

Oral Testimony on
“Mortgage Lending Disparities in Greater Boston”

Before the
House Financial Services Committee
U. S. House of Representatives

by

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Chairman Frank, Representative Capuano, and other members of the Committee, I want to thank you for holding this field hearing in Boston today, and for the opportunity to share with you some of the results of my research.

My name is Jim Campen and I am the Executive Director of Americans for Fairness in Lending (AFFIL), a position that I assumed on October 1. AFFIL was created by and works with its Partners, seventeen national and regional consumer and grassroots organizations including ACORN, the Center for Responsible Lending, the Consumer Federation of America, Consumers Union, and the National Consumer Law Center. AFFIL's mission is to shine a spotlight on the egregiously unfair practices that are common across the entire spectrum of consumer lending, in order to build public understanding and outrage that may translate into broad grassroots pressure on lawmakers to bring about effective regulation of the lending industry.

I am also Professor Emeritus of Economics at UMass/Boston. For the past fifteen years, much of my research has focused on patterns of mortgage lending. My testimony today will highlight some of the most significant findings that emerged in the most recent reports in two annual series that I prepare for the Massachusetts Community & Banking Council (MCBC): *Changing Patterns XIII* (about home purchase lending) and *Borrowing Trouble VII* (about subprime lending). These reports and my testimony are based on Home Mortgage Disclosure Act (HMDA) data for 2005.

In this necessarily brief oral testimony, I will highlight three of my major findings. First, there are enormous racial/ethnic disparities in mortgage lending here. Second, there have been dramatic changes in the types of lenders who are making mortgage loans, as the role of Massachusetts banks, whose local lending is covered by the CRA, has declined while the role of independent mortgage companies, who are largely unregulated by anyone, has expanded. And third, major differences in the nature of the lending done by the declining and expanding sectors of the industry have greatly contributed to the enormous racial/ethnic disparities in higher-cost lending.

I. Enormous racial/ethnic disparities in mortgage lending in Greater Boston.

Blacks and Latinos – and their neighborhoods – receive disproportionate shares of higher-cost loans. As you know, HMDA data now include limited information on loan pricing, making it possible to identify what the Fed calls “higher-priced loans.” These are loans for which the Annual Percentage Rate (APR) is at least three percentage points greater than the current interest rate on U.S. Treasury bonds of the same maturity. For brevity, I like to refer to these High-APR loans as “HALs.”

- In Greater Boston, for example, the HAL loan share of home purchase loans was 57% for blacks and 58% for Latinos, but only 15% for whites. That is, black and Latino homebuyers in Greater Boston were almost four times more likely than whites to receive high-cost loans.
- When borrowers are grouped by both race/ethnicity and income level, the HAL loan shares for blacks and Latinos are always substantially higher than the HAL shares for white borrowers in the same income category, and these disparities are greater at higher income levels. Most dramatically, in Boston in 2005, for homebuyers in the highest income group (those with incomes over \$152K), blacks received 71% of their loans in the form of HALs, and the HAL share for Latinos was 56%, while the HAL loan share was 9% for whites.
- The shares of total loans that were accounted for by HALs varied dramatically among Boston’s major neighborhoods. For home-purchase loans, the 58% HAL share in Mattapan was twelve times greater than the 5% share in Charlestown. The four Boston neighborhoods with the highest percentages of minority residents – Mattapan, Roxbury, Dorchester, and Hyde Park – also had the four highest HAL shares, all at least 42%.
- The three biggest overall lenders in Boston each had substantial disparity ratios for their high-APR lending. The black/white disparity ratios were 3.5 at Countrywide, 6.0 at Wells Fargo, and 3.8 at Washington Mutual.

II. Dramatic changes in the types of mortgage lenders

In my research, I place each lender into one of three categories, reflecting the extent to which its lending is subject to federal and state regulation.

- “CRA lenders,” defined as all banks that have one or more branches in the state plus Massachusetts state-chartered credit unions. *Lending in Massachusetts by these lenders is covered by the federal and/or state Community Reinvestment Act (CRA).*
- “Out of State Banks,” consisting primarily of banks with no branches in Massachusetts. Although the banks in this category are subject to CRA oversight of the lending in the areas where they have branches, *their lending in Massachusetts is not covered by the CRA.* However, these lenders are subject to regulation for safety and soundness and some other purposes by one of the federal bank regulators.
- Licensed mortgage lenders (“LML lenders”), defined as those that require a license to make mortgage loans in Massachusetts. These are primarily independent mortgage companies (i.e., not affiliated with a bank). *These lenders are not subject to any kind of regulation by the federal bank regulators.*

In addition, I have classified lenders who specialize in subprime loans as *subprime lenders*.

My research shows that the mortgage loan share accounted for by CRA lenders has fallen precipitously, while the share accounted for by LML lenders has risen dramatically.

- In the city of Boston, the share of all home-purchase loans accounted for by CRA lenders [Massachusetts banks and credit unions] plunged from almost four-fifths (78%) of all home-purchase loans in 1990 to just one-fifth (20%) of all loans in 2005.
- Statewide, the share of total home-purchase and refinance loans accounted for by CRA-covered lenders shrank from 37% in 2001 to 22% in 2005, while the loan share of LML lenders doubled, from 24% to 48%.

III. Substantial differences in the nature of loans made by the major types of lenders

The linkage between my first two findings – huge disparities and a changing mix of lenders – is that LML lenders, the fastest growing and least regulated category, are responsible for the great majority of high-APR loans – loans that are directed very disproportionately to black and Latino borrowers and their neighborhoods. On the other hand, CRA lenders, whose share of total lending is rapidly shrinking, have by far the best record in making prime loans to these same borrowers and neighborhoods.

- In Massachusetts in 2005, CRA lenders accounted for just 1% of total Massachusetts HALs, while LML lenders were responsible for 71% of all HALs in the state.
- In Massachusetts in 2005, none of the twenty biggest high-APR lenders were covered by CRA, while sixteen of the top twenty, including four of the top five, were LML lenders.
- In 2005, Boston's lower-income, predominantly black and Latino census tracts received 13% of the loans by CRA-covered lenders, almost double their 7% share of the loans made by prime OSB and LML lenders, but far below their 31% share of the loans made by subprime lenders (all of whom are OSB or LML lenders). These findings are highly suggestive of "reverse redlining" by subprime lenders – i.e., the targeting of the same highly-minority neighborhoods that previously suffered from "redlining" by prime mortgage lenders.

IV. Implications for Public Policy

In conclusion, I wish to emphasize two principles that I believe should underlie Congress's response to the enormous racial disparities in mortgage lending.

First, the playing field needs to be leveled, so that all mortgage lenders are subject to similar laws and regulations that will protect consumers from unfair and predatory practices, promote wealth-building by households and communities, and prevent a race to the bottom where lenders who choose to maintain responsible lending practices face the loss of market share to unscrupulous competitors. Part of the answer is comprehensive anti-predatory lending legislation that would apply to all mortgage lenders. In addition, I believe that my research findings underline the particular need for "modernizing" the CRA so that (1) banks would receive CRA performance evaluations for every geographical area in which they have a significant market share; (2) CRA performance evaluations would be done on a comprehensive corporate-wide level; and (3) independent mortgage companies and credit unions would be subject to regulations, performance evaluations, and ratings analogous to those that the CRA imposes on banks.

Second, existing laws and regulations need to be actively and effectively enforced. While it is important to emphasize the need to extend regulatory oversight to independent mortgage companies, it is also important

to note that some of the worst predatory lenders have been banks, who have been allowed to carry out their unfair – as well as unsafe and unsound – lending in spite of legislated oversight by federal banking regulators. Perhaps the most notorious of these is Fremont Investment and Loan – a California-chartered bank. Fremont, the largest high-APR lender in Boston in 2005 and the second-largest statewide, was well-known for the egregious quality of its loans, but seems to have been allowed to proceed unchecked at least through the end of 2006. Similarly, although the nation’s fair lending laws apply to all mortgage lenders, those engaged in illegal discriminatory behavior – whether banks or independent mortgage companies – have had little to fear from the federal agencies charged with enforcing these laws.

In important respects, the current subprime mortgage lending crisis reminds me of the savings and loan crisis that was in full swing when I first began to focus my research on the banking and mortgage lending industries in 1989. Then, as now, irresponsible lending on a massive scale had resulted in serious hardships for many borrowers and neighborhoods, failures for numerous large financial institutions, and significant impacts on the overall economy. The response then included new legislation to promote responsible lending in local communities (I refer to the amendments to HMDA and the CRA that were championed by my then Representative Joe Kennedy) as well as legislative pressure on regulators for better enforcement of existing laws and regulations. The present situation also demands action on both of these fronts, and I am pleased to know that leadership in this effort is again coming from my own Congressman (Rep. Capuano) as well as from the Chair of this committee, who represents an adjacent district.

Again, I thank you for the opportunity to testify today. I would be happy to respond to any questions that you may have.