



Consumer Federation of America

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300-CITY REPORT DOCUMENTS PRICING VARIATION IN THE SUBPRIME MORTGAGE MARKET BETWEEN REGIONS, STATES AND CITIES THROUGHOUT THE U.S.

Disparities Found in Subprime Lending Between African American, Latino Borrowers and White Borrowers

Washington, D.C. – Homeowners residing in the southwestern and Great Plains states are much more likely to refinance with higher interest rate subprime loans than are those that live in the Pacific or Northwestern regions, according to a new study released today by the Consumer Federation of America.

“The significant variation of subprime refinance lending between different regions and metropolitan areas may reflect the extent to which local mortgage markets are competitive and transparent or the existence of predatory lending and not simply, variations of creditworthy borrowers” said Allen Fishbein, Director of Credit and Housing Policy at Consumer Federation of America (CFA).

The study examined 4.9 million mortgage originations in all 50 states and more than 300 metropolitan areas. The loan level data was obtained from lenders from reports they are required to submit under the Federal Home Mortgage Disclosure Act (HMDA). The CFA analysis found the prevalence of higher subprime lending among certain minority groups but also provides a comprehensive look at subprime lending patterns for metropolitan areas, states and regions across the country.

The national 2005 HMDA data is due out later this month and is expected to show higher levels of reported higher-cost lending than in 2004 as well as significant pricing disparities for African Americans and Latino borrowers compared to other borrower groups. Some portion of the year-to-year increase can be attributed to a changing interest rate environment, but the HMDA reporting provided to the public cannot discern the extent to which the increase can be explained by the changes in the interest rate yield curve alone. Nevertheless, interpretations of year-to-year changes in the volume of higher-priced subprime loans should be treated with caution.

Among the study's key findings:

- The share of refinance lending that is subprime is twice as high (over 36 percent of refinance lending) in the Great Plains (Iowa, Kansas, Missouri and Nebraska) and Southwest (Arkansas, Louisiana, New Mexico, Oklahoma and Texas) Census Bureau regions than in the Pacific (Arizona, California, Hawaii and Nevada) and Northwest (Alaska, Idaho, Oregon and Washington) where fewer than one in five (18 percent) of refinance mortgages are high-cost. In 2005, these loans had interest rates of about 8 percent.
- Gulf Coast and Great Plains states had the highest incidence of subprime refinance lending. More than half (51.8 percent) of refinance loans in Mississippi were subprime. More than two-fifths of refinance

loans in Oklahoma (44.3 percent), Alabama (41.6 percent), Nebraska (41.4 percent) and Louisiana (40.0 percent) were subprime loans.

- The ten cities with the highest incidence of subprime refinance lending (Muncie IN, Jackson MS, Decatur AL, Muskegon MI, Battle Creek MI, Longview TX, El Paso TX McCallen TX and Brownsville TX) were more than five times more likely to receive subprime refinance loans than the ten cities with the lowest incidence of subprime refinance lending (San Francisco, Santa Rosa, San Jose, Santa Barbara, Napa, San Luis Obispo, Santa Ana, Oxnard and San Diego CA and Boulder CO).
- Subprime Loans Increase, Higher-Cost Loans Increase Faster: The share of subprime loans (those more than 3 percent above comparable Treasury notes) increased by 79.9 percent between 2004 and 2005 from 14.7 percent of refinance mortgages in 2004 to 26.5 percent of refinance loans in 2005. Over the same period, refinance loans priced at more than 5 percent above Treasury securities more than doubled from 4.2 percent of refinance lending to 8.8 percent of refinance mortgages in 2005. Some of the increase is explained by a changing interest rate environment, but increase is large nonetheless.
- African Americans and Latinos were more likely than whites to receive subprime refinance loans. Nearly half (48.9 percent) of African American refinance borrowers and more than one third (32.6 percent) of Latino borrowers received subprime loans compared to less than a quarter (23.0 percent) of white refinance borrowers.

The CFA research helps to provide a local context to the national release of data by the federal government. CFA examined over 2.5 million conventional refinance mortgages reported by over 22 lenders and their 312 affiliates in 317 Metropolitan Statistical Areas including at least one MSA in each state. Geographic pricing variation could represent differential regional creditworthiness or other legitimate price determinants. However, the size of the variation between localities and regions warrants a closer look by banking regulators and other enforcement officials to ensure that these differences can be explained solely as a function of risk-based pricing.

CFA's findings raise important public policy concerns especially as adjustable rate mortgage rates rise and monthly payments reset upward this year and next. The subprime refinance market provides higher cost credit predominantly to borrowers who are unserved by the prime market and is fertile ground for abusive predatory lending practices. Growing delinquency and foreclosure rates for these loans demonstrate that some borrowers are taking out mortgages with unsuitable terms and payments.

Patrick Woodall, CFA's Senior Researcher, said: "Homeowners who borrowed with subprime ARMs or exotic refinance mortgages in 2005 could face strikingly high payment shocks down the road that could put their homes at risk."

Subprime Locations: Patterns of Geographic Disparity in Subprime Lending including a complete listing of subprime lending rates for over 300 metropolitan areas broken down by state is available at <http://www.consumerfed.org/pdfs/SubprimeLocationsStudy090506.pdf>.

CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.