Women in the Subprime Market

After her divorce, and a long, expensive battle for child support enforcement, D. Bowers' ex-husband died and she transfered the house (pictured above) into her own name. But a lender told her that she didn't have credit. Although she had stable, long term employment, and her home was nearly paid off, she had no bills or credit cards in her own name.

Then, when the home equity market opened up in early 1998, Green Tree contacted her offering a refinance in her name and cash to pay off other debts and improve her home. Green Tree charged her 17.897% APR interest on a new $30,000 loan, including a 5% origination fee.

After Conseco took over Green Tree, the company contacted her again to offer another cash-out refinance, according to Ms. Bowers. While the rate was lower (13.65% APR), the new loan added thousands in new fees.

Finally in August of 2000, she refinanced her home loan again with Associates Home Equity. They offered her $5,200 to pay off other debts, and a new rate of 11.78% APR, with another 5% "discount" fee. In just three years, Ms. Bowers increased her home loan balance to **almost $50,000** from $8,500. Only about $25,000 of that newly borrowed money actually paid off debts and improved her home, while $16,500 paid lender and closing charges.

Ms. Bowers may qualify for prime credit. She recently tried to refinance her home again --but this time she understood that she needed a much lower rate and didn't want to add any more to her loan balance. After significant negotiation with a loan broker, he offered her a refinance loan at less than 7%. The fees were still too high, so she rejected the offer. But she won't be taken advantage of again.

In the three years since the inauguration of home equity lending, Texas has become one of the country's leading markets for high cost subprime loan companies. Now controlling over a third of all refinance lending, subprime companies find a disproportionate share of their borrowers among women, minorities, and elders. In a four part series, Consumers Union SWRO presents results of our own look at subprime lending to women (this report), elders, and minority borrowers (reports two and three). The final report will outline weaknesses in Texas consumer protections that leave these groups vulnerable to predatory practices (very high fees at closing, loans they cannot afford to repay).

The Consumers Union Study

This study uses 1997 to 2000 Home Mortgage Disclosure Act (HMDA) data to identify lending patterns for Texas women who refinanced a home.

Specifically, we identify the growth in subprime lending at the state and city (MSA) level, by borrower gender, race, and geographical area. We use 2000 census data to identify patterns within that growth. Where necessary we combine four years of HMDA data to identify patterns in areas where lending is historically sparce (smaller MSAs, lower income areas, high minority areas) and patterns among individual lenders.[1]

Subprime Lending Boom

Over the four year period of this study, the Texas refinance loan market grew significantly, with most of that growth in 1998, a year of lower interest rates and the inauguration of laws to allow home equity lending for the first time. Refinance loans in 1998 increased more than 330 percent over 1997 levels. The volume of traditional home improvement loans actually fell and continues to fall, indicating a shift from traditional home improvement to refinance (taking additional cash out for home improvements) under the new home equity law.

While all refinance jumped with the inauguration of home equity lending, suprime lenders grabbed a big chunk of the new market. Borrowers took 23,480 refinance loans from subprime companies, up from only 2,630 in 1997. Subprime market share jumped from 6.5 percent to a remarkable 34.7 percent of all refinance loans. Ten of the top twenty Texas refinance lenders (2000) were subprime lenders.

The "Subprime Premium"

Subprime loans cost more, and were initially created for borrowers with a credit history that would disqualify them from prime mortgage lending.

According to Equifax, about 60 percent of people have credit scores that qualify them for prime credit (over 700), another 15 percent have scores in a range with moderately increased risk (650-699), while about 25 percent of borrowers fall into lower credit categories.[2] But in the refinance market, more than a third of borrowers get subprime loans--indicating that some borrowers with adequate credit for a prime loan are paying the higher cost of a subprime loan.

That increased cost is significant.

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Companies report interest rates ranging as high as 19 percent, and weighted average rates around 10.27 percent over the past two years.[3]

This is more than three points higher on average than a prime loan during the same period. Consumers who pay 10.27 percent on an average subprime refinance loan will pay an additional $1,944 in interest alone *each year*.[4] This subprime premium is sometimes exacerbated by significant closing costs.

Subprime Borrowers: Women

Women increasingly take the lead as the primary borrower for all types of home loans. The share of loans to male primary borrowers decreased over this period, while the share to women primary borrowers increased for both home purchases and refinance loans.

Unfortunately, the percent of women taking loans from subprime companies increased rapidly over this period, accounting for some of the new lending to women. By 2000, loans by subprime companies amounted to 28.7 percent of refinance loans to men, and 38.9 percent of refinance loans to women.

Women With No Reported Co-Applicant Take Highest Share of Subprime Refinance Loans; Traditional Couples Headed by Male Applicant Take Lowest Share

Man primary, woman co-applicant	25.0%
Woman primary, man co-applicant	33.5%
Man primary, no reported co-applicant	33.1%
Woman primary, no reported co-applicant	39.3%

When a man and woman borrow together (whether as a couple or in another relationship), the pair got a subprime refinance loan far more often if the primary borrower was the woman. Male applicants with a female co-applicant took a refinance loan from a subprime company 25 percent of the time in 2000. When the relationship is reversed, the pair got a loan from a subprime company 33.5 percent of the time.

Single women appear to fare even worse.[6] Almost 40 percent of the more than 10,000 women who had no reported co-borrower took a refinance loan from a subprime lender.

The discrepancy between male and female primary borrowers appears in every MSA, with the greatest discrepancies in Bryan-College Station and Waco. Since the number of female borrowers in some MSAs was small for a single year of data, we also calculated the overall ratio of women getting subprime loans to men over the full four year period. In several MSAs, women took subprime refinance loans at double the rate of men over four years.

Income appears to be a factor in the higher subprime refinance lending to women. Since women, especially single, divorced or widowed women, traditionally earn less than men, Consumers Union compared female borrowers earning more than $60,000 per year (1.5 times the state's median family income) to their male counterparts. Accounting for income in this way, women still took more refinance loans from subprime companies than men, but the gender gap is smaller.

Black Women Receive Highest Share of Loans from Subprime Lenders

Looking at gender and ethnicity together, we find that White women received a higher share of loans from subprime companies than White men. Minority women received the highest share of loans from subprime companies, and this share has increased dramatically over the four year period.

Again, income is a factor, but does not eliminate the discrepancy. For year 2000, we find that Black women earning more than $60,000 per year still take loans from subprime companies at two and a half times the rate of White men (see Tables on page 4).

Women Who Apply Alone Take Highest Share of Subprime Loans, Even When Earning More than $60,000 Per Year (1.5 times state median family income)	
Man primary, woman co-applicant	17.9%
Woman primary, man co-applicant	23.8%
Man primary, no reported co-applicant	26.1%
Woman primary, no reported co-applicant	27.2%

We believe these figures are a conservative estimate of the level of subprime lending to women. By 2000, 8375 Texas refinance loans did not include information about the gender of the borrower, and more than half of these (57.4 percent) were loans made by subprime companies. In fact, a handful of subprime companies routinely do not report data about borrowers mandated under HMDA. Among refinance lenders, Centex Home Equity and Citifinancial-Texas together account for 37.8 percent of unreported data due to a "mail or telephone" application process.[7] In Texas, lenders may take applications by "mail or telephone," but loans must close in person (at a title company office or an attorney's office), so there is finally a face to face meeting when lenders could confirm the ethnicity of the borrower.[8]

Recommendations

We find that women have been paying the "subprime premium" at a much higher rate than men. Women may end up in subprime home loans due to a divorce, a medical emergency, or simply because many married women have not built up their own credit. High cost subprime refinance should not be the only alternative for women supporting a family. To prevent the stripping of equity from the most vulnerable single mothers and struggling divorcees, the Texas Legislature should reduce the high fees and costs associated with home refinance. The American Association of Retired Persons (AARP), the National Consumer Law Center and others have defined loans as "high cost"

Women Take Greater Share of Subprime Loans

City	2000 Male Borrower Subprime Share	2000 Female Borrower Subprime Share	2000 Ratio Women/ Men	Four Year Ratio Women/ Men
ABILENE, TX	19.8%	29.3%	1.48	1.54
AMARILLO, TX	31.5%	37.4%	1.19	1.67
AUSTIN-SAN MARCOS, TX	24.1%	33.2%	1.37	1.62
BEAUMONT-PORT ARTHUR, TX	40.1%	47.8%	1.19	1.63
BRAZORIA, TX	28.1%	39.3%	1.40	1.71
BROWNSVILLE-HARLINGEN-SAN BENITO, TX	25.9%	40.5%	1.56	1.62
BRYAN-COLLEGE STATION, TX	13.6%	29.6%	2.18	2.12
CORPUS CHRISTI, TX	36.3%	52.2%	1.44	1.71
DALLAS, TX	25.3%	34.7%	1.37	1.79
EL PASO, TX	45.1%	51.0%	1.13	1.36
FORT WORTH-ARLINGTON, TX	22.1%	30.5%	1.38	1.73
GALVESTON-TEXAS CITY, TX	35.3%	49.5%	1.40	2.12
HOUSTON, TX	31.1%	41.9%	1.35	1.80
KILLEEN-TEMPLE, TX	40.9%	48.6%	1.19	1.76
LAREDO, TX	31.3%	48.1%	1.54	1.80
LONGVIEW-MARSHALL, TX	16.2%	26.7%	1.65	2.11
LUBBOCK, TX	31.0%	35.4%	1.14	1.52
MCALLEN-EDINBURG-MISSION, TX	30.3%	44.1%	1.46	1.71
ODESSA-MIDLAND, TX	19.4%	31.7%	1.64	1.83
SAN ANGELO, TX	25.1%	33.8%	1.35	1.49
SAN ANTONIO, TX	38.7%	46.0%	1.19	1.58
SHERMAN-DENISON, TX	23.5%	34.3%	1.46	1.77
TEXARKANA, TX-AR	18.4%	29.7%	1.61	2.02
TYLER, TX	22.3%	22.2%	1.00	1.54
VICTORIA, TX	32.6%	41.0%	1.26	2.09
WACO, TX	20.6%	40.9%	1.98	2.16
WICHITA FALLS, TX	24.9%	41.6%	1.67	1.74

HMDA owner occupied refinance loans made by HUD identified subprime lenders as a share of all refinance loans made to male and female primary borrowers.

By 2000, Nearly Two Thirds of Refinance Loans to Black Women Were Made by Subprime Companies

	Black Woman	Black Man	Hispanic Woman	Hispanic Man	White Woman	White Man
1997	20.5%	19.2%	11.0%	7.0%	5.3%	4.4%
1998	37.6%	22.3%	22.3%	13.9%	9.5%	5.6%
1999	52.0%	34.7%	37.4%	26.7%	18.0%	11.0%
2000	63.3%	54.3%	45.4%	37.8%	29.1%	21.6%

Percent of 2000 refinance loans made to each borrower group in Texas by HUD-identified subprime companies.

if they have an interest rate that equals or exceeds six percentage points over the weekly average yield on five year treasury bills (currently about 3.5 percent but more typically ranging from 4 to 6.5 percent over the period of this study). These groups also define "high cost" as loans that contain fees in excess of three percent of the loan amount.[9] The Texas Legislature should set standards for "high cost" loans:

- prohibit the financing of fees, closing costs, or other lender charges (including "prepaid" points) that rise above three percent of the loan amount. Current Texas law limits fees to three percent of the loan amount, but lender origination fees and points are not counted in that cap. Therefore, fees quickly rise to eight or ten percent of the loan and are usually financed by increasing the amount borrowed to cover the higher costs.
- require loan counseling for any borrower getting a high cost loan during the existing 12 day waiting period before the loan closes.

Even borrowers getting subprime loans where the rate does not exceed six percent above the weekly 5-Year Treasury Bill rate deserve additional protections to preserve their home as an asset. Along with AARP and the National Consumer Law Center, we recommend:

- limiting "discount points" to legitimate charges that actually provide a substantial benefit to consumers. The AARP, the Self Help Credit Union, and the National Consumer Law Center,have created standards for "Bona Fide Discount Points" that would eliminate many of the problem fees consumers face at closing.

Black Women Earning More than $60,000 Still Took a Much Higher Share of Refinance Loans from Subprime Companies in 2000

	Black Woman	Black Man	Hispanic Woman	Hispanic Man	White Woman	White Man
2000	51.4%	44.5%	37.5%	29.6%	19.7%	15.8%

Notes

[1] Owner occupied, single family refinance loans, excluding loans made by HUD identified manufactured home lenders (a total of 409,354 loans over four years).

[2] Equifax [Internet]. MyFICO Score Analysis, www.equifax.com, May 3, 2002.

[3] Consumers Union reviewed a dozen securitization reports filed with the Securities and Exchange Commission for blocks of subprime loans sold to investors by five different companies lending in Texas. The reports covered 22,870 loans. Companies reported an average interest rate for each block of loans, and we calculated a weighted average rate of 10.27 percent for all the blocks combined. Companies reported rates ranging from a low of 5.49 percent to a high of 18.99 percent.

[4] Estimating an average subprime rate of 10.27 percent, we calculated the additional cost of this loan compared to a 7 percent prime loan.

[6] Data for the 2000 reporting year does not clearly distinguish single borrowers from those who elect to borrow in the name of only one partner. Currently, lenders report the gender of the borrower and co-borrower, or report "Not Applicable." Changes in reporting instituted in 2002 will begin to specifically code for borrowers who have no co-applicant separately from the "Not Applicable" code. Not Applicable will be used exclusively when the borrower is a corporation.

[7] "To try to stem the increasing rate of missing data" the Federal Reserve Board recently required lenders to report gender and ethnicity in telephone applications, effective January 1, 2003. Information will be available for analysis in the fall 2004. Federal Reserve System, 12 CFR Part 203, Docket No. R1120, Final Rule; staff interpretation, June 21, 2002.

[8] Texas Constitution, Article 16, Section 50(a)(6)(N).

[9] American Association of Retired Persons Public Policy Institute, "Home Loan Protection Act," November 2001.