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When Aretha Franklin sang RESPECT in 1968 it not only electrified crowds with the beat and vocal, but became an anthem for the civil rights movement for the improvement of human relations. And that message is still relevant.

The housing crisis effect has been felt across the globe from the small town in Finland that bought mortgage securities and now has lost its money, to Washington DC, to Wallstreet to main street and backstreet. Cleveland's foreclosure crisis and housing problems have been well documented by the New York Times Cover Story in March. While the effect is almost everywhere, it is important to note that minority neighborhoods in Cleveland and other cities often have the greatest severity of foreclosures.

The mortgage/housing crisis has affected almost everyone. The majority of subprime and Alt A loans went to moderate and upper income white borrowers. Yet it is the African American borrowers that have disproportionately borne the burden of subprime mortgage lending practices and the impact the foreclosures. The result is a staggering loss of generational wealth and decline in minority homeownership rates.

Every advocacy, research and regulatory body has documented the disparity trends of high cost loans in lending by race, income and geography. The connection between subprime lending and higher foreclosures has been recognized since 2000 when HUD reported the racial disparity in both lending and foreclosures in Atlanta, Chicago and other cities. The Ohio Reinvestment

Coalition in 2002 released a report showing declining employment, but increasing foreclosures correlated with subprime lending primarily in minority neighborhoods. In Durham, regardless of income, African American households received high cost loans more than 4 to 1 than whites. In 2008, 78% of foreclosed homes had an African American occupant. This is double the representation of African American homeowners in the Durham population.

The role of race and its consequences in lending disparities and foreclosures is illustrated by the The New York Times June 7th article. In it, WellsFargo employees describe policies and incentives that targeted African Americans and neighborhoods for subprime loans. The language reportedly used by bank employees in targeting these loans is offensive and shows a basic lack of respect for others. The resulting devastation of the foreclosure crisis in the African American neighborhoods has led the City of Baltimore to be the lead plaintiff against Wells Fargo alleging fair lending violations.

The article is troubling for me in not only the actions by Wells Fargo, but that the lawsuit is coming from a local municipality. Not the federal regulatory agencies that have jurisdiction over Wells Fargo. The concerns of racial disparity in lending by financial institutions and their consequences have been well documented for nine years. But I have not seen a response by federal regulators for enforcement of civil rights laws within the context of subprime mortgage lending.

I give this one example of many of what went wrong with our financial system. As evidenced by the global credit crisis and the impact on communities - in laymen's terms the system is broke. There is a need for principled reforms of mortgage industry and regulators both.

The issues we faced as a society in 1968 are different and have changed, but they also bear some striking similarities. The Kerner Report following the urban riots of 1967, recognized that civil rights, housing and community development were interrelated. That is still true today as evidenced by the central city neighborhoods facing significant foreclosures and abandoned homes caused by discriminatory/predatory lending. So what is old is new. Aretha Franklin still has a message for us in RESPECT.

Solutions

Financial regulatory reform is imperative, yet we have a difficult time getting our hands around key aspects because of the complexity and enormity of the challenge and because of the relatively small number of decision makers. Let me offer a set of principles to guide financial reform, new housing goals and policy recommendations for next steps.

The Woodstock Institute, California Reinvestment Coalition, NEDAP and CRA-NC developed the principles that are in your packet to help inform and guide our position on regulatory reform. The key idea is that reform is needed for both financial institutions and regulators and that any particular policy recommendation should meet these principles. In summary:

Responsibility: Financial institutions must offer products and services that are appropriate and suitable to the needs and abilities of the consumers.

Accountability: Financial institutions must refrain from, and be held accountable for, offering harmful products and services and engaging in practices that harm individuals and communities.

Transparency: Regulators must demand transparency from regulated institutions and be transparent about their role in regulating financial institutions. No more black boxes of regulators that undermine accountability to the public.

Avoid conflicts of interest: Financial institutions must avoid all conflicts of interest with other financial players and regulators, that undermine integrity and independence of decisions, such as banks paying security rating agencies to evaluate the risk in their bonds.

Avoid systemic risk: Policymakers and regulators must implement changes in their oversight policies based on the reality that financial institutions that are "too big to fail" are too big to exist.

Equal access: Regulators must monitor whether all persons and communities have equal access to mainstream financial products and services and hold financial institutions accountable by vigorously enforcing nondiscrimination laws and rules.

American for Fairness in Lending and Real Bank Reform has principles. Developing principles among like minded people is hard, but I recommend it to your workshop discussion, because we can't agree on policy if core principles are not agreed on. What changes would you make to these principles? What are your guiding principles for reform?

Housing Goals

Once we have principles, we need goals. I recommend these top three.

1) Keep the credit markets liquid for building, buying and selling of homes and apartments. Love them or hate them, the GSEs contributed to the housing and credit crisis, but now as instruments of the federal government, they have the infrastructure and resources to help keep markets liquid and to implement national foreclosure mitigation strategies. There is not the intellectual or political capital to reform their current structure until a later date.

2) Manage and mitigate the de-leveraging of assets and foreclosure crisis. We are not halfway through the projected 10 million foreclosures and I fear we collectively again lack the imagination to see the scale of impact on communities and the economy. We need to increase loss mitigation strategies and to pass a judicial loan modification bill to help distribute the losses among the borrower, the lender and the taxpayer on a case by case basis.

3) Help rebuild communities that are distressed from disinvestment and the foreclosure and housing mess. We need to invest in local community responses from land banking to homeownership to rental conversion strategies. We have to save local communities for the nation to succeed.

What are your top three goals?

Next Step Policy Recommendations

a) FHA is not operationally able to oversee the jump from 3% of the market share in 2007 to 30% this year and will replicate foreclosure problems causing harm to borrowers, neighborhoods and taxpayers. Invest in modernizing FHA operations.

b) The loan modification program is not large enough to help borrowers who are either behind in the payment or current but far below water. Pass legislation to allow judicial loan modification to manage the process of de-leveraging our real estate assets.

c) In the haste to move REOs off their balance sheets, the opportunity for local solutions will be lost. The GSEs and FHA as instruments of the federal government should develop proactive programs to assist with local redevelopment strategies in distressed areas.

d) I am concerned that loan modifications may have racial bias in the selection, terms and conditions. Ensure fair treatment by loan servicers.

e) I am concerned about the impact of foreclosures on neighborhoods and inadequate funding to address the consequences. In Durham we had $12 million of NSP requests and received $2 million. Increase funding for the Neighborhood Stabilization Program and encourage lenders and regulators to use the program as a solution for community revitalization and inventory reduction.

Conclusion

I don't believe that there will be a major restructuring of the financial system or regulatory framework. I believe that the problem can be resolved in reforms of the current system, but which must be based in a shift of principles that are common sense and serve the public interest. During this period of reform, I hope most fervently that we can affirmatively promote fair housing and fair lending as we rebuild our communities and reform our institutions.

Thank you.