

# Americans for Financial Reform

## Accountability, Fairness, Security

### Civil Rights Compliance

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#### **Discriminatory Lending Was a Major Cause of the Current Crisis**

Systemic discriminatory lending practices and residential segregation were major causes of the current financial crisis. The United States has never sufficiently addressed the problems and challenges of lending discrimination and redlining practices, one vestige of which is a two-tiered financial system that forces minority and low-income borrowers to pay more for financial services, receive less value for their money, and face exposure to greater risk. African-American and Latino borrowers continue to pay more for credit than Caucasian borrowers with similar credit scores and credit characteristics. Racial minorities receive a disproportionately high number of subprime, higher cost, and non-traditional mortgages and, as a result, are disproportionately losing their homes to foreclosure. It is projected that African-Americans and Latinos will lose at least \$213 billion dollars as a result of the current economic downturn. These disparities are broadening the unfair and unsound wealth gap between majority and minority populations.

The current financial regulatory system fails to ensure adequate compliance with civil rights statutes or to establish a fair financial services system that serves all consumers. Agencies that oversee the financial system lack sufficient authority and accountability for enforcing fair lending laws. Further, the broad lack of oversight in the financial markets has spurred inequities by permitting market players to seek out under-regulated areas in which to target under-served populations with unfair and abusive products and practices.

#### **Proposed Solution**

Each regulatory and enforcement agency must prioritize civil rights compliance and the elimination of the current unequal, two-tiered financial system. Each program and function of the agencies must be assessed for compliance with civil rights statutes, and regulators must ensure that regulated entities have clear guidance on how to comply with civil rights statutes and regulations. They also must enhance their oversight and enforcement of civil rights compliance.

The President should re-implement the Fair Housing Council established by Executive Order 12,892, comprising the heads of relevant federal regulatory and enforcement agencies, which is tasked with ensuring that every federal program operates in compliance with the letter and spirit of the nation's civil rights statutes. The Executive Order mandates that each federal agency, the Department of Justice and the Federal Trade Commission, work to "affirmatively further fair housing" in accordance with the Fair Housing Act.

Each agency should develop a senior position, with appropriate staff and resources, charged with ensuring compliance with civil rights statutes and working toward the broader goal of creating an equitable and fair financial system. The civil rights officer should not only assess the agencies' programs and functions to guarantee that the agencies themselves are in compliance with civil rights statutes, but also ensure compliance by market participants and hold them accountable for noncompliance.

Agencies also must be fully transparent and accountable to the public on measures of civil rights compliance and enforcement. This includes reporting not only on their own actions but also those of market participants. In particular, the agencies must disclose any noncompliance that they identify, whether in the agencies or the private sector.

Additionally, civil rights compliance and goals must never be waived, even in the event of a crisis. While it is imperative that agencies be nimble and take quick and decisive action in the face of a crisis, their actions should not come at the expense of ensuring a fair and equitable marketplace.

Effective civil rights protections are a critical component of financial regulatory reform. They increase fairness and equity for all consumers, and they diminish the financial system's instability.

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A large set of organizations are working together to advance our common interest in an accountable, transparent and secure financial system, and to accomplish our shared policy goals. Because the organizations involved and the issues addressed are diverse, not every organization works on or has a policy position on every specific issue. We are unanimous in our call for change to repair our nation's broken financial system, establish integrity in the financial markets, and facilitate productive economic activity that benefits all segments of our communities.