

THE IMPENDING RATE SHOCK

A STUDY OF HOME MORTGAGES IN 130 AMERICAN CITIES

AUGUST 15, 2006

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ACORN, the Association of Community Organizations for Reform Now, is the nation's largest community organization of low- and moderate-income families, with over 220,000 member families organized into 850 neighborhood chapters in over 100 cities across the United States and in cities in Canada, the Dominican Republic, India and Peru. Since 1970 ACORN has taken action and won victories on issues of concern to our members. ACORN's priorities include: better housing for first time homebuyers and tenants, living wages for low-wage workers, more investment in our communities from banks and governments, and better public schools. ACORN achieves these goals by building community organizations that have the power to win changes -- through direct action, negotiation, legislation, and voter participation.

ACORN Housing

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In 1986, ACORN Housing originated from neighborhood-based campaigns conducted by ACORN. ACORN Housing is a national, non-profit organization which provides housing counseling and education services to low and moderate income families. Since its inception, ACORN Housing has grown to have offices in 40 cities and provides mortgage counseling to more individuals than any other organization in the country. ACORN Housing is also the national leader in assisting victims of predatory lending by providing refinancing at improved terms, through loan modification, and by conducting outreach that teaches individuals to identify and avoid predatory loans. ACORN Housing has helped over 65,000 low and moderate income families realize their dream of buying a home.

ACORN Fair Housing Organization

16 West 25th Street Baltimore, MD 21218

The ACORN Fair Housing Organization fights housing discrimination by conducting research, providing training, and conducting outreach and education efforts on the Federal Fair Housing Act. In the past few years ACORN Fair Housing has been working with community organizations to provide outreach and education on predatory lending and assisting such victims file complaints under the Federal Fair Housing Act. Other areas of work include insurance and mortgage redlining, discrimination based on source of income, and equal housing opportunities based on quality of housing that is free from environmental health hazards. ACORN Fair Housing is a project of the American Institute for Social Justice.



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SUMMARY OF FINDINGS

While Adjustable Rate Mortgages (ARMs) account for 24 percent of all home loans nationwide, they represent a much greater percentage of certain types of loans and of the mortgages made to specific communities and demographic groups. In 2005, ARMs made up three-quarters of all subprime loans, a huge increase from 1999 when half of all subprime mortgages were ARMs.¹

Until this year there has been little recognition of the prevalence of adjustable interest rates in subprime loans and the danger posed by these ARMs. Attention in past years had focused on other predatory practices that are common in the subprime market, such as prepayment penalties, excessive fees, high interest rates, flipping, yield spread premiums, and balloon payments.

Subprime loans have always been considered more risky in and of themselves than prime loans; with interest rates rising and an increase in the number of subprime loans that are ARMs, subprime borrowers will struggle more than ever. Borrowers with subprime loans are already paying higher interest rates and are more likely to be lower-income and have fewer resources to cope with the coming “rate shock.” Furthermore, borrowers in the subprime market are often steered into ARMs without being given a choice and have little knowledge of how ARMs work or the risks associated with these loans.

Although subprime loans are intended for people who are unable to obtain a conventional prime loan at the standard bank rate, Fannie Mae and Freddie Mac have estimated that between one third and one half of all borrowers in subprime loans could have qualified for a lower cost mortgage². Thus it follows that a large number of the borrowers who have received ARMs should not have been in the subprime market.

As shown in this report, America’s lower income and minority communities receive a disproportionate number of subprime loans and thus are most at risk of increased defaults and foreclosures. With sixty percent of subprime loans set to have their interest rates change by the end of 2006, ARMs pose a huge threat to the security of individual homeowners and entire neighborhoods.

Using public data available under the Home Mortgage Disclosure Act we examined the extent of high-cost lending for 130 metropolitan areas, determined the disparities between borrowers of different race and income levels, and identified those metropolitan areas that are at a greatest risk of “rate shock”.³ Our findings are as follows.

¹ Doug Duncan, Senior Vice President of Research and Business Development at the Mortgage Bankers Association estimates that adjustable rate mortgages represent 73% of non-prime loans. Lisa Burden, “Shake up Planned at H.R. Block Mortgage Unit,” *MortgageDaily.com*, May 26, 2006. As of September 2005, adjustable rate loans were 80% of the subprime loan products originated and securitized. *2006 Global Structured Finance Outlook: Economic and Sector-by-Sector Analysis*, Fitch Ratings Credit Policy, January 17, 2006.

² “Financial Services in Distressed Communities,” Fannie Mae Foundation, August 2001. “Automated Underwriting,” Freddie Mac, September 1996.

³ Our analysis is based on a review of first-lien conventional refinance and purchase mortgages.

1) Several metropolitan areas are at great risk of “Rate Adjustment Shock”

Of the 130 metropolitan areas reviewed in this report, there were 32 where at least one out of three loans were high-cost and thus are at great risk of rate reset shock. In the ten metropolitan areas at greatest risk, high-cost loans represented more than two of every five home purchase and refinance loans. These ten metropolitan areas were largely concentrated in the South (including Texas) but also include three cities in the Midwest: Detroit, MI; Memphis, TN; Jackson, MS; McAllen, TX; El Paso, TX; Laredo, TX; Brownsville, TX; Flint, MI; Springfield, IL; and Birmingham, AL.

2) In many metropolitan areas, minority neighborhoods are at a great risk of rate shock⁴

In many metropolitan areas, minority communities are at a high risk because of the extent of high cost lending as a share of overall loans. In 67 of the areas we examined, more than half of the refinance loans originated in minority communities were high-cost. In 44 of these metropolitan areas, over half the purchase loans made in minority communities were high-cost loans.

3) Minority neighborhoods are at a significantly greater risk of rate shock than neighborhoods that are predominantly white⁵

There is a large disparity between the level of high cost lending in neighborhoods where minorities make up more than half of the population and neighborhoods where minorities make up less than 20% of the population.

In the Los Angeles, San Jose, Oakland, Santa Ana, San Diego, Albuquerque, Bridgeport, and Tucson metropolitan areas, homeowners in minority communities are at least three times more likely to receive a high-cost refinance loan than are homeowners in predominantly white communities.

The disparities were even greater in home purchase lending. In 44 metropolitan areas, homebuyers in minority neighborhoods were at least three times more likely to receive a high-cost loan than were homebuyers in white neighborhoods. There were seven cities where homebuyers in minority neighborhoods were at least five times more likely than homebuyers in white neighborhoods to receive a high-cost loan: Oakland, CA; San Francisco, CA; Los Angeles, CA; San Jose, CA; Santa Ana, CA; Bridgeport, CT; Richmond, VA; and Newark, NJ.

4) Upper-income minority borrowers are at greater risk than upper and lower-income white borrowers

Even when controlling for income, minority borrowers were at a greater risk to receive a high cost loan than white borrowers. Upper-income African-Americans were at least three times more likely than upper-income whites to receive a high-cost refinance loan in 12 metropolitan areas including five in California: San Francisco, Oakland, San Jose, Los Angeles, and San Diego, as well as in Trenton, NJ; Bridgeport, CT; Raleigh, NC; Honolulu, HI; Washington, DC; Charleston, SC; and Durham, NC.

⁴ Minority neighborhoods are defined as census tracts in which minority residents make up more than half of the population.

⁵ Predominantly white neighborhoods are defined as census tracts in which minority residents make up less than 20 percent of the population.

Among homebuyers, the disparities were even greater between upper-income African-Americans and upper-income whites. There were 15 metropolitan areas where upper-income African-Americans were at least five times more likely to receive a high-cost purchase loan than upper-income whites: Atlanta, GA; Baltimore, MD; Bethesda, MD; Bridgeport, CT; Charleston, SC; Durham, NC; Jackson, MS; Milwaukee, WI; Nassau-Suffolk, NY; New York, NY; Newark, NJ; Raleigh, NC; Richmond, VA; San Francisco, CA; Washington, DC, and Winston-Salem, NC.

When comparing upper-income Latinos to upper-income whites there were seven metropolitan areas where upper-income Latinos were at least five times more likely than upper-income whites to receive a high-cost refinance loan: San Francisco, CA; Bethesda, MD; Washington, DC; San Jose, CA; Bridgeport, CT; New York, NY; and Santa Ana, CA.



ADJUSTABLE RATE MORTGAGES AND RATE RESET SHOCK

In addition to conventional and higher-cost subprime mortgages, there are now additional “alternative” lending products available including interest only loans, option payments, and adjustable rate mortgages (ARMs) with low initial “teaser” rates called hybrid ARMs which adjust to higher rates after a low-initial rate during the first few years of the loan. The majority of subprime ARMs adjust after two years. While these loans may be suitable for a homeowner who plans to live in the home a short time and anticipates appreciation of the home value, it is a dangerous loan for long-term homeowners, particularly in an economic environment with rising interest rates. In far too many cases, alternative mortgages are being sold to consumers who can only afford the initial lower-payments but will not be able to afford the higher payments that will come when either the interest-only period or the initial “teaser” rate period ends. These borrowers will be jolted into increased payments that will mean additional hundreds of dollars due in a single month’s time and this amount will likely continue to increase. Borrowers will have failed to build much, if any, equity at this point meaning that they cannot afford the increase, and particularly if their home value fails to increase significantly, they will not have enough equity in their home to refinance or sell. The result is damaged consumer credit, possible loss of the home, increased defaults for lenders, and in communities with large concentrations of these loans – more vacant houses.

This can be seen in the quarterly reports issued by the Mortgage Bankers Association. In the first quarter of 2006, the delinquency rates for prime ARMs and fixed subprime loans decreased, from 2.54 to 2.30 percent and 9.70 to 9.61 percent respectively, while the delinquency rate for subprime ARMs increased from 11.61 to 12.02 percent⁶.

Borrowers who have prepayment penalties and low equity may then be stuck in an affordable loan they are unable to refinance out of. According to research by First American Real Estate Solutions, up to 1 million households are in danger of losing their homes through foreclosure over the next five years because they won’t be able to afford their mortgage payments and they will owe more on their loan than what their house is worth.⁷ While there is no single source of information about the number of these risky loans for each metropolitan area, industry analysts estimate that 70%-80% of subprime mortgages made in 2005 have adjustable rates⁸.

The interest rates for subprime ARMs are most often tied to the London Inter-Bank Offer Rate (LIBOR) plus a margin, typically 5.5%. The six-month LIBOR rate has increased by over four basis points from 1.21% in January 2004 to 5.64% in June 2006. With the standard margin of 5.5%, the typical interest rate on a subprime ARM would have risen from 6.71% to over 11%.

Using a conservative example of a loan adjusting from a 7% interest rate to 9% interest rate, the difference in principal and interest payments on a 30-year mortgage of \$150,000 is over \$200 and is almost \$300 for a \$200,000 mortgage. For borrowers of high-cost loans who were already paying higher-rates and have little

⁶ Mortgage Bankers Association “First Quarter 2006 National Delinquency Survey (NDC), June 19, 2006.

⁷ Ibid.

⁸ Burden, Lisa. “Shake up Planned at H.R. Block Mortgage Unit” MortgageDaily.com, May 26, 2006 and *2006 Global Structured Finance Outlook: Economic and Sector-by-Sector Analysis*, Fitch Ratings Credit Policy, January 17, 2006

disposable income, these kinds of changes can make a big difference in affordability. For those borrowers, who have little to no equity in their home, they will find it more difficult and more costly to sell or refinance.⁹

SAMPLE INCREASE IN MONTHLY MORTGAGE PAYMENT WHEN ADJUSTABLE-RATE LOANS RESET		
	\$150,000	\$200,000
Monthly Payment at 7.0%	\$995	\$1,331
Monthly Payment at 9.0%	\$1207	\$1,609
Monthly Increase	\$212	\$278

In fact, according to First American Real Estate Solutions, of all homeowners who purchased or refinanced a home in the first three quarters of 2005, 29% had zero to negative equity.¹⁰

If home prices decline for these homeowners, they will lose even more equity with a larger number of homeowners at risk for default and foreclosure. Once foreclosures rise, particularly if concentrated in particular neighborhoods, prices will decline in those areas as a result of an increase in vacant properties. This decline will further exacerbate the problems of existing homeowners who have recently financed with adjustable rate or even interest only mortgages and will have declining equity and less ability to sell or refinance their home.

Metropolitan areas where at least one out of three loans were high-cost loans are considered at risk for rate-reset shock. Of the 130 metropolitan areas in our report, there are 32 where at least a third of all refinance and home purchase loans were high-cost loans. Research has found that consumers are much less knowledgeable about the terms and risks of these loans. According to the Federal Reserve, 35% of ARM borrowers did not understand the maximum amount their rate could rise a one time or even how to calculate what the maximum rate would be.¹¹ Focus groups by Public Opinion Strategies found that lower-income people did not think that traditional mortgages were an option for them and they were also less informed about rate reset shock and the debt risks.¹² Research from the Consumer Federation of America found that lower-income and minority consumers were less likely to understand the risks of adjustable rate mortgages.¹³

In our own work, ACORN has found that subprime borrowers were generally only offered an adjustable rate loan and were not offered a fixed rate product. Many of these borrowers did not find out until closing that they were receiving an ARM. When some borrowers expressed concern about having the adjustable rate, the loan officer or broker assured them not to worry because they could refinance in a year or two. None of the

⁹ Cagan, Christopher. "Mortgage Payment Reset" First American Real Estate Solutions, February 8, 2006.

¹⁰ Ibid.

¹¹ Fratantoni, Michael, "Housing and Mortgage markets: An Analysis" MBA Research Monograph Series No. 1, September 6, 2005.

¹² Public Opinion Strategies, Memorandum: Focus Group Observations, September, 29, 2005.

¹³ Consumer Federation of America, "Lower-Income and Minority Consumers More Likely to Prefer and Underestimate the Risks of Adjustable Rate Mortgages," Press Release, July 26, 3004.

borrowers interviewed by ACORN staff were given an explanation about how the adjustable rate would work other than the rate might change a little and could go up or down, when in fact they were given an initial low teaser rate that would increase no matter what.

At closing, a Minneapolis borrower's interest rate was projected to have a small increase at the first change date in two years, from 7.1% to 7.6% meaning her monthly payment would increase by only about \$30. However, at the time of loan origination, LIBOR was only 1.9% compared to the current rate of 5.3% making her increased interest rate 11% increasing her monthly payment from \$660 to \$1040.

LAYERED RISK

It is particularly dangerous when high-cost loans are layered with multiple features like option payments, piggyback loans, interest-only terms and prepayment penalties.

While a more conventional mortgage establishes a repayment schedule over the term of the loan (normally 15 or 30 years) with payments towards both the interest and principal on the loan, interest only payments require that payments be made only towards the interest on the loan leaving no principal paid. These loans are being sold with initial periods of 1,2 or 5 years of an interest-only payment period after which the loan payment schedule converts to a fully-amortized mortgage. One problem is that the longer the initial interest-only period, the shorter time period for the fully amortized payments will be based on and the bigger jump in monthly payments. Combined with an adjustable rate that has likely increased, the payment will increase significantly.

In many cases, interest only mortgages are being sold to consumers who can only afford the interest only payments. In these cases, if home values fail to increase, they will not build equity in their home. Combined with an adjustable rate which can only increase (and with interest rates on the rise) these homeowners will not be able to refinance their loan if they cannot afford the higher payments owed due to increased interest rates because they have no equity. While interest only mortgages consisted of 25% of all mortgages, most of them went to subprime borrowers.¹⁴

Option payments are another alternative loan product that has been layered with adjustable rate mortgages. In these loans, a borrower is given an option every month about what level payment to make: based on 15-year amortization (the highest amount), 30-year amortization, interest-only payments, or the "minimum payment" which fails to cover even the interest payment also called negative amortization because this payment actually adds to the principal amount of the loan. In some ways, this is similar to a credit card statement where the minimum payment would result in never decreasing the total amount you owe- only increasing it. A borrower making only the minimum payment can see the principal grow by about 2.5% over

¹⁴ Knox, Noelle. "Some homeowners struggle to keep up with adjustable rates" USA Today, April 3, 2006.



the course of a year¹⁵. There comes a point at which a borrower making only negative amortization payments will result in owing significantly more than the value of the home often resulting in an increased interest rate to compensate for the increased risk for the lender. The lack of equity means the homeowner is unable to refinance or sell the home except at a loss.

There are already signs that borrowers are only making minimum payments. According to Fitch Ratings, a significant number of new option ARMs immediately begin to negatively amortize upon origination. This furthers the argument that borrowers do not fully understand the impact of making the minimum payment or they simply cannot afford the loan.

METHODOLOGY

We used a sample of 275 lenders that are owned by 15 of the largest lenders in the country: ABN AMRO, ACC Capital, Bank of America, Chase, Citigroup, Countrywide, GMAC, H&R Bock, HSBC, National City, New Century, Washington Mutual, Wachovia, Wells Fargo, and WMC. According to industry estimates, these lenders represent 65.5% of all residential mortgages originated in 2005 and 55% of the subprime market.¹⁶

Data was obtained from requests made directly to the lenders for the public version of their Home Mortgage Disclosure Act (HMDA) data including data for any subsidiaries and affiliates. We examined only first lien conventional purchase and refinance mortgages and did not include government-backed loans (FHA, VA, FmHA).

Race and ethnicity are separate categories in HMDA reporting. For this report, any borrower with Latino ethnicity was not included in a racial group as well. For example, a borrower of Latino ethnicity and white race is counted only as Latino in our calculations and not counted as white.

HMDA requires lenders to report the race, gender, and census tract of their applicants, as well as whether the applicant received a high cost, or subprime, loan. High-cost loans are defined in the HMDA reporting guidelines as loans originated with an Annual Percentage Rate (APR) at least 3 points above the rate on comparable U.S. Treasury securities. For such loans, the lender was also required to report the difference between the two rates known as the rate spread. Prime loans as counted in this report were loans where no rate spread was reported because the APR on the loan was less than 3 points above the comparable Treasury rate.

¹⁵ Simon, Ruth, "A Trendy Mortgage Falls from Favor," *Wall Street Journal*, November, 29, 2005.

¹⁶ National Mortgage News, April 3, 2006 and April 17, 2006.

LENDERS INCLUDED IN REPORT

ABN AMRO

LASALLE BANK
STANDARD FEDERAL
ABN AMRO

ACC

AMC MORTGAGE SERVICES
AMERIQUEST MOTGAGE COMPANY
TOWN AND COUNTRY CREDIT CORP

BANK OF AMERICA

BANK OF AMERICA, NA (NC)
NEXSTAR FINANCIAL CORP
MBNA AMERICA (DE)

CHASE HOME FINANCE

CHASE USA
JP MORGAN CHASE BANK

CITIGROUP

CMFC, INC. / PRCM
CITIFINANCIAL SERVICES OF PUERTO RICO
CITIMORTGAGE, INC.
ASSOCIATES INTERNATIONAL
CITIBANK, N.A.
CITICORP TRUST BANK, FSB
CITIBANK (WEST), FSB
CALIFORNIA COMMERCE BANK
CITIBANK TEXAS, N.A.
CITIFINANCIAL INC (HI)
CITIFINANCIAL, INC.(OH)
CITIFINANCIAL SERVICES, INC.(PA)
CITIFINANCIAL SERVICES, INC.(MN)
CITIFINANCIAL, INC.(WV)
CITIFINANCIAL, INC.(TN)
CITIFINANCIAL SERVICES, INC.(OH)
CITIFINANCIAL SERVICES, INC.(DE)
CITIFINANCIAL SERVICES, INC.(MO)
CITIFINANCIAL OF VIRGINIA, INC.(VA)
CITIFINANCIAL SERVICES, INC.(GA)
CITIFINANCIAL, INC.(SC)
CITIFINANCIAL, INC.(MD)
CITIFINANCIAL SERVICES, INC. (OK)
CITIFINANCIAL SERVICES, INC.(KY)
CITIFINANCIAL, INC.(IA)
CITIFINANCIAL SERVICES, INC. (CA)
CITIFINANCIAL COMPANY (DE)
CITIFINANCIAL CORPORATION (CO)
CITIFINANCIAL, INC.(TX)

CITIFINANCIAL SERVICES, INC. (MA)
CITIFINANCIAL MORTGAGE CORP.
ASSOCIATES HOUSING FINANCE
CITIFINANCIAL CORPORATION, LLC (IA)

COUNTRYWIDE

COUNTRYWIDE HOME LOANS INC.
COUNTRYWIDE BANK NA
COUNTRYWIDE MORTGAGE VENTURES, LLC
COUNTRYWIDE REAL ESTATE FINANCIAL

HSBC

DECISION ONE
HSBC BANK
HSBC MORTGAGE SERVICES
HFC
HSBC BENEFICIAL HOMEOWNERS SERVICE
HSBC MORTGAGE

NATIONAL CITY CORP

HOMESYNC FINANCIAL SERVICES
HOME MORTGAGE CENTRE, LLC
PINEHURST MORTGAGE, LLC
MORTGAGE ONE, LP
REGIONAL FIRST MORTGAGE, LLC
HOME FINANCING, LLC
VIRGINIA FIRST MORTGAGE, LLC
VALLEY MORTGAGE SERVICES, LLC
TOWN AND COUNTRY LENDING, LLC
FIRST PATRIOT MORTGAGE, LLC
AMERICAN BEST MORTGAGE, LLC
PREMIER LENDING SERVICES, LP
MID ATLANTIC MORTGAGE, LLC
AMERIMAX MORTGAGE, LLC
ACTION HOME MORTGAGE, LLC
HOMETOWN MORTGAGE, LLC
LOWER BUCKS MORTGAGE, LLC
COVENANT MORTGAGE, LLC
HEARTLAND SECURITY MORTGAGE
RELIABLE MORTGAGE INVESTORS,
TOWER MORTGAGE, LLC
LIBERTY WEST MORTGAGE, LP
HERITAGE HOME MORTGAGE, LLC
REO MORTGAGE SERVICES, LLC
VIRGINIA HOME MORTGAGE, LLC
PENINSULA MORTGAGE, LLC
TIDEWATER FIRST MORTGAGE, LLC
FIRST FLIGHT MORTGAGE, LLC
GATEWAY FIRST MORTGAGE, LLC
HOMESOURCE MORTGAGE SERVICES,



ALL AMERICAN FIRST MORTGAGE,
FIRST CAPITAL HOME MORTGAGE,
TOWN SQUARE MORTGAGE, LLC
CAPSTONE MORTGAGE FUNDING, LLC
INTERCOASTAL MORTGAGE, LLC
MORTGAGE CONSTRUCTION FINANCE
ENTER MORTGAGE, LLC
PLATINUM FIRST MORTGAGE, LP
EXECUTIVE HOME MORTGAGE, LLC
NATIONAL AMERICAN MORTGAGE LLC
SUPREME CAPITAL MORTGAGE, LLC
1ST PERMIER MORTGAGE, LP
ACCULEND MORTGAGE, LP
THE FIRST MORTGAGE GROUP, LLC
1ST CHOICE MORTGAGE, LLC

GMAC

DITECH
GHS
GMAC BANK
GMAC CHCC
GMAC COMMERCIAL MORTGAGE
GMAC MORTGAGE
HOMECOMINGS FINANCIAL NETWORK
RESIDENTIAL FUNDING CORP

NEW CENTURY

HOME 123 CORP
NEW CENTURY MORTGAGE CORP

H&R BLOCK

H&R BLOCK MORTGAGE CORP
OPTION ONE

WACHOVIA

AMNET
EQUIBANK
WACHOVIA BANK
WACHOVIA BANK OF DELEWARE
WACHOVIA MORTGAGE CO

WASHINGTON MUTUAL

LONG BEACH MORTGAGE
WASHINGTON MUTUAL BANK
WASHINGTON MUTUAL BANK FSB

WELLS FARGO

WELLS FARGO BANK, NA
WELLS FARGO FIN'L ARIZONA, INC
WELLS FARGO FIN'L TEXAS, INC
WELLS FARGO FIN'L UTAH, INC
WELLS FARGO FIN'L WYOMING, INC
WELLS FARGO FIN'L NEW JERSEY

WELLS FARGO FIN'L NEBRASKA,INC
WELLS FARGO FINL WEST VIRGINIA
WELLS FARGO FINL WISCONSIN INC
WELLS FARGO FIN'L TENNESSEE
WELLS FARGO FIN'L OKLAHOMA,INC
WELLS FARGO FIN'L MONTANA, INC
WELLS FARGO FIN'L NORTH DAKOTA
WELLS FARGO FIN'L MINNESOTA
WELLS FARGO FIN'L MARYLAND,INC
WELLS FARGO FIN'L LOUISIANA
WELLS FARGO FIN'L KENTUCKY INC
WELLS FARGO FIN'L KANSAS, INC
WELLS FARGO FIN'L INDIANA, INC
WELLS FARGO FIN'L MISSOURI INC
WELLS FARGO FIN'L COLORADO INC
WELLS FARGO FIN'L ALASKA, INC
WELLS FARGO FIN'L SOUTH DAKOTA
WELLS FARGO FIN'L ILLINOIS INC
WELLS FARGO FIN'L GEORGIA, INC
WELLS FARGO FIN'L DELAWARE,INC
WELLS FARGO FIN'L SO CAROLINA
WELLS FARGO FIN'L RHODE ISLAND
WELLS FARGO FIN'L CALIFORNIA
WELLS FARGO FIN'L ALABAMA, INC
WELLS FARGO FIN'L IDAHO, INC
WELLS FARGO FIN'L HAWAII, INC
WELLS FARGO FIN'L OREGON, INC
WELLS FARGO FIN'L PENNSYLVANIA
WELLS FARGO FIN'L CRED SERV NY
WELLS FARGO FIN'L AMERICA, INC
WELLS FARGO FIN'L IOWA 3, INC
WELLS FARGO FIN'L MAINE, INC
WELLS FARGO FIN'L NEVADA 2,INC
WELLS FARGO FIN'L NEW MEXICO
WELLS FARGO FIN'L NO CAROLINA
WELLS FARGO FIN'L OHIO 1, INC
WELLS FARGO FIN'L WASHINGTON 1
WELLS FARGO FINL MASSACHUSETTS
WELLS FARGO FIN'L SYS FLORIDA
WELLS FARGO FIN'L SYS VIRGINIA
WELLS FARGO FIN'L MISSISSIPPI
HENDRICKS MORTGAGE, LLC
FIRST FOUNDATION MORTGAGE, LLC
SOUTHERN OHIO MORTGAGE, LLC
GREENRIDGE MORTGAGE SERVICES
REALTY HOME MORTGAGE, LLC
MERCANTILE MORTGAGE, LLC
MORTGAGES ON-SITE, LLC
CAPITAL PACIFIC HOME LOANS, LP
NEW ENGLAND HOME LOANS, LLC
PROVIDENT MORTGAGE COMPANY LLC
HOMELAND MORTGAGE, LLC
MORRISON FINANCIAL SERVICES



MORTGAGE 100, LLC
RESORTQUEST MORTGAGE, LLC
FAMILY HOME MORTGAGE, LLC
PRIVATE MORTGAGE ADVISORS, LLC
1ST FIN'L SERVICES OF COLORADO
BUILDERS MORTGAGE COMPANY, LLC
PREMIER HOME MORTGAGE
UNITED MICHIGAN MORTGAGE, LLC
TRICOM MORTGAGE, LLC
VISTA MORTGAGE, LLC
FINANCIAL RESOURCES MORTGAGE
BUILDERS CAPITAL MORTGAGE, LLC
PCM MORTGAGE, LLC
JTS FINANCIAL, LLC
RESIDENTIAL COM'TY MORTGAGE CO
PROFESSL FINL SERV'S OF ARIZONA
SMART MORTGAGE, LLC
MC OF AMERICA, LLC
AVENUE FINANCIAL SERVICES, LLC
MORTGAGE DYNAMICS, LLC
1ST CAPITAL MORTGAGE, LLC
NDC FINANCIAL SERVICES, LLC
WATERWAYS HOME MORTGAGE, LLC
FIRST MORTGAGE CONSULTANTS LLC
TRIPLE DIAMOND MORTGAGE & FINL
STONERIDGE MORTGAGE, LLC
STEINBECK ADVANTAGE MORTGAGE
WINDWARD HOME MORTGAGE, LLC
EXPRESS FIN'L & MORTGAGE SERVC
WF/TW MORTGAGE VENTURE, LLC
PLAYGROUND FINANCIAL SERVICES
DISCOVERY HOME LOANS, LLC
REALTEC FINANCIAL SERVICES LLC
HORIZON MORTGAGE, LLC
TOUCHSTONE HOME MORTGAGE, LLC
SECURSOURCE MORTGAGE, LLC
SUNSOUTH MORTGAGE, LLC
APM MORTGAGE, LLC
BELGRAVIA MORTGAGE GROUP, LLC
GREAT EAST MORTGAGE, LLC
AMERICAN SOUTHERN MORTGAGE SRV
RIVER CITY GROUP, LLC
SUMMIT NATIONAL MORTGAGE, LLC
BHS HOME LOANS, LLC
EMPIRE HOMES FINANCIAL SERV'S
SMITH FAMILY MORTGAGE, LLC
COLORADO PROFESSIONALS MORTGAG
MUTUAL SERVICE MORTGAGE, LLC

GUARANTEE PACIFIC MORTGAGE LLC
HEARTHSIDE FUNDING, LP
JOHN LAING MORTGAGE, LP
FORECAST HOME MORTGAGE, LLC
SOUTH COUNTY MORTGAGE
UNITED MORTGAGE GROUP
GOLD COAST MORTGAGE
MORTGAGE ONE
OHIO EXECUTIVE MORTGAGE CO
MJC MORTGAGE COMPANY, LLC
HOME LOAN EXPRESS, LLC
PERSONAL MORTGAGE GROUP, LLC
PRIORITY MORTGAGE, LLC
IMS MORTGAGE COMPANY
WELLS FARGO FUNDING, INC
LEADER MORTGAGE, LLC
NEXT HOME MORTGAGE
EDWARD JONES MORTGAGE, LLC
STOCK FINANCIAL SERVICES, LLC
MORTGAGES UNLIMITED, LLC
CENTRAL FEDERAL MORTGAGE CO
ADVANCE MORTGAGE
TRINITY MORTGAGE AFFILIATES
WESTFIELD HOME MORTGAGE, LLC
ASHTON WOODS MORTGAGE, LLC
REAL ESTATE FINANCIAL
MSC MORTGAGE, LLC
SUNDANCE MORTGAGE, LLC
AMERICAN PRIORITY MORTGAGE LLC
SANTA FE MORTGAGE, LLC
MERIDIAN HOME MORTGAGE, LP
GOLD COAST HOME MORTGAGE
HALLMARK MORTGAGE GROUP, LLC
SOUTHEAST HOME MORTGAGE, LLC
MICHIGAN HOME MORTGAGE, LLC
SECURITY FIRST FINL GROUP, LLC
BENEFIT MORTGAGE, LLC
FOUNDATION MORTGAGE SERVICES
COLORADO MORTGAGE ALLIANCE LLC
PINNACLE MORTGAGE OF NEVADA
HOMETOWN MORTGAGE, LLC
BW MORTGAGE, LLC
RODDEL MORTGAGE COMPANY, LP
REAL ESTATE LENDERS

GE CONSUMER FINANCE
WMC MORTGAGE

INCIDENCE OF HIGH-COST REFINANCE LENDING IN DIFFERENT METROPOLITAN AREAS

In 49 of the 130 metropolitan areas examined, at least one out of every three refinances were high-cost loans, putting all residents of these cities at “high risk” of receiving a high-cost loan when refinancing. (The second part of the previous sentence is a real stretch that is not supported by any evidence contained in the study.) The cities with the highest rates of high-cost lending included 18 in the South (including Texas) and 16 in the Midwest, as well as many of the smaller cities that are in this report.

These cities will face the largest overall difficulties when mortgage interest rates reset on the estimated 70% of high-cost loans with adjustable rates. As explained in the introduction, homeowners could face increases of several hundred dollars in their monthly payments in the next few years.

CITIES WITH THE GREATEST INCIDENCE OF HIGH-COST REFINANCE LOANS 2005					
Rank	Metropolitan Area	State	Total Refinance Loans	# High-Cost Loans	% High-Cost
1	JACKSON	MS	1,681	878	52.2%
2	BROWNSVILLE	TX	1,637	850	51.9%
3	MEMPHIS	TN	7,435	3,664	49.3%
4	SPRINGFIELD	IL	971	464	47.8%
5	LAREDO	TX	736	351	47.7%
5	EL PASO	TX	3,997	1,908	47.7%
7	MCALLEN	TX	2,706	1,278	47.2%
8	HOUMA	LA	813	380	46.7%
9	BIRMINGHAM	AL	7,026	3,195	45.5%
9	DETROIT	MI	18,111	8,241	45.5%
11	CHATTANOOGA, TN-GA	TN	3,164	1,407	44.5%
12	SHREVEPORT	LA	1,972	871	44.2%
13	ERIE	PA	1,216	535	44.0%
14	TULSA	OK	4,614	2,026	43.9%
14	OMAHA	NE	5,947	2,611	43.9%
16	WACO	TX	949	414	43.6%
17	MONTGOMERY	AL	1,843	800	43.4%
18	BATON ROUGE	LA	3,720	1,602	43.1%
19	LAS CRUCES	NM	953	410	43.0%
20	OKLAHOMA CITY	OK	6,983	2,986	42.8%
21	CORPUS CHRISTI	TX	1,918	813	42.4%
22	NEW ORLEANS	LA	6,885	2,817	40.9%
23	TOLEDO	OH	3,581	1,443	40.3%
24	FLINT	MI	3,984	1,603	40.2%
24	GARY	IN	5,239	2,104	40.2%

26	WICHITA	KS	2,872	1,135	39.5%
27	COLUMBIA	SC	4,605	1,803	39.2%
28	ROCHESTER	NY	4,695	1,819	38.7%
29	LAKE CHARLES	LA	808	312	38.6%
30	ALBANY	NY	5,207	2,001	38.4%
31	MANSFIELD	OH	819	311	38.0%
32	JACKSONVILLE,	FL	13,882	5,249	37.8%
33	SAN ANTONIO	TX	9,738	3,622	37.2%
34	BEAUMONT-PORT ARTHUR	TX	1,197	443	37.0%
35	SPRINGFIELD	MA	5,373	1,973	36.7%
36	SALISBURY	MD	968	349	36.1%
37	PINE BLUFF	AR	281	101	35.9%
37	LANSING-EAST LANSING	MI	4,413	1,586	35.9%
39	MILWAUKEE	WI	14,962	5,335	35.7%
40	BUFFALO	NY	4,475	1,587	35.5%
40	ST. LOUIS,	IL	28,260	10,041	35.5%
42	GRAND RAPIDS	MI	6,687	2,367	35.4%
43	PITTSBURGH	PA	15,913	5,544	34.8%
44	CANTON-MASSILLON	OH	3,283	1,132	34.5%
45	DAYTON	OH	6,605	2,263	34.3%
46	SCRANTON--WILKES-BARRE	PA	4,107	1,393	33.9%
46	CINCINNATI	OH	15,569	5,277	33.9%
48	FORT WAYNE	IN	3,496	1,182	33.8%
49	INDIANAPOLIS	IN	15,122	5,054	33.4%

There were only thirteen metropolitan areas where homeowners were at a “moderate risk” of receiving a high-cost loan when refinancing. In these areas, less than one out of every five borrowers received a high-cost loan. In addition, there were only four metropolitan areas that had a “low risk” of high-cost refinance lending for homeowners. . In these areas less than one out of ten refinances were high-cost loans. These areas are concentrated in California.

CITIES WITH THE LOWEST INCIDENCE OF HIGH-COST REFINANCE LOANS 2005					
Rank	Metropolitan Area	State	Total Refinance Loans	# High-Cost Loans	% High-Cost
1	SAN FRANCISCO-	CA	21,849	1,357	6.2%
2	SAN JOSE-	CA	26,198	2,102	8.0%
3	SANTA CRUZ	CA	3,524	304	8.6%
4	SANTA ANA	CA	37,031	3,602	9.7%
5	SAN DIEGO-	CA	41,415	4,537	11.0%
6	OAKLAND-	CA	41,157	5,764	14.0%
7	FLAGSTAFF,	AZ	1,298	195	15.0%
8	BETHESDA	MD	17,304	2,793	16.1%
9	RENO	NV	7,250	1,207	16.6%

9	BRIDGEPORT	CT	10,205	1,697	16.6%
11	SEATTLE	WA	34,393	5,991	17.4%
12	LOS ANGELES	CA	120,621	21,746	18.0%
13	RALEIGH	NC	8,928	1,766	19.8%

INCIDENCE OF HIGH-COST REFINANCE LENDING TO AFRICAN-AMERICANS

In 53 of the metropolitan areas high cost loans made up more than half of the refinances to African-Americans, meaning that African-American homeowners are at a “very high risk” of receiving a high-cost loan when refinancing. As with the higher incidences of high-cost lending to homeowners of all races, a larger number of these cities are in the South and Midwest. In fact, 26 of the 53 with high-incidences to African-Americans are in the South with 19 in the Midwest¹⁷.

GREATEST INCIDENCE OF HIGH-COST REFINANCE LENDING TO AFRICAN-AMERICANS					
Rank	Metropolitan Area	State	Total # Loans to African Americans	# High-Cost Loans to African Americans	% High-Cost
1	Omaha	NE	358	274	76.5%
2	Erie	PA	62	47	75.8%
3	Waco	TX	95	71	74.7%
4	Jackson	MS	564	410	72.7%
5	Birmingham	AL	1,790	1,291	72.1%
6	Houma	LA	72	51	70.8%
7	Memphis	TN	2,501	1,713	68.5%
8	Oklahoma City	OK	538	368	68.4%
9	Shreveport	LA	470	320	68.1%
10	Tulsa	OK	262	177	67.6%
11	Detroit	MI	5,817	3,911	67.2%
12	Baton Rouge	LA	910	611	67.1%
13	Gary	IN	720	482	66.9%
14	Toledo	OH	328	218	66.5%
15	Milwaukee	WI	2,239	1,487	66.4%
16	Montgomery	AL	546	360	65.9%
17	Beaumont-Port Arthur	TX	185	119	64.3%
18	Chattanooga	TN	367	234	63.8%
19	Springfield	IL	66	42	63.6%
20	Buffalo	NY	243	152	62.6%
21	Jacksonville	FL	1,917	1,193	62.2%
22	Rochester	NY	303	188	62.0%
23	St. Louis	IL	3,665	2,266	61.8%
24	Lake Charles	LA	133	82	61.7%

¹⁷ Excluded from these rankings were metropolitan areas where less than 50 loans were made to African-Americans: Corpus Christi, Sioux Falls, Salt Lake City, Las Cruces, Flagstaff, McAllen, Santa Cruz, Laredo, Brownsville-Harlingen, Lincoln and Cedar Rapids.

25	Flint	MI	534	328	61.4%
26	Kansas City	MO	1,644	998	60.7%
27	Pittsburgh	PA	541	328	60.6%
28	Columbia	SC	1,082	651	60.2%
28	Charleston	SC	984	592	60.2%
29	New Orleans	LA	1,846	1,110	60.1%
30	Canton	OH	142	85	59.9%
31	Dayton	OH	713	415	58.2%
31	Grand Rapids	MI	407	237	58.2%
31	Fort Wayne	IN	249	145	58.2%
32	Salisbury	MD	158	92	58.2%
33	Akron	OH	418	240	57.4%
34	El Paso	TX	93	53	57.0%
34	Little Rock	AR	375	213	56.8%
35	Lansing	MI	308	175	56.8%
36	Daytona Beach	FL	475	269	56.6%
37	Wichita	KS	151	85	56.3%
38	Houston	TX	3,805	2,117	55.6%
39	Indianapolis	IN	1,542	858	55.6%
40	Tampa-St. Petersburg	FL	2,509	1,390	55.4%
40	Tallahassee	FL	565	313	55.4%
41	Chicago	IL	14,151	7,769	54.9%
42	Harrisburg	PA	218	118	54.1%
42	Pine Bluff	AR	85	46	54.1%
43	Minneapolis-St. Paul	MN	1,389	739	53.2%
44	Springfield	MA	313	165	52.7%
45	Colorado Springs	CO	320	168	52.5%
46	Anchorage	AK	143	75	52.4%
47	Cincinnati	OH	1,245	647	52.0%
48	Worcester	MA	241	125	51.9%
49	Louisville	KY	868	450	51.8%
50	Dallas	TX	2,467	1,276	51.7%
51	Nashville	TN	1,151	594	51.6%
52	Richmond	VA	3,815	1,964	51.5%
53	Columbus	OH	1,444	740	51.2%

In none of the examined metropolitan areas were African-American homeowners at a low risk of receiving a high-cost loan (less than one of ten refinances). There are only three cities where African-Americans were at “moderate risk”, where high-cost loans made up less than one out of five refinances. . All three cities are in California.

GREATEST INCIDENCE OF HIGH-COST REFINANCE LENDING TO AFRICAN-AMERICANS					
Rank	Metropolitan Area	State	Total # Loans to African Americans	# High-Cost Loans to African Americans	% High-Cost
1	San Jose	CA	461	74	16.1%
2	San Francisco	CA	495	89	18.0%
3	Santa Ana- Anaheim-Irvine	CA	435	79	18.2%

INCIDENCE OF HIGH-COST REFINANCE LENDING TO LATINOS

The 25 areas with the greatest incidences of high-cost loans to Latinos were concentrated in the Mid-South including 11 metropolitan areas in Texas, Louisiana and Oklahoma.¹⁸ In these areas, at least two out of five refinances to Latinos were high-cost loans. Included in these 25 metropolitan areas are 11 where more than half of all refinances to Latinos were high-cost loans.

CITIES WITH GREATEST INCIDENCE OF HIGH COST LENDING IN REFINANCE LOANS TO LATINOS					
Rank	Metropolitan Area	State	Total # Loans to Latinos	# High-Cost Loans to Latinos	Latino % High-Cost
1	Baton Rouge	LA	78	52	66.7%
2	Corpus Christi	TX	772	451	58.4%
3	Rochester	NY	105	61	58.1%
4	Brownsville-Harlingen	TX	1,243	712	57.3%
5	Shreveport	LA	60	33	55.0%
6	Omaha	NE	208	113	54.3%
7	Buffalo	NY	66	35	53.0%
8	Las Cruces	NM	488	258	52.9%
9	Springfield	MA	484	255	52.7%
10	El Paso	TX	2,874	1,469	51.1%
11	Milwaukee	WI	840	423	50.4%
12	Laredo	TX	620	308	49.7%
13	Anchorage	AK	97	48	49.5%
14	San Antonio	TX	3,946	1,931	48.9%
15	Birmingham	AL	84	41	48.8%
16	Waco	TX	104	50	48.1%
17	McAllen	TX	2,220	1,065	48.0%
18	Oklahoma City	OK	252	120	47.6%
19	Providence	RI	1,151	545	47.4%
20	Toledo	OH	112	53	47.3%
21	Grand Rapids	MI	325	153	47.1%
22	New Orleans	LA	256	119	46.5%
23	Worcester	MA	402	186	46.3%
24	Lansing	MI	161	74	46.0%
25	Harrisburg	PA	51	23	45.1%

¹⁸ These rankings do not include cities with less than 50 total refinance loans to Latinos: Lincoln, Chattanooga, Flint, Akron, Cedar Rapids, Little Rock, Salisbury, Canton, Erie, Jackson, Montgomery, Sioux Falls, Springfield (Ill.), Houma, Lake Charles, Mansfield and Pine Bluff.

There were only 10 metropolitan areas where less than 20% of the refinances to Latino homeowners were high-cost loans. This includes 5 metropolitan areas in California and 4 in North Carolina.

CITIES WITH LOWEST INCIDENCE OF HIGH COST LENDING IN REFINANCE LOANS TO LATINOS					
Rank	Metropolitan Area	State	Total # Loans to Latinos	# High-Cost Loans to Latinos	Latino % High-Cost
1	Charlotte	NC	508	66	13.0%
2	San Francisco	CA	1,801	252	14.0%
3	Raleigh	NC	204	29	14.2%
4	Winston-Salem	NC	86	13	15.1%
5	Flagstaff	AZ	120	19	15.8%
6	San Jose	CA	4,047	696	17.2%
6	Durham	NC	93	16	17.2%
8	San Diego	CA	6,853	1,216	17.7%
9	Santa Cruz	CA	500	89	17.8%
10	Santa Ana- Anaheim-Irvine	CA	5,815	1,134	19.5%

DISPARITIES IN REFINANCE LENDING BY HOMEOWNER RACE & ETHNICITY

There are large disparities between borrowers of different races and ethnicity in their rates of high-cost lending. In San Francisco, 18% of the refinance loans to African-Americans were high-cost loans compared to only 3.3% of the refinances to whites. In comparative terms, African-Americans in San Francisco were 5.5 times more likely than whites to receive a high-cost loan when refinancing. In six other metropolitan areas African-Americans were at least three times more likely than whites to receive a high-cost loan. There were 18 metropolitan areas where African-Americans were at least 2.5 times more likely than whites to receive a high-cost loan when refinancing, and there were 50 metropolitan areas where African-Americans were at least two times more likely.

Although overall rates of high-cost lending in California tended to be among the lowest of the metropolitan areas examined, the disparities between African-Americans and whites in six California metropolitan areas are among the highest in this study.

GREATEST DISPARITY IN HIGH COST LENDING BETWEEN AFRICAN AMERICAN AND WHITE HOMEOWNERS WHEN REFINANCING					
Rank	Metropolitan Area	State	African-American % High-cost	White % High-cost	Disparity
1	San Francisco	CA	18.0%	3.3%	5.5
2	Oakland	CA	30.8%	8.3%	3.7
3	Bridgeport	CT	37.0%	10.5%	3.5
4	Trenton	NJ	45.5%	14.4%	3.2
5	Raleigh	NC	41.4%	13.5%	3.1
5	Los Angeles	CA	32.3%	10.4%	3.1
7	San Jose	CA	16.1%	5.2%	3.1
8	San Diego	CA	21.4%	7.4%	2.9
9	Santa Ana- Anaheim-Irvine	CA	18.2%	6.4%	2.8
9	Washington, D.C.	DC	33.9%	12.3%	2.8
11	Chicago	IL	54.9%	20.7%	2.7
11	Durham	NC	45.0%	16.9%	2.7
11	Flagstaff	AZ	33.3%	12.5%	2.7
11	Honolulu	HI	36.5%	13.5%	2.7
11	Philadelphia	PA	48.2%	17.7%	2.7
16	Austin	TX	46.9%	17.8%	2.6
16	Charleston	SC	60.2%	23.0%	2.6
16	Tallahassee	FL	55.4%	21.2%	2.6

There were no metropolitan areas where African-Americans were less likely than whites to receive a high-cost loan when refinancing. There were only six metropolitan areas where the disparity was 1.5 or less.

LEAST DISPARITY IN HIGH COST LENDING BETWEEN AFRICAN AMERICAN AND WHITE HOMEOWNERS WHEN REFINANCING

Rank	Metropolitan Area	State	African American % High-Cost	White % High-Cost	Disparity
1	Mansfield	OH	44.90%	37.30%	1.2
2	Albany	NY	48.70%	34.00%	1.4
2	Springfield	IL	63.60%	46.70%	1.4
4	Modesto	CA	36.50%	23.60%	1.5
4	Providence	RI	44.00%	29.50%	1.5
4	Wichita	KS	56.30%	37.60%	1.5

DISPARITIES IN HIGH-COST REFINANCE LENDING BY BORROWER RACE, ETHNICITY, AND INCOME LEVEL

Even when you compare the rates of high-cost lending among borrowers of similar income levels, minorities are more likely to receive high-cost loans than whites and the disparities are particularly large among upper-income levels¹⁹. In all of the metropolitan areas we examined, upper-income African-Americans were more likely to receive a high-cost loan than upper-income whites²⁰.

There were 12 metropolitan areas where upper-income African-Americans were at least three times more likely to receive a high-cost loan than upper-income whites. This includes five metropolitan areas in California.

LARGEST DISPARITY IN HIGH-COST REFINANCE LENDING BETWEEN UPPER-INCOME AFRICAN-AMERICANS AND UPPER-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income African-Americans	% High-cost to Upper-income Whites	Disparity
1	San Francisco	CA	20.7%	2.9%	7.1
2	Bridgeport-	CT	36.4%	7.2%	5.1
3	Oakland-	CA	30.1%	7.1%	4.2
4	Trenton	NJ	38.5%	10.0%	3.9
5	Raleigh-	NC	40.8%	11.1%	3.7
6	San Jose-	CA	16.1%	4.6%	3.5
6	Honolulu	HI	42.1%	12.2%	3.5
8	Los Angeles	CA	32.4%	9.4%	3.4
9	Washington, D.C.-	DC	27.7%	8.5%	3.3
10	Charleston-	SC	52.9%	16.4%	3.2
11	San Diego	CA	21.8%	7.1%	3.1
12	Durham	NC	41.0%	13.1%	3.1

There were eleven metropolitan areas²¹ where upper-income Latinos were at least two and a half times more likely than upper-income whites to receive a high-cost loan when refinancing. These

¹⁹ Income levels are determined based on the area median income. Upper-income is defined as an income level 120% or greater than the area median.

²⁰ We did not include in this comparison any city where less than 50 refinance loans were made to either upper-income African-Americans or at least 50 to upper-income whites. Cities excluded from this comparison: Albany, Albuquerque, Anchorage, Brownsville-Harlingen, Canton, Cedar Rapids, Corpus Christi, Des Moines, Erie, Flagstaff, Houma, Lake Charles, Laredo, Las Cruces, Lincoln, Madison, Mansfield, McAllen, Norwich-New London, Pine Bluff, Reading, Reno, Rochester, Salt Lake City, Santa Cruz, Scranton-Wilkes-Barre, Sioux Falls, Springfield (Ill.), Waco and Wichita.

²¹ We did not include in this comparison any city where less than 50 refinance loans were made to upper-income Latinos or at least 50 to upper-income whites. These cities were: Akron, Albany, Anchorage, Baton Rouge, Beaumont, Birmingham, Buffalo, Canton, Cedar Rapids, Charleston, Chattanooga, Columbia, Columbus, Dayton, Des Moines, Durham, Erie, Flint, Fort Wayne, Grand Rapids, Harrisburg, Houma, Jackson, Lake Charles, Lansing,

metropolitan areas were all in California with the exception of Bethesda, MD, Washington D.C., Austin, TX; and Bridgeport, CT.

LARGEST DISPARITY IN HIGH-COST REFINANCE LENDING BETWEEN UPPER-INCOME LATINOS AND UPPER-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income Latinos	% High-cost to Upper-income Whites	Disparity
1	San Francisco	CA	16.0%	2.9%	5.5
2	San Jose	CA	17.2%	4.6%	3.7
3	Bethesda	MD	23.5%	6.6%	3.6
3	Santa Ana	CA	20.5%	5.7%	3.6
5	Oakland-	CA	24.0%	7.1%	3.4
6	Santa Cruz	CA	21.8%	7.4%	2.9
7	Los Angeles	CA	25.9%	9.4%	2.8
7	Washington	DC	23.8%	8.5%	2.8
9	Austin	TX	35.0%	13.6%	2.6
9	Bridgeport	CT	18.7%	7.2%	2.6
11	San Diego	CA	17.8%	7.1%	2.5

There were just three metropolitan areas where upper-income whites were more likely than upper-income Latinos to receive a high-cost loan: Cincinnati, OH; Raleigh, NC and Charlotte, NC.

In many metropolitan areas, upper-income minorities were more likely to receive a high-cost loan than were lower income whites. In 84 metropolitan areas upper-income African-American homeowners were more likely than low-income white homeowners to receive a high cost loan when refinancing. In 25 of these metropolitan areas, upper-income African-Americans were at least twice as likely as low-income whites to receive a high cost refinance loan.

LARGEST DISPARITY IN HIGH-COST REFINANCE LENDING BETWEEN UPPER-INCOME AFRICAN-AMERICANS AND LOW-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income African-Americans	% High-cost to Low-income Whites	Disparity
1	Pine Bluff	AR	65.5%	10.0%	6.6
2	San Francisco	CA	20.7%	4.9%	4.2
3	Oakland	CA	30.1%	7.9%	3.8
4	Los Angeles	CA	32.4%	8.5%	3.8
5	Little Rock	AR	61.5%	17.2%	3.6
6	Santa Ana-	CA	15.0%	5.4%	2.8

Laredo, Lincoln, Little Rock, Louisville, Madison, Mansfield, Memphis, Montgomery, Nashville, Norwich, Omaha, Palm Beach, Pine Bluff, Pittsburgh, Reading, Rochester, Salisbury, Scranton-Wilkes-Barre, Shreveport, Sioux Falls, Springfield (Ill.), Toledo, Trenton, Tulsa, Waco, Wichita, Wilmington, and Winston-Salem.

7	San Jose	CA	16.1%	5.7%	2.8
8	Bridgeport	CT	36.4%	12.8%	2.8
9	Modesto	CA	36.6%	13.4%	2.7
10	Houma	LA	80.0%	29.8%	2.7
11	Raleigh	NC	40.8%	15.7%	2.6
12	West Palm Beach	FL	41.8%	17.7%	2.4
13	Sacramento	CA	36.2%	14.8%	2.4
14	Corpus Christi	TX	80.0%	35.0%	2.3
15	Riverside-San Bernardino	CA	38.7%	18.0%	2.2
16	Chicago	IL	49.2%	22.5%	2.2
17	Worcester	MA	53.6%	25.3%	2.1
18	Portland	OR	46.9%	22.3%	2.1
19	Minneapolis-St. Paul	MN	51.4%	25.0%	2.1
20	Durham	NC	41.0%	19.8%	2.1
21	Salt Lake City	UT	71.4%	36.6%	2.0
22	Montgomery	AL	61.4%	31.4%	2.0
23	Las Cruces	NM	33.3%	16.7%	2.0
24	Edison	NJ	33.0%	16.3%	2.0
25	Brownsville-Harlingen	TX	100.0%	50.0%	2.0

In 41 metropolitan areas upper-income Latinos were more likely than low-income whites to receive a high cost refinance loan. In 11 of these metropolitan areas, upper-income Latino homeowners were more than twice as likely as low-income whites to receive a high cost loan when refinancing.

LARGEST DISPARITY IN HIGH-COST REFINANCE LENDING BETWEEN UPPER-INCOME LATINOS AND LOW-INCOME WHITES

Rank	Metropolitan Area	State	% High-cost to Upper-income Latinos	% High-cost to Low-income Whites	Disparity
1	Santa Ana	CA	20.5%	5.4%	3.8
2	San Francisco	CA	16.0%	4.9%	3.3
3	Los Angeles	MD	25.9%	8.5%	3.0
4	Oakland	CA	24.0%	7.9%	3.0
5	San Jose	CA	17.2%	5.7%	3.0
6	San Diego	CA	17.8%	6.2%	2.9
7	Modesto	CA	35.2%	13.4%	2.6
8	New York-White Plains-Wayne	NY-NJ	34.0%	13.8%	2.5
9	Stockton	CA	35.3%	15.5%	2.3
10	Sacramento	CA	29.5%	14.8%	2.0
11	Nassau-Suffolk	NY	36.1%	18.5%	2.0

HIGH-COST REFINANCE LENDING IN MINORITY COMMUNITIES

Another way to measure the impact of high-cost loans and the potential impact of the rate-reset shock is by looking at the communities where the loans are made. We examined the incidence of high-cost refinance loans in neighborhoods with different levels of minority population. Even in the marketing of high-cost loans we have seen anecdotal evidence of minority communities receiving a greater number of marketing offers from high-cost lenders, less access to banking institutions, and greater usage of fringe financial institutions.

We found a concentration of high-cost loans in minority neighborhoods²². In 7 metropolitan areas, at least 70% of the refinance loans in minority communities were high-cost loans. In 62 metropolitan areas, high-cost loans represented over half of the refinance loans originated in minority neighborhoods. Given that an estimated 73% of high-cost loans have adjustable rates, minority neighborhoods in these metropolitan areas should be considered at high-risk for delinquencies and foreclosures when the rates reset.

GREATEST INCIDENCE OF HIGH-COST REFINANCE LENDING IN MINORITY NEIGHBORHOODS (CENSUS TRACTS WITH 50-100% MINORITY POPULATION)					
Rank	Metropolitan Area	State	# Refinance Loans	# High-Cost Refinance Loans	% High-cost
1	Birmingham	AL	1,470	1,102	75.0%
2	Omaha	NE	420	312	74.3%
3	Flint	MI	450	334	74.2%
4	Memphis	TN	2,613	1,894	72.5%
5	Canton	OH	56	40	71.4%
6	Jackson	MS	579	409	70.6%
7	Tulsa	OK	247	174	70.4%
8	Jacksonville	FL	1,364	951	69.7%
9	Detroit-	MI	6,916	4,721	68.3%
10	Toledo	OH	337	229	68.0%
10	Chattanooga	TN	309	210	68.0%
12	Shreveport-	LA	343	232	67.6%
13	Rochester	NY	365	242	66.3%
14	Fort Wayne	IN	307	203	66.1%
15	Lake Charles	LA	119	78	65.5%
16	Gary	IN	953	621	65.2%
17	Waco	TX	165	107	64.8%
18	Beaumont-Port Arthur	TX	203	130	64.0%
19	Oklahoma City	OK	573	363	63.4%
20	Milwaukee	WI	3,452	2,162	62.6%

²² Minority neighborhoods are defined as census tracts in which minority residents make up more than half of the population. Excluded from these rankings were metropolitan areas where less than 50 refinance loans were made in neighborhoods with at least 50% minority population: Cedar Rapids, Erie, Houma, Lincoln, Mansfield, Madison, Scranton-Wilkes-Barre, Sioux Falls, and Springfield.

21	Baton Rouge	LA	963	597	62.0%
22	Montgomery	AL	494	306	61.9%
23	St. Louis	MO	3,562	2,202	61.8%
24	Des Moines	IA	83	51	61.4%
25	Buffalo-Niagara Falls	NY	275	168	61.1%
26	Deltona-Daytona Beach-Ormond Beach	FL	346	211	61.0%
26	Pittsburgh	PA	392	239	61.0%
28	Kansas City	MO	1,769	1,075	60.8%
29	Wichita	KS	145	87	60.0%

There is a large disparity in the level of high cost refinance loans made to homeowners in minority neighborhoods compared to the level to homeowners in predominantly white neighborhoods²³. In 25 metropolitan areas, homeowners in minority neighborhoods were two and a half times more likely than homeowners in white neighborhoods to receive a high cost refinance loan. In nine of these metropolitan areas, homeowners in minority neighborhoods are over three times more likely to receive a high cost refinance loan than are homeowners in white neighborhoods, and in seven of these metropolitan areas homeowners in minority neighborhoods are at least four times more likely.

GREATEST DISPARITY IN HIGH-COST REFINANCE LOANS BY MINORITY POPULATION IN NEIGHBORHOOD					
Rank	Metropolitan Area	State	% High-Cost Loans		Disparity
			0-20% Minority Population	50-100% Minority Population	
1	Los Angeles-	CA	3.6%	22.5%	6.2
2	San Jose-	CA	1.9%	10.5%	5.5
3	Oakland-	CA	3.9%	19.2%	4.9
4	Santa Ana-	CA	3.6%	16.8%	4.7
5	Albuquerque	NM	9.2%	40.2%	4.4
6	San Francisco-	CA	2.6%	10.7%	4.1
7	Bridgeport-	CT	9.1%	36.6%	4.0
8	Tucson	AZ	14.4%	44.8%	3.1
9	San Diego-	CA	5.4%	16.2%	3.0
10	Las Vegas-	NV	15.1%	43.0%	2.9
11	Raleigh-	NC	14.1%	41.4%	2.9
12	Corpus Christi	TX	21.4%	59.5%	2.8
12	Palm Beach	FL	20.7%	57.6%	2.8
12	Richmond	VA	18.6%	52.0%	2.8
12	Tampa-St. Petersburg	FL	15.4%	42.7%	2.8
12	Santa Cruz-	CA	6.5%	18.1%	2.8

²³ Predominantly white neighborhoods are defined as census tracts in which minority residents make up less than 20 percent of the population.

17	Philadelphia	PA	19.9%	53.4%	2.7
17	Virginia Beach-Norfolk-Newport News	VA	17.1%	46.0%	2.7
17	Flagstaff	AZ	8.9%	23.7%	2.7
20	Jacksonville	FL	26.8%	69.7%	2.6
20	Pine Bluff	AR	21.8%	57.1%	2.6
20	Baltimore-	MD	20.0%	52.7%	2.6
20	Austin-	TX	16.6%	43.7%	2.6
20	Fort Lauderdale-	FL	14.1%	37.2%	2.6
25	Milwaukee-	WI	24.8%	62.6%	2.5
25	Durham	NC	17.3%	43.5%	2.5
25	Newark-Union	NJ	17.6%	43.4%	2.5

INCIDENCE OF HIGH-COST HOME PURCHASE LENDING IN DIFFERENT METROPOLITAN AREAS

Although the refinance mortgage market has boomed in recent years and is the traditional domain of higher-cost subprime lenders, these high-cost loans are a growing part of the home purchase loan market. More importantly, nontraditional loans are more likely to be originated for home purchase: 79% of interest only mortgages and 58% of payment option loans were used to finance the purchase of a home.²⁴ This furthers the argument that exotic loans are helping to fuel increased housing costs which then require more creative financing to make the homes affordable to homebuyers. It's a cycle that former Federal Reserve Chairman Alan Greenspan expressed concern over in 2005 saying that home prices have been pushed up to "unsustainable levels."²⁵

In Detroit, more than half the home purchase loans originated were high-cost loans making the city particularly vulnerable to rate shock. There were 23 metropolitan areas where high-cost loans represent at least one of three loans made to homebuyers.

METROPOLITAN AREAS WITH THE GREATEST LEVELS OF HIGH-COST HOME PURCHASE LENDING					
Rank	Metropolitan Area	State	All Purchase	High-Cost	% High-Cost
1	Detroit	MI	9,678	5,246	54.2%
2	Memphis	TN	8,078	3,839	47.5%
3	Flint	MI	1,850	811	43.8%
4	McAllen	TX	2,270	957	42.2%
5	Springfield	MA	3,011	1,248	41.4%
6	El Paso	TX	3,056	1,243	40.7%
7	Jackson	MS	1,634	650	39.8%
8	Laredo	TX	764	303	39.7%
9	Stockton	CA	6,988	2,733	39.1%
10	Scranton-Wilkes-Barre	PA	2,433	949	39.0%
11	Pine Bluff	AR	160	62	38.8%
12	Canton	OH	1,966	754	38.4%
13	Modesto	CA	5,746	2,196	38.2%
14	Gary	IN	4,086	1,514	37.1%
15	Bakersfield	CA	7,912	2,784	35.2%
16	Providence	RI	8,312	2,884	34.7%
17	Birmingham	AL	5,440	1,843	33.9%
18	Fresno	CA	6,720	2,266	33.7%
18	Little Rock	AR	2,479	835	33.7%

²⁴ Allen J. Fishbein and Patrick Woodall, "Exotic or Toxic? An Examination of the Non-Traditional Mortgage Market for Consumers and Lenders," Consumer Federation of America, May 2006.

²⁵ Nell Henderson & Kirstin Downey, "Greenspan Wary of Risky Mortgages," The Washington Post, June 10, 2005.

18	Waco	TX	809	273	33.7%
21	Chattanooga	TN	2,513	845	33.6%
21	Cleveland	OH	8,886	2,990	33.6%
23	Lansing	MI	2,024	679	33.5%

High cost loans represented less than one out of ten purchase loans in just two metropolitan areas and less than one out of every seven home purchase loans in just eleven metropolitan areas.

METROPOLITAN AREAS WITH THE LOWEST LEVELS OF HIGH-COST HOME PURCHASE LENDING					
Rank	Metropolitan Area	State	All Purchase	High-Cost	% High-Cost
1	Flagstaff	AZ	1,145	82	7.2%
2	San Francisco	CA	12,682	1,217	9.6%
3	Bridgeport	CT	7,646	875	11.4%
4	Edison	NJ	17,149	1,992	11.6%
5	Reno	NV	5,356	634	11.8%
6	New York	NY	58,932	7,109	12.1%
7	Bethesda-	MD	9,858	1,251	12.7%
8	Charleston	SC	8,212	1,054	12.8%
9	Seattle	WA	27,803	3,707	13.3%
10	Madison	WI	2,565	343	13.4%
11	San Jose	CA	17,223	2,427	14.1%

INCIDENCE OF HIGH-COST PURCHASE LENDING TO AFRICAN-AMERICANS

High-cost loans make up an extremely large percentage of the purchase loans made to African-Americans. High-cost loans represented more than seventy percent of the home purchase loans made to African-Americans in thirteen metropolitan areas, with eight of these areas located in the Midwest. In these metropolitan areas, African-Americans are at a very high-risk for rate reset shock.

GREATEST LEVEL OF HIGH-COST HOME PURCHASE LENDING TO AFRICAN-AMERICANS					
Rank	Metropolitan Area	State	All Purchase	High-Cost	% High-Cost
1	Detroit	MI	3,344	2,792	83.5%
2	Gary	IN	563	450	79.9%
3	Memphis	TN	3,187	2,493	78.2%

4	Cleveland	OH	1,453	1,133	78.0%
4	Milwaukee	WI	905	706	78.0%
6	Fort Wayne	IN	117	90	76.9%
7	Akron	OH	311	229	73.6%
8	Waco	TX	55	40	72.7%
9	Springfield	MA	252	183	72.6%
10	Jackson	MS	501	362	72.3%
11	Grand Rapids	MI	173	124	71.7%
12	Flint	MI	251	179	71.3%
13	Chattanooga	TN	154	108	70.1%

There were only six metropolitan areas where less than one of three home purchase loans to African-Americans were high-cost loans. The lowest rate was in San Francisco where one in five home purchase loans to African-Americans were high-cost loans.

LOWEST LEVEL OF HIGH-COST HOME PURCHASE LENDING TO AFRICAN-AMERICANS					
Rank	Metropolitan Area	State	All Purchase	High-Cost	% High-Cost
1	San Francisco	CA	123	26	21.1%
2	San Jose	CA	213	61	28.6%
3	Edison	NJ	603	183	30.3%
4	Albuquerque	NM	111	34	30.6%
5	Bethesda-Gaithersburg-Frederick	MD	786	249	31.7%
6	Santa Ana- Anaheim-Irvine	CA	217	72	33.2%

INCIDENCE OF HIGH-COST PURCHASE LENDING TO LATINOS

There were 14 metropolitan areas where more than half of all home purchase loans to Latinos were high-cost loans. In two metropolitan areas at least three of five home purchase loans to Latinos were high-cost: Providence, RI and Portland, OR. In these metropolitan areas, Latinos are at a high-risk for rate reset shock.

GREATEST LEVEL OF HIGH-COST HOME PURCHASE LENDING TO LATINOS					
Rank	Metropolitan Area	State	All Purchase	High-Cost	% High-Cost
1	Providence	RI	766	471	61.5%
2	Portland	OR	1,332	803	60.3%
3	Stockton	CA	2,236	1,303	58.3%
4	Detroit	MI	328	190	57.9%
5	Norwich-New London	CT	83	47	56.6%
6	Scranton-Wilkes-Barre	PA	324	183	56.5%
7	Springfield	MA	444	245	55.2%
8	Milwaukee	WI	471	259	55.0%
9	Lansing	MI	74	40	54.1%
9	Modesto	CA	2,242	1,214	54.1%
11	Corpus Christi	TX	689	367	53.3%
12	Oakland	CA	4,228	2,221	52.5%
13	Fresno	CA	2,136	1,100	51.5%
14	Fort Wayne	IN	90	46	51.1%

There were only three metropolitan areas where less than one in five home purchase loans to Latinos were high-cost loans.

LOWEST LEVEL OF HIGH-COST HOME PURCHASE LENDING TO LATINOS					
Rank	Metropolitan Area	State	All Purchase	High-Cost	% High-Cost
1	Flagstaff	AZ	51	8	15.7%
2	Charleston	SC	190	31	16.3%
3	Tallahassee	FL	124	24	19.4%

DISPARITIES IN THE COST OF LENDING BY HOMEOWNER RACE & ETHNICITY

While there is clearly a high extent of high-cost lending to minority homebuyers, the full significance of this level can only be seen when viewed in comparison to the rate of high-cost lending to white homebuyers. There were ten metropolitan areas where African-American homebuyers were at least 4.5 times more likely than whites to receive a high-cost loan. The disparity is the largest in Durham, NC where 51.2% of home purchase loans to African-Americans were high-cost loans compared to only 7.4% of the home purchase loans to whites. In comparative terms, in Durham African-Americans were 6.9 times more likely than whites to receive a high-cost home purchase loan.

LARGEST DISPARITY IN HIGH-COST HOME PURCHASE LENDING TO AFRICAN-AMERICANS COMPARED TO WHITES					
Rank	Metropolitan Area	State	African-American % High-Cost	White % High-Cost	Disparity
1	Durham	NC	51.2%	7.4%	6.9
2	New York	NY	36.4%	6.1%	6.0
3	Bethesda-	MD	31.7%	5.8%	5.5
4	San Francisco	CA	21.1%	3.9%	5.4
5	Washington, D.C.	DC	41.4%	8.0%	5.2
6	Bridgeport	CT	34.4%	6.9%	5.0
6	Nassau-Suffolk	NY	43.9%	8.8%	5.0
8	Oakland	CA	51.6%	11.0%	4.7
9	Raleigh	NC	57.0%	12.4%	4.6
10	Chicago	IL	64.2%	14.4%	4.5

There were only seven metropolitan areas where African-Americans were less than twice as likely as whites to receive a high-cost loan when buying a home.

LOWEST DISPARITY IN HIGH-COST HOME PURCHASE LENDING TO AFRICAN-AMERICANS COMPARED TO WHITES					
Rank	Metropolitan Area	State	African-American % High-Cost	White % High-Cost	Disparity
1	Canton	OH	64.4%	36.8%	1.8
1	Flint	MI	71.3%	38.8%	1.8
1	Pine Bluff	AR	48.5%	27.1%	1.8
1	Scranton-Wilkes-Barre	PA	63.0%	35.2%	1.8
2	Modesto	CA	56.2%	29.3%	1.9
2	Salt Lake City	UT	44.4%	23.4%	1.9
2	Modesto	CA	56.2%	29.3%	1.9

There were ten metropolitan areas where Latinos were at least four times more likely than whites to receive a high-cost loan when buying a home. In San Francisco, 39.3% of the home purchase loans to Latinos were high-cost loans compared to only 3.9% of the home purchase loans to whites. In comparative terms, in San Francisco Latinos were 10.1 times more likely than whites to receive a high-cost loan when buying a home.

LARGEST DISPARITY IN HIGH-COST HOME PURCHASE LENDING TO LATINOS COMPARED TO WHITES					
Rank	Metropolitan Area	State	Latino % High-Cost	White % High-Cost	Disparity
1	San Francisco	CA	39.3%	3.9%	10.1
2	Bethesda-Gaithersburg-Frederick	MD	40.6%	5.8%	7.0
3	San Jose	CA	44.0%	7.5%	5.9
4	Washington, D.C.	DC	41.4%	8.0%	5.2
5	New York	NY	30.3%	6.1%	5.0
5	Santa Ana- Anaheim-Irvine	CA	41.3%	8.2%	5.0
7	Oakland	CA	52.5%	11.0%	4.8
8	Nassau-Suffolk	NY	39.4%	8.8%	4.5
8	Santa Cruz	CA	43.8%	9.8%	4.5
10	Bridgeport	CT	29.2%	6.9%	4.2

There were eleven metropolitan areas where Latinos were less than 1.5 times as likely as whites to receive a high-cost loan when buying a home and one city where there was no disparity. The lowest disparity was in Little Rock where Latinos were only slightly more likely than whites to receive a high-cost loan. In Dayton, there was no disparity between Latinos and whites.

LOWEST DISPARITY IN HIGH-COST HOME PURCHASE LENDING TO LATINOS COMPARED TO WHITES					
Rank	Metropolitan Area	State	Latino % High-Cost	White % High-Cost	Disparity
1	Little Rock	AR	31.1%	27.2%	1.1
2	Cincinnati	OH	27.6%	23.4%	1.2
2	Memphis	TN	32.1%	26.5%	1.2
4	Beaumont-Port Arthur	TX	33.9%	25.7%	1.3
4	Pittsburgh	PA	29.0%	23.2%	1.3
4	St. Louis	IL	25.9%	20.4%	1.3
7	Fort Worth	TX	35.2%	24.9%	1.4
7	Toledo	OH	36.8%	26.0%	1.4
7	Tulsa	OK	40.2%	29.6%	1.4
7	Wichita	KS	28.9%	20.9%	1.4

DISPARITIES IN HIGH-COST HOME PURCHASE LENDING BY BORROWER RACE, ETHNICITY, AND INCOME LEVELS

Even when you compare the extent of high-cost lending among borrowers of similar income levels, minorities are more likely to receive high-cost loans than whites and the disparities are particularly large among upper-income levels. In addition, in many metropolitan areas upper-income minority borrowers are more likely than low-income whites to receive a high cost loan.

There were sixteen metropolitan areas where upper-income African-Americans were at least five times more likely to receive a high-cost home purchase loan than upper-income whites. The largest disparity was in Durham, NC where 38.7% of the home purchase loans to upper-income African-Americans were high-cost loans compared to only 4.0% of the loans to whites. In comparative terms, this means that in Durham upper-income African-Americans were 9.7 times more likely than upper-income whites to receive a high-cost loan.

LARGEST DISPARITY IN HIGH-COST PURCHASE LENDING BETWEEN UPPER-INCOME AFRICAN-AMERICANS AND UPPER-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income African-Americans	% High-cost to Upper-income Whites	Disparity
1	Durham	NC	38.7%	4.0%	9.7
2	Bridgeport	CT	35.2%	4.4%	8.0
3	New York	NY	44.7%	6.7%	6.7
4	Washington, D.C.	DC	37.4%	6.1%	6.1
5	Bethesda-Gaithersburg-Frederick	MD	24.8%	4.2%	5.9
6	Raleigh	NC	38.6%	6.8%	5.7
7	Newark	NJ	46.2%	8.6%	5.4
7	Milwaukee	WI	62.6%	11.5%	5.4
9	Jackson	MS	60.9%	11.5%	5.3
9	Charleston	SC	35.5%	6.7%	5.3
11	Richmond	VA	38.3%	7.3%	5.2
11	Nassau-Suffolk	NY	45.2%	8.7%	5.2
11	Baltimore	MD	43.0%	8.3%	5.2
11	Atlanta	GA	50.7%	9.7%	5.2
15	Winston-Salem	NC	46.2%	9.2%	5.0
15	San Francisco	CA	19.4%	3.9%	5.0

There were eleven metropolitan areas where upper-income Latinos were at least four times more likely than upper-income whites to receive a high-cost loan when buying a home.

LARGEST DISPARITY IN HIGH-COST PURCHASE LENDING BETWEEN UPPER-INCOME LATINOS AND UPPER-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income Latinos	% High-cost to Upper-income Whites	Disparity
1	San Francisco	CA	41.9%	3.9%	10.7
2	Bethesda-Gaithersburg-Frederick	MD	32.1%	4.2%	7.6
3	Washington	DC	39.6%	6.1%	6.5
4	San Jose	CA	44.4%	7.1%	6.3
5	Bridgeport	CT	25.5%	4.4%	5.8
6	New York	NY	36.3%	6.7%	5.4
7	Santa Ana- Anaheim-Irvine	CA	41.5%	7.8%	5.3
8	Oakland	CA	54.0%	11.0%	4.9
9	Santa Cruz	CA	47.8%	10.5%	4.6
10	Nassau-Suffolk	NY	38.2%	8.7%	4.4
11	Los Angeles	CA	47.0%	11.4%	4.1

In 74 metropolitan areas upper-income African-American homebuyers were more likely than low-income white homeowners to receive a high cost loan. In 17 of these metropolitan areas, upper-income African-Americans were over 3 times more likely than low-income whites to receive a high cost purchase loan.

LARGEST DISPARITY IN HIGH-COST PURCHASE LENDING BETWEEN UPPER-INCOME AFRICAN-AMERICANS AND LOW-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income African-Americans	% High-cost to Low-income Whites	Disparity
1	Los Angeles	CA	50.9%	1.6%	31.8
2	Nassau-Suffolk	NY	45.2%	2.2%	20.5
3	Santa Ana- Anaheim-Irvine	CA	34.5%	1.9%	18.2
4	New York	NY	44.7%	3.9%	11.5
5	Sacramento	CA	56.2%	6.3%	8.9
6	Bethesda-Gaithersburg-Frederick	MD	24.8%	4.0%	6.2
7	San Diego	CA	36.4%	8.0%	4.6
8	Boston	MA	58.6%	15.6%	3.8
9	Virginia Beach-Norfolk-Newport News	VA	33.1%	9.0%	3.7
10	Tucson	AZ	35.2%	10.2%	3.5
11	Chicago	IL	53.0%	15.8%	3.4
12	Albuquerque	NM	32.7%	9.8%	3.3
13	Palm Beach	FL	43.8%	13.7%	3.2
14	Fort Lauderdale	FL	38.5%	12.2%	3.2
15	Charleston	SC	35.5%	11.3%	3.1
16	San Bernardino	CA	56.6%	18.8%	3.0
16	Washington, D.C.	DC	37.4%	12.3%	3.0

In 46 metropolitan areas upper-income Latino homebuyers were more likely than low-income whites to receive a high cost purchase loan. In 10 of these metropolitan areas upper-income Latinos were over three times more likely to receive a high cost purchase loan.

LARGEST DISPARITY IN HIGH-COST PURCHASE LENDING BETWEEN UPPER-INCOME LATINOS AND LOW-INCOME WHITES					
Rank	Metropolitan Area	State	% High-cost to Upper-income Latinos	% High-cost to Low-income Whites	Disparity
1	Los Angeles	CA	47.0%	1.6%	29.4
2	Santa Ana- Anaheim-Irvine	CA	41.5%	1.9%	21.8
3	Nassau-Suffolk	NY	38.2%	2.2%	17.4
4	New York	NY	36.3%	3.9%	9.3
5	Bethesda-Gaithersburg-Frederick	MD	32.1%	4.0%	8.0
6	Sacramento	CA	47.7%	6.3%	7.6
7	San Diego	CA	35.2%	8.0%	4.4
8	Tucson	AZ	35.0%	10.2%	3.4
9	Washington, D.C.	DC	39.6%	12.3%	3.2
10	Boston	MA	48.2%	15.6%	3.1

HIGH-COST HOME PURCHASE LENDING IN MINORITY NEIGHBORHOODS

There was a very large concentration of high-cost loans in minority neighborhoods in many metropolitan areas and particularly in the Midwest²⁶. In fourteen metropolitan areas at least 70% of the home purchase loans in minority neighborhoods were high-cost loans. Given that an estimated 73% of high-cost loans have adjustable rates, minority neighborhoods in these metropolitan areas should be considered at a very high-risk for delinquencies and foreclosures when the rates reset in the next few years.

GREATEST INCIDENCE OF HIGH-COST HOME PURCHASE LENDING IN MINORITY NEIGHBORHOODS					
(CENSUS TRACTS WITH 50-100% MINORITY POPULATION)					
Rank	Metropolitan Area	State	# Purchase Loans	# High-Cost Purchase Loans	% High-Cost
1	Fort Wayne	IN	172	154	89.5%
2	Detroit	MI	3,944	3,292	83.5%
3	Akron	OH	247	205	83.0%
4	Gary	IN	550	452	82.2%
5	Flint	MI	174	142	81.6%
6	Memphis	AR	2,381	1,883	79.1%
7	Jackson	MS	622	470	75.6%
8	Tulsa	OK	212	160	75.5%
9	Milwaukee	WI	1,415	1,051	74.3%
10	Cleveland	OH	1,342	990	73.8%
11	Dayton	OH	478	349	73.0%
12	Columbus	OH	503	364	72.4%
13	Omaha	IA	234	166	70.9%
14	Birmingham	AL	671	472	70.3%

The disparities between the extent of high-cost lending in minority neighborhoods compared to white neighborhoods is particularly disturbing since it means that the minority communities will be under a disproportionate level of economic stress when the adjustable rate loans increase significantly.

There were 20 metropolitan areas where homebuyers in minority neighborhoods were at least four times more likely to receive a high-cost loan than homebuyers in predominantly white neighborhoods²⁷. The greatest disparity was in Oakland, CA where high cost loans made up

²⁶ Minority neighborhoods are defined as census tracts in which minority residents make up more than half of the population.

²⁷ Predominantly white neighborhoods are defined as census tracts in which minority residents make up less than 20% of the population.

31% of the purchase loans in minority neighborhoods compared to just 4.6% of the loans in predominantly white neighborhoods.

GREATEST DISPARITY IN HIGH-COST HOME PURCHASE LOANS BY MINORITY POPULATION IN NEIGHBORHOOD					
Rank	Metropolitan Area	State	% High-Cost Loans		Disparity
			0-20% Minority Population	50-100% Minority Population	
1	Oakland	CA	4.6%	31.0%	6.7
2	San Francisco	CA	3.1%	20.5%	6.6
3	Los Angeles	CA	5.6%	33.2%	5.9
4	Bridgeport	CT	5.5%	28.6%	5.2
5	San Jose	CA	3.8%	19.6%	5.1
6	Richmond	VA	9.2%	45.9%	5.0
7	Santa Ana- Anaheim-Irvine	CA	6.1%	30.2%	5.0
8	Newark	PA	8.9%	42.2%	4.7
9	Corpus Christi	TX	9.7%	45.4%	4.7
10	Milwaukee	WI	16.1%	74.3%	4.6
11	Durham	NC	8.0%	36.9%	4.6
12	Trenton	NJ	8.6%	39.0%	4.5
13	Virginia Beach-Norfolk-Newport News	NC	9.2%	41.0%	4.5
14	New York	NJ	5.2%	23.1%	4.4
15	Albuquerque	NM	4.6%	20.3%	4.4
16	Nassau-Suffolk	NY	9.3%	41.0%	4.4
17	Jacksonville	FL	13.1%	55.6%	4.2
18	Philadelphia	PA	11.4%	47.2%	4.1
19	Tucson	AZ	8.8%	36.3%	4.1
20	Fort Wayne	IN	22.3%	89.5%	4.0

FOR LEGISLATORS AND REGULATORS

The Interagency Guidance on Nontraditional Mortgage Products should provide real remedies for consumers. The interagency guidance, proposed by the Office of the Comptrollers of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Association (NCUA), represents a good-faith effort by regulators to acknowledge the potential impact of bad lending practices on the mortgage market and to consider regulatory changes that not only protect consumers but ensure the safety and soundness of financial institutions. That being said, it does not include enforceable sanctions for lenders that fail to adhere to the requirements and standards set forth by the guidance; it does not cover affiliates of depository institutions or other unregulated entities that offer nontraditional mortgage products; and it does not provide remedies for consumers who are adversely affected by a financial institution's failure to follow the guidance. Until lenders are required to underwrite risky loans, such as interest-only and option ARMs, based on the borrower's capacity to repay the mortgage during the life of the loan considering the highest interest rates, the maximum possible negative amortization, and significant increases in monthly payments after the introductory minimum payment period expires, consumers will remain vulnerable to such practices.

Federal banking regulators should update the Interagency Guidance on Subprime Lending. The current guidance allows for aggressive collection and foreclosure tactics by subprime lenders. Given the extent to which high-cost loans are being originated with adjustable rates, and particularly those with lower initial "teaser" rates, subprime borrowers who experience "rate reset shock" should be given reasonable time to refinance or sell their home – particularly if their credit has improved since they originally obtained the subprime loan. Lenders who engage in a variety of loss mitigation tactics including the waiver of prepayment penalties can prevent undue costs related to foreclosures for both the lender and the homeowner.

Federal and state banking regulators should not exempt financial institutions from state or local anti-predatory lending laws, especially in absence of a strong federal standard. Some of the examples of predatory loans cited in this report were made by national bank subsidiaries regulated by the Office of the Comptroller of the Currency (OCC), which has adopted regulations that shield national banks regulated by the agency from state or local consumer protection laws through federal preemption. Bank regulators, such as the OCC, have demonstrated an unwillingness and poor capacity to reign in banks that engage in steering or questionable practices. In fact, during an oversight hearing in 2003 the House Financial Services Committee pointed out that without significant increases to the OCC budget, the agency's 40 consumer complaint specialists and approximately 100 examiners would be ill-equipped to replace the work of an estimated 700 state consumer enforcers and examiners. States have proven that they can respond more quickly to the changing mortgage market and address abusive lending practices. Regulators should not compete for client institutions by letting them ignore consumer protection laws.

Congress, state legislatures, and local officials should pass strong anti-predatory lending legislation that would protect consumers from abusive practices, which disproportionately affect low-income and minority communities. On the federal level, Congress should not preempt the ability of state legislatures and local officials to protect their constituents from predatory lending abuses. Local and state measures have not affected the prime market or restricted access to credit, and in fact, have provided basic protections against some of the most common abuses that strip home equity, trap borrowers in excessive interest rates, and ultimately force families out of their homes. Therefore, rather than supplant state and local laws, any federal predatory standard should hold lenders and brokers responsible for providing loans that are suitable, such as in the securities industry; prevent steering of loan applicants into the subprime market despite their eligibility for prime loans - a practice common in minority communities; and include yield spread premiums charged by mortgage brokers, also known as broker kickbacks, in the points and fees used to calculate whether or not a loan falls under the Home Ownership and Equity Protection Act (HOEPA), which triggers special consumer protections.

Congress should increase the funding level for HUD's Housing Counseling Program to at least \$50 million this year to increase the availability of housing counseling for potential predatory lending victims and help prevent foreclosures. To come closer to meeting the demand for such services, the annual funding level should be increased in future years to \$100 million. State and local governments should expand funding for programs that provide basic information about lending and enable people to protect themselves from predatory practices and mandate such programs for sponsored homeownership or home improvement funding programs. The most effective tool for helping minority and lower-income families to become successful homeowners is high-quality loan counseling and homebuyer education by community-based entities.

Borrowers receiving higher-cost loans should receive "adverse action" notices to explain the reason they were not approved for a lower-cost loan. Without notice, such as those required when a creditor denies credit, loan applicants may be unaware that they qualify for a lower-cost mortgage product. Consequently, novice applicants with good credit scores are often steered to riskier, higher-priced products. Adverse actions would provide applicants the opportunity to learn about their creditworthiness as well as give them the option to repair any outstanding credit issues before entering into a loan agreement that could result in long-term financial ruin.

Federal banking regulators should conduct more stringent fair lending exams to determine causes of large disparities in the origination of high cost loans. While the current match pair system is an important and useful analysis, it does not uncover disparities that can be the result of the underlying pieces of the lender's decision making process nor does it uncover disparities in marketing between prime and subprime lending units which may result in an uneven response to different lending units.

The Statute of Limitations for Fair Housing Act violations should be amended to allow victims of pricing discrimination or victims of predatory lending to file complaints with HUD or take civil action if they currently hold the loan. The current statute limits victims to just one year for complaints to HUD and two years for civil cases, from the date the loan was executed. Since victims of lending discrimination may not realize they received disparate terms until years after the loan was originated, but still while they are paying the lender every month.

Lenders should make their full lending data available, including applicant credit scores, for analysis to determine underlying reasons for the apparent lending bias. Any privacy concerns could be avoided by making the data available to third-party academics along with a confidentiality agreement to protect consumer privacy and any possible lender competition issues.

FOR LENDERS

All lenders that engage in subprime lending should pledge adherence to a meaningful "Code of Conduct" that includes: fair pricing; limits on financed fees and interest rates to those consistent with the actual credit risk represented by the borrower; avoidance of abusive and equity-stripping loan terms and conditions, such as balloon payments, prepayment penalties, and single-premium credit insurance; full and understandable disclosures of loan costs, terms, and conditions; a loan review system that rejects fraudulent or discriminatory loans; making no loans which clearly exceed a borrower's ability to repay; and not refinancing loans where there is no net benefit to the borrower. These lenders should review their loan portfolios and compensate borrowers whose loans clearly violate this code.

Lenders that offer prime as well as subprime products should establish uniform pricing and underwriting guidelines for all of their lending subsidiaries and for all of the communities in which they do business, so that consumers in lower-income and minority communities do not receive worse terms because of where they live or the color of their skin. All 'A' lenders should increase their outreach and loan volume in underserved communities for their prime loan products.

Lenders should determine a customer's ability to repay a loan based on the maximum interest rate and monthly payment due under the terms of adjustable rate or interest-only loans. The resulting payment combined with taxes, insurance, and other scheduled debt payments should not exceed 50 percent of the customer's documented and verified monthly gross income, provided that the customer has sufficient residual income as defined for Veterans Administration loans.

Lenders should ensure that all borrowers who are offered an ARM are also offered the choice of a fixed rate mortgage. Lenders should provide borrowers with a clear and simple disclosure with a side-by-side comparison of the payments of an ARM and Fixed Rate loan, and the monthly payments both initially and at future projected increases.

Prior to any legislative or regulatory action, lenders should voluntarily send applicants "adverse action" notices if they are offered anything other than the lowest-price product offered by the lender. Without such a notice for applicants offered higher-cost loans, applicants may be unaware that a lower-cost product was available. Such a notice would decrease steering of novice applicants to unnecessarily higher-priced products and would increase applicant knowledge about their own credit-worthiness as well. They would then realize they have an option to repair any outstanding credit issues to save money over the long-term rather than completing a higher-cost loan at the moment.

Wholesale Lenders should implement programs to reign-in broker abuses to end pricing systems like yield-spread premiums that reward brokers for originating higher-cost loans. There needs to be greater disclosure in HMDA about wholesale lending to fully understand its

impact on the subprime marketplace and the differences in loan pricing through different channels.

Lenders should fund nonprofit housing counseling agencies to work with low and moderate-income borrowers in the subprime market. Consumers need correct information to make informed loan decisions in the complex and often misleading subprime market transactions. Housing counselors are able to review income, credit, debts, and loan products to help the borrower find the best loan product for their needs and avoid predatory loan terms. Housing counseling agencies that provide one-on-one and classroom counseling have been found to reduce ninety-day delinquency rates by 34 percent and 26 percent, respectively.²⁸

²⁸ “Prepurchase Homeownership Counseling: A Little Knowledge is a Good Thing,” by Abdighani Hiram and Peter Zorn, in *Low-Income Homeownership: Examining the Unexamined Goal*, ed. Nicolas Retsinas and Eric Belsky, 2002, p. 147.

FOR CONSUMERS

To Protect Yourself From Predatory Lenders

- 1. Get Advice.** Home mortgage loans are very complicated, and you need someone with experience who you can trust on your side. Non-profit housing counseling agencies can help you determine your options, evaluate your loan offers, and assist you in getting the best loan possible. Call HUD toll-free at 1-800-569-4287 to find the nearest location, or go to www.acornhousing.org and find your local ACORN Housing office.
- 2. Don't get talked into taking out a loan you can't afford.** It may be hard to believe, but some predatory lenders will encourage you to take a loan even if you don't have the income to pay it back. They may just want to get their fees and don't care what happens to you, or they may actually want to foreclose on your house so they can sell it and make money. If you can't afford the loan, you will lose your home.
- 3. You can change your mind.** If anything is different at closing - don't sign. While you may be threatened with losing the loan, it's better than losing your house to a predatory lender. Don't fall for a "bait and switch" in which they promised you a lower rate than what they're really giving you. Also, with refinance and home equity loans, you have three days after closing to change your mind for any reason, or for no reason at all.
- 4. Be careful with debt consolidation.** If you are thinking of consolidating credit cards or a car loan with a refinance or home equity loan, be aware that although it may lower your monthly payments in the short term, you may end up paying much more over time, especially with high fees and extra products like credit insurance rolled into the loan. Also, when you consolidate other bills with your mortgage, you not only lose equity, but you increase the risk of losing your home if you can't make the payment. If you are having troubles managing your debt, talk to a credit counselor first.
- 5. Get it in writing.** When you apply for a loan, ask for a "Good Faith Estimate" that lists all the fees you will be charged. Ask for copies of documents to read in advance before you have to sign them. And make sure that you receive copies of all documents after you have signed them.
- 6. Check your credit report.** Make sure your credit report is accurate and that you understand it. Lenders charge higher interest rates to riskier borrowers, and because they use your credit report to decide how risky they think you'll be, it is very important to make sure that all the information on your credit report is accurate before applying for a loan. Predatory lenders may also try to tell you that your credit is much worse than it really is. At ACORN Housing they can run your credit report, review it with you, help you fix any errors that it may contain, and work with you to improve it.
- 7. Always shop around.** Don't take the first loan you are offered even if they tell you it's a good deal. Check with several different banks, credit unions, and mortgage companies. Predatory lenders charge much higher interest rates and fees than other lenders. As many as half of all people who receive

high interest loans could have qualified for a lower rate. Even if you have credit problems, you should still shop around to get the best loan available. You can also get advice from a housing counselor to evaluate the loan offers you are receiving and to ensure you get the best loan possible.

8. Don't sign anything that doesn't seem right. Don't let the lender rush you, even if you're told "that's the way it's done." Don't sign documents if something seems strange, confusing or different from what you thought you were getting. Look over everything you sign to make sure all your information is correct, including your income, debts, and credit. Don't sign applications where the lender has made up information about you. Don't sign blank loan documents or forms with blank spaces "to be filled out later."

9. Ignore high-pressure sales tactics. Beware of offers you receive in the mail, on the phone, or from visitors to your house. If you really need or want a home loan, you should contact the lenders and take your time while considering your options. Stay away from lenders who say that the deal is only good for a limited time or who rush you to sign the papers without letting you read them.

10. Know the terms of the loan you're being offered.

Before you accept any loan, make sure you understand what you're getting into. Don't just look at the monthly payment, but at all the costs of the loan.

Before you sign the loan papers, you should know the answers to the following questions:

1) What is the Annual Percentage Rate (APR)? The APR is one of the most important things to compare between lenders when looking for a loan. It takes into account not only the interest rate, but also the fees that you have to pay to get the loan. Generally, you want to look for the loan with the lowest APR.

2) Is it a Fixed or Adjustable Interest Rate? One of the benefits of owning a home is having a stable monthly payment. Adjustable interest rates rob you of that security, especially with predatory loans where the interest rates only adjust one way – up. Make sure you know when and how much the interest rate will increase and what your new monthly payments will be. Find out how high the rate can go and what the monthly payments would be at that rate. Don't count on a promise that the lender will refinance the loan before your payments increase.

3) Is it an Interest-Only, Negative Amortization, or Option ARM Loan? These days many people get put into loans that start with a lower monthly payment, but that have completed terms and for which the monthly payment will definitely go up. With interest only loans, you pay and pay, but none of your payments go to pay off your loan, all of it goes to interest. With interest only loans, your payment will go up significantly after a few years. With Negative Amortization loans, you don't even pay all the interest that is due. So even though you make your payment every month, the amount you owe on the loan goes up! Option ARMs give you a choice every month of paying less than the interest due, just the interest, or the interest and principal. Even though these choices may have a lower starting



payment, your payment will go up and then you will probably want to refinance again, incurring more closing costs.

5) Will your monthly payment include insurance and taxes? Make sure you know this information when evaluating loan offers. If the new monthly payment does not include taxes and insurance, make sure you know how much they will be and whether you can afford to pay them separately.

6) Is there a Prepayment Penalty? A prepayment penalty may require you to pay thousands of dollars extra if you refinance or sell the home within the first several years of the loan. Often the penalty is so large that it keeps you trapped in a high interest rate loan. Make sure you know if the loan you are offered has a prepayment penalty, how long it is in effect, and how much it will cost. If there is a chance that you will refinance or sell your house during that time, you should probably get a loan without a prepayment penalty.

7) What is the total of the closing costs and fees? Make sure you know all of the closing costs, points, and fees that you are being charged. With refinance and home equity loans, it is common for the closing costs to be financed into the loan so that you pay very little “out of pocket.” While this may be helpful to you, it makes it easier for predatory lenders to hide or lie about how much they are charging. Predatory lenders load up their loans with fees that rob you of thousands of dollars of your equity, increase your total loan amount, and make your monthly payment higher.

8) How much is the mortgage broker getting paid and who is paying them? Many predatory loans involve mortgage brokers who instead of trying to find the best loan for you, put you in the loan that makes them the most money. Sometimes a broker will sell you a loan that has a much higher interest rate than you deserve in order for them to get a kickback from the lender, called a “yield spread premium.” This is especially predatory when it is on top of the fees and closing costs that you are paying them.

9) Is there a Balloon Payment? Balloon mortgages require that after making all your monthly payments for several years, you must make one big “balloon” payment that is almost as much as your original loan amount. When the balloon payment is due, you must come up with the money, which probably means refinancing and getting a new loan, which means more fees, or else lose your home.