

# Originator Times™

## New Study Dispels Myth That Minorities Pay Higher Rates

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NEW YORK - A Traiger & Hinckley LLP study of 2005 mortgage data suggests that changes in risk profiles and borrowing practices were important contributing factors to the higher proportion of home purchase loans with reported rate spreads. Diminishing home equity and rising loan-to-income ratios contributed to a 172 percent annual increase in the proportion of higher-priced home purchase loans, according to an analysis of more than 1.6 million loans originated by the ten leading national mortgage lenders and made available pursuant to the federal Home Mortgage Disclosure Act (HMDA).

The study also showed that minority and white borrowers paid approximately the same average rate spread on higher-priced loans. This finding is consistent with Traiger & Hinckley LLP's study of 2004 mortgage data published last year. Moreover, in 2005, the number of first lien home purchase loans originated to African American and Hispanic homebuyers grew at nearly twice the rate for non-Hispanic whites.

"We interpret the growth in rate spread loans as an attempt by lenders to manage increased credit risk without dashing the American dream of home ownership," stated law firm partner Warren Traiger. "This strategy has not adversely impacted minority groups. On the contrary, lending to minority home buyers has increased significantly and, despite the greater volume of higher-cost loans, the average price of those loans was consistent across different racial and ethnic groups."

The Traiger & Hinckley LLP study found considerable growth in originations of junior lien owner-occupied home purchase loans, which are typically used by borrowers to finance a greater portion of their purchase price. The popularity of these loans surged in 2005, growing 57 percent in number and 72 percent in dollar volume. Both increases were significantly more than the corresponding 15 and 30 percent growth in first lien home purchase loans. The reduction in home equity resulting from these loans, combined with a 14.8 percent increase in the median loan-to-income ratio on rate spread loans, indicates that lenders' credit risk increased in 2005.

### Conclusion

Although HMDA data can never conclusively prove or disprove discrimination, the Traiger & Hinckley LLP study suggests that the 2005 increase in rate spread loans results in part from borrowers having less equity in their property and being more financially stretched than their 2004 counterparts.

"As banking regulators acknowledge, homeowners with less equity are substantially more likely to default on their mortgages," said Traiger. "Assuming prudent lenders price their loans according to credit risk, a greater likelihood of default usually results in a higher APR, and higher APRs will be reflected in an increase in rate spread loans."

The Traiger & Hinckley LLP study is derived from HMDA data provided by: Countrywide Financial; Wells Fargo Home Mortgage; Washington Mutual; Chase Home Finance; Bank of America; Citi Mortgage; GMAC Residential Holdings; National City Mortgage; Wachovia; and ABN AMRO. No lender commissioned or was otherwise involved in conducting the study.

The complete study is available at [www.traigerlaw.com](http://www.traigerlaw.com).