

Subprime loans defer homeownership

By Jenice Richardson
Special to Sentinel-Voice

WASHINGTON (NNPA) - Subprime loans have been the gateway to the American dream of homeownership for many, especially African-Americans. However, these loans are in close relation to high trends in foreclosures and is having a significant effect on Black borrowers, say fair-housing experts.

"It is not enough to put more Americans into their own homes if we fail to arm them with the tools needed to sustain homeownership," said Marc Morial, president and chief executive officer of the National Urban League.

"Far too many first-time homebuyers with limited financial experience have fallen into the trap of predatory lending where unscrupulous mortgage brokers steer them into unsuitable and exploitive mortgage products and turn their American dream into the American nightmare."

The National Urban League reports that in 2004, African-American homeownership soared to nearly 50 percent, a historic high. White-American homeownership was at 76 percent. But, Black homeownership slipped to 47.9 percent in 2006 largely because of foreclosures.

The future does not look better. According to a 2006 study by the Durham-based Center for Responsible Lending, of subprime mortgages that originated during the seven-year period between 1998 to 2006, "2.2 million U.S. households will lose their homes to foreclosure" and subprime foreclosures will affect 10 percent of recent African-American borrowers.

The organization's study also projects that, "one out of every five (19.4 percent) subprime loans made today will fail."

Subprime loans are high interest loans that are generally utilized by those who have poor credit scores and limited options, describes Sharon Reuss, spokeswoman for the Center for Responsible Lending.

"I think often African-Americans are steered in the direction of subprime loans by brokers," said Reuss. The subprime benefit to the broker is what are called yield spread premiums or "broker

kickbacks," which are the benefits a broker gains from getting borrowers to take higher interest loans with risky conditions and terms, Reuss explained.

In a 2003 study, the National Community Reinvestment Coalition, a non-profit organization that focuses on lending and community development issues, found that subprime mortgages were

more prevalent among Blacks in about 326 of 331 U.S. metropolitan areas studied. In addition, the Federal Reserve reported in 2005 that 54.7 percent of Blacks paid higher than average market rates for conventional home loans in contrast to 17.2 percent of non-Hispanic Whites.

John Taylor, president and CEO of the National Community Reinvestment Coal-

ition, says that it is common for lenders to underwrite subprime loans based, not on a borrower's ability to repay, but on the value of the borrower's home that the lender stands to gain in a foreclosure or from fees associated with the loan.

Some fair-housing advocates think new laws should regulate subprime lending.

Morial says in a recent

speech on what he calls the "Homebuyers' Bill of Rights," that Congress should form a Housing and Urban Development (HUD) task force.

"[It] would investigate and process mortgage lending complaints, including such actions as inappropriate steering to subprime loans, stricter qualification standards for minority borrowers

and higher rates and/or conditions for minority homebuyers," Morial said.

He says he is seeking a congressional sponsor for the six-point Bill of Rights. However, Morial also agrees that African-Americans and all homebuyers must educate themselves before stepping out into the industry and losing their dreams.

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