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Disparities Found in Sub-Prime Lending

Data Show African Americans, Hispanics Pay More to Borrow for Home, Refinance

By KIRSTIN DOWNEY
Washington Post Staff Writer

About 29 percent of African Americans who bought or refinanced homes last year ended up with high-cost loans, compared with only about 10 percent of white Americans, according to an a consumer advocacy group's analysis of new data from 15 large national lenders.

About 15 percent of Hispanics received such loans offered to borrowers with damaged credit, known as sub-prime loans, according to the analysis conducted by the National Community Reinvestment Coalition, which represents 640 nonprofit organizations.

"The good news is that access to credit is more available in the home mortgage market, but the bad news is that it is being offered in a disproportionately unfair way," said John Taylor, the coalition's president and chief executive.

Lender groups do not dispute that there are disparities based on race and sex, but say borrowers pay higher rates if they pose a higher credit risk for any one of a variety of reasons, such as low income, poor neighborhood, bad credit history or low down payment.

The new numbers are available because federal banking regulatory agencies for the first time have begun requiring home-mortgage lenders to provide information about higher-than-average loan rates, data that can be correlated with the race and sex of borrowers. Lenders were required to report the information if a borrower paid at least 3 percentage points more than the rate for Treasury securities of similar loan duration. Federal regulators will not release the aggregate data until September, but have required the lenders to provide the information institution by institution upon request.

The information is required under the Home Mortgage Disclosure Act, enacted in 1975 to track patterns of mortgage lending when many minorities and women were routinely denied loans of any kind. The new requirements are part of a 2002 amendment.

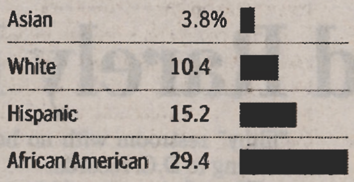
Advocacy groups such as the National Community Reinvestment Coalition have contended that minorities and women pay disproportionately more for credit. They have been eager to mine the new data that have become available. The coalition obtained the data from 15 large lenders, including Ameriquest, Bank of America, Countrywide, Citigroup, HFC, HSBC, J.P. Morgan Chase, National City, Sun Trust, US Bank and Wachovia. The coalition's analysis includes reviews of 4.6 million prime loans and 649,000 sub-prime conventional loans.

The coalition says its analysis corroborates its long-held belief that lenders discriminate. Lenders say the new information does not provide a complete picture of the loan-making process. They say borrowers who have poor credit, bad records for paying bills on time, or live in troubled neighborhoods with high foreclosure rates and falling home values are riskier customers than people with good credit who live in neighborhoods where real estate values are rising. Lenders have to charge more money to compensate for the higher risk, they say.

Minority Lending

New data show a higher percentage of Hispanics and African Americans receiving sub-prime mortgages, compared with whites.

Percentage of single-family conventional mortgage loans that are sub-prime, 2004



SOURCE: National Community Reinvestment Coalition

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Such risk is generally measured by credit scores. In the past, lenders have opposed efforts to add credit scores to the federally required data, saying the obligation would pose an additional regulatory burden and potentially invade the privacy of borrowers.

"We really don't believe, if all the data were looked at, that our companies discriminate," said Anne C. Canfield, executive director of the Consumer Mortgage Coalition, an industry trade group. "We think there are other issues. But if discrimination exists, we are committed to eliminating it. It's not good for us, for consumers or for communities. It's abhorrent."

Susan M. Wachter, a professor of real estate with the Wharton School at the University of Pennsylvania, said the coalition's national analysis of loan terms by race and sex closely tracks what other, more limited studies have found. The results are "very consistent," she said.

Higher interest rates have steep costs for consumers. A home buyer who gets a $100,000 30-year fixed-rate mortgage at 6 percent pays about $600 a month to repay principal and interest. At 9 percent, the buyer pays about $800, and at 13 percent, which some sub-prime borrowers pay, the monthly cost is about $1,100.

Lenders have created types of loans "that respond to risk and create risk," Wachter said at a Federal Reserve conference on consumer lending issues held in Washington last week, at which several academics presented studies on the connection between high interest rates, foreclosure and crime.

At the conference, Federal Reserve Chairman Alan Greenspan defended the higher interest rates paid by some consumers as a positive development because those people at least are receiving loans.

"Where once-marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately," he said in a speech. "These improvements have led to rapid growth in sub-prime mortgage lending. Indeed, sub-prime mortgages account for roughly 10 percent of the number of mortgages outstanding, up from just 1 or 2 percent in the early 1990s."