

# A DIFFERENT KIND OF HOME SECURITY

Community financial institutions can help take the edge off the credit crisis.



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**WHILE ITS INFLUENCE HAS TOUCHED THE WORLD, THE** financial crisis created by subprime mortgage lending has its roots firmly planted in the U.S. Because the crisis serves as a warning to other countries, America's efforts to respond to it may provide useful guidance. ¶ In last month's column, I looked at the massive wave of foreclosures in the U.S. and the broken system of home ownership that made this crisis possible and even inevitable. This month, I'd like to highlight some of what's being

done to help homeowners minimize its devastating effects.

Governments, employers and community development financial institutions (CDFIs) have all taken action in different ways. In the U.S., governments have acted on local and national levels. A bill to help borrowers at risk of foreclosure refinance their mortgages gained broad support in Congress, although it was delayed by controversy over whether and how to rescue the major mortgage lenders Fannie Mae and Freddie Mac. A program launched by the city of Philadelphia, Pennsylvania, seeks to prevent foreclosures by requiring officials to negotiate with lenders to restructure loans and allow borrowers to keep their homes. In Baltimore, Maryland, the Belair-Edison Neighborhood Initiative reaches out to homeowners with high-interest or adjustable-rate mortgages (ARMs), providing free counseling and access to more affordable alternatives.

A few U.S. firms have also addressed the problem. As the *Wall Street Journal* reported last summer, "A handful of companies—from small manufacturers to large companies like home-financing behemoth Fannie Mae—are offering assistance, such as interest-free loans, grants and support in securing rental



properties. They're also beefing up their employee-assistance programs, or EAPs, and adding more educational seminars on personal finance."

And CDFIs like those my company invests in through our bond fund and money market account play a big role. Community development is often neglected in social investing, but recent events underline its importance.

ShoreBank, one of the biggest and oldest CDFIs in the U.S., developed its Rescue Loan Program in response to foreclosures in Chicago, Illinois, and elsewhere. Bank executives found that about 10,000 homeowners in its priority neighborhoods would qualify to replace their ARMs with 30-year fixed-rate mortgages. Among them were the Villareal family, who saved their house on Chicago's West side. As Rudy Villareal said, "I tell everyone about ShoreBank. I just couldn't disappoint my son. He was so excited about having our own home."

Self-Help Credit Union, another CDFI, works with a non-profit organization called the Center for Responsible Lending. The Center has concentrated efforts on legislative change, testifying in Congress to allow judges to revise the terms of some loans, holding Wall Street companies responsible for buying predatory loans and barring products such as "option" ARMs. (These mortgages, sold with low teaser rates that can expire after a single day, can generate negative amortization: The amount of the loan increases as the borrower makes payments.)

While pushing for tighter regulations, the Center argues state laws protecting consumers should be left in place, since states have more flexibility to address local conditions and respond to the tactics of predatory lenders.

This economic crisis will take time and work to get through. Addressing even one aspect requires the efforts of many institutions. Community development banks and credit unions, with their roots in the communities hardest hit by foreclosure, are uniquely positioned to help soften the blow.

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