2014 Mortgage Lending Trends in New England

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Summary

The mortgage and housing market experienced important changes in 2014, including changes in home prices and interest rates, and the enactment of home mortgage regulations. In this dynamic environment, it is important to track how the mortgage market has evolved at the local level for low- and moderate-income (LMI) families and families of color. In this brief, the annual Home Mortgage Disclosure Act (HMDA) data have been used to analyze mortgage market trends during 2014 in the New England states. The number of mortgage loans declined sharply in 2014, primarily driven by a decrease in refinance loans. Home purchase loans remained flat from 2013 through 2014. Nonconventional loans (FHA, VA, FSA/RHS) continued to play an important role, especially among low-income and nonwhite borrowers. Close to 40 percent of home purchase loans to LMI individuals were government-backed loans, and nearly half of all home purchase loans issued to blacks and Latinos were FHA mortgages. Home purchase denial rates have been declining for Latinos since 2012 and for blacks since 2013. Despite this downward trend, blacks and Latinos continued to have much higher denial rates than whites. HMDA data does not include applicants' debt-to-income ratios, credit scores, or loan-to-value ratios, but annual income is stated. When we used income to compare denial rates by race for all loan types, we found that the denial rate for Latinos earning $71,000 to $90,000 and blacks earning $121,000 to $150,000 was almost equivalent to the denial rates for whites earning $31,000 to $50,000.

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Introduction

In 2014, the mortgage and housing market experienced important changes, including changes in home prices and interest rates, and the enactment of home mortgage regulations. House prices in New England continued an upward trend that has been evident since 2012. From 2013 through 2014 home prices in Massachusetts and Connecticut rose 5 percent, the fastest growth pace in the region (Appendix Figure 1). Meanwhile, 30-year fixed mortgage interest rates increased sharply in the second half of 2013, peaking at 4.6 percent—admittedly a rate much lower than before the economic crisis beginning in 2008 (Appendix Figure 2). Since experiencing a peak in 2013, interest rates decreased to about 4 percent by the end of 2014.[1]

Beginning in 2014, ability-to-repay (ATR) and qualified mortgage (QM) rules were enacted to protect the consumer from predatory lending practices. In part, the new regulations require lenders to make reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured for a dwelling, and creditors must retain evidence of compliance with the rule for three years after a covered loan is consummated.[2]

In this dynamic environment, tracking the evolution of the mortgage market at the local level for low- and moderate-income families and families of color can provide valuable insights for policymakers.

The analysis reported in this brief made use of the annual Home Mortgage Disclosure Act (HMDA) data[3] to analyze mortgage market trends through 2014. The first half of this work examines the general mortgage market dynamic in New England, focusing on mortgage loan type and purpose. The second half provides a more detailed analysis of mortgage market outcomes by race and ethnicity and income. The entire work considers HMDA data from previous years in an effort to identify emerging trends.[4] It is beyond the scope of this analysis to

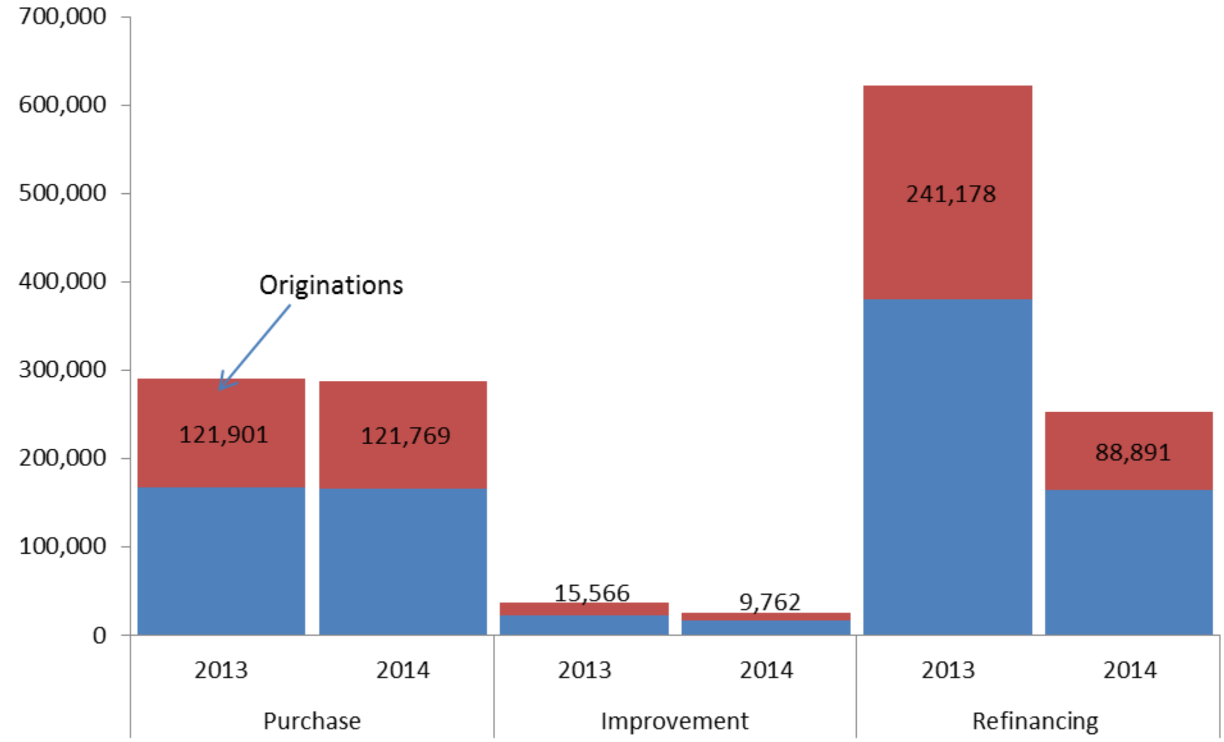
[1] Nonetheless, this is a higher rate than in the first quarter of 2013.
[2] Dodd-Frank Wall Street Reform and Consumer Protection Act, H.R. 4173, 111th Cong., Sec. 1411 and Sec. 1414 (2010). QM requirements include a required ratio for debt service payments to income (DTI), along with requirements for points and fees. In addition, various QM loans generally require that the borrower's total DTI ratio does not exceed 43 percent.
[3] Data is available from the Federal Financial Institutions Examination Council (FFIEC), http://www.ffiec.gov/hmda/. Detailed data for New England can be found at http://www.bostonfed.org/commdev/data-resources/hmda/index.htm
[4] The data analysis included only first-lien loans for owner-occupied homes. The data excluded junior-lien loans, all loans for multifamily properties, and all loans for non-owner–occupied homes. Except in Figure 1, home improvement loans, which represented 4.6 percent of total loan applications in New England, were also excluded from this analysis.

investigate the causality or effects of the trends discussed. Instead, this issue brief provides a snapshot of how the mortgage market has been evolving.

Mortgage Loan Applications and Originations by Purpose

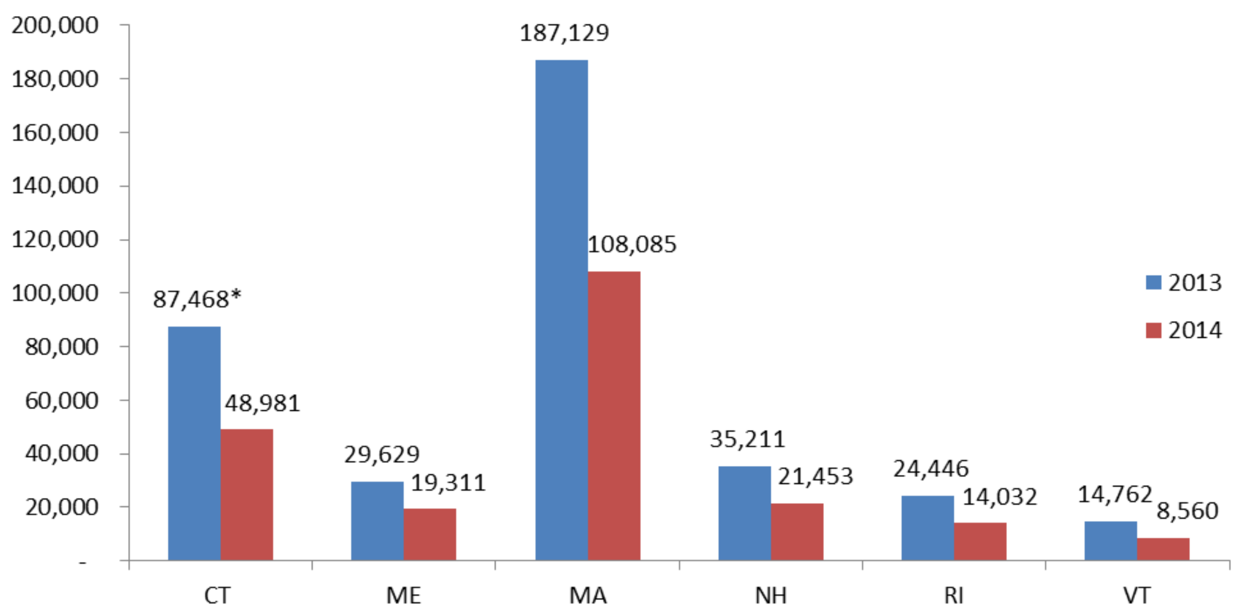
The housing market in New England has undergone several changes over the past two years. Specifically, the number of refinance mortgages has significantly declined in New England. In 2014, mortgage applications were split nearly in half between home purchases and refinances along with a small percentage of home improvement loan applications. Overall, mortgage applications in 2014 were down when compared with 2013: a total of 345,579 mortgage applications in 2014 compared with 570,198 applications in 2013, a drop of 39 percent (Figure 1). The 2014 decrease in applications was primarily driven by a close to 20 percent decrease in the number of refinance applications between 2013 and 2014. In 2013, refinance applications were 66.7 percent of all applications, whereas in 2014 they represented only 47.5 percent. Massachusetts experienced the largest drop (58.5 percent) in refinance applications: 179,427 refinance applications in 2013 dropped to 74,455 refinance applications in 2014. (Figure 2). Home purchase loans remained flat between 2013 and 2014. This sizable decrease in refinance loan originations is likely attributable to a decrease in refinance applications and an increase in denial rates. Interest rates in 2014 remained well above the historically low rates seen at the end of 2012 and at the beginning of 2013, possibly a factor contributing to the drop in refinance applications.

Figure 1. Mortgage Applications and Originations throughout New England, 2013–2014



Source: 2013-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

Figure 2. Total Mortgage Loans by State, 2013–2014



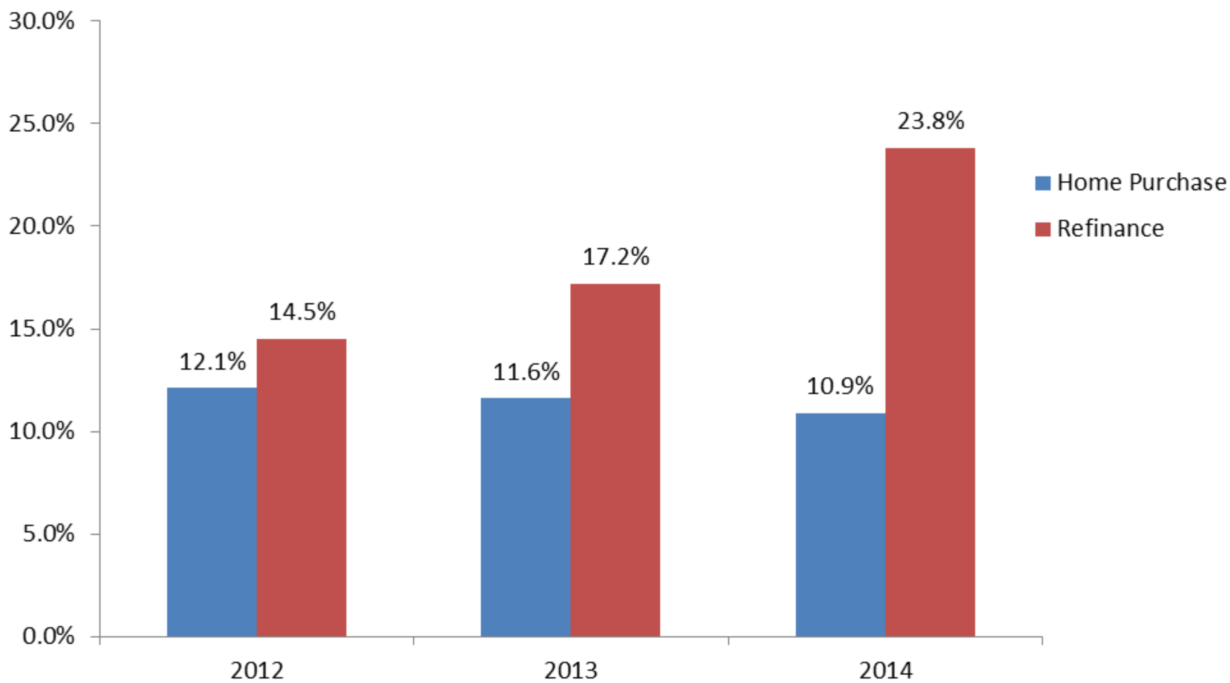
* Figures represent orginated home purchase and refinance mortage

Source: 2013-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

Denial Rates by Loan Purpose

Over the time period analyzed, in New England home purchase loan denials decreased, whereas refinance loan denials steadily increased (Figure 3). In 2013, financial institutions denied 17.2 percent of refinance loans. However, in 2014, the refinance denial rate increased to 23.8 percent, jumping 9.3 percentage points. The percentage of denied home purchase loans was down almost one percentage point from 2013. Of the total applications for home purchases, 10.9 percent or 18,006 applications were denied.

Figure 3. Denial Rates by Loan Type in New England, 2012–2014



Source: 2013-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

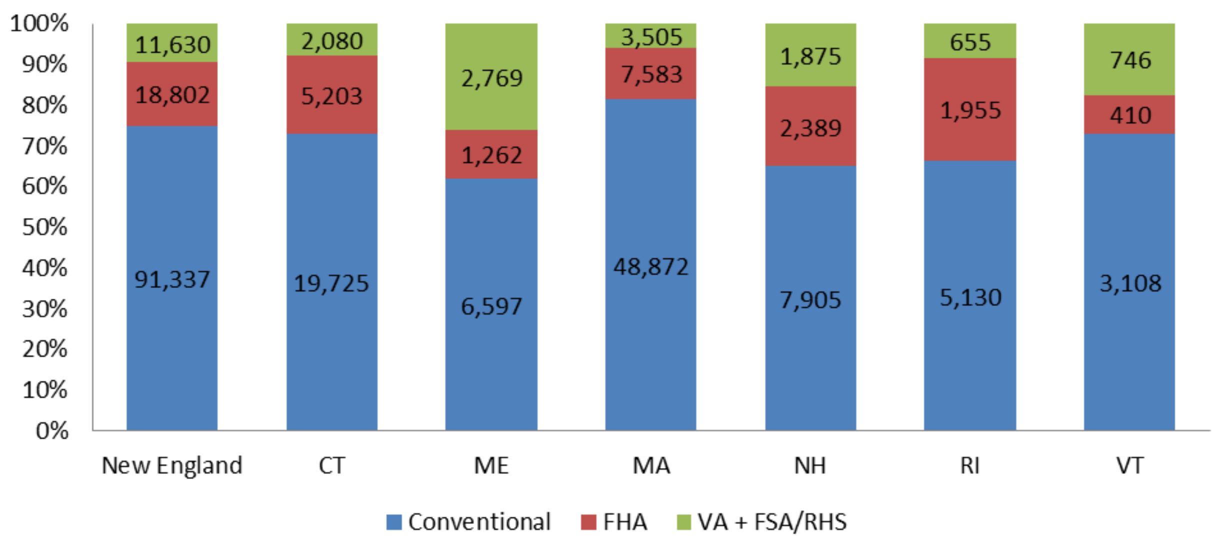
Comparison of Conventional and Nonconventional Loans

Conventional mortgages[5] were 81 percent of all mortgage loans (a total of 179,589) in 2014, a decrease from 2006, when 97 percent of all mortgages were conventional loans. Overall, there was a slight decline in the total number of conventional mortgages between 2013 and 2014. Again, the decline can be attributed to the decrease in refinance mortgages. As a share of total mortgages, conventional mortgages for *home purchases* were up 2 percentage

[5] Mortgage loans that are not guaranteed or insured by the government

points in New England, making up 75 percent of the mortgage share. Maine had the lowest percentage of conventional mortgages at 62.1 percent. More than 88 percent of refinance mortgages were conventional loans, which makes sense since refinance applications typically indicate that the borrower has equity in the home and wants to refinance to obtain a better interest rate or wants to take cash out of the property. These borrowers would typically be eligible for a conventional loan. Nonconventional mortgage[6] loan numbers remained steady between 2013 and 2014. In New England, FHA loans experienced a 1 percentage point drop in the share of loans for the years 2013 and 2014 (Figure 4). Rhode Island had the highest share of FHA home purchase mortgages at 25 percent — in fact, the highest in New England by nearly 10 percentage points. All New England states saw an uptick in total VA loans. VA home purchase loans increased 1.9 percentage points. Even though refinances as a whole decreased in New England, VA refinance loans increased by 2.4 percentage points. . The largest increase in VA refinance loans — 3.8 percentage points — occurred in Maine.

Figure 4. Home Purchase Mortgage Loans by Type and State, 2014



Source: 2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

[6] Mortgage loans that are guaranteed or insured by the government through three agencies: the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA) and the U.S. Department of Agriculture (USDA). FSA/RHS (Farm Service Agency/Rural Housing Service) loans are part of the USDA program and geared toward rural property buyers.

Prevalence of High APR Mortgages

Since reaching a low of 1 percent of all mortgages in 2012,[7] the share of high APR mortgages has steadily increased during the two years studied.[8] In 2014, the total of all mortgage loans having a high APR was 2.7 percent. The share of high APR home purchase mortgages reached 4.7 percent, up from 3.8 percent in 2013 and up from 1.7 percent in 2012.[9]

Mortgage Trends by Income Level

In New England between 2013 and 2014 there was relatively little change in home purchase loan originations for low- and moderate-income (LMI) borrowers [10] or for middle- and upper-income (MUI) borrowers. For LMI individuals in 2014, home purchase loans decreased 5.6 percent. On a year-by-year basis, refinance loans dropped 63.9 percent for MUI individuals and 59.7 percent for LMI individuals (Figure 5).

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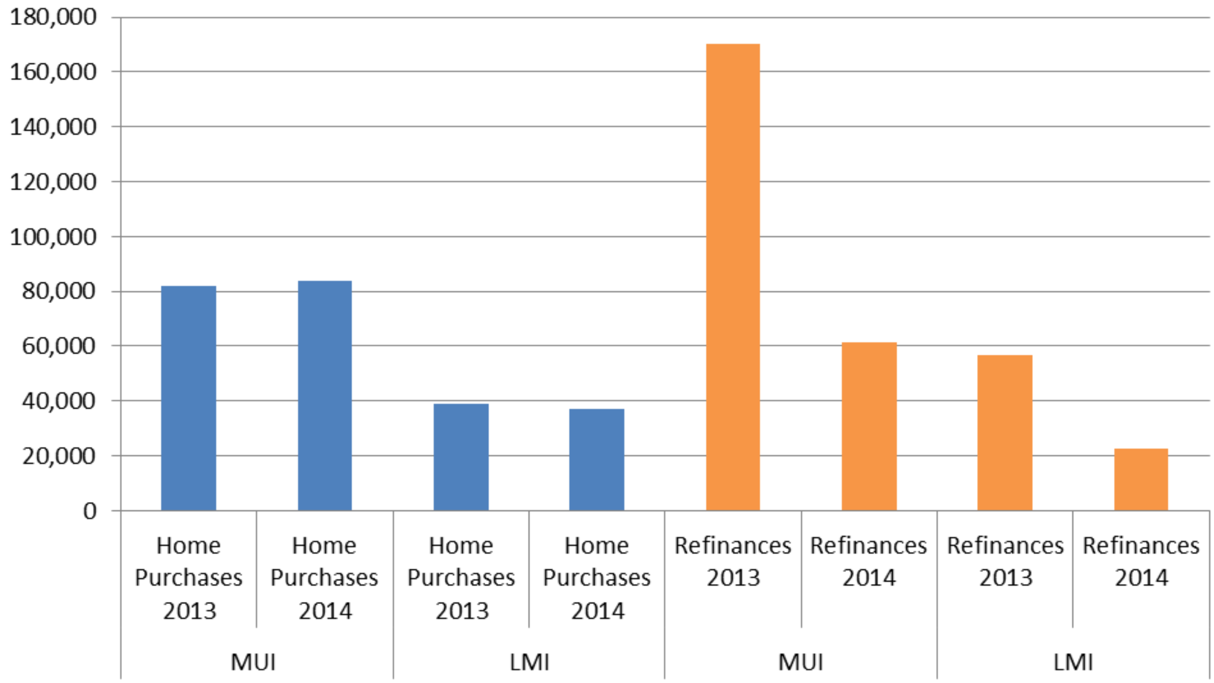
[7] Benderskaya, K. (2014). *Mortgage lending in New England: Key trends and observations in 2012*. Retrieved from http://www.bostonfed.org/commdev/issue-briefs/2014/cdbrief22014.pdf

[8] A first-lien mortgage with an APR that is at least three percentage points above a typical prime loan has steadily increased over the two years studied. The majority of high APR FHA loans are only slightly above the average prime offer rate, and, according to the Federal Reserve Board of Governors, "with the FHA reducing the MIP by 0.5 percentage points in January 2015, the fraction of FHA borrowers above the reporting threshold may fall in next year's data." For more details, see: Bhutta, N., Popper, J. & Ringo, D.R. (2014). *The 2014 Home Mortgage Disclosure Act data*. Federal Reserve Bulletin 101(4). Retrieved from http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf

[9] FHA loans (or government-backed loans) are not the same as subprime loans. Government-backed loans are more expensive than conventional loans; however, these loans are reasonable options for individuals who do not qualify for conventional loans. See Campen, J. (2015) *Changing patterns XXII: Mortgage lending to traditionally underserved borrowers & neighborhoods in Boston, Greater Boston and Massachusetts, 2014.* Somerville, MA: Massachusetts Community & Banking Council. Retrieved from http://www.mahahome.org/sites/default/files/CP22-Report-Dec2015-Final.pdf

[10] LMI borrowers are individuals with household incomes, as reported in the loan application, below 80 percent of the Metropolitan Division's median income.

Figure 5. Loans for Low- and Moderate-income (LMI) and Middle- or Upper-income (MUI) Individuals Living in New England



Source: 2013-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

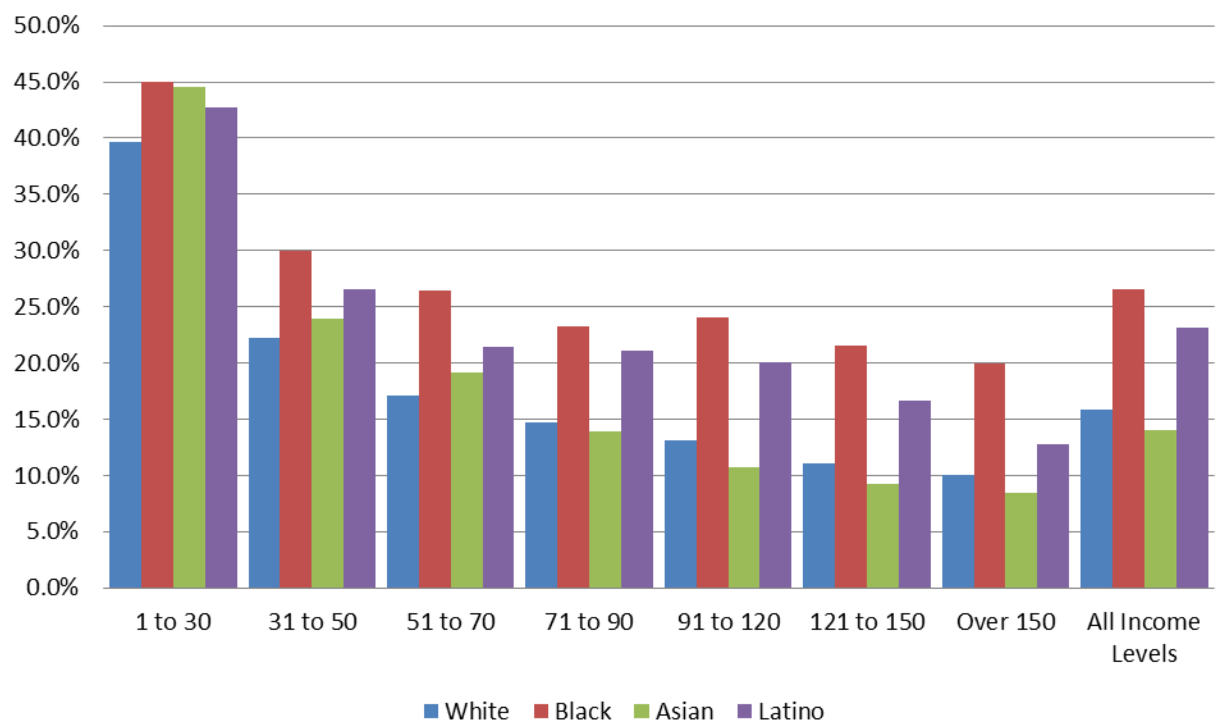
At the state level, during 2013 and 2014, LMI individuals in Massachusetts, Connecticut, and Rhode Island recorded decreases of between 6–8 percent in home purchase loans, whereas New Hampshire recorded minimal decreases of less than 1 percent in home purchase loans. Home purchase loans for LMI borrowers rose 2.2 percent in Maine and 1.4 percent in Vermont. For MUI individuals, all New England states experienced increases in home purchase loans except Connecticut and Vermont, where decreases in home purchase loans of 2.4 percent and 1.7 percent occurred, respectively. All states saw significant decreases of at least 50 percent in refinance loans regardless of an individual's income status. In New England, for LMI individuals as compared with MUI individuals, home purchase denial rates and refinance denial rates were about 2.1 and 1.5 times higher.

Mortgage Trends by Race and Ethnicity

From 2006 through 2014, among all races and ethnic groups, fewer mortgage loans were applied for and approved in the New England states. Whites experienced a decline of 27 percent and 57.2 percent in home purchase and refinance loans, respectively. Among blacks, there was a 59.6 percent decrease and a 79.1 percent decrease in home purchase loans and refinance loans, respectively. For Latinos there was a 52.1 percent and a 77 percent decrease in home purchase and refinance loans, respectively. Home purchase denial rates have been declining for Latinos since 2012 and for blacks since 2013. However, despite this downward trend for blacks and Latinos, these individuals have higher denial rates than whites (Appendix Figure 3). In 2014, blacks and Latinos were 1.9 and 1.8 times more likely, respectively, to be denied home purchase loans than whites.

Denial rates for refinance loans have been trending upward for all races since 2012; however blacks and Latinos historically have experienced higher denial rates than whites (Appendix Figure 4). Blacks and Latinos were 1.6 and 1.4 times more likely to be denied a refinance loan relative to whites. The HDMA data do not provide applicants' debt-to-income ratios, credit scores, or loan-to-value ratios; however, it does indicate annual income, which allows for some basic inferences about financial well-being.

Figure 6. Denial Rates by Income Level and Race: All Loans, 2013 and 2014



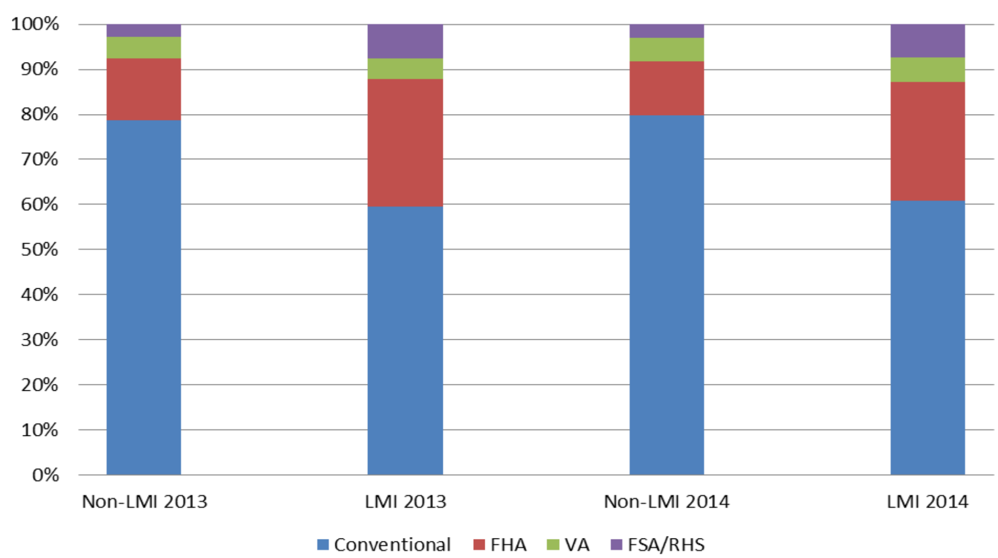
Source: 2013-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

When we used income to compare denial rates for all loan types by race, we found that the denial rate for Latinos earning $71,000 to $90,000 and for blacks earning $121,000 to $150,000 was almost equivalent to whites earning $31,000 to $50,000, which was the second to lowest income bracket for whites (Figure 6). Here's another way to look at this: Even when earning at the highest income level tracked in the HDMA data ($150,000), blacks and Latinos, respectively, were almost 2 times and 1.3 times more likely to be denied a loan relative to whites with equivalent earnings.

Mortgage Trends by Income Level and Loan Type

In New England, the share of nonconventional home purchase and refinance loans for MUI individuals was 20.2 percent and 10.4 percent, respectively; this equates to a 1.1 percentage point decrease and a 3.7 percentage point increase from 2013 in the share of nonconventional home purchase and refinance loans, respectively (Figure 7). For LMI individuals, 39.1 percent of all home purchase loans and 14.6 percent of all refinance loans were government-backed loans. This equated to a 1.3 percentage point decline and a 4.5 percentage point increase in the share of nonconventional home purchase and refinance loans, respectively.

Figure 7. Home Purchase Loans by Type for Low- and Moderate-income (LMI) and Middle- or Upper-income (MUI) Individuals, 2013 and 2014



Source: 2013-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

FHA Mortgages by Race and Ethnicity

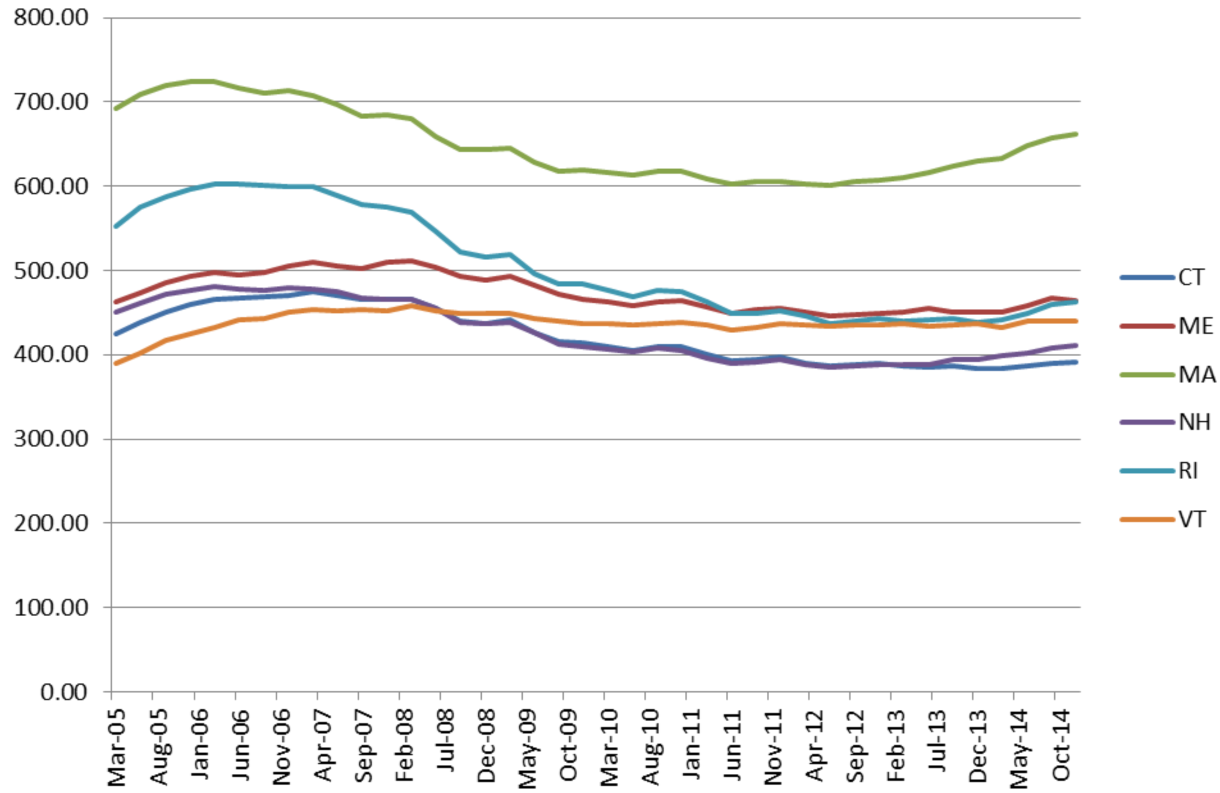
In 2014, nearly half of all home purchase loans issued to blacks and Latinos were FHA mortgages (46.2% and 48.6%, respectively). In fact, blacks and Latinos were 3.5 and 3.3 times more likely than whites to have an FHA home purchase origination. Blacks and Latinos were also 3.1 and 2.6 times more likely than whites to have an FHA refinance origination. In Massachusetts, blacks and Latinos were at least 4 times more likely to have an FHA home purchase origination than whites; this was the highest ratio among all states in New England.

Conclusion

This analysis shows that New England experienced minimal changes in the volume of home purchase loans from 2013 through 2014. However, regarding refinancing, there was a significant drop in both applications and loans granted during the same time frame. Disparities persisted among LMI and MUI as well across racial and ethnic groups. LMI individuals had greater shares of nonconventional loans as compared with MUIs. Blacks and Latinos experienced much higher denial rates than whites. In 2014, blacks and Latinos, respectively, were 1.8 and 1.9 times more likely to be denied home purchase loans compared with white individuals. Despite the minimal change in data related to home purchase loans, there was a slight increase in the volume of high APR mortgages. While the HMDA data do not provide an answer to how or why particular disparities occur, analysis of these data has produced an interesting snapshot of lending practices in the region. This analysis of the HMDA data revealed persistent trends related to income level and race/ethnicity that warrant further in-depth review of mortgage lending practices.

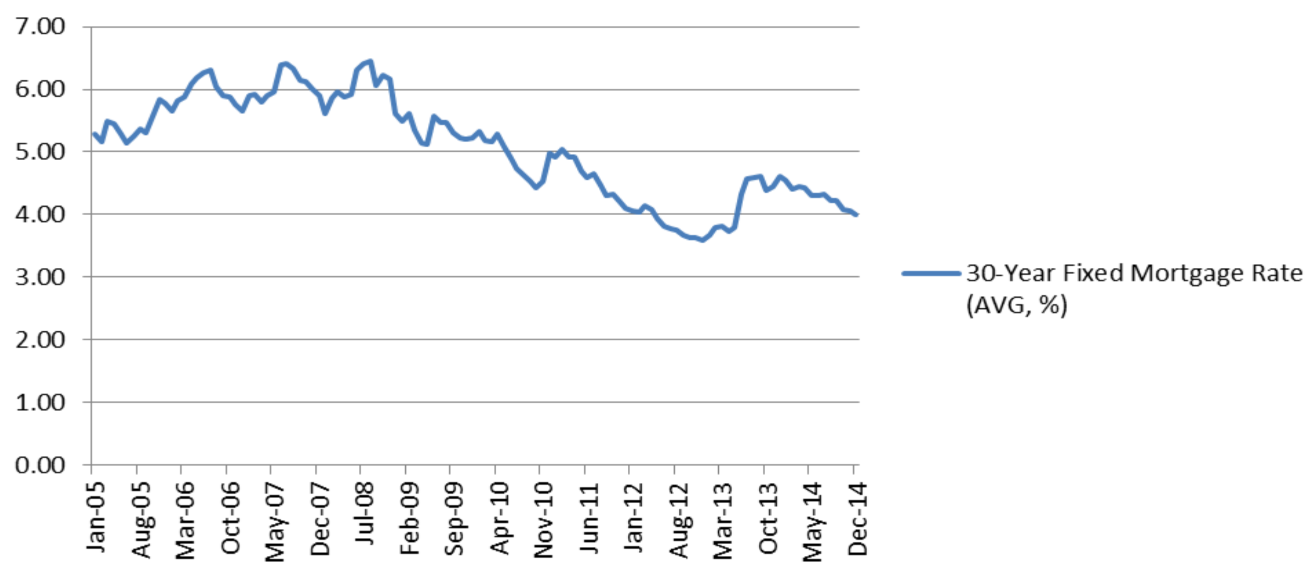
Appendix

Appendix Figure 1. Federal Housing Finance Agency Home Price Index



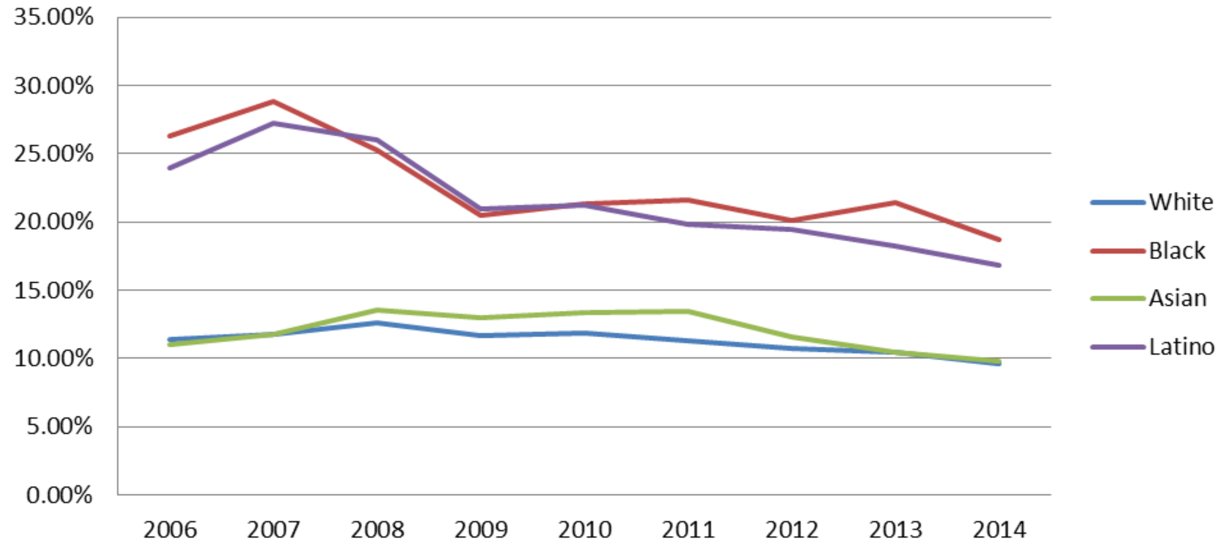
Source: Federal Housing Finance Agency /Haver Analytics

Appendix Figure 2. 30-Year Fixed Mortgage Rate (Average Percent), 2005–2014



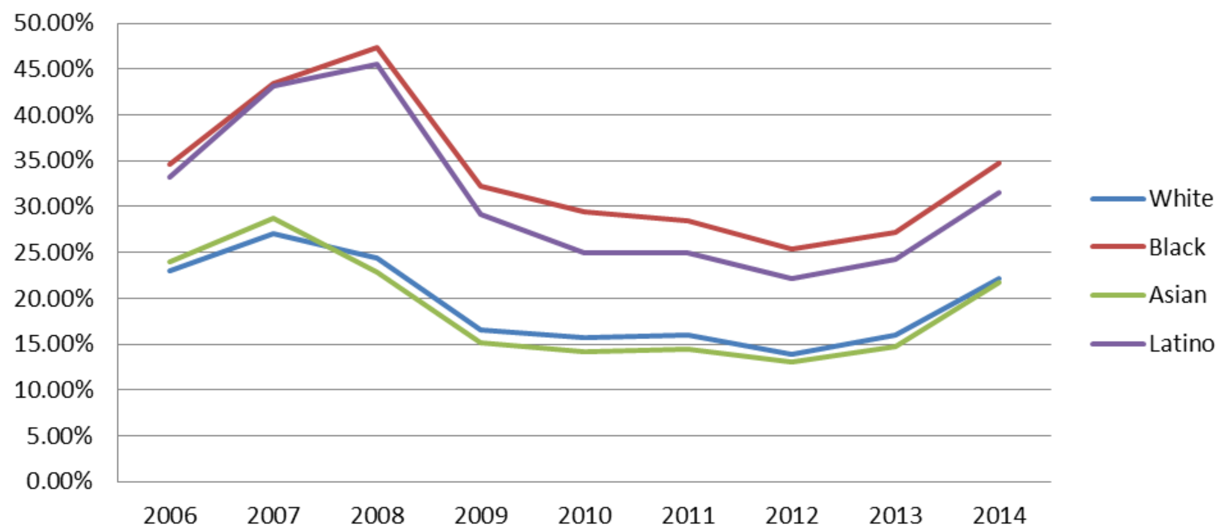
Source: Wall Street Journal/Haver Analytics

Appendix Figure 3. Denial Rates by Race for Home Purchasing Loans in New England, 2006–2014



Source: 2006-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston

Appendix Figure 4. Denial Rates by Race for Refinancing Loans in New England, 2006–2014



Source: 2006-2014 HMDA. Data compiled by the Federal Reserve Bank of Boston