

COMMUNITY INDICATORS

Lending Data Offers Insight Into Housing Issues

Community Indicators are intended to stimulate thoughtful dialogue about your community. They can help identify potential issues, opportunities and problems facing your community. This communication piece is also intended to increase use and understanding of readily accessible demographic data on the web.

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This is the first in a two-part series of Community Indicators that will illustrate how to access and interpret data on subprime mortgage lending and foreclosure data for your county.

Recent concerns about predatory lending practices and increasing home foreclosures across the country have a lot of community development professionals wondering about the scale of the problem in their local communities. Data reported by financial institutions as part of the Home Mortgage Disclosure Act (HMDA, The Financial Institutions Examination Council), and shared in a user-friendly format by DataPlace™ provides some clues¹.

The term “predatory lending” is used to describe a wide range of lending abuses. A HUD-Treasury report concluded that predatory lending, “...involves engaging in deception or fraud, manipulating the borrower through aggressive sales tactics, or taking unfair advantage of a borrower’s lack of understanding about loan terms. These practices are often combined with loan terms that, alone or in combination, are abusive or make the borrower more vulnerable to abusive practices”².

A recent HUD-Treasury report summarizes the growing body of anecdotal evidence that a subset of subprime lenders, who generally operate outside the Federal regulatory structure, engage in predatory lending practices³. Subprime lenders in general, make a practice of

¹ DataPlace™ (<http://www.dataplace.org>)

² Subprime Market Growth and Predatory Lending, Housing Policy in the New Millennium, Allen Fishbein and Harold Bunce, <http://www.huduser.org/Publications/pdf/brd/13Fishbein.pdf>

³ Subprime Market Growth and Predatory Lending, Housing Policy in the New Millennium, Allen Fishbein and Harold Bunce, <http://www.huduser.org/Publications/pdf/brd/13Fishbein.pdf>, p. 276

making loans to borrowers who do not qualify for market rate loans because of problems with credit. It is important to point out that NOT all subprime loans are predatory. In fact, the growth in high cost subprime lending over the past several years has benefited some credit-impaired borrowers, including those who have poor credit records, an insufficient credit history, or nontraditional credit sources. Subprime lenders have provided access to many that wouldn't otherwise have access to prime credit markets. Subprime loans or mortgages are risky for both creditors and debtors because of higher interest rates and service payments, bad credit history, and uncertain financial situations often associated with subprime applicants.

Because there is a relationship between a subset of subprime lenders and predatory lending, Data reported by financial institutions as part of the Home Mortgage Disclosure Act (The Financial Institutions Examination Council), provides some interesting insight into the issue. While the HMDA data does not include a field that identifies whether a loan application is a prime or subprime loan, we can determine the percentage of total loans by subprime lenders. For over ten years the Department of Housing and Urban Development (HUD) has maintained a list of HMDA reporters who specialize in subprime lending (There were 210 in 2005). In general these lenders have a high percentage of loans, with spreads 3 percentage points above a comparable Treasury annual percentage rate, but these use other criteria as well to generate this list. Subprime lenders may do prime loans but the percentage of loans made by these lenders is certainly an indication of the extent of subprime lending. Likewise, a number of predominantly prime lenders originate a significant number of subprime loans.

The percentage of conventional* mortgage loans by subprime lenders (for all purposes) has nearly doubled in Wisconsin between 1997 and 2004 (5.8% to 10.9%), while the percentage of conventional refinance loans by subprime lenders also increased from 10.1% to 13.6% during the same time period (An increase of 34.6%⁴. The percentage of mortgage loans made by subprime lenders is still significantly lower than the national average, but the State is slowly catching up to the national average (See Table 1 below). In 2004, nearly 19% of the conventional home mortgages and more than 21% of the conventional refinancing mortgages and were made by subprime lenders in this country. Between 1997 and 2004, 2001 had the lowest percentage of subprime loans for both Wisconsin and the nation. Between 2001 and 2004, Subprime lending grew by 129% for refinancing mortgage loans and by 117% for conventional mortgages (Compared to growth rates of 240% and 195% in Wisconsin for the same years).

⁴ Definition: "Conventional" refers to a loan not insured by a government program, like FHA or VA.

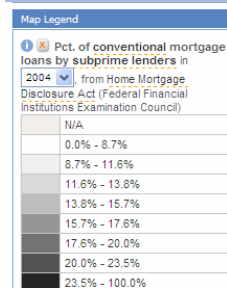
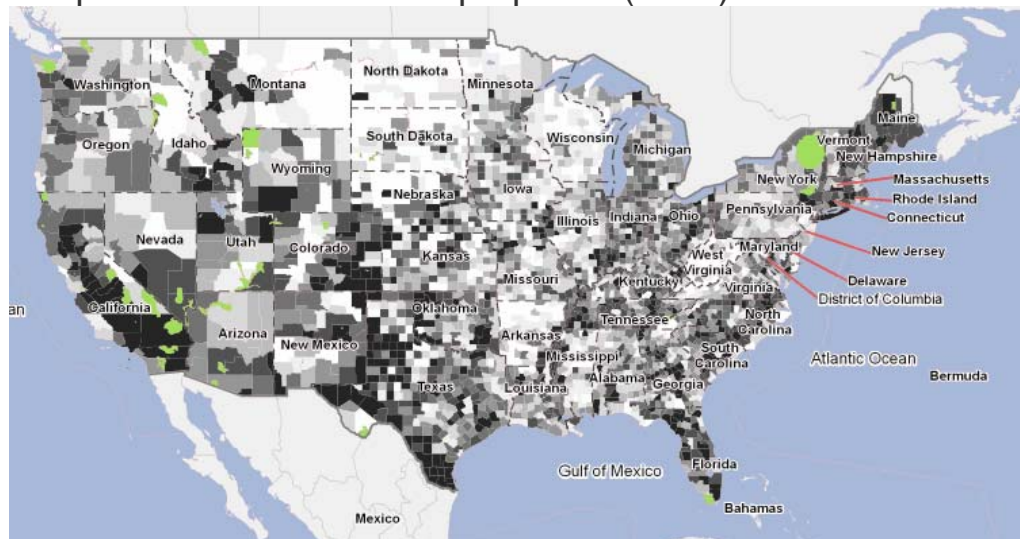
**Table 1:
Percentage of Home Mortgage Loans by Subprime Lenders (1997-2004)**

Indicator	USA								Wisconsin							
	1997	1998	1999	2000	2001	2002	2003	2004	1997	1998	1999	2000	2001	2002	2003	2004
% of conventional* refinancing mortgage loans by subprime lenders	20.4%	12.6%	18.1%	24.1%	9.3%	8.9%	9.4%	21.3%	10.1%	5.5%	9.1%	13.2%	4.0%	3.5%	4.7%	13.6%
% of conventional* mortgage loans by subprime lenders (for all purposes)	11.3%	10.0%	12.2%	13.4%	8.6%	9.1%	10.2%	18.7%	5.8%	5.1%	6.7%	8.1%	3.7%	3.5%	4.6%	10.9%

Source: Dataplace, <http://www.dataplace.org/>

In general, subprime lending is not as prevalent in Wisconsin as it is in other parts of the country (See map1 below).

Map 1: Pct. of Conventional Home Mortgage Loans by Subprime Lenders – for all purposes (2004)



Source: Dataplace, http://www.dataplace.org/map/?place=x1&ka_all=1&cid=43906&period=2003&z=1#

In addition to the growth in subprime lending in Wisconsin, averages for the state tend to mask the higher rates of subprime lending in many of our Counties. Milwaukee (19.4%) and Jackson (19.1%) Counties had higher subprime lending rates for conventional mortgages than the

To view subprime lending data and maps for your community, Go to: <http://www.dataplace.org/>

At the top of the screen enter the location you are interested in (i.e. "Madison, WI")

The default takes you to the "Area Overview" data for your community.

Scroll down to the second to last category titled "Mortgage Lending".

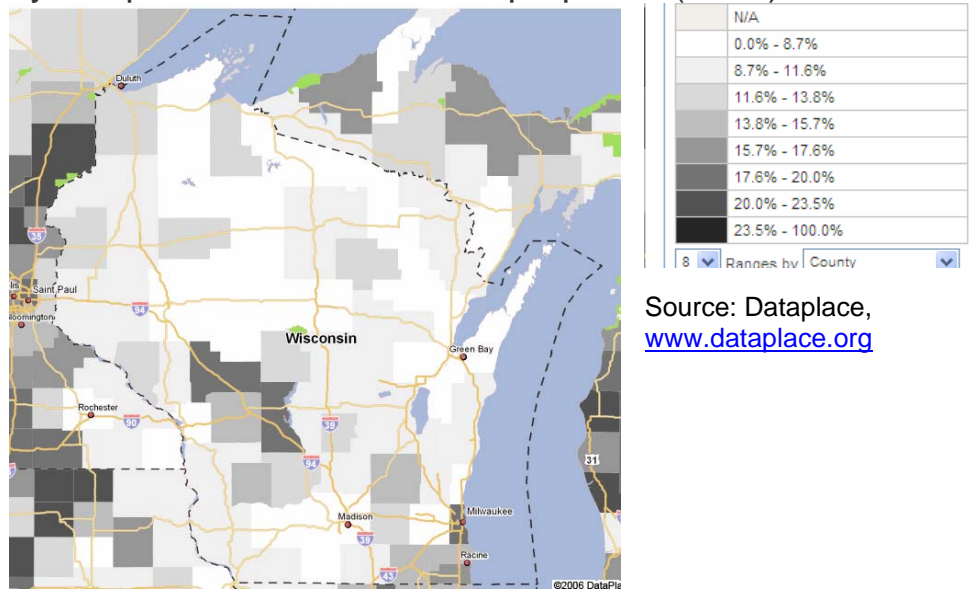
The last two fields provide you the data on subprime lending.

Left click on the Percentage number in the second column, and it will generate a map (with some options that can be changed).

For more instructions, see the Powerpoint presentation at: http://www.uwex.edu/ces/cced/economies/communityindicators/documents/dataplace_instructions.ppt

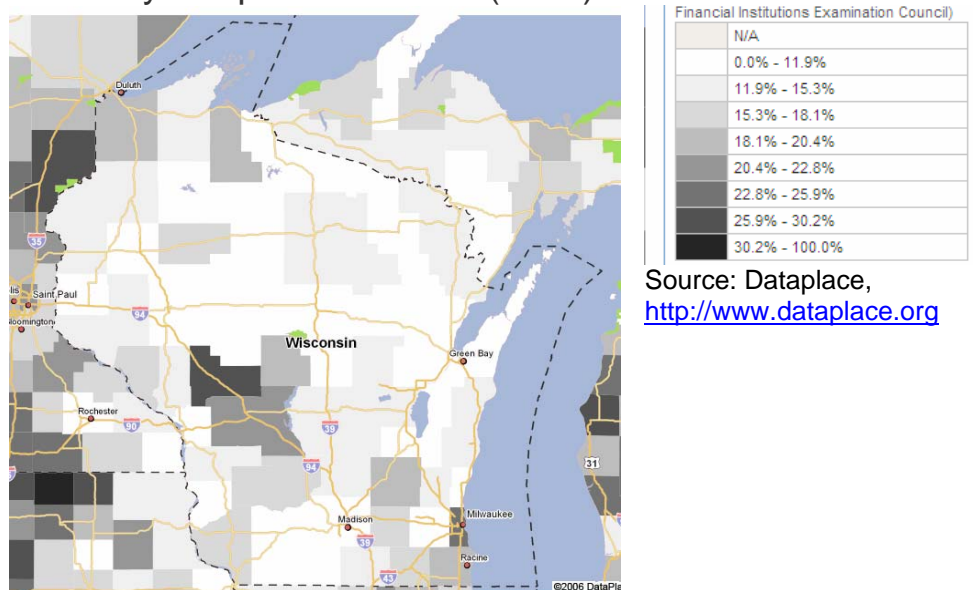
national average (18.7%) with Juneau Counties close behind (18.6%). Jackson, Milwaukee, Juneau, and Monroe Counties exceeded the national average for conventional subprime loans made for refinancing (See Tables 2 and 3 below for a list of the ten counties in Wisconsin with the highest % of subprime lending activity).

Map 2: Percentage of Conventional Home Mortgage Loans by Subprime Lenders – for all purposes (2004)



Source: Dataplace, www.dataplace.org

Map 3: Percentage of Conventional Refinancing Mortgage Loans by Subprime Lenders (2004)



Source: Dataplace, <http://www.dataplace.org>

Table 2: Top Ten Counties (2004) - % of conventional home mortgages by subprime lenders (for all purposes)

Milwaukee (19.4%) and Jackson (19.1%) Counties had higher subprime lending rates for conventional mortgages than the national average (18.7%) with Juneau Counties close behind (18.6%). Jackson, Milwaukee, Juneau, and Monroe Counties exceeded the national average for conventional subprime loans made for refinancing.

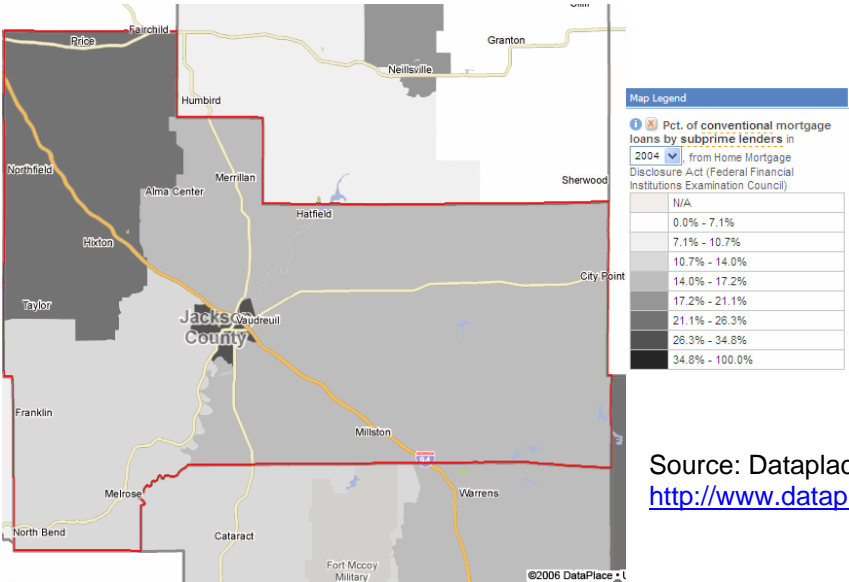
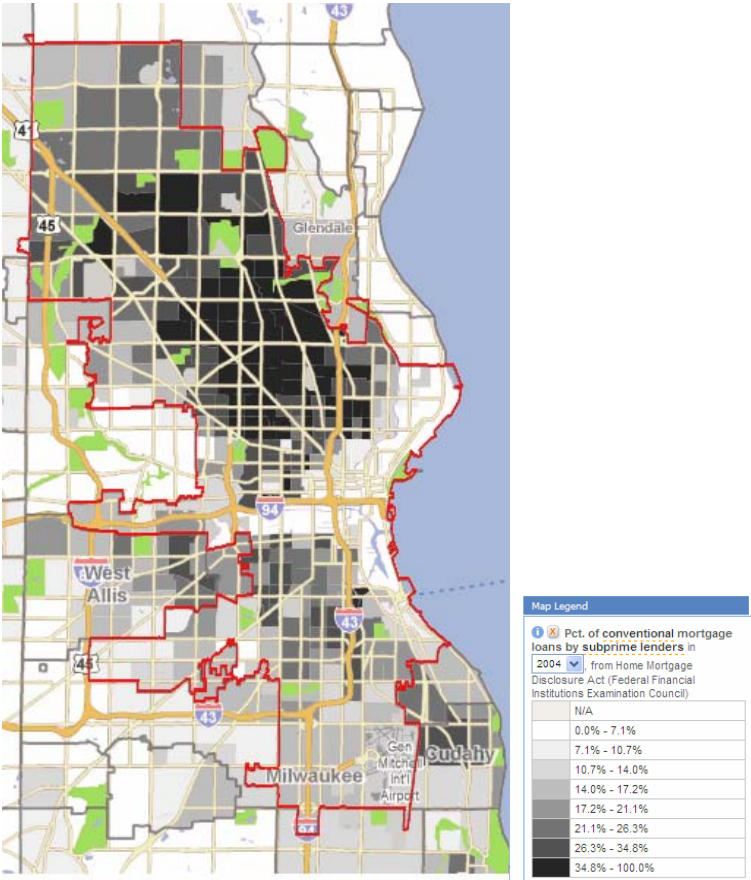
County	Pct. of conventional mortgage loans by subprime lenders 2004
Milwaukee County, WI	19.40%
Jackson County, WI	19.10%
Juneau County, WI	18.60%
Kenosha County, WI	15.70%
Walworth County, WI	15.40%
Monroe County, WI	15.30%
Racine County, WI	15.20%
Dodge County, WI	15.00%
Richland County, WI	14.80%
Douglas County, WI	13.80%

Table 3: Top Ten Counties (2004) - % of conventional refinance mortgages by subprime lenders)

County	Pct. of conv. refinancing mortgage loans by subprime lenders 2004
Jackson County, WI	27.90%
Milwaukee County, WI	23.70%
Juneau County, WI	22.60%
Monroe County, WI	21.90%
Dodge County, WI	19.60%
Kenosha County, WI	19.20%
Racine County, WI	18.70%
Douglas County, WI	18.50%
Wood County, WI	18.40%
Ashland County, WI	18.10%

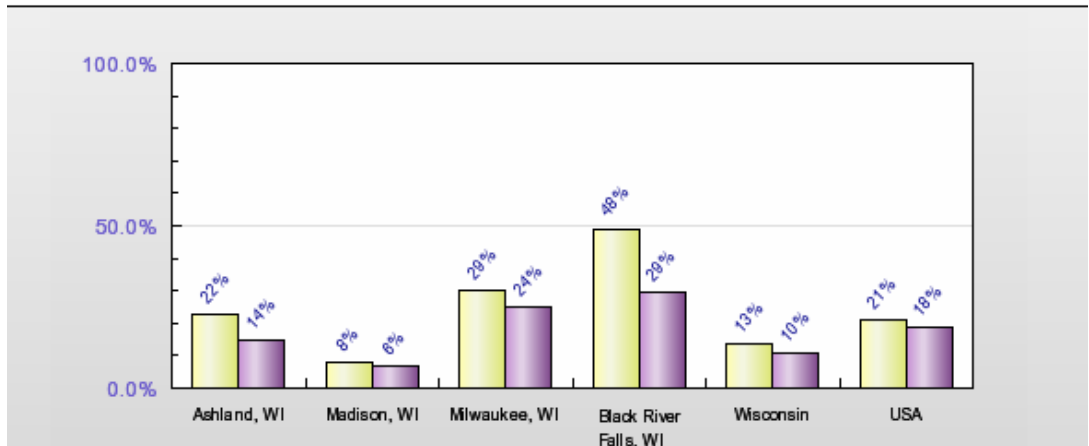
In fact, the practice of subprime lending is even more prevalent in specific neighborhoods when you look at the data at the census block level. For example, in some neighborhoods within Milwaukee and Jackson County, subprime lending makes up more than 34% of the lending activity (See map 4 below). And in many of the counties that appear to have low levels of subprime lending in fact have neighborhoods that have subprime lending that exceeds the national average.

Map 4: Percentage of Conventional Home Mortgage Loans by Subprime Lenders (2004) – for all purposes
 City of Milwaukee & Jackson County, Wisconsin



Source: Dataplace, <http://www.dataplace.org>

Chart 1: Percentage of Conventional Refinancing Mortgage Loans and Conventional Mortgage Loans by Subprime Lenders (2004)

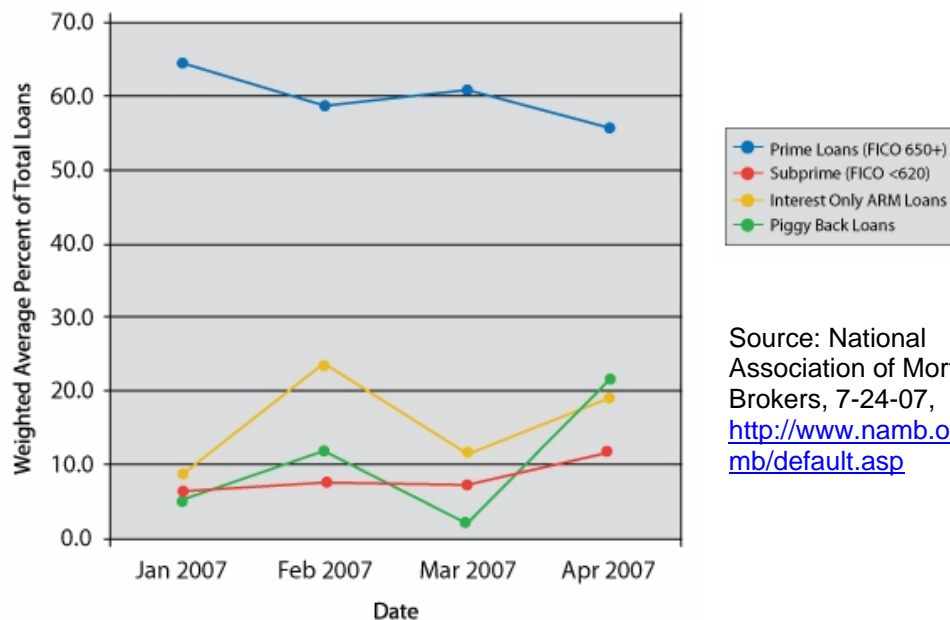


My Indicators	Ashland, WI	Madison, WI	Milwaukee, WI	Black River Falls, WI	Wisconsin
	2004	2004	2004	2004	2004
Pct. of conv. refinancing mortgage loans by subprime lenders	22.8%	8.1%	30.0%	48.6%	13.6%
Pct. of conventional mortgage loans by subprime lenders	14.8%	6.6%	24.8%	29.4%	10.9%

Source: Dataplace, www.dataplace.org

More recently, the National Association of Home Mortgage Brokers reports that in April, 2007 only 11% of all loans offered nationally were subprime, down from 13% in 2006. However, subprime loans as a percentage of total loans is still increasing in 2007 (See Chart 1 below).

Chart 2: Loan Activity by Type of Loan (2007)



Source: National Association of Mortgage Brokers, 7-24-07, <http://www.namb.org/namb/default.asp>

To create a bar chart that compares your community to other communities, follow the instructions in the callout box on page 3. Instead of clicking on the percentage (which generates a map), left click on the link to the right of the data titled "chart". Then simply add additional places in the "search locations" box at the top of screen and the data for that place will be added to the bar chart. For more instructions, see the Powerpoint presentation at: http://www.uwex.edu/ces/cced/economies/communityindicators/documents/dataplace_instructions.ppt

Predatory subprime loans often target households on the basis of their race, ethnicity, age, gender, or other traits unrelated to the borrowers creditworthiness. When looking at the loan data for all loans, black applicants are more than twice as likely to be rejected as white applicants (Wisconsin: 27.4% vs. 11.5%; USA: 29% vs. 14.8%). The HMDA data does not include information about all the factors used in the loan review process, such as credit histories and assets, other research has documented discrimination against minority applicants when controlling for creditworthiness factors⁵.

While one can't assume that "high income" (Earning 200% of median or above) applicants are creditworthy, it is interesting to note that the gap between denial rates for blacks and whites goes up as income rises (See Table 4 and Chart 3 below). In Wisconsin, blacks were 138% more likely to be rejected for a loan than whites. However, high income black applicants in Wisconsin were 182% more likely to be rejected than high income white applicants.

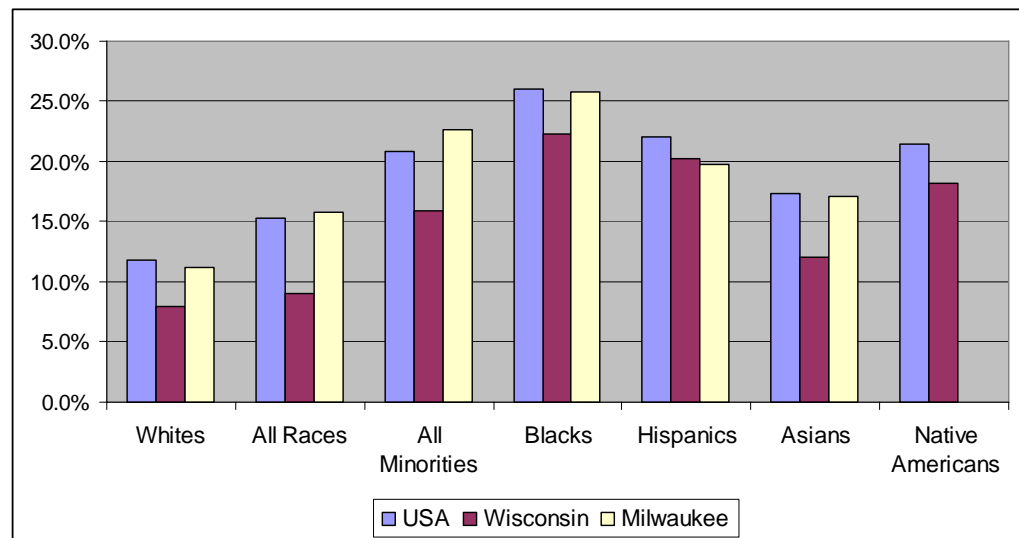
Table 4: Denial Rate of Conventional Home Purchase Mortgage Loans (2005)

Race	All Incomes (2005)			High Incomes (2005)		
	USA	Wisconsin	Milwaukee	USA	Wisconsin	Milwaukee
Whites	14.8%	11.5%	14.3%	11.8%	7.9%	11.2%
All Races	18.3%	13.4%	20.3%	15.3%	9.0%	15.8%
All Minorities	23.5%	22.1%	25.2%	20.8%	15.9%	22.6%
Blacks	29.0%	27.4%	28.4%	26.0%	22.3%	25.80%
Hispanics	23.7%	23.1%	20.0%	22.1%	20.3%	19.7%
Asians	17.4%	15.6%	19.3%	17.3%	12.1%	17.1%
Native Americans	27.9%	27.1%	19.1%	21.4%	18.2%	0.0%

Source: Dataplace, www.dataplace.org

⁵ Turner et al. (1999) and Turner et al. (2002). In a paired test, two individuals-one white and one minority- pose as home buyers and inquire about the availability and terms for home mortgage loans. Because the two members of a tester team present themselves as equally qualified borrowers in every respect except their race or ethnicity, systematic differences in the treatment they receive provide direct evidence of adverse treatment discrimination.

Chart 3: Denial Rate of Conventional Home Purchase Mortgage Loans for High Income Applicants



Community Strategies/Home Buyer Resources

While at first glance it might appear as though predatory lending practices are not as big a problem in Wisconsin, clearly the problem is growing. Because homeownership has been proven to create stronger families and benefit communities by fostering stability, integrity, and economic growth, it only makes sense to think about community-based educational programs which increase the capacity of households to make informed housing decisions. The following resources would assist with those efforts:

- Homebuyer Training has been developed by NeighborWorks (<http://www.nw.org>). NeighborWorks has member organizations in Beloit, Green Bay, Richland Center, Racine, and Milwaukee. WHEDA has created partnerships with NeighborWorks in Green Bay to offer home buyer training via distance learning. County U.W. Extension offices have partnered in some instances. First-time home buyers attending two home buyer education broadcasts may be eligible to receive up to \$5000 in grant assistance to help with a down payment and closing costs with a WHEDA® Home Loan. For more information on this and other home buyer education opportunities available through WHEDA and partner organizations, see: http://www.wheda.com/cat_sfb/hbeduc.asp
- For a list of WHEDA Home Ownership Resources, please see: <http://www.wheda.com/resources/myhome.asp>

- Family Economics 101 is an innovative multimedia course designed by U.W. Extension to provide participants with a basic understanding of the money management issues families' face. The following module focuses on housing issues:
<http://www.uwex.edu/ces/flp/famecon/lesson5/index.cfm>
- *HomeWorks News* is a series of four easy-to-read seasonal newsletters designed by U.W. Extension to provide timely information to new homeowners, particularly first-time homeowners. See:
<http://www.uwex.edu/ces/house/housing/homeworks.cfm>
- Additional home buying resources developed by U.W. Extension are available at:
<http://www.uwex.edu/ces/cty/dane/flp/HomebuyingInformation.html>
- "Foreclosure Resources for Customers" has been compiled by the Federal Reserve Bank for home owners facing foreclosure. See:
<http://www.federalreserveeducation.org/pfed/foreclosure/>