



WASHINGTON BUREAU · NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE
1156 15TH STREET, NW SUITE 915 · WASHINGTON, DC 20005 · P (202) 463-2940 · F (202) 463-2953
E-MAIL: WASHINGTONBUREAU@NAACPNET.ORG · WEB ADDRESS WWW.NAACP.ORG

**TESTIMONY OF HILARY O. SHELTON,
DIRECTOR, NAACP WASHINGTON BUREAU &
SENIOR VICE PRESIDENT FOR ADVOCACY AND POLICY
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE**

on

“PERSPECTIVES ON THE CONSUMER FINANCIAL PROTECTION AGENCY”

September 30, 2009

Thank you, Mr. Chairman, Ranking Member Bachus and members of the Committee on Financial Services for inviting me here today. I appreciate the opportunity to share with you the views of the NAACP on the creation of a Consumer Financial Protection Agency, or CFPA. I would also like to begin by thanking you, Chairman Frank, for all you have done and continue to do to help low- and middle-income Americans, as well as racial and ethnic minority Americans attain financial security. In fact, NAACP members from across the Nation who were fortunate enough to hear your presentation at our annual convention in New York earlier this year are still talking about the new agency and its promise for our communities.

More than one hundred years old, the NAACP today is our Nation's oldest, largest and most widely recognized grassroots civil rights organization. We currently have more than 2,200 units in every state in the country, as well as in Italy, Germany, Korea and Japan.

The NAACP is very supportive of the creation of a strong and effective Consumer Financial Protection Agency with the protection of civil rights and a directive that it seek out and work to eliminate discrimination as a core part of its mandate. We need clear and concise rules, clearly and vigorously enforced, if we are to promote economic security and growth throughout our Nation. For too long, racial and ethnic minorities, the elderly and others have been targeted by unscrupulous lenders and underserved by traditional financial institutions. The result of this lack of standard rules and strict enforcement of the rules that we do have has been the financial stagnation, and in too many cases, the economic ruin, of entire communities.

Our current system of consumer protection fails to protect Americans of all races and backgrounds from the most basic exploitation and abuses that can cost individuals and families hundreds of thousands of dollars, and even their homes. Current laws and enforcement allow a range of institutions to escape supervision because responsibility

for consumer protection is fragmented across too many regulators. Too many finance companies are not regulated at all at the Federal level.

When they have been engaged, too many regulators have spent too much time in recent years asking “What’s the effect on the financial firm?” without asking “What’s the effect on consumers?” As a result, among other problems, regulators permitted inappropriate mortgages and abusive credit card practices. And the result of these misplaced priorities, as we have seen, has been an almost complete collapse of not only our Nation’s economy, but the near ruination of the global financial system as well.

In the recent crisis, many of the people who were targeted by unscrupulous lenders lost their savings, their financial security, and in too many cases their homes. Sadly, many of the worst abusers consistently targeted low-income families, racial and ethnic minorities, women and the elderly.

Examples of the financial abusers targeting racial and ethnic minorities abound, and can be found throughout the mortgage arena, where predatory lenders consistently targeted African Americans and others. This was also done in credit card abuses and in payday lending, just to name a few.

For example, in the American mortgage market predatory lenders have, for decades, targeted African American borrowers and other racial and ethnic minorities as well as the elderly with their nefarious products. A study by the Center for Responsible Lending demonstrated that for most types of subprime home loans, African American and Latino borrowers are more than 30% more likely to have higher fees and interest rate loans than Caucasian borrowers, even after accounting for differences in risk¹. In fact, United for a Fair Economy estimates that people of color are 2 to 5 times more likely to receive a predatory loan than white borrowers.² Put in other terms, sub-prime mortgage originators have flooded minority communities with high-cost, unsustainable loans that were made to consumers without regard to their ability to repay or the value of the property. From 2000 to 2007, communities of color lost between \$164 and \$213 billion,³ and the numbers keep rising as the foreclosure crisis worsens. Fannie Mae and Freddie Mac estimate that up to half of the borrowers who received subprime loans should have qualified for “prime-rate” conventional loans, had mortgage lenders exercised proper business sense.⁴

This is not a new trend. As far back as 2000, a study by the U.S. Department of Housing and Urban Development clearly demonstrated that many people of color could qualify for more affordable loans than they were receiving⁵. In 1996, a study by Fannie

¹ Center for Responsible Lending. May 31, 2006. “*Unfair Lending: The effect of Race and Ethnicity on the Price of Subprime Mortgages*” Debbie Gruenstein Bocian, Keith Ernst and Wei Li.

² “The Silent Depression: State of the Dream 2009,” United for a Fair Economy, 2009.

³ “Foreclosed: State of the Dream 2008,” United for a Fair Economy, 2008.

⁴ See the Center for Responsible Lending’s *Fact Sheet on Predatory Mortgage Lending* at <http://www.responsiblelending.org/pdfs/2b003-mortgage2005.pdf>, and *The Impending Rate Shock: A Study of Home Mortgages in 130 American Cities*, ACORN, August 15, 2006, available at www.acorn.org.

⁵ *Unequal Burden: Income and Racial Disparities in Subprime Lending in America* (Washington, DC: HUD, 2000).

Mae and Freddie Mac reported that as many as a third of the families who receive subprime loans actually qualify for prime loans⁶.

Sadly, mortgage lenders are not the only ones who target racial and ethnic minority communities with their wealth-stripping products. In the credit card market, one report showed that 15% of African-American and 13% of Latino card users have cards with interest rates over 20%, compared to only 7% of White card users – many of whom are responding to credit card solicitations with preset terms and conditions. Our communities were also hard hit by the exploitative ploys of some credit card companies which would hike interest rates and charge excessive fees, often without any advance notice and sometimes without the knowledge of the credit cardholder.

And payday lenders are notorious for setting up their shops, and charging incredibly exploitative rates, in abundance in African American communities. To paraphrase Julian Bond, the Chairman of our National Board of Directors, payday lenders are as common in African American communities as Starbucks Stores are in middle class communities that are predominantly White.

It is because of these targeted abuses that the NAACP strongly supports the creation of a strong Consumer Financial Protection Agency. As envisioned, the CFPA would provide the government with the tools necessary to help consumers navigate and be treated fairly by what is often a confusing and potentially ruinous environment; it would support if not require regulators to become more protective of consumers; and it would make civil rights protections more of a key element in the regulation and oversight of financial services.

It is also because of the systemic discriminatory and abusive lending practices and the resulting wealth-stripping, ruinous effects, that we feel very strongly that the newly created Consumer Financial Protection Agency must be given the mandate as well as the power to seek to prevent and remedy illegal discrimination. We were pleased to see and are supportive of the provisions in the latest draft of the CFPA legislation that creates an Office of Fair Lending and Equal Opportunity, and makes the fight against discrimination based on race or ethnic background part of the mandate of the new agency. These provisions will go a long way toward putting some teeth into the laws that are already on the books and to protecting consumers, all consumers, as they attempt to navigate our Nation's financial services.

One area that the NAACP would like to see the current CFPA proposal strengthened is that we would like to see regulation of the Community Reinvestment Act, the CRA, fall under the CFPA's jurisdiction. We need to renew, reinvigorate, modernize and expand CRA, and I appreciate the comments of the Chairman last week when he said that he, too, is serious about updating this important law. I would suggest that perhaps in the

⁶ Freddie Mac. September 1996. *Automated Underwriting: Making Mortgages Lending Simpler and Fairer for America's Families*. Washington DC

course of reauthorizing CRA, this committee consider putting authority for this important law under a newly created and robust CFPB. In order to fully address the needs of local communities, many of which are represented by the NAACP, the CFPB should be able to review and enforce lending laws at that level.

Mr. Chairman, members, as I have said all along, the NAACP strongly supports the creation of a robust CFPB and appreciates all the work that has gone into including civil rights protections in the draft that we are currently discussing. It is our belief that a strong CFPB will go a long way toward addressing the very real needs of enforcement and regulation in the financial services arena. However, let me make it clear that we have no illusions that this new agency will fully address all of the needs and shortcomings that continue to plague our communities, and indeed our Nation.

We still need strong laws to address many of the problems that allow unscrupulous lenders to target low- and moderate-income Americans, as well as racial and ethnic minority Americans and the elderly at all levels of the economic scale. Specifically, the NAACP will continue to fight for aggressive anti-predatory lending laws, as well as curbs on abusive payday loans and real assistance for homeowners facing foreclosure.

In that vein, I look forward to continuing to work with you, Mr. Chairman, as well as all of the other members of this committee to enact strong legislation to help all Americans gain the American dream of economic security.

Thank you again for inviting me here today and I stand ready to take any or your questions.