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Ethnic, Racial, and Neighborhood Mortgage Inequality: The Case of Los Angeles, Fresno, and Sacramento

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POLICY BRIEF

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CALIFORNIA COMMUNITY BUILDERS

Ethnic, Racial, and Neighborhood Mortgage Inequality: The Case of Los Angeles, Fresno, and Sacramento

Kathryn Greenler, José Loya, and Adam Briones • 2024

Key Findings and Policy Recommendations

- There is a significantly higher demand for homeownership in majority non-white neighborhoods, with loan applications more than double those in majority white neighborhoods.
- Black and Latino homeseekers face greater challenges in accessing mortgages, experiencing higher levels of high-cost loan originations and mortgage denials than white individuals, with the exception of Asians.
- Predominantly white neighborhoods receive higher and more consistent levels of mortgage financing — a trend that is reinforced by the high spatial distribution of adverse loan outcomes in majority non-white neighborhoods.
- Policies should address rising home prices, high interest rates, and limited housing supply. Recommendations include creative down payment assistance programs, first-time homeownership tax credits, and prioritizing vulnerable communities.
- Expanding the Home Mortgage Disclosure Act dataset to provide credit score indicators would more accurately monitor and assess discriminatory lending patterns of financial institutions.

The relationship between the spatial distribution of loan outcomes and neighborhood racial composition is a critical aspect of understanding inequality in homeownership opportunities in the United States.

Homeownership is central to creating, growing, and maintaining wealth — particularly for communities of color. In the long-term, disparities in homeownership not only shape ethno-racial inequality, they also drive the wealth gap across generations. Beyond these economic and financial benefits, homeownership is also associated with increased access to neighborhood resources, including expanded social networks, lower crime rates, and higher quality public schools.

In 2020, the COVID-19 pandemic brought significant uncertainties to the homeownership market, impacting both the lending practices of financial institutions and the preferences of prospective homebuyers. This brief captures the state of the home lending market at the tail end of the pandemic, and thus, the conclusion of a home-buying period characterized by notably low mortgage interest rates.

Differential access to mortgage financing remains a key structural source of stratification, accounting for a major component of ethno-racial and income inequality in

Differential access to mortgage financing remains a key structural source of stratification, accounting for a major component of ethno-racial and income inequality in homeownership rates.

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homeownership rates. For instance, Black and Latino homeseekers are more likely to be rejected in the mortgage market. They are also more likely to be steered into high-cost and smaller loans than similar white homeseekers. Homeownership is also the largest available tool for reducing the ethno-racial wealth gap. Unlike other investment types, homeownership is a direct investment in a neighborhood. It is one of the few assets that can be bought through a low-cost loan that enables the homebuyer to benefit from future appreciation of the entire home, and hedges against inflation via a consistent monthly payment.

The remainder of this brief critically examines the relationship between the spatial distribution of loan outcomes and two levels of neighborhood racial composition in Los Angeles, Fresno and Sacramento. The ultimate findings prompt policy suggestions aimed at addressing these disparities and promoting more equitable access to homeownership in California and beyond.

Data, Methods, and Variable Specification

To analyze mortgage loan outcomes across various cities in California, this brief uses publicly available data sourced from the Home Mortgage Disclosure Act (HMDA) spanning 2021 to 2022. Lending institutions operating under a national charter are obligated to provide HMDA data annually to the Consumer Financial Protection Bureau (CFPB) and the Federal Financial Institutions Examination Council (FFIEC) as part of their compliance with the Community Reinvestment Act (CRA). This dataset contains extensive details on each loan application received, including the sociodemographic characteristics of applicants, loan specifics, property types, census tract identifiers, and loan outcomes, including reasons for denial and indicators for high-cost loans.

The HMDA dataset encompasses approximately 80% of all originated mortgages. As such, this dataset is a representative sample of home lending in the United States (Avery et al., 2007). Notably, HMDA stands as the sole national public dataset incorporating information about the applicant's race, ethnicity, and neighborhood of the home (Bradford, 2002). Hence, HMDA is widely utilized for evaluating ethno-racial and neighborhood disparities in mortgage lending (Cherian, 2014; Faber, 2013; Loya, 2021; Massey et al., 2016; Quillian et al., 2020).

The scope of the HMDA dataset was limited to applicants seeking credit for owner-occupied single-family homes (1–4 units) via conventional or jumbo mortgages. Additionally, only borrowers who completed their applications and underwent vetting by their primary lenders were considered. Mortgages purchased by other financial institutions and subsequently recorded in the HMDA dataset were omitted, as they were already documented by the initial lending institution. Listwise deletion was employed for observations with missing data.[1] While missing data posed challenges for refinance and subordinate loans prior to 2009, they are less of a concern for mortgage originations after 2004, given the stricter data collection protocols implemented for the HMDA dataset (Faber, 2013).

In this study, the primary dependent variable is a mortgage loan outcome. There are three potential outcomes: loan origination, high-cost loan origination, and mortgage denial. First, HMDA documents a high-cost loan, as any loan origination with an annual percentage rate (APR) that is at least 1.5% higher than the prime rate at the time. All other mortgage originations are considered loan originations. FInally, if there is no mortgage origination, then the applicant can be denied a mortgage. The primary independent variables of interest include the borrower's race and ethnicity and the racial composition of the neighborhood in which the property is located. An applicant is defined as Latino if they identify as Hispanic. If the applicant is not Latino, they are defined as white, Black, Asian, Native American, or Pacific Islander. The applicant's neighborhood is then defined as the census tract in which the application was received. For this brief, specifically, researchers examine borrowers who sought homes in neighborhoods at two different racial composition levels: those with a majority white population (more than 50% white) and those with a majority non-white population (less than 50% white).

Findings Across the State

LOS ANGELES

Overview of Loan Outcomes

In the Los Angeles region, Latinos, Black, Native American, and Pacific Islander residents have unequal access to home mortgages as shown in Figure 1. These groups trail white residents by up to 15 percentage points. Moreover, these minority groups are particularly vulnerable, as they receive significantly higher levels of high-cost loans compared to their white counterparts. For instance, in Los Angeles, Native Americans have the worst loan outcomes, with loan origination rates nearing 67% — while the rate of mortgage denials sits around 25%. In contrast, white and Asian

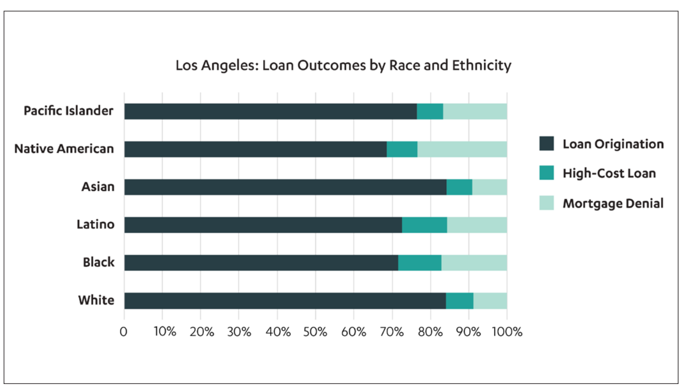


Figure 1.

Loan Outcomes in Los Angeles by Race and Ethnicity

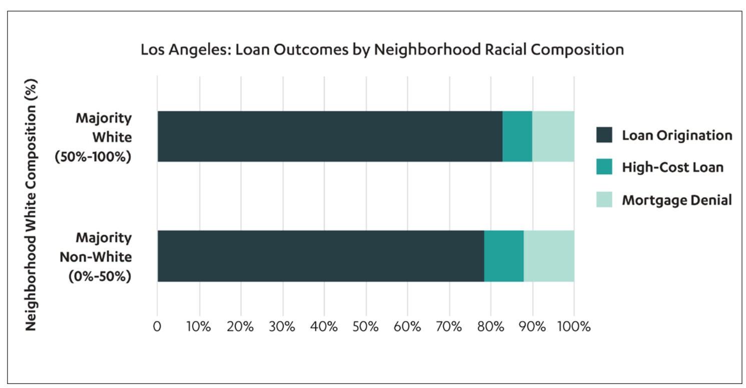
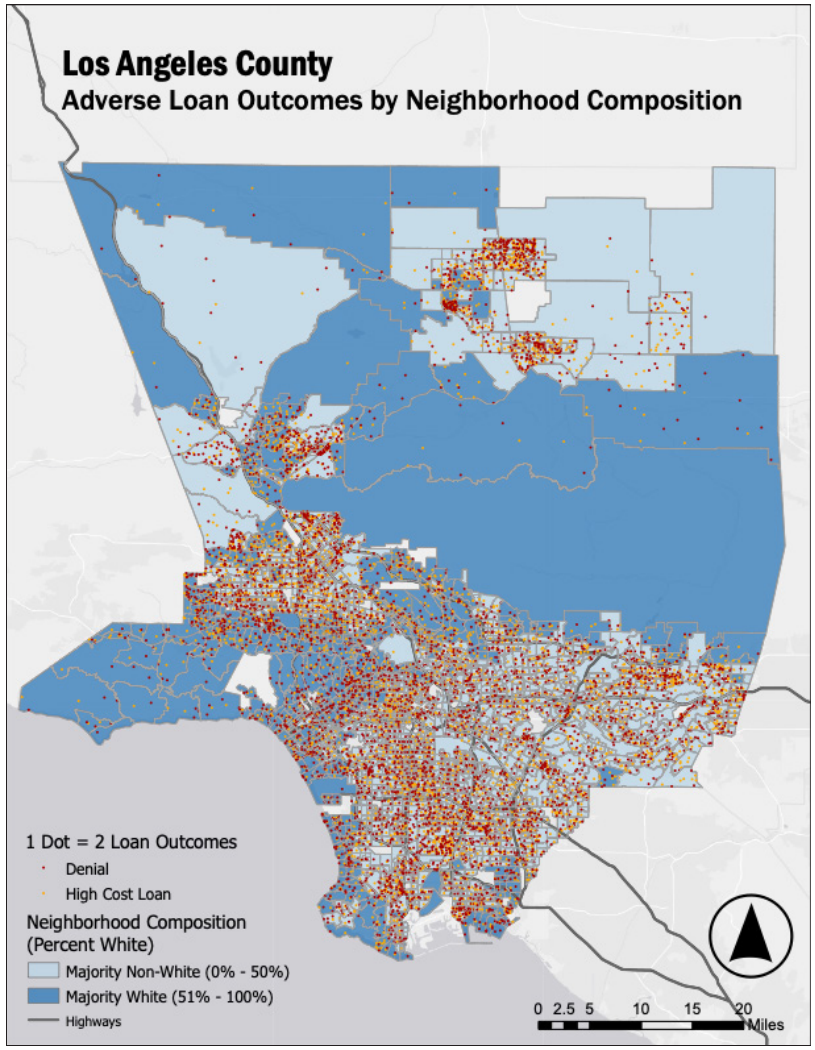


Figure 2.

Loan Outcomes in Los Angeles According to Neighborhood Racial Composition

Figure 3.

Loan Outcomes in Los Angeles According to Neighborhood Racial Composition



homeseekers have the highest traditional loan originations rates, as both of these groups had over 80% of mortgage applications resulting in a loan origination and a rate of less than 10% for both high-cost loans and mortgage denials.

Critically, when it comes to lending patterns and neighborhood composition, majority non-white communities in Los Angeles have a larger share of loan applications that end in high-cost loans and mortgage denials. As seen in Figure 2, majority non-white neighborhoods have 5% more adverse loan outcomes than their majority white neighborhood counterparts.

Overview of Spatial Distribution of Loan Outcomes

The majority of mortgage denials in Los Angeles County are concentrated in the dense neighborhoods located near the center of Downtown Los Angeles. Notably, the majority of these neighborhoods are predominantly non-white. Of the 2,397 total census tracts with data, 22% are considered majority white neighborhoods and the rest are majority non-white neighborhoods. Of the 16,332 total adverse loan outcomes, 4,690 (or 29%) come from majority white neighborhoods while the remaining 71% originate in majority non-white neighborhoods.

Interestingly, the northern and western peripheries of Los Angeles County show a significant number of adverse loan outcomes — despite those neighborhoods being predominantly white. This pattern indicates a relationship unique to affluent neighborhoods that are highly competitive markets for homeseekers. It can be hard for any homeseeker to financially access these neighborhoods, largely due to constrained home supply.

FRESNO

Overview of Loan Outcomes

Similar to loan outcomes in Los Angeles County, Latinos, Black, Native American, and Pacific Islander residents of Fresno County face unequal access to home mortgages (Figure 4). They trail white residents by 7 to 22 percentage points. Moreover, these minority groups receive significantly higher levels of high-cost loans compared to their white counterparts, making them particularly vulnerable in the mortgage market. In Fresno, Pacific Islanders have the worst loan outcomes, with only a 60% loan origination rate and a high-cost loan rate around 25%. white and Asian homeseekers in Fresno outperform in traditional loan originations, with over 80% of mortgage applications for both groups resulting in a loan origination and less than 10% high-cost loans.

In regards to neighborhood composition, majority non-white neighborhoods in Fresno see a more significant share of high-cost loans or mortgage denial than their Los Angeles counterparts. As seen in Figure 5, majority non-white neighborhoods face significantly higher adverse loan rates (9 percentage points higher) than white neighborhoods.

Overview of Spatial Distribution of Loan Outcomes

The majority of mortgage denials in Fresno are concentrated in downtown and in majority non-white neighborhoods. Overall, about half of all neighborhoods are majority white and located in the northeast and the majority non-white neighborhoods located in the southwest of the county. Of the 223 total census tracts with data, 24% are considered majority white neighborhoods and 76% are majority non-white neighborhoods. Of the 2,370 total adverse loan outcomes, 575 (or 24%) come from majority white neighborhoods while the remaining 76% come from majority non-white neighborhoods. The central and southwestern areas of Fresno contain a significant number of adverse loan outcomes, and are concentrated in majority non-white neighborhoods. Notably, majority white neighborhoods located in northeast Fresno do not show any concentration of adverse loan outcomes.

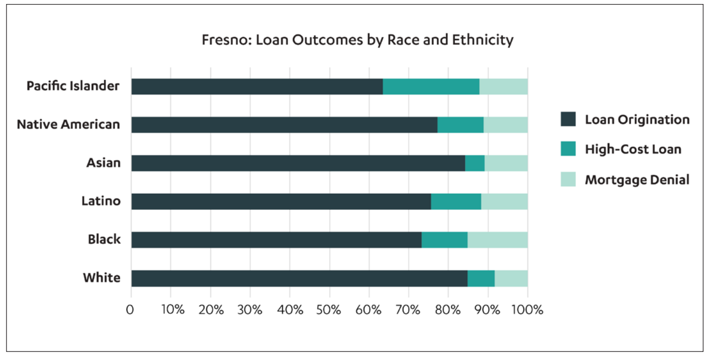


Figure 4.

Loan Outcomes in Fresno by Race and Ethnicity

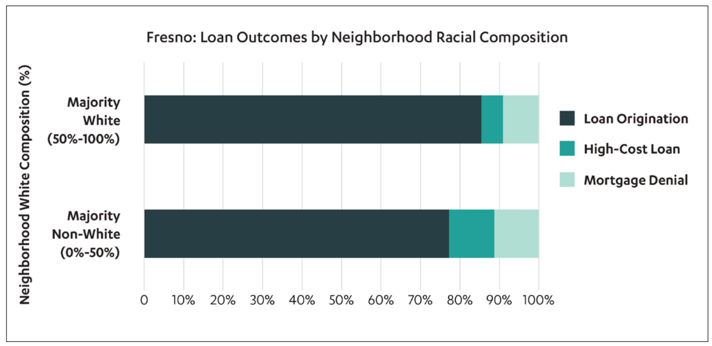


Figure 5.

Loan Outcomes in Fresno by Neighborhood Racial Composition

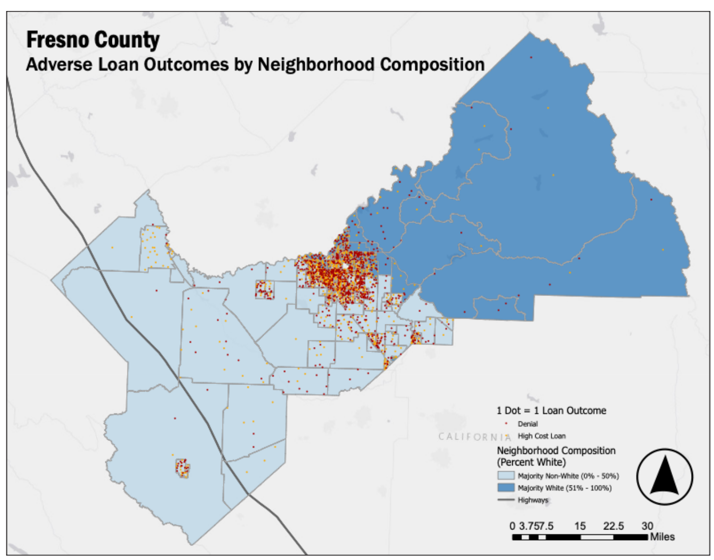


Figure 6.

Loan Outcomes in Fresno by Neighborhood Composition

SACRAMENTO

Overview of Loan Outcomes

In Sacramento, Latino, Black, Native American, and Pacific Islander residents face unequal access to home mortgages, as revealed in Figure 7. These groups trail white residents by 5 to 14 percentage points. In addition, minority homeseekers obtain higher levels of high-cost loans compared to their white counterparts. In Sacramento, Black residents experienced the worst loan outcomes, with loan origination rates nearing 70%, while high-cost loan rates are around 15%. white and Asian residents outperform all other ethno-racial groups, as both experience over 80% of mortgage applications resulting in a loan origination and less than 10% high-cost loans.

Majority non-white neighborhoods in Sacramento see a less significant share of loan applications ending in high-cost loans or mortgage denial than Los Angeles and Fresno. As shown in Figure 8, majority non-white neighborhoods in Sacramento have adverse loan outcomes that are 5 percentage points higher than in white neighborhoods.

Overview of Spatial Distribution of Loan Outcomes

The majority of mortgage denials in Sacramento are concentrated in the dense neighborhoods of downtown where there is a mix of both majority white and non-white neighborhoods. Of the 558 total census tracts with data, 57% are majority white neighborhoods and the remaining 43% are majority non-white neighborhoods. Of the 7,252 total adverse loan outcomes, 3,968 (or 54%) come from majority white neighborhoods while the remaining 46% come from majority non-white neighborhoods. A significant number of adverse loan outcomes are concentrated in central and northeast Sacramento, despite those areas being majority white neighborhoods. In contrast, the majority non-white neighborhoods located in south and northwest Sacramento are more rural and have lower concentrations of adverse loan outcomes.

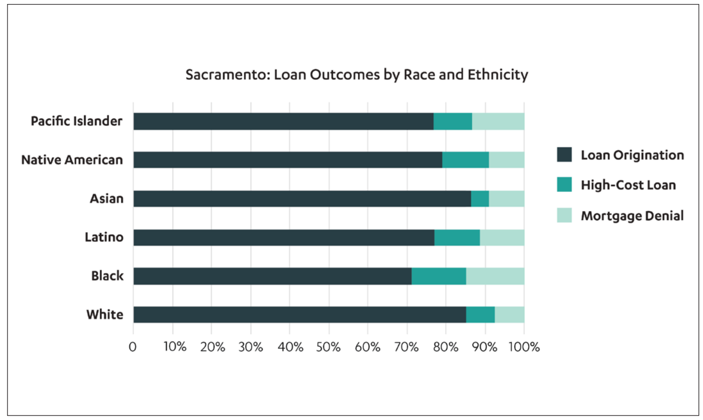


Figure 7.

Loan Outcomes in Sacramento by Race and Ethnicity

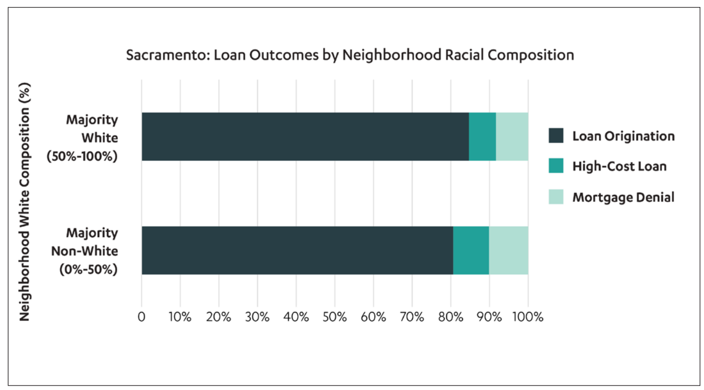


Figure 8.

Loan Outcomes in Sacramento by Neighborhood Racial Composition

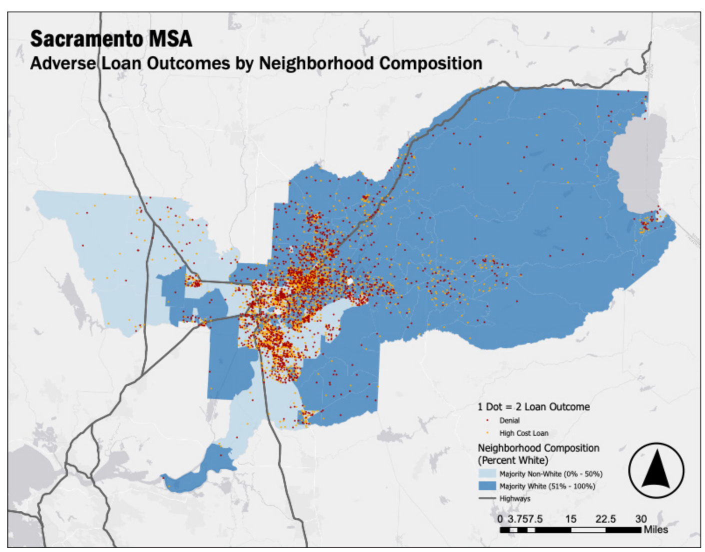


Figure 9.

Loan Outcomes by Neighborhood Composition in Sacramento MSA (Census Tract Level)

Policy Recommendations

Informed by the findings from this research, the policy recommendations outlined below target three distinct levels: individual, local, and state. Further, they are designed to address systemic barriers and create more sustainable pathways to homeownership for marginalized communities and minority homeseekers.

INDIVIDUAL

Creative Down Payment Assistance Programs

» *Shared-Equity Homeownership Programs:* These programs enable individuals to purchase a home with a reduced down payment by sharing the equity with a public or nonprofit entity. As homeowners build up equity, the shared entity also gains equity, which can then be reinvested into further housing assistance programs.

» *Targeting First-Generation Homeowners:* Specific programs aimed at assisting first-generation homeowners can provide tailored financial education, counseling, and incentives. This helps break the cycle of renting and promotes long-term financial stability via homeownership for homeseekers with limited generational wealth.

» *Support Residents of Majority Non-white Neighborhoods:* Implement programs that provide grants or forgivable mortgage loans to residents in these areas, helping to overcome the often significant financial barriers to homeownership.

LOCAL/NEIGHBORHOOD

Prioritize Support for Vulnerable Communities

» *Redesign Local Homeownership Assistance Programs:* Shift the focus of existing programs to further prioritize vulnerable communities. This includes providing more substantial down payment assistance and lower interest rate loans for residents of non-white neighborhoods.

» *Incentivize Lenders to Invest in Non-white Neighborhoods:* Develop policies that offer tax breaks, grants or other incentives for lenders who actively invest in and advance homeownership opportunities in non-white neighborhoods.

» *Community Outreach and Education:* Implement robust outreach programs to better educate community members about available resources and how to access homeownership programs. This may include workshops, financial literacy courses, and one-on-one counseling sessions.

STATE

Seize an Opportunity to Provide Affordable Housing

» California has made significant strides in funding affordable housing preservation, protection, and production in recent years, with a focus on building rental units. These efforts do little to break people into homeownership.

» A federal bill known as the Neighborhood Homes Investment Act (NHIA) is currently being considered in Congress, and could create a new affordable homeownership financing system. This system is modeled after the successful LIHTC program, which drives the production of affordable rental units throughout the country. At the state level, AB 2140 has been introduced in the Legislature to examine the feasibility of establishing a similar, but state-led, affordable for-sale tax credit program aimed at creating new homes for-sale to low- and moderate-income families.

Enhance the Affirmatively Furthering Fair Housing (AFFH) Program

» *Expand Programming and Financing Opportunities:* Expand AFFH programs, specifically tailored for non-white neighborhoods. This can include providing grants for community development, affordable housing projects, and necessary infrastructure improvements.

» *Mandate Targeted Funding Allocation:* Ensure that cities actively prioritize AFFH programs and prioritize non-white neighborhoods in their development plans. This can be achieved through policy mandates that require a certain percentage of funds to be allocated to these areas.

» *Strengthen Oversight and Accountability:* Establish clear metrics and accountability measures to track the progress and impact of AFFH programs. Regular audits and community feedback can ensure that funds are being used to effectively promote fair housing.

About the Authors

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Notes

1. Approximately 9.2% of the original HMDA dataset exhibited missing data (2021-2022), comprising household income (1.5% missing), race and ethnicity (6.5%), minority population in the neighborhood (0.6%), and spatial location of the property (0.6%).

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