

# **Predatory Finance and Growing Economic Inequality**



# What is Finance?

**Finance (noun)** - a branch of economics concerned with resource allocation as well as resource management, acquisition and investment.

**Finance (verb)** - provide funding for



# Expanding Finance to the Average American

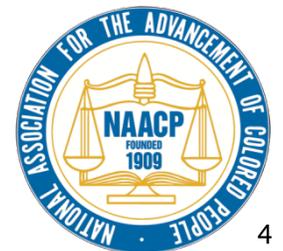
- ▶ To help promote home ownership the government created Fannie Mae, Freddie Mac, and Ginnie Mae to buy loans from banks and give banks the confidence to start lending.



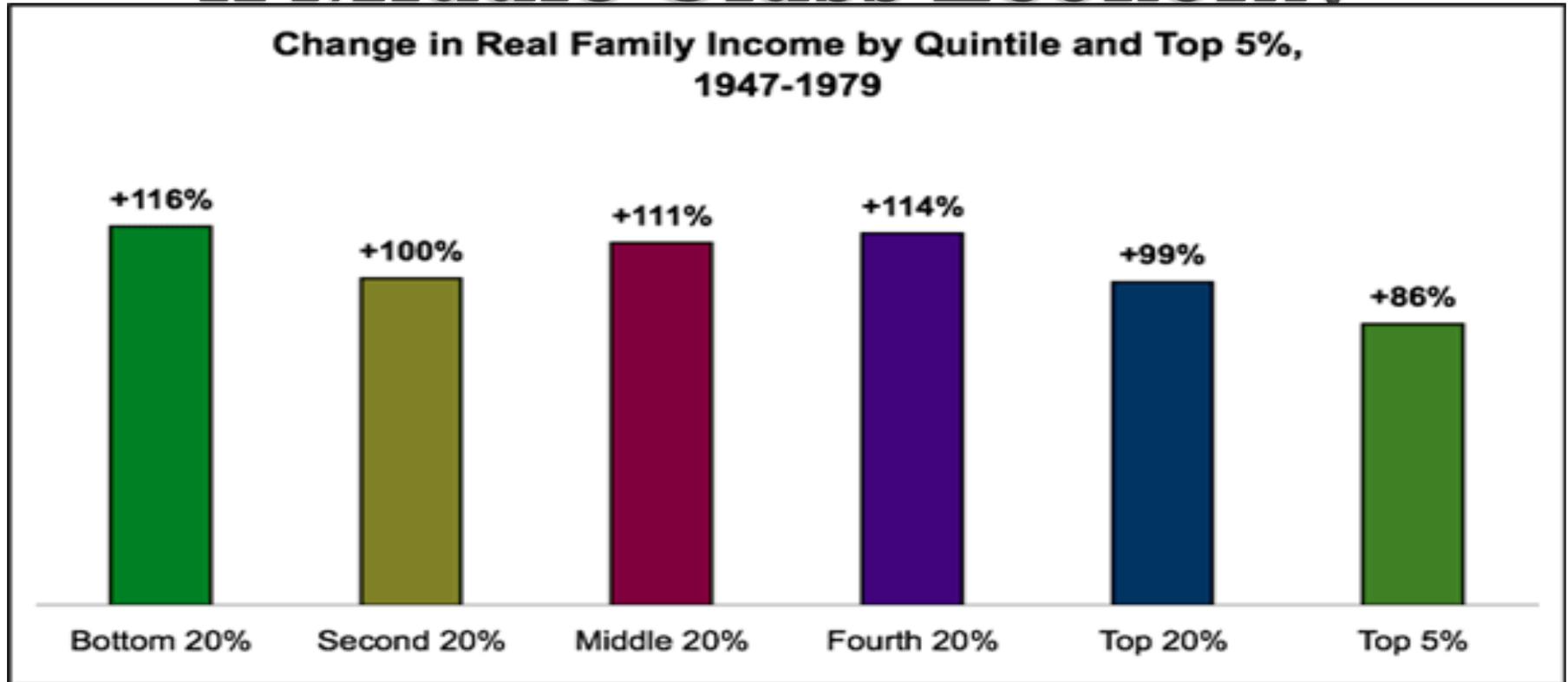
# 1940s and 1950s

## Mass Investment into white Americans

- ▶ The GI Bill included provisions for low-cost mortgages to veterans so they could purchase houses.
- ▶ Returning veterans flocked to newly constructed 'suburbs'
- ▶ A housing boom, increased earning capacity, coupled with pent-up demand for consumer goods, resulted in the prosperity of the 1950s and 1960s.
- ▶ Banks left the inner-city and refused to lend there.
- ▶ Stable, long term wealth creation excluded most African-Americans.



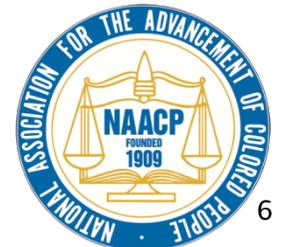
# A Middle Class Economy



- ▶ The struggles of organized citizens combined with federal legislation created a more equitable growing economy.

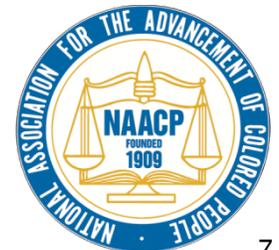
# Civil Rights struggles of the 1950s-60s & Community Reinvestment Act of 1977

- ▶ Many of the civil rights struggles of mid 20<sup>th</sup> century America centered around advocating for African Americans to be included in the country's economic growth
- ▶ **CRA:** Requires banking institutions to meet the credit needs of their local communities, including low and moderate income neighborhoods



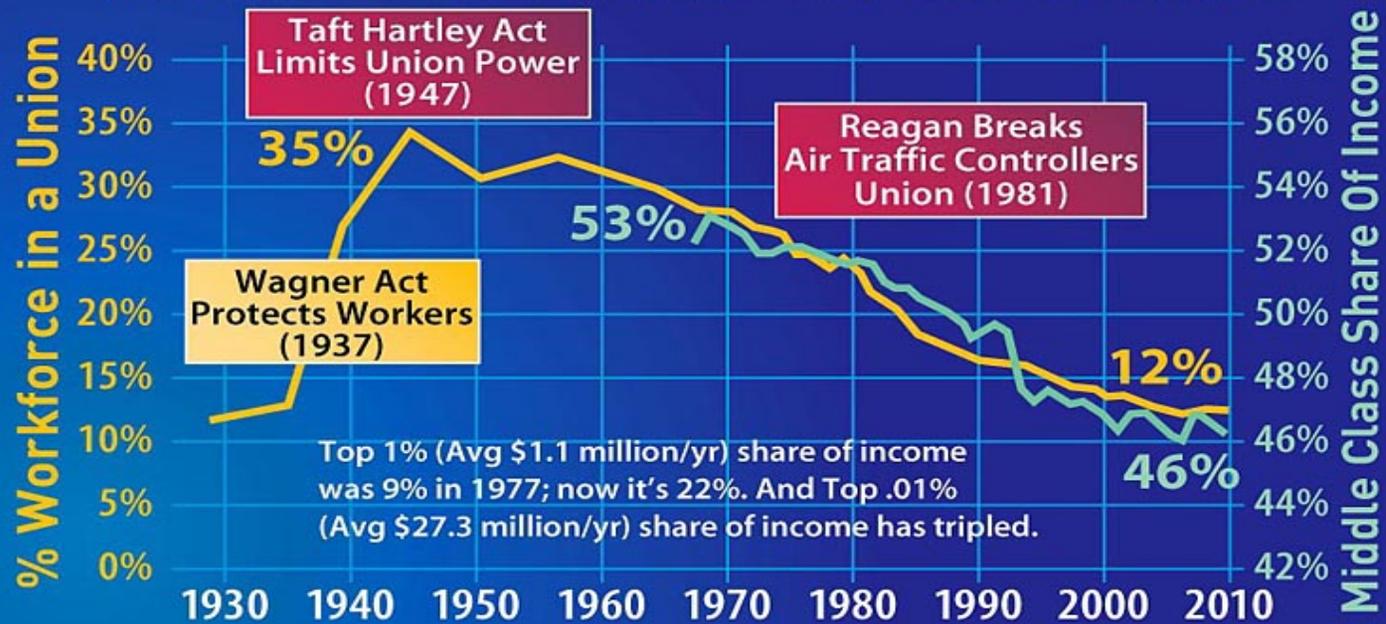
# 1980s Deregulation

- ▶ What is Deregulation? The removal of government regulation from an industry or sector,
- ▶ Depository Institutions Deregulatory and Monetary Control Act (DIDMCA) of 1980, Alternative Mortgage Transactions Parity Act (AMTPA) of 1982 and Tax Reform Act of 1986 changed the marketplace helped create **predatory marketplace**



# With financial deregulation came decline in unions

## Anti-Union Policies Weaken Workers & Middle Class Income



Graph Information Sources: United for a Fair Economy ([www.FairEconomy.org](http://www.FairEconomy.org)) & Center for American Progress ([www.AmericanProgress.org](http://www.AmericanProgress.org)) Based on data from Bureau of Labor Statistics  
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# Growing Income Inequality

Between  
1979–2007

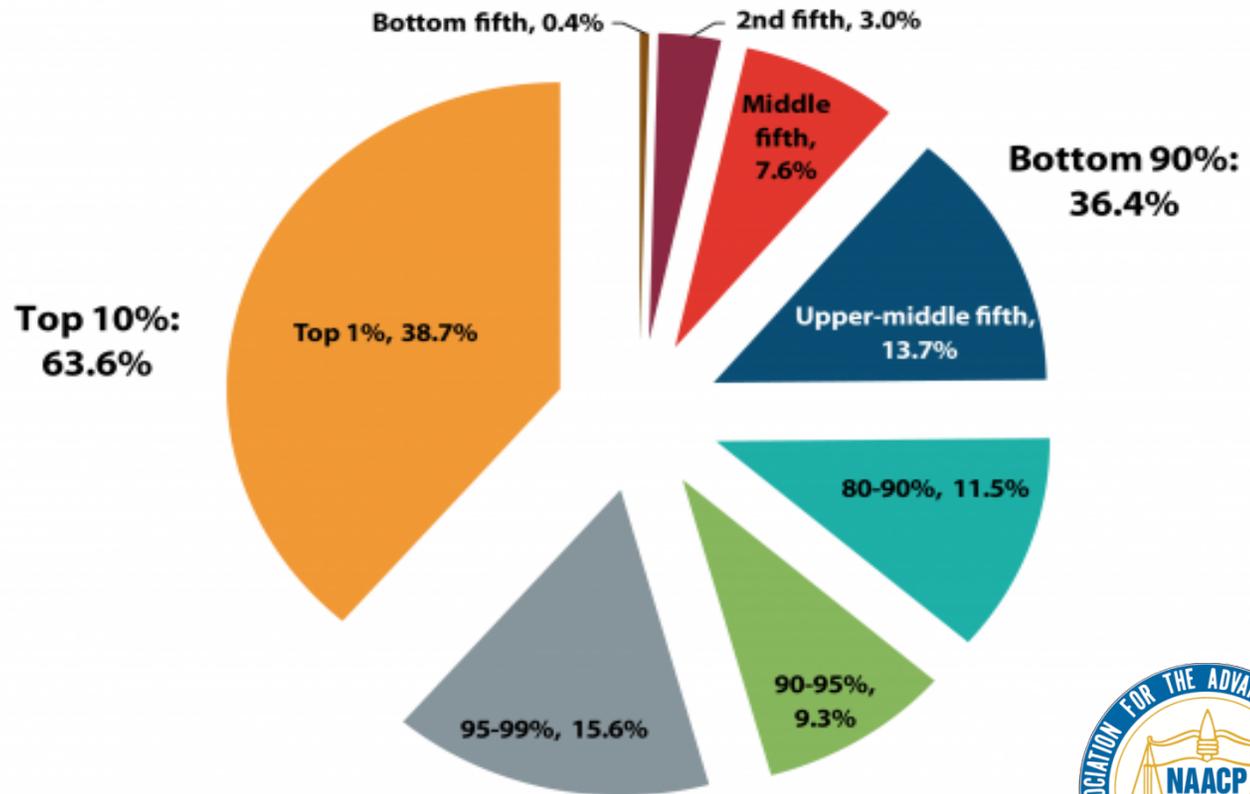
About 64% of  
income  
growth went  
to the highest  
paid 10%.

While the  
other 90%  
only saw 36%  
of income  
growth.

The poorest  
20% saw not  
even half of  
1% income  
growth.

## Where did the growth go?

Share of pre-tax income growth, 1979-2007

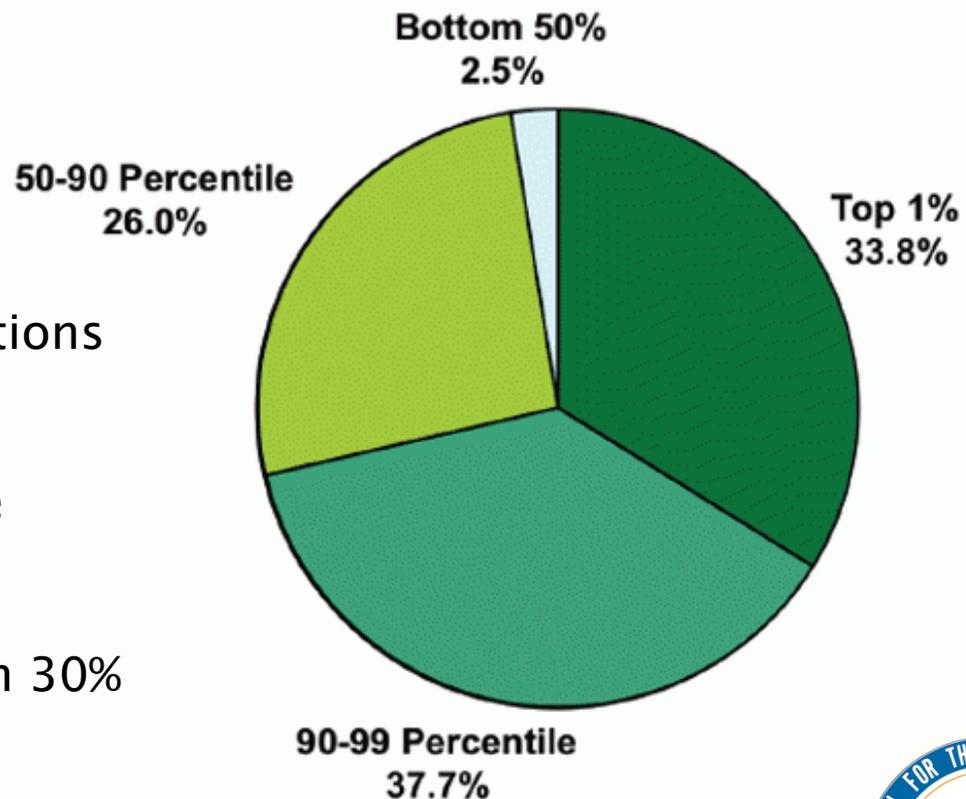


Source: EPI analysis of CBO Average Federal Tax Rates and Income, 2010.



# Who has the Money???

Distribution of U.S. Wealth, 2007



Top 1% has a third of the nations wealth.

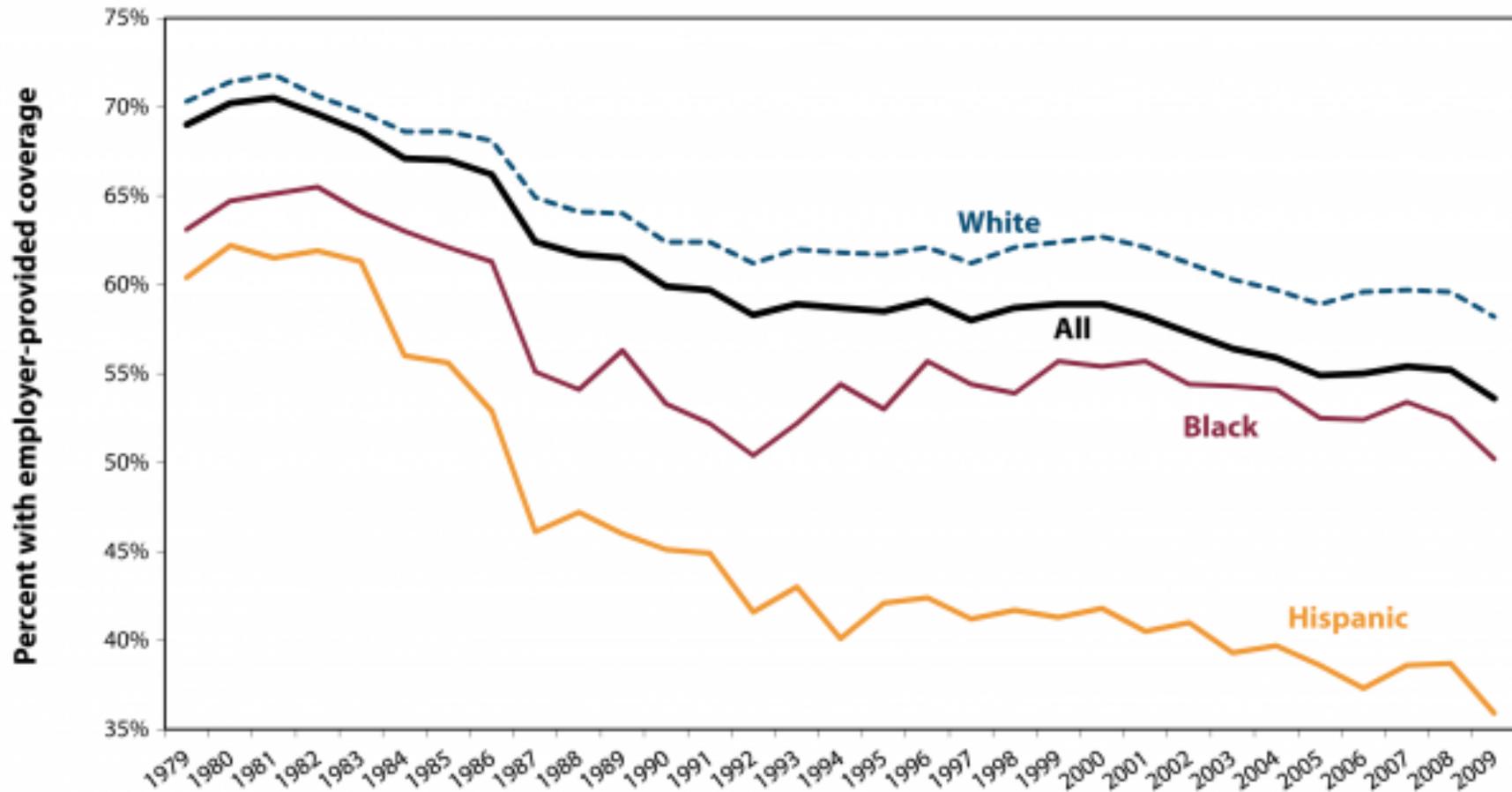
Top 10% has over 70% of the nation's wealth.

90% of America has less than 30% of the nation's wealth.

Half of America only has 2.5% of the nation's wealth.



# Shifting of cost to worker



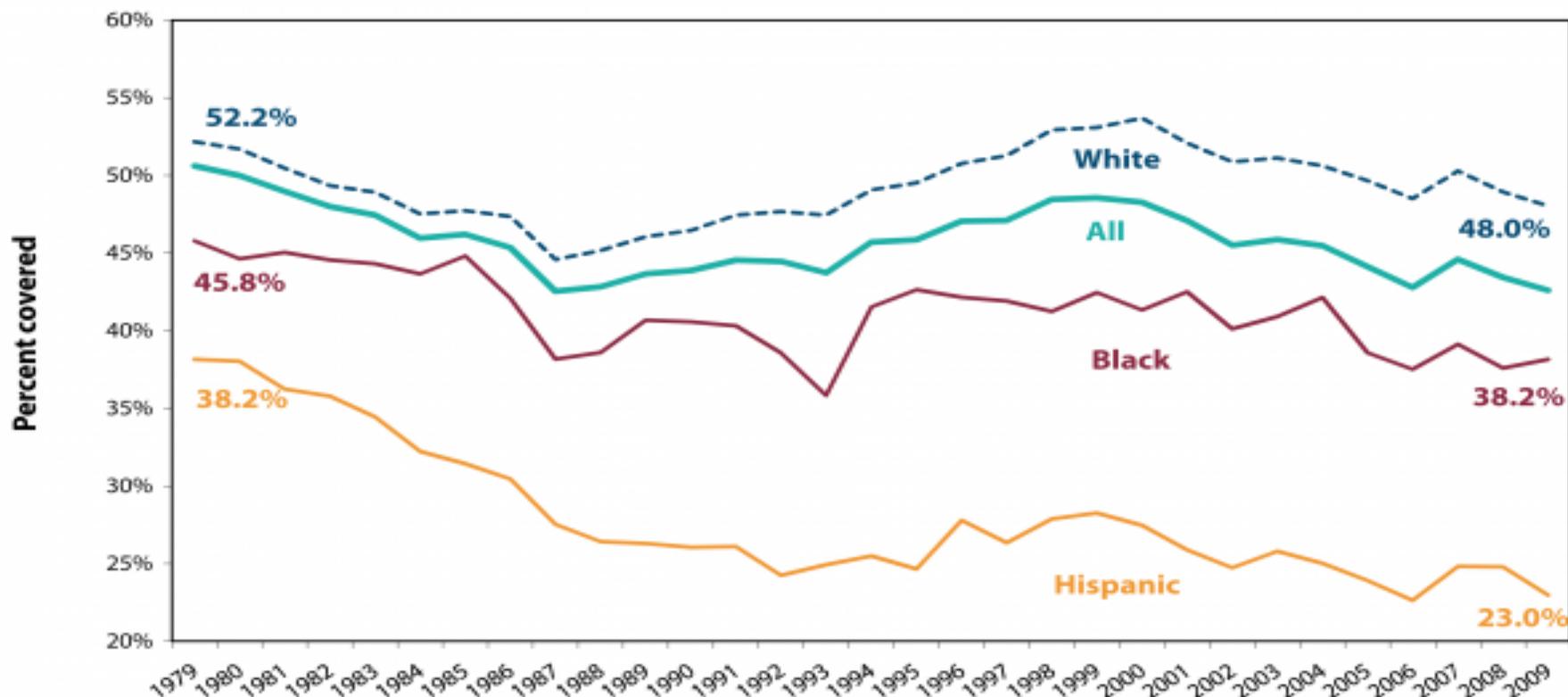
**Source:** EPI's analysis of the Current Population Survey, Annual Social and Economic Supplement.

**Note:** Sample is of private wage-and-salary earners ages 18-64 who worked at least 20 hours per week and 26 weeks per year. Coverage is defined as being included in an employer-provided plan where the employer paid for at least some of the coverage.

# A Shift in Burden

## Pension coverage declines and gap widens by race

Private-sector, employer-provided pension coverage, 1979-2009

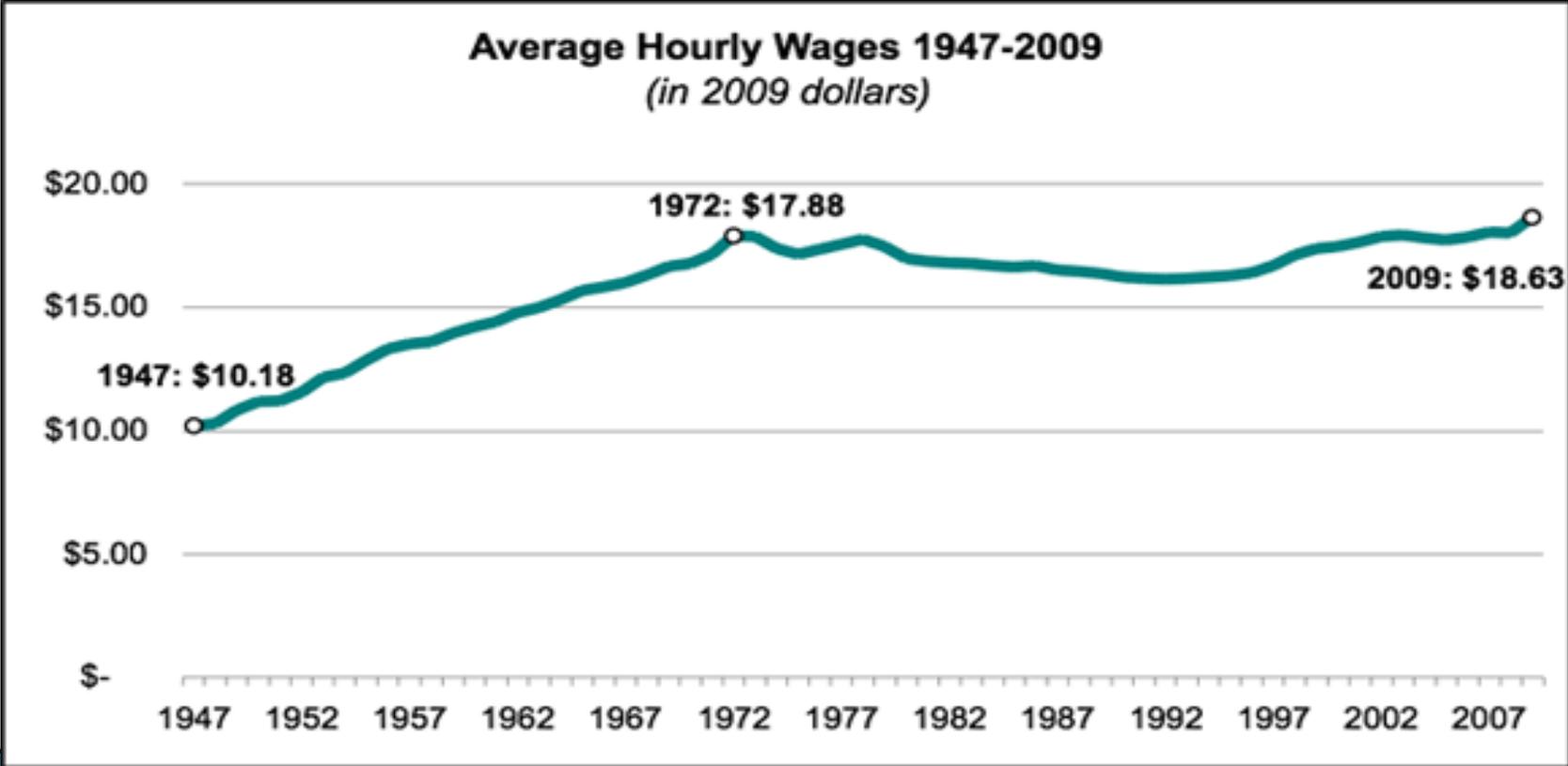


**Source:** EPI's analysis of the Current Population Survey, Annual Social and Economic Supplement.

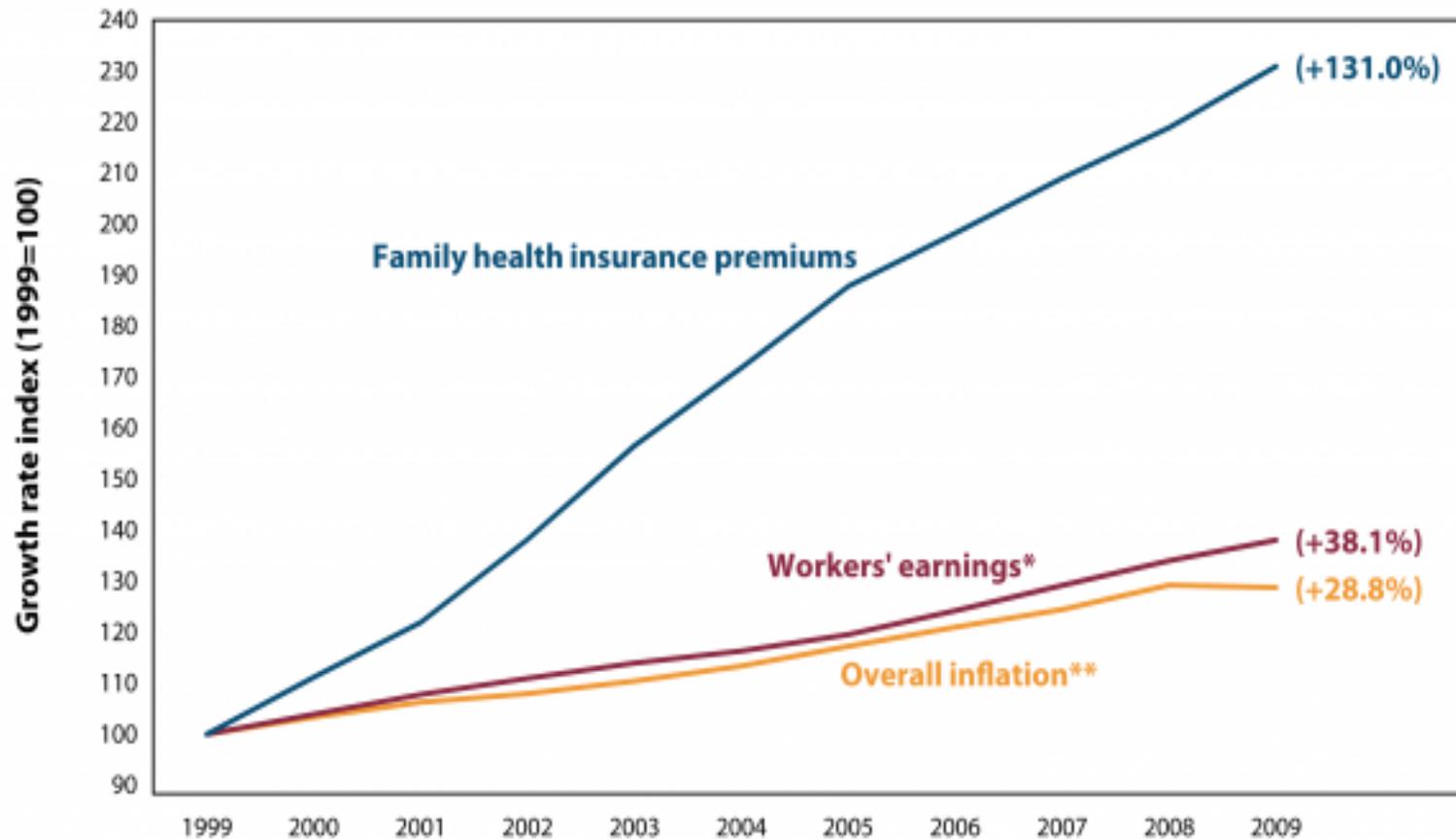
**Note:** Sample is of private wage-and-salary earners ages 18-64 who worked at least 20 hours per week and 26 weeks per year.

Coverage is defined as being included in an employer-provided plan where the employer paid for at least some of the coverage.

# Wages pretty stagnant from 1970s to 2009



# Cost raising faster than wages



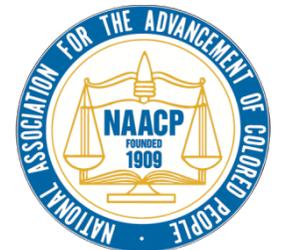
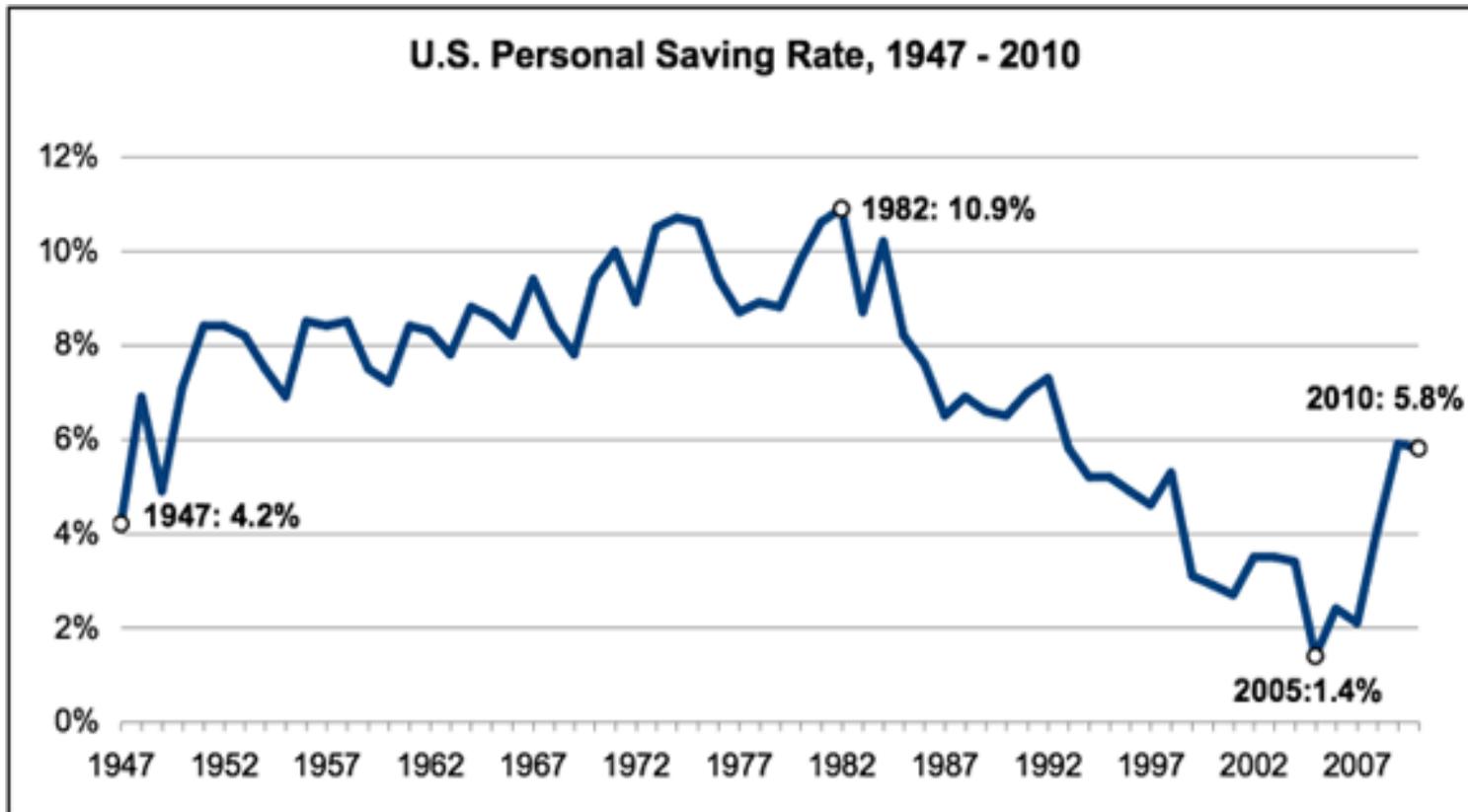
\* Workers' earnings as measured by average hourly earnings for private sector production workers.

\*\* Overall inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U).

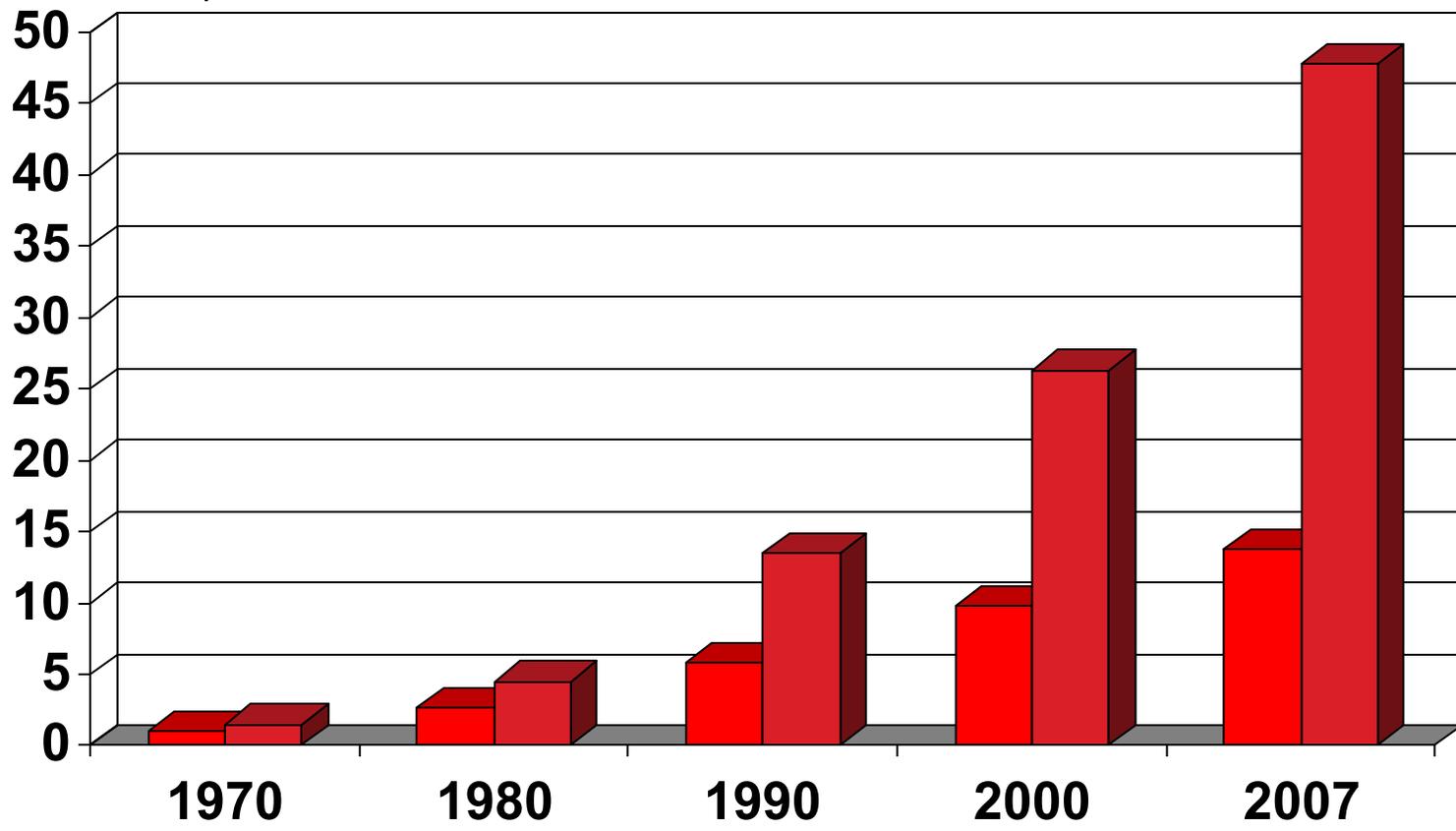
Source: EPI analysis of Kaiser Family Foundation and Bureau of Labor Statistics data.



# Declining Savings



\$ Trillions



**Size Of Whole Economy**



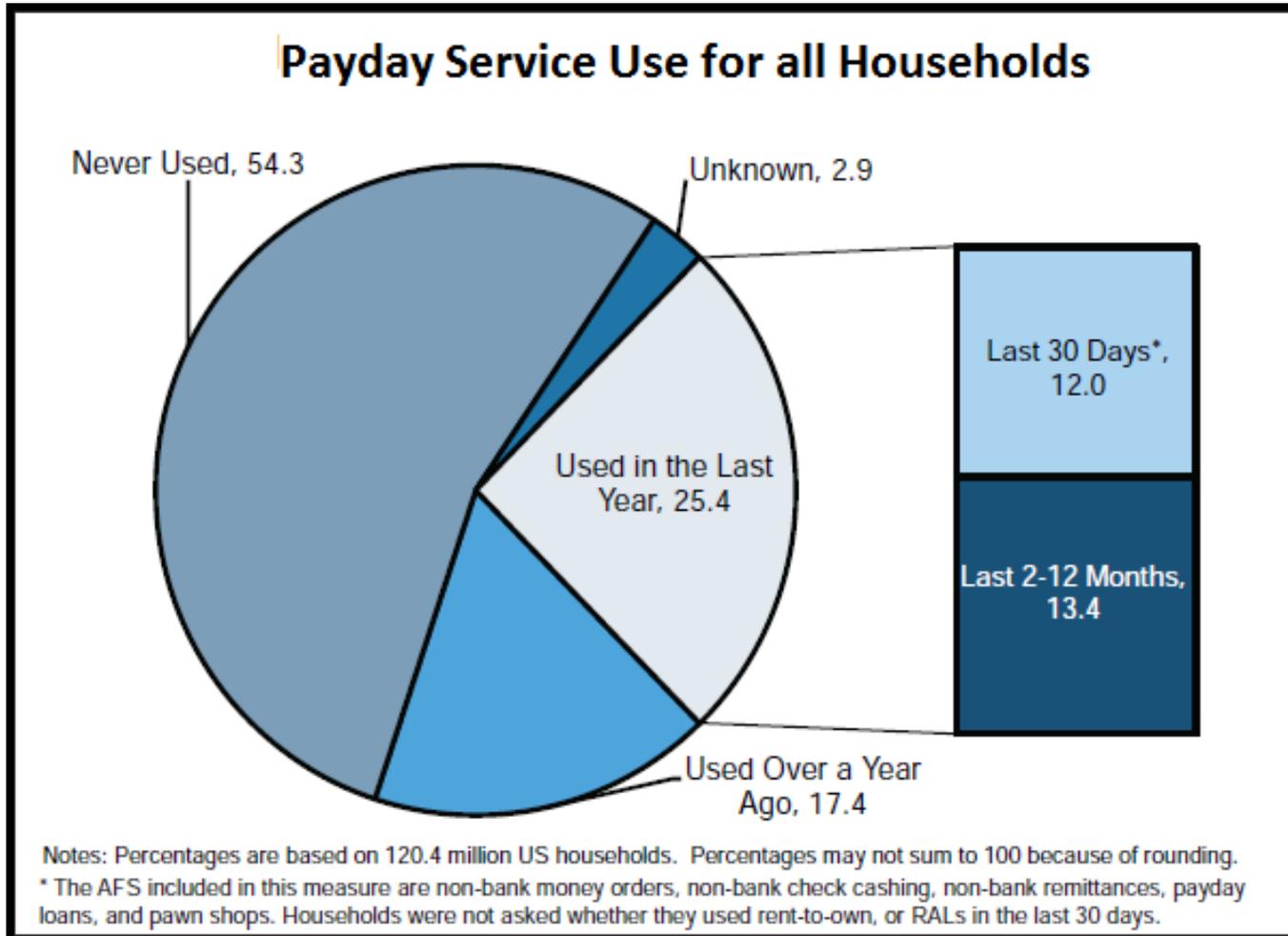
**Total Outstanding Debt**

*Monthly Review 12/08.*  
From Federal Reserve data.

# High-Cost Loan Products



# Use of Payday Services for All U.S. Households



2011 FDIC Study of Unbanked and Underbanked Households



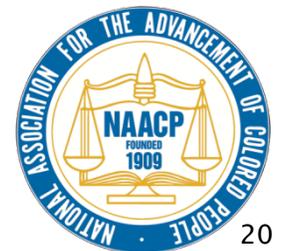
## **Lower Income Borrowers targeted with high cost un-sustainable loans**

- ▶ Research consistently shows that high-cost, predatory lenders concentrate in lower income communities.
- ▶ The typical payday loan borrower has low to moderate income, little or no assets, and have shorter financial planning horizons.
- ▶ African-American neighborhoods are significantly more likely to have more payday lending stores per capita than white neighborhoods, even when controlling for neighborhood characteristics of income, homeownership, poverty, unemployment and other characteristics.



# Annual Percentage Rate

- ▶ APR is the actual interest rate you pay over a year on money you borrow.
- ▶ Let's say you borrow \$500 for a \$50 fee (10%) and it is due when you get paid in 2 weeks.
- ▶ A year has 52 weeks, so we would multiply 10 times 26 ( $52/2=26$ ) and the APR Interest is **260%**



# Annual Percentage Rate

- ▶ “What if I pay off the loan in two weeks,” you ask?
- ▶ Payday lenders always are willing to roll over your loan as long as you pay the interest.
- ▶ The average payday loan borrower takes up to **5-7 months** to pay off their loan.



# Pew Research Center Report on Payday Lending

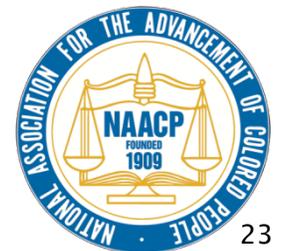
- ▶ Borrowers take an average of eight payday loans a year, spending **\$520** on interest with an average loan size of **\$375**.
- ▶ Most borrowers use their loans to cover everyday expenses, not emergencies.
- ▶ 81% of borrowers report that if they could not take a payday loan they would reduce expenses, sell possessions or seek help from family.

2012 Payday Lending In America  
*The Pew Charitable Trust*



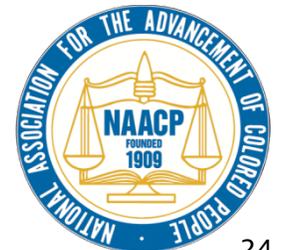
# The Truth about Payday Loans

- ▶ Payday loans are shown to have no long term positive impact on borrowers economic well being according to a study that followed .
- ▶ The answer to having more bills than income is not adding another high cost bill.
- ▶ At some point will have to reconcile income and costs and the sooner the better.



# The Growth of Subprime Mortgage Lending 1990-2008

- ▶ Deregulation lead to a 'deluge of capital', where money poured into residential mortgages.
- ▶ Prices skyrocketed. Sub-prime loans became common and predatory lending exploded due to the sheer amount of money available seemingly for free.
- ▶ Minority home ownership temporarily increased.
- ▶ Regulators were 'asleep at the switch' and the government was unable or unwilling to act.



# **Predatory Mortgage Lending**

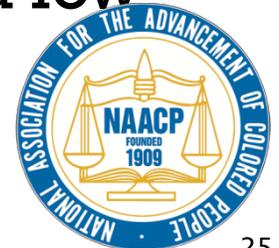
## **MONEY and GREED \$\$\$\$\$\$**

### Financial Incentive Structure

- ▶ Brokers were paid to originate loans, not to ensure they perform. Lenders sold loans after origination so are not concerned about performance

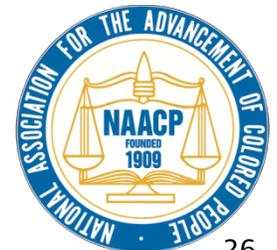
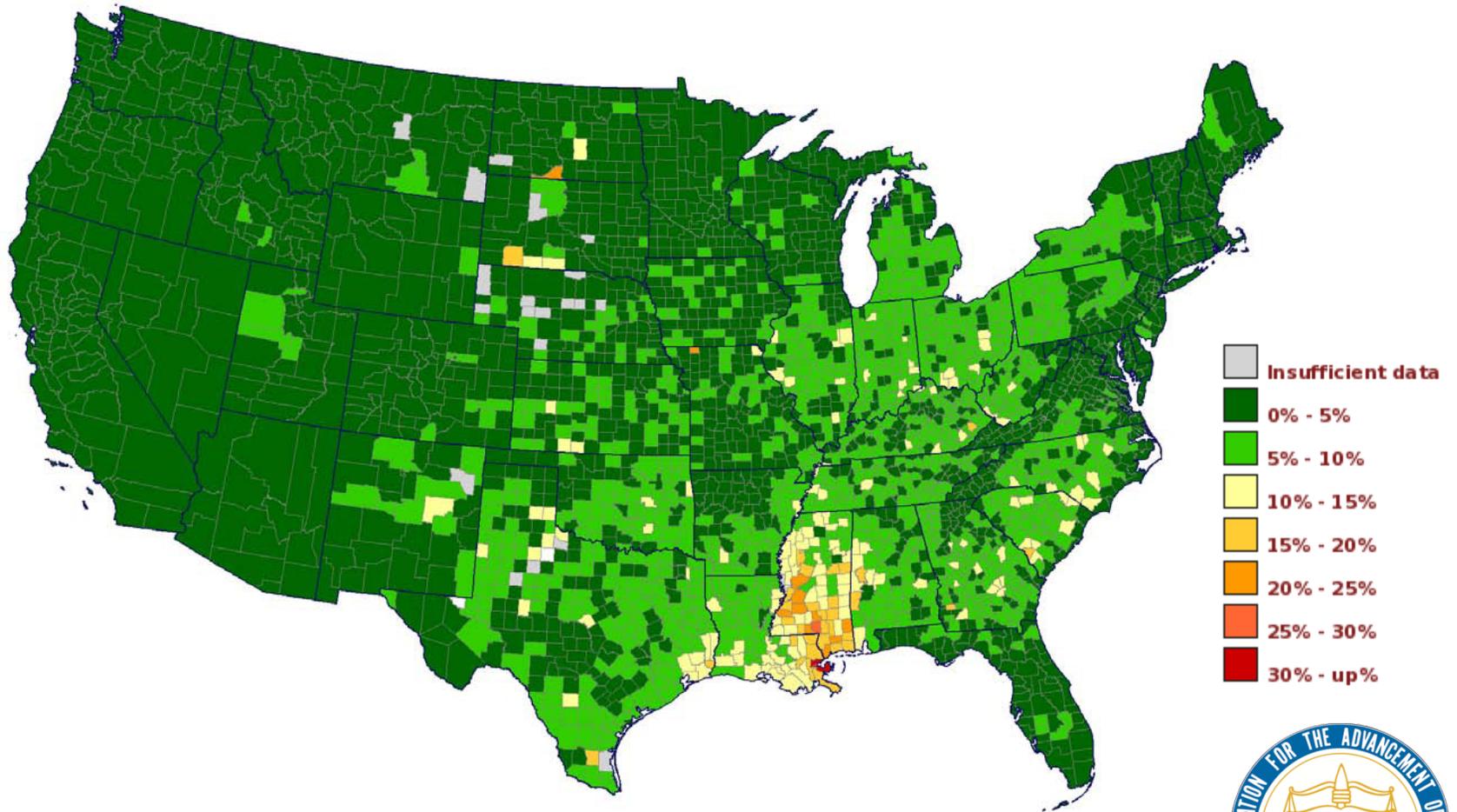
### Abusive Marketing Practices

- ▶ Use of fraud, lies or other deceptive tactics to get borrowers into a loan they cannot afford.
- ▶ Aggressive sales tactics (calling all the time to pressure the borrower).
- ▶ Lender or broker recommended paying off a low-rate mortgage with a high-rate mortgage.



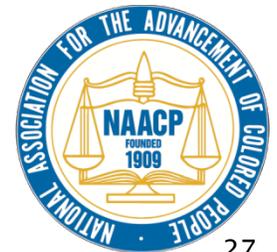
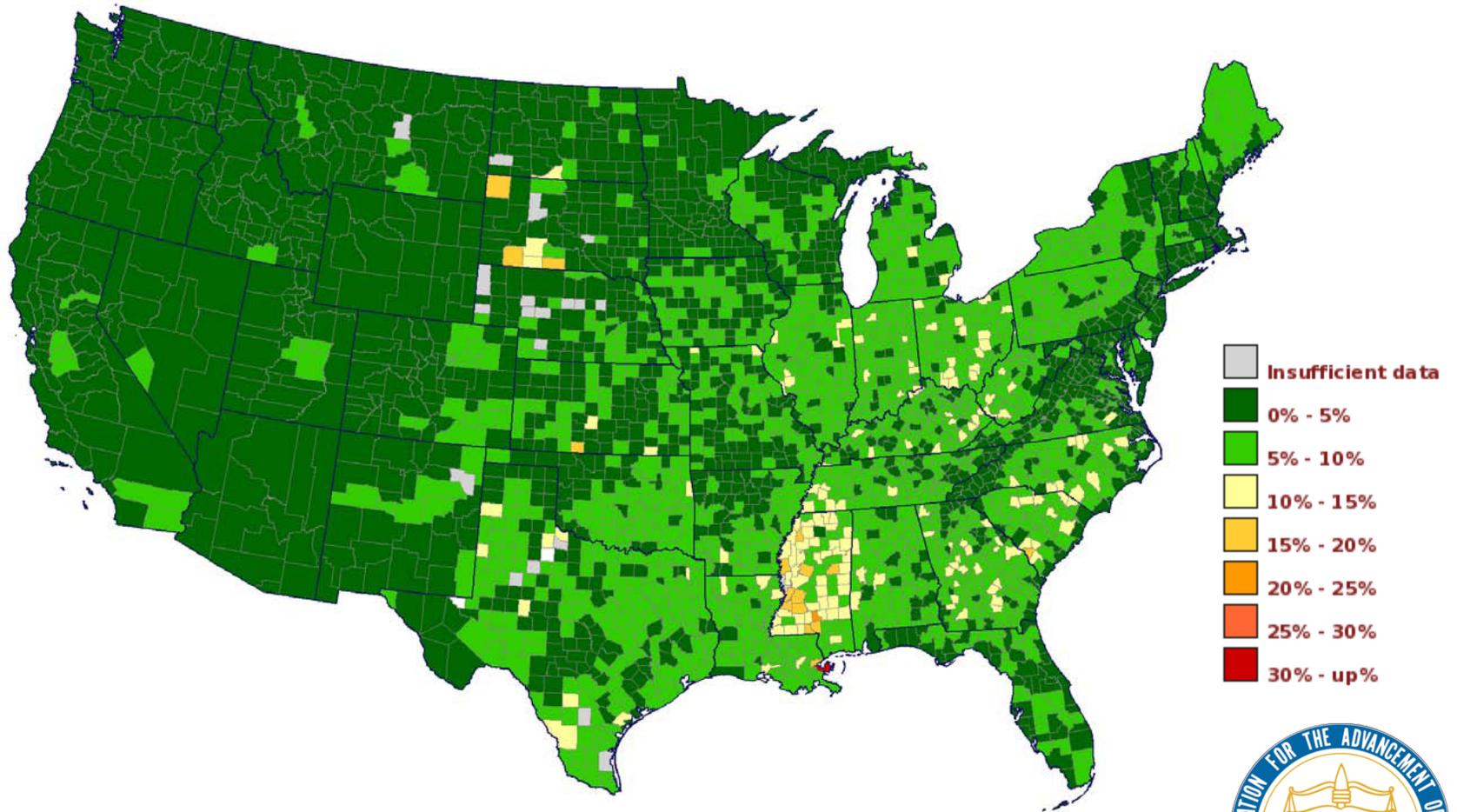
# The Calm Before the Storm March 2006

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



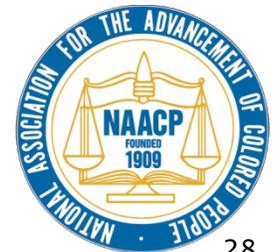
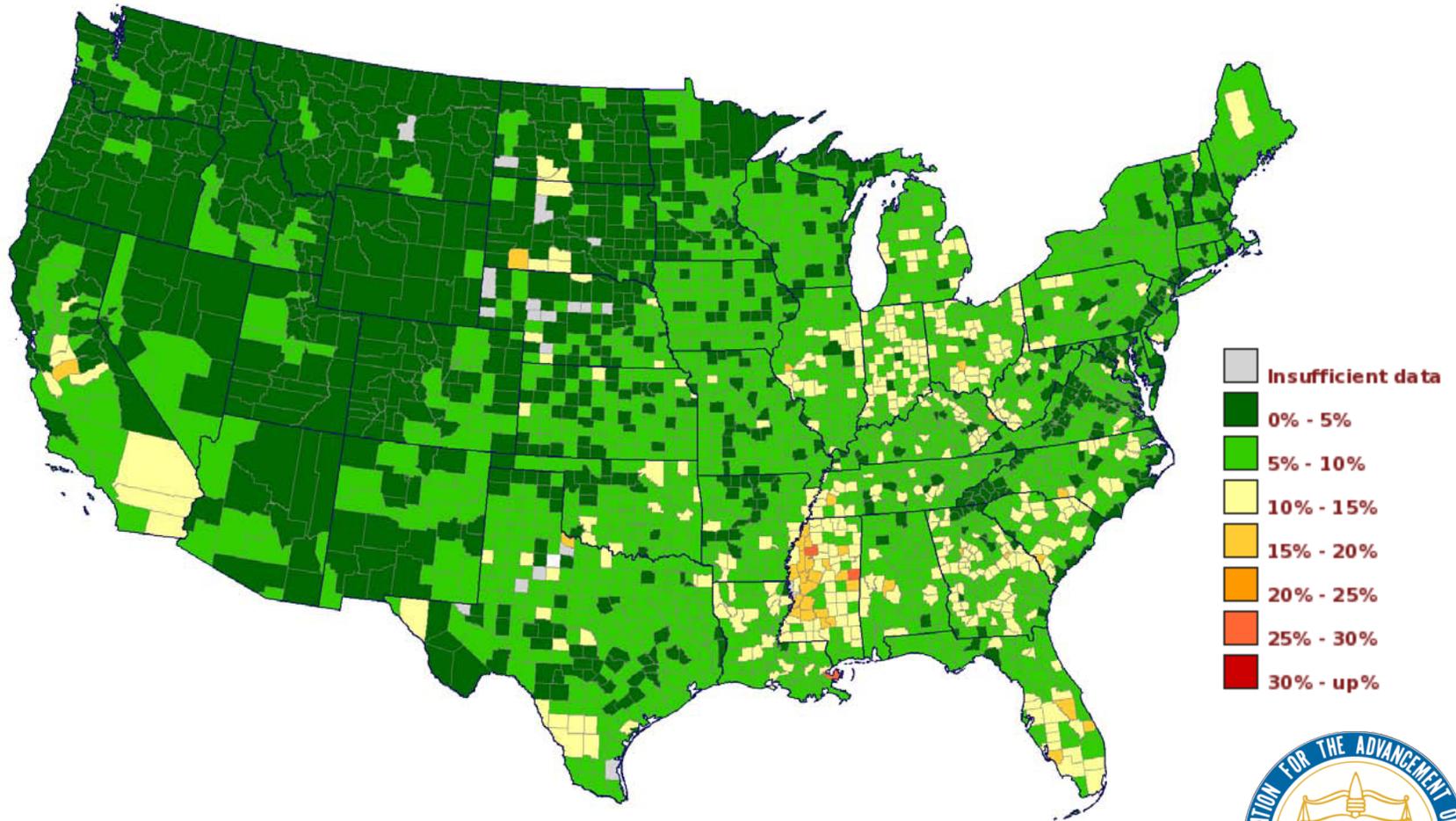
# Falling house prices, slowing economy March 2007

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



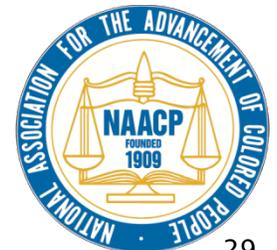
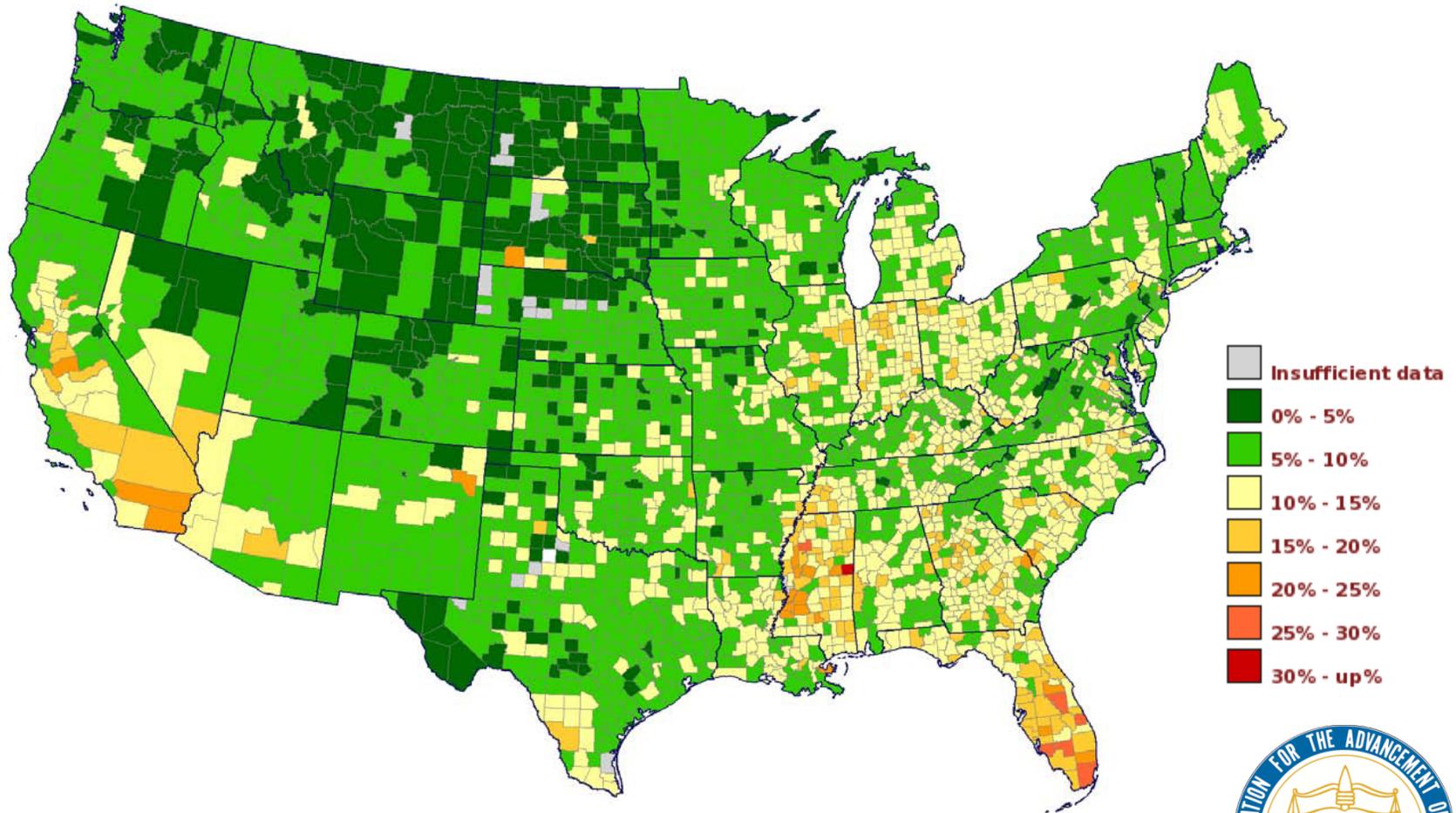
# Financial crisis is underway March 2008

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



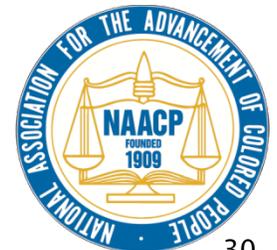
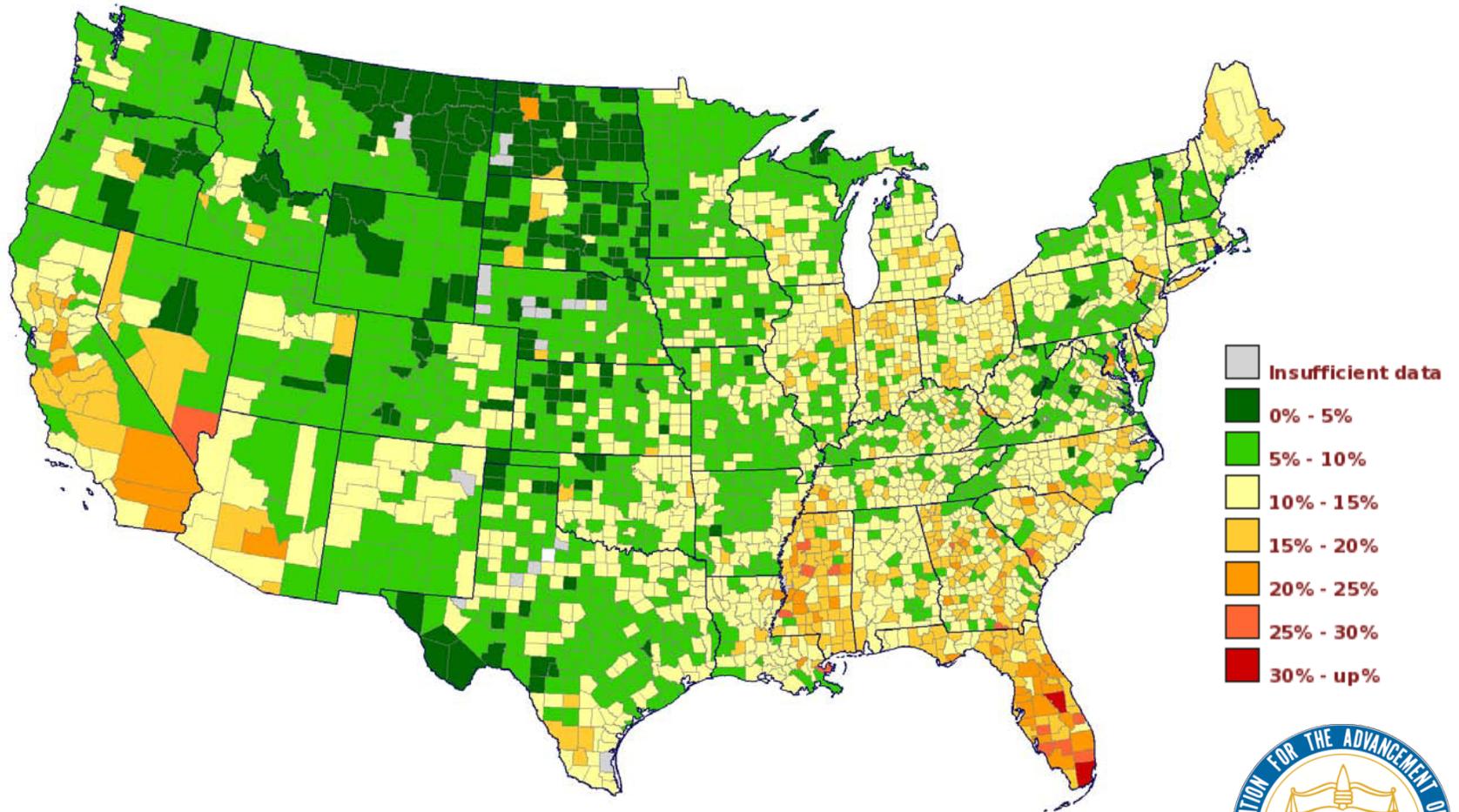
# Mortgage distress concentrated March 2009

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



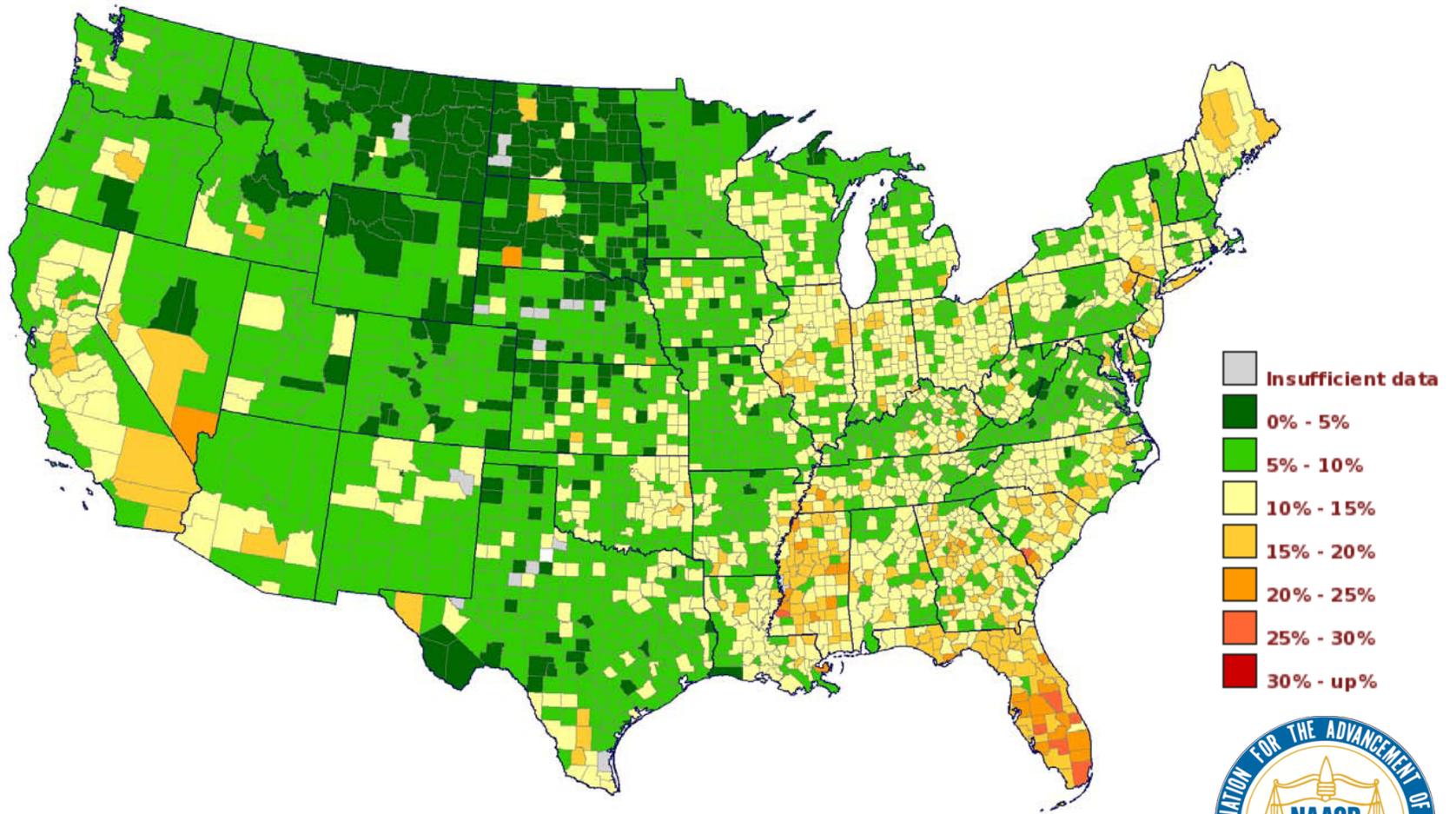
# Peak mortgage distress March 2010

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



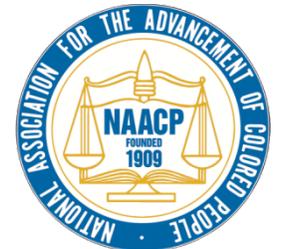
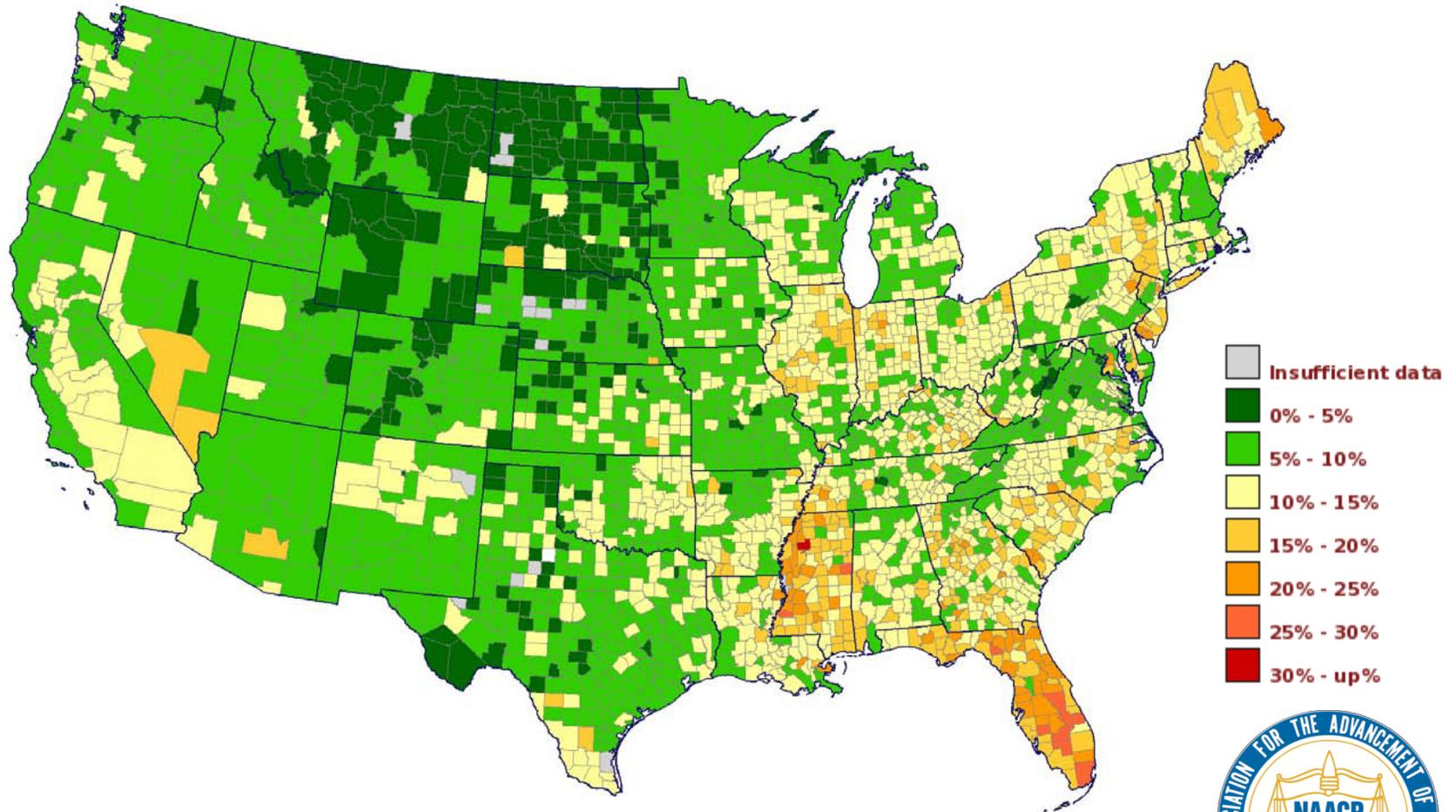
# Mortgage distress remains elevated March 2011

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



# Mortgage distress remains elevated March 2012

## Percent of Mortgages 30+ Days Past Due or in Foreclosure, By County



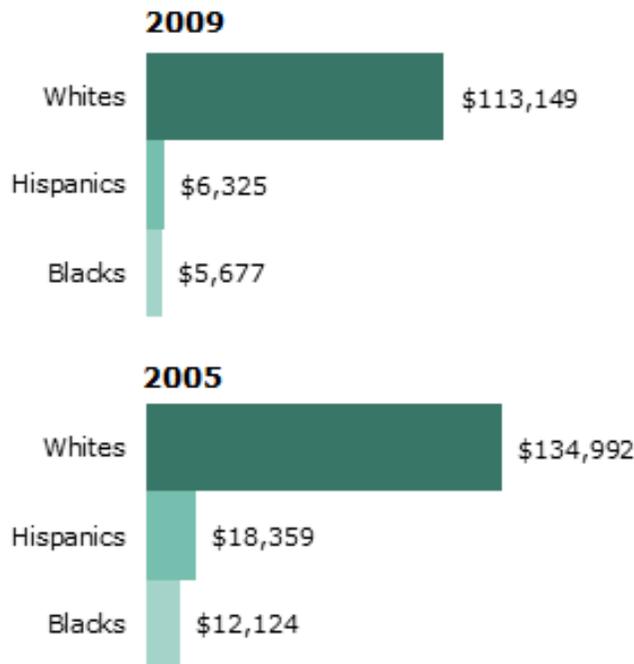
# Disparities in Mortgage Lending and Foreclosures

- ▶ **Although the majority of affected borrowers have been white, African-American and Latino borrowers are almost twice as likely to have been impacted by the crisis.**
- ▶ **Approximately one quarter of all Latino and African-American borrowers have lost their home to foreclosure or are seriously delinquent, compared to just under 12 percent for white borrowers.**



# Impact of Foreclosures on African-Americans and Communities of Color

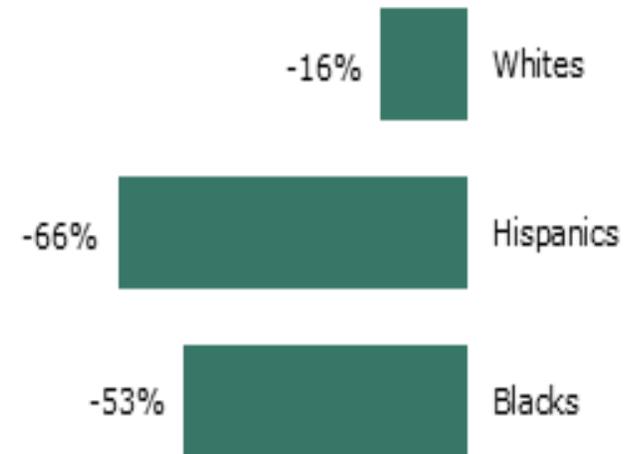
**Median Net Worth of Households, 2005 and 2009**  
*in 2009 dollars*



Source: Pew Research Center tabulations of Survey of Income and Program Participation data

PEW RESEARCH CENTER

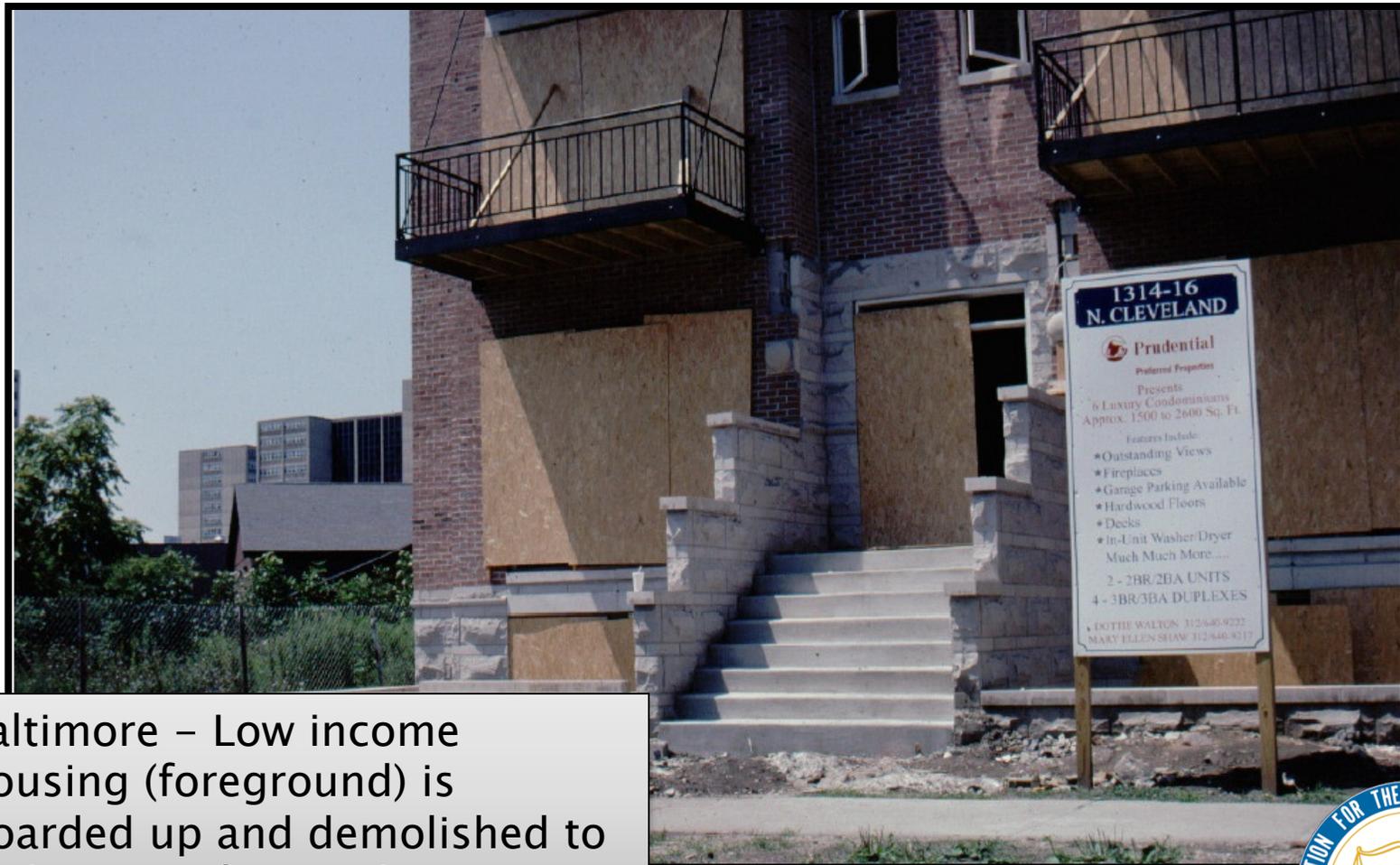
**Percentage Change in Median Net Worth of Households, 2005 to 2009**



Source: Pew Research Center tabulations of Survey of Income and Program Participation data

PEW RESEARCH CENTER

# Gentrification

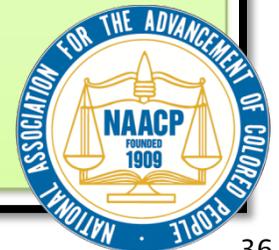
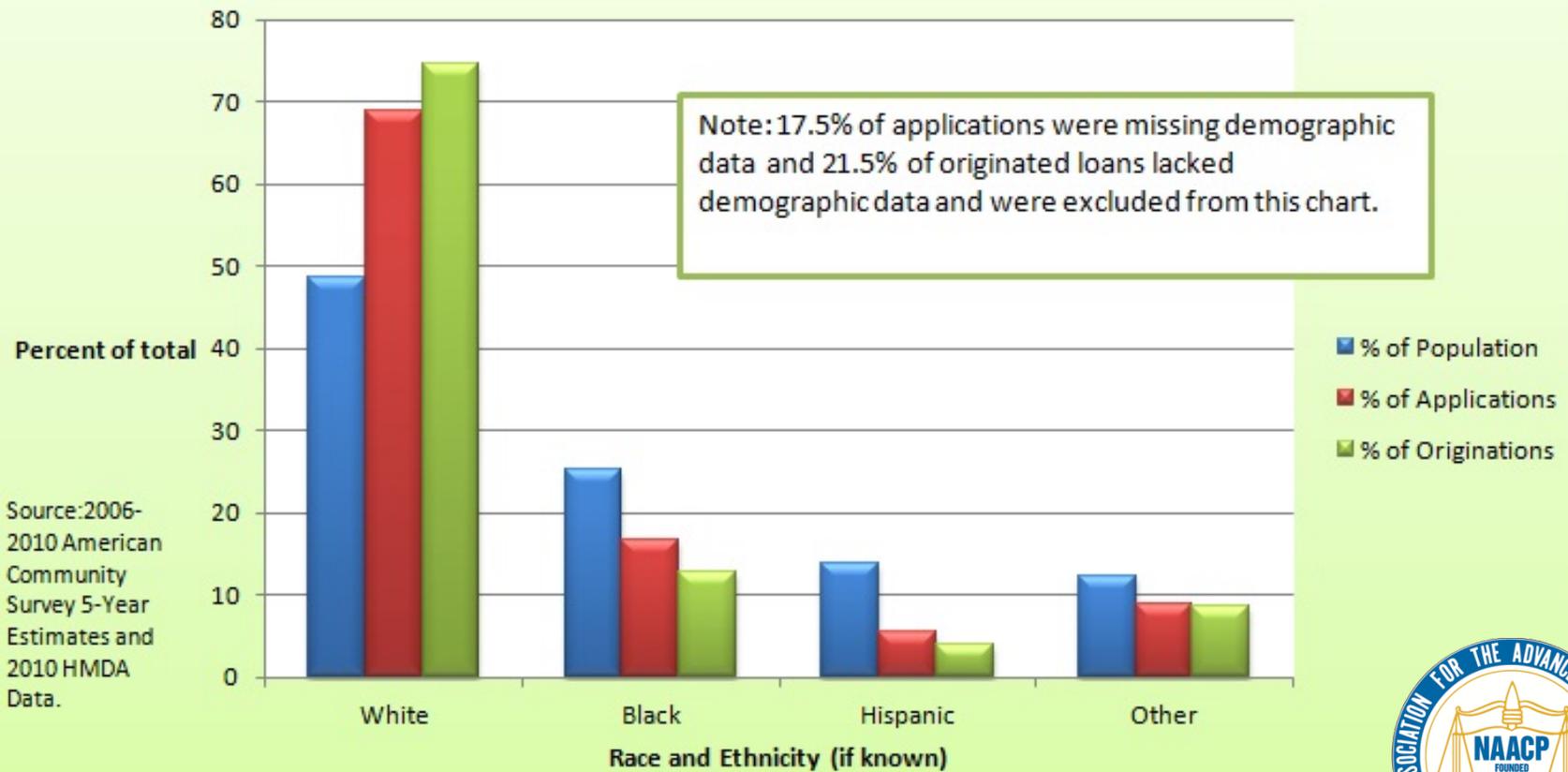


Baltimore – Low income housing (foreground) is boarded up and demolished to make room for condos (background).



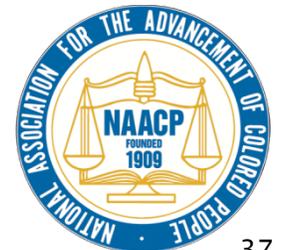
# The Status of Predatory Lending Post-Crash

## 2010 HMDA Data Washington DC MSA for a Single Bank



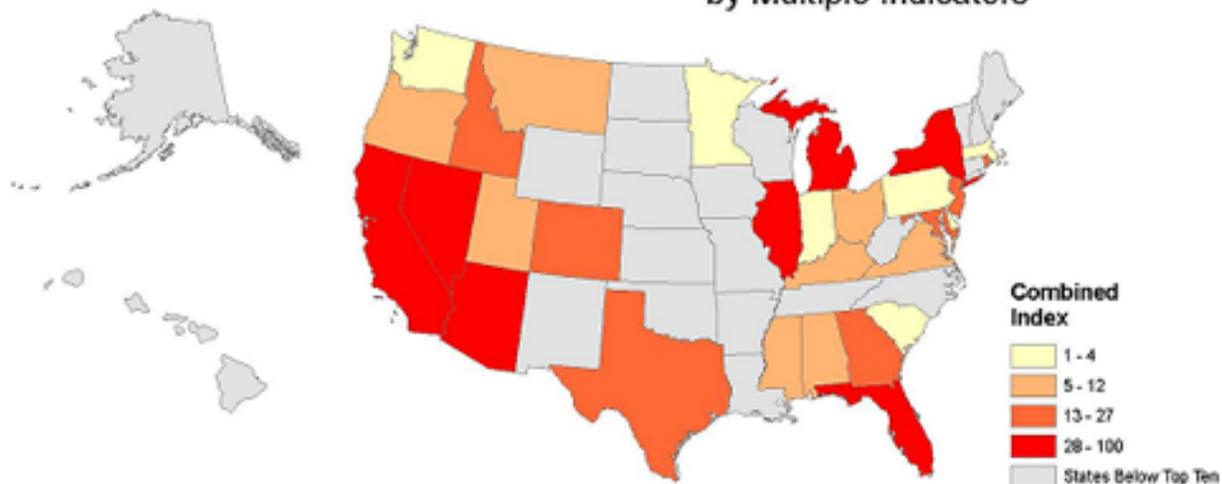
# Today's Predatory Lending: Mortgage and Refinance Scams

- ▶ These scams take advantage of people worried about the loss of their home.
- ▶ Often make use of aggressive tactics, official seals, titles, or names of government agencies.
- ▶ Targets Hispanic borrowers to a greater extent than white or black but all borrowers are at risk.



# Mortgage Fraud

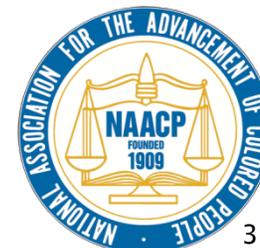
**Top Mortgage Fraud States, 2010**  
by Multiple Indicators



State	Suspected Fraud Index	Local Indicator Index	Combined Index	State	Suspected Fraud Index	Local Indicator Index	Combined Index	State	Suspected Fraud Index	Local Indicator Index	Combined Index	State	Suspected Fraud Index	Local Indicator Index	Combined Index
AL	2	9	11	ID	0	17	17	MS	0	6	6	RI	2	13	15
AZ	19	38	57	IL	28	25	53	MT	0	8	8	SC	0	1	1
CA	55	39	94	IN	0	1	1	NJ	13	12	25	TX	19	0	19
CO	10	3	13	NY	0	5	5	NV	22	39	61	UT	0	6	6
DC	3	0	3	MA	1	1	2	NY	38	4	42	VA	4	2	6
DE	0	1	1	MD	13	7	20	OH	9	3	12	WA	0	3	3
FL	50	50	100	MI	21	21	42	OR	0	9	9				
GA	14	13	27	MN	4	0	4	PA	2	0	2				

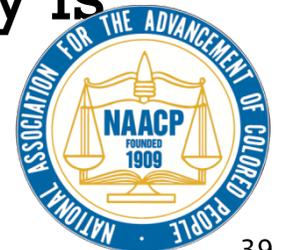
The Combined Index is calculated based upon the top ten rankings of thirteen different indicators of mortgage fraud. Seven of these indicators are evidence of suspected fraud (Suspected Fraud Index) while the remaining six are local measures associated with increased risk of mortgage fraud (Local Indicator Index). For more information on these measures, please see the report, *FBI 2010 Mortgage Fraud Report, Year in Review*.

Classification groups are based upon calculated quartiles



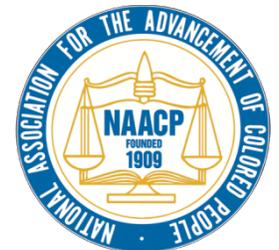
# What You Can Do

- ▶ Become an advocate around Fair Lending
- ▶ Strengthen Financial and Economic Education in your community
- ▶ Locate a HUD Certified Housing Counselor.
- ▶ Identify fair and sustainable lending in your community
- ▶ Be wary of unsolicited advertisements for ‘foreclosure relief’, ‘bailout money’, ‘cash for houses’, or ‘lease back’ phrases.
- ▶ If it sounds too good to be true it probably is



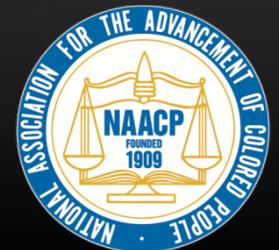
# Independent Foreclosure Review

- ▶ If your primary residence was involved in a **foreclosure process** between January 1, 2009 and December 31, 2010, you may qualify for a free Independent Foreclosure Review.
- ▶ Foreclosure Actions include:
  - ▶ The property was sold due to a foreclosure judgment;
  - ▶ The mortgage loan was referred into the foreclosure process but was removed from the process because payments were brought up-to-date or the borrower entered a payment plan or modification program;
  - ▶ The mortgage loan was referred into the foreclosure process, but the home was sold or the borrower participated in a short sale or chose a deed-in-lieu or other program to avoid foreclosure; and
  - ▶ The mortgage loan was referred into the foreclosure process and remains delinquent but the foreclosure sale has not yet taken place.



# Mortgage Servicers List

- ▶ America's Servicing Co.
- ▶ Aurora Loan Services
- ▶ BAC Home Loans Servicing
- ▶ Bank of America
- ▶ Beneficial
- ▶ Chase
- ▶ Citibank
- ▶ CitiFinancial
- ▶ CitiMortgage
- ▶ Countrywide
- ▶ EMC
- ▶ EverBank/EverHome Mortgage Company
- ▶ Financial Freedom
- ▶ GMAC Mortgage
- ▶ HFC
- ▶ HSBC
- ▶ IndyMac Mortgage Services
- ▶ MetLife Bank
- ▶ National City Mortgage
- ▶ PNC Mortgage
- ▶ Sovereign Bank
- ▶ SunTrust Mortgage
- ▶ U.S. Bank
- ▶ Wachovia Mortgage
- ▶ Washington Mutual (WaMu)
- ▶ Wells Fargo Bank, N.A.
- ▶ Wilshire Credit Corporation



# Independent Foreclosure Review

- ▶ Homeowners meeting the initial eligibility criteria were mailed notification letters with an enclosed Request for Review Form before the end of 2011.
- ▶ If you received the notification letter, you can send in your Request for Review Form in the prepaid envelope provided or you can complete a Request for Review Form online. The Request for Review Form must be postmarked or submitted online no later than December 31, 2012.
- ▶ **If your loan is part of the initial eligible population and you need a new form by mail, have questions, or need help completing the form you have received in the mail, call 1-888-952-9105, Monday through Friday, 8 a.m.–10 p.m. ET or Saturday, 8 a.m.–5 p.m. ET.**
- ▶ All Requests for Review Forms must be submitted online or postmarked no later than **December 31, 2012.**



# **NAACP-NID Housing Counseling Agency Collaboration**

**NID Housing Counseling Agency  
National Office Headquarters  
NID-Housing Counseling Agency  
2200 Powell Street  
Emeryville, Ca 94608  
510-268-9792  
[nidnational@nidonline.org](mailto:nidnational@nidonline.org)**



# NAACP

## Economic Department Fair Lending Program

- ▶ Charles Lowery, Director of Fair Lending and Inclusion, [clowery@naacpnet.org](mailto:clowery@naacpnet.org), 202-478-6408
- ▶ Jason Richardson, Specialist, Office of Fair Lending and Inclusion, [jrichardson@naacpnet.org](mailto:jrichardson@naacpnet.org), 202-478-6416

