LISC

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Foreclosure Rates Comparable Across Incomes

LISC Analysis Shows Crisis Not Driven by Low-Income Communities

NEW YORK (October 29, 2008)—The rate at which mortgage borrowers find themselves in default is not primarily related to whether they are poor or prosperous. It is tied to the type of mortgage products they were sold, according to recent loan performance data analyzed by Local Initiatives Support Corporation (LISC).

"Delinquency and foreclosure rates for subprime borrowers were comparable across communities of all income levels," explained Michael Rubinger, LISC president and CEO. "This reinforces what years of experience have already told us: Low-income residents are not, by definition, poor credit risks. Unsuitable mortgage products are," he said.

LISC studied delinquency and foreclosure rates from McDash Analytics, an independent firm supplying data to such institutions as the University of North Carolina. Looking at information from March 2007—before the current crisis—and March 2008, it found default rates for all loan types rose significantly over that 12-month period, with subprime foreclosures vastly outstripping prime defaults. But among subprime borrowers, LISC also found that income level had little correlation to foreclosure rates. Subprime borrowers in more prosperous communities defaulted at nearly the same rate by March 2008 as those in impoverished areas.

"Affluence did not insulate borrowers from the impact of inappropriate loans," Rubinger noted. Moreover, only one-third of subprime mortgage loans were made in communities with high rates of poverty, according to the data. "It is difficult to point to low-income communities and the homeowners who live there as the foundation for this crisis when most of the loans driving it were made in other places," Rubinger said.

The indicators are particularly important as the country considers the value of the Community Reinvestment Act (CRA), which for three decades has required banks to lend to creditworthy borrowers and invest in the places where they take deposits, including low- and moderate-income communities. CRA has helped underpin widespread community revitalization across the country, but it has come under fire in recent weeks as critics cite it as a cause of the global economic meltdown.

"This crisis has not been driven by efforts to help qualified families of more limited means become homeowners," Rubinger said. "It instead reflects the decisions some financial institutions made to maximize gains at the expense of sensible risk management. The numbers bear this out. This is about lending practices, not about poor people and communities."

About LISC

LISC combines corporate, government and philanthropic resources to help community-based organizations revitalize underserved neighborhoods. Since 1980, LISC has raised nearly $9 billion to build or rehabilitate more than 230,000 affordable homes and develop 32 million square feet of retail, community and educational space nationwide. For more information, visit www.lisc.org.