Center for American Progress

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Unequal Opportunity Lenders?

Analyzing Racial Disparities in Big Banks' Higher-Priced Lending

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Introduction and summary

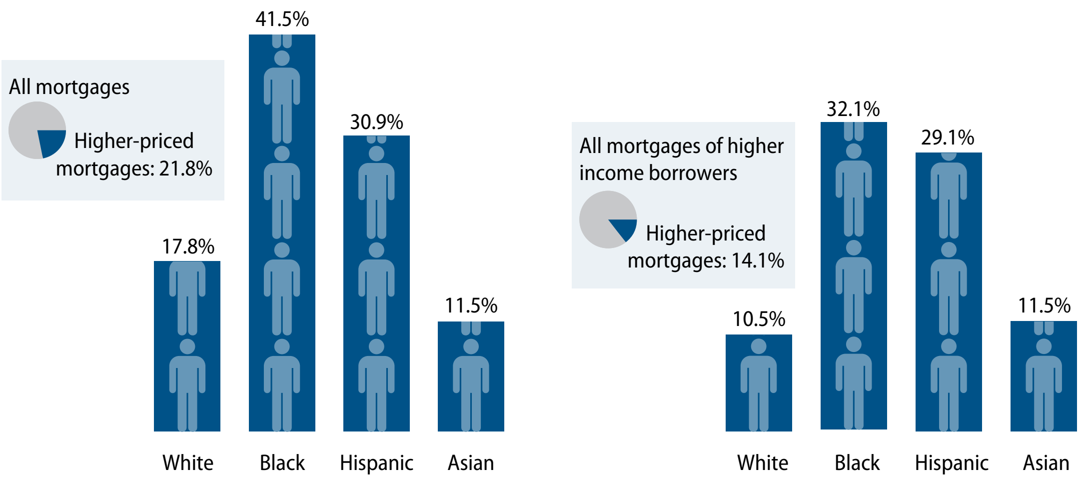
There's a common perception that subprime loans originated solely from now-shuttered mortgage firms, but many of the nation's largest banks and their current subsidiaries were quite active in doling out these higher-priced mortgages. The 14 systemically significant banks and current subsidiaries we analyze in this paper—using data from the Home Mortgage Disclosure Act, which requires extensive loan level disclosures from most mortgage originators—were responsible for originating more than one of every three higher-priced mortgages in the nation at the height of the housing bubble in 2006.[1] These banks and current subsidiaries together originated more than 876,000 higher-priced first mortgages—defined by the Federal Reserve as having an annual percentage rate at least three percentage points higher than a Treasury security of the same maturity—in 2006 alone.

Overall, 17.8 percent of white borrowers were given higher-priced mortgages when borrowing from large banks in 2006, yet 30.9 percent of Hispanics and a staggering 41.5 percent of African Americans got higher-priced mortgages. Only 11.5 percent of Asians got higher-priced mortgages.

Valid underwriting criteria would lead institutions to offer higher interest rates to riskier borrowers. But that leads to the question of whether low-risk borrowers were also driven toward higher-priced mortgages. We found that, in 2006, 14.1 percent of households earning more than twice their area's median income, nearly all of whom reported six-figure incomes, were given higher-priced mortgages. Were there in fact legitimate underwriting reasons that would lead these banks to issue higher-priced loans to nearly one in seven high-income applicants?

This question is sharpened when asked in the context of disparate mortgage pricing across racial and ethnic lines. Among high-income borrowers in 2006, African Americans were three times as likely as whites to pay higher prices for mortgages—32.1 percent compared to 10.5 percent. Hispanics were nearly as likely as African Americans to pay higher prices for their mortgages at 29.1 percent. We would welcome explanations based solely on legitimate underwriting criteria to clarify why the incidence of higher-priced mortgages among high-income minority borrowers was three times that for white borrowers with similar incomes.

Share of mortgages lent in 2006 by 14 major banks and current subsidiaries that were higher-priced, by race/ethnicity



	All borrowers					High-income borrowers only				
	All	White	Black	Hispanic	Asian	All	White	Black	Hispanic	Asian
All	21.8%	17.8%	41.5%	30.9%	11.5%	14.1%	10.5%	32.1%	29.1%	11.5%
Bank of America	15.1%	11.4%	28.1%	21.6%	8.5%	11.1%	8.2%	21.8%	21.2%	9.4%
Wells Fargo	15.5%	13.8%	33.2%	16.4%	5.4%	6.6%	5.6%	17.2%	10.5%	3.8%
JPMorgan Chase	22.0%	16.4%	47.5%	36.6%	12.0%	15.8%	11.0%	44.1%	37.6%	12.1%
Citigroup	55.6%	51.2%	76.6%	71.3%	23.9%	35.7%	27.6%	70.3%	73.5%	22.2%
PNC Financial Services	50.2%	42.6%	67.8%	69.8%	44.7%	45.5%	35.3%	71.9%	74.5%	48.4%
GMAC/Ally Bank	16.1%	13.8%	31.0%	20.5%	9.1%	10.3%	8.2%	18.5%	18.4%	7.8%
SunTrust	6.5%	5.8%	11.4%	9.0%	5.4%	3.8%	3.0%	8.9%	8.3%	4.0%
MetLife (First Tennessee)	9.1%	7.8%	19.0%	13.2%	7.1%	5.9%	5.0%		8.7%	12.4%
Capital One Financial Corp.	20.5%	19.0%	27.0%	21.9%	16.3%	18.0%	15.9%	25.3%	21.3%	16.3%
U.S. Bancorp	15.2%	15.5%	22.4%	13.9%	8.0%	10.3%	10.1%	17.8%	12.6%	8.2%
Regions Financial Corp.	67.7%	59.1%	81.9%	86.3%	77.5%	56.1%	47.0%	73.5%	84.1%	
BB&T	10.8%	10.0%	18.0%	12.3%	3.4%	7.8%	7.5%			
Fifth Third Bancorp	4.6%	4.1%	8.7%	13.7%	2.3%	2.5%	2.4%			
KeyCorp	47.8%	26.2%	45.6%			21.7%	10.3%			

Solid underwriting takes into account more than just a household's income. Credit scores, assets, loan-to-value ratios, and other indebtedness all influence a borrower's ability to repay the mortgage, and riskier borrowers are reasonably offered more costly loans to offset the risk. Some portion of the racial gap is likely the result of differing household incomes, credit scores, loan-to-value ratios, and other underwriting criteria. Nevertheless, we are skeptical that these factors fully explain gaps of these magnitudes, particularly because the gap persists across the income scale.

These data raise important questions about these banks' lending practices. We cannot say based on the HMDA data at what level the seemingly discriminatory practices originated—whether brokers located in predominantly minority communities steered clients into higher-priced mortgages, if banks' subprime lending units actively targeted minorities, or if it is rooted in other practices. While fair lending laws and the Fair Housing Act have outlawed explicitly discriminatory lending practices, we have identified a clear pattern of disparate outcomes based on race for which large financial institutions should shoulder some responsibility.

These banks all have been recipients of massive government assistance over the past year, and the largest of them have all committed to participate in government-backed foreclosure prevention programs. They are all crucial to restoring the mortgage market to get the housing market back on its feet.

It is essential that the patterns described in this report be investigated by the special inspector general for TARP to ensure that these taxpayer-supported benefits are not subsidizing discriminatory practices. It is also necessary that as these critical institutions move out from government support, they and the rest of the mortgage finance industry do not behave in unfair ways. Systemic problems in the industry—namely unfair lending practices—should be addressed immediately.

Our key recommendations in this paper are:

- No further repayments should be allowed to TARP recipients until the special inspector general for TARP gives a passing grade on fair lending practices.

- Establish an independent regulator focused on consumer protections such as the independent Consumer Financial Protection Agency the Obama administration has recommended to prevent recurrence of banking regulators' failures to protect consumers from unfair lending practices.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

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