<u>The Impact of Foreclosure on Racial Minorities</u>

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In recent months, there has been a drastic increase in the number of foreclosures in America. This increase in foreclosures is a result of a combination of many factors: the housing market, banks, mortgages, secondary mortgage market, unemployment rates, and the weak economy overall. Foreclosure can have drastic impacts on any family, but recent studies have shown that the effects may have a heavier impact on racial minorities than other groups.

A mortgage is security interest in a piece of property that ensures repayment to the bank with interest. The bank has the right to advance repayment or sell the property upon default or failure to make payments. In the past few years, foreclosures in America have increased due to subprime mortgage lending. Banks issued mortgages to risky borrowers, and set strict terms for the mortgage and repayment. Risky buyers were barely able to make their monthly payments, and inevitably more likely to default on their mortgages. Upon default, banks would advance the mortgage, and the mortgagee would be liable for full repayment. When borrowers cannot repay, as most Americans cannot afford to pay the entire amount of the mortgage, the bank will be able to take action against the mortgagee. The most common action taken by banks is foreclosure on the property because the house is collateral on the mortgage. On the other hand, banks can choose to increase interest rates to those mortgagees who have defaulted. Foreclosure can occur if the risky buyer experiences any unexpected expenses during the mortgage period – for example, new baby, hospital expenses, or home repairs. The unfortunate result of foreclosure is that the mortgagee not only loses their home, but any investment they made in the property.

The real estate market and housing values have also contributed to the problem of foreclosures. The “value” of a home is calculated by comparing a home with similar homes and recent sales in the same neighborhood. The market value of homes in America has dropped, which means that homes are selling for lower prices. The effect of this is a decrease in average selling price, a decrease in the value of homes in the same neighborhood, and ultimately, homes are worth less than the value of the mortgage. Homeowners are faced with the problem that their home's value is less than the mortgage they hold on the property. A June 2010 study conducted by Debbie Bocian, et al. of the Center for Responsible Lending estimated that 24% of borrowers are "underwater", holding mortgage balances greater than the value of their homes. Many mortgagees may decide that foreclosure is an easier or smarter option than investing in a home that is worth less than the mortgage. Neighboring property values are drastically reduced when a house goes into foreclosure in the same neighborhood.

In October 2010, the ACLU initiated an inquiry into the Foreclosure system in Florida. The made public records requests regarding the foreclosure process, and the rules and procedures in effect in Florida regarding the foreclosure system. The Center for Responsible Lending found that government data supports the claim that that the foreclosure crisis has disproportionately affected communities of color in Florida and across the country, and that these communities have been hardest hit by the foreclosure crisis. The Center for Responsible Lending found that nearly 8% of both African-Americans and Latinos have lost their homes to foreclosures, compared to 4.5% of whites. The National Council reported that almost eight million homeowners in the U.S. are behind in their mortgage payments, and of those homeowners, it is estimated that 400,000 Latino families were expected to lose their homes to foreclosure in 2009 alone. Although racial minority groups are the minority of all homeowners, the housing market crash has had a larger impact on minority groups, and increased their likelihood of losing their homes to foreclosure.

The effects of foreclosure can be devastating on any family, but the effect can be harder on racial minorities than other groups. In 2010, the National Council of La Raza conducted a study on the impact of foreclosure on Latino families in America. The National Council of La Raza found that Latino families facing foreclosure experienced high rates of depression, marital discord and a decline in academic performance by affected children. An unfortunate side effect of foreclosure is the negative effects on children's education, most likely caused by the instability at home and an abundance of missed days of school. Foreclosure can also have long-term effects on the family financial situation because of the negative credit rating. A negative credit rating can affect the borrower's ability to secure loans, home equity, fair housing agreements, low interest rates, and insurance. Foreclosure can also affect the family's ability to save for potential hardships, like medical expenses or car repairs, and for future expenses, like higher education or retirement.

The 2010 The Center for Responsible Lending conducted by Debbie Bocian, et al. found three factors that may be associated with higher rates of foreclosure amongst borrowers of color. First, borrowers of color were more likely to be issued more expensive mortgage loans, with higher interest rates, and higher penalties for default. This increases the borrower's likelihood of default, and banks can foreclose on these mortgages faster than they could on a mortgage with "fairer" terms. A 2008 study by The Reinvestment Fund found that targeting minorities for subprime mortgages means they pay more for their mortgage, and have a greater risk of losing their home to foreclosure. The second relevant factor found by the Center for Responsible Lending is the increase in unemployment rates among African-Americans and Latinos, which can cause an increase in foreclosure amongst these communities. Finally, families of color have fewer resources for fending off foreclosure. The Center for Responsible Lending found that non-

Hispanic white families tended to have a wider financial foundation than their minority counterparts. An example of this is that white families are more likely to have stocks and other assets, which they can sell to “make ends meet” before having to lose their home to any downturns in the housing market. The conglomeration of these three factors puts African-Americans, Latinos and racial minorities in a position in which they will suffer more devastating effects from foreclosure than their white counterparts.

The 2010 study by the Center for Responsible Lending also found that increased foreclosure indirectly and disproportionately affects communities of color. Foreclosure causes depreciation of property values, which means not only do the mortgagee and their family suffer the consequences of foreclosure, but also the property values will decrease in surrounding areas. The Reinvestment Fund study conducted by Ira Goldstein in 2008 found that subprime lending and the resulting foreclosures have had an adverse and disproportionate effect on minority group members and residents (of any race or ethnicity) of minority communities. Minority neighborhoods suffer the effects of foreclosure more than predominantly white neighborhoods. Neighborhoods with higher rates of subprime lending have a higher risk of mortgage delinquency and inevitably higher foreclosures in that area. In neighborhoods with higher foreclosure, and lower housing values, it is more difficult to sell property, and attract new homeowners to these neighborhoods. This means houses in the neighborhood may remain empty for months before being sold. In addition, if houses are sold for less than market value, the average market value in the neighborhood will likely decrease. Taxes in the neighborhood may remain unpaid until the property is sold, which affects the school system, sanitation, and law enforcement services in the neighborhood.

The recent foreclosure crisis has affected families all over the United States. It is likely that foreclosures may impact racial minorities more than other groups because of past discrimination in real estate lending practices and predatory lending by banks. Ira Goldstein of The Reinvestment Fund defined predatory lending as a loan where the borrower is targeted for a given loan product because of some characteristic that makes them vulnerable to a disadvantageous loan, and the lender can likely exploit the borrowers vulnerability. In many instances, predatory lending correlates with an increase in the foreclosures amongst African-Americans and Latinos. Banks issue mortgages to minorities with high interest rates, and high monthly payments, which inevitably causes higher rates of delinquency amongst minority groups.

Most studies conclude that the foreclosure crisis has only just begun. A study conducted by The Center for Responsible Lending estimated that between 10 to 13 million foreclosures would have occurred by the end of the foreclosure crisis. The Center for Responsible Lending also found that African-American and Latino borrowers are more likely to be at imminent risk for foreclosure at rates of 21.6% and 21.4% respectively. The rate of foreclosures amongst racial and ethnic minorities will likely increase in the next few years. City, State and Federal policy makers and the U.S. government need to find stronger support mechanisms and programs to help avoid the drastic effects of foreclosure on racial and ethnic minorities.