Name: Mortgage Lending Difference

Short Description: Difference in percentage of mortgage applications accepted between all applicants and racial and ethnic minority applicants.

Data Source:
- Name: Home Mortgage Disclosure Act (HMDA) Dataset, Consumer Financial Protection Bureau
- Link to Source: https://ffiec.cfpb.gov/data-browser/data/2020?category=states

Year: 2020

Source Geographic Level: Zip Code Tabulation Area (ZTCA)

Stratification: Black populations

Selection Rationale: The difference between the percentage of mortgage applications accepted between all applicants and racial and ethnic minority applicants provides information about inequities in access to mortgage loans. Inequities in acceptances of mortgage loan applications are one of the ways that structural racism impacts the ability to achieve financial security, as purchasing a home can be an important way to generate wealth. Because financial security through homeownership can be a protective factor for mental health, differences in mortgage application acceptances can impact the mental wellness of a community.

Strengths and Limitations
- **Strengths**:
  - [*Importance*] & [*Equity*] This measure captures disparities experienced between population groups. Differences in mortgage application acceptance rates between racial and ethnic groups contribute to historical and contemporary inequities. Disparate rates between White and Black populations have contributed to perpetuated racial segregation, racial wealth gaps, and sustained disinvestment in communities, which has been correlated with worse physical and mental health, as well as present-day discrimination.[1,2] Black populations are denied loans at about twice the rate of White populations. Hispanic and Asian populations also experience higher mortgage application rejection rates, making it more difficult to create wealth through homeownership and home value

[1] Hanks, A., Solomon, D., & Weller, C. (2018, February 21). *Systemic Inequality: How America's Structural Racism Helped Create the Black-White Wealth Gap.* Center for American Progress. https://www.americanprogress.org/issues/race/reports/2018/02/21/447051/systematic-inequality/

[2] Lynch, E. E., Malcoe, L. H., Laurent, S. E., Richardson, J., Mitchell, B. C., & Meier, H. C. S. (2021). The Legacy of Structural Racism: Associations Between Historic Redlining, Current Mortgage Lending, and Health. *SSM - Population Health*, *14*, Article 100793. https://doi.org/10.1016/j.ssmph.2021.100793

appreciation.[3] Poor financial security (such as from a rejected mortgage application) can have intergenerational consequences, especially for communities of color that face other structural and social barriers to wealth-building.[4]

- o [*Relevance and Usability*] Differences in mortgage application acceptance rates are displayed as a simple difference in observed rates that is easily understandable and usable. This information may be used to identify areas where mortgage discrimination may be taking place, and where efforts are needed to improve mortgage accessibility for racial and ethnic minority groups.
- o [*Feasibility*] The HMDA dataset is the most comprehensive source of information on the US mortgage market. Financial institutions that are required to track and publicly report mortgage application acceptance rates (stratified by race) report their results to HMDA.[5] HMDA data are released every year and are publicly available.
- **Limitations**:
  - o [*Scientific Soundness*] There has been some debate over how mortgage application acceptance rates should be compared among different racial and ethnic groups. The "observed rates" used in these data are a simple comparison of rates by race and ethnicity and do not account for the "creditworthiness" of applicants. When credit is considered, the disparity between mortgage rates for White and Black populations decreases in magnitude.[6] Because the ability to build credit is directly related to historic discrimination of people of color, however, we have chosen to use the observed rate of mortgage acceptances to account for present-day discrimination as well as historic disenfranchisement.

Calculation:

Note – calculations are based on the race of the primary applicant for the mortgage application.

Overall Population:

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[3] Harney, K. R. (2018, May 23). Large numbers of loan applications get denied. But for blacks, Hispanics and Asians, the rejection rate is even higher. *The Washington Post.* https://www.washingtonpost.com/realestate/large-numbers-of-loan-applications-get-denied-but-for-blacks-hispanics-and-asians-the-rejection-rate-is-even-higher/2018/05/22/dac19ffc-5d1b-11e8-9ee3-49d6d4814c4c_story.html

[4] Habitat for Humanity. (2020). *Evidence Brief: How does homeownership contribute to wealth building?* https://www.habitat.org/media/3371/download

[5] Federal Reserve. (n.d.). Home Mortgage Disclosure Act Examination Procedures. In *Board of Governors of the Federal Reserve System*. Retrieved September 29, 2021, from https://www.federalreserve.gov/boarddocs/caletters/2009/0910/09-10_attachment.pdf

[6] Goodman, L., & Bai, B. (2018, August 23). *Traditional mortgage denial metrics may misrepresent racial and ethnic discrimination.* Urban Institute. https://www.urban.org/urban-wire/traditional-mortgage-denial-metrics-may-misrepresent-racial-and-ethnic-discrimination

$$Mortgage\ Lending\ Difference_{Overall} =$$
$$\left(\left(\frac{\#\ applications\ accepted_{\ All\ applicants}}{\#\ applications_{\ All\ applicants}}\right) - \left(\frac{\#\ applications\ accepted_{\ Non-white\ applicants}}{\#\ applications_{\ Non-white\ applicants}}\right)\right) x\ 100\%$$

Black Populations:

$$Mortgage\ Lending\ Difference_{Black} =$$
$$\left(\left(\frac{\#\ applications\ accepted_{\ All\ applicants}}{\#\ applications_{\ All\ applicants}}\right) - \left(\frac{\#\ applications\ accepted_{Black\ applicants}}{\#\ applications_{\ Black\ applicants}}\right)\right) x\ 100\%$$