

CAPITAL ACCESS: LENDING PATTERNS IN BLACK AND WHITE NEIGHBORHOODS TELL A TALE OF TWO CITIES

One of the most important factors for the health of a neighborhood is the ability of residents to gain access to capital to buy a home. In New York City, as in many locations, there are two major types of private lending institutions that offer mortgages. The first, a conventional bank, is the route that most families take to purchase a mortgage. The second, subprime lenders, offer mortgage and refinance loans to those with a weaker credit rating who, presumably, cannot attain a loan from a conventional bank.

Subprime lenders charge higher upfront fees and higher interest rates to hedge the risk of lending to borrowers who have lower credit ratings. In recent years the number of subprime loans has increased dramatically in New York City, particularly in predominantly black neighborhoods. At the same time, predatory lending practices and widespread abuses by subprime lenders have led families to foreclose on their mortgages and lose their homes.

The Schumer study analyzed 239,502 New York City mortgage and refinance 1998 loan applications by race, neighborhood, income and lender. Those applications resulted in 132,293 loan originations, 40,856 loan denials, and 66,353 applications that were withdrawn by the applicant. Citywide, five out of six home mortgage and refinance loans were issued by conventional banks. But the lending patterns in the City's black and white neighborhoods were diametrically opposite.

Denial rates at conventional banks for blacks were double those for whites, and even a black family with annual income above \$60,000 was more likely to be rejected for a home loan from a conventional bank than a white family with annual income below \$40,000. In addition, expensive and often predatory subprime lending has flourished in predominantly black neighborhoods to the point where it is more common for a subprime lender to issue a loan in a predominantly black neighborhood than a conventional bank.

Schumer also compared the lending patterns in six white and six black neighborhoods with similar economic characteristics in Queens (Laurelton and Bayside, St. Albans and Glendale), Brooklyn (East Flatbush and Sheepshead Bay, Rugby and Bensonhurst) and the Bronx (Baychester and Throgs Neck, Gun Hill and Morris Park).

Subprime Lending in New York City's Black and White Neighborhoods

Black neighborhoods of all income levels are six times as likely as white neighborhoods to rely on subprime lenders such as Delta Funding, FHB, Greenpoint, and Champion for home mortgages and refinances.

- 55.2% of the home mortgage and refinance loans issued in New York City's predominantly black neighborhoods were issued by subprime lenders (6,072 of 10,994 loans).
- In predominantly white New York City neighborhoods only 9.1% of home mortgage and refinance loans were issued by subprime lenders (5,171 of 56,753 loans).

Even in black neighborhoods where the average income is greater than 120% of the City median, nearly half the mortgage and refinance loans were made by subprime lenders.

- 46.8% of the home mortgage and refinance loans issued in predominantly black neighborhoods where the median income exceeds \$59,760 were issued by subprime lenders (1,619 of 3,460 loans).
- Only 7.9% of the home mortgage and refinance loans were issued by subprime lenders in comparable white neighborhoods (3,971 of 50,150 loans).

Black middle class neighborhoods are three times as likely to rely on subprime lenders as comparable white neighborhoods (80% to 120% of area median).

- 56.2% of the home mortgage and refinance loans issued in predominantly black middle class neighborhoods where the median income is between \$39,840 and \$59,760 were issued by subprime lenders (2,287 of 4,070 loans).
- Only 18.3% of the home mortgage and refinance loans were issued by subprime lenders in comparable white neighborhoods (1,133 of 6,205 loans).

Subprime lending is prevalent in black neighborhoods with incomes less than 80% of the median but barely registers in comparable white neighborhoods.

- 2,166 subprime loans were issued in predominantly black neighborhoods with average family incomes below \$39,840 compared to only 58 in comparable white neighborhoods.
- 62.5% of the home mortgage and refinance loans issued in low income black neighborhoods were issued by subprime lenders compared to 15.3% in comparable white neighborhoods.

Conventional Banks and Lending Patterns Among Black and White Applicants

Black applicants for a mortgage or refinance loan are nearly twice as likely to be denied a loan at a conventional bank than a white applicant (21.6% denial rate for blacks compared to 11.4% for whites). All across the income spectrum, black applicants are significantly more likely to be denied a loan at a conventional bank than whites. In fact, black applicants with incomes greater than \$59,760 are more likely to be rejected for a mortgage or refinance loan (20.0% denial rate) than white borrowers with incomes less than \$39,840 (17.2% denial rate).

- Denial rates for mortgages and refinance loans from conventional banks among New York City blacks with incomes greater than \$59,760 (120% of area median income) were 20.0% compared to 10.1% for comparable whites.

- Denial rates for mortgages and refinance loans from conventional banks among New York City blacks with incomes between \$39,840 and \$59,760 (80% to 120% of area median income) were 21.4% compared to 14.2% for comparable whites.
- Denial rates for mortgages and refinance loans from conventional banks among New York City blacks with incomes below \$39,840 (80% of area median income) were 26.5% compared to 17.2% for comparable whites.

The Leading Subprime Lenders in New York and Where they Make their Loans

Three of the five highest volume subprime lenders in New York make the majority of their loans to predominantly black neighborhoods.

<u>Subprime Lender</u>	<u>Originations*</u>	<u>% of Loans in Pred. Black Neigh.</u>
FHB Funding Corp.	4,808	69.5%
Delta Funding Corp.	2,393	78.5%
Greenpoint Bank	1,792	36.4%
Champion Mortgage Co.	833	42.4%
Ameriquist Mortgage	677	64.1%

*Refinance Loans Only (1998)

notes about sources:

All loan data was supplied by the Department of Housing and Urban Development through the Home Mortgage Disclosure Act disclosure requirements.

The Census Bureau defines a predominantly white census tract as one with a white population of at least 85%.

A predominantly black census tract is defined as one with a black population of at least 75%.

The data deliberately excludes home and refinance loans made through federal government agencies such as the Federal Housing Administration, Rural Housing Service and the Veterans Administration

12 New York Neighborhoods; 6 Black and 6 White: Similar Economic Characteristics, Lending Patterns Polar Opposites

Using data from the Census Bureau combined with 1998 lending data supplied through the Home Mortgage Discrimination Act, Schumer compared the lending patterns of 12 neighborhoods in the Bronx, Brooklyn and Queens. In each of the three boroughs, Schumer compared two predominantly black and two predominantly white neighborhoods with similar economic characteristics -- a working class neighborhood with an average income slightly below the New York City area median, and an upper middle class neighborhood with an average income well above the area median.

In the six black neighborhoods, 51% of the loans were issued by subprime lenders (540 of 1,061) compared to 13% in the six white neighborhoods (219 of 1,648).

And in every neighborhood except one, mortgage application denial rates at conventional banks in black neighborhoods far exceeded denial rates in white neighborhoods. In the six black neighborhoods, 26% of the loan applications at conventional banks resulted in denials (281 of 1,062) compared to 14% in the six white neighborhoods (288 of 2,023).

The Bronx

Baychester - Predominantly Black, Upper Middle Class Neighborhood (\$48,684*)

- 40% of neighborhood home and refinance loans issued by subprime lenders (130 of 324)
- Loan denial rates from conventional banks were 25% (86 of 351)

Throgs Neck - Predominantly White, Upper Middle Class Neighborhood ((\$50,069)

- 14% of neighborhood home and refinance loans issued by subprime lenders (51 of 361)
- Loan denial rates from conventional banks were 17% (82 of 478)

Gun Hill - Predominantly Black, Middle Class Neighborhood (\$34,915)

- 49% of neighborhood home and refinance loans issued by subprime lenders (86 of 175)
- Loan denial rates from conventional banks were 31% (52 of 168)

Morris Park - Predominantly White, Middle Class Neighborhood (\$35,100)

- 24% of neighborhood home and refinance loans issued by subprime lenders (22 of 91)
- Loan denial rates from conventional banks were 38% (40 of 106)

Brooklyn

East Flatbush - Predominantly Black, Upper Middle Class Neighborhood (\$60,010)

- 54% of neighborhood home and refinance loans issued by subprime lenders (57 of 105)
- Loan denial rates from conventional banks were 25% (32 of 130)

Sheepshead Bay - Predominantly White, Upper Middle Class Neighborhood (\$58,230)

- 20% of neighborhood home and refinance loans issued by subprime lenders (36 of 180)
- Loan denial rates from conventional banks were 8% (14 of 186)

Rugby - Predominantly Black, Middle Class Neighborhood (\$33,502)

- 65% of neighborhood home and refinance loans issued by subprime lenders (103 of 158)
- Loan denial rates from conventional banks were 25% (30 of 118)

Bensonhurst - Predominantly White, Middle Class Neighborhood (\$33,163)

- 13% of neighborhood home and refinance loans issued by subprime lenders (18 of 137)
- Loan denial rates from conventional banks were 12% (21 of 174)

Queens

Laurelton - Predominantly Black, Upper Middle Class Neighborhood (\$63,527)

- 47% of neighborhood home and refinance loans issued by subprime lenders (78 of 166)
- Loan denial rates from conventional banks were 22% (37 of 171)

Bayside - Predominantly White, Upper Middle Class Neighborhood (\$57,212)

- 8% of neighborhood home and refinance loans issued by subprime lenders (60 of 742)
- Loan denial rates from conventional banks were 11% (101 of 921)

St. Albans - Predominantly Black, Middle Class Neighborhood (\$34,049)

- 63% of neighborhood home and refinance loans issued by subprime lenders (84 of 133)
- Loan denial rates from conventional banks were 35% (44 of 124)

Glendale - Predominantly White, Middle Class Neighborhood (\$33,684)

- 23% of neighborhood home and refinance loans issued by subprime lenders (32 of 137)
- Loan denial rates from conventional banks were 19% (30 of 158)

* Median family income from 1990 Census