

## **Executive Summary**

Wells and Wachovia are large North Carolina lenders with an overall lending record that is distinct from the subprime market. Wells and Wachovia both have demonstrated lower rates of high cost lending in the past years than the state market has as a whole. They have also denied loans less frequently to borrowers. See table 1 for exact details.

However, there are shortcomings that deserve attention and dialogue. While both Wells and Wachovia make fewer high costs than do most lenders in North Carolina, Wells Fargo has not developed a record of equitable loan pricing or access to credit.

### *Cost of Lending*

- In 2008, Wells had a much lower rate of high cost lending than did Wachovia. In 2007, Wells was slightly higher than Wachovia. Both institutions made high costs loans (percentage) less frequently than did lenders in the state in general.
- Wells had its highest incidence of high-cost lending in Rocky Mount in both 2007 and 2008.
- In Greenville, Wells Fargo issued high-cost loans to African-American borrowers 5.8 times more frequently than they did to white borrowers in 2008.
- Overall, Wells Fargo originated high-cost loans to African-American borrowers 2.5 times more frequently than they did to white borrowers. In Winston-Salem, Wilmington, Raleigh, Durham, Greenville, and Burlington MSAs, the frequency of high cost lending for African-Americans is more than three times the frequency for white borrowers.
- In the instances of conventional loans for home purchase or refinance of a loan for a SFSB property, Wells issued high cost loans to African-Americans at an even more disparate frequency: 4.3 times more often, relative to white borrowers, on home purchase loans and 4.8 times more often on refinance loans. The ratios for Wachovia were much lower – 2.3 and 2.3 times.

### *Access to Credit*

Wells Fargo has denied loans to minorities more frequently than Wachovia has in recent years. African-Americans were declined for almost half of their conventional loan applications in 2008 at both Wells and Wachovia.

- In 2008, Wells rejected 47.4 and 30.1 percent of conventional mortgage loan applications made by African-Americans and Latino borrowers, respectively, for single-family site-built (SFSB) homes.
- Wells Fargo denies relatively few loans to white borrowers. In 2008, Wells rejected just 16.9 percent of SFSB conventional mortgage applications made by white borrowers – a figure that was six percentage points lower than the rate of denials to white borrowers at Wachovia.
- Denial rates are lower for both minorities and white borrowers when working with the FHA program. Denial rates on FHA loans were 20.9 and 18.4 percentage points lower for African-Americans seeking loans from Wells in 2008 and 2007, respectively, than for conventional loans.

### *The Shift to FHA and Refinance Lending*

The volume of lending declined in 2008, particularly at Wachovia. Although Wachovia is established as a well-known North Carolina bank, Wells Fargo has actually originated more loans in North Carolina in the last two years. Conventional home purchase loans dropped by 49.8 percent at Wells, and by approximately 46 percent at Wachovia. But FHA lending grew. It doubled at Wells and increased more than fivefold at Wachovia. Minority borrowers were much more likely to get an FHA loan product in 2008 at either Wells or Wachovia.

- The refinance market was a strong point, but it also re-oriented itself to the FHA. Refinances on conventional and FHA loans increased 22 percent and 80 percent, respectively, at Wells Fargo. While conventional refinance volume dropped 19 percent at Wachovia, FHA refinances increased more than tenfold. FHA lending almost doubled at Wells.
- FHA made up 15.1 percent of Wells' lending to Latino borrowers in 2007, but 39.1 percent in 2008. For Wachovia, the change was more than sevenfold – from a 2.6 percent share in '07 to 18.8 percent in '08.
- FHA made up 64.6 percent of home purchase loans to African-Americans at Wells in 2008. It constituted 21.6 percent of the same lending at Wachovia. By comparison, the same categories were just 28.6 percent and 1.9 percent in 2007.
- There was a golden opportunity to refinance at historically low interest rates in 2008. Yet, only some people could get the gold. While white borrowers got 26.3 percent more conventional refinance loans from Wells in 2008, African-American borrowers made 17.7 percent fewer conventional refinance loans (compared to 2007).

This report looks at mortgage credit in North Carolina in 2007 and 2008. It includes analysis of access to credit, the cost of credit, and changes in the provision of credit. It looks at loans for both Wells and Wachovia, and in some instances, it compares their lending to the broader North Carolina marketplace.

This review looks at the impact of Wells Fargo and Wachovia in North Carolina during 2007 and 2008. This analysis includes completed loan decisions for all property types, for all loan purposes, for all loan types, for all lien categories.

Although Wachovia is established as a well-known North Carolina bank, Wells Fargo has actually originated more loans in North Carolina in the last two years.

Data for all lending in North Carolina is available for as recently as the end of 2007. This chart shows some basic figures about lending in North Carolina.

**Table 1: Mortgage Lending in North Carolina, 2007**

	Loans			High Cost				Denial Rate		
	Origs.	Denials	Decisions	Number	Pct.	WB	WFC	All	WB	WFC
<b>All</b>	337,638	165,234	556,135	55,967	16.6	8.6	9.0	29.7%	22.6	19.9
<b>White</b>	246,559	90,178	370,604	34,536	14.0	7.9	7.3	24.3%	19.6	16.1
<b>A-A</b>	40,351	8,366	41,652	12,637	31.3	14.5	18.3	20.1%	34.6	35.6
<b>Latino</b>	12,834	6,987	21,968	2,796	21.8	14.5	9.4	31.8%	32.0	23.9

In 2007, Wells made more loans in North Carolina than did Wachovia. This probably belies appearances on the street. Wells, until its acquisition of Wachovia, had no branches in North Carolina. Wachovia has 321 branches.

2008 loan data comes from HMDA submissions from Wachovia and Wells Fargo. HMDA LARs for 2007 provide data for 2007. This report examines lending at three Wells Fargo channels: Wells Fargo NA, Wells Fargo Financial North Carolina, and Wells Fargo Funding. For Wachovia, the report uses data from five channels: Wachovia Mortgage, Wachovia Bank NA, World Savings Bank, Wachovia Bank of Delaware (only 5 loan decisions), SouthTrust DBA Equibanc.

### Access to Credit

In 2008, credit markets tightened. A lot of media attention focused on the surge in the share of lending made up by refinancing. Less attention, though, was given to the increase in FHA lending. FHA lending, which only covers loans for home purchase or for refinance, allow banks to limit some of their credit risk.

Many new stories indicated that borrowers had a harder time getting approved for a loan in 2008. Table 1, above, shows the denial rates and rates of high cost lending for North Carolina in 2007.

At Wachovia and Wells, that story is true, but not dramatically so. The rate of denials did increase overall at both. However, the increase in denials was muted. In one instance (FHA to A-A's at Wachovia), denial rates dropped slightly. Access to credit was not the story at these borrowers that

characterized the larger market. It is far less significant of a change compared to the magnitude of the shift, evidenced on the previous page, toward FHA lending.

**Table 2A: Denial Rates on SFSB homes**

by Race and Loan type		2007		2008	
		Wachovia	Wells	Wachovia	Wells
<b>A-A</b>	Conventional	34.7	42.5	45.4	47.4
	FHA	34.6	24.1	32.5	26.5
<b>White</b>	Conventional	19.6	16.4	23.1	16.9
	FHA	13.6	19.7	18.7	15.8
<b>Latino</b>	Conventional	32.2	26.7	44.2	30.1
	FHA	21.0	24.4	28.9	29.4

African-Americans were declined for almost half of their conventional loan applications in 2008 at both Wells and Wachovia.

Higher declination rates for conventional loans may explain the shift in popularity toward FHA products. Rates of FHA lending declines were relatively similar in 2008 and 2009. Conventional lending became tight, whereas FHA lending remained relatively unchanged. People responded by picking the FHA product more frequently. Lenders denied a disproportionately higher, relative to white borrowers, share of conventional loans to African-Americans and Latinos.

Much of the challenge for African-American lending came with conventional refinances: At Wells, 52 percent of such loans were turned down.

**Table 2B: Denial Rates, Home Purchase Loans Only, for Site-Built homes loans**

by Race and Loan type		2007		2008	
		Wachovia	Wells	Wachovia	Wells
<b>A-A</b>	Conventional	18.5	18.8	30.4	19.4
	FHA	34.6	18.6	25.9	20.9
<b>White</b>	Conventional	8.0	6.6	13.1	6.9
	FHA	13.6	12.9	12.9	9.5
<b>Latino</b>	Conventional	15.0	13.7	25.5	17.4
	FHA	14.3	20.8	25.0	22.6
By Owner Occupancy for Conventional Lending		2007		2008	
		Wachovia	Wells	Wachovia	Wells
<b>Owner</b>	Denial Rate	8.8	7.7	13.4	7.3
	Volume	7,677	11,462	4,085	5,869
<b>Non-Owner</b>	Denial Rate	12.9	10.1	20.8	12.8
	Volume	1,920	2,790	1,110	1,382

Denial rates did increase in 2008. Wachovia appears to have tightened its credit more than did Wells. Loan volumes dropped precipitously. Wells made almost half as many conventional home purchase loans for owner-occupied site built home loans in 2008 as it had made previously in 2007.

## **Cost of Credit**

The cost of credit makes a substantial difference on the social value of a loan. High-cost loans, all things being equal, expose borrowers and their surrounding communities to risk. High-cost loans, by their very nature, impose higher debt service upon borrowers.

A high-cost interest rate (a “rate spread” loan) bears an interest rate that is either 300 basis points (for first liens) or 500 basis points (for second liens) higher than the interest rate of a comparably-termed Treasury note during the previous month.

It is important, when evaluating the scope of high-cost credit, to understand how its measurement can be influenced by changes in the yield curve. In 2008, fewer loans carried a “high-cost” interest rate. This calculation is not static. Fluctuations in the yield curve have their own effect upon these scores. When the yield curve is relatively flat, as it was in 2009, long-term interest rates tend to be priced more closely to short-term rates. Most lenders borrow money in the short run and lend it out for the long term. Thus, when yield curves flatten, there is a greater likelihood that fewer loans will register a 300 basis point spread, all other things being equal.

In 2008, yield curves were very flat by historical standards. Accordingly, there are relatively few high-cost loans in the 2008 data. This can give a “false-positive” to an analysis of loan pricing.

Loan terms can obscure realistic analyses of the cost of credit. To the extent that lenders make adjustable-rate mortgages with lower teaser rates, the counts of high cost loans are under-reported. This means that the rates of high-cost credit provision are surely higher. Wachovia’s integration of World Savings Bank, for example, increased the use of adjustable-rate mortgages. Wachovia offered the “Fours Ways to Pay” product. Wells still offers Hybrid ARMS (5-1) and interest-only products.

In 2008, fewer loans were made with adjustable rates of interest. HMDA data has never disclosed the interest rates of mortgage loans upon reset. This created a possibility where loans that would later reset at high-cost levels were reported as not high-cost. With the shift to more fixed rate lending, 2008 records should capture a higher (and more accurate) share of high-cost loans.

In short, there are two moving trends in play that complicate comparisons of loan pricing across time. One factor (yield curves) reduces the chance that loans will count as high-cost. The other (more fixed rates) increases the chance that loans will count as high cost. All of this means that there is probably plenty of wisdom in discounting comparisons of lending costs year to year.

For African-American borrowers, Wells Fargo has more frequently issued “high-cost” loans. There is a wide discrepancy in the frequency of high-cost loan issuance between African-American and white borrowers at Wells. At Wachovia, the distinctions in the cost of loans have been more muted. There is still a big discrepancy at Wachovia, but it is not nearly that of Wells Fargo. See table three for a breakdown in the cost of lending over the last two years at these two institutions.

**Table 3: High-Cost Lending: Conventional Home Purchase and Refinances on SFSB Homes, by Race/Ethnicity**

Percent: high cost lending		2007		2008	
		Wachovia	Wells	Wachovia	Wells
<b>A-A</b>	H-P	13.1	23.9	12.6	17.1
	Refi	13.8	35.3	23.0	29.4
<b>White</b>	H-P	5.4	5.7	5.5	4.0
	Refi	6.5	11.9	9.8	6.1
<b>Latino</b>	H-P	16.1	21.1	13.2	8.5
	Refi	11.1	10.6	16.8	9.6
Ratio: high cost lending		2007		2008	
		Wachovia	Wells	Wachovia	Wells
<b>A-A to White</b>	H-P	2.4	4.2	2.3	4.3
	Refi	2.1	3.0	2.3	4.8
<b>Latino to White</b>	H-P	3.0	3.7	2.4	2.1
	Refi	1.7	0.9	1.7	1.6

Wells exhibits a better record with its lending to Latino borrowers. In fact, the frequency of high cost refinance loans (conventional SFSB) to whites and Latinos are differentiated by only three and one-half percentage points.

The second part of this chart focuses on the disparity in loan pricing. Importantly, the data problems that plague the calculation of percentages should not make a difference in these outcomes: the shortcomings are felt equally across loans to all races and ethnicities.

The data show that disparity exists, and that it is most dramatic at Wells Fargo. Wells Fargo lending is particularly disparate in its treatment to African-American borrowers. African-Americans were 4.8 times more likely to get a high-cost refinance loan, compared to white borrowers, in 2008 at Wells. Wachovia and Wells perform more closely with Latino borrowers.

The disparity at Wells existed in 2007, as well, and suggests that the 2008 data might not be a one-time fluke.

The frequency of high cost lending varies by market. Some of the highest rates of high cost lending at Wells Fargo and Wachovia have been in Rocky Mount. There is less variation market-to-market at Wells. While Goldsboro, Fayetteville, and Rocky Mount have experienced high cost rates of higher than 18 percent at Wachovia in 2008, others have had rates below 8 percent.

The next three tables (4A, 4B, and 4C) are going to explore loan pricing across North Carolina’s communities. First, the report will compare the records of the two institutions themselves. The logic of this chart is to see how past performance might predict the impact of the new ownership of “legacy Wachovia” by Wells Fargo. This table shows the past record of the two branches, compared within the same MSAs.

**Table 4A: High Cost Lending by Market – Comparing WFC to WB**

2007	Wachovia Bank				Wells Fargo				RATIO
	High	Not	Volume	%	High	Not	Volume	%	WFC to WB
ASHEVILLE	86	995	1,081	8.0%	119	1,053	1,172	10.2%	1.28
BURLINGTON	23	296	319	7.2%	33	353	386	8.5%	1.19
CHARLOTTE	448	5,871	6,319	7.1%	460	4,288	4,748	9.7%	1.37
DURHAM	92	1,113	1,205	7.6%	132	1,518	1,650	8.0%	1.05
FAYETTEVILLE	87	396	483	18.0%	160	1,566	1,726	9.3%	0.51
GOLDSBORO	24	218	242	9.9%	27	384	411	6.6%	0.66
GREENSBORO	199	1,732	1,931	10.3%	264	2,028	2,292	11.5%	1.12
GREENVILLE	41	350	391	10.5%	24	232	256	9.4%	0.89
HICKORY	76	699	775	9.8%	50	400	450	11.1%	1.13
JACKSONVILLE	23	180	203	11.3%	62	755	817	7.6%	0.67
RALEIGH	216	3,150	3,366	6.4%	343	4,818	5,161	6.6%	1.04
ROCKY MOUNT	37	285	322	11.5%	28	120	148	18.9%	1.65
VIRGINIA BEACH	11	87	98	11.2%	5	94	99	5.1%	0.45
WILMINGTON	61	1,063	1,124	5.4%	114	1,559	1,673	6.8%	1.26
WINSTON	126	1,352	1,478	8.5%	136	1,174	1,310	10.4%	1.22
Rural	597	5,020	5,617	10.6%	455	4,055	4,510	10.1%	0.95
<b>ALL</b>	<b>2,147</b>	<b>22,807</b>	<b>24,954</b>	<b>8.6%</b>	<b>2,412</b>	<b>24,397</b>	<b>26,809</b>	<b>9.0%</b>	<b>1.05</b>
2008	Wachovia				Wells Fargo				
	High	Not	Volume	%	High	Not	Volume	%	WFC to WB
ASHEVILLE	75	890	965	7.8%	56	797	853	6.6%	0.84
BURLINGTON	19	141	160	11.9%	29	365	394	7.4%	0.62
CHARLOTTE	362	4,561	4,923	7.4%	261	3,750	4,011	6.5%	0.88
DURHAM	74	847	921	8.0%	69	1,150	1,219	5.7%	0.70
FAYETTEVILLE	62	227	289	21.5%	110	1,953	2,063	5.3%	0.25
GOLDSBORO	20	66	86	23.3%	14	501	515	2.7%	0.12
GREENSBORO	143	1,058	1,201	11.9%	150	1,864	2,014	7.4%	0.63
GREENVILLE	41	208	249	16.5%	14	287	301	4.7%	0.28
HICKORY	77	431	508	15.2%	34	383	417	8.2%	0.54
JACKSONVILLE	23	147	170	13.5%	38	1,122	1,160	3.3%	0.24
RALEIGH	176	2,470	2,646	6.7%	162	4,707	4,869	3.3%	0.50
ROCKY MOUNT	30	122	152	19.7%	16	136	152	10.5%	0.53
VIRGINIA BEACH	4	73	77	5.2%	2	75	77	2.6%	0.50
WILMINGTON	80	785	865	9.2%	49	1,141	1,190	4.1%	0.45
WINSTON	103	804	907	11.4%	63	1,123	1,186	5.3%	0.47
Rural	560	3,254	3,814	14.7%	278	3,646	3,924	7.1%	0.48
<b>All</b>	<b>1,849</b>	<b>16,084</b>	<b>17,933</b>	<b>10.3%</b>	<b>1,345</b>	<b>23,000</b>	<b>24,345</b>	<b>5.5%</b>	<b>0.54</b>

In 2007, a Wells Fargo loan was more likely to bear a high-cost interest rate. That changed in 2008. Wells appears to have pulled back on high-cost lending. Wells has higher market share in big cities such

as Raleigh and Greensboro. It also has some pre-existing strengths in smaller MSAs such as Goldsboro and Jacksonville.

Looking back over the last two years, there are a number of communities where Wachovia far outpaced Wells in their rate of high cost lending. The next chart shows the four MSAs where the transition to Wells Fargo would appear to be the most favorable. These are markets where existing lending patterns show lower rates of high cost credit issuance as Wells than at Wachovia (legacy.) There are also two markets where the rate of high cost lending is not as favorable. In Asheville and in Charlotte, high cost lending was less frequent at Wachovia than it has been at Wells Fargo.

**Table 4B: MSAs with Greatest Difference in High-Cost Lending Rates between Wells and Wachovia**

	High Cost	Not	Volume	Percent	High Cost	Not	Volume	Percent	WFC to WB
<b>Most favorable</b>									
<b>GOLDSBORO</b>	44	284	328	13.4%	41	885	926	4.4%	0.33
<b>FAYETTEVILLE</b>	149	623	772	19.3%	270	3,519	3,789	7.1%	0.37
<b>JACKSONVILLE</b>	46	327	373	12.3%	100	1,877	1,977	5.1%	0.41
<b>VA BEACH</b>	15	160	175	8.6%	7	169	176	4.0%	0.46
<b>Least favorable</b>									
<b>ASHEVILLE</b>	161	1,885	2,046	7.9%	175	1,850	2,025	8.6%	1.10
<b>CHARLOTTE</b>	810	10,432	11,242	7.2%	721	8,038	8,759	8.2%	1.14

What remains unknown is what will determine the elements of change. The ownership structure is new, but the branches, the branch locations, and many of the personnel are the same. If ownership controls the change, then perhaps the previous Wells record will determine the future. If Wells Fargo’s past lending is evidence of how it will run its mortgage business in the future, then communities like Asheville and Charlotte are ones likely to experience more high cost lending in the future. The same logic would suggest good news, though, for several MSAs in Eastern North Carolina.

Still, people make decisions. The physical location of branches should also have some weight upon how credit is priced and allocated. It very well could be that there is little difference between legacy Wachovia and the new North Carolina Wells Fargo operation. In some instances, that might mean good things – for one, it might mean that Wachovia’s record of lower loan price disparities might survive in the new Wells Fargo of North Carolina.

Some of the communities with the lowest frequencies of high-cost lending to all borrowers are also the communities with the lowest discrepancy rates in lending by race. This is a very telling finding. It shows that lending can be inclusive across all sectors of a community. It is important to look on a local level when seeking solutions for lending disparities. The next table – table 4C - spotlights where the discrepancies in loan pricing are the highest.

**Table 4C: High Cost Lending, by MSA, by Race: Ratio of High Cost Lending Rates – African-American/White**

	2007		2008	
	Wachovia	Wells Fargo	Wachovia	Wells Fargo
<b>MSA</b>	Ratio High Cost: Black to White			
<b>ASHEVILLE</b>	0.9	4.4	0.0	2.1
<b>BURLINGTON</b>	2.3	1.8	1.0	3.3
<b>CHARLOTTE</b>	1.7	2.7	2.0	2.7
<b>DURHAM</b>	3.0	4.0	2.5	3.6
<b>FAYETTEVILLE</b>	1.4	1.9	1.1	2.1
<b>GOLDSBORO</b>	2.3	0.4	0.0	1.7
<b>GREENSBORO</b>	1.7	1.7	1.8	2.8
<b>GREENVILLE</b>	1.0	1.5	1.4	<b>5.8</b>
<b>HICKORY</b>	2.2	2.0	1.5	0.0
<b>JACKSONVILLE</b>	1.0	0.5	0.0	2.0
<b>RALEIGH-CARY</b>	2.4	3.4	2.5	3.1
<b>ROCKY MOUNT</b>	1.7	<b>4.4</b>	1.7	0.7
<b>VIRGINIA BEACH</b>	0.0	0.0	n/a	same
<b>WILMINGTON</b>	2.4	<b>5.8</b>	2.6	3.7
<b>WINSTON</b>	1.1	3.7	2.0	3.4
<b>rural</b>	2.0	2.4	2.5	2.2
<b>ALL</b>	1.8	2.5	2.0	2.5

In almost every community in North Carolina, Wells Fargo exhibits a higher disparity in the frequency of its high cost lending, relative to the frequency for white borrowers, than does Wachovia.

### How Credit Changed

Credit allocation was tightened in 2008. Loan volumes dropped. However, some areas increased. Refinance lending increased. More borrowers got FHA loan products.

Even so, the new market conditions appear to have impacted minority borrowers differently than they did white borrowers. Two factors emerge here. First, minority borrowers were much more likely to get an FHA product. Their rate of FHA use exceeded the rate for consumers as a whole. FHA lending grew as a share of all mortgage lending.

**Table 5: Lenders Emphasized FHA lending, particularly to minority borrowers, in 2008.**

			2007		2008	
			Wachovia	Wells	Wachovia	Wells
<b>A-A</b>	Home purchase	Conventional	869	989	276	351
		FHA	17	396	76	641
	Refi	Conventional	1,507	774	752	637
		FHA	9	273	61	408
<b>White</b>	Home purchase	Conventional	6,558	11,505	3,721	5,998
		FHA	50	1,074	274	2,256
	Refi	Conventional	9,632	4,755	7,986	6,004

		FHA	10	494	241	964
<b>Latino</b>	Home purchase	Conventional	442	460	155	204
		FHA	12	82	36	131
	Refi	Conventional	320	129	242	197
		FHA	1	28	13	57

Both Wells and Wachovia witnessed an increase in the share of their African-American home purchase borrowers who utilized an FHA product. At Wells, more than 64 percent of A-A home purchase borrowers used FHA in 2008 – a jump from 29 percent in 2007. At Wachovia, FHA made up a smaller share, but the rate of increase was higher: just 1.9 percent used FHA in 2007, but 21.6 percent did so in 2008.

The same changes marked the origination of home purchase loans to Latino borrowers. FHA made up 15.1 percent of Wells' lending to this group in 2007, but 39.1 percent in 2008. For Wachovia, the change was more than sevenfold – from a 2.6 percent share in '07 to 18.8 percent in '08.

White borrowers experienced the same dynamic, albeit to a lesser extent. The changes were most dramatic with home purchase lending at Wells Fargo: the share of FHA jumped from 8.5 percent to 27.3 percent.

### Refinancing

In 2008, more and more borrowers took advantage of low rates to seek a refinance loan. For some borrowers, it was a chance to get out from under a subprime loan. For others, it was a matter of moving from one prime fixed rate loan to a newer, lower-cost fixed rate loan.

**Table 6: Loan volumes show more refinancing activity. Lending shifts to FHA between '07 and '08: volume by loan type and loan purpose**

		2007		2008	
		Wachovia	Wells	Wachovia	Wells
<b>Conventional</b>	Home purchase	9,731	14,509	5,248	7,278
<b>FHA</b>		89	1,728	471	3,223
	All HP	9,968	18,540	5,901	13,869
<b>Conventional</b>	Refinance	13,607	6,198	11,027	7,569
<b>FHA</b>		23	872	369	1,570
	All Refi	13,636	7,300	11,424	9,821

Table 6 shows that refinance grew at Wells in 2008. At Wachovia, lending volumes were down but there were gains in refinances through FHA. This downturn could owe less to market forces than to the internal challenges that Wachovia experienced at the end of the year.

The refinancing story is not all good, though. Refinancing was a golden opportunity, but only some could get the gold. Far fewer African-American borrowers were able to refinance in 2008, compared to in 2007. To see the exact impacts, turn back to Table 5. While white borrowers got 26.3 percent more

conventional refinance loans from Wells in 2008, African-American borrowers made 17.7 percent fewer conventional refinance loans.

It is true that more African-American borrowers were able to get refinances through FHA. Even after collapsing FHA with conventional, though, the data show that white borrowers were much more able to access the low refinancing rates. Slightly fewer African-American borrowers refinanced in 2008 compared to 2007 (both FHA and conventional), but white borrowers made 32.7 percent more refinances in 2008 at Wells. At Wachovia, the disparity was roughly the same, although the numbers are lessened because of Wachovia's lower loan volumes: African-Americans made 46.3 percent fewer refinances in 08 than in '07, while white borrowers made 14.7 percent fewer refinances.

This is a significant problem, because the loan stimulus program offered historically low rates in 2008. It was a once-in-a-lifetime chance to lower mortgage payments. It appears that white borrowers took advantage of this opportunity, but African-American borrowers were left on the sidelines.

It is not possible to make comparisons between the allocation of refinance credit at these two banks with the allocation of credit in North Carolina as a whole in 2008. The data is not yet available. Nonetheless, the existing facts themselves speak of a new disparity in credit access.

This table shows the dramatic changes in the mortgage market in 2008. In the case of both Wachovia and Wells, conventional loan originations fell dramatically. Those drops were buttressed by a surge in FHA lending. The number of FHA loans at Wells almost doubled. The number of FHA loans at Wachovia increased sevenfold.

New home purchase loans fell off, as well. Conventional home purchase loans dropped by 49.8 percent at Wells, and by approximately 46 percent at Wachovia. The refinance market remained steady. Refinances on conventional and FHA loans increased 22 percent and 80 percent, respectively, at Wells Fargo. While conventional refinance volume dropped 19 percent at Wachovia, FHA refinances increased more than tenfold.

Consider some changes: more than 99 percent of site built home purchase loans originated to white borrowers by Wachovia in 2007 were conventional. Among African-Americans, 97.9 percent of such loans were conventional.

## **Conclusion**

Wells Fargo has been a leading lender in North Carolina for some time. Now that they have acquired Wachovia, they will certainly grow in volume and in market share.

We believe that there is room for improvement at Wells. Wells has shown disparity in its lending to minorities. African-American borrowers are much more likely to be turned down for a loan at Wells, and they are more likely to receive a high-cost loans. While these shortcomings would characterize

many lenders in North Carolina, our concern is that those discrepancies have been greater at Wells in recent years.

The attached press clippings reference some problems that Wells has encountered in Baltimore and in Chicago. In these cities, both statistical and anecdotal research have found some systemic shortcomings in Wells' outreach and lending to minority borrowers. Our survey, based on HMDA records for 2007 and 2008, does not rule out the possibility that the same indicators are in place at Wells.

Our concerns are buttressed by an understanding that Wells will be undergoing dramatic change. Wells has made mortgages in the past through a network of non-branch lenders. Wachovia has more than 320 branches in North Carolina. This would, in our opinion, increase the possibility that the new Wells will have a chance to change its practices.

Wachovia encountered trouble after it purchased Golden West Financial. We expressed our concerns then about their Four Ways to Pay program – a loan program that dramatically increased Wachovia's exposure to subprime and negatively amortizing lending. We left that meeting with a sense that our concerns were not taken seriously.

Going forward, we hope that the interest and support for a dialogue will be pursued with mutual interest and energy.

We believe that the disparity in lending pricing and in access to credit are matters that deserve further conversation. We hope to engage in a constructive dialogue with the leadership at Wells Fargo.

Looking forward, it will be important to see how Wells can overcome some of the ongoing disparities in access to credit. We are most concerned about inequalities in loan pricing and in access to loan refinancing.