The Untold Costs of Subprime Lending: The Impacts of Foreclosure on Communities of Color in California

Empirical analysis of the impacts of foreclosure on families and communities has been limited by the lack of data that combines information on borrowers (e.g., race and income) with information on loan performance (e.g., delinquency and foreclosure). In this research paper, I link Home Mortgage Disclosure Act data with proprietary data on loan performance to assess the impact foreclosures have had on individuals and communities of color in California. The analysis demonstrates that the subprime lending boom in 2004 and 2005 had profound effects on the demographic composition of neighborhoods in California, as an unprecedented wave of new Latino and African American homeowners sought out the American Dream. Yet, the paper also shows that differential access to mortgage products, the subsequent foreclosure crisis, and its negative spillover effects have had a disproportionate negative impact on communities of color, not only in older, inner city neighborhoods but also in the new, suburban neighborhoods of the Central Valley.

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Carolina joined the Community Affairs Department in March of 2005, where she conducts community development research and policy analysis, with a special focus on asset building and housing issues. Carolina earned her PhD in 2004 from the University of Washington, Seattle. Her dissertation focused on the benefits of homeownership for low-income and minority families, using quantitative longitudinal analysis and interviews to assess the impacts of homeownership on a family’s financial well-being over time. Before joining the Fed, Carolina was based in Penang, Malaysia, for three years with the Millennium Ecosystem Assessment, spearheading an international initiative to incorporate community knowledge, values, and priorities into international environmental agreements. Other work experience includes policy research and program evaluation at the Environmental Health and Social Policy Center in Seattle, where she worked on issues of public housing and welfare reform, and at World Resources Institute, where she focused on issues of urban environmental health and environmental justice.

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