KIRWAN INSTITUTE for the Study of Race and Ethnicity

THE FUTURE OF FAIR HOUSING and FAIR CREDIT

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Credit and Lending in Communities of Color

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The **Kirwan Institute for the Study of Race and Ethnicity** is a university-wide interdisciplinary research institute. We generate and support innovative analyses that improve understanding of the dynamics that underlie racial marginality and undermine full and fair democratic practices throughout Ohio, the United States, and the global community. Responsive to real-world needs, our work informs policies and practices that produce equitable changes in those dynamics.

Credit and Lending in Communities of Color

Mortgage lending and beyond

Access to credit is critical for communities of color to build assets, income and to pay for basic necessities. Historically, communities of color have lacked access to credit, both in quantity and quality. Past struggles for fairness in lending have focused on mortgage lending because of the transformative capacity of home ownership as a means of asset building, shelter security and space stability. Unfortunately, anti-discriminatory laws have done little to change the geography of lending discrimination. Facilitated by widespread deregulation in the 1990s, communities of color, which had previously been neglected by mainstream financial institutions, were inundated with subprime lending products. For consumers of color, the high cost of lending extends past home loans. African American and Latino consumers, even when they qualify for better lending terms, are disproportionately receiving predatory terms.

As the lending industry innovates new consumer products, advocates must stay in step with current forms of lending that affect our communities. Consumers of color disproportionally pay more for auto financing, credit cards, private student loans, payday lending, car title loans and others. For example, an area that has received little attention is the world of auto finance, despite being a key lending product for communities of color. With the importance of transportation for securing and maintaining employment, access to auto finance is vital for building income and assets. The rise in alternative financial lending products poses a threat to the economic security of borrowers of color whose communities contain an overrepresentation of these lenders. As the Obama Administration focuses on consumer protections as part of the larger financial regulation discourse, lawmakers need to ensure that all forms of lending fall under the penumbra of fair lending regulation.

Financial regulation and communities of color

New financial regulations must pay particular attention to the lending realities of communities of color. To ensure fairness in lending, regulations must address:

- **Policing discrimination** – Fair lending laws have failed to monitor discrimination and lack sufficient authority to police even overt discrimination in lending. Enforcement must be a vital component of new regulations to act both as a deterrent and a means for correcting discrimination against communities of color.

- **Higher interest rates and fees**: Borrowers of Color tend to pay higher interest rates and fess. While CARD will come into effect in February 2010 prohibiting many predatory practices such as “for any time for any reason” hikes in interest rates, it does not provide a cap on interest rates. New regulations must address the higher cost of lending stemming from interest rates and fees across the spectrum of lending products.

- **Accessibility to good lending products** – As we work toward regulating lending for abusive terms, efforts must be made to ensure that fair, quality lending products are available to communities of color that are a true reflection of a consumer's credit score. Some possible options for achieving this end are community assessments to determine if fair products are actually being offered to borrowers.

- **Segmenting communities of color** – Communities of color are not a homogeneous cohort. In addition to cultural differences such as language, communities of color have differences in their credit and lending experiences. For example, credit score, the portfolio of their credit history or where they live. Coupled with lending discrimination (which in some cases you could argue that credit reality was created by segregation and lending discrimination), lenders interact differently with particular aspects of our communities:

    - immigrants
    - Unbanked
    - Thin credit
    - Bad credit
    - Person of color vs. communities of color
    - Middle income

  Regulation and the creation of a more fair lending market requires legislators to pay particular attention to the nuances of communities of color to ensure that they benefit equally from consumer protections.

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