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Subprime Loans' Wide Reach

By BOB TEDESCHI

WHILE subprime loans deeply penetrated low-income and minority groups, a new study suggests that more upper-income borrowers and more whites took out such loans than any other groups.

Compliance Technologies, a lending-industry consultancy, last month analyzed more than 1.9 million subprime loans originated in 2006, the height of the subprime lending frenzy, and found that roughly 56 percent went to non-Hispanic whites. Affluent borrowers, those with annual income at least 120 percent of their given area's median income, meanwhile, took out more than 39 percent of the loans.

"I was surprised to see that non-Hispanic whites received more subprime loans than all minority groups combined," said Maurice Jourdain-Earl, a founder and managing director of Compliance Technologies.

Still, African-Americans and Hispanics received subprime loans in a greater proportion than whites. Whites made up 71 percent of the borrower population in 2006 and received 56 percent of the subprime loans originated that year. Blacks, meanwhile, made up 10 percent of the loan pool, yet received 19 percent of the subprime loans. Hispanics constituted 14 percent of the borrower community and received 20 percent of the subprime loans.

The reasons behind the disparities have been hotly debated. Some lenders have argued that minority populations were merely less creditworthy than whites, while some minority advocates claim lenders and brokers discriminated on the basis of race. Mr. Jourdain-Earl, whose company is minority owned, did not speculate on the cause.

Researchers in the lending industry have not tracked how well members of different demographic groups have kept pace with subprime loans made in 2006. Lenders keep such data, but they have not shared it publicly.

Of the subprime loans made in the New York metropolitan area, 80 percent went to upper-income people, defined as those with incomes greater than $71,000, and blacks, Hispanics and whites received such loans in roughly similar numbers.

But more than two-thirds of those subprime loans — defined as mortgages with annual percentage rates at least three points higher than those given to prime borrowers — were made in predominantly minority neighborhoods. Depending on how well, or poorly, such borrowers handle their subprime mortgages, such neighborhoods could fare much worse than predominantly white areas.

So far, though, the results are mixed. While some predominantly minority areas in Nassau County have indeed seen foreclosures spike, foreclosure rates in other predominantly minority areas, like Harlem, have held fairly steady. According to RealtyTrac, a real estate industry statistical firm, monthly foreclosure-related filings in west Harlem in the first six months of this year, for instance, are only slightly higher than they were a year earlier but actually lower than during the same period in 2006.

Debbie Gruenstein Bocean, a researcher with the Center for Responsible Lending, and the author of a 2006 report suggesting that lenders offered higher-cost subprime loans to minority applicants than to whites, said she "did not dispute" the findings of Mr. Jourdain-Earl's report.

"The subprime crisis is not limited to the poor and nonwhite," Ms. Bocean said.

But, she said, it will hit nonwhites and lower-income families in general much harder. With fewer financial resources, less affluent borrowers are more likely to lose their homes, she said.