

*A Summary of High Cost Lending
Raleigh-Cary and Durham Metropolitan Statistical Areas*

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Executive Summary

- Slightly less than one in six loans in the Triangle is “high cost” (16.5 percent). Rates of incidence vary greater, from as low as 11 percent in Orange County to as high as 32.1 percent in Franklin County.
- African-American borrowers are 3.95 times more likely to have a high cost loan and Latinos are 2.25 times more likely than are white borrowers.
- Low and moderate income (LMI) African-Americans are 3.7 times more likely to have a loan with a high cost rate than are LMI whites.
- Where a loan is originated is still a powerful factor: Borrowers with incomes above MSA medians who live in LMI tracts are more likely to be given a high cost loan than are LMI borrowers in non-LMI tracts.
- Loans made by lenders regulated by the Federal Reserve (24.7 percent) and HUD (25.1 percent) are the most likely to bear high cost rates. By contrast, just 2.3 percent of loans under NCUA regulation and 9.5 percent of loans under OCC regulation bear high cost rates.
- In the fourteen census tracts where more than half of all loans bear high cost rates, minorities make up 89.8 percent of the population.
- Raleigh and Durham are not the only North Carolina MSAs with high disparities. Wilmington, Greenville, and Charlotte also have higher than average disparity figures.
- The same corporations often have very different lending institutions that serve different racial groups. The best example is Washington Mutual (WM) . In Raleigh and Durham MSAs, 97 percent of Long Beach Mortgage’s (a subsidiary of WM) originations were high cost. None of Washington Mutual Bank, N.A.’s originations was high cost. Those are big differences. Although both institutions operate in the Raleigh-Durham area, they serve very different populations. In fact, more than 53 percent of Long Beach Mortgage’s loans go to minority borrowers, compared to just 15 percent of loans at Washington Mutual Bank, NA.
- The corporations with the highest disparity rates in lending to borrowers in the Raleigh-Cary and Durham MSAs are Wells Fargo and Centex Homes.
- The corporations that have made the most high cost loans are National City of Indiana (Merrill Lynch), Decision One (HSBC), Option One (H&R Block), Countywide, Ameriquest, and Fremont.
- Overall, excess interest (above and beyond 3 percentage points) of \$1.5 million leaves the hands of borrowers in Wake and Durham County each month on loans issued in 2005.

About the data

Data consists of all originations to owner-occupied 1-to-4 family homes with first lien positions. All data is from 2005, the last year that HMDA data is available from the Federal Financial Institutions Examination Council.

That is the same cut of loans monitored by NCRC in their “Income is No Shield Report.” There were 56,019 originations within this criterion in 2005.

Literature Review

NCRC’s study “Income is No Shield” is but the latest in a series of reports that have exposed the longstanding inequalities in mortgage pricing. Their study advances the field by showing how even with high incomes, African-Americans are still more likely to pay a high cost interest rate for a loan than are lower to moderate (LMI) white borrowers.

That study also makes reference to the gap in assets held by white and minority borrowers. In the Federal Reserve Survey of Consumer Finances, white households had average assets of \$38,000, while minorities had substantially less in assets. The analysis surveyed respondents for 2001. Minority households averaged an asset base of just \$7,200.

HMDA data does not reveal the asset holdings of loan applicants.

Studies have sought to sort out the impact that credit scoring makes upon the cost of lending.

A 2004 NCRC study studied the impact of high cost lending upon asset building among households in low-income census tracts. The survey tapped private credit bureau data, giving analysts the ability to separate the impact of credit scoring from other factors. They found that even after controlling for credit, neighborhoods with high rates of minorities and seniors were more likely to have higher rates of high cost loans. The implication from their analysis was that this practice contributed to long-term depletion of wealth among low-income families. The study also found a positive link between the percentage of both African-American and senior households and the rate of subprime refinance lending.

Efforts to control for credit scoring by other researchers have reached similar conclusions. The Federal Reserve found that after controlling for credit score, the number of high cost loans still increased in neighborhoods as the percentage of African-American residents went up. The Fed could not conclude if race played a significant role, but they also would not deny the possibilityⁱ. The Center for Responsible Lending combined credit data with 2004 HMDA data, and found that racial disparities in the rate of high cost lending remainedⁱⁱ.

An analysis of 2005 HMDA data published in March 2007 found essentially the same conclusions as NCRC’s July 2007 report: African-Americans were 3.8 times more likely

to pay a high cost rate for a loan and Latinos were 3.6 times more likelyⁱⁱⁱ. This study looked at six metropolitan areas.

One difference in this study was its focus upon the use of lending channels by corporations. The study drilled down to distinctions among specific financial services corporations to reveal discrepancies in treatment of minorities on a corporate level. This finding shows that selection bias is not driving the disparity findings. Such a finding would say that the disparities owe to differences in the choice of lender among different racial groups. Whites are going to more prime lenders than are African-Americans and Latinos. While it is true that they do differ somewhat, it is also true that corporations routinely provide different lending channels to borrowers.

Washington Mutual, for example, offers loans through two channels. They have a subprime arm known as Long Beach Mortgage. They have a prime channel operating under the name Washington Mutual Savings Bank. In the 6-metro study, white borrowers accounted for more than 80 percent of loans made by Washington Mutual Bank. Less than one percent of loans at Washington Mutual Bank were high cost. Whites made approximately 22 percent of loans at Long Beach Mortgage, where more than 90 percent of all loans were high cost^{iv}.

It is the same story in Raleigh and Durham. Approximately 97 percent of Long Beach Mortgage's originations were high cost. None of Washington Mutual Bank, N.A.'s originations was high cost. Those are big differences. Although both institutions operate in the Raleigh-Durham area, they serve very different populations. In fact, more than 53 percent of Long Beach Mortgage's loans go to minority borrowers, compared to just 15 percent of loans at Washington Mutual Bank, NA.

Analysis of Raleigh-Cary and Durham MSAs

The Impact of Regulators

Lenders are regulated by a variety of federal regulators. The orientation depends upon the nature of the institution. Savings banks, for example, are generally regulated by the Office of Thrift Supervision. Credit Unions are regulated by the National Credit Union Administration. The Office of the Comptroller of the Currency regulates large banks, while the Federal Reserve oversees the larger financial institutions that house many different financial services under one roof.

While all seek to promote sound underwriting, the regulators oversee lending institutions whose policies impose very different imprints upon Raleigh-Cary and Durham.

It is the Federal Reserve and the FDIC where the most high cost lending takes place. The following table shows the rate of high cost lending by institutions under the supervision of each regulator.

	Pct High Cost	Minority Loans	Minority High Cost	White Loans	White High Cost	Minority-White Disparity	Black-White Disparity
FDIC	14.1	634	259	2,632	206	5.2	6.6
Federal Reserve	24.7	2,404	1,057	5,534	921	2.6	3.2
HUD	25.7	3,993	1,589	9,728	1,606	2.4	3.0
NCUA	2.3	673	77	2,672	6	51.0	1.2
OCC	9.5	3,448	668	13,175	884	2.9	4.2
OTS	11.8	1,258	320	4,399	342	3.3	4.2

*Loan counts exclude loans where institution did not provide data on borrower race or ethnicity.

Credit unions appear to have the highest disparity in their ratio of high cost loans between minorities and whites. Yet those numbers should be disregarded because of the low number of high cost loans in their portfolio. Overall, credit unions make the fewest high cost loans to both minorities and to whites of any set of institutions.

At the FDIC, the Federal Reserve, and at HUD, minorities get high cost loans at high rates – more or less 40 percent of the time.

- Loans regulated by the Federal Reserve and the Department of Housing and Urban Development (HUD) show the highest rate of high cost lending.
- The Federal Reserve has the authority to act, and lacking that imperative, the OTS is acting.
- The Office of Thrift Supervision (OTS) has a comparatively low rate of high cost loans. Among the regulators, though, the OTS has one of the highest disparity rates in terms of black-white pricing. The OTS initiated an Advanced Notice for Proposed Rulemaking (ANPR) to determine if it should alter its rules against unfair and deceptive lending practices by OTS members. The request can be viewed online at <http://www.ots.treas.gov/docs/7/73373.pdf>

Which corporations are lending at the most disparate rates?

Earlier, we profiled the practice of channeling among corporations through the example of Washington Mutual. They are not alone, though. In fact, many big name lenders have the same kind of record.

In Raleigh-Durham, Wells Fargo has the greatest disparity in loan pricing between its minority and non-minority borrowers. Minority borrowers are 3.71 times more likely than white borrowers to get a high cost loan. That is a big ratio. Even worse is the fact

that Wells Fargo plays such a big role in the local lending market. With their great variety of lending channels, the corporation as a whole is responsible for more than 11 percent of all first lien originations on 1 to 4 family owner-occupied homes in the Raleigh and Durham MSAs. In 2005, they made 6534 originations in those two MSAs alone. That number is more than 3 times greater than the number of originations by Sun Trust or BB&T, and double the size of either Wachovia or Bank of America.

Centex Homes provides financing for homes in developments that it builds. Centex is a big builder. They do not only build homes. They also build many state projects. Centex builds prisons and university buildings. They currently are building several projects on the campus of UNC-Chapel Hill.

Centex has a record of higher than normal disparities in its lending. Minority borrowers are more than 3.48 times more likely to get a high cost loan than are non-minority borrowers. More than 1 in 3 loans made to a minority is high cost. Consider the kinds of properties that they are building—large suburban subdivisions. These homes, if for nothing else, represent the kind of mass market item with broad appeal that should make them safe for collateralization. What's more, they are rarely low cost. Their average borrower reported an income of \$69,000 in 2005.

A full list of pricing disparities is available in Table 4, at the end of the document.

Option One, Ameriquest, Countrywide, Fremont, National City of Indiana, and Decision One make the most high cost loans in the Triangle.

CRA-NC usually says that borrowers are better off avoiding mortgage companies and instead going directly to a branch bank. Sure enough, some of the lowest rates of high cost mortgage rates are among names like Bank of America, BB&T, Wachovia, SunTrust, US Bank, and First Citizens.

Yet those banks sometimes fall down in their ability to keep their doors open to minority borrowers. With the exception of Wachovia and Bank of America, each has less than 20 percent of its loans in its portfolio made to minority borrowers. This opens up the market for subprime lenders that lend predominantly to minorities – institutions like CitiFinancial or Long Beach Mortgage, for example.

The State Employees Credit Union is one of the state's largest lenders. It has a virtually spotless record of lending. In 2005, SECU made no high cost loans to minorities and only a handful to white borrowers.

The impact upon Majority-Minority Communities

Let's start with a startling fact: In 2005, in the fourteen census tracts where more than half of all loans bear high cost rates, minorities make up 89.8 percent of the population.

Looking out in to the entire 157 census tracts in the two counties, the trend is even more consistent. For every ten percentage point increase in the percent of minority residents in census tract, the percent of high cost loans made in that tract goes up 8 percentage points.

Simply said, where there are more minorities, high cost loans are issued more frequently. That relationship outweighs even the relative role that income plays.

Comparing the incidence of high cost loans with the income of census tracts, relative to the average income for an entire MSA, the results show an expected negative relationship. As incomes go up relative to the MSA, the rate of high cost loan issuance goes down. Yet, the strength of that relationship is weaker.

These interest payments add up. The following table shows the interest payments that must be paid on the portion of interest that falls more than 3 percentage points above existing treasuries. Overall, excess interest (above and beyond 3 percentage points) of \$1.5 million leaves the hands of borrowers in Wake and Durham County each month on loans issued in 2005.

County	Asian	Black	Islander	Latino	Native American	Not Given	White	Total
Durham	1,674	176,974	2,268	10,854	916	64,763	77,012	334,460
Wake	26,757	400,469	2,481	46,063	2,335	170,672	537,164	1,185,941
Total	28,431	577,443	4,748	56,917	3,251	235,434	614,177	1,520,401

Many subprime loans never exceed the interest rate threshold of 3 percentage points.

This is the monthly cost alone. On an annualized basis, the total cost would exceed \$18 million. If all of the interest portion on high cost loans was included, then the monthly costs would exceed \$4.5 million.

Appendices

Table 1: Percent High Cost by County

	Chatham	Durham	Franklin	Johnston	Orange	Person	Wake	
High Cost	254	1753	381	1188	333	205	5157	9271
not High Cost	1475	6792	948	4041	3160	634	29698	46748
Total	1729	8545	1329	5229	3493	839	34855	56019
PCT HIGH COST	14.7%	20.5%	28.7%	22.7%	9.5%	24.4%	14.8%	16.5%

Base – 56,019 loans (1st lien, 1 to 4 family, owner-occupied)

Table 2: Largest Corporate Lenders (by number of originations, 2005)

stock name	Total Of loan Type	High Cost	not High Cost	Pct High Cost	Rank Loans	Rank High Cost
Wells Fargo	6534	363	6171	5.6%	1	6
Countrywide	3431	541	2890	15.8%	2	5
Wachovia	3045	56	2989	1.8%	3	31
Bank of America	2495	14	2481	0.6%	4	44
State Employees Credit Union	2406	1	2405	0.0%	5	67
Sun Trust	2091	50	2041	2.4%	6	33
Merrill Lynch	1857	1069	788	57.6%	7	1
BB&T	1792	57	1735	3.2%	8	29
ABN Amro	1239		1239	0.0%	9	90
GMAC	1211	88	1123	7.3%	10	26
American Home Mortgage	1206	106	1100	8.8%	11	22
JP Morgan chase	990	67	923	6.8%	12	28

You can see that some of the most popular lenders are also institutions that pace the market for high cost lending. Those groups include Wells Fargo, Countrywide, and Merrill Lynch (mainly through its subsidiary National City of Indiana).

*Table 3: Most Frequent High Cost Lenders *
By Mortgage Channel

	Parent	High Cost	Not High Cost	Loans	Rank, HIGH COST
NATIONAL CITY BANK, INDIANA	Merrill Lynch	1,069	788	1,857	1
OPTION ONE MORTGAGE CORP.	H&R Block	523	30	553	2
COUNTRYWIDE HOME LOANS	Same	517	2,607	3,124	3
Decision One	HSBC	491	34	525	4
AMERIQUEST MORTGAGE COMPANY	Same	372	74	446	5
FREMONT INVESTMENT & LOAN	Same	356	12	368	6
WELLS FARGO BANK, NA	Same	292	5,551	5,843	7
ARGENT MORTGAGE COMPANY	Ameriquest	251	35	286	8
NOVASTAR MORTGAGE INC	Same	244	22	266	9
EQUITY ONE, INC.	Banco Popular	207	46	253	10
THE CIT GROUP	Same	189	47	236	11

LONG BEACH MORTGAGE CO.	Washington Mutual	184	6	190	12
EQUIFIRST CORPORATION	Regions	174	18	192	13
CITIFINANCIAL SERVICES, INC	Citibank	148	16	164	14
ACCREDITED HOME LENDERS, INC.	Same	146	6	152	15

*Table 4: Lending Disparities by Corporation
(Collapses subsidiaries under one roof)*

Corporate Parent	Loans	Pct Market	Pct of Minority Market	Pct High Cost	Pct Minority High Cost	Pct Non-Minority High Cost	Ratio	Percent Minority In portfolio
Wells Fargo	6534	11.7	3.9	5.6	13.3%	3.6%	3.71	20.4%
Centex Homes	762	1.4	1.3	16.3	34.5%	9.9%	3.48	25.9%
RBC Centura	514	0.9	0.1	1.8	4.1%	1.2%	3.40	19.1%
First Charter	51	0.1	0.0	3.9	8.3%	2.6%	3.25	23.5%
GMAC	1211	2.2	0.9	7.3	13.8%	4.6%	2.99	28.7%
Washington Mutual	754	1.3	2.0	24.4	43.3%	15.3%	2.82	32.5%
First Horizon	715	1.3	0.6	7.4	13.8%	5.5%	2.52	23.4%
Countrywide	3431	6.1	5.8	15.8	25.6%	11.4%	2.26	31.0%
DR Horton	389	0.7	0.3	6.4	9.2%	4.2%	2.20	44.7%
Wachovia	3045	5.4	0.6	1.8	3.0%	1.5%	2.04	24.0%
Sun Trust	2091	3.7	0.5	2.4	3.4%	2.0%	1.71	26.4%
JP Morgan Chase	990	1.8	0.7	6.8	9.4%	5.6%	1.70	31.0%
Bank of America	2495	4.5	0.2	0.6	0.8%	0.5%	1.55	26.4%
Merrill Lynch	1857	3.3	11.5	57.6	70.5%	50.0%	1.41	37.0%
HSBC	849	1.5	6.9	75.4	85.2%	65.8%	1.29	49.4%
Banco Popular	376	0.7	2.6	64.1	69.0%	59.9%	1.15	46.3%
Indy Mac	164	0.3	0.6	34.8	37.1%	33.3%	1.11	37.8%
CIT Group	236	0.4	2.0	80.1	82.7%	77.1%	1.07	53.8%
GE	135	0.2	1.4	95.6	98.6%	92.2%	1.07	52.6%
Fremont	368	0.7	3.8	96.7	98.4%	93.3%	1.05	67.7%
BB&T	1792	3.2	0.6	3.2	3.3%	3.2%	1.03	15.4%
H&R Block	631	1.1	6.3	91.9	93.2%	90.7%	1.03	49.1%
Accredited Home Lenders	152	0.3	1.6	96.1	96.9%	95.5%	1.01	42.1%
Novastar Financial	280	0.5	2.8	91.8	91.0%	92.5%	0.98	47.5%
Ameriquest	623	1.3	6.7	85.1	84.2%	87.2%	0.97	70.1%
US Bank	423	0.8	0.2	4.5	2.8%	4.8%	0.58	16.8%
First Citizens	316	0.6	0.2	4.4	2.0%	4.9%	0.41	15.8%
NC State Employees Credit Union	2406	4.3	0.0	0.0	0.0%	0.1%	0.00	17.4%
Citigroup	245	0.4	2.0	77.1	84.3	70.4	1.20	49.4%

Includes first lien, 1 to 4 family, owner-occupied homes. Minority loans consist of loans to Asians, Latinos, African-Americans, Native Americans and Pacific Islanders.

Other

- Look out for neighborhoods with loans that can be characterized as likely for potential foreclosures. In Charlotte, Beazer Homes built and mortgaged a lot of homes that were subsequently foreclosed upon en masse.
- State legislation acted against the “We Buy Ugly Houses” people.
- Down the line, we need to think about the impact of reverse mortgages on low-asset communities. If home equity is the largest portion of wealth in a household, what does it portend for future generations when such a tool is utilized?

ⁱ Avery, Robert B., and Canner, Glenn B. Summer 2005. “New Information Higher-Cost Loans Under HMDA and Its Application in Fair Lending Enforcement.” *Federal Reserve Bulletin*.

ⁱⁱ Center for Responsible Lending, *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*, see

<http://www.responsiblelending.org/issues/mortgage/reports/page.jsp?itemID=29371010>

ⁱⁱⁱ *Paying More for the American Dream: A Multi-State Analysis of Higher Cost Home Purchase Lending*. A Joint Report by the California Reinvestment Coalition, the Community Reinvestment Association of North Carolina, The Neighborhood Economic Development Advocacy Project, the Woodstock Institute, the Empire Justice Center, and the Massachusetts Affordable Housing Alliance. March 2007.

^{iv} Ibid.