



**“Challenging People to Shape a Better Future Now”**

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## Predatory Lending Hurts Blacks, Hispanics

In the first report of its kind, the Center for Responsible Lending has examined consumer lending markets across-the-board and found that despite recent regulatory reforms – predatory lending continues to undermine American households trying to rebuild their finances after the recession.

The State of Lending in America and its Impact on U.S. Households (State of Lending, <http://rspnsb.li/stateoflending>) paints a picture of working families struggling to manage debt while coping with stagnant incomes and a substantial decrease in wealth. In fact, the housing crisis has produced the largest documented wealth gap ever between White households and families of color.

From 2000-2010, African-American family wealth dropped 53 percent, and Hispanic families lost 66 percent. By comparison, average White household wealth dropped only 16 percent. The foreclosure crisis and resulting economic downturn have turned back the clock on previous wealth gains, especially in communities of color.

The report states, “There is significant evidence that African-American and Latino borrowers and their neighborhoods were disproportionately targeted by subprime lenders. Borrowers of color were about 30 percent more likely to receive higher-rate subprime loans than similarly situated white borrowers. Borrowers in non-white neighborhoods were more

likely to need to rely on student loans and to become saddled with large amounts of debt upon graduation,” the report stated. “In 2008, 16 percent of African-American graduating seniors owed \$40,000 or more in student loans, compared with 10 percent of whites, eight percent of Hispanics and five percent of Asian-Americans.” Additional findings showed that: “Spillover” costs of foreclosures have wiped out nearly \$2 trillion

in family wealth; Auto loan interest-rate markups cost consumers nearly \$26 billion each year; and Borrowers in lower credit tiers pay up to 68 percent higher monthly payments on private student loans than on safer federal loans. The State of Lending is the first of a three-phased and in-depth view of U.S. households’ income, spending, debt, and wealth. It also outlines predatory practices in mortgage lending, credit cards, student loans, and auto loans that

and Consumer Protection Act, which incorporated a number of previous state initiatives to curb abusive mortgage practices, has ended many of the worst practices of the subprime era. And, contrary to industry predictions, the cost of borrowing on credit cards has not increased since the CARD Act passed; transparency has greatly increased and the use of hidden fees has gone down. The next two State of Lending reports will be released in early 2013. The next release will cover payday loans and other financial products that trap people in long-term debt while portraying themselves as short-term solutions. The third and final release in the series will examine abusive practices in debt collection and servicing, and conclude with a chapter documenting how lending abuses often target the same households and have a cumulative—and particularly disastrous—impact on low-income households and communities of color. Former Federal Deposit Insurance Corporation Chair Sheila Bair authored State of Lending’s foreword, noting that predatory lending harms the entire U.S. economy. She warns, “If abusive lending practices are not reformed, we again will all pay dearly.” Charlene Crowell is a communications manager with the Center for Responsible Lending. She can be reached at: [Charlene.crowell@responsiblelending.org](mailto:Charlene.crowell@responsiblelending.org).



### RESPONSIBLE LENDING

Charlene Crowell

likely to receive higher-cost loans with risky features such as prepayment penalties.”

CRL’s student loan findings echoed these same lending ills. “Low-income students and stu-

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dents of color are even more likely to need to rely on student loans and to become saddled with large amounts of debt upon graduation,” the report stated. “In 2008, 16 percent of African-American graduating seniors owed \$40,000 or more in student loans, compared with 10 percent of whites, eight percent of Hispanics and five percent of Asian-Americans.”

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Despite remaining lending challenges, the report shows that consumers are better off today because of stronger protections on mortgages and credit cards. The Dodd-Frank Wall Street Reform

## World’s Biggest Metro-Areas Key to Growth

Looking back, 2012 was a slow year for both developed and developing countries as major unresolved issues from 2011 carried over into this year. The European Union continued to battle fiscal and debt problems, while the U.S. recovery struggled to gain a foothold. Low growth and uncertainty in developed economies affected both large and small emerging economies, exposing domestic weaknesses in those markets. No major national economy is powering a needed global recovery.

Beyond regional and national divides, however, examining growth patterns in metropolitan areas provides clues to the sources of growth and potential recovery. For example, the 300 largest metro economies worldwide accounted for nearly one-half of the global economy, delivering more than half of the global economic growth between 2011 and 2012. And this despite containing only 19 percent of the world population.

The 2012 Global MetroMonitor, a Brookings study of economic growth in the world’s 300 largest metropolitan economies, reveals that three-quarters of the fastest-growing metro areas in 2012 were in developing Asia, Latin America, and the Middle East and Africa. While most of these metro areas are in developing countries, some metro areas in high-income countries were part of the fastest-growing metro economies last year (Macau, San Juan, and

### GUEST COLUMNIST

Emilia Istrate

Riyadh).

Western European metro areas, in contrast, had a bad year overall in 2012, with three-quarters of the lowest-performing metro economies hailing from the region. Athens was the bottom performer for a third year in a row, reflecting the ongoing crisis in Greece.

Across the globe, 56 metro areas did better than their countries on both indicators used in our study while experiencing growth in 2012.

However, this was not only a story about Southern Europe. Metro areas in other parts of the region (Brussels, Leeds-Bradford, Lille, and Rotterdam-Amsterdam) registered declines or almost zero growth in employment and/or GDP per capita in 2012.

Yet there are glimmers of hope across the Atlantic. Despite the ongoing problems on the continent, nine Western European metro areas grew faster than their countries on both indicators, two more than in North America. Four were German metro areas (Bre-

men, Hamburg, Hannover, Nürnberg-Fürth), joined by others in Scandinavia (Stockholm, Helsinki), Austria (Linz), Belgium-Germany (Aachen-Liege), and France (Paris).

The North American outperformers were few and far in between, including one Canadian metro area (Edmonton), two in the Northeastern United States (Boston and Worcester), Detroit, and three in the Western United States (Salt Lake City, San Jose, and Seattle).

Across the globe, 56 metro areas

did better than their countries on both indicators used in our study while experiencing growth in 2012. Even more important, these metro “pockets of growth” were spread around the world, from twelve in developing Asia-Pacific (such as Mumbai, Kolkata, Jakarta, and Kuala Lumpur) to five in Eastern Europe and Central Asia (Ankara, Bucharest, Istanbul, Izmir, and Warsaw).

Other optimistic signs come from the metropolitan economies that recovered to pre-recession levels or defied the slowdown trend with accelerating growth in 2012. Three U.S. metro areas (Dallas, Knoxville, and Pittsburgh) managed to recover in 2012. In contrast, most metro areas in the developing Asia-Pacific and Latin America regions suffered no recession in the last five years or have fully recovered to pre-recession levels. Overall, 2012 was better than last year for American metro areas, with some turning the corner into positive territory. These metropolitan growth patterns are the result of a combination of national and local factors. In the short run, less wealthy metro areas are typically growing faster than their richer counterparts. Over the long run, country growth matters most to metro-level growth. But metro-specific factors such as industry specialization and educational attainment shape the growth potential of metro areas as well. As the U.S. economy is powered by metropolitan areas, so too is the global economy. This new economic reality often goes unrecognized, with economic discussions focusing on national and regional dimensions. Better understanding this reality would help national governments create the conditions needed to empower metro areas to secure future growth. Emilia Istrate is an associate fellow at the Brookings Institution Metropolitan Policy Program, and the recent lead author of *Global MetroMonitor 2012*. The views expressed are the author’s own.