

Dear NCRC Members and Affiliates:

We are pleased to present to you the “Politics and the Subprime Mortgage Meltdown: An Examination of Disparities by Congressional District, Political Party, Caucus Affiliation and Race” by Maurice Jourdain-Earl, Managing Director of ComplianceTech. This important study will bolster our efforts to support the enactment of the *Community Reinvestment Modernization Act of 2009* (H.R. 1479) by highlighting racial/ethnic disparities in lending by Congressional district.

Jourdain-Earl’s study is timely and relevant, in that it examines the racial and ethnic distribution of subprime loans in each Congressional district of the 110th Congress for the year 2006, one of the subprime boom years. This study shows the pattern of the subprime mortgage crisis and the resulting mortgage defaults and foreclosures, and identifies Congressional districts that are likely to be hardest hit by the mortgage meltdown.

At a time when billions of dollars are being channeled through the Housing *and Economic Recovery Act* (HERA) and the *American Recovery and Reinvestment Act* (ARRA) to address the foreclosure crisis, it is essential to establish areas and populations where the impact will be highest and develop targeted recovery and stabilization efforts to mitigate the devastating effects.

Most important, this study illustrates that problems associated with subprime mortgage lending affect Democratic and Republican Congressional districts alike. In much the same manner, the current crisis is not limited to a single racial or ethnic group, but affects the entire nation as a whole.

Interestingly enough, while the subprime mortgage crisis has been bi-partisan, the roll call vote on HERA was not, according to the study. Ninety-eight percent of the nay votes came from the Republican side, despite the fact that some of the opposing Congressional leaders represented high-risk Congressional districts (i.e., districts with a high number and percentage of subprime loans). More specifically, out of the 44 Congressional districts with the highest number of subprime loans¹, 23 are Democratic and 21 are Republican.

In addition to being bi-partisan, the subprime mortgage crisis is also not confined to a single racial or ethnic group. Whites received the largest number of subprime loans than any other racial group within the U.S. in 2006. Yet, while white Americans received the largest number of subprime loans, minority borrowers and minority communities experienced the highest concentration (or percentage) of subprime loans. In other words, subprime loans comprised a disproportionate share of all loans issued to minorities in 2006.

¹ The established threshold was defined as 10,000 or more subprime loans.

The findings above have two implications. First, since whites received the largest number of subprime loans, this means that this borrower group is at a high risk for mortgage defaults and foreclosures. Second, the notably higher proportion of subprime loans out of all loans issued to minorities indicates large racial disparities in subprime lending and, thus, a disproportionate impact of the foreclosure crisis on minority communities and Congressional districts.

This study also calculates a Subprime Disparity Index (SDI) by dividing the percent of subprime loans to minorities by the percent of subprime loans to non-Hispanic whites. This index provides overwhelming evidence that Blacks and Hispanics have a higher incidence of subprime lending in most Congressional districts. Namely, in 309 districts, Blacks were more than twice as likely to receive a subprime loan, as compared with whites. Moreover, this disparity in subprime lending reached a SDI higher than 5, indicating a five times greater probability of Black borrowers receiving subprime loans compared with whites in some Congressional districts. Hispanic borrowers followed similar pattern being more than twice as likely as whites to receive a subprime loan in 150 Congressional districts.

Finally, there were “high risk” areas characterized by a high number *and* a high percentage of subprime rate loans.² Florida, Nevada, Arizona, and Maryland were the top four states with the highest percentage of “high risk” Congressional districts.

Even though significant racial/ethnic disparities in subprime lending are evident, current Home Mortgage Disclosure Act (HMDA) data cannot explain them fully. Questions about borrowers’ credit qualifications, steering, and specific loan terms and conditions remain unanswered from HMDA data alone. The *Community Reinvestment Modernization Act of 2009* will address these pressing questions by expanding HMDA data reporting to include these variables. This, in turn, will enable a comprehensive analysis of the current mortgage crisis and help prevent future economic crises similar in scale and magnitude through early detection of problematic lending.

The *Community Reinvestment Modernization Act of 2009* will also address racial/ethnic disparities in subprime lending and the resulting loss of wealth in minority communities by mandating that CRA exams explicitly scrutinize banks’ lending, investing, and services to minorities in addition to the current examination of bank performance to low- and moderate-income borrowers and communities. Since banks are primarily prime lending specialists, examining bank performance to minority communities will motivate banks to increase their responsible prime lending to these communities and thus diversify the choice of products and services in these traditionally underserved areas.

Finally, the *Community Reinvestment Modernization Act of 2009* will address concerns raised in this and other research studies over the weak oversight of lenders, inappropriate loan products,

² Included are states with the highest concentration of congressional districts with quantities greater than 10,000 subprime loans and a percentage rate greater than 25%.

steering, and fraud by expanding the *Community Reinvestment Act* to cover all players in the mortgage market, including independent mortgage companies and mainstream credit unions.

Because of this study's salient findings, the National Community Reinvestment Coalition urges you to use the tables of racial and ethnic disparities by Congressional District to identify your district and use the considerable evidence of racial/ethnic disparities in lending to support the enactment of the *Community Reinvestment Modernization Act of 2009*. This critical piece of legislation will reduce racial/ethnic disparities in lending, expand opportunity and inclusion for low- to moderate-income borrowers, and stabilize neighborhoods through responsible lending and safe and sound investments that revitalize communities hardest hit by the foreclosure crisis.