Scapegoating Blacks for the Economic Crisis

by Gregory D. Squires

A simple, yet likely powerful, explanation has now been offered for the subprime mortgage lending and foreclosure problems that have fed the nation's gravest economic crisis since the Depression. The beauty and simplicity of this explanation makes one wonder why it took so long for us to see it. According to this view, it was the fault of black people! The federal government, another favorite whipping boy, also played a hand in this by trying to increase homeownership among minorities and other "undeserving poor." The combination of big government and blacks simply could not be resisted any longer. As Fox News' Neil Cavuto concluded, "Loaning to minorities and risky borrowers is a disaster."

According to many conservative commentators including Cavuto, Charles Krauthammer (*Washington Post*), Lou Dobbs (CNN) and editorial writers at the *Wall Street Journal*, it is the federal Community Reinvestment Act—basically a ban on red-lining—that forced lenders to make bad loans to African Americans, other minorities and other unworthy recipients in poor neighborhoods around the nation, leading to the challenges that are now plaguing the nation's economy. The argument is gaining traction. And it is utterly false.

Under the Community Reinvestment Act (CRA), passed in 1977, Congress concluded that "regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered." This included all communities in a lender's service area, and federal financial regulatory agencies were charged with the responsibility to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution." The goal was to put an end to red-lining and to increase access to credit for qualified borrowers in areas that had long been underserved. But, again, only "consistent with safe and sound" lending practices. And the law has worked.

The argument is utterly false.

Prior to the CRA, government policy, particularly federal policy, complemented private industry practices to deny credit in minority neighborhoods, undercut minority homeownership and perpetuate racial segregation. As is now well known, for at least the first 30 years of its existence, the Federal Housing Administration insured mortgage loans almost exclusively in white, suburban communities. Urban renewal and the concentration of public housing in central city neighborhoods reinforced traditional patterns of segregation. And the federally financed highway system enabled white suburbanites to commute to their downtown jobs without coming into contact with racial minorities and predominantly minority communities. Exclusionary zoning ordinances in virtually every suburb to this day keep housing prices artificially high, discouraging low-income families, disproportionately people of color, from moving into the more prosperous and predominantly white neighborhoods outside of central cities.

But government has hardly acted alone. Overt red-lining, along with more subtle practices by mortgage lenders (e.g., refusing to finance, or providing loans only on more onerous terms, for older and lower-priced homes), steering by real estate agents, fraudulent appraisals and other practices reinforced racial segregation throughout U.S. metropolitan areas.

The CRA was enacted as part of an effort to undo the effects of such public policies and private practices, and it is succeeding. According to studies by the Treasury, the Federal Reserve, Harvard Joint Center for Housing Studies and others, the CRA has led to increasing homeownership in precisely those economically distressed markets where the law intended to do so; it has nurtured integration by increasing homeownership for racial minorities in predominantly white neighborhoods that have traditionally been closed to them; and CRA-related lending has been found to be profitable. If any lender made a loan to a black applicant (or anyone else) who was not qualified, that lender simply did not understand the law. If such lending institution was told it had to do so, it was by a compliance officer who did not understand the law.

Timing alone demonstrates the erroneous nature of the CRA critique. The law was strongest in the 1990s, before the statute was watered down and before the surge in subprime lending. Not coincidentally, the CRA was weakened by the Phil Gramm-led Financial Modernization Act of 1999 and subsequent regulatory "reforms." As a result, fewer mortgage lenders were covered by the law, and the rules that did apply to many institutions were less stringent. So the CRA was strongest when families were able to buy and stay in their homes at record levels. The law was weakened just as the subprime lending craze took off, with the foreclosure and related economic crises that immediately followed.

More importantly, it is essential to understand that CRA-covered lenders

(Please turn to page 4)

Gregory D. Squires (squires@gwu.edu), a member of PRRAC's Social Science Advisory Board, is a Professor of Sociology and Public Policy and Public Administration at George Washington University. He serves on the Board of the Woodstock Inst. and the National Housing Inst., as well as on the Advisory Board of the John Marshall Law School Fair Housing Legal Support Ctr.

(MORAL HAZARDS: Cont. from page 5)

might leave the workforce); or counted bonus income received by workers (it might not be stable); nor would it approve good housing located in poor neighborhoods (red-lining); or a mortgage where the age of the applicant and the term of the mortgage added up to more than 85 (a 60-year-old applicant could not obtain a 30-year mortgage); or applications that revealed even small problems in the applicant's credit history.

As Director of the Center for National Policy Review at Catholic University (which I founded), I undertook to assemble a group of civil rights leaders, labor union leaders, women's rights, senior citizen leaders and consumer right leaders at a press conference, co-sponsored by the Leadership Conference on Civil Rights, to protest the proposed FNMA policy. Soon thereafter, Fannie Mae withdrew its proposed policy. No one can say with a straight face that issuing mortgages in any of the above circumstances led to destabilizing the housing market.

Similarly, my organization sued the federal regulatory agencies on behalf of about a dozen public interest groups to get them to prevent discriminatory practices. We won a settlement that required the federal agencies to set up civil rights offices and use their examination process to detect discrimination.

Too little effective supervision, not too much regulation, caused the instability.

All of these community reinvestment and anti-discrimination initiatives led to modest gains by minorities in the acquisition of housing. Their failure to accomplish more was not, as conservative pundits and legislators would have it, due to any unsoundness in the policies, but rather to the fact that they were dealing by modest means with a deep-seated history of discrimination.

It was not until many banks and savings and loans fled the mortgage field and subprime lenders took over that the market went wild. It was not too much regulation that caused instability but too little effective supervision.

Now, in the face of the financial crisis, we are being told by conservatives that policies that would restore home loans to hard-working people of modest means would create a "moral hazard," encouraging irresponsible borrowing and lending. The true "moral hazard" would be to deny people opportunities for purchasing a place in society that others have long enjoyed. ❑

New Online Resource

Visit **Integrationagenda.org** is a new "collaborative effort to develop and execute a comprehensive agenda for residential integration." The initiative, joined by sister organization MoveSmart.org, grew out of a recent conference sponsored by the Institute of Government and Public Affairs at the University of Illinois at Chicago and the Jane Addams Hull House Association. Integrationagenda.org plans a "forward-looking agenda that focuses on research, policies, and programs that move beyond anti-discrimination enforcement to examine the other barriers to integration." For more information, go to www.integrationagenda.org.

(STRUCTURAL RACISM: Cont. from p. 1)

pediments that hamper their ability to fulfill their governmental responsibilities to their citizens.

At various times, the federal government has forcibly removed Native people from their homelands to reservations; divested Native people of millions of acres of valuable land filled with natural resources; required generations of Indian children to attend residential boarding schools far from their homes; passed legislation authorizing the termination of more than 100 tribal governments; forced tribal governments to adopt unfamiliar and inappropriate governance structures; and initiated a large-scale effort to relocate Native people from their tribal communities to urban areas. These policies had, as their basis, a prevailing view of the inferiority and incapability of Indian people in managing their own affairs and economic assets, and a goal of assimilation into the dominant, or "white, Anglo-Christian" culture. The lasting impact of these federal policies on tribal communities cannot be overstated.

Given these structural barriers and the resultant devastating conditions, it would be easy to let a sense of hopelessness overwhelm efforts for positive change in Native communities. Yet starting in the new era of self-determination in the 1960s and growing to the present day, tribal leaders are forging a new path to break down the pillars of structural racism that diminish opportunities for their peoples. Building strong foundations of tribal governance through systemic reform, leadership development and citizen engagement is a growing movement in American Indian communities today. Overcoming centuries of colonialism and paternalism will not be easy or quick—but the alternative cannot be considered. ❑

One cannot overlook the racial basis of many policies of colonialism and paternalism that are the hallmarks of federal-Indian relations.

(SCAPEGOAT: Continued from page 3)

did not make the loans that went bad. When the law was passed in 1977, approximately three-quarters of all mortgage loans were made by depository institutions covered by the CRA. Today, approximately three-quarters of all loans are made by independent mortgage brokers and bankers that have never been covered by the law. And as the National Community Reinvestment Coalition reported, CRA lenders have originated less than one-quarter of subprime loans, with the overwhelming number of those loans—the loans that have led to the mortgage meltdown—being made by institutions that had no CRA responsibilities. In 2005, the Federal Reserve reported that just 5% of loans made by CRA institutions were high-cost loans, compared to 34% for non-CRA lenders.

With the federal government about to spend as much as $700 billion to "invest" in troubled financial institutions, CRA and related fair lending laws should be even more rigorously enforced. Here is an opportunity for the federal government to significantly advance the cause of fair lending, fair housing and equitable community development generally. As Janet L. Yellen, President and CEO of the San Francisco Federal Reserve Bank, stated last March:

> There has been a tendency to conflate the current problems in the subprime market with CRA-motivated lending, or with lending to low-income families in general. I believe it is very important to make a distinction between the two. Most of the loans made by depository institutions examined under the CRA have not been higher-priced loans, and studies have shown that the CRA has increased the volume of responsible lending to low- and moderate-income households. We should not view the current foreclosure trends as justification to abandon the goal of expanding access to credit among low-income households, since access to credit, and the subsequent ability to buy a home, remains one of the most important mechanisms we have to help low-income families build wealth over the long term.

CRA-covered lenders did not make the loans that went bad.

Unfortunately, there is no magic bullet for what ails the nation's economy. Apparently this does not undermine the appeal of simple solutions, particularly when they buy into long-standing stereotypes. Among the many responsibilities now confronting policymakers, as the public is about to make its multi-billion dollar investment, is to resist the racist, anti-government rants that have all too often fueled public policy and private practice throughout our nation's history. ❒

From "Adverse Uses" to "Moral Hazards"

by William L. Taylor

This is to underline and elaborate briefly on the excellent article by Gregory Squires on the myths that conservatives have propagated to blame the current financial crisis on African Americans and government.

First, it is not just conservative commentators who are blaming minorities for the meltdown. Republican leaders in Congress such as Eric Cantor (R-VA) have challenged Barney Frank's demonstration of the failure of regulation for more than a decade to restrain unscrupulous lending practices. The conservative purpose is to stave off new regulation and make mortgage credit unavailable even to people who are sound risks.

Second, a little history is in order. During the 1930s, 40s and into the 50s, the Federal Housing Administration was helping people who could afford only low downpayments to acquire decent housing. But FHA policy (which reflected state policies and real estate practices) sought to restrain access by black families to housing in white areas. Such "adverse (or mixed) use" would depress property values, in the view of the FHA. These policies help explain the absence of black families from suburbs, the gap between FHA loans to blacks and whites, and ultimately, the asset gap between families who acquire wealth by paying off mortgages and those who are unable to do so.

A little history is in order.

These inequities continued largely unabated until the 1970s when, as Squires reports, Congress passed the Community Reinvestment Act to increase access to credit for borrowers in low- and moderate-income housing.

Something else happened, too. The civil rights laws, particularly the Civil Rights Act of 1968, barred discrimination in housing. But the agencies—including the Federal Reserve—charged with regulating lenders largely ignored their responsibilities. In the 1970s, when the Federal National Mortgage Association (Fannie Mae) entered the secondary market, they proposed to adopt all the worst practices of the industry. They said they would not approve mortgages that counted a spouse's income (women

(Please turn to page 6)

William L Taylor (btaylor@cccr.org), a PRRAC Board member, was Staff Director of the U.S. Civil Rights Commission from 1965 to 1968 and prior to that was the Commission's General Counsel. He now chairs the Citizens' Commission on Civil Rights.