

Changing Patterns XXV

EXECUTIVE SUMMARY

Mortgage Lending to

Traditionally Underserved

Borrowers & Neighborhoods

in Boston, Greater Boston and

Massachusetts, 2017

BY

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This is the twenty-fifth 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 2017. In Greater Boston, FHA loans accounted for 9% of all home-purchase lending, down from 10% in 2016, 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 6%, while statewide it was substantially higher, at 16%. 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]

❖ For the state’s twenty-six Gateway Cities combined, 33% of home-purchase loans in 2017 were FHA loans, double the statewide FHA loan share of 16%. Among the state’s biggest cities, FHA loan shares were highest in Brockton (where they accounted for 56% of all loans), Lawrence (51%), Springfield (49%), New Bedford (48%), and Fall River (45%). [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 2017 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 4.5% 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 5.0% and 3.7%. [Table 4]
- ❖ Nevertheless, the black and Latino shares of total non-FHA loans have increased steadily over the past five years. In Greater Boston, the black share of total non-FHA loans increased from 1.8% in 2012 to 2.4% in 2017, while the Latino share increased from 2.6% to 4.5%. 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 since 2012. [Table 5]
- ❖ Black and Latino borrowers in Boston, in Greater Boston, and statewide were much more likely to receive FHA loans in 2017 than were their white or Asian counterparts. For home-purchase loans in Greater Boston, FHA loans accounted for 36% of loans to blacks and 37% of loans to Latinos, but only 7% of loans to whites. In the City of Boston, FHA loans accounted for 35% of loans to blacks, 27% of loans to Latinos, and 2% of loans to whites.

FHA loan shares were consistently much *lower* for Asian borrowers than for whites. [Table 4 & Exhibit 3]

- ❖ When borrowers in Boston, Greater Boston, and Massachusetts are grouped into five income categories, FHA shares of home-purchase loans in 2017 tend to decline steadily as the level of borrower income increases. In Greater Boston, FHA shares of home-purchase loans fell steadily from 16% for moderate-income borrowers to 1% for highest-income borrowers. [Table 8]
- ❖ The share of all home-purchase loans in Greater Boston that went to low- and moderate-income (LMI) borrowers rose slightly to 21% in 2017. After reaching a peak in 2009, the LMI shares of home-purchase loans fell sharply through 2014—from 36% to 18% in Boston, from 31% to 21% in Greater Boston, and from 37% to 30% statewide—but have been relatively stable in the last four years. [Table 10 & Exhibit 5]

Neighborhood and Municipalities

- ❖ For home-purchase loans in Greater Boston in 2017, the FHA loan share in predominantly minority tracts (those with at least 75% minority residents) was four times greater than the FHA loan share in predominantly white tracts (28% vs. 7%). The FHA share in low-income census tracts was six times greater than it was in upper-income tracts (23% vs. 3.8%). [Table 15]
- ❖ FHA lending varied dramatically among Boston's neighborhoods. The FHA share of home-purchase loans in 2017 ranged from 38% in Mattapan, 22% in Hyde Park, and 21% in Roxbury 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 2017. Just four neighborhoods (Dorchester, Hyde Park, Mattapan, and Roxbury) accounted for 82% of all Boston loans to blacks, while in two neighborhoods (Allston and Seaport) blacks received no loans and in four neighborhoods there was just one loan to a black homebuyer. For Latinos, just three neighborhoods (Dorchester, Hyde Park, and East Boston) accounted for over half (54%) of all Boston loans in 2017, while in four other neighborhoods Latinos received either a single loan (Downtown and North End) or no loans (Back Bay and Beacon Hill). [Table 18 & Exhibit 6]
- ❖ Total home-purchase lending to blacks and Latinos in 2017 was highly concentrated in a small number of the state's cities and towns, and entirely absent in many others. Brockton alone accounted for 19% of all loans to blacks in Massachusetts, while accounting for only 1.7% of total loans in the state. Just five cities (adding Boston, Springfield, Worcester, and Randolph) accounted for almost one-half (46%) of all loans to blacks in Massachusetts. Eight cities (Springfield, Lawrence, Lynn, Worcester, Boston, Methuen, Brockton, and Revere) accounted for 42% of all loans to Latinos in the state. However, the concentration of lending to blacks has fallen in the last ten years, as Boston's share of all Massachusetts loans to blacks dropped from 27% to 11% while the combined loan share of the top five cities fell from 60% to 46%. [Tables 19A & 19B]
- ❖ Meanwhile, in 65 of the state's 351 cities and towns—the same number as in 2016—there was not a single home-purchase loan to either a black or Latino homebuyer. [Supp. Table 2]

Denials of Mortgage Applications

- ❖ In Boston, Greater Boston, and Massachusetts in 2017, 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 2.8 in Boston (12.7% vs. 4.5%), 2.8 in Greater Boston (12.9% vs. 4.6%), and 2.2 statewide (12.5% vs. 5.8%). Latino/white denial rate disparity ratios were 2.8 in Boston, and 1.9 in Greater Boston and statewide. [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 2017 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 10.2% for blacks, 7.4% for Latinos, and 3.7% 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 fourteen years, there are no major changes in the basic patterns. Between 2004 and 2017, there has been no clear trend in the black/white ratio, a modest downward trend in the Latino/white ratio, and a clear upward trend in the Asian/white ratio. [Table 22 & Exhibit 9]

Lenders

- ❖ Licensed Mortgage Lenders (LMLs) in 2017 had the biggest loan shares in Greater Boston (45%) and statewide (48%) for the second consecutive year. Massachusetts banks and credit unions (CRA-covered lenders) were second with loan shares of 43% in Greater Boston and 38% statewide. Other Lenders were a distant third, with loan shares of 12% in Greater Boston and 13% statewide. 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 80% and 15%, respectively. [Table 23 & Exhibit 10]
- ❖ In the twenty-five-year history of the *Changing Patterns* series of reports, 2016 and 2017 are the only years in which Massachusetts banks and credit unions (CRA-covered lenders) 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. [Table 26]
- ❖ Guaranteed Rate was the biggest lender in Boston, Greater Boston, and statewide in 2017. The next four biggest lenders in Greater Boston were Leader Bank, Fairway Independent Mortgage, Wells Fargo Bank, and loanDepot. These five lenders accounted for 26% of total home-purchase loans in Greater Boston. Of the top thirty lenders, fourteen were Massachusetts banks covered by the CRA, fourteen were Licensed Mortgage Lenders, and only two were out-of-state banks with no Massachusetts branches. [Table 27 & Exhibit 11]