



Surging Inequality and the Rise in Predatory Lending

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Simple Double Bottom Line

- Equitable access to credit essential to eradicate racial inequality
- Need to combat growing economic inequality generally as well as predatory lending practices and inadequate regulatory policies in particular

Predators

If you can't maintain a certain amount
No banker's going to let you have a checking account
So when you gotta cash a check 'cause your kids need to eat
There's a check cashing place about a block up the street
When the money's tight, you don't have to wait
There's a 500 percent interest rate
That you keep rolling over on that payday loan
And if you can't afford a freezer you can rent-to-own
You gotta make those payments for you can't miss one
You can buy it three times over by the time that you're done
If you do miss a payment, they will repossess
And when your ice cream melts, it's going to make a mess
'Cause they're predators, predators, they keep devouring more and more
they're predators, predators that keep gettin' richer by preying on the poor

Rap song:

Predators

Music and lyric by Clifford J. Tasner & Wil b.

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From the Film: In Debt We Trust: America Before the Bubble Bursts

Fig 6.3. Gini coefficient for family income inequality in the United States 1950-2000

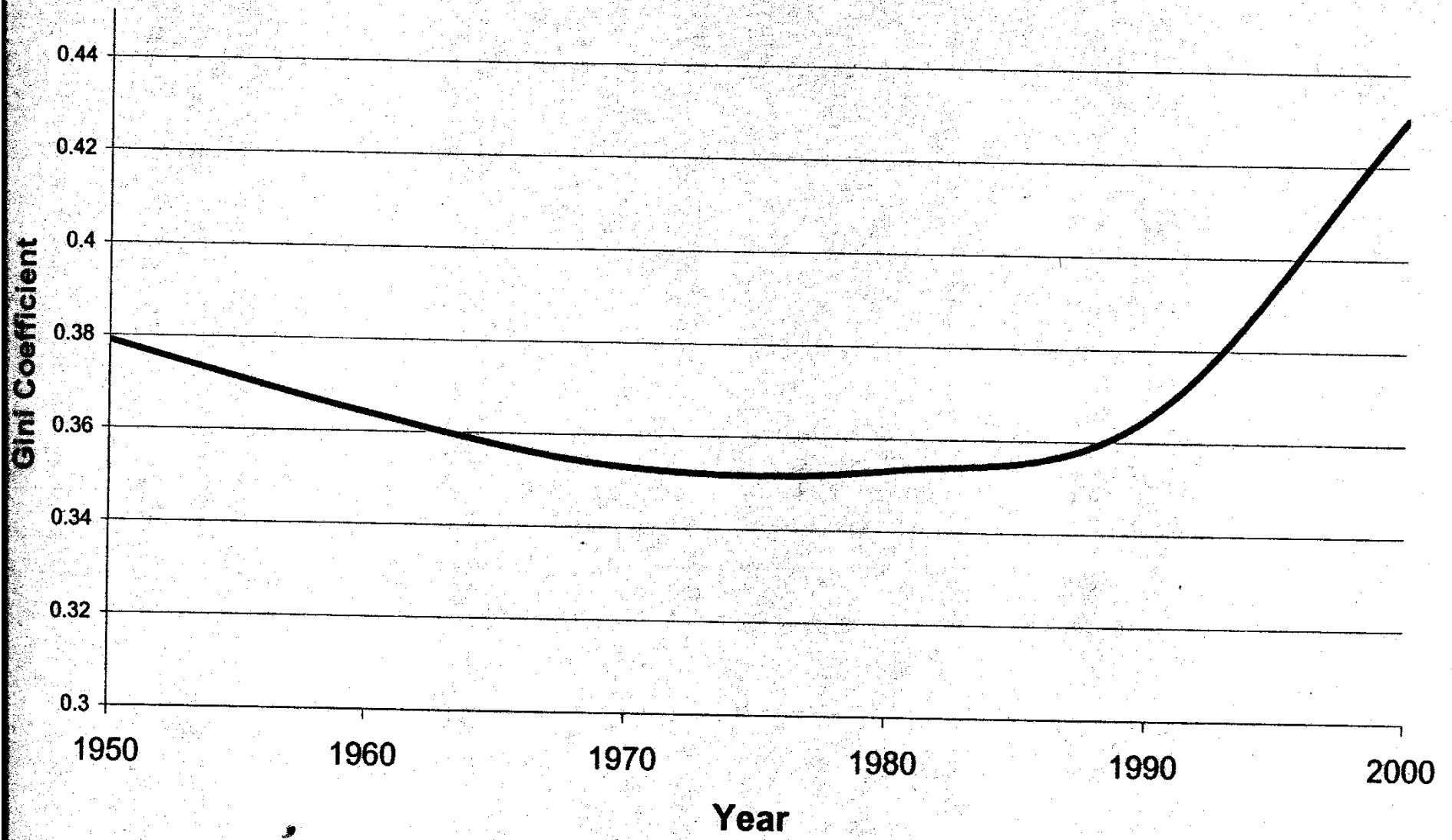
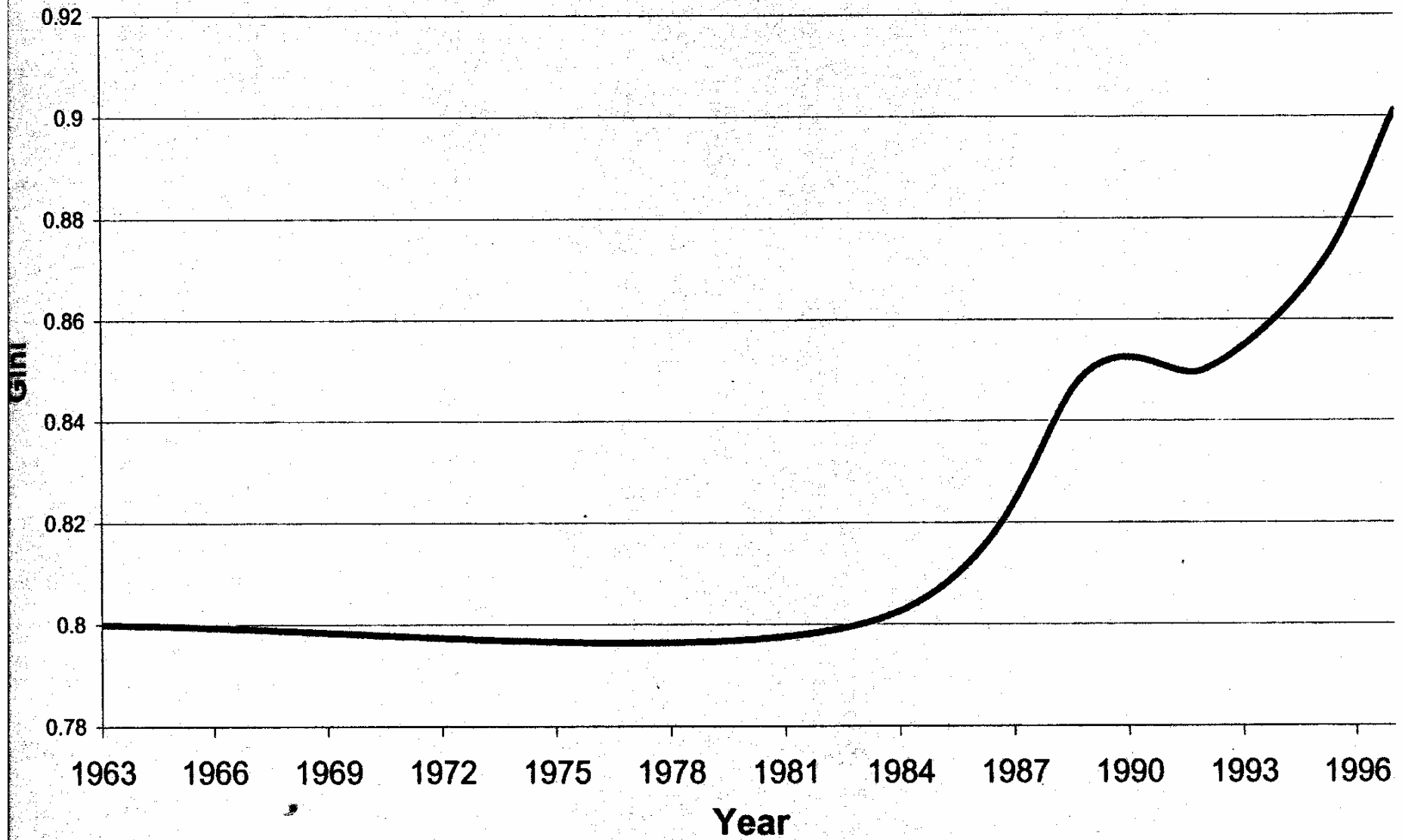


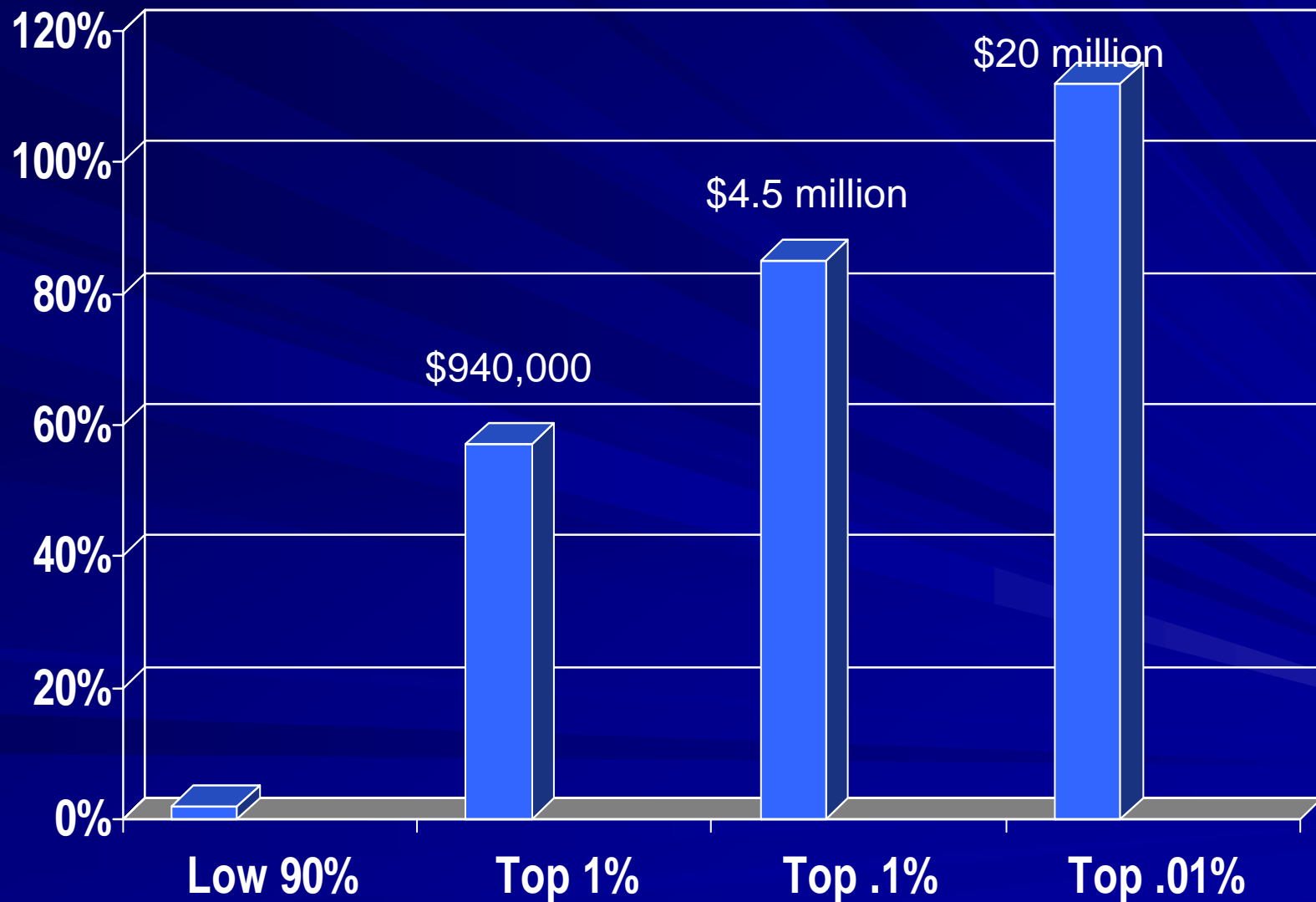
Figure 6.4. Gini coefficient for household wealth inequality in the United States 1960-2000.



Income

- 1967-2005 share of income in top quintile grew from 46% to 50%, share of poorest quintile declined from 4% to 3%
- 1972-2001
 - Top 90 percentile, income grew 34%
 - Top 99 percentile, income grew 87%
 - Top 99.9 percentile, income grew 497%
- Ratio of typical CEO to production worker increased from 30/1 to 400/1

Household Income Growth, 1990-2004



Racial Inequality

■ Median household income (2006) % of white median

■ white	\$50,673	
■ black	\$31,969	63%
■ Hispanic	\$37,781	74%
■ Asian	\$64,238	127%

■ Poverty rates ratio to white rate

■ white	8.2%	
■ black	24.3%	3.0
■ Hispanic	20.6%	2.5
■ Asian	10.3%	1.3

Racial Inequality – cont'd

■ Unemployment rates

Share without health insurance

■ white	4.0%	10.8%
■ black	8.9%	20.5%
■ Hispanic	5.2%	34.1%
■ Asian	3.0%	15.5%

Racial Inequality - cont'd

Wealth

	white	black	Hispanic
Median household net worth	\$88,651	\$5,988 (7%)	\$7,932 (9%)
			Mexican - \$7,062
			Cuban - \$39,789

24% of whites and 11% of blacks receive an inheritance

Average white inheritance - \$115,000

Average black inheritance - \$32,000

Concentrated Poverty

	Tracts		Population	
	1970	2000	1970	2000
■ U.S.	1,177	2510	4.1 mil	7.9 mil
■ Milwaukee	11	43	17,319	77,460

- Number of middle income neighborhoods declined from 58% to 41% nationwide and from 69% to 40% in Milwaukee
- Share of lower-income households in middle-income neighborhoods declined from 55% to 37% nationwide and from 67% to 40% in Milwaukee

Costs of Uneven Development

- **Infant mortality per 1,000 births**
Black 14.3 White 6.3
- **1 pediatrician/400 children in Bethesda**
1 pediatrician/3,700 children in Southeast
- **Per pupil expenditures in selected public schools – 2002-03**
New York City (72% black & Hispanic) \$11,627
Manhasset (9% black & Hispanic) \$22,311
- **2000 violent crime victimization rate per 1,000 residents –**
35.1 in urban areas, 25.8 in suburbs
- **Damaged areas in New Orleans from Katrina were 46% black and 21% poor compared to 26% and 15% in other neighborhoods**
- **Residents of low-income neighborhoods 3 times as likely to purchase homes with high cost conventional (non-government insured) loans as residents of upper neighborhoods**

Two-Tiered Financial Services Delivery System

- Banks, thrifts, and conventional services for middle-class, professional, white communities
- Check cashers, payday lenders, auto title loans, pawnshops, rent-to-own stores, RAL's, and high-priced, predatory services in low-income, minority communities

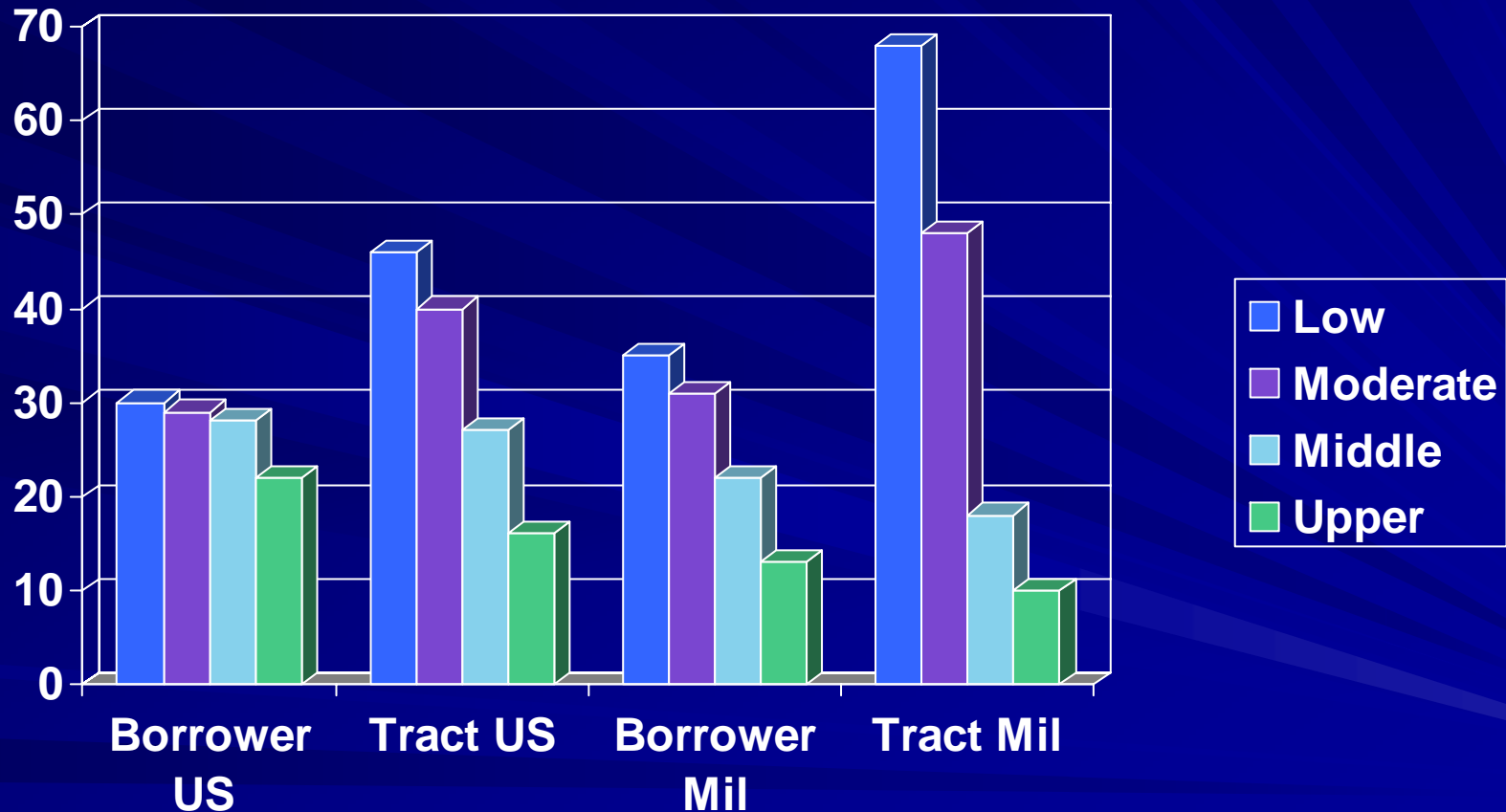
- Branch banks increased by 29% overall but decreased 21% in LMI areas – 1975-95
- Check cashers grew from 2,151-22,000 – 1986-2003
- 2 banks for each check-casher in central city and 10 banks for each in balance of Milwaukee metro area – 1996
- North Carolina – black areas had 3 times as many payday lenders/pop. as white areas, controlling on neighborhood income, poverty, unemployment, education etc.
- One check casher per 3,196 Denver residents with median income below \$30,000 compared to one per 27,416 where median income exceeded \$90,000
- 36% of fringe bankers in LI and 12% in HI areas
- 24% of mainstream lenders in LI and 26% in HI areas

Growth and Targeting of Subprime Loans

- 1994-2005, \$35 to \$600 billion
- 5% to 20% of the market
- Economic concentration – 2006 first lien, conventional home purchase loans

	U.S.	Milwaukee
– Low income residents	30%	35%
– Mod income residents	29%	31%
– Mid Income residents	28%	22%
– Upper Income residents	22%	13%
– Low income areas	46%	68%
– Mod Income areas	40%	48%
– Mid income areas	27%	18%
– Upper income areas	16%	10%

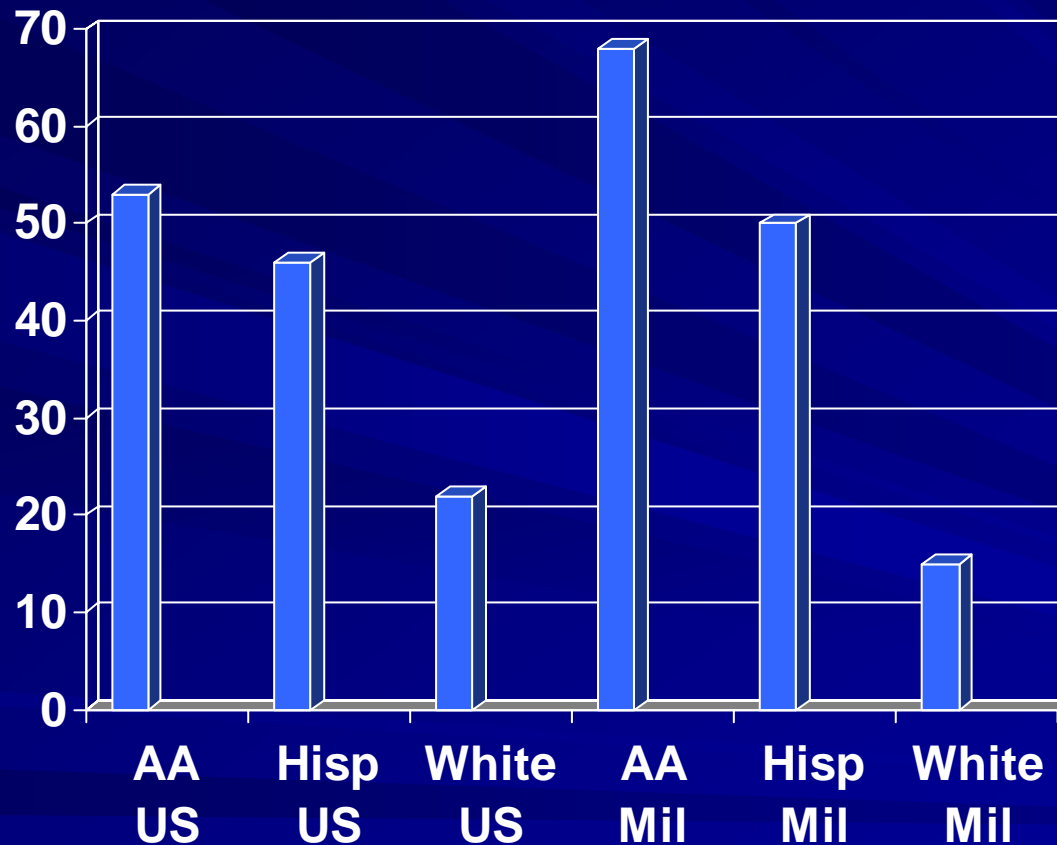
High Priced Loans by Borrower and Tract Income – U.S. and Milwaukee, 2006



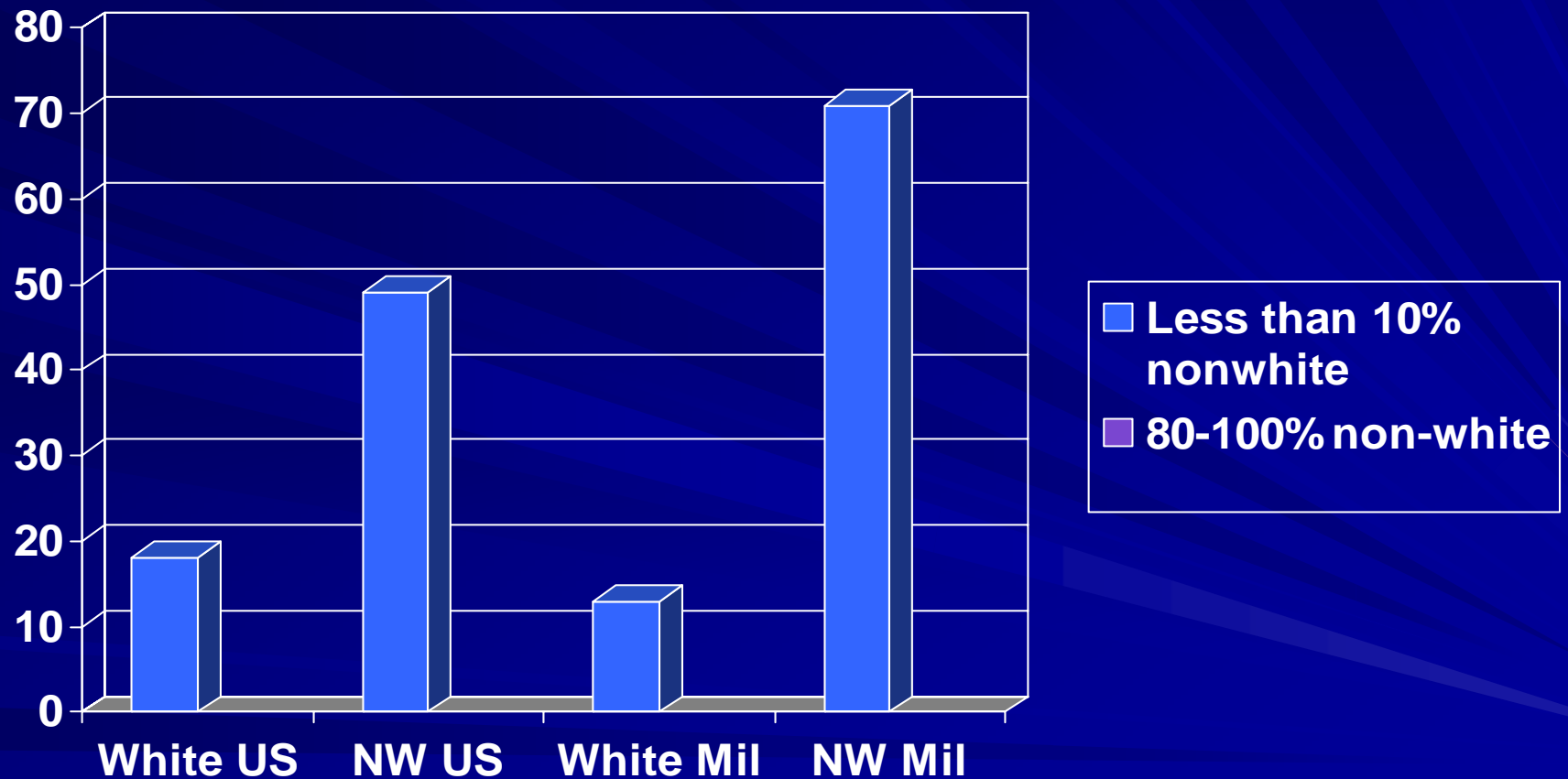
Race and High Priced Loans U.S. and Milwaukee, 2006

■ APPLICANT	U.S.	Milwaukee
■ African American	53%	68%
■ Hispanic	46%	50%
■ White	22%	16%
■ AREA (minority percentage of population)		
■ Less than 10	18%	13%
■ 80-100	49%	71%

Race and High Priced Loans U.S. and Milwaukee, 2006



Racial Composition of Neighborhood and High Priced Loans U.S. and Milwaukee, 2006



Exotic or Toxic? Predatory Practices

- Charging higher fees and rates than justified by level of risk
- Large balloon payments
- High prepayment penalties
- Loan flipping with no net tangible benefit to borrower
- Loans that disregard ability to pay
- Negative amortization
- Examples – “Liars loans,” interest only, adjustable rate mortgages



Why Does This Matter?

- Increases borrower costs - by \$9.1 billion/year
- Increases foreclosure rate
- Increases crime
- Reduces property values
- Reduces property tax revenues
- Reduces capacity to provide basic public services
- Undercuts health of the economy generally

Causes – Ideology & Policy

- Individualistic bias
 - Human capital theory
 - Public choice – “voting with your feet”
 - Bad decisions by borrowers
- Structural/institutional barriers
 - Favored treatment of wealth and homeownership
 - Anti-union sentiments
 - Failure to index the minimum wage
 - Racial discrimination – whites with felony fare better than blacks with no criminal record
 - Aggressive marketing by lenders to vulnerable customers coupled with “irrational exuberance” on part of many investors

Housing Policy and Practice

- Intimidation & violence – Sundown Towns
- FHA warned of “inharmonious racial groups”
- Racially restrictive covenants
- Concentration of public housing
- Federal highway construction
- Exclusionary zoning
- Redlining
- Steering

Banking Practices and (De) Regulation

■ Technology

- Automation facilitated risk-based pricing
- Securitization reduced lender risk as more loans were sold to secondary mortgage market

■ Withdrawal

replacement of branch banks with check cashers etc.

■ Regulatory retreat

Regulatory retreat

- **Federal financial regulatory agencies replaced the CRA service and investment tests with a weaker community development test for mid-size lenders**
- **OCC pre-empted local and state anti-predatory lending laws**
- **State pre-emption of local laws**

Solutions?

- Policy responses to inequality
- Expand financial literacy training
- More aggressive law enforcement
- Voluntary efforts by lenders
- Federal anti-predatory lending legislation
- More, stronger state laws
- Aggressive organizing



Policy Responses to Inequality

Increase EITC – all levels of government

Index minimum wage for inflation/cost of living adjustments

Expand living wage ordinances – currently in over 100 communities (apply to economic development subsidies)

Enact Income Equity Act eliminating corporate tax deductions when executive pay exceeds 25 times that of the lowest paid worker

Provide universal health insurance

Strengthen union organizing efforts – e.g. enact Employee Free Choice Act creating union dues check off system

Equitable school funding and desegregation – fair housing enforcement, redrawing school district lines, new construction, preference for students from diverse schools by elite universities, deny tax deductions in segregated communities

- **Expand financial literacy training**

- **Voluntary efforts by lenders**
 - Conduct paired testing/mystery shopping
 - Analyze HMDA to identify market opportunities
 - Look for patterns in overages in loans derived from independent brokers

- **More aggressive law enforcement**
 - Apply CRA to credit unions, independent mortgage bankers/brokers, and other major mortgage lenders
 - Add service to minority markets as part of CRA exam
 - Expand HMDA to include credit ratings, loan-to-value & debt to income ratios
 - Suitability standard – some states require “net tangible benefit,” Fed Guidance assuring ability to pay
 - Verify income
 - Escrow for taxes and insurance
 - Enact national anti-predatory lending legislation – Miller, Watt, Frank “Mortgage Reform and Anti-Predatory Lending Act of 2007
 - Grow more Elliot Spitzers

More, stronger state laws

■ Effects of strong state laws

- Borrowers retain access to responsible subprime credit
- Borrowers pay same or less for credit
- Borrowers get loans with fewer abusive terms

“Empirical results show that the typical local predatory lending law tends to reduce rejections, while having little impact on the flow (application and origination) of credit”

- Ho and Pennington-Cross, *Journal of Urban Economics*

Aggressive organizing

- **NFHA generated \$215 million for plaintiffs since 1990**
- **NCRC reported that CRA generated \$4.7 trillion for reinvestment in underserved markets**
- **ACORN victories created \$15 billion for low-income communities (e.g. predatory lending, living wage, CRA agreements)**
- **Broader coalitions – unions, faith-based organizations, cities, affordable housing advocates (including some lenders & developers), neighborhood groups, foundations, media, universities – e.g. Baltimore and Cleveland lawsuits**

Lawrence B. Lindsay

"There are two faces of community development: noisy protest and quiet accomplishment...One can act one way at age 20 another at age 40. It is called growing up...The protest banner can still be held reverently in our box of momentos, along with the love beads and peace signs."

Frederick Douglass

"If there is no struggle, there is no progress. Those who profess to favor freedom and yet deprecate agitation Are men who want crops without plowing the ground. They want rain without thunder and lightening They want the ocean without the awful roar of its waters Power concedes nothing without a demand It never did, and it never will



