

# Changing Patterns XXII

## EXECUTIVE SUMMARY

*Mortgage Lending to*

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*Traditionally Underserved*

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*Borrowers & Neighborhoods*

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*in Boston, Greater Boston and*

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*Massachusetts, 2014*

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## EXECUTIVE SUMMARY

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This is the twenty-second in the annual series of *Changing Patterns* reports prepared for the Massachusetts Community & Banking Council (MCBC) by the present author. The report presents information on home-purchase mortgage lending in the city of Boston, in Greater Boston, in Massachusetts, in Boston neighborhoods, and in thirty-six large cities.

This “Executive Summary” highlights some of the report’s most interesting findings. A more inclusive summary is provided by the bold-faced portions of the bullet points in the body of the report, and by the charts and tables that are interspersed with the text. Readers interested in additional detail will want to investigate the tables that follow the body of the report.

Many of the report’s findings relate to government-backed loans (GBLs)—loans made by private lenders that are insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs, or the Department of Agriculture (USDA). Although GBLs are somewhat more expensive for borrowers than conventional loans (i.e., non-GBLs), they offer a reasonable option for those unable to obtain a conventional loan. The current high level of GBLs, especially to traditionally underserved borrowers and neighborhoods, is not itself a problem, but is rather a symptom of—and a constructive response to—an underlying problem: the lack of availability of prime conventional loans to those borrowers and neighborhoods.

### **Level and Composition of Mortgage Lending**

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❖ Government-backed loans (GBLs) continued to account for historically high shares of total lending in 2014, although their share of home-purchase loans fell for the fourth straight year. In Greater Boston, GBLs accounted for 10% of all home-purchase lending (down from a peak of 25% in 2010 and from 11% in 2013). In the City of Boston, the GBL share of all home-purchase loans was 8%. The GBL loan shares remain far above those in 2005, when GBLs

accounted for just 0.5% of home-purchase loans in Greater Boston.

- ❖ Government-backed loans accounted for a substantially smaller percentage of loans in Massachusetts than they did nationwide. For home-purchase loans, the GBL loan shares were 19% in the state and 37% nationwide.
- ❖ For the state’s twenty-six Gateway Cities combined, 34% of home-purchase loans in 2014 were GBLs, nearly double the statewide GBL share of 19%. Among the state’s biggest cities, GBL loan shares were highest in Lawrence (where they accounted for 61% of all loans), Brockton (56%) and Springfield (53%). GBLs also made up more than 40% of all home-purchase loans in five other cities (Fall River, Lynn, New Bedford, Fitchburg, and Chicopee).

### **Borrower Race/Ethnicity and Income**

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- ❖ Black and Latino borrowers in Boston, Greater Boston, and statewide received shares of total conventional loans in 2014 that were far below their shares of total households. In Greater Boston, blacks made up 7.3% of households but received only 2.0% of conventional home-purchase loans, while Latinos made up 6.8% of households but received only 3.2% of loans. In Boston, the black household share was 21.0%, but the black loan share was just 3.6%, while the Latino household share was 13.7% and the Latino loan share was just 4.0%.
- ❖ Black and Latino borrowers in Boston, in Greater Boston, and statewide were much more likely to receive GBLs in 2014 than were their white or Asian counterparts. For home-purchase loans in Greater Boston, GBLs accounted for 36% of loans to blacks and 37% of loans to Latinos, but only 9% of loans to whites. In the City of Boston, GBLs accounted for 40% of loans to blacks, 23% of loans to Latinos, and 5% of loans to whites. GBL loan shares were consistently much *lower* for Asian borrowers than for whites.

- ❖ Black and Latino shares of conventional (i.e., non-government-backed) loans have changed little over the 2009–2014 period, both in Greater Boston and statewide. In contrast, the share of black borrowers (but not that of Latinos) in the City of Boston has trended downward during this six-year period.
- ❖ Home-purchase lending to black and Latino borrowers varied dramatically among Boston’s twenty major neighborhoods in 2014. Black borrowers received 49% of total loans in Mattapan and 25% or more of total loans in Hyde Park and Roxbury, but received no loans in the Allston, Beacon Hill, Downtown, Fenway, Mission Hill, North End, and South Boston neighborhoods. Latino borrowers received between 16% and 18% of total loans in Hyde Park, Roxbury, and East Boston, while there were no loans to Latinos in the Beacon Hill and North End neighborhoods.
- ❖ When borrowers in Boston, Greater Boston, and Massachusetts are grouped into five income categories, GBL shares of both home-purchase and refinance loans in 2014 tend to decline steadily as the level of borrower income increases. In Greater Boston, GBL shares of home-purchase loans fell steadily from 18% for moderate-income borrowers to 2% for highest-income borrowers. (However, the GBL shares for low-income borrowers were generally lower than those for the next two income categories.)
- ❖ When borrowers are grouped by both race/ethnicity and income level, the GBL loan shares for blacks and Latinos in 2014 were usually substantially higher than the GBL shares for white borrowers in the same income category. For example, in Greater Boston the 2014 home-purchase GBL loan shares for high-income borrowers were 32% for blacks, 21% for Latinos, and 7% for whites.
- ❖ in predominantly minority tracts (those with at least 75% minority residents) was 3.8 times greater than the GBL loan share in predominantly white tracts (31.7% vs. 8.4%). The GBL share in low-income census tracts was 4.3 times greater than it was in upper-income tracts (21.2% vs. 4.9%).
- ❖ Government-backed lending varied dramatically among Boston’s neighborhoods. The GBL share of home-purchase loans ranged from 34% in Hyde Park and 32% in Mattapan to 0.0% in Allston, Beacon Hill, Downtown, Fenway, and the North End. The five Boston neighborhoods with the highest percentages of minority residents—Mattapan, Roxbury, Dorchester, Hyde Park, and East Boston—had the five highest shares of GBL loans.
- ❖ Total home-purchase lending to blacks and Latinos in 2014 was highly concentrated in a small number of the state’s cities and towns, and entirely absent in many others. Just five cities (Brockton, Boston, Randolph, Springfield, and Worcester) accounted for 47% of total loans to blacks in Massachusetts, but for only 12% of the state’s total loans. Seven cities (Lawrence, Springfield, Boston, Lynn, Worcester, Methuen, and Revere) accounted for 42% of loans to Latinos in the state, while accounting for just 14% of the state’s total loans. Meanwhile, in 86 of the state’s 351 cities and towns there was not a single home-purchase loan to either a black or Latino homebuyer.

### **Neighborhood Race/Ethnicity and Income**

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- ❖ For home-purchase loans in Greater Boston in 2014, the government-backed loan (GBL) share

### **Denials of Mortgage Applications**

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- ❖ In Boston, Greater Boston, and Massachusetts in 2014, the denial rates on conventional (i.e., non-government-backed) home-purchase loan applications by blacks and Latinos were much higher than the corresponding denial rates for whites. The black/white denial rate disparity ratio was 3.6 in Boston (21% vs. 6%), 2.8 in Greater Boston (17% vs. 6%), and 2.4 statewide (17% vs. 7%). Latino denial rates for conventional home-purchase loans were approximately twice the denial rates for white applicants.

- ❖ Even though black and Latino applicants had, on average, substantially lower incomes than their white counterparts, the higher denial rates experienced by blacks and Latinos cannot be explained by their lower incomes. When applicants in Boston, in Greater Boston, and statewide are grouped into income categories, the 2014 denial rates for blacks and for Latinos were generally well above the denial rates for white applicants in the same income category. For example, for applicants with incomes between \$71,000 and \$90,000, the black denial rate was 3.6 times greater than the white denial rate in Boston, 2.5 times greater in Greater Boston, and 2.4 times greater statewide.
- ❖ While there have been ups and downs in the Asian/white, black/white, and Latino/white denial rate disparity ratios during the last eleven years, there are no major trends—that is, in most cases the disparity ratios in 2014 were quite close to what they had been in 2004. There is one exception: the black/white disparity ratio in the City of Boston has risen in the last four years to a historically high level of 3.6, far above its level of 2.6 ten years earlier.

## **Lenders**

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- ❖ Massachusetts banks and credit unions (CRA-covered lenders) had the biggest home-purchase loan shares in 2014 for the seventh consecutive year. The loan shares of Licensed Mortgage Lenders (LMLs) were nearly as large, while Other Lenders were a distant third. In Greater Boston, their loan shares were 44%, 43%, and 14%, respectively. These loan shares are dramatically changed from 2005–2006, when the share of CRA-covered lenders was only about 20%.
- ❖ In virtually every case, CRA-covered lenders directed a greater share of their total loans as conventional loans—and a smaller share of their total loans as GBLs—to the categories of traditionally underserved borrowers and neighborhoods examined in this report than did LMLs and Other Lenders. In Greater Boston in 2014, for example, conventional loans to black borrowers made up 2.2% of all loans made by CRA-covered lenders, 1.6% of all loans by LMLs and 1.2% of all loans by Other Lenders.
- ❖ The introduction of Performance Evaluations and ratings of individual LMLs under the state’s CRA for Mortgage Lenders regulation seems to have had a positive impact on the relative performance of LMLs for second straight year. Since the initial *Changing Patterns* report in 1995, this type of comparison had consistently shown a substantial difference between the performance of CRA-covered lenders and the two other major types of lenders, and proponents of the new regulation argued that it should have an analogous impact on the performance of LMLs relative to that of Other Lenders. The expected effect appeared for the first time in 2013 lending data and it appears again this year. For conventional home-purchase lending in 2014, the loan shares for LMLs were greater than the loan shares for Other Lenders in all five categories of traditionally underserved borrowers and neighborhoods in Boston, in Greater Boston, and statewide.
- ❖ Guaranteed Rate was the biggest lender in Boston, Greater Boston, and statewide in 2014. The next five biggest lenders in Greater Boston were Leader Bank, Mortgage Master, Wells Fargo Bank, and Prospect Mortgage. These five lenders accounted for 21% of total home-purchase loans in Greater Boston.

## **Legislative and Regulatory Developments**

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- ❖ The CFPB issued a final rule in mid-October that greatly expands the data to be reported by lenders under the Home Mortgage Disclosure Act (HMDA). The CFPB will determine at a later date how much of the new data that lenders report to their regulators will be released to the public. The new requirements will cover reporting on applications received on or after January 1, 2018.