News Release

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OCPP Finds Racial Pattern in Oregon's Subprime Lending

(Silverton) — As the Oregon legislature prepares to consider stronger regulation of the mortgage loan industry, a new analysis by the Oregon Center for Public Policy has found a racial pattern in the state's subprime lending. A state Senate committee hearing on SB 1090, which proposes to better regulate Oregon's mortgage industry, is scheduled for tomorrow.

At all income levels, Oregon's African American and Hispanic borrowers are more likely than whites to have received subprime loans, said OCPP. It found, for example, that about half of African American and Hispanic middle-income borrowers received subprime loans in 2006, compared to just 25 percent of their white counterparts.

OCPP cautioned that by itself the analysis does not prove racial discrimination, because it does not control for factors such as borrower credit scores and other measures of risk. Still, the Silverton-based think tank noted that respected national studies that have attempted to control for these sorts of factors have still found unexplained racial disparities in the cost of home loans.

Besides examining racial disparities in Oregon's overall mortgage market, OCPP also analyzed the lending of Washington Mutual, one of the country's largest lenders, to understand more clearly how racial disparities may arise. OCPP found that most of Washington Mutual's African American and Hispanic borrowers had their loans through a Washington Mutual subsidiary focused on subprime loans, Long Beach Mortgage Company.

In 2006, 63 percent and 74 percent of Washington Mutual's African American and Hispanic borrowers, respectively, obtained their home loans through Long Beach Mortgage, while only 17 percent of Washington Mutual's white borrowers got theirs through the subsidiary, OCPP calculated.

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That same year, nine out of 10 loans (91 percent) issued by Long Beach Mortgage in Oregon were subprime, compared to only one out of every 28 loans (3.6 percent) issued by its parent, Washington Mutual.

"Most of Washington Mutual's African American and Latino borrowers ended up with the subprime-peddling subsidiary, rather than being serviced by the parent's traditional retail operation," said Leachman. "That's a troubling pattern, particularly since subprime loans are much more likely to end up in foreclosure."

As with numerous other studies of subprime lending, OCPP counted as "subprime" primary single-family home purchase and refinance loans with interest rates at least three points higher than U.S. Treasuries of the same maturity and second mortgage loans with rates more than five points higher than Treasuries.

OCPP's findings are consistent with those of a report released last year by six housing research and advocacy groups that examined five cities where Washington Mutual lends: New York, Los Angeles, Chicago, Boston and Charlotte. That report found similar racial disparities in Washington Mutual's lending practices, as well those of other large lenders.

Unlike Washington Mutual itself, its subsidiary Long Beach Mortgage sold loans through a network of mortgage brokers, said Leachman. "Mortgage brokers in Oregon are not well regulated," he added.

Under current state law, Leachman said, mortgage brokers can receive a kick-back for selling a loan at interest rates exceeding the lowest rate for which the borrower qualifies and they have no statutory responsibility to act in good faith to provide their customers with the best product.

Senate Bill 1090 — which the legislature will consider during the upcoming special session and which is the subject of a public hearing to be held tomorrow before the Senate Interim Committee on Commerce and Labor — will address these and other problems in Oregon's mortgage lending industry, Leachman said. "It's past time for the legislature to step up to eliminate conditions that foster predatory lending," he added.

Ironically, regulatory changes to subprime lending in Oregon likely won't affect Washington Mutual. The company, facing surging defaults and a plummeting stock price, announced in December that it will "[d]iscontinue all remaining lending through its subprime mortgage channel."

The contemplated legislative changes also will do little for those Oregonians stuck with subprime loans who qualified for less expensive ones, said Leachman. "They are the real victims of the whole subprime fiasco."

The Oregon Center for Public Policy is a non-partisan research institute that does in-depth research and analysis on budget, tax, and economic issues. The Center's goal is to improve decision making and generate more opportunities for all Oregonians.

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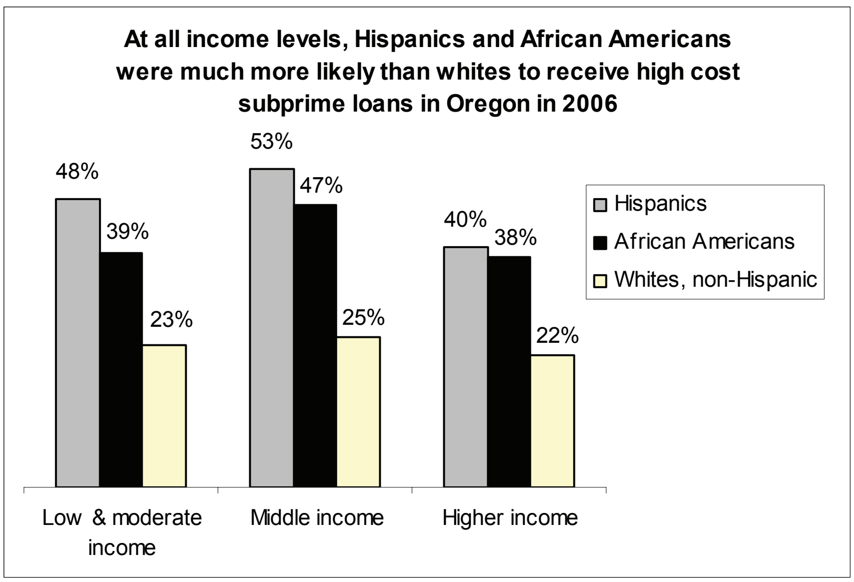

Note: Race/ethnic categories are based on the applicant only; co-applicant is disregarded. Analysis includes only conventional, single-family home purchase and refinance loans. Low & moderate income is under 80 percent of median area income; middle income is 80 percent to 119 percent of median area income; higher income is 120 percent or higher of median area income. A "high cost subprime" loan is one with an APR 3 points or more above U.S. Treasury securities of the same maturity or, for second mortgage loans, an APR 5 points or more above Treasury securities of the same maturity.
Source: OCPP analysis of Home Mortgage Disclosure Act data.