

The Color Of Credit

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The subprime mortgage fiasco is sending tremors through Wall Street and has brought the U.S. economy near (if not into) recession. For African Americans and Latinos -- the primary victims of the debacle -- the mortgage meltdown may widen the considerable gap in wealth that already exists between whites and people of color. Even worse, some proposals to fix the problem of limited access to credit may end up doing more harm than good.

"We estimate the total loss of wealth for people of color to be between \$164 billion and \$213 billion for subprime loans taken during the past eight years. We believe this represents the greatest loss of wealth for people of color in modern U.S. history," the Boston-based organization United for a Fair Economy noted in its report "Foreclosed: State of the Dream 2008."

To understand how the damage goes far beyond these mortgages, one has to understand the importance of owning a home. It is the cornerstone of the American dream. For many, it is also the first step to creating wealth. As with numerous aspects of American society, there is a wealth gap in this country: According to the Census Bureau, the median net worth of a household headed by a white adult in 2004, the latest year for which data are available, was \$118,300, compared with just \$11,800 for black-headed households.

The bureau also reported that three-fourths of white households owned their homes in 2004, while less than half of black households owned theirs. A variety of factors, some economic and some based on racial discrimination, account for that ownership gap.

As a result of laws enacted to address housing discrimination, the rate of African American homeownership rose from 42.3 percent in 1994 to 49.1 percent in 2004, the highest level in U.S. history. As great an achievement as that is, a 49.1 percent rate is about where white U.S. ownership stood in 1900.

Led by former housing and urban development secretary Alphonso Jackson, the Bush administration made expanding homeownership a top priority. In fact, some critics say the administration did so while ignoring signs of an impending crisis in the subprime mortgage market.

Even at the rate African Americans were progressing before the crisis, noted the United for a Fair Economy report, it would have taken 594 years for black median household net worth to equal that of whites. Sadly, the declines in the housing market have only made things worse.

Yet some of the proposed reforms relating to credit may ultimately be counterproductive. For example, the Federal Reserve is accepting public comment until Aug. 4 on a rule that would prohibit certain fees in connection with subprime credit card lending. While one might hope that capping fees for subprime credit products would result in better credit terms for borrowers, it is more likely that many issuers will cut back on offerings or simply exit the market.

That's what happened with guaranteed student loans after Congress engaged in price-fixing last year: The student lending market evaporated. Justifiably panic-stricken parents, students and education advocates forced Congress to hastily craft corrective legislation, which President Bush signed into law last month.

Consider also the Credit Cardholders' Bill of Rights Act (HR 5244), which would require that many consumers pay -- upfront -- all fees assessed during the first year of a new account, before the card is even issued. Because an ability to pay over time makes such cards affordable for many consumers, this provision would effectively deny credit to millions of those whose rights such reforms are meant to protect.

Our government should protect every consumer -- regardless of race, religion or credit score -- from fraud and fly-by-night lenders. Policymakers should also promote a consumer credit market that helps people whose credit scores are less than stellar to bridge their way back to prime.

Lack of access to credit for those with low credit scores, or no credit whatsoever, is an important and growing problem. Credit scores, traditionally used for mortgages and auto loans, are increasingly used in determining eligibility for employment, auto insurance, apartment rentals, utility connections, and opening and maintaining checking accounts.

Like homeownership, credit is a cornerstone of wealth creation. The FDIC recently stated that "it is very difficult to build wealth without access to credit." That's an extreme understatement. It is almost impossible to build wealth in America without credit.

Dr. Martin Luther King Jr. often said that the cause of economic justice is the cause of social justice. We must continue to work together to achieve that timeless goal in lending and, more broadly, in our nation's economic sector.

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