NEIGHBORHOOD PATTERNS OF SUBPRIME LENDING: EVIDENCE FROM DISPARATE CITIES

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Cities of Focus

- **Seven Cities**
  - Atlanta
  - Baltimore
  - Chicago
  - Dallas
  - Los Angeles
  - New York
  - Philadelphia

- **Two Years**
  - 1997
  - 2002
Outline

- Related Work
- Data Sources
- Variables: neighborhood and individual
- Statistical Models
- Findings
- Conclusion
- Our Study
Related Work

- Strong positive correlation between subprime lending and minority borrowers
- 15+% of loans in predominately black neighborhoods were subprime compared to 6% of all loans being subprime
- Subprime lending is 3 times higher in low-income neighborhoods than upper income neighborhoods
Data Sources

- Data from the Federal Financial Intuitions Examination Council (FFIEC)
- 2000 Census tract information: variables and measure of neighborhood credit risk
- HUD’s annual list of HMDA-reporting lenders that are subprime
- CRA Wiz – product for geography based information (tract information)
Neighborhood Variables

- **Inversely Related Variables**
  - Median Family Income
  - % of persons 25+ with College Degree

- **Positively Related Variables**
  - CAP_Rate – ratio of tract’s annual median rent divided by median home value
  - % very high Credit Risk
  - % no credit rating
Individual Borrower Variables

- **Demographic Variables:**
  - Black
  - Asian
  - Hispanic
  - Missing
  - Single Male
  - Single Female
Statistical Models

Independent Variables

Each variable is individually analyzed

Interaction btw Variables

The five race demographics interact with neighborhood characteristics

Ex. An ‘Asian’ borrower will interact with ‘% high credit risk’ of a neighborhood with respect to subprime borrowing
FINDINGS.....
Mean Values

- Borrowers’ average income values increase significantly from 1997 to 2002
- Borrowers resided in higher-income areas, areas with a higher % of college grads, and a lower % of minority groups in 2002
- Fewer subprime mortgage originations in 2002 compared to 1997
Independent Variables

- For all cities in 2002, % with college degree is inversely related to subprime borrowing while in 1997, only three cities had this association.
- Neighborhood credit risk factors were more strongly related in 1997 than in 2002.
- ‘% Black’, ‘Black’, and ‘Missing’ were positively associated with subprime borrowing, while ‘Asian’ and ‘Hispanic’ borrowers had mixed associations.
Strong correlation between ‘Other’ and ‘% Black’ with respect to subprime borrowing

Where statistically significant, the interaction between ‘Hispanic’ and ‘% Black’ is strong and similar to the correlation between ‘Other’ and ‘% Black’
Conclusion

- Inverse relationship between % with college degree and subprime borrowing
- Positive relationship between ‘Black’ and ‘% Black’ and subprime borrowing
- Positive relationship between ‘Other’ and ‘% Black’ with respect to subprime borrowing
- Positive relationship between CAP_RATE and subprime borrowing
Our Study....