



**LEXINGTON-FAYETTE URBAN COUNTY
HUMAN RIGHTS COMMISSION**

**REGARDLESS OF INCOME,
AFRICAN-AMERICANS IN LEXINGTON
REMAIN AT RISK OF RECEIVING
HIGH-COST HOME MORTGAGE LOANS**

**STAFF POSITION PAPER 09-03
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INTRODUCTION:

Research by federal agencies, academic institutions, community organizations and others continue to document significant disparities in loan pricing based on race¹, ethnicity, age and income levels of neighborhood residents. Unlawful discrimination remains a significant factor as well. This paper looks at disparities and the ongoing presence of barrier of high cost lending patterns associated with mortgage lending in our community.

Loan pricing when genuinely associated with credit risks often serves legitimate credit needs of borrowers with credit imperfections, thus this paper does not argue that all high-cost lending equals predatory lending².

FINDINGS:

The data in this report includes analysis of Home Mortgage Disclosure Act (HMDA) for calendar year 2006 by the National Community Reinvestment Coalition³. The NCRC considered loans for traditional single-family homes occupied by the borrower. The loan considered included home purchase, refinance, and home improvement (first lien only).

Lexington ranked 40th in the country and first in the state of Kentucky in disparities between loans to low and moderate-income borrowers by Race. Nearly half of all loans to African American low and moderate-income borrowers were high cost loans and they were 2.23 times more likely to receive a high cost loan than whites with similar incomes⁴.

¹ See for example Robert B. Avery, Glenn B. Canner, and Robert E. Cook, "New Information Reported under HMDA and Its Application in Fair Lending Enforcement" *Federal Reserve Bulletin*, Summer 2005 and Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "Higher-Price Home Lending and the 2005 HMDA Data," *Federal Reserve Bulletin*, September 2006. Both studies reveal racial disparities in loan pricing even after controlling for income levels, loan types, and geographical areas.

² We describe predatory lending as a subset of subprime lending that has one or more of the following features: 1) charges more interest and fees than is required to cover the added risk of lending to borrowers with imperfect credit; 2) contains abusive terms and conditions that trap borrowers and lead to increased indebtedness; 3) does not take into account the borrower's ability to repay the loan; and 4) violates fair lending laws by targeting minorities, women, older residents and communities of color.

³ See NCRC Research Report: "Income No Shield Against Racial Differences in Lending II: A Comparison of High Cost Lending in America's Metropolitan and Rural Areas." www.ncrc.org. July 2008.

⁴ "Income No Shield Against Racial Differences in Lending II: A Comparison of High Cost Lending in America's Metropolitan and Rural Areas." www.ncrc.org. July 2008, page 32.

This trend was consistent for all low income and moderate-income borrowers by minority census tract level as well. Borrowers in minority census tracts were 1.81 times more likely to receive a high cost loan than borrowers with similar incomes in other census tracts⁵.

Sadly, this is not the most striking disparity observed. Middle and upper income African Americans were 2.62 times as likely to receive a high cost loan as whites with similar incomes⁶. Similarly, middle to upper income borrowers in minority census tracts were 2.35 times more likely to receive a high cost loan than other borrowers with similar incomes in other census tracts⁷.

The findings, with respect to local middle and upper income African Americans and middle and upper income borrowers by minority census tract level, directly contradict the accepted model that as income increases loan disparities should narrow. Locally, as income rises, the disparities increase.

OBSERVATIONS:

Usually banking associations and their spokespeople, mortgage lenders and mortgage brokers are quick to point on that the previous findings discussed here are flawed because the data analyzed do not control for creditworthiness. They are correct, but their criticism of the observations is incomplete as they are misleading. But there can be no argument that economists and researchers with the Federal Reserve, Fannie Mae, and Freddie Mac have consistently found that at least one third and as much as one half all minority lenders are who bought high cost loans should have qualified for lower cost loans based on their creditworthiness⁸.

Therefore, the prevalence of high cost loans to American Africans and minority neighborhoods will continue to contribute to wealth inequities and negative wealth accumulation without some interventions.

For an individual who qualifies for a better loan but is steered to a high cost loan, this lost can be measured in hundreds, and most of the time,

⁵ Ibid at page 50.

⁶ Ibid at page 35.

⁷ Ibid at page 52.

⁸ See footnote 1

thousands of dollars. For a neighborhood, this can be measured in hundreds of thousands and yes, millions of dollars. Dollars that could have gone to investing in and supporting neighborhood stores, community and economic development and a number of positive wealth-building or creating endeavors for their neighborhood. Dollars that could have gone to investing in education and educational opportunities for their children and building a positive legacy for their children's future.

LOCAL RECOMMENDATIONS:

1. We must look at the way we enforce our fair housing and fair lending laws to make sure we are using the resources available to us to protect consumers and minority neighborhoods
2. We must have greater enforcement and oversight by our state and federal regulatory agencies to protect unsuspecting consumers
3. We must look at our financial literacy programs and make sure that are accessible to the population that needs them
4. We must conduct more research locally into the effects of the lending patterns identified in this paper
5. We must encourage ethical lenders to set forward and provide financial services to the broader community.

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