

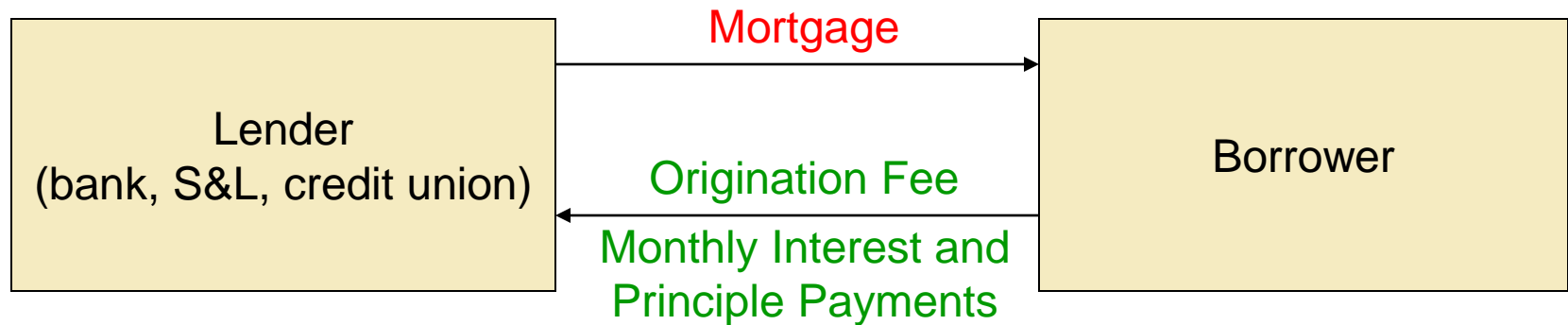


Foreclosures by Race and Ethnicity: The Demographics of a Crisis

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I. Background: How did we get here?

Traditional Mortgage Model:



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“New Model” of Mortgage Lending:

- *Third-Party Originations*
- *Securitization*

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Advantages of New Model:

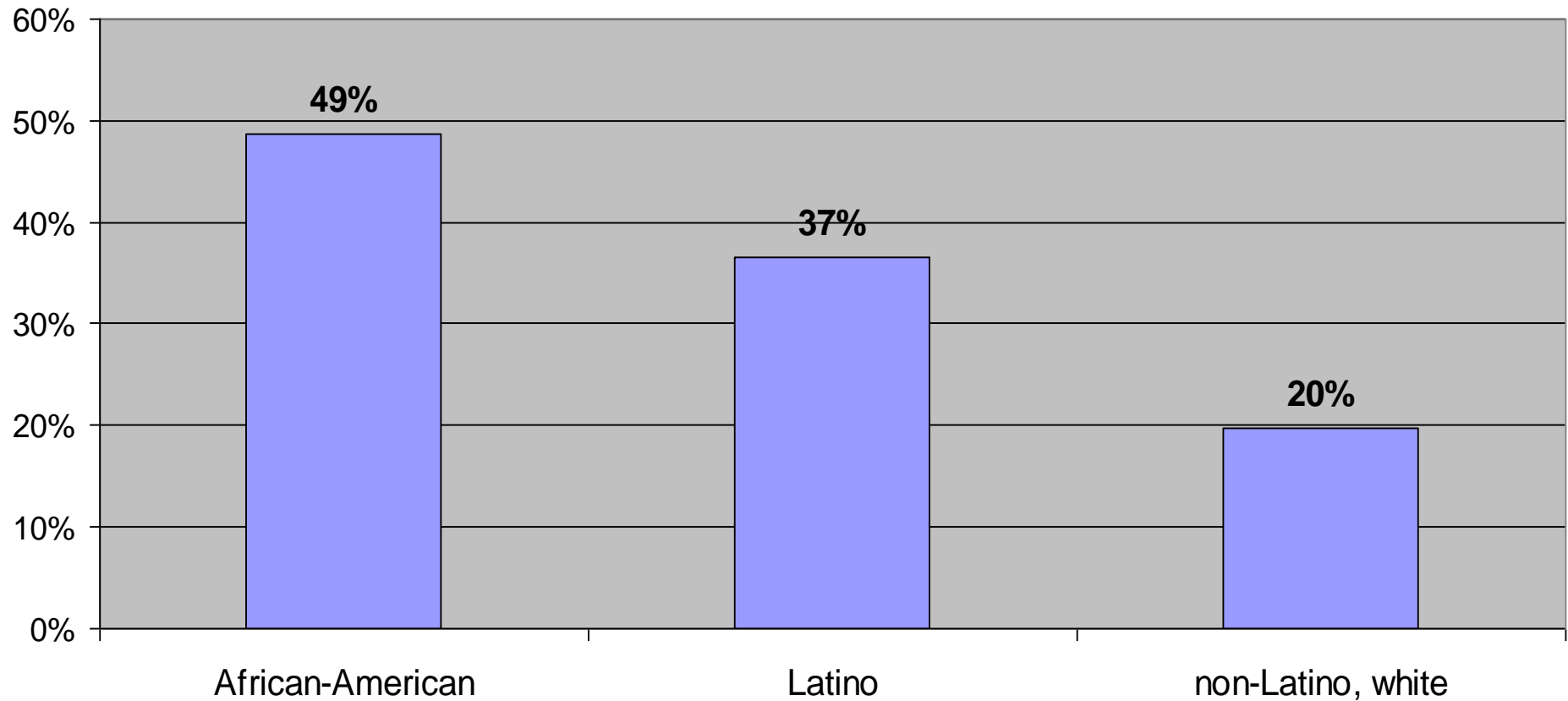
- *increase in volume of mortgage capital*
- *increase in availability of mortgages down the risk spectrum*

Disadvantages of New Model:

- *Disconnect between originators and risk-bearers: compensation driven by volume, not performance*
- *Steering of borrowers to subprime loans*
- *Regulatory system based on old system*

I. Background: How did we get here?

Subprime as a Proportion of All Mortgages by Race/Ethnicity, 2005-2007



II. 2010 CRL Research on Race/Ethnicity and Foreclosures



I. Research Question:

Have borrowers of color disproportionately impacted been disproportionately impacted?

II. Data:

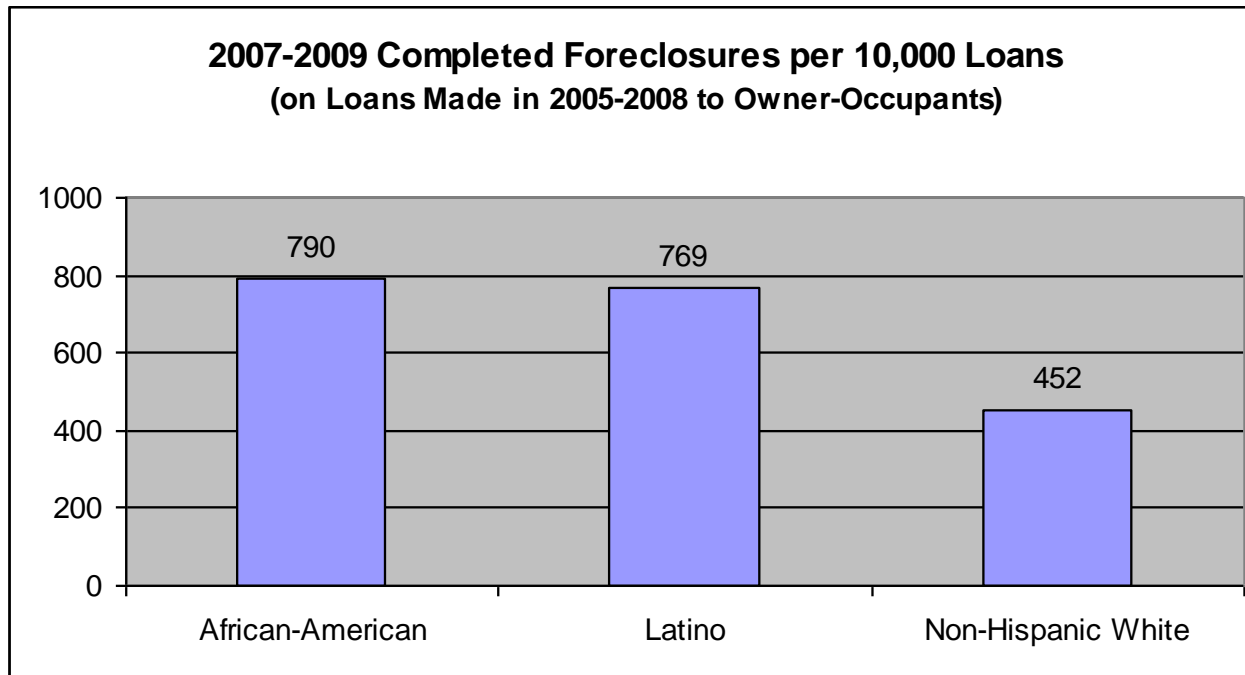
- **LPS:** has performance information, but no demographics; no universal coverage
- **HMDA:** virtually all loan originations; information on race and ethnicity; no performance information

III. Methodology:

- Apply foreclosure rates by loan type/geography/cohort (from LPS) to racial/ethnic groups (from HMDA)

II. 2010 CRL Research on Race/Ethnicity and Foreclosures

Estimate #1. 2.5 million completed foreclosures. Majority (56%) of foreclosures were of white borrowers but African-Americans (12%) and Latinos (16%) disproportionately affected.



II. 2010 CRL Research on Race/Ethnicity and Foreclosures



Estimate #2. Disparities hold within income categories

	Borrower Group	Share of Originations	Share of Completed Foreclosures	Disparity Ratio
Low Income	African American	14.8%	21.0%	1.6
	Latino	11.0%	11.9%	1.2
	Non-Hispanic White	74.1%	67.1%	1.0
Moderate-Income	African American	12.3%	18.0%	1.6
	Latino	12.3%	15.5%	1.4
	Non-Hispanic White	75.4%	66.5%	1.0
Middle-Income	African American	9.8%	14.5%	1.7
	Latino	13.2%	19.0%	1.7
	Non-Hispanic White	77.0%	66.5%	1.0
High-Income	African American	6.4%	9.9%	1.8
	Latino	13.9%	22.8%	1.9
	Non-Hispanic White	79.6%	67.3%	1.0

II. 2010 CRL Research on Race/Ethnicity and Foreclosures



Estimate #3. Additional 5.7 million borrowers at imminent risk of foreclosure (60+ days delinquent). Borrowers of color at disproportional risk.

Borrowers 60+ delinquent (as of December 2009)

Borrower Group	Percent at Risk	Disparity Ratio
<i>Non-Hispanic White</i>	14.8%	1.00
<i>African-American</i>	21.6%	1.47
<i>Latino</i>	21.4%	1.45

II. 2010 CRL Research on Race/Ethnicity and Foreclosures



Total estimated completed and imminent foreclosures

****As of December 2009*

- African Americans: 730,000 (11% of 2006 homeowners)
- Latinos: 1,070,000 (17%)
- Whites: 4,245,000 (7%)

III. Dispelling the Myths

- *Myth 1: Foreclosures due to lending to minorities*

(1) 56% F/Cs were on white borrowers (CRL Study)

(2) AAs and Latinos more likely to get steered into the most expensive/worst types of loans (CRL)

(3) Loan terms, not borrower characteristics, drive defaults in subprime market (UNC)

III. Dispelling the Myths

- *Myth 2: Foreclosures due to CRA*

- 1) CRA enacted in 1977

- 2) Only 6 percent of subprime loans covered by CRA (Fed)

- 3) CRA loans perform better than non-CRA loans (San Francisco Fed, UNC)

III. Dispelling the Myths

- *Myth 3. Foreclosures dominated by investors/speculators or borrowers buying “McMansions”*
 - 1) 82% owner-occupied (CRL national study)
 - 2) CRL CA study:
 - 76.4% of properties had estimated values less than area median;
 - 67% had 3 or fewer bedrooms;
 - Median sqft was <1500