

# Changing Patterns XXIII

*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, 2015*

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## EXECUTIVE SUMMARY

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This is the twenty-third 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 FHA loans—loans made by private lenders that are insured by the Federal Housing Administration. Although FHA loans are somewhat more expensive for borrowers than conventional loans, they offer a reasonable option for those unable to obtain a conventional loan. The current high level of FHA loans, 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**

- ❖ FHA loans continued to account for historically high shares of total lending in 2015, as their share of home-purchase loans rose for the first time in five years. In Greater Boston, FHA loans accounted for 10% of all home-purchase lending, up from 8% in 2014, but far below their peak share of 23% in 2009. In the City of Boston, the FHA share of all home-purchase loans was lower, at 7%, while statewide it was substantially higher, at 17%. The FHA loan shares remain far above those of 2004 through 2007, when FHA loans accounted for only one

percent of home-purchase loans in Greater Boston. [Table 1 & Exhibit 1]

- ❖ FHA loans accounted for a substantially smaller percentage of loans in Massachusetts than they did nationwide. For home-purchase loans, the FHA loan share was 17% in the state compared to 25% nationwide. [Exhibit 2]
- ❖ For the state’s twenty-six Gateway Cities combined, 34% of home-purchase loans in 2015 were FHA loans, double the statewide FHA loan share of 17%. Among the state’s biggest cities, FHA loan shares were highest in Lawrence (where they accounted for 65% of all loans), Brockton (58%), Springfield (49%), New Bedford (46%), and Lynn (44%). [Table 3]

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

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- ❖ Black and Latino borrowers in Boston, Greater Boston, and statewide received shares of total non-FHA loans in 2015 that were far below their shares of total households. In Greater Boston, blacks made up 7% of households but received only 2% of non-FHA home-purchase loans, while Latinos, who also made up 7% of households, received only 4% of non-FHA loans. In Boston, the black household share was 21% and the Latino household share was 14%, but the black and Latino shares of non-FHA loans were each just 4%. [Table 4]
- ❖ Black and Latino borrowers in Boston, in Greater Boston, and statewide were much more likely to receive FHA loans in 2015 than were their white or Asian counterparts. For home-purchase loans in Greater Boston, FHA loans accounted for 38% of loans to blacks and 40% of loans to Latinos, but only 9% of loans to whites. In the City of Boston, FHA loans accounted for 42% of loans to blacks, 27% of loans to Latinos, and 3% of loans to whites. FHA loan shares were consistently much *lower* for Asian borrowers than for whites. [Table 4 & Exhibit 3]

- ❖ Black and Latino shares of non-FHA loans in Greater Boston have changed only modestly over the 2009–2015 period; the black share fell from 2.2% to 2.1%, while the Latino share rose from 2.9% to 3.6%. Statewide, both Black and Latino shares of non-FHA loans were higher in 2015 than in 2009, while in the city of Boston they were both lower. [Table 5]
- ❖ Home-purchase lending to black and Latino borrowers varied dramatically among Boston’s twenty major neighborhoods in 2015. Black borrowers received 41% of total loans in Mattapan and 28% of total loans in Hyde Park and Roxbury, but received no loans in eight other neighborhoods (Allston, Back Bay, Beacon Hill, Downtown, Fenway, Mission Hill, North End, and South Boston Waterfront). Latino borrowers received 21% of total loans in Hyde Park and 15% of total loans in East Boston, while there were no loans to Latinos in the Fenway, Mission Hill, North End and South Boston Waterfront neighborhoods. [Table 8]
- ❖ When borrowers in Boston, Greater Boston, and Massachusetts are grouped into five income categories, FHA shares of both home-purchase and refinance loans in 2015 tend to decline steadily as the level of borrower income increases. In Greater Boston, FHA shares of home-purchase loans fell steadily from 19% for moderate-income borrowers to 2% for highest-income borrowers. [Table 9]
- ❖ When borrowers are grouped by both race/ethnicity and income level, the FHA loan shares for blacks and Latinos in 2015 were usually substantially higher than the FHA shares for white borrowers in the same income category. For example, in Greater Boston the 2015 home-purchase FHA loan shares for high-income borrowers were 32% for blacks, 29% for Latinos, and 8% for whites. [Table 13]

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

- ❖ For home-purchase loans in Greater Boston in 2015, the FHA loan share in predominantly minority tracts (those with at least 75% minority residents) was 3.6 times greater than the FHA loan share in predominantly white tracts (32.0% vs. 8.8%). The FHA share in low-income census tracts was 4.2 times greater than it was in upper-income tracts (20.1% vs. 4.8%). [Table 16]
- ❖ FHA lending varied dramatically among Boston’s neighborhoods. The FHA share of home-purchase loans ranged from 31% in Mattapan, 24% in Hyde Park and 23% in Roxbury to 0.0% in six neighborhoods (Back Bay, Beacon Hill, Fenway, Mission Hill, South Boston, and South 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 FHA loans. [Table 18 & Exhibit 6]
- ❖ Total home-purchase lending to blacks and Latinos in 2015 was highly concentrated in a small number of the state’s cities and towns, and entirely absent in many others. Brockton alone accounted for 17% of all loans to blacks in Massachusetts, while accounting for only 1.3% of total loans in the state. Just five cities (adding Boston, Worcester, Randolph, and Springfield) accounted for almost one-half (46%) of all loans to blacks in Massachusetts, while accounting for only 12% of the state’s total loans. Seven cities (Lawrence, Springfield, Lynn, Boston, Worcester, Revere, and Methuen) accounted for 42% of all 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. [Table 19 & Supp. Table 2]

## **Denials of Mortgage Applications**

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- ❖ In Boston, Greater Boston, and Massachusetts in 2015, the denial rates on non-FHA 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 3.2 in Boston (17.7% vs. 5.5%), 2.6 in Greater Boston (13.6% vs. 5.1%), and 2.1 statewide (13.9% vs. 6.5%). Latino denial rates for non-FHA home-purchase loans were approximately twice the denial rates for white applicants. [Table 20 & Exhibit 7]
- ❖ 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 2015 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 \$76,000 and \$100,000, the black denial rate was 3.0 times greater than the white denial rate in Boston, 1.9 times greater in Greater Boston, and 2.1 times greater statewide. [Table 21 & Exhibit 8]
- ❖ While there have been ups and downs in the Asian/white, black/white, and Latino/white denial rate disparity ratios during the last twelve years, there are no major trends—that is, in most cases the disparity ratios in 2015 were quite close to what they were in 2004. There is one exception: the black/white disparity ratio in the City of Boston averaged 3.4 during the 2013–2015 period, substantially higher than its 2004–2006 average of 2.5. [Table 22 & Exhibit 9]

## **Lenders**

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- ❖ Massachusetts banks and credit unions (CRA-covered lenders) had the biggest home-purchase loan shares in 2015 for the ninth

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 45%, 42%, and 13%, respectively. These loan shares are dramatically changed from 2005–2006, when the share of CRA-covered lenders was only about 20%. [Table 23 & Exhibit 10]

- ❖ In the great majority of cases, CRA-covered lenders directed a greater share of their total loans as non-FHA loans—and a smaller share of their total loans as FHA loans—to the five categories of traditionally underserved borrowers and neighborhoods examined in this report than did LMLs and Other Lenders. In Greater Boston in 2015, for example, non-FHA loans to Latino borrowers made up 3.6% of all loans made by CRA-covered lenders, 3.3% of all loans by LMLs and 1.9% of all loans by Other Lenders. [Table 27]
- ❖ The implementation 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 third straight year. For non-FHA lending in Greater Boston in 2015, the loan shares of LMLs were greater than the loan shares of Other Lenders in four of our five categories of traditionally underserved borrowers and neighborhoods (their shares were equal in the fifth category). Moreover, for the first time there were cases where the LML loan shares were larger than those of CRA-covered lenders; this was true for loans to low- and moderate-income (LMI) borrowers and for loans in LMI neighborhoods. [Table 27]
- ❖ Guaranteed Rate was the biggest lender in Boston, Greater Boston, and statewide in 2015. The next four biggest lenders in Greater Boston were Leader Bank, Mortgage Master, Wells Fargo Bank, and Prospect Mortgage. These five lenders accounted for 23% of total home-purchase loans in Greater Boston. [Table 29 & Exhibit 11]