MORTGAGE LENDING DISCRIMINATION

FIELD HEARING

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MORTGAGE LENDING DISCRIMINATION

Monday, October 15, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 11 a.m., in Roxbury Community College, Reggie Lewis Track and Athletic Center, 2nd floor, 1350 Tremont Street, Boston, Massachusetts, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Capuano, and Lynch.

The CHAIRMAN. This hearing of the Financial Services Committee will come to order. This is an official hearing of the Financial Services Committee of the U.S. House of Representatives. I would note, as chairman of the committee, that there are three members present—myself, and my colleagues, Mr. Capuano and Mr. Lynch—which is a quorum for an official committee hearing, so this is an official hearing.

We have limited time. We go into session later today, and my two colleagues and I have to go to Washington to cast a vote.

We have a panel of officials. We have a panel of citizens. I have already received a statement from Deborah Rhoderick on behalf of Mass Acorn, and if there are any other statements, this will be made part of the official record. If there are any other statements that others would like to have entered into the record, let's have a staff member— Ms. Rightguard here will accept them. We will make note publicly of their having been submitted, and they will all be part of the official record, which will read better than it sounds, apparently.

To begin, I want to acknowledge the gracious hospitality of this very important institution. We are enjoying the hospitality of Roxbury Community College, a very important institution educationally, economically, and culturally in the City, and, indeed in the greater Boston area, and I want to now introduce President Gomes, who is going to welcome us and express our appreciation on behalf of the Congress and the citizens for hosting this event.

Mr. President.

Mr. GOMES. Good morning, and thank you, Chairman Frank.

On behalf of the trustees, the faculty, staff, and students of Roxbury Community College, I want to welcome you, Chairman Frank, and also the distinguished members of the House Committee on Financial Services.

As a college, we pride ourselves on being of service to the members of this community, and we certainly appreciate your bringing this important matter, having this hearing here at the college today. Mayor Menino and Attorney General Coakley, thank you for coming as well, and I want to extend a thank you to those who will be giving testimony this morning. I know Governor Patrick is showing up shortly as well. I just want you to know, this is in keeping with our spirit and effort to serve the members of this community, and again, we thank you for being here and want you to know, Chairman Frank, that you are welcome here at this point in time.

Thank you.

The CHAIRMAN. Thank you, Mr. President.

We will now have opening statements. Let me begin with mine.

This hearing really has a dual focus. We are, in part, talking about the sad record of discrimination in the granting of mortgages. We have a piece of legislation known as the Home Mortgage Disclosure Act. That is a statistics-gathering device. It was amended about 15 years ago, under the leadership of my former colleague, Mr. Capuano's predecessor, Joe Kennedy, who was a devoted fighter for fairness and against discrimination. And, with Joe Kennedy in the lead, the Congress explicitly mandated the collection under the Home Mortgage Disclosure Act of statistics involving the racial and ethnic identity of people who receive mortgages.

Not surprisingly, but unfortunately, the data shows that racial and ethnic discrimination persists, and no matter what other economic figures you throw in, it still turns out that if you are African American or Hispanic in this country, and, unfortunately, particularly so if you are in Boston, you are less likely to get a mortgage, and more likely, if you do get a mortgage, to have to pay more for it than you should.

Part of what we want to address here is the persistent pattern of discrimination, and we need to acknowledge that years of racism in this country, hundreds of years, have obviously not disappeared. We have made great progress in fighting racism but these statistics are a sad confirmation of the fact that it still exists.

Secondly, this merges into the problem of subprime mortgages and the foreclosures that come, and part of the connection is that people who are put into subprime mortgages who should not have had to be there, because those mortgages are more expensive are more likely to find themselves in trouble if an economic downturn hits them.

The fact that subprime mortgages are disproportionately given to people who are African American or Hispanic merges into, as we say, the problem of the foreclosure rate.

Now let me address one question right away. I don't know why I say, "let me," because no one would stop me. I don't know why we say those things, but I do want to address one question, which is, well, some people say, you know, they made their own mistake, the people who took out those mortgages, so why are you intervening?

Well, for two reasons. First of all, if you read today's New York Times, and yesterday's, you will see that the urging of the Secretary of the Treasury, and I believe also the president of the New York Federal Reserve, the three largest banks in this country have come together to form a consortium to help bail each other out. That is, the notion that there needs to be some government intervention to help out is not restricted to people who took subprime mortgages.

Secondly, as we just said, the subprime mortgages were not randomly given. There are people who because of their race or ethnicity got subprime mortgages when they would have qualified by any reasonable standard for a regular mortgage.

Third, there was, to some extent, some deception. Now, most of the people who grant mortgages are honest. Part of our problem has been that because of a lack of regulation in one sector of our economy, there were mortgages granted by the unscrupulous minority of people who originated mortgages with no regulation to protect people. So, people, in fact, were put upon, they were misled, they were deceived.

Finally, and this goes back again to the discriminatory aspect in part, subprime mortgages, and the foreclosures that result therefrom were not, and are not, randomly distributed. What that means is that the foreclosures hit particular neighborhoods harder than other neighborhoods.

I represent a variety of communities, as do my two colleagues. Subprime foreclosures are not a serious problem in Wellesley, but they are a serious problem elsewhere, but here's the problem. If you are a hard-working woman, making $40,000 a year in this economy, and doing everything you can as scrupulously and as carefully as you can to pay your mortgage, but the house across the street goes into foreclosure, and the house four doors down goes into foreclosure, pretty soon you have a problem. And, I would salute the Boston Globe, there was a very good article on the front page of the Globe, I think, a week ago Sunday about what is happening in Lawrence, and it is, unfortunately, not the only city in which this happens, where foreclosures have negatively affected not just those whose houses were foreclosed upon but others as well.

So, we are dealing here with the dual problems of discrimination and of foreclosures.

I would just make one announcement before I turn to my colleagues. We will be meeting—and I have been working with Mayor Menino on this, and with Governor Patrick; I know the Governor has made some announcements about some efforts to try to help out with the foreclosures—a week from Friday, and we'll have more details on that, at the Federal Reserve Bank, and we have arranged this with Jim Siegel, my special counsel, who will be working on this. We are going to ask, not too politely, all of the lenders, all of the servicers, all of the people who hold the mortgages, to come to meet with various neighborhood advocate groups. We will have the FHA there. We will have Fannie Mae and Freddie Mac there. We will have officials from the city and the State there, and from the Attorney General's office, who has been taking a very active role here, and we hope that out of that meeting a week from Friday will come some concrete agreements and some concrete steps people will know they can take to alleviate this kind of problem, because the foreclosure issue is one that threatens, as I said, not just those upon whom the foreclosures will hit, and they deserve some help, many of them, but others as well.

I did save one last point. A year ago, there was a lot of talk in the country about the need to deregulate. We were told that if we didn't cut back on regulation every corporation in America would go to England, where they would be more nicely treated. By the way, in England they just raised the taxes on private equity, so maybe they are not going there so much.

But, we have had mortgages originated by two groups in this country. Mortgages have been originated traditionally by regulated entities, banks and credit unions, and if only banks and credit unions regulated by the FDIC and the State Bank Commission, or the National Credit Union Administration, etc., etc., if they were the only originators of mortgages we would not have a crisis, because the rules under which they operated prevented many of these abuses.

We have a wholly unregulated sector—the mortgage brokers. Now, most mortgage brokers are perfectly honest and decent people. It's not that they have more people who want to cut corners, it is that for the minority who might want to cut corners, they were subject to no checks and balances, and so what we had were mortgages originated by an unregulated sector, and then in turn sold in an unregulated way into a secondary market, so that the concerns people had with the payments not being made got dissolved.

And, one of the things we will be doing on this committee, my colleagues and I have been working on this, going forward we plan to adopt a law, a Federal law, that will cover all mortgage originators with the same set of rules that have applied to those regulated entities, and we will also be putting some rules on those who syndicate these into the secondary market.

Essentially we are saying that there are mortgage loans that shouldn't be made, a very exotic concept—don't lend people money if they can't possibly pay it back. Apparently, that's surprising to some people, but that's going to be a rule. And then to the servicers, don't sell into the secondary market mortgages that never should have been made in the first place.

Those are the rules we are going to enact.

So, with that, let me welcome our officials, and let me turn to my colleague, in whose district we now sit, the gentleman from Massachusetts, the former Mayor of Somerville, who is very well aware of these problems. He has been a leading advocate in fighting for the housing needs of the Commonwealth, Mike Capuano.

Mr. CAPUANO. Thanks, Barney.

First of all, I want to thank you all for being here today. This is an important step in the process. In Congress, we don't do anything until we have a sufficient number of hearings, and we get enough people convinced to actually take action.

I'm not going to reiterate what Barney said about the substance of the issue, and I also know that there are many people in this room who actually know the details of the issue more than I do, but I do want to say one thing very, very clearly. In the last 9 months, a lot of my friends in this district have said to me, well, what's the difference, Congress hasn't changed, Washington hasn't changed, we voted for Democrats and what happened.

Well, here's what happened. We are here today making another step in the right direction on an important issue that affects people at the bottom end of the socio-economic scale. I guarantee you, on my father's soul and on my childrens' souls, this hearing, this issue, would not be on the table, would not be making progress, if there wasn't change in Washington last November that you helped to bring.

And, I understand that some people want more change, as I do, as I will speak for my colleagues, as all three of us here do, but we do what we can, and we cannot do anything unless the voters of America stand up and say they want a government that is activist, they want a government that watches out for the interests of regular people.

Now, we take it for granted here in Massachusetts, particularly in the greater Boston area, we take it for granted that all of our public officials care about that. Well, I will tell you, I'm sure you have been watching Washington over the last dozen years, and that has not usually been the case. There are those of us in the minority who voice it strongly that we want these things to happen. We did not talk about subprime loans on the Financial Services Committee in any serious way last year, when Republicans were running the Congress. This year, with Barney Frank as the chairman, not only are we talking about it, but we are taking action and we are going to make a difference this year. That is a major, major change in Washington, because you and the rest of the American people stood up and said, "Enough is enough."

So, for me, we are here today to learn a few more details, but I'm here today, really, to say thank you and to remind you all of the actions that you took to make this change possible, to make this progress possible, and, please, in any way, it will probably never be enough, but in any way, if you don't recognize the dramatic change that has happened in Washington in the last year, and, hopefully, will continue to happen over the foreseeable years, is major and will make our lives better.

Thank you for being here.

The CHAIRMAN. Next, another very strong advocate for the housing needs of the citizens of both his district and the whole Commonwealth and, indeed, the country, Representative Steve Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

First of all, I want to thank Barney for holding this hearing on mortgage lending discrimination in the City of Boston. The pattern of discrimination revealed by the Home Mortgage Disclosure Act data requires our utmost attention.

Just so you know, the 2005 HMDA data, like the 2004 data, did reveal that Blacks and Hispanic borrowers in the City of Boston are more likely to obtain loans with prices above the pricing thresholds than are non-Hispanic Whites. And sadly, in greater Boston and throughout Massachusetts we have discrimination numbers that are much higher than the national average.

I was disturbed to learn from Mr. Campen's testimony at a previous hearing, and his written testimony today, that from 2003 to 2005, 77 percent of the loans provided to Blacks in greater Boston were concentrated in a small number of communities, not only in the City, but also in three other districts—three other towns in my district, Milton, Randolph, and Stilton. At the same time, we have seen a dramatic decrease in CRA loans, Community Reinvestment

Act loans, that require a diversity of outreach by the lenders and actually scores the lenders on their ability and their willingness to spread to non-traditional employees the benefits of fair mortgage lending.

I am particularly pleased to have a constituent of mine here to testify on the second panel, Ginny Hamilton. She is the executive director of the Fair Housing Center of Boston, a group that does great work in fighting illegal housing discrimination in Essex, Middlesex, Norfolk, Plymouth, and Suffolk Counties in Massachusetts.

As part of their mission, the Fair Housing Center researches the documents and nature and extent of housing discrimination, as well as fair housing impacts on public policies.

Ms. Hamilton will testify today—she has a report that is available, "The Gap Persists: A Report on Racial and Ethnic Discrimination in the Greater Boston Home Mortgage Lending Market." And I think it is very telling, her report; it indicates that there were differences in the treatment of disadvantaged minority home buyers in 9 out of 20 matched pair sets, so what the Fair Housing Office does is sends out people with, basically, the same criteria, going in to lenders to see if they are being treated differently because of the color of their skin.

And, what's going on, and what this report has shown, is that when Latino and Black applicants walk in, 9 out of 20 cases, it is showing a positive correlation to their race, in terms of getting a mortgage at fair terms.

So, that's an alarming statistic, and I think it serves as a basis for the work that we are doing—45 percent of the time we are seeing a discriminatory impact based on race in the availability of mortgages in the City of Boston.

Lastly, I would say, as Chairman Frank has already indicated, we have a couple of things that we are trying to do here today. Number one is to make sure that we can provide some relief for people who have found themselves in this position, who are at risk of foreclosure, and who have no place to turn. I compliment the Governor on his work with the Mass Fair Housing Agency to help address part of that problem.

The other problem is a moral hazard that we have, and the chairman has talked about this before. We want to provide relief for the families who have been victims here. We do not wish to provide relief for mortgage companies that came in and tried to take advantage of these families. So, we have to make sure that the tools that we provide to correct this imbalance, that the relief goes to the families who have been most affected.

And, with that, I'll yield back the balance of my time.

The CHAIRMAN. Thank you, Mr. Lynch.

Mr. Lynch makes one point that I want to just announce. One of the things that we have seen happen over these 20 years or so is that the Community Reinvestment Act has been diminished, not by anybody's deliberate action. When the Community Reinvestment Act was first passed, most of the lending was done by banks. In the years since then, a number of other financial institutions have stepped in, and one of the things this committee will be doing next year is to begin some hearings, and I hope write some legislation, that will extend the reach of the Community Reinvestment Act so that we will get back to the percentage of economic activity that it was originally supposed to cover.

With that, I'm going to begin with our panel of witnesses. I am very grateful to these three very busy and important officials for taking the time to come and join us today. All three have been leaders, not just here, but nationally, in addressing these various problems, and we will begin with the Governor of Massachusetts, Governor Patrick.

STATEMENT OF THE HONORABLE DEVAL L. PATRICK, GOVERNOR, COMMONWEALTH OF MASSACHUSETTS

Governor PATRICK. Thank you very much, Mr. Chairman.

Is that all right? Can everybody hear me who needs to?

The CHAIRMAN. Well, I can, but I'm 10 feet in front of you. I don't know about the people 200 feet back here.

Governor PATRICK. How's that, is that better? Okay.

Mr. Chairman, thank you very much, to you, and Congressman Lynch, and Congressman Capuano, and the members of your committee who are not here, for caring about this issue, and for convening here in Boston so that we can talk about the challenges and what we are trying to do to help meet them.

First of all, if you will permit me, I'll just submit my written testimony for the record.

The CHAIRMAN. Without objection, all of the written statements submitted by any of the witnesses, as well as members of the audience, will be made part of this official record.

Governor PATRICK. Great.

And, I'll just try to focus on some of the things that we are trying to do at the State level here in Massachusetts to address the issue.

You know what the issue is, foreclosure rates are up 76 percent in just the last 12 months here in Massachusetts, 25,000 foreclosures have been initiated in the last 12 months here in Massachusetts. It's a serious challenge, and it's a primary concern of our administration.

Although the complex issues surrounding foreclosure and abuses within the mortgage lending industry are national in scope, as you and your colleagues have laid out, there are important steps that can be taken at the State level to protect consumers, while maintaining a viable, competitive mortgage lending industry in Massachusetts.

I want to thank you for allowing me to share with you some initiatives we are undertaking to provide comprehensive short-term solutions to assist homeowners, and to develop long-term strategies to prevent foreclosure crises and address potential disparities in loan access and pricing.

First of all, in April of this year, I directed our Division of Banks to seek, on a case-by-case basis, brief stays for consumers who were facing imminent foreclosures. The goal was to provide some time, allowing the division to refer homeowners to reputable homeownership counseling firms, and encourage mortgage lenders and services to use this time to work with homeowners who are unable to make their mortgage payments.

To date, through a hotline we established to help homeowners gain access to our services, the Division has fielded over 1,000 Massachusetts residents' calls, who are either in the foreclosure process or having difficulty maintaining their mortgage obligations, and we've secured voluntary stays in half of those cases so far.

Mass Housing, in collaboration with Fannie Mae, and I appreciate your calling attention to this, Congressman Lynch, has designed and implemented one of the most aggressive foreclosure prevention programs in the country. The program includes $250 million, a commitment that includes $190 million in funds from Fannie Mae, and $60 million in a contribution from Mass Housing through the sale of bonds. In other words, no taxpayer money is used for this program.

Through the program, borrowers may be up to 60 days delinquent with credit scores as low as 560 and still be able to refinance their existing mortgage loans under manageable terms. That's 1,000 homes—1,000 homes—and we ought to be doing more of this.

Through our Division of Banks, Massachusetts will be one of the first States in the country to implement a nationwide database of mortgage professionals. Nearly 4 years in the making, the system goes live on January 1st of next year, to provide a uniform application process for mortgage lenders and brokers operating across State lines, and will be a central repository of information about licensing and enforcement actions. The database will substantially improve the existing regulatory framework and reduce fraud on a nationwide basis.

We have also filed legislation in June of this year to criminalize mortgage fraud, prohibit abuse of foreclosure rescue schemes, and update various provisions of the laws that currently govern the foreclosure process here in the State. The bill also establishes a central repository of foreclosure information at the Division of Banks to allow us to track foreclosures by product, geographic region, originator, broker, and lender, so that we can watch for patterns and anticipate where trouble may come.

Furthermore, the legislation prohibits a lender from making an adjustable rate subprime loan unless a consumer affirmatively opts out of a fixed-rate product, and completes a home buyer counseling program, and we look forward to working with the legislature to enact this legislation. It was submitted and heard in a public hearing just last month.

In addition, we continue to support legislative initiatives to license mortgage loan originators and extend provisions of the Massachusetts Community Reinvestment Act to certain licensed mortgage lenders. The establishment of a CAR-like requirement for non-bank mortgage lenders will result in public evaluations and ratings summarizing non-bank lenders' performance in meeting housing credit needs in compliance with State and Federal fair lending laws.

I believe this increased level of scrutiny will significantly decrease the impact of the disparities in mortgage pricing.

Finally, my staff and I have held ongoing meetings with lenders, industry trade groups, community and housing advocates, and others, to discuss possibilities to assist home buyers, and homeowners, and housing counselors. It's clear that a comprehensive response to the complexity of these problems of foreclosure and mortgage lenders lending abuses will require the ongoing participation of mortgage lending industry members and other non-governmental entities, as well as our State government. We continue to work with all participants in the mortgage lending process to discuss and determine what further steps can be taken at the State level.

In an effort to expand on some of these initiatives, we will later this week announce six municipalities who will take part in a pilot program designed to cover a range of possible needs for homeowners, especially vulnerable homeowners. We've developed a five-point plan to bring together government, lenders, homeowners, and nonprofits to develop and raise awareness about alternatives to foreclosure, to create support systems for transition assistance where necessary, and keep neighborhood homes occupied. The plan is based basically on outreach, best practices, rescue products, neighborhood stabilization—a very key point that you raised in your opening remarks, Mr. Chairman—and transition assistance. The six cities and towns will be selected based on number and concentration of foreclosures to date, as well as the overall fiscal needs of the region.

Through that program, we'll be able to implement and refine strategies to help homeowners stay in their homes and keep communities stable, sound, and safe.

I want to thank Secretary Dan O'Connell, our Secretary of Housing and Economic Development, and Undersecretary for Housing, Community, and Community Development, Tina Brooks, for their leadership within our government.

I also want to acknowledge and thank the cooperation and partnership we have had with the Mayor and with the Attorney General, who have been just wonderful on these subjects.

We have been fortunate to work in collaboration with various concerned members of the Massachusetts legislature as well, and we are making a coordinated effort in Massachusetts and look forward to working with Federal authorities in any way that we can to keep people in their homes, and to keep families and communities as stable as possible.

Thank you very much for having us participate today.

[The prepared statement of Governor Patrick can be found on page 119 of the appendix.]

The CHAIRMAN. Thank you, Governor. I just want to echo your last point, it is important that all levels of government—Federal, State, and local—work together. That is why I am particularly glad that we have this panel, and I am very pleased to welcome the Mayor here, both as a sign that we all work together, and also for those people who frequently confuse me and the Mayor, I want to dissuade them. We are two separate people, but we are both working on the same project.

Your Honor.

STATEMENT OF THE HONORABLE THOMAS MENINO, MAYOR, CITY OF BOSTON

Mr. MENINO. Well, thank you, Mr. Chairman.

You and I think alike on issues, that's one thing, and I thank Congressman Lynch and Congressman Capuano for being here. This is a very important meeting this morning. I appreciate your leadership on these lending issues, especially when those lending issues affect the consumer.

Before I begin, Congressman Frank, let me congratulate you for your tremendous success in passing the National Affordable Housing Trust Fund in the House. It's a tremendous opportunity for us.

I hope you get your Senate colleagues to move this bill in just half the time that it took to get it through the House. I know with your determination and drive you will show the Senate how to do this, and it's very important that we do this on a national level.

We are here today to discuss discrimination in mortgage lending. I can't tell you how frustrating it is, after all these years, and after so much work on the part of government, consumer organizations, and corporate America that we even have to have a hearing like this. So, here we are, truly part of a marathon, not a sprint, to bring equality to all Americans.

I want to acknowledge the important work of the Massachusetts Community and Banking Council, the academic community, and people like Joe Cappan and Bill Abgar. Their years of research have quantified for us disparities in lending, so let's listen to some of their findings.

In Boston, in greater Boston, throughout the Commonwealth, high-priced loans account for over half of the home mortgage loans of both Blacks and Latinos, and Congressman Lynch also took note of that.

In Boston, the four neighborhoods with the highest percentage of minorities—Hyde Park, Mattapan, Roxbury, and Dorchester—received more high-cost loans than the other neighbors in our City.

Borrowers are grouped by race and income level, and the proportionate share of high-cost mortgage loans is constantly higher for Blacks and Latinos than for Whites at the same income level.

One last piece of information from the Mass Community and Banking Council, here are the lenders who are among the highest providers of high-cost loans to the neighborhoods of Boston: Ameriquest; Fremont Investment and Loan; Countrywide; New Century; and Option 1. I really get angry when I look at these data, not just because families who are affected are paying more than they should, but also because I see the impact these high-cost loans have on our residents and our neighborhoods. When foreclosures increase, properties are often left vacant, as investors and their services refuse to acknowledge market realities. They hold out with sales prices that are not realistic. That has happened in Hyde Park, Mattapan, Roxbury, and Dorchester, the very area where high-cost loans prevail.

Now, who are the top lenders—I mentioned them before—who are doing the damage in Boston? They are the ones who have the very high-cost lenders.

In the past, we have seen them board up properties, bringing down the value of other homes in the area. We don't want to slide back to where we were in 1992 when housing values hit the skids for 3 decades of selling for less than $100,000. The lending industry has changed since the 1990's. Our lenders, the banks, have a much lower share of the market, about 20 percent. In their place have come non-traditional lenders offering teaser rates, expensive loans that rely on the promise of future refinancing, and high fees.

No one at the front end cares about the long-term performance of these loans. It's all about short-term gains, taking the fees and sending the high-cost mortgage forward. Now it seems like Boston, Brockton, Lawrence, and hundreds of communities across the country are paying the price for these lending malpractices which are out of control with little oversight.

Foreclosures have increased in Boston, but our City has fewer foreclosures than any other city in the State. I attribute our relatively good numbers to the efforts that are put into home buyer education and foreclosure prevention.

Our foreclosure prevention program, Don't Borrow Trouble, has been helping homeowners since 1999. Ten years ago, I established a Home Center, a one-stop shopping place for home buyers. We offer information on mortgage products and sponsor home buying education classes, and require home buyers to take part in certified classes in order to receive city down-payment assistance. More than 4,400 people have participated in this program, predominantly, low and moderate income, have bought homes in Boston, after completing our classes and receiving our financial help.

Notably, the foreclosure rate for this group is less than 1 percent, compared to the market foreclosure rate in Boston of 2.5 percent.

Now, who receives our financial assistance? 40 percent are Black, 20 percent are Hispanic. Our graduates are proof that minority families can succeed at homeownership. Our classes teach people to become savvy buyers, choosing reputable lenders, and asking the right questions.

Based on our experience, I recommend the following. The mortgage lending industry must re-commit itself to home buyer education, so every time buyers—first-time buyers have the opportunity to complete a certified course, much like those offered through the Home Care Center.

Congress must do everything in its power to continue to shed light on disparities in lending by non-traditional lenders, much like we are doing today with this hearing. I urge Congress to support more natural efforts, such as Freddie Mac's Credit Smart Program which provides families with the competence and knowledge to succeed financially, because poverty should not be a life sentence.

I further recommend that the Massachusetts State Legislature support pending legislation that requires mortgage companies, licensed in Massachusetts, to comply with laws that require them to meet local credit needs.

For many years, I have supported this legislation. It has become more important now that non-bank mortgage lenders provide most of the home mortgage loans in the State.

Finally, I recommend that our community organizations become proponents of consumer education, all aspects of consumer lending. This means that financial literacy would be as common as driver's education for new drivers, with information offered through workshops, public service announcements, and adult education.

Thank you for your thoughts on this issue, and I want to say that this issue, once again, plagues the most vulnerable in our society. There are folks who go out there and sell these mortgages to these individuals with a blue note, you know, low down payment, no interest, and 5 years later you get whacked.

Mr. Chairman, and your committee, thank you for listening to us today. It's an important issue and it affects all our neighborhoods.

[The prepared statement of Mayor Menino can be found on page 112 of the appendix.]

The CHAIRMAN. Thank you, Mayor. I just want to emphasize to the Governor, the Mayor, the Attorney General, local officials, and others Members of Congress that this hearing is not a one-track deal. This is part of a sustained cooperative effort at all levels to make this thing work.

Next, another official who has taken a real lead in this, in setting a national example, the Attorney General of the Commonwealth, Martha Coakley.

STATEMENT OF THE HONORABLE MARTHA COAKLEY, ATTORNEY GENERAL, COMMONWEALTH OF MASSACHUSETTS

Ms. COAKLEY. Thank you, Chairman Frank, Congressmen Lynch and Capuano, and my colleagues, Governor Patrick and Mayor Menino, for your comments today and for your ongoing efforts in this State to address what we can.

I appreciate the opportunity today to address the critical issue of mortgage lending and foreclosure crisis, and, particularly, the issue of racial and ethnic disparities in mortgage lending.

I had the privilege of taking office to serve as Attorney General in January of this year, with the rising wave of home foreclosures that continue to have a devastating impact on the people and communities across Massachusetts. And, if the statistics are true, we'll continue to in the next few years. We have not seen the worst of this in some respects.

We began to take a multi-faceted approach consistent with my role as Attorney General that has four prongs. We began investigations and enforcement actions, civil litigation, to hold accountable those who engage in unlawful predatory lending or foreclosure conduct, including lenders, brokers, closing attorneys, appraisers, foreclosure rescue scam artists, and others who cross the line of fair, lawful lending practices.

After hearings across the State this summer, we are promulgating, very shortly, more comprehensive and finely-tuned mortgage broker and lender regulations, based upon our authority under the Massachusetts Consumer Protection Act, Chapter 93A.

Working with the National Consumer Law Center, the Boston Bar Association, and others, we created a pro bono lawyer referral service, so those facing foreclosure, potentially, could have access to legal advice that otherwise would be unavailable, and we appreciate the Governor's incentives and initiatives in this area where we have cooperated trying to provide legal assistance to people who can get it under the current law.

We continue to work with State and Federal legislators, regulators, and law enforcers to seek solutions for the present lending and foreclosure crisis, and our role also is to look at preventing a recurrence in the future.

I want to commend Mayor Menino for his work in the financial literacy area. I think that's extremely important that we able to focus on that.

We did, as a result of what we thought was an immediate crisis, issue an emergency regulation that under Chapter 93A bans foreclosure rescue schemes that are unfair and deceptive. We just recently made that a permanent regulation, and we will shortly issue, not only a report as a result of our hearings this summer, which the Mayor attended, many other legislators and individuals in Massachusetts, but four additional regulations under Chapter 93A, one of which may help address the issues that we're talking about today, because it will prohibit mortgage lenders from steering borrowers to loan products that are more costly than those the borrower qualified for, and it prohibits lenders from discriminating between similarly situated borrowers, one of the reasons that we face the problem we do, particularly, in our minority communities today.

In our efforts this summer, we have gone across Massachusetts. We have talked with victims of unfair, deceptive, and illegal lending practices, as well as those who have been victimized, doubly victimized, by the foreclosure rescue scams.

And, we have had, we've seen in the last 180 days in Boston 1,000 home foreclosures. They've been clustered in low-income and minority neighborhoods, particularly, in Dorchester, East Boston, Mattapan, Hyde Park, and Roxbury. For example, in Mattapan, which is 77 percent African American and 13 percent Latino, from January of 2006 to May of 2007, there were 164 closures out of a total 479 loans.

The disproportionate impact of foreclosures on minority communities may be a predictable, but no less disturbing reflection of the fact that African American and Latino borrowers are more likely to get high APR adjustable percentage rate loans than their White counterparts, regardless of their income level. This fact has been confirmed by the Federal Reserve Board, with its release last month of mortgage lending data under the Federal Home Mortgage Disclosure Act, or HMDA as referenced earlier.

Before addressing that 2006 data, I just want to acknowledge the work, and I know you will hear from him later, Professor Jim Campen and the Mass Community Banking Council, analyzing that information, as he mentioned earlier this year, year after year, in a way that may have seemed fruitless, but, certainly, is extremely important to the work we do today and the work we will do tomorrow, on this issue of lending and racial disparities.

In greater Boston, the high APR share for African Americans is nearly 4 times greater than the share for Whites with respect to home purchase loans, and 3 times greater for finance loans. Among Latino borrowers, the share of high APR home purchase loans is 4 times higher than for White borrowers, and the share of high APR refinance loans is 3 times higher.

These patterns are present at all income levels, with the racial disparities becoming more pronounced among higher income borrowers. In Boston, only 9.4 percent of the highest income White home purchase borrowers received high APR loans. In contrast, 71.1 percent of the highest income Black home purchase borrowers received high APR loans. The figure was 56.2 percent for the highest income Latinos.

The 2006 HMDA data released in September indicates similar nationwide trends, and the analysis revealed substantial differences across racial and ethnic lines in the incidence of higher-priced mending, and in denial rates. Further, it showed that such differences could not be fully explained by factors in the HMDA data.

The fact of racial and ethnic disparities in mortgage lending and in foreclosures is clear. The reason for these disparities are less clear, I will acknowledge that, but the complexity of this issue should not be underestimated. We cannot ignore economic factors, but neither can we ignore a history of housing discrimination and resulting segregated housing patterns, imbalanced and unequal access to financial services, and discriminatory lending practices.

Let me just give you two quick illustrations of the people behind these numbers. We just recently brought a civil suit against Fremont. It is pending. The allegations are just that, but we have alleged that Fremont, who originally approximately originated approximately 15,000 loans to Massachusetts borrowers since 2004, and it's set forth in that complaint, Fremont used a network of brokers and sales people to sell unduly risky loans that were designated to fail, including loan products with 100 percent financing, stated income loans and adjustable rate mortgages with dramatic increases in monthly payments after 2 or 3 years.

Borrowers were qualified for adjustable rate mortgages based upon the initial teaser low interest rate without regard to their ability to pay the higher adjustable rates which would increase every 6 months.

One Fremont customer lives in Dorchester. She's a single mother of three children, and a mortgage broker steered her to Fremont to finance the purchase of two multi-family homes. Fremont approved her for two loans, despite the fact that her total monthly income was $1,800. Her broker promised her that she'd be able to reduce her mortgage payments through refinancing, and induced her to sign a blank loan application which the broker used to submit false information about her employment and monthly income. She was discouraged from hiring counsel by her broker. She learned for the first time at closing that her monthly mortgage payments would be more than $7,000 a month, and could adjust from her initial interest rate up to 14.65 percent.

Although Fremont, obviously, should have known she did not qualify for the mortgage, Fremont paid the broker over $7,000 for arranging that mortgage. Fremont then passed this cost on to her.

Another Fremont borrower resides in Dorchester, and purchased a multi-family house by taking out a Fremont loan. Although she filled out a loan application listing her salary of $2,000 a month, she received letters from Fremont stating her mortgage payments would be more than her entire monthly salary. She called her broker to say she could not afford the mortgages and did not want to go forward. Her broker told her the letters were wrong, her monthly payments would be lower. When she attended the closing and saw the fees, she initially refused to sign the papers, but Fremont's lawyer told her it was too late to back out and she would owe the money anyway. In her efforts to pay her mortgages, she depleted her entire life savings and then lost her home to foreclosure.

These are just two of the thousands of people in Massachusetts who have lost their homes and their savings as a result of irresponsible and in some cases illegal lending practices in recent years.

I want to make an additional request to our panel today, and I would like to address the issue of Federal preemption, respectfully ask this committee to consider whether a return to the well-tested dual enforcement roles of the State and Federal Government would better serve both consumers and responsible lenders.

Increasingly, the traditional and critical role of the States in ensuring fair lending is challenged by those who argue the rule is preempted by Federal law. In fact, recently, when New York, the New York Attorney General began an investigation, the OCC, the Office of the Comptroller of the Currency, argued that he could not do that because he was preempted by Federal law. A recent Supreme Court decision upholds those findings and said that the New York Attorney General could not issue subpoenas or inspect books and records, because it was not within the scope of his responsibility anymore to institute actions in the Court of Justice against national banks to enforce State fair lending laws.

It is increasingly important, I think, that we be allowed to do the kinds of enforcement that we have done so far, but we are stopped. As Mayor Menino noted, of the five top lenders in Massachusetts for subprime mortgages, only one of them, Fremont Investment and Loan, against whom we have filed suit, is under our jurisdiction. The other are nationally chartered banks and we have no authority to investigate or to bring lawsuits against them.

In order to best address this, we would ask that the committee give serious consideration to restoring the effective dual Federal and State enforcement role by limiting in certain circumstances Federal preemption.

Finally, Congressman Frank, I appreciate your efforts to expand reporting under HMDA. Unless we have the data, we can't know where this is going. We see the statistics. We see the impact. We need the data.

We also know that credit scores are one of the several variables that logically should be reported by lenders to the Federal Reserve Board for inclusion in that data.

Finally, we understand that the public has not had information about how interest rates below the threshold are distributed. Banks do not report points, pre-payment penalties, loan to value ratios, or the debt to income ratios. All of these variable and more could help enforcement authorities to better understand the critical issue of racial and ethnic disparity in mortgage lending.

We must act at the State and Federal level to address these abuses now and going forward. I will continue to do so in my role as Attorney General. I know I will have the cooperation of my colleagues today, the Governor and Mayor Menino, and we appreciate that you and the members of this committee are taking this so seriously.

Thank you for your opportunity to testify today.

[The prepared statement of Attorney General Coakley can be found on page 84 of the appendix.]

The CHAIRMAN. I want to assure you, Attorney General, first of all, that many of us on the Democratic side were very unhappy with the degree of pre-emptiveness which the Comptroller of the Currency and has engaged in.

As a practical matter, we would not be able to totally undo that. I can give you two encouragements. First of all, we will, in the legislature and our committee, have dual relationships. We will have a set of rules that will apply to brokers, but where the States have good rules in place we will defer to them, that is, we will set a Federal floor.

And secondly, there's a very important case now pending that you are probably familiar with out of Ohio, where the Office of Peer Supervision was overruled on a preemption case, and allowed the State to regulate the mortgage broker, was upheld, and we are in the process of urging the Office of Peer Supervision not to appeal that case, but to allow that and continue that.

Mr. Capuano.

Mr. CAPUANO. Mr. Chairman, I don't have any questions, I just want to thank the three panelists. I mean, I'm familiar with all their work, and it's not just now. I want to make it very clear that the three of them that I know of have been working at this stuff for a long time.

And, I can't tell you how proud it makes me to come from Massachusetts and the greater Boston area to have people like this representing me, and working on our behalf, because as we all know, I want to draw a nice big bold line under this, we will get through pretty much whatever legislation Barney wants us to get through with the House. And, people need to understand that. And, I can't tell you how beneficial that is for all of us. But, we will have difficulties probably in the Senate, and we will have significant difficulties in the White House for another 18 months or so.

So, therefore, some of the things, typically, like preemption, I don't know whether we'll actually succeed in doing some of the things that we want to do. We'll get them through the House with no question, but I just don't know how far they are going to go. And, it becomes very important that the three of you and others are doing this as well, actually continue to proceed as strongly and as vehemently as you can, and we will do everything we can to help you and support you.

I also want to, again, reiterate what I said earlier. I was talking about the Congress, but I want to point out very clearly that the Governor is a representation of significant change. Many of the people in this room know that the concern about subprime loans is not new. Now, some of the results of that concern have only been seen in the last 6 to 9 months, or a year, but the concern has been there for many, many years, for those of us who have watched this issue grow.

And, I will tell you, unequivocally, that last year, and the year before that, and the year before that, the Governor's office and all his appointees really didn't react, and the fact that this Governor is new and reacting so strongly, and so positively, I think is a great thing for all of us and I want to thank the Governor for participating like this.

Governor PATRICK. Thank you.

The CHAIRMAN. Representative Lynch.

Mr. LYNCH. Thank you, and again, thank you for your willingness to come here and help the committee with its work.

One of the frustrating parts about this, the whole problem with the foreclosures, and the subprime market, is the speed of response. Now, we heard on our committee from the Bush Administration about things they are going to do in the future, but all of the relief that we've heard them talk about has been prospective. They speak nothing about the families who have already been hurt, and that's very troubling.

In fact, the only, I think, real-time response that we've seen in this has been from the three of you, in terms of legal action against Fremont, the work with HMFA, the Mass Housing Finance Agency, coming up with that money, and the work that the Mayor has done.

One of the frustrating parts of this is that the time that it's taking to help the families who are going under is maddening, it's frustrating, and are there tools that we might be able to provide to you, are there things that we could be doing to help you on the local level, since it's taking so long to convince this current Administration of the urgency of this matter, are there things that we could help the three of you with in terms of freeing you up?

I know, Attorney General, you mentioned some of the reporting requirements, and those are good once they are in place, but are there things that we could be doing now to help you step in in a quicker fashion to save some of these families' homes?

Governor PATRICK. Well, I just thank you for the opening, Congressman. First of all, on the rescue fund and Mass Housing's contribution, that would not be possible or as effective without Fannie Mae's participation, and I know that the chairman was helpful in getting Fannie Mae to pony up and, frankly, it would be helpful to get them to pony up some more. We'll be working with Mass Housing to do that, because the refinancing opportunity, creating terms that allow families to stay in their homes, seems to me to be the first order of business.

Now, not all of that has to be done by rescue funds like the Mass Housing Fund. Some of that has to be taken on by lenders themselves, willing to refinance the terms.

And so, I congratulate the chairman and all of you for calling together the various stakeholders at the Fed soon to start to juggle around that. But, there's no doubt about the fact that having funds available to help with refinancing, or your additional pressure on some of the lenders together with us to refinance those loans so people can stay in their homes is very, very effective and helpful.

The CHAIRMAN. Mayor?

Mr. MENINO. The Governor is correct. Several months ago, I brought several of the lending institutions to my office, talking about the mortgage issue, and they've set up a pool of resources together.

We, as elected officials, have that opportunity to bring those individuals, they don't want us to be talking to them in public, they want to help us when they see the problem out there, because they are afraid of the press they are going to get, and it's important we use our usability pulpit to make sure that these lending institutions know that we are watching them.

The mortgage companies need some regulations now. We can't wait 6 months, 9 months, or 10 months.

The CHAIRMAN. Well, I appreciate that. We put in the usability pulpit, and if necessary we may be a little stronger to bully all week on the pulpit. But, we do plan to be as persuasive as we can.

I thank the panel. We will dismiss them now.

The next panel we are going to hear consists of City Councilors Sam Yoon and Chuck Turner, if they want to come forward, and we'll take a brief recess while our three officials depart.

[Recess]

The CHAIRMAN. We will resume the hearing, and we have two City Councilors, Councilor Yoon and Councilor Turner. I understand Councilor Yoon is an At-Large Councilor, but we are in Councilor Turner's district, and he's my college classmate.

So, on grounds of seniority, we are going to begin with Councilor Turner, Councilor Chuck Turner who is our host here at RCC.

Chuck?

STATEMENT OF CHUCK TAYLOR, CITY COUNCILOR, CITY OF BOSTON

Mr. TAYLOR. Thank you very much, Congressmen Frank, Lynch, and Capuano.

I'm going to try to be very brief and hold my comments within 2 minutes, so that you can have time to hear all the other speakers.

I want to begin just by saying that I really appreciate the way Congressman Frank framed the issue in terms of pointing out the discrimination against potential homeowners of color, and how that discrimination has led to the development of the predatory lending practice which in the last 2, 3, or 4 years has grown to a level of greed and financial obscenity that I have never seen in my 67 years.

I'm a member of an organization that was recently formed to fight back. Obviously, there are other organizations, but we thought that given the situation we are facing there needed to be a coming together of organizations, so we formed the Mass Alliance Against Predatory Lenders.

On Thursday, last Thursday, we held a press conference and set of demonstrations, a press conference to announce the formation of the Mass Alliance, but also to give an opportunity to Countrywide mortgage holders, as well as mortgage holders from other predatory lenders, so that the press could begin to understand what I think the Attorney General so clearly pointed out, and that is that the vast majority of these foreclosures are not because people have been irresponsible, it was because the mortgage companies were irresponsible and criminal in terms of setting up mortgages that were designed not to succeed.

Because of that, we sent a letter, the Alliance sent a letter to the head of Countrywide, who, interestingly enough, just sold all his stock, saying that he and his company had a responsibility as the largest of these predatory lending companies in this country to restructure the loans in terms that people could afford, that is, that they had to do what they should have done before, and that is make sure that these loans are affordable, and that our only alternative, as the people of this City, and State, and country, if they aren't willing to do that, is to shut them down, shut them down through a boycott.

And so, I'm just using this opportunity to, one, announce that there is a boycott that has been launched against Countrywide and other lenders who refuse to restructure the loans in ways that are affordable and appropriate.

Secondly, we are going to ask the State to move beyond the suggestions that were put forward today. We believe that the State needs to have a law that would require a financial institution to go to court in order to exercise a foreclosure.

When you look at these loan agreements, when you hear homeowners who are facing these horrendous situations talk about how this situation was created with these mortgage companies, it becomes clear that the courts need to be looking at each and every one of these agreements.

The National Bankers Association has come out with a set of principles that they feel should guide the writing of these mortgages. They are not being adhered to by many of these companies, but we believe that a law needs to be passed immediately in Massachusetts that would require each and every foreclosure to go before a judge, and the judge to have a set of standards to use to determine whether that foreclosure is, in fact, a fair one, and if not, to take action to prevent the company from moving forward.

Thirdly, in terms of Federal actions, we applaud the action to bring all companies, mortgage companies, financial service companies, under the provisions that are now covering the State—covering banks that are chartered by the Federal Government. However, we think you need to move beyond that. We think there needs to be Federal protection of the tenants and resident homeowners in buildings that are foreclosed. You know, and I know, that once the building is foreclosed, the next step is to go into court and clear the building so that these institutions can then put them back on the market to make even more illegal profits, from my perspective.

The Federal Government could play a major role in stopping this action by having a provision that stops these companies from clearing the buildings. Tenants are paying their rent, and only because of the actions of the bank to foreclose are they being evicted. These financial institutions need to be stopped from being able to do that.

And finally, we would call on Congress, particularly the House, to appoint a special prosecutor to investigate what we think is a "Mortgagegate," that is, we think that this is a situation where a group of institutions have worked to misuse our financial system, and misuse people in this country, and that we need to, in fact, as a country, and, particularly, the Federal Government, step forward and acknowledge that this isn't just irresponsible lending, it's criminal action, appoint a special prosecutor. If Milliken could go to jail for selling junk bonds, then certainly the Wall Street people and these bankers, who put together these packages of subprime lending, should be sent to jail for selling junk mortgages to investors, when they knew the mortgage was going to fail.

Thank you.

The CHAIRMAN. And, now, Councilor Sam Yoon.

STATEMENT OF SAM YOON, AT-LARGE BOSTON CITY COUNCILOR

Mr. YOON. Mr. Chairman, members of the committee, thank you very much for this opportunity. I think it's in line with what has been said at this hearing, to extend the level of cooperation from Federal, State, local, and even the local city council level, I think is tremendously important, and I thank you for this opportunity.

As Chair of the City Council's Housing Committee, I recently held hearings on the subprime mortgage foreclosure crisis, which is one of the topics that you are looking at today.

A lot of the folks who are testifying today had testified at this City Council hearing as well, too, and I want to thank you for taking the step of having a field hearing on this issue, bringing it to the community, so that people in the community can bear witness to the way the government is working together and paying attention to this issue. It's vitally important.

The City of Boston, while we are not doing as badly in a proportional sense to other cities in the State, has, nevertheless, been hard hit by this crisis, by the foreclosure crisis, and that's largely to do with our size. You know, based on our size and the size of our minority communities.

I mean, you are going to hear testimony from experts on this today.

During the hearing that I sponsored on May 7th, it became clear to me and my Council colleagues that out-of-State mortgage companies were developing business models that feature these aggressive marketing—featured aggressive marketing of high-cost, exotic mortgages, to unsuspecting consumers.

And, as the Attorney General laid out, in many cases there was outright fraud. The idea of these rescue mortgages is something that is just blatantly wrong and predatory.

And, I support the Attorney General's efforts to criminalize this kind of mortgage fraud and predatory lending practice.

It's great to hear Councilor Turner's perspective on this as well. I think that he's always been a strong ally for us on the City Council, and going to court even to exercise a foreclosure, I think, is something that's worth raising as an issue.

Currently, record numbers of foreclosures and auctions are threatening the stability of Boston's neighborhoods, and that's a large part of the reason why I wanted to have a hearing at the city level. Stable homeownership and tenancy is an important part of the city's ongoing efforts to combat violent crime. Stable homeownership, tenancy, it's an important part of our efforts to reform and improve the schools. Homeownership, stable tenancy, is basic to economic stability of neighborhoods at that level, at a neighborhood and community level. The presence of homeowners is an anchor that creates stability for future generations.

In order to address this crisis, as we are saying here today, legislative remedies are needed at the State and Federal, and even at the local levels.

I want to thank you, originally, my testimony said I urge you, but I want to thank you that what you are looking at seems to be extending community reinvestment-like requirements on all mortgage brokers and lenders, similar to the requirements that exist for banks.

It was great to hear Governor Patrick's testimony that shows clearly that this is being looked at on the State level, and maybe legislatively the path to success to some sort of realization will be sooner, here at the State level.

We have to have comprehensive reporting requirements for all mortgage lenders in order to review and rate lenders on their performance. The fact that this was triggered in Chairman Frank's mind and his office by HMDA data, the Home Mortgage Disclosure Act, look at what it's done in order to just be able to say, we need to have a hearing on this, because the numbers make it clear that there's something wrong going on.

So, a CRA style rating system for all mortgage lenders has to be put into place, and those results must be published every year.

We must also establish annual licensing requirements for mortgage brokers, and require that brokers who are offered high-cost loans, or borrowers who are offered high cost loans, receive in-person counseling with a qualified nonprofit. We have some of the best housing nonprofits and advocates in our city, I think nationally. We should take full advantage of that and, in fact, require it.

We also have to require fuller disclosure of terms for mortgage advertising, and here again, at a communications level, leadership at the Federal level for this is going to be essential to realizing it.

Further legislative remedies are needed to round out comprehensive solution to the crisis. I think Congressman Lynch has mentioned this, that there are families who are going through this right now, or are about to go through it, and we need additional consumer protection for those facing foreclosure and eviction.

I believe lenders have to give borrowers at least a 90-day period in which they can correct any "delinquency" and reinstate the loan before imposing attorney fees.

I think borrowers should have the right to cure mortgage defaults up to the very date of the foreclosure auction.

I think it's encouraging to hear that you are, basically, going to call the lenders, mortgage lenders, and even banks, to the carpet at the Federal Reserve, and I think 2 weeks, as you mentioned, Congressman Frank, Mr. Chairman.

We should require lenders to work with our housing advocates and nonprofits, many of which are in this room. As I said, we have some of the best in Boston. We should provide that relief to borrowers who are facing economic—yes, we'll wrap up.

In summary, we do need to look for creative solutions to this problem, and again, cooperation among all levels of government is absolutely essential.

My office, just to wrap up, has been getting calls from families who are facing foreclosure every week, and I want to thank the Mayor, who has been working with us at the city to provide money to counseling services, referred families to the Mattapan Multi-Service Center, to ESAC, to Urban Edge, and what I've heard anecdotally is that the workers there who are counseling need to—

Yes, and thank you very much.

[The prepared statement of Mr. Yoon can be found on page 116 of the appendix.]

The CHAIRMAN. Let me say to Councilor Turner, on the question of tenants being evicted, I will confess that I was not aware of that. I was out in August in Minneapolis, at the request of our colleague, Keith Ellison, and heard that. We have been looking at it.

Unfortunately, there does not appear to be a Federal remedy now. We have written letters which are going out from our committee to State officials and others urging banks and others who foreclose not to make that an automatic eviction. The order can stop them, but it doesn't make them do it either.

Secondly, and I had this conversation with members of our staff who were drafting our subprime bill, we are going to write into the draft of the legislation some protection for tenants. We do want to make it clear that foreclosures should not eviscerate leases, and we are going to try to provide some protection for tenants going forward.

So, I thank you for that.

Mr. Capuano.

Mr. CAPUANO. I'm glad you pointed that out, Mr. Chairman, because I would, basically, say the same things. Right now there's no Federal hook into the tenancy issues, except some minor things on the side.

If you can find something that maybe could stand up in court, we'd be more than happy to work with you, because we understand fully well it's a serious issue.

The CHAIRMAN. I'd just say, the other one is a constitution issue—there's nothing we can do about a special prosecutor. I mean, the courts have made that very clear. We can investigate, but we can't even hold anybody in contempt of Congress, because the courts have held that if Members of Congress summon a witness, and the witness declines to testify, even if Congress would have voted a contempt citation, the Justice Department could decline to prosecute.

But, we will do the other things.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I have no questions, I just want to thank both Councilor Turner and Councilor Yoon for their work. You have been right out in front on this with tenants and with people who are being affected immediately on this. I want to thank you both for your great work on it.

And, we, as a committee, will continue to work with you.

I yield back.

The CHAIRMAN. Thank you.

Next, we'll have our final panel: Mr. Campen, Ms. Hamilton, Ms. Adams-Heath, Mr. Alkins, Mr. Kennedy, Mr. Clements, and Ms. Browne.

I want to repeat that if there are any members of the audience, and I want to repeat again, that we have the statement from ACORN that Ms. Rhoderick gave us, and I will reassure that one of our key points about no preemption is going to be—we plan on that. If there are other organizations or individuals who have statements they would like to submit for the record, please feel free, and if you came prepared to say something orally, and you are not ready to hand it in writing, submit it to my office in Newton by the end of the week and it can be incorporated in the record. So, we'll keep the record open. Anyone who wanted to submit anything further in writing feel free to do that.

And, let's begin appropriately with Mr. Jim Campen, who is executive director of Americans for Fairness in Lending, and one of the leading students of this, one of the people whose work has brought this so much to the forefront.

Mr. Campen.

STATEMENT OF JIM CAMPEN, EXECUTIVE DIRECTOR, AMERICANS FOR FAIRNESS IN LENDING

Mr. CAMPEN. Thank you.

Chairman Frank, Representative Capuano, and Representative Lynch, I want to thank you for holding this field hearing, as others have done today, and for the opportunity to share with you some of the results of my research.

My name is Jim Campen, and I am now, since October 1st, the executive director of Americans for Fairness in Lending, AFFIL. AFFIL is an umbrella organization that was created by and works with its partners, 17 national and regional consumer and grassroots organizations, including the Center for Responsible Lending, ACORN, the Consumer Federation of America, Consumers Union, and the National Consumer Law Center.

AFIL's mission is to shine a spotlight on the egregiously unfair practices that are common across the entire spectrum of consumer lending, in order to build public understanding and outrage that may translate into broad grassroots pressure on lawmakers to bring about effective regulation of the lending industry.

I am also professor emeritus of economics at UMASS Boston. I have concentrated for the last 15 years on researching patterns of mortgage lending.

My testimony today will highlight three of the most significant findings that have emerged in the most recent reports in two annual series of reports that I do for the Massachusetts Community and Banking Council—Changing Patterns 13, about home purchase lending, and Borrowing Trouble 7, about subprime lending.

First, there are enormous racial and ethnic disparities in mortgage lending here. Second, there have been dramatic changes in the types of lenders who are making mortgage loans. And third, it is the nature of the lending done by the expanding sector of the industry, independent mortgage companies who are largely unregulated by anyone, that underlies the enormous racial and ethnic disparities in higher cost lending.

So first, the enormous disparities. Blacks and Latinos and their neighborhoods receive disproportionate shares of higher-cost loans. As you know, HMDA data now include limited information on loan pricing, making it possible to identify what the Fed calls higher-price loans. These are loans for which the annual percentage rate, APR, is at least 3 percentage points greater than the current interest rate on U.S. Treasury bonds of the same maturity.

For brevity, I like to refer to these high APR loans as H–A–Ls, or HALs. The statistics that I would give you to illustrate these dramatic enormous racial and ethnic disparities have been also referenced earlier today, so I won't spend much time on that. Blacks and Latinos are 4 times more likely in the City, in greater Boston, to get high-cost loans when they make home purchases. 71 percent of all the Blacks in the highest income category, more than double the area median income, over $152,000 of income, 71 percent of these Black home buyers received HALs, compared to just 9 percent of White home buyers. There is great geographical disparity, for example, not only among cities and towns, but also among Boston neighborhoods. The share of home purchase loans that were HALs was 58 percent in Mattapan, 12 times higher than the 5 percent share in Charlestown.

And, if you look at individual lenders, the three biggest overall lenders in Boston each had substantial disparity ratios for their high APR lending. That is, the share of their loans to Blacks that were HALs compared to the share of their loans to Whites. The Black/White disparity ratios were 3.5 at Countrywide, 6.0 at Wells Fargo, and 3.8 at Washington Mutual.

Secondly, the dramatic changes in the nature of the lenders, the types of lenders making loans. In my research, I placed each lender into one of three categories, reflecting the extent to which lending is subject to Federal and State regulation.

CRA lenders are defined as all banks that have one or more branches in the State, plus State-chartered credit unions. Lending in Massachusetts by these lenders is covered by the Federal and/or State Community Reinvestment Act. Out-of-State banks, consisting, primarily, of banks with no branches in Massachusetts, they are subject to CRA evaluation of the lending they do in the areas where they have branches, but their lending in Massachusetts is not covered by the CRA. And, the third category is licensed mortgage lenders, LML lenders, defined as those who require a license to make mortgage loans in Massachusetts. These are, primarily, independent mortgage companies, not affiliated with any bank. These lenders are not subject to any kind of regulation by Federal Bank regulators.

My research shows that the mortgage loan share accounted by CRA lenders has fallen precipitously, while the share accounted for by licensed mortgage lenders has risen dramatically. In the City of Boston, where I have data going back to 1980, the share of all home purchase loans accounted for by CRA lenders plunged from almost 4/5, 78 percent, of the loans in 1990 to just 1/5 of the loans in 2005.

Statewide, the share of total home purchase and refinance loans accounted for by CRA covered lenders, which I've tracked for only 5 years, shrank from 37 percent in 2001 to 22 percent in 2005, while the loan share of licensed mortgage lenders doubled, from 24 percent to 48 percent.

The linkage between these first two findings, huge disparities and a changing mix of lenders, is that LML lenders, the fastest growing and least regulated category, are responsible for the great majority of high APR loans, the loans that are directed very disproportionately to Black and Latino borrowers and communities.

On the other hand, CRA lenders, whose share of total lending is rapidly shrinking, have by far the best record of making prime loans to those same borrowers and neighborhoods.

In Massachusetts in 2005, CRA lenders accounted for just 1 percent of the total Massachusetts HALs, while LML lenders, licensed mortgage lenders, totally unregulated by the Federal Bank examiners, were responsible for 71 percent of all the HALs in the State. In 2005 in Massachusetts, none of the 20 biggest high APR lenders were covered by the CRA, while 16 of the top 20, including 4 of the top 5, were licensed mortgage lenders.

In 2000, Boston's lower-income, predominantly Black and Latino census tracts received 13 percent of all the loans made by CRA-covered lenders, twice the share that they got from prime, out-of-State banks, and licensed mortgage lenders, but far below the 31 percent share of all the loans made by subprime lenders, none of whom were CRA lenders.

These findings are highly suggestive of reverse redlining by subprime lenders, that is, targeting the same highly-minority neighborhoods that were previously covered from redlining by prime mortgage lenders.

In conclusion, I want to emphasize two principles that I believe should underline Congress' response to the enormous racial disparities in mortgage lending, things that I believe you, members of this committee, understand well. First, the playing field really needs to be level, so that all mortgage lenders are subject to similar laws and regulations, so it will protect consumers from unfair and predatory practices, promote wealth building by households and communities, and prevent a race to the bottom where lenders who choose to maintain responsible lending practices face loss of market share to unscrupulous competitors. Part of that is a comprehensive anti-predatory lending legislation, but I think that my research findings underline, in particular, the need for modernizing the CRA, so that banks receive CRA performance evaluations everywhere that they account for a substantial share of total lending, not just where they have branches, so that CRA evaluations are formed on a comprehensive, corporate-wide level, rather than separately for each lending institution, each depository institution and affiliate or subsidiary, and that independent mortgage companies and credit unions will be subject to regulations, performance evaluations and ratings analogous to those that the CRA imposes on banks.

Secondly, it's important to enforce the laws that exist. It's not true that all the lenders who aren't licensed mortgage lenders do well, but some of the worst performers, including Fremont, which the Attorney General has lawsuits against, is a bank in California. And, in spite of this, it is a predatory lender that was allowed to run unchecked, basically, at least to the end of 2006.

In an important respect, the current subprime mortgage lending crisis reminds me of the savings and loan crisis that was in full swing when I first began to focus my research on banking and mortgage lending in 1989. Then, as now, irresponsible lending on a massive scale had resulted in serious hardship for many borrowers and neighborhoods, failures for numerous large financial institutions and significant impacts on the overall economy. The response then included new legislation to promote—

The CHAIRMAN. Let's stick with this one. We are running out of time, so let's forget the S&L crisis and stick with the current crisis.

Mr. CAMPEN. Okay, then, as now, then my Representative took the lead in that, Joe Kennedy. His successor, my Representative, is now taking the lead in this, along with you, who represents an adjacent district, and I'm proud of that.

And, thanks again for the opportunity, I'll answer any questions.

[The prepared statement of Mr. Campen can be found on page 55 of the appendix.]

The CHAIRMAN. Thank you. We will be addressing the need to expand CRA next year, and we will be inviting you down to Washington to particularly focus on how best to reshape the CRA.

Next, Ms. Ginny Hamilton, has already been introduced by her Congressman, Congressman Lynch. Ms. Hamilton is the executive director of the Fair Housing Center of Greater Boston.

Ms. Hamilton.

STATEMENT OF GINNY HAMILTON, EXECUTIVE DIRECTOR, FAIR HOUSING CENTER OF GREATER BOSTON

Ms. HAMILTON. Thank you, Mr. Chairman, and members of the committee, including my Representative, for summarizing my comments quite well.

My name is Ginny Hamilton. I work with the Fair Housing Center of Greater Boston, and we work to eliminate housing discrimination and promote open communities throughout the greater Boston region. We do this by providing education and training, community outreach, testing, research, policy advocacy, and case advocacy for people who have experienced housing discrimination.

Approximately half of our funding comes from the Department of Housing and Urban Development, Fair Housing Initiatives Program, and we are active members of the National Fair Housing Alliance.

My comments today are about our use of paired testing to document racial discrimination in lending in Boston and eastern Massachusetts.

I come to you today because commentary on the foreclosure crisis regularly includes statements about African American and Latino borrowers posing more of a credit risk to lenders than White borrowers. Therefore, the logic goes, these buyers are more likely to end up with a subprime or potentially risky loan. This scenario may describe one piece of the problem, but it is not a complete accounting of the situation. Our testing shows evidence of discrimination against African American, Latino, and Asian home buyers, with good credit histories, sufficient savings, and solid income to secure prime market loans.

During the 4 months from October 2005, to January 2006, we conducted testing to determine the extent and nature of discrimination in our region. We used racially matched pairs of trained volunteers to visit 10 banks and 10 mortgage lenders, and to report in detail on their experiences. Not low-income borrowers, all our testers inquired about a $475,000 mortgage, with $25,000 to put down as a downpayment. Ten pairs of testers were assigned credit scores of approximately 750, and ten pairs assigned credit scores of approximately 650. In all pairs, the African American, Latino, and Asian testers were assigned slightly higher credit scores in income, slightly lower debt compared to their White counterpart, so that in a discrimination free environment the tester of color would have been slightly better qualified for the home loan.

Even so, as Congressman Lynch referred, we found differences in treatment which disadvantaged the home buyer of color in 9 of the 20 matched pair tests which were conducted, 45 percent. Three specific examples to highlight, in 7 of the 20 tests, the White loan seeker received substantially more information from the lender about loan products and services, the financial literacy piece discussed earlier. In 4 of the 20 tests, the lender contacted the White tester after their meeting to follow up, but did not contact the tester of color. However, this never happened in reverse. And in 5 out of 20 tests, the White tester was offered a discount on closing costs, which was not offered to the tester of color, or was quoted a substantially lower closing cost than the tester of color, and these differences ranged from $500 to $3,600.

In the first stages of shopping for a mortgage, limited product information, lack of follow-up, and quotes with high closing costs can discourage home seekers of color from pursuing homeownership at all, and if such specials, follow-up contact, and detailed product information are made available to Whites, but not to loan seekers of color, the lender is pursuing White customers, while allowing non-White potential customers to walk away.

It's important to note that none of the testers of color or the Whites were aware of their relative advantage or disadvantage. No individuals were subjected to overt discrimination, but this simple fact underscores the need for testing as a means of gauging discrimination, particularly in a lending industry characterized by such large differences and outcome as Jim and his data has described.

If a loan seeker can't detect these differences, and is going to a lender who is disadvantaging them, they may end up paying more for a loan, either within the main-line lending institution, or by turning to a subprime lender or a predatory lender who welcomes his or her business. And, when African American and Latinos pay substantially more per month than similarly-situated White people, these costs perpetuate the wealth vat between Whites and other racial groups, despite rising incomes and rates of homeownership amongst people of color.

These higher costs also expose African American and Latino home buyers to higher risk of foreclosure than their White counterparts, who are welcomed into the prime market.

Currently, most of the fair lending cases are brought by private fair housing organizations and individual attorneys, and while these private efforts are important the full engagement of responsible Federal Government agencies is an essential component of any serious effort to combat lending discrimination. If the Government fails to pursue such cases, or does not engage in competent effort to uncover discrimination, then most lending discrimination goes unchecked, and, indeed, for the entire history of our country it has.

Increased and expanded regulation is important. However, enforcement is key as well. The lack of Federal enforcement actually provides a form of safe harbor for those in the industry engaging in discriminatory practices.

This summer, HUD established fair lending enforcement offices, and recently announced funding for enforcement in eight of its regional partners, including the Massachusetts Commission Against Discrimination. We believe that this HUD office, and its State and local affiliates, should be given appropriate resources, especially including in-depth training, to proactively investigate fair lending violations, and we welcome this increased enforcement capacity locally and have begun conversations with the staff at MCAD and the Attorney General's office to utilize testing to assist with their enforcement proceedings.

As you have heard all morning, Massachusetts is at the forefront of the foreclosure crisis, but also at the forefront of efforts to remediate the problem, and we see today the State and local officials are engaged with community groups to enforce existing laws, strengthen oversight, and assist communities and consumers in duress.

Congressional efforts to solve this problem nationally should not undermine efforts in the State to do so, and we appreciate your commitment, Mr. Chairman, to having Federal legislation be a floor, not a ceiling.

To wrap up, I want to offer just a few recommendations. Congress should move to regulate all financial institutions active in lending, and many of the details of that have been shared by others today. That should not preempt the ability of State governments to enforce stricter consumer protection standards.

Congress should require Federal enforcement in regulatory to undertake more aggressive, effective and expansive oversight and enforcement activities, and should make more extensive use of paired testing in their own enforcement activities, by contracting and working directly with qualified fair housing enforcement organizations.

Congress and Federal agencies should provide an exemption to qualified fair housing organizations to allow mortgage lending testing beyond the pre-application phase of the mortgage lending process, which is all that we can test at this moment.

Thank you for this opportunity to testify, and I'm happy to answer questions or share more details of our work.

[The prepared statement of Ms. Hamilton can be found on page 92 of the appendix.]

The CHAIRMAN. Thank you.

I do want to note that we have been joined by another one of our hosts, State Representative Gloria Fox. Representative Fox, thank you for joining us.

Ms. FOX. Good afternoon.

The CHAIRMAN. And next, we will hear from Ms. Acia Adams-Heath, who is the president of the Massachusetts Affordable Housing Alliance.

STATEMENT OF ACIA ADAMS-HEATH, PRESIDENT, MASSACHUSETTS AFFORDABLE HOUSING ALLIANCE

Ms. ADAMS-HEATH. Good afternoon, and thank you, everyone.

Chairman Frank, Congressman Capuano, and other members of the committee, I just wanted to thank you for holding this field hearing, just to echo Sam Yoon, in Roxbury today. My name is Acia Adams-Heath, and I am president of the Massachusetts Affordable Housing Alliance and a resident of Dorchester.

MAHA is a nonprofit organization that works to increase public and private sector investment in affordable housing, and to break down the barriers facing low- and moderate-income first-time home buyers.

MAHA's signature achievement has been the establishment and expansion of the SoftSecond Mortgage Loan Program, which, with the support of the Massachusetts Housing Partnership, has helped 10,000 families buy their first home.

In today's testimony, I wanted to summarize how the SoftSecond Program came to be and detail some of the remarkable statistics that make the program a model homeownership initiative.

Finally, I will offer some recommendations for updating State and Federal laws regarding a lender's responsibility to borrowers and to communities, but I will summarize in the interest of time.

To understand how the SoftSecond came into play such an important role in the Boston area mortgage lending, you need to go back to 1989. On January 11, 1989, the Boston Globe front page had a lead story on a leak draft study from the Federal Reserve Bank of Boston. The study found racial disparities in bank mortgage lending patterns in Boston neighborhoods. That leak draft kicked off a 2-year effort to address these racial disparities that included protests, confrontations, negotiations, and ultimately collaboration.

The centerpiece of these negotiations was a mortgage program that MAHA hoped would address these patterns of racial disparities and we call that the SoftSecond.

The SoftSecond works because it is smartly designed and affordable over the long term for lower-income, first-time home buyers, and it gets its name from the fact that each borrower receives two loans, a 77 percent first mortgage and a second 20 percent mortgage that is interest only for 10 years before becoming a fully amortized loan over the last 20 years. Both loans are originated as slightly below market interest rates, and come with a small public subsidy that acts as a loan loss reserve for the lender and a further interest rate subsidy for the borrower.

In the City of Boston, the SoftSecond program has become the leading anti-redlining program. From 1991 to 2006, 3,546 people received a SoftSecond loan. Over the last 3 years, the Black loan share in the program was 33 percent, while Black households account for just 21 percent of the City households. Latino share was nearly 27 percent, while they account for just under 11 percent of the households in the City, and the Asian share loan was 8.5 percent, while they account for just under 7 percent of the City's households.

Statewide, the numbers are just as impressive, with Black, Latino, and Asian loan shares anywhere from 2 to 5 times higher than these groups shares of total households in the State. The program is clearly worked to help bank lenders reverse patterns of racial disparities, and it has been a significant program in terms of its impacts as well.

SoftSecond loans total $1.4 billion in private sector lending to low- and moderate-income Massachusetts residents.

In the City of Boston alone, in 2005, SoftSecond loans accounted for 20 percent of all home purchase loans to low- and moderate-income borrowers.

The delinquency rates in the program still remain low, even with the growing foreclosure crisis in many of our neighborhoods. Our SoftSecond Statewide delinquency rate as of the end of 2006 is 2.2 percent compared to an overall Statewide delinquency rate on all mortgages of 2.8 for prime mortgages, and 15.4 percent for subprime. We have attached a complete report of the SoftSecond loan program offered by Professor Campen for the MCBC to our testimony today. It's called, "Expanding Home Ownership Opportunities to the SoftSecond Loan Program, 1991 to 2006," and it provides many more details about this incredible program.

Lastly, the policy recommendations that those of us at MAHA have learned a lot over the past 20 years, we have seen the negative effects of not enough lending in our neighborhoods, have participated in the rise of homeownership levels for many of our fellow Black, Latino, and Asian neighbors, as the SoftSecond Program has grown, and now are fighting the impact of too many bad lending by largely unregulated institutions.

Our State and Nation's laws have simply not kept pace with the rapid change in our mortgage lending industry, and we urge the following policy changes. As has been said before, we support comprehensive anti-predatory lending legislation that would apply to all mortgage lenders. What Massachusetts did in 2004 is just not enough, and the current crisis is ample evidence of that.

We need anti-predatory language that strikes at the heart of the business model used by many subprime lenders, language that makes it impossible for lenders to give a borrower a loan they know the borrower cannot pay back. It requires them to clearly market the terms and conditions of such loans in all advertising.

Second, we need to do more than just stop bad lending. We must encourage good lending in all our neighborhoods. We support extending CRA or CRA-like requirements to all mortgage lenders wherever they lend. We believe this can be best done with States acting to impose CRA-like requirements on State license mortgage lenders, similar to Massachusetts Senate Bill No. 2299 that's currently under consideration in the House of Representatives.

In addition, we believe Congress should move to, one, extend bank CRA performance evaluations, not only for lending and assessment areas defined around the location of bank branches, but also for bank lending in every geographical area in which they have significant market share. In Boston, that would mean Wells Fargo and Washington Mutual, which have the same CRA responsibilities as Bank of America and Sovereign.

Again, I'd like to thank you for the opportunity to testify today, and I will be happy to answer any questions you have.

Thank you.

[The prepared statement of Ms. Adams-Heath can be found on page 42 of the appendix.]

The CHAIRMAN. Thank you, Ms. Adams-Heath. Let me say that I note that we have also been joined by another member of the legislature, State Representative Liz Malia, our neighbor from Jamaica Plains is here.

Next, the president emeritus of the Boston Chapter of the NAACP, Mr. Lenny Alkins.

STATEMENT OF LEONARD ALKINS, PRESIDENT EMERITUS, NAACP BOSTON BRANCH

Mr. ALKINS. Thank you. Mr. Chairman, Congressman Capuano, Congressman Lynch, I want to thank you for the opportunity to address this prestigious committee on a very important issue which has destroyed the hopes and desires of families and individuals working to achieve the American dream.

As it was said, I am Leonard Alkins, the former president of the Boston branch of the NAACP, which is the oldest branch of the National Association of the Advancement of Colored People established in 1911.

Over the last century, the NAACP has been an agent for change in some of the key civil rights activities of our time: housing; banking; and economic development, to name a few.

The perpetual drive of equality led the NAACP to fight against the practices of redlining and to challenge financial institutions to reinvest in the community. How ironic is it that we are now faced with a different side of the problem? Today, many of those same families that we fought with to become homeowners are witnessing the curdling of their American dream.

On July 11th of this year, the National Association for the Advancement of Colored People in Baltimore, Maryland, filed a Federal class action lawsuit against 14 of the country's largest subprime mortgage lenders including: Ameriquest; Fremont; Option One; WMC Mortgage; Long Beach Mortgage; BNC Mortgage; Accredited Home Lending; Encore; First Franklin; HSBC; and Washington Mutual. The lawsuit is designed to bring about equitable lending practices that do not adversely affect borrowers based on their race.

In 2004, Chapter 268 of the Acts of 2004 was enacted to address predatory lending here in Massachusetts, by forbidding anyone from arranging a high-cost mortgage unless he or she "reasonably believes" that the borrower will be able to repay it. State consumer protection regulations also prevented brokers from withholding information that might cause potential borrowers to back off. However, many brokers ignored that provision. What does this tell us?

We need legislation that is strong and has the necessary consequences for anyone who is found guilty of violating the law. Congress and the President of the United States must commit to passing and signing a bill that ensures accountability with substantial fines and potential incarceration for anyone who violates the law. Only then will we begin to see the fruits of our labor.

Mr. Chairman, as well as members of this distinguished committee, let me caution you that anything short of what I am suggesting will have us addressing the same issue again within the next decade.

In closing, let me remind you of the words of a great drum major in the struggle for equality and justice for all people, the late civil rights leader, Ms. Fannie Lou Hamer, who eloquently stated, "I'm sick and tired of being sick and tired." Our community is calling on this Congress to create lasting protection for the many people who attempted to own their homes and fulfill that American dream.

I humbly suggest that you take all of the testimony that is offered here today, as well as other testimony you may have received from individuals and organizations from around the country, and use this information to build a bipartisan coalition to redraft a strong bill that will address all the problems of predatory lending. The time is now for the Congress to stand up and speak for the people, to tell the special interest groups that too many individuals and families have been harmed or destroyed by these illegal practices. Enough is enough.

Thank you, Mr. Chairman, and members of this committee, for taking the time to travel to Roxbury in the City of Boston to listen to our concerns.

[The prepared statement of Mr. Alkins can be found on page 46 of the appendix.]

The CHAIRMAN. Next we will have Mr. Thomas Kennedy, the senior vice president of Sovereign Bank.

STATEMENT OF THOMAS B. KENNEDY, SENIOR VICE PRESIDENT, SOVEREIGN BANK NEW ENGLAND

Mr. KENNEDY. Thank you, Mr. Chairman. I'm honored to be here to testify before you and your committee, Representative Lynch, and Representative Capuano. I have to say that Congressman Frank has been my Congressman now ever since he has been in Congress, a fact of which I'm very proud, and I am especially pleased to be here to testify.

I have submitted written testimony. I will not recite all of that here. I would just give you some highlights from my perspective, in terms of an $81 billion bank that has a significant presence, not only in Massachusetts, but throughout the northeast, and the Mid-Atlantic States begin by saying that community reinvestment and community development starts at the top of the house, and we are very fortunate in that we have leadership, first when Sovereign came to New England in March of 2000, with John Hamill, who remains as chairman of the bank in New England, and now Joseph Camponelli, who is president and CEO of the bank, to lead our commitment in terms of reinvestment in terms of, not only this community, but throughout our footprint.

We see that community development, indeed, is good business and, indeed, mortgage lending is very good business as well.

We have demonstrated that through significant commitments that we have made over an extended period of time. We are currently in a commitment of some $16 billion to reinvest in the communities in which we have a principal banking presence, including mortgage lending. This gets reflected in local agreements that we have signed here, first with the Community Advisory Committee here in the Commonwealth of Massachusetts, and, specifically, with Massachusetts Affordable Housing Alliance with the

SoftSecond Mortgage Program, has already been testified the most successful first-time, low-income mortgage program in the Commonwealth of Massachusetts, and we are now the leading mortgage originator of that product here in the Commonwealth.

One of the reasons I believe for the success of what we have learned as a banking institution in this community has come about as a result of collaboration, not only with State and local government, but community groups as well. And, this has led to significant commitments and has led to success in terms of our being a banking institution in this community.

I'd also like to say that this has led to significant demonstration of personnel, of product, of program—

The CHAIRMAN. Kenny, we really are here for a very specific point, so let's not get way beyond—personnel, we'll get to it in another hearing. We are here about subprime and we are here about housing mortgage discrimination.

Mr. KENNEDY. All right. In terms of subprime, that is not a product that we are participating in, that's not—we have some 35—

The CHAIRMAN. Well then, you can just move on to the next—then the question would be discrimination in home mortgages, would the other issue be relevant to it?

Mr. KENNEDY. The other issue, we do analyze very carefully the mortgage denial rate disparity that when you do the analysis of our 206 mortgage lending data, there is a disparity there that we notice, and has been, that we are attempting to address with these particular programs, that is something that we are not proud of, but it is something that we, as an industry, have been working on through the Massachusetts Community and Banking Council, attempting to address those issues, to put in programs and policies that would address and bring that closer to parody.

And, in my testimony, I've demonstrated what we've attempted to do in terms of trying to address that, in terms of our continuing outreach to the community, per se.

[The prepared statement of Mr. Kennedy can be found on page 105 of the appendix.]

The CHAIRMAN. Ms. Browne, Lynn Browne, is executive vice president and senior economist, Federal Reserve Bank of Boston.

STATEMENT OF LYNN E. BROWNE, EXECUTIVE VICE PRESIDENT AND SENIOR ECONOMIST, FEDERAL RESERVE BANK OF BOSTON

Ms. BROWNE. Chairman Frank, Representative Capuano, and Representative Lynch, I'm very pleased to be here and share my views on housing patterns in the greater Boston area.

I am responsible for community affairs and consumer education at the Federal Reserve Bank of Boston. The past 10 years have seen dramatic changes in housing and mortgage markets, both nationally and here in the Boston area. Until quite recently, housing prices were rising rapidly, and homeownership was rising, especially, for minorities.

There were, as you've heard from others, negative developments, in particular, it was apparent with the HMDA data that Blacks and Latinos were disproportionately likely to get high-rate loans, and disproportionately likely to be served by mortgage lenders specializing in high-rate loans.

While these were certainly disturbing developments, many people took comfort from the fact that homeownership was rising. With housing prices rising, presumably, many households were accumulating housing equity and wealth.

That situation has changed dramatically in the past year. We have seen housing prices level off, and in the greater Boston area by some measures they have declined. We have seen foreclosure initiations increase sharply. Here in Massachusetts, they have gone from way below the national average to about the national average. Foreclosure initiations are also rising nationally, but not quite as sharply because there were parts of the country like the Great Lake States that had pretty high foreclosure rates for some time.

The rise in foreclosure initiations has been particularly pronounced for subprime loans with adjustable rates. Although these account for only about 10 percent of mortgages, in Massachusetts, they account for about 50 percent of the foreclosure initiations. But, it is not just those categories of loans. We are also seeing pick ups in foreclosure initiations among subprime fixed loans and prime adjustable.

I think the problem is going to get worse before it gets better. In particular, in the recent past, with housing prices rising rapidly, borrowers who faced difficulties or faced the prospect of a reset in their adjustable rate mortgages could refinance. Now that housing prices have leveled off or are declining, that option is much less likely to be available.

Additionally, many recent subprime borrowers do, indeed, face the prospect of substantial increases in their interest rates. What are commonly called 2/28 and 3/27 mortgages have been quite popular recently. These have an initial teaser rate that holds for about 2 or 3 years before resetting, and these were quite prevalent in 2005 and 2006. So we are coming up—have been coming up on the resets.

In fact, and this is relevant as we think about what to do going forward, that teaser rate is not all that low. We have had some Boston Fed researchers looking at loans in the Middlesex County area, and they find that the teaser rate for 2/28s originated in 2005 was about 7 percent, and 8 percent for 2/28s originated in 2006. These rates are going to reset to about 11 percent. But, it is relevant that the initial rate is actually quite high.

Now, as Representative Lynch has already said, the options for dealing with the foreclosure problem in the here and now, as opposed to looking forward, are frustratingly limited, and we hope that one message gets out, that borrowers have to be very active in seeking help. They have to go to their servicers if they expect any difficulty with their mortgage payments. They need to shop around. And, I acknowledge that they have to be very persistent, because most servicers are not staffed to cope with the volume of problems that they are currently handling.

We think it is possible that some subprime borrowers might have the opportunity to transition from a subprime loan into a better product, either a prime product or, perhaps, a subprime fixed product, before their interest rates reset. Although subprime loans are generally regarded as loans to individuals with weak credit histories, Boston Fed researchers again, just looking at Middlesex County data, have found that a significant fraction of the Middlesex County borrowers with subprime loans have pretty decent FICO scores. Now, why they are in the subprime mortgage, I don't know, in some cases maybe a high loan to value, in some cases they may have been misplaced, in some cases it was just easy to go to that lender. But, it's conceivable that those borrowers, by shopping around, might be able to refinance.

Additionally, as I pointed out, the actual teaser rates for some of these subprime loans aren't all that low. In fact, if you made your mortgage payments on a regular basis for the past year or so, you might be a promising candidate for a better mortgage product.

And finally, some subprime borrowers have been in their house long enough that they have accumulated equity, so that they, again, might be able to refinance into a better product, because of their large equity.

The whole subprime market is predicated on borrowers being able to refinance. It is quite important that responsible subprime lending continue, because otherwise people are going to be stuck with these quite sharp increases in rates. But, it is also possible that there may be an opportunity for banks and thrift institutions to play a larger role than they have done. We've already heard that they have lost market share to mortgage banks. Eric Rosengren, president of the Federal Reserve Bank of Boston, has been trying to reach out to bankers in New England to explore the possibility for commercial banks to play a more active role in providing liquidity to this market. Most commercial banks and savings banks at the local level are not in the subprime market, many of them don't want to be, but there are, potentially, customers there who might be eligible for prime products.

We are trying to get out the word, both to bankers, but also to the consumer. We are developing a Web site, and developing some brochures, to try and spread the word that borrowers need to shop around. They need to act now before they are in trouble.

And we, at the Boston Fed, hope to work with financial institutions, community groups, government officials, and other regulators to address what really is a very, very difficult and unfortunate situation.

[The prepared statement of Ms. Browne can be found on page 48 of the appendix.]

The CHAIRMAN. Thank you, Ms. Browne.

Let me say, and you have been very responsive, but, frankly, one of your comments sort of underlined the problem when you said, well, there were people who have good credit and they are in subprime, and you listed possible reasons why they were there. You didn't mention racial discrimination, and I think it's clear that discrimination is one of the reasons, and we just have to get our minds around that.

I mean, you said maybe they had too high a debt to loan value, and maybe this, and maybe this, and undeniably discrimination, and that's—and I have to ask you, and Mr. Kennedy, you say in your testimony that the denial rate disparity we are talking about from your testimony was more than double for minorities, 25 percent versus 11 percent for Whites. White originations, 38 percent, minority originations, 55, the denial rate between Whites 14, minorities, 28, and it is not entirely due, as you acknowledge, to creditworthiness.

My question is this, and I don't know if you'll know this off the top of your head: Has anybody at Sovereign Bank ever been disciplined for not treating people fairly? Has there ever, and I would also ask, look, here's the problem, we've been working on this in our committee, where is the enforcement record? We have this on the books, Ms. Hamilton has talked about this, you have to start taking it seriously, there has to be, and we are going to keep pushing this, and it has to be, here's the terrible facts, we have an enormous disparity, some of which clearly is racial and ethnic discrimination. That's the only explanation for it. And, we have, virtually, no record of any discipline, virtually, no record of any enforcement, and that cannot continue, and I say that to the banks, who should be disciplining people, and to the regulators who will be enforcing?

Mr. Kennedy, I'd be interested, you know, I don't expect you know it off the top of your head, but has anybody ever been disciplined by the bank for this?

Mr. KENNEDY. Congressman, I do not know that they have. I know that we look at that, all denials that come through we have a Second Look Committee. We examine the terms and conditions of the loan, the background, etc. Sometimes those denials have been overturned by that process. I do not know, and I do not believe that anyone has specifically been disciplined in that regard.

The CHAIRMAN. But, with all the effort, you do say the denial disparity rates have increased in recent years.

Mr. KENNEDY. Yes.

The CHAIRMAN. It has gotten worse rather than better.

Mr. KENNEDY. Well, I agree, that is something that has disturbed us as well. One of the reasons, as we have expanded our efforts here in Massachusetts, continued to add staff, reach out further, work more closely with community groups, have expanded the pool of applicants as well, and, you know, that's one of the conundrums that we've looked at.

The CHAIRMAN. Well, I can see that would account for everything else being equal for an increase in the absolute number of denials.

Mr. KENNEDY. Yes.

The CHAIRMAN. But not for an increase in the disparity rate.

The only other thing I would ask is, Ms. Browne, I was struck, and I appreciate it, because the quality of the research has been very helpful, as has Mr. Campen's, you said that the servicers are not well staffed to be able to redo this.

Now, we are going to be dealing with legislation, and one of the things that we have in mind is to put some restrictions on the servicers and some liability, and they are telling us that this would be a bad thing.

I want to serve notice now, if the servicers can't do a much better job than they are doing, of trying to provide some relief, then their argument against restrictions on them is going to be weakened. There's some relationship here.

And, people are telling us, leave us alone, who aren't able to deliver, let me just say this, it's a very important part of legislation.

I know we have Representative Fox, Representation Malia, we've been joined by Councilor Yancey, my colleague, every legislator knows, we can't compel people to be flexible, but they can't compel us to write the bill they want us to.

And, I think everybody ought to remember a very important piece of legislation is that the ankle bone is connected to the shoulder bone, and we intend to look at this as we make our judgments.

Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Chairman, I just want to, first of all, thank our panelists. I mean, I've dealt with pretty much all of you at one level or another, and, you know, you have been doing this a long time, and you are doing a great job with it. So, I really appreciate you being here today.

But, I also—I need to ask for help as we go forward. Most of you know how legislation is made, and again, as I've said earlier, you know, the fact that we have Barney Frank as our chairman and overseeing the staff is very, very helpful and very beneficial. At the same time, you are the people on the front lines, and sometimes we do have difficulty in Washington connecting the rubber and the road, and it's not because of lack of trying or lack of desire, it's just sometimes we don't always see some of the things that happen. So, I'm encouraging you, and asking you, and begging you, as we go forward with this legislation, please let us know if we are missing something, if there are some holes in it that we can fill in, also understanding, you know, limitations that we have, which you'll be told if we think that, well, it's a good idea but we can't get it done.

But, that's of great interest to me, because that's usually where the holes are. I'm never concerned with Barney as the chairman and with the staff that he has, I'm never concerned that the big picture issue is going to be missed or the intent is going to be missed, but sometimes there are holes here and there that you will see, because you are living it, more than we will see it.

I encourage you to let us know that.

I guess I'll stop there. That's the most important thing. You guys are doing a great job. I appreciate you letting us know numbers. Numbers are important, but what's more important is individuals.

I also want to be clear that, you know, on the legislation that we draft, we will not be able to help everyone. We'd like to. I think that would be a wonderful goal and a wonderful desire, but it's just not going to be possible. There are going to be people, some people, who got loans who can't carry those loans, that we just can't help. But, we can, hopefully, do the best we can to prevent it from happening again, and that's where I encourage you to help us look. That's the thing that I think we are the best at, and, you know, I just want to make sure that whatever we do do fills all the holes that are possible.

So, thank you.

The CHAIRMAN. I thank the Representative for saying that, because that is a very important point, not to raise false hopes for a lot of people.

Mr. ALKINS. Mr. Chairman, could I just interject, the important thing here is that people who are arrested for shoplifting have more chance of going to jail than somebody who is found guilty of predatory lending.

And, if we don't put some teeth into the legislation to hold people accountable, we have to recognize that lives are being destroyed. Some will rebound, but many more will not.

So, I ask you to work with us as the community, we will work with you and fight for you to get the network out there to get whatever you put, as long as it is a strong and meaningful piece of legislation, we will work with you and fight with the other Members of Congress to put it forward.

The CHAIRMAN. Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

One of the most troubling aspects of Ms. Hamilton's report was that even in some of the instances where she found discrimination occurring, that data would not be picked up under current disclosure, under the Home Mortgage Disclosure Act, a lot of that criteria is missed.

If you go back to 1977 when the Community and Reinvestment Act was passed, it was passed in response to urban decay in a lot of the minority neighborhoods that are served by the CRA today.

The problem is that when it was passed the vast, vast, vast, vast majority of mortgages originated with either banks or thrift institutions. Today, you know, you fast forward and today it looks like almost 70 percent of mortgages are written by private mortgage companies that are not subject to coverage of the CRA. So, we are losing the focus of the CRA by attrition.

Now, Mr. Kennedy, you testified today, and I read your rating, I went on line and checked out Sovereign's CRA, you got an outstanding rating, so I'll put that out there, but what can we do, what can we do to bring back all those people who are right now writing mortgages, underwriting mortgages, the brokers, the mortgage companies, who aren't subject to CRA, how can we make them more accountable? I know that they don't have some of the advantages that were sort of the quid pro quo for the original CRA application, but what can we do to make them live up to what I think is a responsibility that they have to the communities that they serve, to make sure that credit is democratic throughout the communities that they do serve?

Mr. KENNEDY. I guess, Congressman, I would respond to your question by saying that when CRA was passed in 1997, indeed, you are correct, it was trying to address the issues of disinvestment in our urban areas.

We had the Great Society Program, and billions of dollars poured in, and things seemed to be getting worse, and this was an attempt to bring focus to those assessment areas where financial institutions had their principal banking presence.

It took, as we know, a while for banks to fully understand what that meant.

I guess I would address that question by saying, banks, I think, on the whole, have stepped up to the plate and have come to a very mature understanding as to what that is, and to realize there is an affirmative responsibility when one is dealing with capital and putting it back into the community, and being able to do business there.

We are a chartered financial institution, and so we are obligated, as a result of that.

I think the proof is in the pudding, as to what has happened there for the financial institutions. We've seen, just what I've seen in the 18 years that I've been directly involved with this here in New England, and, specifically, Massachusetts and Boston, it is a significant transformation. There is a tremendous amount of work that still needs to be done, and yet as other financial institutions have come in we have had to, you know, obviously, meet that competition.

Regulation, I think that's something that has to be seriously explored.

The CHAIRMAN. Let me just, a closing note here on this, yes, one of the several sets that was here, but that intelligent, and thoughtful, and flexible regulation is essential, not because we are anti-market, but because we understand the market works better in that situation.

The problem with subprime loans was much worse in the totally unregulated sector than in the regulated sector. CRA is a very important and thoughtful regulation, and there's a great deal to be said here for that, as is, of course, fair lending.

We've come to a time, let me say, I know we've been joined by Representative Fox, City Councilor Yancey, and Representative Malia, we do not have time for further testimony, we will be glad to acknowledge that all of them are people who have a great deal of concern about this. We've discussed it, I've talked with all three of them about it. I know that they share these concerns.

We will leave the record open and written statements will be accepted up until the end of the week. So, I apologize, but we did run out of time. I do know that Representative Fox, City Councilor Yancey, and Representative Malia have all been in the forefront of this; they have been collaborators with us, and will continue to be.

The hearing is now adjourned.

[Whereupon, at 1:12 p.m., the hearing was adjourned.]

A P P E N D I X

October 15, 2007

"SoftSecond Mortgage Loan Program: A Case Study in Reversing Racial Disparities in Mortgage Lending in Greater Boston"

Testimony before the

House Financial Services Committee
U. S. House of Representatives

Field Hearing
Reggie Lewis Track & Athletic Center
Roxbury Community College
Roxbury, Massachusetts
October 15, 2007

by

Acia Adams-Heath
President
Massachusetts Affordable Housing Alliance
197A Centre Street
Dorchester MA 02124
617-822-9100
www.mahahome.org

Chairman Frank, Congressman Capuano and other members of the Committee, I want to thank you for holding this field hearing in Roxbury today. My name is Acia Adams-Heath and I am the President of the Massachusetts Affordable Housing Alliance and a resident of Dorchester. MAHA is a non-profit organization that works to increase public and private sector investment in affordable housing and to break down the barriers facing low and moderate income first time homebuyers. MAHA's signature achievement has been the establishment and expansion of the SoftSecond loan program which, with the support of the Massachusetts Housing Partnership, has helped 10,000 families buy their first home. MAHA educates low and moderate income homebuyers and homeowners and since 1991 we have graduated over 13,600 people from one of our five Homeownership University$_{SM}$ classes. We are proud that our mortgage program and education classes have resulted in not just affordable homeownership opportunities for many lower income Massachusetts residents but sustainable ones as well. In today's testimony, I will summarize how the SoftSecond program came to be and detail some of the remarkable statistics that make the program a model homeownership initiative. Finally, I will offer some recommendations for updating state and federal laws regarding a lenders responsibilities to borrowers and to communities. I must start by thanking Professor Jim Campen, who has conducted researched the SoftSecond program over the years for the Massachusetts Community and Banking Council. Jim's research as well as the support of MCBC's Kathy Tullberg, MHP's Clark Ziegler, and participating banks have helped to make this program one of the most studied and most successful programs in the nation.

History of the SoftSecond program

To understand how this one program came to play such an important role in Boston area mortgage lending, you need to go back to 1989. On January 11, 1989, the Boston Globe's front page had a lead story on a leaked draft study from the Federal Reserve Bank of Boston. That study found "racial disparities" in bank mortgage lending patterns in Boston neighborhoods. That leaked draft kicked off a two year effort to address these racial disparities that included protests, confrontations, negotiations, and ultimately collaboration. The centerpiece of these negotiations was a mortgage program that MAHA hoped would address these patterns of racial disparities. In Janaury of 2001, almost two years to the date from the original Boston Globe story, Florence Hagins moved into a two-family home atop Jones Hill in Dorchester. Florence is an African-American single mother who had been denied a mortgage just weeks before the launch of the SoftSecond program and became its first applicant after she saw a flyer advertising a MAHA community meeting about the program. The SoftSecond program is unique in many ways, not the least of which is that the program was negotiated with low and moderate income homebuyers at the table. MAHA's Homebuyers union members at the time were led by Diana Strother and Adrianne Anderson who were both prospective homebuyers. They made sure that the program being designed worked for homebuyers of modest means and they were also focused on how the program could be sustained well into the future. They understood that mortgage lending is too important to the health of a community to let unresponsive or unregulated institutions make decisions about the best way to deliver mortgage products. Of course, all of this activity took place in the context of the Community Reinvestment Act, a law that governed virtually all of the major lenders in the Boston area in the late 1980's and early 1990's.

The SoftSecond works because it is smartly designed and truly affordable over the long term for lower income first time homebuyers. It gets it name from the fact that each borrower receives two loans, a 77% first mortgage and a 20% second mortgage that is interest-only for 10 years before becoming a fully-amortized loan over the last 20 years. Both loans are originated at slightly below-market interest rates and come with a small public subsidy that acts as a loan loss reserve for the lender and a further interest rate subsidy for the borrower.

SoftSecond statistics

While the program started with a modest beginning - three banks made one-time commitments to each do $4 million in lending – it quickly expanded as banks negotiated agreements with MAHA as they entered the state or as they sought to improve their CRA record in the community. Thanks to Professor Campen, we are able to highlight some very impressive numbers about the program some sixteen years after its launch.

In the city of Boston, the SoftSecond program was become the leading anti-redlining program. From 1991 – 2006, 3,546 people received a SoftSecond loan in the city of Boston and approximately 70% of those buyers have been persons of color. Over the last three years, the Black loan share in the program was 33% while black households account for just 21% of the city's households. Latino loan share was nearly 27% while Latinos account for just under 11% of households in the city. And Asian loan share was 8.5% while Asian households account for under 7% of the city's households. Statewide the numbers are just as impressive with Black, Latino, and Asian loan shares anywhere from two to five times higher than these groups' shares of total households in the state. The program has clearly worked to help bank lenders reverse patterns of racial disparities. It has been a significant program in terms of its impact as well – SoftSecond loans total $1.4 billion in private sector lending to low and moderate income Massachusetts residents. In the city of Boston in 2005, SoftSecond loans accounted for 20% of all home purchase loans loans to low and moderate borrowers. .

And maybe most importantly, given our current foreclosure crisis, delinquency rates in the program remain low. Our SoftSecond statewide delinquency rate as of the end of 2006 is 2.2% compared to an overall statewide delinquency rate on all mortgages of 2.8% for prime mortgages and 15.4% for subprime mortgages. We are attaching a complete report on the SoftSecond loan program, authored by Professor Campen for the MCBC, to our testimony today. *Expanding Homeownership Opportunity II: The SoftSecond Loan Program, 1991-2006* provides many more details about this incredible program.

Policy Recommendations

Those of us at MAHA have learned a lot over the past twenty years. We have seen the negative effects of not enough lending in our neighborhoods, have participated in the rise in homeownership levels for many of our fellow Black, Latino, and Asian neighbors as the SoftSecond program has grown, and now are fighting the impact of too much bad lending by largely unregulated institutions. Our state's and our nation's laws have simply not kept pace with the rapid change in the mortgage lending industry. We urge four policy changes: First, we support comprehensive anti-predatory lending legislation that would apply to all mortgage lenders. What Massachusetts did in 2004 is simply not enough – the current crisis is ample evidence of that. We need anti-predatory language that strikes at the heart of the business model used by many subprime lenders – language that makes it impossible for lenders to give borrowers a loan that they know can not be paid back and requires them to clearly market the terms and conditions of such loans in all advertising. Second, we need to do more that stop bad lending; we must encourage good lending in all of our neighborhoods. We support extending CRA or CRA-like requirements to all mortgage lenders wherever they lend. We believe that this can best be done with states acting to impose CRA-like requirements on state-licensed mortgage lenders similar to Massachusetts Senate bill #2299 that is currently under consideration in the Massachusetts House of Representatives. In addition, we believe Congress should move to: (1) extend bank CRA performance evaluations not only for lending in assessment areas defined around the location of bank branches, but also for bank lending in every geographical area in which they have a significant market share – in Boston, this would mean Wells Fargo and Washington Mutual would have the same CRA responsibilities as Bank of America and Sovereign ; (2) require that CRA performance evaluations be done on a comprehensive corporate-wide level, including all related banks together with all mortgage lending subsidiaries and affiliates; and (3) independent mortgage companies and credit unions should be subject to regulations, performance evaluations, and public ratings analogous to those that the CRA imposes on banks.

We also support the recommendations made by Ginny Hamilton of the Fair Housing Center of Greater Boston around the need for greater enforcement of our existing fair lending laws.

Again, I thank you for the opportunity to testify today. I would be happy to respond to any questions that you may have.

'Leonard C. Alkins - testimony delivered to House Financial Services Committee on Monday, October 15, 2007 at the Reggie Lewis Track Center

Congressman Barney Frank, Chairman

Mr. Chairman and members of the House Financial Services Committee, thank you for the opportunity to address this prestigious committee on this very important issue, which has destroyed the hopes and desires of families and individuals working to achieve the American dream. I am Leonard C. Alkins, the former President of the Boston Branch, NAACP – which is the first chartered Branch of the National Association for the Advancement of Colored People, established in 1911. I was elected by the membership in December, 1995, and was re-elected every two years until I stepped down as President at the end of 2006. However, I continue to serve the organization and this community. I come before you today to address the issue of Predatory Lending and the broader mortgage crisis that is crippling our community, not only in Boston but throughout Massachusetts and the rest of the country.

Over the last century, the NAACP has been an agent for change in some of the key Civil Rights activities of our time: housing, banking, and economic development, to name a few. This perpetual drive for equality led the NAACP to fight against the practice of red-lining and to challenge financial institutions to reinvest in the community. How ironic is it that we are now faced with a different side of the problem. Today, many of those same families that we fought with to become homeowners are witnessing the curdling of their American dream.

Some reports say 69% of American families own their own homes. Increasingly, people of color in pursuit of that American dream, now understand the value of home equity and the many other benefits of ownership. However, when credit worthiness and credit risk are equal, African-Americans are still 31% to 34% more likely to receive higher rates, more expensive subprime loans than White-Americans. Lenders on average make high-cost subprime loans to higher-qualified African-Americans 54% of the time, compared to 23% of the time for White-Americans, even when the Caucasian applicants were less qualified. Studies show that African American homeowners dig deeper, but experience higher rates. In addition, the current practices of the sub-prime/predatory lender are driving many people of color into foreclosure and homelessness.

In 2004, Chapter 268 of the Massachusetts General Law was enacted to address Predatory Lending by forbidding anyone from arranging a high-cost mortgage unless he or she "reasonably believes" that the borrower will be able to repay it. State consumer protection regulations also prevented brokers from withholding information that might cause potential borrowers to back out. However, many brokers ignore the provisions. What does this tell us?

We need legislation that is strong and has the necessary consequences for anyone who is found guilty of violating the law. Congress and the President of the United States must commit to passing and signing a bill that ensures accountability with substantial fines and potential incarceration for anyone who violates the law. Only then will we begin to see the fruits of our labor.

Mr. Chairman, as well as the members of this distinguished Committee, let me caution you all that anything short of what I am suggesting will have us addressing this same issue again within the next decade. In closing, let me remind you of the words of a great drum major in the struggle for equality and justice for all people, the late Civil Rights Leader Miss Fannie Lou Hamer, who eloquently stated, "I'm sick and tired of being sick and tired,"

Our community is calling on this Congress to create lasting protections for the many people who attempt to own their homes and fulfill that American dream. I humbly suggest that you take all of the testimony that is offered here today, as well as other testimony you may have received from individuals and organizations from around the country, and use this information to build a bi-partisan coalition to re-draft a strong bill that will address all the problems of Predatory Lending. The time is now for the Congress to stand up and speak for THE PEOPLE. Tell the special interest groups that too many individuals and families have been harmed or destroyed by these illegal practices. "Enough is enough"!

Thank you Mr. Chairman and members of this Committee for taking the time to travel to Roxbury, in the City of Boston to listen to our concerns.

Respectfully Submitted,

Leonard C. Alkins

563 West Elm Street

Brockton, MA 02301-4157

Testimony on "Mortgage Lending Discrimination"
Before the
House Committee on Financial Services

Lynn E. Browne
Executive Vice President and Economic Advisor
Federal Reserve Bank of Boston

Roxbury Community College, Boston, MA
October 15, 2007

Chairman Frank and Members of the Financial Services Committee, I am pleased to have this opportunity to share my thoughts on mortgage lending patterns in the Greater Boston area. The Federal Reserve Bank of Boston's responsibilities in the areas of community affairs and consumer education fall under me.

The past ten years have seen dramatic changes in the housing and mortgage markets, both nationally and here in the Boston area. Until recently, housing prices were rising rapidly. New lenders were entering the mortgage market and expanding aggressively. Homeownership was rising.

There were negative developments. The release of the Home Mortgage Disclosure Act (HMDA) data for 2004 provided information for the first time on the prevalence of mortgages with higher interest rates. These data showed that blacks and Latinos were much more likely to have higher rate loans than whites; Asians were less likely to have higher rate loans. The data also show that blacks and Latinos were more likely to be served by lenders specializing in higher rate mortgages. Patterns in New England and the Boston area were broadly similar to those nationally, although disparities for Latinos were somewhat more pronounced.

Analysis of the HMDA data by the Joint Center for Housing Studies at Harvard University shows that minority borrowers were more likely to be served by independent mortgage banks and less likely to be served by CRA-regulated institutions than white borrowers, and their loans were more likely to be sold to private label conduits. In other words, minority borrowers were more likely to be served by subprime lenders. The 2005 and 2006 data show similar patterns. (HMDA data for New England metropolitan areas for 2004 and 2005 can be found on the Federal Reserve Bank of Boston's public web site at www.bos.frb.org/commdev/hmda/. Data for 2006 will be available shortly.)

While these cost disparities were disturbing, many observers took comfort from the growing numbers of minority households who were sharing in the American dream of homeownership. Further, with housing prices rising, these households were presumably accumulating equity and building wealth.

The situation has changed markedly for the worse in the past year or so. Housing prices are no longer rising in much of the country. In the Boston area, prices have fallen according to some measures. Foreclosure initiations have picked up dramatically in Massachusetts. As a fraction of loans outstanding, foreclosure initiations per quarter in Massachusetts have risen from less than 0.2 percent in 1999 to 0.6 percent in the second quarter of 2007. The recent figure approaches, but is still lower than, the highs of the New England real estate bust in the early 1990s. From much lower than the national average, foreclosures in the state have risen to match those nationally. (Charts depicting these patterns can also be found on the Federal Reserve Bank of Boston's public website. Data are from the Mortgage Bankers Association through Haver Analytics.)

Foreclosures have also increased nationally, but the trend is not quite so stark because different regions exhibit somewhat different patterns. Some parts of the country, where economic conditions have been chronically weak and where housing prices did not show much appreciation, have suffered from relatively elevated foreclosure rates for some time. In contrast, the experience of the West Coast is similar to that in New England. Home prices were rising rapidly until recently and foreclosure rates were low. Now that prices are flattening or falling, foreclosures are rising sharply.

The rise in foreclosure initiations has been particularly pronounced for subprime loans with adjustable rates. In Massachusetts, the foreclosure rate (foreclosure initiations per quarter relative to loans outstanding) for subprime adjustable rate mortgages has risen from about 1 percent in 2004 to 4.5 percent in 2007. Although subprime adjustable rate mortgages account for less than 10 percent of mortgages in Massachusetts, they now account for 50 percent of foreclosure initiations. It should be noted, however, that while the foreclosure problem is particularly acute for subprime adjustable rate mortgages, foreclosure initiations have also increased for subprime fixed mortgages and prime adjustable rate mortgages.

I have not seen foreclosure information by racial and ethnic group. The Massachusetts communities where foreclosures are highest include some with large minority populations, Brockton and Lawrence being particularly noteworthy, but some predominately white communities, such as Barnstable, have also seen sharp increases in foreclosures.

Unfortunately, the foreclosure problem is likely to get worse before it gets better. In the recent past, with housing prices rising rapidly, borrowers who faced the prospect of an increase in their adjustable interest rate or ran into difficulties making mortgage payments could refinance, often withdrawing some of the increase in housing equity in the process. In a worse case scenario, they could sell their home. With housing prices no longer increasing, these options may no longer be available.

Additionally, many recent subprime borrowers face the prospect of substantially higher interest payments in the near future. What are commonly called 2/28 and 3/27 mortgages have been popular. These mortgages have an initial "teaser" rate that is fixed for two or three years before re-setting. In fact, the teaser is not all that low. The Federal Reserve Bank of Boston has been analyzing mortgages in Middlesex county using public information from the Registry of Deeds. This analysis is part of a larger study of mortgages in New England and it is very much a work in progress. But the preliminary work has produced some interesting findings. Boston Fed researchers found that for 2/28 mortgages the initial rate was over 7 percent for mortgages originated in 2005 and over 8 percent in 2006. In both cases, the reset rates would be around 11 percent. Presumably, many of these borrowers expected to refinance before they faced that prospect.

Foreclosures are clearly very difficult for the borrower. They also have broader consequences. The Boston Fed's analysis of the Middlesex county data shows that about a quarter of recent foreclosures involved multi-family properties. While this suggests an investor element to the foreclosure problem, it also highlights a potentially serious spillover effect: tenants of foreclosed properties can frequently be evicted on short notice, even if they are current on rent and unaware of the property owner's financial position. Additionally, clusters of foreclosures can have adverse effects on neighborhoods, driving down property values and contributing to vandalism.

Options for dealing with the foreclosure problem are frustratingly limited. Borrowers must be pro-active in seeking help. Many wait too long. Borrowers who run into difficulty with their mortgage payments or who anticipate difficulties should contact the servicer of their mortgage as soon as possible. They may need to be persistent, as mortgage servicers have not been staffed to handle problems of the current magnitude. Various non-profit organizations offer referrals and anti-foreclosure counseling programs. NeighborWorks America operates a hotline that will link callers to counselors who can evaluate the household's financial strength, look into available resources, and sometimes negotiate with lenders. This counseling is very specialized and time intensive. United Way chapters have also "211" hotlines that can provide referrals to various social services organizations, including housing assistance programs.

In addition, some subprime borrowers may have the opportunity to transition from a subprime loan into a better product before their interest rates reset. Although subprime loans are generally regarded as loans to individuals with weak credit histories, Boston Fed researchers found that a significant fraction of the Middlesex county borrowers had respectable FICO scores. We do not know why. They may have a subprime loan because of other characteristics of the mortgage, perhaps a high loan- to-value ratio, or they may have been misplaced and received a more costly mortgage than their qualifications justified, or they may simply have gone to a subprime lender because it seemed easy to do so. In any event, these borrowers might – by shopping around – be able to refinance into another product.

As previously noted, "teaser" rates on many subprime loans are actually quite high – considerably above rates on prime loans. A borrower who has regularly met these teaser mortgage payments for over a year might be a promising candidate for a prime product. Certainly, they have demonstrated a capacity to make the payments.

Finally, some subprime borrowers have owned their homes long enough that even with the recent softening in house prices, they have accumulated sufficient equity to allow them to refinance into a lower cost loan.

The subprime market was predicated on borrowers being able to refinance. The softness in the housing market has made this more difficult. In addition, because of recent problems, many mortgage banks specializing in subprime loans have run into difficulty securing financing to continue their activities. Mortgage banks do not hold mortgages on their books for any length of time. In order to make new loans, they must continually sell off the loans they have just made. As delinquencies and foreclosures have risen, buyers for these mortgages have dwindled.

It is very important that responsible subprime lending continue. There may also be opportunities for banks and thrift institutions, which have lost market share to mortgage banks, to play a role in helping borrowers refinance. Eric Rosengren, President of the Federal Reserve Bank of Boston, has been meeting with bankers in New England to explore the possibilities for commercial banks to play a more active role in providing liquidity to this market. Most commercial and savings banks were not involved in originating subprime mortgages to a significant degree. They are well capitalized and at least some banks seem willing to consider whether there might be opportunities for them in this situation. Subprime borrowers who have reasonably high credit scores, who have accumulated equity in their homes, and who have track records of regular mortgage payments may be candidates for re-financing with banks. But the time to act is now.

The Federal Reserve Bank of Boston is creating a web site to help subprime borrowers locate useful resources, and we are trying to publicize the importance of borrowers considering all the options available to them before they run into difficulty. We hope to work with financial institutions, community groups, government officials and lawmakers, and other regulators to help address a very difficult situation. Chairman Bernanke has previously testified on the actions being taken by the Board of Governors and the Federal Reserve System.

"Persistent Patterns and Industry Changes: Mortgage Lending Disparities in Greater Boston"

Testimony before the

House Financial Services Committee
U. S. House of Representatives

Field Hearing
Boston, Massachusetts
October 15, 2007

by

Jim Campen
Executive Director
Americans for Fairness in Lending
77 Summer Street, 10th Floor
Boston MA 02110
617-542-8010
www.affil.org

Chairman Frank, Representative Capuano, and other members of the Committee, I want to thank you for holding this field hearing in Boston today, and for the opportunity to share with you some of the results of my research into patterns of mortgage lending in Boston, Greater Boston, and Massachusetts. My name is Jim Campen and I am the Executive Director of Americans for Fairness in Lending (AFFIL), a position that I assumed on October 1. AFFIL is a non-profit organization working to end predatory lending practices, provide information to help consumers, educate policymakers about the need for reform, and demand action to assist debt-burdened Americans. AFFIL was created by and works with its Partners, seventeen national and regional consumer and grassroots organizations including ACORN, Center for Responsible Lending, Consumer Federation of America, Consumers Union, National Consumer Law Center, and twelve others.[1] AFFIL's goal is to establish fair lending principles, practices, and regulations that will build and preserve individual and community assets.

I am also Professor Emeritus of Economics at UMass/Boston where I taught for 27 years, and am currently a Senior Research Associate of the Mauricio Gaston Institute for Latino Community Development and Public Policy at UMass/Boston. For the past fifteen years, much of my research has focused on patterns of mortgage lending. The products of this research have included two series of annual reports on mortgage lending in the Greater Boston area prepared for the Massachusetts Community & Banking Council (MCBC). The most recent reports in these series are *Changing Patterns XIII: Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods in Boston, Greater Boston, and Massachusetts, 1990-2005* and *Borrowing Trouble VII: High-Cost Mortgage Lending in Boston, Greater Boston and Massachusetts, 2007.*[2] I am also a member of Boards of Directors of the Massachusetts Affordable Housing Alliance and of the Fair Housing Center of Greater Boston, both of which are represented on today's panel.

In my testimony today, I will summarize some of the most important findings of my most recent research on mortgage lending patterns in Boston, Greater Boston, and Massachusetts, emphasizing the enormous racial/ethnic disparities that exist in mortgage lending and the dramatic changes in the types of lenders who are providing mortgage loans. I will then argue that the changes in the industry – in particular, the declining importance of Massachusetts banks, whose local lending is covered by the Community Reinvestment Act (CRA), and the greatly expanded role of independent mortgage companies, who are largely unregulated by anyone – have greatly contributed to the racial/ethnic disparities in higher-cost lending.

Brief notes on data and methods. To avoid burdening the reader, I have omitted much of the detailed explanations of data, definitions, and methods that are presented in the above-cited reports, from which all but two of the tables and charts in this testimony are drawn (in some cases with minor

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[1] AFFIL's other partners are the California Reinvestment Coalition, Center for Community Change, CFED, Community Reinvestment Association of North Carolina, Consumer Action, Demos, National Association of Consumer Advocates, Neighborhood Economic Development Advocacy Project, United Professionals, U.S. PIRG, and the Woodstock Institute. AFFIL is also supported by AARP, AFL-CIO, Center for American Progress, National Community Reinvestment Coalition, National Council of La Raza, and National Urban League. More information about AFFIL and its Partners is available at: www.affil.org.

[2] Both of these reports are available in the "Reports" section of the Massachusetts Community and Banking Council website: www.masscommunityandbanking.org.

modifications). Nevertheless, the following information may be of interest to some readers (others may skip ahead to the following section).

My main data source is Home Mortgage Disclosure Act (HMDA) data for 2005 (I have only begun to analyze the 2006 data that was released last month, but don't expect that I will find lending patterns that are very different from those in 2005; the on-going crisis in the subprime mortgage industry did not begin in earnest until early this year). Several tables also make use of data from the 2000 census. The analysis of home purchase lending in the tables taken from *Changing Patterns* includes only first-lien loans for owner-occupied homes, whereas the analysis of high-APR loans in the tables taken from *Borrowing Trouble* includes both first-lien and junior-lien loans for owner-occupied homes. High-APR loans (HALs) are defined as those for which the Annual Percentage Rate (APR) is at least three percentage points greater than the interest rate, at the time the loan was made, on U.S. Treasury bonds of the same maturity (five percentage points greater in the case of junior-lien loans); HALs have been identified in HMDA data only since 2004. In my reports and this testimony, Greater Boston is defined as consisting of the 101 cities and towns in the Metropolitan Area Planning Council (MAPC) Region. Finally, the term "banks" is used in the generic sense, to include thrift institutions as well as commercial banks.

I. Enormous racial/ethnic disparities in mortgage lending in Greater Boston.

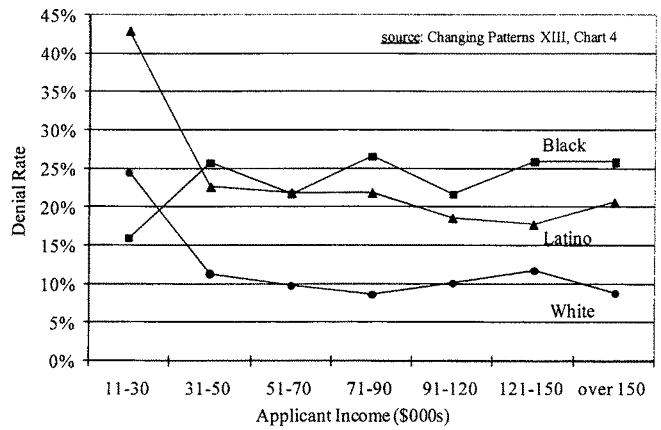
Blacks and Latinos experience much higher mortgage denial rates (Table 1 and Chart 1)

- The denial rates for home-purchase loans in Boston in 2005 were much higher for blacks (23.6%) and Latinos (20.9%) than they were for whites (10.1%). These differences can be expressed as denial rate ratios: **the black/white denial rate ratio, which averaged about 2.0 during the 1990s, was 2.34 in 2005, while the Latino/white denial rate ratio, typically about 1.5 during the 1990s, was 2.07 in 2005.**

- Even though black and Latino applicants had, on average, substantially lower incomes than their white counterparts, these lower incomes do not fully account for the higher denial rates experienced by blacks and Latinos. **When applicants are grouped into income categories, the 2005 denial rates for blacks and for Latinos were in every case well above the denial rates for white applicants in the same income category** (with one exception: blacks with incomes between $11,000 and $30,000 were denied less frequently than whites in the same income range). **In the highest income category, consisting of borrowers with incomes above $150,000, black applicants experienced a denial rate of 25.9%, almost triple the 8.9% denial rate experienced by their white counterparts**; the 20.7% denial rate for Latinos with incomes above $150,000 was 2.3 times greater than the white rate. [3]

[3] Concern over the high denial rate ratios reported nearly four years ago in *Changing Patterns* X led the Massachusetts Community & Banking Council (MCBC) to set in motion a process that resulted in the Massachusetts Bankers Association, the Massachusetts Mortgage Bankers Association, the Massachusetts Mortgage Association, the Massachusetts Credit Union League, and MCBC jointly convening a Fair Lending Task Force in late 2004. Among the Task Force's goals were "to attempt to better understand the disparities in denial rates for black and Latino homebuyers and develop strategies and recommendations to reduce the disparity ratios." The Task Force released its comprehensive final *Report and Recommendations* at an October 2006 "Fair Lending Summit"; that report is available at the MCBC website: www.masscommunityandbanking.org.

CHART 1
DENIAL RATES BY RACE AND INCOME
BOSTON HOME-PURCHASE LOANS, 2005



Lending to blacks and Latinos is concentrated in a few communities, while absent from others
(Appendix Tables 1 and 2)

- Lending to black borrowers in the Greater Boston was highly concentrated in a small number of communities. During the 2003-2005 period, Boston alone received nearly one-half (46.0%) of the total home-purchase loans to blacks, while Randolph and Lynn received another one-sixth (17.2%) of the total. (Boston received 18.0% of total loans to all borrowers in the region, while Randolph and Lynn received just 4.8% of total loans.) **Eight communities – Boston, Lynn, Malden, Milton, Medford, Randolph, Stoughton, and Everett – each received over 100 loans to blacks during the 2003-2005 period; these eight communities accounted for 77.4% of loans to blacks in the MAPC region, while they received just 29.0% of total loans.**

- In eight communities – Carlisle, Gloucester, Hamilton, Manchester-by-the-Sea, Nahant, Sherborn, Stow, and Wenham – not a single home-purchase loan was made to a black borrower during the three-year period. **In 54 of the 101 communities in Greater Boston, blacks received 1.0% or less of total loans,** and in 23 additional communities the black loan shares were between 1.0% and 2.0%.

- Lending to Latino borrowers in Greater Boston was highly concentrated in a small number of communities, although less concentrated than lending to blacks. Just two cities – Boston and Lynn – received 37.7% of all home-purchase loans to Latinos between 2003 and 2005 (they received 21.5% of total loans to all borrowers). **Six communities – Boston, Chelsea, Everett, Framingham, Lynn, and Revere – each received over 400 loans to Latinos during the three-**

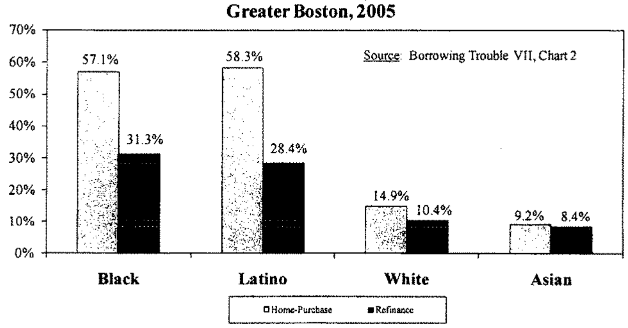
year period; these six communities accounted for 63.0% of all loans to Latinos, while receiving just 27.6% of total loans.

- In three communities – Essex, Hamilton, and Nahant – not a single home-purchase loan was made to a Latino borrower during the three-year period. **In 25 of the 101communities in Greater Boston Latinos received 1.0% or less of total loans,** and in 29 additional communities the Latino loan shares were between 1.0% and 2.0%.

Blacks and Latinos – and their neighborhoods – receive disproportionate shares of higher-cost loans.

- Black and Latino borrowers in Boston, in Greater Boston, and statewide were much more likely to receive HALs than were their white or Asian counterparts. In Greater Boston, for example, the HAL loan share for home purchase loans was 57.1% for blacks and 58.3% for Latinos, but only 14.9% for whites. For refinance loans in Greater Boston, HALs accounted for 31.3% of loans to blacks and 28.4% of loans to Latinos, but for only 10.4% of loans to whites. Expressed differently, **in Greater Boston, the HAL share for blacks was 3.8 times greater than the HAL share for whites in the case of home-purchase lending, and 3.0 times greater for refinance lending, while the corresponding Latino/white disparity ratios were 3.9 and 2.7.** Black/white and Latino/white disparity ratios were somewhat higher in the city of Boston and somewhat lower statewide.[4] At all three geographic levels, HALs accounted for over half of all home-purchase loans to both blacks and Latinos. HAL loan shares were generally lower for Asian borrowers than for whites. (Table 2 and Chart 2)

Chart 2
HAL Loan Shares by Race
Greater Boston, 2005

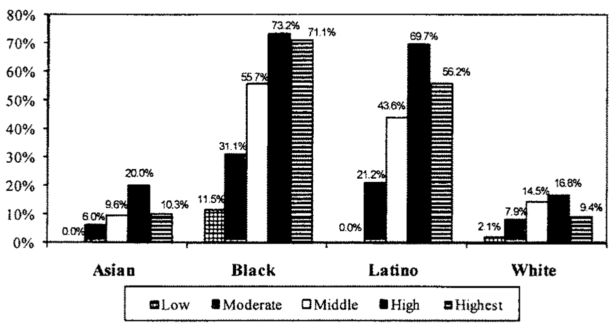


- **When borrowers are grouped by both race/ethnicity and income level, the HAL loan shares for blacks and Latinos are always substantially higher than the HAL shares for white borrowers in the same income category. Furthermore, the disparities in HAL shares tend to increase as the income level increases.** HAL loan shares were particularly large for blacks and Latinos in the "high" and "highest" income categories. The patterns that emerge from the data are

[4] Disparity ratios were lower statewide than in Greater Boston not because the statewide HAL loan shares for blacks and Latinos were lower (in fact, they were higher), but rather because the statewide HAL loan shares for whites were higher.

the same for Boston, for Greater Boston, and for the entire state.. For brevity, specific data will be provided here for only one income category in one geographical area. **In Boston in 2005, highest-income blacks received 71.1% of their home-purchase loans in the form of HALs and the HAL share for highest-income Latinos was 56.2%, while the HAL loan share was 9.4% for highest-income whites. That is, for home-purchase loans, the HAL shares for highest-income blacks and Latinos were, respectively, 7.6 times and 6.0 times greater than the HAL share for highest-income whites.** In the case of refinance lending, highest-income blacks received 33.8% of their loans in the form of HALs and the HAL share for highest-income Latinos was 36.6%, while the HAL share was just 7.4% for upper-income whites. Thus, for refinance loans, the HAL shares of highest-income blacks and Latinos were, respectively, 4.6 and 4.9 times greater than the HAL share for highest-income whites. In Boston in 2005, highest-income borrowers were those with incomes of over $152,000. (Table 3 & Chart 3)

Chart 3
HAL Share of Home-Purchase Loans: Owner-Occupied Homes
By Race/Ethnicity and Income of Borrower, Boston, 2005

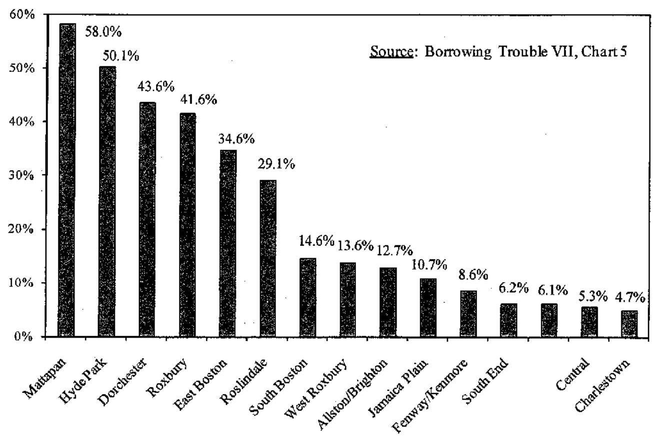


- **In the city of Boston, HAL shares in predominantly-minority census tracts (those with more than 75% minority households) were about four times greater than those in predominantly-white tracts both for home-purchase loans (52.7% vs. 11.9%) and for refinance loans (35.4% vs. 9.0%).** For tracts in every income category, the HAL share rises consistently as the percentage of minority households increases.[5] The reverse, however, is not the case: in the three categories of tracts with at least 25% minority households, the HAL shares tend to increase, rather than decrease, as income rises. The concentration of high-APR lending is greatest in the predominantly-minority census tracts (all of these tracts are low- or moderate-income). **For home-purchase loans in Boston, the HAL shares for low-income and moderate-income predominantly-minority tracts were, respectively, 7.2 times and 9.2 times higher than the HAL share in upper-income predominantly white tracts.** For refinance loans, the HAL shares for low-income and moderate-income predominantly-minority tracts were 7.7 times and 6.5 times higher than the HAL share in upper-income predominantly-white tracts. (Table 4)

[5] There is one exception to this generalization: the HAL percentages are lower in the single upper-income census tract with 25%-50% minority households than in the upper-income tracts with more than 75% white households.

- **The shares of total loans that were accounted for by high-APR loans varied dramatically among Boston's major neighborhoods. For home-purchase loans, the 58.0% HAL share in Mattapan was twelve times greater than the 4.7% share in Charlestown. For refinance loans, the 36.8% HAL share in Roxbury was thirteen times greater than the 2.8% HAL share in the Back Bay/Beacon Hill neighborhood.** The four Boston neighborhoods with the highest percentages of minority residents – Mattapan, Roxbury, Dorchester, and Hyde Park – also had the four highest HAL shares for both home-purchase and refinance lending, ranging from 27.2% to 58.0%; meanwhile, in the four neighborhoods with fewer than 25% minority residents – Back Bay/Beacon Hill, South Boston, West Roxbury, and Charlestown – the HAL shares were between 2.8% and 14.6%. (Table 5 and Chart 4)

Chart 4
HAL Loan Shares of Home-Purchase Loans
Boston Neighborhoods, 2005



- Table 6 identifies the biggest high-APR lenders in Boston in 2005 and Table 7 provides information on lending to black, Latino, and white borrowers by each of these lenders (listed in the same order). The information in Table 7 includes: total loans to each of these racial/ethnic groups, the percentage of high-APR loans for each group, and the disparity ratios for black/white and Latino/white HAL shares (calculated as the black [or Latino] HAL share divided by the white HAL share). Several of the biggest HAL lenders – including Fremont, H&R Block/Option One, New Century, Accredited Home Lenders, GE/WMC, and Meritage – specialized in high-APR lending to the extent that between 82% and 93% of all their white borrowers in Boston received HALs; these lenders therefore necessarily had disparity ratios close to one (in fact, they ranged from 0.92 to 1.08). In contrast, HALs were a relatively small part of the overall lending for other big HAL lenders in the city, and these lenders tended to provide HALs to a considerably larger share of their black and Latino borrowers than of their white borrowers. Indeed, **the three biggest overall lenders in Boston** (the only three lenders with over nine hundred total loans in the city) **each had substantial disparity ratios for their high-APR lending. The black/white disparity ratios were 3.5 at Countrywide (30.6% vs. 8.8%), 6.0 at Wells Fargo (26.4% vs. 4.4%), and 3.8 at Washington Mutual/Long Beach (36.6% vs. 9.7%). The Latino/white disparity ratios at these same three lenders were 1.2, 4.3, and 5.4, respectively.** (Tables 6 & 7)

II. Dramatic changes in the types of mortgage lenders in Greater Boston

To better understand the changing patterns of mortgage lending in Greater Boston it is useful to classify lenders into categories, reflecting the extent to which their lending is subject to federal and state regulation. In my research, I have found it illuminating to place each lender with one or more mortgage loans in Massachusetts into one of the following three categories:

- **Massachusetts Banks and Credit Unions (CRA),** defined as all banks that have one or more branches in the state plus Massachusetts state-chartered credit unions. These are referred in short as "CRA lenders," because *lending in Massachusetts by these lenders is covered by the federal and/or state Community Reinvestment Act.*[6] The CRA covers only depository institutions (usually together with their subsidiaries and affiliates) and applies only to the area(s) within which the institution has branches (known as the institution's "Assessment Area"). Thus, loans made in Massachusetts by an out-of-state bank that has no branches in Massachusetts are not covered by the CRA, even though that bank's loans in its home state are covered. (My analysis assumes, as a rough approximation, that all of the Massachusetts loans made by a bank with one or more banking offices in the state – or by any mortgage company affiliates/subsidiaries of that bank – are covered by the CRA; this is an modest over-estimate, because most of these banks make a portion of their Massachusetts loans outside of their "Assessment Areas.")

- **Out of State Banks (OSB***),* defined as out-of-state banks with no branches in Massachusetts, subsidiaries of federally-chartered banks with no branches in Massachusetts, and all credit unions except for those chartered by the state of Massachusetts. Although the banks in this category are subject to CRA oversight of the lending in the "Assessment Areas" within which their branches are located, *lending in Massachusetts by these lenders is not covered by the CRA. However, these lenders are subject to regulation for safety and soundness and some other purposes by one of the federal bank (or credit union) regulators.* For example, OSB lenders, but not LML lenders (below), were covered by the interagency "Statement on Subprime Mortgage Lending" issued in July 2007. Because these lenders have charters from other states or from the federal government, they do not need a license to make mortgage loans in Massachusetts.

- **Licensed mortgage lenders (LML)**, defined as lenders that require a license to make mortgage loans in Massachusetts. These are primarily independent mortgage companies (i.e., not affiliated with a depository institution); they also include subsidiaries or affiliates of state-chartered banks that have no branches in Massachusetts and affiliates of federally-chartered banks that have no branches in Massachusetts. *These lenders are not subject to any kind of regulation by the federal bank regulators.*[7]

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[6] Massachusetts is one of the very few states (perhaps the only one?) with a state Community Reinvestment Act. Massachusetts-chartered banks are subject to evaluation of the CRA performance by both the state's Division of Banks and their federal bank regular. Massachusetts-chartered credit unions are covered only by the state CRA; the federal CRA does not apply to credit unions.

[7] This classification scheme places affiliates (but not subsidiaries) of federally-chartered banks and both subsidiaries and affiliates of state-chartered banks in the LML category, which is appropriate for identifying which lenders could be subject to coverage by proposed Massachusetts legislation that would extent CRA-type oversight to licensed mortgage lenders. However, these lenders are subject to limited regulation by federal bank regulators, and for some purposes it might be more appropriate to assign some or all of them to the OSB category (as was apparently done in the *Federal Reserve Bulletin* article cited below. In any case, the share of total lending accounted for by such lenders is relatively small; the bulk of LML lending is done by independent mortgage companies.

In addition, I have classified some lenders as *subprime lenders*, indicating that they specializes in making non-prime loans. Through 2003, I relied for this purpose on the list of manufactured home and subprime lenders that was prepared annually by the U.S. Department of Housing and Urban Development (HUD). The release dates of HUD's list for 2004 and 2005 were delayed by many months, and so I identified subprime lenders as those for whom high-APR loans constituted at least a specified share of their total Massachusetts loans. [8]

My research has shown that the mortgage loan share accounted for by CRA-covered lenders has fallen precipitously, while the share accounted for by LML lenders has risen dramatically. At the same time, the share of lending accounted for by subprime lenders, none of whom are Massachusetts banks or credit unions (CRA lenders), has also sharply increased.

- **In the city of Boston, the share of all home-purchase loans accounted for by Massachusetts banks and credit unions plunged from almost four-fifths (78.0%) of all home-purchase loans in 1990 to less than one-fifth (19.7%) of all loans in 2005. Correspondingly, the combined loan share of mortgage companies and out of state banks (not distinguished from each other in this set of data) rose during the same period from 21.9% to 80.3% of the total.** At the same time, the loan share of subprime lenders (all of whom were mortgage companies or out of state banks), rose from 4.0% in 1998 (the first year for which I calculated this statistic) to 17.9% in 2005. (Table 8)

- **Statewide, the share of total home-purchase and refinance loans accounted for by CRA-covered lenders shrank from 37.0% in 2001 to 21.9% in 2005, while the loan share of LML lenders doubled, from 24.2% to 47.8%.** (I began tracking these particular data only in 2001; the remaining loans were made by OSB lenders, whose share of total loans fell from 38.8% to 30.2%.) (Table 9, Panel C)

III. Substantial differences in the nature of loans made by the major types of lenders

There is an important reason that I have emphasized the dramatic changes in the loan shares of the three major categories of lenders. LML lenders, the fastest growing and least regulated category, are responsible for the great majority of high-APR loans – loans that are (as we have seen above) directed very disproportionately to black and Latino borrowers and their neighborhoods. On the other hand, CRA lenders, whose share of total lending is rapidly shrinking, have by far the best record in making prime loans to these same borrowers and neighborhoods.

The differences in lending patterns that I will document in this section are consistent with a very dramatic, but too-little noted, finding reported in the *Federal Reserve Bulletin* article that accompanied the release of the 2005 HMDA data. The authors of that article report that, for home-purchase lending, high-APR loans (HALs) accounted for 7.0% of total loans by banks lending in their assessment areas, for

[8] These threshold percentages were 15.0% in 2004 and 33.3% in 2005. These percentages were selected to provide the best fit with known subprime lenders. The percentages are low because many loans that do not have APRs high enough to be identified in the HMDA data as high-APR loans are nevertheless subprime loans with interest rates, fees, and terms less favorable to the borrower than those on prime loans. After the fact, there turned out to be quite a high correspondence between the lenders I identified as subprime and those on HUD's lists.

23.5% of total loans by banks lending outside of their assessment areas; and for 38.4% of total loans by independent mortgage companies.[9]

- **In Massachusetts in 2005, only 1.0% of all loans by CRA-covered lenders were high-APR loans (HALs), compared to 30.9% of loans by LML lenders**; OSB lenders were in between at 18.9%. **While CRA lenders accounted for just 1.1% of total Massachusetts HALs, LML lenders were responsible for 71.4% of all HALs in the state** (OSB lenders accounted for the remaining 27.5% of total HALs). (Table 9, lower right-hand corner of Panels A and B).

- In Massachusetts in 2005, only two of the twenty biggest lenders were covered by CRA for their Massachusetts lending (Bank of America, ranked sixth, and Sovereign, ranked seventh), while ten of the top twenty, including three of the top four, were LML lenders. **None of the twenty biggest high-APR lenders in the state were covered by CRA, while sixteen of the top twenty, including four of the top five, were LML lenders.** (The remaining eight of the top overall lenders, and the remaining four of the top high-APR lenders, were OSB lenders.) [10] (Table 10)

- **CRA-covered lenders directed a substantially greater share of their total Boston loans in 2005 to every one of the categories of traditionally underserved borrowers and neighborhoods that I examined than did prime OSB and LML lenders** (i.e., excluding lenders classified as subprime). For example, black borrowers received 13.8% of the loans made by CRA-covered lenders, but only 5.9% of those made by prime OSB and LML lenders. Low- and moderate-income (LMI) borrowers received 33.5% of the loans made by CRA-covered lenders, compared to 16.2% of the loans made by prime OSB and LML lenders. And low- and moderate-income (LMI) census tracts that had over 75% black and Latino residents received 12.9% of the loans by CRA-covered lenders, but only 6.6% of the loans made by prime OSB and LML lenders. (Table 11, Panel A)

- Viewing these same lending data in terms of market shares provides an alternative perspective on the different lending patterns of these two types of lenders. **CRA-covered lenders had market shares of loans to all of the categories of traditionally underserved borrowers that were equal to or above their market share of all Boston loans, while prime OSB and LML lenders had substantially smaller shares of the loans to every category of these borrowers than they had of total lending.** Although CRA-covered lenders made only 19.7% of all home-purchase loans in Boston in 2005, they accounted for 35.9% of loans to low- and moderate-income (LMI) borrowers. In contrast, prime OSB and LML lenders made 62.4% of total loans, but they made only 28.9% of the total loans to blacks, 36.2% of total loans to Latinos, 46.8% of total loans to low-income borrowers, and 33.7% of total loans in minority LMI neighborhoods. (Table 11, Panel B)

- **Subprime lenders made disproportionately large numbers of their loans to minority borrowers and in lower-income minority neighborhoods and they accounted for disproportionately large shares of all loans to these borrowers and neighborhoods.** Black

[9] Robert Avery, Kenneth Brevoort, and Glenn Canner, "Higher-Priced Home Lending and the 2005 HMDA Data," *Federal Reserve Bulletin*, 2006, Table 12, pp. 154-158. These lender categories are close to those adopted in this testimony, although the Fed's researchers group all credit unions with independent mortgage companies. The corresponding percentages for refinance loans are very similar: 9.2%, 24.8%, and 38.9%. .

[10] Very similar conclusions follow from the information presented in Table 6, which list the twenty biggest high-APR lenders in the city of Boston. In this case, the lenders listed are lending "families" (most of which contain more than one – up to five in one case – HMDA-reporting lenders within a single parent corporation). Of these twenty lending families, eleven consisted entirely of LML lenders and four more contained at least one LML lender within the corporate family. None were CRA-covered lenders and the other five consisted entirely of OSB lenders (designate by "OTH" in Table 6).

borrowers received 12.8% of all loans by all lenders, but they received 35.5% of the loans made by subprime lenders. Latino borrowers received 8.6% of total loans, but 21.3% of the loans made by subprime lenders. Predominantly minority LMI neighborhoods received 12.3% of all loans, but they received 31.2% of the loans made by subprime lenders. Examining the same data from the market share perspective shows that while the 1,493 loans by subprime lenders in 2005 accounted for 17.9% of all loans by all lenders, these lenders made 49.8% of all loans to black borrowers, 44.2% of all loans to Latinos, and 45.6% of all loans in minority LMI neighborhoods. **This last finding is suggestive of "reverse redlining" by subprime lenders – i.e., the targeting of the same highly-minority neighborhoods that previously suffered from "redlining" (an avoidance of lending) by prime mortgage lenders.** (Table 11, Panels A and B)

IV. Implications for Public Policy

I have focused my analysis on mortgage lending in Massachusetts, with particular emphasis on the city of Boston and the Greater Boston area, but I believe that a detailed examination of mortgage lending patterns in other cities and states would reveal qualitatively similar findings.[11] The enormous racial disparities in mortgage lending and the dramatic shrinkage of the portion of total mortgage lending that is subject to evaluation by bank regulators under the provisions of the Community Reinvestment Act (CRA) indicate the need for major changes in public policy toward the mortgage lending industry.

The Financial Services Committee has already received many detailed recommendations, including excellent sets of constructive proposals from several of AFFIL's partner organizations (our seventeen partners are listed in a footnote near the beginning of this testimony). In my conclusion, I wish to emphasize two important general principles that should underlie our nation's response to the problems that I have outlined.

First, the playing field needs to be leveled so that all mortgage lenders are subject to similar laws and regulations that will protect consumers from unfair and predatory practices, promote wealth-building by households and communities, and prevent a race to the bottom where lenders who choose to maintain responsible lending practices face the loss of market share to unscrupulous competitors. Part of the answer is comprehensive anti-predatory lending legislation that would apply to all mortgage lenders. In addition, I believe that the research findings summarized earlier in this testimony underline the particular need for the following three measures: (1) banks should receive CRA performance evaluations not only for their lending in assessment areas defined around the location of their banking offices, but also for their lending in every geographical area in which they have a significant market share; (2) CRA performance evaluations should be done on a comprehensive corporate-wide level, including all related banks together with all mortgage lending subsidiaries and affiliates; and (3) independent mortgage companies and credit unions should be subject to regulations, performance evaluations, and public ratings analogous to those that the CRA imposes on banks.

Second, whatever laws and regulations exist need to be actively and effectively enforced if they are to have their intended impact on lender behavior. To take one particularly relevant and important case, the nation's fair lending laws (most importantly, the relevant portions of the Fair Housing Act and

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[11] However, it should be noted that a recent report by the National Community Reinvestment Coalition that examined high-APR mortgage lending in 2005 in over 250 metropolitan areas found that the black/white and Latino/white disparities in a number of Massachusetts metropolitan areas were among the highest in the nation. (National Community Reinvestment Coalition, *Income Is No Shield Against Racial Differences in Lending: A Comparison of High-Cost Lending in America's Metropolitan Areas,* July 2007, pp. 11-14, Table 1, & Table 4.)

the Equal Credit Opportunity Act) have, since their adoption, applied to all mortgage lenders. Nevertheless, lenders engaged in illegal discriminatory behavior have had little to fear from the federal agencies charged with enforcing these laws, especially during the Reagan administration and both Bush administrations. The testimony presented to your committee, both in Washington this summer and in Boston today, by Ginny Hamilton of the Fair Housing Center of Greater Boston explains in some detail the need for greater enforcement of our existing fair lending laws.

Similarly, while it is important to emphasize the need to extend regulatory oversight to independent mortgage companies, it is also important to note that some of the worst predatory lenders have been depository institutions or their subsidiaries. These lenders have been allowed to carry out their unfair – as well as unsafe and unsound – lending in spite of legislated oversight by federal banking regulators. Among the most notorious of these is Fremont Investment and Loan – a California-chartered bank whose primary federal regulator is the FDIC. Fremont, the largest high-APR lender in Boston in 2005 and the second-largest statewide, was well-known for the egregious quality of its loans, but seems to have been allowed to proceed unchecked at least through the end of 2006. (Fremont was in the news earlier this month when a lawsuit by recently-elected Massachusetts Attorney General Martha Coakley charged it with "unfair and deceptive conduct on a broad scale." This was the first enforcement action taken under the Massachusetts anti-predatory lending law enacted in 2004.)

In important respects, the current subprime mortgage lending crisis reminds me of the savings and loan crisis that was in full swing when I first began to study the banking and mortgage lending industries in 1989. Then, as now, irresponsible lending on a massive scale had resulted in serious hardships for many borrowers and neighborhoods, failures for numerous large financial institutions, and significant impacts on the overall economy. The response then included new legislation to promote responsible lending in local communities (I refer to the 1989 amendments to HMDA and the CRA that were championed by my then Representative Joe Kennedy) as well as a commitment to better enforce existing laws and regulations. The present situation also demands action on both of these fronts, and I am pleased to know that leadership in this effort will again come from my own Congressman (Rep. Capuano) as well as from the Chair of this committee, who represents an adjacent district.

Again, I thank you for the opportunity to testify today. I would be happy to respond to any questions that you may have.

TABLE 1
APPLICATIONS AND DENIAL RATES BY RACE & INCOME OF APPLICANT
BOSTON HOME-PURCHASE LOANS, 2005

Income	Black		Latino		White		D-Rate Ratio	
($000)	Applics	D-Rate	Applics	D-Rate	Applics	D-Rate	Blk/White	Lat/White
11-30	25	16.0%	14	42.9%	49	24.5%	0.65	1.75
31-50	198	25.8%	97	22.7%	643	11.4%	2.27	2.00
51-70	345	21.7%	187	21.9%	1,128	9.8%	2.21	2.23
71-90	451	26.6%	251	21.9%	1,242	8.7%	3.06	2.52
91-120	556	21.8%	327	18.7%	1,333	10.1%	2.15	1.84
121-150	200	26.0%	146	17.8%	773	11.8%	2.21	1.51
over 150	112	25.9%	87	20.7%	1,490	8.9%	2.92	2.34
Total*	1,961	23.6%	1,191	20.9%	6,957	10.1%	2.34	2.07

Note: Includes only first-lien loans for owner-occupied homes.

* Total includes applicants without reported income or with reported income of less than $10,000.

Source: Changing Patterns XIII, Table 4

Table 2
High-APR Loans (HALs), By Race/Ethnicity of Borrower
City of Boston, Greater Boston, and Massachusetts
Loans for Owner-Occupied Homes, 2005

Borrower Race/ Ethnicity	City of Boston				Greater Boston				Massachusetts			
	All Loans	High-APR Loans	% High-APR	Ratio to White %	All Loans	High-APR Loans	% High-APR	Ratio to White %	All Loans	High-APR Loans	% High-APR	Ratio to White %
A. Home-Purchase Loans												
Asian	564	68	12.1%	0.91	3,523	324	9.2%	0.62	5,727	792	13.8%	0.73
Black	1,701	975	57.3%	4.33	3,619	2,065	57.1%	3.83	7,495	4,548	60.7%	3.19
Latino	1,155	598	51.8%	3.91	5,522	3,218	58.3%	3.91	11,095	6,593	59.4%	3.13
White	6,513	863	13.3%	1.00	39,102	5,829	14.9%	1.00	86,111	16,361	19.0%	1.00
Other*	50	17	34.0%		235	64	27.2%		490	161	32.9%	
No Info^	1,134	217	19.1%		5,327	947	17.8%		10,226	2,582	25.2%	
Total	11,117	2,738	24.6%		57,328	12,447	21.7%		121,144	31,037	25.6%	
B. Refinance Loans												
Asian	287	35	12.2%	1.14	2,104	177	8.4%	0.81	3,422	390	11.4%	0.82
Black	2,077	681	32.8%	3.05	3,635	1,138	31.3%	3.02	6,455	2,238	34.7%	2.49
Latino	832	250	30.0%	2.80	3,354	952	28.4%	2.73	7,576	2,539	33.5%	2.41
White	5,292	568	10.7%	1.00	52,558	5,456	10.4%	1.00	124,525	17,330	13.9%	1.00
Other*	50	10	20.0%		266	43	16.2%		698	158	22.6%	
No Info^	1,585	426	26.9%		9,189	1,869	20.3%		21,906	5,569	25.4%	
Total	10,123	1,970	19.5%		71,106	9,635	13.6%		164,582	28,224	17.1%	

Note: In this report, "**Greater Boston**" consists of the 101 cities and towns that constitute the Metropolitan Area Planning Council (MAPC) region.

* "Other" combines "American Indian or Alaska Native" and "Native Hawaiian or Other Pacific Islander."

^ "No Info" is short for "Information not provided by applicant in telephone or mail appplication" or "not available."

Source: Borrowing Trouble VII, Table 2

Table 3
High-APR Loans by Race/Ethnicity & Income of Borrower
Number of Loans, Percent of All Loans, and Disparity Ratios
Loans for Owner-Occupied Homes, City of Boston, 2005

	Low Income*	Moderate Income*	Middle Income*	High Income*	Highest Income*
A. Total Number of Home-Purchase Loans					
Asian	28	116	135	160	97
Black	61	296	521	687	76
Latino	28	156	358	472	73
White	142	1,055	1,699	2,039	1,336
B. High-APR Loans (HALs) as Percent of Total: Home-Purchase Loans					
Asian	0.0%	6.0%	9.6%	20.0%	10.3%
Black	11.5%	31.1%	55.7%	73.2%	71.1%
Latino	0.0%	21.2%	43.6%	69.7%	56.2%
White	2.1%	7.9%	14.5%	16.8%	9.4%
C. Home-Purchase Loan Share Disparity Ratios (Ratio to White HAL percentage for same income category)					
Asian	0.00	0.77	0.67	1.19	1.10
Black	5.43	3.95	3.84	4.35	7.59
Latino	0.00	2.69	3.01	4.14	6.00
White	1.00	1.00	1.00	1.00	1.00
D. Total Number of Refinance Loans					
Asian	16	48	72	93	43
Black	125	519	734	494	80
Latino	31	144	308	252	41
White	242	839	1,513	1,585	809
E. High-APR Loans (HALs) as Percent of Total: Refinance Loans					
Asian	6.3%	12.5%	11.1%	15.1%	14.0%
Black	18.4%	29.7%	36.1%	39.7%	33.8%
Latino	12.9%	18.1%	29.5%	41.3%	36.6%
White	11.6%	11.7%	11.4%	12.3%	7.4%
F. Refinance Loan Share Disparity Ratios (Ratio to White HAL percentage for same income category)					
Asian	0.54	1.07	0.98	1.22	1.88
Black	1.59	2.54	3.18	3.22	4.55
Latino	1.12	1.55	2.60	3.35	4.93
White	1.00	1.00	1.00	1.00	1.00

* Income categories are defined in relationship to the Median Family Income of the Boston Metropolitan Division ($76,400 in 2005). "Low" is less than 50% of this amount ($1K-$38K in 2005); "Moderate" is 50%-80% of this amount ($39K-$61K); "Middle" is 80%-120% of this amount ($62K-$91K); "High" is 120%-200% of this amount ($92K-$152K); and "Highest" is over 200% of this amount ($153K or greater). HMDA data report income to the nearest thousand dollars.

Source: Borrowing Trouble VII, Table 6

Table 4
High-APR Loans by Race/Ethnicity & Income of Census Tracts*
Numbers of Tracts & Loans, Percent of All Loans, and Disparity Ratios
Loans for Owner-Occupied Homes, City of Boston, 2005

	Low Income	Moderate Income	Middle Income	Upper Income	Total
A. Number of Census Tracts					
> 75% Minority	21	20	0	0	41
50%-75% Minority	7	12	1	0	20
25%-50% Minority	6	24	12	1	43
> 75% White	0	10	26	16	52
Total	34	66	39	17	156
B. Number of Home-Purchase Loans					
> 75% Minority	672	1,332	0	0	2,004
50%-75% Minority	227	1,014	98	0	1,339
25%-50% Minority	511	1,669	993	33	3,206
> 75% White	0	736	2,291	1,541	4,568
Total	1,410	4,751	3,382	1,574	11,117
C. High-APR Loans (HALs) as Percent of All Home-Purchase Loans					
> 75% Minority	44.6%	56.8%	na	na	52.7%
50%-75% Minority	26.9%	35.4%	42.9%	na	34.5%
25%-50% Minority	7.6%	22.8%	25.8%	6.1%	21.1%
> 75% White	na	17.8%	13.8%	6.2%	11.9%
Total	28.4%	34.2%	18.2%	6.2%	24.6%
D. Home-Purchase Loans: HAL Share Disparity Ratios (Ratio to HAL % in Upper-Income Tracts >75% White)					
> 75% Minority	7.24	9.21	na	na	8.55
50%-75% Minority	4.36	5.74	6.95	na	5.60
25%-50% Minority	1.24	3.70	4.18	0.98	3.43
> 75% White	na	2.89	2.24	1.00	1.92
Total	4.60	5.55	2.94	1.00	4.00
E. Number of Refinance Loans					
> 75% Minority	763	1,966	0	0	2,729
50%-75% Minority	121	911	133	0	1,165
25%-50% Minority	217	1,299	1,071	22	2,609
> 75% White	0	522	1,898	1,200	3,620
Total	1,101	4,698	3,102	1,222	10,123
F. High-APR Loans (HALs) as Percent of All Refinance Loans					
> 75% Minority	39.6%	33.7%	na	na	35.4%
50%-75% Minority	12.4%	25.2%	28.6%	na	24.3%
25%-50% Minority	6.9%	15.8%	16.4%	0.0%	15.2%
> 75% White	na	15.1%	9.7%	5.2%	9.0%
Total	30.2%	25.1%	12.9%	5.1%	19.5%
G. Refinance Loans: HAL Share Disparity Ratios (Ratio to HAL % in Upper-Income Tracts >75% White)					
> 75% Minority	7.66	6.53	na	na	6.84
50%-75% Minority	2.40	4.89	5.53	na	4.70
25%-50% Minority	1.34	3.05	3.18	0.00	2.94
> 75% White	na	2.93	1.89	1.00	1.74
Total	5.84	4.85	2.49	0.98	3.77

* A census tract is placed into an income category based on the relationship, according to the 2000 census, between its Median Family Income (MFI) and the MFI of the Boston Metropolitan Division (MD). "Low" is less than 50% of the MFI of the MD; "Moderate" is between 50% and 80%; "Middle" is between 80% and120%; and "Upper"is greater than 120% of the MFI of the MD. A census tract is placed into a racial/ethnnic category based on its percentage of minority households according to the 2000 census. All householders other than non-Latino whites are classified as minority.

The 2000 Census did not report an MFI for tract 1501.00 (Harbor Islands).

Source: Borrowing Trouble VII, Table 9

Table 5
High-APR Loans (HALs), By Neighborhood#
Loans for Owner-Occupied Homes, City of Boston, 2005

Neighborhood	All Loans	High-APR Loans	Percent HALs	Percent Minority	Income Level
A. Home-Purchase Loans					
Mattapan	479	278	58.0%	96.2%	$38,463
Hyde Park	694	348	50.1%	57.0%	$54,666
Dorchester	1,668	727	43.6%	68.2%	$39,856
Roxbury	801	333	41.6%	95.2%	$30,358
East Boston	714	247	34.6%	50.3%	$36,213
Roslindale	787	229	29.1%	44.2%	$53,418
South Boston	1,010	147	14.6%	15.5%	$47,794
West Roxbury	523	71	13.6%	16.4%	$68,966
Allston/Brighton	926	118	12.7%	31.3%	$47,693
Jamaica Plain	691	74	10.7%	50.2%	$45,762
Fenway/Kenmore	256	22	8.6%	30.5%	$48,961
South End	679	42	6.2%	54.7%	$42,263
BackBay/BeaconHill	694	42	6.1%	15.2%	$127,542
Central	600	32	5.3%	30.4%	$61,837
Charlestown	595	28	4.7%	21.4%	$59,265
City of Boston	11,117	2,738	24.6%	50.5%	$44,151
B. Refinance Loans					
Roxbury	813	299	36.8%	95.2%	$30,358
Mattapan	869	298	34.3%	96.2%	$38,463
Dorchester	1,913	526	27.5%	68.2%	$39,856
Hyde Park	911	248	27.2%	57.0%	$54,666
East Boston	514	118	23.0%	50.3%	$36,213
Roslindale	905	130	14.4%	44.2%	$53,418
South Boston	704	78	11.1%	15.5%	$47,794
Jamaica Plain	520	55	10.6%	50.2%	$45,762
Allston/Brighton	575	59	10.3%	31.3%	$47,693
West Roxbury	661	63	9.5%	16.4%	$68,966
Charlestown	355	26	7.3%	21.4%	$59,265
Central	303	21	6.9%	30.4%	$61,837
South End	454	31	6.8%	54.7%	$42,263
Fenway/Kenmore	155	5	3.2%	30.5%	$48,961
BackBay/BeaconHill	471	13	2.8%	15.2%	$127,542
City of Boston	10,123	1,970	19.5%	50.5%	$44,151

The neighborhoods used in this study are based on the Planning Districts (PDs) defined by the Boston Redevelopment Authority (BRA), except: North and South Dorchester are combined and the Harbor Islands PD (no loans in 2005) is omitted. *Percent minority* population was calculated by the BRA for these exact neighborhoods from 2000 Census data. However, lending data are available only on a census tract basis and many tracts are divided among two or more PDs; *loans* in each PD were calculated using a list of census tracts obtained from the BRA that correspond to the PDs as closely as possible. The income level is estimated as the median of the Median Family Incomes of the census tracts in the PD.

Source: Borrowing Trouble VII, Table 11

Table 6 [was Table 12 in Borrowing Trouble VII]

Lenders with the Most High-APR Loans (HALs) in Boston, 2005

Loans for Owner-Occupied Homes Only, Sorted by Total Number of High-APR Loans

Lender Name	Lender Type#	Number of HALs			Total Loans			HALs as % of Total		
		Total	HmPur	ReFi	Total	HmPur	ReFi	Total	HmPur	ReFi
A. The 20 Lenders or Lender Families with More Than 45 High-APR Loans (HALs) in Boston										
Fremont Investment & Loan	OTH	612	373	239	686	421	265	89.2%	88.6%	90.2%
H&R Block/Option One*	LML	582	214	368	735	262	473	79.2%	81.7%	77.8%
New Century*	LML	433	245	188	490	266	224	88.4%	92.1%	83.9%
Accredited Home Lenders, Inc	LML	267	210	57	278	217	61	96.0%	96.8%	93.4%
Countrywide*	MIX	264	148	116	1,923	1,017	906	13.7%	14.6%	12.8%
Ameriquest/Argent*	LML	248	181	67	559	226	333	44.4%	80.1%	20.1%
GE/WMC*	MIX	237	132	105	261	144	117	90.8%	91.7%	89.7%
Washington Mutual/Long Beach*	OTH	203	150	53	976	418	558	20.8%	35.9%	9.5%
National City/First Franklin*	OTH	171	136	35	383	241	142	44.6%	56.4%	24.6%
NetBank/Meritage*	OTH	119	117	2	191	159	32	62.3%	73.6%	6.3%
HSBC*	MIX	95	35	60	296	108	188	32.1%	32.4%	31.9%
Lehman/Finance America*	OTH	93	70	23	122	87	35	76.2%	80.5%	65.7%
Aegis*	LML	90	26	64	125	37	88	72.0%	70.3%	72.7%
Encore Credit Corp	LML	80	35	45	85	36	49	94.1%	97.2%	91.8%
Fieldstone Mortgage Co	LML	79	56	23	112	66	46	70.5%	84.8%	50.0%
Wells Fargo*	MIX	68	16	52	927	563	364	7.3%	2.8%	14.3%
Nation One Mortgage Co	LML	64	64	0	80	80	0	80.0%	80.0%	na
Aames Funding Corp	LML	60	29	31	67	31	36	89.6%	93.5%	86.1%
SLM Financial Corp	LML	57	46	11	203	134	69	28.1%	34.3%	15.9%
SouthStar Funding	LML	46	41	5	48	42	6	95.8%	97.6%	83.3%
Sub-Total, Top 20 HAL Lenders		3,868	2,324	1,544	8,547	4,555	3,992	45.3%	51.0%	38.7%
Total, all 427 Lenders (150 HAL Lenders)		4,708	2,738	1,970	21,240	11,117	10,123	22.2%	24.6%	19.5%
B. The Seven Other Lenders with 500 or More Total Loans in Boston										
Bank of America	CRA	7	3	4	852	543	309	0.8%	0.6%	1.3%
GMAC*	MIX	21	9	12	681	270	411	3.1%	3.3%	2.9%
Citizens*	CRA	6	3	3	611	337	274	1.0%	0.9%	1.1%
Taylor, Bean & Whitaker	LML	0	0	0	608	194	414	0.0%	0.0%	0.0%
Summit Mortgage, LLC	LML	21	19	2	540	435	105	3.9%	4.4%	1.9%
Sovereign Bank	CRA	1	1	0	536	229	307	0.2%	0.4%	0.0%
Mortgage Master, Inc	LML	7	6	1	503	229	274	1.4%	2.6%	0.4%

* Indicates that the loans shown are for two or more affiliated lenders in the same "lender family." This note lists the individual lenders included in each of these lender families, together with their total loans and total HAL percentages.

Aegis: Aegis Funding Corp (49 loans; 92% HALs), Aegis Lending Corp. (49; 82%), and Aegis Wholesale Corp. (27; 19%)
Ameriquest/Argent: Argent Mort (285; 69%), Ameriquest Mort (246 loans, 19% HALs), Town & Country Credit (27; 19%), & AMC Mort Svcs (1; 0%)
Citizens: Citizens Mort (262 loans; 2% HALs), Citizens Bank of Mass (189 loans; 0%), CCO Mort (159; 1%); & Citizens Bank of RI (1; 0%).
Countrywide: Countrywide Home Loans (1,789 loans; 14.4% HALs), Countrywide Bank (130; 5%), & Countrywide Mort Ventures (4; 0%).
GE/WMC: WMC Mortgage Corp (260 loans; 91%; HALs) & GE Money Bank (1; 100%).
GMAC: GMAC Bank (423 loans; 2% HALs), GMAC Mortgage (169; 0%), Homecomings Financial Network (83; 14%), & Ditech.com (6; 17%).
H&R Block/Option One: Option One Mortgage (660 loans; 81% HALs) and H&R Block Mortgage (75; 64%).
HSBC: HSBC Mort (120 loans; 2% HALs); Decision One (93; 82%), HFC (56; 14%), Beneficial Homeowner Svcs (26; 31%), & HSBC Mort Svcs (1; 100%).
Lehman/Finance America: Finance America (60 loans; 98% HALs), Lehman Brothers Bank (36; 22%), & BNC Mort (26; 100%).
National City/First Franklin: National City Bank, Indiana [dba: First Franklin Financial] (315 loans; 54% HALs) & National City Bank (68; 0%).
NetBank/Meritage: Meritage Mortgage (124 loans; 96% HALs), NetBank (66; 0%), & Market Street Mortgage (1; 0%).
New Century: New Century Mort (489 loans; 88% HALs) and Home123 Corp (1; 100%)
Washington Mutual/Long Beach: Washington Mutual Bank (757 loans; 0% HALs) and Long Beach Mortgage (219; 93%).
Wells Fargo: Wells Fargo Bank (891 loans; 6% HALs), Wells Fargo Financial, Mass (28; 46%) and Wells Fargo Funding (8; 0%)

CRA: banks with Mass. branches, whose local lending is subject to evaluation under the Community Reinvestment Act. **LML**: licensed mortgage lenders, mostly mortgage companies, potentially subject to state regulation. **OTH**: other lenders, mainly out-of-state banks, who can do mortgage lending in Mass. without a license and are exempt from state regulation. **MIX**: lender families that include both LML and OTHER lenders.

Table 7 [was Table 14 in Borrowing Trouble VII]

Lenders with the Most High-APR Loans, Boston 2005: Lending by Race/Ethnicity

Loans for Owner-Occupied Homes Only, Sorted by Total Number of High-APR Loans (HALs) – See Table 12

Lender Name	Lender Type#	Total Loans			HALs as % of Total			Ratio to White	
		Black	Latino	White	Black	Latino	White	Black	Latino
A. The 20 Lenders or Lender Families with More Than 45 High-APR Loans (HALs) in Boston									
Fremont Investment & Loan	OTH	340	150	119	90.3%	88.0%	86.6%	1.04	1.02
H&R Block/Option One*	LML	252	102	246	76.2%	80.4%	82.5%	0.92	0.97
New Century*	LML	212	61	178	89.6%	85.2%	87.1%	1.03	0.98
Accredited Home Lenders, Inc	LML	71	59	103	97.2%	100.0%	93.2%	1.04	1.07
Countrywide*	MIX	265	168	1,010	30.6%	10.7%	8.8%	3.47	1.22
Ameriquest/Argent*	LML	151	73	168	62.3%	58.9%	38.7%	1.61	1.52
GE/WMC*	MIX	73	61	73	93.2%	95.1%	87.7%	1.06	1.08
Washington Mutual/Long Beach*	OTH	183	124	538	36.6%	52.4%	9.7%	3.79	5.42
National City/First Franklin*	OTH	87	51	193	60.9%	68.6%	31.1%	1.96	2.21
NetBank/Meritage*	OTH	52	57	63	65.4%	91.2%	33.3%	1.96	2.74
HSBC*	MIX	108	20	134	43.5%	40.0%	23.9%	1.82	1.68
Lehman/Finance America*	OTH	36	34	29	97.2%	88.2%	44.8%	2.17	1.97
Aegis*	LML	28	14	23	78.6%	78.6%	43.5%	1.81	1.81
Encore Credit Corp	LML	37	17	17	91.9%	94.1%	100.0%	0.92	0.94
Fieldstone Mortgage Co	LML	30	25	39	80.0%	92.0%	51.3%	1.56	1.79
Wells Fargo*	MIX	87	58	640	26.4%	19.0%	4.4%	6.04	4.33
Nation One Mortgage Co	LML	21	26	30	90.5%	88.5%	66.7%	1.36	1.33
Aames Funding Corp	LML	40	4	12	85.0%	100.0%	100.0%	0.85	1.00
SLM Financial Corp	LML	44	28	107	40.9%	46.4%	15.9%	2.57	2.92
SouthStar Funding	LML	22	8	14	95.5%	100.0%	100.0%	0.95	1.00
Sub-Total, Top 20 HAL Lenders		2,138	1,140	3,736	67.0%	65.2%	29.2%	2.29	2.23
Total, all 427 Lenders (150 HAL Lenders)		3,778	1,987	11,805	43.8%	42.7%	12.1%	3.62	3.52
B. The Seven Other Lenders with 500 or More Total Loans in Boston									
Bank of America	CRA	164	77	455	0.0%	1.3%	1.3%	0.00	0.98
GMAC*	MIX	74	29	451	9.5%	3.4%	2.2%	4.27	1.56
Citizens*	CRA	142	103	296	2.1%	0.0%	1.0%	2.08	0.00
Taylor, Bean & Whitaker	LML	45	22	461	0.0%	0.0%	0.0%	na	na
Summit Mortgage, LLC	LML	10	12	468	20.0%	16.7%	3.6%	5.51	4.59
Sovereign Bank	CRA	138	61	285	0.0%	0.0%	0.4%	0.00	0.00
Mortgage Master, Inc	LML	27	11	402	11.1%	9.1%	0.7%	14.89	12.18

* Indicates that the loans shown are for two or more affiliated lenders in the same "lender family." This note lists the individual lenders included in each of these lender families, together with their total loans and total HAL percentages.

Aegis: Aegis Funding Corp (49 loans; 92% HALs), Aegis Lending Corp. (49; 82%), and Aegis Wholesale Corp. (27; 19%)
Ameriquest/Argent: Argent Mort (285; 69%), Ameriquest Mort (246 loans, 19% HALs), Town & Country Credit (27; 19%), & AMC Mort Svcs (1; 0%)
Citizens: Citizens Mort (262 loans; 2% HALs), Citizens Bank of Mass (189 loans; 0%), CCO Mort (159; 1%); & Citizens Bank of RI (1; 0%).
Countrywide: Countrywide Home Loans (1,789 loans; 14.4% HALs), Countrywide Bank (130; 5%), & Countrywide Mort Ventures (4; 0%).
GE/WMC: WMC Mortgage Corp (260 loans; 91%; HALs) & GE Money Bank (1; 100%).
GMAC: GMAC Bank (423 loans; 2% HALs), GMAC Mortgage (169; 0%), Homecomings Financial Network (83; 14%), & Ditech.com (6; 17%).
H&R Block/Option One: Option One Mortgage (660 loans; 81% HALs) and H&R Block Mortgage (75; 64%).
HSBC: HSBC Mort (120 loans; 2% HALs); Decision One (93; 82%), HFC (56; 14%), Beneficial Homeowner Svcs (26; 31%), & HSBC Mort Svcs (1; 100%).
Lehman/Finance America: Finance America (60 loans; 98% HALs), Lehman Brothers Bank (36; 22%), & BNC Mort (26; 100%).
National City/First Franklin: National City Bank, Indiana [dba: First Franklin Financial] (315 loans; 54% HALs) & National City Bank (68; 0%).
NetBank/Meritage: Meritage Mortgage (124 loans; 96% HALs), NetBank (66; 0%), & Market Street Mortgage (1; 0%).
New Century: New Century Mort (489 loans; 88% HALs) and Home123 Corp (1; 100%)
Washington Mutual/Long Beach: Washington Mutual Bank (757 loans; 0% HALs) and Long Beach Mortgage (219; 93%).
Wells Fargo: Wells Fargo Bank (891 loans; 6% HALs), Wells Fargo Financial, Mass (28; 46%) and Wells Fargo Funding (8; 0%)

CRA: banks with Mass. branches, whose local lending is subject to evaluation under the Community Reinvestment Act. **LML**: licensed mortgage lenders, mostly mortgage companies, potentially subject to state regulation. **OTH**: other lenders, mainly out-of-state banks, who can do mortgage lending in Mass. without a license and are exempt from state regulation. **MIX**: lender families that include both LML and OTH lenders.

TABLE 8
BOSTON HOME-PURCHASE LOANS BY MAJOR TYPES OF LENDERS, 1990-2005 *

	1990	1992	1994	1996	1998	2000	2001	2002	2003	2004	2005
A. BIG BOSTON BANKS											
Number of Loans	541	911	1,849	1,954	1,429	876	751	860	790	736	695
% of All Loans	28.9%	38.6%	39.4%	34.8%	20.2%	11.7%	10.3%	10.9%	9.3%	8.5%	8.3%
B. OTHER MASS. BANKS AND CREDIT UNIONS											
Number of Loans	919	871	1,158	1,230	1,615	1,367	1,171	1,229	1,188	1,189	946
% of All Loans	49.1%	36.9%	24.7%	21.9%	22.8%	18.3%	16.1%	15.6%	14.0%	13.7%	11.4%
C. MORTGAGE COMPANIES & OUT-OF-STATE BANKS (excluding subprime lenders after 1997)											
Number of Loans	410	580	1,690	2,439	3,746	4,736	4,765	5,213	5,545	5,752	5,196
% of All Loans	21.9%	24.6%	36.0%	43.4%	53.0%	63.4%	65.6%	66.0%	65.3%	66.4%	62.4%
D. SUBPRIME LENDERS #											
Number of Loans					280	488	573	600	963	981	1,493
% of All Loans					4.0%	6.5%	7.9%	7.6%	11.3%	11.3%	17.9%
E. TOTAL											
Number of Loans	1,870	2,362	4,697	5,623	7,070	7,467	7,260	7,902	8,486	8,658	8,330
% of All Loans	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

* **Important Note**: 2004 and later data are not strictly comparable to those for earlier years. Beginning in 2004, loans other than first-lien mortgages on owner-occupied homes are excluded. Previously, only second-lien loans under the SoftSecond Program were excluded.

\# Subprime lenders for 1998-2003 are from HUD's annual lists of subprime lenders. Subprime lenders for 2004 [2005] are those for whom high-APR loans constituted more than 15% [33.3%] of their total Massachusetts loans.

"Big Boston Banks": Citizens, Bank of America/Fleet, and Sovereign in 2004 & 2005. BankBoston, Bank of New England, BayBanks, Boston Five, Boston Safe Deposit, and Shawmut were included during the years they existed. In all cases, affiliated mortgage companies are included.

"Other Mass. Banks and Credit Unions": all other banks with Mass. branches, plus all affiliated mortgage companies, plus Mass.-chartered CUs.

"Mortgage Companies & Out-of-State Banks": all lenders not affiliated with Massachusetts banks or state-chartered credit unions.

For Massachusetts banks and credit unions (i. e., lenders in categories A & B), Boston-area performance in meeting community credit needs is subject to evaluation by federal and/or state bank regulators under the state and/or federal Community Revestment Act (CRA). Boston-area lending by mortgage companies and out-of-state banks (categories C & D) is not subject to such evaluation under the CRA.

Source: Changing Patterns XIII, Table 6

Table 9

Massachusetts Mortgage Lending in 2005 by Type of Lender & High-APR Status of Loan
(Home Purchase and Refinance Lending Only)

Purpose	Lender Type^	All Loans	Loans without Rate Spread Info	High-APR Loans (HALs)	Percent HALs
A. Number of Loans					
Home-Purchase	CRA	28,847	28,437	410	1.4%
	LML	65,919	42,499	23,420	35.5%
	OSB	40,509	29,898	10,611	26.2%
	Sub-total	135,275	100,834	34,441	25.5%
Refinance	CRA	39,567	39,286	281	0.7%
	LML	83,279	60,573	22,706	27.3%
	OSB	53,705	46,545	7,160	13.3%
	Sub-total	176,551	146,404	30,147	17.1%
Total*	CRA	68,414	67,723	691	1.0%
	LML	149,198	103,072	46,126	30.9%
	OSB	94,214	76,443	17,771	18.9%
	Total	311,826	247,238	64,588	20.7%
B. Percentage of All Loans					
Home-Purchase	CRA	21.3%	28.2%	1.2%	
	LML	48.7%	42.1%	68.0%	
	OSB	29.9%	29.7%	30.8%	
Refinance	CRA	22.4%	26.8%	0.9%	
	LML	47.2%	41.4%	75.3%	
	Other	30.4%	31.8%	23.8%	
Total*	CRA	21.9%	27.4%	1.1%	
	LML	47.8%	41.7%	71.4%	
	OSB	30.2%	30.9%	27.5%	
C. Percentage of All Loans, Total: 2001-2005					
		2001	2003	2004	2005
Total*	CRA	37.0%	34.9%	25.5%	21.9%
	LML	24.2%	30.5%	41.0%	47.8%
	OSB	38.8%	34.6%	33.5%	30.2%

^ CRA: Lenders whose MA lending is now covered by federal and/or state Community Reinvestment Act
LML: Licensed mortgage lenders, require license from MA Division of Banks -- mainly independent mortgage companies.
OSB: All other lenders -- almost all-out-of state banks without Massachusetts branches.

* "Total" here excludes home improvement loans and loans on multi-family properties (in 2003, these were 2.4% of total loans).

Sources: Home Mortgage Disclosure Act (HMDA) data from Federal Financial Institutions Examination Council.
Licensed mortgage lenders based on lists prepared by MA Division of Banks

Table 10
Lender Type^ for the 20 Biggest Mortgage Lenders in Massachusetts, 2005
(Home Purchase and Refinance Lending Only)

A. All Loans

Rank	Lender Name	Lender Type^	Total Loans	HomePur Loans	Refinance Loans
1	COUNTRYWIDE HOME LOANS	LML	17,995	7,997	9,998
2	WELLS FARGO BANK, NA	OSB	10,909	6,588	4,321
3	OPTION ONE MORTGAGE CORP	LML	10,656	4,500	6,156
4	TAYLOR, BEAN & WHITAKER	LML	9,376	2,637	6,739
5	WASHINGTON MUTUAL BANK	OSB	9,028	2,463	6,565
6	BANK OF AMERICA, N.A.	CRA	8,937	4,406	4,531
7	SOVEREIGN BANK	CRA	7,628	2,390	5,238
8	NATIONAL CITY BANK OF INDIANA	OSB	6,701	3,925	2,776
9	FREMONT INVESTMENT & LOAN	OSB	6,346	3,773	2,573
10	NEW CENTURY MORTGAGE CORPORATI	LML	6,040	3,182	2,858
11	MORTGAGE MASTER, INC.	LML	5,973	2,352	3,621
12	AMERICAN HOME MORTGAGE CORP.	LML	5,062	2,468	2,594
13	FIRST HORIZON HOME LOAN CORP	OSB	5,000	1,821	3,179
14	GMAC BANK	OSB	4,827	1,685	3,142
15	AMERIQUEST MORTGAGE COMPANY	LML	4,590	314	4,276
16	JPMORGAN CHASE BANK	OSB	4,494	2,024	2,470
17	WMC MORTGAGE CORP.	LML	4,073	2,389	1,684
18	OHIO SAVINGS BANK	OSB	4,022	1,962	2,060
19	MORTGAGE NETWORK, INC.	LML	3,834	2,150	1,684
20	GMAC MORTGAGE CORPORATION	LML	3,791	1,509	2,282

CRA: 2 of top 20 lenders, including none of the top five.
OSB : 8 of top 20 lenders, including two of the top five.
LML: 10 of top 20 lenders, including three of the top five.

B. High-APR Loans (HALs)

Rank	Lender Name	Lender Type^	Total HALs	HomePur HALs	Refinance HALs
1	OPTION ONE MORTGAGE CORP	LML	8,520	3,765	4,755
2	FREMONT INVESTMENT & LOAN	OSB	5,648	3,340	2,308
3	NEW CENTURY MORTGAGE CORPORATI	LML	5,381	2,914	2,467
4	WMC MORTGAGE CORP.	LML	3,666	2,227	1,439
5	COUNTRYWIDE HOME LOANS	LML	3,014	1,495	1,519
6	NATIONAL CITY BANK OF INDIANA	OSB	2,989	2,342	647
7	LONG BEACH MORTGAGE CO.	OSB	2,412	1,742	670
8	ACCREDITED HOME LENDERS, INC	LML	2,266	1,503	763
9	ARGENT MORTGAGE COMPANY LLC	LML	2,019	1,792	227
10	DECISION ONE MORTGAGE	LML	1,446	730	716
11	ENCORE CREDIT CORP	LML	1,005	355	650
12	AMERIQUEST MORTGAGE COMPANY	LML	981	217	764
13	MORTGAGE LENDERS NETWORK USA	LML	973	505	468
14	SOUTHSTAR FUNDING	LML	942	743	199
15	NATION ONE MORTGAGE CO., INC.	LML	904	856	48
16	FIELDSTONE MORTGAGE COMPANY	LML	880	641	239
17	AMERICAN HOME MORTGAGE CORP.	LML	835	596	239
18	EQUIFIRST CORPORATION	LML	798	459	339
19	WELLS FARGO BANK, NA	OSB	753	308	445
20	H&R BLOCK MORTGAGE CORPORATION	LML	734	38	696

CRA: None of top 20 lenders, including none of the top five.
OSB : 4 of top 20 lenders, including one of the top five.
LML: 16 of top 20 lenders, including four of the top five.

^ CRA: Lenders whose MA lending is now covered by federal and/or state Community Reinvestment Act
LML: Licensed mortgage lenders, require license from MA Div. of Banks -- mainly independent mortgage compani
OSB: All other lenders -- almost all-out-of state banks without Massachusetts branches.

Sources: Home Mortgage Disclosure Act (HMDA) data from Federal Financial Institutions Examination Council.
Licensed mortgage lenders based on lists prepared by MA Division of Banks

TABLE 11
LENDING TO TRADITIONALLY UNDERSERVED BORROWERS AND NEIGHBORHOODS BY MAJOR TYPES OF LENDERS, BOSTON HOME-PURCHASE LOANS, 2005

I. AS SHARE OF THE LOANS MADE BY EACH TYPE OF LENDER

	Total Loans	Loans to Black Borrowers	Loans to Latino Borrowers	Loans to Only LOW-Income Borrowers	Loans to All LMI Borrowers	Loans in All LMI Census Tracts	Loans in LMI CTs >75% Blk+Latino
A. MASS. BANKS AND CREDIT UNIONS							
Number of Loans	1,641	227	141	104	549	871	212
% of Loans	100%	13.8%	8.6%	6.3%	33.5%	53.1%	12.9%
B. MORTGAGE COMPANIES & OUT-OF-STATE BANKS (excluding subprime lenders)							
Number of Loans	5,196	308	260	101	841	2,460	344
% of Loans	100%	5.9%	5.0%	1.9%	16.2%	47.3%	6.6%
C. SUBPRIME LENDERS							
Number of Loans	1,493	530	318	11	140	1,083	466
% of Loans	100%	35.5%	21.3%	0.7%	9.4%	72.5%	31.2%
D. TOTAL							
Number of Loans	8,330	1,065	719	216	1,530	4,414	1,022
% of Loans	100%	12.8%	8.6%	2.6%	18.4%	53.0%	12.3%

II. AS SHARE OF EACH TYPE OF LOAN (MARKET SHARE)

	Total Loans	Loans to Black Borrowers	Loans to Latino Borrowers	Loans to Only LOW-Income Borrowers	Loans to All LMI Borrowers	Loans in All LMI Census Tracts	Loans in LMI CTs >75% Blk+Latino
A. MASS. BANKS AND CREDIT UNIONS							
Number of Loans	1,641	227	141	104	549	871	212
% of Loans	19.7%	21.3%	19.6%	48.1%	35.9%	19.7%	20.7%
B. MORTGAGE COMPANIES & OUT-OF-STATE BANKS (excluding subprime lenders)							
Number of Loans	5,196	308	260	101	841	2,460	344
% of Loans	62.4%	28.9%	36.2%	46.8%	55.0%	55.7%	33.7%
C. SUBPRIME LENDERS							
Number of Loans	1,493	530	318	11	140	1,083	466
% of Loans	17.9%	49.8%	44.2%	5.1%	9.2%	24.5%	45.6%
D. TOTAL							
Number of Loans	8,330	1,065	719	216	1,530	4,414	1,022
% of Loans	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Includes only first-lien loans for owner-occupied homes.
"Mass. Banks and Credit Unions" includes all banks with branches in Mass., plus all affiliated mortgage companies; excludes federal CUs.
"Mortgage Companies & Out-of-State Banks": all lenders not affiliated with Massachusetts banks or Mass. state-chartered credit unions.
"Subprime Lenders" are those for whom high-APR loans made up more than one-third of total Massachusetts loans.
For Massachusetts banks and credit unions, Boston-area performance in meeting community credit needs is subject to evaluation by bank regulators under the state and/or federal Community Revestment Act (CRA). Boston-area lending by mortgage companies and out-of-state banks (categories B & C) is not subject to such evaluation under the CRA.
"Low-Income" borrowers: reported incomes below 50% of median family income (MFI) in Boston metro district (MD) (<$39K in 2005).
"LMI [low- or moderate-income] borrowers": reported incomes below 80% of MFI in Boston Metropolitan District [MD] (<$62K in 2005).
"LMI census tracts" have median family incomes (MFIs) less than 80% of the MFI in the Boston MD (2000 Census data).
"LMI CTs >75% Blk+Latino" include all 31 census tracts in which over 75% of the population was black or Latino (2000 Census data).

Source: Changing Patterns XIII, Tables 8 & 9.

APPENDIX TABLE 1 [was Table 12 in Changing Patterns XIII] (page 1 of 3)

NUMBER OF HOME-PURCHASE LOANS TO BLACK AND LATINO BORROWERS IN THE 101 CITIES & TOWNS IN THE MAPC REGION AND IN THE 7 LARGEST MASSACHUSETTS CITIES OUTSIDE THIS REGION, 2003-2005 *

	Black Borrowers				Latino Borrowers				All with Race/Eth Information#			
City/Town	2003	2004	2005	Total	2003	2004	2005	Total	2003	2004	2005	Total
A. The 101 Cities and Towns in the Metropolitan Area Planning Council Region												
Acton	3	4	1	8	6	9	6	21	343	356	323	1,022
Arlington	8	5	5	18	12	11	9	32	581	548	583	1,712
Ashland	4	6	9	19	16	16	17	49	336	388	299	1,023
Bedford	2	1	0	3	0	3	0	3	132	154	124	410
Bellingham	1	5	5	11	5	5	10	20	300	288	324	912
Belmont	2	4	2	8	3	3	3	9	249	299	295	843
Beverly	4	3	3	10	8	12	11	31	491	554	468	1,513
Bolton	0	1	1	2	0	0	2	2	76	108	91	275
Boston	780	850	1,065	2,695	579	611	719	1,909	7,107	7,452	7,446	22,005
Boxborough	0	1	0	1	3	4	5	12	121	94	110	325
Braintree	0	9	6	15	7	7	13	27	457	542	455	1,454
Brookline	4	13	14	31	12	17	11	40	739	846	731	2,316
Burlington	2	3	4	9	5	8	7	20	238	243	190	671
Cambridge	19	16	27	62	20	17	31	68	909	940	1,044	2,893
Canton	16	8	21	45	1	2	11	14	266	306	336	908
Carlisle	0	0	0	0	1	2	0	3	50	64	79	193
Chelsea	10	11	14	35	173	171	203	547	390	436	420	1,246
Cohasset	1	1	0	2	0	0	2	2	114	122	98	334
Concord	0	1	2	3	2	2	4	8	181	161	192	534
Danvers	0	1	2	3	4	8	16	28	375	315	329	1,019
Dedham	15	21	17	53	20	11	25	56	318	341	339	998
Dover	0	1	0	1	0	2	0	2	65	92	80	237
Duxbury	2	1	1	4	1	2	1	4	182	204	194	580
Essex	0	1	0	1	0	0	0	0	40	38	38	116
Everett	36	41	75	152	101	135	198	434	425	392	512	1,329
Foxborough	4	4	2	10	5	3	2	10	210	205	187	602
Framingham	38	16	31	85	99	173	173	445	939	995	994	2,928
Franklin	7	6	6	19	7	4	8	19	591	511	457	1,559
Gloucester	0	0	0	0	0	6	11	17	378	317	323	1,018
Hamilton	0	0	0	0	0	0	0	0	77	95	74	246
Hanover	1	0	0	1	0	1	1	2	190	198	141	529
Hingham	0	2	1	3	6	4	4	14	340	365	311	1,016
Holbrook	15	17	19	51	6	6	15	27	187	170	164	521
Holliston	2	0	2	4	2	8	10	20	226	184	153	563
Hopkinton	0	2	0	2	3	7	5	15	212	264	242	718
Hudson	3	1	4	8	16	23	25	64	303	276	271	850
Hull	2	3	1	6	0	1	1	2	207	175	136	518
Ipswich	1	0	0	1	0	1	3	4	187	190	200	577
Lexington	2	0	1	3	2	5	1	8	310	391	349	1,050
Lincoln	2	0	0	2	3	0	0	3	64	61	51	176
Littleton	0	1	0	1	2	1	1	4	136	140	110	386

APPENDIX TABLE 1 [was Table 12 in Changing Patterns XIII] (page 2 of 3)

NUMBER OF HOME-PURCHASE LOANS TO BLACK AND LATINO BORROWERS IN THE 101 CITIES & TOWNS IN THE MAPC REGION AND IN THE 7 LARGEST MASSACHUSETTS CITIES OUTSIDE THIS REGION, 2003-2005 *

	Black Borrowers				Latino Borrowers				All with Race/Eth Information#			
City/Town	2003	2004	2005	Total	2003	2004	2005	Total	2003	2004	2005	Total
A. The 101 Cities and Towns in the MAPC Region (continued)												
Lynn	143	130	159	432	372	417	471	1,260	1,433	1,407	1,462	4,302
Lynnfield	0	0	1	1	1	2	2	5	171	135	147	453
Malden	50	85	106	241	66	105	122	293	646	687	815	2,148
Manchester-btS	0	0	0	0	1	0	0	1	53	67	67	187
Marblehead	1	1	0	2	1	2	3	6	296	365	308	969
Marlborough	12	15	12	39	48	110	99	257	659	632	590	1,881
Marshfield	0	2	2	4	4	6	2	12	423	411	317	1,151
Maynard	4	2	4	10	3	1	13	17	212	164	176	552
Medfield	0	0	2	2	2	2	4	8	173	153	141	467
Medford	40	44	56	140	22	31	71	124	601	618	675	1,894
Medway	1	1	5	7	2	7	6	15	232	186	172	590
Melrose	0	4	9	13	6	7	12	25	351	343	345	1,039
Middleton	0	1	0	1	2	1	1	4	105	102	153	360
Milford	11	10	7	28	22	59	53	134	422	500	385	1,307
Millis	0	0	1	1	4	3	1	8	146	138	107	391
Milton	48	40	70	158	2	9	19	30	334	367	394	1,095
Nahant	0	0	0	0	0	0	0	0	46	43	33	122
Natick	2	2	12	16	11	10	24	45	580	523	557	1,660
Needham	5	2	0	7	4	3	2	9	401	412	322	1,135
Newton	14	14	13	41	11	24	28	63	950	1,001	943	2,894
Norfolk	1	0	0	1	0	2	1	3	119	136	92	347
North Reading	1	3	1	5	0	0	3	3	262	204	185	651
Norwell	2	1	1	4	0	1	1	2	160	185	95	440
Norwood	7	6	12	25	6	12	9	27	250	313	347	910
Peabody	3	6	12	21	28	37	51	116	571	556	620	1,747
Pembroke	0	1	0	1	4	5	4	13	263	261	214	738
Quincy	23	29	39	91	17	31	53	101	1,209	1,139	1,241	3,589
Randolph	171	185	218	574	38	41	36	115	559	510	500	1,569
Reading	1	1	0	2	1	8	6	15	341	303	338	982
Revere	12	27	29	68	183	214	307	704	646	632	701	1,979
Rockland	2	1	4	7	1	10	7	18	296	239	245	780
Rockport	0	1	0	1	0	2	1	3	99	90	88	277
Salem	7	9	4	20	32	43	55	130	683	695	664	2,042
Saugus	6	9	12	27	19	29	42	90	358	364	376	1,098
Scituate	0	1	0	1	3	2	5	10	303	230	191	724
Sharon	8	9	10	27	1	5	1	7	195	230	243	668
Sherborn	0	0	0	0	1	1	0	2	62	61	53	176
Somerville	14	16	27	57	29	42	78	149	671	722	725	2,118
Southborough	3	3	2	8	5	6	4	15	156	188	140	484
Stoneham	2	7	5	14	6	8	9	23	325	246	269	840
Stoughton	33	53	57	143	16	30	32	78	371	373	387	1,131

APPENDIX TABLE 1 [was Table 12 in Changing Patterns XIII] (page 3 of 3)

NUMBER OF HOME-PURCHASE LOANS TO BLACK AND LATINO BORROWERS IN THE 101 CITIES & TOWNS IN THE MAPC REGION AND IN THE 7 LARGEST MASSACHUSETTS CITIES OUTSIDE THIS REGION, 2003-2005 *

	Black Borrowers				Latino Borrowers				All with Race/Eth Information#			
City/Town	2003	2004	2005	Total	2003	2004	2005	Total	2003	2004	2005	Total
A. The 101 Cities and Towns in the MAPC Region (continued)												
Stow	0	0	0	0	4	3	5	12	116	114	101	331
Sudbury	0	1	0	1	4	2	1	7	293	280	211	784
Swampscott	2	0	4	6	6	9	6	21	229	239	201	669
Topsfield	1	0	3	4	0	1	0	1	67	66	76	209
Wakefield	1	4	4	9	8	6	7	21	341	345	317	1,003
Walpole	2	4	5	11	5	3	8	16	360	296	313	969
Waltham	11	20	27	58	34	33	54	121	617	576	676	1,869
Watertown	4	6	8	18	7	13	25	45	349	374	447	1,170
Wayland	0	3	1	4	0	3	7	10	181	191	159	531
Wellesley	1	3	1	5	1	5	7	13	304	369	308	981
Wenham	0	0	0	0	0	1	0	1	59	42	41	142
Weston	3	0	2	5	1	1	4	6	121	146	145	412
Westwood	0	2	1	3	0	2	2	4	186	164	159	509
Weymouth	11	19	9	39	16	14	37	67	1,039	785	741	2,565
Wilmington	0	3	5	8	1	5	7	13	292	252	264	808
Winchester	2	5	2	9	4	5	4	13	305	340	319	964
Winthrop	6	1	5	12	18	8	22	48	228	230	220	678
Woburn	5	7	18	30	6	17	26	49	457	393	415	1,265
Wrentham	2	2	4	8	2	2	4	8	165	173	147	485
MAPC Region	1,664	1,861	2,332	5,857	2,221	2,762	3,428	8,411	40,884	41,126	40,346	122,356
B. The Seven Other Massachusetts Cities with Population over 60,000												
Brockton	480	539	634	1,653	121	185	179	485	1,507	1,447	1,465	4,419
Fall River	33	28	35	96	37	38	37	112	774	748	745	2,267
Lawrence	60	39	48	147	596	610	612	1,818	967	930	893	2,790
Lowell	105	118	185	408	128	151	220	499	1,425	1,432	1,622	4,479
New Bedford	71	81	90	242	93	86	84	263	1,164	980	931	3,075
Springfield	312	312	399	1,023	559	516	607	1,682	2,135	1,967	2,137	6,239
Worcester	270	294	336	900	272	365	347	984	2,449	2,335	2,308	7,092

* Data for 2004 & 2005 are not strictly comparable to data for earlier years for two major reasons. First, these data include only first lien loans for owner occupied homes (thereby excluding 22.6% of the total Massachusetts home purchase loans in 2004, and 30.3% in 2005). Second, treatment of race and ethnicity in HMDA data changed in 2004. For details, see "Notes on Data and Methods."

\# Tables 12 & 13 include only loans for which the race/ethnicity of the borrower is reported in HMDA data. This information was not availabl for 8.4% of the first-lien, owner-occupied, home-purchase loans in Massachusetts in 2005. For total loans in each community, see Table 19.

APPENDIX TABLE 2 [was Table 13 in Changing Patterns XIII] (page 1 of 3)

PERCENT OF HOME-PURCHASE LOANS THAT WENT TO BLACKS & LATINOS IN THE 101 CITIES & TOWNS IN THE MAPC REGION AND IN THE 7 LARGEST MASSACHUSETTS CITIES OUTSIDE THIS REGION, 2003-2005 *

	% Black	Black Borrowers				% Latino	Latino Borrowers			
City/Town	Households	2003	2004	2005	Total	Households	2003	2004	2005	Total
A. The 101 Cities and Towns in the Metropolitan Area Planning Council Region										
Acton	0.7%	0.9%	1.1%	0.3%	0.8%	1.3%	1.7%	2.5%	1.9%	2.1%
Arlington	1.6%	1.4%	0.9%	0.9%	1.1%	1.3%	2.1%	2.0%	1.5%	1.9%
Ashland	1.8%	1.2%	1.5%	3.0%	1.9%	2.4%	4.8%	4.1%	5.7%	4.8%
Bedford	1.6%	1.5%	0.6%	0.0%	0.7%	1.3%	0.0%	1.9%	0.0%	0.7%
Bellingham	0.9%	0.3%	1.7%	1.5%	1.2%	0.8%	1.7%	1.7%	3.1%	2.2%
Belmont	0.9%	0.8%	1.3%	0.7%	0.9%	1.3%	1.2%	1.0%	1.0%	1.1%
Beverly	1.0%	0.8%	0.5%	0.6%	0.7%	1.3%	1.6%	2.2%	2.4%	2.0%
Bolton	0.1%	0.0%	0.9%	1.1%	0.7%	0.6%	0.0%	0.0%	2.2%	0.7%
Boston	21.4%	11.0%	11.4%	14.3%	12.2%	10.8%	8.1%	8.2%	9.7%	8.7%
Boxborough	0.7%	0.0%	1.1%	0.0%	0.3%	0.9%	2.5%	4.3%	4.5%	3.7%
Braintree	1.0%	0.0%	1.7%	1.3%	1.0%	0.9%	1.5%	1.3%	2.9%	1.9%
Brookline	2.4%	0.5%	1.5%	1.9%	1.3%	2.8%	1.6%	2.0%	1.5%	1.7%
Burlington	1.4%	0.8%	1.2%	2.1%	1.3%	0.9%	2.1%	3.3%	3.7%	3.0%
Cambridge	10.5%	2.1%	1.7%	2.6%	2.1%	5.2%	2.2%	1.8%	3.0%	2.4%
Canton	2.5%	6.0%	2.6%	6.3%	5.0%	1.0%	0.4%	0.7%	3.3%	1.5%
Carlisle	0.2%	0.0%	0.0%	0.0%	0.0%	1.1%	2.0%	3.1%	0.0%	1.6%
Chelsea	6.0%	2.6%	2.5%	3.3%	2.8%	37.7%	44.4%	39.2%	48.3%	43.9%
Cohasset	0.1%	0.9%	0.8%	0.0%	0.6%	0.3%	0.0%	0.0%	2.0%	0.6%
Concord	0.7%	0.0%	0.6%	1.0%	0.6%	0.8%	1.1%	1.2%	2.1%	1.5%
Danvers	0.3%	0.0%	0.3%	0.6%	0.3%	0.5%	1.1%	2.5%	4.9%	2.7%
Dedham	1.0%	4.7%	6.2%	5.0%	5.3%	1.4%	6.3%	3.2%	7.4%	5.6%
Dover	0.2%	0.0%	1.1%	0.0%	0.4%	0.9%	0.0%	2.2%	0.0%	0.8%
Duxbury	0.7%	1.1%	0.5%	0.5%	0.7%	0.5%	0.5%	1.0%	0.5%	0.7%
Essex	0.1%	0.0%	2.6%	0.0%	0.9%	0.5%	0.0%	0.0%	0.0%	0.0%
Everett	5.4%	8.5%	10.5%	14.6%	11.4%	6.4%	23.8%	34.4%	38.7%	32.7%
Foxborough	0.7%	1.9%	2.0%	1.1%	1.7%	0.7%	2.4%	1.5%	1.1%	1.7%
Framingham	4.2%	4.0%	1.6%	3.1%	2.9%	7.8%	10.5%	17.4%	17.4%	15.2%
Franklin	1.0%	1.2%	1.2%	1.3%	1.2%	0.7%	1.2%	0.8%	1.8%	1.2%
Gloucester	0.5%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	1.9%	3.4%	1.7%
Hamilton	0.3%	0.0%	0.0%	0.0%	0.0%	0.7%	0.0%	0.0%	0.0%	0.0%
Hanover	0.5%	0.5%	0.0%	0.0%	0.2%	0.5%	0.0%	0.5%	0.7%	0.4%
Hingham	0.4%	0.0%	0.5%	0.3%	0.3%	0.5%	1.8%	1.1%	1.3%	1.4%
Holbrook	3.7%	8.0%	10.0%	11.6%	9.8%	1.7%	3.2%	3.5%	9.1%	5.2%
Holliston	0.9%	0.9%	0.0%	1.3%	0.7%	1.0%	0.9%	4.3%	6.5%	3.6%
Hopkinton	0.6%	0.0%	0.8%	0.0%	0.3%	0.7%	1.4%	2.7%	2.1%	2.1%
Hudson	1.0%	1.0%	0.4%	1.5%	0.9%	2.1%	5.3%	8.3%	9.2%	7.5%
Hull	0.3%	1.0%	1.7%	0.7%	1.2%	0.6%	0.0%	0.6%	0.7%	0.4%
Ipswich	0.3%	0.5%	0.0%	0.0%	0.2%	0.8%	0.0%	0.5%	1.5%	0.7%
Lexington	1.1%	0.6%	0.0%	0.3%	0.3%	1.0%	0.6%	1.3%	0.3%	0.8%
Lincoln	4.5%	3.1%	0.0%	0.0%	1.1%	2.2%	4.7%	0.0%	0.0%	1.7%
Littleton	0.5%	0.0%	0.7%	0.0%	0.3%	0.6%	1.5%	0.7%	0.9%	1.0%

APPENDIX TABLE 2 [was Table 13 in Changing Patterns XIII] (page 2 of 3)
PERCENT OF HOME-PURCHASE LOANS THAT WENT TO BLACKS & LATINOS IN THE 101 CITIES & TOWNS IN THE MAPC REGION AND IN THE 7 LARGEST MASSACHUSETTS CITIES OUTSIDE THIS REGION, 2003-2005 *

	% Black	Black Borrowers				% Latino	Latino Borrowers			
City/Town	Households	2003	2004	2005	Total	Households	2003	2004	2005	Total
A. The 101 Cities and Towns in the MAPC Region (continued)										
Lynn	9.0%	10.0%	9.2%	10.9%	10.0%	13.2%	26.0%	29.6%	32.2%	29.3%
Lynnfield	0.4%	0.0%	0.0%	0.7%	0.2%	0.5%	0.6%	1.5%	1.4%	1.1%
Malden	7.4%	7.7%	12.4%	13.0%	11.2%	3.6%	10.2%	15.3%	15.0%	13.6%
Manchester-btS	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	1.9%	0.0%	0.0%	0.5%
Marblehead	0.5%	0.3%	0.3%	0.0%	0.2%	0.5%	0.3%	0.5%	1.0%	0.6%
Marlborough	2.0%	1.8%	2.4%	2.0%	2.1%	3.9%	7.3%	17.4%	16.8%	13.7%
Marshfield	0.5%	0.0%	0.5%	0.6%	0.3%	0.4%	0.9%	1.5%	0.6%	1.0%
Maynard	0.8%	1.9%	1.2%	2.3%	1.8%	1.9%	1.4%	0.6%	7.4%	3.1%
Medfield	0.6%	0.0%	0.0%	1.4%	0.4%	0.5%	1.2%	1.3%	2.8%	1.7%
Medford	5.4%	6.7%	7.1%	8.3%	7.4%	1.7%	3.7%	5.0%	10.5%	6.5%
Medway	0.5%	0.4%	0.5%	2.9%	1.2%	0.6%	0.9%	3.8%	3.5%	2.5%
Melrose	1.0%	0.0%	1.2%	2.6%	1.3%	0.9%	1.7%	2.0%	3.5%	2.4%
Middleton	0.3%	0.0%	1.0%	0.0%	0.3%	0.3%	1.9%	1.0%	0.7%	1.1%
Milford	1.3%	2.6%	2.0%	1.8%	2.1%	3.3%	5.2%	11.8%	13.8%	10.3%
Millis	0.6%	0.0%	0.0%	0.9%	0.3%	0.8%	2.7%	2.2%	0.9%	2.0%
Milton	9.3%	14.4%	10.9%	17.8%	14.4%	1.0%	0.6%	2.5%	4.8%	2.7%
Nahant	0.3%	0.0%	0.0%	0.0%	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%
Natick	1.6%	0.3%	0.4%	2.2%	1.0%	1.4%	1.9%	1.9%	4.3%	2.7%
Needham	0.6%	1.2%	0.5%	0.0%	0.6%	0.8%	1.0%	0.7%	0.6%	0.8%
Newton	1.4%	1.5%	1.4%	1.4%	1.4%	1.6%	1.2%	2.4%	3.0%	2.2%
Norfolk	0.4%	0.8%	0.0%	0.0%	0.3%	0.6%	0.0%	1.5%	1.1%	0.9%
North Reading	0.5%	0.4%	1.5%	0.5%	0.8%	0.5%	0.0%	0.0%	1.6%	0.5%
Norwell	0.5%	1.3%	0.5%	1.1%	0.9%	0.4%	0.0%	0.5%	1.1%	0.5%
Norwood	2.0%	2.8%	1.9%	3.5%	2.7%	1.2%	2.4%	3.8%	2.6%	3.0%
Peabody	0.8%	0.5%	1.1%	1.9%	1.2%	2.6%	4.9%	6.7%	8.2%	6.6%
Pembroke	0.5%	0.0%	0.4%	0.0%	0.1%	0.4%	1.5%	1.9%	1.9%	1.8%
Quincy	2.2%	1.9%	2.5%	3.1%	2.5%	1.6%	1.4%	2.7%	4.3%	2.8%
Randolph	18.7%	30.6%	36.3%	43.6%	36.6%	2.4%	6.8%	8.0%	7.2%	7.3%
Reading	0.4%	0.3%	0.3%	0.0%	0.2%	0.6%	0.3%	2.6%	1.8%	1.5%
Revere	2.6%	1.9%	4.3%	4.1%	3.4%	6.3%	28.3%	33.9%	43.8%	35.6%
Rockland	1.8%	0.7%	0.4%	1.6%	0.9%	0.7%	0.3%	4.2%	2.9%	2.3%
Rockport	0.2%	0.0%	1.1%	0.0%	0.4%	0.6%	0.0%	2.2%	1.1%	1.1%
Salem	2.1%	1.0%	1.3%	0.6%	1.0%	7.4%	4.7%	6.2%	8.3%	6.4%
Saugus	0.4%	1.7%	2.5%	3.2%	2.5%	0.6%	5.3%	8.0%	11.2%	8.2%
Scituate	0.4%	0.0%	0.4%	0.0%	0.1%	0.4%	1.0%	0.9%	2.6%	1.4%
Sharon	3.1%	4.1%	3.9%	4.1%	4.0%	0.7%	0.5%	2.2%	0.4%	1.0%
Sherborn	0.5%	0.0%	0.0%	0.0%	0.0%	0.7%	1.6%	1.6%	0.0%	1.1%
Somerville	5.4%	2.1%	2.2%	3.7%	2.7%	5.7%	4.3%	5.8%	10.8%	7.0%
Southborough	0.7%	1.9%	1.6%	1.4%	1.7%	0.7%	3.2%	3.2%	2.9%	3.1%
Stoneham	0.8%	0.6%	2.8%	1.9%	1.7%	1.4%	1.8%	3.3%	3.3%	2.7%
Stoughton	5.4%	8.9%	14.2%	14.7%	12.6%	1.1%	4.3%	8.0%	8.3%	6.9%

APPENDIX TABLE 2 [was Table 13 in Changing Patterns XIII] (page 3 of 3)

PERCENT OF HOME-PURCHASE LOANS* THAT WENT TO BLACKS & LATINOS IN THE 101 CITIES & TOWNS IN THE MAPC REGION AND IN THE 7 LARGEST MASSACHUSETTS CITIES OUTSIDE THIS REGION, 2003-2005 *

	% Black	Black Borrowers				% Latino	Latino Borrowers			
City/Town	Households	2003	2004	2005	Total	Households	2003	2004	2005	Total
A. The 101 Cities and Towns in the MAPC Region (continued)										
Stow	0.4%	0.0%	0.0%	0.0%	0.0%	1.2%	3.4%	2.6%	5.0%	3.6%
Sudbury	0.8%	0.0%	0.4%	0.0%	0.1%	0.8%	1.4%	0.7%	0.5%	0.9%
Swampscott	0.8%	0.9%	0.0%	2.0%	0.9%	0.8%	2.6%	3.8%	3.0%	3.1%
Topsfield	0.2%	1.5%	0.0%	3.9%	1.9%	0.6%	0.0%	1.5%	0.0%	0.5%
Wakefield	0.5%	0.3%	1.2%	1.3%	0.9%	0.6%	2.3%	1.7%	2.2%	2.1%
Walpole	0.4%	0.6%	1.4%	1.6%	1.1%	0.6%	1.4%	1.0%	2.6%	1.7%
Waltham	3.6%	1.8%	3.5%	4.0%	3.1%	5.9%	5.5%	5.7%	8.0%	6.5%
Watertown	1.3%	1.1%	1.6%	1.8%	1.5%	2.0%	2.0%	3.5%	5.6%	3.8%
Wayland	0.7%	0.0%	1.6%	0.6%	0.8%	0.8%	0.0%	1.6%	4.4%	1.9%
Wellesley	1.1%	0.3%	0.8%	0.3%	0.5%	1.3%	0.3%	1.4%	2.3%	1.3%
Wenham	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%	2.4%	0.0%	0.7%
Weston	0.8%	2.5%	0.0%	1.4%	1.2%	1.3%	0.8%	0.7%	2.8%	1.5%
Westwood	0.5%	0.0%	1.2%	0.6%	0.6%	0.6%	0.0%	1.2%	1.3%	0.8%
Weymouth	1.5%	1.1%	2.4%	1.2%	1.5%	1.1%	1.5%	1.8%	5.0%	2.6%
Wilmington	0.4%	0.0%	1.2%	1.9%	1.0%	0.6%	0.3%	2.0%	2.7%	1.6%
Winchester	0.8%	0.7%	1.5%	0.6%	0.9%	0.7%	1.3%	1.5%	1.3%	1.3%
Winthrop	1.5%	2.6%	0.4%	2.3%	1.8%	2.0%	7.9%	3.5%	10.0%	7.1%
Woburn	1.6%	1.1%	1.8%	4.3%	2.4%	2.4%	1.3%	4.3%	6.3%	3.9%
Wrentham	0.4%	1.2%	1.2%	2.7%	1.6%	0.6%	1.2%	1.2%	2.7%	1.6%
MAPC Region	6.6%	4.1%	4.5%	5.8%	4.8%	4.7%	5.4%	6.7%	8.5%	6.9%
B. The Seven Other Massachusetts Cities with Population over 60,000										
Brockton	16.9%	31.9%	37.2%	43.3%	37.4%	6.4%	8.0%	12.8%	12.2%	11.0%
Fall River	2.1%	4.3%	3.7%	4.7%	4.2%	2.3%	4.8%	5.1%	5.0%	4.9%
Lawrence	2.0%	6.2%	4.2%	5.4%	5.3%	50.6%	61.6%	65.6%	68.5%	65.2%
Lowell	3.4%	7.4%	8.2%	11.4%	9.1%	11.4%	9.0%	10.5%	13.6%	11.1%
New Bedford	4.5%	6.1%	8.3%	9.7%	7.9%	7.4%	8.0%	8.8%	9.0%	8.6%
Springfield	19.4%	14.6%	15.9%	18.7%	16.4%	21.8%	26.2%	26.2%	28.4%	27.0%
Worcester	5.9%	11.0%	12.6%	14.6%	12.7%	11.8%	11.1%	15.6%	15.0%	13.9%

* Data for 2004 & 2005 are not strictly comparable to data for earlier years for two major reasons. First, these data include only first lien loans for owner occupied homes (thereby excluding 22.6% of the total Massachusetts home purchase loans in 2004, and 30.3% in 2005). Second, treatment of race and ethnicity in HMDA data changed in 2004. For details, see "Notes on Data and Methods."

\# Tables 12 & 13 include only loans for which the race/ethnicity of the borrower is reported in HMDA data. This information was not availal for 8.4% of the first-lien, owner-occupied, home-purchase loans in Massachusetts in 2005. For total loans in each community, see Table 19.

Testimony on Mortgage Lending Disparities
Massachusetts Office of the Attorney General
House Committee on Financial Services
October 15, 2007

Good morning. My name is Martha Coakley. I serve as Attorney General of the Commonwealth of Massachusetts. Thank you, Chairman Frank and members of the Financial Services Committee, for this opportunity to address the critical issue of the mortgage lending and foreclosure crisis, and particularly the issue of racial and ethnic disparities in mortgage lending.

I took office in January 2007 amid the rising wave of home foreclosures that continues to have a devastating impact on people and communities across Massachusetts. I immediately set out to take a multifaceted approach, consistent with my role as Attorney General, that comprises of at least four prongs: (1) we have initiated several investigations and enforcement actions to hold accountable those who engage in unlawful predatory lending or foreclosure conduct, including lenders, brokers, closing attorneys, appraisers, foreclosure rescue scam artists, or others who crossed the line of fair, lawful lending practices; (2) following hearings across the state, we are promulgating more comprehensive and finely tuned mortgage broker and lender regulations based upon the Attorney General's authority from the Massachusetts Consumer Protection Act; (3) working with the National Consumer Law Center, the Boston Bar Association, and many others, we created a pro bono lawyer referral service so that those facing foreclosure potentially could have access to legal advice that otherwise would be unavailable; and (4) we continue to work with state and federal legislators, regulators and fellow law enforcers locally and nationally to seek solutions for the present lending and foreclosure crisis, and to prevent a recurrence in the future.

We issued an emergency regulation banning foreclosure rescue schemes, which became permanent last month. We will shortly issue a report as a result of our hearings as well as four additional regulations and will forward them to you immediately.

In our efforts we have gone to communities across Massachusetts and have talked with victims of unfair, deceptive and illegal lending practices, as well as those victimized by foreclosure rescue scams. We know that the results and the impact of out-of-control subprime lending practices cross community, racial, and ethnic lines, and many people and communities across Massachusetts have been affected. We also know, however, that minority communities in Boston and elsewhere have been hit particularly hard. There have been almost 1000 home foreclosures in the past 180 days in Boston alone, and these foreclosures have clustered in low-income and minority neighborhoods, particularly in Dorchester, East Boston, Mattapan, Hyde Park, and Roxbury. For example, in Mattapan, which is 77% African American and 13% Latino, from January 2006 to May 2007 there were 160 foreclosures out of a total 479 loans.

2006 HMDA Data

The disproportionate impact of foreclosures on minority communities may be a predictable, but no less disturbing, reflection of the fact that African American and Latino borrowers are more likely to get high-APR loans than their white counterparts, regardless of their income level. This fact has again been confirmed by the Federal Reserve Board, with its release last month of mortgage lending data under the federal Home Mortgage Disclosure Act, or HMDA. Before addressing the 2006 data, I would like to acknowledge the work of Professor Jim Campen and the Massachusetts Community and Banking Council, who have analyzed HMDA lending data for each of the past seven years for Massachusetts and have reported on the rise of subprime lending and racial disparities in the data. As Professor Campen explained in the

January 2007 report, which analyzes the 2005 HMDA data, in Boston, Greater Boston, and Massachusetts as a whole, high-APR loans made up more than half of all home purchase loans to African-American and Latino borrowers. In Greater Boston, the high-APR share for African-Americans is nearly 4 times greater than the share for whites with respect to home purchase loans, and 3 times greater for refinance loans. Among Latino borrowers, the share of high-APR home purchase loans is 4 times higher than for white borrowers, and the share of high-APR refinance loans is 3 times higher. These patterns are present at all income levels, with the racial disparities becoming more pronounced among higher income borrowers. In Boston, only 9.4% of the highest-income white home purchase borrowers received high-APR loans. In contrast, 71.1% of the highest-income Black home purchase borrowers received high-APR loans. The figure was 56.2% for the highest-income Latinos.[1]

The 2006 HMDA data released in September indicates similar nationwide trends. According to the Federal Reserve's analysis of the data, high-APR lending is "notably greater" for African-Americans and Latinos than for non-Latino whites.[2] This analysis of the 2006 HMDA data "revealed substantial differences across racial and ethnic lines in the incidence of higher-priced lending and in denial rates; further it showed that such differences could not be fully explained by factors in the HMDA data."[3]

The fact of racial and ethnic disparities in mortgage lending and in foreclosures is clear; the reasons for these disparities are less clear. The complexity of the issue should not be underestimated. We cannot ignore economic factors, but neither can we ignore a history of

[1] James Campen, Borrowing Trouble VII: Higher-Cost Mortgage Lending in Boston, Greater Boston, and Massachusetts, 2005, at 6-8.
[2] Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "The 2006 HMDA Data," forthcoming in the Federal Reserve Bulletin, at 41.
[3] Id., at 36.

housing discrimination and resulting segregated housing patterns, imbalanced and unequal access to financial services, and discriminatory lending practices.

The Federal Reserve's analysis controlled for certain economic and lender factors in finding that racial and ethnic lending disparities remained, but could not, due to the limits of HMDA data, control for all factors, such as credit scores. Some lenders and analysts have suggested that credit scores may be the best variable for predicting whether a borrower receives a high-APR loan. At this time, however, it is not possible to test the lenders' hypothesis that credit scores, rather than race or ethnicity, are the root of racial disparities, because HMDA data does not include information on borrowers' credit scores. We cannot rule out the possibility, as the Federal Reserve's analysis of the 2006 data acknowledges, that the disparities in the HMDA data "may reflect discriminatory treatment or other actions by lenders, including marketing practices."[4]

To help illustrate that real people lie behind the numbers in the HMDA data, let me reference a case that we filed last week in Superior Court in Boston against Fremont General and Fremont Investment & Loan, a national mortgage lender that was particularly active in subprime lending in Massachusetts in recent years. Fremont originated approximately 15,000 loans to Massachusetts' borrowers since 2004. As set forth in our Complaint, Fremont used a network of brokers and sales people to sell unduly risky loans that were designed to fail, including loan products with 100% financing, stated income loans and adjustable rate mortgages with dramatic increases in monthly payments after two or three years. Borrowers were qualified for adjustable rate mortgages based upon the initial "teaser" lower interest rate, without regard to their ability to pay the higher, adjustable rates which would increase every six months.

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[4] Id.

One Fremont customer lives in Dorchester and is a single mother of three children. A mortgage broker steered her to Fremont to finance the purchase of two multi-family homes. Fremont approved her for two loans, despite the fact that her total monthly income was only $1,800. Her broker promised her that she would be able to reduce her mortgage payments through refinancing, and induced her to sign a blank loan application which the broker used to submit false information about she employment and monthly income. She was discouraged from hiring legal counsel by her broker, and she learned for the first time at closing that her monthly mortgage payments would be more than $7,000 per month and could adjust from her initial interest rate of 7.65% up to 14.65%. Although Fremont obviously should have known that she did not qualify for the mortgages, Fremont paid the broker $7,024.00 for arranging she mortgages. Fremont then passed this cost on to her.

Another Fremont borrower, resides in Dorchester and purchased a multi-family house by taking out a Fremont loan. Although she filled out a loan application listing her salary of $2,000 per month, she then received letters from Fremont stating her mortgage payment would be more than her entire monthly salary. She called her broker to say that she could not afford the mortgages and did not want to go forward. But her broker told her that the letters were in error and her monthly payments would be lower. When she attended the closing and saw the same monthly figures listed, she initially refused to sign the papers. But Fremont's counsel told her that it was too late to back out and she would owe the money to Fremont anyway. In her efforts to pay her mortgages, she depleted her entire life savings and then lost her home to foreclosure.

These are just two of the thousands of people in Massachusetts who have lost their homes and their savings as a result of irresponsible, and in some cases, illegal, lending practices in recent years. We will continue to aggressively enforce the law against lenders who engaged in unfair, deceptive, or illegal practices. By enforcement of the state's Consumer Protection Act, G.L. c. 93A and its regulations. In addition to violating Chapter 93A, discriminatory lending practices are actionable under various state and federal laws, including, the federal Fair Housing Act and the Equal Credit Opportunity Act, as well as the Massachusetts fair lending statute, G.L. c. 151B, § 4(3B).

In that regard, I would like address the issue of federal preemption, and respectfully ask the Committee to consider whether a return to the well-tested dual enforcement roles of the states and the federal government would better serve both consumers and responsible lenders. Increasingly, the traditional and critical role of the states in ensuring fair lending is challenged by those who argue that that role is preempted by federal law, and that federal agencies such as the Office of the Comptroller of the Currency (the "OCC") or the Office of Thrift Supervision will ensure compliance with consumer protection and fair lending laws.

For example, in 2005, in response to an investigation by the New York Attorney General into lending practices by national banks operating in New York, the OCC filed a lawsuit against the Attorney General to stop that enforcement effort.[5] The OCC and the national banks claimed, and the federal district court found, that the state Attorney General was preempted by the National Bank Act[6] and the OCC's implementing regulations[7] from pursuing an enforcement action against national banks. The court enjoined the New York Attorney General from issuing subpoenas or inspecting books and records of any national banks in connection with an investigation into residential lending practices, and prohibited the state Attorney General from

[5] Office of the Comptroller of Currency v. Spitzer, 396 F.Supp.2d 383 (S.D.N.Y. 2005).
[6] 12 U.S.C. § 484(a)
[7] 12 C.F.R. § 7.4000 et. seq.

"instituting actions in the courts of justice against national banks to enforce state fair lending laws."[8]

This year, the Supreme Court ruled in Watters v. Wachovia[9] that states may not exercise any visitorial powers over national banks or operating subsidiaries of national banks.[10] According to the Court, the National Bank Act[11] and the OCC regulations promulgated under that Act[12] preempt the states from examining national banks or their operating subsidiaries, inspecting books and records of national banks or their operating subsidiaries, and enforcing compliance with any applicable federal or state law concerning activities of national banks or their operating subsidiaries that are authorized or permitted by federal banking law.[13] Of the top five lenders by foreclosure petition in each of the neighborhoods of Dorchester, Roxbury, Mattapan, and Hyde Park, all but one (Fremont Investment & Loan) are nationally chartered banks. In order to best address the impacts of the subprime lending and foreclosure crisis, and to prevent the recurrence of these practices in the future, we ask that this Committee give serious consideration to restoring the effective dual federal and state enforcement role by limiting federal preemption.

Finally, we applaud Congressman Frank's efforts to expand reporting under HMDA. Credit scores are one of several variables that logically should be reported by lenders to the Federal Reserve Board for inclusion in the HMDA data. Banks are required to report interest rates only if they are above the high-APR threshold. As a result, the public has not information about how interest rates below the threshold are distributed. Banks do not report points,

[8] Id. at 407-8.
[9] Watters v. Wachovia Bank, N.A., 127 S.Ct. 1559 (2007).
[10] Watters, 127 S.Ct. at 1568, 1572.
[11] 12 U.S.C. § 484(a)
[12] 12 C.F.R. § 7.4000(a)(2)(2006) et. seq.
[13] Watters, 127 S.Ct. at 1568-9, 1572-3.

prepayment penalties, loan-to-value rations, or debt-to-income rations. All of these variables and more could help enforcement authorities to better understand the critical issue of racial and ethnic disparities in mortgage lending.

Racial and ethnic disparities in mortgage lending data are troubling, and we cannot be complacent about what that data may mean. Moreover, we must act now at both the state and federal level to address lending abuses that have caused such damage to all Americans. I will continue to do so, and I appreciate that Chairman Frank and members of this Committee are considering additional federal action as well. Thank you again for the opportunity to testify today.

Testimony before the

HOUSE FINANCIAL SERVICES COMMITTEE
Field Hearing on Mortgage Lending Discrimination

October 15, 2007

Ginny Hamilton
Executive Director
Fair Housing Center of Greater Boston
59 Temple Place Suite 1105
Boston, MA 02111
617-399-0491 x102 voice
617-399-0492 fax
www.bostonfairhousing.org

I. Introduction

Good afternoon. Mr. Chairman and Members of the committee, thank you for this opportunity to discuss discrimination in mortgage lending. My name is Ginny Hamilton, and I am the Executive Director of the Fair Housing Center of Greater Boston. The Fair Housing Center works to eliminate housing discrimination and promote open communities throughout the greater Boston region. We serve the communities of Norfolk, Suffolk, Essex, Middlesex, and Plymouth counties in Eastern Massachusetts. The Fair Housing Center was founded in 1998 with funds from the Boston Foundation and more than 100 charter members. In 1999, we received a grant from the National Fair Housing Alliance (NFHA), which was in turn funded by HUD's Fair Housing Initiative Program (FHIP), to become a full service fair housing center offering: education and training, community outreach, case advocacy, testing, research, and policy advocacy. Today, we receive FHIP funding independently and remain an active member of the National Fair Housing Alliance.

I am here to speak with you today about our organization's use of paired testing to document racial discrimination in lending in Boston and eastern Massachusetts. Discriminatory lending practices are of particular concern in a region characterized by ongoing segregation, exorbitant housing prices, below national average homeownership rates for African American and Latino families, and an explosion of foreclosures disproportionately affecting homeowners of color and neighborhoods of color.

Commentary on the foreclosure crisis regularly includes statements about African American and Latino borrowers posing more of a credit risk to lenders than white borrowers. Therefore, the logic goes, these buyers are more likely to end up with a subprime and potentially risky loan. While this scenario may accurately describe one piece of the problem, it is not a complete accounting of the situation. Our testing shows evidence of discrimination based on race and national origin against homebuyers with good credit histories, sufficient savings, and solid income to secure a prime market loan.

II. Testing for Discrimination

Testing is a controlled method of measuring and documenting variations in the quality, quantity and content of information and services offered or given to various home seekers by housing providers. Quite simply, a test is designed to reveal differences in treatment and to isolate the causes of these differences by controlling for the desired factor. HUD's regulations to the federal Fair Housing Act read: "A person who receives the inaccurate or untrue information need not be an actual seeker of housing in order to be the victim of a discriminatory housing practice...." (24 CFR Part 14 et al. Implementation of the Fair Housing Amendments Act of 1988; Final Rule. Section 100.80.) The U.S. Supreme Court has also recognized testing as a tool to uncover housing discrimination. See *Havens Realty Corp v. Coleman*, 455 U.S. 363, 373-374 (1982).

A proven means for discovering the presence of discrimination, testing has become commonly accepted practice in several arenas. For enforcement purposes, the Department of Justice has its own testing program and the Department of Housing and Urban Development approves testing by fair housing organizations nationwide. Also, many corporations use "shopping services" to test a competitor's products as well as the performance of their own employees.

Testing is carried out by qualified fair housing organizations such as ours, both to provide systematic assessment of discrimination in the market and to investigate individual claims of discrimination. Fair housing organizations have a non-profit 501(c)3 status, so employees do not receive increases in salary or gifts as a result of any compensation that a victim of discrimination might receive after a settlement. Any claims or compensation for an occupant or applicant who has been the victim of discrimination goes to the complainant. Fair housing centers may also receive funds through a settlement or lawsuit, which is most often used to further fair housing by educating home seekers and housing providers about their legal rights and responsibilities.

III. Evidence of Lending Discrimination in Greater Boston

Since 2001, testing conducted by the Fair Housing Center of Greater Boston has shown that African Americans and Latinos experience discrimination in approximately half of their attempts to rent, purchase, or finance homes in the greater Boston region. Our testing data adds to a large body of evidence of housing discrimination from paired testing of providers of rental housing, from paired testing of real estate brokers who deal with potential home buyers, and from paired testing of mortgage lenders by seekers of home loans. (The amount of evidence is progressively smaller in each case because carrying out the tests is progressively more complex and expensive.)

Several national studies have presented evidence of racial and ethnic discrimination from paired testing of mortgage lenders. In the mid-1990s, NFHA conducted fair lending investigations that revealed discrimination based on race or national origin in two-thirds of almost 600 tests conducted in eight cities, including Boston. In two-thirds of the tests, whites were favored over African Americans and Latinos; in only 3 percent of the tests, African American and Latino testers were favored over white testers. In all cases, the African American and Latino testers were better qualified for the loans than their white counterparts.

Two more recent studies used testing to look at discriminatory treatment in the pre-application phase, and discriminatory behavior by mortgage brokers. The first was released in April 2002, the Urban Institute, *All Other Things Being Equal: A Paired Testing Study of Mortgage Lending Institutions*. The second, *Fair Lending Disparities: Stubborn and Persistent* was released in May 2006 by the National Community Reinvestment Coalition.

In May 2006, the Fair Housing Center of Greater Boston released our own mortgage testing audit report, *The Gap Persists: A Report on Racial and Ethnic Discrimination in the Greater Boston Home Mortgage Lending Market*. The rest of this section is a summary of that report.

During the four months from October 2005 to January 2006, the Fair Housing Center conducted an investigation to determine the extent and nature of discrimination by mortgage lenders in Greater Boston. The Fair Housing Center used trained volunteers to call and visit banks and mortgage offices and to report in detail on their experiences. Overall, the Fair Housing Center found differences in treatment which disadvantaged the homebuyer of color in nine of the twenty matched paired tests conducted, or 45 percent. In seven of these tests the differences in treatment were clearly large enough to form the basis for legal action, while the evidence in the remaining two tests may or may not have risen to that level. The chart below breaks down these test results by several different variables.

	Tests Conducted	Tests Showing Evidence of Discrimination	Percent of Tests that Show Evidence of Discrimination
All tests	20	9	45%
Good Credit	10	4	40%
Mediocre Credit	10	5	50%
African American/white pair	10	5	50%
Asian/white pair	4	2	50%
Latino/white pair	5	2	40%
Caribbean/white pair	1	0	0%

In all tests, the tester of color was better qualified than the white tester. Four of the tests with differences in treatment were conducted by pairs of testers with good credit scores, and five were done by pairs with mediocre credit scores. Of the ten tests pairing white and African American testers, there were five test pairs where the African American tester received disadvantageous treatment. Of the four tests pairing Asian and white testers, two showed evidence of discrimination. There were five tests pairing Latino and white testers, and in two the lender advantaged the white tester over the Latino tester. The one test pairing a Caribbean and white tester did not show evidence of discrimination. Summaries of each of the nine tests showing differences are provided in Appendix A at the end of this testimony.

Selection of Sites

Fair Housing Center staff worked with staff of the Massachusetts Affordable Housing Alliance (MAHA[1]) to discuss selection of sites and test methodology. MAHA provided the Fair Housing Center with the names of the 25 mortgage lenders that do the highest volume of lending in Boston. To this list, the Fair Housing Center added several companies who do a high volume of business in greater Boston and are reputed to have very low customer satisfaction rates. From this combined list, the Fair Housing Center tested ten banks and ten mortgage lending companies with offices located throughout Greater Boston.

Test Design

Fair Housing Center staff members provide all testers with HUD-approved standardized training that emphasizes the role of testers as objective fact finders. The Fair Housing Center paired testers and assigned both members of the pair near-identical incomes, credit ratings, and housing search locations, so that the major difference between the paired testers was the race or ethnicity of the loan seeker. Testers of color were assigned slightly higher credit scores and incomes, and

[1] The Massachusetts Affordable Housing Alliance (MAHA) is a statewide nonprofit group that works to encourage local and state government and businesses to invest more money in affordable housing. Known for their award winning homebuyer classes for consumers, MAHA also conducts research and organizes tenants and homeowners in support of affordable housing. www.mahahome.org

slightly lower debt compared to their white counterparts, such that in a discrimination-free environment, the tester of color would be slightly better qualified for the home loan.

From October 2005 to January 2006, the Fair Housing Center conducted twenty matched pair site visit tests for discrimination against African American, Latino, Asian, Caribbean loan seekers. The audit was designed for each tester to have similar experiences, with every effort to have testers contact the same person. During each test, the testers requested that the mortgage provider give them any information or quotes available but were instructed not to pursue the full application process. All testers inquired about a \$475,000 mortgage with \$25,000 down payment.

In MAHA's experience with first time homebuyers, homebuyers of color with mediocre credit are often turned away by mortgage providers, while the companies attempt to work with white homebuyers with similar credit to find ways to provide the loans. The Fair Housing Center sought to gather evidence as to whether such differences are occurring and therefore decided to include two levels of credit ratings. Ten pairs of testers had good credit, with assigned credit scores of approximately 750. Ten pairs of testers had mediocre credit, with assigned credit scores of approximately 650.

<u>Test Implications</u>

The results of these investigations are disturbing and reveal inconsistencies in the treatment of and services provided to testers of color when compared directly to white testers, including discouraging statements, higher quotes, or worse treatment of the tester of color or encouraging statements, lower quotes, or better treatment for the white tester. These differences serve to disadvantage loan seekers of color and advantage white loan seekers. Discriminatory behavior, often subtle, takes place from the beginning of the lending process. All the tests were pre-application phase, yet loan seekers of color were still disadvantaged in 45 percent of the tests.

Our investigation shows that lenders frequently give white loan seekers more information than loan seekers of color, creating a gap between white people's financial literacy and that of people of color. **In seven of the twenty tests conducted in this investigation, the white loan seeker received substantially more information from the lender** about different types of loans, either verbally or in writing (and often both), than the loan seeker of color, and not once did the person of color receive more information than his or her white counterpart. When a lender takes the time to describe the advantages and disadvantages of different loans, the loan seeker becomes an educated consumer. That loan seeker is now equipped with knowledge that will allow him or her to choose the right loan type and negotiate with lenders in the future. In contrast, when a lender simply tells a loan seeker "this is the loan for you, and it costs this much," the loan seeker has not gained any insight into how to choose the right loan or get a good interest rate. **Our investigation shows that it is not just the lender's style that determines how much information a home seeker receives, in too many cases it is the color of the loan seeker's skin.**

In four out of twenty tests, the lender contacted the white tester after their meeting to follow up, but did not contact the tester of color. Follow up comes in different forms, including additional information about loan products, a suggestion to pursue a loan with that lender, or a simple thank you card for the meeting. All of these sorts of contact send a message that the lender wants the loan seeker as a client. No lender in our study followed up with the tester of color and not with the white tester.

In five out of twenty tests, the white tester was offered a discount on closing costs which was not offered to the tester of color, or was quoted a substantially lower closing cost than the tester of color. The differences ranged from $500 to $3,600. We cannot assume that these preliminary numbers accurately reflect the final closing costs had our testers truly applied for a loan. However, at the first stages of shopping for a mortgage, quotes with high closing costs can discourage home seekers of color from pursuing home ownership at all. And lenders know that closing costs are a big factor in consumers' choice of lenders; that is why they offer specials like certificates for money off closing fees. If such specials are made available to white loan seekers but not loan seekers of color, the lender is pursuing white customers while allowing non-white potential customers to walk away.

If a loan seeker cannot detect these differences and avoid a lender who disadvantages mortgage seekers of his or her race, he or she may end up paying much more for a loan, either within a mainline lending institution or by turning to a subprime lender or a predatory lender who welcomes his or her business. When African Americans and Latinos must pay substantially more per month than similarly situated white people, these costs perpetuate the wealth gap between whites and other racial groups, despite the rising incomes and rates of homeownership among people of color. These higher costs also expose African American and Latino homeowners to higher risk of foreclosure than their white counterparts who were welcomed into the prime market.

The testing process directly reflects reality insofar as neither testers of color nor white testers were aware of their relative (dis)advantages. As in previous Fair Housing Center audits, no individuals were targets of outright hostility or subjected to overt discrimination. This simple fact underscores the need for and benefit of testing as a means of gauging discrimination in general, but particularly in a lending industry characterized by such large differences in outcomes.

My first set of recommendations concerns the necessity of lending testing in uncovering discrimination and enforcing fair lending laws and regulations.

- Federal government agencies and bank regulators should make much more aggressive and extensive use of paired testing in their own enforcement activities and investigations by contracting and working directly with qualified fair housing enforcement organizations.
- Federal government agencies and bank regulators should also support qualified fair housing organizations in carrying out greatly expanded paired testing.
- Congress should increase funding for the Fair Housing Initiatives Program (FHIP) to expanded lending testing by qualified fair housing organizations.
- Congress and federal agencies should provide an exemption to qualified fair housing organizations to allow mortgage lending testing beyond the pre-application phase of the mortgage lending process to enforce civil rights and anti-predatory lending laws. As mentioned above, discrimination occurs in every step of the loan process, but private groups are not currently able to test beyond pre-application because of form restrictions.

IV. Statistical Evidence of Lending Discrimination

Certainly, we believe the replication of actual home seeker experiences provided by testing is the most powerful tool we have to identify potential instances of lending discrimination. However, regulators and public officials have, in the past, used statistical data alone to conclude that lending discrimination occurs. Indeed, a study published by the Federal Reserve Bank of Boston in 1992 showed that the serious disparities between the loan denial rates of borrowers of color and white borrowers in Greater Boston reflected racial discrimination by lenders as well as other factors.[2]

In May 2006, the Center for Responsible Lending released *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*. The authors matched records from HMDA data with records from a large proprietary database of subprime loans to so that the info available for each borrower included race/ethnicity; credit score; loan-to-value ratio; existence of prepayment penalties; and whether the loan was fixed- or adjustable-rate. Both simple cross tabulation and more sophisticated multiple regression analysis showed that, other things equal, Black and Latino borrowers were substantially more likely to receive higher-cost loans than white borrowers.[3]

Also in 2006, then-NY Attorney General Eliot Spitzer's settlement with Countrywide Home Loans indicates the Attorney General found evidence of higher prime loan pricing for African Americans and Latinos than for white borrowers who were equally risky. This agreement is found on line at:
www.oag.state.ny.us/press/2006/dec/Countrywide%20Assurance%20Final%20Signed%20PDF.pdf [The specific finding referenced here is paragraph #2.4 on page 3.]

V. Federal Regulators Do Not Sufficiently Oversee and Enforce Fair Lending Laws

Private lawsuits have historically been important to the effort to eliminate lending discrimination. Currently, most fair lending cases are brought by private fair housing organizations and individual attorneys. While these private efforts are very important, the full engagement of the responsible federal government agencies is an essential component of any serious effort to combat lending discrimination in all of its many, evolving forms.

Private organizations do not have the resources needed to undertake investigation, analysis and litigation of fair lending violations on a routine basis. This requires review and analysis of a wide range of documents related to marketing practices, underwriting and loan servicing policies, confidential personal data from actual loan files, and a variety of other information that lenders deem proprietary. While fair housing organizations provide a vital service in conducting testing and research activities to uncover fair lending violations, for both policy and practical reasons, the federal government must be an integral partner in fair lending enforcement efforts.

HUD, as the lead enforcement agency under the Fair Housing Act and the administrator of the Federal Housing Administration, has the authority to initiate investigations and enforcement actions. Historically, however, it has undertaken very little fair lending enforcement activity. I applaud Assistant Secretary Kim Kendrick's commitment to improving enforcement efforts at HUD and to reinvigorating the Secretary-initiated complaint process. This summer, HUD established its fair lending enforcement office and recently announced funding for fair lending enforcement by eight of its regional partners, including the Massachusetts Commission Against Discrimination. This new HUD office and its state and local affiliates should be given

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[2] Federal Reserve Bank of Boston *Mortgage Lending in Boston: Interpreting HMDA Data* originally published in 1992, revised version in American Economic Review in 1996

[3] Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages. Center for Responsible Lending. Debbie Gruenstien Bocian, Keith S. Ernst, and Wei Li. May 31, 2006. www.responsiblelending.org

appropriate resources, in depth training, and focus to proactively investigate fair lending violations.

We welcome this increased enforcement capacity locally and have begun conversations with staff at the MCAD and Attorney General's office to utilize testing to assist with their enforcement proceedings. While Massachusetts is at the forefront of the foreclosure crisis, state and local government are also at the forefront of efforts to remediate the problem. Governor Patrick, State Attorney General Coakley, Boston Mayor Menino, and the Boston City Council are all actively engaged with industry and community groups to enforce existing laws, strengthen oversight, and assist consumers and communities in duress. Congressional efforts to solve this problem nationally should not undermine efforts in states such as Massachusetts with greater consumer protection laws in effect.

Lending disparities occur not only between individuals, but between neighborhoods and communities divided along racial lines. African American and Latino borrowers have traditionally not had access to main stream and prime lenders. One mechanism by which racially disparate outcomes are generated is by branch location and/or marketing efforts that lead a corporation's African American and Latino borrowers to obtain loans primarily from a high-cost subprime affiliate while its white borrowers obtain their loans primarily from a low-cost prime lending affiliate. Traditional fair lending exams might determine that each of the two affiliates treats all its applicants fairly, even though the overall corporation's lending is highly unfair.

From a fair lending perspective, when examining a lending institution that makes both prime and subprime loans, it is critical to review the institution's marketing and application procedures to ensure that all applicants have equal access to all reasonable products for which they qualify. It is also critical to look at the lenders distribution system. Does the lender have retail brick and mortar operations in predominately white, suburban communities while not having brick and mortar retail operations in predominately African American and Latino neighborhoods? Does the lender, when considering its entire books of business, rely on mortgage brokers as its primary originators in predominately African American and Latino neighborhoods?

If the government fails to pursue such cases or does not engage in a competent effort to uncover lending discrimination by the lenders under its authority, then most lending discrimination will go unchecked. Indeed for the entire history of our country, it has. Lack of forceful federal enforcement actually provides a form of safe harbor for those in the industry engaging in discriminatory practices.

The federal agencies that regulate insured depository institutions, particularly the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Federal Reserve Board (Fed), have the authority to conduct an effective process for fair lending examinations; however, their record of enforcement falls short of the mark and has not been effective at eliminating discrimination in the mortgage market. Disclosure is a valuable tool for the evaluation of lending practices, but it cannot replace forceful and effective enforcement activities undertaken by federal agencies. Financial regulatory agencies have referred some lending discrimination cases to the Department of Justice for enforcement actions; however, they are few in number.

During the 1990s, the Department of Justice was a leader among government agencies in fair lending enforcement. These DOJ investigations set in operation a process by which both HUD and the financial regulatory agencies could refer pattern and practice cases to DOJ for investigation and litigation. These cases set out legal strategies and formats for investigation and litigation in a wide range of lending issues from redlining to retail and wholesale pricing. Historically, the decade of the 1990s can be seen as the high point in federal enforcement efforts. There is little sign of enforcement activity in this decade. DOJ has the capacity to use paired testing as an investigative tool and should be compelled to utilize testing in its fair lending investigations.

The Federal Trade Commission has authority over non-regulated lenders under the Equal Credit Opportunity Act (ECOA), but it has pursued almost no lending discrimination cases, although the FTC had an enforcement plan as far back as 1978 (See Discrimination in Real Estate Finance: The Role of the FTC Enforcement – A Report to the Federal Trade Commission, Pottinger and Company, 1978).

It should be clear by now that racial/ethnic discrimination in mortgage lending exists and is a serious problem. If and when regulators make a serious attempt to find racial/ethnic discrimination in lending, they can and will find it, as at the Boston Fed more than a decade ago and at the New York Attorney General's office more recently. We at the Fair Housing Center, and my colleagues at the National Fair Housing Alliance, believe that the four bank regulators (OCC, OTS, FDIC, and the Fed) and the other regulatory agencies charged with enforcing the nation's fair housing laws (HUD, DOJ, FTC) must take immediate and far-reaching actions to identify and reduce racial/ethnic discrimination in mortgage lending.

Currently, no federal agency regulates independent mortgage companies for fair lending compliance. Yet, as testing shows, discrimination is as at least as common in these institutions as in regulated banks. To help alleviate the problems in the subprime market, the Federal Reserve should exercise its discretion as the agency with rule-making authority under the Home Ownership and Equity Protection Act (HOEPA) to limit the use of subprime exploding ARM mortgages. HOEPA provides broad authority to the Federal Reserve to prohibit unfair or deceptive mortgage lending practices and to address abusive refinancing practices on all mortgage loans, not only high-cost loans; [4] however, the Federal Reserve has yet to exercise this authority. Media reports indicate that the Fed is currently preparing such regulations. My hope that these regulations will be both broad and specific to ***ensure that all subprime mortgage loans in the country were subject to the same rules.*** Congress need not wait for the Fed, however, and we support your efforts, Chairman Frank, to create new legislation to protect borrowers to ensure that the Fed's regulations are meaningful.

These leads to my <u>second set of recommendations: The federal agencies and regulators tasked with fair housing and fair lending oversight must expand their fair lending enforcement efforts.</u> These agencies need assistance from both Congress, in the form of appropriations to fund these initiatives such as HUD's newly mortgage discrimination investigation unit, and from the Administration, in the form of political will.

[4] (l) DISCRETIONARY REGULATORY AUTHORITY OF BOARD.--
(2) PROHIBITIONS.--The Board, by regulation or order, shall prohibit acts or practices in connection with--
(A) mortgage loans that the Board finds to be unfair, deceptive, or designed to evade the provisions of this section; and
(B) refinancing of mortgage loans that the Board finds to be associated with abusive lending practices, or that are otherwise not in the interest of the borrower." 15 USC Section 1639(l)(2).

VI. Recommendations

Congress, the Administration, and federal agencies must use their authority to undertake much stronger fair lending activities, including investigations and enforcement. The following are recommendations that Congress should implement and/or oversee.

Fair Housing and Fair Lending: Increased Appropriations and New Legislation

- Congress should support and pass the Housing Fairness Act of 2007 (H.R. 2926) that contains the following provisions: doubling the authorization level for HUD's Fair Housing Initiatives Program to $52 million; a commitment of at least $20 million annually for fair lending and fair housing enforcement testing and actions; a commitment of at least $5 million annually to fund studies of the effects of housing segregation on our nation's communities. Representative Al Green and 44 other members of Congress currently co-sponsor this bill. The companion bill S. 1733 has been proposed in the Senate.
- Congress should support and pass legislation to protect borrowers from high cost loans, including the following provisions: ban pre-payment penalties, yield spread premiums, stated income loans, and low and no doc loans; create payment standards that assess the borrower's ability to repay at the maximum possible payment; require escrow for taxes and insurance; and require licensing and registration of all lenders. National legislation, however, should not undermine the ability of state governments to enforce stricter consumer protection standards.

Aggressive Fair Lending Oversight and Enforcement

- Congress should require federal government agencies, including HUD, DOJ, and the FTC, to undertake more aggressive, effective and expansive fair lending enforcement activities. These agencies should consult with experts in fair lending enforcement organizations so that the federal examination and enforcement programs reflect best practices and state of the art investigation techniques and litigation strategies.
- Congress should require that HUD improve the quality of its training programs to increase the capacity of its investigators and Fair Housing Assistance Program (FHAP) investigators to investigate lending complaints. HUD and FHAP fair lending programs should be encouraged to collaborate with qualified fair housing organizations to conduct fair lending testing.
- Congress should provide funding through HUD's Fair Housing Initiatives Program for qualified fair housing organizations to conduct activities specifically addressing fair lending issues, including paired testing investigations.
- Congress should require that federal agencies that regulate insured depository institutions, particularly the OCC, the FDIC, the OTS, and the Fed, use their authority to undertake stronger oversight and enforcement activities to eliminate discrimination from the mortgage market. They should also re-examine their use of HMDA data to assure maximum coverage of potential fair lending violations. Any cases that regulators resolve with lenders on behalf of a few consumers should also be referred to DOJ for a pattern and practice investigation, including paired testing as one investigative tool.

- Congress should move to regulate all financial institutions active in lending. To fill the vacuum of fair lending enforcement activity for non-depository institutions, the Fed should use its authority to ensure that these institutions are in compliance with the fair lending laws. If this authority is lacking, Congress should grant the needed authority.

Strengthening Regulations

- Regulators need to examine lending corporations as a whole, reviewing data from retail and wholesale divisions as well as prime and subprime divisions together. Traditional fair lending exams might determine that each of the two affiliates treats all its applicants fairly, even though the overall corporation's lending is highly unfair.
- Regulators should contract with private, qualified fair housing organizations to conduct comprehensive testing programs.
- Regulators need to run regression analyses on lender portfolios looking at origination, pricing, point of origination, costs, pre-payment penalty, and yield spread premium issues stratified by key protected class characteristics. Regulators are in a unique position to do this as they have access to full records and data.

Enhance HMDA Data

- HMDA data collection should be enhanced to include the identification of loans processed through mortgage brokers, as well as to defining separate high cost benchmarks for fixed rate and adjustable rate mortgages, loan-to-value ratio; factors used to measure borrower credit worthiness (such as credit score), and the total fees as a separate item.
- Federal regulators should work with civil rights and consumer organizations to determine new HMDA data classifications that reflect the complexity of brokered loans. These loans often involve counter-offers which are technically a rejection but which may, in some cases represent a better product or terms for the consumer.

Expand Sponsorship and Use of Paired Testing in Fair Lending Enforcement

- Federal government agencies and bank regulators should make much more aggressive and extensive use of paired testing in their own enforcement activities and investigations by contracting and working directly with qualified fair housing enforcement organizations.
- Federal government agencies and bank regulators should also support qualified fair housing organizations in carrying out greatly expanded paired testing.
- Congress and federal agencies should provide an exemption to qualified fair housing organizations to allow mortgage lending testing beyond the pre-application phase of the mortgage lending process to enforce civil rights and anti-predatory lending laws. As mentioned above, discrimination occurs in every step of the loan process, but private groups are not currently able to test beyond pre-application because of form restrictions.

Thank you once again for the opportunity to testify before this Committee. I am available to answer any questions and assist in any way that we can to assure that this Committee, Congress and the government as a whole fulfill their duties to enforce fair lending nationwide.

Appendix A: <u>Summaries of the nine tests showing differences in treatment</u> from *The Gap Persists: Racial and Ethnic Discrimination in the Greater Boston Home Mortgage Lending Market*. The Fair Housing Center of Greater Boston, May 2006. www.bostonfairhousing.org/publications.htm

An African American tester with a good credit score of 670 visited a bank to inquire about a mortgage. She was told that the closing fee would be $8,000 to $9,000, although other tests in this investigation indicated that average closing fee was $2,000-$3,000. The bank representative also told her that her credit score of 670 was below average; other tests indicated that credit score of 670 was well above average. Finally, the bank representative told her that the bank usually dealt with commercial lending, and did not really provide residential mortgages. In contrast, the white tester with a credit score of 640 who visited the same bank was told by two different loan officers that the bank provided home mortgage loans, and was not told that her credit score was below average.

An Asian American tester with credit score of 770 and a white tester with credit score of 740 visited a mortgage lending company. The Asian American tester received a referral to a realtor to help her find a home. The white tester was told about two realtors who in could provide her with discounts on fees as well as help her find a home. The white tester also received a $500 certificate towards closing fees; the Asian American tester received no certificate or offer of a discount.

A Latino tester with a credit score of 670 and a white tester with a credit score of 640 visited a mortgage lending company. The lender provided both with quotes on monthly payments, and the Latino loan seeker's quote was $254 per month more than the white loan seeker was told for a 30 year fixed loan, and $140 per month more for a blended loan[5]. The lender also told the Latino loan seeker that she would need private mortgage insurance (PMI), which would cost $309 per month. The lender did not bring up PMI to the white loan seeker. The lender did tell the white loan seeker about how to get a better loan product when your credit score is under 680, but did not discuss this with the Latino loan seeker, whose score was also below 680. Finally, the white loan seeker was given informational literature about different loan products and loan process, and received a follow up email from the lender. The Latino loan seeker did not receive any literature or follow up email.

An African American tester with a credit score of 770 and a white tester with a credit score of 740 inquired at a mortgage lending company. The lender gave the white homebuyer an explanation of six different types of mortgage loans, naming advantages and disadvantages of each. The white homebuyer asked about getting a blended loan to avoid PMI, and the lender replied that the second loan in the two-loan "blended loan" has high interest, so a blended loan is a bad idea. At the end of the meeting, the lender asked the white homebuyer for her address so that he could send a thank-you card. When the African American homebuyer visited, she was told about one loan product only: the blended loan. The lender did not mention the high interest on the second loan or any other loan products.

An African American tester with a credit score of 770 and a white tester with a credit score of 740 visited a bank. Their visits to the lender were comparable, but after the visit, only

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[5] A blended loan is a mortgage product that consists of two parts, usually with different rates for different periods of time (with the second loan for a smaller amount at a higher rate). In this instance the blended loan was composed of a 30 year fixed for the first loan and 10 year fixed for the second loan.

the white tester received a follow up email with more information about different loan products and a $500 certificate toward the closing fee. The African American tester did not receive follow up contact or the $500 offer.

An Asian American tester with a credit score of 770 and a white tester with a credit score of 740 inquired at a bank. The lender recommended a 30 year fixed loan with 0.75 points to the Asian American, quoting a monthly payment of $3,350, not including tax and insurance. To the white home seeker, the lender recommended five year ARM with no points, with a monthly payment of $3,225, including tax and insurance. This means that the Asian American home seeker was quoted approximately $3,600 more for the closing fee because of the point and $125 plus tax and insurance per month more than her white counterpart. The lender told the white home seeker that an ARM was better choice than a 30 year fixed rate because most people who buy homes in the town she was considering refinance within five years. The Asian American home seeker was looking to buy a home in the same town. The lender gave the white home seeker numerous information sheets, including brochures about different types of loans, an ARM loan procedure worksheet, 2006 property tax information, and a pre-approval guidebook. The lender did not give any information sheets to the Asian American. While it is impossible to know exactly what product would have been better for either home seeker, the lender characterized the ARM a better choice by giving the white person an explanation and explanatory material while providing the person of color with neither to explain his recommendation for a fixed rate mortgage.

An African American tester with a credit score of 670 and a white tester with a credit score of 640 were sent to a bank without a prior appointment and inquired about mortgage products. The loan officer referred the African American tester to another loan specialist at a different branch without giving her any information about loan products. The African American tester had to make an appointment with the second officer and then meet with him to get information about loans. The white tester walked in to the same initial branch and the same lender met with the white tester on the spot and discussed loan products, rather than referring her to a different branch. The lender told the white tester that borrowers receive a $2,000 credit toward the closing fee if the borrower has an account with the bank. While the loan officer encouraged the African American tester to open an account to receive a discount on closing, he did not tell the tester how large the discount was. Lastly, the lender sent a follow up email to the white tester explaining all the loan products this bank offered and their rates and estimated monthly payments. The African American tester was not asked for her email address and received no follow up information.

An African American tester with a credit score of 670 and a white tester with a credit score of 640 visited a mortgage lending company. The lender provided informational pamphlets about mortgages to the white tester, but not the African American tester.

A Latino tester with a credit score of 670 and a white tester with a credit score of 640 inquired at a bank. Both were told about 30 year fixed and unspecified blended loans (that is, the lender did not tell either tester the specific terms of the blend), but the white home seeker was also told about an ARM loan. The white home seeker was encouraged to submit an application as soon as possible, while the lender did not talk about applying with the Latino home seeker. The white home seeker was given pamphlets about different mortgages, a guidebook about mortgages, a worksheet for the cost of mortgage, and an application; the Latino home seeker received none of these materials.

The House Committee on Financial Services, U.S. House of Representatives
"Mortgage Lending Disparities"
Roxbury Community College, Reggie Lewis Track and Athletic Center
1350 Tremont Street
Boston, Massachusetts
Monday, October 15, 2007
11:00 a.m.

Testimony of Thomas B. Kennedy, Senior Vice President, Sovereign Bank New England

On behalf of Sovereign Bank New England, I am providing written testimony for the record in addition to my oral testimony provided on October 15, 2007.

I would like to address the manner in which Sovereign Bank approaches the mortgage lending market, and the various steps we have taken over the years to increase the bank's lending especially to the low- and moderate-income borrowers.

Senior Management

The implementation of the bank's Community Reinvestment Plan comes from the top leadership of the bank. John P. Hamill, Chairman of Sovereign Bank New England, and Joseph Campanelli, President & CEO of Sovereign Bank, have been leaders in seeing that the bank's community development priorities are integrated in all appropriate business lines. They recognize maintaining the bank's Outstanding CRA rating is not just a matter of compliance but also a demonstration of the bank's commitment to reinvestment in local communities. Patrick Sullivan, President of the bank in

Massachusetts, is responsible for seeing the Community Reinvestment Plan in Massachusetts not only meets but also exceeds the goals set for every major business line. The combined leadership and involvement of top management at the local level keeps Sovereign in the forefront of community development. They recognize the bank can do good by doing well.

History of Community Reinvestment Commitments

When Sovereign Bank purchased divested assets as a result of the Fleet/BankBoston merger in March 2000, the bank publicly made a bank-wide three-year community reinvestment commitment of $3.7 billion dollars. This commitment reflected specific allocations in the states where we have a principal banking presence. That goal was exceeded by 150 percent bank-wide and the Massachusetts commitment of $613 million by 175 percent.

The bank entered into an enhanced three-year agreement (2000-2002) with the Community Advisory Committee (CAC) in Massachusetts. We met or exceeded these commitments. In addition, we made a public commitment with the CAC for five years (2004-2008) of $3.6 billion in Massachusetts. The bank is on target to meet or exceed these goals as well. These latest formal commitments with the CAC are part of a larger bank-wide public commitment (2006 –2010) of $16.3 billion dollars. Again, the bank is meeting or exceeding these goals to date.

In addition, the bank made commitments to the Massachusetts Affordable Housing Alliance to originate Soft Second mortgages for the period of 2000-2006 for first time homebuyers. The effort was slow in getting started, but in 2006 the bank was recognized as the top originator of Soft Second mortgages in the Commonwealth. We are currently in the final stages of approving an additional commitment for the next four years (2007-2010).

Furthermore, we committed to establishing advisory boards in our principal New England banking markets. These boards are made up of a diverse group of local community and business leaders. We report on a quarterly basis to these advisory boards on the progress we are making toward achieving these commitments. The Commonwealth Advisory Group serves Massachusetts.

Mortgage Lending and Denial Rate Disparities

Sovereign Bank maintains a strong presence in mortgage lending with 2006 showing total applications of 9,984 for conventional (33%) and refinancing (67%) in the Commonwealth of Massachusetts. Of that total, 12% were from minority borrowers.

The denial rate disparity was more than double for minority (27%) v. white (11%) for the Commonwealth as reported by our primary federal regulator, the Office of Thrift

Supervision after it analyzed our 2006 HMDA data. In the City of Boston, white originations were 38% while minority originations were 55% yet the denial rate between whites (14%) v. minorities (28%) narrowed slightly when compared with the rest of the Commonwealth. The reasons for denials are many and varied, ranging from poor credit, debt to income ratios and appraisal values. We continue to work closely with those borrowers who appear to be heading for a denial seeking additional information and offering products that may overcome a denial. While the denial disparity rates have increased in recent years, Sovereign continues to address this issue and, through efforts initiated by the bank, is attempting to bring these denial rates closer to parity, after controlling for credit underwriting differences.

Sovereign Bank's Approach to Mortgage Lending in Low- and Moderate-Income and Minority Communities

Sovereign Bank *–America's Neighborhood Bank®* approaches mortgage lending as a local enterprise through the following initiatives:

Personnel

Loan officers are located in branch offices or loan production offices through the bank's footprint. In Roxbury, MA, the bank has a large production office with lenders representing major ethnic groups and who are able to speak multiple languages such Spanish, Portuguese, Chinese, Vietnamese, French Creole as well as English. The lending officers are involved in local community agencies, including participating in first time homebuyer seminars, where their presence demonstrates the bank's commitment to its local communities and marketing mortgage products to members of those communities.

Products

The bank has over 35 Affordable Mortgage Products that are designed to meet the needs of all qualified borrowers. The pricing of these products is consistent through the bank's footprint offering adjustable and fixed rate loans. In addition, the bank has become the leading originator of the Soft Second Mortgage, the Commonwealth's most affordable first time mortgage program. The success of this program is a demonstration of participation and collaboration of local municipalities and state government, banks and the community groups creating an affordable product while serving the needs of low- and moderate-income individuals.

Partnerships

In 2006 the bank partnered with over 36 not-for-profit agencies, public-private agencies and organizations in first time homebuyer education and counseling programs. The bank made charitable contributions totaling $175,000 to these groups. In addition, the bank has work closely with programs initiated by the Commonwealth and the City of Boston to address rising foreclosures rates and has offered to participate in foreclosure prevention programs.

Procedures

The bank has a Second Look program for all mortgage applications, including low- and moderate-income borrowers, which are to be denied. The program reviews are reasons for denial, looking for possible alternative products, which may provide the borrower with their loan.

Marketing

Through our own channels of advertising and promotion, the bank informs the public of an array of mortgage products. In addition, we partner with the Massachusetts Housing Partnership to promote the Soft Second mortgage program.

The bank is responsive to the changing borrowing needs of its customers but in all its efforts does not vary from responsible and sound lending practices. We are disturbed by the rising presence of non-regulated mortgage lenders who offer products with terms and conditions that we believe are contributing to higher priced loans. We believe that our pricing and products are responsible and fit the long needs of our borrowing customer.

I hope this provides you with a better understanding of Sovereign's commitment to serving local communities by reinvestment through mortgage lending. It is Sovereign's firm belief that our success is clearly linked to the health and vitality of the communities in which we live and work.

Thank you once again for inviting me to speak before your committee. I am happy to answer any questions you may have.

MORTGAGE LENDING DISCRIMINATION

TESTIMONY OF THOMAS M. MENINO, MAYOR OF BOSTON
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

BOSTON, MA

OCTOBER 15, 2007

Good morning, Mr. Chairman and members of the Committee and welcome home to Congressmen Capuano and Lynch. My name is Thomas Menino and I am the Mayor of Boston. I welcome the opportunity to speak before this Committee and appreciate your leadership on lending issues, especially as those lending issues affect consumers.

Before I begin, Chairman Frank, let me congratulate you for your tremendous success in passing the National Affordable Housing Trust Fund in the House. This is outstanding! I hope the Senate moves the bill with just half of the determination and drive you showed in the House. You are to be commended!

Background

We're here today to discuss discrimination in mortgage lending. How frustrating it is that after all these years, after so much work on the part of government, consumer organizations, and corporate America, we even have to have a hearing like this. But here we are, truly part of a marathon, not a sprint, to bring equality to all Americans.

I want to acknowledge the important work of the Massachusetts Community and Banking Council and the academic community--- people like Jim Campen and Bill Apgar. Their years of research have quantified for us the disparities in lending. For example, among their findings:

- Higher-priced home mortgages are provided disproportionately to black and Latino borrowers in Greater Boston, almost 4 times greater for these borrowers than for whites. In Boston, Greater Boston, and throughout the Commonwealth, high priced loans account for over half of the home purchase loans to both blacks and Latinos.

- In Boston, the four neighborhoods with the highest percentages of minorities--- Hyde Park, Mattapan, Roxbury, and Dorchester, are disproportionately on the receiving end of high cost loans. High cost loans accounted for over half of the market share in these neighborhoods while they were less than 5 % in Charlestown, a predominately white community.

- When borrowers are grouped by race and income level, the proportionate share of high cost mortgage loans is consistently higher for blacks and Latinos than for whites at the same income level.

- One last piece of information from the Mass. Community and Banking Council--- here are the lenders that are among the highest providers of high-cost loans in the neighborhoods of Boston---- Ameriquest; Fremont Investment and Loan; Countrywide; New Century, and Option One. I'll say more about these lenders in a few minutes.

Impact

My blood boils when I look at the data. Not just because the families affected are paying more than they should in higher interest rates and fees and that just isn't right, but because I see the impact that these high cost loans have on the families and on our neighborhoods. And this is where discrimination in mortgage lending connects with the meltdown in the mortgage market and increase in foreclosures.

My administration has invested heavily in the City's neighborhoods, through housing and commercial development, public safety initiatives, and infrastructure improvements. When foreclosures increase, properties are often left vacant as investors and their servicers refuse to acknowledge market realities. They are holding out for sale prices that are not realistic. That is happening now in the very areas--- Hyde Park, Mattapan, Roxbury, and Dorchester where high cost loans prevail. And who are the top five lenders who have originated mortgages that are in foreclosure in Boston today? Ameriquest, Fremont, Countrywide, New Century, and Option One--- the very same high cost lenders.

In the past, we've seen that boarded up properties bring down the values of other homes in the area. We don't want to get to where we were in 1992, when housing values hit the skids and three-deckers were selling for less than $100 thousand.

The lending industry has changed since the 1990's. Our traditional lenders, the banks, have a much lower share of the market.--- about 20 %. In their place, have come the cowboys and cowgirls. The practices employed by these non-traditional lenders--- teaser rates that increase significantly, no doc loans, unsustainable loans that rely on the promise of future refinancing, loan fees upfront, the servicing fees, the fees paid to Wall Street to pool the loans and sell them to investors, all put money into someone's pockets. No one at the front end cared about the long term performance of these loans. It's all about short-term gain—taking the fees and sending the high cost mortgage forward. ---. And now cities like Boston, Brockton, Lawrence, and hundreds of communities across the country, are paying the price for these "lending malpractices"--- out of control with little oversight. Government regulators of financial markets should take a hard and honest look at this type of lending.

Discrimination and the mortgage lending crisis are not inevitable. Ten years ago, I started the Boston Home Center, a one-stop shopping place for people interested in buying homes in Boston. We offer information on mortgage products and also sponsor home buying education classes. We require participation in certified classes as a prerequisite to receiving City down payment assistance. Over 4,400 people, predominately low and moderate income, have bought homes in Boston after completing our classes and receiving our financial help.

Notably, the foreclosure rate for this group is .7 % (point 7 percent) compared to the market foreclosure rates in Boston of 2.50 %. And who receives our financial assistance? 40% are Black; 23% are Hispanic. Our Home Buying 101 and Home Buying 201 graduates confirm that minority families can succeed at home ownership. Our classes teach people to become savvy buyers, choosing reputable lenders and asking the right questions.

Foreclosures have increased in Boston, as they have across the nation. Comparing foreclosures per thousand properties in Massachusetts, Boston is not experiencing foreclosures to the same degree as other cities in the state. I attribute our relatively good numbers to the efforts we have put into home buyer education and foreclosure prevention. We've worked on education for over a decade and on foreclosure prevention since 1999 with our *Don't Borrow Trouble* campaign.

Recommendations

I recommend that the mortgage lending industry recommit itself to home buyer education, so that every first time buyer has the opportunity to complete a certified course, much like those offered through the Boston Home Center's network of community-based counseling agencies.

I urge Congress to do everything in its power to continue to shed light on the disparities in lending by non-traditional lenders, much like you are doing today with this hearing. In addition, I urge Congress to support more national efforts like Freddie Mac's *Credit Smart Program,* which provides families with the confidence and knowledge to succeed financially, so that poverty is not a life sentence.

I recommend that the Massachusetts state legislature support pending legislation that requires mortgage companies licensed in Massachusetts to comply with laws that require them to meet local credit needs. For many years, I have supported this legislation. It has become more important now that non-bank mortgage lenders provide most of the home mortgage loans in the state. The mortgage companies have demonstrated that they cannot be trusted to "do the right thing" when it comes to lending. Passage of this legislation could lead to cooperation among lenders, advocates, and government, creating a partnership through which lenders provide good products and develop an understanding of the communities in which they do business.

I recommend that our community organizations, especially those in minority areas, become proponents of consumer education on all aspects of consumer lending. This means that financial literacy would be as common as driver's education for new drivers, with information offered through workshops, public service announcements, and adult education.

Thank you for the opportunity to share my thoughts with you. I deeply appreciate the work of this Committee.

Testimony of Sam Yoon
At-Large Boston City Councilor
Sam.Yoon@cityofboston.gov
To the
U.S. House of Representatives
Committee on Financial Services
Hearing on
Mortgage Lending Disparities
At the Reggie Lewis Athletic Center on October 15, 2007

Mr. Chairman, Members of the Committee, thank you very much for the opportunity to address you today.

My name is Sam Yoon. I am currently an At-Large Boston City Councilor. I have extensive background in community development and affordable housing, having worked for small and large non-profit housing corporations for ten years before running for City Council. I have developed both rental and ownership housing for working families, seniors, and people with disabilities.

As Chair of the City Council's Housing Committee, I recently held hearings on the sub-prime mortgage foreclosure crisis in Boston, an issue which is closely related to the topic you will be focusing on today.

I want to thank you and the members of the House Committee on Financial Services for taking the extraordinary step of holding a field hearing in Boston. You are absolutely correct that we need to shine a light on the ongoing mortgage lending disparities in the Boston area. As you well know, recent data reveals that Black and Latino borrowers are still much more likely than whites or Asians in this area to receive higher-priced loans.

In many states including Massachusetts, most mortgages are not originated by banks but rather by mortgage brokers and non bank entities. Some of these entities operate less and less out of physical offices and more over the internet, where it is even harder to track and regulate them. For the most part it is these entities that are originating the higher priced loans to Black and Latino borrowers. Consequently these consumers are now paying more for the life of their home loans than there white and Asian counterparts. In addition, some of these Black and Latino consumers were pushed into sub-prime and often irresponsibly designed mortgage products.

As you know, the City of Boston in particular has been hard hit by the current foreclosure crisis. You will hear testimony from experts on this today. During the hearing that I sponsored on May 7th of this year, it became apparent to me and my council colleagues that many out-of-state mortgage companies developed business models that featured aggressive marketing of high-cost, exotic mortgages to unsuspecting consumers. As the Attorney General has laid out, in many cases there was outright fraud on the part of brokers and originators who created scams that were supposed to save homeowners on the brink of auctions.

Currently, record numbers of foreclosures and auctions are threatening the stability of Boston neighborhoods. Stable homeownership and tenancy is an important part of the city's ongoing efforts to decrease violent crime. In order to address this crisis, legislative remedies are necessary at both the State and Federal levels.

I urge you to extend Community Reinvestment Act requirements to all mortgage brokers and lenders similar to the requirements that already exist for banks. We must have adequate reporting requirements for all mortgage lenders in order to review and rate lenders on their performance. A CRA-style rating system for all mortgage lenders must be put into place and those results must be published every year. We must also establish annual licensing requirements for mortgage brokers and require that borrowers who are offered high-cost loans receive in-person counseling from a qualified nonprofit. We also must require fuller disclosure of terms for mortgage advertising. Leadership at the federal level for such initiatives will be crucial to their realization.

Two further legislative remedies are needed to round out a comprehensive solution to the crisis. We need additional consumer protection for those facing foreclosure and eviction, and we need to criminalize mortgage fraud. The latter component is self-explanatory. With regard to the former, I believe lenders must give most borrowers a 90-day period in which they can correct the delinquency and reinstate the loan before imposing attorney fees. Borrowers should have the right to cure a mortgage default up to the date of the foreclosure auction.

In summary, we need to look for creative solutions to find opportunities where there are currently problems. Cooperation among federal, state, and local levels of government is essential. This field hearing is an important step in that direction. Legislation that leads to good mortgage lending will increase access to affordable homes and will discourage discriminatory and predatory lending practices.

I look forward to working with you and your leadership team to make the City of Boston a national leader in the fight to make the dream of homeownership accessible to all.

Thank you very much.

Sam Yoon
At-Large Boston City Councilor

TESTIMONY OF

DEVAL L. PATRICK

GOVERNOR

COMMONWEALTH OF MASSACHUSETTS

"MORTGAGE LENDING DISPARITIES"

Before the

FINANCIAL SERVICES COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

October 15, 2007

Roxbury Community College

Introduction

Good morning, Chairman Frank and distinguished members of the Committee. My name is Deval L. Patrick, and I serve as the Governor of the Commonwealth of Massachusetts. I want to thank the Chairman for conducting this important field hearing today in Roxbury, where, like so many other communities in Massachusetts and across the nation, families have been forced to leave their homes due to foreclosure.

Home ownership, like education, is a key to accessing and expanding opportunity in Massachusetts and in the United States. The ability of our citizens to build wealth and assets is vital to the stability of families and communities, and can be a promise to the next generation for a better life. For our economy, homeownership creates workforce potential and commercial activity around a stable base of resources, allowing for robust, sustainable growth.

Over the past 15 to 20 years, improvements in technology and delivery systems, automated underwriting, increased competition, securitization, the development of the subprime market, and an explosion in product types have resulted in a greater availability of mortgage credit than ever before. This has led to significant increases in homeownership rates throughout the United States, especially among African-American, Latino, and Asian populations.

We have seen these trends at work here in Massachusetts. In 1992, the Federal Reserve Bank of Boston issued findings on mortgage lending in the Greater Boston area. The study concluded that minority applicants, generally African American and Latino were denied credit more often than white applicants even when controlling for differences in borrower income and loan size.

Over time, strengthened home mortgage data disclosure requirements and enhanced efforts to use Federal and state CRA laws, especially in instances of merger activity, led to the development of more inclusive products to serve minority residents and residents of low and moderate income communities.

At the time of the 1992 study, traditional banks, covered by the Federal and State Community Reinvestment Act, accounted for 78% of the home mortgage loans made in the Commonwealth. By 2001, that number had dropped to approximately 26% of home mortgage loans. Mortgage companies, which are non-depository in nature and thus not covered by either Federal or State CRA laws, accounted for nearly 74% of such loans.

Unfortunately, these changes have held unintended consequences, most notably the growth in predatory lending practices. Specifically, the evolution of the subprime market and the securitization of subprime loans, especially loans with increased risk layering, helped create an environment of negligence in lending practices and increased borrower confusion. As the housing market began to turn, underwriting further weakened as lenders attempted to maintain origination volume.

Black and Latino borrowers throughout the state were much more likely to receive those subprime mortgages than were their white or Asian counterparts. According to data compiled and reported by the MCBC, in Greater Boston the subprime mortgage loan share was 57.1% for blacks and 58.3% for Latinos as compared to only 14.9% for whites. Similar patterns can be seen in the refinancing market. This pattern was present at state levels as well.

In the enthusiasm to promote homeownership in minority communities, many of the risks involved with these mortgage products were overlooked. In the short-term we were able to minimize the disparate treatment inherent in traditional lending. We have since learned, however, that over the long-term, these new market practices were practically unsustainable, and potentially more damaging to homeownership for minority and low-income communities. Advances in homeownership among our minority citizens are now at serious risk, and opportunities to break into the middle class have suddenly become perilous investments that could result in crippling debt and credit damage.

The link between disparate mortgage treatment and the foreclosure crisis that we are all forced to confront is clear and compelling. Many families facing foreclosure have been concentrated in particular neighborhoods throughout the commonwealth, and the resulting vacuum left in affected communities has driven up crime and fractured the economic stability of surrounding businesses. Furthermore, the impact on the social capital of communities is profound, as the community stability that results from home ownership has been dramatically compromised by this crisis.

Subprime lending can prove to be beneficial to consumers trying to access capital necessary to purchase a home. A variety of products and loan options increases the likelihood of finding a loan in any unique financial situation. Unfortunately, the pace of product innovation has exceeded the pace of consumer education and understanding, as well as industry oversight. Given the increasing complexity of various mortgage products, existing disclosure requirements may not provide the level of clarity necessary for consumers. Perhaps the greatest tragedy is the number of borrowers who would have qualified for prime financing, but were steered toward subprime loans. With home values dropping and subprime adjustable rate mortgages resetting upwards, these homeowners are being significantly challenged. This is something we should view with urgency.

Administration's Response

The impact of this growing challenge is a primary concern of my administration. Although the complex issues surrounding foreclosure and abuses within the mortgage lending industry are national in scope, there are important steps that can be taken at the state level to protect consumers while maintaining a viable, competitive mortgage lending industry in Massachusetts. I want to thank you for allowing me to share with you some initiatives we are undertaking to provide comprehensive short-term solutions to assist homeowners and develop long-term strategies to prevent foreclosure crises and address potential disparities in loan access and pricing.

In April of this year, I directed our Division of Banks to seek, on a case-by-case basis, brief stays for consumers facing foreclosure. The goal is to provide some time allowing the Division to refer homeowners to reputable homeownership counseling firms and encourage mortgage lenders and servicers to use this time to work with homeowners who are unable to make their mortgage payments. To date, through a hotline we established to help homeowners gain access to our services, the Division has fielded calls from nearly 1,100 Massachusetts residents either in the foreclosure process or having difficulty managing their mortgage obligations. Voluntary stays have been secured in nearly 500 cases.

MassHousing, in collaboration with Fannie Mae, has designed and implemented what arguably the most aggressive foreclosure prevention product in the country. The program includes a $250 million commitment with $190 million in funds from Fannie Mae and a $60 million contribution from MassHousing through the sale of bonds. No taxpayer funds will be used for the program. Through this program, borrowers may be up to 60 days delinquent with credit scores as low as 560 and still be able to refinance their existing mortgage loan under manageable terms.

Through our Division of Banks, Massachusetts will be one of the first states in the country to implement a nationwide database of mortgage professionals. Nearly four years in the making, the system will go live on January 1, 2008 to provide a uniform application process for mortgage lenders and brokers operating across state lines and will be a central repository of information about licensing and enforcement actions. The database will substantially improve the existing regulatory framework and reduce fraud on a nationwide basis.

I have also filed legislation which seeks to criminalize mortgage fraud, prohibit abusive foreclosure rescue schemes, and update various provisions of the laws that currently govern the foreclosure process. The bill also establishes a central repository of foreclosure information at the Division of Banks to allow us to track foreclosures by product, geographic region, and originator, broker, and lender. Furthermore, the legislation will prohibit a lender from making an adjustable rate subprime loan unless a consumer affirmatively opts-out of a fixed rate product and completes a homebuyer counseling program.

In addition, we also continue to support legislative initiatives to license mortgage loan originators and extend provisions of the Massachusetts Community Reinvestment Act to certain licensed mortgage lenders. The establishment of a CRA-like requirement for non-bank mortgage lenders will result in public evaluations and ratings summarizing non-bank lenders' performance in meeting housing credit needs and compliance with state and federal fair lending laws. I believe this increased level of scrutiny will significantly decrease impact disparities in mortgage pricing.

Finally, my staff and I have held ongoing meetings with lenders, industry trade groups, community and housing advocates and others to discuss possibilities to assist homeowners and housing counselors. It is clear that a comprehensive response to the complex problems of foreclosure and mortgage lending abuses will require the ongoing participation of mortgage lending industry members and other non-governmental entities. My staff will continue to work with all participants in the mortgage lending process to discuss and determine what further steps can be taken.

In an effort to expand on some of these initiatives, we will later this week announce six municipalities who will take part in a pilot program designed to cover a range of possible needs for homeowners. We have developed a 5 point plan to bring together government, lenders, homeowners, and non-rofits to develop and raise awareness about alternatives to foreclosure, create support systems for transition assistance where necessary, and keep neighborhood homes occupied. The 6 cities and towns will be selected based on number and concentration of foreclosures, as well as the overall fiscal needs of the region. Through that program we will be able to implement and refine strategies to help homeowners stay in their homes and keep communities stable.

To date, we have been fortunate to work in collaboration with the various concerned members of the Massachusetts Legislature, Attorney General Martha Coakley and Boston Mayor Thomas Menino. We are making a coordinated effort in Massachusetts, and look forward to working with federal authorities in any way that we can to keep people in their homes and put an end to the destabilization of families, communities, and our economy. I thank you for the opportunity to offer testimony today and would be pleased to answer any questions you may have.

abcd Action for Boston Community Development Inc. 178 TREMONT STREET, BOSTON, MASSACHUSETTS 02111-1093 TELEPHONE: (617) 357-6000 TTY: (617) 423-9215 FAX: (617) 357-6041

Congressman Barney Frank
29 Crafts Street
Newton, MA 02458

RECEIVED
OCT 2 3 2007
Barney Frank, M.C.
Newton, MA

Faxed to Erika Jeffers. Please hand deliver to her.

October 19, 2007

Dear Representative Frank:

Thank you for holding a field hearing of the House Financial Services Committee on October 15 regarding discrimination in mortgage lending. Action for Boston Community Development, Inc. (ABCD), appreciates the chance to submit further written comment.

As many chose to do at the hearing, ABCD would like to address not only the broader issue of racial and ethnic disparities in mortgage lending, but a specific result of such lending practices– the staggering foreclosure rates we are seeing in minority neighborhoods as a result of these high cost loans, and the effect these foreclosures are having on vulnerable tenants. Tenants are too often lost in the middle of the struggle over property.

First, a word about ABCD. Founded in 1961, Action for Boston Community Development is Boston's antipoverty agency, serving more than 100,000 low-income Greater Boston residents through its city-wide network of neighborhood-based centers. ABCD provides innovative, timely programs that promote upward mobility and a higher quality of life for people and communities.

Our Housing & Homelessness Prevention Department assists clients by helping to establish sustainable living situations for those in acute and need. In any given year, ABCD's Housing & Homelessness Prevention Department:

- Places more than 1,000 homeless and at-risk families and individuals in permanent housing;
- Prevents more than 150 evictions in the City of Boston through landlord-tenant mediation and court intervention;
- Accompanies more than 100 at-risk Boston residents to Housing Court and intervenes on their behalf;
- Holds close to 50 community workshops on housing issues;
- Provides housing assistance and family stabilization services to almost 200 victims of domestic violence.

ABCD's Housing Department receives referrals and calls from all neighborhoods of Boston. In the past six months, there has been a surge of calls from tenants living in properties facing foreclosure. The department's current caseload includes families who have been forced into homeless shelters after eviction from an apartment in a foreclosed home.

While few remedies exist to resolve the immediate foreclosure crisis, ABCD has two recommendations. A long-term solution is to increase affordable housing opportunities for those in need. This includes:

- expanding federal funding for Section 8 housing programs.

ABCD appreciates your efforts to illuminate the issue of vulnerable tenants. We urge you to continue to

- draw attention to renters impacted by the foreclosure crisis, and
- ensure that tenants residing in foreclosed properties are informed of their rights under state and federal law.

ABCD will continue its work assisting Boston's citizens to overcome poverty and we look forward to working with you and other federal and state representatives to that end. Our Planning Department will be happy to answer any questions you may have regarding our activities on the fallout from the mortgage crisis.

Thank you for the opportunity to offer our thoughts and for your continued attention to the matter.

Sincerely,

Robert M. Coard

Robert M. Coard
President and CEO
Action for Boston Community Development, Inc

Cc: Christine Sieber
Director, Planning and Program Evaluation

boston.com

As foreclosures widen, a neighborhood erodes

The Boston Globe

Crisis tests many in north Lawrence

By Robert Gavin, Globe Staff | October 7, 2007

LAWRENCE — Mario DeJesus struggled under crushing mortgage payments for two years. Now, about to lose his home to foreclosure, he has no money left to move his family into an apartment.

Altagracia Portorreal sleeps uneasily since teenagers broke into the vacant home next door, abandoned by a neighbor who couldn't keep up with the mortgage. Bienvenido Chalas is cutting the hours of employees who clean carpets and refinish floors as foreclosures drag down the housing market that supports his business.

DeJesus, Portorreal, and Chalas are three faces of the foreclosure crisis sweeping the north side of Lawrence a crisis that is uprooting families, destabilizing neighborhoods and shaking a local economy only beginning to recover from the real estate crash of the 1990s, when so many abandoned buildings burned that Lawrence became known as New England's "arson capital."

"I thought nothing could be as bad as the '90s," said Mary Marra, executive director of Bread & Roses Housing, a nonprofit developer of affordable housing. "But I'm beginning to question that."

What's happening here in this poor section of one of the state's poorest cities shows the consequences of the frenzied, indiscriminate, and sometimes predatory lending that accompanied the recent housing boom. Lawrence's north side is one of many communities, often poor and minority, that were flooded in the late stages of the boom with subprime mortgages, typically high cost adjustable rate loans for borrowers with cred problems.

Many succumbed to the lure of easy money, and bought homes beyond their modest incomes. Now, pick any street in the 2 miles between DeJesus's and Portorreal's homes, and chances are you'll find homeowners in foreclosure, or desperately trying to sell before it's too late.

At Ebenezer Christian Church, Pastor Victor Jarvis said, church members approach him and whisper, "I'm losing my house. Please pray for me so I'm able to sell it."

Caught in downward spiral

Lawrence's north side stretches between two hills, Tower, to the west, and Prospect, to the east. It descends from either side to the Spicket River, becoming poorer and more crowded as it loses elevation. For generations, Lawrence's immigrant workers climbed the socioeconomic ladder by moving up these hills.

The section, the 01841 zip code, encompasses 3 square miles of tightly packed two- and three-family homes. One in four people live in poverty in the section, and median family income, just under $30,000 a year, is half the state's. Over less than two years, according to The Warren Group, a Boston real estate data firm, lenders launched nearly 600 foreclosures, roughly one for every 10 owner-occupied homes in the neighborhood. Dozens of buildings, some with boarded doors and windows, stand vacant.

The impact is felt beyond distressed homeowners and their families. Many of these properties are two- and three-family homes with tenants who often must move once the owner loses the building to foreclosure.

Each week at housing court in Lawrence, at least two or three cases involve tenants being evicted by lenders, who, after completing a foreclosure, don't want to act as landlords, according to Neighborhood Legal Services, which provides legal advice at the court sessions. Among them: Antonio Damiron, his wife, Santa Guerrero, and their 2-year-old son, Michael.

"My head is spinning," said Damiron, 45, who is being evicted from the two-bedroom apartment on Trenton Street where his family has lived for about two years. "Where am I going to go with a wife and kid? I could end up in a shelter. It's just unreal."

At the Lawrence Housing Authority, requests for housing are up by at least 10 percent because of foreclosures, said Deputy Director Efrain Rolon. Once a day, on average, someone comes in and tells employees: "The bank is taking my house. I can't refinance. I can't sell. I need housing."

There is little Rolon can do. Waiting lists are so long that they are closed to new applicants. Emergency assistance is possible, he explained, but not until people are actually homeless. "Who wants to hear that?" Rolon said.

Ana Luna is executive director of Arlington Community Trabajando, a north Lawrence neighborhood group. She shook her head as she recently drove past empty homes, slapped with tags that indicate lenders, unable to sell foreclosed properties, have sealed them up and shut off utilities. "Winterized," the tags say.

"You think of all the people who need a place to live, and these buildings are just sitting there," she said. "It makes me want to cry."

In the shadow of vacancies

Altagracia Portorreal remembers her next-door neighbor sobbing at the front door. After a year of working 12-hour days to pay her mortgage, the neighbor was giving up. She sent the keys to the bank, packed up, and abandoned the three-decker on Walnut Street.

Soon after, a group of teenagers broke into the vacant home and smoked marijuana, said Portorreal, a divorced mother of an 8-year-old. Other neighbors, she said, have spotted drug users and prostitutes breaking into vacant properties in the neighborhood.

"These empty houses worry me a lot," said Portorreal, 42, who bought her home, half of a duplex, four years ago. "This area had really been progressing, and it worries me a lot."

Lawrence police say they, too, worry about foreclosed homes. So far this year, thieves have broken into a dozen vacant properties, stripping them of thousands of dollars in copper and other valuable metals. Police Chief John Romero said his department is tracking published foreclosure and auction notices to keep a close eye on these properties.

But the thieves use the same notices to pick their targets.

It all brings back bad memories for Cristina Tavares, who lives about two blocks from Portorreal. Tavares and her husband, Hector, bought their home in 1990, when the neighborhood was ravaged by foreclosures from the last real estate bust. Each morning, Cristina Tavares recalled, she swept up needles and condoms from the sidewalk in front of her home, a neatly kept duplex. "The worst nightmare you can imagine," she said.

Back then, buildings burned in suspicious fires so often — at least 120 in 1992 alone — that Lawrence was dubbed the "arson capital" of New England. Vacant lots of rubble and weeds spread for blocks. Property values plunged by half.

"We got used to the idea hearing fire alarms all the time and seeing smoke billowing," said Len Raymond, a longtime Tower Hill resident, former city planner, and cofounder of two Lawrence community groups. "The smell of smoke just hung in the air."

Only in recent years did these neighborhoods begin to rebound. Nonprofit developers, such as Bread & Roses Housing, reclaimed vacant lots for affordable homes. For-profit developers followed with market-rate housing.

Meanwhile, an estimated $1 billion in subprime mortgages flooded this one section of Lawrence from 2003 to 2006, according to First American LoanPerformance, a San Francisco firm that collects mortgage data. The amount of subprime loans nearly quadrupled during the peak of the housing market in 2005, to an estimated $300 million from less than $80 million in 2002.

As a result, homeownership increased, to 36 percent citywide in 2006 from 32 percent in 2000, according to Census figures. The median price of a three-family home nearly doubled to $350,000 in 2005 from $159,000 in 2001 in north Lawrence, according to Warren Group. Median family income, however, remained flat in Lawrence at about $30,000.

"It was so exciting for the city to see people buying homes and investing, and neighborhoods becoming economically stable," said Andrea Ryan, housing manager in Lawrence's Community Development Department. "Now we know it wasn't all real."

"For Sale" signs now sprout everywhere, often several to a street. Properties frequently are being sold for less than what the delinquent homeowner owes on the mortgage, a so-called short sale. Bob Ciccarelli, a real estate broker, said he has 19 listings in Lawrence. Eighteen are short sales. One of these properties, bought last year for more than $300,000, is now listed at $180,000.

"Even decreasing the prices," Ciccarelli said, "they're still not selling."

The loss of wealth is rippling through the economy. Nazario Esquea, the owner of Naztel Communications, a downtown cellphone store, said he used to order phones, accessories, and other merchandise at least once a week to keep up with shoppers. He glanced at an inventory sheet. The last time he placed an order: three weeks earlier.

"A lot of people were refinancing," he said. "Now that part of the economy is gone."

Two years ago, Bienvenido Chalas, owner of Joel's Cleaning Services, said he and his three employees worked 12 hours a day and well into evening to keep up with floor refinishing and carpet cleaning jobs for new homeowners or those who refinanced. Today, they typically finish at 3 p.m. —if they work at all.

"People don't want to spend money on their house," Chalas said through an interpreter. "They don't know if they're going to lose it."

'Now it's a bad dream'

Mario DeJesus had long dreamed of owning a home, and two mortgages covering the $375,000 purchase of a three-family Victorian on Tower Hill let him live it. DeJesus, however, earns about $23,000 a year. It didn't take long for the math to catch up with him.

DeJesus, 46, bought the home in the spring of 2005. He figured rental income from two apartments would cover all but $400 of the $2,600-a-month mortgage, an amount he could cover with his monthly take-home pay of about $1,500.

But tenants proved hard to find, and the third floor remained vacant most of the time. The other apartment rented for $1,000 a month, meaning rental income was less than half of what he planned.

DeJesus soon was late on his payments, scrambling to find money. He drove a cab when he could, to supplement his earnings as a delivery truck driver for the Eagle-Tribune newspaper. His wife, Ruth, picked up a paper route. By the spring of 2006, however, DeJesus knew it wouldn't work. He put the home up for sale.

By then, though, DeJesus was caught in housing's downward spiral. Sales stalled and prices slid as other distressed borrowers flooded the market with homes. Sinking home values made it impossible to refinance into lower cost loans. Foreclosures followed, putting more homes on the market and more pressure on prices.

Only one prospective buyer looked DeJesus's home over the next year, even as he slashed the listing price, which is now $85,000 less than he paid. Meanwhile, his mortgage had an adjustable rate that reset to a higher level, increasing his payments to $3,200 a month. He couldn't refinance and he couldn't sell. And he couldn't pay the mortgage.

DeJesus will lose his home to foreclosure at the end of this month. The sheriff 's letter came last week. With three children at home, he needs at least a three-bedroom apartment. He's not sure where he'll find the money for moving expenses.

"In the beginning it was a dream for us, and now it's a bad dream," he said. "I lost the house."

Robert Gavin can be reached at rgavin@globe.com. ■

THE NAACP FILED AN HISTORIC LAWSUIT AGAINST MORTGAGE LENDERS ALLEGING RACIAL DISCRIMINATION

THE ACTION WE NEED YOU TO TAKE:

THE FACTS:

- On July 11 the NAACP filed a Federal class action lawsuit against fourteen of the country's largest subprime mortgage lenders.
- This lawsuit is designed to bring about equitable lending practices that do not adversely affect borrowers based on their race.
- In a 2006 study, the Center for Responsible Lending found that when creditworthiness and credit risk were equal, African-Americans were still 31 percent to 34 percent more likely to receive higher rate, more expensive subprime loans than Caucasians.
- The National Community Reinvestment Coalition revealed that lenders on average made high-cost subprime loans to higher-qualified African-Americans 54% of the time, compared to 23% of the time for Caucasians, even when the Caucasian applicants were less qualified.
- These and other studies demonstrate that African-American homeowners are paying higher mortgage interest rates than their Caucasian counterparts.

The Lenders: Ameriquest, Fremont, Option One, WMC Mortgage, Long Beach Mortgage, BNC Mortgage, Accredited Home Lenders, Encore, First Franklin, HSBC, Washington Mutual

Expanding Homeownership Opportunity II

The SoftSecond Loan Program

1991 – 2006

BY
Jim Campen

Mauricio Gaston Institute
for Latino Community Development and Public Policy
University of Massachusetts/Boston

SEPTEMBER 2007

A REPORT PREPARED FOR

M|C|B|C
MASSACHUSETTS COMMUNITY & BANKING COUNCIL
P.O. BOX 600617 | NEWTON, MA 02460-0005 | 617.244.0271
www.masscommunityandbanking.org

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TD Banknorth
The Bank of New York Mellon Corporation
Wainwright Bank

This report is available online at: www.masscommunityandbanking.org

The author may be contacted at: jimcampen@comcast.net

EXECUTIVE SUMMARY

The SoftSecond™ Loan Program was developed in 1991 by the Massachusetts Bankers Association, the Massachusetts Housing Partnership, and the Massachusetts Affordable Housing Alliance to address community concerns over low levels of mortgage lending to traditionally underserved borrowers and neighborhoods. Launched in Boston, the program was expanded statewide in 1992 and is now available in every city and town in the Commonwealth through numerous participating lenders. The program is funded by the state legislature and administered by the Department of Housing and Community Development and the Massachusetts Housing Partnership.

The SoftSecond program was designed to reduce the substantial down payments and large monthly mortgage bills that often present insurmountable obstacles to lower-income homebuyers. The program requires only a three percent down payment and provides qualified homebuyers with two 30-year fixed-rate mortgage loans: the first for 77 percent of the price of the home, and the "soft second" mortgage for the remaining 20 percent. The second mortgage is interest-only for the first ten years and, in many cases, monthly bills are further reduced by public subsidies of these interest payments. SoftSecond loans have no points, no mortgage insurance fees and, in most cases, below-market interest rates.

This report updates the information presented in *Expanding Homeownership Opportunity: The SoftSecond Loan Program, 1991-1993,* released by the Massachusetts Community & Banking Council in 2004. Based on analysis of SoftSecond loan activity and performance statewide, the report finds:

- By the end of 2006, the SoftSecond Loan Program had, through its participating lenders, provided mortgage loans to 9,622 income-qualified borrowers (the 10,000 loan milestone was reached in mid-2007). During the 2004-2006 period that is the main focus of this report, 2,596 households received SoftSecond loans.

- The statewide SoftSecond delinquency rate (2.2% at year-end 2006) has consistently been well below the delinquency rate for all mortgage loans in Massachusetts (4.5% at year-end 2006).

- SoftSecond loans have facilitated home purchases for families in almost two-thirds of the cities and towns in Massachusetts (226 out of 351). In recent years, the city of Boston has received about one-third of total loans, while the rest have been distributed throughout the state.

- Twenty-seven currently operating lenders (twenty-six banks and one credit union) made at least one SoftSecond loan during the 2004-2006 period, although a handful of large banks account for the great majority of loans.

- The median household income of SoftSecond borrowers between 2004 and 2006 was $45,000. During that period, almost two-thirds (65.0%) of all SoftSecond loans went to borrowers whose household incomes were $50,000 or less; nearly one out of ten loans (9.7%) went to borrowers with incomes of $30,000 or less.

- Statewide between 2004 and 2006, 25.6% of SoftSecond loans went to Latinos (who account for just 5.0% of the state's households); 16.8% of loans went to blacks (who account for 4.7% of total households); and 7.3% of loans went to Asians (who account for 3.1% of total households).

- Statewide between 2004 and 2006, an average $6,210 in public funds leveraged nearly $210,000 in private mortgage financing per household. Since the program's inception in 1991, $51 million in public funds have been spent, leveraging over $1.4 billion in private mortgage financing.

INTRODUCTION

This report provides data on lending by the SoftSecond Loan Program during the most recent three-year period (2004-2006) as well as over the sixteen-year life of the program. The Mortgage Lending Committee of the Massachusetts Community & Banking Council (MCBC) has had a special interest in the SoftSecond program since its inception and has carefully monitored the performance of its loans. The report updates an earlier report prepared for MCBC by the present author in 2004: *Expanding Homeownership Opportunity: The SoftSecond Loan Program, 1991-2003.* Detailed information about the origins and evolution of the program, and about the details of its structure and operation, are available in that report and elsewhere and are therefore not repeated here. [1]

The SoftSecond Loan Program gets its name from the fact that participating homebuyers receive two mortgages rather than one: a first mortgage for 77% of the purchase price and a second mortgage for 20%; the program requires at least a 3% down payment, at least half of which must come from the borrower's own funds. Both mortgages are 30-year fixed-rate loans. In the great majority of cases (including all loans in Boston and all loans by the biggest banks), the interest rate on both mortgages is one-half of a percentage point below the bank's two-point rate, although no points are charged.[2] The second mortgage is "soft" (for the first ten years) in two ways – payments are interest-only (there is no repayment of principal during this period) and payments may be further reduced, for qualifying low- and moderate-income homebuyers, by public subsidies. The state also funds loan loss reserves for each bank equal to three percent of the total value of the second mortgages that the bank has originated. The existence of the reserve fund makes it possible for borrowers to avoid the costs of private mortgage insurance while banks are still protected from credit losses. Affordability is further increased, in Boston and some other communities, by the provision of down payment and other financial assistance from local governments.

The SoftSecond Loan Program's features combine to have a remarkable impact on affordability. For example, the monthly mortgage payment on a $200,000 home purchased in early September 2007 with a traditional loan from Sovereign Bank would have been $1,267. The monthly mortgage payment on the same home purchased with a SoftSecond loan from Sovereign would have been $1,064 for the first ten years for a borrower receiving no interest rate subsidy. The monthly payment would have been only $885 for the first five years for a borrower receiving the maximum interest rate subsidy (this subsidy would be phased out between the fifth and tenth years). In any case, the monthly payment would rise to $1,112 in the eleventh and all subsequent years.[3]

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[1] *Expanding Homeownership Opportunity* is available in the "Reports" section of MCBC's website: www.masscommunityandbanking.org. See also: James T. Campen and Thomas M. Callahan, "Boston's Soft Second Program: Reaching Low Income and Minority Homebuyers in a Changing Financial Services Environment," a paper presented at the Federal Reserve System's Second Community Affairs Research Conference in Washington D.C., in April 2001 (www.mahahome.org or www.chicagofed.org/cedric/files/cfmacd_campen.pdf). A great deal of information about the SoftSecond program is available on the website of the Massachusetts Housing Partnership (MHP), particularly in the "Homebuyer" and "Lender" portions of the "Homeownership" section (www.mhp.net).

[2] A "point" is one percent of the amount of the mortgage loan. Mortgage borrowers generally have the option of reducing their interest rate by paying one or more points when the loan is originated. It is common for payment of two points to reduce the interest rate by one-half of a percentage point. In this case, the interest rate on a SoftSecond loan would be a full percentage point below the bank's zero-point interest rate.

[3] This example assumes a five percent down payment for the SoftSecond loan, to correspond to the minimum down payment required for a traditional loan from Sovereign. On September 7, 2007, Sovereign's zero-point interest rate for 30-year fixed-rate loan was 6.375%; its two-point interest rate was 5.875%, and its SoftSecond interest rate was 5.375%. Of the $203 difference in monthly payment ($1,267 - $1,064), $121 is, essentially, a contribution by the bank to the borrower. (Note that the recipient of a traditional loan would have to pay four points [$8,000] to receive the interest rate charged to SoftSecond borrowers.) The remaining $82 in the borrower's monthly savings comes from avoiding the cost of the private mortgage insurance required on a traditional loan. (Information on interest rates and the cost of private mortgage insurance was obtained from Sovereign at its website and by phone.)

To be eligible for the SoftSecond Loan Program, a potential borrower must be a first-time homebuyer, must use the house as his or her primary residence for the life of the loan, must have a household income no greater than the area median income (which depends on family size and the community in which the home is located), and must complete a certified homebuyer education course. The SoftSecond Loan Program has important features designed to make homeownership not only affordable, but also sustainable – that is, to ensure that home*buyers* will be able to remain home*owners*; these include comprehensive post-purchase homeowner education and counseling services. All SoftSecond loan servicers are required to notify the Massachusetts Housing Partnership (MHP) of borrowers whose loan payments become more than 30 days overdue; the MHP then informs a counseling agency in the borrower's area so that it can contact the borrower to offer assistance and provide one-on-one counseling. (The MHP is a quasi-public agency that developed the SoftSecond loan structure and that administers the program in conjunction with the state's Department of Housing and Community Development.)

The body of this report provides information on many dimensions of the SoftSecond Loan Program, with particular focus on the most recent three-year period. These include:

- the total number of loans per year;
- the geographical distribution of loans among eleven regions across the state, among 226 individual communities, and among the major neighborhoods of Boston;
- the lenders participating in the program and the number of loans by each;
- the income levels and race/ethnicity of SoftSecond borrowers;
- the types of properties (condominiums and one-, two-, and three-family homes) purchased;
- the performance of SoftSecond loans as measured by delinquency rates and foreclosures; and
- the costs to the state budget of supporting the Soft Second Loan Program, and the extent to which these costs have leveraged private mortgage funds.[4]

In most cases, data is provided not only for the state as a whole, but also for the eleven program regions defined by the MHP. A map in the "Homeownership" section of the MHP website (www.mhp.net) provides pull-down lists of the communities in each of these regions. These eleven regions are actually called "micro-regions" by the MHP, which groups them into five "macro-regions"; in several of this report's tables, lines indicate the grouping of the eleven micro-regions into the five macro-regions. (The MHP's "Cape Cod and the Islands" region is referred to in this report as the "Cape Cod" region, since none of the communities on Martha's Vineyard or Nantucket had received any SoftSecond loans by the end of 2006.)

[4] This report's tables are based on data supplied to the author by the MHP. Most tables report the results of analysis of a database that includes a subset of the fields contained in the MHP's SoftSecond Loan Program database; limited editing by the author corrected some inconsistencies in the data that were supplied. Careful readers may note that the data reported here for the 1991-2003 period sometimes differs slightly from that reported in the original *Expanding Household Opportunities* report of 2004. This reflects changes in the MHP SoftSecond database for those earlier years. Tables 9-11 are based primarily on the December 31, 2006 edition of the quarterly SoftSecond delinquency and foreclosure report prepared by the MHP for the Mortgage Lending Committee of the Massachusetts Community & Banking Council.

DIMENSIONS OF THE SOFTSECOND LOAN PROGRAM

- **Number of SoftSecond Loans, By Year and by Region** (Table 1)

SoftSecond loan volume was substantially greater in the 2004-2006 period than in earlier years. The 2,596 loans during these three years account for over one-quarter (27.0%) of the 9,622 loans during the sixteen-year history of the SoftSecond program. During the 2004–2006 period, one-third (33/0%) of all SoftSecond loans went to the city of Boston while the rest were distributed throughout the commonwealth. Only two other regions received double-digit loan shares: Western (15.5%) and Metro North (13.3%). [5]

Table 1
SoftSecond Loans By Region, 1991-2006*

Region	Total 1991-1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total 1991-2006	Total 2004-2006
A. Number of Loans													
Boston City	1,189	311	244	228	143	207	153	214	296	300	261	3,546	857
Metro North	141	83	92	81	50	41	26	79	87	96	158	934	341
Metro South	119	44	32	32	24	16	13	25	25	19	44	393	88
Metro West	27	15	25	18	20	14	21	33	28	34	45	280	107
North Shore	24	11	20	46	86	40	17	45	77	63	54	483	194
Merrimack Valley	9	4	12	20	33	61	36	46	47	65	83	416	195
South Shore	17	6	1	3	13	8	14	12	16	10	19	119	45
Southeastern	30	41	36	62	48	47	43	42	63	23	43	478	129
Cape Cod	109	55	53	68	48	40	22	18	16	12	23	464	51
Central	67	40	63	73	42	34	15	27	61	52	74	548	187
Western	281	124	166	191	226	227	167	177	197	147	58	1,961	402
Mass. Total	2,013	734	744	822	733	735	527	718	913	821	862	9,622	2,596
B. Percent of Total Loans in State													
Boston City	59.1%	42.4%	32.8%	27.7%	19.5%	28.2%	29.0%	29.8%	32.4%	36.5%	30.3%	36.9%	33.0%
Metro North	7.0%	11.3%	12.4%	9.9%	6.8%	5.6%	4.9%	11.0%	9.5%	11.7%	18.3%	9.7%	13.1%
Metro South	5.9%	6.0%	4.3%	3.9%	3.3%	2.2%	2.5%	3.5%	2.7%	2.3%	5.1%	4.1%	3.4%
Metro West	1.3%	2.0%	3.4%	2.2%	2.7%	1.9%	4.0%	4.6%	3.1%	4.1%	5.2%	2.9%	4.1%
North Shore	1.2%	1.5%	2.7%	5.6%	11.7%	5.4%	3.2%	6.3%	8.4%	7.7%	6.3%	5.0%	7.5%
Merrimack Valley	0.4%	0.5%	1.6%	2.4%	4.5%	8.3%	6.8%	6.4%	5.1%	7.9%	9.6%	4.3%	7.5%
South Shore	0.8%	0.8%	0.1%	0.4%	1.8%	1.1%	2.7%	1.7%	1.8%	1.2%	2.2%	1.2%	1.7%
Southeastern	1.5%	5.6%	4.8%	7.5%	6.5%	6.4%	8.2%	5.8%	6.9%	2.8%	5.0%	5.0%	5.0%
Cape Cod	5.4%	7.5%	7.1%	8.3%	6.5%	5.4%	4.2%	2.5%	1.8%	1.5%	2.7%	4.8%	2.0%
Central	3.3%	5.4%	8.5%	8.9%	5.7%	4.6%	2.8%	3.8%	6.7%	6.3%	8.6%	5.7%	7.2%
Western	14.0%	16.9%	22.3%	23.2%	30.8%	30.9%	31.7%	24.7%	21.6%	17.9%	6.7%	20.4%	15.5%
Mass. Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

* Annual data for 1991-1996 are omitted for reasons of space. Total loans for these six years were: 35, 107, 212, 389, 482 & 788.

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[5] In 2005, the most recent year for which data on total lending are available, SoftSecond loans statewide accounted for 0.9% of all home-purchase loans and the number of SoftSecond loans was equal to 3.8% of the total number of home-purchase loans to low- and moderate-income borrowers. In the city of Boston in the same year, SoftSecond loans accounted for 3.6% of all home-purchase loans and the number of SoftSecond loans was equal to 19.6% of the total number of home-purchase loans to low- and moderate-income borrowers. These percentages are based on data on total first-lien loans for owner-occupied homes in 2005 as reported in the present author's *Changing Patterns XIII: Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Boston, Greater Boston, and Massachusetts, 1990-2005* (Tables 1, 2, 25 & 28; available online at www.masscommunityandbanking.org).

- **SoftSecond Loans in Individual Cities and Towns** (Table 2 & Appendix Table 1)

Seven communities received at least fifty SoftSecond loans during the 2004-2006 period: Boston (857 loans), Worcester (141), Springfield (109), Lynn (106), Cambridge (95), Holyoke (66), and Chelsea (54); these seven communities accounted for over half of total SoftSecond loans in the state. Altogether, 226 cities and towns, almost two-thirds of the 351 municipalities in Massachusetts, have received at least one SoftSecond loan during the life of the program, with 176 of these receiving at least one loan during the 2004-2006 period. Table 2 presents data on the 25 communities with the most loans from 2004-2006; Appendix Table 1 provides information on lending in each of the 226 communities that have received at least one SoftSecond loan.

Table 2

The 25 Cities and Towns with the Most SoftSecond Loans in the Last Three Years

City/Town	Total Since Inception	1991-2000	2001-2003	2004	2005	2006	Total 2004-2006
Boston	3,546	2,115	574	296	300	261	857
Worcester	386	195	50	53	37	51	141
Springfield	540	263	168	57	42	10	109
Lynn	329	146	77	45	40	21	106
Cambridge	240	122	23	20	28	47	95
Holyoke	225	108	51	40	21	5	66
Chelsea	314	224	36	25	16	13	54
New Bedford	139	44	46	26	9	14	49
Lowell	77	8	24	11	15	19	45
Malden	77	8	26	15	7	21	43
Braintree	46	10	3	7	6	20	33
Lawrence	152	50	69	9	9	15	33
Revere	81	29	20	8	13	11	32
Westfield	114	53	29	18	12	2	32
Chicopee	235	151	54	13	10	7	30
Northampton	151	93	29	13	11	5	29
Somerville	69	36	5	3	7	18	28
Quincy	185	132	26	10	5	12	27
Taunton	52	15	11	15	2	9	26
West Springfield	114	47	42	14	10	1	25
Brookline	36	4	8	12	3	9	24
Brockton	147	84	40	14	3	6	23
Salem	42	12	7	12	6	5	23
Easthampton	84	37	28	6	2	11	19
Andover	20	0	2	2	10	6	18

Note: Appendix Table A-1 has data on all 226 cities and towns that have received at least one SoftSecond loan.

- **SoftSecond Loans in Boston's Neighborhoods** (Table 3)

During the 2004-2006 period, SoftSecond loans were made in all fifteen of Boston's major neighborhoods as defined by the Boston Redevelopment Authority. The number of loans in individual neighborhoods ranged from 275 loans in Dorchester (32.1% of the city's total) to just 3 loans in Charlestown. East Boston (133 loans) and Roxbury (92 loans) also received double-digit shares of Boston's total loans.

Table 3
SoftSecond Loans in Boston Neighborhoods*
2004-2006

Neighborhood	Loans	% of Total
Allston/Brighton	38	4.4%
Back Bay/Beacon Hill	11	1.3%
Central	41	4.8%
Charlestown	3	0.4%
Dorchester	275	32.1%
East Boston	133	15.5%
Fenway/Kenmore	6	0.7%
Hyde Park	24	2.8%
Jamaica Plain	68	7.9%
Mattapan	45	5.3%
Roslindale	42	4.9%
Roxbury	92	10.7%
South Boston	51	6.0%
South End	13	1.5%
West Roxbury	15	1.8%
Total Boston	857	100.0%

* Neighborhoods are the city's 15 Planning Districts as defined by the Boston Redevelopment Authority.

- **SoftSecond Lenders** (Table 4 and Appendix Table 2)

Thirty lenders made at least one SoftSecond loan during the 2004-2006 period, although a few large banks accounted for the great majority of loans. The three biggest lenders – Sovereign, Citizens, and Boston Private – accounted for over half (51.8%) of all loans statewide.[6] The top seven lenders, each with 165 or more loans, accounted for 88.3% of total loans; no other lender had more than 66 loans. For the thirty lenders that made at least one loan during the last three years, Table 4 provides data on lending since the inception of the SoftSecond program as well as during the 2004-2006 period. Appendix Table 2 provides data on the 57 lenders in the MHP database who have made at least one loan since 1991.

[6] If the loans made by Fleet were attributed to Bank of America (which absorbed Fleet in mid-2005), Bank of America would have been the largest single lender during the three-year period, with a total of 576 loans. In the MHP SoftSecond database, and in this report, the loans made by a bank which was later merged into another bank are shown as having been made by the bank that actually made the loan, rather than by the acquiring/surviving bank. (The MHP database adopted this practice in 1999; before that date such loans were attributed to the surviving bank.)

Table 4
SoftSecond Loans by Lender and Year, 2004-2006
(All 30 lenders with at least one loan during this period)

Lender	Total Since Inception	1991-2003	2004	2005	2006	Three-Year Total
Sovereign Bank	657	116	164	140	237	541
Citizens	1,417	1,010	149	165	93	407
Boston Private	819	421	112	127	159	398
Fleet*	2,539	2,237	259	43	0	302
Bank of America	275	1	0	116	158	274
TD Banknorth	873	667	110	79	17	206
Eastern Bank	258	93	41	49	75	165
Wainwright Bank	75	9	17	22	27	66
Cambridge Trust	87	38	7	18	24	49
Florence SB	163	115	12	14	22	48
Mount Washington SB	21	0	0	11	10	21
Compass Bank*	78	61	17	0	0	17
Marlborough Co-op	45	31	5	4	5	14
Rockland Trust	86	73	5	2	6	13
Central Bank	25	14	2	4	5	11
Cambridge SB	47	37	2	4	4	10
Salem Five	17	7	3	7	0	10
Hyde Park SB	24	17	2	3	2	7
Lowell Five	8	1	1	1	5	7
Chelsea-Provident Co-op	23	17	2	1	3	6
Country Bank	21	15	1	1	4	6
Holyoke CU	5	0	0	4	1	5
Stoneham SB	5	1	0	2	2	4
East Cambridge SB	17	14	0	1	2	3
Bank of Canton	4	3	0	1	0	1
Boston Federal*	1	0	1	0	0	1
Dedham Inst for Sav	1	0	0	0	1	1
FamilyFirst Bank	6	5	1	0	0	1
Southbridge SB	2	1	0	1	0	1
Webster Five	1	0	0	1	0	1
Total, These 30 Lenders	7,600	5,004	913	821	862	2,596

* indicates banks that no longer exist as a result of bank mergers. Fleet was merged into Bank of America in 2005, Compass was merged into Sovereign in 2004, and Boston Federal was merged into TD Banknorth in 2005.

Note: Appendix Table 2 provides data on all lenders for the entire 1991-2006 period.

- **The Biggest SoftSecond Lenders in Each Region** (Table 5)

The state's five biggest retail banks have all been active in SoftSecond lending across the state, with Bank of America, Citizens, Sovereign, and Eastern each making loans in all eleven regions during the 2004-2006 period and TD Banknorth lending in ten of the eleven regions. Sovereign ranked first in four regions and second in five others, while Citizens ranked first in two regions and second in three others. TD Banknorth's lending was very geographically focused, with 165 of its 206 loans in the Western region. Boston Private, which ranks tenth in retail bank deposits, was the largest single lender in the city of Boston as well in the Metro South and Metro West regions.

Table 5
SoftSecond Loans by Biggest Lenders* in Program, by Region, 2004-2006

Lender	Total	Boston City	Metro North	Metro South	Metro West	North Shore	Merr. Valley	South Shore	South-eastern	Cape Cod	Central	Western
Bank of America	274	79	19	7	12	20	*42*	5	7	2	33	48
Boston Private	398	**276**	48	**21**	**31**	11	11	0	0	0	0	0
Cambridge Trust	49	0	*49*	0	0	0	0	0	0	0	0	0
Citizens	*407*	169	**60**	19	10	*43*	21	**11**	*18*	*18*	5	33
Eastern Bank	165	32	33	8	5	**44**	18	7	13	1	3	1
Fleet	302	68	17	6	3	25	24	6	13	1	*63*	*76*
Florence SB	48	0	0	0	0	0	0	0	0	0	0	48
Rockland Trust	13	0	0	1	0	0	0	5	2	5	0	0
Sovereign Bank	**541**	*183*	*49*	*20*	*27*	29	**47**	*9*	**63**	**19**	**74**	21
TD Banknorth	206	1	2	1	1	15	15	0	1	2	3	**165**
All Others	193	49	64	5	18	7	17	2	12	3	6	10
Total	2,596	857	341	88	107	194	195	45	129	51	187	402

* Includes all lenders that were among the top 3 lenders in any region.
Only two lenders with more than 20 loans are not in this table: Mt. Washington SB (21 loans) and Wainwright Bank (66 loans).
Note: The biggest lender in each region is indicated by numbers in **boldface** ; the second biggest lender by numbers in *italics* .

- **Income Levels of SoftSecond Borrowers** (Table 6)

The median household income of SoftSecond borrowers during the 2004-2006 period was exactly \$45,000. Almost one-tenth (9.6%) of loans went to borrowers with incomes of \$30,000 or less; over one-third (34.7%) went to borrowers with incomes of \$40,000 or less; almost two-thirds (65.0%) went to borrowers with incomes of \$50,000 or less; and only 2.8% of all loans went to borrowers with incomes greater than \$75,000. [7]

[7] To be eligible to receive a SoftSecond loan, a prospective borrower's income must be below the maximum income level specified by the MHP for the community in which the home is located. This income limit depends on area median income in the HUD-defined income-limit area containing the community and on the number of people in the borrower's household (the base income limit is for a household of four persons; for each person greater than four, the income limit is eight percent greater while for each person less than four, the income limit is ten percent smaller). Beginning in November 2006, the income limit in all communities is 100% of the area median income; before that date, this was the limit only in designated high-housing cost communities; in all other communities, the limit was 80% of the area median income. In 2006, the income limits for four-person households ranged from \$57,350 to \$84,100. The latter limit applied in five of the 25 communities that received the most SoftSecond loans in the 2004-2006 period: Boston, Cambridge, Malden, Somerville, and Brookline. Income limits for all communities, which are reset in the spring of each year, are listed in tables prepared annually by the MHP.

Table 6
SoftSecond Loans to Borrowers
At Various Income Levels, 2004-2006

Household Income	Loans	% of Total
$30,000 or less	249	9.6%
$30,001 - $40,000	651	25.1%
$40,001 - $50,000	787	30.3%
$50,001 - $60,000	542	20.9%
$60,001 - $75,000	295	11.4%
more than $75,000	72	2.8%
All Income Levels	2,596	100.0%

Note: Median borrower income was $45,000.

- **Race/Ethnicity of SoftSecond Borrowers** (Table 7)

Statewide, during the 2004-2006 period, the shares of total SoftSecond loans that were received by black, Latino, and Asian borrowers exceeded these groups' shares of total households in the state.[8] Latinos, who accounted for 5.0% of the state's households, received 25.6% of the SoftSecond loans; Blacks, who accounted for 4.7% of the state's households, received 16.8% of the SoftSecond loans; and Asians, who accounted for 3.1% of households, received 7.3% of the SoftSecond loans. White borrowers received almost one-half (48.1%) of total loans, although this loan share was substantially lower than their 86.0% share of total households.

The loan shares of these four racial/ethnic groups varied considerably among the eleven regions. The black loan share was highest (at 33.2%) in the city of Boston, the Latino loan share was highest (at 38.5%) in the Central region; the Asian loan share was highest (at 13.7%) in the Metro West region; and the white loan share was highest (at 91.8%) in the Cape Cod region.

[8] In this report, the terms "Asian," "black," and "white," are used as shorthand for "non-Latino Asian," "non-Latino black," and "non-Latino white." Loan shares here are defined as shares of only those loans for which data on borrower race/ethnicity were available.

Table 7
SoftSecond Loans by Race/Ethnicity of Borrower, 2004-2006

	Number of Loans					Percent of Loans			
Region	Total*	Asian	Black	Latino	White	Asian	Black	Latino	White
City of Boston	791	67	263	211	228	8.5%	33.2%	26.7%	28.8%
Metro North	307	38	45	82	132	12.4%	14.7%	26.7%	43.0%
Metro South	80	6	7	6	60	7.5%	8.8%	7.5%	75.0%
Metro West	95	13	4	15	62	13.7%	4.2%	15.8%	65.3%
North Shore	169	6	14	50	96	3.6%	8.3%	29.6%	56.8%
Merrimack Valley	174	18	5	50	101	10.3%	2.9%	28.7%	58.0%
South Shore	40	0	3	1	35	0.0%	7.5%	2.5%	87.5%
Southeastern	115	1	23	18	66	0.9%	20.0%	15.7%	57.4%
Cape Cod	49	0	3	1	45	0.0%	6.1%	2.0%	91.8%
Central	169	8	18	65	75	4.7%	10.7%	38.5%	44.4%
Western	371	15	11	106	234	4.0%	3.0%	28.6%	63.1%
Mass. Total	2,360	172	396	605	1,134	7.3%	16.8%	25.6%	48.1%
					for comparison:	Percent of Households#			
					City of Boston	6.8%	21.4%	10.8%	58.8%
					Massachusetts	3.1%	4.7%	5.0%	86.0%

* Total excludes the 236 loans (9.1% of all loans) for which information on race/ethnicity was not reported.
Total includes 53 loans (2.2% all loans with race/ethnicity information) to borrowers in catergories not shown in the table:
"American Indian or Alaskan Native," "Native Hawaiian or Pacific Islander," or "Other."
\# Percent of households is from the 2000 Census.

- **Types of Properties Purchased with SoftSecond Loans** (Table 8)

Statewide, during the 2004-2006 period, almost half (48.6%) of SoftSecond borrowers purchased condominiums, another 26.3% purchased single-family homes, and the remaining 25.2% purchased two- or three-family homes. These percentages varied widely among regions, with the share of single-family homes ranging from 64.7% on Cape Cod to 7.3% in the Metro North region; the share of condominiums ranging from 86.0% in the Metro West region to 18.2% in the Western region; and the share of two- and three-family houses ranging from 41.7% in the Central region to 0.0% in the South Shore and Cape Cod regions. The percentages of different types of properties have changed dramatically in recent years; for example, the statewide share of condominiums was only 20.1% during in the first 13 years of the program. (This percentage is not shown directly in Table 8, but is calculated from data in that table.)

Table 8
SoftSecond Loans by Type of Property, 2004-2006 and Life of Program

	Number of Loans					% of Loans		
Region	Total*	1-Fam	Condo	2-Fam	3-Fam	1-Fam	Condo	2-3 Fam
A. Most Recent Three Year Period: 2004-2006								
Boston City	857	170	436	85	166	19.8%	50.9%	29.3%
Metro North	341	25	255	15	46	7.3%	74.8%	17.9%
Metro South	88	15	71	2	0	17.0%	80.7%	2.3%
Metro West	107	9	92	2	4	8.4%	86.0%	5.6%
North Shore	194	39	102	9	44	20.1%	52.6%	27.3%
Merrimack Valley	195	25	130	22	18	12.8%	66.7%	20.5%
South Shore	45	25	20	0	0	55.6%	44.4%	0.0%
Southeastern	129	54	24	22	29	41.9%	18.6%	39.5%
Cape Cod	51	33	18	0	0	64.7%	35.3%	0.0%
Central	187	69	40	16	62	36.9%	21.4%	41.7%
Western	402	218	73	96	15	54.2%	18.2%	27.6%
Mass. Total	2,596	682	1,261	269	384	26.3%	48.6%	25.2%
B. For Comparison: Statewide Since Inception of Program: 1991-2006								
Mass. Total*	9,622	3,688	2,670	1,769	1,493	38.3%	27.7%	33.9%

* Total in Panel B includes two loans for which property type was not reported.

- **SoftSecond Loan Repayments and Foreclosures** (Table 9)

Of the nearly ten thousand SoftSecond loans made during the sixteen year history of the program, almost two-thirds (65.0%) were still active at the end of 2006. Almost all of the other borrowers (34.6% of the total) repaid their loans early. There are three major reasons for repaying a mortgage loan early: refinancing with a different mortgage loan (or loans); selling the home for a reason unrelated to the mortgage loan (e.g., moving for family or job-related reasons); or selling the home because of inability to continue making payments on the mortgage loan (which can only be done when the value of the home is greater than the value of the amount owed on the mortgage).

The MHP database does not contain information on why early repayments were made, but an examination of the annual repayment data in Table 9 strongly suggests that most early repayments were in connection with refinancing in order to take advantage of the historically low mortgage interest rates in the early years of the current decade. [9] The 1,417 loans repaid in 2003 – the initial year of the three-year period with the lowest interest rates – were equal to more than one-quarter (27.6%) of the loans active at

[9] For example, the annual mortgage interest rate data available from the Federal Reserve indicates that interest rates were more than two full percentage points lower in 2003-2005 (5.82%, 5.84% & 5.86%) than they were in 1994-1996 (8.35%, 7.95% & 7.80%). [www.federalreserve.gov/releases/h15/data/Annual/H15_MORTG_NA.txt]. While these low interest rates meant that SoftSecond borrowers could clearly benefit from refinancing with a responsible lender, it should be noted that the years of peak refinancing activity were years with a large amount of predatory lending by irresponsible lenders; it is therefore likely that some SoftSecond borrowers were made worse off as a result of refinancing their loans.

the beginning of the year. In contrast, the 299 loans repaid during the relatively high-interest rate years of 1991-2000 were equal to only 5.9% of the loans made during those ten years.

Foreclosures on SoftSecond borrowers have been very rare. Just 35 borrowers -- less than one-half of one percent of the total – have lost their homes to foreclosure during the sixteen-year history of the program.

Table 9
SoftSecond Loans Originated, Repaid, & Foreclosed During Year, and Loans Active at Year-End, 1991-2006

Year	New Loans	Total Loans Since 1991	Loans Repaid	Loans Foreclosed	Loans Active at Year-End	Fore-closure Rate*
1991	35	35	0	0	35	0.00%
1992	107	142	0	0	142	0.00%
1993	212	354	0	1	353	0.28%
1994	389	743	1	0	741	0.00%
1995	482	1,225	0	2	1,221	0.16%
1996	788	2,013	4	3	2,002	0.15%
1997	734	2,747	14	1	2,721	0.04%
1998	744	3,491	54	3	3,408	0.09%
1999	822	4,313	93	2	4,135	0.05%
2000	733	5,046	133	3	4,732	0.06%
2001	735	5,781	293	7	5,167	0.14%
2002	527	6,308	553	5	5,136	0.10%
2003	718	7,026	1,417	1	4,436	0.02%
2004	913	7,939	357	1	4,991	0.02%
2005	821	8,760	248	3	5,561	0.05%
2006	862	9,622	161	3	6,259	0.05%
Total	9,622	9,622	3,328	35	6,259	
% of Total		100.0%	34.6%	0.36%	65.0%	

* The foreclosure rate is the number of loans foreclosed during the year as a percentage of the number of active loans at the end of the year. This rate is not directly comparable to other reported foreclosure rates. For example, the Mortgage Bankers Association reports two foreclosure rates: the number of loans in the foreclosure process as a percentage of outstanding loans (1.19% for the fourth quarter of 2006) and the number of loans entering the foreclosure process during the quarter (0.54% for the fourth quarter of 2006). Many more loans enter the foreclosure process than end up as foreclosures; but a year is four times longer than a quarter. The MBA press release for fourth quarter 2006 delinquency and foreclosure rates is at: www.mbaa.org/NewsandMedia/PressCenter/50974.htm).

- **Delinquency Rates on SoftSecond Loans** (Tables 10 and 11)

The MHP carefully tracks the delinquency status of outstanding SoftSecond loans and reports the results to MCBC's Mortgage Lending Committee on a quarterly basis. Tables 10 and 11 present summary information on delinquency rates during the 2004-2006 period from MHP's delinquency report for December 31, 2006. As of that date, 2.2% of the outstanding SoftSecond loans statewide were delinquent for thirty days or longer, less than one-half of the 4.5% delinquency rate for all mortgage loans in Massachusetts, as estimated by the Mortgage Bankers Association of America (MBAA); the MBAA delinquency rate for conventional loans only was 2.8% on that date.

SoftSecond delinquency rates vary among the five MHP-defined "macro-regions" (each consisting of one, two, or three of the eleven [micro-]regions used in the previous tables). The rates have been consistently lowest in the Boston Metro region (which excludes the city of Boston itself) and highest in the Central/Western region. Table 11 provides information on statewide SoftSecond delinquency rates for different types of property, showing that delinquencies tend to be highest for single-family houses and lowest for condominiums and three-family houses.

Table 10
SoftSecond Loan Delinquency Rates, 2004-2006
(With Delinquency Rates on All Massachusetts Loans for Comparison)

	Soft Second Loans						All Mass. Loans			
Date	Total Mass.	Boston	Boston Metro	N. Shore/ M. Valley	S Shore, SE, Cape	Western/ Central	FHA	Conventional* Prime	Conventional* Subprime	Total
A. Number of Active Loans as of 12/31/06										
12/31/06	6,259	2,259	1,091	664	532	1,664	NA	NA	NA	NA
B. Loans Delinquent 30, 60, 90, or 120 Days										
06/30/04	2.3%	1.3%	1.2%	1.4%	2.5%	4.1%	NA	NA	NA	NA
12/31/04	2.6%	1.6%	0.9%	2.8%	2.4%	4.7%	13.7%	2.0%	9.9%	3.2%
06/30/05	1.6%	0.9%	0.6%	1.2%	2.6%	2.9%	12.9%	1.8%	10.2%	3.1%
12/31/05	1.6%	1.3%	1.2%	1.3%	3.1%	1.8%	14.8%	2.1%	12.6%	3.7%
06/30/06	1.9%	1.6%	0.7%	1.7%	2.4%	2.7%	13.1%	2.0%	12.2%	3.5%
12/31/06	2.2%	2.3%	0.9%	1.7%	2.2%	3.2%	16.2%	2.8%	15.4%	4.5%

* Conventional loans are all loans that are not government-backed (i.e., other than FHA or VA loans). Delinquency rates for VA loans are not shown here; in Massachusetts in 2006 there were five times as many FHA loans as VA loans. Prime and subprime loans are as defined by the Mortgage Bankers Association.

Sources: SoftSecond delinquency data from Mass. Housing Partnership.
Delinquency data for all Massachusetts loans from Mortgage Bankers Assn. of America.

Table 11
SoftSecond Loan Delinquency Rates, by Property Type, 2004-2006

Date	Single-Family	Condo	Two-Family	Three-Family	All Types
A. Number of Active Loans as of 12/31/06					
12/31/06	2,040	2,058	1,129	1,032	6,259
B. Loans Delinquent 30, 60, 90, or 120 Days					
06/30/04	3.7%	0.9%	2.1%	0.8%	2.3%
12/31/04	3.8%	1.1%	2.8%	2.0%	2.6%
06/30/05	2.7%	0.8%	1.4%	1.1%	1.6%
12/31/05	2.4%	1.1%	1.5%	0.9%	1.6%
06/30/06	2.7%	1.3%	1.5%	1.5%	1.9%
12/31/06	3.2%	1.7%	1.9%	1.9%	2.2%

- **Funding the SoftSecond Loan Program: State Costs and Private Mortgages** (Table 12)

The SoftSecond Loan Program involves two types of direct state funding. For every loan, the state contributes an amount equal to three percent of the second mortgage to a loan loss reserve fund that protects the lender from possible credit losses in the event that the loan is not fully repaid by the borrower. In addition, the state subsidizes second-mortgage interest payments for the first nine years for low- and moderate-income borrowers (those with incomes no greater than 80% of the area median income) if their monthly payments for principal, interest, insurance, condo fees, and property taxes would otherwise exceed 28% of their monthly household income (25% in the case of three-family properties). During the 2004-2006 period, public funds were used to provide such interest subsidies to 48.3% of SoftSecond borrowers.

During the 2004-2006 period, the average amount of mortgage loans per SoftSecond borrower (first and second mortgages combined) was $209,618 and the average state costs were $6,210. For all SoftSecond borrowers combined, state costs of $16.1 million leveraged $544.2 million in private mortgage lending. Table 12 provides information on state costs and private mortgage amounts during this period in each region as well as statewide. Calculations not reported in that table indicate that over the entire lifetime of the SoftSecond Loan Program, $51 million in state funds have leveraged $1.4 billion in private mortgage financing.

Table 12
SoftSecond Loan Program, 2004-2006
State Costs and Private Mortgage Amounts

		Average Per Loan		Total (nearest $000)	
Region	Number of Loans	State Costs^	Private Mortgages*	State Costs^	Private Mortgages*
Boston City	857	$6,402	$252,632	$5,487	$216,506
Metro North	341	$6,596	$227,266	$2,249	$77,498
Metro South	88	$7,871	$179,393	$693	$15,787
Metro West	107	$6,675	$188,594	$714	$20,180
North Shore	194	$7,623	$232,198	$1,479	$45,046
Merrimack Valley	195	$6,194	$184,833	$1,208	$36,042
South Shore	45	$7,024	$184,633	$316	$8,308
Southeastern	129	$7,014	$216,102	$905	$27,877
Cape Cod	51	$5,277	$148,609	$269	$7,579
Central	187	$5,402	$199,899	$1,010	$37,381
Western	402	$4,458	$129,265	$1,792	$51,965
Mass. Total	2,596	$6,210	$209,618	$16,122	$544,169

^ Total of payments for loan loss reserves and second-mortgage interest rate subsidies.
* Total of first and second mortgages.

Appendix Table 1 (page 1 of 2)
SoftSecond Loans in the 226 Cities & Towns with At Least One Loan

City/Town	Region	1991-2003	2004-2006	Total
Abington	South Shore	1	1	2
Acton	Metro West	4	6	10
Agawam	Western	59	14	73
Amesbury	Merr Valley	5	7	12
Amherst	Western	44	15	59
Andover	Merr Valley	2	18	20
Arlington	Metro North	7	6	13
Ashburnham	Central	1	0	1
Ashfield	Western	3	1	4
Ashland	Metro West	3	2	5
Athol	Central	2	1	3
Attleboro	Southeastern	12	6	18
Auburn	Western	1	1	2
Ayer	Metro West	7	2	9
Barnstable	Cape Cod	122	15	137
Bedford	Metro North	0	5	5
Belchertown	Western	28	2	30
Belmont	Metro West	0	2	2
Berlin	Central	0	1	1
Bernardston	Western	3	0	3
Beverly	North Shore	9	6	15
Billerica	Merr Valley	2	9	11
Blackstone	Central	0	1	1
Blandford	Western	1	1	2
Bolton	Metro West	1	1	2
Boston	Boston	2,689	857	3,546
Bourne	Cape Cod	19	4	23
Boxborough	Metro West	3	1	4
Bradford	Merr Valley	1	0	1
Braintree	Metro South	13	33	46
Brewster	Cape Cod	16	0	16
Brimfield	Western	1	0	1
Brockton	Southeastern	124	23	147
Brookline	Metro West	12	24	36
Buckland	Western	5	0	5
Burlington	Metro North	1	1	2
Cambridge	Metro North	145	95	240
Canton	Metro South	0	1	1
Carver	South Shore	1	1	2
Charlton	Central	3	1	4
Chatham	Cape Cod	4	0	4
Chelmsford	Merr Valley	3	16	19
Chelsea	Metro North	260	54	314
Chester	Western	0	1	1
Chesterfield	Western	5	1	6
Chicopee	Western	205	30	235
Clinton	Metro West	1	3	4
Colrain	Western	1	0	1
Concord	Metro West	0	1	1
Conway	Western	2	0	2
Cummington	Western	1	0	1
Dalton	Western	3	0	3
Danvers	North Shore	3	3	6
Deerfield	Western	8	0	8
Dennis	Cape Cod	30	3	33
Dracut	Merr Valley	5	13	18
Dudley	Central	0	1	1
East Bridgewater	Southeastern	1	1	2
East Longmeadow	Western	16	3	19
Eastham	Cape Cod	11	0	11
Easthampton	Western	65	19	84
Easton	Southeastern	2	1	3
Erving	Western	3	0	3
Everett	Metro North	23	17	40
Fall River	Southeastern	77	6	83
Falmouth	Cape Cod	41	6	47
Fitchburg	Central	56	5	61
Framingham	Metro West	43	10	53
Franklin	Southeastern	0	2	2
Gardner	Central	4	5	9
Gill	Western	1	0	1
Gloucester	North Shore	18	14	32
Goshen	Western	4	0	4
Grafton	Metro West	2	3	5
Granby	Western	6	3	9
Greenfield	Western	31	11	42
Groveland	Merr Valley	0	2	2
Hadley	Western	4	0	4
Halifax	South Shore	3	1	4
Hamilton	North Shore	1	0	1
Hampden	Western	2	0	2
Harwich	Cape Cod	17	1	18
Hatfield	Western	4	0	4
Haverhill	Merr Valley	26	13	39
Heath	Western	1	0	1
Holbrook	South Shore	0	1	1
Holden	Central	0	5	5
Holland	Western	3	0	3
Holliston	Metro West	2	0	2
Holyoke	Western	159	66	225
Hopedale	Metro West	2	0	2
Hopkinton	Metro West	1	3	4
Hudson	Metro West	4	3	7
Huntington	Western	6	2	8
Ipswich	North Shore	10	0	10
Kingston	South Shore	1	1	2
Lakeville	Southeastern	1	1	2
Lancaster	Central	0	2	2
Lawrence	Merr Valley	119	33	152
Lee	Western	1	0	1
Leicester	Central	1	0	1
Leominster	Central	40	3	43
Lexington	Metro West	0	1	1
Lincoln	Metro West	0	3	3
Longmeadow	Western	3	0	3
Lowell	Merr Valley	32	45	77
Ludlow	Western	30	1	31
Lunenburg	Central	1	0	1
Lynn	North Shore	223	106	329
Malden	Metro North	34	43	77
Manchester BTS	North Shore	0	2	2
Mansfield	Southeastern	1	4	5
Marblehead	North Shore	1	5	6
Marion	South Shore	10	0	10

Appendix Table 1 (page 2 of 2)
SoftSecond Loans in the 226 Cities & Towns with At Least One Loan

City/Town	Region	1991-2003	2004-2006	Total
Marlborough	Metro West	61	14	75
Marshfield	South Shore	1	3	4
Mashpee	Cape Cod	27	4	31
Mattapoisett	South Shore	0	1	1
Maynard	Metro West	0	1	1
Medford	Metro North	6	14	20
Melrose	Metro North	2	7	9
Mendon	Central	0	2	2
Merrimac	Merr Valley	0	2	2
Methuen	Merr Valley	19	11	30
Middleborough	South Shore	3	4	7
Milford	Metro West	15	2	17
Millbury	Central	1	0	1
Monson	Western	3	2	5
Montague	Western	21	5	26
Natick	Metro West	0	3	3
New Bedford	Southeastern	90	49	139
New Salem	Western	3	0	3
Newburyport	North Shore	3	10	13
Newton	Metro West	7	6	13
North Adams	Western	2	1	3
North Andover	Merr Valley	3	9	12
North Attleborough	Southeastern	10	3	13
North Reading	Metro North	3	4	7
Northampton	Western	122	29	151
Northborough	Metro West	0	1	1
Northfield	Western	3	1	4
Norton	Southeastern	3	2	5
Norwood	Metro South	0	3	3
Orange	Western	2	0	2
Orleans	Cape Cod	2	1	3
Oxford	Western	1	2	3
Palmer	Western	18	1	19
Peabody	North Shore	1	7	8
Pelham	Western	1	0	1
Pembroke	South Shore	0	1	1
Pepperell	Merr Valley	1	0	1
Pittsfield	Western	3	3	6
Plainfield	Western	4	1	5
Plainville	Southeastern	0	1	1
Plymouth	South Shore	20	13	33
Provincetown	Cape Cod	23	2	25
Quincy	Metro South	158	27	185
Randolph	Metro South	35	11	46
Raynham	Southeastern	0	2	2
Reading	Metro North	1	7	8
Revere	Metro North	49	32	81
Rochester	Southeastern	1	0	1
Rockland	South Shore	12	8	20
Rowley	North Shore	0	3	3
Russell	Western	1	0	1
Salem	North Shore	19	23	42
Salisbury	Merr Valley	1	8	9
Sandwich	Cape Cod	19	13	32
Saugus	North Shore	1	9	10
Savoy	Western	1	0	1
Seekonk	Southeastern	1	0	1
Shelburne	Western	2	0	2
Shrewsbury	Central	0	2	2
Shutesbury	Western	1	0	1
Somerville	Metro North	41	28	69
South Hadley	Western	16	9	25
Southampton	Western	1	0	1
Southborough	Central	1	0	1
Southbridge	Central	1	3	4
Southwick	Western	9	1	10
Spencer	Central	0	1	1
Springfield	Western	431	109	540
Stoneham	Metro North	1	3	4
Stoughton	Southeastern	0	1	1
Sunderland	Western	1	2	3
Sutton	Central	0	1	1
Swampscott	North Shore	0	4	4
Swansea	Southeastern	0	1	1
Taunton	Southeastern	26	26	52
Templeton	Central	2	7	9
Tewksbury	Merr Valley	1	2	3
Topsfield	North Shore	0	1	1
Tyngsborough	Merr Valley	0	3	3
Upton	Central	0	2	2
Wakefield	Metro North	2	17	19
Walpole	Metro South	0	1	1
Waltham	Metro West	2	6	8
Ware	Western	6	1	7
Wareham	South Shore	20	8	28
Warren	Western	1	0	1
Watertown	Metro West	3	5	8
Webster	Central	0	2	2
Wellfleet	Cape Cod	7	0	7
Wendell	Western	1	1	2
Wenham	North Shore	0	1	1
West Brookfield	Central	0	1	1
West Springfield	Western	89	25	114
West Stockbridge	Western	1	0	1
Westborough	Metro West	0	2	2
Westfield	Western	82	32	114
Westford	Merr Valley	1	4	5
Westhampton	Western	2	0	2
Weston	Metro West	0	2	2
Weymouth	Metro South	99	12	111
Whately	Western	1	0	1
Whitman	South Shore	2	2	4
Wilbraham	Western	7	0	7
Williamsburg	Western	10	5	15
Wilmington	Metro North	2	1	3
Winchendon	Central	3	0	3
Winchester	Metro North	8	1	9
Winthrop	Metro North	3	3	6
Woburn	Metro North	5	3	8
Worcester	Central	245	141	386
Worthington	Western	4	1	5
Yarmouth	Cape Cod	75	2	77

Note: Of the 226 cities and towns in this table, 176 received at least one loan during the 2004-2006 period.

Appendix Table 2

SoftSecond Loans in Massachusetts, by Bank and Year, 1991 - 2006

(All 57 Lenders Included in Current Mass Housing Partnerhip SSP Database)

Lender	City/Town	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Fleet"	Boston	20	47	74	168	211	240	188	177	207	266	237	168	234	259	43	0	2,539
BankBoston^	Boston	12	37	58	110	114	206	252	329	319	31	0	0	0	0	0	0	1,468
Citizens	Boston	0	0	3	0	49	189	98	68	132	166	119	77	109	149	165	93	1,417
TD Banknorth	Portland ME	0	2	12	29	17	17	15	12	21	129	162	135	116	110	79	17	873
Boston Private	Boston	0	0	0	0	0	8	33	44	49	51	93	60	83	112	127	159	819
Sovereign Bank	Wyomissing PA	0	0	0	0	0	0	0	0	0	0	8	25	83	164	140	237	657
Mellon New England	Boston	0	4	55	19	29	38	43	33	34	22	28	4	0	0	0	0	309
Bank of America	Charlotte NC	0	0	0	0	0	0	0	0	0	0	0	0	1	0	116	158	275
Eastern Bank	Boston	0	0	0	0	0	9	7	10	3	11	11	13	29	41	49	75	258
Florence SB	Florence	0	0	0	0	0	0	8	24	20	15	20	7	21	12	14	22	163
Cambridge Trust	Cambridge	0	0	0	0	7	11	13	1	0	2	0	1	3	7	18	24	87
Rockland Trust	Rockland	0	0	0	0	5	13	24	6	6	4	6	6	3	5	2	6	86
Compass Bank*	New Bedford	0	0	0	0	1	0	1	0	10	11	21	12	5	17	0	0	78
Wainwright Bank	Boston	0	0	0	0	0	0	0	0	0	1	1	2	5	17	22	27	75
Sandwich Co-op&	Sandwich	0	0	0	15	6	11	7	8	0	0	0	1	0	0	0	0	48
Cambridge SB	Cambridge	0	0	0	0	0	11	5	6	2	4	1	1	7	2	4	4	47
Marlborough Co-op	Marlborough	0	0	0	0	4	7	5	4	4	2	3	2	0	5	4	5	45
Co-op Bank of Concord#	Concord	3	10	1	9	11	1	0	0	0	0	0	0	0	0	0	0	35
US Trust#	Boston	0	1	0	12	9	3	0	0	0	1	0	0	0	0	0	0	26
Central Bank	Somerville	0	0	0	0	0	0	0	3	3	0	0	3	5	2	4	5	25
Hyde Park SB	Boston	0	0	0	0	0	0	6	2	3	2	4	0	0	2	3	2	24
Chelsea-Provident Co-op	Chelsea	0	0	0	2	5	1	0	1	0	3	3	1	1	2	1	3	23
Country Bank	Ware	0	0	0	0	0	0	3	4	1	1	4	2	0	1	1	4	21
Mount Washington SB	Boston	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	10	21
Quincy SB#	Quincy	0	1	2	18	0	0	0	0	0	0	0	0	0	0	0	0	21
East Cambridge SB	Cambridge	0	0	0	0	1	1	6	1	0	4	0	0	1	0	1	2	17
Salem Five	Salem	0	0	1	0	0	0	0	0	0	1	0	1	4	3	7	0	17
Cambridgeport SB#	Cambridge	0	0	0	1	3	2	5	4	0	0	0	0	1	0	0	0	16
Seaman's Bank	Provincetown	0	0	0	0	0	0	2	1	3	1	9	0	0	0	0	0	16
Hyde Park Co-op	Boston	0	0	0	0	5	4	1	2	1	0	0	0	0	0	0	0	13
Community Bank	Brockton	0	0	0	0	0	0	2	1	1	0	0	5	3	0	0	0	12
Bank of Braintree#	Braintree	0	0	0	0	0	11	0	0	0	0	0	0	0	0	0	0	11
Lowell Five	Lowell	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	5	8
Hibernia SB&	Boston	0	0	1	0	2	1	3	0	0	0	0	0	0	0	0	0	7
New Bedford Inst for Sav^	New Bedford	0	1	3	3	0	0	0	0	0	0	0	0	0	0	0	0	7
FamilyFirst Bank	Ware	0	0	0	0	0	1	1	0	0	2	1	0	0	1	0	0	6
Holyoke CU	Holyoke	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	1	5
Stoneham SB	Stoneham	0	0	0	0	0	0	0	0	0	0	1	0	0	0	2	2	5
United Bank	W. Springfield	0	0	0	0	0	1	2	0	0	1	1	0	0	0	0	0	5
Bank of Canton	Canton	0	0	0	0	0	0	0	0	0	0	0	0	3	0	1	0	4
Winchester Co-op	Winchester	0	0	0	0	0	0	0	0	2	1	0	1	0	0	0	0	4
Winchester SB	Winchester	0	0	0	0	0	0	2	1	1	0	0	0	0	0	0	0	4
Ipswich Co-op&	Ipswich	0	0	2	1	0	0	0	0	0	0	0	0	0	0	0	0	3
Worcester Co Inst for Sav^	Worcester	0	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3
Colonial Federal SB	Quincy	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	2
First NB of Ipswich	Ipswich	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	2
Ipswich SB@	Ipswich	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	2
Medford SB#	Medford	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	2
Reading Co-op	Reading	0	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	2
Southbridge SB	Southbridge	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	0	2
Boston Federal @	Burlington	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1
Dedham Inst for Sav	Dedham	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
Falmouth Co-op&	Falmouth	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1
Pentucket Bank	Haverhill	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Randolph SB	Randolph	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1
Webster Five	Webster	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Woburn NB#	Woburn	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1
Total Loans		35	107	212	389	482	788	734	744	822	733	735	527	718	913	821	862	9,622
Number of Lenders		57	57	57	57	57	57	57	57	57	57	57	57	57	57	57	57	57

Note: Loans of banks that disappeared through mergers before 1999 are shown as loans by the acquiring banks. Loans by the 18 banks that disappeared through mergers after that date are shown as loans by the originating bank. Among the banks not shown above is Shawmut, which was the largest single lender in the early years of the program.

^: merged into Fleet; #: merged into Citizens; @: merged into Banknorth; ": merged into Bank of America; *: merged into Sovereign
&: other mergers – Falmouth Co-op into Rockland Trust; Ipswich Co-op into Inst for Sav of Newburyport; Sandwich Co-op into Compass Bank; Hibernia SB into Eastern Bank