Middle Class Prosperity Project:

Predatory Financial Practices and Economic Injustice

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Belair-Edison Neighborhoods, Inc.

Belair-Edison Neighborhoods, Inc. (BENI) is a community-based non-profit located in the Northeast Baltimore community of Belair-Edison. BENI’s mission is to foster an environment in which residents and merchants are confident to invest their time, effort, and money.BENI strives to accomplish this mission by working toward five goals: 1) a strong real estate market, 2) a strong commercial corridor, 3) a positive image for Belair-Edison inside and outside the neighborhood, 4)attractiveand accessible public spaces - main corridors, parks, and gateways, and 5) strong social ties among residents and the ability to manage day-to-day neighborhood concerns.

Our core programs include Housing Counseling, Marketing and Outreach, Community Organizing, and Small Business Development. Our work is concentrated in Belair-Edison, encompassing parts of zip codes 21213 and 21206. It consists of nearly 18,000 residents, 90% of which are African American, living in just over 6600 households. 75% of our residents are low and moderate-income: the median household income is approximately $42,000.[[1]](#footnote-1)

As a result of the continued stagnant economic conditions and its effect on communities of color, we have identified three areas – race and income, wealth inequity, and foreclosures– that each represent challenges for our target audiences and support the need for housing counseling.

***Race and Income***

In the 2010 article, Racial Segregation and the American Foreclosure Crisis, Rugh and Massey make the claim that “residential segregation created a unique niche of minority clients who were differentially marketed risky subprime loans that were in great demand for use in mortgage-backed securities that could be sold on secondary markets.” They tested this argument and conclude that “segregation was an important contributing cause of the foreclosure crisis, along with overbuilding, risky lending practices, lax regulation, and the bursting of the housing price bubble.[[2]](#footnote-2)” These claims support the Federal Reserve Board, who shows that African Americans and Hispanics - even those making greater than 120 percent of the median income -- are much more likely to be denied credit than whites**[[3]](#footnote-3)**. Moreover, a 2009 New York Times report found that blacks and Hispanics were more than twice as likely to have subprime [mortgages](http://topics.nytimes.com/your-money/loans/mortgages/index.html?inline=nyt-classifier) as white homeowners, even among borrowers with comparable incomes. These loans, which typically require little or no down payment and are meant for borrowers with low [credit scores](http://topics.nytimes.com/your-money/credit/credit-scores/index.html?inline=nyt-classifier), made homeownership possible for many black and Hispanic families during the boom years, but also led to high rates of foreclosure.[[4]](#footnote-4) This fact creates a disparity in the number of African American households that are able to seek appropriate mortgage loans to purchase homes. Our neighborhood is predominately African American, and it is imperative that this demographic receive pre and post purchase housing counseling to ensure that they are navigating through the lending system fully educated and prepared. The report also suggests that the gains for minority groups, achieved from 1995 to 2004, were disproportionately tied to relaxed lending standards and subprime [loans](http://topics.nytimes.com/your-money/loans/index.html?inline=nyt-classifier). The work of our organization helps to educate our clients on their affordability and appropriate steps to take such as paying down debt first to increase credit scores with the end result being that the clients can find lower cost mortgage financing.

Lastly, a 2007 Federal Reserve study states that “Black Americans and Hispanics, on average, "have lower credit scores than non-Hispanic whites and Asians.”**[[5]](#footnote-5)** This fact is what leads many hopeful African American families desiring the American Dream to purchase a home at a higher cost using subprime loans that most likely will lead to foreclosure. Our pre purchase work helps home seekers know their affordability and take the time needed to prepare to purchase a home before “jumping out” there ill-prepared.

***Wealth Inequality Challenge***

For most Americans, homeownership represents the primary vehicle to building wealth. An October 2009 report by Vanessa Estrada, an assistant professor of sociology at the University of California Riverside (UCR), points out that the affects of the recent foreclosure crisis has disproportionately affected minority homeowners. She goes on to state that "Inequality in homeownership is a key dimension of wealth inequality in America: not only does home equity represent the majority of most people's wealth in the United States, but disparities in homeownership are often transferred from one generation to another.”[[6]](#footnote-6) Homeownership then becomes the gateway for low to moderate income families to access wealth and opportunity. Preserving homeownership requires the ability to make sound financial decisions. Once an individual owns a home, they are preyed upon, through heavy solicitation – direct mail and telemarketing calls, and offered unnecessary credit cards and refinance options. This makes continuing the pre-purchase financial education through the first 24 months of owning a home critical in the fight to sustain homeownership. Moreover, there are a number of other wealth generating tools that many low to moderate income individuals fail to access which should complement the purchase of a home.

***Foreclosures***

As a low-to-moderate income neighborhood that has been traditionally hard hit by predatory real estate practices, the Belair-Edison community has been deeply hurt by the housing crash and economic crisis. After years of rising values, the median sales price in Belair-Edison dropped significantly in 2009 and 2010, largely as a result of the large number of distressed sales - foreclosures and short sales - that dominated the market and drove values down.

Our community continues to be impacted by the ongoing foreclosure crisis, with nearly 58% of our 2014 real estate activity consisting of foreclosures or short sales, down only slightly from 61% in 2013. In 2014 our median home sales prices continued to slowly decrease. A high foreclosure rate has tremendous negative impact in a community where home values are struggling. Aside from the impact to property values, foreclosed homes that are abandoned and/or fall into disrepair impact the appearance of the community, the morale of residents in surrounding homes, and can attract crime or even just contributing to a sense of disorder where it becomes known that certain pockets of a neighborhood where activities can go unobserved.[[7]](#footnote-7)

Please see below the characteristics of people coming to see us for default and delinquency counseling last year.[[8]](#footnote-8)

* Marital status – 30% married, 14% divorced, 9.6% separated, 39% unmarried, 4.5% widowed
* Female Head of Household: 30%
* Income – **<50% AMI**: 51%; **50-79% AMI**: 31%; **80-100% AMI**: 15%; **>100% AMI**: 3%
* Race – 90% African American, 8% white (per 2010 census, B-E is 90% African American, 8% white), 2% other

**Programs**

We know that financial education is critical to our residents achieving financial stability and sustainable homeownership. Through our homeownership counseling program work, BENI offers a full menu of services to address our community’s financial needs. We provide group and individual education on all sorts of pre purchase topics that would include understanding the lending process and working with lenders, understanding the home search process and working with realtors, and savings and budgeting. When working with persons desiring to buy a home, if it’s been determined that they are not quite ready to make a purchase, (low credit, no savings, etc…) they will receive guidance in addressing financial issues or advice on developing a budget so they can save and prepare.

We also offer post purchase sessions that would cover anything from refinancing your home loan to home maintenance and repairs. In our financial literacy classes we cover topics such as energy assistance and home improvements, banking and financial products, insurances, taxes and tax credits. We also provide foreclosure prevention counseling to folks who have run into trouble with their mortgage, advocating work out plans with servicers and mortgage companies.

We also have a separate financial literacy and well-being program, Financially Independent and Empowered (FINE) Women, that reaches more and more women each year. This year we are expanding the program to include a year-long component, FINE Academy, providing enrolled women with support and access to professional development, wellness, financial, and other resources throughout the year.

1. 2010 Census. <http://health.baltimorecity.gov/sites/default/files/3%20Belair%20Edison.pdf> Accessed 1/19/2015. [↑](#footnote-ref-1)
2. For the full article: [http://api.ning.com/files/XtfoKuOkLueYl5Y4lUmftt\*6A8l6450FmAQO84QZka0Jlw6PGxbJ-nQ34-q2En9g26F-rcD5np\*pjOSIHmOHoiLUpjMlx8E-/RughMasseyASRarticleonsegregationandforeclosure.pdf](http://api.ning.com/files/XtfoKuOkLueYl5Y4lUmftt*6A8l6450FmAQO84QZka0Jlw6PGxbJ-nQ34-q2En9g26F-rcD5np*pjOSIHmOHoiLUpjMlx8E-/RughMasseyASRarticleonsegregationandforeclosure.pdf) [↑](#footnote-ref-2)
3. The United States Conference of Mayors, [↑](#footnote-ref-3)
4. “Homeownership Losses are Greatest Among Minorities”, New York Times, John Leland, May 12, 2009 [↑](#footnote-ref-4)
5. By Kenneth Harney, Washington Post Writers Group, Last update: September 14, 2007 [↑](#footnote-ref-5)
6. [Madueña](http://www.highlandernews.org/user/index.cfm?event=displayAuthorProfile&authorid=2850552), Alex, University of California Riverside, Highlander, 10/27/2009 [↑](#footnote-ref-6)
7. Kingsley, G.; Smith, Robin; Price, David. The Impact of Foreclosures on Families and Communities. The Urban Institute, May 2009. <http://www.urban.org/uploadedpdf/411909_impact_of_forclosures.pdf> Accessed 1/20/2015 [↑](#footnote-ref-7)
8. Numbers cited are for HUD’s FY2014 fiscal year that runs October 1, 2013 through September 30, 2014. [↑](#footnote-ref-8)