

Credit Research Center Seminar

Ensuring Fair Lending: What Do We Know about Pricing in Mortgage Markets and What Will the New HMDA Data Fields Tell US?



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Introduction to the Enhanced HMDA Data

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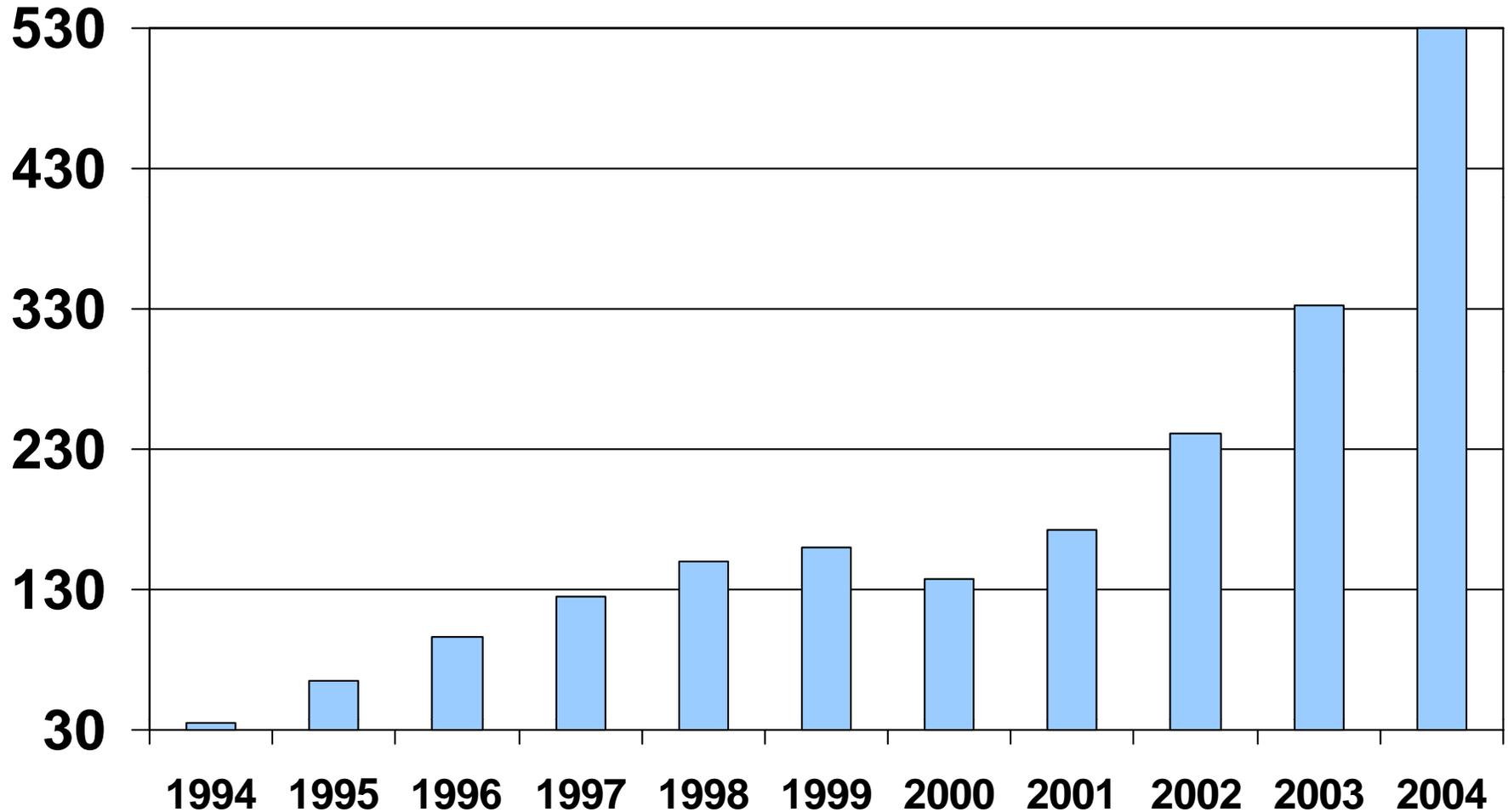
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Public Policy Has Encouraged Expansion of Mortgage Credit

- **For more than 35 years, expanded access to mortgage credit has been an explicit American policy goal**
- **HMDA was passed to ensure that banks and other depository institutions in inner city areas “reinvested” by making home mortgage credit available to residents.**
- **Subprime mortgage industry evolved as lenders developed flexible contracts and applied risk-based pricing to grant mortgage credit to non-prime borrowers**

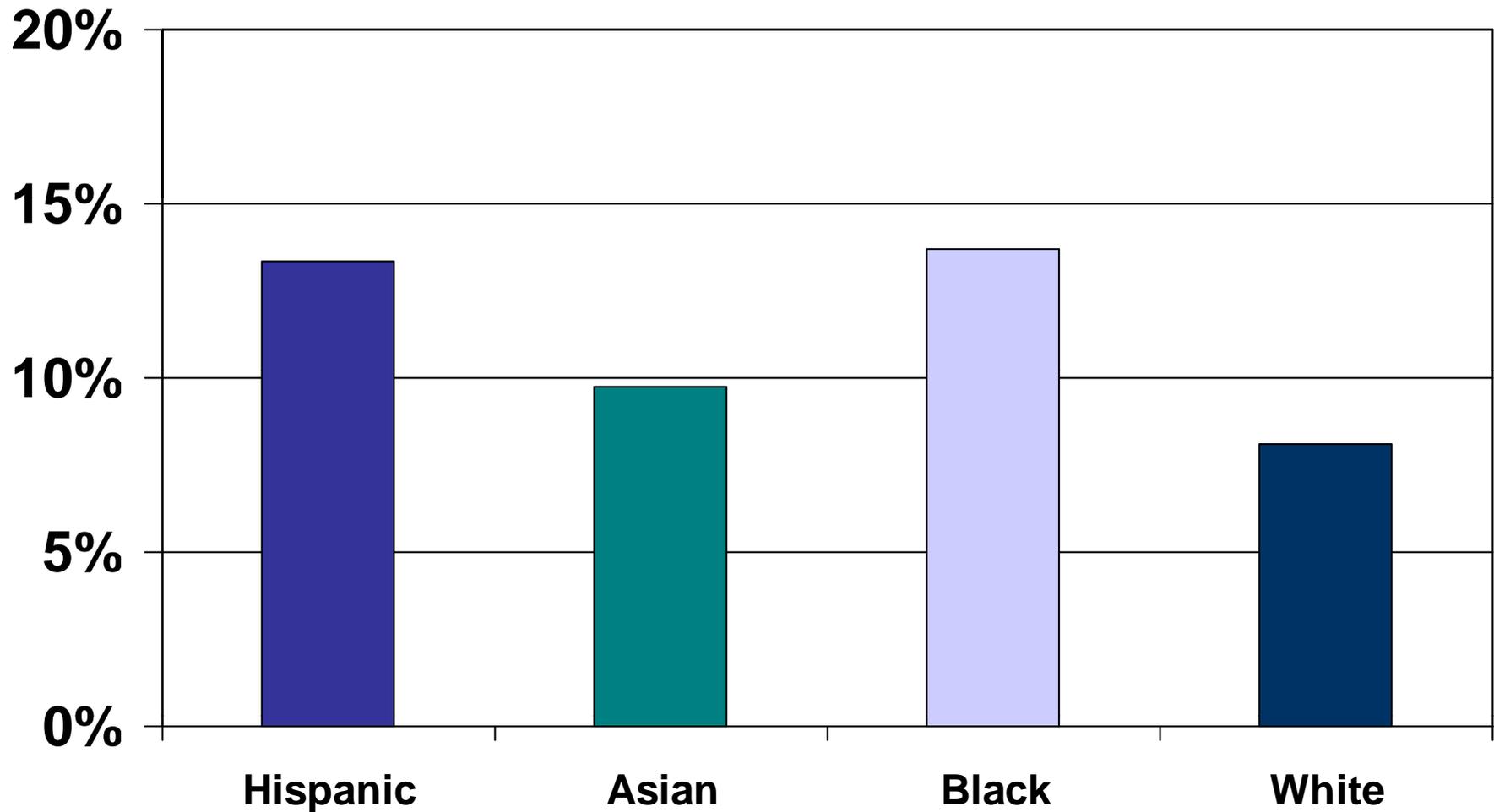
Subprime Mortgage Originations 1994 – 2004

\$Billions of
current dollars



Source: Mortgage Statistical Annual.

Percent Change in Homeownership 1994 – 2003



Source: U.S. Census Bureau.

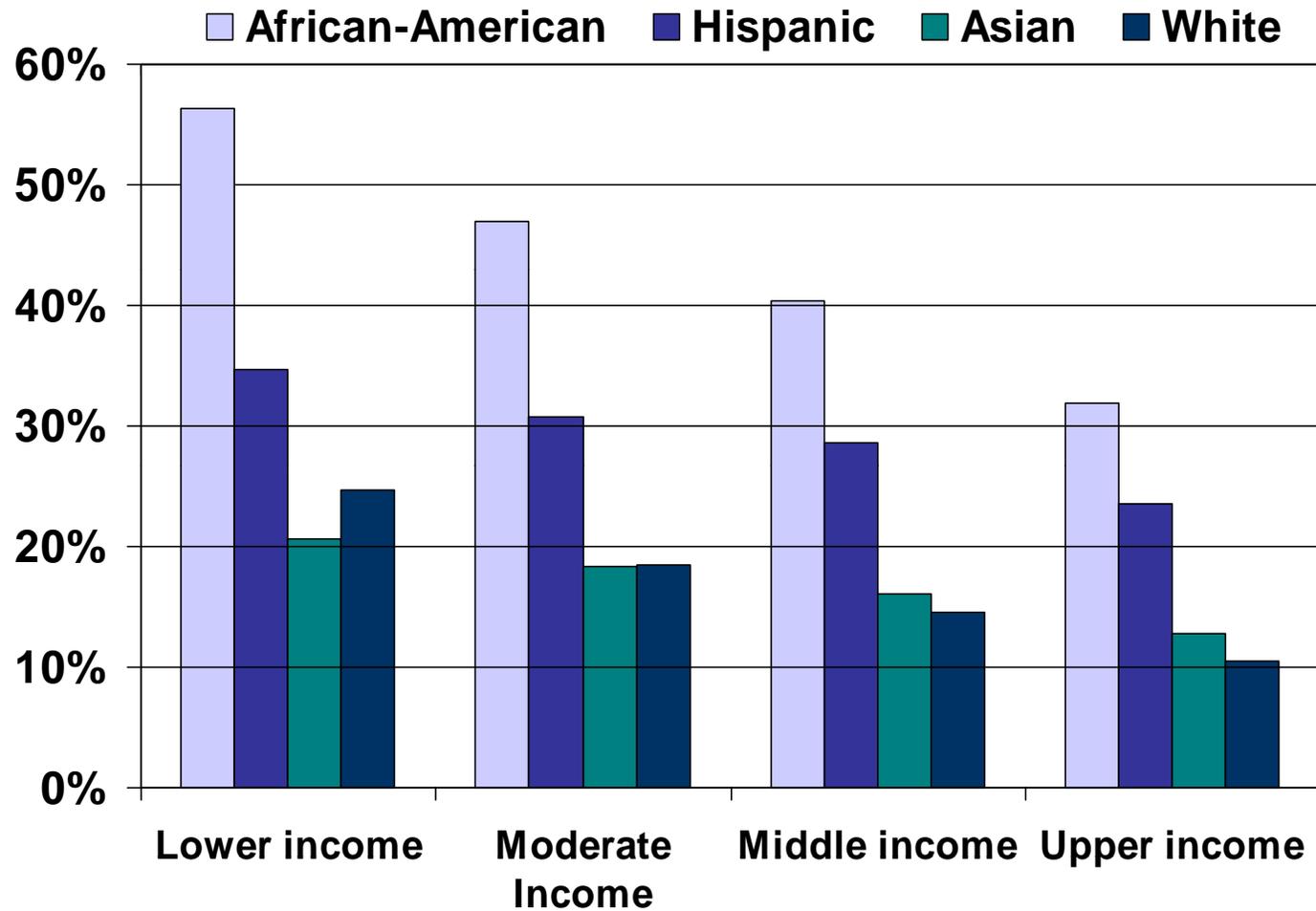
The Policy Debate Has Changed

- Expanded access to mortgage credit an American policy goal
- HMDA passed to ensure that banks “reinvested” by making home mortgage credit available to residents.
- Subprime mortgage industry evolved as lenders developed flexible contracts and applied risk-based pricing to grant mortgage credit to non-prime borrowers
- In recent years, the housing policy debate has shifted from “*access to credit*” to “*affordability of credit*”
- High-cost mortgages are now viewed as impediments to asset- and wealth-building by low-income and minority households

Subprime Lenders are Increasingly the Target of Criticism for Excessive Pricing, Unfair Contractual Terms

- **Subprime designation is being equated to “overpriced”**
- **Higher incidence of subprime loans for minority groups, relative to white borrowers, is equated to discriminatory targeting**

Percent of Loans that are “Subprime” Conventional Refinance Loans in 2000 across all MSAs by Borrower Race and Income Group



Source: Calvin Bradford, “Risk or Race? Racial Disparities in the Subprime Refinance Market” Center for Community Change, 2002.

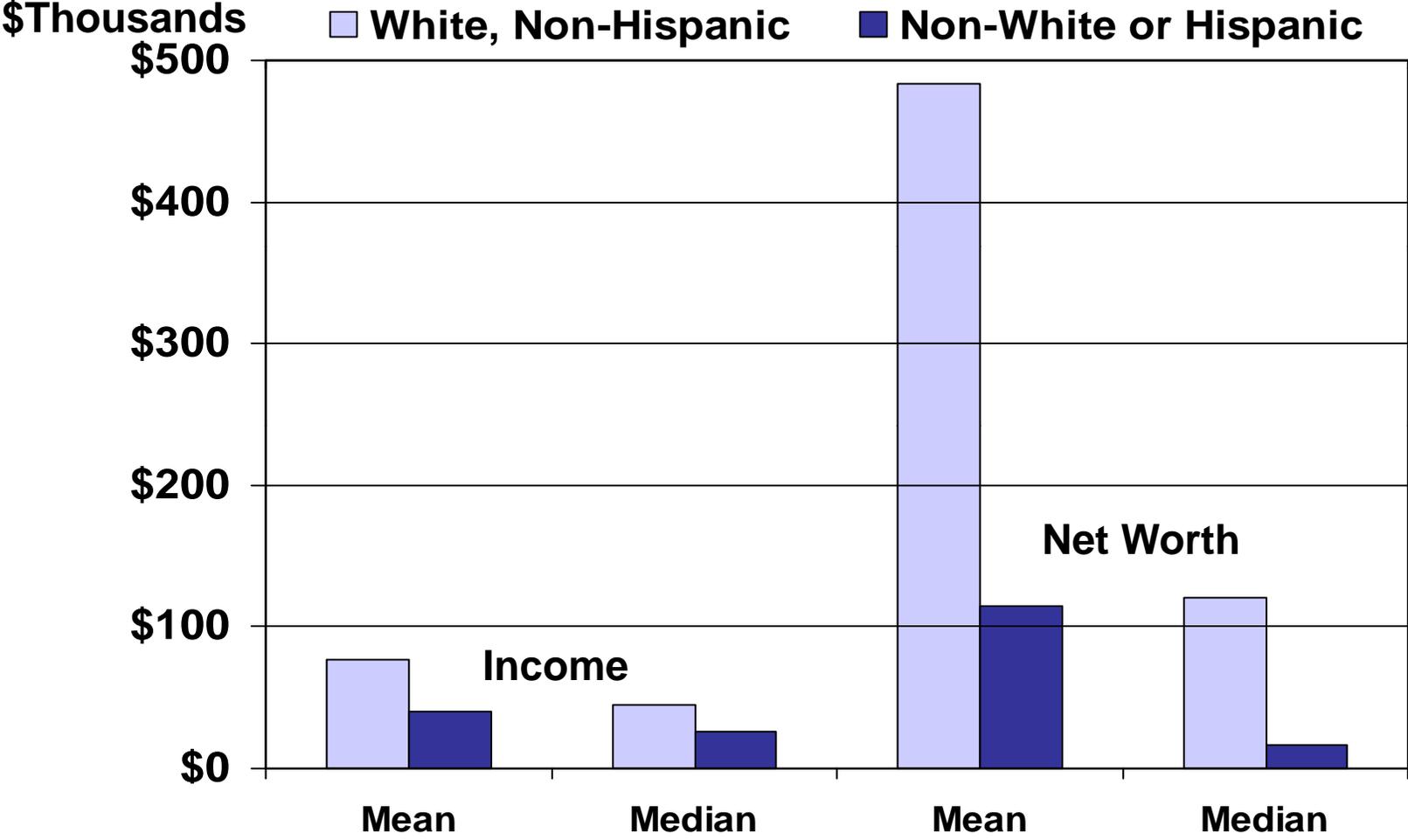
Prior to 2004, HMDA Data Are Silent on Questions of Pricing Fairness

- **Until 2004, HMDA contained no pricing information**
- **All past studies that analyze HMDA data to infer pricing problems are speculative, at best**
- **There may well be problems with overpricing to some groups in some neighborhoods, but the HMDA data can't confirm it – and were not designed to do so.**

The Enhanced HMDA Data

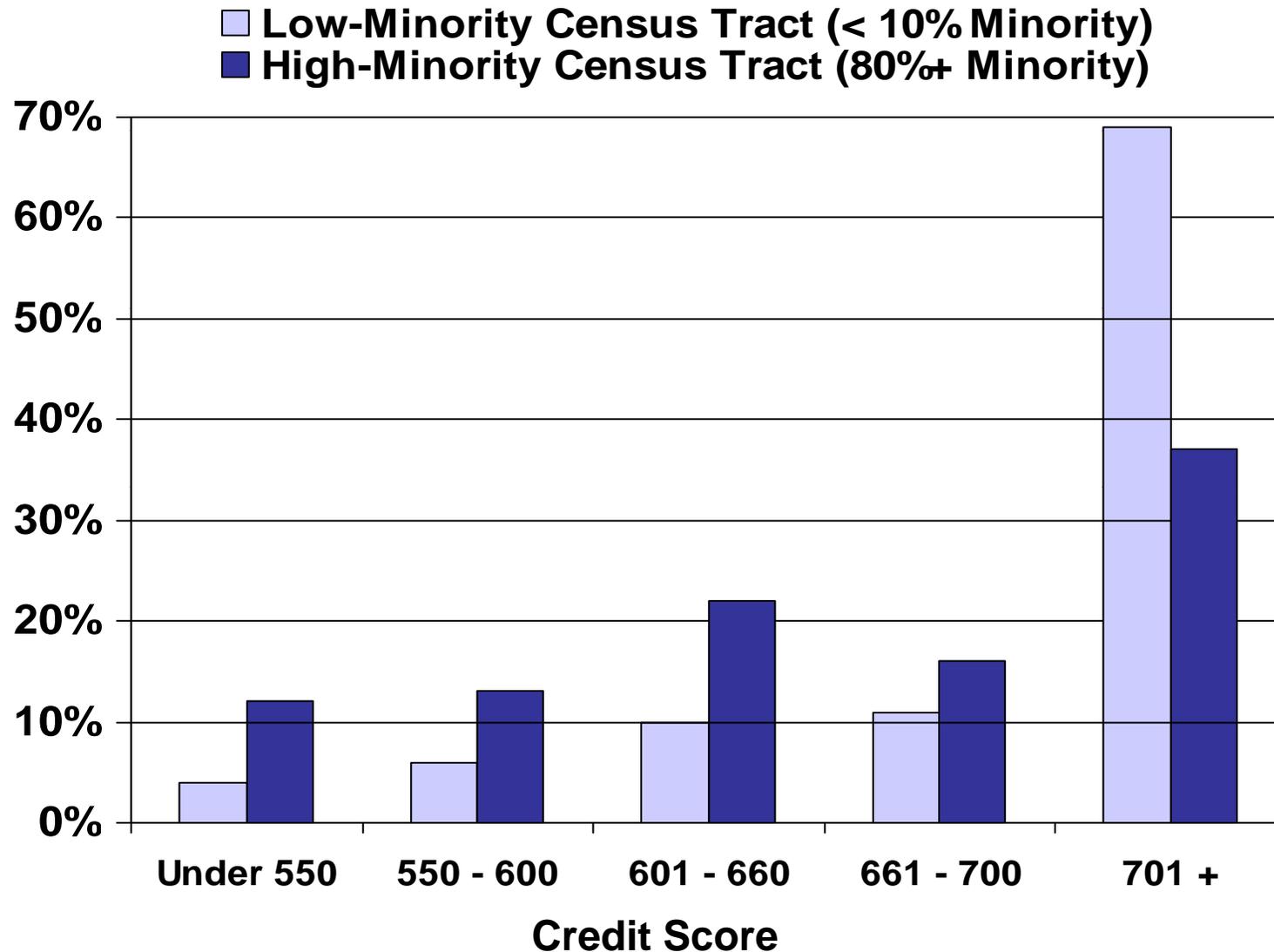
- **2004 HMDA data will contain loan price information (APR) for the first time, for higher priced loans**
- **The release marks an important step forward in identifying actual high-cost loans => better approximation of the nature of the subprime market**
- **BUT, the new data still have significant limits for addressing pricing fairness**
 - **Insufficient detail to determine why a loan has a higher APR**
 - **Many factors relevant to price determination are missing**
- **Some of these missing factors are known to be correlated with race and ethnicity of borrowers**

Racial/Ethnic Differences in Income and Net Worth



Source: Federal Reserve Board, 2001 Survey of Consumer Finances.

2003 Distribution of Credit Scores in High Minority vs. Low-Minority Census Tracts



Source: Federal Reserve Bulletin, summer 2004.

Overview of Seminar Sessions

- **History and Evolution of HMDA**
- **Mortgage Pricing 101: Determinants of price in mortgage markets**
- **The regulator's view of new HMDA data; strengths, limitations and usefulness.**
- **Research perspective on the value of the new HMDA data for assessing pricing fairness**