



Home Mortgage Lending Patterns in Twin Cities

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Institute on Metropolitan Opportunity

The Institute on Metropolitan Opportunity investigates the ways that laws, policies and practices affect development patterns in U.S. metropolitan regions, with a particular focus on the growing social and economic disparities within these areas.

Outline

Home Mortgage Lending Patterns in the Twin Cities Presentation:

- Background on Segregation and Mortgage Lending
- *Communities in Crisis* subprime lending period (2004-2006)
- Recent mortgage lending patterns (2009-2012)
- Summary

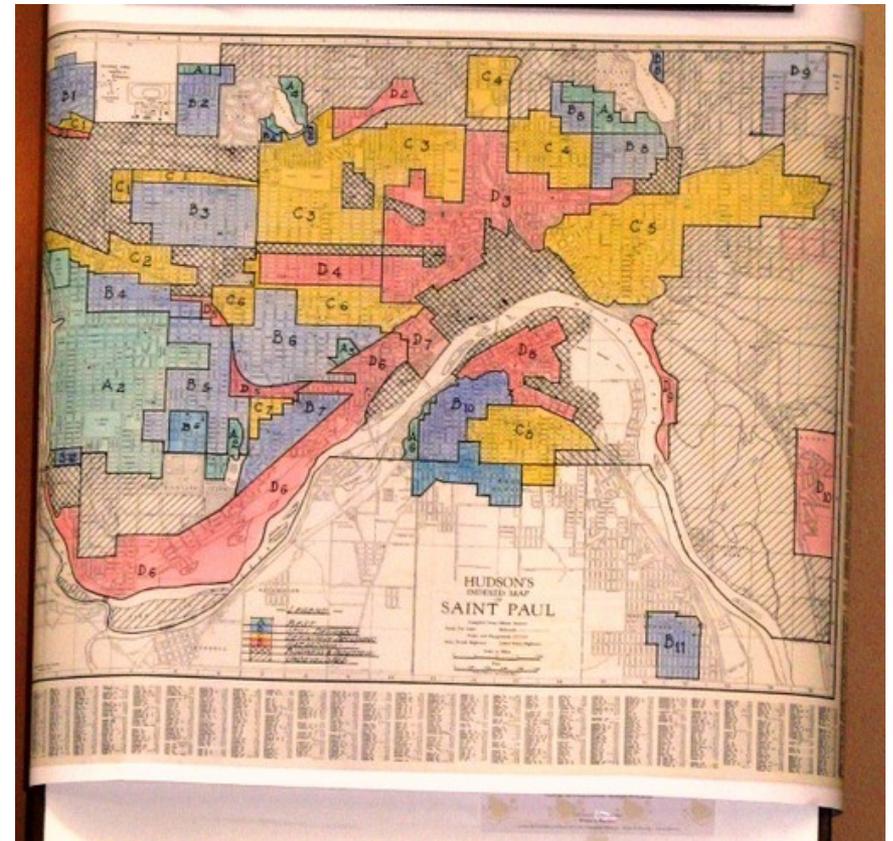
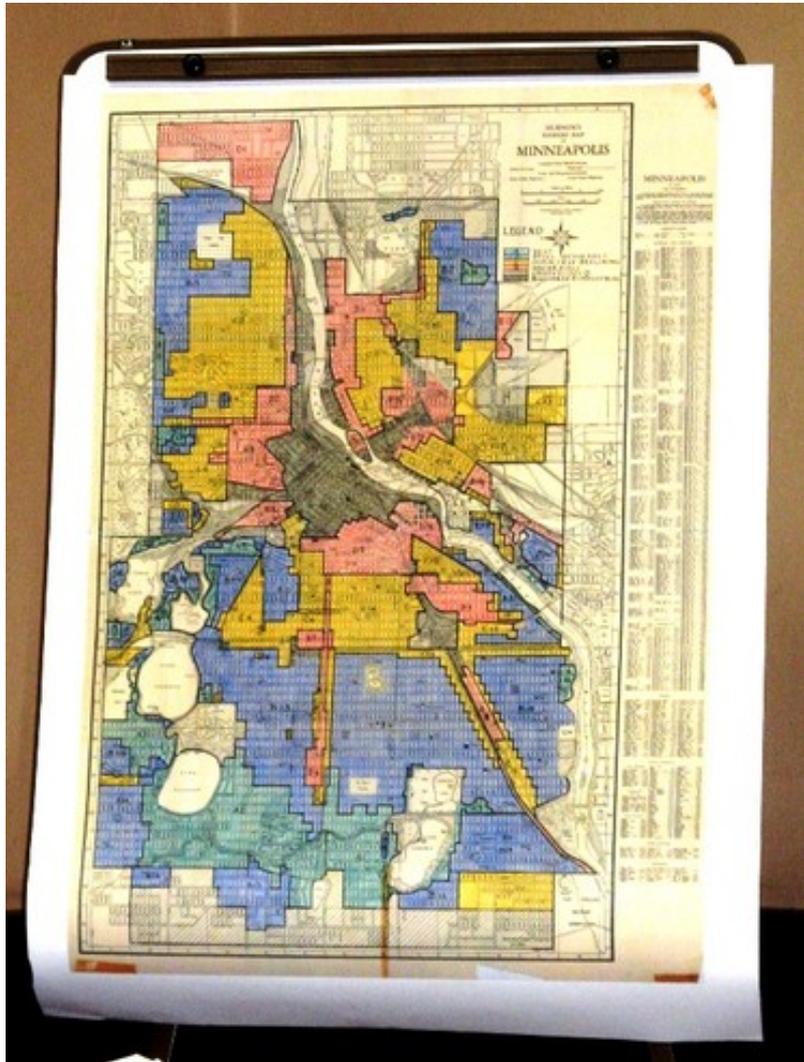


Background on Segregation and Mortgage Lending

Segregation and Redlining

- Residential racial segregation of U.S. neighborhoods proliferated in the early 1920s and 1930s under the guise of redlining.
- Redlining is the practice of government and bank officials drawing red lines or areas on maps to indicate places where financial investment would be withheld (mostly in non-white areas).

Redlining in Minneapolis and St. Paul



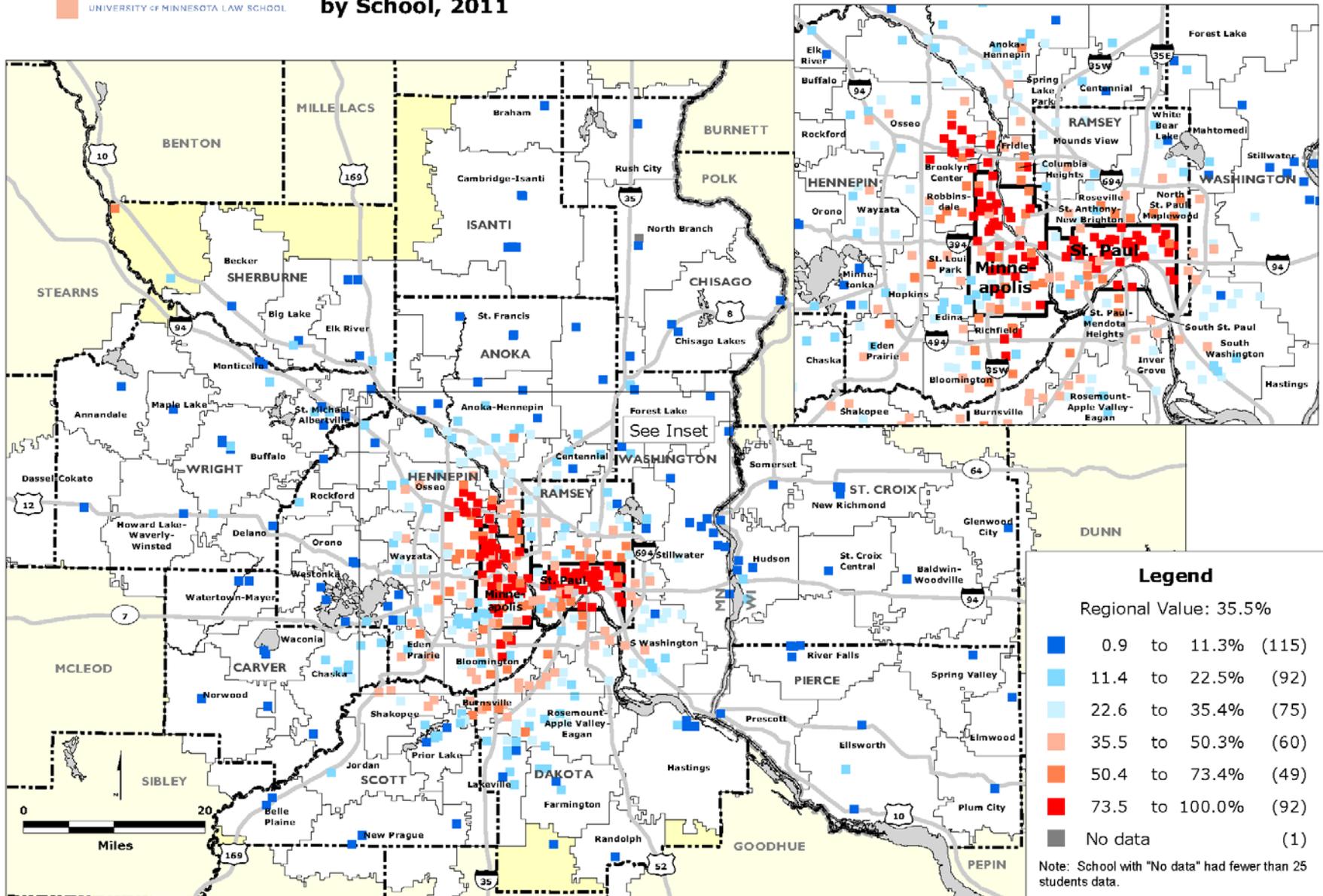
Redlining and Segregation

- Non white segregated neighborhoods today are often the outgrowth of neighborhoods redlined in the early to mid 1900s.
- Many of the same negative factors that undermined the well being of communities yesterday undermine them today.

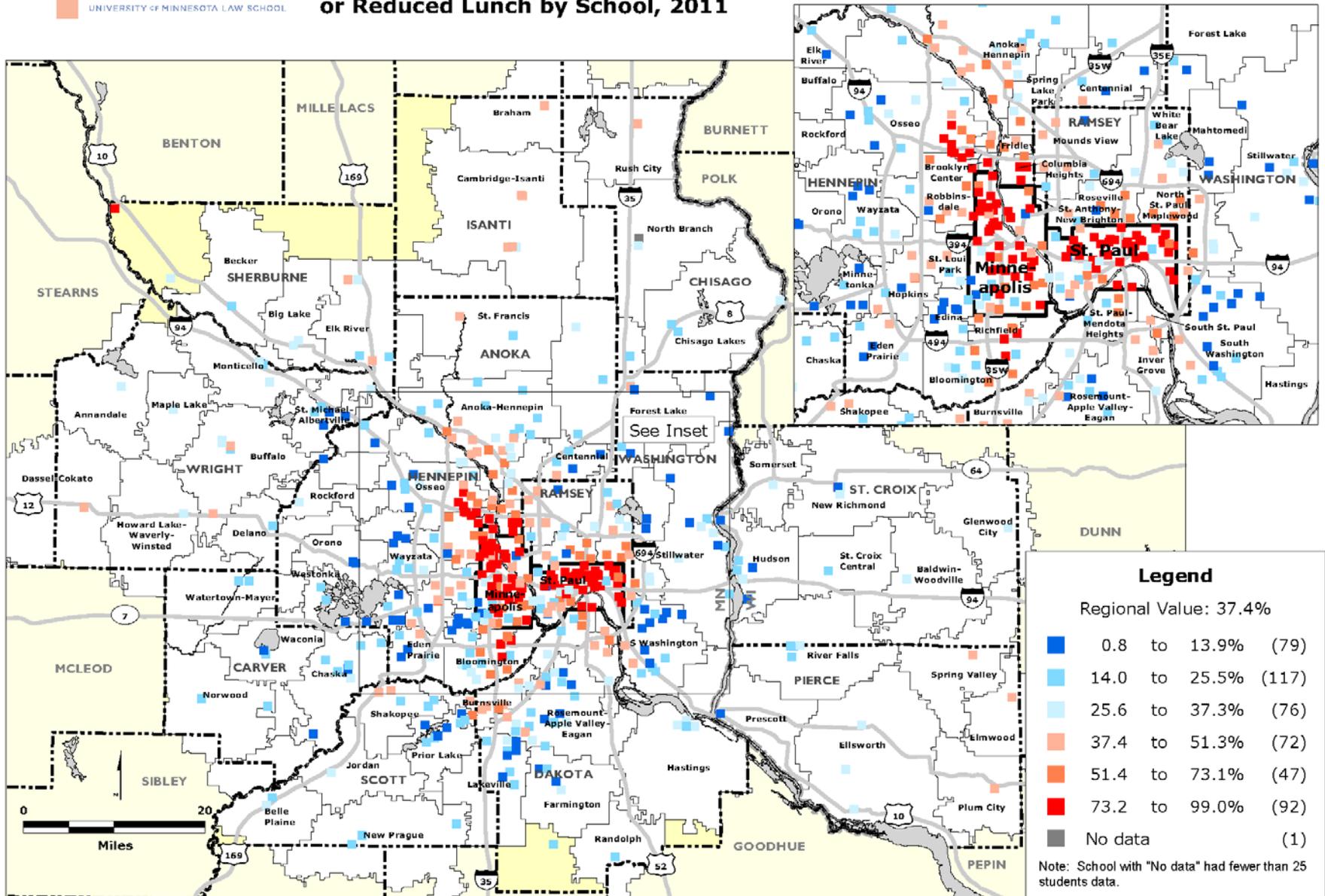
Segregation Undermines the Well-Being of Communities

- Reduces home values and drives out businesses that generate jobs and tax base (disinvestment).
- Imposes a number of social and environmental costs on communities, including health issues, job/housing mismatches and crime.
- Reinforces negative attitudes towards persons of other races and creates a disparate education system.

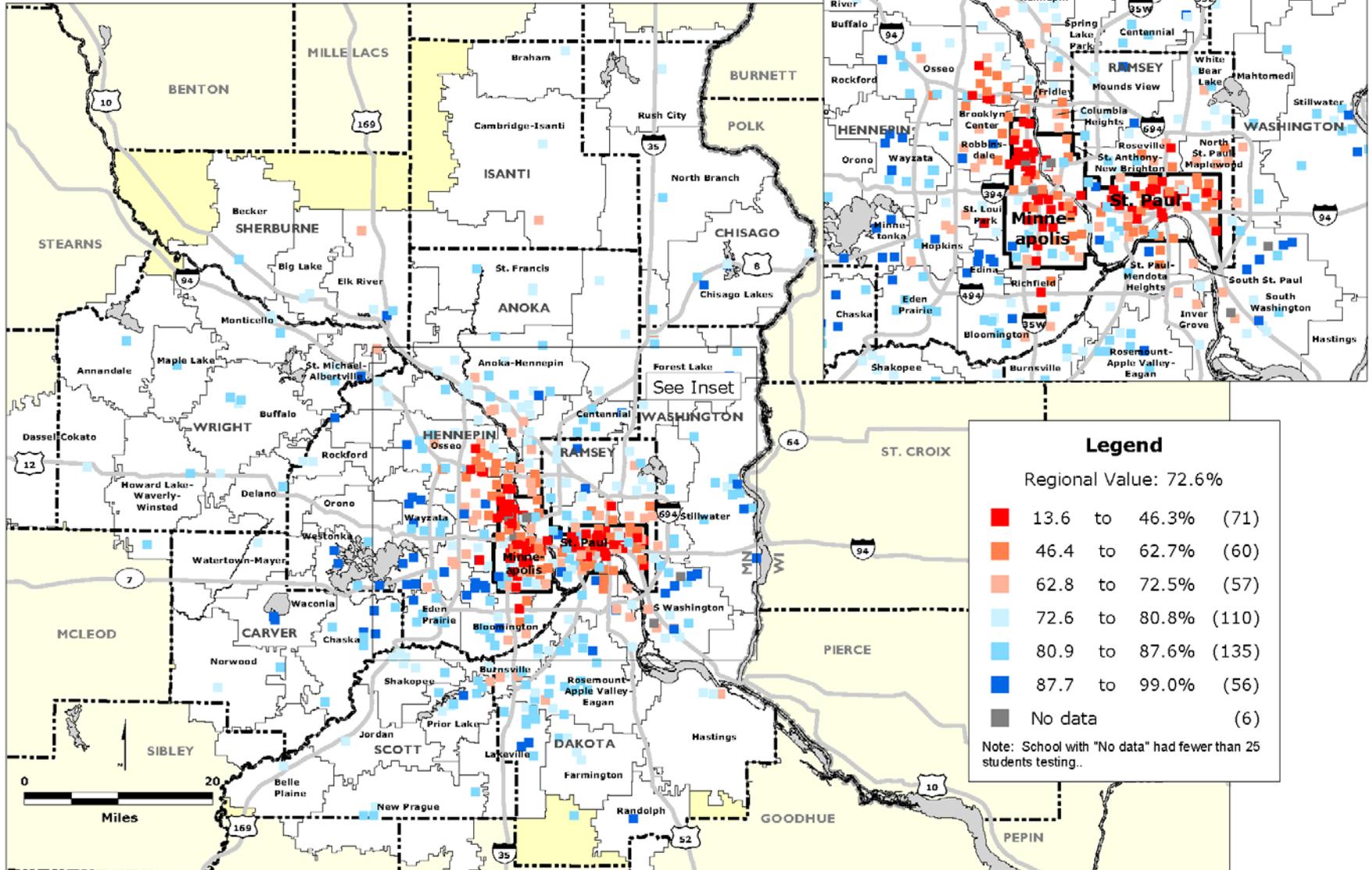
MINNEAPOLIS-SAINT PAUL REGION: Percentage Minority Elementary Students by School, 2011



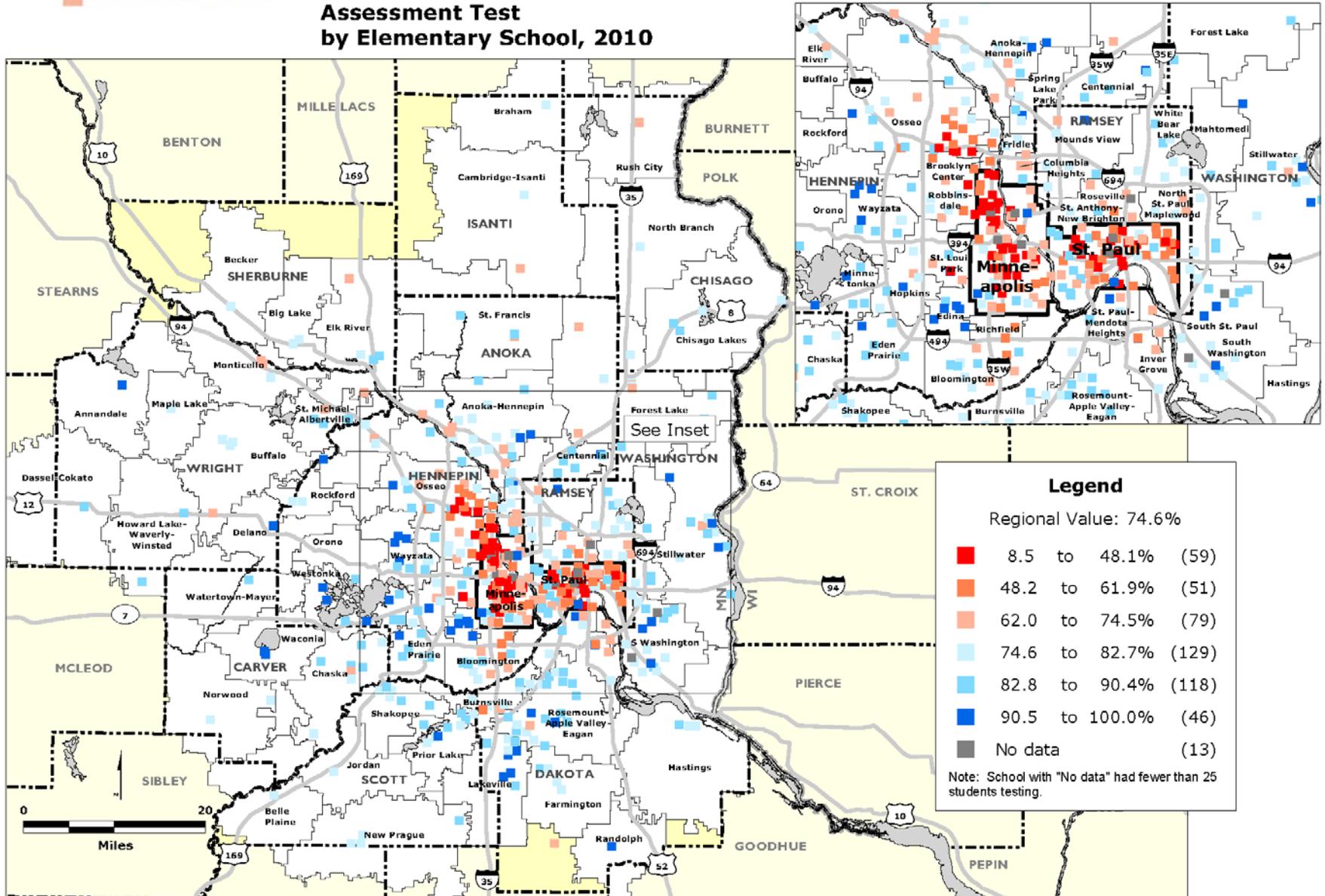
MINNEAPOLIS-SAINT PAUL REGION: Percentage of Elementary Students Eligible for Free or Reduced Lunch by School, 2011



MINNEAPOLIS-SAINT PAUL REGION: Percentage of Students with Proficient Scores in the Reading Portion of the MCA II Assessment Test by Elementary School, 2010



MINNEAPOLIS-SAINT PAUL REGION: Percentage of Students with Proficient Scores in the Math Portion of the MCA II Assessment Test by Elementary School, 2010

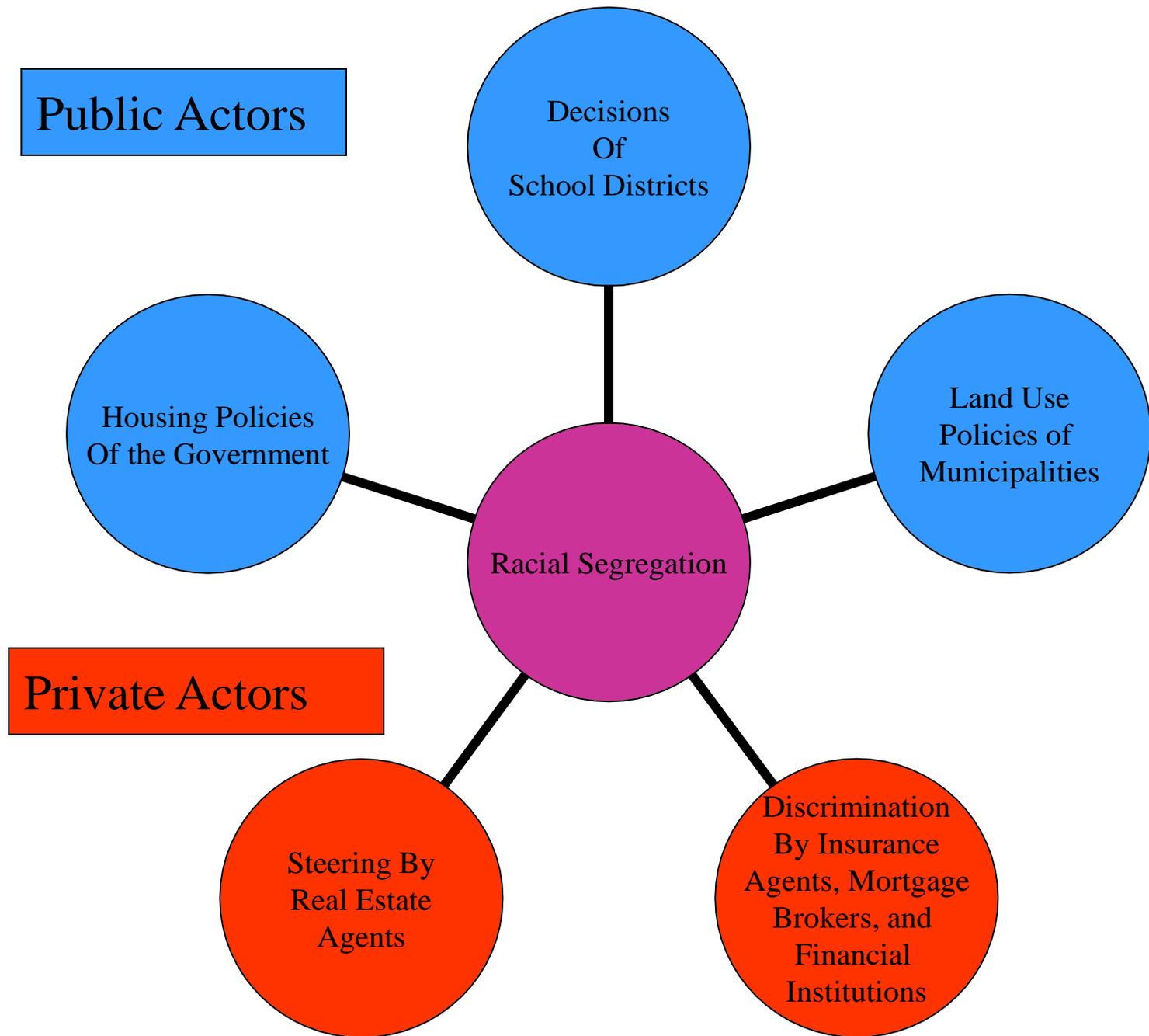


Integration is Necessary for Metropolitan Regional Vitality

- Integrated schools boost achievement, attainment and the future careers and wages of low income students of color, better preparing all students for involvement in a diverse civil society.
- Is better associated with equal opportunities, economic mobility and global competitiveness through a multi-cultural and lingual workforce.

How Does Segregation Happen?

- Not just a matter of choice; doesn't solely result from private residential preferences.
- Not simply a result of housing markets neutrally sorting people according to their socio-economic status.
- Results also from the discriminatory practices of a number of public and private actors who shape housing market institutions.



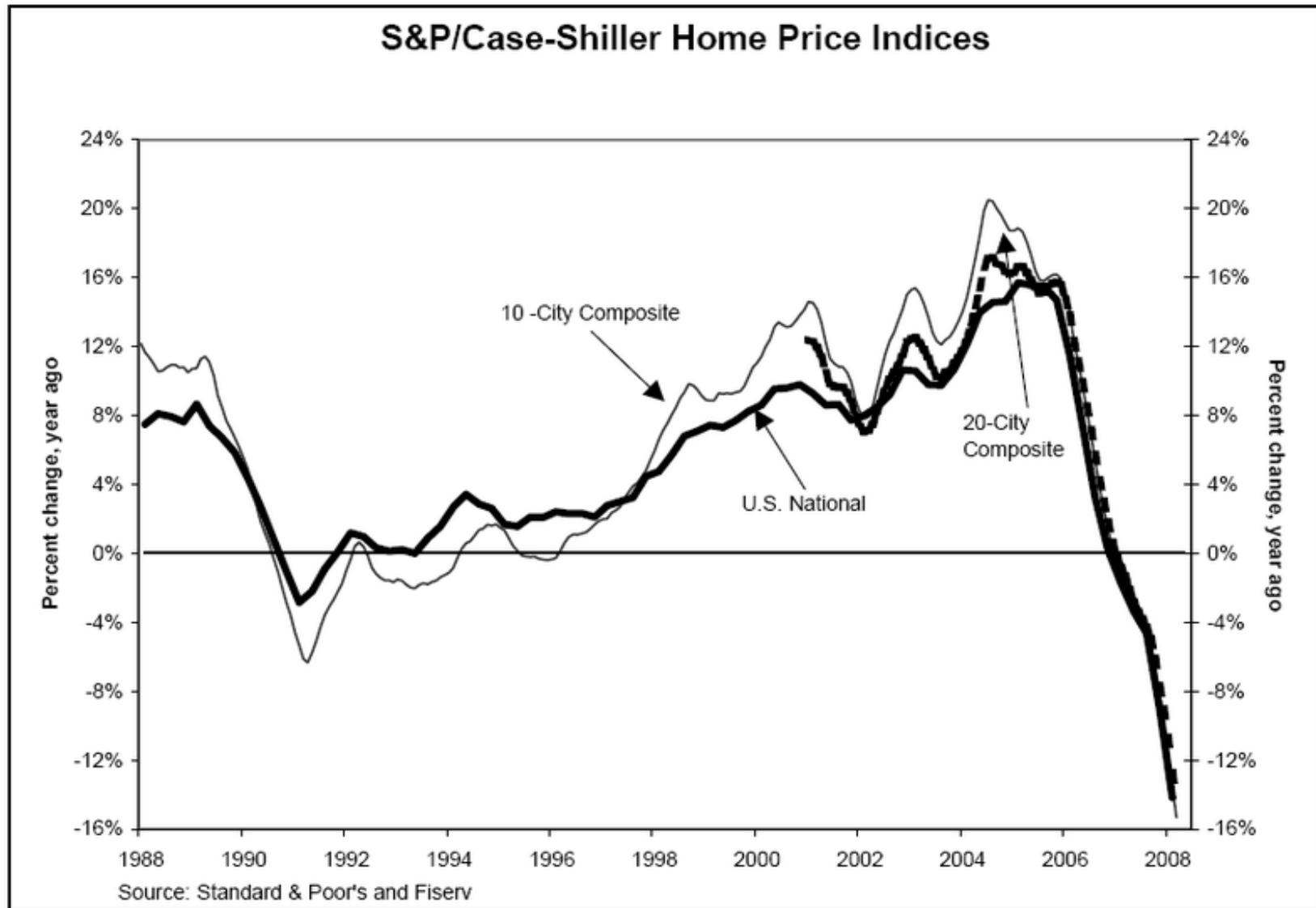
Mortgage Market Discrimination

- Private lenders continue to deny mortgages to minority homebuyers at disproportionate rates (**Individual Discrimination & Redlining practices**).
- The growth in loans during the 2000s was due, in large part, to the emergence of a **dual mortgage market**, which **segregated minority homeowners into subprime markets**.

Subprime Mortgage Market

- Subprime loans have higher interest rates and less favorable terms for applicants, due to the supposed risk in borrowing to them.
- Subprime home purchase loans often consist of adjustable rate mortgages (balloon payments) with the promise that property values and home equity will continue to climb and an applicant can later refinance into lower interest loans.

Decline of Housing Market in U.S.



Dual Mortgage Market and Discrimination

- **Predatory lending practices** resulted from lack of regulation in subprime markets, are more common in disinvested neighborhoods and with communities of color.
- **Foreclosures** that resulted from these predatory lending practices hurt racial minorities the most—further contributing to racial disparities in wealth accumulation associated with homeownership.



Communities in Crisis
Twin Cities Metro,
2004-2006

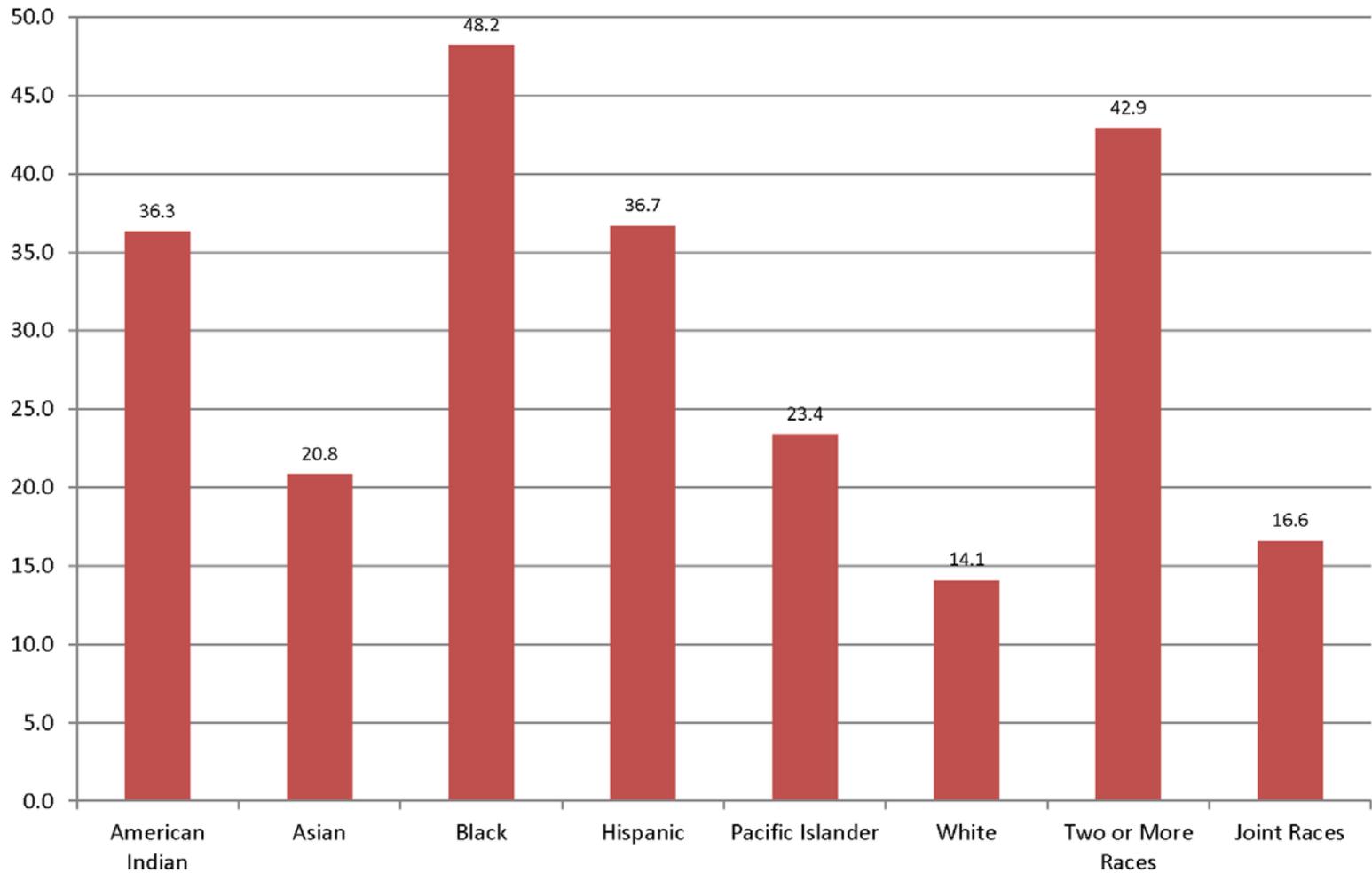
Home Mortgage Disclosure Act Data (HMDA)

The Home Mortgage Disclosure Act (HMDA) provides the public loan data that can be used to assist:

- in determining whether financial institutions are serving the housing needs of their communities;
- public officials in distributing public-sector investments so as to attract private investment to areas where it is needed;
- and in identifying possible discriminatory lending patterns.

Source: <http://www.ffiec.gov/hmda/default.htm>

Percentage of Home Loans That Are Subprime by Race and Ethnicity in the Twin Cities, 2004-2006



Subprime Lending by Race and Income

Chart 5: Twin Cities, Percentage of Home Purchase Loans That Are Subprime by Race and Income, 2004-2006

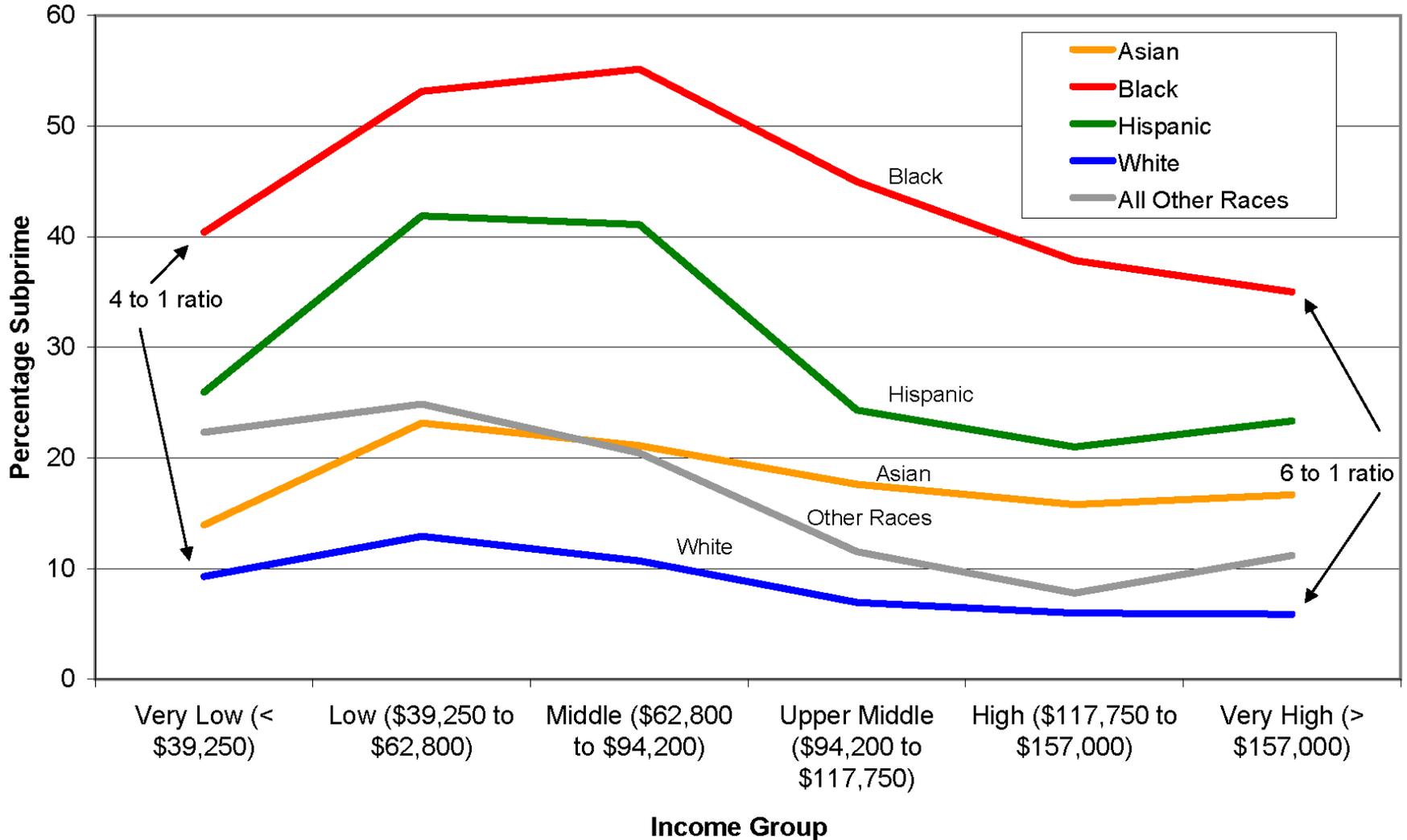
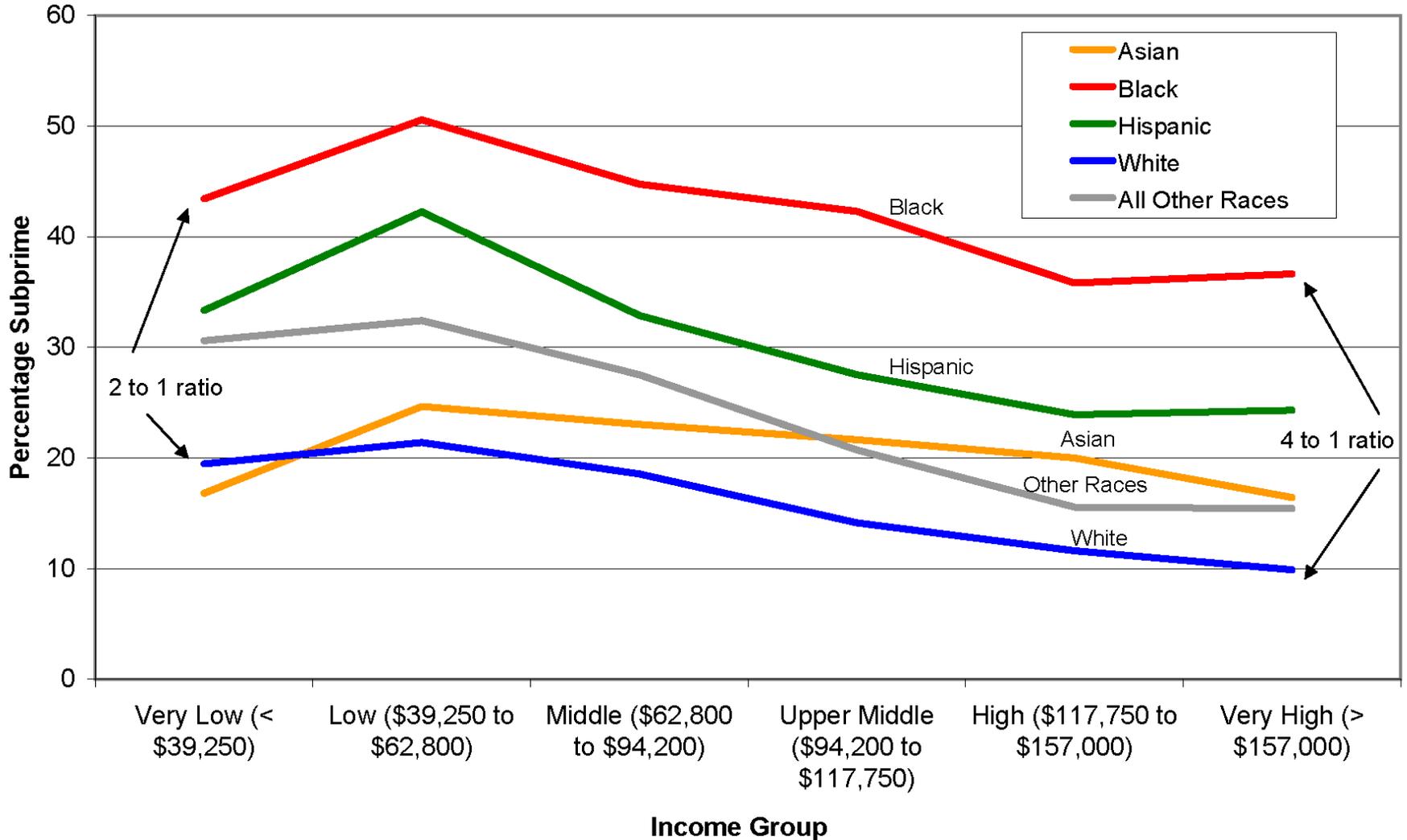
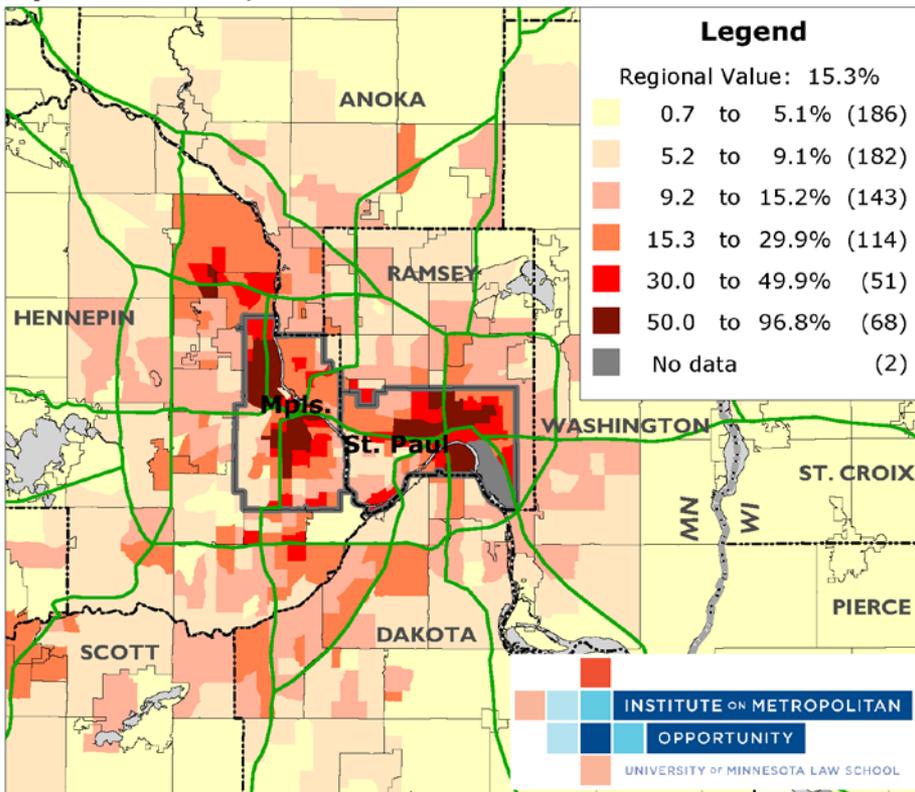


Chart 6: Twin Cities, Percentage of Home Refinance Loans That Are Subprime by Race and Income, 2004-2006



Subprime Lending by Neighborhood

**MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Percentage of Population that are People of Color
by Census Tract, 2000**



**MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Percentage of Home Mortgage Loans that are Subprime
by Census Tract, 2004 - 2006**

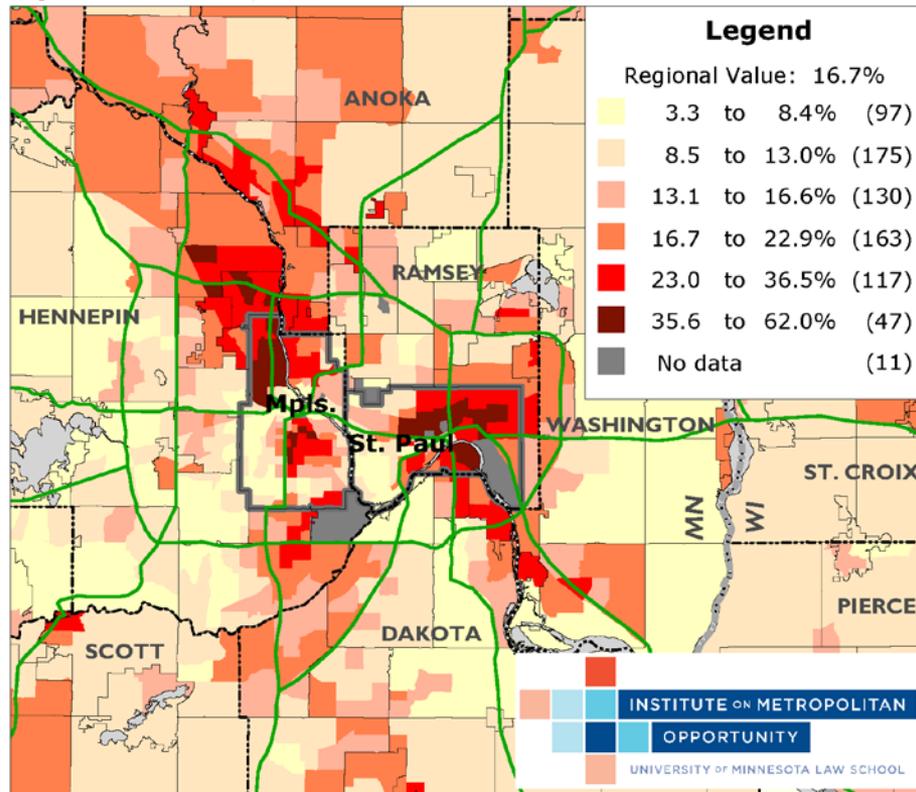


Table 4: Percentage of Home Mortgage Applications at Prime Lenders by Racial Characteristic of Neighborhood and Applicant

	Total %*	White %	People of Color %	High and Very High Income White %	High and Very High Income People of Color %
Home Purchases					
<u>Racial Composition of Neighborhood:</u>					
0 to 29% People of Color:	72	78	49	81	54
30 to 49% People of Color:	52	69	29	70	24
50 to 100% People of Color:	34	55	22	50	14
Refinances					
<u>Racial Composition of Neighborhood:</u>					
0 to 29% People of Color:	42	47	31	55	38
30 to 49% People of Color:	29	35	22	35	18
50 to 100% People of Color:	20	26	18	24	16

* Includes mortgage applications without racial information

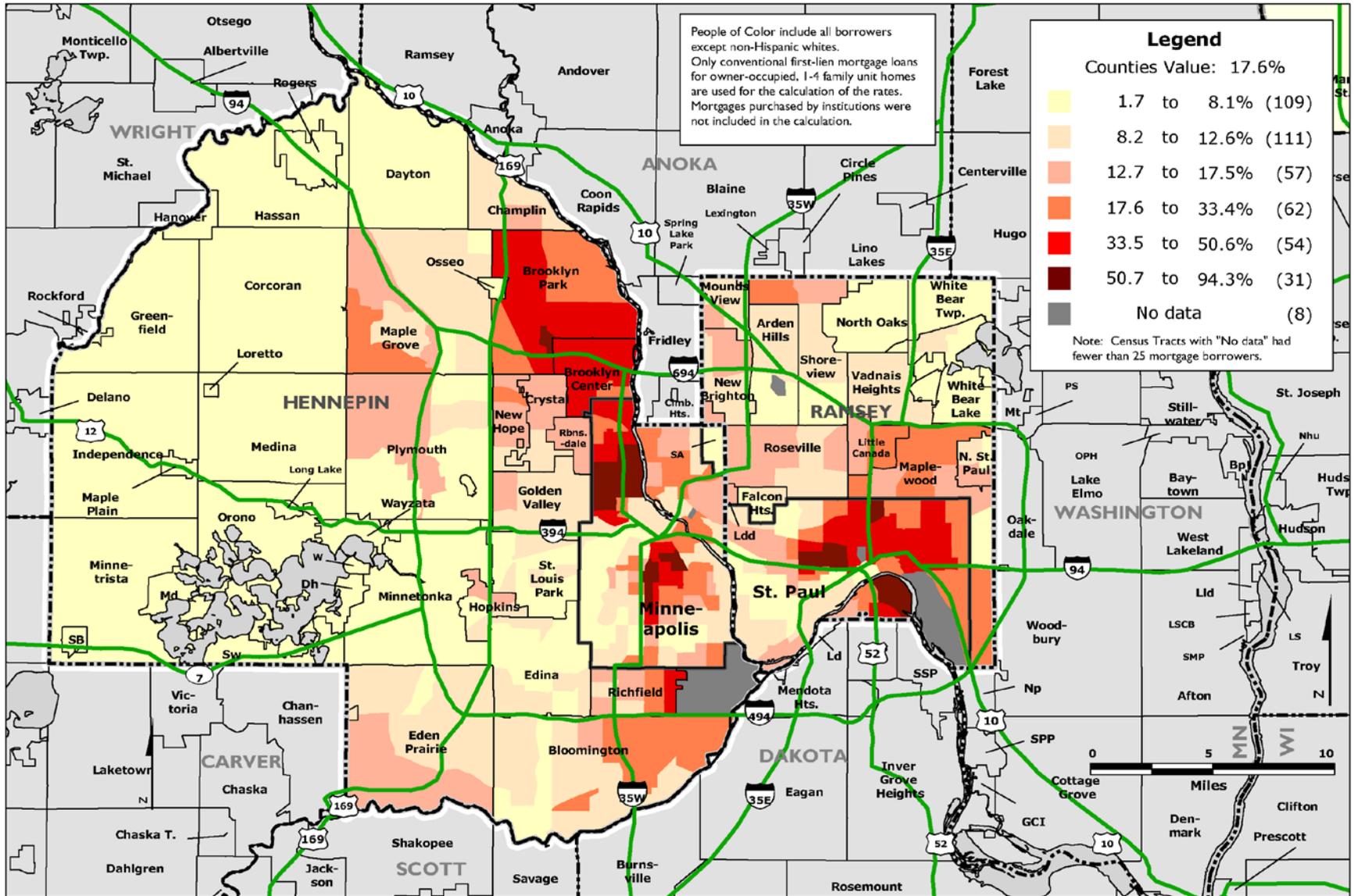
Table 2: MSAs Ranked by Persons Per Branch in 51-100% Minority Census Tracts, 2005 (Ascending Order)

Rank	MSA	(a)	(b)	(c)	(d)
		Persons Per Branch In 51-100% Minority Tracts	Persons Per Branch In 0-50% Minority Tracts	Column (b) - Column (a)	All Tracts
1	San Francisco	3,662	3,731	69	3,699
2	Boston	3,802	3,111	-691	3,166
3	Miami	4,500	848	-3,652	3,169
4	Washington	4,566	2,849	-1,717	3,278
5	Seattle	4,987	3,438	-1,549	3,515
6	Tampa	5,674	3,401	-2,273	3,592
7	Pittsburgh	5,699	2,954	-2,745	3,032
8	Atlanta	6,084	2,730	-3,354	3,327
9	Cincinnati	6,491	2,940	-3,551	3,136
10	Baltimore	6,692	2,869	-3,823	3,333
11	Dallas	6,692	3,123	-3,569	3,894
12	Denver	6,973	3,268	-3,705	3,627
13	San Diego	7,141	4,401	-2,740	5,154
14	Houston	7,182	2,921	-4,261	4,259
15	Cleveland	7,361	3,441	-3,920	3,835
16	New York	7,619	5,406	-2,213	6,168
17	Los Angeles	7,956	3,677	-4,279	6,021
18	Detroit	8,056	3,431	-4,625	4,027
19	Chicago	8,376	4,150	-4,226	5,116
20	Kansas City	8,578	2,689	-5,889	2,975
21	Phoenix	8,735	3,896	-4,839	4,561
22	Philadelphia	8,922	2,623	-6,299	3,161
23	Portland	9,471	3,885	-5,586	3,930
24	St. Louis	11,014	4,566	-6,448	5,026
25	Minneapolis	13,473	3,729	-9,744	3,922
Median of MSAs		7,141	3,401	-3,705	3,699

Source: National Community Reinvestment Coalition, 2007, Are Banks on the Map? An Analysis of Bank Branch Location in Working Class and Minority Neighborhoods, page 15.

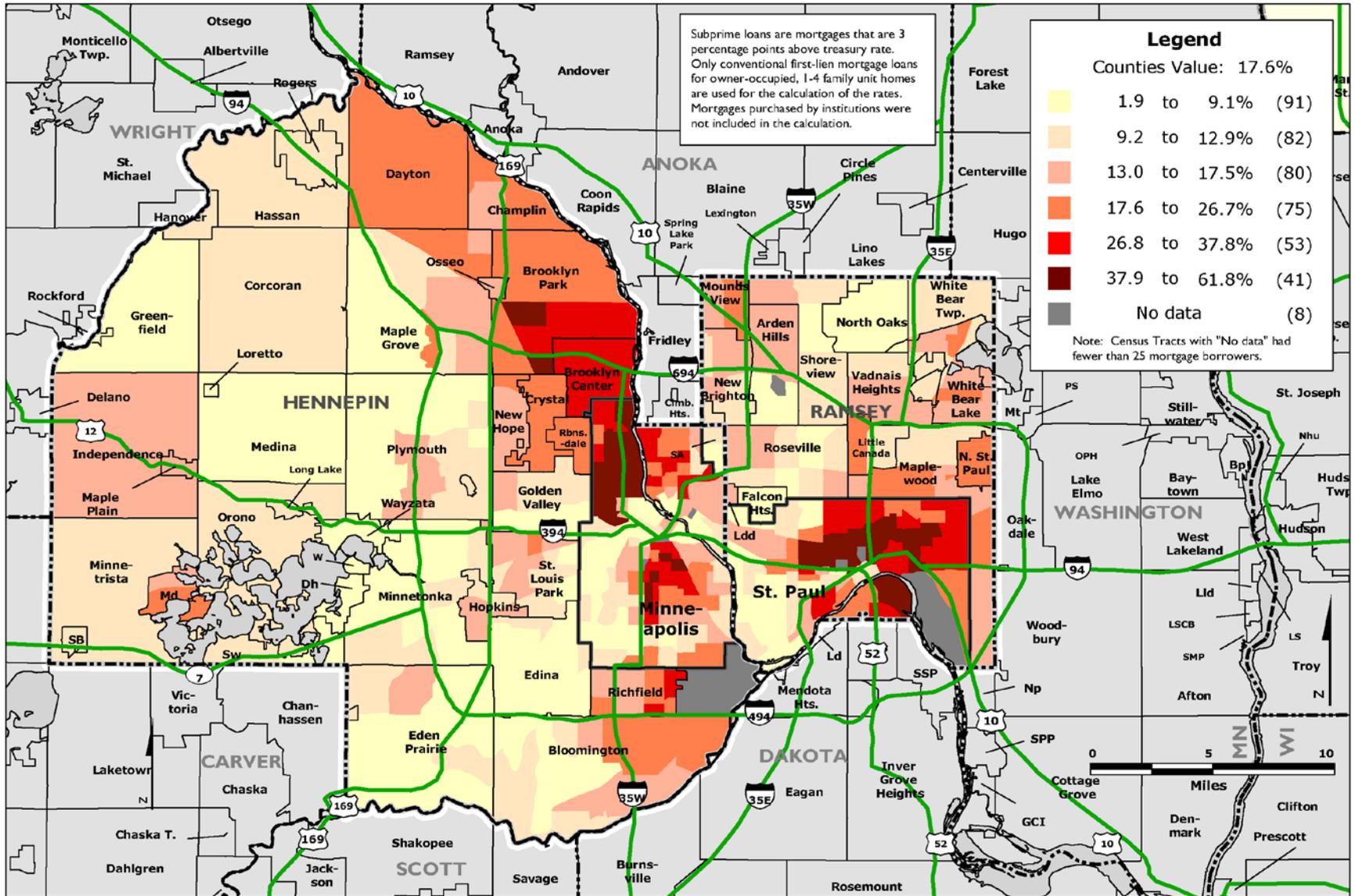
Subprime Lending, Race and Foreclosures

Map 4: HENNEPIN - RAMSEY COUNTIES Percentage of Mortgage Loans Acquired by People of Color by Census Tracts, 2004-2006



Map 5: HENNEPIN - RAMSEY COUNTIES

Percentage of Mortgage Loans that are Subprime by Census Tracts, 2004-2006



Map 6: HENNEPIN - RAMSEY COUNTIES Foreclosures Per 100 Owner Housing Units by Census Tracts, 2007

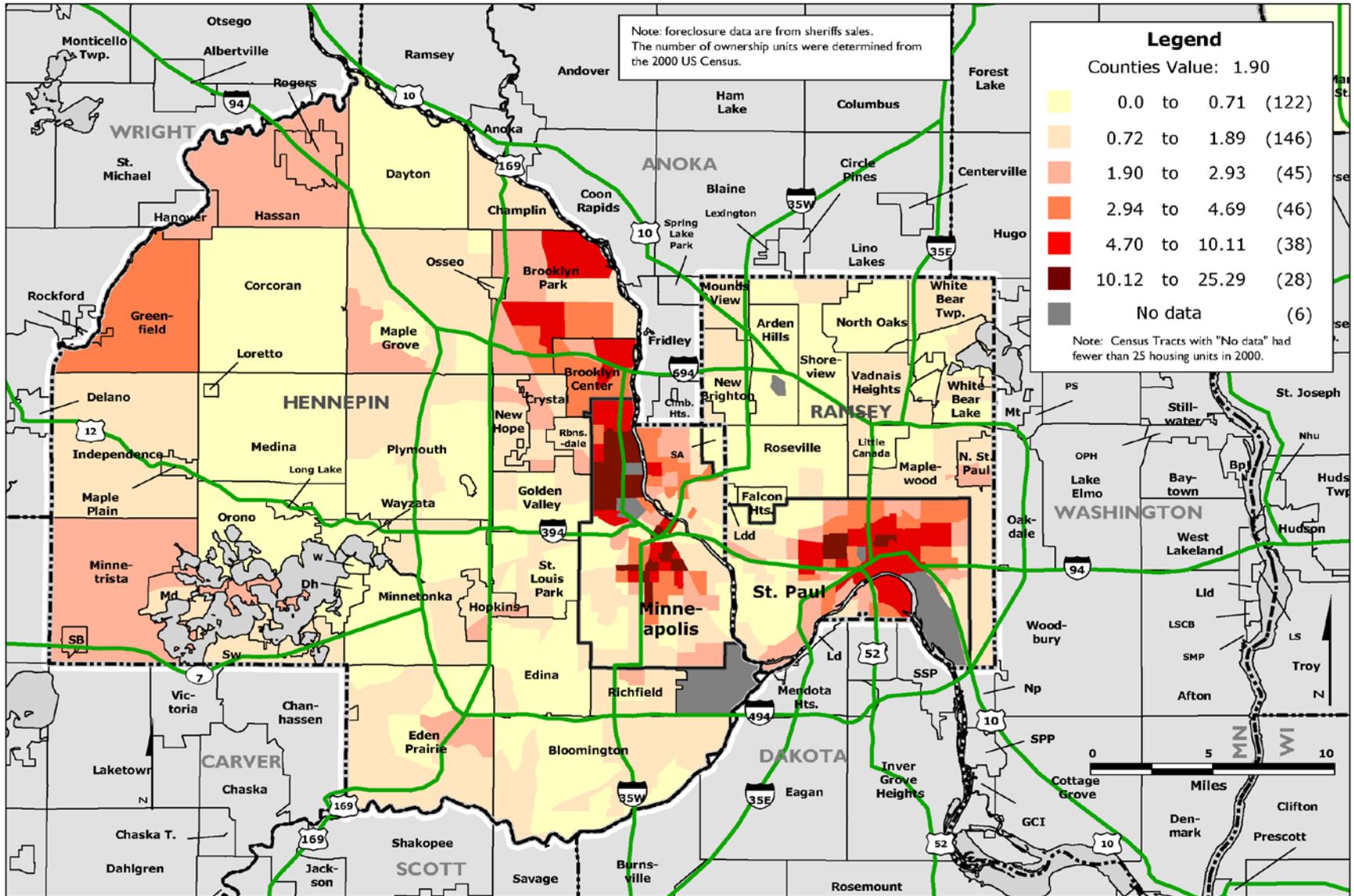
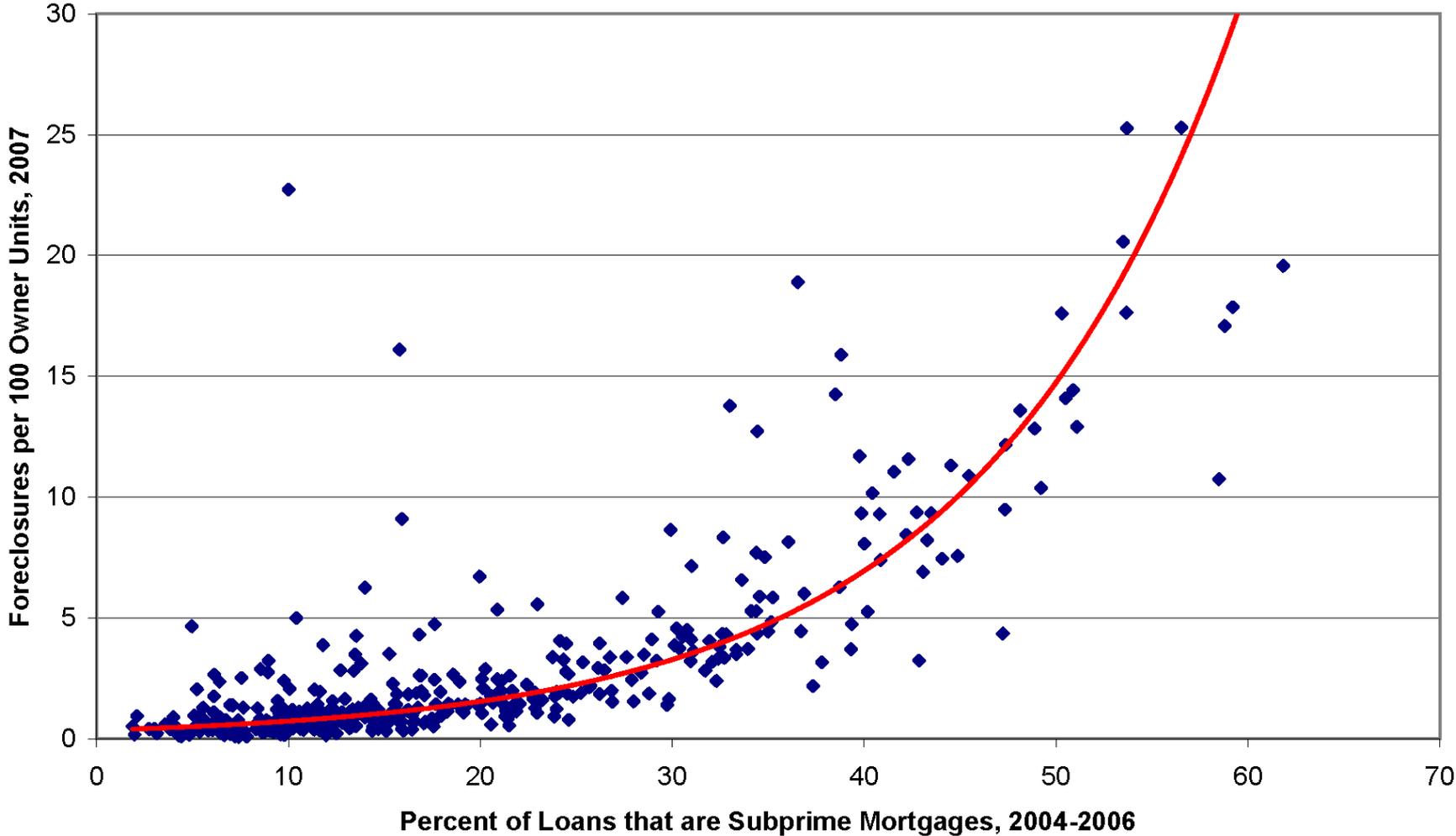


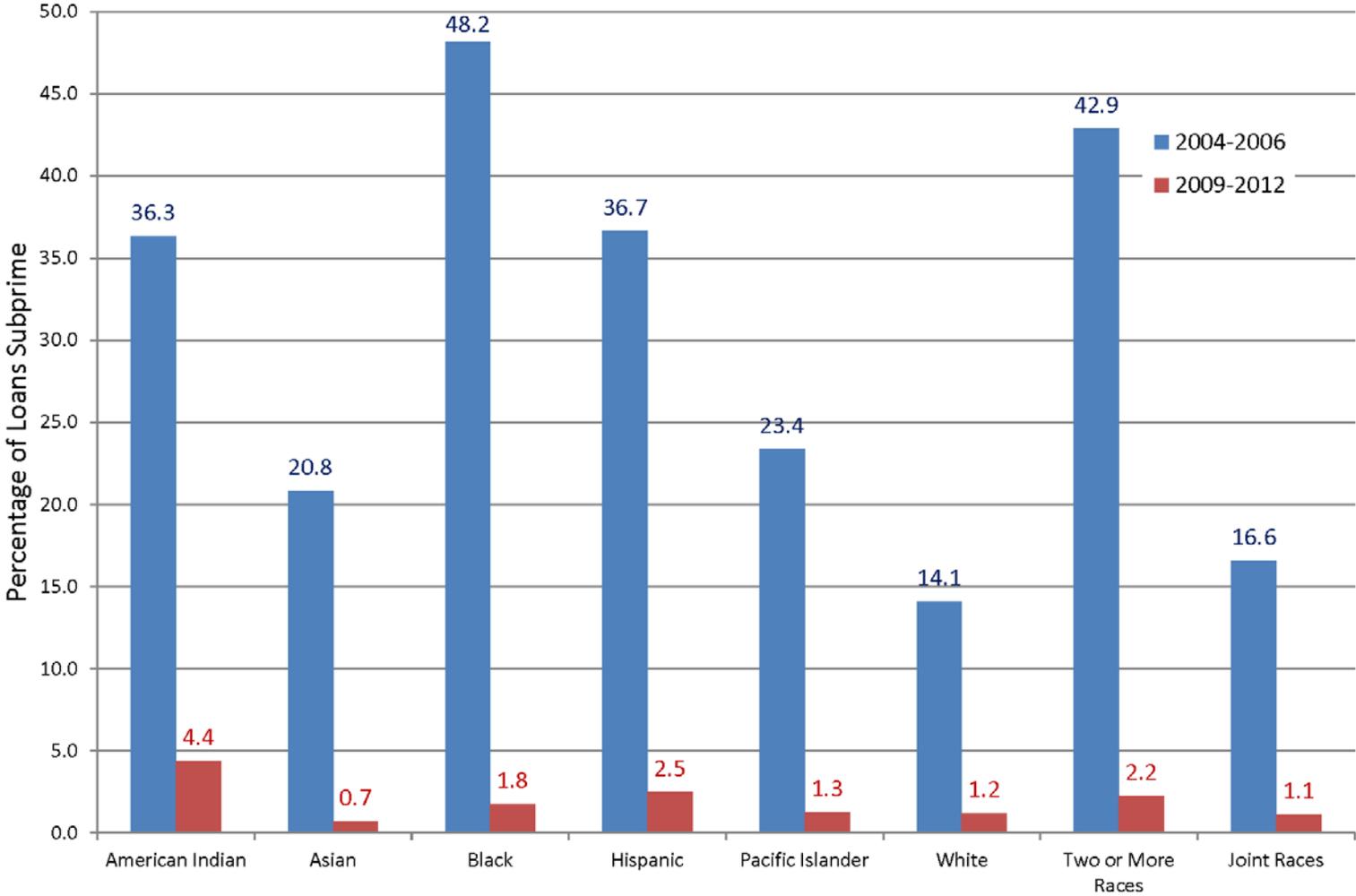
Chart 8: Relationship Between Subprime Lending and Foreclosures in Hennepin and Ramsey Census Tracts



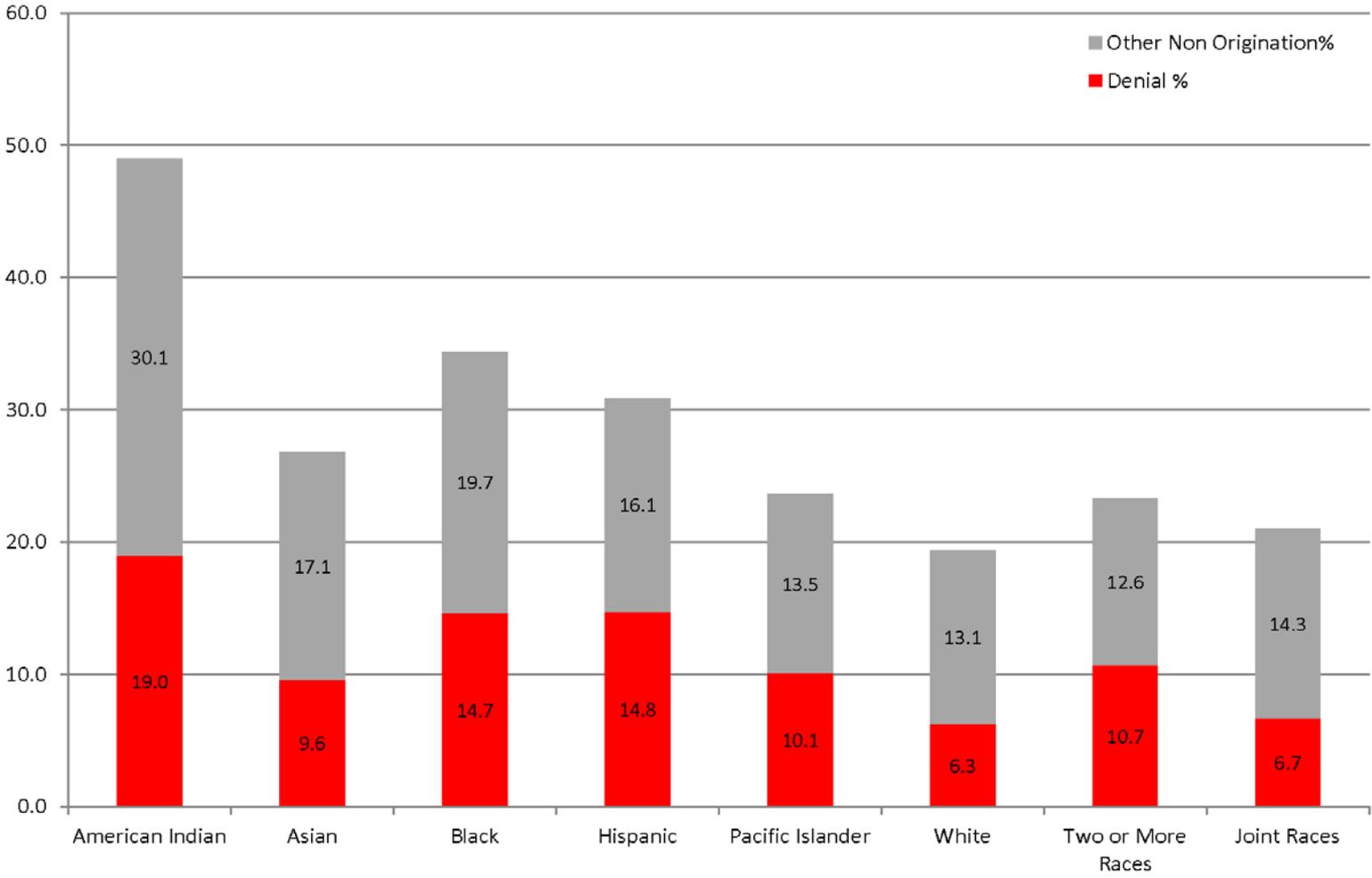


Recent Mortgage Lending Trends in the Twin Cities Metro, 2009-2012

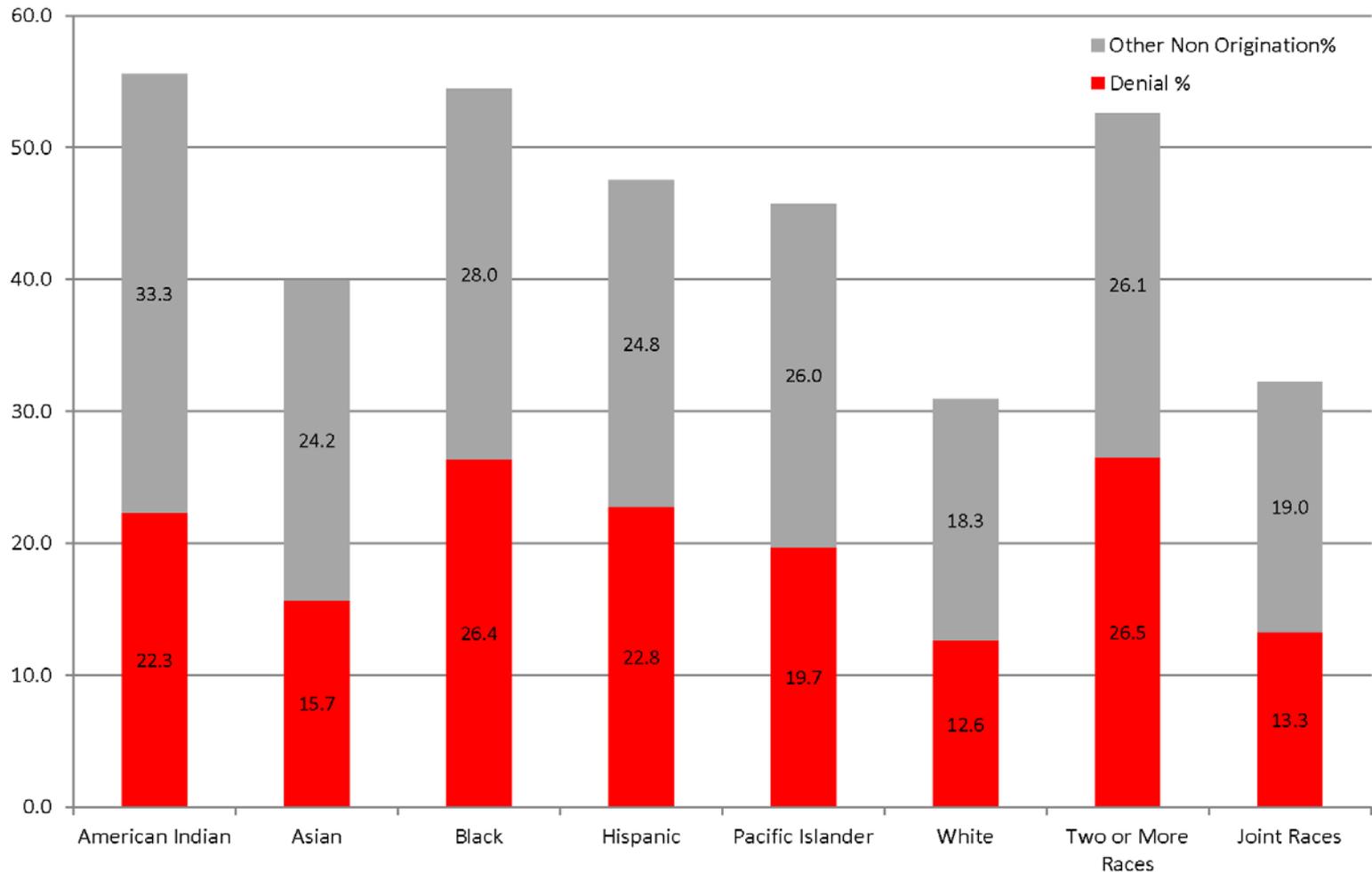
Subprime Lending Rates for Home Purchases and Refinances in Twin Cities for Periods 2004-2006 and 2009-2012



Percentage of Home Purchase Applications Denied / Not Originated by Lending Institution in Twin Cities, 2009-2012

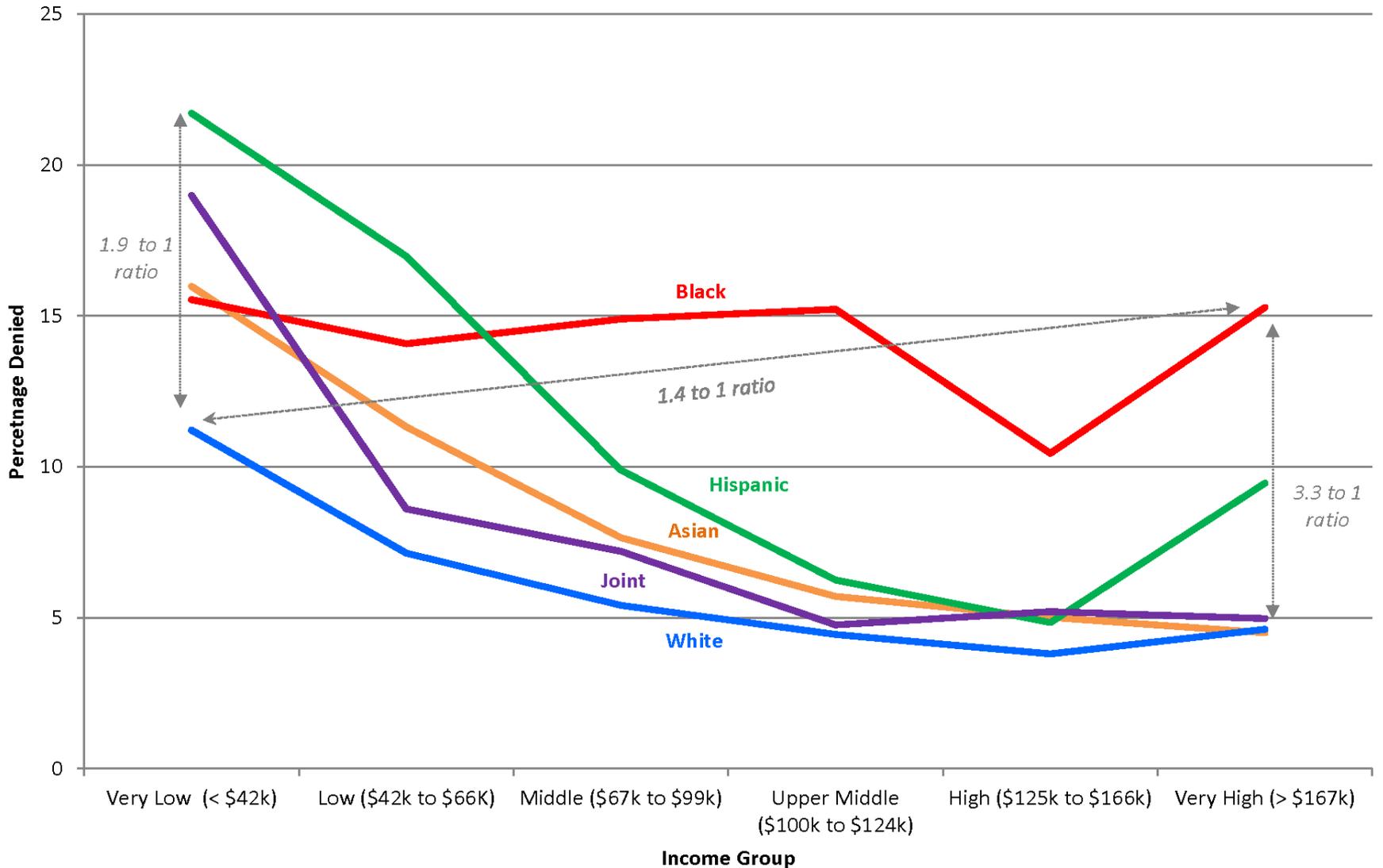


Percentage of Refinance Applications Denied / Not Originated by Lending Institution in Twin Cities, 2009-2012

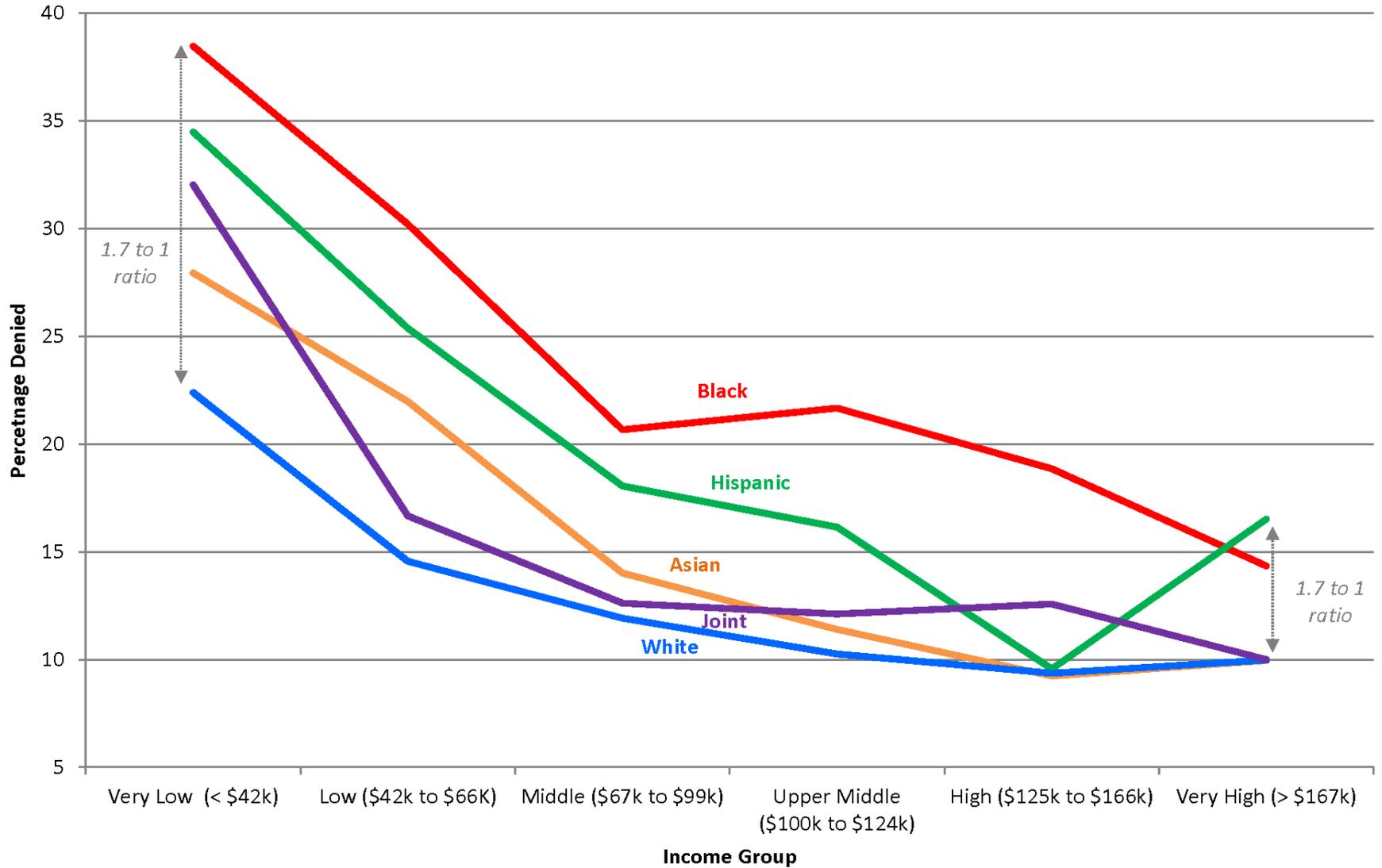


Denial Rates by Race and Income

Twin Cities, Percentage of Home Purchase Applications Denied by Race and Income, 2009-2012

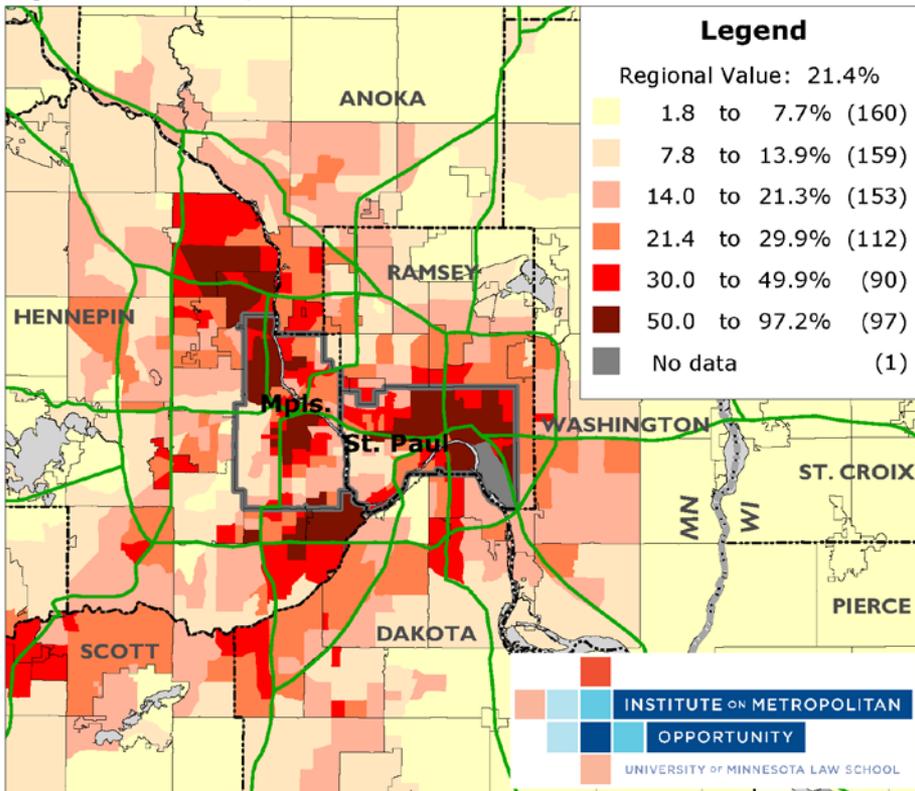


Twin Cities, Percentage of Refinance Applications Denied by Race and Income, 2009-2012

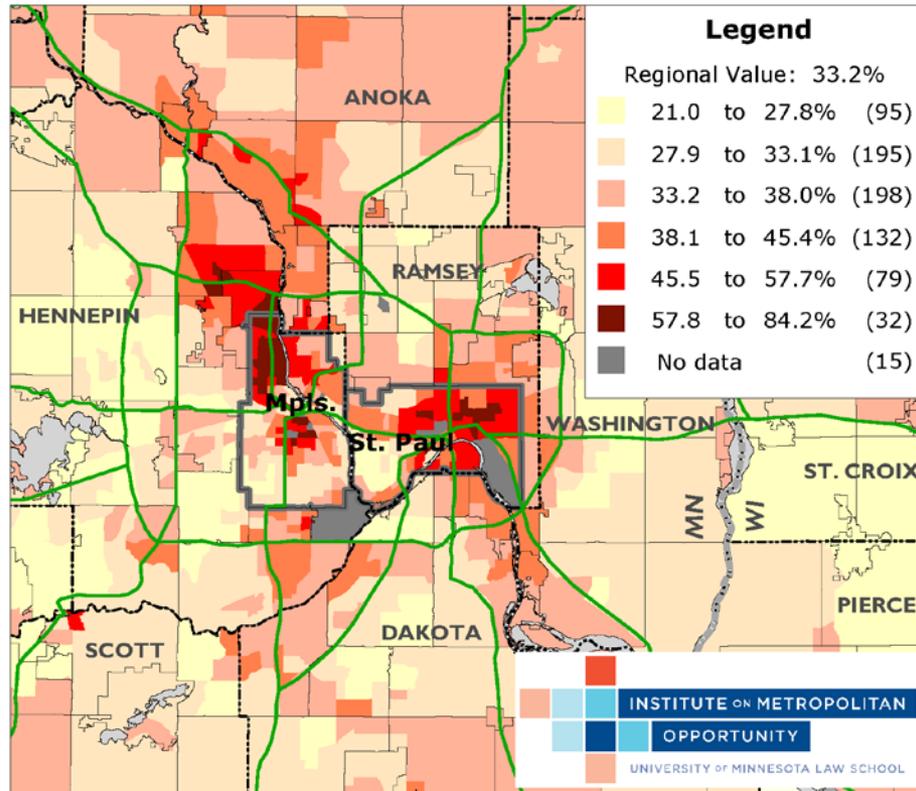


Non-Origination Rates by Neighborhood

**MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Percentage of Population that are People of Color
by Census Tract, 2010**



**MINNEAPOLIS-SAINT PAUL CENTRAL REGION:
Home Mortgage Non-Origination Rates
by Census Tract, 2009 - 2011**



What would of happened if loans were distributed across the region according to the income levels of areas?

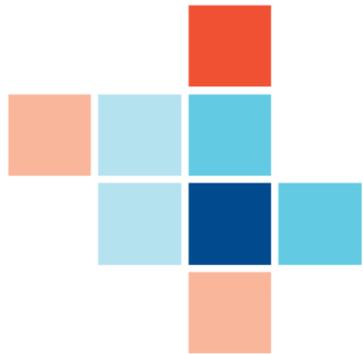
i.e. if homeowners with the same incomes were as likely to receive a loan, regardless of where they lived....

If so, between 2009 and 2012:

- An additional 13,300 loans would have been made to diverse and predominantly non-white areas in the Twin Cities metro.
- The bulk of additional loans would have been refinance loans (n = 11,972) which would have allowed many homeowners to renegotiate from more costly subprime loans into prime mortgages.

Home Lending in Minneapolis-St. Paul Neighborhoods, 2009 to 2012

	Total		White		Minority		Observed minus Predicted Loans Based on Income of Area	
	Total	% Not	Total	% Not	Total	% Not	Home	
	Applicants	Originated	Applicants	Originated	Applicants	Originated	Purchase	Refinance
Minneapolis - Calhoun-Isle	4,629	30.3	3,819	29.1	298	31.2	320	198
Minneapolis - Camden	1,670	48.3	1,131	41.7	359	61.3	-232	-1,106
Minneapolis - Central	3,062	32.3	2,488	30.8	268	30.2	602	18
Minneapolis - Longfellow	3,469	32.6	2,888	30.3	246	41.5	17	-238
Minneapolis - Near North	1,039	55.1	579	46.3	370	65.1	-76	-586
Minneapolis - Nokomis	6,364	30.2	5,326	27.9	449	39.6	85	-125
Minneapolis - Northeast	3,519	37.3	2,878	34.8	303	47.9	-69	-656
Minneapolis - Phillips	480	58.1	267	53.6	167	63.5	-4	-262
Minneapolis - Powderhorn	3,284	39.2	2,514	35.4	427	49.4	5	-712
Minneapolis - Southwest	9,457	26.1	7,929	24.6	574	27.5	546	1,097
Minneapolis - University	1,515	36.4	1,220	33.2	147	47.6	78	-99
St. Paul - Battle Creek-Dayton's Bluff	2,075	46.0	1,424	41.3	450	50.7	-203	-1,023
St. Paul - Como / Midway / St. Anthony	3,629	32.7	3,027	30.2	264	39.0	-45	-234
St. Paul - Greater Eastside	1,256	43.9	861	41.3	270	50.0	-155	-802
St. Paul - Highland-South Mac Grove	4,640	26.1	3,935	23.9	243	28.8	124	459
St. Paul - Merriam Pk-N. Mac Grove-River	3,937	26.9	3,377	25.6	215	31.2	61	375
St. Paul - North End / Thomas-Dale	1,447	46.5	941	42.9	363	50.4	-151	-798
St. Paul - Payne-Phalen	1,235	45.7	809	38.7	298	57.4	-176	-755
St. Paul - Summit-University / Hill	2,191	34.5	1,718	30.7	256	49.2	58	-148
St. Paul - West End-7th-Downtown	2,675	38.9	2,101	36.3	294	45.6	-37	-622
Central Cities	61,573	33.7	49,232	30.6	6,261	45.1	748	-6,018
Suburbs	380,898	30.7	319,227	28.9	27,212	36.8	-748	6,018
Total	442,471	31.1	368,459	29.1	33,473	38.3	0	0



Summary and Recommendations

Summary: Home Mortgage Lending in The Twin Cities

- The subprime period of lending complicated the way discrimination occurs by offering greater volumes of loans with higher interest rates under less favorable terms to borrowers.
- The lack of oversight over housing markets led to the financial crisis of 2008, ushering in today's disparate patterns of lending that has more in common with past lending patterns.

Summary: Home Mortgage Lending in The Twin Cities

- In the Twin Cities, people of color were more likely to get a subprime loan and be denied a prime loan than whites with similar incomes.
- A *high income* black applicant was much more likely to receive a subprime loan and be denied a prime loan than a *low income* white applicant.

Summary: The relationship between subprime lending and redlining.

- The facilitation of subprime loans into communities increased foreclosures which, in turn, helped to create the woes now used to justify low lending rates to those same communities.
- Wells Fargo, Bank of America and HSBC Holding Corporation are all examples of major financial institutions that have held subprime lending subsidiaries.

Recommendations: Home Mortgage Lending in The Twin Cities

- Lenders could do much more to open up current ‘prime-oriented’ mortgage market for communities of color.
- Wells Fargo alone could have made an additional 4,247 loans to diverse and predominately non-white neighborhoods if it distributed loans according to the income mix of neighborhoods.

Recommendations: Home Mortgage Lending in The Twin Cities

- Enforce current fair housing and lending laws in lieu of new financial instruments
- Need more traditional banks and lending in disinvested and integrating neighborhoods
- Need to bring back Fair Housing Center
- More transparency of banks' information about lending decisions (e.g. FICO) in HMDA



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