The Nation's Housing Finance System Remains Closed To African-American, Hispanic, And Low-Income Consumers Despite Stronger National Economic Recovery In 2015

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The 2015 mortgage data submitted by lenders under the Home Mortgage Disclosure Act (HMDA) reflects a market that troublingly continues to underserve important market segments. For people of color and low- to moderate-income families, access to credit remains tight. The data shows how lenders and secondary market actors underserve these consumers even as large banks continue to have access to U.S. Treasury funds at historically low rates. African-American, Hispanic, and low- to moderate-income borrowers all received a low share of home purchase loans and were more likely to be served by government-backed loan programs[1] than the conventional market. These consumers are also paying more for mortgages than other borrowers.

Table 1: Mortgage Originations, Demographic and Product Details for Purchase Mortgages[2]

	2015		2014	
	#	%	#	%
Total originations	6,041,000		4,808,000	
Purchase mortgages	3,200,000	53.0%	2,809,000	58.4%
to African-Americans	171,820	5.5%	142,532	5.2%
to Hispanic-whites	259,292	8.3%	216,539	7.9%
to Non-Hispanic whites	2,127,444	68.1%	1,894,031	69.1%
Low and moderate income	874,720	28.0%	742,811	27.1%

Table 2: Conventional and Non-Conventional Purchase Mortgage Originations, Demographic and Product Details[3]

	2015		2014	
	#	%	#	%
Conventional (site built)	1,894,000		1,738,000	
to African-Americans	51,202	2.7%	45,610	2.6%
to Hispanic-whites	96,975	5.1%	87,698	5.0%
to Non-Hispanic whites	1,361,564	71.9%	1,261,425	72.6%
Low and moderate income	408,494	21.6%	369,177	21.2%
Non-conventional (site built)	1,230,000		1,003,000	
FHA	794,580	64.6%	584,749	58.3%
to African-Americans	120,618	9.8%	96,922	9.7%
to Hispanic-whites	162,317	13.2%	128,841	12.8%
to Non-Hispanic whites	765,880	62.3%	632,606	63.1%
Low and moderate income	466,226	37.9%	373,634	37.3%

Highlights from the 2015 HMDA data include:

- The share of loans made to African-American and Hispanic borrowers in 2015 rose modestly, but remained well below the population share they compose. In 2015, African-Americans received 5.5 percent of loans[4] up from 5.2 percent in 2014; Hispanic borrowers received 8.3 percent up from 7.9 percent in 2014. These percentages fall far short of the share of the U.S populations that these groups represent. African-Americans compose 13.3% and Hispanics 17.6% of the total national population.[5]
- The share of loans made to low and moderate-income borrowers rose slightly in 2015 to 28 percent from 27.1 percent. Although modestly higher than the share in 2014 the 2015 share was lower than it was from 2009 to 2013.
- Most home purchase loans made to African-American and Hispanic borrowers continued to be through government insured programs (including FHA, VA and others) and reliance on these programs continued to increase. In 2015, 70.2 percent of loans to African-American borrowers and 62.6 percent of loans to Hispanic borrowers were government backed. These shares compare to just 36.0 percent of loans made to non-Hispanic white borrowers.
- In keeping with recent trends, a very small share of conventional home-purchase loans were made to African-American and Hispanic borrowers. In 2015, just 2.7 percent of conventional home-purchase loans were made to African-American borrowers and just 5.1 percent of these loans were made to Hispanic borrowers. These percentages are virtually unchanged from the levels in 2014.
- The share of African-American and Hispanic borrowers that received "higher-cost" loans fell dramatically from 25.6 and 28.4 percent respectively in 2014 to 16.2 and 18.5 percent respectively in 2015. This is a result of changes in the cost structure of government-insured loans (including FHA). The shares, however, remained well above the share of non-Hispanic white borrowers that received higher-costs loans, just 6.2 percent in 2015
- The share of both home-purchase and refinance loans made by non-depository lenders continued to increase. In 2015, 50 percent of all first-lien owner-occupied home-purchase loans were made by non-depository mortgage lenders. This share has been increasing in recent years and is the highest level since 1995.

The Importance of Government-Backed Mortgages

Government-backed mortgages have been a particularly important source of mortgage credit for borrowers of color. In 2015, 70.2 percent of loans made to African-Americans were government-insured and 62.6 percent of loans made to Hispanics came through these programs. Since the housing crisis a very high percentage of loans overall, and particularly for these groups have come through these programs. Government insured loans, such as FHA, have been an important source of credit post-crisis. However, these loans come with higher costs than conventional loans, and lenders have increasingly been less willing to make these loans. In 2015 large lenders, including Wells Fargo and JP Morgan Chase[6] took steps to pull back from FHA lending. These actions create a two-tier market that is separate and unequal. These reasons underscore the necessity to support these important federal programs and the urgency to develop a more robust conventional mortgage market that serves borrowers of color.

Tight Standards in Conventional Market Prevent Lending

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 were made to African-American and Hispanic borrowers in 2015. As noted, last year only 7.8 percent of conventional mortgage loans went to borrowers of color. In 2015, the average credit score for all new loan originations was up nearly 50 points from 2001 to near 750.[7] Market-level credit availability indices continued to stagnate, showing lenders have a very low tolerance for taking reasonable risk for new loans.[8] Recent vintages of new mortgages (loans originated from 2011-2015) have had near zero rates of default.[9] These market indicators also show that there is ample opportunity in the mortgage market to open up lending to borrowers while still offering responsible loans.

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. The 2014 and 2015 HMDA data does not appear to bear out this prediction. Neither the 2014, nor the 2015 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 from 2011 through 2015 with no discernable decrease when the rules were fully implemented in January 2014.

Loan level price adjustments and other front-end pricing structures for conventional loans result in higher prices for some borrowers, particularly borrowers of color. In 2015, FHFA chose to leave Government Sponsored Enterprise (GSE) g-fees largely unchanged while modestly reducing some fees (including eliminating the adverse market fee).[10] These modest changes mostly left in place loan level price adjustments that charge higher prices to borrowers with lower credit scores and with less wealth to put towards a down payment. Borrowers of color are disproportionately in these groups as they faced historical inequity and as a result pay more for their mortgages than white borrowers as a group.[11] In 2016, pricing changes by private mortgage insurers further raised prices on these same borrowers, which further increases costs on conventional mortgages. Borrowers of color and low-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.[12]

Nonbank Lenders Made the Majority of Mortgages in 2015

In 2015, non-depository mortgage lenders made half of all first-lien owner-occupied home-purchase loans, the highest level since 1995. 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 apply to all lenders. The rise 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 largely recovered from the financial crisis, the 2015 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.

Borrowers of Color Also Pay Higher Costs And Experience Higher Denial Rates Than White Borrowers

The 2014 HMDA data also show that the rate at which borrowers were denied loans continued to vary significantly by race and ethnicity. 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 HMDA data has shown a persistent difference in denial rates by race and ethnicity and this year's data is no exception. 20.8 percent of African-American applicants were denied a loan in 2015 compared to 16.1 percent of Hispanic applicants and 10 percent of non-Hispanic white applicants. In 2015, the CFPB finalized changes to HMDA that will incorporate credit score and other lending factors into the data lenders are required to report in future years. Such changes will eventually shed needed light on this persistent trend.

Conclusions

These national data confirm findings from CRL's recent analysis of post-crisis lending in California, which found a similar lack of lending for borrowers of color and low-income families in that state from 2012-2014.[13] These trends are particularly troubling in light of the declining homeownership rate for African-Americans and Hispanics. Recent regulations have made the loans in today's market much safer for lenders and borrowers. Market overcorrections have denied African-American, Hispanic, and low-income consumers access to these safe mortgage loans. The evidence from the 2015 HMDA data show that the market is simply not serving these borrowers.

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[1] These include loans backed by Federal insurance and guarantee programs including: the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Farm Service Agency (FSA), and the Rural Housing Service (RHS).

[2] The cited data are in or can be derived from data presented in: Federal Reserve. (2016). The 2015 Home Mortgage Disclosure Act Data. Available at: https://www.federalreserve.gov/pubs/bulletin/2016/pdf/2015_HMDA.pdf All data are for first-lien, owner-occupied, 1-4 family unit mortgage loans.

[3] Ibid

[4] Loans included are home-purchase, 1-4 family unit, owner-occupied, site-built.

[5] US Census, National population by race. See: http://www.census.gov/quickfacts/table/PST045215/00

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

[7] http://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-august-2016/view/full_report

[8] http://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-august-2016/view/full_report and https://www.mba.org/news-research-and-resources/research-and-economics/single-family-research/mortgage-credit-availability-index

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