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Twin Cities in Crisis:
Unequal Treatment of Communities of Color
in Mortgage Lending

Institute on Metropolitan Opportunity

April 2014
Introduction

Before the housing crisis, toxic subprime loans were deeply embedded in the mortgage market in the Twin Cities and were highly targeted towards communities of color. These loans contributed eventually to the foreclosure crisis and the staggering drops in housing values that disproportionately affected people of color, stripping many moderate- and low-income communities of enormous amounts of housing wealth. While subprime lending is much less common today, lack of access to credit continues to plague communities of color. Income differences alone do not explain past and current lending disparities. In 2004-06 subprime loans were the major problem – very high income black and Hispanic applicants were much more likely to get subprime loans than very low income white applicants. More recently, the subprime market has largely disappeared but it is still true that very high income black loan applicants are more likely to be denied a loan than low income whites. In addition, racially diverse and majority non-white neighborhoods are dramatically still underserved in the mortgage market.

Lenders could do much to open up the mortgage market for communities of color. They could ensure that loan origination rates are similar for households with similar economic profiles (regardless of race). They could also eliminate practices that currently lead to lower lending rates in diverse and majority-minority neighborhoods than would be expected given household incomes in those areas. For instance, if the home purchase and refinance loan portfolios of the region’s banks simply reflected the regional distribution of homeowners and the actual mix of household incomes in each neighborhood, more than 13,300 additional loans would have been made in diverse and majority non-white neighborhoods over the four years from 2009 to 2012 (a 55% increase). Nearly one-fourth of this shortfall is attributable to the region’s largest lender – Wells Fargo Bank.

Communities of color, subprime lending and loss of wealth

Communities of color have been hardest hit by the mortgage meltdown. Before the housing crisis, subprime lenders targeted people of color, racially diverse neighborhoods and majority non-white areas. Between 2004 and 2006, exactly half of the mortgage loans received by black homeowners were subprime, compared to 37% for Hispanics, 20% for Asians and just 10% for whites.1

Though blacks and Hispanics typically have lower incomes than white borrowers, income differences do not explain the disparities – very high income blacks and Hispanics were more likely to receive subprime loans than very low income whites. In fact, very high income blacks were 3.8 times more likely to receive subprime loans for home purchases than very low income whites, and 1.9 times more likely to receive subprime refinance loans.2 Although income is not
**Map 1:**
MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Percentage of Home Mortgage Loans that are Subprime by Census Tract, 2004 - 2006

**Map 2:**
MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Percentage of Population that are People of Color by Census Tract, 2000

Data Source: Home Mortgage Disclosure Act.

Data Source: U.S. Census Bureau, SF1.
the sole determinant of whether applicants obtain loans, it is hard to believe that credit profiles or economic factors other than income could justify differences of this magnitude between very high income black applicants and very low income white applicants.

During the same period, subprime lending in the region was most concentrated in majority non-white and racially diverse census tracts (more than 30% people of color) in the inner cities and in a few inner ring suburbs. The two maps above show how closely the distribution of subprime loans matched the distribution of people of color. Majority non-white and racially diverse tracts had subprime lending rates are 1.8 to 2.6 times greater than predominately white tracts (more than 70% white). In these areas, both borrowers that are white and people of color have been affected, regardless of their income. Even high and very high income whites were 1.8 to 2.9 times more likely to receive a subprime loan in majority non-white areas than their counterparts in predominately white areas.

A place with the most egregious subprime lending rates in the Twin Cities area is the Near North area of Minneapolis. Over half of loans made in the neighborhood were subprime, nearly three times the subprime rate of the metro overall—with approximately two-thirds of subprime loans going to minorities. (See table next page.) In Near North 58.7% of minority borrowers received a subprime loan, compared to 42% of whites. While minorities were more likely to receive subprime loans than whites in the area, both minorities and whites were more likely to receive subprime loans in Near North than elsewhere in the region. Even high to very high income whites had a subprime rate of 42.5 percent in Near North—4.6 times the rate of high to very high income whites overall in the metro.

The other Minneapolis Northside neighborhood, Camden, had the second highest subprime lending rate of the neighborhoods—and similar disproportionate rates of subprime lending when considering the race and income of the borrowers. It is worth noting that Camden is also adjacent to suburban areas northwest of Minneapolis—areas that also show very high subprime lending rates. Both Northside neighborhoods had much higher rates of subprime lending than the suburbs overall and compared to more affluent city neighborhoods, such as Minneapolis’ Calhoun-Isle and Southwest and St. Paul’s Highland-South Mac Grove.

The lack of prime lending branch locations in racially diverse and majority non-white communities contributes greatly to the uneven distribution of subprime loans. According to the National Community Reinvestment Coalition, the Twin Cities ranked last of the largest 25 U.S. metro areas for per capita bank branches in majority non-white census tracts. The number of banks in in majority non-white and racially diverse neighborhoods in the Twin Cities is only half what you would expect given their populations. In contrast, majority non-white neighborhoods in the region have twice as many payday lenders, twice as many pawn brokers, and four times as many check cashers as predicted given their population.
One reason these patterns matter so much is that subprime loans are more likely to lead to later foreclosures. The lack of prime lending and the disproportionately high levels of subprime lending in diverse and majority non-white areas meant that they were hardest hit by the foreclosure crisis. The chart below (for the region’s two central counties) shows how foreclosure rates soar when subprime lending rates reach 35-40 percent. 94% of the census tracts where 35% or more of loans were subprime were also racially diverse or majority non-white.7

The losses to households (and especially people of color) resulting from the housing crisis were enormous. A large national study of the impacts of the home losses and foreclosures estimated that $723 million of household wealth was lost in the cities of Minneapolis and Saint Paul in 2012 alone, with another $581 million of potential losses from projected future foreclosures. For
majority non-white city neighborhoods this translated into a loss of $3,800 per household, more than 2.5 times the per-household loss in segregated white city neighborhoods (estimated at $1,500 per household). Between 2008 and 2012, the estimated loss from foreclosures and declining property values in the entire Twin Cities metropolitan was a staggering $20.5 billion.

The continuing pattern of shortfalls of prime mortgage lending to communities of color

The housing finance market continues to underserve communities of color in the region. After concentrating toxic subprime loans in diverse and majority non-white neighborhoods, leading to disproportionate losses of equity and wealth for people of color, financial institutions continue to fail to provide a fair share of mortgage loans for communities of color – loans that today are almost exclusively for prime mortgages.

There are a variety of ways a bank might underserve an area or a group. For instance, problems can show up at a very early stage of the loan process. A bank might underserve an area (or type of area) by simply not pursuing business there, leading to application and loan rates per
household below what occurs elsewhere, in more “desirable” neighborhoods. Similarly, an area might receive fewer loans than expected given the mix of incomes in the neighborhood.

Or problems might show up during the evaluation process, after an initial application is submitted. For instance loan approval rates might be different in two neighborhoods for otherwise identical applicants, or they might be different for applicants of different races who are similar otherwise.

Recent data show both types of problems in the Twin Cities. Mortgage lending rate disparities are still significant across neighborhoods with different racial compositions. Between 2009 and 2012, racially diverse neighborhoods received only 93% of the home purchase loans and just 67% of the refinance loans that would be expected given their share of regional homeowners. Majority non-white neighborhoods fared even worse receiving only 60% of expected home purchase loans and 38% of expected refinance loans. If diverse and majority non-white neighborhoods had received their fair share of loans by this measure, there would have been 1,468 more home purchase loans in these neighborhoods (an increase of 24%) and 14,408 more refinance loans (an increase of 79%).

Controlling for income does not eliminate the disparities. They remain nearly as great if the number of expected loans in a neighborhood is based on its income mix (in addition to the number of homeowners). This calculation estimates how the actual number of loans in 2009-2012 would have been distributed across neighborhoods if homeowners with the same incomes were as likely to receive a loan, regardless of where they lived. If diverse and majority non-white neighborhoods had received their expected number of loans by this measure, there would have been 1,412 more home purchase loans in these areas (an increase over the actual number of 23%) and 11,972 more refinance loans (66% more than the actual number). The large shortfall of refinance loans in diverse and majority non-white neighborhoods could have greatly aided homeowners trying to renegotiate from more costly subprime loans into fair and sustainable home mortgages.

Another way areas can be underserved occurs during the application process itself, when people of different races or neighborhoods with different racial mixes are treated differently. The recent data also show that non-origination rates (or the percentage of applicants who did not receive a loan for any reason) are highest in census tracts with the highest non-white population percentages – see the maps below. For the most part, these were also the neighborhoods with the highest subprime rates in the past.

Potential applicants of all types are affected by these disparities. Overall, loan denial rates for home purchases were twice as high in predominantly non-white areas than in predominantly white ones between 2009 and 2012. Even middle and high income households were much more likely to be denied loans in predominantly non-white areas. Denial rates were one and a half times higher for middle/high income white households and twice as high for middle/high
Map 3:
MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Home Mortgage Non-Origination Rates
by Census Tract, 2009 - 2011

Legend
Regional Value: 33.2%

- 21.0 to 27.8% (95)
- 27.9 to 33.1% (195)
- 33.2 to 38.0% (198)
- 38.1 to 45.4% (132)
- 45.5 to 57.7% (79)
- 57.8 to 84.2% (32)
- No data (15)

Data Source: Home Mortgage Disclosure Act.

Map 4:
MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Percentage of Population that are People of Color
by Census Tract, 2010

Legend
Regional Value: 21.4%

- 1.8 to 7.7% (160)
- 7.8 to 13.9% (159)
- 14.0 to 21.3% (153)
- 21.4 to 29.9% (112)
- 30.0 to 49.9% (90)
- 50.0 to 97.2% (97)
- No data (1)

Data Source: U.S. Census Bureau, SF1.
income people of color in predominantly nonwhite neighborhoods. The numbers for refinance loans were similar.\(^\text{12}\)

Region wide, different races are still treated very differently. The non-origination rate for black applicants from 2009 to 2012 was 50%, followed by 45% for Hispanics, 37% for Asians, and only 29% for whites. Income differences do not explain the disparities. Whites had lower non-origination rates than people of color with similar incomes at all income levels. Of all the racial groups, black households showed particularly high disparities for home purchase loans — very high income black applicants were less likely to receive a purchase loan than very low income white applicants. Similarly, middle income black applicants were roughly twice as likely as middle income white applicants to be denied refinance loans.\(^\text{13}\)

The Near North area in Minneapolis has the worst lending patterns in the region when it comes to an applicant obtaining a home loan in today’s market. More than half of mortgage applications do not result in a loan in Near North (55.1%) between 2009 and 2012. (See table next page.) Non-origination rates in the Near North were lower for whites (46.3%) than minorities (65.1%), but the white non-origination rate was still much higher than in the metro overall (29.1%). Even high to very high income whites had excessive non-origination rates in Near North (55.4%)—more than twice that of their group rate in the metro overall. Nor does the income of the neighborhood account for these disparities. If loans were distributed across neighborhoods according to the income distribution of homeowners there would have been an additional 76 home purchase and 586 refinance loans made in Near North from 2009 to 2012.

There were similarly disproportionate rates of lending in the Camden—in fact the area has the greatest predicted shortfall of any neighborhood in the Twin Cities. In Camden there were 232 fewer home purchase loans and 1,106 fewer refinances than expected given the actual income distribution of homeowners in the neighborhood. The combined loss of 1,693 refinance loans to the Northside of Minneapolis is deeply troubling considering the abundant number of homeowners in the area that have attempted to renegotiate the terms of unsustainable home loans prompted by subprime and predatory lending practices.

**The impact of region’s largest lenders**

Although most mortgage lenders of every size in the Twin Cities have a poor track record of lending to communities of color, disparities with the largest lenders have, by far, the greatest impact region-wide. For instance, if Wells Fargo Bank (the region’s largest lender) had distributed its loans exactly proportional to the distribution of homeowners of various incomes across the region between 2009 and 2012, the bank would have made an additional 1,518 mortgage (purchase plus refinance) loans to racially diverse areas and an additional 2,729 loans to majority non-white areas. This represents just over a fourth of the total shortfall in these neighborhoods (calculated above). The institution with the second largest shortfalls, U.S. Bank
<table>
<thead>
<tr>
<th>Neighborhood</th>
<th>Total Loans</th>
<th>Total %</th>
<th>White %</th>
<th>Minority %</th>
<th>Total %</th>
<th>White %</th>
<th>Minority %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minneapolis - Calhoun-Isle</td>
<td>4,629</td>
<td>6.9%</td>
<td>50.9%</td>
<td>49.1%</td>
<td>4,629</td>
<td>6.9%</td>
<td>50.9%</td>
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<tr>
<td>Minneapolis - Camden</td>
<td>6,364</td>
<td>9.2%</td>
<td>52.2%</td>
<td>47.8%</td>
<td>6,364</td>
<td>9.2%</td>
<td>52.2%</td>
</tr>
<tr>
<td>Minneapolis - Central</td>
<td>3,062</td>
<td>4.5%</td>
<td>49.3%</td>
<td>50.7%</td>
<td>3,062</td>
<td>4.5%</td>
<td>49.3%</td>
</tr>
<tr>
<td>Minneapolis - Longfellow</td>
<td>3,937</td>
<td>5.8%</td>
<td>51.3%</td>
<td>48.7%</td>
<td>3,937</td>
<td>5.8%</td>
<td>51.3%</td>
</tr>
<tr>
<td>Minneapolis - Phillips</td>
<td>3,519</td>
<td>5.2%</td>
<td>50.7%</td>
<td>49.3%</td>
<td>3,519</td>
<td>5.2%</td>
<td>50.7%</td>
</tr>
<tr>
<td>Minneapolis - Southiker</td>
<td>3,755</td>
<td>5.6%</td>
<td>49.2%</td>
<td>50.8%</td>
<td>3,755</td>
<td>5.6%</td>
<td>49.2%</td>
</tr>
<tr>
<td>Minneapolis - Summit-University</td>
<td>1,549</td>
<td>2.3%</td>
<td>49.1%</td>
<td>50.9%</td>
<td>1,549</td>
<td>2.3%</td>
<td>49.1%</td>
</tr>
<tr>
<td>Minneapolis - University</td>
<td>2,573</td>
<td>3.8%</td>
<td>50.3%</td>
<td>49.7%</td>
<td>2,573</td>
<td>3.8%</td>
<td>50.3%</td>
</tr>
<tr>
<td>Minneapolis - West End - Midtown</td>
<td>9,457</td>
<td>14.0%</td>
<td>51.8%</td>
<td>48.2%</td>
<td>9,457</td>
<td>14.0%</td>
<td>51.8%</td>
</tr>
<tr>
<td>Minneapolis - West End - South</td>
<td>1,515</td>
<td>2.2%</td>
<td>49.2%</td>
<td>50.8%</td>
<td>1,515</td>
<td>2.2%</td>
<td>49.2%</td>
</tr>
<tr>
<td>Suburbs</td>
<td>380,898</td>
<td>58.7%</td>
<td>51.7%</td>
<td>48.3%</td>
<td>380,898</td>
<td>58.7%</td>
<td>51.7%</td>
</tr>
<tr>
<td>Saint Paul - Battle Creek</td>
<td>2,075</td>
<td>3.1%</td>
<td>49.4%</td>
<td>50.6%</td>
<td>2,075</td>
<td>3.1%</td>
<td>49.4%</td>
</tr>
<tr>
<td>Saint Paul - Como/Midway/St. Anthony</td>
<td>3,629</td>
<td>5.4%</td>
<td>50.5%</td>
<td>49.5%</td>
<td>3,629</td>
<td>5.4%</td>
<td>50.5%</td>
</tr>
<tr>
<td>Saint Paul - Highland-South Grove</td>
<td>4,640</td>
<td>6.9%</td>
<td>51.8%</td>
<td>48.2%</td>
<td>4,640</td>
<td>6.9%</td>
<td>51.8%</td>
</tr>
<tr>
<td>Saint Paul - North East - Thomas-Dale</td>
<td>3,937</td>
<td>5.8%</td>
<td>51.3%</td>
<td>48.7%</td>
<td>3,937</td>
<td>5.8%</td>
<td>51.3%</td>
</tr>
<tr>
<td>Saint Paul - Southeast</td>
<td>6,364</td>
<td>9.2%</td>
<td>52.2%</td>
<td>47.8%</td>
<td>6,364</td>
<td>9.2%</td>
<td>52.2%</td>
</tr>
<tr>
<td>Total</td>
<td>442,471</td>
<td>67.3%</td>
<td>52.9%</td>
<td>47.1%</td>
<td>442,471</td>
<td>67.3%</td>
<td>52.9%</td>
</tr>
</tbody>
</table>

Source: Home Mortgage Disclosure Act, U.S. Census American Community Survey

Table 2: Home Lending in Minneapolis-Saint Paul Neighborhoods, 2009 to 2012
NA, had a smaller but still significant effect – it would have made 459 more purchase loans and 752 more refinance loans to these areas if they had been proportionally distributed.

Wells Fargo has been one of a few major lenders involved in targeting subprime loans to communities of color in the region. Between 2004 and 2006, there were two major subsidiaries of Wells Fargo that made refinance loans, Wells Fargo Bank NA, which focused primarily on making prime loans and Wells Fargo Financial Minnesota, which was primarily involved in making subprime loans. During this period the percentage of loans from Wells Fargo’s subprime-lending subsidiary (Wells Fargo Financial Minnesota) going to nonwhite applicants was 1.6 times greater than the percentage going to nonwhite lenders from the bank’s prime-lending subsidiary (Wells Fargo Bank NA). The region’s largest bank is thus a prime example of a lender that facilitated the concentration of subprime loans in diverse and majority-minority neighborhoods and that now provides prime loans at disproportionately low rates in those areas. The irony of course is that high subprime lending rates in those areas in the past contributed greatly to subsequent high foreclosure rates which, in turn, created the economic woes now used to justify disproportionately low lending rates in those neighborhoods.

Two other major subprime lenders during the earlier time period were held by currently existing parent companies, Bank of America and HSBC Holdings. In 2008 Bank of America purchased the failing Countrywide Financial Corporation. After Wells Fargo, Countrywide was the largest lender between 2004 and 2006 and 18.4% of its loans made were subprime (34% higher than the regional average) and 28 percent of those were made to people of color (44% higher than the regional average). Between 2009-2012 Bank of America NA made 40 fewer loans to diverse areas and 158 fewer loans to majority non-white areas than expected, given their homeowner shares and income mixes.

Another major player in the subprime market, Decision One Mortgage (a subsidiary of HSBC Holdings Corporation) made 3,826 refinance loans between 2004 and 2006 – 92% of these loans were subprime and 27% were to minority borrowers. More recently, HSBC Holdings has largely withdrawn from the market and its subsidiaries received 392 refinance applications between 2009 and 2012 and only 18 were originated by HSBC (with only 2 originated to people of color).

The major banks in the Twin Cities are also underserving the Northside of Minneapolis, the area that had the highest subprime lending rates and which currently has the lowest origination rates in the region. Wells Fargo made 73 fewer home purchases and 576 fewer refinances in the Northside (Near North and Camden combined) than expected given neighborhood incomes—nearly a third of the overall shortfall for the Northside. Other leading banks also made fewer home loans than expected in North Minneapolis, especially fewer refinance loans. U.S. Bank N/A made 183 fewer refinance loans than expected, followed by Bank of America, TCF (-44 and -20 respectively).
Notes


2 Ibid.

3 Institute on Metropolitan Opportunity analysis of 2004 to 2006 Home Mortgage Disclosure Act data. Only conventional first-lien mortgage origination (loans) for owner-occupied and 1-4 family unit homes were used for the calculations. Mortgages purchased by institutions were not included in the analysis.

4 Figures for the Near North and other Minneapolis neighborhoods are derived from data that comes from the larger ‘community’ defined areas in Minneapolis. For instance, Near North in this report includes the Near North, Sumner Glenwood, Harrison, Willard Hay, Jordan and Hawthorne neighborhoods. HMDA data comes at the census tract level which often does not conform to neighborhood boundaries in the cities of Minneapolis and Saint Paul. As a result community areas in Minneapolis were used rather than city defined ‘neighborhoods’ that are much smaller and conform much less to the boundaries of census tracts. In Saint Paul neighborhoods had to be combined for census tracts to be contiguous with neighborhood designations. For a map of Minneapolis Communities and Neighborhoods see: http://www.ci.minneapolis.mn.us/www/groups/public/@cped/documents/maps/convert_273414.pdf (accessed 2/14/2014)


10 Institute on Metropolitan Opportunity analysis of 2009 to 2012 Home Mortgage Disclosure Act data. Only conventional first-lien mortgage applications for owner-occupied and 1-4 family unit homes were used for the calculations. Mortgages purchased by institutions were not included in the analysis. For the calculation using only households, the total number of lender originations were multiplied by the share of homeowners in predominately white (0.8640), diverse (0.0975) and majority non-white (0.05635) census tracts.

11 Ibid. For the calculation controlling for neighborhood income mix, the regional distribution by census tract of originations for 12 income groups was calculated and the percentages were applied to the number of residents in each income group in each tract. The resulting numbers of originations for each income group were then summed to get the expected number of loans for each tract. This calculation was made separately for home purchases and refinances.

12 Ibid. A table with these calculations is available at http://www.law.umn.edu/metro.

13 Ibid. Charts showing these relationships are available at http://www.law.umn.edu/metro.

14 Expected originations for individual banks were calculated by distributing the tract-level estimate for all banks proportionally across banks, assuming that a bank’s share of loans in a tract matched its share of total regional loans.

15 Institute on Metropolitan Opportunity analysis of 2004 to 2006 and 2009 to 2012 Home Mortgage Disclosure Act data. Only conventional first-lien mortgage applications for owner-occupied and 1-4 family unit homes are used for the calculations. Mortgages purchased by institutions were not included in the analysis.

16 Ibid.