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Consumer Federation of America

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NEW REPORT FINDS PRICING IN THE SUBPRIME MORTGAGE MARKET VARIES GREATLY BETWEEN CITIES THROUGHOUT THE U.S.

Disparities in Lending Between African American, Hispanics, and Whites Also Found

Washington, D.C. – Homeowners residing in the southwestern or southeastern states are much more likely to refinance with higher interest rate subprime loans than are those that live in the Pacific or New England regions, according to a new study released today by the Consumer Federation of America called *Subprime Cities: Patterns of Geographic Disparity in Subprime Lending* (see www.consumerfed.org). Many of the cities in the Gulf Coast affected by Hurricane Katrina have among the highest levels of subprime lending.

"The variation in prevalence of high cost mortgages by geography raises concerns about whether this type of lending is priced solely on risk factors, or whether some lenders take advantage of the lack of competition in certain localities to price mortgages as high as they can" said Allen Fishbein, Director of Credit and Housing Policy at Consumer Federation of America (CFA).

The loan data for this report was obtained from lenders from reports they are required to submit under the Federal Home Mortgage Disclosure Act (HMDA). The 2004 HMDA data is due out later this month and is expected to show notable pricing disparities in the mortgage market among African Americans and Hispanics borrowers compared to other borrower groups. The CFA analysis found the prevalence of higher subprime lending among certain minority groups but also provides the first comprehensive look at subprime lending patterns for metropolitan areas and regions across the country.

Among the study's key findings:

- The share of refinance lending that is subprime varies from 10.5% in the Pacific states to 27.4% in the Southwest states – nearly a three fold difference. In 2004, these loans generally carried an interest rate of 8% or higher for consumers.

- Regional variation was even higher for the most expensive segments of subprime loans (loans with interest rates generally above 10%). Homeowners in the Southwest were more than four times more likely to receive these highest cost subprime loans than homeowners in the Pacific states (2.3% vs. 10.3%).

- Even larger subprime variation was found between metropolitan statistical areas (MSAs). In the five MSAs with the smallest share of subprime refinance lending, fewer than 3% of borrowers received subprime loans. In contrast, in the five MSAs which the lowest share of prime refinances lending; nearly forty percent of refinance mortgages in these markets are subprime.

- Highest subprime MSAs are concentrated in the Southeast and Southwest regions. Of the 30 MSAs with the highest share of subprime refinance loans (about 10 percent of the 317 MSAs studies, 80% are in the Southeast (Carolinas through Mississippi through Kentucky) or the Southwest (Louisiana, Arkansas, Texas and New Mexico).

- A complete listing of subprime lending rates for over 300 metropolitan areas is available in the report.

The CFA research helps to provide a local context to the national release of data by the federal government. The conventional home refinance loan data examined represents almost 19% of the 2003 total volume of these loans. CFA examined over 2.5 million conventional refinance mortgages reported by over 26 lenders and their 160 affiliates in 317 Metropolitan Statistical Areas including at least one MSA in each state.

The release of the CFA research underscores the value and utility of HMDA data as a tool for identifying geographies with unusually high levels of subprime lending. Federal and state regulators, consumer and community organizations, and lenders as well should monitor lender loan patterns to determine which ones vary from local and regional norms.

CFA's findings raise important public policy concerns. The subprime refinance market provides high cost loans mostly to borrowers not served by the mainstream prime markets and is fertile ground for abusive lending practices known as predatory lending. High foreclosure rates in the subprime market are evidence that many borrowers are entering into loans they cannot afford.

The HMDA analysis released today suggests that disparities in the pricing of mortgages exist among borrower groups and also vary quite a bit by geography. Just as with disparities between borrower groups, variation in pricing of mortgages by geography levels may be a function of legitimate price determinants. Yet given the size of the variation between localities and regions, banking regulators and other enforcement officials should not assume that these differences can be explained solely as a function of risk-based pricing.

Patrick Woodall, CFA's Senior Researcher, said: "Consumers have every right to expect that the mortgage funds they borrow from lenders are priced fairly, based on legitimate risk-factors, and not merely on opportunistic factors or lack of borrower knowledge and financial sophistication."

CFA calls upon regulators, state attorneys-general, and other enforcement officials to utilize fully the soon to be released HMDA data to monitor the subprime market and to ensure that individual lenders are fully compliant with federal and state consumer protection laws.

Subprime Cities: Patterns of Geographic Disparity in Subprime Lending can be found at www.consumerfed.org or by emailing Patrick Woodall at pwoodall@consumerfed.org.

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