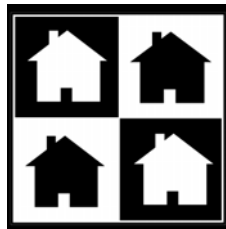


Racial and Ethnic Disparities in 2009 Ohio Mortgage Lending

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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 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 2009 for the State of Ohio and its seven largest Metropolitan Statistical Areas (MSAs) – Akron, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown – 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 number of home purchase and refinance lending originations decreased significantly over the last four years, from 378,472 loan originations in 2006 to 298,523 in 2009, a 21.12% decrease. While members of all racial groups are receiving fewer loans, the 2009 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 almost all of the MSAs that the Housing Center studied.

In 2009, African Americans in Ohio were denied home purchase loans 23.36% of the time, compared to 17.41% for Hispanics/Latinos, 13.77% for Asians, and 12.98% for whites. For refinance loans, African Americans were denied loans 47.01% of the time, compared to 35.59% of the time for Hispanics/Latinos, 23.49% for whites, and 21.71% for Asians.

Moreover, an examination of the income levels of applicants reveals that disparities exist regardless of income. Statewide in 2009, *upper income* African Americans were denied home purchase loans at nearly the same rate as *low income* whites, and they were denied refinance loans more often than low income whites.

These trends are similar to those in 2008, when upper income African Americans also were denied home purchase loans at nearly the same rate as low income whites and also were denied refinance loans at a higher rate than low income whites.

The Cleveland 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. For refinance loans, the greatest disparity in denial rates between upper income African Americans and low income whites was in the Toledo 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 10.57% of home purchase loans obtained by African Americans in Ohio in 2009 had high interest rates, compared

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to 7.62% for Hispanics/Latinos, 6.45% for whites, and 3.31% for Asians. Although all groups received fewer high-cost refinance loans compared to home purchase loans, refinance lending showed greater racial and ethnic disparities. Statewide, 9.38% of African Americans received high-cost refinance loans in 2009, compared to 6.46% of Hispanics/Latinos, 4.49% of whites, and 1.65% of Asians.

The greatest racial disparity for high-cost home purchase loans between upper income African Americans and low income whites occurred in the Youngstown MSA, while the greatest disparity for high-cost refinance loans for these groups was found in the Toledo 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 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 four 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 2009 mortgage lending data (the most recent available) for the State of Ohio and its seven largest Metropolitan Statistical Areas (MSAs) – the Akron, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown MSAs.⁵

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., Smith, Marvin M. & Christy C. Hevener, “Subprime Lending Over Time: The Role of Race,” Federal Reserve Bank of Philadelphia, October 2010; Center for Responsible Lending, “A National Tragedy: HMDA Data Highlight Homeownership Setbacks for African Americans and Latinos,” Issue Brief, (September 2010); 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, “Racial and Ethnic Disparities in 2008 Ohio Mortgage Lending,” (2009); 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.

This report focuses on two aspects of the 2009 Home Mortgage Disclosure Act (HMDA) data: loan denial rates and “high-cost” lending rates based on race, ethnicity, and income.⁶ These two 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 or ethnic groups 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.

Differences in wealth, credit scores, the loan-to-value (LTV) and debt-to-income (DTI) ratios of borrowers may explain some racial and ethnic disparities. However, national research studies have found that discrimination is very likely a large component of why racial and ethnic disparities do exist.⁷ For example, an analysis of the national 2009 HMDA data by the Center for Responsible Lending found that “across all categories of loans, African-American and Latino borrowers were more likely to be turned down for a mortgage compared to whites, even after controlling for factors such as income and location of property.” Additionally, African Americans and Latinos “received a large, disproportionate share of abusive subprime mortgages – even after controlling for risk factors such as income and credit scores.”⁸

Statewide, the overall number of mortgage lending applications decreased by 39.36% over the last four years, from 1.03 million loan applications in 2006, to 774,401 in 2007, to 533,639 in 2008, and to 624,555 reported in 2009. Home purchase and refinance originations in Ohio reflected this decline in applications, dropping from 378,472 in 2006 to 298,523 in 2009, a 21.12% decline. Examining home purchase and refinance originations separately reveals that the significant decrease in home purchase loans is responsible for this overall decline in originations: refinance loans increased by 15.66% from 2006 to 2009, while home purchase loans decreased 54.44% during this period.

⁶ 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. “High-cost” lending is defined in footnote 15, below.

⁷ See footnotes 21-23.

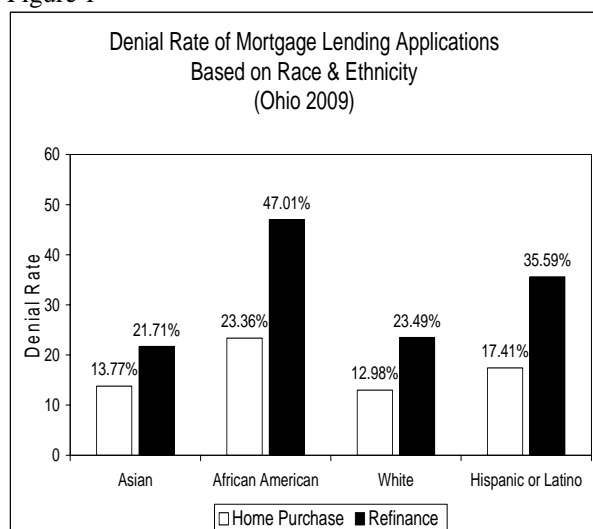
⁸ Center for Responsible Lending, “A National Tragedy,” p. 1.

Loan Denial Rates

To examine whether there were disparities in the availability of mortgage credit between different racial and ethnic groups, the Housing Center examined 2009 loan denial rates for the State of Ohio as well as its seven largest MSAs.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 23.36% of the time, compared to 17.41% for Hispanics/Latinos, 13.77% for Asians, and 12.98% for whites. For refinance loans, African Americans were denied loans 47.01% of the time, compared to 35.59% of the time for Hispanics/Latinos, 23.49% for whites, and 21.71% for Asians. (See Figure 1).

Figure 1



Source: 2009 HMDA data.

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

⁹ 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.

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 were denied loans at higher 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 refinance loans at disproportionate rates. Statewide in 2009, upper income African American were denied home purchase loans at nearly the same rate as low income whites (20.76% of the time for upper income African Americans compared to 21.27% for low income whites). Refinance lending showed even greater disparities: upper income African Americans were denied refinance loans 43.30% of the time, compared to 40.67% for low income whites. (See State of Ohio Denial Rate Charts, p. 17).

These trends are similar to those in 2008, when upper income African Americans also were denied home purchase loans at nearly the same rate as low income whites and also were denied refinance loans at a higher rate than low income whites.

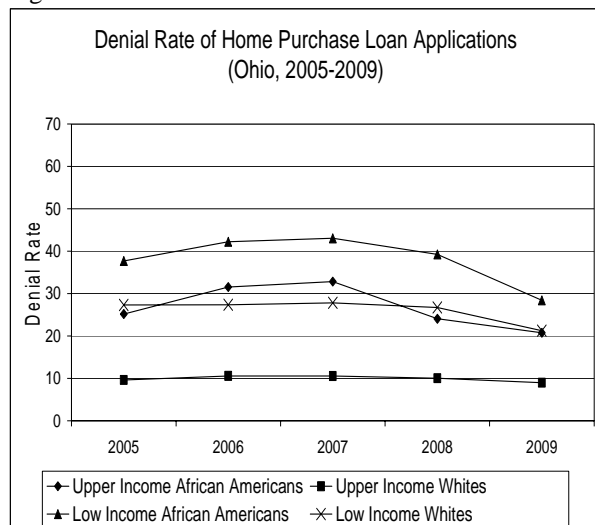
Low income Hispanics/Latinos were denied at rates closer to low income African Americans than to low income whites in 2009, while upper income Hispanics/Latinos were denied at rates closer to upper income whites than to upper income African Americans. Statewide in 2009, upper income Hispanics/Latinos had a 7.00% denial rate for home purchase loans, while low income Hispanics/Latinos were denied home purchase loans 27.35% of the time. For refinance loans, upper income Hispanics/Latinos were denied loans 28.81% of the time, and low income Hispanics/Latinos were denied loans 56.48% of the time.

National studies are consistent with these Ohio findings. A study published by the Federal Reserve analyzing 2009 HMDA data nationwide found that in both home purchase and refinance lending, African Americans and Hispanic had “notably higher gross denial rates than non-Hispanic-white applicants.”¹⁰

¹⁰ Avery, Robert B., Neil Bhutta, Kenneth Brevoort, and Glenn B. Canner, “The 2009 HMDA Data: The Mortgage Market in a Time of Low Interest Rates and Economic Distress,” *Federal Reserve Bulletin* (December 2010), p. A74. Earlier studies by the Federal Reserve have also found that nationwide, African Americans had the highest denial rates and Hispanics had rates about halfway between those for African Americans and those for non-Hispanic whites. See, e.g., Avery, Brevoort, and Canner, “The 2008 HMDA Data: The Mortgage Market during a Turbulent Year,” *Federal Reserve Bulletin* (September 2009) p. A205-206; Avery, Brevoort, and Canner, “The 2007 HMDA Data,” *Federal Reserve Bulletin* (December 2008), p. A140-141; Avery, Brevoort, and Canner, “The 2006 HMDA Data,” *Federal Reserve Bulletin* (December 2007), p. A97-98; Avery, Brevoort, and 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.

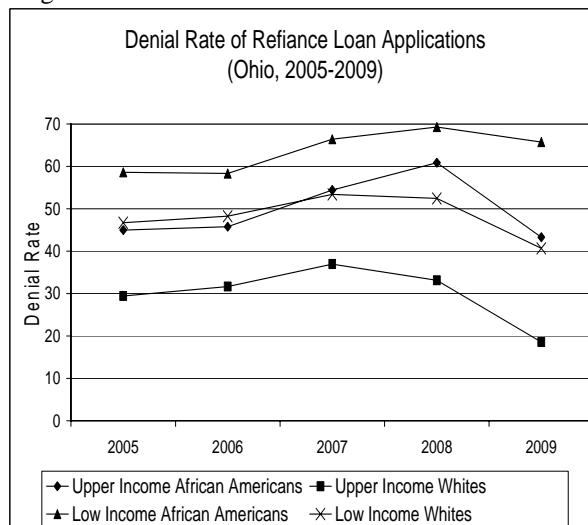
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Figure 2



Source: 2005-2009 HMDA data.

Figure 3



Source: 2005-2009 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 may be 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 Cleveland, Dayton, and Toledo MSAs, this racial disparity existed for both home purchase and refinancing loans. In the Akron, Cincinnati, and Youngstown MSAs, the disparity existed for refinance 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 25.14% of the time, whereas low income whites were denied only 14.98% of the time.¹² For refinance loans, the greatest disparity was in the Toledo MSA, where 56.57% of upper income African Americans were denied refinance loans compared to 39.73% of low income whites.

A comparison of the denial rates for African Americans based on income shows that the primary cause of the disparity between African Americans and whites is the high denial rates for upper income African Americans. The Housing Center compared the denial rates of both low and upper income African Americans in each of the eight geographies highlighted in this study – the State of Ohio and its seven largest MSAs – to the denial rates of low and upper income

¹¹ In the Columbus, MSA, upper income African Americans were denied home purchase and refinance loans at a lower rate than low income whites. Lending data for the State of Ohio and each of the seven MSAs studied in this report are presented in the Appendix.

¹² The Cincinnati MSA, however, had the lowest overall home purchase denial rates.

individuals of *all* races in the given geography. This analysis revealed that upper income African Americans experienced greater disparities in both home purchase and refinance denial rates than low income African Americans. For example, statewide, the denial rate of home purchase loans among low income African Americans was 23.89% greater than the denial rate of all low income individuals, while the denial rate for upper income African Americans was 120.14% greater than that of all upper income individuals. This pattern was also found for refinance loans at the state level, where low income African Americans had denial rates that were 47.86% greater than the denial rates for all low income individuals, while upper income African Americans experienced a rate of denial that was 115.19% greater than that of all upper income individuals.

In all, upper income African Americans were denied home purchase loans at a rate that was twice as great as the denial rate for all upper income individuals in Ohio and five of the state's seven largest MSAs.¹³ For refinance lending, the same was true for Ohio and four of its seven largest MSAs.¹⁴ However, in no geography was the denial rate for low income African Americans, for either home purchase or refinance loans, twice as great as the denial rate for all low income individuals of the geography in question. These trends suggest that in 2009, African Americans in the upper income group experienced loan denials at a more disproportionate rate, relative to income group, than their low income counterparts. (See Appendix, pp. 25-26).

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.

¹³ These five MSAs are as follows: Cincinnati; Cleveland; Columbus; Dayton; and Toledo.

¹⁴ These four MSAs are as follows: Cincinnati; Cleveland; Dayton; and Toledo.

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.¹⁵ 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.¹⁶

Statewide, an average of 10.57% of home purchase loans obtained by African Americans had high interest rates, compared to 7.62% for Hispanics/Latinos, 6.45% for whites, and 3.31% for Asians.¹⁷

The greatest incidence of high-cost home purchase lending for both whites and Hispanics was in the Youngstown MSA, where 9.08% of whites and 15.38% of Hispanics received high-cost loans. For African Americans, the greatest incidence of high-cost home purchase lending occurred in the Toledo MSA, where 14.89% of such loans obtained were high-cost, while Asians experienced the greatest incidence on this measure (5.69%) in the Akron MSA. (See Figure 4).

The lowest incidence of high-cost home purchase lending for African Americans occurred in the Dayton MSA, where 8.13% of such loans were high-cost. The Columbus MSA had the lowest incidence of high-cost home purchase lending for Hispanics and whites, where 4.79% of such loans to Hispanics were high-cost, and 4.33% of such loans to whites were high-cost. Asians had the lowest incidence of high-cost home purchase loans in the Youngstown MSA where no Asians received such loans.

The rates for high-cost refinance lending showed similar racial and ethnic disparities. Statewide, 9.38% of African Americans received high-cost refinance loans, compared to 6.46% of Hispanics/Latinos, 4.49% of whites, and 1.65% of Asians.

The greatest incidence of high-cost refinancing loans for all racial and ethnic groups studied was

¹⁵ The criteria changed for “high-cost” loans in 2009. Prior to October 2009, the term “high-cost lending” referred 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. For loan applications taken beginning on October 1, 2009 (and for all loans originated after January 1, 2010), a loan is considered “high-cost” if it has an APR that is more than 1.5% (or, for second-lien mortgages, 3.5%) above the “average prime offer rate” (APOR) that a high-quality prime borrower would receive on a loan of a comparable type (e.g. 30-year fixed term). See the Federal Financial Institutions Examination Council’s website at <http://www.ffiec.gov/ratespread/default.aspx> for rule change and a rate spread calculator. This rule change was to “address concerns that had arisen about the distortive effects of changes in the interest rate environment on the reporting of higher-priced lending under the original methodology.” Avery, *et al.* (2010), p. A47.

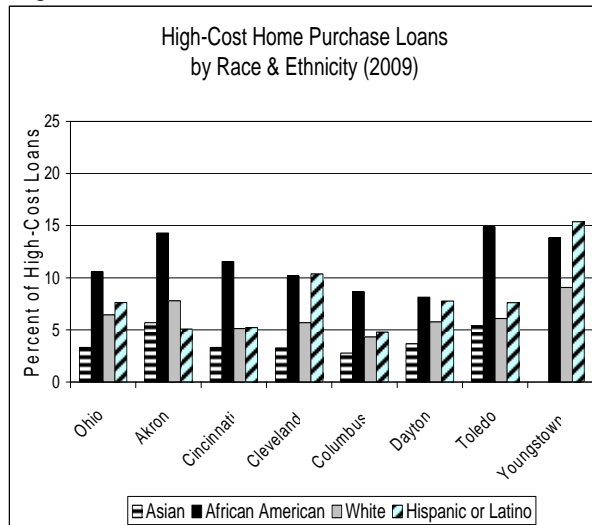
¹⁶ FFIEC, “Frequently Asked Questions About the New HMDA Data,” (April 3, 2006), p. 5, available at <http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>.

¹⁷ Comparing 2009 high-cost loan data to that of previous years is difficult due to the fact that the Federal Reserve changed its definition of a “high-cost” loan in the fall of 2009, which made this year’s data a mixture of both “old” and “new” definitions.

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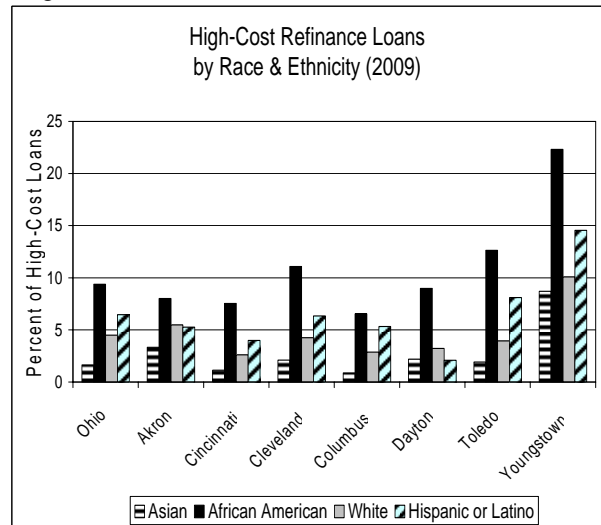
in the Youngstown MSA, where 22.32% of African Americans, 14.55% of Hispanics, 10.09% of whites, and 8.70% of Asians received such loans. (See Figure 5).

Figure 4



Source: 2009 HMDA data.

Figure 5



Source: 2009 HMDA data.

Whites saw the lowest rate of high-cost refinance lending in the Cincinnati MSA, where 2.61% of whites received such loans. The Columbus MSA had the lowest incidence of high-cost refinance lending for both African Americans and Asians, where 6.55% of loans to African Americans and 0.88% of loans to Asians were high-cost. Hispanics/Latinos experienced the lowest incidence of high-cost refinance loans in the Dayton MSA, where 2.10% of Hispanics/Latinos obtained high-cost loans.

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?

Statewide, upper income African Americans received high-cost home purchase loans 6.10% of the time, compared to 4.84% of the time for upper income whites and 9.58% of the time for low income whites. For refinance loans, upper income African Americans received high-cost loans 6.19% of the time in Ohio, compared to 2.78% of the time for upper income whites and 10.31% of the time for low income whites.

Low income Hispanics received high-cost home purchase loans 13.95% of the time, a rate higher than both low income whites and African Americans. However, upper income Hispanic received high-cost home purchase loans 3.56% of the time, lower than both upper income whites and

African Americans. Low and upper income Hispanics received high-cost refinance loans at rates higher than similar income whites but lower than African Americans (13.13% and 4.30%, respectively).

As a group, Asians had the lowest incidence of high-cost lending for all groups studied: 2.12% of home purchase loans in the state among upper income Asians were high-cost, compared to 1.19% of refinance loans for upper income Asians. Low income Asians received high-cost loans 9.82% of the time for home purchase loans and 2.78% of the time for refinance loans.

The racial disparity in high-cost home purchase loans was greatest in the Youngstown MSA, where 23.08% of upper income African Americans received high-cost loans, compared to 7.60% of upper income whites and 12.39% of low income whites. For refinance loans, the racial disparity was greatest in the Toledo MSA, where 15.63% of upper income African Americans received high-cost loans, compared with 2.69% of upper income whites and 8.53% of low income whites.

A comparison of the rate at which African Americans of various income levels received high-cost loans revealed that the disproportionate rate at which upper income African Americans received high-cost loans accounted for much of the disparity between African Americans and whites.

The Housing Center compared the incidence of high-cost loans of both low and upper income African Americans to the incidence of high-cost loans of *all* low and upper income individuals in the eight study geographies. From this analysis, it is apparent that upper income African Americans generally experience greater disparities in receiving both high-cost home purchase and refinance loans than low income African Americans. However, this trend is much stronger among African Americans who obtained refinance loans than home purchase loans. For example, statewide, upper income African Americans received high-cost home purchase loans at a rate 30.67% greater than all upper income individuals, while the rate of high-cost home purchase loans for low income African Americans was 21.40% greater than that of all low income individuals. By contrast, upper income African Americans in Ohio received high-cost refinance loans at a rate that was 122.46% greater than that of all upper income individuals, while the rate for low income African Americans was 73.37% greater than that of all low income individuals.

Overall, upper income African Americans experienced greater disparities in high-cost home purchase lending than low income African Americans in the State of Ohio and 5 of 7 MSAs.¹⁸ Further, in both the Toledo and Youngstown MSAs upper income African Americans received high-cost loans at a rate that was twice as great as all upper income individuals in each of these geographies.¹⁹ The disparity for upper income African Americans was even greater for high-cost

¹⁸ These five MSAs are Cleveland, Columbus, Dayton, Toledo, and Youngstown.

¹⁹ Interestingly, in the Akron MSA, upper income African Americans received high-cost home purchase loans at half the rate of all upper income individuals. This was the only geography in which African Americans had

refinance loans than high-cost home purchase. Upper income African American experienced greater disparity in receiving high-cost refinance loans than low income African Americans in all but two MSAs.²⁰ In all, the rate at which upper income African Americans received high-cost refinance loans was more than five times greater than the rate for all upper income individuals in the Toledo MSA, more than four times greater in the Dayton MSA, more than three times greater in the Columbus MSA, and more than twice as great in the State of Ohio and the Cincinnati and Cleveland MSAs.

These findings are consistent with other national and regional studies that have identified racial and ethnic disparities in high-cost mortgage lending. For example, a recent report published by the Center for Responsible Lending noted that in the 2009 HMDA data shows “African Americans, Latinos and other communities of color received a large, disproportionate share of abusive subprime mortgages – even after controlling for risk factors such as income and credit scores.”²¹

An earlier study by the National Community Reinvestment Coalition (NCRC) similarly found that African Americans and Hispanics are 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.”²²

Conclusions and Recommendations

The results of the analysis of 2009 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 refinance loans 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 higher rates than whites of comparable income levels – 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

a lower rate of high-cost lending than all individuals of a given income level.

²⁰ Low income African Americans experienced greater disparity in terms of high-cost home purchase loans than upper income African Americans in both the Akron and Cincinnati MSAs.

²¹ Center for Responsible Lending, “A National Tragedy,” pp. 1-2.

²² 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.

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.

Such data is not publicly available at this time, preventing the Housing Center from considering such factors. 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.²³ The National Community Reinvestment Coalition found that strong disparities persist, even when controlling for factors such as “creditworthiness and other housing market factors.”²⁴ Additionally, the Federal Reserve Bank of Philadelphia found that the disparity in subprime lending between whites and African Americans cannot totally be explained by factors such as credit score and debt-to-income ratio, thus leaving a strong possibility that racial bias occurs.²⁵ Finally, the Center for Responsible Lending found that the 2009 HMDA data showed disparities in denial rates and subprime mortgage lending to African Americans and Hispanics while controlling for factors such as income, credit score, and property location.²⁶

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 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 recommends:

1. **Rapid and Effective Implementation of the Frank-Dodd Wall Street Reform and Consumer Protect Act.** The Housing Center has previously recommended the

²³ 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.

²⁴ NCRC, (2008), p. 3.

²⁵ Smith, *et al.* (2010), p 22.

²⁶ Center for Responsible Lending, (2010), p. 2.

establishment of an independent agency to protect individuals from abusive and unfair consumer products and services. The Frank-Dodd Act, signed by President Obama in July 2010, set up the framework for such an agency, creating a Consumer Financial Protection Bureau to write consumer-protection rules for depository institutions and other consumer financial agencies. Additionally, the Frank-Dodd Act requires strengthening HMDA disclosure requirements through mandating the reporting of additional data, such as credit scores, the value of the collateral (which will allow loan-to-value ratios to be calculated), and other information. This additional data will serve to better assess lenders' compliance with anti-discrimination laws. The Housing Center recommends that the implementation of the Frank-Dodd Act be expedited in order to ensure discrimination does not occur in the mortgage industry. The Housing Center further recommends that the CFPB work quickly to investigate possible discrimination in the mortgage lending industry and take appropriate action where needed.

2. **Increased state and local monitoring and enforcement** of mortgage lenders to ensure that lenders are complying with all applicable anti-discrimination laws.
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.²⁷ Lenders with small assets size are not required to report data for the following year.²⁸ 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.²⁹

Although not all lenders are required to provide data under the Act, HMDA data is generally regarded as providing the most thorough publicly available information available on mortgage lending.³⁰ Nationwide, there were 19.3 million loan records reported for calendar year 2009, with 8,124 institutions reporting.³¹ These lenders are estimated to account for the “majority of home loans originated in the United States” in 2009.³² In Ohio, there were over 624,555 loan records reported for calendar year 2009, with 981 institutions reporting.³³

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.³⁴ While some

²⁷ See FFIEC, “2009 Reporting Criteria for Depository Institutions,” available at <http://www.ffiec.gov/hmda/reportde2009.htm>, and FFIEC, “2009 Reporting Criteria for Nondepository Institutions,” available at <http://www.ffiec.gov/hmda/reportno2009.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.

²⁸ Lenders with less than \$39 million in assets on December 31, 2008, did not have to report data in 2009. FFIEC, “2009 Reporting Criteria for Depository Institutions,” available at <http://www.ffiec.gov/hmda/reportde2009.htm>.

²⁹ 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>.

³⁰ 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.

³¹ Of these, 4.2 million were home purchase loans, 9.9 million were refinancing loans, 0.8 million were home improvement loans, and 4.3 million were loans purchased from other institutions. Avery, *et al.* (2010), pp. A40-41.

³² Avery, *et al.* (2010), p. A63.

³³ The number of reporting institutions in Ohio decreased 4.66%, compared to nearly a 3% decrease nationwide. See 2008 and 2009 HMDA data; Avery (2010) p. A40.

³⁴ FFIEC, “Frequently Asked Questions About the New HMDA Data,” April 3, 2006, p. 1, available at

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.”³⁵

“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.

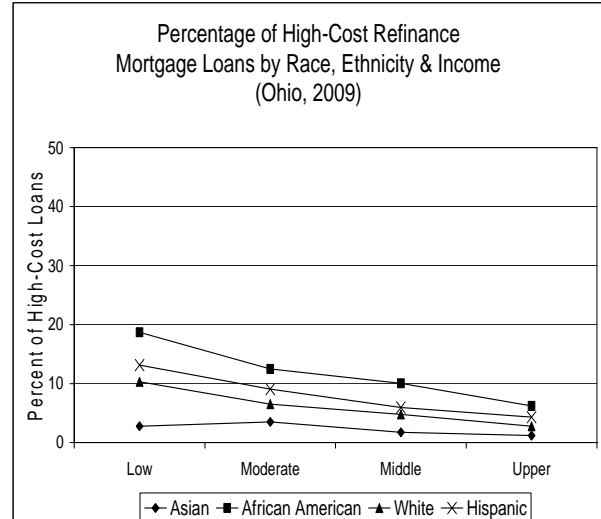
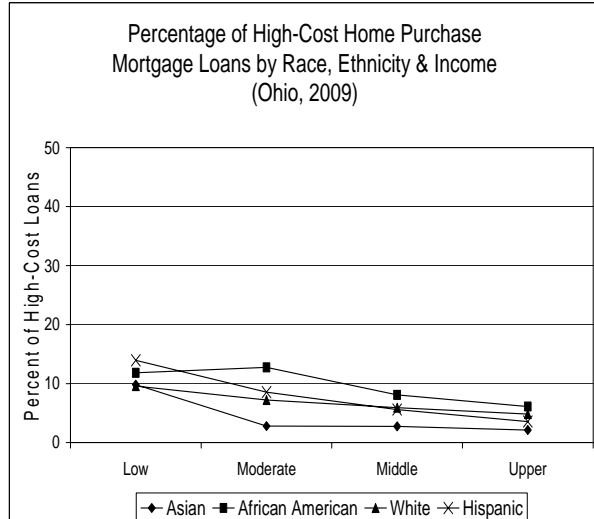
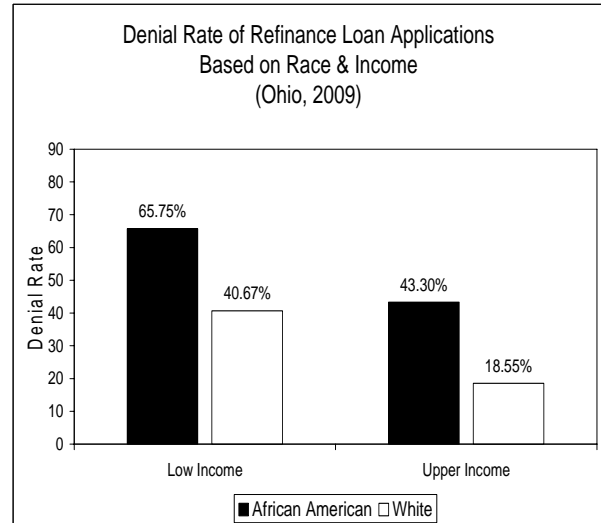
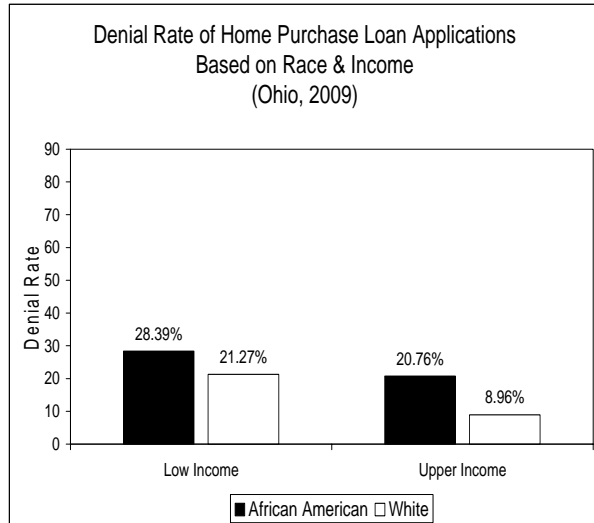
Despite these limitations, the Housing Center believes that an examination of the rates of high-cost lending for different racial, ethnic, and income groups is useful as one factor to look at in order to determine possible racial and ethnic disparities in mortgage lending.

<http://www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/attachment.pdf>; Avery, *et al.* (2007), p. 42.

³⁵ 12 C.F.R. Sec. 202.13(b).

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

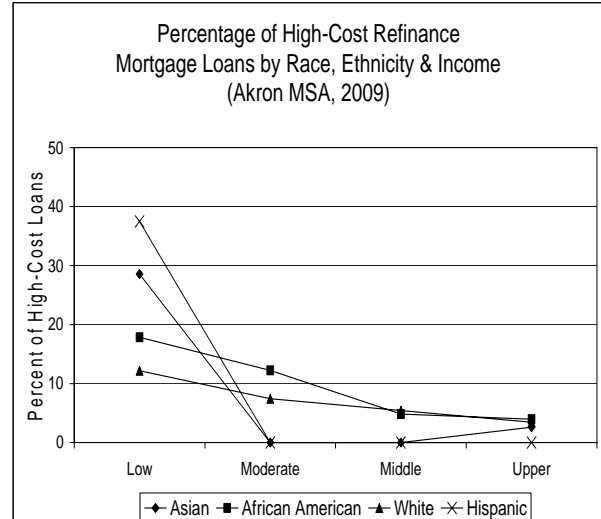
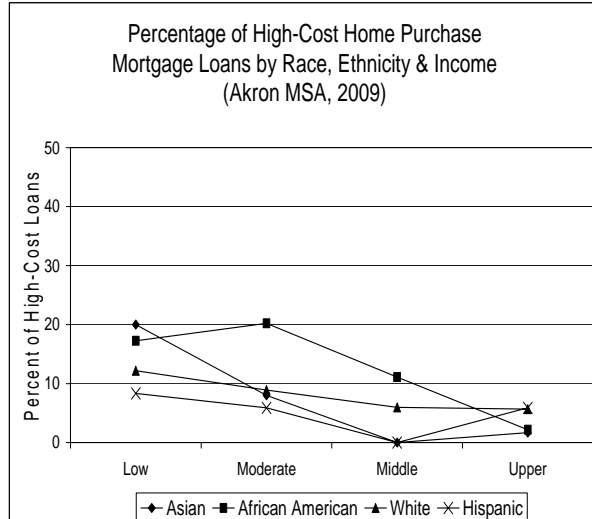
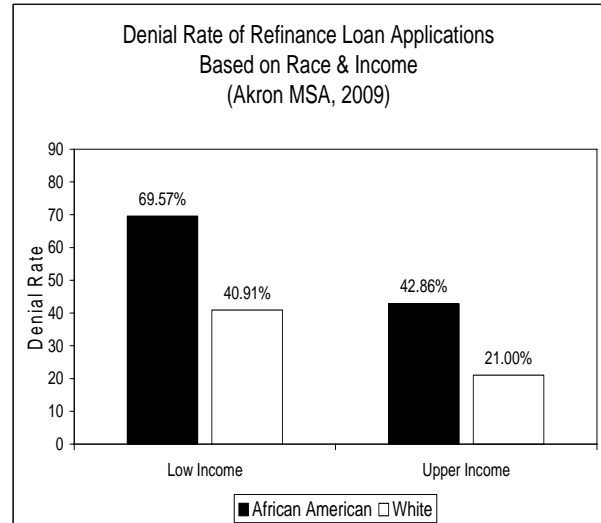
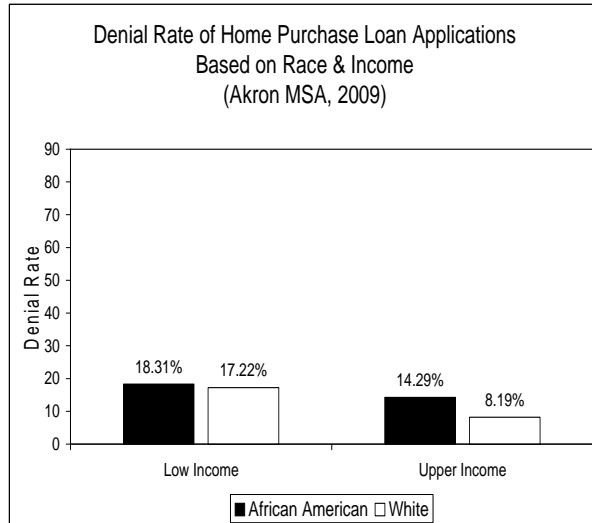
State of Ohio



Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

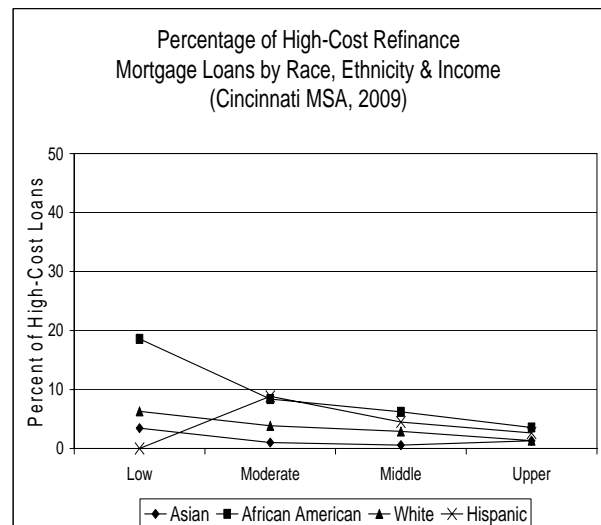
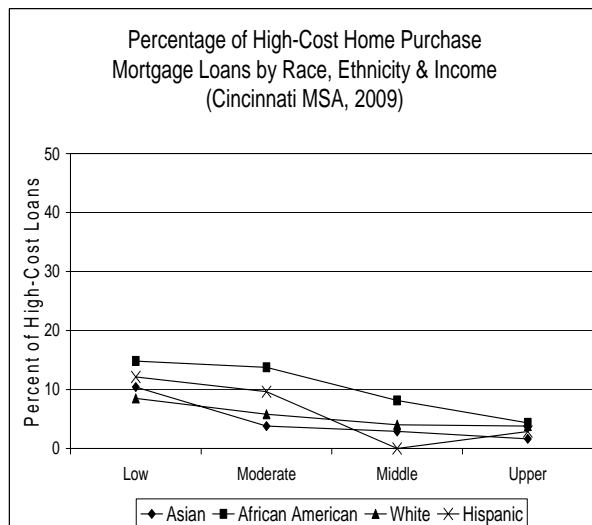
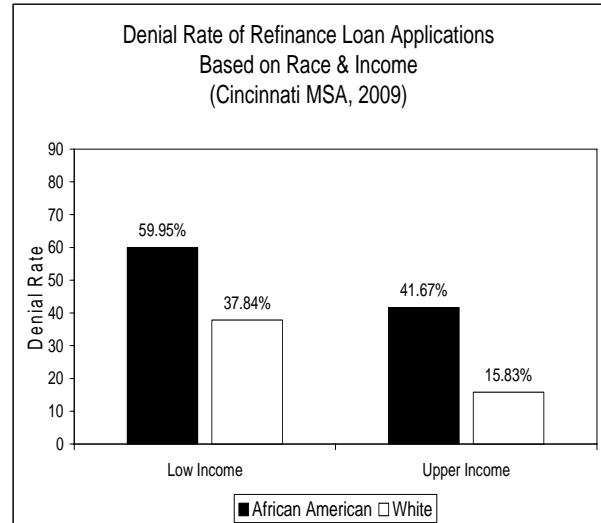
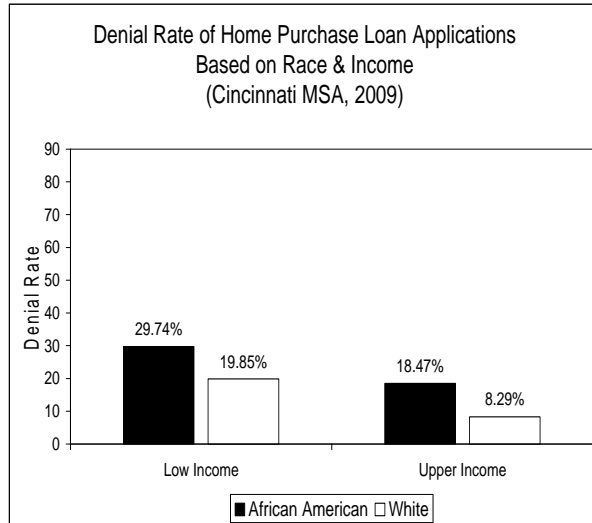
Akron MSA



Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

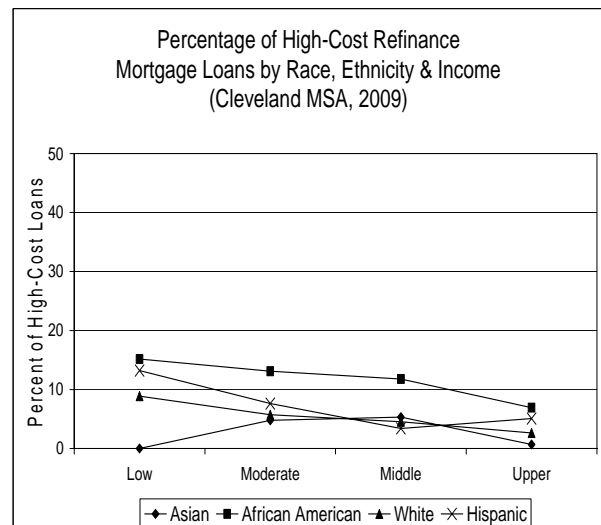
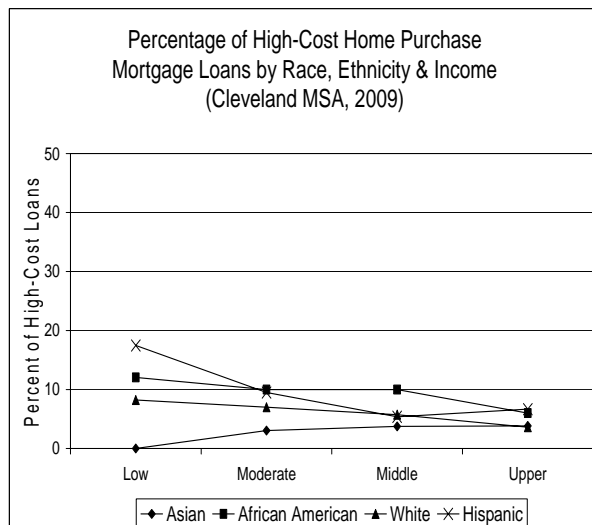
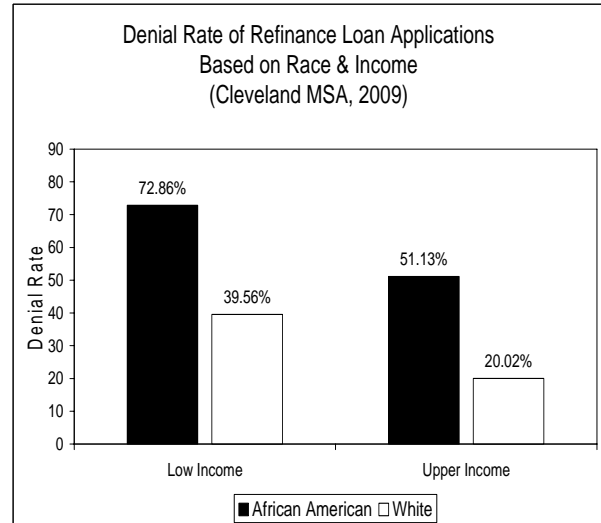
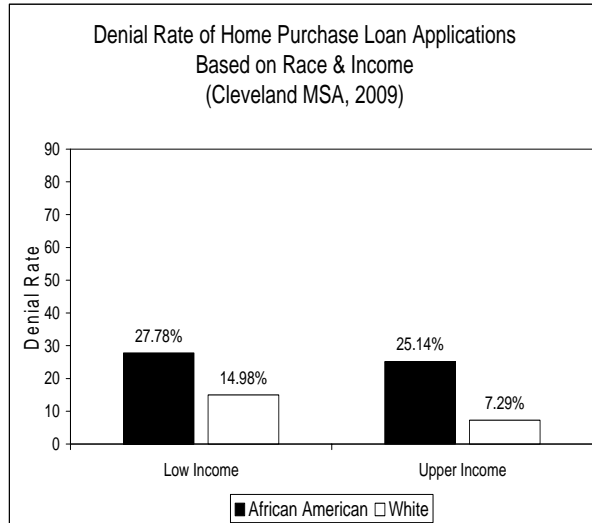
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Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

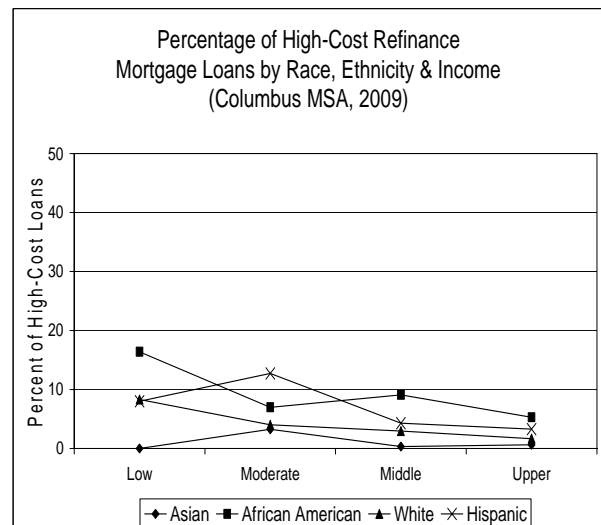
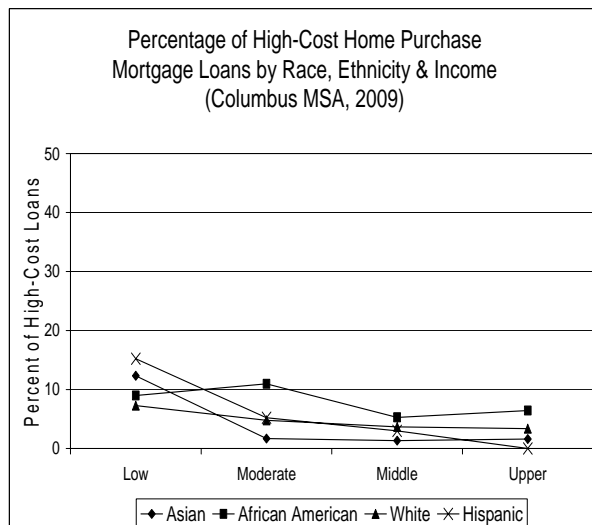
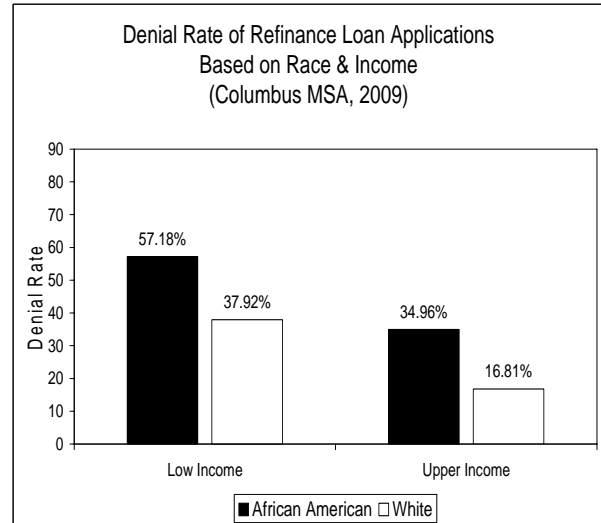
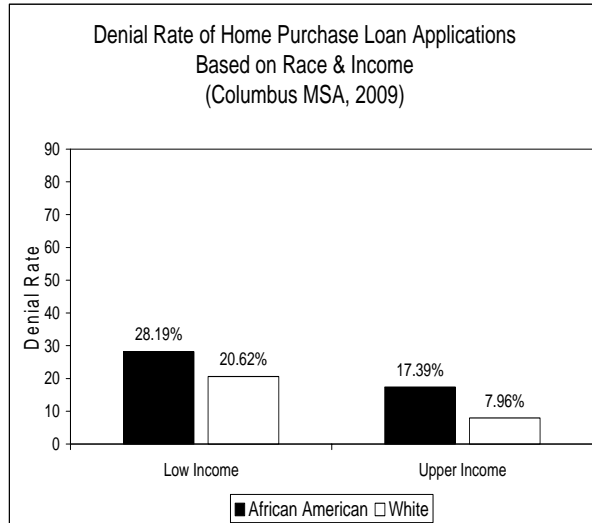
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Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

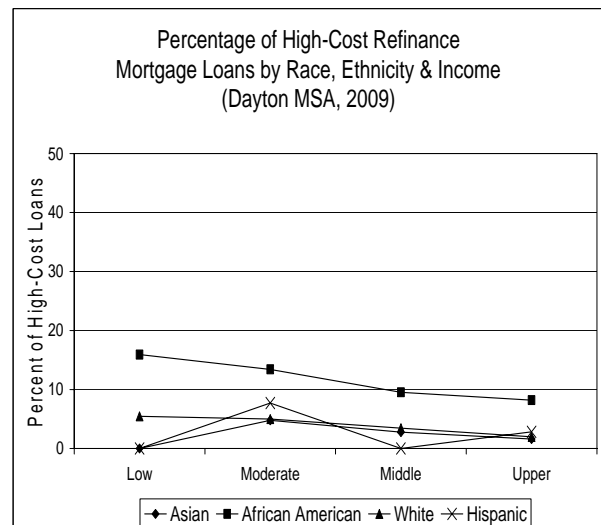
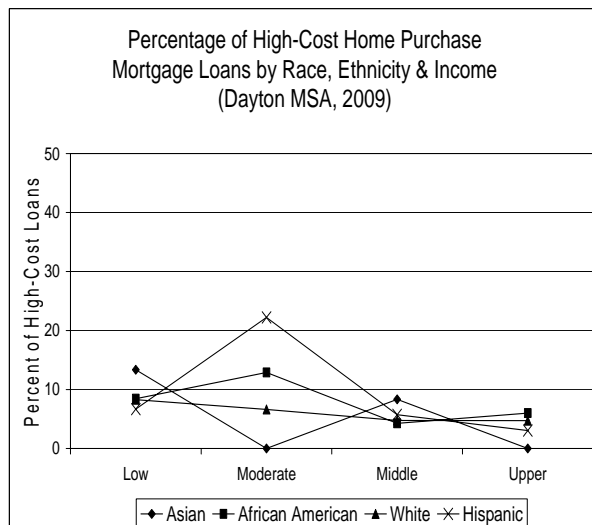
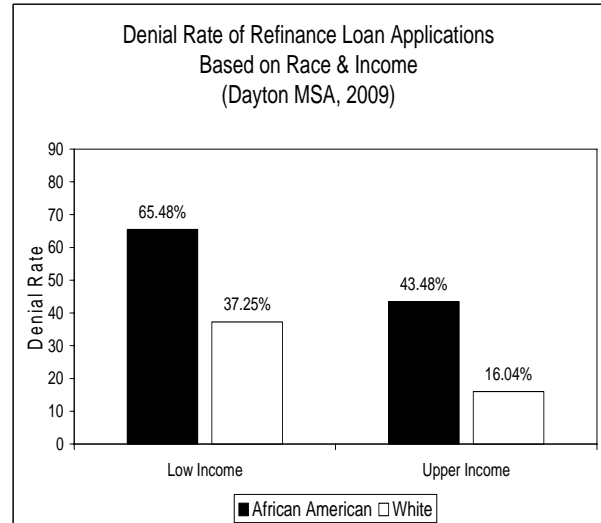
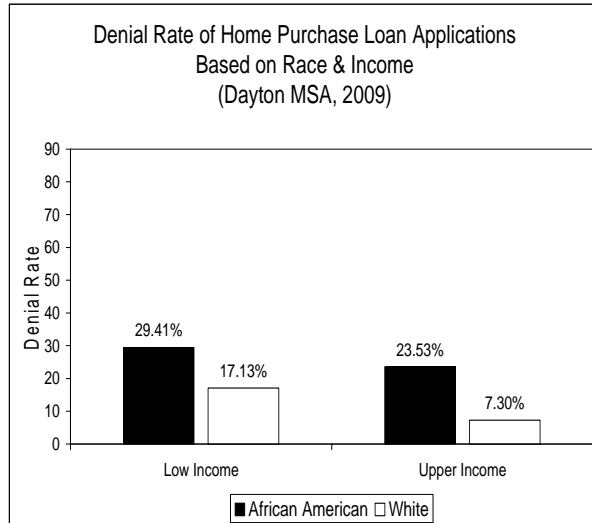
Columbus MSA



Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

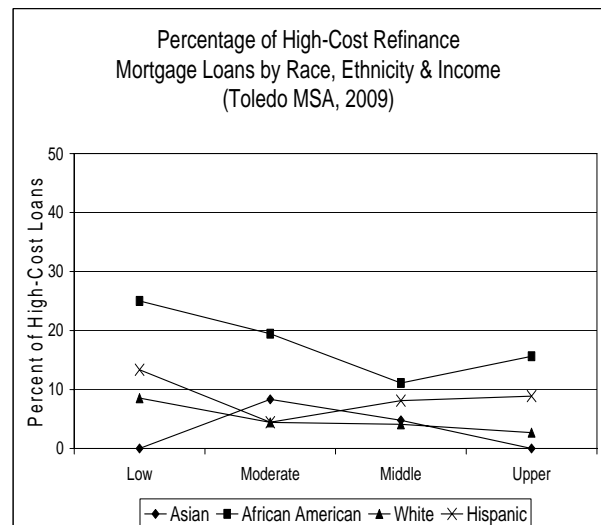
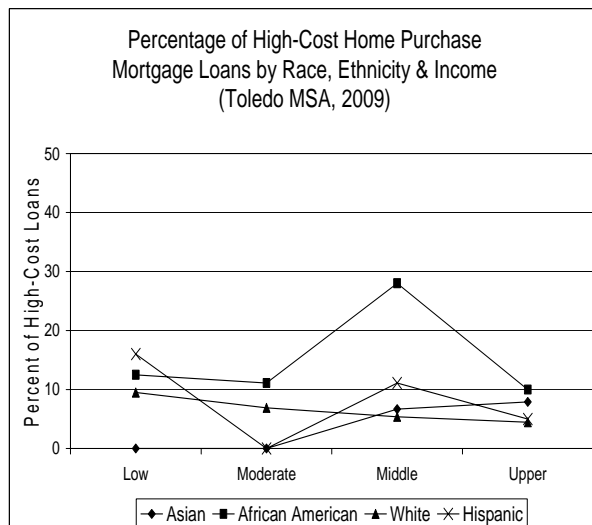
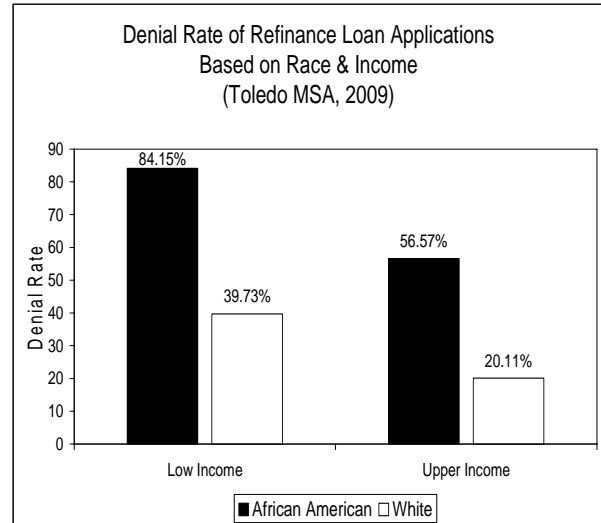
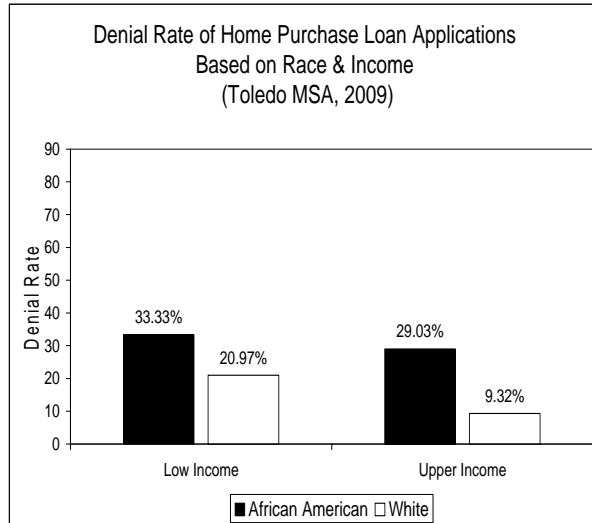
Dayton MSA



Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

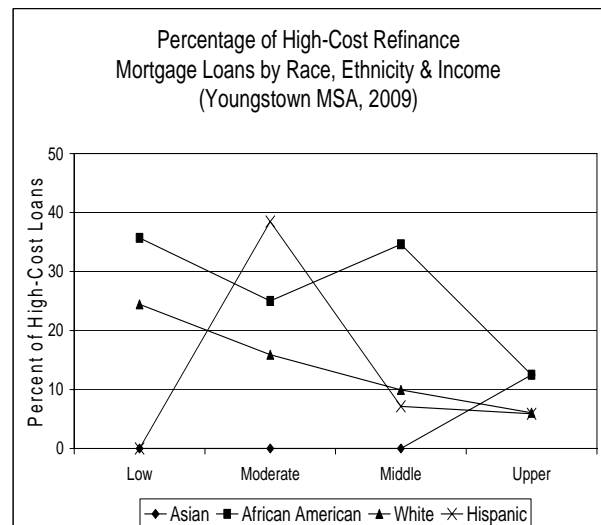
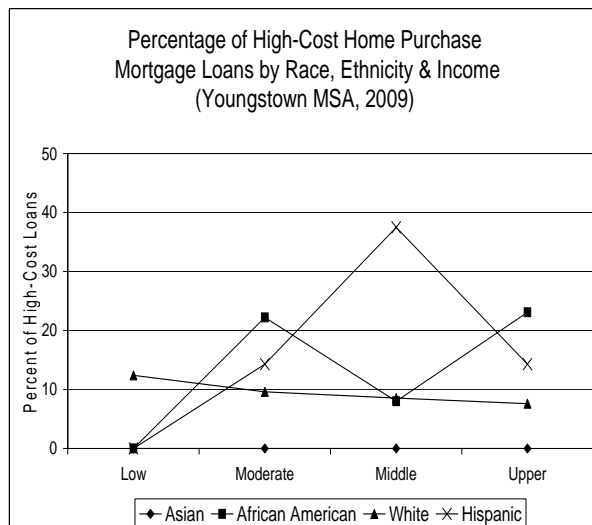
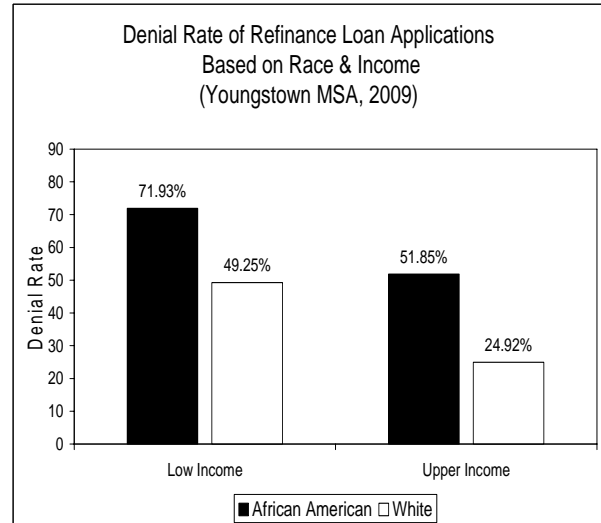
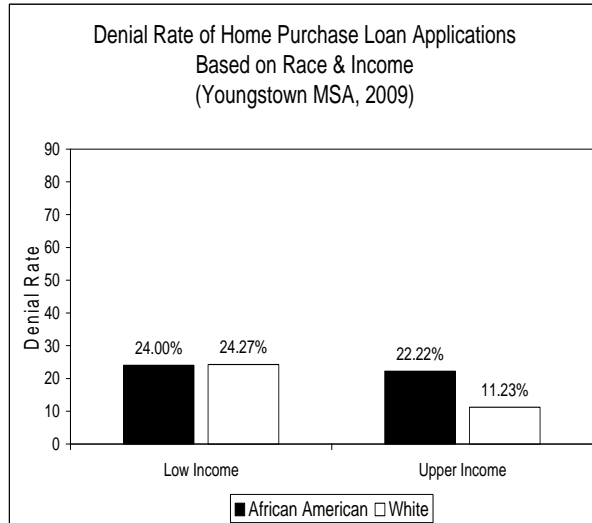
Toledo MSA



Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

Youngstown MSA



Source: 2009 HMDA data.

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

Home Purchase Denial Rates for Low and Upper Income African Americans and all Races						
	Denial Rate of Low Income African Americans	Denial Rate of Low Income Individuals of All Races	Denial Rate of Low Income African Americans Relative to the Denial Rate of all Low Income Individuals	Denial Rate of Upper Income African Americans	Denial Rate of Upper Income Individuals of All Races	Denial Rate of Upper Income African Americans Relative to the Denial Rate of all Upper Income Individuals
Ohio	28.39%	22.91%	23.89%	20.76%	9.43%	120.14%
Akron	18.31%	18.64%	-1.75%	14.29%	8.80%	62.40%
Cincinnati	29.74%	21.70%	37.00%	18.47%	8.62%	114.35%
Cleveland	27.78%	19.07%	45.67%	25.14%	8.27%	204.10%
Columbus	28.19%	22.37%	26.05%	17.39%	8.55%	103.40%
Dayton	29.41%	19.26%	52.72%	23.53%	8.09%	190.73%
Toledo	33.33%	22.94%	45.33%	29.03%	9.65%	200.86%
Youngstown	24.00%	25.87%	-7.22%	22.22%	11.38%	95.21%

Refinance Denial Rates for Low and Upper Income African Americans and all Races						
	Denial Rate of Low Income African Americans	Denial Rate of Low Income Individuals of All Races	Denial Rate of Low Income African Americans Relative to the Denial Rate of all Low Income Individuals	Denial Rate of Upper Income African Americans	Denial Rate of Upper Income Individuals of All Races	Denial Rate of Upper Income African Americans Relative to the Denial Rate of all Upper Income Individuals
Ohio	65.75%	44.47%	47.86%	43.30%	20.12%	115.19%
Akron	69.57%	45.18%	53.98%	42.86%	22.44%	90.95%
Cincinnati	59.95%	41.66%	43.92%	41.67%	17.33%	140.41%
Cleveland	72.86%	46.96%	55.17%	51.13%	22.21%	130.18%
Columbus	57.18%	41.31%	38.44%	34.96%	18.05%	93.69%
Dayton	65.48%	41.35%	58.37%	43.48%	17.65%	146.40%
Toledo	84.15%	44.97%	87.13%	56.57%	22.07%	156.34%
Youngstown	71.93%	51.33%	40.14%	51.85%	26.42%	96.28%

Source: 2009 HMDA Data

Racial & Ethnic Disparities in 2009 Ohio Mortgage Lending: January 2011

Incidence of High-Cost Home Purchase Mortgage Loans for Low and Upper Income African Americans and all Races						
	Incidence of High-Cost Loans for Low Income African Americans	Incidence of High-Cost Loans for Low Income Individuals of All Races	Incidence of High-Cost Loans for Low Income African Americans Relative to the Incidence for all Low Income Individuals	Incidence of High-Cost Loans for Upper Income African Americans	Incidence of High-Cost Loans for Upper Income Individuals of All Races	Incidence of High-Cost Loans for Upper Income African Americans Relative to the Incidence for all Upper Income Individuals
Ohio	11.82%	9.74%	21.40%	6.10%	4.67%	30.67%
Akron	17.24%	12.51%	37.78%	2.17%	5.39%	-59.70%
Cincinnati	14.81%	9.24%	60.32%	4.35%	3.60%	20.75%
Cleveland	12.05%	9.09%	32.60%	5.98%	3.70%	61.84%
Columbus	8.98%	7.50%	19.72%	6.43%	3.23%	99.18%
Dayton	8.43%	7.94%	6.27%	6.00%	4.51%	33.08%
Toledo	12.50%	10.15%	23.11%	10.00%	4.80%	108.31%
Youngstown	0.00%	11.79%	N/A	23.08%	7.85%	194.03%

Incidence of High-Cost Refinance Mortgage Loans for Low and Upper Income African Americans and all Races						
	Incidence of High-Cost Loans for Low Income African Americans	Incidence of High-Cost Loans for Low Income Individuals of All Races	Incidence of High-Cost Loans for Low Income African Americans Relative to the Incidence for all Low Income Individuals	Incidence of High-Cost Loans for Upper Income African Americans	Incidence of High-Cost Loans for Upper Income Individuals of All Races	Incidence of High-Cost Loans for Upper Income African Americans Relative to the Incidence for all Upper Income Individuals
Ohio	18.69%	10.78%	73.37%	6.19%	2.78%	122.46%
Akron	17.86%	12.71%	40.46%	3.95%	3.22%	22.78%
Cincinnati	18.57%	7.34%	153.00%	3.56%	1.44%	147.65%
Cleveland	15.18%	9.57%	58.58%	6.91%	2.68%	157.64%
Columbus	16.39%	8.43%	94.46%	5.30%	1.67%	217.31%
Dayton	15.91%	6.09%	161.11%	8.20%	2.05%	300.61%
Toledo	25.00%	8.96%	178.95%	15.63%	2.94%	431.25%
Youngstown	35.71%	25.59%	39.54%	12.50%	6.58%	89.87%

Source: 2009 HMDA Data