

Section VI - Lending Practices

A key aspect of fair housing choice is equal access to credit for the purchase or improvement of a home. Lending policies and requirements related to credit history, current credit rating, employment history, and general character of applicants permit lenders to use a great deal of discretion and in the process deny loans even though the prospective borrower would have been an acceptable risk. This section reviews the lending practices of financial institutions and the access to home loans for minorities and all income groups.

Background

Discriminatory practices in home mortgage lending have evolved in the last five to six decades. In the 1940s and 1950s, racial discrimination in mortgage lending was easy to spot. From government sponsored racial covenants to the redlining practices of private mortgage lenders and financial institutions, minorities were denied access to home mortgages in ways that severely limited their ability to purchase a home. Today, discriminatory lending practices are more subtle and tend to take different forms. While mortgage loans are readily available in low income minority communities, by employing high-pressure sales practices and deceptive tactics, some mortgage brokers push minority borrowers into higher-cost subprime mortgages that are not well suited to their needs and can lead to financial problems. Consequently, minority consumers continue to have less-than-equal access to loans at the best price and on the best terms that their credit history, income, and other individual financial considerations merit.

Legislative Protection

The passage of the Community Reinvestment Act (CRA) in 1977 was designed to improve access to credit for all members of the community. The CRA is intended to encourage regulated financial institutions to help meet the credit needs of entire communities, including low and moderate income neighborhoods. The CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions.

In tandem with the CRA, the Home Mortgage Disclosure Act (HMDA), initially enacted in 1975 and substantially expanded in 1989, required banks to disclose detailed information about their mortgage lending. The law aimed to curb discrimination in such lending to create more equal opportunity to access credit. The disclosure requirement compelled banks, savings and loan associations, and other lending institutions to report annually the amounts and geographical distribution of their mortgage applications, origins, and purchases disaggregated by race, gender, annual income, and other characteristics. The data, collected and disclosed by the Federal Financial Institutions Examination Council, were made available to the public and to financial regulators to determine if lenders were serving the housing needs of the communities where they were located.

Detailed HMDA data for conventional and government-backed home purchase and home improvement loans in Salisbury are presented in the following tables. HMDA data provides some insights regarding the lending patterns that exist in a community. However, the data are only an indicator of potential problems; the data lack the financial details of the loan terms to conclude definite redlining or discrimination.

Conventional versus Government-Backed Financing

Conventional financing involves market-rate loans provided by private lending institutions such as banks, mortgage companies, savings and loans, and thrift institutions. To assist lower and moderate income households that may have difficulty in obtaining home mortgage financing in the private market due to income and equity issues, several government agencies offer loan products that have below market rate interests and are insured (“backed”) by the agencies. Sources of government backed financing include loans insured by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Rural Housing Services/Farm Service Agency (RHA/FSA). Often government-backed loans are offered to the consumers through private lending institutions. Local programs such as first-time homebuyer and rehabilitation programs are not subject to HMDA reporting requirements.

Typically, low income households have a much better chance of getting a government-assisted loan than a conventional loan. However, the recent lending market offered sub-prime loan options such as zero percent down, interest-only, and adjustable loans. As a result, government-backed loans have been a less attractive option for many households. With the recent difficulties in the sub-prime housing market, however, this option is no longer available, and many households are facing foreclosure. In response, the federal government in September 2007 created a government-insured foreclosure avoidance initiative, FHASecure, to assist tens of thousands of borrowers nation-wide in refinancing their sub-prime home loans. As government-backed loans are again publicized and subprime loans are less of an option to borrowers, the increased use of government-backed loan applications is likely. However, expanded marketing to assist potential homeowners in understanding the requirements and benefits of these loans may be necessary.

Overview and Summary of Home Loan Activity

According to the 2008 HMDA data there were 3,089 applications for home purchase loans to purchase, improve or refinance homes in Rowan County during that year, of which only 292 (9.4 percent) were in Salisbury in contrast to the fact that Salisbury represents approximately 22 percent of the county’s population. Salisbury saw 49.75% of its loans originated for the purpose of purchasing a home and 50.25% for refinancing in 2008. In 2008, the typical loan originated for the purchase of a home was for \$107,000.

A loan is considered high-cost when there is a rate spread reported. The rate spread on a loan is the difference between the Annual Percentage Rate (APR) on the loan and the treasury security

yield as of the date of the loan's origination. Rate spreads are only reported by financial institutions if the APR is three or more percentage points higher for a first lien loan, or five or more percentage points higher for a second lien loan. A rate spread of three or more suggests that a loan is of notably higher cost than a typical loan. 15.27 percent of loans originated in Salisbury were high-cost loans in 2008, compared to 8.55 percent of loans in North Carolina. Looking across all high-cost loans originated in this area 58.06 percent were to Whites (who were 54.02 percent of the population), 32.26 percent were to African Americans (who were 32.18 percent of the population), and 10 percent were to persons who did not specify their race or ethnicity.

Piggyback loans, also known as 80-20 loans, are multiple mortgage transactions, where a buyer obtains at least two loans in order to purchase a home. The second loan finances that part of the purchase price not being financed by the first loan. The 80-20 or piggyback loan has been used to avoid underwriting standards held by most lenders that require private mortgage insurance (or PMI) when less than a 20% down payment is made by the buyer. Studies suggest that these transactions have a higher risk of default and foreclosure as the homebuyers have little or no equity at risk. HMDA data does not explicitly identify 80-20 or piggyback loans; this is an analytic performed by TRF. The typical piggyback loan for the purchase of a home in Salisbury made up 0.99 percent of purchase loans made. Across all purchase loans, the median purchase loan amount was for \$107,000.

Comparative Summary of All Home Loans Made (2004 – 2008)

| Loans | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Salisbury | | | | | |
| Number of Loans | 422 | 423 | 494 | 404 | 292 |
| Median Loan Amount | \$79,500 | \$79,000 | \$78,500 | \$92,000 | \$107,000 |
| Aggregate Loan Amount | \$53,262,000 | \$52,475,000 | \$46,918,000 | \$47,443,000 | \$46,832,000 |
| Rowan County | | | | | |
| Number of Loans | 4,462 | 4,602 | 4,681 | 4,152 | 3,089 |
| Median Loan Amount | \$91,000 | \$89,000 | \$88,000 | \$102,000 | \$116,000 |
| Aggregate Loan Amount | \$464,922,000 | \$486,691,000 | \$487,014,000 | \$516,185,000 | \$448,028,000 |
| North Carolina | | | | | |
| Number of Loans | 361,170 | 397,427 | 393,361 | 337,640 | 260,693 |
| Median Loan Amount | \$110,000 | \$110,000 | \$112,000 | \$127,000 | \$144,000 |
| Aggregate Loan Amount | \$49,133,467,000 | \$55,280,103,000 | \$56,770,423,000 | \$54,602,198,000 | \$46,231,527,000 |
| United States | | | | | |
| Number of Loans | 15,028,550 | 15,621,943 | 13,970,183 | 10,441,545 | 7,177,262 |
| Median Loan Amount | \$132,000 | \$140,000 | \$136,000 | \$146,000 | \$154,000 |
| Aggregate Loan Amount | \$2,569,439,170,000 | \$2,887,912,041,000 | \$2,615,776,234,000 | \$2,074,074,736,000 | \$1,415,069,222,000 |

Summary of All Home Loans Made in Salisbury (2004 – 2008)

| Salisbury | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Whites | | | | | |
| Number of Loans | 268 | 271 | 317 | 271 | 196 |
| Median Loan Amount | \$85,000 | \$83,000 | \$82,000 | \$100,000 | \$114,000 |
| Percent of Loans | 63.51% | 64.07% | 64.17% | 67.08% | 67.12% |
| Blacks | | | | | |
| Number of Loans | 83 | 80 | 105 | 53 | 43 |
| Median Loan Amount | \$68,000 | \$76,500 | \$71,000 | \$79,000 | \$85,000 |
| Percent of Loans | 19.67% | 18.91% | 21.26% | 13.12% | 14.73% |
| Asians | | | | | |
| Number of Loans | 2 | 10 | 10 | 8 | 5 |
| Median Loan Amount | N/A | \$66,000 | \$61,500 | \$61,500 | \$108,000 |
| Percent of Loans | 0.47% | 2.36% | 2.02% | 1.98% | 1.71% |
| Native Americans | | | | | |
| Number of Loans | 2 | 1 | 1 | 2 | 0 |
| Median Loan Amount | N/A | N/A | N/A | N/A | N/A |
| Percent of Loans | 0.47% | 0.24% | 0.20% | 0.50% | 0% |
| Pacific Islanders | | | | | |
| Number of Loans | 2 | 1 | 1 | 1 | 1 |
| Median Loan Amount | N/A | N/A | N/A | N/A | N/A |
| Percent of Loans | 0.47% | 0.24% | 0.20% | 0.25% | 0.34% |
| Race Not Specified | | | | | |
| Number of Loans | 65 | 60 | 60 | 69 | 47 |
| Median Loan Amount | \$76,000 | \$75,500 | \$75,000 | \$82,000 | \$116,000 |
| Percent of Loans | 15.40% | 14.18% | 12.15% | 17.08% | 16.10% |

Between 2004 and 2008, the percent of all home loans made to Whites has slowly but steadily increased from 63.51 percent in 2004 to 67.12 percent in 2008, a somewhat higher proportion than their 54.02 percent of the total population of Salisbury. However, the percentage of home loans to African-Americans has decreased from a high of 21.26 percent in 2006 to a low of 14.73 percent in 2008 even though they represented 39.18 percent of Salisbury's total population. Similarly, the percentage of home loans to Hispanics has decreased from 5.47 percent in 2006 to 2.74 percent in 2008 even though they represented 7.09 percent of the total population. This pattern is mirrored in Rowan County as a whole where the percentage of loans to Whites has increased from 77.57 percent in 2004 to 83.04 percent in 2008 and the percent of loans to African Americans has decreased from 8.58 percent in 2004 to 6.09 percent in 2008. Similar trends are also evident in North Carolina as a whole and in the nation, possibly due to the differences in economic capacities of White and African-American households to weather the recent recessionary trends including job losses and reduced hours among industries hardest hit such as manufacturing and retail trade.

| Loans to Whites | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Salisbury | | | | | |
| Number of Loans | 268 | 271 | 317 | 271 | 196 |
| Median Loan Amount | \$85,000 | \$83,000 | \$82,000 | \$100,000 | \$114,000 |
| Percent of Loans | 63.51% | 64.07% | 64.17% | 67.08% | 67.12% |
| Rowan County | | | | | |
| Number of Loans | 3,461 | 3,634 | 3,800 | 3,368 | 2,565 |
| Median Loan Amount | \$92,000 | \$91,000 | \$89,000 | \$104,000 | \$118,000 |
| Percent of Loans | 77.57% | 78.97% | 81.18% | 81.12% | 83.04% |
| North Carolina | | | | | |
| Number of Loans | 264,190 | 291,334 | 285,686 | 245,925 | 195,135 |
| Median Loan Amount | \$114,000 | \$114,000 | \$115,000 | \$130,000 | \$147,000 |
| Percent of Loans | 73.15% | 73.31% | 72.63% | 72.84% | 74.85% |
| United States | | | | | |
| Number of Loans | 10,925,032 | 11,518,342 | 10,249,764 | 7,846,320 | 5,583,140 |
| Median Loan Amount | \$129,000 | \$136,000 | \$133,000 | \$142,000 | \$150,000 |
| Percent of Loans | 72.70% | 73.73% | 73.37% | 75.15% | 77.79% |

| Loans to Blacks | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Salisbury | | | | | |
| Number of Loans | 83 | 80 | 105 | 53 | 43 |
| Median Loan Amount | \$68,000 | \$76,500 | \$71,000 | \$79,000 | \$85,000 |
| Percent of Loans | 19.67% | 18.91% | 21.26% | 13.12% | 14.73% |
| Rowan County | | | | | |
| Number of Loans | 383 | 406 | 382 | 294 | 188 |
| Median Loan Amount | \$79,000 | \$81,000 | \$80,000 | \$93,000 | \$96,000 |
| Percent of Loans | 8.58% | 8.82% | 8.16% | 7.08% | 6.09% |
| North Carolina | | | | | |
| Number of Loans | 44,295 | 51,739 | 50,590 | 40,229 | 27,029 |
| Median Loan Amount | \$93,000 | \$91,000 | \$95,000 | \$110,000 | \$123,000 |
| Percent of Loans | 12.26% | 13.02% | 12.86% | 11.91% | 10.37% |
| United States | | | | | |
| Number of Loans | 1,124,181 | 1,293,449 | 1,269,028 | 812,259 | 436,984 |
| Median Loan Amount | \$112,000 | \$118,000 | \$122,000 | \$132,000 | \$135,000 |
| Percent of Loans | 7.48% | 8.28% | 9.08% | 7.78% | 6.09% |

While the total loan volume in Salisbury has decreased between 2004 and 2008, the percentage of those loans going for the purchase of homes increased from a low of 39.34 percent in 2004 to a high of 56.28 percent in 2006 and then declining to 46.23 percent in 2008. While the volume has also decreased, a somewhat different pattern is evident for refinance loans with the percentage falling from 55.92 percent in 2004 to 35.83 percent in 2006 and then rising again to 47.95 percent in 2008. However, the increase in the median amount of such loans may indicate attempts on the part of those households to moderate the impact of the economic recession.

| Purchase Loans | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Salisbury | | | | | |
| Number of Loans | 166 | 213 | 278 | 220 | 135 |
| Median Loan Amount | \$85,000 | \$79,000 | \$82,000 | \$85,000 | \$100,000 |
| Percent of Loans | 39.34% | 50.35% | 56.28% | 54.46% | 46.23% |
| Rowan County | | | | | |
| Number of Loans | 1,779 | 2,109 | 2,237 | 1,985 | 1,272 |
| Median Loan Amount | \$98,000 | \$95,000 | \$97,000 | \$112,000 | \$118,000 |
| Percent of Loans | 39.87% | 45.83% | 47.79% | 47.81% | 41.18% |
| North Carolina | | | | | |
| Number of Loans | 180,278 | 219,704 | 227,177 | 181,832 | 115,746 |
| Median Loan Amount | \$119,000 | \$118,000 | \$123,000 | \$139,000 | \$150,000 |
| Percent of Loans | 49.91% | 55.28% | 57.75% | 53.85% | 44.40% |
| United States | | | | | |
| Number of Loans | 6,452,860 | 7,404,202 | 6,745,824 | 4,669,762 | 3,130,160 |
| Median Loan Amount | \$137,000 | \$139,000 | \$138,000 | \$154,000 | \$163,000 |
| Percent of Loans | 42.94% | 47.40% | 48.29% | 44.72% | 43.61% |

| Refinance Loans | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Salisbury | | | | | |
| Number of Loans | 236 | 179 | 177 | 164 | 140 |
| Median Loan Amount | \$78,500 | \$88,000 | \$79,000 | \$99,000 | \$114,000 |
| Percent of Loans | 55.92% | 42.32% | 35.83% | 40.59% | 47.95% |
| Rowan County | | | | | |
| Number of Loans | 2,413 | 2,221 | 2,147 | 1,910 | 1,642 |
| Median Loan Amount | \$92,000 | \$91,000 | \$85,000 | \$100,000 | \$120,000 |
| Percent of Loans | 54.08% | 48.26% | 45.87% | 46% | 53.16% |
| North Carolina | | | | | |
| Number of Loans | 166,150 | 159,335 | 146,177 | 136,460 | 132,518 |
| Median Loan Amount | \$105,000 | \$105,000 | \$102,000 | \$120,000 | \$145,000 |
| Percent of Loans | 46% | 40.09% | 37.16% | 40.42% | 50.83% |
| United States | | | | | |
| Number of Loans | 7,606,211 | 7,121,455 | 6,082,516 | 4,809,944 | 3,475,808 |
| Median Loan Amount | \$137,000 | \$151,000 | \$151,000 | \$157,000 | \$161,000 |
| Percent of Loans | 50.61% | 45.59% | 43.54% | 46.07% | 48.43% |

The volume of loans made for home improvements has shown a similar pattern of increasing from 2004 to 2006 and then decreasing through 2008 as the impact of the economic recession took hold. This pattern is evident not only in Salisbury but also for Rowan County, North Carolina and the United States as a whole. Interesting, however, is the fact that the median amount for such loans in Salisbury has risen dramatically from \$17,500 in 2004 to \$75,000 in 2008.

| Home Improvement Loans | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Salisbury | | | | | |
| Number of Loans | 20 | 31 | 39 | 20 | 17 |
| Median Loan Amount | \$17,500 | \$50,000 | \$44,000 | \$58,000 | \$75,000 |
| Percent of Loans | 4.74% | 7.33% | 7.89% | 4.95% | 5.82% |
| Rowan County | | | | | |
| Number of Loans | 270 | 272 | 297 | 257 | 175 |
| Median Loan Amount | \$16,000 | \$21,500 | \$24,000 | \$35,000 | \$31,000 |
| Percent of Loans | 6.05% | 5.91% | 6.34% | 6.19% | 5.67% |
| North Carolina | | | | | |
| Number of Loans | 14,742 | 18,388 | 20,007 | 19,348 | 12,429 |
| Median Loan Amount | \$25,000 | \$30,000 | \$32,000 | \$31,000 | \$30,000 |
| Percent of Loans | 4.08% | 4.63% | 5.09% | 5.73% | 4.77% |
| United States | | | | | |
| Number of Loans | 969,479 | 1,096,286 | 1,141,843 | 961,839 | 571,294 |
| Median Loan Amount | \$34,000 | \$40,000 | \$40,000 | \$37,000 | \$28,000 |
| Percent of Loans | 6.45% | 7.02% | 8.17% | 9.21% | 7.96% |

Some lending statistics are not reported specifically for Salisbury, but instead are available only for Rowan County as a whole. For the purposes of this analysis, it is assumed that the experience illustrated in the charts below (source: HMDA, 2010) is applicable for Salisbury as well as Rowan County. Of the total of more than 20,000 home loan related activities in Rowan County in 2008, Whites were involved in 67.2 percent of them, African-Americans were involved in 8.2 percent of them, but there is no information on the race of the applicant provided for some 23 percent of these activities. For all racial groups, the primary reason for securing a home loan was for the purpose of refinancing. More than 80 percent of both White and African-American applicants and more than 70 percent of all other identifiable racial groups that sought a home loan did so for this purpose. However, only 5.8 percent of all purchase loans went to African Americans, contrasted with 75 percent of these loans that went to White applicants. Some 29.5 percent of the home loan applications were denied, with 31.6 percent of White applicants denied and 40.8 percent of African-American applicants denied. Among Asian applicants only 33.3 percent were denied, however among Native American and Pacific Islander applicants the denial rate was 61.2 percent and 62.3 percent, respectively.

Actions Taken On Home Loans by Race (Rowan County 2008)

| Action Taken | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|-----------------------|-----------------|------------|--------------|------------------|---------------|--------------|--------------|---------------|
| Loan Originated | 4 | 38 | 188 | 4 | 2,565 | 224 | 66 | 3,089 |
| Approved/Not Accepted | 4 | 26 | 90 | 2 | 750 | 154 | 2 | 1,028 |
| Denied | 60 | 60 | 681 | 33 | 4,338 | 837 | 6 | 6,015 |
| Withdrawn | 8 | 16 | 312 | 8 | 2,264 | 400 | 8 | 3,016 |
| Incomplete | 10 | 10 | 55 | | 575 | 225 | | 875 |
| Purchased by Bank | 12 | 30 | 342 | 6 | 3,216 | 336 | 2,436 | 6,378 |
| Grand Total | 98 | 180 | 1,668 | 53 | 13,708 | 2,176 | 2,518 | 20,401 |

Note: Approved/Not accepted = loan approved by the lender but not accepted by the applicant.

Percentage of Actions Taken on Home Loans by Race (Rowan County 2008)

| Action Taken | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|-----------------------|-----------------|---------------|---------------|------------------|---------------|---------------|---------------|---------------|
| Loan Originated | 4.1% | 21.1% | 11.3% | 7.5% | 18.7% | 10.3% | 2.6% | 15.1% |
| Approved/Not Accepted | 4.1% | 14.4% | 5.4% | 3.8% | 5.5% | 7.1% | 0.1% | 5.0% |
| Denied | 61.2% | 33.3% | 40.8% | 62.3% | 31.6% | 38.5% | 0.2% | 29.5% |
| Withdrawn | 8.2% | 8.9% | 18.7% | 15.1% | 16.5% | 18.4% | 0.3% | 14.8% |
| Incomplete | 10.2% | 5.6% | 3.3% | 0.0% | 4.2% | 10.3% | 0.0% | 4.3% |
| Purchased by Bank | 12.2% | 16.7% | 20.5% | 11.3% | 23.5% | 15.4% | 96.7% | 31.3% |
| Grand Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Distribution of Actions Taken on Home Loans by Race (Rowan County 2008)

| Action Taken | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|-----------------------|-----------------|-------------|-------------|------------------|--------------|--------------|--------------|---------------|
| Loan Originated | 0.1% | 1.2% | 6.1% | 0.1% | 83.0% | 7.3% | 2.1% | 100.0% |
| Approved/Not Accepted | 0.4% | 2.5% | 8.8% | 0.2% | 73.0% | 15.0% | 0.2% | 100.0% |
| Denied | 1.0% | 1.0% | 11.3% | 0.5% | 72.1% | 13.9% | 0.1% | 100.0% |
| Withdrawn | 0.3% | 0.5% | 10.3% | 0.3% | 75.1% | 13.3% | 0.3% | 100.0% |
| Incomplete | 1.1% | 1.1% | 6.3% | 0.0% | 65.7% | 25.7% | 0.0% | 100.0% |
| Purchased by Bank | 0.2% | 0.5% | 5.4% | 0.1% | 50.4% | 5.3% | 38.2% | 100.0% |
| Grand Total | 0.5% | 0.9% | 8.2% | 0.3% | 67.2% | 10.7% | 12.3% | 100.0% |

Percentage of Loan Purposes by Race (Rowan County 2008)

| Loan Purpose | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|--------------------|-----------------|---------------|---------------|------------------|---------------|---------------|---------------|---------------|
| Purchase | 7.6% | 22.0% | 9.4% | 8.7% | 13.9% | 8.9% | 25.9% | 13.6% |
| Improvement | 12.7% | 4.8% | 8.0% | 13.0% | 5.0% | 10.7% | 1.7% | 5.7% |
| Refinancing | 79.7% | 73.2% | 82.6% | 78.3% | 81.1% | 80.4% | 72.4% | 80.6% |
| Grand Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Distribution of Loan Purposes by Race (Rowan County 2008)

| Action Taken | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|--------------------|-----------------|-------------|-------------|------------------|--------------|--------------|-------------|---------------|
| Purchase | 0.3% | 1.5% | 5.8% | 0.2% | 75.0% | 7.1% | 10.2% | 100.0% |
| Improvement | 1.0% | 0.8% | 11.7% | 0.6% | 64.0% | 20.3% | 1.6% | 100.0% |
| Refinancing | 0.4% | 0.9% | 8.7% | 0.3% | 74.1% | 10.8% | 4.8% | 100.0% |
| Grand Total | 0.5% | 1.0% | 8.5% | 0.3% | 73.7% | 10.9% | 5.3% | 100.0% |

Issues of credit history, collateral and debt-to-income ratios were the principle reasons for the denial of home loans to Whites (29.9 percent, 28.9 percent and 20.3 percent respectively). The same issues, though in different percentages, were the principle reasons for the denial of home loans to African Americans, as well (27.0 percent, 24.7 percent and 18.0 percent respectively).

Percentage of Reasons for Denial of Loans by Race (Rowan County 2008)

| Action Taken | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|--------------------|-----------------|---------------|---------------|------------------|---------------|---------------|---------------|---------------|
| Debt-to-Income | 16.7% | 27.8% | 18.0% | 20.0% | 20.3% | 13.2% | 0.0% | 19.0% |
| Employment | 0.0% | 0.0% | 4.5% | 0.0% | 1.2% | 1.1% | 0.0% | 1.4% |
| Credit History | 66.7% | 38.9% | 27.0% | 40.0% | 29.9% | 40.1% | 50.0% | 31.9% |
| Collateral | 16.7% | 5.6% | 24.7% | 20.0% | 28.9% | 15.4% | 0.0% | 25.7% |
| Insufficient Cash | 0.0% | 0.0% | 1.1% | 0.0% | 1.5% | 1.6% | 0.0% | 1.4% |
| Information | 0.0% | 5.6% | 3.4% | 0.0% | 3.7% | 2.7% | 0.0% | 3.5% |
| Incomplete App | 0.0% | 5.6% | 12.4% | 0.0% | 6.9% | 13.7% | 0.0% | 8.4% |
| MI Denied | 0.0% | 0.0% | 0.0% | 0.0% | 0.4% | 0.5% | 0.0% | 0.4% |
| Other | 0.0% | 16.7% | 9.0% | 20.0% | 7.3% | 11.5% | 50.0% | 8.4% |
| Grand Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

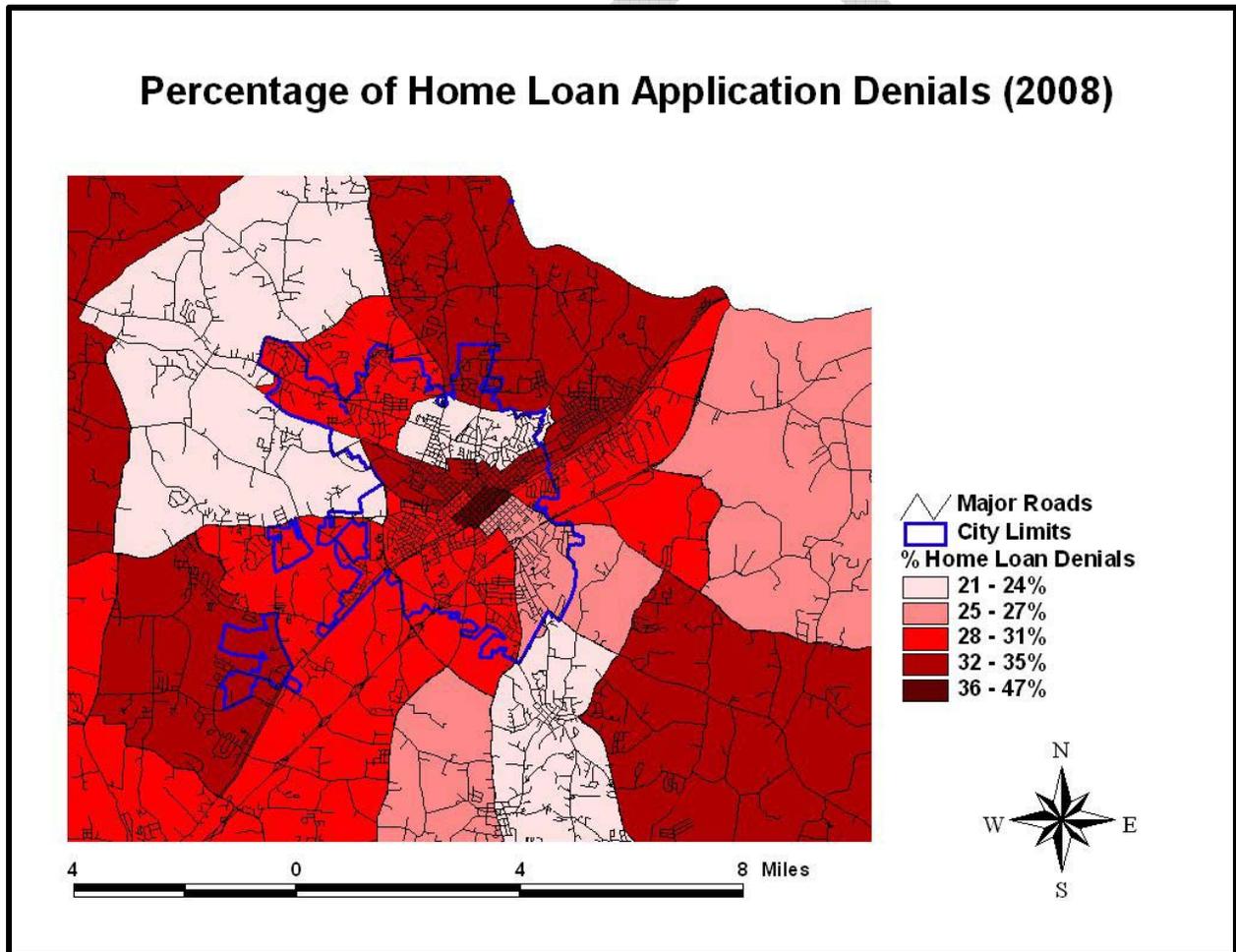
Note: Insufficient cash = inadequate downpayment funds; MI Denied = mortgage insurance denied

African-Americans were responsible for 26.7 percent of employment related loan denials, the category in which they were most significantly represented. The category in which Whites were most significantly represented was lack of collateral, with 80.5 percent.

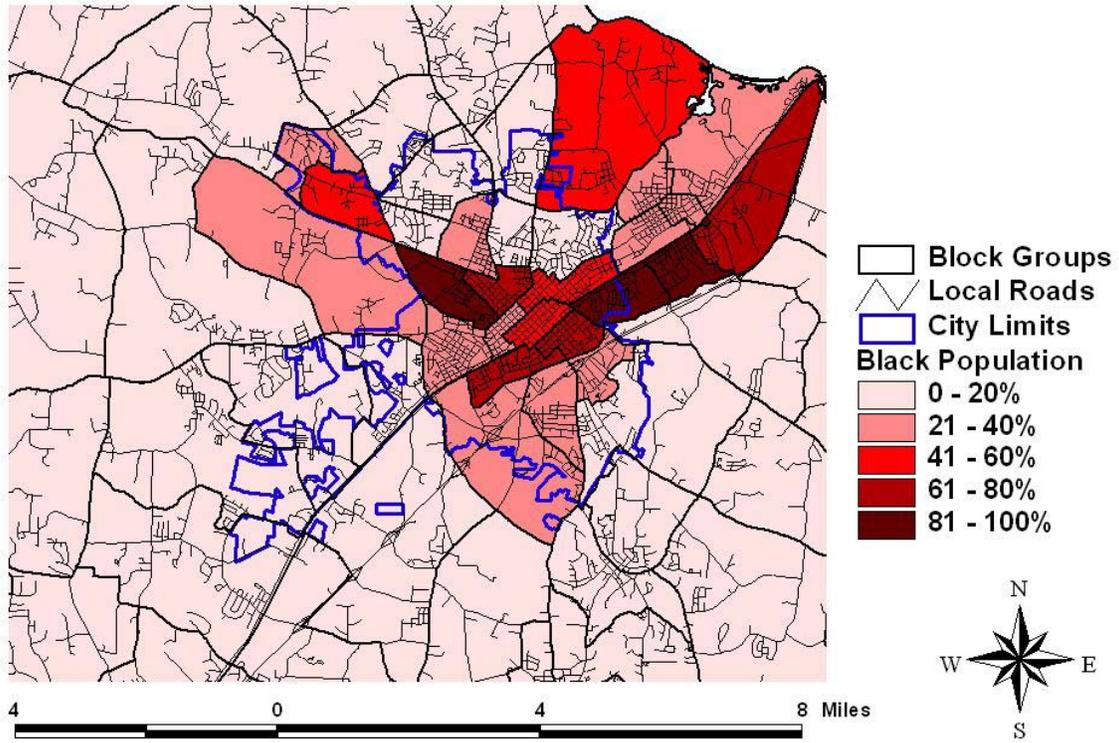
Distribution of Reasons for Denial of Loans by Race (Rowan County 2008)

| Action Taken | Native American | Asian | Black | Pacific Islander | White | No Info | N/A | Grand Total |
|--------------------|-----------------|-------------|-------------|------------------|--------------|-------------|-------------|---------------|
| Debt-to-Income | 0.5% | 2.5% | 8.0% | 0.5% | 76.6% | 11.9% | 0.0% | 100.0% |
| Employment | 0.0% | 0.0% | 26.7% | 0.0% | 60.0% | 13.3% | 0.0% | 100.0% |
| Credit History | 1.2% | 2.1% | 7.1% | 0.6% | 67.2% | 21.6% | 0.3% | 100.0% |
| Collateral | 0.4% | 0.4% | 8.1% | 0.4% | 80.5% | 10.3% | 0.0% | 100.0% |
| Insufficient Cash | 0.0% | 0.0% | 6.7% | 0.0% | 73.3% | 20.0% | 0.0% | 100.0% |
| Information | 0.0% | 2.7% | 8.1% | 0.0% | 75.7% | 13.5% | 0.0% | 100.0% |
| Incomplete App | 0.0% | 1.1% | 12.4% | 0.0% | 58.4% | 28.1% | 0.0% | 100.0% |
| MI Denied | 0.0% | 0.0% | 0.0% | 0.0% | 75.0% | 25.0% | 0.0% | 100.0% |
| Other | 0.0% | 3.4% | 9.0% | 1.1% | 61.8% | 23.6% | 1.1% | 100.0% |
| Grand Total | 0.4% | 1.0% | 7.9% | 0.2% | 74.1% | 9.2% | 7.3% | 100.0% |

The distribution of home loan application denials presents a striking picture of the relationship between economic distress and race in Rowan County and Salisbury. As illustrated in the chart and maps below, there is an apparent correlation between the areas with significant African-American population and those in which applications for home loans were denied. While it would be easy to assume racial animus as the basis for this relationship, a far more likely nexus lies in the economic capacities, employment histories, credit histories, etc. of the households in these areas. And while there is considerable evidence (anecdotal and statistical) of a correlation between such factors and race, there is insufficient statistical proof in this analysis to support that conclusion. Instead, economic condition is more properly the independent variable that must be addressed in order to overcome this apparent inequity.



Percent Black Population



Section VI – Fair Housing & Salisbury Private Sector

| Census Tracts | Actions Taken on Home Loan Applications (Rowan County 2008) | | | | | | |
|--------------------|-------------------------------------------------------------|-----------------------|--------------|--------------|------------|-------------------|---------------|
| | Loan Originated | Approved/Not Accepted | Denied | Withdrawn | Incomplete | Purchased by Bank | Grand Total |
| 501 | 14 | 8 | 51 | | | 36 | 109 |
| 502.01 | 99 | 18 | 192 | 132 | 40 | 234 | 715 |
| 502.02 | 64 | 24 | 141 | 64 | 20 | 156 | 469 |
| 503 | 74 | 20 | 147 | 96 | 20 | 162 | 519 |
| 504 | 18 | 14 | 54 | 24 | 5 | 48 | 163 |
| 505 | 88 | 30 | 93 | 72 | 30 | 126 | 439 |
| 506 | 34 | 12 | 72 | 16 | 5 | 66 | 205 |
| 507 | 60 | 10 | 162 | 100 | 30 | 132 | 494 |
| 508 | 41 | 2 | 84 | 44 | 5 | 102 | 278 |
| 509.01 | 120 | 40 | 213 | 84 | 40 | 288 | 785 |
| 509.02 | 222 | 58 | 417 | 196 | 35 | 312 | 1,240 |
| 510.01 | 175 | 56 | 315 | 148 | 45 | 468 | 1,207 |
| 510.02 | 138 | 28 | 228 | 168 | 45 | 342 | 949 |
| 511.01 | 174 | 68 | 267 | 148 | 45 | 318 | 1,020 |
| 511.02 | 78 | 30 | 156 | 80 | 50 | 126 | 520 |
| 512.02 | 74 | 34 | 129 | 84 | 35 | 186 | 542 |
| 512.03 | 98 | 50 | 282 | 112 | 20 | 240 | 802 |
| 512.04 | 75 | 22 | 165 | 72 | 25 | 174 | 533 |
| 513.02 | 155 | 60 | 285 | 84 | 20 | 288 | 892 |
| 513.03 | 128 | 32 | 189 | 100 | 10 | 198 | 657 |
| 513.04 | 58 | 32 | 102 | 64 | 20 | 126 | 402 |
| 514 | 170 | 56 | 381 | 128 | 55 | 372 | 1,162 |
| 515 | 143 | 40 | 267 | 112 | 55 | 378 | 995 |
| 516 | 176 | 46 | 318 | 144 | 35 | 384 | 1,103 |
| 517 | 200 | 76 | 405 | 224 | 100 | 366 | 1,371 |
| 518 | 200 | 66 | 375 | 188 | 40 | 426 | 1,295 |
| 519.01 | 116 | 54 | 279 | 140 | 15 | 186 | 790 |
| 519.02 | 94 | 38 | 231 | 164 | 30 | 138 | 695 |
| NA | 3 | 4 | 15 | 28 | | | 50 |
| Grand Total | 3,089 | 1,028 | 6,015 | 3,016 | 875 | 6,378 | 20,401 |

Sub-prime Lending

According to the Federal Reserve, “prime” mortgages are offered to persons with excellent credit and employment history and income adequate to support the loan amount. “Sub-prime” loans are loans to borrowers who have less-than-perfect credit history, poor employment history, or other factors such as limited income. By providing loans to those who do not meet the credit standards for borrowers in the prime market, sub-prime lending can and does serve a critical role in increasing levels of homeownership. Households that are interested in buying a home but have blemishes in their credit record, insufficient credit history, or non-traditional credit sources, may be otherwise unable to purchase a home. The sub-prime loan market offers these borrowers opportunities to obtain loans that they would be unable to realize in the prime loan market.

Sub-prime lenders generally have interest rates that are higher than those in the prime market, and often lack the regulatory oversight required for prime lenders because they are not owned by regulated financial institutions. In the recent past, however, many large and well-known banks became involved in the sub-prime market either through acquisitions of other firms or by initiating loans that were sub-prime directly.

While sub-prime lending cannot in and of itself be equated with predatory lending, studies have shown a high incidence of predatory lending in the sub-prime market. Unlike in the prime lending market, overly high approval rates in the sub-prime market is a potential cause for concern when the target clients are considered high risk. High approval rates may indicate aggressive lending practices.

Beginning in 2006, increases in interest rates resulted in an increased number of foreclosures for households with sub-prime loans when a significant number of subprime loans with variable rates began to convert to fixed-rate loans at much higher interest rates.

Predatory Lending

With an active housing market, potential predatory lending practices by financial institutions may arise. Predatory lending involves abusive loan practices usually targeting minority homeowners or those with less-than-perfect credit histories. The predatory practices typically include high fees, hidden costs, and unnecessary insurance and larger repayments due in later years. One of the most common predatory lending practices is placing borrowers into higher interest rate loans than called for by their credit status. Although the borrowers may be eligible for a loan in the “prime” market, they are directed into more expensive and higher fee loans in the “sub-prime” market. In other cases, fraudulent appraisal data is used to mislead homebuyers into purchasing over-valued homes, or fraudulent or misrepresented financial data is used to encourage homebuyers into assuming a larger loan than can be afforded. Both cases almost inevitably result in foreclosure.

In recent years, predatory lending has also penetrated the home improvement financing market. Seniors and minority homeowners are the usual targets. In general, home improvement financing is more difficult to obtain than home purchase financing. Many homeowners have a debt-to-

income ratio that is too high to qualify for home improvement loans in the prime market and become targets of predatory lending in the sub-prime market. Seniors are often swindled into installing unnecessary devices or making unnecessary improvements that are bundled with unreasonable financing terms.

Predatory lending is a growing fair housing issue. Predatory lenders who discriminate get some scrutiny under the Fair Housing Act of 1968, which requires equal treatment in terms and conditions of housing opportunities and credit regardless of race, religion, color, national origin, family status, or disability. This applies to loan originators as well as the secondary market. The Equal Credit Opportunity Act of 1972 requires equal treatment in loan terms and availability of credit for all of the above categories, as well as age, sex, and marital status. Lenders that engage in predatory lending would violate these Acts, if they target minority or elderly households to buy higher priced and unequal loan products; treat loans for protected classes differently than those of comparably credit-worthy White applicants; or have policies or practices that have a disproportionate effect on the protected classes.

Data available to investigate the presence of predatory lending are extremely limited. At present, HMDA data are the most comprehensive data available for evaluating lending practices. However, as discussed before, HMDA data lack the financial details of the loan terms to conclude any kind of predatory lending. Efforts at the national level are pushing for increased reporting requirements in order to curb predatory lending.

On July 22, 1999, North Carolina Governor Jim Hunt signed into law "Predatory Lending Law," Senate bill 1149. The law was passed by a vote of 47-2 in the Senate and 109-9 in the House. The prepayment penalty and flipping provisions took effect October 1, 1999 and the remainder of the bill on July 1, 2000.

The following is a review of the main consume provisions of the law

- **No Prepayment Penalties For Home Loans Of \$150,000 Or Less.** (*Affects both prime and non-prime loans.*)

The following provisions of the statute govern "high cost" home loans of \$300,000 or less as defined by the statute.

- **Prepayment penalties** " no prepayment penalties for home loans of \$150,000 or less
- **Flipping** " no flipping where lender refinances an existing home loan with up-front fees
- **Single premium insurance** " no financing of single-premium insurance (does allow insurance with monthly payments)
- **Financing of upfront fees** " financing of up front fees is not permitted
- **Financial counseling** " borrowers obtaining high-cost loans must receive financial counseling prior to loan closing

- **Balloon payments** " no balloon payments permitted
- **Negative amortization** " no loans with negative amortization
- **Ability to pay** " no lending without consideration of ability to pay
- **Call provision** " no call provision permitted
- **Interest rate after default** " lender cannot increase the interest rate of an existing loan after default
- **Advance payments** " lender cannot require more than two payments on a mortgage loan to be consolidated and paid in advance
- **Modification or deferral fees** " lender cannot charge fees for a modification or deferral of a loan
- **Home improvement contractors** " prohibits lenders from paying the proceeds of a loan directly to a home contractor
- **Encouraging default** " prohibits lenders from encouraging or recommending default of an existing loan

The North Carolina Law defines high-cost home loans as residential home loans of \$300,000 or less with either:

- **High Fees:** Defined as loans where the borrower is charged more than 5% of the loan amount in upfront points, fees or other charges. This 5%:
 - **Does not include** escrows collected at closing or fees for appraisal, attorney, credit report, etc. that are paid to third parties.
 - **Does include fees** paid directly by borrower to mortgage brokers, but does **not include** the back-end payments to brokers by lenders (yield spread premium).
 - **Does include** any prepayment penalty in excess of 1%.

- or -

- **High interest rate:** Loans where the borrower is charged an interest rate that is 10% (changed from 8% in October 2002) more than the comparable Treasury bond rate. The current threshold rate is less than 16% and will change as market interest rates fluctuate.
- **Prepayment penalty** not longer than 30 months or more than 2% of amount paid.

Predatory lending and unsound investment practices, central to the current home foreclosure crisis, are resulting in a credit crunch that is spreading well beyond the housing market, now impacting the cost of credit for local government borrowing, as well as local property tax revenues. In response, the U.S. House passed legislation, HR3915, which would prohibit certain predatory lending practices and make it easier for consumers to renegotiate predatory mortgage loans. The Senate introduced similar legislation in late 2007 (S2452). The Mortgage Reform and Anti-Predatory Lending Act (HR1728) was passed in the House in May 2009 and amends the Truth in Lending Act to specify duty of care standards for originators of residential mortgages. The law also prescribes minimum standards for residential mortgage loans, directs the Secretary

of Housing and Urban Development (HUD) to establish a grants program to provide legal assistance to low and moderate income homeowners and tenants, and prohibits specified practices, including:

- Certain prepayment penalties;
- Single premium credit insurance;
- Mandatory arbitration (except for reverse mortgages);
- Mortgage loan provisions that waive a statutory cause of action by the consumer; and
- Mortgages with negative amortization.

In addition to anti-predatory lending laws, the Mortgage Forgiveness Debt Relief Act was enacted in 2007 and allows for the exclusion of income realized as a result of modification of the terms of a mortgage or foreclosure on a taxpayer’s principal residence.

CRA Rating

Depending on the type of institution and total assets, a lender may be examined by different supervising agencies for its CRA performance. A search was performed on the databases for the Federal Reserve Board (FRB), Federal Financial Institutions Examination Council (FFIEC), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS). Among the top lenders active in Salisbury - Wells Fargo, Bank of America, BB&T, and Farmers & Mechanics Bank were all awarded an “Outstanding” rating. The Bank of North Carolina, Communityone Bank, First Bank, SunTrust, The Fidelity Bank, and Woodforest National Bank received a “Satisfactory” rating.

| Name | Address | City | Zip | CRA Rating |
|-----------------------------------------|--------------------------------------|-----------|-------|--------------|
| Bank of America, National Association | 500 West Innes Street | Salisbury | 28144 | Outstanding |
| Bank of America, National Association | 200 Statesville Boulevard | Salisbury | 28144 | |
| Bank of North Carolina | 415 Jake Alexander Boulevard | Salisbury | 28147 | Satisfactory |
| Branch Banking and Trust Company | 5080 Jake Alexander Boulevard West | Salisbury | 28147 | Outstanding |
| Community Bank of Rowan | 322 East Innes Street | Salisbury | 28144 | Satisfactory |
| Communityone Bank, National Association | 225 Faith Road | Salisbury | 28146 | Satisfactory |
| Communityone Bank, National Association | 1938 Jake Alexander Boulevard West | Salisbury | 28147 | |
| Farmers & Merchants Bank | 728 Klumac Road | Salisbury | 28144 | Outstanding |
| Farmers & Merchants Bank | Highway 601 Bypass And Maupin Avenue | Salisbury | 28144 | |
| Farmers & Merchants Bank | 420 North Main Street | Salisbury | 28144 | |
| Farmers & Merchants Bank | 221 Statesville Boulevard | Salisbury | 28144 | |
| Farmers & Merchants Bank | 102 Avalon Drive | Salisbury | 28146 | |
| First Bank | 1525 Jake Alexander Boulevard South | Salisbury | 28147 | Satisfactory |
| First Bank | 215 West Innes Street | Salisbury | 28144 | |
| SunTrust Bank | 2070 Statesville Boulevard | Salisbury | 28147 | Satisfactory |
| SunTrust Bank | 507 West Innes Street | Salisbury | 28144 | |
| SunTrust Bank | 105 Avalon Drive | Salisbury | 28146 | |
| The Fidelity Bank | 2085 Statesville Boulevard | Salisbury | 28147 | Satisfactory |
| Wells Fargo Bank, National Association | 215 West Innes Street | Salisbury | 28144 | Outstanding |
| Wells Fargo Bank, National Association | 130 South Main Street | Salisbury | 28144 | |
| Wells Fargo Bank, National Association | 1300 West Innes Street | Salisbury | 28144 | |
| Wells Fargo Bank, National Association | 866 Jake Alexander Boulevard West | Salisbury | 28147 | |
| Woodforest National Bank | 323 South Arlington Street | Salisbury | 28144 | Satisfactory |
| Total Bank Branch Count = 23 | | | | |

Source: FDIC, 2010

Foreclosures

The North Carolina (and nationwide) housing market was at a peak during 2006. With historically low mortgage interest rates, the prevalence of creative financing (zero down, interest-only, low introductory rates), and under the false assumptions that home prices would continue to escalate and refinancing is always an option, many homebuyers fell into the trap of purchasing a home that was far beyond their financial means. However, beginning in 2006/2007, as the lending market crashed and home prices began to fall, the ability of a household to refinance the substantial mortgage becomes increasingly difficult. In the meantime, many loan terms with low introductory rates were facing expiration, increasing the monthly mortgage payments for many households and forcing many households into foreclosures. As illustrated in the map below, the greatest concentration of foreclosures as a percentage of total mortgages is to be found in the band running from northeast to southwest through Salisbury. Notably, the central business district has among the lowest percentage of foreclosures, as does the area due north of this area and centered on Statesville Blvd., Mahaley Ave. and Confederate Ave. The area west of North Long Street in Census Tract 508 has the highest concentration of foreclosures. According to RealtyTrac.com, there were 559 bank-owned properties in foreclosure in Salisbury as of August 1, 2010.

