A National Tragedy:

HMDA Data Highlight Homeownership Setbacks for African Americans and Latinos

CRL Issue Brief

September 2010

Borrowers of color have a higher share of foreclosures and less access to credit.

In many ways, this year's 2009 mortgage data submitted by lenders under the Home Mortgage Disclosure Act (HMDA) contained few surprises. As expected, the 2009 results reflect the general downturn in the housing market. And, because of the severe tightening of mortgage capital among the GSEs and private lenders, over half of the home loans made were supported by government agencies, such as the FHA and VA.

Homeownership Rates

	1Q2007 (%)	2Q2010 (%)	Percentage Change
White (Non-Hispanic)	75.3	74.4	-1.2
Black	48.0	46.2	-3.7
Hispanic	50.1	47.8	-4.6
W-B gap	27.3	28.2	3.3
W-H gap	25.2	26.6	5.6

Source: U.S. Census

However, the latest HMDA report reveals far-reaching and highly disturbing mortgage trends for people of color, especially when viewed in conjunction with existing data. African-American and Latino families are less likely to receive sustainable home loans; they pay more for the mortgages they do get; they are more likely to experience foreclosure; and, as a result, the gap in homeownership is rapidly growing wider between white families and families of color.

Consider these facts:

- Unsustainable loans: African-Americans, Latinos and other communities of color received a large, disproportionate share of abusive subprime mortgages—even after controlling for risk factors such as income and credit scores.[1]

- Disproportionate foreclosures: Among recent borrowers, we estimate that nearly 8% of both African Americans and Latinos have lost their homes to foreclosures, compared to 4.5% of whites.[2]

- Less access to credit. Consistent with previous HMDA reports, the most recent report shows that across all categories of loans, African-American and Latino borrowers were more likely to be turned down for a mortgage compared to whites, even after controlling for factors such as income and location of property.

- Shrinking homeownership: The disproportionate impact of abusive lending, tight lending, and foreclosures is taking its toll, as the homeownership gap between non-Hispanic white borrowers and borrowers of color has widened. (See chart above.)

Refinances in 2009 – Not Much Help

The latest HMDA report shows that access to sustainable mortgages to *purchase* homes has been severely curtailed. In fact, the overall increase in mortgages during 2009 was driven by refinances. However, this refinance activity was largely absent in census tracts with high foreclosure activity. So even with historically low interest rates, mortgages were scarce for borrowers of color who were struggling with their loan and also for those hoping to buy their first home.

Risky Borrowers or Risky Loans?

A superficial look at the mortgage situation today might make it tempting to conclude that low- and moderate-income borrowers and borrowers of color simply had too much access to credit before the housing bubble burst. However, research indicates that the problem went deeper, extending to systemic risks that originated in the mortgage market itself. If there had been high access to sustainable mortgages, the subprime market would have behaved quite differently. For example, the predominate product would not have been the 2/28 "exploding" ARM, and mortgage applications would have received meaningful scrutiny before lenders approved them.

In fact, empirical research shows that high foreclosures have largely been driven by defective mortgage products and push-marketing families into bad loans. In late 2007, the *Wall Street Journal* reported on a study that found 61% of subprime loans originated in 2006 "went to people with credit scores high enough to often qualify for conventional [i.e., prime] loans with far better terms."[3] Moreover, 94% of subprime loans were made by institutions not covered by a mandate (the Community Reinvestment Act) to lend in underserved communities.[4] For more details on "risky borrowers vs. risky loans," see our Congressional testimony, "Foreclosures Continue: What Needs to Change in the Government Response?"[5]

What Can Be Done?

To avoid another subprime fiasco, the sensible mortgage rules included in the new financial reform bill are a good first step. In addition, we need effective market oversight to avoid the extremes we have seen during recent years, as the market swings from loose credit with high risks to very tight credit that penalizes qualified families. A key part of effective oversight will mean collecting more and better information on loans that are made, including HMDA and other public datasets. These efforts must be complemented by broader reforms, including these:

- Sensible GSE reforms that tie government guarantees on mortgage securities to responsible and sustainable loans;
- Vigilance in ensuring that the Federal Housing Administration continues to focus on its key mission of supporting homeownership opportunities for groups not well served by the conventional market, including low- and moderate-income families; and
- Safeguards to ensure that all banks—which receive valuable public benefits, including depository insurance and access to favorably priced borrowing through the Federal Reserve—have a commitment to fair lending practices.

---

[1] See, e.g., http://www.responsiblelending.org/mortgage-lending/research-analysis/rr011-Unfair_Lending-0506.pdf.

[2] http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.html

[3] Rick Brooks and Ruth Simon, *Subprime Debacle Traps Even Very Credit-Worthy As Housing Boomed,*

Industry Pushed Loans To a Broader Market, Wall Street Journal at A1 (Dec. 3, 2007).
[4] Staff analysis of the relationship between the CRA and the subprime crisis, Board of Governors of the Federal Reserve - Division of Research and Statistics (November 21, 2008), available at http://www.federalreserve.gov/newsevents/speech/20081203_analysis.pdf).
[5] http://www.responsiblelending.org/mortgage-lending/policy-legislation/congress/foreclosures-continue-testimony.pdf