

**Subprime Lending, Foreclosure and Race:
Structural Challenges and a Systems Response**

*Outreach, Advocacy and Research Initiative
The Kirwan Institute for the Study of Race & Ethnicity*

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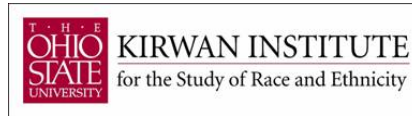
Introduction:

Subprime lending, surging foreclosures and instability in the housing market threaten to severely widen racial disparities and damage the entire US economy. Over two million foreclosures are expected in the next two years and over \$350 billion in adjustable rate mortgages will reset between March and June of 2008. Housing values have grown stagnant or depreciated in response to the unraveling of the US housing sector. Although the entire economy and all Americans are impacted by the subprime/foreclosure crisis, communities of color are disproportionately burdened. Given the devastating impacts of the subprime lending/foreclosure crisis, policymakers, advocates, community development specialists, economists and financial institutions are rapidly trying to respond to the crisis to prevent further instability in the housing market and economy.

Foreclosures are directly impacting families, while the geographic concentration of foreclosures threatens neighborhoods, cities, and entire states. The subprime lending and foreclosure issue affecting entire communities and our national economy is marked by a significant racial footprint. Subprime lending disproportionately burdened and exploited those most isolated in our society: marginalized families and communities, often people of color. Approximately half of all subprime loans went to African Americans, despite the fact that they are 13% of the national population. Research conducted by United for a Fair Economy predicts housing asset wealth erosion for African American and Latino homeowners to near a quarter trillion dollars. The disproportionate number of foreclosures concentrated in specific communities is destabilizing entire neighborhoods, impacting all residents and entire cities. Many of these loans were not just sub-prime, but predatory. Communities were and still are vulnerable to these loans for a number of reasons, including historical denial of credit via prior redlining and under-capitalization.

Unfortunately, the foreclosure crisis impacting communities of color is linked not only to a history of residential segregation and lack of mainstream credit options, but also to larger dynamics in finance and banking. Many subprime loans have been bundled, converted and sold as a security on the stock exchange. The securitization of these loans added an additional level of complexity to an already complex challenge. The subprime lending crisis provides a powerful and alarming example of the multi-faceted structural challenges, involving multiple actors, institutions and entities, affecting low-income communities of color. The commoditization of mortgage securities, discriminatory or reckless lending behaviors, rising housing costs and the growth of new and suspect credit/mortgages in deprived neighborhoods have worked together destabilize the housing industry and impact the entire US economy. A complex web of institutions and entities across the domains of finance, real estate and governance contributed to the crisis. It is difficult to understand or address these issues without a systems-based approach that links what is happening in inner-cities like Cleveland or Baltimore, and various rural areas across the country to Wall Street, hedge funds and the global economy.

Unfortunately, many of the responses to address the crisis are isolated responses which do not collectively intervene into the practices of multiple entities, institutions and structures which contributed to the subprime challenge. Community-oriented solutions act as triage measures, desperately trying to avoid



homeowner and neighborhood collapse, but have little impact on macro-level finance and policy. Meanwhile, bailouts in the financial industry provide little to no impact or relief to struggling households and communities. Local and state initiatives have limited influence over financial institutions and federal policy.

The Kirwan Institute is planning an initiative designed to bring these different aspects of the crisis together to better understand the interaction and interrelation of these issues and to develop responses that are more comprehensive, sustainable and equitable. The initiative will be sensitive to the impact on racial and marginalized communities; this racial emphasis will be one of the ways in which this initiative will be unique. The response to the subprime and foreclosure crisis must not only focus on rescuing investment banks and the stock market, but also respond in a comprehensive manner that is sensitive to the needs of individual homeowners and communities.

The Kirwan Institute Initiative: Purpose, Goals and Outcomes

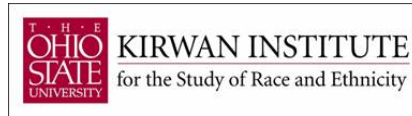
The Kirwan Institute will launch an outreach, advocacy and research initiative to focus on the subprime lending and foreclosure crisis from a structural perspective. The initiative will include seeking solutions from leading thinkers and key stakeholders in the various domains impacted or implicated by the crisis. The initiative will tackle the subprime lending-foreclosure phenomenon as an example of a structural crisis, assessing how the interaction and involvement of many structures and institutional entities contributed to the growth of the sub-prime market and growing foreclosures. The subprime and foreclosure crisis illustrates the power of utilizing a structural analysis to both diagnose and prescribe solutions to complex societal problems. The initiative will also identify the legal, policy, legislative and community responses needed to counter the phenomena. We will develop solutions and responses which are not isolated to one domain, but address the multiple intervention points (or identify strategic interventions that impact multiple domains).

The initiative is centered on exploring and answering the following questions:

- What structural and institutional factors contributed to the growth of subprime lending and growing foreclosure? What does the crisis teach us about how to respond to structural problems and institutional racism and discrimination? What are the appropriate multi-faceted responses (or strategic interventions) needed to address the crisis?
- The Initiative will explicitly focus on the racial implications of the crisis, addressing not only discriminatory structural conditions which created the crisis, but also address the racial implications of proposed solutions to crisis. What solutions to predatory and subprime lending will still provide access to credit in disadvantaged communities? How can we avoid subprime and predatory loans while encouraging homeownership and access to credit for marginalized populations?
- Federal Response: How should the next White House administration respond to the crisis in a systematic way? What collective platform of reform measures and interventions could be adopted by the advocacy community and embraced by the federal government?

The initiative will include:

- Forming an advisory committee of leading experts in systems thinking, lending, housing, community development and finance. We will conduct and commission research from experts with a particular emphasis on illustrating the structural dimensions of the problem and the need for structural, comprehensive solutions.



- Conducting a stakeholder conference to collectively assess impacts of on-going efforts to stem the crisis. The conference will not only provide a space for leaders to share ideas and solutions, but will provide an opportunity to document the impacts and promising solutions for addressing the subprime/foreclosure challenge. The conference will also be a starting point for building a collaborative group of experts and advocates to promote policy solutions to the crisis. Tangible conference “products” and outcomes will help meet this long term goal.
- Holding interactive “caucus” sessions (with professional facilitators) with key stakeholders, to identify solutions and build collaborative networks. We will establish on-going “working groups” of stakeholders to collaborate on advocacy and research, with an emphasis on the federal responses needed from the next President’s administration, and identifying model equitable credit solutions that do not dry up credit in marginalized communities.

A preliminary schedule of activities includes:

- April 2008: Identification and formation of advisory committee, further delineation of research and advocacy needs via input from advisory committee.
- May 2008: Identify additional research experts and identify a select and multi-disciplinary group of critical stakeholders. Issue invitations to critical stakeholders to participate in and attend conference and caucus sessions in the fall.
- June to August 2008: Commission research from leading experts in the field and conduct research on systems-oriented approaches to the subprime-foreclosure challenge and communications strategies to produce support for policy reforms.
- September 2008: Finalize research and content for conference and caucus sessions.
- October 2008: Hold stakeholder conference and caucus groups, form multiple “working groups” of experts to move research and advocacy efforts forward. Publish and widely disseminate all conference findings via multiple mediums (web, print, media and video).
- November 2008 and Beyond: Continue work on the initiative via “working groups” targeting research, litigation, communications and advocacy efforts to address the crisis at the local, state and national level.

The overarching goal of the initiative is not to provide an academic exercise in addressing structural problems, but to utilize our advances in understanding structural disadvantage and systems thinking to identify a comprehensive response to this tremendous challenge. The initiative will identify a platform of reforms and interventions into the instability and discrimination produced by the subprime lending crisis, and assure access to homeownership, home equity and fair access to credit for future generations.