

Minority composition (percent)	Denial rate (percent)	Origination rate	Tract income (percent)	Denial rate (percent)	Origination rate
0–30	11.8	14.1	Less than 90	21.3	7.5
30–50	19.1	10.7	90–120	13.5	12.6
50–100	24.4	7.2	Greater than 120	8.9	18.8

Two points stand out from these data. First, census tracts with higher percentages of minority residents have higher denial and lower origination rates. Tracts that are over 50 percent minority have twice the denial rate and half the origination rate of tracts that are under 30 percent minority.⁶⁵ Second, census tracts with lower incomes have higher denial rates and lower origination rates than higher income tracts. Tracts with income less than or equal to 90 percent of area median have more than two times the denial rate and less than one-half the origination rate of tracts with income over 120 percent of area median.

HUD chose over 30-percent minority and under 90-percent of area median income as the thresholds for defining metropolitan underserved areas. There are two advantages to HUD's definition. First, the cutoffs produce sharp differentials in denial and origination rates between served and underserved areas. For instance, the overall denial rate (21 percent) in underserved areas is almost double that (11 percent) in served areas. Thus, an advantage of a targeted definition of underserved areas is illustrated by sharp differences in mortgage access between served and underserved areas.⁶⁶

A second advantage is that the minority and income cutoffs are useful for defining mortgage problems in the suburbs as well as in OMB-defined central cities. Underserved areas account for 31 percent of the suburban population, compared with 58 percent

of the central city population. The average denial rate in underserved suburban areas is almost twice that in the remaining areas of the suburbs. (See Figure B.1 in Section B.) Thus, the minority and income thresholds in HUD's definition identify those suburban tracts that seem to be experiencing mortgage credit problems.

3. Characteristics of Urban Underserved Areas

The final rule's definition of metropolitan underserved areas includes 20,326 of the 43,232 census tracts in metropolitan areas, covering 44 percent of the metropolitan population, 58 percent of the OMB-defined central city population, and 31 percent of the suburban population. As shown in Table B.8, the final rule's definition covers most of the population of the nation's most distressed OMB-defined central cities: Newark (99 percent), Detroit (96 percent), Hartford (97 percent), Baltimore (90 percent), and Cleveland (90 percent). The nation's five largest cities also contain large concentrations of underserved areas: New York (62 percent), Los Angeles (69 percent), Chicago (77 percent), Houston (67 percent), and Philadelphia (80 percent).

High-Income-Minority Tracts. It should be noted that the final rule's definition of underserved areas excludes high minority tracts with median income above 120 percent of area median income. As shown in Table B.9, these tracts, which represent about two percent of metropolitan area population, appear to be relatively well off: they have low levels of poverty (7 percent), and high relative house values (122 percent). The high-income-minority tracts are concentrated in a few metropolitan areas: 7 percent of Los Angeles' population lives in them; the corresponding figures are 7 percent for

New York, 5 percent for Miami, 25 percent for Honolulu, and 12 percent for San Antonio. By contrast, most relatively distressed metropolitan areas have few households in such areas—for example, Cleveland (1 percent), Detroit (2 percent), Memphis (1 percent), Milwaukee (0 percent), and Philadelphia (1 percent).

Income Threshold. Among other issues considered in setting the underserved definition for metropolitan areas included raising the area income threshold, to include more moderate-income census tracts. This alternative would add tracts with incomes between 90 and 100 percent of the area median. However, it should be noted that high-minority tracts (over 30 percent minority) at this income level are already included in HUD's underserved areas definition, and that raising the income limit to 100 percent would add only tracts with low-minority concentration (below 30 percent). These areas represent 4,486 census tracts, and comprise 11 percent of metropolitan population.⁶⁷

These low-minority moderate-income tracts have denial rates almost 30 percent below the tracts that meet HUD's underserved definition (15 versus 21 percent). By contrast, high-minority moderate-income tracts have a denial rate almost identical to the overall underserved denial rate. The origination rate in moderate-income low-minority tracts (11 per 100 owner occupants) is noticeably higher than that in underserved tracts (8 per 100 owner occupants).

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⁶⁷ In addition to including tracts with income between 90 and 100 percent of area median as underserved, the Freddie Mac definition includes tracts between 20 and 30 percent minority concentration; this would add an additional 881 tracts. Table B.4 compares the HUD and Freddie Mac definitions.

⁶⁵ The differentials in denial rates are due, in part, to differing risk characteristics of the prospective borrowers in different areas. However, use of denial rates is supported by the findings in the Boston Fed study which found that denial rate differentials persist, even after controlling for risk of the borrower. See Section B for a review of that study.

⁶⁶ The Final Rule changed the income threshold from 80 percent to 90 percent. This added 3,645 tracts with a denial rate of 18 percent.