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# Subprime Market Growth and Predatory Lending

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This article provides an overview of two core issues related to subprime market growth and predatory lending. Two general issues were addressed. First, the rapid growth of subprime lending in minority neighborhoods has raised questions concerning the absence of prime conventional lenders in these neighborhoods. There is evidence that more competition by prime lenders could lower the borrowing costs of families who currently have only the option of a high-cost subprime loan. Thus, one objective of this panel was to discuss ways prime lenders could increase their presence in neighborhoods that currently are forced to rely on subprime lenders for their refinancing needs.

Second, predatory lending has been a disturbing part of the growth in the subprime market. Although questions remain about the magnitude of predatory lending, it could be much more widespread than initially believed. Studies showing extremely high foreclosure rates on subprime loans and the variety of forms predatory practices can take suggest that predatory lending is a serious problem facing lower income, minority, and elderly families in both urban and rural areas. Thus, a second objective of this panel was to discuss the prevalence of predatory lending and to evaluate the various solutions that have been advanced to address this problem. At this time, there are open questions about the effectiveness of the different approaches being proposed and the appropriate roles of different governmental agencies, such as more legislation versus increased enforcement of existing laws, long-run financial education versus mortgage counseling, and Federal versus State and local actions.

The second section of this article will discuss issues related to the growth in the subprime market. A more detailed discussion of the issues raised is provided in the two background articles written for this session (Bunce et al., see p. 258; Immergluck, 2000). The third section will discuss predatory lending, focusing on recent initiatives by the U.S. Department of Housing and Urban Development (HUD) and others in this area and on a series of questions that the panel participants addressed.

## Subprime Lending: Its Growth and Neighborhood Concentration

Over the past decade, subprime lending has grown at a tremendous rate. From 1993 to 1999, the number of subprime loans reported under the Home Mortgage Disclosure Act (HMDA) increased tenfold from 104,000 subprime refinance loans in 1993 to 1 million in 1999. In 1994, the \$35 billion in subprime mortgages represented less than 5 percent of all mortgage originations. By 1999, subprime lending had increased to \$160 billion, almost 13 percent of the mortgage origination market.<sup>1</sup>

The growth in subprime lending over the past several years has benefited credit-impaired borrowers, including those who may have blemishes on their credit record, an insufficient credit history, or nontraditional credit sources. Subprime lenders have allowed these borrowers to access credit they could not otherwise obtain in the prime credit market.

However, studies by HUD, The Woodstock Institute, and others have shown that subprime lending is disproportionately concentrated in low-income and minority neighborhoods. Although these studies recognize that differences in credit behavior explain some of the disparities in subprime lending across neighborhoods, they argue that the absence of mainstream lenders has also contributed to the concentration of subprime lending in low-income and minority neighborhoods.

### Income and Racial Disparities in Subprime Lending

One of the first studies to analyze the growth of subprime lending in urban neighborhoods was conducted in Chicago by The Woodstock Institute. That study, entitled *Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development*, concluded that a dual mortgage market existed in Chicago. Mainstream lenders active in White and upper income neighborhoods were much less active in low-income and minority neighborhoods—effectively leaving these neighborhoods to unregulated subprime lenders (Immergluck and Wiles, 1999; Immergluck, 2000).

As part of the HUD-Treasury Task Force on Predatory Lending, HUD's Office of Policy Development and Research released a series of studies (at both the national and individual metropolitan area levels) that reached a similar conclusion.<sup>2</sup> Borrowers in low-income and African-American neighborhoods rely disproportionately on subprime lending when refinancing their mortgages, and the

disparity between the subprime share of refinance loans in African-American and White neighborhoods holds even after controlling for neighborhood income.<sup>3</sup> A summary of HUD's main findings follows.

- | **Subprime loans are three times more likely in low-income neighborhoods than in upper income neighborhoods.** Nationwide, 11 percent of refinance mortgages in 1998 were subprime but in low-income neighborhoods the percentage more than doubles to 26 percent.<sup>4</sup> In upper income neighborhoods only 7 percent of families rely on subprime lenders. In the poorest neighborhoods, where families make only 50 percent of area median income (AMI), subprime refinances are an astounding 44 percent of all refinances.
- | **Subprime loans are five times more likely in predominantly African-American neighborhoods than in White neighborhoods.** Subprime lending accounted for 51 percent of refinance loans in predominantly African-American neighborhoods compared with only 9 percent in predominantly White areas.<sup>5</sup> Thus, 1 in every 2 refinance loans in African-American neighborhoods is subprime, compared with only 1 in every 10 loans in White neighborhoods.<sup>6</sup>
- | **Homeowners in upper income African-American neighborhoods are twice as likely as homeowners in low-income White neighborhoods to have subprime loans.** The most dramatic view of the disparity in subprime lending comes from comparing homeowners in upper income African-American and White neighborhoods. Among homeowners living in the upper income White neighborhoods, only 6 percent turn to subprime lenders. But 39 percent of homeowners living in upper income African-American neighborhoods relied upon subprime refinancing, which is more than twice the rate (18 percent) for homeowners living in low-income White neighborhoods.
- | **Similar results are obtained when the analysis is conducted for borrowers instead of neighborhoods. Upper income African-American borrowers are twice as likely as low-income White borrowers to have subprime loans.** One-half of low-income African-American borrowers turn to subprime lenders, as do one-quarter of upper income African-American borrowers. By comparison, only 13 percent of low-income White borrowers and 5 percent of upper income White borrowers rely upon subprime lenders for their refinance loans.
- | **The concentration of subprime loans in African-American neighborhoods was also evident in the five metropolitan areas that HUD studied.** In each of the five metropolitan areas, predominantly African-American neighborhoods relied on subprime lenders for a major portion of their refinance loans: Atlanta (33 percent), Baltimore (49 percent), Chicago (52 percent), Los Angeles (33 percent), and New York (60 percent) (U.S. Department of Housing and Urban Development, 2000a-e). The findings for these metropolitan areas mirrored those given above for the Nation as a whole.

A lack of competition from prime lenders in low-income and minority neighborhoods has increased the chances that borrowers in these communities are paying a high cost for credit. The finding that upper income African-American borrowers rely more heavily on the subprime market than low-income White borrowers suggests that a portion of subprime lending is occurring with borrowers whose credit would qualify them for lower cost conventional prime loans. There is also evidence that the higher interest rates charged by subprime lenders cannot be fully explained solely as a function of the additional risks they bear.<sup>7</sup> Thus, a greater presence by mainstream lenders could possibly reduce the high up-front fees and interest rates currently being paid by residents of low-income and minority neighborhoods.

Banking regulators have recognized the link between the growth in subprime lending and the absence of mainstream lenders and have urged that banks and thrifts lending in these neighborhoods demonstrate not only responsible corporate citizenship but also profitable lending. Ellen Seidman, Director of the Office of Thrift Supervision, U.S. Department of the Treasury, recently echoed the sentiments of other banking regulators when she stated that, “Many of those served by the subprime market are creditworthy borrowers who are simply stuck with subprime loans or subprime lenders because they live in neighborhoods that have too few credit or banking opportunities.”

### **High Foreclosure Rates on Subprime Loans**

A recent HUD-Treasury report summarizes the growing body of anecdotal evidence that a subset of subprime lenders, who generally operate outside the Federal regulatory structure, engage in predatory lending practices (the report is discussed below). Although not all subprime loans are predatory, the findings reported above strongly suggest that whatever predatory practices occur in the subprime industry are taking place primarily in low-income and minority communities. One consequence of predatory lending is that borrowers are stripped of the equity in their homes, which places them at an increased risk of foreclosure. In fact, high foreclosure rates for subprime loans provide the most concrete evidence that many subprime borrowers are entering into mortgage loans that they simply cannot afford. The most compelling evidence that subprime lending has become a fertile ground for predatory practices is the current disproportionate percentage of subprime loan foreclosures in low-income and minority neighborhoods.

The wave of foreclosures now coming out of the subprime market has been documented by HUD and others in recent research studies. A background article for this panel reviews studies of subprime foreclosures in Chicago (National Training and Information Center, 1999), Atlanta and Boston (Gruenstein and Herbert, 2000a and b), and Baltimore (U.S. Department of Housing and Urban Development, 2000b), as well as a study of 16 large subprime lenders (White and Mansfield, 2000). The following findings from these studies raise serious concerns about the impact of subprime loans on low-income and minority neighborhoods in our urban areas.

- | **Foreclosures of subprime loans have increased substantially with the growth of subprime loan originations.** The subprime share of all mortgage foreclosures in the Chicago area increased from 1.3 percent in 1993 to 35.7 percent in 1998. Although the overall volume of foreclosures in Atlanta declined by 7 percent between 1993 and 1996, the volume of foreclosure actions initiated by subprime lenders grew by 232 percent.
- | **Subprime loans account for a larger share of overall foreclosures than of total loan originations.** Subprime loans accounted for 45 percent of all foreclosure petitions in Baltimore, compared with only 21 percent of all loan originations. In Atlanta, the overall share of foreclosures attributable to subprime lenders was 16 percent in 1999, also larger than the subprime share of originations (9 percent).
- | **Subprime lenders are quick to foreclosure.** In Atlanta, Baltimore, and Chicago, subprime lenders foreclosed much more quickly than the Federal Housing Administration (FHA) and prime lenders. In Baltimore, for example, the mean lag between the loan origination and the date that the foreclosure petition was filed was only 1.8 years for subprime loans compared with more than 3 years for FHA and prime loans.
- | **Subprime foreclosures are disproportionately concentrated in low-income and predominantly African-American neighborhoods.** The Abt and HUD studies found that, like originations, subprime foreclosures were concentrated in the low-income and African-American neighborhoods of Atlanta and Baltimore. For example, in Baltimore's African-American neighborhoods, subprime lending accounted for almost 60 percent of all foreclosures but only 42 percent of all loans. Although subprime loans made up 33 percent of market originations in low-income Baltimore neighborhoods, they accounted for one-half of mortgages being foreclosed upon in those areas.
- | **The estimated volume of subprime foreclosures is substantial.** White and Mansfield (2000) examined the default and foreclosure experience of 16 large subprime lenders and estimated that the default rates for subprime loans were three times as high as default rates for all mortgages. White and Mansfield observe that these default rates imply that more than 72,000 families with

subprime loans were in or near foreclosure at the end of 1999, which is an alarming number when one considers that these losses reflect only the activities of 16 large subprime lenders who hold fewer than one-half of all subprime loans. Findings from these studies about the high rate of mortgage foreclosure associated with subprime lending reinforce the concern that predatory lending can potentially have devastating effects for individual families and their neighborhoods.

## **Predatory Lending**

As discussed above, predatory lending occurs primarily in the subprime mortgage market, which has grown substantially over the past several years. Subprime mortgages can provide an important function, enabling borrowers who do not meet credit standards in the prime market to buy new homes, to improve their homes, or to access the equity in their homes for other purposes. However, the subprime market also can be a fertile ground for predatory lending activities.

At a time when a record number of Americans own their own home and equity in many homes has increased significantly, for all too many households predatory lending practices threaten to turn homeownership into a nightmare. The growing incidence of abusive practices in a segment of the mortgage lending market has been stripping borrowers of home equity and threatening families with foreclosure, destabilizing the very communities that are beginning to enjoy the fruits of our Nation's economic success. Also, in some cities, there are indications that unscrupulous Realtors®, mortgage brokers, appraisers, and lenders are duping some FHA borrowers into purchasing homes at an inflated price or with significant undisclosed repairs.

The problems associated with home equity fraud and other mortgage abuses are not new ones, but the extent of this activity seems to be increasing. Consequently, the problems associated with predatory lending are receiving greater public attention.

### **Recent Actions**

Growing concerns about abuses in the subprime market have led States and localities to mount their own legislative and regulatory efforts to curb predatory lending. Legislators in at least eight States introduced bills in recent sessions to restrict terms on certain classes of high-cost mortgages and to prohibit certain abusive lending practices. In 1999, North Carolina adopted a law, which became effective in July 2000, that imposed tighter restrictions on high-cost loans than currently exist under Federal

law. The New York State Banking Department issued a proposed regulation that is similar to the features contained in the North Carolina statute. The City of Chicago passed an ordinance intended to curb predatory lending by financial firms doing business with the city government. Meanwhile, at the Federal level, at least five bills have been introduced in Congress aimed at strengthening Federal consumer protections for high-cost mortgage borrowers. In addition, the Federal Reserve Board recently completed a series of regional public hearings to help determine whether it should use existing authority to issue regulations and take new enforcement steps to prevent abusive practices.

Recognizing that predatory lending was a multifaceted issue with substantial consequences for many consumers, as well as for the mortgage industry, HUD Secretary Andrew Cuomo joined forces with Treasury Secretary Lawrence Summers in April 2000 to form the National Predatory Lending Task Force. The Task Force drew its members from a wide range of interested consumer, civil rights, and community groups; mortgage lending industry trade associations representing mortgage lenders, brokers, and appraisers; State and local officials; and academics. On June 20, 2000, the two Federal Departments released a joint report detailing recommendations on legislative, regulatory, and other steps to curb the predatory (and other abusive) mortgage practices while maintaining access to credit for low- and moderate-income borrowers.

The joint report, *Curbing Predatory Home Mortgage Lending*, concluded that a loan can be considered predatory when lenders or brokers charge borrowers excessive, often hidden fees; successively refinance loans at no benefit to the borrower; make loans without regard to a borrower's ability to repay; and engage in high-pressure sales tactics or outright fraud and deception. Vulnerable populations, including the elderly and low-income individuals and low-income or minority neighborhoods, appeared to be especially targeted by unscrupulous lenders.

The recommendations contained in the report are based, in significant part, on information gathered by the HUD-Treasury National Predatory Lending Task Force, which heard testimony at field forums in Atlanta, Baltimore, Chicago, Los Angeles, and New York, and also collected extensive information about predatory lending from Task Force members and from other sources. The HUD-Treasury report proposed a four-point plan to address predatory lending practices: (1) improve consumer literacy and disclosures; (2) prohibit harmful sales practices in the

mortgage market; (3) restrict abusive terms and conditions on high-cost loans; and (4) improve market structure. These recommendations are discussed more fully below.

### What Is Predatory Lending?

The term “predatory lending” is a shorthand term used to encompass a wide range of abuses. Although there is broad public agreement that predatory lending should have no place in the mortgage market, there are differing views about the magnitude of the problem and even how to define practices that make a loan predatory. Although home mortgage lending is regulated by State and Federal authorities, none of the statutes and regulations governing mortgage transactions provides a definition of predatory lending.

The HUD-Treasury report concluded that predatory lending, whether undertaken by creditors, brokers, or even home-improvement contractors, involves engaging in deception or fraud, manipulating the borrower through aggressive sales tactics, or taking unfair advantage of a borrower’s lack of understanding about loan terms. These practices are often combined with loan terms that, alone or in combination, are abusive or make the borrower more vulnerable to abusive practices.

Predatory lending generally occurs in the subprime mortgage market, where most borrowers use the collateral in their homes for debt consolidation or other consumer credit purposes. Most borrowers in this market have limited access to the mainstream financial sector, yet some would likely qualify for prime loans. Although predatory lending can occur in the prime market, it is ordinarily deterred in that market by competition among lenders, greater homogeneity in loan terms, and greater financial information among borrowers. In addition, most prime lenders are banks, thrifts, or credit unions, which are subject to extensive Federal and State oversight and supervision, unlike most subprime lenders.

Incidences of predatory practices have caught the attention of the media, consumer and community advocates, legal aid attorneys, and public officials, yet the lack of a single definition of predatory lending makes it difficult to document the full extent of the problem. Furthermore, the lack of reporting by many nonbank financial institutions also hinders the ability of regulators to track lenders who may engage in this type of lending. However, there is a growing body of anecdotal evidence suggesting that an unscrupulous subset of subprime lenders—often those not subject to Federal banking supervision—is on the rise. The existence of these practices is



especially troubling to the extent that, as is underscored in other sections of this article, subprime lending is most heavily concentrated in lower income and minority neighborhoods.

Testimony from victims and others at the public forums sponsored by HUD and the Treasury Department further illustrated the all-too-frequent abuses in the subprime lending market. These abuses tended to fall into four main categories:

8. **Loan “flipping.”** Some mortgage originators refinanced borrowers’ loans repeatedly in a short period of time. With each successive refinancing, these originators charged high fees, sometimes including prepayment penalties, that stripped borrowers of equity in their homes.
9. **Excessive fees and “packing.”** Although subprime lending involves higher costs to the lender than prime lending, witnesses at the field hearings produced evidence that the fees far exceeded what would be expected or justified based on economic grounds and that fees were packed into the loan amount without the borrower’s understanding.
10. **Lending without regard to the borrower’s ability to repay.** One troubling practice involved lending based on borrowers’ equity in their homes when the borrowers clearly did not have the capacity to repay the loans. In particularly egregious cases, elderly people living on fixed incomes had monthly payments that equaled or exceeded their monthly incomes. Such loans quickly led borrowers into default and foreclosure.
11. **Outright fraud and abuse.** In many instances, abusive practices amount to nothing less than outright fraud. HUD and the Treasury Department heard many horror stories from borrowers who testified at the regional forums of fraud perpetrated by unscrupulous mortgage brokers, lenders, home-improvement contractors, appraisers, and combinations thereof. Unscrupulous actors in these markets often prey on certain groups, the elderly, minorities, and individuals with lower incomes and less education, with deceptive or high-pressure sales tactics.

#### Are New Laws Needed To Curb Predatory Practices?

Views differ on whether additional consumer protections and remedies are needed to successfully curb predatory practices. There are some, including many consumer and community reinvestment advocates, who maintain that existing laws need to be strengthened, citing evidence that unscrupulous lenders are adept at skirting the boundaries of existing protections. Others go further, suggesting that the subprime market is inherently predatory and therefore should more generally be subject to much stricter regulations than they are now. However, most lender trade groups take a different view, believing that existing laws are adequate and that abuses can be

combated through a combination of better enforcement and increased consumer education. These groups also warn that overregulating in this area could result in restricting access to credit for those most in need.

The divergence in views about what, if any, new protections are needed stems, at least in part, from the fact that predatory lending describes a range of practices, terms, and conditions that fall along a continuum between subprime lending and fraudulent practices (for example, see Goldstein, 1999). At one end, the subprime market uses risk-based pricing to assess the higher risk involved in lending to consumers with impaired credit. At the other end of the continuum, unscrupulous lenders engage in fraudulent business practices. Given this paradigm, judgments can differ as to where the lines should be drawn (that is, where does risk-based subprime lending end and predatory lending begin?).

The HUD-Treasury report concluded that, given the range of predatory practices and the ever changing nature of some of these practices, a comprehensive and balanced approach is required, involving all levels of government, the mortgage and real estate industries, and consumer and community organizations. The report proposed more than 50 recommendations for action, including strengthening key Federal consumer protection laws and regulations, as well as new programmatic and other initiatives. In addition, the report described regulatory and policy changes that HUD is implementing to combat predatory lending practices. Some of the key recommendations were as follows:

- | **Improve consumer literacy and disclosures.** The report included recommendations for Congress to amend existing Federal laws that require creditors to recommend that high-cost loan applicants avail themselves of home mortgage counseling, to disclose credit scores to all borrowers upon request, and to give borrowers more timely and accurate information as to loan costs and terms. The report also recommended new initiatives aimed at increasing consumer awareness in conjunction with mortgage industry trade groups, nonprofit home counseling and other organizations, and other units of government. Full funding for housing counseling and fair lending enforcement were viewed as critical as well.
- | **Reform Home Ownership and Equity Protection Act (HOEPA).** The report recommended that Congress amend HOEPA and that the Federal Reserve Board should use its existing authority to increase the number of borrowers in the subprime market covered by the statute's protections (HOEPA protects borrowers of certain high-cost loans by requiring lenders to provide additional disclosures

and by restricting certain terms and conditions that may be offered for such loans). Additionally, it was recommended that HOEPA be revised to prohibit certain practices such as loan flipping and lending to borrowers without regard to their ability to repay the loan and that the law also be changed to further restrict certain terms and conditions associated with high-cost loans (for example, balloon payments, prepayment penalties, and the financing of points and fees for HOEPA loans). Additionally, the report recommended a legislative prohibition on the sale of single-premium insurance products in connection with all mortgage loans.

- | **Expand prime lending in underserved communities.** Expanding the universe of prime borrowers would help to curb predatory lending. Accordingly, the report recommended that Federal banking regulators use authority under the Community Reinvestment Act to “promote” borrowers from the subprime to the prime market while penalizing lenders who make predatory loans.
- | **Promote responsibility in the secondary market.** The report recommended that Congress should enact legislation to clarify, as necessary, the authority of HUD and the Federal Housing Finance Board to prohibit, through regulation, the government-sponsored enterprises (GSEs) (Fannie Mae, Freddie Mac, and the Federal Home Loan Banks) from purchasing loans with predatory features. The report also warned the secondary market not to support illegal practices in mortgage lending and called for expanded due diligence in this area by lenders and securitizers of mortgage-back securities.

### Initial HUD Responses

Not all predatory practices are confined to the conventional subprime market. Evidence suggests that abusive practices have also victimized FHA and Veterans Administration (VA) borrowers, as well as other programs administered by State and local governments.

In March 2000, U.S. Senator Barbara Mikulski held a hearing in Baltimore that focused on abusive real estate practices, including asset flipping and the sales of homes at inflated prices. The hearing revealed that these predatory practices appeared especially targeted at FHA borrowers. In partnership with HUD Secretary Cuomo, Senator Mikulski proposed the creation of a Baltimore Task Force to learn more about these abuses. The Task Force used Baltimore as a laboratory to gather information on the causes and the extent of mortgage scams and resulting foreclosures and to develop recommendations that would benefit Baltimore and serve as a model for FHA programmatic reform throughout the Nation.

HUD has developed and recently launched a series of new FHA initiatives based on both the work of the Baltimore Task Force and the evidence developed by the National Predatory Lending Task Force. The new initiatives address predatory practices targeted at FHA and its borrowers, including inflated appraisals, fraudulent underwriting, property flipping, and other lender abuses.

FHA's reforms to protect homeowners from predatory lending focus on two main areas: providing relief to FHA borrowers already in distress, especially those who have been victimized by abusive lending, and also through expanded education and outreach to borrowers in general; and strengthening FHA endorsement and fraud detection procedures to prevent predatory practices from occurring in the first place. These initiatives build on FHA efforts to streamline operations and eliminate abusive practices.

To assist victims of predatory lending, FHA is launching a new initiative to directly fund foreclosure avoidance counseling in five "hot zone" cities (Atlanta, Baltimore, Chicago, Los Angeles, and New York). Those areas will be assigned FHA loss mitigation specialists to work with lenders and borrowers. FHA may also provide other assistance to borrowers, such as by directing mortgage lenders to write down a mortgage that has been inflated as a result of fraudulent appraisal to a level consistent with a fair market appraisal or other actions.

FHA is taking action in the hot zone areas to stop predatory practices from undermining the ability of FHA to promote housing opportunity. FHA has instituted an automated system to review the sales price history of properties before approval of FHA insurance. The new system is intended to stop the incidence of inflated appraisals before the loan is endorsed. Finally, FHA will be launching a new Appraisal Watch System, similar to the Credit Watch system now targeted to lenders, to identify appraisers with a record of faulty appraisals and abusive practices, remove them from the FHA roster, and take other actions against them, as appropriate.

FHA also is funding national and local housing counseling efforts to expand consumer education about predatory lending. These grants will be used to provide standard loss mitigation assistance to all hot zone borrowers referred. The funds also will be used to develop capacity to provide more services by training new counselors, upgrading hardware and software; to provide specialized assistance to victims of

predatory lending, developing mechanisms for identifying predatory lending activity and refer potential cases to HUD; and to provide front-end, prepurchase, educational-type counseling to prevent predatory lending.

## Endnotes

<sup>1</sup> For an overview of the subprime market, see the HUD-Treasury report, *Curbing Predatory Home Mortgage Lending*, June 2000.

<sup>2</sup> For the national analysis, see the HUD report *Unequal Burden: Income and Racial Disparities in Subprime Lending in America*, April 2000. HUD also conducted similar analyses of the Atlanta, Baltimore, Chicago, Los Angeles, and New York metropolitan areas (see References).

<sup>3</sup> HUD's analysis focused on home refinancing loans because they account for over 80 percent of total (home purchase and refinance) subprime loans. The findings reported below are based on HMDA data for the year 1998. HUD identifies subprime loans in HMDA using a list of lenders who primarily originate subprime loans. For the list of lenders and a discussion of the methodology, see Randall M. Scheessele, *1998 HMDA Highlights*, Housing Finance Working Paper No. 9, Office of Policy Development and Research, HUD, October 1999. The market data include refinance loans in both the conventional and government (FHA, VA) sectors. The subprime data include refinance loans originated by subprime lenders in the conventional sector.

<sup>4</sup> Low-income tracts have median incomes that are less than 80 percent of the metropolitan AMI, and upper-income tracts, greater than 120 percent AMI.

<sup>5</sup> HUD adopts the classification of census tracts in the Woodstock Institute report (cited above). Predominantly White neighborhoods are tracts where the minority percentage is less than 15 percent; and predominantly African-American neighborhoods are tracts where African-Americans comprise at least 75 percent of the population.

<sup>6</sup> Analyzed on the basis of individual borrowers instead of neighborhoods, subprime loans accounted for 33 percent of all refinance mortgages going to African-American borrowers, compared with only 8 percent for White borrowers. In total, African-American borrowers support 13 percent of the subprime refinance market, but only 5 percent of the mortgage refinance market overall.

<sup>7</sup> See Howard Lax et al., "Subprime Lending: An Investigation of Economic Efficiency" (unpublished paper), February 25, 2000. Also, analyses by Fannie Mae and Freddie Mac suggest that some portion of subprime lending is occurring with borrowers whose credit would qualify them for loans sold to the GSEs. Freddie Mac staff estimate that 10 to 35 percent of subprime borrowers meet Freddie Mac's purchase guidelines for conventional loans. Fannie Mae has stated that half of all

mortgage borrowers steered to the high-cost subprime market are in the A-minus category, and therefore are prime candidates for Fannie Mae. See “Fannie Mae Vows More Minority Lending,” *Washington Post*, March 16, 2000, page EO1.

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