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**AN OVERVIEW OF THE SUB-PRIME LENDING MARKET, INDIANA, 1998 - 05/10/2000.**

The refinancing market in Indiana echoes trends identified by Housing & Urban Development (HUD) in prior 1999 studies. A total of 161,684 refinanced loans were generated in Indiana during 1998. 15.4% of this total was captured by sub-prime lenders, lenders who make B, C, & D Loans in Indiana, compared to market share of 11% nationwide. This group of loans (B, C & D) are fairly unregulated and in many of our low income and high minority income neighborhoods promote gentrification instead of revitalization.

In Indiana, there are a total of 96 counties in the state and only 20 counties in all-metropolitan statistical areas (MSA's) that fall below 100% of the median income. Those individuals who live in census tracts that average less than 100% of the area median income provided 42.6% of all the refinanced loans generated in Indiana, 1998. Indianapolis, Lafayette, Gary and Louisville-KY-IN MSA's were particularly hard hit by sub-prime lenders. See table #1.

Individuals, who earn less than 100% of the median, afforded 36.4% of the refinanced loans. Fort Wayne and St. Joseph MSA's have the distinction of having the highest percentages of low-income individuals refinancing their loans.

There are only 7 MSA's counties that exceed 9% minority population in the state. Minorities in the state of Indiana account for less than 9% of the total population, according to 1990 US Census Data. During 1998 17.7% of all loans generated by the refinancing market were allocated to minorities. Predominately non-white census tracts attracted 17% of all the loans. This represents twice the population percentage of minorities in Indiana. See table #2 for information by MSA's.

Table #3, tells a dramatic story that every where in the state of Indiana high minority groups receive a disproportionate attention from sub-prime lenders. For example in South Bend sub-prime lenders captured 19.3% of all refinanced loans in 1998, but in high minority census tracts they captured 67.5% of the market. For South Bend sub-prime lenders captured 350% more market share in high minority and low-income census tracts than in higher income and white neighborhoods. These disparate market share numbers are repeated in Gary, Indianapolis, Muncie, Louisville-KY-IN, and Fort Wayne MSA's.

The significant sub-prime market share in high minority census tracts is in stark contrast to the refinancing market as a whole in Indiana. See table #2.

In Indiana there is little public documentation about the abusive lending patterns often exhibited by some sub-prime lenders that lead to gentrification of our inner cities. Following is the list of alleged predatory practices:

- Loans which trigger disclosure requirements by Home Ownership & Equity Protection Act, 1994 because the loans either exceed 10% treasure rates of notes of the same terms, or closing costs exceed 8% of the loan amount;
- Lenders who fail to report good borrowers credit history in a timely monthly basis;
- Lenders who compute negative amortization, where the outstanding principal increases over the course of the loan, because monthly payments do not cover the full amount of interest being charged on the loan;
- Lenders who charge excessive fees to modify, renew or amend a high cost loan or to defer any payment under such loans;
- Lenders who require mandatory arbitration or use any other means to limit clients right to seek judicial relief in high cost loan disputes;
- Lenders who practice “loan flipping” – when property is bought and sold due to foreclosures and then resold again to targeted people in a particular neighborhood
- Lenders who use high pressure tactics that limit information choices;
- Lenders who include in the financed amount expensive add-ons – credit life insurance, which can strip up to \$10,000 in equity from a property;
- Lenders who can change the rate of the loan without tying the adjustment to some publicly available rate that is not controlled by the lender, and
- Lenders who knowingly refinance an existing loan with another that does not offer any reasonable tangible net benefit to the borrower such as improved loan terms and or conditions.

In these high minority and low-income neighborhoods, banks monitored by the Office of Thrift & Supervision (OTS) are being closed. Residents of these communities have low accessibility to bank products, and often think that they have no other alternative, but to use the sub-prime lenders. In some instances, these residents would qualify for a bankable loan, but they are not “referred up to” the bank.

The increased number of foreclosures or “deed-in-lieu” generated over the last three years attributed to loans created by sub-prime lenders are sky-rocketing in our communities. They’re several banks that have a refinancing or sub-prime lending subsidiaries. In most of these cases the banks no longer maintain a direct presence in the low-income neighborhood, but indirectly through their sub-prime subsidiary.

Cumulative effect of all these activities in the high minority and low income census tracts raises very strong questions about discriminatory practices and the net discriminatory effect of sub-prime lenders. Why are sub-prime lenders making fewer loans in low income and white census tracts? Is it that these individuals are savvy borrowers and

understand that they can go to a bank and get the same loan at a lower rate? The OTS must accept that there are other factors at work here that can be classified as discriminatory mortgage lending practices.

The elderly are another target for sub-prime lenders in our communities. They often have impaired ability to understand the implication of the loan terms when it is explained to them. The number of foreclosures and loan flipping among the elderly is on the rise. This raises the question of age discrimination by the sub-prime lenders.

We recommend that OTS take aggressive steps to monitor closely those banks under your supervision that have subsidiaries that are sub-prime lenders, as defined by HUD. These banks should not be allowed to count any of these sub-prime loans towards Community Reinvestment Act (CRA) credit. Again these sub-prime loans will have one or more of the above outlined questionable conditions imbedded into the terms of the agreement.

We propose that banks that include these questionable loans in their portfolio should automatically have their CRA rating reduced by one level – for example from meet to unsatisfactory. Banks that have these subsidiaries should be required to proportionally increase their investment lending above and beyond current levels in these gentrified neighborhoods. Increased CRA activity could take the form of increased funding for home ownership training; create funding to provide an alternative to sub-prime lenders, etc. Finally the OTS should take immediate steps to educate your lending reviewers about the abusive practices listed above, document and publish the findings of your review in addition to publicizing the CRA ratings of the bank. Those banks that refuse to correct their lending irregularities in the name of profit should face legal charges of discrimination.

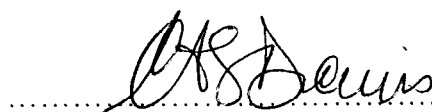
Of course the OTS has not spent the time to research, document or quantify the impact of these practices in communities across the nation. This absence of quantifiable data emphasizes the strong need for this type of research to be completed in Indiana and across the United States. Further the OTS should employ and implement ‘testers’, as this has been a proven method to document disparate treatment for a number of civil rights violations. These loans have such a long-term deleterious effect in our neighborhoods that the OTS will be alarmed at the results that these loans create in the neighborhoods where they occur.

We respectfully submit these comments for your review and action. Further we strongly recommend that OTS be assertive and commission studies to quantify the impact of sub-prime lending practices in our neighborhoods. We may be contacted if you have any further questions or need additional research completed on the above issues or require specific information on individual sub-prime lenders.

Sincerely,



Ron Davis, President



Carol Davis, Board Member

# All Conventional Home Refinance Loan Originations - Allocated by Income, Indiana 1998 Table #1

All Conventional Home Refinance Loan Origination - Allocated by Income Levels											
MSA's	# Loans w/	# of Low	% Low	# of Mod	% of Mod	# of Lower	% of Lwr	# of Uppr Middle	% of Uppr Middle	# of Uppr	% of Uppr
	Inco Data	Inco Loans	Inco Loans	inco Loans	Inco Loans	Middle Inco	Middle Inco	Income Loans	Income Loans	Inco Loan	Inco Loans
Bloomington (1020)	2,619	163	6.2%	435	16.6%	327	12.5%	335	12.8%	1,359	51.9%
CincinKY-IN (1640)	57,374	4,078	7.1%	11,392	19.9%	8,655	15.1%	7,958	13.9%	25,291	44.1%
Elkhart (2330)	4,557	494	0.9%	946	20.8%	784	17.2%	653	14.3%	1,680	36.9%
Evansville (2440)	7,059	625	1.1%	1,360	19.3%	988	14.0%	986	14.0%	3,100	43.9%
Ft Wayne (2760)	15,108	1,538	2.7%	3,253	21.5%	2,323	15.4%	2,267	15.0%	5,727	37.9%
Gary (2960)	14,984	1,497	2.6%	2,583	17.2%	1,994	13.3%	2,217	14.8%	6,693	44.7%
Indianapolis (3480)	49,163	5,731	10.0%	8,686	17.7%	7,430	15.1%	6,285	12.8%	21,031	42.8%
Kokomo (3920)	3,109	340	0.6%	584	18.8%	539	17.3%	439	14.1%	1,207	38.8%
Lafayette (3920)	4,757	362	0.6%	825	17.3%	764	16.1%	708	14.9%	2,098	44.1%
Louisville KY (4520)	32,399	2,773	4.8%	5,693	17.6%	4,484	13.8%	4,352	13.4%	15,097	46.6%
Muncie (5280)	3,001	289	0.5%	619	20.6%	457	15.2%	354	11.8%	1,282	42.7%
St. Joseph (7800)	2,115	154	0.3%	396	18.7%	271	12.8%	292	13.8%	1,002	47.4%
Terre Haute (8320)	3,743	309	0.5%	687	18.4%	428	11.4%	488	13.0%	1,831	48.9%
<b>Totals</b>	<b>199,988</b>	<b>18,353</b>	<b>9.2%</b>	<b>37,459</b>	<b>18.7%</b>	<b>29,444</b>	<b>14.7%</b>	<b>27,334</b>	<b>13.7%</b>	<b>87,398</b>	<b>43.7%</b>
All Conventional Home Refinance Loan Origination - Allocated by Income Census Tract Levels											
MSA's	# Loans w/	# of Low	% Low	# of Mod	% of Mod	# of Lower	% of Lwr	# of Uppr Middle	% of Uppr Middle	# of Uppr	% of Uppr
	Inco Data	Inco Loans	Inco Loans	inco Loans	Inco Loans	Middle Inco	Middle Inco	Income Loans	Income Loans	Inco Loan	Inco Loans
Bloomington (1020)	2,760	4	0.1%	502	18.2%	581	21.1%	822	29.8%	851	30.8%
CincinKY-IN (1640)	60,634	851	1.4%	6,371	10.5%	15,144	25.0%	15,604	25.7%	22,347	36.9%
Elkhart (2330)	4,700	4	0.1%	168	3.6%	1,408	30.0%	2,477	52.7%	643	13.7%
Evansville (2440)	7,378	71	1.0%	1,065	14.4%	1,641	22.2%	1,604	21.7%	2,961	40.1%
Ft Wayne (2760)	15,998	126	0.8%	1,395	8.7%	5,116	32.0%	5,082	31.8%	4,012	25.1%
Gary (2960)	15,813	234	1.5%	1,650	10.4%	3,075	19.5%	12,170	77.0%	5,840	36.9%
Indianapolis (3480)	53,995	1,299	2.4%	6,080	11.3%	11,049	20.5%	1,075	2.0%	23,314	43.2%
Kokomo (3920)	3,248	5	0.2%	501	15.4%	680	20.9%	2,247	69.2%	964	29.7%
Lafayette (3920)	5,051	5	0.1%	697	13.8%	959	19.0%	2,247	44.5%	1,054	20.9%
Louisville KY (4520)	34,374	663	1.9%	4,247	12.4%	7,878	22.9%	878	2.6%	13,490	39.2%
Muncie (5280)	3,087	78	2.5%	558	18.1%	471	15.3%	370	12.0%	1,102	35.7%
St. Joseph (7800)	2,220	57	2.6%	295	13.3%	701	31.6%	1,389	62.6%	721	32.5%
Terre Haute (8320)	3,845	2	0.1%	760	19.8%	520	13.5%	488	12.7%	1,119	29.1%
<b>Totals</b>	<b>213,103</b>	<b>3,399</b>	<b>1.6%</b>	<b>24,289</b>	<b>11.4%</b>	<b>49,223</b>	<b>23.1%</b>	<b>46,453</b>	<b>21.8%</b>	<b>78,418</b>	<b>36.8%</b>

## All Conventional Home Refinance Loan Originations - Allocated by Race, Indiana, 1998 Table #2

All Conventional Home Refinance Loan Origintion - Allocated by Minoirty Census Tract Population													
MSA's	Total #	# of <10%	% of	10-15%	% of	15-25%	% of	25-50%	% of	50-75%	% of	75-100%	% of
	of Loans	non-Wh	Totals	non-wh	Totals	non-wh	Totals	non-wh	totals	non-wh	Totals	non-wh	Totals
Bloomington (1020)	2,760	2,708	98.1%	48	1.7%	4	0.1%	0	0.0%	0	0.0%	0	0.0%
CincinKY-IN (1640)	60,634	51,044	84.2%	2,473	4.1%	1,669	2.8%	2,707	4.5%	1,125	1.9%	1,229	2.0%
Elkhart (2330)	4,700	4,266	90.8%	98	2.1%	253	5.4%	0	0.0%	83	1.8%	0	0.0%
Evansville (2440)	7,378	6,540	88.6%	436	5.9%	138	1.9%	149	2.0%	79	1.1%	0	0.0%
Ft Wayne (2760)	15,998	14,166	88.6%	388	2.4%	318	2.0%	429	2.7%	291	1.8%	139	0.9%
Gary (2960)	15,813	11,553	73.1%	1,177	7.4%	833	5.3%	185	1.2%	490	3.1%	1,575	10.0%
Indianapolis (3480)	53,995	43,307	80.2%	1,999	3.7%	2,740	5.1%	2,701	5.0%	1,318	2.4%	1,884	3.5%
Kokomo (3920)	3,248	3,058	94.2%	74	2.3%	0	0.0%	0	0.0%	93	2.9%	0	0.0%
Lafayette (3920)	5,051	4,462	88.3%	491	9.7%	11	0.2%	1	0.2%	0	0.0%	0	0.0%
Louisville KY (4520)	34,374	27,623	81.4%	2,391	7.0%	1,431	4.2%	786	2.3%	446	1.3%	1,346	3.9%
Muncie (5280)	3,087	2,830	91.7%	56	1.8%	86	2.8%	0	0.0%	59	1.9%	56	1.8%
St. Joseph (7800)	2,220	1,994	89.8%	97	4.4%	55	2.5%	0	0.0%	0	0.0%	0	0.0%
Terre Haute (8320)	3,845	3,474	90.4%	203	5.3%	38	1.0%	82	2.1%	1	0.3%	0	0.0%
<b>Totals:</b>	<b>213,103</b>	<b>177,025</b>	<b>83.1%</b>	<b>9,931</b>	<b>4.7%</b>	<b>7,576</b>	<b>3.6%</b>	<b>7,040</b>	<b>3.3%</b>	<b>3,985</b>	<b>1.9%</b>	<b>6,229</b>	<b>2.9%</b>
All Conventional Home Refinance Loan Origintion - Allocated by Minoirty Census Tract Population													
MSA's	Total #	No Race	% w/no	White	% of	African	% of	Hispan	% of	Other	% of	Native Ind &	% of
	of Loans	Code	Race Code	Brrwr	Totals	Am brrwr	Totals	Brrwr	totals	race brrwr	Totals	Asians	Totals
Bloomington (1020)	2,760	195	7.1%	2,478	89.8%	27	1.0%	13	0.5%	22	0.8%	25	0.9%
CincinKY-IN (1640)	60,634	6,948	11.5%	50,100	82.6%	2,620	4.3%	167	0.3%	308	0.5%	491	0.8%
Elkhart (2330)	4,700	416	8.9%	4,074	86.7%	90	1.9%	64	1.4%	23	0.5%	33	0.7%
Evansville (2440)	7,378	590	8.0%	6,586	89.3%	134	1.8%	17	0.2%	26	0.4%	25	0.3%
Ft Wayne (2760)	15,998	1,537	9.6%	13,648	85.3%	460	2.9%	133	0.8%	109	0.7%	111	0.7%
Gary (2960)	15,813	1,605	10.1%	11,870	75.1%	1,351	8.5%	745	4.7%	78	0.5%	164	1.0%
Indianapolis (3480)	53,995	6,143	11.4%	43,740	81.0%	3,001	5.6%	248	0.5%	397	0.7%	426	0.8%
Kokomo (3920)	3,248	369	11.4%	2,736	84.2%	91	2.8%	18	0.6%	13	0.4%	21	0.6%
Lafayette (3920)	5,051	372	7.4%	4,511	89.3%	45	0.9%	42	0.8%	22	0.4%	59	1.2%
Louisville KY (4520)	34,374	4,382	12.7%	27,585	80.2%	1,879	5.5%	113	0.3%	176	0.5%	239	0.7%
Muncie (5280)	3,087	358	11.6%	2,591	83.9%	96	3.1%	17	0.6%	16	0.5%	9	0.3%
St. Joseph (7800)	2,220	258	11.6%	1,901	85.6%	29	1.3%	17	0.8%	7	0.3%	8	0.4%
Terre Haute (8320)	3,845	244	6.3%	3,492	90.8%	53	1.4%	7	0.2%	12	0.3%	37	1.0%
<b>Totals:</b>	<b>213,103</b>	<b>23,417</b>	<b>11.0%</b>	<b>175,312</b>	<b>82.3%</b>	<b>9,876</b>	<b>4.6%</b>	<b>1,601</b>	<b>0.8%</b>	<b>1,209</b>	<b>0.6%</b>	<b>1,648</b>	<b>0.8%</b>

**Table #3:****1998 REFINANCING MARKET ANALYSIS****OVERVIEW OF SUB-PRIME LENDERS MARKET SHARE IN  
HIGH MINORITY CENSUS TRACTS**

<b>Indiana MSA's</b>	<b>&lt;10% Minority Census Tracts</b>	<b>50-755 Minority Census Tracts</b>	<b>+75% Minority Census Tracts</b>	<b>Total Market Share - IN MSA</b>
Bloomington	8.79%	N/A	N/A	8.62%
Elkhart	12.94%	30.12%	N/A	14.11%
Evansville- Henderson KY	10.76%	43.04%	N/A	12.44%
Ft. Wayne	9.51%	67.01%	71.94%	13.13%
Gary	9.82	43.27%	68.0%	19.0%
Indianapolis	11.4%	42.41%	55.73%	14.94%
Kokomo	13.8%	60.22%	N/A	15.3%
Lafayette	9.7%	N/A	N/A	
Louisville – KY-IN	9.47%	40.81%	44.35%	12.02%
Muncie	15.97%	71.19%	67.86%	19.0%
South Bend	13.12%	49.60%	67.53%	19.26%
Terre Haute	12.41%	N/A	N/A	14.75%

**Source:** 1998 HMDA & People's Network on Banking, Credit & Capital.  
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