Indianapolis Neighborhood Housing Partnership

RESEARCH BRIEF

Trends in Home Mortgage Disclosure Act Data (HMDA)

SEPTEMBER 2021

OVERVIEW

The Home Mortgage Disclosure Act (HMDA), enacted by Congress in 1975, requires lending institutions to report and publicly disclose loan origination and denial data. Lenders are required to provide information about loan originations, applications, and denials by race, sex, and income of the borrowers and applicants across types of mortgages (home purchases, refinances, and home improvement). These data provide a comprehensive picture of the lending environment—including demographic differences in lending; the examining of trends over time provides insights into the dynamics of the mortgage market.

2019 SNAPSHOT

In 2019, home purchase loans comprised 44.1 percent of applications, refinances represented 40.1 percent of applications, and the balance included home improvement (8.7 percent) and other loan applications. Collectively, loan applications were made for more than $6 billion, with just more than $4 billion being originated. Conventional loans made up more than three-quarters of originations (76.1 percent), with FHA loans (17.9 percent) and VA loans (6.0 percent) making up the balance.

Among loans that were actually originated, more than half (52.3 percent) were for home purchases, 36.2 percent were for refinances, and 6.4 percent were for home improvement. The denial rate was highest among home improvement loans; 38.3 percent of home improvement loan applications were denied, while 16.4 percent of refinance applications were denied and only 7.3 percent of home purchase loans were denied.

Borrowers earning less than 80 percent of area median income constituted 43.3 percent of loan originations, totaling more than $1.3 billion in mortgage capital. Census tracts with median incomes below 80 percent area median income saw slightly more than 1/3 of all loan originations with nearly $1.1 billion in loans originated. Borrowers with incomes between 80 and 12o percent of area median income represented 22.4 percent of loan originations. Prospective borrowers with lower incomes were more likely to experience a loan denial than higher income applicants. Applicants with less than 50 percent area median income and between 50 and 80 percent of area median income experienced denial rates of nearly 24 percent and nearly 17 percent, respectively (compared with 12.6 percent of those with incomes above 80 percent of area median income).

Black borrowers represented 14.4 percent of all loan applicants, but only realized 12.1 percent of all loans originated. Prospective Black borrowers' loan applications represented 21.5 percent of all denials. In total, 53.0 percent of Black applicants' loan applications resulted in an origination (compared with 66.6 percent for white applicants). Among Black applicants, nearly a quarter were denied (23.9 percent) compared with 13.7 percent of white applicants. Hispanic/Latinx applicants realized slightly more successful conversion rates relative to Black applicants: 56.8 percent of Hispanic/Latinx applicants received a loan origination and 20.1 percent were denied.[1]

Credit history was the primary reason most applicants' applications were denied, representing 35.6 percent of loan denials. Debt-to-Income (20.6 percent of all denials) and collateral (19.1 percent) were also frequent causes of loan denials. Those same reasons for denials generally held true across income categories; however, debt-to-income was a higher primary cause of denial among those applicants earning less than 50 percent of area median income. Applicants earning between 80 and 120 percent of area median income were slightly more likely to be denied based on credit histories relative to all applicants.

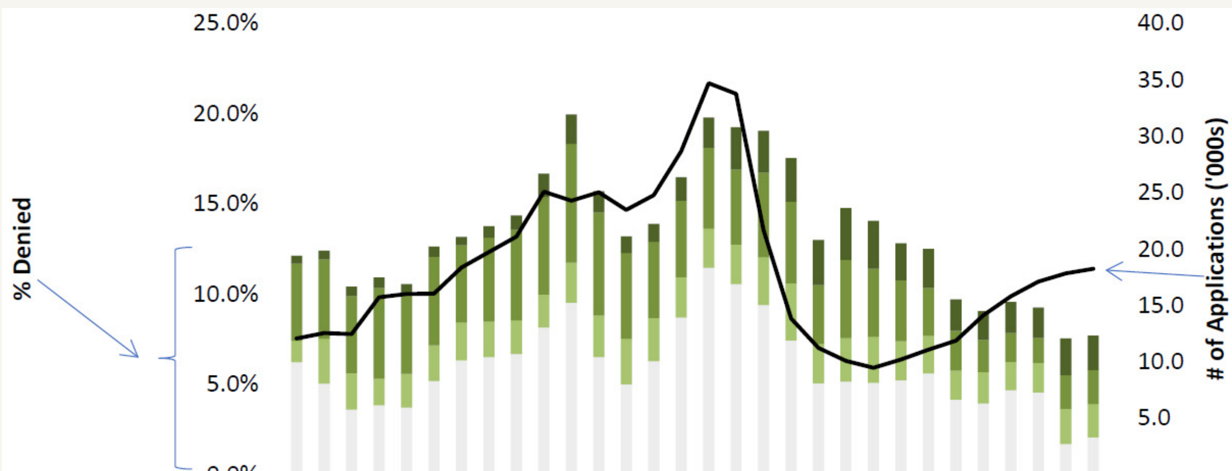
[1] Other reasons for applications not resulting in an origination include incomplete applications, withdrawn applications, approved loans that are not accepted by the borrower, and others.

Black applicants were much more likely than other applicants to experience a denial primarily based on credit history; among Black applicants who were denied credit, credit history was cited as the primary reason for 42.7 percent of the denials (versus 33.6 percent for all non-Black applicants who were denied).

TREND DATA

The number of loan applications for home purchases continued a trend, back to 2011-12, in which the year-over-year number of applications have increased (see Figure 1). Further, the percent of applications denied remained relatively low compared to previous years, dating back to 1990. While a slightly higher percentage of loans were denied in 2019 relative to 2018, those two years saw the lowest percentage of loan denials in the past 30 years. The primary reasons for credit denial—among home purchases—were spread relatively evenly across the four categories examined: collateral, credit, debt-to-income, and other. While similar to 2018, this relatively equal composition of primary reasons for denial is a departure from the historical norm in which the "other" category has generally been much higher (other includes employment history, insufficient cash, unverifiable info, incomplete credit applications, mortgage insurance denials, and other reasons).

FIG 1. MARION COUNTY HMDA DATA: *Home Purchases (1990-2019)*

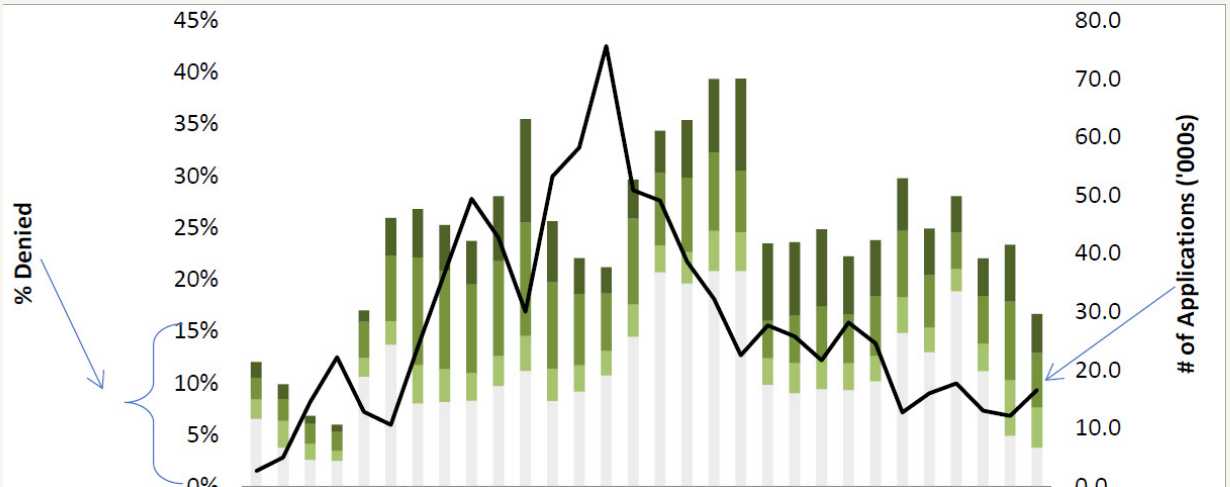


	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
Collateral Denial (L)	0.4	0.5	0.5	0.6	0.5	0.6	0.5	0.6	0.8	1.3	1.6	1.2	0.9	1.0	1.3
Credit Denial (L)	4.3	4.4	4.3	5.0	4.4	4.9	4.3	4.7	5.0	5.4	6.6	5.7	4.8	4.2	4.2
D-to-Inc Denial (L)	1.2	2.5	2.0	1.5	1.9	2.0	2.1	2.0	1.9	1.8	2.2	2.3	2.5	2.4	2.2
Other Denial (L)	6.2	5.0	3.6	3.8	3.7	5.2	6.3	6.5	6.7	8.1	9.5	6.5	5.0	6.3	8.7
# of Apps ('000s) (R)	12	12	12	15	16	16	18	19	21	25	24	25	23	24	28

	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
Collateral Denial (L)	1.7	2.3	2.3	2.4	2.5	2.9	2.7	2.1	2.2	1.7	1.6	1.7	1.7	2.0	1.9
Credit Denial (L)	4.5	4.2	4.7	4.5	3.3	4.3	3.8	3.4	2.7	2.2	1.8	1.6	1.4	1.9	1.9
D-to-Inc Denial (L)	2.2	2.2	2.7	3.2	2.2	2.4	2.6	2.2	2.1	1.6	1.7	1.6	1.6	1.9	1.8
Other Denial (L)	11.	10.	9.4	7.4	5.0	5.1	5.1	5.2	5.6	4.1	3.9	4.7	4.5	1.7	2.1
# of Apps ('000s) (R)	34	33	21	13	11	10	9.	10	11	11	14	15	17	17	18

In 2019, applications for refinancing increased considerably relative to 2018, increasing 36.6 percent year-over-year; nevertheless, applications for refinancing are relatively low compared to the average over the years examined (see Figure 2). More than 16 percent of refinance loan applications were denied, the lowest of any year since 1993. Denials for collateral, credit history, and debt-to-income were relatively consistent with the averages for those types of denials as a percent of applications over the past ten years; however, "other" denials were considerably less than the historical averages, thus the total percent denied overall was lower.

FIG 2. MARION COUNTY HMDA DATA: *Refinancing (1990-2019)*



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04
Collateral Denial (L)	2%	1%	1%	1%	1%	4%	5%	4%	4%	6%	10%	6%	3%	3%	4%
Credit Denial (L)	2%	2%	2%	2%	3%	6%	10%	9%	9%	9%	11%	8%	7%	6%	8%
D-to-Inc Denial (L)	2%	3%	2%	1%	2%	2%	4%	3%	3%	3%	3%	3%	3%	2%	3%
Other Denial (L)	7%	4%	3%	2%	11%	14%	8%	8%	8%	10%	11%	8%	9%	11%	14%
# of Apps ('000s) (R)	2.6	5.0	14.5	22.2	12.8	10.6	23.9	36.7	49.4	42.6	30.0	53.2	58.2	75.6	50.8

	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
Collateral Denial (L)	4%	6%	7%	9%	7%	7%	7%	6%	5%	5%	4%	3%	4%	5%	4%
Credit Denial (L)	7%	7%	8%	6%	4%	5%	5%	5%	6%	6%	5%	4%	5%	8%	5%
D-to-Inc Denial (L)	3%	3%	4%	4%	3%	3%	3%	3%	2%	3%	2%	2%	3%	5%	4%
Other Denial (L)	21%	20%	21%	21%	10%	9%	9%	9%	10%	15%	13%	19%	11%	5%	4%
# of Apps ('000s) (R)	49.1	38.6	32.2	22.5	27.6	25.7	21.6	28.1	24.6	12.7	16.0	17.7	13.0	12.1	16.6