Changing Patterns XVI

Mortgage Lending to

Traditionally Underserved

Borrowers & Neighborhoods

in Boston, Greater Boston and

Massachusetts, 2008

BY

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JANUARY 2010

A REPORT PREPARED FOR

M|C|B|C

MASSACHUSETTS COMMUNITY & BANKING COUNCIL

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ACKNOWLEDGEMENTS

Preparation of this report was overseen by an advisory committee consisting of four members of the Mortgage Lending Committee of the Massachusetts Community and Banking Council (MCBC)—Tom Callahan of the Massachusetts Affordable Housing Alliance, Donna Haynes of Central Bank, Esther Schlorholtz of Boston Private Bank & Trust Company, and Kathy Schreck of the Massachusetts Mortgage Bankers Association—plus Kathleen Tullberg, MCBC's manager. Rolf Goetze of the Boston Redevelopment Authority and Roy Williams of the Massachusetts State Data Center provided assistance with 2000 Census data. Stuart Ryan of Bank Maps LLC produced the map. Eileen Callahan of Eileen Callahan Design designed the report and prepared the PDF file for the on-line version of the report. In spite of helpful comments and suggestions received, the ideas and conclusions in this report are the responsibility of the author, and should not be attributed to officers or board members either of the MCBC or of the Gastón Institute at UMass/Boston.

This report is available online at: www.mcbc.info.

FOREWORD

The Massachusetts Community & Banking Council (MCBC) is pleased to offer *Changing Patterns XVI*, its annual report on mortgage lending to traditionally underserved borrowers and neighborhoods in Boston, Greater Boston and Massachusetts. Once again, the report incorporates the analysis of higher-cost mortgage loans previously presented in a separate series of *Borrowing Trouble* reports. In addition to the data presented in this report, MCBC is also providing data on all Massachusetts cities and towns in a set of on-line tables. MCBC hopes that this report and its supplementary data can help to increase access to fair credit for lower-income and minority homebuyers and homeowners by providing bankers, mortgage lenders, community representatives, regulators and others involved in the mortgage process with information on current mortgage lending patterns and the performance of major types of lenders.

MCBC was established in 1990 to bring together community organizations and financial institutions to affect positive change in the availability of credit and financial services across Massachusetts by encouraging community investment in low- and moderate-income and minority neighborhoods; promoting fair and equitable access to financial products and services for minority group members; and providing research, other information, assistance and direction in understanding and addressing the credit and financial needs of low- and moderate-income individuals and neighborhoods.

MCBC's Mortgage Lending Committee, which includes bank and mortgage company lenders, home buyer counseling and foreclosure prevention agency representatives, public officials and consumer and housing advocates, oversees preparation of this report. The Committee also works to identify other ways to expand homeownership opportunities for low- and moderate-income homebuyers and to sustain homeownership in low- and moderate-income neighborhoods. Over the last year and more, MCBC's Mortgage Lending Committee has served as a forum for information sharing on the efforts of homebuyer counselors, non-profit organizations and public agencies to address the rising rate of foreclosures.

MCBC continues to support mortgage lending and homebuyer counseling programs that help to promote sustainable homeownership. For nearly ten years, MCBC's Mortgage Lending Committee has collaborated with the Massachusetts Housing Partnership Fund to track and report the quarterly performance of the SoftSecond Mortgage Loan Program. The SoftSecond Loan Program, now available statewide, has provided mortgage loans to over 13,700 income-qualified borrowers. In the third quarter of 2009, 1.39 percent of prime, fixed-rate loans in Massachusetts were in process of foreclosure. Among SoftSecond borrowers, the number of loans in process of foreclosure was 0.75 percent. SoftSecond borrowers are required to attend pre-purchase home buyer counseling and can also take advantage of post-purchase counseling and foreclosure intervention assistance.

This report and its supplementary tables, as well as earlier reports in the *Changing Patterns* series are available on MCBC's website at www.mcbc.info. Other MCBC reports, including *Expanding Homeownership Opportunity II: The SoftSecond Loan Program 1991–2006* and the Fair Lending Coordinating Committee report, *Expanding Fair Access to Credit*, are also available at this website, together with further information on MCBC's committees and programs.

MCBC is grateful to Bank of America, Boston Private Bank & Trust Company, Central Bank, Eastern Bank and Hyde Park Savings Bank for their help in distributing this report. MCBC depends on the financial support of its members to produce reports like *Changing Patterns*. MCBC thanks the following financial institutions for their 2009 membership:

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Note: Additional tables, providing the same information for all Massachusetts cities and towns that the tables in this report provide for the state's thirty-three biggest cities, are available in the "Reports" section of the MCBC website: www.mcbc.info.

EXECUTIVE SUMMARY

This is the sixteenth in the annual series of *Changing Patterns* reports prepared for the Massachusetts Community & Banking Council (MCBC) by the present author. The series is aptly named: mortgage lending since 1990 has indeed been characterized by "changing patterns." In recent years, the major focus of the series shifted from concern for *fair access to credit* for traditionally underserved borrowers and neighborhoods to concern for *access to fair credit* for these same borrowers and neighborhoods. This reflects the extent to which the problem of *redlining* had become overshadowed by the problem of *reverse redlining,* whereby areas that previously had difficulty getting any mortgage loans at all became specifically targeted for higher-cost mortgage loans.

This year's report offers information on patterns of mortgage lending during 2008, a year when there was very little subprime lending. While the limited subprime lending that remains continues to show substantial racial and ethnic disparities, this most recently changed pattern shifts attention back toward the original problem of fair access to good loans for traditionally underserved borrowers and neighborhoods.

The report presents information for the city of Boston, for Greater Boston, and for Massachusetts, as well as for each of the state's fourteen counties and each of its thirty-three largest cities and towns. The primary data source is federal Home Mortgage Disclosure Act (HMDA) data for 2008, supplemented by data on population and income from the U.S. Census Bureau and annual data on metropolitan area income levels from the Department of Housing and Urban Development. The report is restricted to first-lien loans for owner-occupied homes. It gives particular attention to higher-cost loans, identified in HMDA data as having annual percentage rates (APRs) at least three percentage points higher than the current interest rate on long-term U.S. Treasury bonds; these loans are referred to in this report as **high-APR loans, or HALs**.

This "Executive Summary" highlights some of the most interesting findings presented in the following pages. A more inclusive summary is provided by the bold-faced portions of the bullet points in the body of the report, and by the charts and tables that are interspersed with the text. Readers interested in additional detail will want to investigate the tables that follow the body of the report; these may be particularly useful for those interested in lending patterns in a particular community or region of the state.

Tables 1–28 provide data on lending patterns in Boston, Greater Boston, and Massachusetts. Tables 29–35 provide selected data on lending in the fourteen counties of Massachusetts, and Tables 36–42 provide data on lending in the state's 33 largest cities and towns. Six supplemental tables, available online at www.mcbc.info, provide information on lending in all of the state's 351 cities and towns.

- ❖ Both the HAL shares of total lending and the numbers of HALs were dramatically lower in 2008 than in previous years. Between 2006 and 2008 in the city of Boston, the HAL share of all loans fell from 25% to 4%, while the number of HALs fell from 3,651 loans to just 339.

- ❖ Even so, there were more than five thousand HALs in Massachusetts in 2008. HAL loan shares were highest in Springfield, Chicopee, and Brockton, but almost every city and town in Massachusetts—all but fifteen—received at least one HAL.

- ❖ HALs accounted for a substantially smaller percentage of loans in Massachusetts than they did nationwide. For home-purchase loans, the HAL loan shares were 4.6% in the state and 8.1% nationwide; for refinance loans, they were 3.9% in the state and 11.0% nationwide.

- ❖ Black and Latino borrowers in Boston, Greater Boston, and statewide received shares of total prime loans that were far below their shares of total households. In Boston, blacks made up 21.1% of households, but received only 9.5% of prime home-purchase loans and 8.1% of prime refinance loans. Latinos made up 13.6% of Boston households, but received only 5.3% of

partially covered by the CRA for their Massachusetts lending. The state's new Mortgage Lender Community Investment (MLCI) regulation, imposing CRA-like responsibilities on licensed mortgage lenders, was finalized in September 2008 and the first MLCI performance evaluations became public in October 2009. Eleven of the top thirty lending families in the state, including four of the top ten, consisted entirely or partially of licensed mortgage lenders.

❖ For the great majority of lenders, HALs made up much greater shares of their total loans to blacks and Latinos than of their total loans to whites. For the top five HAL lending families in Boston, the average black/white disparity ratio was 3.46 and the average Latino/white disparity ratio was 3.10. Mortgage Master, the third biggest overall lender but only the seventh biggest HAL lender, had a black/white disparity ratio of 4.85 and a Latino/white disparity ratio of 6.92.

and 8.1% nationwide; for refinance loans, they were 3.9% in the state and 11.0% nationwide.[11]

- **Among the state's thirty-three biggest cities,[12] HAL loan shares were highest in Springfield** (where they accounted for 13.1% of all home-purchase loans and 17.2% of all refinance loans), **Chicopee** (8.4% and 13.6%) and **Brockton** (12.9% and 8.3%). Among these thirty-three cities, Springfield and Brockton have the second and third highest percentages (behind Boston) of black households, and Springfield has the second highest percentage of Latino households (behind Lawrence). (Table 36)

- **Almost every city and town in Massachusetts[13] —all but fifteen—received at least one high-APR loan (HAL) in 2008.** Weston, which has the highest median family income (MFI) of any community in the state ($181,041, according to the 2000 Census), received two HALs. Dover, with the second highest MFI, did not receive a HAL, but Carlisle, which had the third highest MFI, received three HALs. The fifteen communities that did not receive HALs were Chatham, Dover, Dunstable, Florida, Harvard, Monterey, Pelham, Peru, Provincetown, Savoy, Stockbridge, West Newbury, West Stockbridge, Tyringham, and Windsor. (Supplemental Table 1, available online)

II. LENDING BY BORROWER RACE/ETHNICITY AND INCOME

In all areas of Massachusetts, black and Latino borrowers were much more likely than their white counterparts to receive **high-APR loans (HALs)**. At the same time, blacks and Latinos received shares of total **prime loans (a term we use here as equivalent to "non-HAL loans")** that were disproportionately small compared to their shares of total households. The pattern with respect to HAL loans can be seen from two different perspectives. On the one hand, HALs made up much larger shares of all loans to black and Latino borrowers than they did of all loans to white borrowers. On the other hand, blacks and Latinos received much larger shares of total HALs than they received of total prime loans. When borrowers are grouped by income level, HAL loan shares were greater for borrowers with lower incomes, although only a minority of total HALs went to low- and moderate income borrowers. When borrowers are classified by both race and income, the disparities between black and Latino borrowers and white borrowers tend to be *greater* at higher income levels.[14]

- **Black borrowers in Boston, Greater Boston, and statewide received shares of total prime loans that were far below their shares of total households. In Boston, for example, blacks made up 21.1% of households, but received only 9.5% of prime home-purchase loans and 8.1% of prime refinance loans.** Statewide, the black household share was 4.6%, but black loan shares were just 3.1% for prime home-purchase

11 Nationwide HAL shares were calculated from data in Table 9 of Robert B. Avery, *et al.*, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," *Federal Reserve Bulletin*, 2009 [forthcoming]. These percentages are for conventional and government-backed first-lien loans on owner-occupied site-built homes. The overall percentage used in Exhibit 1 is from the same source, and the 2006 nationwide percentages in Exhibit 1 were calculated from data in Table 4 of Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "The 2006 HMDA Data," *Federal Reserve Bulletin*, December 2007.

12 Although five of the state's thirty-three largest municipalities, as listed in Table 36, are officially towns, the municipalities will be referred to collectively as "cities" throughout this report. The five towns are: Arlington, Brookline, Framingham, Plymouth, and Weymouth. The smallest city or town among the biggest thirty-three is Westfield, with a population of 40,072.

13 More precisely, this should say "every city and town in Massachusetts that consists of at least one entire census tract, plus every multi-town census tract." Of the 351 cities and towns in the state, only 283 are large enough to have at least one census tract entirely to themselves. The other 68 towns share a total of 23 census tracts, with the number of towns that share a single census tract ranging from two to six. Census tracts are the smallest geographical area for which HMDA data are available, so it is impossible to determine which towns received the loans made in these 23 census tracts.

14 Appendix Table 3 and the accompanying Chart A-3 update the table and chart from previous *Changing Patterns* reports that have tracked the number and percentage of all home-purchase loans (not just HALs) that have gone to borrowers of different races/ethnicities in Boston since 1990. In addition, information on the share of all loans (not just HALs) that went to borrowers at various income levels is presented in the bottom half of Table 4, and Appendix Table 4 and Chart A-4 provide data on the number and percentages of all loans that went to borrowers at different income levels in the city of Boston since 1990. This information is provided for readers who may be interested; none of it is discussed in the text of this report.

EXHIBIT 3: Black and Latino Homebuyer Shares of All Loans, Ten Biggest Cities in Massachusetts, 2008

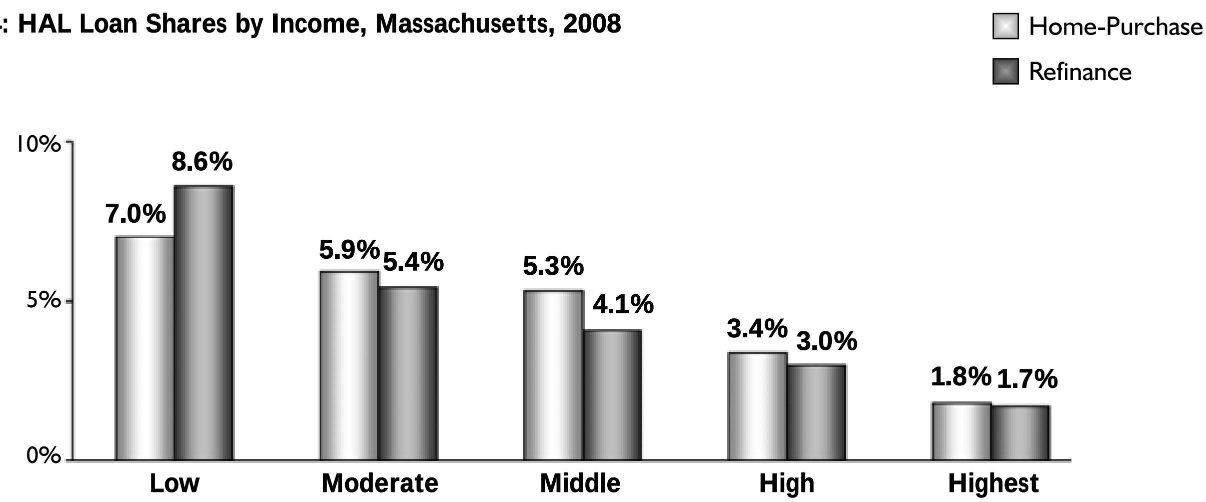
	Black share of total non-HALs	Black share of total HALs	Latino share of total non-HALs	Latino share of total HALs
Boston	9.5%	23.7%	5.3%	13.6%
Worcester	7.7%	11.6%	7.7%	8.4%
Springfield	12.8%	15.6%	21.1%	30.3%
Lowell	1.2%	1.6%	8.2%	6.3%
Cambridge	2.2%	0.0%	3.0%	0.0%
Brockton	32.6%	37.5%	10.2%	9.4%
New Bedford	6.7%	6.3%	8.5%	15.6%
Fall River	3.0%	3.3%	2.6%	10.0%
Lynn	4.4%	12.7%	21.3%	15.9%
Quincy	1.3%	0.0%	2.0%	8.0%

Source: Table 39

- **The general patterns of HAL loan shares being substantially higher for black and Latino borrowers than for their white counterparts, and of blacks and Latinos having substantially larger shares of HALs than of prime loans, were also present in many of the state's counties and largest cities.** (See Tables 30–31 [for counties], Tables 37–40 [for cities], and Exhibit 3)

- When borrowers in Boston, Greater Boston, and Massachusetts are grouped into five income categories, **HAL loan shares in 2008 were higher for borrowers with lower incomes. For home-purchase loans statewide, for example, HAL loan shares ranged from 7.0% for low-income borrowers to 1.8% for highest-income borrowers, with shares falling steadily for the three intermediate income groups. This finding represents a significant change from 2007, when middle-income and high-income borrowers generally had *larger* HAL loan shares than low-income and moderate-income borrowers.** This general pattern (and the reversal from 2007) held in Boston, in Greater Boston,

EXHIBIT 4: HAL Loan Shares by Income, Massachusetts, 2008



Source: Table 4

both race/ethnicity and income level.[18] In each panel of these tables, the first four rows and columns of numbers provide information on tracts classified by both income level and race/ethnicity; the bottom row provides information for the total of all tracts at each income level; and the right-most column provides information for the total of all tracts in each racial/ethnic category. Panel A indicates the distribution of census tracts among categories; Panels B–D provide information on home-purchase lending: total number of loans, share of these loans that are HALs, and HAL-share disparity ratios (expressed as the ratio of each HAL share to the HAL share in upper-income, predominantly white tracts); and Panels E–G provide the same information on refinance lending. These tables show that high-APR loans account for greatly disproportionate shares of total lending in traditionally underserved neighborhoods—that is, in census tracts with low income levels and high concentrations of minority households. The first two bullets summarize results for home-purchase lending in Boston and statewide; the patterns that emerge from the table for Greater Boston are similar.

- **For home-purchase loans in the city of Boston in 2008, the HAL share in low-income census tracts was almost five times greater than that in upper-income tracts (6.3% vs. 1.3%) and the HAL loan share in predominantly minority tracts (those with more than 75% minority households) was almost four times greater than that in predominantly white tracts (11.4% vs. 2.9%).** For tracts in every income category, the HAL share rises consistently as the percentage of minority households increases.[19] The concentration of high-APR lending is greatest in the predominantly minority census tracts (all of these tracts are low- or moderate-income). **For home-purchase loans in Boston, the HAL shares for low-income predominantly minority tracts was more than ten times higher than the HAL share in upper-income predominantly white tracts.** (Table 9)

- **For home-purchase loans in the state as a whole, the HAL loan share in low-income census tracts was 4.6 times greater than that in upper-income tracts (10.2% vs. 2.2%) and the HAL loan share in predominantly minority tracts was 3.2 times greater than in predominantly white tracts (12.9% vs. 4.0%).** For tracts in every income category, the HAL share rises consistently as the percentage of minority households increases. The concentration of high-APR lending is greatest in the census tracts with lower income levels and with high percentages of minority households; the HAL share for low-income predominantly minority tracts was almost seven times higher than the HAL share in upper-income predominantly white tracts (15.2% vs. 2.2%). (Table 11)

- **High-APR lending varied dramatically among Boston's major neighborhoods. For home-purchase loans, HAL shares ranged from 12.7% in Roxbury and 12.5% in Mattapan to 1.5% in Back Bay/Beacon Hill and 1.1% in Fenway/Kenmore. For refinance loans, HAL shares ranged from 10.6% in Mattapan to 0.2% in the South End.** The four Boston neighborhoods with the highest percentages of minority residents—Mattapan, Roxbury, Dorchester, and Hyde Park—were all among the five neighborhoods with the highest HAL shares for home-purchase lending, all 6.4% or greater; meanwhile, in the four neighborhoods with fewer than 25% minority residents—Back

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18 Census tracts, defined by the U.S. Census Bureau for each decennial census, are the smallest geographic area for which HMDA data are reported. Census tracts typically contain between 3,000 and 6,000 people and, in urban areas, cover an area several blocks square. Boston, with a population of 589,141 according to the 2000 census, has 157 census tracts. Census tracts are placed in racial/ethnic categories on the basis of percentages of minority and white households as reported in the 2000 census (minority households are all those for which the householder is other than a non-Latino white). A tract is placed into an income category on the basis of its median family income (MFI) in relationship to the MFI in the Metropolitan Statistical Area (MSA) within which the tract is located. MFIs for geographical areas are from the 2000 decennial census. "Low-income" tracts are those with MFIs less than 50% of the MFI in the MSA; "moderate-income" tracts have MFIs from 50%–80% of the MFI in the MSA; "middle-income" tracts have MFIs from 80%–120% of the MFI in the MSA; and "upper-income" tracts are those with MFIs greater than 120% of the MFI in their MSA.

19 There is one exception to this generalization: there were no HALs among the seven home-purchase loans in the single upper-income census tract with 25%–50% minority households, while the HAL loan share was 1.3% in the thirteen upper-income tracts with more than 75% white households.

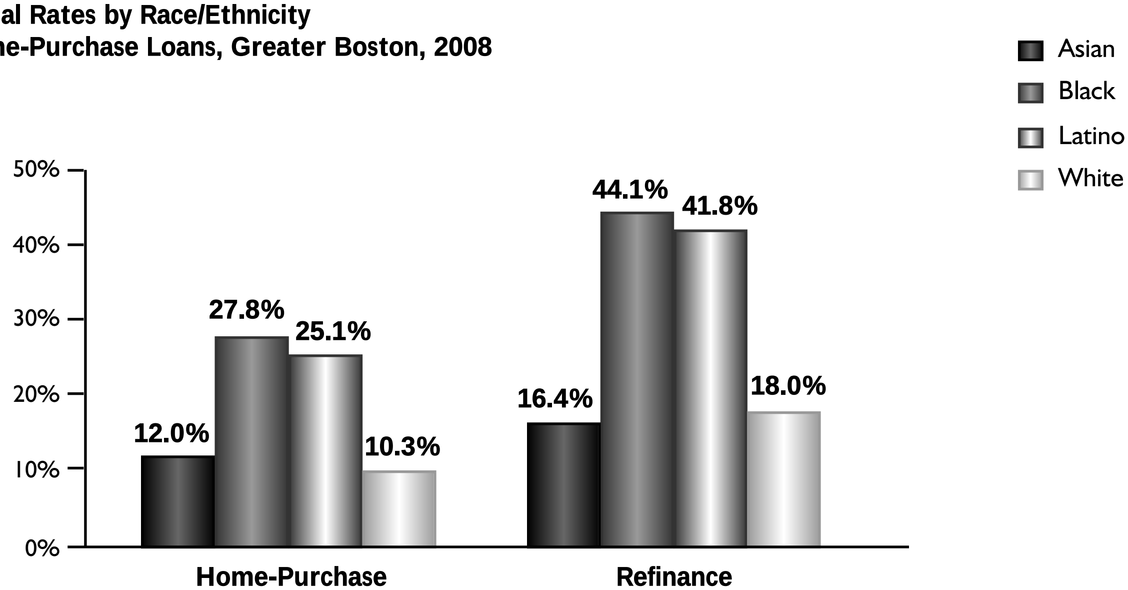
IV. DENIALS OF MORTGAGE LOAN APPLICATIONS

HMDA data include information not just on mortgage loans made, but also on all applications for mortgage loans, thereby making it possible to examine patterns of loan denials. The findings presented in this section are based on information presented in Tables 13–17 for Boston, Greater Boston, and Massachusetts. Information on denials for Asians, blacks, Latinos, and whites in each of the state's fourteen counties and in its thirty-three largest cities in presented in Table 33 and Table 42.[20]

- **In Boston, Greater Boston, and Massachusetts in 2008, the denial rates on mortgage loan applications by blacks and Latinos were more than twice as high as the denial rates on applications by whites.** For example, the denial rates on applications for home-purchase loans in Greater Boston were 27.8% for blacks, 25.1% for Latinos, and 10.3% for whites; this translates into black/white and Latino/white denial rate disparity ratios of 2.69 and 2.43, respectively. For refinance loan applications in Greater Boston, the denial rates were 44.1% for blacks, 41.8% for Latinos, and 18.0% for whites, resulting in disparity ratios of 2.45 and 2.33, respectively. Denial rates for Asians were fairly close to those for whites. (Table 13 and Exhibit 6)

- Even though black and Latino applicants had, on average, substantially lower incomes than their white counterparts,[21] **the higher denial rates experienced by blacks and Latinos cannot be explained by their lower incomes. When applicants in Boston, in Greater Boston, and statewide are grouped into income categories, the 2008 denial rates for blacks and for Latinos were in every case well above the denial rates for white applicants in the same income category**. In fact, denial rate disparity ratios tended to be higher for applicants in higher income categories. For example, in Greater Boston, black applicants with incomes between $91,000 and $120,000

EXHIBIT 6: Denial Rates by Race/Ethnicity Home-Purchase Loans, Greater Boston, 2008



Source: Table 13

20 Note that HMDA data do not provide any information on applications or denials for high-APR loans; this is because pricing (rate-spread) information is provided only for loans that were actually originated. Appendix Table 5 updates the table from earlier reports that provided information on overall denial rates and on denial rate disparity ratios since 1990. It shows that denial rates for black, and Latino applicants fell in Boston and Massachusetts in 2008 while denial rates for Asians and whites rose, leading to a significant decrease in black/white and Latino/white disparity ratios. In the U.S., however, black and Latino denial rates—and black/white and Latino/white disparity ratios—increased in 2008.

21 For example, it can be calculated from the data in Table 14 that 56% of white applicants in Greater Boston had reported incomes of $91,000 or greater, compared to only 24% of black applicants and 25% of Latino applicants.

V. LENDING BY MAJOR TYPE OF LENDER

The analysis in this section is based on classifying each mortgage lender into one of three major categories. *Massachusetts banks and credit unions* consist of all banks headquartered in Massachusetts or with branches in the state, plus Massachusetts-chartered credit unions, plus most mortgage lending affiliates of these institutions. *Licensed Mortgage Lenders* consist of all lenders who require a license from the state's Division of Banks in order to make mortgage loans in the state; these are primarily independent mortgage companies, but also include subsidiaries of non-Massachusetts federally-chartered banks as well as subsidiaries and affiliates of non-Massachusetts state-chartered banks. *Other Lenders* consist primarily of out-of-state banks and credit unions, plus federally-chartered Massachusetts credit unions.[23] This three-way classification has been used in the *Changing Patterns* series of reports to emphasize one crucial factor—whether a lender's Massachusetts mortgage lending (1) is currently covered by the state and/or federal Community Reinvestment Act (CRA); (2) is potentially subject to similar oversight by the state; or (3) is exempt from such state oversight.

This classification has proved useful in identifying dramatically different patterns of mortgage lending by lenders subject to evaluation under the CRA and by those not subject to such evaluation. Recognition of these different lending patterns was an important factor in the inclusion of CRA-type obligations and evaluation for licensed mortgage lenders (LMLs) as part of *An Act Protecting and Preserving Homeownership* that was signed into law in November 2007. In other words, the "potential" noted for category (2) at the end of the preceding paragraph has now become a reality for licensed mortgage lenders who have made at least fifty mortgage loans in Massachusetts during the preceding year. (See Section VII for more information on the implementation of the state's Mortgage Lender Community Investment regulations.)

❖ **The home-purchase loan shares of Massachusetts banks and credit unions increased in 2008, from 36.8% to 39.1% in Boston and from 37.7% to 41.2% statewide. The loan shares of subprime lenders both in Boston and statewide shrank to just 0.5% of all loans, down from peaks of 19%.**[24] Table 18 shows how the shares of major categories of mortgage lenders have changed since 1990, following the same format—and the same lender categories—as the corresponding table in previous reports.[25] For this table only, Licensed Mortgage Lenders and Other Lenders are combined into "Mortgage Companies and Out-of-State Banks," and lenders classified as "subprime lenders" are separated out from the other lenders within this broad grouping. (Table 18)

❖ **Massachusetts banks and credit unions accounted for a substantially larger share of total (home-purchase plus refinance) loans than of HALs (e.g., 32.4% vs. 19.7% in Greater Boston).** On the other hand, both Licensed Mortgage Lenders (LMLs) and Other Lenders each accounted for substantially larger shares of HALs than of total lending (e.g., Other Lenders accounted for 44.7% of HALs but only 36.7% of total loans in Greater Boston). (Table 19)

23 Federal credit unions based in Massachusetts are included in the "other lenders" category because they are not subject to either the federal or state CRA.

24 From 1998 through 2003, lenders were classified as "subprime" on the basis of annual lists published by the U.S. Department of Housing and Urban Development [HUD]. Beginning with 2004, the *Changing Patterns* series of reports identifies "subprime lenders" on the basis of information on high-APR loans (HALs), which was included for the first time in 2004 HMDA data. A lender is classified as a "subprime lender" for 2008 if HALs constituted more than 40% of its total loans in the state. See "Notes on Data and Methods" for more information on the classification of lenders as subprime lenders.

25 For Boston only, the "Big Boston Banks" are separated out from other Massachusetts banks and credit unions to document how the formerly dominant market share of this group has diminished. In 2008, the biggest Boston banks consisted of Citizens, Bank of America, and Sovereign, together with their affiliated mortgage companies. Bank of America includes Bank of America and Fleet loans for 2004, but only Fleet loans for earlier years. Five former banks were included in this grouping while they still existed: Bank of New England (1990–91), Boston Five Cents Savings Bank (1990–92), BayBanks (1990–96), Shawmut (1990–96), and BankBoston (1990–99). A sixth bank, Boston Safe Deposit (now Mellon New England), was included in this category until it exited the mortgage lending business in 2002.

VI. THE BIGGEST LENDERS

Who were the biggest lenders, both overall and for high-APR loans (HALs)? Tables 23 and 24 present information on the 30 biggest overall lenders in 2008 in the city of Boston and in Massachusetts. For each lender, these tables show the total number of loans, the total number of HALs, and HALs as a percentage of the total (for overall lending as well as for home-purchase and refinance loans separately). These tables include the 12 biggest HAL lenders in Boston and the 15 biggest HAL lenders statewide. Loans by separate lenders within the same corporate family are consolidated; information on the lending by individual lenders within each family is presented in Tables 27 and 28.

The Bank of America "lender family" was by far the biggest lender both in Boston and statewide. In fact, the two major individual lenders in this family—Countrywide Bank and Bank of America, NA—each made substantially more loans than the second ranked family.[27] In Boston, the Bank of America family made 1,623 total loans (including 885 by Countrywide Bank and 735 by Bank of America, NA), while second-ranked Mortgage Master made 582 loans.[28] In Massachusetts, the Bank of America family made 15,898 total loans (including 9,031 by Countrywide Bank and 6,822 by Bank of America, NA), while the second-ranked Wells Fargo lender family made 5,614 loans. Mortgage Master ranked third statewide while Wells Fargo ranked third in Boston. JPMorgan Chase ranked fourth both in Boston and statewide. These top four lender families accounted for 36.3% of the total loans in Boston, and 24.6% of the total loans in Massachusetts. (Tables 23, 24, 27, & 28)

The Bank of America and Wells Fargo lender families were Boston and the state's two biggest HAL lenders in 2008, with JPMorgan Chase, HSBC, and CitiGroup rounding out the top five lenders in Boston and Wachovia replacing JPMorgan Chase among the top five statewide. HALs accounted for a very small percentage of total loans by Bank of America and Wells Fargo (e.g., 3.0% and 7.0% statewide, respectively), but

EXHIBIT 9: The 5 Biggest HAL Lender Families in Boston & Massachusetts Home-Purchase & Refinance Loans Combined, 2008

	Boston		Massachusetts	
Rank	Lender	HALs	Lender	HALs
1	Bank of America	38	Bank of America	478
2	Wells Fargo	36	Wells Fargo	393
3	JPMorgan Chase Bank	23	CitiGroup	349
4	HSBC	22	HSBC	272
5	CitiGroup	20	Wachovia	184
	Total, Top 5 Lenders	139		1,676
	Total, All Lenders	339		5,138
	Share of Top 5 lenders	41.0%		32.6%

Source: Tables 23 & 24. For data on individual lenders within these families: Tables 27 & 28.

[27] Bank of America Corp. announced on January 11, 2008 that it would purchase Countrywide Financial; the purchase was completed on July 1, 2008. Thus, this report includes Countrywide Bank and Countrywide Home Loans as members of the Bank of America lender family for 2008. However, Countrywide Bank remained a separate legal entity until April 27, 2009, and its Massachusetts lending was not included in Bank of America's CRA performance evaluation for Massachusetts; therefore, it is classified as an out-of-state bank and the Bank of America lender family is classified as a "MIX."

[28] Mortgage Master, Inc. is a privately-held mortgage company based in Walpole, Massachusetts. In 2007, it was the tenth biggest lender both in Boston and statewide.

VII. ADDITIONAL INFORMATION

It is beyond the scope of this descriptive report to offer explanations of the causes underlying the observed patterns of high-APR subprime mortgage lending or to investigate the extent to which HAL lenders engage in predatory lending, opportunity pricing, or racial/ethnic discrimination. Instead, this concluding section offers supplementary information on four matters that may help readers better interpret the report's findings.

High-APR Loans Involve Very Substantial Cost for Borrowers, Compared to Prime Loans

To examine the extra costs imposed by high-APR loans compared to prime loans, the monthly payments on a thirty-year fixed-rate loan of $259,000 (the median size of a first-lien HAL for an owner-occupied home in Greater Boston in 2008)[30] were calculated at three different interest rates: 6.03% (the average interest rate for a prime 30-year fixed-rate loan in 2008); 7.28% (the estimated minimum rate to qualify as a high-APR loan when the rate for prime mortgages was 6.03%); and 7.63% (the estimated median rate on first-lien HALs in 2008 when the rate for prime mortgages was 6.03%).[31] The calculated monthly payments for principal and interest are shown in the table below—together with the additional monthly and annual costs resulting from above-prime interest rates. Even the lowest-price HAL costs twenty-five hundred dollars more per year than a prime-rate loan. **The median-rate HAL entails annual payments $3,264 greater than for a prime-rate loan.**[32]

This table indicates the higher costs imposed on HAL borrowers who make their monthly payments in a timely manner. However, this represents only part of the additional costs imposed by high-APR lending. In fact, **many homeowners who received high-APR**

EXHIBIT 11: Monthly Payments on a $259,000 Thirty-Year Fixed-Rate Mortgage Selected Interest Rates, 2008

Rate Level	Interest Rate	Monthly Payment	Extra over Prime-rate loan: per month	Extra over Prime-rate loan: per year
Prime loan	6.03%	$1,550	--	--
Minimum-rate HAL	7.28%	$1,761	$211	$2,532
Median-rate HAL	7.63%	$1,822	$272	$3,264

30 The median loan amount for a first-lien HAL for an owner-occupied home in 2008 was slightly lower than this in the city of Boston ($254K), and was considerably lower statewide ($198K). In Greater Boston in 2008, the median loan amount for a first-lien *non-HAL* loan was $296K.

31 6.03% is the annual interest rate on a thirty-year fixed rate mortgage loan in 2008 as reported by Freddie Mac's Primary Mortgage Market Survey (www.freddiemac.com/pmms/pmms30.htm). Information presented in the article accompanying the Federal Reserve's release of the 2008 HMDA data indicates that the average difference between the APR for 30-year fixed rate prime loans and the reporting threshold for high-APR loans was about 1.25 percentage points in 2008 (Robert Avery *et al*., "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," *Federal Reserve Bulletin*, 2009 [forthcoming], mss. pp. 12–18 and Figure 5). Appendix Table 2 of the present report shows that the median rate spread on first-lien HALs in Massachusetts in 2008 was 3.24 percentage points for home-purchase loans and 3.45 percentage points for refinance loans. The average of these two rate spreads is 3.35 percentage points, which is 0.35 percentage points above the threshold rate spread of 3.00. Thus, the accompanying table shows the minimum-rate HAL having an interest rate 1.25 percentage points above the interest rate on prime mortgages and the median-rate HAL having an interest rate 0.35 percentage points higher than that. For simplicity, this table assumes that the interest rates are the same as the APRs.

32 These extra costs of HALs are significantly lower than those calculated for last year's report, where the additional annual cost over a prime loan was $4,008 for a minimum-rate HAL and $8,316 for a median-rate HAL. The difference is accounted for by a much lower loan amount ($259K this year vs. $330K last year), a lower spread between the prime mortgage rate and the minimum-rate HAL (1.25 vs. 1.50 percentage points), and a much lower spread between the median-rate HAL and the minimum-rate HAL (0.35 vs. 1.53 percentage points).

income residents acquire and remain in affordable housing with loans on reasonable rates and terms, avoiding patterns of lending that result in the loss of affordable housing, and working with delinquent borrowers. The Division's examinations result in public performance evaluations and ratings, and an unsatisfactory rating may provide the basis for non-renewal of a lender's license. The implementation of the new law will be governed by a regulation, entitled "Mortgage Lender Community Investment" (MCLI), issued by the Division of Banks in September 2008.[36]

The Division of Banks' website provides quarterly lists of LMLs scheduled for performance evaluations as well as a list, updated monthly, of performance evaluations and ratings that have been completed and made public. The latter list has links to the written performance evaluations for the individual lenders. As of November 30, 2009, the performance evaluations for four mortgage companies had been made public; all of these received an overall rating of "Satisfactory."[37] On the basis of their total (any purpose, any lien, any occupancy) lending in the state in 2008, these four lenders ranked between 24th and 42nd among the 77 LMLs currently eligible for evaluation under MLCI on the basis of the statutory cutoff point of at least fifty Massachusetts reported in HMDA data. (An additional 130 LMLs made between one and forty-nine loans in 2008.)

Out-of-state banks (and subsidiaries of federally-chartered out-of-state banks) without local branches are not covered by the new legislation; imposing CRA obligations on them for their Massachusetts lending would require legislation and/or regulatory changes at the federal level. Such changes are included in the CRA Modernization Act of 2009 (H.R. 1479), whose principal sponsor is Rep. Eddie Bernice Johnson of Texas, and whose 56 co-sponsors includes Massachusetts Reps. Capuano, Delahunt, Lynch, McGovern, and Tsongas.

FHA Lending Increased Dramatically in 2008

There were 17,420 government-backed loans in Massachusetts in 2008, accounting for 14.3% of all loans in the state. This is up very sharply from 2007, when 3,995 government-backed loans accounted for 2.8% of all loans (this latter percentage was double the 1.4% for 2006).[38] The great majority (92.9% in 2008) of these government-backed loans were insured by the Federal Housing Administration (FHA loans); accordingly, the discussion that follows will focus on FHA lending.[39]

The Federal Reserve researchers who wrote the *Federal Reserve Bulletin* article accompanying the release of the 2008 HMDA data report that, nationwide, FHA loans accounted for over 21% of home-purchase and finance loans in 2008, up from less than 6% in the preceding year. They devote an entire section of their article to exploring the causes and significance of "The Surge in FHA and VA Lending."[40]

The following bullet points present some summary information about FHA lending in Massachusetts in 2008. All numbers and percentages refer to first-lien home-purchase loans for owner-occupied homes, statewide.

36 The final regulations (*209 CMR 54.00: Mortgage Lending Community Investment,* effective September 5, 2008), are available at the Division of Banks website: www.mass.gov/dob. Licensed mortgage lenders continue to be covered by fair lending laws, truth-in-lending laws, and the state's anti-predatory lending law.

37 The lists of lenders scheduled for MLCI examinations and of publicly available MLCI performance evaluations and ratings can be reached from www.mass.gov/dob by clicking on "Loans & Mortgages" (under "Consumer Services") and then clicking on "CRA at Mortgage Lenders." The URL of the relevant webpage is too long to reproduce here.

38 These numbers and percentages are all for the total of first-lien home-purchase and refinance loans for owner-occupied homes; based on data in Appendix Table 1 of this report and of the two previous reports in the *Changing Patterns* series.

39 Loans guaranteed by the Veterans Administration (VA loans) accounted for 5.7% of government-backed loans in 2008 and the remaining 1.5% of government-backed loans were backed by the Rural Housing Service of the U.S. Department of Agriculture (RHS loans). It is notable that while 11.4% of all FHA loans were HALs in 2008, only 1.1% of VA loans and just 0.4% of RHS loans were HALs; for all loans in the state, the HAL percentage was 4.2% (Table 2).

40 Robert B. Avery, *et al.*, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," *Federal Reserve Bulletin*, 2009 [forthcoming], pp. 6 & 19–27. Available at: www.federalreserve.gov/pubs/bulletin/2009/pdf/hmda08draft2.pdf. (URL and page numbers are for draft version of article; as of mid-January, the final version had not been posted by the Fed.)