SUB-PRIME LENDING in Vermont
A report by the CVOEO Fair Housing Project and the
Vermont Housing Finance Agency

THE FORECLOSURE
AND SUB-PRIME CRISIS
As the sub-prime loan crisis spreads across the nation and
the world, Vermonters are be-
ginning to find that the mort-
gage crisis is also hitting close to
home. Though sub-prime lending
in Vermont has not reached the
historic highs that have brought
many communities across the
nation to their knees, our small,
rural state is experiencing a rise
in foreclosures and was not im-
mune to sub-prime lending dur-
during the mortgage bubble of the
past few years.

Currently, there are more than
3,000 active sub-prime loans in
the state of Vermont. Of those,
more than half are Adjustable
Rate Mortgages (ARMs). ARMs
are loans which have one intro-
ductive rate for a set period of
time. After the introductory “teas-
er” rate period ends, the interest
rate on the loan changes, often in-
creasing dramatically. The interest
rate on the loan is generally tied
to an index and fluctuates in ac-
cordance with the vagaries of that
index. Often, even when other
interest rates go down, the rates
of ARM loans do not fall. As a re-

sult, borrowers who were able to
afford the initial payments under
the teaser rate, find themselves
unable to make the increased pay-
ments. Many ARMs also include
a prepayment penalty. The large
numbers of ARM loans still ac-
tive across the state means that
the foreclosure crisis may hit Ver-
monters hard as their loan pay-
ment increase and the economy
continues to slow down.

SUB-PRIME LENDING
IN VERMONT AND
PROTECTED CATEGORIES
An analysis of Home Mortgage
Disclosure Act (HMDA) data for
the years 2006 and 2007 show that
in 2006, 19% of all home purchase
loans in Vermont were sub-prime
while 28% of all refinance loans
were sub-prime. In 2007, 11% of
all home purchase loans were
sub-prime while 17% of refinanc-
es were sub-prime. Both types of
loans show a significant decrease
in sub-prime lending during the
two year period studied.

The HMDA data revealed that
members of protected categories in
Vermont do not appear to be more
likely to have sub-prime loans for
home purchase loans. However
Vermonters living in lower-income
census tracts were more likely to
have a sub-prime loan than their
neighbors living in moderate and
high-income census tracts.

When refinance loans are ex-
amined, the HMDA data reveals
that low-income borrowers and
non-white or Hispanic borrow-
ers were more likely to have
sub-prime refinancing loans than
their moderate, high income and
white counterparts. The overall
rate of sub-prime refinance loans
in the state was 28% in 2006.

The large numbers of ARM loans still active
across the state means that the foreclosure
crisis may hit Vermonters hard

The data suggests that lending in
Vermont was not immune to some
of the discriminatory practices
that characterized the sub-prime
and predatory lending boom in
the rest of the country. Borrow-
ers, lenders, and advocates must
ensure that steps are taken to
mitigate the effects of the sub-
prime crisis here in Vermont.

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