Why the CFPB Matters to Communities of Color

The continued existence of an independent and effective CFPB is especially important to communities of color. That's true for a very simple (as well as tragic) reason: those communities have consistently been targeted by bankers and lenders for their most expensive, deceptive and failure-prone products.

The mortgage story is widely known. All else (income, credit record etc.) being equal, families of color were disproportionately likely to receive high-interest high fee subprime mortgages in the bubble years, and therefore disproportionately at risk of losing their homes and/or much of their household wealth. As multiple studies have shown, a great many African-American and Latino homeowners were steered away from safer, lower-interest loans by brokers and sales agents who, on top of their usual commissions, got bonuses for jacking up the interest rate. That's just one of the deceptive practices now barred by the new mortgage rules that the CFPB issued, after years of inaction by traditional bank regulators.

See, among many other sources:

- Negative Equity in Communities of Color in the Chicago Six County Region (Woodstock Institute)
- A Shattered Foundation: African Americans Who Bought Homes in Prince Georges Have Seen Their Wealth Vanish (Washington Post)

There is a parallel story to be told about auto loans, where, once again, the CFPB is playing a key role in trying to set things right. In December 2013, for example, the Bureau and the Department of Justice announced a settlement with Ally Financial over discriminatory markups. They found that the average African-American car buyer receiving an Ally loan paid more than $300 in additional interest over the course of the loan above the amount paid by white borrowers with similar qualifications. Ally was ordered to pay $80 million in damages to African-American, Hispanic, and Asian and Pacific Islander borrowers in addition to $18 million in penalties.

Such problems help explain the precipitous losses in household wealth suffered by African American and Latinos over the past decade, leading to record-high gaps between the household wealth of non-Hispanic whites ($113,149) and that of blacks ($5,677) and Hispanics ($6,325) post-crisis.

See:

- Cost of the Crisis (AFR)
- Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics (Pew)

The CFPB is the first and only federal financial regulator with a mandate to put fairness, transparency and the safety of consumers and borrowers ahead of the mercenary interests of banks and financial companies. In that capacity, the Bureau has taken steps toward issuing rules that could bring an end to payday and other high-cost, debt-trap trap consumer loans –

potentially a breakthrough for low-income communities and communities of color. The agency has also gone after many of the tricks and traps that turn up often in loans and credit products pitched to those communities.