



FACT SHEET

SUBPRIME AND PREDATORY MORTGAGE LENDING

Subprime mortgage lending refers to home loans made to borrowers who do not meet the requirements for competitive, prime loans. These loans, designed for those with “blemished” or “limited” credit histories (FICO score of 620 or less), tend to be associated with higher interest rates—often in the form of adjustable rate mortgages (ARMs)—and tend to be more costly over time.¹

Characteristics of Predatory Loans

“Predatory mortgage lending” is a blanket term for a variety of lending practices that strip wealth or income from borrowers. Characteristics of predatory loans may include, but are not limited to, the following lending practices:²

- Steering: Placing borrowers in higher-priced loans when they qualify for more affordable mortgages.
- Prepayment penalties: A fee a borrower incurs for paying the loan off early.
- Flipping: Refinancing a home loan without providing any net tangible benefit to the borrower.
- Yield spread premiums: Broker “kickbacks” for placing borrowers into more expensive loans.
- Ignoring ability to repay: Approving loans with large scheduled increases without considering whether the borrower can afford the higher payments. This includes the failure to escrow for property taxes and failure to verify income.

Disparities in U.S. Homeownership

- As of 2007, African Americans were homeowners at a rate of 47.2 percent, compared with 75.2 percent for individuals who identify as non-Latino. The African American homeowner rate declined by nearly two percentage points between 2004 and 2007, the highest decline among all racial groups.³

Homeownership Rates by Race and Ethnicity of Householder

	2000	2001	2002	2003	2004	2005	2006	2007
U.S. Total	67.40%	67.80%	67.90%	68.30%	69.00%	68.90%	68.80%	68.10%
White	73.8	74.3	74.5	75.4	76	75.8	75.8	75.2
African American	47.2	47.4	47.3	48.1	49.1	48.2	47.9	47.2
American Indian, Aleut, Eskimo	56.2	55.4	54.6	54.3	55.6	58.2	58.2	56.9
Asian or Pacific Islander	52.8	53.9	54.7	56.3	59.8	60.1	60.8	60
Latino	46.3	47.3	48.2	46.7	48.1	49.5	49.7	49.7

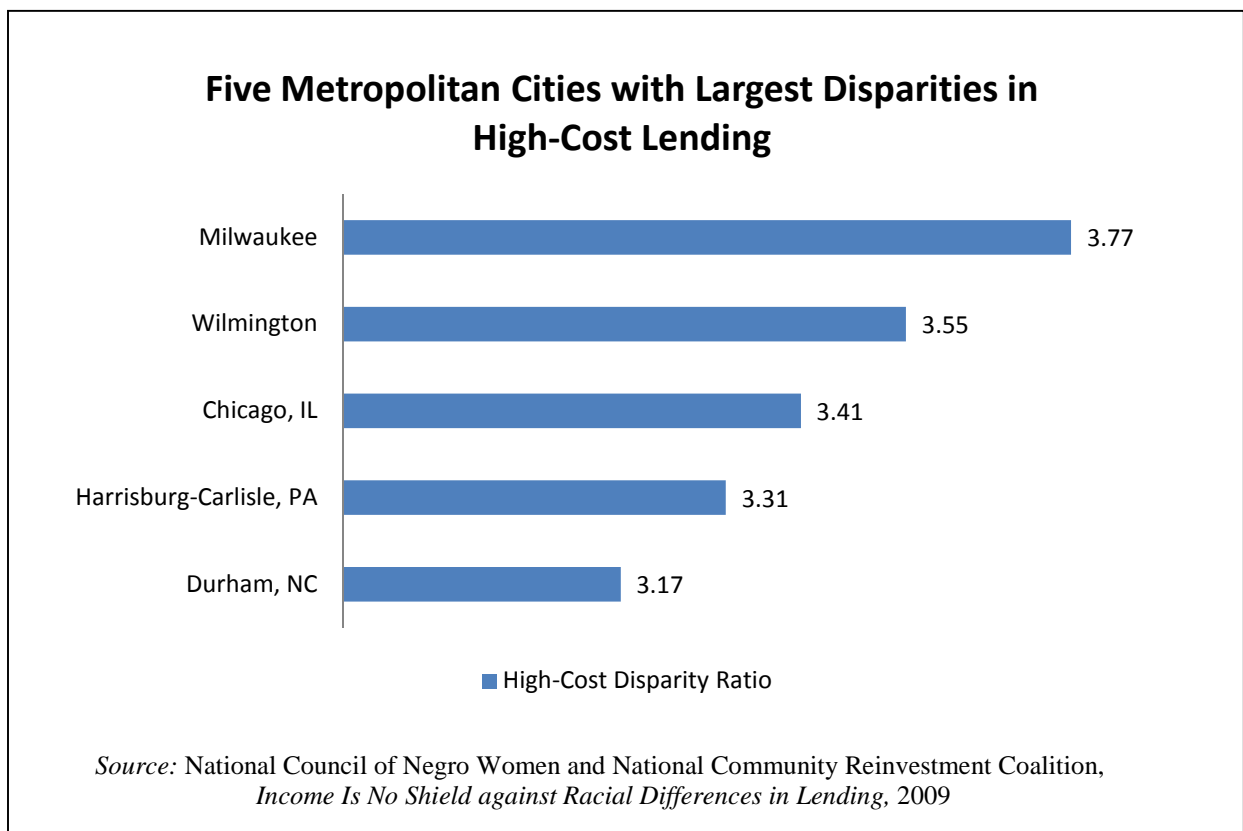
Source: U.S. Census Bureau, *Homeownership Rates by Race and Ethnicity of Householder: 1994 to 2007* (Washington, D.C.: U.S. Census Bureau, 2007).

Note: The homeownership rate is the percentage of homeowning households among all households in the given demographic group.

Metropolitan Areas with the Greatest Disparities

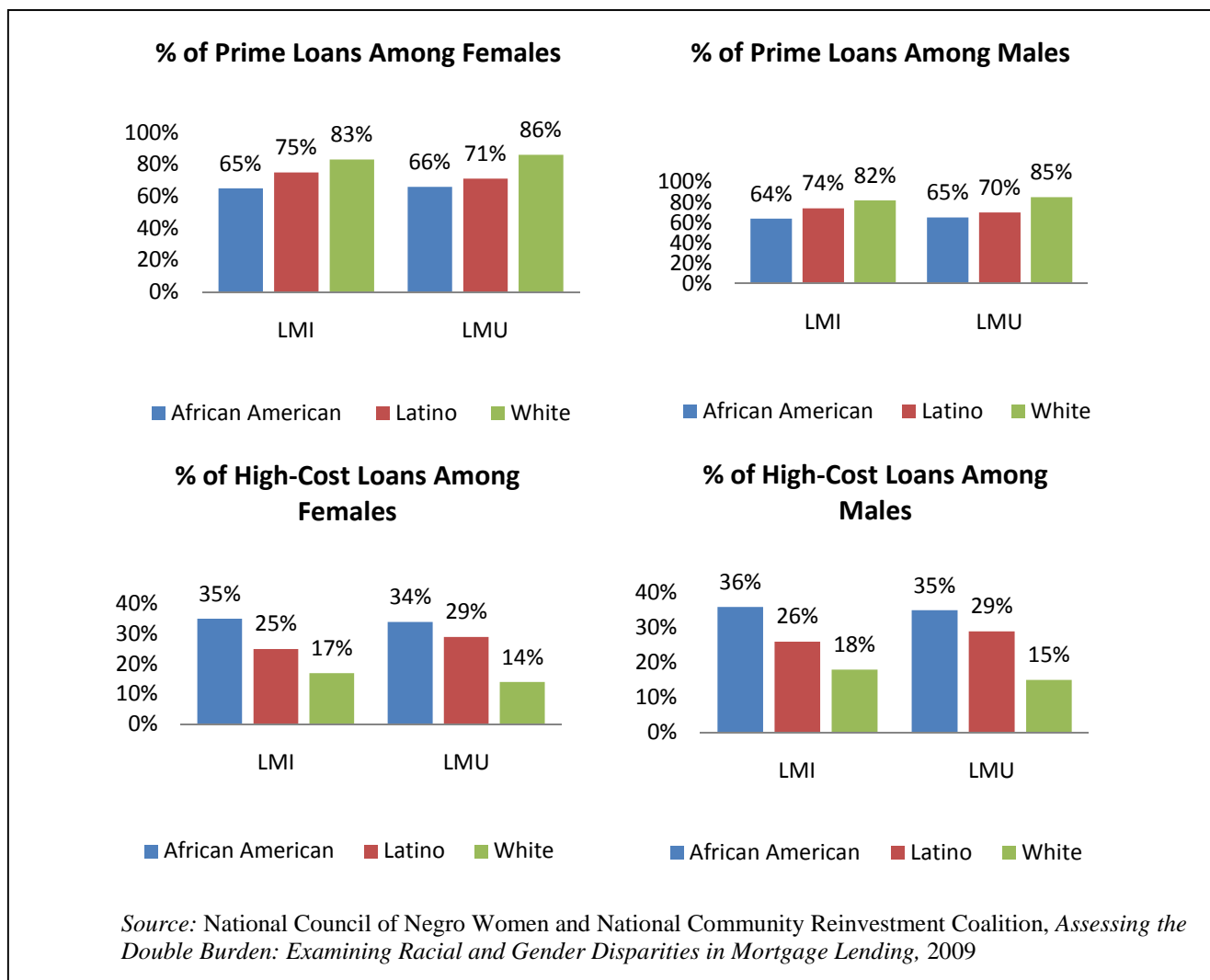
- In metropolitan areas during 2007, African American females were more than twice as likely to receive high-cost loans as were moderate-income white females, and approximately 2.4 times more likely to receive high-cost loans than middle- and upper-income white females.⁴

- In 2007, the top 10 metropolitan areas with the greatest racial/ethnic lending disparities were as follows:⁵
 1. Raleigh–Cary, NC
 2. Minneapolis–St. Paul–Bloomington, MN–WI
 3. Milwaukee–Waukesha–West Allis, WI
 4. Bridgeport–Stamford–Norwalk, CT
 5. Washington–Arlington–Alexandria, DC–MD–VA–WV
 6. Chicago–Naperville–Joliet, IL
 7. Cleveland–Elyria–Mentor, OH
 8. Hartford–West Hartford–East Hartford, CT
 9. Oakland–Fremont–Hayward, CA
 10. Philadelphia, PA



Victims of Predatory Lending

- Subprime lending is five times more prevalent in African American than white neighborhoods, and one in five subprime loan recipients could have received a lower-cost prime loan.⁶
- In 2007, low- and moderate-income African Americans and Latinos received fewer prime loans and more subprime or high-cost loans compared with their white counterparts, regardless of gender.⁷
- Racial differences in lending increase as income levels increase. Middle- and upper-income African Americans and Latinos received a disproportionate amount of high-cost loans relative to their white counterparts, regardless of income.⁸



Predatory Lending and the Wealth Gap

National trends suggest that these disparities are largely due to discriminatory lending practices that adversely impact the accumulation of wealth in African American communities:

- Disparities in lending were “particularly worrisome for African Americans” with respect to very-high-cost loans covered by the Home Ownership and Equity Protection Act. In 2005, African Americans were the only racial group to receive a substantially higher percentage of very-high-cost loans than market-rate loans.⁹
- In 2007, African Americans paid an average of 128 basis points more for loans than did their white counterparts; and in the subprime market, the difference was 275 basis points more than their white counterparts.¹⁰
- Even when income and credit risk are equal, African Americans are up to 34 percent more likely to receive higher-rate and subprime loans with a prepayment penalty than are their similarly situated white counterparts.¹¹
- African Americans are 15 to 16 percent more likely to receive a higher-rate ARM purchase loan than if they were white.¹²
- These practices have placed at least one million African Americans and other people of color at great risk of loss of wealth—an estimated loss of at least \$164 billion.¹³

¹ Monique Morris, “Discrimination and Mortgage Lending in America: A Summary of the Disparate Impact of Subprime Mortgage Lending on African Americans,” National Association for the Advancement of Colored People, 2009.

² Keith Ernst, Debbie Bocian, and Wei Li, “Steered Wrong: Brokers, Borrowers, and Subprime Loans,” Center for Responsible Lending, 2008 <http://www.responsiblelending.org/mortgage-lending/research-analysis/steered-wrongbrokers-borrowers-and-subprime-loans.pdf> (accessed August 28, 2009).

³ U.S. Census Bureau, *Homeownership Rates by Race and Ethnicity of Householder: 1994 to 2007*, table 20 in Annual Statistics (Washington, D.C.: U.S. Census Bureau, 2007).

⁴ *Income Is No Shield against Racial Differences in Lending*, part 3, *Assessing the Double Burden: Examining Racial and Gender Disparities in Mortgage Lending* (National Council of Negro Women and National Community Reinvestment Coalition, 2009) www.ncnw.org/images/double_burden.pdf (accessed August 28, 2009).

⁵ Using the 2007 Home Mortgage Disclosure Act data, the National Community Reinvestment Coalition found that these 10 cities had the greatest racial/ethnic lending disparities relative to the total 100 metropolitan cities examined.

⁶ "Income Is No Shield against Racial Differences in Lending."

⁷ Ibid.

⁸ Ibid.

⁹ National Community Reinvestment Coalition, *The 2005 Fair Lending Disparities: Stubborn and Persistent II* (Washington, D.C.: National Community Reinvestment Coalition, 2006), also available at <http://www.ncrc.org/images/stories/pdf/research/ncrc%202005%20hmda%20report.pdf> (accessed March 11, 2009).

¹⁰ Federal Home Loan Mortgage Corporation, *Annual Report* (McLean, Va.: Federal Home Loan Mortgage Corporation, 2007).

¹¹ U.S. Department of Housing and Urban Development, *Unequal Burden: Income and Racial Disparities in Subprime Lending in America* (Washington, D.C.: HUD, 2000). See also National Community Reinvestment Coalition, The Opportunity Agenda, and Poverty and Race Research Action Council, *Homeownership and Wealth Building Impeded: Continuing Lending Disparities for Minorities and Emerging Obstacles for Middle-Income and Borrowers of All Races* (2006).

¹² Ibid.

¹³ Center for Responsible Lending, 2009, <http://www.responsiblelending.org>. See also A. Rivera, B. Cotto-Escalara, A. Desai, J. Huevo, and D. Muhammad, *Foreclosed: State of the Dream* (Boston, Mass.: United for a Fair Economy, 2008).