

MURC Special Report

May 2019

A Preliminary Examination of Home Mortgage Approval and Denial Rates in Mississippi: Challenges and Opportunities

Sheryl Bacon, MPA, Research Associate
Lindsey Shaw, B.A., Research Associate
Sam Mozee, PhD., Interim Executive Director

ABSTRACT

This special report reviewed home mortgage approval and denial rates in Mississippi. It examined possible reasons for socio-economic differences in approval and denial rates, and it discussed potential policy approaches to addressing those differences. This report utilized a quantitative descriptive methodology analyzing secondary data from the U.S. Census Bureau and the 2007-2017 Home Mortgage Disclosure Act (HMDA). Research findings indicated Black mortgage applicants experienced much higher denial rates than White mortgage applicants over the 10-year study period, with the denial rate disparity occurring at every income level. Of the common reasons listed in the data for mortgage denials, “credit history” and “debt-to-income level” appeared most often. Based upon preliminary findings, several policy recommendations emerged. Those included re-evaluating loan approval criteria to consider other financial indicators; establishing and/or increasing legal penalties for discrimination in lending practices; funding programs that help people qualify for home mortgages; requiring lenders to be more transparent regarding their lending guidelines and requirements; and passing legislation encouraging more affordable housing via removing restrictive zoning and land use regulations.

Mississippi Urban Research Center
College of Public Service
Jackson State University

Introduction

This special report presents research findings on socio-economic differences in Home mortgage approval and denial rates in Mississippi. Additionally, this report discusses possible reasons cited in the research literature explaining differences in approval and denial rates. The goal of this research is to provide insight on the statistics, issues, and policy implications associated with home mortgage lending in Mississippi. As discussed in more detail later, it is easier to discern differences in lending rates than it is to attribute reasons for those differences.

Methodology

This report utilized a quantitative descriptive methodology analyzing secondary data obtained from the Home Mortgage Disclosure Act (HMDA) and U.S. Census Bureau. A review of the research literature helped identify possible explanations for socio-economic differences in home mortgage approval and denial rates. A ten-year research period spanning 2007 to 2017 framed data analysis activities. Trend lines and bar charts provided a visual means for analyzing, interpreting, and presenting research findings.

Summary of Preliminary Findings

Based upon a review of Home Mortgage Disclosure Act (HMDA) data, Black applicants experienced higher denial rates than Whites applicants over the 10-year study period (Figure 1-2). This disparity also occurred at every income level (Figure 3). Even at the highest income level (\$150,000+) tracked in the HMDA database, Blacks were more than twice as likely to have a loan denied relative to Whites with equivalent earnings. Of the common reasons listed for mortgage denials, “credit history” and “debt-to-income level” appeared most often (Figure 4). In comparing denial rates in the Jackson metro-area to that of Mississippi, Hinds County had higher denial rates than Rankin or Madison counties (Figure 5).

Figure 1. Home Mortgage Denial Rates by Race, 2007-2017

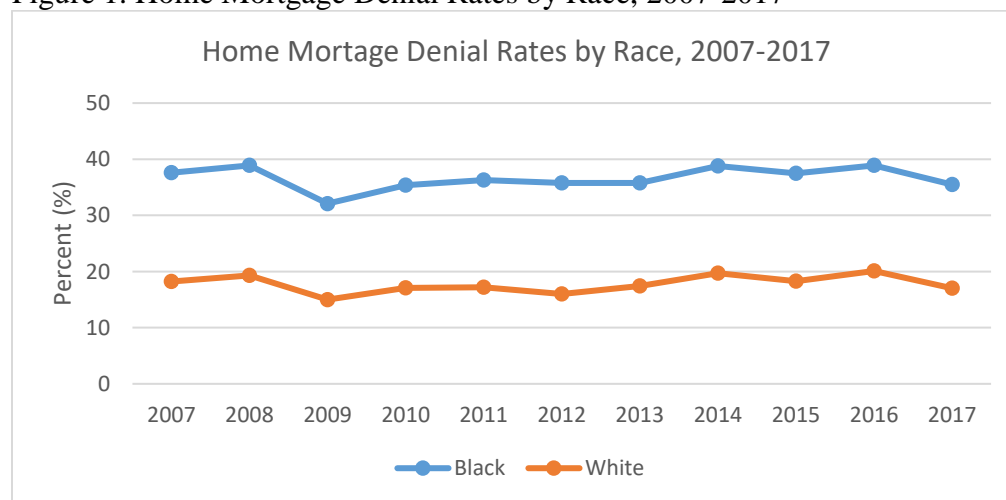


Figure 2. Home Mortgage Approval Rates by Race, 2007-2017

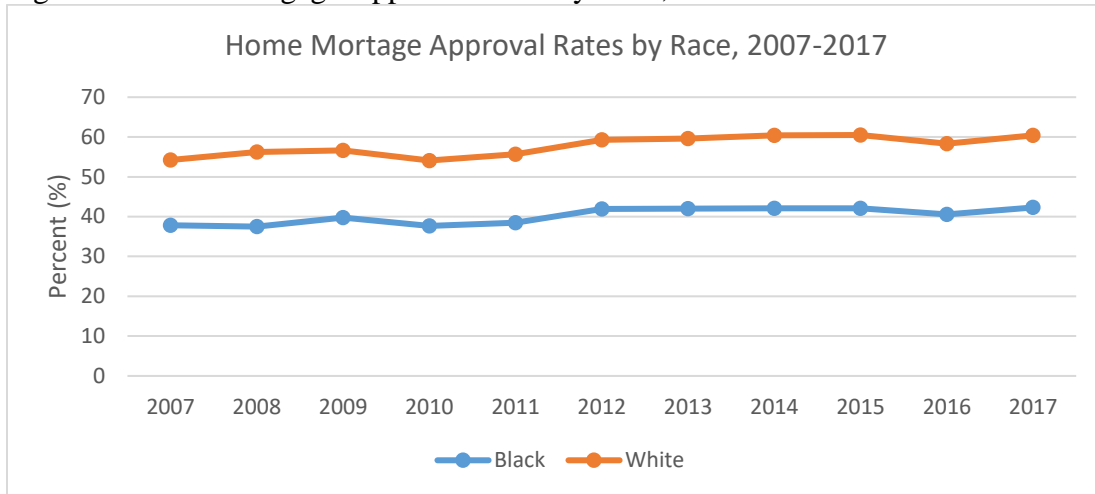


Figure 3. Home Mortgage Denial Rates by Income Level and Race, 2017

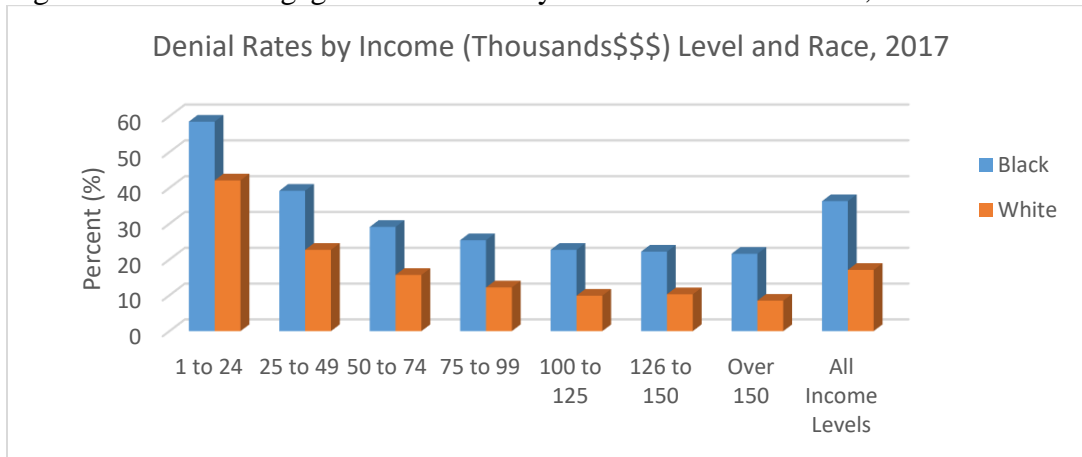


Figure 4. Reasons for Home Mortgage Denial by Race, 2017

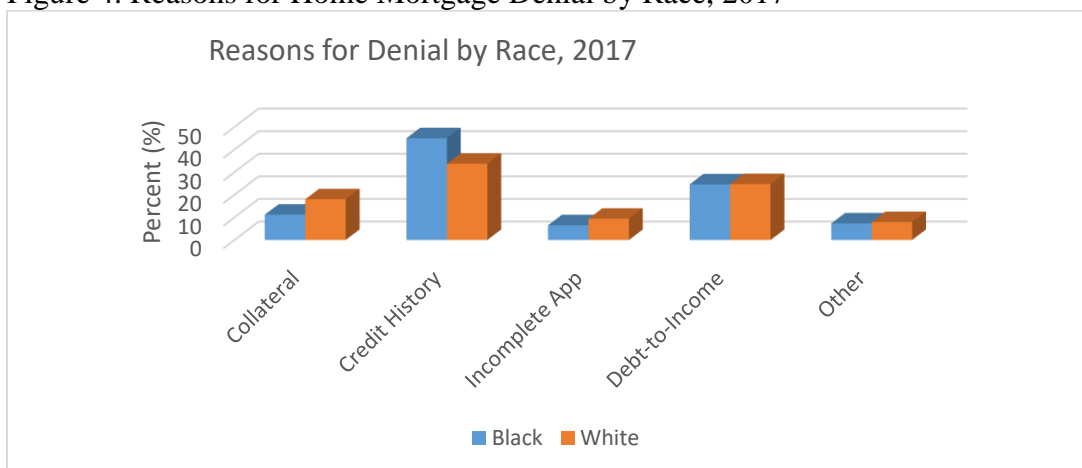
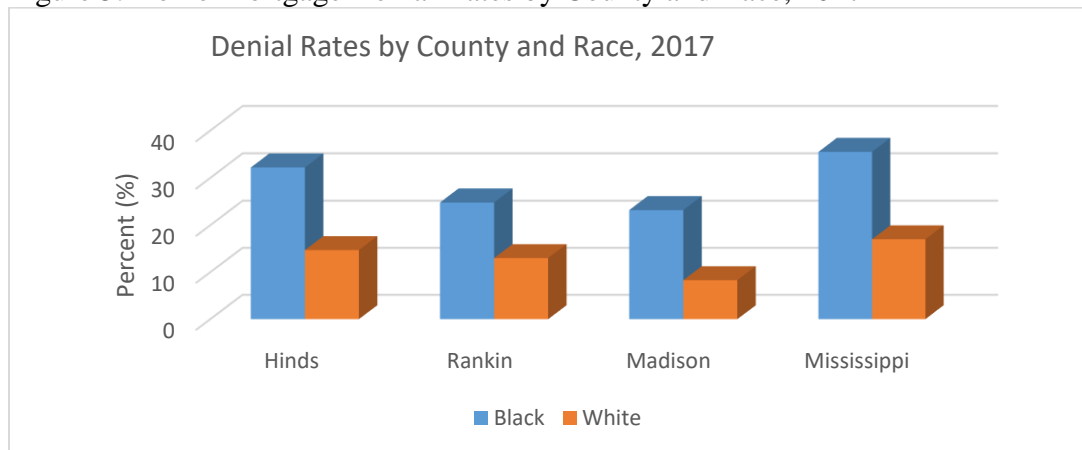


Figure 5. Home Mortgage Denial Rates by County and Race, 2017



Possible Explanations for Approval/Denial Differences

In reviewing research literature on this topic, reasons for denial varied across racial and ethnic groups, with the *Debt-to-Income ratio* (or DTI) being the most common reason for denying mortgage applicants in all racial and ethnic categories, and *credit history* being the second most common reason for denial among all groups except Asians (Dietrich, Liu, Parrish, Roell, & Skhirtladze, 2018). The following sections discuss the roles income, debt, and credit scores possibly play in explaining socio-economic differences in home mortgage approval/denial rates.

Income

Income is a leading factor in determining approval and denial rates. With all other factors being equal, higher income levels typically increase the chances of getting a home mortgage approved. As a possible explanation for racial differences in approval and denial rates, Blacks in Mississippi had a median household income of \$26,549 compared to a median household income of \$49,091 for Whites --- representing an income gap of \$22,542 (Kim & Smith, 2018). This disparity matches national trends in 2017 U.S. Census data listing national median household income for Blacks as \$49,258, and median income for Whites as \$68,145 --- (representing an income gap of \$18,887). A very large disparity in median net worth also exists nationally with White families having a median net worth of \$171,000 verses \$17,600 for Black families (Dettling, Hsu, Jacobs, et al., 2017).

Debt

While Blacks as a group typically have lower income levels than Whites, the differences in debt levels between the two groups are smaller. For example, a 2018 study of census data found White individuals carried an average of \$7,942 in credit card debt, and Black individuals carried an average of \$6,172 (Harrow, 2019). However, a higher percentage of minorities carry student loan debt in comparison to Whites. For example, according to the National Center for Education

Studies, 87% of Blacks take out student loans to attend four-year colleges (Safier, 2018). A 2016 study by the Brookings Institute found Black college graduates owed an average of \$7,400 more than White college graduates (Scott-Clayton & Li, 2016). Additionally, over the years following graduation, the debt gap between the two groups more than triples to \$25,000 due to differences in interest accrual, added borrowing for graduate school, penalties, and defaults (Scott-Clayton & Li, 2016). This phenomenon coincides with a 2016 study by the Economic Policy Institute which found that Blacks are paid less at every educational level; thus making it more difficult for Blacks to repay student loan debt and have funds available for home mortgage down payments (Wilson, 2016).

Credit History

Differences in credit scores play a major role in explaining approval and denial rates between Black and White home mortgage applicants. A report analyzing 2010 U.S. Federal Reserve data found the following --- 728 was the national credit score average; 677 was the average credit score for Black homebuyers; and 734 was the average credit score for White homebuyers (Harrow, 2019). In that same 2010 Federal Reserve report, only Blacks had an average credit score less than 700 (Harrow, 2019). Following the 2007/2008 economic recession, home payment delinquency and foreclosure rates increased significantly for Blacks, while the overall market shares of loans to minority borrowers with lower credit scores sharply decreased between 2007 and 2017 (Bhutta & Ringo, 2016) (Garriga, Ricketts, & Schlagenhauf, 2017).

Lower credit scores are more prominent in the Southern region of the U.S., with Mississippi being one of 12 states where at least 40% of the population has a subprime credit score below 600 (Harrow, 2019). Overall, Mississippi had the lowest average credit score in the U.S. at 647 (Sullivan, 2018). Other research has also identified credit scores varying according to geographic location. The Urban Institute created a database analyzing credit scores and the financial health of 60 major U.S. cities, including Jackson, Mississippi. That analysis found in 38 of the 60 cities, there existed an approximately 100 point difference in credit scores between predominantly White geographic areas and predominantly Non-White geographic areas (Ratcliffe & Brown, 2017). For Jackson, MS, the average median credit score for predominantly White areas is 648, compared to 557 for predominantly Non-White areas (Ratcliffe & Brown, 2017).

Conclusions

The findings presented in this report indicate there are major socio-economic differences in home mortgage approval and denial rates (especially when viewed through the lens of race). What is less apparent and more complex are the potential reasons contributing to those differences. Race is an issue appearing in many socioeconomic processes such as home mortgage applications. While it is not clearly evident that the differences in home mortgage approval and denial rates can be attributed solely to a person's race, Black applicants do appear more negatively impacted from differences in income levels, debt levels, and a credit scoring system omitting many credit factors favorable to lower income groups. Based upon preliminary research findings presented in this report, the next section lists several policy recommendations that may help improve mortgage approval rates for all races.

Policy Implications

To help identify potential policy actions designed to increase home mortgage approval rates overall, and for minority groups in particular, the following are several policy recommendations derived from this report's preliminary findings:

- Re-evaluate home mortgage loan approval criteria to take into account other financial factors such as utility bill payments, length of employment, passage of a borrower certification course, and savings account history. The previous factors are often not considered, but provide a good indication of a person's ability to meet their financial obligations.
- Establish and/or increase legal penalties for discrimination in lending practices. As of 2017, Mississippi remained the only state without such penalties in place (Policy Surveillance Program, 2017)
- Incentivize lenders to consider other sources of income (for example, having second jobs; receiving government benefits)
- Provide more funding for programs helping people prepare to qualify for home mortgages
- Require lenders to be more transparent regarding their lending guidelines and requirements
- Provide and/or increase subsidies to potential homebuyers as a way of helping meet loan downpayment requirements; and
- Pass legislation encouraging more affordable housing via removing restrictive zoning and land use ordinances; above market rate building and permit fees; and residency requirements.

In closing, implementing the above measures can help improve income levels, debt levels, and credit scoring ratings of all applicants; and thus help increase the number of Mississippians approved for home mortgages.

References/Works Cited

- Bhutta, N., & Ringo, D. (2016, September 29). *Credit Availability and the Decline in Mortgage Lending to Minorities after the Housing Boom*. Retrieved from Board of Governors of the Federal Reserve System: <https://www.federalreserve.gov/econresdata/notes/feds-notes/2016/credit-availability-and-the-decline-in-mortgage-lending-to-minorities-after-the-housing-boom-20160929.html#figure3>
- Dettling, L. J., Hsu, J. W., Jacobs, L., Moore, K. B., & Thompson, J. P. (2017, September 27). *Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances*. Retrieved from Board of Governors of the Federal Reserve System: <https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm>
- Dietrich, J., Liu, F., Parrish, L., Roell, D., & Skhirtladze, A. (2018, May). *Data Point: 2017 Mortgage Market Activity (A First Look at the 2017 HMDA Data)*. Retrieved from Bureau of Consumer Finance Protection: https://files.consumerfinance.gov/f/documents/bcfp_hmda_2017-mortgage-market-activity-trends_report.pdf
- Garriga, C., Ricketts, L. R., & Schlagenhauf, D. E. (2017, February 15). *The Homeownership Experience of Minorities During the Great Recession*. Retrieved from Federal Reserve Bank of St. Louis: <https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/the-homeownership-experience-of-minorities-during-the-great-recession.pdf>
- Harrow, R. (2019). *Average Credit Score in America: 2019 Report*. Retrieved from ValuePenguin by Lending Tree: <https://www.valuepenguin.com/average-credit-score#nogo>
- Kim, A., & Smith, B. (2018). *Examining Gaps in Economic Well-Being in Mississippi: Trends and High Priority Next Steps for Policymakers*. Retrieved from http://www.mississippi.edu/urc/downloads/180607/session_2_paper_1.pdf
- Policy Surveillance Program. (2017, August). *State Fair Housing Protections*. Retrieved from Policy Surveillance Program: <http://lawatlas.org/datasets/state-fair-housing-protections-1498143743>
- Ratcliffe, C., & Brown, S. (2017, November 20). *Credit scores perpetuate racial disparities, even in America's most prosperous cities*. Retrieved from Urban Institute: <https://www.urban.org/urban-wire/credit-scores-perpetuate-racial-disparities-even-americas-most-prosperous-cities>
- Safier, R. (2018, September 17). *Study: Student Loans Weigh the Heaviest on Black and Hispanic Students*. Retrieved from Student Loan Hero by Lending Tree: <https://studentloanhero.com/featured/study-student-loans-weigh-heaviest-black-hispanic/>
- Scott-Clayton, J., & Li, J. (2016, October 20). *Black-white disparity in student loan debt more than triples after graduation*. Retrieved from Evidence Speaks Reports, Vol 2, #3: https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf
- Sullivan, B. (2018, October 24). *State of Credit: 2017*. Retrieved from Experian: <https://www.experian.com/blogs/ask-experian/state-of-credit/>
- Wilson, V. (2016, October 4). *African Americans are paid less than whites at every education level*. Retrieved from Economic Policy Institute: <https://www.epi.org/publication/african-americans-are-paid-less-than-whites-at-every-education-level/>