Blacks face lending disparity

Mortgages *from 1A*

Each foreclosure also damages a neighborhood.

Experts, studies and the Observer's analysis point to three reasons why blacks get fewer market-rate loans:

■ Discrimination can occur throughout the lending process.

■ Blacks on average have less wealth and more credit problems.

■ And blacks on average are less knowledgeable about the home-buying process.

Lenders say they don't consider race in lending decisions. They also say the availability of loans to blacks, even at high rates, constitutes progress.

"Twenty years ago we were talking about redlining, that people weren't getting loans," said Paul Leonard of the Financial Services Roundtable in Washington, which represents large financial corporations. "Now we're having a legitimate discussion about whether people are getting the right price."

Critics, however, say the industry is simply discriminating in a new way.

"Now what we have is reverse redlining," said Mal Maynard, director of the Financial Protection Law Center in Wilmington, which studies lending patterns. Lenders are targeting black neighborhoods for the sale of high-rate loans, he said.

U.S. Rep. Mel Watt, D-N.C., a member of the House Committee on Financial Services, said he was not surprised by the Observer's findings, but he was disappointed. "There is a need for subprime lending," he said. "What there is not a need for is racist lending."

Federal studies of the lending industry, and federal lawsuits, have repeatedly focused on evidence of discrimination in the lending process.

In 2003, to mark the 35th anniversary of the Fair Housing Act that made discrimination in lending illegal, President Bush pledged $50 million to fight ongoing abuses. He cited a 2002 study by the Department of Housing and Urban Development that showed minorities get less information, less assistance and less favorable terms from mortgage lenders.

"Prejudice and discriminatory practices in housing still exist in America," Bush said. "These practices are wrong."

'Preparing for the storm'

Since 1989, the federal government has required lenders to report the race of borrowers under the Home Mortgage Disclosure Act (HMDA).

Now for the first time, the Federal Reserve Board is requiring lenders to disclose which loans carry a high rate. The Fed plans to release national data next month.

The board wants to see "if, in fact, differences in rates are truly driven by differences in risks and costs and not tainted by discrimination," Chairman Alan Greenspan told a bankers convention in March.

The lending industry is braced for the release.

A June meeting in Washington included a session called, "Preparing for the Storm."

The Consumer Bankers Association's "Fair Lending Conference" in November has scheduled topics including "Modifying your fair lending program after HMDA" and, how to deal with customer complaints:

"Once the HMDA data is released, customers are going to be calling regarding the rates they have received," the program says. "How can your institution prepare for the deluge?"

'Trust me' isn't enough

In advance of the report, the Observer analyzed data obtained from 25 of the nation's largest lenders, including Charlotte's Bank of America Corp. and Wachovia Corp. Those 25 lenders make about half the home purchase loans in America – about 2 million in 2004.

Fewer than 1 in 10 borrowers got a high rate. In 2004, interest rates of about 8 percent and higher were considered high rates under a federal standard.

Lenders charged a high rate to 27 percent of black borrowers, 14 percent of Hispanic borrowers and 6 percent of whites.

The pattern of disparities was similar in the Charlotte metropolitan area and across the Carolinas.

A borrower's income did not explain the disparities, the Observer's study showed.

■ Blacks got high-rate loans much more often than whites with similar and smaller incomes.

■ The gaps increased with income. Among lower-income families, blacks received high-rate loans 3.3 times more often than whites. Among higher-income families, blacks received high rates 4.8 times more often.

■ Higher-income blacks living in white communities got high rates much more often than their white neighbors.

Income, while important, is only one factor in determining interest rates. Also critical is the down payment and the customer's history of repaying loans, summarized by a credit score.

Of those factors, the government requires lenders to release only income. Providing credit scores would allow the public to better evaluate how race affects loan pricing. But lenders contacted by the Observer refused to reveal either credit scores or down payment information.

It's about customer privacy, lenders said. While borrowers are not identified in the HMDA data, lenders say it might be possible to link people to their credit scores through the use of other public records.

Ameriquest, New Century and other lenders say they conduct internal reviews to ensure race is not a factor. Rates are based on the risk a borrower won't repay a loan, they say. Higher rates are fair compensation for greater risk, they say. The loans make home ownership possible for people who can't get bank loans.

The disparity between blacks and whites "probably points to a societal issue that shouldn't surprise anyone," said Joe Belew, president of the Arlington, Va.-based Consumer Bankers Association.

Given the importance of home ownership, however, and the industry's history of discrimination, critics say industry assurances are not enough.

"It's basically a 'Trust me' response," said Keith Ernst of the Durham-based Center for Responsible Lending. "When you see disparities like the kind you've identified here, the public deserves a more forthright answer than 'Trust me.' "

The obstacles for blacks

Choosing the right mortgage loan is complicated.

Borrowers must pick from options including adjustable interest rates, interest-only payments and making no down payment. Even the most educated borrowers struggle.

Small things, such as saving a little more for a down payment or paying a few debts to improve a credit score, can make a big difference in the interest rate a borrower receives.

As many as 6 in 10 borrowers from high-rate lenders were close to qualifying for a lower rate, industry statistics show. Studies show half of those could have qualified for a lower rate immediately.

Blacks on average are less familiar with the steps borrowers must take to secure the lowest rates, according to Fannie Mae's 2003 national housing survey.

Most grew up in families that rented.

If blacks need more guidance, studies suggest they get less: Real estate agents may offer less advice; brokers may recommend more expensive loans (See Box, Page 12A).

African Americans also face outright rejection. Last year, the nation's 10 largest banking companies denied 8 percent of white applications and 21 percent of black applications.

As a result, some blacks never ask a bank about a loan, said Louise Mack, who runs Prosperity Unlimited, a community development group in Kannapolis.

"People just feel like a bank is going to turn them down," said Mack. "You see this house and you want it right away, so you just go to whoever you think will give you the money."

Often that means going to an independent mortgage broker who specializes in high-rate loans. These brokers sell two-thirds of high-rate loans. Their offices and advertisements are common in lower-income neighborhoods.

Brokers, who can help to guide borrowers through a complex process, play a large role in determining prices. They match borrowers with loans, drawing on offers from multiple lenders, for a fee paid by the borrower.

Brokers are not required to give customers the lowest possible rate. Often, they can make more money by increasing the interest rate. And they are paid a percentage of the loan amount, so they make more money if they convince a customer to take a larger loan.

The Department of Housing and Urban Development estimated in 2002 that brokers overcharged customers by about $3 billion a year.

Higher default risk

High-rate lenders let borrowers use more of their income for loan payments – typically up to 55 percent for all debts. That can allow people to buy larger homes but leaves them more exposed if they experience financial setbacks.

High-rate borrowers default far more often, industry statistics show. They stop making monthly payments, and the house is taken by the lender.

These foreclosures decrease the value of surrounding properties by thousands of dollars and increase crime, according to a study of Chicago foreclosures released in May by the non-profit Homeownership Preservation Foundation.

High-rate lenders say those defaults validate their pricing model, and that some defaults are the price of extending home ownership to people who can't get loans from banks.

After stagnating for 30 years, home ownership rates climbed toward 70 percent over the last decade – 76 percent of white households and 49.7 percent of black households in 2004.

"If you have zero defaults, you're letting too many people that would otherwise be helped go away," said Jay Brinkmann, vice president of research and economics for the Washington-based Mortgage Bankers Association.

Community advocates say the concentration of defaults in minority neighborhoods hurts the places high-rate lenders say they are seeking to lift up.

Advocates hope the federal government's release of national pricing data next month will pressure lenders to improve the pricing on loans they sell in minority communities.

Already, New York Attorney General Eliot Spitzer has walked into a fight with federal regulators by insisting banks turn over more data so the public can judge how prices are determined.

And several activist groups say they are waiting for final data before filing lawsuits charging that lenders are not providing minority communities with equal access to market-rate loans.

"Now we have one more tool to expose" discrimination, said Stella Adams, director of the N.C. Fair Housing Center. "The more we can hold folks accountable, the better."— RICK ROTHACKER CONTRIBUTED TO THIS REPORT.

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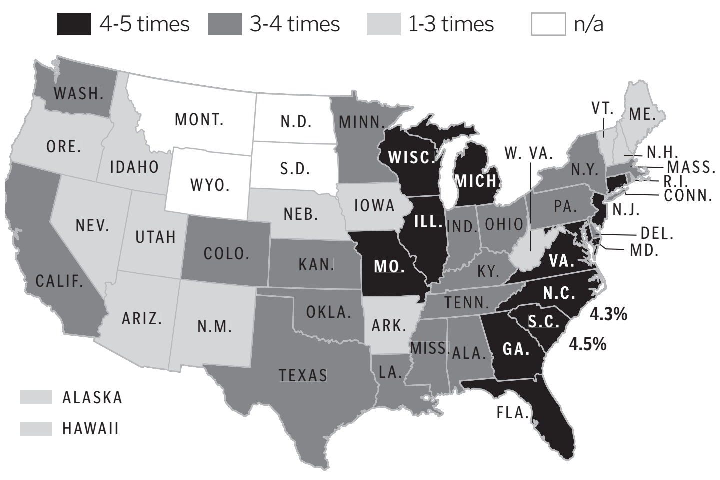
State by State

Blacks get high-rate home loans more often than whites across the U.S., but the gaps were largest in the Southeast and Midwest.



NOTE: Home purchase loans made in 2004 by 25 of the nation's top lenders. States shaded in white had too few home loans to blacks to analyze.

SOURCE: Observer analysis of lender data TED MELLNIK, DAVID PUCKETT – STAFF

Nationwide

The Observer analyzed 2.2 million loan applications. 1.7 million resulted in loans, and 142,000 received a high interest rate.

	Applications	Loans	High-rate loans
Total	**2,200,529**	**1,715,418**	**141,626**
Blacks	185,271	120,647	**32,059**
Hispanics	306,157	216,812	**30,293**
Whites	1,518,189	1,234,418	**74,320**

SOURCE: Observer Analysis STAFF CHART

Tips on Getting a Home Loan, 2A

DAVID T. FOSTER – STAFF PHOTO

Robin Brown (right), a housing counselor for the Urban League of Central Carolinas, leads a "10 Weeks To Home Ownership" class. Housing counselors also can help people threatened with foreclosure.

COMING MONDAY
A new industry fills a vaccum in minority neighborhoods.

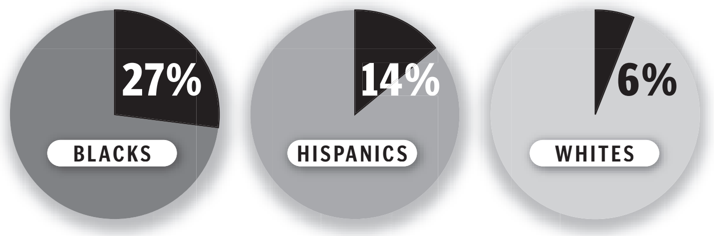
COMING TUESDAY
Steps Congress and the lending industry can take to improve the loan process and help borrowers.

Do You Have Questions?

If you have questions about your mortgage loan, or about the lending process in general, send an e-mail to obsbiz@charlotteobserver.com or write us at The Charlotte Observer, c/o Business News, Mortgage Questions, P.O. Box 30308, Charlotte, NC 28230-0308. We'll publish responses to your questions in a coming edition.

High-Rate Loans by Race

Black and Hispanic homebuyers are more likely than whites to get a high-rate home purchase loan. In 2004, high-rate loans carried interest rates of about 8 percent and higher. These figures are based on 2004 data from 25 of the nation's largest lenders.



Breakdown of Nine Lenders

Among the nation's largest lenders, these nine made more than 90 percent of the high-rate home purchase loans last year. The figures include loans made by all subsidiaries of the parent company. Largest high-rate subsidiaries are listed in parentheses. The numbers show the total loans to each group and the share that carried a high rate. Lenders are listed by how often they charged blacks high rates compared with whites.

Washington Mutual Inc. (Long Beach Mortgage)
Seattle ■ 119,892 total loans ■ 6,206 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	8,672	21.0%
Hispanics	24,916	7.0%
Whites	73,051	3.4%

Wells Fargo & Co.
San Francisco ■ 260,846 total loans ■ 7,019 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	11,501	12.8%
Hispanics	20,845	4.6%
Whites	207,944	2.1%

Countrywide Financial Corp. (Full Spectrum Lending)
Calabasas, Calif. ■ 277,138 total loans ■ 22,668 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	16,314	27.4%
Hispanics	41,927	13.1%
Whites	189,717	6.2%

General Motors Corp. (Homecomings Financial)
Detroit ■ 58,480 total loans ■ 9,665 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	4,169	49.5%
Hispanics	4,659	30.9%
Whites	46,510	12.7%

HSBC Holdings plc. (Decision One Mortgage)
London ■ 55,414 total loans ■ 9,170 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	4,665	44.0%
Hispanics	5,213	28.1%
Whites	38,474	14.1%

National City Corp. (First Franklin Financial)
Cleveland ■ 136,455 total loans ■ 17,484 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	14,951	27.9%
Hispanics	18,146	15.0%
Whites	94,920	10.6%

Regions Financial Corp. (Equifirst)
Birmingham, Ala. ■ 26,665 total loans ■ 8,127 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	3,553	55.4%
Hispanics	2,572	40.4%
Whites	19,503	25.1%

New Century Financial Corp.
Irvine, Calif. ■ 48,892 total loans ■ 15,443 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	7,876	44.0%
Hispanics	13,888	28.2%
Whites	23,118	31.2%

ACC Capital Holdings Corp. (Ameriquest Mortgage)
Orange, Calif. ■ 58,501 total loans ■ 34,156 high-rate loans

RACIAL GROUP	TOTAL LOANS	LOANS AT HIGH RATE
Blacks	11,753	68.7%
Hispanics	17,719	55.3%
Whites	26,054	57.3%

SOURCE: OBSERVER ANALYSIS OF LENDER DATA WM PITZER – STAFF

How We Did This Story

The Observer analyzed data from 2.2 million mortgage applications processed in 2004 by 25 of the nation's largest lenders. Those lenders originated about half the nation's home purchase loans the previous year. The study also included 20 lenders that made the most loans in Charlotte and selected metropolitan areas.

The study looked at completed applications for first mortgages to buy single-family, owner-occupied homes. It considered race and income of applicants and the census tract, and loan amount. The study does not include government-backed loans, second mortgages, home improvement or refinance loans. For example, only 10 percent of the loans reported by HSBC Holdings last year were home purchase loans as defined by this study.

For the first time, lenders disclosed which loans had high interest rates, at least three percentage points above a standard government rate. In 2004, high rates were generally 8 percent or higher.

Most statistics in the stories are based on loans in metropolitan areas. Incomes below 80 percent of the metro median were classified as lower. Incomes above 120 percent were considered upper.

The Observer used statistical methods to confirm that the disparity between blacks and whites in high-rate mortgages was not explained by differences in income or the ratio of loan to income.

The study omitted about 13 percent of applications missing key information such as race or census tract. Information on lender subsidiaries is reported under parent companies.