The Subprime Mortgage Crisis: Effects on Women and Minorities

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THE SUBPRIME MORTGAGE CRISIS: EFFECTS ON WOMEN AND MINORITIES

by

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ABSTRACT

SHAKITHA PAQUITA HARDEN: The Subprime Mortgage Crisis: Effects on Women and Minorities

(Under the direction of Ken Cyree)

This paper briefly describes how the subprime mortgage crisis emerged. General observations are made concerning the effect of the crisis on the economy as a whole, but the focal point explains how women and minorities have been affected. To illustrate this point, areas of investigation include predatory and discriminatory lending. Furthermore, this document provides data illustrating the financial impact the subprime mortgage crisis has had on different minority groups compared to non-minority groups. The data that has been gathered for this paper comes from examining previous academic journals and results, researching various internet sources, and attending panel discussions held on this topic. General economic findings are inconclusive because the subprime mortgage crisis and consequently the economic recession are ongoing. However, findings show that there were instances when African Americans and Hispanics encountered discriminatory lending practices. Findings also illustrate that in some cases, the economic implications are more severe for minority groups than non-minority groups.

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Introduction

As we know it, the subprime mortgage crisis has impacted our entire nation. Hundreds of thousands of people have lost their homes and their jobs. Although the entire country is suffering, I focus on how women and minorities have been and expect to be impacted by the subprime crisis. To illustrate this point, I begin by giving a brief background of what the subprime mortgage crisis is and how it came about. The second topic I focus on is the initial economic position women and minorities were in before the crisis took place. Third, I analyze the incentives lenders had for issuing subprime loans. In this chapter, I analyze several demographics to see which groups were likely to hold more subprime loans compared to prime loans.

The fourth topic I discuss is discriminatory lending. The point is to provide proof that discriminatory lending practices are still being used in some financial institutions. Furthermore, I present one case where discriminatory lending practices are taking place so that lenders can earn more revenue and another case where lenders can avoid costly foreclosures. The fifth topic concerns the amount of wealth minority communities have lost and are expected to lose as a result of the subprime mortgage crisis. Several cases are analyzed in this chapter to demonstrate how foreclosures impact property values, the financial implications foreclosures have had on a minority community, and the loss of wealth women and minorities are expected to face.

The sixth topic focuses on women's reliance on government assistant programs before and after the subprime crisis. The next topic analyzes the economic position of women and minorities since the subprime crisis began. This chapter allows you to compare their economic positions before and after the crisis. Last but not least, I explain how homeowners are being assisted through rough economic times. I conclude by recommending the issues that should be addressed and solved in order to prevent a similar crisis from happening again. This paper provides a further explanation on how the subprime mortgage crisis is affecting our economy. But most importantly, it will bring awareness to how women and minorities are suffering.

Chapter I

Background of the Subprime Mortgage Crisis

"When house prices began to soften in 2005, the foundation under the subprime market's house of cards began to collapse" (Carr, 2008). But it was not until huge losses led to the multi-billion dollar bailout of Wall Street that the misfortunes of the subprime market rose to public prominence (Carr, 2008). Although the media had not paid much attention to the subprime mortgage market until recently, the subprime mortgage market has been around for a couple of decades. A serious increase in subprime lending, however, was not seen until the mid-1990s. An amendment to the Community Reinvestment Act (CRA) in 1995 enabled CRA loans to be securitized. The ability to securitize these loans was the primary driving force in the expansion of the subprime mortgage market. Technological innovation also contributed to the expansion of the subprime mortgage market. Such advances made it easier for lenders to determine credit scoring. In addition, lenders created new methods for using credit scoring information to determine underwriting standards and interest rates (Bernanke, 2007).

The growth of the secondary market—a market that sells securities collateralized by the value of mortgage loans—enabled mortgage lenders to provide more credit to consumers. Before securitization, banks were extremely cautious about making a loan (Carr, 2008).That was because many lenders held mortgages on their books until the loans were repaid (Bernanke, 2007). As a result, not only was the banks' own money at risk, but that of their customers was at risk as well (Carr, 2008). Now, many lenders do not hold mortgages until the loan is repaid. Regulatory changes allow lenders to sell mortgages to financial intermediaries like Bank of America or Lehman Brothers. Financial intermediaries, in turn, package the mortgages together and sell them to investors. Through securitization, lenders spread the risk more broadly, which allows them to extend more credit to consumers. In hindsight, pooling mortgages served as the framework for riskier mortgage lending because the original mortgage lender was no longer responsible when the borrower defaulted on the loan (Bernanke, 2007). However, it is important to note that securitization was not thought to be as risky when loans were sold to government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac because these GSEs initially enforced more strict underwriting guidelines than other financial institutions (Carr, 2008).

The subprime mortgage crisis has resulted in a high increase in foreclosure rates by U.S. homeowners, high default rates on adjustable rate mortgages, and a decline in housing prices. Because subprime borrowing was a major contributor to the increase in homeownership—from 65% in 1996 to 69% in 2006—subprime borrowing can be good for the economy (U.S. Census Bureau, 2009). Furthermore, subprime borrowing does not hold an applicant's credit history against them; it gives them access to credit to purchase homes. In addition, the borrower can repair his or her credit if they maintain a good payment record. Unfortunately,.many borrowers did not keep a good payment record. In actuality, they defaulted on their loans because the payment or interest rate was too high.

As more and more homeowners failed to make loan payments, borrowers and lenders were not the only ones at risk—the economy was as well. Banks were compelled to tighten credit standards, and the credit crunch expanded to other forms of consumer and business lending besides mortgages. To tighten credit more broadly meant less consumer spending and tougher times for the economy and stock market (Trumbull, Christian Science Monitor). No one knows how bad things will be for the economy or how long the recession will last. Surely, if someone said back in 2005 that the subprime mortgage crisis will lead to failing financial institutions, bailing out Fannie Mae and Freddie Mac, and losing faith in the country's financial system, you would have probably thought that the occurrence of those events was very unlikely. In reality, all of these events occurred, and they are continuing to have an effect on the economy.

Financial Crisis

At the beginning of the 2007-2008 Financial Crisis, commercial banks and investment banks suffered significant credit losses from subprime mortgage loans and write-downs. However, commercial banks were in a better position to absorb the credit losses and write-downs than investment banks because commercial banks had higher levels of capital. The flow of credit is vital to the economy because credit supports the scale of investments that maintain economic expansion (Zuckerman, World Report). At first, financial institutions were able to raise new equity capital to absorb the losses and write-downs. But later investors became unwilling to invest more equity capital as share prices and returns declined. When companies can no longer raise the needed capital to support their operations, companies are either acquired or file for bankruptcy.

Several financial institutions have left the market through acquisitions or bankruptcy. Among the first was Bear Stearns, a leading global investment bank and securities trading and brokerage firm that was sold to JPMorgan Chase in March 2008. Consumers were so shocked by this acquisition that they could not foresee the swarm of acquisitions, bankruptcies, and bailouts that would later take place. September 2008 marked the lowest of the low points during the financial crisis. Five major financial institutions failed during this month, starting with the unpredicted government takeover of mortgage giants Fannie Mae and Freddie Mac. Just as people's confidence in the markets could not get any lower, announcements were made on September 15 that Bank of America made plans to acquire Merrill Lynch, a global financial service firm. The next day, Lehman Brothers filed for Chapter 11 Bankruptcy (Joint Economic Committee Report, 2008). After a credit rating downgrade of the nation's largest insurance corporation on September 16, American International Group (AIG) received a loan of $85 billion loan from the Federal Reserve (Fed) to meet liquidity needs. AIG later borrowed an additional $37.8 billion. As part of a new arrangement, the Fed reduced the $85 billion loan to $60 billion and replaced the $37.8 billion loan with a $52 billion aid package, totaling exposure of roughly $112 billion of funds (Aversa, Northwest Indiana and Illinois Times). After being sold to Chase for $1.9 billion, Washington Mutual also filed for Chapter 11 bankruptcy on September 26. In addition, long standing investment banks, Goldman Sachs and Morgan Stanley applied to the Fed to become commercial banks (Haynes, Washington Informer).

As a result of these financial institutions failing or reorganizing, Congress received a bailout proposal from the Bush Administration aimed at preventing further failures of large Wall Street investment banking firms.

> "Ironically, the White House labeled the bailout of Wall Street as a 'Main Street Rescue Plan,' intended at protecting millions of American families and small businesses from the potentially devastating effects of a credit meltdown" (Haynes, Washington Informer).

The Emergency Economic Stabilization Act of 2008, commonly referred to as the bailout, authorized the U.S. Secretary of the Treasury to spend up to $700 billion to buy distressed mortgage-backed assets. Reports on the Bush administration's plan labeled it one of the biggest bailouts in U.S. history (Hitt, Wall Street Journal). The proposal would raise the national debt level from $10.6 trillion to $11.3 trillion (Blackwell, McClatchy). However, the national debt level is continuously expanding.

Both Democrats and Republicans had concerns about certain provisions of the bailout plan. Conservative Republicans were uneasy about the huge size of the bailout and the range of powers given to the Treasury. Democrats, on the other hand, were calling for assistance for distressed homeowners. Democrats wanted to add more provisions that would increase congressional oversight, increase aid for individual homeowners, and revise bankruptcy laws. Despite Congress' differences of opinions over the details of the bailout plan, there was a clear consensus that something had to be done (Hitt, Wall Street Journal).

On September 29, 2008, the House of Representatives voted to reject the $700 billion rescue of the financial industry—in spite of the consensus among Congress. The vote was 228 to 205, with only 140 Democrats and 65 Republicans voting in favor of the plan. By the end of the day, the Dow Jones Industrial Average (Dow) had fallen nearly

778 points. Consequently, the credit markets remained distressed. Lending rates rose, oil prices fell in fear of a global recession, and investors fled to Treasury securities and gold for safety (Herszenhorn and Hulse, New York Times).

Days later, the House voted to reverse its earlier decision to defeat the rescue plan. This time, 172 Democrats and 91 Republicans supported the package and sent the bill to the White House. President Bush signed the bill less than two hours later. Nonetheless, the credit markets still remained frozen and there were signs that the credit crisis was disturbing the global economy (Kane, Washington Post). European and Asian stock markets dropped, especially in places like Britain where major banks had problems with mortgage investments (Herszenhorn and Hulse, New York Times). Furthermore, employers were constantly shedding jobs. According to the Department of Labor, 533,000 jobs were lost in November 2008, pushing the unemployment rate to a high of 6.7%. The Bureau of Labor Statistics announced that the economy was steadily losing jobs at the fastest pace in more than three decades, making it clear that the U.S. was headed for a deep recession (Coy, Business Week).

Chapter II

Pre-crisis Observations of the Housing Market

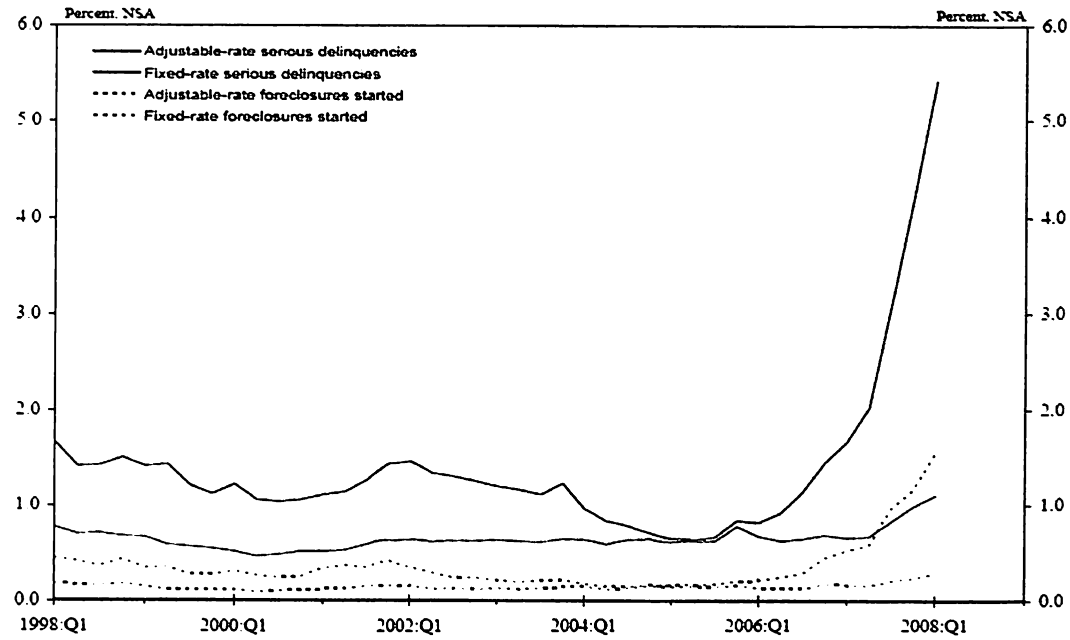
Before analyzing how the subprime mortgage crisis has affected women and minorities, it is important to understand the initial economic position women and minorities were in before the crisis took place. During the 1980s there was a boom in home prices that helped stimulate growth in the economy. Toward the end of the 1980s, the boom resulted in a sharp decline in home prices, a drop in demand for houses, and contributed to severe regional recessions in the early 1990s. Since the mid 1990s, U.S. housing prices have risen dramatically, reaching a near high in 2004. In addition, homeownership rates increased significantly, despite the 2001 recession (Case and Shiller, 2003). Table 1 shows the U.S. Homeownership rate from 2002 to 2005.

As home prices began to decline in 2005, U.S. home foreclosures began to rise. The accelerated number of U.S. home foreclosures in 2006 sparked what came to be known as the 2007-2008 Financial Crisis. Figures 1 and 2 depict the delinquency rates and foreclosure start rates of the various loan types from the first quarter in 1998 to the first quarter in 2008. As you can see, the disparity between fixed rate and adjustable rate foreclosures started for both prime and subprime mortgages has grown apart significantly since 2006.

Table 1. Homeownership Rates by Race and Ethnicity of Householder: 2002-2005 (in percent)

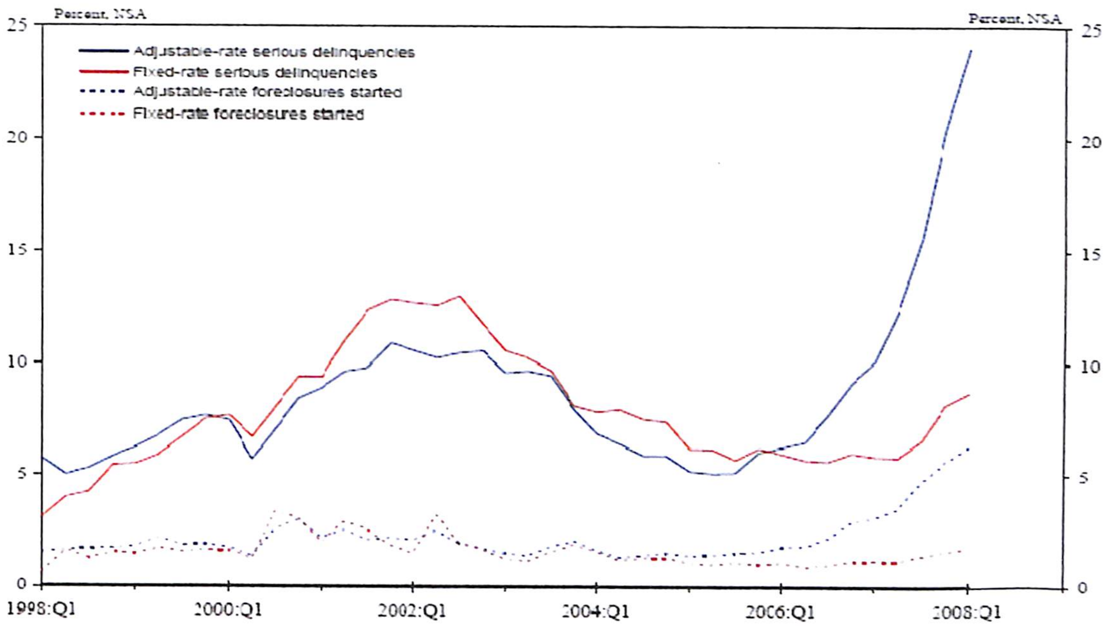
Year/Quarter	Homeownership Rates[a]				
	U.S.	Non-Hispanic White alone	Black Alone	All Other Races[c]	Hispanic (of any race)
2005					
First Quarter.........	69.1	76.0	48.8[b]	59.4	49.7
2004					
Fourth Quarter......	69.2	76.2	49.1	58.9	48.9
Third Quarter........	69.0	76.1	48.4	58.6	48.7
Second Quarter......	69.2	76.2	49.7	58.7	47.4
First Quarter.........	68.6	75.5	49.3	58.2	47.3
2003					
Fourth Quarter......	68.6	75.5	49.4	56.6[*]	47.7
Third Quarter.......	68.4	75.7	48.0	56.2[*]	46.1
Second Quarter.....	68.0	75.2	47.3	55.3[*]	46.2
First Quarter........	68.0	75.0	47.7	55.7	46.7
		Non-Hispanic White	Black	Other Races[d]	
2002[e]					
Fourth Quarter......	68.3	75.0	47.7	55.2	48.3
Third Quarter.......	68.0	74.9	47.3	54.0	47.1
Second Quarter.....	67.6	74.5	46.5	55.3	46.1
First Quarter.........	67.8	74.6	48.2	53.5	46.4

Source: U.S. Census Bureau, Census Bureau Reports on Residential Vacancies and Homeownership, 2005



Source: Mortgage Banker's association.
Notes: Foreclosures started is the percentage rate of loans for which a foreclosure was initiated. Serious delinquencies are loans 90+ days past due plus those in foreclosure.

Figure 1. Prime Mortgages Serious Delinquency and Foreclosure Start Rates 1998: Q1 to 2008:Q1



Source: Mortgage Banker's association.
Notes: Foreclosures started is the percentage rate of loans for which a foreclosure was initiated. Serious delinquencies are loans 90+ days past due plus those in foreclosure.

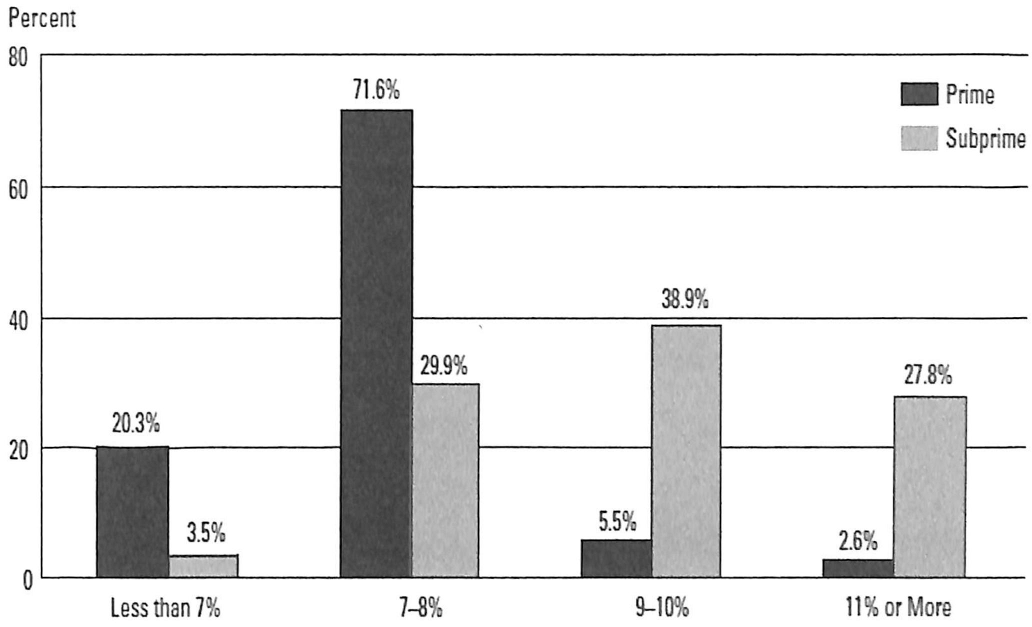
Figure 2. Subprime Mortgages Serious Delinquency and Foreclosure Start Rates 1998:Q1 to 2008:Q1

Chapter III

Lenders Incentives for Making Subprime Loans

Given the high delinquency rates of subprime loans, one might wonder "why would banks make these loans?" As noted earlier, subprime lending serves those borrowers with higher risks than what is generally acceptable for prime lending. Subprime borrowers normally have at least one of the following risky characteristics: a history of credit delinquencies and default, bankruptcies, high levels of non-real estate debt, low down payment, or a residence in an area with little stability in the labor or housing market. Because subprime loans have a high-risk customer base compared to that of prime loans, subprime loans usually feature higher costs. These costs may include higher interest rates, discount points, fees, and prepayment penalties that limit a borrower's choices for repayment. "Many subprime borrowers are paying 10% to 12%, compared to 6% to 8% on prime loans" (University of Pennsylvania, 2007). Figure 3 presents data illustrating the difference in interest rates for prime and subprime borrowers on first mortgages originated. It is important to note that the higher the cost is to the borrower, the higher the revenue is for the lender.

In addition, securitization was a primary incentive for lenders to issue subprime loans. Because securitization allowed lenders to package and sell mortgages, lenders were no longer concerned with default risk. To generate more commission, mortgage banks and brokers lowered underwriting standards with the approval of CRA auditors and



Note: Numbers may not equal 100 percent because of rounding.

Figure 3. Mortgage Rate Differences between Prime and Subprime Borrowers

community groups. With lower standards, lenders issued no down payment and no documentation loans. Lenders were more concerned with gaining commission from loan fees, which are higher from subprime loans, than the quality of the loan and/or the ability of the borrower to repay the loan (Haughey, 2008). Furthermore, "subprime loans are widely regarded as a beneficial market innovation because these higher risk borrowers might not have access to mortgage credit markets" if it were not for subprime loans (An and Bostic, 2008). From this information, we can conclude that lenders had financial incentives to make subprime loans.

If banks followed sound lending practices, nothing is wrong with making a subprime loan because both the lender and the borrower are benefiting. The problem, however, occurs when lending guidelines are not being followed; loans are being issued to borrowers when it is not in the borrower's best interest; and the sole purpose of issuing a subprime loan is to earn more revenue. When you combine these factors along with securitization and other unknown factors, subprime lending goes from being potentially good to potentially bad. The question then arises, "did financial incentives lead lenders to execute predatory lending practices?"

It is important to know that there is no formal definition of "predatory lending." However,

> " predatory loans are characterized by excessively high interest rates or fees, abusive or unnecessary provisions that do not benefit the borrower, including balloon payments, large prepayment penalties, and underwriting that ignores a borrower's repayment ability" (Carr and Kolluri, 2001.)

In general, various abusive lending practices in the subprime lending market have been labeled as "predatory lending" (Litan, 2001). A concern is whether all subprime borrowers have a risk profile that warrants the higher costs associated with such loans. There is evidence that suggests otherwise. Factors other than a borrower's risk profile have been found to influence the borrower's likelihood of receiving a subprime loan. For example, "after controlling for income, debt, and credit history, the use of subprime loan products varies significantly by race," with African Americans and Hispanics being more likely than Asians to hold a subprime loan (An and Bostic, 2008). Figure 4 illustrates this the information.

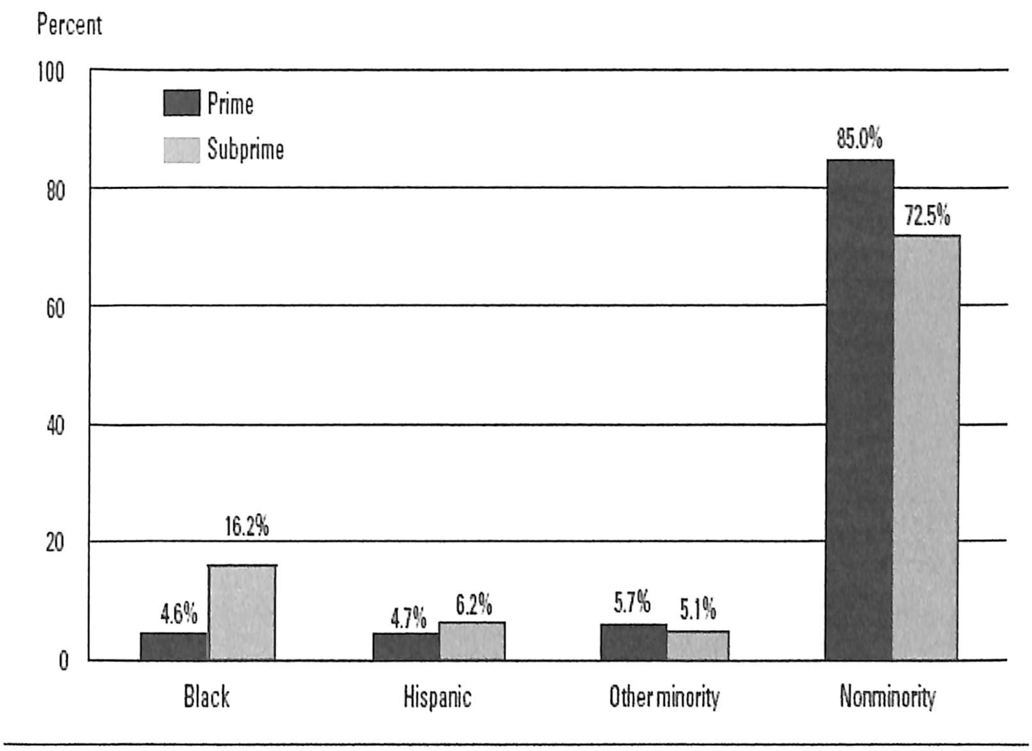


Figure 4. Race/Ethnicity of Borrower

In addition to the use of subprime loans varying by race, it is my opinion that the use of subprime loans also varies by education level, gender, and the percentage of minorities in a neighborhood. I believe that lenders press subprime loans on minorities more than whites because minorities are less knowledgeable about the mortgage process than whites. A study done by Susan Woodward of Sand Hill Econometrics found that on average, borrowers with a bachelor's degree pay $1500 less in broker fees than borrowers with only a high school education, holding other factors constant (Woodward, 2003). Another study found that subprime borrowers appear to be less educated than prime borrowers. In figure 5, you can see that 61.5% of subprime borrowers do not have a

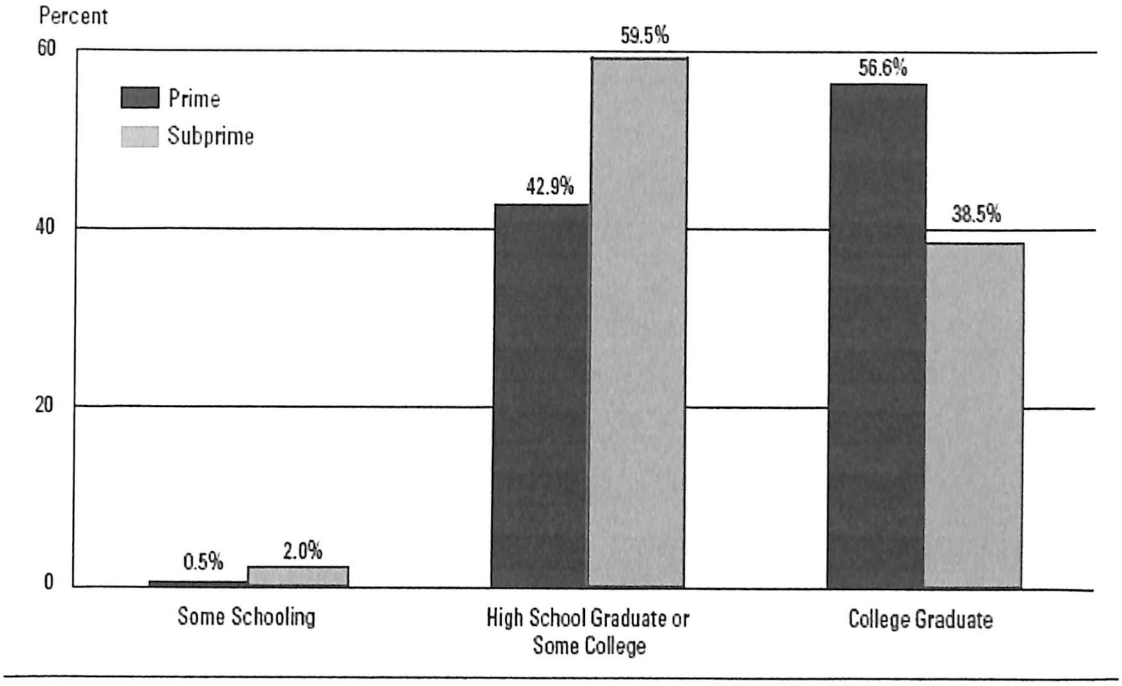


Figure 5. Prime and Subprime Borrowers' Education Level

college degree, while only 43.4% of prime borrowers do not have a college degree. The same study also found that women were less likely than men to receive a subprime loan, which makes sense because women have higher credit scores than men on average. This information can be seen in figure 6. Furthermore, research done by the U.S. Department of Urban Housing and Urban Development (HUD) and the U.S. Department of the Treasury found that subprime lending is five times more frequent in African American neighborhoods as it is in Caucasian neighborhoods. From figure 7, you can see that prime borrowers are disproportionately located in neighborhoods with low concentrations of minorities (less than 10 percent), while subprime borrowers tend to live in neighborhoods with high concentrations of minorities (more than 50 percent) (Lax, Manti, Raca, Zorn, 2004).

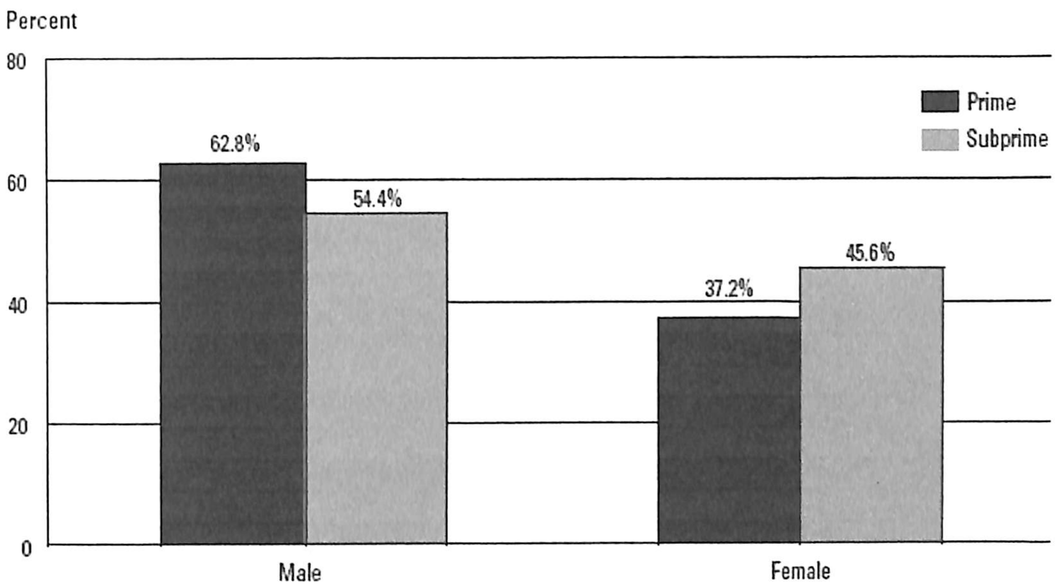
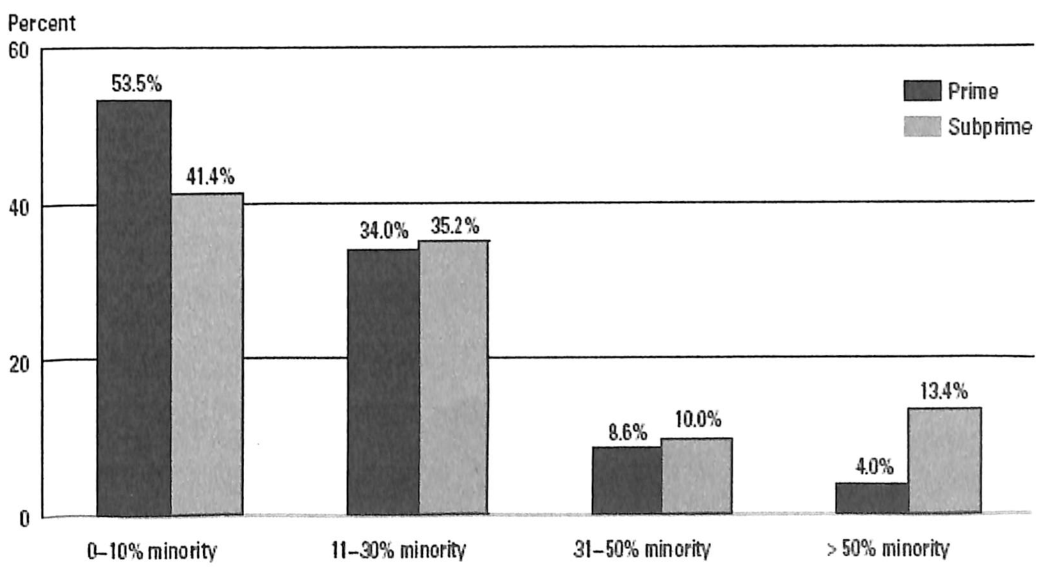


Figure 6. Prime and Subprime Borrowers' Gender



Note: Numbers may not total 100 percent because of rounding.

Figure 7. Percentage of Minorities in Neighborhood

"Although high interest rates or fees are common characteristics of predatory loans, high-cost loans are not necessarily predatory (Carr and Kolluri, 2001)". The cost of a loan is dependent upon the loan itself and the unique characteristics of the individual borrower. While one provision of a loan may be "predatory" in one situation, it may be reasonable in other situations. Despite the growing concern about the costs born to subprime borrowers, there is no way to identify what the "usual" costs should be to a subprime borrower because each loan is different. Furthermore, there is little public available data regarding loan terms such as interest rates, origination points, credit scores, and other special provisions. "Without information on loan terms by borrower and neighborhood race/ethnicity and income," it is very difficult to effectively monitor "predatory" lending patterns (Carr and Kolluri, 2001). Likewise it is difficult to determine if financial incentives lead lenders to execute predatory practices. All we know is that "although all subprime loans and lenders are not predatory, there is a broad consensus that predatory lenders primarily target subprime borrowers" (An and Bostic, 2008).

Chapter IV

Investigating Cases of Discriminatory Lending

At the beginning of the subprime mortgage crisis, mortgage lenders and brokers, borrowers, consumer advocates, government officials, and others started blaming each other for causing the crisis. Some people were more concerned with who caused the crisis than the outcome of the crisis. Now that the United States is in a recession and suffering through hard economic times, more efforts are being made to rectify the behavior that led to the subprime mortgage crisis; there are also efforts being made to lessen the effects of the recession. Still, some consumer advocates note the role discriminatory lending has had in the subprime mortgage crisis.

Discrimination is said to occur when an employee of a financial institution makes a decision about the loan application that takes into account the race or ethnicity of the applicant or the neighborhood in which the applicant is purchasing a home (Stuart, 156). For years—especially in the 1990s—arguments have been made that discriminatory lending is ongoing in some financial institutions. As a result of both the subprime mortgage crisis and the 2007-2008 Financial Crisis, lending regulations tightened. Furthermore, organizations such as HUD are investigating discriminatory claims made against financial institutions. One of the following cases argues that lenders performed discriminatory practices because minorities were charged higher fees than whites of similar qualifications. As established in the previous chapter, higher costs to the borrower are higher revenue for the lender. The information presented in this case suggests that higher fees caused lenders to perform discriminatory practices and issue more subprime loans, which likely worsened the subprime mortgage crisis. On the other hand, another case argues that lenders discriminated against minorities by refusing to lend on row houses, which are heavily concentrated in minority neighborhoods. From the previous chapter, we also found out that subprime loans are heavily concentrated in neighborhoods with high percentages of minority borrowers. This case suggests that lender's discriminated against minorities to avoid costs associated with foreclosures. No matter the reason for discrimination, these cases show that discrimination is still taking place in financial institutions.

In January 2009, New York State authorities announced a settlement with HCI Mortgage of Lake Ariel, PA and Consumer One Mortgage of Ronkonkoma, N.Y. Both companies operate more than 20 branches in the state of New York. HCI Mortgage and Consumer One Mortgage were accused of discriminating against minority borrowers by charging minorities higher fees for mortgages than similarly qualified white borrowers. The companies "agreed to pay $665,000 in restitution to 455 black and Latino customers who received loans from early 2005 through mid- 2007" (Tedeschi, New York Times). The settlement resulted from an investigation by the state attorney general's office and the New York State Department of Banking. According to a news release issued by the state of New York on January 5, 2009, HCI's Latino borrowers paid 55% more in fees than white customers with similar qualifications, and black borrowers paid about 46% more than white customers with similar financial qualifications. U.S. Capital Funding of East Islip, NY was another company accused of charging black and Latino borrowers higher fees. However, U.S Capital Funding did not agree to a settlement. As a result, the office of the New York State Attorney General filed a lawsuit seeking restitution for black and Latino borrowers (Tedeschi, New York Times).

In March 2007, the National Community Reinvestment Coalition (NCRC) filed a complaint against First Indiana Bank, N.A. a.k.a. First Indiana (Originator Times, 2007). NCRC claimed that First Indiana "discriminated on the bases of national origin and race by refusing to make loans on row houses or loans for less than $100,000 on any property" (U.S. Department of Housing and Urban Development, 2007). A row house is a multi-story urban house built in a fashion that replicates adjoining houses; it is often built by the same architect (McCown, Boston Globe). NCRC argued that First Indiana's lending practices was discriminatory against Hispanics and African Americans because row houses valued under $100,000 are heavily concentrated in Hispanic and African-American neighborhoods. To resolve these allegations, the HUD negotiated a $100,000 settlement with First Indiana (Originator Times, 2007).

Notably, the settlement with First Indiana was not the first conciliation agreement HUD has made concerning row houses. In March 2006, NCRC filed a similar complaint against Southstar Funding LLC (a subprime mortgage lender) of Atlanta, Georgia. Southstar Funding LLC refused to make loans on any row house valued under $100,000 and on all row houses in the city of Baltimore, MD, which has a majority African American population. In September 2006, the HUD announced a negotiated settlement of $500,000 with Southstar Funding LLC to resolve allegations of discrimination against Hispanics and African Americans (Originator Times, 2007). Southstar Funding LLC became inoperative in the early part of 2007 (Rauch, Atlanta Business Chronicle).

As stated before, discriminatory claims are continuing to be investigated. Although some settlements are not made until years after the claim has been filed, it is important to understand that discrimination is a serious allegation that has to be proven; the legal process which involves lawyers and gathering the proper documentation can be time consuming and costly. The HCI Mortgage settlement—and similar cases—serve as proof that discriminatory lending is ongoing and increases awareness of discriminatory practices.

Some critics argue that loose lending regulations foster an environment for discriminatory lending. "Brokers—who contact lenders and arrange mortgages on a borrower's behalf—are regulated differently than direct lenders" (Tedeschi, New York Times). For example, New York state laws do not require brokers to note the race or sex of a loan applicant. Lenders, on the other hand, are required to report data about the applicant(s) ethnicity, race, sex, and income, according to A Guide to Home Mortgage Disclosure Act (HMDA) Reporting: Getting it Right. Deputy superintendent for the New York Banking Department's consumer services division, Dianne Dixon, says that not reporting such data can forestall the detection of discrimination. Furthermore, the borrower does not know if they have been discriminated against; the applicant was approved for a loan, but they had no idea if they were charged more than someone else who has similar qualifications (Tedeschi, New York Times).

So how can borrowers safeguard themselves from such lending discrimination? First, shop around. This idea is the same as shopping around for shoes, a car, or insurance. For example, consumers want to pay the cheapest amount for insurance while having the best coverage. As a result, consumers receive quotes from a variety of insurance agencies and select the agency that best meets their needs. Second, inform each lender or broker that you are shopping around. This will inform the company that you have some idea of what your rate should average and any rate quoted too high most likely reflects fees of some sort. Third, check to see if complaints have been filed against a particular lender or broker. Consumers can often find the Department of Banking or the Department of Banking and Insurance for a particular state for the number to call in order to receive information about certain lenders or brokers (Tedeschi, New York Times).

There are government regulations such as the Equal Credit Opportunity Act (ECOA), the Fair Housing Act, and HMDA set in place to protect consumers against lending discrimination. However, lenders and brokers sometimes find loopholes around these regulations. Therefore, it is important for the consumer to take initiative to do all that they can to make sure they are not being treated unfairly. It is the ultimate hope of consumers and consumer advocate groups that more will be done to cease discriminatory lending practices in financial institutions.

Chapter V

Minority Communities Lose Wealth

The subprime mortgage crisis has resulted in a loss of wealth for the entire nation. It has also had an impact on the financial markets of other countries across the world. Now everyone is paying a price in order to get the American economy back on its feet, whether that price is stock prices declining in the European or Chinese markets or expanding the American deficit by trillions of dollars. Some areas, however, have suffered more severe financial losses than others, particularly California, Nevada, Florida, and Arizona. Large metropolitan areas like Dallas, Chicago, Detroit, Atlanta, Boston, and New York have been hit hard by the subprime mortgage crisis as well. Minority groups such as African Americans and Hispanics have also suffered a tremendous loss. The question is, "have minority groups suffered higher losses than majority groups in these areas?"

To answer this question we will first look at how mortgage foreclosures impact property values. Since the late 1960s, foreclosures of one-to-four unit homes, or single family homes, have been seen as a serious threat to neighborhood stability (Immergluck and Smith, 2006). Foreclosures negatively impact the values of nearby properties through three channels: damage, valuation, and supply (Lee, 2008). The first channel is damage. Before a foreclosure occurs, owners with delinquent mortgages usually have limited means to maintain their home, which may harm the appeal of a neighborhood (Lee, 2008). Particularly in lower-income neighborhoods, the aftermath of foreclosures can lead to vacant or abandoned properties. Vacant or abandoned properties create a haven for criminal activity and as a result discourage people from investing in those neighborhoods. The second channel is valuation. Since foreclosures can lead to such negative effects, then they can also lead to lower property values in the immediate surrounding area, especially for residential property (Immergluck and Smith, 2006). Given that foreclosures are normally sold at a discount, they can lower the valuation benchmarks used in property appraisals in nearby comparable properties (Lee, 2008). The third channel is supply. If there is a high concentration of foreclosures, a surplus in the supply of available properties is created, which can lower the values of nearby homes.

As discussed, foreclosures lead to a decrease in nearby property values within a neighborhood. But how big of a financial impact does a decrease in property values have on minority neighborhoods? To illustrate this point, we will examine the results of a 1999 Chicago case study. This study examines the loss of wealth in Chicago as a result of 1997 and 1998 foreclosures.

Chicago has had auto industry plant closures and an increasing amount of foreclosures that have taken place in recent years. While the number of foreclosures started increased in both Caucasian and minority neighborhoods, the majority of foreclosures started on conventional loans were in minority neighborhoods where at least 80 percent of the residents were not white (Rose, 2006). Figure 8 illustrates this point. A foreclosure is said to be one of the worst outcomes of a mortgage lender/borrower relationship; it is often time consuming and costly for all parties involved. On average, foreclosures within one-eighth of a mile of a single-family home in Chicago results in a

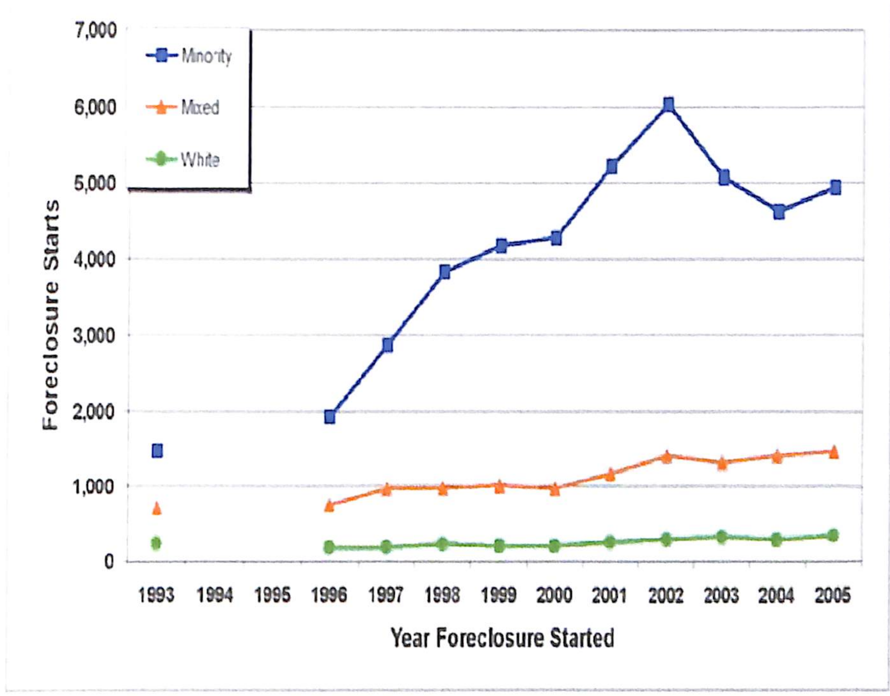


Figure 8. Trends in Foreclosures Started (Conventional Loans Only) City of Chicago

0.9 percent decline in property sales prices, holding other factors constant (Lee, 2008). "This means that for the entire city of Chicago, the 3,750 foreclosures that occurred in 1997 and 1998 were estimated to have reduced nearby property values by more than $598 million," which is an average cost of $159, 000 per foreclosure (Immergluck and Smith, 2006).

Now that we know the financial implications of a decrease in property value in a minority neighborhood as a result of foreclosures, we can further examine the financial impact the subprime mortgage crisis is having and is expected to have on minority communities. A report by the Federal Reserve Bank of Boston provides evidence of how minorities were disproportionately affected by the mortgage crisis in Massachusetts. In

2004 and 2005, an overwhelming number of African Americans used subprime mortgages to buy homes. In 2007, almost half of the "African Americans who moved out of their homes did so through foreclosure rather than a sale" (McKim, Boston Globe). Many of those foreclosure homes were multifamily properties. As a group, these multifamily properties make up 10 percent of Massachusetts' housing stock. Furthermore, these same multifamily properties made up about "half of all foreclosed housing units in Massachusetts in 2007" (McKim, Boston Globe).

Joe Krieberg, president of the Massachusetts Association of Community Development Corporations said, "the loss of wealth in the African American community is staggering (McKim, Boston Globe)". Krieberg believes it is hard to disguise the degree to which African Americans have been affected to just differences in income. He said, "It has to go back to where these lenders were marketing and who they were targeting" (McKim, Boston Globe). Among the subprime mortgage borrowers in 2005, 15 percent of African Americans and 10 percent of Hispanics lost their homes by the end of 2007, while only 6.5 percent of Caucasians lost their homes. Many African Americans bought homes from other African Americans and then lost the homes to foreclosures. This process replaced a group of relatively stable homeowners with a group of unstable homeowners. "The results prove that subprime mortgages in particular did not so much increase homeownership among minorities as it simply generated turnover among minority sellers and buyers" (McKim, Boston Globe).

"According to a 2008 report by the nonprofit policy center United for a Fair Economy, the foreclosure crisis will result in the greatest loss of wealth for people of color in recent U.S. history" (Carr, 2008). African American borrowers are estimated to lose between $71 billion and $122 billion, while Hispanic borrowers are estimated to lose between $76 billion and $129 billion. Since these numbers are estimates of potential economic impact, the accuracy is not clear. However, given the low wealth status of African Americans and Hispanics, even if these estimates are overstated, the economic damage would still be large (Carr, 2008).

Ironically, those cities and states that experienced the highest population and economic growth during the booming years of increased homeownership are the same cities and states that are experiencing the largest increase in the number of prime and subprime loans going into foreclosure. We have seen the results of a Chicago study that examined the loss of wealth due to foreclosures; we have seen evidence of how minorities were affected by the mortgage crisis in Massachusetts; and we have seen projections of the amount of loss African Americans and Hispanics are expected to face as a result of the subprime mortgage crisis. Now we will take a look at the projected gross metropolitan product (GMP) losses for the top ten metropolitan areas as a result of the subprime mortgage crisis. This information can be viewed in Table 2. The data in this table are from a report published by Global Insight, Inc. Notice that Chicago is among the top five areas predicted to experience the largest losses. The combined economic loss of these top ten areas exceeds $45 billion (Global Insight, 2007).

Over the last decade, many cities have experienced a considerable amount of growth in foreclosures, particularly occurring during recent economic downturns (Immergluck and Smith, 2006). To better understand the financial loss minority communities will face as a result of the subprime mortgage crisis, I have analyzed past,

Table 2: Metros with Larges Loss of GMP

Rank	2008	Revised Real GMP Growth, %	Loss in Real GMP Growth, %	Loss of GMP, Millions
1	New York-NorthernNew Jersey-Long Island,NY-NJ-PA	2.13	-0.65	-$10,372
2	Los Angeles-Long Beach-Santa Ana, CA	1.67	-0.95	-$8,302
3	Dallas-Fort Worth-Arlington, TX	3.26	-0.83	-$4,022
4	Washington-Arlington-Alexandria, DC-VA-MD-WV	2.79	-0.60	-$3,957
5	Chicago-Naperville-Joliet, IL-IN-WI	2.23	-0.56	-$3,906
6	San Francisco-Oakland-Fremont, CA	1.88	-1.07	-$3,607
7	Detroit-Warren-Livonia, MI	1.30	-0.97	-$3,203
8	Boston-Cambridge-Quincy, MA-NH	2.16	-0.99	-$3,022
9	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1.85	-0.63	-$2,597
10	Riverside-San Bernardino-Ontario, CA	3.51	-1.05	-$2,372

current, and projected cases illustrating this impact. It is not as important to dwell on the size of the financial loss minority communities are expected to face as it is to make efforts to help rebuild these communities and thus our economy. So what is being done to rebuild the wealth in the areas that have been hit the hardest by the subprime mortgage crisis?

We must bear in mind that there are various factors to consider when rebuilding community wealth such as income levels, employment, and economic growth. Rebuilding community wealth is based on partnerships. It involves the government working together with the individual homeowners, not-for-profit community development organizations, private foundations, banks, and corporations.

> "To transform a neighborhood, there must be comprehensive community-based planning which includes fostering individual wealth accumulation and support for the social and physical infrastructures of inner cities" (McDonough, 2001).

As you can tell, it is not easy to rebuild community wealth, especially during periods of economic downturn. To begin the rebuilding process, the economy must first be stimulated to promote economic growth. From there, growth and wealth can spread to the states, metropolitan areas and eventually the communities that are experiencing huge financial losses. Although this method is not definite, it is a starting point.

Chapter VI

Are Minority Groups Becoming More Reliant on Government Assistance?

As previously noted, our economy is facing the difficult times of a recession as a result of the subprime mortgage crisis and other related events. Hundreds of thousands of people are unemployed. People can barely afford to pay their mortgage to stay in their homes—which is a basic need. More and more four-family homeowners are seeking housing in shelters as they lose their homes. Now more than ever, people need all the help they can get. The government has made efforts to assist Americans through new legislation and different stimulus packages. But for those that already receive government assistance, needing more assistance can be a bad thing. It means people are becoming reliant on government assistance. In this chapter, I examine if the subprime mortgage crisis has led women and other minority groups to regress and become more reliant on government assistance programs compared to reliance on government assistance programs before the crisis.

I will begin by explaining how the welfare system in the United States is structured. The current welfare system operates under Temporary Assistance to Needy Families, which is known as TANF (Parez, 2002). It was created by the Personal Responsibility and Work Opportunity Act (PRWORA) that President Clinton signed in 1996, and it was reauthorized in February 2006 under the Deficit Reduction Act of 2005 (U.S. Department of Health and Human Services, 2009). TANF replaced AFDC (Aid to

Families with Dependent Children), Emergency Assistance (EA), and Job Opportunities and Basic Skills Training (JOBS) programs (Parez, 2002). Under AFDC, states lost funding whenever their caseloads fell and received more funding whenever they grew. Under TANF, each state's funding level remains constant regardless of the amount of caseloads (Washington Times, 2009). The 1996 welfare reform law ended federal entitlement to assistance and instead provides states, territories, and tribes with federal funds each year. As a result, each state has the flexibility in developing and implementing their own welfare program and providing assistance to individuals and families. Federal funds cover "benefits, administrative expenses, and services targeted to needy families" (U.S. Department of Health and Human Services, 2009). This includes but is not limited to child care assistance and food assistance. TANF's ultimate mission is to help needy families achieve self-sufficiency (U.S. Department of Health and Human Services, 2009).

After discussing the welfare system, we can observe whether the current economic crisis has made women and other minority groups more reliant on government assistance or not. The first thing to note is that welfare caseloads have decreased overall, and employment among TANF recipients has increased. However, women are more likely to receive TANF than men. A major cause for such disparities between men and women is that women on welfare mainly work low-paying jobs with little or no benefits (Parez, 2002). During the 2006 fiscal year, there were a total of 996,312 adult TANF recipients, 897,876 females and 98,436 males. That is more than 90 percent! During the 2005 fiscal year, there were a total of 1,092,018 adults receiving TANF, 979,032 females and 112, 986 males (U.S. Department of Health and Human Services, 2009). As seen in Table 3, there is not as big of a gap between the three ethnic groups as there is between

Table 3. Characteristics of TANF Recipients – Active Cases

Fiscal years 2003-2006

TANF Characteristics	2006	2005	2004	2003
Total Adults	996,312	1,092,018	1,168,539	1,248,570
Total Females	897,876	979,032	1,059,156	1,131,159
Total Males	98,436	112,986	109,383	117,398
Hispanic	19.9	19.8	19.1	20.5
Caucasian	37.9	36.3	36.7	35.1
African American	37.2	38.6	38.9	38.6

SOURCE: NATIONAL TANF DATAFILE AS OF 4/12/2007

males and females. These statistics suggest that reliance on government assistance is related to an individual's gender more than ethnicity.

Supporters of TANF say the constant number of caseloads may reflect a lag between the loss of a job and the decision to seek assistance. Despite the increasing unemployment rate and the current economic crisis, "the number of people receiving cash assistance remained at or near the lowest in more than 40 years" (Deparle, New York Times). Yet, every state expanded its food-stamp rolls in 2008. While food-stamp rolls normally grow faster than cash aid during a recession, many officials view cash aid as a form of dependency and encourage the use of food stamps (Deparle, New York Times). Every year from 2005-2008, the number of participants receiving cash assistance has declined. On the other hand, the number of food stamp participants has increased every year from 2005 to 2008—except 2007. It can be concluded that the subprime mortgage crisis has not caused women to regress and become more reliant on government assistance programs. The data that supports this argument can be seen in Tables 4 and 5.

Table 4. TANF Recipients: 2005-2008

Year	2005	2006	2007	2008
Recipients	4,548,503	4,230,082	3,960,909	3,817,041

Source: U.S. Department of Health and Human Services, Administration for Children and Families.
Note: The data is the average total number of recipients for the fiscal years.
Note: Data for October 2008 through December 2008 is omitted from average calculation.

Table 5 . Federal Food Stamp Program: 2005-2008

Year	2005	2006	2007	2008
Participants	25,717,830	26,672,294	26,468,563	28,402,010

Source: U.S. Department of Agriculture, Food and Nutrition Service, "Food and Nutrition Service, Program Data"; updated monthly.
Note: The number of person participating is reported monthly.

Chapter VII

2008 Observations of the Housing Market

After examining how the subprime mortgage crisis has affected women and minorities thus far, we can now take a look at the position women and minorities are in since the crisis began. A few years before the subprime mortgage crisis, African Americans reached a near-high homeownership rate of 49.4% in 2003. You can view this information by referring back to Table 1. When the foreclosure crisis exploded in 2006, African Americans had a homeownership rate of 48.2%, which is shown in Table 6. As of 2008, the African American homeownership rate has declined to 46.8%, which is lower than the homeownership rate before the crisis. On the other hand, the subprime mortgage and foreclosure crisis have had a different affect on Hispanics. In 2003, the Hispanic homeownership rate was at a low of 47.7 percent. Hispanics did not reach a near-high homeownership rate of 50.1% until 2007. As of 2008, the Hispanic homeownership rate has dropped down to 48.6 percent.

Table 7 provides data concerning the percentage of loans in the first quarter of 2008 on which foreclosures started. The foreclosure start rates and the percent of loans in foreclosure are among the highest since 1979. While the foreclosure start rates were up for all types of mortgages, the magnitude of the increases is driven by certain loan types. For example, prime adjustable rate mortgages (ARMs) represent fifteen percent of the total loans outstanding, but twenty-three percent of the foreclosures started. Subprime ARMs represent six percent of the loans outstanding, but thirty-nine percent of the

Table 6. Homeownership Rates by Race and Ethnicity of Householder: 2005-2008 (in percent)

Year/Quarter	Homeownership Rates[a]				
	U.S.	Non-Hispanic White alone	Black Alone[b]	All Other Races[c]	Hispanic (of any race)
2008					
Fourth Quarter.....	67.5	74.8	46.8	58.3	48.6
Third Quarter......	67.9	75.1	47.8	59.0	49.5
Second Quarter....	68.1	75.2	47.8	58.4	49.6
First Quarter.......	67.8	75.0	47.1	58.1	48.9
2007					
Fourth Quarter.....	67.8	74.9	47.7	58.6	48.5
Third Quarter......	68.2	75.3	46.7	60.1	50.1
Second Quarter.....	68.2	75.4	46.3	59.4	50.0
First Quarter........	68.4	75.3	48.0	58.6	50.1
2006					
Fourth Quarter......	68.9	76.0	48.2	60.0	49.5
Third Quarter.......	69.0	76.0	48.5	60.6	49.7
Second Quarter.....	68.7	75.9	47.2	59.3	50.0
First Quarter........	68.5	75.5	47.3	59.6	49.4
2005					
Fourth Quarter......	69.0	76.0	48.0	60.1	50.0
Third Quarter........	68.8	75.7	48.1	59.9	49.1
Second Quarter......	68.6	75.6	48.0	58.0	49.2
First Quarter.........	69.1	76.0	48.8	59.4	49.7

Source: U.S. Census Bureau, Census Bureau Reports on Residential Vacancies and Homeownership, 2008

foreclosures started (MBA, 2008). This information exemplifies the impact the subprime mortgage crisis is having on our economy. By referring back to Figures 2 and 3, you can see that the foreclosure start rates for prime ARMs and subprime ARMs have increased significantly since 2005, before the crisis began.

Table 7. The Seasonally Adjusted Delinquency Rate for Mortgage Loans on One-to-Four-Unit Residential Properties at the End of the First Quarter of 2008

Product	Percent of US Loans Outstanding	Percent of US Foreclosures Started
Prime Fixed	65%	19%
Prime ARM	15%	23%
Subprime Fixed	6%	11%
Subprime ARM	6%	39%
Federal Housing Admin.	8%	7%
Total	100%	100%

Source: Mortgage Bankers Association, Delinquencies and Foreclosures Increase in Latest MBA National Delinquency Survey

Chapter VIII

What is Being Done to Help Homeowners?

The subprime mortgage crisis has taken a toll on the American economy. The current economic environment is not improving, and the markets are reflecting this lack of confidence through declining stock prices. Many Americans wonder, "what is being done to help homeowners?" One part of President Obama's $787 billion stimulus package is the Homeowner Affordability and Stability Plan which is aimed at helping millions of families restructure or refinance their mortgages to avoid foreclosure (Home Affordability, Washington Post). A key component of the plan is affordability. Under this component, the plan will "provide access to low-cost refinancing for responsible homeowners suffering from falling home prices" (Home Affordability, Business Week). Responsible homeowners include those who fulfill their mortgage loan obligations, especially those who are still making their monthly payments. Currently, mortgage rates are at historically low levels. The low interest rates will allow families to reduce their monthly payments through refinancing. However, current rules prevents families from refinancing if they owe more than 80% of the value of their homes (Home Affordability, Washington Post).

Consequently, the Obama Administration announced a new program that will allow millions of responsible homeowners who took out conforming loans, which are guaranteed by Fannie Mae or Freddie Mac to refinance through these same two institutions (Home Affordability, Business Week). "The Housing and Economic Recovery Act of 2008 changed Fannie Mae's charter to expand the definition of a "conforming" loan (Fannie Mae, 2009). The expansion took effect in November 2008 when the announcement of the conforming loan limits was released. One of the two sets of limits provided for first mortgages was general conforming loan limits. Furthermore, the conforming loan limits apply to all conventional or "standard" mortgages that were received by Fannie Mae or Freddie Mac for mortgage backed securities issued on or after January 1, 2009. The time frame includes conventional mortgages originated before January 1, 2009 (Fannie Mae, 2009).

As you can see, some of the financial terms used to explain the Homeowner Affordability and Stability Plan can be quite complicated for the average American to understand. There are many questions that come to mind when analyzing the plan. Who can refinance? What are the stipulations for refinancing? What types of incentives are being offered to encourage homeowners' participation? How do people know if this plan will actually benefit them? Although this is good information for the general public to know, it is particularly useful to African Americans and Hispanics since they have received a disproportionate share of subprime loans.

Refinancing

So who is likely to refinance their loans? What are the stipulations, if any, for refinancing? As stated earlier, the plan allows refinancing for "responsible" homeowners. Refinancing is available for "underwater" homeowners whose loans are backed by Fannie and Freddie (Lillis, Washington Independent). Underwater means the outstanding mortgage is larger than the value of the home. In addition to underwater homeowners refinancing, the "program for loan modification would require lenders receiving help under the Troubled Asset Relief Program (TARP) to participate" (Lillis, Washington Independent). It is important to note that forcing lenders to participate raises legal questions about whether the government has the power to force lenders to renegotiate mortgage terms, especially when a lot of mortgages have been securitized (Lillis, Washington Independent). Last but definitely not least, those with small business loans issued by the Small Business Association and from other lenders will likely participate in refinancing (smbZen BizJournal, 2009).

Bankruptcy Reform

A change in bankruptcy laws is another major component of President Obama's Homeowner Affordability and Stability Plan (Carter, Huffington Post). President Obama called on Congress to pass a bill that would allow bankruptcy judges to reduce the principal and monthly payments on mortgages for borrowers in Chapter 13 bankruptcy protection. Under Chapter 13, debtors are typically required to repay debt according to a budget plan. This differs from Chapter 7 bankruptcy protection, under which the debtor's assets are sold and debt is erased (Rooney, CNNMoney.com). On March 5, 2009, the House passed the bill (Merie, Washington Post). Now federal judges have the authority to modify mortgages by reducing mortgage balances, lengthening terms, or cutting interest rates (Kopecki, Bloomberg). The passing of the bankruptcy bill is a part of President Obama's plan to help keep distressed homeowners out of foreclosure (Rooney, CNNMoney.com).

"The bank lobby has been fighting the bankruptcy law change since the foreclosure crisis began" (Carter, Huffington Post). In a release issued by the U.S.

Chamber of Commerce, one of Washington's biggest lobbying groups, attacks were made by Treasury Secretary Timothy Geithner saying, the bankruptcy policy "should have undergone a stress test to determine if it's ready to stabilize a major portion of our economy" (Carter, Huffington Post). Supporters of the bill emphasize that it will only apply to those borrowers who were already in foreclosure before the bill's enactment. Furthermore, judges could only alter mortgages for homeowners who filed for Chapter 13 bankruptcy (Rooney, CNNMoney.com). However, critics such as the American Bankers Association (ABA) strongly oppose the mortgage cram-down legislation. ABA believes the bill provides bankruptcy judges with unilateral authority to change mortgage terms (Stoner, ABA). The banking industry and many Republicans who also oppose the bill said it would destabilize home prices (Kopecki, Bloomberg).

In the month of February alone, 98,344 consumers filed for bankruptcy protection. The number of filings was up 29% from February 2008. The American Bankruptcy Institution (ABI) expects the 2009 bankruptcy filings to surpass 2008's 1.06 million filings. Samuel Gerdano, ABI's Executive Director, expects at least 1.4 million bankruptcy filings for 2009 (Rooney, CNNMoney.com).

Incentives

There are approximately six million households facing potential foreclosure. Out of that six million, the plan hopes to "enable up to 4 to 5 million responsible homeowners to refinance" (Home Affordability, Business Week). However, advocates of the plan wonder if the financial incentives are large enough to attract homeowners to participate. One component of Obama's foreclosure plan will "grant $1,000 services for each successful mortgage modification, and an additional $1,000 each year the borrower stays current under the new loan—up to three years" (Lillis, Washington Independent). The plan also offers "$1,000 per year in principal reduction for some homeowners who keep up with their mortgage payments" (Lillis, Washington Independent). However, "the benefit will expire after five years" (Lillis, Washington Independent). Advocates question if the $1,000 principal reduction will be enough to entice participation since most monthly mortgage payments exceed that amount.

Benefits

On the bright side, a decline in real estate prices can be very beneficial to some people. For first time homebuyers, falling house prices contributes to greater affordability. Plus, the government is offering a tax credit of up to $8000 for first time homebuyers purchasing a principal residence. This credit is only available from January 1, 2009 to December 1, 2009, but it does not have to be repaid (National Association, 2009). In comparison to incomes, house prices are relatively low. For those who want to purchase a home, they should wait until prices are affordable for them. Falling home prices is also beneficial for those who want to move into a bigger home because it can be less expensive (Brown, Real Estate Home Purchase). Another way falling home prices can be beneficial is through property reassessment. People can reassess their property at today's lower value, which may reduce real estate taxes. In some communities, property taxes are directly related to home values. "Property taxes are set as a given percentage of home values" (Guide to Lenders, 2009). So the value of a particular property will determine how much the homeowner pays in taxes. It is normal for property to be periodically reassessed to reflect market changes. However, some local governments might be more inclined towards property reassessment when house prices have risen rather than fallen (Guide to Lenders, 2009).

Projected Impact of Obama's Stimulus Plan

Thus far, we have established a clearer picture of who is likely to benefit from the Homeowner Affordability and Stability Plan and how homeowners are being assisted in the midst of the current economic crisis. Now we can discuss the projected impact of President Obama's $787 billion comprehensive strategy aimed at getting the economy back on track. After being sworn into office on January 20, 2009, Obama "made his top priority the passage of the stimulus plan" (Bohan, News Daily). The signing of the bill—historically the most expensive—marked a victory for Obama and Democratic allies in Congress. "But Republicans, most of whom refused to support the stimulus plan," label it as "fiscally irresponsible" (Bohan, News Daily). President Obama understands how important the success of this plan is for America. He said the American people "expect to see the money they worked so hard to earn spent in its intended purpose without waste, inefficiency, or fraud" (Bohan, News Daily). Consequently, Obama has vowed strict oversight of the $787 billion stimulus plan.

The stimulus plan is targeted to create infrastructure projects, to provide tax cuts, to rid of wasteful uses of money, and to create spending that will support "social safety net programs like unemployment insurance" (Bohan, News Daily). Furthermore, the stimulus plan provides funding that will promote energy efficiency, restore research and development aid, increase education, and provide federal money to states for Medicaid (Herszenhorn, New York Times). The projected impact of the stimulus plan is to create jobs, place the economy on a solid foundation in the long term, and expand mass transit and broadband networks (Bohan, News Daily). Another important projection is that the Congressional Budget Office believes up to 74% of the money will be spent by September 30, 2010; earlier versions of the House bill projected 64% (Herszenhorn, New York Times). Despite the good intentions and projected impact of the stimulus plan, no one knows the outcome. But one thing is for sure, future generations will be the ones to pay the costs for such a large bill.

Conclusion

The subprime mortgage crisis started off as a problem for the housing market. This problem later affected other sectors of the economy, such as the financial markets, through a credit crisis. The subprime mortgage crisis is a main reason for our economy experiencing a recession. What might have began as a problem for the U.S. housing markets has now spilled over to affect global markets.

Although the entire nation is facing hardships, women and minorities are facing or likely will face greater hardships. Women and minorities are experiencing huge financial losses in their communities. They are bearing the brunt of increasing levels in the unemployment rates, and they are being victimized by discriminatory lending. What is worse is that the efforts they have made over the past few decades to improve their overall livelihood is degenerating.

As Congress implements methods to resolve the subprime mortgage crisis, it is important to provide a plan that will be beneficial to *all* in the long run. Creating legislation that addresses the short term problems only masks the real issue. If the heart of the problem is not addressed, we could wind up in a similar crisis ten years down the road. The main issues that should be addressed are eliminating discriminatory lending; providing more programs that increase knowledge about homeownership; creating solid legislation that does not have to be amended later; and paying more attention to the needs of women and minorities. If more actions can be done to address these problems, our nation can once again be a leading, prosperous country. If these problems are not addressed, our nation risks being exposed to a similar crisis.

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