

LATINOS AND THE FORECLOSURE CRISIS MYTHS AND FACTS

Today's housing market crisis has triggered speculation about where the blame for the breakdown should fall. Unfortunately, numerous industry players continue to skirt accountability for their unethical lending practices. Below are facts that debunk some of the common myths about who is to blame and reveal that the current financial fallout is an industry-created problem.

1. **MYTH:** Borrowers with bad credit are responsible for the housing crisis.

FACT: When borrowers are paired with responsible products, they are very successful. In fact, research shows that certain loan terms and features significantly increase the risk of default, regardless of the borrower's actual credit risk. This suggests that loan products contribute significantly to the borrower's likelihood of default. Responsible lending, on the other hand, can maintain homeownership as a sustainable asset-building tool.¹

2. **MYTH:** Efforts to force unwilling lenders to expand minority homeownership destabilized the housing market.

FACT: Latinos with good credit were often denied access to prime loans; as a result, many were exploited by predators in the subprime market. Unscrupulous lenders were motivated by self-interest and driven by financial incentives to steer borrowers toward exotic loans. Studies indicate that despite their qualifying for prime loans, many minority and low-income families were only presented with subprime and other risky offerings. The Consumer Federation of America calculated that Latino borrowers were much more likely than White families to receive subprime loans in 2005—even after accounting for credit-score differences and other risk factors.²

3. **MYTH:** Investment in affordable homeownership programs jeopardized the safety and soundness of financial institutions, setting off the economic downturn.

FACT: Between 1998 and 2006, more than half of subprime mortgage originations were for refinancing. Numerous homeowners unknowingly destroyed rich equity by refinancing under unfavorable terms. During the same period, less than 10% of subprime mortgage originations went to first-time homebuyers.³ Despite knee-jerk responses to today's mortgage crisis, homeownership is still a good idea. Homeownership remains the largest source of wealth for most Americans. A majority of homeowners rely on their home equity to send their children to college and to plan a secure retirement. Recent events demonstrate what can happen when the industry touts homeownership as a "get rich quick" scheme. For most families, however, it is a way to build financial security steadily over time.

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¹ Lei Ding et al., “Risky Borrowers or Risky Mortgages?” (PowerPoint presentation, Center for Community Capital, University of North Carolina, Chapel Hill, North Carolina, September 13, 2008).

² Les Christie, “Wow, I Could’ve Had a Prime Mortgage,” *CNNMoney.com*, May 30, 2007, http://money.cnn.com/2007/05/29/real_estate/could_have_had_a_prime/index.htm?cnn=yes (accessed September 29, 2008).

³ “CRA Myth and Fact,” National Community Reinvestment Coalition, http://www.ncrc.org/index.php?option=com_content&task=view&id=353&Itemid=80 (accessed September 29, 2008).