



Housing Assistance
Council

**RUN WHILE YOU STILL CAN:
SUBPRIME DEMAND AND
PREDATORY LENDING
IN RURAL AREAS**

\$10.00
March 2004

Housing Assistance Council
1025 Vermont Ave., N.W.
Suite 606
Washington, DC 20005
202-842-8600 (voice)
202-347-3441 (fax)
hac@ruralhome.org (e-mail)
<http://www.ruralhome.org> (world wide web)

ISBN 1-58064-131-8

This report was prepared by Dr. Amy L. Rose, Jennifer Pinder and Lance George of the Housing Assistance Council (HAC). The work that provided the basis for this publication was supported by funding under Cooperative Agreement #H-21292 with the U.S. Department Housing and Urban Development (HUD). Ndeye Jackson served as Government Technical Representative. The substance and funding of that work are dedicated to the public. HAC is solely responsible for the accuracy of the statements and interpretations contained in this publication and such interpretations do not necessarily reflect the views of the United States Government.

HAC, founded in 1971, is a nonprofit corporation that supports the development of rural low-income housing nationwide. HAC provides technical housing services, seed money loans from a revolving loan fund, housing program and policy assistance, research and demonstration projects, and training and information services.

TABLE OF CONTENTS

Executive Summary	1
Background: Subprime Lending and Rural Mortgage Credit Issues	2
Origins of Subprime Mortgage Lending	2
Subprime Mortgage Consumers:	
Credit Scoring, Credit Behavior and Demographics	5
Rural Credit Issues and Subprime Lending	7
An Analysis of 1999 Home Mortgage Disclosure Act Data:	
Loans by Subprime and Manufactured Housing Lenders	12
Home Mortgage Disclosure Act Data: Strengths and Limitations	12
Methodology	14
Quantitative Analysis	15
Subprime Mortgage Applications	
in Metropolitan and Nonmetropolitan Counties	15
Subprime Refinance Demand Analysis	21
Manufactured Home Loan Applications	
in Metropolitan and Nonmetropolitan Counties	27
Manufactured Home Purchase Demand Analysis	33
Background: Legislative and Regulatory Measures Against Predatory Lending	38
Case Study: Manufactured Home Lending in Anderson County, South Carolina	46
Background	46
Affordable Housing and Subprime Lending in South Carolina	46
Affordable Housing in Anderson County	48
Predatory Lending in Anderson County	49
Profiles of Predatory Lending Victims	50
State Regulatory, Legislative and Educational Initiatives	54
Conclusion	56
Recommendations	57
References	61
Appendix A. Rural-Urban Continuum (Beale) Codes	68
Appendix B. State Predatory Lending Initiatives	69
Appendix C. Local Predatory Lending Initiatives	79

Table of Figures and Illustrations

Table 1.	Subprime Mortgage Originations, 1994 to 1999	4
Table 2.	Distribution of Urban and Rural Counties by Bank Market Structure, 1994 . . .	8
Table 3.	Interest Rates: Owner Occupied Units by Structure Type and Location, 1997 . .	9
Table 4.	Ohio LMI Shares of Subprime and Prime Lending Compared to Shares of Population, 1995 and 1999	11
Table 5.	Comparative Shares of Conventional and Manufactured Home Purchase Applications with Missing Geocodes, 1993 to 1998	13
Table 6.	Comparative Shares of Conventional and Subprime Home Purchase Applications with Missing or NA Race Data, 1993 to 1998 . .	14
Table 7.	Aggregate Subprime Loan Applications by Location, 1999	16
Table 8.	Aggregate Subprime Dollar Volume and Applicant Income By Location, 1999	16
Table 9.	Percentage of Subprime Applications by Loan Purpose and Location, 1999 . .	17
Table 10.	Comparative Median Loan Amount, Applicant Income and Number of Applications by Loan Purpose and Location, 1999	17
Table 11.	Subprime and Conventional Refinance Applicants by Race/Ethnicity and Location, 1999	18
Table 12a.	Metropolitan and Nonmetropolitan Subprime Lending Volume Per Household: Top Five States, 1999	20
Table 12b.	Metropolitan and Nonmetropolitan Subprime Loan Applications As a Percentage of State Households: Top Two Percent, 1999	21
Table 13.	Aggregate MH Applications by Location, 1999	27
Table 14.	Aggregate MH Dollar Volume and Applicant Income by Location, 1999	28
Table 15.	Percentage of MH Loan Applications, by Loan Purpose and Location, 1999 . .	28
Table 16.	Comparative Median Loan Amount, Applicant Income and Number of Applications by Loan Purpose and Location, 1999	29
Table 17.	MH and Conventional Home Purchase Applicants by Race/Ethnicity and Location, 1999	30
Table 18a.	Metropolitan and Nonmetropolitan MH Demand Volume Per Household: Top Five States, 1999	31
Table 18b.	Metropolitan and Nonmetropolitan MH Applications as a Percentage Of State Households: Top Two Percent, 1999	32
Table 19.	Top Ranking State Manufactured Housing Percentages and Nonmetro MH Applications as a Percentage of State Households	32
Table 20.	Recent Predatory Lending Complaints and Settlements	40
Table 21.	Proposed Changes in HOEPA Regulations, 2001	41
Table 22.	Subprime Lending as a Percentage of State, Regional and U.S. Markets by Demographics, Income and Location, 1998	47
Table 23.	New Construction in Anderson County, 1990 to 1999	49
Figure 1.	Age Profiles of Prime and Subprime Borrowers	7
Figure 2.	Comparative Rural and Urban Mortgage Terms, 1995	10
Figure 3.	Percentage of Rural and Urban Mortgage Market Share By Institution Type, 1995	13

Figure 4a.	Metropolitan Subprime Refinance Applications: Percentage of Applicants at % of AMI, 1999	17
Figure 4b.	Nonmetropolitan Subprime Refinance Applications: Percentage of Applicants at % of AMI, 1999	17
Figure 4c.	National Conventional Refinance Applications: Percentage of Applicants at % of AMI, 1999	18
Figure 5.	Subprime Refinance Applicants: Sex and Filing Status, 1999	19
Figure 6a.	1999 Subprime Refinance Demand, Model 1	22
Figure 6b.	1999 Subprime Refinance Demand, Model 1 Results	23
Figure 7a.	1999 Nonmetro Subprime Refinance Demand, Model 2	24
Figure 7b.	1999 Nonmetro Subprime Refinance Demand, Model 2 Results	25
Figure 8a.	Metropolitan MH Home Purchase Applications: Percentage of Applicants at % of AMI, 1999	29
Figure 8b.	Nonmetropolitan MH Home Purchase Applications: Percentage of Applicants at % of AMI, 1999	29
Figure 8c.	National Conventional Home Purchase Applications: Percentage of Applicants at % of AMI, 1999	29
Figure 9.	MH Home Purchase Applicants: Sex and Filing Status, 1999	31
Figure 10a.	1999 MH Home Purchase Loan Demand, Model 1	34
Figure 10b.	1999 MH Home Purchase Loan Demand, Model 1 Results	35
Figure 11a.	1999 Nonmetro MH Home Purchase Loan Demand, Model 2	36
Figure 11b.	1999 Nonmetro MH Home Purchase Loan Demand, Model 2 Results	37
Figure 12.	Number of Foreclosures, Anderson County, 1990 to 2000	49
Figure 13.	The father of Family #1 and the sign he posted to warn other borrowers	50
Figure 14.	The boulder in the backyard of Family #2	51
Figure 15.	The mother of Family #3 wanted quality housing for her children	52
Figure 16.	The illegal driveway to Family #3's home	52

EXECUTIVE SUMMARY

The topics of subprime and predatory lending have gained much visibility, particularly during the 1990s, when subprime mortgage applications as a portion of all mortgage applications went from 4.5 percent in 1994 to 12.5 percent in 1999. During this time, the increase in credit-impaired households in the United States led millions of homeowners to seek credit card consolidation loans (among other loan purposes) that were secured with a lien on their homes.

This report examines comparative subprime mortgage demand in metropolitan and nonmetropolitan counties through a quantitative analysis of 1999 Home Mortgage Disclosure Act (HMDA) data. By analyzing loan application data for subprime loans in general and subprime manufactured housing loans in specific, the study found that there were distinct differences between subprime lending in metro and nonmetro areas. While subprime mortgage refinance applications were more common and for higher amounts in metro areas than in nonmetro areas, the reverse was true of manufactured housing (MH) home purchase loans.

Statistical models of nonmetropolitan subprime and MH loan demand volume found that there were different factors at play affecting the median loan amounts applied for, per county household, in 1999. For nonmetro subprime refinance loans, demand volume was most strongly impacted by lower percentages of single female applicants and higher county area median incomes. For nonmetro MH home purchase loans, demand volume was most strongly correlated with greater distances from metro areas and greater numbers of applications, as well as higher percentages of nonwhite applicants.

State and regional concentration of loan applications and demand volume also differed by loan type and metro or nonmetro location. Subprime loans had high application rates and high demand volumes in both metro and nonmetro counties in the state of Utah. MH loan demand was particularly concentrated in the Southeast and Mississippi Delta regions, where in some states (such as South Carolina) loan applications equaled up to 6 percent of county households.

Predatory lending legislation and regulatory initiatives have begun to address the vulnerability of credit-impaired households to unethical lenders. Nationally, legislative and regulatory efforts are being made to increase the types of institutions required to report mortgage transaction data and to increase the details of the data provided for high-interest loans. States and localities have likewise followed suit with their own legislation. A case study of primarily rural Anderson County, South Carolina revealed that predatory lending has taken on mammoth proportions there, resulting in hundreds of mobile home foreclosures per year. Families that are victimized are typically lured in by solicitous mobile home dealers who then abruptly increase the family's interest rates and monthly payments at closing, persuading them to refinance in six months. The loan is then turned over to an out-of-state financial institution for servicing. Families frequently discover that the showcase mobile home they thought they were buying has a number of defects, including cracked foundations and illegal siting.

The report concludes that predatory lending must be fought by measures that both increase accountability for subprime mortgage lenders and provide alternative lending products and procedures for low-income families in order to bring them into the economic mainstream.

BACKGROUND:
SUBPRIME LENDING AND RURAL MORTGAGE CREDIT ISSUES

While this report addresses both subprime and predatory lending, it is important to distinguish between the two activities. Subprime lending is simply lending to borrowers with imperfect credit records that do not satisfy the criteria for the prime lending market or for conforming underwriting standards. Subprime lending is not an illegal activity. In fact, many subprime lenders maintain that subprime loans can bring people who previously had bad credit or no credit into the economic mainstream. Nonetheless, the dramatic growth of the subprime mortgage lending market during the 1990s has led to many concerns among community activists about how this trend will ultimately affect the financial stability of low-income and rural communities.

Origins of Subprime Mortgage Lending

According to home equity lending insiders, not only is subprime lending a comparatively recent phenomenon, so is home equity lending in general. A 1996 article by Bob Elliott, President and CEO of Household Finance Corporation (a subprime lender), states “Up to the late 1970s, home equity loans (HELs) were virtually non-existent. In fact, in 1980, total HELs were a mere \$34 billion. However, at the end of 1995 they totaled approximately \$340 billion” (Elliott 1996, 1). Because home equity loans – or loans secured by a lien on the borrower’s home – tended to be for more money and longer terms than unsecured loans, they offered lenders much larger profit margins.

At the same time that home equity lending was gaining in popularity, so were credit cards. The National Foundation for Credit Counseling estimates that the revolving balance of credit card debt totaled \$580 billion in 1999, with the average credit card carrying an interest rate of 17.11 percent.¹ When the U.S. recession of 1991 occurred, many consumers with high credit card debt were unable to pay their monthly balances due to job loss or other financial problems. The recession was particularly hard on single and recently-divorced women. According to a national bankruptcy study, from 1981 to 1999, bankruptcy filings by women rose by 838 percent – four times as fast as all other categories – from 53,000 to 497,000 cases. Once a small minority in bankruptcy courts, as of 1999 single women comprised the largest bloc – 39 percent – of all personal bankruptcy cases (Bartlett and Steele 2000, 24-25; Sullivan et al. 2000).

This new population of credit-impaired consumers provided home equity lenders with a new opportunity: marketing home-secured subprime loans as a way to consolidate and pay off credit card debt. One subprime industry analyst wrote

Due to wide economic swings, massive layoffs and regional recession, as well as increases in the divorce rate and the high number of business failures over the past 10 years, the subprime market has mushroomed . . . The advantage of ‘tapping’ this niche is obvious – larger [profit] spreads (Sawyer 1997, 1).

¹ <http://www.nfcc.org/news>

A survey by the National Home Equity Mortgage Association (NHEMA) on the uses of second lien subprime HELs indicated that most of the loans (45 percent) were used for debt consolidation. Other uses listed were coverage of medical, educational and other expenses (30 percent) and home improvement (25 percent) (HUD 2000a, 31). The Federal Deposit Insurance Corporation (FDIC) estimates that up to \$100 billion out of \$2.3 trillion in consumer debt in federally-insured banks is comprised of subprime loans as of 2001 (Day 2001, sec. E, 10).

Another factor in the increasing popularity of subprime mortgage products was the advent of securitization as a source of funds for subprime lenders in the early 1990s. Securitization is the process whereby Wall Street banking firms invite investors – typically large institutions such as pension funds – to buy certificates that promise to pay an attractive interest rate over many years. The money raised from those investors is then used to buy groups of loans taken out by consumers through subprime lending companies. The borrowers' monthly payments cover the interest paid to investors plus a profit to the subprime lender. According to the *New York Times*, Wall Street investment banks sold more than \$316.2 billion in bonds for subprime lenders from 1989 to 2000, "more than twice the dollar amount of the high-yield, or junk, bonds that companies used to finance takeovers in the 1980s" (Henriques and Bergman 2000, 3). In spite of an industry "shake-out" in 1998, during which several subprime companies went bankrupt, the volume of securitized subprime loans remained at \$60 billion in 1999 (HUD 2000a, 41).

A final factor in the subprime mortgage lending boom was the new market for subprime first mortgages for manufactured homes. According to a 1998 analysis of HMDA data, "The number of manufactured home applications more than quadrupled between 1993 and 1997" (Scheessele 1999, 7). As of 1999, manufactured home mortgages account for approximately 1.7 million (27 percent) of all subprime lending transactions (6.3 million) (see analysis, pp. 16, 25). In addition to increasing the origination rate for conventional first mortgages, manufactured home loans have also skewed upward overall mortgage denial rates. In 1998, out of nearly 1.6 million manufactured home loan applications, manufactured home loans had a 64.5 percent denial rate (up from 43.8 percent in 1993) (Scheessele 1999, 7-8). In addition, manufactured home loans tend to have very high interest rates compared to other conventional mortgages. A Housing Assistance Council study using 1997 American Housing Survey data demonstrated that most nonmetropolitan households with mortgages on mobile homes were paying interest rates of 10 percent or more, whereas most nonmetro mortgages for conventional single-family homes had an interest rate from 7.1 to 8.0 percent (HAC 2000, 20).

A new market of credit-impaired homeowners, combined with the injection of Wall Street funds and the increasing popularity of manufactured homes sent the subprime mortgage market rocketing upward. According to a 2000 HUD study, the annual volume of subprime loan originations increased from \$35 billion in 1994 to \$160 billion in 1999 (Table 1, below). The number of HMDA-identified subprime home purchase and refinance loans increased from 104,000 in 1993 to 997,000 in 1998. Eighty percent of the 1998 HMDA-identified subprime loans were for home refinancing (HUD 2000a, 29).

Table 1. Subprime Mortgage Originations, 1994 to 1999

Year	Dollar Volume, Subprime Originations (billions)	Percent of Total Originations
1994	\$35.0	4.5%
1995	\$65.0	10.2%
1996	\$96.5	12.3%
1997	\$125.0	14.5%
1998	\$150.0	10.5%
1999	\$160.0	12.5%

Source: HUD 2000a, 29.

Recent studies of consumer borrowing during the 1990s indicate that – for the most vulnerable consumers – most of the home refinancing loans were made to extract equity from their homes in order to consolidate other debts or have cash on hand. A study comparing family finance profiles between the year 1995 and 1998, using Federal Reserve Board Survey of Consumer Finances data, found the following.

For families with home-secured debt, the median amount of home-secured debt moved up 12.9 percent over the recent three-year period [from 1995 to 1998], while the median value of primary residences rose 5.4 percent for this group. Taken together with the fact that the share of families with home-secured debt rose by more than the share who were homeowners, this result suggests that many families may have been using such borrowing to extract equity from their homes (Kenickell et al. 2000, 22).

Hurst and Stafford (2000) verified that a large portion of cash-strapped households were tapping their home equity through an analysis of the Panel Study of Income Dynamics (PSID) microdata set at the University of Michigan Institute for Social Research. They found “over 79 percent [of the identified liquidity constrained households] removed equity while refinancing (as compared to only 45 percent of the other refinancing households)” (27). In addition, a prior study of 1996 PSID microdata (Huck and Segal 1997), found that minority and low-income households tended to refinance their mortgages at higher interest rates than average. The average refinancing rates were 9.2 percent for minorities and 8.4 percent for low-income households, compared to 7.5 percent of all households. The study concluded that “One possible explanation is that low-income and minority borrowers are more likely to refinance to extract equity rather than refinancing solely to take advantage of lower interest rates” (2).

The only study to date that disputes the finding that subprime borrowers are disproportionately low-income is a 2000 report by the Research Institution for Housing America (RIHA). The study used econometric modeling to demonstrate that the Federal Housing Administration (FHA) dominated the market for low-downpayment mortgages and was used more by low-income households, whereas subprime mortgages were used by households with enough wealth to cover the higher downpayments (Pennington-Cross et al. 2000, iii). However, the study did not

address home mortgage refinancing, which accounts for 80 percent of subprime lending activity and (as pointed out above) is disproportionately used by low-income households to extract equity. The study also does not separately analyze manufactured home purchase mortgages, which are distinct from other subprime mortgage loans (Scheessele 1999). Nonetheless, the study still found that African American and Asian borrowers had a significantly higher probability (0.8 to 1.6 percent points) of using the subprime market for home purchase loans (iii).

Subprime Mortgage Consumers: Credit Scoring, Credit Behavior and Demographics

According to conforming credit underwriting standards, “A” credit or prime borrowers have FICO² scores of 650 or above, no late mortgage payments and no more than one 30-day late payment on consumer credit. Subprime borrowers also tend to have a higher loan-to-value (LTV) ratio than prime borrowers.³ The General Accounting Office (GAO) defines high loan-to-value (HLTV) mortgage loans as “loans that are tied to the value of a borrower’s house but that, in combination with preexisting first mortgages, exceed this value” and notes that, as with subprime loans in general, they are typically used to consolidate credit card debt and that the vast majority of originated HLTV loans (95 percent) are transferred to other institutions that then securitize them (US GAO 1998, 1-2, 12).

Subprime loan borrowers typically have to pay much higher interest rates in order to justify the risk of the loan. Subprime lenders cite higher risk – often evaluated through credit scoring – as one of the factors in charging higher interest rates and fees than prime lenders. Credit scoring is the practice of using quantitative models to judge a loan applicant’s risk for default based on his or her credit history. Many lenders maintain that credit scoring (particularly automated versions) allows instantaneous and accurate assessment of mortgage applications, using the exact same criteria without regard to the race, age or marital status of the applicant. The increased speed and accuracy of these methods, they maintain, has allowed lenders to process far more applications and given more consumers access to homeownership. However, researchers and advocates have pointed out that credit scoring is also an imperfect method with the following problems.

- ⊠ Credit scores that are based on inaccurate information will not accurately measure risk.
- ⊠ Credit scoring systems are based on the borrowing experiences of “index” borrowers. Consequently, the creditworthiness of people who are substantially different from the index group are less likely to have an accurate measure of their risk. For instance, nonstandard payment histories such as rent and utilities – which are more important for low-income households – tend to be left out of most credit scoring models.

² Fair, Isaac and Company – an industry standard for mortgage risk measurement

³ The loan-to-value (LTV) ratio is an underwriting tool used to assess the amount of risk a certain loan poses for the lender. It measures the dollar value of the loan over the dollar value of the collateral that the borrower is offering against default – usually the borrower’s current or potential home. The higher the LTV ratio, the less likely it is that the value of the house will be sufficient to repay the debt owed if the loan goes into default.

- ⊞ The predictive power of credit scoring models tends to deteriorate over time, because the circumstances of the general population of borrowers inevitably changes. If credit scoring models are not updated to reflect changes in borrower demographics and behavior, they will give an inaccurate measure of borrower risk.
- ⊞ Consumer advocates have pointed out that borrower behavior with regard to unsecured consumer debt is different than behavior toward mortgage debt. While a person may have been willing to delay credit card payments in the past, he or she is much less likely to become delinquent on home mortgage payments, because the consequences (loss of a home and bankruptcy) are far more serious.
- ⊞ Although research has indicated that the likelihood of delinquency increases as credit scores decrease, the vast majority of borrowers with credit scores in the low range are not delinquent. Avery et al. (1996, 633) analyzed a pool of 621,142 mortgages with credit scores that were current as of 1994, and found that only 4.4 percent of borrowers with newly-originated, conventional fixed rate mortgages (FRMs) with low credit scores became delinquent over one year.
- ⊞ Studies by Freddie Mac and Standard & Poor's have demonstrated that 20 to 30 percent of subprime borrowers in 1998 would have qualified for "A"-rated loans. (Avery et al. 1996; *Inside B&C Lending* 1998; Berry 2000)

Even if credit scoring were a uniformly reliable method of measuring risk, increased risk does not explain the vastly disproportionate concentration of subprime lending in minority and low-income neighborhoods. A HUD analysis of 1998 HMDA data found that low-income borrowers accounted for 41 percent of subprime refinance mortgages but only 20 percent of conventional prime refinance mortgages. The study also found that more than half of low-income African American borrowers refinanced using HMDA-reported subprime loans. The disproportionate amount of subprime lending in African American neighborhoods held even when controlling for neighborhood income: 39 percent of upper-income borrowers in African American neighborhoods refinanced in the subprime market in 1998, compared to 18 percent of lower income borrowers in white neighborhoods (HUD 2000a).

In addition to race and income, the HUD analysis revealed that subprime and prime mortgage borrowers differed in the following ways.

- ⊞ Single people comprised 44.5 percent of all subprime borrowers (compared to 33.1 percent of prime).
- ⊞ College graduates were 38 percent of subprime borrowers (compared to 60 percent of prime borrowers).
- ⊞ High school graduates and borrowers with only some college accounted for 59 percent of subprime mortgages (compared to 39 percent of prime mortgages).
- ⊞ Borrowers in the 45-to-54 and 55-and-above age groups made up a larger portion of subprime borrowers than prime borrowers (Figure 1, below).

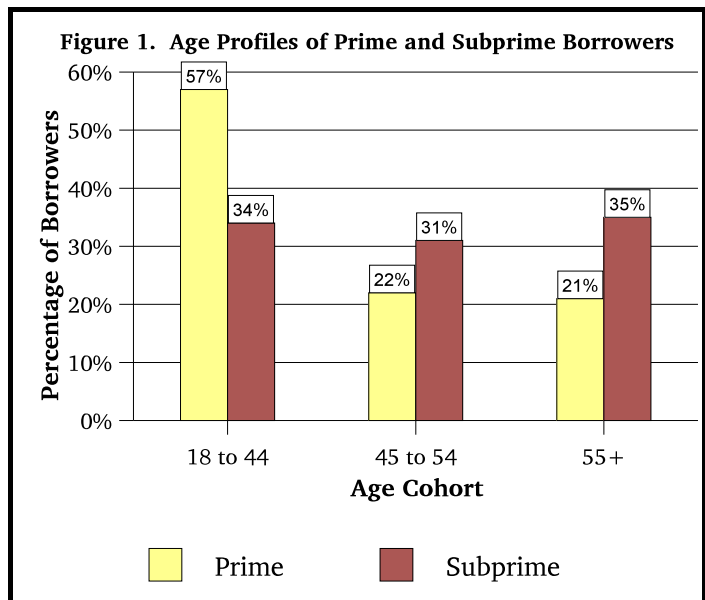
However, while age, race, income, education and gender have all been examined as factors in borrowers' likelihood to use subprime loans, the variable of rurality has not received very much attention. As the following section demonstrates, the distinct set of credit issues in rural areas result in far less access to prime credit markets than in urban areas.

Rural Credit Issues and Subprime Lending

Access to mortgage credit has been an increasingly important issue for rural areas due to a number of trends taking place since the 1980s. The first trend affecting rural areas is the decline of community banks, which have

historically been the main source of capital for rural America. Rural community banks have recently faced a significant decline in loanable funds due to rural heirs leaving for metropolitan areas, lack of access to large capital markets, and uneven activity in the secondary markets (such as Fannie Mae and Freddie Mac) in purchasing rural mortgages (see Drabenstott and Meeker 1996; MacDonald 1999).⁴ Population loss is a particular threat to rural community banks. A poll of 296 banks by the Federal Reserve Bank of Minneapolis found that 55 percent of rural community banks in their district were located in counties that lost population during the 1990s, whereas this was the case for only 8 percent of urban community banks (Dahl 1999, 1).

Rural community banks have also lost ground due to economic instability and consolidation within the bank industry. The same Federal Reserve Bank poll, cited above, found that many rural community banks were concerned with the drop in the prices of agricultural commodities and the loss of small farms that have taken place since the 1980s. Out of the 202 rural community banks surveyed, 82 percent stated that the health of the agricultural sector was very important to the performance of their loan portfolios (Dahl 1999, 1). From 1984 to 1994, loss of deposits and faltering loans led to the acquisition of many rural banks by larger commercial banks and the closing of many rural bank branches, with nonmetro bank headquarters declining by 27 percent nationally, and as much as 39 percent in the Mountain states (Duncan 1996, 23). By 1994, the bank market structure in rural counties was far less competitive than it was in



Source: HUD 2000a, 36.

⁴ MacDonald (1999) found that “more than 60 percent of the borrowers whose loans were purchased in nonmetro underserved counties [by Fannie Mae and Freddie Mac] had incomes above 120 percent of the area median” (52). In addition, region had a significant impact, with Freddie Mac having a smaller presence in counties in the West South Central region that were not adjacent to metropolitan areas, Fannie Mae having smaller shares in non-adjacent East North Central counties, and both having significantly smaller shares in non-adjacent West North Central counties (52).

urban counties (Table 2) and non-local commercial banks supplanted locally-headquartered community banks as the major source of rural mortgage credit market.

Table 2. Distribution of Urban and Rural Counties by Bank Market Structure, 1994

	% of Urban Counties*	% of Rural Counties*
Counties with an office of:		
No banking firm	0.0%	0.9%
1 to 2 banking firms	4.2%	26.4%
3 to 5 banking firms	21.9%	48.2%
6 to 9 banking firms	34.4%	21.0%
10 or more banking firms	39.5%	3.5%
Counties served by:		
Only small banks*	4.2%	31.9%
At least one large bank	93.6%	58.0%
Total number of counties	813	2,276

Source: USDA ERS 1997, 38.

* Notes: The ERS study defines rural as nonmetropolitan and urban as metropolitan. A small bank or banking firm is defined as having assets of under \$250 million, whereas a large bank or banking firm has assets over \$1 billion (1997, 38).

The lack of access to private sector capital in rural areas has been compounded by the comparatively low penetration of government lending programs. According to the Texas Low-Income Housing Information Service, from 1996 to 1999, only 82 out of 2,057 loans using HOME funds were expended in nonmetropolitan counties, with \$9,204,406 in HOME funds being expended in metropolitan counties (Consumers Union 2000). A USDA ERS economist also found that in fiscal year 1995 “the major [federal] homeownership programs provided per capita amounts of \$224 in urban and \$67 in rural areas.” Even more surprising, only 47 percent of all 1995 loans originated or insured by the USDA Rural Housing Service went to nonmetropolitan counties (Mikesell 1997, 27-28).

The comparative disadvantage that rural areas face in terms of population and financial markets has led to higher costs of borrowing money for comparable loan products. The USDA Economic Research Service (1997) indicates that average interest rates on nonmetropolitan mortgages exceed those of metropolitan area mortgages by .18 percent on Fixed Rate Mortgages (FRMs) and .38 percent on Adjustable Rate Mortgages (ARMs). While these differences may seem to be minute, they result in rural borrowers paying, on average, an additional \$6 per month in interest charges for 30-year FRMs and an additional \$30 per month for nonstandard mortgages (USDA ERS 1997).

Another trend affecting mortgage credit markets in rural areas is the popularity of manufactured housing as an affordable way of achieving homeownership. The manufactured housing industry has long been known as the producer of mobile homes – one-piece homes built in a factory, placed on a chassis (a supporting frame with removable axle and wheels) and transported to the property site. However, the Manufactured Housing Institute – the trade association for manufactured housing producers – emphasizes that today’s manufactured housing can be built in modular pieces, transported to the site and reassembled into attractive homes that bear little resemblance to their trailer-park forebears. According to 2000 Census data, one out of every six single-family housing starts in the United States was a manufactured home (Collins 2001).

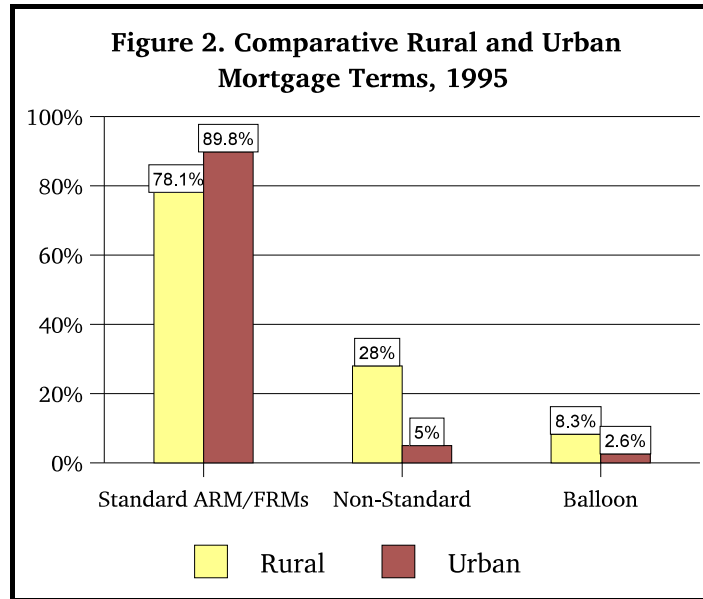
While manufactured housing is an attractive option for rural homebuyers, manufactured housing (MH) mortgages (a type of subprime lending product) have interest rates that are 300 to 500 basis points higher than conventional mortgages (*Housing Affairs Letter* 2001a, 5). The reason for this disparity is that many MH retailers offer manufactured homes, lots and financing from lenders that specialize in MH mortgage products, which makes shopping for a manufactured home “an easy one-stop shopping experience” (Collins 2001, 65). This direct link between MH dealer and lender decreases competition from other lenders for MH consumer dollars, resulting in higher interest rates. 1997 AHS data illustrate how high-interest MH mortgages distort nonmetropolitan interest rate patterns, leaving nonmetro borrowers twice as likely to pay interest rates above 10 percent as metro borrowers (Table 3).

Table 3. Interest Rates: Owner Occupied Units by Structure Type and Location, 1997 (numbers in thousands)

Interest Rates	Nonmetropolitan Units						Metro Units	
	Non-MH		MH		Nonmetro Total		#	%
	#	%	#	%	#	%		
≤ 6 percent	232	3.8%	22	2.2%	255	3.6%	1,139	4.0%
6.1 to 7.0 percent	876	14.2%	57	5.6%	933	13.0%	4,962	17.3%
7.1 to 8.0 percent	2,423	39.3%	285	28.3%	2,708	37.8%	11,942	41.6%
8.1 to 9.0 percent	1,526	24.8%	213	21.1%	1,738	24.3%	6,816	23.8%
9.1 to 9.9 percent	309	5.0%	34	3.4%	343	4.8%	1,345	4.7%
> 10 percent	793	12.9%	397	39.4%	1,189	16.6%	2,485	8.7%
TOTAL	6,159	100.0%	1,007	100.0%	7,166	100.0%	28,688	100.0%

Source: HAC 2000, 20.

The USDA Economic Research Service has also observed that rural mortgages are more likely than urban mortgages to be balloon mortgages and for nonstandard terms (Figure 2). Rural borrowers are five times more likely to obtain mortgages with terms other than 15 or 30 years, which makes their loans more costly to service. Rural borrowers are also three times more likely to have mortgages with payments that “balloon” (increase sharply) at intervals in order to make up for the shorter amortization rate. Balloon payments are features of subprime loans that many community lending advocates oppose, because they make repayment extremely difficult for some low-income borrowers.⁵



Source: USDA ERS 1997, 78.

The cumulative result of all these trends would seem to be a greater propensity for rural borrowers to go to the subprime market for both home purchase loans and home refinance loans. The only major study of subprime lending that has examined rurality as a factor in subprime mortgage market shares was a study of subprime lending in Ohio, which included two nonmetropolitan counties. The results were somewhat uneven and, given the small number of loans examined in these two counties, not a reliable statistical indicator of rural subprime lending in general (Table 4).

⁵ Some community development financial institutions also offer lending products with nonstandard terms and balloon payments; however, they also offer pre-purchase counseling to prospective borrowers to ensure that they understand the terms of the loans and that they will have enough money budgeted to make future payments.

Table 4. Ohio LMI⁶ Shares of Subprime and Prime Lending Compared to Shares of Population, 1995 and 1999

	1995			1999		
	Washington County	Jackson County	State	Washington County	Jackson County	State
LMI Share of Subprime	73.3%	28.6%	48.5%	42.2%	53.9%	57.4%
LMI Share of Prime	19.7%	33.3%	22.4%	27.4%	32.0%	30.5%
LMI Share of 1990 Population	40.6%	55.4%	39.9%	40.6%	55.4%	39.9%
Subprime minus Pop. Share	32.7%	-26.8%	8.6%	1.6%	-1.5%	17.5%
Prime minus Pop. Share	-20.9%	-22.1%	-17.5%	-13.2%	-23.4%	-9.4%

Source: Scriber and Silver 2001, 13.

While LMI households in one of the counties examined (Washington County) were extremely overrepresented as a share of subprime borrowers in 1995, their share of the market was almost proportional by 1999. By contrast, LMI households in Jackson County were significantly underrepresented as a share of subprime borrowers in 1995, but their share of the market increased by more than 25 percent by 1999. Regardless of changes over time, LMI households in these two counties were significantly less likely than LMI households in Ohio as a whole to obtain subprime loans. However, the data also indicate that LMI households in these two counties were more underrepresented in the prime market than were LMI households across the state.

⁶ Low-to-moderate income households

AN ANALYSIS OF 1999 HOME MORTGAGE DISCLOSURE ACT DATA: LOANS BY SUBPRIME AND MANUFACTURED HOUSING LENDERS

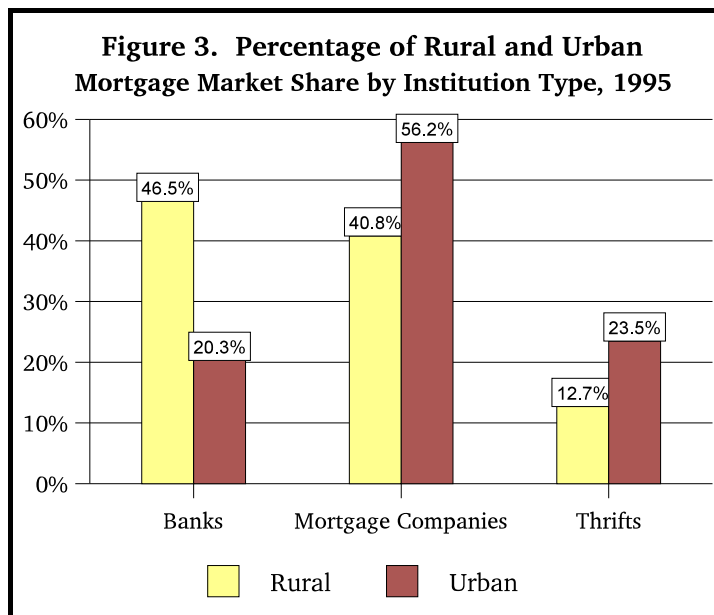
For the first part of this report, HAC conducted a quantitative analysis of subprime lending data using the 1999 HUD Manufactured Home and Subprime Lender List as a starting point. HAC obtained Home Mortgage Disclosure Act (HMDA) data from the 1999 HMDA Raw Data Compact Disks (available from the Federal Financial Institutions Examination Council) for all home purchase, home improvement, or mortgage refinancing loans made during 1999 for each subprime lender on the HUD list. HMDA national aggregate summary data for 1999 was also downloaded for comparison.

Home Mortgage Disclosure Act Data: Strengths and Limitations

The Home Mortgage Disclosure Act of 1975 (HMDA) resulted in large part from the concerns of community activists that a large part of the decline in minority neighborhoods in inner cities was due to red-lining (or discriminatory lending) by financial institutions. The collection of HMDA data from mortgage lending institutions was intended to allow interested parties and community groups to systematically analyze mortgage credit flows according to geographic locale and community demographic composition. HMDA originally required all federally regulated commercial banks and thrifts, with assets over \$10 million and at least one branch in a metropolitan area, to disclose the location of each mortgage loan made by census tract. By 1997, the asset exemption had increased to \$28 million, with the asset amount to be adjusted on a yearly basis to reflect changes in the Consumer Price Index (CPI).

As of 2000, depository institutions with assets of \$30 million or less and institutions without bank branches in metropolitan areas are not required to report HMDA data. Thus, nonmetropolitan banks with assets below \$30 million that do not lend to metropolitan areas are not covered by HMDA reporting requirements, and many nonmetropolitan mortgage loans go unreported each year. Nonetheless, amendments made to HMDA under the Financial Information Recovery, Reform, and Enforcement Act (FIRREA) of 1989 have strengthened HMDA by extending reporting requirements to include mortgage companies not affiliated with depository institutions or holding companies. As of 1997, mortgage companies originated the majority (56.3 percent) of all 1 to 4 family mortgage loans – compared to 24.8 percent originated by commercial banks (USDA ERS 1997).

In 1992, HMDA was further expanded to include coverage of independent mortgage lenders that meet the asset and loan number test, and in 1996, banks and savings associations with total assets of \$250 million or more and those that are subsidiaries of bank holding companies with assets of \$1 billion or more must also report the property location of all loans, geographically coding (geocoding) loans made in both metropolitan and nonmetropolitan areas. Given these inclusions, HMDA is the best available data on a national level for examining mortgage lending trends in nonmetropolitan areas. While the data leave out loans made by small rural banks, the Economic Research Service indicates that metropolitan banks and mortgage companies are now the major sources of rural mortgage credit (Figure 3, below). With these caveats under consideration, estimation errors for the incidence and dollar volume of nonmetropolitan



Source: USDA ERS 1997.

mortgage lending – particularly for subprime lenders – are likely to err on the side of underestimation rather than overestimation.

A larger concern than underestimation due to different reporting requirements is underestimation due to faulty reporting. Scheessele (1999) observes that the percentage of subprime and manufactured home lenders that omit geocodes from their loan transaction sheets is substantially higher than the percentage for conventional prime lenders. In 1998, manufactured home purchase applications accounted for 37.6 percent of applications with missing Metropolitan Statistical Area (MSA) geocodes, but only 20.1 percent of all

home purchase applications (Table 5). Because manufactured home loans are much more common in rural areas, this means that there may be a serious underestimation of the degree of this kind of lending taking place.

Table 5. Comparative Shares of Conventional and Manufactured Home Purchase Loan Applications with Missing Geocodes, 1993 to 1998

Year	Conventional Prime Lenders		Manufactured Home Lenders	
	Missing Geocode Share	Total Share of Applications	Missing Geocode Share	Total Share of Applications
1998	46.6%	56.0%	37.6%	20.1%
1997	52.5%	58.1%	35.6%	19.8%
1996	53.0%	60.1%	34.0%	18.2%
1995	59.3%	64.0%	28.5%	15.9%
1994	61.7%	67.8%	23.8%	10.9%
1993	60.9%	67.2%	20.0%	7.4%

Source: Scheessele 1999, Table A.21b.

While manufactured home lenders provide a disproportionate amount of the missing geocode data, generic subprime lenders provide a disproportionate amount of missing or “not applicable” (NA) race data (Table 6). A recent study from the Office of the Comptroller of the Currency indicates that not only has the percentage of NA race data increased dramatically over the past five years – due to phone lending technologies – but the missing data is not distributed evenly across racial groups. Loan transaction records with high percentages of missing race data tend to be for properties in census tracts with high percentages of minorities (Dietrich 2001, 22-23). Nonetheless, as with missing geocode data, missing race data will tend to underestimate the incidence and dollar volume of subprime lending to racial minorities, rather than overestimate it; consequently, any conclusions drawn in this regard will err on the conservative side.

Table 6. Comparative Share of Conventional and Subprime Home Purchase Loan Applications with Missing or Not Applicable Race Data, 1993 to 1998

Year	Conventional Prime Lenders			Subprime Lenders		
	Share of No Race Data	Share of NA Race Data	Total Share of Applications	Share of No Race Data	Share of NA Race Data	Total Share of Applications
1998	52.0%	51.9%	56.0%	23.7%	31.5%	8.7%
1997	53.5%	65.5%	58.1%	19.4%	6.5%	4.9%
1996	60.4%	58.5%	60.1%	13.9%	18.0%	3.6%
1995	66.6%	59.9%	64.0%	13.6%	2.8%	2.1%
1994	70.1%	66.3%	67.8%	10.5%	1.7%	1.8%
1993	71.4%	66.9%	67.2%	5.8%	3.1%	1.1%

Source: Scheessele 1999, Table A.21b.

Methodology

For the purposes of uniformity and consistency, certain data were eliminated from the HMDA data set used in this study. They include:

- ⊠ loans made for the purchase of multifamily housing; and
- ⊠ loan transactions with no geographic coding (geocoding) on the state, county or census tract level.

Mortgage transaction data were analyzed on the county level, rather than the census tract level, for two reasons. First, researchers who have worked with HMDA data in rural areas have found that rural census tracts tend to cover extremely large geographical areas which are not directly comparable to census tracts in urban areas (Bradley 2001). Second, since the 2000 Decennial Census population figures were not yet available on a census tract level at the time of this study, the most comprehensive demographic data available was the county level 1997 Current Population Survey (CPS) data.

The quantitative analysis is comprised of two sections. One section deals with subprime mortgage applications and the other with manufactured housing (MH) loan applications. Each section has two parts:

1. Descriptive statistics on:
 - △ the volume of subprime or MH demand in metro versus nonmetro counties;
 - △ demographics of metro versus nonmetro applicants (race/ethnicity, gender, median income, and median loan amount); and
 - △ the geographical concentration of metro and nonmetro demand by state.

The descriptive statistics are then compared with parallel national aggregate data.⁷ It is important to note that the quantitative part of this study is an analysis of subprime and MH lending demand, rather than actual subprime and MH lending. Calculating actual subprime lending involves factoring in the disposition of each loan application, which was beyond the scope of this study. Demand was measured by calculating the number of county applications and the total dollar amount of these applications as a percentage of the 1997 county population. Because county-level 2000 census data and 1999 Current Population Survey data were not yet available at the time of this study, 1997 county-level Current Population Survey (CPS) data were used for population and county median income figures.

2. Regression analysis: HAC performed two multivariate regression models on each dataset (subprime transactions and MH lending transactions), using lending volume per 1997 household as the dependent variable. The analysis addresses whether rurality is a statistically significant variable in the dollar volume of lending on a county level.

The study concludes with a literature and policy review of predatory lending legislation and regulations, as well as a case study of predatory lenders in a particular geographic area where subprime lending is heavily concentrated, and where one or more lenders have been reported to the state agency for consumer affairs on complaints of fraud.⁸

Quantitative Analysis

Subprime Mortgage Applications in Metropolitan and Nonmetropolitan Counties

For this analysis, subprime lending applications are defined as all mortgage applications that were for loans made by HUD-identified subprime lenders in 1999, with the exception of MH lenders (whose applications are analyzed below, pg. 26). First, overall metropolitan and nonmetropolitan subprime application trends are compared with regard to number of applications, dollar volume of demand, and applicant income levels. Second, the demographics of subprime applicants and geographical concentration of subprime lending demand are

⁷ Because national aggregate data is not available by metropolitan/nonmetropolitan residence of the borrower, this report will use the overall national aggregate data as a comparison to the subprime and manufactured home lender data in metropolitan and nonmetropolitan areas.

⁸ For more detail, see the case study on predatory lending activities, pp. 46 to 56.

analyzed and compared with aggregate national lending applications in 1999. Finally, two ordinary least squares (OLS) regression analyses are presented to examine the effect of several factors (including location) on the 1997 per household dollar volume of demand at a county level. Unless otherwise stated, all figures in the data tables below are for 1999 subprime mortgage loan applications.

Overall, the reported number of subprime loan applications in nonmetropolitan counties was much smaller than those in metropolitan counties. While nonmetropolitan counties would be expected to have a smaller absolute number of applications – due to their smaller populations – the lower incidence of subprime applications held true, even when controlling for population size (Table 7).

Table 7. Aggregate Subprime Loan Applications by Location, 1999

Location	Total Applications	Median Number of Applications per County	Applications as a % of 1997 County Households
Metropolitan	3,969,022	1,689	3.9%
Nonmetropolitan	757,563	161	2.7%

Subprime lending demand was also heavier in metropolitan counties when measured by dollar volume of applications. There was a higher amount of money applied for per 1997 household in metropolitan than in nonmetropolitan counties, along with a higher median loan amount and a higher median income (Table 8).

Table 8. Aggregate Subprime Dollar Volume and Applicant Income by Location, 1999

Location	Median Demand Volume per 1997 County Household	Median Loan Amount	Median Applicant Income
Metropolitan	\$2,952	\$63,000	\$50,000
Nonmetropolitan	\$1,639	\$51,000	\$41,000

The lower incidence and dollar volume of subprime demand in nonmetropolitan counties fits with what is known about housing values in these areas – namely, that nonmetropolitan home values tend to be lower than those in metropolitan counties. According to 1999 AHS data, the median value of nonmetropolitan, owner-occupied units was \$75,000, compared to \$120,000 in metropolitan areas. However, subprime loans are not all alike. Subprime loans can be taken out for the purpose of purchasing a home, renovating a home or refinancing a mortgage to obtain a better interest rate or to pay for major consumer purchases or services. The percentage of 1999 subprime loans applied for by loan purpose in metro and nonmetro areas follows in Table 9, below.

Table 9. Percentage of 1999 Subprime Applications, by Loan Purpose and Location, 1999

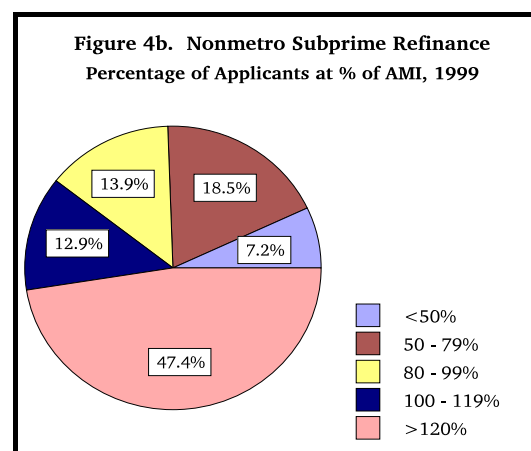
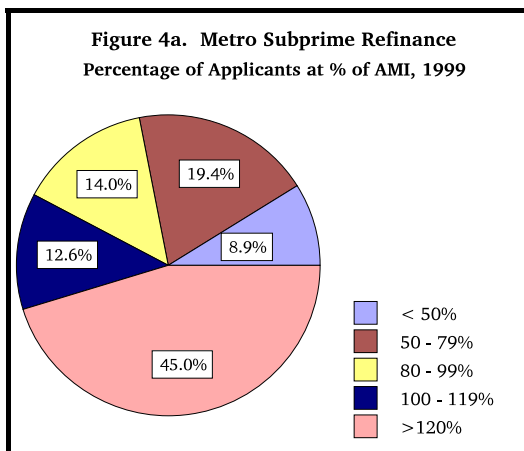
Location	Home Purchase	Home Improvement	Mortgage Refinance
Metropolitan	17%	10%	73%
Nonmetropolitan	12%	9%	79%

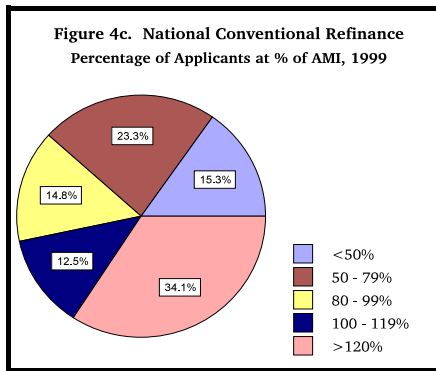
Mortgage refinance applications comprised the majority of subprime applications in both metropolitan and nonmetropolitan counties. Comparative numbers of applications and median loan amounts by metropolitan/nonmetropolitan location and loan purpose are presented below.

Table 10. Comparative Median Loan Amount, Applicant Income and Number of Applications by Loan Purpose and Location, 1999

Loan Purpose	Median Loan Amount		Median Applicant Income		Total Applications	
	Metro	Nonmetro	Metro	Nonmetro	Metro	Nonmetro
Home Purchase	\$78,000	\$60,000	\$49,000	\$38,000	692,497	93,404
Renovation	\$20,000	\$17,000	\$46,000	\$36,000	408,564	68,399
Refinance	\$67,000	\$51,000	\$44,000	\$36,000	2,873,646	595,760

As Table 10 demonstrates, the predominance of subprime loan demand in metropolitan areas held true, even when analyzed by loan purpose. Applicant income distribution data for mortgage refinance loans follows, analyzed by location and compared to national aggregate figures for conventional refinance loans.





Income distributions for metropolitan and nonmetropolitan subprime applicants were fairly similar, with a slightly greater percentage of metropolitan borrowers at the lower end of the income spectrum (Figures 6a and 6b). National aggregate figures for conventional refinancing applicants showed a greater concentration than subprime applicants in the low- to very low-income categories and 11 to 13 percentage points less in the upper-income category (Figure 6c). These distributions seem to contradict advocate assertions that subprime lenders prey on low-income households. However, it is also important to note that 14 percent of the cases in the subprime dataset had unreported

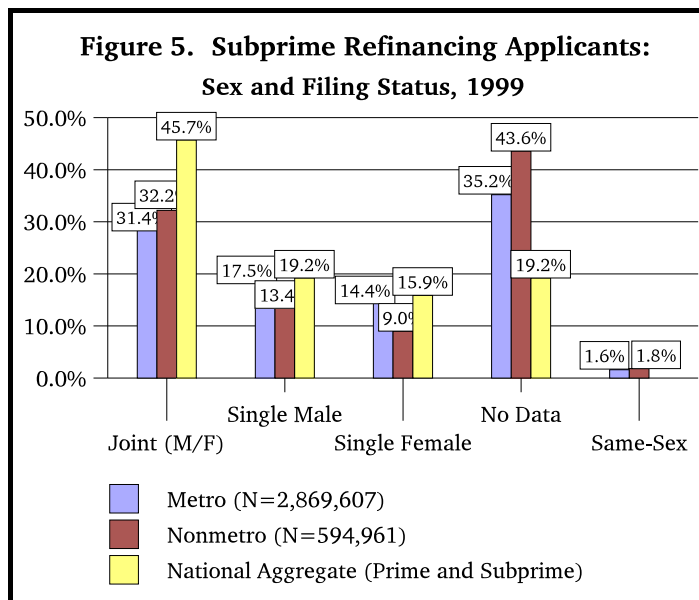
income data. Consequently, there is the possibility that lower income applicants simply were not reported as often.

One of the most repeated criticisms of subprime lending, particularly in inner cities, is that it disproportionately targets minorities. Table 11 demonstrates that in 1999 this was still the case in metropolitan counties – particularly regarding African American applicants. However, in nonmetropolitan counties, the reverse was true. White applicants made up a greater proportion of nonmetropolitan subprime refinance applicants than those in metropolitan counties or applicants for conventional subprime loans. The only minority group more likely to refinance on the subprime market in nonmetropolitan counties than in metropolitan counties or nationally was Native Americans. However, these figures most likely reflect the fact that minority populations are much smaller in rural areas, and that Native American trust lands are predominantly located in nonmetropolitan counties.

Table 11. Subprime and Conventional Refinance Applicants by Race/Ethnicity and Location, 1999

Applicant Race /Ethnicity	Refinancing Applicants				
	Metro Subprime		Nonmetro Subprime		% National Conventional Loans
	Number	Percent	Number	Percent	
Native American	11,160	0.8%	3,586	1.4%	0.6%
Asian/Pac. Islander	39,355	2.7%	3,267	1.3%	1.7%
Black	294,623	20.6%	18,384	7.1%	12.1%
Hispanic	142,184	10.0%	12,077	4.7%	9.8%
White	909,031	63.6%	215,158	83.6%	72.4%
Other	32,480	2.3%	4,778	1.9%	3.4%
Total ¹	1,428,833	100.0%	257,250	100.0%	100.0%

¹ Totals omit cases for which race data was not provided, which comprised 50.3 percent of the metropolitan cases and 56.9 percent of the nonmetropolitan cases.



When 1999 subprime applicants are analyzed by sex and joint application status (Figure 5), it became apparent that subprime loans were significantly less likely to be sought by opposite-sex applicants filing jointly than were conventional loans. However, single male applicants and single female applicants took up a greater proportion of metropolitan subprime loan applications than in nonmetropolitan areas. These figures could possibly reflect higher marriage rates in nonmetropolitan counties – 1999 American Housing Survey data show that 55.8 percent of nonmetro householders are married with spouse present, compared to 51.3 percent of metropolitan householders. Nonetheless, the subprime figures must be interpreted with caution due to the

high percentage of missing sex data.

Analysis of geographic concentration of subprime demand reveals that one state consistently had among the highest occurrence of reported subprime applications and the highest demand volume per household in metropolitan and nonmetropolitan areas – Utah – (Tables 12a and 12b, below). The states that had the most widespread subprime applications were either in the Great Lakes or Northeast region (Ohio, Indiana, Michigan, and New York), with the two exceptions being Utah and Florida. However, states with the greatest subprime demand volume tended to be in the West Coast or Rocky Mountain regions (Utah, Colorado, Nevada, and California), with the exceptions being Connecticut, Hawaii and Florida.

Table 12a. Metropolitan and Nonmetropolitan Subprime Demand Volume per Household: Top Five States, 1999²

Metropolitan Subprime Demand		Nonmetropolitan Subprime Demand	
State	Demand Volume per Household ³	State	Demand Volume per Household
Utah	\$7,935	Hawaii	\$6,401
California	\$6,666	Utah	\$4,981
Colorado	\$5,923	Colorado	\$4,168
Nevada	\$5,284	Connecticut	\$3,819
Florida	\$5,214	California	\$3,810

States that had the most applications and highest demand volume per household also tended to score high on these variables in both metro and nonmetro areas, suggesting that these factors may be more dependent on state or region than on metropolitan status. The two nonmetropolitan exceptions with regard to demand volume were Hawaii and Connecticut, and the nonmetropolitan exception with regard to incidence of subprime applications was New York. Overall, however, both the demand volume and the incidence of subprime applications were greater in the top metropolitan states than they were in the top nonmetropolitan states (with the exception of Hawaii – most likely due to extremely high property values in that state).

² The number of county households were calculated using 1997 CPS data.

³ Demand Volume Per Household was measured by calculating the number of county applications and the total dollar amount of these applications as a percentage of the 1997 county population.

Table 12b. Metropolitan and Nonmetropolitan Subprime Loan Applications as a Percentage of State Households: Top Two Percent, 1999

Metropolitan Subprime Applications		Nonmetropolitan Subprime Applications	
State	Applications as % of Households	State	Applications as % of Households
Utah	8 percent	Utah	6 percent
Florida	8 percent	Ohio	6 percent
Ohio	7 percent	Indiana	6 percent
Michigan	7 percent	New York	5 percent
Indiana	7 percent		

Overall, the descriptive statistics for the subprime data paint a picture of a 1999 subprime applicant population that was predominantly metropolitan and (within metropolitan counties) disproportionately minority. Subprime applications occurred less often and in lower amounts in nonmetropolitan counties, with the vast majority of applicants being white. The majority of subprime loans applied for were used for mortgage refinance. Compared to national aggregate statistics for all conventional loan applicants, a greater proportion of 1999 subprime applicants were upper-income; however, the median incomes of refinance applicants in both metro and nonmetro counties were lower than subprime home purchase or renovation applicants. Data on sex and joint application status must be interpreted carefully due to the large quantity of missing information; however, the data indicates that subprime refinancing applicants were much less likely to be married than their prime market counterparts.

Subprime Refinance Demand Analysis

These findings would indicate that – for generic subprime loan demand – location is a less important factor in determining the incidence and volume of demand in a given county than factors such as applicant race/ethnicity or sex. In order to investigate the degree to which metro or nonmetro location contributes to variation in county subprime lending demand, HAC performed two ordinary least squares (OLS) regression analyses. The first analysis examines the correlation of several variables with the per household level of subprime demand on a national level, using a 1 percent random sample⁴ of the subprime lending database, refinance loans only. The second analysis examines the variation of per household subprime lending within nonmetropolitan counties only (using the same 1 percent sample).

⁴A 1 percent random sample was estimated as an adequate size sample in order to ensure that the analysis would result in an acceptable level of accuracy. A larger sample size would not necessarily increase the precision of the sample results.

Figure 6a. 1999 Subprime Refinance Demand, Model 1

$$\text{HHLEND} = (\text{METRO}) + (\text{NRPERC}) + (\text{TENURE}) + (\text{INCLOAN}) + (\text{PERCFEM}) + (\text{PERCDEN}) + (\text{APPS}) + (\text{ORPERC}) + (97\text{medinc}) + (\text{NWPERC}) + (\text{APPINC}) + \epsilon$$

Sample:

1 percent random sample of national subprime lending transaction dataset, refinancing loans only (N= 34,618)

Dependent Variable:

HHLEND = sum of applicant loan amounts (\$) per county / 1997 households in county

Independent Variables:

METRO = metropolitan residence (1= metro; 0= nonmetro)

NRPERC = sum of applications with no race data per county / total county applications

TENURE = homeowner occupancy of property (1= homeowner-occupied; 0= not homeowner-occupied)

INCLOAN = individual applicant income / individual loan amount

PERCFEM = total single female applicants per county / total county applications

PERCDEN = total denials per county / total county applications

APPS = total county applications

ORPERC = total originations per county / total county applications

97medinc = 1997 county median income

NWPERC = total nonwhite applicants per county / total county applications

APPINC = individual applicant income

Figure 6b. 1999 Subprime Refinance Demand, Model 1 Results

R=.211	Adjusted R Square=.044	F=100.212
--------	------------------------	-----------

Variable	Unstandardized β Coefficients	Standardized β Coefficients	t score
METRO	39.759	.051***	7.718
NRPERC	17.019	.012	1.561
TENURE	-6.441	-.011	-1.795
INCLOAN	-154.214	-.134***	-19.956
PERCFEM	108.695	.039***	5.241
PERCDEN	155.340	.070***	9.428
APPS	-.01019	-.023**	-3.084
ORPERC	3.065	.001	.161
97medinc	-.001241	-.064***	-8.409
NWPERC	150.984	.114***	13.365
APPINC	-.0000007031	-.066	-.066

*= significant at the .05 level; **= significant at the .01 level; ***= significant at the .001 level

The low adjusted R square figure in this model (.044) shows that, even with the substantial number of variables taken into consideration, the model could only predict 4.4 percent of the change in per household subprime lending. The reason for this result is that subprime lending is too widespread on a national level to measure its variation efficiently. However, three factors accounted for most of the change that was measured by the model.

Findings:

- ⊞ Applicants with relatively high income-to-loan ratios were from counties with relatively low subprime lending demand. This finding reflects the tendency of lower-income individuals to refinance on the subprime markets and for higher-income individuals to seek out prime refinance loans. In addition, the county area median income (also statistically significant) was inversely proportionate to the volume of lending, reinforcing this finding.
- ⊞ The higher the percentage of nonwhite applicants, the higher the county-level demand volume. This finding reinforces the literature and the assertion of advocates that minorities disproportionately seek out refinance loans on the subprime market.
- ⊞ The higher the percentage of denials (out of the total pool of county applicants), the

higher the subprime lending volume. This finding reflects the fact that subprime loans tend to have a higher denial rate than conventional loans.

Metropolitan residence was also a statistically significant variable, with metropolitan counties correlated with higher volumes of subprime demand, although the variable did not have as large an impact as income, minority status and denial rates. Finally, the percentage of single female applicants was also statistically significant and positively correlated with subprime refinancing. This finding reflects the literature that single and divorced women are a large portion of bankruptcy cases, and consequently are more likely to have impaired credit than married women.

Figure 7a. 1999 Nonmetro Subprime Refinance Demand, Model 2

$$\text{HHLEND} = (\text{TENURE}) + (\text{PERCFEM}) + (\text{INCLOAN}) + (\text{PERCINC}) + (\text{APPS}) + (\text{NRPERC}) + (\text{BEALE}) + (\text{NWPERC}) + (\text{PERCDEN}) + (97\text{medinc}) + (\text{ORPERC}) + (\text{PERCMAL}) + \epsilon$$

Sample:

1 percent random sample of national subprime lending transaction dataset, refinancing loans in nonmetropolitan counties only (N= 6,057)

Dependent Variable:

HHLEND = sum of applicant loan amounts (\$) per county / 1997 households in county

Independent Variables:

TENURE = homeowner occupancy of property (1= homeowner-occupied; 0= not homeowner-occupied)

PERCFEM = total single female applicants per county / total county applications

INCLOAN = individual applicant income / individual loan amount

PERCINC = individual applicant income as a percentage of 1997 county area median income

APPS = total county applications

NRPERC = sum of applications with no race data per county / total county applications

BEALE = county Beale code scale (0= central city; 9= remote rural) (See Appendix B for detailed code)

NWPERC = total nonwhite applicants per county / total county applications

PERCDEN = total denials per county / total county applications

97medinc = 1997 county median income

ORPERC = total originations per county / total county applications

PERCMAL = total single male applicants per county / total county applications

Figure 7b. 1999 Nonmetro Subprime Refinance Demand, Model 2 Results

R=.554	Adjusted R Square=.307	F=43.943
--------	------------------------	----------

Variable	Unstandardized β Coefficients	Standardized β Coefficients	t score
TENURE	-.862	-.008	-.329
PERCFEM	-95.841	-.270***	-9.502
INCLOAN	-22.174	-.152***	-5.977
INCPERC	.649	.028	1.144
APPS	.426	.130***	4.561
NRPERC	-38.640	-.220***	-7.499
BEALE	6.887	.221***	8.400
NWPERC	10.570	.048	1.687
PERCDEN	-20.022	-.075**	-2.747
97medinc	.001437	.248***	8.556

The second model has more explanatory power than the first model, accounting for 30.7 percent of the change in per household subprime lending volume. The main reason for this difference is that the model covers nonmetropolitan areas only; consequently, there is much less variation to explain than with a model covering both metro and nonmetro counties (as in the first model). Nonetheless, the independent variables behave differently in this model than in the first one.

Findings:

- ⊞ The percentage of single female applicants had the greatest impact on the model. However, the higher the percentage of female applicants, the less per household volume of subprime demand there was. This finding could indicate that single women in nonmetropolitan areas are less likely to use the subprime market to refinance, or it could mean nonmetropolitan women tend to take out smaller refinance loans in general. In either case, the finding indicates that the variable of applicant gender may play out differently in a rural context than in an urban one.
- ⊞ County area median income was directly related to the volume of subprime demand. In other words, the higher the area median income was, the greater the volume of subprime demand. This finding could either imply that nonmetropolitan areas have a greater number of credit-impaired households with high incomes than metro areas, or it could indicate that higher area median incomes may generate higher property values (and larger refinancing loan requests). To further complicate matters, the ratio of

individual incomes to loan amounts was also statistically significant, but had an *inverse* effect on demand volume. Thus, while higher overall area median incomes mean more subprime demand volume, higher individual incomes in proportion to loan amounts mean *less* subprime demand volume. At the very least, these findings indicate that income as a variable warrants careful attention at both the county level and individual level.⁵

- ⊞ County Beale code had a statistically significant impact, with increasingly remote rural counties having greater per household demand volume. This finding reinforces the literature on credit access in rural areas, indicating that – even though nonmetro counties have less subprime demand volume than metro counties – the more remote a county is from a metropolitan statistical area, the more subprime demand per household it has.
- ⊞ Finally, counties with a greater proportion of missing race data in their applicant pools tended to have lower volumes of subprime demand. This finding runs counter to the literature, which indicates that missing race data tends to crop up more frequently in counties with higher minority populations (Dietrich 2001). However, as with the percentage of single female applicants, this finding could indicate that nonmetropolitan subprime lenders that do not report race data are simply likely to see a lower dollar volume of applications per household.

⁵The possibility of under reporting of income data should be taken into consideration when making these types of analyses.

Manufactured Home Loan Applications in Metropolitan and Nonmetropolitan Counties

For this section, manufactured housing (MH) loan applications are defined as all applications that were for loans made by HUD-identified manufactured housing lenders in 1999.¹¹ As in the previous section on subprime lending, this section first compares overall metropolitan and nonmetropolitan application trends; second, demographics of MH loan applicants are analyzed and compared with national aggregate data; and finally, two OLS regression analyses are presented to test the effect of several variables (including location) on the MH home purchase demand volume on a county level per 1997 household. Unless otherwise stated, all figures in the data tables below are for 1999 manufactured home lending applications.

Overall, reported 1999 MH loan applications in nonmetropolitan counties occurred much more often than nonmetropolitan generic subprime lending did. Whereas nonmetropolitan subprime application were 16 percent of all subprime applications, nonmetropolitan MH loan applications comprised 34 percent of the MH data set (Table 13). When controlling for population differences, MH lending applications occurred slightly more frequently in nonmetropolitan counties (1.9 percent of 1997 county households) than in metropolitan counties (1.6 percent). These data are consistent with the literature on the predominance of manufactured housing as a percentage of the housing stock in rural areas – particularly persistent poverty areas. While manufactured homes comprise 7 percent of all occupied housing units nationwide, they comprise nearly 15 percent of the nonmetropolitan housing stock. In areas such as remote rural Appalachia and the South, manufactured housing often makes up half to three-quarters of new housing starts (compared to 25 percent nationwide) (HAC 2000, 5-6; George 1998, 25).

Table 13. Aggregate MH Loan Applications by Location, 1999

Location	Total Applications	Median Number of Applications per County	Applications as a % of 1997 County Households
Metropolitan	1,081,125	778	1.6%
Nonmetropolitan	604,089	155	1.9%

MH loan applications were also comparatively heavier in nonmetropolitan counties when measured by reported dollar volume of loans requested. Not only was the aggregate median loan amount \$1,000 higher in nonmetropolitan counties, but the median amount requested per 1997 household was also \$120 higher in nonmetropolitan counties (Table 14, below). This contrasts the subprime mortgage loans, which were \$12,000 higher in metropolitan counties, with the median amount requested per 1997 household \$1313 higher in metropolitan counties. Conversely, the median income of nonmetropolitan MH loan applicants was \$2,000 lower than the median income in metropolitan counties. The Manufactured Housing Institute states that

¹¹ Manufactured home lenders were those for whom MH loans constituted 50 percent or more of their loan portfolios (further details on HUD's identification methodology can be found on the HUD Web site at <http://www.huduser.org/datasets/manu.html>).

low per capita income (in combination with high employment growth rates) is a strong predictor of manufactured housing demand, with all other factors being equal (MHI 2001, 8).

Table 14. Aggregate MH Demand Volume and Applicant Income by Location, 1999

Location	Median Demand Volume per 1997 County Household	Median Loan Amount	Median Applicant Income
Metropolitan	\$679	\$42,000	\$37,000
Nonmetropolitan	\$799	\$41,000	\$35,000

In order to assess the degree to which the above figures apply to demand for actual manufactured housing purchases, it is necessary to analyze MH loan applications according to loan purpose. As Table 15 demonstrates, the vast majority of 1999 MH loan applications in both metro and nonmetro counties were for MH home purchases, although the proportion is 15 percentage points higher in nonmetropolitan counties. Home improvement and mortgage refinance loan products would be more marketable in metropolitan counties due to higher overall property values, giving metro homeowners more equity to trade on.

Table 15. Percentage of MH Loan Applications by Loan Purpose and Location, 1999

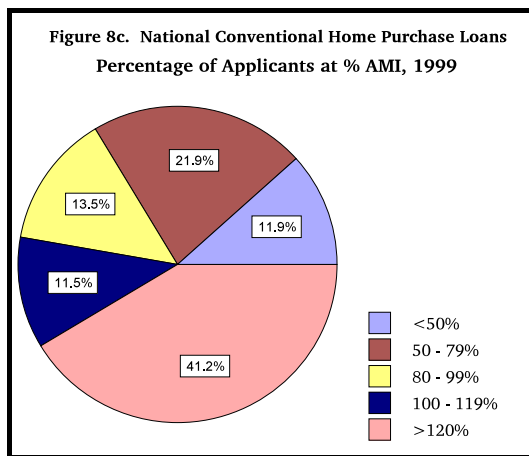
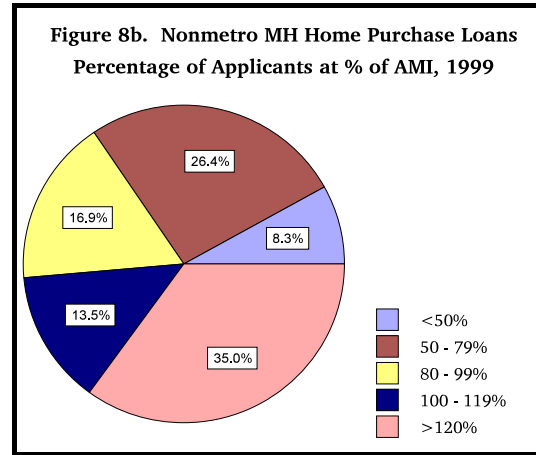
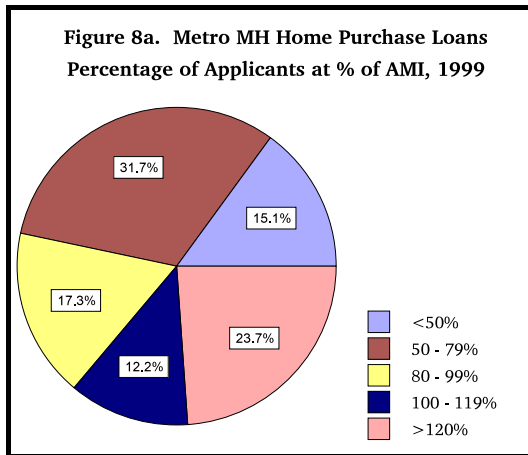
Location	Home Purchase	Home Improvement	Mortgage Refinance
Metropolitan	71%	13%	16%
Nonmetropolitan	86%	5%	9%

MH loan applications revealed further differences within loan purpose categories (Table 16). Incomes for MH home purchase applicants were lower than renovation or refinance loan applicants in both metro and nonmetro counties, indicating that more low-income applicants are likely to actually depend on manufactured homes for housing. The median income for nonmetropolitan home purchase applicants was also \$3,000 lower than those in metro counties. Consequently, the patterns observed for MH loans in general (lower nonmetro incomes), also held true for MH home purchase mortgages.

Table 16. Comparative Median Loan Amount, Applicant Income and Number of Applications by Loan Purpose and Location, 1999

Loan Purpose	Median Loan Amount		Median Applicant Income		Total Applications	
	Metro	Nonmetro	Metro	Nonmetro	Metro	Nonmetro
Home Purchase	\$39,000	\$38,000	\$31,000	\$28,000	766,366	517,753
Renovation	\$14,000	\$11,000	\$47,000	\$37,000	141,465	30,511
Refinance	\$39,000	\$38,000	\$40,000	\$36,000	173,294	55,825

A look at the applicant income distribution for MH home purchase mortgages in metropolitan and nonmetropolitan counties – compared to parallel national aggregate figures – reveals more about how these lending products are sold in different areas.



Overall, both metropolitan and nonmetropolitan MH home purchase applicants had incomes more heavily skewed toward the lower end than applicants for conventional home purchase loans on a national level (Figures 8a, 8b and 8c). However, while the dollar median income for nonmetro applicants was \$3,000 lower than for metro applicants, nonmetro applicant incomes – as a percentage of AMI – were higher than those for applicants in metro counties. Since there were only 4.2 percent of the cases in the MH lending dataset with missing income data, the explanation possibly lies in the fact that area median incomes in nonmetro areas tend to be lower than the national median. Based on calculations from 1997 CPS

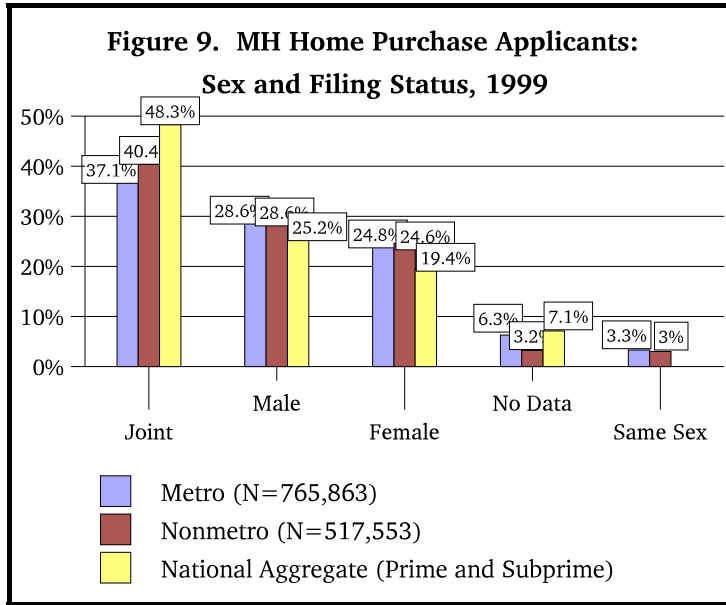
data, the median household income for metropolitan counties was \$38,204; however, for nonmetro households, the AMI was \$29,605. Consequently, a household with a \$30,000 income would typically be categorized as moderate income in a nonmetropolitan county, but would be very low-income in a typical metropolitan county.

When MH home purchase applicants were analyzed by race and ethnicity, there were distinct patterns in metropolitan and nonmetropolitan areas, which also differed from the national distribution (Table 17, below). White applicants comprised 75 to 77 percent of the total applications for each category, but the distribution of minority applicants varied. In metropolitan counties, Hispanics had the second highest percentage of MH home purchase applications (11.0 percent); however, in nonmetropolitan counties, African Americans had the second highest percentage (16.3 percent). Given that high employment growth and low wages are important predictors of manufactured housing demand (MHI 2001, 8), these figures may imply that the bulk of the low-wage workforce in expanding metropolitan counties is more likely to be Hispanic, whereas in nonmetropolitan areas, it is more likely to be African-American.

Table 17. Applicant Race and Ethnicity for MH and Conventional Home Purchase Loans, 1999

Applicant Race/Ethnicity	Home Purchase Loan Applicants				
	Metro MH		Nonmetro MH		% National Conventional Loans
	Number	Percent	Number	Percent	
Native American	5,220	0.7%	11,031	2.2%	0.8%
Asian/Pac. Islander	2,931	0.4%	1,073	0.2%	3.2%
Black	66,450	9.4%	80,972	16.3%	9.0%
Hispanic	77,085	11.0%	25,096	5.0%	6.9%
White	546,097	76.8%	371,263	75.0%	76.6%
Other	12,738	1.8%	7,485	1.5%	3.5%
Total	710,521	100.0%	496,920	100.0%	100.0%

Like subprime lending products, MH home purchase loans were less likely to be sought by opposite-sex couples filing jointly than conventional home purchase loans. However, these figures are likely to be more reliable than the subprime lending data, due to the much smaller percentage of missing data (Figure 8). For metro and nonmetro MH home purchase applicants, as well as conventional applicants nationally, opposite-sex couples made up the highest percentage of applicants. However, the percentage of opposite-sex joint applications declined from the national aggregate dataset (48.3 percent) to nonmetro counties (40.4 percent) to metro counties (37.1 percent). These data could indicate that conventional home purchase loans are more accessible to opposite-sex couples filing jointly than they are to single male or



Note: The National Aggregate data does not calculate the percentage of applicants that are same-sex couples filing jointly.

female applicants. The data could also reflect the higher marriage rate in nonmetropolitan areas than in metropolitan areas.

Analysis of the geographic concentration of MH loan demand (for all lending products) revealed that, unlike subprime lending, MH lending generated a much higher demand volume in nonmetropolitan areas than in metropolitan areas.¹² Wyoming was the only state where the demand volume for metropolitan MH lending per 1997 household topped the demand volume of the top five states in nonmetro MH lending. This finding could possibly relate to rapid metropolitan area economic growth in that state. In general, states generating the

greatest demand volume per household were those in the Southeast or Mississippi Delta regions (South Carolina, Alabama, Georgia, Mississippi, and Arkansas) or those in the Southwest or Rocky Mountain regions (New Mexico, Nevada, and Wyoming) (Table 18a).

Table 18a. Metropolitan and Nonmetropolitan MH Demand Volume per Household: Top Five States, 1999

Metropolitan MH Demand		Nonmetropolitan MH Demand	
State	Demand Volume per Household	State	Demand Volume per Household
Wyoming	\$2,383	South Carolina	\$2,376
South Carolina	\$1,575	Alabama	\$2,299
New Mexico	\$1,542	New Mexico	\$1,976
Mississippi	\$1,483	Georgia	\$1,889
Arkansas	\$1,357	Nevada	\$1,883

¹² Due to an error on one of the HMDA Raw Data Compact Disks, the loan application data for Consec Finance Servicing Corporation (a HUD-identified MH lender) in Delaware and the District of Columbia (N=4,651) were not able to be downloaded into the dataset. Consequently, these states are omitted from the following analysis.

South Carolina not only had high metro and nonmetro MH lending volumes, but it was also in the top two percent for nonmetro MH applications as a percentage of 1997 households. While generic subprime applications were more widespread in metro counties than in nonmetro counties, it is interesting to note that the reverse was true of MH loan applications. As with MH lending volume, states with the highest incidence of MH loan applications were – with the exception of Wyoming – concentrated in the Southeast or Mississippi Delta regions (South Carolina, Alabama, and Mississippi) (Table 18b, below).

Table 18b. Metropolitan and Nonmetropolitan MH Applications as a Percentage of State Households: Top Two Percent, 1999

Metropolitan MH Applications		Nonmetropolitan MH Applications	
State	Applications as % of Households	State	Applications as % of Households
Wyoming	5%	South Carolina	6%
Mississippi	4%	Alabama	6%
		Mississippi	5%

Although there is currently no way to cross-check the incidence and volume of overall subprime demand on a state-by-state basis, the validity of HMDA MH application data can be checked by examining Census 2000 data on the top ranking state percentages of housing stock comprised of manufactured housing. Below, the top ranking states' percentages of manufactured housing are compared with their nonmetropolitan MH application rates.

Table 19. Top Ranking State Manufactured Housing Percentages and Nonmetro MH Applications as Percentage of Households

States with Top MH Percentage of Total Housing Stock		
State	Percentage Manufactured Housing	Nonmetro MH Applications as % of Households
South Carolina	19%	6%
New Mexico	18%	4%
North Carolina	18%	4%
West Virginia	17%	3%
Wyoming	17%	4%
Alabama	15%	6%
Mississippi	15%	5%

Source: Census 2000 Supplementary Survey.

Almost all the states with high percentages of manufactured housing units (with the exception of West Virginia) tended to have relatively high incidence rates of 1999 nonmetro MH loan applications. However, New Mexico and North Carolina has slightly lower MH application rates than might be expected. This discrepancy indicates that – most probably due to a high percentage of MH data lacking geocodes – MH applications may be somewhat underreported in the top states where manufactured homes predominate. Nonetheless, this comparison shows that HMDA mortgage data can serve as a fairly reliable indicator of the importance of MH lending in a particular state.

Overall, the descriptive statistics indicate that 1999 MH loan demand was much more significant in nonmetropolitan counties than subprime demand in general. The incidence of nonmetro MH demand per 1997 household was greater than in metropolitan counties, both in terms of number of applications and demand volume, with the majority of applications – particularly in nonmetro counties – for home purchase loans. Incomes for MH home purchase applicants were lower than those of renovation or refinancing MH loan applicants in both metro and nonmetro counties. Compared to national conventional home purchase applicants, the incomes of both metro and nonmetro MH home purchase applicants were skewed lower as a percentage of county AMIs.

In terms of race and ethnicity, Hispanic applicants made up a disproportionate amount of metro MH home purchase applicants, and African Americans made up a disproportionate amount of nonmetro MH applicants (compared to their share of national aggregate home purchase applications). MH home purchase loan applicants were also more likely to be couples (male/female) in both metro and nonmetro counties; however, both single men and women were more likely to apply for an MH home purchase loan than they were to apply for a conventional home purchase loan.

South Carolina was the state that appear most frequently in the 1999 HMDA data with regard to highest application rate and demand volume for MH home purchase lending, particularly in nonmetro areas. Wyoming, Alabama, New Mexico and Mississippi were also notable; however, South Carolina was the only state where high demand volumes and application rates matched an equally high percentage of manufactured housing units.

Manufactured Home Purchase Demand Analysis

These findings indicate that – for MH home purchase loan demand – metropolitan residence and race are more important factors in determining the incidence and volume of demand in a given county than applicant sex or income. In order to investigate the degree to which location contributes to variation in county MH home purchase demand volume, two OLS regression analyses were run. The first analysis examined the correlation of several variables with the per household level of MH home purchase loan demand on a national level, using a 1 percent random sample of the MH lending database (home purchase loans only). The second analysis examined the variation of per household MH home purchase loan demand only within nonmetropolitan counties (using the same 1 percent sample).

Figure 10a. 1999 MH Home Purchase Loan Demand, Model 1

$$\text{HHLEND} = (\text{METRO}) + (\text{NRPERC}) + (\text{TENURE}) + (\text{INCLOAN}) + (\text{PERCFEM}) + (\text{DENPERC}) + (\text{APPS}) + (\text{ORPERC}) + (97\text{medinc}) + (\text{APPINC}) + (\text{PERCNW}) + (\text{APPINC}) + \epsilon$$

Sample:

1 percent random sample of national MH lending dataset, home purchase loans only (N=12,601)

Dependent Variable:

HHLEND = sum of applicant loan amounts (\$) per county / 1997 households in county

Independent Variables:

METRO = metropolitan residence (1= metro; 0= nonmetro)

NRPERC = sum of applications with no race data per county / total county applications

TENURE = homeowner occupancy of property (1= homeowner-occupied; 0= not homeowner-occupied)

INCLOAN = individual applicant income / individual loan amount

PERCFEM = total single female applicants per county / total county applications

PERCDEN = total denials per county / total county applications

APPS = total county applications

ORPERC = total originations per county / total county applications

97medinc = 1997 county median income

NWPERC = total nonwhite applicants per county / total county applications

APPINC = individual applicant income

Figure 10b. 1999 MH Home Purchase Loan Demand, Model 1 Results

Variable	Unstandardized β Coefficients	Standardized β Coefficients	t score
METRO	-12.843	-.340***	-23.395
NRPERC	-40.412	-.225***	-15.770
TENURE	.587	.009	.706
INCLOAN	-.438	-.046***	-3.317
PERCFEM	-9.423	-.073***	-5.304
PERCDEN	9.737	.079***	4.543
APPS	-.05818	-.181***	-12.276
ORPERC	3.559	.026	1.463
97medinc	-.0001435	-.091***	-5.827
NWPERC	.324	.005	.351
APPINC	-.00001301	.026	-.066

Unlike the first model of subprime refinancing demand, this model indicates that MH home purchase demand can be modeled efficiently on a national level. The higher adjusted R square figure (.248) shows that the MH demand model accounted for 24.8 percent of the change in per household MH demand (compared to 4.4 percent measured in the national subprime refinance demand model). Three factors accounted for most of the change that was measured by the model:

Findings:

- ⊞ Metropolitan counties were correlated with a lower MH demand volume than nonmetropolitan counties, reflecting the results of the MH descriptive statistics.
- ⊞ The higher the percentage of applications with missing race data was, the *less* MH lending demand there was. This finding may indicate that – if missing race data is indicative of a higher nonwhite population – minorities tend to apply for smaller MH home purchase loans, with less business volume generated per transaction. However, it may also indicate that missing race data is not as strongly correlated with high minority populations as the literature might indicate (Dietrich 2001).
- ⊞ The higher the number of MH home purchase lending applications there were, the *lower* volume of MH demand there was. This finding indicates that, on an overall national level, MH lenders are able to make more money while expending less effort to drum up

business.

Other statistically significant variables at the .001 level were the ratio of individual income over loan amount and the percentage of single female applicants (correlated with lower MH home purchase demand volume), and the percentage of loan denials (correlated with higher MH home purchase demand volume). The finding that income-to-loan ratio was negatively correlated to demand volume reflects the tendency of MH loans to be high loan-to-value transactions, which are based on borrowers' assets, rather than their ability to pay. While the positive correlation of loan denials with higher demand volume seems contradictory, it reflects the findings of the literature (Scheessele 1999) that MH loans have very high denial rates, even in comparison to other subprime loans.

Figure 11a. 1999 Nonmetro MH Home Purchase Loan Demand, Model 2

$$\text{HHLEND} = (\text{TENURE}) + (\text{PERCFEM}) + (\text{INCLOAN}) + (\text{PERCINC}) + (\text{APPS}) + (\text{NRPERC}) + (\text{BEALE}) + (\text{NWPERC}) + (\text{PERCDEN}) + (97\text{medinc}) + (\text{ORPERC}) + (\text{PERCMAL}) + \epsilon$$

Sample:

1 percent random sample of national subprime lending transaction dataset, refinancing loans in nonmetropolitan counties only (N= 5,130)

Dependent Variable:

HHLEND = sum of applicant loan amounts (\$) per county / 1997 households in county

Independent Variables:

TENURE = homeowner occupancy of property (1= homeowner-occupied; 0= not homeowner-occupied)

PERCFEM = total single female applicants per county / total county applications

INCLOAN = individual applicant income / individual loan amount

PERCINC = individual applicant income as a percentage of 1997 county area median income

APPS = total county applications

NRPERC = sum of applications with no race data per county / total county applications

BEALE = county Beale code scale (0= central city; 9= remote rural) (See Appendix A for detailed code)

NWPERC = total nonwhite applicants per county / total county applications

PERCDEN = total denials per county / total county applications

97medinc = 1997 county median income

ORPERC = total originations per county / total county applications

PERCMAL = total single male applicants per county / total county applications

Figure 11b. 1999 MH Home Purchase Loan Demand, Model 2 Results

R=.823	Adjusted R Square=.677	F=88.150
--------	------------------------	----------

Variable	Unstandardized β Coefficients	Standardized β Coefficients	t score
TENURE	-2.785	-.036	-1.462
PERCFEM	-3.981	-.034	-1.197
INCLOAN	-.411	-.024	-.931
INCPERC	-5.193	-.209	-1.079
APPS	.673	.506***	14.868
NRPERC	-44.946	-.235***	-7.880
BEALE	7.284	.547***	19.104
NWPERC	21.786	.314***	10.249
PERCDEN	-11.852	-.118**	-3.001
97medinc	.00008571	.026	.474
ORPERC	-13.571	-.118**	-2.869
PERCMAL	-13.877	-.101***	-3.561

The second model – which includes only nonmetropolitan counties – accounted for 67.7 percent of the change in per household MH home purchase loan demand. The two independent variables with the greatest impact on the model were county Beale code and number of applications, both of which were very strongly correlated with an increase in MH demand volume. Consequently (within nonmetropolitan counties) the greater the proximity to a metropolitan core, the less MH demand volume counties tended to have. Counties with a greater number of applications also tended to have greater per household demand volume, indicating that MH home purchase applications are both widespread and for larger amounts in nonmetro areas. Other statistically significant variables were as follows.

Findings:

- ⊞ Higher percentages of nonwhite applicants were strongly correlated with higher MH home purchase demand volume, again pointing to the importance that this form of housing has for minorities in nonmetro areas.
- ⊞ As in the first MH home purchase demand model, counties with a high percentage of missing race data were correlated with lower volumes of MH home purchase demand. This finding may indicate that the literature on the correlation between missing race

- data and higher minority populations (Dietrich 2001) may warrant reexamination.
- △ The higher the ratio of an individual applicant's income to the loan amount was, the lower the demand volume for MH lending was. Although area median income, individual incomes and individual loan amounts – by themselves – were not statistically significant, this finding indicates that a greater volume of MH demand is generated through a combination of lower incomes and higher loan amounts.

The importance of manufactured housing lending in nonmetropolitan counties, while providing an affordable housing alternative, also increases the potential for predatory abuses in this area of nonconforming lending. The following sections will analyze the efforts to define and prevent predatory lending at a federal and state level, as well as provide a close look at predatory lending in a case study of a rural county in South Carolina.

BACKGROUND:

LEGISLATIVE AND REGULATORY MEASURES AGAINST PREDATORY LENDING

The tremendous growth of the subprime lending market in the last ten years has sparked numerous efforts by community and consumer groups and members of Congress to pass legislation that would protect consumers from unscrupulous practices of unethical subprime lenders and to prevent them from falling victim to predatory loans. The Coalition for Responsible Lending estimates that practices such as charging excessive fees, imposing loan prepayment penalties and selling single-premium credit insurance result in an annual loss of \$9.1 billion dollars from mortgage consumers (Stein 2001, 2). Legislation is being passed on federal, state and local levels.

The Federal Reserve Bank (FRB), Office of Thrift Supervision (OTS), Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) issued guidelines for bank examiners on subprime loans, which give criteria to combat predatory lending. According to the bank regulators, predatory loans “appear to have been designed to transfer wealth from the borrower to the lender/loan originator without a commensurate exchange of value.” These guidelines instruct bank examiners to criticize predatory loans in their reports and also suggest that they should refer any predatory loans to their agencies’ respective consumer compliance/fair lending specialists for further review (*Community Development Digest* 2001b, 15). According to the FDIC, predatory lending involves at least one of three elements:

- ⊞ making unaffordable loans based on the assets of the borrower rather than on the borrower’s ability to repay;
- ⊞ inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (loan flipping); or
- ⊞ engaging in fraud or deception to conceal the true nature of the loan obligation, or ancillary products (packing), from an unsuspecting or unsophisticated borrower. (*Housing Affairs Letter* 2001e, 4)

The Federal Trade Commission (FTC) has also taken major steps to combat abusive lending practices. The FTC is mandated to protect consumers and much of this mission is accomplished by enforcing the Federal Trade Commission Act (FTC Act), which broadly prohibits unfair or deceptive acts or practices affecting commerce. The FTC also enforces laws that are specific to lending in particular, which include the Truth in Lending Act (TILA), the Home Ownership and Equity Protection Act (HOEPA), and the Equal Credit Opportunity Act (ECOA). TILA requires disclosures and establishes certain substantive requirements in connection with consumer credit transactions. HOEPA, which is part of TILA, provides special protections for consumers in certain non-purchase, high-cost loans secured by their homes. ECOA prohibits discrimination against applicants for credit on the basis of age, race, sex, marital status, or other prohibited factors (Twohig 2000, 1).

In addition to enforcing these and other laws, the FTC also responds to requests for information about credit issues and consumer credit laws from consumers, industry officials, state law enforcement agencies, and the media (Twohig 2000, 1). The FTC has also increased its enforcement activities to halt illegal lending practices by predatory lenders. The FTC also

works with other federal agencies and states to increase and coordinate enforcement efforts, such as participating in an interagency task force that was convened by the Board of Governors of the Federal Reserve System to examine the issue of predatory lending (Twohig 2000, 3).

Specific practices within the subprime industry are creating controversy, and their presence has illustrated the need for increased regulation. One of these practices is flipping. Flipping can be practiced with loans, as well as with property. When a loan is flipped, it is refinanced repeatedly and unnecessarily to give the lender an opportunity to charge high points and fees each time the loan is flipped. When a property is flipped, it is bought and then resold at much higher prices. This type of property flipping has become prevalent within the FHA single-family program and has recently developed into a case load of 250 criminal investigations across the country (*Housing Affairs Letter* 2001d, 4).

In addition to flipping, credit life insurance is another tool that is used by some subprime lenders to induce higher fees and costs for the borrowers. Credit insurance is used to pay off a loan in the event of a borrower's death. Credit insurance becomes a problem for the borrower when it is sold in single premium form. Instead of paying monthly premiums for the insurance, the premiums are added together in a lump sum, which can reach thousands of dollars. The borrower is then encouraged to finance the premiums along with his or her loan, adding the cost of the insurance to the cost of the loan itself and paying interest on the sum. Credit insurance can also pose a problem for consumers when they pay for insurance that offers more coverage than necessary, when people are sold insurance when they are already covered by another policy, when they are charged excessively high premiums, and when there are problems collecting on the insurance if the borrower dies (Center for Community Change 2001).

Predatory lending practices are being fought by several different organizations. In June 2000, the Treasury Department and HUD issued a joint report recommending that single premium credit insurance be banned in connection with mortgage loans. They also proposed that sale of this insurance should only be allowed after a mortgage loan is closed. In addition, Fannie Mae and Freddie Mac have both announced that they will not purchase loans that carry single premium credit life insurance (Center for Community Change 2001).

Fannie Mae and Freddie Mac will also attempt to "clean up the practices of the subprime market" by expanding their subprime efforts, according to Freddie Mac CEO Leland Brendsel. The Government Sponsored Enterprises intend to bring lower rates and cleaner practices to the sector. Subprime lenders are opposed to these efforts, claiming that Fannie Mae and Freddie Mac are going beyond what Congress intended them to do (*Housing Affairs Letter* 2001c, 2).

There have also been several lawsuits against subprime lenders who are under suspicion of using predatory lending practices. The Federal Trade Commission has launched a federal lawsuit against the nation's largest subprime lender, The Associates First Capital Corporation (The Associates), and its parent company, Citigroup, Inc. The lender is being accused of promising borrowers lower monthly payments with their mortgage refinance loans when they were actually given loans with high points and closing costs attached to them. The FTC also claims that The Associates illegally disclosed borrower's debts to third parties and called them repeatedly at work about delinquent payments. They are also being charged with failing to

retain written records on loan applications and obtaining consumers' credit reports for prohibited purposes (*Community Development Digest* 2001a, 8). Citigroup promised to evaluate the allegations against The Associates and to offer credit insurance with monthly payments in a demonstration project (Fleishman 2001, sec. H, 3).

As part of its effort to address abuses in the subprime market, the FTC has brought charges against several other subprime lenders across the country (Table 20).

Table 20. Recent Predatory Lending Complaints and Settlements

Lender	Date	Charges/Complaints	Settlement
Action Loan Company	August 2000	Violations of TILA, Reg Z, and Section 5 of the FTC Act	\$350,000 civil penalty and \$37,000 in consumer redress
Delta Funding Corporation	March 2000	Violation of HOEPA	Nationwide injunctive relief
Barry Cooper Properties, Capitol Mortgage Corporation, CLS Financial Services, Granite Mortgage, Interstate Resource Corp., LAP Financial Services, Inc., Wasatch Credit Corp.	July 1999	Violations of HOEPA, TILA, and Section 5 of the FTC Act	Remedies and protections for past and future borrowers, including consumer redress totaling \$572,500
Fleet Finance	July 1999	Violations of TILA and Section 5 of the FTC Act	\$1.3 million in consumer redress as well as injunctive relief

Source: Prepared Statement of the Federal Trade Commission, September 2000.

Several fair lending bills are being introduced into Congress that propose to quell the proliferation of abusive lending practices. Financial Services Committee ranking member John J. LaFalce (D-NY) introduced a predatory lending bill into the House on March 15, 2001. This bill would amend the Home Mortgage Disclosure Act (HMDA) and the Equal Credit Opportunity Act (ECOA), and would provide protection to consumers against discriminatory market segmentation. It would also extend fair lending protections to requests for credit preapprovals, expand credit reporting requirements, and strengthen administrative enforcement (*HDR Current Developments* 2001, 722). Most significantly, the proposal would allow for the tracking of subprime loans. The three major issues that the proposal addresses are which financial institutions should report data, the types of mortgage loans that are to be reported, and what data must be reported on each transaction (Center for Community Change 2000).

The Community Reinvestment Act of 2001 was introduced into Congress in order to keep up with the rapid changes within the financial industry, by extending CRA to all lending affiliates of financial holding companies. The bill would also extend CRA to insurance companies and securities firms, and mergers between depository and non-depository institutions would be

subject to public comment periods with regulatory agency decisions based on CRA, fair lending, safety and soundness, and anti-trust factors. Rep. McGovern (D-MA) introduced a separate bill that requires the race and gender of small business borrowers as part of the CRA small business data. The increased data disclosure is intended to increase loans to traditionally underserved populations (NCRC 2001a).

The Federal Reserve Board (FRB or the Fed) proposed regulations in January 2001 to protect borrowers from predatory lenders. The proposal is intended to create more disclosure for consumers and to prevent lenders from avoiding Home Ownership and Equity Protection (HOEPA) rules. FRB Chair Alan Greenspan has also expressed concern about lenders targeting specific neighborhoods and vulnerable segments of the population with unscrupulous refinancing deals (Hutchens 2001, 5). The Fed would like to make the following major changes to the 1994 HOEPA rules (Table 21).

Table 21. Proposed Changes in HOEPA Regulations, 2001

Current HOEPA regulations	Federal Reserve Board Proposed Changes
<p><i>APR Trigger</i> - HOEPA covers home refinancings of existing mortgages and “closed end” home equity loans that meet the act’s “high-cost” interest rate trigger, which is currently 10 annual percentage points above the rate for comparable Treasury securities.</p>	<p>Drop the current interest rate trigger to 8 percent. The Fed estimates this change would bring under HOEPA about five percent of all loans, up from the one percent that are currently covered.</p>
<p><i>Points and Fees Trigger</i> - Currently, if the borrower pays 8 percent of the loan amount or \$465 in points and fees (whichever is greater), then the fee based trigger is met.</p>	<p>The Fed is proposing that the trigger include amounts paid for optional credit life insurance and other credit protection insurance products. The Fed hopes that this will trigger HOEPA coverage for loans that include single premium credit life insurance.</p>
<p><i>Restrictions on “loan flipping”</i> - This occurs when home loans are frequently refinanced in order to generate additional fees.</p>	<p>The Fed is proposing to prohibit a lender from refinancing a “high-cost” loan as defined by HOEPA more than once during the first 12 months after its origination.</p>
<p><i>Limits on refinancing certain low-rate loans</i> - Lenders often target homeowners with unsecured debts and offer to consolidate the debts and replace their low-cost mortgages with a higher cost loan.</p>	<p>The Fed is proposing to prohibit refinancings in the first five years on any loan made with a zero interest rate, as well as other low-cost loans from mortgage assistance programs, unless the lender can demonstrate that the refinancing is in the interest of the borrower.</p>
<p><i>Limits on “Payable on Demand” clauses</i> - HOEPA prohibits short term balloon notes in order to prevent creditors from forcing a borrower to refinance a loan and pay additional points and fees.</p>	<p>The Fed is proposing to prohibit “payable on demand” or “call” provisions, which may have a similar effect on borrowers.</p>

<p><i>Strengthen prohibition on certain loans</i> - HOEPA prohibits creditors from making loans without considering the consumer's repayment ability. This has been difficult to enforce because creditors are not obligated to show how they considered the borrower's ability to pay.</p>	<p>The Fed is proposing that creditors be required to verify a consumer's income.</p>
<p><i>Additional HOEPA disclosures</i> - Creditors that offer HOEPA loans must disclose certain information to the lender at least three business days before closing, as well as general disclosure required by the Truth in Lending Act at or before the closing.</p>	<p>The Fed is proposing that information concerning the face amount of the loan be added to this disclosure.</p>

Source: Center for Community Change 2000.

The National Community Reinvestment Coalition (NCRC), the nation's CRA trade association of more than 800 community organizations and local public agencies, states that although these changes to HOEPA are necessary, they are also overdue and limited. NCRC has also expressed the need to expand the coverage of HOEPA to include home mortgage, refinance, and home improvement loans, in addition to home equity loans (NCRC 2001b).

It has also been proposed that a type of suitability doctrine, similar to the one used by the Securities and Exchange Commission, be applied to the mortgage industry to help eliminate the proliferation of predatory loans. This doctrine was first used in the securities industry to require stock brokers to determine that their customers were financially capable to cover their trades. It has now evolved into a doctrine which protects investors from broker-dealers that may persuade them into making inappropriate investments (Ehrenberg 2000, 42). According to Patricia McCoy, Association of American Law Schools banking expert and Cleveland State University law professor, a suitability requirement on mortgage refinancing would help to eliminate predatory lending without restricting the activity of the subprime market (Kuhn 2001a, 6). Daniel Ehrenberg, deputy general counsel for the Neighborhood Reinvestment Corporation, has pointed out a number of advantages that a suitability doctrine could have if it were applied to the mortgage industry:

- ⊞ A suitability doctrine would set a standard for lending that is based upon general concepts that can be tailored to specific facts and circumstances.
- ⊞ It would reinforce the view that lenders are professionals who are ethically obligated to use their expertise to serve their clients by providing them with a product that matches their needs, capacity and objectives.
- ⊞ The doctrine can evolve with the constantly changing practices and products of unscrupulous lenders.
- ⊞ It would get to the root of the problem of predatory lending- namely, the mismatch between the financial circumstances, needs and objectives of borrowers and the lenders, and the lenders' ability to take unfair advantage of their knowledge of the industry to the borrower's detriment.
- ⊞ The suitability doctrine prevents abuse in the securities industry without dampening the vitality of the industry or harming the performance of the stock market. (Ehrenberg 2000, 43)

However, John Taylor, president and CEO of NCRC, criticizes Ehrenberg's proposal, asserting that suitability standards are currently applied in the lending industry in the form of underwriting standards. The constant disregard of these standards by predatory lenders confirms the need for stronger legislation and regulation, according to Taylor. Taylor claims that Ehrenberg's approach "assumes that comprehensive legislation and regulation would choke off lending to minorities and low- and moderate-income borrowers." He points out that the largest increase in home-mortgage lending for minorities and low- and moderate-income borrowers took place from 1990 to 1995, which was before the surge in subprime lending occurred. Taylor emphasizes that suitability standards already exist in the current HOEPA regulations and that these regulations have not been strong enough to put an end to predatory lending (Taylor 2001, 68).

Although a number of community and consumer groups have made a concerted effort to develop tighter restrictions for subprime lenders, as well as several members of Congress, there are also voices of opposition who do not see the necessity for such restrictions, led by the chairman of the Senate Banking Committee, Senator Phil Gramm. Gramm claims that there are "more predators borrowing than lending," and also says that branding subprime lending with the predatory label "is somehow doing a disservice." He also states that high subprime rates typically reflect market conditions (*Housing Affairs Letter* 2001b, 2).

The American Bankers Association (ABA) also opposes regulation of the subprime mortgage market. The ABA believes that there are already enough federal laws in place to protect consumers from predatory lenders. The group sponsored a study, *A Prudent Approach to Preventing Predatory Lending*, by Brookings Institution economist Robert Litan. According to the study, "Congress and the state should appropriate sufficient funds to ensure that the agencies charged with enforcing existing statutes designed to stop specific predatory lending practices have the financial means to do so." Litan goes on to say that state and local laws, such as those recently enacted by Illinois and Chicago, could make it harder for lenders to offer uniform mortgage loan contracts. He also believes that this could ultimately increase costs for consumers (Kuhn 2001b, 4).

The cost of bank regulation has been a topic of debate recently and has prompted many organizations to conduct studies in order to determine the actual costs of regulating banks. The total cost of all bank regulations in 1991 was about 12 percent to 13 percent of bank's noninterest expenses, which translates into about \$15.7 billion (Ellihausen 1998, 29). The Fed conducted a study in 1998 that summarized the findings of several other studies that pertained to bank regulation and included an explanation of the sources and types of regulatory costs. It discusses the requirements of the various methods of determining costs and evaluates published empirical studies in light of those requirements. Although Litan claims in the ABA study that legislation could increase costs for consumers, The Fed study revealed that bank regulation accounts "for a small but not inconsiderable share of bank's costs" (op. cit., 1). According to a number of case studies and surveys, each regulation contributes very little to the total cost of regulation but there are some regulations that are more costly than others. Many studies concluded that the Truth in Lending Act (TILA) is a major source of regulatory costs. Other factors that contribute greatly to the cost of regulation include making frequent minor revisions to regulations, the cost of deposit insurance premiums and labor costs (op. cit., 29).

Much of the motivation for the development of new legislation for the mortgage industry is coming from community groups whose constituents have been victims of predatory lenders. These groups include the Association of Community Organizations for Reform Now (ACORN), a nonprofit grass-roots group; the North Carolina-based Coalition for Responsible Lending; the National Community Reinvestment Coalition (NCRC); and AARP (formerly the American Association for Retired People). Many studies have revealed that the elderly are often targets of predatory lenders, and AARP has launched a campaign against these types of high-cost, abusive mortgage lending. This campaign includes consumer education, legislative lobbying and legal action against lenders (AARP 2001).

Many of these consumer groups blame federal regulators for loopholes in current consumer protection laws. They claim that while the Fed sets tough regulations for high-cost loans, it does not take into consideration many of the tools that are used to trigger high-cost designations, such as single premium credit insurance. Therefore, many high cost loans are not brought under federal scrutiny (Fleishman 2001, sec. H, 1). In addition, Ed Gramlich (Chair of the Board of Governors of the Federal Reserve Board) estimates that only 30 percent of all subprime loans are made by depository institutions that are required to submit to bank examinations. Even if these same compliance examinations were extended to the subsidiaries of financial holding companies, the percentage of subprime loans reported would only go up to 40 percent (NAAHL 2001, 4).

At the state and local levels, various predatory lending initiatives have been introduced across the country. Appendix B and C (pp. 70 to 81) reveal specific details about the different types of legislation that is being considered, as well as the laws that have already been passed. Although the laws are tailored specifically to each locality to address the most problematic aspects of the local or state lending industry, there are several similarities among the laws. Most of the legislation has been geared toward the elimination high cost loans, with many states and localities proposing specific definitions for what a high cost loan is. Most of these definitions are based on a comparison between the weekly average Treasury security yield and the annual percentage rate (APR) on the mortgage loan. In most cases, high cost is defined as a loan with an APR that exceeds the weekly average Treasury security yield by 4 to 10 percentage points. High cost is also frequently defined by the amount of points and fees on the loan, with most legislation stipulating that points and fees cannot exceed between 3 and 8 percent of the loan amount. Three states have given specific dollar amounts which the points and fees cannot exceed (between \$400 and \$500).

Many local and state initiative also call for specific requirements of lenders during mortgage transactions. The most common requirements require lenders to offer foreign-language translation of lending procedures, homeownership counseling, and notification of borrower prior to commencement of foreclosure. Some other less common requirements include notice to consumers of the availability of financial counseling and the publication of the maximum interest rate every month by the commissioner of financial institutions. A few states require that certain aspects of the loan are disclosed to the borrower. These disclosures include the APR, the amount of the monthly payment, the variable maximum amount, and whether the loan will be retained or sold after closing.

The majority of state and local laws also have extensive lists of prohibited loan terms and practices. Some of the most common prohibited terms include balloon payments, negative amortization, prepayment penalties, mandatory arbitration, financing of credit insurance, making loans without concern for the ability to repay, flipping, packing, and the encouragement of default.

While the strategies being put forward in various localities around the country serve as useful precedents for other areas battling predatory lending, many national advocates and experts emphasize that they cannot replace a solid federal-level initiative. Judith A. Kennedy, president of the National Association of Affordable Housing Lenders, testified before the U.S. Senate, “To stop the predators, we need to close the barn doors on examining and reporting. A level playing field in oversight and enforcement is key” (Kennedy 2001, 3). While insured depository institutions are subject to rigorous reporting requirements, the vast majority of predatory lending (as Ed Gramlich observed) is not conducted by these institutions.

Predatory lending has become a serious problem in Anderson County, South Carolina. This county was chosen as the focus for the following case study on the basis of recommendations from advocates against predatory lending in the Southeast. The quantitative findings of this report also highlight the prominence of South Carolina in manufactured housing demand volume, applicant rates and percentage of units. Anderson County provides a snapshot of rural predatory lending and outlines the different parties that are involved, demonstrating the effect that predatory lending can have on a rural county and its residents.

CASE STUDY: MOBILE HOME LENDING IN ANDERSON COUNTY, SOUTH CAROLINA

Background

Anderson County is located in the northwest corner of South Carolina, on the border of Georgia. The county prides itself on a mild climate, the clear, blue water of Lake Hartwell, a thriving cultural community and a healthy economic base. Anderson County is the fifteenth largest out of 46 counties in the state, with a population of 165,740 (80 percent white and 17 percent African American) (Census 2000). Although the county is technically metropolitan, the majority of the land is rural (657 out of 718 square miles). The city of Anderson, population 25,514, is located on the I-85 corridor between Atlanta, Georgia and Charlotte, North Carolina.

Downtown Anderson experienced rapid growth during the 1990s. When various industries began flocking to the southeast in the 1990s for low-cost land and labor, the city of Anderson and its surrounding areas reaped the benefits. The business and employment expansion allowed many residents to prosper. One of the major companies that moved to the area was the BMW automotive company, which located close to Anderson County along the I-85 corridor. This arrival prompted several automotive suppliers to move near Anderson in order to sell to BMW. The influx of employers brought the unemployment rate down from 6.3 percent in 1991 to 2.6 percent in 2000. Between 1989 and 2000, the median family income in the county rose 50 percent to more than \$47,000 (Terhune, 2001). Although recent layoffs have pushed the unemployment rate back up to 4.2 percent, most of the residents are optimistic about the area's continued growth.

In spite of recent growth in employment and income, as well as the implementation of downtown redevelopment projects, the county has witnessed minimal growth in the area of affordable housing. Most of the residents in the county rely on mobile homes for affordable housing and, as a result, Anderson County has become a magnet for mobile home dealers.¹³ However, the affordability of these mobile homes has become questionable, as many consumers have been left with mortgage payments they cannot afford.

Affordable Housing and Subprime Lending in South Carolina

In May 2000, representatives from several organizations convened a housing roundtable to discuss affordable housing issues in the state. Approximately 60 people participated, representing public agencies, private nonprofit service providers, housing developers, homebuilders and lenders. The result of the roundtable was a report that was presented to the Governor of South Carolina and the South Carolina General Assembly. Participants concluded that there is no single agency or coordinating council that is responsible for housing development in the state and the weak development infrastructure in rural communities makes it more difficult to build affordable housing. There is a lack of equity, subsidies, downpayment assistance, and soft money to finance housing development. The state also lacks state funded tax credit programs and bonds for multi-family development.

¹³ Because the majority of manufactured housing in South Carolina (64 percent) consists of one-piece units, the term "mobile home" is used throughout this section of the report.

Between 1990 and 1998, South Carolina ranked second in the country in foreign investment. From 1997 and 1999, the state also ranked in the top 20 percent for its increase in personal income and in the top ten percent in terms of job creation. In spite of these accomplishments, South Carolina ranks fourth in poverty in the nation, and the college-educated population ranks in the bottom 20 percent (100 Friends of Affordable Housing 2000). In addition, 36 percent of renters in the state are unable to afford the fair market rent for a two-bedroom unit. A renter earning the Federal Minimum Wage (\$5.15 per hour) would have to work 74 hours a week to afford a two-bedroom apartment at the fair market rent (\$496) (NLIHC 2000). The Census 2000 Supplementary Survey also revealed that the 2000 per capita income of South Carolina was \$19,199 – thirty-seventh nationwide – but only 1 percent of the state’s residents received public assistance.

This situation has allowed a large market to develop for the subprime industry in South Carolina. According to the Southern Rural Development Initiative (SRDI), South Carolina residents make up a higher percentage of the total market of subprime lending, when compared to three other southern states (The South) and the entire nation (Table 22).

Table 22. Subprime Lending as a Percentage of State, Regional and U.S. Markets, by Demographics, Income and Location, 1998

Subprime Loans as a . . .	Alabama	Arkansas	South Carolina	Georgia	South	U.S.
% of Total Lending Market	14.4%	15.6%	22.3%	14.8%	16.6%	10.7%
% of African-American Market	19.9%	28.0%	41.6%	21.7%	27.8%	18.6%
% of White Market	13.6%	12.3%	14.7%	10.4%	12.8%	9.9%
% of Low-Income Market	24.7%	25.2%	33.8%	26.4%	27.5%	13.2%
% of High-Income Market	9.4%	10.9%	11.6%	10%	10.5%	5.8%
% of Rural Market	20%	9%	17%	26.7%	18.2%	N/A
% of Urban Market	8%	7%	11%	12%	9.5%	N/A

Source: SRDI, 1998.

Another 1998 study conducted by SRDI and the South Carolina Association of Community Development Corporations (SCACDC) revealed that minority, low-income and rural consumers in the state are increasingly using subprime lenders to obtain credit to purchase a home. Consequently, these consumers are paying over \$425 million more for mortgages than they would pay for prime loans (SRDI and SCACDC 1998). 1998 HMDA data revealed that South Carolinians borrowed \$14 billion for housing related purposes, \$1.7 billion of which was loaned by subprime lenders. The majority of these loans were to minority, low-income and rural households. The HMDA analysis also showed that nearly 42 percent of all African Americans in the state who purchased a mortgage in 1998 (twice the national average) obtained their loans from subprime lender. Thirty-four percent of all low-income homebuyers in the state – a rate

three times the national average – borrowed from subprime lenders (ibid.).

Many of these subprime loans are being used to purchase mobile homes. In 1990, South Carolina had the second largest percentage of mobile homes in the nation, when the structures made up 17 percent of the state's housing stock. From 1990 to 2000, South Carolina added 91,000 mobile homes to its housing stock. The only other states that added more mobile homes during that time were North Carolina, Texas and Georgia, all of which have populations more than twice that of South Carolina. By 2000, nearly 19 percent of the state's 1.8 million residences were mobile homes, more than any other state in the nation. Sixty-four percent of the manufactured housing units are single-unit and 18 percent are modular – i.e., houses that are produced and shipped in segments and reassembled on site (Census 2000 Supplementary Survey).

Affordable Housing in Anderson County

The 1998 Anderson County Multi-Housing Survey revealed that the county had a total of 1,828 public or subsidized housing units in 1998, with a 96.1 percent occupancy rate. According to 1997 Census Bureau estimates, 17,611 persons in the county were living in poverty.¹⁴ Assuming that there were an average of three persons per household, this figure would mean that there were 5,870 impoverished Anderson County households – slightly more than three times the amount of public and subsidized housing units available.

In September 2000, the Anderson County Planning Division developed an affordable housing plan that emphasized the need to develop more affordable units for residents with housing cost burdens.¹⁵ The plan also brought to attention the various segments of the population that are in need of affordable housing, such as low income residents, new families, senior citizens, disabled residents and middle income residents that may be over- or under-qualified to purchase a home.

As of 2000, the only nonprofit housing agencies in the county are a local Habitat for Humanity that provides low interest home purchase mortgages to low-income families and the Community Housing Resource Board, which provides prospective homebuyers with information, workshops and social service referrals. Other nonprofit housing services are primarily geared to those who need transitional housing and emergency services. Consequently, the Anderson County housing plan outlined the necessity – and a strategy – for the county government to take an active role in increasing the availability of affordable housing.

In spite of the need for affordable housing in the county, the plan met with much opposition when it was presented to the county planning commission in October 2000. One planning commissioner disagreed with the necessity of the affordable housing plan, insisting that more affordable housing would increase the level of crime in the county. The plan was subsequently tabled by a decision of seven to one (Berry 2001).

¹⁴ http://www.census.gov/housing/saipe/estmod97/est97_sc.dat

¹⁵ HUD defines housing cost burden as a situation where a household is paying more than 30 percent of its monthly income for housing-related expenses.

As a result of the continued shortage of public and subsidized housing, most Anderson County residents rely on mobile homes as a private market alternative. Between 1990 and 1999, there was a steady increase of new mobile homes built, while the number of new site-built homes remained fairly constant (Table 23).

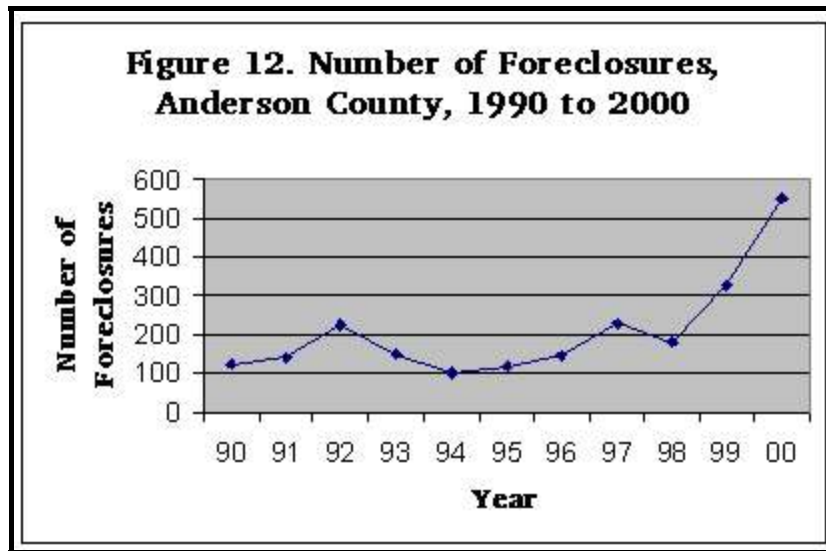
Table 23. New Construction in Anderson County, 1990 to 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
New site built	221	662	762	756	788	756	813	750	862	873
New mobile home	300	415	282	587	220	492	816	698	906	1,138

Source: Anderson County Planning Division, 1999.

In 2000, 76 percent of the housing in Anderson County was owner-occupied, while 24 percent was renter-occupied. The county's African American homeownership rate (55.3 percent) was well behind the White homeownership rate (80 percent), compared to statewide rates of 61 percent for African Americans and 77 percent for Whites (Berry 2001). There are several obstacles to homeownership for the residents of Anderson County. These same obstacles – low income levels, limited access to credit and financial illiteracy – have also contributed to the high occurrence of predatory lending in this primarily rural county.

Predatory Lending in Anderson County



Source: Masters in Equity 2000, Anderson County.

Many of the residents of Anderson County have fallen prey to unscrupulous mobile home lenders while in the pursuit of their dream homes. This pattern has disrupted Anderson County neighborhoods, forcing numerous families to foreclose on homes they can no longer afford, due to undisclosed loan agreement terms. The number of foreclosures in the county skyrocketed from 1990 to 2000, with more than 500 Anderson County residents going into foreclosure in

2000 alone (Berry 2001) (Figure 12).

According to local residents and legal professionals, manufactured home dealers in Anderson County are taking advantage of eager homebuyers by selling them homes at inflated prices which they cannot afford. Many victims have come forward recently to file suit against

individuals suspected of perpetrating home loan fraud, including developers, appraisers, lenders and attorneys. In March 2001 alone, ten such lawsuits were filed in Anderson County (Berry 2001).

Profiles of Predatory Lending Victims

Family #1

Family #1 was in pursuit of a dream home when it became involved in an overpriced mobile home loan (Figure 13). The couple and their two children moved to South Carolina from Indiana in June 1999. They purchased a mobile home in rural Anderson County because the homes are assembled quickly and the family also wanted to live in a wooded environment. After renting an apartment for several months, the family came across an advertisement in the newspaper which offered homes for no money down and 100 percent financing. The family responded to the advertisement and began the application process for a loan to purchase a mobile home and lot in a rural part of Anderson County. Their point of contact was a lender, headquartered in California, which had a branch office in Anderson County that closed prior to the family receiving their loan.



Figure 13. The father of Family #1 and the sign he posted to warn other borrowers.

During a period of four months, the family spoke to one person four times about the loan and saw the house once before closing. The husband was originally told that the loan payments would be \$500 per month. It was at the closing that he learned they were being loaned \$110,000 (for a home valued at \$65,000) and that the monthly payments would be \$740, eventually increasing to \$840. The loan was amortized over 30 years for a mobile home that had an estimated life span of 20 years. After inquiring about the disparities in the loan terms, the family was told to hold onto the loan for six months and then refinance at a lower rate.

When the family attempted to refinance its loan, the father began to realize that there were also several things wrong with the mobile home. The brick foundation had begun to crack. The dealer had never planted grass as promised. The family also learned that the road in front of the house was not approved by the county and its driveway actually belonged to the empty lot next to them. Once the couple realized the irregularities of their loan, the husband contacted the local office of the Federal Bureau of Investigations (FBI). He discovered that the Bureau was already investigating cases of mortgage fraud in nearby Cherokee County. An FBI agent visited the family in September 2000 and opened an investigation in Anderson County, which is still ongoing.

The family also contacted an attorney and began legal action against the mobile home dealer

and lender. The husband also began talking to neighbors who experienced similar mobile home lending problems and eventually decided to start an informal organization called Citizens Against Housing Fraud. The organization provides mutual advice and emotional support for predatory lending victims, and many of its members have begun legal action against the lenders involved in their loans.

This family's involvement in the legal battle against mobile home lending fraud has, however, taken a toll on its life. The stress of the situation has included dealing with FBI agents and U.S. Attorneys looking through the family's legal documents. According to the husband, the couple's phone is constantly ringing with people on the other end asking where they can get help, and they spend nearly ten hours a day on the issue. The couple stated that they would move at any time if they could.

Family #2

Family #2 (a couple with no dependent children) moved to South Carolina from Georgia. They both liked the Anderson County area, found jobs and decided that they wanted to buy a home. One day, they drove by a local mobile home dealership and decided to inquire about purchasing a mobile home. The woman in the office was extremely helpful, and the couple agreed that they would go back there to purchase their home. Prior to this time, the wife's credit had been ruined by medical bills she had incurred for her adult son's bone marrow transplant. As a result, the couple was willing to accept a loan with a higher interest rate, due to its credit issues.

Three days after their initial visit to the dealer, the couple was shown a mobile home and told that it was the only home for which they could qualify. The couple assumed that the dealer was legitimate, and the dealer proceeded to send the loan application to its affiliated lender without giving the couple a choice of which lender to use.

The couple told the dealer that they could only afford a monthly payment of \$450. However, the dealer asked if they could pay \$600 per month for six months and then refinance the loan, to which the couple agreed. At the loan closing, they discovered that their monthly payments would actually start out at \$829 per month, at a 17.9 percent interest rate. In 2002, the payments would increase to \$958 per month, and in 2004 they would increase again to \$1,108 per month. The loan for the home was \$82,000 with a \$20,000 second mortgage. The wife was also ill with a migraine headache at the closing and asked if they could do it on another day, but the dealer refused. The couple relented, finished signing the papers and went home.



Figure 14. The boulder in the backyard of Family #2.

The problems with the couple's mobile home began before they even set foot in the door. Because they were not given the keys to their new home at the closing, they were forced to change the locks themselves and pay to have their own keys made. Their water was not

turned on until six weeks after they moved in and many of the pipes were not correctly connected. They had to wait eight weeks for their electricity to be turned on. Their steep driveway was unpaved and the woman's son eventually spent \$5,000 to cover it with gravel. There was also a large boulder in their backyard that the dealer had promised to move but never did (Figure 14). The couple finally discovered that a mobile home around the corner from them, which is the same size and model, was on the market for \$23,000. The couple had paid \$102,000 for their unit, which the husband described as "a big snowball" that the dealer said "would never melt."

The couple began talking to their neighbors and discovered that many of them were in the same predicament. They live behind Family #1 and they met the family's lawyer at their house during a meeting there. The couple subsequently hired the lawyer and they stopped making payments on their home in January 20001, as the legal proceedings began against the dealer, the appraiser and the lawyer that was present at the closing.

Nonetheless, much of the damage from their loan cannot be undone. Since the couple is not making payments on their mortgage, their lender calls them nearly eighty times a day from 8:00 a.m. to 9:00 p.m. The wife had also cashed in her 401(k) to pay for the house. The couple's credit is now being ruined and it could take as long as two years before they know what the outcome of their case will be.

Family #3

When the single mother of Family #3 moved from Baltimore to Anderson County 17 years ago, finding quality housing for her children was important to her (Figure 15). The mother (currently on disability) has six children, ages 3, 4, 11, 13, 18 and 19 (the two oldest children are attending college in Baltimore).

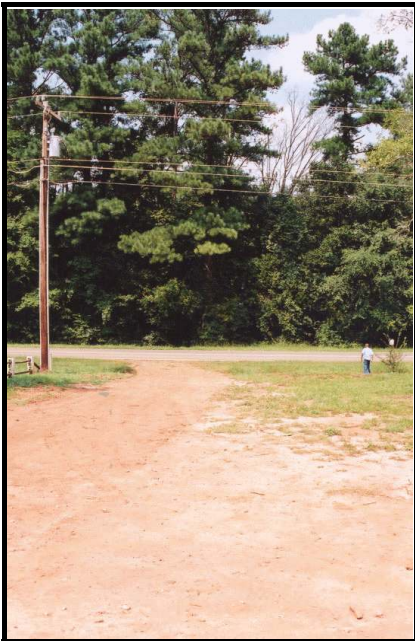


Figure 16. The illegal driveway to Family #3's home.

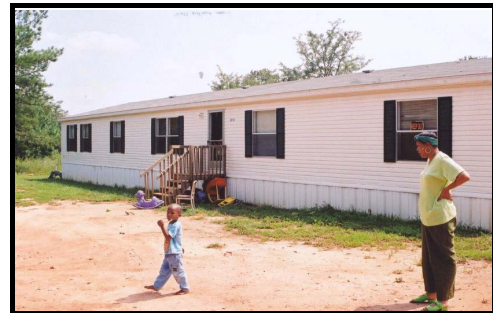


Figure 15. The mother of Family #3 wanted quality housing for her children.

After renting for a time, the mother decided that she wanted to purchase her first home and came across a newspaper advertisement for mobile homes for a \$500 downpayment. Against the advice of her friends, the mother contacted a local mobile home dealer and submitted an application for the loan. She specified that she could only afford a loan with payments of \$635 per month on her monthly disability income of \$1,700.

Prior to signing her papers at the closing, the mother was taken to a restaurant next to the office where the closing

was to take place. The mobile home dealer bought her two alcoholic drinks and took her back to the office to sign the loan papers. The lawyer present at the closing did not introduce himself or offer a business card. At that point, the mother discovered that her monthly payments were listed as \$845, instead of \$635. She also realized that the papers claimed that her yearly income was \$52,000, when it was actually \$20,000 a year. The mother took the dealer outside and questioned him about the changes in the loan terms. He assured her that he would take care of her concerns and that she could refinance the loan later. When she continued to ask questions, the dealer became angry and pressured her to sign the papers. Although she was unsure about the situation, the mother was eager to get her children into a new home. She signed the papers and, in October 2000, she moved into a mobile home in the Belton area of Anderson County.

The mother had thought that she was purchasing a showcase home (one of the display models shown to potential homebuyers). However, when she moved in, she discovered “the walls are thin, the entire unit shakes when trucks drive by and the carpeted floor feels like concrete because the padding is so thin” (Interview). Due to poor drainage, the unpaved driveway would become muddy and difficult to drive on after rainstorms. The dealer gave her \$3,000 to put in a driveway, but the ground area that was cleared for it was declared illegal by the South Carolina Department of Transportation (Figure 16). The mother would be responsible for any accidents that occur, due to the fact that the driveway leads out onto a blind curve in the road. She also discovered that her dream home was located directly across the street from a quarry where dynamite is constantly exploded.

Like many other mobile home borrowers in Anderson County, the mother contacted Family #1, who in turn referred her to its attorney. The mother has started legal proceedings and, on the advice of her lawyer, she made her last payment on the house January 2001. She says that she is glad that she is taking action against the people that got her involved in the loan; however, she endures anxiety every day, not knowing what the outcome of her case will be.

Summary

The experiences of these three families revolve around solicitous mobile home dealers and remote lenders. Two of the families learned about their mobile home dealer through a newspaper advertisement, and one simply by driving by the dealer’s office. All of the families experienced friendly customer service and were left with the feeling that the dealer would work with them to help them find an ideal home at a monthly payment that they could afford. After the family applied for a loan, the dealers would promptly send the application to an out-of-state lender with whom the families would have virtually no contact. When it came time for the loan closing, all three families discovered that their monthly payments were higher than the amount they had originally been promised. They were all encouraged to take the loan and to refinance it in six months to get a lower monthly payment.

All of the victims started to become suspicious of the mobile home dealers at closing, when they discovered that the terms of their loans would be different than what had been agreed upon. However, their eagerness to obtain a home and high-pressure sales tactics from the dealer convinced them to sign the loan papers. All of these families were in pursuit of a better way of life by purchasing a new mobile home and they trusted the mobile home dealers that they came

into contact with to help them realize their goal. These dealers gained the trust of willing borrowers and eventually took advantage of them by coercing them into loans that they could not afford and selling them mobile homes of poor quality that were often sited in violation of state regulations.

State Regulatory, Legislative and Educational Initiatives

Although predatory lending has become a serious problem in Anderson County, as well as elsewhere in South Carolina, the South Carolina Department of Consumer Affairs (DCA) is engaging in a number of initiatives to stop these practices. The DCA has broad powers to address a range of complaints regarding the production, promotion or sale of consumer goods and services. The DCA Consumer Services Division processes consumer complaints, classifying them into 33 primary categories and 162 specific subcategories. As of FY 2000, complaints against mortgage brokers accounted for the largest percentage of the complaints (47 percent) in the “Business Regulated” category (DCA report, 2000).

The DCA Legal Division conducts all investigative and regulatory enforcement activities, often collaborating with federal, state, county and local authorities. The Legal Division pursues selected complaints for investigation when it suspects that violations of the Consumer Protection Code may be involved, recently increasing its involvement in alleged mortgage fraud cases. In one specific case, the DCA alleged that an unlicensed mortgage broker violated South Carolina law by soliciting residential mortgage loans, taking up-front fees and falsifying loan documents. After a hearing on the case, the DCA issued a cease and desist order to the broker and levied an administrative fine of \$5,000 (Interview, DCA).

In a July 2000 case, an arbitrator ordered Conseco Finance Inc. to pay more than \$20 million to 3,739 South Carolina customers for neglecting to inform them of the right to choose their own lawyers at closing and their own insurance agents. Although the DCA is not specifically mentioned in connection with the case, a former DCA consumer advocate served as legal counsel for one of the plaintiffs. The award against Conseco (formerly known as Green Tree Financial Corp.) started out as two class-action suits in 1996. The cases were ordered into arbitration by a district court judge because the mortgages under dispute contained mandatory arbitration clauses. The award is the largest of any consumer protection case in the state; however, Conseco’s lawyers say that the corporation is likely to appeal (Brundrett 2000).

The DCA also protects consumers through public information and education. The Department makes concerted efforts to inform consumers and policymakers about market practices and deceptive or illegal schemes. In addition to these efforts, public speaking engagements, collaborations with local media, online chats and a quarterly newsletter are all used to disseminate information to the public. Three online chats were held in FY 2000, one of which was on the topic “Abusive Lending Practices.” The DCA has also produced a pamphlet – “Predatory Lending: Promising Dreams - Delivering Nightmares” – that outlines various types of predatory lending and provides consumers with warning signs. Several pieces of advice guide consumers through the loan process, highlighting specific questions to ask when applying for a loan.

Philip Porter, the DCA Administrator and Consumer Advocate, has been actively involved in outreach to consumer advocacy groups to ensure that predatory lending laws are consumer friendly. Porter stated that the DCA also requires regular examinations of mortgage brokers, as well as random on-site visits. According to Porter, the elimination of usury laws in South Carolina in 1982 deregulated most forms of credit and provided an avenue for predatory lending to occur.

In addition to the DCA's efforts, some state lawmakers are attempting to crack down on predatory lending. The Chairman of the Senate Banking and Insurance Committee, Sen. David Thoms (R-Greenville), has promised that a bill dealing with predatory lending is imminent. Sen. Darrel Jackson (D-Richland) has called for a continuation of a special study committee to look at predatory lending, emphasizing that this legislation is a priority for him. Jackson says the legislation would be similar to the North Carolina predatory lending law, but more moderate. There are opponents to the potential legislation, some stating that a state law would unnecessarily burden the industry and ultimately harm consumers. The South Carolina Mortgage Brokers Association has implied that they will fight any law that specifically targets predatory lenders (Stensland 2001).

There are several resources available to South Carolina consumers who have questions about mobile home lending:

- △ the local chapter of the Better Business Bureau,
- △ the South Carolina Manufactured Housing Board (to check if a manufacturer, dealer, salesperson or installer is licensed),
- △ the Manufactured Housing Institute of South Carolina (to learn more about manufactured homes),
- △ the South Carolina Bar Association lawyer referral service (for victims of predatory lending), and
- △ the South Carolina Office of the Attorney General, White Collar Crime Division or the FBI office in Greenville, South Carolina.

In Anderson County, realtor Nancy Webb has also been instrumental in highlighting the problem of predatory lending. Webb volunteers with the Community Housing Resource Board and stays in close contact with many of the residents of the county dealing with this issue. She also maintains a close relationship with local government officials and informs them about the impact of predatory lending activities in Anderson County.

Low incomes, the lack of access to credit, a shortage of subsidized housing and financial illiteracy are all contributing factors to the proliferation of predatory lending in Anderson County. Numerous families have been victimized by this practice and the county's economy is being drained by abandoned mobile homes, increasing foreclosure rates and decreasing property values. However, impending law suits against the parties involved in these loans, as well as the federal investigation by the FBI and possible state legislation have the potential to stem the tide of predatory lending in Anderson County.

CONCLUSION

Many professionals in the banking industry decry what they see as alarmism over predatory lending, and point out that legitimate subprime lenders are often tarred with the same brush as predatory ones. However, even for the borrower of a legitimate subprime loan, an increase of one percentage point in the annual interest rate can result in thousands more dollars paid over the life of a loan. This point was demonstrated in a recent Fannie Mae Foundation report that compared annual and lifetime mortgage payments at different annual interest rates.

Table 24. Comparative Mortgage Payments at Different Interest Rates

Assuming a 30-Year Fixed-Rate Loan for \$80,750 and a Downpayment of \$4,250 . . .				
Annual Interest	Monthly Payment	Annual Payment	Annual Difference from 8% Interest	Lifetime Difference from 8% Interest
8%	\$592.51	\$7,110.18	N/A	N/A
9%	\$649.73	\$7,796.79	\$686.61	\$20,598.43
10%	\$708.64	\$8,503.67	\$1,393.49	\$41,804.69
11%	\$769.00	\$9,228.01	\$2,117.83	\$63,535.05
12%	\$830.60	\$9,967.26	\$2,857.08	\$85,712.32

Source: Carr and Schuetz 2001, 12.

If Fannie Mae and Freddie Mac are correct that 30 percent of subprime borrowers on average can qualify for prime loans, this fact means that millions of Americans are carrying an extremely heavy – and needless – economic burden (*Inside B&C Lending* 1998). When this collective burden is compounded with a national economic downturn, the results are potentially disastrous because people who have secured these loans with their homes will potentially to lose them.

The vast majority of subprime lending is for the purpose of mortgage refinance. However, while many homeowners are able to refinance to take advantage of lower interest rates, low-income homeowners tend to refinance in order to extract equity from their homes in order to pay off other expenses (particularly credit card debt). This fact places low-income homeowners at risk for purchasing loans from unscrupulous lenders who may “pack” single-premium credit insurance into loans without notifying applicants, charge high points and fees for refinancing and impose penalties for loan prepayment. The most visible cases of subprime refinance mortgage fraud have tended to be in urban areas, and have tended to target minority borrowers. The 1999 HMDA data confirms that subprime refinance applicants in metropolitan counties are disproportionately African American. Although the national model of subprime refinancing demand explained only a small percentage of changes in demand volume, the preliminary results indicate that metropolitan location, race and high denial rates all correlate with high demand volume.

A much less visible side of the subprime lending issue is the view from nonmetropolitan

counties. There, subprime refinance demand is much lower per household (both in terms of incidence and dollar volume) than it is in metro counties. However, a different kind of subprime loan – those for manufactured housing (MH) mortgages – predominates in these areas. MH loans in both metro and nonmetro counties tend to be for home purchases, but nonmetro MH home purchase lending demand is higher than that in metro counties – both in terms of applications and demand volume per household. The Southeast and Mississippi Delta states have particularly high levels of MH home purchase lending demand, with some states (such as South Carolina) seeing a median application rate of 6 percent of all households and a demand volume of \$2,376 per household. The factors having the greatest impact on county-level demand volume were high percentages of minority applicants and low individual income-to-loan ratios.

There are several reasons why MH loan applicants are not able or willing to secure prime home loans. In the case of Anderson County, South Carolina, high poverty rates combined with an inadequate supply of subsidized and public housing left low-income families to look to mobile home dealers as a private-sector alternative. In addition, many rural families prefer mobile homes over multifamily rental housing, because mobile homes afford privacy, autonomy and the pride of homeownership. Rural areas also have less access to mainstream credit than urban areas, due to factors such as the high rate of bank consolidation (with urban-headquartered banks absorbing rural ones) and rural banks' vulnerability to population loss and instability of the agricultural economy. When these factors come together in a state where subprime lending is loosely regulated, low-income families with damaged credit are at increased risk of becoming prey to unscrupulous mobile home dealers and their lending affiliates.

Recommendations

Giving low-income families greater access to mainstream credit and protecting them from predatory lenders is a many-faceted problem. Advocates have proposed a number of regulatory and legislative initiatives at the national, state and local levels; however, limiting predatory lending practices only addresses the supply-side part of the problem. On the demand side, there is still a very large population of credit-impaired consumers whose only recourse for lending products is the subprime market. Consequently, channeling this demand into less onerous lending products is key. Finally, both supply and demand side solutions inevitably involve improving mortgage lending technology to provide better transaction reporting (on the supply side) and to create better models of consumer risk to facilitate underwriting (on the demand side).

The Supply Side: “Closing the Barn Door” on Federal Mortgage Reporting Requirements

Many of the predatory lending initiatives in states and municipalities have focused on penalties for specific lending practices such as “packing” fees, “flipping” loans and penalizing prepayment. However, the enforcement of these laws tends to come only after the fact – in other words, after a number of families have had their credit ruined or lost their homes. The most effective method for preventing unethical lending is to monitor lenders through regular examinations. The National Association for Affordable Home Lending has pointed out, though, that all depository institutions are already subject to rigorous exams and reporting requirements and

that only 30 percent of all subprime loans are made by these institutions. The chairman of the Federal Reserve Board of Governors has pointed out that extending reporting requirements to subsidiaries of these institutions would only bring the percentage up to 40 percent (NAAHL 2001).

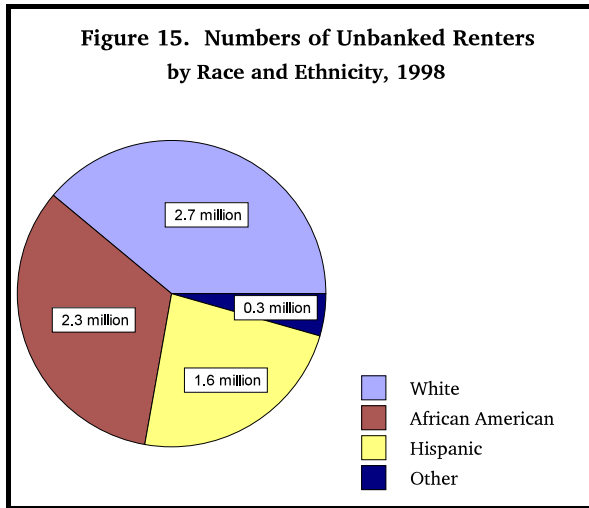
The solution, then, must be to “close the barn door” on mortgage transaction reporting. Because it may be infeasible to extend HMDA reporting requirements to the leagues of small mortgage brokers and mobile home lenders, one approach might be to require mortgage transaction reporting of the banking firms that securitize these loans through stock market investments. According to the literature on subprime lending, a large percentage of subprime loans are “bundled” and sold on the stock market by securities underwriters.

Another approach might be to institute stringent mobile home dealer licensing and exam requirements on a state level, including the provision of an Internet-accessible registry of licensed dealers. At the very least, licensing requirements for mobile home dealers should be at least as rigorous as those for real estate agents, since mobile home consumers also risk homelessness if they purchase a bad loan.

In terms of national initiatives, many advocate groups have been successful in promoting more stringent reporting standards for depository institutions and their subsidiaries. Among the Federal Reserve Bank’s proposed changes in Home Ownership and Equity Protection Act regulations, requiring that interest rates be reported on all loans charging 8 percent interest or more would enable the public and community activists to better track where these loans are concentrated. Instituting triggers for points and fees charged would result in greater accountability for single premium life insurance and other add-on products. In addition, legislation introduced into Congress by John J. LaFalce (N-NY) on March 15, 2001 would amend HMDA so that subprime loans could specifically be tracked.

In order to make these changes relevant to rural communities, however, the data needs to be accurately geocoded. Within the 1999 HMDA subprime and manufactured home loan datasets, a total of 641,315 entries (approximately 10 percent) were missing all geocodes. The vast majority of these entries (at least 86.1 percent) were identified manufactured housing lenders, with one lender (Greenpoint Credit, LLC) accounting for 389,819 (60.8 percent) of the missing-geocode entries by itself.

Geocoding is also a large problem in rural areas because rural route numbers are often difficult to correlate with a census tract or a county. The introduction of Geographic Information Systems (GIS) mapping technology to the process of geocoding HMDA data may be helpful in this regard. Nonetheless, even for data entries that can be geocoded, no distinction is made in the HMDA Raw Data or the National Aggregate Data between metropolitan or nonmetropolitan location. In order for the data to be useful to rural advocates, all data entries should be coded for metro or nonmetro location and analyzed accordingly.



Source: *Housing America Update 2001*, 6.
 Note: Numbers are for total U.S. renters

The Demand Side: Bringing Subprime Borrowers into the Mainstream

One of the reasons that low-income families have lower access to prime credit is that conventional credit risk models and automated underwriting tools do not adequately reflect their payment histories. According to data from the 1998 Survey of Consumer Finances, 6.8 million rental households with incomes under \$40,000 are “unbanked,” or without bank accounts. The racial and ethnic profile of the unbanked is disproportionately minority (Figure 15). The problem of “unbanked” borrowers is also significant in rural areas. Although there is no available national data on the number of unbanked borrowers by location, some community development

financial institutions in low-income rural areas report that 90 percent of their clients pay their mortgages in cash because they have no bank accounts (HAC, forthcoming).

Most standard credit-risk models that are used for credit-reporting services such as FICO do not include payment records that are important to unbanked households, such as utilities payments. In addition, automated underwriting (AU) systems use information (such as bank accounts) that effectively require applicants to be part of the economic mainstream. Processing loan applicants without bank accounts mean additional manual underwriting (*Housing America Update 2001*, 6). This fact makes the underwriting process more time-consuming and less profitable for mainstream banking establishments.

Bringing the poor and the unbanked into the economic mainstream involves a number of different interventions. First, credit payment data that is relevant to low-income and unbanked families should be factored into credit risk models so that credit scoring is not biased against them. Second, it is often community development financial institutions (CDFI) that are willing to take the additional time needed to do additional underwriting and credit counseling to help low-income families begin to establish good credit. These institutions need and deserve federal support in the form of budget allocations to Treasury Department’s CDFI initiative and other community-lending programs. Third, community lending (and mainstream banking) must engage in more activities to encourage consumers to save as well as borrow. The individual development account (IDA) initiative from HUD is designed to help families build a “nest egg” in order to purchase a home and build financial security for themselves.

A final demand-side suggestion is for CDFIs and other community lending institutions to offer alternative loan products to the high-interest, fee-heavy products dominating the market. For example, one CDFI, the Vermont Community Loan Fund, has regularly participated in development loans to local community land trusts that purchase and rehabilitate mobile home parks, and then operate them as a business that is cooperatively owned by the residents (HAC,

forthcoming). A recent initiative from Freddie Mac to offer manufactured housing loans will also contribute to expanding competition, and thus to offering rural residents better lending alternatives (*Housing Affairs Letter* 2001a).

While many Americans have damaged credit, it is possible – through careful counseling, credit repair and promoting savings – to bring them back into the mainstream without having to detour into a potentially predatory loan. A home is not just a financial asset. In *Beyond the American Housing Dream*, authors Tremblay and Dillman write the following.

The home provides a place of retreat and replenishment . . . It represents socioeconomic status in the eyes of the community, and housing costs demand a large piece of the family budget pie. (1983, 20)

No one should be forced into a situation where they have to “run while they still can” from their own home.

REFERENCES

- 100 Friends of Affordable Housing. 2000. "A Report to Governor Hodges and the South Carolina General Assembly." A consensus opinion paper developed at a housing roundtable, Columbia, SC, May 2000.
- AARP. 2001. "AARP Launches Drive Against Unscrupulous Mortgage Lenders." 17 April, 2001. Available on the World Wide Web: < <http://www.aarp.org/press/2001/nr041701.html>> .
- Andrews, Wright H. 2000. "Congress Hears Witnesses on Alleged Predatory Practices." *Equity Magazine*. Available on the World Wide Web: < <http://www.nhema.org/Equity/WaSum.htm>> .
- Avery, Robert B., et al. 1996. Credit Risk, Credit Scoring, and the Performance of Home Mortgages. *Federal Reserve Bulletin*. July 1996: 621-648.
- Barlett, Donald L. and James B. Steele. 2000. "Soaked by Congress: Special Investigation." *Time Magazine*. 155 (20): 1-28. Available on the World Wide Web: < <http://www.time.com/time/magazine/articles/0,3266,44550,00.html>> .
- Berger, James T. 2001. "Online Mortgages Fail to Fly." *Chicago Sun Times*. 19 January 2001. Available on the World Wide Web: < <http://www.suntimes.com/output/hlife/webb19.html>> .
- Berkovec, James A., et al. 1993. Race, Redlining, and Residential Mortgage Loan Performance. *Journal of Real Estate Finance and Economics*. 9: 263-294.
- Berry, Ian. 2001. "County's black homeownership rates are lagging." *Anderson Independent-Mail*. 20 July 2001: 1A, 5A.
- Berry, Michael V. 2000. Perspectives on Credit Scoring and Fair Mortgage Lending. *Profitwise*. 10 (3): 1-17.
- Bjorhus, Jennifer. 1999. "More Take Chances on Subprime Loans." *The Oregonian*. 7 February 1999. Available on the World Wide Web: < <http://www.oregonlive.com/business/99/02/bz020701.html>> .
- Board of Governors. Federal Reserve System. 2000. *Predatory Lending Practices in the Home-Equity Lending Market*. Hearing, 7 September 2000. Available on the World Wide Web: < <http://www.ftc.gov/os/2000/09/predatorylending.htm>> .
- Bradley, Jeanette. 2001. Telephone conversation. Washington, DC: The Urban Institute.
- _____. 2000. "The Community Guide to Predatory Lending Research." Durham, NC: Community Reinvestment Association of North Carolina.
- Brundrett, Rick. 2000. "Arbitrator rules lender must pay S.C. consumers \$20 million." *The State*. 26 July 2000: sec. B, 1, 5.

Carr, James H. and Jenny Schuetz. 2001. "Financial Services in Distressed Communities: Issues and Answers." Report prepared for the Fannie Mae Foundation. August 2001.

Center for Community Change. 2001. "Predatory Mortgage Lending. Is it a Problem in Your Community?" Available on the World Wide Web: <<http://www.communitychange.org/default.asp>> .

_____. 2000. *Policy Alert*. No. 26. 20 December 2000.

Collins, Michael. 2001. "Manufacturing Affordability?" *Bright Ideas: The Neighborworks Journal*. 20 (3): 64-66.

Community Development Digest (CDD). 2001a. "FDIC Calls First Associates Predatory, But Parent Firm Says It's Improving." 30 March 2001: 8.

_____. 2001b. "Regulators Describe Predatory Loans." 6 February 2001: 15, 16.

Community Reinvestment Association of North Carolina. 2000. *Too Much Month at the End of the Paycheck: Payday Lending in North Carolina*. Durham, NC: Community Reinvestment Association of North Carolina.

_____. [n.d.] *Introduction to Predatory Lending*. Durham, NC: Community Reinvestment Association of North Carolina.

Consumers Union. Southwest Regional Office. 2000. *Access to the Dream: Subprime and Prime Mortgage Lending in Texas*. Available on the World Wide Web: <<http://www.consumersunion.org/finance/access/access1.htm>> .

_____. _____. 1997. *Rich House, Poor House: The Two Faces of Home Equity Lending*. Available on the World Wide Web: <<http://www.consumersunion.org/finance/home-tx1.htm>> .

Dahl, David S. 1999. "Urban/Rural Community Banks Face Similar Challenges." *Fedgazette*. July 1999. Available on the World Wide Web: <<http://woodrow.mpls.frb.fed.us/pubs/fedgaz/99-07/99bkpoll.html>> .

Day, Kathleen. 2001. "A Practice that Lends Itself to Trouble." *Washington Post*. 21 August 2001: sec. E, 1,10.

Dietrich, Jason. 2001. *Missing Race Data in HMDA and the Implications for the Monitoring of Fair Lending Compliance*. Economic and Policy Analysis Working Paper, No. 2001-1. Washington, DC: Office of the Comptroller of the Currency.

Drabenstott, Mark and Larry Meeker. 1996. "Financing Rural America: A Conference Summary." Proceedings of the Financing Rural America Conference, Omaha, Neb., December 4-5, 1996. Kansas City, MO: Federal Reserve Bank of Kansas City.

Duff and Phelps Credit Rating Company. 1995. "The State of the Private Mortgage Insurance Industry." Special Report. December 1995.

Ehrenberg, Daniel. 2000. "Buyer Beware? Curing the Ills of Predatory Lending." *Bright Ideas: The Neighborworks Journal*. Summer/Fall 2000.

Ellihansen, Gregory. 1998. *The Cost of Bank Regulation: A Review of the Evidence*. Federal Reserve Board Staff Studies, No. 171. Washington, DC: Federal Reserve Board.

Elliott, Bob. 1996. "Consumer Demand Will Remain Strong." *Equity Magazine*. Available on the World Wide Web: <<http://www.nhema.org/Equity/demand.htm>> .

Equity Magazine. 1997. "Putting People First Still Makes Good Sense: An Interview with Alan Turteltaub, Chairman/Founder of The Money Store, Co-founder/Lifetime NHEMA Board Member." Available on the World Wide Web: <<http://www.nhema.org/Equity/alan.htm>> .

Evanoff, Douglas D. and Lewis M. Segal. 1997. Mortgage Trends in Targeted Markets. *Chicago Fed Letter*. No. 117: 1-3.

_____ and _____. 1996. CRA and Fair Lending Regulations: Resulting Trends in Mortgage Lending. *Economic Perspectives*. 20 (6): 19-46.

Federal Reserve Bank of Chicago. 2000. *1999 HMDA Profile*. November 2000: 1-4.

Fleishman, Sandra. 2001. "Troubled Waters: Consumer Groups Battle Lenders Over Borrowers' Costly Credit Insurance." *Washington Post*. 7 April 2001: Sec. H, 1, 3, 5.

Genay, Hensa. 2000. Recent trends in deposit and loan growth: Implications for small and large banks. *Chicago Fed Letter*. No. 160: 1-3.

George, Lance. 1998. *A Sociological Perspective of Mobile Homes in Appalachian Eastern Kentucky*. Master's Thesis. Morehead, KY: Morehead State University.

HDR Current Developments. 2001. "Predatory Lending Bill Introduced in House; Similar Measure Planned in Senate." 19 March 2001: 722-723.

Henriques, Diana B. and Lowell Bergman. 2000. "Profiting From Fine Print with Wall Street's Help." *New York Times*. 15 March 2000: 1-19. Available on the World Wide Web: <<http://www.nytimes.com/library/financial/031500subprime-lend.html>> .

Housing Affairs Letter (HAL). 2001a. "Manufactured Housing: More Buyers Can Now Get Mortgages." 3 August 2001: 5.

_____. 2001b. "Gramm Mutes Predatory Buzz." 6 April 2001: 2.

_____. 2001c. "GSE's Defend Subprime Offensive." 30 March 2001: 2.

_____. 2001d. "Fraud Plagues Single-Family FHA Loans." 23 March 2001: 4-5.

_____. 2001e. "FDIC Defines Predatory Loans." 9 February, 2001: 4.

Housing America Update. 2001. "Facts Behind the Debate: 'Unbanked' Borrowers Challenge the AU System." 2 (1): 6.

Housing Assistance Council (HAC). Forthcoming. *Best Practices in Revolving Loan Funds for Rural Housing*. Washington, DC: HAC.

_____. 2000. *Why Housing Matters: HAC's 2000 Report on the State of the Nation's Rural Housing*. Washington, DC: Housing Assistance Council.

Huck, Paul and Lewis M. Segal. 1997. New Data on Mortgage Lending. *Chicago Fed Letter*. No. 119: 1-3.

Hurst, Erik and Frank Stafford. 2000. "Home is Where the Equity Is: Liquidity Constraints, Refinancing and Consumption." Working Paper. Chicago, IL: University of Chicago Graduate School of Business.

Hutchens, George. 2001. "Fed Tightens Predatory Lending Rules." *Housing Affairs Letter*. 5 January 2001: 5.

Independent-Mail Editorial Board. 2001. "A Bad Practice: Consumers, Industry Both Suffer Unfairly." *Anderson Independent*. 8 April 2001: Editorial.

Inside B&C Lending. 1998. "Consumer Groups Seek 1999 Meeting with B&C Lenders." 26 October 1998.

Kennedy, Judith A. 2001. Statement before the U.S. Senate Committee on Banking, Housing and Urban Affairs. 27 July 2001.

Kennickell, Arthur B., Martha Starr-McCluer and Brian J. Surette. 2000. Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances. *Federal Reserve Bulletin*. January 2000: 1-29.

Kuhn, Mark. 2001a. "Safe Way to Curb Predatory Lending?" *Housing Affairs Letter*. 13 April 2001.

_____. 2001b. "ABA: Predatory-Lending Laws Unneeded." *Housing Affairs Letter*. 30 March 2001.

Larson, Michael D. 2000. "It's buyer beware when you're shopping for a subprime loan." *Bankrate.com*. Available on the World Wide Web: <<http://www.bankrate.com/brm/news/mtg/20000420.asp>>.

Lee, Dwight R. and James A. Verbrugge. 1999. "Loan Equity . . . Industry Asset: 'Sub-prime' lenders share the benefits of credit with homeowners who may have less-than-perfect financial records." Available on the World Wide Web: <<http://www.nhema.org/Equity/boon.htm>> .

MacDonald, Heather. 1999. "Fannie Mae and Freddie Mac in Non-Metropolitan Housing Markets: Does Space Matter?" HUD Government-Sponsored Enterprises Study Series, No. GSE-002. Washington, DC: HUD.

Manufactured Housing Institute (MHI). 2001. *Quarterly Economic Report*. 1 (1): 1-24.

Mikesell, Jim. 1997. Federal Housing Assistance Emphasizes Loan Guarantees. *Rural Conditions and Trends*. 8 (1): 26-31.

National Association of Affordable Housing Lenders (NAAHL). 2001. *Juntos Podemos: Together We Can*. Symposium Proceedings. 2 March 2001, Washington, D.C.

National Community Reinvestment Coalition (NCRC). 2001a. *NCRC Summary of Major CRA & Fair Lending Bills*. Available on the World Wide Web: <<http://www.ncrc.org/Policy/StatusCRAFair.html>> .

_____. 2001b. *Draft NCRC Letter on Reg Z HOEPA Changes*. 8 January, 2001.

National Low-Income Housing Coalition (NLIHC). 2000. *Out of Reach 2000*. Washington, DC: NLIHC.

National Neighborhood Coalition (NNC). 2001. "Fannie Mae Foundation Knowledge Initiative Speaker Series." *NNC Voice*. April 2001: 3.

National Rural Housing Coalition. 2000. *Opening Doors to Rural Homeownership*. Proceedings of the National Rural Housing Coalition Rural Homeownership Symposium, _____, __, April __, 2000. Washington, DC: National Rural Housing Coalition.

Pennington-Cross, Anthony; Anthony Yezer and Joseph Nichols. 2000. "Credit Risk and Mortgage Lending: Who Uses Subprime and Why?" Working Paper, No. 00-03. Arlington, VA: Research Institute for Housing America.

Pool, Randy. 1997. "Alternate Loan Products ... Title I & Conventional 'Look-Alikes'." *Equity Magazine*. Available on the World Wide Web: <<http://www.nhema.org/Equity/pool.htm>> .

Quercia, Roberto G. and Michael A. Stegman. 1992. Residential Mortgage Default: A Review of the Literature. *Journal of Housing Research*. 3 (1): 341-379.

Sawyer, Austin. 1997. "Marketing Subprime ... Home Equity Lending." *Equity Magazine*. Available on the World Wide Web: <<http://www.nhema.org/Equity/subprimeops.htm>> .

Scheessele, Randall M. 1999. *1998 HMDA Highlights*. U.S. Department of Housing and Urban

Development Working Paper Series, No. HF-009. Washington, DC: HUD.

Scriber, Brad and Josh Silver. 2001. "NCRC Analysis for the Ohio Coalition for Responsible Lending." Research Paper, National Community Reinvestment Coalition. Washington, DC: NCRC. Available on the World Wide Web: < <http://www.ncrc.org> > .

Silver, Josh. 2001. Remarks at the Coalition on Homeless and Housing in Ohio Conference, "Housing Ohio," April 2 to 3, 2001. Available on the World Wide Web: < <http://www.ncrc.org> > .

Snyder, Naomi. 2001. "Lawsuits filed against developers." *Anderson Independent-Mail*. 3 March 2001: 1A, 5A.

South Carolina Association of Community Development Corporations, Inc. (SCACDC). 2000. Press Release on 1998 South Carolina HMDA data analysis. Charleston, South Carolina. 21 February, 2000.

South Carolina Department of Consumer Affairs. 2000. Annual Accountability Report. Columbia, South Carolina.

Stensland, Jeff. "Crackdown looms on lending excesses." 2001. *The State*. 26 January 2001: sec. D, 3.

Stein, Eric. 2001. "Quantifying the Economic Cost of Predatory Lending." Report prepared for the Coalition for Responsible Lending. Available on the World Wide Web: < <http://www.responsiblelending.org> > .

Taylor, John. 2001. "Suitability Doesn't Suit the Situation." *Bright Ideas: The Neighborworks Journal*. 20 (3): 68-69.

Terhune, Chad. 2001. "Anderson, S.C., Reborn in the 90's, Maintains Its Cool Amid Slowdown." *The Wall Street Journal*. 11 July 2001: 1-6.

Tremblay, Kenneth and Don Dillman. 1983. *Beyond the American Housing Dream: Accommodation to the 1980s*. Lanham, MD: University Press of America.

Twohig, Peggy. 2000. Statement before the Board of Governors of the Federal Reserve System. 7 September 2000. Available on the World Wide Web: < <http://www.ftc.gov/os/2000/009/predatorylending.htm> > .

U.S. Census Bureau. 2001. Census 2000 Supplementary Survey. Available on the World Wide Web: < <http://www.census.gov/c2ss/www/Products/Profiles/2000/Narrative/NP04000US45.htm> > .

U.S. Department of Agriculture. Economic Research Service (USDA ERS). 1997. *Credit in Rural America*. Agricultural Economic Report No. 749. Washington, DC: USDA ERS.

U.S. Department of Housing and Urban Development (HUD). 2000a. *Curbing Predatory Home Mortgage Lending*. Washington, DC: HUD. Available on the World Wide Web: < <http://www.huduser.org/publications/hsgfin/curbing.html> > .

_____. 2000b. *Unequal Burden: Income and Racial Disparities in Subprime Lending in America*. Washington, DC: HUD. Available on the World Wide Web: < <http://www.huduser.org/publications/fairhsg/unequal.html> > .

U.S. General Accounting Office (US GAO). 1998. *High-Loan-to-Value Lending: Information on Loans Exceeding Home Value*. Report No. GAO/GGD-98-169. Washington, DC: GAO.

U.S. House. Committee on Banking and Financial Services. 2000. *Predatory Lending Practices in the Subprime Industry*. Hearing, 24 May 2000. Washington, DC: Government Printing Office. Available on the World Wide Web: < <http://www.house.gov/banking/52400med.htm> > .

U.S. Senate. Special Committee on Aging. 1998. *Equity Predators: Stripping, Flipping and Packing Their Way to Profits*. Hearing, 16 March 1998. Washington, DC: Government Printing Office. Available on the World Wide Web: < <http://www.senate.com/~aging/hr14.htm> > .

Van Order, Robert and Peter Zorn. 1995. "Income, Location, and Default: Some Implications for Community Lending." Paper presented at the Conference on Housing and Economics, Ohio State University, Columbus, OH, July 1995.

APPENDIX A. Rural-Urban Continuum (Beale) Codes

Metropolitan Counties	
0	Central Counties of metropolitan areas of 1 million population or more
1	Fringe counties of metropolitan areas of 1 million population or more
2	Counties in metropolitan areas of 250,000 to 1 million population
3	Counties in metropolitan areas of fewer than 250,000 population
Nonmetropolitan Counties	
4	Urban population of 20,000 or more, adjacent to a metropolitan area
5	Urban population of 20,000 or more, non adjacent to a metropolitan area
6	Urban population of 2,500 to 19,999, adjacent to a metropolitan area
7	Urban population of 2,500 to 19,999, not adjacent to a metropolitan area
8	Completely rural or fewer than 2,500 urban population, adjacent to a metropolitan area
9	Completely rural or fewer than 2,500 urban population, not adjacent to metropolitan area

APPENDIX B. State Predatory Lending Initiatives

State	Year	Initiative	Definition of “High Cost”	Requirements	Disclosures	Prohibited Terms
Arizona	2001	Bill	Five or more percentage points above the weekly average Treasury security yield or total points and fees exceed 5 percent of loan amount	Translation of notice if procedure conducted in language other than English		<ul style="list-style-type: none"> • Prepayment penalties after third year • Financing credit insurance • Balloon payments • Increased interest rates upon default • Provisions which permit accelerated indebtedness • Mandatory arbitration clauses • Negative amortization
Colorado	2001	Bill	Exceeds 4 percent of the loan amount or exceeds the weekly average Treasury security yield by 6.5 or more percentage points	<ul style="list-style-type: none"> • Translation if procedure conducted in language other than English • TILA information must be translated into consumer’s language, if other than English 	<ul style="list-style-type: none"> • Mortgage insurance • Real estate taxes • Hazard insurance • Principal • Interest • Mortgage insurance • Taxes and insurance 	<ul style="list-style-type: none"> • Prepayment penalties after third year • Charging for services not rendered • Financing credit insurance • Balloon payments • Negative amortization • Increased interest rates • Advance payments • Refinancing of high cost or fees

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Connecticut	2001	HB 6131				<ul style="list-style-type: none"> • Balloon payments • Negative amortization • Increases in interest rate • Prepayment penalties • Mandatory arbitration clauses • Call provisions allowing lender to accelerate indebtedness
	2001	HB 5003		Bill intended to establish a task force to study predatory lending, mortgage redlining, and ATM access and fees		
	2001	HB 5070		Bill intended to prohibit predatory lenders with exorbitant rates from lending by requiring out of state lenders to obtain same licenses and permits as in state lenders		

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Georgia	2001	Georgia Fair Lending Act	APR exceeds weekly average Treasury security yield by 8 or more percentage points or has points and fees greater than 5 percent or \$465.	Homeownership counseling		<ul style="list-style-type: none"> • Financing credit insurance • Encouraging default on existing loan • Prepayment penalties • Flipping • Accelerated indebtedness • Balloon payments • Negative amortization • Increased interest rates upon default • Modification of deferral fees • Mandatory arbitration • Lending without regard for ability to repay • Financing fees or charges
Illinois	2001	State regulations	Points and fees in excess of 6 percent of the total loan	<ul style="list-style-type: none"> • Lenders must verify borrowers' ability to pay • Lenders can have their state licenses revoked and be fined up to \$10,000 for each violation 		<ul style="list-style-type: none"> • Financing of credit insurance • Fraudulent or deceptive practices • Loan flipping • Negative amortization • Single-premium credit insurance • Prepayment penalties • Balloon payments

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Massachusetts	2001	HB 1144, effective March 22, 2001	APR exceeds the weekly average Treasury security yield by 8 or more percentage points or has points and fees greater than 5 percent or \$400	Notice to consumers of the availability of financial counseling	<ul style="list-style-type: none"> • Highest payment under variable rate • APR and regular payment rate 	<ul style="list-style-type: none"> • Balloon payments • Negative amortization • Increased interest rates upon default • Prepayment penalties after three years • Making loans without concern for the ability to repay • Financing points and fees above 5 percent of principal • Fee packing • Mandatory arbitration clause • Single premium credit insurance • Acceleration of indebtedness
Missouri	2001	HB 181	APR exceeds weekly average Treasury security yield by 5 or more percentage points or has points and fees greater than 3 to 5 percent	<ul style="list-style-type: none"> • Violators of bill subject to forfeiture of all principal and interest on loans made in violation • Homeownership counseling 		<ul style="list-style-type: none"> • Flipping • Negative amortization • Financing credit insurance • Balloon payments • Mandatory arbitration

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Nebraska		Changes in Registration and Licensing Act		<ul style="list-style-type: none"> • Written exams and continuing education required for mortgage bankers and brokers • All applicants for a mortgage license must complete at least 10 hours of continuing education 		
New York (cont'd on next page)	2001	New York Senate Bill 1818		<ul style="list-style-type: none"> • Lenders and mortgage brokers must disclose list of counselors prior to executing loan documents • Borrower must notified prior to commencement of foreclosure • Rescission period on home improvement contracts increased from three days to 15 		<ul style="list-style-type: none"> • Balloon payments • Negative amortization • Interest rate increases upon default • Lending without due regard to repayment ability • Refinancing of an existing high-cost home loan with a new high-cost home loan

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
	2001	New York Assembly Bill 3717	In excess of \$500 or 3 percent of loan for services rendered by broker and 6 percent for all services rendered	<ul style="list-style-type: none"> Borrower must be notified prior to commencement of foreclosure Recision period on home improvement contracts increased from three days to 15 	Whether loan will be retained or sold after closing	<ul style="list-style-type: none"> Balloon payments Negative amortization Interest rate increase upon default
North Carolina	2000	NC Predatory Lending Law	<ul style="list-style-type: none"> Up-front points, fees or other charges that are more than 5 percent of loan amount Interest rates 10 percent or more than Treasury bond rate 	<ul style="list-style-type: none"> Affects home loans in which the principal is less than \$300,000 Counseling for high cost home loan borrowers 		<ul style="list-style-type: none"> Equity stripping Flipping Packing Balloon payments Prepayment penalties for home loans of \$150,000 or less Financing of upfront, single premium insurance Negative amortization Lending without consideration of consumers' ability to repay

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Ohio	2001	HB 43	APR exceeds weekly average Treasury security yield by 10 percentage points or monthly debt payments exceeds 60 percent of consumer's gross income or points and fees exceed 8 percent		<ul style="list-style-type: none"> • APR • Amount of monthly payment • Variable maximum amount 	<ul style="list-style-type: none"> • Prepayment penalty • Negative amortization • Advance payment • Points, fees or prepaid finance charges on the portion refinanced
Oklahoma	2001	HB 1944	APR exceeds weekly average Treasury security yield by more than 8 percentage points, or points and fees exceeding 3 to 5 percent	Homeownership counseling		<ul style="list-style-type: none"> • Financing credit insurance • Flipping • Encouraging default • Advance payments • Modification or deferral fees • Mandatory arbitration • Lending without regard to ability to pay • Prepayment fees

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Pennsylvania	2001	HB 234	APR exceeds weekly average Treasury security yields by more than 5 percentage points, or points and fees exceed 3 to 5 percent	<ul style="list-style-type: none"> • Lender must be certified from a counselor or approved by HUD • Borrower must receive counseling • Establishes reporting requirements • Notice offering language translation of transactions 		<ul style="list-style-type: none"> • Prepayment fees • Negative amortization • Encouraging default • Lending without regard to ability to repay • Financing credit insurance balloon payments • Increased interest after default • Accelerated indebtedness • Mandatory arbitration • Fees for loan modification
South Carolina	2001	SB 122		Subcommittee must study the problems encountered by low-income borrowers seeking home equity mortgage loans		

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
Tennessee	2001	SB 1158		Commissioner of financial institutions must publish the maximum interest rate every month, which will be the rate for a 6 month Treasury bill, plus 6 percent		<ul style="list-style-type: none"> • Prepayment fees • Deferral fees in excess of 5 percent or 50 multiplied by number of months in deferral period • Accelerated indebtedness • Negative amortization • Advance payments • Charge for modification • Balloon payments
Texas	2001	SB 401		Borrower must receive counseling prior to entering into a high cost loan		
Virginia (cont'd on next page)		HB 2708		Loans made in connection with practices that violate prohibitions would be considered usurious and violation of the Virginia Consumer Protection Act		<ul style="list-style-type: none"> • Recommended or planned closing of a mortgage loan that refinances all or any portion of such existing loan or debt • Flipping

State	Year	Initiative	Definition of "High Cost"	Requirements	Disclosures	Prohibited Terms
		HB 2787		<ul style="list-style-type: none"> • Maximum penalty for violating Mortgage Lender and Broker Act would increase from \$1,000 to \$2,500 • Amount of bond that mortgage lenders and brokers are required to post would increase from \$5,000 to \$25,000 		Recommended or planned closing of a mortgage loan that refinances all or any portion of such existing loan or debt

APPENDIX C. Local Predatory Lending Initiatives

Municipality ¹	Year	Initiative	Definition of “High Cost”	Requirements	Prohibited Terms
Baltimore, MD	2000	Bill		<ul style="list-style-type: none"> • City would not do business with predatory lenders • City would not invest pension funds or deposit municipal funds in predatory institutions • City would not provide settlement expense loans to homebuyers who get mortgages from predatory institutions 	<ul style="list-style-type: none"> • Balloon payments • Prepayments • Penalties • Single-premium credit insurance
Chicago, IL	2000	Ordinance		<ul style="list-style-type: none"> • Banks that hold municipal deposits or fund city contractors must pledge that they will not become a predatory lender • Any financial institution wishing to do business with the city must sign a “pledge” stating that it will not engage in predatory lending practices • Home-repair contractors may not receive payments from lenders 	
District of Columbia	2000	Predatory Lending Protections Act of 2000		<ul style="list-style-type: none"> • Judicial review of predatory loans prior to foreclosure • Private right of action against predatory lenders 	<ul style="list-style-type: none"> • Discount point fees that do not reduce interest rates • Flipping

Municipality ¹	Year	Initiative	Definition of “High Cost”	Requirements	Prohibited Terms
Dayton, OH	2001	Legislation (being drafted)	APR exceeds Treasury securities by more than 4 percentage points and points and fees are more than 3 percent of loan amount		<ul style="list-style-type: none"> • Prepayment penalties • Financing of credit insurance • Encouraging default on an existing loan prior to closing on a new loan • Negative amortization • Lending without regard to borrower’s ability to repay • Accelerated indebtedness • Balloon payments • Mandatory arbitration
Philadelphia, PA	2000	Ordinance		<ul style="list-style-type: none"> • Notice to customers of home-improvement contractors • Certification signed by the lender, title insurance company, mortgage broker and other agent that loan is not predatory • Penalties for noncompliance • Review committee to evaluate allegations • Enforcement recommendations against predatory lenders 	<ul style="list-style-type: none"> • Business entities and their affiliates cannot make, issue, or arrange sub-prime or high-cost loans, or assist others in doing so

1. Source: NCRC “Anti-Predatory Lending Toolkit,” March 2001.

Access to mortgage credit has been an increasingly important issue for rural areas due to a number of trends that have taken place in the last several years. These trends have resulted in rural borrowers relying heavily on subprime and predatory lenders for mortgages and home refinance loans. The dramatic growth of the subprime mortgage lending market and the infiltration of predatory lenders in rural and low-income communities has led to many concerns about how this trend will ultimately affect the financial stability of these communities. This report examines this issue by analyzing subprime mortgage demand in metropolitan and nonmetropolitan counties through an analysis of Home Mortgage Disclosure Act (HMDA) data. It also includes a case study of a rural community in South Carolina that is struggling with subprime and predatory lending, and it also provides recommendations of ways to increase access to mainstream credit for rural residents and ways to protect rural communities from predatory lending.

ISBN 1-58064-131-8