Good afternoon. My name is Peter Tatian and I am a senior researcher in the Urban Institute's Metropolitan Housing and Communities Policy Center. I have also lived in Washington, D.C., since 1987 and am currently a homeowner in ward 5. I am happy to provide this testimony on predatory lending with the hope that it will be useful to the Council in its consideration of measures needed to address this important issue.

Although there are many different financial services and products that could be addressed under the topic of predatory lending, I will focus my remarks on the home mortgage market. Data obtained and analyzed by the Urban Institute suggest areas where there may be a cause for concern and a need for specific action by the Council regarding predatory mortgage lending in the District of Columbia.

Subprime vs. Predatory Lending

Very little direct information is available on predatory mortgage lending, but we do have data on subprime lending. First, let me explain the distinction between those two terms. Subprime loans are those that have higher costs (such as higher interest rates) than prime loans. Subprime loans are designed for applicants with poor credit histories, high loan-to-home value ratios, or other credit risk characteristics that would disqualify them from lower cost, prime-rate loans.

Subprime lending is not necessarily illegal nor is it inherently bad. Subprime lending has expanded the mortgage financing market to households with low incomes or imperfect credit scores that might otherwise not be qualified for prime-rate loans. The two potential problems with subprime lending are (1) that some subprime loans may be predatory and (2) that certain borrowers, such as African-Americans or Latinos, may be inappropriately steered to subprime loans, in violation of fair housing laws.

Predatory subprime loans are those that carry unreasonable and unjustifiable fees, penalties, or loan terms. For example, a predatory loan may require a monthly mortgage payment that is an extremely high share of a household's income. Predatory lending may also involve outright fraudulent behavior, such as inappropriate marketing strategies and lack of full disclosure of loan terms. Such loans can result in borrowers losing their homes through foreclosures.

The second problem is when households are directed to subprime products on the basis of their race, ethnicity, age, gender, or other traits unrelated to creditworthiness, resulting in people paying unnecessarily higher costs for their loans. Such practices are already illegal under federal and D.C. fair housing and human rights laws, but may be difficult to detect or prove.

Current Data on Subprime Lending

The latest data on mortgage lending provided through the federal Home Mortgage Disclosure Act (HMDA) for the District of Columbia indicate that the share of mortgage loans from subprime lenders is declining, but differences across wards and racial and ethnic groups may be a cause for concern.[1] Loans from subprime lenders made up 4.5 percent of all conventional home purchase loans in the District of Columbia in 2003, down from a recent high of 6.8 percent in 2000. The level of subprime lending for refinance loans was about the same—5.2 percent of all conventional refinance loans in 2003—but it was as high as 27 percent in 2000.

Levels of subprime lending are not uniform across the city, however. In 2003, home buyers in wards 5, 7, and 8 were almost ten times more likely to receive a home purchase loan from a subprime lender than those in ward 3 (see table 1). Furthermore, African-American and Latino home buyers were more than five times more likely to receive a mortgage loan from a subprime lender than white home buyers (see table 2; for more data see Tatian et al. 2005).

Again, it should be noted that subprime loans are not necessarily predatory or illegal, but higher levels of subprime lending, especially in certain wards or to certain populations, indicate areas where predatory or illegal practices might be occurring.

Possible Actions

The Council could consider several actions that would help address the concerns regarding subprime and predatory mortgage lending that I have described in this testimony.

- *Educating home buyers better.* Although some home buyers may need to use subprime loans, expanding programs to better educate buyers on mortgage lending options would help them identify and avoid predatory loans.

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[1] HMDA data from 2003 and earlier do not capture whether an individual loan is subprime but, rather, report the number of loans originated by lenders that the U.S. Department of Housing and Urban Development has identified as being subprime specialists (Pettit and Droesch 2005: 8).

- *Improving creditworthiness of home buyers.* Many low-income persons have poor credit histories; expanding programs to help them improve their credit-worthiness would allow them to access lower-cost mortgage loans.

- *Requiring better reporting by mortgage lenders.* Many mortgage lenders claim that higher rates of subprime lending for particular groups are justified because those groups have poorer credit histories. However, lenders currently are not required to provide applicant credit scores as part of their reporting under HMDA, so this claim cannot be tested. The Council could consider requiring mortgage lenders in the District of Columbia to report credit scores of applicants along with other HMDA-mandated information.

- *Testing mortgage lenders for fair housing practices.* National testing research conducted by the Urban Institute (funded by the U.S. Department of Housing and Urban Development) found that African-American and Latino applicants were treated less favorably than comparable white applicants by some mortgage lenders. For example, they were given less information about alternative loan products and received less pre-application assistance than whites (Turner et al. 2002; Turner et al. 1999). Regular testing of mortgage lenders operating in the city would help ensure that lenders are fully complying with fair housing and fair lending laws.

Thank you for giving me the opportunity to speak to you today.

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Peter A. Tatian is a senior research associate in the Urban Institute's Metropolitan Housing and Communities Policy Center. He is currently leading the Institute's participation in the *NeighborhoodInfo DC* partnership, which provides community-based organizations and residents in the District of Columbia with local data and analysis they can use to improve the quality of life in their neighborhoods. For more, please visit http://www.NeighborhoodInfoDC.org.

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Table 1. Subprime Home Mortgage Lending by Ward, Washington, D.C., 2003

	Percent conventional home purchase loans issued by subprime lenders
District of Columbia	**4.5**
Ward 1	3.8
Ward 2	1.7
Ward 3	1.1
Ward 4	6.7
Ward 5	10.7
Ward 6	3.8
Ward 7	11.4
Ward 8	10.6

Source: Home Mortgage Disclosure Act data tabulated by the Urban Institute/NeighborhoodInfo DC.

Table 2. Subprime Home Mortgage Lending by Borrower's Race/Ethnicity, Washington, D.C., 2003

	Percent conventional home purchase loans issued by subprime lenders
All races/ethnicities	**4.5**
Whites	1.7
African-Americans	11.2
Latinos	9.7
Asians	4.8

Source: Home Mortgage Disclosure Act data tabulated by the Urban Institute/NeighborhoodInfo DC.