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 beginning to find that the mortgage 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 immune to sub-prime lending 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 introductory rate for a set period of time. After the introductory "teaser" rate period ends, the interest rate on the loan changes, often increasing dramatically. The interest rate on the loan is generally tied to an index and fluctuates in accordance with the vagaries of that index. Often, even when other interest rates go down, the rates of ARM loans do not fall. As a result, borrowers who were able to afford the initial payments under the teaser rate, find themselves unable to make the increased payments. Many ARMs also include a prepayment penalty. The large numbers of ARM loans still active across the state means that the foreclosure crisis may hit Vermonters hard as their loan payment 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 refinances 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 examined, the HMDA date reveals that low-income borrowers and non-white or Hispanic borrowers 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. Non-white and Hispanic borrowers had a sub-prime refinance rate of 31%, fully 3% percent higher than the average.

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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. Borrowers, lenders, and advocates must ensure that steps are taken to mitigate the effects of the sub-prime crisis here in Vermont. ■