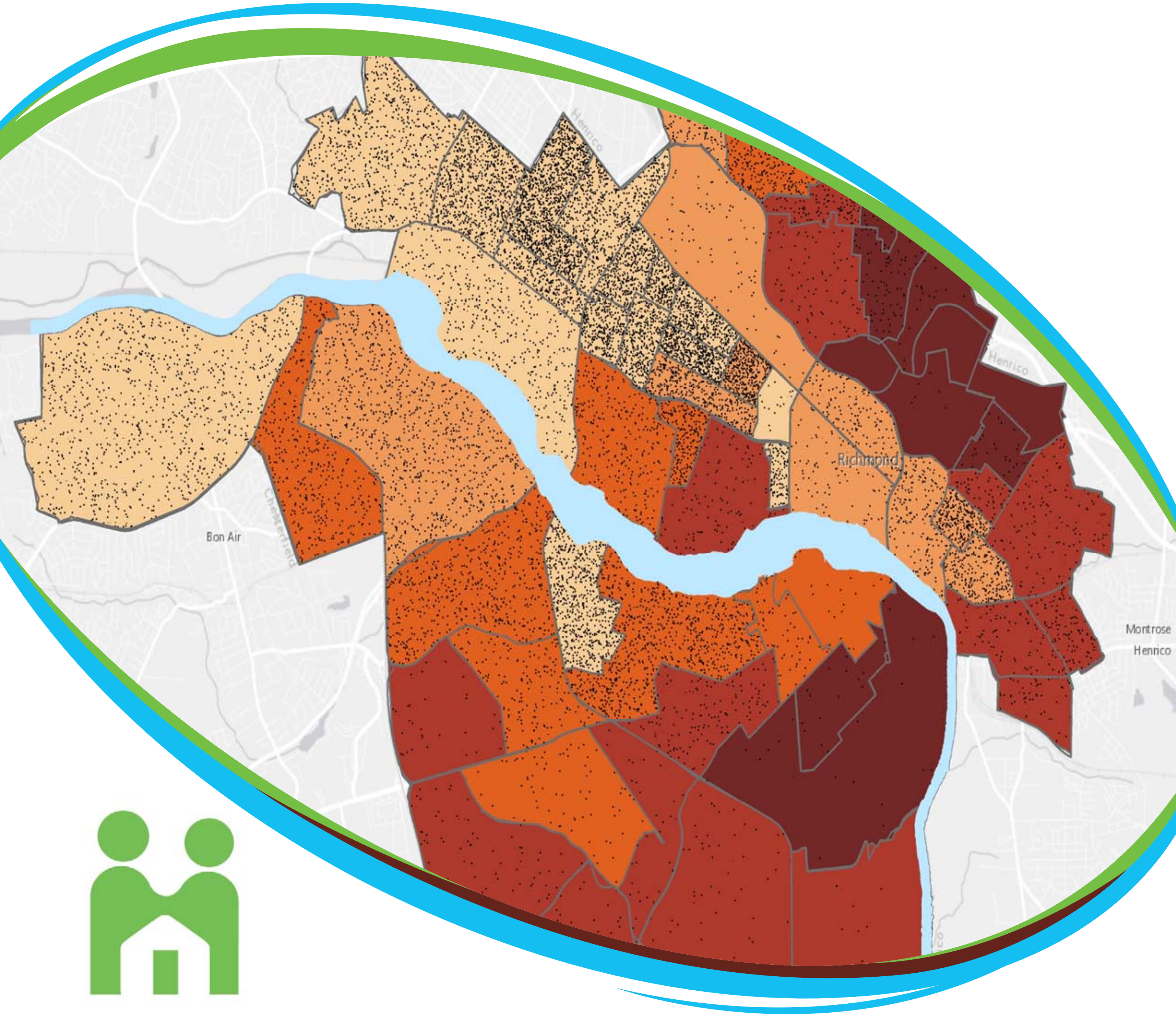
Mortgage Lending in the City of Richmond:

An Analysis of the City's Lending Patterns



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Housing Opportunities Made Equal of Virginia, Inc. (HOME) is Virginia's premier fair housing and housing counseling organization, offering a variety of programs and services designed to ensure equal access to housing for all Virginians. HOME is a 501(c)(3) nonprofit corporation and a HUD-approved housing counseling agency.

HOME was founded in 1971 to fight discrimination in housing access. Many of HOME's victories are well known, setting U.S. Supreme Court precedents and providing national impact.

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Executive Summary

This report stemmed from an analysis of subprime lending patterns in the City of Richmond during the years leading up to the housing crisis. At the request of City Councilwoman Ellen Robertson, Housing Opportunities Made Equal (HOME) of VA, Inc. conducted this analysis of the city's largest lending institutions to better understand the mortgage outcomes of homebuyers throughout the city.

In recent years, the City has been working to both increase homeownership rates and to overcome the stark disparities in homeownership among racial and ethnic groups. According to the most recent estimates 52.3 percent of white households own their own homes compared to 35.8 percent of African-Americans, and 19.8 percent of Hispanic households.[1] Given the current demographic composition of the city—48 percent black, 40 percent white, and six percent Hispanic—minorities are clearly underrepresented in the residential real estate market. Homeownership—an integral component of the American dream—is an effective way for low-income and minority households to accumulate wealth.

The city's pervasive residential segregation, the product of decades of both explicit and covert discrimination, has led many neighborhoods to fall into disrepair while others have flourished. More often than not, the dividing line between the two is based on race and/or ethnicity and income. The resultant disparate patchwork of opportunity throughout the city serves to further isolate residents living in neighborhoods that have fallen by the wayside. Borrowers in some neighborhoods have been able to more easily access mainstream credit while borrowers in other neighborhoods have been unable to do so. Neighborhoods with access to credit have become choice neighborhoods with high performing schools, high quality of life factors, and high median incomes and home values. Conversely, those neighborhoods unable to readily access credit are faced with high rates of poverty, underperforming schools, lower quality of life indicators, and lower home values.

In short, there are numerous obstacles to increasing homeownership in the city. Chief among them is the obvious fact that a significant share of the city's resident are extremely poor; it is estimated that 33 percent of the city's households made less than $24,999 in the past twelve months.[2] Sixteen percent of owner-occupied households earned less than $25,000, compared to 46 percent of renter-occupied households. The share of households that earned between $25,000 and $50,000 is relatively equal between owner-occupied households (27 percent) and renter households (30 percent). Further, there is significant difference in the median household income between owner-and renter-occupied housing. The most current estimates put the median household income for owner-occupied households at $63,888, compared to $27,662 for renter occupied households.[3] Obviously, household income is an important component to homeownership; between 2010 and 2013, lending to upper-income borrowers accounted for 46 percent of all loan originations, compared to nine percent for lower-income borrowers.

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[1] U.S. Census Bureau; American Community Survey, 2009-2013 American Community Survey 5-Year Estimates, Tables B25003B, B25003H, B25003I; generated by Brian Koziol; using American FactFinder; <http://factfinder2.census.gov>; (30 January 2015).
[2] U.S. Census Bureau; American Community Survey, 2009-2013 American Community Survey 5-Year Estimates, Table S2503; generated by Brian Koziol; using American FactFinder; <http://factfinder2.census.gov>; (10 February 2015).
[3] Ibid.

This report outlines the dynamics of mortgage lending within the City of Richmond in the wake of the economic turbulence of the last decade. The analysis focuses on the actions of the city's largest mortgage providers in serving low-income and minority households and communities. Through an examination of Home Mortgage Disclosure Act (HMDA) data, the report suggests that the lending needs of the many of the city's populations and neighborhoods have not been met.

Summary of Findings:

1. ***White borrowers comprised the largest segment of home purchase and refinance loan activity in the city.***

Between 2010 and 2013, white borrowers accounted for 1,243 home purchase loan originations; black borrowers accounted for 112 loan originations; and Hispanic borrowers of any race accounted for just 24 home purchase loan originations.

White borrowers also comprised the largest share of the refinance loan market, accounting for 2,720 loan originations. Black borrowers accounted for 382 refinance loan originations, and Hispanic borrowers accounted for 46 originations. The vast majority (1,464) of refinance loans went to upper-income white borrowers; this group accounted for 53.8 percent of all loan originations to white borrowers.

2. ***Significant disparities exist in the origination and denial rates of all loan types based on the race/ethnicity of the applicant.***

For home purchase loans, white borrowers exhibited a 48.2 percent origination and 13.7 percent denial rate, while black borrowers exhibited a 25.8 percent origination rate and 34.6 percent denial rate.

For refinance loans, white borrowers exhibited an origination rate of 40 percent and denial rate of 32 percent. The rates for African-American borrowers were the inverse; the origination rate was 24 percent and denial rate 52 percent.

3. ***Borrower income does not account for the disparities in loan outcomes exhibited by applicant race/ethnicity.***

The disparity in home purchase loan origination rates between black and white applicants increased from 9.9 points for low-income borrowers to 27.5 points for upper-income borrowers. Black applicants, regardless of income, were less likely to receive a home purchase loan.

The disparity in origination rates for refinance loans between black and white borrowers increased from 9.3 percentage points to 23.9 percentage points among upper-income borrowers. Black applicants, regardless of income, were less likely to receive a refinance loan.

4. ***Lending patterns reflect the city's segregated residential patterns.***

Seventy-seven percent of all purchase loan originations to black borrowers were for properties in minority neighborhoods, compared to just 12 percent in both white and integrated neighborhoods. Sixty-two percent of all purchase loan originations to white borrowers were for properties located in white neighborhoods, compared to 23 percent in integrated neighborhoods and 14 percent in minority neighborhoods.

Refinance loans mirror residential patterns as they are for properties currently owned by the applicant. Sixty-six percent of refinance loans to black borrowers were in minority neighborhoods, compared to 20 percent in integrated and 14 percent in white neighborhoods. Sixty-seven percent of refinance loans to white borrowers were in white neighborhoods, compared to 24 percent in integrated and 9 percent in minority neighborhoods.

5. ***The minority population of a neighborhood has a profound effect on loan outcomes. For each percentage point increase in the minority population of a census tract, 12.5 fewer mortgages can be expected to be made.***

Borrowers purchasing homes in white neighborhoods experienced an origination rate of 51 percent and denial rate of 14 percent compared to an origination rate of 31 percent and denial rate of 26 percent in minority neighborhoods.

A linear regression model was constructed to examine the relationship between the racial/ethnic composition of census tracts and the number of loan originations. It was found that for each percentage point increase in the minority population of a census tract, 12.5 fewer mortgages can be expected to be made.

Strategies to Expand Credit for Homeownership

The crux of the issue facing the City is how best to develop neighborhoods, many of which, for a variety of reasons, have suffered from disinvestment, into desirable communities with housing options available to the fullest spectrum of incomes as possible. Ensuring that households able to benefit from homeownership have the ability to do so is a critical component to neighborhood stability. The benefits of increasing homeownership are significant. Homeownership is associated with increased educational performance of children, higher participation rates in civic and volunteering activities, improved health outcomes, decreased crime, and lessened reliance upon public assistance.[4] In short, a successful housing strategy must ensure that there is an adequate supply of safe, decent, and affordable housing available for a variety of incomes as well as ensure that low-income and minority households have full access to the city's housing market.

[4] National Association of Realtors. Social Benefits of Homeownership and Stable Housing. Research Division, April 2012.

Purpose

The purpose of this report is to examine the mortgage lending patterns within the City of Richmond[5] and suggest solutions to increase access to credit for minorities. The collapse of the housing market and foreclosure epidemic that swept through the nation in the recent past drastically altered the lending environment. Credit has tightened considerably and there is renewed interest in the debate about the benefits of homeownership as a method to create wealth, especially for low-and moderate-income families. The contraction of the credit market has further isolated minorities from the benefits of homeownership and placed strain on overall economic growth.

This report stemmed from an analysis of subprime lending patterns in the City of Richmond during the years leading up to the housing crisis. This report provides a comprehensive analysis of the largest five lenders in the City of Richmond. Loan characteristics are compared against community and socioeconomic indicators to shed light on lending issues within the city. The analysis in this report reveals several questionable lending outcomes, particularly as they relate to the minority composition of both neighborhood composition and applicants. Ultimately, this report seeks to highlight the role lenders play as community partners and to better understand their contributions to the City's efforts to build healthy and inclusive communities -- a central component of the Mayor's Anti-Poverty Commission Report. The commission's report also addresses the need for asset building opportunities for low-income populations within the city. Not all low-income households are currently in a position to purchase a home should they wish to do so; however, homeownership remains a viable method to build wealth for many households and should be a component of any long-term strategy. The city's largest lending institutions have not only an obligation in helping the City achieve its goal of mitigating poverty, but a financial stake in its success.

Introduction

Housing is the foundation of our society; little else plays such an influential role in shaping who we are and our life chances.[6] As such, housing is also the principal determinant of inequality determining our access to opportunity. Homeownership has long been touted as an effective mechanism to build wealth for low-income and minority households. The past several years have cast into doubt the effectiveness of incentivizing homeownership as a wealth building mechanism. In light of the fact that more than 4 million homeowners lost their homes to foreclosure over the past several years, ample recent evidence suggests that homeownership remains an effective mechanism to increase wealth, even through the tumultuous past decade.[7]

Owning a home has long been a part of the American dream. The equity in owning a home not only

[5] Throughout this report this report, the word "city" is capitalized when it specifically refers to the government and political apparatus of the City of Richmond. For other uses, it is not capitalized.
[6] powell, john a. and Cardwell, Kaloma. Homeownership, Wealth, & the Production of Racialized Space. Joint Center for Housing Studies, Harvard University. October, 2013.
[7] Shapiro, Thomas, Meschede, Tatjana, Osoro, Sam. The roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide. The Institute on Assets and Social Policy. Research and Policy Brief. February 2013.

helps families pay for tuition costs, debt consolidation, and retirement, it also remains the primary way in which families build inter-generational wealth and social mobility. A recent study examining the growing wealth disparity between white and African-American families over a 25-year period found the predominant factor to be the length of homeownership.[8] A report from the Joint Center on Housing Studies at Harvard University underscores this sentiment, stating that "the true golden rule of how to accumulate wealth through homeownership—is whether ownership is sustained over the long term."[9] Although there are numerous variables that influence wealth accumulation, such as household income, education, existing wealth, and inheritances, research has consistently shown that owning a home has a positive effect on wealth accumulation for both lower-income and minority households.[10]

Though homeownership has fallen nationally over the past decade, the rate at which people own their homes continues to vary significantly by race. For instance, at the highest-ever homeownership rates in 2004, over three-quarters of non-Hispanic white households in the U.S. (76.2 percent) owned their homes, compared to just half of African-Americans (49.7 percent).[11] Current estimates show that the city has an overall homeownership rate of 43 percent.[12] Non-Hispanic white residents have the highest homeownership rate at 53.9 percent, compared to black residents at 35.8 percent and Hispanic residents at 19.8 percent.[13]

Housing Policy and the Creation of Residential Segregation

The opportunity to own a home depends directly on the ability to access credit. There are numerous variables that factor into a person's ability to access credit, including income, credit score and history, expense-to-income ratio, and loan-to-value ratio. However, crucial housing policies have denied access both to minority home seekers and to those living in neighborhoods with high concentrations of minority residents. Redlining, or the act of purposefully denying credit to communities based on a social characteristic such as race, a common practice in the not too distant past, served to decimate healthy black communities and entrench residential segregation in the city. Arguably, the federal government has had a significant role in the creation of what can best be described as a dual housing market: one for upper-income white borrowers and another for lower-income minorities. This system emerged as a

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[8] Shapiro, Thomas, Meschede, Tatjana, Osoro, Sam. The roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide. The Institute on Assets and Social Policy. Research and Policy Brief. February 2013.
[9] Herbert, Christopher E., MCue, Daniel T., Sanchez-Moyano, Rocio. Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was it Ever?). Harvard University, Joint Center for Housing Studies, September 2013.
[10] Ibid.
[11] US Census Bureau. Sf1 2010.
[12] U.S. Census Bureau; American Community Survey, 2009-2013 American Community Survey 5-Year Estimates, Table B25003; generated by Brian Koziol; using American FactFinder; <http://factfinder2.census.gov>; (30 January 2015).
[13] U.S. Census Bureau; American Community Survey, 2009-2013 American Community Survey 5-Year Estimates, Tables B25003B, B25003H, B25003I; generated by Brian Koziol; using American FactFinder; <http://factfinder2.census.gov>; (30 January 2015).

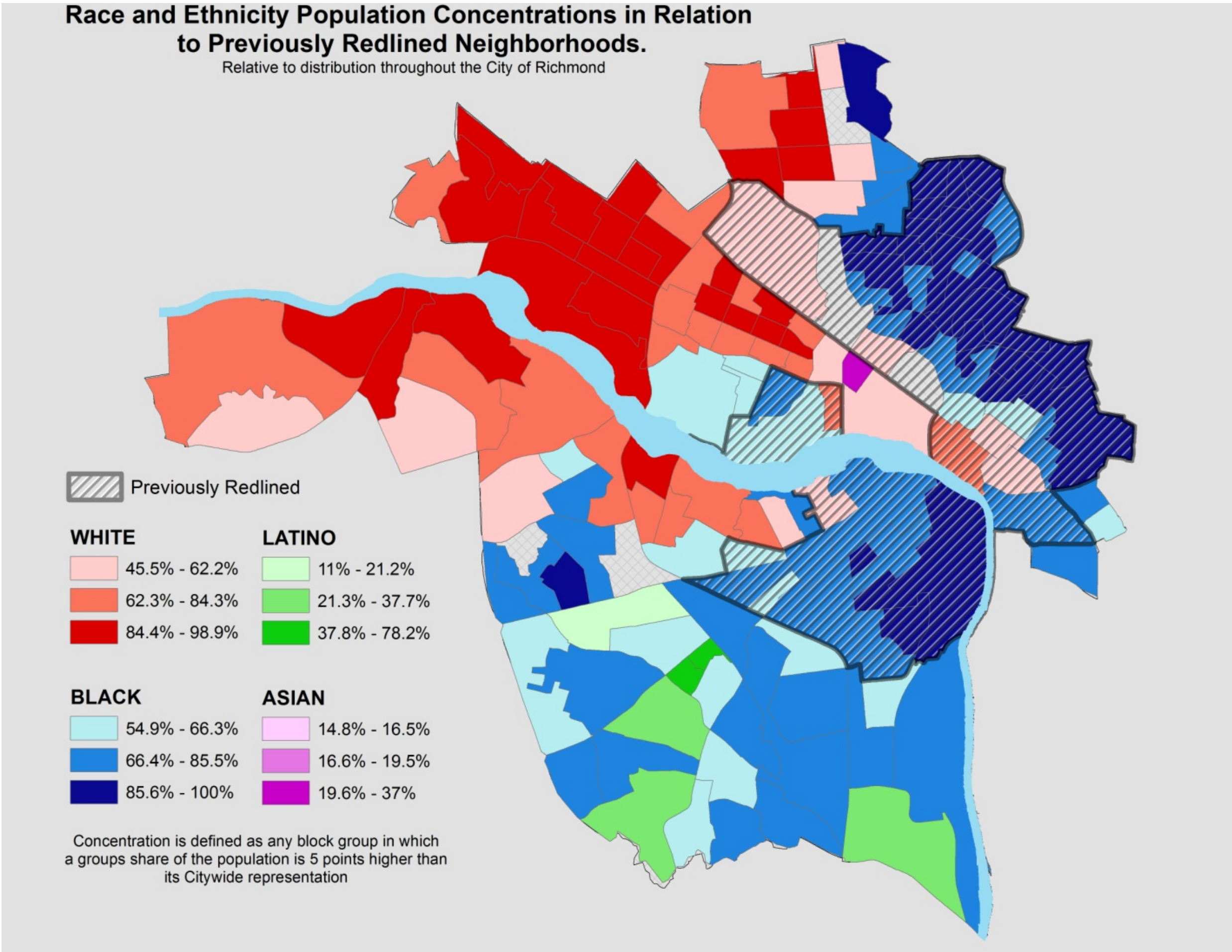
result of the policy actions taken in response to the Great Depression, which were largely based on race.[14]

Richmond's stark and pervasive residential segregation did not occur by an act of nature. In fact, prior to 1900, residential segregation was not the norm.[15] Numerous forces are responsible for fostering segregated housing patterns including federal, state, and local public policy. Industrial shifts and technological advances, which opened new markets, coupled with the massive migration of blacks to the North radically altered housing patterns, ultimately serving to isolate blacks and eventually lower-income households.

From 1910 to 1948, the use of restrictive covenants that forbade blacks from owning, occupying, or leasing residents' property grew substantially.[16] The federal government promulgated residential segregation with the creation of the Homeowner's Loan Corporation (HOLC) in 1934. Created to prevent foreclosures through the refinancing of loans, HOLC created “residential security maps,” which showed the risk lenders assumed when making loans in various neighborhoods.[17] HOLC relied on local input from realtors and lenders to evaluate neighborhoods and assign them one of four colors: the safest neighborhoods to make investments in were graded green, the second highest were blue; the third highest were yellow; and the lowest graded neighborhoods were color coded red. In Richmond, as throughout the country, African-American neighborhoods, regardless of income all received the lowest color grade, red.[18] Map 1 shows “D” grade—previously redlined—neighborhoods in comparison to the racial/ethnic population of the city as it stands today. It is clear that the vast majority of these neighborhoods remain predominantly African-American. Additionally, these neighborhoods disproportionately represent the most impoverished neighborhoods in the city.

[14] Bostic, Raphael W. Market Channel Segmentation, Its Patterns and Effects: What Role has the Government Played in Creating a Dual Mortgage Market in the Past and How Likely is One to Emerge in the Future? Joint Center for Housing Studies, Harvard University. October 2013.
[15] powell, john a. and Cardwell, Kaloma. Homeownership, Wealth, & the Production of Racialized Space. Joint Center for Housing Studies, Harvard University. October, 2013.
[16] Ibid.
[17] Mayor's Anti-Poverty Commission Report (Chair, Ellen Robertson), Mayor’s Anti-Poverty Commission Report to Dwight C. Jones, Mayor if City of Richmond.
[18] Ibid.

Map 1



In 1937, the Federal Housing Administration (FHA) was established to insure loans made by private banks and extended the amortization period to 25 to 30 years. However, blacks were excluded from these benefits; the 1939 FHA Loan Program's Underwriting Manual stated: "If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes."[19] Until the 1960s the FHA practices insured the financing of homes by whites in the rapidly growing suburbs in lieu of insuring loans in the urban markets in which minorities lived.[20] By denying access to FHA insured loans, blacks were excluded both from the benefits of homeownership in the rapidly growing, predominantly white suburbs as well as in inner city neighborhoods which, due to the inability to access credit, began to deteriorate.

The Housing Act of 1949, part of Harry Truman's Fair Deal, and the Housing Act of 1954, under the Eisenhower Administration effectively served to concentrate poverty in the inner city by allocating the financial resources for urban renewal and the construction of public housing. Within Richmond, public

[19] Jackson, Kenneth T. as cited in powell, john a. and Cardwell, Kaloma. Homeownership, Wealth, & the Production of Racialized Space. Joint Center for Housing Studies, Harvard University. October, 2013.
[20] Squires, Gregory. The Indelible Color Line. The American Prospect. December, 2001.

housing was constructed entirely within HOLC "D" neighborhoods. Initially intended as a "stepping stone" for low-income, working-class households, public housing became the intergenerational option of last resort when income restrictions, which insured that only the poorest households were eligible, were imposed upon tenants. Neighborhoods in close proximity to the new projects experienced severe value depreciation and quickly became the bastion of affordable housing for low-income, predominantly black residents. The Federal Aid Highway Act of 1956 built over 41,000 miles of highways across the country, and in doing so helped usher in the rise of suburban living while simultaneously decimating healthy black communities. In an effort to resist the U.S. Supreme Court ruling on Brown v. Board of Education, which declared separate public schools for black and white students unconstitutional, white residents flocked to the newly constructed suburbs. "White Flight," as it came to be known, was propagated by the private real estate industry.

By the late 1950s, Richmond, like virtually all cities throughout the country, was locked into a cycle of decline. This cycle of decline was in direct opposition to the cycle of opportunity being created in the suburbs. The federal government has long been in the business of wealth and resource distribution. However, this sharing of wealth excluded minorities, particularly blacks and lower-income households. Arguably, the largest financial incentive to own a home is the ability to deduct mortgage interest and property taxes from federal taxable income. However, this benefit does not extend to low-income households. In order to benefit from these incentives, the amount of the deduction must exceed the standard deduction, which in 2012 was $5,900 for individuals and $11,900 for married couples. For owners of lower-valued homes, the costs of mortgage interest and property taxes may not exceed this amount.[21] According to the Joint Committee on Taxation in 2013, only three percent of the total deductions went to filers with incomes under $50,000, nine percent went to those with incomes between $50,000 and $75,000, and 11 percent went to those with incomes between $75,000 and $100,000. The remaining 77 percent went to those earning above $100,000.[22]

Known as the "gate keepers" of our neighborhoods, real estate agents long perpetuated residential segregation through outright denial and slightly more subtle tactics as block busting and steering. A body of social science research beginning in the 1950s documents discrimination in the real estate industry.[23] Such overt practices, outlawed with the passage of the Federal Fair Housing Act in 1968 (and amended in 1974 and 1988) have diminished since passage. However, it is not uncommon for home buyers of color to face discrimination. HUD's most recent Housing Discrimination Against Racial and Ethnic Minorities Study (2012) found that white home buyers experienced more favorable treatment than equally qualified black buyers in 40.7 percent of housing inquiries.[24] Black homebuyers who contacted a real estate agent about recently advertised homes for sale were told about 17.0 percent

[21] Herbert, Christopher E., MCue, Daniel T., Sanchez-Moyano, Rocio. Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was it Ever?). Harvard University, Joint Center for Housing Studies, September 2013.
[22] Ibid.
[23] Helper, Rose as cited in powell, john a. and Cardwell, Kaloma. Homeownership, Wealth, & the Production of Racialized Space. Joint Center for Housing Studies, Harvard University. October, 2013.
[24] Turner, Margery Austin, et al. Housing Discrimination Against Racial and Ethnic Minorities 2012. Prepared for U.S. Department of Housing and Urban Development by the Urban Institute. Washington, D.C. June, 2013.

fewer available homes and shown 17.7 fewer homes than equally qualified white homebuyers.[25] HOME's own research shows that minority borrowers often receive disparate treatment when applying for loans. Moreover, a focus group of real estate professionals that HOME conducted in 2013 revealed that minority real estate agents felt that race continued to play a role in the industry. They made references to the organizational structure of the industry playing a role in the continued segregation of the city's housing market.

Throughout the 1990s, lending discrimination shifted from the outright denial of credit to the extension of credit under different terms.[26] While the wider availability of credit for home mortgages allowed minority homeownership to rise over the past decade, data shows that African-Americans and other minority borrowers received subprime mortgage products at disproportionately elevated rates compared to white borrowers – even after controlling for individual risk factors, such as credit history and loan-to-value ratios.[27]

Subprime Lending and Foreclosures in Richmond

There has been significant discussion about the role that subprime lending played in causing the Great Recession, and a detailed examination of the events that led to and fueled the subprime market is beyond the scope of this report.[28] In summary, however, subprime lending emerged primarily as a result of legislative changes in the 1980s aimed at deregulating the financial sector. Two laws laid the foundation for the dramatic growth of the subprime market: the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) in 1980 made it possible to charge high interest rates and fees to borrowers, and the Alternative Mortgage Transaction Parity Act (AMPTA) in 1982 allowed the use of variable interest rates and balloon payments.[29]

It wasn't until the passage of the Tax Reform Act of 1986, which allowed interest deductions on mortgages for primary residences as well as one additional home, that the use of subprime lending began to escalate.[30] Market changes also played a significant role in the increase of subprime products. In particular, growth was fueled through the issuance of mortgage backed securities (MBS). It is estimated that from 1994 to 2000, the share of subprime loans packaged into MBS more than doubled,

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[25] Ibid.

[26] Goldstein, I. with Urevick-Ackelsberg, D. Subprime lending, mortgage foreclosures and race: How far have we come and how far have we to go? The Reinvestment Fund. Retrieved from: http://www.prrac.org/projects/fair_housing_commission/atlanta/SubprimeMortgageForeclosure_and_Race_1014.pdf

[27] Gruenstein Bocian, D., Ernst, K.S., and Li, W. (2006, May). Unfair lending: The effect of race and ethnicity on the price of subprime mortgages. Center for Responsible Lending, 3. Retrieved from http://www.responsiblelending.org/mortgage-lending/research-analysis/rr011-Unfair_Lending-0506.pdf.

[28] Subprime Lending definitions vary but typically they are classified as loans made to borrowers with lower credit ratings and often carry a higher rate than a prime mortgage to address the increased risk associated with making the loan. For the purpose of this report loans are classified as "subprime" if the rate spread, that is the difference between the annual percentage rate on the loan and a survey-based estimate of annual APRs currently offered on prime mortgage loans is 1.5 percentage points higher for a first lien loan or 3.5 percentage points higher for a second lien mortgage.

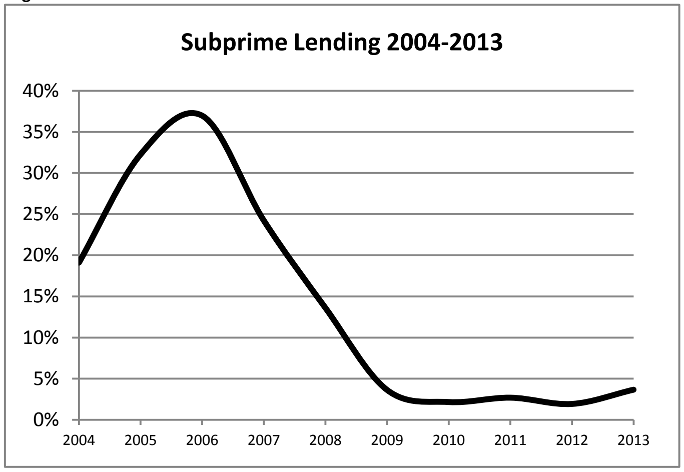
[29] Souphala Chomsisengphet and Anthony Pennington-Cross. The Evolution of the Subprime Mortgage Market. Federal Reserve Bank of St. Louis Review. January/February 2006.

[30] Ibid.

from 31.65 percent to 80.5 percent.[31] During this same period, the share of subprime rate loans increased from five percent to 13 percent and continued to grow to more than 20 percent in both 2005 and 2006.[32] During this time the rate of foreclosure on subprime rate loans began to increase. Subprime rate loans originated in 2006 had a default rate of 5.5 percent within the first six months and over 10 percent within the first year and a half.[33]

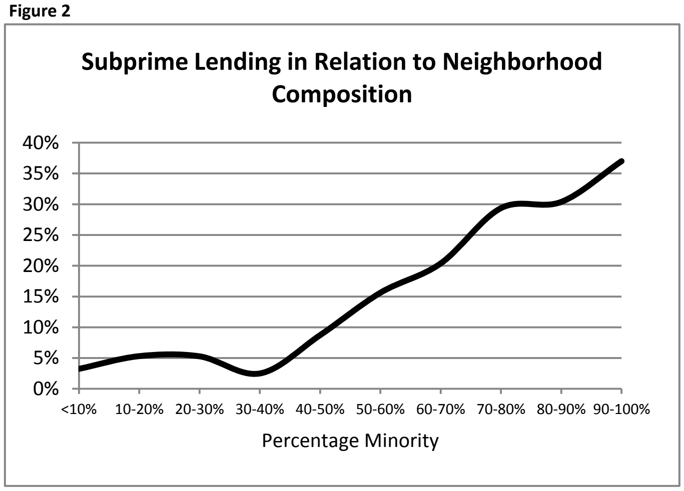
In Richmond, subprime lending has declined considerably in recent years. At its peak in 2006, subprime lending accounted for 37 percent of all loans originated in the city; since 2009, they have accounted for less than four percent of all loans (Fig. 1).

Figure 1



From 2004 to 2013, seven percent of loans made to white borrowers were subprime, compared to 40 percent of loans made to black borrowers. In fact, subprime lending exhibits a clear correlation to neighborhood composition; as the minority composition of the neighborhood increases so too does the rate of subprime lending (Fig. 2).

Figure 2

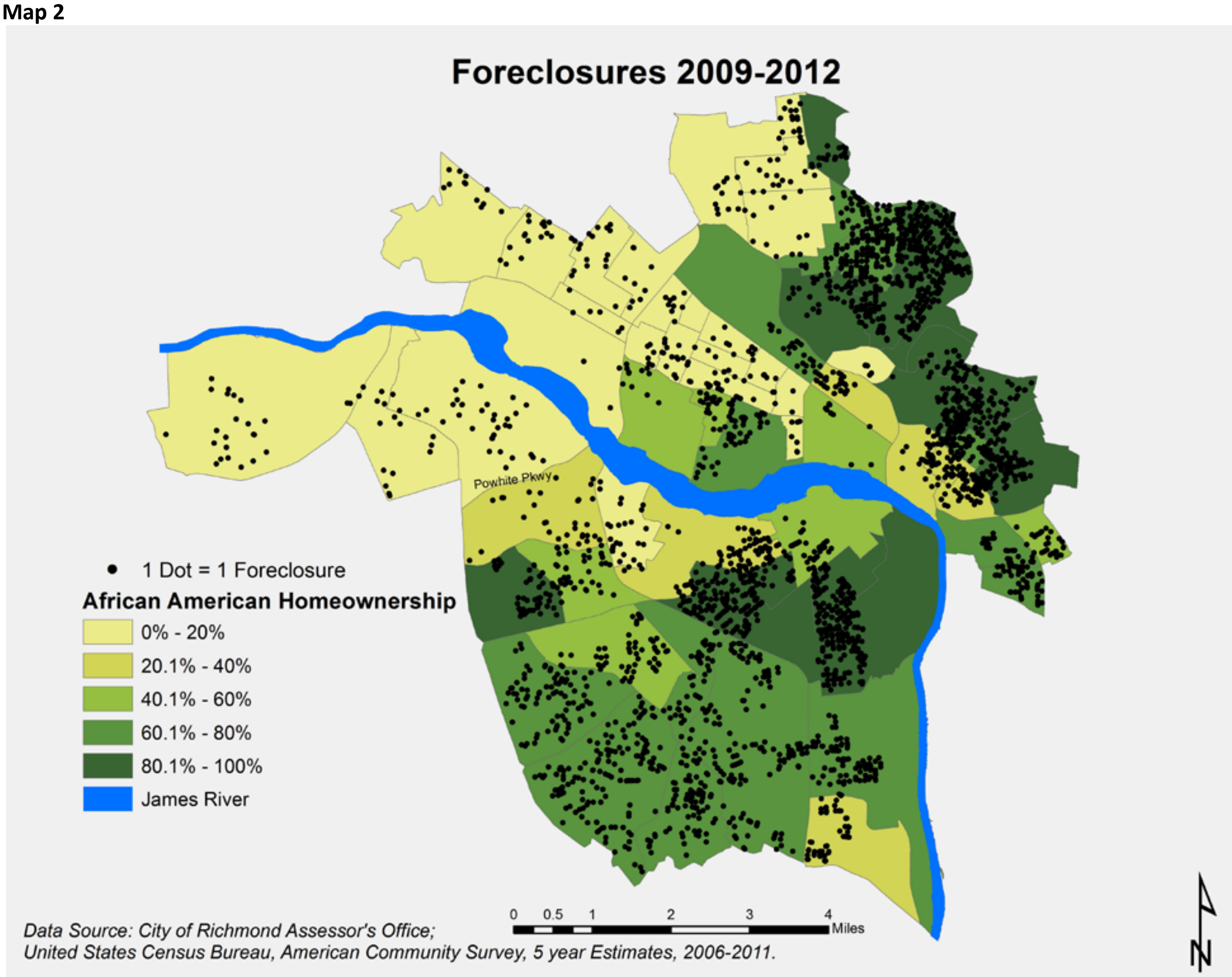


No neighborhood in the City of Richmond proved immune to the foreclosure crisis. Since 2005, over 4,700 homeowners in the city have lost their homes to foreclosure. However, not all neighborhoods experienced foreclosure at the same rate. As evidenced by figure 2, foreclosure activity is closely correlated to the racial make-up of the neighborhood. Neighborhoods with higher rates of African-American homeownership have persistently experienced higher rates of foreclosure than other neighborhoods throughout the city. In 2005, census tracts with greater than 80 percent African-American homeownership rates accounted for 42 percent of all foreclosures in the city, even though these neighborhoods only accounted for 15 percent of the total number of owner occupied housing units in the city. By 2009, at the height of the epidemic, these same neighborhoods accounted for 48 percent of the total number of foreclosures in the city. Conversely, those census tracts in which African-Americans comprised 20 percent or less of the total number of homeowners accounted for nine percent of the total number of foreclosures in 2005. These same

[31] James R. Barth, Tong Li, Triphon Phumiwasana, and Glenn Yago. A Short History of the Subprime Mortgage Market Meltdown. Milken Institute. January 2008.
[32] Ibid.
[33] Ibid.

neighborhoods accounted for 45 percent of the total number of owner occupied housing units in the city. By 2009, the share of foreclosures in these predominantly white neighborhoods had only reached 10 percent. Over the past several years, the number of foreclosures has increased slightly in these predominantly white neighborhoods while it has decreased in predominantly African-American neighborhoods. Map 2 shows foreclosures in the city from 2009 to 2012 in relation to the percentage of African-American homeowners per census tract.

Map 2



Obstacles to Homeownership in Richmond

In short, there are numerous obstacles to increasing homeownership in the city. Chief among them is the obvious fact that a significant share of the city's resident are extremely poor: it is estimated that 33 percent of the city's households made less than $24,999 in the past twelve months.[34] Sixteen percent of owner-occupied households earned less than $25,000, compared to 46 percent of renter-occupied households. The share of households that earned between $25,000 and $50,000 is relatively equal between owner-occupied households (27 percent) and renter households (30 percent). Further, there is significant difference in the median household income between owner-and-renter occupied housing. The most current estimates put the median household income for owner-occupied households at $63,888, compared to $27,662 for renter occupied households.[35] Obviously, household income is an important component to homeownership; between 2010 and 2013, lending to upper-income borrowers accounted for 46 percent of all loan originations, compared to nine percent for lower-income borrowers.

Increasing homeownership has been a long-standing goal of the City. Not only has homeownership been linked to positive social and economic outcomes, but increasing homeownership particularly among low-income and minority households has been shown to reduce residential segregation.[36] The most recent Consolidated Plan (FY 2013-2015) explicitly calls for increasing homeownership as a strategy to ensure all residents are engaged in the local economy and able to take advantage of the numerous opportunities within the city. Most recently, in 2014, the City's Department of Economic and Community Development retained a nationally recognized consultant to prepare a Comprehensive Affordable Housing Strategy. This report outlines many of the socio-economic and market obstacles facing the city, namely that a significant portion of residents are low-income. Though much of the housing strategy is focused on the rental housing market, it does outline strategies to increase the supply of affordable ownership options, particularly in the disposition and redevelopment of RRHA properties including existing public housing and vacant properties.

In response to the recommendations outlined in the Mayor's Anti-Poverty Commission report, the City created the Office of Community Wealth Building in 2014 to serve as the coordinating body to alleviate poverty and build wealth in traditionally marginalized communities. Currently, the Office of Community Wealth Building is engaged in a variety of efforts spanning workforce innovation to transportation. Much of this work is focused on education and solidifying the linkages between social services and residents in need. Arguably, a majority of the residents in the neighborhoods the Office of Wealth Building is working in are in no financial condition to become a homeowner today. However, with prolonged effort and continued support from the City, many of these residents will be financially better positioned in five, 10, or 15 years to benefit from homeownership.

[34] U.S. Census Bureau; American Community Survey, 2009-2013 American Community Survey 5-Year Estimates, Table S2503; generated by Brian Koziol; using American FactFinder; <http://factfinder2.census.gov>; (10 February 2015).
[35] Ibid.
[36] Bond, Carolyn Beck. Does Increasing Black Homeownership Decrease Residential Segregation? University of Notre Dame. April, 2004.

In order to actualize the benefits that homeownership can have in the city, a comprehensive, longitudinal strategy must be devised to build the financial assets of low-income residents in the short-term to enable them to benefit from the long-term wealth accumulation that is provided through homeownership. This report is a key first step in developing that strategy. A thorough understanding of the complexities of the mortgage lending market is essential to ensure that the city's residents, regardless of the neighborhood they live in, or the color of their skin, is able to benefit from the opportunities found in homeownership.

Home Mortgage Disclosure Act (HMDA)

This report uses data collected under the Home Mortgage Disclosure Act (HMDA) to document mortgage lending trends in the City of Richmond, Virginia. Originally enacted by Congress in 1975, HMDA requires numerous financial institutions to maintain, report, and publicly disclose information about mortgages. These publicly available data are important because they help to show whether lenders are serving the housing needs of their communities. They also provide public officials with critical information needed for sound public-sector investment.

In short, HMDA requires that three categories of loans are reported: home purchase loans, home improvement loans, and refinance loans. Every loan application, origination, and purchase that falls into one or more of these categories must be reported. The lender is required to report data about:

- The loan type and amount;
- The property location and type;
- The action taken on the loan, such as if the loan was originated or denied;
- The applicant, primarily ethnicity, race, sex, and income.

HMDA data is not without shortcomings; for example, it does not contain key applicant characteristics such as credit history, credit score, or debt burden. It also does not include data on the loan-to-value ratio (the value of the home compared to the amount requested) or expense-to-income ratio (the monthly expense of the loan compared to borrowers income and existing debt obligations). These variables are certainly important factors in the loan underwriting process, and their impact on loans is well documented. However, these variables are not included in the lending test during regulatory CRA reviews. As such, their inclusion typically serves to explain a greater share of disparities in the lending market but more often than not fail to fully account for lending disparities, particularly racial and ethnic disparities.

The lending analysis specifically focuses on those loans made within the city over the four year period from 2010 to 2013.

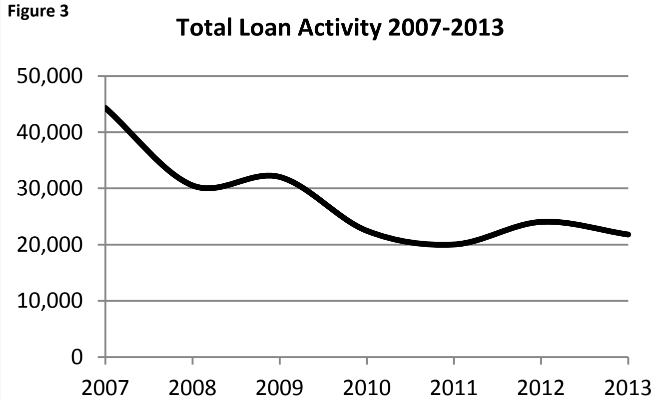
Methodology

Of particular importance to this study is the role that race/ethnicity has in the lending behaviors of the city's largest lending institutions. In order to explore this relationship, a comprehensive analysis of HMDA data is required. This analysis begins with a simple descriptive analysis of all lending activity in the city between 2007 and 2013. The lenders selected for inclusion in this report originated the largest number of loans in 2013. Next, the lending patterns of these lenders are explored across numerous variables to better understand where and to whom loans are made in the city. Finally, to better understand the role that race and/or ethnicity plays in mortgage outcomes, linear regression models were designed to explore the relationships between the racial/ethnic composition of census tracts and how many mortgages are made within those tracts, and the relationship between the percentage of minority applicants in a census tract and the number of loans made. These models use controlling variables collected under HMDA such as income, the number of owner-occupied units, and the number of one-to-four family housing units in the census tract.

Lending Overview 2007—2013

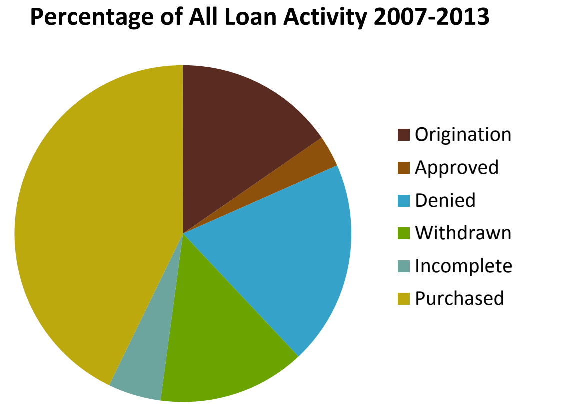
Total loan activity, defined as all of the loans types reported under HMDA and which includes loan originations, denials, and loans purchased by the institution, has declined considerably over the past several years.[37] In 2007, there were 44,314 individual loan actions; 2011 experienced the lowest level of activity (20,021 individual loan actions). In all, total loan activity in the city contracted 50.8 percent between 2007 and 2013 (Figure 3).

Figure 3



Over this time period, financial institutions purchased loans compared to originated loans at a rate of 2.78 to 1 and denied loans compared to originated loans at a rate of 1.27 to 1. A loan origination is defined as an application for mortgage credit that was approved and funded by the institution—the extension of credit. Conversely, a loan denial is defined as an application for mortgage credit that was denied by the institution—the denial of credit. A loan purchase is defined as the purchase of a loan that was originated by another lender. Figure 4 shows the share of each type of loan activity from 2007—2013.

Figure 4



The majority of lending activity in the city between 2007 and 2013 has been focused on loan purchases. In fact, the ten largest purchasers of loans accounted for 75 percent of all the loans purchased, and just 30 percent of all loans originated in the city during this time. Conversely, the ten largest originators of loans accounted for 48 percent of all loans originated and 42 percent of the loans purchased within the city.

In the years immediately following the economic crisis, the number of loan denials far exceeded the number of loan originations. In 2007, mortgage applications were denied compared to originated at a rate of 1.93 to 1. This disparity has declined over time; by 2013, loans were originated compared to denied at a rate of .86 to 1, indicating that the lending environment has stabilized from previous years. The ratio at which loans are purchased compared to originated has showed minor variation. In 2007, lenders purchased loans compared to originating at a rate of 2.52 to 1, this ratio climbed to 3.22 to 1 in

[37] Loan Activity is one of six loan actions: 1) Loan origination; 2) Loan application approved but not accepted by the applicant; 3) Loan application denied by financial institution; 4) Loan application withdrawn by the applicant; 5) Loan file closed for incompleteness; 6) Loan purchased by the institution. This report will focus primarily on loan originations and loan denials.

2009, but has since contracted to 2.43 to 1 in 2013. The purchasing of loans is an important function of banks in that it provides the lender that originally made the loan with more capital with which to make additional loans. However, there is a vast difference between the two. Originating loans is more resource intensive, carries with it an assumption of risk, and reflects a commitment to meeting the credit needs of the community. Purchasing loans requires minimal effort, little assumption of risk, and does not equate to a commitment to serving the credit needs of the community.

The Community Reinvestment Act (CRA), passed by Congress in 1977, is intended to encourage financial institutions to help meet the credit needs of the communities in which they operate, including low-and moderate-income neighborhoods. In short, the CRA ensures that banks that receive deposits are reinvesting in the community. In order to ensure that financial institutions are meeting these obligations, they are periodically evaluated by their supervisory agency.[38] This evaluation consists of numerous tests, one of which is a lending test that does take into account the loan purchases made by a bank. While purchasing loans is a worthwhile activity, purchasing loans is not the same as making loans. However, given the complexity of CRA examinations and the different examination methodologies used by each of the supervisory agencies, it is difficult to determine exactly how purchases are treated in comparison to originations.[39] CRA examination schedules should be monitored to ensure that the City is able to weigh in on how purchase loans are weighted in the lending test.

Disparities in the rate at which loans are originated and denied between white and black borrowers are severe. The causes of these disparities are numerous and don't always indicate discrimination in the lending market. Often these disparities become significantly smaller when borrower income is taken into account. Moreover, many of these disparities are rooted in larger systemic, socio-economic disparities such as the fact that minorities, particularly African-Americans, are the hardest hit in economic downturns, facing higher rates of unemployment as well as longer periods of joblessness compared to whites. Lower incomes and typically lower home values of minorities further impacts their ability to access mortgage credit. Lower home values is of great concern, as the ability to refinance a loan is directly related to the current market valuation of the property, which in recent years is often less than the amount of the outstanding obligation.

Regardless of the role that these factors may play, significant disparities in the rates at which white and black borrowers receive or are denied credit exist in the city. In aggregate, between 2007 and 2013 the denial disparity between these two groups of borrowers was 2.04, indicating that black borrowers were twice as likely to be denied for a loan as white borrowers. The loan origination disparity was 2.23, meaning that white borrowers were over two times more likely to be approved for credit than their black counterparts.[40,41] To clarify, the aggregate rate at which black borrowers were denied loans of any

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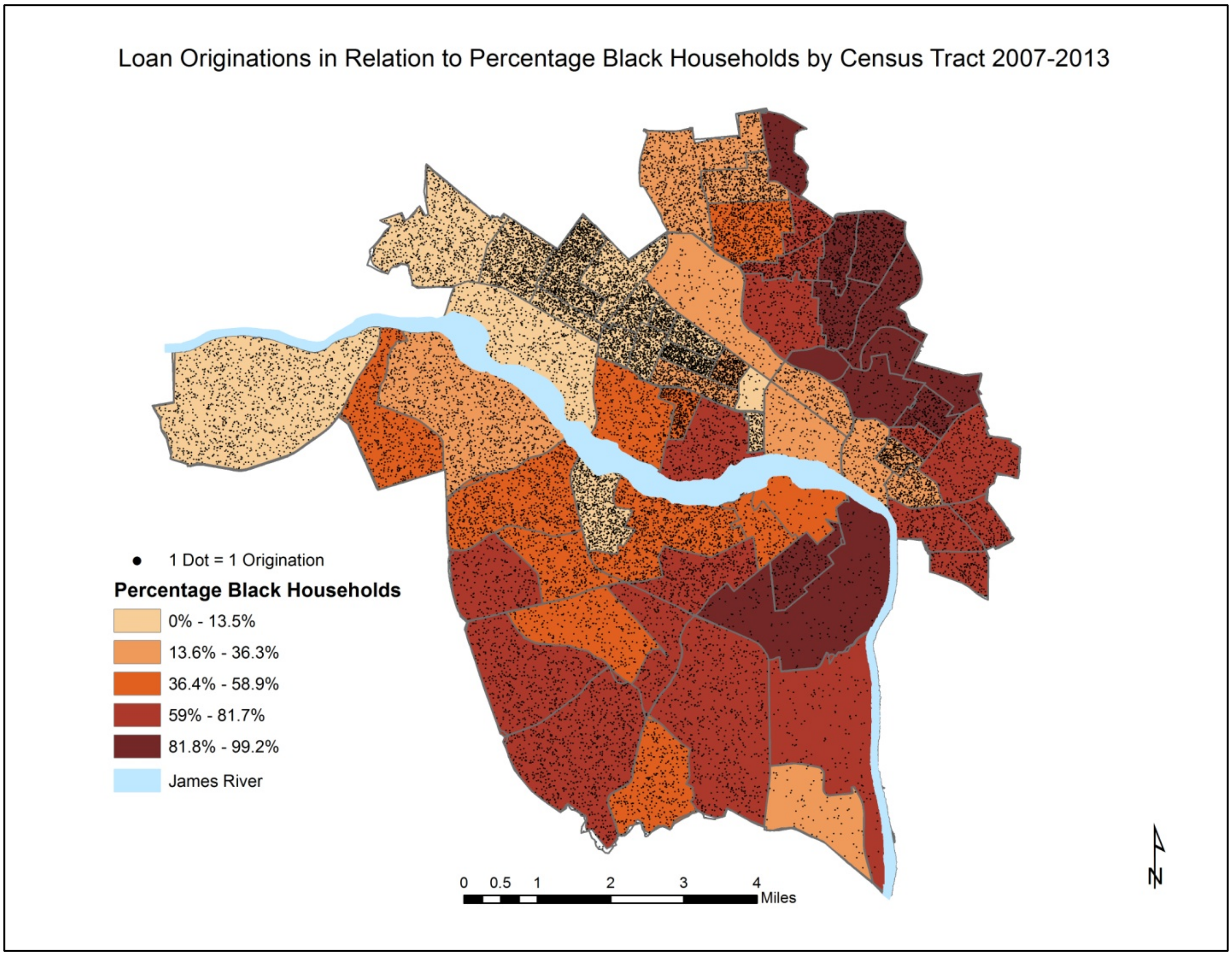
[38] Federal Reserve, Community Reinvestment Act (CRA). http://www.federalreserve.gov/communitydev/cra_about.htm
[39] National Community Reinvestment Coalition. CRA Manual, September 2007. http://www.ncrc.org/images/stories/pdf/cra_manual.pdf
[40] The denial disparity ratio is calculated by dividing the black denial rate by the white denial rate. The origination disparity ratio is calculated by dividing the white origination rate by the black origination rate.
[41] The denial rate is calculated by dividing the number of loan applications denied by the financial institution by the sum of the number of denied loans, originated loans and the number of loan applications withdrawn by the applicant. The origination rates

type was 56.2 percent, compared to 27.5 percent for white borrowers. The rate at which loans of any type were originated to black applicants was 19.3 percent compared to 43.1 percent for white borrowers. In total, three times as many loans were made to white borrowers than to black borrowers: 19,043 and 6,245 respectively. Map 3, below, shows the spatial display of loan originations in the city in relation to the percentage of black households per census tract from 2007-2013.

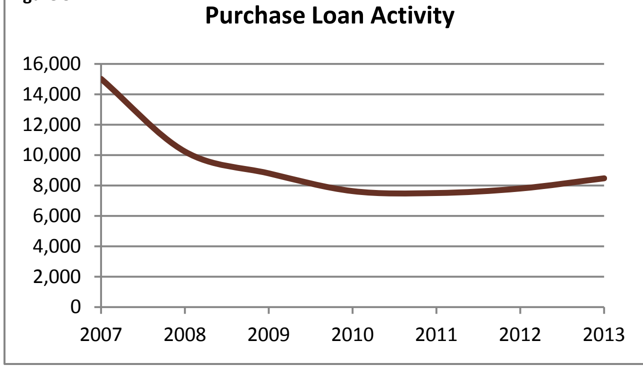
Map 3



calculated by dividing the number of originated loans by the sum of originated loans, denied loans, and loan applications withdrawn by the applicant.

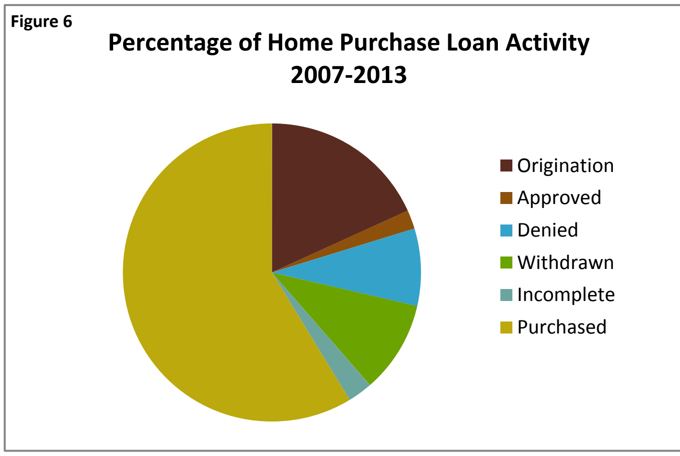
Home Purchase Loans

Figure 5



Home purchase loans are loans for the sole purpose of purchasing a home. From 2007 to 2013, home purchase loan activity contracted 43.5 percent from 15,011 in 2007 to 8,470 in 2013 (Figure 5). The largest contraction in home loans occurred between 2007 and 2011; since that time, purchase loan activity has risen slowly. The credit environment shifted significantly during this time in response to the economic crisis. Underwriting criteria became more stringent, requiring down payments of between 10 and 20 percent and minimum credit scores of 620 (FHA loans being the exception, requiring a credit score of 580). Arguably, these requirements disproportionately impact all lower-income borrowers, particularly minorities.

Figure 6



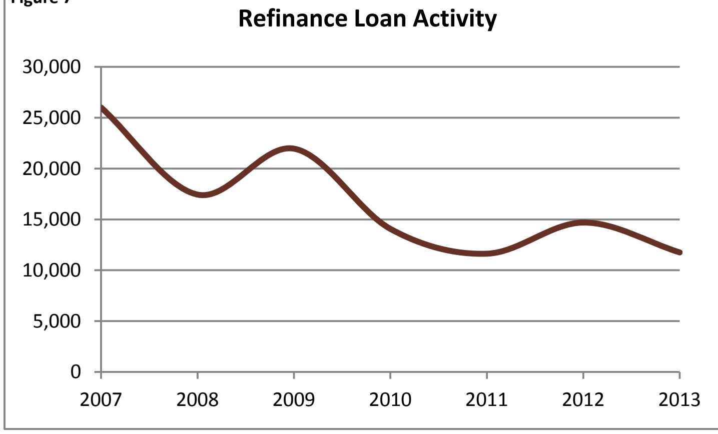
Purchasing home purchase loans accounted for the single largest loan-related activity during this time; in aggregate, loan purchases accounted for 58.7 percent of all home purchase loan activity (Figure 6). During this time period, 3.22 to 1 loans were purchased compared to originated. Loans were denied compared to originated at a ratio of .46 to 1. Interestingly, the purchase to origination ratio has increased over time from 2.6 to 1 in 2007 to 3.09 to 1 in 2013, indicating that lenders are still unwilling to extend credit and are engaged in other areas of the mortgage market.

Meanwhile, the denial to origination ratio contracted from .63 to 1 in 2007 to .27 to 1 in 2013. This denial to origination ratio trend indicates that lenders are increasingly likely to approve a loan application for the purchase of a home compared to denying it. However, the reasons for this are unclear. The number of home purchase loans contracted 43 percent between 2007 and 2013, while the number of denials decreased 75.4 percent. This could indicate that only the upper tier of borrowers are engaged in the home purchase market, which implies that credit requirements are not only preventing, but possibly discouraging less-qualified borrowers from even applying for credit.

In aggregate, between 2007 and 2013 the denial disparity between white and black borrowers for home purchase loans was 2.29, indicating that black borrowers were more than twice as likely to be denied for a loan than white borrowers. The loan origination disparity was 1.62 meaning that white borrowers were over one and a half times more likely to be approved for credit than their black counterparts. The aggregate rate at which black borrowers were denied a home purchase loan was 37.8 percent compared to 16.5 percent for white borrowers. The rate at which home purchase loans were originated to black borrowers was 35.2 percent compared to 57.1 percent for white borrowers. In total, four times as many home purchase loans were made to white borrowers than to black borrowers: 8,161 and 2,038, respectively.

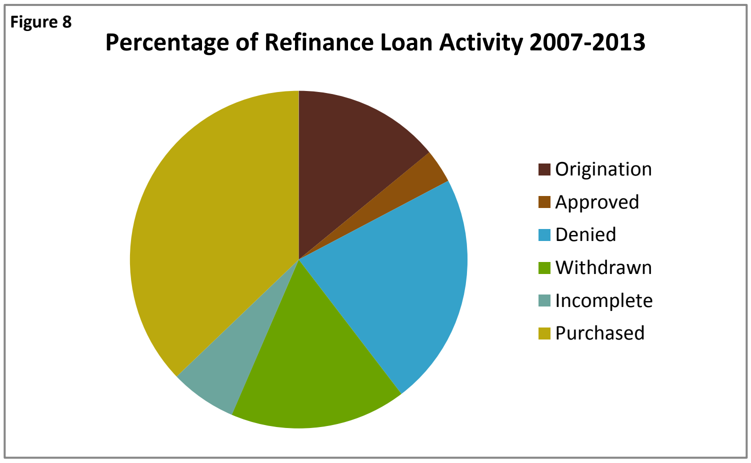
Refinance Loans

Figure 7



Refinance loan activity shows the same downward trend found with home purchase loans. Though the trend is steadily downward, there have been annual increases, most likely as result of federal programs designed to prevent foreclosures in the years immediately following the economic crisis. These programs, along with historically low interest rates, are most likely the cause for the uptick in 2009. Since that time, refinance loan activity has continued to soften. Regardless, total refinance loan activity contracted by 54.7 percent from 25,994 total loan related actions in 2007 to 11,759 in 2013 (Figure 7).

Figure 8



The role that loan purchasing plays as a component to refinance loan activity is less than that of home purchase loans. From 2007 to 2013, refinance loan purchases accounted for 37.1 percent of total refinance loan activity. Refinance loan originations accounted for 14 percent and denials 22.3 percent of total refinance loan activity (Figure 8). During this time, refinance loans were purchased at a rate of 2.64 to 1 and denied at a rate of 1.58 to 1 compared to originated. The ratio of purchased loans to originated loan decreased slightly from 2.66 in 2007 to 2.14 in 2013, while the ratio of denials to origination contracted from 3.04 to 1 in 2007 to .93 to 1 in 2013. The number of refinance loan originations remained relatively stagnant over this time period contracting just 18.8 percent: In 2007, 2,697 refinance loans were made, but only 2,189 such loans were made in 2013. The number of loan purchases decreased by 34.8 percent from 7,194 in 2007 to 4,686 in 2013. The number of loan refinance loans contracted almost the same amount as purchase loans, 75 percent. Again, this could indicate that only upper tier borrowers were applying to refinance existing debt obligations and that credit restrictions and lower post-recession home values were preventing lower-income and/or less qualified borrowers from benefitting from refinancing at historic low interest rates.

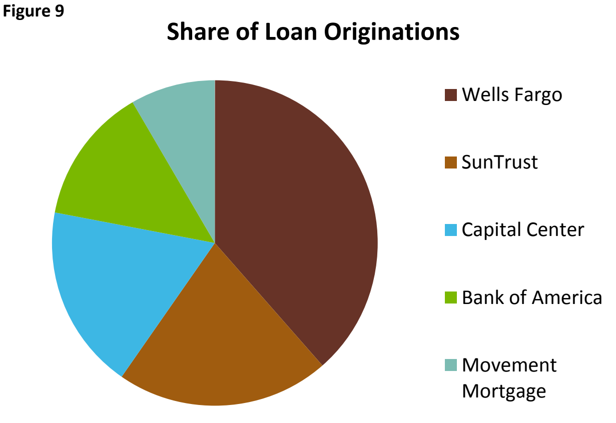
In aggregate, between 2007 and 2013 the denial disparity between white and black borrowers for refinance loans was 1.85, indicating that black borrowers were close to twice as likely to be denied for a loan than white borrowers. The loan origination disparity for refinance loans was 2.27, meaning that white borrowers were over two times more likely to be approved for credit than their black counterparts. The aggregate rate at which black borrowers were denied a refinance loan was 56.7 percent, compared to 30.7 percent for white borrowers. The rate at which home purchase loans were originated to black borrowers was 16.4 percent, compared to 37.3 percent for white borrowers. In total, close to three times as many refinance loans were made to white borrowers than to black borrowers, 10,176 and 3,626, respectively.

Analysis of the Five Largest Mortgage Lenders

The following analysis is intended to examine the aggregate lending dynamics of the city's highest volume lenders[42] from 2010 to 2013. This time period was purposefully chosen in order to isolate current lending practices from the tumultuous market immediately following the recession. In total, these five lenders account for 37.2 percent of all loans made in the city from 2010 to 2013. The lenders were: Wells Fargo, Bank of America, Capital Center, Movement Mortgage, and SunTrust.

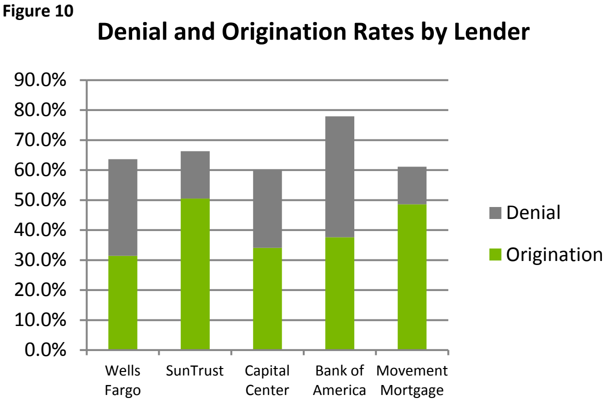
Between 2010 and 2013, the five largest lenders originated 5,525 loans. Wells Fargo made 2,129; SunTrust, 1,169; Capital Center, 1,012; Bank of America, 750; Movement, 465. Figure 9 shows the percentage of loan originations among the five largest lenders. Of the 5,525 total loans, 1,652 were home purchase loans and 3,718 were refinance loans. The remaining 155 originations were for home improvement loans, which are not included in this analysis.

Figure 9



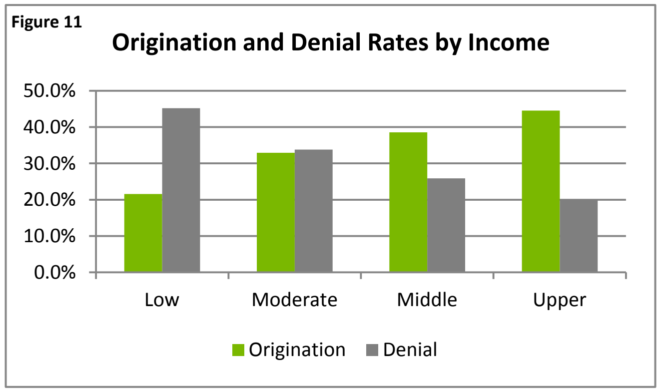
The aggregate denial rate for these five lenders was 40.3 percent, and the origination rate was 36.8 percent. SunTrust exhibited the highest overall origination rate (50.5 percent), followed by Movement Mortgage (48.6 percent). Wells Fargo had the lowest origination rate at 31.4 percent. Bank of America had the highest denial rate at 40.3 percent while Movement Mortgage had the lowest at 12.5 percent (Figure 10).

Figure 10



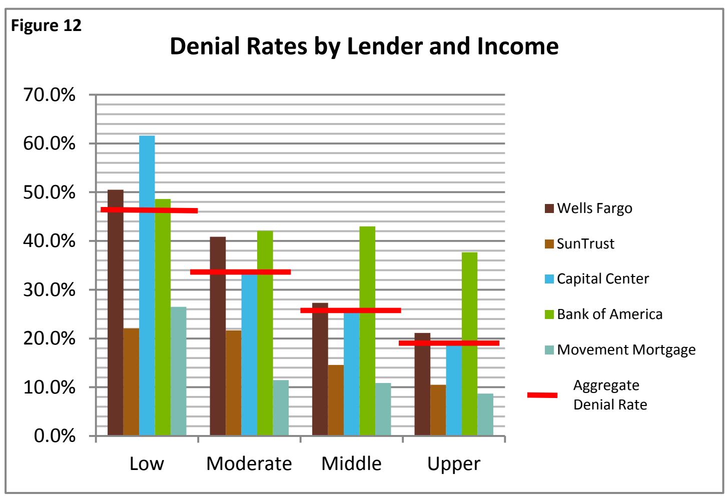
[42] Lenders with the greatest number of loan originations in 2013.

HMDA collects data on the income of the loan applicant and classifies each loan as follows: low, moderate, middle, or upper.[43] Examining the origination and denial rates according to the income of borrowers show that these rates follow general national lending trends: the higher the income of the borrower, the higher the chance of loan approval and conversely, the lower the chance of being denied. The inverse is true among borrowers with lower income; origination rates are lower and denial rates are higher. In aggregate, low-income borrowers experienced the lowest origination rate (21.6 percent) and the highest denial rate (45.2 percent) of all income groups. Upper-income borrowers experienced nearly the complete inverse; they had the highest origination rate (44.5 percent) and the lowest denial rate (19.9 percent) (Figure 11).



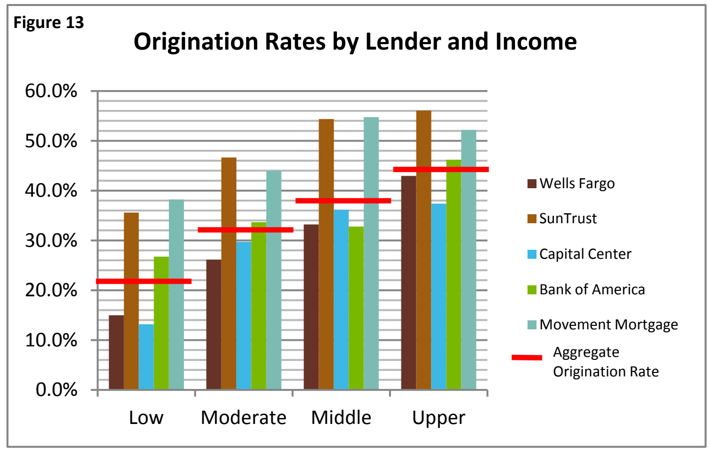
Among these five lenders, low-income borrowers accounted for 8.5 percent of all loan originations; moderate-income borrowers accounted for 19.7 percent; middle-income for 20.2 percent; and upper-income for 45.7 percent. The remaining 5.8 percent of originations went to borrowers with undocumented income.

Comparing the origination and denial rates by income cohorts of each bank to the aggregate comparable rate shows that denial rates for low-income borrowers fall well below the average denial rate (figure 12). The red line in the charts to the right signifies the denial/origination rate of all five lenders in total. Bank of America and Wells Fargo both had higher denial rates than the comparable average for all income groups. Interestingly, this disparity grew as applicant income increased for Bank of America applicants. Denial rates for SunTrust and Movement Mortgage fell well below the comparable rate across all income cohorts.

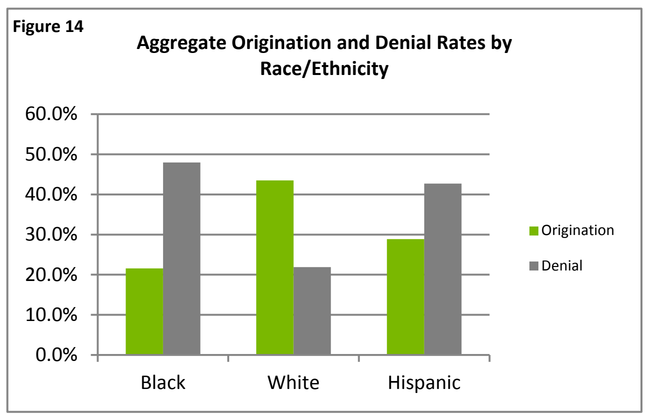


[43] **Low** is less than 50 percent of Median Family Income; **Moderate** is between 50 percent and 80 percent; **Middle** is between 80 percent and 120 percent, and **Upper** is greater than 120 percent. In 2013 the median family income for Richmond was $73,900. Thus, applicants whose income was less than $36,950 were classified as "low"; between $36,950 and $59,120 as "moderate"; between $59,120 and $88,680 as "middle"; greater than $88,680 as "upper."

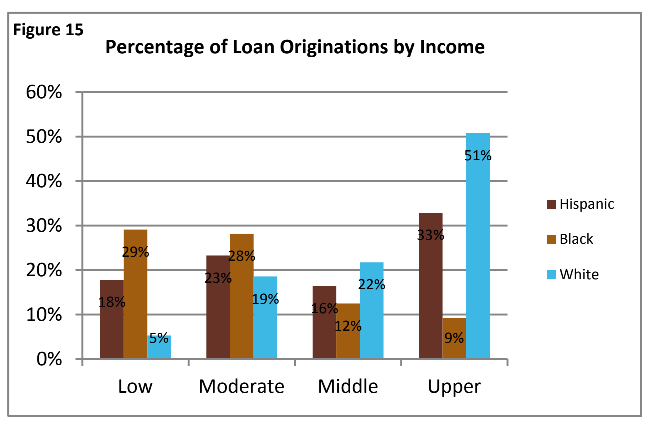
SunTrust and Movement Mortgage had origination rates higher than the comparable rate across all income groups. Origination rates for Capital Center and Wells Fargo were lower than the comparable average across all income cohorts. Capital Center accounted for the highest denial rate and lowest origination rate for low-income borrowers (Figure 13). The trends exhibited by Movement Mortgage and SunTrust indicates that these two lenders are approving loans at significantly hightened rates and denying credit at significantly lower rates than their peers. This could be related to Capital Center operating solely online, preventing less technologically savvy consumers from accessing their products and ultimately appealing to a niche market that is comfortable applying for mortgage credit online.



Examining the data with regard to the race/ethnicity of the loan applicant reveals that white borrowers by far comprise the largest segment of the loan market. Between 2007 and 2013, 4,067 loans were made to white borrowers, compared to 529 loans to black borrowers and just 73 to Hispanic borrowers. Moreover, extreme denial and origination disparities exist between racial and ethnic groups. In aggregate, the denial and origination rate for the five lenders for white borrowers was 21.9 percent and 43.5 percent respectively; for black borrowers the denial rate was 47.9 percent and the origination rate was 21.6 percent; and for Hispanic borrowers the denial rate was 42.7 percent and the origination rate was 28.9 percent (Figure 14).



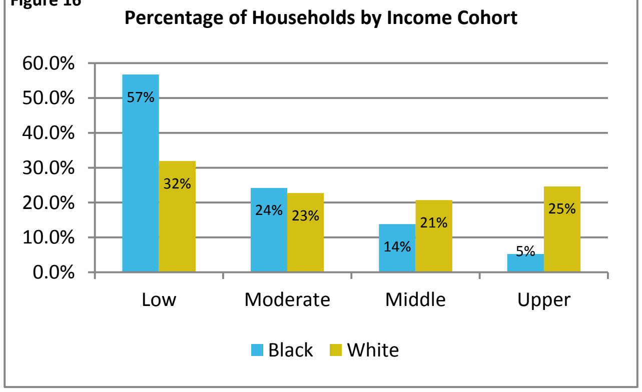
Related to the positive correlation of origination rates in response to higher borrower income is the correlation between borrower income and increased market share; that is, higher-income households are more likely to apply for a loan of any type than a lower-income household. Data for white borrowers exemplifies this trend; low-income borrowers accounted for just five percent of all loan originations and upper-income borrowers accounted for 51 percent (Figure 15). This general trend holds true for Hispanic borrowers, with the exception of middle-income



borrowers; the small sample size (73 total loan originations) may be a factor. Originations to black borrowers exhibit the opposite trend; as borrower income increases, the percentage of loan originations decreases.

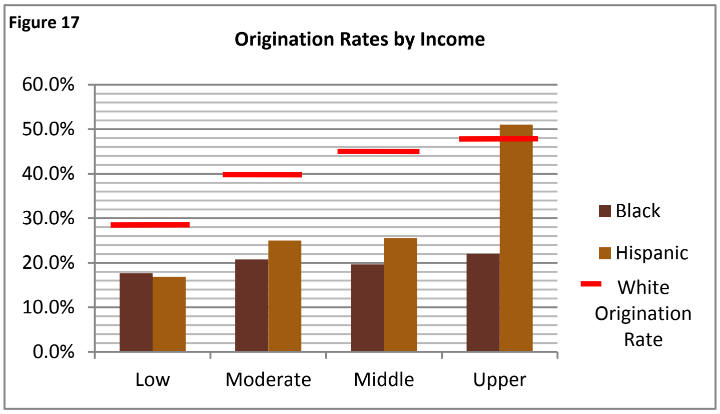
These trends can be partially explained by the simple fact that the number of black households earning more than $88,680 (the threshold for upper-income classification) account for just 5.2 percent of the total number of black households in the city; black households earning less than $36,950 (the upper limit for low-income classification) account for 57 percent of the total number of black households. On the other hand, low-income white households account for 32 percent and upper-income white households account for 25 percent of all white households in the city (Figure 16). Quite simply, there are significantly fewer African-American households in the highest income cohort.

Figure 16



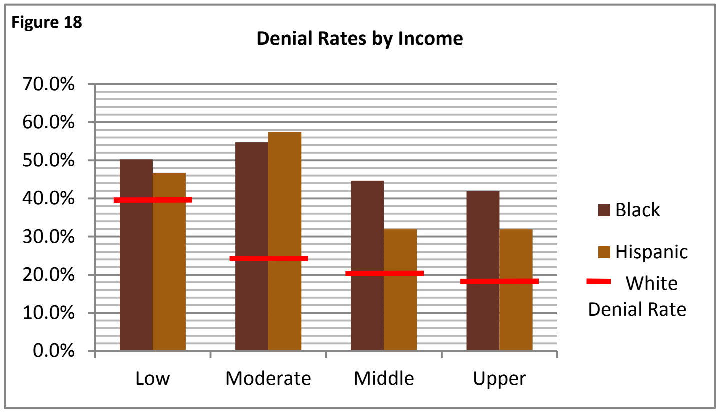
Regardless of income, origination rates are significantly lower for black and Hispanic borrowers than for white borrowers, the exception being upper-income Hispanic borrowers (24 total loans) (Figure 17). The red line in the chart to the right represents the origination and denial rate exhibited by white borrowers. The disparity between black and Hispanic and white origination rates actually increases as borrower income rises, again with the exception of upper-income Hispanics.

Figure 17



Compared to denial rates for white borrowers, rates for black and Hispanic borrowers were significantly higher, regardless of income. Low-income black borrowers were denied 50.2 percent of the time compared to 39.9 percent for white borrowers (Figure 18). This disparity increases in opposition to rising income; upper-income black borrowers exhibited a denial rate of 41.9 percent compared to 18 percent for white borrowers.

Figure 18

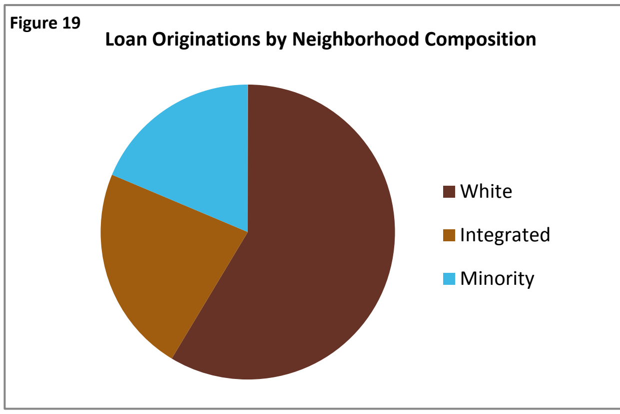


All Loans by Neighborhood Composition

This analysis takes into account the neighborhood composition of the neighborhood where the property for which the loan being applied is located. HMDA data provides the percentage of minorities residing in each census tract.[44] This data was reclassified into three groups: white neighborhoods have minority concentrations less than 30 percent; integrated neighborhoods have a minority concentration between 30 percent and 70 percent; and minority neighborhoods have a minority concentration greater than 70 percent. Within the city, approximately 25 percent of census tracts are classified as white, 25 percent as integrated, and 50 percent as minority.

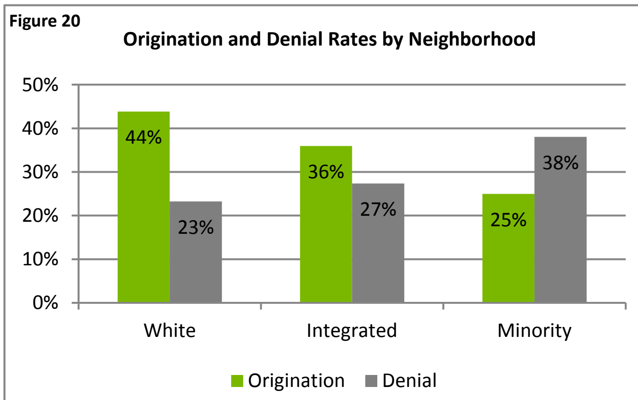
In aggregate, the five largest volume lenders originated 19 percent of their loans in minority neighborhoods, 23 percent in integrated neighborhoods, and 59 percent in white neighborhoods (Figure 19). Given the predominance of minority neighborhoods in the city and the rate of lending activity in them by the city's largest lenders, there is clearly cause for concern.

Figure 19



Loan origination and denial rates varied substantially based upon neighborhood composition. However, the general trend was for the denial rate to increase and the origination rate decrease in response to the percentage of minorities per neighborhood. In aggregate, borrowers experienced an origination rate of 44 percent and denial rate of 23 percent in white neighborhoods, while borrowers in minority neighborhoods experienced a 25 percent origination and 37 percent denial rate (Figure 20).

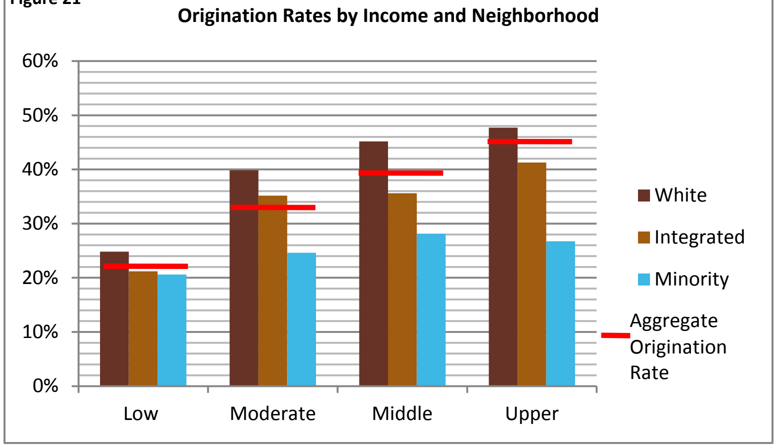
Figure 20



[44] Throughout this analysis, census tract and neighborhood are used synonymously.

Origination rates increased in relation to borrower income regardless of neighborhood composition, though much less dramatically so for borrowers in minority neighborhoods. Origination rates were higher for all income groups in white neighborhoods when compared to the average (Figure 21).

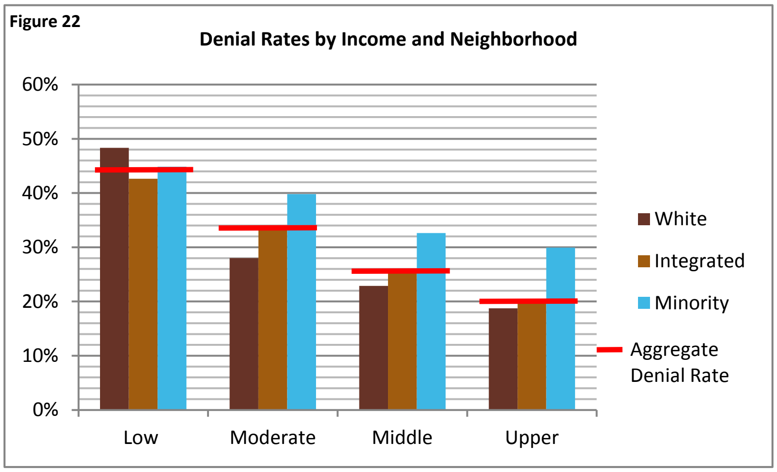
Figure 21



White neighborhoods exhibited the greatest degree of income segregation in terms of loan originations; loans to low-income borrowers accounted for three percent of loans, while 58 percent of loans went to upper-income borrowers. In comparison, upper-income borrowers accounted for 42 percent of loans in integrated neighborhoods and 12 percent in minority neighborhoods.

In total, low and moderate-income borrowers received 57 percent of all loans (587 total loans) in minority neighborhoods, compared to 18 percent (602 total loans) in white neighborhoods and 30 percent (371 total loans) in integrated neighborhoods. This trend can partially be explained by the typically lower property values in minority neighborhoods and relative lack of affordable ownership options in white neighborhoods. It also indicates that qualified low-and moderate-income borrowers exist in these neighborhoods.

Figure 22



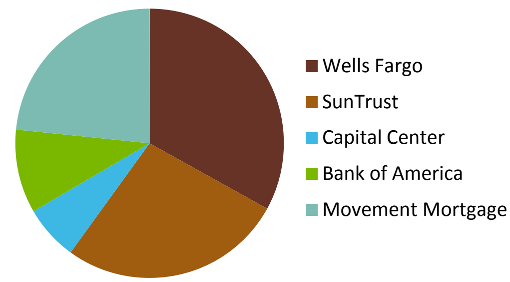
Borrowers of all incomes in minority neighborhoods experienced higher than comparable rates of loan denials, with the notable exception of low-income borrowers (Figure 22). Only low-income borrowers in white neighborhoods experienced denial rates higher than the comparable average. This indicates that low-income borrowers have a slightly more difficult time securing credit in white neighborhoods, which could be directly related to the home prices in white neighborhoods. Borrowers of all incomes, with the exception of low-income, experience a greater denial rate compared to the aggregate rate as their income increases.

PURCHASE LOANS

The five largest volume lenders made 1,652 loans for the sole purpose of purchasing a home in the city between 2010 and 2013. Wells Fargo was the largest originator of home purchase loans in the city, making 546 such loans. SunTrust made 445; Movement, 386; Bank of America, 166; and Capital Center, 109. Figure 23 shows the percentage of home purchase loan originations among the five largest lenders.

Figure 23

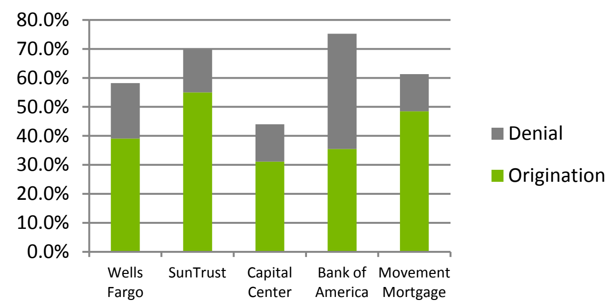
Share of Home Purchase Loans



The aggregate origination rate for these five lenders was 18.8 percent and the denial rate was 43.2 percent. SunTrust had the highest origination rate at 55.0 percent. Bank of America had the highest denial rate at 39.7 percent. Capital Center had both the lowest origination and denial rates at 31.1 and 12.9 percent respectively (Figure 24).

Figure 24

Origination and Denial Rates by Lender



Examining origination and denial rates by income shows that these rates generally follow national lending trends as previously discussed, namely that origination rates increase and denial rates decrease as borrower income rises. Low-income borrowers experienced relatively comparable origination and denial rates at 30.5 percent and 31.4 percent respectively. Upper-income borrowers exhibited a 48.5 percent origination rate and 12.2 percent denial rate (Figure 25).

Figure 25

Origination and Denial Rates by Income

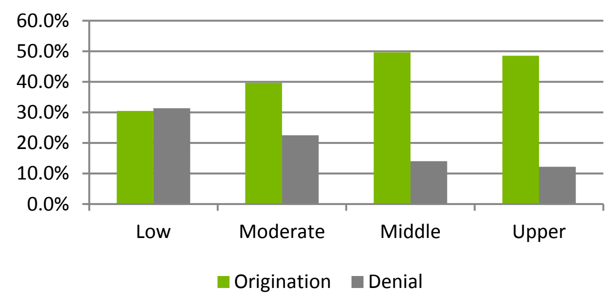
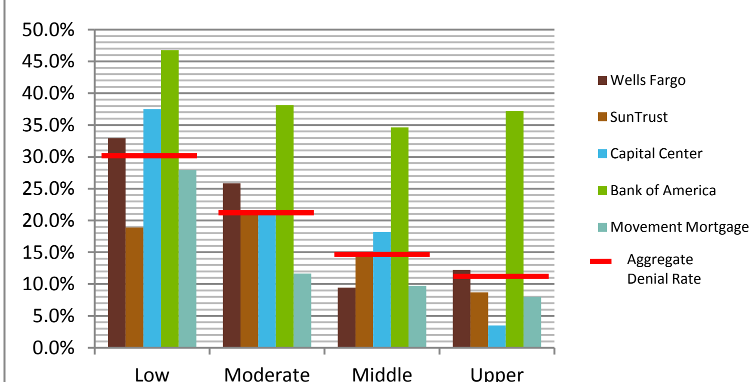


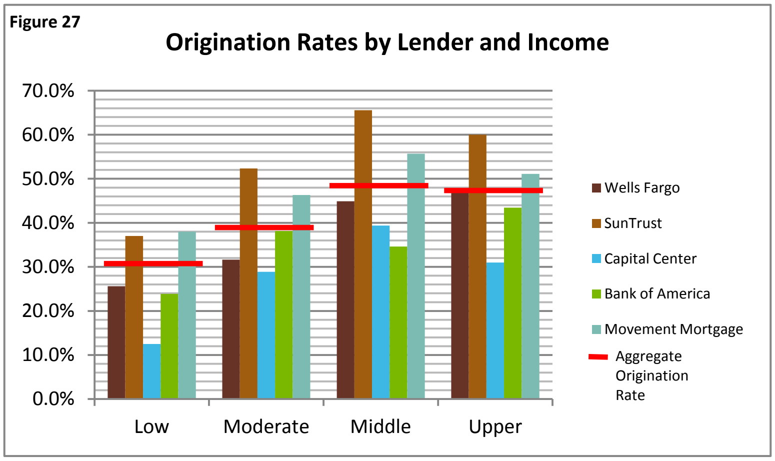
Figure 26

Denial Rates by Lender and Income



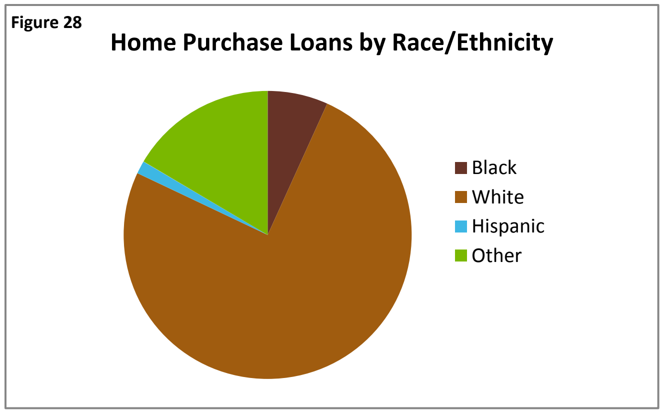
Comparing the origination and denial rates by income cohorts of each bank to the aggregate comparable rate shows that Bank of America had denial rates significantly higher than the aggregate comparable rate across all income groups (Figure 26). This rate is signified by the red line in the charts to the right. This disparity increased from a 15.4 percentage point difference for low-income borrowers to a 25 percentage point difference for upper-income borrowers. Wells Fargo and Capital Center exhibited higher denial rates for low-income borrowers. Wells Fargo also exhibited higher than average denial rates for both moderate-and upper-income borrowers.

Figure 27



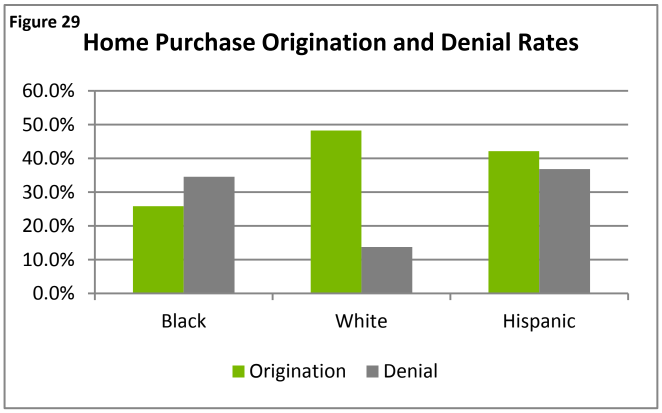
SunTrust and Movement Mortgage were the only lenders that exhibited higher than average origination rates across all income cohorts (Figure 27). Though Wells Fargo, Capital Center, and Bank of America exhibited origination rates lower than the comparable average, this disparity tended to decrease as borrower income increased. In summary, among its peers, Bank of America exhibited the highest denial rates and close to the lowest origination rates regardless of income. Capital Center exhibited denial rates that although not egregious, are higher than the comparable rate, while its origination rates are the lowest among the group, with the exception of middle-income borrowers.

Figure 28



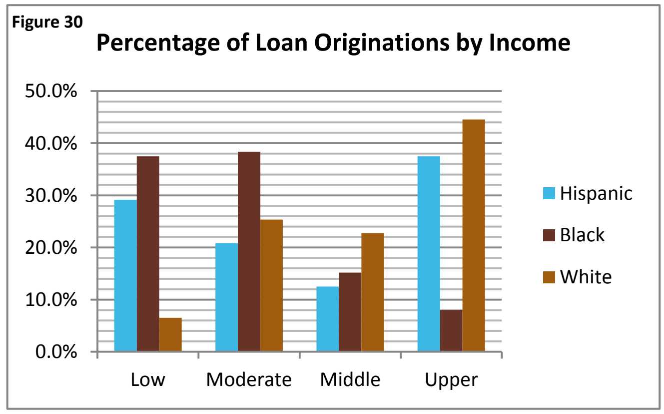
Examining the data with regard to the race/ethnicity of the loan applicant reveals that white borrowers by far comprise the largest segment of the purchase loan market. Between 2007 and 2013, white borrowers accounted for 75.2 percent (1,243) of loans, black borrowers accounted for 6.8 percent (112), and Hispanic borrowers accounted for 1.5 percent (24) (Figure 28). The remaining 16.5 percent (273 loans) of home purchase loans went to other racial/ethnic groups and were not included in this analysis.

Figure 29

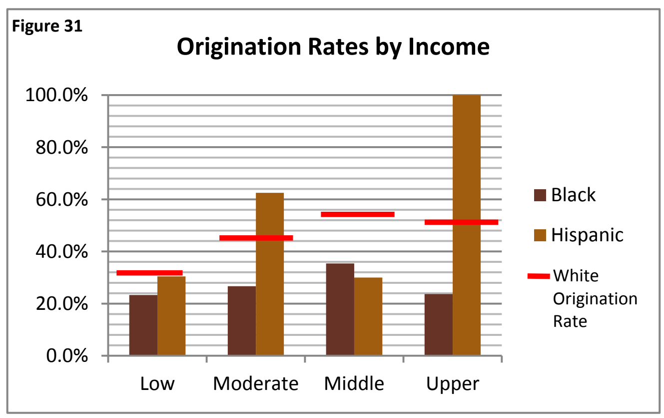


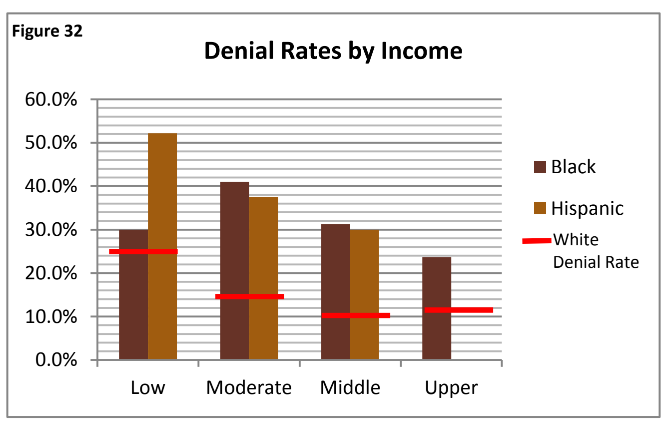
As a whole, borrowers experienced a 43.2 percent origination rate and 18.8 percent denial rate. However, these rates varied according to the race/ethnicity of the applicant (Figure 29). White borrowers experienced a 48.2 percent origination rate and 13.7 percent denial rate; black borrowers experienced a 25.8 percent origination rate and 34.6 percent denial rate; and Hispanic borrowers experienced a 42.1 percent origination rate and 36.8 percent denial rate.

There are numerous legitimate reasons why origination and denial rates differ between various racial/ethnic groups. However, the vast difference in the total number of loans made to each group within the city is cause for concern. The current demographic composition of the city—48 percent black, 40 percent white, and six percent Hispanic—clearly shows how under-represented black and Hispanic borrowers are in the mortgage market.



Examining the percentage of loans made to each racial/ethnic group by income reveals additional disparities. Home purchase loans to upper-income borrowers accounted for the single largest share of loans made to both Hispanic and white borrowers (Figure 30). Upper-income borrowers represent the smallest share of loans made to black borrowers. In fact, 75.9 percent of loans (85 total loans) made to black borrowers were to low-and moderate-income applicants, compared to 50.0 percent (12 total loans) and 31.9 percent (396 total loans) of Hispanic and white borrowers respectively. Low-income white borrowers accounted for just 6.5 percent (81 total loans) of purchase loan originations.





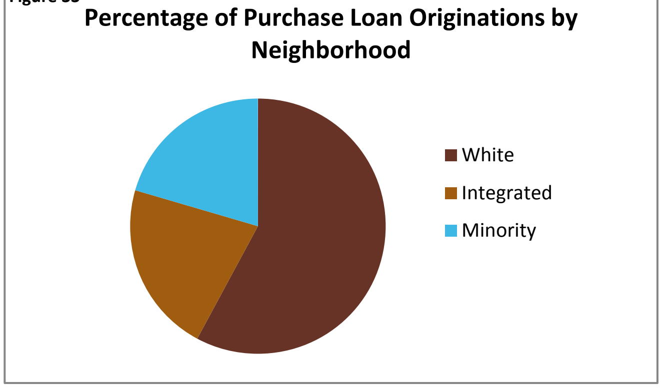
Denial and origination disparities among black and Hispanic borrowers by income cohort reveal stark disparities when compared to the comparable rates experienced by white borrowers. Origination rates for black borrowers are well below the rate experienced by white borrowers regardless of income (Figure 31). In fact, this disparity increases from 9.9 percentage points for low-income borrowers to 27.5 percentage points for upper-income borrowers. Moderate and upper-income Hispanic borrowers exhibited origination rates higher than comparable white borrowers. The origination rate for moderate-income borrowers was 17.4 percentage points higher and the rate for upper-income borrowers 48.8 percentage points higher. However, the sample size is extremely small (five total loans to moderate-income and nine total loans to upper-income) and may not be an accurate reflection of what would occur if the sample size was larger.

With the exception of upper-income Hispanic borrowers, who experienced a 100 percent origination rate (and conversely no denial rate), the denial rate for both black and Hispanic borrowers is significantly higher across all income groups compared to white borrowers (Figure 32). This disparity is highest among low-income Hispanic and moderate-income black borrowers. However, unlike the origination rates, the denial rate disparity between black and Hispanic and white borrowers decreases in response to income increasing.

Purchase Loans by Neighborhood Composition

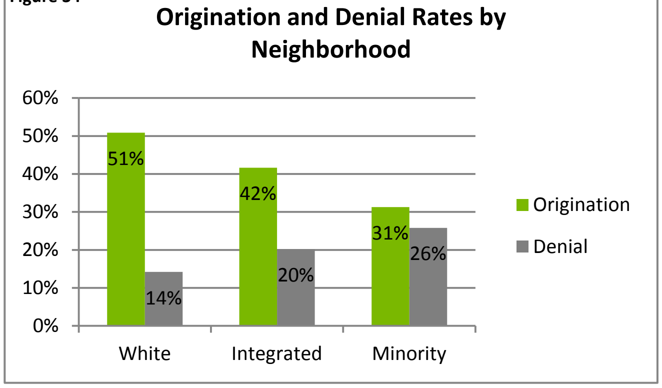
The largest five lenders originated 57.9 percent of loans (956) for properties located in white neighborhoods, 20.5 percent (338) for properties in minority neighborhoods, and 21.7 percent (358) for properties in integrated neighborhoods (Figure 33).

Figure 33



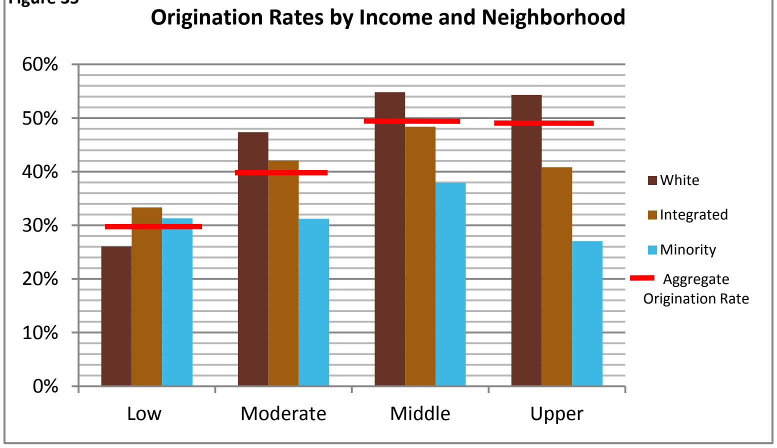
Borrowers purchasing a home in white neighborhoods experienced an origination rate of 51 percent, 42 percent in integrated neighborhoods, and 31 percent in minority neighborhoods. The denial rate in white neighborhoods was 14 percent, compared to 20 percent in integrated neighborhoods and 26 percent in minority neighborhoods (Figure 34).

Figure 34

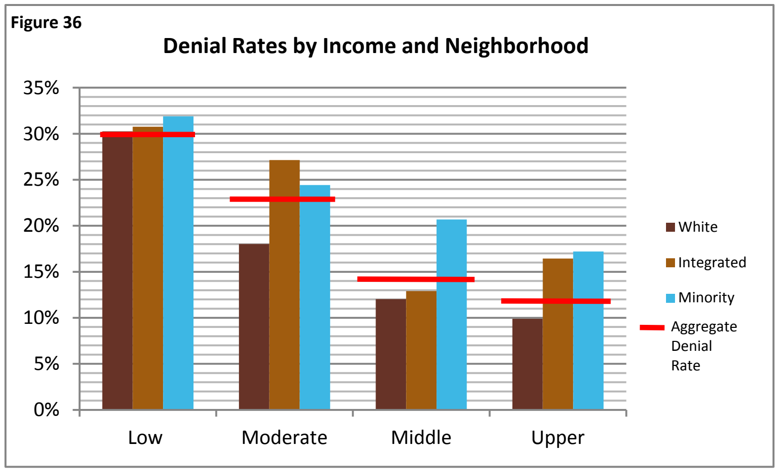


Borrower income was a factor in loan denial and origination rates when examining the minority composition of neighborhoods. Generally, origination rates increased and denial rates contracted as income increased. Borrowers purchasing in white neighborhoods, with the exception of low-income borrowers, experienced origination rates above the comparable aggregate rate (Figure 35). The red line represents the origination rate experienced by borrowers of each income group, regardless of neighborhood type. Low-and moderate-income borrowers in integrated neighborhoods were slightly above the comparable rates, as were low-income borrowers in minority neighborhoods only. Loans to borrowers in minority neighborhoods

Figure 35

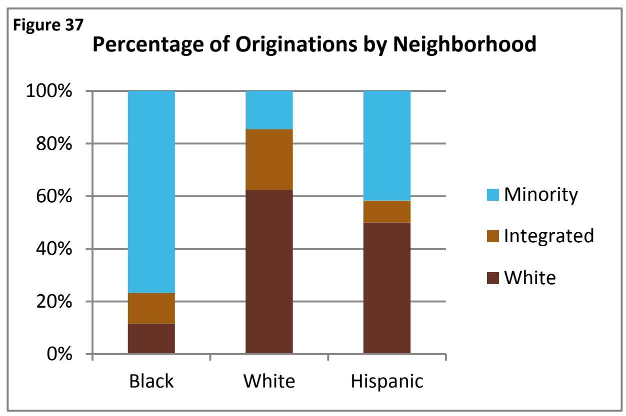


were the only ones to experience an increase to the comparable aggregate rate; this ratio increased 20 percentage points from low-to upper-income borrowers.



Borrowers of all incomes experienced higher than the average comparable denial rates in both minority and integrated neighborhoods, with the exception of middle-income borrowers in integrated neighborhoods. The red line represents the denial rate experienced by borrowers of each income group, regardless of neighborhood type (Figure 36). Of note, borrowers in minority neighborhoods exhibited a five percentage point increase between the denial rate and comparable aggregate rate as income moved from low to upper-income.

Purchase loans by Neighborhood and Race/Ethnicity

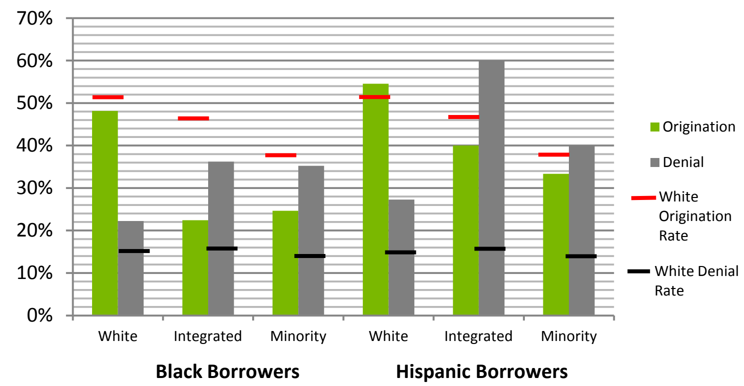


Black borrowers overwhelmingly purchased homes in minority neighborhoods while white borrowers largely purchased homes in white neighborhoods (Figure 37). Seventy-seven percent of all purchase loan originations to black borrowers were for properties in minority neighborhoods, compared to just 12 percent in both white and integrated neighborhoods. Sixty-two percent of all purchase loan originations to white borrowers were for properties located in white neighborhoods, compared to 23 percent in integrated neighborhoods and 14 percent in minority neighborhoods. Purchase loans to Hispanic borrowers were split relatively equally between white and minority neighborhoods at 50 percent and 42 percent respectively; just eight percent of Hispanic borrowers purchased homes in integrated neighborhoods.

Black borrowers have, for a variety of reasons, limited access to the full array of housing options throughout the city. This could be a result of the structure of the real estate industry, personal preference, or the availability and location of affordable housing, to name a few. It could also be the result of discriminatory behavior on behalf of mortgage lenders. It is important to note that only 112 home purchase loans were originated to black borrowers and 24 to Hispanic borrowers, compared to 1,243 to white borrowers. These disparities, along with the low number of loans to black borrowers outside of minority neighborhoods, is cause for serious concern as the City works to build integrated communities.

Figure 38

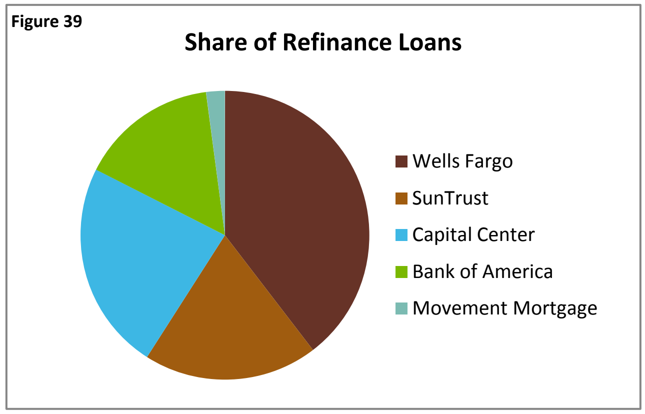
Origination and Denial Rates by Neighborhood for Borrowers by Race/Ethnicity



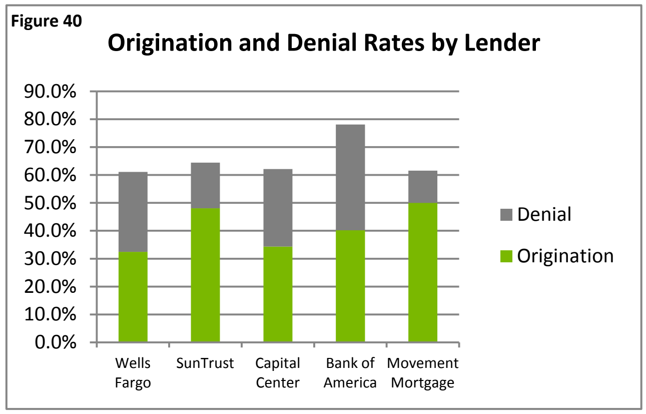
Significant disparities exist between black, Hispanic, and white borrowers when comparing the minority composition of the neighborhood. Regardless of neighborhood composition, black and Hispanic borrowers faced higher denial and lower origination rates than did white borrowers, the only exception being Hispanic purchasers in white neighborhoods (Figure 38). The origination disparities between black and white borrowers were significantly higher in all neighborhoods than the disparities between Hispanic and white borrowers. Interestingly, black borrowers purchasing homes in white neighborhoods displayed the lowest origination disparity (four percentage points) compared to the white rate, most likely a result of the fact that only 13 loans were made to this group. Denial disparities were much larger between black and white borrowers than between Hispanic and white borrowers. The denial disparity between black and white borrowers increased according to the minority composition of the neighborhood. In white neighborhoods, the black denial rate was nine percentage points higher than the white rate and increased to 23 points in minority neighborhoods.

Given the low number of purchase loans to blacks and Hispanics, meaningful analysis of origination and denial disparities in relation to borrower income, neighborhood type, and applicant race/ethnicity is difficult. However, a few disparities merit mention: the disparity between origination rates for black and white borrowers of low-moderate-and middle-incomes in minority neighborhoods was roughly the same (13 points lower for black borrowers). However no such disparity exist for upper-income borrowers. In an equitable market, disparities would tend to decrease in relation to applicant income regardless of neighborhood composition and/or the applicant race/ethnicity. However, the city's housing market displays no such trends.

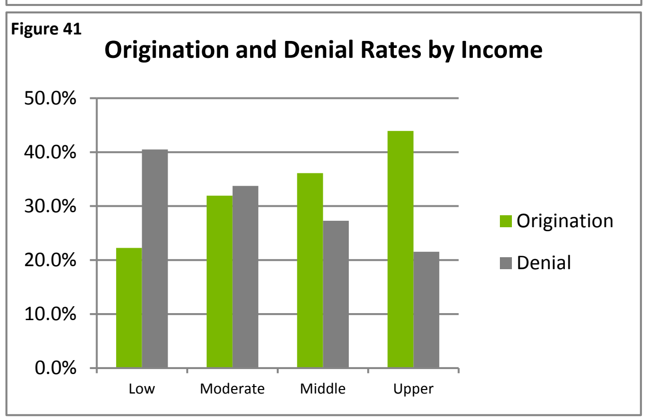
REFINANCE LOANS



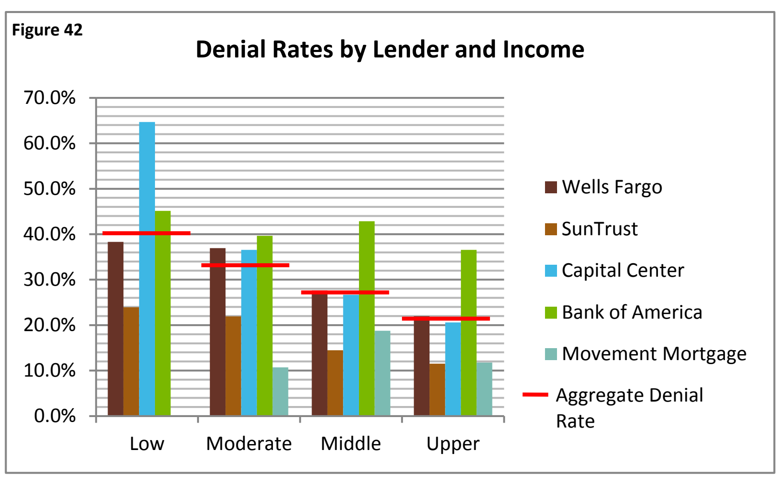
The five largest lenders made a total of 3,718 refinance loans between 2010 and 2013. As with home purchase loans, Wells Fargo made the most refinance loans in the city, accounting for 1,472 such loans; Capital Center made 871; SunTrust, 724; Bank of America, 573; and Movement Mortgage, 78. Figure 39 shows the percentage of refinance loan originations among the five largest lenders.



The aggregate origination rate for these five lenders was 36.6 percent, and the denial rate was 27.7 percent. Movement Mortgage had the highest origination rate at 50.0 percent and also the lowest denial rate at 11.5 percent. Bank of America had the highest denial rate at 37.9 percent. Wells Fargo exhibited the lowest origination rate, 32.4 percent (Figure 40).



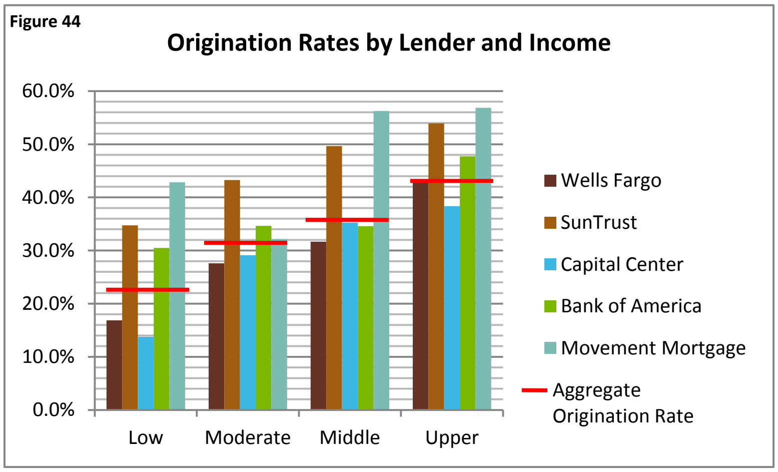
Examining origination and denial rates by income shows that these rates generally follow national lending trends as previously discussed, namely that origination rates increase and denial rates decrease as borrower income rises. Unlike for purchase loans, low-income borrowers experienced a lower origination rate and higher denial rate, 22.3 percent and 40.5 percent respectively. Upper-income borrowers experienced the greatest difference between origination and denial rates, 43.9 percent and 21.5 percent respectively (Figure 41).



Comparing the origination and denial rates across income cohorts of each lender to the aggregate comparable rate shows that Bank of America exhibited higher denial rates across all income groups (Figure 42). In fact, this disparity increased in opposition to income; the denial rate for low-income borrowers was 4.6 percentage points higher than the comparable rate and grew to 15 percent for upper-income borrowers. Capital Center had the highest denial disparity for low-income borrowers, 64.7 percent compared to the 40.5 percent comparable rate.

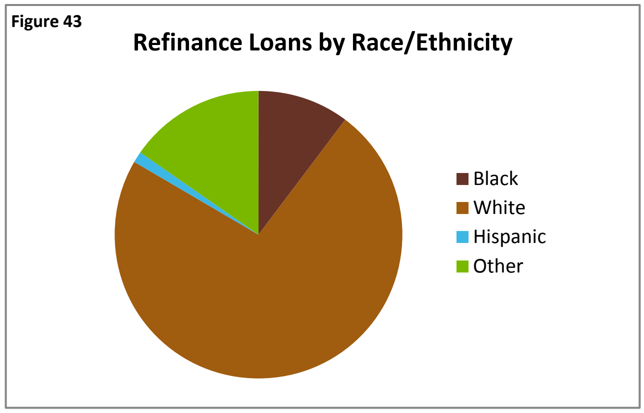
As with purchase loans, SunTrust and Movement Mortgage exhibited higher than average origination rates across all income groups, while Bank of America had higher than average origination rates for all income groups except middle-income borrowers (Figure 44). While Wells Fargo had lower than the comparable origination rates across all income groups, the disparity grew increasingly small in relation to income; low-income borrowers experienced an origination rate 12.5 percentage points below the comparable average. The origination rate for upper-income borrowers was just one point below the comparable average rate.

Figure 44



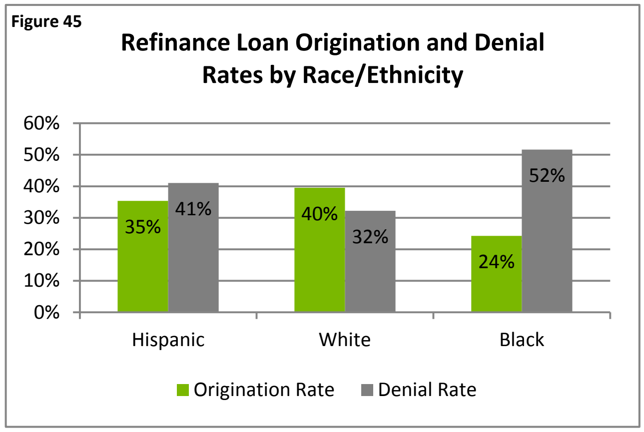
Examining the data with regard to the race/ethnicity of the loan applicant reveals that white borrowers by far comprise the largest segment of the loan market. Between 2007 and 2013 white borrowers accounted for 73.2 percent (2,720) of loans, black borrowers accounted for 10.3 percent (382), and Hispanic borrowers accounted for 1.2 percent (46) (Figure 43). The remaining 15.3 percent (570 loans) of refinance loans went to other racial/ethnic groups and were not included in this analysis.

Figure 43



In total, refinance loan applicants experienced a 36.6 percent origination and 27.7 percent denial rate. However, these rates varied significantly according to the race/ethnicity of the loan applicant. White borrowers exhibited the lowest denial and highest origination rates, 32 percent and 40 percent, respectively. Black borrowers experienced the lowest origination and highest denial rates, 24 percent and 52 percent respectively (Figure 45). Given the disproportionately small share of refinance loans made to black and Hispanic borrowers combined with

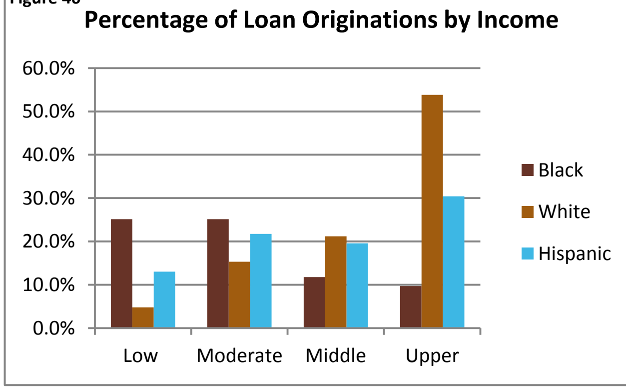
Figure 45



their heightened difficulty in being approved for a loan, it is clear that these two groups are marginalized in the refinance loan market. The obvious downside of this fact is that these borrowers are unable to take advantage of the financial savings associated with refinancing an existing mortgage at low interest rates. The associated savings over the life of the loan is tremendous and would benefit lower-income homeowners.

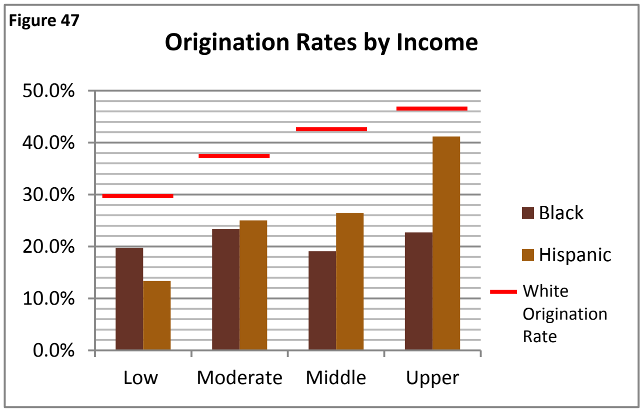
Examining the percentage of loans made to each racial/ethnic group by income reveals additional disparities (Figure 46). The obvious trend is that the share of loans made increases as borrower income rises for both white and Hispanic borrowers. The opposite is true for black borrowers; their share of loans decreases in response to income. Refinance loans to upper-income borrowers account for the single largest share of loans made to both Hispanic and white borrowers, yet the smallest share of loans to black borrowers. Loans to upper-income white borrowers represent the single largest share of loans made to any income group regardless of race/ethnicity; 53.8 percent of all loans made to white borrowers went to this income group. Conversely, 50.2 percent of loans (192 total loans) were made to low-and moderate-income black applicants. This is most likely influenced by refinance loan programs targeted to lower-income borrowers in the wake of the housing crisis.

Figure 46



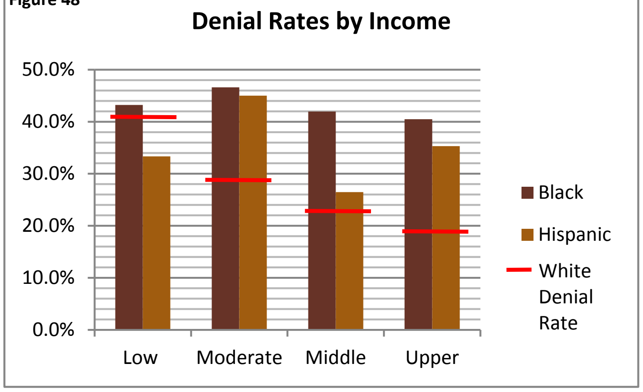
Denial and origination disparities among black and Hispanic borrowers by income cohort reveal stark disparities when compared to the comparable rates experienced by white borrowers (Figure 47). Origination rates for white and Hispanic borrowers exhibit an obvious relationship to borrower income, increasing in response to income. However, origination rates for black borrowers remain relatively flat in opposition to income. Moreover, the disparity between the origination rates for black borrowers increased in comparison to comparable rates; for low-income borrowers the origination rate was 9.3 percentage points below the white rate; this gap increased to 23.9 percentage points among upper-income borrowers. This disparity decreased for Hispanic borrowers; the difference between the origination rate for upper-income Hispanic borrowers was just 5.4 percentage points lower than the rate for white borrowers.

Figure 47



With the exception of low-income Hispanic borrowers, denial rates were higher for black and Hispanic borrowers across all income groups (Figure 48). The denial disparity between black and white borrowers increased in response to income. Low-income black borrowers exhibited a denial rate 1.7 percentage points higher than low-income whites; this disparity increased to 20.7 percentage points for upper-income black borrowers. Denial rates for Hispanic borrowers were likewise higher for upper-income borrowers compared to white borrowers.

Figure 48

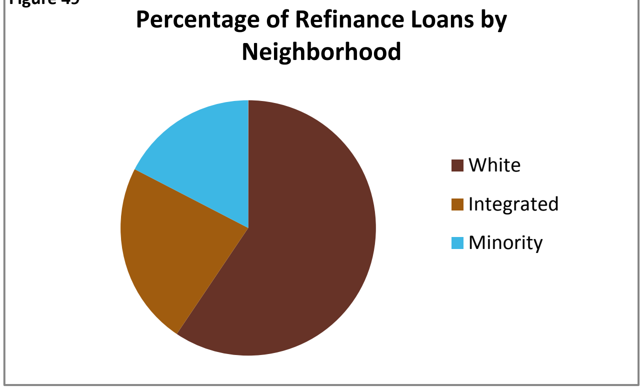


In summary, the disparity and origination disparity trends indicate that the current refinance loan market is not currently aligned to serve black and Hispanic borrowers of any income. When the total number of loan originations is compared to these disparities, it is clear that black and Hispanic borrowers are grossly under-represented in the refinance market. The consequences of this could serve to further remove wealth-building opportunities from these groups as they are unable to benefit from fully participating in the refinance loan market.

Refinance Loans by Neighborhood Composition

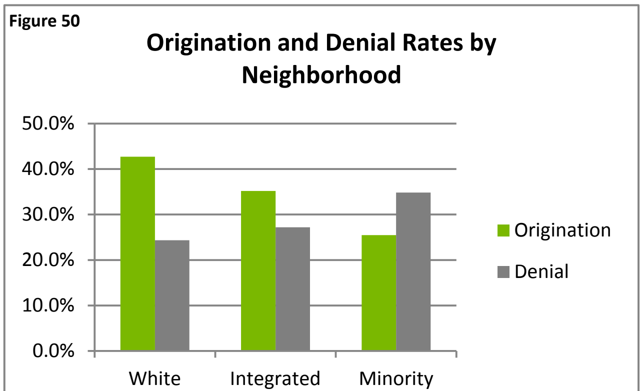
As with home purchase loans, the largest share of refinance loans went to borrowers in white neighborhoods (Figure 49); 59.4 percent of loans (2,210) originated by the largest five lenders were for properties located in white neighborhoods, 23.2 percent (861) for properties in integrated neighborhoods, and 17.4 percent (647) for properties in minority neighborhoods.

Figure 49



Borrowers applying for a refinance loan for properties located in white neighborhoods experienced the highest origination rate, 42.7 percent and the lowest denial rate, 24.4 percent (Figure 50). Overall, origination rates contracted in response to the presence of minorities in neighborhoods, and denial rates increased. The overall origination rate in minority neighborhoods was 17.2 percentage points lower than in white neighborhoods; the denial rate was 10.5 percentage points higher.

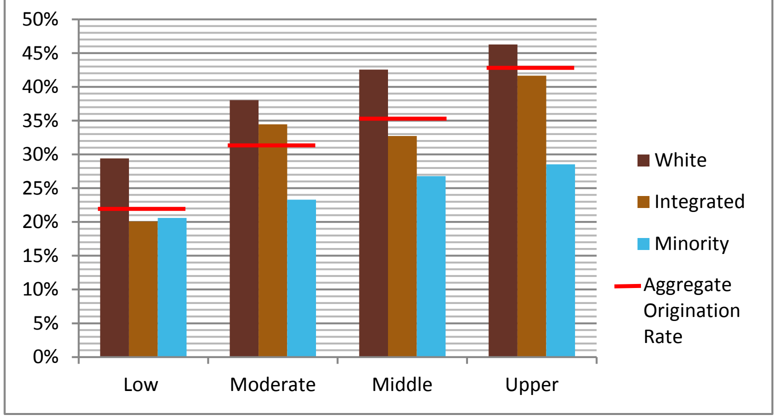
Figure 50



Examining the origination and denial rates for each of the four income groups by neighborhood reveals additional disparities in the refinance loan market. Regardless of income, borrowers in white neighborhoods experienced origination rates in excess of the rate experienced by borrowers of comparable income (Figure 51). Conversely, borrowers in minority neighborhoods experienced origination rates well below the comparable aggregate rate. Moreover, this disparity increased in response to income only for borrowers in minority neighborhoods. The origination rate for low-income borrowers in minority neighborhoods was 1.7 percentage points lower than the comparable rate and increased across every income group; upper-income borrowers in minority neighborhoods experienced an origination rate 15.4 percentage points higher than the comparable rate.

Figure 51

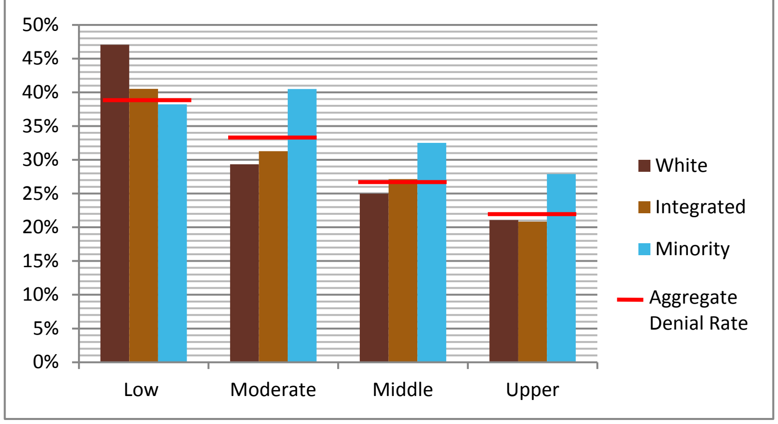
Origination Rates by Income and Neighborhood



Neighborhood refinance loan denial rates exhibited slightly less variance according to income than did origination rates. Among borrowers in white neighborhoods, only low-income borrowers exhibited a denial rate in excess of the comparable aggregate rate (Figure 52). With the exception of low-income borrowers, borrowers in minority neighborhoods displayed higher denial rates across all income groups. This disparity increased in response to borrower income; low-income borrowers in white neighborhoods experienced a denial rate 2.3 percentage points lower than the comparable rate, and upper-income borrowers experienced a denial rate 6.3 percentage points higher.

Figure 52

Denial Rates by Income and Neighborhood

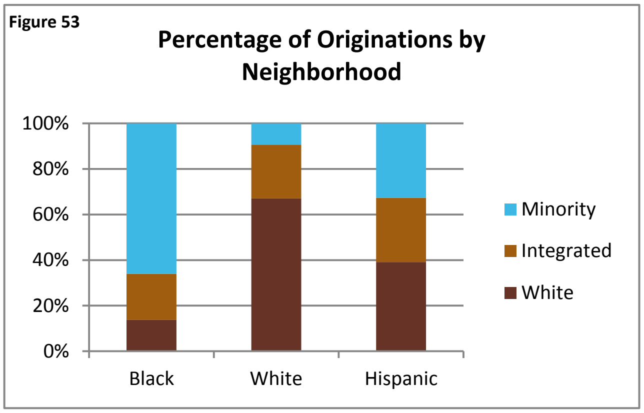


Refinance Loans by Neighborhood and Race/Ethnicity

This analysis examines the role that the race/ethnicity and income of a borrower has on lending outcomes in various neighborhoods.

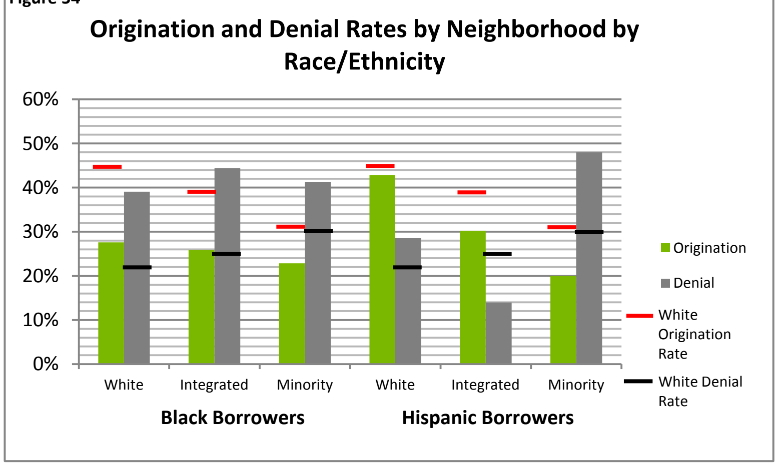
Refinance loans are a good indicator of the city's segregated housing patterns, as they are tied to a property currently owned by the loan applicant. As such, black borrowers overwhelmingly received loans in minority neighborhoods, while white borrowers received the vast majority of loans in white neighborhoods. Minority neighborhoods accounted for 66.0 percent of refinance loans made to black borrowers; integrated neighborhoods accounted for 20.2 percent; and white neighborhoods for 13.9 percent. White neighborhoods accounted for 67.1 percent of refinance loans made to white borrowers; integrated neighborhoods for 23.6 percent; and minority neighborhoods for 9.3 percent. Refinance loan originations to Hispanic borrowers were relatively equally dispersed among neighborhoods (Figure 53).

Figure 53



Comparing the lending outcomes of black and Hispanic borrowers to white borrowers based on the neighborhood reveals further disparities. The red line represents the comparable white origination rate, and the black line represents the comparable white denial rate in the chart to the right. The most apparent trend is that of the white origination rate declining in relation to the increase in minority neighborhood concentration, while the white denial rate increases in relation to the increase in minority neighborhood concentration (Figure 54). The origination rate disparity exhibited by black borrowers was most severe in white and integrated neighborhoods, 18.8 and 12.8 percentage points lower, respectively, than comparable white origination rates. In minority neighborhoods, this disparity contracted to 7.9 percentage points below the white rate. The denial rate disparity for black borrowers contracted in response to neighborhood type. In white neighborhoods, the denial rate for black borrowers was 17.1 percentage points higher than for white borrowers; in minority neighborhoods, it was 11.4 percentage points higher.

Figure 54



The origination rate disparity for Hispanic borrowers was most pronounced in integrated and minority neighborhoods. The origination rates were 8.5 and 10.7 percentage points lower than for the comparable white rates. The denial rate disparity for Hispanic borrowers was most pronounced in minority neighborhoods, being 18.1 percentage points higher.

This analysis indicates that the percentage of minorities in a neighborhood has an impact on the lending outcomes of borrowers. All borrowers generally exhibited higher denial rates and lower origination rates in minority neighborhoods compared to white neighborhoods. Exacerbating this issue is the fact that significantly fewer, in terms of the total number, loans were made to black and Hispanic borrowers. In all, this is strong evidence that the refinance loan needs of the city are not being met.

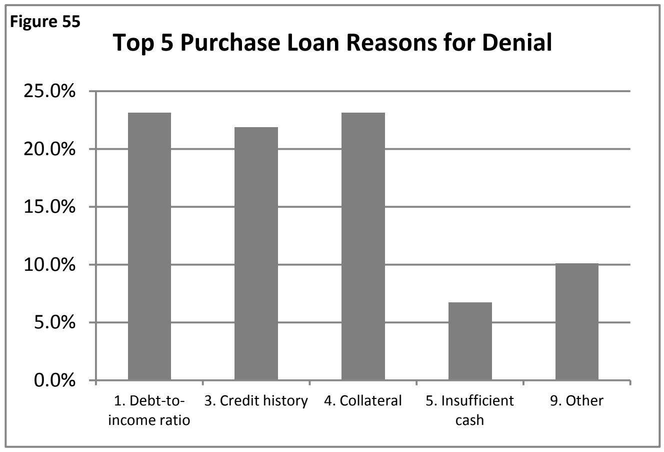
Limited access to refinance loans, in particular the advantage afforded by historically low interest rates, will detrimentally impact the long-term financial prospects of borrowers denied access to the refinance loan market. Over the life of their loan, they will pay substantially more than if they were able to refinance at a lower interest rate. Since homeownership is a crucial factor in the acquisition of wealth, the inability of lower-income homeowners to reap the benefits of the current refinance market places them under additional financial stress.

Loan Denials

HMDA collects information as to the reason a loan is denied. These reasons include: 1. debt-to-income ratio, 2. employment history, 3. credit history, 4. collateral, 5. insufficient cash such as down payment or closing costs, 6. unverifiable information, 7. incomplete credit application, 8. denial of mortgage insurance, and 9. other. This final series of analysis builds upon the previous analysis, but examines the reason that the loan was denied. This will provide insight into the specific reason that borrowers were denied a loan and, further, provide evidence for remedial actions that the City may take to increase minority access to lending.

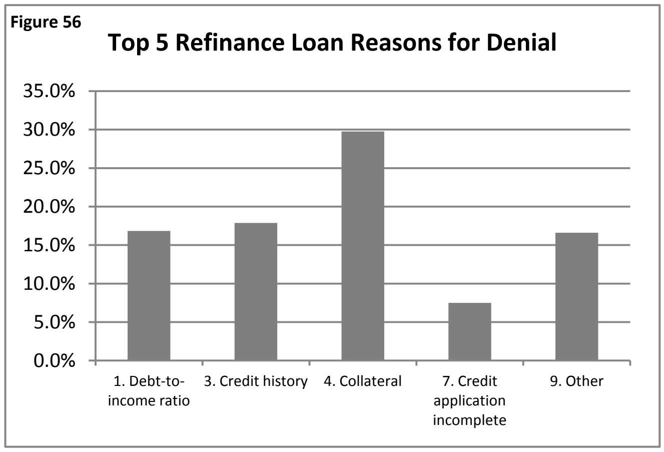
For loans for the sole purpose of purchasing a home, both debt-to-income and lack of sufficient collateral were the cause of denial 23.1 percent of the time. Credit history was the reason for denial 21.8 percent of the time. The “other” category accounted for 10.1 percent of denials and insufficient cash, 6.7 percent (Figure 55).

Figure 55



Examining the denial reasons for refinance loans reveals that lack of sufficient collateral accounted for 29.8 percent of loan denials. Credit history accounted for 17.9 percent of loan denials, debt-to-income accounted for 16.8 percent, “other” accounted for 16.6 percent; and incomplete credit applications accounted for 7.5 percent (Figure 56). Given the fact that property values decreased significantly during this time period in comparison to previous years, the high rate of lack of collateral denial reason indicates that many borrowers who applied to refinance their mortgages were underwater.

Figure 56



The three predominant reasons for loan denials among white applicants for home purchase loans were: lack of collateral (30.2 percent), debt-to-income (22.4 percent), and credit history (15.5 percent) (Figure 57). Black applicants were denied home purchase loans for similar reasons, but at significantly heightened rates. The predominant factor for which black applicants were denied home purchase loans was credit history (44.0 percent), followed by debt-to-income ratio (26.0 percent) and insufficient cash (10.0 percent) (Figure 58). Given the disparate impact of economic downturns on minority households, it is of little surprise that credit history was the predominant reason for home purchase loan denials among black applicants. Debt-to-income accounted for a relatively equal share of denials between black and white applicants (26.0 and 22.4 percent respectively). The "other" category for loan denial was similarly equal between black and white applicants, 6.9 and 6.0 percent respectively.

Loan denial reasons between black and white applicants for refinance loans exhibited different trends. The three predominant denial reasons for white applicants were: lack of collateral (31.1 percent), debt-to-income ratio (18.7 percent), and credit history (14.6 percent) (Figure 59). The three predominant reasons for refinance loan denials among black applicants were: credit history (27.3 percent), lack of collateral (25.5 percent), and other (16.4 percent) (Figure 60). The "other" category accounted for 17.2 percent of refinance loan denials among white applicants, slightly higher than for black applicants.

Figure 58

Top 3 Purchase Loan Denial Reasons, White Applicants

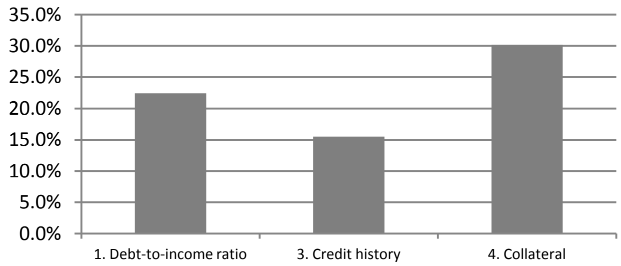


Figure 57

Top 3 Purchase Loan Denial Reasons, Black Applicants

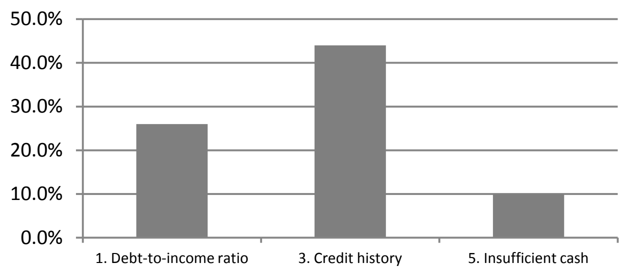


Figure 59

Top 3 Refinance Loan Reasons for Denial, White Applicants

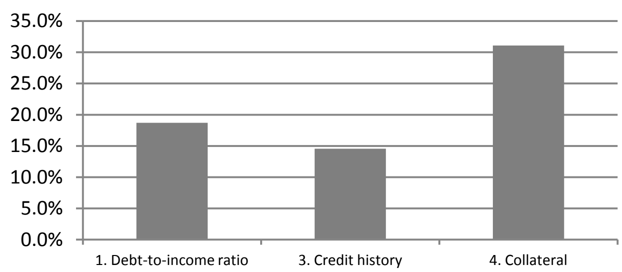
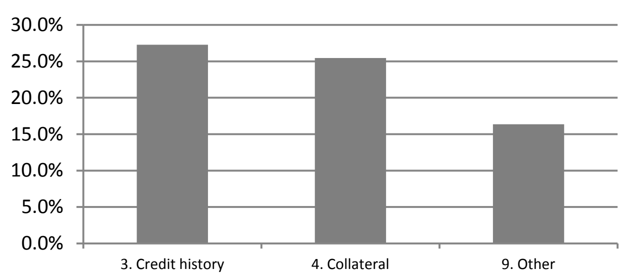


Figure 60

Top 3 Refinance Loan Reasons for Denial, Black Applicants



In summary, debt-to-income ratio and credit history were significant issues for both black and white applicants seeking to purchase a home. While collateral was a significant issue for white applicants, it was significantly less of a factor for black borrowers (30.2 and 6.0 percent, respectively). A possible explanation for this disparity could be due to the HMDA reporting process, in which the predominant reason for denial is typically the first issue of concern that appears during the underwriting process. Thus, black applicants are denied before collateral is even taken into account. For refinance loans, credit history and collateral were problematic for white and black borrowers alike. This issue is most likely due to the fact that many homeowners have outstanding debt (existing mortgages) greater than the current value of their home.

Regression Analysis 1

This model examines the relationship between the total number of loans made in a census tract and the percentage of residents of the tract who are racial and/or ethnic minorities when accounting for the influence of the average income in a census tract, the number of owner-occupied units in a census tract, and the number of one-to-four family housing units (i.e., not multifamily) in a census tract (Table 1). These variables are collected by HMDA and were chosen because of their potential influence on mortgage lending decisions.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean
Tract racial/ethnic minority population (percentage)	2,255	3%	99%	43.20%
Number of one-to-four family housing units	2,255	96	2339	1,218
Number of owner-occupied properties	2,255	56	1763	798
Total loans made in tract (2013)	2,255	0	96	49
Tract income[45]	2,255	$12,142	$231,447	

There are a number of strong correlations in the data to note (Table 2). There are strong positive correlations between the number of loans made in a tract and income and the number of owner-occupied units, meaning that as those numbers increase, we can expect more loans to be made per tract. Conversely, as the racial/ethnic minority population increases in a tract, we can expect fewer loans to be originated there. The correlation between total loans originated and the number of one-to-four family units is weak, and so this variable was not included in the final model.

Table 2: Correlations

	Total Loans (2013)	1-4 Family Units	Owner-Occupied Units	Income	Racial/Ethnic Minority Population (log)
Total Loans (2013)	1				
1-4 Family Units	.413**	1			
Owner-Occupied Units	.746**	.826**	1		
Income	.510**	-0.006	.325**	1	
Racial/Ethnic Minority Population (log)[1]	-.574**	.058**	-.268**	-.784**	1

**. Correlation is significant at the 0.01 level (2-tailed).

45 Average tract income was not computed, since the standard metric for income is the median family income (MFI). The information above is provided to illustrate the broad range of median incomes in the City.

Linear regression was next used to determine what relationship, if any, exists between the racial/ethnic composition of a census tract and how many mortgage loans are originated there.

Holding tract income and the number of owner-occupied units constant, this model suggests that, for each percentage-point increase in the minority population of a tract, 12.5 fewer mortgage loans are made there (Table 3). The model further suggests that the influence of tract income is almost nonexistent and the number of owner-occupied units is negligible. The R^2 value of 0.668 indicates that our regression model fits the data moderately well, and that it accounts for approximately 66.8 percent of the variance in the total number of loans made in a census tract in 2013. Table 3 provides the results of the statistical analysis.

Table 3: Regression Model Results

	Coefficient	**Standard Error**	**p-value**
(Constant)	1.79	0.87	0.04
Owner-Occupied Properties	0.05	0	0
Tract Income	-4.946E-05	0	0.005
Minority Population (log)	-12.46	0.84	0
R^2 (indicator of model fit): 0.668			
Dependent Variable: Total Loans (2013)			

There are some notable confounding variables to which we do not have access or which are complicated to compute—for instance, information about credit scores, unemployment rate, and educational attainment in an area. These items likely also influence mortgage lending decisions, but would not completely remove the influence of our variables of interest. The additional 33.2 percent of variance that our model does not account for is probably found in these and other variables. Overall, this model suggests that the racial/ethnic composition of a census tract exerts the most significant influence on whether or not a loan is originated in that tract in Richmond.

Regression Analysis 2

This model is similar to the above, apart from the new variable of "minority applicants." This variable is the percentage of applicants who were minorities in each census tract. This model examines the relationship between the total number of loans made in a census tract and the percentage of minority applicants when accounting for the influence of the average income in the census tract, the number of owner-occupied units in a census tract, and the number of one-to-four family housing units per census tract (Table 4).

Table 4: Descriptive Statistics

	N	**Minimum**	**Maximum**	**Mean**
Number of one-to-four family housing units	2,255	96	2339	1,218
Number of owner-occupied properties	2,255	56	1763	798
Percentage of applicants who were minorities	2,255	0%	100%	30.10%
Total loans made in tract (2013)	2,255	0	96	49
Tract Income	2,255	$12,142	$231,447	

As with the previous model, there are several strong correlations to note (Table 5). There are strong positive relationships between the number of loans made in a tract and income and the number of owner occupied housing; as those numbers increase, it can be expected that the number of loans made will increase. In opposition, as the number of minority loan applicants increase in a tract, it can be expected that fewer loans will be made.

Table 5: Correlations

	Total Loans (2013)	Owner-Occupied Properties	1-4 Family Properties	Income	Minority Applicants (log)
Total Loans (2013)	1				
Owner-Occupied Properties	.746**	1			
1-4 Family Properties	.413**	.826**	1		
Tract Income	.510**	.325**	-0.006	1	
Minority Applicants (log)	-.625**	-.292**	0.019	-.678**	1

**. Correlation is significant at the 0.01 level (2-tailed).

By holding the tract income and the number of owner-occupied units per tract constant, this linear regression model suggests that for each percentage point increase in minority loan applicants of a census tract, 46 fewer loans will be made in that tract (Table 6). The model further suggests that the effect of tract income is nearly nonexistent and the number of owner-occupied units per tract is negligible.

Table 6: Regression Model Results

	Coefficient	**Standard Error**	**p-value**
(Constant)	1.79	0.87	0.04
Owner-Occupied Properties	0.04	0	0
Tract Income	3.92E-05	0	0
Minority Applicants (log)	-46.11	1.71	0
R^2 (indicator of model fit): 0.724			
Dependent Variable: Total Loans (2013)			

Conclusion

Increasing homeownership has long been a goal of the City, and for good reason. Investments in real estate are highly stable; homeowners tend to be more invested in not only their property but their neighborhood and community. Homeownership has been shown to boost the educational performance of children, induce higher participation in civic and volunteering activity, improve health outcomes, lower crime rates, and lessen public assistance.[46] All of these factors contribute to vibrant neighborhoods with high-quality, well maintained housing devoid of blight.

The city's lending institutions have a responsibility in ensuring that they meet the credit needs of the community. This analysis shows that there are several areas where they are deficient in meeting this obligation, namely in neighborhoods with higher concentrations of minority residents. The disparity in the number of loans made to white borrowers compared to black and Hispanic borrowers is of grave concern. White borrowers accounted for 90 percent of home purchase loan origination and 86 percent of refinance loan originations. The current demographic composition of the city—48 percent black, 40 percent white, and six percent Hispanic—clearly shows how under-represented black and Hispanic borrowers are in the mortgage market. Regardless of the type of loan being applied for, Black and Hispanic applicants exhibited on average higher rates of loan denial and lower rates of loan origination than did their white counterparts. In fact, the disparity between black and white loan outcomes increased according to income.

The issue before the City is how best to ensure that the credit needs of residents are met. There are several strategies outlined below that the City can undertake to increase lending to low-income and minority residents. Indeed, several of these strategies the City has been engaged in for some time, while others are relatively new. Legal action, based upon the disparities highlighted throughout this report, is another option for the City.

[46] National Association of Realtors.® Social Benefits of Homeownership and Stable Housing. Research Division, April 2012.

Strategies to Expand Credit for Homeownership

The longitudinal perspective that must remain at the forefront in the development of any comprehensive strategy to increase homeownership is that mortgage lending does not exist in isolation. As this report has outlined, there are numerous legitimate reasons why lending is more prolific in some neighborhoods compared to others. The city contains a significant share of low-income residents, older housing stock, and deep concentrations of racial and/or ethnic poverty. The City faces several additional notable challenges that impact the opportunities found throughout its neighborhoods. The City's schools, are at worst, a prime deterrent to the revitalization of many neighborhoods; at best, they ensure that households with the financial means to leave the city for other school districts do so. Further, the regional public transportation-employment linkage is severely deficient, serving to constrain low-wage workers in the city, far from job opportunities.

Other obstacles exist to increasing homeownership, particularly when the goal is to increase the wealth of low-income and minority households and ultimately decrease residential segregation. Length of ownership, the primary ingredient in actualizing wealth creation for households, becomes problematic as low-income and minority households typically own their homes for less time than do other groups. A report from the Joint Center on Housing Studies at Harvard University found that only 57 percent of low-income buyers were found to own their homes beyond five years compared to 70 percent of high-income owners. Moreover, the period of time owners remained in their first home varied across race and ethnicity; the average length of time white owners stayed in their first home was 6.5 years, compared to 4.4 for blacks and 5.4 years for Hispanics.[47] Additionally, minorities and low-income households tend to have lower credit scores and less cash to inject into a home purchase.[48]

Most often, policy strategies to expand homeownership to minorities and low-income households take the form of subsidies. These subsidies are focused on either lowering monthly payments, lowering the initial purchase price, or providing down payment assistance.[49] By their nature, these strategies are short-term: they couple marginally qualified households with subsidies. These strategies are easily quantifiable, as it is relatively easy to determine how many households were provided with the subsidy each year. The vast majority of other homeownership strategies are longitudinal by nature. They focus on ensuring that quality, affordable housing is available and building the wealth and assets of rental households in order that they may become homeowners if desired.

[47] Herbert, Christopher E., MCue, Daniel T., Sanchez-Moyano, Rocio. Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was it Ever?). Harvard University, Joint Center for Housing Studies, September 2013.
[48] Couch, Robert M. The Great Recession's Most Unfortunate Victim: Homeownership. Joint Center for Housing Studies, Harvard University. October, 2013.
[49] Collins, J. Michael. Developing Effective Subsidy Mechanisms for Low-Income Homeownership. Joint Center for Housing Studies. Harvard University. University of Wisconsin-Madison. October 2013.

1. Down Payment Assistance

Strong evidence suggests that down payment assistance is an effective mechanism to increase homeownership for low-income households. The U.S. Census Bureau's Survey of Income and Program Participation provides insight into the potential of down payment subsidies to increase the share of renters who could afford to purchase a home.[50] The most recent survey revealed that a lack of savings for a down payment was the only barrier for 26 percent of renters to purchasing a home.[51] In 2004 dollars a $5,000 down payment subsidy was shown to raise the percentage of renters able to purchase a home by 10 percentage points.[52]

Down payment assistance is currently implemented by the Virginia Department of Housing and Community Development (DHCD) as well as the City of Richmond through its Community Development Block Grant (CDBG) and HOME investment partnership programs. Since 1991, the City has provided down payment assistance to 1,392 low-to moderate-income first time home buyers. Sixty-two percent of all the properties purchased with down payment assistance have been in predominantly renter-occupied neighborhoods.

2. Financial Education and Credit Counseling

With such a large percentage of low-income households in the city, ensuring that residents have the knowledge to obtain and maintain housing is central to any efforts to increase access to credit. The City has long made funding available to improve the financial literacy and credit worthiness of city residents. Since 1990, close to 1,400 low-to moderate-income residents have successfully completed rigorous coursework allowing them to take part in the numerous benefits of homeownership. Continuing with this strategy will ensure that those residents qualified to purchase a home are able to do so.

3. Shared Equity Housing Models

One of the guiding principles set forth the City's Affordable Housing Strategy Report is the preservation of assisted housing. The report states: "Given the scarcity of City and other public resources, affordable housing that benefits from City financial assistance should be preserved for the longest feasible term. Continuing escalation in land and housing costs will make housing increasingly unaffordable to low-wage workers."[53] The following three types of shared equity housing models are proven to ensure that long-term affordability is achieved.

-Deed Restricted Homes

Under the deed restricted housing model, affordability is achieved through a restrictive covenant appended to a property's deed, or in some cases, to a property's mortgage. This covenant imposes an

[50] Ibid.
[51] Ibid.
[52] Ibid.
[53] David Paul Rosen & Associates. City of Richmond Affordable Housing Strategy, Final Report. Prepared for City of Richmond Economic Development and Planning. November 6, 2014.

obligation on the owner to use the property for residential purposes, occupy the property as their primary place of residence, and importantly, to resell the property to someone from a specified pool of eligible buyers for a specified, formula-determined price.[54]

-Community Land Trusts

An option currently being explored by the City and several non-profit housing partners, Community Land Trusts (CLT) are a dual-ownership model: one party holds the deed to a parcel of land, and another holds the deed to a residential building located upon that land.[55] The owner of the land is most often a non-profit organization committed to retaining ownership of the land in perpetuity. The owner of the building is most often an individual homeowner. In specific cases when the building is a multi-unit property, the owner may be a common interest community, cooperative housing corporation, a non-profit, or even for-profit business.[56]

CLTs provide for the exclusive use of their land by the owners of the buildings located thereon through the use of ground leases, which typically run for 99 years. The benefit to homeowners of CLT housing is that they retain the majority of the benefits associated with homeownership including security of tenure, privacy of use, equity (if applicable), a legacy for one's heirs, and the ability to control their own living space.[57]

-Limited Equity Cooperatives

Three types of housing cooperatives exist in the U.S.: market-rate cooperatives, limited equity cooperatives, and zero equity cooperatives. Market-rate cooperatives operate in such a manner that affordability is not overtly protected.[58] In contrast, limited equity and zero equity cooperatives both ensure affordability over the long term. The primary difference between the two is that in limited equity cooperatives, homeowners are allowed to build some equity, while in zero equity cooperatives, homeowners are disallowed from doing so.

Cooperative housing is operated by a government chartered corporation; its shareholders are the occupants of the housing. In this system, the corporation owns the real estate and pays all associated taxes and fees. The occupants are the voting members of that corporation and have ultimate control over it. Affordability is assured over the long term by limiting the amount of profit, if at all, that an occupant can earn when selling their share.[59]

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[54] Davis, John Emmeus. Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing. National Housing Institute, 2006.
[55] Ibid.
[56] Ibid.
[57] Ibid.
[58] Ibid
[59] Ibid.

4. Housing Trust Funds

Housing trust funds are established by government entities to direct revenue sources towards supporting affordable housing. They are uniquely flexible in that they can be tailored to meet the critical housing needs of a particular community. In 2014, the City established the City of Richmond Affordable Housing Trust Fund (HTF) and commissioned a report to outline a strategy, including funding options, to ensure the HTF is successful. This report outlined numerous revenue sources to ensure the continued funding of the HTF. Based on the findings of this report, HOME recommends exploring the feasibility of a partnership between the City of Richmond's Affordable Housing Trust Fund and a local Community Development Financial Institution (CDFI). Ideally, this partnership would increase annual funding available for targeted use by the trust fund while allowing lending institutions to receive CRA credit for their investments.

5. Individual Wealth Building and Preservation

These programs aim at increasing individual wealth through Individual Development Accounts, which match the savings deposited by low and moderate-income households. They encourage asset building and can be paired with financial education. Individual wealth preservation includes programs aimed at preserving assets, in particular households that are facing foreclosure.

6. Community Reinvestment Act

The Community Reinvestment Act was passed by Congress in 1977 as an effort to help ensure that lower-income, often predominantly minority communities have adequate access to mortgage credit.[60] In short, CRA stipulates that federally insured banks have an affirmative obligation to supply credit throughout their local market. Regulators periodically evaluate banks lending in lower-income communities to ensure compliance and can penalize non-compliant institutions.[61]

The City should leverage the requirements of the CRA to persuade local lending institutions to meet the needs of low-income and minority borrowers. This requires community research detailing how access to credit may be unequal across a region and a subsequent campaign to work with mortgage lenders to provide products that may better serve all populations.

7. Inclusionary Zoning

Inclusionary zoning is an effective structural solution to a structural problem. In short, inclusionary zoning requires developers to include affordable homes when they build a particular number of market-rate homes. Currently, the City has a voluntary affordable dwelling unit (ADU) program. However, as the lack of use of the ADU suggests, a voluntary approach will do little to increase the supply of affordable housing within the city. One of the benefits of inclusionary zoning is that market rate housing

[60] Bhutta, Neil. Giving Credit where Credit is Due? The Community Reinvestment Act and Mortgage Lending in Lower-Income Neighborhoods. Finance and Economics Discussion Series. Divisions of Research & Statistics and Monetary Affairs. Federal Reserve Board, Washington, D.C. November, 2008.
[61] Ibid.

is, more often than not, built in relatively desirable neighborhoods; including affordable units in developments in these neighborhoods ensures that lower-income residents aren't isolated in high poverty neighborhoods far from community resources.

8. Land Banks

Land banks are public entities designed to acquire, manage, maintain, and repurpose vacant, abandoned, and foreclosed properties. It is estimated that land banks are currently in use in 80 communities throughout the country. Land banks offer communities the flexibility to repurpose properties specific to their community needs. Establishing a land bank could bring coherence, efficiency, and policy direction to the disposition of the numerous parcels that the City owns. It would be particularly beneficial to direct a substantial share of these properties toward a targeted homeownership initiative.

9. Further Research

The City should continue to provide neighborhood-level, housing focused research to inform housing priorities and the work of the Affordable Housing Trust Fund Board. Further examination of the dynamics of neighborhood change within the city will help to identify additional housing barriers and further, provide a foundation from which to provide comprehensive and coordinated resources and services. Specifically, we recommend an analysis, post-housing crisis, of where the city has experienced the greatest losses in homeownership. Higher rates of homeownership provide greater stability for residents and thriving neighborhoods. We know that the housing crisis did not impact neighborhoods uniformly, and the City would benefit from knowing where relative homeownership rates have declined significantly. Additionally, an analysis of the impact of speculative real estate investment in areas that experienced high foreclosure rates would also identify areas with high rates of institutional ownership that could be an impediment to homeownership for years to come and could identify unique opportunities for heightened City investment and/or oversight. Examining the purchase price of properties throughout the city may serve to isolate specific neighborhoods, which may likewise benefit from targeted planning and coordinated investment.

Housing Opportunities Made Equal of Virginia, Inc. (HOME) is Virginia's premier fair housing and housing counseling organization, offering a variety of programs and services designed to ensure equal access to housing for all Virginians. HOME is a 501(c)(3) nonprofit corporation and a HUD-approved housing counseling agency.

HOME was founded in 1971 to fight discrimination in housing access. Many of HOME's victories are well known, setting U.S. Supreme Court precedents and providing national impact.

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