



GSE Activity Report

Monday, August 23, 2021

Some Still-Ugly Truths

Summary

In this in-depth report, we build on our [preliminary analysis](#) of the CFPB's latest HMDA-data assessment. As we noted on Thursday, the agency chose to highlight its totally-unsurprising finding that the mortgage market was hot, hot, hot in 2020. This won't distract advocates from the heart of the HMDA data showing continuing and to some degree worsening racial and ethnic disparate impact from 2018 through 2020. This will lead to still more demands on the GSEs from a still more proactive FHFA. And, while FHFA lacks the authority banking agencies have over [third-party providers](#), FHFA will also do what it can to pressure credit reporting agencies, FHLBs, MIs, servicers, and others in the single-family mortgage value chain.

Analysis

Some key facts:

- In 2020, the denial disparity rate (DDR) for Blacks was 2.6:1 (where 1 equals a white borrower) -- i.e., blacks were almost three times more likely to be turned down for a loan than whites. DDRs for Hispanics were 1.8:1 and 1.4:1 for Asians.
- DDRs may in part be explained by racial/ethnic differences in credit scores. The Black median was 690 and the Hispanic median was 712 in contrast to a white median of 748. However, the Asian median was 761, making their residual DDR a puzzlement. Score differences are also clear in the contrast between the LMI median (727) and that for high-income households (755). However, FICO scores are not exactly immune to disparate-impact allegations, allegations recently addressed to at least some extent by Fannie's decision to consider [rental performance](#). More alternative underwriting will surely be pushed in the wake of still more data on racial/ethnic differences.
- Median credit scores are higher across the board for refi loans, likely contributing to significant share shortages for non-Asian minorities (see below).
- The Black share of total single-family purchase mortgages rose a bit from 2018 to 2020, ending at 7.3%; Hispanics gained a bit of share, whites lost some, and Asians made up the difference. Some of this is doubtless due to the demographic changes highlighted in the latest [census report](#) as well as to overall purchase-money volume and equity endeavors across the industry.
- However, the Black refi share dropped to 4.2% in 2020 from an already low 5.3% the year before; Hispanic borrowers saw a similar sharp drop in refi share. LMI borrower refi share also went down even though their purchase-mortgage share went up from 2019 to 2020. Given that refis are extended to borrowers with known loan-performance histories, the score differential noted above does not suggest tougher underwriting, but instead points to obstacles to demand highlighted in a raft of recent [FedFin reports](#). One solution sought by [some analysts](#) are auto-refis -- i.e., loans with adjustable downward rates and/or auto-refinancing on demand. These

- data may advance policy-maker demands for such product offerings.
- Racial/ethnic differences in interest rates are also apparent. However, risk and related fee differentials are likely to blame at least in part given the impact of LLPAs throughout the reporting period. With a median interest rate of 3.25% for all borrowers, rate differentials on loans to Black and Hispanic borrowers in 2020 (compared to white borrowers) were .125 percentage points. However, the risk explanation again hits an obstacle when one looks at the data for Asians, who paid .25 percentage points more.
 - Median loan amounts for home purchases for Black borrowers were the lowest (\$236,000 in 2020); white medians were \$247,000. Although Asians clocked in a lot higher (\$362,000), all other borrower loan amounts in 2020 were below the median house price in Q4/2020 of \$358,700. Median jumbo amounts were \$891,000.
 - Despite lower median loan amounts for both Black and Hispanic borrowers, they paid higher total loan costs than all other racial/ethnic groups, with Hispanics paying \$6,208 and Blacks paying \$5,980 while Asians paid \$4,892 and whites paid \$4,344. This is a lot – the Black cost difference is 38% higher than that for whites.