MEMORANDUM

Baltimore City Department of
HOUSING & COMMUNITY
DEVELOPMENT

TO: Mayor Brandon Scott, Baltimore City
FROM: Hannah Hill, Fair Housing Policy Analyst, BCDHCD
SUBJECT: Identifying Racial Discrimination and Enforcing Fair Lending
DATE: 9 May 2023

I. RECOMMENDATION

The Baltimore City Department of Housing and Community Development urges the Mayor to take immediate action on the persistent challenge of racial discrimination in mortgage lending for Baltimore residents using findings from a Home Mortgage Disclosure Act (HMDA) analysis through a multipronged approach:

a) Amend Article 4 of the Baltimore City Code to provide fair housing training and require transparency from financial institutions, ensuring equivalent protections to the Fair Housing Act;
b) Apply for an additional HUD Fair Housing Initiatives Program grant to expand education and outreach on predatory mortgage lending practices which proved effective in FY18-FY19;
c) Apply for Fair Housing Assistance Program (FHAP) certification with the Department of Housing and Urban Development to focus local FHAP investigative efforts and outreach in Black communities at-risk of predatory mortgage lending practices; and
d) Establish Community Reinvestment Agreements (CRAs) with lenders operating within City limits to further increase Black applicants' access to credit and fair loan products/terms to reduce the racial disparities in denial rates.

II. PROBLEM STATEMENT

Predatory mortgage lending and discriminatory lending practices remains one of the main issues contributing to the affordable housing crisis in Baltimore (2020 Baltimore Analysis of Impediments). Recent data from the U.S. Census Bureau shows that the racial disparities in homeownership rates is still growing. Black homeownership rates trail White homeownership rates by a stark 30.1%, the widest gap it's been in 100 years (NCRC 2020 Home Mortgage Report).

Currently, local Fair Housing laws for Baltimore City prohibit discrimination due to "race, color, religion, national origin, ancestry, sex, marital status, physical or mental disability, sexual orientation, gender identity or expression, insurance, in addition to – as of 2019 – source of income" (2020 Baltimore Analysis of Impediments). In order to meet Fair Housing Act equivalency or ensure greater protections, Baltimore City needs to prohibit discrimination for the additional following categories: familial status, age, occupation, ethnicity, citizenship, immigration status, creed, political opinion, and personal appearance. Once Baltimore City ensures equal or greater protections than the FHA, the Baltimore City Community Relations Commission (BCCRC) can apply to become certified as a Fair Housing Assistance Program (FHAP) agency. As a certified FHAP agency, HUD will refer complaints of fair housing law violations to BCCRC for local investigation and enforcement activities and will reimburse both certified and interim FHAP agencies in these efforts, eliminating the concern for funding. Updating local Fair Housing laws, thus, should be an immediate and actionable recommendation.

While efforts have been made to update and increase Fair Housing protections against various types of discrimination – the most recent being protections against income discrimination in 2019 – a lack of support by City Council has not made it actionable yet. The 2020 Analysis of Impediments for the Baltimore metropolitan region explicitly called for the Office of Equity and Civil Rights (OECR) to work with City Council in amending Article 4 of the Baltimore City Code to be substantially equivalent to FHA protections.

Because this is a recommendation already outlined and agreed to by Baltimore City in the 2020 Analysis of Impediments, BCDHCD urges the Mayor to consider prioritizing this action plan in exploring, mitigating, and enforcing potential violations of fair housing laws in mortgage lending. Specifically, discussions surrounding expanding protections in Article 4 of the City Code should center Baltimore City's mission of equity and resident-centered policymaking while highlighting the limited costs associated with BCCRC becoming a FHAP agency. BCDHCD believes that through expanding fair housing protections to more identity categories and ultimately becoming the site of a federally-sponsored FHAP agency will enable greater local oversight and enforcement of various fair housing issues in addition to preventing and monitoring discrimination in mortgage lending.

III. FINDINGS

Methodology
Using publicly available HMDA data between 2018 and 2021, the fair housing policy team within the BCDHCD conducted an exploratory analysis to better understand the patterns of mortgage lending disparities across Baltimore census tracts. The main guiding questions were:

1) How does mortgage lending approvals, denials, and interest rates look for applicants of different income levels but within the same census tract?
2) Which census tracts are most vulnerable to lending deserts?

To conduct this analysis, the Fair Housing policy team filtered the data to loans that are either conventional or Federal Housing Administration insured, loans with the purpose of *purchase* (not improvement or refinancing), and limiting occupancy type to principal residence only.

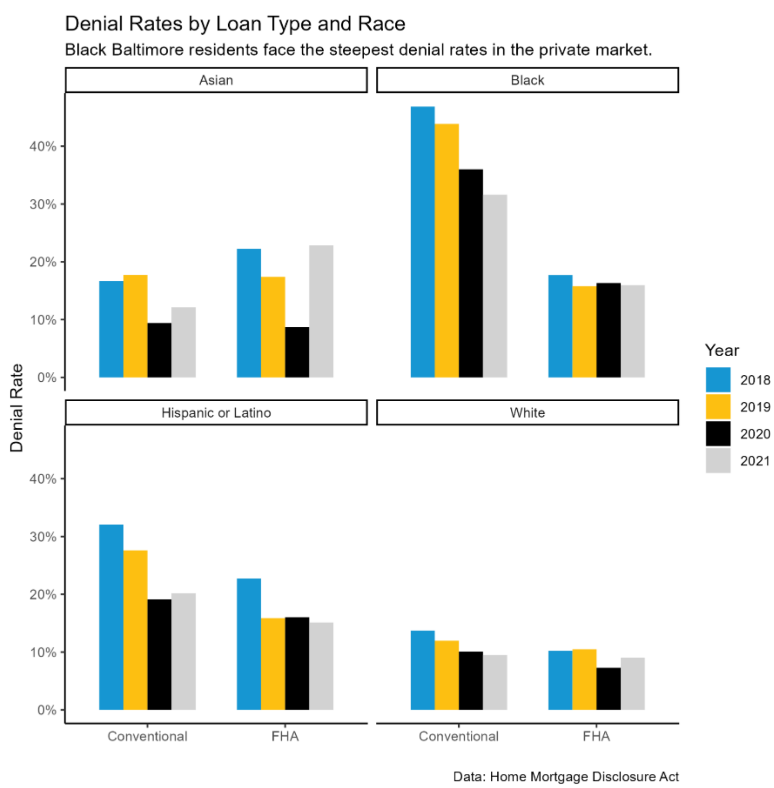
Overall Trends
The number of home mortgage applications increased between 2018 and 2021 for all racial groups. For Black and White applicants between 2020 and 2021, applications increased by approximately 500. This is not surprising, as the median conventional interest rate for all racial groups has decreased between 2018 and 2021 (as seen in Table 1) and potential homebuyers often take advantage of lower interest rates. Notably, Black applicants face the highest median interest rate each year in the private market.

Table 1: Median Conventional Interest Rates by Race and Year

Race	2018	2019	2020	2021
Asian	4.625	3.995	3.125	2.99
Black	5.0	4.5	3.375	3.25
Hispanic or Latino	4.875	4.438	3.250	3.125
White	4.625	4.125	3.125	3.0

Figure 1 illustrates the disparities in denial rates by loan type and race. Black applicants consistently face the highest denial rates for a home mortgage loan in the private market compared to any other race. However, the conventional denial rates for Black applicants are steadily decreasing each year as the number of total applications increase. This could partly be attributed to the OECR receiving 225% more fair housing discrimination complaints in FY19 than in FY18, as a result of receiving HUD FHIP-EOI funding (2020 Analysis of Impediments). These numbers suggest that increasing funding to investigate housing discrimination complaints and enforce fair lending is a useful investment in reducing the racial disparities in private market denial rates.

Figure 1: Home Mortgage Denial Rates in Baltimore, 2018-2021



Looking solely at the difference in denial rates between conventional loans and FHA loans for Black applicants in Figure 1, the data suggest that FHA loans even the playing field with relatively consistent denial rates that are of a similar range as White applicants' FHA denial rates.

For Hispanic/Latino applicants, the differences between conventional and FHA denial rates are much less apparent than for Black applicants but are still noticeable. For White applicants, there is not a significant difference between conventional denial rates and FHA denial rates, suggesting that resources investigating fair housing discrimination complaints and enforcement of fair lending policies would be more impactful if allocated for Black applicants.

Top Lenders

To see how denial rates varied by lender, the BCDHCD selected the top six lenders with the largest number of total applications adjudicated between 2018 and 2021 focusing on lenders that focused primarily on servicing conventional home loans. Primary Residential and First Home Mortgage Corporation were the top two largest lenders with consistent, low denial rates across all racial groups. People's United Bank denied Black and Hispanic/Latino applicants at higher rates than Asian and White applicants in 2018. However, the denial rates between racial groups evened out and decreased over time afterwards.

Three of the top six lenders are well-known, national banks: US Bank, Bank of America, and Wells Fargo. These lenders have the highest denial rates for Black applicants and largest racial gaps between Black and White applicants out of all the other top lenders. Bank of America's gap between Black and White denial rates has been steadily decreasing since 2018 (Table 2). Wells Fargo, a lender that has been found guilty of lending discrimination in the past within Baltimore and across the nation, maintains an average gap of 42% in denial rates between Black and White applicants. The number of potential homeowners who choose Wells Fargo as their home mortgage lender in the application process is steadily decreasing for all racial groups.

Table 2: Disparity in Denial Rates through National Lenders

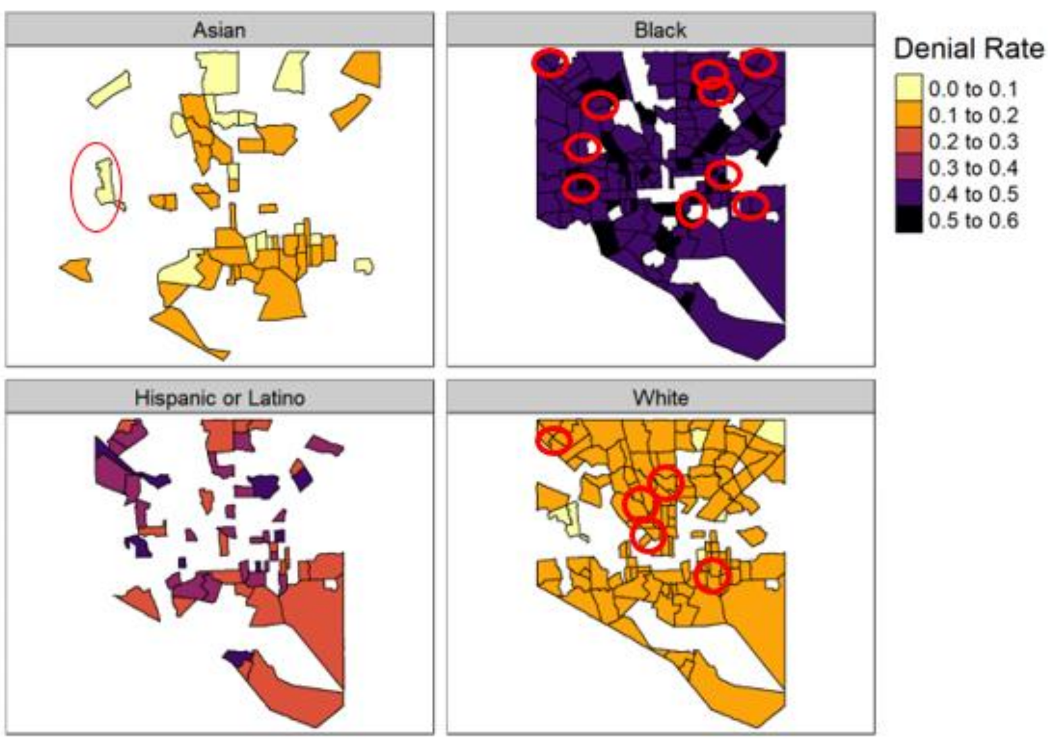
		Black			*White*			
Lender	**Year**	**# Denied**	**# Total Apps**	**Denial Rate**	**# Denied**	**# Total Apps**	**Denial Rate**	**Gap %**
Bank of America	2018	85	100	85%	41	100	41%	***44.0***
	2019	109	159	68.6%	57	132	43.2%	***25.4***
	2020	98	161	60.9%	37	99	37.4%	***23.5***
	2021	100	153	65.4%	50	100	50%	***15.4***
US Bank	2018	4	6	66.7%	5	16	31.3%	***35.4***
	2019	18	18	100%	7	12	58.3%	***41.7***
	2020	11	11	100%	2	7	28.6%	***71.4***
	2021	13	14	92.9%	17	30	56.7%	***36.2***
Wells Fargo	2018	58	82	70.7%	30	101	29.7%	***41.0***
	2019	61	94	64.9%	38	131	29.0%	***35.9***
	2020	24	53	45.3%	8	68	11.8%	***33.5***
	2021	20	30	66.7%	3	33	9.1%	***57.6***

Notably, US Bank services the smallest number of applicants of the top six lenders but raises concern over 100% denial rates for Black applicants in both 2019 and 2020, and nearly 100% in 2021 as well. The BCDHCD recommends further investigation into US Bank's and Wells Fargo's lending practices to determine if there is racial discrimination occurring in their lending practices.

Highest Denial Reasons and Rates
The overwhelming majority of applications between 2018 and 2021 were denied on the basis of an applicant's credit history. HMDA data does not currently report an applicant's credit score, only the credit scoring model and which version was used to generate an applicant's credit score during the home mortgage loan process. The other top three reasons were debt-to-income ratio, collateral, and incomplete credit applications. HMDA data does not provide data on collateral or incomplete credit applications, so the BCDHCD chose to focus solely on the debt-to-income ratio.

<20% Debt-to-Income Ratio (DTIR)
Debt-to-income ratio is defined as the ratio of an applicant's total monthly debt to their total monthly income. The ideal debt-to-income ratio bracket in home mortgage applications is the less than 20% debt-to-income ratio bracket. These applicants present less risk to potential lenders than other applicants who have a higher debt-to-income ratio, increasing the likelihood of their home mortgage application being accepted. Figure 2 illustrates denial rates of applicants within the <20% debt-to-income ratio bracket. Census tracts circled in red are the areas where applicants were both (i) in the ideal <20% DTIR bracket, and (ii) denied based on DTIR. More details are described in Table 3.

Figure 2: Map of Average Denial Rates in <20% DTIR by Census Tract, 2018-2021



Looking at lending patterns for the ideal applicants who report their debt-to-income ratio to be less than 20%, the data revealed disproportionately higher denial rates for ideal Black applicants compared to ideal White applicants when the lender reported the reason for denial was due to an applicant's debt-to-income ratio. This profound disparity between Black and White applicants who are in the same, ideal debt-to-income ratio bracket warrants an increase in (i) expanding educational programs and outreach to inform home mortgage applicants of what discrimination can look like, and (ii) funding from HUD to investigate and enforce fair lending, especially in the census tracts listed in Table 3 where the denials were concentrated.

Table 3: Black and White Applicants Face Different Denial Rates within Same DTIR

		<20% Debt-to-Income Ratio			
Race	**Year**	**# Denied**	**# Apps**	**Denial Rate**	**Impacted Census Tracts**
Black	2018	57	105	**54.3%**	200701
	2019	64	114	**56.1%**	271600, 270802, 150800
	2020	56	124	**45.2%**	160801, 270703, 070200
	2021	68	143	**47.6%**	272005, 270902, 260700, 030200
White	2018	38	223	17.0%	272005, 130804
	2019	23	232	9.9%	060400
	2020	29	289	10.0%	271102
	2021	38	328	11.6%	010500

IV. INTERVENTIONS

Municipal ordinances

As outlined in the 2020 Analysis of Impediments for Baltimore, the City Council should amend Article 4 in the Baltimore City Code to expand provisions to be substantially equivalent to the Fair Housing Act to (i) provide fair housing training, (ii) become eligible for the creation of a HUD-funded fair housing agency, and (iii) require financial institutions to provide more transparent and accessible information regarding their lending practices.

(i) Provide fair housing training – Currently, the FHA requires housing providers to receive fair housing training to ensure they are aware of their legal obligations. Article 4 could be strengthened by requiring fair housing training for not only housing providers, but for government officials and employees responsible for enforcing the housing code.

(ii) Creation of a fair housing agency – A local fair housing agency will investigate housing discrimination complaints, conduct testing and training of fair housing, and pursue fair housing claims. As noted previously, the HMDA revealed lower denial rates corresponding to the years Baltimore received additional HUD funding to investigate fair housing complaints. Expanding protections in Article 4 will make

Baltimore eligible for a HUD funded fair housing agency so that Baltimore can investigate complaints of fair housing discrimination locally instead of through federal investigation.

(iii) Require transparency from financial institutions – Amending Article 4 to require financial institutions be more transparent and make information regarding their lending practices accessible to the public.

Community Reinvestment Agreements (CRA)
Lastly, Baltimore City should utilize community reinvestment agreements to require banks to lend in communities that have been traditionally underserved. While the Community Reinvestment Act of 1977 has successfully expanded access to credit and financial services in low-income communities, there are several gaps to be filled in monitoring and addressing discrimination in Baltimore's lending patterns:

(i) Targeted education and outreach – CRAs could require financial institutions to provide educational materials and workshops to communities that have traditionally been underserved, speaking on topics from available lending options and programs to the mortgage lending process as a whole. The exploratory HMDA analysis showed that incomplete credit applications were one of the top five reasons why applicants were denied; targeted outreach could help applicants from underserved communities in navigating and finishing the application process.

(ii) Loan products and terms – CRAs could require financial institutions to offer loan products and terms that are tailored to the needs of Black applicants in the affected census tracts outlined in the HMDA analysis. This could include low down payment costs, flexible credit requirements, and other features that make homeownership more accessible and attainable, especially for Black applicants who are more likely to be denied based on credit history.

(iii) Mortgage lending goals – CRAs could require financial institutions to establish specific mortgage lending goals for Black applicants in the affected census tracts outlined in the HMDA analysis. These goals would be further monitored, enforced, and evaluated by the local fair housing agency to ensure lenders are meeting their commitments.

(iv) Credit counseling and financial literacy programs – CRAs could require financial institutions to provide credit counseling and financial literacy programs to potential borrowers in the affected census tracts outlined in the HMDA analysis. These programs could help future applicants improve their credit scores, manage debt, and prepare for homeownership.

V. ADDITIONAL CONSIDERATIONS

Housing discrimination has been a significant contributing factor to disproportionate number of people of color living in poverty and subsequent generational loss of wealth. As early as the 1900s, homeowner associations, housing ordinances, and block-busting were used to segregate and discriminate against Black residents in Baltimore. Most commonly known is the practice of redlining. This practice denied mortgage loans to people of color, effectively trapping them in neighborhoods with limited economic opportunities and substandard housing.

Today, mortgage lenders continue to violate the Fair Housing Act by pushing predatory mortgage loans onto Black and Hispanic residents resulting in cities dealing with the fallout of abandoned homes and millions of dollars lost in property taxes. Baltimore is not immune to this practice; the Department of Justice identified more than 4,500 Black and Hispanic homeowners granted mortgage loans through Wells Fargo that were charged a racial surtax between 2004-2009 (Department of Justice, 2012). In 2022, the Greater Baltimore Community Housing Resource Board released multiple reports (2020; 2021) on possible mortgage lending discrimination in Baltimore. Using Home Mortgage Disclosure Act (HMDA) data, GBCHRB identified several lenders to be further investigated for racial gaps in acceptance rates between White applicants and Black applicants.

However, a new report released by the Urban Institute analyzing historical redlining on present-day housing instability nationwide shows little to no correlation between redlined neighborhoods on various indicators of housing stability. While redlining has undoubtedly impacted communities of color in economic, educational, and health outcomes, this report suggests that making policy recommendations solely based on redlining maps may not be the most effective way to correct wrongs implemented by historically divisive policies or reach the communities that are most in need today. Instead, policymakers should incorporate current measures of housing stability into local analyses – such as the geospatial analysis recommended in this memorandum – in order to provide a holistic review of policies that have traditionally or contemporarily excluded groups of people from equal opportunities in housing.