An Analysis of Residential Lending Patterns in Benton Harbor and St. Joseph, Michigan

A Report to the Race Relations Council of Southwestern Michigan

By

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Executive Summary

The goal of this report is to examine one segment of community economic activity -- home lending -- in the Benton Harbor-St. Joseph area. We aim to identify potential disparities and develop ways to improve access to affordable mortgage credit for low- and moderate-income community residents, particularly those in Benton Harbor. The availability of fairly priced housing credit is critical to the stability of a community. Without it, properties deteriorate and may eventually be abandoned, and modest-income families see their chief method of building wealth undermined. An analysis of mortgage lending in a community can indicate practices that contribute to disinvestment in an area. Examining lending patterns serves to identify credit needs and indicate opportunities for improved lending practices.

Key Findings

This report identifies at least three possible areas of credit need:

- First, and most apparent, is the dominance of subprime refinance lending in Benton Harbor. Subprime lenders specialize in lending to borrowers with subpar credit histories. This industry has exploded nationally in recent years. Some of these lenders have been found to engage in "predatory" lending practices, including encouraging overly frequent refinancings and charging excessive fees. These practices can decrease the equity that homeowners have in their homes and lead to foreclosures and bankruptcies. Not all subprime lenders engage in such practices, but the excessive concentration and magnitude of subprime refinancings in Benton Harbor -- 81 percent of refinance applications in Benton Harbor in 1997 were taken by subprime firms -- suggest that predatory practices may be commonplace.

- A second area of need suggested by this report is for home-improvement loans for low- and moderate-income homeowners in Benton Harbor. There were 125 applications for such loans in Benton Harbor in 1997, with 77 being denied, suggesting a significant unmet demand.

- Finally, while the raw numbers are somewhat small, the large disparity in loan denial rates for home purchase loans between middle- and upper income African-American and white residents of the combined communities is troubling. (Denial rates for middle- and upper-income whites are extremely low at 3 percent.) Increased attention to this issue by lenders and regulators is warranted.

Recommendations for Local Planning and Action

While the regulation of mortgage activity is carried out primarily by federal agencies, banking laws – especially the Community Reinvestment Act (CRA) – empower local communities with the ability to encourage financial institutions to improve their lending in lower-income and minority communities. Community groups and local governments can enter into agreements with financial institutions to increase lending in targeted areas, or can call on regulators to examine local problems with lending patterns.

Specific recommendations in the report include:

1) The information in this report should be shared with local financial institutions, especially those that are relatively inactive in Benton Harbor's refinance market. Representatives of national mortgage lenders that might be suspected of predatory practices might also be contacted, although leverage here is somewhat weaker. Community leaders can develop reinvestment agreements with banks and thrifts. These agreements can specify numerical goals for increased lending of the sort lacking in Benton Harbor, especially affordable refinancing products. Banks that may be considering mergers will be most responsive to such approaches, but such discussions can occur at any time.

2) Bank and mortgage company regulators can be contacted, especially if a direct approach to a financial institution does not yield an adequate response. Bank and thrift CRA regulators can be contacted to inform them if an institution is relatively unresponsive to the credit needs of a community. The disparities described here in marketing of refinance loans should be of particular interest to staff in the fair housing division of the U.S. Department of Housing and Urban Development, which regulates mortgage companies – including most subprime firms.

3) Local and even state governments can encourage banks to provide affordable financing in local lower-income communities. This might involve using government deposits as rewards for responsible lending activity or withdrawing funds from those banks that are less responsible. Local and state governments around the country have developed local deposit ordinances to do this.

4) An important element of any broad strategy for reducing predatory lending is increased financial literacy among homeowners, especially regarding the appropriate use and structure of home equity debt. Consumer credit counseling, legal assistance and related services will help reduce the market for predatory lenders and increase it for conventional, more responsible providers of credit.

5) A final possible method for addressing local credit needs is to develop or enhance an alternative financing intermediary that can provide the sort of affordable financing that is needed. For example, such an intermediary could provide home-improvement loans and/or affordable refinancing for Benton Harbor homeowners. Banks can join together to form loan pools or consortia which might provide such financing. Often times, however, some sort of operating subsidy is needed to support such activity, especially in smaller markets. Any existing local or nearby housing finance intermediaries that might serve these needs should be consulted before any serious consideration is given to establishing a new program or entity.

Introduction

Neighborhood disinvestment is a complex process that is caused by an accumulation of factors. Historical discrimination in housing, employment, and education results in lower incomes that are perpetuated across generations. Continuing discrimination reinforces and exacerbates these historical legacies. In examining current inequalities across race and community, it is important to look at the external as well as internal forces shaping housing, employment, and educational opportunities.

The goal of this report is to examine one segment of community economic activity -- home lending -- in the Benton Harbor-St. Joseph area to identify potential disparities and to develop ways to improve access to affordable credit for low- and moderate-income community residents, particularly those in Benton Harbor. The availability of fairly priced mortgage credit is critical to the stability of a community. Without it, properties deteriorate and may eventually be abandoned. If those looking to buy homes in an area have difficulty obtaining credit, home values drop. If home improvement financing is difficult to come by, houses fall into disrepair. If low- or moderate-income homeowners rely on high-priced, poorly structured loans when they look to refinance their homes, they may end up with excessive debt. This, in turn can lead to defaults and foreclosures, damage to their credit reports, and long-term harm to their ability to obtain credit, bank accounts, or even employment.

An analysis of mortgage lending in a community may indicate practices that contribute to disinvestment in an area. Examining lending patterns serves to identify credit needs and indicate opportunities for improved lending practices. This report looks only at mortgage lending, which may be conducted by banks, savings and loans, credit unions, and mortgage companies. In many cases, mortgage lending is only a slice of a financial institution's activity in a community. Some banks focus on small business lending or other types of commercial development. Thus, low residential lending numbers by a bank do not necessarily provide a complete picture of a banks' investment or involvement in a community.

The federal mortgage lending data analyzed here focus on lending for three purposes: home purchase, home improvement, and the refinancing of a home purchase loan.[1] Using 1997 data (the most recent available), we examine various differences between lending patterns in Benton Harbor and St. Joseph. We then provide key findings and possible steps for planning and action for consideration by the community.

The Regulatory Context: The Community Reinvestment Act and Fair Lending

Before reviewing the results of the lending analysis, it is important to understand the regulatory context that exists in the mortgage financing arena. There are two bodies of federal law that have particular importance here: the Community Reinvestment Act (CRA) and fair lending laws. Passed in 1977 to combat redlining and discrimination by banks, the CRA requires banks and thrifts (or "savings banks") to make loans accessible to qualified applicants throughout their service area. CRA regulations pay particular attention to how well banks serve lower-income areas and individuals. The law also governs the provision of basic financial services and investments (grants, very long-term loans, etc.) in a bank's service area. The CRA does not directly apply to credit unions, mortgage companies, and finance

[1] The total residential lending figures include loans for multifamily buildings (apartment buildings with five or more units), but these are not closely examined. Most home equity lines of credit are not included in these data, because they are not collected under the federal Home Mortgage Disclosure Act.

companies, but is an effective tool for working with banks to increase the financial services and credit available in a community. Moreover, many mortgage companies are owned by bank holding companies and, while these companies are not generally regulated for CRA, their lending patterns are sometimes considered in the evaluation of an affiliate bank. CRA regulators examine both the distribution of loans across neighborhoods as well as the distribution by income of loan applicants.

CRA regulations require government regulators to regularly evaluate the CRA activity of banks and thrifts. Community groups can comment to regulators on an institution's performance. Also, when a bank seeks to merge with another institution, open new branches, or engage in other selected activities, community groups can comment on whether the regulator should approve the institution's application for such action. Many community groups around the country have entered into "CRA agreements" with banks in which the banks agree to improve their lending, investment or service performance in lower-income communities.

The 1968 Fair Housing Act also covers the provision of mortgage credit. Regulations and case law implementing the Act and covering mortgage lending are called "fair lending" law. Unlike CRA, which emphasizes the distribution of lending across neighborhoods and income levels, fair lending law applies primarily to the race, ethnicity, gender, age, and disability status of loan applicants. Differences in lending practices or patterns attributed to these characteristics fall under these laws. Lenders can be sued or prosecuted by private or public agencies for breach of these laws.

The Approval-Denial Experience of Home Buyers and Home Owners

In 1990, federal mortgage data began to provide information on the race and gender of home loan applicants and on whether an applicant received a loan. Much attention has been given since then to the persistently higher loan denial rates among African-American loan applicants versus white applicants. African-American denial rates continue to exceed white denial rates nationally by approximately a 2:1 ratio. While some of this difference can be explained by differences in income and credit history, studies using more complete data have shown that even after controlling for such characteristics, African-Americans suffer from higher denial rates.

Despite the evidence showing discrimination in lending against African-Americans, the mortgage data used here is limited in informing us as to the nature of the lending process. For example, some lenders have relatively high denial rates for certain groups because they market more aggressively to those groups. This can be a positive or negative phenomenon. If the lender is trying to meet the credit needs of the target community responsibly and makes more loans as a result of the aggressive marketing, then this is a positive trend and the high denial rates should not be seen as a problem. However, if the lender or its agent is marketing high-cost, poorly structured debt to vulnerable home buyers or owners, then such behavior can be destructive.

Notwithstanding the limitations of looking at denial rates, they can provide some information on potential credit needs. We first look at the different denial rates in the two communities for different types of loans. Table 1 compares denial rates between Benton Harbor and St. Joseph while controlling for applicant income. In most categories, the denial rates in Benton Harbor are greater than those in St. Joseph -- more than three times higher in some cases. The denial rates examined are for home purchase loans, home improvement loans, and all other residential lending combined. Because the number of loans or the difference in denial rates is quite small in some categories, the table indicates in bold those differences that are statistically significant.

Denial rates in Benton Harbor for all residential lending combined are higher than those in St. Joseph at every income level. Low- and moderate-income applicants for residential loans in Benton Harbor are denied loans 2.1 times more often than their counterparts in St. Joseph. Middle-income and upper-income applicants in Benton Harbor are respectively denied 3.1 and 5.1 times more often than similar applicants in St. Joseph. The dominance of subprime lenders in the Benton Harbor refinance market (described below) contributes to this difference.[2] Subprime lenders tend to market very aggressively and tend to have high denial rates.

Within home purchase lending, denial rates to middle-income applicants are the most different. Middle-income Benton Harbor applicants are denied 2.8 times more often than similar applicants in St. Joseph.

Table 1 shows that, for home improvement lending, the denial rates of middle-income applicants (57 percent in Benton Harbor and 38 percent in St. Joseph) were more similar than for other income groups, although the small number of applications in the upper-income category means that the difference in that category is not statistically significant. Denials among low- and moderate-income applicants had the greatest disparity with a rate in Benton Harbor (62 percent) that was nearly four times as high as the rate in St. Joseph (16 percent). The high denial rate for lower-income home improvement applicants in Benton Harbor suggests a possible unmet need for home improvement lending.[3]

Table 1
Denial Rates by Community and Income of Applicant

	Income of Applicant								
	Low and Moderate (up to 79% of MSA* median income)			**Middle** (80% to 119% of MSA median income)			**Upper** (120% + of MSA median income)		
Type of Loan	BH	SJ	BH/SJ Ratio	BH	SJ	BH/SJ Ratio	BH	SJ	BH/SJ Ratio
Home Purchase	24.8%	20.9%	1.2	**16.0%**	**5.7%**	**2.8**	4.8%	6.0%	0.8
Home Improvement	**61.6%**	**15.8%**	**3.9**	**57.1%**	**38.2%**	**1.5**	16.7%	8.3%	2.0
All Residential	**40.2%**	**18.8%**	**2.1**	**41.0%**	**13.1%**	**3.1**	**31.7%**	**6.2%**	**5.1**

*Metropolitan statistical area
Note: Bold cells are statistically significant; others are not.

[2] Subprime lenders are those lenders that specialize in making loans to individuals with subpar credit.

[3] Denial rates in Benton Harbor did not vary significantly by type of lender (prime vs. subprime). Thus, in the case of home-improvement lending, subprime lending does not explain the large difference in denial rates between the two communities.

Another way to look at denial rates is simply by the race of the loan applicant. While the two communities are certainly racially segregated,[4] looking at the race of each loan applicant might provide additional information. (Unfortunately, for refinance and home improvement loans, the racial information in the mortgage data are not very complete, so the Benton Harbor – St. Joseph location actually provides a more accurate indicator of racial trends.)

Table 2 shows differences in denial rates by race and income for home purchase loans for both communities combined. The table indicates that black denial rates are approximately 2.5 times those of white denial rates, somewhat worse than the national disparity of 2.0. This disparity is due to differences in the denial rates of middle- and upper-income whites and blacks, indicating that income alone is not likely to explain the difference. (Denial rates for low- and moderate-income African-Americans are below national figures.) Also, if the area has followed national trends, access to credit for lower-income blacks may have improved in recent years due in part to increased attention to the Community Reinvestment Act and fair lending laws in the home purchase loan arena. These advances included the increased development and use of low down payment programs which boost access to credit among lower-income buyers. While the small raw number of African-American applications in middle- and upper-income categories limits our ability to draw strong conclusions, the relatively high disparities between African-American and white denial rates in the higher-income categories is troubling.

Table 2
1997 Home Purchase Loan Denials in Benton Harbor and St. Joseph Combined, By Race and Income*

	Income Category	Number of Applications	Number Denied	Percent Denied
Black	Low/Moderate	77	16	21%
	Middle	10	2	20%
	Upper	6	2	33%
	Total	**93**	**20**	**22%**
White	Low/Moderate	56	12	21%
	Middle	59	2	3%
	Upper	90	3	3%
	Total	**207**	**18**	**9%**

*Income and race data not available for all applicants

Again, high denial rates do not always indicate discriminatory lending practices. They may also be the result of aggressive lending efforts – which may be either good or bad, depending on the product being offered and the dynamics of the local market. Aggressive marketing programs may be designed to bring non-traditional borrowers into a bank. Alternatively, predatory subprime lenders may saturate a neighborhood with their marketing efforts; such firms may have very high denial rates and still be dominant lenders in an area (see discussion below).

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[4]Approximately 74 percent of 1997 home purchase loans in Benton Harbor were to African-Americans, while approximately 100 percent of St. Joseph's home purchase loans went to whites.

The Concentration of the Home Loan Market in Benton Harbor and St. Joseph

The number and type of lenders active in a community can affect the cost, quality, and type of services being provided. A high number of lenders in a community, including conventional lenders like banks, increases the competition for customers and is expected to result in better pricing of products and improved customer service. If a community has few lenders, or if those lenders offer only relatively high-cost credit, then there will be unmet credit needs and more opportunities for the exploitation of homeowners. Our analysis looks at the number of lenders that make up the bulk (approximately 75 percent) of the home purchase, home improvement, and refinance loans in each community.

The markets for home lending are more concentrated in Benton Harbor than in St. Joseph – particularly for home purchase loans. Table A-1, in the Appendix, shows that in 1997, seven lenders made 77 percent of the home purchase loans in Benton Harbor, while in St. Joseph, ten lenders made 75 percent of the home purchase loans. However, in Benton Harbor, the top three lenders accounted for 54 percent of all home purchase loans, while in St. Joseph, the top three lenders accounted for only 37 percent of the purchase loans.

Table A-2 shows that the same number of lenders (five) made approximately three-fourths of the home improvement loans in both Benton Harbor and St. Joseph. The top three lenders accounted for about the same share of the market in both communities.

Table 3 shows that 12 lenders in Benton Harbor and 14 lenders in St. Joseph made approximately 75 percent of the refinance lending in each community. The top three lenders accounted for roughly the same share of the market in Benton Harbor and St. Joseph. However, an investigation of refinance applications (below) shows that, in fact, only five lenders account for almost 75 percent of refinance *applications* in Benton Harbor. (The next session discusses this issue further.)

The Nature of Lending – Differences in FHA and Subprime Financing

In addition to considering the volume of lending and the number of lenders in a market, it is important to distinguish differences in the nature of the loans being offered. Conventional loans are generally those made by banks, thrifts, and mortgage companies that serve a wide variety of homeowners, from low- to high-income. Some conventional lenders, however, market much more heavily to higher-income homeowners, or reject low-income applicants at high rates. Another type of home loan is that guaranteed by the Federal Housing Administration. Finally, a third type of loan is that made subprime lenders. Subprime lenders are typically mortgage or finance companies that focus on applicants with credit histories that might disqualify them from loans offered by conventional lenders.

FHA loans are made by private lenders (often mortgage companies) but are federally guaranteed. They are typically used for home purchases. The government's guarantee decreases a lender's risk and allows the lender to make loans that might not be made otherwise. Due to overly aggressive lending, however, FHA loans are often associated with high default rates, which may contribute to foreclosures and neighborhood decline. FHA loans accounted for 24 percent of all home purchase loans in Benton Harbor but only 15 percent in St. Joseph.

Table 3
Refinance Lenders that Account for Approximately 75 Percent of the Market
(in order by number of loan originations)

(S) indicates a subprime lender as identified by U.S. Dept. of Housing and Urban Development

Benton Harbor			St. Joseph		
Lender	**Market Share**	**Number of Loans**	**Lender**	**Market Share**	**Number of Loans**
United Companies Lending Corp. **(S)**	24.8%	37	Shoreline Bank	19.4%	24
Banc One Financial Services **(S)**	10.7%	16	First Chicago NBD Mortgage Co.	9.7%	12
The Money Store **(S)**	6.0%	9	LaSalle Federal Savings Bank	9.7%	12
Commonpoint Mortgage	6.0%	9	D&N Bank	6.5%	8
Green Tree Financial **(S)**	5.4%	8	Berrien Teachers Credit Union	5.7%	7
Shoreline Bank	5.4%	8	Banc One Financial Services **(S)**	4.0%	5
First Chicago NBD Mortgage Co.	4.7%	7	PHH Mortgage Services	3.2%	4
Old Kent Bank	3.4%	5	SJS Federal Savings Bank C/O	3.2%	4
Rock Financial Corp. **(S)**	2.7%	4	Old Kent Bank	3.2%	4
Amresco Residential Mortgage **(S)**	2.7%	4	First Resource FCU	2.4%	3
NBD Bank	2.0%	3	Standard Federal Bank	2.4%	3
First Union Home Equity Bank **(S)**	2.0%	3	Old Kent Mortgage Company	2.4%	3
			Bank of America, FSB	1.6%	2
			Crestar Mortgage Corp.	1.6%	2
Total	**75.8%**	**113**	**Total**	**75.0%**	**93**

In recent years, there has been a national explosion in subprime home lending, especially for refinance and home equity loans. Subprime refinancing in the U.S. grew from 45,000 transactions in 1993 to 461,000 in 1997, an increase of over 93 percent, while conventional refinancings declined by 52 percent over the same period. This increase has caused a great deal of concern among consumer advocates and community development groups because subprime loans tend to be substantially more expensive and often exploit borrowers. Various recent studies and congressional testimony report on what have been termed “predatory” abuses including repeated, unnecessary refinancings, the charging of inflated costs and fees, and the offering of subprime financing to those who are capable of obtaining conventional, lower-cost loans. Frequently, such lending is disproportionately concentrated in minority communities.[5] Because such practices can increase the debt burden of lower-income households, they can lead to or exacerbate foreclosures, housing abandonment, and losses in family net worth.

Subprime lenders are particularly active in Benton Harbor, where they make 64 percent of all refinance loans (subprime firms made only 13 percent of refinance loans in St. Joseph). Seven of Benton Harbor's top 12 refinance lenders are subprime, while only one of St. Joseph's top 14 refinance lenders is subprime (Table 3 indicates subprime lenders with an **(S)**). Although comprehensive data are not available on second-mortgage home equity loans, it is expected that the type of lenders active in the home equity market are similar to those in the refinance market.

Subprime lenders account for 81 percent of the refinance applications in Benton Harbor but only 21 percent of refinance applications in St. Joseph. Figure 1 illustrates the saturation marketing by subprime refinance lenders in the Benton Harbor market. (The blue dots are subprime applications and the green dots are conventional applications.) Some lenders or brokers encourage individuals to repeatedly refinance their homes over short periods of time, taking fees from each refinancing. One lender -- United Companies -- accounts for 56 percent of refinance applications and 25 percent of refinance loans in Benton Harbor. This firm took 320 applications in Benton Harbor in 1997, but only six in St. Joseph. United Companies is considered by some observers to be one of the most active predatory lenders in the country.

The dominance of subprime refinance lenders in Benton Harbor suggests that mortgage companies are not aggressively marketing conventional refinance or home equity loans in the community, leaving homeowners susceptible to predatory firms. It is important to point out that many mortgage companies, including subprime firms, market their product through independent mortgage brokers, who identify and prequalify homeowners. These brokers collect fees that can sometimes be excessively high in the case of subprime loans. They also have some incentive to encourage homeowners to refinance too frequently and to build charges into the loans, all of which results in an increase in household debt among their clients.

The Varying Presence of Banks and Thrifts in Benton Harbor and St. Joseph

One reason that subprime lenders are so dominant in the refinancing markets of many minority communities is that they face little competition from conventional lenders. Banks, thrifts, and conventional mortgage companies focus much of their attention on more affluent markets, leaving lower-income markets to the subprime firms and thereby creating a dual market in refinance lending. While CRA and fair lending laws have been applied more vigorously in recent years, these efforts have been aimed primarily at boosting home purchase lending among banks and thrifts, and not at refinance lending. Therefore, one part of reducing the dominance of subprime lenders in Benton Harbor is to increase the presence of conventional lenders in the refinance market there.

[5] Randall Scheesele, "1997 HMDA Highlights," U.S. Department of Housing and Urban Development, November 1998. Subprime lenders accounted for at least 30 percent of refinances of low-income homes but only 9 percent of high-income ones. Researchers at the Kansas City Star found that 15 of the top 20 lenders in Kansas City's minority neighborhoods are subprime lenders. See Ted Sickinger, "Paying the Price for a Loan," *Kansas City Star*, March 1, 1999.

Figure 1
1997 Refinance Loan Applications in Benton Harbor
and St. Joseph with Median Family Income

TO VIEW THIS MAP, PLEASE REFER TO HARD COPY OF REPORT

Table A-1 shows that the largest home purchase lenders in St. Joseph are generally also large lenders in Benton Harbor (except for LaSalle Federal Saving Bank, which is not a large lender in Benton Harbor). Increasingly, conventional bank and mortgage company lenders are making more loans in lower-income and minority communities.[6] However, less progress has been made in the refinancing and home equity arenas.

In refinancing markets, conventional lenders tend to serve higher-income, nonminority areas more than they do lower-income and minority communities. The figures described here show that this is especially a problem in the Benton Harbor - St. Joseph area. Table 4 lists the refinancing activity for St. Joseph and Benton Harbor for the four most active refinance lenders in St. Joseph. Together, these banks have a market share in St. Joseph that is approximately four times their share of refinance loans in Benton Harbor.

Table 4
1997 Refinance Loans in Benton Harbor and St. Joseph
by St. Joseph's Top 5 Refinance Lenders

Lender	St. Joseph Market Share	Benton Harbor Market Share	Market Share Ratio
Shoreline Bank	19.4%	5.4%	3.6
First Chicago NBD Mortgage Co.	9.7%	4.7%	2.1
LaSalle Federal Savings Bank	9.7%	1.3%	7.5
D&N Bank	6.5%	0.0%	N/A
Top St. Joseph Refinance Lenders	45.2%	11.5%	3.9

Even when -- as may be the case for Benton Harbor -- there appears to be an overall excessive level of refinancing, the increased presence of conventional lenders can help to solve the problem. If homeowners have relationships with conventional, responsible lenders, they are more likely to go to such lenders when they do need financing or when they are offered credit by predatory lenders. Responsible lenders will advise homeowners against borrowing from predatory firms and against taking on more debt if they are not in a position to do so.

Key Findings and Recommendations for Local Planning and Action

The analysis above identifies at least three possible areas of credit needs. First, and most apparent, is the dominance of subprime refinance lending in Benton Harbor. This problem might be approached by a combination of reducing overly aggressive marketing by the subprime firms and through increased marketing by conventional lenders.

A second area of need suggested by this report is for home-improvement loans for low- and moderate-income homeowners in Benton Harbor. There were 125 applications for such loans in 1997, with 77 being denied, suggesting a significant unmet demand.

[6]Nationally, home purchase loans to African-American borrowers increased by more than 120 percent from 1992 to 1995.

Finally, while the raw numbers are somewhat small, the large disparity in denial rates for home purchase loans between middle- and upper-income African-American versus white residents of the area is troubling. (Denial rates for middle- and upper-income whites are extremely low at 3 percent.) Increased attention to this issue by lenders and regulators is warranted.

While regulation of mortgage activity is carried out primarily by federal agencies, banking laws – especially the CRA – empower local communities with the ability to encourage financial institutions to improve their lending in lower-income and minority communities. Community groups, local governments and others can enter into agreements with financial institutions to increase lending in targeted areas, or can call on regulators to examine local problems with lending patterns.

A first recommendation to community leaders is to share the information in this report with local financial institutions, especially those that are relatively inactive in Benton Harbor. Representatives of national mortgage lenders that might be suspected of predatory practices might also be contacted, although leverage here is considerably weaker. Community leaders can develop reinvestment agreements with financial institutions that have a presence in the Benton Harbor - St. Joseph area. These agreements can specify numerical goals for increased lending of the sort lacking in Benton Harbor, especially affordable refinancing products. Banks that may be considering mergers will be most responsive to such approaches, but such discussions can occur at any time.

Second, bank and mortgage company regulators can be contacted, especially if direct approaches to the financial institutions do not yield an adequate response. For banks and thrifts, there are four federal regulators (the Federal Reserve Board, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation), one of whom regulates each institution depending on the way the institution is chartered.

Community members concerned with the practices of a mortgage company should contact officials in the U.S. Department of Housing and Urban Development (HUD) as well as any state regulators. The disparities described here in marketing of refinance loans should be of particular interest to staff in the fair housing division of HUD.

A third tool to improve lending patterns is to consider how local and even state governments might encourage banks to provide affordable financing in local lower-income communities. This might involve using government deposits as rewards for responsible lending activity or withdrawing funds from those banks that are less responsible. Local and state governments around the country have developed local deposit ordinances to do this.

An important element of any broad strategy for reducing predatory lending is increased financial literacy among homeowners, especially regarding the appropriate use and structure of home equity debt. Consumer credit counseling, legal assistance and related services will help reduce the market for predatory lenders and increase it for conventional, more responsible providers of credit.

A final possible strategy, which should be seen as complementary to the others, is to develop an alternative financing intermediary that can provide the sort of affordable financing that is needed. For example, such an intermediary could provide home-improvement loans and/or affordable refinancing for Benton Harbor homeowners. Banks can join together to form loan pools or consortia which might provide such financing. Often times, however, some sort of operating subsidy is needed to support such activity, especially in smaller markets. Any existing local or nearby housing finance intermediaries that might serve these needs should be consulted before any serious consideration is given to establishing a new program or entity.

Some mix of these strategies should help to reduce the disparities in access to credit between Benton Harbor and St. Joseph. While such a result, by itself, will not eliminate the inequality of opportunity between the communities, it can be an important part of a broader strategy.

Appendix

Table A-1
Home Purchase Lenders that Account for Approximately 75 Percent of the Market (in order by number of loan originations)

(S) indicates a subprime lender as identified by U.S. Dept. of Housing and Urban Development

Benton Harbor			St. Joseph		
Lender	**Market Share**	**Number of Loans**	**Lender**	**Market Share**	**Number of Loans**
Shoreline Bank	28.6%	28	Shoreline Bank	19.3%	29
First Chicago NBD Mortgage Co.	13.3%	13	First Chicago NBD Mortgage Co.	10.0%	15
NBD Bank	12.2%	12	LaSalle Federal Savings Bank	7.3%	11
UFSB of Indianapolis	7.1%	7	Berrien Teachers Credit Union	6.7%	10
Trustcorp Mortgage Co.	6.1%	6	PHH Mortgage Services	5.3%	8
Patriot Mortgage Plus	6.1%	6	D&N Bank	5.3%	8
Green Tree Financial **(S)**	3.1%	3	First Resource FCU	5.3%	8
Total	**76.5%**	**75**	Standard Federal Bank	5.3%	8
			UFSB of Indianapolis	5.3%	8
			Bank of America, FSB	4.7%	7
			Total	**74.5%**	**112**

Table A-2
Home Improvement Lenders that Account for Approximately 75 Percent of the Market (in order by number of loan originations)

(S) indicates a subprime lender as identified by U.S. Dept. of Housing and Urban Development

Benton Harbor			St. Joseph		
Lender	**Market Share**	**Number of Loans**	**Lender**	**Market Share**	**Number of Loans**
Shoreline Bank	25.0%	14	First Resource FCU	28.8%	19
NBD Bank	17.9%	10	Shoreline Bank	24.2%	16
Old Kent Bank	16.1%	9	Old Kent Bank	9.1%	6
The Money Store **(S)**	12.5%	7	Bank One, Indiana, NA	7.6%	5
First Resource FCU	8.9%	5	Berrien Teachers CU	6.1%	4
Total	**80.4%**	**45**	**Total**	**75.8%**	**50**