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Study Finds Disparities in Mortgages by Race

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Home buyers in predominantly black and Hispanic neighborhoods in New York City were more likely to get their mortgages last year from a subprime lender than home buyers in white neighborhoods with similar income levels, according to a new analysis of home loan data by researchers at New York University.

The analysis, by N.Y.U.'s Furman Center for Real Estate and Urban Policy, illustrates stark racial differences between the New York City neighborhoods where subprime mortgages — which can come with higher interest rates, fees and penalties — were common and those where they were rare. The 10 neighborhoods with the highest rates of mortgages from subprime lenders had black and Hispanic majorities, and the 10 areas with the lowest rates were mainly non-Hispanic white.

The analysis showed that even when median income levels were comparable, home buyers in minority neighborhoods were more likely to get a loan from a subprime lender.

In Jamaica, Queens, for example, where the majority is black and the median household income was $45,000 in 2005, 46 percent of the mortgages were issued by lenders who specialize in subprime loans, the second highest rate in the city. In Bay Ridge, Brooklyn, which had a median income of $50,000 and is mostly white, the rate was among the lowest in the city, with 3.6 percent of home loans coming from subprime lenders.

The analysis provides only a limited picture of subprime borrowing in New York City. The data does not include details on borrowers' assets, down payments or debt loads, all key factors in mortgage lending. And comparing neighborhoods is inexact; the typical borrower in one may differ from a typical borrower in another.

Jay Brinkmann, an economist with the Mortgage Bankers Association, said there was not enough information in the Furman Center analysis and other studies on the issue to draw conclusions about whether subprime lenders were discriminating against minority home buyers. One of the crucial missing pieces is the credit histories of individual borrowers, he said.

But the Furman Center study, a summary of which is being released today, still raises questions about the role of race in lending practices. A separate analysis of mortgage data by The New York Times shows that even at higher income levels, black borrowers in New York City were far more likely than white borrowers with similar incomes and mortgage amounts to receive a subprime loan.

"It's almost as if subprime lenders put a circle around neighborhoods of color and say, 'This is where we're going to do our thing,'" said Robert Stroup, a lawyer and the director of the economic justice program at the

NAACP Legal Defense and Educational Fund Inc.

The New York State Division of Human Rights is investigating whether subprime lenders have been engaging in discriminatory practices by singling out minority communities.

The Furman Center analysis is based on 2006 data that lenders disclosed under the federal Home Mortgage Disclosure Act.

The study focused on mortgages issued by lenders identified by federal housing officials as subprime specialists in 2005. The list is made up of 210 companies, including major mortgage lenders like HSBC Mortgage Services and CitiFinancial, the consumer finance unit of Citigroup. But some lenders not included in the list may issue subprime loans, and not every loan made by the specialized lenders is subprime.

Even so, housing and civil rights advocates said the findings highlight lending patterns that have long troubled them.

They say minority communities whose financing needs were starved decades ago because of redlining — banks' refusal to offer loans or other services in minority areas — are now singled out for high-cost, high-risk mortgages in a kind of reverse redlining.

Any loan that carried an interest rate more than 3 percentage points above the prevailing rate for long-term Treasury bonds was considered a subprime mortgage. In 2006, Treasury rates ranged from 4.5 to 5.3 percent. Prime mortgage interest rates averaged 6.1 to 6.8 percent, according to the Federal Home Loan Mortgage Corporation.

Subprime loans are typically made to borrowers with credit histories that the mortgage industry considers less than prime. They can carry higher interest rates than traditional loans or adjustable rates that can make the mortgage difficult to repay once the interest rate resets. They can also carry higher fees and prepayment penalties and thus are at a high risk for foreclosure.

Kumiki Gibson, the commissioner of the State Division of Human Rights, acknowledged last week that her agency was investigating subprime lenders, but she said she could not discuss the details. “There was enough data to compel us to look into this,” Ms. Gibson said.

She said a variety of lending practices and patterns could be considered unlawful discrimination, like a mortgage broker who works only in certain neighborhoods or who offers white borrowers better rates than similarly qualified black or Hispanic customers. Many mortgages are handled by brokers who work as a liaison between borrowers and lenders and earn a fee

The N.A.A.C.P. filed a lawsuit in federal court in Los Angeles this year against 12 mortgage lenders. The lawsuit accuses the companies of steering black borrowers into subprime loans.

An analysis by The Times of the 2006 data that lenders disclosed under the federal Home Mortgage Disclosure Act shows that in New York City, the rate of subprime lending is far higher for minorities than for whites even at higher income levels. For example, 24 percent of non-Hispanic white borrowers earning $125,000 to $150,000 took out a subprime mortgage in 2006, compared with 52 percent of Hispanics and 63 percent of non-Hispanic blacks in the same income range.

For borrowers earning $150,000 to $250,000, the rate of subprime loans was 20 percent for whites, 50 percent for Hispanics and 62 percent for blacks. That analysis looked at all mortgages reported to the federal government, not just those issued by companies identified as subprime lenders.

The city's Department of Housing Preservation and Development also analyzed the federal mortgage data and found that last year, 58.5 percent of home loans to non-Hispanic black borrowers were high cost, compared to 15.9 percent for non-Hispanic whites. The percentage of loans to Hispanics that were high cost was 45.5.

Subprime lending, which has grown at a rapid pace in recent years, has made it possible for many New Yorkers with modest incomes and poor credit histories to buy homes. At the same time, those loans have brought some borrowers to the brink of financial ruin or cost them their homes.

Some economists and analysts said examining subprime lending by geography and race could be misleading because of the many variables not represented in the data, including the lack of banking services in some minority communities and historical differences in wealth and income among racial and ethnic groups.

"There certainly is a disgraceful element here, but how big it is, we don't know," said Julia Vitullo-Martin, a senior fellow at the Manhattan Institute, a conservative research group, who looked at a portion of the Furman Center analysis. "Is it a few rogue lenders, or is it an extensive problem that requires a regulatory response? We don't know yet."

The Furman Center's findings appear to echo recent studies from a number of local and national housing and fair-lending organizations that found racial disparities in subprime lending, high-cost mortgages and foreclosures.

A study by the Center for Responsible Lending, a nonprofit research group based in North Carolina, examined 50,000 subprime loans nationwide and found that blacks and Hispanics were 30 percent more likely than whites to be charged higher interest rates, even among borrowers with similar credit ratings. A report released in March by the Neighborhood Economic Development Advocacy Project and other groups found that in New York, blacks were five times and Hispanics almost four times more likely to pay higher interest rates for home loans than whites.

"There's no question that if you live in a predominantly African-American and Latino neighborhood you're going to be paying more for your mortgage," said Sarah Ludwig, executive director of the nonprofit Advocacy Project, which is based in New York.

The Furman Center analysis showed that subprime lending remained widespread in New York. Last year, 19.8 percent of home purchase loans in the city were from subprime lenders, a higher percentage than in San Francisco (8.4 percent), Boston (14.2 percent) and Chicago (15.9 percent). Los Angeles had a rate higher than New York's, at 25 percent.

New York City's subprime lending rate decreased by 3 percentage points between 2005 and 2006, but the rate was far higher than it was in 2002, when only 7 percent of loans were subprime, according to the Furman Center.

None of the predominantly white neighborhoods in the Furman Center analysis had a lending rate from subprime companies higher than the overall city rate of 19.8 percent, while numerous black and Hispanic areas did.

In the Middle Village and Ridgewood sections of Queens, both of which have white majorities and had a median income of $47,820 in 2005, 16.7 percent of the loans were issued by subprime lenders. In the Sheepshead Bay and Gravesend areas of Brooklyn, which also are mostly white and had a median income of $40,000, 10.8 percent of the mortgages were from subprime companies. Majority black and Hispanic neighborhoods with median incomes of $40,000 to $50,000 had far higher rates, including East Flatbush, where 44 percent of the loans were from subprime companies, and Queens Village (34.6 percent).

Ford Fessenden contributed reporting