Mortgage Lending

I. Definitions

A lending institution is a bank, savings institution, credit union or mortgage company. A bank, savings institution, or credit union is required to report HMDA data if within the last year: 1) its assets exceeded $31 million; *and* 2) it had a home or branch office in the MSA; *and* 3) it originated or purchased at least one home purchase or refinancing loan; *and* 4) it is federally insured, or the loan was insured or guaranteed by a federal agency, or the loan was intended for sale to FNMA, or the Federal National Mortgage Association ("Fannie Mae"), or FHLMC, or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). A for-profit mortgage company is required to report HMDA data if within the last year: 1) its home purchase loan originations equaled or exceeded 10% of its total loan originations; *and* 2) it had a home or branch office in the MSA, or it was a party to a home purchase or improvement loan on property in the MSA; *or* 3) its assets exceeded $10 million, or it originated 100 or more home purchase loans.

Loan Types:
Conventional indicates any mortgage loan not insured or guaranteed by a government agency (such as FHA, VA, RHS/FSA). The typical conventional loan requires a 20% down payment (80% loan-to-value), but Private Mortgage Insurance has made conventional lending at lower down payment levels (higher loan-to-value) possible.

Government-backed loans include FHA, VA and RHS/FSA (we have combined the following three loan types because of small numbers).

FHA indicates any mortgage loan insured by the Federal Housing Administration. Down payments may be as low as three percent. While there is no minimum or maximum income level restrictions for applicants, there are requirements regarding the condition of the property, and there is a maximum mortgage amount based on area median housing costs.

VA indicates any mortgage loan guaranteed by the Veterans Administration for eligible veterans purchasing single-family homes or multifamily homes if the veteran will occupy one of the units. There is no minimum down payment required, but the VA will only guarantee up to 25% of the purchase price.

RHS/FSA indicates any mortgage loan guaranteed by the U.S. Department of Agriculture through the Rural Housing Service or the Farm Service Agency. RHS loans do not require a down payment and applicants may have income up to 115% of the median income of the area. FSA will guarantee up to 95% of its loans, which are limited by a maximum loan amount.

Loan Purposes:
Home purchase loans are secured loans made for the purpose of purchasing a dwelling. This does not include applications by lending institutions for the purchase of existing mortgages.

Home improvement loans are intended to be used for repairing, rehabilitating, remodeling, or improving a dwelling.

Refinancing loans are transactions in which the existing obligation, involving either a home purchase or a home improvement loan, is satisfied and replaced by a new loan obligation.

Multifamily loans are mortgages of any type for dwellings that have five or more units.

Home purchase loan indicators
(Unless otherwise specified, indicators below are calculated for all home purchase loans, conventional home purchase loans and government-backed home purchase loans.)

Loans
Number of home purchase loan applications is the number of applications made for the purpose of purchasing a home.

Number of home purchase loans originated (originations are also called approvals) by a lending institution and accepted by the applicant. There are instances where an application is approved by a lending institution, but not accepted by the applicant.

Percent of home purchase loans originated is calculated as:

home purchase loans originated X 100
home purchase loan applications

Number of home purchase loan applications denied by a lending institution. **Denial reasons** include debt-to-income ratio, employment history, credit history, collateral, insufficient cash for downpayment, unverifiable information, mortgage insurance denied and credit application incomplete.

Percent of home purchase loans denied is calculated as:

home purchase loans denied X 100
home purchase loan applications

Total value of home purchase loans is the total dollar value of all home purchase loans originated.

Median value of a home purchase loan is the midpoint in the distribution of values. Half of all home purchase loan values are below the median and half are above the median.

Average value of a home purchase loan is calculated by dividing the total value by the number of originated loans.

Home purchase loans originated per 1,000 housing units is calculated as:

home purchase loan applications originated X 1000
structures with 1-4 housing units

This indicator allows users to compare the loan originations across time and geography since it is standardized based on the number of housing units in a given geographic area.

For **conventional loans only**, the number and percent of loans from **subprime lenders** is calculated. Subprime lenders are defined as those who make high-interest loans to borrowers who could not obtain a loan in the prime market. We are unable to determine whether a specific loan is subprime, however, the U.S. Department of Housing and Urban Development (HUD) has identified lenders who are subprime specialists. Lenders may lend in both the prime and subprime markets. For those, who loan in both, HUD identifies them as subprime if over 50% of their business is subprime.

Percent of conventional home purchase loans from subprime lenders is calculated as:

$$\frac{\textit{conventional home purchase loans originated by subprime lenders}}{\textit{conventional home purchase loans originated}} \times 100$$

Note: The indicators related to loans from subprime lenders are only available from 1995 – 2007.

<u>Loans with rate spread by race</u>

Home purchase loans with rate spread are those loans with an interest rate that is 3 percentage points higher (first lien) or 5 percentage points higher (subordinate lien) than the Treasury Security Yield. For loan applications taken on or after October 1, 2009, home purchase loans with rate spread are those loans with an interest rate that is 1.5 percentage points higher (first lien) or 3.5 percentage points higher (subordinate lien) than the Average Prime Offer Rate (APOR).

Percent of home purchase loans with rate spread is calculated as:

$$\frac{\text{home purchase loans with rate spread}}{\text{home purchase loans originated}} \times 100$$

The loans with rate spread are available for the following racial groups: Non-Hispanic Whites, Non-Hispanic Blacks, Non-Hispanic Asians, Non-Hispanic American Indians, Non-Hispanic Others, and Hispanics.

An example of a calculation is below:

Percent of home purchase loans with rate spread to Non-Hispanic Whites is calculated as:

$$\frac{\text{home purchase loans with rate spread to Non-Hispanic Whites}}{\text{home purchase loans with rate spread}} \times 100$$

Note: The indicators related to loans with rate spread by race are available starting 2004.

<u>Loans by race</u>

Home purchase loans by race are available for the following racial groups: Non-Hispanic Whites, Non-Hispanic Blacks, Non-Hispanic Asians, Non-Hispanic American Indians, Non-Hispanic Others, and Hispanics.

An example of a calculation is below:

$$\frac{\text{home purchase loans to Non-Hispanic Blacks}}{\text{home purchase loans originated}} \times 100$$

Note: The indicators related to loans by race are available starting 2004.

Owner-Occupied loans by race

Owner-occupied loans are defined as those housing loans where the owner or co-owner of the housing unit is living in that housing. Indicators are available for the following racial groups: Non-Hispanic Whites, Non-Hispanic Blacks, Non-Hispanic Asians, Non-Hispanic American Indians, Non-Hispanic Others, and Hispanics.

An example of a calculation is below:

$$\frac{\text{owner-occupied home purchase loans to Non-Hispanic Asians}}{\text{owner-occupied home purchase loans}} \times 100$$

Note: The indicators related to owner-occupied loans by race are available starting 2004.

Owner-Occupied loans by income

In additions to being available by race, the loans for owner-occupied housing are also by income. The income categories are based on the Metropolitan Area Median Family Income. The income categories are defined as follows: low-income = less than 50%; moderate-income = 50% - 80%; middle-income = 81% - 120%; high-income = above 120%; and income unknown borrowers.

An example of a calculation is below:

$$\frac{\text{owner-occupied home purchase loans to low-income borrowers}}{\text{owner-occupied home purchase loans}} \times 100$$

Note: The indicators related to owner-occupied loans by race are available starting 2004.

Loan denials by race and income

Loans denied by race and income are available for the racial and income categories mentioned above.

An example of a calculation is below:

$$\frac{\text{home purchase loans denied to low-income Non-Hispanic Whites}}{\text{home purchase loans to low-income Non-Hispanic Whites}} \times 100$$

Note: The indicators related to owner-occupied loans by income are available starting 2004.

<u>Home improvement loan indicators</u>
(Unless otherwise specified, indicators below are calculated for all home improvement loans, conventional home improvement loans and government-backed home improvement loans.)

Number of home improvement loan applications is the number of applications made for the specific purpose of home improvement projects, such as construction of a garage or an addition to the home.

Number of home improvement loan applications originated (originations are also called approvals) by a lending institution and accepted by the applicant. There are instances where an application is approved by a lending institution, but it is not accepted by the applicant.

Percent of home improvement loan applications originated is calculated as:

$$\frac{\textit{home improvement loans originated}}{\textit{home improvement loan applications}} \times 100$$

Number of home improvement loan applications denied by a lending institution. **Denial reasons** include debt-to-income ratio, employment history, credit history, collateral, insufficient cash for downpayment, unverifiable information, mortgage insurance denied and credit application incomplete.

Percent of home improvement applications denied is calculated as:

$$\frac{\textit{home improvement loans denied}}{\textit{home improvement loan applications}} \times 100$$

Total value of home improvement loans is the total dollar value of all home improvement <u>originated</u> loans.

Median value of a home improvement loan is the midpoint in the distribution of values. Half of all home improvement loan values are below the median and half are above the median.

Average value of a home improvement loan is calculated by dividing the total value by the number of originated loans.

Home improvement loan originations per 1,000 housing units is calculated as:

$$\frac{\textit{home improvement loan applications originated}}{\textit{structures with 1-4 housing units}} \times 1000$$

This indicator allows users to compare the loan originations across time and geography since it is standardized based on the number of housing units in a given geographic area.

For **conventional loans only**, the number and percent of loans by **subprime lenders** is calculated. Subprime lenders are defined as those who make high-interest loans to borrowers who could not obtain a loan in the prime market. We are unable to determine whether a specific loan is subprime, however, the U.S. Department of Housing and Urban Development (HUD) has identified lenders who are subprime specialists. Lenders may lend in both the prime and subprime markets. For those, who loan in both, HUD identifies them as subprime if over 50% of their business is subprime.

Percent of conventional home improvement loans originated by subprime lenders is calculated as:

$$\frac{\textit{conventional home improvement loans originated by subprime lenders}}{\textit{conventional home improvement loans originated}} \times 100$$

Note: The indicators related to loans from subprime lenders are only available from 1995 – 2007.

In addition, there are indicators related to **home improvement loans with rate spread by race**, **home improvement loans by race**, **owner-occupied home improvement loans by race**, **owner-occupied home improvement loans by income**, **home improvement loan denials by race and income**, and **median income of owner-occupied home improvement loan borrowers**. The indicators are calculated in a similar manner, and available for the same time periods, as the indicators for the home purchase loans as outlined above.

Refinancing loan indicators

(Unless otherwise specified, indicators below are calculated for all refinancing loans, conventional refinancing and government-backed refinancing loans.)

Number of refinancing loan applications is the number of applications made for the purpose of replacing an existing home purchase loan or an existing home improvement loan with a new loan.

Number of refinancing loan applications originated (originations are also called approvals) by a lending institution and accepted by the applicant. There are instances where an application is approved by a lending institution, but not accepted by the applicant.

Percent of refinancing loan applications originated is calculated as:

$$\frac{\textit{refinancing loan applications originated}}{\textit{refinancing loan applications}} \times 100$$

Number of refinancing applications denied by a lending institution. **Denial reasons** include debt-to-income ratio, employment history, credit history, collateral, insufficient cash for downpayment, unverifiable information, mortgage insurance denied and credit application incomplete.

Percent of refinancing applications denied is calculated as:

$$\frac{\textit{refinancing loan applications denied}}{\textit{refinancing loan applications}} \times 100$$

Total value of refinancing loans is the total dollar value of all refinancing originated loans.

Median value of a refinancing loan is the midpoint in the distribution of values. Half of all refinancing loan values are below the median and half are above the median.

Average value of a refinancing loan is calculated by dividing the total value by the number of originated loans.

Refinancing loan originations per 1,000 housing units is calculated as:

$$\frac{\textit{refinancing loan applications originated}}{\textit{structures with 1-4 housing units}} \times 1000$$

This indicator allows users to compare the loan originations across time and geography since it is standardized based on the number of housing units in a given geographic area.

For **conventional loans only**, the number and percent of loans by **subprime lenders** is calculated. Subprime lenders are defined as those who make high-interest loans to borrowers who could not obtain a loan in the prime market. We are unable to determine whether a specific loan is subprime, however, the U.S. Department of Housing and Urban Development (HUD) has identified lenders who are subprime specialists. Lenders may lend in both the prime and subprime markets. For those, who loan in both, HUD identifies them as subprime if over 50% of their business is subprime.

Percent of conventional refinancing loans originated by subprime lenders is calculated as:

$$\frac{\textit{conventional refinancing loans originated by subprime lenders}}{\textit{conventional refinancing loans originated}} \times 100$$

Note: The indicators related to loans from subprime lenders are only available from 1995 – 2007.

In addition, there are indicators related to **home refinancing loans with rate spread by race**, **home refinancing loans by race**, **owner-occupied home refinancing loans by race**, **owner-occupied home refinancing loans by income**, **home refinancing loan denials by race and income**, and **median income of owner-occupied home refinancing loan borrowers**. The indicators are calculated in a similar manner, and available for the same time periods, as the indicators for the home purchase loans as outlined above.

Multifamily loan indicators

Number of multifamily loan applications is the number of applications made for the purpose of purchasing or improving a dwelling with five or more units, or for the purpose of refinancing an existing mortgage for a five or more unit multifamily dwelling.

Number of multifamily loan applications originated (originations are also called approvals) by a lending institution and accepted by the applicant. There are instances where an application is approved by a lending institution, but not accepted by the applicant.

Percent of multifamily loan applications originated is calculated as:

<u>multifamily loan applications originated</u> X 100
multifamily loan applications

Number of multifamily applications denied by a lending institution. **Denial reasons** include debt-to-income ratio, employment history, credit history, collateral, insufficient cash for downpayment, unverifiable information, mortgage insurance denied and credit application incomplete.

Percent of multifamily loan applications denied is calculated as:

<u>multifamily loan applications denied</u> X 100
multifamily loan applications

Total value of multifamily loans is the total dollar value of all multifamily <u>originated</u> loans.

Median value of a multifamily loan is the midpoint in the distribution of values. Half of all multifamily loan values are below the median and half are above the median.

Average value of a multifamily loan is calculated by dividing the total value by the number of originated loans.

Multifamily loan originations per 1,000 housing units is calculated as:

<u>Multifamily loan applications originated</u> X 1000
structures with 5 or more housing units

This indicator allows users to compare the loan originations across time and geography since it is standardized based on the number of housing units in a given geographic area.

For **conventional loans only**, the number and percent of loans by **subprime lenders** is calculated. Subprime lenders are defined as those who make high-interest loans to borrowers who could not obtain a loan in the prime market. We are unable to determine whether a specific loan is subprime, however, the U.S. Department of Housing and Urban Development (HUD) has identified lenders who are subprime specialists. Lenders may lend in both the prime and subprime markets. For those, who loan in both, HUD identifies them as subprime if over 50% of their business is subprime.

Percent of conventional multifamily loans originated by subprime lenders is calculated as:

<u>conventional multifamily loans originated by subprime lenders</u> X 100

conventional multifamily loans originated

Note: The indicators related to loans from subprime lenders are only available from 1995 – 2007.

In addition, there are indicators related to **multifamily loans with rate spread by race**, **multifamily loans by race**, and **multifamily loan denials by race and income**. The indicators are calculated in a similar manner, and available for the same time periods, as the indicators for the home purchase loans as outlined above.

II. Precautions and Information regarding use of data

The Home Mortgage Disclosure Act (HMDA) requires most financial institutions to compile and disclose data about loan applications they receive and home improvement and home refinancing loans they originate (approve) or purchase during each calendar year. Institutions required to file HMDA data include commercial banks, savings and loans, credit unions, and mortgage companies. The HMDA data are intended to assist communities in determining whether financial institutions are meeting housing credit needs, to assist public officials in targeting community development investment and to assist communities in determining possible discriminatory lending practices. For a detailed history of HMDA, click here.

The HMDA data is provided with a census tract assigned to each loan application. The Center does NOT receive address level information from this data source. There are inaccuracies in this data. The tract assigned does not always correspond with the county code assigned. Therefore county totals will not match tract, neighborhood or place/mcd totals. The county totals will be larger.

In order to convert the HMDA data (from 1995 – 2003) to the 2000 census tract boundaries, we enlisted the assistance of the Urban Institute who applied a series of tract weights developed by GeoLytics, Inc. The weights were applied to these earlier data.

The Center only provides the number of loan approvals and denials. However, there are other actions that can be taken on an application: approved but not accepted by the applicant; withdrawn by the applicant; closed due to incomplete application (another action is the purchase of a loan by a financial institution, which is not included as described below). In order to determine the number in this "other" category, sum the number of approvals and the number of denials and subtract them from the number of applications.

The approval rates for all types of loans (Conventional, FHA, VA, RHS/FSA) and for all loan purposes (home purchase, home improvement, refinancing, or multifamily) do not include mortgages that were approved by a lending institution, but not accepted by the applicant. Our data capture whether applicants are able to obtain a loan, not how many approvals they are able to obtain.

In its calculations of applications for the various types and purposes of loans, the Center has removed applications by lending institutions for the purchase of existing mortgages. Including these purchase applications made by lending institutions sometimes leads to double counting of a mortgage as both originated and purchased within the same year.

III. Data source and suggested citation

Source of Mortgage Lending Data: Federal Reserve Bank Federal Financial Institutions Examination Council (FFIEC)

Update Schedule: Annually in Fall

Years Available: 1995 – present (depending on the indicator)

Geographic Coverage: 8 County Cleveland-Akron Consolidated Metropolitan Statistical Area (CMSA), which includes Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Medina, Portage and Summit Counties, and the following counties: Ashland, Columbiana, Erie, Huron, Mahoning, Richland, Stark, Trumbull and Wayne

Suggested Citation: NEO CANDO system, Center on Urban Poverty and Community Development, MSASS, Case Western Reserve University (http://neocando.case.edu).

IV. Links to related web sites

Census Bureau Housing Topics

FFIEC Home Mortgage Disclosure Act

Assisted Housing: National and Local Data

Fannie Mae

Freddie Mac