

“From Credit Denial to Predatory Lending: The Challenge of Sustaining Minority Homeownership”*

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Abstract:

Years of discrimination against minority households damaged their ability to build wealth. One of the most financially destructive practices endured by minority households is the excessive overpayment to finance a home purchase or access accumulated equity in a home. The market conditions that position blacks, and to a lesser extent, Latino households, to be the principal targets of predatory mortgage lending have their roots in decades of legally sanctioned housing market discrimination. Some minority households lack the financial knowledge or awareness to protect themselves. In other cases, years of discriminatory financial practices have contributed to rendering them ineligible to access low-cost financing. And, finally, vestiges of discrimination continue today with minority consumers convenient targets of unscrupulous lending behavior.

Starting in the early 1990s, federal antipoverty policies placed new emphasis on asset creation for low- and moderate-income people, especially the working poor. While federal policy embraced wealth creation as the new antidote to poverty, it failed to anticipate threats to preserving home equity once it has been created, including rising consumer debt and predatory lending. To date, the federal government has failed to combat predatory lending consistently and effectively. The failure to curb predatory lending has spawned high levels of home loan foreclosures across the U.S. and threatens the largest asset of many minority households, i.e., their homes. This paper proposes policies to improve the sustainability of minority homeownership.

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