AN ANALYSIS OF POSSIBLE MORTGAGE LENDING DISCRIMINATION IN THE CITY OF BALTIMORE IN 2020

by

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September 14, 2021

This is the second of two analytic reports by the GBCHRB on 2020 Home Mortgage Disclosure Act (HMDA) data about mortgage lending applications. The second report - to be published on September 9, 2021 - examines the specific application characteristics and actions regarding mortgage applications in Baltimore during 2020.

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INTRODUCTION

This is an analysis of possible violations of fair lending laws regarding mortgage lending discrimination in the city of Baltimore in 2020. The sole source of information is the 2020 national Home Mortgage Disclosure Act (HMDA) data on Baltimore, which is the latest year available. The HMDA requires many financial institutions annually to maintain, report, and publicly disclose loan-level information about mortgage applications. HMDA was originally enacted by Congress in 1975 and is implemented by Regulation C. The HMDA data are the most comprehensive publicly available information on US mortgage market activity.

The Federal Financial Institutions Examination Council (FFIEC) annually releases to the public available data on 2020 mortgage lending transactions at 4,475 U.S. financial institutions reported under the HMDA. The institutions include banks, savings associations, credit unions, and mortgage companies.

Not all lending institutions are legally required to submit HMDA data, as the criteria for lenders includes: an asset threshold of $47 million (2020). a home or branch location located in a metropolitan statistical area, originated at least one home purchase loan or refinance of a home purchase loan secured by a first lien on a one-to four-unit dwelling, federally insured, federally regulated; and was insured, guaranteed, or supplemented by a federal agency and was intended for sale to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Lenders that were insured depository institutions or insured credit unions and originated less than 500 closed-end mortgage loans or open-end lines of credit in each of the two preceding calendar years do not have to collect and report some of the data fields.

HMDA data have many uses. They help indicate if lenders are serving the housing needs of their communities; they give public officials information that helps them make decisions and policies; and they illuminate lending patterns that could be racially, ethnically, or otherwise discriminatory. Public officials use the data for making decisions about distributing public-sector investments, and policymakers review and analyze HMDA data for insights into the mortgage market.

They also are utilized as part of federal financial regulators' fair lending, consumer compliance, and Community Reinvestment Act examinations. When these regulators evaluate a financial lending institution's fair lending risk, for instance, they analyze HMDA data as well as other information and risk factors, as per the Interagency Fair Lending Examination Procedures. The public data are modified to protect applicant and borrower privacy. More information about HMDA data reporting requirements is also available at https://ffiec.cfpb.gov/.

THE DATA'S IMPORTANT LIMITATIONS

It is important to stress that HMDA data does not indicate that a lender has not complied with fair lending laws or that mortgage lending discrimination has occurred. HMDA's implementing regulation states that a purpose of the statute is to provide "loan data that can be used to "assist in identifying possible discriminatory lending patterns."

The HMDA data include some 48 data fields providing information about the applicants, the property securing the loan or proposed to secure the loan in the case of non-originated applications, the transaction, and identifiers. A complete list of HMDA data points and the associated data fields is found in the FFIEC's Filing Instructions Guide for HMDA Data Collected in 2020. Some smaller-volume financial institutions are not required to report all of these data, according to the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA).

While the data includes many details about the individual mortgage lending application and the individual household applicant, it does not include some legitimate credit risk considerations for loan approval and loan pricing decisions that are considered in the application decision making process. These include prior credit and lending history, total assets and liabilities, and non-statistical, qualitative data about the applicant and lender that are legally valid sources of information for application decision making.

HMDA data, therefore, instead gives a general snapshot of a financial institution's lending history in that year. It does contain sufficient data to enable comparisons between the institution's application history regarding race, ethnicity, sex, locational, and other factors. An institution's lending history can be evaluated both by itself and in comparison with other lenders.

The objective of this analysis is to identify those lenders who have a significantly different lending history that others in regards to their treatment of applications by different racial, ethnic, sexual, and locational persons. Large differences in application approval rates for groups who are legally protected from lending discrimination may indicate possible discriminatory behavior. Aggregate HMDA data has generally revealed gaps in lending outcomes that could correlate to factors such as race and ethnicity. Data analysis may provide more precise identification of those lenders that might indicate the need for detailed investigations and analyses of the reasons for any such gaps.

HMDA data are usually utilized in combination with other means of assessing a lending institution's possible illegal discriminatory behavior. These include individual applicant complaints of discrimination, Fair Housing testing, and other legitimate sources of public information.

More information about the limitations of HMDA data are discussed by a GAO report (2009), an analysis by three members of the Federal Reserve System's Board of Governors (2006), Consumer Compliance Outlook (2020), K&L Gates (2019), and a number of others.

THE METHOD OF ANALYSIS

As stated, this analysis considers all first-lien mortgage lending applications from Baltimore residents in 2020 for their residential, owner-occupied units located in the city that year.

The analyzed Bureau Data Point report (2021) by the Consumer Financial Protection Bureau (CFPB) describes 2020 mortgage market activity and trends using data reported under the HMDA. The 2020 HMDA data and recent trends in mortgage applications and originations are based on the analysis of the consolidated application-level 2018, 2019, and 2020 HMDA data files. Some data points used in this report were modified or withheld in the public HMDA data..

It is important to note that HMDA data are generally not used alone to determine whether a lender is complying with fair lending laws. The data do not include some legitimate credit risk considerations for loan approval and loan pricing decisions. Therefore, when regulators conduct fair lending examinations, they analyze additional information before reaching a determination about an institution’s compliance with fair lending laws. That said, the HMDA data can provide very rough snapshots of an institution's real and comparative lending activity.

CONTENTS OF THE DATA

The data include a total of 48 data points (variables) providing information about the applicants, the property securing the loan or proposed to secure the loan in the case of non-originated applications, the transaction, and various identifiers. A complete list of HMDA data points and its associated data fields is on the FFIEC’s Filing Instructions Guide for HMDA Data Collected in 2020. It is also in the appendix.

The 2020 HMDA data use the census tract delineations, population, and housing characteristic data from the 2011–2015 American Community Survey (ACS). This data reflect metropolitan statistical area (MSA) definitions released by the Office of Management and Budget that became effective for HMDA reporting in 2019.

MARYLAND AND NATIONAL FINDINGS

Maryland Findings

Maryland had a 10.1-15.1% Annual Growth Rate of Closed-end Home-purchase Loan Originations. Most states were around this %age spread. For refinance loans, all states saw more than 100 % growth rate in 2020 compared to 2019, as shown in Figure 12.31. Maryland's growth rate was 175.1-200%. This was one of the 12 biggest rates nationally.

Lenders and Total Applications

For 2020, the number of reporting institutions declined by about 18.8% from the previous year to 4,475. The 2020 data include information on 22.7 million home loan applications: 20.4 million were closed-end, 1.7 million were open-end, and, for another 563,000 records, pursuant to the law's partial exemptions, no information was available. The number of closed-end loan applications increased by 63.2%, and the number of open-end line of credit applications decreased by 19.0%. Some 14.5 million applications resulted in loan originations. 13.2 million were closed-end mortgage originations, 906,000 were open-end line of credit originations, and 432,000 were originations without available data. The 2020 data include 2.8 million purchased loans, for a total of 25.6 million records. The total number of originated closed-end loans increased 5.3 million between 2019-2020, or 67.1%. Refinance originations for 1-4 family properties rose by 150.0% from 3.4 million, and home purchase lending increased by 6.7% from 4.5 million.

Overall, loans backed by the Federal Housing Administration, Department of Veterans Affairs or federal farm programs were 32.9% of all new mortgages, down from 33.4% in 2019. The FHA market share for refinances fell to 6.6% from 12% in 2019, while VA refinances decreased from 13.5% to 11.9%. Non-depository lenders held 60.7% market share in 2020, up from 56.4% in 2019.

Racial, Ethnic, and Income Characteristics

Black borrowers accounted for 7.3% of single-family home purchase loans in 2020, up slightly from 7% the year before. Home purchase loan shares for Hispanic-White borrowers edged down from 9.2% in 2019 to 9.1% in 2020, and were down from 5.7% to 5.5% among Asian-American borrowers. The data also noted that Black and Hispanic-White applicants experienced higher denial rates for conventional home mortgages than non-Hispanic-White applicants, but the agencies noted that "these relationships are similar to those found in earlier years," and that due to the limitations of HMDA data "cannot take into account all legitimate credit risk considerations for loan approval and loan pricing."

In terms of borrower race and ethnicity, the share of home purchase loans for first lien, 1-4 family, site-built, owner-occupied properties made to Black borrowers increased from 7.0% in 2019 to 7.3% in 2020, the share made to Hispanic-White borrowers decreased a little from 9.2% to 9.1%, and those made to Asian borrowers decreased slightly more from 5.7% to 5.5%.

Black and Hispanic white borrowers had lower median loan amounts, lower median credit scores, higher denial rates, and paid higher median interest rates and total loan costs compared to non-Hispanic white and Asian borrowers. A recent CFPB publication found that there is great variety in mortgage characteristics for Asian American Pacific Islanders. The report Asian American and Pacific Islanders in the Mortgage Market.

From 2019 to 2020, the share of refinance loans for first lien, 1-4 family, site-built, owner-occupied properties made to Black borrowers decreased from 5.3% to 4.3%, the share made to Hispanic-White borrowers decreased from 6.2% to 5.3%, and the share made to Asian borrowers increased from 5.4% to 6.7%.

In 2020, 17.2% of Black and 11.2% of Hispanic-White applicants were denied first lien, 1-4 family, site-built, owner-occupied conventional home purchase loans. The denial rates for Asian and non-Hispanic-White applicants were 9.1% and 6.1% respectively. These percentages are similar to previous years and, because of the limitations of the HMDA data, cannot consider all legitimate credit risk considerations for loan approval and loan pricing.

From 2019 to 2020, the share of home purchase loans for first lien, 1-4 family, site-built, owner-occupied properties made to low- or moderate-income borrowers (those with income of less than 80 % of area median income) increased slightly from 28.6% to 30.4%. The share of refinance loans to low- and moderate-income borrowers for first lien, 1-4 family, site-built, owner-occupied properties decreased from 23.8% to 19.3%. The HMDA data showed that low-to-moderate income borrowers accounted for 30.4% of single-family, owner-occupied home purchases—up from 28.6% in 2019. LMI borrowers also accounted for 19.3% of single-family refis, down from 23.8% in 2019.

Sources of information: FFIEC press release (2021) and ABA Banking Journal (2021).

SUMMARY OF 2020 MORTGAGE LENDING IN BALTIMORE

According to HMDA data, there were 31,895 applications filed for mortgages in the city of Baltimore in 2020.

Regarding the type of occupancy:

Owner-Occupied	86.1%
Not Owner-Occupied	1.2
Not Applicable	12.7

The major purpose for these applications was for home purchase (41.4%).

Some 67.4% of the loan applications were for conventional loans. 25.3% were for Federal Housing Administration insured (FHA) loans, 7.4% for Veterans Affairs guaranteed (VA) loans, and a very few were for a USDA Rural Housing Service or Farm Service Agency Guaranteed (RHS or FSA) loans.

Some 64.0% of the 2020 Baltimore applicants were not Hispanic or Latino, 3.2% Hispanic or Latino, 0.9% had joint ethnicity, and 31.9% did not list the applicant's ethnicity.

Concerning the race of the applicants, a high 31.7% of the applications were not identified by race. Of those that were, 36.3% were white, 27.2% were Black or African American, 2.8% Asian, 1.3% were of joint race, 0.3% of two or more races, and 0.2% for American Indian or Alaska Native, and 0.2% for Native Hawaiian or Other Pacific Islander.
Some 31.4% of the applicants were male, 28.2% female, 16.1% of joint sex, and 24.4% did not report their sex.

Of all the first-lien, residential, owner-occupied mortgage applications in Baltimore, the action taken was:

Loan originated	48.2%
Application withdrawn by applicant	15.2
Purchased loan.	14.7
Application denied	14.6
File closed for incompleteness	5.2
Application approved but not accepted	2.1

Regarding race, Blacks/AA had generally lower incomes than either Asians or Whites:

	Asian	Black	White
Below $20,000	3.2%	1.2%	0.5%
$20-39,999	6.7	16.5	6.4
$40-59,999	15.8	31.5	17.2
$60-89,999	27.7	30.4	29.3
$90-119,000	18.9	11.7	16.7
Above $120,000	27.7	8.7	29.9

Approval rates by race and income were:

	Asian	Black	White
Below $20,000	66.7%	28.9%	27.8%
$20-39,999	61.1	58.3	64.5
$40-59,999	69.2	69.0	80.1
$60-89,999	77.6	70.0	81.4
$90-119,000	80.8	67.8	82.5
Above $120,000	77.9	68.1	83.1

LENDING APPLICATIONS BY RACE AND ETHNICITY FOR LENDING INSTITUTIONS

Analysis

An analysis was done on HMDA data from the largest 40 lending institutions in terms of application volume in the city of Baltimore in 2020. They received 9,405 mortgage applications for first-lien, residential, owner-occupied units. Of these, 6,786 or 72.1% were approved, 2,341 or 24.9% were denied, and 2.9% were not classified.

Approval rates for applicants by race were for Asians 75.0%, for Black/AAs 60.8%, and for Whites 70.6%.

Regarding racial identification of applicants, 4,636 Black/AA were identified and 8,098 white applicants were racially identified. 1.5% were other. No racial data was provided on applicants from the AmeriHome Mortgage Company and NFM.

Number of Applicants

Of the 40 largest lending institutions, 49.2% of applications were from Black/AA applicants, 47.3% from Whites, and 3.5% from Asians. There were very few applications (below 1%) by either Native Americans or Native Hawaiian/Other Pacific Islanders.

These lenders received many or almost all of their 2020 applications from Black/AAs:

	Total	Percent
American Neighborhood Mortgage	80	97.5%
Land Home Financial Services	64	96.9
CMG Mortgage	66	83.3
Nationstar Mortgage	9	78.1
Fulton Bank	238	59.7
Fairway Independent Mortgage	213	59.2

On the other hand, the Academy Mortgage Corporation received 90.7% of its applications from Whites.

Large Gap Between Black/AA and White Approval Rates

The following nine lenders had large differences between the approval rate for their Black/AA and White applicants:

		Black/AA		White		
	Total	Approved	Denied	Approved	Denied	Gap
George Mason Mort.	144	66.7%	33.3%	100.0%	0.0%	33.3%
Prosperity Home	140	58.1	41.9	87.5	12.5	29.4
Primary Residential	476	63.4	36.6	86.6	13.4	23.2
NVR Mortgage Fin.	148	64.4	35.6	84.8	15.2	20.5
Towne Bank	81	70.6	29.4	89.4	10.6	18.8
Quicken Loans	145	61.1	38.9	79.8	20.2	18.7
CMG Mortgage	66	76.4	13.6	90.9	9.1	14.5
Fulton Bank	238	58.5	41.5	71.9	28.1	13.5

Meridian Bank Corp.	306	71.9	28.1	85.0	15.0	13.1

As previously mentioned, no racial data was provided on applicants from the AmeriHome Mortgage Company or NFM. TD Bank provided very little racial data: two provided for Black, eight for White.

For the nine largest lenders with significant differences between Black/AA and White approval rates, the breakdown by income level within race:

George Mason Mortgage has over 20% differences in all income groups:
Black 6 1 of 3, 5 62.5, 4 65.5
Wh 6 74.3%, 5 85.7, 4 83.3

Prosperity Home Mortgage had over 30% gaps for the two highest income groups.
Bl 4 63.2 5 66.7 6 40.
Wh 4 75.9 5 90.9 6 95.

Primary Residential Mortgage's gaps were over 20% in the $60-89,000 and $90-119,000 groups.
Bl 4 66.7 5 66.7 6 73.7
Wh 4 87.6 5 89.4 6 83.1

Towne Bank had about a 14-17% gap for these same incomes.
Bl 4 77.8, 5 71.4 6 100.
Wh 4 92.3 5 87.5 6 100.

Quicken Loans had a stunning 48.1% gap in the $60-89,000 group, and over 20% gaps for the higher income groups.
Bl 4 52.6 5 80. 6 37.5
Wh 4 91.7 5 66.7 6 75.

CMG Mortgage's gap was particularly in the $90-119,000 income.
Bl 4 80. 5 66.7 6 100.
Wh 4 83.3 5 100. 6 100.

Fulton Bank had 20% gaps in the $60-89,000 and $90-119,000 groups but a higher Black approval rate for the above $120,000 grouping.
Bl 4 51.6 5 60. 6 66.7
Wh 4 80.6 5 80. 6 58.8

Meridian Bank Corporation's major gap was in the above $120,000 incomes.
Bl 4 85.7 5 91.7 6 66.7
Wh 4 78.4 5 92.9 6 85.4

For those lenders who disproportionately served Black/AA applicants:

Land Home Mortgage gave middling approval to the Black $60-89,000 and $90-119,000 income groups, but approved all four of the applications it received from white applicants.

Bl 4 52.2 5 60. 6 100

American Neighborhood Mortgage again had so-so approval rates for its income groups, but approved all three white applicants.

Bl 4 52.2 5 80. 6 50.

Nationstar only received an identified eight from Black/AAs and one from whites.

Fairway Independent Mortgage's approval gaps were consistently above 10% for all incomes.

Bl 4 66. 5 44.4 6 63.
Wh 4 76. 5 54.5 6 72.

Academy Mortgage Corporation approved over 90% of its white applicants, but only one of its three Black/AA applications.

Bl 4 50 (2) 5 0 (1)
Wh 4 92.6 5 93.3 6 90.9

RECOMMENDATIONS

Based on our analysis of the 2020 HMDA data, we recommend that the following lenders be further investigated regarding their residential mortgage lending behavior:

For Large Approval Rate Gaps Between Black/AA and White Applicants

George Mason Mortgage
Primary Residential Mortgage
Prosperity Home Mortgage
Quicken Loans (Rocket Mortgage)
Towne Bank

For Over-Concentration on One Racial Group

American Neighborhood Mortgage
Land Home Mortgage