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Analysis Finds New Link Between Racial Segregation and Subprime Lending

A New Furman Center Report Finds Racial Segregation is Linked to Higher Rates of Subprime Lending Among Blacks. Report Also Finds Neighborhood Demographics in New York City Influence Likelihood that Borrowers of Any Race Will Receive Subprime Loans.

As the country struggles to recover from an unprecedented housing downturn and neighborhoods suffer from record rates of foreclosures, policymakers must continue to ask how we got here. In particular, what fueled the high rates of subprime lending that contributed to the crisis? A report released today by the Furman Center for Real Estate and Urban Policy, *The High Cost of Segregation: Exploring the Relationship Between Racial Segregation and Subprime Lending,* examines this question from a new angle.

"While it has been well-reported that black and Hispanic borrowers were much more likely to receive high cost loans than white borrowers, the role that segregation and neighborhood demographics played in that dynamic has not been fully explored," said Vicki Been, faculty director of the Furman Center. "To help policymakers prevent these kinds of disparities from reoccurring in the future, we must better understand all the reasons why communities of color had such high rates of subprime lending, and we hope this new study will shed light on the role that residential segregation played."

The study examined whether the likelihood that borrowers of different races received a subprime loan varied depending on the level of racial segregation. It looked both at the role of racial segregation in metropolitan areas across the country and at the role that neighborhood demographics within communities in New York City played. The report found that, nationally, black borrowers living in the most racially segregated metropolitan areas were more likely to receive subprime loans than black borrowers living in the least racially segregated metropolitan areas. When looking just at New York City neighborhood demographics, the report found that living in a predominantly non-white neighborhood made it more likely that borrowers of all races would receive a subprime loan. Previous studies have reported that more segregated places have higher rates of subprime lending overall, but the Furman Center's study is unique in that it uses data about individual borrowers, and thus better isolates how the probability that an individual borrower will receive a subprime loan changes depending on the segregation of the area in which she lives.

In its national analysis, the study looked at segregation at the metropolitan level, grouping 200 metropolitan areas into quartiles by the degree of black-white and Hispanic-white segregation. Controlling for the characteristics of both the individual borrowers and the metropolitan areas in which they live, it looked at how the probability of receiving a subprime loan varied by segregation level, for borrowers of all races. It found that:

- A typical black borrower living in a metropolitan area in the quartile with the least amount of black-white segregation had a 45% chance of receiving a subprime loan. If he lived in a metropolitan area in the quartile with the most segregation, his chances increased to 56%.
- A Hispanic borrower living in a metropolitan area in the quartile with the least amount of Hispanic-white segregation had a 45% chance of receiving a subprime loan. If that same borrower lived in a metropolitan area with the highest level of segregation, he would have had a 47% chance of receiving a subprime loan.

- Finally, a typical white borrower had a 16% chance of receiving a subprime loan. That probability remained the same regardless of the level of segregation of the area in which the borrower lived.

"Our research can't pinpoint exactly why an individual received a subprime loan, but the fact that black borrowers were more likely to obtain high-cost loans if they lived in more segregated metropolitan areas is incredibly important," said Ingrid Gould Ellen, co-director of the Furman Center. "This may suggest that subprime lenders were targeting neighborhoods with largely minority populations, or it may reflect differences in underlying neighborhood characteristics, such as the scarcity of traditional banking institutions in the neighborhood. More research to better understand how individuals get mortgage financing is critical."

The Furman Center report also looked at the probability that an average borrower of a given race would receive a subprime loan based on the demographics of the New York City neighborhood where she lived. All New York City census tracts were ranked based on the percent of non-white residents, and then grouped into quartiles from the lowest to the highest share of non-white residents. After controlling for the characteristics of the borrower and of the neighborhood, the report finds that:

- A black borrower living in a neighborhood with the lowest share of non-white residents had a 24% chance of receiving a subprime loan. If he lived in a neighborhood with the highest share of non-white residents, his chances would increase to 38%.
- A Hispanic borrower living in a neighborhood with the lowest share of non-white residents had a 14% chance of receiving a subprime loan, but if that same borrower lived in a neighborhood with the highest share of non-white residents, she would have had a 31% chance of receiving a subprime loan.
- A white borrower living in a neighborhood with the lowest share of non-white residents had a 5% chance of receiving a subprime loan. If that same white borrower lived in a neighborhood with the highest share of non-white residents, she would have an 18% chance of receiving a subprime loan.

In sum, borrowers of any race were found to be more likely to receive a subprime loan if they lived in a neighborhood with a high share of residents of color.

The report's finding that there is a strong correlation between racial segregation and the likelihood that minority borrowers will obtain subprime loans is consistent with a growing number of other studies that demonstrate that racial residential segregation can lead to negative outcomes for minority residents. As such, the report ends with several policy recommendations, including improving enforcement of fair lending and fair housing laws, strengthening efforts to combat racial segregation, and further research on the channels (such as mortgage brokers or traditional banking institutions) that borrowers of different races use to obtain mortgage financing.

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About the Furman Center for Real Estate and Urban Policy
The Furman Center for Real Estate and Urban Policy is a joint center of the New York University School of Law and the Robert F. Wagner Graduate School of Public Service at NYU. Since its founding in 1995, the Furman Center has become the leading academic research center in New York City devoted to the public policy aspects of land use, real estate, and housing development. The Furman Center is dedicated to providing objective academic and empirical research on the legal and public policy issues involving land use, real estate, housing and urban affairs in the United States, with a particular focus on New York City. More information on the Furman Center can be found at: http://furmancenter.org.