

**A Study of Reported Rate Spreads by Borrower Race and Sex**

**Derived from the 2004 Home Mortgage Disclosure Act Data  
of Ten Leading National Mortgage Lenders**

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*This study is not intended to provide, and should not be relied on, as a source of legal advice.*

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**Summary Conclusion**

An analysis of 2004 Home Mortgage Disclosure Act (HMDA) data from ten leading national mortgage lenders shows no meaningful differences in the pricing of first lien loans with reported rate spreads to homebuyers of different race and sex. On average, African American and white borrowers paid essentially the same rate spread, and Hispanic borrowers paid less than whites. The rate spreads for men and women were almost identical.

**- Average Rate Spreads for First Lien Home Purchase Loans for Ten Leading National Mortgage Lenders -**

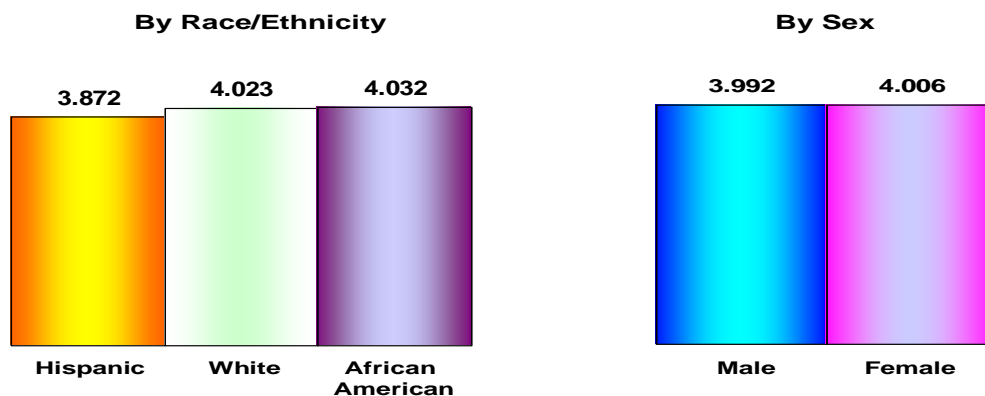


Figure 1

**Purpose of Study**

In the two months since lenders have been required to make their 2004 HMDA data publicly available, the press and others have focused on comparing the proportions on loans with rate spreads for different borrower groups.<sup>1</sup> Generally, these comparisons conclude that lenders are more likely to report rate spreads on loans to minority and female borrowers than on loans to white and male borrowers. Yet, on the ultimate issue of whether certain groups are victims of discrimination, these comparisons generate more heat than light. The disparities reported may well be the result of borrower credit quality or other loan particulars. Because such information is not publicly available, these analyses are essentially inconclusive.

However, since lenders must report the actual rate spread on loans that exceed certain thresholds,<sup>2</sup> detailed pricing data is available for all borrowers with rate spreads. We hypothesized that if, as some have alleged, the disparities in rate spreads mean that

<sup>1</sup> See, e.g., “Blacks Are Much More Likely To Get Subprime Mortgages,” *Wall Street Journal*, April 11, 2005, p. A2; “Questions, Exams To Follow Poor HMDA Showing,” *American Banker*, April 13, 2005, p. 4; “Advocates Say HMDA Data Indicates Impacts That Vary According to Borrower’s Race, Sex,” *BNA’s Banking Report*, May 9, 2005, p. 826.

<sup>2</sup> Effective for mortgage loans originated in 2004, HMDA requires mortgage lenders to report the spread between a loan’s APR and the comparable Treasury yield, where the spread is at least three percentage points for first-lien loans and five percentage points for junior-lien loans. 12 CFR §203.4(b)(12).

minorities and women are being overcharged for loans, overcharging should be evident among loans with reported rates spreads. To test this theory, we undertook a study of borrowers with rate spreads to determine whether minorities or women paid meaningfully higher rate spreads than, respectively, whites or men.

First lien home purchase mortgages were selected for the study, because we believe they comprise the most important category of HMDA loans.<sup>3</sup> A home purchase mortgage is made to a borrower who needs a loan to purchase a home, while the other HMDA categories, refinance and home improvement, are comprised of loans that can only be made to an existing homeowner.

Moreover, the most vulnerable Americans are highly represented among home purchase borrowers. Surveys indicate that first-time homebuyers account for 40 percent of all home purchases,<sup>4</sup> and that 25 percent of all first time homebuyers are minorities,<sup>5</sup> and 21 percent are single women.<sup>6</sup> Since the borrowers studied had reported rate spreads—a strong indication that they had deficient or non-traditional credit histories—they are, presumably, particularly vulnerable to overreaching by unscrupulous lenders.

The lenders selected for the study were identified by the *American Banker* as the “Largest Home Mortgage Originators in 2003.” Together, these lenders accounted for nearly 85 percent of all U.S. home mortgage loans.<sup>7</sup>

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<sup>3</sup> First lien home purchase loans represent approximately 40 percent of the ten leading lenders’ total volume of loans. Junior lien home purchase loans, which represent 3.5 percent of the ten leading lenders’ total volume, are frequently coupled with first lien home purchase loans made by a lender. This loan category was not included in the study to avoid counting mortgages involving the same property and borrower twice.

<sup>4</sup> “NAR Study Confirms First-Time Buyers are Fueling the Housing Market,” National Association of Realtors Press Release, November 6, 2004.

<sup>5</sup> “The Changing Face of Homeownership,” Realtor Magazine Online, June 1, 2004.

<sup>6</sup> “New NAR Survey of Home Buyers and Sellers Shows Growing Web Use in a Dynamic Housing Market,” National Association of Realtors Press Release, July 15, 2003.

<sup>7</sup> *American Banker*, April 22, 2004. The list excludes subprime specialists.

**Data Overview**

Mortgage loans reported with rate spreads by the ten leading national lenders are categorized below according to the primary borrower’s race or ethnicity and sex. The average (arithmetic mean) rate spread and number of loans are listed for each borrower category.

**- Rate Spreads by Borrower Race/Ethnicity and Sex  
for Ten Leading National Mortgage Lenders -**

<b>Borrower Category</b>	<b>Average Rate Spread</b>	<b>Number of Loans with Rate Spreads</b>
All	3.996	90,298
Asian	3.814	1,917
Hispanic	3.872	13,304
White	4.023	49,704
African American	4.032	14,824
American Indian/Alaska Native	4.084	426
Hawaiian/Other Pacific Islander	4.118	290
Race Not Provided	4.005	9,710
Race Not Available	3.789	123
Male	3.992	55,466
Female	4.006	31,622
Sex Not Provided	3.982	3,204
Sex Not Available	3.335	6

**Figure 2**

This study focused on reported rate spreads to white, African American, and Hispanic borrowers, because 97 percent of all rate spread loans with reported race or ethnicity were made to such borrowers. In addition, these borrowers are at the center of the current debate regarding disparities.<sup>8</sup> The study also examined rate spreads to male and female borrowers.

**Findings**

The study found that among first lien home purchase loans with rate spreads, borrower race, ethnicity, and sex were irrelevant. The average rate spread for Hispanic borrowers was 15 basis points *lower* than the average for whites, and the average rate spread for African American borrowers was less than one basis point higher than the white average. Similarly, the average rate spreads reported for men and women were within about a basis point. These findings are supported not only by comparisons of average rate spreads but also by comparisons of trimmed mean and median rate spreads.

<sup>8</sup> It is worth noting that there are very small differences in rate spreads among other racial categories, as well. Asian borrowers have lower average rate spreads than whites, and the average rate spreads for American Indian/Alaska Native and Native Hawaiian/Other Pacific Islander borrowers were, respectively, only six and ten basis points higher than for whites.

- Rate Spread Comparisons for Ten Leading National Mortgage Lenders -

Borrower Category	Average	Trimmed Mean	Median
Hispanic	3.872	3.774	3.620
White	4.023	3.883	3.700
African American	4.032	3.929	3.770
Male	3.992	3.856	3.680
Female	4.006	3.887	3.720

Figure 3

Higher Rate Spreads

As illustrated in the graph below, pricing was also consistent among borrower categories when rate spreads were sorted by range. In fact, Hispanic borrowers were consistently *less likely* than white borrowers to have loans with higher reported rate spreads, and African American borrowers had proportionately fewer rate spreads of 6.5 and above than white borrowers.

- Range of Rate Spreads by Race/Ethnicity for Ten Leading National Mortgage Lenders -

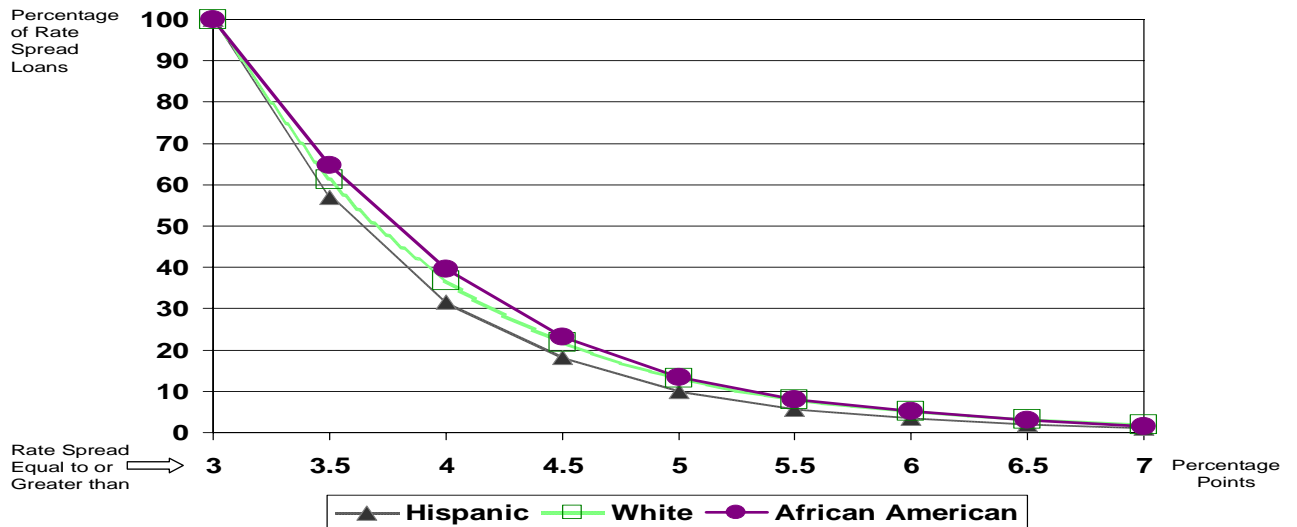


Figure 4

The rate spread range data for men and women was similarly consistent. The proportion of female borrowers with rate spreads of 5.5 percentage points or more was no more than .2 percent higher than that of men.

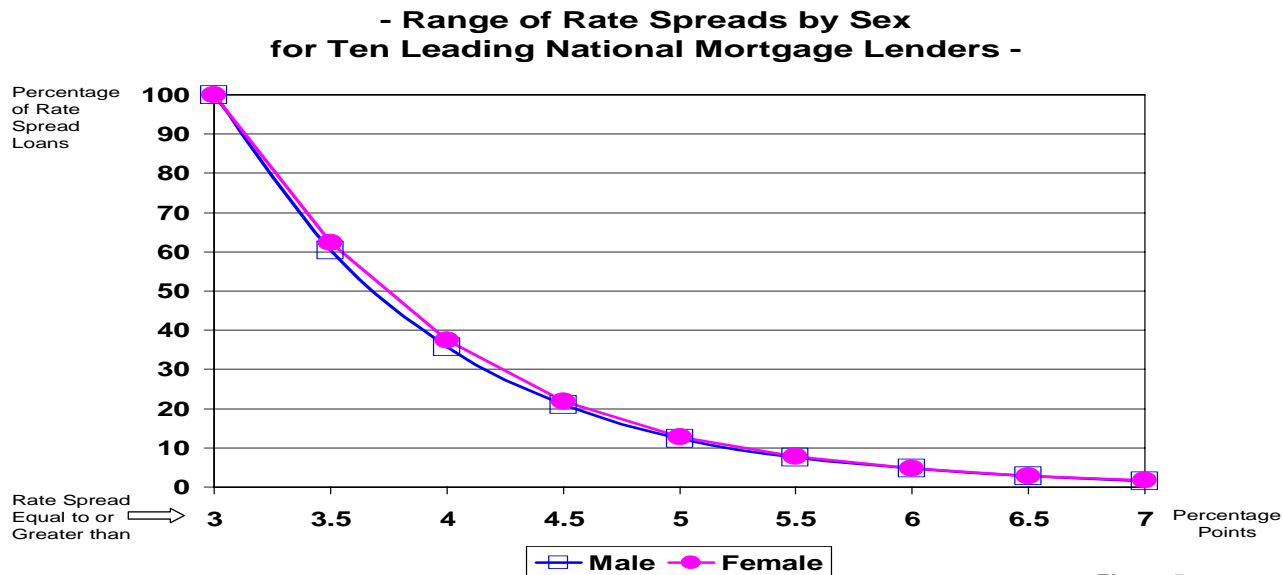


Figure 5

Analysis by State

Findings for the five most populous states, set forth below, reinforce the conclusion that borrower race, ethnicity, and sex were not factors in the pricing of first lien home purchase loans with reported rate spreads. In fact, relative to white borrowers, average rate spreads were lower for both African Americans and Hispanics in California, Illinois, and New York. The average Hispanic rate spread was lower than the white rate spread in Texas and the same as the white rate spread in Florida. African American and white borrowers had the same average rate spread in Texas, and the African American average was within nine basis points of the white average in Florida. Women had lower average rate spreads than men in California and Florida and were within 11 basis points elsewhere.

**- Average Rate Spreads in Most Populous States  
for Ten Leading National Mortgage Lenders -**

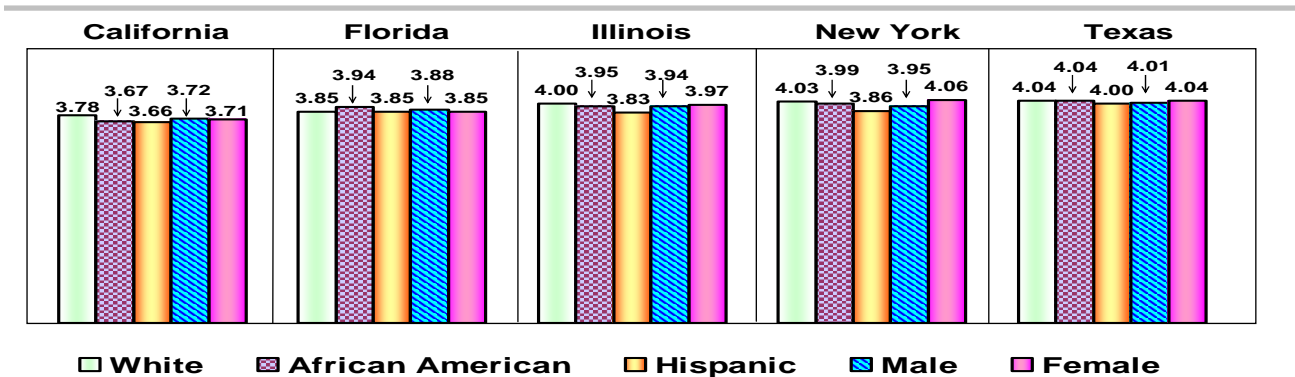


Figure 6

A breakdown of average rate spreads by state, including the percentage point differences between white and minority and male and female borrowers, is set forth on the following page.

**- Average Reported Rate Spreads by State for Ten Leading National Mortgage Lenders -**

State	# Loans with Rate Spreads	Average Rate Spread			Difference between African American and White Averages*	Difference between Hispanic and White Averages*	Average Rate Spread		Difference between Male and Female Averages*
		White	African American	Hispanic			Male	Female	
Alabama	1,562	4.29	4.32	4.17	0.02	-0.13	4.23	4.38	0.15
Alaska	105	4.12	3.55	4.88	-0.57	0.76	4.08	6.63	2.55
Arizona	2,103	4.14	4.12	3.87	-0.02	-0.27	4.11	4.17	0.06
Arkansas	715	4.39	4.54	4.02	0.16	-0.37	4.41	4.34	-0.07
California	5,743	3.78	3.67	3.66	-0.11	-0.12	3.72	3.71	0.00
Colorado	1,181	3.84	3.83	3.86	-0.01	0.02	3.81	3.87	0.06
Connecticut	864	3.91	3.92	4.04	0.00	0.12	3.98	3.91	-0.06
Delaware	233	3.75	3.95	3.66	0.19	-0.10	3.80	3.81	0.01
Florida	7,218	3.85	3.94	3.85	0.09	0.00	3.88	3.85	-0.03
Georgia	3,270	4.05	4.01	3.80	-0.04	-0.24	4.03	3.99	-0.04
Hawaii	119	3.74	3.51	3.65	-0.23	-0.09	3.68	3.75	0.08
Idaho	501	3.82	3.10	3.71	-0.72	-0.12	3.81	3.85	0.04
Illinois	4,641	4.00	3.94	3.83	-0.06	-0.17	3.95	3.97	0.02
Indiana	2,789	3.96	4.00	4.05	0.04	0.09	3.98	3.96	-0.02
Iowa	1,067	4.05	3.96	4.38	-0.09	0.32	4.06	4.08	0.01
Kansas	911	4.15	4.30	4.02	0.15	-0.13	4.11	4.16	0.05
Kentucky	1,317	4.20	3.94	3.92	-0.26	-0.28	4.12	4.18	0.06
Louisiana	1,514	4.35	4.24	3.93	-0.11	-0.42	4.24	4.36	0.12
Maine	300	4.05	3.95	3.62	-0.10	-0.43	4.11	3.92	-0.20
Maryland	1,989	3.81	3.79	3.85	-0.01	0.04	3.80	3.82	0.02
Massachusetts	1,162	3.91	3.86	3.91	-0.05	0.00	3.89	3.91	0.02
Michigan	3,999	4.13	4.09	4.01	-0.04	-0.12	4.10	4.14	0.04
Minnesota	1,437	3.95	3.85	3.81	-0.10	-0.14	3.92	3.87	-0.05
Mississippi	1,046	4.49	4.74	3.62	0.25	-0.87	4.54	4.56	0.02
Missouri	2,531	4.02	3.99	3.98	-0.02	-0.04	3.99	4.06	0.07
Montana	145	3.93	**	4.36	**	0.43	3.92	4.06	0.14
Nebraska	351	4.13	3.90	4.12	-0.23	-0.01	4.10	4.16	0.07
Nevada	1,010	3.79	3.74	3.66	-0.06	-0.14	3.74	3.76	0.02
New Hampshire	443	3.91	4.03	4.18	0.12	0.27	3.96	3.86	-0.10
New Jersey	1,931	3.82	3.92	3.86	0.10	0.05	3.90	3.90	0.00
New Mexico	589	3.90	4.30	4.08	0.39	0.18	4.00	3.97	-0.04
New York	3,188	4.03	3.99	3.86	-0.04	-0.17	3.95	4.06	0.11
North Carolina	2,489	3.93	4.04	3.95	0.11	0.03	3.94	3.98	0.04
North Dakota	137	4.33	**	**	**	**	4.36	4.32	-0.04
Ohio	4,998	4.06	4.06	4.22	0.00	0.16	4.03	4.11	0.08
Oklahoma	1,129	4.18	4.09	4.21	-0.09	0.03	4.15	4.21	0.06
Oregon	1,000	4.06	3.91	3.95	-0.16	-0.11	4.08	3.93	-0.15
Pennsylvania	3,813	3.97	3.95	3.95	-0.01	-0.02	3.96	4.03	0.06
Rhode Island	214	3.81	3.85	4.03	0.05	0.22	3.80	3.86	0.06
South Carolina	1,343	4.19	4.30	4.12	0.12	-0.07	4.28	4.06	-0.22
South Dakota	181	4.25	4.96	4.15	0.71	-0.10	4.25	4.17	-0.08
Tennessee	2,536	4.06	3.98	3.76	-0.07	-0.30	4.07	3.94	-0.12
Texas	9,137	4.04	4.04	4.00	0.00	-0.04	4.01	4.04	0.03
Utah	799	3.86	3.29	3.70	-0.57	-0.15	3.87	3.81	-0.06
Vermont	82	3.91	**	3.70	**	-0.22	3.89	3.88	-0.02
Virginia	1,760	4.26	4.04	3.80	-0.23	-0.46	4.13	4.00	-0.14
Washington	1,433	3.89	3.73	3.77	-0.16	-0.12	3.89	3.82	-0.08
West Virginia	579	4.34	4.29	3.95	-0.04	-0.39	4.32	4.31	-0.01
Wisconsin	1,515	4.02	4.14	3.92	0.12	-0.10	4.04	3.98	-0.05
Wyoming	184	4.13	4.10	4.34	-0.03	0.21	4.14	4.09	-0.05

\* African American, Hispanic, or female (protected class) average minus white or male (control group) average. A positive result indicates that the protected class paid more on average than the control group, while a negative result indicates that the protected class paid less on average than the control group. All numbers are rounded, which might result in slight computational discrepancies.

\*\* There were no black borrowers with reported rate spreads in Montana, North Dakota, or Vermont, and there were no Hispanics with reported rate spreads in North Dakota.

**Figure 7**

### **Conclusion**

HMDA data alone can never conclusively prove or disprove discrimination. Compliance with the anti-discrimination laws can only be assessed through extensive statistical analyses of borrower credit quality and other loan particulars, followed by a case-by-case review of credit decisions made on individual loans. Nevertheless, our study strongly suggests that among first lien home purchase borrowers with rate spreads, lenders are treating minority and female homebuyers fairly.

The evenhanded treatment of these homebuyers calls into question the validity of criticisms of mortgage lenders that rely solely upon HMDA data showing a higher proportion of rate spreads for minority and women borrowers than for whites and men. Our study suggests that reliance on such data alone to assert that minorities and women are being overcharged for mortgage loans may be shortsighted and ultimately misleading.

Borrowers with reported rate spreads include first time homebuyers and others who require a mortgage to purchase a place to live. Many of these borrowers likely pay higher APRs due to inferior or non-traditional credit histories and would seem to be particularly vulnerable to unscrupulous lenders. If discrimination were widespread, an analysis of the detailed pricing data available for the most vulnerable borrowers should show meaningfully higher spreads for minorities and women. The study, however, indicated that the average reported rate spreads for minorities and women were essentially the same as those for white and male borrowers.

If lenders are treating the most vulnerable borrowers equitably, it seems unlikely that they are otherwise engaged in illegal discrimination based on race, ethnicity, or sex. Accordingly, it is premature to draw any conclusions from analyses that rely solely upon the higher proportion of rate spreads for certain minority groups and women.

## **Methodology**

### Scope of Analysis

The Home Mortgage Disclosure Act filings of the ten lenders appearing in the list entitled “Largest Home Mortgage Originators in 2003,” published by the *American Banker* on April 22, 2004, were analyzed as provided by each lender. Data from the following entities was included in our analysis: ABN AMRO, Bank of America, Citigroup, Countrywide, GMAC, JPMorgan Chase, National City, PHH (Cendant), Washington Mutual, and Wells Fargo.

### Conventions

- Figures are for the aggregate number of first lien home purchase loan originations with reported rate spreads.
- A borrower’s race, ethnicity and sex were classified according to the primary borrower’s data.
- The first race reported for the primary borrower determined the race of the loan.
- The study refers to the HMDA borrower categories of “African American/Black” and “Hispanic/Latino” as, respectively, “African American” and “Hispanic.”
- In order to avoid double-counting, borrowers who indicated their ethnicity was Hispanic were classified as Hispanic regardless of the race they selected.
- Trimmed mean figures excluded the highest and lowest five percent of reported rate spreads.
- All figures are rounded, which might result in slight computational discrepancies.