Twin Cities among worst in nation

Minnesota Neighborhoods Organizing for Change (NOC), a Twin Cities-based nonprofit organization that builds power in low-income neighborhoods through community organizing, released a new study showing that nationally and in the Twin Cities, homebuyers in lower income and minority neighborhoods are paying higher rates on FHA home mortgages and that the disparities in the Twin Cities are worse than in other metro areas. Because FHA loans are federally insured and only available to borrowers who meet the FHA lending criteria, these disparities cannot be explained by differences in risk factors, such as credit, among the borrowers.

The report looked at FHA lending nationally and in the thirty largest metropolitan areas. In the Minneapolis-St. Paul metro area in 2008:

• Homebuyers in low-income neighborhoods were over four times more likely than homebuyers in upper-income neighborhoods to receive a High-Cost FHA mortgage, the third highest disparity rate in the country. Over fourteen percent of FHA purchase loans made in low-income neighborhoods were High-Cost compared to just three percent in upper-income neighborhoods.

• Homebuyers in predominantly minority neighborhoods were over three times more likely than homebuyers in predominantly white neighborhoods to receive a High-Cost FHA mortgage, the worst disparity rate in the country. Fifteen percent of FHA purchase loans made in minority neighborhoods were High-Cost compared to just four percent in white neighborhoods.

“These high-cost loans are setting up whole neighborhoods to fail,” said NOC board member Rekoe Howard. “Homeowners who have good credit are paying more than they should, and their home values have been damaged by the foreclosures all around them. We need the banks to stop hurting our neighborhoods.”

The report was prepared by Jordan Ash of Community Research for Action based in St. Paul, MN. “The disparities in FHA lending are of particular concern,” Ash said, “because FHA loans did not use the same type of risk-based pricing as subprime loans used. Generally a borrower’s credit was either good enough to get an FHA loan or it wasn’t”.

The report also analyzed the FHA lending of the country’s largest banks and found particular disparities at Wells Fargo:

• Homebuyers in low and moderate income neighborhoods in the Twin Cities in 2008 were over four times more likely than buyers in upper income neighborhoods to receive a High Cost FHA loan at Wells Fargo.

• Homebuyers in minority neighborhoods in the Twin Cities were over six times more likely than buyers in predominantly white neighborhoods to receive a High Cost FHA loan at Wells Fargo.

The Federal Housing Administration (FHA) insures mortgages that meet FHA requirements and

that are made by FHA-approved lenders. If a homeowner defaults on an FHA mortgage, the insurance will pay the mortgage servicer. High Cost loans are defined by the Federal Reserve as having an annual percentage rate (APR) at least three percentage points higher than a Treasury security of the same length. On average in 2008 this meant above 7.25%.
The full report can be downloaded at www.mnnoc.org/FHAreport.pdf