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GOOD ENOUGH FOR SUBPRIME, BUT NOT GOOD ENOUGH FOR PRIME?

A Review of Homelending Data from 2008 in California

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Introduction

The homeownership gap for communities of color is widening as a result of widespread foreclosures and a dramatic drop in prime lending to Latinos and African Americans. Greenlining's analysis of 2008 HMDA (Home Mortgage Disclosure Act) data reveals that there has been a reduction in the number of prime loans going to Latinos and African Americans, and a disproportionate increase in high cost lending going to these communities. As the data demonstrate, Latinos received an overwhelming portion of high cost loans in 2008, at the peak of the housing bubble. Nearly all of those home buyers are either underwater today, leading to a dangerous new wave of foreclosures for Latinos.

Widespread foreclosures have drained an estimated \$350 billion from communities of color.¹ For every 100 African-American homeowners, 11 have either lost their homes or at risk of foreclosure. For Latino families, the figures are worse – 17 of every 100 Latino homeowners are touched by foreclosures. In fact, almost fifty percent of foreclosures in California were suffered by Latinos.²

The ongoing unemployment crisis and the resulting credit crunch have continued to affect Latino and African American communities first and worst, and this effect is amply demonstrated by the marked drop in mortgage lending to these communities. While lending by the major banks in California dropped 36.7% between 2007 and 2008, lending to Latinos dropped 44.3%, and lending to African Americans dropped an alarming 69.5%.



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Lending Has Dropped Significantly From Fiscal Year 2007 to 2008

The Number of Loans Originated to...	Has Increased (Decreased) by...
African Americans, Top 7 banks	(69.5%)
African Americans — Industry Average	(61.0%)
Latinos, Top 7 banks	(44.3%)
Moderate Income African Americans, Top 7 banks	(40.9%)
Total Loans by the 7 Major Banks	(36.7%)
Industry Average	(31.3%)
Lower-Income African Americans, Top 7 banks	22.6%
Moderate Income Latinos, Top 7 banks	39.5%
Latinos — Industry Average	66.4%
Lower-Income Latinos, Top 7 banks	73.6%

The situation for the industry in general, which includes mid-size and smaller banks, is more complicated. Industry-wide lending in California dropped **31.3%** between 2007 and 2008, while lending to Latinos actually increased **66.4%**. African Americans, however, experienced a drop of **61.0%**. Data for Asian sub-groups would yield similar findings; however, disaggregated data for Asian Americans is unavailable

Findings

We studied four types of home mortgage lending:

- 1. conventional prime-rate home lending;
- 2. conventional high-cost home purchase, which includes home purchase, refinance, and home improvement loans;
- 3. high-cost refinance; and
- 4. FHA-backed loans.

For each we present data on the number and percent of these loans that went to African Americans and Latinos of three income categories.

Prime Rate Home Purchase Loans on the Decline

These are conventional loans for home purchase that were originated in the year 2008. These are the loans that create new homeowners, and are therefore the main focus of this report.

Latinos

The seven major financial institutions originated **11,896** prime-rate home loans (**17.0%** of all prime loans originated in 2008) to Latinos of all incomes in California. This number of loans represents a **decrease of 44.3% since 2007**.

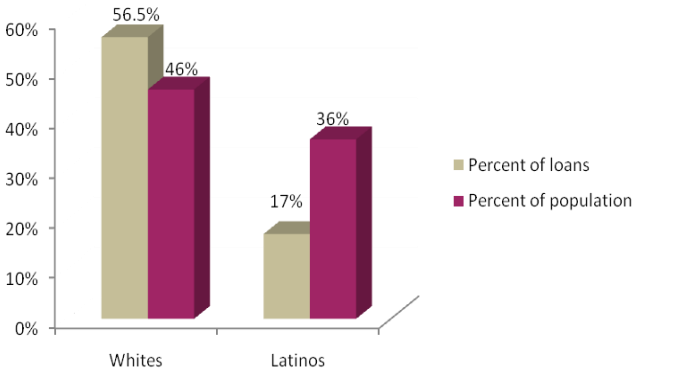
The major banks originated **2,047** prime-rate home loans (**2.9%** of all prime loans originated in 2008) to moderate-income Latinos (those earning between \$26,814 and

\$42,903) in California. This income represents 50 to 80% of the state median income. This number of loans represents an **increase of 39.5% since 2007**.

The major banks originated **481** prime-rate home loans (**0.7%** of all prime loans originated in 2008) to low-income Latinos (those earning less than \$26,814) in California. This income represents less than 50% of the state median income. This number of loans represents an **increase of 73.6% since 2007**.

While Latinos represent 36% of the population of California, the mortgage industry as a whole originated **17.0%** of all home loans in 2008 to this ethnic group. In contrast, Whites represent **46%** of the state’s population and received **56.5%** of all home loans.

Percent of Population vs. Percent of Loans



African Americans

The seven major financial institutions originated **1,127** prime-rate home loans (**1.6%** of all prime loans originated in 2008) to African Americans of all incomes in California. This number of loans represents a **decrease of 69.5% since 2007**.

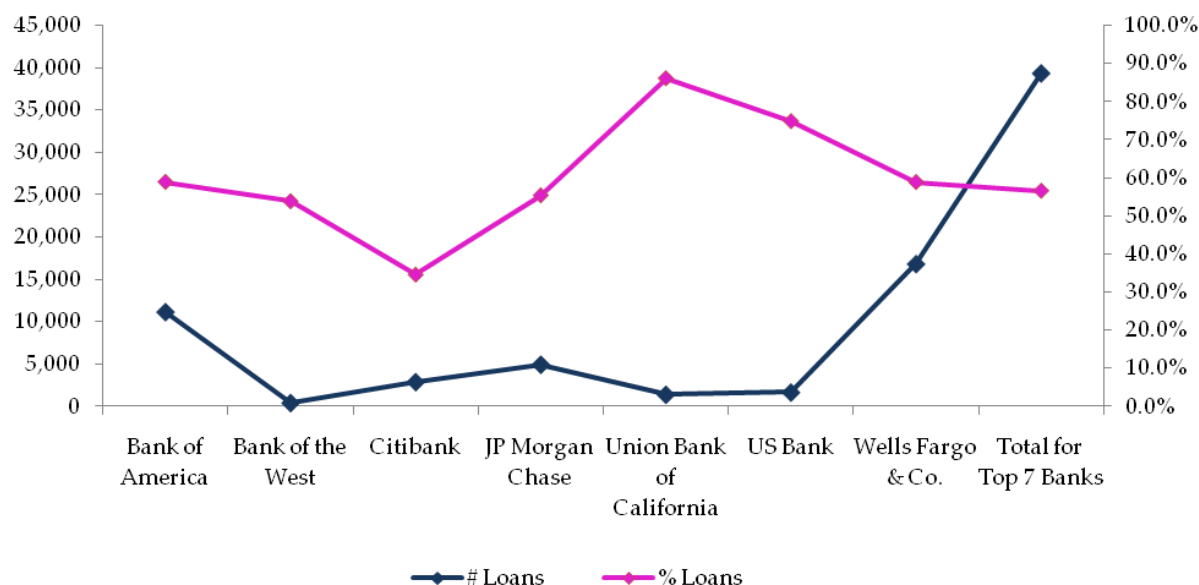
Overall Ranking in Lending to Latinos

Rank	Financial Institution
1	Bank of America
2	US Bank
3	JP Morgan Chase
4	Wells Fargo & Co.
5	Citibank
6	Bank of the West
7	Union Bank of California

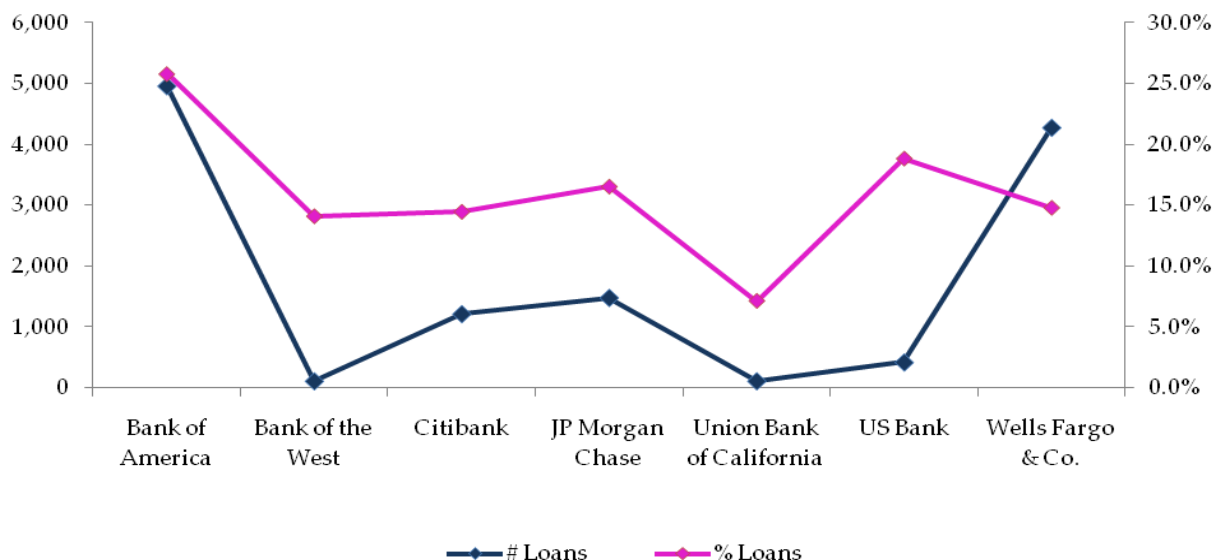
Overall Ranking in Lending to African Americans

Rank	Financial Institution
1	US Bank
2	JP Morgan Chase
3	Bank of America
4	Bank of the West
5	Wells Fargo & Co.
6	Citibank
7	Union Bank of California

Number and Percent of Loans to Whites in California



Number and Percent of Loans to African Americans and Latinos in California



Combined, the major banks originated **1,127** prime-rate loans to all African Americans. More specifically, **165** loans were originated to moderate-income African American borrowers and the major banks originated just **31** loans to low-income African Americans.

High-Cost Home Loans

This category includes high cost home purchase loans, refinance loans, and home improvement loans.

The seven major financial institutions originated **3,301** high-cost conventional home loans (**37.9%** of all high-cost loans originated in 2008) to Latinos of all incomes in California, and **558** high-cost home loans (**6.5%** of all high-cost loans originated in 2008) to African Americans of all incomes. In contrast, Latinos received 17.0% and African Americans 1.6% of prime-rate loans.

Lending Performance to AFRICAN AMERICANS

Conventional Home Mortgage Lending to African Americans

Bank	All African Americans		Moderate-Income		Lower-Income		Total
	# Loans	% Loans	# Loans	% Loans	# Loans	% Loans	
Bank of America	313	1.7%	46	0.2%	11	0.1%	18,967
Bank of the West	13	1.6%	4	0.5%	1	0.1%	805
Citibank	128	1.5%	15	0.2%	4	0.0%	8,404
JP Morgan Chase	155	1.7%	13	0.1%	2	0.0%	8,959
Union Bank of California	18	1.1%	2	0.1%	0	0.0%	1,631
US Bank	45	2.0%	4	0.2%	1	0.0%	2,232
Wells Fargo & Co.	455	1.6%	81	0.3%	12	0.0%	28,615
Total for Top 7 Banks	1,127	1.6%	165	0.2%	31	0.0%	69,613
<i>Industry Average and Totals</i>	<i>2,565</i>	<i>1.8%</i>					<i>141,137</i>

High-Cost Conventional Home Mortgage Lending to African Americans– All HMDA

Bank	All African Americans		Moderate-Income		Lower-Income		Total
	# Loans	% Loans	# Loans	% Loans	# Loans	% Loans	
Bank of America	66	4.0%	15	0.9%	5	0.3%	1,643
Bank of the West	1	1.0%	0	0.0%	0	0.0%	104
Citibank	132	11.0%	20	1.7%	13	1.1%	1,202
JP Morgan Chase	71	5.8%	11	0.9%	0	0.0%	1,231
Union Bank of California	CALIFORNIA-SPECIFIC INFORMATION NOT PROVIDED						
US Bank	21	4.8%	4	0.9%	2	0.5%	441
Wells Fargo & Co.	267	6.7%	35	0.9%	14	0.4%	3,981
Total for Top 7 Banks	558	6.5%	70	0.8%	29	0.3%	8,602

High-Cost Refinance Lending to African Americans

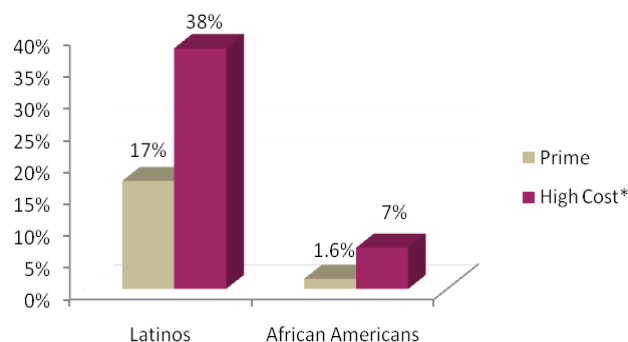
Bank	All African Americans		Moderate-Income		Lower-Income		Total
	# Loans	% Loans	# Loans	% Loans	# Loans	% Loans	
Bank of America	11	3.6%	3	1.0%	0	0.0%	303
Bank of the West	1	1.9%	0	0.0%	0	0.0%	53
Citibank	105	12.4%	18	2.1%	11	1.3%	846
JP Morgan Chase	33	7.1%	8	1.7%	0	0.0%	467
Union Bank of California	CALIFORNIA-SPECIFIC INFORMATION NOT PROVIDED						
US Bank	11	8.6%	1	0.8%	1	0.8%	128
Wells Fargo & Co.	138	8.1%	18	1.1%	10	0.6%	1,697
Total for Top 7 Banks	299	8.6%	45	1.3%	22	0.6%	3,494

Data demonstrate that Latinos and African Americans are substantially more represented among borrowers who are paying a higher interest rate for their loans than among those paying the prime rate.

High-Cost Refinancing

Refinancing, which allows existing homeowners to alter the terms of their mortgages, has led to nearly half of foreclosures.

Percent of Prime vs. High Cost Loans



Lending Performance to LATINO/AS

Conventional Home Mortgage Lending to Latinos

Bank	All Latinos		Moderate-Income		Lower-Income		Total
	# Loans	% Loans	# Loans	% Loans	# Loans	% Loans	
Bank of America	4,638	24.2%	750	3.9%	143	0.7%	19,188
Bank of the West	101	12.5%	11	1.4%	4	0.5%	809
Citibank	1,087	12.9%	298	3.5%	82	1.0%	8,404
JP Morgan Chase	1,326	14.8%	204	2.3%	41	0.5%	8,959
Union Bank of California	97	6.0%	11	0.7%	3	0.2%	1,615
US Bank	377	16.8%	57	2.5%	9	0.4%	2,239
Wells Fargo & Co.	4,270	14.8%	716	2.5%	199	0.7%	28,871
Total for Top 7 Banks	11,896	17.0%	2,047	2.9%	481	0.7%	70,085
<i>Industry Average and Totals</i>	25,629	18.0%					142,165

High-Cost Conventional Home Mortgage Lending to Latinos– All HMDA

Bank	All Latinos		Moderate-Income		Lower-Income		Total
	# Loans	% Loans	# Loans	% Loans	# Loans	% Loans	
Bank of America	692	41.1%	158	9.4%	45	2.7%	1,685
Bank of the West	17	16.0%	2	1.9%	0	0.0%	106
Citibank	594	49.4%	126	10.5%	49	4.1%	1,202
JP Morgan Chase	481	39.1%	75	6.1%	15	1.2%	1,231
Union Bank of California	CALIFORNIA-SPECIFIC INFORMATION NOT PROVIDED						
US Bank	113	25.1%	21	4.7%	5	1.1%	451
Wells Fargo & Co.	1,404	34.8%	307	7.6%	83	2.1%	4,035
Total for Top 7 Banks	3,301	37.9%	689	7.9%	197	2.3%	8,710

High-Cost Refinance Lending to Latinos

Bank	All Latinos		Moderate-Income		Lower-Income		Total
	# Loans	% Loans	# Loans	% Loans	# Loans	% Loans	
Bank of America	122	39.4%	35	11.3%	13	4.2%	310
Bank of the West	13	23.2%	4	7.1%	2	3.6%	56
Citibank	437	51.7%	91	10.8%	36	4.3%	846
JP Morgan Chase	157	33.6%	18	3.9%	6	1.3%	467
Union Bank of California	CALIFORNIA-SPECIFIC INFORMATION NOT PROVIDED						
US Bank	20	15.5%	0	0.0%	0	0.0%	129
Wells Fargo & Co.	605	35.3%	127	7.4%	27	1.6%	1,712
Total for Top 7 Banks	1,354	38.5%	275	7.8%	84	2.4%	3,520

HMDA does not disclose the terms of their original mortgages, but it does disclose whether the borrowers are paying a prime rate or a higher rate.

The seven major financial institutions originated **1,354** high-cost refinance loans (**38.5%** of all high-cost refinance loans originated in 2008) to Latinos of all incomes in California, and **299** high-cost refinance loans (**8.6%** of all high-cost refinance loans originated in 2008) to African Americans of all incomes.

We included high-cost refinance loans in our analysis because of their potential to strip existing homeowners of their homes.

FHA-Backed Lending

FHA loan activity has risen dramatically since 2007. In the previous year the top banks originated only 506 FHA-backed loans to all borrowers; in 2008 the number has risen to 14,593.

The seven financial institutions studied originated **36.7%** of their FHA loans to Latinos, and **4.8%** to African Americans of all incomes.

7.3% of their FHA loans were originated to moderate-income Latinos, and **0.7%** to moderate-income African Americans.

1.2% of their FHA loans were originated to lower-income Latinos, and **0.1%** to lower-income African Americans.

Conventional Prime-Rate Home Loans Originated to African Americans of All Incomes, by MSA*, 2008

MSA	Percent of all Loans Originated to African Amer. in MSA	African Amer. as % of Total Population in MSA	Disparity	Total Number of Loans Originated to African Amer. in MSA	Total Number of Loans Originated in MSA
CALIFORNIA	1.8%	6.1%	-4.3%	2,565	141,137
Bakersfield	1.4%	5.6%	-4.2%	33	2,332
Chico	0.7%	1.4%	-0.7%	5	716
El Centro	0.0%	3.3%	-3.3%	0	257
Fresno	1.2%	4.9%	-3.7%	33	2,735
Hanford	2.9%	7.5%	-4.6%	7	244
Los Angeles	3.0%	8.7%	-5.8%	807	27,257
Madera	0.8%	3.8%	-2.9%	3	363
Merced	0.9%	3.5%	-2.6%	8	908
Modesto	0.9%	2.7%	-1.8%	22	2,436
Napa	1.2%	1.8%	-0.6%	6	489
Oakland	2.8%	11.4%	-8.5%	412	14,597
Oxnard	0.6%	1.7%	-1.1%	24	3,816
Redding	0.5%	0.9%	-0.4%	3	626
Riverside	2.9%	7.2%	-4.4%	455	15,881
Sacramento	1.6%	7.0%	-5.4%	182	11,371
Salinas	0.6%	3.1%	-2.5%	8	1,321
San Diego	1.3%	5.0%	-3.7%	160	12,552
San Francisco	0.6%	4.7%	-4.1%	48	8,546
San Jose	0.6%	2.5%	-1.9%	56	9,838
San Luis Obispo	0.4%	1.9%	-1.5%	4	1,027
Santa Ana	0.7%	1.6%	-0.9%	93	12,623
Santa Barbara	0.3%	1.7%	-1.4%	4	1,274
Santa Cruz	0.0%	0.8%	-0.8%	0	941
Santa Rosa	0.9%	1.3%	-0.5%	19	2,230
Stockton	2.4%	7.0%	-4.5%	85	3,474
Vallejo	4.8%	14.7%	-9.9%	79	1,649
Visalia	0.4%	1.4%	-1.0%	4	994
Yuba	0.8%	1.9%	-1.2%	5	640

*Metropolitan Statistical Area

Analysis

Given the volatility of the housing market, as well as the severe changes in credit accessibility since 2008 for existing and potential homeowners, the data in this report can only be used as background as we look to future data to understand the lasting changes in the housing market.

However, two disturbing trends remain. First we see that among borrowers of color, there has been a reduction in the number of prime loans, and an alarming increase in high cost loans. As the data shows, Latinos received a large portion of high cost loans in 2007, which was the

peak of the bubble. Ninety-nine percent of those homeowners are underwater today.

What remains to be seen in the lasting impact of the foreclosure crisis on the ability of borrowers of color of all incomes to access the credit needed to buy an affordable home. We fear that the homeownership and consequent wealth gap will continue to widen for communities of color.

Conventional Home Loans Originated to Latinos of All Incomes, by MSA, 2008

MSA	Percent of all Loans Originated to Latino/as in MSA	Latino/as as % of Total Population in MSA	Disparity	Total Number of Loans Originated to Latino/as in MSA	Total Number of Loans Originated in MSA
CALIFORNIA	18.0%	6.1%	11.9%	25,629	142,165
Bakersfield	25.8%	5.6%	20.2%	608	2,360
Chico	7.6%	1.4%	6.3%	54	706
El Centro	66.7%	3.3%	63.4%	178	267
Fresno	28.0%	4.9%	23.0%	770	2,753
Hanford	31.6%	7.5%	24.1%	78	247
Los Angeles	23.2%	8.7%	14.5%	6,388	27,478
Madera	43.2%	3.8%	39.4%	159	368
Merced	42.2%	3.5%	38.8%	388	919
Modesto	31.9%	2.7%	29.2%	792	2,485
Napa	12.5%	1.8%	10.7%	61	488
Oakland	11.4%	11.4%	0.0%	1,683	14,741
Oxnard	23.0%	1.7%	21.3%	882	3,830
Redding	4.2%	0.9%	3.3%	26	624
Riverside	29.4%	7.2%	22.2%	4,752	16,141
Sacramento	9.6%	7.0%	2.6%	1,099	11,416
Salinas	36.6%	3.1%	33.4%	490	1,340
San Diego	16.2%	5.0%	11.3%	2,049	12,617
San Francisco	5.1%	4.7%	0.4%	435	8,531
San Jose	8.6%	2.5%	6.2%	852	9,878
San Luis Obispo	7.4%	1.9%	5.4%	75	1,020
Santa Ana	12.6%	1.6%	11.0%	1,599	12,677
Santa Barbara	26.3%	1.7%	24.5%	335	1,276
Santa Cruz	20.5%	0.8%	19.7%	192	937
Santa Rosa	9.0%	1.3%	7.6%	199	2,223
Stockton	21.7%	7.0%	14.7%	764	3,527
Vallejo	14.9%	14.7%	0.3%	249	1,668
Visalia	36.4%	1.4%	35.0%	367	1,008
Yuba	16.4%	1.9%	14.5%	105	640

Recommendations

First and foremost, the Federal Reserve, in cooperation with the FDIC, OCC, HUD and Treasury should:

1. Disaggregate data for Asian Americans. Greenlining intended to include Asian American data in this report but was unable to provide a true picture of the experience in the community due to the lack of disaggregated data.
2. Immediately release information on underwater mortgages by region, race and ethnicity.
3. Immediately provide automatic principle reduction for people that received high cost loans at the peak of the market.
4. Encourage financial institutions to develop new and creative products and marketing to serve and build trust with the unbanked, immigrants, and the poor.

Methodology

The Greenlining Institute produces this report each year to compare California's top CRA-regulated mortgage originators in terms of their lending to our state's African American and Latino potential homebuyers.

The data for the banks are based on figures submitted to us by the banks studied, which are in turn based on publicly-reported HMDA disclosure data available from the Federal Financial Institutions Examination Council (FFIEC). Industry averages and data for metropolitan statistical areas (MSA) are from the HMDA aggregate reports, also available from the FFIEC.

For this report, we studied four types of home mortgage lending: conventional prime-rate home purchase, conventional high-cost home purchase, high-cost refinance, and FHA-

backed loans.

The amounts for "Conventional prime-rate home purchase" loans include all loans that are conventional (Type 1), originated for home purchase (Purpose 1), and limited to only those loans that were originated (Action 1). In addition, the interest rates on these loans are non-reportable, meaning they fall below the reportable rate trigger set in 2004 legislation.

"Conventional high-cost home purchase" loans are all the Type 1, Purpose 1, Action 1 loans that have reportable interest rates.

"High-cost refinance" loans are Type 1, Purpose 3 (Refinance), Action 1 loans with reportable interest rates.

"FHA-backed" loans are Type 2 (FHA-backed), Purpose 1, Action 1.

Conclusion

The asset building that occurred in communities of color in the past decade through gains in homeownership is rapidly reversing. HMDA data for the year 2008 is likely to function largely as a baseline for new trends in home lending. The foreclosure crisis and subsequent recession have led to a widespread reduction in credit for all communities. In future reports, we will be able to gauge the extent to which this trend has continued to disproportionately exclude communities of color from access to sustainable homeownership opportunities.

The Federal Reserve Bank held hearings in 2010 on improvements to the Home Mortgage Disclosure Act. As a result of these hearings and the changes instituted through the Dodd/Frank bill, we will have more data that can more clearly describe the state of homeownership for communities of color.

References

1. Center for Responsible Lending, Foreclosure by Race and Ethnicity: Demographics of a Crisis, June 18, 2010.
2. Center for Responsible Lending, Dreams Deferred: Impacts and Characteristics of the CA Foreclosure Crisis, August 2010



THE GREENLINING INSTITUTE

The Greenlining Institute is a national policy, organizing, and leadership institute working for racial and economic justice. We ensure that grassroots leaders are participating in major policy debates by building diverse coalitions of grassroots leaders that work together to advance solutions to our nation's most pressing problems.

Our mission is to empower communities of color and other disadvantaged groups through multi-ethnic economic and leadership development, civil rights and anti-redlining activities.

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