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Characteristics of Home Mortgage Lending to Racial or Ethnic Groups in Iowa

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Home Mortgage Lending Patterns

Estimates from the 2006 American Community Survey show home ownership rates for various racial and ethnic groups in Iowa. The table below measures the percentage of households living in owner-occupied housing units by the race or ethnicity of the householder. Iowa’s Black population had a home ownership that was nearly half as low as that for Iowa’s white, non-Hispanic population. Asian and Hispanic rates were also substantially lower.

There are many reasons for lower rates of home ownership. The most obvious is income; it is generally the case that Iowa’s racial and ethnic minorities have lower household incomes than its White majority population. But there are other issues as well. This short report investigates home mortgage lending characteristics in Iowa for 2006, the year before the nation’s overall housing crisis became evident, and a time when access to home loans was relatively high.

Table 1: Iowa Home Ownership Rates, 2006

Racial/Ethnic Group	Percentage owner-occupied households
White Non-Hispanic	75.0%
Black or African American alone	39.4%
Asian alone	57.2%
Hispanic (any race)	51.0%

What follows is an analysis of home mortgage loan application data for 2006, as reported under requirements of the Home Mortgage Disclosure Act (HMDA). We included only those applications where both the race and ethnicity of the applicant were reported by the financial institution in this study. For applications with more than one borrower, only the racial and ethnic characteristics of the first applicant were considered. We excluded applications that did not move beyond the pre-approval process into the formal application process. Finally, we excluded loans that were purchased but not originated by the reporting financial institutions.

Loan Approvals and Denials

The pool of mortgage applications analyzed for approval and denial patterns included 167,989 loan applications for which the race and ethnicity of the borrower were known. Non-Hispanic white borrowers accounted for the vast majority of mortgage loan applicants in 2006. The percentage shares of loan applications, approvals, and denials for selected racial and ethnic groups are compared with their overall shares of the population below. The shares of mortgage loan applications and approvals for non-Hispanic white borrowers exceeded their population shares. The shares of mortgage loan applications and approvals for Black, Asian, and Hispanic borrowers were lower than their overall population shares, as demonstrated in Table 2. These data suggest that minority groups in Iowa sought and obtained home mortgage loans at a lower frequency than non-Hispanic white residents, although the data do not reveal the reason(s).

Table 2: Characteristics of Loan Applications in Iowa by the Race or Ethnic Background of the Applicant, 2006

Racial or Ethnic Group	Percentage Share of Mortgage Loan Applications	Percentage Share of Mortgage Loans Approved and/or Originated	Percentage Share of Mortgage Loans Denied	Percentage Share of the Total Population in 2006
Non-Hispanic White	93.6%	94.4%	91.4%	91.8%
Asian alone or in combination	1.2%	1.2%	1.2%	1.8%
Black alone or in combination	2.1%	1.6%	3.3%	3.0%
Hispanic, any race	2.7%	2.5%	3.4%	3.8%

Denial Rates

Among the pool of loan applications analyzed, 96,321 (57.3 percent) resulted an actual loan (a loan origination). Another 12,687 (7.6 percent) of the loan applications were approved by the financial institutions but not accepted by the applicants. Together, these approvals accounted for 64.9 percent of mortgage applications. The number of applications denied by the reporting financial institutions was 35,681, or 21.2 percent. The remaining 23,300 applications (13.9 percent) were either withdrawn or otherwise not completed by the applicants.

The rates of approvals and denials for selected racial and ethnic groups are shown below. The denial rate for Black applicants was the highest among all groups at 34.3 percent, and Hispanic applicants followed with a denial rate of 26.7 percent. Rates for Asians were the same as for the White-only population.

Table 3: Loan Approval or Denial Rates

	Loan Approvals	Application denied by institution	Not originated for other reasons
Non-Hispanic White	65.4%	20.7%	13.8%
Asian	65.1%	20.9%	14.0%
Black	49.7%	34.3%	16.1%
Hispanic, any race	59.7%	26.7%	13.5%
All applicants	64.9%	21.2%	13.9%

Reasons for Denial

A Poor credit history was the leading reason for loan denials among all racial and ethnic groups, accounting for 35.7 percent of applications denied. The second and third leading reasons reported for loan denials were the value of collateral pledged for the loan (17.8 percent) and the borrower’s debt-to-income ratio (13.7 percent). These values varied by racial or ethnic group. Black and Hispanic applicants were more likely than other groups to be denied because of their credit history. Asian borrowers were much more likely than other groups to be denied because of their debt-to-income ratio. The percentage distributions of application denials by reason are illustrated below in Table 4.

Table 4: Reason for Loan Denials, by Race or Ethnic Background, 2006

Reason for Denial	White Non-Hispanic	Asian	Black	Hispanic
Debt-to-income ratio	13.6%	22.1%	12.3%	13.0%
Employment history	1.5%	1.1%	1.3%	1.5%
Credit history	35.2%	31.4%	43.9%	41.4%
Collateral	18.2%	17.1%	12.4%	14.3%
Insufficient cash	1.4%	1.4%	1.4%	0.9%
Unverifiable information or incomplete credit application	8.7%	8.9%	7.3%	10.8%
Other reason	21.4%	17.9%	21.4%	18.1%

Types of Loans Sought by Applicants

A plurality of applicants who sought mortgage loans during 2006 were refinancing rather than purchasing homes. Refinancing loans accounted for 48.1 percent of applications, home purchase loans accounted for 41.7 percent, and home improvement loans accounted for 10.2 percent. There were notable differences in the distribution of loan applications by purpose among the various racial and ethnic groups. Asian and Hispanic applicants were much more likely to seek home purchase loans, with more than half of applications in this category. Black applicants were more likely than Asians or Hispanic groups to be seeking refinancing loans. The distribution of loan applications by purpose of loan is summarized below in Table 5.

Table 5: Reasons for Loan Applications

	Home purchase	Home improvement	Refinancing
Non-Hispanic White	41.5%	10.1%	48.4%
Asian	54.3%	9.0%	36.6%
Black	38.3%	10.9%	50.8%
Hispanic, any race	50.1%	10.6%	39.2%
All applicants	41.7%	10.2%	48.1%

Finally, during 2006, most applicants in Iowa sought conventional mortgages when purchasing or refinancing a home. Only 3.6 percent of applicants in Iowa sought FHA Insured loans during 2006. This percentage was higher among Black applicants (5.0 percent) and Hispanic applicants (7.3 percent) and lower for non-Hispanic white residents (3.4 percent) and Asian applicants (2.8 percent).

Appendix. Lending Data

Home Mortgage Disclosure Act

The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 and implemented by the Federal Reserve Board's Regulation C. This regulation was intended to help public officials and others determine whether financial institutions are serving the housing needs of their communities and to identify possible discriminatory lending patterns. HMDA applies to financial institutions, including banks, savings associations, credit unions, and other mortgage lending institutions.

These institutions must report the following information about loan applications, originations, and purchases:

- the loan, such as its type and amount;
- the property, such as its location and type;
- the disposition of the application, such as whether it was denied or resulted in an origination; and
- the applicant (namely, ethnicity, race, sex, and income)

Who Reports Data

Federally insured or regulated banks, credit unions, and savings associations with institutional assets more than \$35 million, having a home or branch office in a metropolitan statistical area, and that originated at least one home purchase loan or refinancing of a home purchase loan secured by a first lien on a one-to-four-family dwelling or a mortgage loan that was insured; guaranteed, or supplemented by a federal agency; or was the loan intended for sale to the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

Community Reinvestment Act

The Community Reinvestment Act (CRA), enacted by Congress in 1977, was intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. The CRA calls for periodic evaluation of each insured depository institution's performance in helping meet the credit needs of its entire community, and that record is taken into account in considering the institution's applications for deposit facilities, mergers, and acquisitions.

Who Reports Data

All institutions regulated by the Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of Thrift Supervision that meet the asset size threshold are subject to data collection and reporting requirements. The current asset size threshold is \$1.033 billion as of December 31 of each of the prior two calendar years.

Source: Federal Financial Institutions Examination Council (<http://www.ffiec.gov>)

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