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2015 Mortgage Lending Trends in New England

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Abstract
In 2014 the mortgage and housing market underwent important changes. Ability-to-repay and qualified-mortgage rules designed to protect consumers from predatory lending practices were enacted, and the annual mortgage insurance premiums (MIP) charged to nonconventional loan borrowers were reduced. These changes are reflected in many of the 2015 mortgage lending patterns. The housing and home mortgage markets have major impacts on the health of both the U.S. economy and household consumer finances, so it is important to understand and track mortgage market trends, especially for low- and moderate-income (LMI) individuals and people of color. Using 2015 Home Mortgage Disclosure Act (HMDA) data, this issue brief provides a descriptive analysis of general mortgage market dynamics within New England and a detailed summary of mortgage market trends by race and ethnicity.

Key Data Items

- Since 2014, loan applications and originations in New England have increased more than 25 percent.
- Denial rates for home purchase loans have been trending downward since 2012.
- Likely due to the recent reduction in annual MIP, the percentage of Federal Housing Administration (FHA) home loan originations have increased.
- Compared to middle- and upper-income (MUI) individuals, LMI individuals are 2.1 times more likely to have an FHA home loan.
- On a year-over-year basis, home purchase originations increased by at least 25 percent for blacks and Latinos.
- Blacks are 3.1 times and Latinos 2.3 times more likely to have an FHA loan than are whites.
- Loan denial rates for blacks and Latinos are twice as high as denial rates for whites.
- Blacks earning $91,000 or more a year are about 1.9 times more likely to be denied a loan than are whites in the same income bracket. Latinos earning over $150,000 a year are 1.5 times more likely to be denied a loan than are whites in the same income bracket.

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Introduction

The housing and home mortgage markets have major impacts on the health of both the U.S. economy and household consumer finances. Mortgage debt is the largest component of overall U.S. household debt, and as of the fourth quarter of 2016, total U.S. household mortgage debt ran over 8 trillion dollars.[1] During this same time period, household mortgage debt in New England totaled over 478 billion dollars.[2] At the same time, median home prices within the United States and New England have climbed steadily since 2014. Median home prices in New England are about 1.5 times higher than they are in the United States overall, and median home prices in Massachusetts are at least 1.4 times higher than prices in the rest of New England.[3] After a continual downward trend since 2008, the 30-year fixed mortgage rate has been increasing since 2013, but rates remain low and have not yet reached pre-crisis levels, which were relatively low (between 5 and 6 percent).[4] According to the Federal Reserve Board of Governors' Senior Loan Officer Opinion Survey, banks have reported an ease in mortgage credit conditions since the financial crisis.

Examining household mortgage trends helps us to better understand the financial stability of households. Using home mortgage lending data made available through the Home Mortgage Disclosure Act (HMDA) of 1975,[5] this analysis highlights mortgage market trends in New England through 2015.[6] The first half of the report focuses on general mortgage market dynamics within the region, and the remaining sections provide a more detailed analysis of mortgage market trends by race and ethnicity.

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[1] Bhutta, N. & Ringo D.R. (2016). Residential mortgage lending from 2004 to 2015: Evidence from the Home Mortgage Disclosure Act data, https://www.federalreserve.gov/pubs/bulletin/2016/pdf/2015_HMDA.pdf.

[2] Federal Reserve Bank of New York Consumer Credit Panel/Equifax data.

[3] Federal Housing Finance Agency (FHFA)/Haver Analytics. According to Zillow/Haver Analytics, as of December 2016, the median home listing price in Massachusetts was $223 per square foot, while the average median home listing price for the rest of New England was $157.20 per square foot and the median home listing price for the United States was $130 per square foot.

[4] *Wall Street Journal*/Haver Analytics.

[5] 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.

[6] 2015 is the latest year for which data is available. 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..

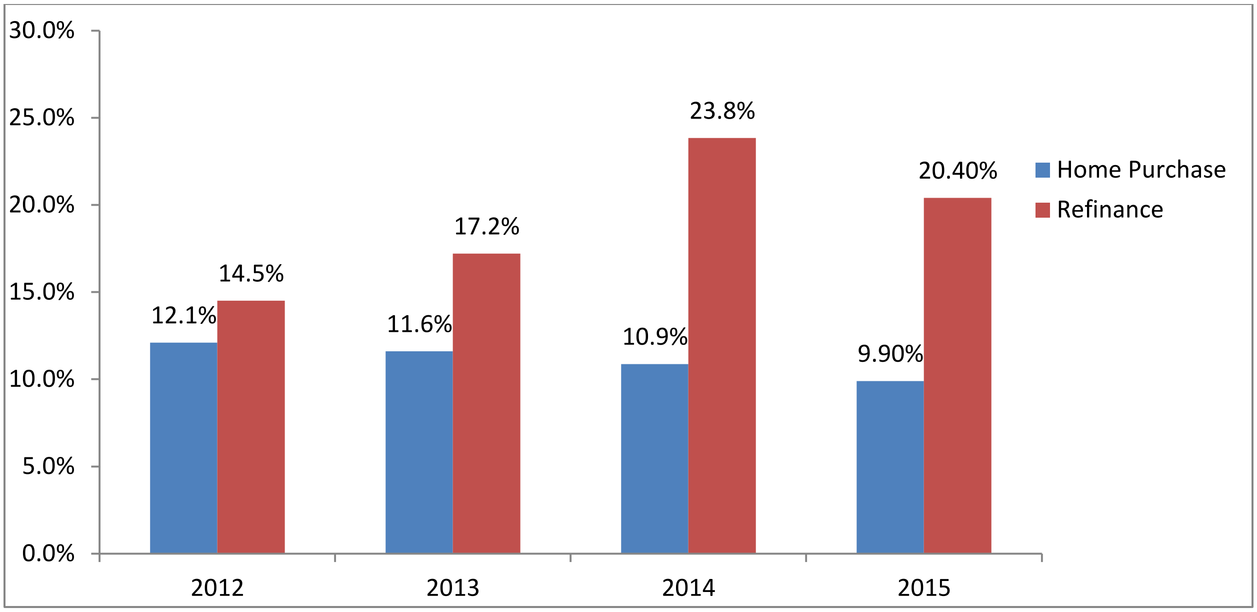
General Mortgage Market Trends within New England

In 2014, enactment of ability-to-repay and qualified-mortgage rules to protect consumers from predatory lending practices changed the mortgage and housing market, as did reductions in the annual mortgage insurance premiums (MIP) charged to nonconventional loan borrowers.[7] These changes are reflected in many of the 2015 mortgage lending patterns.

In 2014, loan applications and originations in New England declined by about 40 percent from the previous year. However, since 2014, loan applications and originations have increased 27 percent and 29.1 percent respectively. This recovery has been driven mainly by a large increase in refinance loan applications and originations. Refinance applications have increased 44.5 percent and originations have increased 53.3 percent since 2014. At the state level, Massachusetts and Rhode Island saw the largest increases in refinance originations in the region, and New Hampshire and Rhode Island saw the greatest jump in home loan originations. Since 2012, denial rates for home purchase loans have been trending downward. Denial rates for refinances grew until 2015, when they started to tick downward. On a year-over-year basis, in 2015, home purchase loan denial rates declined by 9 percent and refinance denial rates declined 14.4 percent.

[7] For more information, please see Federal Reserve Bank of Boston, 2014 mortgage lending trends with New England, Community Development 2016 Issue Brief No. 2, https://www.bostonfed.org/publications/community-development-issue-briefs/2016/2014-mortgage-lending-trends-in-new-england.aspx.

Figure 1. Denial Rates by Loan Purpose in New England



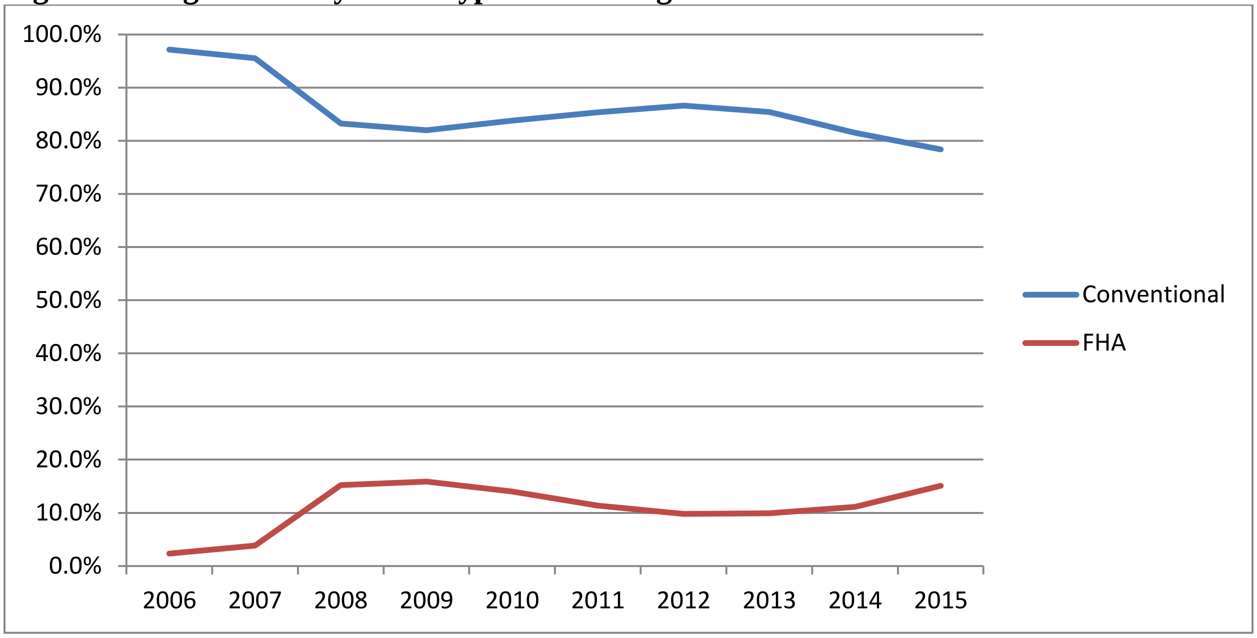
Source: 2012–2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Looking at originations by loan type, between 2014 and 2015 the percentage of conventional loans declined 3.1 percentage points, while the percentage of FHA loan originations rose.[8] It is likely that the rise in FHA loans is due to the reduction in MIP.[9]

[8] Conventional loans are mortgage loans that are not guaranteed or insured by the government. FHA loans are one type of nonconventional (i.e., government-guaranteed or government-insured) loan. Nonconventional loans are issue through three agencies: the FHA, the U.S. Department of Veterans Affairs (VA), and the U.S. Department of Agriculture (USDA). Farm Service Agency/Rural Housing Service (FSA/RHS) loans are part of the USDA program and geared toward rural property buyers.

[9] Bhutta & Ringo (2016).

Figure 2. Originations by Loan Type in New England



Source: 2005–2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Since 2014, FHA home purchase and refinance originations in New England have increased. Rhode Island's 2015 FHA originations rates of 33.5 percent for home purchase loans and 14.7 percent for refinancing loans represent the largest increase in New England, up 8.3 and 9.2 percentage points respectively from 2014. The percentage of high annual percentage rate (APR) loan originations has decreased.[10] This decline is likely due to the reduction in MIP for FHA borrowers.[11] The U.S. Department of Housing and Urban Development (HUD) estimates that nationally, the reduction in MIP will save more than two million FHA homeowners $900 annually and allow for an additional 250,000 new homebuyers to purchase their first home within the next three years.[12]

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[10] First-lien mortgages with an APR that is at least three percentage points above the average prime rate steadily increased over the two years studied. The majority of high-APR FHA loans are only slightly above the average prime rate.

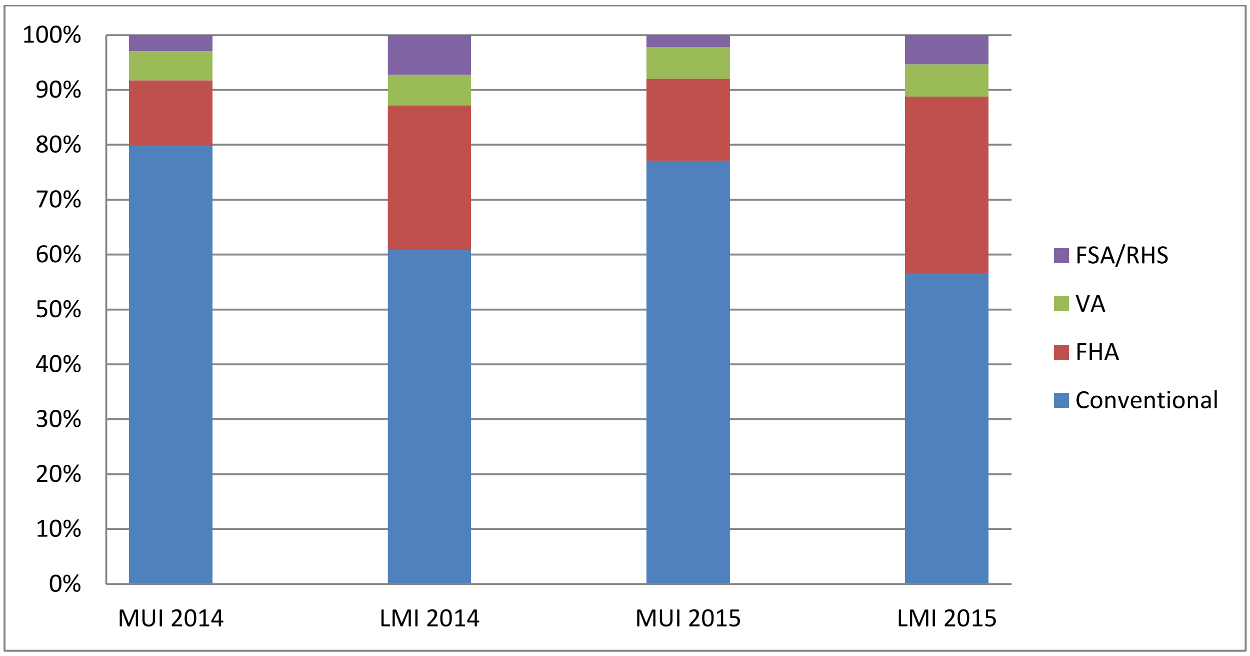
[11] For more details, see Bhutta, N., Popper, J., & Ringo, D.R. (2014). The 2014 Home Mortgage Disclosure Act data. *Federal Reserve Bulletin* 101(4). Retrieved from http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf.

[12] See the HUD's frequently asked questions page, https://portal.hud.gov/hudportal/documents/huddoc?id=FHAPremiumsFAQ.pdf.

In 2015, home purchases and refinances were up for both middle- and upper-income (MUI) and lower- and middle-income (LMI) New Englanders.[13] Home purchase originations were up 7.7 percent and 15.7 percent for MUI and LMI individuals, respectively.[14]

Loan origination types also varied notably by income. During this time period, MUI borrowers took out a larger share of conventional loans than their LMI counterparts, who were more than twice as likely to take out an FHA home loan than MUI individuals.

Figure 3. Home Purchase Loan Originations by Loan Type for LMI and MUI Individuals



Source: 2014–2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

FHA loans are a reasonable option for lower-income, asset-constrained individuals who do not qualify for a conventional loan, but FHA loans are more costly in the long run because borrowers are required to carry mortgage insurance. In 2015, conventional loans accounted for just over half the home loan originations for LMI borrowers, while FHA loans comprised nearly a third of the total. These numbers are up 3.1 and 5.8 percentage points, respectively, from 2014.[15] In

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[13] LMI borrowers are individuals with household incomes, as reported in the loan application, below 80 percent of the metropolitan statistical area's median income

[14] In 2014, home purchase originations for MUI individuals were up 1.6 percent from 2013, whereas for LMI individuals, home purchase originations were down 6.8 percent.

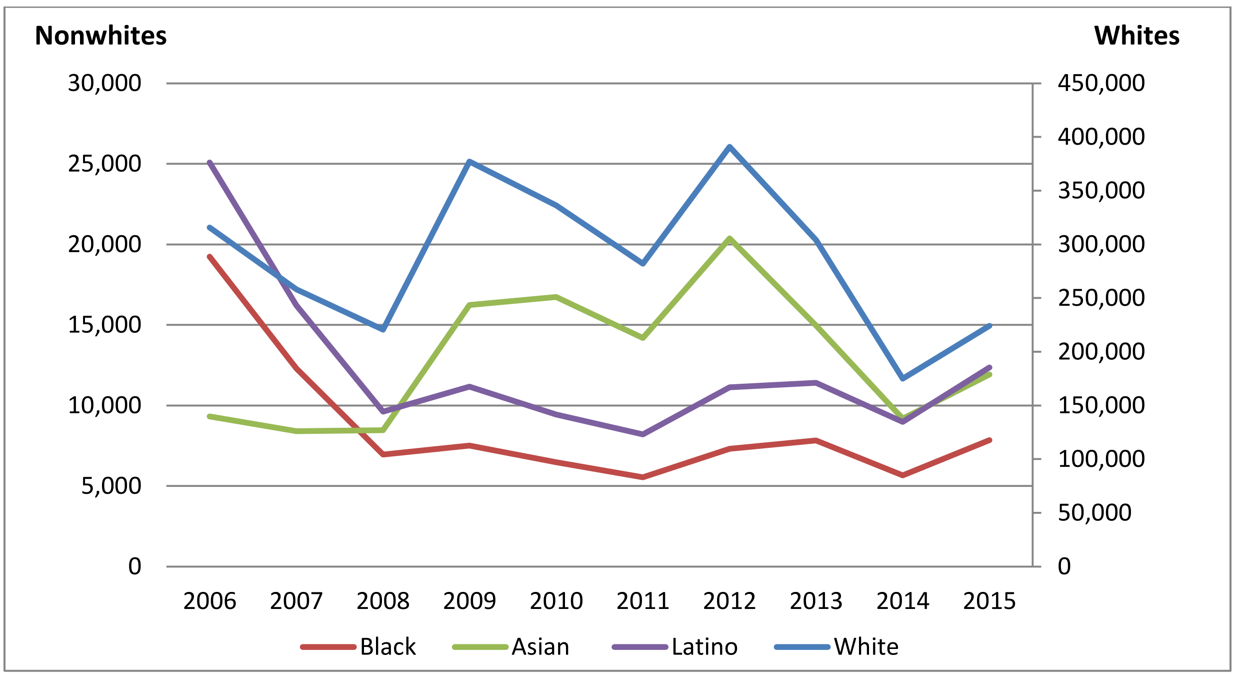
[15] In 2014, the share of conventional loans originated for LMI borrowers was greater than it was in 2016, but the actual number of conventional loans that were originated – and therefore the origination rate – was actually lower in 2014

2016, Federal Reserve researchers Neil Bhutta and Daniel Ringo found that a reduction in MIP increased home purchase originations on the part of borrowers with low credit scores and high loan-to-value ratios.[16]

Mortgage Market Trends within New England by Race and Ethnicity

To determine how well lenders are meeting the demands of all borrowers, it is important to understand how mortgage credit access varies across racial and ethnic groups. Historically, the number of loan originations for blacks, Latinos, and Asians has varied throughout the years.

Figure 4. All Loan Originations by Race/Ethnicity



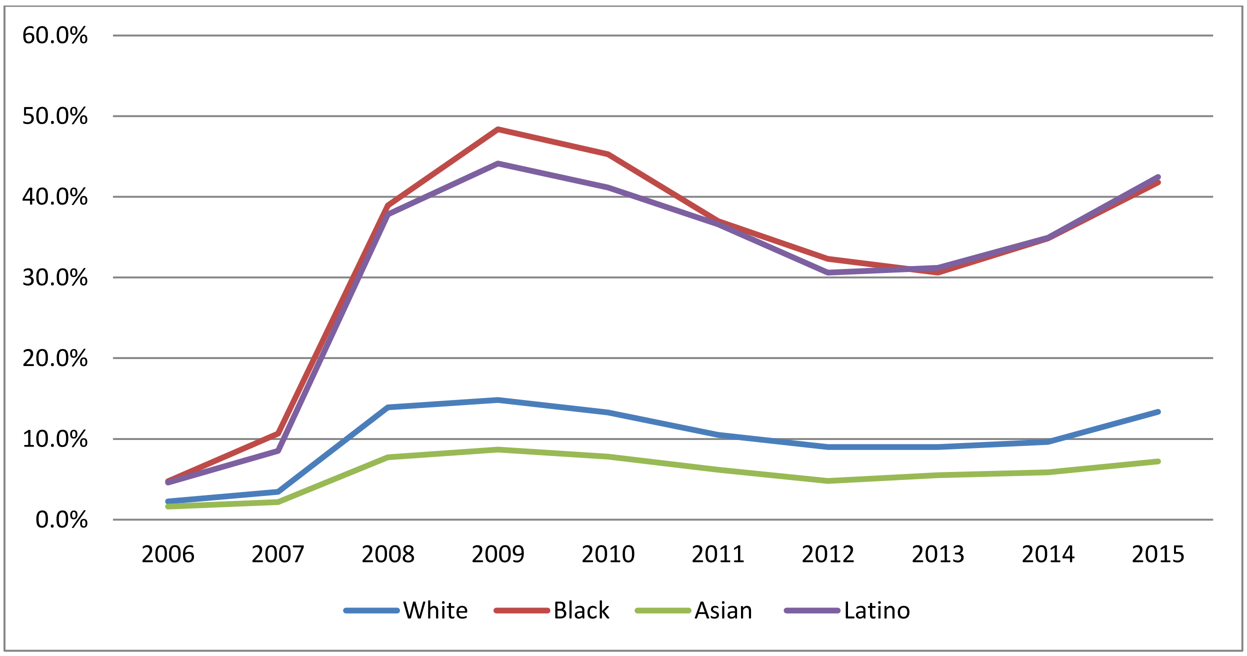
Source: 2006–2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Since 2014, mortgage loan originations have increased for all races and ethnicities. Home purchase originations rose 8.2 percent for Asians, 9.5 percent for whites, 25.9 percent for Latinos, and 26.4 percent for blacks. This increase may be due in part to increases in FHA loan originations, which started in 2012, and in part to a rebound effect due to the disproportionally large drop in originations experienced by nonwhites during the financial crisis.

[16] Bhutta & Ringo (2016). Loan-to-value (LTV) ratios are used by financial institutions to assess risk. Borrowers with high LTV ratios are considered to be a high risk for financial institutions. The LTV ratio is calculated by dividing the mortgage by the appraised value of the property for sale.

At the state level, the total number of nonwhite loan applications in Maine, New Hampshire, and Vermont is small; therefore, changes over time can only be observed for Connecticut, Massachusetts, and Rhode Island. Of those three states, the largest year-over-year changes in home loan originations for nonwhites occurred in Rhode Island. Between 2014 and 2015, home loan originations for blacks in Rhode Island rose 29.6 percent, there was a 16 percent increase for Asians, and Latinos experienced a 27.9 percent increase. For comparison, between 2013 and 2014, blacks and Asians in Rhode Island experienced a 10.1 percent and 6.2 percent decrease in home purchase originations, while for Latinos, home purchase originations rose 7.4 percent.

Figure 5. FHA Home Purchase Loan Originations as a Percentage of Total Originations, by Race/Ethnicity

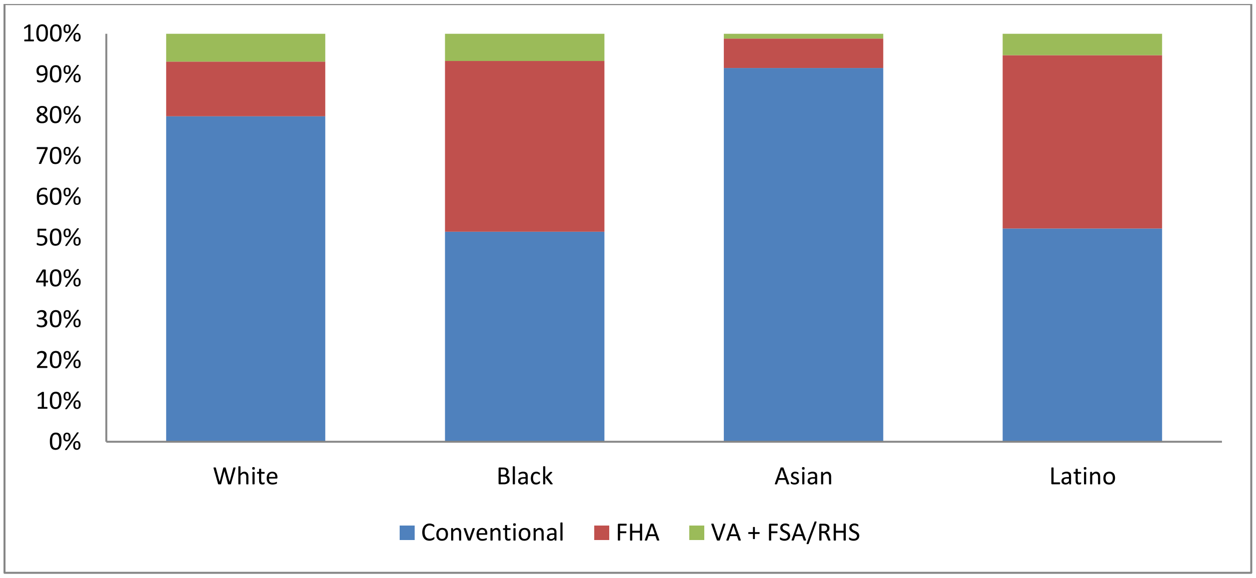


Source: 2006–2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

In general, minorities have a higher share of nonconventional loan originations than whites. According to the most recent data, 48.5 percent of all loan originations for blacks and 33.8 percent of all loan originations for Latinos are nonconventional, and the share of nonconventional home purchase originations for both blacks and Latinos is almost 60 percent. Across all loan types, blacks are 2.4 times more likely and Latinos 1.7 times more likely to have a nonconventional loan than whites. FHA loans account for 41.8 percent and 30.1 percent of loan originations among blacks and Latinos, respectively. Blacks are 3.1 times more likely to have an FHA home loan than whites, and Latinos are 2.3 times more likely to have an FHA home loan than whites.

At the state level, Rhode Island has the highest shares of nonconventional loan originations in New England for nonwhite borrowers, with FHA loans comprising 55.3 percent of home purchase originations for blacks and 62.7 percent of home purchase originations for Latinos. This means that in Rhode Island, black borrowers are 3.5 times and Latino borrowers 6.1 times more likely to have an FHA home purchase origination than whites.

Figure 6. All Loan Origination Rates by Race/Ethnicity

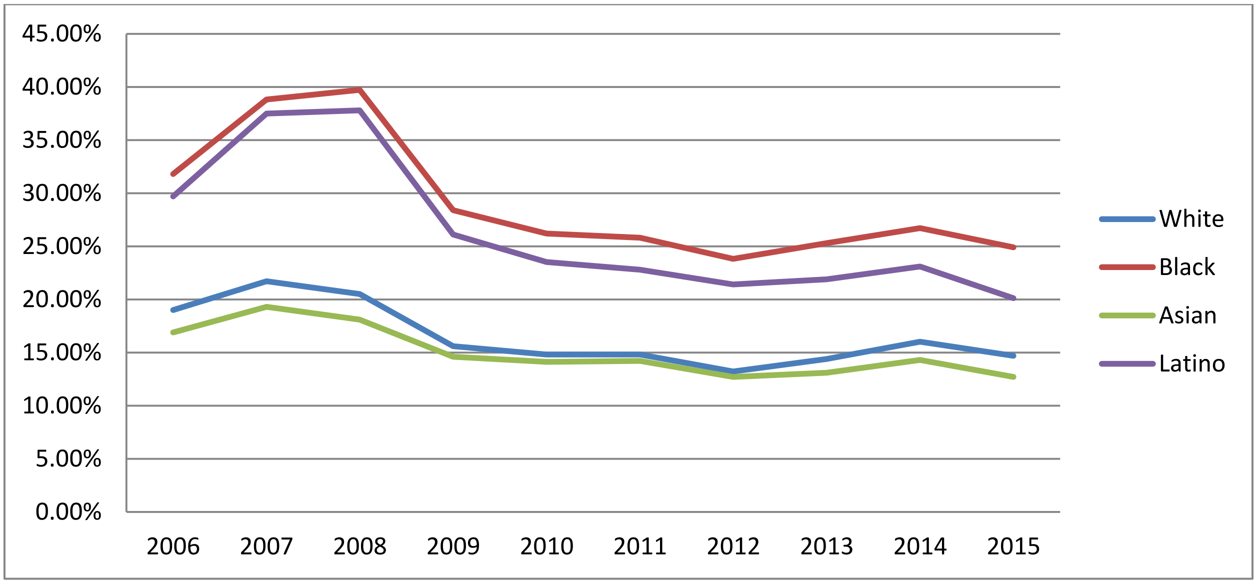


Source: 2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

For both blacks and Asians within New England, FHA loan originations increased 66.2 percent from 2014 to 2015, while conventional loans rose 22.5 percent. For Latinos, FHA loan originations rose 67.5 percent and conventional loans increased 23.5 percent. At the state level, Asians and Latinos in Massachusetts experienced the largest percentage increase in FHA loans. Between 2014 and 2015, FHA loan originations in that state rose 67.5 percent for Asians and 77.1 percent for Latinos. Blacks in Rhode Island saw the largest gains—86 percent—in FHA loans during that period: 55.3 percent of all loans originated to blacks in Rhode Island were FHA loans, and only 38.5 percent were conventional.

Denial rates also divide on racial and ethnic lines. Though denial rates across New England have ticked downward for all races and ethnicities, historically denial rates for blacks and Latinos have been high, reaching a peak of 39.7 percent and 37.8 percent, respectively, in 2008.

Figure 7. Denial Rates by Race/Ethnicity for all Loans in New England

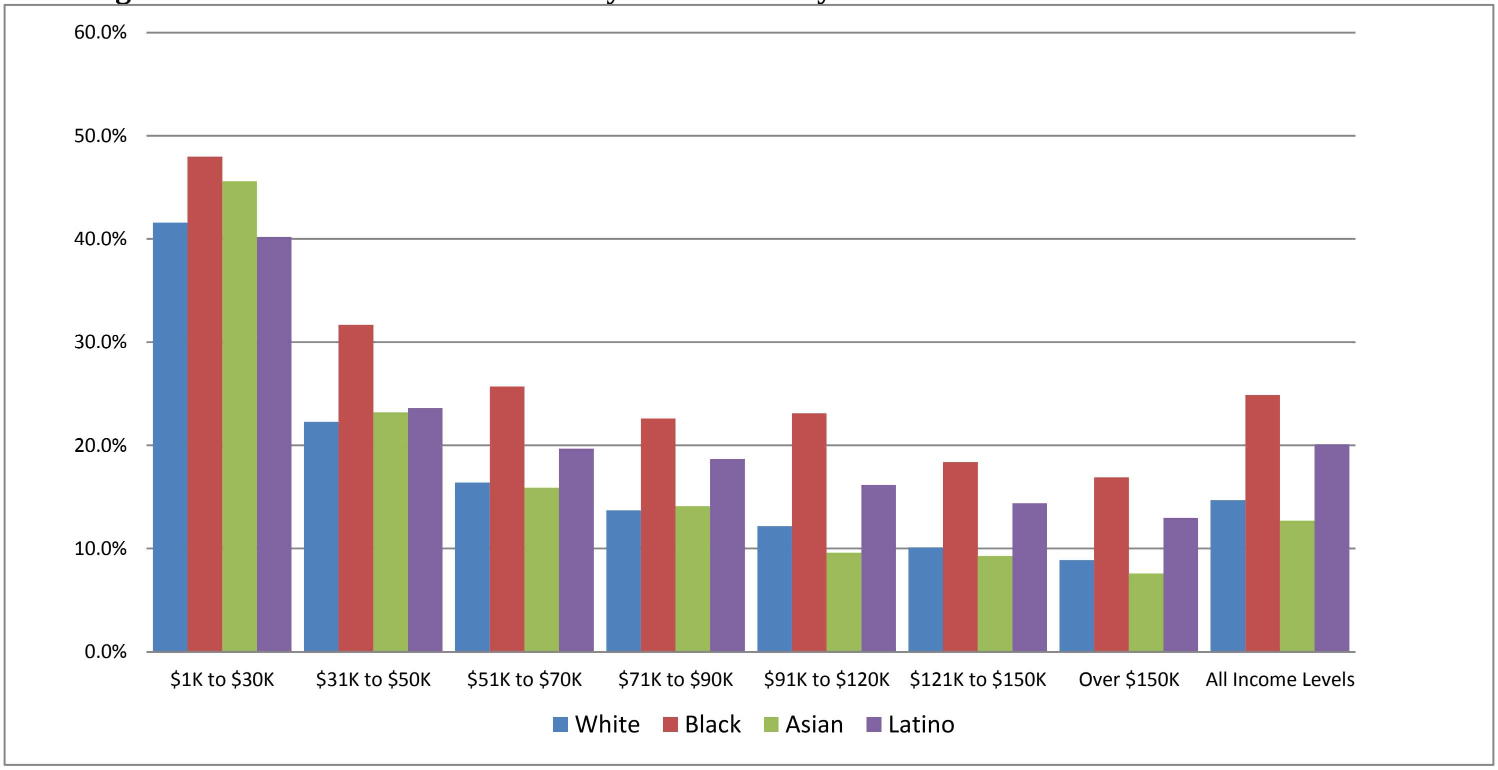


Source: 2006–2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Currently, within New England denial rates for blacks and Latinos are about twice as high as those for whites. Denial rates have remained relatively low and constant for Asian borrowers and, since 2012, denial rates for Asians have dipped lower than those for whites. Home purchase loan denial rates decreased 0.8 percentage points for both Asians and whites, and 2.2 and 2.6 percentage points for blacks and Latinos, respectively. Though denial rates for all groups of New England borrowers have decreased, blacks and Latinos are still more likely than whites to be denied a loan: 1.7 and 1.4 times more likely, respectively. The disparity is present even with FHA loans: in New England, blacks are 1.2 times more likely and Latinos twice as likely as whites to be denied an FHA loan.

The HMDA data does not provide information regarding an applicant's debt-to-income ratio, credit score, or loan-to-value ratio, but it does provide annual income data, making possible basic inferences regarding an applicant's financial well-being.

Figure 8. Denial Rates for All Loans by Race/Ethnicity and Income



Source: 2015 HMDA. Data compiled by the Federal Reserve Bank of Boston.

This data reveals that blacks earning over $150,000 a year get turned down for loans almost as frequently as whites earning only $51,000–$70,000 and about as frequently as Latinos earning $91,000–$120,000 annually. Also striking, the data shows that blacks earning $91,000 or more annually are about 1.9 times more likely than whites in the same income bracket to be denied a loan. Latinos with annual earnings over $150,000 are 1.5 times more likely to be denied a loan than whites earning equal amounts.

Conclusion

This analysis shows that between 2014 and 2015, New England experienced moderate increases in the number of loan applications and originations, driven mainly by large increases in refinance loan activity. Some changes occurred by loan type, with conventional loan originations slightly decreasing and FHA loan originations increasing.

The increase in FHA loan originations is likely due to the recent reduction in MIP. FHA loans provide a reasonable way for lower-income and asset-constrained individuals to gain access to credit; however, in the long run these loans are more costly than conventional loans. LMI individuals and nonwhite borrowers have higher FHA origination rates than MUI individuals and whites, with LMI individuals being nearly twice as likely as MUI individuals to have an FHA home loan. Similarly, blacks are over three times more likely and Latinos more than two times more likely than whites to have an FHA home loan.

Racial and ethnic disparities persist in uneven denial rates. Though denial rates within New England have generally decreased, blacks and Latinos are still more likely to be denied a loan than are whites. According to the HMDA's income data, blacks earning $91,000 or more a year are nearly twice as likely to be denied a loan than whites in the same income bracket. Latinos earning over $150,000 a year are 1.5 times more likely to be denied a loan than whites in the same income bracket.

Though the HMDA data cannot provide any answers as to why New England has experienced these mortgage trends, it does provide an interesting descriptive summary of lending patterns within the region. The HMDA data suggests that the upward trend in FHA lending may persist, along with continued lending disparities for nonwhites and LMI individuals. Starting in early 2018, data on the applicant or borrower's age, credit score, and loan term, among other data points, will also be available.[17] This additional information may help researchers to better understand mortgage trends and lending disparities.

[17] See Consumer Financial Protection Bureau, New rule summary: Home mortgage disclosure (Regulation C), October 15, 2015, http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf