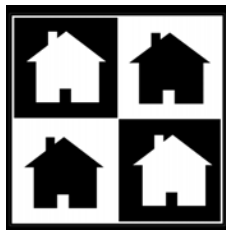


Racial and Ethnic Disparities in 2008 Ohio Mortgage Lending

JEFFREY D. DILLMAN
SAMANTHA HOOVER
CARRIE PLEASANTS



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HOUSING RESEARCH & ADVOCACY CENTER
3631 PERKINS AVENUE, #3A-2
CLEVELAND, OHIO 44114
(216) 361-9240 (PHONE)
(216) 426-1290 (FAX)
www.thehousingcenter.org

About the Authors

JEFFREY D. DILLMAN is the Executive Director of the Housing Research & Advocacy Center (the “Housing Center”). He received his J.D. from Boalt Hall School of Law, University of California, Berkeley, and has practiced civil rights, consumer, and immigration law for over 19 years.

SAMANTHA HOOVER is the Housing Center’s Fair Housing Research Associate. She is a graduate of Kent State University’s Honors College, earning dual Bachelor of Arts degrees in English and Sociology, a certificate in Nonprofit/Human Services Management, and a Writing minor.

CARRIE PLEASANTS is the Associate Director at the Housing Center. She received her M.A. in Geography, with an emphasis on Urban Geography, from Kent State University and has conducted a number of research projects at the Housing Center related to lending discrimination and impediments to fair housing.

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.

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Executive Summary

This report examines mortgage lending applications and originations in 2008 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.

Statewide, the overall amount of mortgage lending decreased significantly over the last four years, from 1.16 million loan records reported in 2005 to 533,639 in 2008, a 54.00% decrease. While members of all racial groups are receiving fewer loans, the 2008 data reveal continuing disparities in mortgage lending in Ohio based on both race and ethnicity. In particular, African Americans and Hispanics/Latinos continue 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.

African Americans in Ohio were denied home purchase loans 30.85% of the time, compared to 20.63% for Hispanics/Latinos, 15.22% for Asians, and 14.98% for whites. For refinance loans, African Americans were denied loans 63.00% of the time, compared to 52.45% of the time for Hispanics/Latinos, 39.47% for whites, and 38.35% for Asians.

Moreover, an examination of the income levels of applicants reveals that disparities exist regardless of income. Statewide, in 2008 upper income African Americans were denied at nearly the same rate as low income whites for home purchase loans, and they were denied more often than low income whites for refinance loans.

By comparison, in 2006 and 2007, upper income African Americans were denied home purchase loans at higher rates than low income whites. From 2005-2007, upper income African Americans and low income whites were denied refinance loans at nearly the same rates. Thus, while the disparity in home purchase loan denial rates between upper income African Americans and low income whites has decreased slightly in 2008, the disparity in refinance loan denial rates for between these groups has increased.

The Cincinnati MSA stands out for the strength of the racial disparity for home purchase loan denial rates between upper income African Americans and low income whites, though this MSA had the lowest overall denial rates. For refinance loans, the greatest disparity in denial rates between upper income African Americans and low income whites was in the Cleveland MSA.

The fact that African Americans were denied loans at 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, raise concern about access to credit for this group as well.

High-cost lending also reveals racial and ethnic disparities. An average of 17.75% of home purchase loans obtained by African Americans in Ohio in 2008 had high interest rates, compared to 14.87% for Hispanics/Latinos, 10.88% for whites, and 5.74% for Asians. Refinance lending showed greater racial and ethnic disparities. Statewide, 27.43% of African Americans received high-cost refinance loans in 2008, compared to 16.53% of Hispanics/Latinos, 12.50% of whites, and 5.17% of Asians.

Upper income African Americans in Ohio received high-cost home purchase loans at a slightly lower rate than low income whites but received high-cost refinance loans at nearly the same rate as low income whites. Hispanics/Latinos typically received more high-cost loans than whites but fewer than African Americans. Asians had the lowest incidence of high-cost lending for all groups studied.

The racial disparity for both high-cost home purchase and refinance loans between upper income African Americans and low income whites was greatest in the Cleveland MSA.

The results of the analysis of mortgage lending presented in this report reveal a disturbing pattern: African Americans were denied mortgage loans at disproportionate rates compared to whites and, when they did obtain loans, they received 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.¹ Although discrimination in mortgage lending and redlining were made illegal by the Fair Housing Act in 1968 and are also prohibited by Ohio law,² many recent studies have found continuing racial disparities in mortgage lending based on race.³ In the past three years, the Housing Research & Advocacy Center (the “Housing Center”) has examined mortgage lending in Ohio and discovered similar racial and ethnic disparities.⁴

To assess whether such disparities continue to exist in Ohio, the Housing Center analyzed 2008 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 Metropolitan Statistical Areas (MSAs).⁵

This report focuses on two aspects of the 2008 Home Mortgage Disclosure Act (HMDA) data: loan denial rates and “high-cost” lending rates based on race, ethnicity, and income.⁶ These two

¹ See, e.g., HUD Preamble I, 53 Fed. Reg. 44998 (Nov. 7, 1988).

² 42 U.S.C. Sec. 3605; O.R.C. Sec. 4112.02(H)(3). Such discrimination is also prohibited by the Equal Credit Opportunity Act (ECOA) 15 U.S.C. Sec. 1691.

³ See, e.g., National Community Reinvestment Coalition & National Council of Negro Women, “Income is No Shield, Part III, Assessing the Double Burden: Examining Racial and Gender Disparities in Mortgage Lending,” (June 2009); Coulton, Claudia, Michael Schramm & 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); Fishbein, Allen J. and Patrick Woodall, “Subprime Locations: Patterns of Geographic Disparity in Subprime Lending,” Consumer Federation of America, (September 5, 2006); 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); Munnell, Alicia H., et al., “Mortgage Lending in Boston: Interpreting the HMDA Data,” Federal Reserve Bank of Boston Working Paper No. 92-7 (1992).

⁴ Housing Research & Advocacy Center, “Persisting Racial and Ethnic Disparities in Ohio Mortgage Lending” (2009); Housing Research & Advocacy Center, “Continued Racial and Ethnic Disparities in Ohio Mortgage Lending” (2008); Housing Research & Advocacy Center, “Racial and Ethnic Disparities in Ohio Mortgage Lending” (2006).

⁵ 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 Trumbull Counties.

⁶ “High-cost” loans have interest rates of at least 3% (or, for second-lien mortgages, 5%) above the rate on

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 by 54.00% over the last four years, from 1.16 million loan records reported in 2005, to 1.03 million in 2006, to 774,401 in 2007, and to 533,639 in 2008.⁷ However, significant racial and ethnic disparities persisted throughout this period. The data reveal that African Americans and Hispanics/Latinos continue 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 studied by the Housing Center.

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 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.

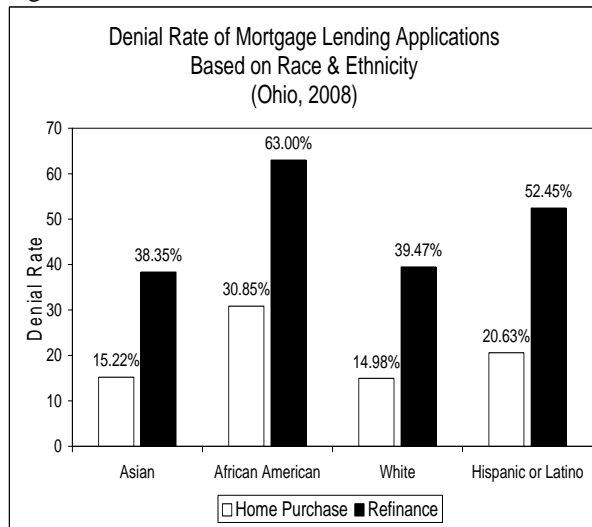
⁷ In the City of Cleveland, there were 1,863 mortgage loan originations in 2008, “a 74% decrease from its 2005 high. The trend in Cuyahoga County is similar, with only 10,156 mortgage loan originations in 2008; a 60% decrease from its 2005 high.” Vadapalli, Diwakar, April Hirsh, Claudia Coulton & Michael Schramm, “Trends in ‘home purchase loan’ origination in Cleveland and Cuyahoga County: 1995 – 2008,” Center on Urban Poverty and Community Development, *Behind the Numbers*, (November 2009), p. 1.

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 2008 loan denial rates for the State of Ohio as well as its seven largest Metropolitan Statistical Areas.⁸ 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 30.85% of the time, compared to 20.63% for Hispanics/Latinos, 15.22% for Asians, and 14.98% for whites. For refinance loans, African Americans were denied loans 63.00% of the time, compared to 52.45% of the time for Hispanics/Latinos, 39.47% for whites, and 38.35% for Asians (see Figure 1).⁹

Figure 1



Source: 2008 HMDA data.

⁸ HMDA data list several dispositions for loan applications: loan originated, approved but not accepted (by the borrower), denied, withdrawn, and 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.

⁹ 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 Brevoort, and Glenn B. Canner, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," draft of forthcoming article in the *Federal Reserve Bulletin* (September 2009) p. 33-35; Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner, "The 2007 HMDA Data," *Federal Reserve Bulletin* (December 2008), p. A140-141; Avery, Robert B., Kenneth P. Brevoort, and Glenn B. Canner, "The 2006 HMDA Data," *Federal Reserve Bulletin* (December 2007), p. 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), p. A161. These results are also consistent with earlier research by the Housing Center on mortgage lending in Ohio. See footnote 4, 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. Statewide, in 2008 upper income African Americans were denied home purchase loans 24.07% of the time, compared to a 26.74% denial rate for low income whites. For refinance loans, upper income African Americans were denied loans 60.86% of the time, compared to a 52.44% denial rate for low income whites (see State of Ohio Denial Rate Charts, p. 16).

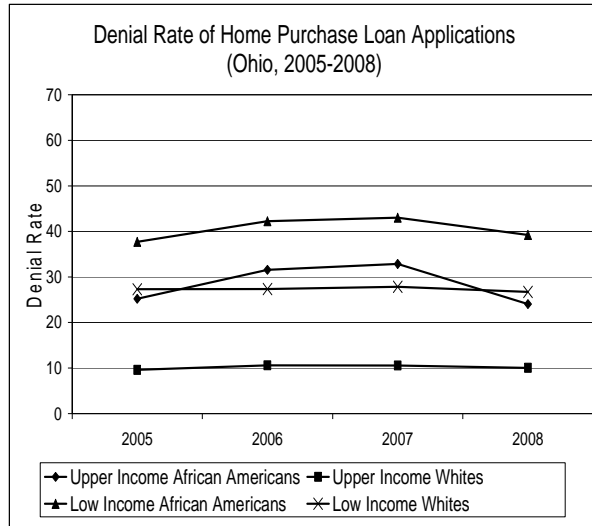
By comparison, in 2006 and 2007, upper income African Americans were denied home purchase loans at higher rates than low income whites. From 2005-2007, upper income African Americans and low income whites were denied refinance loans at nearly the same rates.

Thus, while the disparity in home purchase loan denial rates between upper income African Americans and low income whites has slightly decreased in 2008, the disparity in refinance loan denial rates for between these groups has increased (see Figures 2 and 3).

Low income Hispanics/Latinos were denied at rates closer to low income African Americans than to low income whites, while upper income Hispanics/Latinos were denied at rates closer to upper income whites than to upper income African Americans. Statewide, upper income Hispanics/Latinos had a 14.41% denial rate for home purchase loans, while low income Hispanics/Latinos were denied home purchase loans 32.26% of the time. For refinance loans, upper income Hispanics/Latinos were denied loans 46.50% of the time, and low income Hispanics/Latinos were denied loans 61.00% of the time.

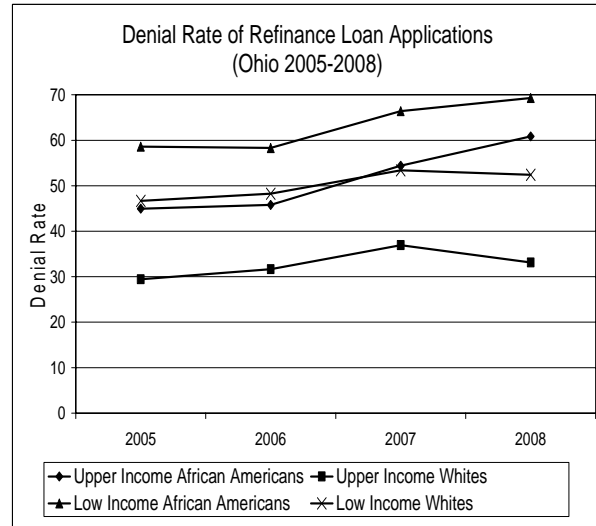
Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

Figure 2



Source: 2005-2008 HMDA data.

Figure 3



Source: 2005-2008 HMDA data.

The fact that upper income African Americans were denied home purchase loans at nearly the same rate as low income whites and at a higher rate than low income whites for refinance loans gives rise to concerns that African Americans are not obtaining access to mortgage lending on the same basis as whites and are experiencing illegal discrimination in the mortgage market.

Moreover, in a number of MSAs, upper income African Americans were denied loans at a higher rate than low income whites. In the Akron, Cincinnati, and Cleveland MSAs, this racial disparity existed for both home purchase and refinancing loans. In the Columbus, Dayton, Toledo, and Youngstown MSAs, the disparity existed for refinance but not for home purchase loans.¹⁰

The Cincinnati MSA stands out for the strength of the racial disparity for home purchase loans: upper income African Americans were denied home purchase loans 16.45% of the time, whereas low income whites were denied only 8.98% of the time.¹¹ For refinance loans, the greatest disparity was in the Cleveland MSA, where 64.94% of upper income African Americans were denied refinance loans compared to 52.05% 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, raise concern about access to credit for this group as well.

¹⁰ Lending data for the State of Ohio and each of the seven MSAs studied in this report are presented in the Appendix.

¹¹ The Cincinnati MSA, however, had the lowest overall home purchase denial rates.

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 rate of high-cost lending in Ohio decreased from 2007 to 2008. In 2008, 11.24% of all home purchase loans were high-cost, down from 14.35% of home purchase loans in 2007.¹⁴ High-cost refinance lending also decreased in 2008 to 13.33%, down from 21.85% in 2007.

Statewide, an average of 17.75% of home purchase loans obtained by African Americans had high interest rates, compared to 14.87% for Hispanics/Latinos, 10.88% for whites, and 5.74% for Asians.

The greatest incidence of high-cost home purchase lending for whites was in the Cincinnati MSA, where 19.26% of such loans were high-cost. For all other racial and ethnic groups studied, the greatest incidence of high-cost home purchase lending occurred in the Youngstown MSA, where 29.85% of such loans obtained by Hispanics, 27.64% of such loans obtained by African Americans, and 21.43% of such loans obtained by Asians were high-cost (see Figure 4).

The lowest incidence of high-cost home purchase lending for Asians occurred in the Cincinnati MSA, where 4.21% of such loans were high-cost. The Columbus MSA had the lowest incidence of high-cost home purchase lending for all other racial and ethnic groups studied, where 13.27% of such loans to Hispanics were high-cost, 11.18% of such loans to African Americans were high-cost, and 7.76% of such loans to whites were high-cost.

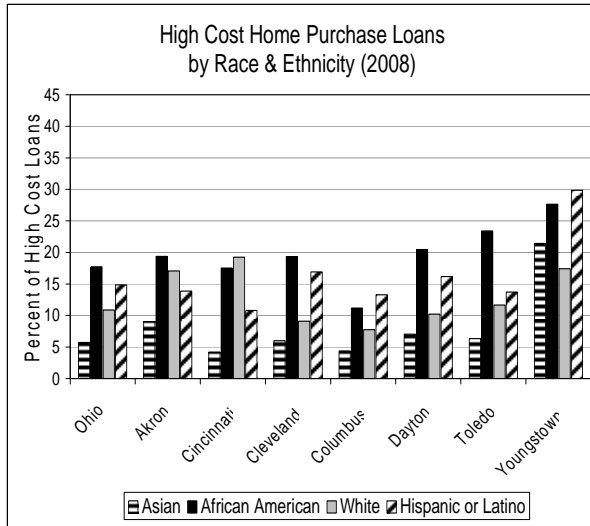
The rates for high-cost refinance lending showed similar racial and ethnic disparities. Statewide, 27.43% of African Americans received high-cost refinance loans, compared to 16.53% of Hispanics/Latinos, 12.50% of whites, and 5.17% of Asians.

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,” (April 3, 2006), 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), p. 5, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>.

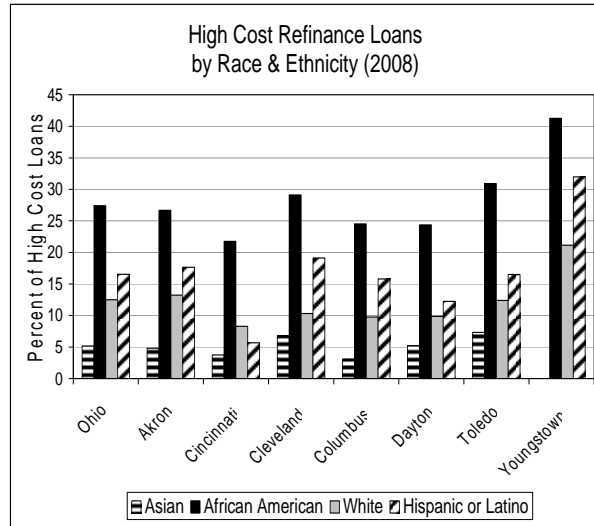
¹⁴ From 2005 to 2008, in both the City of Cleveland and in Cuyahoga County, “high-cost loans made up a higher percentage of total ‘home purchase loan’ originations, compared to the entire nation.” Vadapalli, *et al.* (2009), p. 3.

Figure 4



Source: 2008 HMDA data.

Figure 5



Source: 2008 HMDA data.

The Toledo MSA had the greatest incidence of high-cost refinance loans for Asians, where 7.32% of all refinance loans originated to Asians were high-cost. The greatest incidence of high-cost refinance lending, for all other racial and ethnic groups studied was in the Columbus MSA, where 41.27% of such loans to African Americans, 32.00% of such loans to Hispanics/Latinos, and 21.15% of such loans to whites were high-cost loans (see Figure 5).

Asians saw the lowest rate of high-cost refinance loans in the Youngstown MSA, where no Asians received high-cost loans.¹⁵ The Cincinnati MSA had the lowest incidence of high-cost refinance lending for all other racial and ethnic groups studied, where 21.77% of loans to African Americans, 8.30% of loans to whites, and 5.67% of loans to Hispanics/Latinos were high-cost.

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 income could explain the variance in types of loans received. That is, do income differences between whites and African Americans or Hispanics/Latinos 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. Statewide, upper income African Americans received high-cost home purchase loans 14.77% of the time, compared to 8.20% of the time for upper income whites and 17.44% of the time for low income whites. For refinance loans, upper income

¹⁵ The Youngstown MSA, however, had the highest overall high-cost rates for home purchase and refinance lending for all other racial and ethnic groups.

African Americans received high-cost loans 23.40% of the time in Ohio, compared to 8.50% of the time for upper income whites and 23.92% of the time for low income whites.

Hispanics/Latinos typically received more high-cost loans than whites but fewer than African Americans. Upper income Hispanic/Latinos received high-cost loans 9.68% of the time for home purchase loans and 13.66% of the time for refinance loans. Low income Hispanic/Latinos received high-cost loans 26.26% of the time for home purchase loans and 29.08% of the time for refinance loans.¹⁶

Asians had the lowest incidence of high-cost lending for all groups studied: 4.60% of home purchase loans in the state among upper income Asians were high-cost, compared to 3.40% of refinance loans for upper income Asians. Low income Asians received high-cost loans 11.19% of the time for home purchase loans and 17.65% of the time for refinance loans.

The racial disparity in high-cost home purchase loans was greatest in the Cleveland MSA, where 18.53% of upper income African Americans received high-cost loans, compared to 6.98% of upper income whites and 14.24% of low income whites. For refinance loans, the racial disparity was also greatest in the Cleveland MSA, where 27.40% of upper income African Americans received high-cost loans, compared with 7.47% of upper income whites and 19.16% 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 2008 HMDA data, like those from earlier years, indicate that black and Hispanic white borrowers are more likely, and Asian borrowers less likely, to obtain conventional loans with prices above the HMDA price-reporting thresholds than are non-Hispanic white borrowers.”¹⁷ While the report stated that *some* of this disparity could be explained for by “borrower-related factors” (wealth or credit history, for example) or the individual lender chosen, it also noted that not all of the discrepancy is explained by such variables.¹⁸

A study by the National Community Reinvestment Coalition (NCRC) similarly 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

¹⁶ Hispanics/Latinos received high-cost home purchase loans more often than low income African Americans (26.26% of the time, compared to 22.40%)

¹⁷ Avery, *et al.* (2009), p. 33.

¹⁸ Avery, *et al.* (2009), p. 33.

levels, suggests that more minorities are receiving high-cost loans than is justified based on creditworthiness.”¹⁹ The Center for Responsible Lending further found that disparities remained even when controlling for “legitimate risk factors” such as “credit scores, loan-to-value ratios, and other underwriting factors.”²⁰

Conclusions and Recommendations

The results of the analysis of 2008 Ohio mortgage lending presented in this report reveal a disturbing pattern: African Americans were denied mortgage loans at disproportionate rates compared to whites and, when they did obtain loans, they received high-cost loans more often than whites. The fact that upper income African Americans were denied home purchase loans at nearly the same rate as low income whites and they were denied at a higher rate than low income whites reveals that African Americans are not being offered the same access to credit. The disparities in high-cost lending rates – with upper income African Americans receiving high-cost loans at nearly the same rate as low income whites – reveal that even when African Americans obtain credit, it is often at unfavorable terms. 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.²¹ The National Community Reinvestment Coalition found that strong disparities persist, even when controlling for factors such as “creditworthiness and other housing market factors.”²²

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 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

¹⁹ 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.

²⁰ 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.

²¹ See, e.g., footnote 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.

²² NCRC (2008), p. 3.

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 recommends:

1. **Creation of a federal Consumer Financial Protection Agency** to protect individuals from abusive and unfair products and services. In December 2009, the U.S. House of Representatives passed legislation creating such an agency, which would include an Office of Fair Lending and Equal Opportunity to ensure that mortgage lenders comply with the provisions of the Fair Housing Act and the Equal Credit Opportunity Act (ECOA) to provide credit in a non-discriminatory manner. Creating an office with adequate investigative and enforcement powers would provide a strong and independent monitor for lenders to ensure that discrimination is not occurring in the mortgage industry.
2. **Increased state and local monitoring and enforcement** of mortgage lenders to ensure that lenders are complying with all applicable anti-discrimination laws.
3. **Strengthening 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 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.
4. **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.

5. **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.²³ Lenders with small assets size are not required to report data for the following year.²⁴ 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.²⁵

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.²⁶ Nationwide, there were 17.1 million loan records reported for calendar year 2008, with 8,388 institutions reporting.²⁷ These lenders are estimated to account for the “majority of home lending nationwide” in 2008.²⁸ In Ohio, there were over 533,639 loan records reported for calendar year 2008, with approximately 1,029 institutions reporting.²⁹

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.³⁰ While some

²³ See FFIEC, “2008 Reporting Criteria for Depository Institutions,” available at <http://www.ffiec.gov/hmda/reportde2008.htm>, and FFIEC, “2008 Reporting Criteria for Nondepository Institutions,” available at <http://www.ffiec.gov/hmda/reportno2008.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), p. A109.

²⁴ Lenders with less than \$37 million in assets on December 31, 2007, did not have to report data in 2008. FFIEC, “2008 Reporting Criteria for Depository Institutions,” available at <http://www.ffiec.gov/hmda/reportde2008.htm>.

²⁵ Federal Reserve, “Frequently Asked Questions About the New HMDA Data,” April 3, 2006, p. 2, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>.

²⁶ 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.

²⁷ Of these, 5.0 million were home purchase loans, 7.7 million were refinancing loans, 1.4 million were home improvement loans, and 2.9 million were loans purchased from other institutions. Avery, *et al.* (2009), p. 42.

²⁸ Avery, *et al.* (2009), p. 2.

²⁹ The number of reporting institutions in Ohio decreased 10.52%, compared to nearly a 3% decrease nationwide. See 2007 and 2008 HMDA data; Avery (2009) p. 4.

³⁰ FFIEC, “Frequently Asked Questions About the New HMDA Data,” April 3, 2006, p. 1, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>; Avery, *et al.* (2007), p. 42.

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.”³¹

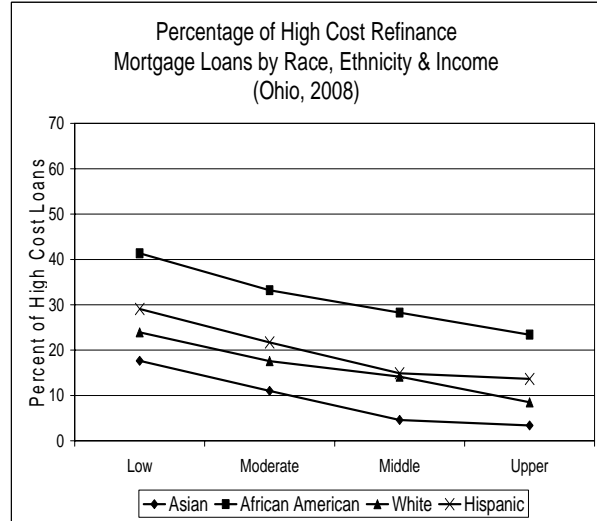
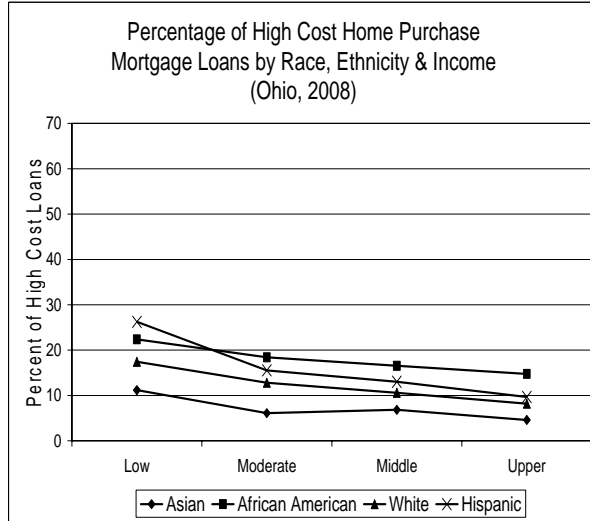
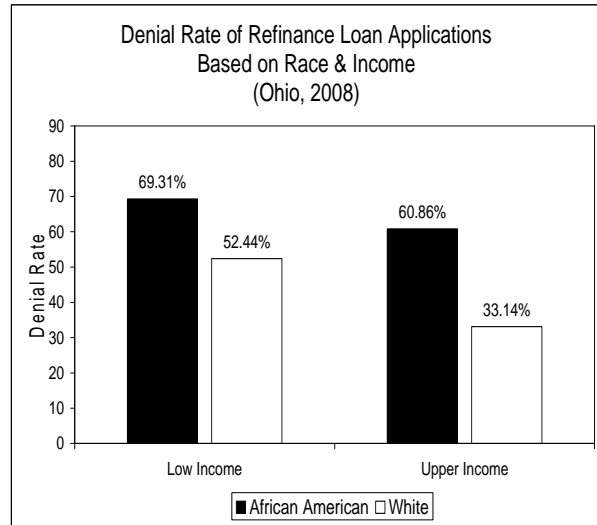
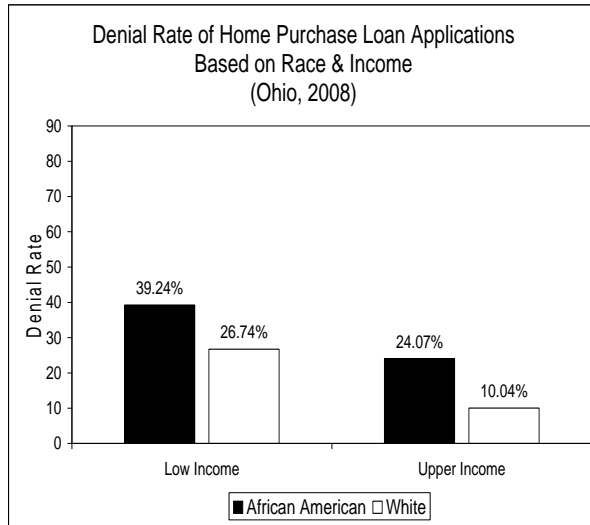
“High-cost lending” is not synonymous with “subprime lending” or “predatory lending.” High-cost lending is a narrower category than “subprime” lending, and some subprime loans are likely not counted among the loans identified in this report. Further, while many “predatory” loans are likely included in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

³¹ 12 C.F.R. Sec. 202.13(b).

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

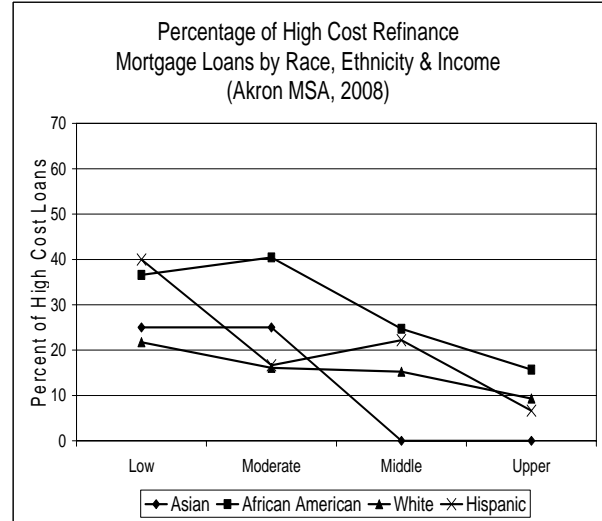
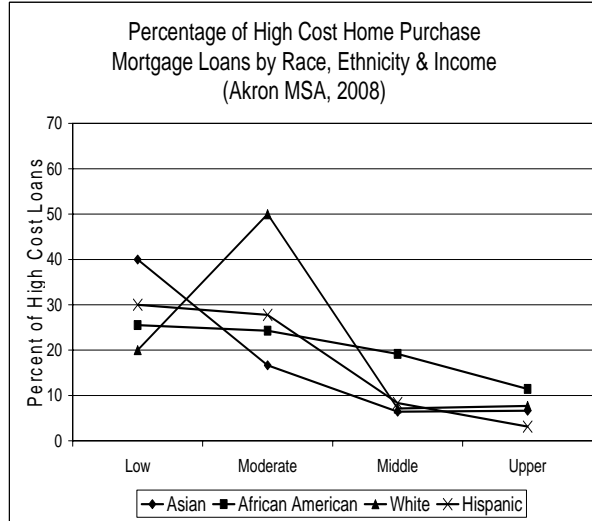
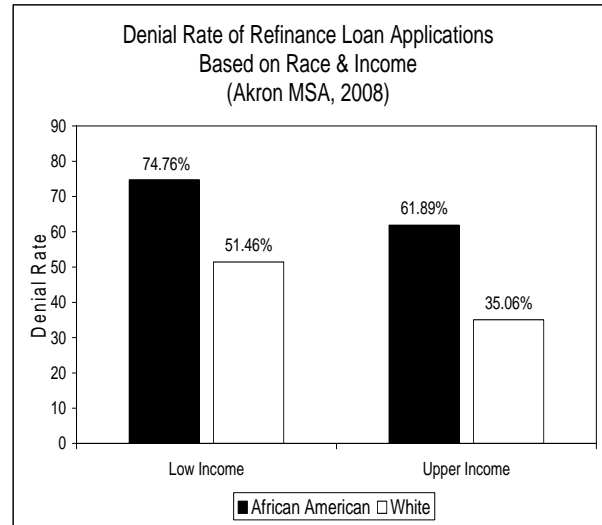
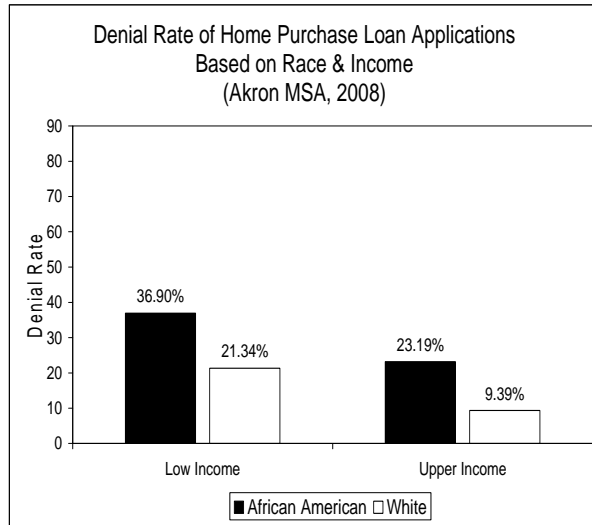
State of Ohio



Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

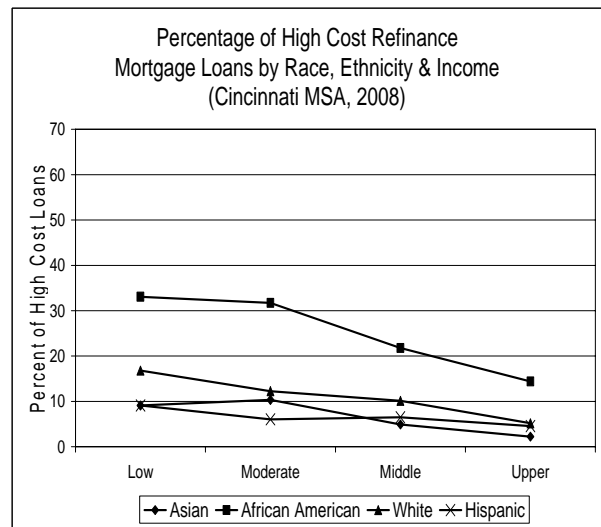
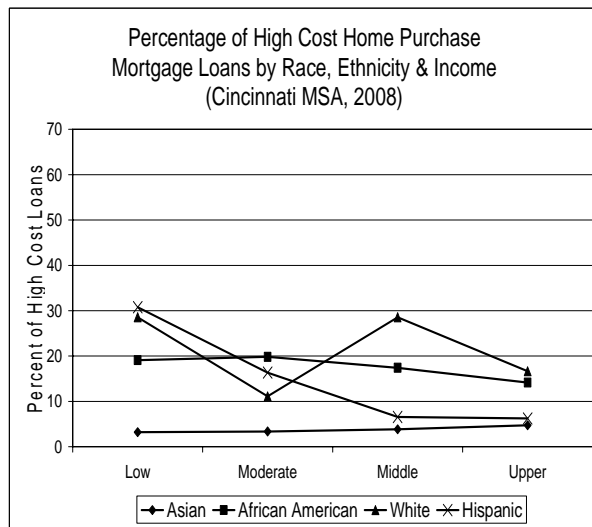
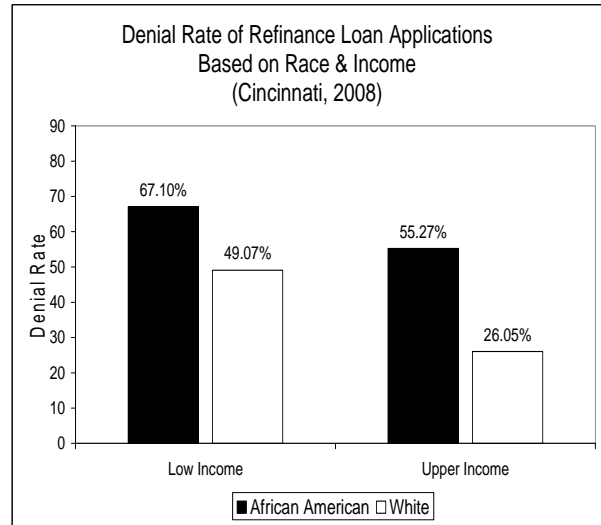
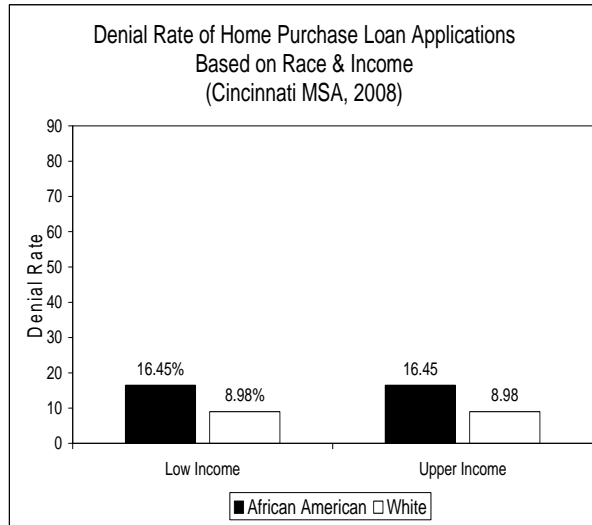
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Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

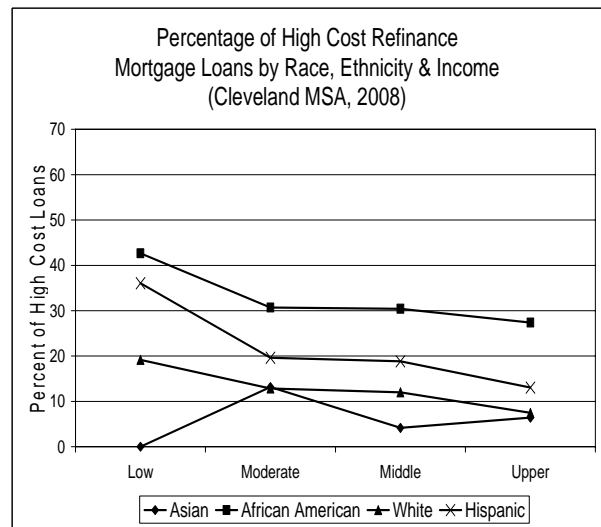
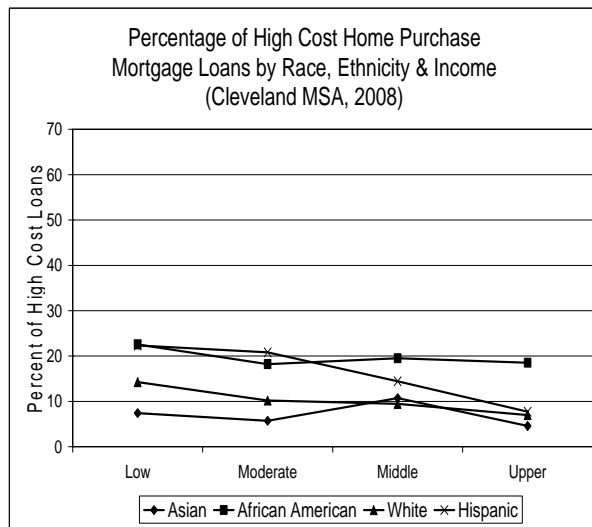
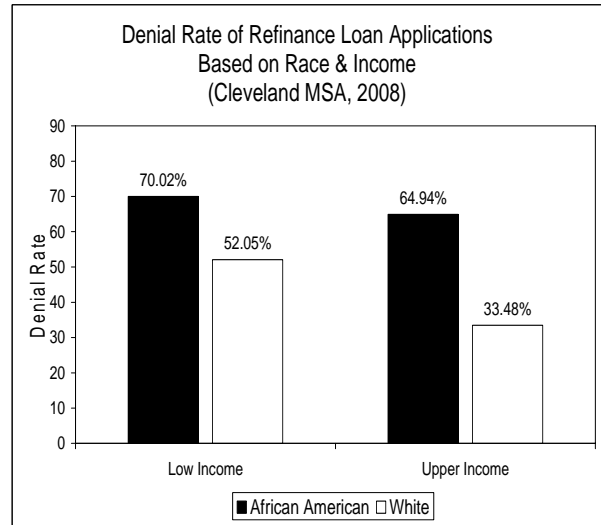
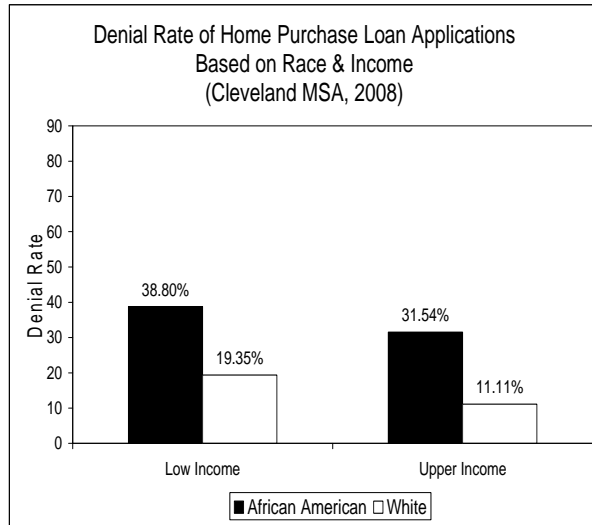
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Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

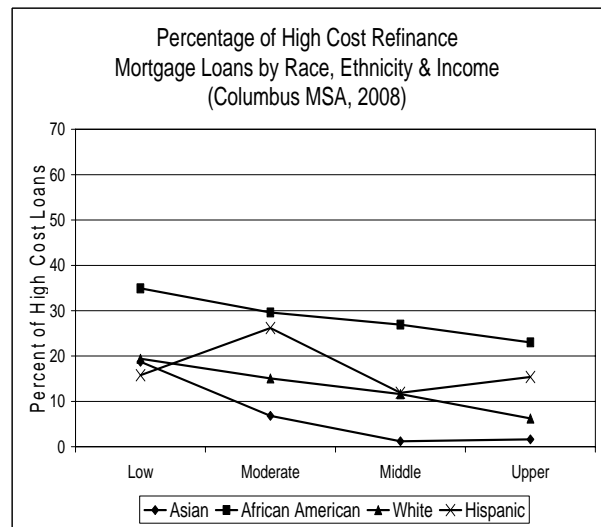
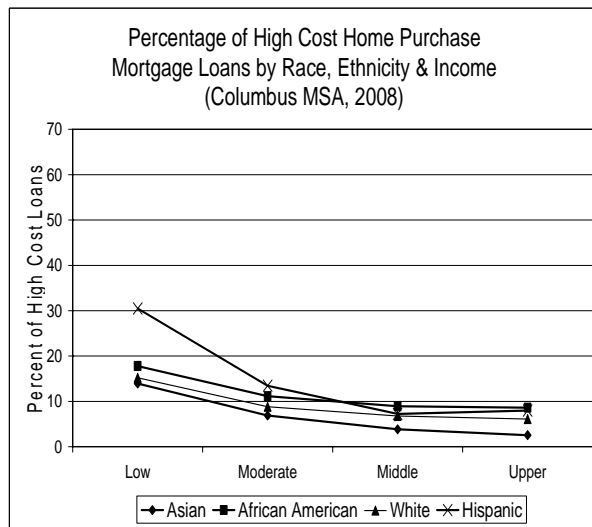
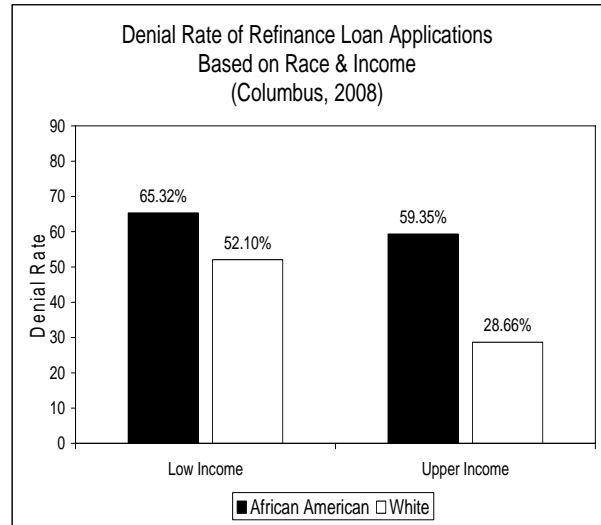
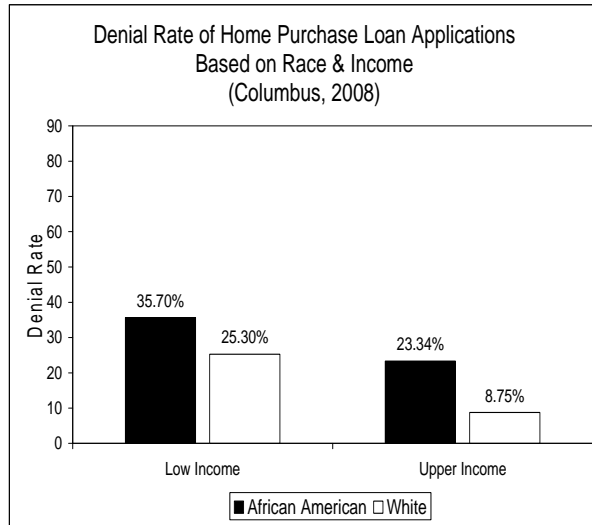
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Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

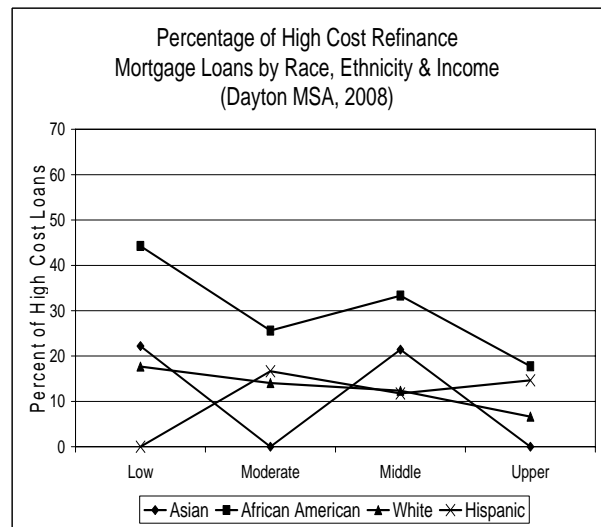
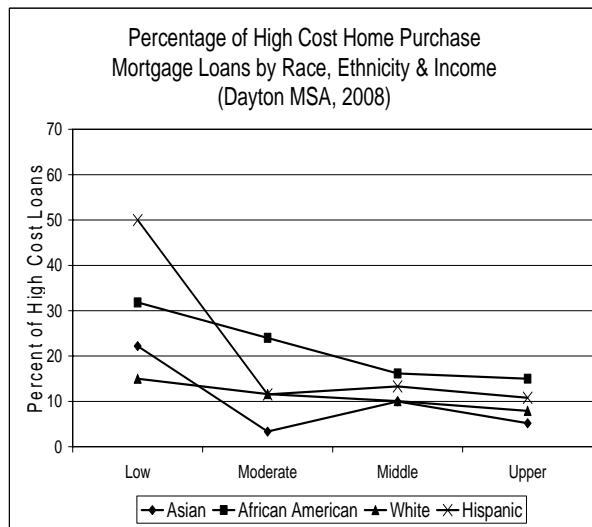
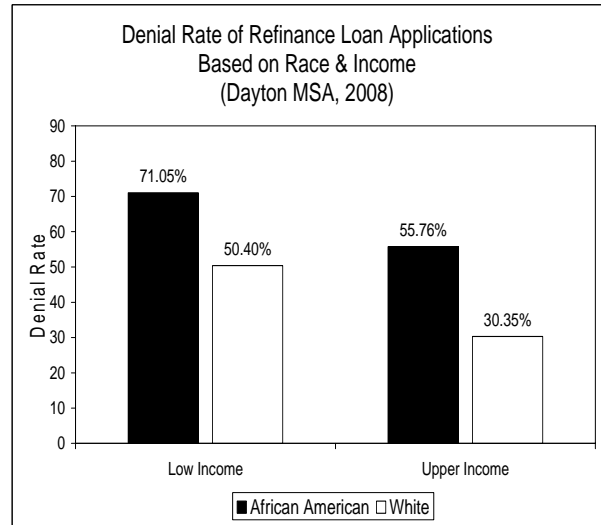
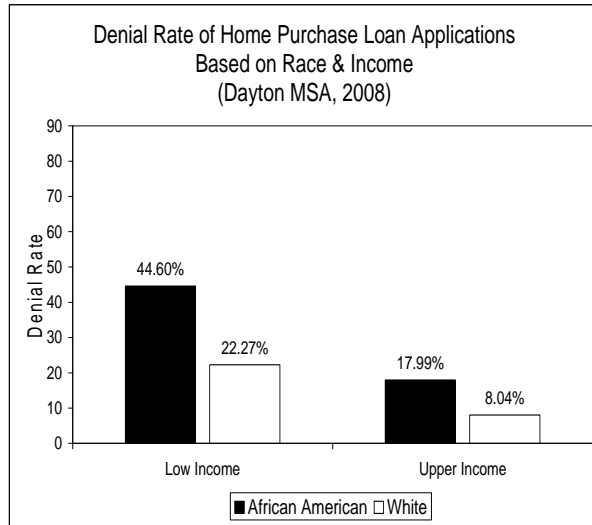
Columbus MSA



Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

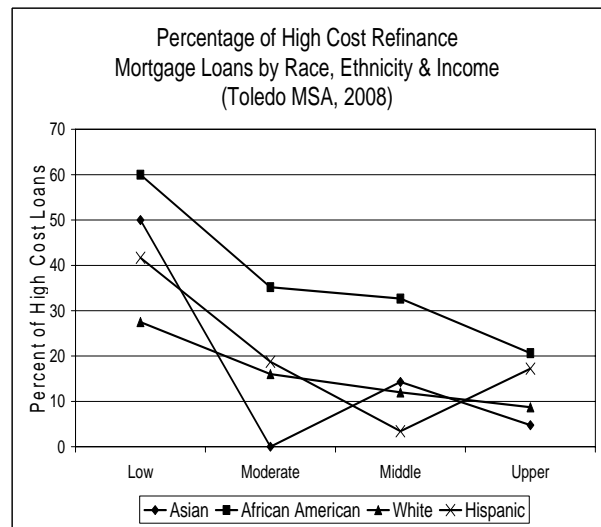
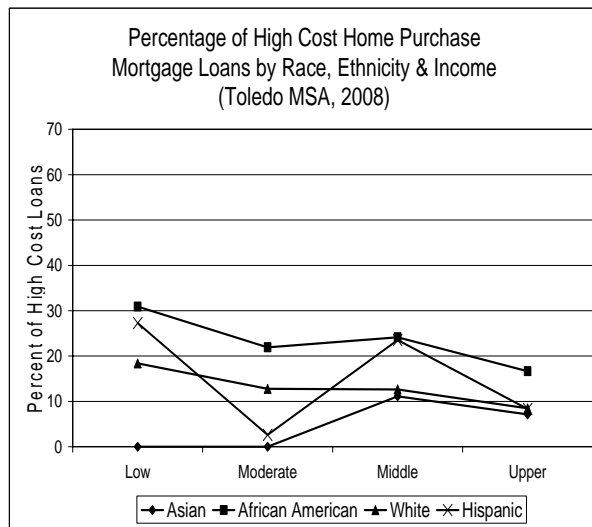
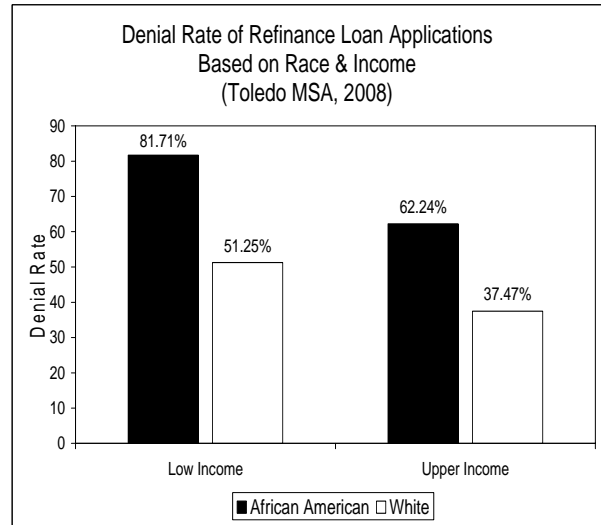
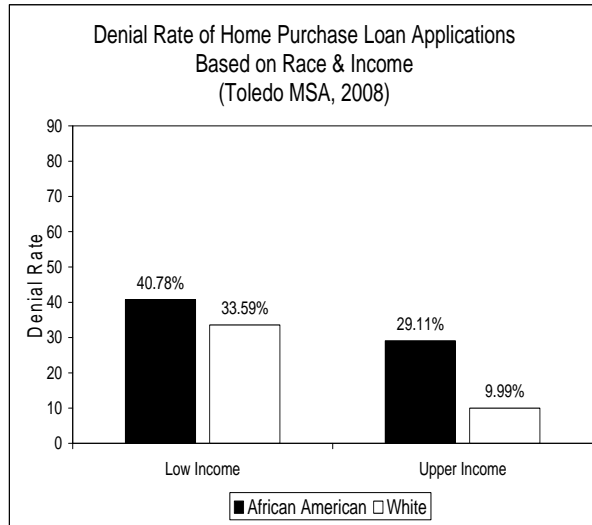
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Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

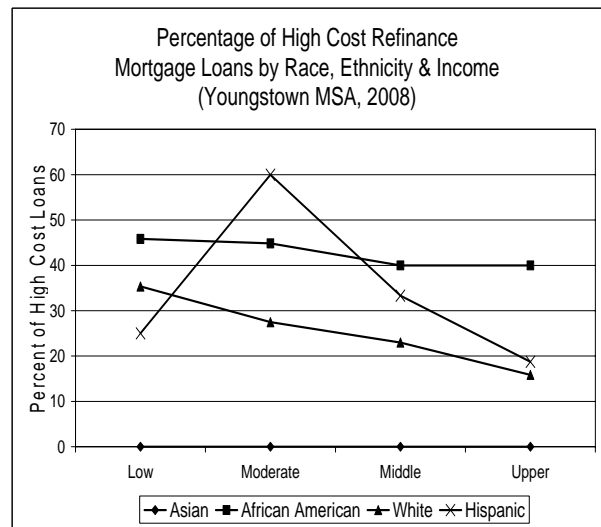
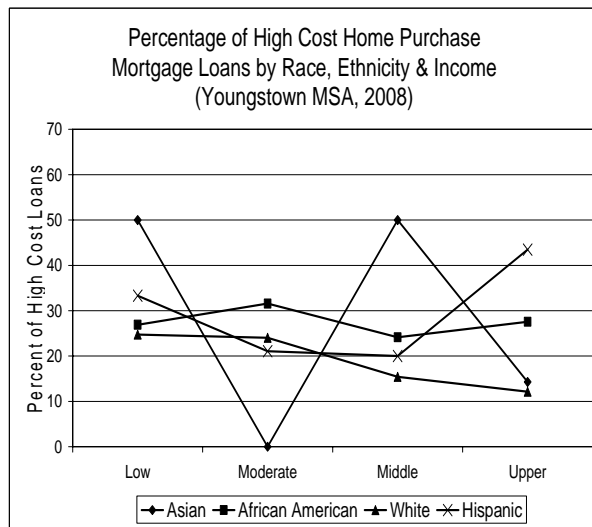
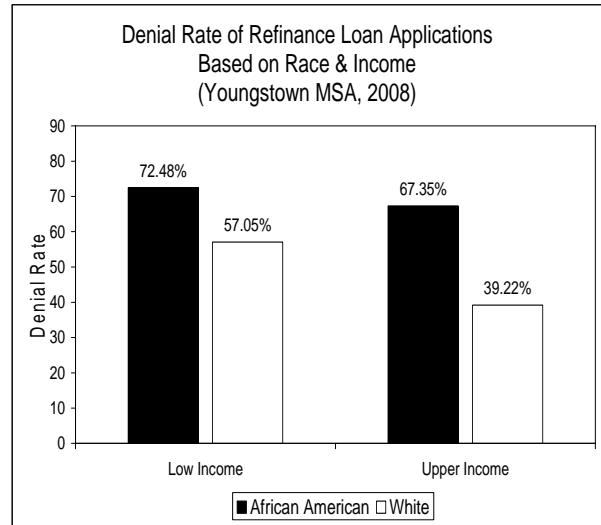
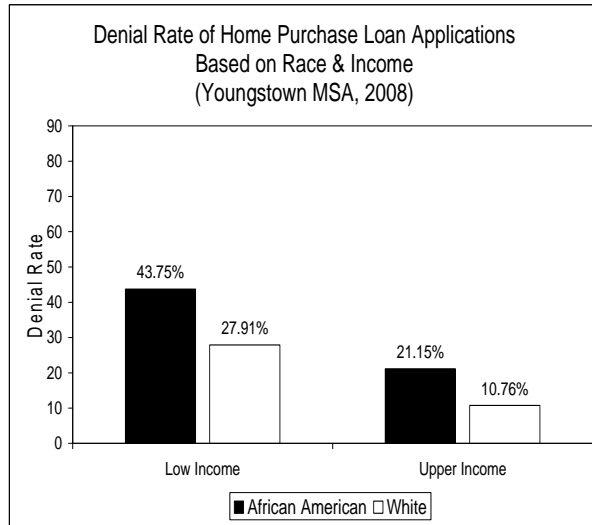
Toledo MSA



Source: 2008 HMDA data.

Racial & Ethnic Disparities in 2008 Ohio Mortgage Lending: December 2009

Youngstown MSA



Source: 2008 HMDA data.