

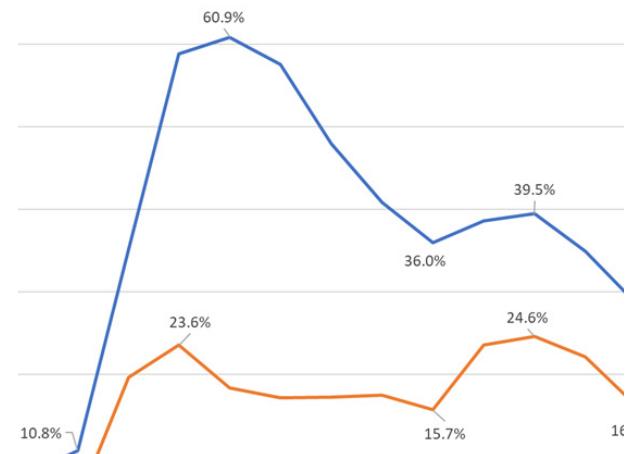
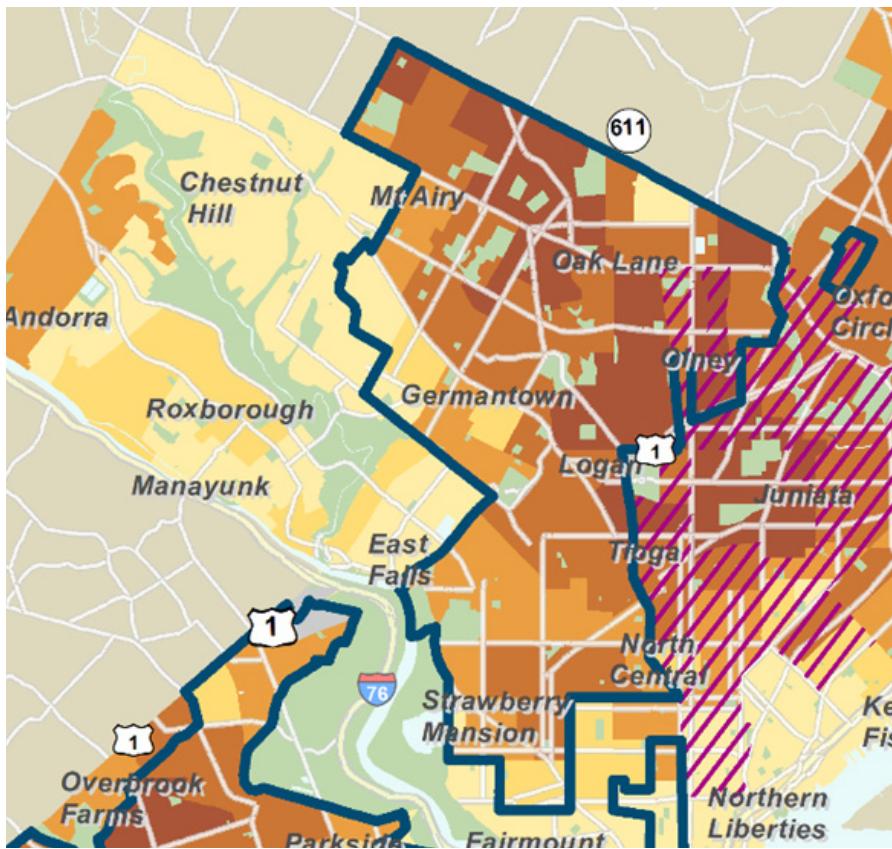


Mortgage Lending in Philadelphia

Key Take-Aways from the 2021 Home Mortgage Disclosure Act Data Release

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Introduction

Across the nation, 2021 was one the hottest housing markets since before the subprime mortgage collapse in 2008. With interest rates at historic lows and demand surging throughout the country along with restricted supply, housing prices rose rapidly in cities, suburbs, and small towns across the country. As is often the case, Philadelphia's experience was less extreme than other parts of the country, but the housing market continued its long climb back from the last housing market collapse over a decade ago.¹

Each year, lending institutions across the country report their mortgage lending activity under the Home Mortgage Disclosure Act (HMDA). Enacted by Congress in 1975 and amended several times since, HMDA data are a critical resource to understand how dollars flow into communities to support home purchasing, mortgage refinancing, or making home improvements. Regulators, researchers, housing advocates, and community development practitioners regularly use HMDA for various purposes, which include assessments of lenders' community reinvestment obligations, adherence to civil rights laws, and documenting ongoing racial and ethnic disparities in mortgage markets across the country.

The 2021 HMDA data provide an opportunity to look at the local mortgage lending environment – trends in loan volume, the kinds of loans being made, where loans are made, how successfully different groups can access credit, and how key features of originated mortgages vary across different racial groups in Philadelphia.² These data also provide a lens into how the local housing market responded to the ongoing effects of the COVID-19 pandemic, highlighting the durability of the overall mortgage market in Philadelphia, as well as ongoing racial disparities in terms of access to mortgage credit, the types of mortgages borrowers obtain, and key characteristics of the loans they receive. Coming on the heels of a report recently completed by Reinvestment Fund for the Pennsylvania Housing Finance Agency³ and from the City of Philadelphia's Home Appraisal Bias Task Force,^{4,5} the findings presented in this brief provide yet another reminder of persistent patterns of inequitable access to mortgage credit for Black and Brown borrowers and communities across the city.

Since the start of 2022, mortgage interest rates have climbed to levels not seen in over a decade as the Federal Reserve attempts to reduce record levels of inflation across the broader economy.⁶ There are reports that the red-hot housing markets of 2021 were already behind us by the mid-way point of 2022.⁷ The data presented in this brief describe the period ending with lending activity in December of 2021. That is important context for this brief. Freddie Mac estimates that the average 30-year fixed-rate mortgage in 2021 was 2.96%; in December of 2021, the rate was up to 3.1%. By September of 2022, the average 30-year fixed-rate mortgage exceeded 6% for the first time since 2008.⁸

We caution that a rise such as this will impact housing affordability for all except those who are at the higher ends of the income spectrum; and it will impact how much house people can afford. Interest rate rises such as this will also impact other aspects of the market, such as refinance activity. Further, the

¹ https://drexel.edu/~media/Files/lindyinstitute/HousingReports/2021_PhiladelphiaHousingReport/PHPI_1980_2021_Q4.ashx?la=en

² For a comprehensive national review of the 2021 HMDA data release, see: <https://ffiec.cfpb.gov/data-publication/>

³ <https://www.reinvestment.com/wp-content/uploads/2022/05/ReinvestmentFund-PHFA-Barriers-to-homeownership-.pdf>

⁴ <https://www.reinvestment.com/insights/philadelphia-home-appraisal-bias-task-force-report-and-recommendations/>

⁵ <https://www.inquirer.com/real-estate/housing/home-appraisal-discrimination-black-white-philadelphia-20220727.html>

⁶ <https://fred.stlouisfed.org/series/MORTGAGE30US>

⁷ <https://www.washingtonpost.com/business/2022/07/09/housing-market-slowdown-mortgage-rates/>;

<https://www.npr.org/2022/07/20/1112579577/the-overheated-u-s-housing-market-is-starting-to-cool-down>;

<https://www.bloomberg.com/opinion/articles/2022-06-19/housing-market-cools-off-but-it-s-a-tough-road-ahead>

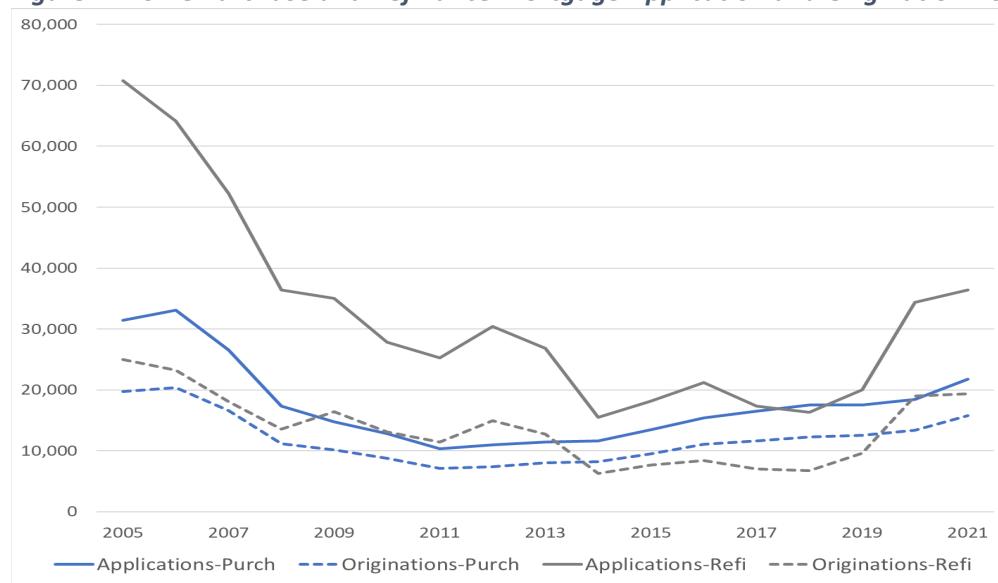
⁸ <https://www.freddiemac.com/pmms30>

racial and ethnic income disparities observed among Philadelphia households puts Black and Brown families at a unique and elevated disadvantage when rates rise. The current economic climate of high inflation, rising interest rates, and increasing competition from investors at lower price points in the housing market will likely exacerbate many of the disparities observed in this brief between White, Black and Brown borrowers.

Home Purchases Continued Steady Increase as Refinancing Remained Elevated

Figure 1 displays mortgage applications and originations by purpose (i.e., a “purchase” loan to buy a home, or a “refinance” of an existing mortgage(s)). Solid lines represent all applications for home purchase and refinance mortgages, and dashed lines represent originations.

Figure 1: Home Purchase and Refinance Mortgage Application and Origination Volume, 2005-2021



Home purchase mortgages in Philadelphia hit their lowest point around 7,000 originations in 2011; the refinance bottom did not come until 2014 with only about 6,000 originated mortgage refinances. In 2021, home purchase mortgages continued a strong rebound with more than 15,700 home purchase mortgage originations, an increase of 17.9% from 2020. Refinancing activity is generally driven by changes in the interest rate environment and with interest rates at historic lows throughout 2021, refinance activity remained elevated at levels not seen since 2007 (see Figure 2).⁹

⁹ Nationally, the Refinance Index, as reported by Mortgage News Daily, stood at 562.5 on 8/29/2022. On 1/3/2022, the index was 2351.3 and 1/4/2021 it was 3917.6. Thus, while refinances in Philadelphia are reported to be elevated in 2021, there is every expectation that refinance volume will be significantly lower in 2022. See: <https://www.mortgagenewsdaily.com/data/mortgage-applications#chart-apps-purchase-vs-refinance>.

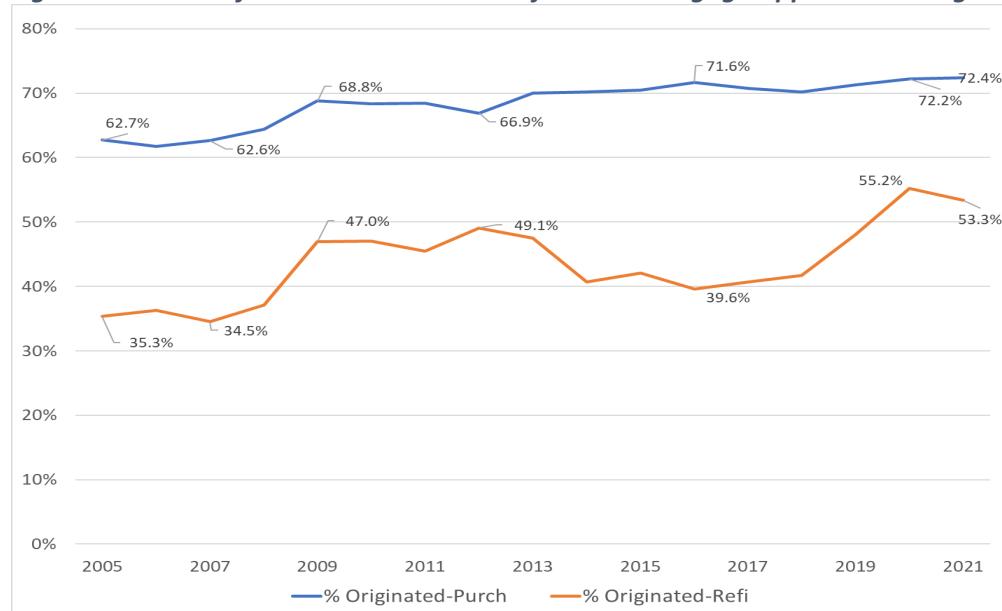
Figure 2. Annual Average 30 Year Fixed Rate Mortgage Interest Rates, 2005 - 2021



Source: Freddie Mac; http://www.freddiemac.com/pmms/pmms_archives.html

Mortgage origination rates (i.e., the percentage of applications that conclude with a loan being originated) held steady for home purchase loans, while declining slightly for refinance applications. Figure 3 presents the origination rate for home purchase and refinance mortgages in Philadelphia from 2005 to 2021.

Figure 3: Percent of Home Purchase and Refinance Mortgage Applications Originated, 2005-2021

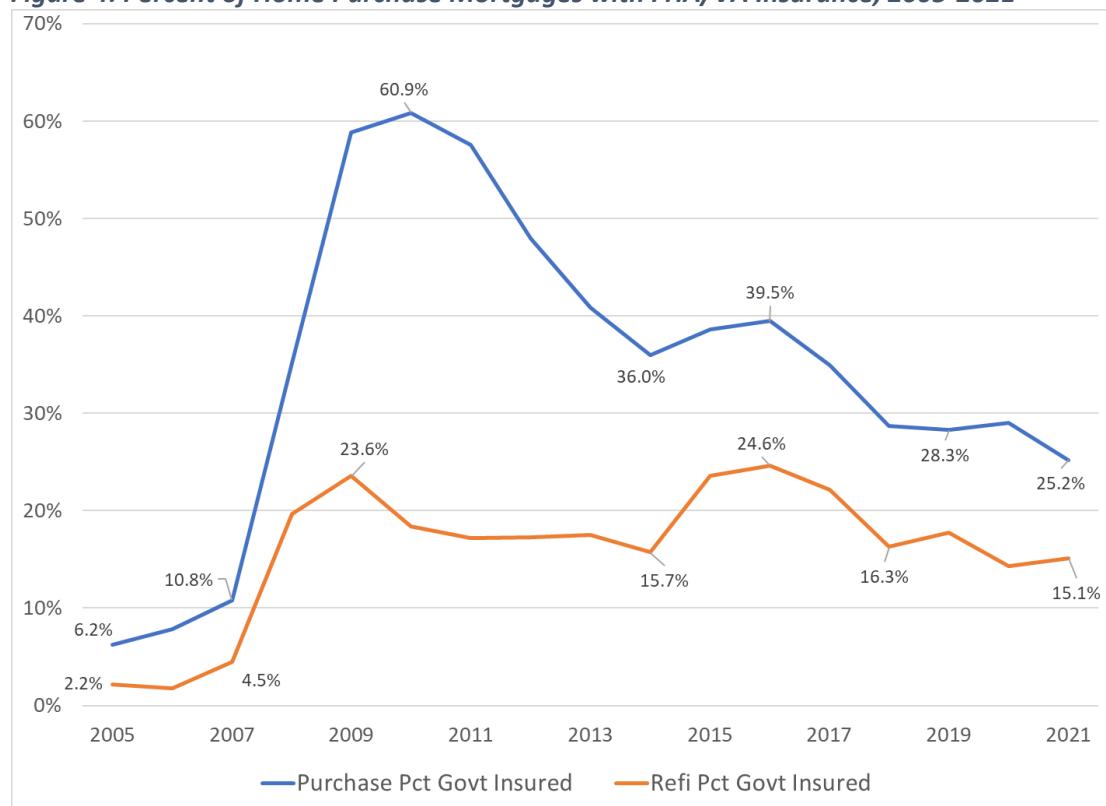


The origination rate for home purchase mortgages in Philadelphia has steadily increased over the past 15 years. In 2021, 72.4% of Philadelphia applicants obtained a mortgage loan to purchase their home, representing steady improvements in the long run origination rate for owner-occupied, single-family home purchases. About 8% of home purchase applications were denied, and 17% of applicants withdrew their applications (or failed to complete those applications) before a decision was rendered by the lending institution. The origination rate for refinance applicants remains much lower than the rate for home purchase loans and declined slightly from 55.2% in 2020 to 53.3% in 2021.

FHA/VA Market Share Resumes Long Run Decline

A primary shift in the mortgage market after the last recession¹⁰ was the resurgence of Federal Housing Administration (FHA) mortgage products. Following the collapse of the mortgage market in 2008, FHA insured mortgages rapidly expanded into communities as conventional (prime and subprime) products steeply declined. Figure 4 shows the percentage of all home purchase loans originated that were insured by FHA or VA (US Department of Veterans Affairs) in Philadelphia from 2005 to 2021.

Figure 4: Percent of Home Purchase Mortgages with FHA/VA Insurance, 2005-2021



In the aftermath of the market collapse in 2008, FHA/VA products transitioned from a rather small niche to a dominant source of capital in the home purchase mortgage market. As the supply of subprime loans from the mid-1990s to mid-2000s dried up, the FHA/VA product stepped in and became the primary option for people still looking to buy homes (or refinance existing mortgages). FHA/VA's more lenient credit standards (which helped home buyers) and insurance (which helped lenders) made it the perfect product to step in and keep the *lifeblood* of communities flowing.¹¹

¹⁰ The National Bureau of Economic Research (NBER) defines that recession as beginning in December of 2007 (trough) and ending in June of 2009 (peak).

¹¹ Capital has historically been seen as the "lifeblood" of communities; without it, the community cannot thrive. As Calvin Bradford wrote back in 1979: "While community groups and financial institutions disagree on whether redlining is the primary cause of disinvestment and decline, all those who have studied the existing literature and recent research seem to agree that **mortgage and home improvement loans are the "lifeblood of housing" and that the withdrawal of such funds makes decline in the housing market all but inevitable.**" [emphasis added]

At one point, in 2010, FHA/VA comprised more than 60% of the city of Philadelphia's home purchase mortgage market. From 2018 to 2020 FHA/VA market share of home purchase mortgages stabilized around 29%. However, in 2021 FHA/VA market share dipped again, resuming a decade long decline down to about 1-in-4 home purchase loans in Philadelphia. Despite this ongoing decline of FHA/VA market share, FHA lending remains a substantial and important source of mortgage credit in Philadelphia.

As important as FHA/VA products are because of the relaxed borrower credit standards (e.g., credit score, required amount of savings) and the security it offers to lenders, those benefits come at a cost. FHA/VA loans include various fees that may make borrowing somewhat more expensive for borrowers. Consequently, it is important to understand to whom and where these mortgages are made in the city of Philadelphia and whether the additional flexibility, cost, and security of the FHA/VA is necessary.¹² Figure 5 displays the market share of FHA/VA mortgages by the median household income of Philadelphia census tracts (compared to the area MSA median) from 2005 to 2021.

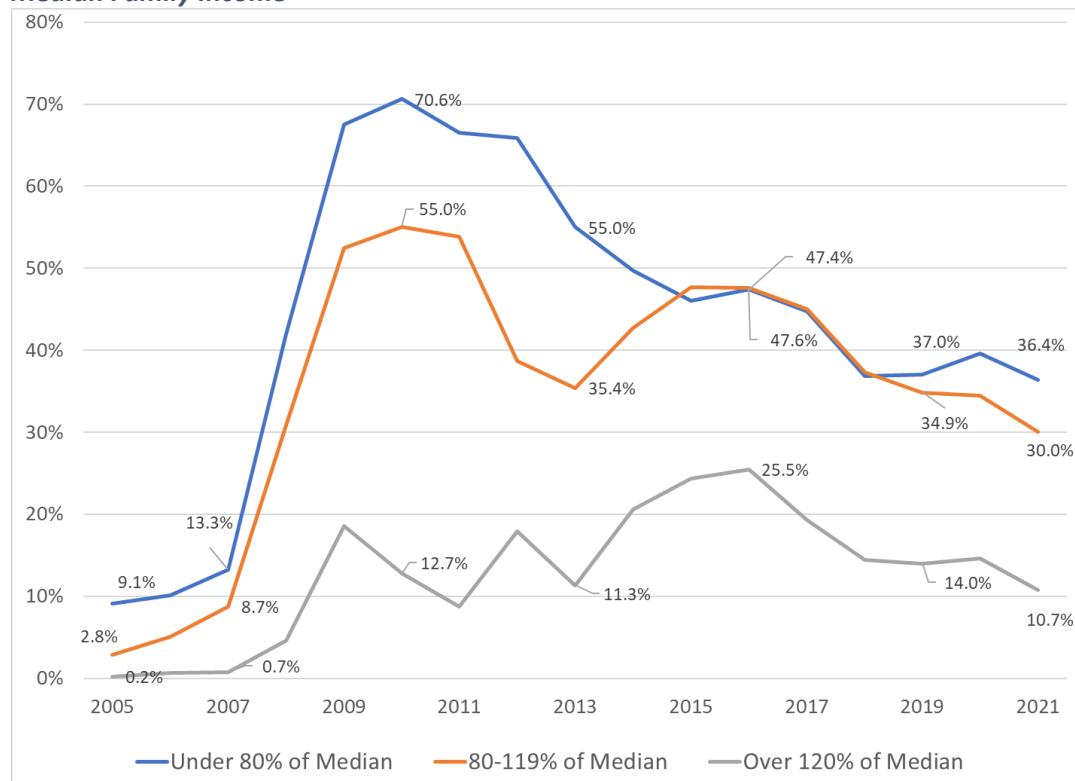
Table 1 presents 2021 FHA and VA market share for originated home purchase and refinance loans in Philadelphia and a set of reference cities to highlight some of the diversity in the market share of these products across the nation. Note that Philadelphia is well above the national average for both purchase and refinance loans, but well below on VA.

Table 1. FHA & VA Market Share for Home Purchase and Refinance Mortgages, 2021

	% FHA - Home Purchase	% FHA - Refinance	% VA - Home Purchase	% VA - Refinance
Philadelphia	22.7%	10.9%	2.5%	4.2%
Atlanta	9.7%	4.7%	3.3%	3.6%
Baltimore	30.1%	16.2%	6.7%	7.9%
Chicago	16.4%	6.9%	2.1%	2.4%
Dallas	11.2%	5.4%	2.3%	2.9%
Jacksonville	22.0%	10.0%	19.3%	21.5%
Kansas City	16.3%	8.0%	6.6%	8.5%
National	12.3%	5.3%	9.7%	10.2%

¹² FHA up front insurance premium and annual mortgage insurance premiums currently stand at 175 and 85 basis points, respectively. For a history of these fee levels, see: https://www.urban.org/sites/default/files/2022-07/Housing_Finance_%20At_A_Glance_Monthly_Chartbook_July_2022.pdf

Figure 5: Percent of Home Purchase Mortgages with FHA/VA Insurance, 2005-2021 by Census Tract Median Family Income



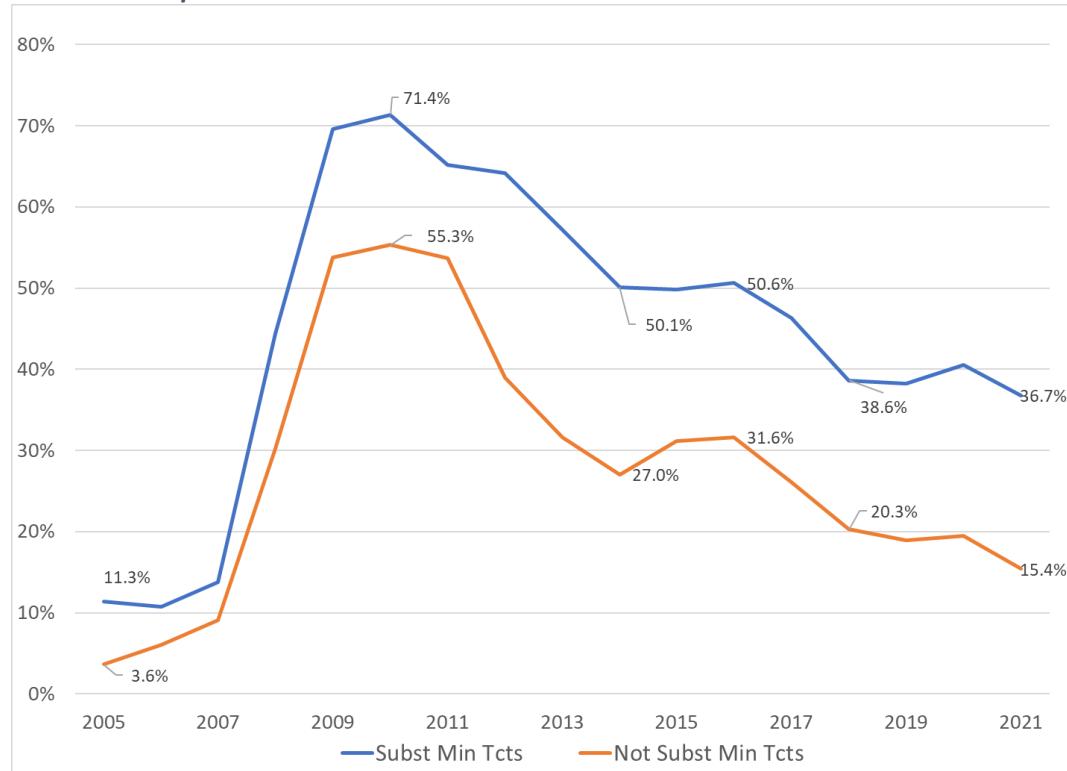
Before the recession, FHA/VA lending was almost absent from middle and higher-income markets and comprised less than 10% of lending in the lower-income areas of Philadelphia. By 2010, FHA/VA mortgages became the dominant loan products in lower-income areas, comprising, on average, 7-of-10 originated home purchase mortgages; in middle-income markets, FHA/VA was more than half. While FHA/VA market share has moderated, two observations stand out in 2021:

- (1) FHA/VA market share resumed its long-run decline across all income levels in 2021, but still comprised 30-36% of the market for home purchase mortgages in lower and middle-income areas; and
- (2) The FHA sector of the home purchase market in Philadelphia remains substantially greater than the national market share (23% v. 12%), highlighting how important access to government insured mortgages remains for so many middle and lower-income Philadelphia households.

Figure 6 presents FHA/VA market share by the racial/ethnic composition in Philadelphia census tracts from 2005 to 2021. The blue line represents Philadelphia census tracts with more than 50% non-White residents; the orange line represents Philadelphia census tracts with less than 50% non-White residents.¹³

¹³ The public HMDA database includes a “derived” data field that is the “tract minority population percentage”. Reinvestment Fund recodes that field into two categories where under 50% is “not substantially minority” and over 50% is “substantially minority”. The HMDA data classify ‘minority’ residents as those who are not identified as ‘White’ for the racial classification, as well as those who are identified as ‘White’ but who are also identified as having Hispanic, Mexican, Puerto Rican, or Cuban ethnicity. Throughout the remainder of this brief – ‘non-White’ will include these populations.

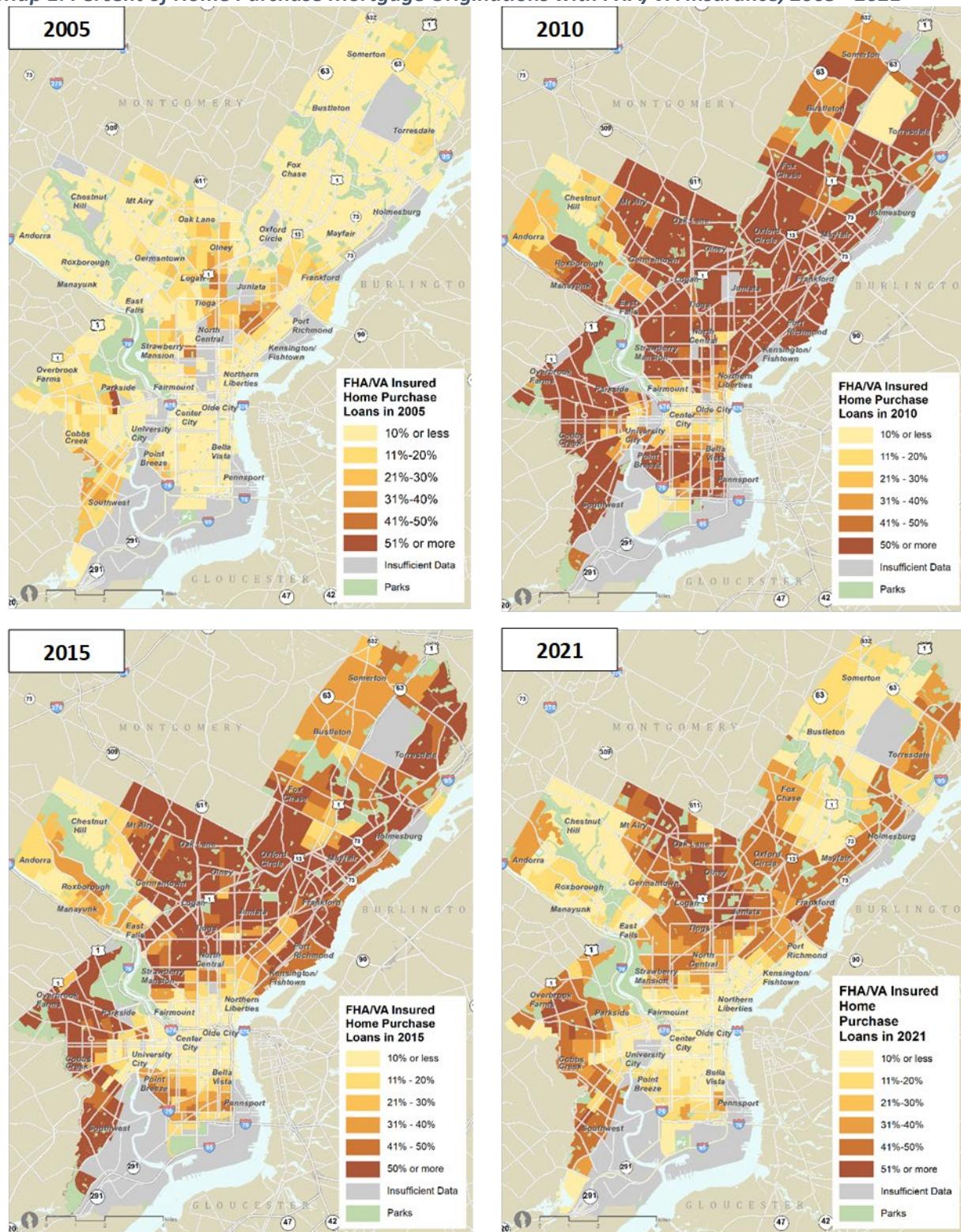
Figure 6: Percent of Home Purchase Mortgages with FHA/VA Insurance, 2005-2021 by Census Tract Non-White Population



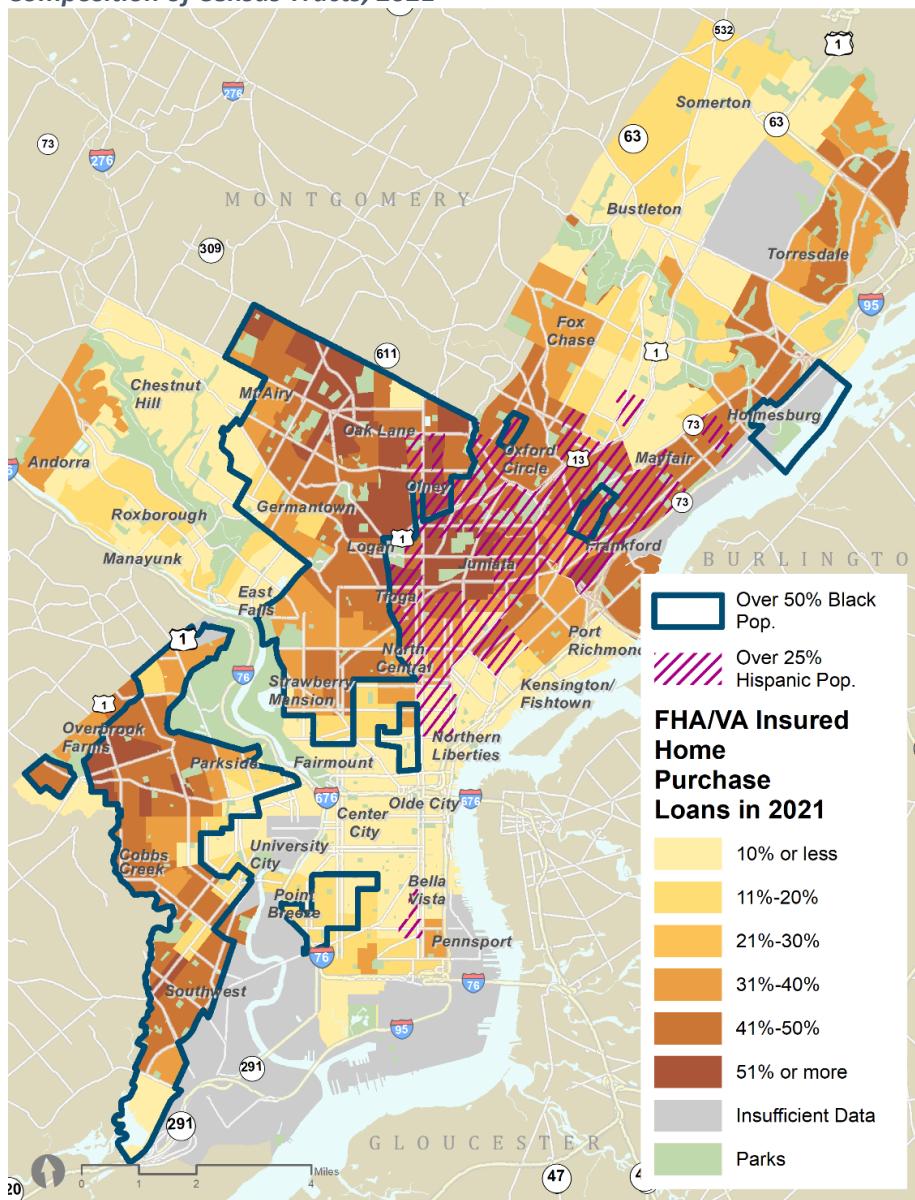
Before the last recession, FHA/VA comprised less than 5% of the lending in majority White tracts and 11% of lending in those areas that were majority non-White. These rates rose to 71.4% in the majority non-White areas and 55% in the majority White areas by 2010. Although those rates have now dropped, FHA/VA products remain more than 36% of the market in Philadelphia's majority non-White communities and account for 15% of loans originated in majority White areas. Map 1 displays where in Philadelphia the use of government insured mortgages for home purchases was most prevalent from 2005 to 2021.

In 2005, government insured mortgages to purchase homes were used sparingly, with the exception of a few pockets in West and North Philadelphia. After rapid expansion of FHA lending in 2010, FHA lending has begun to decline in much of the city over the past ten years. As displayed in Map 1, in 2021, government insured mortgages were not a substantial part of the home purchase market in Philadelphia's Center City core and adjacent areas, nor in many outlying Northeast and Northwest neighborhoods. On the other hand, the use of government insured mortgages remained elevated in much of North, West, and Southwest Philadelphia over a decade after the last housing market collapse. Many of the areas with persistently high FHA market share are also areas with the greatest concentrations of Black and Hispanic residents (see Map 2).

Map 1: Percent of Home Purchase Mortgage Originations with FHA/VA Insurance, 2005 - 2021



Map 2: Percent of Home Purchase Mortgage Originations with FHA/VA Insurance and Racial/Ethnic Composition of Census Tracts, 2021¹⁴



While Philadelphia's Black and Hispanic neighborhoods are typically home to much higher rates of government insured mortgage utilization than areas that are home to mostly White residents, there are exceptions to this pattern. Several areas identified as Black or Hispanic that have *low* rates of government insured mortgages (e.g., the area labeled Point Breeze in South Philadelphia) are experiencing rapid change in racial composition owing to a demonstrable process of gentrification. The same is true for the areas north of Northern Liberties and north of Fairmount.¹⁵

¹⁴ Tract level race and ethnicity estimates were drawn from 2016-20 American Community Survey.

¹⁵ <https://www.reinvestment.com/insights/evictions-in-philadelphia-race-and-place-matters/>

Denial Rates Remain Unevenly Distributed Across Borrower Race/Ethnicity, Income Levels, and Credit Worthiness

Table 2 presents denial rates for conventional, and government insured home purchase loan applications in Philadelphia from 2017 to 2021, across different racial and income groups.

Table 2: Denial Rates for Home Purchase Mortgages, 2017-2021

Home Purchase Loans	Total	Race			Ethnicity	Income		
		White	Black	Asian		Low/Mod (0 - \$50K)	Middle (\$50 - \$75K)	Upper (\$75K +)
2021 Denial Rate								
Conventional	6.2%	4.4%	12.5%	8.5%	10.0%	13.7%	5.8%	4.2%
Govt Insured	7.3%	6.8%	10.3%	17.8%	9.8%	12.6%	6.8%	7.0%
2020 Denial Rate								
Conventional	8.2%	4.9%	14.3%	9.1%	8.8%	14.0%	6.6%	5.4%
Govt Insured	10.1%	6.9%	11.9%	12.4%	8.6%	12.3%	8.2%	8.4%
2019 Denial Rate								
Conventional	10.2%	5.5%	17.9%	11.5%	12.2%	16.6%	8.4%	6.1%
Govt Insured	11.5%	8.9%	12.6%	7.3%	11.3%	14.7%	8.7%	8.0%
2018 Denial Rate								
Conventional	9.6%	6.4%	18.3%	11.8%	16.4%	18.0%	8.8%	6.2%
Govt Insured	12.6%	8.7%	15.1%	10.4%	14.0%	15.3%	10.7%	9.9%
2017 Denial Rate								
Conventional	9.1%	6.8%	19.8%	7.6%	13.8%	15.5%	8.8%	7.2%
Govt Insured	13.0%	9.0%	16.1%	15.0%	11.3%	15.6%	10.1%	10.2%

As shown in Table 2, in 2021 the overall denial rate for conventional home purchase mortgages stood at 6.2%, representing a five-year decline from 2017. Philadelphia's FHA/VA denial rate of 7.3% also represents a steady decline over the last five years.

Denial rates vary substantially by applicants' race, ethnicity and income. Overall, the five-year trend in declining denial rates continued in 2021 with the notable exception of Hispanic borrowers. Denial rates for Hispanic borrowers *increased* in 2021, reversing a downward trend over the past four years. In addition, denial rates for both conventional and FHA/VA mortgages remained substantially higher for Black and Hispanic applicants compared to White applicants. However, conventional denial rates for Black borrowers in Philadelphia compared favorably to national denial rates for Black borrowers (12.5% v. 15.7%), though they were slightly higher for Hispanic borrowers in Philadelphia (10.0% v. 9.8%).¹⁶ The data also suggest that low/moderate-income and middle-income applicants continue to have substantially higher denial rates than upper-income applicants, a pattern within both conventional and FHA/VA mortgages.

Table 3 presents denial rates for different racial and ethnic groups, controlling for borrowers' reported income on their mortgage applications. White denial rates, compared to those of Black, Asian and Hispanic applicants, are substantially lower regardless of income. Moreover, it is important to note that even when incomes are higher for Black applicants than for White applicants, the Black denial rate remains higher. For example, **Black applicants with incomes over \$57,000** in 2021 were denied more frequently than **White applicants with incomes under \$57,000** for conventional mortgages (9.3% v. 7.7%). While these differences have diminished over time, they persist.

¹⁶ <https://www.consumerfinance.gov/data-research/hmda/summary-of-2021-data-on-mortgage-lending/>

Table 3: Denial Rates for Home Purchase Mortgages by Applicant Household Income, 2017-2021

Home Purchase Loans	Total		White		Black		Asian		Hispanic	
	Below \$57K	Above \$57K								
2021 Denial Rate										
Conventional	11.6%	4.6%	7.7%	3.5%	16.0%	9.3%	14.0%	5.2%	10.9%	8.6%
Govt Insured	11.1%	7.2%	8.8%	4.9%	12.0%	7.7%	20.5%	15.6%	11.2%	6.0%
2020 Denial Rate										
Conventional	12.7%	5.0%	8.4%	3.8%	17.8%	11.0%	16.1%	5.1%	9.5%	7.0%
Govt Insured	11.3%	8.3%	10.0%	5.4%	12.6%	10.9%	10.8%	14.6%	8.6%	7.9%
2019 Denial Rate										
Conventional	15.2%	6.3%	9.1%	4.1%	20.9%	13.7%	17.5%	9.2%	15.1%	6.6%
Govt Insured	13.8%	8.0%	11.9%	6.4%	14.8%	8.2%	9.3%	5.3%	11.6%	10.1%
2018 Denial Rate										
Conventional	15.8%	6.5%	9.0%	4.8%	20.6%	12.8%	16.1%	9.3%	18.2%	10.2%
Govt Insured	14.6%	9.8%	9.1%	4.9%	15.6%	13.8%	10.0%	14.9%	14.9%	10.3%
2017 Denial Rate										
Conventional	14.3%	6.8%	9.7%	4.9%	24.2%	13.5%	9.1%	7.8%	16.7%	9.6%
Govt Insured	14.8%	9.9%	9.3%	7.1%	17.5%	12.4%	16.4%	13.5%	12.0%	7.1%

* \$57,000 is roughly the median household income in Philadelphia in 2021.

The patterns observed in Table 3 persist among borrowers who would be considered ‘well qualified’ using standard underwriting guidelines.¹⁷ Table 4 presents 2021 denial rates for borrowers applying for conventional loans with debt-to-income ratios below 44% and whose loans have a combined loan-to-value ratio below 90% (i.e., “Well Qualified”), as well as borrowers who did not meet these thresholds (i.e., “Less Well Qualified”); again controlling for borrowers’ reported income.

Table 4: Denial Rates for Home Purchase Mortgages by Applicant Qualifications

Conventional Home Purchase Loans	Total		White		Black		Other Race	
	Below \$57K	Above \$57K						
2021 Denial Rate								
Well Qualified	7.7%	4.2%	5.8%	3.3%	20.0%	13.0%	6.7%	4.7%
Less Well Qualified	17.6%	7.9%	11.2%	5.9%	21.0%	11.8%	22.7%	9.7%

* 'Well Qualified' Applicants have Loan to Values below 90% and Combined Debt to Income Ratios below 44%

As expected, the denial rates of not well qualified applicants are much higher than those of well qualified applicants; this remains true for all racial/ethnic groupings and income levels with one exception: **Among Black borrowers with incomes above \$57,000, well qualified borrowers had a higher denial rate than less well qualified borrowers, and the denial rate for Black borrowers with incomes below \$57,000 were roughly the same whether well qualified or less well qualified.**

¹⁷ A more complete analysis of borrower qualifications would include credit scores. Borrowers’ credit scores are submitted by lenders, but these data are not publicly available in the HMDA data. The public HMDA data file includes the type of credit score the lender used to qualify their borrowers (e.g., Equifax, FICO, etc.) – but that information alone is not useful in assessing borrowers’ credit worthiness.

Table 5 presents denial rates for well qualified and not well qualified White, Black and Hispanic borrowers, *not controlling for income*, in Philadelphia and other national markets. Generally, less well qualified applicants fare less well. And with the exception of Jacksonville, FL, a lower percentage of well qualified Black applicants is approved than less well qualified White applicants.

Table 5. Denial Rates for Home Purchase Mortgages by Applicant Qualifications in Select Markets

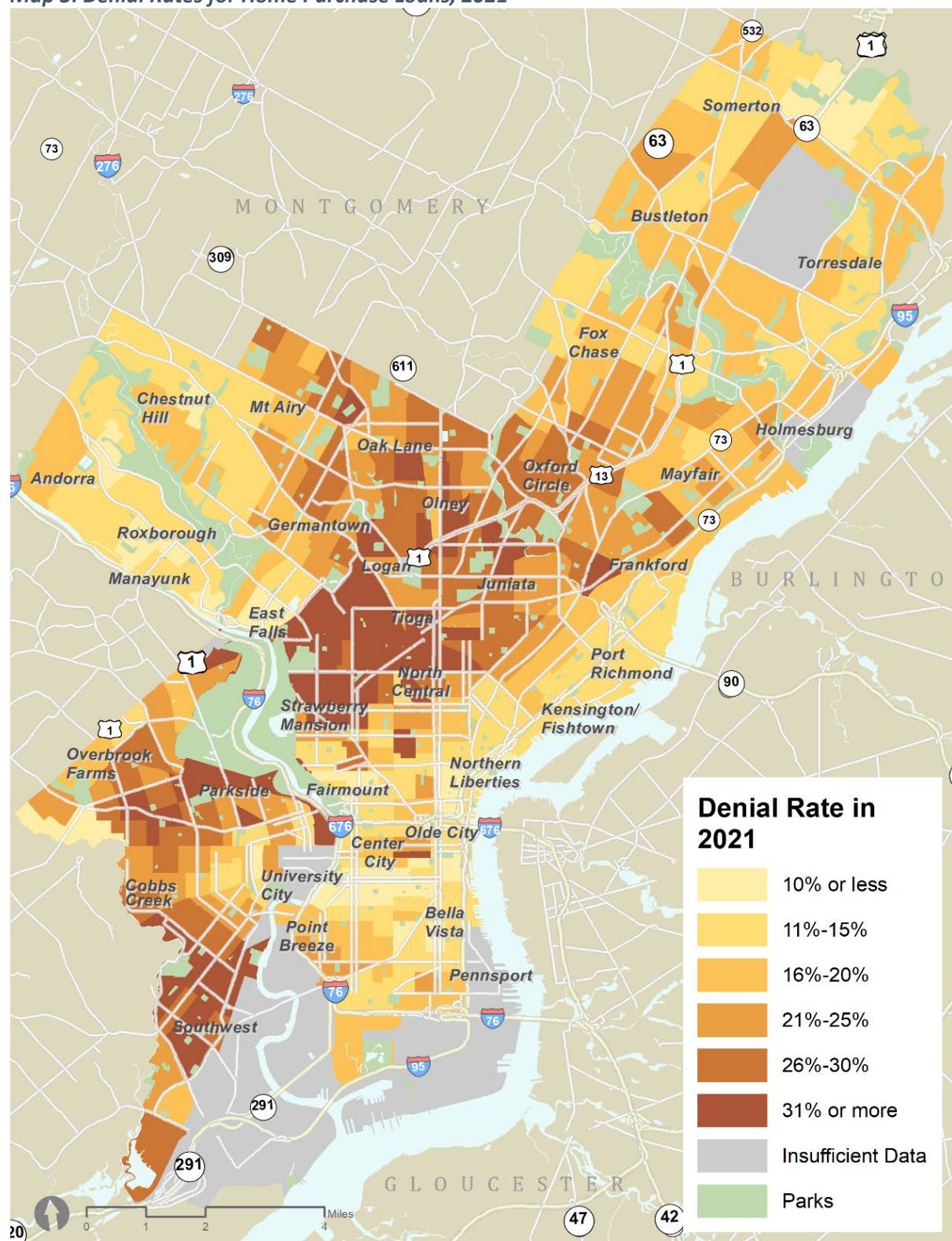
	White		Black		Hispanic	
	Well Qualified	Less Well Qualified	Well Qualified	Less Well Qualified	Well Qualified	Less Well Qualified
Philadelphia	3.6%	7.4%	15.5%	16.5%	12.0%	12.5%
Atlanta	3.0%	7.6%	9.9%	16.6%	6.9%	9.5%
Baltimore	2.9%	6.3%	12.2%	15.5%	8.5%	12.3%
Chicago	3.4%	7.9%	13.1%	18.5%	8.5%	12.6%
Dallas	3.4%	13.6%	15.9%	22.8%	8.0%	25.1%
Jacksonville	5.2%	17.2%	14.4%	28.1%	9.6%	24.4%
Kansas City	2.2%	7.0%	3.6%	12.6%	2.4%	13.2%

* 'Well Qualified' Applicants have Loan to Values below 90% and Combined Debt to Income Ratios below 44%

Perhaps more striking is the comparison of borrowers of different races by their financial qualifications. A substantially greater share of **well qualified** Black borrowers were denied (20.0% for borrowers with incomes under \$57 thousand and 13.0% for borrowers with higher incomes) than White borrowers who were **less well qualified** (11.2% for borrowers with income under \$57 thousand and 5.9% for borrowers with higher incomes). Regardless of the level of qualification or income level, Black applicants were more often denied than White applicants.

The unevenness of denial rates among different populations also carries implications for Philadelphia neighborhoods that are home to large shares of non-White and lower-income residents. Maps 3 and 4 present the spatial variation in denial rates across Philadelphia in 2021 (see below). The most elevated denial rates in the city are concentrated in North Philadelphia – including several census tracts in Eastern North Philadelphia that are home to the city's greatest concentrations of Hispanic residents, along with much of West and Southwest Philadelphia. These are communities in Philadelphia that are home to majority Black populations or sizable Hispanic populations; and many of these areas are home to households with modest incomes.

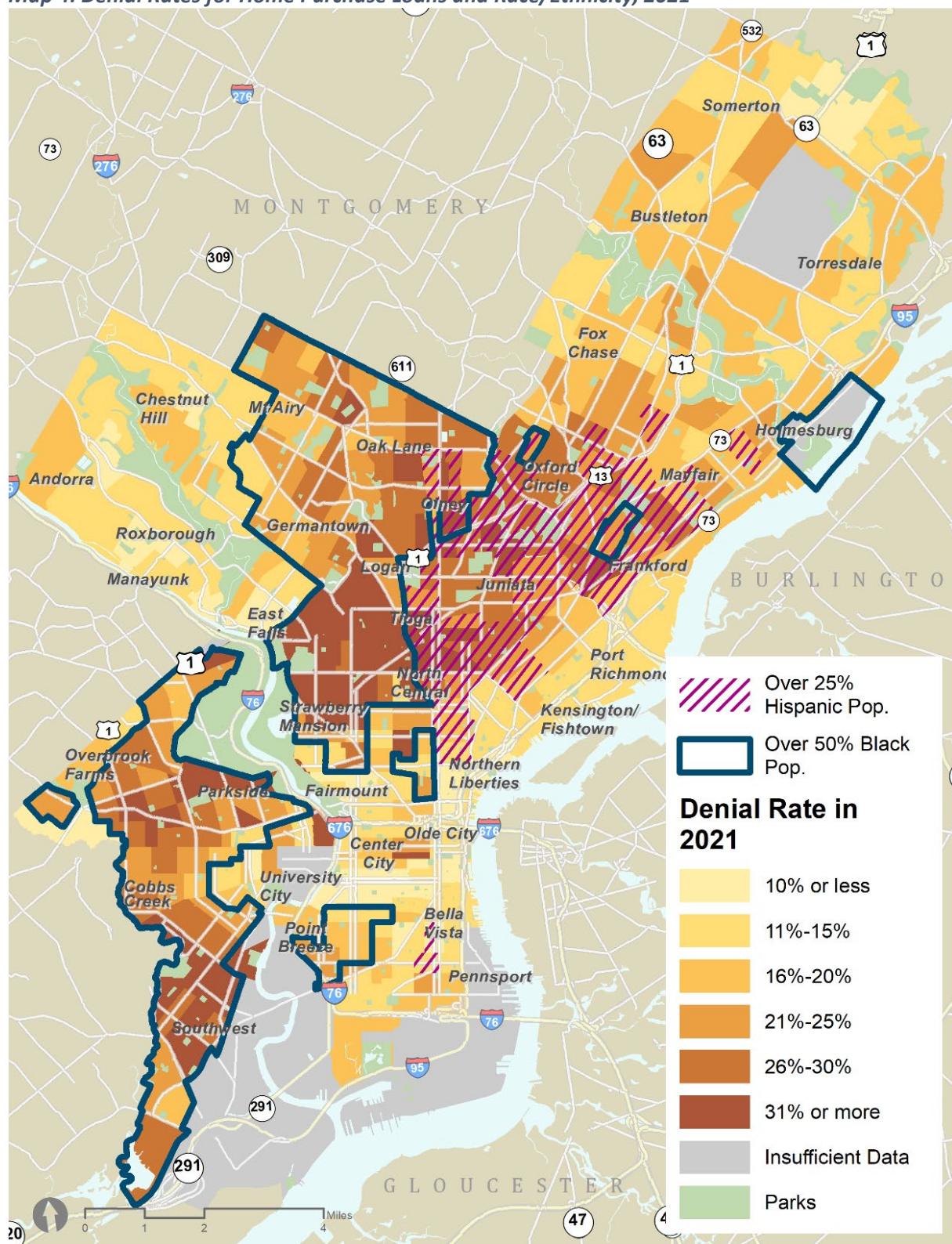
Map 3: Denial Rates for Home Purchase Loans, 2021



Denial Rate in 2021

- 10% or less
- 11%-15%
- 16%-20%
- 21%-25%
- 26%-30%
- 31% or more
- Insufficient Data
- Parks

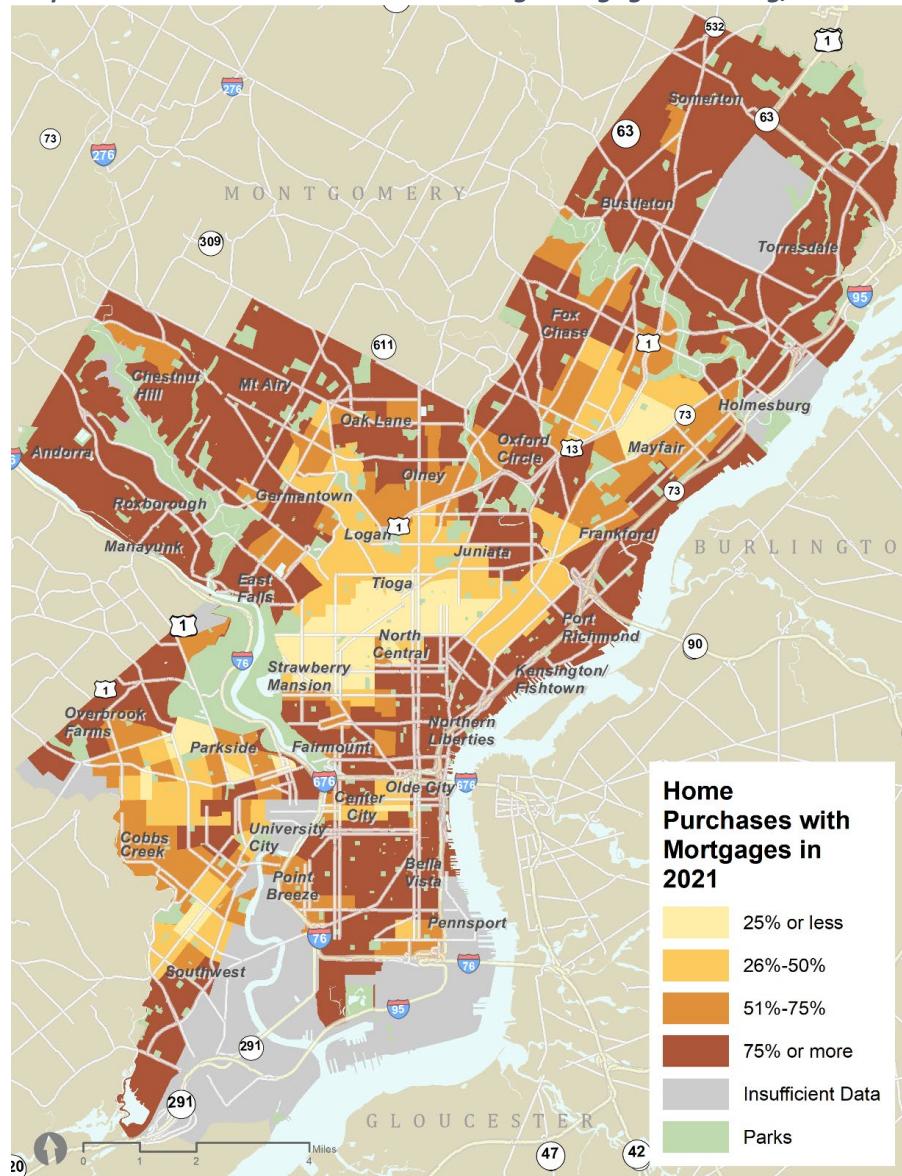
Map 4: Denial Rates for Home Purchase Loans and Race/Ethnicity, 2021



Investors Are Active Buyers in Philadelphia Communities of Color

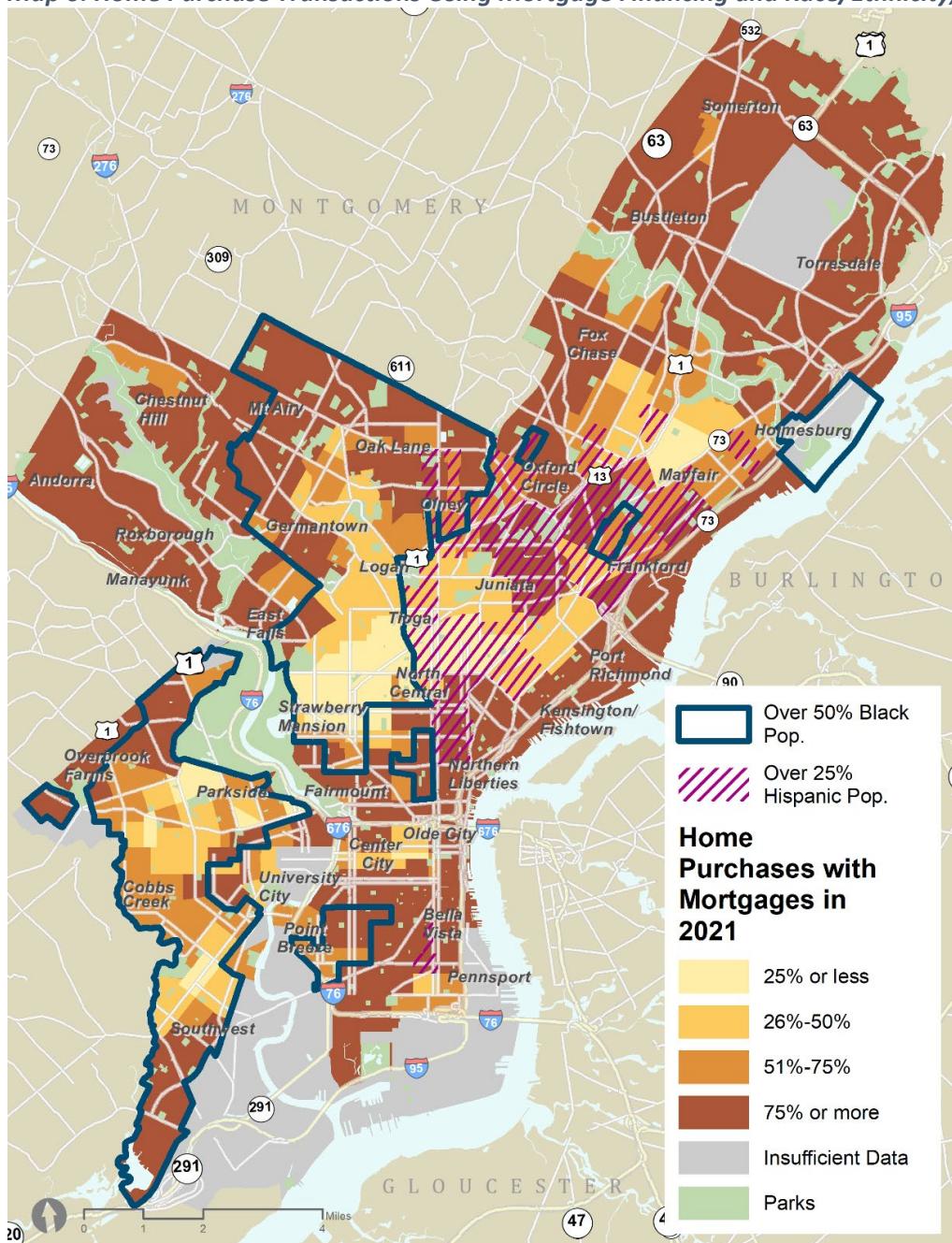
While neighborhoods in Philadelphia that are home to significant populations of color continue to exhibit elevated denial rates, they are not dormant housing markets. On the contrary, many of the places where borrowers are unable to qualify for mortgage credit have experienced a relatively large volume of cash-based transactions. In these places, investors have been active participants in the residential real estate market in recent years. Maps 5 and 6 present the percentage of home sales transactions that had a mortgage associated with the transaction in 2021.¹⁸

Map 5: Home Purchase Transactions Using Mortgage Financing, 2021



¹⁸ The HMDA database does not capture every home mortgage made in the United States. There are rules that articulate which institutions must report. Between 2016 and 2017, owing to changes in those rules, the number of HMDA reporting institutions declined by 13.5% (see: <https://www.consumerfinance.gov/data-research/hmda/learn-more>). Some of the transactions without mortgages may in fact have mortgages but not with those institutions with a HMDA reporting requirement or may be mortgages for which the mortgagor is not listed as an owner occupant. Accordingly, it is possible that the percentages shown on the map may overstate the true percentage of transactions without a mortgage.

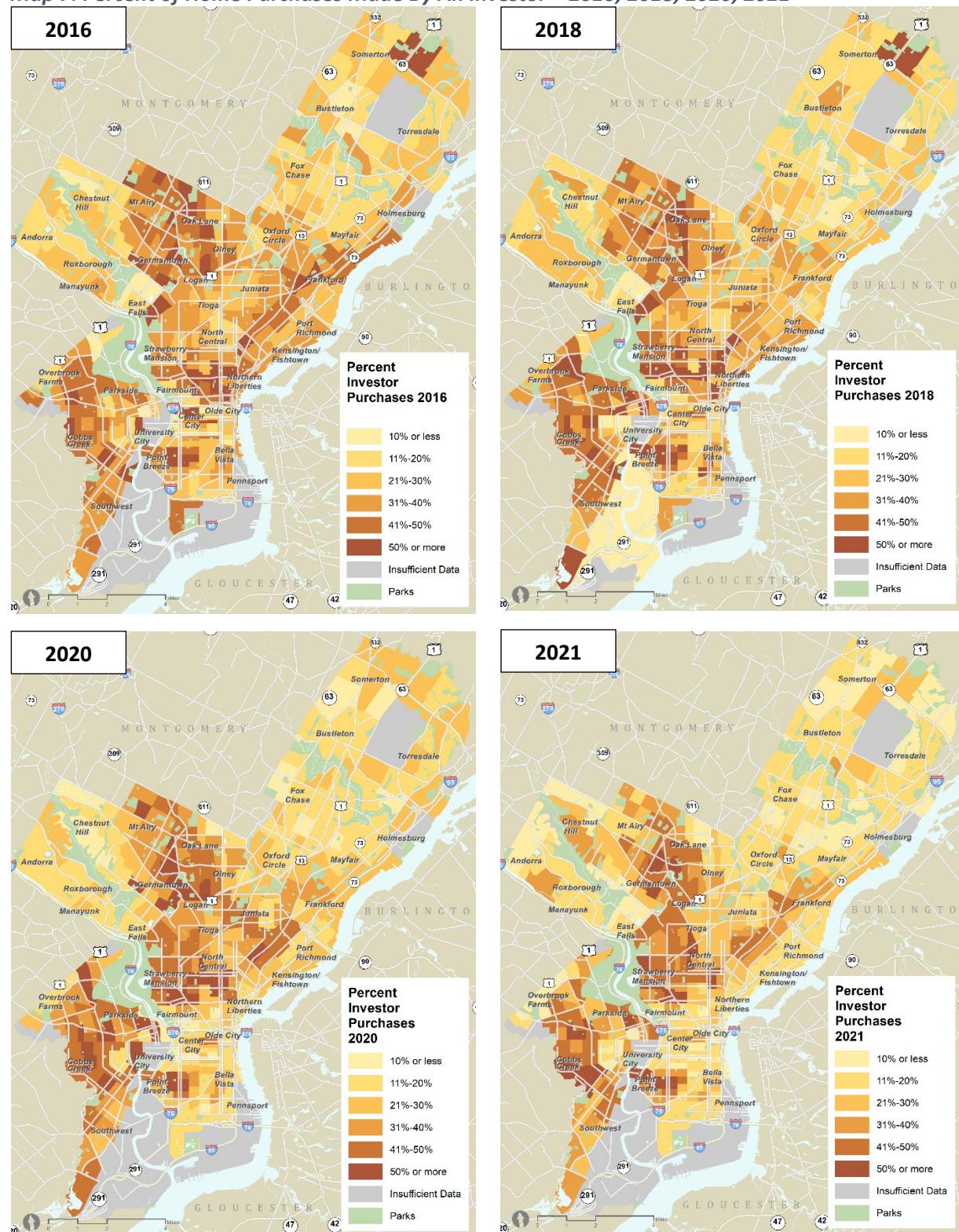
Map 6: Home Purchase Transactions Using Mortgage Financing and Race/Ethnicity, 2021



To some extent Maps 5 and 6 mirror Maps 3 and 4. In many parts of the city with elevated denial rates, homes continue to sell but these markets are predominately moved by transactions without HMDA reported mortgages. Of note are areas in North, West, and South Philadelphia that have been home to many of the city's lowest income people of color.

Map 7 presents the share of single-family home purchases that were purchased by an investor, either from a homeowner or another investor, from 2016 to 2021.

Map 7. Percent of Home Purchases Made By An Investor – 2016; 2018; 2020; 2021



Source: Philadelphia Department of Revenue

As seen in the Map 7 series, over the past six years, investors have been active purchasers of single-family homes in neighborhoods across Philadelphia. Table 6 presents the average home purchase denial rates, the average minority population, and the average ratio of tract to MSA median incomes across increasing tract-level investor purchasing activity. As seen in Table 6, as the share of investor purchases of single-family homes increases in the census tract, mortgage denial rates also increase, the minority population increases, and household incomes decrease.

NOTE: The identification of ‘investors’ in city sales records includes a diverse mix of buyers that includes, but is not limited to: Limited Liability Companies (LLCs); individuals who make multiple purchases; non-profit developers and community development corporations (CDCs); banks; or public sector agencies (i.e. the City of Philadelphia Land Bank, or Redevelopment Authority). Moreover, it is important to understand that an ‘investor purchase’ does not imply a specific ‘use’ of the property – which could range from acquisition of a rental property, rehabilitation for resale (flipping), purchases for a friend or family member to occupy, or some other use.

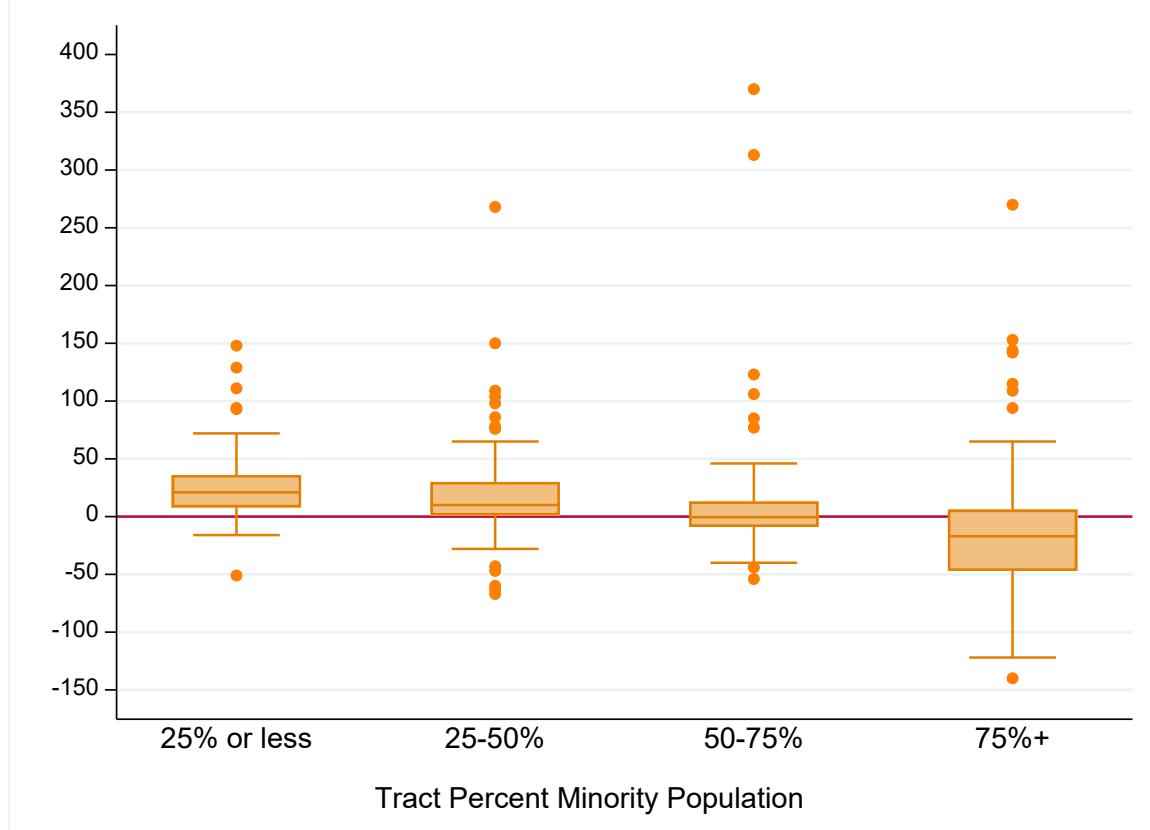
Table 6. Home Purchase Denial Rates, Investor Purchases, Minority Populations, and Median Incomes by Investors Share of Single-Family Purchases, 2021

Share of Sales to Investors	Mean Home Purchase Denial Rate	Mean Share of Sales w/ Mortgage	Mean Share of Minority Residents	Mean Tract:MSA Median Income Ratio
Less than 15% (n=111)	6.8%	90.0%	38.4%	1.42
15-30% (n=123)	8.4%	82.9%	59.0%	1.02
30-45% (n=80)	11.4%	66.7%	84.9%	0.72
45%+ (n=56)	12.0%	55.3%	91.7%	0.54
Citywide (n= 370)	9.1%	77.3%	63.2%	1.00

Map 7 and Table 6 suggest that many parts of the city where investor activity has been elevated over time are also places that are home to some of the most concentrated non-White populations in the city and places where residents’ incomes are well below the regional median. If these observed patterns persist, there is the prospect for substantial changes in the tenure profile of neighborhoods where investor purchasing remains elevated over a long enough period.

Figure 7, and its associated data table, present the difference between the number of single-family homes purchased by owners from investors and the number of single-family homes purchased by investors from homeowners from 2016 to 2021. In other words, the net change in the number of homeowners connected to this period of sales. These differences are presented across Philadelphia census tracts grouped within increasing shares of non-White residents. Negative values in Figure 7 indicate a net loss of homeowners through sales between 2016 and 2021 (more investors bought from owners than owners bought from investors) while positive numbers indicate a net gain in homeowners.

Figure 7. Tract Level Differences between Owner Purchases from Investors and Investor Purchases from Owners, by Non-White Population Based on Sales Transaction Records from 2016 to 2021



Tract Percent Minority Population	n	Mean	Min	25%	50%	75%	Max
25% or Less	70	27	-51	8	21	36	148
25-50%	74	19	-67	1	10	30	268
50-75%	46	20	-54	-9	-1	13	370
75%+	182	-17	-140	-47	-17	6	270
Citywide	379	3	-140	-24	2	21	370

Source: Reinvestment Fund analysis of Philadelphia Department of Revenue records

As seen in the table accompanying Figure 7, nearly half of census tracts across the city have populations of color that exceed 75% of residents (182 out of 379 census tracts), and these tracts are places where the net change in homeownership tipped most heavily toward increasing investor ownership, on average, from 2016 to 2021. The average net difference between owner and investor purchases in these tracts was -17; in a quarter of tracts (45) this net difference was below -47.

The very high, positive, values for a few tracts with minority populations above 50% in Figure 7 are places throughout the city undergoing gentrification and rapid development – including tracts in Northern Liberties/Kensington; Point Breeze; North Philadelphia around Temple University; and Brewerytown. The lowest value observed in Figure 7 (-140) is in the Strawberry Mansion neighborhood in North Philadelphia.

How To Read Figure 7

Each of the boxes in Figure 7 represent the middle 50% of Philadelphia census tracts where the share of non-White residents is 25% or less, 25-50%, 50-75% or greater than 75%. The accompanying table below Figure 7 presents the values represented by the box plots in the figure.

The horizontal line within each box represents the median difference between the number of owner purchases from investors and investor purchases from owners (the 50% percentile); the bottom and top of each box represent the 25th and 75th percentiles in the table. The vertical lines extend to a distance that is 1.5 times the size of the box itself from the mid-point. Each dot represents a census tract whose value is well outside the norm for Philadelphia census tracts with the given non-White population; in other words, these are places where the observed net loss or gain of homeowners was substantially greater than typical of census tracts with a similar minority population.

Borrower & Loan Characteristics in the Philadelphia Mortgage Market

Among those borrowers who do obtain mortgages to purchase their homes, the 2021 HMDA data point to clear differences in key loan features and borrower finances between White borrowers and borrowers from other racial/ethnic backgrounds. Table 7 presents key features of newly originated home purchase loans for White, Black, Hispanic, and Asian borrowers in Philadelphia.¹⁹

Table 7: Key Loan Features for Originated Home Purchase Mortgages, 2021

Key Loan/Borrower Features	Conventional					Gov. Insured				
	White	Black	Hispanic	Asian	Total	White	Black	Hispanic	Asian	Total
Median Reported Income	\$90,000	\$60,000	\$49,000	\$68,000	\$82,000	\$58,000	\$52,000	\$45,000	\$60,000	\$55,000
Median Property Value	\$335,000	\$215,000	\$215,000	\$305,000	\$315,000	\$245,000	\$205,000	\$185,000	\$265,000	\$225,000
Median Loan Amount	\$285,000	\$195,000	\$185,000	\$245,000	\$275,000	\$235,000	\$195,000	\$185,000	\$255,000	\$215,000
Median Loan to Value Ratio	90.00	97.00	95.00	80.00	90.00	96.50	96.50	96.50	96.50	96.50
Median Interest Rate	2.99	3.00	3.00	3.00	2.99	3.00	3.13	3.00	2.88	3.00
Debt to Income Ratio*										
% Under 20	11.7%	6.2%	4.8%	9.2%	10.7%	1.9%	1.6%	1.2%	0.0%	1.7%
% 20-30	28.4%	17.7%	19.9%	25.5%	26.6%	12.7%	8.7%	11.1%	8.8%	10.2%
% 30-40	31.5%	36.4%	36.7%	32.3%	32.2%	28.4%	28.5%	31.4%	24.5%	28.9%
% 40-50	25.8%	37.4%	38.0%	31.2%	28.3%	40.1%	41.2%	40.9%	51.0%	38.9%
% 50+	0.5%	1.0%	0.6%	0.8%	0.6%	16.5%	19.0%	15.4%	15.7%	18.2%
Total Originations	6,553	1,426	975	1,484	11,779	1,336	1,812	741	102	3,971

*Debt to Income Ratio Groups do not total 100% due exclusion of originated loans not reporting DTI ratios. Black and White originations do not equal Total originations due to the exclusion of borrowers of other races or borrowers without race/ethnicity information.

Across the key dimensions of originated home purchase loans presented in Table 7, Black, Hispanic, and Asian borrowers with conventional loans purchased homes with substantially lower incomes, property values, and loan amounts than White borrowers. Black and Hispanic borrowers also had substantially higher loan-to-value ratios (97.0 and 95.0 v. 90.0) than White borrowers; however, Asian borrowers with conventional mortgages had the lowest loan-to-value ratios (80.0) of all borrowers. In addition, a greater share of Black and Hispanic borrowers received conventional mortgage loans to purchase homes with debt-to-income ratios above 40% (38.4% and 38.6% v. 26.3%) compared to White borrowers. These differences were also present, though less pronounced, for property values and loan amounts for government insured mortgages; an exception are Asian borrowers who had the highest incomes, the largest loan amounts, and the lowest interest rates of any borrowers receiving government insured loans. However, there were no clear differences between the loan-to-value ratios or the debt-to-income ratios for borrowers of different racial and ethnic backgrounds among government insured mortgages.

These differences suggest that overall, Black, Hispanic and Asian borrowers have less buying power and that Black and Hispanic borrowers in particular have more qualification challenges than White borrowers, reflected in the elevated loan to value ratios. But as observed earlier, even when borrowers can be equated based on measurable qualifications, Black applicants are at a disadvantage.

¹⁹ Borrower race/ethnicity was not reported for 1,957 conventional home purchase originations, and 648 government insured home purchase originations, accounting for roughly 16% of all conventional and government insured home purchase originations made in Philadelphia in 2021.

Conclusion

The 2021 HMDA data presented in this brief highlight a few ongoing trends in the broader Philadelphia mortgage market. First – throughout 2021, the home purchase market continued to steadily climb out of the housing market collapse over a decade ago. And the pandemic did not appear to dampen demand for mortgages to purchase or refinance homes. Overall home purchase originations continued to increase over the last several years, origination rates have steadily increased to their highest levels in a decade, and FHA/VA market share in the home purchase market resumed the long-run decline from its dominant position following the 2008 housing crisis. Second – the then-low interest rate environment, which dramatically shifted higher after the close of the 2021, led to gains in the refinance market, which had returned to levels not seen in over a decade.

Despite these encouraging signals for the mortgage market overall, substantial disparities remain between different borrowers and neighborhoods throughout the city in terms of their access to mortgages. Black, Hispanic, and Asian borrowers continue to experience elevated denial rates compared to White borrowers, regardless of their financial qualifications for mortgage credit. Additionally, residents in neighborhoods of color and lower income neighborhoods also experience elevated denials. Moreover, Black and Brown borrowers continue to be more heavily served by the FHA/VA channel in the mortgage market, which leads to added costs of lending for borrowers and communities that already face greater difficulty in accessing mortgage credit. And it remains an unsettled question in this brief (but settled in other scholarship²⁰) whether the FHA channel was actually justifiable based on the borrowers' economic characteristics.

Perhaps most concerning are the wide swaths of North and West Philadelphia where investors are purchasing more homes than are financed with mortgages. In these parts of the city, cash transactions largely crowd out aspirational homeowners. Elevated denial rates coupled with Black buyers' over-reliance on government insured mortgages puts these would-be homeowners at a substantial disadvantage vis-a-vis buyers with cash or conventional financing, especially in a "hot" real estate market. And these conditions create an environment where investors can dramatically alter the composition of a neighborhood.

The HMDA database is a wonderful resource to understand those who own (or wish to own) homes in Philadelphia. The HMDA data provide a fact-based picture of the city, highlighting where the experience of getting a home mortgage is a greater or lesser challenge. The results presented in this brief are most certainly cause for concern that continued rises in home prices, at least through much of 2022, along with dramatic increases in interest rates, will exacerbate racial and ethnic disparities in access to credit that were beginning to show improvement.

²⁰ Katharine (Katie) Nelson. 2022. *FHA and the Dual Mortgage Delivery System in Philadelphia*. Unpublished dissertation.

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