Center for Responsible Lending

Despite Growing Market, African-Americans and Latinos Remain Underserved

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Introduction

Enacted by Congress in 1975, the Home Mortgage Disclosure Act (HMDA) requires an annual public accounting of the nation's mortgage lending. Its data provides critical information for both the public and financial sectors by alerting the nation to trends on the groups of Americans that are actually receiving mortgage loans from financial institutions.

For the third straight year, CRL's HMDA analysis finds that mortgage lending overall has not been affected by lending rules like the Ability-to-Repay and Qualified Mortgages, also known as QM. Instead, lending trends show incremental increases signaling modest growth in 2014, 2015, and again in 2016. In 2016, 2,123,000 conventional loans were approved. An additional 866,000 non-conventional loans were also made last year.

Despite these encouraging signs, consumers of color and low-wealth families still lack access to conventional loans. Consumers of color received a combined 187,958 conventional loans or 9% of 2016's conventional mortgage loans. By contrast, 324,566 non-conventional mortgage loans were approved in 2016 for African-Americans and Hispanic Whites.

Another disturbing and continuing trend is the high rates of denial in mortgage applications filed by consumers of color. African-Americans still have the highest denial rate and Hispanic White applicants were also denied more often than Whites.

At a time when mortgage rates are at their lowest, it is important to the nation's economy for all consumers to take advantage of historically low-interest rates. Broad access to the most cost-efficient mortgages would increase the strength of our still-recovering economy.

CRL believes that every consumer and community must be included in our nation's economic progress.

Table 1: Mortgage originations and demographic details for purchase mortgages[1]

	2016		2015	
	#	%	#	%
Total originations	6,916,000		6,041,000	
Purchase mortgages	3,545,000	51.3%	3,200,000	53.0%
to African-Americans	207,780	6.0%	171,820	5.5%
to Hispanic-whites	304,744	8.8%	259,292	8.3%
to Non-Hispanic whites	2,299,432	66.4%	2,127,444	68.1%
Low- and moderate-income	907,306	26.2%	874,720	28.0%
Refinance mortgages	3,371,000	48.7%	2,841,000	47.0%
to African-Americans	166,850	5.0%	140,500	5.0%
to Hispanic-whites	206,894	6.2%	177,030	6.3%
to Non-Hispanic whites	2,175,724	65.2%	1,888,320	67.2%
Low- and moderate-income	563,953	16.9%	533,900	19.0%

Table 2: Conventional and Non-conventional purchase mortgage originations, demographic details[2]

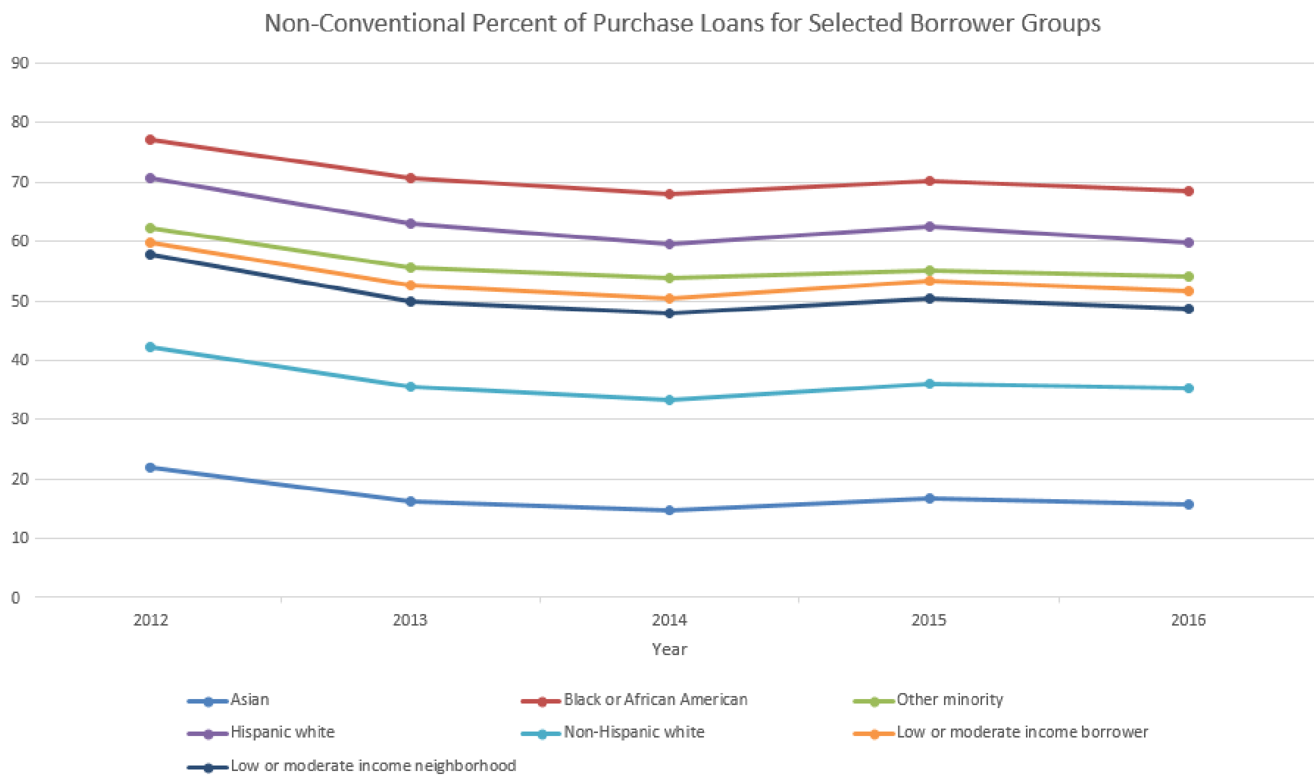
	2016		2015	
	#	%	#	%
Conventional (site built)	2,123,000		1,894,000	
to African-Americans	65,451	3.1%	51,202	2.7%
to Hispanic-whites	122,507	5.8%	96,975	5.1%
to Non-Hispanic whites	1,490,032	70.2%	1,361,564	71.9%
Low- and moderate-income	438,229	20.6%	408,494	21.6%
Non-conventional (site built)	1,340,000		1,230,000	
FHA	866,000	64.6%	794,580	64.6%
to African-Americans	142,329	10.6%	120,618	9.8%
to Hispanic whites	182,237	13.6%	162,317	13.2%
to Non-Hispanic whites	809,400	60.4%	765,880	62.3%
Low- and moderate-income	469,077	35.0%	466,226	37.9%

Highlights From the 2016 HMDA Data

- African-American borrowers received 6% of total purchase loans. Hispanic white borrowers received 8.8% of purchase loans. This marks a slight increase from the corresponding 2015 totals, shown above, but these rates continue to lag the population rates for African-Americans and Hispanic white Americans, who make up 12.7% and 11.3% of the American population, according to the US Census Bureau's 2015 American Community Survey.
- African-American borrowers received 5% of total refinance loans. Hispanic white borrowers received 6.2% of purchase loans. While these totals mark small increases since 2015, the proportion of refinance loans to African-American borrowers remained at 5%, while the proportion to Hispanic white borrowers slightly decreased from the corresponding 2015 totals.
- Low- and moderate-income borrowers received 26.2% of purchase loans, a total of 907,306. This total is a small increase in volume from 2015 levels, but represents a smaller proportion of the total purchase loans than in 2015.
- While the share of government-backed purchase loans to African-American borrowers increased slightly, from 9.8% to 10.6% from 2015 to 2016, and from 13.2% to 13.6% to Hispanic white borrowers, these shares remained quite small in comparison to the share to non-Hispanic white borrowers, which remained above 60%. Moreover, the share of these loans to low- and moderate-income borrowers decreased from 37.9% to 35.0%.
- Similarly, African-American and Hispanic white borrowers made small gains in the conventional purchase market, where their disparities with non-Hispanic white borrowers are greater. Non-Hispanic white borrowers receive over 70% of the conventional purchase loans, with African-American borrowers receiving just over 3% and Hispanic white borrowers 5.8%-- out of over 2.1 million conventional purchase mortgage loans, only 65,451 went to African-Americans nationally. As in the government-backed market, low- and moderate-income borrowers saw their share of conventional purchase loans decrease in 2016, from 21.6% to 20.6%.
- Rates of higher-priced lending incidence were up slightly overall for purchase loans, from 7.6% to 7.7%, and slightly down, from 2.5% to 2% of refinance loans. Racial and ethnic disparities continue to exist in the higher-priced market, however, as African-American and Hispanic white borrowers are between two and three times as likely as non-Hispanic white borrowers to receive a higher-priced purchase loan.
- Non-bank lenders made 52.9% of the total 2016 originations, including 56.1% of the refinance originations.

Government-backed mortgages provide an important source of credit

Government-backed mortgages have been a particularly important source of mortgage credit since the advent of the Great Recession. This has particularly been true for borrowers of color. As shown below, the proportion of these loans for all borrowers has gradually diminished since 2012.



While the overall market share for these programs continues to decline as the market improves, the rate at which people of color rely on these programs has not diminished. Government-insured loans, such as FHA, have clearly been an important source of credit post-crisis. FHA mortgages are the primary source of credit for African-Americans and Latino home purchasers. However, compared to conventional loans these loans can be costlier over the life of the loan. Further, increasingly, lenders have also been less willing to make these loans. In 2015 large lenders, including Wells Fargo and JP Morgan Chase[3] took steps to pull back from FHA lending and the 2016 data show that more and more FHA loans are being made by non-bank lenders. These programs are critical and deserve ongoing federal support. The FHA program must adequately funded and modernized to ensure its viability. However, these data also underscore the urgent need for federal regulators to better enforce fair lending requirements to ensure a more robust conventional mortgage market that serves borrowers of color.

Tight standards and pricing practices in conventional market prevent loans to creditworthy borrowers

Market indicators highlight how tight lending standards have become, especially for conventional mortgages. These trends help explain the remarkably low levels of conventional loans that made to

African-American and Latino borrowers in 2016. As noted, last year only 3.1% of conventional loans were made to African-American borrowers, and only 5.8% were made to Hispanic white borrowers. By contrast, non-Hispanic white borrowers received 70.2% of the conventional loans. In 2016 the average credit score for all new loan originations fell from its high of 750 in 2013 to stand at 732 in December of 2016. However, the average score remained about 33 pts above the average score a decade before.[4] Market-level credit availability indices continue to show that lenders have a very low tolerance for taking reasonable risk for new loans.[5] Recent vintages of new mortgages (loans originated from 2011-2015) have had near zero rates of default.[6] These tight credit standards are preventing homeownership opportunity for creditworthy borrowers of color and low- to moderate-income borrowers. Recent data released by Fannie Mae show that loans to low-income borrowers originated from 2010-2015 had a default rate of just 0.3 percent, approximately equal to that of loans to high-income borrowers originated from 2002-2004.[7] There is ample opportunity in the mortgage market to open up lending to borrowers while still offering responsible loans that borrowers can successfully repay.

Front-end pricing structures, including loan level price adjustments (LLPAs) and Private Mortgage Insurance (MI) premiums on conventional loans, result in higher prices for borrowers with lower credit profiles. In 2015, the FHFA chose to leave the Government Sponsored Enterprises' (GSE) loan guarantee fees (g-fees) largely unchanged while modestly reducing some fees (including eliminating the adverse market fee).[8] These modest changes mostly left in place LLPAs that charge higher prices to borrowers with lower credit scores and with less wealth to put towards a down payment.

In 2016, pricing changes by private mortgage insurers further raised prices on these same borrowers. These add significant costs. For example, the combination of LLPAs and MI premiums adds over 300 basis points to the cost of a mortgage for a borrower with a credit score of 620 and an LTV of 97%.[9] Borrowers of color and low-income families tend to have lower credit scores and lower wealth for a down payment compared to white borrowers due to historic lending discrimination.[10] This approach to pricing credit risk contributes to the patterns evident in the 2016 HMDA data. Borrowers of color and low- to moderate-income borrowers would be expected to pay the most for conventional loans, which helps explains why so few conventional loans were made to these borrowers. The system's move towards excessive risk-based pricing locks out borrowers who have a history of being successful homeowners.[11]

Excluded borrowers are important for a healthy market

The future of the market depends on mortgage providers including underserved borrowers. Existing homeowners, especially older Americans, will need buyers when they want to sell, and new families need access to affordable mortgage credit to buy their homes. In the future, homebuyers will be more racially and ethnically diverse than they have been in the past. Harvard's Joint Center for Housing Studies found that non-whites accounted for 60 percent of household growth from 1995-2015 and predicted that half of millennial households by 2035 will be non-white.[12] The mortgage market will need to find ways to serve borrowers of color and lower-wealth borrowers to sustain a robust market in the coming years.

Responsible and affordable refinance loans are also crucial to allowing borrowers to preserve homeownership. Recent history shows this to be the case, as toxic refinance loans helped spur the housing crisis. In fact, 90 percent of borrowers who took out subprime loans from 1998 to 2006 were already homeowners.[13] Yet, discrepancies persist in access to refinance mortgages as well as purchase mortgages. In fact, while very modest gains were made in 2016 in the access of borrowers of color to purchase mortgages, these gains did not carry over for African-American and Hispanic white borrowers, relative to the growing refinance market. In addition to making loans broadly available for home purchase, responsible and affordable refinance mortgages need to be broadly available to support sustained homeownership.

Nonbank lenders made the majority of mortgages in 2016

In 2016 non-bank mortgage lending continued to grow, and to outpace bank lending. The Consumer Financial Protection Bureau (CFPB) has the authority to regulate both bank and nonbank lenders and mortgage rules put in place after the financial crisis, including the Ability-to-Repay rules, apply to all lenders. The increased market share of nonbank lenders emphasizes the importance of making sure all lenders abide by the same rules to protect consumers. These data also reveal how large banks are failing to create opportunities for families to become homeowners. Although the nation's large banks have recovered from the financial crisis, the 2016 HMDA data illustrate that they are not using their rebuilt capital to create homeownership opportunities, particularly not for borrowers of color and low-income families. Instead, they are making most of their loans to higher income borrowers, despite receiving financial support post-crisis from taxpayers, including those with lower wealth.

Borrowers of color also pay higher costs and experience higher denial rates than white borrowers

As has been the case in prior years, the 2016 HMDA data reveal differences in denial rates by race/ethnicity and income. Black/African-American applicants had the highest denial rate, at more than twice the denial rate for non-Hispanic white applicants. Hispanic white applicants were denied over 58% more often than non-Hispanic white applicants.

Denial rates are based on a number of factors – from who chooses to apply for a loan to the credit characteristics of the borrower. The CFPB finalized changes to the scope of data collected through HMDA. The newly required fields include credit score and other lending factors into the data lenders are required to report. These new data fields, which should be available for analysis in the coming years will shed needed light on these persistent trends.

Ability to Repay standard and "Qualified Mortgage" rule improves lending without impact on volume

When the CFPB announced the Qualified Mortgage ("QM") rule and the Ability-to-Repay standard, many in the lending industry claimed that requirements such as caps on interest rates and points and fees, and requirements that lenders must consider a borrower's ability to repay a mortgage loan would slow lending to a devastating halt. However, HMDA data released since the implementation of QM does not appear to bear out this prediction. Neither the 2014, nor the 2015, nor the 2016 HMDA data show that the QM rule and Ability-to-Repay standard has had a "cooling effect" on mortgage lending. In fact, the data is very much consistent with market trends immediately preceding the implementation of the QM rule and Ability-to-Repay standard. The Federal Reserve's seasonally adjusted origination numbers show a slow overall increase in monthly originations beginning in 2011 with no discernable decrease when the rules were fully implemented in January 2014.

Conclusions

This year's HMDA data describe significant recovery in a market ravaged by the subprime lending crisis and its aftermath. However, those most harmed by predatory lenders continue to struggle. Borrowers of color and low- to moderate-income families unfairly suffered disproportionate losses during the crisis. Today lenders are failing to reach these markets with responsible loans. These trends are particularly troubling in light of the declining homeownership rate for African-Americans and Latinos. Recent regulations have made the loans in today's market much safer for lenders and borrowers. Market overcorrections have denied African-American, Latino, and low- to moderate-income consumers access to safe mortgage loans. The evidence from the 2016 HMDA data shows that the market is simply not serving important, emerging market segments. These trends must change in order to support a robust mortgage market into the future.

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[1]The cited data are in or can be derived from data presented in: Federal Reserve. (2017). The 2016 Home Mortgage Disclosure Act Data. Available at: https://www.federalreserve.gov/publications/files/2016_HMDA.pdf

[2] Ibid

[3] http://www.nationalmortgagenews.com/news/compliance-regulation/jpmorgan-leads-big-banks-out-the-door-of-fha-1062309-1.html

[4] https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-march-2017/view/full_report

[5] https://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-march-2017/view/full_report and https://www.mba.org/news-research-and-resources/research-and-economics/single-family-research/mortgage-credit-availability-index

[6] http://www.urban.org/urban-wire/squeaky-clean-loans-lead-near-zero-borrower-defaults-and-not-good-thing

[7] Fannie Mae 2016 Annual Housing Activities Report and Annual Mortgage Report, chart at page 19, available at https://www.fhfa.gov/PolicyProgramsResearch/Programs/AffordableHousing/Documents/Fan_M_Goals/2017/Fannie-Mae-2016-AHAR-AMR-FINAL.pdf.

[8] http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Completes-Guarantee-Fee-Review-4-17-2015.aspx

[9] 350/4+225=312.5 basis points. Fannie's Mae's LLPA for this combination of credit score and LTV is a one-time fee of 350 basis points (see page 2: https://www.fanniemae.com/content/pricing/llpa-matrix.pdf), we assumed a LLPA multiple of 4 to convert this upfront fee to an ongoing cost comparable to the MI premium. Borrower paid MI from Genworth for this combination of credit score and LTV is a continuing fee of 225 basis points. See https://mortgageinsurance.genworth.com/pdfs/Rates/11370775.Monthly_Natl.FIXED.0616.pdf.

[10] http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/urbaninstitute_calhoun_wolff_jun2016.pdf

[11] http://ccc.sites.unc.edu/files/2014/04/CAP-Research-Brief-April-2014.pdf.

[12] Joint Center for Housing Studies of Harvard University, State of the Nation's Housing 2017, June 2017, available at http://www.jchs.harvard.edu/research/state_nations_housing

[13] Maura Reynolds, Refinancing spurred subprime crisis, Los-Angeles Times (July 5, 2008), available at http://articles.latimes.com/2008/jul/05/business/fi-refi5; Amir Khandani, Andrew Lo, and Robert Merton, Systemic Risk and the Refinancing Ratchet Effect, National Bureau of Economic Research Working Paper No. 15362 (Sept. 2009), available at http://www.nber.org/papers/w15362