Community Investing opens doors to low and moderate income neighborhoods facing foreclosures in light of the current sub-prime mortgage crisis.

The US housing market has witnessed a mortgage collapse largely due to high cost adjustable rate mortgages. These mortgages have trapped borrowers with high interest rates after an introductory period and with high fees, prepayment penalties, and other abusive lending practices. Some estimates from the Center for Responsible Lending predict 2.2 million borrowers could lose homes with an attendant loss of $164 billion in wealth in 2008[1].

These abusive lending practices had modest beginnings in the 1980s when national finance companies entered the sub-prime mortgage lending business. The term "sub-prime" is used to refer to those borrowers who do not qualify for prime interest rates and thereby operate outside prime lending markets, often due to weakened credit histories, bankruptcies, low-credit scores, high debt-burdens and loan-to-value ratios. Sub-prime mortgages in turn are defined by the terms of the loans made to sub-prime borrowers often including a low 'teaser' introductory interest rate changing to an adjustable rate after 2-3 years for the remainder of the loan. Since the early 1990s to the present, large corporations and national banks that were new to sub-prime lending got involved in sub-prime lending. Commercial banks also owned sub-prime mortgage companies, accounting for five of the nation's top ten sub-prime lenders. From 1994 to 2005, the sub-prime home mortgage loan market grew from $35 billion to $665 billion[2]. Today, sub-prime mortgage companies comprise almost a quarter of all mortgage originations.

The demographic hardest hit by predatory lending in the sub-prime market includes racial and ethnic minorities, the elderly, women, and low and moderate income borrowers. Minorities in particular are receiving a disproportionately higher number of high-cost loans and in turn stand to lose substantial equity as a result of high debt payments. The Center for Responsible Lending reported that 53% of African-Americans and 42% of Latino families who bought homes in 2006 have already lost or will lose their homes to foreclosure in the next few years vs. 22% of white borrowers facing foreclosure. A recent 2007 study on lending disparity conducted by the National Community Reinvestment Coalition reveals that the 10 worst Metropolitan Statistical Areas nation-wide for lending disparity include (in descending order): Charleston, SC; Bridgeport, CT; Omaha, NE; Milwaukee, WI; Springfield, MA; Minneapolis-St. Paul, MN; Philadelphia, PA; Trenton, NJ; Birmingham, AL; Greenville, SC.[3]

[1] Ellen Schloemer, Wei Li, Keith Keest, Kathleen Ernst, Center for Responsible Lending Report "Losing Ground: Foreclosures in the Subprime Market and their cost to Homeowners" December 2006.

[2] Ellen Schloemer, Wei Li, Keith Keest, Kathleen Ernst, Center for Responsible Lending Report " Losing Ground: Foreclosures in the Subprime Market and their cost to Homeowners" December 2006.

[3] National Community Reinvestment Coalition "Income is no shield against racial differences in lending: A Comparison of high cost lending in America's metropolitan areas". July 2007, p. 5-6.

Sub-prime mortgage crisis facts from the Center for Responsible Lending include:

- 7.2 million American families own a sub-prime mortgage, 1 out of 5 sub-prime mortgages in 2006 ended in foreclosure.
- 14.44% of sub-prime mortgages are in default, with $1.3 trillion in outstanding sub-prime loans.
- In 2008 and 2009 as sub-prime foreclosures lower the prices of surrounding homes nearly 45 million homes NOT facing foreclosure will decline in value by an estimated $233 billion.
- Property devaluations caused by sub-prime foreclosures will result in 24 states and 42 counties losing over $1 billion each in local house prices and tax bases.
- Up to half of the 450,000 families whose sub-prime adjustable rate mortgages will reset in the next three months will lose their homes to foreclosure.
- Foreclosures cost lenders an estimated $50,000 per home in processing fees, liquidation-sale price cuts and other costs.

Fortunately, there is hope for the low and moderate income neighborhoods most targeted by predatory lenders. Community Development Financial Institutions (CDFIs) also lend to the same group of individuals who have suffered from sub-prime mortgages, yet CDFIs have a rich history of lending to low-income families. However, unlike the sub-prime lending that has occurred, CDFIs are unique examples of the **right way to engage** in the business of lending to underserved, low-income communities. These institutions provide appropriate lending and investment products and services to borrowers. These services can include foreclosure prevention counseling, financial training programs that educate borrowers on abusive lending practices and legal advice. In turn, CDFIs channel much needed capital to people denied the opportunity to borrow, save and invest in their own communities. Not only do CDFIs provide borrowers with important tools to prevent them from getting into abusive loans, but they have also reached out to people facing foreclosure with innovative products and services.

Large and small community development financial institutions across the country are fighting predatory lending by rescuing families with innovative policies, products and program options to address the crisis. These include targeted outreach to borrowers, financial counseling, restructuring consumer debt, modifying loans for distressed borrowers, granting short-term loans and managing repossessed properties. Community investors who invest in institutions that offer fair and affordable alternative options to abusive predatory lending are in turn promoting this positive solution to the growing foreclosure and mortgage crisis.

For example, SIF member, Self-Help Credit Union in North Carolina, a well-known national community investing institution, developed its own Center for Responsible Lending in 2002 to build on the initial success of the North-Carolina Anti-Predatory Lending Law. The Center has an advocacy team that litigates fair lending cases for those facing foreclosure and financial ruin. The Center supports direct legal assistance through top non-profit legal aid groups and law school clinics. Self-Help also engages in direct home lending to qualified low-income borrowers and has a track record of 3,000 direct loans totaling over $228 million. Self-Help financed over $4 billion in loans through its secondary mortgage market programs, minimizing the impact of foreclosure by investing in the property and re-selling it to either a new homeowner or the original homeowner depending on the loan terms. This results in preserving homeownership opportunities for minorities and working class Americans.

Self-Help is promoting changes to H.R. (US House of Representatives) 3915 - the Mortgage Reform and Anti-Predatory Lending Act of 2007-- to enhance its effectiveness. Self-Help also supported bankruptcy legislation reform in the US Congress to preserve homeownership. H .R. 3915 currently proposes the elimination of the yield spread premium, a necessary part of the lending mechanism that Americans depend on for home financing, but more importantly, raises costs for home loan financing for consumers, decreases competition among lenders, and gives consumers less options for financing their homes. The Bill passed in the House of Representatives on November 15th 2007. The bill now awaits a vote in the US Senate. It proposed amending the Truth in Lending Act to reform consumer mortgage practices and accountability for such practices, to establish licensing and registration requirements for residential mortgage originators, to provide certain minimum standards for consumer mortgage loans, and for other purposes.

Another long-time SIF member, Boston Community Capital, has invested over $300 million in affordable housing projects and businesses to create homes for more than 8,000 individuals in the Greater Boston area and across Massachusetts. In May 2007, Boston Community Capital launched Aura Mortgage Advisors to provide first-time home buyers, as well as distressed borrowers facing foreclosure in low-income communities, with mortgage loans designed with their financial situations in mind. This step-by-step approach has resulted in promoting more affordable housing in the neighborhoods that have fallen prey to predatory lenders and are on the verge of multiple foreclosures.

There is a growing need for investment dollars to be channeled to community investing institutions. Visit the Online Community Investing Center at www.communityinvest.org to find out more about Community Investing Institutions and their initiatives to mitigate the sub-prime mortgage crisis. While our nation is in need of a sound regulatory framework to combat this issue, which goes beyond community investing, it is nonetheless clear that Community Investing has made positive impacts in low-income communities affected by the sub-prime mortgage crisis.