

CLOSING THE RACIAL GAP?

Mortgage Lending and Segregation in Milwaukee Suburbs



By Gregory D. Squires
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EXECUTIVE SUMMARY

Milwaukee has been designated by some scholars as one of the "hypersegregated" American metropolitan areas. Over 64% of the white households in the metropolitan area live in the suburbs, but only 2% of African American and 23% of Latino households reside in the suburbs making Milwaukee one of the most segregated communities in the United States. While income disparities between the races and family preference to live in ethnically similar neighborhoods account for some of the racial differentiation in suburban residence, the most significant factors in creating and maintaining housing segregation in the suburbs have been the discriminatory practices in the housing industry.

This study examines mortgage lending patterns in Milwaukee, focusing on changes in the suburban racial gap during the 1990's. Mortgage data from 200 area lending institutions were analyzed to determine:

- the increase in minority loan applications;
- the number of loans and the amount of loan dollars extended to African American and Latino households;
- the change in these rates between 1990 and 1994;
- and a comparison of these rates with white borrowers.

Results of the study show that housing segregation in suburban areas remains a serious problem. While the percentage of loan applications made and granted to minority households has increased, the actual numerical increase for minority households was quite small. **The number of loans for African Americans increased by just 62, from 48 to 110. For Latinos the increase was 76, from 57 to 133. But for whites the increase was 3,989, from 8,578 to 12,567. Projecting this "progress" into the future, it will take more than 141 years for the proportion of suburban loans going to African Americans to equal their share of all households in the Milwaukee metropolitan area.** The Latino gap would close in 17 years.

Milwaukee continues to be a hypersegregated community with all the associated social problems: inferior schools for minority children, unequal employment opportunities across racial groups, and racial tensions throughout the community. Ameliorating segregation will require more serious attention by all parties involved in the production and distribution of housing including government, private industry, and community organizations.

INTRODUCTION

Milwaukee is one of the most residentially segregated metropolitan areas in the United States. Two percent of all African American households in the Milwaukee metropolitan area reside in the suburbs compared to 23% of Latinos (many of whom are concentrated in a few Waukesha County neighborhoods). In contrast, 64% of white households in the SMSA reside in the suburbs (Census of Housing and Population 1990). Based on this data, the Milwaukee Urban League concluded that Milwaukee is **the most segregated community in the nation** (McNeely and Kinlow 1986).

In their pathbreaking study of residential segregation, *American Apartheid: Segregation and the Making of the Underclass*, Massey and Denton (1993) calculate five different indices of segregation for 30 large metropolitan areas. Milwaukee was the most segregated according to two measures and was among the five most segregated communities on two others, leading the authors to identify Milwaukee as one of the nation's hypersegregated communities.

Segregation is costly. Housing segregation leads directly to inferior schools for minorities. Employment opportunities are denied to minorities who are isolated, often in declining and dangerous neighborhoods (Massey and Denton 1993). Discriminatory housing practices and the consequent segregation of housing patterns reduces home ownership opportunities for minorities and depresses the market values of the homes they do own. Compared to the housing wealth that whites have accumulated, the costs of such discrimination to African Americans and Latinos has been estimated to reach \$600 billion nationwide (Yinger 1995). In Milwaukee, the costs have been estimated to be \$2.2 billion — \$31,000 per African American household and \$26,000 per Latino household. (Madison and Squires 1996).

Several factors contribute to the concentration of minority populations within the nation's central cities, including Milwaukee. Housing costs tend to be higher in the suburbs and minority income tends to be lower than that of the majority population. Some families choose to live in neighborhoods that are racially or ethnically homogeneous. More significant factors accounting for these segmented housing patterns, however, are a range of discriminatory practices on the part of various actors in the housing industry and government housing policy (Jackson 1985; Massey and Denton 1993; Yinger 1996).

Government policies which have contributed to the nation's dual housing market include racially restrictive covenants, under which buyers of property were contractually required to sell their homes only to people of particular races. Such covenants were legal until 1948 when the U.S. Supreme Court, in the case of

Shelley v. Kramer, prohibited court enforcement of these contractual obligations. Underwriting guidelines for Federal Housing Administration (FHA) mortgages required that "properties shall continue to be occupied by the same social and racial classes" through the 1930s and FHA practices solidified dual housing markets that persist today in cities across the country (Bradford 1979; Bradford and Cincotta 1992). Zoning laws which establish maximum density and minimum lot size requirements restrict opportunities for low-income households, thus effectively discriminating against minorities. The concentration of public housing units in central city high rise locations further isolate minorities from the mainstream (Massey and Denton 1993; Jackson 1985; Goering 1986).

But the private housing industry has played the pivotal role in determining residential patterns. When African Americans or Latinos attempt to purchase or rent a home they encounter unlawful discrimination in more than half their encounters with real estate agents. Frequently such discrimination takes the form of "steering" where clients are shown homes or otherwise directed to communities matching their particular race or ethnicity (Turner, et. al. 1991). Discriminatory appraisal practices suppress property values in minority communities, thus restricting housing choices when residents decide to move (Pittenger 1996). Property insurance companies frequently focus their marketing efforts in predominantly white communities and utilize underwriting practices that discriminate against racial minorities (Squires 1996). And mortgage lenders reject applications from racial minorities more than twice as often as they do from whites. A significant racial gap persists even among applicants who pose comparable credit risks in terms of their financial standing and the characteristics of the property they are trying to purchase (Munnell et. al. 1996). All of these factors, emanating from the public and private sectors, are prevalent in the Milwaukee area housing market (Tisdale 1989).

Racial disparities in mortgage lending have received substantial attention in recent years. The U.S. Department of Justice has settled several Federal Fair Housing Act complaints resulting in hundreds of thousands of dollars being paid by lenders to victims, significant changes in underwriting and marketing practices, creation of new products, and other steps to eradicate discrimination from the nation's mortgage markets (Ritter 1995). Utilizing leverage provided by the Federal Community Reinvestment Act (CRA), fair housing advocacy groups have negotiated over \$60 billion in urban reinvestment programs with lenders nationwide.¹ Ten agreements totalling more than \$110 million have been negotiated with Milwaukee area lenders. (National Community Reinvestment Coalition 1995). For each of the past five years the Office of the Comptroller of the City of Milwaukee has published an annual review of lending practices of financial institutions. These reports have documented serious racial disparities in the mortgage market, but disparities that have begun to decline in the past three years in Milwaukee and around the nation (Morics 1996).²

A question that arises is the following: In light of the legislative, administrative, and community-based activity of recent years that has focused on mortgage lending practices, has the mortgage market changed for minority households attempting to purchase homes in the suburbs? This study is designed to address this question by analyzing the following factors in home purchase practices and their impact on the level of metropolitan segregation:

- 1) Are more minority households applying for loans to purchase suburban homes?
- 2) Are minority applicants receiving more loans?
- 3) Is the denial rate for minority households declining ?
- 4) How, if at all, has the racial gap in the suburbs changed?
- 5) What are the implications of these developments in mortgage lending for segregated housing patterns?

This study examines these issues as they relate to Milwaukee, Wisconsin.

Data and Methodology

The data for this study are taken from Home Mortgage Disclosure Act (HMDA) statements that most banks, credit unions, savings associations, and non-depository mortgage bankers which make mortgage loans in any metropolitan area are required to submit to the federal government and make available to the public annually (Federal Financial Institutions Examination Council 1996). There are approximately 200 HMDA reporting institutions in the Milwaukee metropolitan area each year.

These reports include several items of information for each mortgage loan application including the dollar amount and type of loan requested (e.g. home purchase, home improvement, refinance, including conventional and government insured such as FHA and VA loans); the census tract in which the property is located; the race, gender, and income of the applicant; and the disposition of the application (e.g. approved or denied by the lender; approved but withdrawn by the applicant, closed for incompleteness). While HMDA was initially enacted in 1975, until the 1990 reporting year only aggregate data by census tract were reported. Beginning in 1990 individual loan data became available. This report examines lending activity from 1990 to 1994, the most current data that are available.

Conventional and government insured home purchase loans are analyzed because these are the categories that relate most directly to home ownership. Trends in lending activity within the City of Milwaukee are compared to trends in lending activity within the suburbs which include the four county metropolitan area (Milwaukee, Waukesha, Ozaukee, and Washington) outside the Milwaukee city limits.

The numbers of, and percentage increases for, loan applications, loan originations, and dollar volume of lending are reported for each year for Milwaukee and its suburban ring. These figures are also reported for whites, African Americans, and Latinos. Application rejection rates, and the ratio of African American to white and Latino to white rejection rates are also reported.

Findings

The basic conclusion is that lending activity to African Americans and Latinos in Milwaukee and the suburban ring has increased during the past five years; it has increased at a rate greater than for all borrowers generally; and for African Americans but not Latinos, lending activity has increased at a greater rate in the suburbs than in the city. However, both African American and Latino households are still receiving a tiny proportion of all suburban mortgage loans and loan dollars relative to their share of Milwaukee metropolitan area households. The number of minority households receiving mortgage loans to purchase suburban home has been too small to significantly alter longstanding segregated housing patterns; and continuation of current trends will freeze the status quo for decades to come.

Closing the Racial Gap: Mortgage Lending and Racial Segregation in Milwaukee's Suburbs

Applications

Between 1990 and 1994 the number of African American applications increased from 1,017 to 1,642 (an increase of 61.5%) in the city of Milwaukee and from 67 to 142 (up 112.0%) in the suburbs. For Latinos the increase went from 233 to 529 (127.0%) in the city and from 73 to 165 (126.0%) in the suburbs. For whites, city loan applications went from 3,345 to 3,942 (up 17.8%) and loan applications for the suburbs went from 9,831 to 14,176 (up 44.2%) (See Table 1)

TABLE 1
HOME PURCHASE APPLICATIONS* IN MILWAUKEE AND ITS SUBURBS:
1990-1994

	1990	1991	1992	1993	1994	% Change Between 1990 & 1994
CITY APPLICATIONS¹						
Total	4,595	4,863	4,735	6,364	6,113	+33.0%
White	3,345	3,634	3,493	4,433	3,942	+17.8%
% White	(72.8%)	(74.7%)	(73.8%)	(69.7%)	(64.5%)	-8.3%
Af. Am.	1,017	939	934	1,520	1,642	+61.5%
% Af. Am.	(22.1%)	(19.3%)	(19.7%)	(23.9%)	(26.9%)	+4.8%
Latino	233	290	308	411	529	+127.0%
% Latino	(5.1%)	(6.0%)	(6.5%)	(6.5%)	(8.7%)	+3.6%
SUBURBAN APPLICATIONS						
Total	9,971	11,479	11,764	14,596	14,483	+45.3%
White	9,831	11,290	11,586	14,311	14,176	+44.2%
% White	(98.6%)	(98.4%)	(98.5%)	(98.0%)	(97.9%)	-.7%
Af. Am.	67	87	74	131	142	+112.0%
% Af. Am.	(.7%)	(.8%)	(.6%)	(.9%)	(1.0%)	+.3%
Latino	73	102	104	154	165	+126.0%
% Latino	(.7%)	(.9%)	(.9%)	(1.1%)	(1.1%)	+.4%

*Applications based on: approved, approved not accepted, denied, withdrawn, and closed due to incomplete file. Percentages may not add up to 100 due to rounding.

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Loans

Growth in the number of loans changed accordingly. For African Americans, the number of loans in the city increased from 642 to 1,155 (79.9%) and the suburban increase went from 48 to 110 (129.2%). For Latinos loan totals went from 171 to 419 (145.0%) in the city and from 57 to 133 (133.3%) in the suburbs.

For whites, loans granted in the city went from 2,696 to 3,354 (up 24.4%) and loans granted for suburban purchases increased from 8,578 to 12,567 (up 46.5%). (See Table 2)

TABLE 2
HOME PURCHASE LOANS IN MILWAUKEE AND ITS SUBURBS:
1990-1994

	1990	1991	1992	1993	1994	% Change Between 1990 & 1994
CITY LOANS						
Total	3,509	3,942	3,789	5,126	4,928	+40.4%
White	2,696	3,110	2,946	3,742	3,354	+24.4%
% White	(76.8%)	(78.9%)	(77.8%)	(73.0%)	(68.1%)	-8.7%
Af. Am.	642	616	624	1,063	1,155	+79.9%
% Af. Am.	(18.3%)	(15.6%)	(16.5%)	(20.7%)	(23.4%)	+5.1%
Latino	171	216	219	321	419	+145.0%
% Latino	(4.9%)	(5.5%)	(5.8%)	(6.3%)	(8.5%)	+3.6%
SUBURBAN LOANS						
Total	8,683	10,182	10,297	12,838	12,810	+47.5%
White	8,578	10,033	10,159	12,599	12,567	+46.5%
% White	(98.8%)	(98.5%)	(98.7%)	(98.1%)	(98.1%)	-.7%
Af. Am.	48	68	58	107	110	+129.2%
% Af. Am.	(.6%)	(.7%)	(.6%)	(.8%)	(.9%)	+.3%
Latino	57	81	80	132	133	+133.3%
% Latino	(.7%)	(.8%)	(.8%)	(1.0%)	(1.0%)	+.3%

Percentages may not add up to 100 due to rounding.

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Loan Dollars

Increases in the dollar amount of home purchase loans increased in the same direction. For African Americans, the amount of lending increased from \$26.0 million to \$55.4 million in the city (113.2%) and from \$5.2 million to \$15.1 million in the suburbs (190.0%). For Latinos the increase within Milwaukee was from \$6.5 million to \$19.5 million (199.6%) while in the suburban ring the increase was from \$4.9 million to \$13.8 million (183.2%). Lending to whites increased from \$146 million to \$300 million (up 54.0%) in the city and from \$737 million to \$over 1,4 billion in the suburbs (up 95%). (See Table 3)

TABLE 3
HOME PURCHASE LOAN DOLLARS IN MILWAUKEE AND ITS SUBURBS: 1990-1994

	1990	1991	1992	1993	1994	% Change Between 1990 & 1994
CITY						
DOLLARS*						
Total	\$178,251	\$210,913	\$209,670	\$304,351	\$299,389	+68.0%
White	\$145,780	\$174,311	\$173,174	\$240,697	\$224,545	+54.0%
% White	(81.8%)	(82.6%)	(82.6%)	(79.1%)	(75.0%)	-6.8%
Af. Am.	\$25,965	\$27,685	\$27,484	\$48,534	\$55,355	+113.2%
% Af. Am.	(14.6%)	(13.1%)	(13.1%)	(15.9%)	(18.5%)	+3.9%
Latino	\$6,506	\$8,917	\$9,012	\$15,120	\$19,489	+199.6%
% Latino	(3.6%)	(4.2%)	(4.3%)	(5.0%)	(6.5%)	+2.9%
SUBURBAN						
DOLLARS						
Total	\$747,272	\$914,412	\$1,005,242	\$1,352,770	\$1,466,061	+96.2%
White	\$737,201	\$899,811	\$991,948	\$1,327,002	\$1,437,185	+95.0%
% White	(98.7%)	(98.4%)	(98.7%)	(98.1%)	(98.0%)	-.7%
Af. Am.	\$5,200	\$7,720	\$6,253	\$13,943	\$15,080	+190.0%
% Af. Am.	(.7%)	(.8%)	(.6%)	(1.0%)	(1.0%)	+3%
Latino	\$4,871	\$6,881	\$7,041	\$11,825	\$13,796	+183.2%
% Latino	(.7%)	(.8%)	(.7%)	(.9%)	(.9%)	+2%

*Dollars are in thousands
Percentages may not add up to 100 due to rounding.

Denial Rates

Application denial rates for all groups declined. The denial rate for African Americans declined by 7.9% in the city and 6.4% in the suburbs. For Latinos denial rates dropped by 4.4% in the city and 7.4% in the suburbs. Denial rates declined for whites 2.5% in the city and 2.0% in the suburbs. (See Table 4)

TABLE 4
DENIAL RATES* IN MILWAUKEE AND ITS SUBURBS:
1990-1994

	1990	1991	1992	1993	1994	% Change Between 1990 & 1994
TOTAL						
White	7.05%	5.45%	6.32%	4.97%	4.54%	-2.5%
Af. Am.	27.02%	25.30%	21.88%	18.97%	19.15%	-7.9%
Latino	14.81%	16.71%	15.92%	11.11%	10.40%	-4.4%
CITY						
White	11.15%	8.28%	9.55%	7.06%	7.57%	-3.6%
Af. Am.	27.68%	26.48%	22.77%	19.81%	19.86%	-7.8%
Latino	15.61%	18.11%	18.45%	13.23%	12.03%	-3.6%
SUBURBAN						
White	5.68%	4.53%	5.34%	4.33%	3.70%	-2.0%
Af. Am.	16.95%	12.66%	10.77%	9.24%	10.57%	-6.4%
Latino	12.31%	12.77%	8.05%	5.56%	4.90%	-7.4%

*Denial rate computed by dividing number of applications denied by total number of applications where applications are: approved, approved not accepted, and denied.

Consequently, the ratio of African American/white and Latino/white denial rates changed little. African Americans were rejected approximately three times as often as whites in the city and suburbs during these years while Latinos were rejected about twice as often. (See Table 5)

TABLE 5
DENIAL RATIOS* IN MILWAUKEE AND ITS SUBURBS: 1990-1994

	1990	1991	1992	1993	1994
TOTAL					
Af.Am./White	3.8:1	4.6:1	3.5:1	3.8:1	4.2:1
Latino/White	2.1:1	3.1:1	2.5:1	2.2:1	2.3:1
CITY					
Af.Am./White	2.5:1	3.2:1	2.4:1	2.8:1	2.6:1
Latino/White	1.4:1	2.2:1	1.9:1	1.9:1	1.6:1
SUBURBAN					
Af.Am./White	3.0:1	2.8:1	2.0:1	2.1:1	2.9:1
Latino/White	2.2:1	2.8:1	1.5:1	1.3:1	1.3:1

*Denial ratio computed by dividing percent African American denial by percent white denial and dividing percent Latino denial by white denial.

Denial rates are particularly difficult to interpret. High denial rates for a given group may reflect a lender's aggressive efforts to attract more applications from members of that group, including many marginal and unqualified applicants. At the same time a low denial rate may reflect pre-screening where members of a particular group are rarely offered the opportunity to submit a formal application. Therefore, it is critical to examine denial rates in conjunction with lending activity reported above.

CONCLUSION

While there has been a substantial increase in the percentage of African American and Latino suburban home purchase loans, the real impact on metropolitan segregation has been minimal given the small base that minority loans represented at the beginning of this time period. Changes in the raw numbers reflect this phenomenon. **The number of loans to African Americans in the suburbs actually increased by just 62 (from 48 to 110, with at least some of these loans going to African Americans who currently live in the suburbs but who are seeking another suburban home). For Latinos the increase was 76 (from 57 to 133). At the same time the number of loans to whites in the suburbs increased by 3,989 (from 8,578 to 12,567).** Despite the relative gains that African Americans and Latinos have made in the Milwaukee area mortgage market, they still receive a minute proportion of all suburban loans and loan dollars given their share of all metropolitan area households. No doubt the concentration of African American and Latino loans within the city reflects their current spatial location in Milwaukee's housing market. But this fact begs the critical question: Why are racial minorities excluded from Milwaukee's suburban ring?

Assuming the absence of discrimination (in the nation's housing and housing finance markets as well as in schools, labor markets, and elsewhere) and assuming similar housing choices among all racial groups, approximately the same proportion of each group would probably live in the city and the suburbs and each group would receive about the same share of all mortgage loans and loan dollars within each area. But that is clearly not the case in Milwaukee.

African Americans account for 11.5% of all households in the Milwaukee metropolitan area. But in 1994 they accounted for only 1.0% of all suburban home purchase mortgage loan applications, they received 0.9% of all suburban loans, and 1.0% of all suburban loan dollars. Latinos accounted for 2.3% of area households but submitted just 1.1% of all suburban home purchase mortgage loan applications and received 1.0% of all loans and 0.9% of loan dollars.

One way of viewing the changes that have occurred towards closing the suburban racial gap is to determine how long it will take to reach parity (that is for the proportion of African American and Latino loans in the suburbs to equal the proportion of African American and Latino households in the metropolitan area) given the rate of progress over the previous five years. For example, how long will it take for African Americans to receive 11.5% of all suburban home purchase mortgage loans given the increasing share of such loans they received in the past five years? Between 1990 and 1994 the share of all such loans

going to African Americans increased from 0.6% to 0.9%, an increase of 0.3% (*that is three tenths of one percent, not three percent*). At this rate, in order to close the remaining gap of 10.6% (11.5%-0.9%) it will take more than 141 years.³ For Latinos the remaining gap is 1.3% (2.3%-1.0%) and it will take just over 17 years to close it.

Lenders alone, of course, cannot close the racial gap in mortgage lending. Racial and ethnic groups differ on several characteristics including financial capacity and other factors that affect their credit-worthiness. Under any conditions, precisely the same proportion of each group would not choose to live in the city, suburbs, or elsewhere. But in the absence of discrimination, housing and lending patterns would be quite different. As indicated above, the weight of social science evidence clearly establishes that discriminatory practices by various actors in the housing industry - not choice or economic capacity - account for the dual housing markets in virtually every metropolitan area. It remains evident that significant racial gaps persist in the spatial location of racial minorities in the Milwaukee metropolitan area and in the distribution of home purchase mortgage loans that is intricately connected to that broader housing pattern.

Hypersegregation in Milwaukee has not been resolved or even significantly reduced in recent years. The destructive impact of segregated housing is felt in a variety of social and economic arenas including education, employment, and the legacy of intense racial conflict among Milwaukee residents. But this malignant condition whereby African Americans and, to a lesser extent, Latinos are separated in everyday residential life from their white counterparts and deprived of the most basic choices related to establishing a home and community base will not be cured without serious and sustained attention by all levels of government, private industry, and community organizations.

NOTES

1. The Community Reinvestment Act places an affirmative duty on federally regulated depository institutions to be responsive to the credit needs of their entire service areas, including low-and moderate-income neighborhoods. Regulators are required to consider lenders' CRA performance in evaluating applications for mergers, new branches, and most other proposed changes in their business operations. Third parties, including neighborhood advocacy groups, can challenge such applications. These challenges can result in a denial or, more frequently, a delay in consideration of the application. Lenders, therefore, have an incentive to negotiate with parties filing CRA challenges. Under new regulations promulgated in 1995 and taking effect in 1996 lenders are evaluated primarily on their lending, investment, and service records. Evidence of racial discrimination is one factor that would weigh against a lender in a CRA review.
2. This may reflect a nationwide trend. Between 1993 and 1994 (the most recent year for which data are publicly available) loans to African Americans increased 55% while loans to Latinos increased 42%. The comparable increase for whites was 16% (Board of Governors of the Federal Reserve System 1996: 203).
3. This figure was calculated in the following way. First, progress in closing this gap over the past four years was identified from Table 2. In 1990 African Americans received 0.6% of all suburban home purchase loans. In 1994 they received 0.9%. So 0.3% of the gap was closed during these years. Second, the remaining gap to be closed was derived by subtracting the current proportion of suburban loans going to African Americans (0.9%) from the proportion of African American households in the metropolitan area (11.5%). The remaining gap, therefore, is 10.6%. Finally, the number of years it would take to close this gap was calculating by determining how long it would take for African American loans to reach 11.5% of the total if 0.3% of the gap were closed every four years. The current gap - 10.6% - was divided by 0.3% (for a total of 35.3) and then multiplied by four; a total of 141.2 years.

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