages were stratified into submarkets by conventional versus VA/FHA and home purchase versus refinance. In addition, home purchase loans were evaluated for recent movers as well as a full sample of all owners who have mortgage debt. The recent mover sub-sample allowed the consideration of how choices made under current market conditions compared with the situation of the full sample of households whose current home mortgage circumstances reflect financing and housing decisions made over time—often many years prior to the interview year. Finally, for the full sample, both junior mortgages and home equity loans, which have not previously been considered in the mortgage pricing literature, were evaluated to see how their terms, conditions, and use vary across household categories. While limitations in the information available in the AHS do not allow the determination of whether or not discrimination exists for minorities in the sample, this data set does

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[46] http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf

identify important differences in the characteristics of these households, which affect mortgage pricing. Such insights often suggest avenues for future research and possible policy implications.

In general, Black households in the sample do not appear to be doing quite as well financially as either the White or Latino households, as evidenced by substantially lower incomes and home values across all markets for African Americans. Latino households appear to have a relatively high burden of first mortgage debt. Considering lower-income families in the full sample 67 percent of the Latino households have a housing-cost-to-income ratio that exceeds 32 percent. For comparable Blacks and Whites the percentages are 62 percent and 61 percent respectively. For recent movers, in the conventional market, 49.4 percent of lower-income Latino families have loan-to-value ratios that are greater than 90 percent. The percentage for comparable Black households is 44.4 percent and for Whites only 29.7 percent.

III. Future Challenges and Opportunities

The historic significance of this momentous economic crisis is not only the multi-trillion dollar collapse of the mortgage and securitization industry, but also the central role played by the historic ethno-racial exclusions, inequalities and subprime targeting of Blacks and Latinos within the housing market and its crisis. The Black and Latino legacy of housing inequality is not only central to our understanding of the origins of the crisis, but more importantly this legacy is also at the center of an important opportunity for the resolution of the crisis in a way that establishes a prosperous middle-class based economic recovery.

As we have seen above, this history of inequality cannot be understood in isolation from the unequal application of successful government policies which supported the growth of the white home-owning middle class, but which also generated a long lasting pattern of racial exclusions in the U.S. mortgage credit and homeownership. Similarly, we have seen how this legacy of unequal access, combined with government regulatory neglect, allowed the financial industry to profit from an explosion of unsustainable subprime lending products which targeted the historically most excluded and least capitalized populations. The subsequent torrent of foreclosures is now disproportionately impacting the ability of Blacks and Latinos to maintain their homes and reach their goal of building household wealth for their families, threatening a future healthy recovery of the entire national housing market.

In essence this crisis raises fundamental questions concerning the future viability of the U.S. as a middle class economy in the 21st Century, one with the ability of creating, expanding and transmitting wealth not only between generations but in the context of a rapidly changing ethno-racial demographic transformation. The secret of America's 20th century success was the ability to turn the Great Depression into a recovery opportunity by establishing mechanisms to enable working families to begin owning homes and building assets over time, creating the wealth needed for their families to prosper and become the next generation that could acquire and build on the assets of previous generations. These mechanisms created the wealth needed for their families to prosper and be able to acquire and build on the assets of previous generations. The problem is that this process worked very well for the majority White population, and not so well for the non-white populations which have faced systematic exclusion from these wealth building advantages, but are now rapidly becoming the new demographic majorities. While the historic progress in closing the gap in housing inequality from 1995 to 2005 was extremely important for continued housing market turnover and long term wealth transfers between sellers and buyers of housing, the introduction and growth of subprime loans their subsequent collapse has severely eroded this progress. The most ominous threat to the future recovery from the current crisis is the concentrated impacts of subprime foreclosure on the Black and Latino communities which is now occurring just as these "minority" populations are emerging as the next generation of home buyers replacing an aging (and much whiter) homeowner population.

It is important to understand, nevertheless, how the current historical era can also be seen as an opportunity to leverage this high degree of ethno-racial and generational inequality to help meet the needs of aging baby boomer net home-sellers with the needs of emerging ethno-racially diverse younger net home-buyers. There exists not only an opportunity for an inter-generational win-win, but also an opportunity to finance and rebuild a housing infrastructure for the future common good which is both more sustainable and equitable.

Demographic and Ethno-Racial Interdependence

Many recent studies have analyzed the major demographic drivers of the changes that will transform the U.S. population and economy over the next several decades – the interplay between aging boomers, and emerging role of younger minorities and immigrants. The overall U.S. population is expected to experience a rapid aging as boomers grow older, while absorbing large numbers of young minorities and recent immigrants. Two major trends will interact in the coming decades to determine the future path of housing demand and intergenerational wealth transfer

1) An aging boomer home owner generational net sell-off will widen the gap between sellers and buyers (Figure 7)
2) A dramatic ethno-racial transformation of the net homebuyer population will drive a generational turnover to a growing younger cohort of Latinos, Blacks, Asians and immigrants (Figure 8)

Consequences for the housing market are to be expected from the growing ratio of seniors to working-age adults (Figures 9 and 10). Some analysts depict a coming generational transition in the housing market that will upset the historic balance of buyers and sellers. Residents in most states are net buyers of homes well into their 50s. The resulting upward pressure on demand by the large baby boom generation will soon peak, and after age 70 they will be net sellers in all except three states. The most significant factors impacting housing over the coming years are whether aging baby boomers decide to grow old where they are and where and how young new minorities and immigrants decide to buy homes and settle.[47]

[47] William H. Frey, "America's Regional Demographics in the '00s Decade: The Role of Seniors, Boomers and New Minorities," the Brookings Institution, the Mortgage Bankers Association.

Figure 7

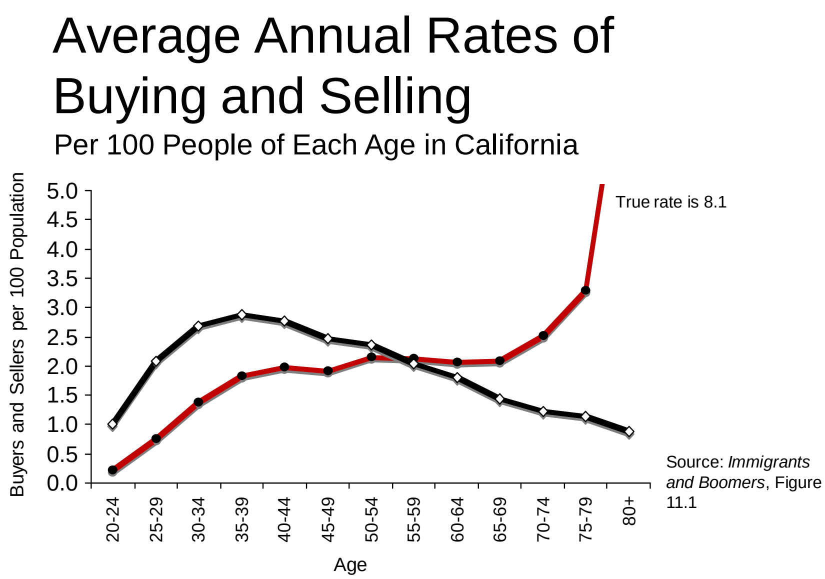


Figure 8

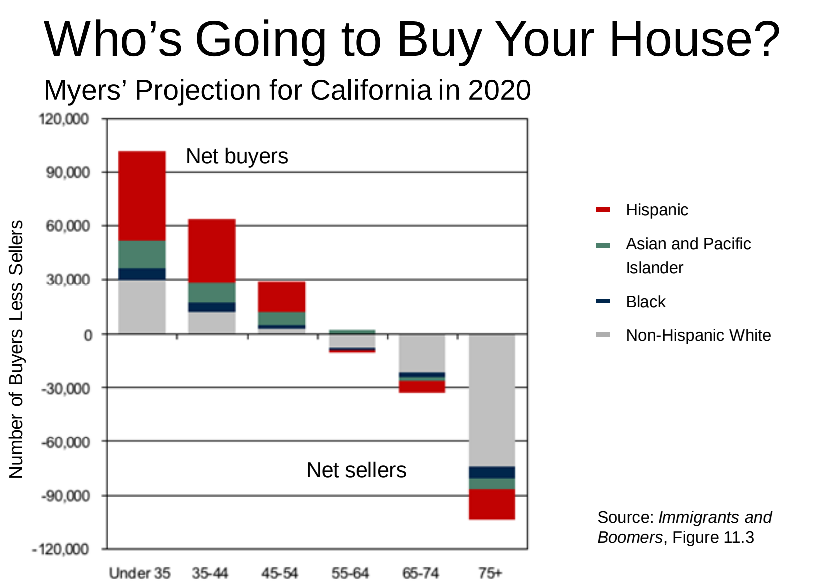


Figure 9

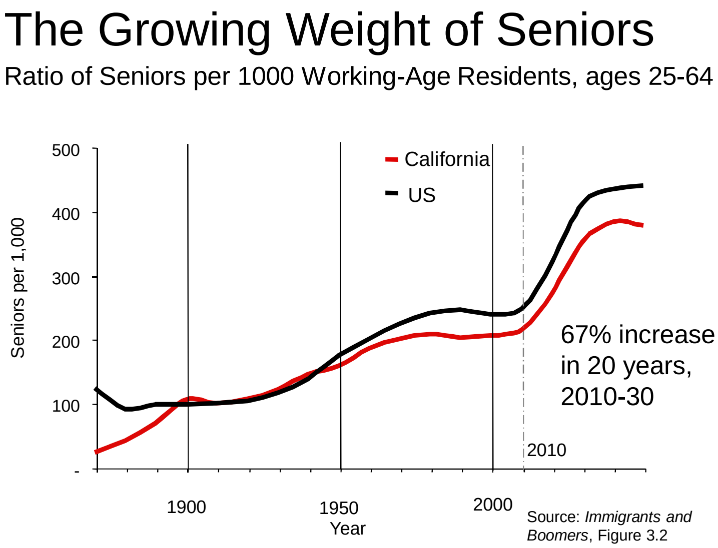
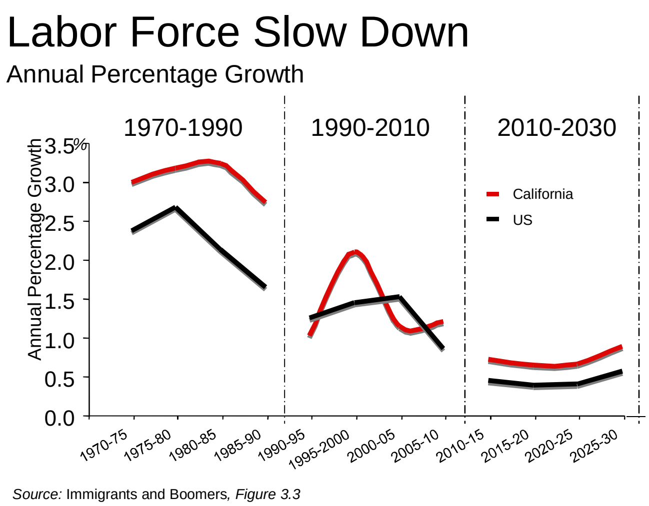


Figure 10



There is an intense debate as to the future path and implications of the interaction between these dynamics of racial ethnic transition and the national housing markets. Both sides agree, however, that a deeper foreclosure crisis and a lack of new mortgage financing will make this transition much more difficult. Some researchers document the substantial risk of a generational housing bubble, when a larger number of seniors begin to sell off high-priced homes. In many states there are not likely to be sufficient numbers of young adults to absorb all the homes released by older sellers.[48] Others argue that as troubled as we are today by the credit-

[48] Dowell Myers and SungHo Ryu, "Aging Baby Boomers and the Generational Housing Bubble," Journal of the American Planning Association 74, no.1 (winter 2008).

induced downturn, the general expectation is that there will be ample buyers in future years to float a recovery, assuming that buyers can obtain needed financing.[49]

Myers and Ryu (2008) maintain that while earlier dire predictions by Mankiw and Weil (1989) may have miscalculated the timing of the housing decline (as beginning 20 years too early), we are now entering the era when the baby boomers will finally start retiring from the housing market. Their demand for housing will begin to contract, and then will decline at an accelerating rate. Boomers will dominate the housing market, as they have through their entire adult lives, when the ratio of seniors to working-age adults soars by 67 percent in the next two decades. This tilt toward age groups that are net sellers of housing is historically unprecedented, and it challenges planners to foresee and forestall adverse impacts. The baby boom generation was born over a period of 18 years, and once its sell-off commences, it could dominate the housing market for up to two decades. Whereas the major housing problem was once affordability, it could now be homeowners' dashed expectations after lifelong investment in home equity.

While not discounting the force of this demographic sell off, some more optimistic scenarios predict that as mortgage financing resumes and housing markets stabilize, household growth should return to levels consistent with long-term demographic trends. As the number of minority and foreign-born households grows (Figures 11 and 12), the housing industry will increasingly serve groups with lower homeownership rates, incomes, and wealth than native-born Whites. Ethnic identification of some minorities and cultural preferences of recent immigrants will also challenge housing suppliers to tailor their marketing to a diverse population.

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[49] Joint Center for Housing Studies of Harvard University. **The State of the Nation's Housing** 2008 http://www.jchs.harvard.edu/publications/markets/son2008/son2008_demographic_drivers.pdf

Figure 11

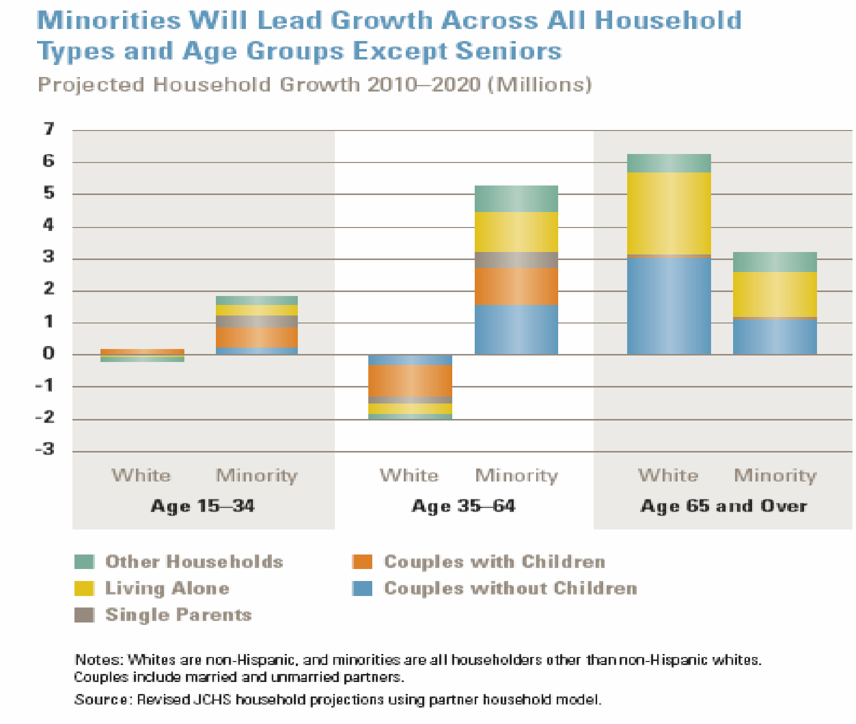
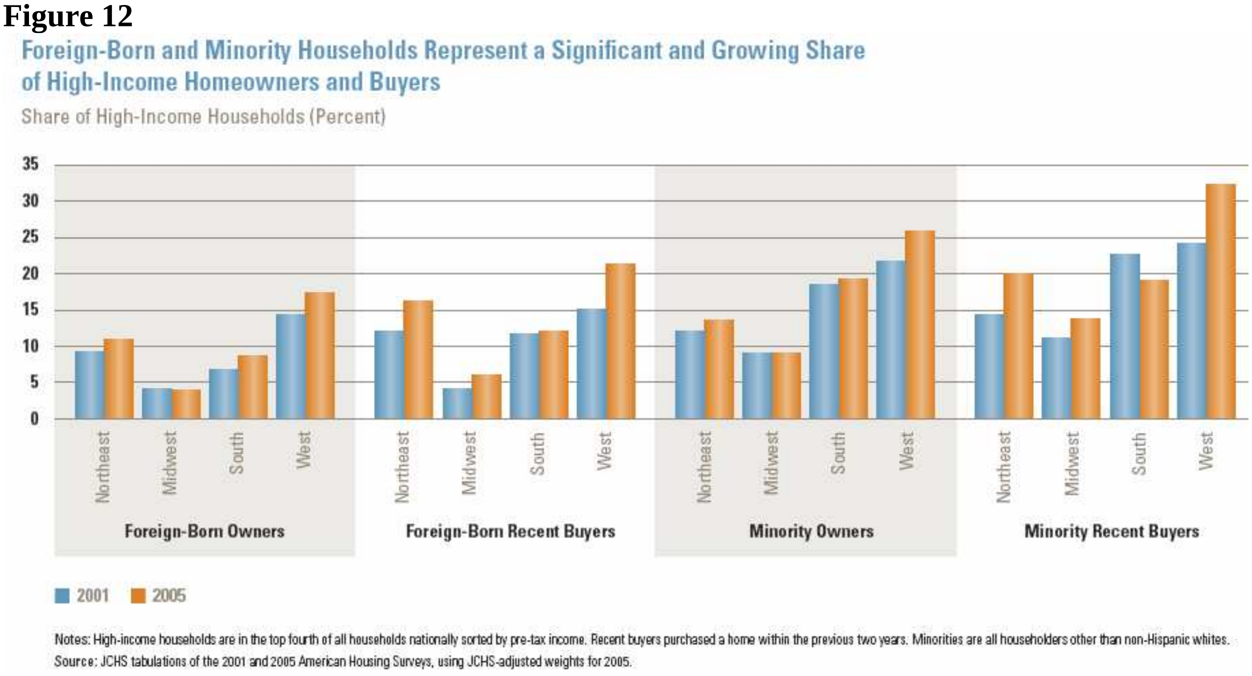


Figure 12



While rising incomes and wealth have historically placed each generation on a path to higher housing consumption, the current economic crisis is raising serious concerns that this upward trend may not continue. Adding to this risk is the very real prospect that some of the recent gains in household wealth—which came largely from rising homeownership rates and home price inflation—will erode. Given this intense generational and ethno racial interdependence, a major concern is now "extreme geographic concentrations of foreclosures,"[50] with the total loss of housing wealth for people of color believed to represent the greatest loss of wealth for people of color in modern U.S. history. [51] Housing demand, however, is predicted to pick up when (and if) the mortgage financial sector and economy begin to recover, home prices reach bottom, and homeownership again becomes an attractive way to build wealth.[52]

The new challenge may well be how to encourage buyers in distressed environments and how to sustain municipal services and finance a new generation infrastructure investments in the face of declining property values. All of these reversals result from the aging of the baby boomers and are being exacerbated by the current foreclosure crisis. The most significant factors that will impact housing over the coming years are whether aging baby boomers decide to grow old where they are and where young immigrants decide to settle. Different regions of the country will have different demands for housing driven by the relative impacts of aging in place versus migration within the country and immigration from abroad. For example, suburban areas will gray faster than urban areas due to the boomers aging in place. While close to 30 percent of young households move each year to a new residence that percentage slides down to the 4-5 percent range for people in older age groups. Therefore, household mobility that has been a major driver of home sales will fall off as boomers age. While it is popular to think of the United States as a melting pot, Blacks, Latinos, Asian and other minority groups are disproportionately clustered in selected areas. Louisiana is among the so-called "White-Black Slower Growing States" and "Mostly White Slower Growing States" that will have the lowest rate of overall population growth, but will gray rapidly through aging in place.

By using foresight, planners have a better chance of leading their communities through the difficult transition ahead. Planners could lessen the negative consequences of the deflating generational housing bubble by anticipating these long term trends and initiating pre-emptive programs to retain elderly home owners, attract young and minority home buyers, and closely monitor additions to the housing inventory to forestall overbuilding. Planners must adjust their thinking for a new era that reverses many longstanding assumptions. Though planners in many urban areas have been struggling against gentrification, they may now need to stave off urban decline. Whereas decline once occurred in the central city, it may now be concentrated in suburbs with surpluses of large-lot single-family housing. Whereas residential development once focused on single-family homes, many states may swing toward denser developments clustered near amenities.

A Convergence of Needs and Opportunities: Rising Housing Affordability and New Financing for Equitable and Sustainable Development

There are a number of positive ironies and complementarities in the current generational and ethno-racial inequality and interdependence. These complementarities include historically high and increasing housing affordability amidst historically low and declining interest rates, and

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[50] Jason Reece, Kirwan Institute for the Study of Race and Ethnicity.
[51] *Foreclosed: State of the Dream 2008. Boston:* United for a Fair Economy.
[52] Joint Center for Housing Studies of Harvard University. **The State of the Nation's Housing** 2008 http://www.jchs.harvard.edu/publications/markets/son2008/son2008_demographic_drivers.pdf

declining ethno racial discriminatory residential attitudes and diminishing cultural/social barriers. Indeed, the future of prosperous regions (both urban/suburban and by state) will be likely defined their ability to attract young diverse minority home buyers.

The critical issue is whether we as a body politic will seize this opportunity to re-instate the same type of policy approaches that so successfully ushered in an era of home buyers for the parents of the white baby boomer generation just as they are preparing to exit the housing market. Conditions are ripe for a new multi-racial emerging populations to become the next generation of home buyers, helping not only aging homeowners in the short run, but more importantly establishing the basis for future wealth creation and transmission and the maintenance of a middle class based economy for generations to come.

Mortgage rates have fallen recently to a historic record-low of 4.96 percent (Figure 13), the lowest mark since Freddie Mac started tracking the data in 1971. That should help push the Housing Affordability Index (HAI) of the National Association of Realtors (NAR) to a new estimated record high level of 163.1 in early 2009 (Figure 14).[53] An HAI of 163.1 would mean that the typical household earning the median family income of $60,840 (estimated) in January would have 163.1 percent of the qualifying income to purchase a median-priced existing single-family house ($181,000 - estimated for January) with a 20percent down payment, which would be the highest level of housing affordability in history.

Stated differently, the annual qualifying income required to purchase a median-price house (with a 20percent down payment) is only $37,296, with monthly payments based on a 4.96 percent, 30-year fixed-rate mortgage ($777 per month for principal and interest). Given the median family income of about $60,840 (est.), the typical family would have 163.1 percent of the income required to qualify for the mortgage to purchase the $181,000 home.

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[53] HAI data
http://www.realtor.org/wps/wcm/connect/77f28a804c7c3587a76aa72e4ec772bd/research__REL0811A.pdf.pdf?MOD=AJPERES&CACHEID=77f28a804c7c3587a76aa72e4ec772bd

Figure 13

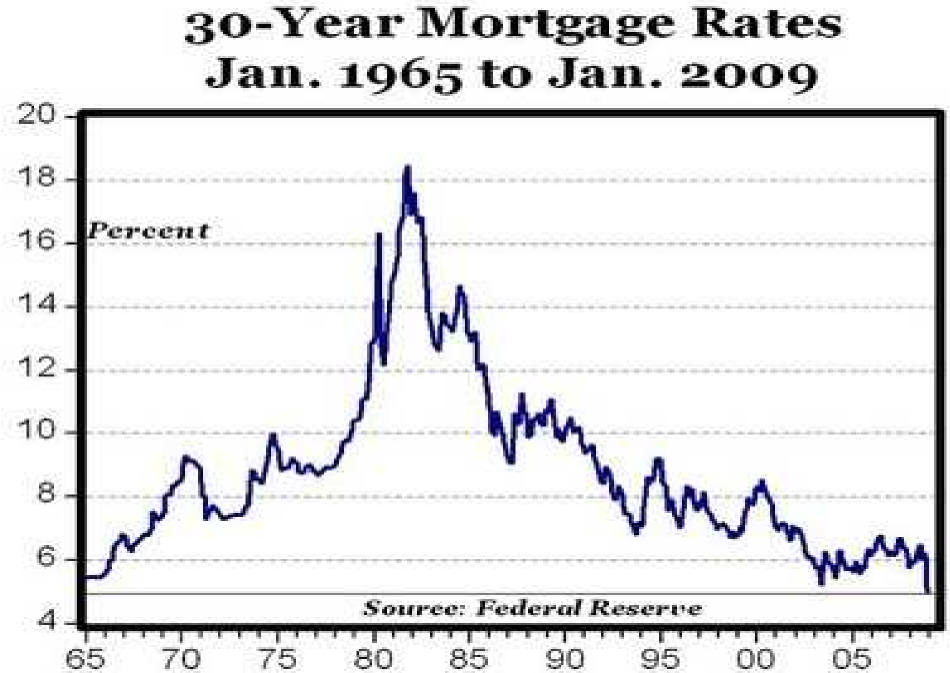

Figure 14

Given these changing opportunities, we must also avoid the false dichotomy which says we should give up on supporting homeownership in favor of alternative urban design, as some have suggested.[54] Giving up on the country's commitment to affordable homeownership is also not an option, either socially or politically, and will only hasten a deflationary spiral and destroy the best option we have for financing a very feasible wave of sustainable development in this century. Just as the depression era initiatives ushered in generations of White home owners into the middle class, we need to reconstruct new mechanisms for financing mortgages for the housing of the future, including new green, higher density energy efficient alternative development.

Given the emerging complementarities and opportunities, the central problem is recreating the most appropriate policy approach to finance the immediate expansion out of the crisis, as well as finance the enduring architecture legacy for future middle class growth and wealth transfers. Of immediate importance will be the halting of the housing wealth destruction and its disproportionate impact among Blacks and Latinos. Well targeted low cost, long term financial products (not high cost and unsustainable prime loans) will be crucial. Need near term assistance with down payment and credit enhancements to take full advantage of this opportunity will also be needed.

We also need a new longer term investment mortgage strategy can restructure living environments to reduce a series of operating costs (including a new generation of approaches to energy efficiency, property taxes, insurance, etc). Creating a new generation of "green mortgages" and even "green mortgage-backed securities", for example, is one such approach. Put simply, "green" MBS would package mortgages on buildings that meet specific energy-use and environmental benchmarks. According to proponents of the idea, green MBS should be rated higher and worth more as a result of the operational-efficiency, marketability and occupant-satisfaction benefits of green buildings. The result: better and cheaper access to capital for borrowers and owners who want to invest in green buildings. Green mortgages, in which lenders presumably offer better mortgage loan rates or terms for homes that reduce resource use and related operating costs, are still on the drawing board as a way to attract and qualify potential buyers. But a few carrots are being sprinkled around to indicate that, as green building becomes more defined and commonplace, such programs may follow green building practices into the mainstream.[55]

It is imperative that our generation turn this deep crisis into the opportunity to rapidly reconstruct the mechanisms to financing the new generations of homeowners. Facilitating the next wave of Black and Latino homeowners will allow the transfer of housing wealth between generations in the 21st Century context of rapidly changing demographics and ethno-racial transformations. Facilitating a new generation of homeowners is not only good for all homeowners but also makes sense given the long term trends of increasing housing affordability. Creating the same economic opportunities for the next generation of homeowners is not only

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[54] Richard Florida How the **Crash Will Reshape America** - The Atlantic (March 2009)

[55] Wells Fargo Home Mortgage, for example, has offered a new-construction solar home program that allows builders in California to transfer a rebate offered by the California Energy Commission's New Solar Home Partnership directly to buyers at closing, which they can use for the down payment or as a permanent interest-rate buy-down to lower their monthly mortgage payments. The offer applies to conforming and non-conforming loans for new single-family homes, including condominiums that will be used as the buyer's primary residence. The rebate amount depends on the size of the solar system installed.

critical to ability of the aging population, but essential for America’s 21st Century sustainable economy and middle class democracy.

IV. Action Plan to Save Families and Homes, Return the Economy to Health

Given the dimension of the policy challenges ahead, immediate, broad-based action is urgently needed both inside and outside Washington, DC by a variety of broad-based coalitions. As the mortgage foreclosure crisis has grown, a number of Latino and African American advocacy organizations have urged federal policy makers to address the problem. At the 2007 National Latino Congreso, delegates from 300 endorsing organizations and individuals from 15 states passed a resolution urging the Congress and the Federal government act on the problem. In October 2008, the National Black Latino Summit, which was lead by the Conveners of the National Latino Congreso, Policy Link and over 30 other national Latino and African American advocacy organizations, issued a "Call to Action" on the housing crisis. Numerous other Latino and African American organizations and leaders have identified the housing crisis as one of the most important issues facing our community today. These proposal echoes and augments the ideas of Sheila Bare of the FDIC with contributions from "Fix Housing First", Former Texas Comptroller John Sharp, Barron's Magazine, the National Latino Congreso, the National Black Latino Summit, and many others.

1. **Mortgage Foreclosure Relief: Allow bankruptcy judges to modify mortgage terms to help homeowners avoid foreclosure and stabilize home values.**

2. **Affordable Down Payments for New Homebuyers though Homebuyers' Tax Credit:** Enact a permanent $130 billion Home Buyer Tax Credit, similar to the earned income tax credit, that can be monetized and used for down payments of new home purchases ($10,000 to 22,000 per taxpayer as a percentage of the price of the home). This would stimulate home purchases and help the next generation of Latinos and Blacks attain the American dream of homeownership.

3. **Sustainable Mortgages for Next Generation Homeowners:** Authorize $100 billion to Fannie Mae and Freddie Mac to allow refinancing of private sector mortgages at a 4.5% interest rate in 2009. This would help create a generation of minority homeowners to share in the wealth building opportunities that have historically characterized homeownership.

1. Allow bankruptcy judges to modify mortgage terms to help homeowners avoid foreclosure:

Support congressional efforts to allow bankruptcy judges to change mortgage terms to assist homeowners in avoiding foreclosure. Under the legislation, judges would be allowed to reduce the principal owed, reduce the interest rate or extend the length of mortgage loans. The measure would apply only to existing mortgages and not future loans. Currently, bankruptcy courts are prohibited from rewriting loan terms on primary residences.

To ensure that that the program would not be abused by individuals trying to get out of costly mortgages and only used as a last resort, homeowners facing foreclosure would be required to seek a change in their loans 30 days before pursuing one in court. They would also have to provide the necessary personal financial information to the lender. The measure would require judges to determine whether a voluntary loan modification had been sought from a lender before the homeowner entered bankruptcy. It would also require judges to weigh a homeowner's income against the payments before deciding whether to reduce the interest rate or principal. Federally approved appraisal guidelines would be used to determine the value of the home.

Stabilizing the housing market is essential to the nation's economic recovery. Reducing the number of homeowner's who are forced into foreclosure is central to such stability. This proposal would provide a valuable set of judicial tools to help stem foreclosures and help homeowners retain their most important financial asset.

2. **Homebuyer Tax Credit:**

Provide all homebuyers a 10 percent tax credit, on the purchase of a new home. The amount of tax credit would be capped at 3.5 percent of FHA loan limits (geographically dependent), ranging between approximately $10,000 and $22,000. The tax credit would be available at time of closing (monetization) and would expire within a year.

A housing recovery is essential to the economic recovery of the economy. Mortgage delinquencies and subsequent foreclosures triggered the current financial crisis and policies that are specifically designed to stimulate the housing market are needed to facilitate its recovery. Home prices are down 26 percent from their peak and since the end of 2007 more than one million housing-related jobs have been lost. This represents almost a quarter of all job losses since the financial crisis began. Large inventories of unsold homes have severely depressed home prices and virtually stopped all new home construction. While some prospective buyers may be unable to secure loans to buy a home, a more plausible explanation for is that people are simply afraid to buy until they see a marked upturn in the housing market and home prices are stabilized. Until these inventories are reduced, falling home prices and construction of new homes will continue to be a drag on the economy and millions of African Americans and Latinos will be at risk of losing their homes or continue to be shut out from purchasing new homes.

The Homebuyer Tax Credit will help address these problems by providing the stimulus needed to break this deflationary cycle. Housing is more affordable now than at any time in recent history. Lower prices and falling mortgage rates provide a unique opportunity for prospective buyers to purchase homes that were unaffordable only a few years ago. According to the National Association of Realtors, the "affordability index" that estimates the family income needed to buy a median-priced home is at its highest since 1970. The tax credit would provide the necessary impetus for reluctant homebuyers to take advantage of this increased affordability and begin the economic recovery reprocess.

Moreover, a short-term tax credit that would be available at time of closing (monetization), would allow us to seize a unique and historic opportunity that current housing affordability provides to help Latinos and Blacks purchase homes and build wealth. It would help stimulate that economy, stabilize the housing market and restore the American dream of homeownership to both minorities and whites alike.

3. Buy-Down All Mortgages to 4.5 percent:

The Federal government should extend its offer of a fixed 4.5 mortgage rate for new homebuyers to include every American homeowner through refinancing. While the U.S. Treasury Department's proposal urging banks to offer 4.5 mortgage rates to new homebuyers is a significant step in the right direction, it completely ignores the 50 million families who already own homes and are suffering from falling home prices and foreclosures that are devastating entire communities. This new rate would lower their monthly mortgage payments and help "underwater" homeowners who owe more on their mortgages than their homes are worth. These homeowners are particularly vulnerable to foreclosure and currently make up approximately $2 trillion of the $11 trillion in outstanding U.S. mortgage debt.

The proposal is estimated to cost approximately $100 billion if the Federal government utilizes Fannie Mae and Freddie Mac by providing them the ability to effectively borrow at Treasury rates. According to Barron's and other renowned economists, if their borrowing rates were the same as the Treasury's Fannie and Freddie could offer mortgage rates at 4.5 percent or less. The two Corporations would bundle the refinanced loans into basic guaranteed securities for investors and with the explicit government backing that is proposed, demand for these securities would increase significantly.

Providing a fixed 4.5 mortgage rate to both new homebuyers and existing homeowners would help every American homeowner help in our financial recovery. Families facing foreclosure on their homes because of increased mortgage rates would have an opportunity to stay in their homes with a new manageable rate of 4.5 percent, while more stable homeowners would be given the opportunity to refinance their existing loans, providing an infusion of extra cash into the economy. Finally, the new fixed rate would help reduce the bloated inventories of existing homes that families are reluctant to purchase until the housing market stabilizes and the economy recovers. Home prices would stabilize and housing construction would be stimulated, creating as much as 250,000 jobs.

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