

Editor's Introduction

Kristopher M. Rengert

Fannie Mae Foundation

The past decade has seen revolutionary progress in mortgage lending in the United States. Homeownership rates grew from 64 percent in 1994 to 68.3 percent in 2003. Over this same period, homeownership rates for blacks and Hispanics grew from 42.3 percent to 48.1 percent and from 41.2 percent to 46.7 percent, respectively (U.S. Bureau of the Census 2004). The growth of automated underwriting, mortgage lending securitization, and other technological advances introduced efficiencies to the lending process to help fuel these homeownership advances. Historically low interest rates for much of this period dramatically reduced costs on the borrower side. Increased regulation of lender activities—through public policy and through such legislation as the Community Reinvestment Act—as well as increased outreach by many lenders to underserved borrower groups and neighborhoods further drove advances in homeownership rates both overall and among lower-income and minority groups.

Dramatic increases in subprime lending also fueled homeownership advances over this period. Subprime lending allowed millions of families with damaged or nontraditional credit histories, poorly documented work histories, or other characteristics with negative impact on their credit-risk profiles to become homeowners during the past decade.

Unfortunately, there were also negative developments within the subprime market from a subset of unscrupulous lenders and service providers, made possible by market failures in the larger mortgage market. Some borrowers who would have qualified for prime credit have been steered into the subprime market, and a broad array of predatory lending practices has been developed. These mortgage market failures, their manifestations in predatory lending practices and patterns, and their impacts on specific borrowers and borrower

groups are the subjects of this special issue of *Housing Policy Debate*.

Much of the existing research and writing about predatory lending to date remains at a relatively superficial level. Anecdotal descriptions of predatory lending are probably the most common form of writing. Actual analysis is frequently confined to investigations of data on subprime lending (generally Home Mortgage Disclosure Act data), from which likely patterns of predatory lending are extrapolated. The dearth of publicly available data for investigating predatory lending has weakened the discourse between advocates seeking reform of the lending industry to stem predatory lending and policy makers and others with the ability to put these reforms in place.

This special issue of *Housing Policy Debate*, titled “Market Failures and Predatory Lending,” emerges from conversations initiated at a conference of the same name held in Chicago in 2003. The articles included in this issue further the discussion about predatory lending and its place within the subprime marketplace. In particular, this issue moves beyond the label of “predatory lenders” to examine the array of participants in the mortgage lending process and how each relates to predatory lending. This issue also introduces a number of new data sources and analyses to add to our knowledge about the distribution, characteristics, and effects of predatory lending and the impacts of public policy efforts to confront it.

We thank the guest editors, Patricia A. McCoy and Elvin K. Wyly, for all their work over the past year to bring this issue together. The mix of perspectives and methodologies brought together here adds new depth to our understanding of predatory lending. We also owe a debt of gratitude to Odette Williamson of the National Consumer Law Center, who helped to organize the Chicago conference in conjunction with the Woodstock Institute and who played an important role in the early planning of this special issue.

The strong gains in homeownership over the past decade, particularly among minority households, are worth celebrating. At the same time, the persistent gaps between minority and white homeownership levels and the uncertainty as to how recent homeownership gains will stand in less prosperous times suggest the continued need to innovate, educate, and regulate.

New tools and strategies are needed to facilitate access to homeownership for households able to carry the burden of homeownership but for which existing loan products are inaccessible or do not work. Education remains essential to increase the knowledge of both lenders and borrowers. Market failure will decrease as more lenders realize the very real market opportunities available in underserved communities through legitimate lending practices and as borrowers become more attuned to the full range of lending options available from multiple lenders. And more effective regulation is

necessary to remove opportunities and incentives for unscrupulous and predatory lenders and service providers currently targeting vulnerable households and communities.

The articles in this issue prompt us to think harder about the current environment in which predatory lending exists and to think through ways of reducing its incidence and effects. The contributions of the individual article authors significantly further our understanding of how predatory lending works and how it is embedded within the larger subprime market; the additional questions the authors raise should fuel the research agenda for investigators in the predatory lending arena as we continue to move forward.

Authors

Kristopher M. Rengert is managing editor of *Housing Policy Debate* and managing director of Housing Policy Research at the Fannie Mae Foundation.

Reference

U.S. Bureau of the Census. 2004. *Housing Vacancies and Homeownership, Annual Statistics*. World Wide Web page <<http://www.census.gov/hhes/www/housing/hvs/annual03/ann03t20.html>> (accessed September 21, 2004).