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Study Shows Link Between Segregation and Subprime Loans

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Researchers at New York University who examined the relationship between subprime lending and race released a report on Thursday that found that the probability that individual borrowers receive risky, high-cost subprime loans increases depending on the racial composition of the neighborhood or metropolitan area where they live.

The policy brief, by the Furman Center for Real Estate and Urban Policy at N.Y.U., illustrates the stark and controversial racial disparities in subprime lending in New York City and other parts of the country.

The Furman Center researchers studied federal home loan data, New York City census tracts and 200 so-called Metropolitan Statistical Areas nationwide, including Chicago, Miami and Newark.

Their analysis shows that, nationally, black borrowers were more likely to obtain subprime loans if they lived in a more racially segregated metropolitan area. Locally, the study found that the likelihood that average borrowers of any race received a subprime loan increased if they lived in a part of the city with a high concentration of nonwhite residents. For example, a black borrower in a neighborhood with the highest share of nonwhite residents had a 38 percent chance of receiving a subprime loan, compared with 24 percent if the same borrower lived in a neighborhood with the lowest share of nonwhite residents.

When the share of nonwhite residents in a neighborhood increased, so did the probability that borrowers in that neighborhood would receive a subprime loan, according to the policy brief.

Housing and civil rights advocates say the subprime lending and foreclosure crisis has disproportionately impacted black and Hispanic neighborhoods, and they have accused lenders of a kind of reverse redlining, in which minority areas were being targeted for subprime mortgages.

Other studies have explored the issue. A Furman Center report in 2007 found that home buyers in predominantly black and Hispanic neighborhoods in New York City were more likely to get their mortgages from a subprime lender than home buyers in white neighborhoods, even in areas where median incomes were roughly the same. **Another report in 2008 by the New York-based**

Neighborhood Economic Development Advocacy Project and other groups showed that subprime lenders that had gone out of business made a greater number of loans in predominantly black and Hispanic neighborhoods than in white neighborhoods in New York City and other metropolitan areas.

The study released Thursday does not come to a definitive conclusion about the causes of the racial disparities in subprime lending. Researchers suggest that it might stem from neighborhood characteristics, like the lack of traditional banking institutions in many minority areas, or from subprime lenders singling out minority populations.

“We don’t know exactly what it is about those neighborhoods,” said Ingrid Gould Ellen, co-director of the Furman Center. “This calls for future research. The differences are pretty large and I think that it raises some serious questions about what is going on and how is it that borrowers get their loans.”

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