THE STATE OF MINORITY ACCESS TO HOME MORTGAGE LENDING: A PROFILE OF THE NEW YORK METROPOLITAN AREA

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ABSTRACT

The past decade witnessed remarkable improvements in minority access to mortgage credit. During this same period, however, concerns about the quality of that credit have become more salient. Using HMDA data, this paper examines the challenges still facing black and Hispanic households in the mortgage market, as viewed from the vantage point of the greater New York metropolitan area. The paper illustrates that, while minority homeownership rates have increased, blacks and other minorities are often still denied mortgages at a higher rate than whites, face higher costs for credit, and are more vulnerable to foreclosure. The author argues that CRA is not equipped to fully address these issues, and other legislative and regulatory actions may be required.

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I. INTRODUCTION

Social progress often involves the tradeoff of one set of problems for another. ”Problem-solving,” writes Aaron Wildavsky in the opening pages *of Speaking Truth to Power: The Art and Craft of Policy Analysis*, “may give way to problem succession. Instead of attending only to trouble (how far have we fallen short?) I have learned also to ask whether our current difficulties are better or worse for people than the ones we used to have.” (Wildavsky, 1979).

Do we have a situation of “problem succession” with regard to minority access to the mortgage market? For decades, minority households and neighborhoods lacked adequate access to mortgage credit. Geographic redlining, unnecessarily rigid underwriting standards, and more subtle, often unintentional, discriminatory lending practices kept homeownership out of reach for many black and Hispanic families (Yinger, 1995; Turner and Skidmore, 1999; Munnel et al., 1992; Jackson, 1985; Massey and Denton, 1993). The past decade, however, saw remarkable improvements in minority access to mortgage credit. Several factors contributed to an unparalleled rise in mortgages provided to minority households, including:

- heightened enforcement of the Community Reinvestment Act (CRA);
- government pressure on the secondary mortgage market to acquire mortgages issued to minority and low-income borrowers;
- stepped-up enforcement of federal fair lending and fair housing laws;
- an improved understanding on the part of lenders of the risks associated with the low- and moderate-income market; and
- prolonged economic growth and low interest rates (Listokin and Wyly, 1998; Listokin and Wyly, 2000; Schwartz, 1998; Urban Institute, 1999).

Reflecting these changes, black homeownership rates increased from 42.0 percent in 1993 to 48.2 percent by the fourth quarter of 2000 (HUD, 2001). During this same time period, white homeownership also rose, leaving the black-white homeownership gap only about two percentage points lower.

This improvement in mortgage lending has brought about new challenges in the quest for racial equity. While long-standing barriers, such as disproportionately high mortgage denial rates, have by no means disappeared, other concerns are becoming more salient. The issue may be less a matter of minority access to credit than of the quality of credit minorities receive.

Using the Greater New York Metropolitan area as an example, this paper examines some of the new challenges facing black and Hispanic households in the mortgage market. Drawing on an analysis of mortgage lending in the New York metropolitan area from 1993 through 1999, the most recent year for which mortgage lending data are available under the Home Mortgage Disclosure Act (HMDA), the paper assesses the gains made by black and Hispanic borrowers and the problems they still confront. While not typical of the nation as a whole, as its largest metropolitan area[1] and a global center for banking and finance, New York is important in its own right as a major mortgage market, and perhaps as a testing ground for innovative lending practices.

[1] Depending on geographic definition, New York is either the first or second largest metropolitan area in the United States in terms of population. Under the most expansive definition, the Consolidated Metropolitan Statistical Area (CMSA), New York ranks first. However, at the level of the Primary Metropolitan Statistical Area (PMSA)—the geographic scale used in this study—New York is second to the Los Angeles-Long Beach PMSA (U.S. Bureau of the Census 1998: Table B-1).

II. MORTGAGE LENDING TO MINORITIES IN THE NEW YORK METROPOLITAN AREA, 1993-1999

Banks and other financial institutions originated more than 600,000 mortgages in the New York metropolitan area[2] from 1993 through 1999 for home purchases and refinancing (termed as "refi" in this paper) of previous mortgages. Total originations for home-purchase and refi mortgages combined reached their highest levels at the beginning and end of the study period, when interest rates were at or close to their lowest levels (Figure 1). Since refi lending volumes are much more sensitive to interest rate fluctuations than home-purchase lending (Figure 1), the two types of lending are examined separately.

A. Mortgages to minorities for home purchases and refinancing rose, reducing the lending gap between white and minority households.

Nationwide, mortgage lending to minorities reached new peaks in 1994 and 1999. Reflecting these national trends, mortgage lenders in the New York metropolitan area also posted their biggest increases in minority lending in those two years. Home-purchase mortgage originations to black households rose by more than 50 percent from 1993 to 1994. They hovered around 7,000 a year through 1997, rose by 9 percent in 1998 to 7,500, and by 18 percent in 1999 to 8,800 (Figure 2). Home purchase originations to Hispanics followed a similar trajectory, but showed more growth in the mid-1990s than was the case for blacks (Figure 3).

Reflecting their sensitivity to interest rates, refi lending volumes are far more volatile across all racial groups than home-purchase mortgage originations. Nevertheless, minority households captured a growing share of the refi market. Blacks had a larger relative increase in refi originations (or a smaller decrease) than whites every year except 1998. The same is true for Hispanics except for 1996 and 1998. For example, while the number of refi originations for whites decreased by 43.4 percent in 1994, they *increased* for blacks by 8.6 percent and decreased for Hispanics by a more modest 13.1 percent.

While black applicants' share of total refi originations increased steadily from 6.5 percent in 1993 to 12.5 percent in 1999, their share of total home purchase originations shifted up and down over time. It peaked at 18.6 percent in 1995, but by 1999 had receded below its initial level of about 14 percent. Comparing total lending volumes in 1993 and 1999, refi originations to black households increased by 75 percent while black home-purchase originations rose by 93 percent.

[2] The New York PMSA includes the five boroughs of New York City plus the suburban New York counties of Putnam, Rockland and Westchester.

Figure 1: Home-Purchase and Refi Originations, 1993-1999

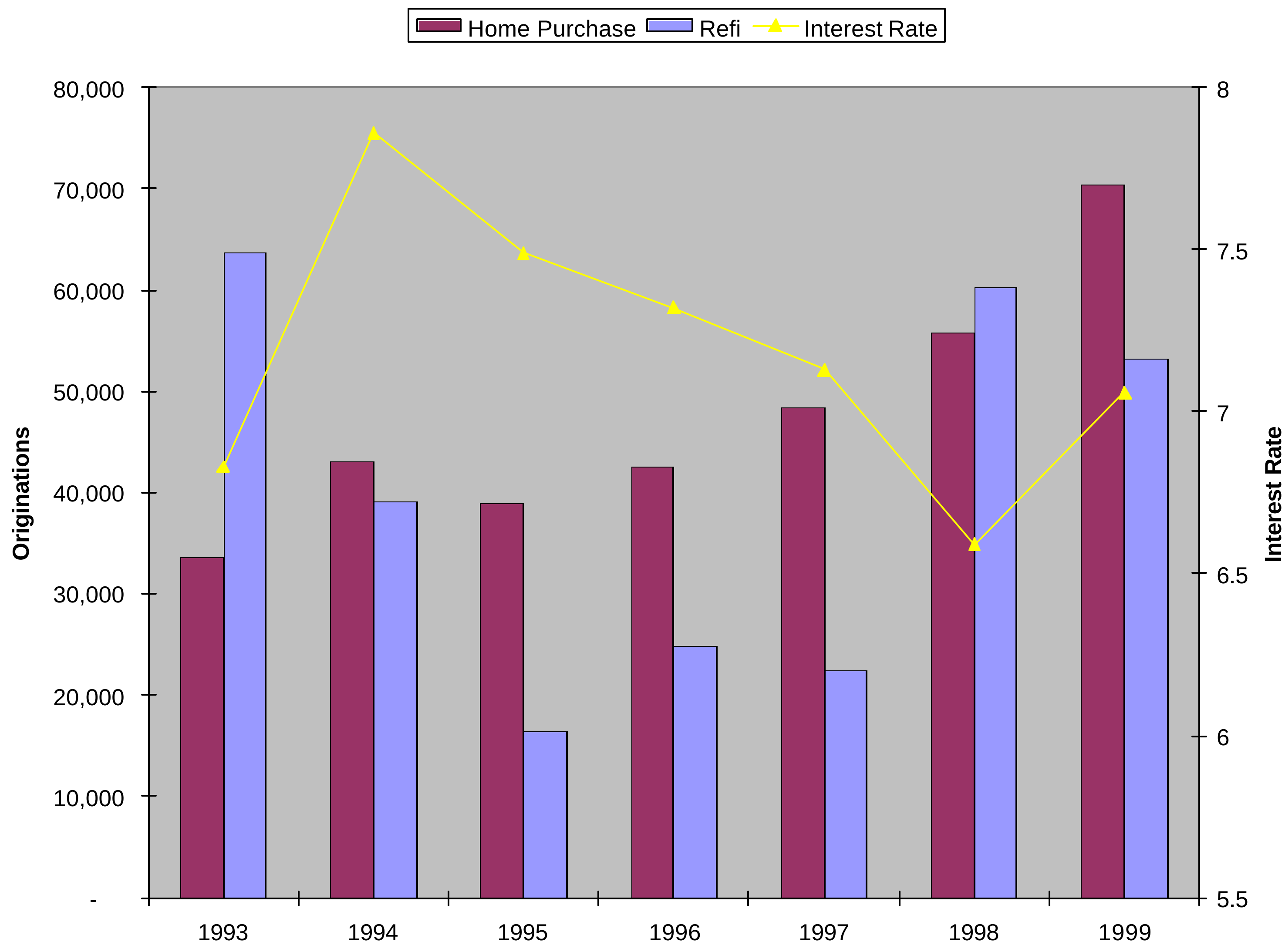


Figure 2: Home Purchase and Refi Originations to Blacks, 1993-1999

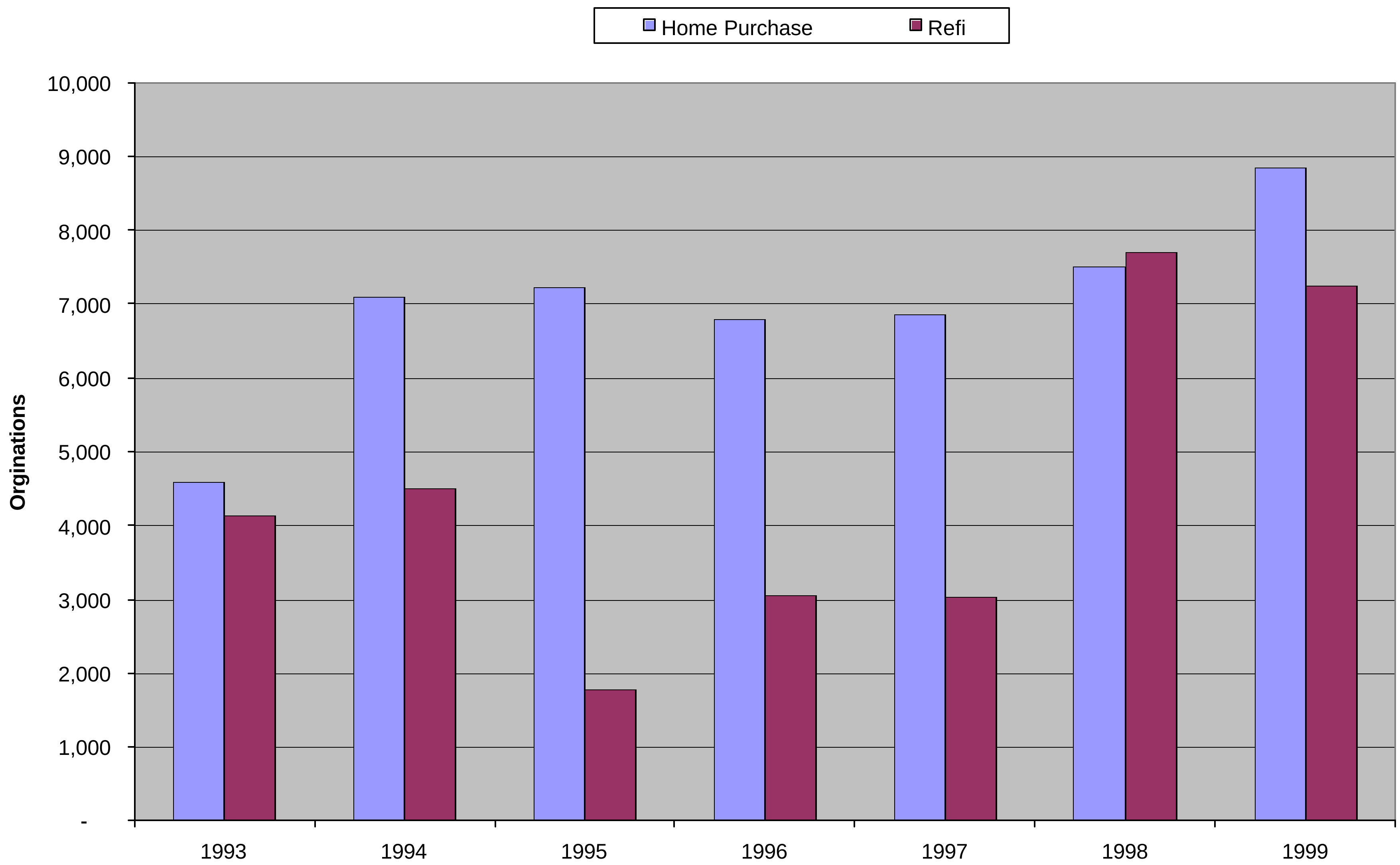
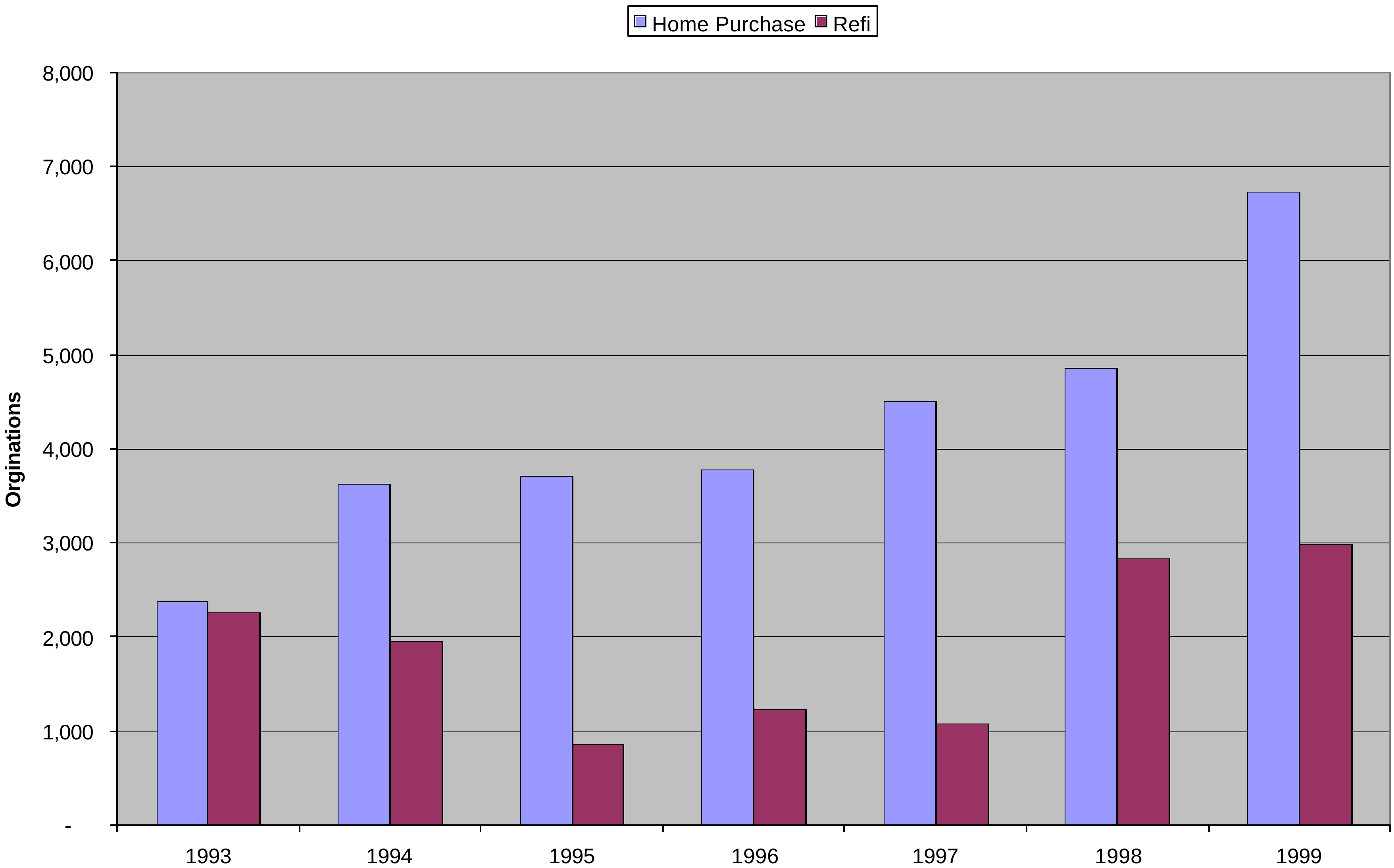


Figure 3: Home Purchase and Refi Originations to Hispanics, 1993-1999



Hispanics constitute a disproportionately small but growing share of total home-purchase and refi originations. They are particularly underrepresented in the refi market—reflecting their comparatively low homeownership rate in the New York region (17 percent in 1999, compared to 32 percent for blacks) (U.S. Bureau of the Census 2001: Table 2.1). In 1999, Hispanics accounted for 5.6 percent of total refi originations (up from 3.5 percent in 1993). They accounted for 9.7 percent of total home-purchase originations in 1999, up from 7.1 percent in 1993. In absolute terms, Hispanics received 183 percent more home-purchase loans in 1999 than in 1993, but only 33 percent more refi loans.

Partly reflecting the increased market share of minority households, whites now account for a smaller proportion of refi and home-purchase originations than in 1993. For the latter, the decrease is quite modest, from 59.5 percent in 1993 to 55 percent in 1999. The white share of the refi market declined more sharply, however, from 69 percent to 49 percent (Table 1).

B. Mortgage applications by minority households increased at a faster pace than originations, outpacing growth of applications from white households.

It is also important to examine trends in mortgage applications. Increases in applications over time by minority households may reflect improved outreach and marketing by mortgage lenders. Overall, home-purchase and refi applications from minority households follow the same pattern as originations. For home-purchases, most of the growth took place in 1994 and 1999.

Mortgage applications from minority households increased at a much faster pace than originations. Moreover, minority applications grew much faster than applications from white households. Whereas the growth rate of home-purchase mortgage *originations* for blacks (93 percent), for example, was only two percentage points higher than the white growth rate (91 percent), the rate for black home-purchase *applications* was more than 30 points higher than for whites (142 percent vs. 110 percent) (Table 1).

Table 1

Mortgage Originations and Applications by Race in 1993, 1998, and 1999						
	Percent Distribution				Percent Change	
	1993	1998	1999		1993-98	1993-99
ORIGINATIONS						
Home purchase						
White	59.5	55.5	54.9		55.1	91.4
Black	13.7	13.4	12.7		63.6	93.1
Hispanic	7.1	8.7	9.7		104.7	183.4
Other	13.3	14.0	13.6		76.0	113.5
No Info	6.4	8.4	9.2		116.6	195.1
Total	100.0	100.0	100.0		66.5	107.8
Refi						
White	69.4	51.4	49.1		-30.1	-41.3
Black	6.5	12.8	13.7		86.2	75.3
Hispanic	3.5	4.7	5.6		26.2	32.5
Other	10.7	8.5	7.2		-25.1	-44.1
No Info	9.9	22.7	24.3		116.1	103.5
Total	100.0	100.0	100.0		-5.6	-17.1
APPLICATIONS						
Home purchase						
White	57.1	50.1	49.7		63.0	110.2
Black	14.6	14.9	14.6		89.7	141.9
Hispanic	7.4	9.0	10.0		124.6	225.0
Other	12.9	12.9	12.7		85.3	136.7
No Info	7.9	13.2	13.1		209.0	299.1
Total	100	100	100		85.9	141.7
Refi						
White	62.9	52.5	41.0		-20.7	68.0
Black	7.5	12.0	10.2		115%	386.3
Hispanic	3.9	4.9	4.5		58%	400.1
Other	10.6	11.1	6.7		-7%	114.9
No Info	15.0	19.5	37.5		230%	491.1
Total	100.0	100.0	100.0		32%	173.6

Increased mortgage applications from minorities may reflect growth in the number of households applying for mortgages, but it can also result from an increase in the number of applications filed per household. The strongest evidence for this trend derives from a marked increase in mortgage outcomes other than origination or denial. Recent increases in mortgage applications that are incomplete, withdrawn or approved by the lender but ultimately declined by the applicant, suggest that at least some households submit multiple mortgage applications. Once they decide which mortgage to pursue or accept, they withdraw or fail to complete their other applications, or decline to accept applications approved by other lenders. Of course, not all of these outcomes indicate multiple mortgage applications; some households may apply to a single institution, but later decide against taking out any mortgage.

Between 1993 and 1999, black and Hispanic households showed substantial increases in both the number of withdrawn and incomplete mortgage applications and in the number of applications which were approved by the lenders but declined by the borrower. In 1993, black, Hispanic, and white applicants for home-purchase mortgages showed little difference in the percentage that had withdrawn their applications or had their files closed for incompleteness. By 1999, the percentage of black households with withdrawn or incomplete applications more than doubled to 13 percent and that of Hispanic households nearly doubled to 11 percent. In contrast, the white rate increased by little more than one percentage point (Table 2). The faster growth of withdrawn and incomplete mortgage applications for minority borrowers is not well understood. Besides indicating a tendency for minority households to submit more mortgage applications than their white counterparts, it may also suggest that minority applicants are more likely to become discouraged about their prospects for success than whites. This is an area in need of further research.

Table 2

Percentage of Mortgage Applications With Withdrawn or Incomplete Applications		
	1993	1999
Home-Purchase		
Black	5.5	13.8
Hispanic	5.6	11.5
White	6.6	7.8
Refinance		
Black	7.8	27.9
Hispanic	7.5	26.1
White	5.9	18.3

There has also been a significant rise in the number of mortgages approved by lenders but declined by the applicants. Unlike the situation with withdrawn and incomplete applications, all racial groups saw similar increases in mortgage approvals declined by the applicant, from about 4 percent of all mortgage applications in 1993 to about 7.5 percent in 1999. Combined, withdrawn and incomplete mortgage applications and applications approved but not accepted account for 31 percent of the total increase from 1993 to 1999 in home-purchase mortgage applications filed by black households, compared to 23 percent of the corresponding increase for Hispanic households and 22 percent for whites. Excluding these applications from the total, mortgage applications (i.e. those that resulted in either an origination or denial) increased by 107 percent for blacks, 194 percent for Hispanics, and 94 percent for whites. Counted this way, growth in minority mortgage applications still outpaced originations by considerable margins, perhaps indicating improved outreach and marketing by mortgage lenders.

C. Denial rates for minority mortgage applicants remained higher than rates for whites.

Denial rates provide the most palpable but also controversial indication of unequal racial access to the mortgage market. Fair lending advocates claim that persistently large differences in the mortgage denial rates of whites and blacks reflect racial bias. Others contend that much if not all of the racial difference in mortgage denial rates derives from differences in credit worthiness, such as income, assets, credit history, employment history, and debt burden (Munnel, 1992; Turner and Skidmore, 1990; Yinger, 1995).

Denial rates for black mortgage applicants in the greater New York area fluctuate considerably from year to year. For home-purchase mortgages, black denial rates ranged from 14.2 percent (in 1995) to 21.3 percent (in 1997), with no evident trend over time. For Hispanics, denial rates varied from 13.2 percent (1995) to 17.3 percent (1997). Whites had the least variation, from 8.9 percent to 11.7 percent.

Nor are any trends evident when minority denial rates are compared to whites. The minority denial index divides the denial rate for each minority group by that for whites. An index value of 1.0 indicates that the denial rate for the minority group is the same as that for whites. Depending on the year, blacks are 1.6 to 1.9 times more likely to be denied home-purchase mortgages than whites; Hispanics, 1.4 to 1.6 times more likely (Table 3).

Table 3

Mortgage Denial Rate Index							
(As compared to rate of whites)							
	1993	1994	1995	1996	1997	1998	1999
Home Purchase							
Black	1.67	1.80	1.59	1.82	1.89	1.76	1.72
Hispanic	1.44	1.53	1.49	1.56	1.54	1.52	1.48
Refinance							
Black	1.94	1.81	1.57	1.50	1.52	1.73	1.89
Hispanic	1.78	1.71	1.52	1.60	1.55	1.68	1.40

Denial rates for refi mortgage applications are higher than for home-purchase applications across all racial groups. The refi denial rate index declined somewhat for blacks and Hispanics during the 1993-99 period, although it increased substantially in the last two years for blacks (Table 3).

D. Mortgage denial rates for minorities remained high across all income groups.

Since minority households have lower average incomes than whites, it is important to compare mortgage lending trends across racial groups within the same income categories. Using national median family income as the reference point, mortgage applicants were sorted into five categories: low-income (less than 50 percent of median); moderate income (50-79 percent); middle-income (80-119 percent), high income (120 –199 percent), and very high income (200 percent and higher). Black households applying for home-purchase mortgages experienced higher denial rates than other groups within each income category (Table 4). In both 1993 and 1998 the black denial rate index was highest within the top income category. In 1998, blacks with incomes at or above 200 percent of median were 2.0 times more likely to be denied a home-purchase mortgage than white households within the same income group. The denial rate index for black refi applicants was also highest in the top income categories (Table 4).

Table 4

Denial Rates and Denial Rate Indexes by Income and Race, 1993 and 1998								
	Home Purchase				Refinance			
	1993		1998		1993		1998	
	Rate	Index	Rate	Index	Rate	Index	Rate	Index
Low-Income								
Black	35.9	1.5	28.1	1.6	34.6	1.6	18.4	1.2
Hispanic	33.3	1.4	21.1	1.2	32.6	1.5	19.8	1.2
White	24.2	1.0	17.1	1.0	21.9	1.0	15.9	1.0
Moderate-Income								
Black	32.7	1.5	25.4	1.5	31.8	1.3	24.3	1.2
Hispanic	23.3	1.1	21.3	1.3	32.0	1.3	29.5	1.4
White	21.4	1.0	17.0	1.0	25.2	1.0	20.5	1.0
Middle-Income								
Black	21.6	1.4	17.3	1.4	26.0	1.5	23.6	1.5
Hispanic	19.8	1.2	15.4	1.2	26.1	1.5	24.7	1.5
White	15.9	1.0	12.5	1.0	17.1	1.0	16.0	1.0
High-Income								
Black	17.1	1.5	16.0	1.7	25.3	1.9	22.4	2.0
Hispanic	15.2	1.3	14.6	1.5	23.7	1.8	18.2	1.6
White	11.7	1.0	9.5	1.0	13.4	1.0	11.4	1.0
Very High-Income								
Black	16.6	1.7	16.7	2.0	24.9	2.0	19.0	2.0
Hispanic	13.8	1.4	12.4	1.5	20.8	1.7	16.8	1.7
White	9.9	1.0	8.4	1.0	12.5	1.0	9.6	1.0

Note – income groups are based on national median family income:
Very Low, less that 50 percent; Moderate, 50-79 percent;
Middle, 80-119 percent; High, 120-199 percent;
and Very High, 200 percent and above.

Table 5

Median Loan Amount, by Income and Race in 1999 ($ in thousands)				
	Home-Purchase		Refinance	
	Originations	Applications	Originations	Applications
Low-Income				
Black	63	69	85	99
Hispanic	88	86	91.5	113.5
White	65	65	65	88
Moderate-Income				
Black	92	87.5	105	121.5
Hispanic	90	90	96.5	120
White	66	68	80	95
Middle-Income				
Black	153	154	131	137
Hispanic	154	154	133	140
White	108	110	110	120
High-Income				
Black	188	188	148	154
Hispanic	195	195	155	156
White	162	165	138	144
Very High-Income				
Black	225	228	161	168
Hispanic	228	240	180	180
White	240	250	206	208

Note – income groups are based on national median family income:
Very Low, less that 50 percent; Moderate, 50-79 percent;
Middle, 80-119 percent; High, 120-199 percent;
and Very High, 200 percent and above.

A more complicated pattern emerges for Hispanic households from different income groups. In general, the denial rate index for home purchases is substantially lower for Hispanics than for blacks (Table 4). Like blacks, the denial rate index is highest within the top income groups. For refi applications, however, low-, moderate-, and middle-income Hispanic households in 1998 were more likely to be denied credit than blacks, but high-income Hispanics had significantly lower denial rate indexes.

Interpretation of minority denial rates, even when comparing minorities and whites within the same income groups, must take into account differences in assets, credit and work history, and other characteristics that could influence the lender's approval process. For example, white households may offer larger down payments, thus reducing the risk of default and increasing the probability of mortgage approval. Indeed, white mortgage applicants in all but the highest income group requested substantially smaller loans than black or Hispanic applicants from the same income groups (Table 5). This may suggest that whites do provide a larger down payment (and hence have a smaller loan-to-value ratio), or that they are seeking financing for housing located in quite distinct markets or with different characteristics. For example, the higher average loan requests of minority applicants may reflect a higher proportion of two- to four-family properties—which may be subject to more stringent underwriting standards than traditional single-family homes.

It is also possible that income distributions may vary by race and ethnicity *within* the broad income categories used in this analysis. The higher denial rates of high-income black households could reflect, at least in part, lower incomes compared to white applicants from the same income group. Such was the case in 1998, when the median household income for very high income white mortgage applicants, at $144,000, was 30 percent higher than the median income of the corresponding black borrowers ($111,000) and 26 percent higher than that for their Hispanic counterparts ($114,000). These differences no doubt contributed to the substantially lower denial rates of very high-income white borrowers. Inter-racial income differences were much less pronounced among high-income borrowers, and insignificant in all other income groups.

III. Bifurcation by Race – Different Races, Different Lenders, Different Mortgage Products

Blacks and whites increasingly rely on different types of lending institutions and mortgage products. Whereas whites usually obtain mortgages from banks and other depository institutions, blacks and to a lesser degree Hispanics, turn to mortgage banks and other nondepository institutions. Blacks and whites also diverge in the types of mortgages they obtain, with blacks more likely to obtain government-insured and subprime mortgages than whites. Higher-cost subprime lending increased within all racial groups, but subprime lending is growing most rapidly in the black community.

A. Independent mortgage banks are capturing a growing share of minority home purchase and refi originations.

Independent mortgage banks are outpacing banks and other depository institutions in home-purchase and refinance lending to minority households.[3] In 1993, depositories accounted for 57 percent of all black home-purchase mortgage originations and 70 percent of all black refi originations. By 1998 their share of black originations had dwindled to 40 percent for home-purchases and 41 percent for refi loans. In 1999, however, depository institutions regained a substantial portion of the minority market. For example, their share of black originations increased back up to 48 percent for home purchases (Table 6). Most likely, this increase reflects recent acquisitions of independent mortgage banks by bank holding companies and their affiliates. Banks and other depositories retained a larger share of the Hispanic market, but it too has dropped substantially. In contrast to black and Hispanic borrowers, depository institutions increased their share of home-purchase and refi originations for white households. For home-purchase mortgages, the white share went up from 69 percent in 1993 to 82 percent in 1999.

[3] Independent mortgage banks are supervised under HMDA by the U.S. Department of Housing and Urban Development (HUD). Mortgage banks that are subsidiaries of bank holding companies or their affiliates are supervised by bank regulatory agencies (the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of Thrift Supervision). While independent mortgage banks are *not* covered by the CRA, depository institutions have the option of including the activities of their mortgage banking affiliates in their CRA evaluations. For convenience, the term "nondepository institution" as used in this paper refers to *independent* mortgage banks only; "depository institution" refers to commercial banks, thrifts, and their mortgage bank affiliates.

Table 6

Depository Institutions' Share of Total Mortgage Originations, By Race			
	1993	1998	1999
Home-Purchase			
Black	57.3	39.7	47.9
Hispanic	68.4	51.5	60.0
White	69.2	76.1	82.2
Refi			
Black	70.4	40.6	52.5
Hispanic	72.9	57.5	61.7
White	71.4	74.9	79.2

B. Much of the growth in nondepository lending (i.e., by independent mortgage banks) reflects rapid increases in subprime lending, especially for refi loans.

Were it not for the subprime market, banks and other depository institutions would command a much larger share of loans originated for minority and low-income borrowers. Subprime lending involves relatively high-interest loans to borrowers who often otherwise fail to meet conventional credit standards (HUD and Treasury, 2000). Nationally, subprime originations grew more than seven times over, from $20 billion in 1993 to $150 billion in 1998, the latest year for which data on subprime lending were available (HUD, 2000a).

About 80 percent of all subprime loans involve mortgage refinancing and home equity loans, most of which are originated by independent nondepository institutions. In the New York area, banks and other depository institutions accounted for less than five percent of all subprime home-purchase originations in 1998 and only 25 percent of all subprime refi loans, both of which represent sizable decreases from their share of subprime originations for the entire 1993-1998 period.

C. Subprime lending is especially prevalent within low-income and minority neighborhoods and among low-income and minority borrowers.

Nationally, subprime loans are three times as common in low-income neighborhoods than in high-income neighborhoods and are five times more likely in black neighborhoods than in white neighborhoods. Homeowners in high-income black neighborhoods are twice as likely as homeowners in low income white-neighborhoods to have subprime loans (HUD, 2000a).

Subprime lending in the New York Metropolitan Area is also highly concentrated among low-income and minority neighborhoods and households. A recent HUD study found that subprime refi loans in the New York area increased by about 350 percent from 1993 to 1998 (HUD, 2000b). In

1998, subprime loans were four times more likely in black neighborhoods than in white neighborhoods. In middle-income black neighborhoods, 59 percent of all refi loans were subprime, compared to 24 percent in middle-income white neighborhoods.

While almost half (45 percent) of all refi loans originated in 1998 for black borrowers were subprime, only 11 percent of all white borrowers received subprime refi loans (Table 7). Moreover, the HUD study found that black borrowers were much more likely than whites to receive subprime loans in all income groups. For example, high-income black borrowers were more than two times as likely to receive subprime loans as middle-income white households (HUD, 2000b). Hispanic borrowers are also overrepresented in the subprime market, with subprime loans accounting for 26 percent of all refi originations to Hispanic households in 1998 (Table 7).

Subprime lending to minorities is also growing in the home-purchase area as well (Table 7). The subprime share of all black home purchase loans increased from less than one percent in 1993 to 10 percent in 1998, while that for Hispanic home purchase loans went up from one to over 18.5 percent. In contrast, subprime loans accounted for just 2.4 percent of white home purchase loans in 1998, up from one percent in 1993 (Table 7). While the number of subprime home purchase loans for whites increased by 300 percent during this period, they increased by almost 2000 percent for blacks and by more than 1400 percent for Hispanics.

Also noteworthy is a surge in subprime loans to households that did not indicate their race in their mortgage applications. Table 7 shows that these originations accounted for nearly half of the subprime total in 1998 and make up more than half of the increase in subprime lending from 1993 through 1998. As will be discussed below, mortgage applications with no racial information often involve properties located in minority neighborhoods and thus presumably involve minority borrowers as well.

Table 7

Subprime Lending in the New York Metropolitan Area, 1993-1998						
	1993		1998		Change 1993-1998	
	Total # of Subprime Loans	Percent of Total Loans	Total # of Subprime Loans	Percent of Total Loans	Total # of Subprime Loans	Percent
Home-Purchase						
White	188	0.9	752	2.4	564	300.0
Black	36	0.8	742	9.9	706	1,961.1
Hispanic	24	1.0	366	18.6	342	1,425.0
Other	250	5.9	369	6.3	119	47.6
Race Unknown	45	2.1	899	19.2	854	1,897.8
Total	543	1.6	3,128	6.1	2,585	476.0
Refi						
White	1,904	4.3	3,566	11.5	1,662	87.3
Black	514	12.4	3,474	45.1	2,960	575.9
Hispanic	241	10.7	747	26.3	506	210.0
Other	491	7.2	691	13.6	200	40.7
Race Unknown	459	7.3	6,704	49.2	6,245	1,360.6
Total	3,609	5.7	15,182	25.2	11,573	320.7

In sum, the rapid growth of subprime lending accounts for a large portion of non-depository institutions' rising market share of minority loans. Nationally, depository institutions are still the dominant lenders to minority borrowers for prime mortgages (HUD, 2000a). In New York, however, the growth of *home-purchase* mortgages to minority borrowers by nondepository institutions suggests that subprime lending is not the only factor behind the diminished position of banks and other depository institutions in the minority market, since subprime lending mostly involves refi loans. Indeed, the depository share of prime loans (home-purchase and refi combined) to black households in New York fell from 63 percent in 1993 to 47 percent in 1998. Another factor, discussed below, is the growth of government-insured mortgages among minority home buyers.

D. Government-insured mortgages account for a growing share of minority home-purchase originations.

Conventional loans continue to dominate New York's mortgage market. For refi mortgages, the dominance is virtually total—government-insured loans (FHA and VA) still accounted for only three percent of all originations in 1999, compared to less than one percent in 1993. Blacks, the largest user of government-insured loans, accounted for 45.2 percent of all such refi originations in 1999.

Government-insured loans are much more prevalent in the home-purchase market, especially for minority households (Table 8). They accounted for 38 percent of all home-purchase loan originations to blacks in 1999, up from 25 percent in 1993. They also represent 25 percent of all Hispanic home-purchase originations, but only three percent for whites. Whereas conventional home-purchase originations to blacks increased by 59 percent from 1993 to 1999, government-insured loans increased by nearly 200 percent.

While banks and other depository institutions continue to originate a majority of conventional mortgages for blacks and all other racial groups, the vast majority of government-insured mortgages are issued by independent mortgage banks. For example, in 1999, depositories accounted for 68 percent of all conventional home purchase mortgages issued to black borrowers, up sharply from 57 percent the previous year. In 1999, nondepository institutions accounted for 88 percent of all government-insured mortgage originations to black borrowers.

E. The disproportionate growth of subprime and government-insured mortgages issued to black and Hispanic households raises questions about racial equity in the mortgage market.

On the one hand, the profusion of subprime and government-insured loans has contributed to recent gains in homeownership among minority households. (But, remember that while subprime home-purchase mortgages have increased, the vast majority of such loans continue to be used for refinancing of existing mortgages and thus do not promote homeownership growth). On the other hand, both subprime and government-insured loans involve higher interest rates and other transaction costs than conventional loans, thus putting minority borrowers at a disadvantage. While subprime lending does make home-purchase and refi mortgages available to households who would not otherwise qualify for lower-cost prime loans, a recent study by Freddie Mac found that 10 to 35 percent of all subprime borrowers could have qualified for prime loans (Joint Center for Housing Studies 2000: 18). Moreover, as Calvin Bradford has shown in the case of Chicago, concentrations of FHA-insured mortgages harm inner-city neighborhoods in several respects, sometimes resulting in housing abandonment (Bradford, 1995).

Table 8

Conventional and Government-Insured Home-Purchase Mortgage Originations						
	1993		1999		Change 1993-1999	
	Total	Percent	Total	Percent	Total	Percent
Conventional						
White	19,606	98.2	37,179	97.2	17,573	89.6
Black	3,440	75.0	5,453	61.6	2,013	58.5
Hispanic	1,857	78.3	5,061	75.2	3,204	172.5
Other	4,055	91.2	8,829	93.0	4,774	117.7
No Info	2,006	92.8	6,012	94.2	4,006	199.7
Government-Insured						
White	367	1.8	1,053	2.8	686	186.9
Black	1,145	25.0	3,401	38.4	2,256	197.0
Hispanic	516	21.7	1,665	24.8	1,149	222.7
Other	392	8.8	664	7.0	272	69.4
No Info	156	7.2	367	5.8	211	135.3

IV. Mortgage Applications with No Racial Information

Fair lending advocates have always stressed the need for information on the outcomes of mortgage lending decisions. Indeed, the first major victory in the quest for racial equity in mortgage lending was passage in 1975 of the Home Mortgage Disclosure Act (HMDA). Originally enacted to require public disclosure of the location of mortgaged properties, Congress extended its scope in 1989 to cover the race, sex, income, and location of individual mortgage applicants and the outcome of the application process (Schwartz, 1998). HMDA was strengthened further in the early 1990s by extending its coverage of independent mortgage banks. The availability of HMDA data has been crucial to numerous CRA challenges to proposed bank mergers, enabling community groups, local governments and other organizations to monitor mortgage lending to minority households and neighborhoods. These advances in HMDA's scope, however, do not ensure collection of all the required information on loan applicants. In particular, the rise of mail, telephone and now Internet-based loan processing makes it easier for borrowers to omit racial information.

A. The proportion of mortgage applications with no racial information has grown, particularly in the refi market.

New York, like the nation as a whole, has seen growth in mortgage applications for which no racial information is provided, thereby complicating interpretation of lending trends. Mortgages with no racial information have become especially prevalent in the refi market. As a proportion of all refi mortgage originations, applications with no racial information increased from 10 percent in 1993 to 24 percent in 1999. Moreover, they accounted for one-third of all refi *applications* in 1999, more than twice their share in 1993 but down from a peak of 47 percent in 1997. In the home-purchase market, the share of mortgage originations with no racial information rose more modestly, from 6.4 percent to 9.2 percent of total originations (Table 1).

The rise of these mortgage originations complicates interpretation of racial trends in mortgage lending, since the extent to which different races are represented in the "no information" category is not known. To estimate the extent to which minority households are represented by mortgage applications with no racial information, Table 9 shows the percent distribution in 1993 and 1998 of "no information" applications and originations involving census tracts with varying minority populations (for home-purchase and refi mortgages combined). The table also shows the percent change from 1993 to 1998 of these applications and originations within each category of census tract.

Table 9

Percentage Distribution and Percent Change of Mortgage Applications and Originations with No Racial Information by Racial Composition of Census Tract, 1993-1998										
	"No Info." Applications					***"No Info." Originations***				
	1993		1998			1993		1998		
Percent Minority in Tract	Total	Percent Distribution	Total	Percent Distribution	Percent Change 1993-98	Total	Percent Distribution	Total	Percent Distribution	Percent Change 1993-98
Less than 10%	4,392	25.1	10,768	18.9	145.2	2,581	30.5	4,214	23.0	63.3
10-39%	6,422	36.7	16,654	29.2	159.3	3,506	41.4	6,113	33.4	74.4
40-69%	1,672	9.6	6,276	11.0	275.4	756	8.9	1,754	9.6	132.0
70-84%	954	5.5	3,837	6.7	302.2	346	4.1	985	5.4	184.7
85-100%	4,048	23.1	19,492	34.2	381.5	1,282	15.1	5,252	28.7	309.7
Total	17,488	100.0	57,027	100.0	226.1	8,471	100.0	18,318	100.0	116.2

B. Tracts with predominantly minority populations show the largest increases in mortgage applications and originations with no racial information.

While tracts with relatively small minority populations accounted for more than half of all mortgage originations in 1998 with no racial information, these tracts experienced the least growth in such mortgage applications and originations. The greater a tract's minority representation, the larger its increase in "no information" mortgages. Such applications increased almost four-fold from 1993 to 1998 in census tracts with minority populations of 85 percent or more, and orginations increased more than three-times over. The smallest relative increases in these mortgage applications and originations occurred in tracts where the minority population makes up less than 10 percent of total population. Here, "no information" applications rose by 145 percent and originations by just 63.3 percent. Reflecting this uneven growth trend, tracts with relatively large minority populations account for a growing share of mortgage applications and originations with no racial information. In 1998, tracts with a minority population of at least 85 percent accounted for nearly 29 percent of total "no information" originations, nearly double its 15 percent share in 1993. In contrast, tracts with the smallest proportion of minority residents saw their share of these originations fall from 30.5 percent to 23 percent.

The increasing concentration of mortgage applications and originations in predominantly minority census tracts suggests that a large and growing proportion of these mortgages probably involve minority households. As a result, the growth of these mortgage applications and originations may cause minority lending to be underreported in the HMDA data. In other words, were it not for the apparently growing tendency of minority households to not report their race on their mortgage applications, lenders would show a larger increase in minority mortgage applications and originations. Moreover, the concentration of mortgage applications without racial information in predominantly minority census tracts also suggests that actual denial rates for minority mortgage applications may be higher than is suggested by the available HMDA data (i.e., applications with complete racial information).

V. CONCLUSION

Mortgage lending has changed dramatically in the past decade. Lenders originated more mortgages to blacks and other minorities than ever before. These gains reflect the economic prosperity and low interest rates of the 1990s along with increasingly flexible underwriting standards and more aggressive marketing of mortgage products. These latter two developments stem from, among other things, heightened enforcement of the Community Reinvestment Act, federal pressure on Fannie Mae and Freddie Mac to purchase mortgages issued to low-income and minority households or that involved minority or low-income neighborhoods, increased enforcement of federal fair housing and fair lending laws, and lenders' own improved understanding of the risks associated with low- and moderate-income (Listokin and Wyly, 2000).

Still, for all the progress made in minority lending, persistently higher mortgage denial rates for black home purchase applications, especially when controlling for income, suggest that race still factors into the mortgage lending process. One must be careful, however, not to exaggerate racial differences in the outcomes of mortgage applications since HMDA data do not account for wealth, employment status, credit history and other important lending criteria. Indeed, the finding that black and Hispanic households in all but the highest income group apply for considerably larger mortgages than their white counterparts suggests that the latter bring more equity to the table. It is also worth repeating that the volume of mortgage *applications* submitted by minority households has increased substantially faster than white applications, a possible indication of improved marketing and outreach to the minority community.

Even if racial differences in lending outcomes remain a concern, additional issues emerged in the 1990s that also demand attention. In other words, racial equity in the mortgage market has become more complex, involving not only differences in credit access, but also in the types (and associated costs and risks) of credit received.

As this study of the New York metropolitan area has shown, the mortgage market is becoming racially polarized, with blacks disproportionately concentrated among nondepository lenders (despite the depositories' recapture of market share in 1999) and more likely to have subprime and government-insured mortgages. As a result, blacks and other minorities often face higher costs (fees, interest rates) for credit, are subject to larger penalties for pre-payment, and are more vulnerable to foreclosure (HUD and Treasury, 2000).

In addition to concerns about the type of credit blacks receive, the New York situation also raises important questions about the utility of HMDA as a gauge of racial patterns in mortgage lending. The rapid growth of mortgage applications with no racial information raises troubling questions about the interpretation of HMDA data. That these mortgage applications are increasingly associated with minority census tracts, coupled with their low approval rates, suggests that HMDA may overstate the approval rate for minority applications.

If New York is at all representative of the nation, changes in the mortgage market raise serious questions about the long-tem effectiveness of the CRA. Devised to promote minority access to the mortgage market, it was not designed to address racial and geographic differences in mortgage quality. Independent mortgage banks, the predominant issuer of subprime and government-insured mortgages, are not covered by the CRA. Mortgage bank affiliates of depository institutions are covered by the CRA at the discretion of their owners; financial institutions can decide whether or not to include their mortgage banks' lending in their CRA evaluations. The CRA is therefore currently not well positioned to curb the more abusive ("predatory") aspects of subprime lending.

Several legislative and regulatory actions aimed at addressing disparities in the quality of mortgage products are now under consideration - or have recently been undertaken - at the federal and state levels (Heller, 2001; Williams and Blysma, 2000).[4] One of the proposed changes with the greatest potential to reduce racial inequities in credit quality would give lenders CRA credit for "upstreaming" subprime borrowers to the prime mortgage products either at the time of application or after a period of on-time payments (HUD and Treasury, 2000). Congress is also considering proposals to amend HMDA to require lenders to report the interest rates on all of their mortgage applications and originations.[5] This would help regulators and fair-lending advocates to better monitor subprime and predatory lending.

If the past decade was any indication, we can expect to see continuing shifts in the mortgage lending industry. Yet unlike the mid-1990s, these changes may be occurring, at least in the short term, in the face of weakening economic conditions. A slow growing economy will require lenders to be particularly vigilant in their efforts to sustain and improve minority access to credit. At the same time, state and federal regulators will need to persistently monitor trends, evaluate their implications, and develop appropriate policies in response.

[4] Several bills addressing predatory lending await legislative action in Congress and the bank regulatory agencies have offered new proposals and regulations to deal with the problem. At the state and local level North Carolina and Chicago recently passed laws designed to combat predatory lending.
[5] 65 Federal Register 78655-78685 (15 December 2000).

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