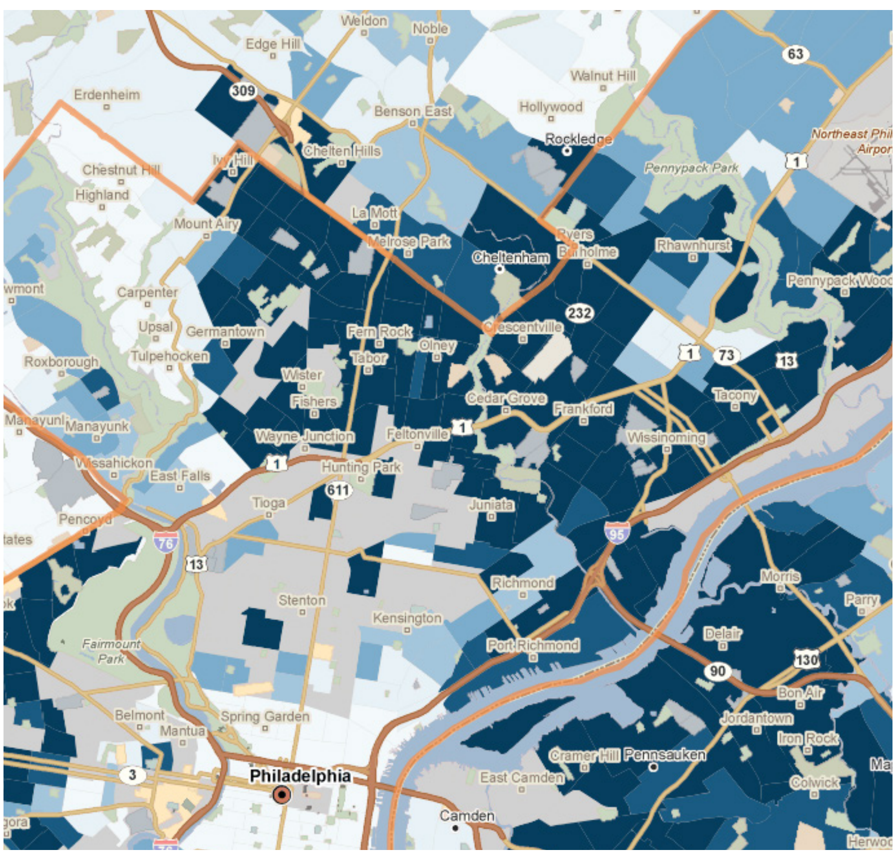
REINVESTMENT FUND

Mortgage Lending in Philadelphia

Key Take-Aways from the 2016 Home Mortgage Disclosure Act Data Release

Prepared by **REINVESTMENT FUND**

Published **JANUARY 2018**



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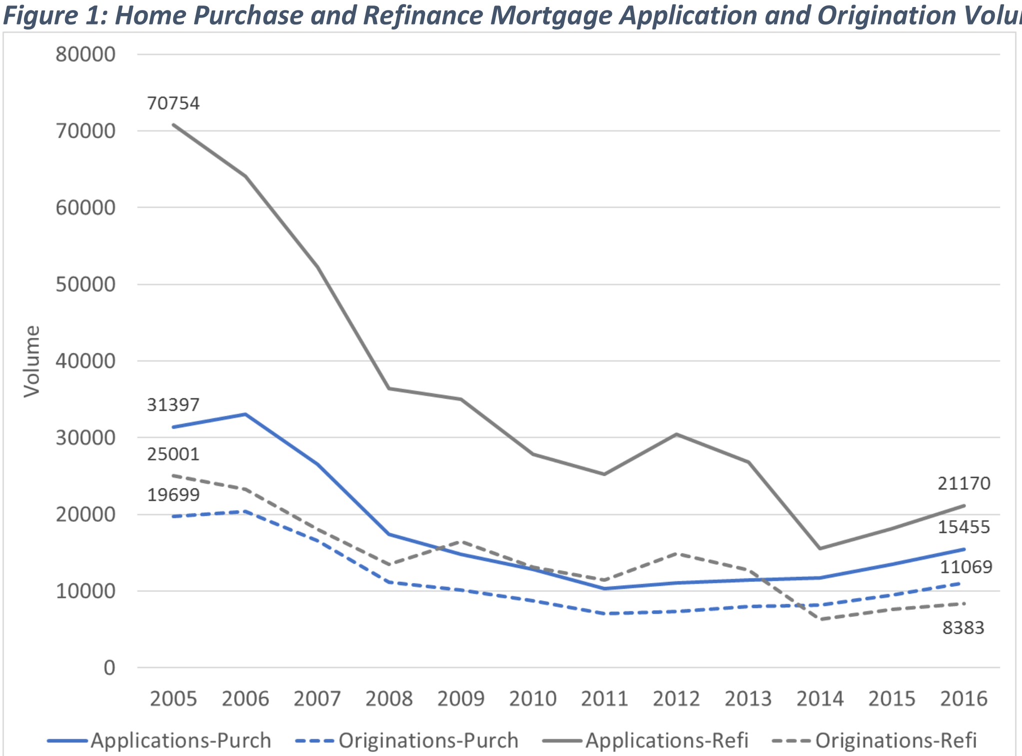
Each year, lending institutions across the country report their mortgage lending activity under a law known as the Home Mortgage Disclosure Act (HMDA). Enacted by Congress in 1975 and amended several times since, HMDA data are a critical resource to understand how dollars flow into communities to support home purchasing, refinancing mortgages, or making home improvements. Regulators use HMDA for various purposes, which include assessments of lenders' community reinvestment obligations and adherence to civil rights laws.

The 2016 HMDA data were recently released providing an opportunity to look at the local mortgage lending environment – trends in loan volume, the kinds of loans being made, where loans are made, how efficiently different groups can access credit, what entities purchase the home loans once made, and what lenders are originating mortgages in Philadelphia.[1]

Mortgage Applications & Originations Are Bouncing Back Slowly

Figure 1 displays mortgage applications by purpose (i.e., a "purchase" loan to buy a home, or a "refinance" to refinance your existing home loan(s)) and action taken by the lender (i.e., all applications and just those that led to a mortgage being disbursed, or originated). Solid lines represent all applications for home purchase and refinance mortgages; dashed lines represent originations.

Figure 1: Home Purchase and Refinance Mortgage Application and Origination Volume, 2005-2016

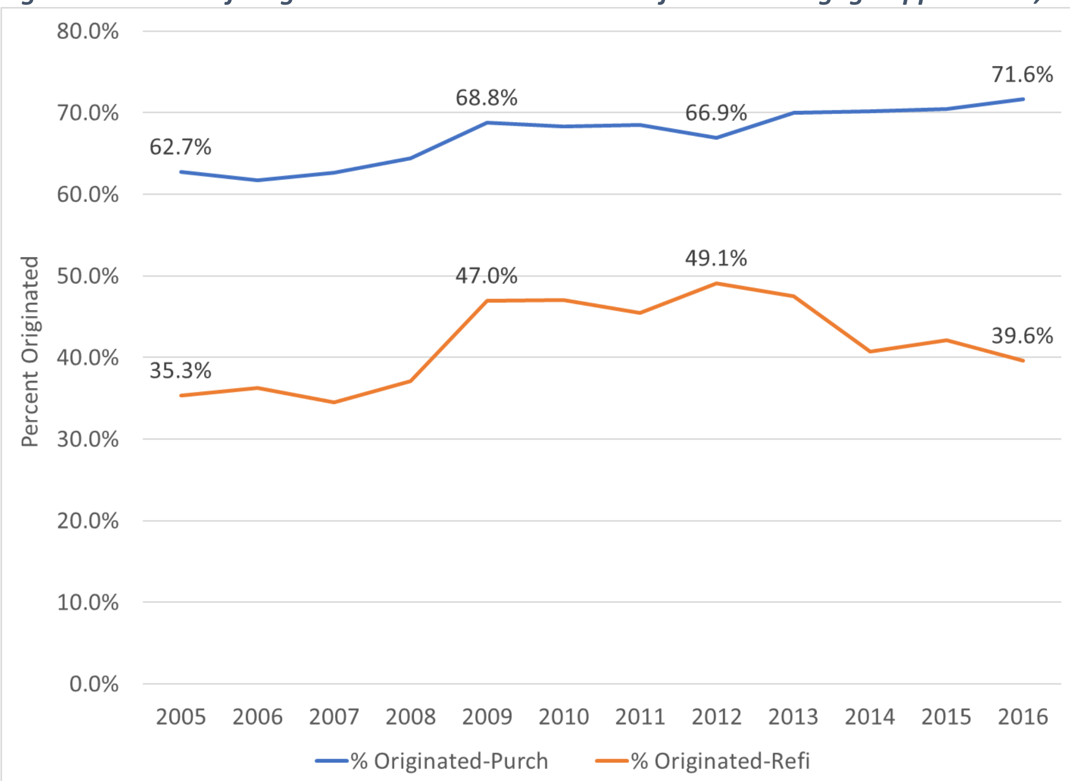


[1] For a comprehensive national review of the 2016 HMDA data release, see: https://www.federalreserve.gov/publications/files/2016_HMDA.pdf.

In 2011, Philadelphia hit its lowest point with around 7,000 home purchase mortgage originations and 11,500 mortgage refinances. Since that time home purchase mortgage lending has rebounded; in 2016, there were more than 11,000 home purchase mortgage originations.[2] Refinancing activity is generally driven by changes in the interest rate environment (and in the post-recession period, the need to get out of subprime and adjustable rate mortgages (ARMs) when those interest rates adjusted up). With interest rates remaining at historic lows for several years now, refinance activity remains relatively low.

Not all applicants for mortgages obtain a mortgage. Figure 2 presents the origination rate for home purchase and refinance mortgages in Philadelphia from 2005 to 2016.

Figure 2: Percent of Originated Home Purchase and Refinance Mortgage Applications, 2005-2016



In 2016, 71.6% of Philadelphia applicants obtained a mortgage loan to purchase their home, about 12% had their applications denied and another 15% withdrew their applications (or failed to complete those applications) before a decision was rendered by the lending institution. From 2005 to 2016, the origination rate for home purchase mortgages in Philadelphia has risen slowly but steadily. The origination rate of refinance applicants is both lower and trending in the opposite direction of home purchase mortgages.

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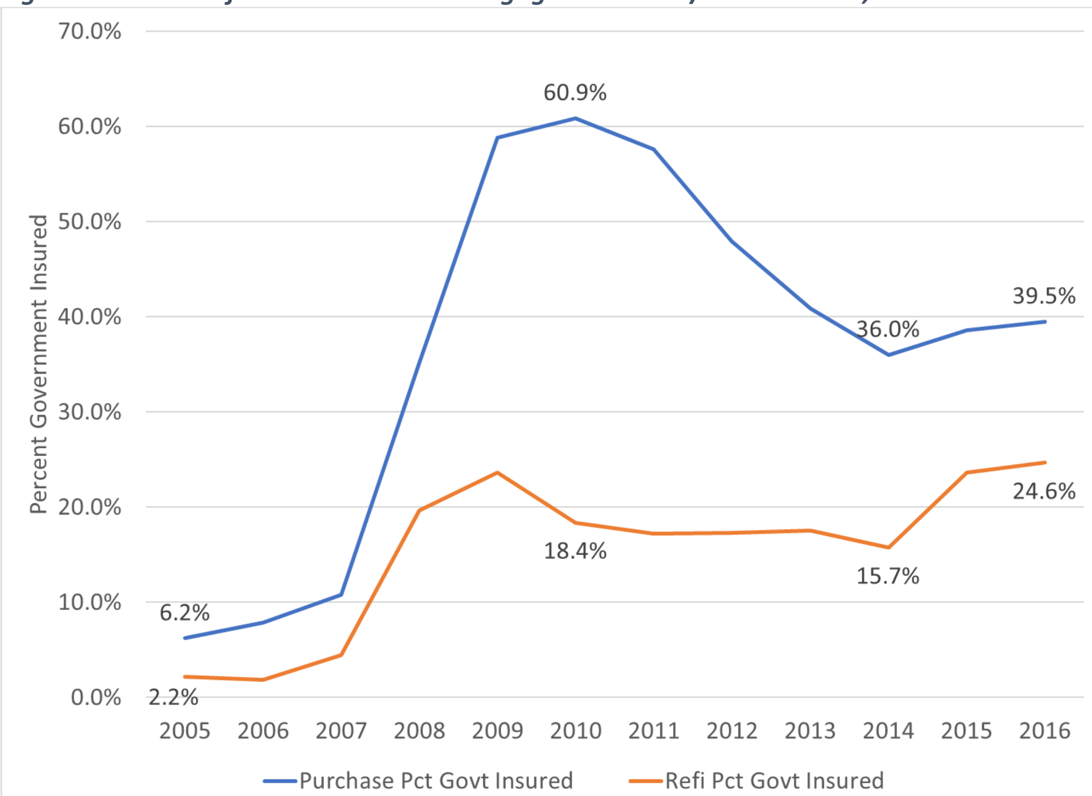
[2] The number of purchase mortgage originations in Philadelphia rose by 56.3% between 2011 and 2016; nationally, the rise was 71%. Over that same period, the volume of originated refinance mortgages in Philadelphia dropped by 26.9% compared to a 13.3% decline nationally.

FHA/VA Market Share Expands Dramatically
One primary shift in the mortgage market after the recession has been the resurgence of Federal Housing Administration (FHA) mortgage products. FHA insured mortgages have continued to flow into communities, even when other conventional (prime or subprime) products did not. Figure 3 shows the percent of all home purchase loans originated that carried with them the security of FHA or VA (US Department of Veterans Affairs) insurance in Philadelphia from 2005 to 2016.

Figure 3: Percent of Home Purchase Mortgages with FHA/VA Insurance, 2005-2016



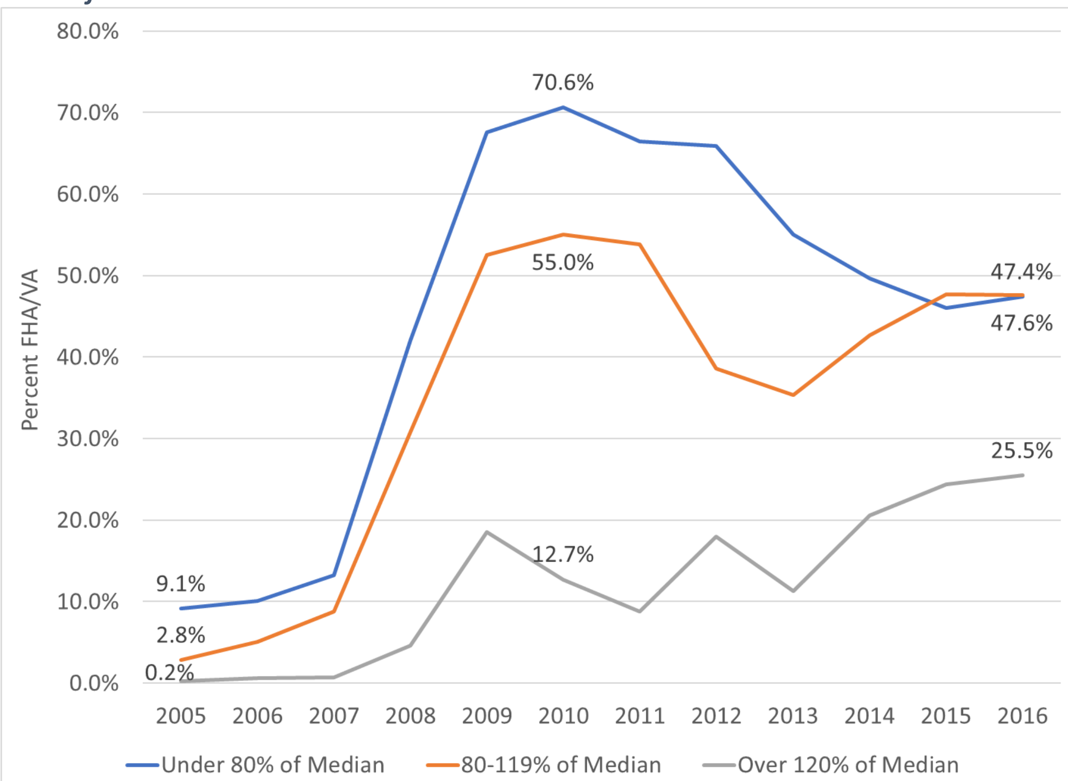
In the run-up to the market collapse in 2007/08, FHA/VA products made up a very small part of the home purchase mortgage market. As the supply of subprime and predatory loans of the mid-1990s to mid-2000s dried up, the FHA/VA product stepped in and became the option for people still looking to buy homes (or refinance existing mortgages). FHA/VA's more lenient credit standards (which helped home buyers) and insurance (which helped lenders) made it the perfect product to step in and keep the *life-blood* of communities flowing. At one point in 2010, FHA/VA comprised more than 60% of the city of Philadelphia's home purchase mortgage market. While FHA/VA has declined as the economy has strengthened, it is still the product for nearly 40% of homebuyers in Philadelphia and well above the historic average.[3]

As important as the FHA/VA product is because of its relaxed borrower standards and the security it offers to lenders, those benefits come at a cost. FHA/VA loans carry with them a set of fees that make borrowing somewhat more expensive for borrowers. Consequently, it is important to understand to

[3] Philadelphia's percent of purchase mortgage originations that are government-insured was 39.5% in 2016, a sharp decline from its peak of 60.9% in 2010. Nationally, FHA/VA market share was 37.7% and 51.8% respectively in 2016. Thus, over time, Philadelphia has begun to look more like that national average.

whom and where these mortgages are made in the city of Philadelphia and whether the additional flexibility, cost, and security of the FHA/VA is necessary.[4] Figure 4 displays the market share of FHA/VA mortgages by the income level of Philadelphia Census tracts (compared to the area median) from 2005 to 2016.

Figure 4: Percent of Home Purchase Mortgages with FHA/VA Insurance, 2005-2016 by Census Tract Ratio of Income to Area Median



Before the recession, FHA/VA was almost absent from the middle and higher income markets and comprised less than 10% of the lower income areas of Philadelphia. By 2010, FHA/VA mortgages became the dominant loan products in lower income areas comprising, on average, 7-of-10 originated home purchase mortgages; in middle-income markets, FHA was more than half. While FHA/VA market share has moderated, two observations stand out: (1) FHA/VA still comprises almost half of the market for home purchase mortgages in lower and middle-income areas; (2) FHA/VA market share in higher income markets has continued to rise (roughly 1 in 4 in 2016), albeit well below that in lower and middle-income areas.[5]

Figure 5 presents FHA/VA market share by tract minority percentage in Philadelphia from 2005 to 2016. The blue line represents Philadelphia census tracts with more than 50% non-white residents (i.e.

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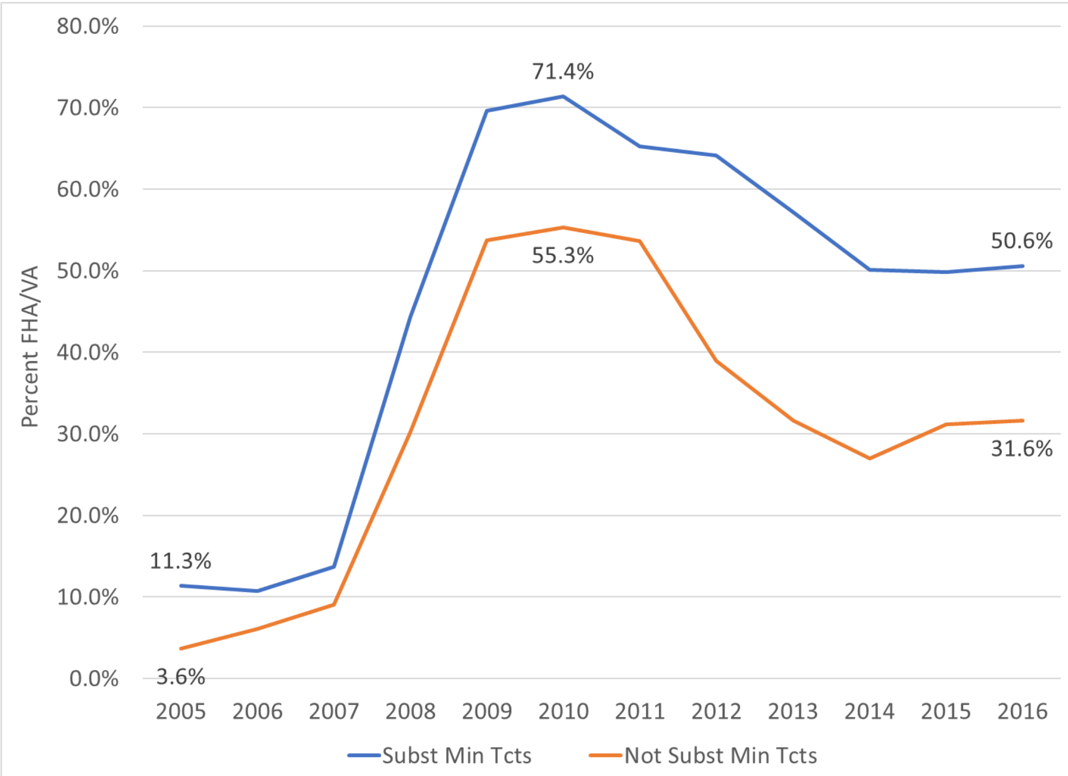
[4] FHA up front insurance premium and annual mortgage insurance premiums currently stand at 175 and 135 basis points, respectively. For a history of these fee levels, see: https://www.urban.org/sites/default/files/publication/22396/413061-Housing-Finance-At-A-Glance-A-Monthly-Chartbook.PDF.

[5] Compared to the national average, Philadelphia is similar to national levels with comparable FHA activity in lower and moderate-income areas and slightly lower rates in higher income areas.

substantially minority tracts); the red line represents Philadelphia census tracts with fewer than 50% minority residents (i.e. not-substantially minority tracts).

Figure 5: Percent of Home Purchase Mortgages with FHA/VA Insurance, 2005-2016 by Census Tract Minority Percentage



Before the recession, FHA/VA comprised less than 5% of the lending in not-substantially minority tracts and 11% of those that were substantially minority. These rates rose to 71.4% in the substantially minority areas and 55% in the not-substantially minority areas by 2010. Although those rates have now dropped, FHA/VA products remain more than half of the market in Philadelphia's minority communities and about one-third in non-minority areas.

Denial Rates Remain Unevenly Distributed Across Different Borrower Race/Ethnicity and Income Levels

Table 1 presents denial rates for conventional and government insured home purchase loan applications in Philadelphia from 2014 to 2016, across different racial and income groups.

Table 1: Denial Rates for Home Purchase Mortgages, 2014-2016[6]

		Race		Ethnicity	Income		
Home Purchase Loans	Total	White	Black	Hispanic	Low/Mod	Middle	Upper
2016 Denial Rate							
Conventional	10.0%	7.2%	22.8%	15.6%	18.8%	10.4%	6.9%
Govt Insured	14.3%	10.6%	16.7%	16.7%	18.4%	12.3%	9.5%
2015 Denial Rate							
Conventional	11.3%	8.6%	25.6%	16.0%	20.8%	11.2%	8.1%
Govt Insured	13.6%	9.9%	16.3%	14.4%	16.9%	11.0%	10.5%
2014 Denial Rate							
Conventional	11.0%	8.8%	22.2%	19.9%	20.2%	10.5%	8.1%
Govt Insured	16.0%	10.4%	20.9%	12.7%	19.9%	12.6%	11.8%

As shown in Table 1, in 2016 the overall denial rate for conventional home purchase mortgages stands at 10%, about one percentage point lower than 2015 and reflects the national average (10.2%). Philadelphia's FHA/VA denial rate of 14.3% represents a slight decline over the last two years, yet remains almost a full percentage point above the national average (13.4%).

Denial rates vary substantially by applicants' race, ethnicity and income. Notably, among both conventional and FHA/VA mortgages, the denial rates of Black/African American applicants and Hispanic applicants are substantially above those of White applicants. The data also show that low/moderate income and middle-income applicants have substantially higher denial rates than upper income applicants, a pattern within both conventional and FHA/VA mortgages.

As the Loans Change So Do the Lenders

The mortgage activity presented highlight dramatic changes in the Philadelphia mortgage market since the housing market collapse in 2007/08. Not only have there been dramatic changes in the types of loans being made, but the lenders making these loans have also changed substantially since the housing market collapse. In 2016, the most prolific home purchase mortgage lenders in Philadelphia were Trident Mortgage, Wells Fargo Bank, Meridian Bank, Guaranteed Rate Inc., and Finance of America Mortgage, whose collective activity accounted for almost 25% of all loans to purchase homes. The refinance market is even more concentrated, with The Police and Fire Federal Credit Union, Quicken Loans, Wells Fargo Bank, Freedom Mortgage Corp, and Nationstar Mortgage originating 40% of all refinance loans.

By comparison – in 2005, Countrywide Home Loans was #1 and National City was #5 in purchase mortgages; while Wachovia, Countrywide and Ameriquest were #2, #3 and #4 respectively in the refinance market. All these institutions are now out-of-business either through closure or merger.

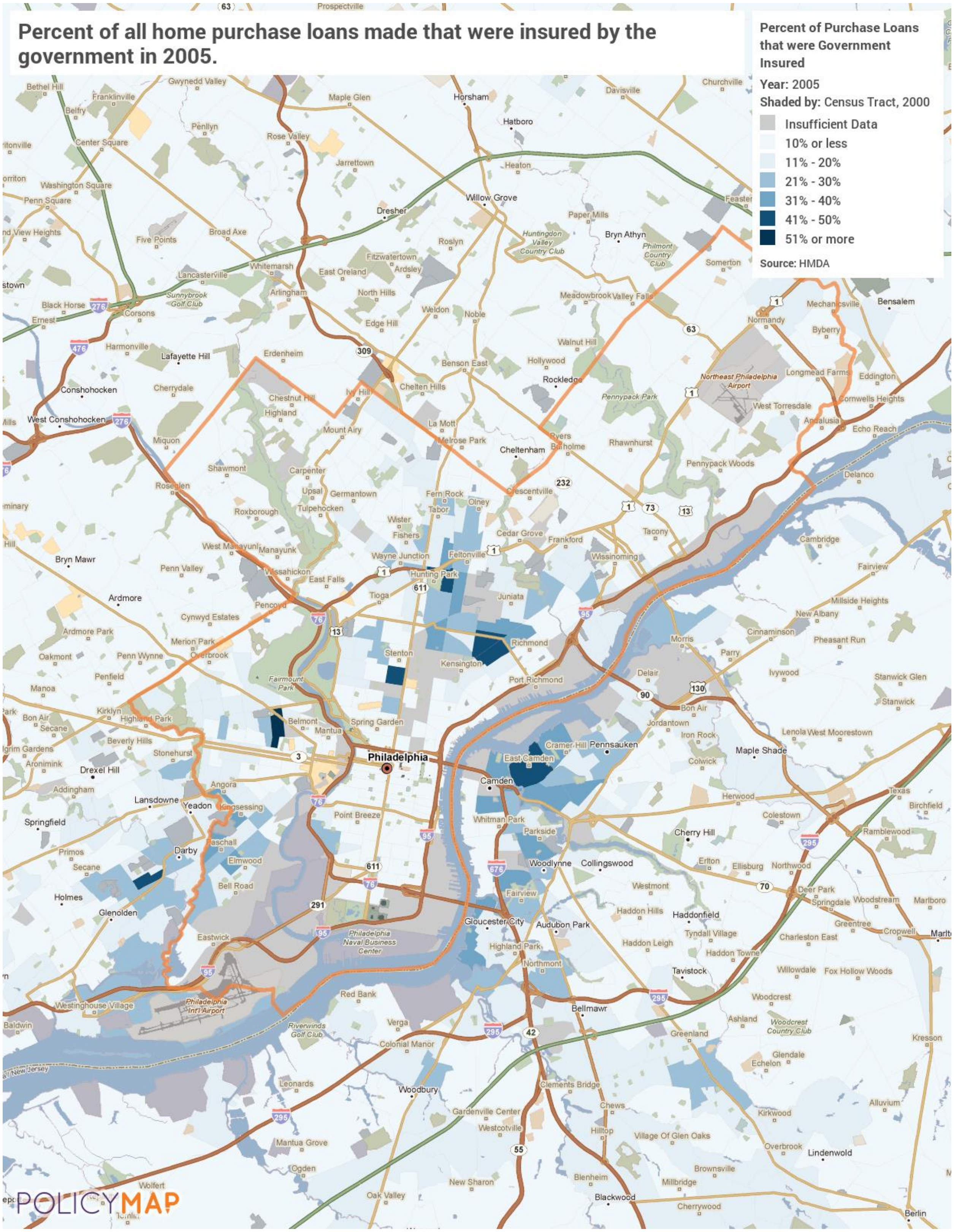
[6] Low/Mod Income includes applicants whose income is less than 80% of the area median; middle income applicants have incomes between 80 and 199% of area median; upper income applicants have incomes equal to or above 120% of the area median. "Govt Insured" includes FHA and VA applications.

Conclusion

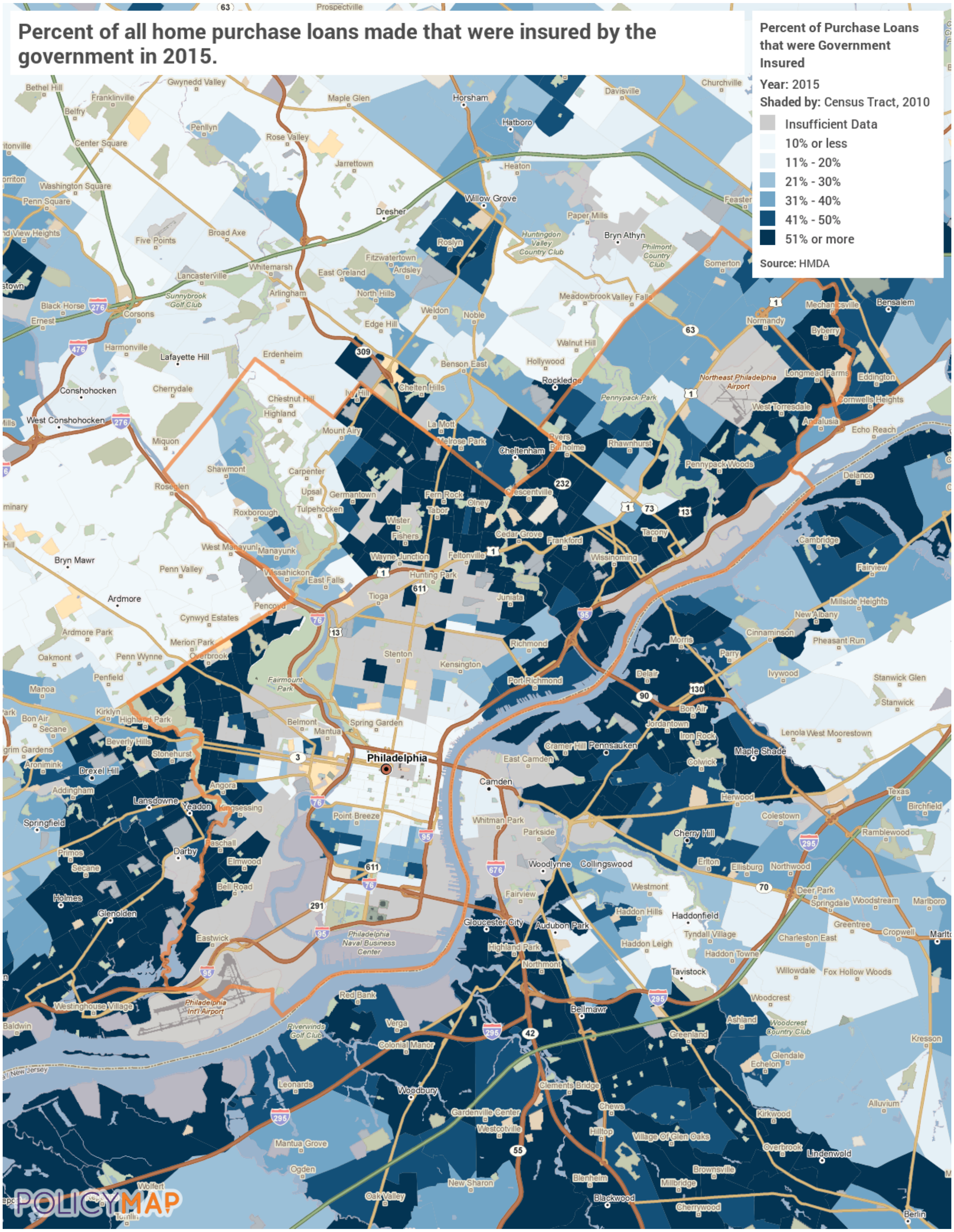
The HMDA database is a treasure trove of information about those Philadelphia households who own, or wish to own, a home. Stories of the "hot" Philadelphia housing market abound and are certainly true in some places,[7] but HMDA data provide a more tempered picture of the city. Capital to purchase homes in Philadelphia remains tight, and the data suggest that access remains somewhat uneven.

The data also suggest that substantial differences persist between borrowers and neighborhoods at different income levels, borrowers from different racial/ethnic backgrounds, and neighborhoods with more/less minority residents in terms of the mortgage products they use, and their access to them. More in-depth research and investigation is necessary to understand the degree to which these differences reflect prevailing economic circumstance (e.g., lower credit ratings or less savings for down payments), or the degree to which they are the result of either unintended lending policy changes or discriminatory lending practices.

[7] Drexel University's Lindy Institute releases data on a quarterly basis summarizing home sale activity in Philadelphia and its surrounding region. Dividing Philadelphia into nine regions, we can see that only two areas (South Philadelphia and University City) rose at a rate that exceeded inflation over that same 10-year period. See: http://drexel.edu/lindyinstitute/initiatives/reports/.



Map 1: Percent of Home Purchase Mortgage Originations with FHA/VA Insurance, 2005



Map 2: Percent of Home Purchase Mortgage Originations with FHA/VA Insurance, 2015

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REINVESTMENT FUND is a catalyst for change in low-income communities. We integrate data, policy and strategic investments to improve the quality of life in low-income neighborhoods.

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