

Changing Patterns XXIV

EXECUTIVE SUMMARY

Mortgage Lending to

Traditionally Underserved

Borrowers & Neighborhoods

in Boston, Greater Boston and

Massachusetts, 2016

BY

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This is the twenty-fourth 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 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 2016. In Greater Boston, FHA loans accounted for 9.7% of all home-purchase lending, down slightly from 10.4% in 2015, and 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 24% nationwide. [Exhibit 1]
- ❖ For the state’s twenty-six Gateway Cities combined, 35% of home-purchase loans in 2016 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 63% of all loans), Brockton (61%), New Bedford (52%), Springfield (50%), and Fall River (47%). [Table 2]

Borrower Race/Ethnicity and Income

- ❖ Black and Latino borrowers in Boston, Greater Boston, and statewide received shares of total non-FHA loans in 2016 that were far below their shares of total households. In Greater Boston, blacks made up 7.3% of households but received only 2.4% of non-FHA home-purchase loans, while Latinos, who made up 6.8% of households, received only 4.2% of non-FHA loans. In Boston, the black household share was 21.0% and the Latino household share was 13.7%, but the black and Latino shares of non-FHA loans were just 4.5% and 3.8%. [Table 4]
- ❖ Black and Latino borrowers in Boston, in Greater Boston, and statewide were much more likely to receive FHA loans in 2016 than were their white or Asian counterparts. For home-purchase loans in Greater Boston, FHA loans accounted for 35% of loans to blacks and 39% of loans to Latinos, but only 7% of loans to whites. In the City of Boston, FHA loans accounted for 36% of loans to blacks, 30% 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]
- ❖ The black and Latino shares of total non-FHA loans have increased steadily over the past four

years. In Greater Boston, the black share of total non-FHA loans increased from 1.8% in 2012 to 2.4% in 2016, while the Latino share increased from 2.6% to 4.0%. Blacks and Latinos experienced similar increases in their loan shares in the city of Boston and statewide. While the loan shares remain small, they have increased consistently during each of the last four years. [Table 5]

- ❖ When borrowers in Boston, Greater Boston, and Massachusetts are grouped into five income categories, FHA shares of both home-purchase and refinance loans in 2016 tend to decline steadily as the level of borrower income increases. In Greater Boston, FHA shares of home-purchase loans fell steadily from 17% for moderate-income borrowers to 1% for highest-income borrowers. (However, the FHA shares for low-income borrowers were generally lower than those for the next two income categories.) [Table 8]
- ❖ The share of all home-purchase loans in Greater Boston that went to low- and moderate-income (LMI) borrowers fell to 20% in 2016. Since reaching a peak in 2009, the LMI share of home-purchase loans has trended sharply downward—from 36% to 16% in Boston, from 31% to 20% in Greater Boston, and from 37% to 27% statewide. [Table 10 & Exhibit 5]
- ❖ When borrowers are grouped by both race/ethnicity and income level, the FHA loan shares for blacks and Latinos in 2016 were usually substantially higher than the FHA shares for white borrowers in the same income category. For example, in Greater Boston the 2016 home-purchase FHA loan shares for high-income borrowers were 33% for blacks, 29% for Latinos, and 7% for whites. [Table 12]

Neighborhood and Municipalities

- ❖ For home-purchase loans in Greater Boston in 2016, the FHA loan share in predominantly minority tracts (those with at least 75% minority residents) was 4.1 times greater than the FHA loan share in predominantly white tracts (33.6%

vs. 8.0%). The FHA share in low-income census tracts was 4.9 times greater than it was in upper-income tracts (20.7% vs. 4.2%). [Table 15]

- ❖ FHA lending varied dramatically among Boston’s neighborhoods. The FHA share of home-purchase loans ranged from 36% in Mattapan and 27% in Hyde Park to 0.0% in nine neighborhoods. 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 17]
- ❖ Home-purchase lending to black and Latino borrowers varied dramatically among Boston’s twenty major neighborhoods in 2016. Just three neighborhoods (Dorchester, Hyde Park, and Mattapan) accounted for over three-quarters of all Boston loans to blacks (76.5%), while in three other neighborhoods (Back Bay, Beacon Hill, and the North End) blacks received no loans and in eight neighborhoods there was just one loan to a black homebuyer. For Latinos, just three neighborhoods (Hyde Park, Dorchester, and East Boston) accounted for over half (51.9%) of all Boston loans in 2016, while in four other neighborhoods Latinos received either a single loan (Fenway and Mission Hill) or no loans (Allston and Seaport). [Table 18 & Exhibit 6]
- ❖ Total home-purchase lending to blacks and Latinos in 2016 was highly concentrated in a small number of the state’s cities and towns, and entirely absent in many others. Brockton alone accounted for 18% of all loans to blacks in Massachusetts, while accounting for only 1.5% of total loans in the state. Just five cities (adding Boston, Worcester, Springfield, and Randolph) accounted for almost one-half (44%) of all loans to blacks in Massachusetts, while accounting for only 12% of the state’s total loans. Seven cities (Lawrence, Springfield, Lynn, Worcester, Revere, Boston, and Methuen) accounted for 40% of all loans to Latinos in the state, while accounting for just 14% of the

state's total loans. Meanwhile, in 65 of the state's 351 cities and towns—down from 86 in the previous two years—there was not a single home-purchase loan to either a black or Latino homebuyer. [Table 19 & Supp. Table 2]

Denials of Mortgage Applications

- ❖ In Boston, Greater Boston, and Massachusetts in 2016, 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 3.6 in Boston (16.6% vs. 4.7%), 2.4 in Greater Boston (12.1% vs. 5.1%), and 2.1 statewide (13.7% vs. 6.6%). 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 2016 denial rates for blacks and for Latinos were generally well above the denial rates for white applicants in the same income category. For example, in Greater Boston the denial rates for applicants with incomes between \$101,000 and \$125,000 were 9.3% for blacks, 9.1% for Latinos, and 4.0% for whites. [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 thirteen years, there are no major trends—that is, in most cases the disparity ratios in 2014–2016 were quite close to what they were in 2004–2006. There is one exception: the black/white disparity ratio in the City of Boston averaged 3.4 during the 2014–2016 period, substantially higher than its 2004–2006 average of 2.5. [Table 22 & Exhibit 9]

Lenders

- ❖ Licensed Mortgage Lenders (LMLs) in 2016 had the biggest loan shares in Greater Boston (44%) and statewide (46%) for the first time in ten years. Massachusetts banks and credit unions (CRA-covered lenders) were a close second with loans shares of 43% in Greater Boston and 40% in Massachusetts. Other Lenders were a distant third, with loan shares of 14% in all both areas. LMLs accounted for a much larger share of FHA loans than of all loans, while the reverse was true for CRA-covered lenders; in Greater Boston, their FHA loan shares were 77% and 16%, respectively. [Table 23 & Exhibit 10]
- ❖ For the first time in the twenty-four year history of the *Changing Patterns* series of reports, Massachusetts banks and credit unions did not clearly outperform the other types of lenders as measured by the percentage of their total loans that went to five categories of traditionally underserved borrowers and neighborhoods. In Greater Boston in 2016, Licensed Mortgage Lenders (LMLs) had the highest percentages for non-FHA loans in four of the five categories and the highest percentage for all loans in all five categories. The improved relative performance by LMLs likely reflects the continuing impact of the state's CRA for Mortgage Lenders regulation that mandates performance evaluations and public ratings of individual LMLs. [Table 26]
- ❖ Guaranteed Rate was the biggest lender in Boston, Greater Boston, and statewide in 2016. The next four biggest lenders in Greater Boston were Leader Bank, Wells Fargo Bank, loanDepot, and Fairway Independent Mortgage. These five lenders accounted for 25% of total home-purchase loans in Greater Boston. Of the top thirty lenders, fifteen were Massachusetts banks covered by the CRA, thirteen were Licensed Mortgage Lenders, and only two were out-of-state banks with no Massachusetts branches. [Table 27 & Exhibit 11]