

New study shows racial disparities in Twin Cities mortgage lending (Video)

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A new report, "Communities in Crisis," issued by the University of Minnesota Institute on Race and Poverty shows that the Twin Cities has some of the nation's worst racial disparities in mortgage lending. In the Twin Cities, those hardest hit by the subprime lending and foreclosure crisis have been communities of color.

Even with a good income, people of color were substantially more likely to be denied loans, the study found, with black borrowers experiencing the greatest disparities. Black borrowers with incomes exceeding \$157,000 faced a 25 percent denial rate, compared with an 11 percent denial rate among whites making \$39,250. The same pattern held true for high-income Asians and Hispanics.

Similarly, subprime loans were more common for high- and very-high-income black and Hispanic borrowers than for whites in any income group. Racial segregation of neighborhoods was an added factor in the Twin Cities because they are underserved by prime lending institutions, contributing to higher subprime loan rates for people of color.

"Home ownership has been the first step to building stability and wealth for Americans," says Orfield. The disadvantages encountered by low-income families and their neighborhoods during the subprime lending crisis "has cost another generation of people of color the equal opportunity to join America's middle class," he says.

Subprime lending is usually legal, but racial discrimination is not. The

Fair Housing Act, Equal Credit Opportunity Act, and Community Reinvestment Act, among others, outlaw racial disparities in home mortgage lending. Federal officials, however, did not aggressively pursue lending discrimination during the subprime boom. And subprime lending disparities became foreclosure disparities.

"Communities in Crisis" found that prime credit is not reaching the segregated, high-poverty neighborhoods that need it most and that the Fair Housing Act was designed to eliminate. Neighborhoods with the highest percentages of people of color had the highest subprime lending and foreclosure rates. These neighborhoods have borne the costs of foreclosure disproportionately both in the form of families losing their homes and cities losing tax resources.

"Strong steps need to be taken to ensure equal access to credit and the promise of home ownership for people of color," Orfield says. The report recommends a multifaceted approach:

- Aggressive enforcement of existing local and national civil rights laws
- Expansion and rigorous enforcement of the Community Reinvestment Act to monitor lending of non-bank institutions and provide equal access to fair credit.
- Establishment of a Regional Fair Housing Center to help ensure nondiscrimination in housing, rental, and home lending markets and prevent future crises.

Source: University of Minnesota

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