

**OTHER FREE CONTENT FROM THE WALL STREET JOURNAL****EDITORS' PICKS**

Portals: Are MP3s ruining the sound quality of music?
[Discuss](#)

Cap or Tax?: Economists and lawmakers debate emissions.

Act One: Young professionals in D.C. turn to blogging.
[Discuss](#)

Self-Referral: Docs sending patients to centers they own draw scrutiny.

Heard on the Runway: Coverage of New York's fashion week.

Question of the Day: How should the government curb carbon emissions?

[Online Today | Law Deal Journal | Econ](#)

More [free features](#), [WSJ blogs](#) and [data](#).

MORE EDITORS' PICKS**BLOGS**

Most Popular Posts

1. [The O.C. -- Law School Edition](#)
2. [Blog Roll: iPhlop?](#)
3. [Sirius-XM: October Surprise for the Two Morgans?](#)
4. [The Dent in Lewis' Countrywide Halo](#)

[SEE ALL BLOGS](#)

MORE FREE CONTENT

- [» Personal Journal](#)
- [» Personal Finance](#)
- [» Leisure](#)
- [» Markets Data Center](#)
- [» Video](#)
- [» Blogs](#)
- [» Forums](#)
- [» Interactives](#)
- [» Autos](#)
- [» CareerJournal](#)
- [» RealEstateJournal](#)
- [» StartUpJournal](#)
- [» OpinionJournal](#)
- [» MarketWatch](#)
- [» AllThingsDigital](#)

Home-Loan Report Portends More Pain

By **RICK BROOKS**

September 13, 2007; Page D3

An analysis of federal data on nearly 14 million U.S. home loans made last year portends more misery for subprime borrowers, lenders and investors, as existing loans are pressured by falling home prices and lenders put tougher underwriting standards in place.

The study by the Federal Reserve, based on data collected each year under the Home Mortgage Disclosure Act, found that the percentage of U.S. mortgages carrying high interest rates (generally, subprime loans) climbed to about 29% last year from 26% in 2005.

In the report, Fed researchers said the data affirmed that the rise or fall of home prices is the biggest factor in predicting mortgage-loan performance, as opposed to the creditworthiness of borrowers and other variables. The study also linked higher concentrations of high-rate loans to rising rates of serious delinquency, or mortgages with payments overdue by at least 90 days.

The study examined loans issued by 8,886 lenders nationwide, which generate an estimated 80% of U.S. home mortgages. The lenders are required to disclose dozens of pieces of information about each mortgage made or applied for, including pricing information for loans with interest rates exceeding certain thresholds. For first-lien loans, lenders must report which loans have interest rates at least three percentage points higher than Treasury securities of comparable maturity.

The 2006 increase in high-rate loans was fueled partly by the flattened yield curve, or gap between long-term and short-term interest rates, which causes the number of loans exceeding the reporting thresholds to rise even if lenders don't charge borrowers higher interest rates. Still, the data suggest frenzied competition for subprime loans, even as the housing market was weakening.

Market shares of the 10 largest high-rate lenders by volume declined to 35% from 59% in 2005, the Fed said. Banks and other depository institutions increased their penetration of the high-rate market, likely reflecting aggressive promotion of subprime loans to borrowers with blemished credit histories.

Dan Immergluck, an associate professor at Georgia Institute of Technology in Atlanta, said the surge by traditional banks reinforces the need for regulators to intensify mortgage oversight as part of their supervision of the banking industry. "Half the market actually is the stuff the regulators could have had significant influence over, and maybe still can," he said.

The overall denial rate for home loans climbed to 29%, from 27% in 2005. The report didn't cite the likely reason for the increase, but it could reflect stricter underwriting by lenders as well as borrowers stretching for larger loans or sinking into financial trouble.

The percentage of first-lien purchase loans to investors or second-home buyers fell for the first time since 1996. Such loans are considered riskier than those to owner occupants. The decline was modest, possibly reflecting that widespread real-estate speculation continued well after the housing market slowed.

According to the study, African-American and Hispanic borrowers also remain much more likely than whites to pay high interest rates on mortgages. In 2006, about 54% of first-lien home-purchase loans to African-Americans exceeded the high-rate threshold, compared with 18% for non-Hispanic whites.



Fast Color Laser Printers and All-in-Ones


HL-4040CN
\$399*


HL-4070CDW
\$499*


MFC-9440CN
\$699*

[Learn more](#)

 At your side.

*Estimated street price may vary.

www.Brother-USA.com
Ads by Google

Lenders and bank regulators say the disparities largely reflect differences in income and credit histories, not race discrimination. Home Mortgage Disclosure Act data don't include credit scores, so regulators use the information as a starting point in investigating possible discrimination.

Write to Rick Brooks at rick.brooks@wsj.com

RELATED ARTICLES AND BLOGS

Related Content may require a subscription | [Subscribe Now -- Get 2 Weeks FREE](#)

Related Articles from the Online Journal

- [Lenders Broaden Clampdown on Risky Mortgages](#)
- [Mortgage Fears Drive Up Rates On Jumbo Loans](#)
- [Lenders Urged to Help Avoid Foreclosures](#)
- [Mortgage Madness](#)

Blog Posts About This Topic

- [Subprime Lender](#) mtechlive.com
- [No Title](#) interest.com

[More related content](#) Powered by 

[EMAIL THIS](#) [FORMAT FOR PRINTING](#) [MOST POPULAR](#) [ORDER REPRINTS](#)



AARP & The Hartford Auto Insurance

Over 50? Save up to \$303 on auto insurance from AARP & The Hartford.

AARP.TheHartford.com

Online Stock Trading

Trade free for 45 days and get \$100. No maintenance fees. Sign up now.

www.TDAMERITRADE.com

Instant Reporting w/ AJAX

Download the free express edition! Experience it like never before.

www.izenda.com/adhoc

[Return To Top](#)

[Subscribe](#) [Log In](#) [Take a Tour](#) [Contact Us](#) [Help](#) [Email Setup](#) [Customer Service: Online](#) | [Print](#)

[Privacy Policy](#) [Subscriber Agreement & Terms of Use](#) [Mobile Devices](#) [RSS Feeds](#)

[News Licensing](#) [Advertising](#) [About Dow Jones](#)

Copyright © 2007 Dow Jones & Company, Inc. All Rights Reserved

