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TIGHTER UNDERWRITING RULES CUT PORTION OF MORTGAGES TO BLACKS, REPORT SAYS

Blacks made up smaller share of originations in 2014 vs. 2004, African-American trade group finds

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Mortgage lending to African-Americans has declined since the last housing boom, a direct result of tightened underwriting standards that persist eight years after the meltdown, according to a new report.

Black borrowers accounted for a smaller share of mortgage originations in 2014, at 5%, than in 2004 when they were 7%. By contrast, white borrowers accounted for 69% of mortgages in 2014 versus 58% 10 years before then. That is based on an analysis of the most recent Home Mortgage Disclosure Act data by the National Association of Real Estate Brokers, a trade group of African-American real-estate agents and brokers.

Using similar data, The Wall Street Journal in June reported that minorities are receiving a smaller share of mortgages from the largest U.S. retail banks as many have shifted their mortgage operations toward so-called jumbo mortgages. These cater to more affluent borrowers with loans exceeding \$417,000 in most parts of the country.

Jumbos have become increasingly appealing to banks in recent years because of their low default rates. The loans are mostly held on banks' books.

The report, scheduled for release Monday by the NAREB, doesn't address jumbo loans. It focuses on the decline of black borrowers receiving smaller mortgages that are eligible for purchase by Fannie Mae or Freddie Mac. Only 3% of Fannie Mae and Freddie Mac eligible mortgages went to black borrowers in 2014, down from 6% in 2004, according to the report.

The decline is largely due to the tighter underwriting requirements that most lenders have been sticking to since the recession. In part, this has been to avoid the threat of having to buy back loans from the agencies, according to the report.

Nearly half of all mortgage dollars extended to borrowers in 2015 were sold to Fannie Mae or Freddie Mac, according to trade publication Inside Mortgage Finance.

Between 2004 and 2014, black borrowers' applications for these mortgages fell 82%, while their applications for government-backed mortgages mostly comprised of those insured by the Federal Housing Administration jumped 60%, according to the report. FHA mortgages are generally easier to get approved for—in large part because they permit lower credit scores—but can also come with higher costs for borrowers.

The report also says "outdated credit scores" are holding back black borrowers from getting mortgages. It says many black borrowers lost their homes to foreclosure or experienced other negative credit events that still weigh down their credit scores. Others don't use

banking services often and their lack of historical usage of loans is also negatively affecting their scores.