

Issue Brief | 2018-4 | October 26, 2018

2016 Mortgage Lending Trends in New England

Amy Higgins



Contents

Abstract	3
Key Data Items.....	3
Introduction	4
General Mortgage Market Trends within New England	4
Mortgage Market Trends within New England by Race and Ethnicity	7
Conclusion	11
About the Author	12
Acknowledgements	12
Endnotes	13

The views expressed in this paper are those of the author and do not necessarily represent those of the Federal Reserve Bank of Boston or the Federal Reserve System.

Abstract

The housing and home mortgage markets have major impacts on the health of both the U.S. economy and household consumer finances. To understand these impacts within our region, we analyze annual mortgage data on borrowing requests and lending trends. We examine the 2016 Home Mortgage Disclosure Act (HMDA) data overall, as well as by income, race/ethnicity, and loan type as this may provide insight into regional impacts and how they vary. This issue brief provides a descriptive analysis of general mortgage market dynamics within New England.

Key Data Items

- Since 2015, loan applications and originations in New England have increased more than 15 percent. This was mostly driven by middle- and upper-income individuals (MUI; greater than 65 percent) versus low- and moderate-income individuals (LMI; less than 30 percent).
- Denial rates for home purchase loans have been trending downward since 2012, with a 2 percent decrease among MUI and a 1 percent decrease among LMI.
- The increase in applications and originations was largely driven by refinancing, yet denial rates for refinancing increased by 16 percent.
- On a year-over-year basis, home purchase originations increased by at least 10 percent for whites, 23 percent for blacks, and 28 percent for Latinos.
- Nearly a third of home loan originations for LMI borrowers were Federal Housing Administration (FHA) loans,¹ while conventional loans accounted for just over half of the home loan originations for these borrowers.
- Blacks and Latinos are about 2.7 times more likely to apply for an FHA loan than are whites; however, denial rates are relatively consistent across income brackets, regardless of race or ethnicity.
- Whites are 1.4 times more likely to apply for a conventional loan than are blacks and Latinos, with denial rates that are at most two thirds of those of blacks and Latinos for this loan type.

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.² During this same time period, household mortgage debt in New England totaled over \$478 billion. Since 2012 and 2014, respectively, median home prices within the United States and New England have steadily increased. As of December 2016, median home prices in New England were about 1.5 times higher than they were in the United States overall, and median home prices in Massachusetts were at least 1.4 times higher than prices in the rest of New England.³ After a continuous downward trend from 2008 to 2013, the 30-year fixed mortgage interest rate has since been increasing, but interest rates remain low and have not yet reached pre-crisis levels, which averaged between 5 and 6 percent.⁴ The 30-year fixed mortgage rate as of December 2016 was 4.19 percent, indicating that in real dollars, borrowers will pay \$488.43 each month for every \$100,000 borrowed. This amount is down \$141.01 per month relative to the peak during the financial crisis, when the rate reached 6.46 percent.⁵ While credit conditions have eased since the financial crisis, according to a survey by the Federal Reserve Board of Governors, for 2016 this trend was mostly driven by underwriting loans eligible for government-sponsored enterprise purchases.

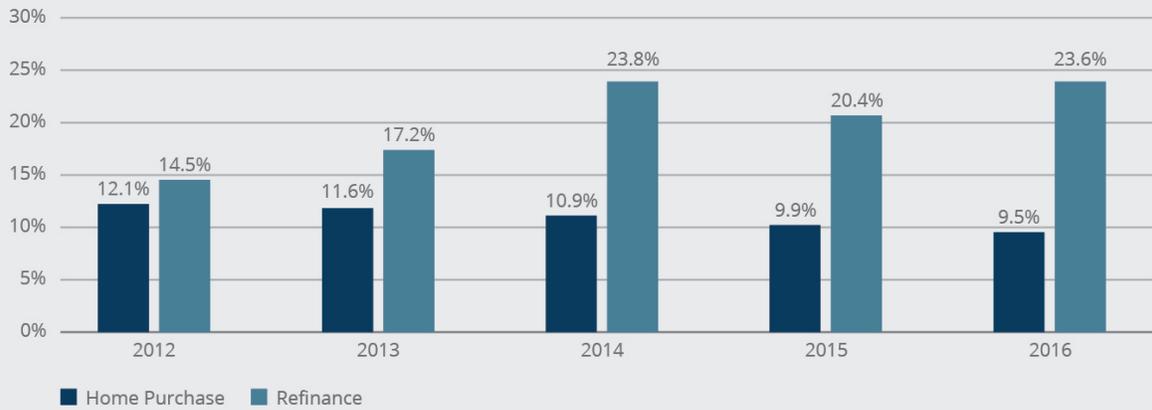
Examining household mortgage trends helps us to better understand the financial stability of households, and mortgage-lending patterns can also provide valuable insights to policymakers regarding equitable lending practices for traditionally underserved populations. Using home mortgage lending data made available through the Home Mortgage Disclosure Act (HMDA) of 1975,⁶ this analysis highlights mortgage market trends in New England through 2016.⁷ 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 income, race and ethnicity, and loan type.

General Mortgage Market Trends within New England

The enactment of ability-to-repay and qualified-mortgage rules to protect consumers from predatory lending practices, and the reduction in the annual mortgage insurance premiums (MIP) charged to nonconventional loan borrowers⁸ have greatly impacted the mortgage and housing market.⁹ Many of these changes were reflected in the 2015 market.¹⁰ In 2016, loan applications and originations in New England increased by more than 15 percent from the previous year. This upward trend, which initially started in 2014, has been largely driven by increases in refinance loan applications and originations. While current gains are not as robust as previous increases,¹¹ refinance applications and originations increased 23 percent and 17 percent, respectively, between 2015 and 2016. At the state level, Massachusetts and New Hampshire saw the largest increases in

refinance originations in the region, and Maine and Rhode Island saw the greatest jump in home loan originations. Since 2012, denial rates for home purchase loans have been trending downward while denial rates for refinances have continued to trend upward. (See Fig. 1.) On a year-over-year basis, in 2016, home purchase loan denial rates have declined by 4 percent and refinance denial rates have increased 15.6 percent.

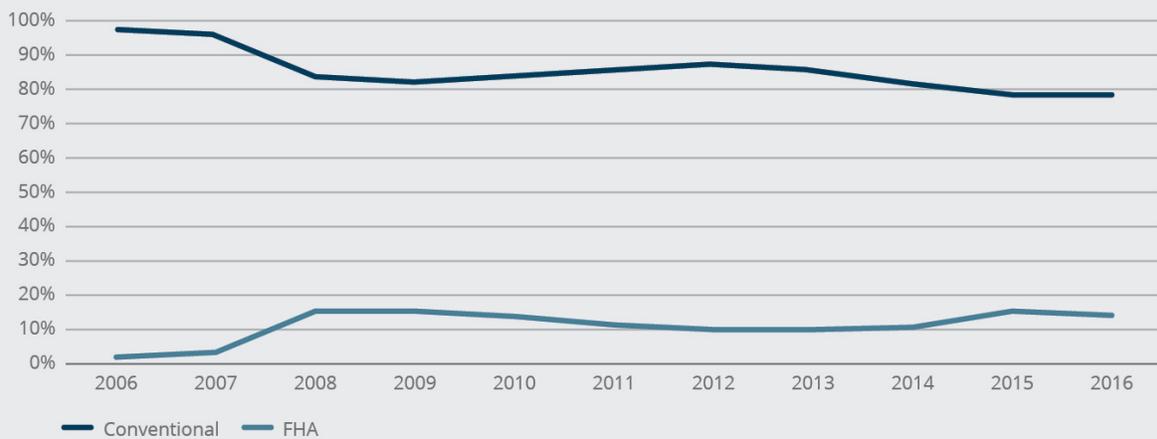
Figure 1 | Denial Rates by Loan Purpose in New England



Source: 2012 - 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Looking at originations by loan type (Fig. 2), between 2015 and 2016, the percentage of conventional loans minimally increased, while the percentage of FHA loan originations slightly decreased.¹²

Figure 2 | Originations by Loan Type in New England

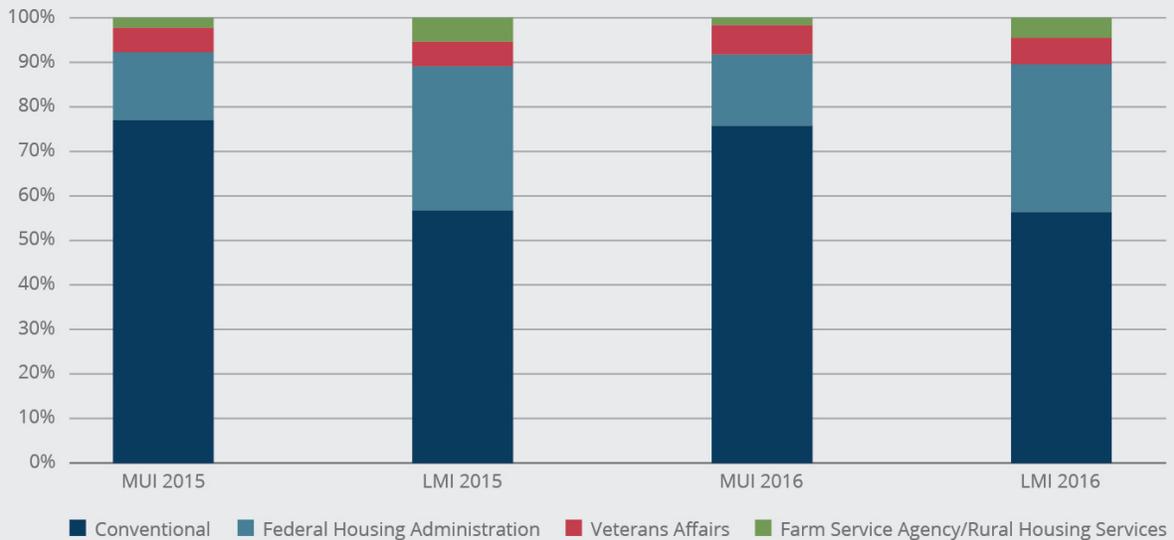


Source: 2005 - 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.

The increase in FHA originations in 2016 is largely driven by Rhode Island, which had the highest FHA origination rates: 34.4 percent for home purchase loans and 13.6 percent for refinancing loans. The percentage of high annual percentage rate (APR)¹³ loan originations has remained relatively stable, increasing only 0.10 percentage points.¹⁴ In past years, FHA origination rates had experienced large gains, while the percentage of high-APR loan originations declined. This trend was likely due to the reduction in the annual MIP by 0.50 percentage points for FHA borrowers.¹⁵ It is likely that the effects of lowering the MIP requirement have begun to diminish in New England.

When analyzing mortgage trends by borrowers' income level, home purchases and refinances increased from 2015 to 2016 for both middle- and upper-income (MUI) and lower- and middle-income (LMI) New Englanders.¹⁶ Home purchase originations were up 17.3 percent and 6.2 percent for MUI and LMI individuals, respectively,¹⁷ and refinance originations increased 22.7 percent and 1.3 percent, respectively. Loan origination types also varied notably by income. (See Fig. 3.) During this time period, MUI borrowers were approved for a larger share of conventional loans than their LMI counterparts, and FHA origination rates for LMI borrowers were twice as high as MUI borrowers.

Figure 3 | Home Purchase Loan Originations by Loan Type for LMI and MUI Individuals in New England



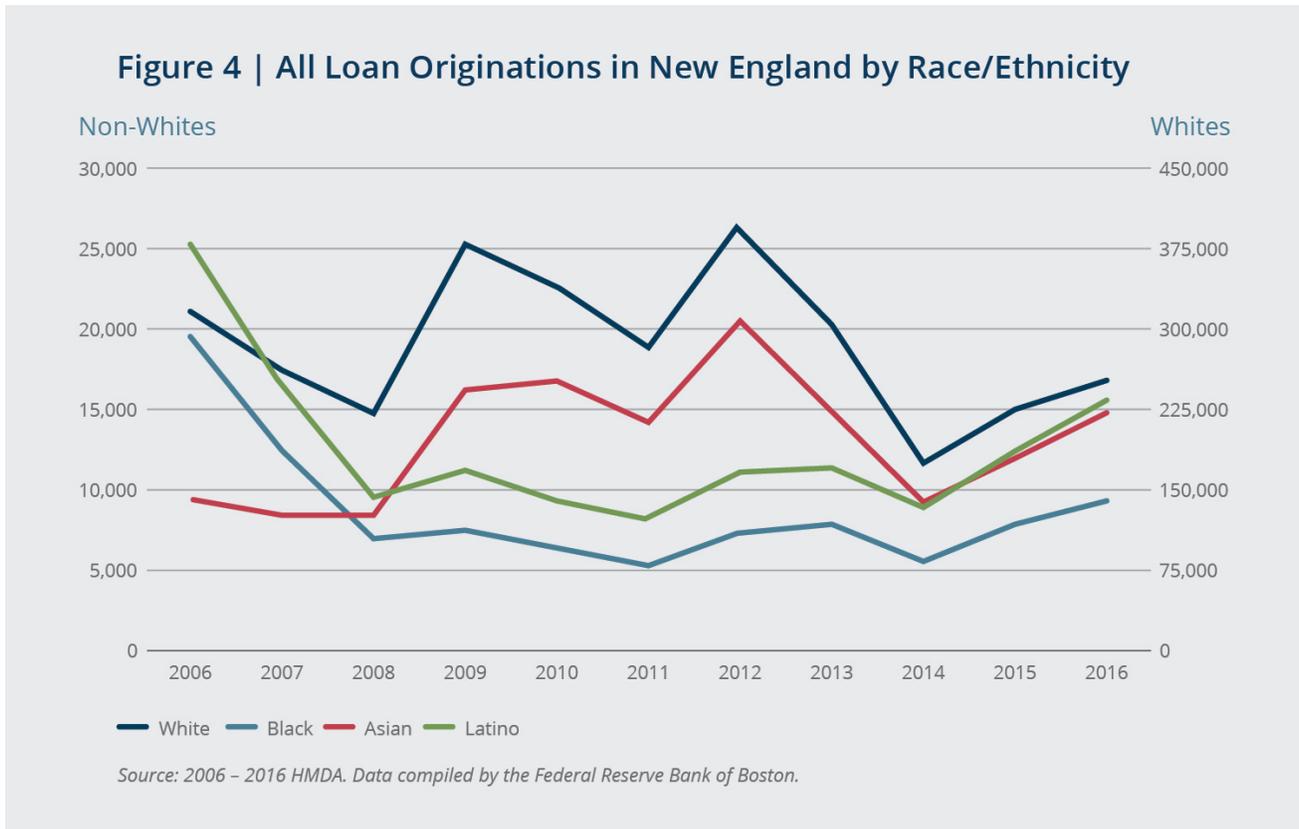
Source: 2015 - 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Breaking this analysis down further by race, FHA loan origination rates for black and Latino MUI individuals were 3 and 2.8 times greater, respectively, than the rate for white MUI individuals, and origination rates for black and Latino LMI individuals were 2 and 2.4 times greater, respectively, than the rate for white LMI individuals.

According to Bhutta et al.,¹⁸ for individuals with lower credit scores or hard-to-document income, access to mortgage credit remains difficult to obtain. However, FHA loans can potentially mitigate this issue. 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 2016, 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 largely unchanged from 2015¹⁹ signaling that the initial effects from the reduction in MIP may be tapering.²⁰

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. (See Fig. 4.)

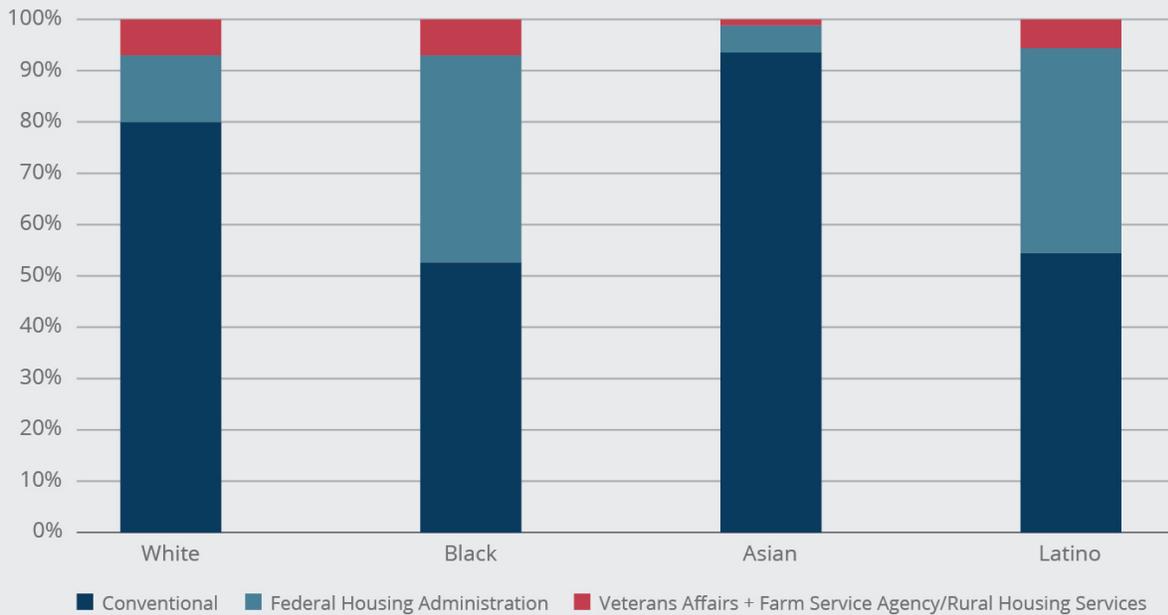


Since 2014, mortgage loan originations have increased for all races and ethnicities. On a year-over-year basis, between 2015 and 2016 home purchase originations rose 14 percent for Asians, 10.7 percent for whites, 28 percent for Latinos, and 22.9 percent for blacks. This increase may be due in part to increases in FHA loan

originations, which started in 2012, and in part to a rebound effect due to the disproportionately large drop in originations experienced by nonwhites during the financial crisis.

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 Massachusetts. Between 2015 and 2016, home loan originations in Massachusetts increased 25.1 percent for blacks, 14.9 percent for Asians, and 29.8 percent for Latinos.²¹ For comparison, between 2014 and 2015, home loan originations in Massachusetts increased 25.9 percent for blacks, 9.3 percent for Asians, and 27.2 percent for Latinos.

Figure 5 | All Loan Origination Rates in New England by Race/Ethnicity



Source: 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.
 Note: VA indicates Veterans Affairs; FSA/RHS, Farm Service Agency/Rural Housing Service.

Overall, loan originations of minorities represent a higher share of nonconventional loan originations than whites. According to the most recent data, 47.8 percent of all loan originations for blacks and 45.5 percent of all loan originations for Latinos are nonconventional (See Fig 5.), and the share of nonconventional home purchase originations for both blacks and Latinos is almost 60 percent.²² Across all loan types, blacks are 2.4 times more likely and Latinos 2.3 times more likely to have a nonconventional loan than whites. FHA loans account for about 40 percent of loan originations among blacks and Latinos (See Fig 6.). Blacks are 3.3 times more likely and Latinos are 3.2 times more likely to have an FHA home loan than whites.

Figure 6 | FHA Home Purchase Loan Originations in New England as a Percentage of Total Originations, by Race/Ethnicity



Source: 2006 – 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.

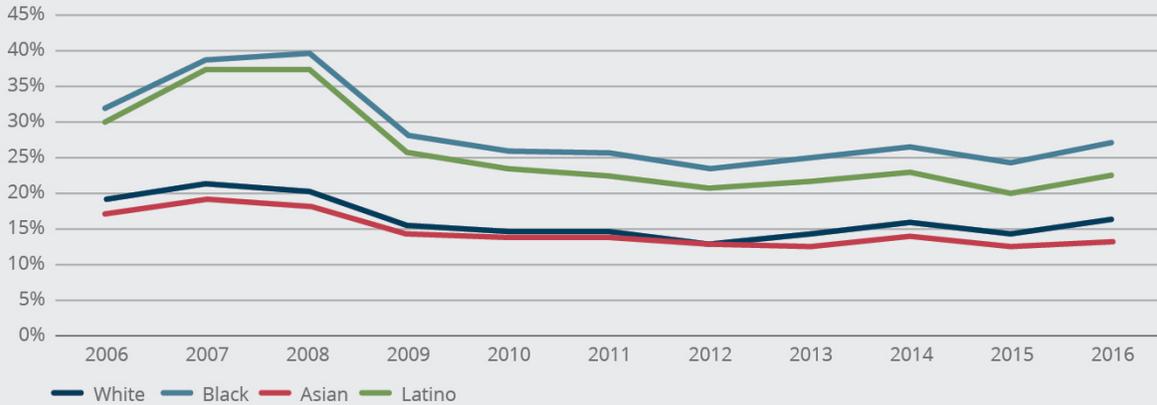
At the state level, Rhode Island has the highest shares of nonconventional loan originations in New England for nonwhite borrowers. FHA loans comprise 55 percent of home purchase originations for blacks and 62.7 percent for Latinos (a 2.1 percentage point drop from 2015). This means that in Rhode Island, black borrowers are 3.5 times more likely and Latino borrowers are 4 times more likely to have an FHA home purchase origination than whites.

Since 2014, the number of FHA loan originations has increased for all races and ethnicities except for Asians. This is likely due to the reduction in MIP. From 2015 to 2016, FHA loan originations in New England increased 15.5 percent for blacks and 30.1 percent for Latinos, while conventional loans rose 21.3 percent for blacks and 16.8 percent for Latinos. For Asians, FHA loan originations decreased 4.4 percent, but conventional loan originations increased 25 percent. These increases are quite modest when compared with year-over-year growth rates between 2014 and 2015, when the number of FHA loan originations increased more than 65 percent for nonwhites, indicating that the effects of the reduction in MIP are beginning to taper. At the state level, between 2015 and 2016, blacks in Connecticut saw the largest gains in FHA loans—16.1 percent—while Asians in Rhode Island and Latinos in Massachusetts experienced the largest increases in FHA loans—29.9 percent and 18.4 percent, respectively. During this same time period, the largest gains in conventional loan originations for all races and ethnicities occurred in Massachusetts, where conventional loan originations rose 24 percent for blacks, 27 percent for Asians, and 33.6 percent for Latinos.

Denial rates also divide on racial and ethnic lines. (See Fig. 7.) Historically, denial rates for blacks and Latinos have been high, reaching a peak of 39.7 percent and 37.8 percent, respectively, in 2008. Currently, denial rates for blacks and Latinos within

New England are about twice as high as the rate for whites. The denial rate for Asian borrowers has remained relatively low and constant, and, since 2012, that rate has been lower than the rate for whites.

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



Source: 2006 – 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.

Home purchase loan denial rates have decreased minimally, dropping between 0.30 percentage points and 1 percentage point for all races and ethnicities.²³ 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: 1.9 and 1.6 times more likely, respectively. 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 (Fig. 8), making possible basic inferences regarding an applicant’s financial well-being.²⁴

Figure 8 | Denial Rates for All Loans in New England by Race/Ethnicity and Income



Source: 2016 HMDA. Data compiled by the Federal Reserve Bank of Boston.

According to the data, blacks and Latinos earning \$91,000 or more annually are about 1.9 times more likely to be denied a loan than whites in the same income bracket. Latinos with annual earnings over \$150,000 are 1.5 times more likely to be denied a loan than whites earning equal amounts. Breaking this down further by loan type, blacks and Latinos earning more than \$90,000 a year are, respectively, about 2.1 and 1.5 times more likely to be denied a conventional loan than are whites within the same income bracket. Denial rates for FHA loans are relatively consistent by race and income. These findings suggest that denial rate inequities by race and income are largely driven by conventional loan denials, which could be indicative of different wealth and credit access among black and Latino borrowers compared with whites.

Conclusion

This analysis shows that between 2015 and 2016, 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 minimally increasing and FHA loan originations decreasing. 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.²⁵ LMI individuals and nonwhite borrowers have higher FHA application 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 and Latinos are 2.7 times more likely than whites to apply for 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 explain why New England has experienced these mortgage trends, it does provide an interesting descriptive summary of lending patterns within the region. It is possible that the decreases in FHA lending are due to a tapering effect of MIP, meaning that the benefits of the lower insurance have been largely realized. It is also possible that the general demand for FHA loans has decreased. 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. This additional information may help researchers to better understand mortgage trends and lending disparities and, in particular, the role that differential access to assets and credit play in mortgage activity by income, race, and ethnicity.

About the Author



Amy Higgins

Amy Higgins is a Research Associate at the Federal Reserve Bank of Boston. Questions on this brief may be directed to:

Amy.Higgins@bos.frb.org

Acknowledgements

The author would like to thank Prabal Chakrabarti and Sarah Savage of the Federal Reserve Bank of Boston for their insights and comments.

Endnotes

¹ These loans are insured by the FHA. FHA loans provide practical lending solutions to first-time homebuyers or those with limited wealth and credit history. Borrowers can qualify for an FHA loan with a down payment of 3.5 percent and a credit score of 580 or greater. Borrowers with a credit score between 500 and 579 can qualify for an FHA loan with a 10 percent down payment. (Note: credit scores range between 300 and 850.) <https://www.zillow.com/mortgage-learning/fha-loan/>.

² Bhutta, N. & Ringo, D.R. (2016, November). *Residential mortgage lending from 2004 to 2015: Evidence from the Home Mortgage Disclosure Act data*. Retrieved from https://www.federalreserve.gov/pubs/bulletin/2016/pdf/2015_HMDA.pdf.

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 See Mortgage Annual Percentage Rate Calculator (<https://www.bankrate.com/calculators/mortgages/mortgage-apr-calculator.aspx>).

⁶ Data is available from the Federal Financial Institutions Examination Council (<http://www.ffiec.gov/hmda/>). Detailed data for New England can be found at the Federal Reserve Bank of Boston's HMDA data web page (<http://www.bostonfed.org/commdev/data-resources/hmda/index.htm>).

⁷ The latest year for which data is available is 2016. The data analysis included only first-lien loans for owner-occupied homes and excluded junior-lien loans, all loans for multifamily properties, and all loans for non-owner-occupied homes.

⁸ For more information, please see Federal Reserve Bank of Boston. (2016). *2014 mortgage lending trends within New England*. Retrieved from <https://www.bostonfed.org/publications/community-development-issue-briefs/2016/2014-mortgage-lending-trends-in-new-england.aspx>.

⁹ Ability-to-repay and qualified-mortgage rules tighten borrowers' access to credit. These regulations require creditors to determine an applicant's reasonable ability to repay a loan according to its terms before loan originations are finalized. On the other hand, reductions in MIP has lowered the cost of FHA loans, which in recent years has resulted in increases in FHA loan application and origination rates.

¹⁰ For more information, please see Federal Reserve Bank of Boston. (2017). *2015 mortgage lending trends in New England*. Retrieved from <https://www.bostonfed.org/publications/community-development-issue-briefs/2017/2015-mortgage-lending-trends-in-new-england.aspx>.

¹¹ Between 2014 and 2015, refinance applications and originations increased 44.5 percent and 53.3 percent, respectively. For more detailed information, please see Federal Reserve Bank of Boston. (2017). *2015 mortgage lending trends in New England*. Retrieved from <https://www.bostonfed.org/publications/community-development-issue-briefs/2017/2015-mortgage-lending-trends-in-new-england.aspx>.

¹² 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 issued through three agencies: the FHA, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture. Farm Service Agency/Rural Housing Service loans are part of the Department of Agriculture program and are geared toward rural property buyers.

¹³ APRs encompass not only the interest rate of the loan but also any additional costs, such as broker fees and other charges associated with the lending process. The APR captures the full cost of borrowing. When an APR is greater than the rate on Treasury security, the loan is considered to be a high-APR loan. Note: Treasury securities are U.S. government debt obligations such as bills, notes, and bonds. For more information regarding APRs, please see Green, Dan. (2015, August 1). "The 'best deal' in mortgages." Retrieved from <https://themortgagereports.com/14450/mortgage-rates-lowest-apr-rate-compare-lenders>. <https://www.ffiec.gov/hmda/glossary.htm#S>.

¹⁴ 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.

¹⁵ For more information, please see Federal Reserve Bank of Boston. (2016). *2014 mortgage lending trends within New England*. Retrieved from <https://www.bostonfed.org/publications/community-development-issue-briefs/2016/2014-mortgage-lending-trends-in-new-england.aspx>. Also Bhutta, N., Popper, J., & Ringo, D.R. (2014). *The 2014 Home Mortgage Disclosure Act data*. Retrieved from http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf.

¹⁶ LMI borrowers are individuals with household incomes, as reported in the loan application, below 80 percent of the metropolitan statistical area's median income.

¹⁷ In 2016, 75.8 percent of home purchase originations for MUI individuals were conventional while only 16 percent of home purchase originations were FHA. These numbers are up 14.3 percent and 25.2 percent, respectively, from 2015.

¹⁸ Bhuttah, N., Laufer, S., & Ringo, D.R. (2017). *Residential home mortgage lending in 2016: from the Home Mortgage Disclosure Act data*. Retrieved from https://www.federalreserve.gov/publications/files/2016_HMDA.pdf.

¹⁹ In 2016, the share of conventional loans originated for LMI borrowers was lower than it was in 2015, but the actual number of conventional loans that were originated—and therefore the origination rate—was actually higher in 2016.

²⁰ Bhutta & Ringo (2016) 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.

²¹ While, in aggregate, the largest year-over-year changes in home loan originations for nonwhites occurred in Massachusetts, Latinos in Rhode Island actually experienced slightly larger increases in home loan originations (30.3 percent) than Latinos in Massachusetts.

²² The share of nonconventional home purchase originations was 58 percent for blacks and 55.2 percent for Latinos.

²³ Denial rates for whites and Asians decreased 0.40 percentage points and 1 percentage point, respectively. Denial rates for blacks decreased 0.50 percentage points and denial rates for Latinos decreased 0.30 percentage points.

²⁴ On October 15, 2015, the Consumer Financial Protection Bureau issued a rule change that requires public lending institutions to collect data regarding age of borrower, credit score, borrower's debt-to-income ratio, and borrower's combined loan-to-value, ratio, to name a few. The new HMDA rule was mandated by the Dodd-Frank Act, and the new 2018 data will be available in 2019. For more information, please see Consumer Financial Protection Bureau. (2015, October 15). *New rule summary: Home mortgage disclosure (Regulation C)*. Retrieved from http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf.

²⁵ Note: it is possible to refinance an FHA loan into a conventional loan.