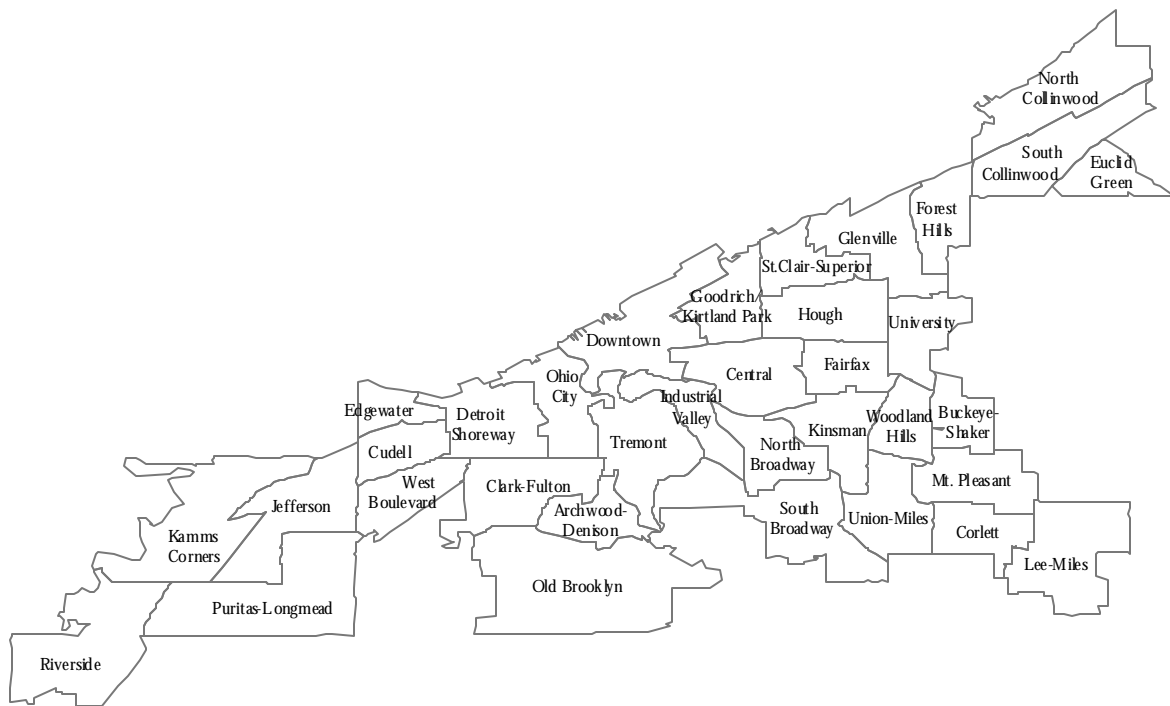


Analysis of Lending Patterns in the City of Cleveland



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Introduction

The Housing Research & Advocacy Center is a non-profit fair housing agency located in Cleveland, Ohio that is dedicated to ensuring that all people in the Cleveland Metropolitan Statistical Area (MSA) receive equal access to housing, regardless of their family status, race, sex, disability, color, religion or national origin. The Housing Research & Advocacy Center has a long history of promoting fair housing and lending in Greater Cleveland. The Housing Center was established in 1983 as the Metropolitan Strategy Group, and changed its name in 2003 to better reflect the organization's mission. The Housing Center was founded as a "brown bag" luncheon group of local fair housing/civil rights advocates who shared a goal of expanding housing opportunities for Greater Clevelanders regardless of their race, religion, gender, ethnicities, national origins, familial status, or disabilities. Through the years the scope of the agency has changed from a grass roots coalition of community groups to a focused fair housing agency but its mission has remained constant - to ensure, through research, educational programs, public policy and enforcement activities that all residents are guaranteed equal access to housing. Ensuring that everyone has access to mortgage loans is key to the mission of the Housing Center, and therefore, research into the lending patterns of banks that do business in our community is of great concern. Without access to mortgage loans, residents do not have access to homeownership.

The Housing Center has four major program activities. These four activities are: 1) systemic and complaint based discrimination testing, 2) enforcement activities, 3) mapping and research, and 4) education and outreach. Each of these activities is essential to fulfill the organization's mission.

The Housing Center began performing research and mapping in 1997 when it received a donation of the ArcView GIS mapping software from Essential Information in Washington D.C. Since that time, the agency has produced a number of reports and maps illustrating lending patterns within Greater Cleveland and around the State of Ohio for city governments, community activists and non-profit agencies. The Housing Center's research has resulted in effective community change including special allocation of funds from Fannie Mae to purchase non-conforming loans in the City of Cleveland and a community reinvestment agreement with Charter One Bank and community groups throughout the state pursuant to which the Bank agreed to increase its lending in Low-Moderate Income (LMI) and minority census tracts and to LMI and minority families.

This research was undertaken as part of a subcontract with Housing Advocates, Inc., as part of the Home Ownership Assistance Program (HOAP) funded by the City of Cleveland Department of Community Development. The purpose of this research is to outline the lending patterns within the City of Cleveland.

Through this research, we reviewed relevant lending data to compile information about the prime lenders that have a physical presence in these communities, the prime and subprime lenders that are making loans in these cities and the general aggregate lending patterns in the home purchase and refinancing markets within the City, as well as the recent trends in home foreclosures in Cleveland. The purpose of this research is not only to identify these lending patterns but also determine if prime lenders are adequately marketing and originating loans in these communities.

The Data

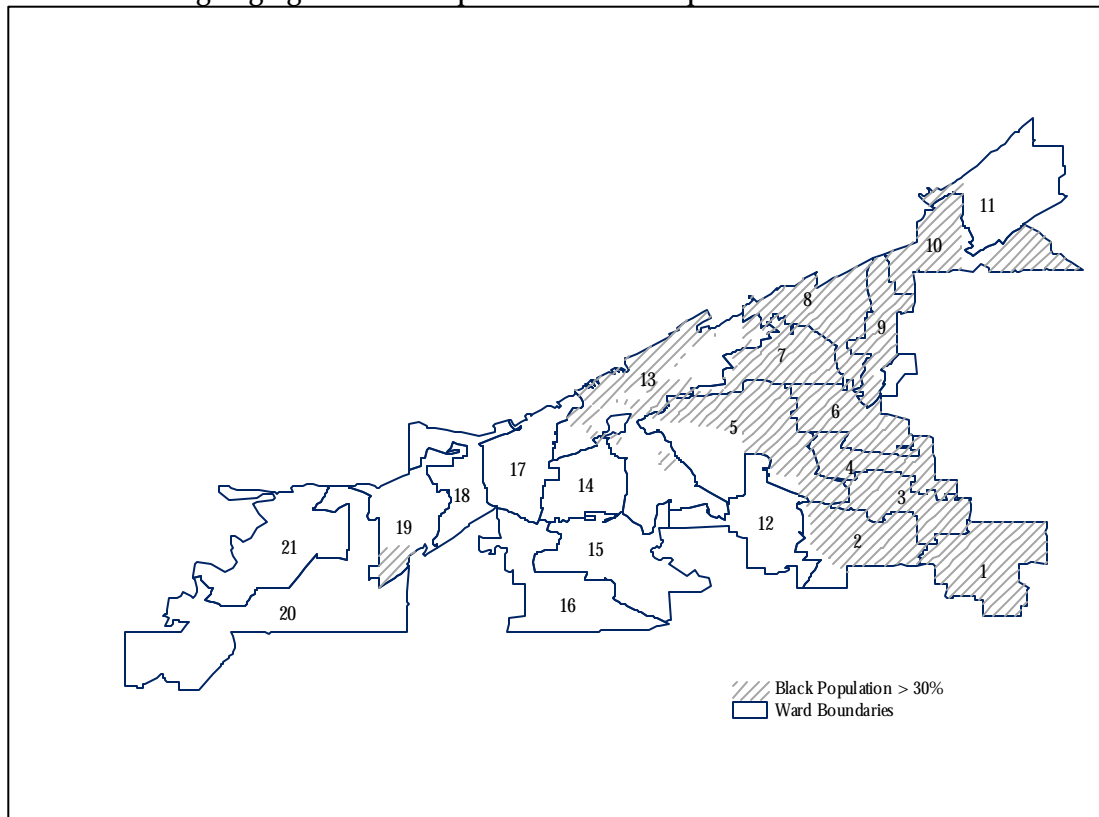
Four types of data were used to complete this lending analysis: 1) U.S. Census Data, 2) Home Mortgage Disclosure Act (HMDA) Data, 3) Federal Deposit Insurance Corporation (FDIC) data, and 4) Foreclosure data gathered by the Housing Center in 2002/03. The U.S. Census Bureau has released almost all of the data collected in the 2000 Census, and this most recent demographic data has been used for this report. The HMDA data provides information about the lenders doing business in the Cleveland area, including subprime lender aggregate data, prime lender aggregate data, as well as individual lender data. The FDIC provides data on the total deposits taken at each bank branch. The most current data available from the Census, HMDA and the FDIC has been used for this project.

City of Cleveland Demographic Information

According to the 2000 U.S. Census, the City of Cleveland has 478,393 residents, making up 34% of the total population of Cuyahoga County, Ohio. The City is home to more than 63% of the African American residents of the County.¹ As seen in the map below (*Census Tract Race Demographic Patterns in the City of Cleveland*) the City's African American Population is concentrated on the eastside of the Cuyahoga River, as it has been for decades.

Census Tract Race Demographic Patterns in the City of Cleveland

Housing segregation has a profound effect upon both individual victims and the



economic stability of The City of Cleveland. In a recent study completed by the United States Census Bureau entitled *Racial and Ethnic Residential Segregation in the United States: 1980 – 2000*, the authors concluded that the Cleveland-Lorain-Elyria SMSA ²(standard metropolitan statistical area) was the third most segregated metropolitan area in the country.³ The fact that the Cleveland SMSA remains one of the most segregated metropolitan areas in the country has potentially severe consequences for the long-term economic stability of the region. According to some researchers, there is a direct correlation between economic growth and the presence of stable integrated neighborhoods.⁴

Segregated housing patterns like those in the City of Cleveland also affect the ability of African American families to build wealth through home ownership. A recent report sponsored by the Brookings Institute, concludes that a “segregation tax” is imposed on black homeowners. In the Cleveland Metropolitan area, the segregation tax imposed on black homeowners is 24%, which means that a black homeowner with the same income as a white homeowner owns a home that is worth 24% less.⁵ The amount of the segregation tax is directly correlated with the level of segregation in the community and is caused by that segregation.⁶

Who is Making Loans in The City of Cleveland?

In order to determine which lenders are doing the most home purchase loans in the City, the lenders were ranked for both purchase and refinance by the number of applications received by the lender. Applications are an indication of the lenders presence in a community, and how the lender is marketing their loan product to residents. Of the home purchase lenders, five of the top ten lenders are depository institutions, while the other five lenders are mortgage companies and/or subprime lenders. (See table entitled *Top Ten Home Purchase Lenders in The City of Cleveland – 2002*). Of the top ten refinancing lenders, only four of the ten lenders are depository institutions, while the other six are mortgage companies and/or subprime lenders. (See table entitled *Top Ten Refinancing Lenders in The City of Cleveland – 2002*). For this report, the origination rates and the lenders market share of the given market (home purchase or refinance) were mapped for each of these twenty lenders. The origination rates illustrate where the lender is making loans, while the market share of applications illustrates that particular lenders’ share of the application being taken for either home purchase loans or refinancing loans.

¹ U.S. Census, www.factfinder.census.gov

² The Cleveland-Lorain-Elyria SMSA includes Cuyahoga, Lorain, Medina, Ashtabula, Geauga and Lake counties.

³ Iceland, John, Daniel H. Weinberg and Erika Steinmetz, U.S. Census Bureau, Series CENSR-3, *Racial and Ethnic Residential Segregation in the United States: 1980 – 2000*, p. 68, U.S. Government Printing Office, Washington, DC 2002.

⁴ Gregory Stoup, Acting Director, Center for Regional Economic Issues, Case Western Reserve University.

⁵ Rusk, David, *The Segregation Tax: The Cost of Racial Segregation to Black Homeowners*, The Brookings Institute Survey Series, October 2001, p. 11.

⁶ Id. at 4.

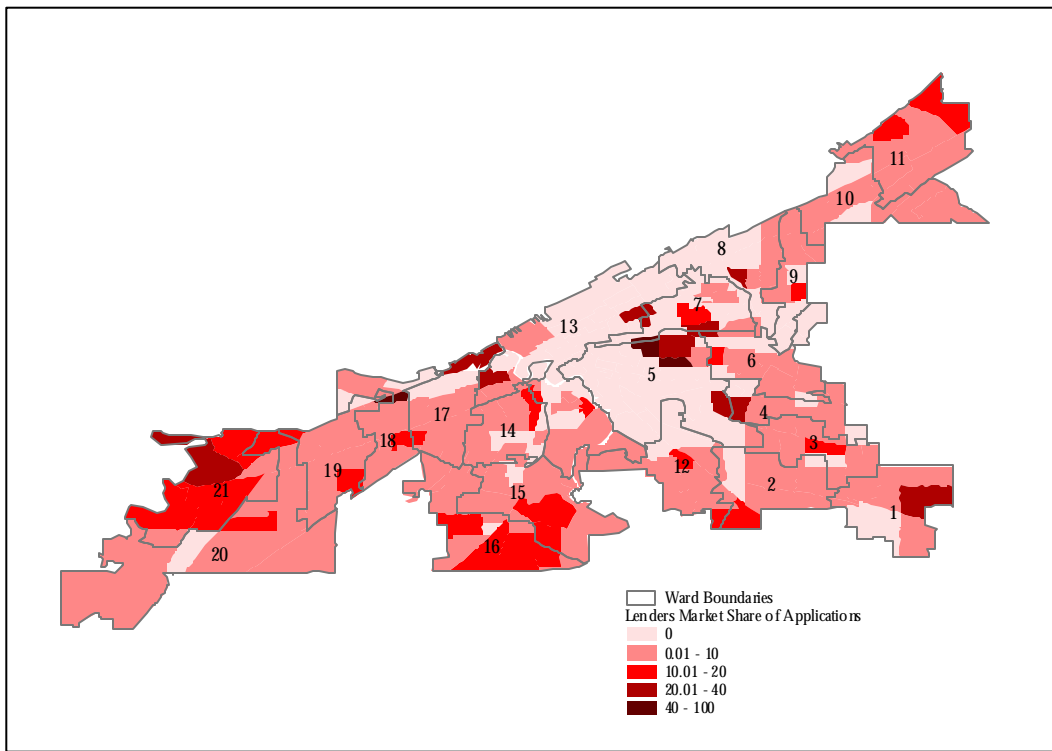
Top Ten Home Purchase Lenders in The City of Cleveland - 2002

| Rank | Lender | Applications | Approvals | Originations | Denials | Origination Rate | Loans to Low Income Borrowers | Loans to Moderate Income Borrowers | Loans to Lower Income Borrowers | Loans to Upper Middle Income Borrowers | Loans to Upper Income Borrowers |
|------|--------------------------------|--------------|-----------|--------------|---------|------------------|-------------------------------|------------------------------------|---------------------------------|--|---------------------------------|
| 1 | THIRD FEDERAL SAVINGS AND LOAN | 566 | 498 | 478 | 30 | 84.45 | 90 | 155 | 70 | 46 | 106 |
| 2 | CHARTER ONE BANK | 366 | 295 | 279 | 46 | 76.23 | 82 | 102 | 40 | 19 | 32 |
| 3 | COUNTRYWIDE HOME LOANS | 356 | 267 | 245 | 29 | 68.82 | 54 | 86 | 31 | 19 | 41 |
| 4 | NATIONAL CITY BANK | 354 | 298 | 255 | 53 | 72.03 | 72 | 71 | 31 | 16 | 45 |
| 5 | KEYBANK NATIONAL ASSOCIATION | 307 | 239 | 220 | 57 | 71.66 | 84 | 83 | 26 | 15 | 11 |
| 6 | FIRST PLACE BANK | 220 | 215 | 194 | 2 | 88.18 | 42 | 53 | 27 | 15 | 35 |
| 7 | FIFTH THIRD MORTGAGE COMPANY | 215 | 202 | 192 | 8 | 89.30 | 61 | 81 | 22 | 5 | 13 |
| 8 | PEOPLE'S CHOICE HOME LOAN, INC | 200 | 182 | 101 | 5 | 50.50 | 5 | 3 | 5 | 0 | 1 |
| 9 | AMERIQUEST MORTGAGE COMPANY | 198 | 161 | 107 | 23 | 54.04 | 19 | 52 | 17 | 7 | 12 |
| 10 | OHIO SAVINGS BANK | 191 | 165 | 153 | 14 | 80.10 | 13 | 23 | 9 | 6 | 14 |

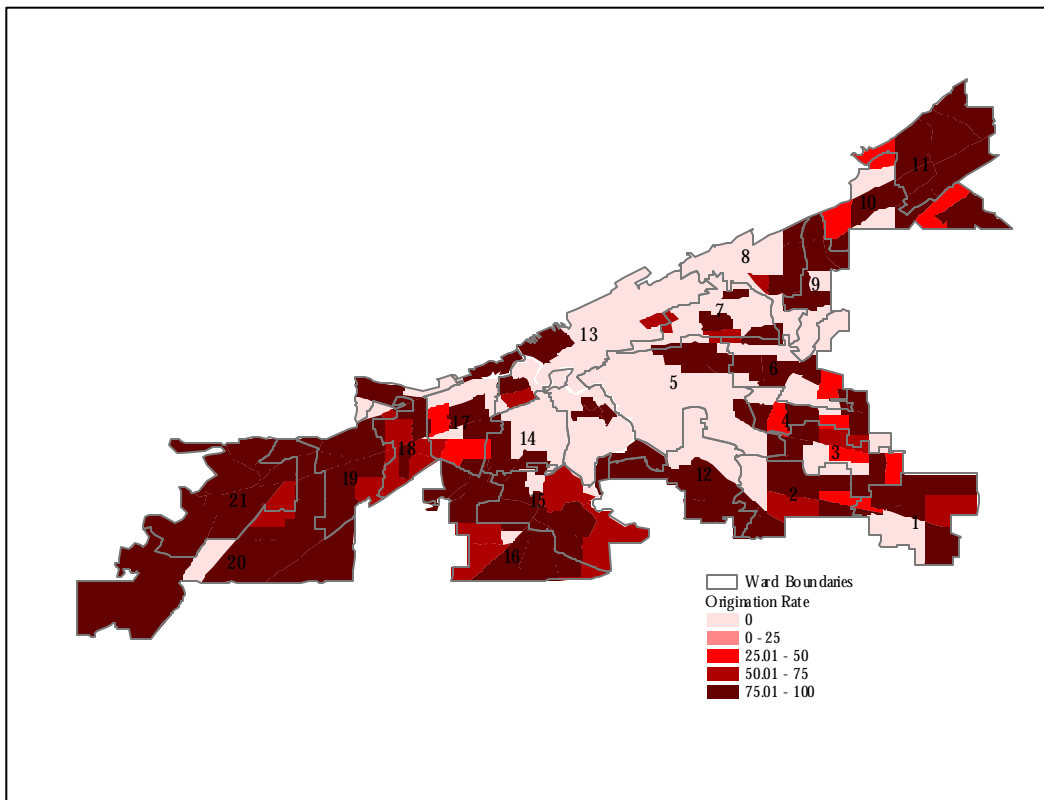
Source: 2002 HMDA Data

Home Purchase Lender Maps

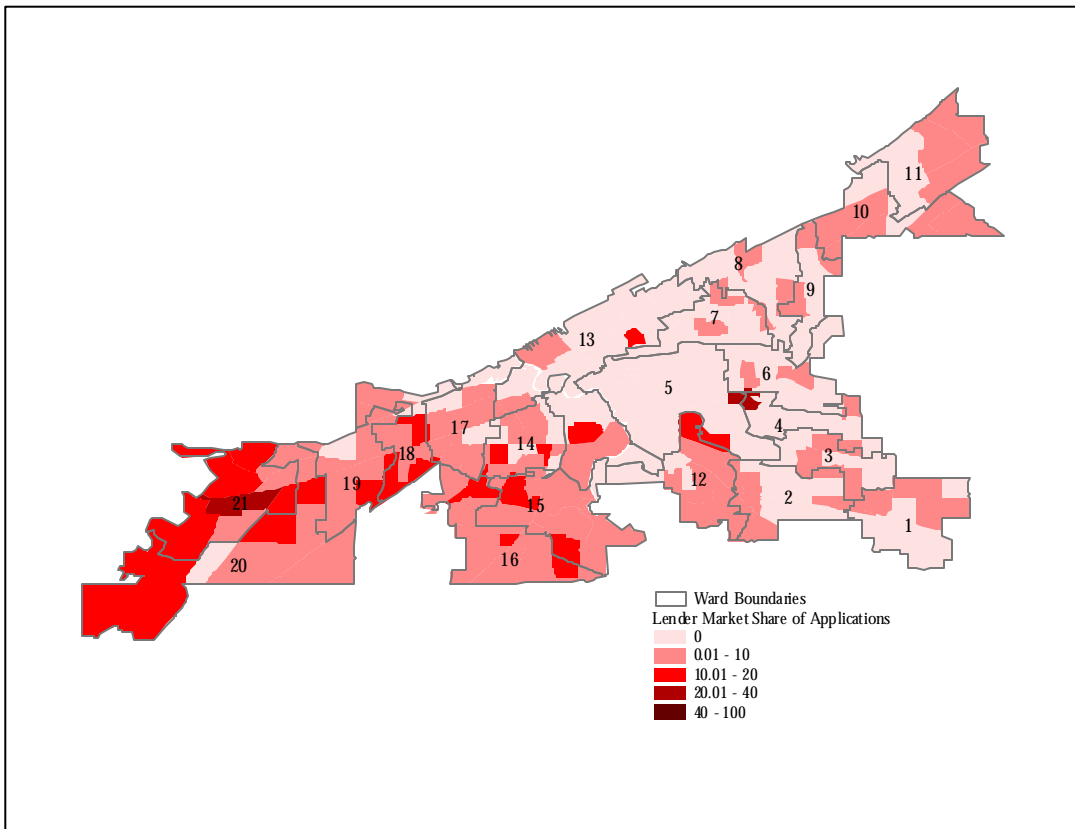
Third Federal Savings & Loan Market Share of Home Purchase Loans in Cleveland- 2002



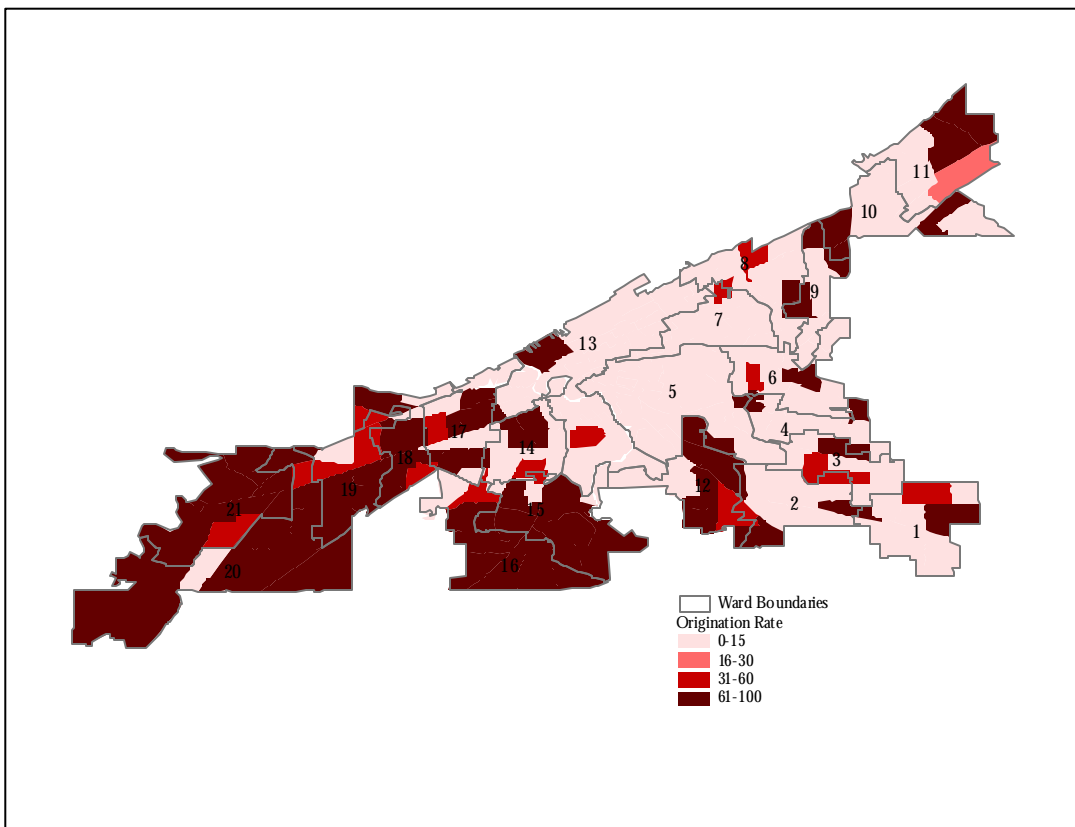
Third Federal Savings & Loan Origination Rate of Home Purchase Lenders in Cleveland - 2002



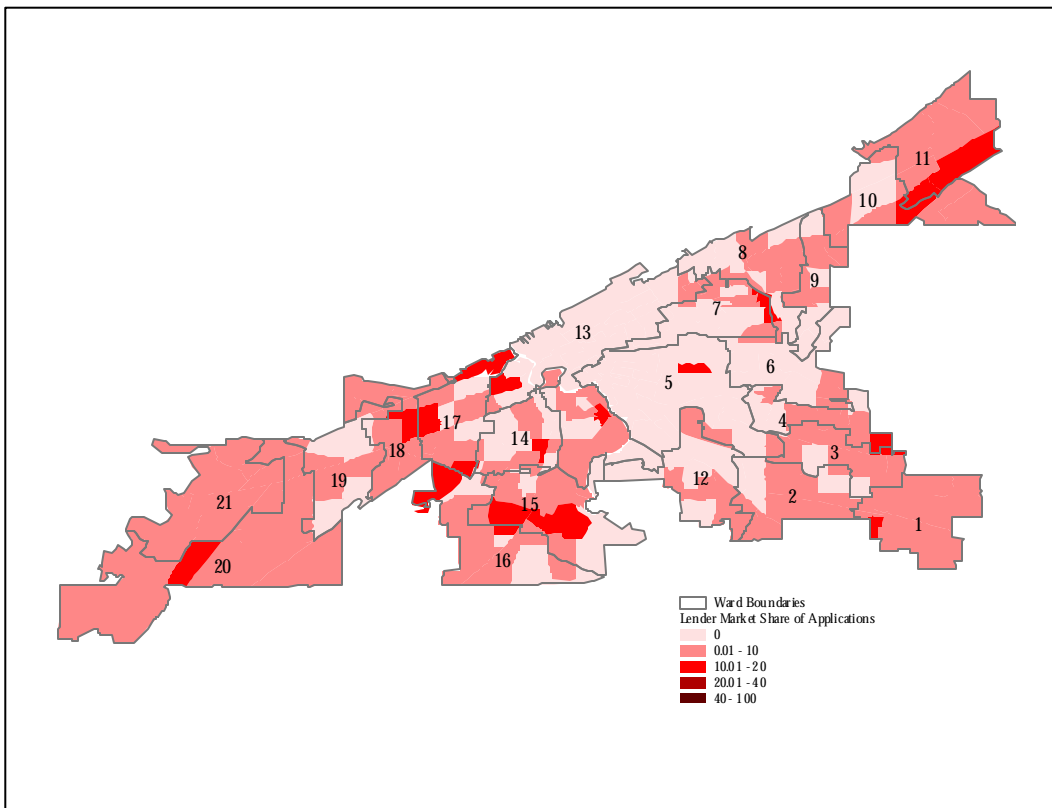
Charter One Bank Market Share of Home Purchase Applications in Cleveland- 2002



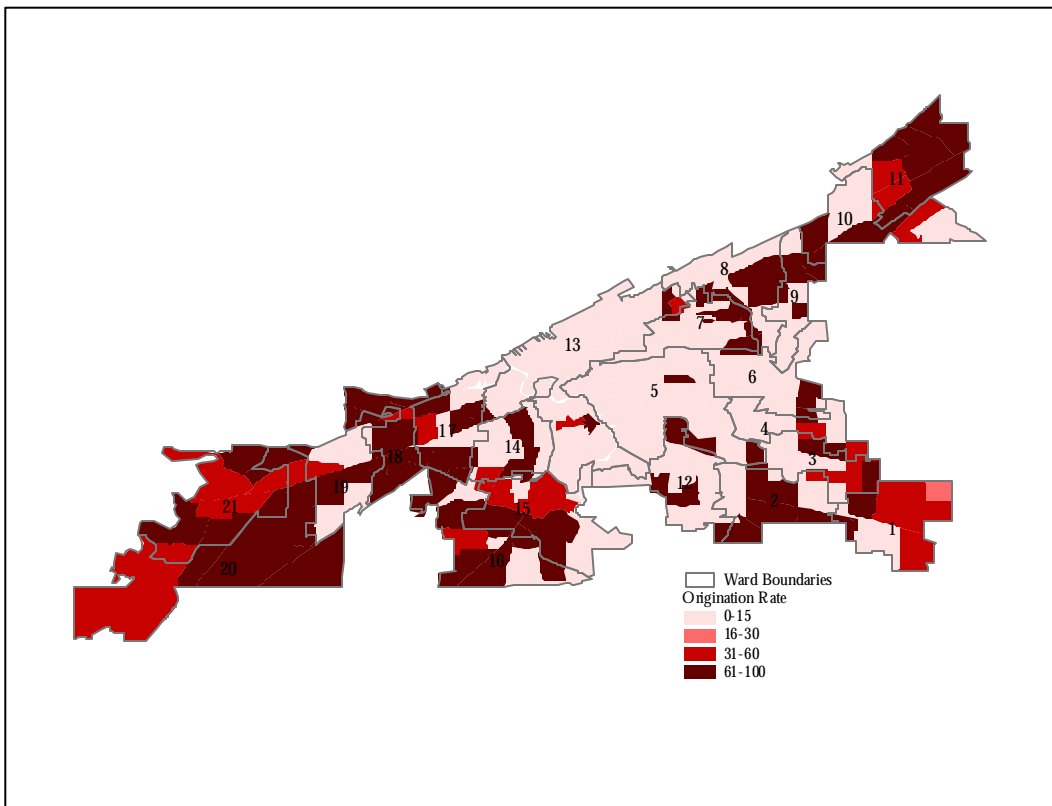
Charter One Bank Origination Rate of Home Purchase Loans in Cleveland- 2002



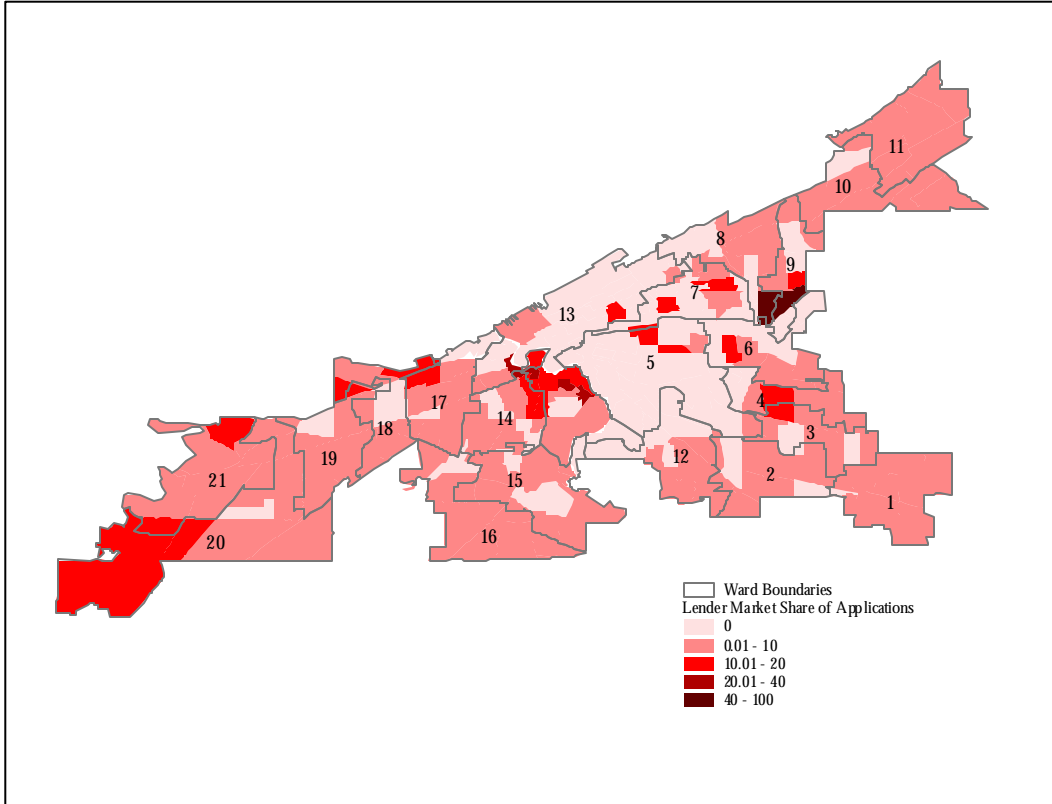
Countrywide Home Loans Market Share of Home Purchase Applications in Cleveland - 2002



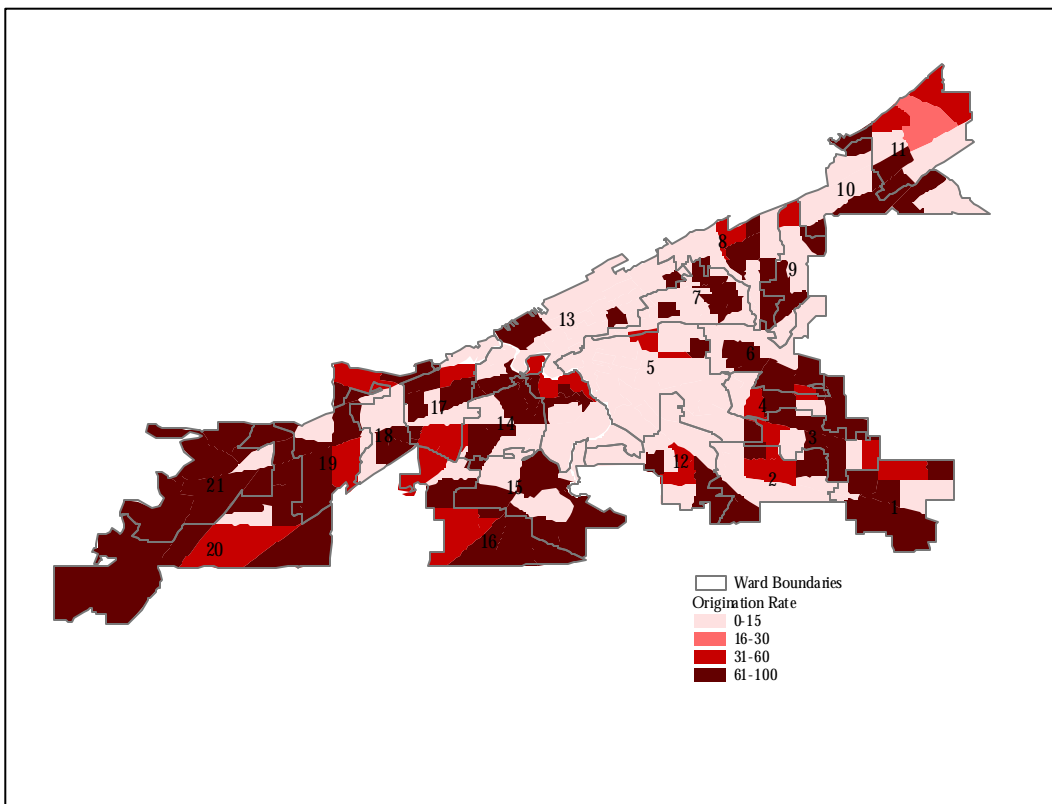
Countrywide Home Loans Origination Rate of Home Purchase Loans in Cleveland - 2002



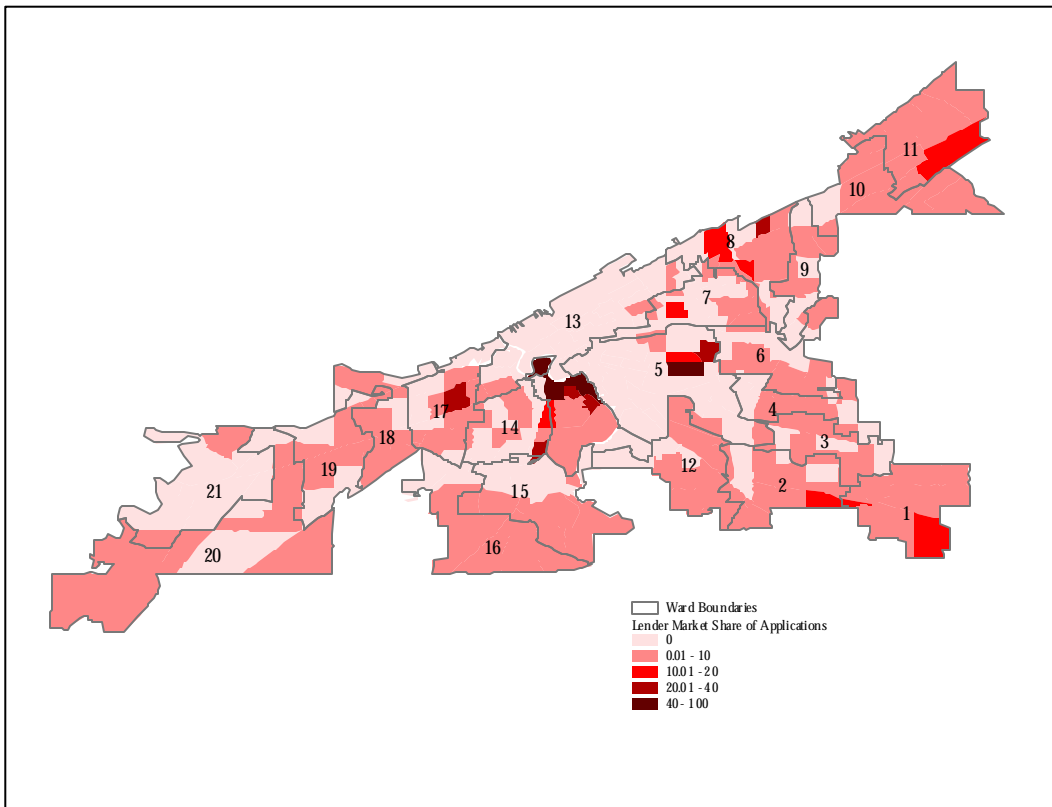
National City Bank Market Share of Home Purchase Applications in Cleveland- 2002



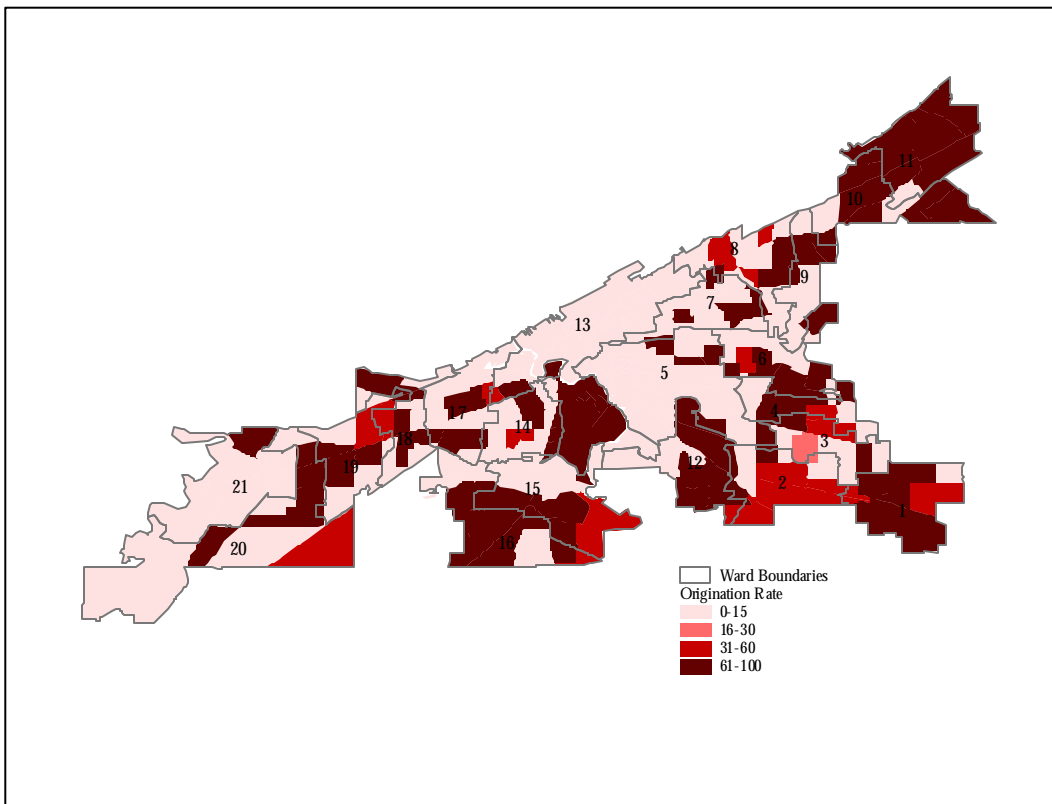
National City Bank Origination Rate of Home Purchase Loans in Cleveland - 2002



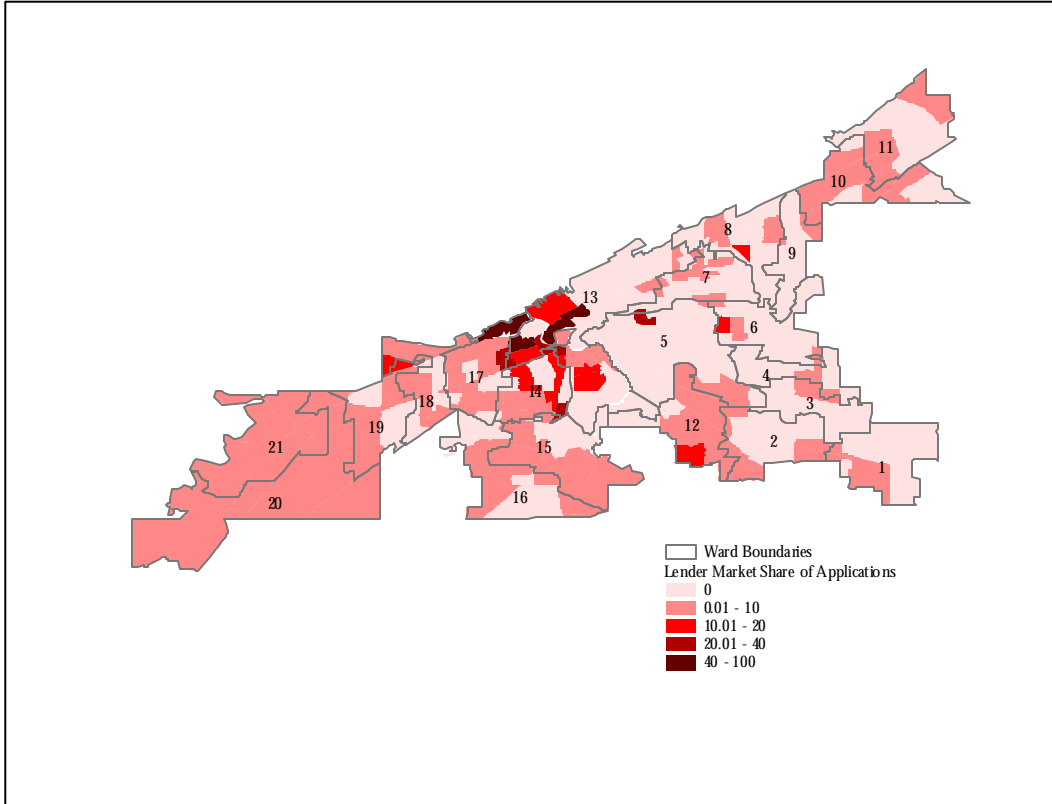
KeyBank Market Share of Home Purchase Applications in Cleveland - 2002



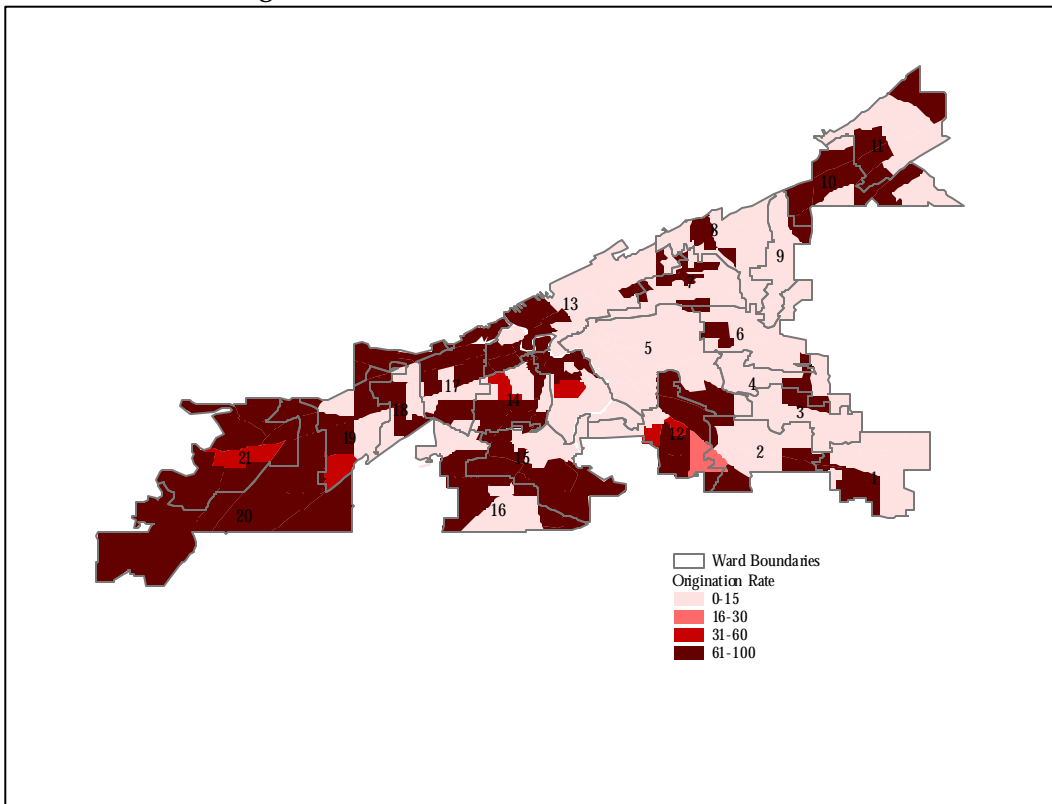
KeyBank Origination Rate of Home Purchase Loans in Cleveland- 2002



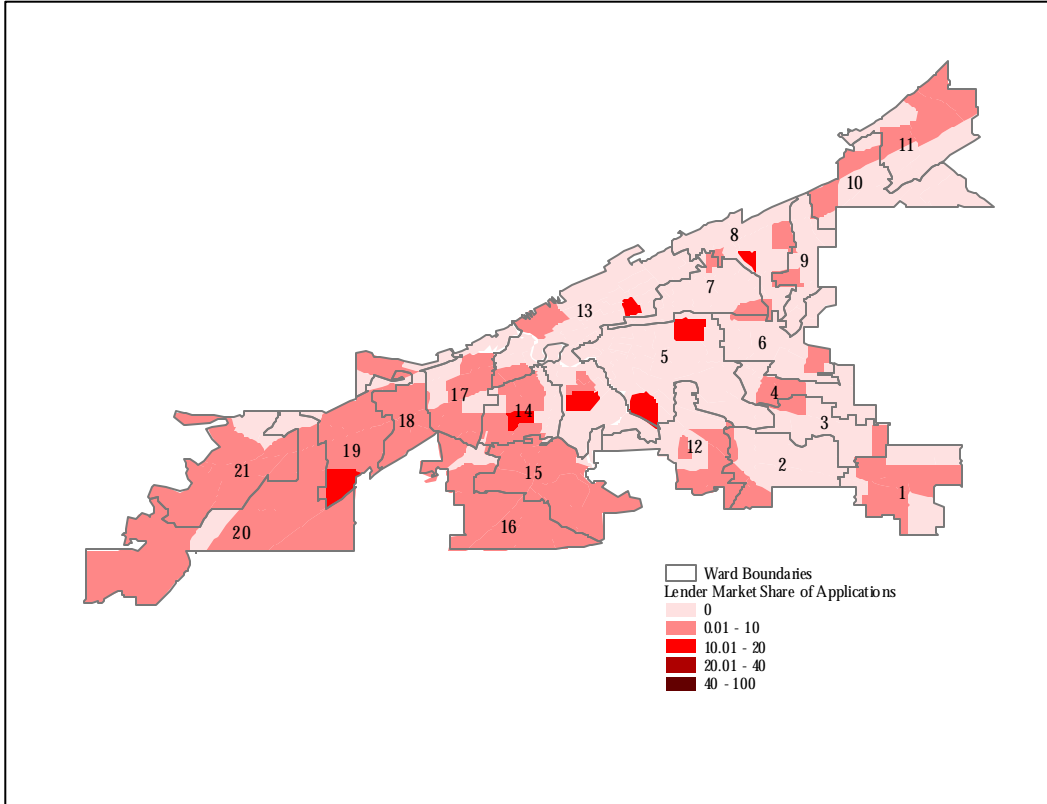
First Place Bank Market Share of Home Purchase Applications in Cleveland- 2002



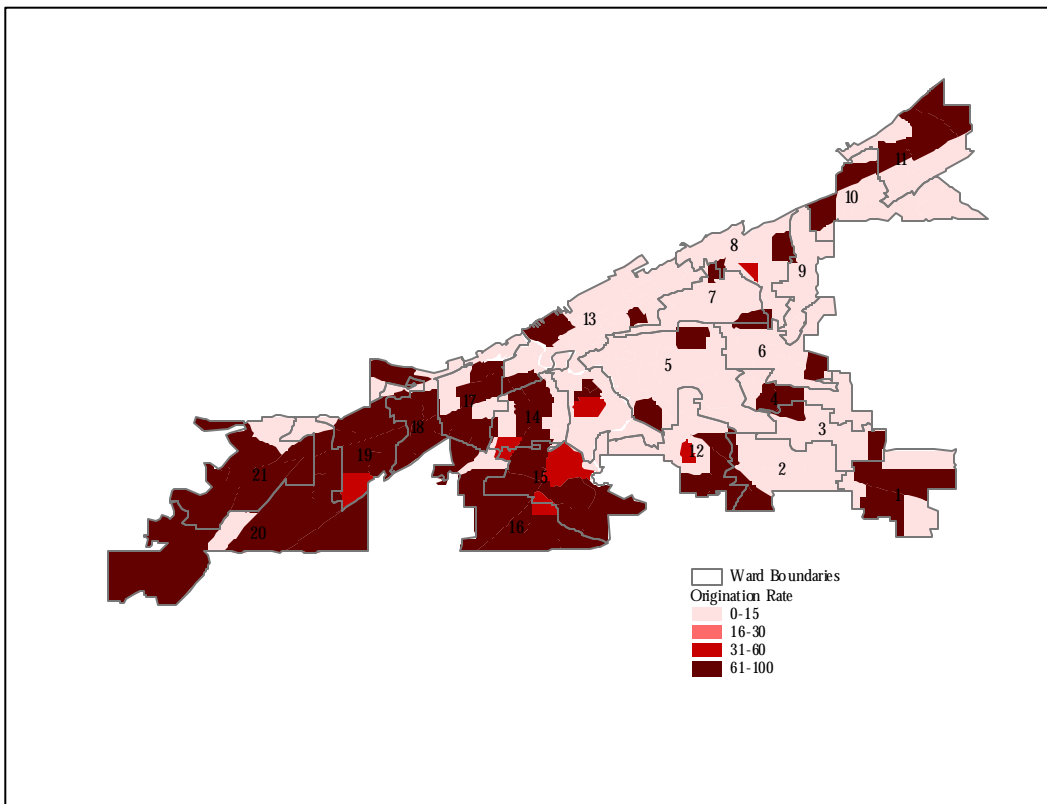
First Place Bank Origination Rate of Home Purchase Loans in Cleveland- 2002



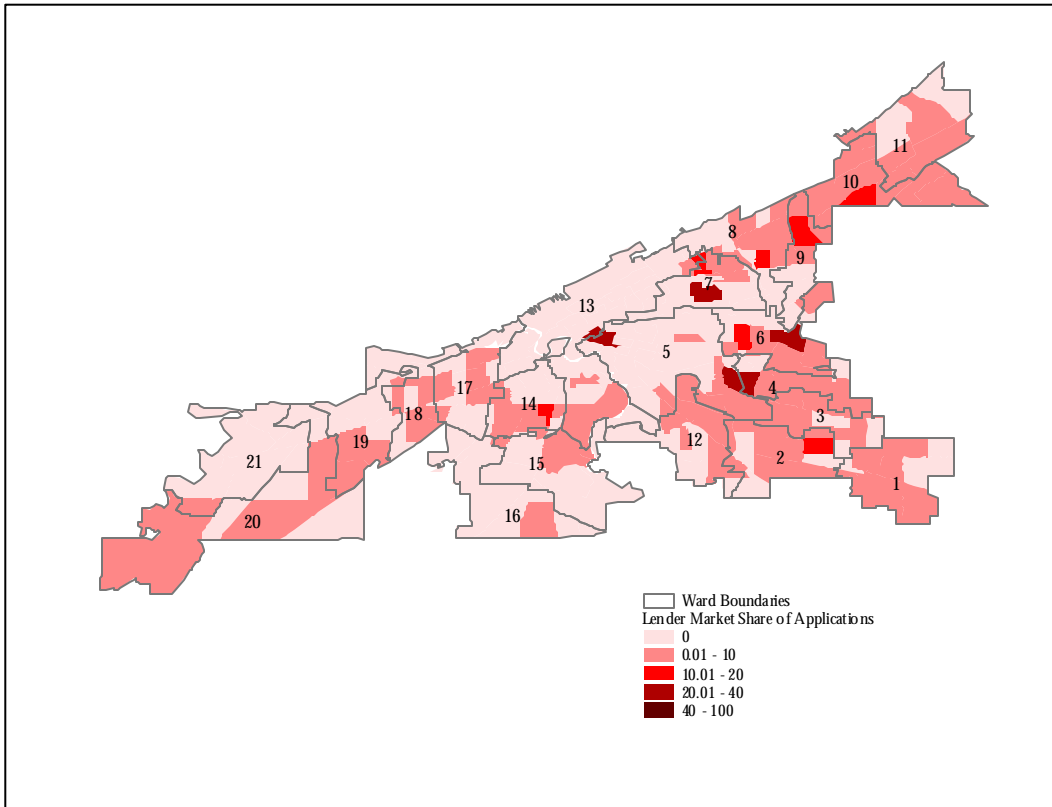
Fifth Third Mortgage Company Market Share of Home Purchase Loan Applications in Cleveland- 2002



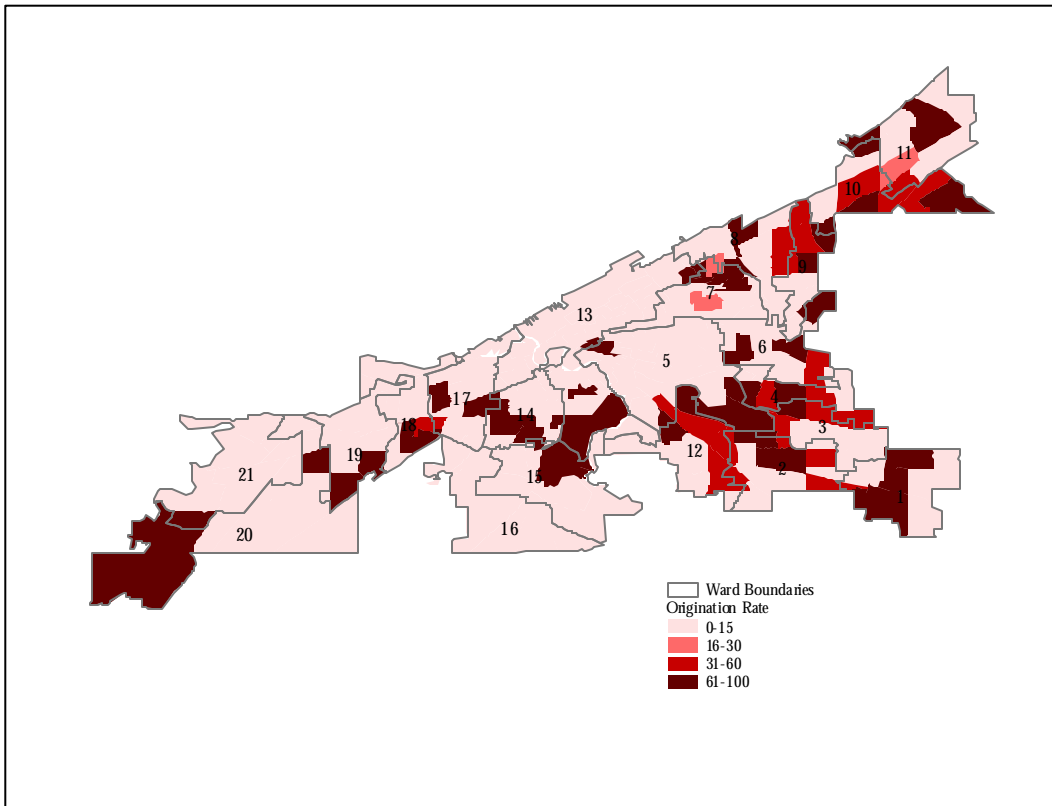
Fifth Third Mortgage Company Origination Rate of Home Purchase Loans in Cleveland- 2002



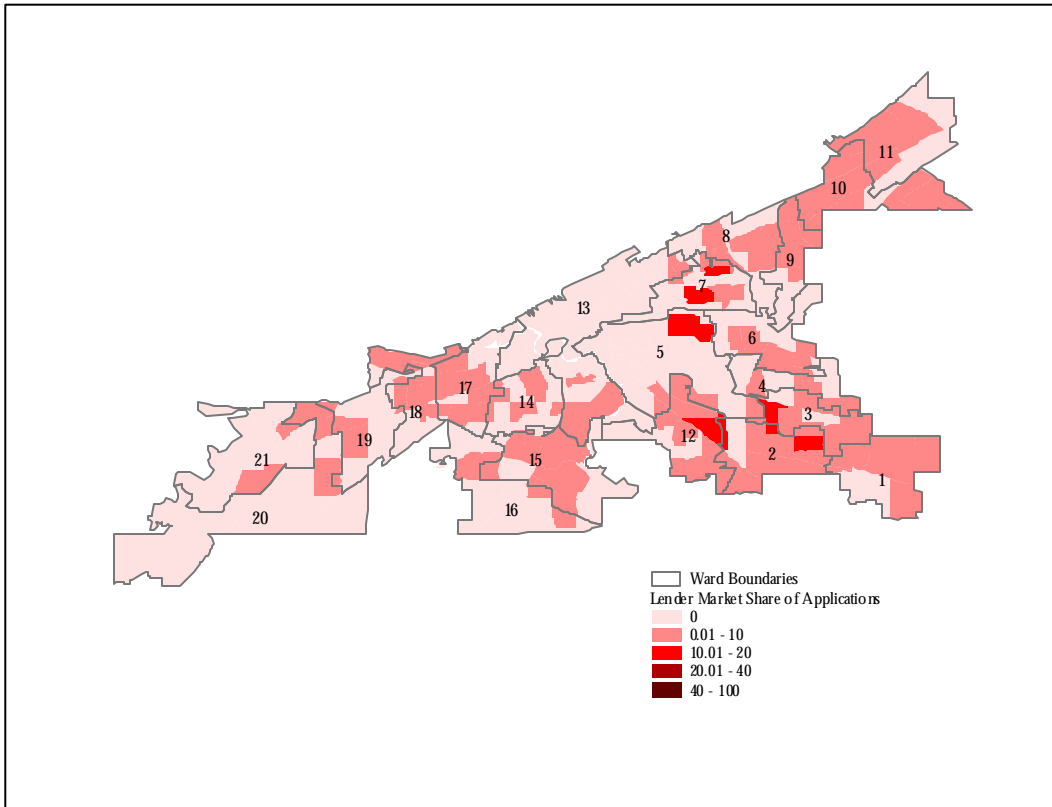
People's Choice Home Loan, Inc. Market Share of Home Purchase Applications in Cleveland- 2002



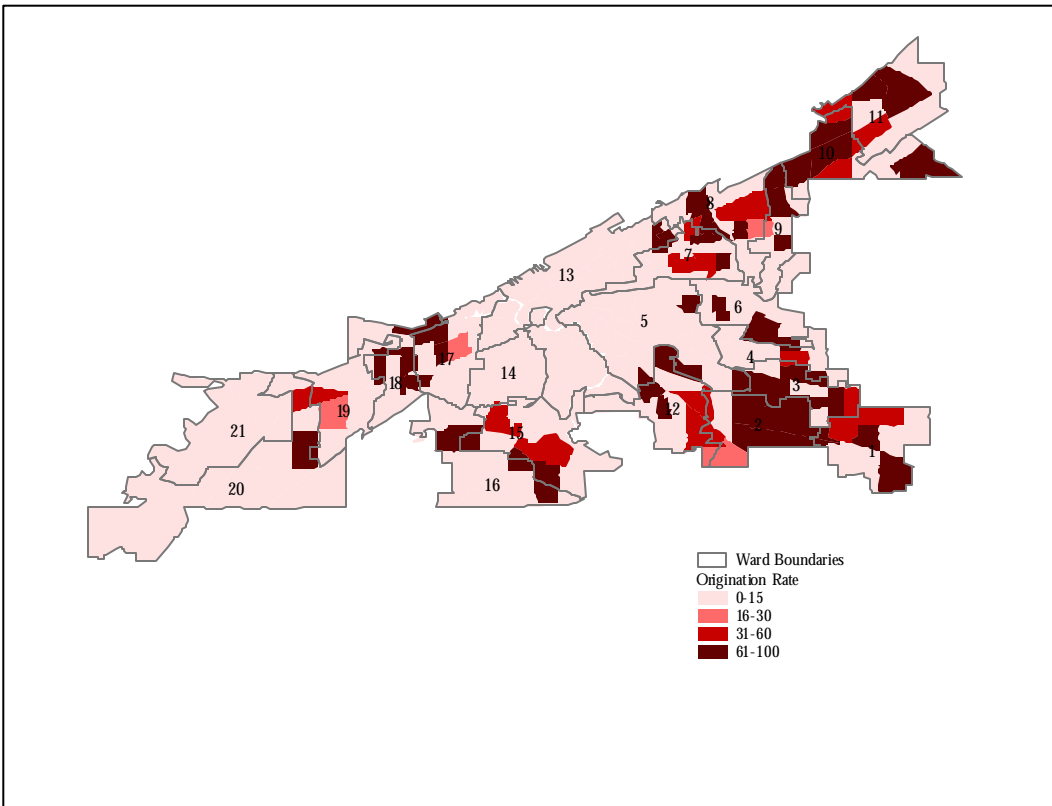
People's Choice Home Loan, Inc. Origination Rate of Home Purchase Loans in Cleveland- 2002



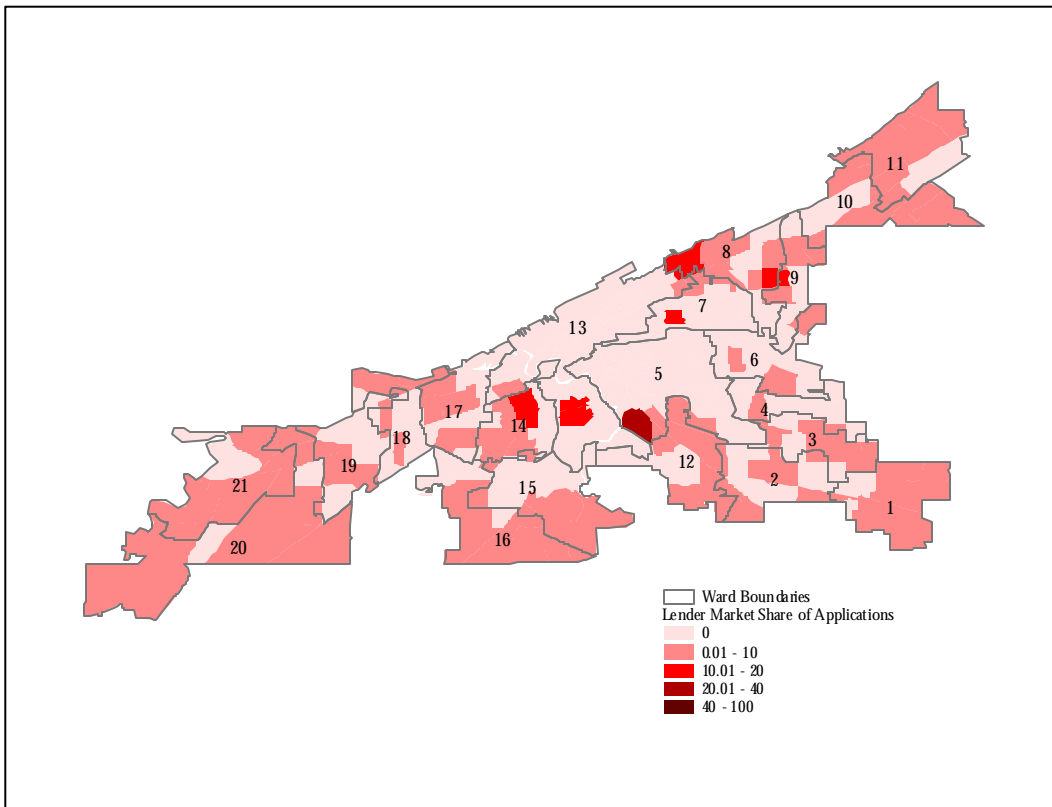
Ameriquest Mortgage Company Market Share of Home Purchase Applications in Cleveland- 2002



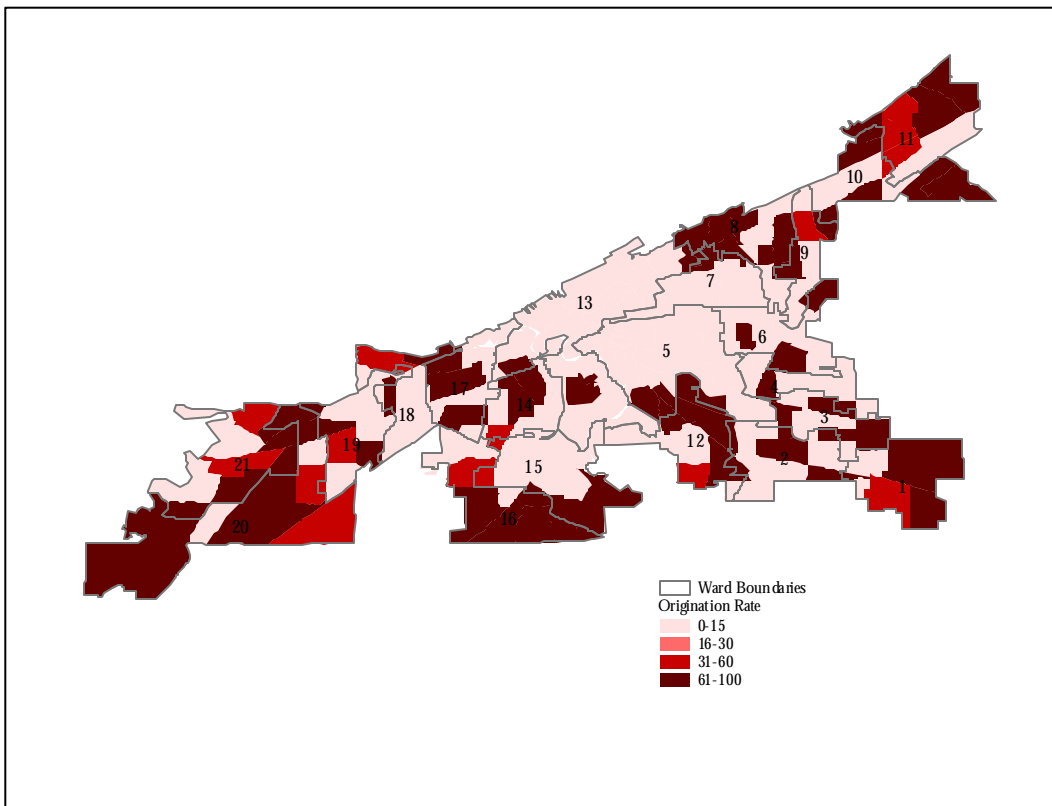
Ameriquest Mortgage Company Origination Rate of Home Purchase Loans in Cleveland- 2002



Ohio Savings Bank Market Share of Home Purchase Applications in Cleveland- 2002



Ohio Savings Bank Origination Rate of Home Purchase Loans in Cleveland- 2002

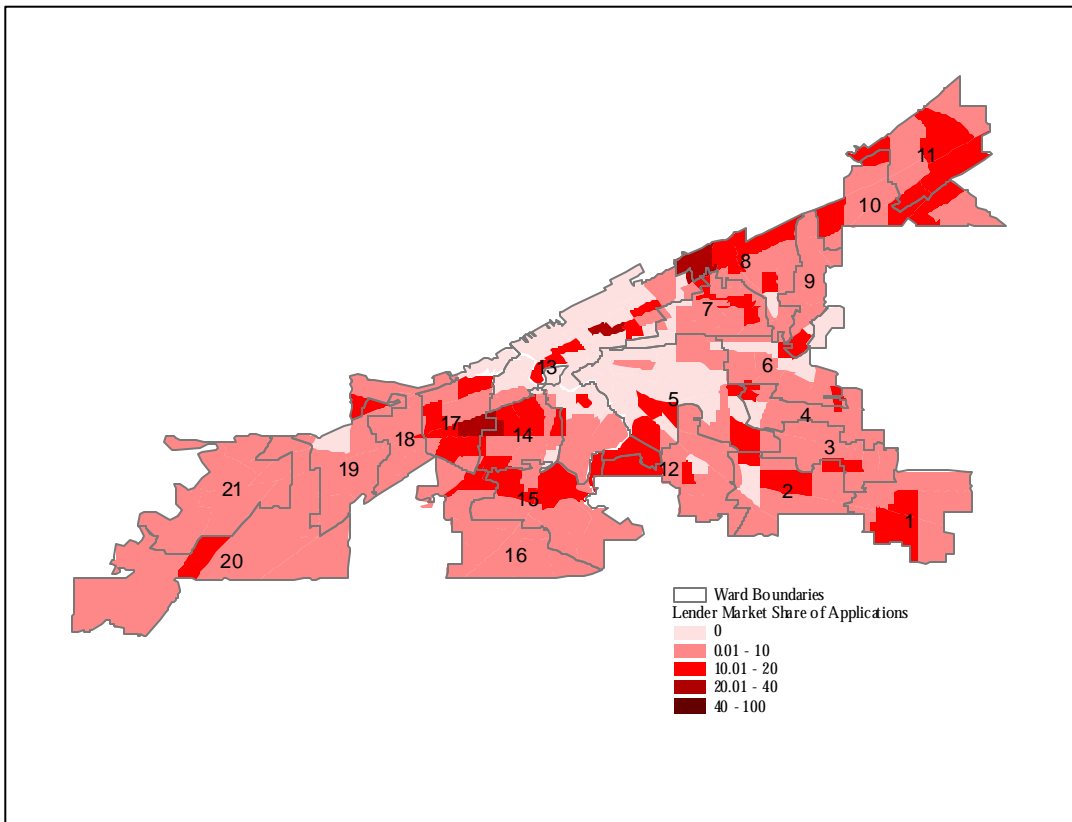


Top Ten Refinancing Lenders in The City of Cleveland - 2002

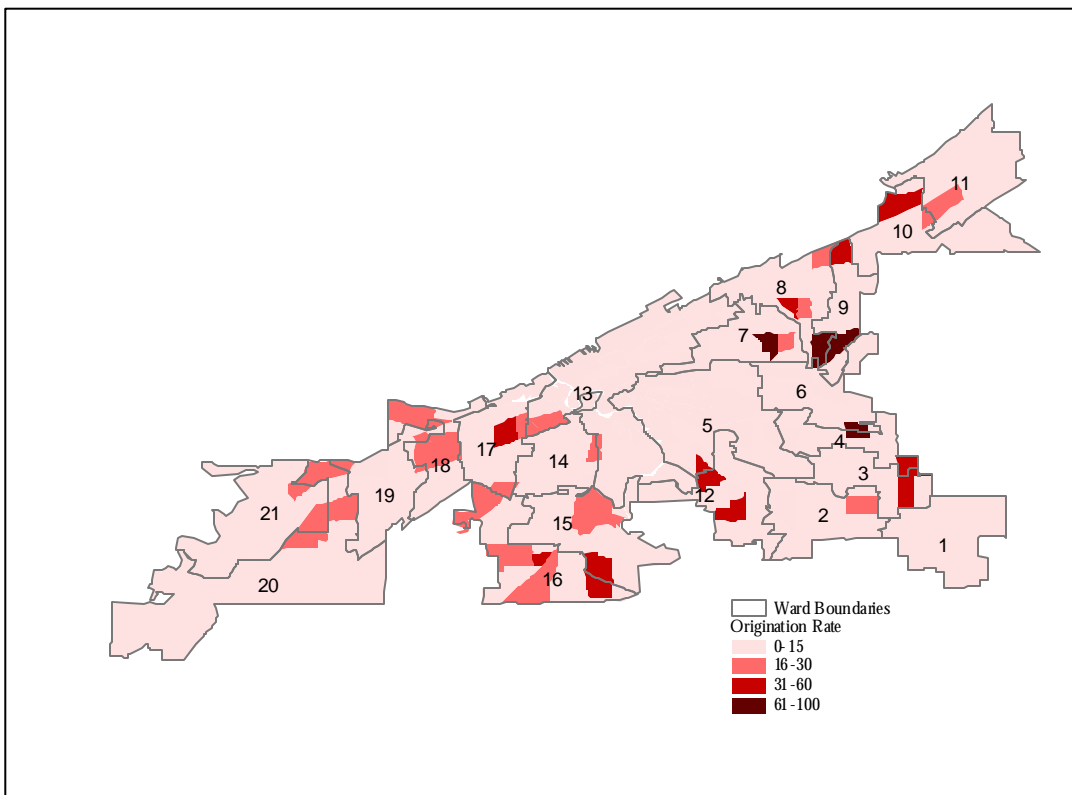
| Rank | Lender | Applications | Approvals | Originations | Denial Rate | Origination Rate | Loans to Low Income Borrowers | Loans to Moderate Income Borrowers | Loans to Middle Lower Income Borrowers | Loans to Middle Upper Income Borrowers | Loan to Upper Income Borrowers |
|------|--------------------------------|--------------|-----------|--------------|-------------|------------------|-------------------------------|------------------------------------|--|--|--------------------------------|
| 1 | BENEFICIAL CORPORATION | 1772 | 153 | 147 | 913 | 8.30 | 25 | 64 | 29 | 20 | 9 |
| 2 | HOUSEHOLD FINANCE CORPORATION | 1547 | 156 | 152 | 832 | 9.83 | 25 | 68 | 21 | 17 | 18 |
| 3 | AMERIQUEST MORTGAGE COMPANY | 1421 | 421 | 340 | 387 | 23.93 | 104 | 108 | 53 | 31 | 44 |
| 4 | ABN AMRO MORTGAGE GROUP, INC. | 1206 | 609 | 600 | 376 | 49.75 | 174 | 202 | 87 | 56 | 75 |
| 5 | CHARTER ONE BANK | 1001 | 580 | 501 | 386 | 50.05 | 82 | 152 | 74 | 65 | 92 |
| 6 | HOUSEHOLD BANK, F.S.B. | 742 | 628 | 222 | 109 | 29.92 | 74 | 83 | 30 | 22 | 13 |
| 7 | BANK ONE, NA | 734 | 348 | 198 | 372 | 26.98 | 60 | 64 | 33 | 17 | 23 |
| 8 | THIRD FEDERAL SAVINGS AND LOAN | 712 | 480 | 456 | 158 | 64.04 | 76 | 153 | 79 | 40 | 84 |
| 9 | NATIONAL CITY BANK | 698 | 455 | 351 | 238 | 50.29 | 70 | 99 | 39 | 58 | 64 |
| 10 | DELTA FUNDING CORPORATION | 698 | 466 | 85 | 221 | 12.18 | 38 | 18 | 10 | 6 | 13 |

Source: 2002 HMDA Data

Beneficial Corporation Market Share of Refinancing Loan Applications in Cleveland- 2002

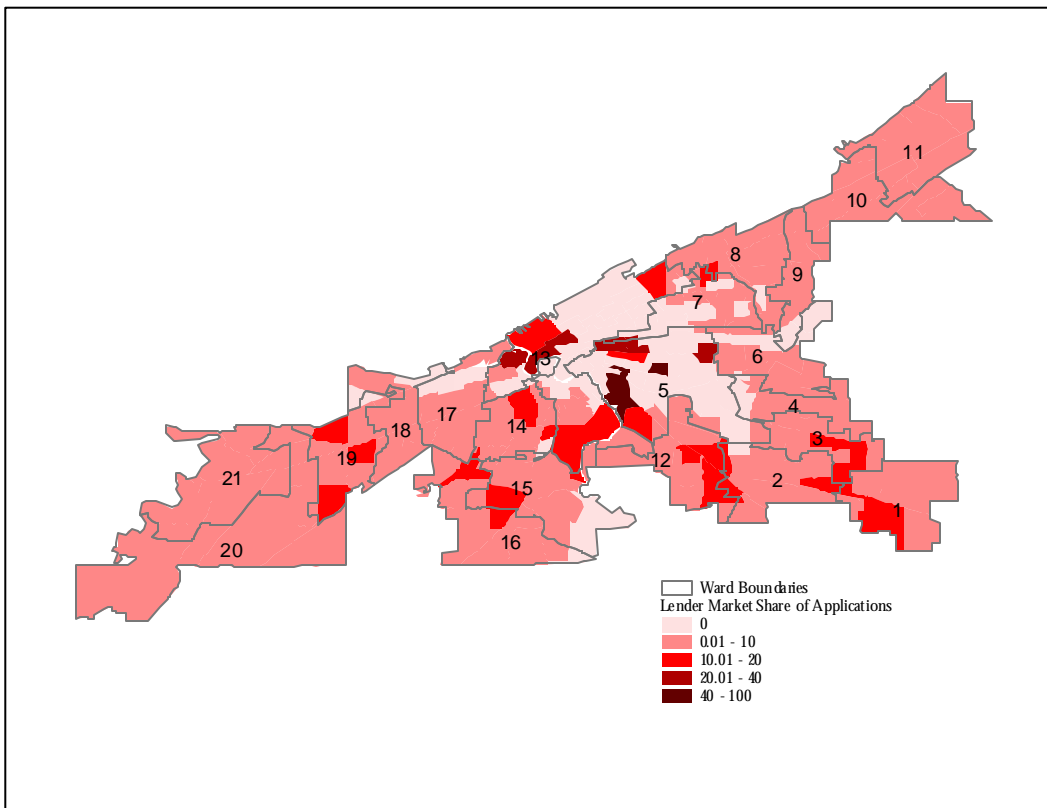


Beneficial Corporation Origination Rate of Refinancing Loans in Cleveland- 2002

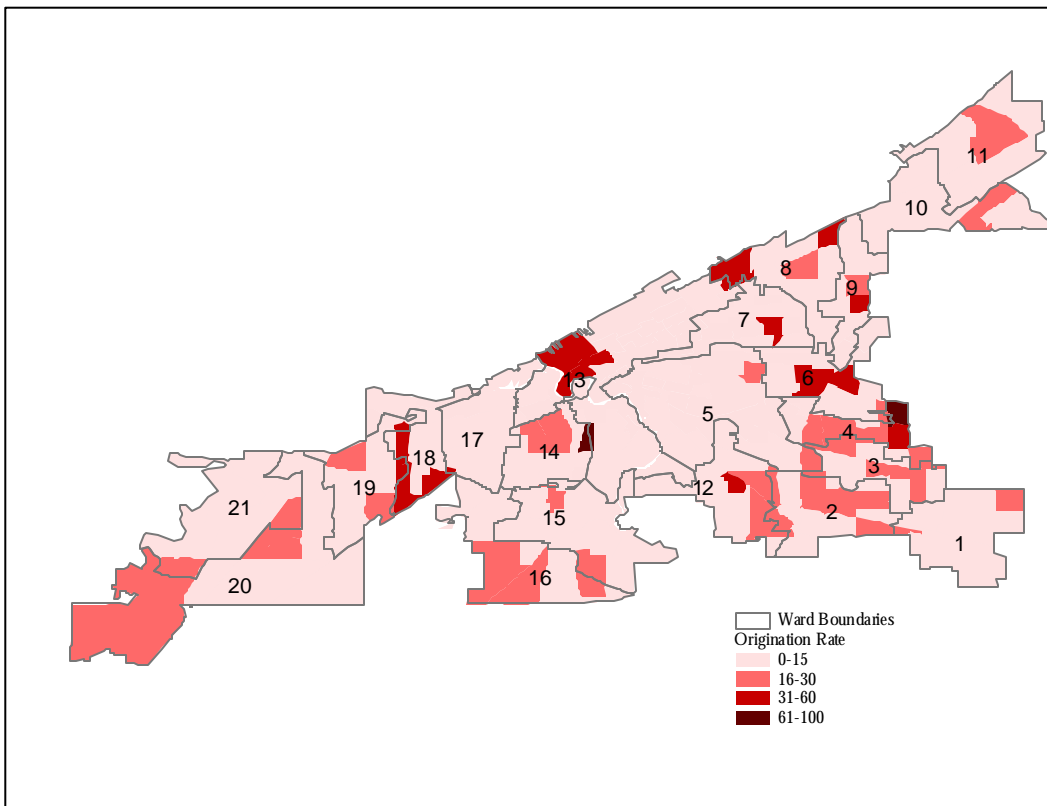


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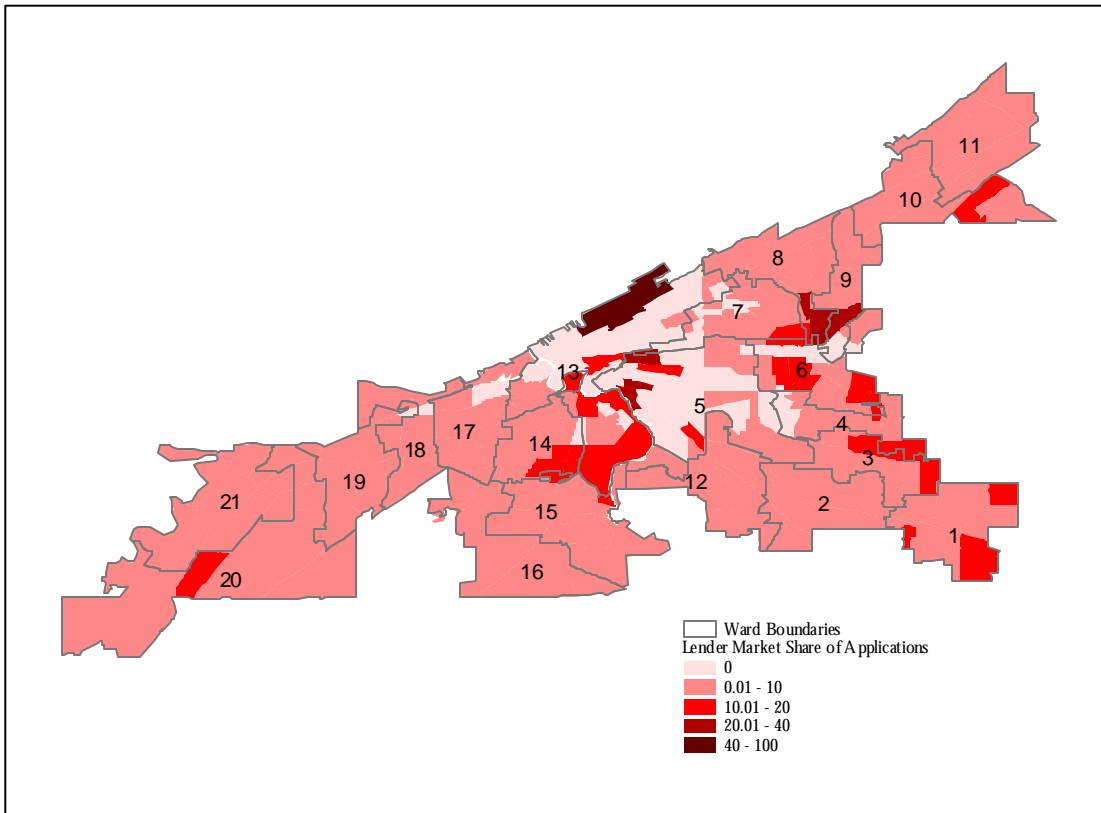
Household Finance Corp. Market Share of Refinancing Loan Applications in Cleveland- 2002



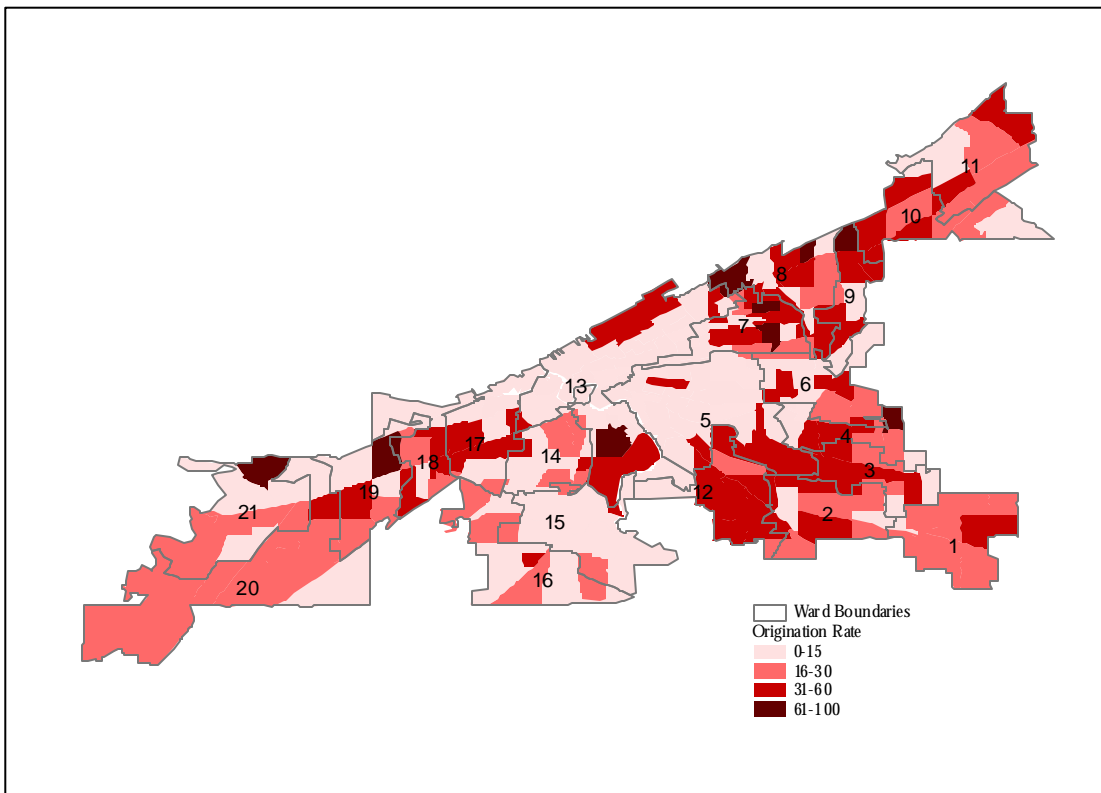
Household Finance Corp. Origination Rate of Refinancing Loans in Cleveland- 2002



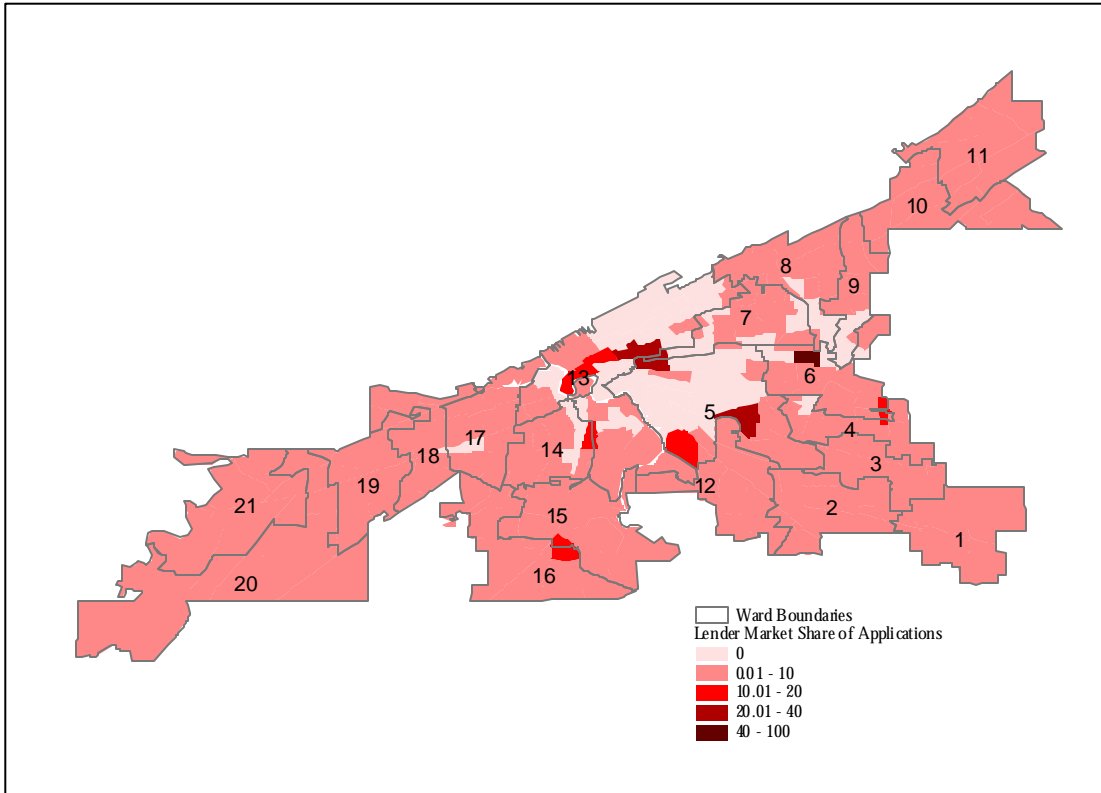
Ameriquest Mortgage Co. Market Share of Refinancing Loan Applications in Cleveland- 2002



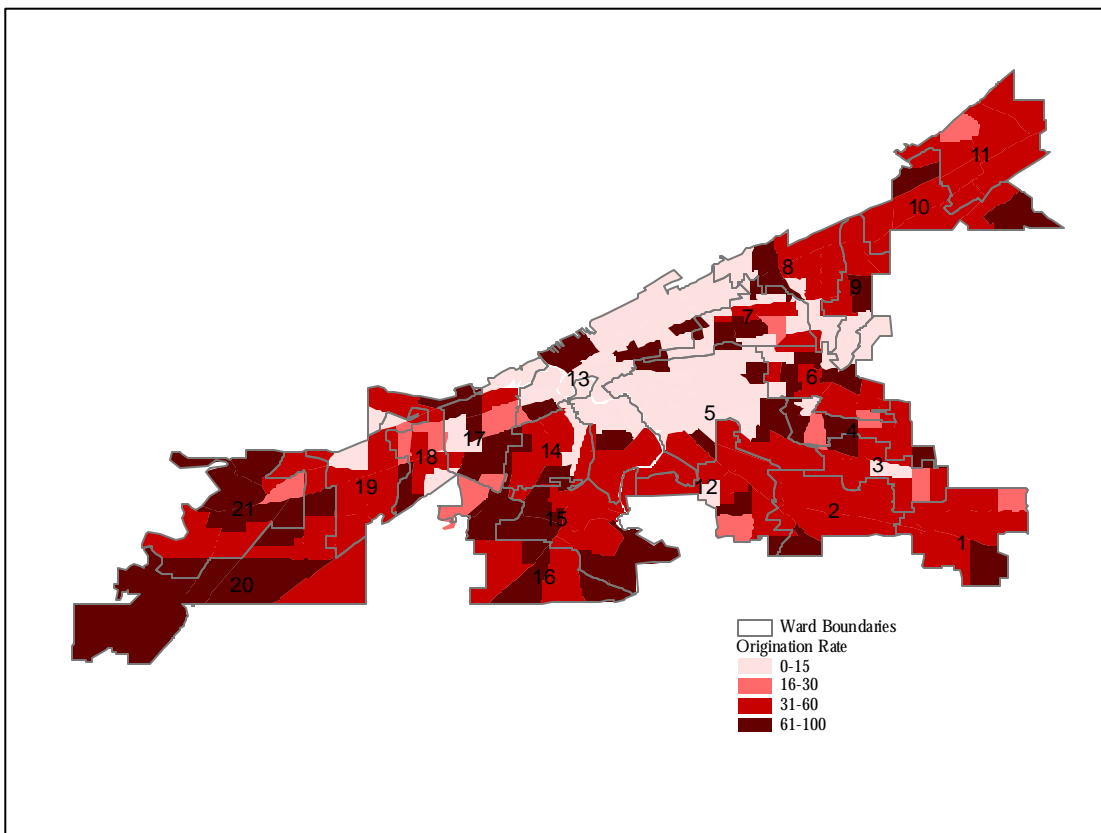
Ameriquest Mortgage Co. Origination Rate of Refinancing Loans in Cleveland- 2002



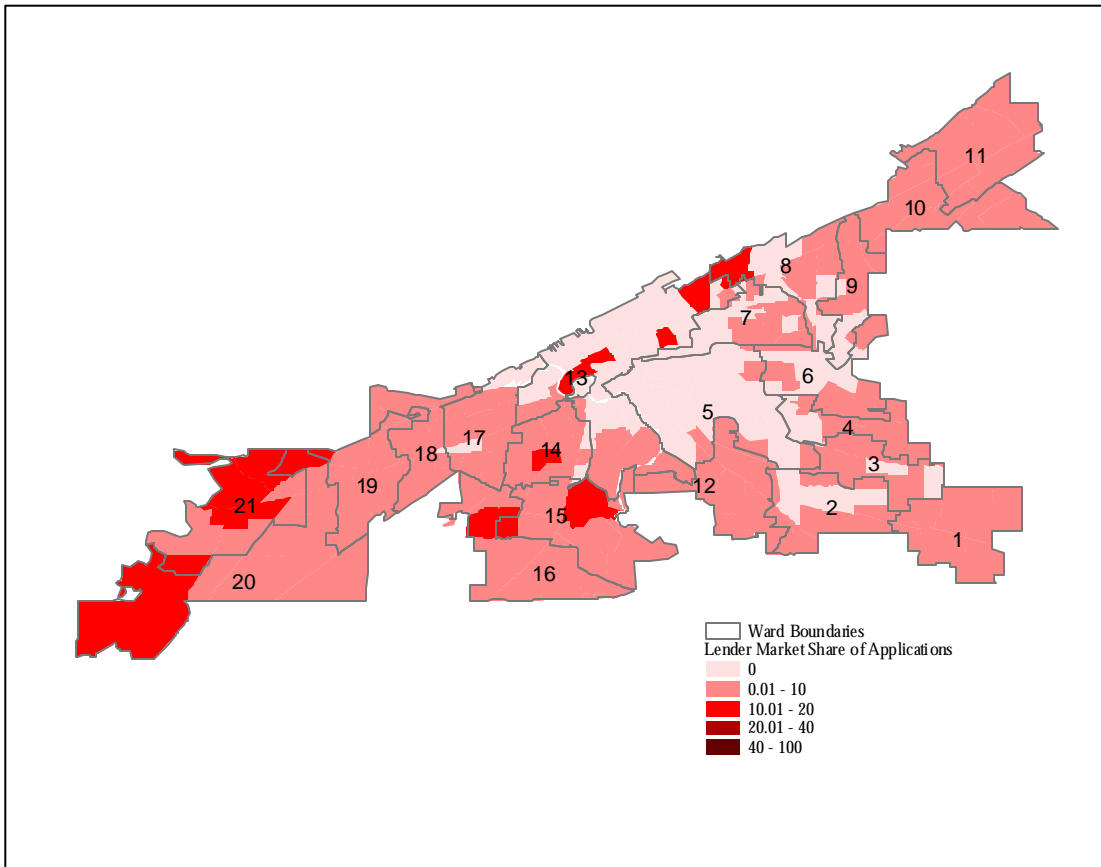
ABN Amro Mortgage Group, Inc. Market Share of Refinancing Loan Applications in Cleveland-2002



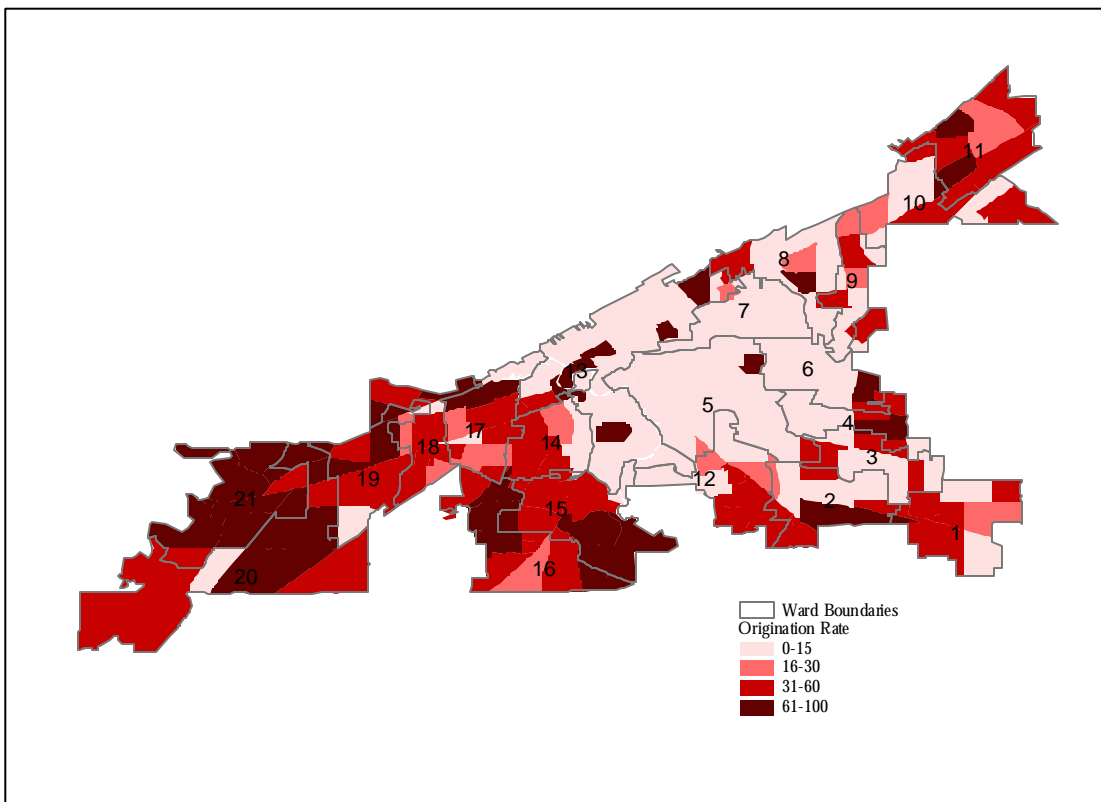
ABN Amro Mortgage Group, Inc. Origination Rate of Refinancing Loans in Cleveland- 2002



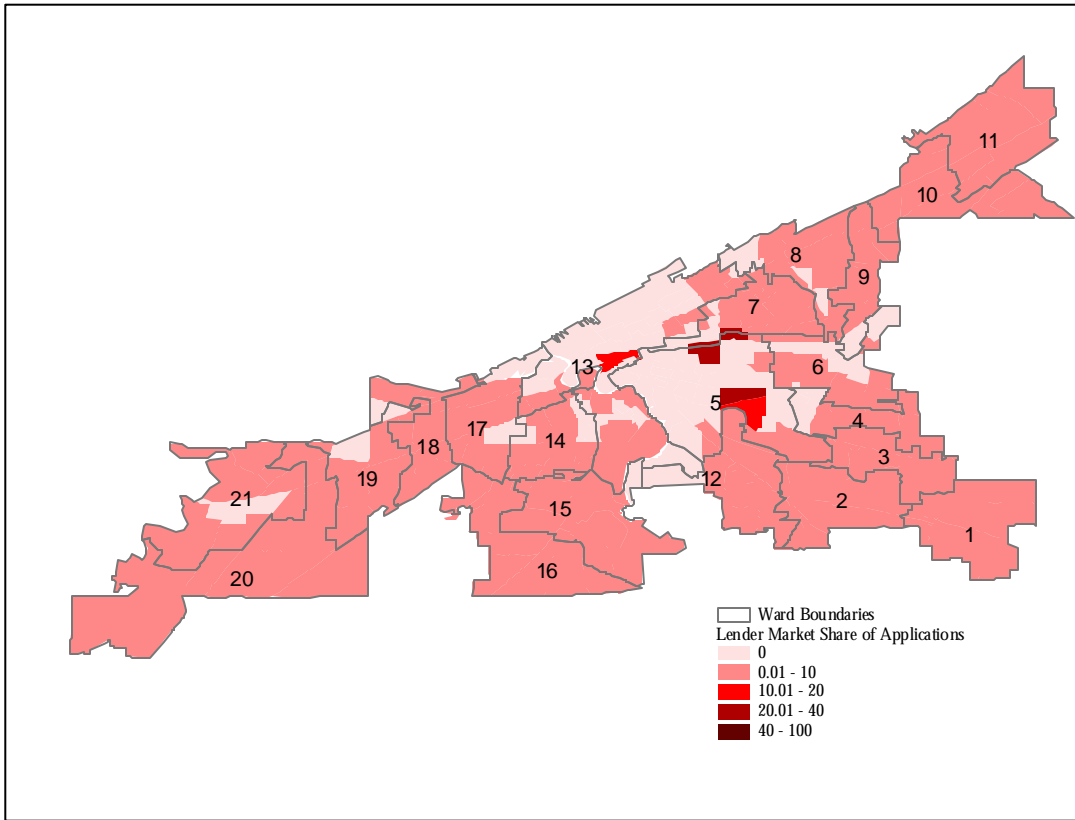
Charter One Bank Market Share of Refinancing Loan Applications in Cleveland- 2002



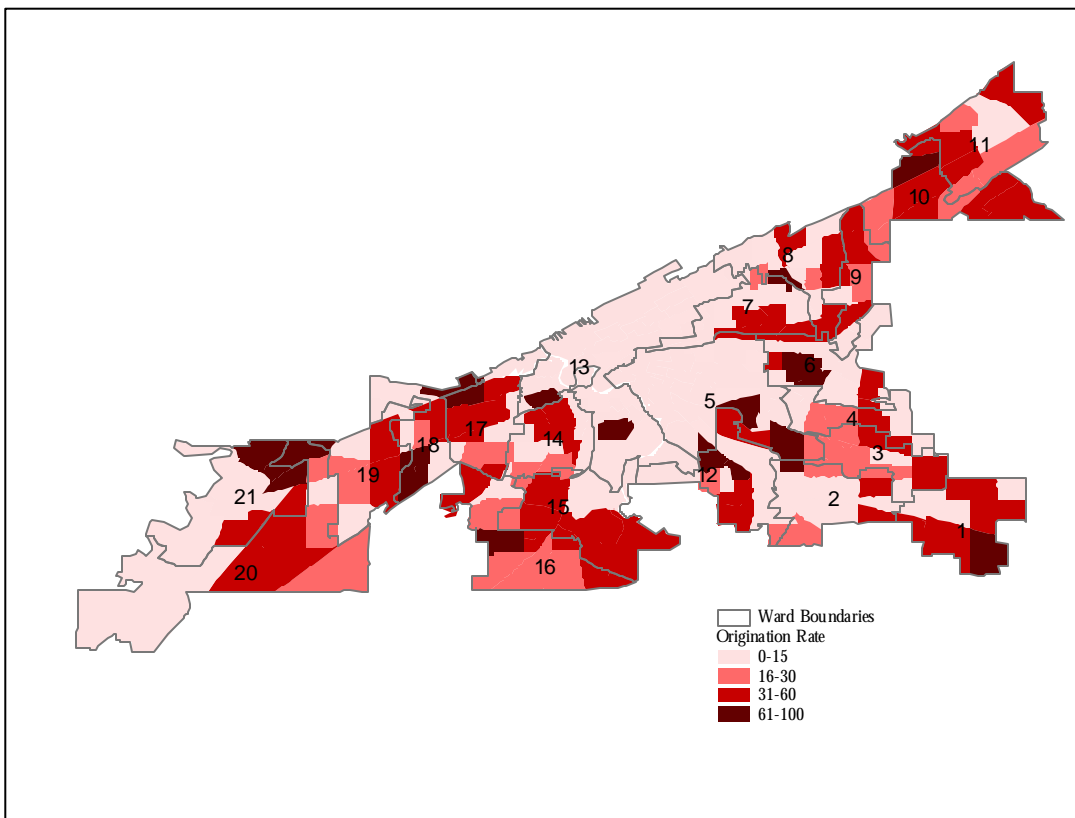
Charter One Bank Origination Rate of Refinancing Loans in Cleveland- 2002



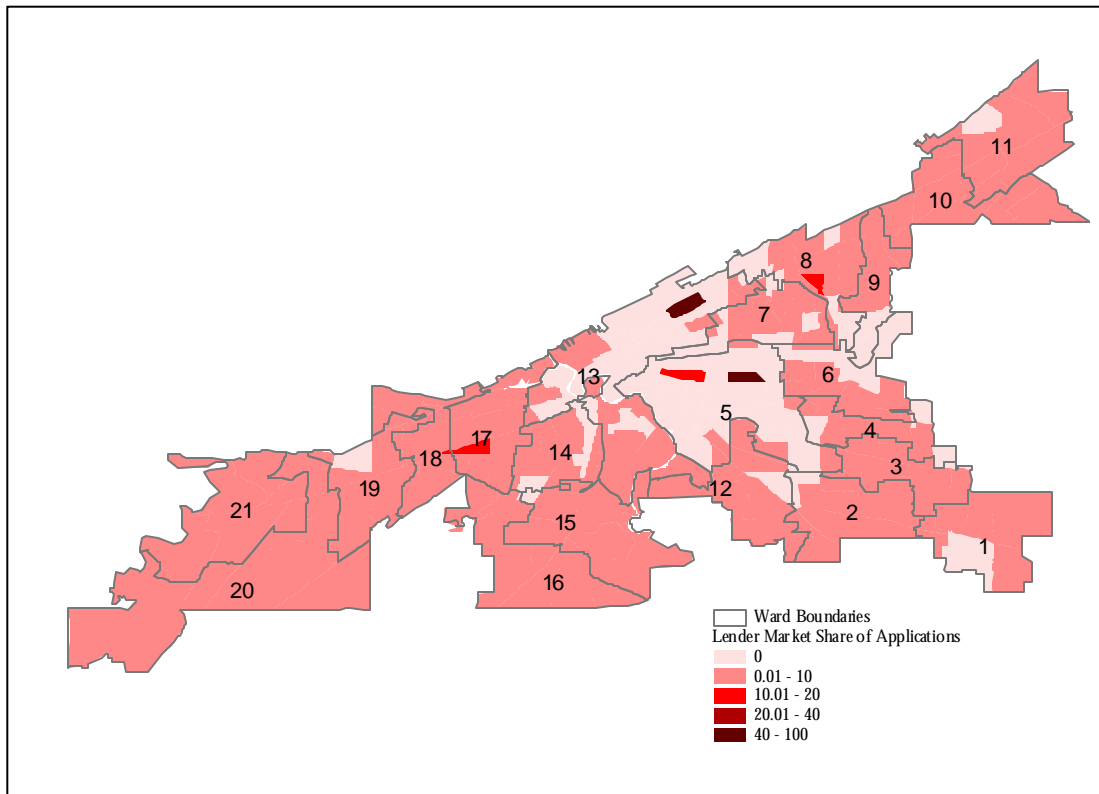
Household Bank F.S.B. Market Share of Refinancing Loan Applications in Cleveland- 2002



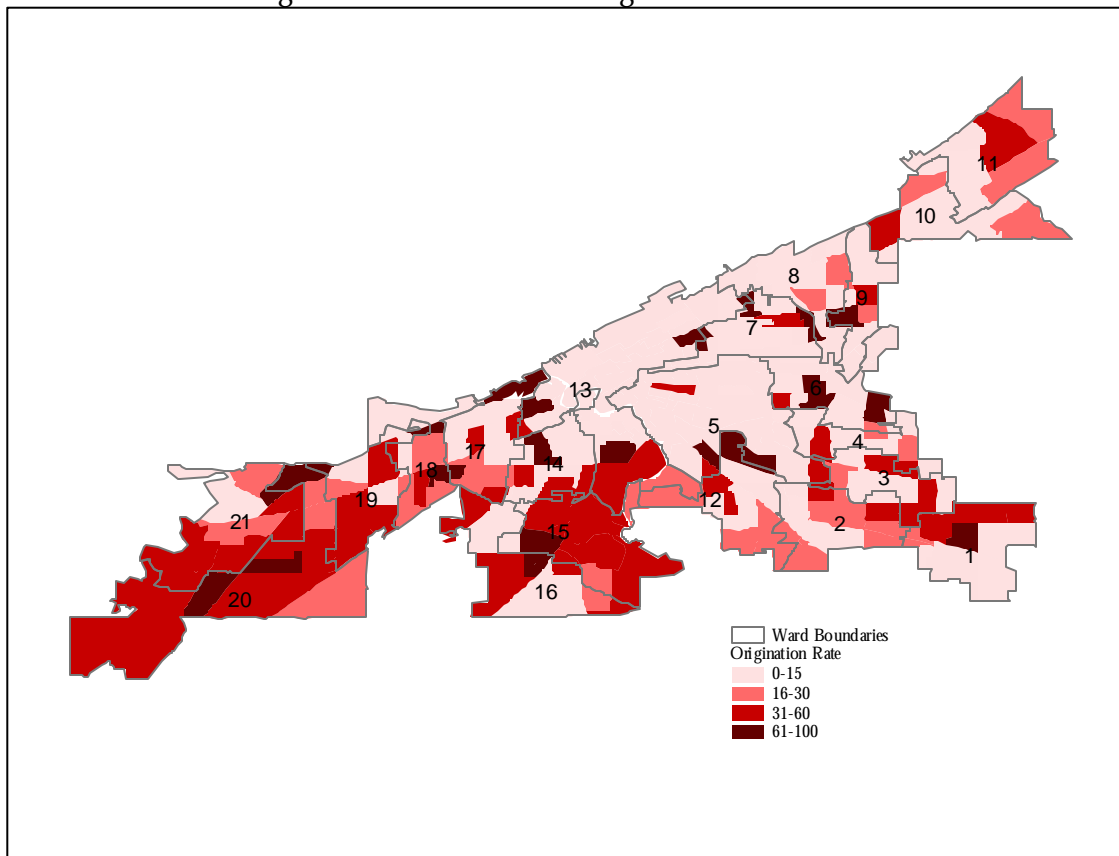
Household Bank F.S.B. Origination Rate of Refinancing Loans in Cleveland- 2002



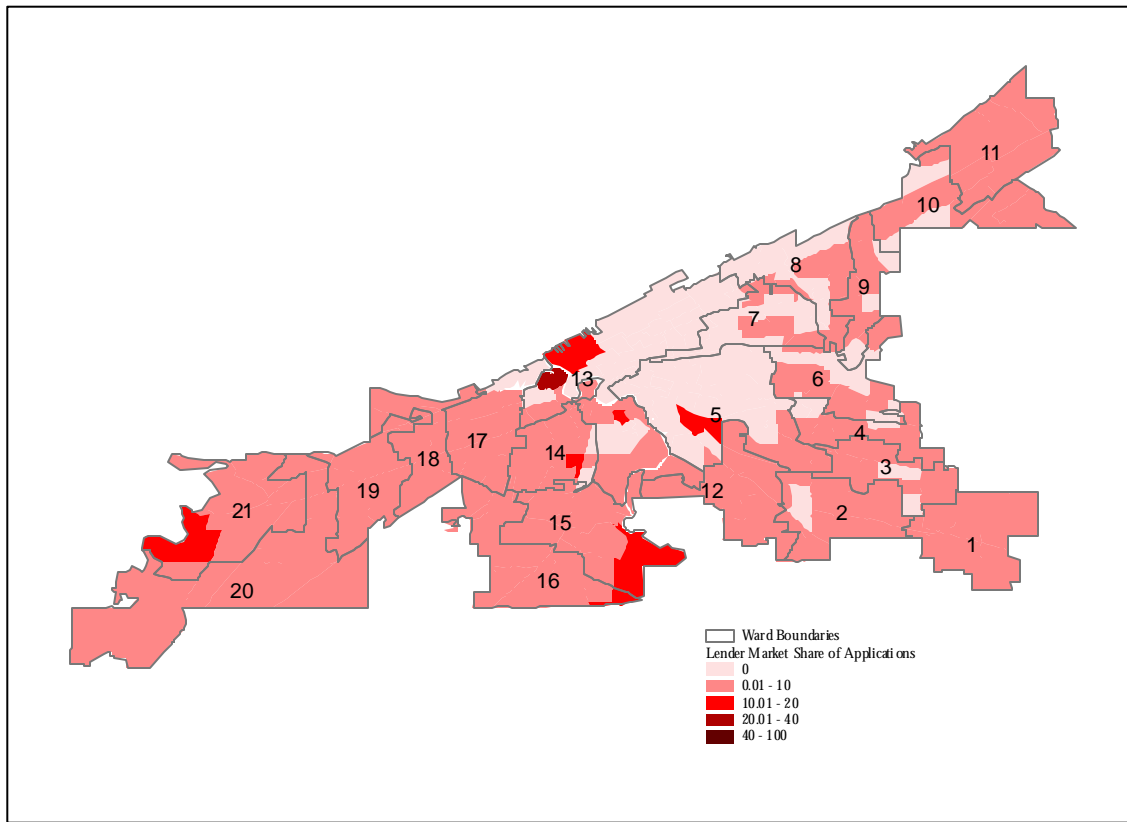
Bank One N.A. Market Share of Refinancing Loan Applications in Cleveland - 2002



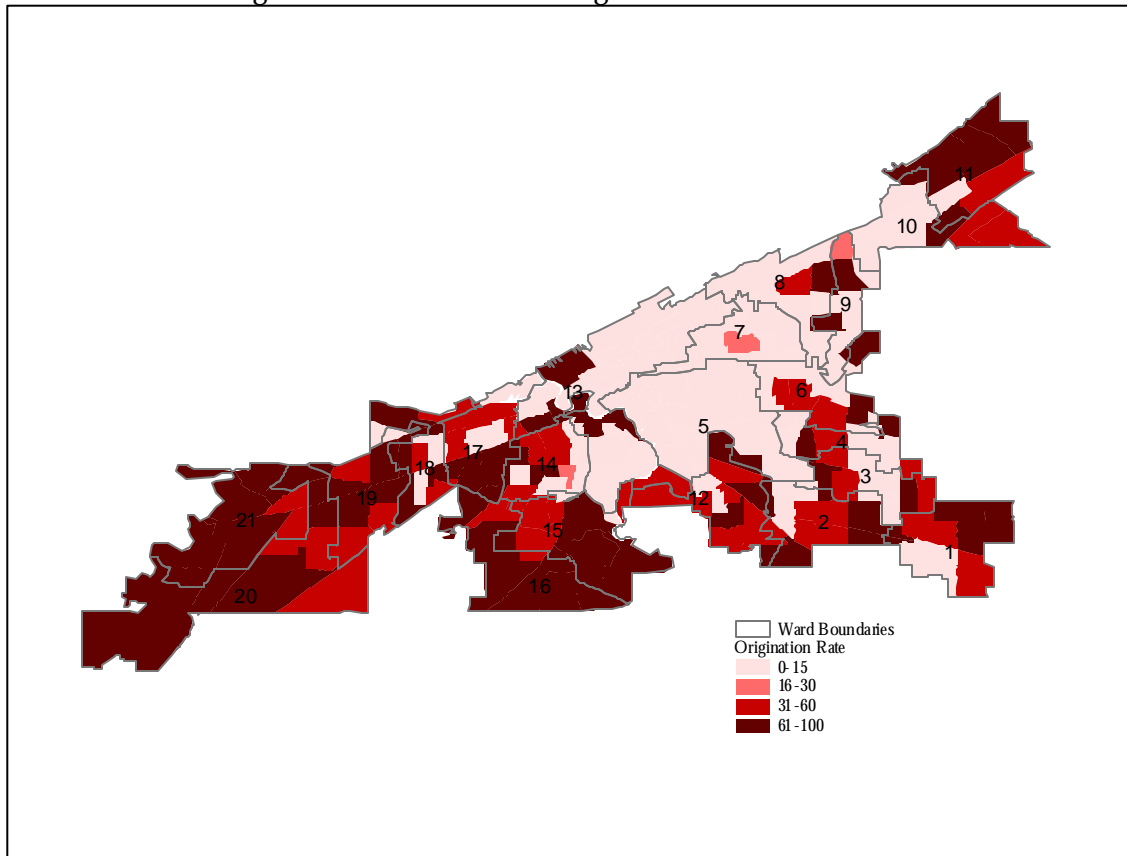
Bank One N.A. Origination Rate of Refinancing Loans in Cleveland - 2002



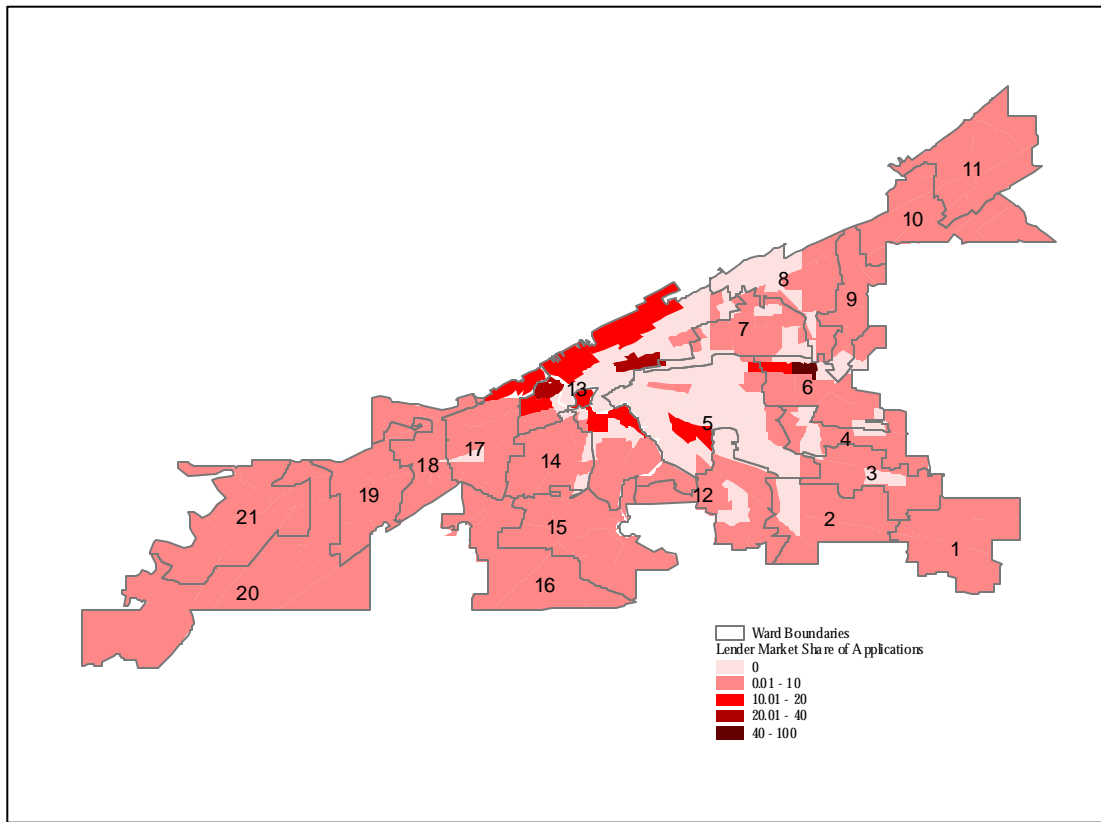
Third Federal Market Share of Refinancing Loan Applications in Cleveland - 2002



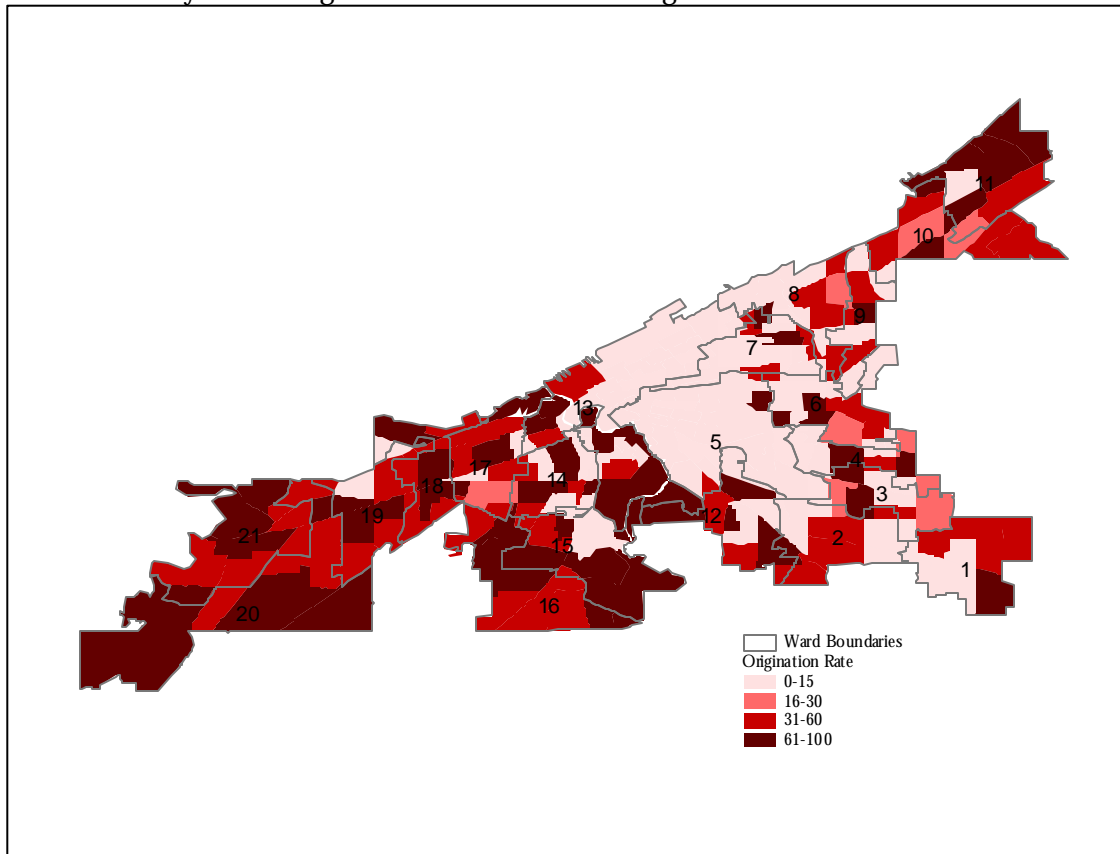
Third Federal Origination Rate of Refinancing Loans in Cleveland - 2002



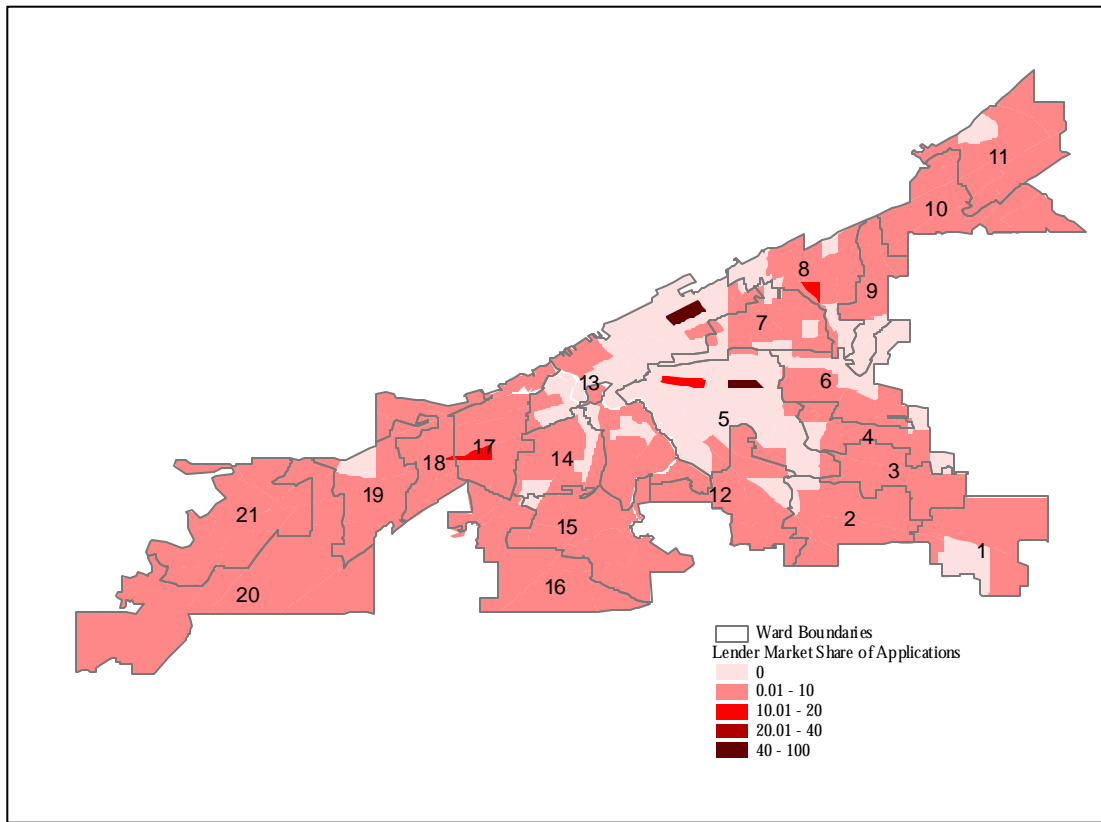
National City Bank Market Share of Refinancing Loan Applications in Cleveland - 2002



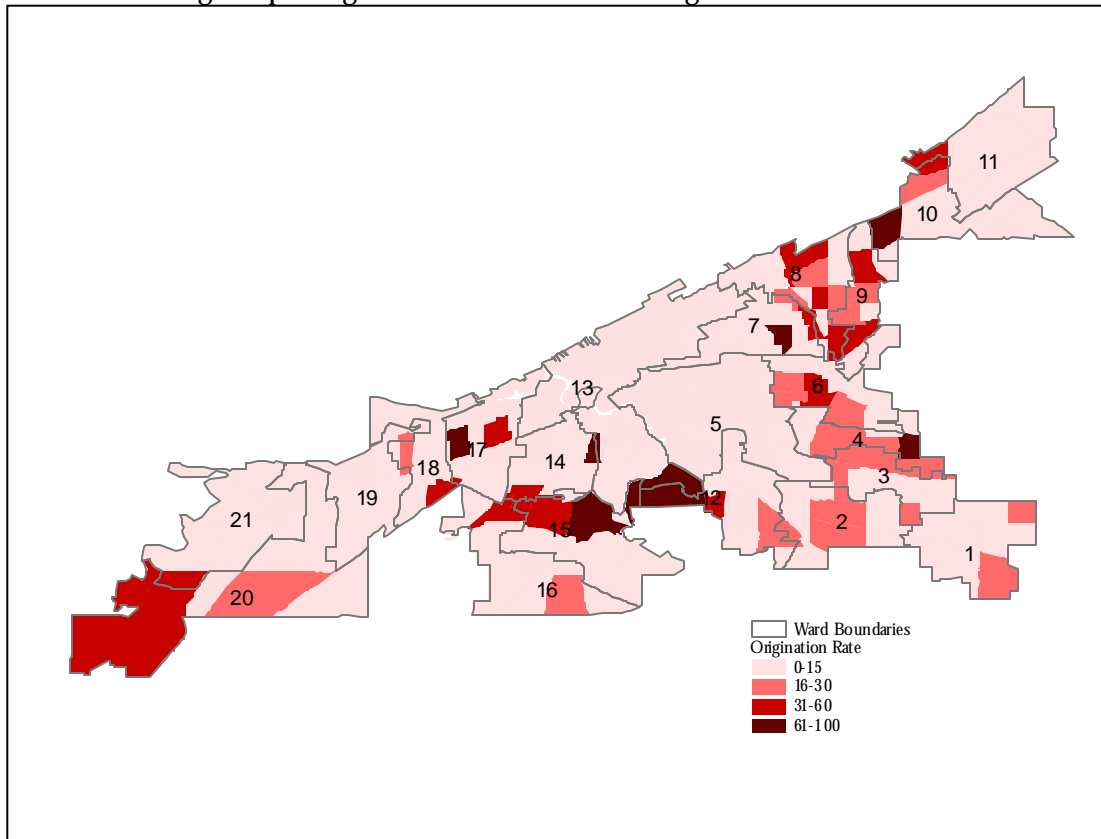
National City Bank Origination Rate of Refinancing Loans in Cleveland - 2002



Delta Funding Corp. Market Share of Refinancing Loan Applications in Cleveland - 2002

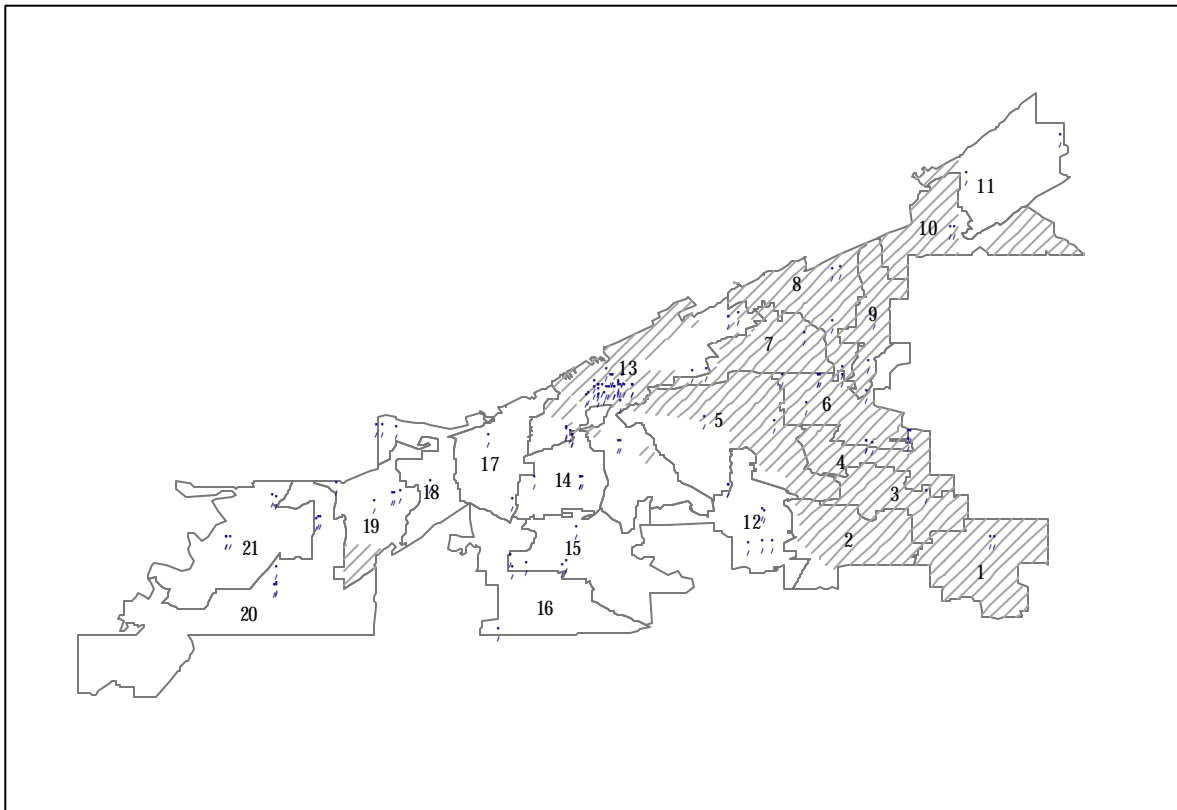


Delta Funding Corp. Origination Rate of Refinancing Loans in Cleveland - 2002



Bank Branches and Deposits

As seen in the map below (*Locations of Bank Branches in the City of Cleveland*) There are more than 100 bank branches that have taken more the 3.7 billion dollars in deposits in the City of Cleveland. In comparing the bank branches that have a physical presence in the City, to the lenders that are making loans (See table *FDIC Depository Institutions in the City of Cleveland* and *Top Ten Refinancing Lenders in The City of Cleveland – 2002* and *Top Ten Home Purchase Lenders in The City of Cleveland - 2002*) there is a great disparity between the banks that are taking deposits to those that are actually making loans in these communities. The only depository institutions that are originating enough loans in Cleveland to appear in the list of the top 10 home purchase or refinancing lenders in the area are Third Federal Savings & Loan, Charter One Bank, Ohio Savings Bank, KeyBank, Bank One N.A. and National City Bank.



**FDIC Depository Institutions in the City of Cleveland –
Deposits to date as of June 30, 2003.**

| Bank Name | All Deposits | Deposits (Less downtown branches) |
|------------------------------|-------------------------|--------------------------------------|
| Bank One | \$669,260,000 | \$64,110,000 |
| Charter One Bank | \$2,054,720,000 | \$718,526,000 |
| Dollar Bank | \$167,181,000 | \$167,181,000 |
| Fifth Third Bank | \$498,548,000 | \$31,890,000 |
| Firstmerit Bank | \$170,259,000 | \$170,259,000 |
| Huntington National Bank | \$800,911,000 | \$70,110,000 |
| Key Bank | \$13,033,679,000 | \$621,774,000 |
| National City Bank | \$11,895,719,000 | \$727,608,000 |
| Ohio Savings Bank | \$389,357,000 | \$119,572,000 |
| Parkview Federal | \$33,381,000 | \$33,381,000 |
| Third Federal Savings & Loan | \$645,907,000 | \$645,907,000 |
| U.S Bank | \$617,355,000 | \$344,264,000 |
| | \$30,976,277,000 | \$3,714,582,000 |

Source: FDIC

Prime v. Subprime Lending

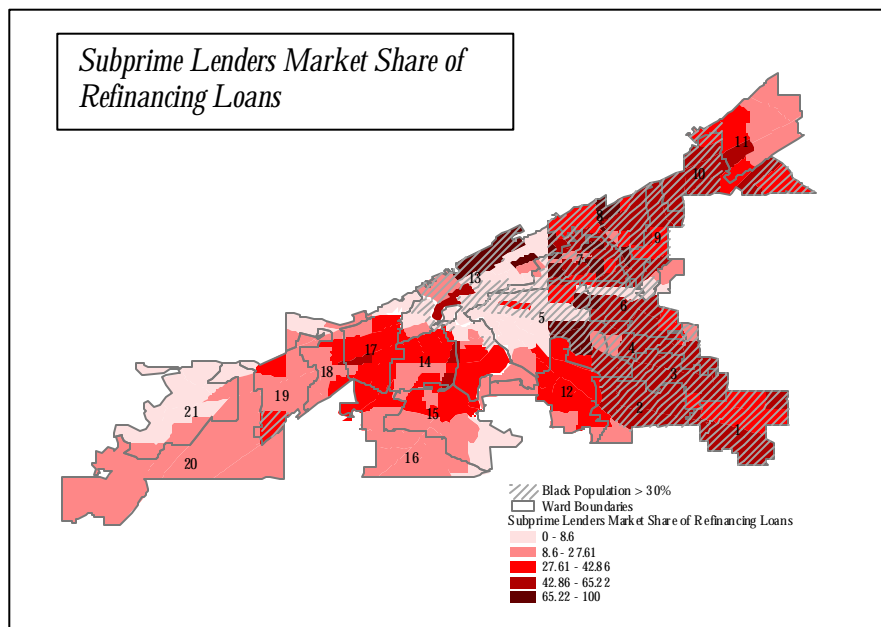
Prime Lenders are defined in the HMDA data as all lenders that are not self identified as subprime or mobile home lenders to the Department of Housing and Urban Development (HUD). These include all FDIC insured lenders. While only two of the top ten home purchase lenders, and five of the refinancing lenders in the City of Cleveland are self identified, some of the other lenders also make subprime loans, but do not identify themselves as subprime on the HUD list of subprime lenders. Some of the lenders other than the prime depository institutions do make some subprime loans, but subprime is less than 50% of their business, therefore they do not classify themselves as subprime lenders.

The refinancing market is quite different from the home purchase market in that so much of the race of applicant data is missing from the information provided by many of the lenders. The lack of race data indicates that many of these loans were solicited over the phone or by mail, with no actual face-to-face meeting of the loan officer and the borrower.

Subprime (or "B&C") lending is offering loans at higher cost than conventional loans to borrowers with past credit problems. There is an obvious need for subprime loans so that people who do not have "A" credit can receive legitimate loans from another source. However, subprime loans are often given to people who could have qualified for prime loans. The CRA of North Carolina (1998) reports that according to studies done by Freddie Mac and Standard & Poors, 33% to 50% of subprime borrowers coded as having "A-" could have qualified for prime loans. Furthermore, the *NCRC Analysis for the Ohio Reinvestment Project* (2001) states that Subprime Lending has increased in high minority census tracts throughout Ohio. Of the top 50 lenders in Ohio, those that are subprime lenders made 2/3rd of all refinancing loans in minority tracts. The explosion of subprime lending

throughout Ohio, as well as the rest of the United States, is evident by the tremendous increase in the number of mortgage brokers since the early 1990's. As reported by the Deputy Superintendent of Banking, in the Department of Commerce, in 1993 there were zero certified brokers in Ohio, and in 2000, there were 1380.

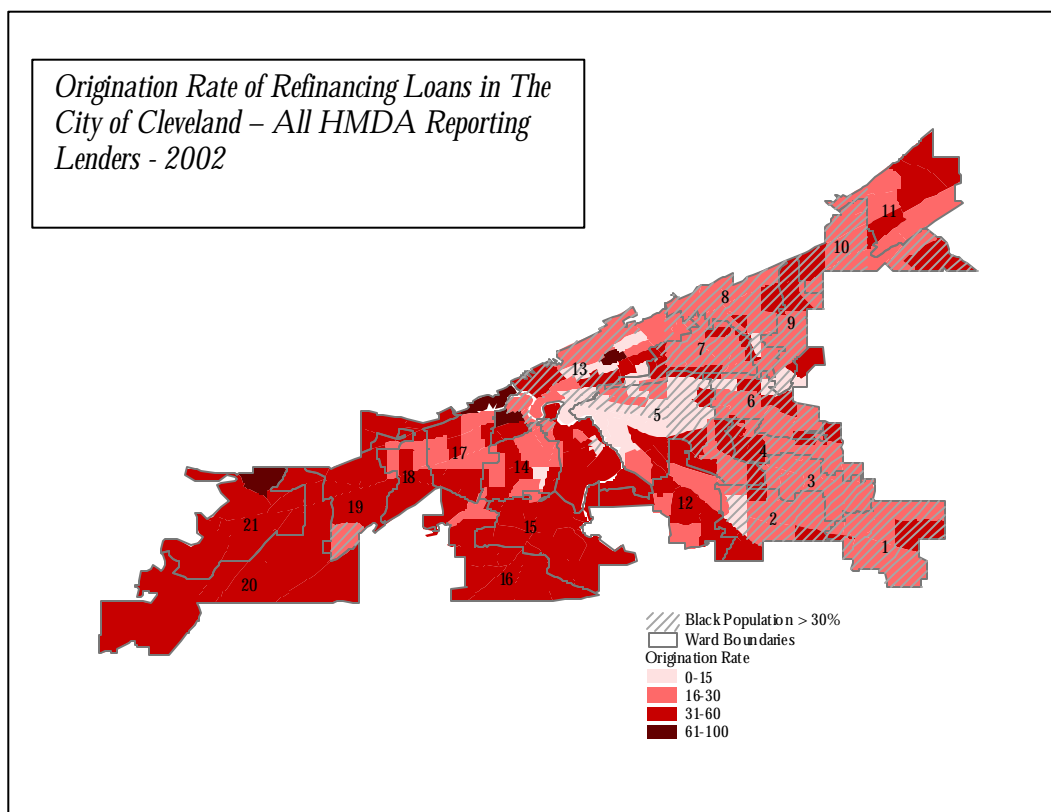
A significant number of loan applications were made through subprime lenders in the City of Cleveland in 2002, in fact 53.56% of all the refinance loan applications in the City of Cleveland were subprime, and 32.06% of the home purchase applications were subprime. This is of particular concern because not only are residents of Cuyahoga County much more likely than other Ohio residents to be approached by a predatory lender and refinance their homes through such lenders, many residents of Cuyahoga County are refinancing at subprime rate when they are prime credit risks. Both predatory loans and undeserved subprime rates impact the availability of affordable housing. Both problems inordinately affect low and moderate income and minority individuals and neighborhoods, because the majority of subprime loans are made in those neighborhoods. As seen in the Subprime Lending Map below (*Subprime Lenders Market Share of Refinancing Loans*), there is a high market share of subprime loans in many of the census tracts within the City of Cleveland in comparison to many of the other areas of Cuyahoga County. A recent study completed by the Department of Housing & Urban Development concluded that subprime loans were five times more likely to occur in black neighborhoods than in white neighborhoods.⁷ Even more disturbing, HUD concluded that on a national basis, that as income increased in black neighborhoods so did the prevalence of subprime loans.⁸ In 2002, residents in the City of Cleveland made applications for more than 13,250 refinancing loans and 2700 home purchase through subprime lenders, and received more than 2500 refinance loans and 850 home purchase loans through subprime lenders. Anywhere from 1100 to 1700 borrowers probably ended up in subprime loans despite having prime credit.⁹



⁷ *Unequal Burden: Income & Racial Disparities in Subprime Lending in America*, Department of Housing & Urban Development.

⁸ *Id.*

⁹ See Fannie Mae, March 2, 2000, Press Release at : www.fanniemae.com/news/pressreleases/0667.html; and Freddie Mac Special Report on Automated Underwriting, *Inside B&C Lending*, "Half of Subprime Loans Categorized as 'A' Quality", June 10, 1996.

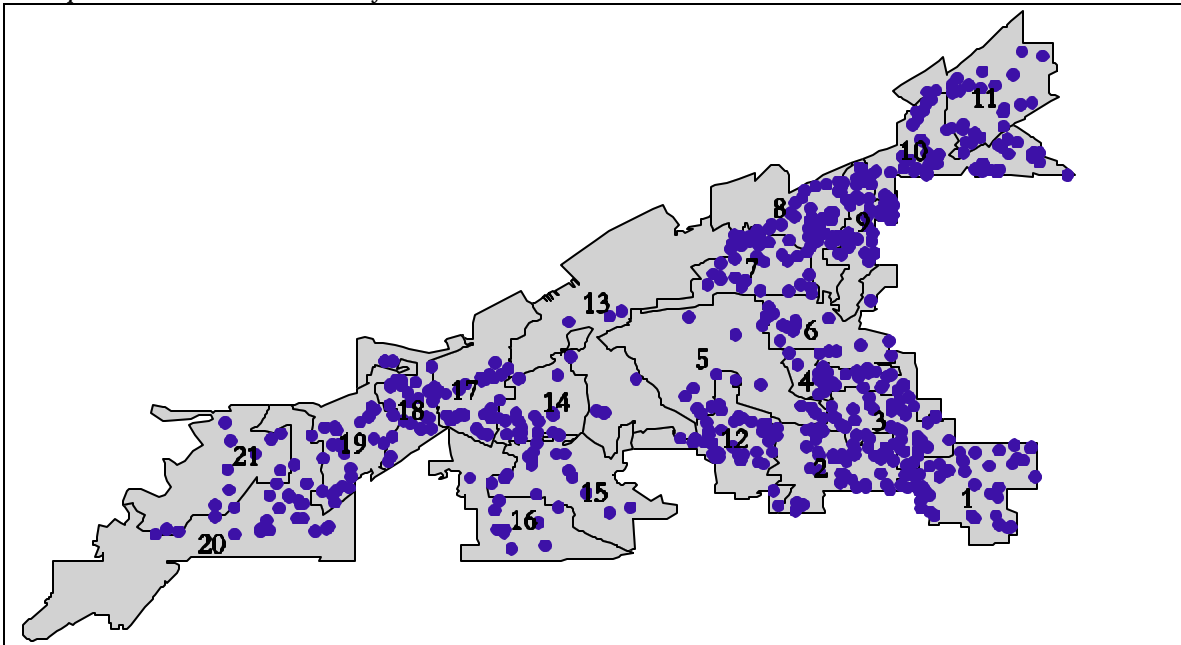


Foreclosures

The problem of foreclosures cannot be left out of an analysis of lending patterns. Foreclosures are, unfortunately, a clear burden on the housing industry in the City of Cleveland. In 2002, the Housing Center began what would be an 18-month project examining the Foreclosures in Cuyahoga County¹⁰. This project included collecting a sample of data on foreclosures filed in 1997, 1999 and 2001 from the Cuyahoga County Courthouse. Using this sample data, we were able to make some conclusions about the foreclosure increase in the City of Cleveland, as well as at the County. Because this study included a statistically significant sample size, it can be used to make some assumptions about the total population (the total population in this case equaling the total number of foreclosures filed in Cuyahoga County for the three years of our sample). Using the statistics from our sample, we can estimate that approximately 58.4% of all of the foreclosures filed in Cuyahoga County are in the City of Cleveland. That would mean that in these three years, 1997, 1999 and 2001, there were more than 9000 foreclosures filed in the City of Cleveland alone.

¹⁰ See The Housing Research & Advocacy Center, December 2003, *A Study of Foreclosures in The City of Cleveland*.

Sample of Foreclosures in the City of Cleveland – 1997, 1999, & 2001



Unfortunately, without further detailed study of foreclosure filings that would include a survey of borrowers that have lost their homes to foreclosure, there is not way to definitely determine if there is a correlation between the increase in subprime lending to the increase of foreclosure. We do know from our review of foreclosure filings, that more than 65% of the foreclosures in our sample had one or more predatory characteristics such as payment on demand, excessive prepayment penalties, balloon payments, mandatory arbitration clauses and credit insurance.

Key Findings

1. Subprime lenders and brokers dominate the Refinancing market in the City of Cleveland, in fact, 53.56% of all the loan applications for refinancing loans at the top ten banks were to subprime lenders. Furthermore, subprime lenders made 31.37% of the refinancing loans made in the City.
2. City of Cleveland residents received more than 3300 subprime loans in 2002, up to 1700 of these borrowers probably could have qualified for a prime loan.
3. 65% of all foreclosures filed in Cuyahoga County are in the City of Cleveland.
4. Many of the lenders that are taking deposits at Cleveland branches are not making taking enough applications to make it into the list of the top ten home purchase or refinancing lenders in the City of Cleveland. Applications can be an indication of the marketing practices of the bank. Many of these banks are taking money out of the community by way of deposits, but not putting money back into the neighborhoods by making loans.
5. Many of the prime banks are not originating loans in the areas of Cleveland where there is a high concentration of minority residents.