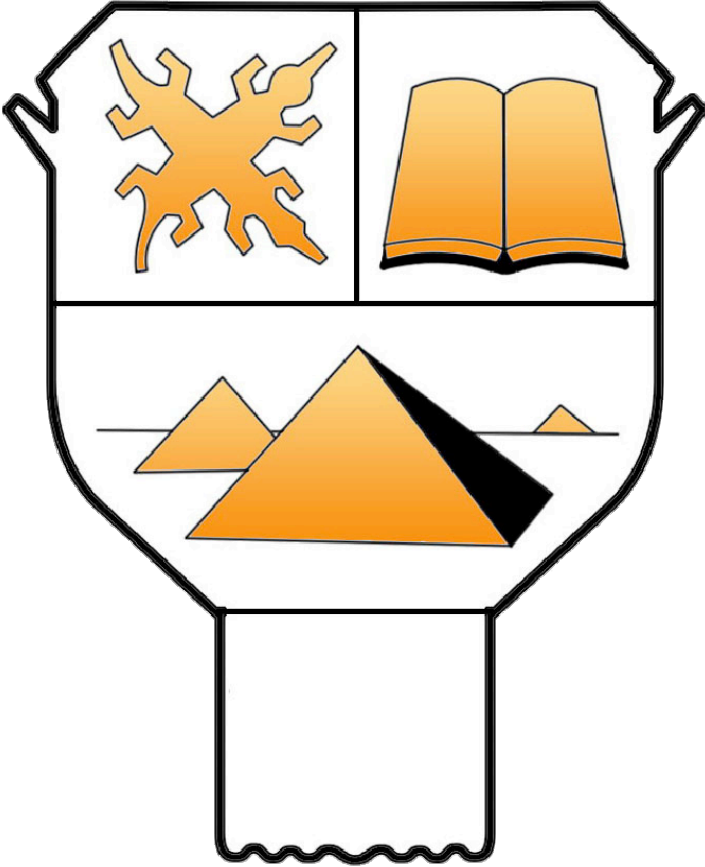


# Borrowing While Black: National Trends in Home Purchase Mortgage Market

A Report Prepared By:  
The National Urban Research Group



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## **Borrowing While Black: National Trends in Home Purchase Mortgage Market**

### **Introduction**

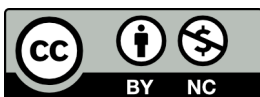
This analysis is part of a continuing sequence of case studies conducted by the National Urban Research Group examining *Borrowing While Black* racial disparities in the allocation of higher cost subprime mortgage products. Utilizing mortgage data supplied by the Home Mortgage Disclosure Act (HMDA), the National Urban Research Group conducted cross-sectional descriptive analysis on home purchase mortgage lending, from the years 2004 to 2008. While the share of subprime mortgages has grown rapidly in all racial categories, the empirical evidence documents a clear *Borrowing While Black* effect. Results confirm the magnitude of subprime concentration in loans to African Americans and the negative effects such high-cost loans had on households and communities. The data contained information on every applicant for a home purchase mortgage made in the United States over this four-year period.<sup>1</sup>

### *Borrowing While Black Key Findings*

1. **Home purchase mortgages, as reported in HMDA, confirm that considerable growth in the market share of subprime mortgages occurred between 2004 and 2006 increasing from 10.4 percent to 21.0 percent.** The collapse of the subprime mortgage sector starting in 2007 led to major declines in subprime market shares, declining to just 5.7 percent by 2008. Higher cost subprime volumes increased from over a half a million in 2005, diminishing to 211,474 mortgages in 2007, and just 60,719 higher cost subprime home purchase mortgages by 2008.
2. **African American borrowers are nearly four times more likely to purchase a home with a higher cost subprime mortgage product than white borrowers.** African American borrowers received 9.3 percent of all home purchase loans (959,461 out of 10.3 million mortgages), but represented 26.9 percent of all households who purchased a home with a mortgage lender specializing in higher cost subprime mortgages (423,442 of 1.5 million home purchase loans). In terms of the market share, African Americans were 3.6 times more likely to purchase a home with a high-cost subprime mortgage product than white applicants (44.1 percent compared to 12.1). In terms of APR market share, African Americans were 3.5 times more likely to purchase a home with APR spread rates

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<sup>1</sup> The original HMDA records contained 148.1 million records. In order to make the data manageable for analysis, we selected applications from African American and white borrowers who applied for the mortgage and the mortgage was originated, the mortgage was owner occupied, loan purpose was for home purchase and refinance, conforming mortgage (removing “jumbo mortgage”), conventional mortgages (removing FHA/VA mortgages), loan type was of one-to-four-family dwelling. Applications where race or income are missing are removed from analysis. After applying all filters, the final dataset contains information on approximately 22.9 million mortgages. Of which, 13.3 million was use for refinancing an existing mortgage and 10.3 million for purchasing a one-to-four family home.



between 4 and 4.99 than white applicants (10.2 compared to 2.9); and five times as likely to purchase homes with APR spread rates of 5 or above (22.5 to 4.6).

3. **Subprime mortgages are more than twice as likely in African American neighborhoods than in white neighborhoods.** Borrowers in predominately African American neighborhoods were more than two times more likely to purchase a home with a high-cost subprime mortgage compared to borrowers in white neighborhoods.<sup>2</sup>
4. **A “Borrowing While Black Disparity Ratio” (*BWB Ratio*) compares the market share of high cost mortgages made to African Americans and whites borrowers.**<sup>3</sup> A ratio of 1.0 indicates no racial lending disparity, a *BWB ratio* above 1.0 indicates that African Americans are receiving a higher proportion of high cost mortgages than whites. At each income category, African Americans are more likely to purchase a home with a high cost mortgage. Overall, 44.0 percent of African Americans households purchased their homes with a higher cost subprime mortgage product compared to a 12.1 percent market share for similar incomes whites—a racial disparity of 2.9. The *BWB ratio* between lower income African Americans and white borrowers was 2.8 (46.9 to 17.8 percent), moderate income 3.1 (46.9 to 15.1 percent), middle income 3.6 (44.2 to 12.3 percent), and 4.4 for higher income African American and white borrowers (38.1 to 8.6 percent).<sup>4</sup>
5. ***BWB disparity ratios remain even after accounting for income and family status, remain even after accounting for income and family status.*** The greatest *BWB disparity ratio* is between higher income African American and white couples, at 5.2. In other words, African American couples with higher incomes purchased a home with subprime mortgage products at *five times* the rate of similar income white couples. Racial disparities are such that African American couples at the *highest income level* purchased their homes with high cost mortgage products more often than did white couples with the *lowest income level* (28.0 percent versus 14.0 percent), a *BWB ratio* of 2.0

### *Empirical Results*

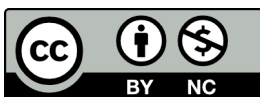
The National Urban Research Group analysis of over 10.2 million home purchase mortgages allocated between 2004 and 2008 documents the evolution and growing influence of the higher cost subprime mortgage sector. One of the most noteworthy aspects of this escalation is the role of race. By far the highest share of subprime home purchase lending is to African

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<sup>2</sup> Four categories of racial composition are examined (1) less than 10 percent African American; (2) 10 to 19.9 percent African American; (3) 20 to 49.9 percent African American; and (4) over 50 percent African American.

<sup>3</sup> The following simple method measures a “BWB Disparity Ratio”:  $BWB\ Disparity\ Ratio = \frac{\text{African American Market Share}}{\text{White Market Share}}$ .

<sup>4</sup> Low- income applicants are those with incomes below 50 percent of the median income of all applicants; Moderate-income are those with median incomes between 50 and 80 percent; middle income between 80 and 120; and high-income are those with incomes above 120 percent of the median income for all applicants.



American borrowers and in neighborhoods where African American comprised a majority of the residents. At each income level, African American households and individuals purchasing a home in majority African American neighborhoods were more likely to purchase a home with a higher cost subprime mortgage product. After controlling for income and family status, the only observed differences in subprime market shares is the race of the applicant or racial composition of neighborhood.

1. **Home purchase mortgages, as reported in HMDA, confirm that considerable growth in the market share of subprime mortgages occurred between 2004 and 2006 increasing from 10.4 percent to 21.0 percent.**

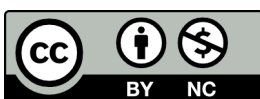
Between 2004 and 2008, mortgage lender allocated over 10.2 million home purchase mortgages. As shown in **Figure (1)**, overall 15.3 percent of borrowers purchased a home with a higher cost subprime mortgage products. Home purchase mortgages, as reported in HMDA, show that considerable growth in the market share of subprime mortgages occurred between 2004 and 2006, increasing from 10.4 percent to 21.0 percent. The collapse of the subprime mortgage sector starting in 2007 led to major declines in subprime market shares, declining to just 5.7 percent by 2008. **Figure (2)** show, higher cost subprime volumes increased from 243,610 home purchase mortgages in 2004 to over half-a-million (563,107) by 2005 and roughly another half-a-million (492,624) mortgages in 2006, diminishing to 211,474 mortgages in 2007 and just 60,719 by 2008.

2. **African American borrowers are nearly four times more likely to purchase a home with a higher cost subprime mortgage product than white borrowers.**

As **Figure (3)** show, African American borrowers received 9.3 percent of all home purchase mortgages (959,461 out of 10.3 million mortgages), but represented 26.9 percent of all households who purchased a home with a mortgage lender specializing in higher cost loans (423,442 of 1.57 million purchase loans). Overall, African Americans were 3.6 times more likely to purchase a home with a high-cost loan than white applicants (44.1 compared to 12.1). In regards to APR spread rate, African Americans represented 26.1 percent of higher cost mortgages with spread rates between 4 and 4.99 (97,974 of 374,705) and 32.9 percent of all mortgage with APR spread rates above 5 percent (215,952 of 655,331).<sup>5</sup> In regards to the APR spread rate, see

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<sup>5</sup> In 2005, a 20-year Treasury security had a rate of 4.3 percent and the average prime mortgage rate was around 5.6 percent. Based on these figures, a lender's 2005 HMDA reports had to disclose an APR on a first mortgage with an APR greater than 7.3 percent, see Board of Governors of the Federal Reserve



**Table (4)**, African Americans borrowers were 3.5 times more likely to purchase a home with APR spread rates between 4 and 4.99 than white applicants (10.2 compared to 2.9); and five times as likely to purchase homes with APR spread rates of 5 or above (22.5 to 4.6).

3. **Subprime mortgages are more than twice as likely in African American neighborhoods than in white neighborhoods.**

**Figure (4)** examines subprime racial concentrations at the neighborhoods level. Results show the heavy reliance on higher cost subprime mortgage products in predominantly African American neighborhoods. In neighborhoods where the majority of residents are African American, one out of every three borrowers purchased a home with a subprime mortgage product. The results indicate that the likelihood of receiving a higher cost subprime mortgage increases with the percentage of African American population. Neighborhoods less than 10 percent African American had a subprime market share of only 11.5 percent, in areas between 10 and 20 percent the market share is 12.6, neighborhoods between 20 and 50 percent African American resident recoded a market share of higher cost subprime home purchase products of 16.3 compared to 29.4 for areas over 50 percent African American.

4. **A “Borrowing While Black Disparity Ratio” (*BWB Ratio*) compares the market share of high cost mortgages made to African Americans and whites borrowers.**

A ratio of 1.0 indicates no racial lending disparity, a ratio above 1.0 indicates that African Americans are receiving a higher proportion of high cost mortgages than whites.<sup>6</sup> Overall, 44.1 percent of African Americans purchased their homes with a high cost mortgage compared to a 12.1 percent market share for similar incomes whites—a racial disparity of 3.6.

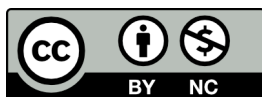
**Table (1)** controls for the race and income of the borrower. At each income category, African Americans are more likely to purchase a home with a high cost mortgage. The *BWB disparity ratio* increases with income levels. The *BWB ratio* for lower income African American was 2.8 (46.9 to 17.8 percent), moderate income 3.1 (46.9 to 15.1 percent), middle income 3.6 (44.2 to 12.3 percent), and 4.4 for higher income applicants (38.1 to 8.6 percent).

5. ***BWB disparity ratios* remain even after accounting for income and family status, remain even after accounting for income and family status.**

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System Statistical Release (2005), available at <http://www.federalreserve.gov/release/h15/20050627/h15.pdf>

<sup>6</sup> The following simple method measures a “BWB Disparity Ratio”:  $BWB\ Disparity\ Ratio = \frac{\text{African American Market Share}}{\text{White Market Share}}$ .



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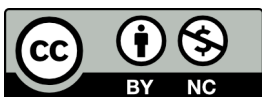
Based on data from **Tables (2.a to 2.d)** *BWB ratios* are calculated and reported in **Table (3)**. The *BWB ratio* between higher income African American and white couples was 5.2 (28.0 percent versus 5.3 percent), see **Table (3)** number 12. In other words, African American couples with higher incomes purchased a home with subprime mortgage products at *five times* the rate of similar income white couples. Results indicated that racial disparities remain even after controlling for race, income and family status. The *BWB ratio* was **above three** for:

- Lower income African American single females/white single female (Table (3), number 1);
- Moderate income African American single females/white single female (Table (3), number 4);
- Middle income African American single females/white single female (Table (3), number 7); and
- Higher income African American single females/white single female (Table (3), number 10)

**Table (3)** reveals similar racial disparities across all race, income, and family status groupings. Racial disparities are such that African American couples at the *highest income level* purchased their homes with high cost mortgage products more often than did white couples with the *lowest income level* (28.0 percent versus 14.0 percent), a *BWB ratio* of 2.0 (see, **Table (3)** number 15). The African American high income /moderate income white couple *BWB disparity ratio* was 2.1 (28.0 percent compared to 12.9, see **Table (3)**, number 18); and the high income African American/middle income white couple *BWB disparity ratio* was 3.0 (28.0 percent to 9.4 percent, see **Table (3)**, number 21).

### **Conclusion**

As document throughout this empirical research, African American households, and individuals in African American communities, disproportionately purchasing homes with a higher cost subprime mortgage product. This overextension in the riskier mortgage sector led to perverse market effects, considerable mortgage defaults and foreclosures. Subprime borrowers, particularly those with adjustable-rate mortgage products, often found themselves “underwater,” where their outstanding loan amount was more than the property value of their homes. Mortgage delinquency and foreclosure rates in the subprime mortgage sector reached record levels with millions facing the threat of losing their homes. No precise national data exists on what share of subprime mortgages resulted in foreclosures, but evidence suggests that the impact has been staggering. A recent report by the Pew Center placed a national spotlight on the controversial

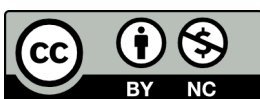


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*Borrowing While Black* attribute of the subprime financial crisis. The Pew Center study, based on information from the Census Bureau longitudinal Survey of Income Program and Participation (SIPP), reveals that the median wealth of white households is 20 times that of African Americans. According to the authors, “the largest since the government began publishing such data a quarter century ago” and almost twice as large as the ratios for the two decades prior to the subprime mortgage crisis.<sup>7</sup> To the extent that home ownership is a vital aspect of wealth and financial stability, the steering of African American borrowers into higher cost subprime mortgage products and the deeply troubling consequences it poses to African American households and communities is a contemporary civil rights issue.

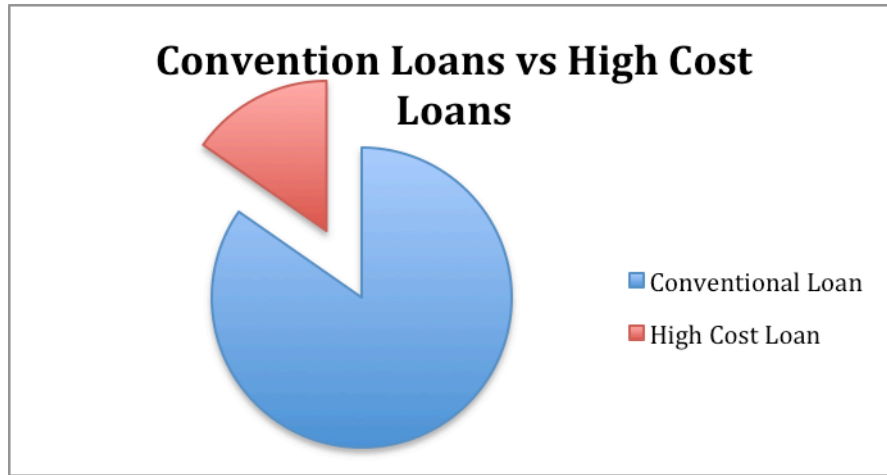
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<sup>7</sup> Paul Taylor et al, *Twenty-to-One: Wealth Gaps Rise to Record Highs between Whites, Blacks and Hispanics*, Pew Research Center, Washington, D.C. (2011).

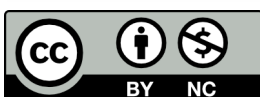


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**Figure 1: Overall Market share**



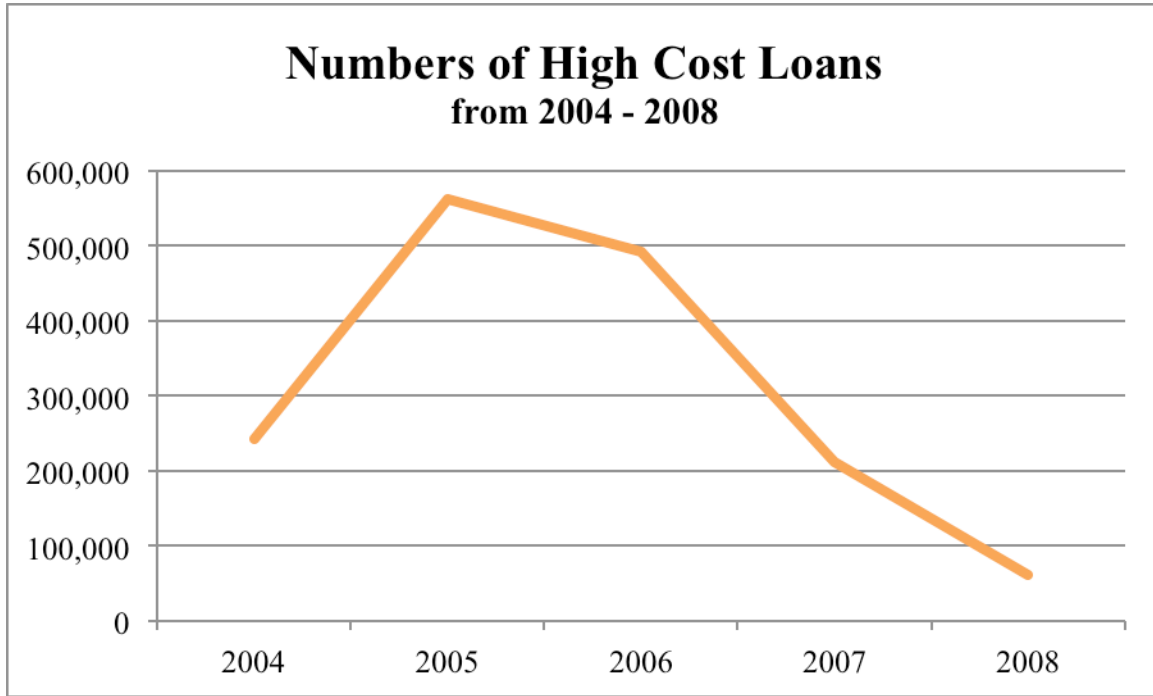
	Conventional Loan	High Cost Loan	Total
Home Purchase Loans	8727082 84.7%	1571534 15.3%	10298616 100.0%



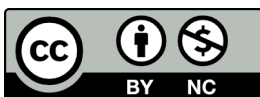
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**Figure 2: Overall Trends by Year**

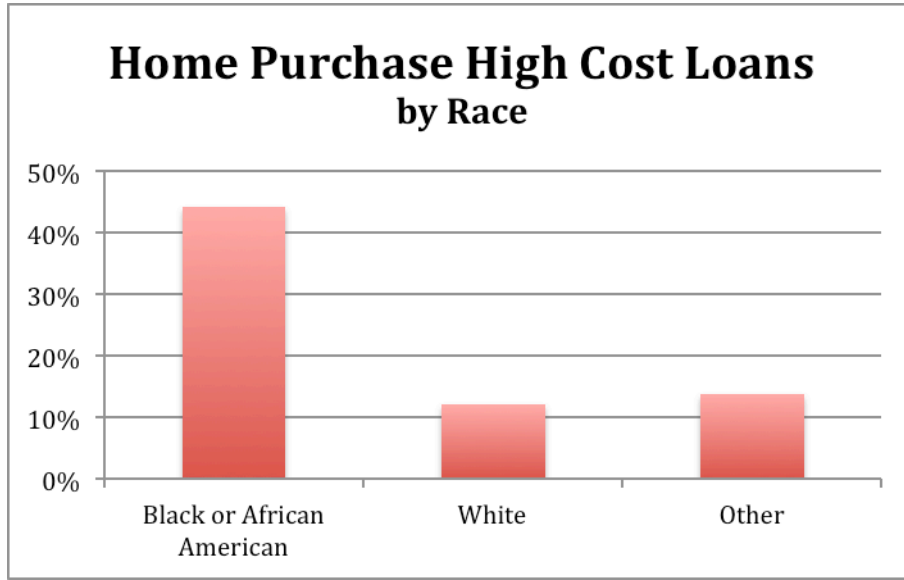


	Conventional Loan	High Cost Loan	Total
2004	2109921 89.6%	243610 10.4%	2353531 100.0%
2005	2119093 79.0%	563107 21.0%	2682200 100.0%
2006	1836982 78.9%	492624 21.1%	2329606 100.0%
2007	1656286 88.7%	211474 11.3%	1867760 100.0%
2008	1004800 94.3%	60719 5.7%	1065519 100.0%

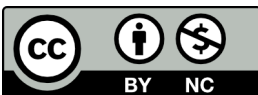


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**Figure 3: Race of Applicant**

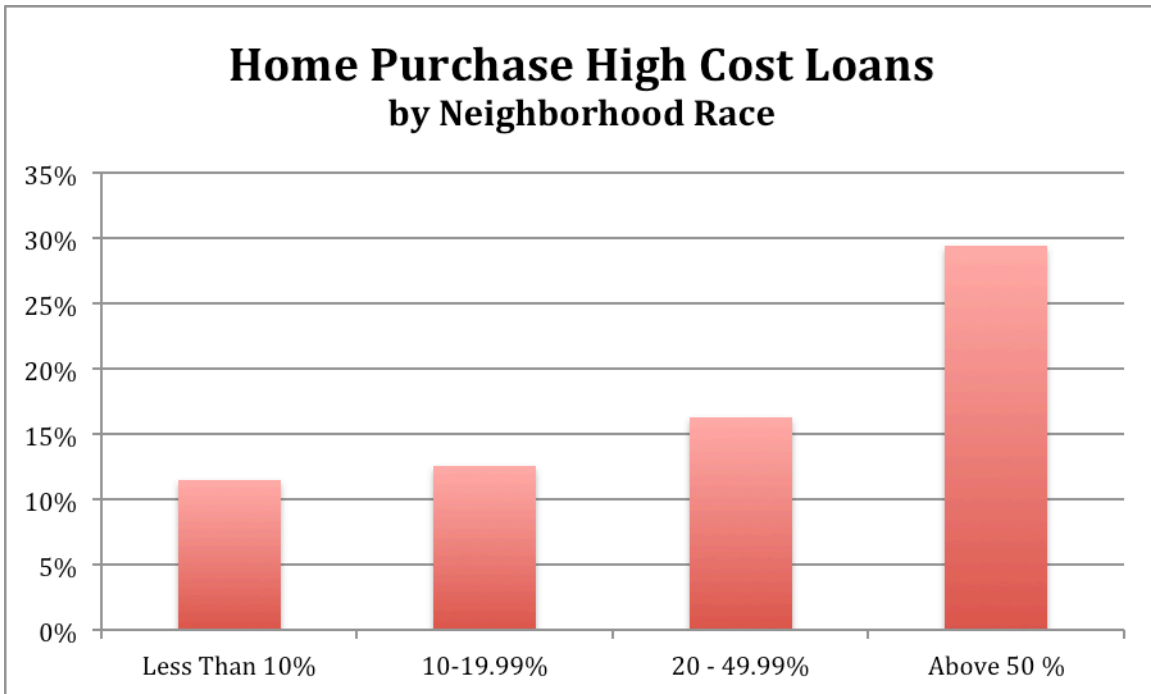


	Conventional Loan	High Cost Loan	Total
Black or African American	536022 55.9%	423442 44.1%	959464 100.0%
White	7370222 87.9%	1017646 12.1%	8387868 100.0%
Other	820838 86.3%	130446 13.7%	951284 100.0%

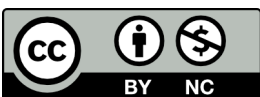


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**Figure 4: Neighborhood Race**



	Conventional Loan	High Cost Loan	Total
Less Than 10%	3304643 88.5%	431163 11.5%	3735806 100.0%
10-19.99%	2257967 87.4%	325967 12.6%	2583934 100.0%
20 - 49.99%	2279161 83.7%	445214 16.3%	2724375 100.0%
Above 50 %	885311 70.6%	369190 29.4%	1254501 100.0%



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**Table 1: Applicant Income and Race**

Home Purchase Low Income

	Conventional Loan	High Cost Loan	Total
Black or African American	77499 50.6%	75689 49.4%	153188 100.0%
White	739922 82.2%	160252 17.8%	900174 100.0%
Other	45788 81.6%	10345 18.4%	56133 100.0%

Home Purchase Moderate Income

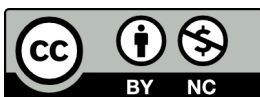
	Conventional Loan	High Cost Loan	Total
Black or African American	147583 53.1%	130095 46.9%	277678 100.0%
White	1664095 84.9%	296644 15.1%	1960739 100.0%
Other	139208 84.5%	25529 15.5%	164737 100.0%

Home Purchase Middle Income

	Conventional Loan	High Cost Loan	Total
Black or African American	149245 55.8%	117988 44.2%	267233 100.0%
White	2031006 87.7%	285891 12.3%	2316897 100.0%
Other	230037 86.6%	35463 13.4%	265500 100.0%

Home Purchase High Income

	Conventional Loan	High Cost Loan	Total
Black or African American	161695 61.9%	99670 38.1%	261365 100.0%
White	2935199 91.4%	274859 8.6%	3210058 100.0%
Other	405805 87.3%	59109 12.7%	464914 100.0%

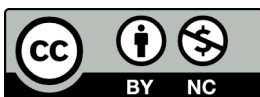


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**Table 2: Market Share of Home Purchase High Cost Loans  
(Race, Income and Family Status of Applicant)**

2.A Low Income

	Conventional Loan	High Cost Loan	Total
Single Black Male	24270 47.9%	26412 52.1%	50682 100.0%
Single White Male	271978 79.1%	71937 20.9%	343915 100.0%
Single Black Female	48031 51.8%	44675 48.2%	92706 100.0%
Single White Female	337398 83.5%	66448 16.5%	403846 100.0%
Black Couple	4043 53.1%	3568 46.9%	7611 100.0%
White Couple	121833 86.0%	19870 14.0%	141703 100.0%
Single Other Male	18420 80.1%	4569 19.9%	22989 100.0%
Single Other Female	18515 79.9%	4651 20.1%	23166 100.0%
Other Couple	18721 81.8%	4156 18.2%	22877 100.0%

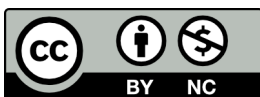


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**Table 2: Market Share of Home Purchase High Cost Loans  
(Race, Income and Family Status of Applicant)**

2.B Moderate Income

	Conventional Loan	High Cost Loan	Total
Single Black Male	50376 50.0%	50463 50.0%	100839 100.0%
Single White Male	598089 82.2%	129830 17.8%	727919 100.0%
Single Black Female	76968 55.9%	60796 44.1%	137764 100.0%
Single White Female	553731 86.1%	89060 13.9%	642791 100.0%
Black Couple	15751 50.4%	15512 49.6%	31263 100.0%
White Couple	482182 87.1%	71254 12.9%	553436 100.0%
Single Other Male	55901 83.3%	11245 16.7%	67146 100.0%
Single Other Female	47320 83.7%	9223 16.3%	56543 100.0%
Other Couple	70568 82.6%	14885 17.4%	85453 100.0%

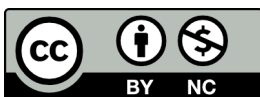


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**Table 2: Market Share of Home Purchase High Cost Loans  
(Race, Income and Family Status of Applicant)**

2.C Middle Income

	Conventional Loan	High Cost Loan	Total
Single Black Male	49336 51.9%	45769 48.1%	95105 100.0%
Single White Male	578894 84.0%	110617 16.0%	689511 100.0%
Single Black Female	58566 57.2%	43765 42.8%	102331 100.0%
Single White Female	404643 86.5%	63378 13.5%	468021 100.0%
Black Couple	32409 57.7%	23768 42.3%	56177 100.0%
White Couple	985445 90.6%	102665 9.4%	1088110 100.0%
Single Other Male	92321 86.2%	14807 13.8%	107128 100.0%
Single Other Female	60468 84.2%	11355 15.8%	71823 100.0%
Other Couple	148206 86.5%	23218 13.5%	171424 100.0%

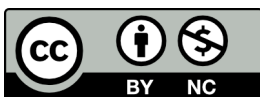


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**Table 2: Market Share of Home Purchase High Cost Loans  
(Race, Income and Family Status of Applicant)**

2.D High Income

	Conventional Loan	High Cost Loan	Total
Single Black Male	46034 53.7%	39753 46.3%	85787 100.0%
Single White Male	676524 85.8%	112151 14.2%	788675 100.0%
Single Black Female	40568 55.9%	31985 44.1%	72553 100.0%
Single White Female	319792 86.3%	50571 13.7%	370363 100.0%
Black Couple	59812 72.0%	23288 28.0%	83100 100.0%
White Couple	1803307 94.7%	101575 5.3%	1904882 100.0%
Single Other Male	129354 84.2%	24273 15.8%	153627 100.0%
Single Other Female	75458 80.9%	17813 19.1%	93271 100.0%
Other Couple	351850 91.6%	32229 8.4%	384079 100.0%



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**Table 3: Borrowing While Black Disparity Ratio for Home Purchase Mortgages**

***Low-income compared to Low-income***

1. Low-income African American female compared to Low-income white female, **disparity ratio 3.0** (48.2 market share compared to 16.5).
2. Low-income African American male compared to Low-income white male, **disparity ratio 2.5** (52.1 market share compared to 20.9).
3. Low-income African American couple compared to Low-income white couple, **disparity ratio 3.3** (46.9 market share compared to 14.0).

***Moderate-income compared to Moderate-income***

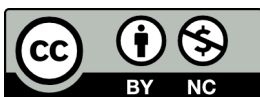
4. Moderate-income African American female compared to Moderate-income white female, **disparity ratio 3.2** (44.1 market share compared to 13.9).
5. Moderate-income African American male compared to Moderate-income white male, **disparity ratio 2.8** (50.0 market share compared to 17.8).
6. Moderate-income African American couple compared to Moderate-income white couple, **disparity ratio 3.8** (49.6 market share compared to 12.9).

***Middle-income compared to Middle-income***

7. Middle-income African American female compared to Middle-income white female, **disparity ratio 3.2** (42.8 market share compared to 13.5).
8. Middle-income African American male compared to Middle-income white male, **disparity ratio 3.0** (48.1 market share compared to 16.0).
9. Middle-income African American couple compared to Middle-income white couple, **disparity ratio 4.5** (42.3 market share compared to 9.4).

***High-income compared to High-income***

10. High-income African American female compared to High-income white female, **disparity ratio 3.2** (44.1 market share compared to 13.7).
11. High-income African American male compared to High-income white male, **disparity ratio 3.2** (46.3 market share compared to 14.2).
12. High-income African American couple compared to High-income white couple, **disparity ratio 5.2** (28.0 market share compared to 5.3).



**Table 3: Borrowing While Black Disparity Ratio for Home Purchase Mortgages**

*High-income African American compared to Low-income white*

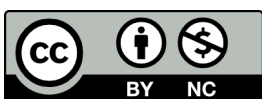
13. High-income African American female compared to Low-income white female, **disparity ratio 2.7** (44.1 market share compared to 16.5).
14. High-income African American male compared to Low-income white male, **disparity ratio 2.2** (46.3 market share compared to 20.9).
15. High-income African American couple compared to Low-income white couple, **disparity ratio 2.0** (28.0 market share compared to 14.0).

*High-income African American compared to Moderate-income white*

16. High-income African American female compared to Moderate-income white female, **disparity ratio 3.2** (44.1 market share compared to 13.9).
17. High-income African American male compared to Moderate-income white male, **disparity ratio 2.6** (46.3 market share compared to 17.8).
18. High-income African American couple compared to Moderate-income white couple, **disparity ratio 2.1** (28.0 market share compared to 12.9).

*High-income African American compared to Middle-income white*

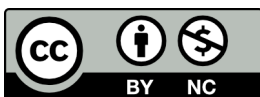
19. High-income African American female compared to Middle-income white female, **disparity ratio 3.3** (44.1 market share compared to 13.5).
20. High-income African American male compared to Middle-income white male, **disparity ratio 2.9** (46.3 market share compared to 16.0).
21. High-income African American couple compared to Middle-income white couple, **disparity ratio 3.0** (28.0 market share compared to 9.4).



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**Table 4: APR Spread Rate by Race**

	Conventional Loan	APR Spread 3 to 3.99	APR Spread 4 to 4.99	APR Spread 5 and Above	Total
Black or African American	536022 55.9%	109506 11.4%	97974 10.2%	215962 22.5%	959464 100.0%
White	7370222 87.9%	387319 4.6%	243780 2.9%	386547 4.6%	8387868 100.0%
Other	820838 86.3%	44673 4.7%	32951 3.5%	52822 5.6%	951284 100.0%



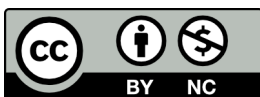
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