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Minorities are more likely to pay higher mortgage rates

By [Melissa Allison](#) and [Justin Mayo](#)
Seattle Times staff reporters

Blacks and Hispanics in the Seattle area are far more likely than whites to pay home-mortgage interest that is significantly above market rates, according to a Seattle Times analysis of new data from 25 of the nation's largest mortgage lenders.

In the three-county area around Seattle, 13.2 percent of black homebuyers and 7.2 percent of Hispanic homebuyers signed on for high-rate loans last year — far above the 3.1 percent of whites.

The statistics reveal differences that aren't due to income: Low-income whites are far less likely than high-income blacks to wind up with high-interest mortgages (3.9 percent vs. 11.3 percent).

The discrepancies, however, may be due to a variety of factors, ranging from the financial savvy of loan customers with differing backgrounds, to which lenders operate in which parts of town. The Seattle-area information doesn't allow a meaningful neighborhood-by-neighborhood analysis.

Also, available data don't show the credit records of homebuyers, only their income range, so it's impossible to gauge how factors such as applicants' bill-paying histories or down-payment amounts factored into the rates they received.

But consumer advocates say the data confirm what they have suspected for years.

"In the past, people couldn't get loans because of redlining," said Tony To, executive director of the Seattle nonprofit community-development group HomeSight. "For example, you couldn't get loans in the Central District. Now you can get loans, but they cost you twice as much."

Mortgage lenders say they do not target minorities for high-interest-rate loans.

The lenders say they give different rates to different borrowers because some people have a greater chance of repaying a loan than others. And high-income borrowers do not always get the best rates, they say, because other factors come into play, such as how

How we did it

The Seattle Times analyzed loan applications in 2004 from 25 of the nation's largest lenders. Only purchases of single-family, owner-occupied homes were analyzed. Refinance loans, second mortgages, home-improvement

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their income compares to their debts.

"It's fundamentally an industry that prices based on risk, not race," said Jay Brinkmann, vice president for research and economics at the Mortgage Bankers Association.

Misunderstandings

Many people walk into costly loans without knowing it.

Jared Velazquez, a Seattle chef, says he did not understand the terms of an adjustable-rate mortgage that contributed to his financial problems, which are so severe he is preparing for bankruptcy. A native of Mexico, he finds his English is sometimes inadequate for technical conversations, like talking to a loan officer.

"I think there are people who take advantage of this," Velazquez said.

At \$1,800 a month, the payments on a five-bedroom West Seattle house he bought in 2003 were several hundred dollars more than what his mortgage broker said they would be, Velazquez says. But he signed the loan papers anyway, figuring he would find a way to make it work for the sake of his family.

A year later, the payments grew to more than \$2,000 a month, something Velazquez did not realize could happen when he got the loan. Last December his employer went out of business, putting him out of a job.

Threatened with foreclosure, Velazquez sold the house in June and now lives with his wife and three children in a one-bedroom apartment in Normandy Park.

James Ballentine, director of grass-roots and community outreach for the American Bankers Association, says one reason that racial disparities may appear in lending is some borrowers do not have the financial education necessary to shop for mortgages.

"Everyone needs that education," he said, but African-American and Hispanic populations traditionally have not received it.

A local mortgage broker, Angela Ceaser, said that when she was a specialist on predatory lending for the Seattle Office for Civil Rights, "the majority of people who had awful, crazy, disgusting rates were people of color."

Part of the problem, she said, is that people who grow up in neighborhoods where there are more high-cost lenders than bank branches are more likely to go to those lenders, and end up with loans that carry high fees and interest rates.

National numbers worse

loans and government-backed mortgages were not included. Seattle-area statistics were derived from loans made in King, Snohomish and Pierce counties by 25 of the top national lenders.

Applicants were classified low, middle or high income. Low income was defined as 80 percent or less of the median family income for the metropolitan area; middle income was 80 percent to 120 percent of the median; and high income was more than 120 percent of the median.

For example, in the Seattle area, low income would be a family income below \$49,293, and high would be above \$73,939. The median family income was \$61,616. All income figures were from the U.S. Census Bureau.

Data were gathered directly from the lenders and are public information under the Home Mortgage Disclosure Act. The applicant's loan amount, income, race and census tract are available, but no names, addresses or other identifiable information is released. Incomplete applications that did not include income, race or census tract were not included in the analysis.

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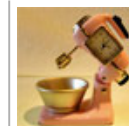
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Lenders have long been required to file race and income data for each mortgage application they take, and to indicate which applications are accepted.

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A new federal regulation requires lenders also to indicate which of the mortgages they make carry high interest rates. For a 30-year fixed-rate loan last year, that meant about 8 percent or higher. Federal regulators are expected to release the 2004 data for all lenders this month.

Despite the racial disparities, there is some good news in the numbers. The local data show that high-rate mortgages are not as prevalent in the Seattle area as they are nationwide.

Only 3.6 percent of homebuyers here received high-rate loans last year, compared with 8.3 percent of homebuyers across the country.

And fewer mortgage applications were rejected by lenders here last year — 9.8 percent, compared with 11.5 percent nationally.

Some local professionals are surprised at the area's relatively small percentage of high-rate mortgages.

"I'm perplexed at how low that number is, maybe because all I see is all bad, all day long," said **Melissa Huelsman**, a Seattle attorney who specializes in bankruptcy, fraud litigation and predatory-lending law.

Others say Seattle has strong financial-education programs and helpful lenders who make sure fewer borrowers here get high-rate loans.

Ironically, it could be that Seattle's pricey real-estate market, which has erased the possibility of homeownership for some people, translates into fewer high-rate mortgages for the area.

"Seattle has very high and increasing housing values, so that makes a lot of the loans safer from a lender's point of view, which means interest rates are lower," said Calvin Bradford, a Williamsburg, Va.-based researcher and consultant on the housing and lending markets. The rising home values mean the lender is likely to recoup the value of the loan and other costs if foreclosure occurs.

Bradford has looked at Seattle's housing data off and on over the past decade.

"Seattle was always different," he said. "It's an upscale market that doesn't have a huge poor minority population. The question is, why do these disparities still exist? They're still there, just scaled to the market."

Germaine Covington, director of Seattle's Office for Civil Rights, said Seattle has a problem with lending discrimination, but that it is difficult to address.

"Race relations in this community compared to the East Coast are more subtle," she said. "It doesn't mean the discrimination doesn't exist. It means it's harder to identify and address."

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