



Business



NEW REPORTS DOCUMENT DISCRIMINATION AGAINST MINORITIES BY MORTGAGE LENDING INSTITUTIONS

WASHINGTON -

Minorities trying to buy homes continue to face discrimination from mortgage lending institutions, according to a new report prepared by the Urban Institute for the U.S. Department of Housing and Urban Development.

The Urban Institute report issued today says that "not all Americans enjoy equal access to the benefits of homeownership, in part because of unequal access to capital." It also says that "minorities are less likely than whites to obtain mortgage financing and, if successful in obtaining a mortgage, tend to receive less generous loan amounts and terms."

HUD Secretary Andrew Cuomo released the Urban Institute report at a news conference with members of Congress and leaders of the Association of Community Organizations for Reform Now (ACORN). ACORN released its own study at the same time demonstrating continuing racial disparities in the national home purchase, mortgage and refinancing markets. Congress Members James Clyburn of South Carolina, Eleanor Holmes Norton of the District of Columbia, and Loretta Sanchez and Xavier Becerra of California also attended.

"These reports confirm the sad truth that discrimination remains a scar on the nation's soul that has yet to heal," Cuomo said.

"The reports also show that HUD needs added funds that President Clinton has requested to intensify our fight against all forms of housing discrimination so we can make the American Dream of homeownership a reality for more families."

The Urban Institute study - titled What We Know About Mortgage Lending Discrimination in America - has three major findings:

1) Discrimination can begin at the early stages of the mortgage lending process, including pre-application inquiries by would-be borrowers. The Urban Institute findings were based in part on "paired testing" that was carried out by people of different racial and ethnic backgrounds in a sample of cities. Each group of testers - including one white and one or more minorities - told lenders they had similar credit histories, incomes and financial histories, and had the same type of mortgage needs. The testing found that overall, minorities were less likely to receive information about loan products, received less time and information from loan officers, and were quoted higher interest rates in most of the cities where tests were conducted.

2) At later stages of the process, racial disparities in loan denial rates cannot be "ex-

plained away" by differences in creditworthiness or by technical factors affecting the analyses of denial rates.

3) Good intentions on the part of lenders are not enough. Action must be taken to ensure minorities do not face lending discrimination.

The ACORN report found that black and Latino applicants for conventional home mortgages are rejected much more frequently than white applicants, and that those ratios have steadily been increasing. The ACORN report said that in 1998 African Americans were denied mortgages 217% as often as whites, up from 206% in 1995 and 209% in 1997. Latino applicants were rejected 183% as often as whites for conventional mortgages in 1998, up from 169% in 1995 and 181% in 1997.

HUD's work to combat lending discrimination is led by the Department's Office of Fair Housing and Equal Opportunity. The Office enforces the Fair Housing Act, which bars housing discrimination on account of race, color, religion, sex, disability, family status and national origin. The Act covers the sale, rental, financing and advertising of almost all housing.

The federal budget President Clinton submitted to Congress sought an increase in funding for the Office of Fair Housing and Equal Opportunity to \$47 million in Fiscal Year 2000 - up from \$40 million this year. However, the House has voted to cut funding for the office to \$37 million in 2000 -- \$10 million less than President Clinton requested. The HUD budget is now before the Senate.

"Now is the time for this country to do more - not less - to end all forms of housing discrimination," Cuomo said. "Mortgage lending discrimination is intolerable because it contributes to the vast homeownership gap that divides whites from minorities in America today."

The term homeownership gap is used to describe the large disparity in homeownership between whites and minorities. In the second quarter of this year 73.2 percent of white families owned their own homes, while only 45.8 percent of African American families and just 44.9 percent of Hispanic families were homeowners.

The independent Urban Institute report, commissioned by HUD, re-analyzed data assembled by the Federal Reserve Bank of Boston and found large differences in loan denial rates between minority and white applicants. It said the differences can't be explained by data or statistical problems asserted by prior critics of the Boston study. The analysis presents substantial evidence that discrimination exists, shifting the burden of proof to those who would argue that these differences are entirely due to racially neutral underwriting criteria. The Federal Reserve study found that the probability of loan denial in the Boston area was about 80 percent higher for a black or Hispanic applicant than for a white applicant, even after loan, property and credit and other traits were accounted for. The report found that even among institutions with good intentions, and where loan officers take pride in working with borrowers who need more help on loan applications, minority cus-

tomers may not be receiving equal treatment. The study says that achieving significant reductions in lending discrimination may require changes in business practices.

The Urban Institute report concludes by recommending priority next steps in measuring mortgage discrimination and developing policies and practices to better combat it. These recommendations include:

Expanded research on lender decisions about office locations, advertising and outreach, as well as referrals that may discourage minorities from ever applying for loans with some institutions.

Stepped-up testing at the pre-application stage and possibly the loan approval stage as well, for research, enforcement, and self-assessment by lenders themselves.

New nationwide studies of mortgage lending, including analysis of mortgage loan performance to determine the "business necessity" of lending criteria and procedures that disproportionately disadvantage minorities.

Expanded research on loan terms and conditions, including examination of relatively recent market trends such as risk-based pricing and credit-scoring formulas, as well as analysis of overages and fees.

Rigorous evaluation of successful fair lending to find out what really works to increase lending to traditionally under-served

groups.

The study also says lending institutions need tools that they can use to monitor and assess their own anti-discrimination efforts.

HUD commissioned the Urban Institute report on lending discrimination in response to calls by the U.S. Conference of Mayors, The National Conference of Black Mayors, the National Association of Real Estate Brokers, the Congress of National Black Churches, and 100 Black Men of America, Inc. for such a study, as part of an effort to close the homeownership gap.

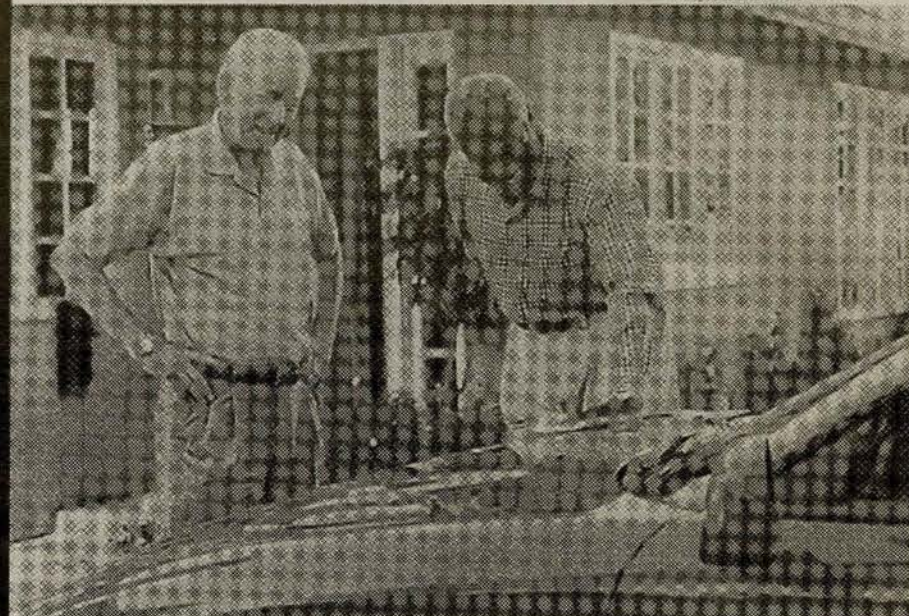
COMMENTS ON LENDING DISCRIMINATION STUDIES

Maude Hurd, President of ACORN: "With low unemployment and low interest rates, the dream of homeownership should become a reality for more people in our communities. But we are still shut out by too many lenders. Despite the continuing growth in our economy, African Americans and Latinos are being denied a chance at the American Dream."

Congresswoman Loretta Sanchez of California: "These studies show that minorities have a justified grievance when they complain of lending discrimination. HUD has taken an important step that we all hope will reduce this type of discrimination in the future."

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