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REP. CONYERS HOLDS A NEWS TELECONFERENCE ON THE IMPACT OF THE HOUSING CRISIS ON AFRICAN-AMERICANS

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[*] ZIRKIN: Thank you very much. This is Nancy Zirkin, and I'm executive vice president of the Leadership Conference on Civil Rights, which is the nation's oldest and largest civil rights coalition.

Wade Henderson, LCCR's president, deeply regrets that he cannot be on the call, but a family emergency has come up.

I'm here this afternoon right now with the **NAACP** Washington director Hillary Shelton and Joint Center for Political and Economic Studies senior research associate Dr. Wilhelmina Leigh. Chair of the House Judiciary Committee John Conyers will be joining us momentarily.

We are going to be talking about the devastating effect that the subprime mortgage crisis is having on the African-American community. Chairman Conyers has long been a champion of fairness and justice and is sponsoring legislation that will help avoid setting back the economic clock for African-Americans and other minorities and prevent the foreclosure on thousands of loans and homes.

As I said, we will be hearing from Chairman Conyers shortly, but why don't we begin with Dr. Wilhelmina Leigh?

Dr. Leigh?

LEIGH: Good afternoon, everyone.

In my very short period of time here this afternoon, I'm going to talk about how the subprime market got started and how it became a problem. And then I'll say a few things about why African-Americans are especially vulnerable to the collapse and its aftermath.

The subprime market really got started during the mid-1990s. And I would trace it to 1994, when the prime rate started going up, and it made prime rate refinance loans less profitable. This sort of spawned a growth in development of subprime refinance loans and it also led to the growth of a capital market that was basically capital assembled on Wall Street to foster the making of these subprime refinance loans.

And, of course, that spread to all types of subprime loans. And the federal government's efforts during that time period to foster a growth in the nation's home ownership rate sort of fed into it. There were people clamoring for mortgages who hadn't had them previously. And, therefore, there was the development of very different kinds of mortgage products to meet that need.

All of this is taking place in an environment that was sort of lacking in the infrastructure that you find in the prime mortgage market. You could think of it in a way as the wild, wild west, because there was really no monitoring or regulating many of the players in this particular market.

Many of the loans were made by brokers, and they were not subject to the kind of scrutiny that Fannie Mae and Freddie Mac are, let's say, or that the banks are who make the prime rate mortgage loans.

And all of this was also going on during a time period when house prices started to go up and kept going up. And that was one of the reasons that this market could grow as it sort of it had.

This led to some loans being led with very -- loans being made with very lax underwriting. It also led to some predatory lending. And it also led to securities being packaged that were backed by loans that were done in a very unregulated and not-so-foresightful manner.

Many of these securities were sold overseas, and that's what started the link to this sort of global meltdown that we've seen, in terms of the subprime mortgage market collapse.

Now, why were African-Americans especially vulnerable to what happened in the subprime mortgage market collapse? The first reason I would offer is that they were very eager to become owners of their own homes.

Just like everyone else in the USA, we realized that that's a key and an easy way to start building wealth. But over many, many years, the impact of discrimination in both the real estate market and in the mortgage credit market had left us with much lower home ownership rates.

One fact that makes this very, very clear is the 2000 home ownership rate of African-Americans was equal to the 1940 home ownership rate for whites, which means there's about a 60-year gap in terms of the home ownership acquisition among African-Americans.

A second reason why this group is especially vulnerable is that we are less likely to be approved for prime loans, so that means we're targets for the subprime loans. And, again, part of this reason is the discrimination in the mortgage credit markets.

But the other reason is we're more likely to have lower income. And often people with lower incomes have lower credit scores, which means that they would have greater difficulty getting prime loans.

And the final reason that I would offer just for why this group is much more vulnerable is we're less likely to understand the financial jargon or the exotic mortgage products that are being offered.

And that's in part because many of our neighborhoods are lacking in banks and the mainstream financial institutions. And, therefore, we have less savoir-faire in terms of dealing with these places or with the various mortgage instruments.

So I'll stop at that point and say that just one more comment, that I think we do need to have both macro and micro kinds of strategies to deal with this. And I think we've started to see that. But I'm sure Hillary will talk more about that.

ZIRKIN: Thank you very much, Dr. Leigh.

I don't think Chairman Conyers has joined us yet, so let's move on to Hillary Shelton of the **NAACP**.

Mr. Shelton?

SHELTON: Thank you very much, Nancy.

And good afternoon. As Nancy mentioned, I'm Hillary Shelton, director of the **NAACP's** Washington bureau. The Washington bureau is the political action and legislative advocacy arm of the nation's oldest and largest and most widely recognized, grassroots-based civil rights organization.

As many of you know, predatory lending is clearly a major civil rights issue for us today. And because predatory lending has contributed significantly to the foreclosure crisis we as a nation face today, African-Americans and other racial and ethnic minorities are again feeling the effects of the economic devastation at a disproportionately high rate.

For years, predatory lenders have targeted African-Americans and other racial and ethnic minorities through steering and other immoral practices with the dubious products that contain pre-payment penalties, the so-called exploding ARMs, and other misleading, deceptive, confusing and discriminatory loan packages.

As a result, the impact on whole communities, communities which can in too many cases least afford the instability of massive foreclosures, are nothing short of being devastated.

Let's consider a few facts for just a moment. According to the most recent data available, in 2005, African-Americans were 3.2 times more likely to receive a high-cost subprime loan than their Caucasian counterparts. But our friends in the Latino community were 2.7 times more likely to receive a higher rate loan than their white counterparts, as well.

Over the next two years, an estimated \$600 billion in subprime mortgages will reset from the two-year teaser rate, and many borrowers, including an overrepresentation of African-American and Latinos, will face a significant increase in our monthly mortgage payments.

In fact, studies estimate that one out of every five over all mortgages that originated during the last two years are going to end up in foreclosure. This means that the effects of years of predatory lenders targeting African-Americans and other racial and ethnic minorities will now begin to hurt not only the borrowers, but also their neighbors and their communities, as homes are foreclosed upon in record numbers.

And those numbers are still being concentrated in the African- American communities and other communities of color with a higher concentration. One study estimates that, for every home that is foreclosed upon in a given block, the other homeowners, regardless of what community they're in, will lose about 1.14 percent of their property's value, for each home on their city block.

Given that home ownership is one of the most reliable ways for economically disadvantaged populations to close the wealth gap, one direct result of the unfair and immoral discriminatory predatory lending that's been going on in our communities for years is that it is harder for African-Americans and other racial and ethnic minorities to be wealth or pass any material possessions onto their heirs.

For African-Americans, the importance of home ownership is especially true. Half of all African-American households that own homes in 2002 held more than 88 percent of their total net worth in their home's equity.

For many, home ownership means that the difference between spending their golden years in either squalor and poverty or comfort and dignity. Yet a predatory mortgage or refinancing can ruin all these dreams, and more.

Predatory lending and the foreclosures that are bringing with it is devastating to not only homeowners, but to the families, the neighbors, and the communities, and even the nation. And it's incumbent upon the Congress to do everything they legally can to help these families in need.

That's why the **NAACP** supports the three-pronged approach in addressing this foreclosure crisis in America today.

First, we support legislation that will help homeowners currently facing foreclosure, such as a reform of their nation's bankruptcy laws, as it's found in Conyers-Chabot bill-- and I'm sure Congressman Conyers will speak more about that, which is H.R. 3609 -- and the Durbin-Reid proposal, which is S. 2636.

Secondly, the **NAACP** supports efforts by Congressman Frank and Senator Dodd to ensure that the federal government can and will act as a protected safety net for home ownership and for banks and be in the position to purchase certain troubled mortgages similar to the strategies used in the 1930s to help preserve family-owned farms.

Thirdly, we support legislation such as Senator Dodd's S. 2452, the Home Ownership Preservation and Protection Act, to ensure that policies are enacted to guarantee that a similar crisis will never happen again in our country.

Most Americans dream of buying a home and using the equity in that home for their egg. Many homeowners intend to use the equity in their homes in the event of a medical emergency. And when it comes time to put their children through college, many homeowners are dependent on that equity to provide some support for them, as well.

Some just hope to have something to pass on to their children when they die. It is, after all, the American dream. So the **NAACP** calls on the Congress to help millions of Americans and their families to continue to strive for fulfillment of their own American dreams.

And thank you very much, Nancy.

ZIRKIN: Well, thank you very much, Hillary.

Has Mr. Conyers joined us yet?

CONYERS: Yes, I have.

ZIRKIN: Hi. Mr. Chairman, thank you very much for being with us.

CONYERS: Hillary Shelton just said it all, but let me thank everybody for joining in on this discussion, because we're at a crucial point when [Bear Stearns](#) is receiving \$400 billion of largesse, and these are -- I won't say they're the most predatory of the predatory lenders in the subprime meltdown circumstance, but they certainly are way up there at the top.

And this is quite an affront, it seems to me. What we're doing, as former Secretary of Labor Reich said, is that we're putting more helium into a balloon, but we're not fixing the places where there are leaks, and that this problem can continue to recur. This will not fix this thing permanently.

And so I think this is a wonderful opportunity to renew the simple proposition passed out of subcommittee number five, Linda Sanchez chairperson, in which we merely changed the bankruptcy rules to allow a rewrite of the mortgage with a cram-down to its original -- what its real cost is from what the sale cost was, because, as Perry Applebaum reminds me, much of this process across the country is happening when the balances owed on the outstanding mortgage is larger than the value of the home.

So the bankruptcy judge, who in many other circumstances can rewrite the mortgage to a 30-rate (ph), new low interest rate, and the homeowners, the families will stay in their homes and try to make the mortgage notes.

Now, this costs taxpayers zero. And so all of this quick action on the part of the Bush administration to prop up these companies that pay their CEOs millions of dollars a year, and then turn to us, and then tell the mortgager, who is now frequently unemployed or certainly delinquent in his payments, but he's got to tough it out in a free enterprise system, makes no sense to me.

Solution: Let's start -- I will write a fifth letter to all of my colleagues, House and Senate, urging them to let's quickly move on a no-cost financial solution that would repair this, instead of this unilateral activity going on by the secretary of treasury and the president of the United States.

ZIRKIN: Thank you very much, Mr. Conyers.

Again, this is Nancy Zirkin. And before I open it up for questions, let me just say that LCCR and our over 200 national organizations believe that home ownership remains the American dream, even as the subprime mortgage crisis has turned that dream into a nightmare for many African-Americans and other minorities.

Responsible subprime lending certainly helped many African- Americans to buy homes, which is the greatest source of wealth for most Americans, but the responsible part of subprime lending went out the window when greed stepped through the door.

Lenders lured buyers with no income verification, with variable rate loans that started out low and exploded, making it impossible to pay, while brokers pocketed fat premiums and lending institutions and investment banks, like [Bear Stearns](#), made billions.

We know the results: defaults and foreclosures, with African- Americans disproportionately affected and now set to lose in between \$72 billion and \$93 billion. If the United States can give [Bear Stearns](#) a break, why shouldn't ordinary Americans get one?

Thank you, Mr. Conyers, Hillary Shelton, and Dr. Leigh. Now I will open it up for questions.

QUESTION: ... was trying to find out, in terms of this presidential election, where do you feel like this issue comes into play, in terms of the presidential elections? Do you feel like this is an issue that's on the forefront, and in regards to African- Americans?

SHELTON: Well, maybe I could begin, unless Congressman Conyers would like to start, and just say that the number-one and number-two issue, no matter how you switch it, always becomes the economy. And very well when you talk about the economy, the part of the economy that is most in most Americans' faces, quite frankly, is the issue of the mortgage crisis and, of course, fuel costs.

So those two have a tendency to be at the top run, along with unemployment issues and so forth. So I would say it's very much at the top of most people's concerns, when you have entire investments of whole families and the disproportionate number of those investments coming out of the African-American community in jeopardy, then it very well is a major issue for many that could very well find themselves literally out on the streets.

LEIGH: You know, I would answer that by saying that I think this issue does show up in the forthcoming races, but it shows up not as the subprime mortgage crisis, but I think it shows up as sort of the aftermath of it, you know, people losing jobs because places have closed, you know, businesses have gone out of business because they can't get credit. They can't stay afloat.

I think it's those types of issues that are going to hit more people than the loss of a home. As I mentioned, the home ownership rates for people of color are much lower than they are for whites. It's about 50 percent or less. So that's only half of each of those groups who are directly affected by it.

But I think it's going to be more of the spillover from what happened last summer is what's really going to be front-and-center during the presidential debates.

ZIRKIN: Thank you. Next question?

QUESTION: Good morning. I was wondering if you could maybe just comment a little further on the moral and ethical issues surrounding the predatory nature of these subprime lenders and into the specific neighborhoods that had maybe in the past or currently been red-lined.

So you're talking, and you've mentioned this, about potential homeowners not finding loans through traditional means. And can you talk a little bit about maybe some of the anger that you feel, seeing that these particular neighborhoods are being targeted in such a way?

And, also, does anybody have any specific statistics on urban centers, like New York and Philadelphia, where these African-American or Latino neighborhoods are being affected disproportionately by the subprime lending schemes?

ZIRKIN: Dr. Leigh, do you have...

LEIGH: Yes, OK. I think this is like the 21st century version of what took place during the middle of the 20th century and throughout the 20th century, of course.

But what happened, in terms of the way neighborhoods were structured, was that, prior certainly to 1977, when the Community Reinvestment Act was passed, most lower income neighborhoods in which people who were not white were living didn't have very many of the mainstream banks or credit unions or even supermarkets.

You know, they were just sort of left as vast wastelands. They were areas where, of course, if you were able to buy a house, the value of your house would be lower than it would be if you bought a house in a better neighborhood on the other side of town or the other side of the tracks.

So when the brokers multiplied in number and decided to take up shop and try to make money off of brokering subprime loans to lower- income people, neighborhoods that were already not doing so great were the targets or were the prime places that the brokers set up shop.

And if you've lived in a neighborhood and never dealt with a **bank** and you see these very nice young men in their suits, which is what they wear for the most part, many of them the same color as the people in the neighborhoods in which they were working, and they treat you very nicely, they don't say, "Don't walk in this door," you know, they act like they're happy to see you, they recognize your name, et cetera, et cetera, when that sort of thing takes place, it's sort of hard for you, as a person who is lacking in what I would call financial savoir-faire, to say, "No, this doesn't make sense. Why should I pay this real low rate and then, in the third year, get a mortgage that has a rate that's 5 percentage points higher and my income hasn't gone up, but that means that my mortgage is going to go up?"

You know, you aren't really sophisticated enough to understand and ask those questions. And for that to have taken place, as the subprime market was being grown, is what has led to certain neighborhoods being targeted. And I think we're going to see, just as we saw in the late '60s, huge, whole neighborhoods being devastated by foreclosure.

Back then, it was the Section 235 program that FHA had that made mortgages to lower-income -- I mean, that gave mortgages to lower- income people. And they did not require them to put anything down.

Now, FHA insured those mortgages. They didn't really make them. So they insured them. And when the banks said, "You know, we're going to foreclose," FHA wound up holding the bag.

So, yes, there is plenty of reason to be upset about it. The ideal situation, in terms of moral and ethical, would be that lenders only make loans that they know borrowers can pay off and that borrowers only take loans that they know that they can pay off.

Now, to answer your question about New York City and Philadelphia areas, I have seen a report that looked at what happened in some New York City areas. And if you can give me an e-mail address, I can send you that information.

SHELTON: And, Kelley, let me just add to what the doctor says, and I certainly agree with everything she said, the (inaudible) the cornerstone of so much immoral activity that happens in our country. So as we talk about this, the immoral challenges actually began, quite frankly, with the credit scoring companies.

When we look at how even the data that's being utilized by credit scoring companies -- and let me preface this by saying credit scoring companies, like FICO and others, won't give out specific information about how they process the information that creates your credit score. They say it's proprietary. And as thus, they won't share all that detailed information with you.

What we've found is that credit scoring has a tendency to kind of shift from community to community. We at the **NAACP** has testified on Capitol Hill, with both the House and the Senate, about problems with the credit scoring process.

But then it goes on to talk about the -- to create a problem as we look at other stages in the process of even buying a home or, of course, refinancing our homes. Don't forget, many of the victims of predatory lending that are now subject to lose their homes are older people that refinanced their homes to pay for other things in their lives and whatnot at that point.

So it's important to understand that this is not just first-time homeowners that end up getting steered into these really problematic loan packages, but it's also older Americans, particularly in the African-American community and other communities of color, that are also targeted by these same folks.

But then you have the issue of yield spread premiums. Yield spread premiums are, of course, the profit -- the kind of loan package, the percentage rate you pay on your mortgage note that can actually shift a bit, depending on how the mortgage broker locks it in, or the -- yes, the mortgage broker locks it in.

They make more money if they're able to charge more or get a higher percentage rate. So we have this incentive to steer Americans into higher percentage rate loans than they would actually need to pay.

And as a result of that, of course, we found that the vast majority of the steering process happens among African-Americans, the elderly, and other people of color and women, by the way. So you have that contributing to it.

And then you have that lack of disclosure. The doctor began talking about it, but I think -- and it would help for us to repeat it -- and that is to say that what we have is folks, they're given one of these great introductory rates that continues to grow.

So they start out with a \$1,400-, \$1,500-a-month note. They aren't told that they're going to lose the entry-rate escrow, that is, the payment of their taxes and insurance as part of the program. Five years later, they think, "Well, my annual income increases by 4 percent a year. And in five years, this is going to go from a 5 percent introductory rate to a 9 percent introductory rate, but I will have gotten a 4 percent increase in my salary every year for the three years between the time that this exploding ARM blows up."

But, indeed, the broker did not explain that the percentage rate is still going to outpace your salary or that the escrow, paying for your taxes and your insurance, are now going to become part of the package, as well, that you're going to go from a \$1,500-a-month note to a \$2,400-a-month note that you're not prepared to address.

ZIRKIN: Hillary, thank you.

Other questions?

QUESTION: Hi, is Chairman Conyers still on the call?

ZIRKIN: I don't think so.

QUESTION: OK. I had a question about the bankruptcy legislation and where things were on that. I don't know if you all are familiar with where that is?

ZIRKIN: Yes, we are all very, very familiar with it.

QUESTION: OK, could you tell me where it is in the process now?

ZIRKIN: Hillary, do you want to answer it or do you want me to?

SHELTON: Sure. It's a short answer. The bill is now pending with the Financial Services Committee, I believe. I believe that's right. It has not been voted out of the Financial Services Committee yet.

QUESTION: It's not under the jurisdiction of the Judiciary Committee?

ZIRKIN: There is the Conyers-Chabot bill in there. Mr. Frank has introduced a bill that is more comprehensive.

SHELTON: Right.

ZIRKIN: That it doesn't just target bankruptcy. We happen to think that the bankruptcy piece of people of color is especially important, because, as we have talked about, houses often represent 80 percent of people's net worth. And rather than let people go bankrupt because they can't pay for their house, an adjustment in the bankruptcy court, which is already allowed, by the way, on second homes and family farms, we think makes eminent sense.

And we're also working with Mr. Frank, who has in the past and is currently very supportive of the bankruptcy piece that was voted out of the Judiciary Committee.

SHELTON: And I apologize. I was confusing the two bills, but she's absolutely right.

QUESTION: OK.

SHELTON: The bankruptcy provisions are all in the Judiciary Committee.

QUESTION: OK. All right. Thank you.

ZIRKIN: Other questions?

Thank you very much to all participants and to the members of the media.

END