Discriminatory Predatory Lending in Colorado

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EXECUTIVE SUMMARY
Predatory Discriminatory Lending in Colorado

In July 2007, the Colorado Civil Rights Division (CCRD) was awarded a $299,600 grant by the U.S. Department of Housing & Urban Development (HUD) to address discriminatory predatory lending practices in the State of Colorado. This Executive Summary reports on the research, enforcement and outreach efforts that were conducted with the grant.

The activities funded by the grant were structured to achieve the following:

- Provide accurate and current information about high-cost mortgage lending in Colorado and determine if such lending was structured in such a way as to be "predatory;"
- Determine the households and geographic areas most affected by high-cost and predatory mortgage lending;
- Understand why victims of discriminatory predatory lending ended up in unfavorable loan products (e.g., coercion into such products, inability to qualify for better terms or unawareness that they exist, and/or intimidation by the home buying process);
- Provide an educational and outreach framework to mitigate discrimination and poor loan choices of at-risk populations; and
- Develop an investigative plan for mortgage lending cases, which serves as a "best practice" to be shared with other fair housing enforcement agencies who investigate fair housing lending cases.

Lending Grant Partners

CCRD engaged two research organizations, an outreach consultant and four outreach partners to complete the various components of the study. These groups included:

BBC Research & Consulting (BBC) completed the first phase of the research, which consisted of an in-depth analysis of more than 236,000 mortgage loans made by lending institutions to Colorado borrowers for purchase of owner-occupied homes in 2006. The analysis used the Home Mortgage Disclosure Act (HMDA) data. This analysis enabled BBC to identify the extent of high-cost lending in Colorado, and to pinpoint disparities in such lending by race, ethnicity and geographic area.

The Center for Education Policy Analysis, School of Public Affairs, University of Colorado Denver (School of Public Affairs) completed the second phase of the research. This phase was needed because HMDA data alone cannot be used to identify predatory lending practices, as the data do not contain full information about loan terms (e.g., prepayment penalties, steep interest rate adjustments).

To better understand how borrowers were treated in the lending process and introduce a measure of credit risk into the data, the School of Public Affairs conducted several survey efforts; analyzed the data contained in the statewide foreclosure database; and conducted interviews with housing counselors serving clients in or at-risk of foreclosure in Colorado.

The National Community Reinvestment Coalition (NCRC) conducted testing in Colorado to identify discrimination in the lending market.

Four outreach partners were engaged in the study to distribute surveys to targeted communities, and develop strategies that would identify potential victims of predatory discriminatory lending and offer assistance. Their work was overseen by outreach consultant Wendell Pryor, the former Director of CCRD. These partners included:

- The Financial Education and Economic Transformation Center (FEET)
- Latin American Research And Service Agency (LARASA)
- The City of Longmont—Office of Community Relations
- The Pueblo Human Relations Commission

In addition, CCRD developed a "best practices" investigative plan for mortgage lending cases to be shared with other fair housing enforcement agencies who investigate fair housing lending cases.

Primary Findings

HMDA analysis. HMDA data are widely used to detect evidence of discrimination in mortgage lending. In fact, concern about discriminatory lending practices in the 1970s led to the requirement for financial institutions to collect and report HMDA data. The variables contained in the HMDA dataset have expanded over time, allowing for more comprehensive analyses and better results. Since 2004, HMDA data have contained interest rates on higher-priced mortgage loans.

BBC's HMDA analysis: The new interest rate field in the HMDA dataset allowed us to analyze subprime lending in Colorado. BBC examined subprime lending in the state in three ways:

- Geographically—We identified "hotbeds" of subprime activity, by county and at the Census Tract level for the Denver area;
- By borrower characteristic—We determined if subprime lending is associated with borrower race, ethnicity and income level (it is); and
- By lender—We found the lenders who had a large role in the state's subprime market in 2006.

For the purposes of this study, we defined "subprime" as a loan with an APR of more than 3 percentage points above comparable Treasuries for first liens, and 5 percentage points for second liens. This is consistent with the intent of the Federal Reserve in requiring the pricing data. We also call loans "super subprime" which have APRs of more than 7 percentage points above comparable Treasuries for first liens and 9 percentage points for junior liens. This is our own definition, created to identify very high-cost loans.

The 30-year Treasury averaged 4.91 percent in 2006. Therefore, for our report, subprime 1st lien loans average APRs of 7.91 percent and higher. "Super" subprime loans have APRs that are 11.91 percent and higher. By comparison, the Federal Housing Finance Board reports that in 2006, the average APR for conventional 30-year mortgages was 6.64 percent.

What BBC couldn't do: Despite expansions in the data reported, HMDA analyses remain limited because of the information that is *not* reported. For this study, the most significant variable missing from the HMDA analysis was a borrower's credit score. We can detect differences in subprime lending by race/ethnicity, income and geographic area, but without credit data we cannot fully explain why the differences occur. More importantly, through HMDA data analysis alone, we cannot tell if discrimination is a reason for the disparities. Finally, because HMDA data do not contain information about loan terms, we are unsure the extent to which high-cost loans contain predatory features.

What BBC found. The HMDA analysis conducted for this study found a strong relationship between minority presence, English as a Second Language and subprime loan activity. It found a smaller relationship between subprime lending and income level.

Geographic analysis

- At the county level, subprime lending was most active in eastern and south central Colorado. At the metro level, Adams, Weld and Pueblo Counties had subprime loan activity disproportionate to their share of the state's households. Counties whose minority population was above the state average had the highest proportions of subprime loans.
- In Denver, Census Tracts with high minority populations were much more likely to have high subprime loan activity than Census Tracts with low minority populations. Subprime lending activity in the City in 2006 was very active in the western and northeastern portions of the City.
- Areas in Denver with relatively high proportions of households that are "linguistically isolated"—i.e., where no member of the household 14 years and older speaks English very well—also had high subprime loan activity in 2006.
- Subprime lending was also stronger in lower-income areas; however, the relationship between income and subprime lending was less dramatic than that between race/ethnicity and subprime lending. We believe this is due to two factors: 1) High income borrowers represent a good portion of subprime borrowers, and 2) Low income areas have higher proportions of renters and households who are unlikely to qualify for home purchases.

Borrower analysis

- African Americans and persons of Hispanic descent in Colorado were twice as likely to get subprime loans than whites or Asians in 2006. This disparity persists across income levels, as shown in Exhibit IV-1 below. The Exhibit shows the disparities of subprime origination by income—the number of times more likely minority borrowers are to receive subprime loans than non-Hispanic, white borrowers with similar incomes.

Exhibit IV-1.
Subprime Origination Disparities by Income

Income	Black-white disparity	Hispanic-white disparity
< $25K	1.31	2.03
$25K-$49K	2.15	2.18
$50K-$74K	2.06	2.06
$75K-$99K	2.24	1.88
$100K+	2.37	2.04
All incomes	2.14	2.12

Source:

2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

- Our analysis revealed the following overall disparities in 2006:
  - One in 5 white borrowers got a subprime loan.
  - One in 2.3 African American borrowers got a subprime loan.
  - One in 2.23 Hispanic borrowers got a subprime loan.
  - One in 3.5 multi-race borrowers got a subprime loan.
- High-income borrowers represent a significant segment of the subprime market—a surprising finding to us. Borrowers earning more than $100,000 represented about 22 percent of the subprime market compared to 31 percent of the non-subprime market.

Lender analysis. Option One, Long Beach and Decision One were the predominantly subprime outfits originating the highest number of subprime loans in Colorado. Their overall share of the subprime market, however, was only about 1 percent each. This is because there were many, many lenders making subprime loans to Colorado borrowers in 2006. The top lenders originated just between and 1 and 3 percent of the total subprime volume in the state.

Summary. Our study uncovered large disparities in subprime lending between minority and white borrowers. In 2006, minority borrowers were more than twice as likely as white borrowers to get subprime loans. We also found that subprime loan activity is much higher in areas of the state with high minority populations and persons who speak English as a Second Language.

Because of data limitations, we are unable to determine the extent to which minorities and ESL households receive subprime loans because of credit issues. However, if income is a partial proxy for creditworthiness, our analysis provides some evidence of potential discrimination in Colorado mortgage lending. Seventeen percent of white borrowers earning $100,000 and more received subprime loans in 2006, compared to 39 percent of African Americans and 34 percent of Hispanics at the same income level. Therefore, the disparity in subprime lending holds across income levels, suggesting that minority borrowers may be unnecessarily receiving subprime loans compared to white borrowers, all other things being equal.

Borrower Surveys and Counselor Interviews. In 2008, the School of Public Affairs conducted surveys of borrowers, including analysis of the Foreclosure Hotline database and an intercept survey of foreclosure forum participants, as well as 10 interviews of loan counselors throughout Colorado.

Foreclosure hotline database analysis. The research team from the University of Colorado – Denver (CU-Denver) analyzed a database of calls through June 2008 to the Foreclosure Hotline. In all, the database included over 1,500 unduplicated records.

Callers to the hotline generally had high-interest loans – 7.96 percent on average. Almost half reported interest rates over 8 percent and virtually all reported interest rates over 5 percent. The average FICO score among those that did report this information was 589, a very low score in the bottom 15th percentile of scores as tracked by major credit agencies. Over half of callers (54 percent) reported annual household incomes less than $40,000, and 20 percent reported income less than $20,000. Callers earning the most (more than $60,000 per year) had the *lowest* average credit score of all income categories and the highest interest rates on their loans, suggesting that they had credit issues which led to a higher rate.

Most callers to the Foreclosure Hotline were minorities (53.4 percent). A disproportionately large proportion of callers identified themselves as Hispanic (41.5 percent).

Several interesting disparities emerged when data regarding loans was separated by borrower race/ethnicity:

Exhibit ES-II.

Mortgage Information by Race/Ethnicity, Foreclosure Hotline Database

Mortgage Composition	White	Hispanic	All Others
Average household income	$46,849	$37,462	$39,134
Average purchase price	$174,232	$175,685	$165,794
Average balance owed	$217,567	$176,952	$191,011
Average interest rate	8.03 %	7.8 %	8.2 %
Range in interest rates	0.0% — 15.0%	0.0% — 15.0%	0.0% — 15.0%
Average number of loans on property	1.45	1.35	1.45

Average credit scores	589	593	572
Range of credit scores	458 — 778	421 — 786	473 — 724

Source: Foreclosure Hotline Database and University of Colorado - Denver.

Despite having significantly higher average household income than Hispanic borrowers, non-Hispanic white borrowers had slightly *lower* credit scores and *higher* interest rates on their loans. Loans with interest rates of 8 percent or more were reported by 48.7 percent of non-Hispanic white borrowers compared to 39.4 percent of Hispanic borrowers. Non-Hispanic whites also had much higher loan balances than Hispanics, in spite of the fact that both groups reported roughly equal average purchase prices.

The higher interest rates and debt ratios among white borrowers may be explained in part by the fact that they were more likely to have multiple loans on their properties. These findings may also suggest that Hispanics were more proactive in calling the hotline than whites. Indeed, Hispanic callers were particularly likely to have been referred to the hotline by "word of mouth," and this may have prompted a greater number of Hispanics to call proactively regarding problematic mortgages.

Random Sample Survey: The School of Public Affairs team conducted an additional phone survey of callers to the Foreclosure Hotline, using a random sample of 200 households. Two-thirds of borrowers surveyed were in the Denver Metro Area, and two-thirds had an annual household income less than $50,000. Most respondents (68 percent) were non-Hispanic white, while Hispanics and blacks represented 22 and 7 percent of the sample, respectively. The respondents discussed loan terms and the circumstances of taking out the loan that led them into financial trouble:

- A majority of 60 percent of callers had adjustable rate mortgages (ARMs). Almost half of respondents cited at least one costly loan feature: prepayment penalty (45 percent), balloon payment (23 percent) and packaged life insurance (9 percent). One-third used their mortgage loans to take cash out or package other debts.
- Interest rates on these loans were very high: about 42 percent of respondents reported interest rates above 8 percent, and one in five reported an interest rate over 9.5 percent.
- Over a third of respondents (36 percent) owe more on their mortgages than what they borrowed.
- Over one-third (35 percent) said their monthly payments were higher than their lenders had indicated. Only half said their lenders discussed whether their monthly payments would increase, and 22 percent said that their lenders did not even discuss what their monthly payments would be at all.
- One third said their lenders did not explain the loan papers before asking them to sign.

- One in five said their lenders had told them to lie about their income, and one in three said their lenders never informed them of their credit scores.

The random sample survey analysis found only a few significant differences by race and ethnicity. Hispanics were significantly less likely to have been informed about different loan options and that their monthly payments could increase. Minority respondents were significantly more likely to have current loan balances exceeding the value of the property.

Intercept surveys: The School of Public Affairs also administered an intercept survey among participants at Foreclosure Forums held throughout the state between March 2008 and February 2009. Almost half of all respondents to the intercept surveys were Hispanic (48.3 percent), 16.1 percent were African American or some other minority, and 35.6 percent were non-Hispanic white. They reported the following about their loans:

- A majority of respondents reported some form of precarious arrangement for the financing of their homes. Most respondents (57.6 percent) reported that they had an ARM, 44 percent reporting having packaged other debts into their mortgage or getting cash out, and 57.7 percent had more than one loan on their homes.

- The interest rates on first mortgages among these respondents were high, ranging from 5.0 to 14.0 and averaging 7.91.

- Over one-third (37.7 percent) said they now owed more on their homes than the amount of the original mortgage.

Respondents described some of the deceptive and predatory practices used by their lending officers. Half reported that their payments were higher than had been represented by lenders, and only 28 percent said their lenders had discussed the affordability of the loan payments with them. Less than half (48 percent) of respondents were told their credit score at the time of the loan. Forty-one percent said their lenders asked them to say their income was higher than it really was.

Some racial disparities related to loan terms and outcomes were apparent from the intercept surveys:

- Non-white respondents were much more likely to owe more on the mortgage than the original loan amount (46 versus 26 percent). This may be due in part to the fact that non-Whites were more likely to have packaged other debts into their mortgages (47 compared to 37 percent of white respondents).

- Non-whites were more likely to have loans with prepayment penalties (66 versus 50 percent) and balloon payments (15 versus 9 percent).

- A majority of white borrowers (64.3 percent) said their lenders discussed whether their mortgage payments could increase. This compares to just 3 percent of non-white borrowers.

- All white respondents said their lenders had discussed the affordability of the monthly payments, compared to just 30 percent of non-white respondents. And, 52 percent of non-white respondents versus 40 percent of white respondents said their payments were higher than their lenders had said they would be.

Mortgage counselor interviews. CU-Denver also conducted 10 interviews with loan counselors throughout the state regarding predatory loan practices and foreclosure. Some of the major themes emerging from all of the interviews include the following:

- Currently, the primary cause of foreclosure is the loss of employment, decrease in work hours, or other financial hardships related to medical expenses, divorce, etc. Counselors said that in the past, foreclosures were generally a result of borrowers taking out loans they could not afford, but that now the primary cause of foreclosure is a troubled economy.

- Counselors said the loans of most of their clients have had interest rates between 6 to 12 percent. They characterized ARMs as the most high-interest and problematic type of loans
  they deal with, but said their popularity has greatly decreased. Most of their new clients have conventional, fixed-rate loans.

- Counselors suspected that many of their clients had been "steered" toward precarious loan products, namely 80/20 loans. Due to the decline in home values, a great number of these borrowers are now "upside-down" in their mortgages – owing more than the value of their homes.

When asked about the role of race and ethnicity in predatory lending, *counselors reported that they did not perceive a significant degree of "blatant" discrimination*. They said predatory products were directed toward borrowers with low incomes and poor education—clearly more pronounced in some minority communities than others—but not to specific ethnic or racial subpopulations. However, several counselors did suggest that the Hispanic community had become particularly susceptible to predatory lending due to the informal channels through which they seek loans and the lack of service and education for Spanish-speaking borrowers. One counselor suggested that Latinos were specifically targeted for predatory loan products by Latino loan officers.

The counselors made a number of suggestions for state agencies, which generally included greater oversight and regulation of the lending market as well as a much more robust effort to educate borrowers in home finance and fair lending.

Enforcement

Another aspect of the Colorado Civil Rights Division's plan to address discriminatory predatory lending within the state of Colorado is through its enforcement efforts. The Division investigated several cases during the grant period in which discriminatory predatory lending practices were alleged. These cases involved allegations of discriminatory financing, discriminatory terms and conditions, discriminatory advertising, and/or making housing unavailable. The majority of these cases were filed against the same builder/developers and mortgage brokers, who created a new subdivision in the Greeley area. Several residents in this community realized that they believed that they had been subject to unfavorable loan terms when their payments increased as a result of being placed in adjustable rate mortgages that they could not afford. All of the residents were Hispanic, and most were monolingual Spanish speakers, or were not fluent in English. The residents came together to file complaints with the Division. The Division issues several probable cause findings as a result of its investigation, which found that the builder/developers, mortgages brokers, and lenders discriminated on the basis of national origin through Spanish language advertising targeted at the Spanish community and employed Hispanic, Spanish speaking individuals to sell and finance homes. These cases are currently being pursued in state district court.

As a result of the investigation of these lending cases, the Division has developed an investigative plan to address the complex evidence and role of Respondents in lending cases, which has been attached. In addition, the Division contracted with the National Community Reinvestment Coalition to conduct testing of mortgage lenders who conduct business within Colorado, to determine if potential lending discrimination exits in other markets besides Greeley. The results of testing show that there is some concern that discriminatory practices may exist. As a result of new legislation enacted by the Colorado legislature during is 2009 session, the Colorado Civil Rights Commission has the power to file Commission initiated complaints, and the results of the lending testing may be reviewed by the Commission for further action.

Testing

In January and February 2009, the National Community Reinvestment Coalition (NCRC) conducted a "mystery shopping" testing program of lenders in the Denver Metro Area. The effort included 25 individual tests targeting six of the largest lending institutions at different branch locations throughout the Denver MSA. The NCRC chose to conduct a number of tests in racially isolated census tracts – those with 90 percent or greater non-Hispanic white population.

The objective of the testing effort was to uncover discriminatory treatment by lending officers. Testers of three protected classes (black, Hispanic and Middle Eastern) and a white "control" tester were instructed to inquire about a loan for the purchase of a first home. All other borrower characteristics (i.e. income, credit score and lending history) were held consistent to isolate the role of race and ethnicity in lending decisions.

The 25 tests conducted produced the following initial results:

- Twelve demonstrated differential treatment based on race or national origin. However, this differential treatment was in favor of the white "control" tester in 7 cases and in favor of the minority tester in 5 cases;

- None of the tests were categorized as "no significant difference" (NSD) in treatment between white and minority borrowers; and

- Thirteen tests were deemed inconclusive and required additional follow-up.

The attached report from NCRC provides more detail regarding its findings.

Outreach efforts. As part of the Colorado Civil Rights Division (CCRD) predatory discriminatory lending study grant, funds were provided for outreach efforts in targeted communities. Outreach efforts were conducted by four outreach partners:

- The Financial Education and Economic Transformation Center (FEET);
- Latin America Research and Service Agency (LARASA);
- The City of Longmont Office of Community Relations; and
- The Pueblo Human Relations Commission.

The Financial Education and Economic Transformation Center (FEET) is a non-profit that works for economic empowerment and self-sufficiency for households through advocacy, education and service. As an outreach partner in the discriminatory predatory lending study, FEET's objectives were to help troubled homeowners exit burdensome mortgage situations responsibly, link homeowners with the CCRD in cases of potential discriminatory lending, and address underlying economic issues facing households dealing with foreclosure. As part of the grant, FEET conducted six educational seminars and engaged in weekly outreach through local media. It made personal visits to 20 households in need of foreclosure assistance.

The Latin America Research and Service Agency (LARASA) conducted similar outreach in predominantly Hispanic neighborhoods in the Denver area. Through a number of community seminars, LARASA identified a demand among the Hispanic community for home ownership education and bilingual foreclosure assistance that was not being met. It found that Hispanic borrowers had fallen victim to precarious loan products, namely 80/20 ARMs, in large part due to inadequate proficiency in English that prevented them from understanding the terms of their loans.

The City of Longmont Office of Community Relations engaged in outreach and education in Boulder County. At a number of information sessions were held in which surveys were distributed and loan documents reviews. Housing professionals were invited to the meetings as well, and discussions with these individuals led to the identification of at least one subdivision in which discriminatory predatory lending is likely taking place.

The Pueblo Human Relations Commission, engaged in outreach in Pueblo. It developed a compressive program that included one-on-one analysis of borrowers' loan documents, and referral to agencies for financial counseling and foreclosure prevention, or to the CCRD in the case of potential discriminatory lending. It conducted three community forums and one stakeholder meetings among real estate, non profit, counseling and business professionals to address the issue of foreclosure in the community.

Through its program, the Pueblo HRC managed to save four homes from foreclosure. Based on its finding from the forums and stakeholders meeting, it developed a plan for future endeavors to combat foreclosures and their negative consequences on the community. These endeavors will include rehabilitation of vacant properties, partnership with local educational institutions to create a program in home rehabilitation, the implementation of a Section 8 Housing Program, and a program to educate potential homebuyers in financial literacy and assist them in securing home loans.

Organization of the Report

The remainder of this report contains the following sections:

- Section I. Introduction and Background—provides information about the grant, funding partners and technical background on the Home Mortgage Disclosure Act (HMDA) database;

- Section II. Lending Products and History—provides background information about the mortgage lending market and growth of the subprime segment of the market;

- Section III. HMDA Data Analysis—contains the results of BBC's detailed analysis of subprime loans made to Colorado borrowers in 2006;

- Section IV. Borrower Surveys – contains surveys utilized by the School of Public Affairs to obtain responses from distressed borrowers regarding their mortgage loan and from housing counselors who work with borrowers at risk of or in foreclosure.

- Section V. Testing and Enforcement Procedures – includes NCRC's final report and the Division's investigative plan for addressing discriminatory predatory lending complaints.

- Section VI. Outreach Efforts—reports the results of the education and outreach efforts conducted for the study. This section contains a summary of the efforts and stand alone reports for each of the partners.

This Executive Summary contains the results of all of the research findings.

Appendices

Appendix A. HMDA Definitions

Appendix B. Additional Charts and Maps of HMDA data analysis

Appendix C. Survey and Interview Guides

Appendix D. Outreach and Public Relations Materials

SECTION I.
Introduction and Background

In July 2007, the Colorado Civil Rights Division (CCRD) was awarded a $299,600 grant by the U.S. Department of Housing & Urban Development (HUD) to address discriminatory predatory lending practices in the State of Colorado. This Executive Summary reports on the research, enforcement and outreach efforts that were conducted with the grant.

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In addition, CCRD developed a "best practices" investigative plan for mortgage lending cases to be shared with other fair housing enforcement agencies who investigate fair housing lending cases.

Background on HMDA

This report represents the results of the HMDA database analysis conducted by BBC. The second and third phases are currently ongoing, and will be combined with this report upon their completion.

The HMDA data analysis completed for this study consisted of an in-depth analysis of more than 236,000 mortgage loans made by lending institutions to Colorado borrowers in 2006. The loans were only for owner-occupied homes; second homes and investment properties were not included in the analysis. In addition, to simplify the analysis, only loans made for home purchases or refinances were considered. Loans for home improvements were ignored.

The HMDA data analysis enabled us to identify the extent of high-cost lending in Colorado, and to pinpoint disparities in such lending by race, ethnicity and geographic area.

It is important to note that the HMDA data do not enable us to identify predatory lending practices, as the data do not contain full information about loan terms (e.g., prepayment penalties, steep interest rate adjustments). We can, however, identify high-cost loans and the concentration of these loans by minority status and geographic area. Such information helps us to pinpoint areas of concern, determines the direction for the survey and interview research phase, and provides input into outreach and education efforts.

What is HMDA data? The Home Mortgage Disclosure Act (HMDA) requires financial institutions to maintain and disclose data on loan applications for home purchases, home improvement loans and refinances. In general, HMDA applies to lending institutions with more than a certain amount of assets ($36 million in 2006) that have offices in metropolitan areas. Most data required for disclosure under HMDA are available publicly on an annual basis.

HMDA was originally enacted in 1975 in response to the practice of "redlining"— the systematic exclusion of neighborhoods with high concentrations of minorities in home mortgage lending. At its inception, HMDA only required that lending institutions report the number and value of loans originated by Census Tract. Reporting requirements under HMDA have expanded over time, reflecting changing concerns over discriminatory lending practices. In the late 1980s, HMDA was expanded to include the disclosure of data regarding borrower race, ethnicity, gender and income.

Since 2004, HMDA has required the reporting of some pricing data on higher-cost loans. This has significantly enhanced the robustness of HMDA data for the purpose of understanding lending patterns in the high-cost subprime market. However, because of privacy concerns, not all of the information that is used in the decision to approve, deny and/or price a loan is contained in the HMDA dataset. For this reason, HMDA data analyses are best used to identify trends and practices in the mortgage lending industry. The data can explain much of the difference in treatment of borrowers—including racial differences in loan approvals and pricing. Yet HMDA data alone cannot be used to explain all of the facets of the lending decision.

A "key" of 2006 HMDA data that lists the required data variables is included as Appendix A in this report.

Previous HMDA studies. HMDA data are frequently used to examine differences in mortgage lending based on borrower characteristics and property location. One of the most cited studies of racial disparity in lending was completed by researchers at the Boston Federal Reserve Bank in the 1990s. The study—"Mortgage Lending in Boston: Interpreting the HMDA Data"—concluded that race played an "important role" in the decision to grant a mortgage to a borrower. The study used HMDA data in addition to variables collected from lending institutions to provide a better representation of borrower creditworthiness.

The Boston Fed study led to an intense debate about lending bias and many follow-on studies which attempted to improve the methodology and data used in the analysis. Many studies were able to reduce some of the lending disparity through alternative statistical methods and use of other/additional variables. For example, one study examined borrowers more specifically by creditworthiness and concluded that marginal minority applicants, and minority applicants without completely clean histories, were rejected "significantly more often" than similar white applicants[1].

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[1] "The Role of Race in Mortgage Lending: Revisiting the Boston Fed Study," Raphael Bostic, December 1996.

In general, however, studies of lending disparities based on HMDA have been unable to explain *all* of the reasons for bias based on race and/or ethnicity. Thus, the debate over how much race and ethnicity matter in the lending decision continues[2].

[2] It is important to note that these studies examined the loan approval decision; they did not review pricing information. Until 2004, certain loan interest rates were not part of the HMDA data. As such, studies using HMDA to examine disparities in lending based on pricing have not yet been widely conducted.

SECTION II.
Lending Products and History

This section contains an overview of mortgage products and provides some historical data on mortgage lending. It also describes recent changes in the mortgage lending industry, including the growth of the subprime industry and nontraditional financing products. Predatory lending is also defined and discussed. The section concludes with an overview of legislative changes in Colorado to address mortgage lending concerns.

Changes in Mortgage Lending

Until very recently, consumers had more choices for financing the purchase of a home than any other time in history.[3] As the housing market increased in value in the late 1990s and the first half of 2000—making it a more attractive form of investment—the mortgage lending industry responded by creating new, innovative loan products. Many of these products helped homeowners stretch to afford homes that would have been otherwise unaffordable— a trend often called "bridging" the affordability gap. This type of lending was most popular in high-cost states: Data collected by the Office of Federal Housing Enterprise Oversight showed that nontraditional mortgage products are most popular in states with the strongest home price growth.[4]

Some of these products have been around in some form for awhile; some are new versions of old products; others are new inventions. The primary products—including subprime loans—are discussed in the section below. Predatory lending practices may or may not be part of these loan products. Predatory practices are discussed independently, following the nontraditional and subprime loan section.

It should be noted that this chapter does not offer a comprehensive discussion of the many types of mortgage lending products; such an effort is beyond the scope of this study. Instead, this chapter is meant to overview the mortgage products that arise most often in discussions of subprime and predatory lending.

Nontraditional and Subprime Loans

This section discusses several of the primary mortgage lending vehicles that, in many cases, have grown dramatically in volume in recent years and are believed to be linked to foreclosures and predatory lending practices. These products have been featured heavily in the media, mostly in negative light. The products include adjustable rate loans, piggyback or 80/20 loans, and subprime loans. Refinancing is also discussed because of the unique role it has played in subprime and predatory practices.

It should be noted that these loan products are not mutually exclusive. For example, an adjustable rate mortgage can be offered at both prime and subprime rates. Similarly, piggyback loans might contain a prime rate for 80 percent of the loan that is secured by a first-lien and a subprime rate for the remaining 20 percent secured by a second-lien.

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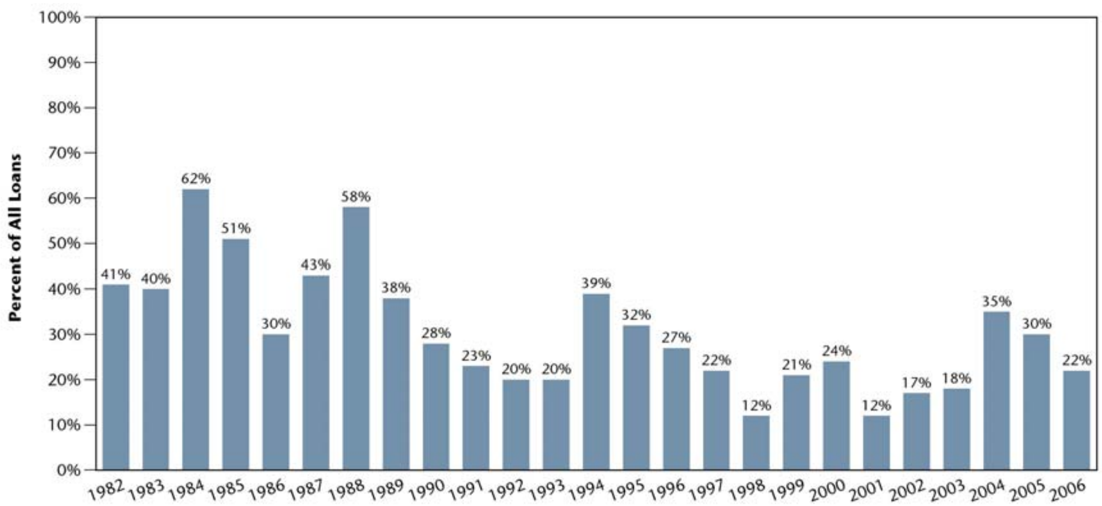
[3] Once the subprime loan crises began to unfold, financial institutions tightened their credit standards and cut back on many of the nontraditional loan products discussed in this section.

[4] FDIC Outlook, Summer 2006.

Adjustable rate loans. Adjustable rate mortgages (ARMs) are perceived as being relatively new, despite having been around for several decades. Data collected on mortgage originations by Harvard University's Joint Center for Housing Studies shows that in the mid-1980s, the proportion of conventional single-family mortgages with adjustable rates reached as high as 62 percent. This compares to 22 percent of mortgages originated in 2006 with adjustable rates. The proportion of conventional mortgage loans with adjustable rates is shown in Exhibit II-1.

Exhibit II-1.
Percent of All U.S. Loans with Adjustable Rates, 1982 to 2006



Note: Data based on fully amortized, conventional mortgage loans used to purchase single family non-farm homes (excludes refinance loans).

Source: Federal Housing Finance Board and Harvard University Joint Center for Housing Studies.

In Colorado, ARMs have been more common than in the nation overall, making up approximately 28 percent of conventional home mortgages in 2006, compared to 22 percent nationwide. Examining this statistic in other states reveals that ARMs have been most popular in states with high and rapidly appreciating home prices, such as California (46 percent) and Nevada (42 percent); and least popular in states with cooler housing markets, such as Ohio (5 percent), Oklahoma (5 percent) and Alaska (3 percent).[5]

In the Denver metropolitan area alone, the proportion of loans that had adjustable rates was particularly high at 59 percent in 2004.[6]

[5] Federal Housing Finance Board

[6] Ibid.

Benefits of ARMs. ARMs are attractive to borrowers in several situations. If borrowers believe that rates are likely to drop in the future (as rates did in the early to mid-1980s), they may be motivated to take an ARM with the expectation that interest rates will soon drop or stabilize, at which point they will refinance at a lower rate.

Other borrowers may not count on rates dropping, but find ARMs attractive because of the low initial rate and payment. Savvy borrowers may determine that the savings from a very low interest rate in the early years of the loan makes up for higher payments during the higher interest rate period—at least for a limited amount of time.

For cash-strapped borrowers or those buying in high-cost markets, an ARM may be the only vehicle that can get them into a house initially. These borrowers expect that their economic position will improve over time (allowing them to afford higher payments) or that interest rates will drop or stabilize, at which point they will refinance.

Problems with ARMs. ARMs offer lower initial interest rates to borrowers willing to assume the risk of interest rate changes in the future. ARMs can create difficulties for borrowers if they can't afford escalating payments and when interest rates do not stabilize or drop. ARMs might also be structurally problematic, containing clauses that prohibit borrowers from refinancing to get a lower rate; prepayment penalties that can eliminate the financial incentive to refinance; rapid, significant increases in the interest rate; and/or no cap on how much the interest rate and payments can increase.

Piggyback/second mortgage loans. Second mortgage loans are loans secured on a home in addition to a primary mortgage loan. There are two basic types of second mortgage loans:

Piggyback. The first type of second mortgage loans is attached to a larger first mortgage loan. In this case, the second mortgage is used as a form of down payment to finance "little down" or "nothing down" purchases. A common version is the "80/20 loan," in which the first mortgage loan covers 80 percent of the value of the property, and a second "piggyback" loan covers the remaining 20 percent. The 80/20 loans are used when a borrower does not have a sufficient down payment to reach the 80 percent loan-to-value threshold generally required to avoid paying private mortgage insurance (PMI). The Federal Reserve estimates that 22 percent of first-lien purchase loans for owner-occupied units in 2006 were accompanied by a piggyback loan.[7]

Home equity. The second type of a second mortgage loan is when borrowers take on second mortgages to help pay for home improvements, other household expenses such as vacations or vehicle purchases, or to cover other debts.

Loans secured by second-liens carry higher interest rates than those secured by first-liens; this reflects the additional risk that lenders bear from being in a second position for recovery should the borrower default. A higher rate on a second mortgage is appropriate in many cases. However, because second mortgage products are less common than first mortgages and are sometimes offered by the

[7] Avery, Robert, et. al. "The 2006 HMDA Data," excerpt from forthcoming article in the *Federal Reserve Bulletin.*

same lender at the time the first mortgage is closed, borrowers are less likely to shop around for competitive products—hence, lenders have more opportunity to push interest rates.

Second mortgage loans are not always subprime—nor is this necessary for them to adequately reflect borrower risk—but many second mortgage loans are subprime. A review of 2006 mortgage loan activity in Colorado showed that about 37 percent of second mortgage loans on home purchases were subprime loans, compared to about 16 percent for first mortgage loans.

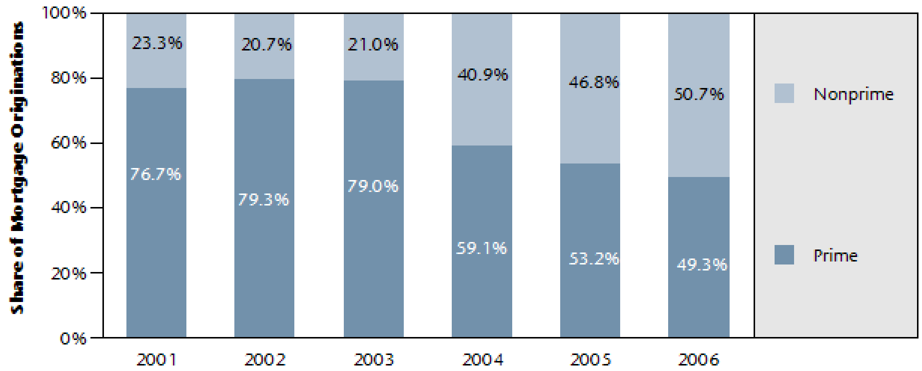
Problems with piggyback/second mortgage loans. Piggyback and second mortgage loans become problematic in markets with declining property values. Borrowers typically have very high loan-to-value ratios as a result of these loans, and may not be able to recover the full amount of their debt through selling their home. In addition, the second loan may become unaffordable for borrowers if their economic circumstances change.

Subprime loans. Subprime loans are—as the name would suggest—mortgage loans that carry higher interest rates than those priced for "prime," or less risky, borrowers. Initially, subprime loans were marketed and sold to customers with blemished or limited credit histories who would not typically qualify for prime loans. In theory, the higher rate of interest charged for each subprime loan reflects increased credit risk of the borrower.

Estimates of the size of the national subprime market vary between 13 to 20 percent of all mortgages. Holden Lewis, who writes for CNNMoney.com and Bankrate.com, estimates that the subprime market made up about 17 percent of the mortgage volume in 2006. This is based on Standard & Poors' estimate of subprime loan originations and the Mortgage Bankers Associations' estimate of total loan originations during the year. The number of subprime borrowers could be higher than 17 percent if the average amount of a subprime loan is lower than non-subprime loans.

The subprime market grew dramatically during the current decade. The share of mortgage originations that had subprime rates in 2001 was less than 10 percent; by 2006, this had grown to 20 percent. This was coupled with growth of other nonprime products, such as "Alt-A" loans (somewhere between prime and subprime) and home improvement products. Exhibit II-2 shows the growth in these non-prime products—and the movement away from conventional, prime products.

Exhibit II-2. Share of Mortgage Originations by Product, 2001 to 2006



Note:

Harvard Joint Center for Housing Studies and Inside Mortgage Finance, 2007 Mortgage Market Statistical Annual, adjusted for inflation by the CPI-UX for All Items.

Who are subprime borrowers? There is no agreed-upon definition in the lending industry of a subprime loan or borrower. One common definition uses the credit scores that lenders employ when analyzing borrowers creditworthiness. Under this definition, borrowers with scores below 620 are viewed as higher risk and are typically denied prime loans. However, in recent years, almost half of subprime mortgage borrowers have credit scores above this threshold.

In a joint memorandum on subprime lending guidance, the regulatory agencies of financial institutions list the following "risk characteristics" of subprime borrowers:

- Two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months;

- Judgment, foreclosure, repossession or charge-off in the past 24 months;

- Bankruptcy in the last 5 years;

- Relatively high default probability as evidenced by, for example, a credit bureau risk score (FICO) of 660 or below; and/or

- Debt service-to-income ratio of 50 percent or greater, or otherwise limited ability to cover family living expenses after deducting total monthly debt-service requirements from monthly income.[8]

Recent studies have demonstrated that the subprime market has captured more prime borrowers than originally thought, and the market share of lower-risk borrowers who have received subprime loans has grown remarkably. This is best demonstrated by a recent article in the Wall Street Journal which examined the proportion of recipients of subprime loans by credit score category. In 2000, about 40 percent of subprime loans were made to "prime" borrowers—those with credit scores exceeding 620. By the last quarter of 2006, this had increased to 60 percent. That is, *the bulk of subprime loans went to subprime borrowers in 2006.*

Why choose a subprime loan? The increasing proportion of subprime loans taken out by borrowers with higher, typically "prime" credit scores is remarkable. This might occur for several reasons:

- Borrowers are enticed by the prospects of taking large amounts of equity out of their homes;

- Borrowers are enticed by very low "teaser" interest rates that adjust over time, and believe they will be able to refinance at favorable rates before the adjustment becomes unmanageable financially; and/or

- Borrowers have not shopped for rates and believe they are being offered a competitive product.

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[8] Guidance titled "Subprime Lending, Expanding upon Interagency Guidance on Subprime Lending," March 1, 1999.

The rise in housing prices and corresponding decrease in affordability has also played a role in borrowers taking on higher priced loans. Homebuyers can be motivated to take on higher priced loans if they feel that the loan offers their only opportunity to purchase the home they desire.

Subprime lenders are sophisticated in their targeting of borrowers. According to an article by the Seattle Times[9] (based on an in-depth analysis of deeds of trust from loans made by the large subprime lender Ameriquest), subprime borrowers are disproportionately likely to be seniors who own their homes. These borrowers are likely targeted not for their ability to pay back a loan, but for the financial stake they have in their home (a predatory lending practice).

Subprime lenders find potential customers through purchasing lists from mass marketing companies. These companies identify homeowners who have equity in their homes, low credit scores, large debts and recent subprime mortgages. For example, the Seattle Times analysis of Ameriquest found that more than 60 percent of homeowners who refinanced their mortgages with the company had monthly debts so high they were likely to have trouble paying their bills even before they got their new mortgages.

Value of subprime lending. Subprime loans were initially marketed as an innovation providing individuals and families an opportunity for homeownership that they might not have had in the past. Indeed, the subprime market is credited in part for the nearly 9 million-household increase in homeownership during the past decade. However, the rise in foreclosures, decline in the housing market, financial problems faced by many subprime lenders and awareness of predatory lending practices has resulted in much greater scrutiny and criticism of subprime loans.

Former Fannie Mae CEO Franklin Raines captured this dilemma quite accurately in a recent speech: "Done right, subprime lending provides an important source of mortgage financing for families with imperfect financial or credit histories. Done wrong, subprime lending is a huge rip-off that siphons wealth—and hope—from people who have very little to begin with."

Foreclosures and other problems in subprime lending. Critics of subprime lending have suggested that it has been done irresponsibly in many areas, such that negative outcomes (i.e., default and foreclosure) among subprime loans are much higher than among prime loans. A number of studies have found that default and foreclosure rates among subprime loans far exceed those among prime loans.

- For mortgage loans outstanding at the end of 2003, 1 percent of prime loans were seriously delinquent, compared with 7 percent of subprime loans.
- One study of 16 large subprime lenders from 2000 found that the default rate among subprime loans was three times as high as that among all loans.[10]

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[9] The Seattle Times Investigation: "Part One, The Fleecing of Francis Taylor" and "Part Two, Homeowners in Debt, Seniors Prime Targets of Riskiest Loans." December 2 and 4, 2007.

[10] White, Alan and Cathy Lesser Mansfield. 2000. "Subprime Mortgage Foreclosures: Mounting Defaults Draining Home Ownership." Presentation at HUD-Treasury Predatory Lending Task Force Hearing in New York.

- Another study released by the University of North Carolina, Kenan-Flagler Business School in 2005[11], discussed how predatory loan terms increase the risk of subprime mortgage foreclosure. The study reported in the fourth quarter of 2003, 2.13 percent of all subprime loans across the country entered foreclosure, which was more than ten times higher than the rate for all prime loans.

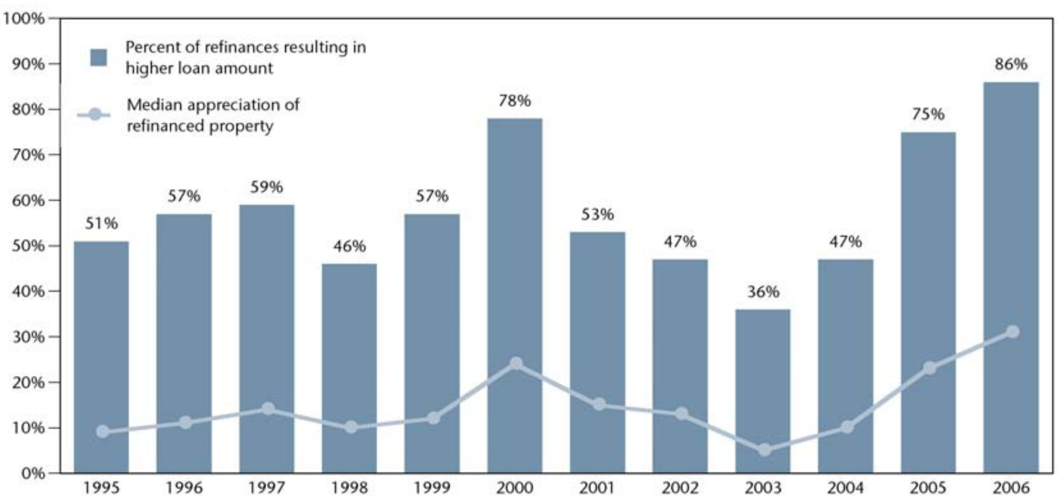
In addition, opponents of subprime lending emphasize that subprime borrowers are disproportionately of minority status, of lower income, and are less well educated than prime borrowers, indicating possible targeting of those less likely to fully understand the risks associated with a subprime loan.

Re-financing. The purpose of mortgage refinances is generally to obtain a lower interest rate, which can potentially save homeowners hundreds of dollars in interest paid each month. Homeowners might also find it advantageous to refinance to rid themselves of primary mortgage insurance (PMI) payments that were required when they purchased their home if they have reduced their loan-to-value though mortgage payments and appreciation in home value.

In some cases, homeowners will increase their loan amount, and use the proceeds of the difference between the old and new loan amount to pay off other debts or use the cash for personal purposes. In general, a higher balance on the refinanced loan suggests that borrowers have taken cash out.[12]

Exhibit II-3 shows the percentage of refinances resulting in higher and lower loan amounts since 1995.

Exhibit II-3.
Percent of Refinances Resulting in Higher Loan Amounts, 1995 to 2006



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[11] Roberto G. Quercia, Michael A. Stegman and Walter R. Davis, "The Impact of Predatory Loan Terms on Subprime Foreclosures: The Special Case of Prepayment Penalties and Balloon Payments," *Center for Community Capitalism, Kenan Institute for Private Enterprise, University of North Carolina at Chapel Hill*, January 25, 2005.

[12] This could also be the result of borrowers wrapping origination fees and points into the new loan balance rather than paying them out of pocket.

Note: A "higher loan amount" is at least 5 percent greater than the original loan amount.

Source: Harvard Joint Center for Housing Studies and Freddie Mac.

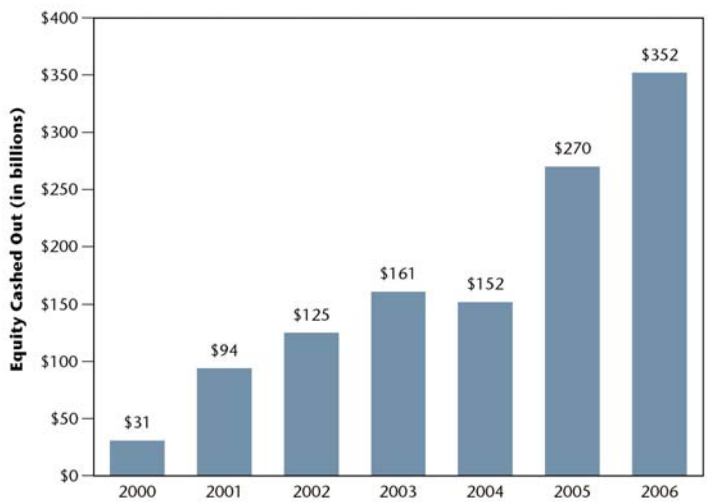
Trends in refinancing suggest that as housing prices appreciated, the practice of refinancing and taking "cash out" grew substantially between 2003 and 2006. In 1995, 51 percent of refinances nationwide resulted in a loan amount at least 5 percent higher than the original amount. In 2006, the percentage had increased to a ten-year high of 86 percent. This trend was strongest in the west, where home value appreciation and the percent of refinances resulting in a higher loan amount were the greatest.

The amount of home equity cashed out when loans were refinanced has risen substantially. In 2006, $352 billion dollars of equity was cashed out as a part of home refinances—compared to just $31 billion in 2000. This is an increase in cash-out volume of more than 11 times over the 6 years between 2000 and 2006.

Exhibit II-4 shows the rise in the amount of home equity cashed out since 2000.

Exhibit II-4.
Total Home Equity Cashed Out, Refinance Loans, 2000 to 2006.

Source: Harvard Joint Center for Housing Studies and Freddie Mac.



Predatory Lending

Predatory lending is recognized as a serious problem with wide-reaching effects, but it lacks a definitive statutory definition. In general, the predatory lending that exists involves the inclusion of high interest rates, fees and abusive loan terms that are inappropriate for a borrower's financial well being. The inclusion of these inappropriate loan terms can benefit a lender in various ways and is achieved through some element of deception or exploitation.

HUD acknowledges the complex nature of predatory lending in saying that it is "as much a function of the manner in which the loans are made as the oppressive terms that they contain."[13] Most of the oppressive terms common among predatory loans cannot be discerned through HMDA data, and the element of deception involved in predatory lending can only be revealed anecdotally.

[13] HUD-Treasury National Predatory Lending Task Force-Treasury Report.

At the federal level, predatory lending has been defined in the following ways:

- "[Loans in which] the party that initiates the loan often provides misinformation, manipulates the borrower through aggressive sales tactics, and/or takes unfair advantage of the borrower's lack of information about the loan terms and their consequences."[14]
- "Predatory loans are characterized by excessively high interest rates or fees, and abusive or unnecessary provisions that do not benefit the borrower, including balloon payments or single premium credit life insurance, large prepayment penalties, and underwriting that ignores a borrower's repayment ability."[15]

One study defines predatory lending as the welfare-reducing provision of credit. Conventional and subprime loans made in good faith should be "welfare-enhancing"—i.e., allowing a borrower to build equity over time. In contrast, predatory lending makes borrowers worse off by setting them up for eventual default and loss of equity in their homes.[16]

Subprime versus predatory lending. It is important to distinguish between subprime and predatory lending, as most subprime loans are not predatory. Despite recent problems, the subprime market has had a beneficial and important role in making homeownership possible for persons with poor credit histories, as well as borrowers with solid credit histories who chose to take on additional debt to afford to purchase a home. As a hedge against the credit risk these borrowers carry, subprime loans have higher interest rates than traditional, prime mortgage loan products.

Subprime loans become predatory when these interest rates and fees are unreasonable given a borrower's credit history or oppressive given his or her ability to repay. One example of predatory lending is targeting high-interest subprime loans to borrowers who could qualify for more favorable loans on the prime market. A more egregious example is the inclusion of unreasonable and oppressive terms and inadequate regard for a borrower's ability to repay, such that the loan is likely to end in default.

Distinguishing predatory loans from subprime ones is challenging, as available data do not indicate the presence of features that are common of predatory loans, nor do they contain the information about creditworthiness necessary to accurately determine the appropriateness of a loan. Furthermore, the manner in which the loans are made can only be revealed anecdotally.

Common features of predatory loans. Although there is not a consistent definition of "predatory loans," there is significant consensus as to the common loan terms that characterize predatory lending. There is also the likelihood that these loan features may not be predatory alone. It is more common that predatory loans contain a combination of the features described below.

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[14] HUD-Treasury National Predatory Lending Task Force-Treasury Report.

[15] Carr-Kolluri of the Fannie Mae Corporation.

[16] Morgan, Donald. 2007 (NY Fed).

Most legislation addressing predatory lending seeks to curb one or more of the following practices:

- Excessive fees;
- Prepayment penalties;
- Balloon payments;
- Debt packaging;
- Yield spread premiums;
- Unnecessary products; and/or
- Mandatory arbitration clause.

Excessive fees. Mortgage documents can be complicated, and fees can be easily downplayed or disguised for unsophisticated borrowers. High fees ostensibly offset the higher costs and risks associated to a lender providing a subprime loan, but these fees become predatory when they are unreasonable, unjustified and are inadequately explained to the borrower.

Prepayment penalties. These fees penalize borrowers for refinancing their mortgages, and they can remove the incentive to refinance among borrowers whose credit improves, who are in a position to no longer pay private mortgage insurance, and/or who want to take advantage of lower interest rates (particularly if they have an ARM). Prepayment penalties are essentially an insurance policy for lenders, compensating them for lost interest if a borrower chooses to refinance. An abusive prepayment penalty is typically effective for more than three years and costs more than six months of interest.

Balloon payments. Regular monthly payments can be reduced by the inclusion of a very large "balloon payment" at the end of the loan term. Borrowers who are not made fully aware of or plan for these balloon payments face default, foreclosure and loss of equity on their homes when this large payment is due.

Debt packaging. Some mortgage lenders offer to include a borrower's outstanding credit card debt into a mortgage, essentially trading short-term debt for much greater long-term debt. Unsophisticated borrowers may not realize that the amortization of other outstanding debt generally does not work in their eventual economic favor.

Yield spread premiums (YSPs). YSPs are common among subprime and predatory loans and are receiving attention as one of the most egregious predatory lending practices. YSPs are kickbacks to mortgage brokers by lenders for securing loans with interest rates higher than that for which the borrower could have qualified. Lenders often pair YSPs with prepayment penalties so that they can recover some of this inflated interest if a loan is refinanced early. YSPs have been criticized for giving brokers the incentive to misrepresent the loan terms and interest rates for which borrowers qualify.

Unnecessary products. Predatory lenders will often package life insurance or homeowners insurance into a mortgage, because they are compensated for the sale of such policies. The premiums on the products may be higher than similar products and, since the products are financed into the loan, the borrowers pay interest on the policies. Predatory lenders may misrepresent the optional nature of these generally unnecessary and costly products to borrowers.

Mandatory arbitration clause. A mandatory arbitration clause prevents a borrower from seeking conventional legal remedy in court if they wish to dispute their mortgage loan contract. Unsophisticated borrowers will rarely foresee the problematic consequences of such a legal agreement.

Loan flipping. Flipping refers to the repeated refinancing of a loan in a short period of time, which often causes a borrower to pay fees or prepayment penalties that strip them of equity in their homes.

Steering. A common practice in predatory lending is steering borrowers who could qualify for conventional loans into the subprime market. A lender may also give the false suggestion that a borrower could not qualify for better terms elsewhere. Fannie Mae estimates that almost 50 percent of all borrowers who end up with a subprime loan could have qualified for a conventional loan.

Colorado's definition. According to the Colorado Attorney General's Office: "'Predatory lending' generally refers to mortgage brokers and lenders placing consumers in loan products with significantly worse terms and/or higher costs than loans offered to similarly qualified consumers. This may also include the refinancing of existing loans with a new loan that provides no tangible benefit to the consumer." Predatory lending is also defined as "any unfair or unconscionable lending practice, including use of false advertising or other misrepresentations in connection with a loan transaction."

According to the Colorado Department of Revenue, predatory lending includes, but is not limited to, the following practices.

- Targeting subprime loans to borrowers who could qualify for traditional, lower interest loan products.
- Making loans with conditions that are abusive pertaining to prepayment penalties, balloon payments, and the ratio of points and fees to the final amount of the loan. Regarding these provisions, a predatory loan would presumably include one which contained any of the following three terms:
  - A prepayment penalty which exceeds 3 percent of the loan value or extends beyond either the third year of the loan or beyond any initial or introductory interest rate period of the loan;
  - A balloon payment on a subprime loan that comes due less than 15 years from the date of inception of the loan; or
  - The financing of points and fees in excess of 5 percent of the total loan amount.
- Bait and switch loan marketing, in which a lender offers a borrower one set of terms, but pressures the borrower to accept another set of terms at closing.

- Packing, in which a one-time premium for insurance products is financed into the loan amount as a condition of extending credit to the borrower.
- Flipping, in which loans are refinanced with high closing costs and without demonstrable net economic benefit to the borrower.

Predatory Lending and Discrimination

A growing body of literature is focusing on the extent to which race, ethnicity and age figure into predatory lending. Predatory practices appear to present great potential for cases involving discrimination in lending.

Targeting. Predatory lending and discrimination overlap in the form of targeting—the aggressive marketing of loan products to certain racial, ethnic or age groups. Lenders may target borrowers of a certain ethnicity or age group that they perceive to be more easily lured into inappropriate loan arrangements.

Minorities and "reverse redlining." African Americans, Hispanics and other racial and ethnic groups may be disproportionately targeted for predatory loans. While it is true that these groups generally have lower incomes and less accumulated wealth, aggressive targeting may have caused a higher number of minority borrowers who could qualify for prime loans to accept subprime products.

Examples of alleged predatory targeting of minorities for subprime loan products include:

- In 2008, the City of Baltimore filed a lawsuit alleging that Wells Fargo targeted black neighborhoods for deceptive lending practices, including reverse redlining. The suit claims that mortgages for homes worth $75,000 or less—most of which are located in minority neighborhoods—were sold at higher rates and laden with fees and surcharges[17].
- In 2007, the NAACP filed a lawsuit in Los Angeles against 14 mortgage lenders claiming they were systematically targeting African American borrowers for high-interest subprime loans without regard to their creditworthiness. The NAACP cited as evidence statistics showing much higher interest rates on mortgages obtained by minorities than non-minorities, even when controlling for creditworthiness.[18]
- In the 2000 case *United States v. Delta Funding Corporation*, Delta was alleged to have approved mortgage loans to African American females with higher brokerage fees than similarly situated white males. This allegation was among a number of other predatory practices that violated several federal regulations.[19]
- A 2001 study by the California Reinvestment Coalition found that minority subprime borrowers were more likely to cite marketing as a reason for choosing their lender than non-Hispanic whites.[20]

[17] http://www.knowledgeplex.org/news/1266591.html

[18] http://www.naacp.org/news/press/2007-07-11/index.htm.

[19] http://www.ftc.gov/opa/2000/03/deltafunding.shtm.

[20] Stolen Wealth, California Reinvestment Coalition.

- A study in New York City found that homebuyers in predominantly Hispanic and African American neighborhoods were more likely to secure loans in the subprime market than homebuyers with similar income levels in non-minority neighborhoods.[21] It should be noted that the study only looked at a neighborhood's income level (not creditworthiness or net assets).

In the past, banks were reluctant to lend in high-minority, low-income neighborhoods—a practice known as "redlining." The federal government has made great efforts to curb redlining, making the practice illegal and monitoring bank investment in minority communities. Growth of the subprime market has created the opposite problem, called "reverse redlining," in which subprime loan products are aggressively marketed in minority neighborhoods. Some groups blame redlining as creating the opportunity for subprime and predatory lenders: The California Reinvestment Coalition concluded in a 2001 study that the incidence of subprime lending among minority borrowers was a result of a redlining among prime lenders and a reverse redlining effect among subprime lenders. Prime lenders were doing a poor job of making loans available to creditworthy borrowers in low-income minority areas—so the subprime lenders had an opportunity to overtake the market.[22]

The concentration of subprime lending in minority neighborhoods may give residents the impression that such credit is their only option. As a result, minority borrowers who could qualify for prime loans end up with subprime loans. As NAACP Legal Defense and Education Fund, Inc. director Robert Stroup recently said, "It's almost as if subprime lenders put a circle around neighborhoods of color and say, 'This is where we're going to do our thing.'"[23]

Population with Limited English Proficiency (LEP). Besides generally belonging to racial and ethnic minorities, persons with limited English proficiency (LEP) may be targeted due to their inability to understand complicated mortgage terms that are not in their native language. Predatory lenders may find them more likely to unwittingly agree to oppressive loan terms. Their reliance on the verbal representations of mortgage brokers and lenders regarding loan products makes them particularly vulnerable to predatory targeting. For example:

- A 2002 study in Texas reported that Spanish-speakers were targeted for predatory loans for mobile homes. The report found many instances of borrowers who signed off on loans and were later surprised to find out that their payments were much higher than they had been told, or that they did not even own their mobile home at all. These borrowers claimed that these important pieces of information were not adequately communicated to them, which was facilitated by their limited proficiency in English.[24]

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[21] NYU Furman Center for Real Estate and Urban Policy. October 15, 2007 http://www.nytimes.com/2007/10/15/nyregion/15subprime.html?_r=1&ex=1350187200&en=a9978e04a9864642&ei=5088&partner=rssnyt&emc=rss&oref=slogin.

[22] Stolen Wealth, California Reinvestment Coalition.

[23] http://www.nytimes.com/2007/10/15/nyregion/15subprime.html?_r=1&ex=1350187200&en=a9978e04a9864642&ei=5088&partner=rssnyt&emc=rss&oref=slogin.

[24] http://www.consumersunion.org/pdf/mh/over/report.pdf.

Elderly. Elderly households often have substantial equity built up in their homes or own their homes outright. This makes them an attractive target to predatory lenders, who will be able to take advantage of this equity if the elderly borrower defaults on a loan made for unnecessary home improvements.[25] In addition, because elderly individuals usually live on fixed incomes and may have trouble continuing to make ends meet as they age, they are particularly vulnerable to lenders offering reduced payments or cash-out re-financings.

- A 1998 survey of persons filing for bankruptcy in Boston showed that 11.4 percent of elderly persons said they entered into bankruptcy due to the bad-faith of their creditors, compared with only 5 percent of non-elderly respondents.
- A Seattle Times study, based on an in-depth analysis of deeds of trust from loans made by the large subprime lender Ameriquest, found that subprime borrowers are disproportionately likely to be seniors who own their homes. These borrowers are likely targeted not for their ability to pay back a loan, but for the equity they have in their homes.[26]

Summary

Over the past decade, a surge in available credit has led to the increased popularity of alternative loan products, including adjustable rate mortgages, second mortgage loans, subprime loans and "cash-out" refinance loans. These loan products have enabled higher-risk borrowers to qualify for home loans and other borrowers to "stretch" into higher-valued homes. Appreciating home prices have also allowed borrowers to cash out some of their equity.

However, the negative consequences of this aggressive extension of credit have manifested in the form of defaults and foreclosures, and the ultimate fallout of the subprime market. It is unclear how much of these nontraditional products involved predatory lending practices. It is also difficult to ascertain how aggressively lenders targeted minorities and elderly households in marketing and extending unfavorable loans.

How the subprime market affected borrowers in Colorado is the topic of the subsequent chapters of this report. Section III examines mortgage loan activity in 2006 and determines the extent and nature of subprime lending in the state. Section IV reports the results of research conducted with borrowers at-risk of or in foreclosure, to understand the link between the loan products they accepted and their situation. Section V contains qualitative research, including select personal stories, of the victims identified by the outreach partners in the study.

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[25] http://www.consumerlaw.org/initiatives/seniors_initiative/helping_elderly.shtml, http://www.nclc.org/initiatives/seniors_initiative/topics_predlending.shtml.

[26] The Seattle Times Investigation: "Part One, The Fleecing of Francis Taylor" and "Part Two, Homeowners in Debt, Seniors Prime Targets of Riskiest Loans." December 2 and 4, 2007.

SECTION III.
HMDA Data Analysis

This section analyzes Home Mortgage Disclosure Act (HMDA) data to detect patterns of subprime lending and potential discriminatory predatory lending in Colorado.

Introduction

HMDA data are widely used to detect evidence of discrimination in mortgage lending. In fact, concern about discriminatory lending practices in the 1970s led to the requirement for financial institutions to collect and report HMDA data. The variables contained in the HMDA dataset have expanded over time, allowing for more comprehensive analyses and better results. However, despite expansions in the data reported, HMDA analyses remain limited because of the information that is *not* reported.

As such, studies of lending disparities that use HMDA data carry a similar caveat: HMDA data can be used to determine disparities in loan originations and interest rates among borrowers of different races, ethnicities, genders, and location of the property they hope to own. The data can also be used to explain many of the reasons for any lending disparities (e.g., poor credit history). Yet HMDA data do not contain all of the factors that are evaluated by lending institutions when they decide to make a loan to a borrower. Basically, the data provide *a lot* of information about the lending decision—but *not all* of the information.

Beginning in 2004, HMDA data contained the interest rates on higher-priced mortgage loans. This allows examinations of disparities in high-cost, including subprime, loans among different racial and ethnic groups. It is important to remember that subprime loans are not always predatory, and that the numerous factors that can make a loan "predatory" are not adequately represented in available data. Therefore, actual predatory practices cannot be identified through HMDA data analysis. However, the data analysis can be used to identify where additional scrutiny is warranted, and how public education and outreach efforts should be targeted.

This section uses the analysis of HMDA data to uncover:

- The geographic areas in Colorado where high-cost lending is concentrated, and the correlation of these areas with concentrations of minority and low-income households;
- Disparities in high-cost lending across different racial and ethnic groups;
- Disparities in high-cost lending among neighborhoods in Denver;
- The lenders who appear to specialize in high-cost and subprime lending.

HMDA data background. The Home Mortgage Disclosure Act (HMDA) requires financial institutions to maintain and disclose data on loan applications for home purchases, home improvements and mortgage refinances. In general, HMDA applies to lending institutions above an annually adjusted asset threshold ($36 million in 2006) that have offices in metropolitan areas. Most data required for disclosure under HMDA are available publicly on an annual basis.

HMDA was originally enacted in 1975 in response to the practice of "redlining"—the systematic exclusion of neighborhoods with high concentrations of minorities in home mortgage lending. At its inception, HMDA only required data regarding the number and value of loans originated by Census Tract. Reporting requirements under HMDA have expanded over time, reflecting changing concerns over discriminatory lending practices. For example, in the late 1980s, HMDA was expanded to include the disclosure of data regarding borrower race, ethnicity, gender and income.

Since 2004, HMDA has required the reporting of some pricing data on higher-cost loans. This has significantly enhanced the use of HMDA data for the purposes of understanding lending patterns in the high-cost subprime market[27].

HMDA data report several types of loans. These include loans used to purchase homes, loans to make home improvements and refinancing of existing mortgage loans, as defined below.

- Home purchase loan. A home purchase loan is any loan secured by and made for the purpose of purchasing a housing unit.
- Home improvement loan. A home improvement loan is used, at least in part, for repairing, rehabilitating, remodeling, or improving a housing unit or the real property on which the unit is located.
- Refinancing. Refinancing is any dwelling-secured loan that replaces and satisfies another dwelling-secured loan to the same borrower. The purpose for which a loan is refinanced is not relevant for HMDA purposes.

The HMDA data are separated into two primary loan categories: conventional loans and government-guaranteed loans. Government-guaranteed loans are those insured by the Federal Housing Administration and Veterans Administration.

[27] A key of 2006 HMDA data that lists the required data variables is included as Appendix A.

Limitations. As mentioned above, HMDA data lack a number of important pieces of information from loan applications, which are not reported because of consumer privacy concerns. These limitations include:

- Lack of data regarding borrower risk. HMDA data include borrower income but do not include other important variables regarding borrower risk, such as credit scores, debt-to-income ratios, employment history (including episodes of unemployment), history of bankruptcy filing, etc. These variables are important determinants of the creditworthiness of the borrower.

- Limited data about loan terms. Since 2004, HMDA has required the reporting of the annual percentage rate (APR) of high-cost loans. However, HMDA does not require the reporting of other loan features typical of subprime and predatory loans, including fees, balloon payments, etc.[28] In addition, HMDA data do not identify if mortgages have adjustable rates.

- No unique borrower identifier. HMDA data do not include a unique borrower identifier to match primary purchase loans with other outstanding loans (e.g., piggyback or home improvement), which may affect borrowers' risk profiles.

- Some lenders not subject to HMDA. Small depository institutions and depository institutions with offices exclusively in rural areas are not required to report loan data under HMDA. As a result, HMDA data under represents mortgage lending in rural areas. This report focuses primarily on metropolitan areas of Colorado where HMDA coverage is greatest.

Methodology

The HMDA data analysis described in this section enabled us to identify the extent of high-cost lending in Colorado, and to pinpoint disparities in such lending by race, ethnicity and geographic area.

The HMDA data used in this study included more than 236,000 mortgage loans made by lending institutions to Colorado borrowers in 2006. The loans were limited to the following:

- Owner-occupied homes, i.e., those homes intended for use as a borrower's principal dwelling (not as a second home or investment property).

- Originated loans. Loans that were denied, withdrawn, closed, purchased by another institution and approved but not accepted are excluded.

- Loans made for home purchases or refinances. Loans for home improvements are excluded.

[28] HMDA includes a variable identifying very high-cost/high-fee loans subject to provisions under the Home Equity Protection Act (HOEPA), but HOEPA thresholds are high, such that less that 0.1 percent of loans made in Colorado in 2006 were subject to HOEPA.

Identification of "subprime." Lenders are required to disclose the interest rate on loans when the annual percentage rate (APR) on the loan exceeds the yield on Treasury securities of comparable maturity by 3 percentage points for first liens and 5 percentage points for junior liens.

The federal requirement to report the interest rates on high-cost loans was directly linked to the growth in the subprime loan market and concerns about discrimination in pricing. The objective of the Federal Reserve Board in requiring pricing disclosure requirements was that pricing on most subprime loans *would be* reported and pricing on most prime loans *would not.*[29]

For the purposes of this report, we define "subprime" as a loan with an APR of more than 3 percentage points above comparable Treasuries for first liens, and 5 percentage points for second liens. This is consistent with the intent of the Federal Reserve.

We also call loans "super subprime" which have APRs of more than 7 percentage points above comparable Treasuries for first liens and 9 percentage points for junior liens. This is our own definition, created to identify very high-cost loans.

What does this mean in terms of interest rates on subprime mortgage loans? The 30-year Treasury averaged 4.91 percent in 2006. Therefore, for our report, subprime 1st lien loans average APRs of 7.91 percent and higher. "Super" subprime loans have APRs that are 11.91 percent and higher. By comparison, the Federal Housing Finance Board reports that in 2006, the average APR for conventional 30-year mortgages was 6.64 percent.

As such, we call subprime loans those with APRs that exceeded the average APR for 30-year conventional loans in 2006 by 1.27 percentage points. Super subprime loans exceeded the average APR by 5.27 percentage points.

Race/ethnicity categorization. Federal regulations require separate racial and ethnic designations for Census purposes. Race includes the designations of white, black, Asian, American Indian and Hawaiian, while ethnicity includes the designation Hispanic and non-Hispanic. Therefore, an individual may be white Hispanic, white non-Hispanic, black-Hispanic, etc.

For the purposes of this analysis, these categories are consolidated into one race and ethnicity variable in which ethnicity trumps race.[30] All borrowers are considered Hispanic regardless of their race if their ethnicity is Hispanic, and non-Hispanic borrowers are categorized by their race. The one exception is "multiracial" borrowers, who are considered such if they reported more than one race, regardless of their ethnicity.

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[29] The reported APR on an adjustable rate mortgages (ARMs) considers both the initial "teaser" rate and the adjustment rate, assuming that Treasury interest rate to which the loan is indexed stays fixed.

[30] This is the approach taken by the Department of Justice.

Mortgage Lending in Colorado

In 2006, Colorado residents submitted 459,219 applications for mortgage loans on owner-occupied properties, including loans to refinance existing mortgages. Roughly half of all applications resulted in a loan origination[31]. The other applications were either denied or closed by the lender, or withdrawn or not accepted by the borrower.

As shown in Exhibit III-1, most loans were refinances of existing loans, followed by new purchases. The average refinance was for $232,857; the average purchase, $227,213. "Junior" loans are second mortgages, subordinate to liens on first mortgages. As discussed in Section II, these loans can be piggyback loans on first mortgages or home improvement loans. Second mortgage loans were generally 20 to 25 percent of the amount of primary loans.

Exhibit III-1.
Colorado Loan Applications and Originations, 2006

Note:

* Includes approvals, denials, withdrawals, file closures and pre-approvals/denials.

Loan Type	Loan Applications*	Loan Originations	Average Loan Amount
Purchase, 1st lien	142,484	94,942	$227,213
Purchase, 2nd lien	54,509	34,572	$47,694
Refinance, 1st lien	194,849	75,289	$232,857
Refinance, 2nd lien	67,377	32,045	$56,970
Total	459,219	236,848	

Source:

2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

The majority of originated loans were primary home purchase loans (about 40 percent of all loans) or refinance loans (32 percent), while the remaining 28 percent were junior loans for home purchase or refinance. The fact that there were more applications but fewer originations for refinance loans means that these applications were originated at a significantly lower rate.

Where loans were made. Exhibit III-2 on the following page shows loan originations for Colorado's most populous counties, by loan type, in 2006.[32]

[31] The HMDA dataset analyzed for this study contains records for 236,848 home purchase and refinance loans made for owner-occupied housing units in Colorado in 2006. Owner-occupied housing only considers principle residences, therefore excluding second home and income-producing rental properties.

[32] The total number of loans differs slightly in other reported data the report due to missing county data that decreased the population of valid loan records.

Exhibit III-2.
Loans by Type and County of Origination, 2006

County	Loans by type											
	Purchase, 1st lien		Purchase, 2nd lien		Refinance, 1st lien		Refinance, 2nd lien		All loans		2006 Households	
	Loans	*Percent*	*Loans*	*Percent*	*Loans*	*Percent*	*Loans*	*Percent*	*Loans*	*Percent*	*Loans*	*Percent*
Denver	10,766	11%	4,500	13%	8,349	11%	3,281	10%	26,896	11%	250,259	14%
Adams	7,825	8%	3,594	10%	6,391	9%	3,027	10%	20,837	9%	145,949	8%
Arapahoe	10,549	11%	4,521	13%	8,377	11%	3,911	12%	27,358	12%	211,798	11%
Broomfield	1,488	2%	545	2%	760	1%	456	1%	3,249	1%	17,119	1%
Douglas	8,558	9%	3,531	10%	5,523	7%	3,058	10%	20,670	9%	92,275	5%
Jefferson	8,804	9%	3,368	10%	8,788	12%	3,918	12%	24,878	11%	208,482	11%
Denver Metro Area	47,990	51%	20,059	58%	38,188	51%	17,651	55%	123,888	52%	925,882	50%
Boulder	4,777	5%	1,450	4%	3,819	5%	1,385	4%	11,431	5%	113,230	6%
El Paso	13,314	14%	4,256	12%	9,006	12%	4,056	13%	30,632	13%	214,974	12%
Larimer	5,203	5%	1,758	5%	4,131	5%	2,153	7%	13,245	6%	107,296	6%
Mesa	3,743	4%	930	3%	2,703	4%	792	2%	8,168	3%	53,416	3%
Pueblo	2,755	3%	848	2%	2,323	3%	855	3%	6,781	3%	58,941	3%
Weld	5,020	5%	1,996	6%	3,738	5%	1,960	6%	12,714	5%	82,929	4%
Remainder of State	11,829	13%	3,216	9%	11,210	15%	3,010	9%	29,265	12%	289,253	16%
Total Colorado*	94,631	100%	34,513	100%	75,118	100%	31,862	100%	236,124	100%	1,845,921	100%

Note: * Total number of loans is less than the 236,848 total previously reported due to records with missing data regarding county of origination..

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting and Colorado State Demography Office.

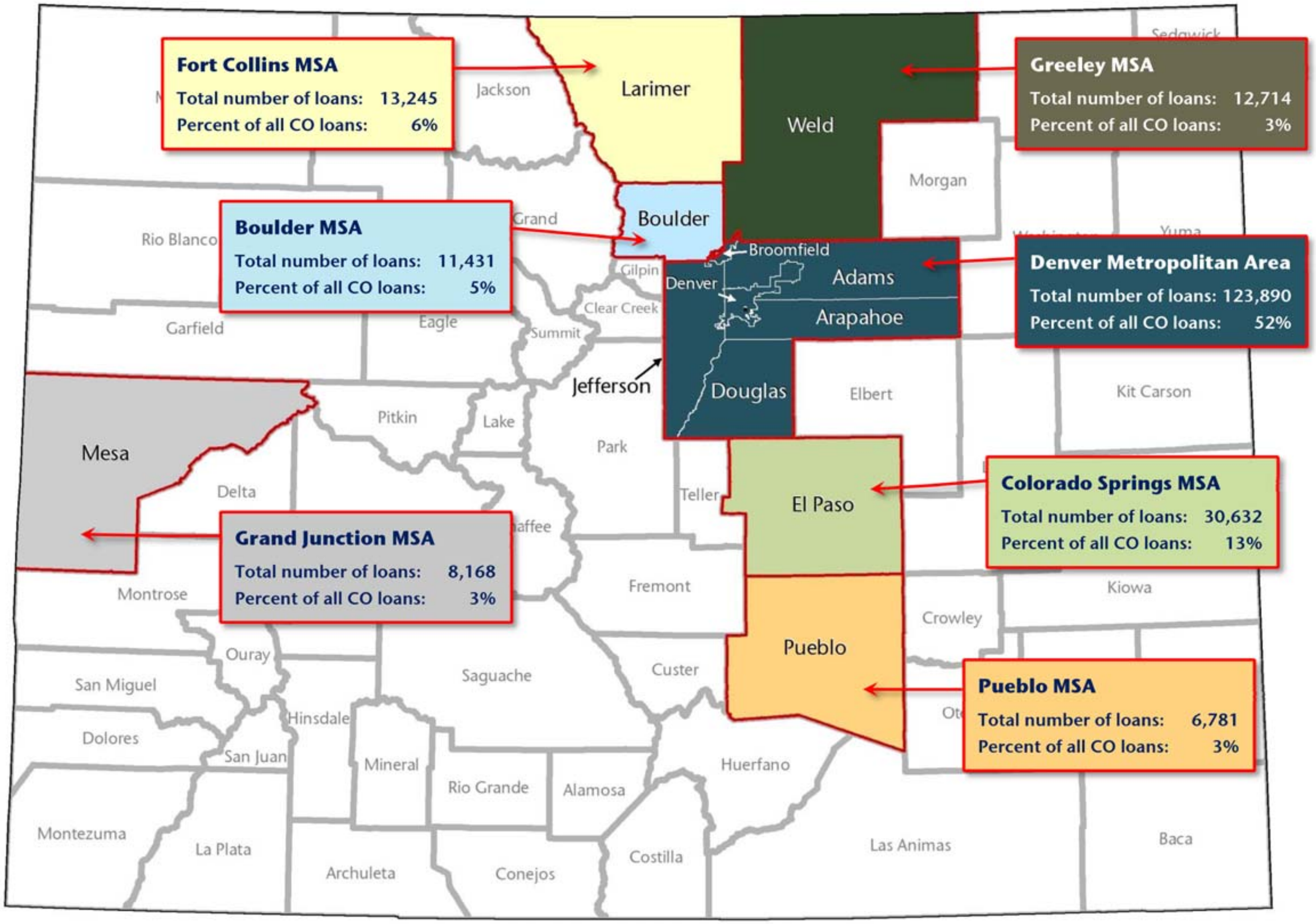
Over one-in-two of all home loans originated in Colorado in 2006 were for homes in the Denver-Aurora metropolitan area. El Paso County, home to Colorado Springs, had the highest number of loans of any one county in the state with over 30,600 purchase and refinance loans in 2006, followed by Arapahoe County.

We compared the proportion of households in the state's counties with the proportion of mortgage loans to determine if certain counties were under or overrepresented with lending activity. In terms of loan originations, Denver County is underrepresented, Adams and Arapahoe counties are slightly overrepresented, and Douglas County is significantly overrepresented in comparison to the breakdown of households statewide. Overrepresentation could signify a higher rate of homeownership and/or more homebuilding activity; and underrepresentation, a lower rate of home ownership and/or building activity.

The non-metropolitan counties in Colorado are slightly underrepresented in 2006 HMDA data—they received 12 percent of reported loans but contain 16 percent of the state's households—but this is likely due in part to exemptions from HMDA data reporting for some rural lenders.

Exhibit III-3 shows the number and percentage of mortgage originations by metropolitan area. The map demonstrates the dominance of lending in the Denver MSA.

Exhibit III-3.
Overall and Percentage of Mortgage Loans by MSA, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting and Colorado State Demography Office.

Almost 124,000 purchase and refinance loans—roughly 52 percent of all such loans in Colorado—were for homes in the 6-county Denver Metro Area. A large number of loans (about 30,600) were originated for homes in the Colorado Springs area. The other metropolitan areas, in order of loans originated, are Fort Collins (13,200 loans), Greeley (12,700), Boulder (11,400), Grand Junction (8,200) and Pueblo (6,800).

Together, the metropolitan areas of Colorado accounted for approximately 84 percent of the purchase and refinance loans reported under HMDA in 2006.

Subprime Lending in Colorado

Of the 236,848 mortgage loans originated in 2006, 56,585 (23.9 percent) were considered subprime by our definition (i.e., these loans met or surpassed the pricing reporting threshold required by HMDA data). Of these subprime loans, 3,604 were very high-interest loans, with APRs of about 12 percent and higher. These very high-interest loans represented 1.5 percent of the 236,848 mortgage loans originated.

This section analyzes subprime lending several different ways:

- Geographically—Identifying "hotbeds" of subprime activity, by county and at the Census Tract level for the Denver area;
- Borrower characteristics—Determining if subprime lending is associated with borrower race, ethnicity and income level; and
- Lender—Identifying lenders who had a large role in the state's subprime market in 2006.

Where did subprime lending occur? Geographic analysis.

Subprime lending by county. Exhibit III-4 shows the percentage of subprime loans by county in 2006. As the map demonstrates, counties with the most subprime activity in 2006 were predominantly located in eastern and south central Colorado. Those counties with a very small number of total loan originations are excluded.

Exhibit III-4.
Percentage of All Loans that are Subprime, by County, 2006

Note: Number of loans is less than the 236,848 total previously reported due to records with missing data regarding county of origination.

Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Exhibit III-5 on the following page shows where in Colorado subprime lending is disproportionately high and disproportionately low relative to all lending (prime and subprime). All other factors being equal, we expect that the distribution of subprime loans will be similar to the distribution of all mortgage loans. Cases where this did not occur—i.e., where counties were under- and overrepresented by subprime loan activity—are identified on the map through color-coding.

Exhibit III-6 below shows how all loans, subprime loans, and super-subprime loans were distributed geographically throughout Colorado in 2006. The distribution of households in the state is also shown to demonstrate where home mortgage lending is disproportionately high and low.

For example, in Denver, 13 percent of subprime loans were made in the City and County of Denver; 14 percent of super subprime loans were made in Denver. This compares with 13 percent of the state's households who live in Denver. Therefore, Denver was neither over- nor underrepresented by the subprime market in 2006.

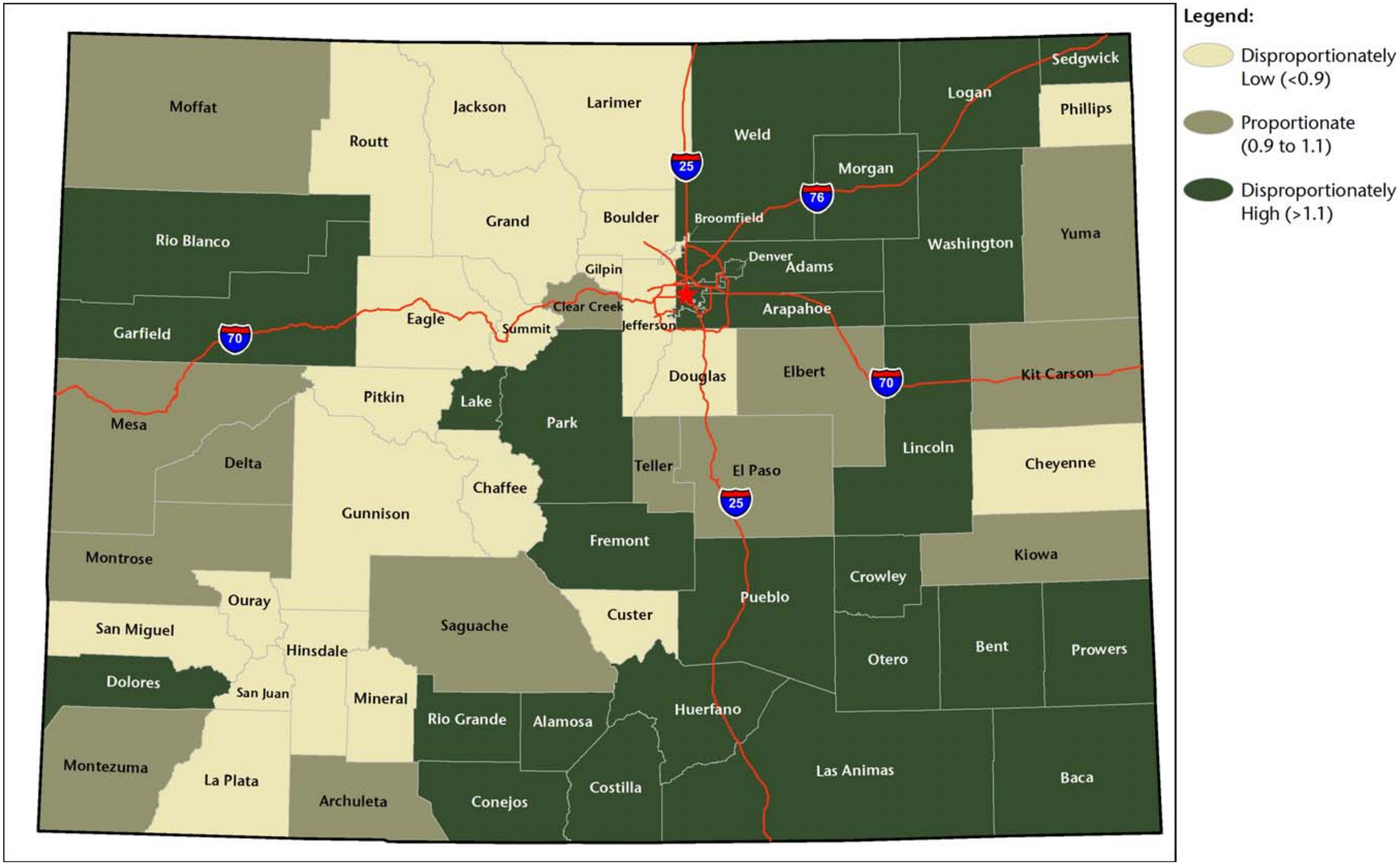
The metro county most overrepresented by subprime lending in 2006 was Adams, with 12 percent of subprime loans compared to 8 percent of households. Weld County had 4 percent of the state's households in 2006, but represented 6 percent of all subprime loans. Similarly, Pueblo County had 3 percent of the state's households, yet accounted for 7 percent of all super subprime loans in the state.

Exhibit III-6.
Subprime Lending by County, 2006

County	All loans		Subprime loans		Super subprime loans		2006 Households	
	Loans	*Percent*	*Loans*	*Percent*	*Loans*	*Percent*	*Loans*	*Percent*
Denver	26,896	11%	7,195	13%	490	14%	236,917	13%
Adams	20,837	9%	6,819	12%	390	11%	140,648	8%
Arapahoe	27,358	12%	7,478	13%	468	13%	207,839	12%
Broomfield	3,249	1%	465	1%	27	1%	16,284	1%
Douglas	20,670	9%	3,560	6%	178	5%	89,364	5%
Jefferson	24,878	11%	5,143	9%	295	8%	207,128	12%
Denver Metro Area	123,888	52%	30,660	54%	1,848	52%	898,180	50%
Boulder	11,431	5%	1,483	3%	92	3%	111,423	6%
El Paso	30,632	13%	7,209	13%	439	12%	209,634	12%
Larimer	13,245	6%	2,399	4%	135	4%	105,909	6%
Mesa	8,168	3%	2,091	4%	139	4%	51,700	3%
Pueblo	6,781	3%	2,436	4%	241	7%	59,038	3%
Weld	12,714	5%	3,361	6%	205	6%	79,555	4%
Remainder of State	29,265	12%	6,722	12%	469	13%	284,911	16%
Total Colorado*	236,124	100%	56,361	100%	3,568	100%	1,800,350	100%

Note: * Number of loans is less than the 236,848 total previously reported due to records with missing data regarding county of origination.

Exhibit III-5.
Distribution of Subprime Lending Activity, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Subprime lending in high-minority areas. As shown in the state map in Exhibit III-7 on the following page, for Colorado overall, subprime lending is most highly concentrated in those areas with a high percentage of minority residents.

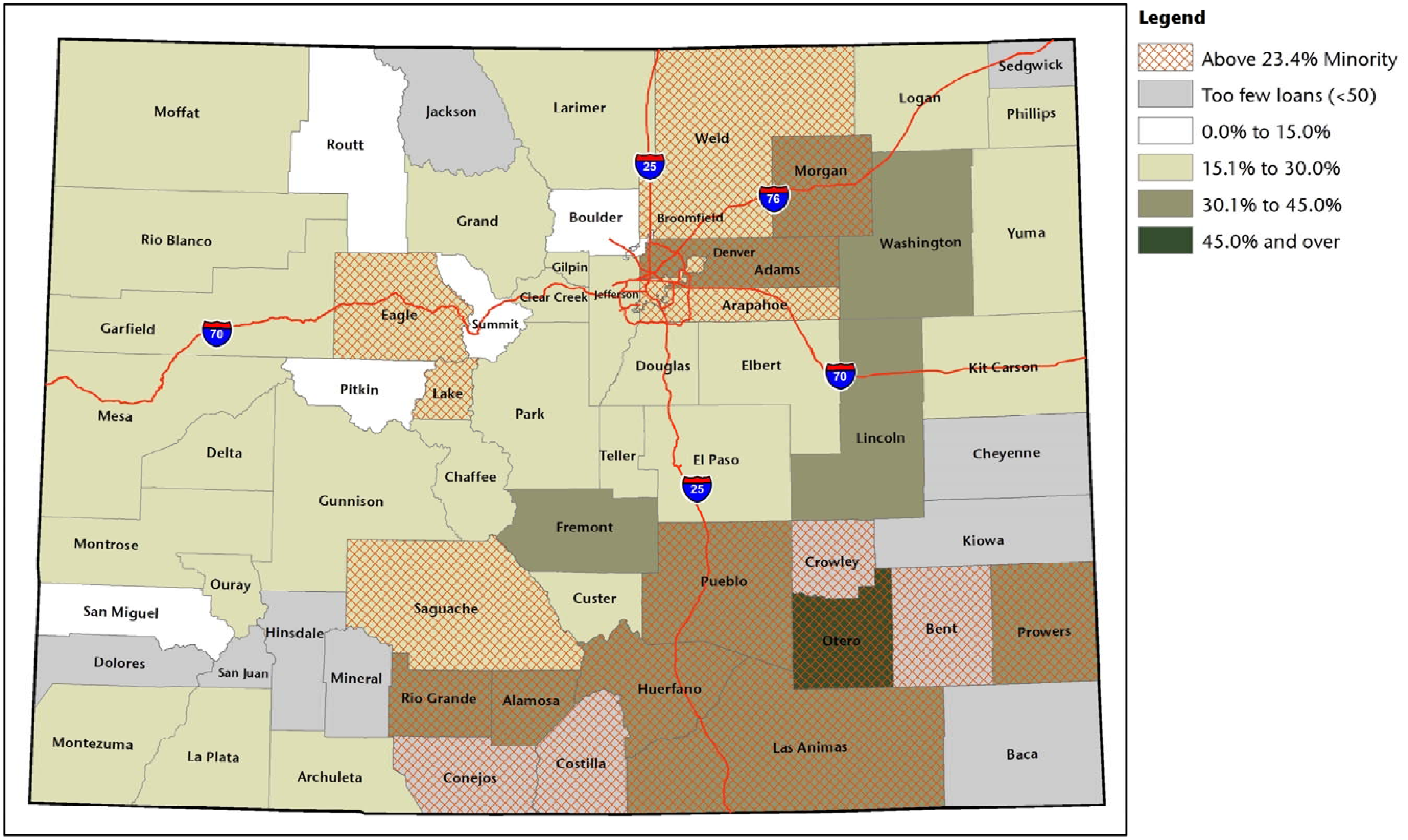
This effect is more striking when examined at smaller geographic levels. Exhibits III-8 on page 15 and III-9 on page 16, show the percentage of loans that are subprime by Census Tract for the Denver area. With a few exceptions, Census Tracts that have more than 50 percent minority populations are also the same Census Tracts that have the highest amount of subprime activity. Of the 84 Census Tracts in the six-county Denver Metropolitan Area with at least 50 percent minority representation, 66 (or 79 percent) were Census Tracts where subprime loans were more than 30 percent of all loans made.

The Census Tracts with the highest concentration of subprime loans (greater than 45 percent of all loans) are overwhelmingly high-minority, low-income areas. These Census Tracts (19 in all[33]) have minority concentrations ranging from 66 to 95 percent. Most of these Census Tracts had Median Household Incomes between $30,000 and $50,000, with the exception of one Census Tract (in the Montbello neighborhood) that had a Median Household Income of almost $65,000.[34] Almost all of these Census Tracts had experienced a net decrease in the number of housing units between 2000 and 2006, and their home values increased by 35 to 40 percent over this period.

[33] This does not include the Sun Valley neighborhood and Census Tract where there is a large presence of public housing and too few home loans for the calculations presented in this analysis.

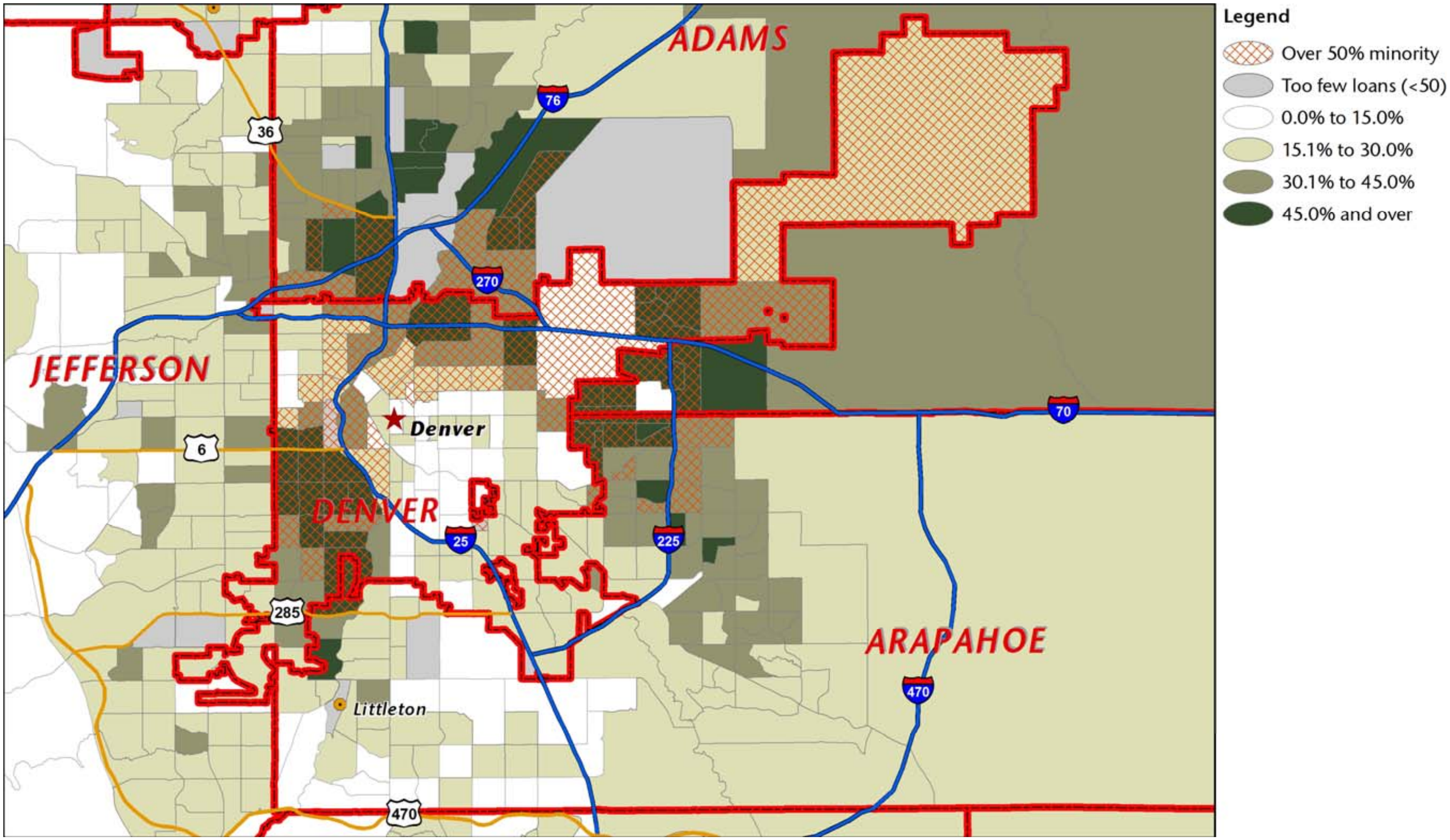
[34] Income data are 2006 estimates from Claritas.

Exhibit III-7.
Higher-than-average Minority Counties Overlaid on Subprime Loans, 2006



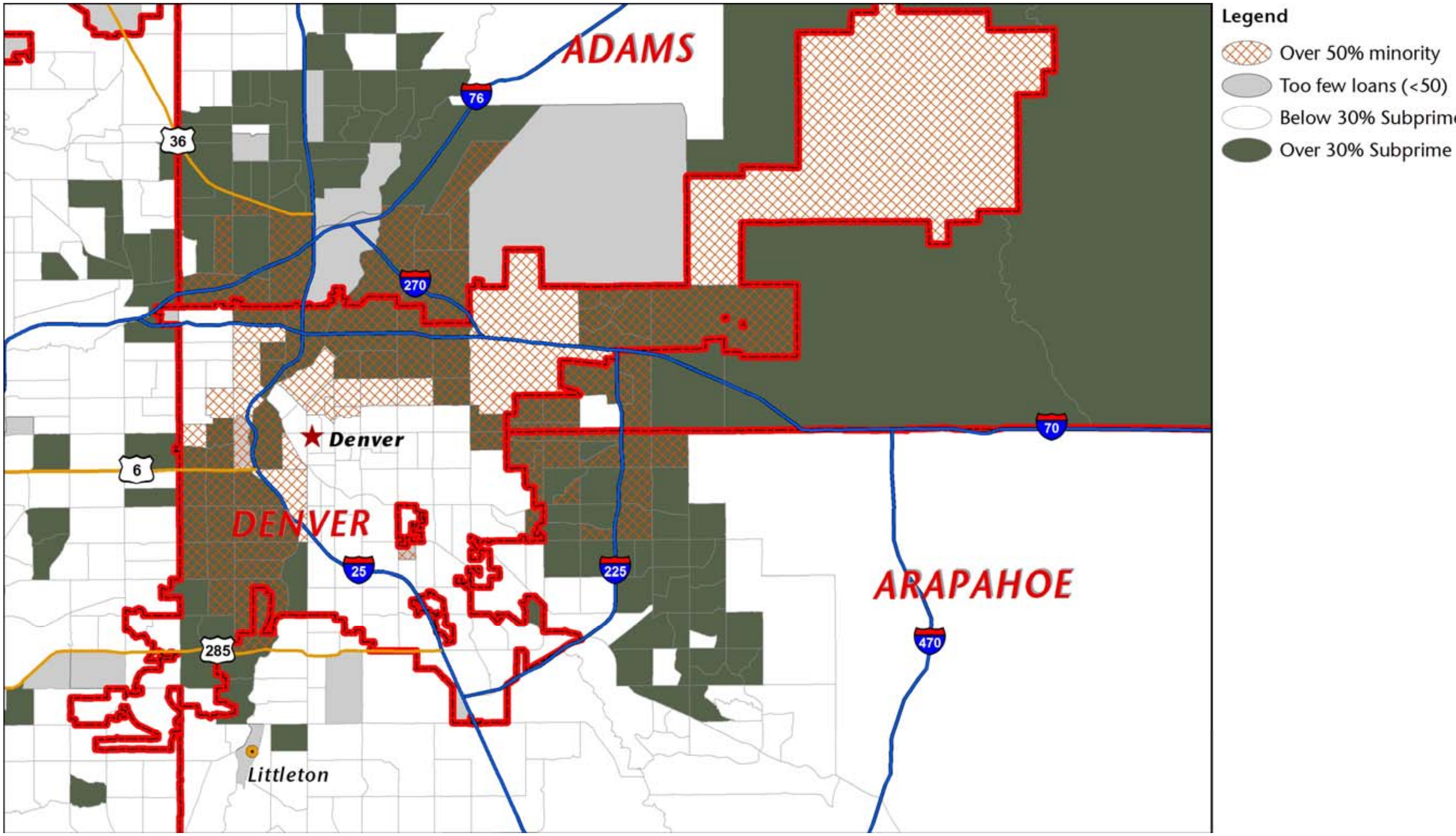
Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Exhibit III-8.
Census Tracts with Populations over 50 Percent Minority Overlaid on Subprime Loans, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Exhibit III-9.
Census Tracts with Populations over 50 Percent Minority Overlaid on Subprime Concentration, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

The major lenders in these high-subprime Census Tracts include Countrywide, Homecoming Financial Network, Taylor, Bean and Whitaker, Fremont Investment and Loan, and Accredited Home Lenders. Almost all of the loans originated by Fremont and Accredited Home Lenders were subprime loans, while, interestingly, none of the loans originated by Taylor, Bean and Whitaker were subprime.[35] A large proportion, but less than half of loans originated by Countrywide and Homecoming in these Census Tracts were subprime.

Subprime lending in low-income areas. We expect subprime loan activity to be correlated with income levels, in that high income areas would have less subprime activity and lower income areas would have more. This is based on the assumption that higher income borrowers have more options in the marketplace because they might be better educated and more sophisticated in researching and choosing a mortgage loan. One might also assume that higher incomes lead to better credit scores, because higher income individuals have a greater ability to manage debt and pay bills on time[36].

Those counties with median household incomes (MHHI) higher than the state average are also those counties where subprime lending is the lowest, particularly for the very high income counties of Pitkin, Summit, Routt and Boulder. This is demonstrated in Exhibit III-10 on page 18.

We also examined the relationship between Census Tracts with higher-than-average poverty levels and subprime lending[37]. As the map in Exhibit III-11 on page 19 shows, in Denver, Census Tracts with high subprime loan activity are only somewhat likely to have higher-than-average poverty rates.

In sum, the relationship between income and subprime lending is not as striking as that between race/ethnicity and subprime lending. This is partially because high income households represented a significant part of the subprime market in 2006, as demonstrated later in this chapter. In addition, high-poverty Census Tracts are also more likely to have more renters, and potentially fewer mortgage transactions.

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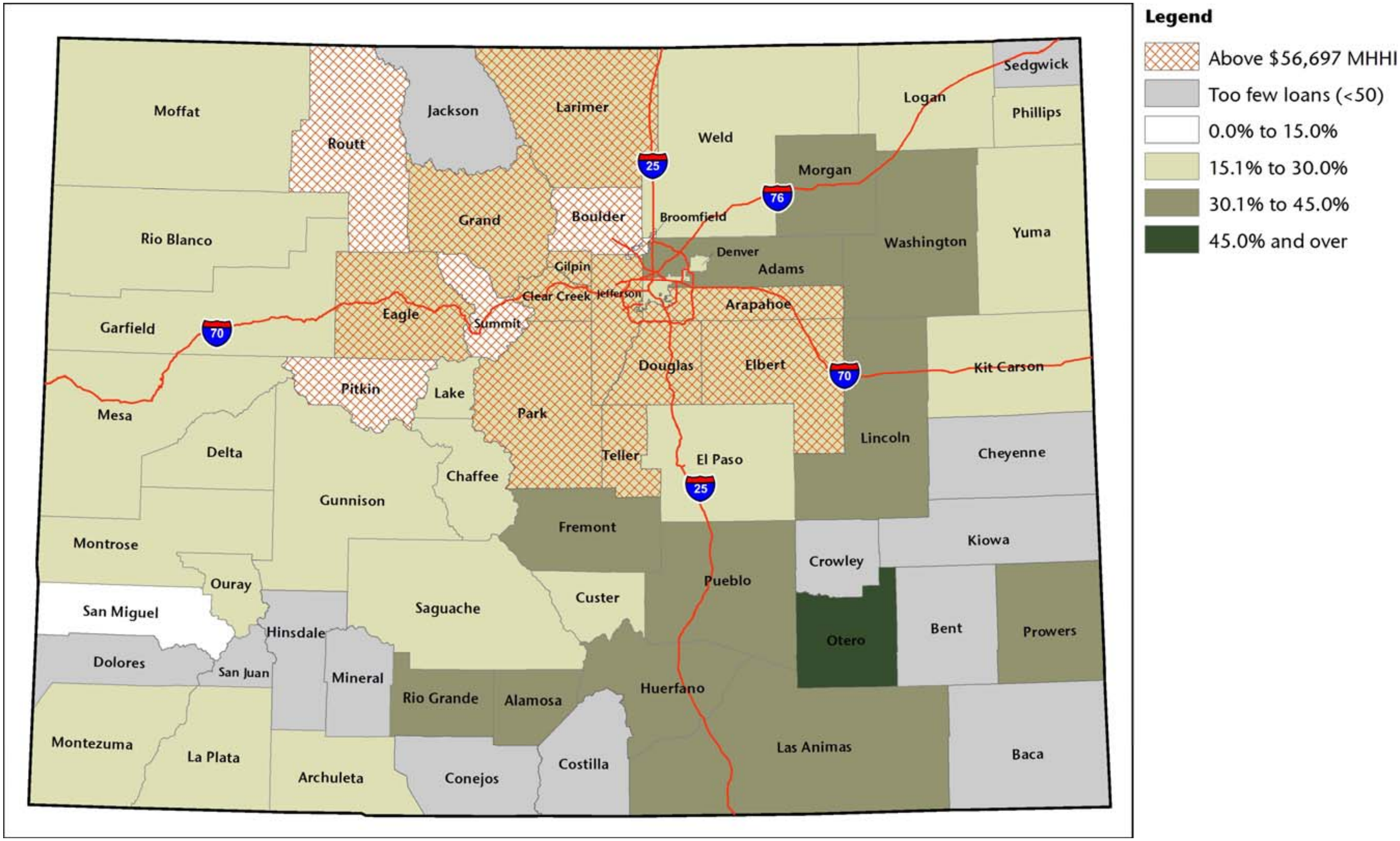
[35] This due to the fact that TBW originates many conforming loans, which are government-sponsored loans with terms that must follow certain guidelines set by Fannie Mae and Freddie Mac. These loans do not have interest rates high enough to trigger HMDA data reporting requirements and be considered subprime in this analysis.

[36] The credit score itself, however, does not consider income.

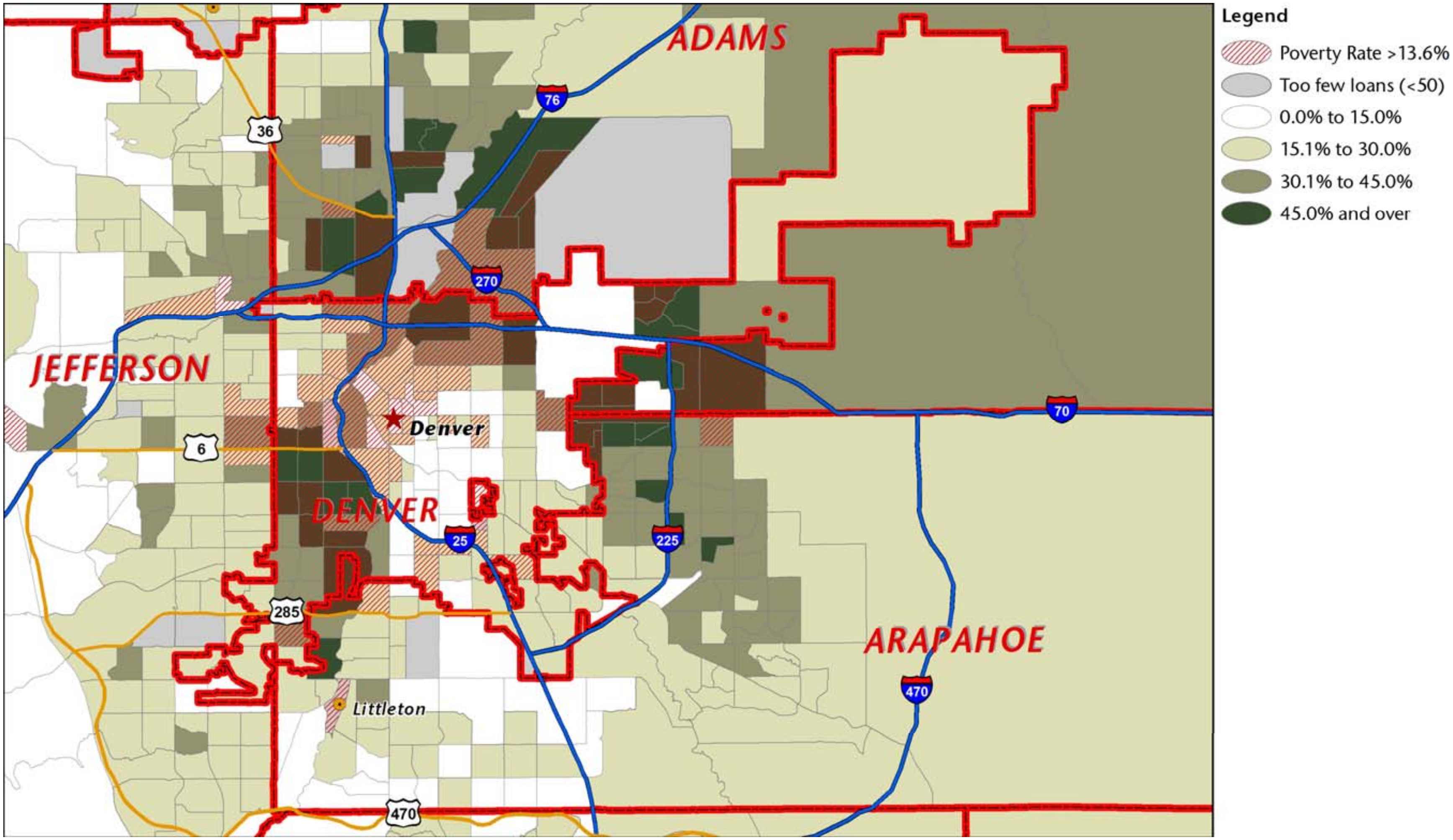
[37] We used the average poverty rate for Denver overall, which was 13.6 percent.

Exhibit III-10.
Higher-than-average Median Income Counties Overlaid on Subprime Loans, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Exhibit III-11.
Higher-than-average Poverty Rate Overlaid on Subprime Loans, 2006



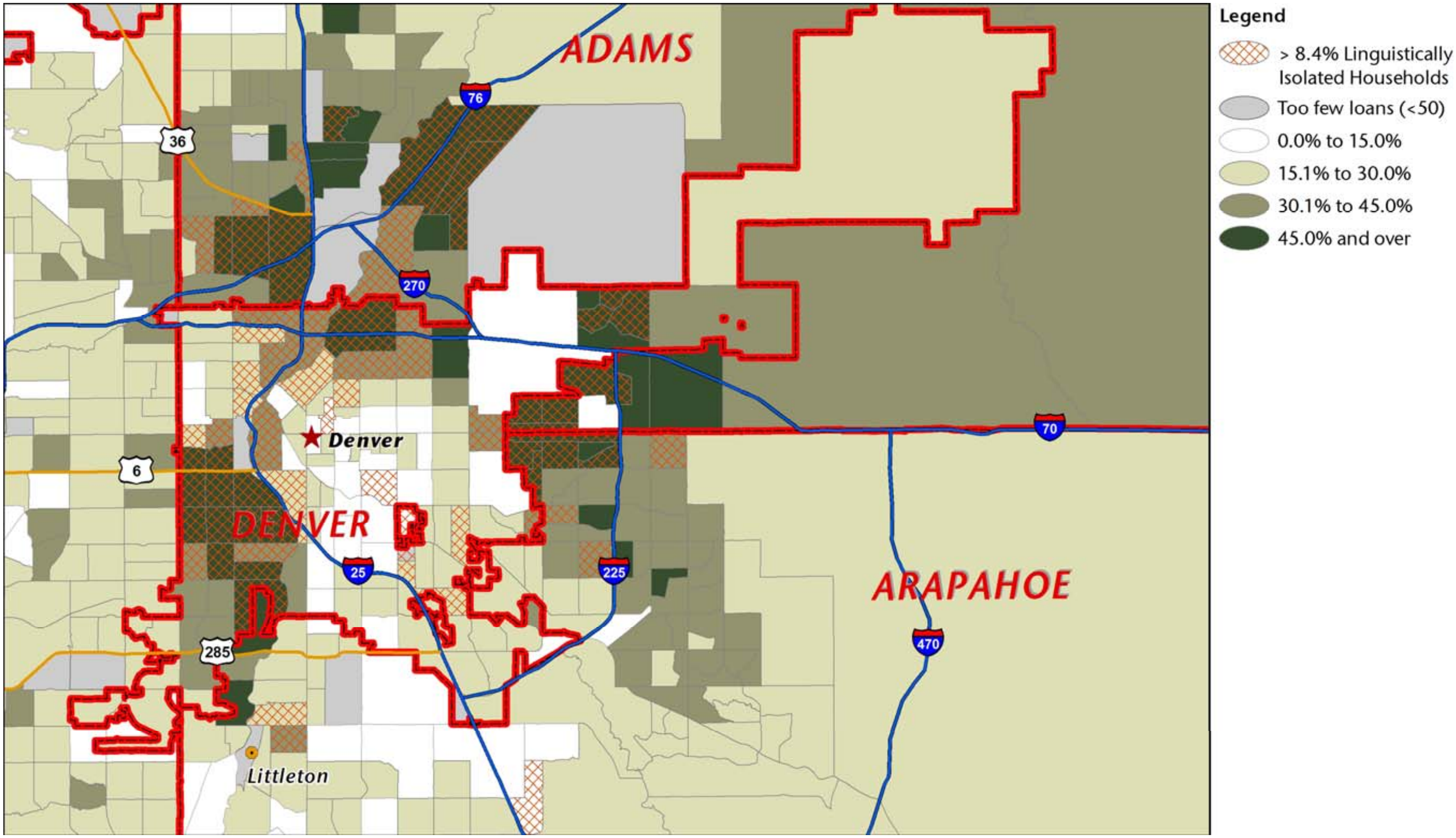
Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

English as a Second Language. We also looked at subprime lending in neighborhoods where residents were likely to have English as a Second Language. The U.S. Census Bureau tracks households that are “linguistically isolated,” defined as households where no member of the household 14 years and older speaks English “very well.”

In Exhibit III-12, Denver Census Tracts where more than twice the metro average percent of households that are linguistically isolated are shaded. High subprime loan areas are shown with a crosshatch. As the Exhibit demonstrates, most of the Census Tracts where linguistically isolated households are located also have high rates of subprime loans.

Summary. In 2006, subprime lending was disproportionately active in certain counties in the state, including Adams, Weld and Pueblo Counties. Counties on the eastern plains — and those with higher-than-average minority populations — were more likely than other counties to have very high percentages of subprime loans. Subprime lending is also more active in Census Tracts with high minority representation and where linguistically isolated households reside. The relationship between subprime lending and income level is less striking than the relationship between subprime lending and minority representation. This is partially because high income borrowers make up a significant proportion of subprime borrowers.

Exhibit III-12.
Linguistic Isolation Overlaid on Subprime Loans, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Who are Colorado's subprime borrowers? Borrower analysis. The maps in the previous section demonstrated a spatial correlation between subprime activity and areas in the state with higher-than-average percentages of minorities. This section takes a closer look at the characteristics of the borrowers who received subprime loans in 2006.[38]

Race and ethnic disparities. Of the 50,113[39] subprime loans that were originated to Colorado borrowers in 2006, 35,446 (70.7 percent) were made to borrowers who are white, 2,692 (5.4 percent) to African American borrowers and 10,447 (20.8 percent) to Hispanic borrowers. This compares to 77.7 percent of Colorado households that are white, 3.6 that are African American and 13.7 percent that are Hispanic.[40] Therefore, black and especially Hispanic borrowers are overrepresented as subprime loan recipients. This is demonstrated by Exhibit III-13.

[38] For the purposes of simplifying this HMDA data analysis, only the race and ethnicity of the primary applicant are considered, and the race and ethnicity of any co-applicants are not.

[39] This only includes records for which race and ethnicity were reported.

[40] Based on Claritas 2006 which report renter- and owner- occupied housing units by occupant race and ethnicity.

Exhibit III-13. Comparison of Subprime Borrowers with Households, Race/Ethnicity, 2006

Race/ethnicity*	Subprime Loans		Colorado Occupied Housing Units	
	Loans	*Percent*	*Number*	*Percent*
White	35,446	70.7%	1,398,459	77.7%
Black	2,692	5.4%	65,664	3.6%
Asian	919	1.8%	36,204	2.0%
American Indian/Alaskan Native	269	0.5%	11,093	0.6%
Hawaiian	149	0.3%	1,551	0.1%
Hispanic	10,447	20.8%	246,315	13.7%
Multirace/other	191	0.4%	41,064	2.3%
All races/ethnicities**	50,113	100%	1,800,350	100%

Note:
* For additive purposes, all races exclude those identifying ethnically as 'Hispanic,' except for those listing multiple races.

** Total excludes those respondents who did not report a race.

Source:
2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Compared to borrowers who received prime loans in 2006, the state's subprime borrowers were more likely to live in Census Tracts with high minority concentrations (over 50 percent). Throughout Colorado, 14.6 percent of subprime loans were given to borrowers in these high-minority Census Tracts, compared to 7.0 percent of non-subprime loans.

White and Asian borrowers typically have higher loan origination rates than other minority households. The reasons for the disparities are a subject of much debate. As mentioned in Section I., many studies have been able to explain much of the difference in origination rates—for example, Hispanic borrowers tend to be denied loans more frequently than whites or Asians because of lack of credit history. Income is also a factor: blacks and Hispanics typically have lower incomes than whites or Asians. Yet most studies concede that there is a portion of the difference that cannot be explained, and which may be due to race and ethnicity.

Our analysis of the HMDA data from 2006 found large disparities in the percentage of borrowers who receive subprime loans by race and ethnicity. Exhibit III-14 shows the percentage of borrowers in 2006, by race and ethnicity, who received subprime loans. The column on the far right gives the percentage of all loans made to each racial and ethnic group that were subprime. For example, 43 percent of loans to African Americans in 2006 were subprime loans.

Exhibit III-14.
Subprime and All Loans by Race, 2006

Race/ethnicity*	All loans		Subprime		Percent Subprime
	Loans	*Percent*	*Loans*	*Percent*	
White	175,752	82.4%	35,446	70.7%	20.2%
Black	6,249	2.9%	2,692	5.4%	43.1%
Asian	4,756	2.2%	919	1.8%	19.3%
American Indian/Alaskan Native	776	0.4%	269	0.5%	34.7%
Hawaiian	593	0.3%	149	0.3%	25.1%
Hispanic	24,390	11.4%	10,447	20.8%	42.8%
Multirace/other	681	0.3%	191	0.4%	28.0%
All races/ethnicities**	213,197	100%	50,113	100%	23.5%

Note: * For additive purposes, all races exclude those identifying ethnically as 'Hispanic,' except for those listing multiple races.
** Total excludes those respondents who did not report a race.

Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting..

The disparities hold when examined by geographic area, although the disparities differ among geographic areas. As Exhibit III-15 shows, in Denver County, black borrowers are 2.56 times more likely to get a subprime loan that white borrowers. Hispanic borrowers are 2.74 times more likely to get subprime loans. The disparity is even higher in Boulder County. The disparities are much lower (but still exist) in Pueblo County, at 1.56 and 1.40 percent, respectively.

Exhibit III-15.
Loans by County, Race, and Subprime Status, 2006

County	White borrowers Total	White borrowers Subprime	White borrowers %	Black borrowers Total	Black borrowers Subprime	Black borrowers %	Hispanic borrowers Total	Hispanic borrowers Subprime	Hispanic borrowers %	Black-white disparity	Hispanic-white disparity
Denver	16,481	2,935	18%	1,761	803	46%	5,052	2,467	49%	2.56	2.74
Adams	12,897	3,501	27%	386	183	47%	4,492	2,094	47%	1.75	1.72
Arapahoe	18,682	4,147	22%	1,924	897	47%	2,691	1,241	46%	2.10	2.08
Broomfield	2,470	351	14%	30	10	*	155	37	24%	*	1.68
Douglas	16,789	2,792	17%	240	83	35%	831	246	30%	2.08	1.78
Jefferson	19,954	3,691	18%	178	83	47%	1,766	662	37%	2.52	2.03
Denver MSA	87,273	17,417	20%	4,519	2,059	46%	14,987	6,747	45%	2.28	2.26
Boulder	9,070	993	11%	61	19	31%	613	237	39%	2.84	3.53
El Paso	23,013	4,843	21%	1,312	484	37%	2,313	825	36%	1.75	1.69
Larimer	11,067	1,949	18%	64	16	25%	512	147	29%	1.42	1.63
Mesa	6,873	1,623	24%	24	11	*	484	155	32%	*	1.36
Pueblo	4,202	1,298	31%	87	42	48%	1,812	784	43%	1.56	1.40
Weld	9,572	2,200	23%	68	28	41%	1,653	709	43%	1.79	1.87
Colorado	175,752	35,337	20%	6,249	2,692	43%	24,390	10,379	43%	2.14	2.12

Note: Too few loans (less than 60)

Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

These disparities determine how much more likely a person of one race or ethnicity is to get a subprime loan than a white, non-Hispanic borrower (irrespective of income or any credit factors). For example, a black-white disparity of 2.56 in Denver County suggests that black borrowers there were 2.56 times more likely to get a subprime loan in 2006 than white borrowers.

A high disparity index could be indicative of two things:

- A wide economic gap between minority and non-minority borrowers in a geographic area, in terms of legitimate factors in lending decisions that include income, credit, assets, etc., and
- The presence of discriminatory lending in a geographic area.

The extent to which the disparity can be explained by legitimate factors correlated with race and the extent to which it can be explained by race itself is a matter of speculation and a question that HMDA data cannot entirely answer.

Income. We expect the disparities to narrow as borrower incomes rise. Our theory is that higher income borrowers have more “bargaining power,” are likely to be more educated and are more sophisticated borrowers, and have more options for loans in the marketplace.

Yet, as shown in Exhibit III-16 and III-17, racial and ethnic disparities persist across income ranges. It is important to note that income is an imperfect measure of creditworthiness and is only one of several key variables that factor into lending decisions, in addition to credit score, personal debt and assets. However, the fact the racial disparities in subprime origination are not significantly reduced when separating loans by borrower income category is noteworthy.

Exhibit III-16. Loans by Race and Income, 2006.

Note:

* Items do not sum to "all incomes" totals due to the presence of records with missing income data.

** Too few loans (less than 50 total).

Source:

2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

	White	African American	Asian	Hispanic	Total
All loans					
< $25K	2,487	85	31	645	3,656
$25K-$49K	31,248	1,453	652	8,245	46,204
$50K-$74K	47,100	1,936	1,279	7,874	65,072
$75K-$99K	34,163	1,143	1,073	3,412	44,984
$100K+	51,818	1,232	1,491	2,972	64,611
All incomes*	175,752	6,249	4,756	24,390	236,848
Subprime loans					
< $25K	446	20	1	235	815
$25K-$49K	6,664	667	130	3,827	12,946
$50K-$74K	10,669	902	287	3,672	17,758
$75K-$99K	7,074	530	176	1,328	10,518
$100K+	8,615	486	262	1,006	11,740
All incomes*	35,446	2,692	919	10,447	56,585
Percent Subprime					
< $25K	17.9%	23.5%	**	36.4%	22.3%
$25K-$49K	21.3%	45.9%	19.9%	46.4%	28.0%
$50K-$74K	22.7%	46.6%	22.4%	46.6%	27.3%
$75K-$99K	20.7%	46.4%	16.4%	38.9%	23.4%
$100K+	16.6%	39.4%	17.6%	33.8%	18.2%
All incomes	20.2%	43.1%	19.3%	42.8%	23.9%

As the exhibit shows, even borrowers with high incomes above $100,000 receive a significant number of subprime loans (18.2 percent of all loans for borrowers of all races and ethnicities). Very few borrowers had incomes below $25,000, and the lower rate of subprime origination among these borrowers may seem surprising but can be explained in large part by the fact that in spite of their low reported incomes, they likely they have a significant amount of financial assets to qualify them for a home loan. This effect is present to a lesser extent in the $25,000 - $49,999 income category.

The rates of subprime origination for borrowers with income over $50,000 decrease as income increase in all racial categories. However, these decreases are not dramatic for minority borrowers, and a very large portion of even the most high-income minority borrowers receive subprime loans (39.4 percent of black borrowers and 33.8 percent of Hispanic borrowers. Exhibit III-17 shows the disparities of subprime origination by income—the number of times more likely minority borrowers are to receive subprime loans than non-Hispanic, white borrowers with similar incomes.

Exhibit III-17.
Subprime Origination Disparities by Income.

Source:

2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Income	Black-white disparity	Hispanic-white disparity
< $25K	1.31	2.03
$25K-$49K	2.15	2.18
$50K-$74K	2.06	2.06
$75K-$99K	2.24	1.88
$100K+	2.37	2.04
All incomes	2.14	2.12

It is logical to expect subprime borrowers to have lower incomes than higher income borrowers, to the extent that income is correlated with creditworthiness. But not all subprime borrowers have low incomes; most do not. In 2006, 44 percent of subprime loans were given to borrowers with incomes exceeding $75,000.

Exhibits III-18 and III-19 show the proportion of 2006 subprime and non-subprime loans made to borrowers by their income level. Borrowers earning more than $100,000 represented about 22 percent of the subprime market and 31 percent of the non-subprime market.

Exhibit III-18. Subprime and Non-subprime Loans by Borrower Income, 2006

Note:

* 'All incomes' excludes records for which income was not reported.

Source:

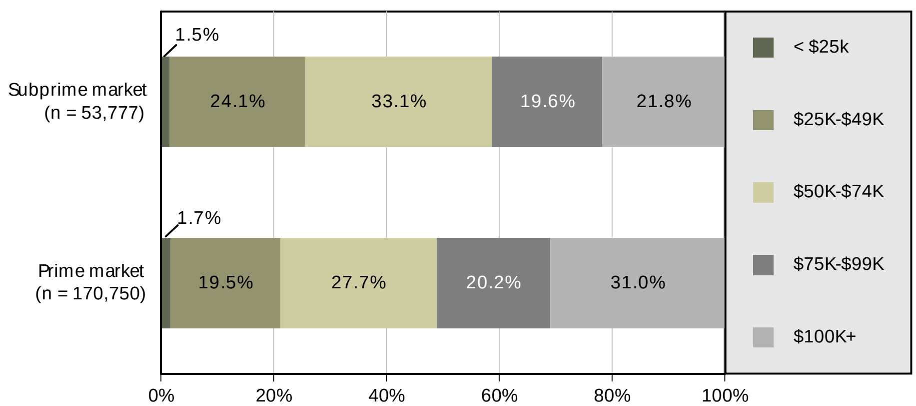
2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

	Subprime Loans		Prime Loans	
Income range	*Loans*	*Percent*	*Loans*	*Percent*
< $25K	815	1.5%	2,841	1.7%
$25K-$49K	12,946	24.1%	33,258	19.5%
$50K-$74K	17,758	33.0%	47,314	27.7%
$75K-$99K	10,518	19.6%	34,466	20.2%
$100K+	11,740	21.8%	52,871	31.0%
All incomes*	53,777	100%	170,750	100%
Average income	$84,193		$96,387	

Exhibit III-19. Loan Market Distribution by Income, 2006

Source:

2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.



Why would high income borrowers take subprime loans? A subprime loan may be their only option if they have a history of credit problems or unreliable employment. More likely, however, is that these borrowers are stretching to afford a home that is slightly more than they can afford and need to take a junior lien at a subprime rate as part of a home purchase.

Who makes subprime loans in Colorado? Lender analysis. Exhibit III-20 shows the top 10 largest lenders in Colorado, for all mortgage loans in terms of the number of loans originated in 2006.

Exhibit III-20. Major Lenders in Colorado, by Loan Volume, 2006.

Source:

2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Lender	Loans in 2006	Percent of market
Wells Fargo Bank	17,820	7.5%
Countrywide Home Loans	17,130	7.2%
National City Bank	6,124	2.6%
Homecoming Financial Network	6,096	2.6%
JPMorgan Chase Bank	5,740	2.4%
Taylor, Bean and Whitaker	5,634	2.4%
American Home Mortgage Corp.	4,670	2.0%
New Century Mortgage Corp.	4,407	1.9%
First Magnus Financial Corp.	4,190	1.8%
Bank of America	3,998	1.7%

Wells Fargo and Countrywide were by far the largest lenders in Colorado in 2006, with 17,820 and 17,130 originations, respectively.

These institutions were also top subprime lenders, as shown in Exhibit III-21, but they had relatively modest shares of the subprime market. Indeed, no one lender dominated subprime lending in the state in 2006.

Exhibit III-21.
Top Subprime Lenders in Colorado by Volume of Subprime Loans, 2006

Lender	All loans	Subprime		Super-subprime		Percent of CO subprime market
		Loans	*Percent*	*Loans*	*Percent*	
National City Bank	6,124	3,217	52.5%	19	0.3%	1.8%
Countrywide Home Loans	17,130	3,124	18.2%	237	1.4%	1.8%
New Century Mortgage Corp.	4,407	2,681	60.8%	60	1.4%	1.5%
Option One Mortgage Corp.	2,154	2,077	96.4%	159	7.4%	1.2%
Long Beach Mortgage Co.	2,072	1,946	93.9%	28	1.4%	1.1%
Homecoming Financial Network	6,096	1,917	31.4%	123	2.0%	1.1%
Fremont Investment & Loan	2,123	1,905	89.7%	125	5.9%	1.1%
Decision One Mortgage	1,979	1,822	92.1%	257	13.0%	1.0%
Wells Fargo Bank	17,820	1,604	9.0%	35	0.2%	0.9%
Argent Mortgage Company	1,687	1,505	89.2%	2	0.1%	0.9%

Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

The following exhibit shows top ten subprime lenders in Colorado in terms of the portion of all their loans that are subprime. In other words, these are the major lenders specializing in subprime loan products in Colorado. [41]

Exhibit III-22.
Top Subprime Lenders in Colorado by Percent of All Loans that are Subprime, 2006

Lender	All loans	Subprime		Super-subprime		Percent of CO subprime market
		Loans	*Percent*	*Loans*	*Percent*	
Lenders Direct Capital Corp.	922	910	98.7%	21	2.3%	0.5%
Aegis Funding Corp.	637	621	97.5%	85	13.3%	0.4%
Option One Mortgage Corp.	2,154	2,077	96.4%	159	7.4%	1.2%
WMC Mortgage Company	996	949	95.3%	91	9.1%	0.5%
The City Group/Consumer Finance	766	721	94.1%	63	8.2%	0.4%
Long Beach Mortgage Co.	2,072	1,946	93.9%	28	1.4%	1.1%
Decision One Mortgage	1,979	1,822	92.1%	257	13.0%	1.0%
Sebring Capital Partners, LP	505	461	91.3%	56	11.1%	0.3%
Equifirst Corp.	936	852	91.0%	40	4.3%	0.5%
Wells Fargo Financial of Colorado Inc.	893	807	90.4%	96	10.8%	0.5%

Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

All of these lenders specialize in subprime lending, and at least 9 out of every 10 loans they originate is a subprime loan. Several of these lenders are noteworthy for originating a high portion of very high-interest "super subprime" loans. These loans make up over 10 percent of the loans of some lenders, compared to 1.5 percent of the loans among all lenders.

Three lenders—Option One, Long Beach and Decision One—stand out as the predominantly subprime outfits originating the highest number of subprime loans in Colorado.

The Neighborhood Effect

A growing concern with the subprime fallout is the effect on neighborhoods with a concentration of foreclosures. To examine this effect in Colorado, we took a closer look at subprime lending at the neighborhood level in Denver. Denver was chosen because it has the largest population and the most neighborhoods, allowing a better comparison among different neighborhood types.

The following two maps compare the household characteristics of three neighborhoods where more than 40 percent of loans in 2006 were subprime with three neighborhoods where less than 15 percent of loans were subprime.

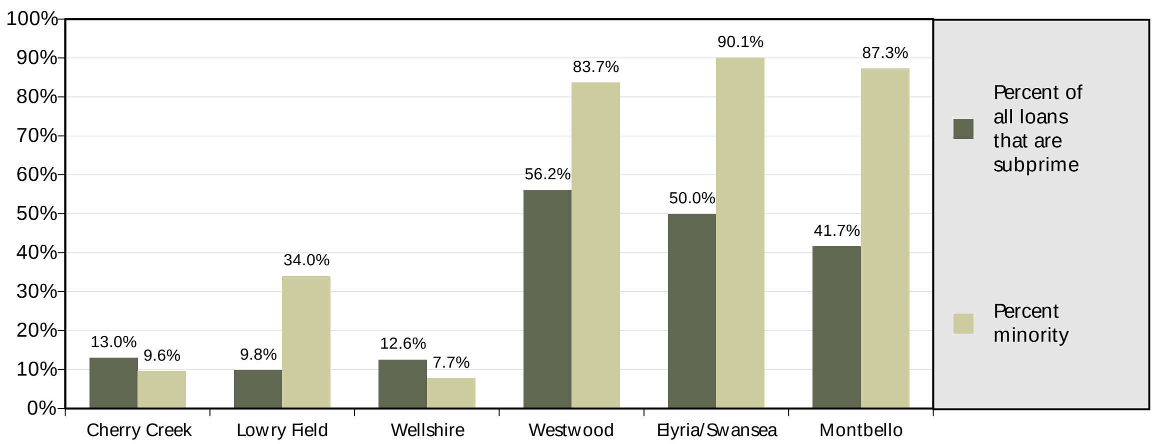
[41] Only lenders with at least 500 total loans are included

A total of 111 subprime loans were made in the neighborhoods of Cherry Creek, Wellshire and Lowry in 2006. This compares with 1,140 subprime loans in the neighborhoods of Westwood, Elyria Swansea and Montbello. There are about twice as many households in the neighborhoods of Westwood, Elyria Swansea and Montbello than in Cherry Creek, Wellshire and Lowry—and *10 times* the number of subprime loans in 2006.

As shown in Exhibits III-23 on page 30 and Exhibit III-24 on page 31, the comparison between Lowry and Montbello is particularly striking. The neighborhoods' poverty rates are within 1 percentage point of each other, and median household income is $15,000 apart. Economically, the neighborhoods differ, but not drastically. Yet the number of subprime loans in Montbello was almost 15 times the number of subprime loans made in Lowry. Another big difference was the percentage of minorities: Montbello has more than twice the percentage of minorities as Lowry.

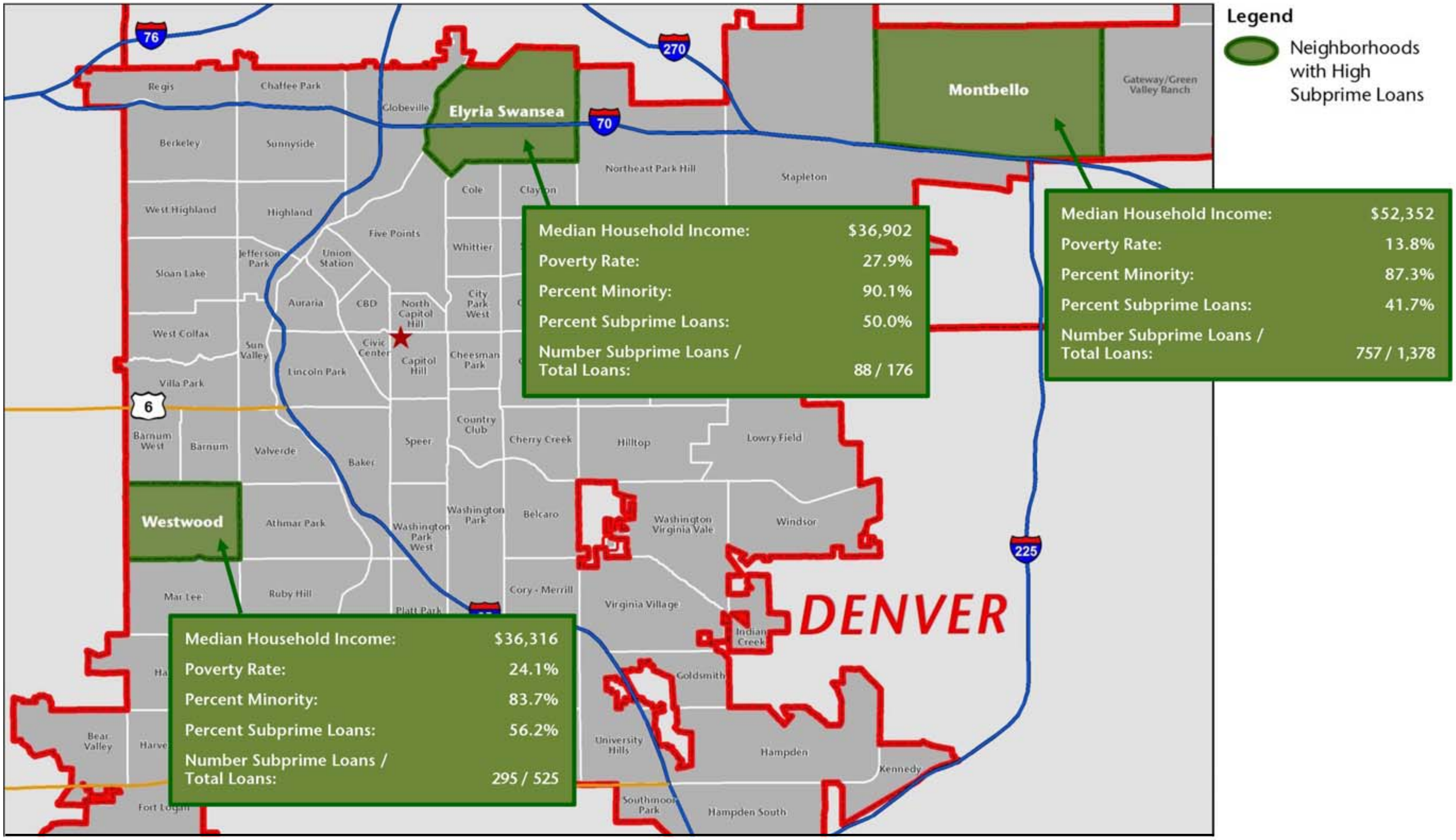
The following table graphically aligns subprime lending with minority percentage by neighborhood. As the Exhibit demonstrates, the three neighborhoods with high-minority populations have much higher subprime activity than low-minority neighborhoods.

Exhibit III-24.
Subprime Loans and Minority Representation by Denver Neighborhood, 2006



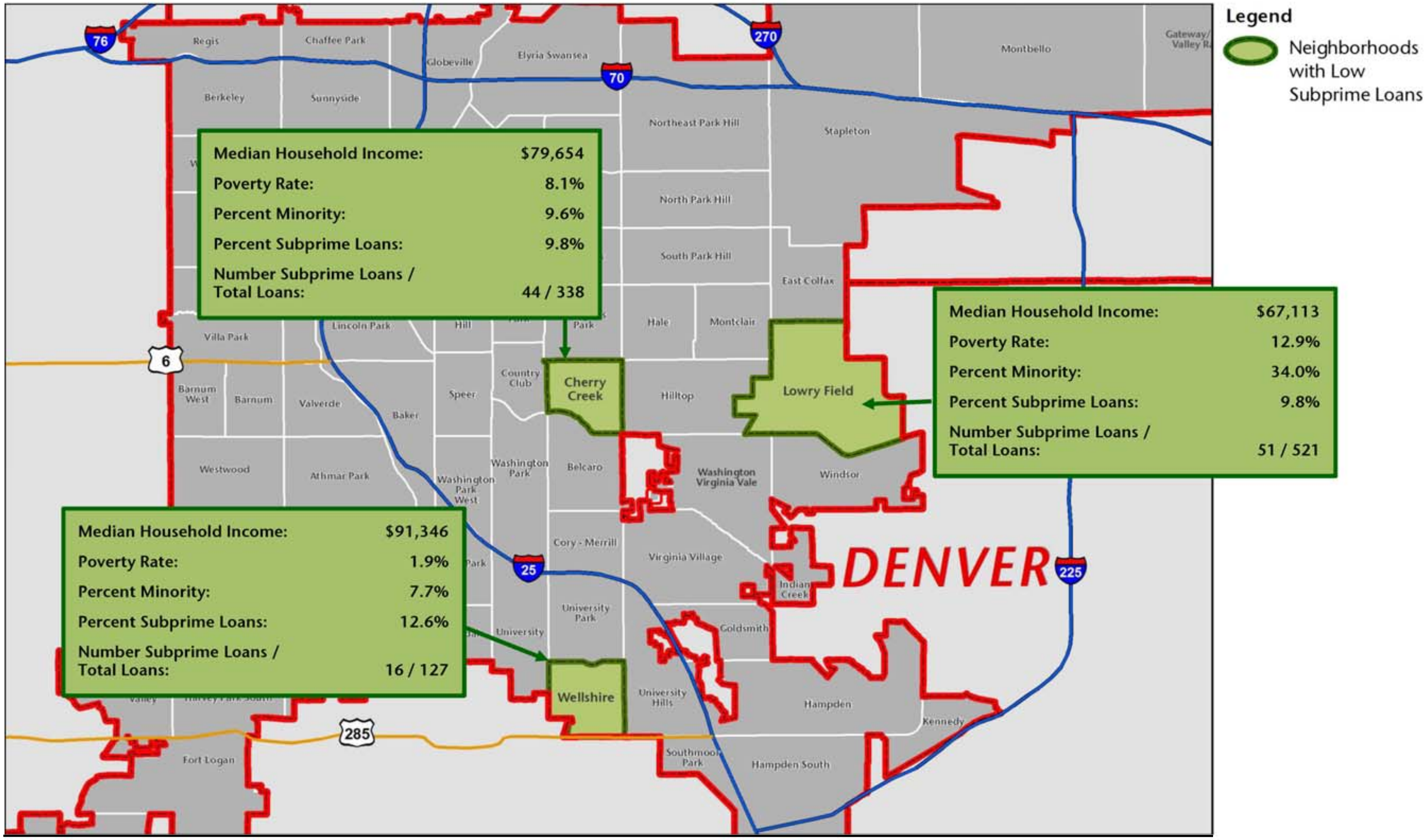
Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Exhibit III-23.
Characteristics of Three High Subprime Neighborhoods, Denver, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Exhibit III-24.
Characteristics of Three Low Subprime Neighborhoods, Denver, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council and BBC Research & Consulting.

Summary

The HMDA analysis conducted for this study uncovered large disparities in subprime lending between minority and white borrowers. In 2006, minority borrowers were more than twice as likely as white borrowers to get subprime loans. We also found that subprime loan activity is much higher in areas of the state with high minority populations and persons who speak English as a Second Language.

Because of data limitations, we are unable to determine the extent to which minorities and ESL households receive subprime loans because of credit issues. However, if income is a partial proxy for creditworthiness, our analysis provides some evidence of potential discrimination in Colorado mortgage lending. Seventeen percent of white borrowers earning $100,000 and more received subprime loans in 2006, compared to 39 percent of African Americans and 34 percent of Hispanics at the same income level. Therefore, the disparity in subprime lending holds across income levels, suggesting that minority borrowers may be unnecessarily receiving subprime loans compared to white borrowers, all other factors being equal.

SECTION IV. BORROWER AND COUNSELOR SURVEYS

Please complete this brief survey about your experience getting a home loan. The results will help the Colorado Civil Rights Division better understand unfair lending practices, develop strategies for preventing foreclosures, and prosecute offenders.

All results will be completely anonymous and reported in summary form only. Please give your completed survey to one of the researchers in a red shirt, or drop it in the box on your way out. If you absolutely cannot complete your survey now, please ask for a postage paid envelope.

Thank you very much for participating in this important study!

Please answer this survey ONLY about the home you primarily live in. We do not need information about second homes or investment properties.

1. Please check the ONE statement that BEST describes your situation.
1 ____I am concerned that my home may end up in foreclosure
2 ____My home is currently in foreclosure
3 ____I went through foreclosure and lost my home

2. Where is this home located?
City: ___________________________________
County: _________________________________
Zip code: ________________________________

3. How much did you pay for this home when you first bought it?
$____________________ **OR**
99____Don't know

4. Do/did you have more than one loan on your home?
1 ___Yes
2 ___No

5. Please check ALL the types of loans you CURRENTLY have on your home (or had at foreclosure).
1 ___ First mortgage (primary home loan)
2 ___ Home improvement loan
3 ___ Any other loan on your home, even if you used it to buy a car or something else

The following questions are about your MOST RECENT first mortgage (primary loan) ONLY.
6. What type of loan is your first mortgage? Please check ALL that apply
1___ Fixed rate loan
2___Loan with an adjustable interest rate (ARM)

3___ Loan from a government agency such as FHA, etc.
4___Another type of loan **What type?___________________________**

7. Why did you choose this type of loan?

8. How many lenders did you contact about rates, loan products, fees, etc.? # of lenders____________

9. Did you get your loan from: Please check the ONE best response and identify your lender.
1 ___Bank **Which bank?__________________________**
2 ___Credit union **Which credit union?______________________**
3 ___Mortgage company **Which mortgage company?________________________________**
4 ___Government program **Which government program?_____________________________**
5 ___Other **Please specify____**
6 ___Don't know

10. What are the major reasons you selected your lender?

11. What is the payment period on your first mortgage loan?
1 ___30 years
2 ___15 years
3 ___Other payment period **Please specify # years _______________**
4 ___ Don't know payment period

12. How much was your first mortgage?
$_________________ **OR**
99 ___Don't know

13. How much is left on this loan today (or how much was this loan at the time of foreclosure)? $____________________ **OR**
99 ____Don't know

14. What is the interest rate on this loan today (or what was the interest rate at the time of foreclosure)?
______________percent **OR**
99 _____Don't know

15. Does/did this mortgage include the following features? Please check ONE response on each line.			
	Yes	**No**	**Don't Know**
a. Adjustable rate – a mortgage payment that can go up over time			
b. Prepayment penalty – you are penalized (have to pay) if you refinance your mortgage before the end of the loan term			
c. Balloon payment – your loan has a large payment at the end of the loan term			
d. A payment for life insurance			

16. When you got your loan, did you get a higher loan amount to pay off other debts or to get cash out?
1 ____Yes
2 ____No

17. When you got your loan, did the lender who gave you the loan ask you to provide pay stubs, a tax return, etc., to show your family's income?
1 _____ Yes, my income was verified for the loan
2 _____ No, the lender didn't require any documentation
3 _____ Don't know

18. Did the lender tell you what your credit score is?
1 ___Yes Do you remember your credit score? ______________
2 ___No
3 ___Don't know

19. Did your mortgage broker (the person who gave you your loan) discuss any of the following with you? Please check ONE response on each line.			
	Yes	**No**	**Don't Know**
a. Different types of loans (e.g., 15-year loan, 30-year loan, adjustable rate mortgage, no down payment, etc.**)**			
b. If your mortgage payment could go up over the term of the loan			
c. What your total monthly payment would be			
d. How much loan payment you could afford			

20. Were the loan papers explained to you before you signed them?
1 ___Yes About how long did it take to sign all of the papers? **# of hours-**
____
2 ___No
3 ___Don't know

21. Did you attend a homebuyer's class before buying your house?
1 ___Yes

2 ___No

22. Since you bought your home, how many times did you refinance your first mortgage?
0 1 2 3 4 5 or more

23. What were the major reasons you refinanced?

24. Did you refinance with the same lender or with a different lender?
1 ___Same lender
2 ___Different lender(s)
3 ___Both with the same lender and with different lender(s)

The following questions are about the OTHER loans you have on your home (or had at foreclosure) but NOT your first mortgage.
25. What type of loan is your highest OTHER loan on your home? Please check ALL that apply
1___ Fixed rate loan
2 ___Loan with an adjustable interest rate (ARM)
3___ Loan from a government agency such as FHA, etc.
4 ___Another type of loan **What type?____________________________**
5 ___I don't have any other loans on my home **Please skip to question 29**

26. How much was this loan?
$__________________ **OR**
99 ___Don't know

27. How much is left on this loan today (or how much was this loan at the time of foreclosure?) $_____________________ **OR**
99 ____Don't know

28. What is the interest rate on this loan today (or what was the interest rate at the time of foreclosure)?
_______________percent **OR**
99 _____Don't know

The final set of questions will help us describe the people who completed the survey. All your responses will be anonymous and reported in summary form only.

29. Do you consider yourself to be Spanish/Hispanic/Latino?
1 ___ Yes
2 ___ No

30. Which ONE category BEST DESCRIBES your racial background?
1 ___ Asian/Pacific Islander
2 ___ Native American/Alaska Native

3 ___ Black/African American
4 ___ White
5 ___ Mixed race **What races? ____**
6 ___ Other **What? ____**

31. Including yourself, how many people live in your home? __________________

32. What was your family's total income before taxes from all sources for 2007?
1 ____Less than $25,000
2 ____$25,000-$49,999
3 ____$50,000-$74,999
4 ____$75,000-$99,000
5 ____$100,000 or more

33. Have you ever filed bankruptcy?
1 ____Yes
2 ____No

34. Have you or any other major wage earner in your household ever been unemployed in the past five years?
1___Yes
2 ___No

We would like to talk about the loan process in more detail with a small number of survey respondents. If you are comfortable doing so, we would like your name and a telephone number so that we may reach you and talk with you a little more about your loan process.
Name (optional) ____
Telephone number optional) ______________________________

Please complete the three questions on the next page, then return your completed survey to one of the researchers in a red shirt or drop it in the box on your way out.

1. How did you hear about this meeting? **Please check ONE response.**
1 ___HOPE line
2 ___Received a postcard
3 ___Advertising/flyer
4 ___News media
5 ___Other **How? ______________________________**

2. Did you find the meeting useful and/or helpful?
1 ___ Yes
2 ___No

3. Are you in foreclosure or near foreclosure?
1 ___Yes
2 ___No

Homeownership Intercept Survey
June 2008

Please complete this brief survey about your experience getting a home loan. The results will help the Colorado Civil Rights Division better understand unfair lending practices, develop strategies for preventing foreclosures, and prosecute offenders.

All results will be completely anonymous and reported in summary form only. Please return your completed survey before you leave. Thank you very much for participating in this important study!

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1. Please answer the survey ONLY about the home you primarily live in or recently lived in. Which best describes your homeownership situation? *Read each and mark ONE response:*
1 ____I am concerned that I may lose my home to foreclosure.
2 ____My home is currently in foreclosure
3 ____I went through foreclosure and lost my home
4 ____I went through foreclosure and saved my home

2. Where is this home located? In what:
County: ___________________________________
Zip code: __________________________________

3. Was this the first home that you purchased?
1 ___Yes
2___No

4. Did you attend a homebuyer's class before buying your first home?
1 ___Yes
2 ___No

5. How much did you pay for this home when you first bought it?
$______________________ **OR**
99____Don't know

6. Now think about the present time. Do you have more than one loan on your home now (or did you have more than one loan at the time of foreclosure)?
1 ___Yes
2 ___No

7. What types of loans do you CURRENTLY have on your home (or did you have at foreclosure). *Please check all that apply.*

1 ___ First mortgage (primary home loan)
2 ___ Second mortgage
3 ___ Any other loan on your home, even if you used it to buy a car or something else

The following questions are about your MOST RECENT first mortgage (primary loan) ONLY.

8. What are the major reasons you chose the type of loan you did?

9. What are the major reasons you selected your lender, that is, the company that GAVE you the loan? This is the lender you got the loan from, not the company that the loan may have been sold to.

10. Does/did your most recent first mortgage – your primary loan – have a fixed rate for the entire loan period, or does/did the rate of the loan adjust at some time? ***Check ONE response only.***
1 ___Fixed rate for entire loan
2 ___Rate adjusts at some time (adjustable rate mortgage or ARM)

11. How many lenders did you contact about rates, loan products, fees, etc. when you shopped for this loan?
# of lenders____________

12. Did you get your most recent first mortgage from: ***Please check the ONE best response and identify your lender.***

1 ___Bank **Which bank?__________________________**
2 ___Credit union **Which credit union?______________________**
3 ___Mortgage lender **Which mortgage lender?________________________________**
4___Mortgage broker **Which mortgage broker?**
5 ___Government program (e.g., FHA, Veteran's Administration) **Which program?___________________**
6 ___Other **Please specify____**
7 ___Don't know

13. What is/was the payment period on your most recent first mortgage?
1 ___30 years
2 ___15 years
3 ___Other payment period ***Please specify # of years*** _______________
4 ___ Don't know payment period

14. How much did you borrow on your most recent first mortgage?
$_________________ **OR**
99 ___Don't know

15. How much do you still owe on this loan today (or how much did you owe at foreclosure)?
$____________________ **OR**
99 ____Don't know

16. What is the current interest rate on this loan (or what was the interest rate at foreclosure)?
______________percent **OR**
99 _____Don't know

17. Does/did your most recent first mortgage include the following features? ***Please check ONE***

response on each line.			
	Yes	**No**	**Don't Know**
a. Prepayment penalty – you are penalized, that is, you have to pay if you refinance your mortgage before the end of the loan term			
b. Balloon payment – your loan has a large payment at the end of the loan term			
c. A payment for life insurance. This is different than homeowner's insurance.			

Now think back to when you first got your most recent first mortgage. When you first got your most recent first mortgage: ***Please check one response on each line.***			
	Yes	**No**	**Don't Know**
18. Was the loan for more than the property was worth?			
19. Did you use any part of the loan to pay off other debts or get cash out?			
20. Were the payments more than you could afford?			
21. Did the lender tell you that you could refinance in the future and reduce your monthly payment?			

22. When you first got this loan, was the monthly payment: ***Please check ONE response only.***
1 __ What the lender said it would be
2 __ Higher than the lender said it would be
3 ___Lower than the lender said it would be

23. When you got this loan, did the lender ask you to say your income was higher than it really was or anything else to make you more likely to qualify for the loan?
1 ___Yes
2 ___No

24. Did the lender tell you what your credit score was?
1 ___Yes **What was your credit score when you got your loan? ___________________**
2 ___No
3 ___Don't know

25. Did your lender discuss any of the following with you? ***Please check ONE response on each line.***			
	Yes	**No**	**Don't Know**
a. Different types of loans, for example, 15-year loan, 30-year loan, adjustable rate mortgage, no down payment, etc.			
b. If your mortgage payment could go up over the term of the loan			
c. What your total monthly payment would be			
d. How much loan payment you could afford			

26. Were the loan papers explained to you before you signed them?
1 ___Yes
2 ___No
3 ___Don't know

27. Since you first bought your home, how many times did you refinance your first mortgage?
0 1 2 3 4 5 or more

28. What were the major reasons you refinanced? ***Please check one response on each line.***			
	Yes	**No**	**Don't Know**
a. I had an adjustable rate loan			
b. I wanted to pay off debts			
c. I wanted cash out for something other than to pay debts			
d. I wanted a lower monthly payment or a lower interest rate			
e. The lender contacted me and it sounded like a good deal			
f. Some other reason. **Please describe:**			

The final set of questions will help us describe the people who completed this survey. All your responses will be anonymous and reported in summary form only.

29. Do you consider yourself to be Spanish/Hispanic/Latino?
1 ___ Yes
2 ___ No

30. Which ONE category BEST DESCRIBES your racial background? ***Check ONE response.***
1 ___ Asian/Pacific Islander
2 ___ Native American/Alaska Native
3 ___ Black/African American
4 ___ White
5 ___ Mixed race
6 ___ Other **What? ____**

31. Including yourself, how many people live in your home? _________________

32. Are you a single parent with children under 18, part of a couple with children under 18, or neither?
1 ___Single parent with children under 18
2 ___ Part of a couple with children under 18
3 ___Neither – don't have children under 18

33. What was your family's total income before taxes from all sources for 2007? ***Check ONE response.***
1 ____Less than $25,000
2 ____$25,000-$49,999
3 ____$50,000-$74,999
4 ____$75,000-$99,000
5 ____$100,000 or more

34. Have you ever filed bankruptcy?
1 ____Yes
2 ____No

35. Have you or any other major wage earner in your household ever been unemployed for more than a month in the past five years?
1___Yes
2 ___No

Thank you very much for your help!

INTERVIEWS WITH HOUSING COUNSELORS:

1. What geographic areas do you primarily serve? ***(THEY MAY HAVE A LIST OF ZIP CODES THEY SERVE – IF SO, ASK THEM TO GIVE YOU THE ZIP CODES)***

2. About what proportion of your calls come from people who first called the foreclosure hotline?

3. When do people tend to contact you – before they have missed payments but are concerned they might, after they've missed a payment or two, after they've missed several payments and are facing foreclosure, or after foreclosure proceedings have begun?

4. What are the most common reasons people face foreclosure?

5. What is the range of interest rates that people are paying? What seems to be an average or typical rate? Are the highest rates typically on ARMs?

6. Are clients' loans mostly adjustable rate mortgages/ARMS? ***(THIS QUESTION MAY END UP BEING PART OF THE FOLLOWING QUESTION)***

7. We are very interested in the types of loans that your clients have. We want to know whether their loans have some or all of the features of a predatory loan. Do you know if their loan terms include any of the following?: ***(NOTE: If loan term includes any of these features, ask them to estimate the proportion of clients whose loans include each of these features.. ALSO, WE REALLY WANT EXAMPLES OF CLIENTS WHO HAVE THESE LOAN FEATURES AND HOW IF AFFECTED THEM! TRY TO GET ANECDOTAL EVIDENCE)***

   - Excessive fees -- fees that are disguised or hidden. These fees are unreasonable and unjustified and are inadequately explained to the borrower
   - Prepayment penalties -- These fees penalize borrowers for refinancing their mortgages early, and they can remove the incentive to refinance among borrowers whose credit improves. An abusive prepayment penalty is typically effective for three years and costs more than six months of interest.
   - Balloon payments - Regular monthly payments are reduced by having a very large "balloon payment" at the end of the loan term.
   - Debt packaging – The lender includes the borrower's outstanding credit card debt into a mortgage.
   - Yield spread premiums - These are common among subprime and predatory loans. They are kickbacks to mortgage brokers by lenders for securing loans with interest rates higher than the minimum interest rate for which that borrower could have

qualified. In other words, they are rewards for securing a loan with an inflated interest rate.

- Loan flipping - Flipping refers to the repeated refinancing of a loan in a short period of time, which often cause a borrower to pay fees or prepayment penalties that strip them of equity in their homes.
- Unnecessary products -- Predatory lenders will often package unnecessary life insurance or expensive homeowners insurance into a mortgage, because they get a kickback for the sale of such policies.
- Mandatory arbitration clause- This prevents a borrower from seeking conventional legal remedy in court if their home is threatened by abusive loan terms.
- Steering and targeting - A common practice in predatory lending is steering borrowers into the subprime market who could qualify for conventional loans. A lender may also give the false suggestion that a borrower could not qualify for better terms elsewhere.

8. Overall, do most of your clients have at least one or two of the bad loan terms we just talked about, including a high interest rate? ***(NOTE: try to probe for average number of bad loan features per client.)***

9. Which products are the worst for borrowers?

10. What about subprime lending - Does this differ from some of the practices above? If it differs, how?

11. Are there lenders who you work with frequently? Are there some lenders who are more willing to work things out than others? ***(NOTE: If so, which lenders are easier to work with and which are harder?)***

12. How much of what you've seen do you think could involve discrimination? For example, do Hispanics or African Americans seem to have interest rates that are higher than what their credit risk would suggest? Do lenders offering predatory terms seem to target minorities? **Can you give me some examples of this? *(PROBE FOR STORIES, ANECDOTES ABOUT SITUATIONS WHERE THEY THINK PEOPLE FACED DISCRIMINATION)***

13. Do people **TELL** you they think they've been discriminated against? About what proportion? ***(NOTE: If yes, ask: Where do you refer them/how do you handle this?)***

14. What is the best way for the Civil Rights Division to find and enforce fair lending violations? Can your institution help?

NATIONAL COMMUNITY REINVESTMENT COALITION FAIR HOUSING MYSTERY SHOPPING CONDUCTED FOR THE COLORADO CIVIL RIGHTS DIVISION

FINAL REPORT

3/24/09

OVERVIEW

This report is based upon fair lending mystery shopping conducted by the National Community Reinvestment Coalition (NCRC) of several lenders whose branches were located in and around the metropolitan Denver area. The lenders that were tested included the following:

1. Chase Bank
2. CitiFinancial
3. Colorado State Bank and Trust
4. Wachovia
5. Washington Mutual
6. Wells Fargo

The mystery shopping covers the period of January to March 2009. During that time period, protected class testers (Black, Latino, and Middle Eastern) and similarly situated White testers (known as control testers) inquired about loan products and programs while posing as consumers seeking to purchase a first home. The testers were instructed to inquire about the maximum loan amount that they could receive, how expensive of a home that they could purchase, and about terms and conditions of the offered financing.

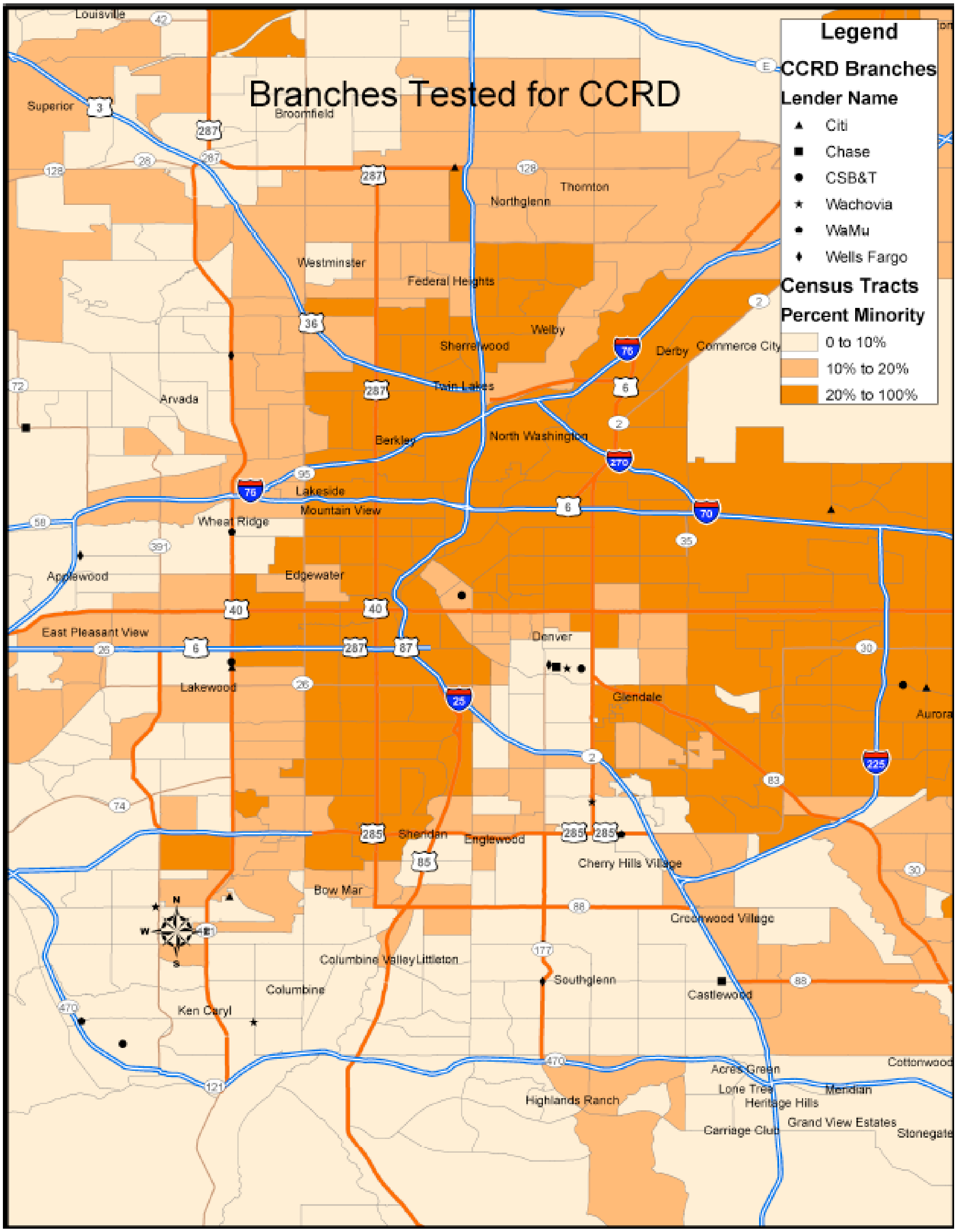
The offices that were tested included the following:

Test Number	Company Tested	City	State
2009-CCRD-DEN-1-01	Chase Bank	Greenwood Village	CO
2009-CCRD-DEN-2-02	Chase Bank	Denver	CO
2009-CCRD-DEN-4-03	Chase Bank	Arvada	CO

Test Number	Company Tested	City	State
2009-CCRD-DEN-22-21	CitiFinancial	Lakewood	CO
2009-CCRD-DEN-24-22	CitiFinancial	Denver	CO
2009-CCRD-DEN-25-23	CitiFinancial	Littleton	CO
2009-CCRD-DEN-26-33	CitiFinancial	Aurora	CO
2009-CCRD-DEN-27-34	CitiFinancial	Westminster	CO
2009-CCRD-DEN-37-24	Colorado State Bank and Trust	Denver	CO
2009-CCRD-DEN-39-17	Colorado State Bank and Trust	Denver	CO
2009-CCRD-DEN-40-26	Colorado State Bank and Trust	Lakewood	CO
2009-CCRD-DEN-41-27	Colorado State Bank and Trust	Aurora	CO
2009-CCRD-DEN-42-28	Colorado State Bank and Trust	Greenwood Village	CO
2009-CCRD-DEN-45-31	Colorado State Bank and Trust	Littleton	CO
2009-CCRD-DEN-13-12	Wachovia	Denver	CO
2009-CCRD-DEN-14-13	Wachovia	Denver	CO
2009-CCRD-DEN-15-18	Wachovia	Littleton	CO
2009-CCRD-DEN-16-19	Wachovia	Littleton	CO
2009-CCRD-DEN-10-11	Washington Mutual Bank	Wheat Ridge	CO
2009-CCRD-DEN-7-07	Washington Mutual Bank	Denver	CO
2009-CCRD-DEN-9-08	Washington Mutual Bank	Littleton	CO
2009-CCRD-DEN-17-10	Wells Fargo	Littleton	CO
2009-CCRD-DEN-18-06	Wells Fargo	Denver	CO
2009-CCRD-DEN-19-32	Wells Fargo	Wheat Ridge	CO
2009-CCRD-DEN-20-16	Wells Fargo	Arvada	CO

The mystery shopping or testing revealed a wide range of experiences of the testers when contacting different branch offices. Some of the tests celebrate compliance with the fair housing/fair lending laws and the general principle of equal professional treatment and service.

However, there are tests that show a lack of compliance and potentially raise fair lending concerns. Of the twenty-five tests conducted, nineteen tests revealed differences in treatment, only one test showed equal service and treatment of testers, and the remaining five tests were deemed inconclusive.


Branches Tested for CCRD
Legend
CCRD Branches
Lender Name
Citi
Chase
CSB&T
Wachovia
WaMu
Wells Fargo
Census Tracts
Percent Minority
0 to 10%
10% to 20%
20% to 100%
Louisville
Superior
Broomfield
Thornton
Northglenn
Westminster
Federal Heights
Welby
Sherrelwood
Derby
Commerce City
Twin Lakes
Arvada
Berkley
North Washington
Lakeside
Mountain View
Wheat Ridge
Applewood
Edgewater
East Pleasant View
Denver
Lakewood
Glendale
Aurora
Sheridan
Englewood
Cherry Hills Village
Bow Mar
Greenwood Village
Columbine Valley
Littleton
Southglenn
Castlewood
Columbine
Ken Caryl
Acres Green
Lone Tree
Heritage Hills
Meridian
Cottonwood
Highlands Ranch
Carriage Club
Grand View Estates
Stonegate

METHODOLOGY

NCRC selected lenders for testing based on their recent performance in the market, and on branching presence.

NCRC analyzed 2007 HMDA data for the Denver MSA, and determined that Wells Fargo had a more frequent denial rate for protected class persons than the average lender's performance in the MSA. Wells Fargo denied 1.58 minority applicants for every Caucasian/White applicant they denied for an owner-occupied, 1- to 4-family, conventional, home purchase mortgage. This denial disparity ratio was 1.34 for all HMDA-reporting lenders in the Denver MSA. NCRC selected branches of Wells Fargo and of Wachovia, its new subsidiary, that were located in racially isolated census tracts, or tracts with 90% or greater Caucasian/White population.

Similarly, NCRC selected Chase Bank and its new sister company, Washington Mutual Bank, for their significant branching presence. As with Wells Fargo and Wachovia, NCRC selected branches that were located in racially isolated census tracts for testing. NCRC also conducted tests of CitiFinancial and Colorado State Bank and Trust because of their significant branching presence. These locations were tested at random, and the branches do not necessarily fall within racially isolated census tracts.

TEST COORDINATION AND ANALYSIS
Twenty-five tests were conducted by NCRC. The test numbers and their determinations are noted below.

Test Number	Determination
2009-CCRD-DEN-1-01	Differential Treatment
2009-CCRD-DEN-10-11	Differential Treatment
2009-CCRD-DEN-13-12	Differential Treatment
2009-CCRD-DEN-16-19	Differential Treatment
2009-CCRD-DEN-17-10	Differential Treatment
2009-CCRD-DEN-18-06	Differential Treatment
2009-CCRD-DEN-2-02	Differential Treatment
2009-CCRD-DEN-20-16	Differential Treatment
2009-CCRD-DEN-22-21	Differential Treatment
2009-CCRD-DEN-25-23	Differential Treatment
2009-CCRD-DEN-26-33	Differential Treatment
2009-CCRD-DEN-27-34	Differential Treatment
2009-CCRD-DEN-37-24	Differential Treatment
2009-CCRD-DEN-39-17	Differential Treatment
2009-CCRD-DEN-40-26	Differential Treatment
2009-CCRD-DEN-41-27	Differential Treatment
2009-CCRD-DEN-45-31	Differential Treatment
2009-CCRD-DEN-7-07	Differential Treatment
2009-CCRD-DEN-9-08	Differential Treatment
2009-CCRD-DEN-14-13	Inconclusive
2009-CCRD-DEN-19-32	Inconclusive
2009-CCRD-DEN-24-22	Inconclusive
2009-CCRD-DEN-4-03	Inconclusive
2009-CCRD-DEN-42-28	Inconclusive
2009-CCRD-DEN-15-18	No Significant Difference

All tests conducted earned one of three determinations. Those determinations are differential treatment, no significant difference (NSD) or inconclusive

Differential Treatment

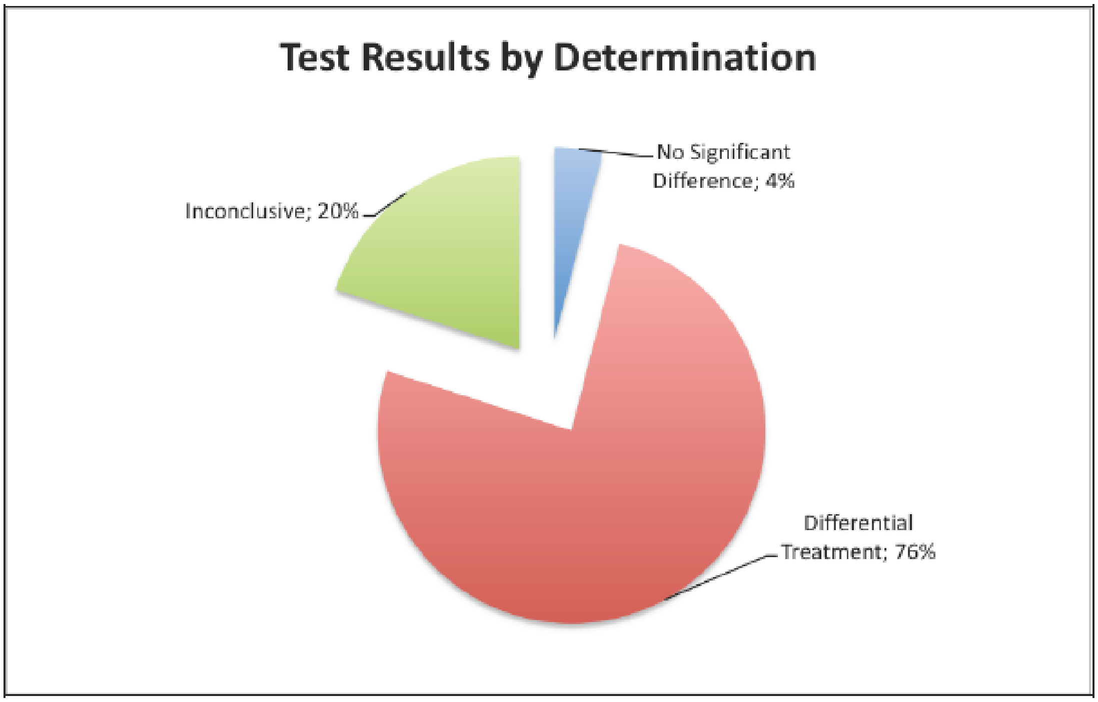
A test earned a determination of differential treatment based on an analysis that yielded a noncompliant outcome. The tests that identified non-compliant business practices have been categorized into four types:

1. More information – broader range of loan options presented to tester, or better detail
2. Difference in the interest rate quoted for the same product (pricing)
3. Difference in the service and treatment of testers

4. Failure to assist one tester while the other tester was assisted.

No Significant Difference (NSD)
This determination was given to business practice observations that were deemed to have very little, if any effect or consequence with regard to the ability of consumers, who differ in race or national origin to be serviced.

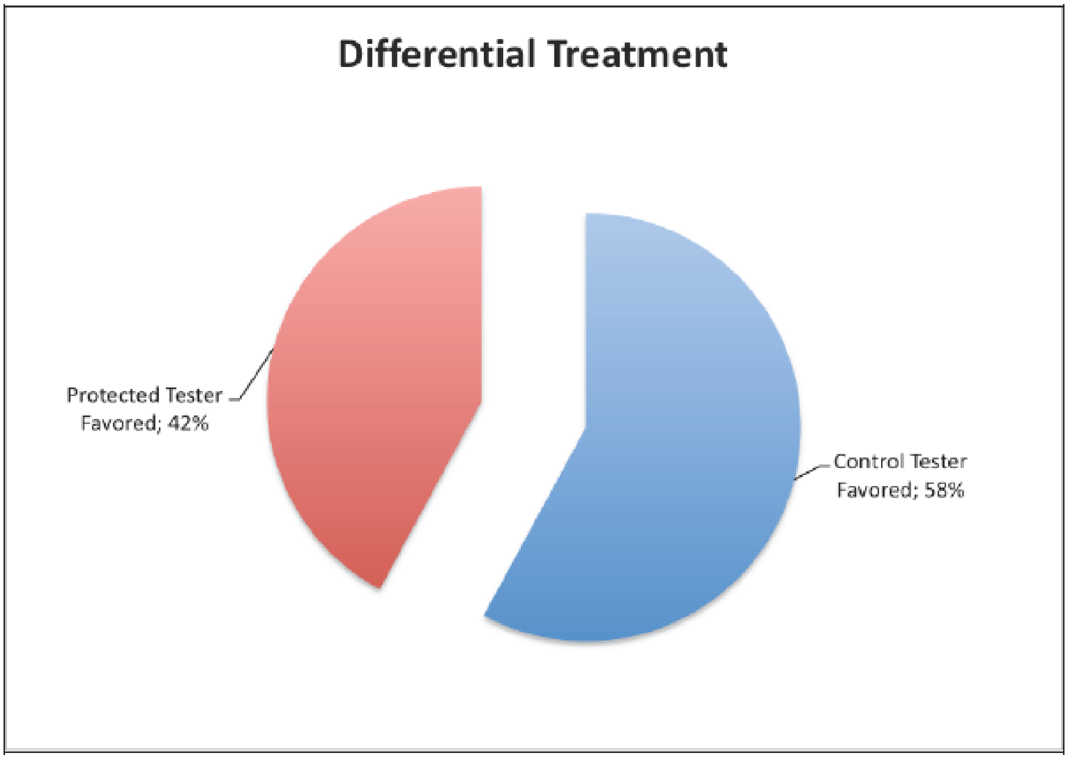
Inconclusive
This determination was given to business practice observations with some feature or component that did not indicate a clear determination. An inconclusive test warrants additional testing or follow-up.



DIFFERENTIAL TREATMENT BY CATEGORY

Test Number	Test Basis	Favors Control	Favors Protected	More Information (1)	Different Rate (2)	Discrepancy in Service or Treatment (3)	Failure to Assist (4)
2009-CCRD-DEN-1-01	National Origin		x	x		x	x
2009-CCRD-DEN-10-11	National Origin		x				x
2009-CCRD-DEN-13-12	Race		x	x	x	x	
2009-CCRD-DEN-16-19	Race	x		x		x	x
2009-CCRD-DEN-17-10	National Origin	x		x	x	x	
2009-CCRD-DEN-18-06	National Origin		x	x	x	x	
2009-CCRD-DEN-2-02	National Origin	x		x	x	x	x
2009-CCRD-DEN-20-16	Race		x	x		x	
2009-CCRD-DEN-22-21	Race	x		x	x	x	
2009-CCRD-DEN-25-23	Race	x		x		x	
2009-CCRD-DEN-26-33	Race	x		x	x	x	x
2009-CCRD-DEN-27-34	Race		x	x		x	x
2009-CCRD-DEN-37-24	Race	x		x		x	
2009-CCRD-DEN-39-17	Race	x		x	x		
2009-CCRD-DEN-40-26	Race		x	x		x	
2009-CCRD-DEN-41-27	Race		x	x		x	x
2009-CCRD-DEN-45-31	Race	x		x			x
2009-CCRD-DEN-7-07	National Origin	x		x		x	x
2009-CCRD-DEN-9-08	National Origin	x		x		x	x

It should be noted that more favorable treatment of the protected class tester is a reasonable outcome, because those testers were given better financial qualifications. However, as is seen, control testers were still shown more favorable treatment more frequently.



LIMITATIONS AND CHALLENGES

- NCRC undertook safeguards to guarantee credibility and integrity of our work product. Due to the glut of recent banking and finance mergers, we found that many testers had new, unanticipated business relationships that made testing difficult. To combat this, NCRC was given permission to conduct tests over the phone, which helped our testers to avoid detection that might occur if they found themselves in a situation where a loan representative could pull up their accounts with a sister company.

- Lack of mortgage personnel in lenders' branches delayed the execution of some assignments. Further, a low interest rate environment has fueled a refinance boom, which has precluded access for some testers. For example, several testers of both classes were told that the lender in question was too busy to call them back right away. As a result, on some occasions, testers have had to telephone the lenders multiple times to reach someone that was available to assist them.

- Some testers were refused quotes or assistance because they did not want to provide certain personal information. Of the nineteen tests that demonstrated differences, ten of those tests involved lenders who refused to provide information to a tester that declined the request to provide a social security number, or who simply failed to respond to testers' inquiries. Six additional tests that were categorized as Inconclusive were tests where lenders failed to respond to *both* testers' inquiries.

CONCLUSION

The testing conducted under this contract identified potential violations of state and federal fair housing and lending laws. Though we were successful in documenting these potential violations, we recommend that additional testing of several of the lender take place to uncover actionable enforcement claims. Specifically we suggest that a continuation of investigations occur under refinance and purchase loan scenarios targeting those lenders whose tests resulted in differential treatment and inconclusive findings.

NCRC submits this report in completion of our contract with the Colorado Civil Rights Division, and remains available to answer any questions or concerns that may arise.

Respectfully,
Michael D. Mitchell
Director, National Neighbors
National Community Reinvestment Coalition

INVESTIGATIVE PLAN FOR MORTGAGE LENDING COMPLAINTS

I. INTAKE: INTERVIEWING THE PROSPECTIVE COMPLAINANT(S)

Before interviewing the prospective complainant(s), or in follow-up interviews if the initial interview did not produce full information, consider the kinds of information you will need to determine jurisdiction and draft a charge. As in all other kinds of housing discrimination complaints, the complaint can only be taken if there is jurisdiction in the following areas:

A. **Standing:** Any person, (also companies) "aggrieved" by a discriminatory act or believes he will be aggrieved by a discriminatory act that is about to occur. (Example of the latter: evidence that a lender does not lend in a certain area, but complainant has not yet been denied; pending foreclosure.) The person must also allege that what happened was based on one of the prohibited protected classes to have standing. For marital status and sexual orientation, there can be standing under Colorado law but not under federal law.

B. **Timeliness**: A complainant must allege an action within the last year, but also review the HUD Handbook for the concept of a "continuing violation" a concept very much in legal limbo since the U.S. Supreme Court Ledbetter case.

C. **Dwelling jurisdiction**: Any property used as "housing" ("dwelling" in the federal FHA), or intended to be used as housing or vacant land intended to be used as housing. (You may have to check local zoning ordinances if there is a question whether the land in question may lawfully be used for housing.) **Also note that, for complaints of mortgage lending discrimination, dwelling jurisdiction is based on whether the loan at issue is "for purchasing, constructing, improving, repairing or maintaining housing(dwelling) or "secured" by housing (dwelling) as well as the "selling, brokering or appraising of residential real property."**

D. **Subject Matter Jurisdiction:** The Prospective complainant must allege that there is a violation of the federal and/or Colorado statute (see Part II, Drafting the Charge for activities that are violations), that the motive for this adverse mortgage decision or act was one of the protected classes, or that the decision or act adversely affected protected classes or neighborhoods.

E. **Respondent Jurisdiction**. Although there are several categories of housing and Respondents exempted from discrimination claims, there are few exempted from claims of mortgage discrimination, except that Colorado may not file a mortgage discrimination claim against the federal government, for example, the Veteran's Administration.

II. DRAFTING THE CHARGE:

A. There are three possible legal theories to be considered as you interview prospective complainants and consider what will be alleged. These are:

1. Discrimination based on the protected class of the complainant.
2. Discrimination based on the racial composition of the neighborhood. ("Redlining.")
3. "Reverse Redlining." Targeting minority neighborhoods or members of protected classes for unfair loans. (Note that current case law has ruled that comparative data showing more favorable terms for persons or neighborhoods outside the complainant's protected class is not required in a reverse redlining case.)

B. What should be alleged?
Examine the allegations carefully to determine which of the following should be alleged. **Note that, in almost all cases, the explanation of what the Complainant(s) say(s) happened will encompass more than one of the following allegations.**

Also note that, for all charges except those based solely on marital status, TEAPOTS will be used for drafting the charge, so references below are to the HUD regulations.

Attached to this Investigative Plan are all the sections of the HUD regulations that might be used in drafting a charge. The sections are briefly summarized below, but it is strongly suggested that the entire attachment be read before drafting the charge, or, if the charge is already drafted, to consider whether the charge should be amended.

100.110 **Discrimination in Residential Real-Estate Transactions** and 100.115 (which gives definitions but would not be alleged in a complaint.) This section includes discrimination in making a mortgage loan available, as well as discrimination in the terms or conditions of a lending transaction.

100.120 **Discrimination in the making of loans and in the provision of financial assistance**. Note that this includes not only treating someone differently in making loans available, but also failing to give someone information about loans and procedures and standards for applying for loans, giving inaccurate information about loans or giving different information about financing than given others on the basis of race etc.

100.125 Discrimination in the purchasing of loans. Allegations that a lender who purchases loans limits the purchases, or charges different terms for loans on the basis of race or other protected classes, or who discriminates on the basis of neighborhoods depending on the race of that neighborhood.

100.130 Discrimination in the terms and conditions for making loans available. This includes different policies, practices or procedures for evaluating creditworthiness, and determining the type of loan, loan amount, interest rate, loan duration or any other terms based on protected class.

100.135. **Discrimination in the selling, brokering or appraisal of residential property.** This includes discrimination in providing broker (sales) services as well as discriminating in appraisal services, including making them available or in the performance of the appraisal service. This includes not only a formal appraisal but any opinion of value, whether oral or written, about the value of property in connection with a sale or financing.

100.75. Discriminatory advertising. This includes not only a direct expression of preference on the basis of race, national origin etc. but "selecting media or locations for advertising" which deny opportunities for buying or getting financing for homes. A new kind of advertising, targeting certain racial or ethnic groups for inappropriate loans, could be filed under this section also.

100.50 Otherwise make unavailable. This section should be cited, along with others, when a denial of a loan, or other discriminatory loan practice, makes a dwelling unavailable. This could happen at the application stage, when someone cannot buy a home because the loan was denied, or after purchase, when discrimination in loan servicing, or foreclosure procedures, contributes to an owner losing the home.

C. Proper Respondents: What persons and what institutions/companies should be named?

The intake interview, or interviews if necessary, should identify what respondents should be named. These will probably include the following, and should include both individuals and companies:

1. Individual mortgage broker
2. Mortgage brokerage
3. Supervisory Mortgage Broker (sometimes, depending on your analysis of his/her participation in the lending decision.)
4. Lender who approved or denied the loan
5. Underwriter, if any indication that there was an underwriter who made or was part of the decision. (Can add the underwriter in an amended charge if the complainant does not know who this is.)
6. Lender who bought /funded the loan on the Secondary Mortgage Market
7. Company/person involved in any foreclosure decision
8. Insurance company who denied homeowners insurance or who issued policy with discriminatory terms.
9. Advertising medium, if discriminatory advertising is an issue.

III. Request for Information:

Essential Documents for almost all discriminatory lending complaints

Full loan file.
Applicants full loan file, including, but not limited to
Application, including a pre-application if there was one.

Truth in Lending Forms (all if there are more than one) Note: If loan did close, there should be at least two TIL forms, because the law requires:

1. One within three days of an application
2. One at closing

Uniform Underwriting Transmittal Summary, (along with any underwriting check list and all communications, such as e-mails, wire communication between the underwriter and broker etc.)
Names, address and telephone number of all persons involved in accepting the loan application, in supervisory position in approving the loan and the loan underwriter.
Credit Report(s) on all applicants, co-borrowers
Documentation of income and assets
Statement(s) of Credit Denial, Termination or Change
Underwriting standards for the loan applied for or granted.
Closing Statement/HUD 901 (For loans which were approved and closed.)
Rate sheets and underwriting standards for all loans available during the period from ___________ to ____________.
Or any other documents or records pertaining to the Complainant(s)

Same information above for other applicants who got or were denied a loan. (Note: Rarely will a Respondent have this information. It will be the responsibility of the investigator to indentify comparable loan files after the response to the first RFI has been received. But ask for it in the first RFI if the complainant identifies someone he/she is of a different protected class and has received different treatment.)

HMDA (Home Mortgage Disclosure Act) data. This Act requires all but very small lenders to report certain data about their loans to the FFIEC (Federal Financial Institutions Examination Council. It is critical to understand what data is reported, how it is reported and how it can be used before requesting the data. You are going to be asking for the HMDA data and the LAR (Loan Application Register) for a certain MSA (Metropolitan Statistical Area) and for a certain period.

The most important thing to understand about HMDA data is that is can be used for two purposes:

a. **To show overall lending patterns** of lending to certain racial groups, or on the basis of sex, and how that lender lends or doesn't lend in certain neighborhoods, overall patterns of approvals and denials etc. **What this data does not show is how any particular applicant or borrower was treated.**
b. **To pick comparable loan files.** In the past, before HMDA, investigators could only search for comparable loan files by randomly picking certain files from among 100s or even 1000s of a lenders files. Now, with HMDA data, and if you have demanded and received the right HMDA data, you can send a second RFI and ask for certain files. For this reason, it is critical that you ask the lender for the "un-redacted HMDA data including loan numbers and dates of application" or you will not get the kind of HMDA data you need. Ask for it in electronic format.

Warning: Despite a request in the format requested above, many lenders will refuse to send you what is requested, on the grounds that is protected information, for privacy issues etc. Lenders will also send you an redacted version, hoping you won't notice, or refer you to the FFIEC website to get the information yourself, but the website does not include the un-redacted version of HMDA you need. Immediately open the HMDA data sent to see if you have what is requested and demand the correct version if what was sent is not correct.
Once you have the correct version, then you can review the LAR for the relevant time period and pick loan files with the characteristics you need. For example, if your complaint involves a refinancing loan, and by a Hispanic individual, you can search out loan refinances from non-Hispanics, and from non-Hispanics with lower income than the Hispanic Complainant. You then send an RFI with a request for the specific loan files you want.

Warning: it may entail hundreds of hours reviewing a great many loan files to compare them to your Complainant.

IV INVESTIGATION:

A. Review File: The investigator should start at Step I, Drafting the Charge, even if the complaint has already been drafted. It is vital to read the details of the complaint and then review all the possible allegations which could/should be included before starting the investigation. An evaluation should also be made to determine whether all the right respondents have been named and whether information requested has been received and whether review of the file show more information is needed and another RFI should be sent.

B. Organize the loan file

A common way to organize a loan file is as follows:
1. Application Documents
2. Borrower's Qualifications
    a. Proof of Income
    b. Assets
    c. Liabilities (Credit Report, personal loans not on credit report)
    d. Credit History
3. Property Valuation (Uniform Residential Appraisal Report)
4. Lender's Working Papers
5. Adverse Action (e.g. Reasons for Credit Denial)
6. Required Notices (Truth in Lending, Good Faith Estimate, Title Commitment, Loan Program Disclosure etc.
7. Closing Documents

C. Interview all parties, complainants, lender, underwriter, mortgage broker, sometimes the real estate agent.
D. Analyze Data

SECTION VI.
Education and Outreach Efforts

As part of the Colorado Civil Rights Division (CCRD) predatory discriminatory lending study grant, funds were provided for outreach efforts in targeted communities. This section reports the results of the outreach efforts that were conducted by four outreach partners:

- The Financial Education and Economic Transformation Center;
- LARASA;
- The City of Longmont Office of Community Relations; and
- The Pueblo Human Relations Commission.

The individual reports of these organizations follow this section.

Based upon the success of previous outreach efforts, some of which were funded previously by FHEO/HUD, CCRD identified outreach “Partners” who had demonstrated the ability to develop strategies that would identify potential victims of discriminatory predatory lending, and offer assistance. See attachment 1 for list of the “Partners”. By January 2008, the planning and development of a strategy was underway.

Identification of community “players” to develop strategies for identifying possible victims. Part of the outreach strategy was to identify key community stakeholders and gatekeepers who may have information regarding possible discriminatory predatory lending activity and practices that may be occurring in their community, among their constituency, or within their sphere of influence.

Preparation of a master calendar or schedule of activities. A preliminary master calendar or timeline was prepared to help guide the “roll out” of the grant. Specific activities were developed for the first few months and initial stages of the grant. The master calendar included individual meetings with each of the proposed partners, key community “Players”, and initiation of the research efforts. See Exhibit X-X for the master calendar.

Establishment of deliverables and outcomes. A key component of CCRD’s strategy was the development of deliverables and outcomes for each of the Partners. The contracts for each of the partners included deliverables, outcomes, and milestones that assisted in focusing outreach and education efforts. The goal was to conduct the outreach and education efforts in the most cost effective and efficient manner. They also helped focus the efforts of the Partners and allowed for tracking of the progress, efforts, and challenges for each of the Partners.

The Department of Regulatory Agency's (DORA) Executive Director Office's role. The Department Executive Directors Office was directly involved in strategy development and provided resources to prepare the marketing/information tool kit, and facilitated a press conference with the Governor to kick off the outreach and education component of the grant.

Monitoring and follow-up. Meetings were held by CCRD monthly beginning in May 2008 to facilitate coordination and implementation of a comprehensive strategy related to identification of possible victims, referral and assistance.

A key component of the strategy was the conduct of research regarding subprime lending. (These initial research findings are included in Section X of this report.) Identification of geographic areas through the research where subprime lending was occurring assisted in targeting outreach and education efforts where it was anticipated discriminatory lending was most likely to have occurred. Meetings provided an opportunity to discuss results of the outreach and education "field" activities, coordinate the attendance of staff and the consultant at key events, and identify additional resources, support, and technical assistance.

Highlights of the Research in relation to the Outreach and Education Plan

Preparation of the "Tool Kit." Another key component of the overall strategy for the grant was the preparation of a "tool kit" for use by the Partners. The Tool Kit consisted of key messages and material for the community meetings. It helped promote the key messages that incorporated the essential elements of the strategy. CCRD was directly involved and provided significant support in the development and implementation of the tool kit and later in strategic policy direction involving other resources in the Department. A copy of the Tool Kit is attached to the end of this section.

Targeting of possible victims, lenders, geographic locations and other practices. The results of the research proved invaluable in identifying neighborhoods with high subprime lending. The research revealed that not only were there significantly higher levels of subprime lending activity; the neighborhood demographics also indicated a higher concentration of minorities within these areas of subprime lending. The research teams working in conjunction with the Partners were able to determine some of the lenders who participated in providing subprime loans.

Documentation of community and individual stories. What are the profiles of victims and lessons learned? Another aspect and specific focus of the outreach and education component of the grant was to document community and "individual" stories of possible victims. This documentation is contained within each of the Partners final reports. Some of the findings are discussed below. What was significant about the approach that was taken is that although the outreach and education efforts targeted minority neighborhoods where subprime lending was identified as occurring, most individuals who were contacted had either been in foreclosure and beyond the period for filing a housing discrimination complaint or were embarrassed to talk about their situation.

Recent Legislative Efforts

Federal legislation. There has been considerable attention from the federal government to provide foreclosure assistance in the form of housing counseling, refinancing, and reclamation of neighborhoods with high foreclosures. The government bailout of the banking and lending communities is unprecedented as the nation seeks to avoid a severe recession or depression as a result of the housing industry meltdown that resulted from lending practices. The results and effectiveness of these efforts is yet to be determined as the change in administration occurs.

Criminal and civil prosecution. One of the most significant developments that occurred during the grant period is the number of individuals and institutions that are being prosecuted based on their role in the collapse of our financial system and the subprime lending market and violation of a number of laws. In fact, one of the earliest cases identified by CCRD involved an individual who was on the FBI's Ten Most Wanted list, who was arrested in Mexico, has been indicted, and is now being prosecuted, in a fraudulent scheme involving at least a dozen victims. Several complaints were filed with CCRD and are currently being adjudicated by the Commission following a probable cause determination by CCRD. More recently, the FBI announced an increasing number of investigations and criminal prosecutions involving mortgage fraud which only underscores the severity of the impact, particularly on minority communities. The Colorado Attorney General has been very active in seeking enforcement of consumer protection law, and prosecution of guilty parties.

Regulatory enhancements. The Colorado Promise is a document prepared by Governor Ritter when he was running as a candidate for Governor. A couple of the major themes the Colorado Promise contained that were relevant to this grant are the goal of better protecting Colorado consumers and promoting more effective “seamless” government. The Department of Regulatory Agencies has repositioned itself as a major resource to Colorado consumers. In addition, the Director of CCRD has required better coordination of CCRD’s efforts with other regulatory agencies within the Department including CCRDs of Real Estate, Banking, Financial Services, Securities, and Insurance. CCRD Director has also assumed a leadership role and is working closely with Division of Housing within the Department of Local Affairs, the Colorado Foreclosure Task Force, and Colorado Housing and Finance Authority (CHFA).

Findings and Conclusions—Outreach Efforts

Timing and cultural competency issues. The partners engaged by CCRD distributed over 1,000 fliers and other materials regarding predatory lending, held dozens of meetings and focus groups with community members and personally dealt with hundreds of potential victims of predatory lending. This activity resulted in identification of possible discriminatory lending practices. What has emerged from the outreach and education efforts are individuals who in some cases were victimized and preyed upon by members of the minority community. Their cooperation was based upon trust and a lack of understanding of loan products.

Utilizing the quantitative research to pinpoint geographic areas that experienced the most subprime loans helped identify where potential victims would most likely be found. Although the partners were able to attract potential victims to the meetings, many attendees were desperate to receive immediate financial assistance. While the partners were able to refer some potential victims to CCRD for filing of a complaints, many more were already in foreclosure and not interested in filing a complaint unless it could stop the foreclosure. In most cases, the potential victims were beyond the one-year statute of limitations filing period. A considerable number had adjustable rate mortgages (ARMs) that adjusted or would adjust in two or more years. In fact, some were promised that their mortgages would adjust and became the basis for considering this type of loan product. More importantly, some expressed frustration with assistance sought directly from the lender or through hotlines or counseling services. A lack of cultural competence to respond to minority communities is one of the key findings of this report and will be discussed in another section of the final report.

Another key finding in this area is the age and legal status of some of the potential victims. Many of the individuals that attended the meetings were elderly and/or were concerned that their legal status would become an issue. Age is not a protected category under fair housing laws, however, many elderly individuals have or will lose homes, and were preyed upon by real estate agents, mortgage brokers, and lenders. Ethnic and racial minorities were the majority in attendance at the outreach and education forums and meetings held by the partners.

Transparency of loan products. Each partner met with individuals who had loans with terms that eventually were a detriment to remaining in the property. It would appear that a combination of subprime loans with excessive fees and/or interest rates combined with a rapidly declining housing market placed most of the individuals who came forward at risk of foreclosure. The lack of understanding and sophistication regarding the loan terms and products contributed greatly to the crisis facing the communities most severely impacted by discriminatory predatory lending.

Re-victimization. One of the areas that regulators must be aware of is the potential for re-victimization. What the partners reported toward the end of the grant is a cottage industry of individuals who offer a false hope of avoiding or preventing foreclosure. These efforts again appear to target the minority community. Most potential victims are embarrassed by the situation they find themselves in, and are reluctant to seek government help before it is too late to address the situation. An environment that acknowledges the emotional impact foreclosure has on individuals and families is needed to make it acceptable and appropriate to seek help without the stigma of failure.

Community effect. Entire neighborhoods have been impacted by the severity of the current crisis. This phenomenon has lead to the rapid decline of home values that in some cases precipitated foreclosure by making it impossible for the lender to refinance the loan. A vicious cycle was created where entire neighborhoods have been devastated, individuals and families uprooted, and are contributing to a new wave of homelessness. There are anecdotal reports of discrimination in the housing rental market. There are also reports of the difficulty for first time and minority homebuyers unable to secure foreclosed properties due to the speculation that is occurring. This contributes to a further decline in homeownership by minorities.

Recommendations

The role of CCRD and the Commission. The Colorado Civil Rights Division and Commission have played a leadership role in outreach and education to affected communities, enforcement of applicable law and policy, and coordination of additional resources. Efforts in this area should continue. The Commission should consider adoption and publication of a Consumer Bill of Rights for Fair Housing and Discriminatory Predatory Lending similar to one developed by the Pennsylvania Human Rights Commission in order to better educate consumers regarding fair housing, especially as it relates to lending.

The need for legislative and regulatory reform. National anti-predatory lending legislation needs to be passed to effectively combat predatory lending. Longer statutes of limitations related to fair lending issues would enhance CCRD's enforcement efforts. HUD, under Sec. Donavan's leadership must more aggressively enforce federal fair housing laws.

Better coordination among regulatory agencies, housing providers, counselors and nonprofits. CCRD sought additional enforcement assistance internally from some of the Departments other Divisions identified earlier. Efforts were made by a couple of the Partners to reach out to the housing community, including housing providers and counselors. Those efforts should continue. More aggressive outreach and education regarding fair housing laws and the lessons learned from this project should continue and be adequately funded by the Colorado legislature and HUD.

Identification of potential victims who may benefit from counseling and purchase/refinancing of a new home. The lack of resources to work with underserved communities remains a challenge. This grant has allowed CCRD to continue a partnership with organizations that are effective in reaching the communities they serve. If America is to realize the goal of homeownership and to learn from the current crisis, a couple of points are worth noting. In Robert Shiller's book, *The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It* [42], he describes the need for the "democratization of finance" in Chapter 6, The Promise of Financial Democracy. Providing for affordable comprehensive advice to low and moderate income home buyers and consumers is a strategy whose time has come, given the current financial crisis. Resources should be provided to communities and organizations that are living with the aftermath of the collapse of the American Dream (home ownership in the last decade) due creative financing and the meltdown of the subprime market.

[42] Robert Shiller, The Subprime Solution: How Today's Global Financial Crisis Happened, and What to Do about It (Princeton N.J.: Princeton University Press, 2008).

Partnerships between the private sector and government.

The entire wealth of numerous communities has been stripped away due to unconscionable practices of the lending and investment industries. Comprehensive steps must be taken to restore wealth to affected communities. This will only occur through partnerships between government and private entities and comprehensive regulatory reform.

The Financial Education and Economic Transformation Center

Mission

The Financial Education and Economic Transformation Center's (FEET Center) mission is empowerment for economic self-sufficiency of individuals and households in domestic emerging markets. We strive to strengthen the economic base and enhance the economic sustainability of domestic emerging markets by expanding economic empowerment opportunities for individuals and households in underserved urban and rural areas.

Organization Background

The FEET Center was founded in November of 2002 as a Colorado non-profit corporation. During 2003 it obtained 501(c) (3) status with the IRS and Community Development Entity (CDE) status with the Community Development Financial Institution Fund of the Department of Treasury. Since 2003 FEET has collaborated with faith-based and community-based organizations, businesses, and government agencies delivering economic empowerment opportunities to individuals and households from underserved communities in the Denver Metro Area.

Programs, Activities and Accomplishments

The FEET Center provides economic empowerment opportunities in three distinct areas—advocacy, education and service. We provide a comprehensive economic empowerment solution for economic stimulation that includes financial education, job creation, development, and savings; business creation; increases or improvement in the stock of affordable housing; and improvement of the infrastructure in underserved urban and rural areas.

The FEET Center's activities include recruiting volunteers to assist with our programs. In addition, we participate in networking opportunities to develop collaborative relationships with other organizations and individuals helping to improve the financial literacy, entrepreneurial and homeownership opportunities for disadvantaged and underserved youth and families.

The FEET Center's accomplishments include establishing working relationships with faith-based and community organizations, and public and charter schools that serve disadvantaged and underserved students and families. We are collaborating with these organizations to assist with improving the achievement gap in academic and employment for disadvantaged and underserved youth and their families in the Denver metro area. In addition, we are addressing House Bill 04-1360 concerning Financial Literacy Education within Public Schools. We currently provide in-school and after-school financial education serving middle and high school students in Aurora and Denver public and charter schools.

In addition, the FEET Center has established a working relationship with Mile High United Way (MHUW) to create an Individual Development Accounts (IDA) Program that assists disadvantaged and underserved individuals and families in developing assets. In collaboration with faith-based learning centers, local public schools and community organizations the FEET Center through its IDA program is currently serving youth and adults from disadvantaged and underserved communities in the Aurora and Denver area.

Predatory Lending Project Background

We have worked as a faith-based community organization that has served in the areas of outreach and education for homeownership since 2004. Our outreach and education has focused on predatory lending, fair housing, pre-purchase counseling, and foreclosure assistance in disadvantaged and underserved communities (primarily African Americans) in the Aurora and Denver area.

In 2008 the FEET Center received a grant from the Colorado Civil Rights Division (CCRD) to conduct outreach and education activities directed toward individuals who have lost their home or who are in danger of losing their homes to foreclosure. The FEET Center developed a comprehensive program to address the following objectives:

1. Act as a liaison between homeowners and the Colorado Civil Rights Division. Assist clients with filing appropriate forms with CCRD;

2. Partner with local counseling agencies to conduct loan loss mitigation in an effort to exit predatory loans and/or refinance into more sustainable, lower-interest loans when that is an option;

3. To assist the homeowner in planning an exit strategy into stable housing in cases where the homeowner does not wish to or cannot remain in the home;

4. To maintain or increase neighborhood stability;

5. To help homeowners address underlying issues such as employment or household debt that may affect successful homeownership in the long-term;

Our program activities included:

- Outreach and Marketing
  - Community Orientations
  - Database Intake
  - Field Visits
  - Referrals
  - Advocacy representation
- Media Outreach Strategies
  - Faith-based media channels
  - Radio
  - Flyers Distribution
  - Publications
  - Phone line
- Education
  - Workshops
  - One-on-one household visits
  - Collaborative Partner Meetings

Outcomes

1. The FEET Center developed a client data base of households who received foreclosure assistance as a result of our outreach and marketing efforts. The purpose of the database is to track the intake and outcome of clients served by the program.

2. The FEET Center conducted weekly outreach and marketing through flier distribution in targeted communities, insert bulletins at various faith-based organizations, radio advertising, selected community and church events and by word of mouth.

3. The FEET Center conducted six seminars from July 2008 through January 2009 educating 120 clients using a Homeownership survey. The purpose of the survey was to collect data for our collaborative partner from the University of Colorado Denver (Center for Education and Policy Analysis School of Pubic Affairs).

4. The FEET Center visited over 20 households who responded to our outreach and education efforts seeking foreclosure assistance. The purpose of the home visits was to establish trust and confidentiality from the families we served in this grassroots effort.

5. The FEET Center conducted initial screening of clients to determine the merit of their case for referral to the Colorado Civil Rights Division to file a compliant. The purpose of the screening was to develop a process whereby clients could receive technical assistance from CCRD to file a timely compliant against lenders who may have violated their housing rights.

Findings and Recommendations

Findings. The FEET Center was uniquely positioned to carry out the goals, mission, and objectives of the Colorado Civil Rights Division Predatory Lending Grant. At the onset of the initiative, we were the only African-American faith-based initiative in the Denver metro area addressing the issue of predatory lending and mortgage foreclosures in the African American community. We presently remain as the sole faith-based agency doing so.

As an African-American faith-based organization, the FEET Center was able to easily identify the cultural concerns and cultural traits of the community. Many of the clients we serviced lacked education around homeownership, mortgages, predatory lending, and other financial matters. One glaring cultural trait of the African American community is the lack of financial education—a statistical fact not unknown to those in the African-American, Financial, and Political community. This is a major problem in the community and a trait that appeared consistent with most of those we interviewed.

The FEET Center has been actively and aggressively addressing financial literacy in the African-American community since 2003. Our work in this area provided a level of trust with our clients. Many of them admitted to having a lack of trust of those working in the mortgage industry.

TRUST was a constant theme among those we interviewed who were in or on the verge of foreclosure. Many of the individuals we interviewed who had obtained inappropriate mortgages initially, had done so out of what they all admitted was their “trust” in others. Many had to rely on trust because they lacked financial literacy and home buyer education. That same trust took on a different look when individuals were faced with foreclosure and the knowledge of having received an inappropriate loan.

There was a more positive side of the trust issue as it relates to the FEET Center. Our expertise and work in the community as a faith-based organization enabled us to conduct (with a great deal of success) orientations and home visits. We were requested and, at other times, volunteered to advocate for clients in their dealings with mortgage holders and the courts.

As a faith-based organization, the FEET Center was quite successful in its marketing and outreach. The Church is at the center of most of what takes place in the African-American community. Being a part of the faith-based community allowed us to disseminate information to a large percentage of individuals in our community.

Our operations were headquartered at New Covenant Christian Church, one of the prominent socially active churches in the Denver metro area. We utilized the churches media resources (including its Sunday radio broadcast) and we held the majority of our orientations there and at other churches throughout the community.

Recommendations. We at the FEET Center believe that the faith-based approach is the best way to address the mortgage foreclosure issue within the African-American community. There is a level of trust that persons within the community have with proven faith-based initiatives. The Church is the best and most effective marketing outlet in the African-American community. It has been the FEET Center’s experience that the response from the community is greatest with effective marketing and outreach. There is no other entity that sees more people on a consistent and regular basis than does the African American Church.

The FEET Center maintains a proven and respected reputation within the faith-based community. Our work in this area is an ongoing work. As mentioned, previously, we have been engaged in financial education, homebuyer education, and predatory lending initiatives since 2002. We will continue this work beyond the scope of this grant.

Our findings have been that there is sufficient blame to pass around as it relates to the advent and genesis of the foreclosure crisis. There were persons and communities targeted by the mortgage industry and there were people in the community who took advantage of being the industry’s target—some to their obvious detriment. Everyone shares in the blame for what has taken place.

What concerns the FEET Center is the limited amount of resources being given to organizations like the FEET Center who are making grassroots efforts to address the problem. There are huge numbers of people whose mortgages can be salvaged and foreclosures prevented with minimal resources and an ongoing financial education program.

Our biggest finding was that many of the foreclosures and potential foreclosures are quite addressable and preventable if a structure was in place to do so. During the homebuyer boom, government and the mortgage industry focused much of their marketing and outreach efforts to the African American and other minority communities. Tremendous effort was made to attract persons from these communities to become first-time homebuyers. Our hope is that an equal and similar effort is made to keep these persons in their homes.

The FEET Center is committed to continuing our work in this area. We recognize that our work and the work of our community partners can be strengthened and enhanced with strong collaborations with government and industry. We do not believe that this problem (or the people) will get adequate representation without the grassroots efforts of agencies like the FEET Center. We need to get the resources that government and industry possess to the people whose lives and homes hang in the balance.

The only limits to our work are resources. We know and have identified many who greatly need a grassroots effort that will provide both economic and educational relief. The FEET Center will maintain an active role and continue to be a change agent in the ongoing efforts to address the foreclosure crisis in Denver and throughout the state of Colorado. The limits and scope of our work will be contingent upon the resources we secure to do it. Regardless, our work will continue given the needs we see in our community. The greatest of which is the need to financially educate our community.

Latin American Research and Service Agency (LARASA)

Background and Planning

BBC Research & Consulting produced a very detailed report on discriminatory and predatory lending practices in Colorado. Once the report was viewed by the Colorado Civil Rights Division (CCRD), it was determined that more research was needed to help identify victims of discriminatory and predatory lending practices. Latin American Research and Service Agency (LARASA), along with four other community-based organizations, collaborated with CCRD to identify and interview minority residents who may have been victims of discriminatory predatory lending practices.

Home Mortgage Disclosure Act (HMDA) data of 2006 findings show there are strong disparities and a clear overlap of predominantly minority populated areas and sub-prime loans. Although the HMDA asks the borrower questions on the mortgage application to identify race, ethnicity, gender and census tract for location of property, there is a gap in data for FICO score, reasons for mortgage and debt-to-income ratios.

The BBC report left a couple of key questions open for additional data and survey collection of whether or not loans had predatory features:

- Were Latinos sufficiently educated on housing loans in the Denver Metro Area?
- Were minorities targeted more than whites for high-interest rate loans? Were the interest rates charged justified by risk?

In their Understanding Mortgage Foreclosures in Denver report, the City and County of Denver, Office of Economic Development shows there were 7,405 foreclosure filings in 2007 alone (as of September 17, 2007). Stunningly, the OED report states that foreclosure filings increased from 0.8 percent in 2000 to 3.8 percent in 2007. In order to understand this increase, it is important to understand what types of loans are going into foreclosure.

According to a report published by Denver Foreclosure Pros, Foreclosure Facts 2006, the originating lenders were 17 percent Banks, 77 percent Non-Banks, and 6 percent Affiliates. Of these loans, 77.4 percent were Adjusted Rate Mortgages (ARM) and 22.6 percent fixed-rate mortgages with an average original loan value of $202,415.

Project Scope of Work

During the months of July-October 2008, LARASA, in collaboration with CCRD and its partners, facilitated an outreach project to collect data and educate the community regarding discriminatory and predatory lending practices in the metro Denver area as well as the greater Colorado area.

LARASA agreed to provide the following information to CCRD under the project scope of work:

1. A minimum of 125 surveys would be distributed.

2. A total of 4 focus groups would be conducted of at least 10-15 participants, and 25 individuals would be interviewed to obtain stories of potential victims.

3. At least 4 community events would be held at which at least 250 individuals would receive bilingual education and materials. At least one of these events would occur at Thornton Town Hall.

LARASA, using data from the Census Bureau and the Piton Foundation, primarily targeted Denver neighborhoods whose Hispanic populations are 51 percent or greater. These neighborhoods included Chaffee Park (64.13 percent); Sunnyside (72.32 percent); Globeville (77.48 percent); Elyria Swansea (83.02 percent); Cole (70.98 percent); Highland (66.84 percent); Jefferson Park (82.58 percent); West Colfax (67.93 percent); Auraria-Lincoln Park (52.47 percent); Villa Park (79.93 percent); Barnum West (67.9 percent); Barnum (75.78 percent); Valverde (74.62 percent); Baker (53.65 percent); Westwood (76.04 percent); Athmar Park (65.21 percent); Mar Lee (55.28 percent); Ruby Hill (59.46 percent); and College View (59.98 percent). Targeting efforts also include Arapahoe, Jefferson and Adams Counties.

Community outreach. A variety of sessions were held inviting families from predominantly Spanish-speaking areas of Denver. In addition to the collaborating partners, LARASA communicated with the following community agencies, organizations and non-profits regarding this study and the work being done locally to look for survey participants:

- AARP Colorado/LARASA’s Latino Health Fair (20 surveys were distributed)

- American GI Forum (information/surveys distributed)

- Guadalupe Catholic Church (2 focus group sessions in which a total of 35 individuals participated; groups were held in conjunction with ESL night classes; a total of 65 individuals were present)

- Guadalupe Community Fair (over 100 surveys were distributed)

- Thornton Town Hall (Focus group of 25 individuals)

- ACORN (joint session)

- Bernie Valdez Awards Luncheon (presentation by Steve Chavez of the Colorado Civil Rights Division; over 400 individuals were in attendance).

- Westminster LARASA Learning Center (Focus Group of 12 individuals)

- LARASA Central Learning Center (information/surveys distributed)

In all the above listed activities, surveys were distributed but only 8 were completed and returned. The three primary reasons given for low survey participation, completion and return were:

1. Borrowers were looking for solutions and were not interested in completing more paperwork other than that required to "fix" the loan and keep their houses.
2. Spanish-speaking borrowers did not want to give data for fear of investigation of legal status once they realized that fraud on the part of the lender may have been involved.
3. Shame of being identified as victims.

Although some were unwilling to complete surveys, one resident from the Montbello neighborhood felt compelled to tell his family's story and wrote the following statement :

> *"When we first started looking at houses I thought, "we could never own a home." We looked at dozens of homes and finally my wife found a house that she loved.*
>
> *We sat down and did all the paper work signed all the lines checked all the boxes.*
>
> *When we were all at the table doing the paperwork everyone said "make all the payments on time then in 2 years re-finance to get a lower rate and lock your loan." We qualified for 2 year interest only and a 2nd regular home loan. After the 2 years it would turn into an ARM. Our broker, the broker for the seller and the people from the bank all said the same thing "make all the payments on time and refinance in 2 years."*
>
> *We got the house and moved in. Enrolled our kids in local schools and begun to start our lives in our new home.*
>
> *As time went on we made the payments, before all other bills the mortgage was first.*
>
> *A few Christmas' and thanksgivings and birthdays went by for 2 years. As we approached the end of the 2 years we watched all the news on foreclosures and banks going under.*
>
> *We started to contact the bank for our re-finance info 1 month before our loan became adjustable.*
>
> *We were told that the market in our area had crashed and all the homes had dropped in value from 20,000 to 80,000 dollars. We begun to get worried and started to call other groups that advertise on the radio.*
>
> *They all said the same thing; the market in our area had crashed. No one can help us. We continued to try to work with the bank and finally 3 months after we*

first contacted the bank about our mortgage they sent a modification to our loan. We thought this was good until we opened the letter and found it was $80 higher than the original adjustment.

We called the bank and hoped it was an error, and it was not.

We pleaded with the bank that we could not afford the adjusted rate. They replied" you have made all the payments on time you don't qualify for help."

I thought "WHAT????? We are penalized for making all the payments on time?

We were told by someone from the bank to stop making the payments then we could get some help with our loan, so we did. And waited 2 months in which time we were in contact with the bank. We knew we would have a hard time with our loan as the time went on we contacted the bank to get help and was told "your late on some payments and do not qualify for help."

We even found our old broker that originally helped us get the home. We told him what was going on he turned and quickly said, "I don't do that anymore" and walked off.

We could not believe all the trouble we are going through.

So we continue to talk with people from our bank. All they could tell us was "we don't know what is going on with your loan and can we expect a payment?"

After 6 months with trying to call the bank about our loan we found a local branch office and asked to speak to the manager in charge of home loans. To our surprise we were told, "the manager no longer works here and we have not yet filled the position at this time." And continued to tell me "there is nothing we can do at the branch level and need to call the bank and arrange some type of modification."

Although we could go into a back office and talk to someone from the main office on the phone. Those were the same people that were calling us. That was no help. And fed up with the situation. We told the lady at the desk that. "We were done we have had enough and were finished trying to fix this problem."

We are now in our 6th month and have found a house for rent. As I sit here typing this letter with packed boxes scattered around me and most of our things moved to the new house we have had to rent. I wonder if this is the way it is for a lot of people in our situation.

We were not trying to lower the amount of money we owed the bank, nor were we trying to take advantage of our bank. We simply wanted to try to lock a rate that was closer to what we were paying. Even if it was temporary so we could make it through this tough time."

To protect the writer's identity, this statement is not signed; however, LARASA does have the writer's contact information on file.

Another compelling story told to our staff during an interview also occurred in Northeast Denver's Montbello neighborhood. The complexion and population of this area have drastically changed in recent years. What was mainly an African American community has changed to an immigrant population mostly made up of Mexican Nationals, with a sprinkling of immigrants who have legal immigration status. Most of these individuals work in the service industry or in other lower paying jobs. Others may have worked in the construction field, but the failing economy has led to a recent slowdown in the building industry. The following interview was taken on July 8, 2008. To protect her identify, the person interviewed will be referred to as Maria Sol.

Maria Sol is currently employed in the home cleaning business. She is a mother of five children and resides with a common law husband who is employed in the restaurant business. Their total household income is $30,000 a year. Maria was on her way to becoming a first time home buyer.

One day while cleaning a client's home, the topic of homeownership came about with the owner of the home. The owner, a mortgage broker with Morning Star Corporation, helpfully offered to assist Maria and immediately scheduled her for an interview to verify her family income and to run a credit check. After completing the initial interview, the mortgage broker explained to Maria that she was only eligible for an 80/20 mortgage loan package (which in reality was an ARM loan). The loan package consisted of two loans, the larger of the two payments was $1, 400 per month and the smaller loan payment was $250 per month. The monthly total payments would be $1,600. In 2005, Maria purchased the house in the Montbello neighborhood for $242,000.

At the time she was interviewed Maria owed a shocking $254,529.01 balance on the house. She expressed that she had no understanding of loan processes or procedures.

Reality hit hard in 2007 when Maria's monthly loan payments sky-rocketed from $1600 to $2,000 (from $250 to $350 on the smaller loan and from $1,400 to $1,650 on the larger loan). Her interest rate went up 2 percentage points. She is now two months in arrears and is still battling to make the outrageous monthly payments. Her total monthly income has basically remained the same, but cost of living seemed to go up. Maria Sol believes that she will be unable to catch-up at this time.

Maria Sol sums it up in this statement: "This situation has caused a lot of tension in my home and my children have also paid a price because it's hard to meet the cost of school activities or extracurricular activities that take place in our children's lives or ours. Thanks to God that we are a close-knit family and we are able to keep our heads above water … it seems that we possibly could sink at any time. We are hoping that the new President Obama's bailout plan does not only bail out the banks but also helps the hard-working, lower income families in our America today."

Findings

- **Were Latinos sufficiently educated on Housing Loans in the Denver Metro Area?** During the community events we had interest and conversations that included distribution and on-site completion of surveys as well as review of loan documents. Resources, collaboration, and most importantly, bilingual Spanish speakers were being sought by families. We were informed by many that they knew of others who had already lost their homes due to bad/deceptive loan information and who were in the process of trying to find rental options. We were also informed that some had tried to call the Colorado Foreclosure Hotline but in many cases could not be helped because they were too far into the foreclosure stage. Among those interviewed, none had obtained pre- or post-financial education on home ownership. All iterated a trust in the mortgage brokers and felt they are paid professionals knowledgeable of all the legalities/practices. Most of those interviewed felt deceived regarding taxes and insurance costs that were not escrowed into their monthly mortgage payments.

- **Were minorities targeted more than whites for high-interest rate loans? Were the interest rates charged justified by risk?** The OED identified minorities as victims of foreclosures: "In 2004 and 2005, whites accounted for 86.4 percent of all loans originated in Denver, while African Americans and American Indians accounted for 8.3 percent and 2.5 percent, respectively. However, the share of loans taken by African Americans that end up in foreclosure is much higher (14.3 percent), as was the share of American Indians (6.4 percent)" page 56; Section 4.2.1. Further research and documentation by the OED identifies High-Priced loans/Density of Foreclosures in Northeast and Southwest portions of Denver which by Census Bureau data identifies higher African American and Latino populations, respectively.

According to the second interview written in this report, Ms. Sol was given the opportunity to apply for and receive an ARM loan. Based on Ms. Sol's household income, there did exist a "higher risk" therefore she was eligible to receive the "higher-priced" loan often within an ARM. Almost all of those foreclosed on did in fact lose their homes due to the escalation of monthly mortgage payments. Those knowledgeable enough to question the increase in monthly mortgage payments before or during the signing of loan documents were assured they would have the opportunity to "refinance" to a lower interest rate within a couple of years if they made their payments on time.

Further review of the completed surveys revealed patterns:

Individuals who do not qualify for a conventional loan due to income, credit or family size can qualify for a subprime loan. Over 75 percent of the individuals in the Hispanic community that were ready to lose their home or were in the process of being foreclosed on received the 80/20 ARM loan package.

Both types of loans (conventional and higher priced ARMs) were initiated from the start. Individuals not meeting conventional loan criteria were told that "the market would get better enabling them to qualify for fixed loans." In many cases, individuals were being advised poorly with no emphasis on potential consequences including the effect of a mortgage interest rate hike. Many were upset that they could no longer meet their monthly mortgage payments.

We have seen a steady decline in the economy and loss of employment in America largely due to the lending practices of our lending institutions in this country. These practices not only have employment ramifications, but have also placed many Hispanic families in jeopardy of losing there homes, if they haven't already.

Research shows that some individuals receiving loans were not legal citizens or residents at the time and false information was placed in the loan package. At least 70 percent of these families are not proficient in the English language and cannot read or write. They are not able to understand what they are signing and are easily targeted for unconventional and deceitful loan practices. When these families found they were not able to make their payments, they would attempt to go to the same broker or loan institution but received no assistance or help in resolving their problem. Housing agencies and federal, state or local nonprofits were not able to assist these families due to the lack of funding and the sudden housing crisis that emerged in the country.

Recommendations

The ongoing remedy should include a resource guide for displaced families of this sub-prime crisis. We have seen the need for assistance and continued education about financial wealth and in particular the mortgage product and process. Sub-prime loans going into foreclosure continue to increase. According to The NEIGHBORWORKS Congressional Update dated September 15, 2008:

"The percentage of mortgage loans in foreclosure nationally, according to Mortgage Bankers Association (MBA) June 2008 data, has almost doubled, increasing from 1.4 percent to 2.8 percent of outstanding loans between the second quarters of 2007 and 2008 (MBA allowed participants to report what they consider to be their prime and subprime servicing portfolio, since internal servicing guidelines vary.) Subprime loans were much more likely to be in foreclosure than other types of loans. The percentage of subprime loans in foreclosure increased from 5.5 percent to 11.8 percent over this same period."

Although the Foreclosure Hotline is/was a great idea, remediation/counseling services should be offered pre- and post-homeownership. The displacement of low income families (note: not just minorities) must be addressed with some form of low-income homeownership assistance/counseling services. Given the state of the national foreclosure crisis, grassroots organizations, such as LARASA and the other partners involved with CCRD, should be further involved in counseling and identifying possible solutions to prevent future occurrences. Funding should not be funneled only to lending institutions. Many families who find themselves in this financial situation must have their loan package restructured. A large portion of these individuals are just a few payments behind and their loan package could still be reconciled. An infusion of grant funds should be made available to facilitate successful outcomes.

We must immediately address the housing crisis in the Denver metro Hispanic community. Federal, state and local government agencies along with local non-profit organizations must work together to help enact laws and programs that will safe guard the housing buyers from discriminatory and predatory lending practices. The first-time home buyer must be prepared and educated in the process of homeownership prior to signing any paperwork or legal documents.

City of Longmont
Office of Community Relations

Background and Planning

The project that has been assigned to this department is to seek findings that will help answer questions that were left behind in the BBC Research & Consulting study regarding discriminatory lending in Colorado. The research shows there are strong disparities and a clear overlap of predominantly minority populated areas and sub-prime loans from Home Mortgage Disclosure Act (HMDA) data of 2006 findings. Although HMDA questions on the mortgage application does ask a borrower identifying questions regarding race, ethnicity, gender, census tract for location of property; there is a gap in research data of FICO score, reasons for mortgage, debt to income ratios etc. The BBC report left a few key questions open for data and survey collection of whether or not loans had predatory features:

- Do loans to minorities have predatory terms more often than loans to comparable white borrowers?
- Why do high income minorities have such high subprime rates? Can this possibly be explained by credit issues?
- Were minorities targeted more than whites for high-interest rate loans? Were the interest rates charged justified by risk?

We have reviewed public records, included in this report that show as a random sampling from June 9 through June 13th and filings in Boulder County of Notice of Election and Demand 13/18 of those homes going into foreclosure are ARM loans. Four of those in foreclosure proceeding are of Spanish surnames.

Breakdown is as follows:

Exhibit 1.

Notice of Election and Demand Filed in Boulder County (Public Trustee Website)

City	Loan Amount	Type of Loan	Interest Rate	Recording Date	Sale Date
Jamestown	$26,970	C ARM	5.75	10/28/2002	10/8/2008
Longmont	$119,885	C ARM	6.02	5/3/2005	10/8/2008
Boulder	$121,989	C Fixed	7.5	6/1/1993	10/8/2008
Longmont	$123,815	C Fixed	6.0	8/10/2005	10/15/2008

Longmont	$137,090	C ARM	3.5	6/12/2003	10/15/2008
Longmont	$137,553	C Fixed	7.25	5/24/2001	10/15/2008
Longmont	$146,353	FHA ARM	4.5	12/30/2003	10/15/2008

Notice of Election and Demand Filed in Boulder County (Public Trustee Website)

City	Loan Amount	Type of Loan	Interest Rate	Recording Date	Sale Date
Longmont	$156,594	C ARM	6.75	4/15/2005	10/15/2008
Longmont	$174,872	FHA Fixed	6.38	3/3/2003	10/8/2008
Allenspark	$194,333	C Fixed	6.13	4/9/2003	10/8/2008
Lafayette	$206,263	C ARM	2.0	1/10/2007	10/8/2008
Longmont	$246,179	C ARM	4.75	11/4/2002	10/8/2008
Boulder	$295,325	C ARM	5.12	3/25/2005	10/15/2008
Louisville	$335,895	C ARM	10.05	1/24/2007	10/8/2008
Jamestown	$435,294	C ARM	5.53	6/24/2005	10/15/2008
Boulder	$520,250	C ARM	6.25	11/30/2005	10/15/2008
Boulder	$555,514	C ARM	3.88	5/26/2004	10/15/2008
Longmont	$566,742	C ARM	7.38	2/21/2006	10/15/2008

One method of surveying community members on possibility of discriminatory and predatory loans would be to create a random sample of NED filings from the last 6-12 months and request to meet with them for surveying. Use of the filing report will be examined more to determine feasibility. The one week of sampling for one county shows that the scope of homeowners is truly dynamic as far as length of time in financing and types of financed loans that are now going into default. This examination demonstrates that sub-prime loans are just one facet of the crisis of property owners letting their properties go.

Due to the fact that a majority of real estate professionals have come into contact with the buyers and sellers who are now in predicaments with some of these loans, we feel it makes sense to work with those agencies directly.

A method to work with Realtors would be to host an informational meeting with each board office- Longmont Association of Realtors, Loveland Berthoud Association of Realtors, Estes Park, and the Greeley Board of Realtors. Stewart Title Company has offered to sponsor events for real estate professionals and assist with locations, marketing and hosting of meetings at no cost. The purpose of meetings would be to educate real estate professionals on initial research findings from BBC and ask for referrals of past or current clients to interview. We know that the industry is large yet communities work together and it is probable that a Realtor will be able to help us identify housing counseling agencies, lenders, bankers, mortgage brokers and others involved in the real estate practice that can lead us to other referral opportunities.

Longmont as a community has proven to be truly unique in its ability to collaborate with city government, community and agency work in many areas. One of the strongest examples of that is through the City of Longmont's Multicultural Action Committee. This group that was formed in 2002 has a housing task force that is currently addressing predatory lending. This group is well connected with community volunteers that are highly connected in the Latino community.

The third method that we will use to reach out to community is a grassroots approach. We are contacting organizations that are already in contact with people who may be losing their homes or getting close to foreclosure from bad loans. We will be requesting meetings with their memberships to educate them about the results of this research and will ask to distribute surveys at any group meetings that they are already hosting, have planned through the month of September. Our goal will be to meet with at least 2 agencies per week starting August 15th of which our first survey meeting is scheduled at Spangler Elementary School in Longmont.

Scope of Project Work

During the months of July-October 2008, City of Longmont Office of Community Relations oversaw the project to collect data and educate the community regarding predatory and discriminatory lending in Boulder County area as well as greater Northern Colorado.

The following community agencies, organizations and non-profits were communicated with regarding this study and the work being done locally to look for survey participants:

- City of Longmont Multicultural Action Committee Housing Task Force
- El Comite de Longmont
- OUR Center
- Intercambio de Comunidades
- Boulder County Housing Authority
- Longmont Housing Authority
- Thistle Community Housing
- Northern Colorado Credit Counseling Services
- Boulder County Latino Task Force
- Longmont Association of Realtors
- Loveland Berthoud Association of Realtors
- Stewart Title Company-Fort Collins
- Weld County Latina Luncheon Network

- Weld County Foreclosure Task Force
- Larimer County Foreclosure Task Force
- Spangler Elementary PTO, Longmont
- Heritage Middle School families, Longmont
- Skyline High School families, Longmont
- CENTURY 21 Humpal, Loveland
- Legacy Real Estate, Longmont
- Tailor Made Real Estate, Longmont
- Prudential Real Estate, Longmont
- ERA Tradewind Real Estate, Longmont
- Wanda Ferguson, Challenge West Realty, Longmont
- Real Estate of the Rockies, Longmont
- Colorado Association of Hispanic Real Estate Professionals

Primary Obstacles to Survey Participation, Completion or Return

- Borrowers in housing counseling were looking for solutions and were not interested in completing more paperwork than required for "fix" of loan.
- Borrowers were not willing to "rat out" bad lenders and afraid of repercussion against them and their families.
- Spanish speaking borrowers did not want to give data for fear of investigation of legal status, documents etc once they realized that fraud on part of lender may have been involved

Outreach activities involved a 3 prong approach of targeting community, housing professionals and non-profit agencies already working within the community.

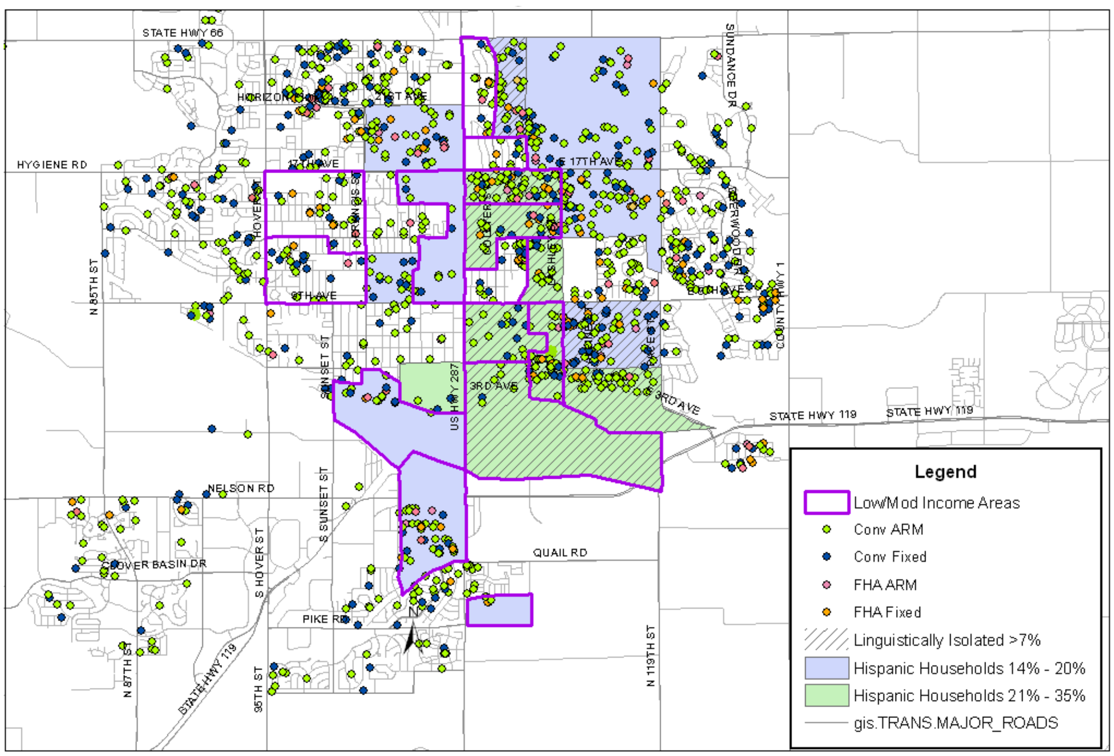
Community outreach. A variety of sessions were held at Spangler Elementary in Longmont inviting families in a predominantly Spanish speaking area of Longmont. Morning event- CAFECITO was hosted in the morning with breakfast breads and coffee to discuss the survey as well as distribute flyers from housing counselors, City services information and NUESTRO BARRIO-a Freddie Mac produced financial literacy family film. These events were hosted in the morning, after school and evenings on a monthly basis from June through February 2009.

Findings. During the community events we had attendance from 0-20 and had interest levels and conversation that included distribution and on-site completion of surveys as well as review of loan documents at the school. What we learned most from this format was the connection that is welcome from families who are looking for resources, collaboration and the needs of monolingual Spanish speakers that still exist for language barriers. We were told that many of these families had family or colleagues at work that had already lost their homes due to bad loans or were in the process and were trying to find rental options. The ongoing research should include a resource guide for displaced families of this foreclosure crisis.

Housing professionals outreach. We spoke with the Longmont Association of Realtors, Loveland Berthoud Association of Realtors, Fort Collins Board of Realtors and let them know about the project. Real Estate Associations have membership defined as Realtors (members of the National Association of Realtors as well as their local board as well as Affiliates that are industry related companies and involved in all aspects of a real estate transaction). We invited all 3 boards and their members to participate in the 3 sessions that were held in Longmont and Loveland. We believe that agents, bankers, lenders, title insurance companies, insurance agents; are parties all affected by this crisis and know who the borrower in difficult loans are. Our hope is to receive referrals directly from those agencies to complete more surveys in the next couple of months. Discussion about the initial BBC Research was shared, an update on findings in our areas, CCRD presentation was given and request for assistance in finding community members to participate in the survey.

Findings. We have not received any direct referrals from agents, lenders, bankers, housing counselors for survey participation. The education and conversation at each panel made it clear that housing professionals were not aware of the impact that subprime loans has had on minority communities in Colorado. Because Longmont has a higher percentage of monolingual Spanish speakers we thought it important to show relevance in Boulder County.

Exhibit 2.
Foreclosures Filed, Longmont, 2006-2008



A critical finding from a Longmont session addressed a new construction subdivision in Boulder County named Idaho Creek. One of the real estate agents that attended an informational session indicated that there may have been discrimination in home sales for this area. This subdivision currently has property for sale at $124,900 on a home that was sold in 2002 for $179,400. Another property in that subdivision was just listed by HUD for $130,000, is under contract (MCBREO.com) for $132,000 and was sold in 2003 for $174,047.

The dialogue between the Colorado Civil Rights Division, Real Estate Division and practitioners themselves may prove critical to the ongoing research on similar studies. We believe that there are hotbeds throughout Colorado that can be identified by those who have been working with property owners around the state.

Non-profit Agency outreach. The sessions that were held with non-profit agencies ranged from attending community events hosted by other agencies doing outreach in the community to presenting to smaller groups that had partners in housing industry already at the table. For example, we presented to the Weld County Foreclosure Task Force to inform them of the study and work that is being done. This particular group is approximately 40 volunteers who meet monthly at the United Way offices in Greeley and were working on outreach methods to address foreclosure. A brief presentation of findings, CCRD brochures were distributed as well as explanation of the survey and request to be contacted with any referrals of survey participants.

Findings. This method was used most successfully to let others working within community agencies know about the project and have contact information to pass along if a potential survey client appeared during that agency's own work. During this process we were connected with a few housing counselors that we had not previously reached out to and have pushed the information out further than just Boulder County.

Personal Stories

All the potential survey clients were Spanish speakers. I spoke with one homeowner in Longmont who shared his story of having purchased his home 5 years ago in Longmont with an FHA loan. He originally had a fixed loan with a 3 year buy-down (rate that would allow him to qualify and would stop adjusting after 3 years while the interest rate was lowered substantially to accommodate his new home payment). Almost 3 years ago his brother who bought the home with him was injured in a soccer game and broke his foot. The medical bills were over $10,000 and they heard about a local mortgage broker who had "great programs and could get a substantial amount of cash with a refinance." The broker did not lie to borrowers about change of payments on their loan but assured them that he would refinance the loan after the 2 year interest only period and put them into a fixed loan. He repeatedly advised them this was the only way to pay their medical bills, telling them "not to worry," "trust him", "only way to help the brother." When they purchased their home the loan payment was total PITI of $1200. The last payment adjusted with 2 loans, insurance and taxes being paid separately total over $2300/month. They worked with Boulder County Housing Authority for over 10 months to try and have the bank modify the loan. The sale date for foreclosure is December 10, 2008 and they are scrambling now to find a rental property that will allow the 2 families to reside.

Another woman who resides in Longmont and is carrying the burden for her parents who are also monolingual Spanish speakers. They have a great FHA loan but have lost income and jobs since they purchased their home in 2003. The father is the only one that receives disability and the daughter has since had 2 children and is struggling to take care of her kids, physically ailing mother who has been diagnosed with diabetes and is undergoing dialysis and other treatments. The daughter has been trying to carry a financial burden while her parents don't know what is going on. Her car has been repossessed. The bank issued a sale date of October 2008, we referred her to Boulder County Housing Authority but she was told it was too late to make any amendments. She was persistent and although her home is currently valued at less than she owes, they are determined to keep the home and through her own persistence was able to get a partial payment claim, will have to pay back the estimated $12,000 in back payments and is starting a new 30 year loan, but will not lose her Longmont home.

Conclusion

After meeting with families that are losing their homes, sitting with grown men who finally break down and cry in shame and despair, we have seen the need for assistance and continued education about financial wealth and in particular mortgage products and the mortgage lending process.

According to The NEIGHBORWORKS Congressional Update dated September 15, 2008:

> *"The percentage of mortgage loans in foreclosure nationally, according to Mortgage Bankers Association (MBA) June 2008 data, has almost doubled, increasing from 1.4 percent to 2.8 percent of outstanding loans between the second quarters of 2007 and 2008 (MBA allowed participants to report what they consider to be their prime and subprime servicing portfolio, since internal servicing guidelines vary.) Subprime loans were much more likely to be in foreclosure than other types of loans. The percentage of subprime loans in foreclosure increased from 5.5 percent to 11.8 percent over this same period."*

Nationally homeownership rates showed, as mortgage products changed, opportunities to finance 100 percent became more readily available; qualifying for mortgage products became more lenient. Still a disparity of homeownership among racial categories shows below:

Exhibit 3.
Homeownership by Race/Ethnicity and Age Cohort, 1995 and 2006

Source:
Harvard Joint Center for Housing Studies and U.S. Census Bureau, Housing Vacancy Survey. BBC Report Heidi Aggeler.

	1995	2006	Percentage Point Change
All Households	**64.7%**	**68.8%**	**4.1%**
Age			
Under 35	38.6%	42.6%	4.0%
35-44	65.2%	68.9%	3.7%
45-54	75.2%	76.2%	1.0%
55-64	79.5%	80.9%	1.4%
65-74	80.9%	82.7%	1.8%
75 or Over	74.6%	79.1%	4.5%
Race/ Ethnicity			
African American	42.9%	48.4%	5.4%
Asian/ Other	51.5%	60.8%	9.3%
Hispanic	42.0%	49.7%	7.7%
All Minority	43.7%	51.3%	7.6%
White	70.9%	75.8%	4.9%

As the Colorado Association of Hispanic Real Estate Professionals mission is working to address sustainable homeownership, communities of color have predominately been left out of the homeownership opportunity. We see now that those numbers have increased and at the same time been targeted, taken advantage of and are now losing the properties. Concerns of long term community development, displacement of families and the effects of this sub-prime mortgage crisis are just beginning.

The general community needs financial assistance, financial guidance, financial education and we feel that there are other cases out there that need to be found. We hope that although our retrieval of completed surveys themselves weren't as many as we had worked for, the education of this process and presence of Colorado Civil Rights has grown throughout Boulder County and Northern Colorado. During our sessions with housing professionals, several comments about how to regulate the process were brought up. Housing professionals want to be involved in the discussions of consumer protection and appeared genuinely glad to see work that was going on in Boulder County in particular.

We still believe that the consumer responsibility aspect is to be addressed. Some suggestions have been creating home ownership and financial literacy as requirements as soon as middle school and high school. HUD grants funding for programs in our congressional district and locally we have the ability to require financial literacy courses to all first time buyers. The practitioners as well as banks and lenders would have to support this type of legislation or requirement but it seems when reviewing data that we may need to bring property owners back to the initial sentiment they had when purchasing a home. There may be an incentive that some investors used to offer to reduce rates after a certain amount of timely payments. It may be that one more disclosure would be signed by all parties when an offer is presented that the buyer understands the terms of financing, has taken a pre-purchase course and is prepared to commit to a long term financial obligation.

As I spoke to a homeowner in an interview and he assured me that what happened with the loan he knows he should have investigated more. The lender was telling him what he wanted to hear at that moment and now he simply needs help. He is trying to move on with his life and get his family into a temporary situation before the bank comes and locks his personal belongings out of what used to be his home. My sincere hope is that as a community we put new practices into place to avoid such pain and displacement in the future.

Pueblo Human Relations Commission

Mission

PHRC is a 501(c)(3) nonprofit organization. HRC was founded in 2001 with the mission to enhance our community's ability to celebrate diversity. We serve as a catalyst in promoting mutual understanding, respect, dignity, and equal opportunity for all. We work to prevent and resolve community conflicts and tensions arising from actions, policies and practices perceived to be discriminatory on the basis of not only race but also creed, color, disability, gender, sexual orientation, religion and national origin.

Organizational Background

Formation of the Pueblo Human Relations Commission was the result of a community summit on race relations attended by more than 200 participants in 1998. Never before had Pueblo established a systematic approach by any arm of government to listen to the concerns of its minority groups with respect to the underlying root causes and character of discrimination, prejudice, hatred, and exclusion perpetrated against a group simply because of their race, color, religion, national origin/ancestry, sexual orientation, disability, gender, or age.

- In 2004, HRC began its work with Pueblo City Schools to address the public's concerns regarding the drop-out rate of local high school students. The result was a series of professional development trainings for teachers and administrators, and ongoing dialogue that has fostered better relations with both entities.
- In late 2004, HRC investigated the concerns raised regarding local law enforcement's use of tasers in our community. Working closely with Police Chief Jim Billings, a new taser policy was implemented by the local police department in October 2004.
- In early 2005, Pueblo's east side community was in crisis. Members of the community approached the Human Relations Commission to request that this agency hold multiple forums addressing the relations between law enforcement and the community. The result of this forum was the development of a Spanish language Citizen's Academy.
- In 2006, the Pueblo Human Relations Commission convened a stakeholders group to discuss Police – Community Relations. This stakeholders group was instrumental in ensuring that the Pueblo Police Department's policies and procedures are available on their web site and that those same policies and procedures are available at Pueblo's various libraries.

Community Background

The City of Pueblo is an American "rust-belt" city that has suffered great economic hardship, largely spurred by the decline of the city's major industries in the 1970s and 1980s. Pueblo's median income is far below the national average, and the majority of the population is comprised of working poor families. The HRC assists individuals city-wide, however, it anticipates that most participants will reside in Pueblo's "Y" Zone, an area of the city that dates back to the mid 1960's when a detailed assessment of the incidence of poverty and blight in Pueblo was conducted in conjunction with the Federal "War on Poverty" program. The "Y" Zone has been resistant to change with little improvement in the poverty rate over time. It is in this "Y" Zone that most of HRC's Predatory Lending clients reside – particularly in Pueblo's Bessemer and East Side neighborhoods.

According to the Pueblo Association of Realtors, housing prices in Pueblo have remained fairly steady. The August 2008 median home sale price was $122,900. In many of Pueblo's neighborhoods, housing prices are far lower.

Foreclosure Prevention Program Objectives

- Act as a liaison between homeowners and the Colorado Civil Rights Division. Assist clients with filing appropriate forms with CCRD.
- Partner with local counseling agencies to conduct loan loss mitigation in an effort to exit predatory loans and/or refinance into more sustainable, lower-interest loans when that is an option;
- To assist the homeowner in planning an exit strategy into stable housing in cases where the homeowner does not wish to or cannot remain in the home;
- To maintain or increase neighborhood stability.
- To help homeowners address underlying issues such as employment or household debt that may affect successful homeownership in the long-term;

Program Information

Of course, foreclosure is all about losing – both homeowners and lenders are faced with this loss. If homeowners understand that they must maintain contact with their lender if they fall behind on their mortgage payment or if they are aware of the foreclosure process, they can usually save their home. The problem is that most people are afraid to pick up the telephone and contact their lender when they are struggling and they really don't understand the cumbersome foreclosure process. Therefore, they are at a disadvantage from the beginning in this struggle with their lender.

In 2008 the Pueblo Human Relations Commission received a grant from the Colorado Civil Rights Division to conduct outreach and public education programs directed toward individuals who have lost their home or who are in danger of losing their homes to foreclosure. PHRC developed a comprehensive program that includes the following components:

One-on-one analysis of loan documents. PHRC staff reviews the client's loan documents, appraisal documents and other correspondence to determine the individualized needs of each client, provides information on resources located within the

Pueblo community, and assists the clients in completion of paperwork necessary to submit to the Colorado Civil Rights Division

Referral to counseling agency. PHRC contracted with two HUD-approved counseling agencies, Catholic Charities and Consumer Credit Counseling Center, to provide intensive budget and debt management counseling to analyze each individual's situation, identification of resources to address the situation, and loan loss mitigation.

Coordination of Other Service Activities

When an individual falls behind on their mortgage payment, they typically have fallen behind on other essentials such as utilities, credit cards and the like. PHRC staff provides referral to programs available such as LEAP, WIC and other services that are available through community nonprofit organizations.

Exhibit 1.
Outreach Activities

Activity	Due Date
Attend kick-off meeting in Denver	May 21, 2008
Review intake (survey) form and offer suggestions	May 27, 2008
Hold meeting with Wendell Pryor to discuss goals, reporting requirements, and program logistics	June 2, 2008
Present milestones plan to Commissioners at regularly scheduled HRC meeting. Request that Commissioners provide a list of their contacts to attend the first Focus Group meeting. The purpose of this meeting is to get a community assessment of the predatory lending problem in Pueblo and to develop a referral system. Potential Focus Group participants should include: • Appraisers • CHFA • Counseling Agencies • Department of Social Services • District Attorney • Division of Real Estate • Elected Officials • Greater Pueblo Chamber of Commerce • Judge Raes • Latino Chamber • Law firms that handle foreclosures • Lenders • PEDCO • Pueblo Association of Realtors • Realtors	June 4, 2008
Research census tract information to identify targeted neighborhoods to have fliers delivered to	June 11, 2008
Submit PSA to local public television station	June 25, 2008
Hold Focus Group meeting. Review presentation, request presenters at forums, request that counseling agencies and groups that can provide assistance set up tables at the forum and schedule one-on-one meetings	July 9, 2008

Activity	Due Date
Drop off fliers at Art on South Main for distribution at their First Friday Art Walk	July 17, 2008
Begin flier delivery to areas based on prevalence of foreclosures in various census tracts	July 14, 2008
Distribute fliers at Farmers Market Festival	July 17, 2008
Begin advertisements in local newspapers	July 19, 2008

Outreach Activities

Activity	Due Date
Schedule time on morning talk radio with Lee Roberts	July 17, 2008
Submit PSA's to local television, radio, and newspaper (include Otero County).	July 24, 2008
Submit request to appear on KOAA nonprofit morning news coffee break time	August 1, 2008
Request list of nonprofits that have booths at the Colorado State Fair	August 1, 2008
Hold first forum at Pueblo Convention Center.	August 2, 2008
Discuss critique of forum with HRC Commissioners at HRC meeting	August 6, 2008
Distribute fliers at Pueblo Gay Pride Parade	August 16, 2008
Submit PSA's to local television, radio, and newspaper (include Otero County).	September 3, 2008
Second forum at Rawlings Library	September 10, 2008
Speak to Bessemer community at Bessemer Association for Neighborhood Development community meeting	September 13, 2008
Distribute fliers at Chile & Frijoles Festival	September 20, 2008
Distribute 1,000 fliers to targeted Bessemer neighborhood	October 1, 2008
Submit PSA's to local television, radio, and newspaper (include Otero County).	October 1, 2008
Advise Fair Housing Task Force members of foreclosure prevention activities and accomplishments	October 6, 2008
Third forum at Bessemer Historical Society	October 9, 2008
Determine if goals regarding participation have been met	October 17, 2008
Advise Pueblo's City Council members of foreclosure prevention activities and program accomplishments	November 3, 2008

Activity	Due Date
Distribute fliers at St. Peter's Church Angel Auction	November 8, 2008
Distribute fliers along Northern Avenue	November 22, 2008
Distribute fliers at Pueblo Suicide Prevention Walk-a-thon	December 6, 2008
Distribute fliers at Eastwood Heights neighborhood meeting	December 20, 2008

Outcomes

1. PHRC held one stakeholders group meeting, attracting 30 individuals from Pueblo's real estate, nonprofit, counseling agencies, and business community. The purpose of this meeting was to introduce this program to the community and get their feedback on the situation within our community.

2. PHRC established a relationship with one local news agency that provided coverage of events throughout the duration of the program.

3. PHRC distributed 2,000 fliers regarding this program throughout the community and at community events.

4. PHRC, in partnership with two local counseling agencies, held three forums, attracting 85 individuals from throughout the community.

5. PHRC staff met individually with 48 families hoping to learn about the circumstances that brought them to foreclosure. PHRC obtained copies of loan documents and related materials that were then forwarded to the Division of Real Estate.

6. Because of PHRC's involvement and the involvement of the local counseling agencies, four homes were saved from foreclosure.

The Effects of Foreclosure on the Community

Vacant, dilapidated homes. Uncared for lawns. Utilities that have been shut off leaving pipes to freeze and even more extensive damage to a home that's already seen better days. In 2007 Pueblo County filed 1,504 foreclosures, four times the number filed in 2000. To put it in perspective, in 2007, every day in Pueblo County four to five families lost their homes to foreclosure. In Pueblo, you need just drive down any of the streets in our "Y Zone" to see the effects of foreclosure. With foreclosures setting record numbers in recent years, more houses are vacant and susceptible to damage. According to the Pueblo Chieftain, our local police department has fielded numerous reports during the past year of copper plumbing being stolen from vacant homes, as well as "squatting" by people who are not authorized to occupy houses. One witness reported that the interior of a home that burned on Cypress Street last week was littered with gang graffiti and alcohol bottles that suggested gangsters were using the unoccupied residence as a party shack.

City Councilman Ray Aguilera, a representative from Pueblo's Bessemer neighborhood knows the face of foreclosure and he's doing everything in his power to help families in his community as they deal with the devastating aftereffects of foreclosure. In addition to losing the equity they've built in their homes, families who lose their homes suffer other adverse effects, including a damaged credit history. These setbacks mean that these families will be forced to pay more for any type of credit in the future. Even if they are able to avoid foreclosure, homeowners pay a heavy cost for being in default on their mortgage, including late fees, collection fees, and legal fees assessed.

According to Mr. Aguilera, "the Pueblo Human Relations Commission, in partnership with Catholic Charities and Consumer Credit Counseling has done an amazing job at spreading the word about predatory lending here in Pueblo. By partnering with two local counseling agencies, HRC was able to offer immediate assistance to families in the throes of the foreclosure process as well as referral of potential discriminatory predatory lenders to experts at the Colorado Civil Rights Division. HRC is a true grassroots organization that reaches out to the community to let them know of the programs and services that are available to each and every individual."

Success Stories

Mr. and Mrs. Sisneros were referred to PHRC by County Commissioner Anthony Nunez in mid-November 2008. The Sisneros' were inundated with medical bills and prescription costs. Mrs. Sisneros had just completed a dose of medication for her severe arthritis that for the past year had cost them nearly $500 each month out of their pocket. They had just received notice from the Colorado Housing and Finance Authority that their loan was in default and that they had only until December 6th to cure the default of nearly $4,000. Mr. Sisneros was literally in tears as he described his fear of losing his home and wondering where he and his wife could possibly find themselves. PHRC staff contacted CHFA's loan counseling department and explained the situation. After assisting the Sisneros' in writing their hardship letter, CHFA agreed to a repayment plan that moved the delinquent portion of the Sisneros' loan to the end of the loan period.

Another success story is that of Ms. Esquibel. Ms. Esquibel inherited her home after her father passed away in 2000. Seven years later, Ms. Esquibel applied for and received a home improvement loan to spruce up her aging home. Improvements included installation of new windows, a new heating system, and new carpet. The added expense of this new loan was simply too much for Ms. Esquibel's fixed income. After attending an HRC predatory lending forum, Ms. Esquibel was referred to a counselor at Catholic Charities. This counselor was able to negotiate her current loan, bringing her interest rate down from 9.8 percent to 8 percent resulting in a $200 decrease per month for her monthly payment.

Future Endeavors

The Pueblo Human Relations Commission is seeking funding to provide a multi-faceted improvement program that focuses heavily on counseling and partnerships with area institutions of higher learning, the local Housing Authority, private investors, businesses, and trade organizations.

Purchasing and rehabilitating vacant properties. Utilizing Division of Housing funds, HRC will purchase vacant properties and will then partner with qualified licensed, bonded, and insured contractors to oversee the hands-on construction component of this program. HRC will work with area realtors and the Pueblo County Assessor to ensure that the housing costs of these vacant properties are in line with the property value.

Partnership with area colleges and universities. Pueblo Community College (PCC) has agreed to partner on this project with PHRC. PCC will soon begin a new degree program, an Associate’s Degree in Construction Trades. Students from Pueblo Community College will rotate through assigned tasks as they perfect the various aspects of construction including masonry, the structural integrity of homes, painting, etc. to allow for varied training opportunities. Because of the certifications necessary, students will not work hands-on with plumbing, heating or wiring.

Pueblo Housing Authority. PHRC will partner with the Pueblo Housing Authority (PHA) to implement a Section 8 Homeownership Program. The Department of Housing and Urban Development’s (HUD’s) Section 8 Program, which had once been used to help low-income families afford market rate rental units by providing housing subsidies, now permits local public housing authorities that administer the Section 8 Program to provide a homeownership option. This allows families approved for Section 8 to use their Section 8 subsidy for rental housing or for homeownership. In essence, this program transitions these families from become tax receivers to tax payers.

Housing counseling. HRC will partner with local counseling agencies to offer interactive financial education training that concentrates heavily on establishing credit, checking accounts, and savings accounts. Topics such as building and sustaining assets, creating a financial plan as well as good spending and savings strategies, building and managing credit and debt, investment options, identifying personal financial goals and creating an action plan. Outside representatives from local lending institutions, social service agencies, and job placement agencies will provide information on the various services available to the students.

Home purchase. PHRC has recruited a private investor to provide financing at a competitive rate and reasonable terms for these buyers. Once a client has completed their intensive financial education training, they are then qualified to purchase a home. HRC will work with the homebuyer to ensure that their real estate transaction is smooth and that the homebuyer understands the contract.

Your home is your castle; it's also the most important and biggest single investment most families will ever make. Losing this investment is devastating. The Pueblo Human

Relations Commission is working to assist homeowners who are caught in the vicious cycle of choosing whether to pay their medical bills or their mortgage payment.

APPENDIX A.
HMDA Definitions

Below are a list of HMDA data variables and coded values. The HMDA data variables not included are those that have non-coded values that are not pre-defined (income, rate spread, etc.).

County Code

- 001 Adams County
- 003 Alamosa County
- 005 Arapahoe County
- 007 Archuleta County
- 009 Baca County
- 011 Bent County
- 013 Boulder County
- 014 Broomfield County
- 015 Chaffee County
- 017 Cheyenne County
- 019 Clear Creek County
- 021 Conejos County
- 023 Costilla County
- 025 Crowley County
- 027 Custer County
- 029 Delta County
- 031 Denver County
- 033 Dolores County
- 035 Douglas County
- 037 Eagle County
- 039 Elbert County
- 041 El Paso County
- 043 Fremont County
- 045 Garfield County
- 047 Gilpin County
- 049 Grand County
- 051 Gunnison County
- 053 Hinsdale County
- 055 Huerfano County
- 057 Jackson County
- 059 Jefferson County
- 061 Kiowa County
- 063 Kit Carson County
- 065 Lake County
- 067 La Plata County
- 069 Larimer County
- 071 Las Animas County
- 073 Lincoln County
- 075 Logan County
- 077 Mesa County
- 079 Mineral County
- 081 Moffat County
- 083 Montezuma County
- 085 Montrose County
- 087 Morgan County
- 089 Otero County
- 091 Ouray County
- 093 Park County
- 095 Phillips County
- 097 Pitkin County
- 099 Prowers County
- 101 Pueblo County
- 103 Rio Blanco County
- 105 Rio Grande County
- 107 Routt County
- 109 Saguache County
- 111 San Juan County
- 113 San Miguel County
- 115 Sedgwick County
- 117 Summit County
- 119 Teller County
- 121 Washington County
- 123 Weld County
- 125 Yuma County

MSA/MD ID
- 14500 = Boulder
- 17820 = Colorado Springs
- 19740 = Denver-Aurora
- 22660 = Fort Collins
- 24300 = Grand Junction
- 24540 = Greeley
- 39380 = Pueblo

Agency Code
- 1 = OCC
- 2 = Federal Reserve
- 3 = FDIC
- 4 = OTS
- 5 = NCUA

Loan Type
- 1 = Conventional
- 2 = FHA
- 3 = VA
- 4 = Farm Service/Rural Housing

Property Type
- 1 = 1-4 family
- 2 = Manufactured housing
- 3 = Multifamily

Loan Purpose
- 1 = Home purchase
- 2 = Home improvement
- 3 = Refinance

Preapproval
- 1 = Preapproval requested
- 2 = Preapproval not requested
- 3 = NA

Action Type
- 1 = Loan originated
- 2 = Approved but not accepted
- 3 = Denied
- 4 = Withdrawn
- 5 = File closed
- 6 = Loan purchased by institution
- 7 = Preapproval request denied by financial institution
- 8 = Preapproval request approved but not accepted

Ethnicity
- 1 = Hispanic
- 2 = Not Hispanic
- 3 = Not provided by applicant
- 4 or 5 = NA

Race
- 1 = American Indian or Alaskan Native
- 2 = Asian
- 3 = Black/African American
- 4 = Hawaiian
- 5 = White
- 6 = Not provided
- 7 = NA

Sex
- 1 = Male
- 2 = Female
- 3 = Not provided by applicant
- 4 or 5 = NA

Reason for denial
- 1 = Debt to income too high
- 2 = Employment
- 3 = Credit history
- 4 = Collateral
- 5 = Insufficient cash (down payment, closing costs)
- 6 = Unverifiable info
- 7 = Credit application incomplete
- 8 = Mortgage insurance denied
- 9 = Other

Lien Status
- 1 = First lien
- 2 = Subordinate lien
- 3 = No lien
- 4 = NA

Edit Status
- 5 = Validity failure edit
- 6 = Quality edit failure
- 7 = Validity and quality edit failure

The following are variables that were added to available HMDA data for the purposes of this analysis.

Subprime Flag (rate spread >3 for 1st lien loans and >5 for 2nd lien loans)
- 1 = subprime loan

Income Ranges
- 1 = < $25,000
- 2 = $25,000 - $49,000
- 3 = $50,000 - $74,000
- 4 = $75,000 - $99,000
- 5 = $100,000+

Super subprime Flag (rate spread >7 for 1st lien loans and >9 for 2nd lien loans)
- 1 = super subprime loan

Consolidated Race and Ethnicity (recode of race/ethnicity, ethnicity trumps race)
- 1 = White, non-Hispanic
- 2 = Black, non-Hispanic
- 3 = Asian, non-Hispanic
- 4 = American Indian/Alaskan Native, non-Hispanic
- 5 = Hawaiian, non-Hispanic
- 6 = Hispanic
- 7 = Race unidentified, non-Hispanic
- 8 = Multiracial (more than one race selected, Hispanic and non-Hispanic)

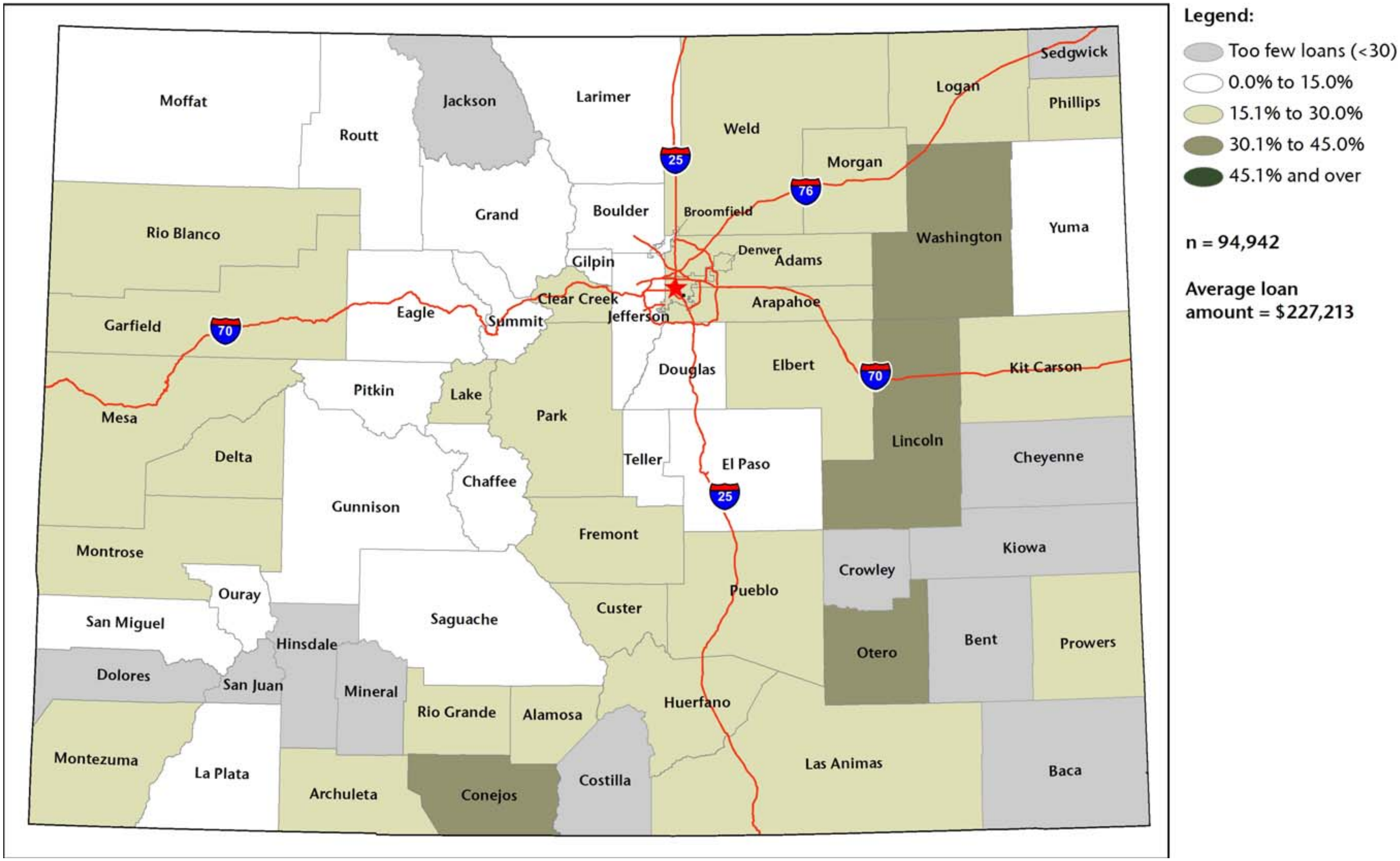
APPENDIX B.
Additional Charts and Maps

The following charts and maps provide additional detail on the HMDA data analysis conducted for Section III. They were not included in the main body of the report to keep the report at a manageable size. The analyses represented in the charts and maps, however, are included in the findings and conclusions of the report.

Exhibit B-1.
Percentage of All Loans that are Subprime, by County, 2006

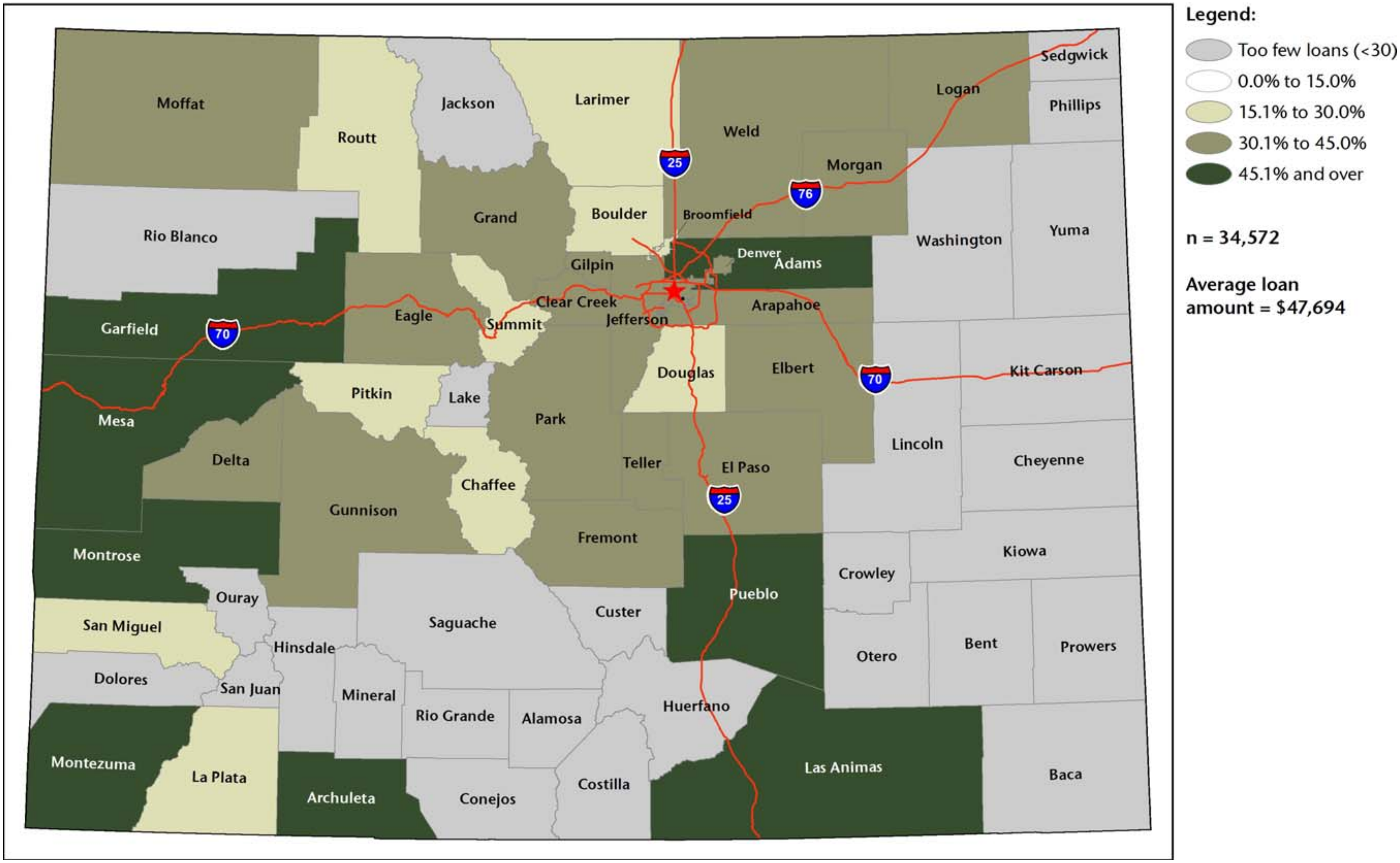
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-2.
Percentage of Purchase, 1st Lien Loans That Are Subprime, by County, 2006



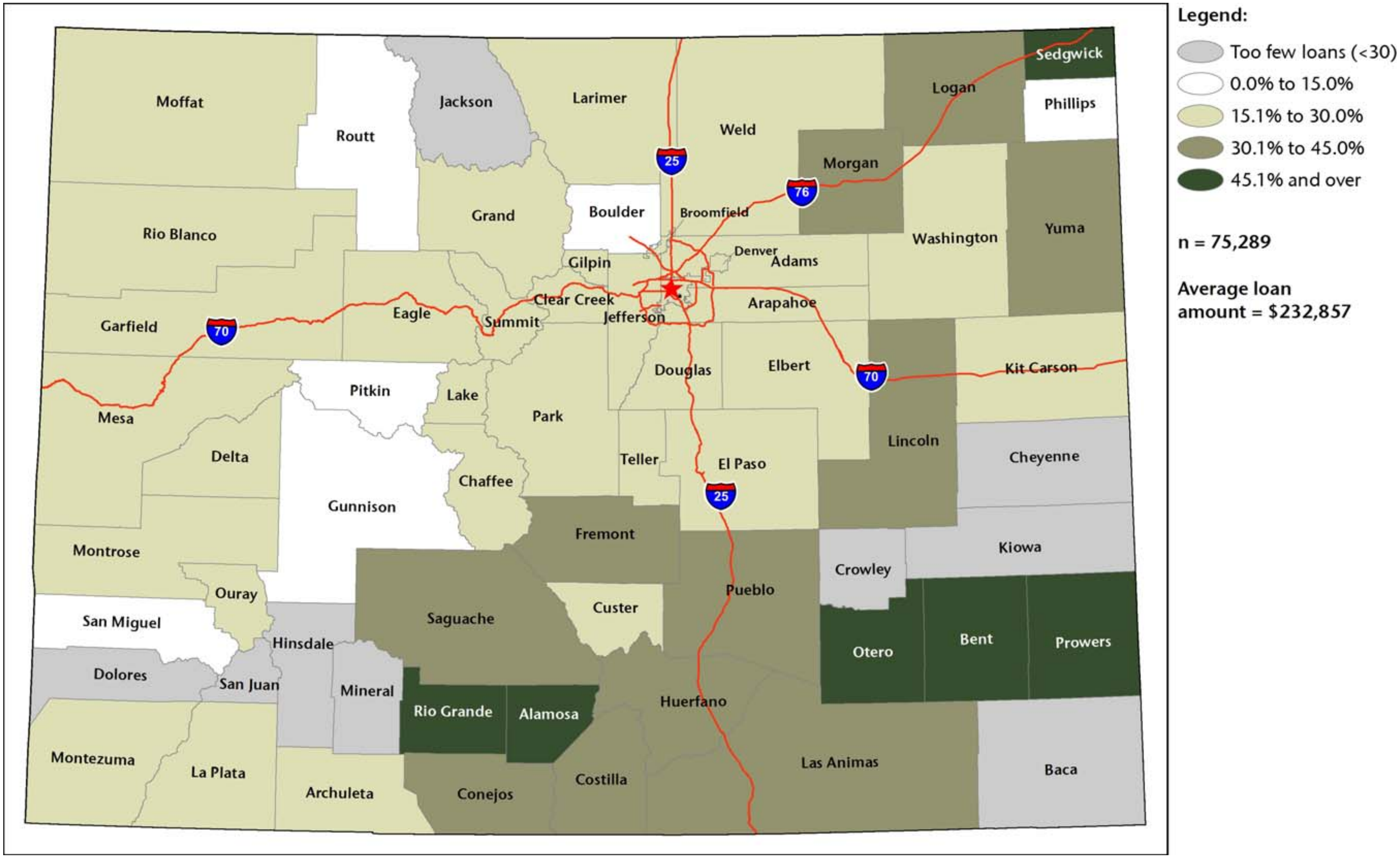
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-3.
Percentage of Purchase, 2nd Lien Loans That Are Subprime, by County, 2006



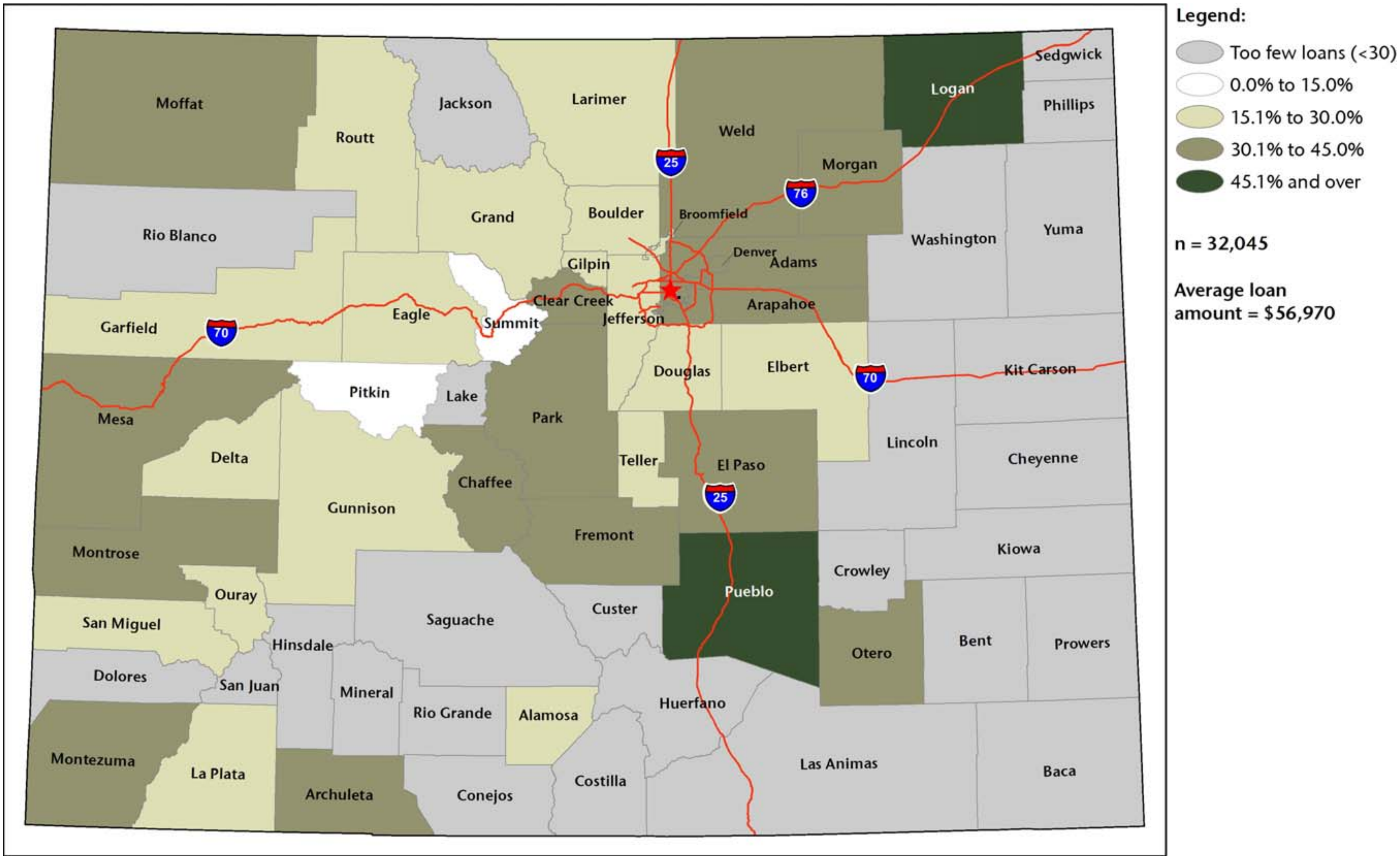
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-4.
Percentage of Refinance, 1st Lien Loans that are Subprime, by County, 2006



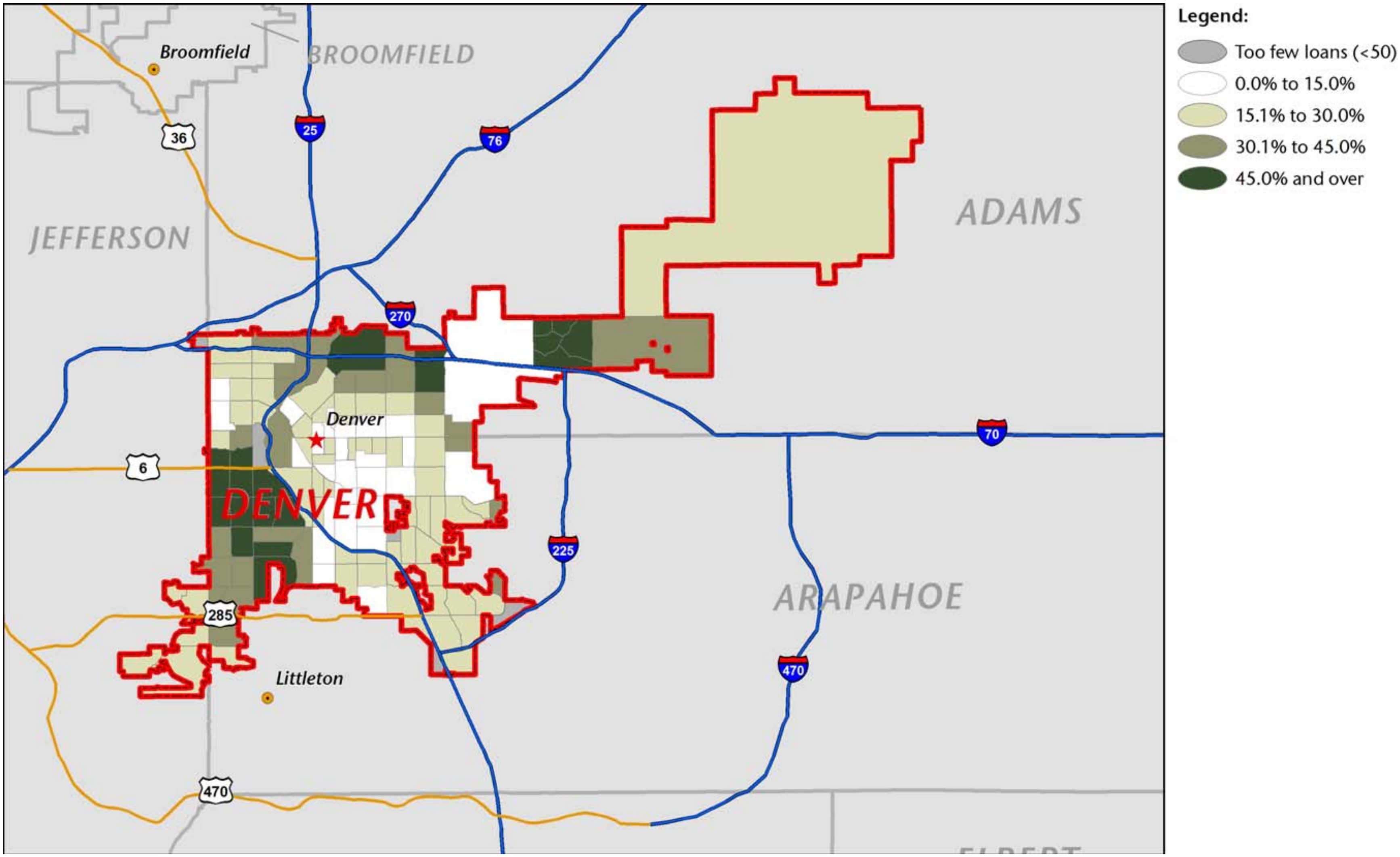
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-5.
Percentage of Refinance, 2nd Lien Loans that are Subprime, by County, 2006



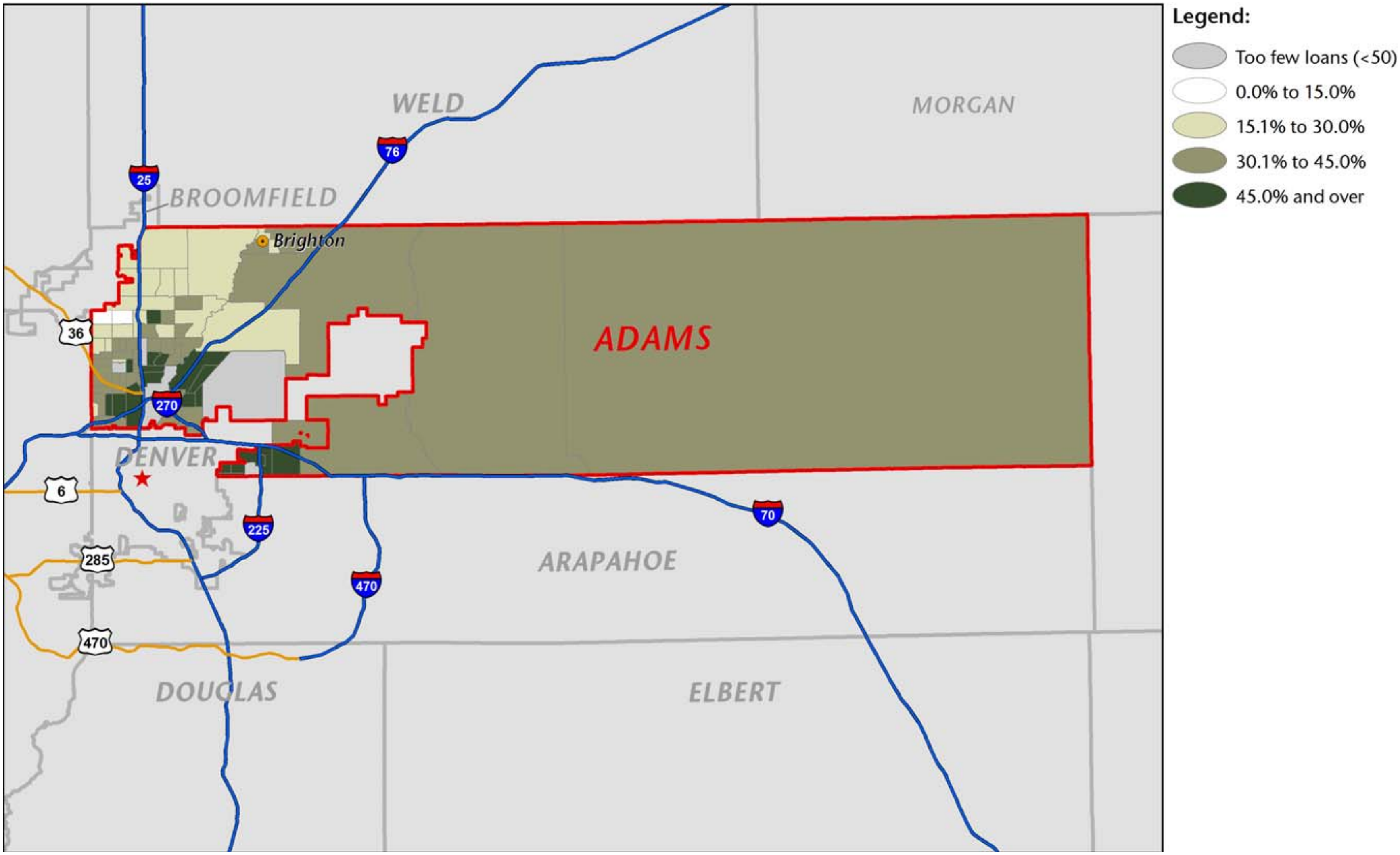
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-6.
Percentage of All Loans that are Subprime, Denver County, by Census Tract, 2006



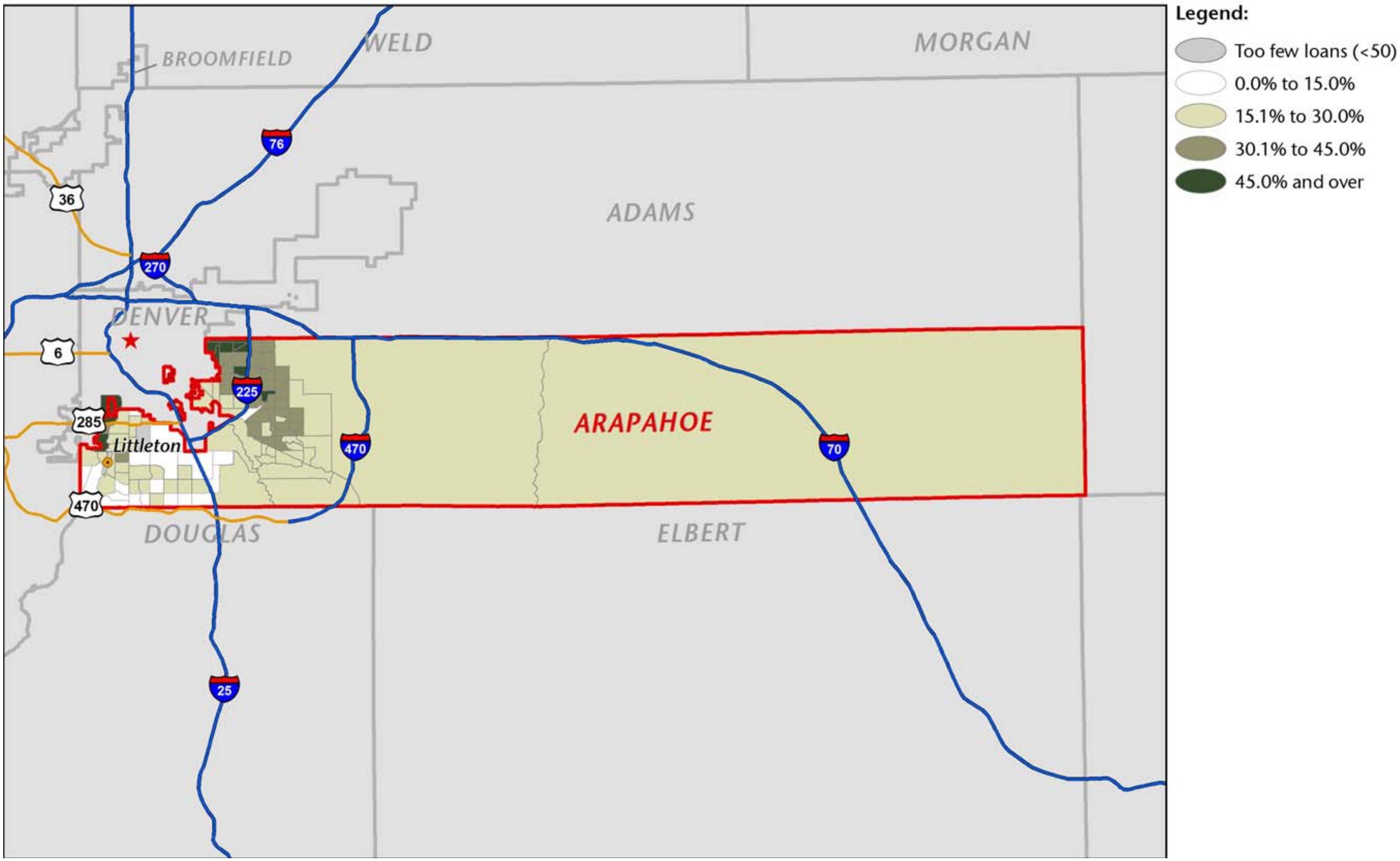
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-7.
Percentage of All Loans that are Subprime, Adams County, by Census Tract, 2006



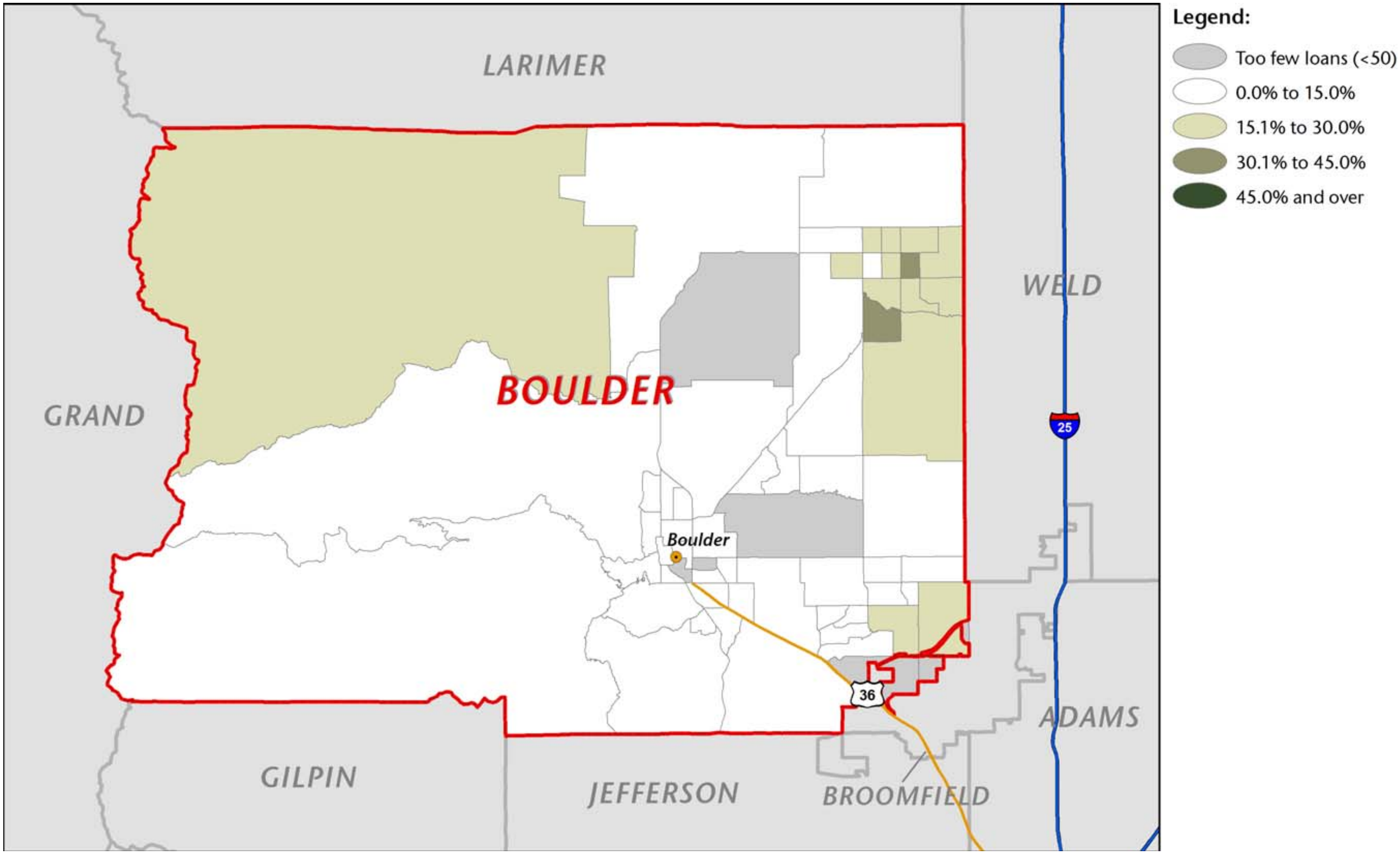
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-8.
Percentage of All Loans that are Subprime, Arapahoe County, by Census Tract, 2006



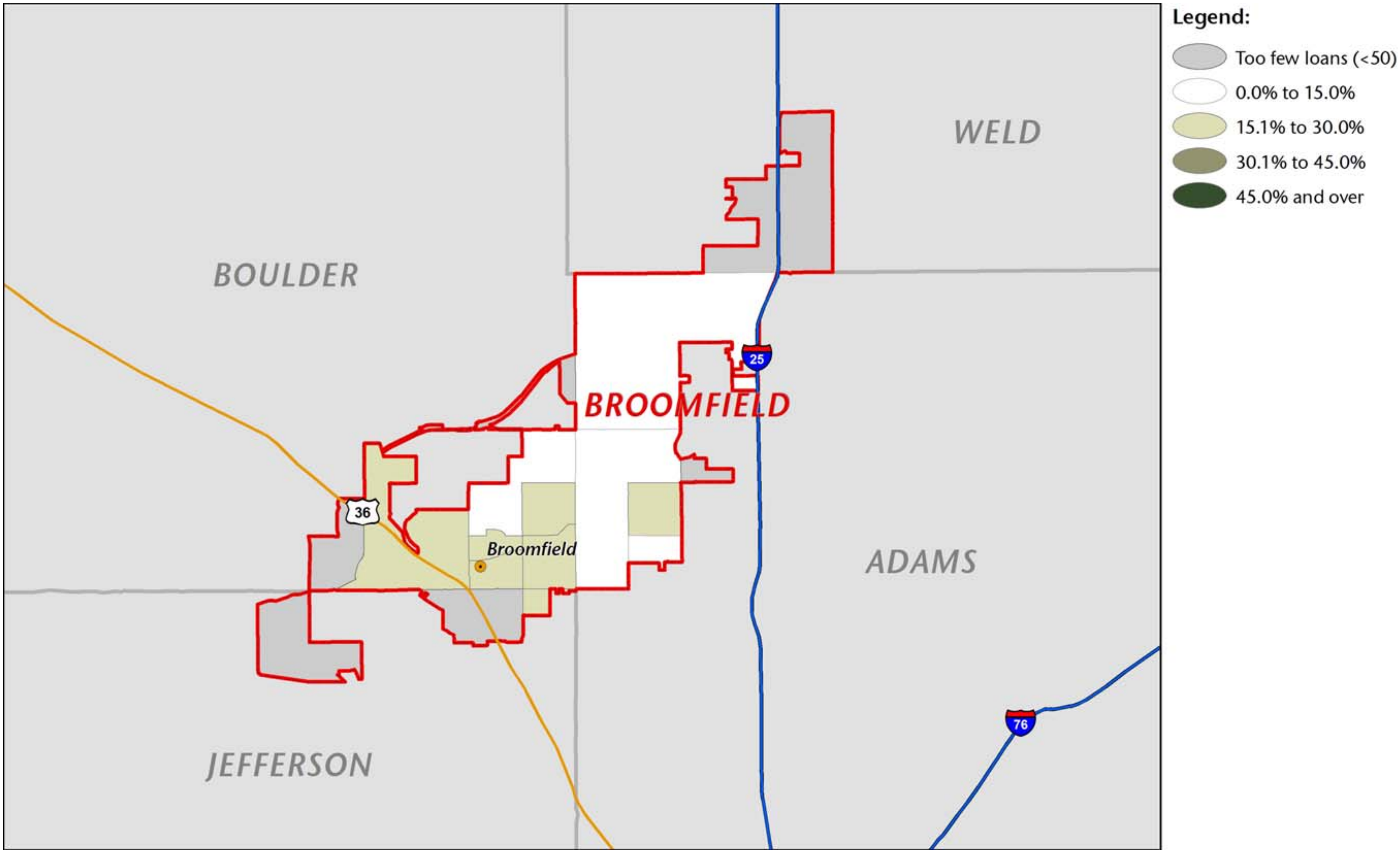
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-9.
Percentage of All Loans that are Subprime, Boulder County, by Census Tract, 2006



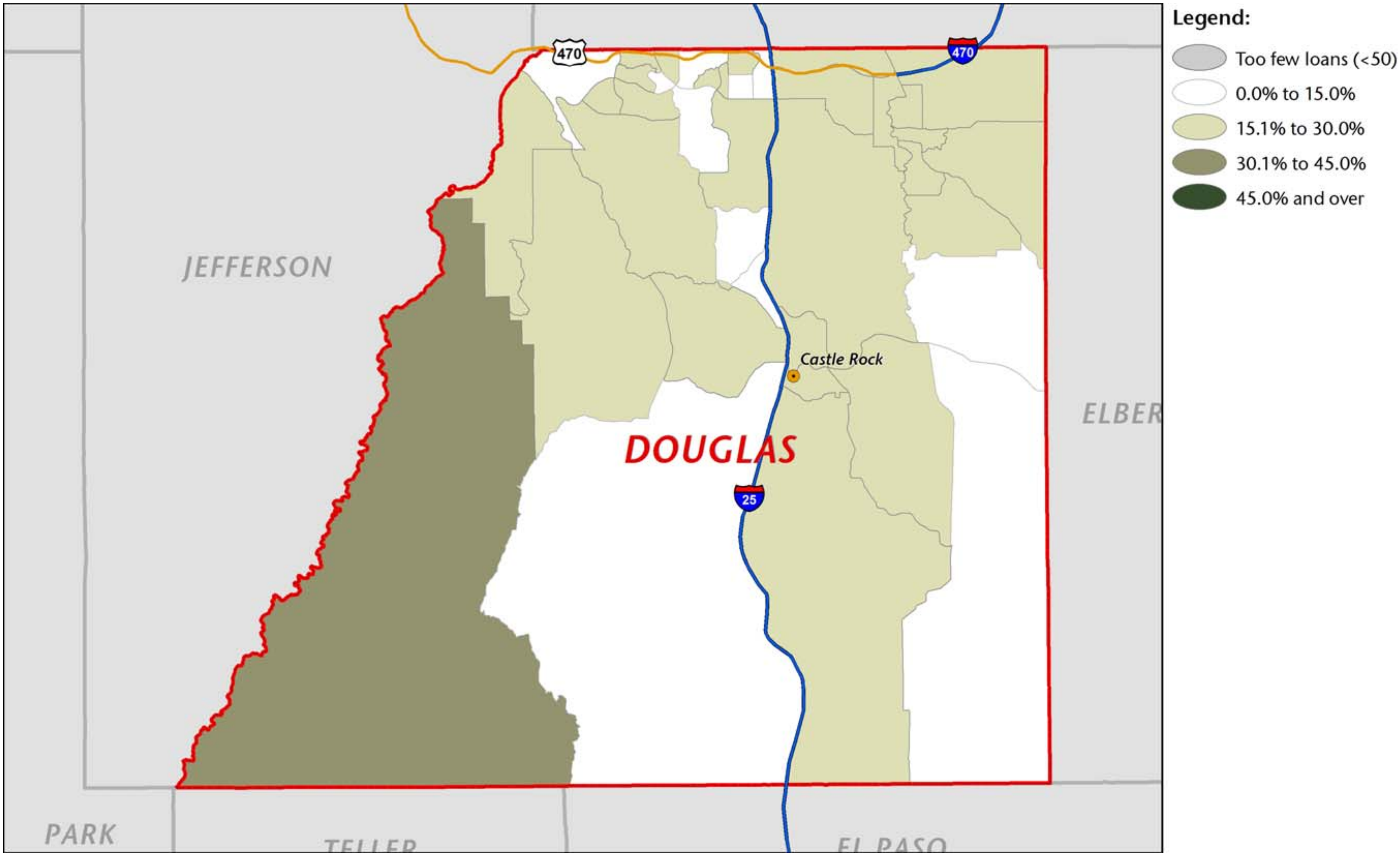
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-10.
Percentage of All Loans that are Subprime, Broomfield County, by Census Tract, 2006



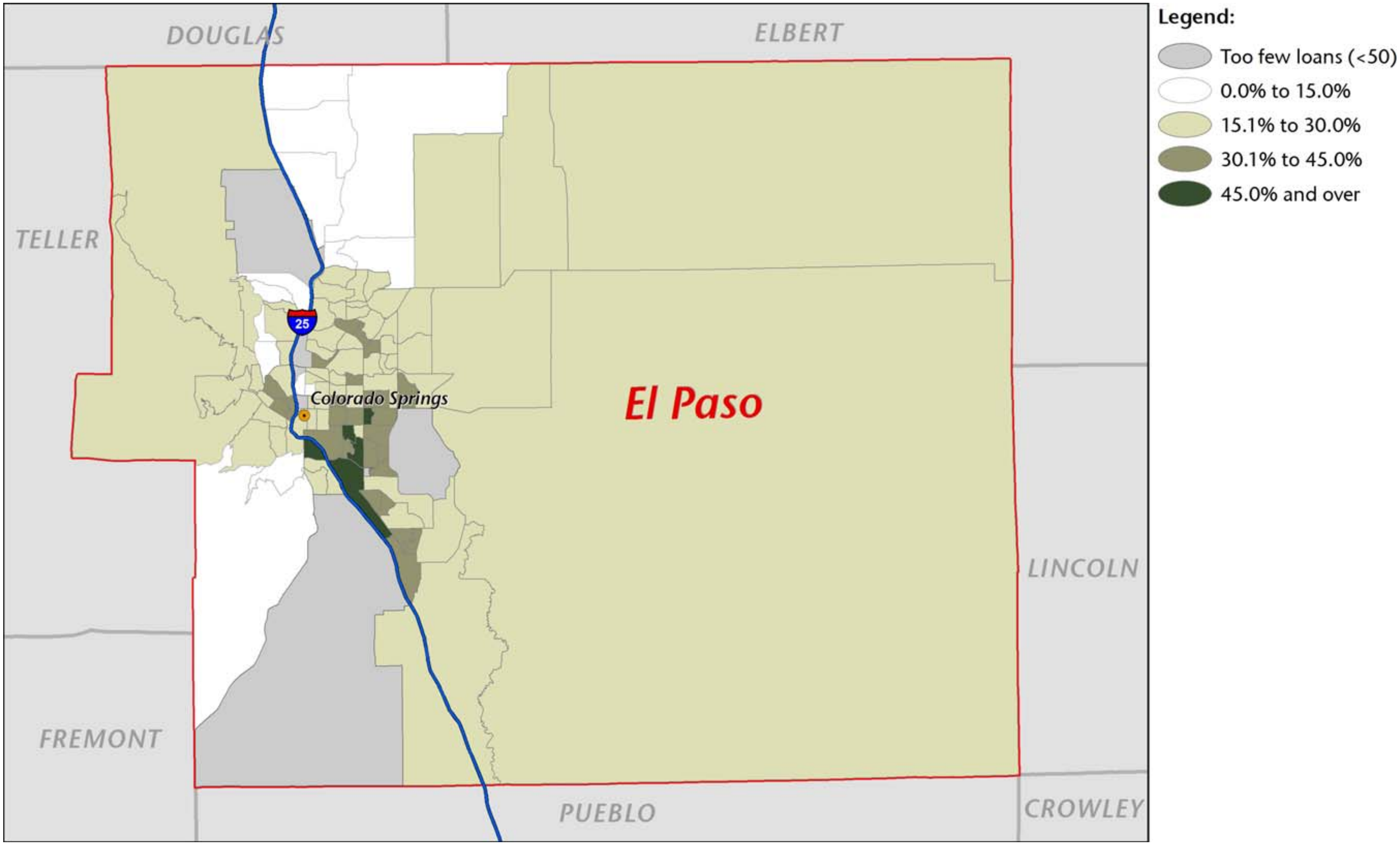
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-11.
Percentage of All Loans that are Subprime, Douglas County, by Census Tract, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-12.
Percentage of All Loans that are Subprime, El Paso County, by Census Tract, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-13.
Percentage of All Loans that are Subprime, Jefferson County, by Census Tract, 2006

Source:

2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

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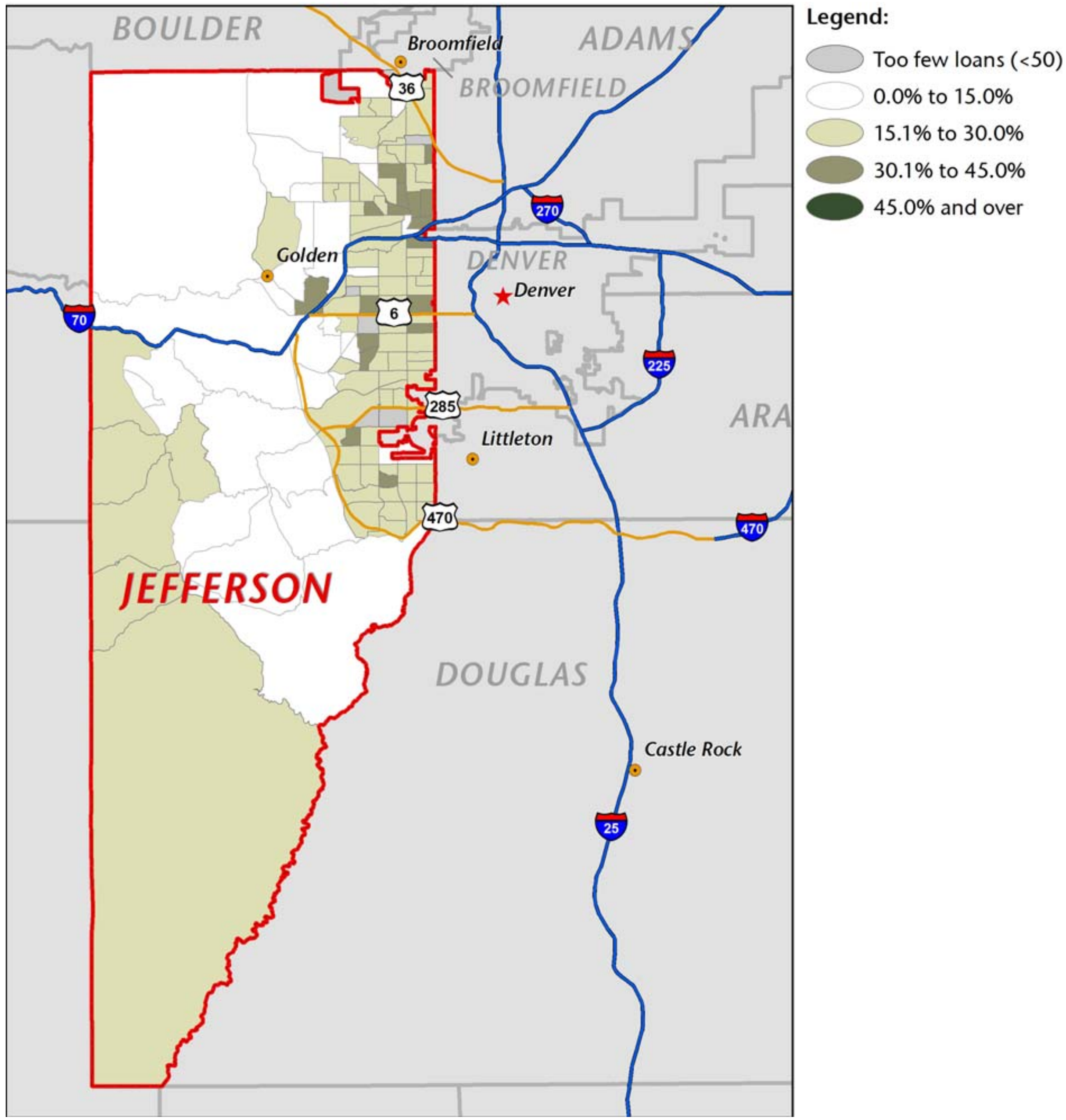
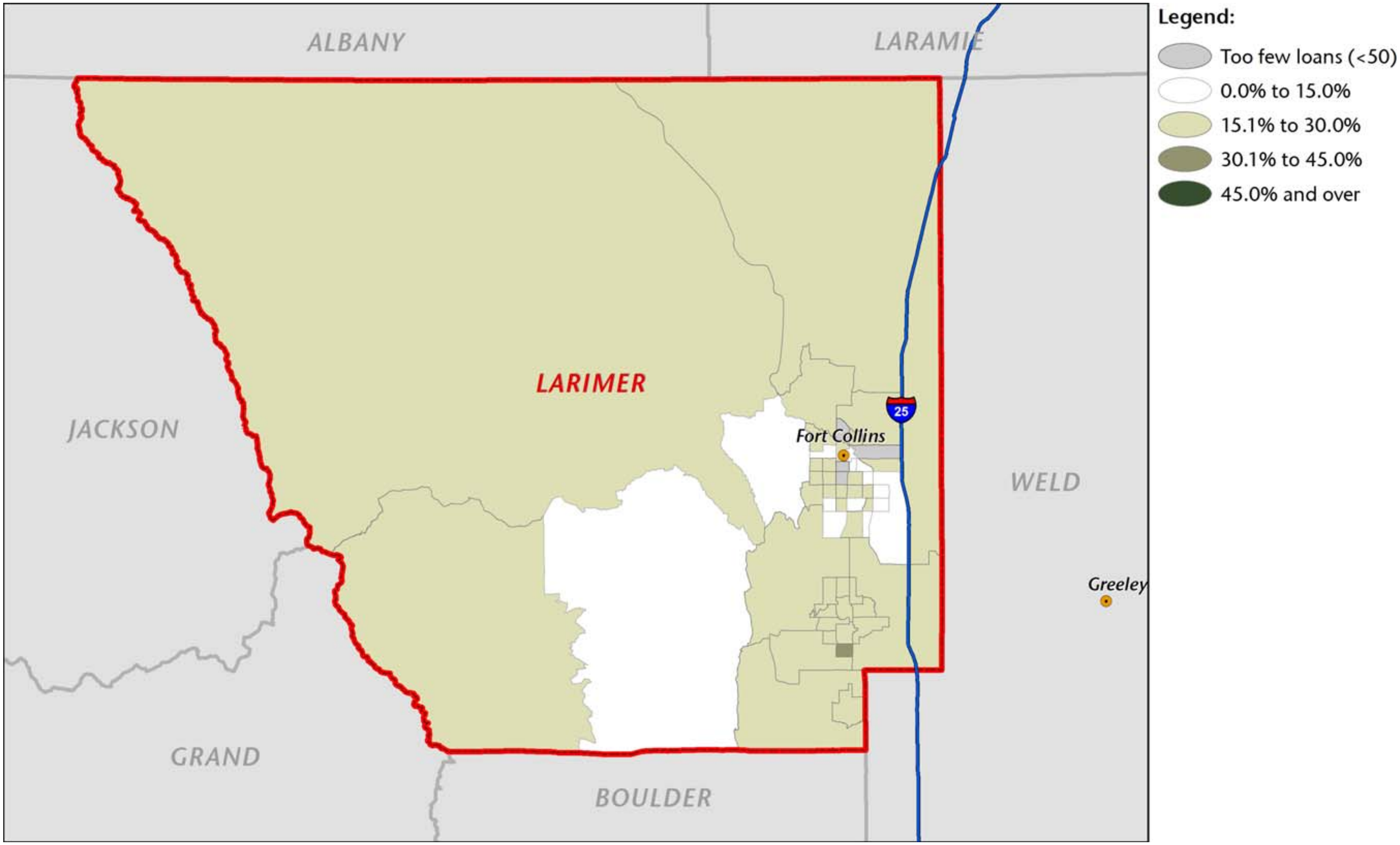
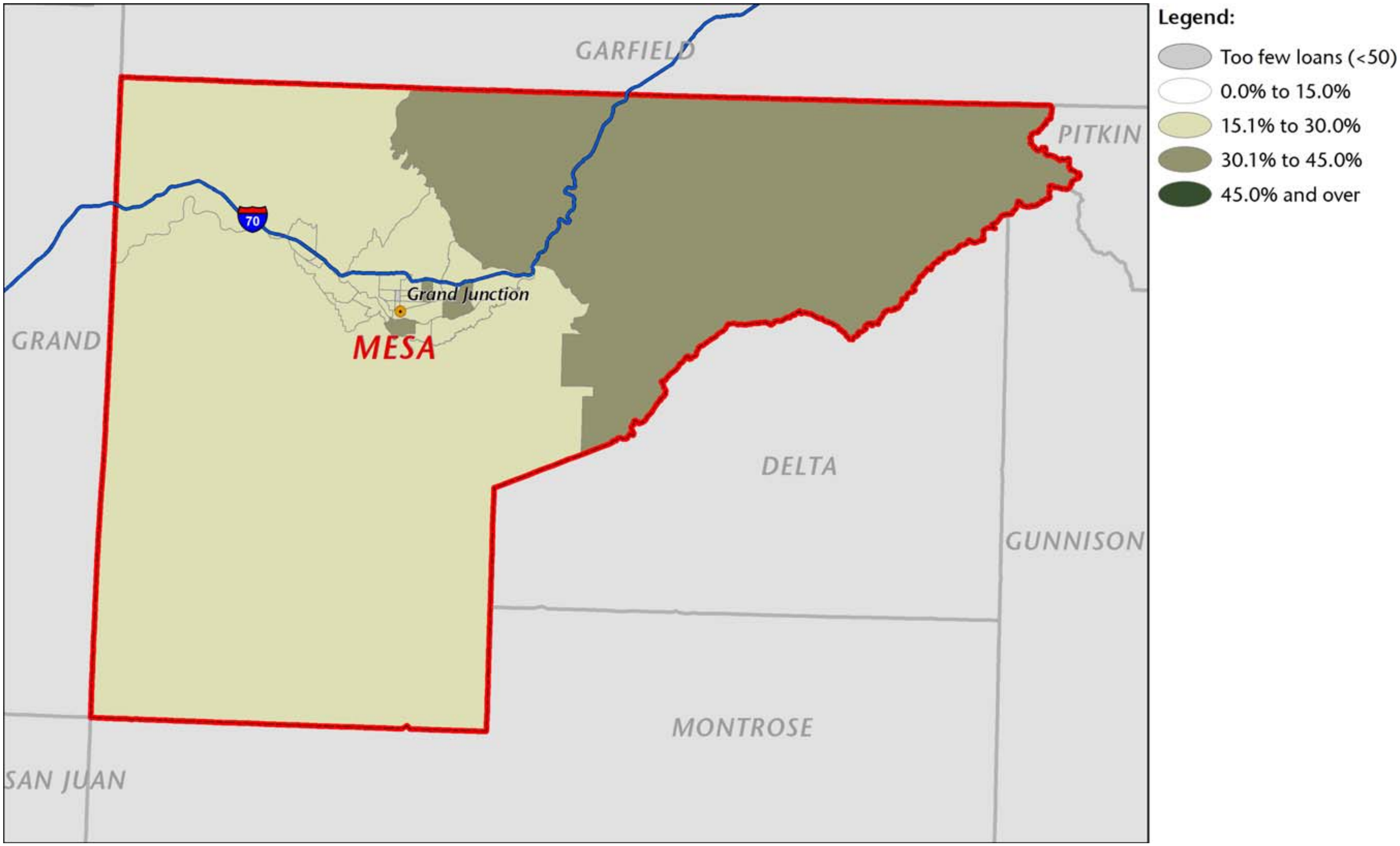


Exhibit B-14.
Percentage of All Loans that are Subprime, Larimer County, by Census Tract, 2006



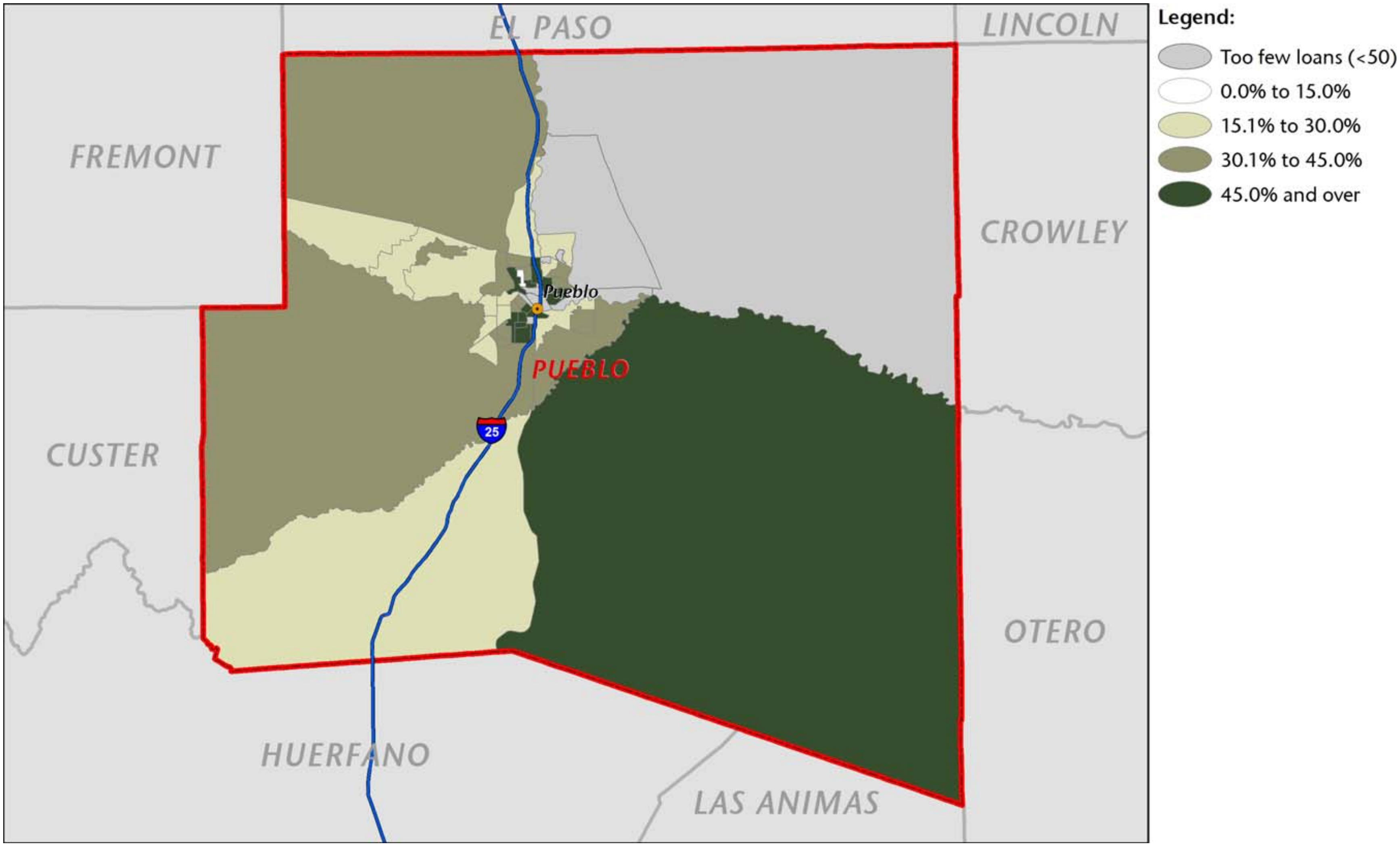
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-15.
Percentage of All Loans that are Subprime, Mesa County, by Census Tract, 2006



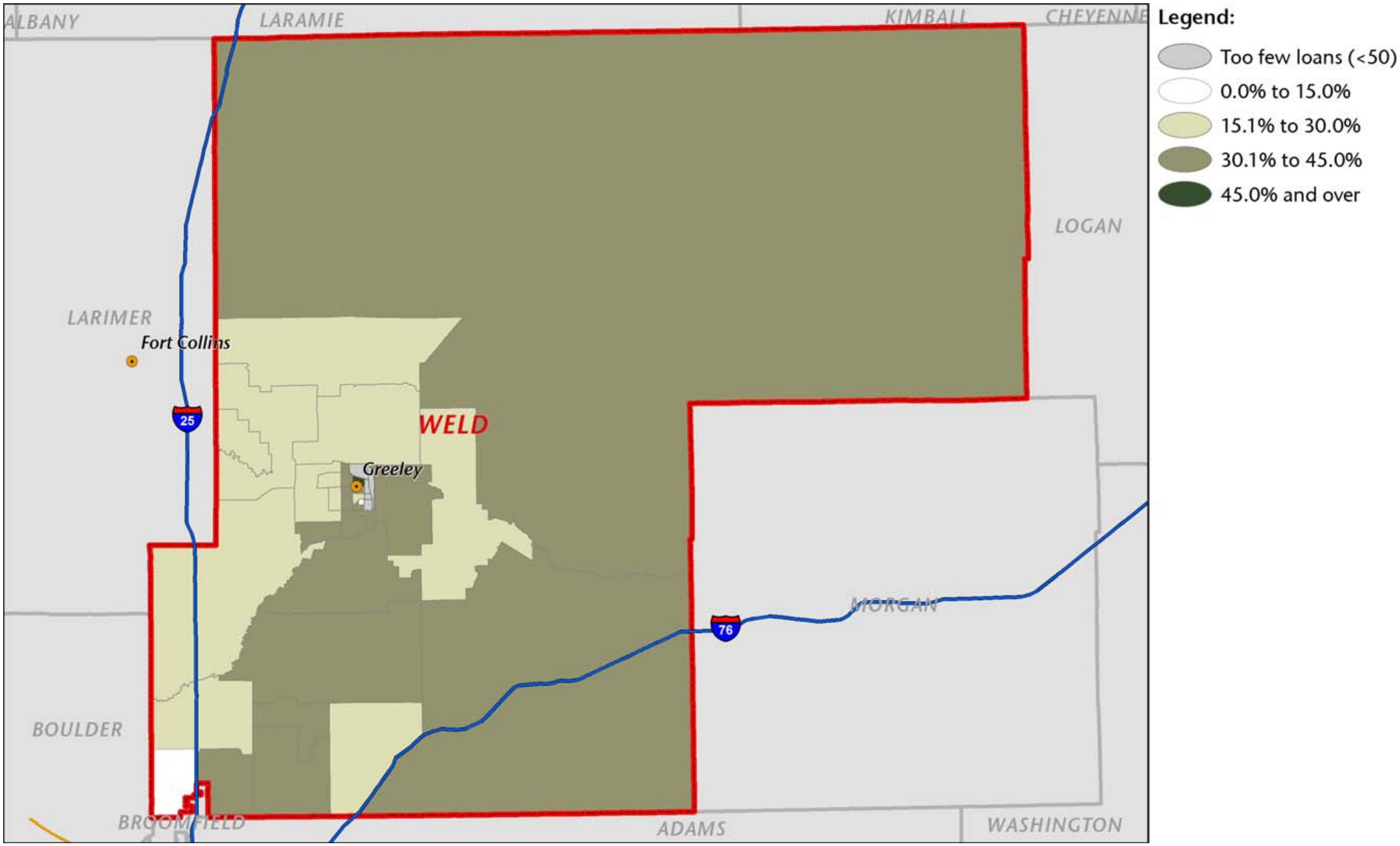
Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-16.
Percentage of All Loans that are Subprime, Pueblo County, by Census Tract, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-17.
Percentage of All Loans that are Subprime, Weld County, by Census Tract, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

**Exhibit B-18.
Percent of All Loans that are Subprime by Race and Income**

Note:

* Less than 100 total loans.

Source:

2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting and Colorado State Demography Office.

	White	Black	Asian	Hispanic	Total
< $25K	17.9%	23.5%	*	36.4%	22.3%
$25K-$49K	21.3%	45.9%	19.9%	46.4%	28.0%
$50K-$74K	22.7%	46.6%	22.4%	46.6%	27.3%
$75K-$99K	20.7%	46.4%	16.4%	38.9%	23.4%
$100K+	16.6%	39.4%	17.6%	33.8%	18.2%
All incomes	20.2%	43.1%	19.3%	42.8%	23.9%

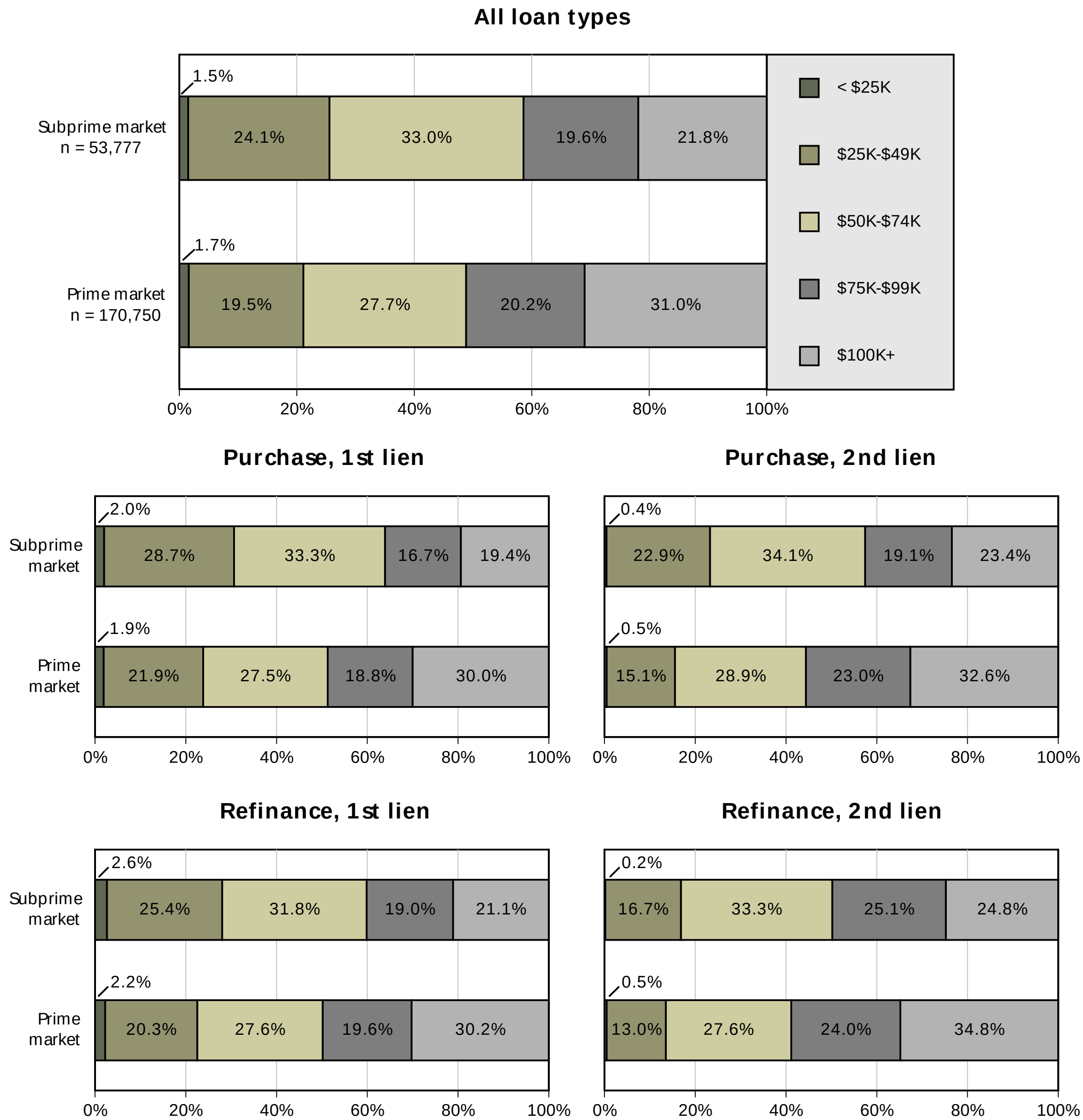
Exhibit B-19.
Prime and Subprime Market Distribution by Income for Each Loan Type

	Prime market			Subprime market		
	Loan	*Percent*	*Cum. %*	*Loan*	*Percent*	*Cum. %*
All loan types						
< $25K	2,841	1.7%	1.7%	815	1.5%	1.5%
$25K-$49K	33,258	19.5%	21.1%	12,946	24.1%	25.6%
$50K-$74K	47,314	27.7%	48.9%	17,758	33.0%	58.6%
$75K-$99K	34,466	20.2%	69.0%	10,518	19.6%	78.2%
$100K+	52,871	31.0%	100%	11,740	21.8%	100%
All incomes	170,750			53,777		
Purchase, 1st lien						
< $25K	1,444	1.9%	1.9%	297	2.0%	2.0%
$25K-$49K	16,624	21.9%	23.8%	4,274	28.7%	30.7%
$50K-$74K	20,837	27.5%	51.3%	4,961	33.3%	63.9%
$75K-$99K	14,230	18.8%	70.0%	2,488	16.7%	80.6%
$100K+	22,748	30.0%	100%	2,889	19.4%	100%
All incomes	75,883			14,909		
Purchase, 2nd lien						
< $25K	101	0.5%	0.5%	52	0.4%	0.4%
$25K-$49K	3,149	15.1%	15.5%	2,678	22.9%	23.3%
$50K-$74K	6,041	28.9%	44.4%	3,996	34.1%	57.4%
$75K-$99K	4,809	23.0%	67.4%	2,240	19.1%	76.6%
$100K+	6,817	32.6%	100%	2,743	23.4%	100%
All incomes	20,917			11,709		
Refinance, 1st lien						
< $25K	1,192	2.2%	2.2%	446	2.6%	2.6%
$25K-$49K	10,752	20.3%	22.5%	4,273	25.4%	28.0%
$50K-$74K	14,649	27.6%	50.2%	5,361	31.8%	59.9%
$75K-$99K	10,390	19.6%	69.8%	3,204	19.0%	78.9%
$100K+	16,015	30.2%	100%	3,552	21.1%	100%
All incomes	52,998			16,836		
Refinance, 2nd lien						
< $25K	104	0.5%	0.5%	20	0.2%	0.2%
$25K-$49K	2,733	13.0%	13.5%	1,721	16.7%	16.9%
$50K-$74K	5,787	27.6%	41.2%	3,440	33.3%	50.2%
$75K-$99K	5,037	24.0%	65.2%	2,586	25.1%	75.2%
$100K+	7,291	34.8%	100%	2,556	24.8%	100%
All incomes	20,952			10,323		

Note:* Excludes records with missing income data.

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-20.
Loan Market Distribution by Income, 2006



Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-21.
2006 Colorado HMDA and Comparative Demographic Data Distributions by Race/Ethnicity

Note: * 2006 Claritas, Includes all renter- and owner-occupied units.

** Includes originations, approvals that are not accepted, denials, withdrawals, file closings.

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-22.
Subprime Lending by Race/Ethnicity, All Loan Types, 2006

	White	Black	Asian	Hispanic	All
All loans					
Colorado	175,752	6,249	4,756	24,390	236,848
Denver	16,481	1,761	597	5,052	26,896
Adams	12,897	386	550	4,492	20,837
Arapahoe	18,682	1,924	1,110	2,691	27,358
Jefferson	19,954	178	451	1,766	24,878
Douglas	16,789	240	562	831	20,670
El Paso	23,013	1,312	644	2,313	30,632
Pueblo	4,202	87	47	1,812	6,781
Weld	9,572	68	107	1,653	12,714
Percent subprime					
Colorado	20.2%	43.1%	19.3%	42.8%	23.9%
Denver	17.8%	45.6%	18.1%	48.8%	26.8%
Adams	27.1%	47.4%	22.9%	46.6%	32.7%
Arapahoe	22.2%	46.6%	24.3%	46.1%	27.3%
Jefferson	18.5%	46.6%	19.3%	37.5%	20.7%
Douglas	16.6%	34.6%	12.5%	29.6%	17.2%
El Paso	21.0%	36.9%	22.2%	35.7%	23.5%
Pueblo	30.9%	48.3%	36.2%	43.3%	35.9%
Weld	23.0%	41.2%	19.6%	42.9%	26.4%
More likely to get subprime					
Colorado	1.00	2.14	0.96	2.12	1.18
Denver	1.00	2.56	1.02	2.74	1.50
Adams	1.00	1.75	0.84	1.72	1.21
Arapahoe	1.00	2.10	1.10	2.08	1.23
Jefferson	1.00	2.52	1.04	2.03	1.12
Douglas	1.00	2.08	0.75	1.78	1.04
El Paso	1.00	1.75	1.06	1.69	1.12
Pueblo	1.00	1.56	1.17	1.40	1.16
Weld	1.00	1.79	0.85	1.87	1.15

Note: * Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-23.
Subprime Lending by Race/Ethnicity, Purchase 1st Lien Loans

	White	Black	Asian	Hispanic	All
All purchase, 1st lien loans					
Colorado	71,493	2,319	2,173	8,965	94,631
Denver	7,136	554	300	1,577	10,766
Adams	4,925	147	219	1,586	7,825
Arapahoe	7,233	759	465	1,002	10,549
Jefferson	7,122	52	208	584	8,804
Douglas	6,915	79	270	322	8,558
El Paso	10,118	562	296	1,022	13,314
Pueblo	1,776	33	22	725	2,755
Weld	3,784	26	55	648	5,020
Percent subprime					
Colorado	12.8%	38.2%	12.6%	36.0%	16.3%
Denver	11.2%	45.8%	11.3%	44.6%	18.9%
Adams	19.5%	44.2%	14.2%	41.4%	25.4%
Arapahoe	15.2%	44.0%	17.8%	41.7%	20.8%
Jefferson	11.6%	46.2%	13.0%	32.5%	13.7%
Douglas	9.5%	39.2%	8.1%	22.7%	10.2%
El Paso	11.1%	22.8%	14.2%	25.4%	13.2%
Pueblo	20.0%	42.4%	*	36.8%	25.9%
Weld	15.0%	*	16.4%	36.7%	18.8%
More likely to get subprime					
Colorado	1.00	2.98	0.98	2.81	1.27
Denver	1.00	4.11	1.02	4.00	1.69
Adams	1.00	2.27	0.73	2.12	1.30
Arapahoe	1.00	2.90	1.18	2.75	1.37
Jefferson	1.00	3.99	1.12	2.81	1.19
Douglas	1.00	4.15	0.86	2.40	1.08
El Paso	1.00	2.04	1.27	2.28	1.19
Pueblo	1.00	2.12	*	1.84	1.29
Weld	1.00	*	1.09	2.45	1.25

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-24.
Subprime Lending by Race/Ethnicity, Refinance 1st Lien Loans

	White	Black	Asian	Hispanic	All
All refinance, 1st lien loans					
Colorado	55,520	2,093	1,177	8,036	75,118
Denver	4,690	699	131	1,875	8,349
Adams	3,910	117	157	1,450	6,391
Arapahoe	5,850	553	288	763	8,377
Jefferson	7,079	77	115	613	8,788
Douglas	4,587	68	120	229	5,523
El Paso	6,735	418	157	673	9,006
Pueblo	1,390	37	8	621	2,323
Weld	2,808	19	22	504	3,738
Percent subprime					
Colorado	19.7%	36.2%	17.3%	35.9%	23.1%
Denver	17.7%	36.6%	16.0%	38.3%	25.5%
Adams	24.7%	38.5%	19.7%	34.6%	28.2%
Arapahoe	19.0%	33.3%	20.1%	32.8%	22.2%
Jefferson	17.3%	40.3%	20.0%	31.2%	19.2%
Douglas	16.0%	22.1%	6.7%	27.1%	16.6%
El Paso	23.4%	41.4%	19.1%	34.5%	26.2%
Pueblo	34.3%	35.1%	*	43.2%	38.5%
Weld	22.0%	*	*	38.1%	25.4%
More likely to get subprime					
Colorado	1.00	1.83	0.88	1.82	1.17
Denver	1.00	2.07	0.91	2.17	1.44
Adams	1.00	1.56	0.80	1.40	1.14
Arapahoe	1.00	1.75	1.06	1.72	1.17
Jefferson	1.00	2.33	1.16	1.80	1.11
Douglas	1.00	1.37	0.42	1.69	1.04
El Paso	1.00	1.77	0.82	1.47	1.12
Pueblo	1.00	1.02	*	1.26	1.12
Weld	1.00	*	*	1.73	1.16

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-25.
Subprime Lending by Race/Ethnicity, All Loan Types, Income <$25,000

	White	Black	Asian	Hispanic	All
All loans					
Colorado	2,469	85	31	638	3,628
Denver	166	34	10	92	357
Adams	139	6	3	53	227
Arapahoe	175	25	5	44	280
Jefferson	165	0	3	12	211
Douglas	58	0	1	4	71
El Paso	360	13	5	44	479
Pueblo	257	4	0	185	483
Weld	121	0	0	54	193
Percent subprime					
Colorado	17.7%	23.5%	3.2%	35.9%	22.1%
Denver	10.2%	17.6%	*	35.9%	19.3%
Adams	16.5%	*	*	15.1%	17.6%
Arapahoe	14.3%	*	*	13.6%	14.6%
Jefferson	9.1%	*	*	*	10.9%
Douglas	15.5%	*	*	*	16.9%
El Paso	13.9%	*	*	25.0%	16.3%
Pueblo	28.4%	*	*	38.9%	33.3%
Weld	14.0%	*	*	35.2%	21.8%
More likely to get subprime					
Colorado	1.00	1.33	0.18	2.03	1.25
Denver	1.00	1.72	*	3.50	1.89
Adams	1.00	*	*	0.91	1.06
Arapahoe	1.00	*	*	0.95	1.03
Jefferson	1.00	*	*	*	1.20
Douglas	1.00	*	*	*	1.09
El Paso	1.00	*	*	1.80	1.17
Pueblo	1.00	*	*	1.37	1.17
Weld	1.00	*	*	2.50	1.55

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-26.
Subprime Lending by Race/Ethnicity, All Loan Types, Income $25,000—$49,999

	White	Black	Asian	Hispanic	All
All loans					
Colorado	31,088	1,450	651	8,195	45,957
Denver	3,048	463	145	2,178	6,511
Adams	2,506	72	72	1,605	4,785
Arapahoe	3,258	435	156	794	5,140
Jefferson	3,012	21	56	351	3,797
Douglas	1,075	6	26	54	1,306
El Paso	4,863	358	99	766	6,753
Pueblo	1,414	39	14	837	2,532
Weld	1,858	15	10	564	2,720
Percent subprime					
Colorado	21.2%	46.0%	20.0%	46.1%	27.9%
Denver	19.0%	44.9%	17.2%	51.1%	33.5%
Adams	29.1%	61.1%	25.0%	49.7%	38.0%
Arapahoe	24.6%	51.0%	23.1%	50.0%	31.9%
Jefferson	17.0%	*	21.4%	36.8%	19.7%
Douglas	11.4%	*	*	20.4%	12.0%
El Paso	22.4%	41.3%	23.2%	40.3%	26.8%
Pueblo	32.5%	56.4%	*	46.8%	39.8%
Weld	22.6%	*	*	47.5%	29.3%
More likely to get subprime					
Colorado	1.00	2.17	0.94	2.17	1.31
Denver	1.00	2.36	0.91	2.69	1.76
Adams	1.00	2.10	0.86	1.71	1.30
Arapahoe	1.00	2.07	0.94	2.03	1.29
Jefferson	1.00	*	1.26	2.16	1.16
Douglas	1.00	*	*	1.78	1.05
El Paso	1.00	1.84	1.04	1.80	1.20
Pueblo	1.00	1.73	*	1.44	1.22
Weld	1.00	*	*	2.10	1.29

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-27.
Subprime Lending by Race/Ethnicity, All Loan Types, Income $50,000—$74,999

	White	Black	Asian	Hispanic	Total
All loans					
Colorado	46,962	1,932	1,276	7,856	64,885
Denver	4,309	566	178	1,605	7,448
Adams	4,049	126	183	1,561	6,683
Arapahoe	5,238	613	299	944	7,956
Jefferson	5,406	50	107	635	6,920
Douglas	3,305	41	114	236	4,137
El Paso	6,672	411	204	721	8,932
Pueblo	1,169	19	12	467	1,856
Weld	2,827	20	33	543	3,793
Percent subprime					
Colorado	22.7%	46.7%	22.3%	46.6%	27.3%
Denver	19.9%	48.2%	20.2%	53.6%	31.0%
Adams	29.3%	49.2%	25.7%	50.7%	35.9%
Arapahoe	24.4%	50.9%	30.8%	50.7%	30.9%
Jefferson	20.9%	56.0%	15.9%	42.2%	23.8%
Douglas	16.7%	48.8%	9.6%	33.5%	18.2%
El Paso	23.7%	37.7%	26.0%	36.6%	26.3%
Pueblo	33.0%	*	*	45.2%	37.9%
Weld	25.4%	*	21.2%	44.4%	29.1%
More likely to get subprime					
Colorado	1.00	2.06	0.99	2.06	1.20
Denver	1.00	2.42	1.01	2.69	1.56
Adams	1.00	1.68	0.88	1.73	1.23
Arapahoe	1.00	2.08	1.26	2.08	1.26
Jefferson	1.00	2.68	0.76	2.02	1.14
Douglas	1.00	2.92	0.58	2.00	1.09
El Paso	1.00	1.59	1.10	1.55	1.11
Pueblo	1.00	*	*	1.37	1.15
Weld	1.00	*	0.84	1.75	1.14

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-28.
Subprime Lending by Race/Ethnicity, All Loan Types, Income $75,000—$99,999

	White	Black	Asian	Hispanic	All
All loans					
Colorado	34,087	1,142	1,071	3,408	44,873
Denver	2,964	306	98	535	4,465
Adams	3,523	346	284	387	5,131
Arapahoe	3,523	346	284	387	5,131
Jefferson	4,062	50	106	349	5,104
Douglas	3,690	58	128	196	4,611
El Paso	4,524	241	135	312	5,874
Pueblo	635	7	10	184	922
Weld	2,002	15	27	231	2,520
Percent subprime					
Colorado	20.7%	46.4%	16.4%	38.9%	23.4%
Denver	17.8%	51.0%	16.3%	41.1%	24.5%
Adams	22.3%	11.0%	8.1%	72.4%	25.9%
Arapahoe	23.5%	51.7%	19.7%	41.6%	27.8%
Jefferson	20.1%	58.0%	17.9%	37.2%	22.5%
Douglas	16.9%	32.8%	10.2%	34.7%	17.4%
El Paso	20.4%	36.9%	18.5%	29.2%	22.1%
Pueblo	29.9%	*	*	38.0%	32.6%
Weld	24.0%	*	*	39.4%	26.0%
More likely to get subprime					
Colorado	1.00	2.24	0.79	1.88	1.13
Denver	1.00	2.86	0.91	2.30	1.37
Adams	1.00	0.49	0.36	3.24	1.16
Arapahoe	1.00	2.20	0.84	1.77	1.18
Jefferson	1.00	2.89	0.89	1.85	1.12
Douglas	1.00	1.94	0.60	2.06	1.03
El Paso	1.00	1.81	0.91	1.43	1.08
Pueblo	1.00	*	*	1.27	1.09
Weld	1.00	*	*	1.64	1.08

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-29.
Subprime Lending by Race/Ethnicity, All Loan Types, Income $100,000 And Over

	White	Black	Asian	Hispanic	All
All loans					
Colorado	51,745	1,230	1,488	2,968	64,503
Denver	5,137	295	141	400	6,732
Adams	2,775	79	134	414	3,872
Arapahoe	5,456	368	310	358	7,285
Jefferson	6,346	49	156	326	7,641
Douglas	7,795	119	274	297	9,469
El Paso	5,451	197	164	337	7,000
Pueblo	568	14	9	95	737
Weld	2,286	16	30	179	2,829
Percent subprime					
Colorado	16.6%	39.5%	17.6%	33.8%	18.2%
Denver	14.8%	46.1%	18.4%	39.5%	17.9%
Adams	21.7%	44.3%	19.4%	36.0%	24.4%
Arapahoe	18.4%	39.1%	22.6%	39.4%	21.2%
Jefferson	16.2%	34.7%	22.4%	30.7%	17.5%
Douglas	16.0%	30.3%	14.6%	24.2%	16.3%
El Paso	17.6%	35.5%	19.5%	32.3%	19.0%
Pueblo	26.4%	*	*	24.2%	27.0%
Weld	19.9%	*	*	41.9%	22.2%
More likely to get subprime					
Colorado	1.00	2.37	1.06	2.03	1.09
Denver	1.00	3.12	1.25	2.67	1.21
Adams	1.00	2.04	0.89	1.66	1.13
Arapahoe	1.00	2.13	1.23	2.14	1.15
Jefferson	1.00	2.14	1.38	1.89	1.08
Douglas	1.00	1.89	0.91	1.51	1.01
El Paso	1.00	2.02	1.11	1.84	1.08
Pueblo	1.00	*	*	0.92	1.02
Weld	1.00	*	*	2.10	1.11

Note:* Too few loans (less than 30 total).

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Exhibit B-30.
Top Subprime Lenders in Colorado, 2006

Lender	All loans	Subprime		Super-subprime		Percent of CO subprime market
		Loans	*Percent*	*Loans*	*Percent*	
By volume of subprime loans						
National City Bank	6,124	3,217	52.5%	19	0.3%	1.8%
Countrywide Home Loans	17,130	3,124	18.2%	237	1.4%	1.8%
New Century Mortgage Corp.	4,407	2,681	60.8%	60	1.4%	1.5%
Option One Mortgage Corp.	2,154	2,077	96.4%	159	7.4%	1.2%
Long Beach Mortgage Co.	2,072	1,946	93.9%	28	1.4%	1.1%
Homecoming Financial Network	6,096	1,917	31.4%	123	2.0%	1.1%
Fremont Investment & Loan	2,123	1,905	89.7%	125	5.9%	1.1%
Decision One Mortgage	1,979	1,822	92.1%	257	13.0%	1.0%
Wells Fargo Bank	17,820	1,604	9.0%	35	0.2%	0.9%
Argent Mortgage Company	1,687	1,505	89.2%	2	0.1%	0.9%
Lehman Brothers Bank	3,513	1,335	38.0%	71	2.0%	0.8%
American Home Mortgage Corp.	4,670	1,272	27.2%	158	3.4%	0.7%
Accredited Home Lenders, Inc.	1,287	1,157	89.9%	75	5.8%	0.7%
Fieldstone Mortgage Company	1,245	1,115	89.6%	54	4.3%	0.6%
Indymac Bank, F.S.B.	2,518	1,030	40.9%	30	1.2%	0.6%
WMC Mortgage Company	996	949	95.3%	91	9.1%	0.5%
Southstar Funding, LLC	1,218	944	77.5%	47	3.9%	0.5%
Lenders Direct Capital Corp	922	910	98.7%	21	2.3%	0.5%
Equifirst Corporation	936	852	91.0%	40	4.3%	0.5%
Wells Fargo Financial of Colorado Inc.	893	807	90.4%	96	10.8%	0.5%
By percent of loans that are subprime*						
Lenders Direct Capital Corp.	922	910	98.7%	21	2.3%	0.5%
Aegis Funding Corp.	637	621	97.5%	85	13.3%	0.4%
Option One Mortgage Corp.	2,154	2,077	96.4%	159	7.4%	1.2%
WMC Mortgage Company	996	949	95.3%	91	9.1%	0.5%
The City Group/Consumer Finance	766	721	94.1%	63	8.2%	0.4%
Long Beach Mortgage Co.	2,072	1,946	93.9%	28	1.4%	1.1%
Decision One Mortgage	1,979	1,822	92.1%	257	13.0%	1.0%
Sebring Capital Partners, LP	505	461	91.3%	56	11.1%	0.3%
Equifirst Corp.	936	852	91.0%	40	4.3%	0.5%
Wells Fargo Financial of Colorado Inc.	893	807	90.4%	96	10.8%	0.5%
Accredited Home Lenders, Inc.	1,287	1,157	89.9%	75	5.8%	0.7%
Fremont Investment & Loan	2,123	1,905	89.7%	125	5.9%	1.1%
Fieldstone Mortgage Company	1,245	1,115	89.6%	54	4.3%	0.6%
Argent Mortgage Company	1,687	1,505	89.2%	2	0.1%	0.9%
Chase Manhattan Bank USA, NA	869	756	87.0%	7	0.8%	0.4%
Beneficial Company LLC	868	751	86.5%	45	5.2%	0.4%
Southstar Funding, LLC	1,218	944	77.5%	47	3.9%	0.5%
Wilmington Finance, Inc.	717	490	68.3%	7	1.0%	0.3%
New Century Mortgage Corp.	4,407	2,681	60.8%	60	1.4%	1.5%
National City Bank	6,124	3,217	52.5%	19	0.3%	1.8%

Note:* Includes only those lenders with at least 500 total loans.

Source: 2006 HMDA, Federal Financial Institutions Examination Council, BBC Research & Consulting.

Home Loan Survey
March 18, 2008

Please complete this brief survey about your experience getting a home loan. The results will help the Colorado Civil Rights Division better understand unfair lending practices, develop strategies for preventing foreclosures, and prosecute offenders.

All results will be completely anonymous and reported in summary form only. Please give your completed survey to one of the researchers in a red shirt, or drop it in the box on your way out. If you absolutely cannot complete your survey now, please ask for a postage paid envelope.

Thank you very much for participating in this important study!

Please answer this survey ONLY about the home you primarily live in. We do not need information about second homes or investment properties.

1. Please check the ONE statement that BEST describes your situation.
1 ____I am concerned that my home may end up in foreclosure
2 ____My home is currently in foreclosure
3 ____I went through foreclosure and lost my home

2. Where is this home located?
City: ______________________________________
County: ____________________________________
Zip code: __________________________________

3. How much did you pay for this home when you first bought it?
$______________________ **OR**
99____Don't know

4. Do/did you have more than one loan on your home?
1 ___Yes
2 ___No

5. Please check ALL the types of loans you CURRENTLY have on your home (or had at foreclosure).
1 ___ First mortgage (primary home loan)
2 ___ Home improvement loan
3 ___ Any other loan on your home, even if you used it to buy a car or something else

The following questions are about your MOST RECENT first mortgage (primary loan) ONLY.
6. What type of loan is your first mortgage? Please check ALL that apply
1___ Fixed rate loan
2___Loan with an adjustable interest rate (ARM)
3___ Loan from a government agency such as FHA, etc.
4___Another type of loan **What type?**___________________________

7. Why did you choose this type of loan?

8. How many lenders did you contact about rates, loan products, fees, etc.? # of lenders____________

9. Did you get your loan from: Please check the ONE best response and identify your lender.
1 ___Bank **Which bank?__________________________**
2 ___Credit union **Which credit union?______________________**
3 ___Mortgage company **Which mortgage company?________________________________**
4 ___Government program **Which government program?_____________________________**
5 ___Other **Please specify____**
6 ___Don't know

10. What are the major reasons you selected your lender?

11. What is the payment period on your first mortgage loan?
1 ___30 years
2 ___15 years
3 ___Other payment period **Please specify # years _______________**
4 ___ Don't know payment period

12. How much was your first mortgage?
$_________________ **OR**
99 ___Don't know

13. How much is left on this loan today (or how much was this loan at the time of foreclosure)?
$____________________ **OR**
99 ____Don't know

14. What is the interest rate on this loan today (or what was the interest rate at the time of foreclosure)?
______________percent **OR**
99 _____Don't know

15. Does/did this mortgage include the following features? Please check ONE response on each line.			
	Yes	**No**	**Don't Know**
a. Adjustable rate – a mortgage payment that can go up over time			
b. Prepayment penalty – you are penalized (have to pay) if you refinance your mortgage before the end of the loan term			
c. Balloon payment – your loan has a large payment at the end of the loan term			
d. A payment for life insurance			

16. When you got your loan, did you get a higher loan amount to pay off other debts or to get cash out?
1 ____Yes
2 ____No

17. When you got your loan, did the lender who gave you the loan ask you to provide pay stubs, a tax return, etc., to show your family's income?
1 _____ Yes, my income was verified for the loan
2 _____ No, the lender didn't require any documentation
3 _____ Don't know

18. Did the lender tell you what your credit score is?
1 ___Yes   Do you remember your credit score? _____________
2 ___No
3 ___Don't know

19. Did your mortgage broker (the person who gave you your loan) discuss any of the following with you? Please check ONE response on each line.			
	Yes	**No**	**Don't Know**
a. Different types of loans (e.g., 15-year loan, 30-year loan, adjustable rate mortgage, no down payment, etc.)			
b. If your mortgage payment could go up over the term of the loan			
c. What your total monthly payment would be			
d. How much loan payment you could afford			

20. Were the loan papers explained to you before you signed them?
1 ___Yes   About how long did it take to sign all of the papers?   **# of hours**______________
2 ___No
3 ___Don't know

21. Did you attend a homebuyer's class before buying your house?
1 ___Yes
2 ___No

22. Since you bought your home, how many times did you refinance your first mortgage?
0   1   2   3   4   5 or more

23. What were the major reasons you refinanced?

24. Did you refinance with the same lender or with a different lender?
1 ___Same lender
2 ___Different lender(s)
3 ___Both with the same lender and with different lender(s)

The following questions are about the OTHER loans you have on your home (or had at foreclosure) but NOT your first mortgage.
25. What type of loan is your highest OTHER loan on your home? Please check ALL that apply
1___ Fixed rate loan
2 ___Loan with an adjustable interest rate (ARM)
3___ Loan from a government agency such as FHA, etc.
4 ___Another type of loan **What type?**___________________________
5 ___I don't have any other loans on my home **Please skip to question 29**

26. How much was this loan?
$_________________ **OR**
99 ___Don't know

27. How much is left on this loan today (or how much was this loan at the time of foreclosure?)
$____________________ **OR**
99 ____Don't know

28. What is the interest rate on this loan today (or what was the interest rate at the time of foreclosure)?
______________percent **OR**
99 _____Don't know

The final set of questions will help us describe the people who completed the survey. All your responses will be anonymous and reported in summary form only.

29. Do you consider yourself to be Spanish/Hispanic/Latino?
1 ___ Yes
2 ___ No

30. Which ONE category BEST DESCRIBES your racial background?
1 ___ Asian/Pacific Islander
2 ___ Native American/Alaska Native
3 ___ Black/African American
4 ___ White
5 ___ Mixed race **What races? ____**
6 ___ Other **What? ____**

31. Including yourself, how many people live in your home? _________________

32. What was your family's total income before taxes from all sources for 2007?
1 ____Less than $25,000
2 ____$25,000-$49,999
3 ____$50,000-$74,999
4 ____$75,000-$99,000
5 ____$100,000 or more

33. Have you ever filed bankruptcy?
1 ____Yes
2 ____No

34. Have you or any other major wage earner in your household ever been unemployed in the past five years?
1___Yes
2 ___No

We would like to talk about the loan process in more detail with a small number of survey respondents. If you are comfortable doing so, we would like your name and a telephone number so that we may reach you and talk with you a little more about your loan process.
Name (optional) ____

Telephone number optional) ______________________________

Please complete the three questions on the next page, then return your completed survey to one of the researchers in a red shirt or drop it in the box on your way out.

1. How did you hear about this meeting? **Please check ONE response.**
1 ___HOPE line
2 ___Received a postcard
3 ___Advertising/flyer
4 ___News media
5 ___Other **How? _______________________________**

2. Did you find the meeting useful and/or helpful?

1 ___ Yes
2 ___No

3. Are you in foreclosure or near foreclosure?

1 ___Yes
2 ___No

Homeownership Intercept Survey
June 2008

Please complete this brief survey about your experience getting a home loan. The results will help the Colorado Civil Rights Division better understand unfair lending practices, develop strategies for preventing foreclosures, and prosecute offenders.

All results will be completely anonymous and reported in summary form only. Please return your completed survey before you leave. Thank you very much for participating in this important study!

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1. Please answer the survey ONLY about the home you primarily live in or recently lived in. Which best describes your homeownership situation? *Read each and mark ONE response:*

1 ____I am concerned that I may lose my home to foreclosure.
2 ____My home is currently in foreclosure
3 ____I went through foreclosure and lost my home
4 ____I went through foreclosure and saved my home

2. Where is this home located? In what:

County: ________________________________
Zip code: ______________________________

3. Was this the first home that you purchased?

1 ___Yes
2___No

4. Did you attend a homebuyer's class before buying your first home?

1 ___Yes
2 ___No

5. How much did you pay for this home when you first bought it?

$_____________________ **OR**
99____Don't know

6. Now think about the present time. Do you have more than one loan on your home now (or did you have more than one loan at the time of foreclosure)?

1 ___Yes
2 ___No

7. What types of loans do you CURRENTLY have on your home (or did you have at foreclosure). *Please check all that apply.*

1 ___ First mortgage (primary home loan)
2 ___ Second mortgage
3 ___ Any other loan on your home, even if you used it to buy a car or something else

The following questions are about your MOST RECENT first mortgage (primary loan) ONLY.

8. What are the major reasons you chose the type of loan you did?

9. What are the major reasons you selected your lender, that is, the company that GAVE you the loan? This is the lender you got the loan from, not the company that the loan may have been sold to.

10. Does/did your most recent first mortgage – your primary loan – have a fixed rate for the entire loan period, or does/did the rate of the loan adjust at some time? ***Check ONE response only.***

1 ___Fixed rate for entire loan
2 ___Rate adjusts at some time (adjustable rate mortgage or ARM)

11. How many lenders did you contact about rates, loan products, fees, etc. when you shopped for this loan?
# of lenders____________

12. Did you get your most recent first mortgage from: ***Please check the ONE best response and identify your lender*.**

1 ___Bank **Which bank?___________________________**
2 ___Credit union **Which credit union?_______________________**
3 ___Mortgage lender **Which mortgage lender?__________________________________**
4___Mortgage broker **Which mortgage broker?**
5 ___Government program (e.g., FHA, Veteran's Administration) **Which program?___________________**
6 ___Other **Please specify____**
7 ___Don't know

13. What is/was the payment period on your most recent first mortgage?
1 ___30 years
2 ___15 years
3 ___Other payment period ***Please specify # of years*** **_______________**
4 ___ Don't know payment period

14. How much did you borrow on your most recent first mortgage?
$_________________ **OR**
99 ___Don't know

15. How much do you still owe on this loan today (or how much did you owe at foreclosure)? $____________________ **OR**
99 ____Don't know

16. What is the current interest rate on this loan (or what was the interest rate at foreclosure)?
______________percent **OR**
99 _____Don't know

17. Does/did your most recent first mortgage include the following features? ***Please check ONE response on each line.***			
	Yes	**No**	**Don't Know**
a. Prepayment penalty – you are penalized, that is, you have to pay if you refinance your mortgage before the end of the loan term			
b. Balloon payment – your loan has a large payment at the end of the loan term			
c. A payment for life insurance. This is different than homeowner's insurance.			

Now think back to when you first got your most recent first mortgage. When you first got your most recent first mortgage: ***Please check one response on each line.***			
	Yes	**No**	**Don't Know**
18. Was the loan for more than the property was worth?			
19. Did you use any part of the loan to pay off other debts or get cash out?			
20. Were the payments more than you could afford?			
21. Did the lender tell you that you could refinance in the future and reduce your monthly payment?			

22. When you first got this loan, was the monthly payment: ***Please check ONE response only.***
1 __ What the lender said it would be
2 __ Higher than the lender said it would be
3 ___Lower than the lender said it would be

23. When you got this loan, did the lender ask you to say your income was higher than it really was or anything else to make you more likely to qualify for the loan?
1 ___Yes
2 ___No

24. Did the lender tell you what your credit score was?
1 ___Yes **What was your credit score when you got your loan?**
____

2 ___No
3 ___Don't know

25. Did your lender discuss any of the following with you? ***Please check ONE response on each line.***			
	Yes	**No**	**Don't Know**
a. Different types of loans, for example, 15-year loan, 30-year loan, adjustable rate mortgage, no down payment, etc.			
b. If your mortgage payment could go up over the term of the loan			
c. What your total monthly payment would be			
d. How much loan payment you could afford			

26. Were the loan papers explained to you before you signed them?
1 ___Yes
2 ___No
3 ___Don't know

27. Since you first bought your home, how many times did you refinance your first mortgage?
0 1 2 3 4 5 or more

28. What were the major reasons you refinanced? ***Please check one response on each line.***			
	Yes	**No**	**Don't Know**
a. I had an adjustable rate loan			
b. I wanted to pay off debts			
c. I wanted cash out for something other than to pay debts			
d. I wanted a lower monthly payment or a lower interest rate			
e. The lender contacted me and it sounded like a good deal			
f. Some other reason. **Please describe:**			

The final set of questions will help us describe the people who completed this survey. All your responses will be anonymous and reported in summary form only.

29. Do you consider yourself to be Spanish/Hispanic/Latino?
1 ___ Yes
2 ___ No

30. Which ONE category BEST DESCRIBES your racial background? ***Check ONE response.***
1 ___ Asian/Pacific Islander
2 ___ Native American/Alaska Native
3 ___ Black/African American
4 ___ White

5 ___ Mixed race
6 ___ Other **What? ____**

31. Including yourself, how many people live in your home? ________________

32. Are you a single parent with children under 18, part of a couple with children under 18, or neither?
1 ___Single parent with children under 18
2 ___ Part of a couple with children under 18
3 ___Neither – don't have children under 18

33. What was your family's total income before taxes from all sources for 2007?
Check ONE response.
1 ____Less than $25,000
2 ____$25,000-$49,999
3 ____$50,000-$74,999
4 ____$75,000-$99,000
5 ____$100,000 or more

34. Have you ever filed bankruptcy?
1 ____Yes
2 ____No

35. Have you or any other major wage earner in your household ever been unemployed for more than a month in the past five years?
1___Yes
2 ___No

Thank you very much for your help!

INTERVIEWS WITH HOUSING COUNSELORS:

8. What geographic areas do you primarily serve? ***(THEY MAY HAVE A LIST OF ZIP CODES THEY SERVE – IF SO, ASK THEM TO GIVE YOU THE ZIP CODES)***

9. About what proportion of your calls come from people who first called the foreclosure hotline?

10. When do people tend to contact you – before they have missed payments but are concerned they might, after they've missed a payment or two, after they've missed several payments and are facing foreclosure, or after foreclosure proceedings have begun?

11. What are the most common reasons people face foreclosure?

12. What is the range of interest rates that people are paying? What seems to be an average or typical rate? Are the highest rates typically on ARMs?

13. Are clients' loans mostly adjustable rate mortgages/ARMS? ***(THIS QUESTION MAY END UP BEING PART OF THE FOLLOWING QUESTION)***

14. We are very interested in the types of loans that your clients have. We want to know whether their loans have some or all of the features of a predatory loan. Do you know if their loan terms include any of the following?: ***(NOTE: If loan term includes any of these features, ask them to estimate the proportion of clients whose loans include each of these features.. ALSO, WE REALLY WANT EXAMPLES OF CLIENTS WHO HAVE THESE LOAN FEATURES AND HOW IF AFFECTED THEM! TRY TO GET ANECDOTAL EVIDENCE)***

    - Excessive fees -- fees that are disguised or hidden. These fees are unreasonable and unjustified and are inadequately explained to the borrower
    - Prepayment penalties -- These fees penalize borrowers for refinancing their mortgages early, and they can remove the incentive to refinance among borrowers whose credit improves. An abusive prepayment penalty is typically effective for three years and costs more than six months of interest.
    - Balloon payments - Regular monthly payments are reduced by having a very large "balloon payment" at the end of the loan term.
    - Debt packaging – The lender includes the borrower's outstanding credit card debt into a mortgage.
    - Yield spread premiums - These are common among subprime and predatory loans. They are kickbacks to mortgage brokers by lenders for securing loans with interest rates higher than the

minimum interest rate for which that borrower could have qualified. In other words, they are rewards for securing a loan with an inflated interest rate.

- Loan flipping - Flipping refers to the repeated refinancing of a loan in a short period of time, which often cause a borrower to pay fees or prepayment penalties that strip them of equity in their homes.
- Unnecessary products -- Predatory lenders will often package unnecessary life insurance or expensive homeowners insurance into a mortgage, because they get a kickback for the sale of such policies.
- Mandatory arbitration clause- This prevents a borrower from seeking conventional legal remedy in court if their home is threatened by abusive loan terms.
- Steering and targeting - A common practice in predatory lending is steering borrowers into the subprime market who could qualify for conventional loans. A lender may also give the false suggestion that a borrower could not qualify for better terms elsewhere.

8. Overall, do most of your clients have at least one or two of the bad loan terms we just talked about, including a high interest rate? ***(NOTE: try to probe for average number of bad loan features per client.)***

9. Which products are the worst for borrowers?

10. What about subprime lending - Does this differ from some of the practices above? If it differs, how?

11. Are there lenders who you work with frequently? Are there some lenders who are more willing to work things out than others? ***(NOTE: If so, which lenders are easier to work with and which are harder?)***

12. How much of what you've seen do you think could involve discrimination? For example, do Hispanics or African Americans seem to have interest rates that are higher than what their credit risk would suggest? Do lenders offering predatory terms seem to target minorities? **Can you give me some examples of this? *(PROBE FOR STORIES, ANECDOTES ABOUT SITUATIONS WHERE THEY THINK PEOPLE FACED DISCRIMINATION)***

13. Do people **TELL** you they think they've been discriminated against? About what proportion? ***(NOTE: If yes, ask: Where do you refer them/how do you handle this?)***

14. What is the best way for the Civil Rights Division to find and enforce fair lending violations? Can your institution help?

<<Partner name>>
<<Address>>
<<City, State Zip>>

<<Date>>

Dear Valued Partners (or address to each org. separately):

Thank you for agreeing to work with Colorado Civil Rights Division on this very important project, Partners Supporting Equality in Lending. I am honored to have the opportunity to work with you. You need to know that you were very carefully selected to work on this project based on your community involvement and reputation.

Enclosed are some valuable communication tools for your use on this initiative. Included you will find a brochure, PowerPoint presentation with notes, speaking script, poster, invitation letter, two page handout and two simple print ads. These tools are easily adaptable in Microsoft PC applications so you may customize them to your needs with respect to time, date and partner information.

I believe discriminatory predatory lending is a civil rights issue of immense importance. I intend to remain very actively involved in the outreach efforts and plan to attend various community meetings in Denver, Longmont, and Pueblo. Wendell will continue to assist me in making sure that we continue to move forward and will touch base with each of you periodically. Jennifer McPherson (303.894.7818) is available to answer any technical questions that you need answered. Please call Sylvia Salas-Aguilar (303.894.7823) regarding any billing questions or concerns you have with your contract.

I know this process is new to all of you and I'm sure we'll learn some lessons along the way that will require that we make some adjustments. I am very interested in hearing about your experiences as the project progresses. Again, thank you very much for assisting the CCRD in this very important project.

Sincerely,

Steven A. Chavez
Director
Division of Civil Rights

<Partner Logo>

<Consumer name>
<Address>
<City, State Zip>

<Date>

Dear <Consumer name> or Consumer,

If you have, or are thinking about purchasing a home in Colorado, you should be informed regarding your rights when it comes to your home loan.

The Colorado Civil Rights Division is currently conducting a study on Colorado lending practices over concerns regarding discriminatory and predatory lending. Questionable lending practices have significantly affected home foreclosures in Colorado, which ranks among the top 5 states with the most foreclosures.

- In 2006, 24 percent of Colorado mortgage loans were subprime. High cost subprime loans may be the only option for some, however generally the terms of a subprime loan are not favorable to the buyer and often come with higher interest rates, unexpected fees or penalties.

- Recent studies indicate that in 2006 a disproportionate number of these subprime loans, a little less than 40 percent, went to African-American and Hispanic borrowers. The study also revealed that these demographics may have been targeted even when their income level would have qualified them for a prime loan.

As a Colorado resident, you should be aware and protected from discriminatory and predatory lending.

You are invited to a community forum in your neighborhood to learn more:

DATE:

TIME:

LOCATION

If you need assistance regarding your loan, there are valuable resources here for you.

To file a housing or loan discrimination complaint, contact:

DORA's Division of Civil Rights: 303-894-2997 or toll free 1-800-262-4845

To file a complaint about a mortgage broker, real estate broker or appraiser, contact:
DORA's Division of Real Estate: 303-894-2166 or 303-894-2185

If you face foreclosure and need to speak to a housing counselor, contact:
Colorado Foreclosure Hotline: 1-877-601-HOPE (4673)

Together we can enforce justice, but we need you to share your home buying story.

Sincerely,

Partner Name
Title

Script for Discriminatory Lending Community Outreach

Outline

I. The Assumption – Colorado Has a Problem with Discriminatory Lending
II. Share Highlights of the Research Thus Far
   a. Facts and Figures
   b. Maps
   c. Anecdotal Evidence
III. Introduce the Division of Civil Rights – Conducting an Active Study
IV. Introduce Community Partners
   a. LARASA
   b. Longmont Office of Community Relations
   c. Ministerial Alliance - F.E.E.T.
   d. Pueblo Human Relations Commission
V. Hopeful Outcomes of this Outreach
   a. Prevention Education - Increase Knowledge of Red Flag Loans
   b. Identify Potential Victims so We Can Enforce the Law
   c. Provide Resources to Those Who Need It
   d. Encourage Quick Response (within one year) of Signing Loan
VI. Steps to Take
VII. Contact information

The Assumption – Colorado Has a Problem with Discriminatory Lending

- Purchasing a home is the biggest investment most of us make. It is a primary way in which our families save and create wealth, often passing it on to future generations.

- In the last few years, as the housing market has boomed, many families have been able to buy homes because of innovative mortgage products. For many, that was a wonderful development; for others, it turned sour.

- Unfortunately, a few “bad” lenders used the opportunity of the housing boom to prey on our most vulnerable people.

Highlights of the Research

The Data shows:

- In Colorado, in 2006, 24 percent of mortgage loans were subprime – meaning a higher cost loan often involving unexpected fees, terms and penalties. This is about 57,000 loans.

- One in 5 white borrowers got a subprime loan. That’s about 20 percent. But this compares to one in 2.3 African American and one in 2.3 Hispanic borrowers. (A little less than 40 percent). In other words, if you were an

African American or Hispanic borrower in 2006 you were twice as likely to get a subprime loan than a white borrower.

- While not all subprime loans are bad or discriminatory in nature, the terms are usually not favorable to the borrower.

- Some buyers sought subprime loans since these were their only option, especially if their income level was low and their credit score was less than perfect.

- The most disturbing facts that the data show is that even if you qualified for a prime loan based on a higher level of income, Hispanics and African Americans were <u>still</u> targeted for subprime loans.

- Look at the borrowers making more than $100,000 in this table: 16 percent of high-income white borrowers got subprime loans in 2006. For high income African American borrowers, the percentage was 39 percent. For high-income Hispanic borrowers, 33 percent.

The Maps Show:

- There is a geographic pattern to subprime lending. At the state level (show state map), the counties of Adams, Weld, Pueblo in metro Denver and south-central Colorado were subprime hotbeds.

- In the City and County of Denver, the subprime hotbeds were in west and northeast Denver—areas that are predominantly Hispanic and African American. (Point to Denver map).

Anecdotal Evidence -

- We are starting to learn more and more about those affected by such lending and we need to learn more. The Civil Rights Division surveyed participants at the Division of Housing foreclosure forum on March 18th and learned that:

    - The borrowers in this forum, on average, got subprime loans. Some indicated having credit issues (e.g., periods of unemployment), but overall, the borrowers had credit scores putting them in the prime rate category.

    - Many had adjustable rate mortgages. Nearly two-thirds (64%) report their first mortgage includes one or more of the following features: an adjustable rate; a prepayment penalty; a balloon payment; a payment for life insurance.

    - About half (49%) said they borrowed a higher loan amount in order to pay off other debts or to get cash out. Two-thirds have refinanced from one to five times.

- Just 15% attended a homebuyer's class before buying their house

- Over three-quarters (79.4%) reported they were not yet in foreclosure, but "may end up in foreclosure." One in five are currently in foreclosure or have already lost their home.

- Most were disproportionately minorities. Many have incomes of less than $50,000.

<u>Introduce the Division of Civil Rights – Conducting an Active Study</u>

- The Colorado Civil Rights Division, under the leadership of Steven Chavez, received a grant from the federal Department of Housing and Urban Development. The Division has used that grant to undertake in-depth research into discrimination in lending.

<u>Partners in Fair Housing</u>

- The Colorado Civil Rights Division is partnering with LARASA, the Ministerial Alliance and FEET (Financial Education and Economic Transformation) to help identify potential victims in the Denver Metro Area.
- The Division is also working with the Longmont Office of Community Relations and the Pueblo Human Relations Commission to help in the northern and southern regions.

<u>The purpose of the grant is to</u>:

- Understand subprime mortgage lending practices in Colorado;
- Determine if such lending is targeted in a discriminatory manner;
- Determine the households most affected by subprime mortgage lending;
- Understand why and how victims end up in such loans;
- Target our investigative and outreach efforts to enforce justice and ensure that Coloradans are not victims of discriminatory lending;
- Spread the word that there is a one-year opportunity to file a discrimination claim with the Colorado Civil Rights Division after getting into a loan; and
- Share resources to offer help now to those who need it.

<u>Steps to Take:</u>

- Here are steps you should take if you are concerned about your home loan:
  - Meet with the local housing counselors outlined in your handout and those we have present here to discuss your loan terms.
  - If you feel you may have been targeted in a discriminatory manner, contact the Division of Civil Rights right away to help with their investigation at 303-894-2997 or 1-800-262-4845

- If you want to file a complaint about the conduct of a mortgage broker or real estate agent, contact the Division of Real Estate, which is co-located with the Civil Rights Division at 303-894-2166 or 303-894-2185
- If you face foreclosure, contact the Foreclosure Hotline at 1-877-601-HOPE (4673)