

# Wealthier minorities more likely than white counterparts to receive subprime loans, study finds

August 11 2013

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Wealthier minorities were more likely to receive subprime loans than were affluent whites, according to a New York University study of Home Mortgage Disclosure Act (HMDA) data from 2006—the peak of the previous decade's housing boom. Moreover, black and Latino applicants were more likely to be denied prime loans—even after controlling for gender and income.

The study, which will be presented at the 108th Annual Meeting of the American Sociological Association, was conducted by Jacob Faber, a doctoral fellow at NYU's Furman Center for Real Estate and Urban Policy and a doctoral candidate in NYU's Department of Sociology.

"These findings offer strong evidence for the continuing significance of race in one specific, but crucial, aspect of the housing market: the mortgage application process," said Faber. "The historical absence of affordable credit in communities of color and for applicants of color, which created a market void into which subprime lenders grew, was not accidental. While it is not possible, in this study, to identify personal prejudice on behalf of lenders, [racial disparities](#) in subprime lending are nonetheless part of a long trajectory of structural, race-based disenfranchisement."

Faber analyzed data from HMDA, which covered 8,886 lending institutions in 2006 and included the following variables: borrower

characteristics (e.g., gender, race, ethnicity, and income); information about the home (e.g., whether it is owner-occupied and property type); loan decision details (e.g., whether the loan was offered, reason for denial, rate spread, and loan amount); and census tract-level data (e.g., percentage of the tract population that is of a minority [racial group](#), median family income, and population).

His dataset consisted of 3,819,923 loan applications, of which 1,590,267 (41.63 percent) were denied, 2,023,247 (52.97 percent) were approved with a prime rate, and 206,409 (5.40 percent) were approved with a subprime rate (i.e., an interest rate three or more points above the federal treasury rate).

An analysis of these loans showed that black home-purchase mortgage applicants were 2.8 times more likely, Latinos two times more likely, and Asians 1.1 times more likely to be denied a loan than were whites after controlling for borrower, loan, and geographic factors. However, across all racial groups, income was positively associated with loan approval—in other words, the wealthier the applicant, the more likely that applicant was approved for a loan.

However, upon approval, even wealthier black and Latino applicants received less-advantageous loan terms than did their white counterparts. Once they cleared the loan-approval hurdle, Black and Latino applications were 2.4 times more likely to result in a subprime loan than were whites. By contrast, Asians were 28 percent less likely than whites to be offered a subprime loan.

"Lenders have argued that subprime loans, with their higher costs, were intended to pass more of the risk along to borrowers they deemed less likely to meet the repayment schedule of a mortgage loan," explained Faber. "But these findings don't substantiate lender claims that subprime loans were for riskier borrowers—higher incomes, regardless of race,

should have indicated lower risk for the lender and less need for a high cost loan."

Provided by American Sociological Association

Citation: Wealthier minorities more likely than white counterparts to receive subprime loans, study finds (2013, August 11) retrieved 25 April 2024 from <https://phys.org/news/2013-08-wealthier-minorities-white-counterparts-subprime.html>

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