

## Color-coded mortgage lending

By David Harris | August 25, 2006

WHILE THE CITY of Boston is becoming increasingly diverse, the population in its suburbs remains overwhelmingly white -- so much so that, of large US metropolitan regions, only Pittsburgh and Minneapolis have a lower proportion of residents of color. As the Harvard Civil Rights Project has documented, current trends are sustaining rather than diminishing this trend. Even as more people of color leave the city, the vast majority of Boston suburbs remain white enclaves.

Sadly, discrimination in lending is one of the factors keeping people out of the homes and communities that they might otherwise choose. We at the Fair Housing Center of Greater Boston sent 20 pairs of people to seek home mortgages. We paired African-Americans, Asians, and Latinos with whites with lower credit scores to monitor and record differences in treatment. In nine of the 20 tests, the borrowers of color with better credit were offered less desirable mortgages with higher fees and interest rates.

Boston is not alone. The conclusions of our study are similar to those reached by the Center for Responsible Lending, a North Carolina-based nonprofit that combats predatory lending. That organization recently found that, beyond a doubt, African-Americans and Latinos nationwide get worse deals on mortgages, even when their credit is just as good as their white counterparts'.

Last fall, the Federal Reserve released nationwide mortgage lending data for 2004. The numbers showed that African-Americans and Latinos were more likely to receive high-cost loans than whites. The findings caused an uproar. Many mortgage lenders, pressured for a public explanation, argued that members of minority groups tend to be less affluent, have shakier credit records, and thus are charged more to compensate for the risk.

This sort of defense is nothing new -- and it's also invoked to explain why so few people of color settle in Boston's suburbs. But study after study has shown that people of color of every income face discrimination obtaining housing in certain cities and towns, and repeated analyses of lending data by the Massachusetts Community & Banking Council show disturbing differences in outcomes between people of color and whites. And the problem can't just be blamed on the overall lack of affordable housing.

As both my organization and the Center for Responsible Lending have argued, yield-spread premiums are part of the problem. These premiums are fees paid by a lender to a broker in return for the delivery of a loan with a higher interest rate. Ideally, they allow borrowers to pay lower fees at settlement. In reality, they open the floodgates for price-gouging, inflating interest rates for those who are most vulnerable.

Massachusetts state law makes it difficult for unscrupulous lenders to offer yield-spread premiums to brokers, but federal law does not. A US House subcommittee is considering legislation that would restrict these premiums to protect millions of Americans from predatory lending. But a competing initiative in Congress would limit states' ability to enact their own protections -- including those in Massachusetts law.

US Representative Barney Frank, a Newton Democrat, has filed legislation that would preserve the right of Massachusetts -- and all states -- to restrict yield-spread premiums and would also

enact stronger federal protections. That legislation deserves to pass.

The outcome of these debates in Congress will have enormous repercussions for the US economy. Rather than be gouged, many people of color will avoid the housing market, our country's most proven path toward upward mobility. Congress has an important choice. It may move to eliminate a barrier to home ownership. Or it may destroy what limited protections some states, like Massachusetts, have offered -- and turn back the clock on the struggle against housing discrimination.

David Harris is executive director of the Fair Housing Center of Greater Boston. ■