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# OPINION

## Unequal Mortgage Market No Coincidence

### Losing ground on home ownership

BY MICHELA ZONTA

Persistent racial and ethnic inequality in the mortgage market is not a coincidence. Nearly 50 years after the adoption of the Fair Housing Act, newly released federal data indicate that people of color continued to lose ground in the homeownership market in 2013.

In particular, black and Hispanic households continued to represent a shrinking fraction of the mortgage market and received higher-cost loans compared with white borrowers. Tragically, many prospective black and Hispanic homeowners never reach the loan-decision stage of the home buying process. People of color are still being treated unequally in the home mortgage market, even when they demonstrate an ability to repay their loans.

Blacks and Hispanics are more than twice as likely to be denied a mortgage as non-Hispanic whites



with comparable incomes and risk profiles. However, the disparate treatment received by people of color is not confined solely to the loan approval stage of the mortgage lending process and does not necessarily take the form of a loan denial. Discrimination based on race or ethnicity can take several forms during any stage of the process.

During the pre-application stage, for example, lenders may discourage borrowers of color from continuing with the loan application process even though they may qualify for a loan. Lenders also may not provide the same information to applicants of color that they provide to white applicants. Further, pair testing studies—in which two individuals pose as equally qualified borrowers in every respect except their race or ethnicity and inquire about the availability and terms of home mortgage loans—demonstrate that people of color are consistently treated differently than equally qualified whites.

When people of color do end up at the lending table, they are

much more likely to receive costly subprime loans and loans with features that are associated with higher foreclosures than their white counterparts. A Wall Street Journal study found that most borrowers who received predatory loans in 2006 would have qualified for better, more sustainable loans. More recently, the Center for Responsible Lending demonstrated that racial disparities are evident even when comparing borrowers within the same credit score ranges, and especially for borrowers with higher credit scores.

For example, among borrowers with good credit—a FICO score of more than 660—African Americans and Latinos received a high interest rate loan more than three times as often as white borrowers.

Blaming people of color for low FICO scores and insufficient funding for a down payment represents a myopic perspective of unequal access to homeownership in the United States. Instead, a number of other factors contribute to inequality in the mortgage market.

First, people of color's inability to pay higher down payments is due in large part to decades, if not centuries, of discrimination that have created exceptional wealth gaps between communities of color and white populations. Second, credit scoring is not the best measure of risk and often has a discriminatory effect on communities of color, as a National Fair Housing Alliance study shows.

Third, racial segregation—created and perpetuated by both institutionalized public and private discriminatory practices—has historically precluded communities of color from accessing safe and affordable home purchase financing. It has also limited their opportunities and conditions for wealth accumulation. As Jacob Rugh and Douglas Massey explain, residential segregation and the ongoing lack of access to mortgage credit in black and Hispanic neighborhoods have combined to create the ideal conditions for predatory lending in those communities.

People of color—who will ac-

count for three-quarters of household growth over the coming decade—represent the future of the housing market and the economy as a whole. Housing represents the foundation of the nation's opportunity structure since it determines one's access to education and job opportunities, as well as the related ability to accumulate wealth. Yet, people of color still lag behind whites in the housing market.

Contrary to what some argue, the housing industry and Congress should indeed pay more attention to the massive disparities that persist in the housing market and the economy based on the color of one's skin. If policymakers do not recognize and address racial and ethnic disparities in access to housing and the opportunities attached to it, the nation will not be able to reduce inequality, improve the economy, or strengthen the middle class.

Michela Zonta is a Senior Policy Analyst for the Housing Finance and Policy team at the Center for American Progress.

## Reserve Chair Talks about Income Inequality

### Speaking honestly and openly

BY MARC H. MORIAL

With all the political, national security and disease news recently flooding the airways, you may have missed one of the most important American speeches from one of the world's most powerful economic leaders.

In a speech at the Federal Reserve Bank of Boston earlier this month, Janet Yellen, who in February became the first woman Federal Reserve Chair, bravely waded into the national debate on income inequality. Her remarks echoed many of the opportunity themes that have been championed by the National Urban League throughout our 104-year history.

Drawing from the Federal Reserve's triennial Survey of Consumer Finances, Yellen documents that "The past several decades have seen the most sustained rise in inequality since the 19th century..."

She also outlines what she calls



four "building blocks" of opportunity to help improve the economic circumstances of individuals and families. These building blocks closely align with the National Urban League's long-standing economic empowerment agenda: Resources available to children; higher education that families can afford; business ownership; and inherited wealth.

The average income of the top 5 percent of households grew by 38 percent from 1989 to 2013, while the average real income of the other 95 percent of households grew less than 10 percent.

The average real worth of families in the top 5 percent has nearly doubled, on net—from \$3.6 million in 1989 to \$6.8 million in 2013, while the average net worth of the lower half of distribution, representing 62 million households, was \$11,000 in 2013.

While Americans in all economic groups were adversely affected by the housing crisis, homeowners in the bottom half of households by wealth reported 61 percent less home equity in 2013 than in 2007. The next 45 percent reported a 29 percent loss

of housing wealth, and the top 5 lost 20 percent.

Research tells us that inequality tends to persist from one generation to the next. One study found that 4 in 10 children raised in families in the lowest-income fifth of households remain in that quintile as adults.

Again, while Yellen points out that "to the extent that opportunity itself is enhanced by access to economic resources, inequality of outcomes can exacerbate inequality of opportunity, thereby perpetuating a trend of increasing inequality," she does not attempt to directly link how much the opportunity factors influence income and wealth inequality. But we do.

We know that opportunity is not equal when affluent families have significant resources for things like better nutrition, health care and early childhood education, while many other households have very little, if any resources, to spare for these purposes.

We know that low-income families face an unfair disadvantage when public funding for safety net programs and public education is cut. We also know that the

rising cost of college, the slowdown in business formation for low-income Americans, and the huge gap in inheritances between the top and bottom rungs of the economic ladder directly impact economic prosperity and mobility.

What makes Janet Yellen's comments about income inequality

so remarkable is the fact that rarely, if ever, has a Fed Chair spoken so honestly and openly about such a hot-button issue. We applaud her for speaking out, and this is an issue that should "greatly concern" us all.

Marc H. Morial is president and chief executive officer of the National Urban League.

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