

## **Subprime Lending and Reverse Redlining**

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This study relates broadly to discrimination in mortgage lending & more specifically to subprime lending & reverse redlining. This study discusses subprime lending in the City of Des Moines using the Home Mortgage Disclosure Act. Statistical techniques, including logistic regression and cross tabulations were utilized to assist in this endeavor. The data identify areas of subprime lending & the probability of reverse redlining based on census tracts of the city. Demographic characteristics of the tracts that would indicate reverse redlining are studied in relation to the lending patterns. This study contributes to the body of research concerning mortgage-lending discrimination.

The purpose of the study is to examine the phenomena of subprime lending & to determine the likelihood of reverse redlining in relation to the demographics characteristics of census tracts & lending patterns within the tracts of the city of Des Moines, Iowa.

Subprime lending is a very vital part of the economy. Subprime lenders provide loan to borrowers who do not meet standards, which would make them “prime” borrowers. Subprime borrowers exhibit characteristics indicating a higher risk of default than conventional borrowers. It is usually linked to an applicant’s credit history.

However, subprime loans are often given to borrowers with good credit. Targeted populations consist primarily of elderly, minority, women &/or low-moderate income homeowners. These households are targeted because their access to financial services is limited.

Reverse redlining is the opposite of redlining. Redlining involves the exclusion of certain neighborhoods (primarily minority and low-to-moderate income) from financial services. Reverse redlining specifically targets and makes high cost loans available to the same type of neighborhoods (primarily minority and low-to-moderate income).

The hypotheses for this study are as follows: Hypothesis 1: Minority homeowners are more likely to be victims of reverse redlining than non-minority homeowners; Hypothesis 2: Homeowners below the area median income are more likely to be victims of reverse redlining than homeowners above the area median income; and Hypothesis 3: Homeowners with refinance loans are more likely to be victims of reverse redlining than homeowners with reverse redlining than homeowners with home purchase loans. All three hypotheses were supported by the research findings.

This study provides an overall understanding of the lending patterns of lenders in the city of Des Moines. It provides additional information to contribute to the quality of life for individuals and communities by addressing the housing finance of under-served populations and enforcing the need for educating residents about mortgage lending and discriminatory practices.