

# Report: Mortgage gap hits Evanston hard

<http://www.pioneerlocal.com/evanston/news/949217.ev-subprime-051508-s1.article>

May 15, 2008

By [KAREN BERKOWITZ](#) [kberkowitz@pioneerlocal.com](mailto:kberkowitz@pioneerlocal.com)

African-Americans who buy or refinance homes in Evanston are nearly five times as likely as white borrowers to receive high-cost loans, according to an examination of federal loan data by the Chicago Reporter.

The watchdog publication found that 48 percent of the home loans extended to Evanston's African-Americans in 2006 were considered high-cost loans, while only 10 percent of loans obtained by whites fell into that category. The total number of loans obtained by whites was much higher -- 1,529 -- compared to 368 for African-Americans.

The black-white disparity in the Evanston loan data was highlighted in "The Suburban Mortgage Gap," an article published online this month by the Chicago Reporter.

## **A dubious distinction**

Evanston had by far the widest mortgage gap among 52 suburbs studied, according to the story.

Housing advocates point to the aggressive marketing of subprime products in minority communities, which also are experiencing the highest rates of foreclosure.

"There is a whole set of reasons why it happens," said Geoffrey Smith, vice president of the Woodstock Institute, a policy research and advocacy organization. African-Americans are less likely to have a history of using mainstream banks and generally have lower credit scores than white borrowers.

"Lending institutions target minority borrowers for products, even if they may qualify for better terms," Smith said. "They are put into higher-cost products, and borrowers possibly don't realize there are lower-priced options out there."

Loans are considered "high cost" if the annual percentage rate is 3 or more percentage points over the rates for U.S. Treasury bonds of the same duration. In the current market, a 30-year loan with an APR of 7.5 percent or higher would be considered high cost.

## **Many high-cost loans**

One-third of the loans taken out by African-Americans in Evanston in 2006 were from lenders specializing in subprime or high-cost products.

Alden Loury, editor and publisher of the Chicago Reporter, said it's impossible to know from the data if a friend recommended a place to get a "no hassle" loan or if the borrower had been turned down by a prime-rate lender, "and this was their third or fourth option."

Still, Loury said it isn't too surprising that African-Americans would be less inclined to shop around, given the history of discrimination in lending.

"African-Americans are more apt to take the first 'yes' that they hear, perhaps because they are newer to the home lending market, but particularly if you think about their history," said Loury, whose magazine serves as a government and institutional watchdog.

"They are afraid of the 'no' more than their white counterparts. When they hear the 'yes,' they are so excited ... that they don't go out and see if someone else would give them the 'yes' as well."

### **A dizzying array**

Jasmine Brewer, who heads up the Evanston Foreclosure Task Force, said so many "exotic mortgage" products have been introduced that it's not always clear whether a mortgage is affordable or high cost.

"There are interest-only loans, adjustable loans, loans where you have an option of what you are going to pay and even negative amortization loans," said Brewer, a counselor with Interfaith Housing Center of the Northern Suburbs. Payment-option and negative amortization loans allow the borrower to pay less than the interest owed, so the loan principle rises.

"They can have an adjustable mortgage where they are paying only \$600 a month for the first year, and it looks good," Brewer said. "Then it starts increasing every six months or every year. Then they discover that their (property taxes) are not being escrowed," said the counselor.

Brewer's clients include many minority and older adults who have suffered financial setbacks following the loss of a spouse or employment. After putting 30 or 40 years of payments into a home, new loan products can deplete their equity -- and it becomes a vicious cycle.

"The way the economy is, lenders are looking a lot more harshly on credit scores," Brewer said. And given the economy's current condition, she said, "credit scores are getting destroyed rather quickly."