

African Americans Deserve a Strong Consumer Bureau to Protect them from Unfair Financial Practices

Too many African Americans have paid the price for an outdated regulatory system that has left our financial system vulnerable to collapse and our families without adequate protections. In the summer of 2010, Congress passed and President Obama signed the Wall Street Reform and Consumer Protection Act to rein in excessive risk on Wall Street and preserve economic opportunity on Main Street. This comprehensive financial reform, which put in place the strongest consumer financial protections in history, included the creation of a new, dedicated Consumer Financial Protection Bureau (CFPB).

The CFPB has one mission: to make the market for consumer financial products and services work for American consumers, responsible providers, and the economy as a whole. The Bureau seeks to promote transparency and consumer choice while preventing unfair, deceptive, abusive, and discriminatory practices. It uses a wide range of tools—from rule writing and enforcement to financial education and empowerment—to achieve these goals and protect consumers from the harmful practices that contributed to the financial crisis.

African Americans and the Financial Crisis

- **In 2005 and 2006, during the height of the subprime lending boom, more than 53 percent of loans made to African American borrowers to purchase homes and more than 49 percent of refinancing loans by African Americans were higher priced loans.** [Federal Reserve, "[Higher Priced Lending and the 2005 HMDA Data](#)" (September 2006); Federal Reserve, "[The 2006 HMDA Data](#)" (December 2007)]
- **African American borrowers were over three times more likely than all other borrowers to receive higher priced loans to purchase homes and over two times more likely to receive higher priced refinancing loans than non-Hispanic whites in 2005 and 2006.** [Federal Reserve, "[Higher Priced Lending and the 2005 HMDA Data](#)" (September 2006); Federal Reserve, "[The 2006 HMDA Data](#)" (December 2007)]
- **Borrowers who have subprime loans, including a high proportion of African Americans, have come under severe stress during the recent financial crisis and are at high risk of foreclosure.** Forty-eight percent of outstanding subprime loans made in 2005 and 57.2 percent of such loans made in 2006 are in foreclosure or have not received payment in 60 days or more. [McDash Online Core Database data (February 2010); Treasury analysis.]
- **Growth in African American homeownership is reported to have reversed.** According to Census data, the homeownership rate of African American households rose from 42.3 percent in 1994 to 49.1 percent in 2004. By 2010, the African American homeownership rate had decreased to 45.4 percent— still significantly short of the 71 percent homeownership rate for whites in 2010.

African American Families Deserve Clear Rules and Strong Enforcement

Credit Cards

- **About half (48 percent) of African American and other minority households carry a credit card balance, with a median balance of approximately \$2,000.** [Federal Reserve, "[Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances](#)," (February 2009) ("SCF")]

Mortgages

- **Forty percent of African American and other minority households have mortgages and other debt secured by residential property, such as home equity lines of credit.** The median amount owed is approximately \$113,000. [[SCF](#)]

Student Loans

- **Thirty-six percent of African Americans have student and other education loans.** [[SCF](#)]

Bank Accounts

- **Many African American households have been automatically enrolled in expensive overdraft programs** that can hit consumers with costly overdraft fees for even the smallest purchases. For example, the FDIC found that the average overdraft charge for a single purchased item—like a \$2 cup of coffee—is \$30 at banks with assets over \$1 billion. [FDIC, "[FDIC Study of Bank Overdraft Programs](#)" (November 2008) at Table IV-3]

Payday Loans

- **African Americans, among other minorities, are more likely to use payday lending services.** Based on analysis of the 2007 Survey of Consumer Finances, the Center for American Progress reported that "thirty-eight percent of families who had borrowed a payday loan within the last year were nonwhite while just 22 percent of families who did not take out such a loan were nonwhite." [Center for American Progress, "[Who Borrows from Payday Lenders](#)," (March 2009)]

How the Consumer Financial Protection Bureau Benefits African Americans

- **Fair markets for African Americans:** One pillar of the CFPB's mission is to ensure that markets for consumer financial products and services operate transparently and efficiently to facilitate access for all families, including African American families. The CFPB will enforce fair lending laws that protect African Americans from discriminatory lending practices. The CFPB is empowered to focus on improving disclosures and cracking down on abusive practices to make it easier for families to identify and avoid high cost, high risk products that don't meet their needs.
- **For African Americans who want to buy a home:** The CFPB is taking steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The CFPB will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market, and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.
- **For African American families using alternative financial services:** The CFPB will establish robust federal supervision and oversight over payday lenders and larger participants in other financial service markets, such as check cashers. The CFPB will combat abusive practices that harm consumers, helping young people avoid hidden fees and keep more money in their wallets.
- **For African Americans with credit cards:** The CFPB will prevent evasion of the Credit CARD Act of 2009, which bans arbitrary rate hikes on existing balances and other unfair practices. The law will give clarity on the interest rates being charged to African Americans who have used credit cards to get by when times are tight.
- **For African Americans caught by unexpected overdraft fees:** The CFPB will prevent evasion of rules that give consumers a real choice as to whether to join expensive debit overdraft programs so that they are not unknowingly charged unnecessary fees.
- **For African Americans who need to take out loans to cover the costs of higher education:** The CFPB will be able to supervise private student lenders, fight unfair lending practices, and require lenders to follow fair rules of the road and give students the information they need to make smart choices.
- **Empowering African Americans to make smart financial choices by promoting financial literacy and financial capability:** The CFPB promotes consumer financial literacy and capability with a dedicated office focused on ensuring that the CFPB's expertise and research are used to help raise awareness, educate and empower consumers to avoid unfair practices, and make the best financial choices for themselves.