

Statement of  
Peter A. Tatian,  
Senior Research Associate, the Urban Institute  
Before the  
D.C. Council, Committee on Public Services and Consumer Affairs,  
Hearing on Home Equity Protection Act  
Subprime Mortgage Lending in Washington, D.C.  
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Good afternoon. My name is Peter Tatian and I am a senior researcher in the Urban Institute's Metropolitan Housing and Communities Policy Center. I am happy to provide this testimony on subprime and predatory mortgage lending with the hope that it will be useful to the Council in its consideration of measures needed to protect homeowner equity.

**Subprime vs. Predatory Lending**

Subprime loans are those that have higher costs (such as higher interest rates) than prime loans. Subprime loans are designed for applicants with poor credit histories, high loan-to-home-value ratios, or other credit risk characteristics that would disqualify them from lower cost, prime-rate loans.

Subprime lending has made credit available to households with low incomes or credit scores that would not allow them to qualify for prime-rate loans. Nevertheless, as is now becoming all too clear, subprime lending can be detrimental if borrowers who take out higher-cost loans later have difficulty repaying them and risk defaulting on those loans. We do not have any local data on defaults for subprime loans, but national data suggest that is likely to be a growing problem. As reported in this morning's *Washington Post*, the number of subprime borrowers who missed payments climbed to a four-year high and the number of foreclosures on all homes jumped to its highest level in nearly four decades.

Another problem is that some subprime loans may be predatory. Predatory subprime loans are those that carry unreasonable and unjustifiable fees, penalties, or loan terms. For example, a predatory loan may have an excessively large balloon payment or high prepayment penalties. Predatory lending may also involve outright fraudulent behavior, such as inappropriate marketing strategies and lack of full disclosure of loan terms. Such loans can result in borrowers being stripped of equity or even losing their homes through foreclosures. According to The Center for Responsible Lending, predatory loans stripped District families of \$24.9 million in home equity in 2001 (Stein 2001).

Predatory lending may also include steering certain borrowers, such as the elderly, African Americans, or Latinos, to subprime loans. Such practices are already illegal under federal and D.C. fair housing and human rights laws but are currently difficult to detect or prove.

### **Current Data on Subprime Lending**

Data on mortgage lending provided through the federal Home Mortgage Disclosure Act (HMDA) indicate that 5.3 percent of all home purchase loans in the District were issued by subprime lenders in 2004.<sup>1</sup> The share for refinance loans was almost twice as high at 10.2 percent. Subprime lenders issued a total of \$468 million in purchase and refinance loans to District borrowers in 2004 (see table 1).

The data show that levels of subprime lending are not uniform across the city. Wards 4, 5, 7, and 8 had the highest shares of subprime lending in 2004; levels of subprime lending in Ward 7 were ten times higher than in Ward 3 (see table 2).

The use of subprime loans also differs greatly by the race or ethnicity of the borrower. African-American and Latino borrowers were by far the most likely to take loans from subprime lenders, with African Americans almost three times more likely to get a subprime home purchase loan than the city average in 2004, and Latinos more than twice as likely (see table 3). Even when controlling for borrower income, rates of subprime borrowing for African-Americans and Latinos remain higher than those of whites.

Again, it should be noted that subprime loans are not necessarily predatory or illegal, but higher levels of subprime lending, especially in certain wards or to certain populations, indicate areas where predatory or illegal practices might be occurring. Information on the use of subprime loans, such as presented here, can be used to focus efforts to deal with possible negative consequences of subprime lending.

### **Possible Actions**

The Council could consider several actions that would help address the concerns regarding subprime and predatory mortgage lending described in this testimony.

- *Better educating home buyers.* Expanding programs to better educate buyers on mortgage lending options and the true costs of homeownership would help home buyers identify and avoid predatory loans or loans that they will be unable to repay.

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<sup>1</sup> The data reported here do not capture whether an individual loan is subprime but, rather, the number of loans originated by lenders that the U.S. Department of Housing and Urban Development (HUD) has classified as subprime specialists. Lenders are identified as subprime specialists if such loans account for at least half of their conventional (i.e., not government-backed or insured) business. HUD also uses feedback from lenders, policy analysts, and housing advocacy groups to update the list (Pettit and Droesch 2005, 8).

- *Improving the creditworthiness of home buyers.* Many low-income persons have poor credit histories; expanding programs to help them improve their creditworthiness would allow them to access lower-cost mortgage loans.
- *Requiring better disclosure of loan terms and costs.* Mortgage lenders and brokers may not always provide clear information on loan terms. The District could specify clear standards for disclosure that could include both short-term and long-term costs to the borrower.
- *Requiring better reporting by mortgage lenders.* Many mortgage lenders claim that higher rates of subprime lending for particular groups are justified because those groups have poorer credit histories. However, lenders currently are not required to provide applicant credit scores as part of their reporting under HMDA, so this claim cannot be independently verified. The Council could consider requiring mortgage lenders in the District of Columbia to report credit scores of applicants along with other HMDA-mandated information.
- *Testing mortgage lenders for fair housing practices.* National testing research conducted by the Urban Institute (funded by the U.S. Department of Housing and Urban Development) found that some mortgage lenders treated African-American and Latino applicants less favorably than comparable white applicants. For example, they were given less information about alternative loan products and received less pre-application assistance than whites (Turner et al. 2002; Turner et al. 1999). Regular testing of mortgage lenders operating in the District of Columbia would help ensure that lenders are fully complying with fair housing and fair lending laws.
- *Better tracking of foreclosures.* The Recorder of Deeds currently makes data available on foreclosures, but in a form that is difficult to analyze. The Recorder of Deeds could work with the Office of the Chief Technology Officer to provide its data in a mappable form so that foreclosure and subprime lending rates could be compared across wards and neighborhoods.

Thank you for giving me the opportunity to speak to you today.



Peter A. Tatian is a senior research associate in the Urban Institute's Metropolitan Housing and Communities Policy Center. He is currently leading the Institute's participation in *NeighborhoodInfo DC*, which provides community-based organizations and residents in the District of Columbia with local data and analysis they can use to improve the quality of life in their neighborhoods. For more, please visit <http://www.NeighborhoodInfoDC.org>.

*The views expressed in this testimony are those of the author and do not necessarily reflect the views of the trustees, funders, and employees of the Urban Institute.*

## References

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**Table 1. Subprime Home Mortgage Lending by Lender,  
Washington, D.C., 2004**

Home purchase and refinance loans by subprime lenders	Number of loans	Amount (thous. \$)	
		Total	Pct. of subprime
<b>All subprime lenders</b>	<b>2,392</b>	<b>467,856</b>	<b>100.0</b>
New Century Mtg Corporation	707	127,995	27.4
Finance America, Llc.	342	73,964	15.8
WMC Mortgage Corp.	323	64,627	13.8
Novastar Mortgage Inc	282	50,068	10.7
Southstar Funding	149	29,168	6.2
Fieldstone Mortgage Company	139	23,954	5.1
Long Beach Mortgage Co.	91	22,311	4.8
Meritage Mortgage Corp.	61	13,940	3.0
Novastar Home Mortgage Inc	49	11,125	2.4
Advanced Financial Services In	38	6,685	1.4
Acoustic Home Loans, Llc.	38	7,108	1.5
Platinum Capital Group	30	6,999	1.5
The Lending Connection Inc	22	4,960	1.1
JLM Direct Funding, Ltd	21	5,204	1.1
Sunset Direct Lending, Llc.	20	3,404	0.7
Impac Funding Corp	19	4,816	1.0
MBNA America (Delaware), N.A.	13	2,134	0.5
Chapel Mortgage	10	1,507	0.3
Dollar Mortgage Corporation	7	1,157	0.2
Harbourton Mortgage Investment	5	1,156	0.2
AIG Fsb	4	1,329	0.3
Lendmark Financial Services	4	413	0.1
Accredited Home Lenders, Inc.	4	882	0.2
American Home Loans	4	821	0.2
Corinthian Mortgage Corp	2	663	0.1
Ameriquest Mortgage Company	2	328	0.1
Equity One, Inc.	1	59	0.0
Meritlending.Com	1	140	0.0
ESI Mortgage, Lp	1	550	0.1
American General Fin.Serv.(DE)	1	4	0.0
Beneficial	1	301	0.1
Choice Capital Funding	1	84	0.0

*Source:* Home Mortgage Disclosure Act data tabulated by NeighborhoodInfo DC.

**Table 2. Subprime Home Mortgage Lending by Ward,  
Washington, D.C., 2004**

	Percent of conventional loans issued by subprime lenders	
	Home purchase	Refinance
<b>District of Columbia</b>	<b>5.3</b>	<b>10.2</b>
Ward 1	4.9	7.3
Ward 2	1.2	2.9
Ward 3	1.2	1.5
Ward 4	7.8	12.7
Ward 5	11.2	16.7
Ward 6	3.8	7.4
Ward 7	13.9	16.6
Ward 8	10.8	19.6

*Source:* Home Mortgage Disclosure Act data tabulated by NeighborhoodInfo DC.

**Table 3. Subprime Home Mortgage Lending by Borrower's Race/Ethnicity,  
Washington, D.C., 2004**

	Percent of conventional loans issued by subprime lenders	
	Home purchase	Refinance
<b>All races/ethnicities</b>	<b>5.3</b>	<b>10.2</b>
Whites	1.8	3.2
African Americans	15.4	17.3
Latinos	11.5	7.1
Asians	3.4	3.8

*Source:* Home Mortgage Disclosure Act data tabulated by NeighborhoodInfo DC.

*Note:* A total of 13,416 conventional home purchase loans (prime and subprime) and 16,441 conventional refinance loans were issued in Washington, D.C., in 2004.