

**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**

A Research Study

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**Submitted to:
Oklahoma Asset Building Partnership and Practice
(OABPP) Initiative**

October 2011

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ACKNOWLEDGMENTS

The author would like to thank the Center on Race and Wealth at Howard University and the Ford Foundation for their leadership and support of the research. The research assistance provided by Roland Carter, Howard University and especially Heather Wilcox, Jackson State University was invaluable. Finally, special thanks for the feedback and editorial contributions from the Oklahoma Asset-Building Policy and Practice Initiative.

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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

Abstract

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 how 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. Therefore, 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.

INTRODUCTION

Between 2000 and 2005, the housing boom pushed home equity levels to an all time high of \$11 trillion compared to \$7.6 trillion just three years prior to this time period. The homeownership rate among lower income minority households in particular grew substantially due to strong economic growth, low unemployment, low interest rates and a proliferation in subprime lending (Reid, 2010). However, a brief review of American history, viewed through the lens of wealth, reveals a consistent pattern of race-based obstacles that have prevented Native Americans, African Americans, Latinos and Asians from building wealth that is comparable to whites (Lui 2004). As stated by Orfield (2009), "Federal officials did not aggressively pursue lending discrimination during the subprime boom and subprime lending disparities became foreclosure disparities." African Americans and Hispanics were twice as likely to receive high cost home mortgages as whites with similar incomes. These often poorly designed and reckless high-cost loans unnecessarily impeded wealth building in minority communities and triggered the foreclosure crisis that is wiping out the largest source of wealth for minorities (Shapiro, 2010).

Since the housing market peaked in 2006 more than 6.5 million homeowners have lost their homes as a result of foreclosures and there are likely another 4.3 million Americans delinquent by as much as three months on payments. Many of these homeowners will likely add to the nation's foreclosure roles (Schoen, 20011). With this backdrop to America's home mortgage crisis, this study aims to examine the impact of subprime lending on homeownership and foreclosures among Oklahomans in general and specifically people of color and their communities in Tulsa and Oklahoma City. According to the U. S. census, homeownership in Tulsa and Oklahoma City grew to 64.9 percent and 66.8 percent, respectively, between 2000 and 2010. Minority homeownership in Oklahoma City grew from 40,867 homeowners in 2000 to 63,820 in 2010 which represents a 5.5 percent increase over the decade. In 2000, 14.3 percent of all homeowners were minorities in Oklahoma City, and by 2010; 19.8 percent of all homeowners were minorities. In Tulsa, minority homeownership grew from 33,174 in 2000 to 50,465 in 2010. This represents a 4.9 percent increase over the decade. In 2000, 15.4 percent of all homeowners were minorities and by 2010 20.3 percent of all homeowners were minorities. The previous decade, from 1990 to 2000, only showed an increase in minority homeowners of 2.9 percent for Oklahoma and 4 percent for Tulsa.

Other studies suggest that the rise of the subprime lending market allowed more people and especially those with lower incomes, unstable credit, and minority status to acquire home mortgage loans. At issue with this homeownership opportunity is the price to be paid for such access to a loan. According to Shapiro (2010), "The segmentation of the mortgage lending market highlights a general trend in lending in which low income people and consumers of color pay more for accessing credit. In these communities where credit is not easily accessible, the deregulated market brought about a proliferation of high-cost lending, including securitized subprime and predatory loans and payday lending operations. With greater numbers of families

struggling with ever-growing debt that does not compare to their income or savings many low-income and minority households turn to costly lending products because they have no other options." Therefore, for many Americans, the achievement of homeownership has become a short-lived dream due to defaults and eventual foreclosure.

LITERATURE REVIEW

Social and Economic Benefits of Homeownership

The accomplishment of purchasing one's own home continues to be a goal for many Americans. Even with the recent housing crisis in this country, homeownership is still a viable means for individuals and families to accumulate wealth. Homeownership carries with it numerous social and economic benefits that might not be known to the average homebuyer. The desire to own a home may also suggest psycho-social underpinnings as well. For example, in a study of Boston public housing residents, Vale (1998) explains how residents viewed homeownership. According to Vale:

"These residents share the deeply entrenched desire to own a home. Their interest in homeownership was high and it varied independently of education level and current employment status. Eighty-seven percent of those with jobs favored homeownership and so did eighty-three percent of those whose incomes relied on public assistance payments."

The literature suggests that there is a strong desire for homeownership among individuals who are employed as well as those on government assistance. The lack of education does not lessen the desire of individuals to become homeowners (Scanlon, 1999). Accordingly, Gilderbloom and Appelbaum assert (1998):

"The *stigma* of being a renter seems to be a major force for the strong desire of homeownership. Economics, the opportunity to build equity over time and thereby realize significant appreciation is another reason that is cited for wanting to purchase a home. Beyond economic considerations, there are important individual and social advantages to owning a home. The home furnishes symbolic evidence of social status; it encourages private pursuit of one's activities; it permits one to make independent decisions about one's property; and it fosters identification with one's own home."

Other studies find the perceived economic security helps explain the universal desire for homeownership. Assets like a home are associated with higher levels of social status in the home and the greater community. Homeownership is more than merely shelter, but a whole complex of results, and outputs which include comfort, social satisfaction, economic well-being, security and perhaps political stability

(Marcuse, 1972). When an individual owns a home, there are other benefits that accrue to that individual such as the appreciable value of their home, tax deductions, property rights and equity in ownership (Gobar, 2009). A home can provide families with leverage to borrow during emergencies by accessing home equity lines of credit (McKernan and Ratcliffe, 2008). Home equity is an important component of wealth and represents a large proportion of the wealth of homeowners of color (CFED, 2008). The greater weight of home equity in portfolios of people of color partially relates to the fact that white homeowners are more likely than people of color to have significant holdings in other assets and white families also have both significantly higher rates of homeownership and home equity of greater value than racial and ethnic minorities (Leigh and Wheatley, 2010). Some studies point to a relation between asset holding and lower levels of marital violence. Assets, suggests Cheng (1995), also seem to reduce vulnerability to poverty for children in white and African-American, female-headed households. She asserts the evidence regarding positive effects of homeownership for children is particularly convincing.

Zahn and Sherraden (2003) found that low-income single mothers' homeownership was positively related to their children's grade point average (GPA). Aaronson (2000) examined the impact of homeownership on children's educational attainment and found that children were more likely to graduate from high school if they lived in households where parents were home owners. Homeownership has been associated with greater life satisfaction and higher self-esteem by family members (Rohe and Basolo, 1997; Rossi and Weber, 1996). Studies addressing the relationship between parental assets and children's well-being show positive effects on self-esteem among adolescents and adult children (Henretta 1984). The literature suggest that children in families who own their homes reach higher educational levels and are less likely to face teen pregnancy probably because homeownership increases residential stability (Lerman and McKernan, 2008).

Studies suggest that the likelihood of wealth accumulation through homeownership is highly correlated with loan terms and housing tenure (Boehm and Schlottmann 2004; Shlay 2006; Turner and Luea 2009). Therefore, emphasis should be on promoting opportunities for building assets and eliminating structures that limit such opportunities i.e., financial obstacles and lack of information about the homebuying process and discrimination against minority families (Santiago and Galster 2004; Grinstein- Weiss, et al. 2008).

About the Home Mortgage Disclosure Act

In 1975, Congress enacted the Home Mortgage Disclosure Act (HMDA) which requires a majority of mortgage lenders located in metropolitan areas to collect data about their housing related lending activity; report the data annually to the government; and make the data available to the public.

Home Mortgage Disclosure Data initially reported the geographic location of originated and purchased home loans. Subsequently, in 1989 Congress expanded

HMDA data reporting to include information about home loan application denials and borrower characteristics such as race, ethnicity, income and sex. Home Mortgage Disclosure Act data include information about home purchase, home improvement loans, refinancing, loan originations, application denials and incomplete or withdrawn applications. Applications also provide the name of the mortgage lender, the purpose of the loan, property location, type of loan, such as, conventional or government-backed, 1-4 owner properties, first or second lien mortgages and the disposition of the loan application. Lenders also report the census tract location and the sale of the loan, if it was sold.

The Federal Reserve Board is authorized by Congress to write rules to carry out HMDA. The Federal Reserve Board's rules relative to HMDA data are known as Regulation "C" (12 CFR Part 203). In 2002, the Federal Reserve Board amended the regulation to include price data for some loans. The most recent change to the data reporting requirement was made in 2008. The rules related to pricing data now reflect whether or not a loan is classified as higher priced starting with applications taken on or after October 1, 2009. HMDA requires lenders to report loan price information in the form of a "rate spread." Lenders must report the spread between the annual percentage rate (APR) on a loan and the rate on a Treasury security of comparable maturity (Jourdain-Earl, 2006). The requirement to report the HMDA spread is for the purpose of distinguishing subprime rate loans from prime rate loans. The reporting of spread data became increasingly important because over the last decade the higher-priced mortgage market expansion allowed some potential home buyers greater access to home mortgage credit. The growth of the higher-priced mortgage market raised concerns that home buyers lacked the information needed to negotiate the best terms and may have been susceptible to deceptive or unfair lending practices. Additionally, the wider range of price in the higher-priced market suggests that price differences may reflect unlawful discrimination rather than legitimate risk and cost-related factors (Souphala, 2006).

While HMDA data are to date the most complete data source to analyze home mortgage lending patterns, across multiple variables, it does have some limitations. For example, borrower credit information which may be a factor in the level of credit risk and eventual foreclosure for some borrowers is not available. Home Mortgage Disclosure Data do not show how loans are sourced by lenders, i.e. independent mortgage brokers or retail loan officer employed by a lender. HMDA data do not contain information on loan terms such as interest-only loans, prepayment penalties, or adjustable rate mortgages (ARM) or foreclosure information. These data limitations may warrant further amendments to the HMDA reporting requirements to address the comprehensiveness of the dataset.

With the lack of credit risk information this limits one's ability to determine whether higher price loans, for example, are due to the borrower's credit situation based on some other factors the lender has assessed in making a lending decision. Subprime mortgage lending provides credit to borrowers with past credit problems, often at a higher cost or less favorable terms than loans available in the conventional

prime market. In most cases, these lenders offer credit to borrowers who would not qualify for a loan in the prime market, thus expanding access to credit and helping more families to own their own homes. The higher costs of these loans may serve to offset the increased risk that these lenders assume in lending to these borrowers (HUD Subprime Lending Report, 2000). Without useful detailed data on this topic, however, it is difficult to determine if the applicant's credit score (or other factors) were a factor in the issuance of higher priced subprime loans.

Prime Rate Loans and Subprime Loans

The prime rate is determined by the Federal Reserve Board and is subject to change at any time. Many banks set their interest rate for loans based on the prime rate. The interest rate the loan is set at is determined by the current prime rate that is published. The prime rate is typically the lowest loan rate offered by a bank. However, only those consumers with the best credit generally qualify for these loans. Prime loans may be connected to the prime rate on a fixed basis or on an adjustable basis. The loan terms will specify how often the rate could change if it is adjustable.

Subprime loans have increased the homeownership opportunities for many families. More than half of those added to the homeownership roles in the U.S. in the last decade have been minorities. Subprime loans are frequently offered at an interest rate higher than the prime rate to individuals who are not able to qualify for a prime rate loan due to factors which include credit-worthiness, income level, and asset portfolio. According to the Federal Reserve Board (2004), subprime lending has been the fastest growing segment of the U. S. mortgage industry. The subprime market is supposed to provide loans to individuals with impaired or limited credit histories. However, there is evidence that many individuals who receive subprime home mortgages could have qualified for a prime loan but are instead guided towards a subprime loan (Jourdain-Earl, 2009). There are other features of many subprime loans that make it likely that the borrower will not successfully repay these loans. For example, adjustable rates, ballooning payments, and prepayment penalties where the loan cannot be paid off early should the consumer desire to do so are common features of many subprime loans.

Subprime loans are expensive for the borrower. Many times these loans are made to individuals who are unable to access other funds and may have limited understanding of the loan repayment structure. In 2006, African Americans and Hispanic borrowers were more than 3 and 2.6 times as likely as white borrowers, respectively, to receive a high-cost home loan (Avery, Brevoort, and Canner, 2007). Subprime loans tend to have higher default rates than prime rate loans. Many individual's homes go into foreclosure not just because of lower incomes but because of the structure and features of many subprime loans, such as hidden fees and ballooning payments, which makes them impossible for the borrower to pay them back. Additionally, low down payments were not an important cause of the foreclosure crisis according to Jim Carr, Chief Business Officer at the National Community Reinvestment

Coalition. “The biggest causes were poor underwriting and overuse of very risky loan types including adjustable rate loans for which underwriting was based on low “teaser” rates.”

Research conducted by the Center for Responsible Lending also suggests one in five subprime loans result in foreclosure at more than eight times the rate of mortgages in the prime market. Subprime loan features such as prepayment penalties and balloon payments contribute to this problem (CFED, 2010).

Current Regulations/Proposed Rules/Enforcement Laws

The use of HMDA is important to evaluate lender compliance with anti-discrimination laws and other consumer protection laws. These laws include the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA) which prohibit discrimination in home mortgage lending on the basis of race, sex, national origin, and age under the provisions of the Equal Credit Opportunity Act.

In 1977, Congress passed the Community Reinvestment Act (CRA) which requires banks and lenders to help meet the credit needs of communities where they operate. The Act was intended to discourage redlining and assist families in achieving homeownership (Pierce and Tan, 2007). It was passed in response to evidence of persistent redlining of communities of color. Redlining is the practice of arbitrarily denying financial services to specific neighborhoods comprised of low-income people or people of color. The CRA mandates federal oversight of federally regulated banks’ lending patterns and authorizes federal regulators to hold up mergers and expansions if they do not extend access to mortgages in low and moderate-income census tracts. As Bowyer (2008) states, “It has been suggested that the CRA was not behind the increases in subprime lending that contributed to the recent mortgage meltdown in the U.S. Rather nonbank institutions not covered by CRA were responsible for a majority of the increases in subprime lending.” Thomas and Giangreco (2011) argue a distrust of mainstream financial institutions, and the limited presences of the institutions in communities of color have caused families to turn to alternative financial services for their banking needs. Loans with alternative service providers do not count towards credit building and individuals without a banking relationship face barriers in accessing financial services for homeownership.

The U.S. Congress also passed the Secure and Fair Enforcement (SAFE) for Mortgage Licensing Act of 2008. The law is designed to enhance consumer protection and reduce fraud by setting minimum standards for the licensing and registration of state-licensed mortgage lending. States were required to adopt legislation consistent with this Federal Law. Therefore, Senate Bill 1062 enacted May 2009 established the SAFE Act for Oklahoma. Also, at the State level, H.B. 1689, created the Predatory Lending Prevention Act of 2009.

For homeowners who are in the military, the Service Members Civil Relief Act prohibits the foreclosure sale of the home of an active duty service person or one who

recently returned from active duty without a highly specific court order. Additionally, at the time of this writing, at the federal level a proposed rule to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act is being examined. It is a financial services reform law that requires mortgage lenders to retain some risk in the loans they originate, rather than selling off 100% of the loans and all of the risk, essentially leaving them with no stake in making a quality loan. However, mortgage lenders can avoid this requirement for a specific type of loan called the Qualified Residential Mortgage (QRM) according to Andre Shashaty (2011). Shashaty further suggest that the proposed rule states that a QRM must have a down payment of at least 20%. That and other restrictions on who can get a QRM will make homeownership more difficult or unlikely for a large segment of the population.

The Dodd-Frank Wall Street Financial Reform and Consumer Protection Act of 2010 also created a new agency, the Consumer Financial Protection Bureau (CFPB). The CFPB will examine markets for consumer financial products and services for mortgage loans, choices among credit cards, and other services. The agency is responsible for the following deliverables: provide financial education; supervise banks, credit unions, and financial companies and enforce federal consumer financial laws; and gather and analyze information to better understand consumers, financial services providers, and consumer financial markets

METHODOLOGY

Home Mortgage Disclosure Act (HMDA) data were used to assess home mortgage lending activity in Oklahoma. Specifically, the units of analysis for this study were the MSAs of Tulsa and Oklahoma City, Oklahoma. A HMDA data analysis tool developed by Compliance Tech was used to assist researchers in the navigation of the HMDA data. The data gathered analyzes the lending patterns of all HMDA reporting lenders by race, income, and census tracts. Data collected from 2004-2009 were examined to determine the amount of subprime loans provided during this time period. The data were stratified on various dimensions and analyzed to show the year-to-year percentage of change in the following ways:

- 1) The growth or decline in the number of subprime loans by applicant income:
The HMDA Data Analysis tool tabulated the amount of mortgage loans in all of the MSAs' census tracts annually between 2004-2009. The data provides the applicant income, and determines the rates in which applicants were receiving subprime loans. This analysis also includes the average spread of each MSA. Lenders are required to report rate spread for loans where the spread exceeds three percentage points for 1st-lein loans. The study demonstrates how the spread percentage changed between the years of 2004-2009. The data illustrate the percentage of change annually in the number of subprime loan. Data was collected for Oklahoma City and Tulsa City. After the data collection, both MSA's were compared and analyzed. Similarities or

differences in lending patterns between 2004 -2009 give insight into the home mortgage lending patterns.

2) Racial disparities in the *origination rates* of subprime loans:

Using all of the MSAs' census tracts, the population was segmented by race. By coding each census tract by its share of minority population, the differences among origination rates for each census tract was analyzed. This process was continued for the years 2004-2009. This analysis revealed any disparities between the rates in which minorities were receiving subprime loans compared to the white population. The information was collected for all census tracts in each MSA for comparative purposes.

3) Racial disparities in the denial *rates* of subprime loans;

By using the HMDA data analysis tool, denial rates for each census tract were generated. Determinations relative to discrepancies between the census tracts with large percentages of minorities versus those census tracts with low percentages of minorities were made. Findings were delineated per year and the rates of change for denials determined for each MSA. Overall findings of each MSA were compared.

4) Racial disparities in the denial *reasons* for subprime loans;*

The Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) require reasons for loan denial when submitting Loan Application Registers (LARs). All other regulators allow institutions the option of reporting reasons. Using the Federal Financial Institutions Examination Council (FFIEC) data, researchers could make generalizations about the reasons for denial in each census tract. Additionally, by using demographic information gathered in the previous study questions, determinations about the common denial reasons for each minority group were drawn. *Information about denial reasons was not collected before 2006. Therefore, only denial reasons for the years between 2006 through 2009 are presented.

5) Foreclosure rates by minority census tracts;

Foreclosure rates are the rates at which foreclosures are added to the housing market annually. Using data from Realtytrac and the Center for Responsible Lending, foreclosure rates were determined for all census tracts in each MSA. All tracts were broken down by the percentage of minorities. Foreclosure rates for census tracts with 0-10 percent minorities were determined. Foreclosure rates for census tracts with 50-60 percent minorities were determined and foreclosure rates for census tracts with 90-100 percent minorities were also determined. A comparative analysis was conducted to determine any differences in the rates of foreclosures based on the percentage of minorities in the census tracts.

By using the U.S. Census Bureau data profiles, the study also shows the changes in homeownership rates from 2000 to 2010. Researchers attempted to break down the rates of change annually from 2004-2007; however the Census does not delineate homeownership rates annually. Therefore, a comparison of the rates from 2000 and 2010 was made to determine how homeownership rates changed in each MSA over time. It can be assumed that much of the change was associated with the proliferation in home mortgage lending activity during the ten year time period.

Only home mortgage records for first-lien, conventional, 1-4 unit owner properties were included in this analysis. The data were analyzed using the 594 census tracts comprising both MSAs. In Tulsa, there are 264 census tracts and in Oklahoma City, there are 330 census tracts.

As there is not an official, nationwide publicly available census of completed foreclosures, the methodology for foreclosure rates in this study were derived primarily from government and industry data compiled by the Center for Responsible Lending, Realtytrac and the Planning Departments for Tulsa and Oklahoma City. The study used HMDA data for the period 2004-2009 to explore home mortgage lending activity in Tulsa and Oklahoma City.

While Home Mortgage Disclosure Act (HMDA) applications provide information such as the income, race, and ethnicity of the borrower, it does not include information about the educational attainment of the borrower; therefore, 2010 census data for the selected MSAs were used for descriptive purposes.

DATA ANALYSIS

The overall lending practice in the MSAs of Oklahoma City and Tulsa are comparable. The first part of this analysis gives a general overview of what the lending practices were during the study period. The HMDA analysis data tool was used to determine the total number of loans that were originated for the years between 2004 and 2009. Origination refers to the loan applications that resulted in an actual loan. The figures and charts in this study show an increase in the number of subprime loans between 2005 and 2006. Figures 1 and 2 show the total of all loans including subprime loans that were extended annually.

According to the HMDA data, the largest amount of subprime lending occurred between 2005 and 2006 in both Tulsa and Oklahoma City. The total number of subprime loans peaked in 2006 and since then has declined through 2009. In Oklahoma City, the peak for subprime loans totaled 13,621 in 2005. In 2009, that number had decreased to 3,574. In Tulsa a similar trend was observed. The total number of subprime loans peaked at 10,298 in 2006. However, in 2009 the total number of subprime loans was 2,657. The data are illustrated in Figures 1 and 2 on the following page.

Figure 1.

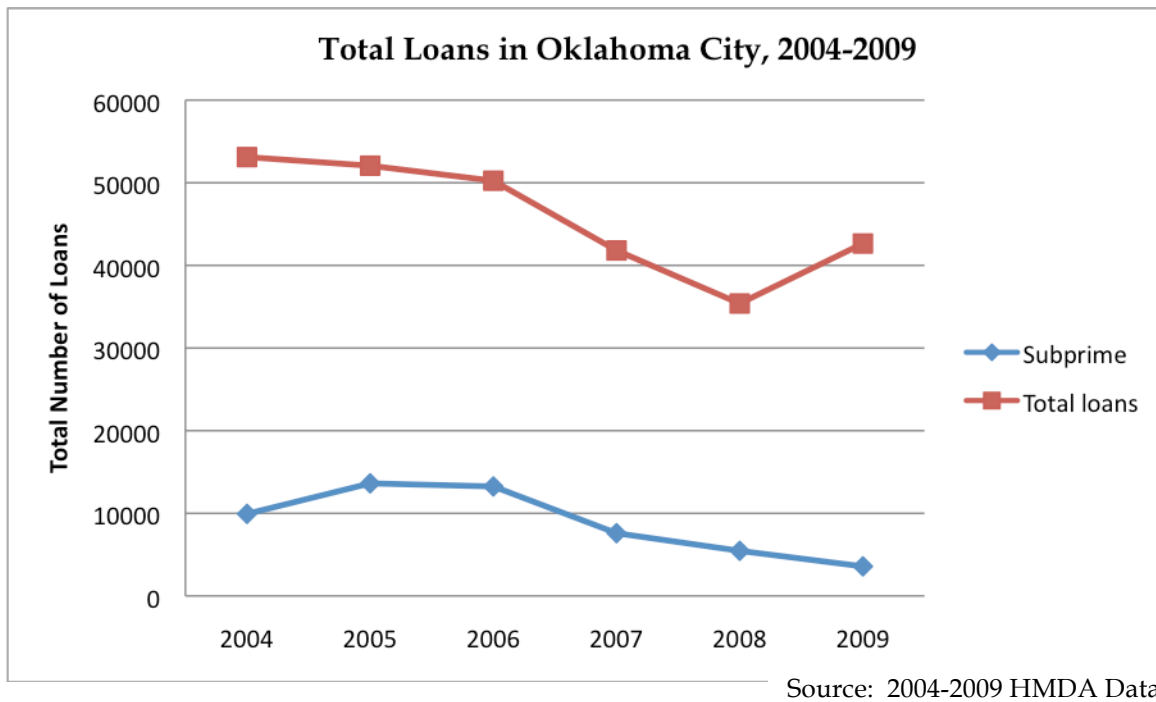
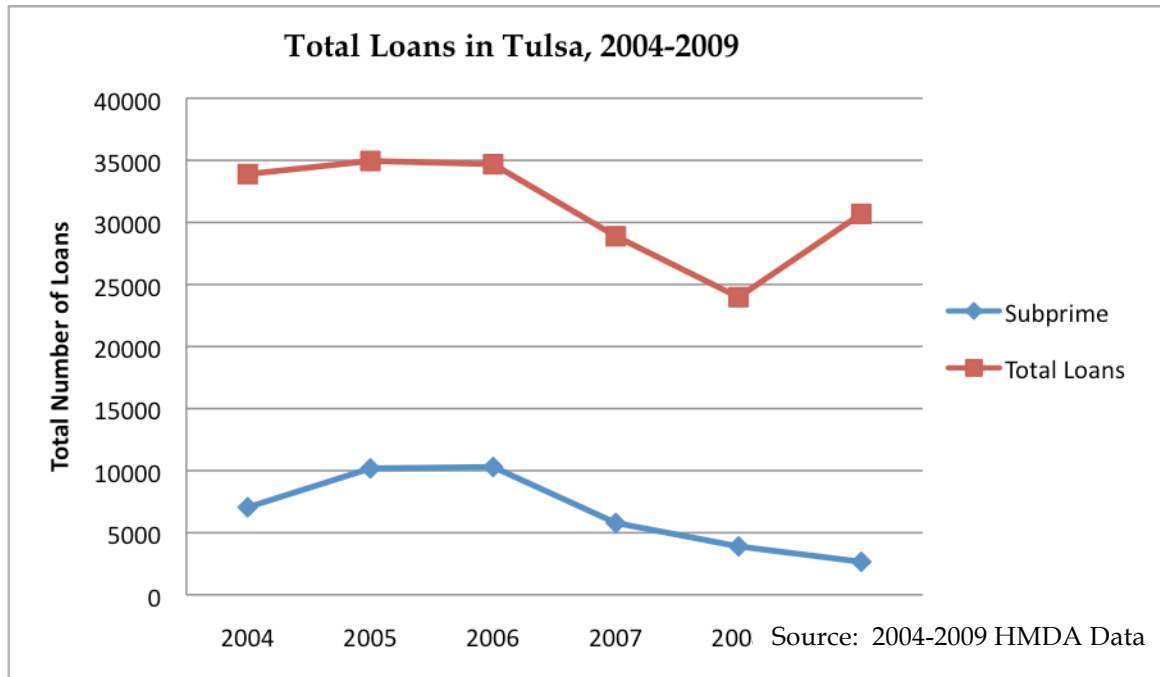


Figure 2.



Figures 3 and 4 further illustrate the subprime loan activity between 2005 and 2006. In both MSAs there were significant increases in the percentages of subprime lending. In Oklahoma City, the percentage of subprime loans peaked at 26.37% in 2006. Since then the numbers have decreased dramatically as in 2009 only 8.38% of all loans were subprime. This trend is the same in Tulsa, where the largest percentages of subprime loans were extended in 2005 and 2006. Subprime lending peaked in 2006, where 30.56% of all loans were subprime. As of 2009, only 8.66% of all loans were subprime. The percentage of subprime loans in both MSAs is significantly lower in 2009 when compared to the 2004 rates.

Figure 3.

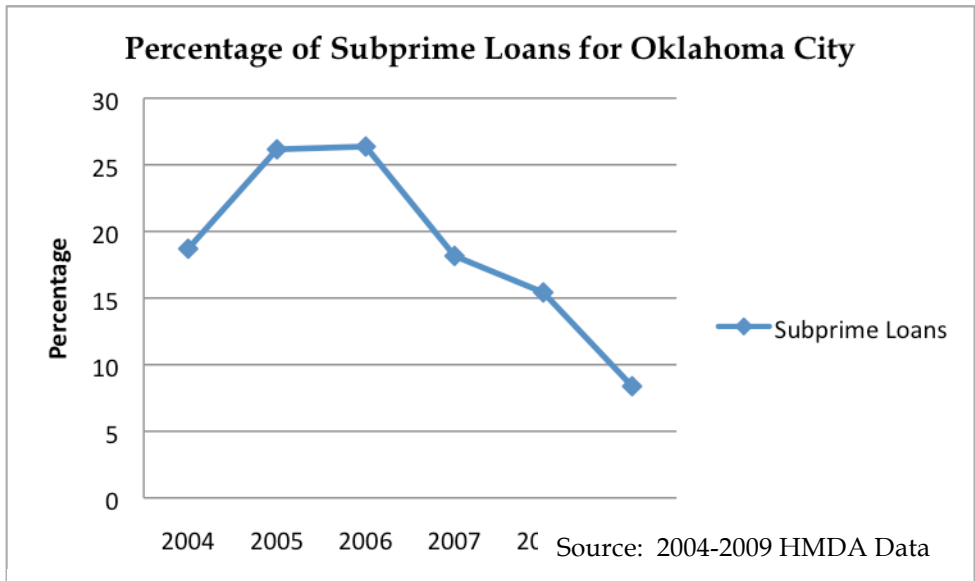
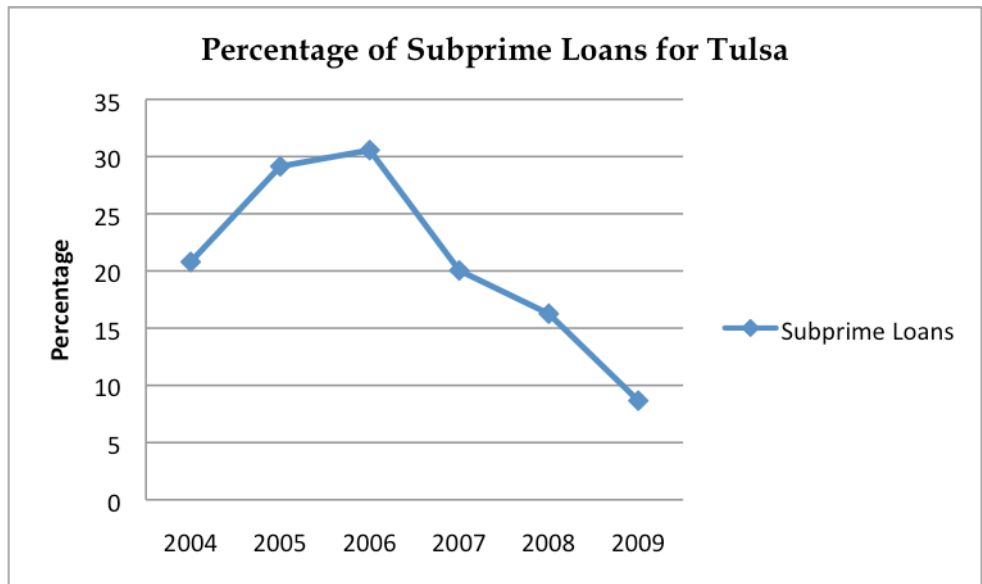


Figure 4.



Source: 2004-2009 HMDA Data

The study data suggests that the housing market collapse was not only a result of the number of subprime loans, but also the rates at which these loans were made. Figures 5 and 6 show the average spread of subprime loans between 2004 and 2009.

Lenders are required to report rate spread for loans where the spread exceeds 3 percentage points for 1st-lien loans. The rate of spread is important because it distinguishes between prime rate and subprime loans. In both MSAs, the spread amount peaked in 2005 and 2006. The study data suggests that during this time period the largest amount of subprime loans were being made with the highest spread rates. The combination of large amounts of subprime loans and the worst average spread was a recipe for defaults and eventual foreclosures.

Both MSA's average spread peaked in 2006 at 5 percentage points. In 2005 and 2006 subprime lending was at an all time high and these loans had the worst rates during this time period. Since the housing market foreclosure crisis, Oklahoma City's average spread is lower in 2009 than it was in 2004. Tulsa's average spread has increased slightly however from 4.36 in 2004 to 4.43 in 2009.

Figure 5.

Source: 2004-2009 HMDA Data

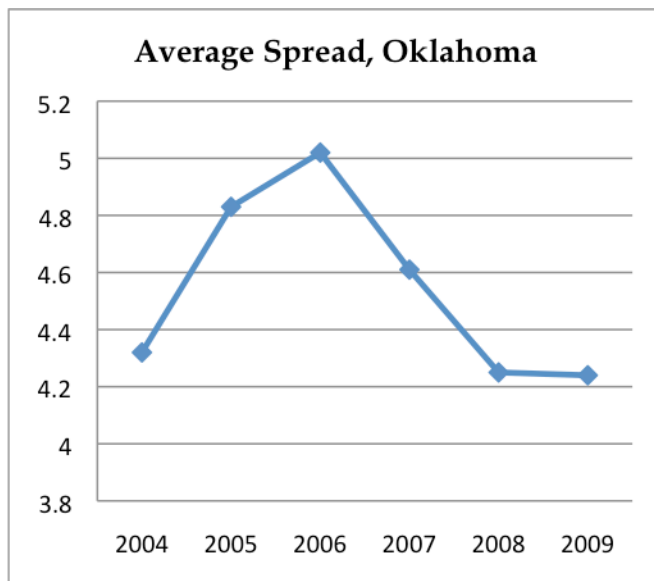
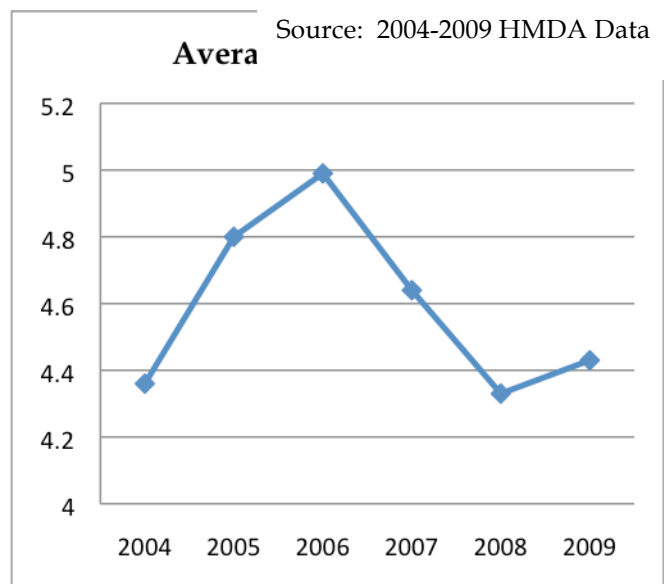


Figure 6.

Source: 2004-2009 HMDA Data

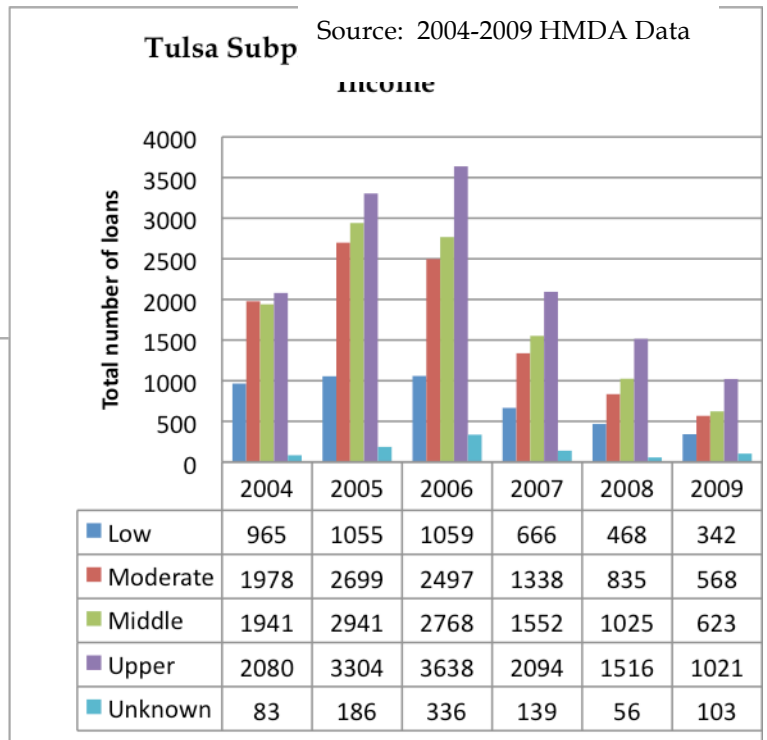
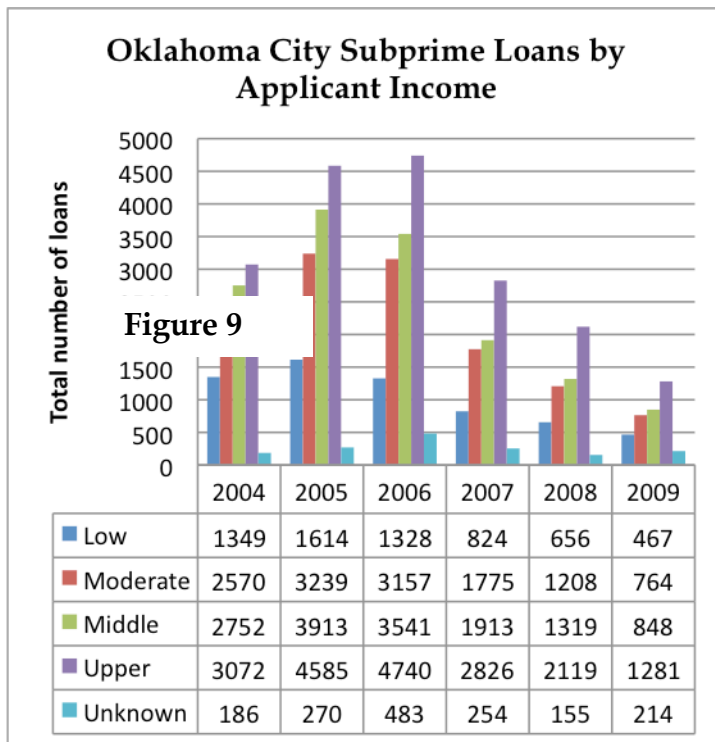


The following charts delineate the number of subprime loans per year by applicant income. HMDA data shows that every year the majority of subprime loans were made to people in the middle and upper income levels. This study suggests that people with middle and upper incomes may have been able to qualify for prime loans, but were given subprime loans. On average for both MSAs, 12 percent of all subprime loans were made to low income applicants; 23 percent of all subprime loans were made to moderate income applicants; 25.5 percent of all subprime loans were made to middle

income applicants; 33.5 percent of all subprime loans were to upper income applicants, and; 3.28 percent of subprime loans were made to applicants with unknown incomes. The trend of lending more subprime loans to middle and upper income applicants has been consistent between the years 2004 and 2009. Although the amount of subprime loans has decreased significantly in 2009, the incomes of these borrowers are relatively unchanged. Therefore, in 2009 the largest percentage of subprime loans was extended to middle and upper income applicants. Since we did not have credit scores or other financial variables for the applicants, we could not control for this variable.

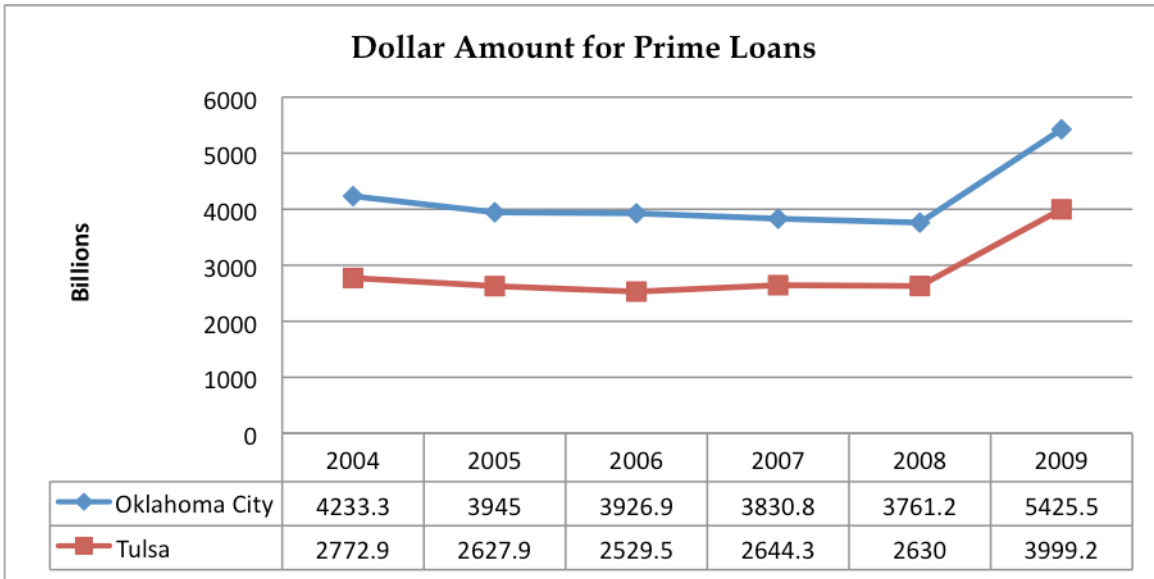
Source: 2004-2009 HMDA Data

Figures 9 and 10 below represent the variance in lending patterns for



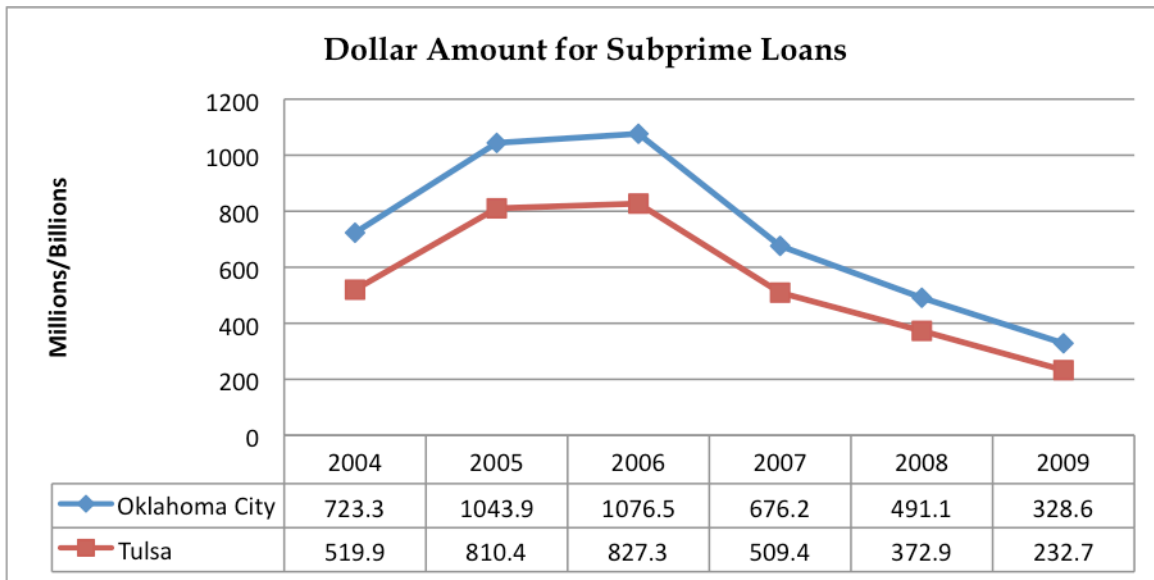
subprime loans vs. prime loans. Calculations of the dollar amount attached to prime loans and subprime loans were made for the specified years. The dollar amounts have similar trends in both MSAs. Prime lending between the years of 2004 and 2008 has been consistent. Only in 2009 did the dollar

amount begin to increase for prime loans. Prime loan amounts average approximately 4 billion dollars a year in Oklahoma City and 3 billion dollars in Tulsa. The dollar amount has remained relatively the same from 2004 through 2009.



Source: 2004-2009 HMDA Data

Figure 10



Source: 2004-2009 HMDA Data

In terms of subprime lending there was a proliferation between 2005 and 2006. From 2004 to 2005 the dollar amount for subprime loans increased by over 300 million dollars in one year for each MSA. The dollar amount for subprime loans continued to increase in 2006. The subprime lending industry in Oklahoma appeared to be a very lucrative market like much of the nation.

After the housing market crashed, dollar amounts for subprime loans plummeted in 2007. In Oklahoma City, the dollar amount for subprime lending decreased by 400 million. In Tulsa, the decrease amounted to 317.9 million. Since 2007

the amount of subprime loans has continued to decrease by 100's of millions of dollars annually. Both MSAs show there are significantly lower amounts of subprime lending occurring since 2009 to present day.

The data seems to suggest that the mortgage meltdown was related to increased subprime lending patterns between 2005 and 2006 and the dollar amounts being allocated for these types of loans. From 2004-2009 lending patterns for prime loans were consistent across the span of five years, with a slight peak in 2009. The prime loans lending patterns are drastically different from subprime loans during the same period of time. There were dramatic increases in the amount of subprime loans being allocated in the years of 2005 and 2006. In 2007, there was a dramatic decrease in the number of subprime loans. Figures 9 and 10 show the stark differences in lending patterns for prime and subprime loans. Our study suggests that the mortgage collapse is directly associated with subprime prime lending practices because of the dramatic increases in these types of loans. In comparison to prime lending, the mortgage meltdown cannot be directly related to these lending practices because prime loans have stayed the same over the past five years. By calculating the difference in prime loans and subprime loans, our study indicates that subprime lending practices were exacerbated in 2005 and 2006. Due to these risky lending patterns and subsequent defaults and foreclosures, subprime lending has declined significantly since 2007.

The study compares the dollar amounts associated with prime loans and subprime loans. The analysis suggests the meltdown had a correlation to subprime loans due to the 300 million dollar increases in 2005 and the 400 million dollar decrease in 2007. The amounts of subprime loans varied depending on the year. However, prime loan amounts have been consistent over the years. Therefore, it can be concluded that the mortgage meltdown was not directly correlated to prime lending because there was not a proliferation in prime lending between 2004 and 2008 in either MSA.

According to Jourdain-Earl (2006), "Popular media myths and erroneous assumptions about subprime rate loans are continuously presented as if subprime rate lending was predominately in the domain of minorities and low-income borrowers." The perception that minority populations received large quantities of subprime loans is misleading and is not supported by our data in the case of Oklahoma MSAs. Subprime lending occurred more frequently with the white population, but because of the population proportions, it could be argued that minorities received a disproportionate share of such loans given their percentage of the overall population. While the housing bubble burst was a major factor in the decline for all households, African Americans, Hispanics and other minorities have proportionally more of their assets tied up in

housing than white households, therefore they suffer more from the decline (Simms, 2011).

According to 2010 Census Data, Oklahoma City had a population of 1,252,987. When the total population is broken down by racial groups, 69 percent are white, 10.1 percent black, 4 percent American Indian, 2 percent Asian, 3 percent other, 3 percent had multiple races, and 8 percent were of Hispanic origin. In Tulsa, the 2010 Census data indicates a population of 937,478. The population is 71 percent white, 8 percent black, 8 percent Native American, 2 percent Asian, 4.2 percent other, 3 percent were multiple races, and 7 percent are of Hispanic origin. The charts below represent the number of subprime loans by borrower's race between 2004 and 2009.

Figure 11

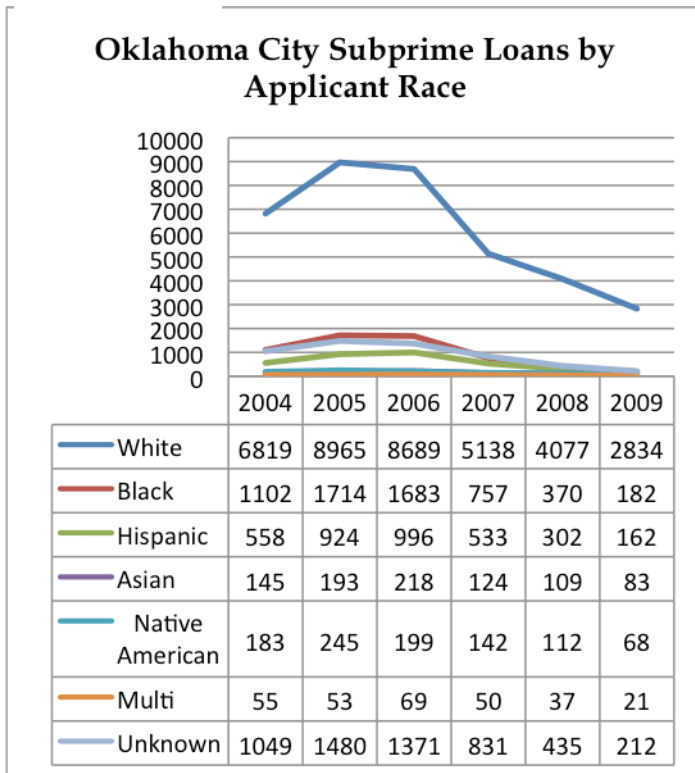
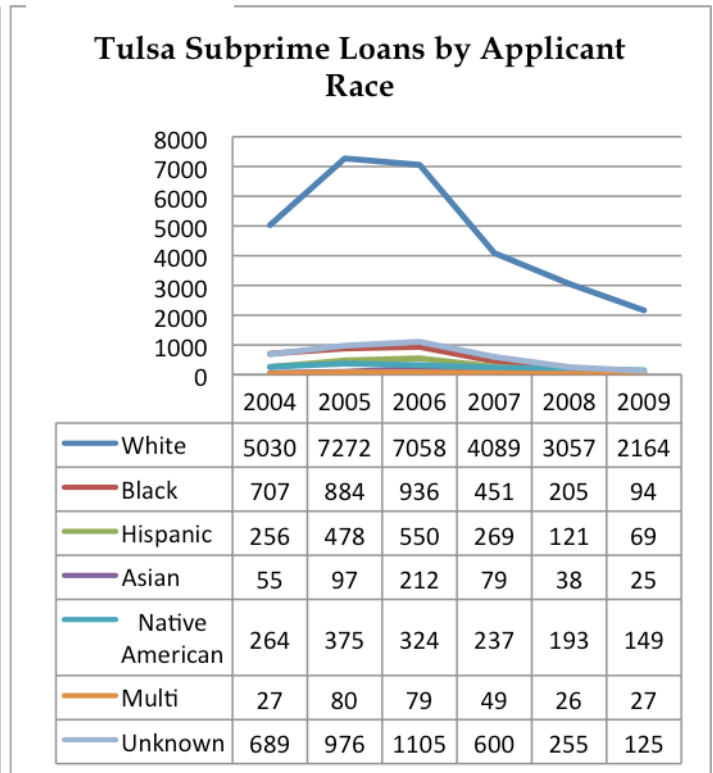


Figure 12



Source: 2004-2009 HMDA Data. In subprime lending between 2004 and 2009, all racial groups. Subprime loan activity increased by 2,146 loans from 2004 to 2005 among white borrowers. In 2007, there were dramatic decreases in subprime lending due to the housing market crash. In 2009, subprime lending for Oklahoma City had decreased by nearly 4,000 loans for the white population.

The following illustrations are the average percentage of subprime lending from 2004 to 2009. The percentage for each applicant's race was determined by dividing the subprime loans per racial group by the total amount of subprime loans. For example, in 2004 there were a total of 7,047 subprime loans; of that amount 5,030 were made to

white applicants. This represents 71 percent of all the subprime loans for that year. On average, 79% of all subprime loans were made to white home mortgage applicants.

Figure 13.

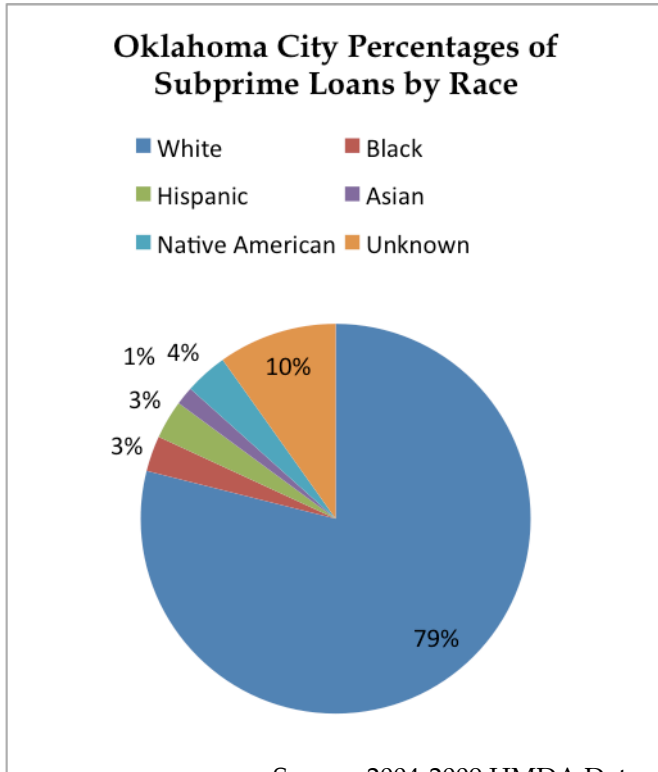
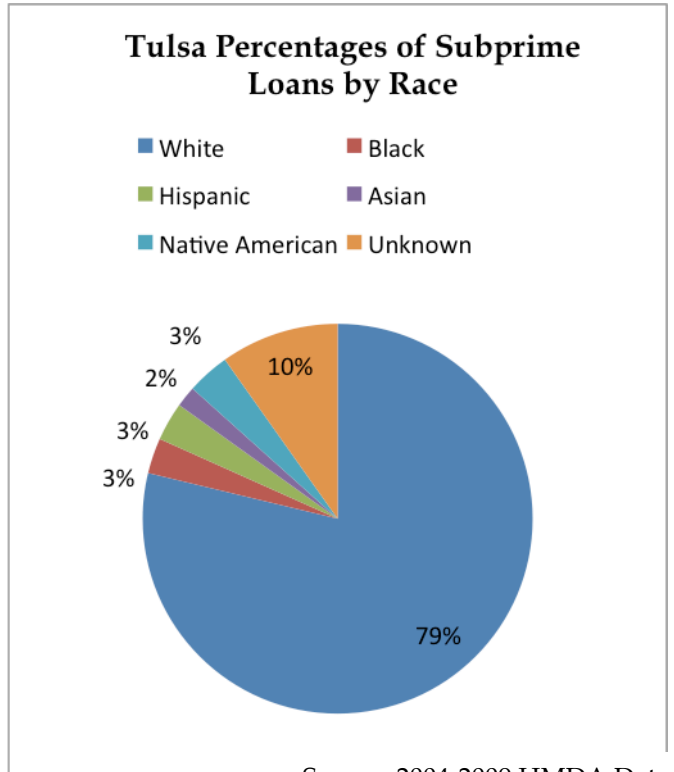


Figure 14.



Lending patterns by race are very similar in both MSAs. On the macro-level there does not appear to be racial disparities when it comes to subprime lending in Tulsa or Oklahoma City. The percentage of subprime loans by racial groups is consistent with the demographics of each MSA. The total number of subprime loans broken down by racial groups shows similar lending patterns for the specific time period. The majority of these loans were extended to the racial majority. The popular perception that minorities received a majority of subprime loans was not supported by our data in Oklahoma MSAs. What the study findings suggest, however, is that subprime lending is more concentrated in communities of color in both MSAs, as will be discussed in the next sections.

The study does find disparities in origination rates on a micro-level. This disparity occurs within each lending institution. Each lender has its own lending practices and policies. Currently, in Oklahoma City there are over 700 lending institutions. An examination of each lender’s practices and comparing them among lenders should yield beneficial information for asset-building practitioners and

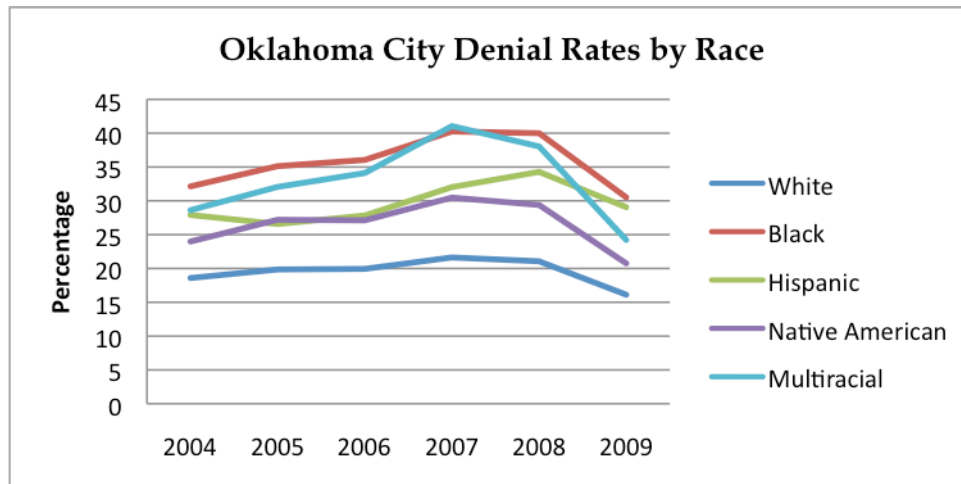
policymakers. Therefore such an analysis could be conducted in an expanded research study.

This study does reveal the lenders with the highest Origination Disparity Index (ODI). The ODI is a function of the origination rate. It is a ratio of the white applicant origination rate divided by a minority groups' origination rate. It is a measure of the likelihood of a minority application being originated relative to the likelihood of a White application being originated. For example, if 85 percent of White applications result in a loan while 72% of Hispanic applications result in a loan, then the Hispanic ODI is $85\%/72\%$ or 1.18 times more likely to be originated than Hispanic applicants. These indices serve as a useful indicator of potential lending disparities. It is best to consider them as a sign that further investigation is warranted. It is also worth noting that the indices are most valuable when used to compare one lender's performance against another similarly situated lender, i.e. same size, similar underwriting standards or a group of similarly situated lenders.

The lenders with the highest ODIs in Tulsa were Embrace Home Loans at 4.79; Citicorp Trust BankFSB at 2.00; and JP Morgan Chase Bank at 1.44 according to 2009 HMDA data. These lenders approved mortgage loans for white applicants four times greater than minority applicants. In Oklahoma City, the lenders with the highest ODIs were Beneficial Company LLC at 3.65; Midfirst Bank at 1.65; and Oklahoma Employees Credit Union at 1.49. The ODIs give some indication of how race affects approval status for home loans on a micro-level. Further research is needed to be conducted to assess racial disparities among individual lenders. As lending patterns vary among lender this may result in some disparities among racial groups based on the lenders practices.

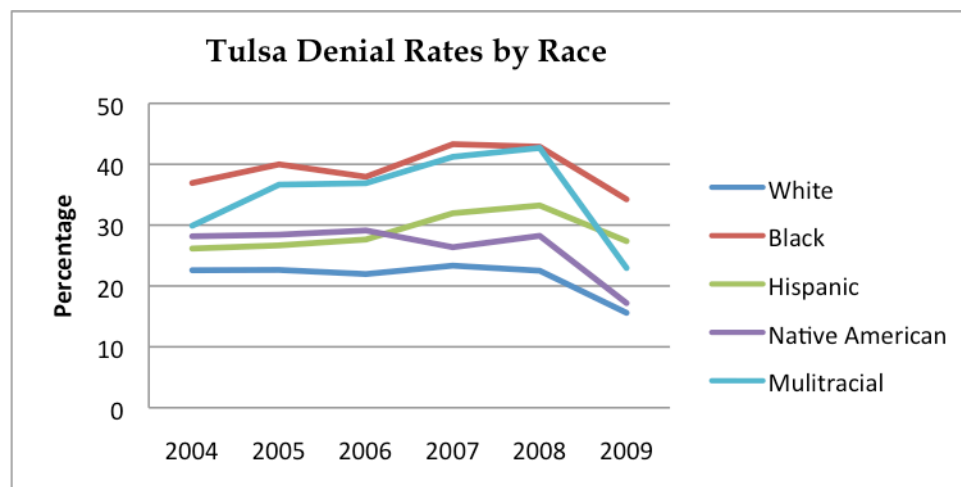
Study Questions 1 and 2 specifically examined the applications that resulted in a loan. These questions did not address other variables such as denials, incomplete applications, or withdrawn loan applications. Therefore, the subsequent question provides a better understanding about the mortgage loan application process and denial rates. For example, in 2006, Oklahoma City had a total of 114,753 applications for mortgage loans, but only 50,245 resulted in a home loan. The remaining 60,000 applications were denied or incomplete. An analysis of the total number of denials by race and income was performed to determine any disparities. The figures below represent the percentage of denials for the years 2004 to 2009. Tulsa and Oklahoma City have similar trends.

Figure 15.



Source: 2004-2009 HMDA Data

Figure 16.



Source: 2004-2009 HMDA Data

In both MSAs there are significant variances in denial rates among racial groups. Figures 15 and 16 indicate that over the six year period, white applicants were denied at lower rates than any other racial group. In 2004, of all the white applicants applying for home loans in Oklahoma City, 18.59 percent were denied, while African American applicants were denied at a rate of 32.14 percent. This trend continued to increase through 2009 between these two races. White applicants were denied 16.12 percent of the time, while African American applicants were denied 30.51 percent of the time. The denial rates for minorities are consistently much higher than those of white applicants. After the housing crisis occurred in late 2006, the denial rates for all races increased in 2007. But the increases of denial rates were not the same for each race. In 2007, white applicants were denied 21.63 percent of the time, which is an increase of 1.69 percent

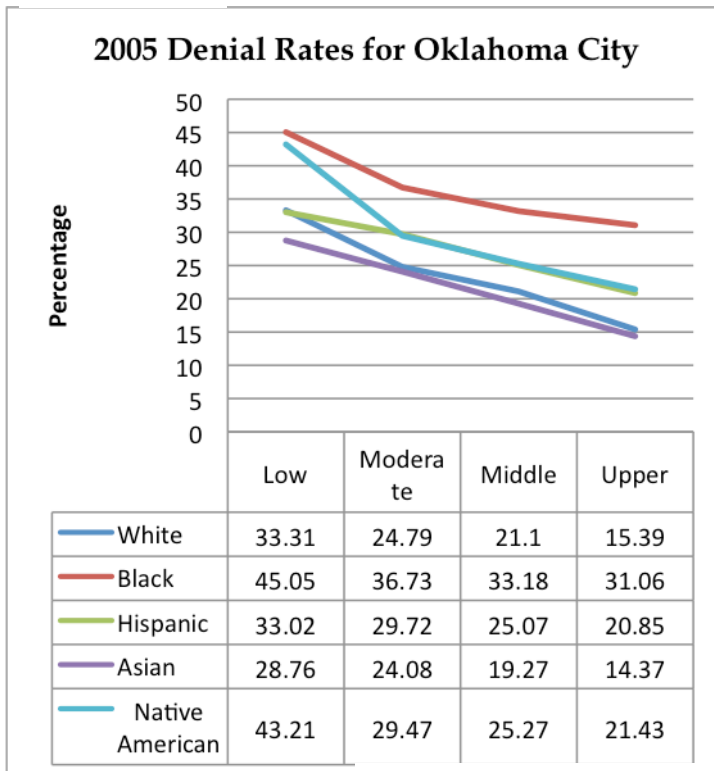
from the previous year. In 2006, African American applicants were being denied 36.05 percent of the time, while in 2007 rates increased to 40.26 percent. For the African American applicant applying for a home mortgage loan in 2007 the denial rate increased 4.21 percent in one year.

The denial rates are important to observe because it shows how these loans are granted in various markets. Study Questions 1 and 2 indicate that of the loans originated, the applicants' demographic characteristics were similar for each MSA. However, upon closer examination of the denial rates in these MSAs, the data suggests there are disparities among races. Denial rates for minorities were always higher than those of white applicants, during the years 2004 to 2009. After the housing crisis in 2006, the denial rates increased significantly for minorities, while white applicants' denial rates showed a 1 percent increase. What this data suggests is that minority mortgage loan borrowers are denied more frequently than the white borrowers. Similarly for Tulsa, in 2004, white applicants were being denied at a rate of 22.59 percent, while black applicants were denied 36.92 percent. After 2006, denial rates increased by 3 percent for white applicants, while the increase for African Americans was 6 percent. In 2009, denial rates among all races decreased but there were still disparities among races. African American applicants were denied at a rate of 34.24 percent; whites were denied 15.59 percent; Hispanics were denied 27.37 percent; and Native Americans were denied at a rate of 17.19 percent.

Figures 17 and 18 represent the percentage of mortgage loan borrowers denied by race and income. The previous graphs showed disparities between races not controlling for the applicant's income, credit scores, etc. But once the applicant's income was factored in and analyzed, the data suggest that all minority groups, except Asian borrowers, were denied home loans at higher rates than white applicants with the same or comparable income. In 2005, upper income white applicants were denied loans at a rate of 15.39 percent while African American applicants with upper incomes were denied 31.06 percent of the time in Oklahoma City. Native American applicants with incomes in the highest bracket were still denied more frequently than whites. Their denial rate was 21.43 percent. This data suggests that an applicant's race may carry a greater weight than income in denying a home mortgage loan. When low income racial groups were compared among one another, Asian applicants fared better than any other race when applying for home loans. Specifically, Asian applicants with low incomes were denied 28.76 percent of the time, while Native Americans with the same income were denied at a rate of 43.21 percent. It is noteworthy that among all low income minorities, African American applicants had the highest rate of denial at 45.05

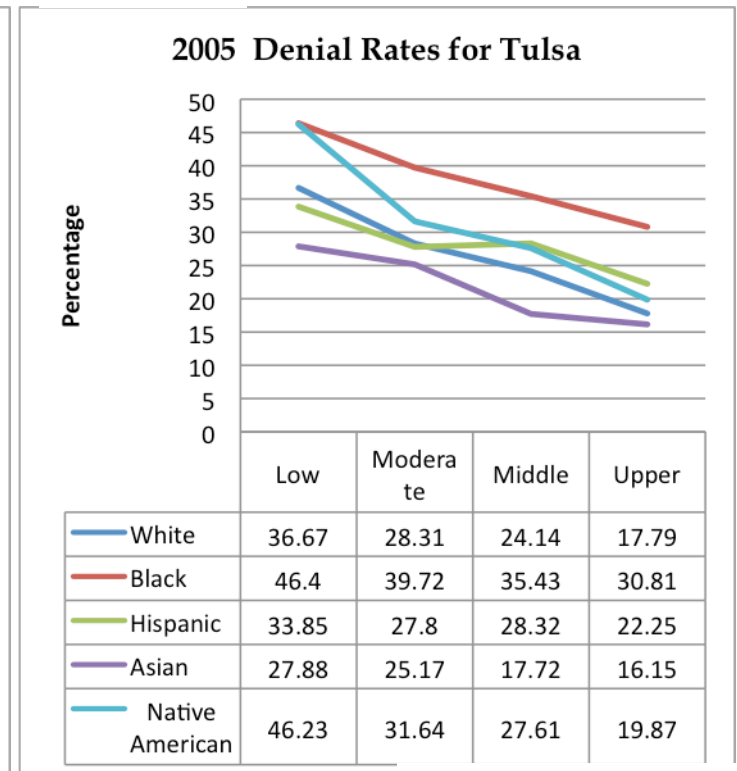
percent. We did not have information on the credit score or other financial variables for the applicants so we could not control for this variable.

Figure 17.



Source: 2005 HMDA Data

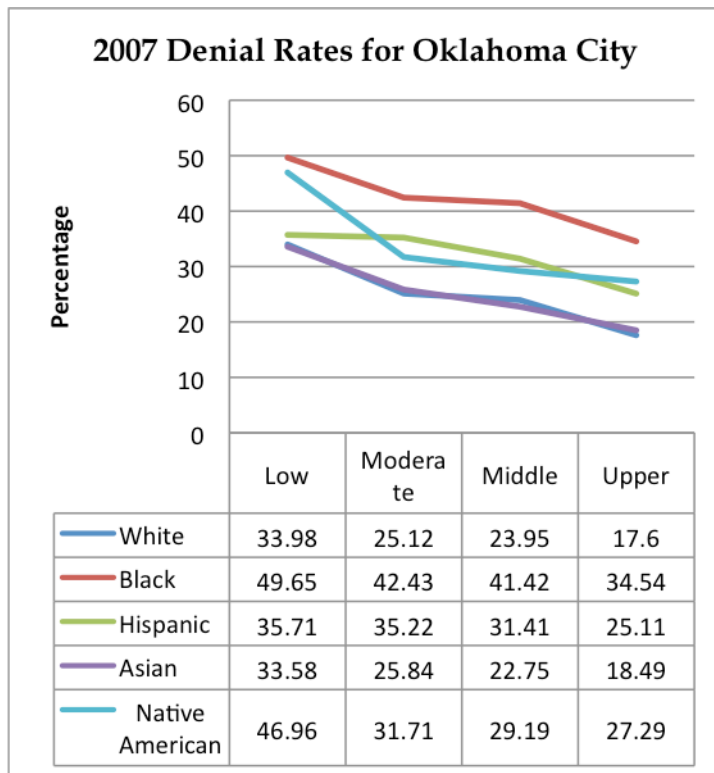
Figure 18.



Source: 2005 HMDA Data

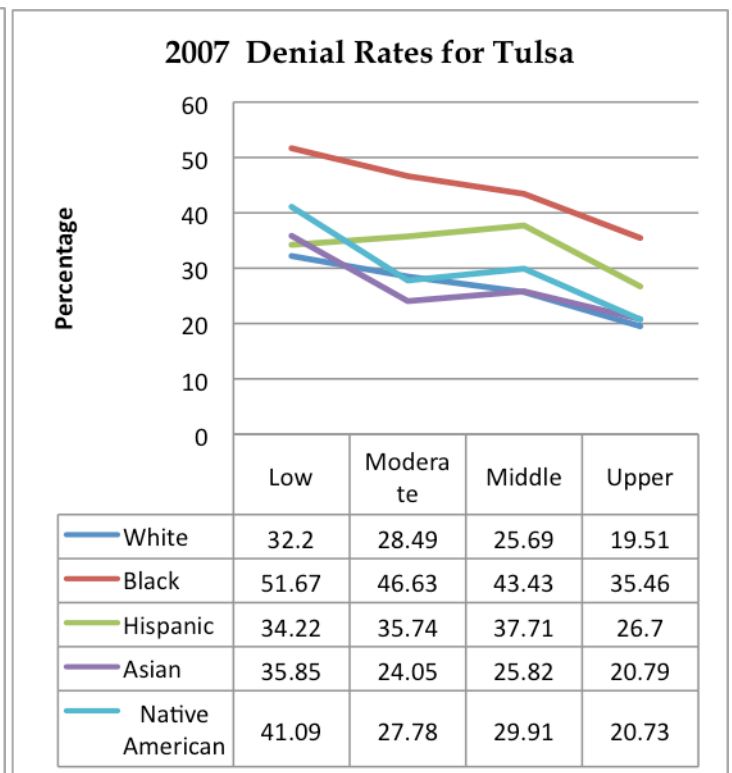
Figures 19 and 20 delineate the 2007 denial rates by income and race for Oklahoma City. Similar disparities exist among the African American, Hispanic, and Native American borrowers, while Asian and White applicants have the same denial rates. Again, it is observed that African American applicants have the highest denial rates of all the races and all income brackets. Hispanics in the lower income bracket were denied 35.71 percent; Native Americans had a 46.96 percent denial rate. Upper income white applicants were denied 17.6 percent while African American applicants were denied 34.54 percent of the time.

Figure 19.



Source: 2007 HMDA Data

Figure 20.



Source: 2007 HMDA Data

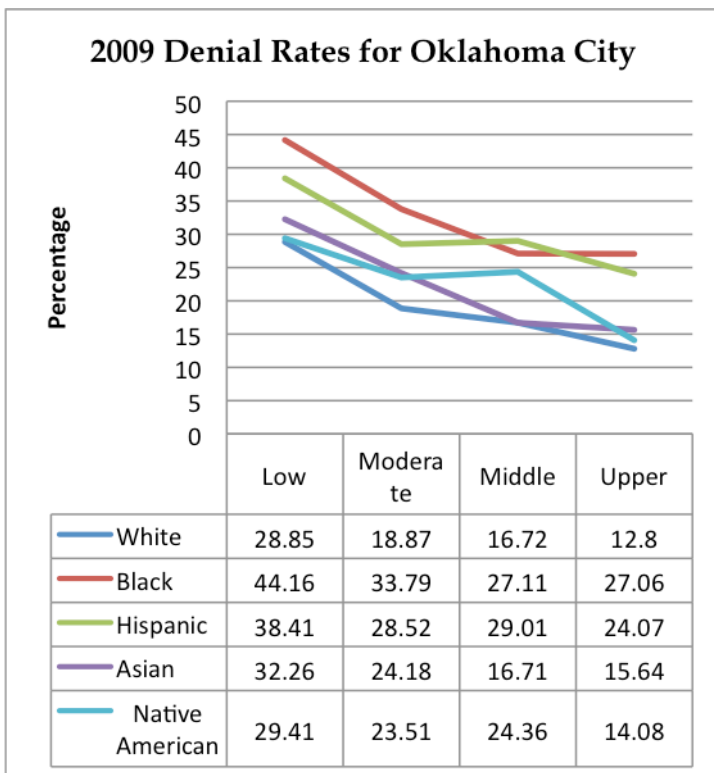
Figures 21 and 22 show the denial trends in both MSAs for 2009. The data suggests that in 2009 there continued to be disparities between races when applying for home loans. The disparities are illuminated in the application process. The denial rates are by income and race. What the data shows is that people in the same income bracket were denied more frequently if they were a part of a racial minority group. Over the six year period between 2004 and 2009 the disparities in mortgage loan denials among races have not improved.

During the home loan application process, a loan may be approved (originated) or denied. The previous two of our research questions looked specifically at the loans that were originated. The analysis of originated loans found no disparities between race or income brackets in terms of subprime and prime lending. However, study Question 3 suggests that in the process of applying for a home loan, disparities among races do exist. The data further suggest that all minority borrowers, excluding Asians, were denied home loans at higher rates than white applicants. The data suggests that factors other than the borrower's income determine denials. For example, between 2004

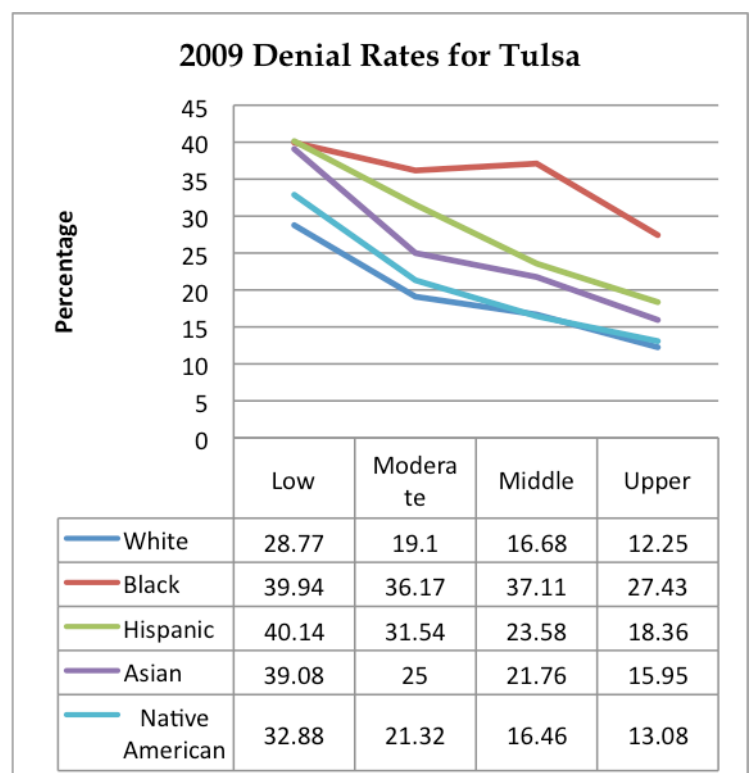
and 2009 minority applicants in the upper income brackets were denied more frequently than white applicants in the same income bracket. As illustrated in the figures below, the largest disparity was between white and African American borrowers. In 2009, upper income white applicants were denied 12.8 percent of the time, while African American applicants within the same income bracket were denied 27.06 percent of the time. We did not have the credit score or other financial information for the applicants so we could not control for such variables.

Figure 21.

Figure 22.



Source: 2009 HMDA Data



Source: 2009 HMDA Data

Question 4 explores the reasons for home mortgage loan denials. This study question underscores the need for more information about prospective mortgage borrowers in the HMDA data collection reporting requirements. This is due to the current lack of data collected for denial reasons during the application process. The Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) require reasons for denial when submitting Loan Application Registers (LARs). All other regulators allow institutions the option of reporting denial reasons. Prior to 2006 denial reasons were not reported by lenders; therefore, such information was not

Figure 23.

captured in the HMDA data. Therefore, only reasons for denials between 2006 and 2009 are indicated in this study.

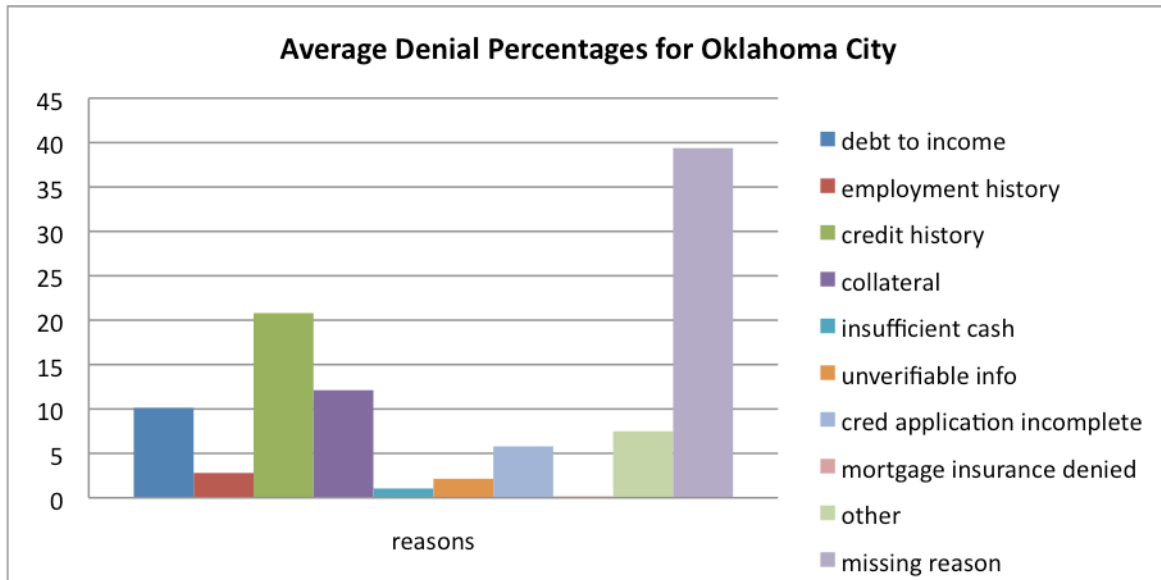
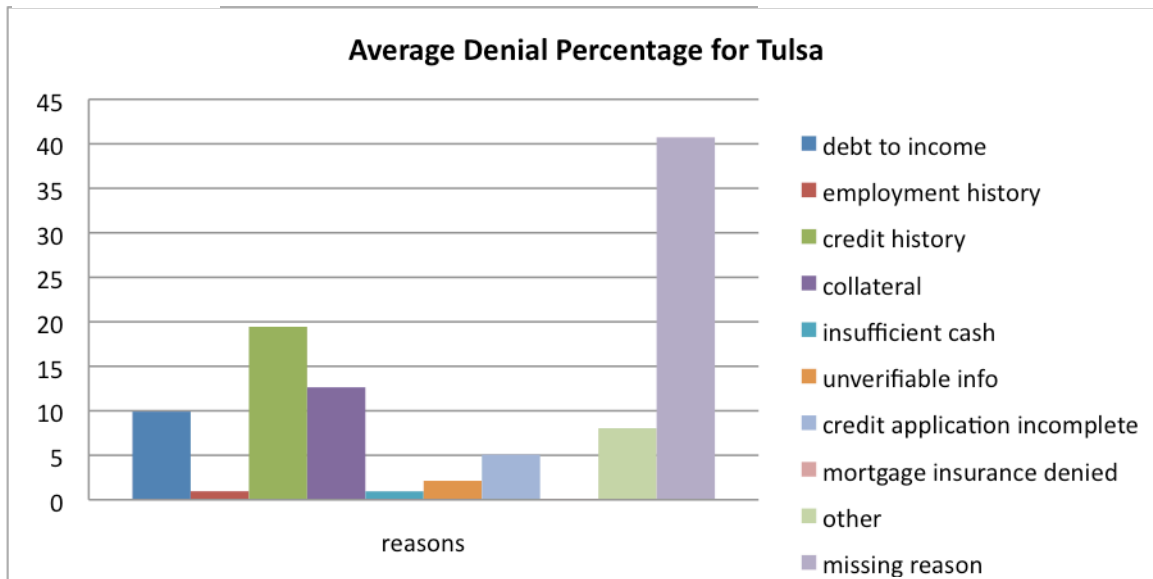


Figure 24.

Source: 2006-2009 HMDA Data



Source: 2006-2009 HMDA Data

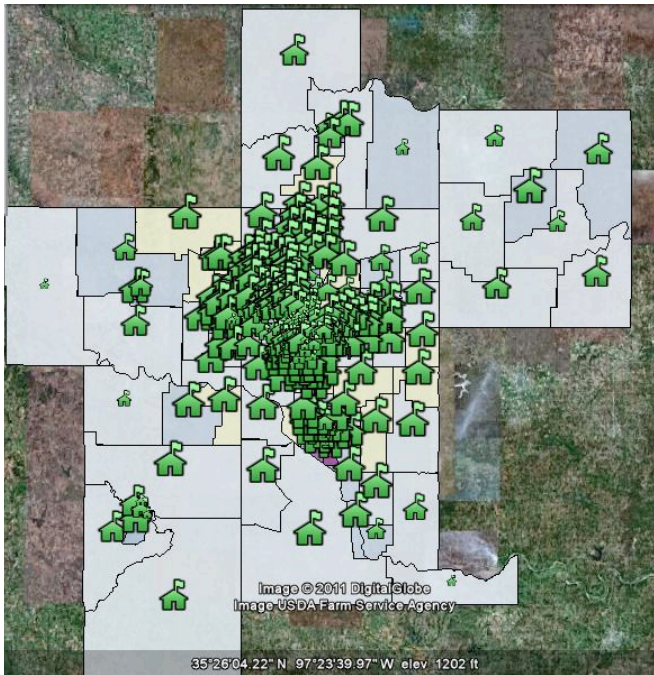
In both MSAs, a substantial amount of inform reasons. Lenders that are not with OCC and OTS do not have to report denial reasons. In both MSAs the reasons for a majority of denials were not disclosed; as indicated, more than 40 percent of the denials in both MSAs have no denial reason listed. The borrower’s credit history was the second most prevalent reason for denials after the “missing” reason for denial. Credit history represented approximately 20 percent of all denials. Collateral was the next largest percentage for denial reasons at 12 percent of all denials followed by debt to income ratio representing 10 percent of all denials.

Information about denial reasons could be helpful for prospective mortgage loan borrowers when navigating the loan application process. The data collected in Question 3 revealed disparities between races in mortgage lending. The data suggests that minorities were denied more frequently than white borrowers. African Americans were denied more frequently than any other race. Question 4 attempted to determine the reasons for these denials, but with a large amount of missing data (40 percent of all denials not reporting denial reasons); there is definitely a need for further research in this area. If an applicant is knowledgeable about his or her denial reasons, the borrower is then better equipped to take the necessary steps to rectify any deficiencies when applying for a mortgage loan. Unfortunately, to date, many lenders still are not required to report denial reasons.

Foreclosure Rates

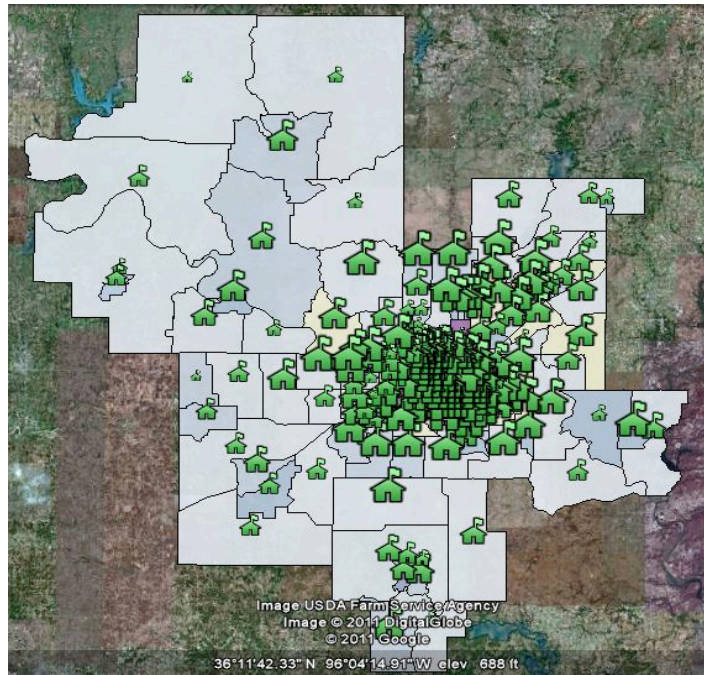
The following maps represent the number of home mortgage loans in each MSA according to the 2009 HMDA data. In both cities, there were large concentrations of lending in the central part of each MSA. Since there were higher concentrations of subprime loans in central cities, individuals located there who also were predominately people of color, were disproportionately affected by foreclosure rates. Foreclosure rates are the rates at which foreclosures are added to the housing market. Our research data shows that communities with large percentages of minorities have higher foreclosure rates than other census tracts with lower minority populations. Foreclosure rates for each census tract were determined using the HMDA data tool. The census tracts were grouped together based on their percentage of minority populations. The average foreclosure rate was determined for census tracts with low percentages of minorities, middle percentages of minorities, and high percentages of minorities. Our research finds that census tracts with high percentages of minorities also have higher foreclosure rates. Although the majority of subprime loans were extended to white populations, the rates in which those loans go into foreclosure are higher in minority populated areas. This can be attributed to the central location of subprime loans. Maps 1 & 2 show many of the subprime loans were concentrated in the central location of both MSAs. This is also where many of the minority populations are located. Thus foreclosure rates are higher in these areas compared to foreclosure rates of those located on the periphery of the city.

Map-1. Oklahoma City Mortgage Dispersion



Source: Oklahoma City Google Map, HMDA 2009

Map-2. Tulsa Mortgage Dispersion

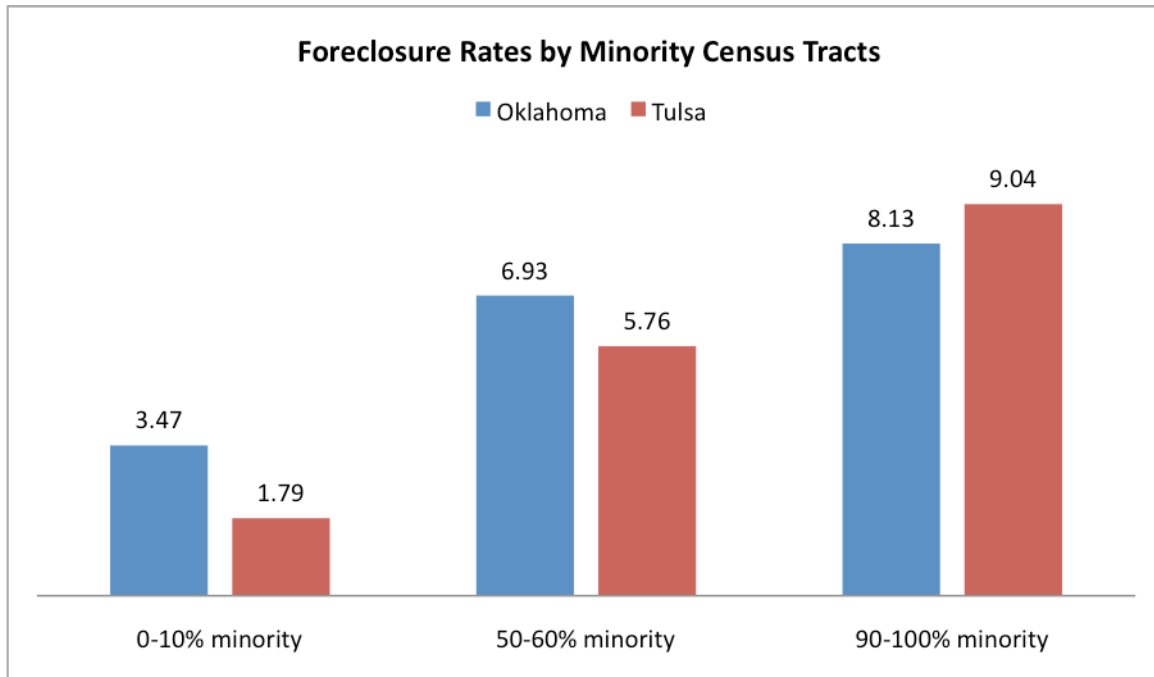


Source: Tulsa Google Map, HMDA 2009

The foreclosure rates are similar for both MSA's. In Oklahoma City, foreclosure rates for predominantly white communities were 3.47 percent. In Tulsa, the foreclosure rates for these communities were lower, averaging foreclosure rates at 1.79 percent. As the census tracts increase their minority populations, the foreclosure rates also increase. Census tracts with 50-60 percent minority populations have a 6.93 percent and 5.76 percent foreclosure rates in Oklahoma City and Tulsa respectively.

In Oklahoma City, the foreclosure rates were higher in communities with lower percentages of minority populations, than in Tulsa. But in census tracts with 90-100 percent minority groups, Tulsa's average foreclosure rates exceed Oklahoma's foreclosure rates. In Tulsa, a census tract with 90-100 percent minority the foreclosure rate was 9.04 percent and in Oklahoma City it was 8.13 percent. Oklahoma City has a larger population than Tulsa, but foreclosure rates in minority communities are higher in Tulsa than in Oklahoma City.

Figure 25

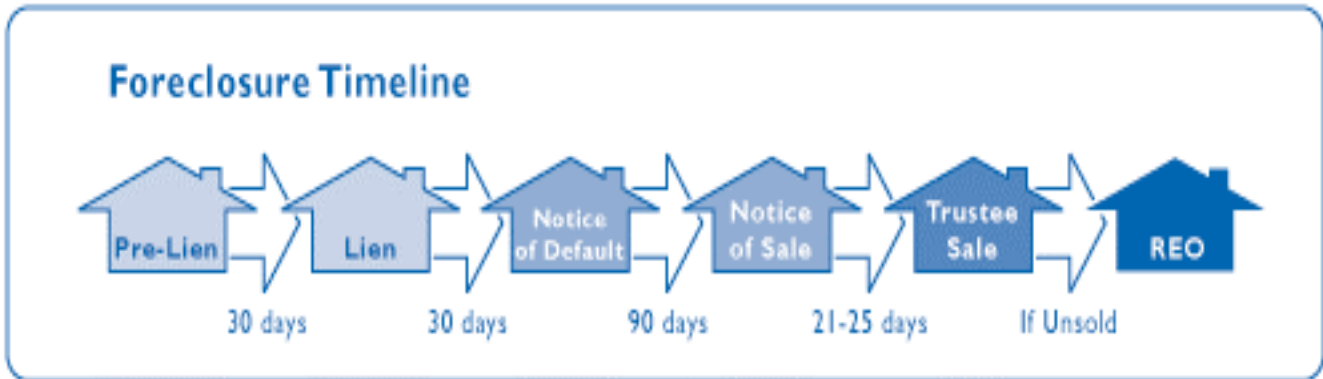


Source: 2010-2011 Realtytrac

Even with the data collected it is difficult to calculate an absolute figure for the number of housing units in foreclosure. Steve Rhodes with the Oklahoma City Planning Department states, "the process for foreclosing is long and tedious. This process can take up six months and longer." Research conducted by the city revolves around houses that are bank owned. Rhodes states, "this does not represent the true number of houses in foreclosure, because it does not account for vacant homes or properties subject to Sheriff sale and available data indicates that there are nearly 900 bank owned homes in the Oklahoma City area with a potential of 400 additional homes going to the Sheriff sale (final phase of foreclosure) each month."

The findings related to foreclosure rates in this study are low estimates of houses in foreclosure. However, the foreclosure rates do indicate that minority census tracts have higher rates of foreclosure than other census tracts with lower concentrations of minorities. Based on the research, foreclosure rates probably are higher due to the long process of foreclosing on a home. The following diagram illustrates the foreclosure timeline.

Figure 26- Foreclosure Process Timeline

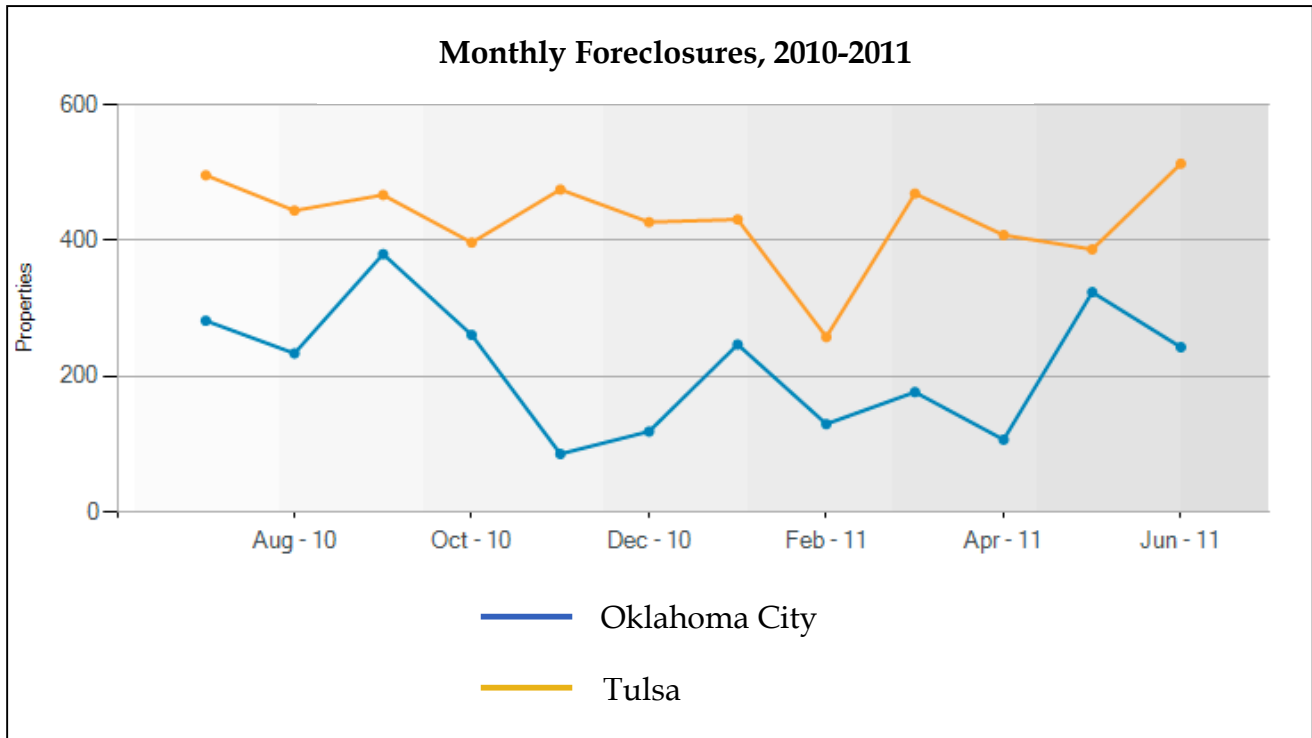


Source: 2011 Realtytrac

Currently, four years after the mortgage meltdown, Oklahoma is still experiencing high foreclosure rates. According to Realtytrac, one in every 842 housing units will go into foreclosure this year alone. From August 2010 to June 2011, there were over 21,000 homes that were foreclosed in the entire State. In June 2011, there were a total of 1,959 new foreclosed properties in Oklahoma. Of that number, 1,576 were located in the MSA's of Tulsa and Oklahoma City which represents 80% of all foreclosed properties which is to be expected given that a large amount of the state's population is concentrated in these areas. The largest number of foreclosures is in Tulsa County with 794 new foreclosed properties in 2011. This represents 1 in every 336 housing units in foreclosure.

Figure 27, which appears on the following page, shows the monthly foreclosed properties for Tulsa and Oklahoma City in 2010 and 2011. For the past year, Tulsa has exceeded Oklahoma in foreclosures although Oklahoma City is a larger metropolitan area.

Figure 27

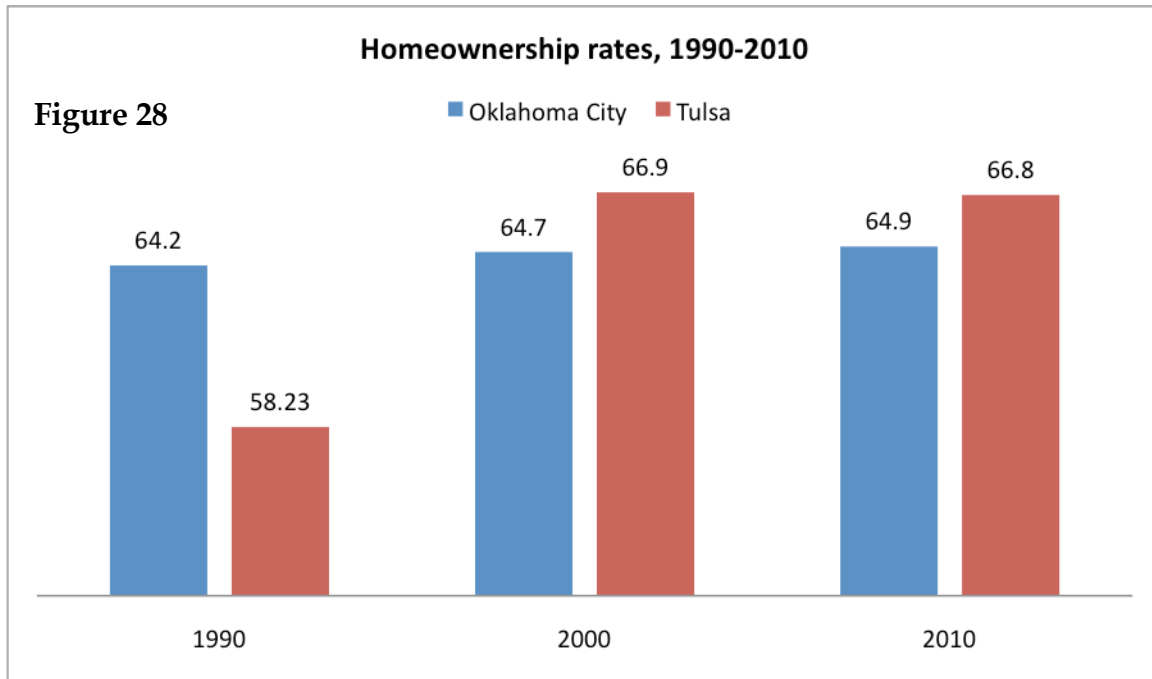


Source: 2010-2011 Realtytrac.com

The subprime lending patterns experienced during the peak period of 2005 and 2006 continue to have devastating impacts on the housing market in 2011. Oklahoma continues to have high percentages of foreclosed properties. Many homeowners have lost their homes and it is projected that many more will lose their homes. It is difficult to predict how the housing crisis will directly affect homeownership rates for Oklahoma long term. The 2010 Census data indicates homeownership rates have increased since 2000, but the study indicates that more homes will go in to foreclosure in the coming years. These foreclosures will directly affect homeownership rates. The research suggests that homeownership rates will fall below the current homeownership rates by 2020 if property owners continue to default on loans at current rates.

Our study compared decennial homeownership rates between 2000 and 2010. The 2010 census data showed homeownership rates in Oklahoma City were 64.9 percent. This number is slightly lower for the 2000 Census Data. In 2000, Oklahoma City's homeownership rate was 64.7 percent. This is an increase of 0.2 percent in homeownership rates from 2000 to 2010. The 2010, census data showed homeownership rates in Tulsa were 66.8 percent and 66.9 percent in 2000. This is a loss of 0.1 percent in homeownership rates. These numbers do not reflect the same changes in population rates for either MSA. In Oklahoma City, there was a population increase

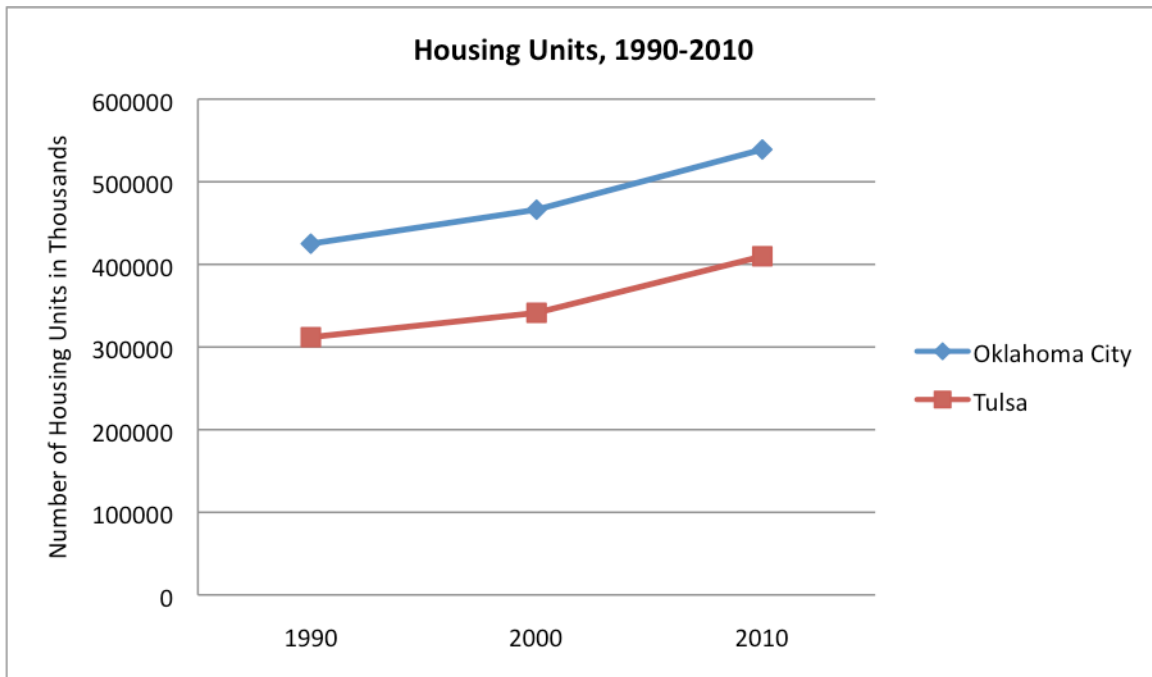
of 6.38 percent, yet homeownership rates only increased by .2 percent. In Tulsa, there was a population growth of 5.98 percent, but homeownership rates decreased by 0.1 percent.



Source: U.S. Census Data 1990, 2000 & 2010

For informational purposes only, census data was collected for the total number of housing units per MSA. In 1990, Oklahoma City had 425,043 housing units and by 2000 it increased to 466,230. This was an increase of 41,187 housing units in ten years. By 2010, the housing units in Oklahoma City had risen to 539,077. This is an increase of 72,847 units. In 2010, Oklahoma City added 31,660 more housing units from 2000. Dramatic increases in housing units were also seen in Tulsa. In 1990, Tulsa had 311,890 housing units. By 2000, it increased by 29,525 to a total of 341,415 housing units. In 2010, the housing units increased by 68,405 to 409,820. This shows that in 2000, the housing stock increased by approximately 30,000 units, but in 2010 the increase had doubled to approximately 68,000. Subprime loans may have been fueling the construction of all the new housing units. Oklahoma’s relatively strong economy and the availability of housing tax credits to borrowers may also have been contributing factors.

Figure 29.



Source: U.S. Census Data 1990, 2000 & 2010

Annual homeownership rates are difficult to analyze in that census data are only collected every ten years. Therefore, detailed annual data collection and analysis beyond this study will be needed to determine if the shifts in homeownership rates were directly related to the lending patterns between 2004-2007.

STUDY FINDINGS

- After 2006 mortgage denial rates for minorities increased significantly compared to denial rates of white borrowers. When race and income are considered among borrowers the data show that all minority groups except Asians were denied loans more frequently than white borrowers even when these minorities had the same or comparable incomes. The data suggest that there are factors other than the borrower's income that contribute to denials.
- Loan denials among minority groups revealed that African Americans had the highest rates of denial and Native Americans with comparable incomes to Asians were denied at a higher rate. Missing data about denial reasons is problematic and this lack of information may limit a borrower's ability to improve future approval status.
- Disparities exist in loan originations. The Origination Disparity Index (ODI) gives some indication of how race may affect loan approval status. In Tulsa lenders with the highest ODIs are Embrace Home Loans, J.P. Morgan Chase and Citicorp Trust Bank FSB. These lenders approved loans to white applicants at a rate four times greater than to minority loan applicants.
- Tulsa and Oklahoma City's highest levels of subprime lending occurred in 2006 which is consistent with the nationwide trend. As of 2009, only 8.6% of all loans have been subprime. These types of loans have been on the decline from 2007 through 2009.
- The rate of spread distinguishes prime rate from subprime loans. According to the data both MSAs experienced the highest average rate spreads in 2005 and 2006. As previously established, this was the period of the highest rate of subprime lending in the MSAs.
- The majority of subprime loans between 2005 and 2006 in the two MSAs were made to borrowers in the middle and upper income brackets. These borrowers could have potentially received prime loans instead of subprime loans.
- Between 2004 and 2007 there were significant increases in revenue related to subprime loans in both MSAs. After 2007 the dollar amounts (revenue generated) plummeted. Between 2007 and 2009 the MSAs showed significantly lower amounts of financial activity generated from such loans. Prime loan revenue has remained consistently the same over the study period while the decline in the number of subprime loans has resulted in the loss of 100s of millions in revenue since 2007.
- While the majority of subprime loans were made to white applicants, the findings suggest that the subprime lending was more concentrated in

census tracts representing communities of color. The data further shows that foreclosure rates were higher in these census tracts; therefore, minority communities were disproportionately impacted compared to other communities throughout the MSAs.

- While homeownership rates did increase over the past decade, current foreclosure rates suggest that homeownership will be on the decline for the decade ahead. The prospects of homeownership for low-income and minority borrowers will continue to be a challenge.

FURTHER RESEARCH

African American home mortgage loan borrowers have the highest denial rates of all minority groups. Even when they have comparable or higher incomes compared to white borrowers they are still denied loans more frequently than whites or any other minority group. A further examination of factors that contribute to these denials is warranted. As missing data was found to be a major problem in assessing reasons for loan denials, a survey of lenders might be undertaken to gain greater insight into the loan decision-making process among lenders servicing Oklahomans.

Acquiring detailed foreclosure data from 2004-2009 may give an indication of an increase or decline in foreclosures for each MSA. This analysis can help in understanding how the foreclosure rates have changed during the past five years. Therefore, further data collection and analysis in this area may be warranted.

CONCLUSION/RECOMMENDATIONS

While there is a disproportionate amount of subprime lending in communities of color in the selected MSAs, the current housing crisis is a wider problem than merely with minority and low-income home mortgage borrowers. Since the housing market peaked in 2006 more than 6.5 million homeowners nationwide have lost their homes as

a result of foreclosures and there are likely another 4.3 million Americans delinquent by as much three months behind in payments. Many of these homeowners will likely add to the nation's foreclosure rolls (Schoen, 2011).

In the housing market recovery, some housing analysts suggest that many low – moderate income people and persons of color with middle incomes will continue to have difficulties getting a mortgage even with falling mortgage interest rates. This may account for the decline in the number of mortgages in Tulsa and Oklahoma City among minority populations after 2007. In addition, as long as people are without jobs they will not commit to buying a home with a 30 year mortgage. A recent report of the Joint Center for Housing Studies at Harvard University asserts job growth is highly correlated to a sustained housing recovery, even more so than falling mortgage interest rates.

Oklahoma continues to rank as one of the country's stronger economies. The low costs of living, high educational levels, and a stable job market contribute to the state's favorable economy. It is suggested that the level of educational attainment may enhance an applicant's ability to better navigate the subprime mortgage loan process. According to the 2000 census data, of the population that is over 25 years old, 83 percent have a high school diploma and 19.25 percent have a bachelor's degree in both MSA's. Currently, both Oklahoma City and Tulsa are in the lowest share of the top 100 metropolitan areas with serious mortgage delinquency (Urban Institute and LISC, 2011). (See Appendix.)

A rise in business services and energy-sector jobs has contributed to low unemployment rates of 4.2 percent in Oklahoma, well below the national average of 9.1 percent. Construction related jobs have increased with the construction of Devon Energy Corporation's new 50 story headquarters and Boeing's facility to house its B-1 bomber program and other operations relocating from California. While the overall economy in Oklahoma is quite good, minority unemployment is much higher than the white population. According to the 2009 Census estimates, unemployment rates for whites are 4.6 percent; African Americans are 12.2 percent; Hispanics are 5.3 percent; American Indians are 8.4 percent; and Asians have the lowest unemployment rates at 3.6 percent.

These study findings will be utilized by the Oklahoma Asset Building Policy and Practice Initiative and partners, i.e., home mortgage counseling services, community development corporations, local housing organizations, and other interested parties to advance policy, legislative action, fair lending enforcement, resource development, and advocacy efforts, on behalf of the citizens and particularly low-moderate income, communities of color in the state of Oklahoma. Some recommendations are:

- Incorporate education and information on subprime lending via information networks and programs like Individual Development Account Programs. A CFED study found that the services and features of IDA programs e.g., homebuyer education, financial education and guidance about loan products helped low income populations obtain

affordable mortgages and experience sustainable homeownership outcomes.

- Foreclosure mitigation counselors are helpful for working with homeowners and lenders to reduce interest rates on existing mortgages and or outstanding principal balances. Some resources include: Neighborhood Assistance Corporation of America, www.naca.com or the National Foreclosure Mitigation Counseling service via findaforeclosurecounselor.org.
- Foster a collaborative partnership with the Oklahoma Association of Realtors around the protection of property rights. As the Association supports realtors' work via information, education, and representing their professional interests, as well as the interests of homeowners at the State legislature, this relationship could be an effective alliance for the Oklahoma Asset-Building Policy and Practice Initiative.
- Stronger enforcement of consumer protection laws for borrowers of all financial products, but particularly home mortgages, would aid in equalizing the terms on which low-income consumers are borrowing and repaying.
- Advocate at the federal level for increased enforcement of existing programs like the Home Affordable Modification Program (HAMP). It is a tool designed to prevent foreclosures. HAMP authorizes mortgage services to help borrowers that meet eligibility requirements to avoid foreclosure by modifying loans to a level that is affordable to borrowers and sustainable for the long term (Shashaty, 2011).
- Call for legislative action to alleviate loopholes to any proposed consumer financial services products like the Qualified Residential Mortgage (QRM) which puts homeownership out of the reach of many potential homeowners across the country.
- Advocate that all lenders be required via legislation to report denial reasons via HMDA.

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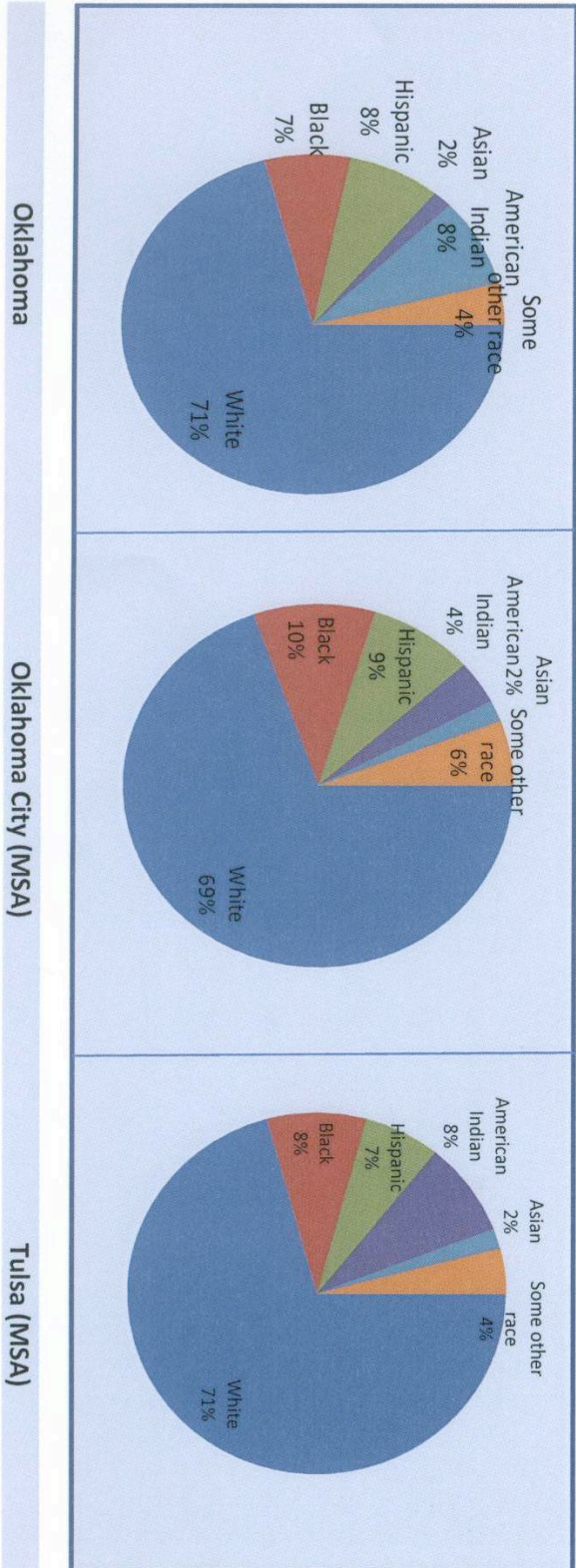
APPENDICES

Oklahoma: a Statistical Profile

Population

	Oklahoma	Oklahoma City (MSA)	Tulsa (MSA)
2000	3,450,654	1,083,346	803,235
2010	3,751,351	1,252,987	937,478

Race Breakdown, 2010



Housing Tenure

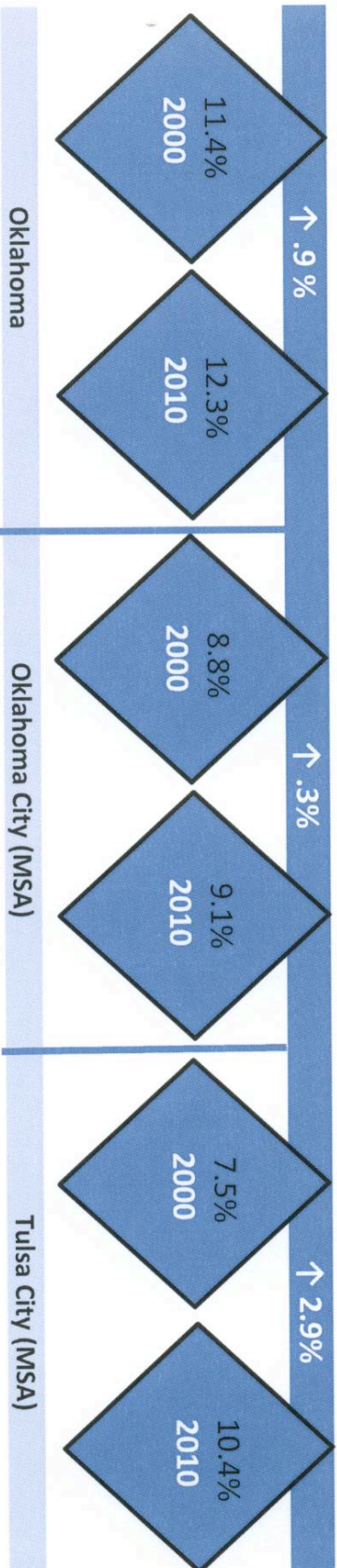
Oklahoma

Oklahoma City (MSA)

Tulsa (MSA)

Total housing units	2000	1,514,400	466,230	341,415
	2010	1,664,378	539,077	409,820
Occupied	2000	1,342,293	424,764	315,532
	2010	1,460,450	489,654	367,091
Vacant units	2000	172,107	41,466	25,883
	2010	203,928	49,423	42,729

Vacancy Rates



Housing Tenure

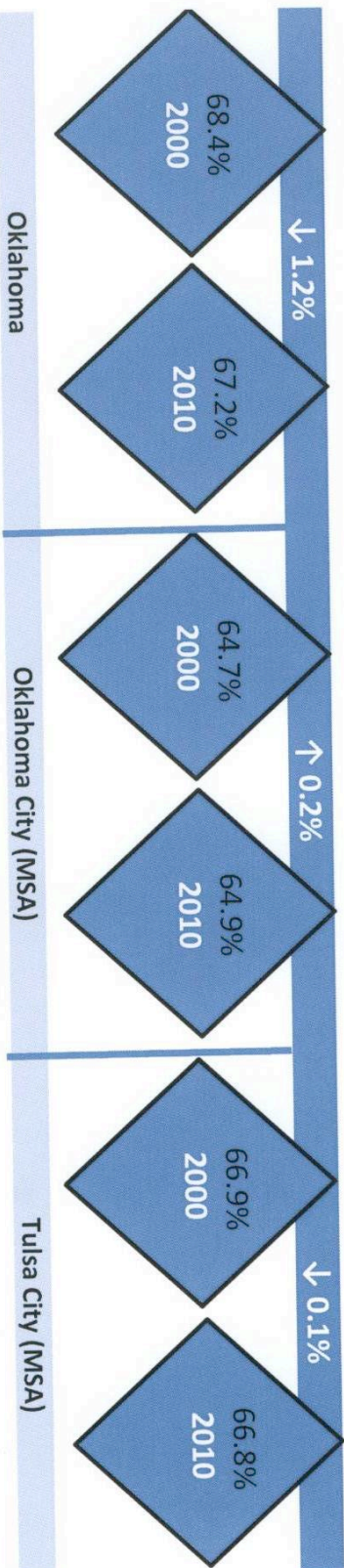
Oklahoma

Oklahoma City (MSA)

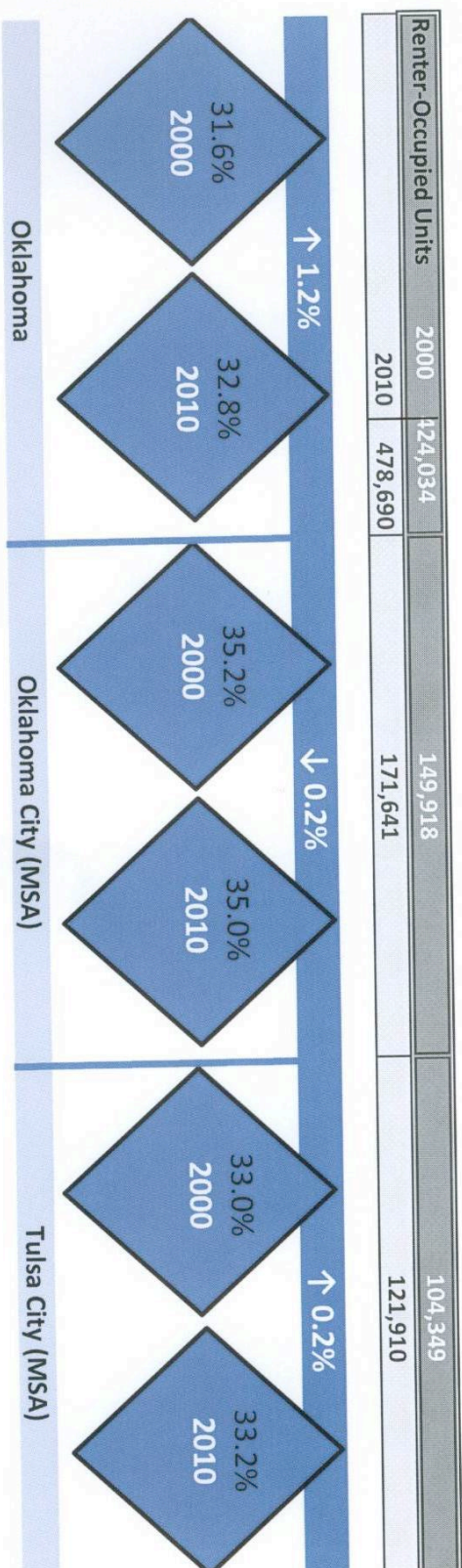
Tulsa City (MSA)

Owner-Occupied units	2000	2010	2000	2010	2000	2010
	918,259	981,760	274,846	318,013	211,183	245,181

Homeownership Rates



Renting Rates



Renter-Occupied Units	2000	2010	2000	2010	2000	2010
	124,034	478,690	149,918	171,641	104,349	121,910

PERCENTAGE POINT CHANGE IN SHARE SERIOUSLY DELINQUENT, 12/09-12/10

FALLING SLOWLY/STABILIZING → FALLING MORE QUICKLY

SHARE OF MORTGAGES SERIOUSLY DELINQUENT, 12/10 ↓ HIGHEST SHARE	LOWEST SHARE	Buffalo Colorado Springs Harrisburg • Honolulu Knoxville • Madison Oklahoma City Portland, ME Portland, OR • Rochester Tulsa • Wichita	Albuquerque • Austin Baton Rouge • Dallas Des Moines • El Paso Hartford • Houston Kansas City • Lancaster Omaha • Raleigh San Antonio • San Jose San Francisco Virginia Beach	Boston • Denver Greenville • Minneapolis Washington, DC
		Albany • Allentown Baltimore • Little Rock Louisville • Nashville Philadelphia • Richmond Salt Lake City Scranton • Seattle Syracuse • Tucson	Augusta • Bridgeport Charleston • Charlotte Columbia • Columbus Lansing • Milwaukee New Haven • Pittsburgh St. Louis • Santa Rosa	Birmingham • Boise Grand Rapids Greensboro • McAllen Oxnard • San Diego Worcester
	HIGHEST SHARE	Bradenton • Chattanooga Cincinnati • Jacksonville Memphis • New York Palm Bay • Poughkeepsie Tampa	Chicago • Dayton Las Vegas • New Orleans Providence	Akron • Atlanta Bakersfield • Cleveland Detroit • Fresno Indianapolis • Jackson Lakeland • Los Angeles Miami • Modesto Orlando • Phoenix Riverside • Sacramento Springfield, MA Stockton • Toledo Youngstown

Note: 100 largest metro areas divided into thirds along each dimension. Seriously delinquent mortgages included those in foreclosure plus others delinquent by 90 days or more.