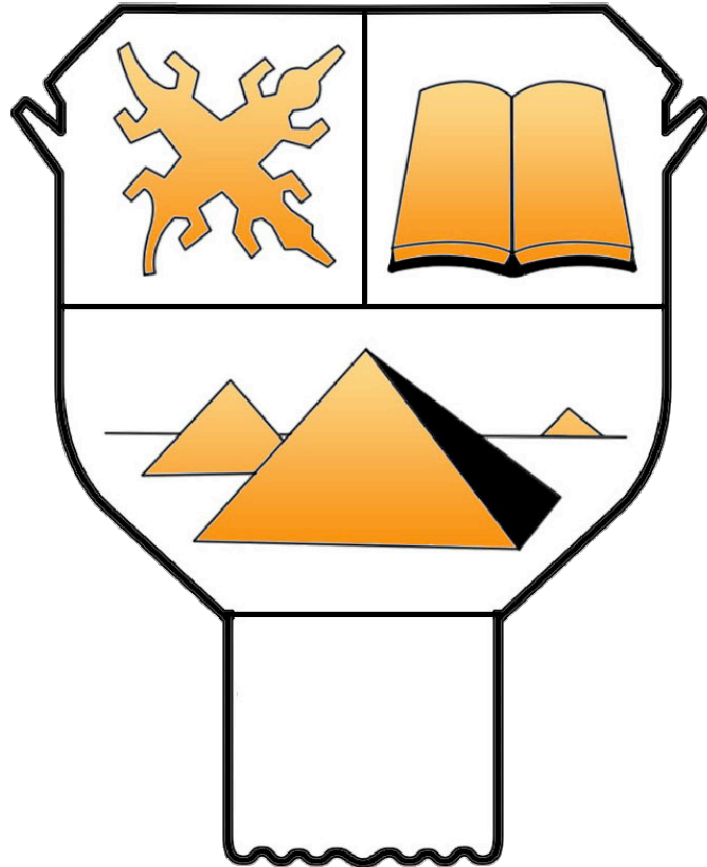


Borrowing While Black: National Trends in Subprime Refinance Mortgage Market

**A Report Prepared By:
The National Urban Research Group**



Borrowing While Black: National Trends in Subprime Refinance Mortgage Market

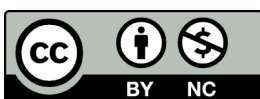
Introduction

Home equity is the major source of wealth. A homeowner is more likely to refinance a mortgage when the current interest rate falls below the rate on their existing mortgage. Beginning in the early 2000s, record low long-term interest rates, rising property values, and the desire to liquefy accumulated home equity motivated million of households to seek mortgage refinancing. A majority of these borrowers reported using home equity loans to repay debts. Others used them for home improvements, consumer expenditures (such as vehicle purchases, vacations, education, and medical expenses), and financial investments.¹ For most borrowers the mortgage credit marketplace was highly competitive. The story was different for African American homeowners and traditional African American communities. Excluded from the credit mainstream, many of these borrowers turned to, and often steered into, marginal sources of mortgage refinancing in the higher cost subprime mortgage sector. In this respect, the same groups previously denied access to credit because of race were now inundated with higher cost loan products that stripped equity, diminished wealth, and inevitably lead to foreclosure and neighborhood-wide housing abandonment, a process often characterized as “redlining in reverse.”

This analysis is part of a continuing sequence of case studies conducted by the National Urban Research Group examining the *Borrowing While Black* racial disparities in the allocation of higher cost subprime mortgage products. The National Urban Research Group conducted cross-sectional descriptive analysis, from the years 2004 to 2008, to understand racial disparities in the subprime refinance sector. Utilizing mortgage data supplied by the Home Mortgage Disclosure Act (HMDA), a primary research goal is to analyze whether a correlation exists between race and the allocation of subprime refinance mortgages. The data contained information on every applicant for a refinance mortgage made in the United States over this four-year period.²

¹ See, Glenn B. Canner, James T. Fergus, and Thomas A. Durkin, “Home Equity Lending,” *Federal Reserve Bulletin*, vol. 75 (May 1989), pp. 33-44; and Glenn Canner, Karen Dynan, and Wayne Passmore, “Mortgage Refinancing in 2001 and Early 2002,” *Federal Reserve Bulletin*, vol. 94 (December 2002), pp. 469-81.

² The original HMDA records contained 148.1 million records. In order to make the data manageable for analysis, we selected applications from African American and white borrowers who applied for the mortgage and the mortgage was originated, the mortgage was owner occupied, loan purpose was for home

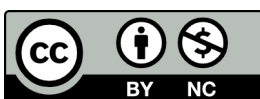


Borrowing While Black Key Findings

1. **Home refinance mortgages, as reported in HMDA, confirm that considerable growth in the market share of subprime mortgages occurred between 2004 and 2006 increasing from 14.7 percent to 29.4 percent.** Higher cost subprime refinance mortgage volumes increased from under a half a million in 2005 to over 800,000 in 2005 and an additional 700,000 in 2006 before retreating to 136,318 by 2008. The collapse of the subprime mortgage sector starting in 2007 led to major declines in subprime market shares, declining to just 9.0 percent by 2008.
2. **African American homeowners are over two times more likely to refinance an existing home with a subprime mortgage product compared to white homeowners.** For African American borrowers subprime mortgage products accounted for 43.8 percent of home refinance mortgages compared to 17.4 percent for white borrowers. Results show that racial disparities persist despite level of income. African American homeowners in the highest income groupings relied on subprime refinance mortgage products at three times the rate of comparable income white borrowers (33.4 to 11.6). Higher income African American borrowers recorded higher market shares of subprime refinance mortgage than low-income (25.8 percent), moderate income (21.8 percent), and middle income (17.8 percent) white homeowners.³
3. **Lower income African American single male and female borrowers are most likely to obtain higher cost loan products when seeking to refinance an existing home.** Over half of African American males in the lower income grouping received a higher cost loan product, nearly twice as many as lower income white males (28.1 percent). The same pattern holds for lower income females where more than half of African American female applicants (53.5 percent) refinanced their existing homes with high cost loans compared to just one-fourth (24.8) of low-income white females.
4. **African American couples with higher incomes were more than three times as likely to refinance a mortgage for an existing home with a higher cost subprime mortgage product as similar income white couples.** Nearly one-third, 31.6 percent, of high income African American couples obtained subprime mortgage products, compared to just 9.6 percent of high income white couples. African American couples *were also more than twice as likely to refinance an existing home with a high cost loan when compared to middle income (16.7 percent), moderate (21 percent), and even, lower income (24.6 percent) white couples.*

purchase and refinance, conforming mortgage (removing “jumbo mortgage”), conventional mortgages (removing FHA/VA mortgages), loan type was of one-to-four-family dwelling. Applications were race or income are missing are removed from analysis. After applying all filters, the final dataset contains information on approximately 22.9 million mortgages. Of which, 12.6 million was use for refinancing an existing mortgage and 10.0 million for purchasing a one-to-four family home.

³ Low- income applicants are those with incomes below 50 percent of the median income of all applicants; Moderate-income are those with median incomes between 50 and 80 percent; middle income between 80 and 120; and high-income are those with incomes above 120 percent of the median income for all applicants.



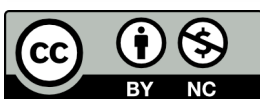
5. **Predominately African American neighborhoods show similar patterns of overexposure in the subprime sector.** Results indicate that the likelihood of a homeowner refinancing an existing home with a subprime mortgage specialist correlates with the percentage of African American residents in the neighborhood. In neighborhoods where the majority of residents are African American, 32.7 percent of homeowners, one out of every three, refinanced a mortgage for existing homes with a subprime mortgage product compared to 17 percent in areas with less than 10 percent African American populations.

Empirical Results

The National Urban Research Group analysis of over 10.2 million home purchase mortgages allocated between 2004 and 2008 documents the evolution and growing influence of the higher cost subprime mortgage sector. One of the most noteworthy aspects of this escalation is the role of race. By far the highest share of subprime home purchase lending is to African American borrowers and in neighborhoods where African American comprised a majority of the residents. At each income level, African American households and individuals purchasing a home in majority African American neighborhoods were more likely to purchase a home with a higher cost subprime mortgage product. After controlling for income and family status, the only observed differences in subprime market shares is the race of the applicant or racial composition of neighborhood.

1. **Home refinance mortgages, as reported in HMDA, confirm that considerable growth in the market share of subprime mortgages occurred between 2004 and 2006 increasing from 14.7 percent to 29.4 percent.**

As indicated in **Figure (1)**, overall 20.3 percent of all borrowers used a higher cost subprime mortgage product when refinancing an existing home. Considerable growth in the market share of subprime mortgages occurred between 2004 and 2006, increasing from 14.7 percent to 29.4 percent, declining to just 9.0 percent by 2008. **Figure (2)** show refinancing volumes more than doubled during the peak years of 2005 and 2006 and increased from 499,707 refinance mortgages in 2004 to over 1.5 million by 2006 (808,635 mortgages in 2005 and 718,340 mortgages in 2006). Following the collapse of the subprime mortgage sector starting in 2007, the number of subprime refinance mortgages diminished to 136,318 subprime refinance mortgages by 2008.

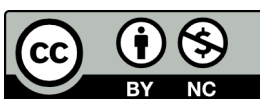


2. African American homeowners are over two times more likely to refinance an existing home with a subprime mortgage product compared to white homeowners.

Empirical results clearly indicate that African American individuals are overrepresented in the subprime lending market. During the study period, when refinancing an existing home, African American borrowers received 1.37 million mortgages. As **Figure (3)** show, African American borrowers received 11 percent of all home purchase mortgages (1.4 million out of 12.6 million mortgages), but represented 25 percent of all households who purchased a home with a mortgage lender specializing in higher cost loans (600,031 of 1.57 million purchase loans). Overall, African Americans borrowers were 2.5 times more likely to purchase a home with a high-cost loan than white applicants (43.8 compared to 17.4). As **Figure (4)** show, similar racial disparities occur between African American and white borrowers in each income groupings. Higher income African Americans (33.4 percent) refinanced their homes with subprime lenders at just about three times the rate of similar income white homeowners (11.6 percent). Results show that racial disparity persists despite level of income. Higher income African American homeowners (33.4 percent) recorded higher market shares of subprime refinance mortgages than low-income (25.8 percent), moderate income (21.8 percent), and middle income (17.8 percent) white homeowners.

3. Lower income African American single male and female borrowers are most likely to obtain higher cost loan products when seeking to refinance an existing home.

Figure (5) and Figure (6) indicates that lower income African American single male and female borrowers are most likely to obtain higher cost loan products when seeking to refinance an existing home. One out of every two (54 percent) of African American males in the lowest income grouping received a higher cost loan product, nearly twice as many as lower income white males (28.1 percent). The same pattern holds for lower income females where more than half of African American female applicants (53.5 percent) refinanced their existing homes with high cost loans compared to one-fifth of white females in the same income grouping. Each income group show similar racial disparities. The race gap is such that over one-third of high income African American single males and females received high cost loans, compared to 16.0 percent of high income white single males and white single females.



4. **African American couples with higher incomes were more than three times as likely to refinance a mortgage for an existing home with a higher cost subprime mortgage product as similar income white couples.**

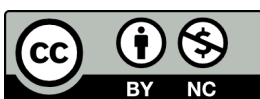
Notably, as shown in **Figure (7)**, even after calculating for discrepancy in income and family status, African American couples are more likely than white couples to refinance with a subprime mortgage product. Nearly one-third, 31.6 percent, of high income African American couples obtained subprime mortgage products, compared to just 9.6 percent of high income white couples. African American couples *were also more than twice as likely to refinance an existing home with a high cost loan when compared to middle income (16.7 percent), moderate (21 percent), and even, lower income (24.6 percent) white couples.*

5. **Predominately African American neighborhoods show similar patterns of overexposure in the subprime sector.**

Figure (8) examines subprime racial concentrations at the neighborhoods level. Results show the heavy reliance on higher cost subprime mortgage products in predominantly African American neighborhoods. In neighborhoods where the majority of residents are African American, one out of every three borrowers refinanced an existing home with a subprime mortgage product. The results indicate that the likelihood of receiving a higher cost subprime mortgage increases with the percentage of African American population. Neighborhoods less than 10 percent African American had a subprime market share of only 17.0 percent, in areas between 10 and 20 percent the market share is 17.3, neighborhoods between 20 and 50 percent African American resident recoded a market share of higher cost subprime home purchase products of 20.1 compared to 32.7 for areas over 50 percent African American.

Summary

The National Urban Research Group analysis of over 12.6 million refinance mortgages allocated between 2004 and 2008 documents the evolution and growing influence of the higher cost subprime sector in home refinancing. One of the most noteworthy aspects of this escalation is the role of race. In particular, there appears to be an over dependence in the use of subprime loan products by African American households and residents in majority African American neighborhoods. At each income level, African American households and homeowners in majority African American neighborhoods were more likely to refinance an existing home with a higher



cost subprime mortgage product. After controlling for income and family status, the only observed differences in subprime refinance market shares is the race of the applicant or racial composition of neighborhood.

A report from *United for a Fair Economic* projected “the greatest loss of wealth in moderate U.S. history” causing African Americans between \$71 and \$92 billion of dollar in loss wealth.⁴ A more recent report by the Pew Center found that “the bursting of the housing market bubble in 2006 and the recession that followed late 2007 to mid-2009 took a far greater toll on the wealth” of African American households than whites. Between the years 2005 to 2009, African Americans lost over half of their net wealth. A principal cause of this erosion was “plummeting house values.” As a result, the median wealth of white households is 20 times that of African Americans, “the largest since the government began publishing such data a quarter century ago” and almost twice as large as the ratios for the two decades prior to the subprime mortgage crisis.⁵ To the extent that home ownership is a vital aspect of wealth and financial stability, the steering of African American borrowers into higher cost subprime mortgage products and the deeply troubling consequences it poses to African American households and African American communities is a contemporary civil rights issue.

⁴ Available at, http://www.faireconomy.org/files/StateOfDream_01_16_08_Web.pdf

⁵ Paul Taylor et al, *Twenty-to-One: Wealth Gaps Rise to Record Highs between Whites, Blacks and Hispanics*, Pew Research Center, Washington, D.C. (2011).

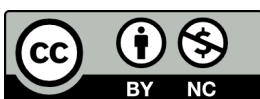
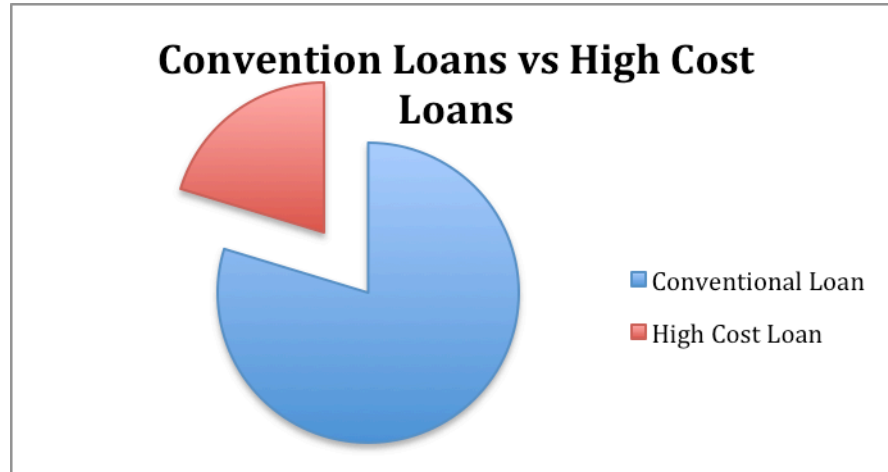
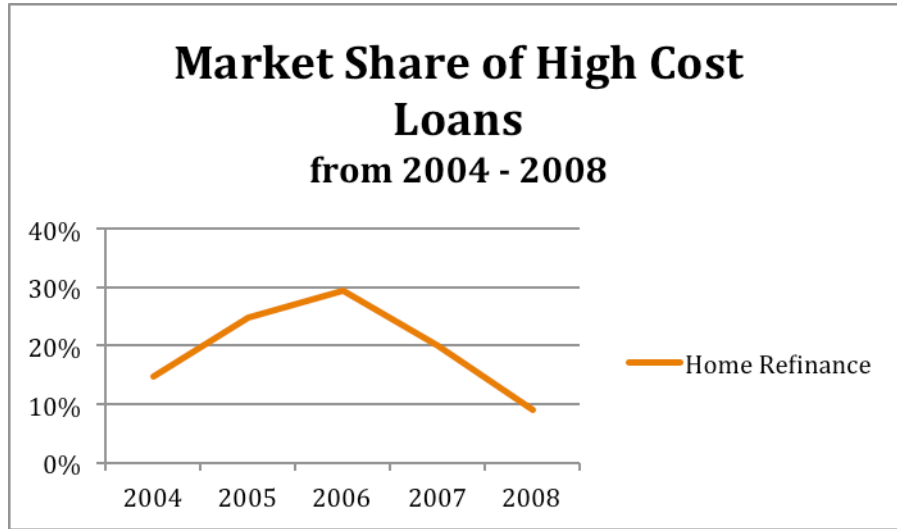


Figure 1: High Cost Subprime Refinance Mortgages



	Conventional Loan	High Cost Loan	Total
Overall Refinancing	10060412 79.7%	2558026 20.3%	12618438 100.0%

Figure 2: Market Share Trends in High Cost Subprime Mortgages



	Conventional Loan	High Cost Loan	Total
2004	2899149 85.3%	499707 14.7%	3398856 100.0%
2005	2452125 75.2%	808635 24.8%	3260760 100.0%
2006	1724471 70.6%	718340 29.4%	2442811 100.0%
2007	1600023 80.2%	395026 19.8%	1995049 100.0%
2008	1384644 91.0%	136318 9.0%	1520962 100.0%

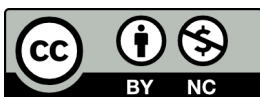
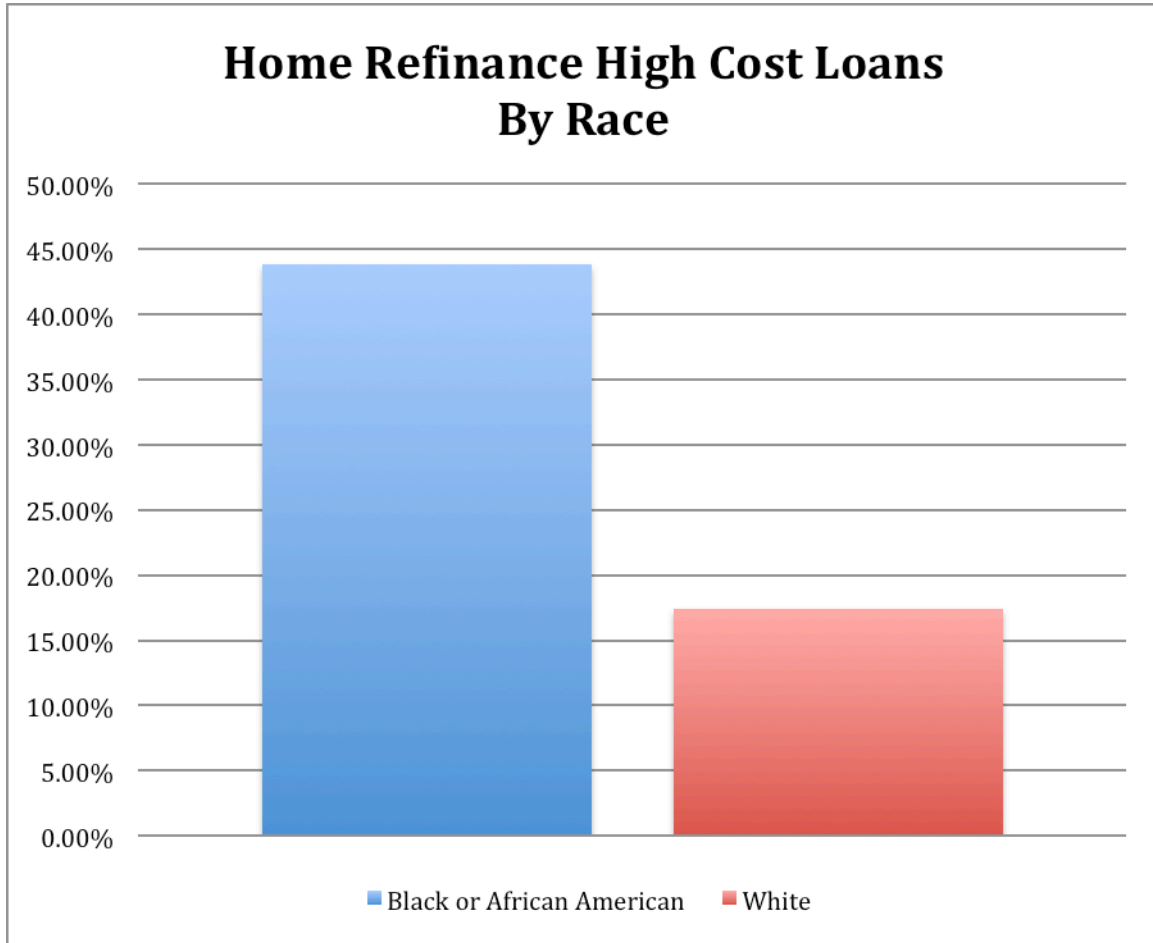


Figure 3: Applicant Race



	Conventional Loan	High Cost Loan	Total
Black or African American	770449 56.2%	600031 43.8%	1370480 100.0%
White	8548063 82.6%	1798345 17.4%	10346408 100.0%

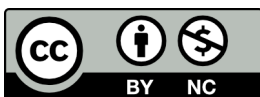
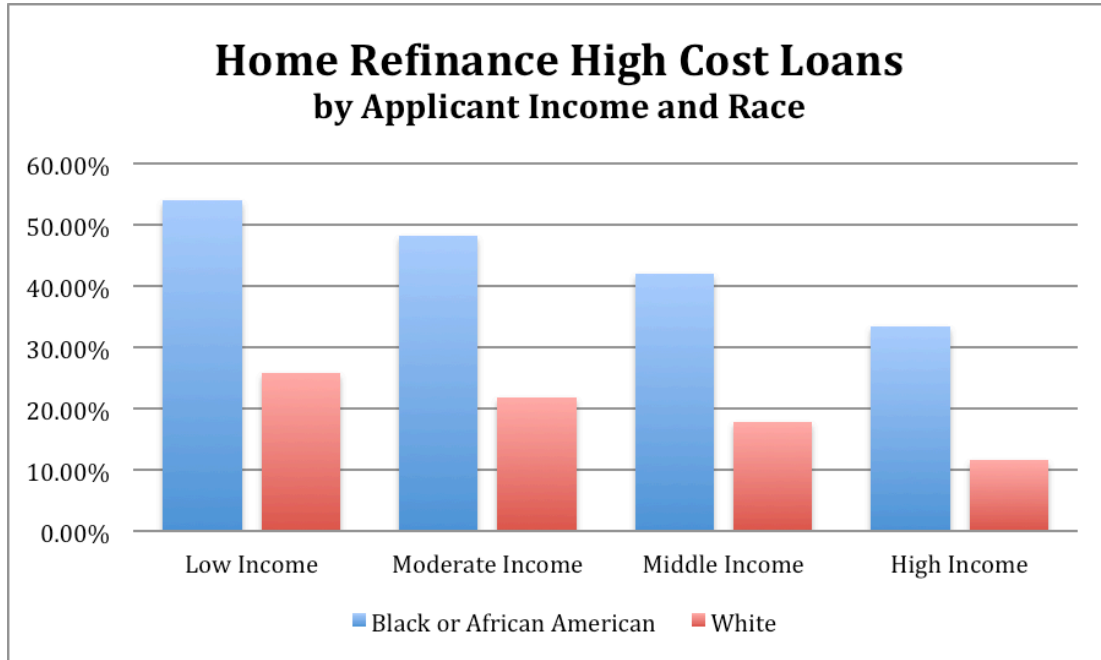


Figure 4: Applicant Income and Race



Low Income

	Conventional Loan	High Cost Loan	Total
Black or African American	111507 46.1%	130593 53.9%	242100 100.0%
White	839710 74.2%	292619 25.8%	1132329 100.0%

Moderate Income

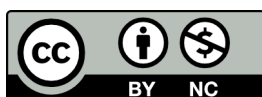
	Conventional Loan	High Cost Loan	Total
Black or African American	208041 51.9%	192423 48.1%	400464 100.0%
White	1896275 78.2%	529176 21.8%	2425451 100.0%

Middle Income

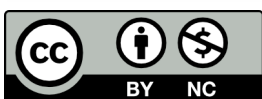
	Conventional Loan	High Cost Loan	Total
Black or African American	232396 58.1%	167597 41.9%	399993 100.0%
White	2484720 82.2%	539785 17.8%	3024505 100.0%

High Income

	Conventional Loan	High Cost Loan	Total
Black or African American	218505 66.6%	109418 33.4%	327923 100.0%
White	3327357	436765	3764122

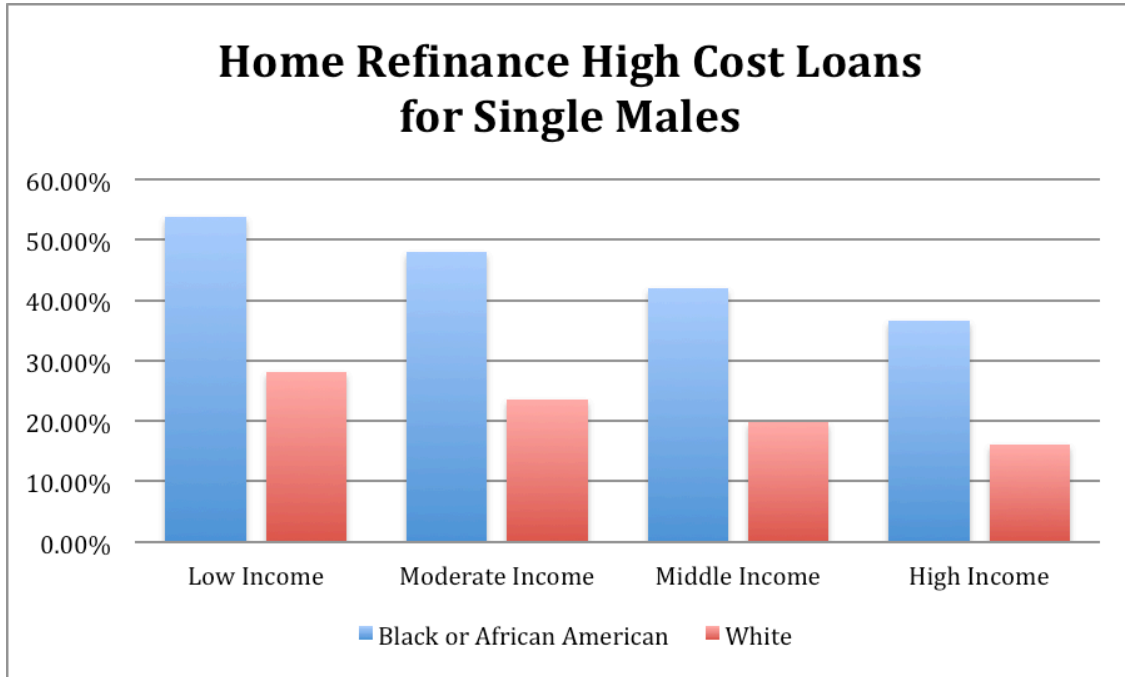


	88.4%	11.6%	100.0%
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Figure 5: Home Refinance Single Males



Low Income

	Conventional Loan	High Cost Loan	Total
Single Black Male	30314 46.3%	35209 53.7%	65523 100.0%
Single White Male	248118 71.9%	97046 28.1%	345164 100.0%

Moderate Income

Single Black Male	63498 52.0%	58636 48.0%	122134 100.0%
Single White Male	591174 76.4%	182169 23.6%	773343 100.0%

Middle Income

Single Black Male	66865 58.0%	48399 42.0%	115264 100.0%
Single White Male	623647 80.1%	154557 19.9%	778204 100.0%

High Income

Single Black Male	50701 63.3%	29428 36.7%	80129 100.0%
Single White Male	667143 84.0%	126868 16.0%	794011 100.0%

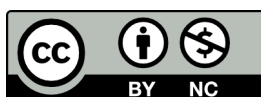
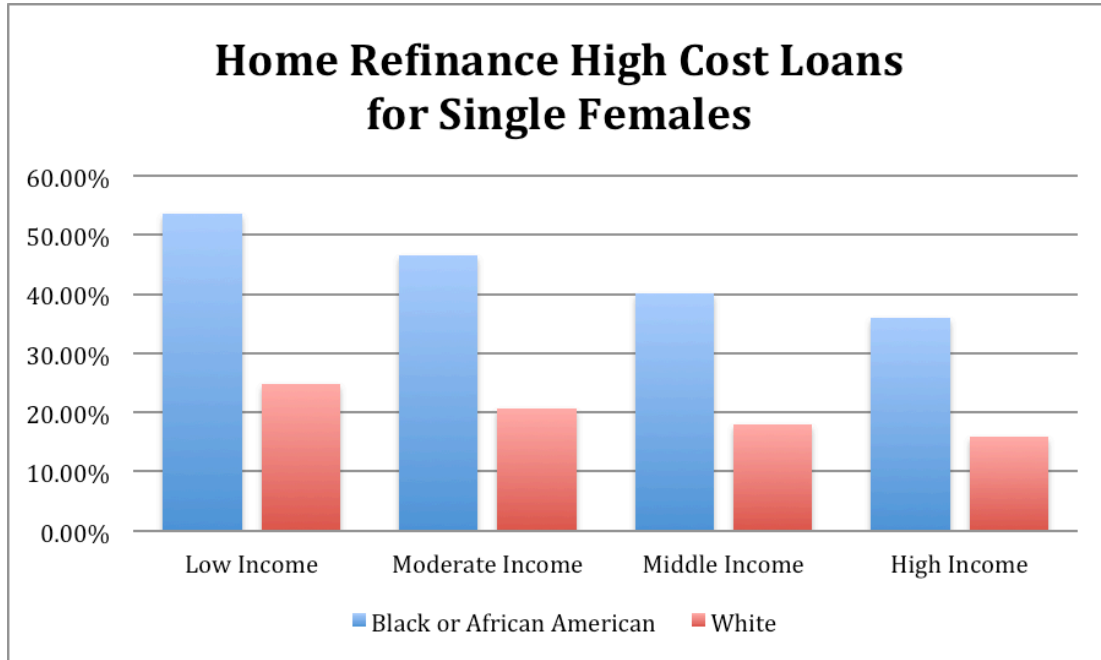


Figure 6: Home Refinance Single Females



Low Income

	Conventional Loan	High Cost Loan	Total
Single Black Female	68797 46.5%	79036 53.5%	147833 100.0%
Single White Female	401451 75.2%	132376 24.8%	533827 100.0%

Moderate Income

Single Black Female	105072 53.4%	91589 46.6%	196661 100.0%
Single White Female	596538 79.4%	155126 20.6%	751664 100.0%

Middle Income

Single Black Female	90232 59.8%	60638 40.2%	150870 100.0%
Single White Female	469406 82.0%	103264 18.0%	572670 100.0%

High Income

Single Black Female	49322 64.0%	27691 36.0%	77013 100.0%
Single White Female	328638 84.2%	61709 15.8%	390347 100.0%

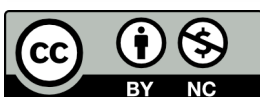
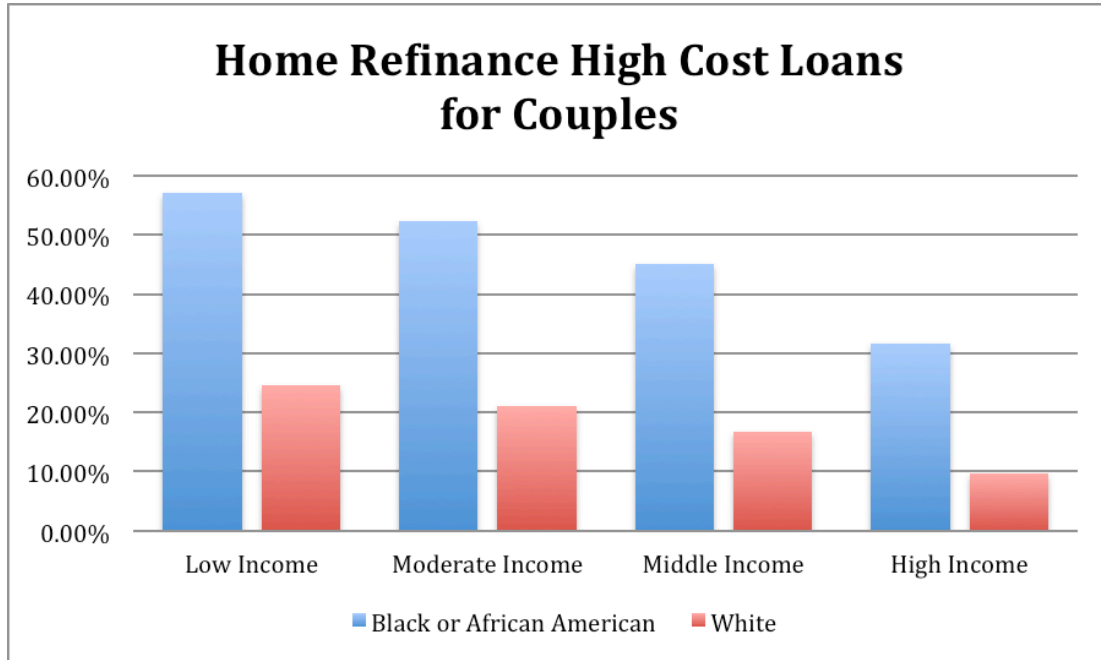


Figure 7: Home Refinance Couples



Low Income

	Conventional Loan	High Cost Loan	Total
Black Couple	10670 43.0%	14133 57.0%	24803 100.0%
White Couple	180358 75.4%	58720 24.6%	239078 100.0%

Moderate Income

Black Couple	33530 47.6%	36956 52.4%	70486 100.0%
White Couple	674840 78.9%	180285 21.1%	855125 100.0%

Middle Income

Black Couple	63265 55.0%	51671 45.0%	114936 100.0%
White Couple	1325752 83.3%	266121 16.7%	1591873 100.0%

High Income

Black Couple	100112 68.4%	46282 31.6%	146394 100.0%
White Couple	2210870 90.4%	234151 9.6%	2445021 100.0%

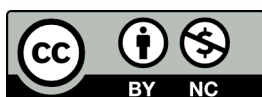
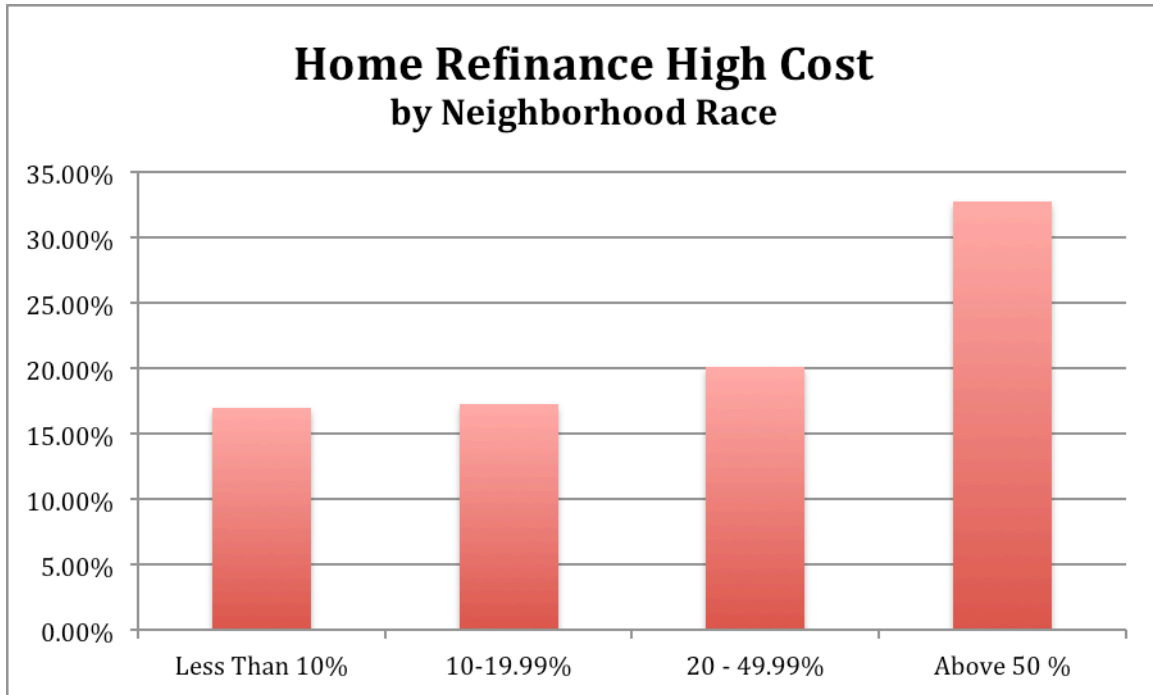
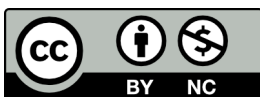


Chart 7: Home Refinance by Neighborhood Race



	Conventional Loan	High Cost Loan	Total
Less Than 10%	3820797 83.0%	780401 17.0%	4601198 100.0%
10-19.99%	2354737 82.7%	492709 17.3%	2847446 100.0%
20 - 49.99%	2575985 79.9%	650003 20.1%	3225988 100.0%
Above 50 %	1308893 67.3%	634913 32.7%	1943806 100.0%



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Table 4: Borrowing While Black Disparity Ratio for Home Refinance Mortgages

Low-income compared to Low-income

1. Low-income African American female compared to Low-income white female, **disparity ratio 1.9** (53.5 market share compared to 24.8).
2. Low-income African American male compared to Low-income white male, **disparity ratio 2.1** (53.7 market share compared to 28.1).
3. Low-income African American couple compared to Low-income white couple, **disparity ratio 2.3** (57.0 market share compared to 24.6).

Moderate-income compared to Moderate-income

4. Moderate-income African American female compared to Moderate-income white female, **disparity ratio 2.0** (48.0 market share compared to 23.6).
5. Moderate-income African American male compared to Moderate-income white male, **disparity ratio 2.2** (46.6 market share compared to 20.6).
6. Moderate-income African American couple compared to Moderate-income white couple, **disparity ratio 2.4** (52.4 market share compared to 21.1).

Middle-income compared to Middle-income

7. Middle-income African American female compared to Middle-income white female, **disparity ratio 2.1** (42.0 market share compared to 19.9).
8. Middle-income African American male compared to Middle-income white male, **disparity ratio 2.2** (40.2 market share compared to 18.0).
9. Middle-income African American couple compared to Middle-income white couple, **disparity ratio 2.7** (45.0 market share compared to 16.7).

High-income compared to High-income

10. High-income African American female compared to High-income white female, **disparity ratio 2.3** (36.7 market share compared to 16.0).
11. High-income African American male compared to High-income white male, **disparity ratio 2.3** (36.0 market share compared to 15.8).
12. High-income African American couple compared to High-income white couple, **disparity ratio 3.3** (31.6 market share compared to 9.6).

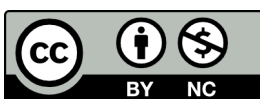
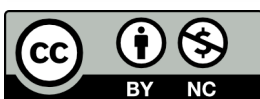


Table 5: Neighborhood Income and Race

5.a (Neighborhood Income)

	Conventional Loan	High Cost Loan	Total
Low Income	105937 57.3%	78912 42.7%	184849 100.0%
Moderate Income	1126317 66.9%	558068 33.1%	1684385 100.0%
Middle Income	5083893 78.5%	1389563 21.5%	6473456 100.0%
High Income	3744265 87.6%	531483 12.4%	4275748 100.0%

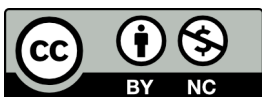


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