

## **ABSTRACT**

### **OKLAHOMA MORTGAGE LENDING PATTERNS: AN ANALYSIS OF PATTERNS OF SUBPRIME LENDING AND HOMEOWNERSHIP AND FORECLOSURES AMONG PEOPLE OF COLOR IN TULSA AND OKLAHOMA CITY MSAs**

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*Since the housing market reached its peak in 2006, more than 6 million homes have been lost to foreclosure in the U.S. The result of this crisis has shattered the “American Dream” for many citizens and left behind a depressed housing market. While varied factors may have contributed to the crisis this study explores and analyzes the effects of subprime lending proliferation on homeownership and foreclosure rates in Tulsa and Oklahoma City. The research demonstrates between 2004-2007 homeownership rates were on the rise in these MSAs. This was the period represented by the largest volume of subprime lending nationally. An examination of foreclosure data shows how the patterns of subprime lending correlate with the disparate effects on minority home mortgage borrowers. The research illustrates how such lending patterns disproportionately affected communities of color in the state. This study also includes 2008 and 2009 lending patterns for illustrative purposes.*

*The research includes a review of the literature relative to the socio-economic benefits of homeownership, such as, economic well-being, equity in ownership, even greater life-satisfaction. The study provides an overview of Home Mortgage Disclosure Act (HMDA) loan data and census data, such as housing and socio-economic profiles. A discussion about prime versus subprime lending in the United States is also presented as differences in application type and lending rates in prime and subprime markets are used as indicators of how access to different types of lenders varies systematically by race and neighborhood. Therefore, the study examines mortgage outcomes by race, income, and census tracts to better assess the level of disparity in lending for individuals and communities in Tulsa and Oklahoma City.*

*Mixed methods are used to address such questions as: Was there a significant increase in minority homeownership during the period when subprime lending was at its highest? Are denial rates for higher income nonwhite mortgage loan applicants greater than lower income non-minority applicants? Was the cost of the lending crisis in Oklahoma MSAs borne disproportionately by communities of color? The study also maps the geography of subprime mortgage holders in the MSAs. A correlation analysis illustrates the relationship between minority homeownership via subprime loans and foreclosure rates in the 594 census tracts comprising Tulsa and Oklahoma City, Oklahoma.*

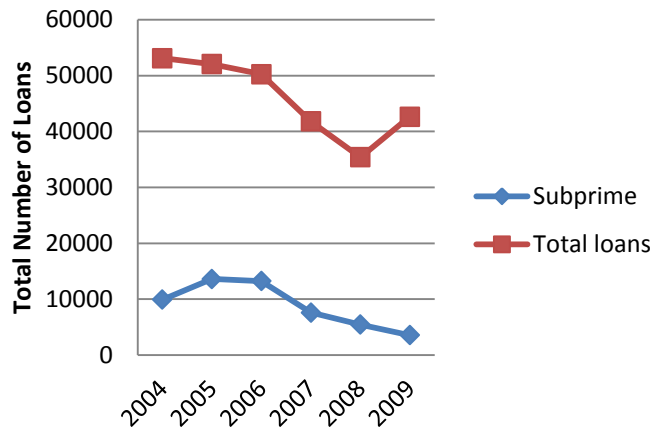
*The paper concludes with recommendations for practitioners and policy makers for better enforcement and oversight of existing regulations and laws governing the mortgage lending industry; creation and/or expansion of formal information networks and outreach to communities of color; expansion of the Community Reinvestment Act to increase access to credit and monitoring of lending patterns of non-banking lenders in minority communities; and expansion of HMDA data collection variables to better understand application denial determinations.*

## RESEARCH HIGHLIGHTS

### OKLAHOMA MORTGAGE LENDING PATTERNS: AN ANALYSIS OF PATTERNS OF SUBPRIME LENDING AND HOMEOWNERSHIP AND FORECLOSURES AMONG PEOPLE OF COLOR IN OKLAHOMA CITY AND TULSA MSAs

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**Figure 1. Total Loans in Oklahoma City, 2004-2009**



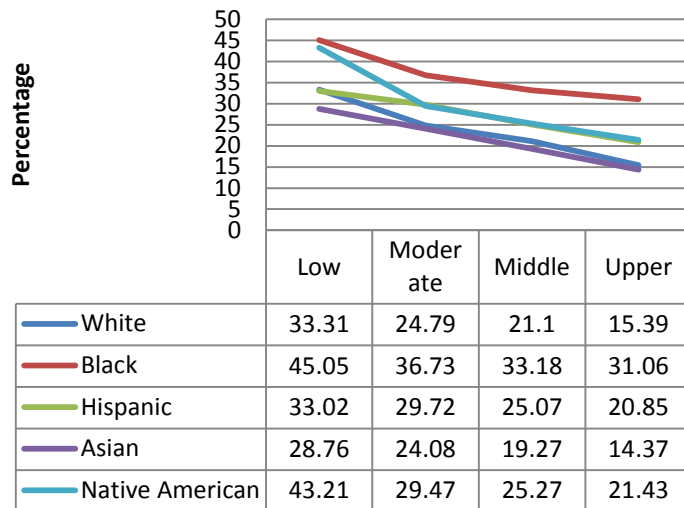
The recent home mortgage study, issued by the Howard University, Center on Race and Wealth shows that like most of the nation, subprime lending was on the rise in Oklahoma and Tulsa MSAs between 2004 and 2006. After the housing bubble, these loans steadily declined in Tulsa and Oklahoma City. The rise and decline in subprime lending for Oklahoma City is depicted in Figure 1. A similar trend occurred in Tulsa. The rise in foreclosures was due in part to growth in subprime mortgage lending

which oftentimes involves loans to consumers with less than stellar credit. Subprime loans typically carry higher interest rates and more costs or fees than prime loans. The study shows that minority borrowers, i.e., African Americans, Native Americans and Hispanics with comparable incomes to non-minorities consistently experienced higher loan denial rates from 2004 to 2009. In 2005, upper income non-minority applicants were denied at a rate of 15.39% while African Americans with upper incomes were denied loans at a rate of 31.06% in Oklahoma City. Native American borrowers with incomes in the highest brackets were still denied more frequently than whites at a rate of 21.43%. When low income racial groups were compared among one another, only Asian mortgage borrowers fared better than other races when applying for home mortgage loans. Specifically, Asian borrowers were denied 28.7% while Native Americans with the same income were denied at a rate of 43.21%. Figure 2. illustrates these denial disparities during 2005. After the housing bubble in 2006, denial rates in Tulsa increased for white home mortgage borrowers by 3% while the increase for African Americans was 6%. Three years later in 2009, the denial rate data revealed that white applicants were being denied at a rate of 15.6% while the denial rates for African Americans, Hispanics and Native Americans were 34.24%, 27.37% and 17.19% respectively.

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**Figure 2. 2005 Denial Rates for Oklahoma City**



The study shows that lending patterns in Tulsa and Oklahoma are similar when variables such as income and race of borrower are considered. However, the data suggest that the majority of subprime loans were actually made to non-minority borrowers. The prevailing perception that minorities received most of the subprime loans was not supported by the data in Oklahoma MSAs. What the study findings suggest is that subprime lending is more concentrated in communities of color in both MSAs. Although the majority of subprime loans were made to non-minority borrowers, the rates in which the loans

go into foreclosure are higher in census tracts heavily populated by minorities. While Oklahoma City has a larger population than Tulsa, foreclosure rates in minority communities are higher in Tulsa according to Realtytrac data from 2010-2011.

The current housing crisis will continue to present challenges to the broader community for years to come; as nationwide, millions of Americans facing default will be added to the foreclosure rolls. In the housing market recovery, some analyst suggest than many low-moderate income people and persons of color with middle incomes will continue to have difficulties obtaining and maintaining a mortgage even with falling mortgage interest rates.

The outlook for Oklahoma compared to other states across the United States does not appear as dire. Oklahoma continues to rank as one of the nation’s strongest economies. A rise in business services and energy sector jobs has contributed to an unemployment rate below the national average. Currently, both Oklahoma City and Tulsa are in the lowest share of the top 100 metropolitan areas with serious mortgage delinquency (Urban Institute & LISC, 2011).

Additional findings and recommendations are found in the detailed study. The information presented in the study may be utilized by the Oklahoma Asset Building Policy and Practice Initiative, affiliated partners and other interested parties to advance policy and take legislative action for fair and equitable lending enforcement, resource development, constituent collaboration and advocacy on behalf of Oklahoma citizens and particularly low-moderate income communities of color most affected by the ongoing foreclosure crisis.