



2007 Home Mortgage Disclosure Act Data

October 17, 2008

KEY POINTS

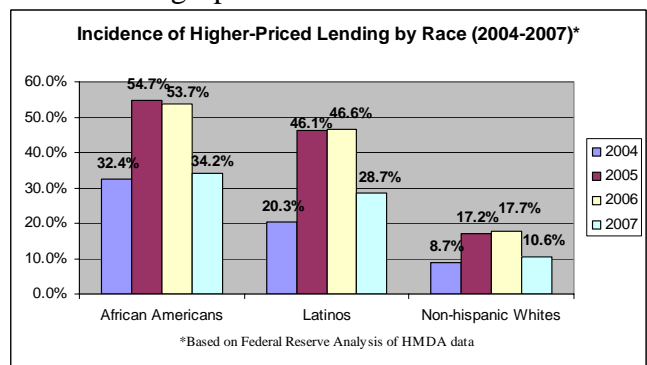
- Lending of all types, including subprime, has declined significantly in 2007
- Blacks and other minorities are still more likely to receive a high-priced loan, but are a small share of all subprime loans

Every year, the Federal Financial Institutions Examination Council (FFIEC) releases the latest Home Mortgage Disclosure Act (HMDA) data. HMDA requires banks and other lenders to record the race and other characteristics of loan applicants. This information can then be analyzed to find disparities and differences across borrowers, lenders and geographic regions. The data is available at their website at <http://www.ffiec.gov/hmda/>. In 2007, both the number of applications and reported loans fell significantly. The number of conventional home purchase originations dropped 49% for blacks, 42% for whites and 53% for Latinos. The data continue to show wide gaps both for pricing and denial rates for African-Americans as well as other minorities; but in the context of the current banking crisis, minorities are a small part of the problem.

Gaps Continue for Both Pricing and Denials

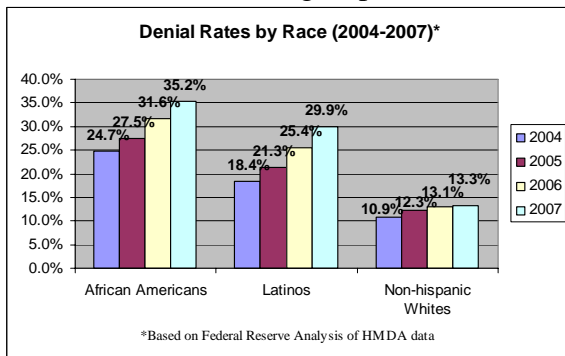
Denial rates have continued to creep up for most groups over the last four years, but African Americans continue to have the highest overall denial rate—35.2%, compared to 13.3% for non-Hispanic whites. As in past years, credit history was the primary reason cited for denial for blacks (27%), similar to other groups.

Of particular interest in recent years has been the very large pricing differences between whites and minorities. Although high-priced (often referred to as subprime) lending has decreased across the board (from 28.7% of all loans in 2006 to 18.3% in 2007), racial and ethnic disparities persist in 2007. Just over 34% of conventional home purchase loans to blacks were high priced in 2007. While this significantly down from 53.7% in 2006, it is much higher than the 10.6% rate for whites. Similar discrepancies exist for Latinos and other minorities. As the market changed during 2007, the percentage of such loans declined for all groups; for blacks, it went from just under 38% in the first half of the year to 29% in the second half. As in past years, lender choice is a key factor associated with having a high-priced loan. 89% of the 8610 reporting institutions made 10 or fewer subprime loans in 2007; the remaining 11% of lenders accounted for 94% of all high-priced loans.¹



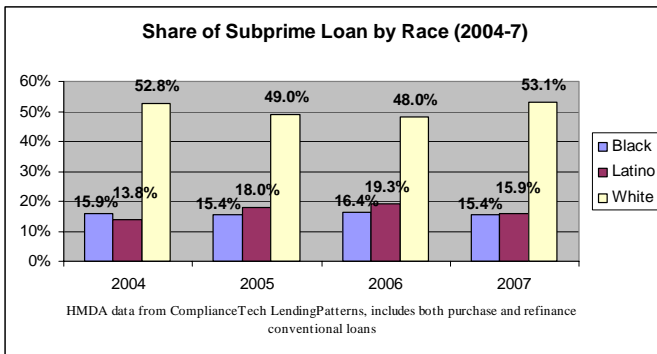
Minorities Small Share of Banking Problem

With the recent collapse of the subprime market and the resulting banking crisis, some have sought to blame minority borrowers for the resulting turmoil. While minorities are more likely to receive a high-priced versus a lower-priced loan, non-Hispanic whites have constituted the vast majority of all subprime loans issued in each of the last four years (see chart below). Furthermore, the vast majority of subprime loans were made in largely non-minority



¹ All Data from the Avery, Robert et al, *The 2007 HMDA Data*. Federal Reserve Bulletin (September, 2008).

neighborhoods. In 2007, 59% of all subprime loans were in tracts that were less than 30% minority, and only 17% were in tracts that were more than 70% minority.² It also important to note that many minorities may have been inappropriately targeted and steered into higher-priced loans when they could have qualified for prime loans. A study cited by the *Wall Street Journal* found as many as 61% of all subprime borrowers in 2006 could have qualified for more conventional products based on their credit scores.³ While credit scores are only one variable used in pricing mortgages, it certainly does raise questions and point to the need for additional regulation in this market.



² HMDA data analyzed by ComplianceTech LendingPatterns, 2008.

³ Brooks & Simon, "Subprime Debacle Traps Even Very Creditworthy". *Wall Street Journal*. December 3, 2007.