



MISSISSIPPI SUBPRIME LENDING FACT SHEET

Mississippi has the highest rate of subprime home lending in the country. While not all subprime loans are predatory, predatory lending practices tend to be concentrated in the subprime market. Given the high rate of subprime lending in Mississippi and the connection between subprime lending and predatory lending practices, this fact sheet highlights the effects of subprime lending across the state.

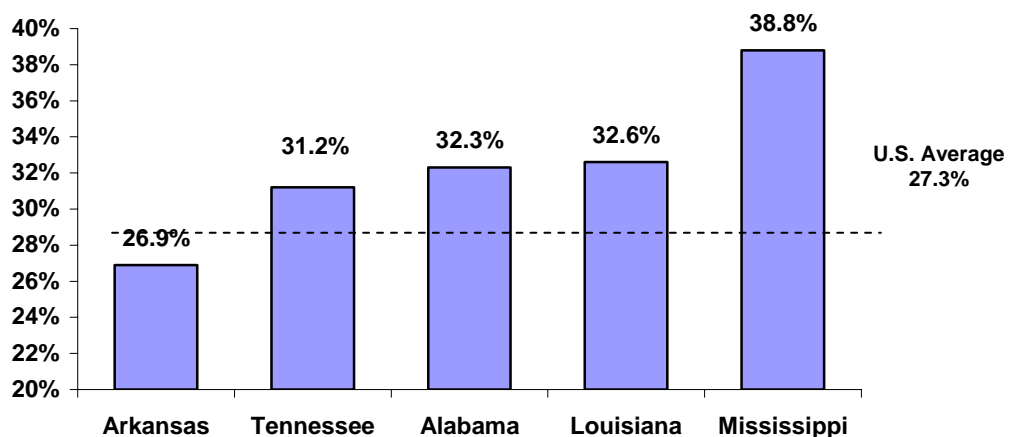
Key Terms

- **Subprime lending** can be defined as lending to borrowers with “elevated credit risks.”¹ Credit risks may be elevated due to weak borrower credit histories or low down payment capacity. Subprime loans often carry high interest rates and other features such as prepayment penalties that increase the cost of the loan for borrowers.²
- **Predatory lending** can be defined as “a set of loan terms and practices that falls between appropriate risk-based pricing by subprime lenders and blatant fraud.”³ Predatory lending practices can strip wealth from families and communities.

General Lending Trends

Over the last several years, subprime lending in Mississippi has steadily increased. Between 1997 and 2004, the percent of conventional home purchase mortgage loans made by subprime lenders increased from 1.9% to 14.2%.⁴ In 2005, Mississippi had the highest rate of subprime lending in the country (38.8%). The rate was 11.5 percentage points higher than the national rate (Chart 1).

Chart 1
Percent of Conventional Loans that were Subprime (2005)

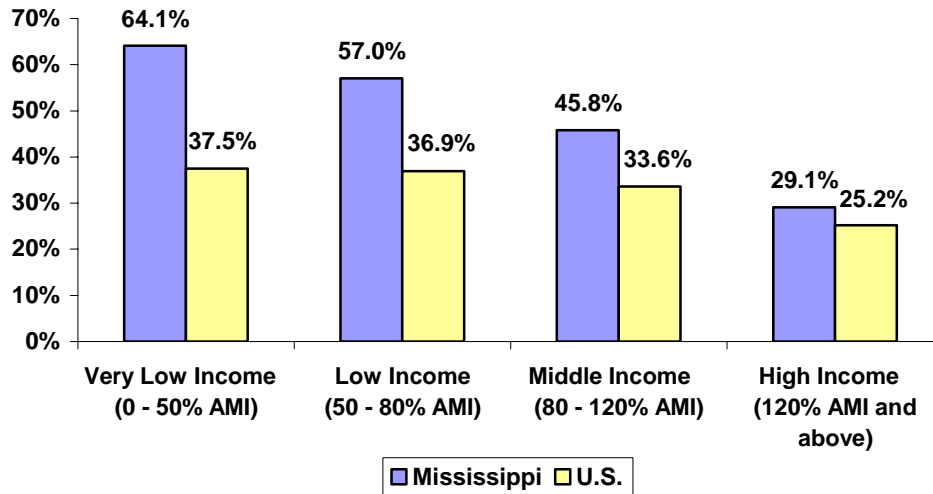


Source: Dataplace by Knowledgeplex, www.dataplace.org.

Lending by Income

Mississippi had the highest rate of high-cost lending in the country to very low income borrowers (those with incomes at or below 50% of the area median income). According to an analysis of Home Mortgage Disclosure Act Data, 64% of Mississippi's very low income borrowers received subprime loans compared to 29% of its high income borrowers (Chart 2).

Chart 2
Percent of Subprime Conventional Purchase Loans with High Interest Rates by Income (2005)

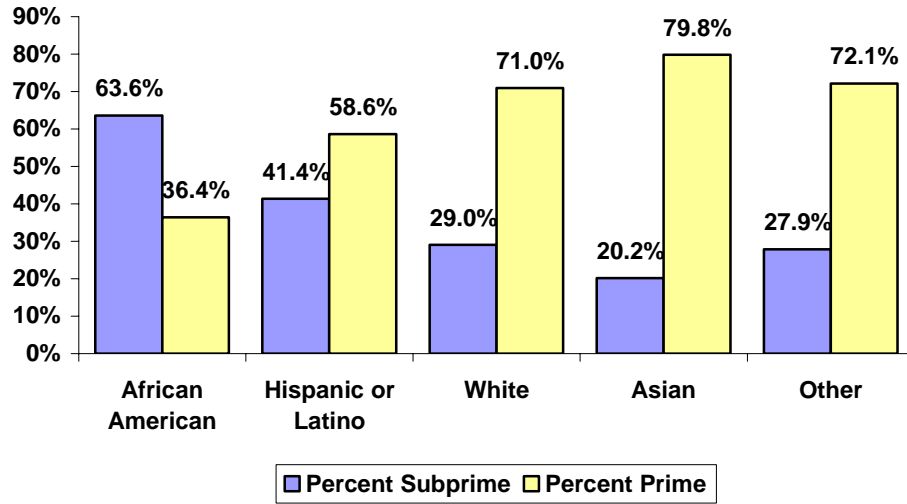


Source: Dataplace, generated with 2005 HMDA data, www.dataplace.org.

Lending by Race

A review of home lending by race showed that subprime lending rates to minority borrowers were higher for African American and Latino borrowers than white borrowers. Conversely, prime lending rates to white borrowers were higher than the prime rates of lending for African American and Latino borrowers. Asian borrowers experienced the lowest rate of subprime lending and the highest rate of prime lending (Chart 3).

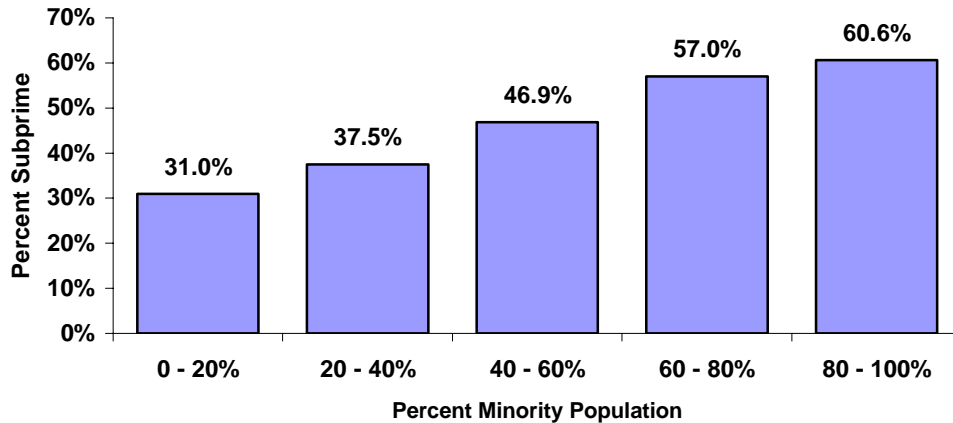
Chart 3
Percent of conventional mortgage loans subprime by race (2005)



Source: MEPC analysis of conventional mortgages originated in Mississippi in 2005 for single-family owner-occupied homes, 2005 HMDA data.

Additionally, as the percent of the minority population increases within a given census tract, the percent of mortgages that are subprime were also likely to increase. In 2005, 61% of borrowers living in census tracts with a high concentration of minority households (80-100% minority) received a subprime loan, compared to 31% of borrowers living in census tracts with a low concentration of minority households (0-20% minority) throughout the state (Chart 4).⁸

Chart 4
Percent of Mortgages that are Subprime by Percent Census Tract Minority Population, 2005



Source: MEPC analysis of conventional mortgages originated in Mississippi in 2005 for single-family owner-occupied homes, 2005 HMDA data.

Endnotes

¹ Remarks by Governor Edward M. Gramlich At the Financial Services Roundtable Annual Housing Policy Meeting, Chicago, Illinois May 21, 2004:

<http://www.federalreserve.gov/BoardDocs/speeches/2004/20040521/default.htm>

² Within the Home Mortgage Disclosure Act dataset used for this analysis, a mortgage loan was defined as subprime if the difference between the annual percentage rate on the loan and the applicable Treasury yield was equal to or greater than 3 percentage points for first-lien loans or 5 percentage points for subordinate-lien loans.

³ Understanding Predatory Lending: Moving Towards a Common Definition and Workable Solutions http://www.jchs.harvard.edu/publications/finance/goldstein_w99-11.pdf

⁴ Dataplace, generated with 2005 HMDA data, www.dataplace.org. "Subprime lenders" are those who HUD has identified as specializing in subprime mortgage lending, but they may also do prime lending. Prior to 2004 it was not possible to determine from HMDA whether an individual loan was subprime, so this indicator was used to approximate the level of subprime lending.

⁵ MEPC analysis of conventional mortgages originated in Mississippi in 2005 for single-family owner-occupied homes, 2005 HMDA data.

⁶ "Urban" is defined as counties included in Metropolitan Statistical Areas (MSAs), as defined by the U.S. Census Bureau, and "rural" is defined as all counties outside of MSAs. The urban counties in Mississippi are Desoto, Hinds, Madison, Rankin, Lamar, Forrest, Hancock, Harrison, and Jackson Counties.

⁷ MEPC analysis of conventional mortgages originated in Mississippi in 2005 for single-family owner-occupied homes, 2005 HMDA data.

⁸ MEPC analysis of conventional mortgages originated in Mississippi in 2005 for single-family owner-occupied homes, 2005 HMDA data.