



Mortgage lending continues under Dodd-Frank Borrowers of color, low-wealth families still underserved by private market

CRL Issue Brief

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- **2014 HMDA data shows that Federal rules did not have a chilling effect on lending, despite lender predictions.**
- **Borrowers of color continue to be under-served by the mortgage market.**

The 2014 mortgage data submitted by lenders under the Home Mortgage Disclosure Act (HMDA) reflects a slowly recovering mortgage market, but one that troublingly continues to under-serve important market segments. The implementation of federal mortgage underwriting standards (known as Ability-to-Repay or “ATR” and the Qualified Mortgage rule or “QM”) in early 2014 did not cause a departure from mortgage lending trends in recent years. However, access to credit remains tight; people of color and low and moderate-income families continue to receive a far lower share of home purchase loans than they have historically and than would be expected based on their share of the population. These borrowers also are much more likely to be served by government-backed loan programs¹ than by the conventional market, and are increasingly paying more for mortgages than other borrowers.

Table 1: Mortgage originations, demographic and product details for purchase mortgages²

	2014		2013	
	#	%	#	%
Total originations	4,754,000		7,065,000	
Purchase mortgages	2,804,000	59.0%	2,680,000	37.9%
to African-Americans	142,324	5.2%	125,520	4.8%
to Hispanic-whites	216,223	7.9%	190,895	7.3%
to Non-Hispanic whites	1,891,267	69.1%	1,835,730	69.1%
Low and moderate-income	738,990	27.0%	742,660	28.4%

¹ These include loans backed by Federal insurance and guarantee programs including: the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Farm Service Agency (FSA), and the Rural Housing Service (RHS).

^{2,3} The cited data are in or can be derived from data presented in: Federal Reserve. (2015). *The 2014 Home Mortgage Disclosure Act Data*. Available at: http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf All data are for first-lien, owner-occupied, 1-4 family unit mortgage loans.

Table 2: Conventional and Non-conventional purchase mortgage originations, demographic and product details³

	2014		2013	
	#	%	#	%
Conventional (site built)	1,736,000		1,622,000	
to African-Americans	45,544	2.6%	36,903	2.3%
to Hispanic-whites	87,570	5.0%	71,013	4.4%
to Non-Hispanic whites	1,259,584	72.6%	1,187,717	73.2%
Low and moderate-income	368,017	21.2%	354,249	21.8%
Non-conventional (site built)	1,001,000		993,000	
FHA	583,583	58.3%	622,611	62.7%
to African-Americans	96,780	9.7%	88,617	8.9%
to Hispanic-whites	128,653	12.9%	119,882	12.1%
to Non-Hispanic whites	631,683	63.1%	648,013	65.3%
Low and moderate-income	370,973	37.1%	388,411	39.1%

Highlights from the 2014 HMDA data include:

- African-Americans received just 142,324 out of 2.8 million home purchase loans (5.2%), a slight increase from their share of 4.8% in 2013 and still well below pre-crisis levels when the share averaged around 7%. Latino borrowers received just 216,223 home mortgage originations (7.9% of all purchase loans); also up slightly from 7.3% in 2013. In contrast, African-Americans made up 13.2% and Latinos 17.4% of the US population in 2014, according to the US Census Bureau.⁴
- Low and moderate-income borrowers received fewer purchase mortgage loans in 2014 (738,990) than in 2013 (742,660) and than in 2012 (763,190).
- African-Americans, Latinos and low and moderate-income borrowers continue to be predominantly served by government-backed loan programs rather than by the private market.
 - While increasing, very few conventional mortgages were made to borrowers of color to purchase a home in 2014. Only 45,544 such loans were made to African-Americans and 87,570 such loans were made to Latino borrowers in 2014. This is an increase of 8,641 loans for African-American borrowers and 16,557 loans for Latino borrowers over 2013 lending and an increase of 19,090 and 35,842 respectively over 2012 lending.
 - Government-backed loan programs composed 68.0% of purchase loans made to African-Americans, 59.5% of loans made to Latinos and 50.2% of loans made to low or moderate-income borrowers. In comparison, they comprised approximately a third of loans made to white homebuyers.

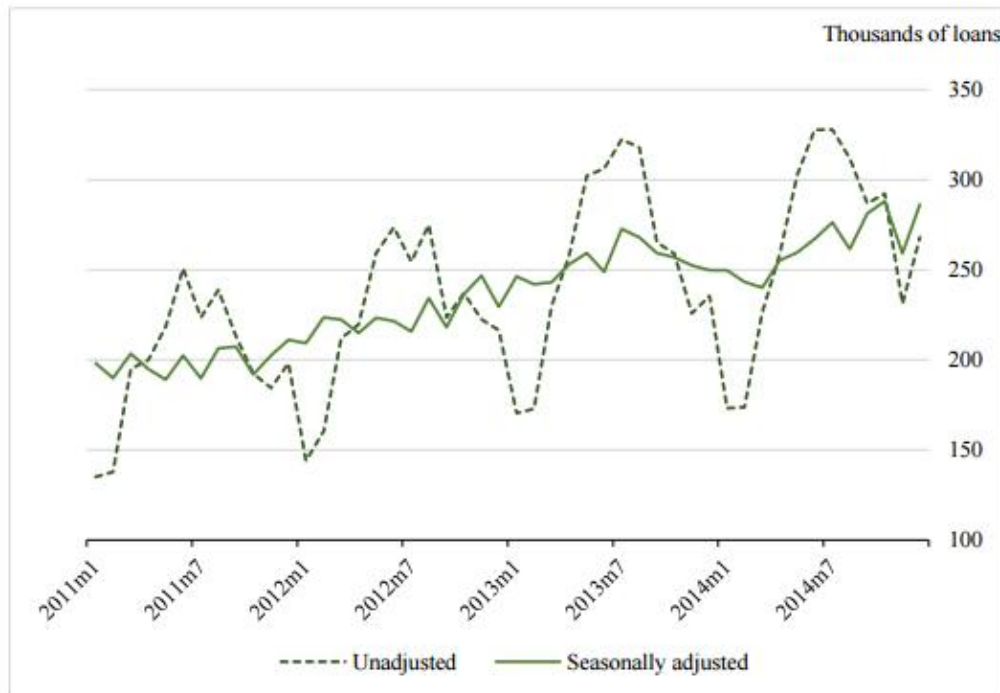
⁴ See: <http://quickfacts.census.gov/qfd/states/00000.html>

- Borrowers of color paid higher prices for mortgages. Overall, 25.5% of African-American borrowers and 28.3% of Latino borrowers received high-cost mortgages.⁵ This is a result of borrowers of color receiving FHA loans that are more costly relative to conventional loans, which experienced price increases in 2013.

The QM Rule and Ability-to-Repay Standard have not Harmed Mortgage Lending

The 2014 HMDA data does not show that federal mortgage underwriting rules (ATR and QM) have had a “cooling effect” on mortgage lending. In fact, the data is very much consistent with market trends immediately preceding the implementation of the rule. The Federal Reserve’s seasonally adjusted origination numbers show a slow increase in monthly originations from 2011 through 2014 with no discernable decrease when the rules were fully implemented in January 2014. After considering the data the Federal Reserve concluded “The HMDA data provide little indication that the new ATR and QM rules significantly curtailed mortgage credit availability.”⁶

Figure 1: Volume of home purchase originations, by month 2011-2014⁷



When the CFPB announced these rules, many in the lending industry claimed that requirements such as caps on interest rates and points and fees, and requirements that lenders must consider a borrower’s

⁵ High cost mortgages are loans with an APR 1.5 percent above the average prime offer rate.

⁶ Federal Reserve. (2015). *The 2014 Home Mortgage Disclosure Act Data*. Available at:

http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf (Page 4)

⁷ This figure appears as Figure 3 on page 51 in the Federal Reserve’s 2015 report *The 2014 Home Mortgage Disclosure Act Data*. Available at: http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf. The chart shows first-lien, home purchase mortgage originations.

ability to repay a mortgage loan would slow lending to a devastating halt. The 2014 HMDA data does not appear to bear out this prediction.

The QM Rule serves an important purpose in addressing the mortgage lending abuses that led up to the foreclosure crisis and subsequent recession. The Ability-to-Repay standard moves the market away from high-risk, unsustainable loans and ensures that lenders evaluate whether borrowers have an ability to repay the loans they receive. Irresponsible mortgage lending that ignored borrowers' ability to repay their loans resulted in a foreclosure crisis that disproportionately impacted communities of color.

QM and Ability-to-Repay promote product features that are helping reorient the housing market back toward safe, sustainable lending for all borrowers by adopting different legal requirements for underwriting loans that do not include certain fees or other high-cost or risky features. The CFPB also carefully considered the impacts of the rule on various types of loans and lending institutions. The resulting rule provides flexibility by loan size and lender type by allowing for different standards to accommodate small and rural lenders and smaller loans.⁸ The QM rule is designed to facilitate the flow of mortgage credit, as lenders will have the confidence in knowing the suitability of loans for borrowers at the time of origination.

Government-Backed Lending Continues to be Critical for Borrowers of Color

Overall, the data reflect slow, continued improvements in the overall private mortgage market. While this includes some slight, welcome increases in lending to borrowers of color, in general, borrowers of color are still being left out of the mortgage market recovery. Total home purchase loans increased by 4% in 2014 over 2013, though the overall market contracted due to a sharp reduction in refinance loans. Mortgage interest rates rose slightly in 2014 from the historic lows they reached following the Great Recession; a decline in refinancing activity is an expected consequence. The market also continued to rely less on government-backed loan programs. The share of government-backed purchase loans fell from 45% in 2012 to 38% in 2013 to 36% in 2014. However, these programs continued to be critical - the majority of loans to African-Americans, Latinos and low and moderate-income borrowers were under these programs.

Borrowers of Color are Paying the Most for Loans and Continue to be Denied at Higher Rates

The data also expose a troubling trend of rising prices for those served the least well by the market. Increases in FHA pricing, including increases on annual premiums and requiring that the premium be paid for the life of the loan, in mid-2013 (which came on top of previous price increases), increased the price of many FHA loans slightly above the high-price threshold. These changes resulted in approximately 44% of FHA home-purchase loans made in 2014 being classified as high-cost loans. In early 2015, HUD decided to reduce FHA premiums which may change this trend, but it bears continued monitoring.

⁸ Ability-to-Repay and Qualified Mortgage Rule, Small Entity Compliance Guide, Consumer Financial Protection Bureau (2014), available at http://files.consumerfinance.gov/f/201411_cfpb_atr-qm_small-entity-compliance-guide.pdf.

Since borrowers of color rely so heavily on this program in particular, the rate of borrowers of color with high cost loans rose dramatically from 2012 to 2014. The percentage of African-Americans with high cost loans rose from 5.3% in 2012 to 14.2% in 2013 to 25.5% in 2014. Similarly, the rate rose from 5.9% in 2012 to 16.8% in 2013 to 28.3% in 2014 for Latino borrowers. The Federal Reserve notes that three quarters of FHA purchase loans exceeded the higher-priced threshold by less than 0.5 percentage points so reductions in FHA mortgage insurance premiums enacted by HUD early in 2015 may stem the sharp increases of recent years. The high-cost of FHA loans for African-Americans and Latinos, the failure of lower cost conventional loans to serve borrowers of color, and credit overlays imposed by lenders on FHA loans should be of continued concern.

The 2014 HMDA data also show that the rate at which borrowers were denied loans continued to vary significantly by race and ethnicity. Denial rates are based on a number of factors – from who chooses to apply for a loan to the credit characteristics of the borrower. The HMDA data has shown a persistent difference in denial rates by race and ethnicity and the 2014 data is no exception. The Consumer Financial Protection Bureau (CFPB) is still in the process of considering changes to HMDA that would incorporate credit score and other lending factors into the data lenders are required to report. Such changes would shed needed light on this persistent trend.⁹

Conclusion

The 2014 HMDA data release shows that the reforms of The Dodd–Frank Wall Street Reform and Consumer Protection Act, including QM and Ability-to-Repay, have not hurt mortgage lending or access to credit, as predicted by some. Other data complements the HMDA figures - reports by Federal Reserve’s Senior Loan Officer Survey show that the majority of respondent loan officers did not note change in their business and many loosened underwriting standards after the rule was implemented.¹⁰

Instead, recent mortgage lending reforms support sustainable homeownership and wealth building opportunities for lower-wealth households. However, continued problems with access to credit stem from the constrained lending of the post crisis market. Since the crisis, mortgage lending has been mostly limited to borrowers with the most pristine credit history. This constrained lending environment is reflected in the 2014 HMDA data. This environment is most harmful to lower-wealth households as well as to borrowers of color.

⁹ The proposal is available at: http://files.consumerfinance.gov/f/201407_cfpb_proposed-rule_home-mortgage-disclosure_regulation-c.pdf

¹⁰ Board of Governors of the Federal Reserve System, July 2015 Senior Loan Officer Opinion Survey on Bank Lending Practices 38-46 (2015), available at <http://www.federalreserve.gov/boarddocs/snloansurvey/201508/fullreport.pdf>.