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The Great Recession: ‘Reparations’ gone bad

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January 17, 2020

Lending standards became so lax that virtually anyone who could fog up a mirror got a home. Then along came the recession, and a lot of people lost homes that they would not have bought in the first place.

Some of the Democratic candidates for president support studying reparations to blacks to compensate for slavery.

But in many ways, America has made reparations to blacks. What are race-based preferences if not a form of compensation for historical wrongs? Many cities have “set-aside” programs that award government contracts to minority contractors. President Lyndon Johnson pushed his Great Society programs to “end poverty and racial injustice.”

But few think of the federal government’s housing policy, particularly the Community Reinvestment Act, or the CRA, as a form of reparations. But that is exactly what it was and still is. In many ways, the so-called Great Recession of the late 2000s was a product of affirmative action and a form of reparations gone bad. Really bad.

In 1999, almost a decade before the Great Recession, the libertarian Cato Institute issued a warning about the CRA, which President Jimmy Carter signed in 1977. The CRA was based on the assumption that racist lenders denied mortgages to credit-worthy would-be borrowers, particularly minority applicants. The act initially merely sought data on banking practices to encourage lenders to practice fairness in granting mortgages.

But President Bill Clinton, in 1995, added teeth to the CRA. Economists Stephen Moore and Lawrence Kudlow explained: “Under Clinton’s Housing and Urban Development (HUD) secretary, Andrew Cuomo, Community Reinvestment Act regulators gave banks higher ratings for home loans made in ‘credit-deprived’ areas. Banks were effectively rewarded for throwing out sound underwriting standards and writing loans to those who were at high risk of defaulting. If banks didn’t comply with these rules, regulators reined in their ability to expand lending and deposits.

“These new HUD rules lowered down payments from the traditional 20 percent to 3 percent by 1995 and zero down-payments by 2000. What’s more, in the Clinton push to issue home loans to lower income borrowers, Fannie Mae and Freddie Mac made a common practice to virtually end credit documentation, low credit scores were disregarded, and income and job history was also thrown aside. The phrase ‘subprime’ became commonplace. What an understatement.”

But is it true that banks were discriminating against minority borrowers?

CATO, in 1999, said despite widespread accusations and lawsuits alleging discriminatory lending, the facts show otherwise. CATO said: “Researchers using the best available data find very little discernible home-mortgage lending discrimination based on area, race, sex or ethnic origin. ...

“Other well-structured studies also found no evidence of redlining or unwarranted geographic discrimination. Thus, the claim that lenders redlined or were biased in making loans for the purchase of homes in central cities is not supported. Nor did the studies find that financial institutions discriminated against actual or potential borrowers on the basis of the racial or ethnic composition of neighborhoods.”

What caused this narrative that racist banks refused would-be minority borrowers?

Enter lawyers like then private citizen and attorney Barack Obama. In 1995, Obama, representing 186 blacks, filed a class action mortgage discrimination lawsuit against Citibank. The case was settled, and his clients got mortgages. But, according to the Daily Caller in 2012, just 19 of Obamas 186 clients still had their homes. About half had gone bankrupt and/or had their homes in foreclosure.

Incredibly, at least two of his former clients now believe banks should be *prevented* from lending to people who otherwise cannot afford their homes. One client said: “If you see some people don’t make enough money to afford the mortgage, why should you give them a loan? There should be some type of regulation against giving people loans they can’t afford.”

Lending standards became so lax that virtually anyone who could fog up a mirror got a home. Then along came the recession, and a lot of people lost homes that they would not have bought in the first place but for lax lending standards. The result? According to the Federal Reserve, from 2010 to 2013, white household median net worth -- a household’s assets minus its liabilities -- increased 2.4%. But black net worth fell from $16,600 to $11,000, a four-year drop of 34%. As another of Obama’s former clients put it, ”(Banks) were too eager to lend money to many who didn’t qualify.”

In 1999, the Cato policy paper on the CRA made the following recommendation: “The Clinton administration wants an even stricter CRA. But more than two decades of its operation suggest that repealing rather than tightening the act would be the economically and socially responsible thing to do.”

Too bad nobody listened.