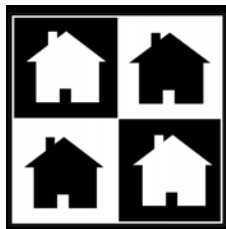


Persisting Racial and Ethnic Disparities in Ohio Mortgage Lending

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About the Housing Research & Advocacy Center

The Housing Research & Advocacy Center (the “Housing Center”) is a 501(c)(3) non-profit organization whose mission is to eliminate housing discrimination and assure choice in Northeast Ohio by providing those at risk with effective information, intervention, and advocacy. The Housing Center was founded in 1983 as the Metropolitan Strategy Group and changed its name in 2003.

The Housing Center works to achieve its mission through work in three primary areas: research and mapping, education and outreach, and enforcement of fair housing laws through testing and litigation. In addition to addressing traditional issues of housing discrimination and segregation, the Housing Center also provides research, education, and analysis of subprime and predatory lending practices and trends in the region.

Executive Summary

This report examines mortgage lending applications and originations, in 2007, for the State of Ohio and its seven largest metropolitan statistical areas (MSAs) – the Akron, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown MSAs – to determine if there are racial and/or ethnic disparities in who is denied mortgage loans and, for those who obtain loans, who receives “high-cost” loans.¹

The data reveal continuing disparities in mortgage lending based on both race and ethnicity. Moreover, an examination of the income levels of applicants reveals that these disparities exist regardless of income.

Statewide, the overall amount of mortgage lending decreased considerably over the last three years, from 1.16 million loan records reported in 2005, to 1.03 million in 2006, and 774,401 in 2007. However, a significant racial and ethnic disparity remained persistent during this period. The data reveal that African Americans and Hispanics/Latinos continued to have limited access to fair and equal credit. Both racial and ethnic groups face higher denial rates and high cost lending rates than whites in the State of Ohio and in all of the MSAs that the Housing Center studied.

Disparities in denial rates continued to increase in 2007, following the trend of the last two years. In 2005, *upper income* African Americans were denied home purchase loans 25.20% of the time, which is just slightly less than *low income* whites who had a 27.30% denial rate. In 2006, this disparity grew, as upper income African Americans were denied home purchase loans at a *higher* rate, 31.56%, than low income whites, who were denied 27.37% of the time. In 2007, this racial disparity increased even further, as upper income African Americans were denied at *higher* rates than low income whites for both home purchase and refinance loans.

Statewide, *upper income* African Americans were denied home purchase loans 32.86% of the time, compared to a 27.84% denial rate for *low income* whites. For refinance loans, *upper income* African Americans were denied loans 54.42% of the time, compared to a 53.39% denial rate for *low income* whites.

The Cleveland MSA stands out for the strength of the racial disparity for home purchase loans: upper income African Americans were denied home purchase loans 40.47% of the time, whereas low income whites were denied only 23.40% of the time. For refinance loans, the greatest disparity was in the Toledo MSA, where 65.71% of upper income African Americans were denied refinance loans compared to 55.66% of low income whites.

¹ “High-cost” loans have interest rates of at least 3% (or, for second-lien mortgages, 5%) above the rate on Treasury securities of comparable maturity. See footnote 12, below.

The fact that upper income African Americans were denied loans at nearly the same rate – and many times, at higher rates – as low income whites provides evidence of possible illegal discrimination in the mortgage market and gives rise to concerns that African Americans are not obtaining access to mortgage lending on the same basis as whites.

High-cost lending reveals even stronger disparities. Statewide, African Americans obtained high-cost home purchase loans at about two and two-thirds times the rate of whites, while Hispanics/Latinos obtained them at nearly one and three-fifths the rate of whites. African Americans obtained high-cost refinance loans at two times the rate of whites, while Hispanics/Latinos obtained them at about one and one-fifth the rate of whites.

African Americans at every income level received more high-cost loans than whites at every income level. Moreover, this disparity existed in every metropolitan area in the state. Statewide, upper income African Americans received high-cost home purchase loans 31.87% of the time, compared to 19.88% of the time for low income whites. For refinance loans, upper income African Americans received high-cost loans 38.46% of the time in Ohio, compared to 25.78% of the time for low income whites. Upper income whites received high-cost loans 9.97% of the time for home purchase loans and 17.03% of the time for refinance loans.

The rates of high-cost loans for Hispanics/Latinos were typically between those for African Americans and whites. Upper income Latinos received high-cost loans 14.39% of the time for home purchase loans and 18.85% of the time for refinance loans.

Asians had the lowest rate of high-cost loans for all groups studied;² 8.50% of home purchase loans in the state among upper income Asians were high cost, compared to 14.36% of refinance loans for upper income Asians.

Statewide, the amount of high cost lending increased sharply from 2005 to 2006. Though high cost lending rates showed a decrease in 2007, the racial disparity between upper income African Americans and low income whites remained disturbingly high.

The racial disparity in high-cost loans was greatest for home purchase loans in the Cleveland MSA, where 37.48% of upper income African Americans received high-cost loans, compared to 8.96% of upper income whites and 15.86% of low income whites.

For refinance loans, the racial disparity was also greatest in the Cleveland MSA, where 41.62% of upper income African Americans received high-cost loans, compared with 15.90% of upper income whites and 20.66% of low income whites.

²Asians received the lowest rates of high-cost home purchase loans, at all income levels. Moderate, middle, and upper income Asians received high-cost refinance loans at a lower rate than all other racial and ethnic groups. Low income Asians received slightly more high-cost refinance loans than low income whites.

The results of the analysis of mortgage lending presented in this report show a disturbing pattern: African Americans were denied mortgage loans at greatly disproportionate rates compared to whites and, when they obtained such loans, they wound up receiving high-cost loans much more often than whites. In addition, Hispanics/Latinos were denied mortgage loans and obtained high-cost loans at greater rates than whites, although not at rates as high as African Americans. This data raises great concerns that African Americans and Hispanics/Latinos are not obtaining equal access to the mortgage lending market in Ohio compared to whites.

Introduction

Historically, many lending institutions engaged in discrimination against racial and ethnic minorities and in “redlining,” in which individuals living in minority neighborhoods were denied access to mortgage credit.³ Although discrimination in mortgage lending and redlining were made illegal by the Fair Housing Act in 1968 and are also prohibited by Ohio law,⁴ many recent studies have found continuing racial disparities in mortgage lending based on race.⁵ In the past two years, the Housing Center has examined mortgage lending in Ohio and discovered similar racial and ethnic disparities.⁶

To assess whether such disparities continue to exist in Ohio, the Housing Center analyzed 2007 mortgage lending data (the most recent available) for the State of Ohio and its seven largest metropolitan statistical areas – the Akron, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown MSAs.⁷

This report focuses on two aspects of the 2007 Home Mortgage Disclosure Act (HMDA) data: loan denial rates and “high-cost” lending rates based on race, ethnicity, and income.⁸ These two

³ See, e.g., HUD Preamble I, 53 Fed. Reg. 44998 (Nov. 7, 1988).

⁴ 42 U.S.C. Sec. 3605; O.R.C. Sec. 4112.02(H)(3).

⁵ See, e.g., Coulton, Claudia, Michael Shramm & April Hirsch, “Beyond REO: Property Transfers at Extremely Distressed Prices in Cuyahoga County, 2005-2008,” Center on Urban Poverty and Community Development of Case Western Reserve University, December 2008; National Community Reinvestment Coalition, “Income is No Shield Against Racial Differences in Lending II: A Comparison of High-Cost Lending in America’s Metropolitan Areas,” July 2008; Capital Area Asset Builders, Center for Responsible Lending, National Community Reinvestment Coalition, The Reinvestment Fund and The Urban Institute, “Subprime Mortgage Lending in the District of Columbia: A Study for the Department of Insurance, Securities and Banking,” May 2008; Nelson, Lisa “Foreclosure Filings in Cuyahoga County,” A Look Behind the Numbers, The Federal Reserve Bank of Cleveland, 2008, p. 1-8; Fishbein, Allen J. and Patrick Woodall, “Subprime Locations: Patterns of Geographic Disparity in Subprime Lending,” Consumer Federation of America, September 5, 2006, p. 1; Bocian, Debbie Gruenstein, Keith S. Ernst & Wei Li, “Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages,” Center for Responsible Lending, May 31, 2006, p. 3; Munnell, Alicia H., et al., “Mortgage Lending in Boston: Interpreting the HMDA Data,” Federal Reserve Bank of Boston Working Paper No. 92-7 (1992).

⁶ The Housing Research & Advocacy Center, “Continued Racial and Ethnic Disparities in Ohio Mortgage Lending” (2007); The Housing Research & Advocacy Center, “Racial and Ethnic Disparities in Ohio Mortgage Lending” (2006).

⁷ The boundaries of the Cincinnati and Youngstown MSAs include non-Ohio counties. For purposes of this report, we examined only the Ohio counties of those MSAs. The counties examined for each MSA in this report are: Akron MSA: Portage and Summit Counties; Cincinnati MSA: Brown, Butler, Clermont, Hamilton, and Warren Counties; Cleveland MSA: Cuyahoga, Geauga, Lake, Lorain, and Medina Counties; Columbus MSA: Delaware, Fairfield, Franklin, Licking, Madison, Morrow, Pickaway, and Union Counties; Dayton MSA: Greene, Miami, Montgomery, and Preble Counties; Toledo MSA: Fulton, Lucas, Ottawa, and Wood Counties; Youngstown MSA: Mahoning and Trumble Counties.

⁸ “High-cost” loans have interest rates of at least 3% (or, for second-lien mortgages, 5%) above the rate on Treasury securities of comparable maturity. See footnote 12, below. For purposes of this report, we examined the following racial and ethnic categories: African Americans, Asians, Hispanics/Latinos, and non-Hispanic whites. For ease of reading, in this report we refer to “non-Hispanic whites” as “whites.” American Indians/Alaska Natives

measures were selected to examine if there were racial and/or ethnic disparities in who was denied loans and, for those who actually received loans, who received high-cost loans. Denial rates are important in determining whether individuals of different races have fair access to credit in order to purchase a home or to refinance their mortgage. High-cost lending rates provide further evidence of possible biases in the lending industry for those individuals who are approved for loans. Loans made for home purchases and refinancing were examined separately to determine if there were any significant differences between the two groups.

Statewide, the overall amount of mortgage lending decreased considerably over the last three years, from 1.16 million loan records reported in 2005, to 1.03 million in 2006, to 774,401 in 2007. However, a significant racial and ethnic disparity remained persistent during this period. The data reveal that African Americans and Hispanics/Latinos continued to have limited access to fair and equal credit. Both racial and ethnic groups face higher denial rates and high cost lending rates than whites in the State of Ohio and in all of the MSAs that the Housing Center studied.

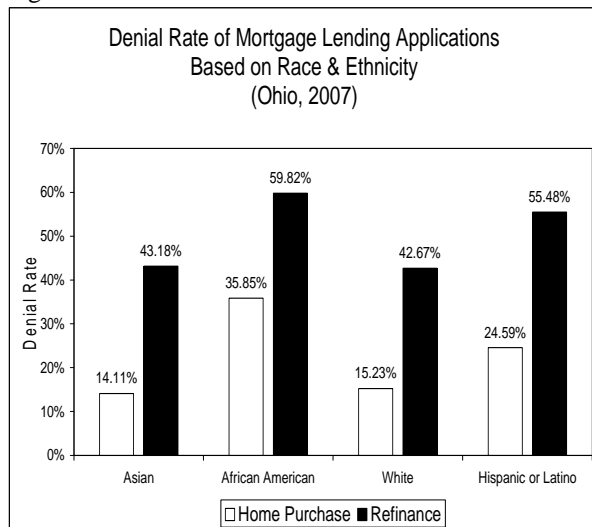
were not included because of the relatively small numbers of applications submitted by these groups in the areas studied. The “Asian” category includes both Asian Americans as well as “Native Hawaiians/Other Pacific Islanders.” According to the Census Bureau, “Hispanic” and “Latino” are not racial designations, and individuals listed in this category may be of any race. With the exception of individuals who are identified as “Hispanic” or “Latino,” this report does not examine HMDA data on individuals who listed two or more races or ethnicities or for whom racial and ethnic data is not available.

Loan Denial Rates

To examine whether there were disparities in the availability of mortgage credit among different racial and ethnic groups, the Housing Center examined 2007 loan denial rates for the State of Ohio as well as its seven largest Metropolitan Statistical Areas.⁹ Denial rates are commonly used as one factor to determine if certain groups are being afforded adequate access to credit.

Statewide, African Americans were denied home purchase loans 35.85% of the time, compared to 24.59% for Hispanics/Latinos, 14.11% for Asians, and 15.23% for whites. For refinance loans, African Americans were denied loans 59.82% of the time, compared to 55.48% of the time for Hispanics/Latinos, 43.18% for Asians, and 42.67% for whites (see Figure 1).¹⁰

Figure 1



Source: 2007 HMDA data.

⁹ HMDA data list several dispositions for loan applications: loan originated, approved but not accepted (by the borrower), denied, withdrawn, file closed for incompleteness. Denial rates were calculated by dividing the number of loan applications denied by the sum of the number of applications originated, the number of applications approved but not accepted, and the number of applications denied.

¹⁰ These results are consistent with nationwide trends. Studies published by the Federal Reserve have found that nationwide, African Americans and Hispanics had higher denial rates than non-Hispanic whites for all loan product categories. Of these three groups, African Americans had the highest rates and Hispanics had rates about halfway between those for African Americans and those for non-Hispanic whites. See, e.g., Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner, "The 2007 HMDA Data," *Federal Reserve Bulletin* (December 2008), at A140-141; Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner, "The 2006 HMDA Data," *Federal Reserve Bulletin* (December 2007), at A97-98; Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner, "Higher-Priced Home Lending and the 2005 HMDA Data," *Federal Reserve Bulletin* (2006), at A161. These results are also consistent with earlier research by the Housing Center on mortgage lending in Ohio. See footnote 6, above.

The Housing Center further examined denial rates based on race and income, comparing denial rates for African Americans and whites in two income groups: low income, which consists of individuals with income less than 50% of the median income in the MSA, and upper income, which represents individuals with income greater than 120% of the median income. By adding income to the analysis, the Housing Center attempted to control for some of the borrower characteristics that could explain the discrepancies in high-cost loan rates based on race and ethnicity.

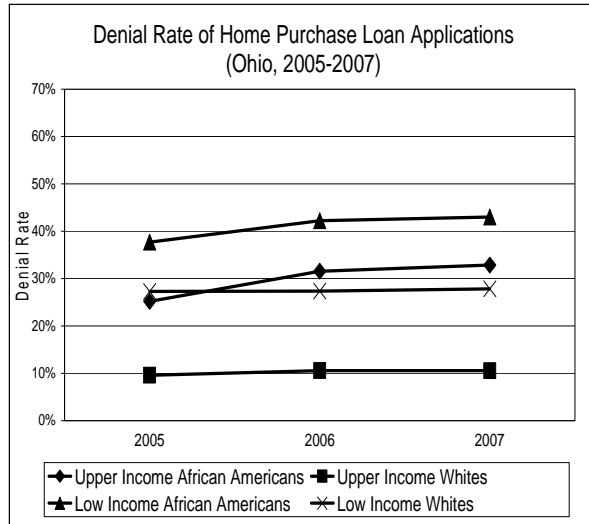
It is expected that upper income individuals would have lower denial rates for mortgage lending than low income individuals. This expected pattern is found when one examines denial rates *within* racial groups for both home purchase and refinance loans: low income whites were denied loans at higher rates than upper income whites, and low income African Americans had higher denial rates than upper income African Americans.

However, when one examines income and denial rates *between* racial groups, the results show that African Americans were denied loans at disproportionate rates. The disparities in denial rates continued to increase in 2007, following the trend of the last two years. In 2005, *upper income* African Americans were denied home purchase loans 25.20% of the time and refinance loans 44.97% of the time. These rates were just slightly less than the 27.30% home purchase and 46.70% refinance denial rates for *low income* whites.

In 2006, this disparity grew, as upper income African Americans were denied home purchase loans at a *higher* rate, 31.56%, than low income whites, who were denied 27.37% of the time. The refinance denial rate for upper income African Americans, in 2006, was 45.78%, while it was only slightly higher for low income whites, at 48.26%. In 2007, this racial disparity increased even further, as upper income African Americans were denied at *higher* rates than low income whites for both home purchase and refinance loans (see Figures 2, 3).

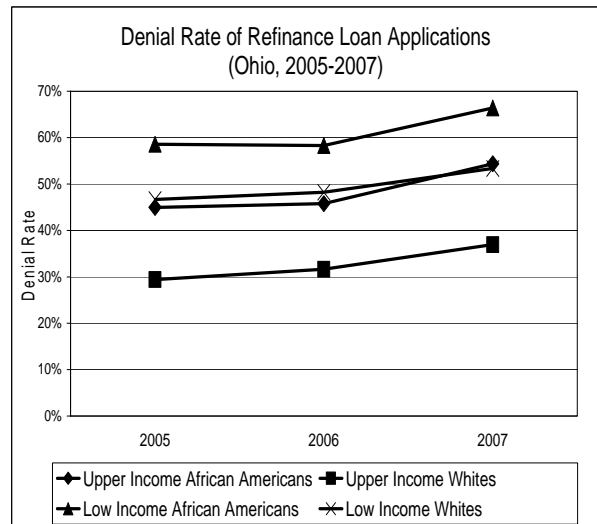
Statewide, *upper income* African Americans were denied home purchase loans 32.86% of the time, compared to a 27.84% denial rate for *low income* whites. For refinance loans, *upper income* African Americans were denied loans 54.42% of the time, compared to a 53.39% denial rate for *low income* whites (see State of Ohio Denial Rate Charts, p.17).

Figure 2



Source: 2007 HMDA data.

Figure 3



Source: 2007 HMDA data.

The fact that upper income African Americans were denied loans at a higher rate as low income whites provides evidence of possible illegal discrimination in the mortgage market and gives rise to concerns that African Americans are not obtaining access to mortgage lending on the same basis as whites.

Moreover, in a number of communities, upper income African Americans were denied loans at a higher rate than low income whites. In the Cleveland, Dayton, and Akron MSAs, this racial disparity existed for both home purchase and refinancing loans. In the Columbus MSA, the disparity existed for home purchase but not for refinance loans, while in the Youngstown, Toledo, and Cincinnati MSAs, the disparity existed for refinance loans but not for home purchase loans.¹¹

The Cleveland MSA stands out for the strength of the racial disparity for home purchase loans: upper income African Americans were denied home purchase loans 40.47% of the time, whereas low income whites were denied only 23.40% of the time. For refinancing loans, the greatest disparity was in the Toledo MSA, where 65.71% of upper income African Americans were denied refinance loans compared to 55.66% of low income whites.

The fact that African Americans were denied loans at greatly disproportionate rates compared to whites, regardless of income, gives rise to concerns that the mortgage lending industry is not providing access to credit on an equal basis to all racial groups. Likewise, the denial rates for Hispanics/Latinos, while not as high as those for African Americans, also raise concern about access to credit for this group as well.

¹¹ Lending data for the State of Ohio and each of the seven MSAs studied in this report are presented in the Appendix.

Rates of High-Cost Lending

The rates of high-cost lending were examined to determine whether certain racial and ethnic groups were receiving disproportionately more high-cost loans than other groups.¹² While disparities in high-cost lending by themselves are not proof of illegal discrimination, they represent a “useful screen” for determining where further investigation is necessary.¹³

The amount of high cost lending in Ohio increased sharply from 2005 to 2006. Though high cost lending rates showed a decrease in 2007, the racial disparity between upper income African Americans and low income whites remained disturbingly high.

Statewide, an average of 33.96% of home purchase loans obtained by African Americans had high interest rates, compared to 20.22% for Hispanics/Latinos, 12.75% for whites, and 9.23% for Asians. This means that in Ohio, African Americans obtained high-cost home purchase loans at about two and two-thirds times the rate of whites, while Hispanics/Latinos obtained them at about one and three-fifths times the rate of whites.

The greatest incidence of high-cost home purchase lending for African Americans and whites occurred in the Youngstown MSA, where 41.95% of all loans obtained by African Americans and 16.18% of all loans obtained by whites were high-cost. For Hispanics, the greatest incidence was in the Columbus MSA, where 23.13% of such loans were high-cost. The Dayton MSA had the greatest incidence of high-cost home purchase lending for Asians, where 10.38% of all loans obtained by Asians were high-cost (see Figure 4).

The lowest incidence of high-cost home purchase lending for both African Americans and Asians occurred in the Cincinnati MSA, where 27.77% and 6.38%, respectively, of such loans were high-cost. For Hispanics/Latinos, the lowest rate occurred in the Dayton MSA, where 13.58% were high-cost. The lowest rate for whites was in the Columbus MSA, where 10.41% were high-cost.

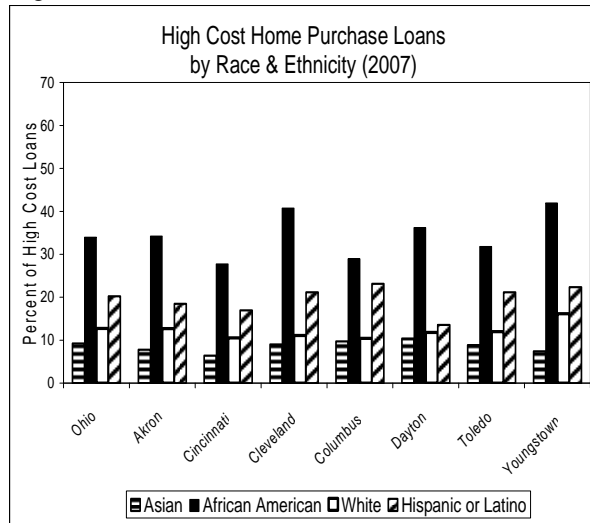
The rates for high-cost refinance lending showed similar racial and ethnic disparities. Statewide, 40.33% of African Americans received high-cost refinance loans, compared to 24.63% of

¹² The term “high-cost lending” refers to mortgage loans in which the annual percentage rate (APR) is more than 3% (or, for second-lien mortgages, 5%) above the rate on Treasury securities of comparable maturity. This rate was chosen by the Federal Reserve Board for all HMDA-reporting lenders as the threshold for lenders to report certain pricing information about their mortgage loans to the federal government beginning with the 2004 HMDA submissions. The Federal Reserve Board indicated that it chose the 3% and 5% thresholds in the belief that it would exclude the vast majority of prime-rate loans and include the vast majority of subprime-rate loans. Federal Reserve Board, “Frequently Asked Questions About the New HMDA Data,” p.4, available at <http://www.federalreserve.gov/boarddocs/Press/bcreg/2006/20060403/attachment.pdf>.

¹³ FFIEC, “Frequently Asked Questions About the New HMDA Data,” April 3, 2006, at 5, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>.

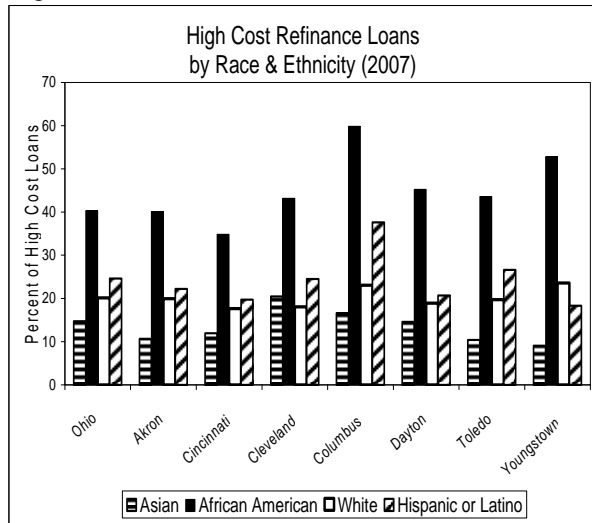
Hispanics/Latinos, 20.14% of whites, and 14.75% of Asians. This means that statewide, African Americans obtained high-cost refinance loans at twice the rate of whites, while Hispanics/Latinos obtained them at over one and one-fifth times the rate of whites.

Figure 4



Source: 2007 HMDA data.

Figure 5



Source: 2007 HMDA data.

The greatest incidence of high-cost refinance lending, for African Americans and Hispanics/Latinos, was in the Columbus MSA, where 59.83% of African Americans and 37.63% of Hispanics/Latinos received such loans. The Youngstown MSA had the greatest incidence of such loans for whites, where 23.59% of all refinance loans originated were high-cost. For Asians, the greatest incidence occurred in the Cleveland MSA, where 20.49% of all originated refinance loans were high-cost (see Figure 5).

The lowest incidence of high-cost refinance lending for African Americans and whites was in the Cincinnati MSA, where 34.84% of loans to African Americans and 17.69% of loans to whites were high-cost. For Hispanics/Latinos, the lowest rate was in the Youngstown MSA, where 18.33% of loans were high-cost. Asians saw the lowest rate, 10.67%, of high-cost refinance loans in the Akron MSA.¹⁴

In addition to looking at the incidence of high-cost lending by racial and ethnic group, the Housing Center also examined high-cost lending for different income groups within and between racial and ethnic groups. The purpose of this second stage of the research was to determine if

¹⁴ In the Youngstown MSA, there was one high-cost loan originated for Asians, constituting 9% of originations. In the Toledo MSA, there were 5 high-cost loans originated for Asians, which made up 10% of originations. However, because these percentages represented such small numbers of loans, the Akron MSA figure more accurately represents the rate in areas with larger Asian populations.

income could explain the variance in types of loans received. That is, because whites as a group have higher incomes than African Americans as a group do, these differences account for the overall racial and ethnic disparities in high-cost lending.

In examining high-cost lending rates based on income and race/ethnicity, these racial and ethnic disparities are still present. African Americans at every income level received more high-cost loans than whites at every income level. Statewide, upper income African Americans received high-cost home purchase loans 31.87% of the time, compared to 9.97% of the time for upper income whites and 19.88% of the time for low income whites. For refinance loans, upper income African Americans received high-cost loans 38.46% of the time in Ohio, compared to 17.03% of the time for upper income whites and 25.78% of the time for low income whites.

Hispanics/Latinos typically received more high-cost loans than whites but fewer than African Americans. Upper income Latinos received high-cost loans 14.39% of the time for home purchase loans and 18.85% of the time for refinance loans.

Asians had the lowest incidence of high-cost lending for all groups studied:¹⁵ 8.50% of home purchase loans in the state among upper income Asians were high cost, compared to 14.36% of refinance loans for upper income Asians.

The racial disparity in high-cost home purchase loans was greatest in the Cleveland MSA, where 37.48% of upper income African Americans received high-cost loans, compared to 8.96% of upper income whites and 15.86% of low income whites. For refinance loans, the racial disparity was also greatest in the Cleveland MSA, where 41.62% of upper income African Americans received high-cost loans, compared with 15.90% of upper income whites and 20.66% of low income whites.

The fact that African Americans at every income level had such large numbers of high-cost loans compared to low income whites is greatly disturbing, providing further evidence of possible racial discrimination.

These findings, by the Housing Center, are consistent with other national and regional studies that have identified racial and ethnic disparities in mortgage lending. For example, a recent report published by the Federal Reserve noted that “The 2007 HMDA data, like those from earlier years, indicate that black and Hispanic white borrowers are more likely, and Asian borrowers less likely, to obtain loans with prices above the HMDA price-reporting thresholds than are non-Hispanic white borrowers.”¹⁶ While the report stated that some of this disparity could be explained for by “borrower-related factors” (wealth or credit history, for example) or

¹⁵ See footnote 2, above.

¹⁶ Avery, *et al.* (2008), at A139.

the individual lender chosen, it also noted that not all of the discrepancy is explained by such variables.¹⁷

A recent study by the National Community Reinvestment Coalition (NCRC) found that African Americans and Hispanics were at the highest risk of receiving a high-cost loan with poor underwriting and that “wide differences in lending by race, even when accounting for income levels, suggests that more minorities are receiving high-cost loans than is justified based on creditworthiness.”¹⁸

Conclusions and Recommendations

The results of the analysis of mortgage lending presented in this report reveal a disturbing pattern: African Americans were denied mortgage loans at greatly disproportionate rates compared to whites and, when they obtained such loans, wound up in high-cost loans much more often than whites. The fact that upper income African Americans were denied loans at higher rates than low income whites, and that upper income African Americans obtained more high-cost loans than low income whites, provides disturbing evidence of continuing racial disparities in the lending industry. This report further documented that Hispanics/Latinos were denied mortgage loans and obtain high-cost loans at greater rates than whites, although not at rates as high as African Americans.

While this evidence reveals a clear picture of racial and ethnic disparities in mortgage lending, it is not possible to definitively conclude that all of this disparity is due to illegal discrimination based solely on HMDA data. Some of the discrepancy could be due to other factors, such as differences in wealth, credit scores, the loan-to-value (LTV) and debt-to-income (DTI) ratios of borrowers, as well as to borrowers approaching different lenders.

However, other research has found that, while these other factors may account for some of the racial and ethnic disparities, they do not account for it all.¹⁹ The NCRC found that strong disparities persist, even when controlling for factors such as “creditworthiness and other housing market factors.”²⁰

More importantly, even if some of the disparity is accounted for by these other factors, there is strong evidence that differences in wealth, credit history, and other similar factors are themselves

¹⁷ Avery, *et al.* (2008), at A139.

¹⁸ National Community Reinvestment Coalition, “Income is No Shield Against Racial Differences in Lending II: A Comparison of High-Cost Lending in America’s Metropolitan Areas,” July 2008, p.3.

¹⁹ See, e.g., footnotes 16-18, above; Bocian, Debbie Gruenstein, Keith S. Ernst & Wei Li, “Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages,” Center for Responsible Lending, May 31, 2006, p. 3.

²⁰ NCRC (2008), at 3.

the product of historic and current racial discrimination. The fact that whites have greater wealth than African Americans and Hispanics/Latinos is due in large part to homeownership rates, both current and in the property that has been passed down over one or more generations. These differences in homeownership rates were (and still are) impacted by racial discrimination in home ownership and lending, which, until the passage of the Fair Housing Act in 1968, was legal in much of the country. Similarly, credit scores and income are impacted by levels and quality of education, which are also to a large degree a product of where people live.

To argue that the racial disparities that exist in mortgage lending can be explained by underwriting guidelines or other such “borrower characteristics” is simply an admission that our society has produced great inequalities in these areas based on race and that we will continue to tolerate such inequity. Rather than reaching for such excuses, the Housing Center believes that we must address not only current racial disparities and illegal discrimination in mortgage lending but also develop remedies to address the lingering effects of past discrimination.

The Housing Center has made several recommendations in previous reports, based on findings of discrimination in mortgage lending in 2005 and 2006. Since these issues still have not been addressed, and since the 2007 data revealed such persistent racial and ethnic disparities, we continue to recommend:

1. Increasing investigations of mortgage lenders to ensure that they are adequately complying with the Fair Housing Act and other anti-discrimination statutes to provide loans on a non-discriminatory manner. In the fall of 2005, the Federal Reserve Board identified approximately 200 lending institutions for review by federal regulators to determine if they were discriminating against minorities by charging them higher rates.²¹ To date, no further information has been released on any of these investigations, including even identifying the lenders under investigation. The Housing Center strongly urges federal, state, and local regulatory agencies and departments to undertake thorough investigations of mortgage lenders to ensure that they are complying with all applicable anti-discrimination laws.
2. Strengthen HMDA disclosure requirements to require the release of data regarding credit scores, loan-to-value (LTV) and debt-to-income (DTI) ratios, and other information, in order to better assess lenders’ compliance with anti-discrimination laws. Although lenders point to such credit-related factors as potential explanations for disparities in denial rates and high-cost lending rates, these same lenders have argued strenuously against the release of data that could either support or disprove these contentions, in essence telling consumers to “trust us.” Given the history of lending discrimination in our country, it is important that accurate, objective

²¹ Downey, Kirstin, “Mortgage Lenders Analyzed for Bias: Action Could Lead to Broader Probe,” *Washington Post*, October 1, 2005, D-1.

information be released, both to allow individuals and regulators to address institutions that are engaging in illegal discrimination as well as to support those institutions that are not engaging in such practices and are making credit available in responsible ways to all members of the community.

3. Amending the Community Reinvestment Act (CRA) to ensure that all depository institutions are meeting the credit needs of all communities, including not only low and moderate income borrowers and neighborhoods but also minority borrowers and neighborhoods.
4. Developing creative mechanisms that ensure that African Americans, and other racial and ethnic minorities, are not penalized in the mortgage underwriting process, through the use of credit scores, credit histories, and other screening tools, that themselves reflect and reproduce historic racial and ethnic discrimination.

Appendix – Data Sources & Tables

This report used mortgage lending data provided by lenders to the federal government under the Home Mortgage Disclosure Act (HMDA), 12 U.S.C. §2801, *et seq.* This statute requires most mortgage lenders – including banks, savings and loan associations, credit unions, and mortgage and consumer finance companies – located in metropolitan areas to report certain data regarding their loans to the federal government and members of the public.

Lenders without offices in metropolitan areas and/or who originate or accept fewer than five applications in metropolitan areas are exempt from the HMDA reporting requirements.²² Lenders with small assets size are not required to report data for the following year.²³ Lenders who are covered by the HMDA reporting requirements must report data on home purchase loans, refinancing loans, and home improvement loans. However, reporting is optional for home equity loans (HELOCs) that are intended for home improvement or home purchase, and HELOCs that are not intended for home improvements or home purchases are not required to be reported.²⁴

Although not all lenders are required to provide data under the Act, HMDA data is generally regarded as providing the most thorough information available on mortgage lending.²⁵

Nationwide, there were 26.2 million loan records reported for calendar year 2007, with 8,610 institutions reporting.²⁶ These lenders account for approximately 80% of the estimated number of loans originated nationwide in 2007.²⁷ In Ohio, there were over 774,401 loan records reported for calendar year 2007, with approximately 1,150 institutions reporting.

Under HMDA, lenders are required to report data on the race, ethnicity, gender, and income of an applicant; the type, amount, and, in some instances, price of the loan; the disposition of the application; the type and location of the property; and whether the loan was sold.²⁸ While some

²² See FFIEC, “2006 Reporting Criteria for Depository Institutions,” available at <http://www.ffiec.gov/hmda/reportde2006.htm>, and FFIEC, “2006 Reporting Criteria for Nondepository Institutions,” available at <http://www.ffiec.gov/hmda/reportno2006.htm>. However, if a lender is required to report HMDA data, it must report information on all of its applications and loans (other than HELOCs, as is discussed below), including those in non-metropolitan areas. Avery, *et al.* (2007), at A109.

²³ Lenders with less than \$35 million in assets on December 31, 2005, did not have to report data in 2006. FFIEC, “2006 Reporting Criteria for Depository Institutions,” available at <http://www.ffiec.gov/hmda/reportde2006.htm>.

²⁴ Federal Reserve, “Frequently Asked Questions About the New HMDA Data,” April 3, 2006, at 2, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>.

²⁵ See, e.g., Carsey Institute, “Subprime and Predatory Lending in Rural America: Mortgage Lending Practices that Can Trap Low-Income Rural People,” Policy Brief No. 4 (Fall 2006), p. 2.

²⁶ Of these, 7.6 million were home purchase loans, 11.5 million were refinancing loans, 2.2 million were home improvement loans, and 4.8 million were loans purchased from other institutions. Avery, *et al.* (2008), at 48.

²⁷ Avery, *et al.* (2008), at 2.

²⁸ FFIEC, “Frequently Asked Questions About the New HMDA Data,” April 3, 2006, at 1, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>; Avery, *et al.* (2007), at A109.

HMDA data on race and ethnicity is not reported, under Federal Reserve Board regulations, lenders are required to complete this information based on “visual observation or surname.”²⁹

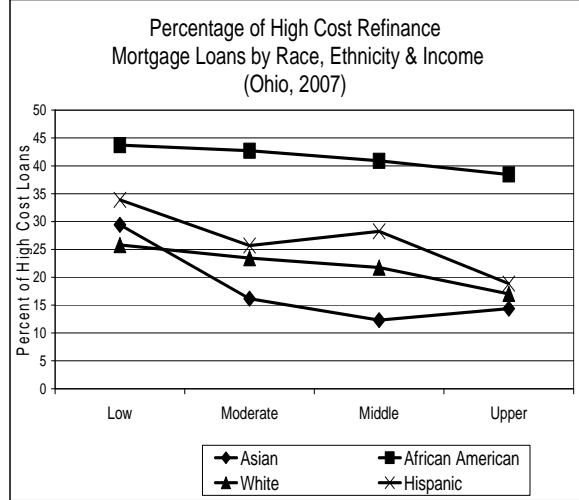
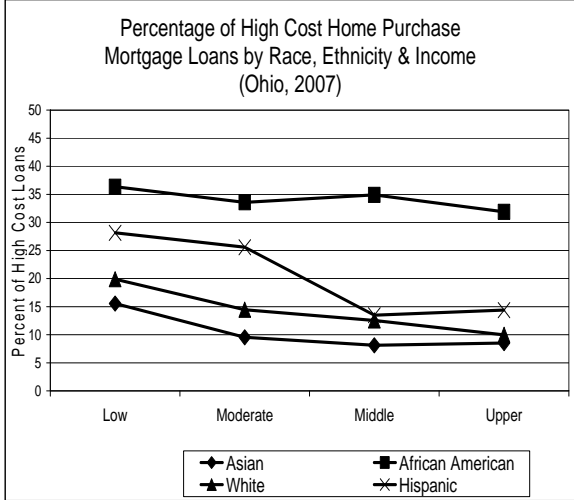
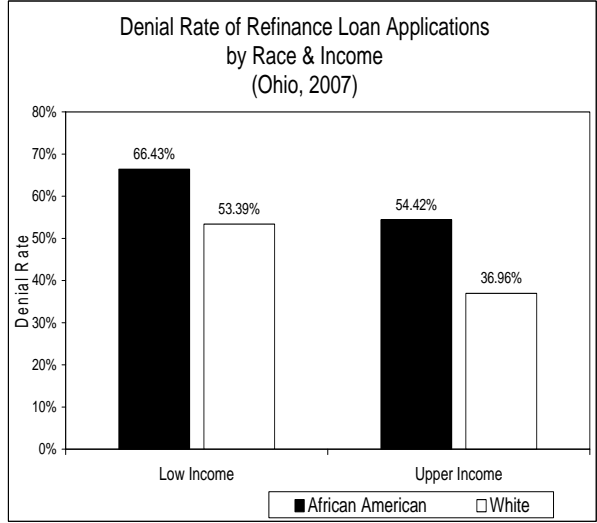
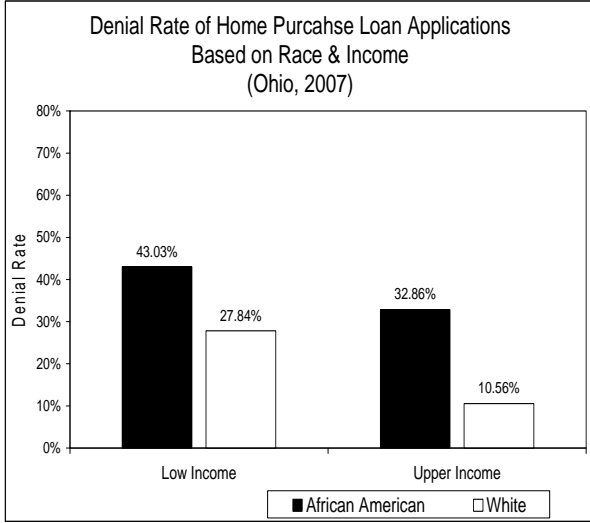
“High-cost lending” is not synonymous with “subprime lending” or “predatory lending.” High-cost lending is a narrower category than “subprime” lending, and some subprime loans are likely not counted among the loans identified in this report. Further, while many “predatory” loans are likely included in the high-cost category, not all loans in this category are necessarily predatory, and some predatory loans may not meet the threshold triggers.

Despite these limitations, the Housing Center believes that an examination of the rates of high-cost lending for different racial, ethnic, and income groups is useful as one factor to look at in order to determine possible racial and ethnic disparities in mortgage lending.

²⁹ 12 C.F.R. Sec. 202.13(b).

Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

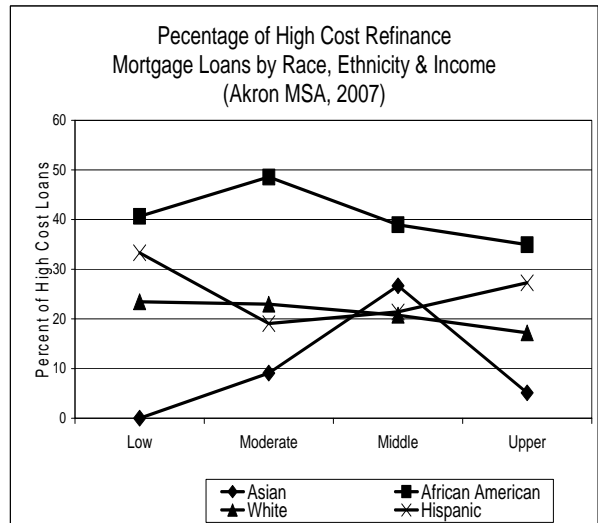
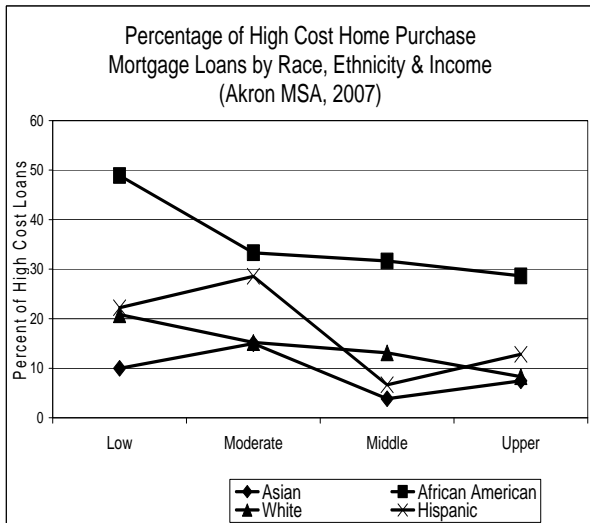
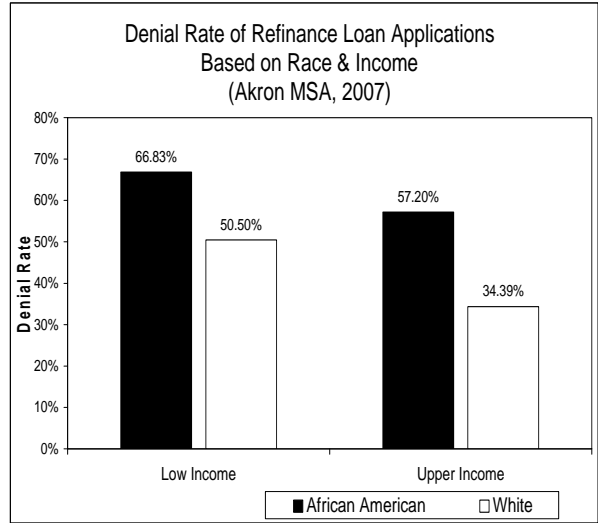
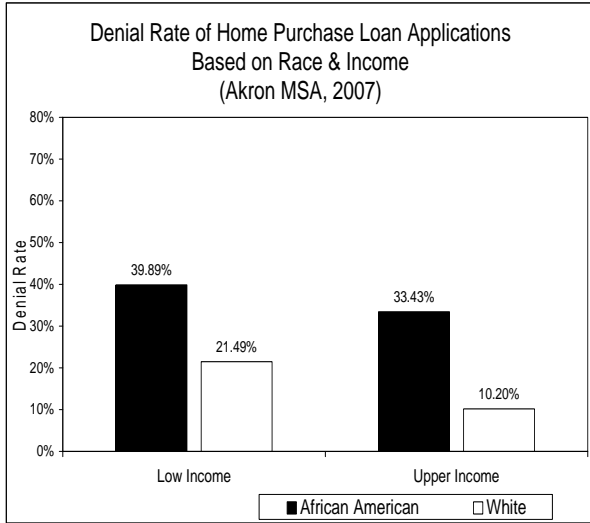
State of Ohio



Source: 2007 HMDA data.

Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

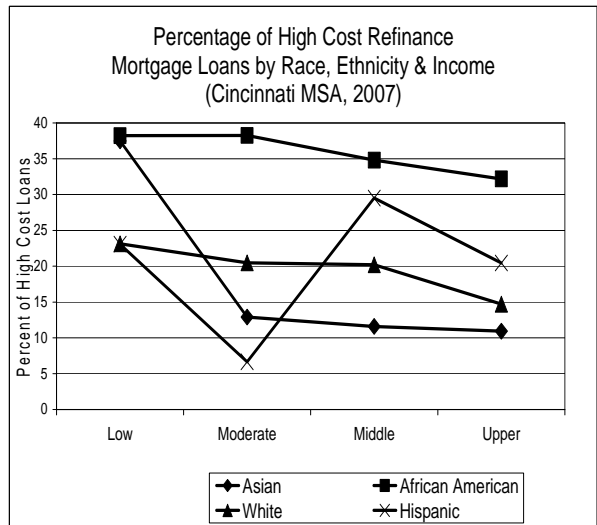
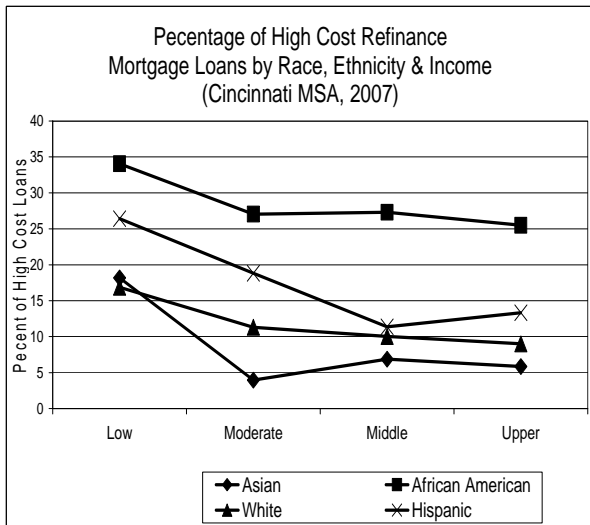
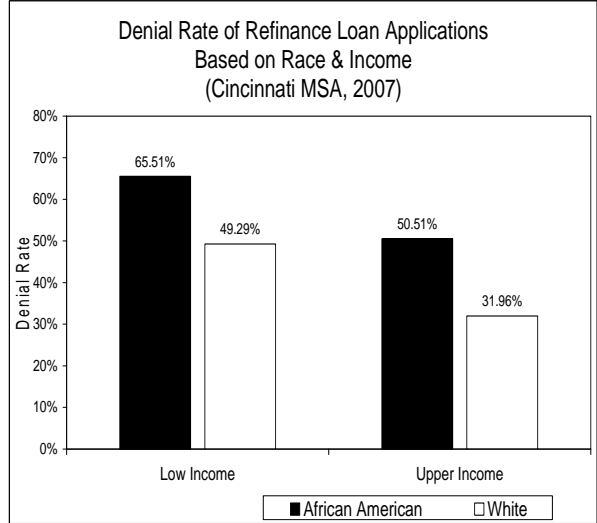
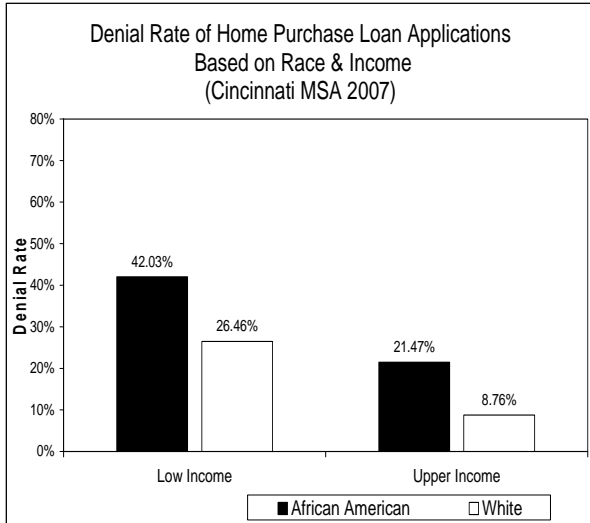
Akron MSA



Source: 2007 HMDA data.

Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

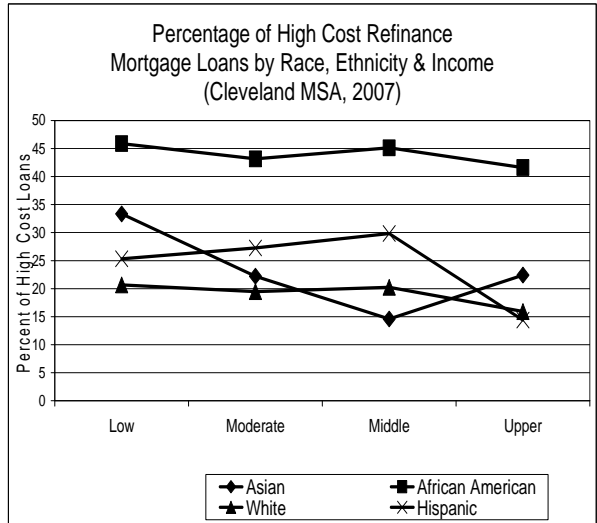
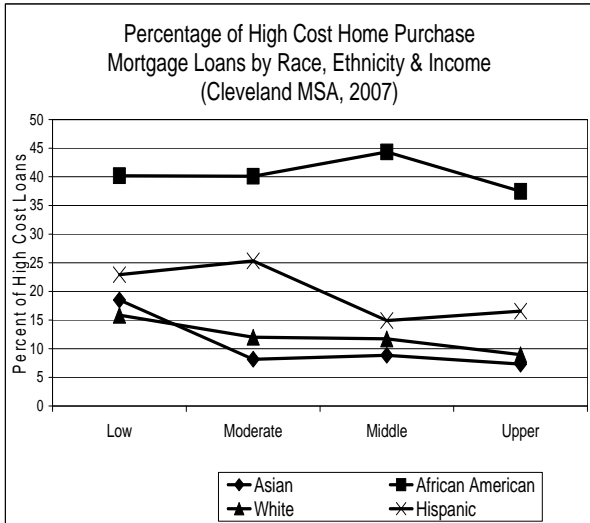
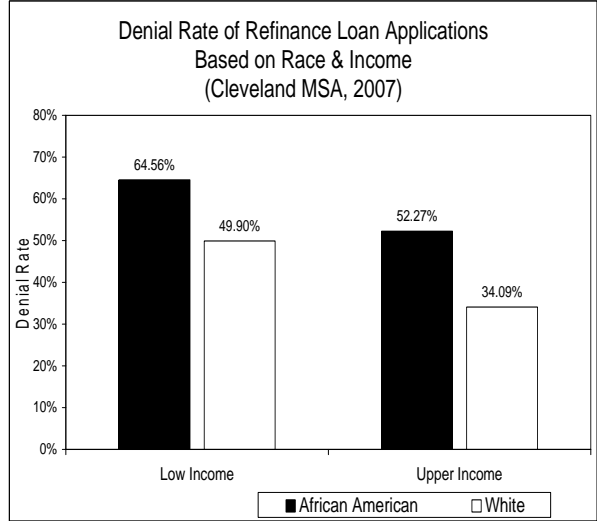
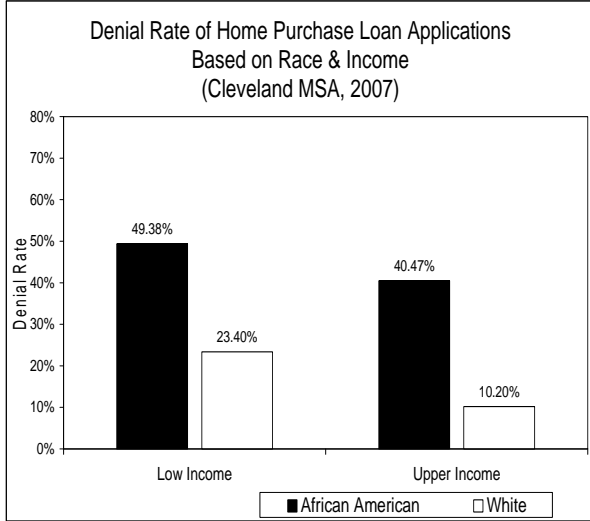
Cincinnati MSA



Source: 2007 HMDA data.

Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

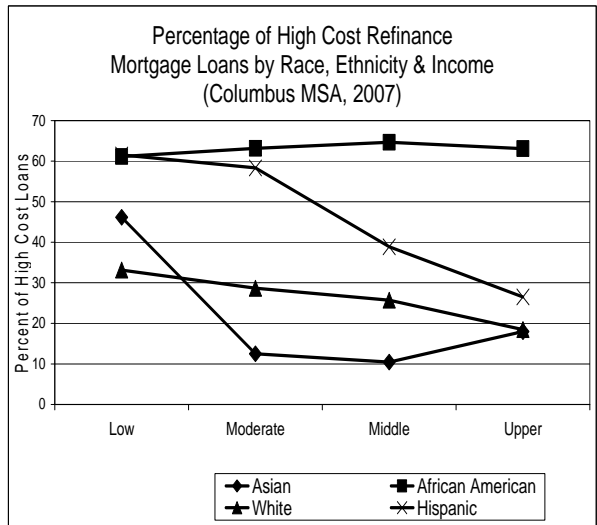
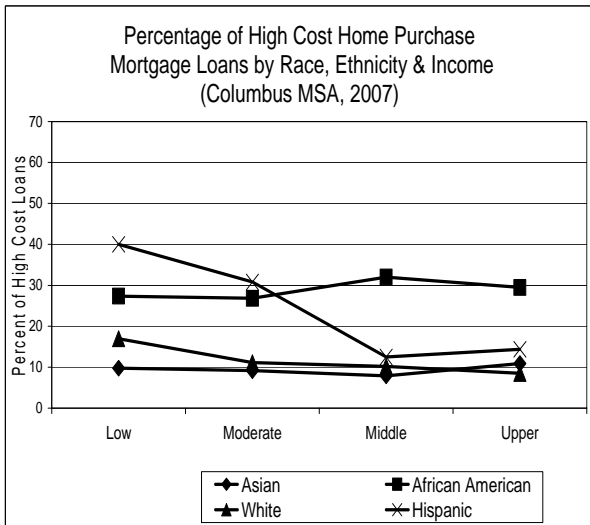
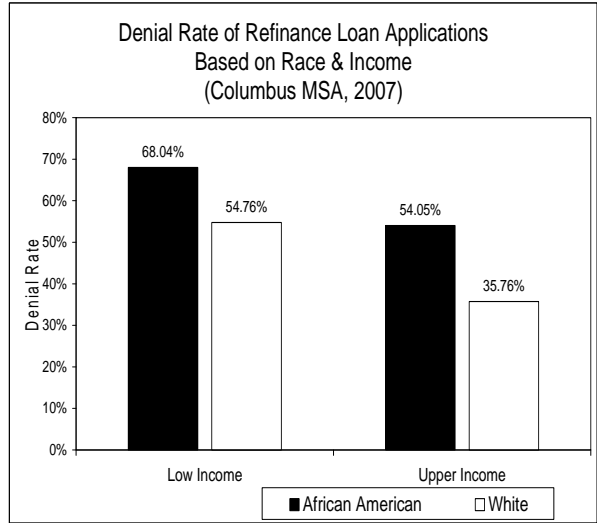
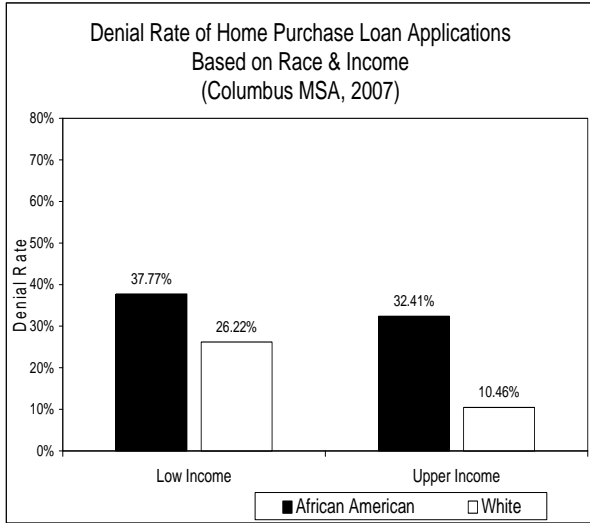
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Source: 2007 HMDA data.

Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

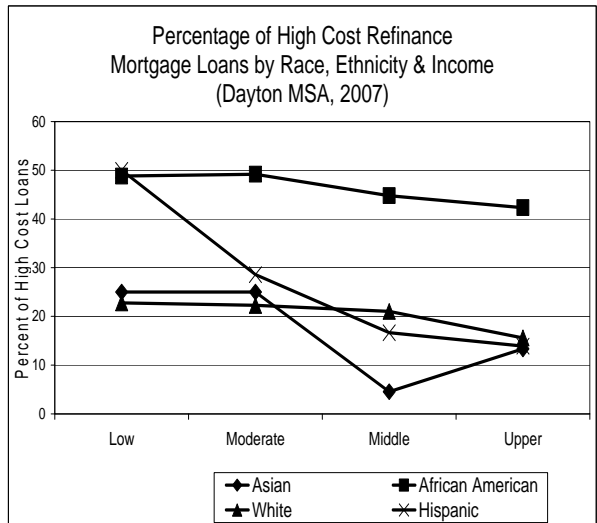
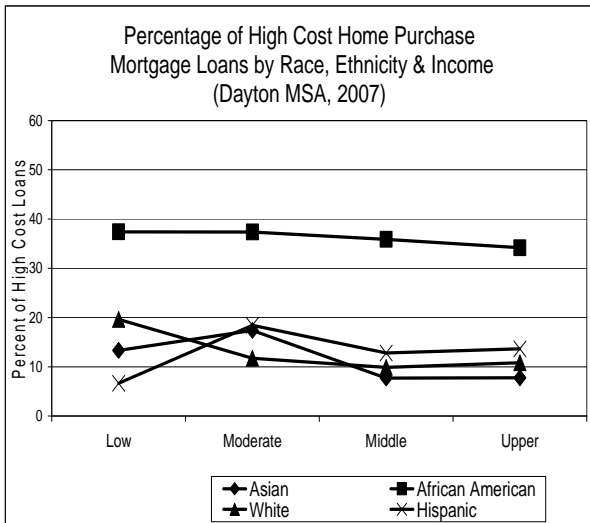
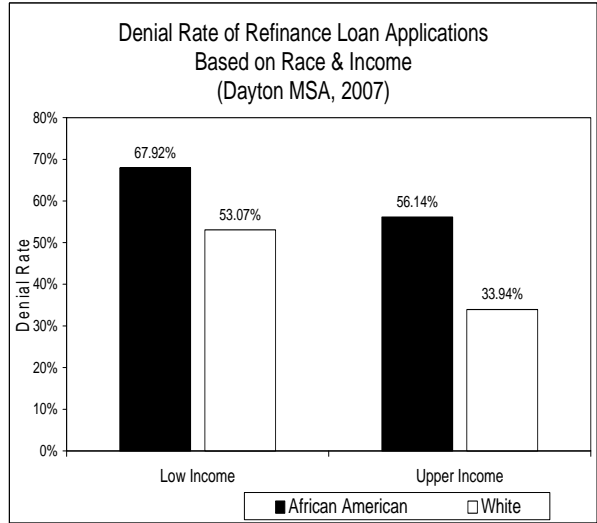
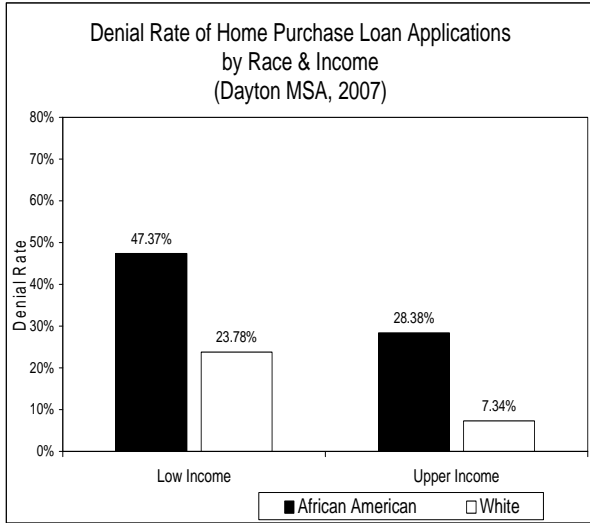
Columbus MSA



Source: 2007 HMDA data.

Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

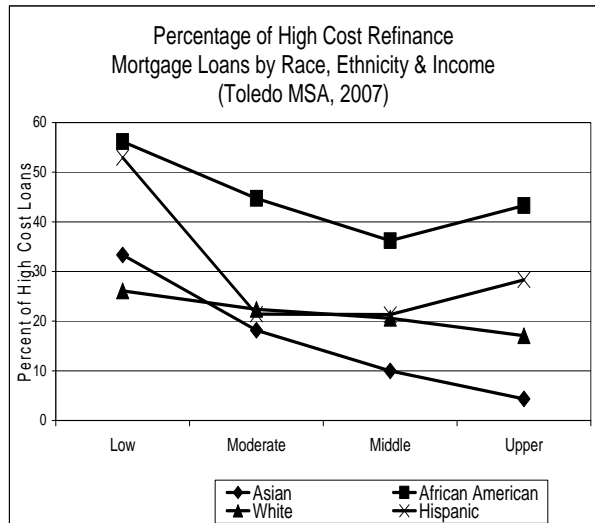
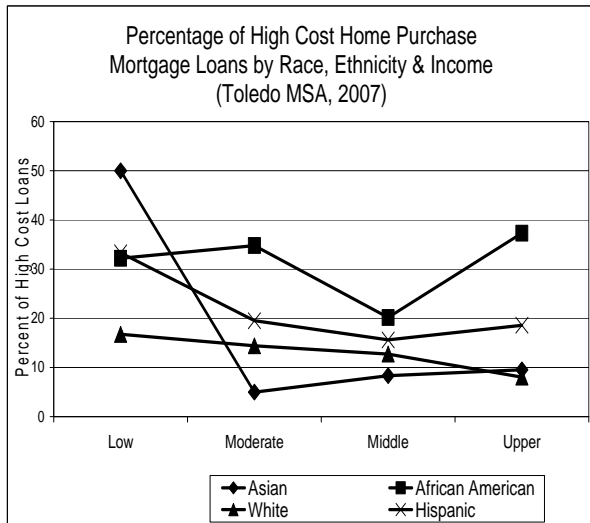
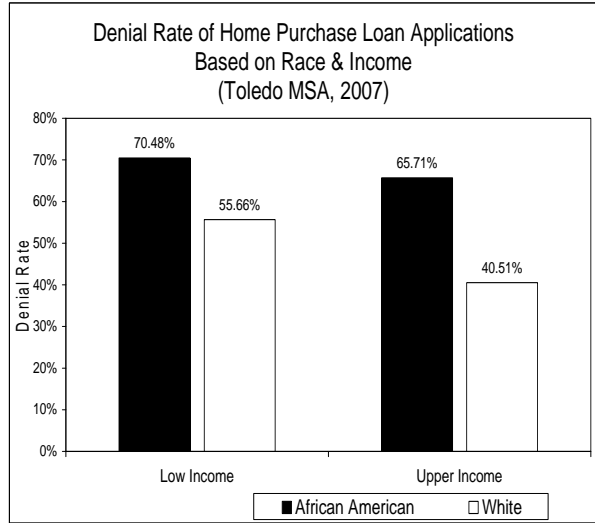
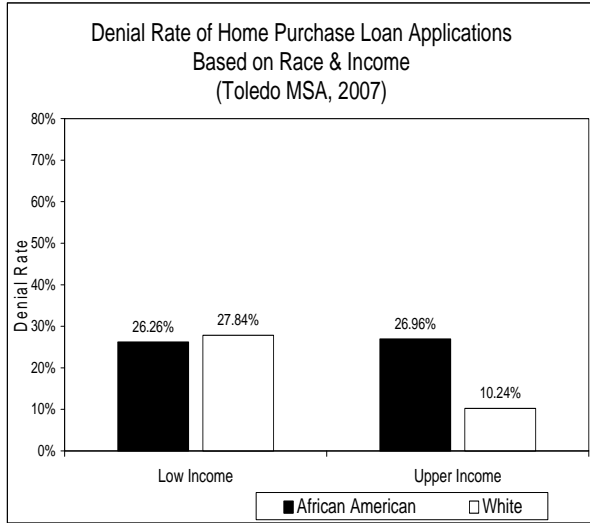
Dayton MSA



Source: 2007 HMDA data.

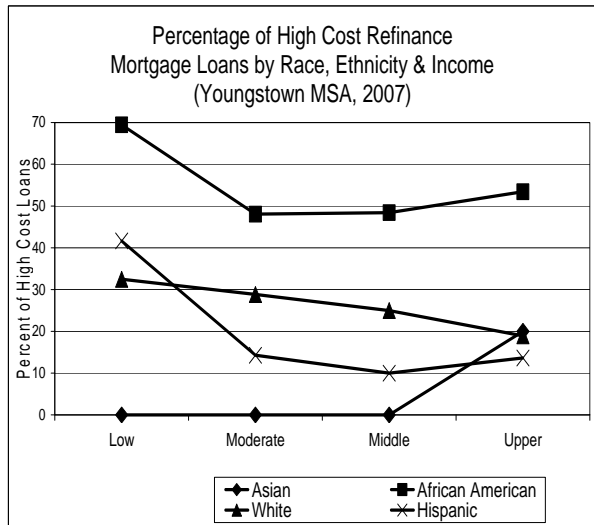
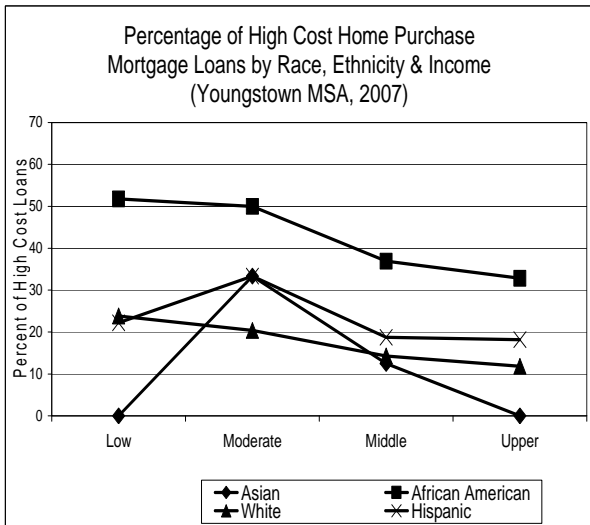
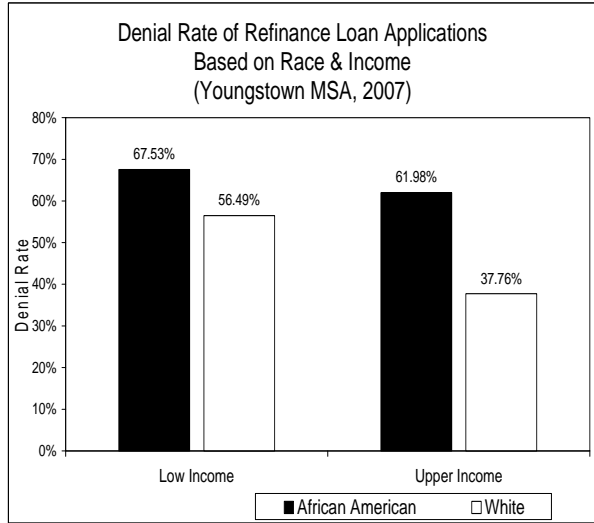
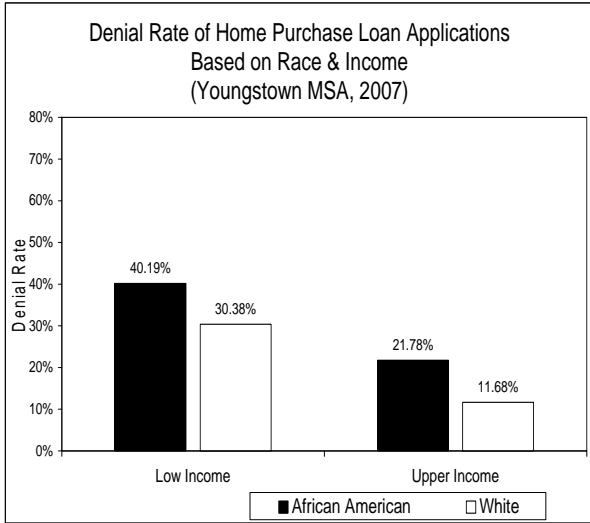
Persisting Racial & Ethnic Disparities in Ohio Mortgage Lending: February 2009

Toledo MSA



Source: 2007 HMDA data.

Youngstown MSA



Source: 2007 HMDA data.