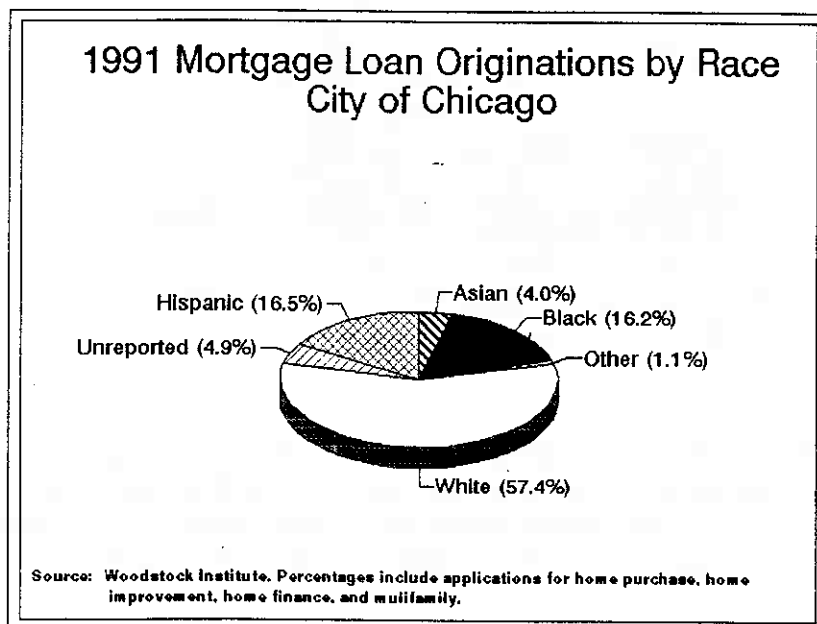


REINVESTMENT ALERT

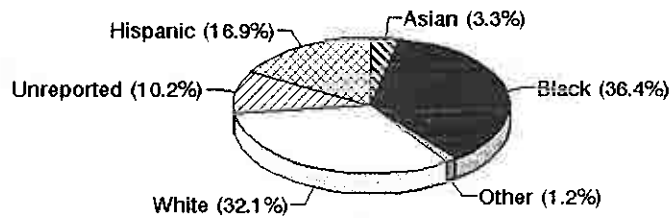
HMDA REPORTING CONFIRMS CONTINUED DISPARITY IN MORTGAGE LENDING

The 1990 Home Mortgage Disclosure Act (HMDA) data allowed a view of home mortgage lending in Chicago, and across the nation, that had not previously been available. For the first time, mortgage loan data included both originations and denials by race and income. The 1991 HMDA data, made available for analysis in November 1992, and described in the Woodstock Institute's recently published **Community Lending Fact Book**, reveal continued disparities in the patterns of mortgage applications, denials and originations.

As the following pair of graphs shows, in 1991, 57.4 percent of all mortgage loan originations were made to white residents. African-Americans received 16.2 percent and Hispanic residents 16.5 percent. However, African-American mortgage applicants constituted 36.4 percent of all applicants who were denied loans, Hispanic applicants 16.9 percent of all denials and white applicants 32.1 percent of all denials.

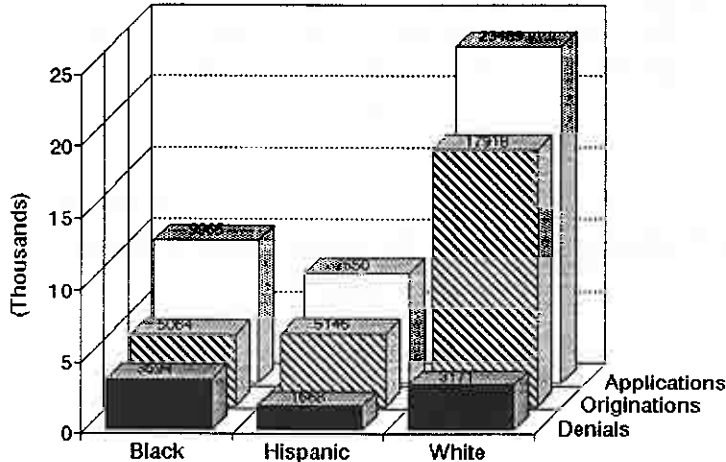


1991 Mortgage Loan Denials by Race City of Chicago



Source: Woodstock Institute. Percentages include applications for home purchase, home improvement, home finance, and multifamily.

Applications, Originations & Denials By Race--1991

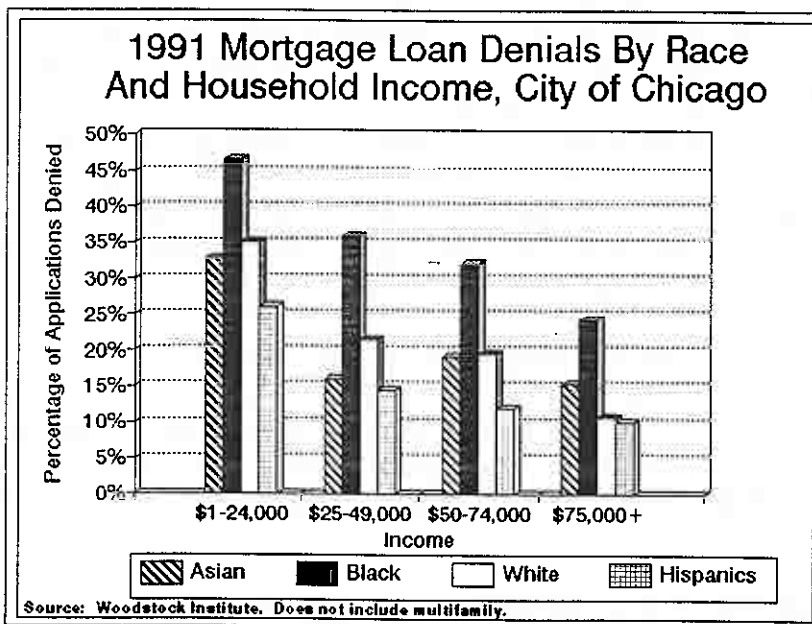


Source: Woodstock Institute. Includes applications, originations, and denials for home purchase, home improvement, home finance, and multifamily.

These differences in the way different racial and ethnic groups were treated can be illustrated by a companion statistic. 36.1 percent of African-Americans who applied for mortgage loans in 1991 were denied loans compared to a denial rate for Hispanic applicants of 21.8 percent and a denial rate for white applicants of 13.5 percent.

As was true when analyzing 1990 HMDA data, the 1991 HMDA data suggests that income differences between African-Americans and other groups is not the only significant factor for mortgage loan disparities. As the graph below shows, even when income categories are held constant, patterns of racial discrimination exist. As income rises, the disparity between whites and African-Americans continues. African-Americans earning between \$25,000 and \$50,000 are denied loans approximately 1.75 times more often than their white counterparts. And for those earning between \$50,000 and \$75,000, African-Americans are approximately 1.68 times more likely to be denied than whites. Higher-income African-Americans, those with annual incomes of \$75,000 or more, have a higher denial rate than middle income whites and Hispanics. Based on 1991 HMDA data, African-Americans in this income category were denied loans more than twice as often than either whites or Hispanics.

Credit history is the most frequently reported reason for denial. However, lenders have the option of not reporting reasons for each loan denial which makes it difficult to evaluate the extent to which credit history is a factor. What isn't reported is often more revealing than what is. For about one-third the African-American denials and approximately one-sixth of the white denials, lenders chose not to report a reason. When a reason was reported, whites were more likely to be denied due to their income/debt ratio. African-Americans, on the other hand, were more likely to be denied due to their credit history.



When the 1990 HMDA data was released, it was unclear specifically what the story was behind the numbers -- or why things appeared the way they did. Since then, several significant studies have been undertaken, suggesting that discrimination is at least in part responsible for the disparity in home mortgage lending. Most notable of these studies is the one undertaken by the Federal Reserve Bank of Boston, which concludes that race does play a role as lenders consider whether to deny or approve a mortgage loan application. This study took an exhaustive look at lender files, taking into consideration 38 different factors over and above those reported under HMDA. The study concluded that controlling for all relevant financial characteristics, African-American applicants were still denied loans at higher rates than white applicants. It is important to note this study and several other studies that look at discrimination in mortgage lending further suggest that differential treatment can occur at many stages in the lending process.

FIVE YEAR PROFILES FROM HMDA DATA

The **1991 Community Lending Fact Book**, for the first time, profiles five year lending trends. While an annual compilation of lending data proves a useful tool in assessing investment activity, multiple year profiles are even more informative. In fact, a look at several of Chicago's community areas presents an interesting picture.

In Lower West Side, a community which is 88% Hispanic, the average conventional loan amount was dramatically below the city-wide average. Growing only slightly from \$42,000 in 1987 to approximately \$47,000 in 1991, the average conventional loan amount was half that of the city-wide average in all five years from 1987 to 1991. The FHA/VA average loan amount in Lower West Side, on the other hand, was not only greater than the average conventional loan amount in the community, but by 1991 was almost twice as great as the city-wide FHA/VA average. Climbing drastically from approximately \$50,000 in 1987 to \$115,000 in 1991, FHA/VA in this last year was \$65,000 more than the average conventional loan amount for the community, which barely reached \$50,000.

Lincoln Park figures, unlike those for Auburn Gresham, nearly doubled citywide average for conventional loan amount in all five years. The Lincoln Park population is 85.1 percent white. Not surprisingly, the average conventional loan amount in Lincoln Park far exceeded the average FHA/VA loan amount. By 1991, the average conventional loan amount was twice that of the average FHA/VA loan amount.

Austin, 86.3 percent black, presents the reverse image of average loan amounts for the city of Chicago. FHA/VA average loan amount grew steadily while conventional loan amount barely reached \$60,000 in 1991, approximately \$35,000 below the city-wide average loan amount. At the same time, Austin's FHA/VA average loan amount out paced the city-wide average in all five years, reaching

almost \$80,000 in 1991, while the city-wide average FHA/VA loan amount that year was only \$70,000.

Community groups should be aware of these trends as they examine patterns of investment in their neighborhoods.

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