Mortgage Disparities

Blacks, Latinos Pay More for Mortgages

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Black and Latino home buyers pay more for their mortgages than do whites, according to a Federal Reserve report released Friday.

The Fed's analysis of 2005 home-lending data found that 54.7 percent of black borrowers paid a higher-than-typical interest rate on home mortgages. That was up sharply from 32.4 percent in 2004.

For Latinos, 46.1 percent paid more than typical for their mortgages last year more than double the 20.3 percent reported in 2004.

In contrast, only 17.2 percent of whites paid higher interest on their home mortgages last year. However, that was up considerably from 2004's 8.7 percent.

For all borrowers, there was a "significant increase" in the incidents of higher priced mortgages from 24.6 percent in 2005 compared with 11.5 percent in 2004.

A number of factors were cited for this overall increase. Mortgage rates in general were rising, and rates for popular adjustable-rate mortgages in particular moved higher.

And some borrowers stretching to buy a home opted for creative financing, such as higher-priced piggyback loans. The use of piggyback loans shot up more than 57 percent in 2005 from the prior year, the Fed said.

"Indeed, the increase in the number of higher-priced piggyback loans in 2005 accounted for more than half of the increase in the number of all higher-priced loans," the report said.

The report also said that black borrowers applying for mortgages were more likely to be turned down than Latinos and whites.

The report doesn't provide interest rates charged to the different racial groups. It also doesn't include information, such as the borrower's credit history, which is an important factor in pricing a home mortgage.

Given that, economists and other experts said one should be cautious about drawing any conclusions from the Fed information about discriminatory lending.

Jay Brinkman, a financial economist at the Mortgage Bankers Association, said the price of a mortgage is based on risk. The rise of high-priced loans in 2005 the last year of a five-year housing boom may be related to "borrowers in general having a somewhat higher risk profile on average," he said. "In a sense, the best credit customers stepped in early" in the housing-market boom, he said.

Still, the Fed report keeps the debate alive for those concerned about racial and ethnic disparities in financial services.

"We continue to face a national problem in the fact that racial and ethnic differences mark different outcomes in the acquisition of mortgages," said Rep. Barney Frank, D-Mass. "I don’t not believe this problem is caused solely by racial or ethnic prejudice, but it also cannot be argued that these factors do not contribute to the problem."

The Fed's report is based on information from 8,848 financial institutions, which covers about 80 percent of home lending nationwide. The Fed is required by Congress to report annually on home-lending activity. (AP)