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Housing equity is an important component of the wealth portfolio of most American families. Especially for minorities, particularly African Americans, advances in accumulating wealth depend heavily upon housing wealth. Home equity is the most important reservoir of wealth for average American families, and disproportionately for African Americans. For black households, home equity accounts for 63 percent of total average net worth. In sharp contrast, home equity represents only 38.5 percent of average white net worth. However, given the lower rate of homeownership among African Americans and the "segregation" tax that black homeowners face, their homes appreciate far slower in segregated and racially changing neighborhoods.

What I want to concentrate on in my testimony is the powerful effects of the subprime mortgage meltdown on the wealth of minority households, particularly African Americans. No other recent economic crisis illustrates better the saying "when America catches a cold, African Americans and Latinos get pneumonia" than the subprime mortgage meltdown. African Americans, along with other minorities and low-income populations have been the targets of the subprime mortgage system. Blacks received a disproportionate share of these loans, leading to a "stripping" of their hard won home equity gains of the recent past and the near future. To understand better how this has happened we need to place this in the context of the continuing racial wealth gap and its intersection with the new financial markets of which subprime is but one manifestation.

Family financial assets play a key role in poverty reduction, social mobility, and securing middle class status. Income helps families get along, but assets help them get and stay ahead. Those without the head start of family assets have a much steeper climb out of poverty. This generation of African Americans is the first one afforded the legal, educational, and job opportunities to accumulate financial assets essential to launch social mobility and sustain well-being throughout the life course.

Despite legal gains in civil rights, however, asset inequality in America has actually been growing rapidly during the last 20 years. The assets that current generations own are heavily dependent on the legacies of their families of origin. Today's blacks still suffer from the fact that their parents and grandparents grew up in a rigidly segregated America and were exposed to public and private policies that inhibited their ability to accumulate human and financial capital. So housing wealth is a disproportionate share of total black wealth.

Despite some income gains, African-Americans own only 7 cents for every dollar of net worth that white Americans own; for Hispanics the figure is only slightly higher, 9 cents for every dollar. Even when middle class accomplishments like income, job, and education are comparable, the racial wealth gap is stuck stubbornly at about a quarter-on-the-dollar. [1]

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[1] Data taken from Melvin L. Oliver and Thomas M. Shapiro, Black Wealth/White Wealth (Routledge, 2006) and calculations from Thomas M. Shapiro, The Hidden Cost of Being African American (Oxford, 2005)

Racial Targeting--Again

Changes in the mortgage market, of which the current subprime meltdown is the most visible part of a larger pattern, were not racially neutral. The initial foray into subprime loans targeted mainly black, minority and elderly homeowners. The 1990-2000 period was know for its predatory loans, primarily refinancing, which flew under the radar of the wider society, but were fought tooth and nail by local communities. These practices were “refined” and “sharpened” by the financial services industry during this period and rolled out as the more exotic and legal subprime loans we are familiar with today (high hidden costs, exploding adjustable rates, pre-payment penalties to preclude refinancing). With the recognition that average American families were accumulating trillions of dollars in housing wealth, these “financial innovations” and new financial instruments, relaxed (and sometimes ignored) rules and regulations and became the market’s answer to broadening homeownership.

Predatory Lending and Wealth Stripping

Minority communities received a disproportionate share of subprime mortgages. As a result, they are suffering a disproportionate burden of the harm and losses.

Households of color were more than three times as likely as white households to end up with riskier loans with features like exploding adjustable rates, deceptive teaser rates, and balloon payments. Good credit scores often made no difference, as profit incentives trumped sound policy. The line from redlining to subprime is direct, as the work of Jesse Hernandez demonstrates, as is the culpability. Even many upper-income African Americans were steered into subprime mortgages.

The Center for Responsible Lending (and others) projects that 2.2 million borrowers who bought homes between 1998 and 2006 will lose their homes and up to $164 billion of wealth in the process. African-American and Latino homeowners are twice as likely to suffer subprime-related home foreclosures as white homeowners. Foreclosures are projected to affect 1 in 10 African-American borrowers. In contrast, only about 1 in 25 white mortgage holders will be affected. African Americans and Latinos are not only more likely to have been caught in the subprime loan trap; they are also far more dependent, as a rule, on their home as a financial resource.[2]

Home equity, at its current total value of $20 trillion, represents the biggest source of wealth for most Americans, as we have noted, and it is even more important for African Americans. The comparatively little bit of wealth accumulation in the African American community is concentrated largely in housing wealth.

One recent estimate places the total loss of wealth among African American households at between $72 billion and $93 billion for subprime loans taken during the past eight years.[3]

This devastating impact is not confined to just those foreclosed because there is a spillover effect in addition to the direct hit of an estimated 2.2 million foreclosures. An additional 40.6 million neighboring homes will experience devaluation because of subprime foreclosures that take place in their community. The Center for Responsible Lending estimates that the total decline in house values and tax base from nearby

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[2] Center for Responsible Lending, Losing Ground, 2006, http://www.responsiblelending.org/pdfs/foreclosure-paper-report-2-17.pdf

[3] United for a Fair Economy, Foreclosed: State of the Dream 2008, http://www.faireconomy.org/files/StateOfDream_01_16_08_Web.pdf

foreclosures will be $202 billion. The direct hit on housing wealth for homeowners living near foreclosed properties will see their property values decrease $5,000 on average.[4]

It is not possible to analyze specifically the full spillover impact of subprime foreclosures on African-Americans or Latinos, largely because this data is not available yet, but communities of color will be especially harmed, since these communities receive a disproportionate share of subprime home loans. We estimate that this lost home value translates into a decrease in the tax base, consumer expenditures, investment opportunities, and money circulating in communities of color. Already, United for a Fair Economy estimates that the total loss of wealth among households of color at between $164 billion and $213 billion for subprime loans taken during the past eight years.

Whatever the exact figures, the bottom line is clear--after centuries of being denied any opportunity of accumulating wealth, after a few decades of having limited opportunities, after a generation during which significant amounts of wealth was accumulated by middle class African American and Latino families, the African American and Latino community now faces the greatest loss of financial wealth in its history. Institutional processes and racialized policy are trumping hard-earned educational, job, and income advances.

[4] Center for Responsible Lending, Subprime Spillover, 2007, http://www.responsiblelending.org/pdfs/subprime-spillover.pdf