The Changing Face of Inequality in Home Mortgage Lending

RICHARD WILLIAMS, *University of Notre Dame*

REYNOLD NESIBA, *Augustana College–South Dakota*

EILEEN DIAZ MCCONNELL, *University of Illinois at Urbana-Champaign*

American homeownership has long been characterized by racial, ethnic, and geographic inequality. Inequality in homeownership, in turn, has contributed to racial and class segregation and inequality in other aspects of American life. Recently, however, there have been signs of dramatic change, as minorities and low-income groups have achieved all-time record high rates of homeownership. To explain these developments, we compare and contrast neoclassical economic theory—which suggests that banking deregulation, increased competition, better information, and improved risk assessment reduce or eliminate mortgage market discrimination—with a sociological theory of networks—which argues industry restructuring can disrupt markets and social relationships and create new opportunities for exploitation. We argue that, as the old inequality in home mortgage lending has slowly diminished, a new inequality has emerged that is characterized by less favorable loan terms, sometimes-problematic forms of housing, and a lack of adequate consumer protection from predatory and abusive practices.

Specifically, we describe trends in subprime and manufactured housing lending in U.S. MSAs. Our study finds that such loans accounted for as much as half, or more, of the gains made by underserved markets between 1993 and 2000. Subprime lenders made particularly strong inroads among minority markets at all income levels. We discuss how the old inequality helped make the new inequality possible, and how the new inequality in home mortgage lending is part of a much larger phenomenon in which apparent gains made by minorities and low income groups have come at a far higher cost than have gains by other segments of society.

American homeownership has long been characterized by racial, ethnic, and geographic inequality. Inequality in homeownership, in turn, has contributed to inequality in other aspects of American life (Feagin 1999; Massey and Denton 1993). Recently, however, minorities and low-income groups have achieved all-time record high rates of homeownership (U.S. HUD 2000c). This article asks, why has there been such dramatic change, and what costs, if any, have been associated with it?

To answer these questions, we compare, contrast, and then integrate two alternative theoretical explanations for these developments: neoclassical economic theory and sociological network theory. Neoclassical economic theory (e.g., Becker 1957; Stiglitz and Weiss 1981) implies that banking deregulation, better information, improved risk assessment, and increased

The authors wish to thank Theresa DiVenti, Randy Scheessele, Sarah MacMillen, Robert Bossarte, Jessica Ziembroski, Maureen Hallinan, Mark Chaves, Greg Squires, Stephen L. Ross, John Yinger, and several anonymous reviewers for their many valuable suggestions and assistance with this work. The work that provided the basis for this publication was supported, in part, by funding under grants with the U.S. Department of Housing and Urban Development (Grant No. HUD-H-21104RG) and the National Science Foundation (Grant Nos. SES01-12699 and SES02-22355). The substance and findings of the work are dedicated to the public. The authors are solely responsible for the accuracy of the statements and interpretations contained in this publication. Such interpretations do not necessarily reflect the views of the government.
Direct correspondence to: Richard Williams, 810 Flanner, Department of Sociology, University of Notre Dame, Notre Dame, IN 46556. E-mail: Richard.A.Williams.5@nd.edu.

***Social Problems*, Vol. 52, Issue 2, pp. 181–208, ISSN 0037-7791, electronic ISSN 1533-8533.**
© 2005 by Society for the Study of Social Problems, Inc. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Rights and Permissions website, at http://www.ucpress.edu/journals/rights.htm.

competition have reduced mortgage market discrimination. Sociological network theory (e.g., Tillman and Indergaard 1999) argues that industry restructuring can disrupt markets and social relationships and thereby create opportunities for borrowers to be exploited.

We argue that in order to assess the relative merits and contributions of these two perspectives it is necessary to examine how home mortgage lending did change during the 1990s. Did low-income and minority groups suddenly gain increased access to traditional, but now less discriminatory, forms of lending? Or were their gains produced by new and possibly less desirable sources of credit?

We address these questions in three steps. First, we describe the general characteristics of finance industry change during the 1990s. We show that deregulation and industry restructuring led not only to increased competition, but also to the rise of new lenders who were quite unlike the old. Second, we conduct empirical analyses to quantify the magnitude and nature of these changes. Specifically, we describe recent trends in subprime and manufactured housing lending. We illustrate the increasing importance of each of these changes by analyzing home finance lending in U.S. MSAs during the years 1993 to 2000. Further, we examine how the activities of these lenders are related to race and income, noting key similarities between them as well as important differences. Third, we discuss the theoretical and substantive significance, not only of our own findings, but also of related research. This other work, much of it descriptive, has offered important empirical findings that now can yield new insights through reinterpretation in light of our theoretical framework.

We conclude that both theoretical perspectives offer insight into recent developments. Many of the recent homeownership gains represent real progress, and if they continue, inequalities will diminish further. But as the old inequality has declined, a new inequality has also emerged. The new inequality is characterized by less-favorable loan terms, sometimes-problematic forms of housing, and a lack of adequate consumer protection from predatory and abusive practices. Further, we conclude that the old inequality helped to make the new inequality possible. The new inequality in home mortgage lending is part of a greater phenomenon in which apparent gains made by minorities and low income groups have come at far higher costs than have gains made by other segments of society. While we might reasonably argue that the new forms of inequality are better than the old, we must not lose sight of the fact that it is inequality, nonetheless: recent gains in credit for underserved markets have come with a price.

The Old Inequality

Reynolds Farley and William H. Frey (1994) point out that a good portion of the twentieth century was characterized by legal and official discrimination and inequality. Federal agencies strongly endorsed redlining, and the ethical standards of the National Association of Real Estate Boards actually prohibited its members from introducing minorities into white neighborhoods. Only with the passage of the 1968 Federal Fair Housing Act and the 1974 Equal Credit Opportunity Act did racially based mortgage discrimination became illegal (Walter 1995).[1]

Nevertheless, various authors have made abundantly clear that whites and blacks continue to experience different results when it comes to obtaining a home mortgage (for detailed reviews, see Nesiba 1996; Ross and Yinger 2002). For example, numerous studies have shown that blacks have much higher denial rates than seemingly comparable whites (e.g., Schaefer and Ladd 1981). The famous Boston Fed Study (Munnell et al. 1996) collected

1. The 1968 Federal Fair Housing Act is primarily aimed at eliminating discrimination by realtors, rental agencies, and owners, as well as those assisting with housing finance. The 1974 Equal Credit Opportunity Act is focused on all forms of personal and commercial credit transactions. Enforcement of both of these acts has been used to reduce discrimination in housing finance.

actual loan application data from Boston-area financial institutions in 1990 and analyzed the variables that lenders themselves identified as important for their decision making. The authors conclude that even if two mortgage applicants were financially identical, a minority applicant would be 60 percent more likely to be rejected than would a comparable white applicant. Geographic differences also exist, as studies of several cities have shown large racial differences in home mortgage lending across neighborhoods. Based on such research, Douglas S. Massey and Nancy A. Denton (1993) conclude that "despite the diverse array of characteristics that have been controlled in different studies, one result consistently emerges: black and racially mixed neighborhoods receive less credit, fewer federally insured loans, fewer home improvement loans, and less total mortgage money than socioeconomically comparable white neighborhoods" (p. 106).

Consequences of the old inequality have been well documented. Although studies show that the desire for homeownership is widespread across demographic groups (Fannie Mae Foundation 1998), both higher-income and lower-income minorities are less likely to own their own homes than are whites with comparable household incomes (U.S. HUD 1995). Similarly, homeownership rates are much lower in cities than in suburbs (50 percent versus 73.2 percent), and central city residents of all income levels are less likely to own a home than are suburban residents with similar incomes (U.S. HUD 1999).

These disparities are unfortunate, for the benefits of homeownership to both individuals and society are well known. Homeownership is one of the primary means to accumulate wealth in the United States. Homeowners enjoy better living conditions than renters and have a greater sense of overall well-being (Turner and Skidmore 1999). Additionally, homeowners tend to be more involved in their communities, helping to promote strong neighborhoods and good schools (Turner and Skidmore 1999; U.S. HUD 1999).

Joe R. Feagin (1999) discusses how blacks in particular have been hurt by their lack of homeownership. Because discriminatory practices limit the ability of all African Americans, including those of the middle-class, to build up housing equity, "black parents often have been unable to provide the kind of education or other cultural advantages necessary for their children to compete equally and fairly with whites" (p. 86).

Massey and Denton (1993) note another related consequence of housing inequality: racial segregation and its associated problems. Pervasive discrimination systematically channels money away from integrated areas, causing blacks to be the most spatially isolated population in U.S. history. Residential segregation, in turn, has led to class segregation for blacks. Poor African American families are likely to live in census tracts where approximately 30 percent of the families are poor, while poor whites are seldom highly concentrated. This racial and class segregation builds "mutually reinforcing and self-feeding spirals of decline into black neighborhoods" (Massey and Denton 1993:2). Massey and Denton therefore conclude that "racial residential segregation is the principal structural feature of American society responsible for the perpetuation of urban poverty and represents a primary cause of racial inequality in the United States" (p. viii).

Recent Changes

The old inequality has lasted for many decades. However, there seems to have been dramatic change in recent years. The proportion of total mortgage lending going to lower income families and minorities increased substantially during the 1990s (Day 2000; FFIEC 2000). These gains contributed to all-time-high homeownership rates in for central cities (51.9 percent), minorities (48.2 percent), Hispanics (46.7 percent), and households with lower than the median income (52.2 percent) in September 2000. The September 2000 black, non-Hispanic homeownership rate of 47.3 percent did not break the record (set earlier that year) but was substantially higher than the 42.9 percent rate of four years earlier (U.S. HUD 2000c).

This progress, while striking, must be kept in perspective. Although minorities, central city residents, and lower-income individuals made advances, they continued to lag well behind the nation as a whole, where the overall homeownership rate was 67.2 percent. If current trends continue, it will still take several years for past inequalities to be eliminated.

Even more critically, despite its many desirable aspects, homeownership is not universally beneficial. Low-income homebuyers can lose money if their property values decrease. Homeownership can be particularly problematic when borrowers lack the resources to repay their loans, resulting in foreclosures, abandoned properties, and neighborhood deterioration. Before we can praise the apparent progress of recent years, we must understand how it was accomplished.

Why, after racial, economic, and geographic inequality in home mortgage lending has persisted for so long, has such dramatic change occurred in such a relatively short period? In order to answer that question, we first consider the major transformations that the American finance industry has undergone over the last few decades.

James Campen (1998) notes that prior to 1975 the finance industry was highly compartmentalized, with different types of institutions providing specific services and only limited competition with each other. Thrift institutions provided three-fifths of all home mortgage loans. By the 1990s, however, lending institutions were far less specialized, and thrifts were only the third largest provider of home mortgages, behind mortgage companies and commercial banks.

These changes largely resulted from banking deregulation, which in turn increased the range of products and services that banks and other financial institutions could offer, eliminated interest rate ceilings, and greatly expanded the geographical areas in which individual companies could operate. As a result, the banking industry became far more competitive.

A more recent and also very important change in the home mortgage industry has been the development of new means for gathering information and performing risk assessment. The use of automated underwriting systems has grown dramatically since the mid-1990s. Developed by Fannie Mae, Freddie Mac, and others, automated underwriting uses statistically based models to predict mortgage default based on the performance of millions of mortgages, offering "the potential for AU [automated underwriting] to be far more accurate than manual underwriting" (Gates, Perry, and Zorn 2002:373). Susan Wharton Gates, Vanessa Gail Perry, and Peter M. Zorn (2002) estimate that 60 to 70 percent of residential mortgages now originate under automated underwriting systems.

What are the implications of this restructuring and other changes for low income and minority borrowers? Neoclassical economic theory and contemporary sociological network theory offer two very different answers.

Neoclassical Economic Theory

Neoclassical economists tend to begin with the assumption that prejudice-based discrimination in lending does not exist, or that if it does, a perfectly competitive market—which presumes perfect information and market entry—will lead to its eventual demise (see also Nesiba 1996). As Nobel Prize-winning economist Kenneth J. Arrow (1998) puts it, "market-based explanations will tend to predict that racial discrimination will be eliminated" (p. 93). To explain the economic grounds for optimism, we briefly discuss three neoclassical economic theories of discrimination and their collective implications regarding recent changes in banking competition and credit assessment (for a fuller discussion, see Nesiba 1996).

Chicago School Perspective. Gary Becker (1957) argues that discrimination is a taste for which an individual must pay (or forfeit income) in order to have the privilege of not associating with certain persons. One would expect prejudiced bankers to charge higher rates to minority group members. However, under competitive conditions, non-prejudiced competitors

will eventually drive prejudiced lenders out of the market. Thus, when confronted with vigorous competition, racial discrimination in lending will not persist in the long run.[2] Hence, any seemingly biased lending patterns that do exist and persist across time must be caused not simply by racial preferences, but instead by imperfect competition or by differences in economic fundamentals such as a borrower's credit history, income, or wealth.

Credit Rationing. In contrast to the Chicago School perspective, the credit rationing perspective (Stiglitz and Weiss 1981) does not assume that lenders engage in preference-based bias or that they pay a cost for indulging their tastes. To understand credit-rationing models one must first understand the three key assumptions underpinning them. First, they assume asymmetric information: borrowers have private information about the likelihood of repayment that is unknown to the lender. Second, if lenders were to provide credit freely at the market-clearing rate of interest, perverse incentives would be created for borrowers. At the higher market-clearing rate, only the riskiest borrowers, willing to pay the highest rate of interest, would attempt to obtain credit. The lender's expected return would not be maximized at that rate (Jafee and Stiglitz 1990). Third, at the lower equilibrium (non-market-clearing) rate, some borrowers must be denied credit, since the demand for funds is greater than the supply of funds. For Joseph Stiglitz and Andrew Weiss (1981), this means that banks may "deny loans to borrowers who are observationally indistinguishable from those who receive loans" (p. 394). Under these circumstances, then, blacks could be denied credit relative to equivalent whites without any costs to the lender, and this inequality could persist over time because of the need to ration credit.

Statistical Discrimination. A third economic approach to understanding racial inequality, statistical discrimination (for a survey of this literature, see Lundberg and Startz 2000), occurs when individual members of a particular group (e.g., gender, race, class) are treated differently based on the use of empirical correlations (statistics) about their group's performance and some observable characteristics. For instance, statistical discrimination would occur if blacks as a group had a higher average statistical risk of default and a lender used this information to deny a loan, or to charge a higher interest rate to a particular black loan applicant, independent of this applicant's other characteristics. The applicant may or may not be a higher risk. However, the lender has imperfect information, and the statistical data at hand influences the lender's beliefs about a potential borrower's likelihood of repayment and, therefore, the lender's decision for approval or denial.

Such actions are considered "non-discriminatory" or "rational" in an economic sense because they are based on a *factually accurate* perception of the underlying actual risk and return of a borrower's group affiliation. The bias is without malice toward any individual potential borrowers and also without cost to the lender (Longhofer and Peters 2004). The individual borrower is adversely affected not because of bigotry or arbitrary "tastes," but instead because of an underlying true "statistical" basis. Unlike with the Chicago School perspective where lenders engage in *preference*-based bias, with statistical discrimination lenders

2. Not all economists agree on this interpretation of the Becker model. In an often-cited article in the *Journal of Economic Perspectives*, Heckman (1998) implies that discrimination may persist "as long as income is received from entrepreneurial activity" (p. 112; i.e., mortgage lending in the context of this article) and as long as there are a sufficient number of nonprejudiced lenders. Heckman's insightful point is that as long as lenders have disposable income, they can indulge their "taste for discrimination" indefinitely. Nesiba (1996) also points out that in conditions of imperfect competition, inequality can persist over time. However, like Arrow (1998), we take the traditional, long-run interpretation of Becker's model. This presumes that after all adjustments have been made in a competitive market, including entry of new firms into the market, non-bigoted bankers will take business away from bigoted bankers and thereby will eliminate disparate treatment discrimination. Although the law recognizes disparate impact discrimination—where a uniform practice has a discriminatory effect on a prohibited basis—this form of discrimination is not directly addressed in these three models.

are presumed to engage in *belief*-based bias regarding differences among groups. The lender's *beliefs* about all blacks subjectively bias the lender's treatment of an individual black applicant. This behavior may be rational and have an *empirical* basis. However, it is nevertheless racial discrimination. The lender is *subjectively* biasing his decision about an individual applicant based on that applicant's group membership—a racial bias rightly prohibited by fair-lending laws. Despite the difference in motivations, the result of statistical discrimination is similar to that of credit rationing: biased lending patterns persist despite an absence of overt racial prejudice.

Neoclassical Implications. According to these three main microeconomic perspectives, biased lending patterns are not always a result of racial prejudice alone, but rather result from lenders' rational efforts to minimize their risks and maximize their profits. Should the underlying economic basis for these efforts change, the biased lending patterns would presumably change as well. If, by chance, a lender were to engage in discriminatory actions for non-rational reasons, that lender would be economically punished and eventually driven out of a competitive market.

Elsewhere, Reynold F. Nesiba (1996) has challenged these microeconomic arguments and has offered several critiques. He cites the extensive empirical literature that suggests discrimination and unequal treatment of underserved markets does exist and also argues that several flaws underlie the reasoning of these theories. With recent changes in empirical trends, however, the possibility arises that—because of deregulation, technological change, new forms of competition, and advancements in assessing risk—markets finally are starting to operate the way Becker and other economists said they always should. According to this view, legal limits on the range of services that lenders can offer and on the geographic areas in which they can operate have artificially constrained competition. Now, freed from excessive government regulation, new lenders are finally starting to reach out to the markets that have been ignored in the past. Supporters of these changes say that geographically freeing up the market leads to increased competition, increased services, improved credit availability, and a more efficient allocation of financial resources (Evanoff and Fortier 1986; Mengle 1990). Similarly, Gates and associates (2002) imply that improvements in risk assessment created through automated underwriting systems eliminate many of the information problems feared by credit rationing and statistical discrimination theorists. As a recent study from the Joint Center for Housing Studies at Harvard University (Apgar et al. 2004) puts it,

> Today's mortgage market bears little resemblance to the one that existed just a decade ago. Key changes include the increasing use of automated underwriting, credit scoring, and risk based pricing, as well as the development of a mortgage delivery system dominated by mortgage brokers, secondary market activities and national mortgage banking and mortgage servicing operations. With new low down payment products and a highly automated mortgage delivery system, the mortgage industry—often operating through a network of mortgage brokers—has dramatically expanded lending in the same low-income, low-wealth and minority neighborhoods that were once victimized by mortgage "redlining." (p. 1)

Hence, neoclassical economic theory offers possible positive explanations for recent increases in lending to underserved markets. Sociologists Robert Tillman and Michael Indergaard (1999), however, present a theoretical perspective with a radically different interpretation of the possible effects of finance industry changes.

Sociological Theory of Networks

Tillman and Indergaard (1999) use sociological theories of networks to explain how economic restructuring in an industry can lead to crime and exploitation. They argue that, with economic restructuring, corporations "have abandoned markets or segments where they once supplied products or services" and that "such changes and related regulatory shifts are

creating opportunities for crimes that cannot be explained by theories grounded in an earlier period" (p. 573). More specifically, they argue that market shifts disrupt networks. Social ties and understandings that guide transactions are eroded. Further, deregulation in an industry can create the opportunity for widespread misdeeds. New market actors can step in and exploit the situation. While they may be "untrustworthy agents" (p. 573), they can gain trust because they are being evaluated by individuals who are at a structural disadvantage. These untrustworthy agents, or "bogus brokers" (p. 573) as Tillman and Indergaard call them, benefit from having information denied to other parties. The disrupted economic context in which they operate—caused by regulatory shifts and ambiguous laws—makes it difficult for regulators and prosecutors to control their activities.

Tillman and Indergaard focus on fraud in the health insurance industry, but as we will show, the potential implications of their perspective go far beyond that. While generally not illegal, changes in the finance industry and growth in the manufactured housing industry have also allowed for new forms of inequality to develop. As neighborhood bank branches close, new lenders and new kinds of lenders have entered the market. The connections or networks that formerly existed—though underdeveloped in many cases—among local borrowers and local lenders are transformed. Economic restructuring and the disrupting of old networks have created additional loan opportunities for underserved markets, but the nature of these loans is often very different from those made to other borrowers.

In summary, neoclassical economic theory and sociological network theory differ greatly in how they see the possible effects of changes in the lending industry. Neoclassical theory sees deregulation as increasing competition that benefits borrowers; network theory sees deregulation as potentially disrupting institutional relationships and creating new opportunities for exploitation. Neoclassical economic theory sees borrowers benefiting from lenders' improved information and risk assessment; network theory stresses that informational disparities can put borrowers at a structural disadvantage when dealing with creditors. In order to assess the relative merits and contributions of these two perspectives, we now more carefully consider the ways in which home mortgage lending did change during the 1990s.

The New Inequality: Subprime Lending and Manufactured Housing

Early on in the Boston Fed Study, Alicia H. Munnell and associates (1996) state one of their critical assumptions: "It is assumed that both the mortgage rate and the rate at which lenders borrow are set by competition in the industry. Since the choice variable for the lender is not the interest rate but whether to grant the mortgage at all, mortgage applications are accepted or rejected at the mortgage market rate" (p. 27). That assumption may have been largely true in 1990, when the authors collected their data. But, it is certainly not true today. Rather than be rejected, as they have been in the past, many borrowers now can get a loan, if they are willing to go to lenders who offer higher interest rates and/or buy cheaper forms of housing. Subprime and manufactured housing lending (collectively referred to as "specialized lending") have made this possible.

Subprime Lending

Subprime (also called B and C) lending has historically referred to loans where a borrower has a blemished (or non-existent) credit record and a lender makes a higher-fee, higher-interest-rate loan to compensate for the greater risk of delinquency and higher costs of loan servicing and collection. There is widespread consensus that subprime lending increased dramatically during the 1990s. The United States Department of Housing and Urban Development estimates that home mortgage subprime lending went from $20 billion

in 1993 to $150 billion in 1998 (U.S. HUD 2000d). Steven Davidson (1995) and Bill Merrick (1999) provide even higher estimates, perhaps because of differing definitions or methods.

While some have praised subprime lenders for providing homeownership opportunities to low income and minority borrowers (Levin 1999), others have expressed concern. In particular, there is fear that some subprime lenders engage in "predatory" practices (Apgar 2000; Bradley and Skillern 2000; Consumer Reports 1998b; Goldstein 1999; Immergluck and Wiles 1999; Medine 2000). These practices include: reverse redlining, where lenders target minority, elderly, and low-income homeowners and charge them high interest rates and fees unrelated to the credit risk posed by the borrower; negative amortization, where payments are structured so they do not even cover interest, causing the principal balance to increase; prepayment penalties that keep borrowers from refinancing at lower rates; excessive fees, which sometimes exceed 10 percent of the loan amount; loan flipping, where creditors pressure borrowers to repeatedly refinance their loans (often because they cannot afford the payments on their previous loans), providing the creditor with additional income from points and fees charged; and asset-based lending, where the loan is based not on the ability to repay but on the equity in one's home. According to the Woodstock Institute (Immergluck and Wiles 1999), these abusive lending practices lead to strained household finances, worsened credit problems, foreclosures, abandoned homes, and blighted neighborhoods.

When assessing the above, it is important to keep in mind that subprime lending need not be predatory. For those who do not meet the credit standards of the prime market, subprime lending can make it possible to buy a new home, to improve an existing home, or to refinance their mortgage in order to increase cash on hand (U.S. HUD 2000d). Further, there has been debate about the pervasiveness of predatory lending. President and chief executive of Delta Financial Corporation, Hugh Miller (1999), has attacked the "myth" of predatory lending. He has claimed that lenders lose thousands of dollars every time they foreclose or make loans that people cannot afford. Others, however, strongly disagree. Maryland Senator Barbara Mikulski has called the rise in predatory lending "a virus and it's spreading nationwide" (Shepard 2000). In hearings before the New York State legislature, Assemblyman Scott Springer has stated, "Examples of people scammed by mortgage brokers abound," and Pamela Sah of South Brooklyn Legal Services has claimed "the problem is enormous" (Timmons 1999). Deborah Goldstein (1999), Consumer Reports (1998b), and William Apgar (2000) have cited several instances where borrowers have been abused or lenders sued over their practices.

Inspired by the numerous anecdotal reports of abuses in predatory lending, recent empirical studies have tried to quantify the actual costs. The Coalition for Responsible Lending (Stein 2001) conservatively estimates that predatory lending costs American borrowers at least $9.1 billion a year. In testimony before Congress, Apgar (2000), who was then HUD's assistant secretary for housing, said there could be little doubt that predatory lending practices are on the rise. The most dramatic evidence of this, he argued, is a recent doubling of foreclosure rates, with subprime lenders accounting for a large share of the increase. Apgar further claimed that

> Predatory lenders target untold numbers of the most vulnerable homeowners . . . loading them down with debt, and stripping them of equity. In a growing number of cases, these predatory loan terms are too much to bear and, as a result, the family loses its home to foreclosure . . . These foreclosures not only ruin the financial future of individual families, they threaten to destabilize entire communities. In short, for millions of low- and moderate-income families, minorities, seniors, and others not well served by the primary market place, predatory lending threatens to turn the American dream of homeownership into an American nightmare.

A March 2004 study of Chicago by the Woodstock Institute further underscores Apgar's concerns about foreclosure rates (Immergluck and Smith 2004). The researchers found that subprime home purchase loans contributed 28 times as much to neighborhood foreclosures as did prime home purchase loans: a tract with 100 additional subprime home purchase loans is expected to have almost 9 additional foreclosures, compared to only 0.3 additional foreclosures

for a tract with 100 additional prime purchase loans. Similarly, a HUD-funded study of St. Clair, Illinois, found that just over half the county's foreclosure complaints stemmed from predatory loans and that suspected predatory loans comprised almost 10 percent of owner occupied housing in some neighborhoods of East St. Louis, Alorton, and Centreville (Fitzgerald 2003).

The less desirable aspects of subprime lending might be worth it to many borrowers for whom subprime lending is the only way they could get a home. However, many borrowers have no need to be in the subprime market in the first place. David Medine (2000), the Associate Director for Financial Practices of the Federal Trade Commission's Bureau of Consumer Protection, says that many of those living in areas where traditional banking services are in short supply (e.g., lower-income and minority neighborhoods) tend to turn to subprime lenders regardless of whether they would qualify for less expensive loans. Franklin D. Raines (2000), CEO of Fannie Mae, estimates that about half the borrowers in the high-cost subprime market could qualify for lower-cost conventional financing. Federal Reserve Board Governor Edward Gramlich (2004) similarly notes that half of the borrowers in the subprime market have credit scores that qualify them for prime market loans. Gramlich also points out that subprime loans typically carry interest rates that are 350 basis points higher (3.5 percent) than prime loans. To place this in perspective, a 30-year prime market loan for $100,000 at 6 percent interest would have a monthly payment of $599.55. The same $100,000 loan at 9.5 percent in the subprime market would have a monthly payment of $840.85, or an additional $241.30. Over the life of the loan, the subprime borrower will pay $86,877 in additional, and in many cases unnecessary, interest.[3]

Manufactured Housing

Restructuring and changes in the home mortgage finance industry did not simply result in alternative sources and types of funding for traditional homes. New lenders also offered credit for non-traditional homes—specifically, manufactured housing. Manufactured homes, also often called (although not always correctly) mobile homes, are built in factories according to national standards, transported to a location on its own wheels, and installed to the location semi-permanently with steel straps (Bradley 1997; Consumer Reports 1998a). Early manufactured homes were of poor quality, with most homes built before 1980 lasting only a decade (Bradley 1997). However, the construction and materials used in manufactured homes have improved in recent years (Consumer Reports 1998a).

For those who purchased their manufactured homes in 2000, the average cost (not including land) was $46,400. The average cost of site-built homes in 2000 (again, excluding land) was $159,524 (MHI 2004). Not surprisingly, then, the demographic characteristics of those living in manufactured housing differ sharply from other homeowners. In 1995, the median household income of manufactured-home owners was $22,000, just slightly more than half the $42,000 median for all other homeowners. Differences in wealth were even greater, with manufactured-home owners having a median net worth of nearly $27,000, compared to $117,000 for others (Canner, Passmore, and Laderman 1999).

After years of declining sales, manufactured housing enjoyed a rebirth in the 1990s, accounting for nearly a quarter of all new single-family housing starts during the decade (MHI 2004). Today, approximately 22.5 million people live full-time in ten million manufactured homes across the nation (MHI 2004). The industry entered a slump late in the decade with sales declining by about a third; but still, over 250,000 units were sold in 2000 (U.S. Census Bureau 2004).

Many have applauded the recent growth in the manufactured housing market. *Professional Builder* magazine (Matesi 2000), for example, has commended the Manufactured Housing

3. In July 2004, a typical fixed-rate mortgage had an interest rate of about 6 percent. Those paying 9.5 percent will pay $202,715.48 in total interest over the life of the loan, while those borrowing at 6 percent will pay $115,838.45. Calculations are the authors'.

Institute for showing that manufactured housing was a practical means of providing desirable, much needed single-family housing at a reasonable price for inner-city residents. Nevertheless, concerns persist. Based on its two-year study of the industry, Consumer Reports (1998a) warned that it is still "buyer beware" in the market for mobile homes. Similarly, Joe Perkins, president of AARP cautioned that "Manufactured housing is affordable housing, but there is more to affordability than a low price. Mobile home buyers are not protected sufficiently now and will not be in the future without tougher standards" (AARP 1999).

Based on their investigations, Consumer Reports (1998a) and AARP (1999) identify a number of concerns with manufactured housing (see also Brice 1999). First, there are often problems with the construction, installation, and safety of manufactured homes. Three quarters of manufactured-home owners in an AARP survey reported significant problems with their homes. Commenting on the AARP findings, George Corey, a technology consultant who helped write the 1974 law on manufactured housing, has claimed that "people would be outraged" if three-quarters of those who bought $35,000–$40,000 cars reported problems with them (Fleishman 1999:G01). Consumer Reports (1998a) also found that a majority of manufactured-home owners reported at least one major problem. According to the state and federal regulators that Consumer Reports talked to, manufactured homes are often installed incorrectly, resulting in more than half of the problems that consumers report. Poor installation can lead to major safety problems and make manufactured homes—which tend to be less sturdy than conventional homes to begin with—even more vulnerable to natural disasters. As an example of such problems, Consumer Reports notes that when Hurricane Andrew hit Florida in 1992 almost half of the mobile homes in the southern part of Dade County were destroyed, compared to only 28 percent of the contractor-built homes. Based on such problems, Rutherford Brice (1999) of AARP concluded that at that time there was a "critical deficiency" in the quality assurance regulations administered by HUD and that consumers were being hurt by a lack of construction and safety standards enforcement.

Second, Consumer Reports (1998a) found that half the homeowners in their survey leased the land on which their homes were located. This left them vulnerable to sudden and sometimes dramatic rent increases. Owners who cannot afford such increases must either pay to move their homes, or else sell them—often to their landlords at distress prices. Also, because they must approve new tenants, abusive landlords can set up roadblocks to sales and force owners to sell their homes to park operators at a discount (Hill-Holtzman 1999). In Florida, 40,000 people signed petitions to Governor Jeb Bush complaining about chronic, unfair rent increases (Smith 1999). Consumer Reports (1998a) and Mike Patty (1999) offer several anecdotal examples of abusive landlords.

Third, the low purchase costs of manufactured housing are partially offset by higher costs elsewhere. The Housing Assistance Council (HAC 2004) reports that manufactured housing mortgages have interest rates that are 300 to 500 basis points (i.e., 3 to 5 percentage points) higher than conventional mortgages. Further, insurance premiums are substantially higher than for a traditional home (Consumer Reports 1998a), and historically, the resale value for used factory-built homes has been low; two-thirds of respondents to a Consumer Reports survey said their homes would sell for less than they paid for them.

In short, the rise of manufactured housing has been both beneficial and problematic. For many, it has made homeownership affordable. At the same time, a lack of consumer protection has exposed many homeowners to problems that could have been avoided.

Study Design: Methods and Data

As shown above, several recent studies have documented the rise of subprime and manufactured housing lenders during the 1990s. Through one of the broadest nationwide empirical and longitudinal analyses to date, we now add to that discussion by more carefully

examining the magnitude of these changes and their relationship to the racial and economic characteristics of borrowers. Our empirical methodology for doing so consists of four parts: (1) definition of types of underserved markets, (2) description of data sources, (3) explanation of sample selection, and (4) outline of analytical methods.

Types of Underserved Markets

Authors variously define underserved markets. For our purposes, we employ some of the most commonly used race- and income-based definitions of individuals and/or neighborhoods.[4] Other commonly used alternative definitions of underserved markets were also examined and yielded results consistent with those reported below. In *very low income families*, income is not in excess of 60 percent of area median income. Following practices used in government-published Home Mortgage Disclosure Act reports, we define a loan application as *black* if the applicant is black and the co-applicant (if any) is not white. *Minority neighborhoods* are defined as census tracts that are more than 30 percent non-white. We use the term *underserved markets* to refer to loans made to any of these three lending categories.

Data

Data were collected for each of the years from 1993 to 2000[5] and came from several sources.

HMDA Loan Application Registers and Transmittal Sheets. Starting in 1990, the Home Mortgage Disclosure Act (HMDA) required most lenders in metropolitan areas to provide information on every home mortgage application they received. The information includes the name of the lender, the final disposition of the application (i.e., approved or denied), the census tract in which the desired property was located, and the income, race, and gender of the applicant(s). The HMDA data includes key information on census tracts by which we could determine whether a neighborhood is low-income or minority. Our analyses suggest that it makes little difference whether one uses a 1 percent, 10 percent, or 100 percent sample, which is not surprising given the millions of records contained in HMDA. We use a 10 percent national sample for our study.

Manufactured Housing and Subprime Loans. The U.S. Department of Housing and Urban Development (U.S. HUD 2000a) has developed a list of lenders who specialize in subprime and manufactured housing loans. This list can be linked with the HMDA data to identify loans that are especially likely to be either subprime or manufactured housing. We offer a few cautions concerning this list. Unfortunately, the HUD list cannot identify subprime and manufactured housing loans made by traditional lenders, nor can it separate out any prime loans made by specialized lenders. In addition, manufacturing housing is disproportionately likely to be placed in non-metropolitan rather than urban areas (HAC 2004), which means that many of the manufactured home loans will not appear in our MSA data. Hence, not all specialized loans will be correctly identified in our analysis. However, as the Woodstock Institute (Immergluck and Wiles 1999) points out, subprime lending by prime lenders is probably less prone to abuse, since prime lenders also offer lower-cost products, work less with brokers, and are often subject to greater regulatory scrutiny. Further, the trends we find are consistent

4. In particular, the Department of Housing and Urban Development has often used these definitions in its own research and in its definitions of underserved markets.

5. We choose 1993 as the starting point for several reasons. The HUD subprime and manufactured housing lenders list begins with 1993. Also, the quality of the HMDA data was not as good in the early part of the decade, with several lenders not providing required reports.

with both the industry statistics we cited earlier and with HUD's estimates on the nationwide rise in subprime lending. Hence, we are confident that the primary trends and conclusions discussed here are not materially influenced by shortcomings in the data.

Sample Selection

The following criteria were used for selecting loans in our analysis, all of which are common in home mortgage lending research. First, all loans are for owner-occupied home purchases or for home refinance. Second, loan records with high loan-to-income ratios (six or above) or with missing income data are excluded because they are likely caused by data-entry errors. Third, the case must be from an MSA—as HMDA data provide little coverage of non-MSA areas—and must include census tract information—as it is necessary to determine whether a loan is to an underserved market. Fourth, only applications that resulted in either originations or denials are included. Withdrawals, loans not accepted, and files closed for incompleteness are excluded, since the disposition of these types of applications may be due to factors not under the control of the lender (e.g., the applicant changes his or her mind about wanting the home[6]). Fifth, we exclude Jumbo loans (mortgages over $252,000 in 2000). These loans constitute a very small percentage of home mortgage loans and an even smaller percentage of the loans going to underserved markets. Finally, we look only at conventional loans and exclude government-backed FHA and VA loans.[7]

Methods

Our empirical analysis is three-fold. First, we present trends in the number of loans made and in market share in U.S. MSAs for the years 1993 to 2000. We show how specialized lenders have gained an increasing share of the conventional home mortgage purchase and refinance markets, and we show that these gains have been particularly great among members of underserved populations. Second, we examine how race and income variables are jointly related to underserved market lending. In particular, we show that income alone cannot account for differences in the types of lending used by blacks versus others. Finally, we show that the growth of specialized lenders has had a major impact on loan denial rates. Hence, studies that focus on denial rates but which fail to consider the role of specialized lenders can produce misleading conclusions.

Results

Trends in the Number of Loans and Market Share

Table 1 presents the number of home purchase loans made nationwide by each type of lender to each type of market for the years 1993 to 2000. The next to last column shows the

6. Alternatively, poor service by the lender, high interest rates, and disadvantageous loan terms could also contribute to applications being withdrawn and loans not being accepted. While the exclusions we are making are common, it would be worthwhile for future studies to examine these types of applications more carefully.

7. FHA lending has itself been a source of considerable controversy. Even though many FHA loans go to members of underserved markets, the beneficial impact of these loans has been hotly disputed. Based on studies by the Chicago Area Fair Housing Alliance of housing market patterns in Cook and Dupage County, Bradford (1998) has argued that FHA lending "is inordinately concentrated in minority and racially changing communities . . . [has resulted in] undue levels of blight and disinvestment, . . . limits housing opportunities, contributes to segregation, [and] perpetuates the myth of race as a contributor to community disinvestment . . . [and] ultimately leads to community decline itself" (p. 7). However, government officials claim that problems with FHA have now been corrected. A discussion of FHA is beyond the scope of this article, but future studies should look at how FHA lending today either alleviates or contributes to the new inequality.

Table 1 • *Number of Conventional Home Purchase Loans: Subprime, Manufactured Housing, and Traditional Lenders (U.S. MSAs, 10% sample, 1993–2000)*

	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*Change, 2000–1993*	*% of total change*[a]
All markets										
Subprime	1,883	3,152	3,141	4,164	7,218	12,842	18,197	24,191	22,308	23.3
MH	3,400	5,604	8,574	13,109	13,839	16,560	16,432	12,094	8,694	9.1
Traditional	149,776	169,013	160,513	174,939	171,663	208,883	218,758	214,578	64,802	67.6
Total	155,059	177,769	172,228	192,212	192,720	238,285	253,387	250,863	95,804	
Very low income										
Subprime	200	421	414	504	1,027	2,122	3,718	4,896	4,696	23.2
MH	1,225	1,816	2,626	4,365	4,847	5,914	6,884	5,075	3,850	19.0
Traditional	15,205	18,821	17,539	19,909	19,404	23,785	27,453	26,904	11,699	57.8
Total	16,630	21,058	20,579	24,778	25,278	31,821	38,055	36,875	20,245	
Blacks										
Subprime	163	226	326	401	851	1,845	2,656	3,351	3,188	43.0
MH	136	377	609	983	1,069	1,326	1,331	764	628	8.5
Traditional	5,183	8,095	7,999	7,738	7,065	7,403	8,296	8,774	3,591	48.5
Total	5,482	8,698	8,934	9,122	8,985	10,574	12,283	12,889	7,407	
Minority neighborhoods										
Subprime	432	749	811	1,023	1,865	3,660	5,357	7,007	6,575	33.0
MH	533	1,036	1,614	2,588	2,735	3,380	2,997	2,357	1,824	9.2
Traditional	18,691	23,426	21,832	22,075	21,693	25,102	28,567	30,222	11,531	57.9
Total	19,656	25,211	24,257	25,686	26,293	32,142	36,921	39,586	19,930	

[a] The percentage of total change may not sum to 100%, due to rounding.

change in the number of home purchase loans made between 1993 and 2000. The final column shows how much of the change in the total number of loans to a market came from each type of lender. Results are presented for all markets combined and for the three types of underserved markets we previously identified: (1) very low-income borrowers, (2) blacks, and (3) minority neighborhoods. For home purchase loans, three major findings are immediately apparent.

First, the number of home purchase loans increased during the 1990s, but the greatest gains occurred in underserved markets. In our 10 percent sample, there were 155,059 home purchase loans made in 1993, compared to 250,863 loans in 2000—an increase of 61.8 percent. But during this same period, the number of loans to very low income borrowers, blacks, and minority neighborhoods all more than doubled. Total loans to very low income borrowers increased from 16,630 to 36,875; loans to black applicants increased from 5,482 to 12,889; and loans to minority tracts increased from 19,656 to 39,586. Hence, members of underserved markets made disproportionate gains in homeownership during the 1990s.

A second finding is also apparent from the table: 40 percent or more of the gains made in underserved markets came as a direct result of increased activity by specialized lenders. Specialized lenders accounted for 32.4 percent of all additional loans made in 2000 as compared to 1993 (23.3 percent subprime, 9.1 percent manufactured housing [MH]). However, they accounted for 42.2 percent of additional loans to very low income borrowers (23.2 percent subprime, 19 percent MH) and minority neighborhoods (33 percent subprime, 9.2 percent MH), and more than half of the additional loans to blacks (51.5 percent; 43.5 percent subprime, 8.5 percent MH).

Third, while subprime and manufactured housing lenders contributed about equally to the total number of additional loans made to very low income borrowers, subprime lenders played a far larger role in the increased lending to blacks and minority neighborhoods. Subprime lenders made 33 percent of the additional loans to minority neighborhoods and 43.5 percent of the additional loans to blacks. The corresponding figures for manufactured housing lenders were only 9.2 percent and 8.5 percent respectively, about the same as their contribution to all additional loans (9.1 percent).

Table 2 presents the corresponding results for refinance loans. Unlike home purchase loans, the number of refinance loans does not increase steadily from one year to the next. This is because, for many, interest rates heavily influence the decision to refinance. Another difference from home purchase loans is that hardly any refinance loans involve manufactured housing lenders.[8]

The importance of interest rates makes across-time comparisons of the volume of refinance lending more difficult. Nevertheless, it is apparent from Table 2 that subprime lenders played an increasingly important role across time in refinance lending to underserved markets, and to blacks and minority neighborhoods in particular. In 2000, subprime lenders were making anywhere from six to twelve times as many loans to underserved markets as they had in 1993, while the number of refinance loans made by traditional lenders actually declined, especially in minority neighborhoods. Because the number of refinance loans varies so much from year to year, the final two columns compare the totals for 1997 to 2000 with the totals for 1993 to 1996. These columns show that, while subprime lenders accounted for about half of the total increase and very low income increase in refinancing between the first four years and the second four years, their gains in minority markets were much greater. They accounted for 78 percent of the increase in minority neighborhoods and 72 percent of the increased refinance lending to blacks.

8. As *Mortgage Marketplace* (1998) points out, few lenders refinance manufactured housing homes. As a result, many manufactured-home owners are stuck with loans at high interest rates, even though their credit is good and they have been in their homes for years.

Table 2 • ***Number of Refinance Loans: Subprime, Manufactured Housing, and Traditional Lenders (U.S. MSAs, 10% sample, 1993–2000)***

	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*1997/2000–1993/1996*	*% of total change*[a]
All markets										
Subprime	7,740	9,424	10,564	19,598	33,939	52,169	53,777	42,854	135,413	53
MH	629	3,047	3,039	3,463	4,291	6,762	3,838	2,405	7,118	3
Traditional	369,375	130,667	84,049	139,413	131,372	367,897	222,401	113,526	111,692	44
Total	377,744	143,138	97,652	162,474	169,602	426,828	280,016	158,785	254,223	
Very low income										
Subprime	906	1,915	2,456	4,948	8,326	13,231	15,646	12,031	39,009	50
MH	73	613	632	755	918	1,227	897	582	1,551	2
Traditional	21,374	13,082	9,038	15,522	15,184	34,321	29,218	17,638	37,345	48
Total	22,353	15,610	12,126	21,225	24,428	48,779	45,761	30,251	77,905	
Blacks										
Subprime	733	1,402	1,794	3,222	5,176	7,685	8,090	6,298	20,098	72
MH	8	652	582	385	408	322	51	6	−840	−3
Traditional	7,864	5,141	3,838	5,885	5,574	10,649	9,175	6,064	8,734	31
Total	8,605	7,195	6,214	9,492	11,158	18,656	17,316	12,368	27,992	
Minority neighborhoods										
Subprime	2,282	3,288	3,637	6,455	10,473	16,456	17,449	13,656	42,372	78
MH	44	1,038	1,086	1,092	1,150	1,627	922	617	1,056	2
Traditional	49,005	21,109	12,847	18,348	17,684	43,109	32,158	18,955	10,597	20
Total	51,331	25,435	17,570	25,895	29,307	61,192	50,529	33,228	54,025	

[a] The percentage of total change may not sum to 100%, due to rounding.

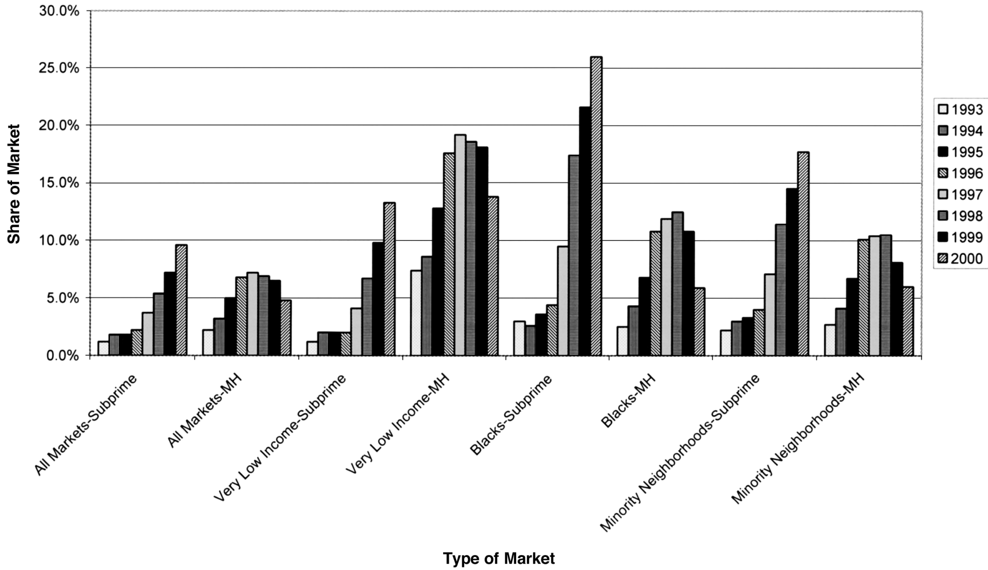

Figure 1 • ***Subprime Lenders Market Share: Conventional Home Purchase Loans (U.S. MSAs, 10% sample, 1993–2000)***

Figure 1 recasts the information from Table 1 to provide another means of assessing the influence of specialized lenders. The figure presents trends in market share for the home purchase loans of subprime and manufactured housing lenders (i.e., the annual percentage of all loans in each type of market that were made by specialized lenders). The results are clear and striking.

In 1993, subprime and manufactured housing lenders together held less than 4 percent of the overall home purchase market. These numbers gradually increased, however, and by 2000 specialized lenders held 14.4 percent of the market (9.6 percent subprime, 4.8 percent MH). For much of the decade, the greatest growth occurred among manufactured housing lenders. But, in 1998, subprime lenders continued to surge while manufactured housing began to decline, and by 2000 subprime lenders had twice as much market share as manufactured housing lenders.

As the figures show, growth was particularly great in underserved markets. In 1993, specialized lenders made just 8.6 percent of the loans to very low income borrowers (1.2 percent subprime, 7.4 percent MH). By 2000, they controlled more than a fourth of that market (13.3 percent subprime, 13.8 percent MH). Subprime lenders were far more dominant than manufactured housing lenders in the minority markets, making about a fourth of the loans to blacks and a sixth of the loans in minority neighborhoods. Conversely, manufactured housing lenders held only about 6 percent of each minority market at decade's end, a substantial decline from their peak in 1998.

As Table 2 shows, very few refinance loans involve manufactured housing lenders, so Figure 2 presents comparable information for subprime refinance loans. Shifts were even more dramatic in this segment of the housing market, with subprime lenders clearly dominating the changes. After making only 2 percent of all refinance loans in 1993, subprime lenders controlled 27 percent of the market in 2000. Again, the gains were greatest among underserved markets. By 2000 subprime lenders were making more than half of all refinance loans to blacks and about 40 percent of all loans to very low income borrowers and minority

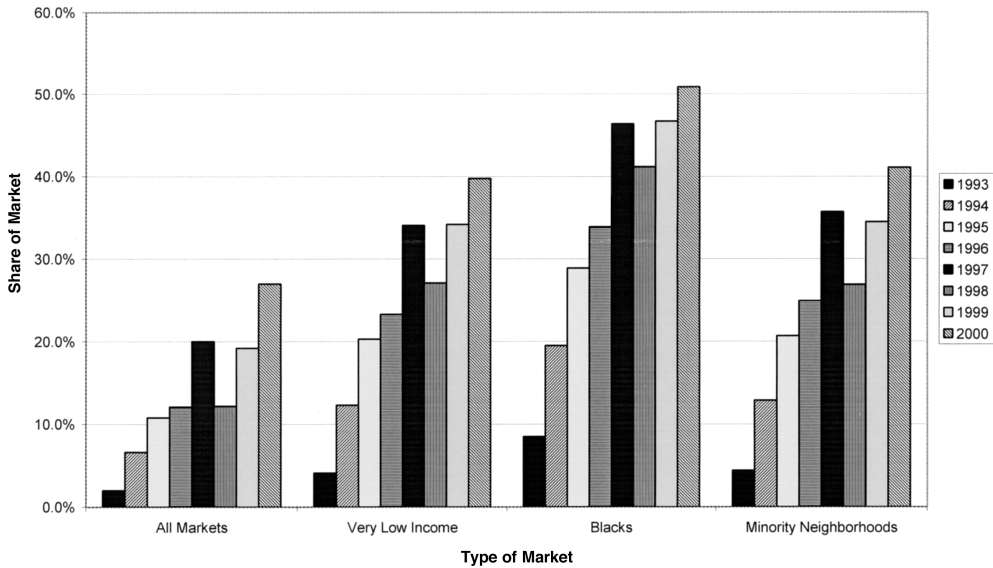

Figure 2 • ***Manufactured Housing Lenders Market Share: Conventional Home Purchase Loans (U.S. MSAs, 10% sample, 1993–2000)***

---

neighborhoods. Hence, in less than a decade, subprime lending was transformed from playing a minor role in overall mortgage refinancings to playing the leading role in refinancings for black applicants.

Pervasiveness of Racial Disparities across Income Levels

As we have shown, subprime lenders did make major advances in underserved markets between 1993 and 2000. These gains were particularly pronounced in minority markets. One possible explanation is that income differences across races and neighborhoods accounted for differences in the types of lenders utilized. Table 3 presents specialized lenders' market share for 2000 broken down by the race and income of applicants. At every income level, and for both home purchase and refinance loans, blacks are far more likely than others to receive their loans from a subprime lender. At the lowest income level, almost 30 percent of all blacks get their home purchase loans from a subprime lender, compared to less than 10 percent of members from other racial groups. Even at the highest income level, blacks are almost three times as likely to get their loans from a subprime lender as are others. For refinance loans, blacks consistently are at least twice as likely to borrow from a subprime lender as are others with comparable incomes. Indeed, subprime lenders have captured more than a third of the refinance business of the highest-income blacks.

Table 4 provides similar information for minority neighborhoods and applicant income. Again, borrowers from minority neighborhoods at every income level are far more likely to turn to a subprime lender than are borrowers from non-minority neighborhoods.

Tables 3 and 4 also illustrate the role of manufactured housing lenders in minority markets. Here, we find relatively few and inconsistent differences between minority and non-minority markets. Unlike for subprime lending, those who receive loans for manufactured housing differ greatly by income but little by race. Whatever its other benefits and disadvantages, racial inequality did not seem to be a major characteristic of manufactured housing

Table 3 • *Specialized Lenders Market Share: Race of Applicant by Income of Applicant (U.S. MSAs, 10% sample, 2000 only)*

		Type of Lender					
		Subprime			*Manufactured Housing*		
Type of Loan	*Applicant's Income*	*Not Black*	*Black*	*All*	*Not Black*	*Black*	*All*
Home Purchase	≤60% of MSA Median	9.5%	29.8%	11.9%	11.9%	11.2%	11.8%
	60%–80% of MSA Median	8.1%	26.9%	9.5%	6.1%	5.9%	6.1%
	80%–100% of MSA Median	8.2%	26.1%	9.2%	4.0%	5.2%	4.1%
	100%–120% of MSA Median	7.7%	25.4%	8.6%	2.6%	3.6%	2.7%
	>120% of MSA Median	7.1%	21.1%	7.6%	1.1%	1.4%	1.1%
Refinance	≤60% of MSA Median	28.0%	59.4%	34.3%	0.6%	0.1%	0.5%
	60%–80% of MSA Median	24.4%	52.9%	27.8%	0.2%	0.0%	0.2%
	80%–100% of MSA Median	21.1%	47.8%	23.6%	0.1%	0.0%	0.1%
	100%–120% of MSA Median	18.7%	44.9%	20.7%	0.1%	0.0%	0.1%
	>120% of MSA Median	14.0%	37.8%	15.2%	0.1%	0.0%	0.1%

lending in the year 2000. Hence, the great success of subprime lenders in minority markets reflects, in part, their ability to disproportionately attract members of those markets regardless of income. At every income level, blacks and residents of minority neighborhoods are more likely to turn to subprime lenders than are others.

Of course, it could be argued that these findings are due to racial differences in other variables that are not available in the HMDA data, such as credit histories and wealth. Certainly, these variables account for some of the disparities, and it is unfortunate that HMDA does not include measures of them. Compelling evidence from other studies, however, leads us to believe that significant differences would remain even if such variables were taken into account. First, the Boston Fed Study (Munnell et al. 1996) found significant, persistent racial disparities in denial rates, even after controlling for the variables that lenders themselves said determined their decisions. Second, and more directly, preliminary tests of lending discrimi-

Table 4 • *Specialized Lenders Market Share: Racial Composition of Neighborhood by Income of Applicant (U.S. MSAs, 10% sample, 2000 only)*

		Type of Lender					
		Subprime			*Manufactured Housing*		
Type of Loan	*Applicant's Income*	*Not Minority*	*Minority*	*All*	*Not Minority*	*Minority*	*All*
Home Purchase	≤60% of MSA Median	10.5%	23.4%	13.3%	14.3%	11.9%	13.8%
	60%–80% of MSA Median	8.8%	18.4%	10.5%	7.1%	8.1%	7.3%
	80%–100% of MSA Median	8.8%	17.1%	10.1%	4.6%	6.0%	4.9%
	100%–120% of MSA Median	8.0%	16.9%	9.3%	2.9%	4.4%	3.1%
	>120% of MSA Median	7.0%	14.7%	8.0%	1.2%	2.0%	1.3%
Refinance	≤60% of MSA Median	33.2%	53.7%	39.8%	1.9%	2.0%	1.9%
	60%–80% of MSA Median	28.6%	44.5%	32.3%	1.6%	1.7%	1.6%
	80%–100% of MSA Median	24.8%	39.5%	27.8%	1.6%	1.6%	1.6%
	100%–120% of MSA Median	21.4%	36.0%	24.0%	1.5%	2.2%	1.7%
	>120% of MSA Median	16.6%	27.3%	18.2%	1.0%	1.8%	1.1%

nation done by the National Fair Housing Alliance indicate that creditworthy whites who approach subprime lenders are referred more often to prime lenders, who offer better terms. Creditworthy blacks are not given this advice (Dedman 1999). Likewise, the National Community Reinvestment Coalition (NCRC 2003) conducted 48 matched-pair, race-based tests of 12 major subprime lenders in selected metropolitan areas. Similarly qualified white and black applicants contacted subprime lenders about a home mortgage loan. The study, which was funded by HUD, found that significant differences favoring white borrowers were common. Whites were quoted lower interest rates and were more often referred up to the lender's prime borrowing division. Whites were more often assumed to be qualified and received more advice, recommendations, and follow-up contacts from the loan officers. The NCRC study also found that the subprime lenders quoted very high rates, fees, and closing costs that were not correlated with risk. In short, it does not appear that credit histories and other omitted variables provide an explanation for the findings we have presented here. But even if they did, this would not justify the unfair treatment that low income and minority borrowers often receive in the home mortgage market.

Denial Rates

One other aspect of lending trends demands attention. So far, we have focused on market share and numbers of loans made—an analysis of approved loan applications. However, as noted earlier, many studies have focused on denial rates, and particularly the differences between black and white denial rates. Specialized lenders had a major impact on denial rates. Changes in denial rates were not due to a worsening of the old inequality. Rather, they were due to the rise of the new inequality, which made it possible for high denial rates to be combined with large numbers of loans to underserved markets. Failing to understand the impact of specialized lenders on denial rates will result in a failure to understand the changes in home mortgage lending during the 1990s.

Because racial differences in denial rates have been of greatest interest to researchers and policymakers, we will focus on the trends for blacks, which are graphically illustrated in Figure 3. Patterns are similar for other markets, both served and underserved.

As Figure 3 shows, the denial rates for all lenders rose from 29.9 percent in 1993 to 42.5 percent in 2000.[9] Given the increase in lending to blacks that occurred during this period, the increase in denial rates that also occurred might seem a major paradox. However, the figure also shows that traditional lenders' home purchase denial rate for blacks was fairly steady over the decade. Indeed, perhaps because of automated underwriting, their denial rate was actually lower in 2000 than it was in 1993 (26.8 percent in 1993 versus 24.4 percent in 2000).[10] Hence, specialized lenders accounted for the overall increase in denial rates. Partly, specialized lenders' own denial rates went up, but even more critically, they were getting more and more applications. As a result, their market shares rose, and the overall denial rate went up, too. Also, as Randall M. Scheessele (1999) notes, manufactured home retailers typically send the same application to many lenders simultaneously. Hence, the increase in denial rates is deceptive because it is produced, in part, by individuals who were denied repeatedly by different lenders but who may have eventually received a loan from some institution.

Discussion

In this section, we discuss the theoretical and substantive significance not only of our own findings, but also of related research. This other work, much of it descriptive, has offered

9. For all borrowers regardless of race, the corresponding figures are 14.5 percent and 25.4 percent.

10. Similarly, for all borrowers regardless of race, the corresponding figures are 12.4 percent and 11.5 percent.

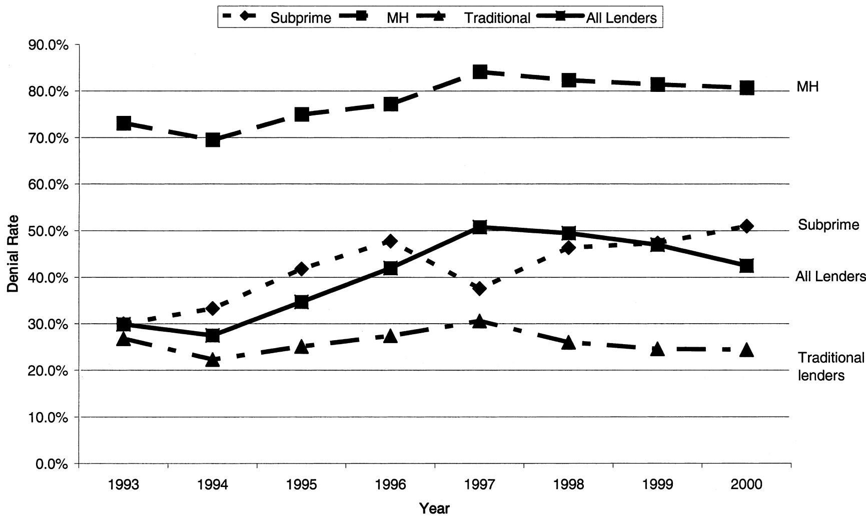

Figure 3 • ***Black Denial Rates: Conventional Home Purchase Loans (U.S. MSAs, 10% sample, 1993–2000)***

important empirical findings, but now yields additional insights by being reinterpreted in light of our theoretical framework.

Summary of Key Findings

Empirically, three major findings of our study stand out. First, subprime and manufactured housing lenders dramatically increased their share of the home mortgage market between 1993 and 2000, with particularly great gains among underserved markets. As a result, they accounted for many of the gains in home credit made by those groups. Together, specialized lenders accounted for as much as half of the increase in home purchase loans made to underserved markets between 1993 and 2000.

Second, gains made by subprime lenders with minority markets cannot be attributed simply to racial differences in income. At every income level, and for both home purchase and refinance loans, blacks and residents of minority neighborhoods were far more likely than others to receive their loans from a subprime lender. Findings from other studies further suggest that other variables, such as credit histories or wealth, cannot account for the racial disparities noted here. Conversely, race had little to do with the gains made by manufactured housing lenders.

Third, specialized lenders had a dramatic impact on home purchase denial rates. The significant increase in denial rates that occurred during this period was almost entirely due to the increased activity of subprime and manufactured housing lenders.

Sociological and Social Implications

What are the implications of these findings? One key insight that arises from this study is that the rise of specialized lending fundamentally changes the way in which lending discrimination studies should be conducted. Mortgage lending historically has been characterized by the failure of those in underserved markets to obtain home loans. But during the 1990s, this

link was broken: denial rates rose at the same time that lending to underserved markets increased. This is not to say that racial differences in denial rates, particularly among traditional lenders, are no longer worth studying. However, with the rise of specialized lending, it is important to examine not only whether a loan was made, but also the characteristics of the loan, such as the interest rate and terms associated with it.

Even more critical, however, are the implications of these findings for inequality. During the 1990s, the old inequality started to weaken as specialized lenders helped to produce homeownership gains for underserved markets that outstripped the gains made by others. However, these advances were not quite what they seemed. While homeownership in general is desirable, it is not clear how many of its benefits go to those borrowing from specialized lenders, even when predatory or abusive practices are not present. We earlier noted the many benefits of homeownership, which include the accumulation of wealth. But, the higher interest rates charged by specialized lenders combined with the potential loss of equity from subprime home refinance can work against the accumulation of wealth. Further, while manufactured homes may be cheaper to acquire, their true costs are unclear because of the uncertainty concerning unit durability and appreciation (Vermeer and Louie 1997). We also noted that barriers to homeownership have produced racial segregation and the many problems associated with it. But by targeting minority neighborhoods, subprime lenders may increase rates of homeownership in those areas while doing little to increase racial integration.

In the specific case of manufactured housing, thousands of individuals achieved homeownership via the purchase of lower cost homes, homes that are generally of far better quality than their counterparts of 25 years ago. In exchange, however, some may have risked or experienced problems with installation, construction, safety, interest rates, insurance premiums, resale values, landlords, as well as other consumer protection problems.

The low cost of manufactured housing may be enough to offset many of its problems, but subprime lending has no such compensating factor. The alleged "predatory practices" of some lenders have raised great concern. Critics point out or allege that subprime borrowers may face unreasonably high interest rates, exorbitant fees, loss of property, and other abusive practices. Even in the absence of such practices, concerns arise from the fact that half or more of subprime borrowers could probably qualify for better deals elsewhere (Gramlich 2004; Medine 2000; Raines 2000), and that subprime lenders may actually be stealing borrowers away from traditional lenders (Williams, McConnell, and Nesiba 2001).

In short, the apparent progress of the past decade is not all that it seems. The old inequality, which denied many access to homeownership, has slowly diminished. The result has been record growth in the rates of homeownership for minorities and other members of underserved markets. But for many of these homeowners, a new inequality has replaced the old. This new inequality is characterized by less desirable loan terms, exposure to predatory practices, and a lack of consumer protection. While we might reasonably argue that the new inequality is better than the old, we must not lose sight of the fact that it is inequality nonetheless: recent gains in homeownership for underserved markets have come at a price.

Explanations for Inequality Revisited

In light of the evidence we have presented, we again ask, why has the new inequality emerged? As neoclassical economic theory suggests, industry deregulation did lead to increased competition in home mortgage lending. In the past, riskier borrowers were simply denied loans. But in the newly competitive market place, markets that long had been ignored suddenly found a multitude of lenders willing to serve them. Automated underwriting may also have made it possible for traditional lenders to better identify and serve more of the qualified borrowers from underserved markets.

But as Tillman and Indergaard (1999) found in the health insurance field, there was also a dark side to these changes. Deregulation in the 1980s led many banks to close branches located

in inner cities and to relocate them in higher-income areas regarded as more likely to generate profitable business (Campen 1998). Subprime lenders took their place. Because many of these are mortgage and finance companies, they are not regulated as closely as are banks and other depository institutions, nor do they have the same obligations to serve underserved markets that the Community Reinvestment Act requires of others. Indeed, it may be that depository institutions set up subprime affiliates for these very reasons. Further, despite the recent explosion in subprime lending, the Federal Trade Commission has fewer than 40 people on staff to address predatory lending (Immergluck and Wiles 1999).

Similar to what Tillman and Indergaard found in the health insurance industry, borrowers were often at a structural disadvantage in their dealings with these lenders. Lenders had information denied to others, and a lack of effective regulation made it possible for them to exploit it. A recent report from the Joint Center for Housing Studies at Harvard University (Apgar et al. 2004) summarizes the handicaps that low-income and minority borrowers have found themselves confronting:

> The bewildering array of mortgage products combined with the various available combinations of points and fees and aggressive marketing tactics with "too good to be true" offers can make shopping for a mortgage an overwhelming process for even the most sophisticated borrower. Indeed, the lack of readily available data on the price of alternative mortgage products puts the consumer at a distinct disadvantage in negotiating with a mortgage broker who has ready access to this information . . . The growing use of mortgage brokers, the lack of effective regulatory oversight, [and] the lack of readily available mortgage pricing data have combined to reinforce a dual market where some borrowers pay more for mortgage credit and/or receive less favorable treatment (or even abusive treatment) than other similarly situated and equally creditworthy borrowers. (p. 5)

Increases in manufactured housing were probably more beneficial to underserved markets. But even here, a lack of government regulation and consumer protection sometimes resulted in unsafe installations, frequent defects, and exposure to abusive landlords. Further, as Kevin Jewel (2003) of the Consumers Union points out, unequal access to information also puts purchasers of manufactured homes at a disadvantage when dealing with their lenders and dealers.

> Consumers find it difficult to obtain information on home quality and available options for themselves. The dealership sales process discourages shopping through high pressure sales techniques and deposit requirements . . . Consumers may lack the technical expertise to ascertain the quality of the construction process and materials used to construct the home . . . Thus, consumers lack information needed to be informed shoppers in this marketplace. They have to trust the dealer and manufacturers, whom [*sic*] are often their only source for information. But . . . this trust rests on faith, not on the solid foundations of enforceable law. This leaves consumers vulnerable.

Hence, economic theories such as Becker's (1957) help to explain why lending to underserved markets increased during the 1990s. Sociological network theories such as Tillman and Indergaard's (1999) help to explain why these changes were not universally beneficial. Neither perspective, however, clearly explains why there were strong racial differences in subprime market lending, or why few racial differences were found for manufactured housing. We therefore argue that a new sociological/demographic explanation helps to provide part of the answer: The old inequality helped to make the new inequality possible.

As Massey and Denton point out (1993), African Americans are heavily segregated in America. Because blacks are disproportionately located in low-income areas, they have been more likely to have their networks of service providers disrupted as traditional lenders have withdrawn from their neighborhoods. Further, residential segregation allows lenders to target borrowers more easily by race and income. As Matthew Lee (1999) of the Inner City Press notes, "Mailboxes in moderate-income neighborhoods are full of pitches from subprime lenders. As the subprime industry has gotten more sophisticated, direct marketing has

become focused on communities whose residents have already shown a taste or need for high interest rate loans."

Lee (1999) further argues that race appears to be a key factor in this targeting of areas, as subprime marketing is disproportionately concentrated in minority census tracts. Such strategic placement of offices and direct marketing efforts to minority areas would be far more difficult, of course, if the old inequality had not helped create these neighborhoods in the first place. Manufactured housing, on the other hand, is disproportionately likely to be placed in non-metropolitan rather than urban areas (Housing Assistance Council 2004) and hence does not typically involve existing residential inner city and minority neighborhoods. It is therefore not surprising that manufactured housing does not show the strong racial differences that subprime lending does.

The Future of the New Inequality

Is the new inequality destined to continue? Luckily, there seems to be a growing awareness that something can and should be done. A joint taskforce of the Departments of HUD and Treasury has announced recommendations for curbing predatory lending (U.S. HUD and U.S. Treasury 2000), and various states and communities have either adopted or are considering their own laws on predatory lending.[11] In December 2000, Congress passed the Manufactured Housing Improvement Act (MHI 2000), which calls on HUD to update construction and safety standards in a timely fashion and for states to establish resolution programs for handling customer complaints. HUD has also suggested that the government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac be more active in the subprime and manufactured housing markets (U.S. HUD 2000b). John E. Lind (2000) has argued that the entry of the GSEs into subprime markets should be beneficial because the GSEs attach conditions to their purchases that curb predatory lending. Congressman Barney Frank (Mortgage Marketplace 1998) argues that manufactured housing owners are generally not wealthy, and they deserve the same sorts of benefits that the GSEs provide to other segments of the American Housing Finance system. If successful, these initiatives offer hope that the new inequality in home mortgage lending will not last as long as the old inequality has. But for now, the ultimate fate of these efforts remains to be seen.

The Broader Picture

So far, we have focused on a description of the trends in specialized mortgage lending and on their implications for housing inequality. It is important to realize, however, that these are only part of a much larger phenomenon. Deregulation has also contributed to a decline in traditional banking services in the nation's central cities (Branch 1998; Squires and O'Connor 1998). In their place a new "fringe banking" system consisting of check-cashing/ payday loan businesses has arisen. Donna Tanoue (2000) of the FDIC notes that such businesses have gone from a few hundred outlets in the mid-1990s to approximately 10,000 branches in 2000. Among their most controversial services are payday loans, where "service fees" and a need to repeatedly roll over loans can cause the annual percentage rate to exceed 1,000 percent (Consumer Reports 2000).

In still other areas of lending, black plaintiffs have recently sued automobile finance companies, claiming that blacks were charged higher interest rates than were comparable

11. As ACORN (2004) notes, states that have passed or have considered legislation against abusive mortgage practices include Arkansas, California, Massachusetts, New York, New Mexico, and New Jersey. Cities that have passed or considered laws include Chicago, Philadelphia, Oakland, Los Angeles, New York, and Washington, DC. As of this writing, detailed information on anti-predatory lending efforts can be found on the web pages of ACORN (www.acorn.org), the Mortgage Bankers Association (http://www.mortgagebankers.org/resources/predlend/index.html), and the law firm of Butera and Andrews (http://www.butera-andrews.com/state-local/b-index.htm).

white borrowers (Henriques 2000). Subprime lenders are also starting to make a significant number of automobile loans (Consumer Reports 1998b). The rent-to-own industry, which attracts 3 million people and $4 billion in business a year, has been criticized for prices that are two to five times greater than those charged at other retail outlets (Consumer Reports 1998b). Pawnshops and high-rate credit cards are still other examples of how the poor can obtain loans, but at a far higher cost than is paid by others.

Such developments all have their supporters, who claim that abuses do not exist or that valuable services are being provided. Still, many may join with Iowa assistant attorney general Kathleen Keest in asking, "Why, for the poor, does every commercial transaction have to be an exercise in self-defense?" (quoted in Consumer Reports 1998b:29). As Jean Ann Fox of the Consumer Federation of America notes, we may be moving towards a polarized system where "middle class people will be served by one federally insured system, and moderate-income people will have to rely on costly fringe bankers" (quoted in Branch 1998). Squires and O'Connor (1998) add that "A two-tiered banking system—just like the dual housing market, segregated school systems, and segmented labor markets—constitute critical institutionalized barriers confronting cities in their efforts to bring hope to their most depressed areas and revitalize metropolitan economies . . . Residents of distressed communities deserve better. The health of the nation's cities depends on it" (p. 146).

Conclusion

Both the privileged and less-privileged segments of society have seen major changes in the financial and lending options available to them. The last 30 years have seen the rise of IRAs, 401K plans, and numerous other financial instruments, products, and services that have increased access and savings returns and that have lowered borrowing costs for middle- and upper-income groups. Lower-income and minority groups have also seen changes in the financial options available to them, but their choices are of a very different nature. As conventional financial institutions grow more distant and/or less responsive, these potential savers and borrowers are increasingly forced to meet their financial services needs with institutions that target their neighborhoods with higher-fee, unfavorable-term borrowing opportunities.

This work shows how both neoclassical economic theory and contemporary sociological network theory inform the causes of these changes in inequality. As neoclassical economic theory would predict, a deregulated marketplace has improved low-income and minority-groups' access to credit. This access has helped them to achieve record rates of homeownership and also to get loans for any number of other purposes. But, as sociological network theory suggests, the new lenders are quite unlike the old ones. As a result, the gains made by underserved markets have come in very different ways than those made by the rest of American society. For better or for worse, as the old inequalities have slowly diminished, new inequalities have risen in their place.

References

AARP. 1999. "More Than Three in Four Manufactured Homes Have Problems, AARP Survey of Owners Finds." *AARP News Release*, July 21. Retrieved February 16, 2000 (http://www.aarp.org/press/1999/nr072199.html).

ACORN. 2004. "Progress in the Fight against Predatory Lending." *Association of Community Organizations for Reform Now.* Retrieved July 9, 2004 (http://www.acorn.org/index.php?id=749).

Apgar, William. 2000. "Testimony of the Assistant Secretary for Housing Federal Housing Commissioner William Apgar before the House Committee on Banking and Financial Services, May 24, 2000." *U.S. House Committee on Financial Services*. Retrieved January 9, 2005 (http://financialservices.house.gov/banking/52400apg.htm).

Apgar, William, Allegra Calder, Gary Fauth, and the staff of the Joint Center for Housing Studies at Harvard University. 2004. *Credit, Capital and Communities: The Implications of the Changing Mortgage Banking Industry for Community Based Organizations*. Joint Center for Housing Studies, Harvard University. Retrieved July 9, 2004 (http://www.jchs.harvard.edu/publications/communitydevelopment/ccc04-1.pdf).

Arrow, Kenneth J. 1998. "What Has Economics to Say about Racial Discrimination?" *The Journal of Economic Perspectives* 12(2): 91–100.

Becker, Gary. *The Economics of Discrimination*. 1957. Chicago: University of Chicago Press.

Bradford, Calvin. 1998. *The Two Faces of FHA: A Case of Government Sponsored Discrimination Against Minority and Racially Changing Communities*. Chicago: Chicago Area Fair Housing Alliance.

Bradley, Donald S. 1997. "Will Manufactured Housing Become Home of First Choice?" *Secondary Mortgage Markets* 14(2): 29–33. Retrieved March 25, 2005 (http://www.freddiemac.com/finance/smm/july97/pdfs/bradley.pdf).

Bradley, Jeanette and Peter Skillern. 2000. "Predatory Lending: Banks Trick Poor into Expensive Loans." *Dollars and Sense*, January/February 2000, pp. 12–15.

Branch, Shelley. 1998. "Where Cash Is King." *Fortune*, June 8, 1998, pp. 201–5. Retrieved November 6, 2000 (http://library.northernlight.com).

Brice, Rutherford. 1999. "Prepared Testimony of Mr. Rutherford Brice, Member of the Board of Directors, American Association of Retired Persons, October 5, 1999, Before the Senate Banking Committee Subcommittee on Housing and Transportation." *U.S. Senate Committee on Banking, Housing, and Urban Affairs*. Retrieved January 10, 2005 (http://banking.senate.gov/99_10hrg/100599/brice.htm).

Campen, James. 1998. "Neighborhoods, Banks, and Capital Flows: The Transformation of the U.S. Financial System and the Community Reinvestment Movement." *Review of Radical Political Economics* 30(4): 29–59.

Canner, Glenn B., Wayne Passmore, and Elizabeth Laderman. 1999. "The Role of Specialized Lenders in Extending Mortgages to Lower-Income and Minority Homebuyers." *Federal Reserve Bulletin*, November 1999, pp. 709–23. Retrieved November 3, 2000 (http://www.bog.frb.fed.us/pubs/bulletin/1999/1199lead.pdf).

Consumer Reports. 1998a. "Dream Home . . . or Nightmare?" *Consumer Reports*, February, pp. 30–35. Retrieved November 15, 2000 (http://www.consumersreports.org/Special/ConsumerInterest/Reports/9802hom0.htm).

———. 1998b. "Poverty, Inc." *Consumer Reports*, July, pp. 28–33. Retrieved November 3, 2000 (http://www.consumersreports.org/Special/ConsumerInterest/Reports/9807hom0.htm).

———. 2000. "Cracking Down on Payday Loans." *Consumer Reports*, March, p. 6. Retrieved November 15, 2000 (http://www.consumersreports.org/Mission/Memo/Reports/0003tip0.htm).

Davidson, Steven. 1995. "Rating the B and C Secondary Market: B and C Mortgage-Backed Securities." *America's Community Banker* 4(8): 38–41.

Day, Kathleen. 2000. "Lending Survey Finds Gains for Minorities." *The Washington Post*, August 9, p. E01.

Dedman, Bill. 1999. "Study Discerns Disadvantages for Blacks in Home Mortgages." *The New York Times*, November 14, Section 1, p. 18. Retrieved July 9, 2004 (http://query.nytimes.com/gst/fullpage.html?res=9F07E7D6143DF937A25752C1A96F958260).

Evanoff, Douglas D. and Diana Fortier. 1986. "Geographic Expansion in Commercial Banking: Inferences from Intrastate Activity." Pp. 39–58 in *Toward Nationwide Banking: A Guide to the Issues*, edited by Herbert Baer and Sue F. Gregorash. Chicago: Federal Reserve Bank of Chicago.

Fannie Mae Foundation. 1998. *African American and Hispanic Attitudes on Homeownership: A Guide for Mortgage Industry Leaders*. Washington, DC: Fannie Mae Foundation.

Farley, Reynolds and William H. Frey. 1994. "Changes in the Segregation of Whites from Blacks during the 1980s: Small Steps toward a More Integrated Society." *American Sociological Review* 59:23–45.

Feagin, Joe R. 1999. "Excluding Blacks and Others from Housing: The Foundation of White Racism." *Cityscape* 4(3): 79–91. Retrieved March 25, 2005 (http://www.huduser.org/periodicals/cityscpe/vol4num3/feagin.pdf).

Federal Financial Institutions Examination Council (FFIEC). 2000. FFIEC Press Release, August 8, 2000. *Federal Financial Institutions Examination Council*. Retrieved November 1, 2000 (http://www.ffiec.gov/hmcrpr/hm080800.htm).

Fitzgerald, Mike. 2003. "Sleazy Mortgage Tricks Run Rampant." *Belleville News-Democrat*, August 11. Retrieved March 25, 2005 (http://www.belleville.com/mld/belleville/news/6504997.htm).

Fleishman, Sandra. 1999. "Groups War over Mobile Homes Bills: AARP Contends Proposals Weaken Standards." *The Washington Post*, October 2, p. G01.

Gates, Susan Wharton, Vanessa Gail Perry, and Peter M. Zorn. 2002. "Automated Underwriting in Mortgage Lending: Good News for the Underserved?" *Housing Policy Debate* 13(2): 369–91. Retrieved January 8, 2005 (http://www.fanniemaefoundation.org/programs/hpd/pdf/hpd_1302_gates.pdf).

Goldstein, Deborah. 1999. "Understanding Predatory Lending: Moving toward a Common Definition and Workable Solutions." Working Paper No. W99-11, Neighborhood Reinvestment Corporation and the Joint Center for Housing Studies, Harvard University. Retrieved March 25, 2005 (http://www.jchs.harvard.edu/publications/finance/goldstein_w99-11.pdf).

Gramlich, Edward. 2004. "Subprime Mortgage Lending." *National Mortgage News*, May 31, p. 4.

Heckman, James J. 1998. "Detecting Discrimination." *The Journal of Economic Perspectives* 12(2): 101–16.

Henriques, Diana. 2000. "New Front Opens in Battle against Race Bias in Loans." *The New York Times*, October 22, Section 1 p. 1. Retrieved November 15, 2000 (http://www.nytimes.com/2000/10/22/national/22LOAN.html).

Hill-Holtzman, Nancy. 1999. "Mobile Home Owners Voice Complaints: A State Senate Hearing Focuses on Allegations that Park Operators Thwart Sales by Offering Rival Properties." *Los Angeles Times*, November 18, p. B8.

Housing Assistance Council (HAC). 2004. "Run While You Still Can: Subprime Demand and Predatory Lending in Rural Areas." *Housing Assistance Council.* Retrieved June 28, 2004 (http://www.ruralhome.org/pubs/subprimereport.pdf).

Immergluck, Dan and Geoff Smith. 2004. "Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosure." *Woodstock Institute.* Retrieved July 9, 2004 (http://woodstockinst.org/document/riskybusiness.pdf).

Immergluck, Daniel and Marti Wiles. 1999. "Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development." Chicago, IL: Woodstock Institute.

Jaffee, Dwight and Joseph Stiglitz. 1990. "Credit Rationing." Pp. 837–88 in *Handbook of Monetary Economics*, Vol. 2, edited by Benjamin M. Friedman and Frank H. Hahn. New York: Elsevier Science Publishers.

Jewel, Kevin. 2003. "Market Failures Evident in Manufactured Housing." *Consumer's Union.* Retrieved January 10, 2005 (http://www.consumersunion.org/consumeronline/pastissues/housing/marketfailure.html).

Lee, Matthew. 1999. "Strategies to Combat Predatory Subprime Lending, Particularly When Targeted at Communities of Color." *National Fair Housing Advocate Online*, May. Retrieved November 3, 2000 (http://www.fairhousing.com/discuss/guest_room/lee.htm).

Levin, Lloyd P. 1999. "Borrowers with Poor Credit Have Right to Home Ownership." *Milwaukee Journal Sentinel*, May 18, p. 19. *Factiva.* Dow Jones & Reuters. Hesburgh Library, Notre Dame University. Retrieved January 13, 2005 (http://global.factiva.com/).

Lind, John E. 2000. *Social Performances of the Government Sponsored Enterprises Fannie Mae and Freddie Mac for the Years 1996–1998*. San Francisco: CANICCOR.

Longhofer, Stanley D. and Stephen R. Peters. 2004. "Self-Selection and Discrimination in Credit Markets." *Social Science Research Network Electronic Library.* Retrieved January 8, 2005 (http://ssrn.com/abstract=118088).

Lundberg, Shelly J. and Richard Startz. 2000. "Inequality and Race: Models and Policy." Pp. 269–95 in *Meritocracy and Economic Inequality*, edited by Kenneth Arrow, Samuel Bowles, and Steven Durlauf. Princeton, NJ: Princeton University Press.

Manufactured Housing Institute (MHI). 2000. "106th Congress Approves Manufactured Housing Improvement Act." *Manufactured Housing Institute.* Retrieved July 18, 2001 (http://www.mfghome.org/press_releases/120700.html).

———. 2004. "Understanding Today's Manufactured Housing." *Manufactured Housing Institute.* Retrieved January 8, 2005 (http://www.manufacturedhousing.org/understanding_today2004/mhi_understanding_today.pdf).

Massey, Douglas S. and Nancy A. Denton. 1993. *American Apartheid: Segregation and the Making of the Underclass.* Cambridge: Harvard University Press.

Matesi, Ann. 2000. "Affordable Solutions to Inner-city Housing Woes." *Professional Builder*, January, p. 90.

Medine, David. 2000. "Prepared Statement of the Federal Trade Commission before the House Committee on Banking and Financial Services on Predatory Lending Practices in the Subprime Industry, May 24, 2000." *U.S. Federal Trade Commission.* Retrieved November 1, 2000 (http://www.ftc.gov/os/2000/05/predatorytestimony.htm).

Mengle, David L. 1990. "The Case for Interstate Branch Banking." *Economic Review* 76(6): 3–17.

Merrick, Bill. 1999. "Serving High-Risk Members." *Credit Union Magazine*, March 1999, pp. 62–67.

Miller, Hugh. 1999. "Attacking the Myth of Predatory Lending." *American Banker*, June 15 Supplement, pp. 5A–6A.

Mortgage Marketplace. 1998. "Fannie, Freddie Eye Burgeoning Manufactured Housing." *Mortgage Marketplace*, September 7, p. 3.

Munnell, Alicia H., Geoffrey M. B. Tootell, Lynn E. Browne, and James McEneaney. 1996. "Mortgage Lending in Boston: Interpreting HMDA Data." *American Economic Review* 86(1): 25–53.

National Community Reinvestment Coalition (NCRC). 2003. "New Mystery Shopping Survey Finds Subprime Lenders Give Preference to Whites." *Reinvestment Works*, Winter, pp. 1, 7. Retrieved July 9, 2004 (http://www.ncrc.org/pressandpubs/reinvestment_works-archives/Rworks_Winter_2003.pdf).

Nesiba, Reynold F. 1996. "Racial Discrimination in Residential Lending Markets: Why Empirical Researchers Always See It and Economic Theorists Never Do." *Journal of Economic Issues* 30(1): 51–77.

Patty, Mike. 1999. "Mobile Misery: Manufactured Housing Can Leave Park Renters Trapped by Rising Costs with Nowhere to Go." *Denver Rocky Mountain News*, January 24, p. 34A.

Raines, Franklin D. 2000. "Remarks by Franklin D. Raines, Chairman and Chief Executive Officer of Fannie Mae, before the Rainbow/Push Wall Street Conference, 'Building Bridges to Expand the Marketplace', New York, NY, January 13, 2000." *Fannie Mae.* Retrieved February 9, 2000 (http://www.fanniemae.com/media/speeches/printthispage.jhtml?repID=/media/speeches/2000/speech_114.html).

Ross, Stephen L. and John Yinger. 2002. *The Color of Credit: Mortgage Discrimination, Research Methodology, and Fair-lending Enforcement.* Cambridge: MIT Press.

Schafer, Robert and Helen F. Ladd. 1981. *Discrimination in Mortgage Lending.* Cambridge: MIT Press.

Scheessele, Randall M. 1999. "1998 HMDA Highlights." Working Paper No. HF-009, *HUD User Policy Development and Research Information Service, Washington, DC.* Retrieved November 3, 2000 (http://www.huduser.org/publications/hsgfin/workpapr9.html).

Shepard, Paul. 2000. "HUD to Focus on Predatory Lending." *Associated Press*, March 31. *The Gay Financial Network.* Retrieved January 9, 2005 (http://www.gfn.com/archives/story.phtml?sid=5532).

Smith, Adam C. 1999. "Mobile Home Group Rallies to Rebound." *St. Petersburg Times*, November 28, p. 1B.

Squires, Gregory D. and Sally O'Connor. 1998. "Fringe Banking in Milwaukee." *Urban Affairs Review* 34:126–49.

Stein, Eric. 2001. *Quantifying the Economic Cost of Predatory Lending.* Coalition for Responsible Lending. Retrieved August 5, 2003 (http://www.predatorylending.org/pdfs/Quant10-01.PDF).

Stiglitz, Joseph and Andrew Weiss. 1981. "Credit Rationing in Markets with Imperfect Information." *American Economic Review* 71:393–410.

Tanoue, Donna. 2000. "Remarks by Donna Tanoue, Chairman, Federal Deposit Insurance Corporation, before the Seventh Annual Greenlining Economic Development Summit, Sacramento, California, June 13, 2000." *National Consumer Law Center, Inc.* Retrieved November 15, 2000 (http://www.nclc.org/PayDayLoans?pay-menu.htm).

Tillman, Robert and Michael Indergaard. 1999. "Field of Schemes: Health Insurance Fraud in the Small Business Sector." *Social Problems* 46:572–90.

Timmons, Heather. 1999. "Two States' Lawmakers Targeting Predatory Lending." *American Banker*, June 9, p. 9.

Turner, Margery A. and Felicity Skidmore. 1999. "Introduction, Summary and Recommendations." Pp. 1–22 in *Mortgage Lending Discrimination: A Review of Existing Evidence*, edited by Margery A. Turner and Felicity Skidmore. Washington, DC: The Urban Institute. *Urban Institute.* Retrieved November 3, 2000 (http://www.urban.org/UploadedPDF/mortgage_lending.pdf).

U.S. Census Bureau. 2004. "Shipments of New Manufactured Homes, 1959–2000." *U.S. Census Bureau.* Retrieved August 19, 2003 (http://www.census.gov/const/mhs/shiphist.pdf).

U.S. Department of Housing and Urban Development (U.S. HUD). 1995. "The National Homeownership Strategy: Partners in the American Dream." *HUD User Policy Development and Research Information Service.* Retrieved June 30, 1999 (http://www.huduser.org/publications/affhsg/homeown/toc.html).

———. 1999. "Building Communities and New Markets for the New Century: 1998 Consolidated Report." *HUD User Policy Development and Research Information Service.* Retrieved January 9, 2005 (http://www.huduser.org/publications/polleg/98con/newmarkets.pdf).

———. 2000a. "Manufactured Home and Subprime Lender List." *HUD User Policy Development and Research Information Service.* Retrieved October 31, 2000 (http://www.huduser.org/datasets/manu.html).

———. 2000b. "Proposed Regulatory Changes for Fannie Mae and Freddie Mac." *HUD User Policy Development and Research Information Service.* Retrieved October 31, 2000 (http://www.hud.gov/gse/).

———. 2000c. "U.S. Homeownership Rate Highest in Nation's History." HUD Press Release No. 00-311. *HUD User Policy Development and Research Information Service.* Retrieved January 9, 2005 (http://www.hud.gov/library/bookshelf18/pressrel/pr00-311.html).

———. 2000d. "Unequal Burden: Income and Racial Disparities in Subprime Lending in America." *HUD User Policy Development and Research Information Service.* Retrieved October 31, 2000 (http://www.huduser.org/publications/fairhsg/unequal.html).

U.S. Department of Housing and Urban Development and U.S. Department of the Treasury (U.S. HUD and U.S. Treasury). 2000. "Curbing Predatory Home Mortgage Lending." *HUD User Policy Development and Research Information Service.* Retrieved October 25, 2000 (http://www.huduser.org/publications/pdf/treasrpt.pdf).

Vermeer, Kimberly and Josephine Louie. 1997. "The Future of Manufactured Housing." *The Joint Center for Housing Studies, Harvard University.* Retrieved November 1, 2000 (http://www.gsd.harvard.edu/jcenter/Publications/R97-1%3B%20Future%20of%20Manufactured%20Housing/index.html).

Walter, John R. 1995. "The Fair Lending Laws and Their Enforcement." *Economic Quarterly* 81(4): 61–77.

Williams, Richard, Eileen McConnell, and Reynold Nesiba. 2001. "The Effects of the GSEs, CRA, and Institutional Characteristics on Home Mortgage Lending to Underserved Markets." *Cityscape* 5(3): 9–106.