

Obama Financial Reform Plan Fights for African Americans: Enforcing Common-Sense Rules of the Road for Consumers, Investors

Too many responsible African American families have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left families without adequate protections. The Obama Administration's plan will promote financial stability and protect African American families from the unfair practices that contributed to this crisis. The plan will establish a consumer financial protection agency, which will have the power to set clear rules of the road and ensure that financial firms are held to high standards.

African American Families and the Financial Crisis

In 2005 and 2006, the height of the subprime lending boom, more than 53% of loans sold to African American borrowers to purchase homes and more than 49% of refinancings by African Americans were higher priced loans. [Federal Reserve, "[Higher Priced Lending and the 2005 HMDA Data](#)" (September 2006); Federal Reserve, "[The 2006 HMDA Data](#)" (December 2007)]

African-American borrowers were over 3 times more likely to receive higher priced loans to purchase homes and over 2 times more likely to receive higher priced refinancing loans than non-Hispanic whites in 2005 and 2006. [Federal Reserve, "[Higher Priced Lending and the 2005 HMDA Data](#)" (September 2006); Federal Reserve, "[The 2006 HMDA Data](#)" (December 2007)]

Borrowers who were sold subprime loans, including African Americans, have come under severe stress during the recent financial crisis and are at high risk of foreclosure. 48.5% of outstanding subprime loans sold in 2005 and 57.2% of such loans sold in 2006 are in foreclosure or no payment has been received for 60 days or more. [McDash Online Core Database data (February 2010); Treasury analysis.]

Growth in African American homeownership is reported to have reversed. Based on an analysis of Census data, the Pew Hispanic Center reported that "[b]lack householders raised their homeownership rate from 41.9% in 1995 to 49.4% in 2004. By 2008, the black homeownership rate had decreased to 47.5%"—still significantly short of the 74.9% homeownership rate for whites in 2008. [Pew Hispanic Center, "[Through Boom and Bust: Minorities, Immigrants and Homeownership](#)," (May 12, 2009)]

African American Families Deserve Clear Rules and Strong Enforcement

About half (48%) of African American and other minority households carry a credit card balance, with a median balance of approximately \$2,000. [Federal Reserve, "[Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances](#)," (February 2009) ("SCF")]

40% of African American and other minority households have mortgages and other debt secured by residential property, such as home equity lines of credit. The median amount owed is approximately \$113,000. [SCF]

49% of African American and other minority households have installment loans, such as student loans and auto loans. The median total balance on such loans is approximately \$12,000. 36% have student and other education loans and 51% have auto and other vehicle loans. [SCF]

African American and other minority households invest in the financial markets, including for retirement. 39% of African American and other minority households have retirement accounts with a median amount of approximately \$25,000. [SCF]

16% of African American and other minority households do not have bank accounts, compared with only 4% of non-Hispanic white households. Families without bank accounts are often forced to turn to costly alternative financial services, such as check cashing, where there has been no federal supervisor to enforce fair rules of the road for consumers. [[SCF](#)]

African Americans, among other minorities, are more likely to use payday lending services. Based on analysis of the 2007 Survey of Consumer Finances, the Center for American Progress reported that “[t]hirty-eight percent of families who had borrowed a payday loan within the last year were nonwhite while just 22 percent of families who did not take out such a loan were nonwhite.” [Center for American Progress, “[Who Borrows from Payday Lenders](#),” (March 2009)]

Reform Will Benefit African Americans

Transparent and Fair Access to Financial Services

Fair markets for African Americans: One pillar of the consumer financial protection agency’s mission will be to ensure that markets for consumer financial products and services operate transparently and efficiently to facilitate access for all families, including African American families. The agency will enforce fair lending laws that protect African Americans from discriminatory lending practices. The agency will also be empowered to focus on improving disclosures and cracking down on abusive practices to make it easier for families to identify and avoid high cost, high risk products that don’t meet their needs.

Mortgages

For African Americans who want to buy a home: The piles of forms needed for a regular mortgage can be overwhelming, and many brokers have taken advantage of that confusion to give borrowers loans they didn’t need or couldn’t afford. The consumer financial protection agency will take steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The agency will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.

Check Cashing, Payday Lending, and Other Alternative Financial Services

For African American families using alternative financial services: The consumer financial protection agency will be able to establish, for the first time, robust federal supervision and oversight over larger alternative financial service companies such as check cashers and payday lenders. The agency will be able to combat abusive and predatory practices that harm consumers, helping families avoid hidden fees and keep more money in their pocketbooks.

Bank Accounts

For African Americans without bank accounts: In a survey conducted by the Federal Reserve, a significant fraction of households without bank accounts said that they did not have a checking account because they did not like dealing with banks (25%) or because the service charges were too high (12%). The consumer financial protection agency will be able to rein in practices that may drive some African Americans away from banks—including by enforcing the rule that will stop banks from enrolling customers in expensive overdraft programs without their consent. [[SCF](#)]

Credit Cards

For African Americans with credit cards: The consumer financial protection agency will enforce the new credit card law signed by President Obama that bans rate hikes on existing balances and other unfair practices. For African Americans who have used credit cards to get by when times are tight, the law will give them clarity on the interest rates they are charged.

Overdraft

For African Americans caught by unexpected overdraft fees: Many households have been automatically enrolled in expensive overdraft programs. These programs can hit consumers with costly overdraft fees for even the smallest purchases. For example, the FDIC found that the average overdraft charge for a single purchased item—like a \$2 cup of coffee—is \$30 at banks with assets over \$1 billion. The consumer financial protection agency will enforce new rules that give consumers a real choice as to whether to join expensive overdraft programs so that they are not unknowingly charged unnecessary fees. [FDIC, "[FDIC Study of Bank Overdraft Programs](#)" (November 2008) at Table IV-3]

Student Loans

For African Americans who must take out loans to go to school: For students who need to take out loans to cover the costs of higher education, the consumer financial protection agency will be able to fight unfair practices, require lenders to follow fair rules of the road and give students the information they need to make smart choices.

Financial Literacy

Empowering African Americans to make smart financial choices by promoting financial education and financial literacy: The consumer financial protection agency will promote consumer financial education and financial literacy, with a dedicated office focused on ensuring that the agency's expertise and research are used to help raise awareness, educate and empower consumers to avoid unfair practices and make smart financial choices.

Saving and Investments

During the height of the financial crisis, over the last three months of 2008, Americans lost five trillion dollars in household wealth. [Federal Reserve, "[Flow of Funds Accounts of the United States: Flows and Outstandings Second Quarter 2009](#)" (September 17, 2009), Table B.100]

Protecting African Americans' retirement security, savings and investments: In the wake of the Madoff scandal, it is clear that all investors need better protection from fraud and unscrupulous actors. The Administration's proposed legislation strengthens investor protection through the Securities and Exchange Commission (SEC) by:

- Raising the standards for brokers and investment professionals when giving advice so that they have a fiduciary duty and are required to act in the interests of investors, rather than their own;
- Requiring mutual funds to disclose costs and risk factors to investors prior to selling a product, instead of after it is purchased;
- Creating a permanent Investor Advisory Council to the SEC—so the government will hear about the needs and interests of real investors; and
- Increasing protections for those who uncover financial frauds.

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