

THE
THE PRICE OF CREDIT:
Prime and Subprime Lending in California 2004
GREENLINING
INSTITUTE

By

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PREFACE

New Federal Reserve Data

As of this writing the Federal Reserve is prepared to release, for the first time, home mortgage lending data that will include pricing information for higher-priced subprime loans by borrower race and ethnicity. Although the new data is scheduled to be released by the Federal Reserve on September 12, 2005, the data was acquired in advance by The Greenlining Institute through information requests to each of the major mortgage lenders in California. Based on our analysis, it is clear that California's African American and Latino borrowers are more likely to receive a higher cost subprime loan than a white borrower. The study found that African American and Latino borrowers are **three times** more likely to receive a higher priced subprime loan when compared to white borrowers. The study does not claim that discrimination necessarily accounts for the higher concentration of subprime loans among minority borrowers. Rather, the report criticizes the lending industries' over reliance on so-called "objective" measures of credit risk that can unfairly discriminate against minority borrowers.

Attorney General Elliot Spitzer and Office of Comptroller of the Currency

In addition to highlighting the disparity in subprime lending, this study should also be viewed within the context of New York Attorney General Elliot Spitzer's current jurisdictional battle with the Office of the Comptroller of the Currency (OCC). Prompted by the availability of the new home mortgage data, Mr. Spitzer launched a probe into possible discriminatory home lending practices in New York State. In response to the perceived encroachment onto their regulatory jurisdiction over national banks, the OCC filed a suit barring Mr. Spitzer from continuing his investigation. Opening arguments on this issue began on September 7 in New York Federal Court. If Attorney General Spitzer wins this battle, it will open the door for the nation's attorney generals to utilize the new HMDA data to examine possible discriminatory practices within their respective states. Moreover, a victory for Mr. Spitzer will set a precedent for added state powers in their ability to scrutinize and regulate national financial institutions that operate within their state.

EXECUTIVE SUMMARY

The purpose of this report is to summarize the distribution of prime and higher cost subprime home loans¹ in California, by race and ethnicity for 2004. For the first time ever, the Home Mortgage Disclosure Act (HMDA) data includes information on the pricing of higher cost loans by race and ethnicity therefore allowing researchers to detect patterns in pricing and lending by different borrower characteristics, such as income, race, ethnicity, and geography.

This study does not claim that discrimination necessarily accounts for the higher concentration of subprime loans among minority borrowers. Rather, the report criticizes the lending industries' over reliance on so-called "objective" measures of credit risk that can unfairly discriminate against minority borrowers. The report calls for a) an overhaul of FICO scoring methods b) personal involvement by the CEOs of the major home lenders and c) rigorous adoption of "referral up" programs that ensure that prime rate borrowers are not given subprime loans and d) the abolishment of any incentives for employees to sell subprime mortgages.

Key Findings of this Report:

- When compared to white borrowers, African American borrowers are **four times** more likely to receive a high cost subprime home loan and Latinos are over **twice** as likely to receive a high cost subprime loan compared to white borrowers.²
- Together, African Americans and Latinos are **three times** more likely to receive a high cost subprime home loan in California compared to White borrowers.³
- Overall, African Americans and Latinos received 36% of all subprime loans made in California for 2004.
- African Americans, Native Americans, Latinos, and Pacific Islanders are less likely to receive a home loan in California compared to their White and Asian American counterparts. Overall, they make up only 28.74% of the total loans given in 2004.
- Similar disparities of home loans also exist within all of the major Metropolitan Statistical Areas (MSA) in California.

¹ The home loans analyzed in this study include originated conventional home purchase and refinance home loans made in 2004.

² While high cost subprime loans made up just 2.2% of all originated home loans going to white borrowers in California, African Americans had a 9% share of such subprime loans and Latinos had a 5% share.

³ Taken together, high cost subprime loans make up 6% of all loans to African Americans and Latinos. In contrast, such loans just make up 2% of all loans to white borrowers.

Recommendations:

To address some of the findings of this report, the following recommendations are made to lending institutions, policy advocates, government regulators, and community advocates:

- **Overhaul FICO Scoring Process:** With the goal of establishing a credit scoring system that effectively captures other measures of credit worthiness (e.g. payments for rent, utilities, telephone and cable service, remittances, etc.) the four federal regulators should convene a meeting with community groups, Freddie Mac, Fannie Mae and the nation's largest home mortgage companies including Wells Fargo, Countrywide, Bank of America, JP Morgan Chase, World Savings and Citibank. With leadership from the regulators coupled with the insight from community groups and financial institutions, the industry can radically change its underwriting process to ensure that there is parity in the distribution of higher cost home loans to minority borrowers.
- **Banking and Lending Institutions Need to have a Stronger Mechanism for Referral Ups and Assist with Repairing Credit:** The Consumers Federation of America found that over 40% of borrowers are misclassified into the subprime market.⁴ Lending institutions need to work more on a case by case basis with potential borrowers to find ways to get move them into the prime loan market, or be more proactive and give borrowers more concrete suggestions to improve their credit.
- **Eliminate Incentives to Employees for Subprime Lending:** Home mortgage lenders must eliminate any incentive system for executives and for baseline employees to make subprime loans. Many institutions give their employees an incentive to sell a higher interest rate loan to a borrower. Institutions must create internal mechanisms to prevent predatory lending and regulators should create stronger safeguards to ensure this practice is abolished.
- **Personal attention by the CEO:** Responsibility for innovation and a commitment to best practices in the mortgage lending industry belongs at the top. The CEO of all mortgage lenders must ensure public confidence to their industry by making a personal commitment to reforming their institution's lending practices to ensure that more minority borrowers are not unfairly discriminated against in paying for their home loans.

⁴ Consumer Federation of America. "Credit Score Accuracy and Implications for Consumers." December 17, 2002.

INTRODUCTION:

Homeownership not only is part of the American Dream, it remains the only way to build capital in the United States. Oftentimes individuals will get a good job with the hopes of one day being able to afford a nice home. A majority of communities of color are never able to attain a home loan in order to buy a house and those that do can end up paying high fees and interest rates that can lead to additional financial problems.

On a national level, 2004 was a good year for homeownership with over one million owners added and a US homeownership rate at 69%.⁵ While people of color contributed greatly to this increase (nearly half of the net gain), the Joint Center for Housing Studies at Harvard University found that people of color still are behind Whites in homeownership rates: 49.5% for African Americans, 47.4% for Latinos, 59.6% for Asians, and 75.7% for Whites.⁶

Since most individuals and families do not have sufficient amounts of cash to purchase a home, they are forced to borrow money from lending institutions in the form of a mortgage loan. These mortgage loans are organized into two categories: prime and subprime loans. Prime loans are given to those that have more “favorable credit” with less potential “risk” versus subprime loans that are given to individuals and families who are “at a greater risk of nonpayment to the lender.” While prime loans have a standardized pricing system factoring in credit scores, income, and savings, subprime loans use “risk-based pricing” using additional factors to determine default, and then charging higher interest rates to compensate the lender for the “riskier” nature of the loan.⁷

Here lies the challenge of home ownership for traditionally marginalized communities of color. While most people of color never even take out a home mortgage, those that do are more likely to get a subprime loan. These “inefficiencies” in the mortgage lending market prohibits communities of color from being able to build and maintain wealth since subprime loan recipients pay higher interest and fees instead of a principal balance, which is the only way to build equity:

This leakage of income and assets erodes the achievement of increased homeownership. In some cases families may be exposing themselves to an increased risk of foreclosure when they opt for expensive subprime products with certain features such as excessive interest rates, high loan to value, and subprime loans.

It is true that the subprime market has helped to increase homeownership rates. According to the Federal Financial Institutions Examination Council, they identified that between the years of 1993 and 2003, home mortgages have increased 357 percent for Latinos, 206 percent for African Americans, and 192 percent for Asians. Yet these figures need to be kept into context. These figures only look at the strides made in homeownership rates, it does not capture the amount of subprime loans which is one of the reasons HMDA data has become so important.

⁵ “The State of the Nation’s Housing: 2005.” Joint Center for Housing Studies of Harvard University.

⁶ “The State of the Nation’s Housing: 2005.” Joint Center for Housing Studies of Harvard University.

⁷ Bowdler, Janis. “Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market” National Council of La Raza, 2005.

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The National Community Reinvestment Coalition did a recent study in June 2005⁸ that found enormous disparities nationally in the amount of subprime conventional loans given to communities of color:

- 28.7% of the loans given to African Americans were subprime
- 15.4% of the loans given to Latinos were subprime
- 12% of the loans given to Native Americans were subprime
- 7.8% of the loans given to Whites were subprime

The cost of subprime loans to the borrower is high. The California Reinvestment Coalition found that some subprime loans in California given in 2003 had Annual Percentage Rates of over 15%⁹. The California Reinvestment Coalition also found that small increases in interest rates can translate into thousands of dollars: “a subprime borrower paying an interest rate that is three percent higher than the interest rate on a lower cost loan may pay \$541.99 more per month, \$195,116.91 more in interest payments over the life of the loan.”¹⁰

This study seeks to capture an industry-wide view of the amount of subprime loans¹¹ made by lending institutions through their prime lending channels in 2004.

METHODOLOGY AND OUTLINE:

In order to find the amount of higher cost subprime loans, information from the 2004 Home Mortgage Disclosure Act (HMDA) was used¹². Greenlining contacted major lending institutions¹³ and requested an electronic version of the data and worked internally to create a consolidated database. This data is different compared to years past because it includes the following information: the pricing of the loan and whether the loan’s Annual Percentage Rate (APR) exceeds the Treasury yield threshold; better race/ethnicity data required by every applicant; and whether or not the loan is a federal Home Owners Equity Protection Act loan.¹⁴ The loans analyzed in this report do not include FHA loans.

Section I reviews the total number and proportion of lending for all communities in California. Section II compiles lending trends for each of the major Metropolitan Statistical Area (MSA). Median Home Prices were compiled through data on the California Association of Realtors website¹⁵, and the racial and ethnic composition of California and its respective geographic locations were taken from the California Department of Finance¹⁶ based off of the 2000 Census.

⁸ “Preapprovals and Pricing Disparities in the Mortgage Marketplace: A NCRC Follow-Up Report for National Homeownership Month.” National Community Reinvestment Coalition. June 2005.

⁹ Stein, Kevin. “Who Really Gets Home Loans? Year Eleven: Mortgage Lending to African Americans and Latino Borrowers in 5 California Communities in 2003.” San Francisco: California Reinvestment Coalition, March 2005.

¹⁰ Stein, Kevin. California Reinvestment Coalition, March 2005.

¹¹ Subprime loans can also be referred to as *rate spread loans*.

¹² This study examines conventional home purchase and refinance loans originated by the lender.

¹³ HMDA was used from the following institutions: Ameriquest, Bank of America, Chase, Citigroup, Countrywide, GMAC, HSBC, National Bank, Option One, Washing Mutual, Wells Fargo, and World Savings.

¹⁴ Van Kerkhove, Barbara, New HMDA Regulations Create Opportunities for Consumer Advocates, Greater Upstate Law Project, Inc.

¹⁵ California Association of Realtors: <http://www.car.org>.

¹⁶ California Department of Finance: <http://www.dof.ca.gov>.

SECTION ONE:
Subprime Loans for All Incomes in California

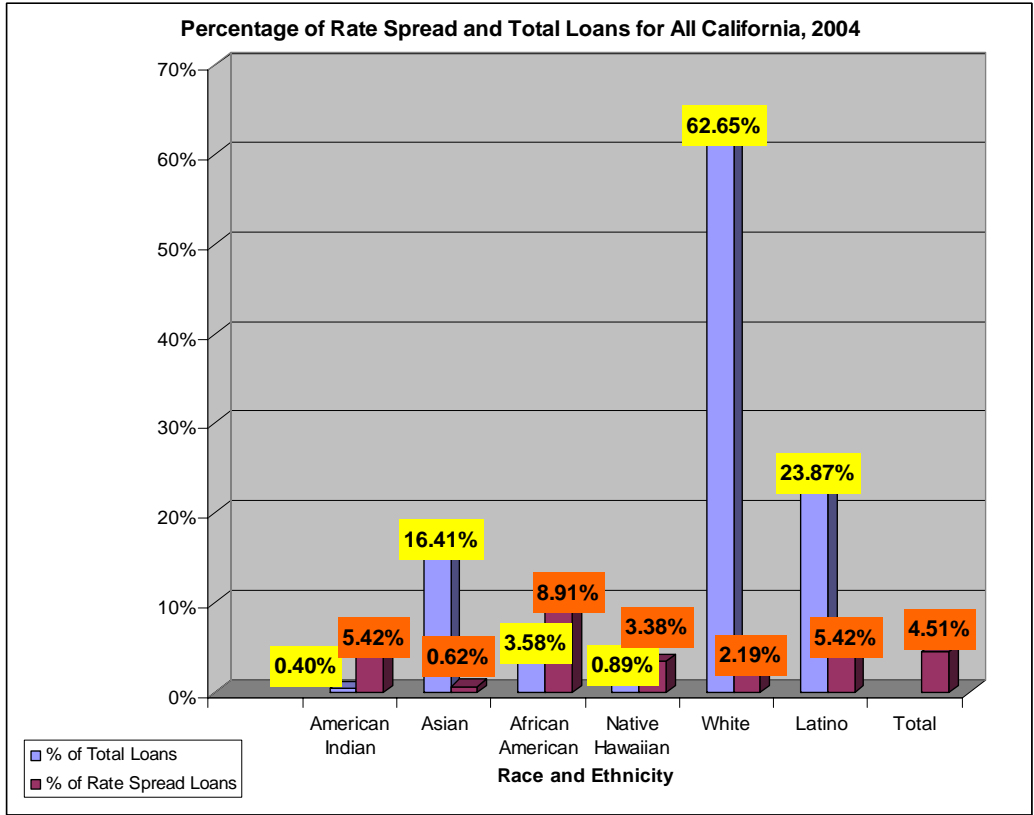
This section collects the total amount of conventional and home refinance loans made to all Californians in 2004. Despite California's changing demographics, the amount of total loans made in 2004 is not proportionate to the changing population. In general, African Americans, Latinos, Native Americans, and Pacific Islanders are more likely to receive a subprime loan compared to their White and Asian (non-aggregated) counterparts.

California continues to be one of the fastest growing states in terms of diversity. In 2000 alone, people of color make up a majority of California's estimated population of 34,043,198:

- Native Americans made up 1% of the total California population in 2000 and are estimated to remain at 1% by 2010
- Asian Americans made up 11% of the total California population in 2000 and are estimated to increase to 12% by 2010
- African Americans made up 7% of the total California population in 2000 and are estimated to remain at 7% by 2010
- Pacific Islanders made up less than 1% of the total California population in 2000 and are estimated to remain less than 1% by 2010
- Whites made up 46% of the total population in 2000 and are estimated to decrease to 39% by 2010
- Latinos made up 33% of the total population in 2000 and are estimated to increase to 39% by 2010

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Table I: Conventional and Refinance Home Loans Made to All Californians in 2004



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the state. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

The key findings for all Californians were:

- Native Americans made up 0.40% of the total loans given in California; 5.42% of their loans were subprime.
- Asians made up 16.41% of the total loans given in California; 0.62% of their loans were subprime.
- African Americans made up 3.58% of the total loans given in California; 8.91% of their loans were subprime.
- Pacific Islanders made up 3.38% of the total loans given in California; 3.38% of their loans were subprime.
- Whites made up 62.65% of the total loans given in California; 2.19% of their loans were subprime.
- Latinos made up 23.87% of the total loans given in California; 5.42% of their loans were subprime.

All California	Total Loans	Subprime
Native American	2,325	126
Asian	95,735	596
African American	20,891	1,861
Native Hawaiian	5,210	176
White	365,500	7,987
Latino	139,242	7,547
Total	583,398	26,340

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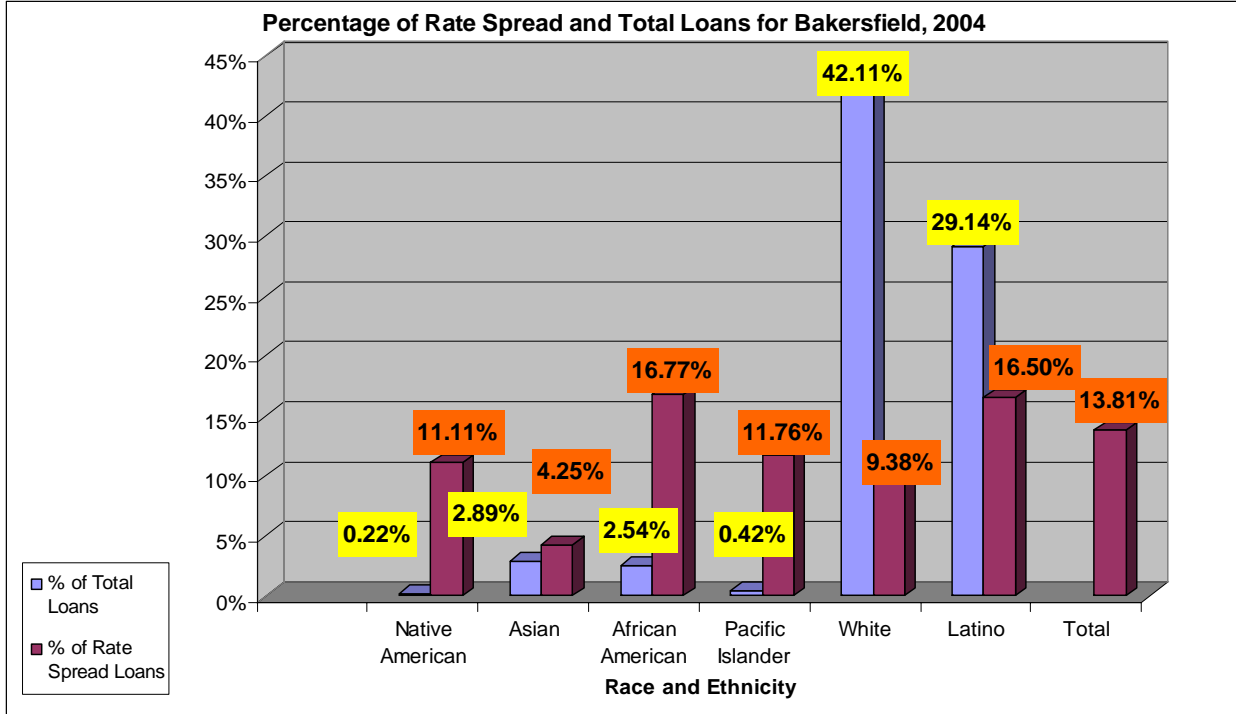
In 2004, California's median family income was \$62,000 with a median home price of \$542,720. The California Association of Realtors stated that in August 2005, the minimum household income needed to purchase a median-priced home at \$542,720 in California in June was \$125,870, based on an average effective mortgage interest rate of 5.71 percent and assuming a 20% down payment. The minimum household income needed to purchase a median-priced home was up from \$111,420 in June 2004, when the median price of a home was \$468,050 and the prevailing interest rate was 6.01%. The minimum household income needed to purchase a median-priced home at \$219,000 in the U.S. in June 2005 was \$50,790.¹⁷

¹⁷ California Association of Realtors: <http://www.car.org>

SECTION TWO:
Metropolitan Statistical Area

Central California:¹⁸

Bakersfield



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, Bakersfield’s median family income was \$46,600 and the median home price was \$195,000.

- Native Americans made up 0.22% of the total loans in Bakersfield; 11.11% of the total loans received were subprime.
- Asians made up 2.89% of the total loans in Bakersfield; 4.25% of the total loans received were subprime. In 2003, Asians made up 5.6% of the total population of Bakersfield.

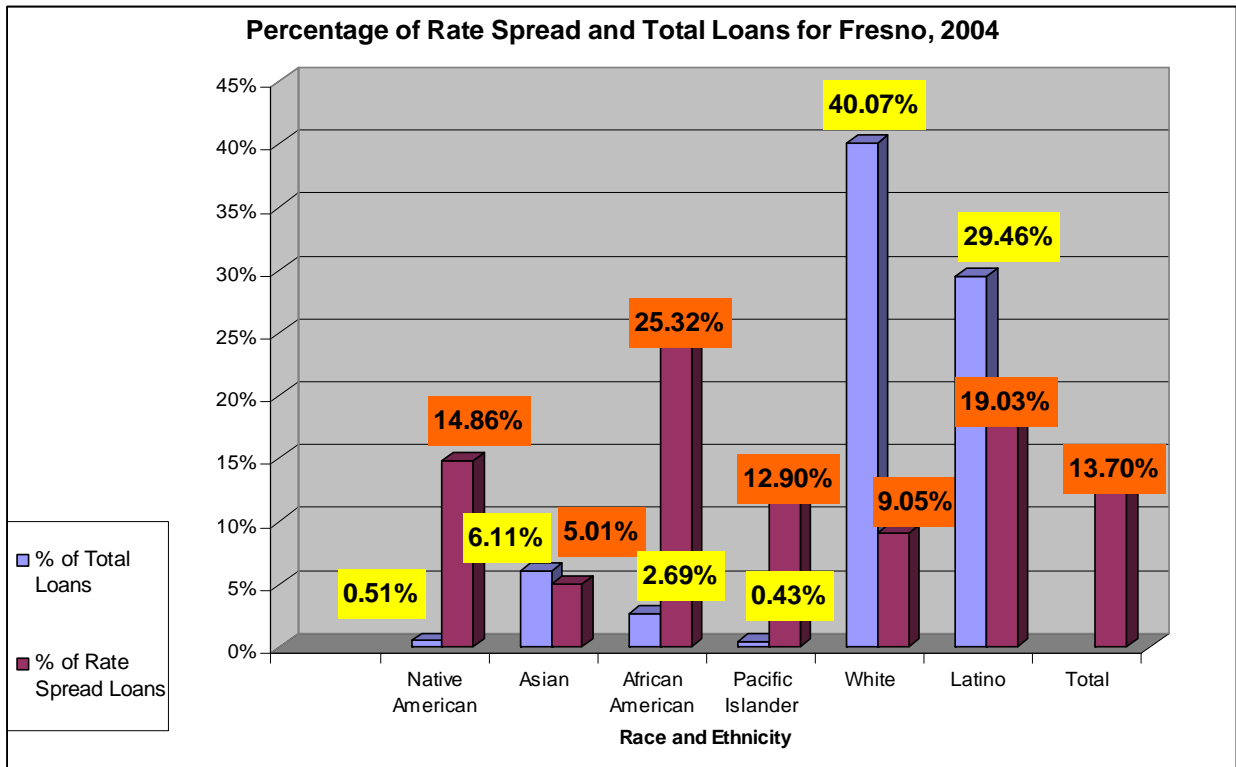
Bakersfield	Total Loans	Subprime
Native American	27	3
Asian	353	15
African American	310	52
Pacific Islander	51	6
White	5,139	482
Latino	3,557	587
Total	12,205	1,685

¹⁸ The Central Valley is one of the fastest growing regions in California where housing market is taking off. Not only is the area extremely diverse, but overall the median family income is much lower compared to other MSAs in Northern and Southern California. It is interesting to note that in areas where there is a lower median family income, the amount of subprime loans are increased even for White and Asian (non-aggregated) borrowers.

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- African Americans made up 2.54% of the total loans in Bakersfield; 16.77% of the total loans received were subprime. In 2003, African Americans made up 10.7% of the total population of Bakersfield.
- Pacific Islanders made up 0.42% of the total loans in Bakersfield; 11.76% of the total loans received were subprime.
- Whites made up 42.11% of the total loans in Bakersfield; 9.38% of the total loans received were subprime. Whites made up 37.85% of the population in Kern County in 2000.
- Latinos made up 29.14% of the total loans in Bakersfield; 16.50% of the total loans received were subprime. Latinos made up 38.66% of the population in Kern County in 2000 and is expected to grow to 47.73% by 2010.

Fresno:



In 2004, Fresno’s median family income was \$45,900 and the median home price was \$243,000.

- Native Americans made up 0.51% of the total loans in Fresno; 14.86% of the total loans received were subprime.
- Asians made up 6.11% of the total loans in Fresno; 5.01% of the total loans received were subprime.

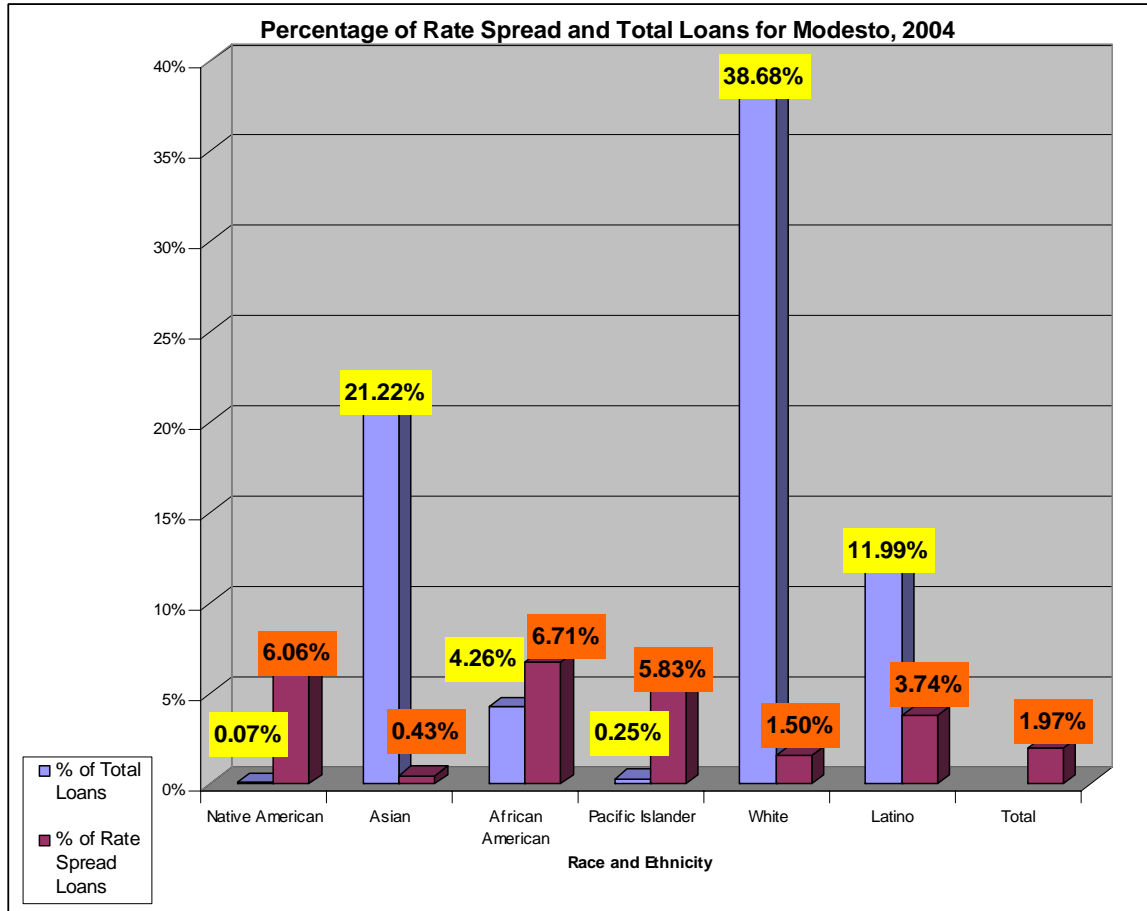
Fresno	Total Loans	Subprime
Native American	74	11
Asian	879	44
African American	387	98
Pacific Islander	62	8
White	5,768	522
Latino	4,241	807
Total	14,395	1,972

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- African Americans made up 2.69% of the total loans in Fresno; 25.32% of the total loans received were subprime.
- Pacific Islanders made up 0.43% of the total loans in Fresno; 12.90% of the total loans received were subprime.
- Whites made up 40.07% of the total loans in Fresno; 9.05% of the total loans received were subprime. Whites make up 29% of the population.
- Latinos made up 29.46% of the total loans in Fresno; 19.03% of the total loans received were subprime. With a total population of around 803,000, it is estimated that by 2010 Latinos will make up 54% of the city.

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Modesto:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

Modesto is one of California’s fastest growing and developing cities located in Stanislaus County. In 2000 alone, there was an estimated population of 449,777 and is expected to grow to 559,051 in 2010. In 2004, Modesto’s median family income was \$52,000 and the median home price was \$305,000.

Modesto	Total Loans	Subprime
Native American	33	2
Asian	10,033	43
African American	2,012	135
Pacific Islander	120	7
White	18,284	275
Latino	5,666	212
Total	47,274	929

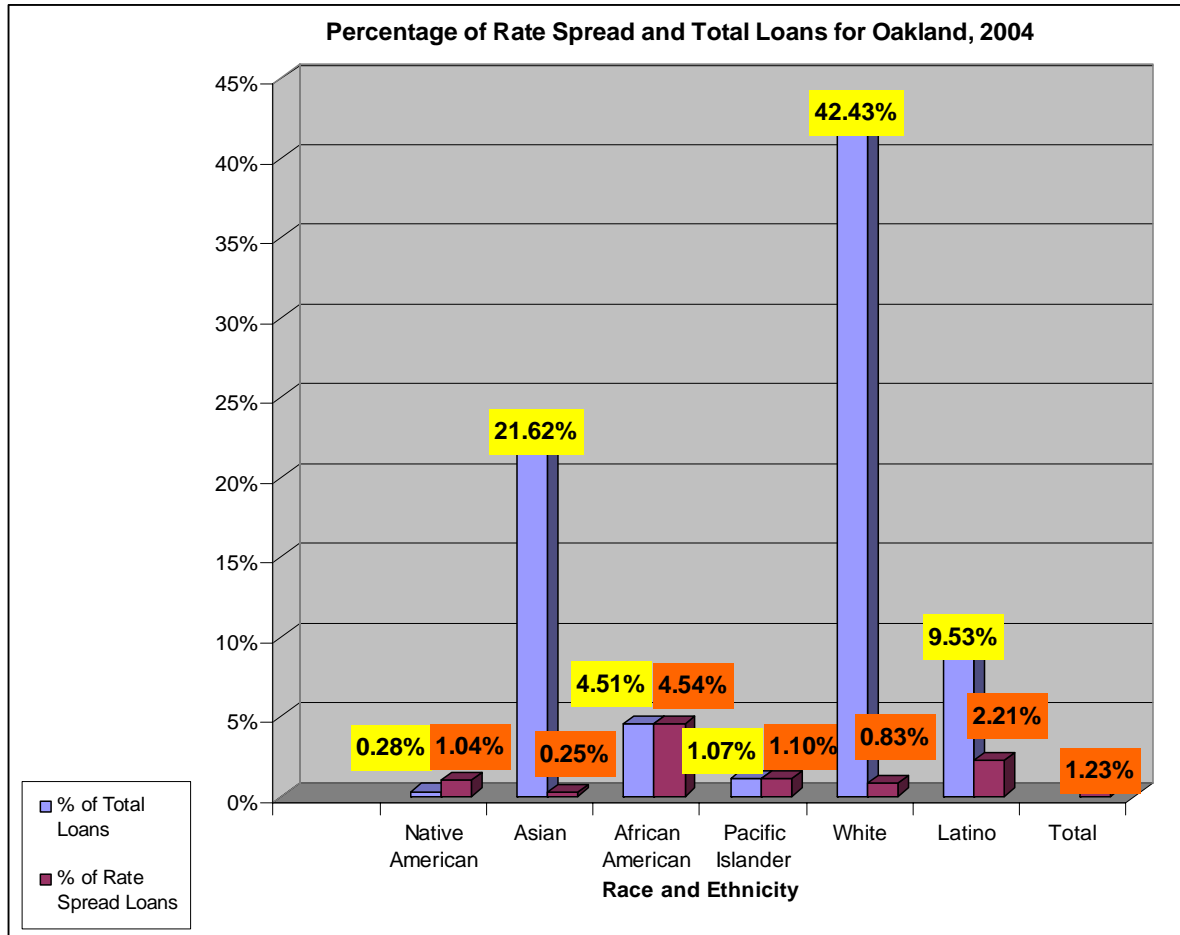
- Native Americans made up 0.07% of the total loans in Modesto; 6.06% of the total loans received were subprime.
- Asians made up 21.22% of the total loans in Modesto; 0.43% of the total loans received were subprime. Asians made up 4.57% of the population in 2000.
- African Americans made up 4.26% of the total loans in Modesto; 6.71% of the total loans received were subprime.

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- Pacific Islanders made up 0.25% of the total loans in Modesto; 5.83% of the total loans received were subprime.
- Whites made up 38.68% of the total loans in Modesto; 1.50% of the total loans received were subprime. Whites made up 47.60% of the population in 2000
- Latinos made up 11.99% of the total loans in Modesto; 3.74% of the total loans received were subprime. Latinos make up 40.03% of the total population in 2000.

Northern California:

Oakland:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, Oakland’s median family income was \$82,200 and the median home price was \$535,000.

- Native Americans made up 0.28% of the total loans in Oakland; 1.04% of the total loans received were subprime.
- Asians made up 21.62% of the total loans in Oakland; 0.25% of the total loans received were subprime.
- African Americans made up 4.51% of the total loans in Oakland; 4.54% of the total loans received were subprime.

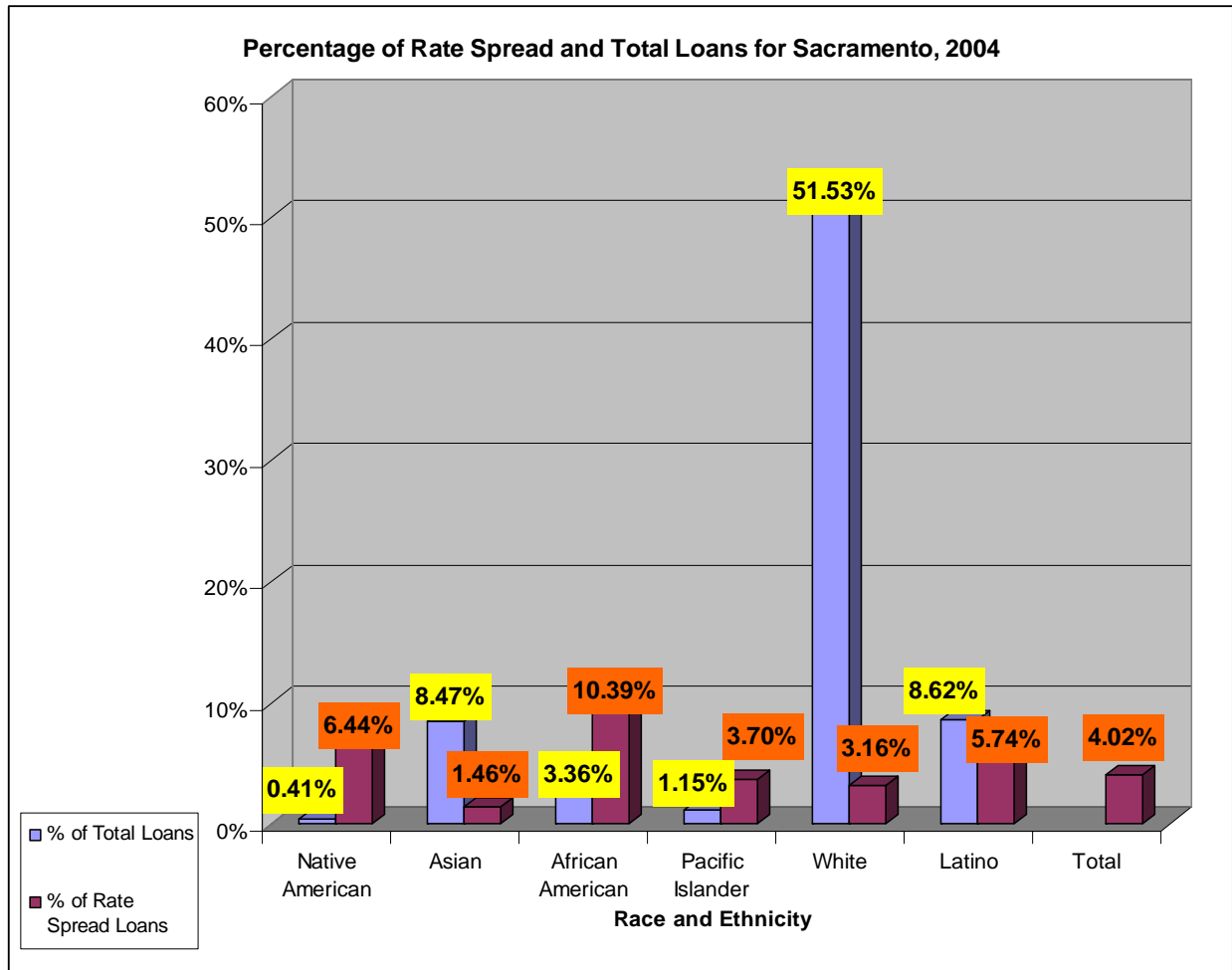
Oakland, Fremont, Hayward	Total Loans	Subprime
Native American	193	2
Asian	14,669	36
African American	3,059	139
Pacific Islander	726	8
White	28,794	240
Latino	6,465	143
Total	67,864	835

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- Pacific Islanders made up 1.07% of the total loans in Oakland; 1.10% of the total loans received were subprime.
- Whites made up 42.43% of the total loans in Oakland; 0.83% of the total loans received were subprime.
- Latinos made up 9.53% of the total loans in Oakland; 2.21% of the total loans received were subprime.

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Sacramento:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, Sacramento's median family income was \$64,100 and the median home price was \$381,000.

- Native Americans made up 0.41% of the total loans in Sacramento; 6.44% of the total loans received were subprime.
- Asians made up 8.47% of the total loans in Sacramento; 1.46% of the total loans received were subprime.
- African Americans made up 3.36% of the total loans in Sacramento; 10.39% of the total loans received were subprime.
- Pacific Islanders made up 1.15% of the total loans in Sacramento; 3.70% of the total loans received were subprime.

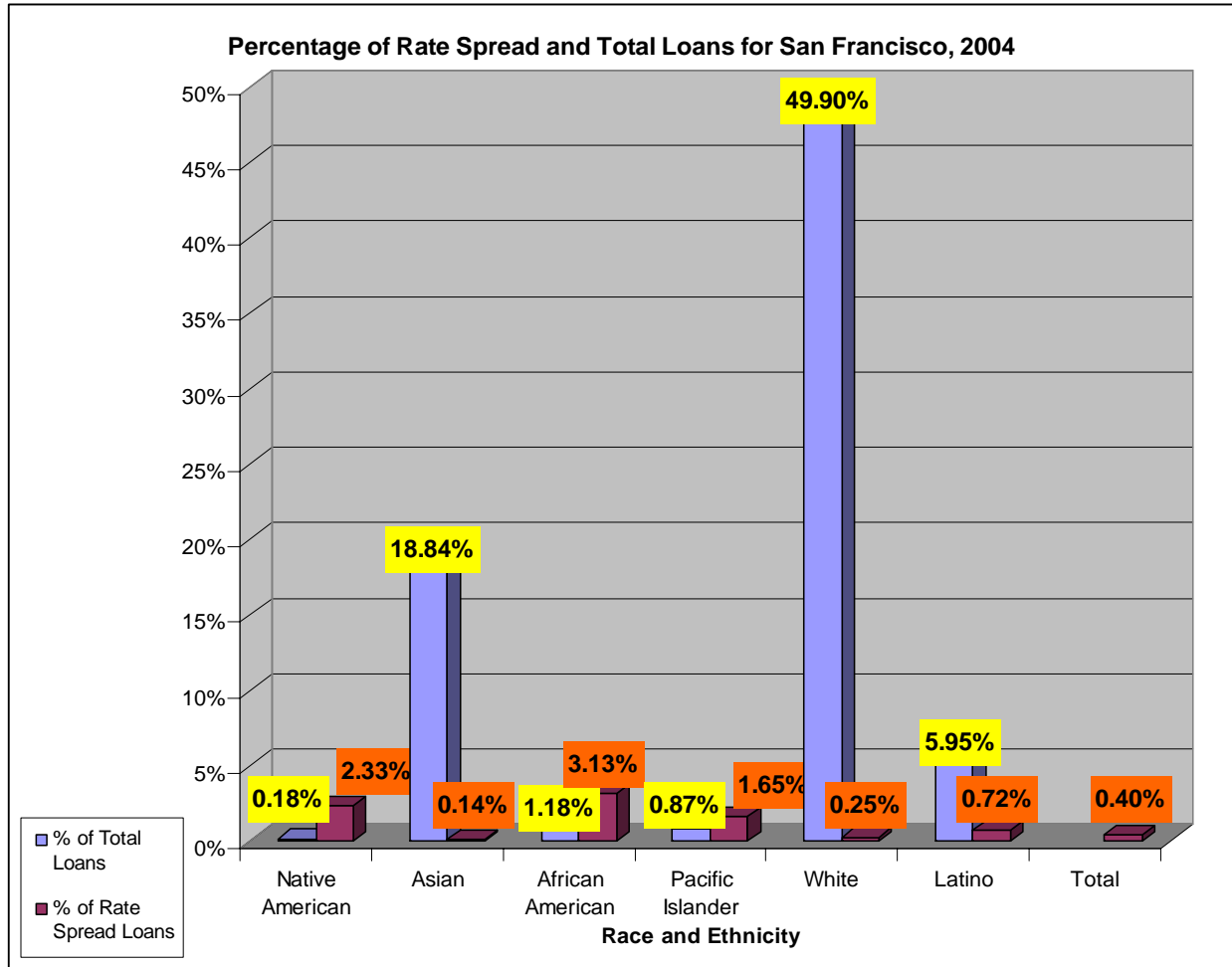
Sacramento	Total Loans	Subprime
Native American	202	13
Asian	4,175	61
African American	1,656	172
Pacific Islander	568	21
White	25,405	803
Latino	4,248	244
Total	49,297	1,982

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- Whites made up 51.53% of the total loans in Sacramento; 3.16% of the total loans received were subprime.
- Latinos made up 8.62% of the total loans in Sacramento, 5.74% of the total loans received were subprime.

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San Francisco:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, San Francisco’s median family income was \$95,000 and the median home price was \$734,000.

- Native Americans made up 0.18% of the total loans in San Francisco; 2.33% of the total loans received were subprime.
- Asians made up 18.84% of the total loans in San Francisco; 0.14% of the total loans received were subprime.
- African Americans made up 1.18% of the total loans in San Francisco; 3.13% of the total loans received were subprime.

San Francisco	Total Loans	Subprime
Native American	86	2
Asian	9,204	13
African American	576	18
Pacific Islander	425	7
White	24,383	61
Latino	2,909	21
Total	48,862	195

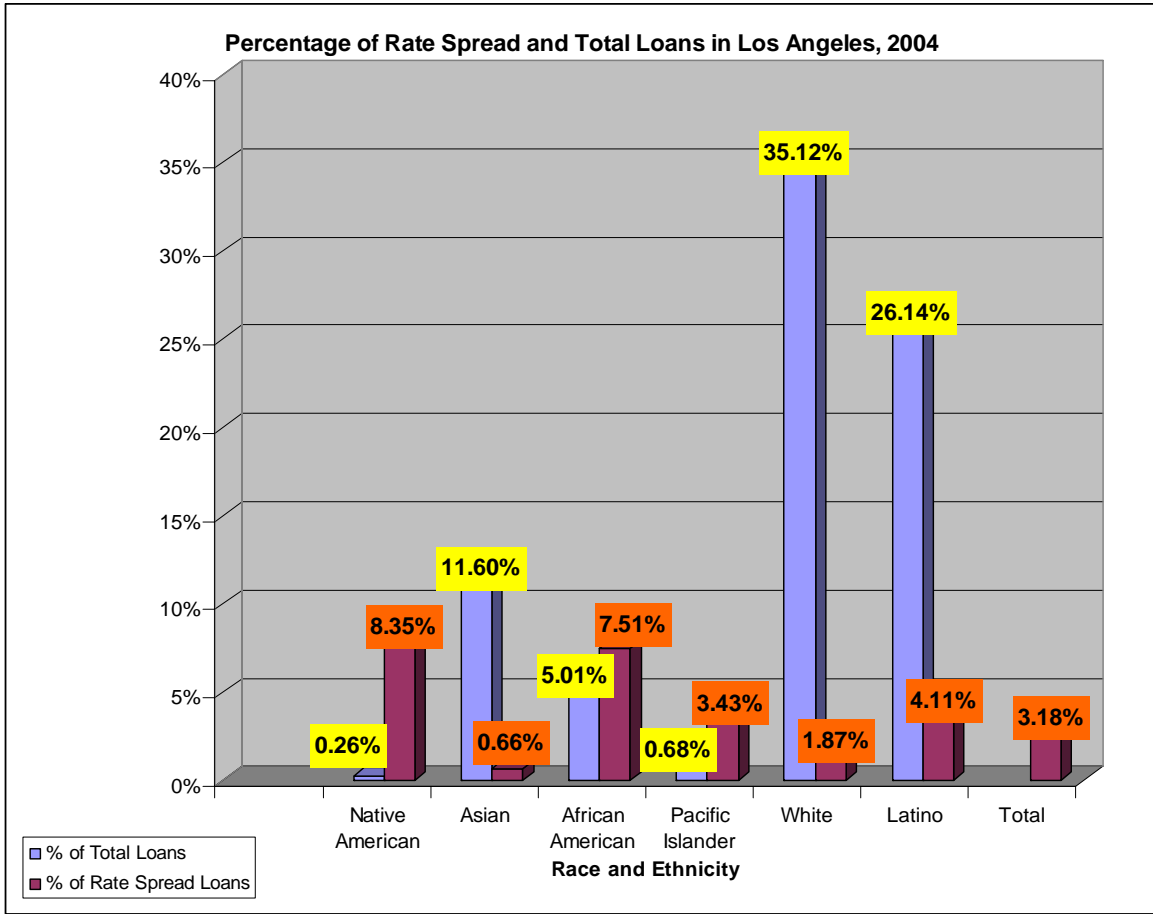
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- Pacific Islanders made up 0.87% of the total loans in San Francisco; 1.65% of the total loans received were subprime.
- Whites made up 49.90% of the total loans in San Francisco; 0.25% of the total loans received were subprime.
- Latinos made up 5.95% of the total loans in Los Angeles, 0.72% of the total loans were subprime.

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Southern California:

Los Angeles:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, Los Angeles/Long Beach/Glendale had a median family income of \$53,500, and the median home price was \$512,890.

- Native Americans made up 0.26% of the total loans in Los Angeles; 8.35% of the total loans received were subprime.
- Asians made up 11.60% of the total loans in Los Angeles; 0.66% of the total loans received were subprime.
- African Americans made up 5.01% of the total loans in Los Angeles; 7.51% of the total loans received were subprime.
- Pacific Islanders made up 0.68% of the total loans in Los Angeles; 3.43% of the total loans received were subprime.
- Whites made up 35.12% of the total loans

LA, LBC, Glendale	Total Loans	Subprime
Native American	467	39
Asian	20,947	139
African American	9,054	680
Pacific Islander	1,223	42
White	63,419	1,187
Latino	47,209	1,940
Total	180,588	5,734

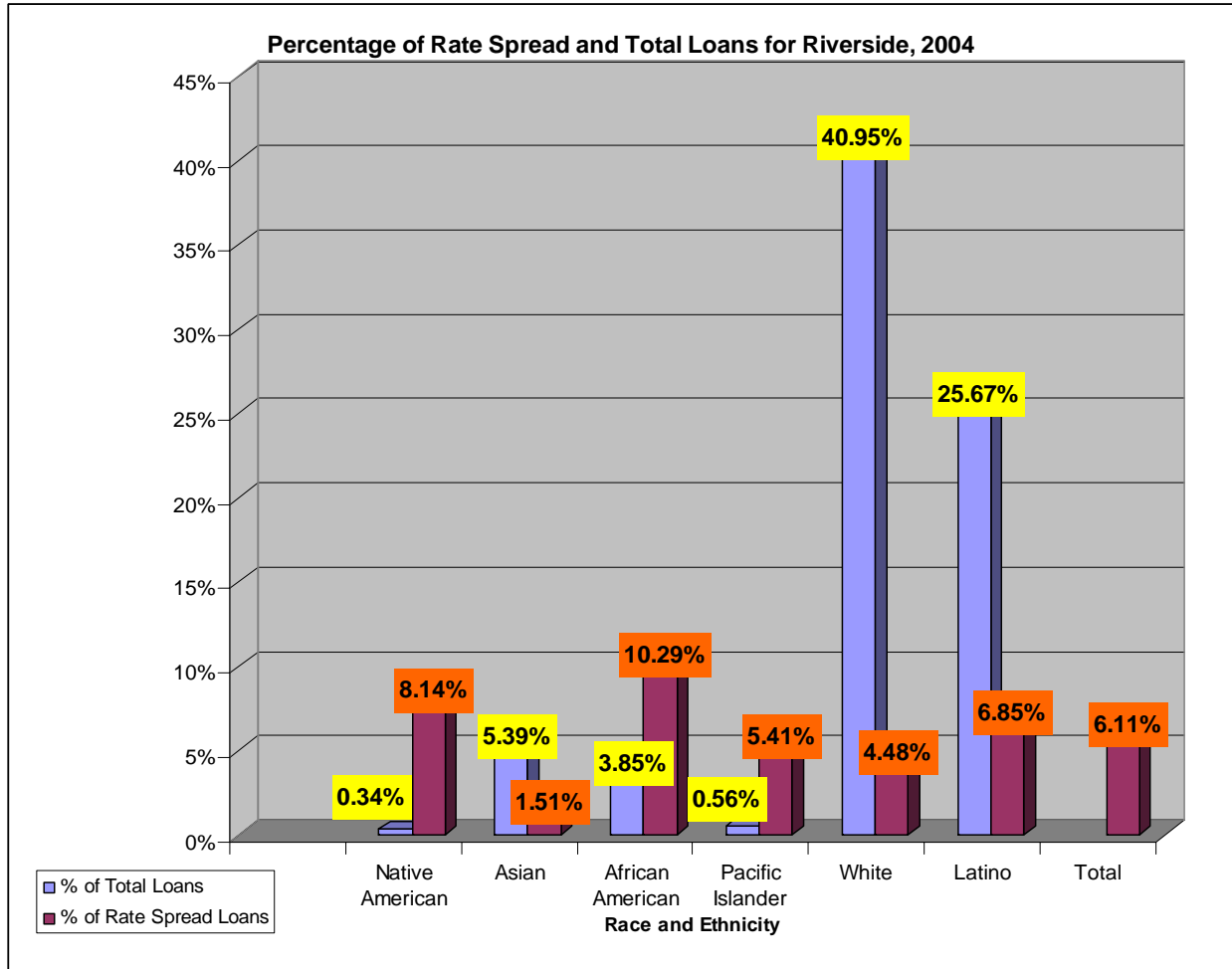
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in Los Angeles; 1.87% of the total loans received are subprime.

- Latinos made up 26.14% of the total loans in Los Angeles, 4.11% of the total loans were subprime. By 2010, Latinos are estimated to make up 49% of Los Angeles' population.

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Riverside:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, Riverside’s median family income was \$54,300 and the median home price is \$373,860.

- Native Americans made up 0.34% of the total loans in Riverside; 8.14% of the total loans received were subprime.
- Asians made up 5.39% of the total loans in Riverside; 1.51% of the total loans received were subprime.
- African Americans made up 3.85% of the total loans in Riverside; 10.29% of the total loans received were subprime.

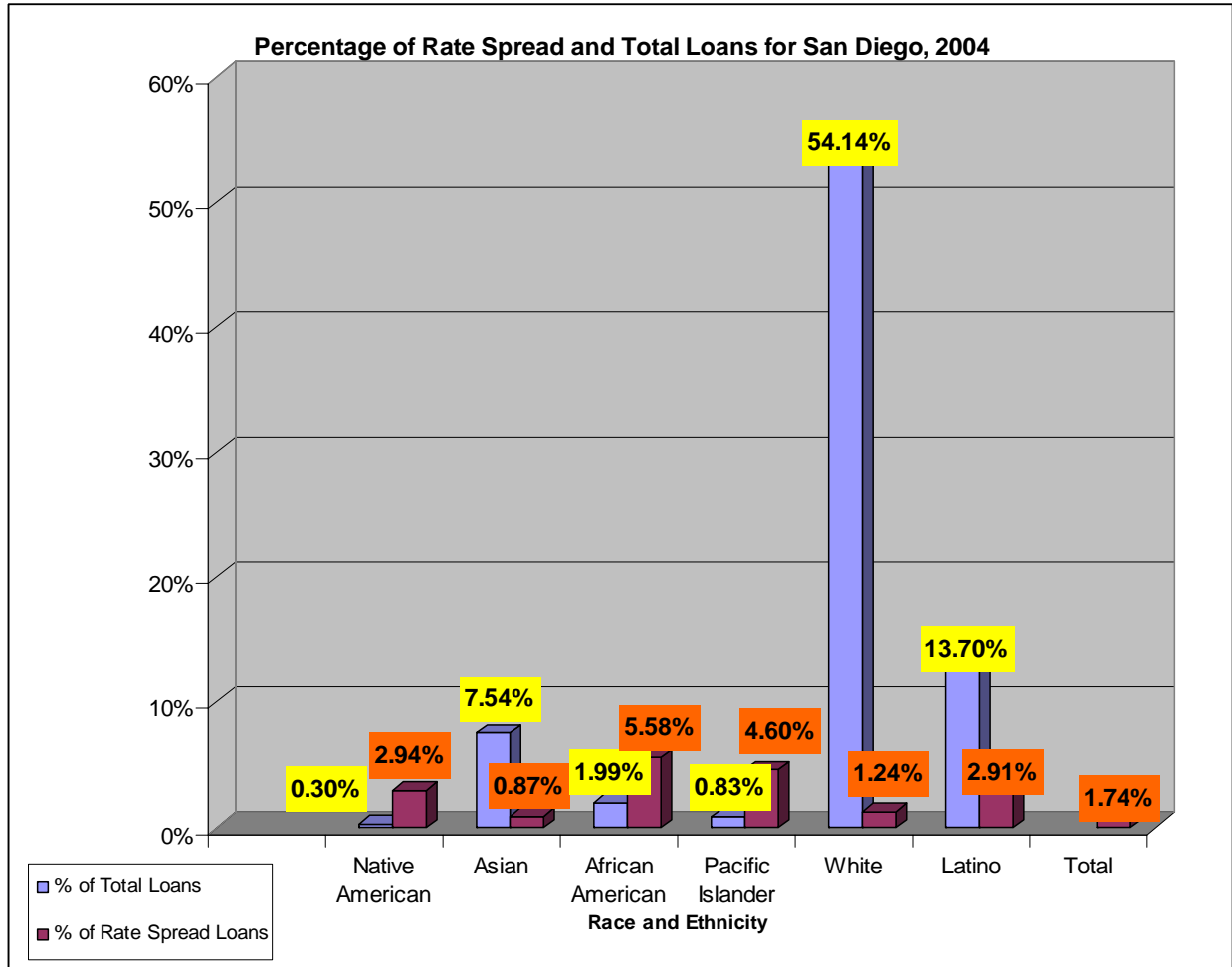
Riverside	Total Loans	Subprime
Native American	307	25
Asian	4,827	73
African American	3,449	355
Pacific Islander	499	27
White	36,699	1,643
Latino	23,006	1,576
Total	89,625	5,478

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- Pacific Islanders made up 0.56% of the total loans in Riverside; 5.41% of the total loans received were subprime.
- Whites made up 40.95% of the total loans in Riverside; 4.48% of the total loans received were subprime.
- Latinos made up 25.67% of the total loans in Riverside, 6.85% of the total loans were subprime.

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San Diego:



In 2004, San Diego’s median family income was \$63,400 and the median home price was \$614,000. In 2000, San Diego had a population of 2,832,563 and is estimated to grow to 3,258,951.

- Native Americans made up 0.30% of the total loans in San Diego; 2.94% of the total loans received were subprime.
- Asians made up 7.54% of the total loans in San Diego; 0.87% of the total loans received were subprime.
- African Americans made up 1.99% of the total loans in San Diego; 5.58% of the total loans received were subprime. African Americans make up almost 6% of the population of San Diego in 2000.
- Pacific Islanders made up 0.83% of the total loans in San Diego; 4.60% of the total loans received were subprime.

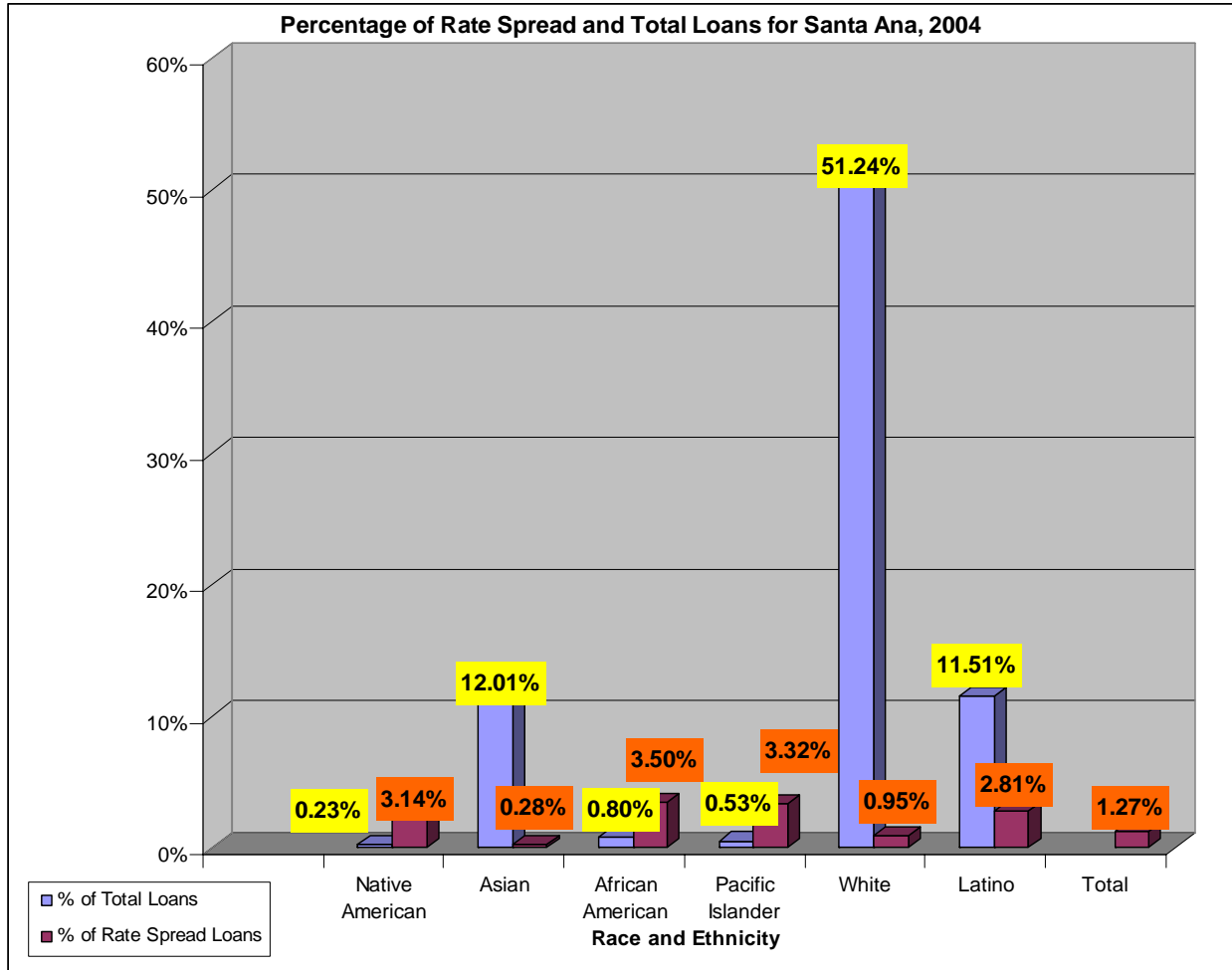
San Diego	Total Loans	Subprime
Native American	204	6
Asian	5,150	45
African American	1,361	76
Pacific Islander	565	26
White	37,006	459
Latino	9,362	272
Total	68,347	1,190

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- Whites made up 54.14% of the total loans in San Diego; 1.24% of the total loans received were subprime.
- Latinos made up 13.70% of the total loans in San Diego, 2.91% of the total loans were subprime.

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Santa Ana:



Note: The first bar indicates the proportion of home loans made relative to all home loans made in the area. The second bar indicates the proportion of high cost subprime loans relative to all home loans made to a particular racial/ethnic group.

In 2004, Santa Ana’s median family income was \$74,200 and the median home price was \$702,400.

- Native Americans made up 0.23% of the total loans in Santa Ana; 3.14% of the total loans received were subprime.
- Asians made up 12.01% of the total loans in Santa Ana; 0.28% of the total loans received were subprime.
- African Americans made up 0.80% of the total loans in Santa Ana; 0.28% of the total loans received were subprime.

Santa Ana	Total Loans	Subprime
Native American	159	5
Asian	8,164	23
African American	543	19
Pacific Islander	361	12
White	34,834	331
Latino	7,823	220
Total	67,977	864

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- Pacific Islanders made up 3.38% of the total loans in Santa Ana; 3.38% of the total loans received were subprime.
- Whites made up 62.65% of the total loans in Santa Ana; 2.19% of the total loans received were subprime.
- Latinos made up 23.87% of the total loans in Santa Ana, 5.42% of the total loans were subprime. The Latino population in Orange County is expected to grow from 30.86% to 36.20% by the year 2010.

DISCUSSION:

Looking Forward:

Much of the discourse around people of color and homeownership is centered on trying to find ways to increase mechanisms to buy a home. Yet Dr. Carolina Reid, a researcher at the San Francisco's Federal Reserve Bank, brought up some very helpful points in her dissertation entitled, "*Achieving the American Dream? A Longitudinal Analysis of the Homeownership Experiences of Low-Income Households.*" The focus of her research is to not only study how low-income households become homeowners, but also incorporating how low-income households are supported after they become homeowners. Most low-income homeowners have a high chance of returning to renting in the first few years after they buy a house since the ability of getting a mortgage is largely dependent on a steady income flow: "Low-income homeowners may be especially vulnerable to losing their homes: their jobs are often unstable, they have few savings to protect them from a "rainy day", and they pay an inordinately large share of their incoming for housing."

Through her qualitative interviews, Reid found that homeowners did not have an adequate support network, not knowing where to turn to for help: "Other people I interviewed did not know that they could go to the Fremont Public Association for delinquency counseling, or that mortgage lenders would be willing to negotiate the terms of their loan. Providing job placement and counseling services for those who lose their jobs, expanding training opportunities to promote career mobility and wage progression, and educating low-income families about the home-buying process to make sure they understand the implications of a high debt ratio would all help to ensure that homeownership is a positive experience."

Among some other key findings from Reid's dissertation include that the benefits of homeownership is not evenly distributed across race or class, there are vast differences between the homeownership trajectories of low, middle, and high-income families, and there are certain non-quantifiable benefits of owning a home. All of this provides a healthy complication to understanding homeownership for low-income communities and people of color.

RECOMMENDATIONS

While government regulators and advocates argue that consumers need to be more informed about predatory lending, accountability for the disparities should not be placed solely on the consumer's ability to wade through cryptic financial documents. We believe that lending institutions in addition to the government need to be creative to make sure that the home ownership gap is closed while ensuring that minorities are not treated unfairly in home loan pricing. There are also great opportunities for positive and proactive partnerships to be built between both the government and lending institutions and community organizations. The following are a few key recommendations:

Recommendation #1: Overhaul FICO Scoring Process and Develop an alternative way of measuring risk.

With the goal of establishing a credit scoring system that effectively captures other measures of credit worthiness (e.g. payments for rent, utilities, telephone and cable service, remittances, etc.) the four federal regulators should convene a meeting with community groups, Freddie Mac, Fannie Mae and the nation's largest home mortgage companies including Wells Fargo, Countrywide, Bank of America, JP Morgan Chase, World Savings and Citibank. With leadership from the regulators and with insight from community groups and financial institutions, the industry can radically change its underwriting process to ensure that there is more parity in this distribution of higher cost home loans to minority borrowers.

Some institutions have already developed creative alternatives of measuring risk through rental and utility payments. Using these payments to assess a borrower's risk provide a good alternative to credit scores. Policy makers can work with lending and credit institutions to create a central system to track rental and utility payments so lending institutions have a more viable and more accessible alternative that provides a holistic picture of the potential borrower.

Recommendation #2: Banking and lending institutions need to have stronger mechanisms for referral ups. The Consumer Federation of America identified that 40% of consumers are at risk for being misclassified into the subprime market¹⁹. Institutions should have a system of double-checking their original loan offer and give consumers more of an opportunity to appeal if they are given a subprime rate. Some of the policy recommendations made by the Consumers Federation of America are key to finding ways to refer borrowers to the prime loan market:

- Require creditors to immediately provide to any consumer who experiences an adverse action as a result of their credit reports or credit scores a copy of the credit reports and scores used to arrive at the decision free of charge and permit disputes to be immediately resubmitted for reconsideration.
- Require decisions based on a single repository's credit report or credit score that result in anything less than the most favorable pricing to immediately trigger a re-evaluation based on all three repositories at no additional cost.

¹⁹ "Credit Score Accuracy and Implications for Consumers." Consumer Federation of America, National Credit Reporting Association. December 2002.

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It is also important that lending institutions work with potential borrowers to repair their credit so they can eventually attain a home loan at a prime rate. Employees should be able to either advise potential borrowers on ways they can repair their credit or refer them to nonprofit agencies to increase their chances attaining a better rate home loan.

Recommendation #3: Eliminate Incentives to Employees for Subprime Lending: Many lending institutions give their employees an incentive if they give a subprime loan. Institutions should create internal mechanisms to prevent predatory lending and policy makers should create stronger safeguards to ensure these habits are regulated.

Recommendation #4: Personal attention by the CEO: Responsibility for innovation and a commitment to best practices in the mortgage lending industry belongs at the top. The CEO of all mortgage lenders must ensure public confidence to their industry by making a personal commitment to reforming their institution's lending practices to ensure that more minority borrowers are not unfairly discriminated against in paying for their home loans.

Recommendation #5: Improve Data Disclosed in HMDA.

- **Add credit ratings to Home Mortgage Disclosure Act (HMDA) data.** While the changes made to 2004 HMDA data have been extremely useful, it can be improved. The federal government should require banking and lending institutions to include credit ratings and scores since the rate of the loan is inherently connected to credit scores.
- **Disaggregate data for the Asian and Asian American community.** Originally, Greenlining was going to do a three part study looking at home ownership rates in the African American, Latino, and Asian American communities. While studies were completed for the African American and Latino communities, it is difficult to measure disparities in the Asian and Asian American community if the data is not aggregated to reflect the diverse ethnicities. While some in the Asian American community have been able to build up wealth here in the United States, several more recent immigrant and refugee communities are not given the same opportunity.

CONCLUSION:

As stated previously, the Greenlining Institute strongly supports subprime lending as a key to the “democratization of credit for the poor and minorities.” Simultaneously, Greenlining also argues that many regulated and unregulated financial institutions have “taken advantage of the vulnerability of minorities and the poor by charging unnecessarily high rates and imposing unnecessary costs that often endanger homeownership.”²⁰ While discrimination cannot be proved based on the current data, low-income and people of color communities still have not reached an acceptable level of homeownership despite various advancements in the public and private sector, more still needs to be done.

Looking at the disparities of home loans and the amount of subprime loans given to minority borrowers in California, one also needs to look at the entire push to getting low-income communities to invest in homeownership. While homeownership has proven to have an enormous amount of benefits to homeowners aside from building wealth and assets, much more work will need to be done in ensuring that homeowners are able to adequately and sustainably stay in the housing market.

²⁰ Greenlining Institute: www.greenlining.org.

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REFERENCES:

All home purchase data for the major lenders were provided to the author by the lenders. Greenlining made an official data request for the 2004 HMDA data. Industry data was also drawn from the Federal Financial Institutions Examination Council's tables via:
<http://www.ffiec.gov>

California Department of Finance: <http://dof.ca.gov>

California Realtors Association: <http://www.car.org>

Department of Urban Housing and Development: <http://www.hud.gov>

US Census, American Community Survey 2003 Data Profiles: <http://www.census.gov/acs>