CENTER FOR RESPONSIBLE LENDING

Minority Families Pay More

HMDA Stats Show Disturbing Disparities

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On September 13, 2005, the Federal Reserve released Home Mortgage Disclosure Act statistics on mortgage lending showing once again that African-Americans and Latinos pay more for home loans than comparable white borrowers. **Lenders claim that weaker credit records explain the disparities, but the industry opposed collecting any information in the HMDA data that would shed light on borrowers' creditworthiness**. Only lenders have access to the information that would prove their point – and they're not sharing it.

A common industry practice affords too much discretion to mortgage brokers and encourages steering minorities into high-cost mortgages. Kickbacks to brokers, known as yield spread premiums (YSPs), give brokers a strong incentive to steer borrowers into higher-cost loans when they could qualify for a less expensive loan.

Congress should discourage broker kickbacks. Two bills in Congress, the Ney-Kanjorski bill and the Miller-Watt-Frank bill, address predatory lending, but the Ney-Kanjorski bill fails to address yield spread premiums and would allow discriminatory disparities to continue. When determining whether a loan is "high cost" and potentially abusive, yield spread premiums should be considered along with other fees. While the Miller-Watt-Frank bill counts YSPs, Ney-Kanjorski does not.

Research Shows People of Color Pay More to Brokers

Research by Professor Howell Jackson, Associate Dean for Research at Harvard Law School, found that **African Americans and Hispanics pay mortgage brokers more for their services.** For African-Americans, the average additional charge was $474 per loan, and for Hispanics, the average additional charge was $580 per loan.

Background: How YSPs Work

In the simplest terms, yield spread premiums allow brokers and lenders to split the difference when they overcharge a customer on the interest rate. Say a customer qualifies for a rate of six percent. The broker – the middleman between lender and borrower – sells the homebuyer a loan at eight percent. The lender pays a broker a cash bonus for the difference in rates and collects the higher interest payments over the life of the loan.

The average consumer who uses a broker likely never even understands how much he's paying for the broker's services. The fee typically is buried in the loan documentation and the borrower is almost always unaware of its impact.

Yield spread premiums are possible, in part, because brokers are under no legal obligation to act in the best interests of the borrower.

According to research by Harvard professor Howell E. Jackson, who testified before the U.S. Senate Committee on Banking in 2002, the average customer paid $1,850 in the form of a YSP. Yield spread premiums are also pervasive – on the broker-originated set of loans examined the customer paid a YSP in as many as nine of ten transactions, Prof. Jackson testified. Finally, Professor Jackson also testified that African Americans and Hispanics pay mortgage brokers more for their services.

Many lenders do not cap the broker payments, and the discretion afforded allows unscrupulous brokers to charge certain borrowers higher premiums. By paying a higher fee for a loan with a higher interest rate, yield spread premiums create a financial incentive to put less sophisticated borrowers into higher-priced loans. It may also facilitate steering minority borrowers into higher-priced loans, as suggested by Professor Jackson's findings.

Consider the single mother who brought her case to the Center for Responsible Lending: She took a $43,750 home loan, and then paid more than $9,000 to the broker. She thought the interest rate was 10 percent; but in fact it was almost 14 percent. That earned the broker a kickback of almost $2,700 from the lender.

FAST FACTS

- YSPs can pose serious costs to a borrower, running as high as four percent of the loan amount -- $4,000, for instance, on a $100,000 mortgage.
- Current federal law fails to consider YSPs as a fee in determining whether a loan is "high cost" and potentially abusive.
- Unscrupulous lenders can avoid triggering protections on high-cost loans by shifting fees to the YSP.
- The Ney-Kanjorski bill fails to close this existing loophole.
- The Miller-Watt-Frank bill *does* close this loophole and provides other much-needed protections to consumers.

About the Center for Responsible Lending

The Center for Responsible Lending is dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices. CRL is a national nonprofit, nonpartisan research and policy organization that promotes responsible lending practices and access to fair terms of credit for low-wealth families.

For additional information, please visit our website at **www.responsiblelending.org**.

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Many brokers provide a valuable service to families, presenting their role honestly and the customers' choices accurately. However, too many exploit vulnerable borrowers. This gouging *must* stop. A financial practice that encourages brokers to take advantage of borrowers and has a disproportionate impact on minorities is not acceptable. It hurts borrowers, it tarnishes honest brokers, and ultimately hurts the housing market, too.