Connecticut Fair Housing Center

2016-2017 Mortgage Lending Testing Report

TABLE OF CONTENTS

Executive Summary[1]

In Connecticut, people of color are at increased risk for discriminatory treatment in finding homes and applying for mortgages. The Connecticut Fair Housing Center's ("the Center") 2015 testing report revealed both that African-Americans received less favorable treatment in 50% of mortgage lending-race tests conducted and that 75% of race-home sales tests showed differential treatment, with the African-Americans tester receiving less favorable treatment than Whites.[2] In the mortgage lending tests, for example, an African- American tester was told about a program for people with credit problems even though she told the loan officer she had a higher than average credit score; the White tester was not referred to a program for people with credit problems. Additionally, in 50% of the tests, the African-American tester was told she qualified for a smaller mortgage or a higher interest rate even when she had higher income and better credit than the White tester.[3] To continue to investigate the home mortgage lending market, the Center applied for and received funding from the U.S. Department of Housing and Urban Development ("HUD") in 2015. HUD awarded the Center a $500,000 18-month grant as part of the Fair Housing Organizations Initiative-Lending Component ("FHOI-Lending").

As part of its work under that grant, the Connecticut Fair Housing Center (the "Center") conducted 34 test parts on residential lenders. In order effectively select lenders for testing, the Center first retained experts to analyze publicly-available information reported through the Home Mortgage Disclosure Act

---

[1] Staff of the Connecticut Fair Housing Center compiled the results of the testing reported on here. David Lavery and other staff members wrote and edited this report. The Center is solely responsible for the contents of this report and the conclusions included here.

[2] "Where Can We Go From Here: The Results of Three Years of Fair Housing Testing in Connecticut." http://www.ctfairhousing.org/guides-and-reports.

[3] Center testing report at 25.

("HMDA").[4] A copy of the expert's report is included here as Appendix A. The report found clear and consistent racial and national origin disparities in home mortgage lending in Connecticut The Center also conducted some analysis of HMDA data on its own to further direct testing.

Specifically, the Center and its expert found that from 2010 to 2014, African-Americans and Latinos were denied home mortgage loans more often than Whites, even when controlling for income. Very high income African-Americans were more likely to be denied home purchase and refinance loans than low income whites. Mortgage lending activity is also depressed in racially diverse and majority non-white neighborhoods. Regardless of race and income, applicants are less likely to obtain home loans in such areas.

African-American borrowers are twice as likely to obtain government-backed loans as whites, a disparity that does not disappear as incomes rise. Lower and middle income Latinos also are more likely to receive these loans than whites. While government-backed loans provide an entry into the homeownership market, typically they are more costly than conventional loans. In addition, the percentage of subprime government-backed home purchase loans dramatically increased from 1.8% in 2012 to 24.1% in 2014. As a result, African-American and Latino borrowers are more likely to be saddled with a higher cost home purchase loan, regardless of income.

As a result of the HMDA analysis, the Center decided to undertake three types of systemic investigations including:

---

[4] 12 U.S.C. §§ 2801-2810. For data, see https://www.consumerfinance.gov/data-research/hmda/ .

- Face-to-face meetings with loan officers to determine if African-Americans and Latinos are treated differently than Whites when trying to gather information about applying for a loan;

- Walk-in tests of branch locations to determine if the front-line staff of lenders treated African-Americans and Latinos differently than Whites when trying to gather information about applying for a loan; and

- Email tests of lenders forms to determine if lenders responded differently to racially identifiable names.

Testing Project	Number of Test Parts Completed[5]	Geographic Locations
Loan Officer Testing	10	Bloomfield, Cheshire, Manchester, Middletown, Southington
Branch Staff Testing	8	Cromwell, Glastonbury, Wethersfield
Email Testing	10	N/A
Telephone	2	Hartford

Summary of Findings

Every testing project showed differential treatment:

- 53% of all tests showed that the tester of color was treated less favorably than the White tester;
- 20% of all tests had mixed or inconclusive results meaning that there was some difference in treatment between the testers of color and the White testers but that additional investigation is needed to determine if there is lending discrimination; and
- 27% of all tests did not show any significant differences in treatment.

[5] Four additional test parts were completed but for a variety of reasons, the Center did not use them for this analysis.

Differences in treatment include:

- A loan officer making negative statements to an African-American tester regarding her ability to come up with a downpayment and the presumptive size of her family (even though she had no children). No such statements were made to the White tester.

- An African-American tester was told her that her student loans were a huge problem; the White tester was not given the same information even though the White tester owed more on her student loans.

- In an effort to steer a tester toward costlier loan product, an African-American tester was told by an African-American loan officer that the more expensive loans were "Obama" loans and more affordable loans were "George Bush" loans. The loan officer commented that banks don't want to help people that look like us.

- A Latina tester walked into a bank branch and asked for home mortgage brochures. She was initially told no materials were available and that they did not do mortgages at that branch; eventually she was provided some materials and directed to the bank's outreach officer. When a White tester approached front-line staff at the same branch she was given materials and immediately directed to a loan officer.

- An African-American tester was given brochures for "affordable housing" mortgages and conventional mortgages while a White tester was only given information for conventional mortgages even though the White tester earned less than the African-American tester.

Initial contact with a lender, whether it by email, walk-in interactions, or face-to-face meetings is likely to have a significant result on outcomes since most prospective homebuyers discuss loan products with only two lenders, and nearly all prospective homebuyers end up applying with only one lender.[6] At the same time, lenders often offer different rates and quote different fees to borrowers, or are willing to price their loan products competitively if they know borrowers are shopping around.

Prior to the Great Recession of 2008, people of color were disproportionately affected by subprime loans, particularly exotic loan products and no verification loans. Testing of lenders is an important prophylactic to prevent similar misconduct as current credit standards change and as innovative loan products begin to reach the market again.

Roughly 6.3 million more mortgages would have been made between 2009 and 2015 if credit standards prevailing in 2001 were used.[7] Because Hispanic and nonwhite households have lower credit scores, wealth, and incomes on average than non-Hispanic white households, today's tight credit conditions disproportionately hurt people of color.

At the same time, credit standards are changing. The largest three credit bureaus are changing rules for collecting and reporting civil judgments and tax liens. Fannie Mae and Freddie Mac, the largest guarantors of residential mortgages in the U.S., now allow loan products where borrowers can put as little as 3% down. Other products, such as shared appreciation mortgages, provide insurance against depreciation to the borrower in exchange for a lender receiving a share of appreciation.[8] Regulators such as the Consumer Financial Protection Bureau

[6] http://files.consumerfinance.gov/f/201501_cfpb_consumers-mortgage-shopping-experience.pdf; http://www.fanniemae.com/resources/file/research/housingsurvey/pdf/mtg-shopping-digital-divide-mba.pdf.

[7] Goodman, Zhu and Bai 2016.

[8] Engel, Emily, Taz George, and Jason Keller. "Residential mortgage lending for underserved communities: recent innovations." Profitwise 1 (2016): 11-19.

("CFPB") are also working with industry participants on alternative credit scoring models.[9]

Next Steps

This report does not include the names of the lenders that were investigated so that the Center's systemic investigations could continue. The Center's staff has only investigated a few of the lenders in Connecticut, even though there are several additional lenders whose publicly-available HMDA data indicate potential differential treatment of borrowers based on race and national origin.

The Center intends to continue email testing as lenders continue to push online loan application processes. For instance, Quicken Loans, one of the top five national lenders, is an online-only lender that famously pushed its "Rocket Mortgage" phone application process in a 2016 Super Bowl ad.[10] Between 25% and 32% of prospective homebuyers prefer to gather mortgage information from a provider's website.[11] While mortgages have not gone entirely online as many other financial transactions have, the shift to a "digital mortgage" is ongoing.[12]

In addition, the data fields reported through HMDA are expanding in 2018 and will include additional information such as borrower age, credit score, and total loan costs[13] that will make analysis of that data more effective for identifying lenders that may be discriminating in the lending market.

---

[9] CFPB Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process, available at http://files.consumerfinance.gov/f/documents/20170214_cfpb_Alt-Data-RFI.pdf .

[10] http://money.cnn.com/2016/02/07/media/quicken-loans-super-bowl-mortgage-ad/index.html.

[11] http://www.fanniemae.com/resources/file/research/housingsurvey/pdf/mtg-shopping-digital-divide-mba.pdf.

[12] https://www.housingwire.com/articles/38360-this-is-where-mortgage-technology-is-headed.

[13] For a full summary of new, modified, or existing terms available at http://files.consumerfinance.gov/f/201510_cfpb_hmda-summary-of-reportable-data.pdf.

Because of changes in the mortgage market and the possible loosening of protections enacted after the Great Recession it is imperative for the Center to continue its investigations into the workings of the residential loan industry.

Introduction

The Connecticut Fair Housing Center

The Connecticut Fair Housing Center is a statewide nonprofit organization dedicated to ensuring that individual choice, and not discrimination, determines where people in Connecticut live. To accomplish this goal, the Center assists clients by addressing fair housing, fair lending, and homeowner rights through the investigation of claims of discrimination and the provision of legal representation; providing information on the fair housing and fair lending laws to homeseekers and housing providers; working with State and local governments to ensure that they fulfill their obligations under the fair housing laws; and, promoting integration and the stabilization of neighborhoods.

Whether fighting a legal battle on behalf of a woman denied housing because of her disability, advocating for increased homeowner protections in the judicial foreclosure process, or bringing attention to impediments to fair housing in Connecticut, the Center's staff works to protect the rights of all individuals to be free from housing discrimination so they are free to live in the housing of their choice.

After the Center released its 2015 report "Where Can We Go From Here: The Results of Three Years of Fair Housing Testing in Connecticut," the Center determined there was an urgent need to identify, investigate, and address discriminatory practices in the mortgage lending market in order to overcome impediments to fair housing identified in the 2015 Connecticut Analysis of Impediments to Fair Housing Choice [14] and the 2014 Fair Housing and Equity Assessment of the Sustainable Knowledge Corridor.[15]

---

[14] http://www.ct.gov/doh/lib/doh/analysis_of_impediments_2015.pdf.
[15] http://www.ctfairhousing.org/wp-content/uploads/FHEA-11-19-14-Final-Report.pdf.

The Hartford metropolitan area ranked fifth of twenty two United States metro areas with the most significant racial disparities in lending; Bridgeport-Stamford-Norwalk ranked sixth. According to the 2015 Connecticut Analysis of Impediments to Fair Housing, "[t]he homeownership and lending data reviewed […] show that much work remains to be done to ensure equal access to affordable loans."

People of color are at increased risk for discriminatory treatment in finding homes and applying for mortgages. Prior testing by the Center revealed that African-Americans received less favorable treatment in 50% of mortgage lending-race tests than Whites. Similarly, studies and other analysis of Connecticut's lending and foreclosure markets have repeatedly documented the presence of systemic discrimination, high segregation indices, and other evidence of discrimination prohibited by the Fair Housing Act. As a result, the Center needed to identify and investigate specific lenders that were discriminating in the residential mortgage market.

Methodology and Results

Systemic Mortgage Lending Testing Based on Race and National Origin

Because hypersegregation by race and national origin has been a hallmark of Connecticut's residential living patterns, the Center performed systemic testing to determine the effect of race and national origin on access to purchase money mortgages. As will be seen below, the results suggest significant differences in the treatment of African-Americans and Latinos when compared to Whites.

During the subprime crisis, "borrowers in black neighborhoods [were] five times as likely to refinance in the subprime market than borrowers in white neighborhoods," even when controlling for income.[16] As of 2010, "African-Americans and Latinos [were], respectively, 47 percent and 45 percent more likely to be facing foreclosure than whites."[17] During the recession, African-American households lost 11.9% of their equity, compared with 9.1% for Whites. And during the 2009-2011 recovery period, they lost an additional 5.6%, compared with 2.2% for Whites.[18]

Through testing, systemic investigations and fair lending enforcement, the Center hopes to reduce access to "bad credit," i.e., subprime mortgages, and increase access to "good credit," i.e., lower-cost conventional mortgages thus ensuring that people of color can afford their homes in the long term. Increasing the

---

[16] US Department of Housing and Urban Development and US Department of Treasury, Curbing Predatory Home Mortgage Lending, 47–48.
[17] Bocian, Li, and Ernst, Foreclosures by Race and Ethnicity, 10.
[18] Burd-Sharps, Sarah, and Rebecca Rasch. "Impact of the US housing crisis on the racial wealth gap across generations." Social Science Research Council. Available at: https://www.aclu.org/files/field_document/discrimlend_final.pdf (accessed 22 February 2016) (2015).

affordability of homeowners will reduce wealth loss while stabilizing neighborhoods and creating incentives for integration.

Use of Data to Direct Testing

The Center's analysis of publicly-available HMDA data drove the Center's selection of lenders for testing and tester profiles. The Center performed this analysis on its own and in conjunction with experts retained through this grant.

Racial minorities are concentrated in the state's most urbanized areas, including the seven largest cities (Bridgeport, New Haven, Stamford, Hartford, Waterbury, Norwalk and Danbury) and a few nearby suburbs (East Hartford, New Britain, West Haven). These ten municipalities had 56% of the state's non-white population in 2010-14, compared to just 15% of its white population. Meriden and New London also have majority non-white neighborhoods. Applicants were less likely to receive conventional home purchases in low income, majority non-white tracts than in other areas. Although analysis for many segregated inner city census tracts is complicated because ownership rates are so low there, the overall pattern of lending closely follows the housing pattern described above. Higher than average non-origination rates are also evident in some rural, low- to middle-income tracts, particularly in Litchfield County. For maps of these trends, see Appendix A, Maps 1-5.

The Center identified lenders who reported HMDA data that established that their lending patterns had a higher risk for differential treatment of African-American and Latino populations, whether through redlining, reverse redlining, or loan denial disparities. The Center's experts calculated measures of loan shortfalls and denial disparities. Independently, the Center created its own measure to estimate whether lenders were steering borrowers into higher cost loans in order to examine lenders for reverse redlining.

The shortfall measure is a redlining test that estimates if lenders are making more or less loans in particular geographic areas than would be expected based on the income of individuals in the area and the area's homeownership rate. As almost all lenders have a shortfall in majority non-white census tracts and racially diverse census tracts (minority population percentage between 30% and 50%), peer group analysis was used to determine lenders that were more likely to be engaged in discriminatory conduct.[19] The lenders were evaluated on a statistical rank. Rather than a simple rank, a statistical rank left open the possibility that no lender was deviating from its peers. The statistical rank identified one or more lenders that had inactivity in underserved areas that could not be justified by the activities of its competitors, and those lenders were selected for additional testing.

The Center's experts also evaluated loan origination disparities, such as denials, using a similar peer group analysis. For most lenders, the statistical ranks were mixed – i.e., some lenders had statistically high loan denials for low income Latinos but not for middle income African-Americans. However, one or more lenders that the Center elected to test based on its shortfall (or redlining) measure also had consistent and high loan denial disparities for minority groups. This result confirmed the Center's decision to test this lender.

---

[19] According to the Interagency Fair Lending Examination Procedures manual, "[A]n institution's inactivity in an underserved area where its acknowledged competitors are active would tend to support the interpretation that it intends to avoid doing business in the area. Conversely, if it is as active as other institutions that would suggest that it intends to compete for, rather than avoid, business in the area. https://www.ffiec.gov/pdf/fairlend.pdf.

Finally, the Center's reverse redlining measure calculated ratios that estimated the odds that a particular lender was steering borrowers into higher cost home loans. Using all lenders making at least 250 high cost home loans (defined as 3.5% above the average prime offer rate ("APOR")), the Center examined whether any lender was making a disproportionate number of high cost home loans to either African-Americans, Latinos, or women, after controlling for income, homeownership rates, minority population percentages, census tract demographics, area median income, loan amounts, and the activity of competing lenders. As a result of this test, the Center identified one lender that was possibly steering African-American borrowers into high cost home loans, one possibly steering Latino borrowers into high cost home loans, and one possibly steering women into high cost home loans.

As of the completion of this report, three lenders were selected for testing from an analysis of HMDA patterns. The tests of one lender did not have any evidence of differential treatment while tests of the other two did. One lender had a single test that showed it was steering African-Americans into worse loans than what they otherwise qualified for. Given the size of the lender, additional tests were difficult. Finally, the last lender had testing that showed a systemic effort to discourage African-American and Latino populations from applying for home loans. Of five completed tests for that lender, five had evidence of differential treatment across race and national origin.

In addition, five lenders that that had accessible forms to contact them about loans on their websites were chosen for email testing. Of the five, one responded differently to the inquiry from a tester with a name identifiable as African-American relative to the inquiry from the tester with a name identifiable as White.

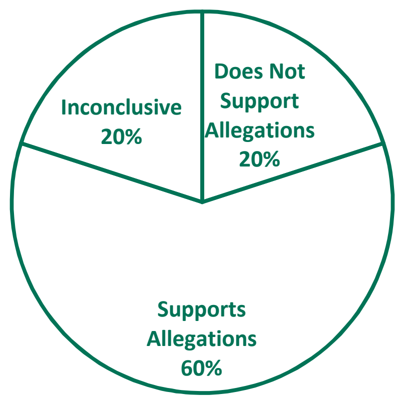
Face-to-face loan officer meetings

The Center tested local, regional, and national banks by visiting the banks to speak to a loan officer. The testers were instructed to make an appointment to see a loan officer to get information. Both testers were instructed to make an appointment with the same loan officer. In only one instance did a tester encounter resistance to an in-person meeting that was too difficult to overcome and was forced to complete the test over the phone rather than in-person. In this instance, both testers received nearly identical information from the loan officer.

Tests were designed to see if African-American and Latino testers were given the same information and coaching on how to get a loan as White testers. In each instance, the tester was instructed to tell the loan officer she was a first-time homebuyer unfamiliar with the home buying process. Rather than provide testers with enough savings to put the standard twenty percent down on a home, tests were down payment constrained. Conventional financing now includes 3.5% down loans, making them competitive, and in many cases more affordable, than traditional low downpayment government-backed loans. The protected-class tester ("PT") and control-tester ("CT") were given similar characteristics with the PT having a slightly better credit score, a little higher income, and a slightly lower debt-to-income ratio than the CT. Neither tester knew the protected class being investigated.

Only in 20% of the tests was the Center able to conclusively determine that no discrimination had occurred.

LOAN OFFICER TESTS



In addition to the findings discussed in the executive summary, the following occurred during the tests of loan officers:

- A loan officer suggested a down payment for a white tester of 3% while suggesting a down payment for an African-American tester of 5%. The loan officer made statements that indicated a lower down payment was a positive for the White tester because it allowed the tester to retain funds for things like drapes and furniture and, in the case of the African-American tester, cleaning supplies;
- The loan officer provided the African-American tester a verbal cash to close estimate of $17,000 to $18,000 for a $269,000 home. The loan officer provided the White tester a verbal cash to close estimate of $15,000 for a $273,000 home;
- While the CT and PT picked out similar homes for purchase, a loan officer expressed concerns to the African-American tester about the landscaping, telling her he was concerned that the house was being “flipped,” that the taxes advertised seemed like they were artificially low. He hypothesized that a veteran or elderly person lived in the home and that taxes would shoot up once she purchased it;
- A loan officer attempted to steer the African-American tester to Bristol, CT, suggesting she apply for a discount mortgage program and that the taxes were lower there;

- When the African-American tester started to take notes, a loan officer told her she was not allowed to take notes until he told her to write things down. The loan officer permitted the White tester to take notes at will;
- Both the CT and PT told the loan officer they rented their apartments. The African-American tester was told that “[t]hey may ask you for 12 month’s cancelled checks. If that’s a problem we can figure something else out.” A loan officer did not ask the White tester how she paid her rent or tell the White tester that she would need to prove she paid rent for 12 months.
- A loan officer helped a White tester pre-fill her mortgage application form out (the Uniform Residential Loan Application). He did not provide the same service to an African American tester, even though she was more qualified for a home than the White tester.

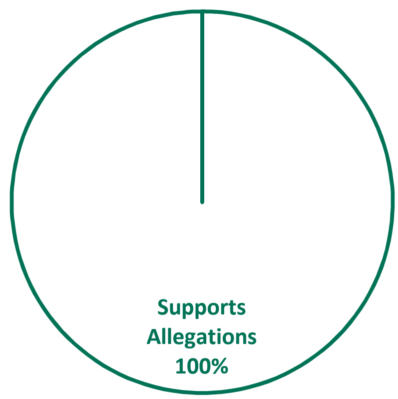
Walk-in tests

The Center's data analysis indicated a reasonable probability that some lending patterns were a result of a lack of marketing and outreach in majority-minority areas. In order to examine this possibility, the Center tested one bank in two ways, by meeting with loan officers for a full interview and by walk-in tests. The walk-in tests were designed to determine if the front-line staff of bank branches were engaging with minority loan applicants in a discriminatory fashion.

In the first type of test conducted, testers were instructed to walk in to a branch, head through the teller line, and ask for brochures and materials related to home lending. In order to control for the possibility that lenders would make more or different materials available after the first test, in half of the tests the CT went to the branch location first and in half the tests the PT went to the branch location first. Both testers went to the same branch

The branch staff engaged in some differential treatment of the PT that was harmful in all walk-in tests. Conduct included providing the PT different brochures, claiming to the PT that brochures were unavailable, directing the PT and CT to different personnel based on assumptions about English proficiency, and suggesting to the PT that the branch did not do mortgages.

WALK-IN TESTS



Email tests

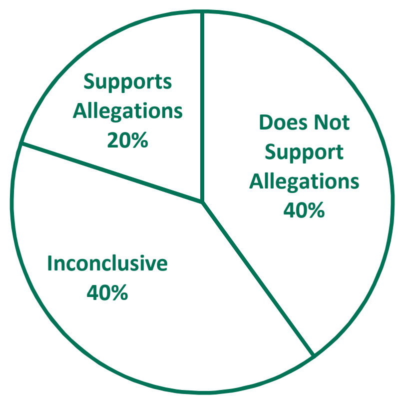
To examine whether lenders were less likely to respond to emails if the sender has a name that is identifiable as African-American versus a name identifiable as White, the Center constructed email tests of several lenders to determine if there were different response rates for African-American and White testers. The source for first names used by the testers is the New York City Department of Health and Human Hygiene (DHHH) records for babies born in 1990. The source of surnames for the tester is Word et al.'s analysis of 2000 Census data.[20] The probability of each name being associated as White or African-American was previously calculated, and we rely on those results in selecting names.[21]

The tests were carefully scripted. Testers were provided with a name and email address that was racially identifiable. Testers were directed to the "contact us"

[20] Word, David L., Charles D. Coleman, Robert Nunziata, and Robert Kominski. (not dated) "Demographic aspects of surnames from census 2000. Technical Report for the U.S. Census Bureau.
[21] Hanson, Andrew, Zackary Hawley, Hal Martin, and Bo Lieu. "Discrimination in Mortgage Lending: Evidence from a Correspondence Experiment." Journal of Urban Economics 92 (2016) 48-65.

form of the lender’s webpage, and instructed to send predetermined text to the lender. The inquiries were directed to the lender and not to any particular loan officer.

EMAIL TESTS



In one instance, the CT received significantly more information about the documents that were required to apply for the loan while the PT was simply told to call to discuss options. Neither tester had direct contact with the lender’s individual representative other than through the contact us form. The Center plans to repeat these tests with new names.

Recommendations

The Center should continue to test lenders. The Center was unable to test all lenders that its data analysis indicated were at risk for violating the Fair Housing Act. The Center identified one lender that was potentially steering Latino borrowers into high cost home loans and one that was potentially steering women borrowers into high cost home loans. If it has funding, the Center will test these lenders.

The Center intends to continue email testing as lenders continue to push online loan application processes. Despite an online-only presence, several lenders' HMDA data suggest that they are possibly engaged in redlining. While mortgages have not gone entirely online as many other financial transactions have, the shift to a "digital mortgage" is ongoing.[22]

In addition, the data fields reported through HMDA are expanding in 2018 and will include additional information such as borrower age, credit score, and total loan costs[23] that will make analysis of that data more effective for identifying lenders that may be discriminating in the lending market.

Because of changes in the mortgage market and the possible loosening of protections enacted after the Great Recession it is imperative for the Center to continue its investigations into the workings of the residential loan industry.

[22] https://www.housingwire.com/articles/38360-this-is-where-mortgage-technology-is-headed.

[23] For a full summary of new, modified, or existing terms available at http://files.consumerfinance.gov/f/201510_cfpb_hmda-summary-of-reportable-data.pdf.