Changing Patterns XX

EXECUTIVE SUMMARY

Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods in Boston, Greater Boston and Massachusetts, 2012

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FEBRUARY 2014

A REPORT PREPARED FOR

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MASSACHUSETTS COMMUNITY & BANKING COUNCIL

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This is the twentieth 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 2012 mortgage lending in the City of Boston, in Greater Boston, in Massachusetts, and in each of the state's thirty-three largest cities and towns.

This "Executive Summary" highlights some of the most interesting findings presented in the following pages. 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.

Level and Composition of Mortgage Lending

❖ The overall level of lending was substantially higher in 2012 than during the year before. Home-purchase loans rose 19% statewide, reversing a multi-year downward trend, while refinance loans jumped by more than 50% from 2011. Refinance loans accounted for 79% of all loans in the state.

❖ Government-backed loans (GBLs) continued to account for historically high shares of total lending in 2012. The GBL share of home-purchase loans fell for the third consecutive year, to 12.0% in Boston, 14.8% in Greater Boston, and 23.5% statewide. The GBL share of the much larger number of refinance loans remained steady at 4.7% in Boston, 4.4% in Greater Boston, and 6.5% statewide. These GBL loans shares remain far above those in 2005, when GBLs accounted for just 1.9% of home-purchase loans and 0.6% of refinance loans statewide.

❖ The level of high-APR loans (HALs) remained very low in 2012, accounting for just 0.6% of all loans (home-purchase and refinance combined) statewide—far below their peak level of 22.2% in 2006. In 2012, there were just 33 HALs in Boston (0.2% if all loans), 402 HALs in Greater Boston (0.3% of all loans), and 1,351 HALs statewide.

❖ Government-backed loans accounted for a substantially smaller percentage of loans in Massachusetts than they did nationwide. Overall, the GBL loan shares in 2012 were 10.1% in Massachusetts and 23.8% nationwide. For home-purchase loans, the GBL loan shares were 23.5% in the state and 44.7% nationwide; for refinance loans, they were 6.5% in the state and 15.6% nationwide.

❖ Among the state's thirty-three biggest cities, GBL loan shares were highest in Lawrence (where they accounted for 69% of all home-purchase loans and 29% of all refinance loans), Brockton (65% and 23%) and Springfield (59% and 24%). GBLs also made up more than half of all home-purchase loans in two other cities (New Bedford and Lynn).

Borrower Race/Ethnicity and Income

❖ Black borrowers in Boston, Greater Boston, and statewide received shares of total conventional (i.e., not government-backed) loans in 2012 that were far below their shares of total households. In Boston, for example, blacks made up 21.0% of households but received only 3.6% of conventional home-purchase loans and 4.4% of conventional refinance loans. Latinos made up 13.7% of Boston households but received only 3.3% of conventional home-purchase loans and 3.0% of conventional refinance loans.

❖ Black and Latino borrowers in Boston, in Greater Boston, and statewide were much more likely to receive GBLs in 2012 than were their white or Asian counterparts. For home-purchase loans in Greater Boston, for example, GBL's accounted for 42.7% of loans to blacks and 41.6% of loans to Latinos, but for only 13.7% of loans to whites. For refinance loans, the GBL loan shares were 15.2% for blacks, 13.8% for Latinos, and 4.3% for whites. GBL loan shares were consistently much *lower* for Asian borrowers than for whites.

- ❖ When borrowers in Boston, Greater Boston, and Massachusetts are grouped into five income categories, GBL shares of both home-purchase and refinance loans in 2012 tended to decline steadily as the level of borrower income increased. For home-purchase lending statewide, for example, GBL loan shares fell steadily from 34.7% for moderate-income borrowers to just 4.9% for the highest-income borrowers. (However, GBL loan shares for low-income borrowers tended to be 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 are usually substantially higher than the GBL shares for white borrowers in the same income category. For example, in Greater Boston the 2012 GBL loan shares for high-income homebuyers were 36.5% for blacks, 20.8% for Latinos, and 12.1% for whites.

Neighborhood Race/Ethnicity and Income

- ❖ For home-purchase loans in the City of Boston in 2012, the government-backed loan (GBL) share in low-income census tracts was four times greater than that in upper-income tracts (19.3% vs. 4.7%) and the GBL loan share in predominantly minority census tracts was seven times greater than that in predominantly white tracts (41.7% vs. 6.0%). The pattern for refinance loans was similar.

- ❖ Government-backed lending varied dramatically among Boston's major neighborhoods. For home-purchase loans in 2012, GBLs accounted for 46.9% of all loans in Mattapan while there were no GBL loans in the Allston, Beacon Hill, or Fenway neighborhoods. For refinance loans, GBL shares ranged from 19.0% in Mattapan to just 0.2% in Back Bay.

- ❖ Total home-purchase lending to blacks and Latinos in 2012 was highly concentrated in a small number of the state's cities and towns, and entirely absent in many others. Just five cities (Boston, Brockton, Randolph, Springfield, and Worcester) accounted for 47.2% of total home-purchase loans to blacks in Massachusetts in 2012, but for only 10.5% of the state's total loans to whites. Eight communities (Lawrence, Boston, Springfield, Worcester, Lynn, Revere, Methuen, and Brockton) accounted for 45.8% of all home-purchase lending to Latinos in the state, but for just 12.2% of total lending to whites. Meanwhile, in 110 of the state's 351 cities and towns there was not a single loan to either a black or a Latino homebuyer.

Denials of Mortgage Applications

- ❖ In Boston, Greater Boston, and Massachusetts in 2012, the denial rates on conventional (i.e., non-government-backed) mortgage loan applications by blacks—both for home-purchase loans and for refinance loans—were in every case substantially more than double the corresponding denial rates for whites. The denial rates for Latinos were always at least 1.8 times as high as the white denial rates. Black/white and Latino/white denial rate disparity ratios were significantly lower for applications for government-backed loans.

- ❖ 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 2012 denial rates for blacks and for Latinos were in almost every case 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 2.0 times greater than the white denial rate in Boston, 2.6 times greater in Greater Boston, and 2.0 times greater statewide.

Lenders

- ❖ For all loans statewide in 2012, Massachusetts banks and credit unions (CRA-covered lenders) had the biggest loan share (43.5%) for the fifth consecutive year, but Licensed Mortgage Lenders (LMLs—mainly independent mortgage companies) became a closer second by increasing their market share by five percentage points to 36.6%. Other Lenders (mainly out-of-state banks) saw their market share fall from 25.2% to 19.9%. In Greater Boston, CRA-covered lenders and LMLs each had a market share of 41.1%; in the City of Boston, LMLs had a larger share than CRA-covered lenders. These loan shares are dramatically changed from 2005 and 2006, when the shares of Massachusetts banks and credit unions fell below 25%, after declining steadily from over 60% in the mid-1990s.

- In virtually every case, Massachusetts banks and credit unions (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. For home-purchase loans in Boston, for example, conventional loans to black borrowers made up 5.2% of all loans made by CRA-covered lenders, 1.6% of all loans by LMLs and 1.7% of all loans by Other Lenders. Since the *Changing Patterns* series of reports was begun in the mid-1990s, this type of comparison has consistently shown a substantial difference between the performance of CRA-covered lenders and all other lenders.

- However, the introduction of performance evaluations and ratings of individual LMLs under the state's Mortgage Lender Community Investment (MLCI) regulation appears to have had no impact to date on the relative performance of LMLs, at least as measured here. The shares of the total 2012 loans of Licensed Mortgage Lenders (LMLs) that consisted of conventional loans to the five categories of traditionally underserved borrowers and neighborhoods examined in this report tended to be somewhat smaller than the corresponding shares of all loans by Other Lenders.

- Mortgage Master was the biggest lender in 2012 both in Boston (with 1,323 loans) and statewide (with 12,426 loans). Wells Fargo ranked second both in the city (982 loans) and the state (11,533 loans). Guaranteed Rate was the third largest lender in Boston, while Sovereign Bank was the third largest lender statewide. Leader Bank/Mortgage and Bank of America ranked fourth and fifth respectively both in Boston and Massachusetts.

Legislative and Regulatory Developments

- During 2013, regulators issued four long-awaited rules to implement legislation designed to prevent irresponsible mortgage lending: regulations governing the compensation of loan originators; standards for ensuring that mortgage borrowers have the ability to repay their loans (including the so-called "qualified mortgage" or "QM" regulations); rules for determining when issuers of mortgage-backed securities must retain a portion of the risk that the mortgages will not be repaid as scheduled (the so-called "qualified residential mortgage" or "QRM" regulations); and the forms to be used in providing disclosures to mortgage loan applicants following applications and before closings. However, there was no tangible progress on issuing rules for revised and expanded reporting under the Home Mortgage Disclosure Act (HMDA), on revising the regulations implementing the Community Reinvestment Act (CRA), or on reforming the housing finance system.