Empire Justice Center
Making the law work for all New Yorkers

THE RIVER RUNS DRY

Decreased Access to Mortgage Credit in Rochester's Underserved Neighborhoods

A report examining where mortgage lending is, and is not, happening in the Rochester, NY area.

By Barbara vanKerkhove, Ph.D.

This report was supported by a generous grant from the City of Rochester

THE RIVER RUNS DRY: DECREASED ACCESS TO MORTGAGE CREDIT IN ROCHESTER'S UNDERSERVED NEIGHBORHOODS

By Barbara vanKerkhove, Ph.D.

ABOUT EMPIRE JUSTICE CENTER

Empire Justice Center is a statewide, public interest law firm with offices in Albany, Rochester, White Plains and on Long Island. Empire Justice focuses on changing the "systems" within which poor and low-income families live. With a focus on poverty law, Empire Justice undertakes research and training, acts as an informational clearinghouse, and provides litigation backup to local legal services programs and community based organizations. As an advocacy organization, Empire Justice engages in legislative and administrative advocacy on behalf of those impacted by poverty and discrimination. As a non-profit law firm, Empire Justice provides legal assistance to those in need and undertakes impact litigation in order to protect and defend the rights of disenfranchised New Yorkers.

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Executive Summary

Our nation's financial crisis has reduced access to credit for all borrowers and communities. However, advocates from across the country report that neighborhoods of color and lower income communities, the very communities that have suffered the most from the foreclosure crisis, are finding it much harder to access credit.

This report examines where mortgage lending is, and is not, happening in the Rochester, New York area. It compares lending changes in communities of color and lower income communities to changes in majority white and middle and upper income neighborhoods between 2006, the beginning of the foreclosure crisis, and 2008, the most recent year for which mortgage lending data is publicly available. To do this, Empire Justice Center examines changes between 2006 and 2008 in the levels of first-lien, conventional, FHA, and higher-cost home purchase and refinance mortgage loans on owner-occupied, one-to-four family site built units.

Key findings

Empire Justice's analysis finds that while access to mortgage credit tightened across the entire Rochester area between 2006 and 2008, low and moderate income neighborhoods and neighborhoods of color were hit much harder than middle and upper income and predominantly white communities. More specifically, between 2006 and 2008:

- Prime home purchase lending declined by 32 percent in neighborhoods with 80 percent or more residents of color, twice the rate of the 15 percent decline in neighborhoods with less than 10 percent residents of color.
- Prime refinance lending declined by 59 percent in neighborhoods with 80 percent or more residents of color and by 33 percent in neighborhoods with 50-79 percent residents of color while it declined by only 8 percent in neighborhoods with less than 10 percent residents of color.
- Prime home purchase lending declined by 38 percent in low income neighborhoods, twice the rate of the 17 percent decline in upper income areas.
- Prime refinance lending declined by 49 percent in low income neighborhoods, 20 times the 2.5 percent decline in upper income communities.

In addition to their dramatically reduced access to prime home purchase and refinance credit in 2008, when compared to majority white and more affluent areas, neighborhoods of color and low income communities in the Rochester area:

- Saw the largest declines in overall lending and in conventional home purchase and refinance lending. To illustrate, between 2006 and 2008, conventional home purchase lending declined by 36 percent in

neighborhoods with less than 10 percent residents of color while declining by 67 percent in neighborhoods with 80 percent or more residents of color and by 53 percent in areas with 50 to 79 percent residents of color. In upper income neighborhoods, conventional home purchase lending declined by 30 percent while declining by 65 percent in low income areas.

- Gained only a small proportion of the area's increased FHA lending. Of the 662 additional FHA refinance loans originated in 2008 over 2006:
    - 451 or 68 percent went to neighborhoods with less than 10 percent residents of color while only 19 or 3 percent went to neighborhoods with 50 percent or more residents of color.
    - 581 or 88 percent went to middle and upper income neighborhoods while only 81 or 12 percent went to low and moderate income communities.
- Still had higher cost loans, particularly higher cost FHA loans, more often, despite the overall decline in higher cost lending. For example, 40 percent of the FHA refinance loans made in 2008 in neighborhoods with 80 percent or more residents of color were higher cost compared to only 18 percent in communities with less than 10 percent residents of color. Twenty-two percent of the FHA refinance loans made in low income neighborhoods in 2008 were higher cost compared to only 12 percent of those in upper income areas.

Recommendations

To improve the level and quality of lending in low and moderate income neighborhoods and communities of color while, at the same time, addressing the negative impacts of foreclosures and reverse redlining on these neighborhoods, we recommend the following:

- Expand and modernize the federal Community Reinvestment Act to better promote responsible lending and investment in today's new financial services landscape.
- Update the federal Home Mortgage Disclosure Act (HMDA) to include additional data necessary to keep pace with changes in the financial services industry and to help identify discrimination in lending.
- Prioritize federal and state fair lending enforcement in lending and loan modification programs to ensure that historically redlined neighborhoods are not subjected to continuing redlining practices.
- Push banks to focus on repairing neighborhoods hit hard by foreclosures by working to keep families in their homes, mitigating the harmful effects of foreclosure, and significantly increasing investment in neighborhoods so that residents, small businesses and community institutions can thrive.

Introduction

National news stories recount how lenders have tightened credit standards, resulting in borrowers finding it much harder to obtain a loan to purchase a home or to refinance their current mortgage. This drying-up of credit, however, has not affected all communities equally. According to housing and community advocates across the country, communities of color and lower income neighborhoods, those very communities devastated by subprime lending and foreclosures, are now finding it harder to access responsible mortgage credit to either refinance into a more affordable loan or to buy a home.[1]

This report explores the reduced access to mortgage credit in the Rochester, New York area. It was this type of analysis that researchers at Empire Justice Center and its predecessors first focused on in the early-mid1990s. As advocates began noticing an increase in subprime lending in the late 1990s, we shifted our analysis to highlight subprime lending (later known as higher cost lending), in our mortgage lending analyses. More recently, higher cost lending has substantially declined, but so has the number of loan originations.[2] To respond to this shift, we are once again changing our focus to highlight where lending is, and is not, happening, and to assess the nature of that lending.

In this report, Empire Justice attempts to answer the following questions:

- How has the flow of mortgage credit to Rochester's underserved communities changed?
- At the national level, Federal Housing Administration (FHA) lending has increased.[3] Has this happened in Rochester, and to which communities are FHA loans going?
- How have higher cost and prime lending changed?
- Overall, which Rochester area neighborhoods have suffered the most from the decline in mortgage credit?

Methodology

The report compares how mortgage lending across different geographic communities changed between 2006 and 2008. The communities are categorized in two different ways:

- By the percentage of residents of color, and
- By the median income level of the neighborhood.

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[1] See a recent report by the California Reinvestment Coalition, "From Foreclosure to Re-Redlining: How America's largest financial institutions devastated California communities," February 2010, as found at: http://www.calreinvest.org/news-room/2010-02-08.

[2] See the Federal Reserve's analysis of national 2008 mortgage lending by Avery, Robert B., Bhutta, Neil, Brevoort, Kenneth P., Canner, Glenn B. and Gibbs, Christa N., The 2008 HMDA Data: The Mortgage Market During a Turbulent Year (September 30, 2009). Federal Reserve Bulletin. Available at SSRN: http://ssrn.com/abstract=1480830.

[3] Ibid.

Why compare lending geographically by income and race/ethnicity? The federal Community Reinvestment Act (CRA), enacted in 1977 and strengthened in 1995, encourages depositories, consistent with safety and soundness, to meet the credit needs of the communities in which they do business, including low and moderate income neighborhoods.[4] The Act, however, does not extend this obligation to people of color or minority neighborhoods despite the fact that consumer and CRA advocates have been documenting for years the lack of lending in neighborhoods of color.[5] Moreover, even though low and moderate income communities are covered by the Community Reinvestment Act, our years of analysis indicates that more needs to be done to improve responsible mortgage lending in low and moderate income neighborhoods, particularly when compared to lending in higher income neighborhoods.

To identify whether these disparities in lending persist in the Rochester area, this report uses publicly available annual Home Mortgage Disclosure Act (HMDA) data to examine first-lien, conventional, FHA, and higher-cost home purchase and refinance mortgage loan originations on owner-occupied, one-to-four family site built units.

Rochester Area Mortgage Lending Decreased Between 2006 and 2008

In 2008, 9,334 home purchase loans were made in the Rochester NY Metropolitan Statistical Area (MSA), 23 percent fewer than in 2006. As seen in Table 1 below, refinance lending declined as well—from 6,569 originations in 2006 to 4,700 originations in 2008, a decline of 29 percent.

Table 1: Changes in Home Purchase and Refinance Lending by Loan Type, 2006-2008
Rochester NY MSA
(1st lien loans on owner-occupied, 1-4 family, site built units)

	Home Purchase				Refinance			
			Total	Percent			Total	Percent
	Conv	FHA	Inc Other Govt	FHA	Conv	FHA	Inc Other Govt	FHA
2006	9740	2088	12120	17.2%	6108	440	6569	6.7%
2008	6047	2901	9334	31.1%	3580	1102	4700	23.4%
Change #	-3693	813	-2786	13.9%	-2528	662	-1869	16.7%
Change %	-37.9%	38.9%	-23.0%	80.4%	-41.4%	150.5%	-28.5%	250.1%

[4] See 12 U.S.C. 2901 and its regulations, 12 CFR parts 25, 228, 345, and 563e.

[5] See reports by California Reinvestment Coalition, Community Reinvestment Association of North Carolina, Empire Justice Center, Massachusetts Affordable Housing Alliance, Neighborhood Economic Development Advocacy Project, Ohio Fair Lending Coalition and Woodstock Institute, "Paying More for the American Dream: A Multi-State Analysis of Higher Cost Home Purchase Lending," March 2007 and "Paying More for the American Dream II: The Subprime Shakeout and Its Impact on Lower Income and Minority Communities," March 2008; and a report by Empire Justice Center, "Curbing the Mortgage Meltdown: The Impact of Foreclosures on New York's Economy and Communities," Revised August 5, 2008. These reports can be found at: www.empirejustice.org/publications/.

Home Purchase Lending

Table 1 also shows that, overall, home purchase lending declined by about 2,800 loans or 23 percent between 2006 and 2008. Conventional home purchase lending declined by 38 percent, from 9,740 loans in 2006 to 6,047 loans in 2008. In comparison FHA lending increased by 39 percent, from 813 loans in 2006 to 2,901 loans in 2008. Due to the increase in FHA lending in this declining market, almost 1 in 3 home purchase loans in 2008 were FHA loans, a substantial increase from FHA's 17 percent share in 2006.

Refinance Lending

As seen in Table 1, refinance lending declined as well, by almost 1,900 loans or 29 percent between 2006 and 2008. Conventional refinance lending declined by 41 percent to 3,580 loans in 2008, while FHA refinance lending increased by a dramatic 150 percent to 1,102 loans. In 2006, FHA loans made up less than 7 percent of the refinance market. However, by 2008, almost 1 in 4 refinance loans were FHA loans.

Summary

These changes in home purchase and refinance lending are the result, in part, of the collapse of the market for private mortgage backed securities.[6] Government-related entities, namely Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) now securitize or insure over 96 percent of mortgages.[7] Moreover, Fannie Mae and Freddie Mac continue to tighten underwriting standards, as the private secondary market, where lenders usually sold their loans, has dried up.[8] In 2008, Rochester area lenders used FHA loans as a channel to enable them to continue lending. If it were not for FHA lending, the downturns in home purchase and refinance lending would have been far worse.

The Tightening of Prime Mortgage Credit in Rochester's Underserved Neighborhoods

As the following analysis shows, not all Rochester area neighborhoods had the same experience with respect to the changing mortgage lending market. While access to mortgage credit tightened across the entire Rochester area, traditionally underserved communities, namely low and moderate income neighborhoods and neighborhoods of color, were hit much harder than middle and upper income and predominantly white communities.

Neighborhoods of color, or minority neighborhoods, are defined here as census tracts in which 50 percent or more of the residents are people of color (anyone other than non-Latino whites) and majority white neighborhoods are census

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[6] Before 2008, when loans were made they were bundled into private mortgage backed securities and sold on Wall Street on the "secondary market." As banks loosened their underwriting standards, these bundled securities ended up including larger percentages of non-performing loans. In the current climate of declining property values and high unemployment, investors are primarily only willing to purchase mortgage backed securities from the GSEs.

[7] As reported in the Wall Street Journal on April 30, 2010, http://online.wsj.com/article/SB10001424052748704093204575216530213580458.html.

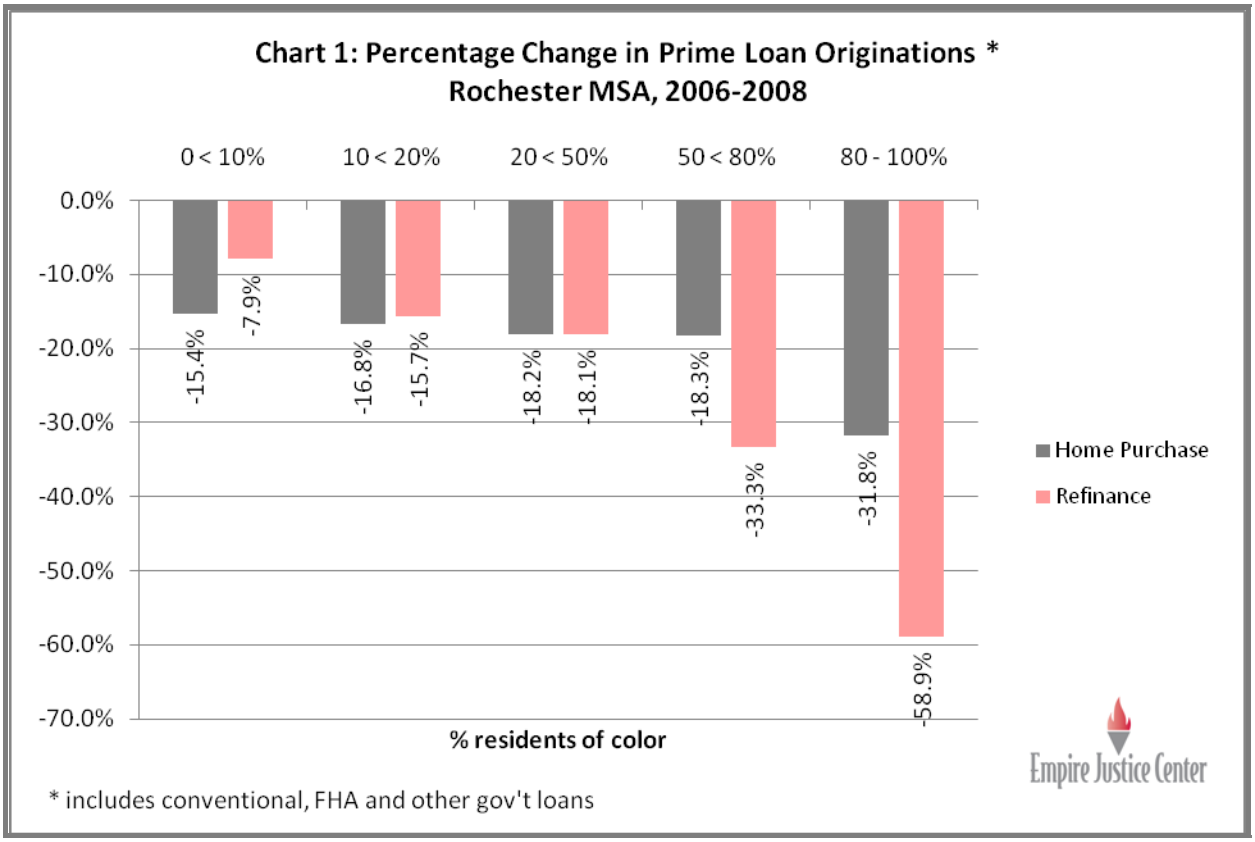
[8] For example Fannie Mae recently tightened its standards for the purchase of adjustable rate mortgages (ARMS). See: http://www.dsnews.com/articles/fannie-mae-changes-standards-for-purchase-and-securitization-of-arms-2010-04-30.

tracts in which less than 50 percent of the residents are people of color. Low income neighborhoods are census tracts in which the median family income (MFI) is less than 50 percent of the area median income (AMI); moderate income neighborhoods are those in which the MFI is 50-79 percent of the AMI; middle income neighborhoods are those in which the MFI is 80-119 percent of the AMI; upper income neighborhoods are those in which the MFI is 120 percent or more of the AMI.

The comparison of lending in 2008 to 2006 indicates there were greater declines in access to prime mortgage loans in lower income neighborhoods and communities of color than in upper and middle income and majority white areas. In fact, as seen below, prime refinance credit in 2008 had virtually dried-up for those in the lowest income areas or neighborhoods with the highest concentrations of residents of color.

Decreased Access to Prime Credit in Communities of Color

Between 2006 and 2008, access to prime lending, particularly prime refinance lending, was substantially reduced in communities of color. While prime refinance lending declined from 3,095 to 2,851 loans in neighborhoods with less than 10 percent residents of color, it declined from 56 to 23 loans in areas with 80 percent or more residents of color and from 99 to 66 loans in communities with 50-79 percent residents of color.



As seen by Chart 1 showing the rates of decline in prime home purchase and refinance lending, prime lending declined at greater rates as the percentage of residents of color increased. Prime home purchase lending declined by 32 percent in neighborhoods with 80 percent or more residents of color, twice the rate of the 15 percent home

purchase lending decline in neighborhoods with less than 10 percent residents of color. The disparity is much greater with respect to the decline in prime refinance lending. Between 2006 and 2008, prime refinance lending declined by 59 percent in neighborhoods with 80 percent or more residents of color and by 33 percent in communities with 50-79 percent residents of color, seven and four times, respectively, the 8 percent decline in neighborhoods with less than 10 percent residents of color.

Decreased Access to Prime Credit in Lower Income Neighborhoods

Between 2006 and 2008, access to prime loans shrunk more in low income neighborhoods than in middle and upper income communities. For example, prime refinance lending declined slightly from 1,573 to 1,533 loans in upper income neighborhoods, but declined from 75 to 38 loans in low income communities and from 378 to 288 loans in moderate income areas.

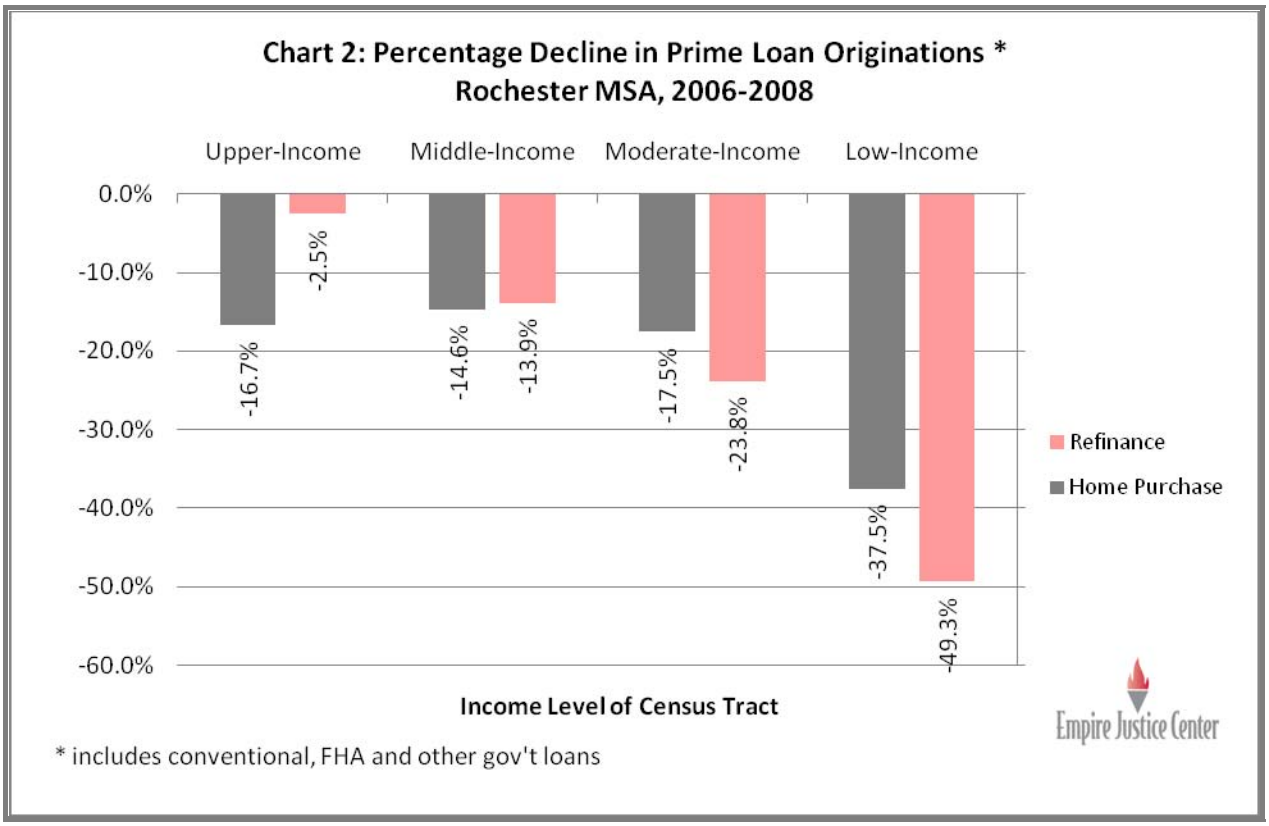


Chart 2 shows that prime home purchase lending declined in low income neighborhoods by 38 percent, twice the rate of the 17 percent decline in upper income areas. Prime refinance lending declined by 49 percent in low income neighborhoods and by 24 percent in moderate income areas, but only by 2.5 percent in upper income communities.

How Access to Credit Looks Behind the Decline in Prime Lending

In addition to the disparities in the changes in prime loan originations across neighborhood, Empire Justice Center's analysis found that between 2006 and 2008:

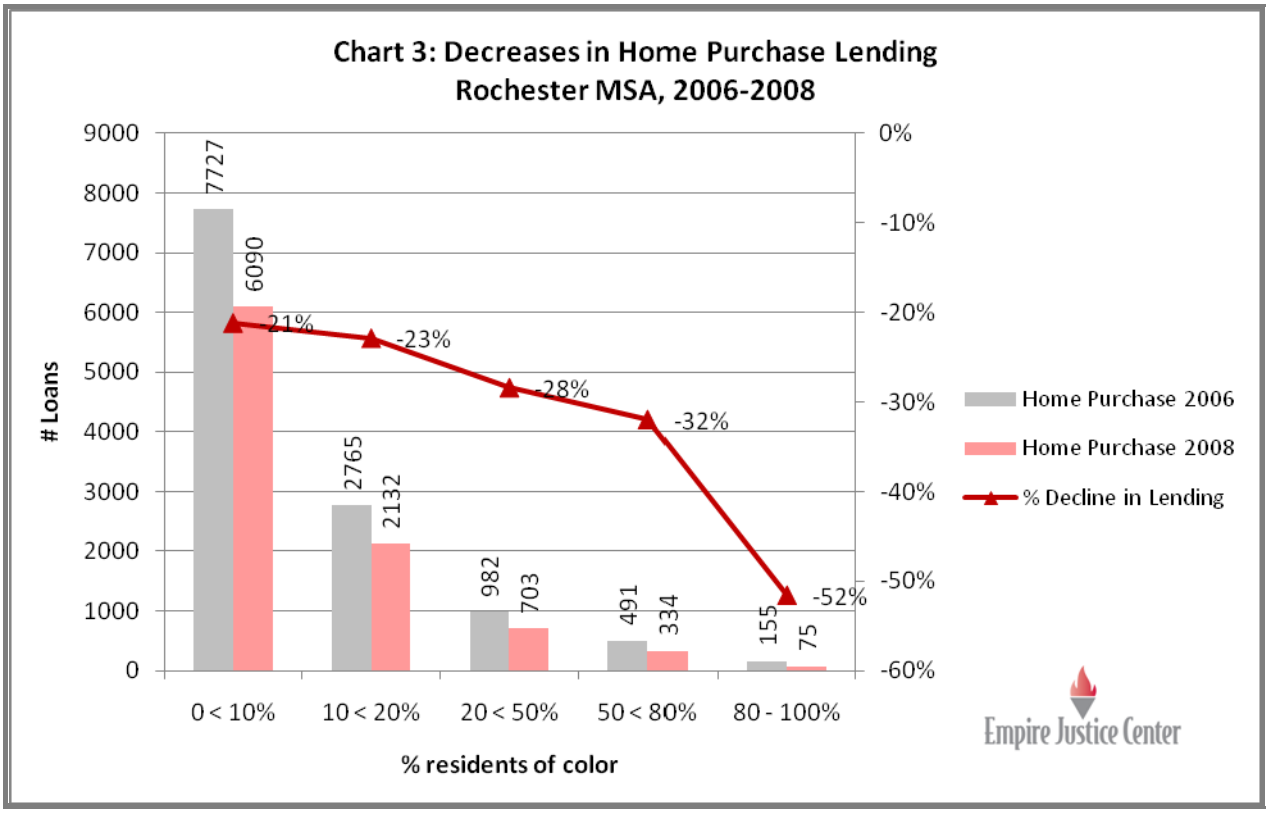
- Conventional lending declined more steeply in lower income neighbordhoods and communities of color than in middle and upper income and majority white areas.
- The growth in FHA lending was generally smaller in lower income areas and communities of color than in middle and upper income and majority white neighborhoods.
- Subprime or higher cost lending declined at greater rates in upper income and majority white neighborhoods than in low income areas and communities of color; and the proportions of higher cost FHA loans actually increased, particularly among lower income neighborhoods and communities of color.

The Tightening of Credit in Neighborhoods of Color

As noted earlier, the Community Reinvestment Act (CRA) covers only low-moderate income neighborhoods and households; it does not cover people of color or minority neighborhoods. Our analysis here reinforces research by other consumer advocates, and builds on our own research that has shown a general lack of lending in neighborhoods of color. This lack of lending slowed to a trickle in 2008—in both home purchase and refinance lending.

Home Purchase Lending Changes in Neighborhoods of Color

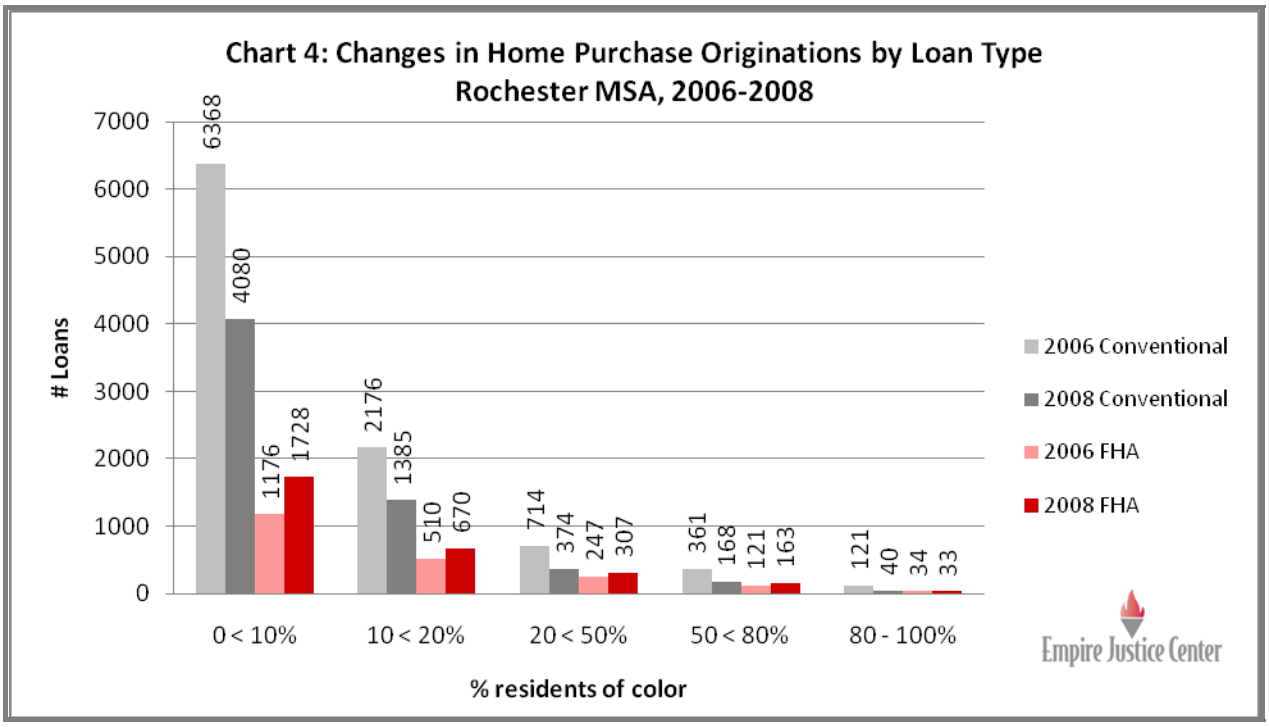
As seen earlier, home purchase lending declined in the Rochester area from 12,120 loans in 2006 to 9,334 loans in 2008, a decline of 23 percent.



As seen by Chart 3, however, some neighborhoods experienced much higher rates of decline than others. While home purchase lending declined by 21 percent in neighborhoods with less than 10 percent residents of color, it decreased by 32 percent in neighborhoods with 50-80 percent residents of color, and by 52 percent in neighborhoods with 80 percent or more residents of color. Due to these substantial declines, only 409 home purchase loans were made in minority neighborhoods in 2008, of which only 75 were made in neighborhoods with 80 percent or more residents of color.

Conventional v. FHA Lending

While conventional home purchase lending declined by almost 4,000 loans—from 9,740 to 6,047 loans in the Rochester area between 2006 and 2008, FHA lending increased by just over 800 loans—from 2,008 to 2,901 loans.



Most of these additional loans were made in predominantly white neighborhoods, however. As seen by Chart 4, FHA lending increased by 552 loans in neighborhoods with less than 10 percent residents of color, and by 160 loans in neighborhoods with 10-20 percent residents of color. In comparison, FHA home purchase lending increased by only 42 loans in communities with 50-80 percent residents of color and decreased by 1 loan in areas with 80 percent or more people of color. Thus, in communities of color, the slight increase in FHA lending did little to offset the dramatic decline in conventional home purchase lending.

FHA Lending

As a result of the dramatic declines in conventional home purchase lending and the increased FHA lending, 2008 saw an increase in the percentage of home purchase loans that were FHA loans. In the Rochester area as a whole, FHA loans made up 31 percent of the home purchase lending in 2008, compared to 17 percent in 2006.

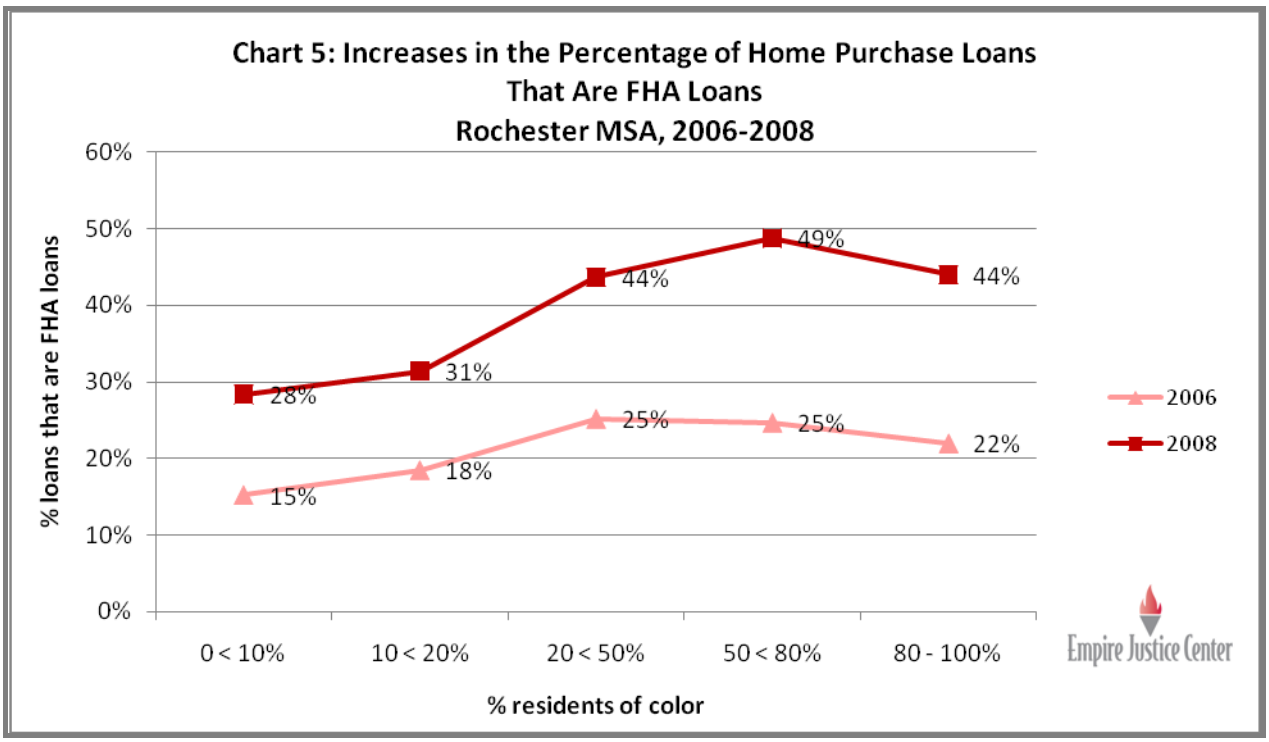


Chart 5 shows that the increased share of FHA lending is true for all neighborhoods. Almost one-half of the home purchase loans originated in neighborhoods with 50-80 percent residents of color were FHA loans in 2008, twice the rate of 2006. The percentage doubled, as well, in neighborhoods with 80 percent or more residents of color, where 44 percent of the home purchase loans in 2008 were FHA loans, compared to 22 percent in 2006.

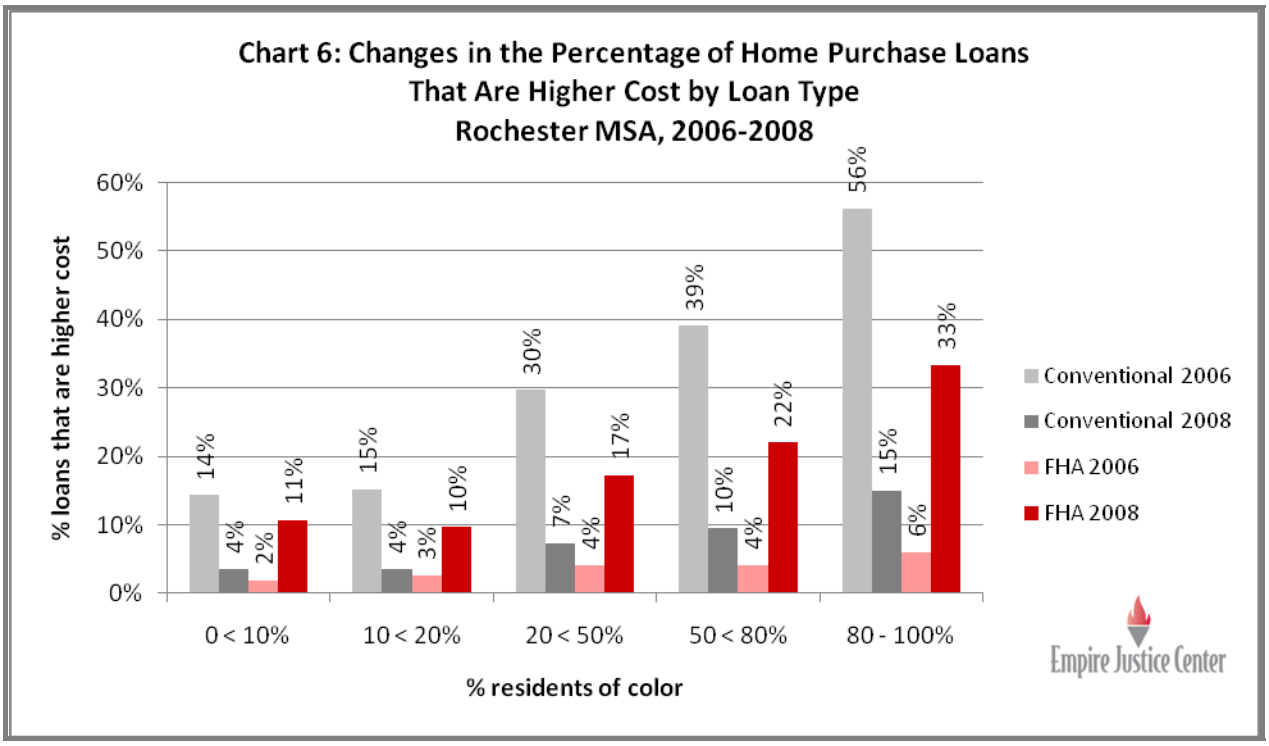
Higher Cost Lending

For both home purchase and refinance loans, the number of higher cost loans and the percentage of loans that were higher cost declined substantially between 2006 and 2008. There were only 611 higher cost home purchase loans (7 percent of all home purchase loans) and 789 higher cost refinance loans (17 percent of all refinance loans) in 2008. Despite the low number of higher cost or subprime loans in the Rochester area, it is important to examine what those loans look like and where they occured.

Higher cost home purchase lending in the Rochester area declined dramatically between 2006 and 2008, both in the number of higher cost loans originated and in the percentage of loans that were higher cost.

- The number of higher cost home purchase loans declined from 1,718 loans in 2006 to 611 in 2008.

- While 14 percent of home purchase loans were higher cost in 2006, less than 7 percent were higher cost in 2008.
- Higher cost conventional home purchase lending declined from 1,667 to 241 loans, while higher cost FHA lending increased from 51 to 350 loans.



Changes, however, differed across loan type and neighborhood. Chart 6 shows that in every neighborhood, the percentage of conventional home purchase loans that were higher cost declined dramatically while the proportion of FHA loans that were higher cost increased at least three-fold. In 2008 in neighborhoods with less than 20 percent residents of color, only 4 percent of conventional home purchase loans were higher cost and only 11 percent or less of the FHA loans were higher cost. These rates were much lower than those in neighborhoods with 80 percent or more residents of color where, in 2008, 15 percent of the conventional, and 33 percent of the FHA, home purchase loans were higher cost.

Summary

The above analysis indicates the following patterns:

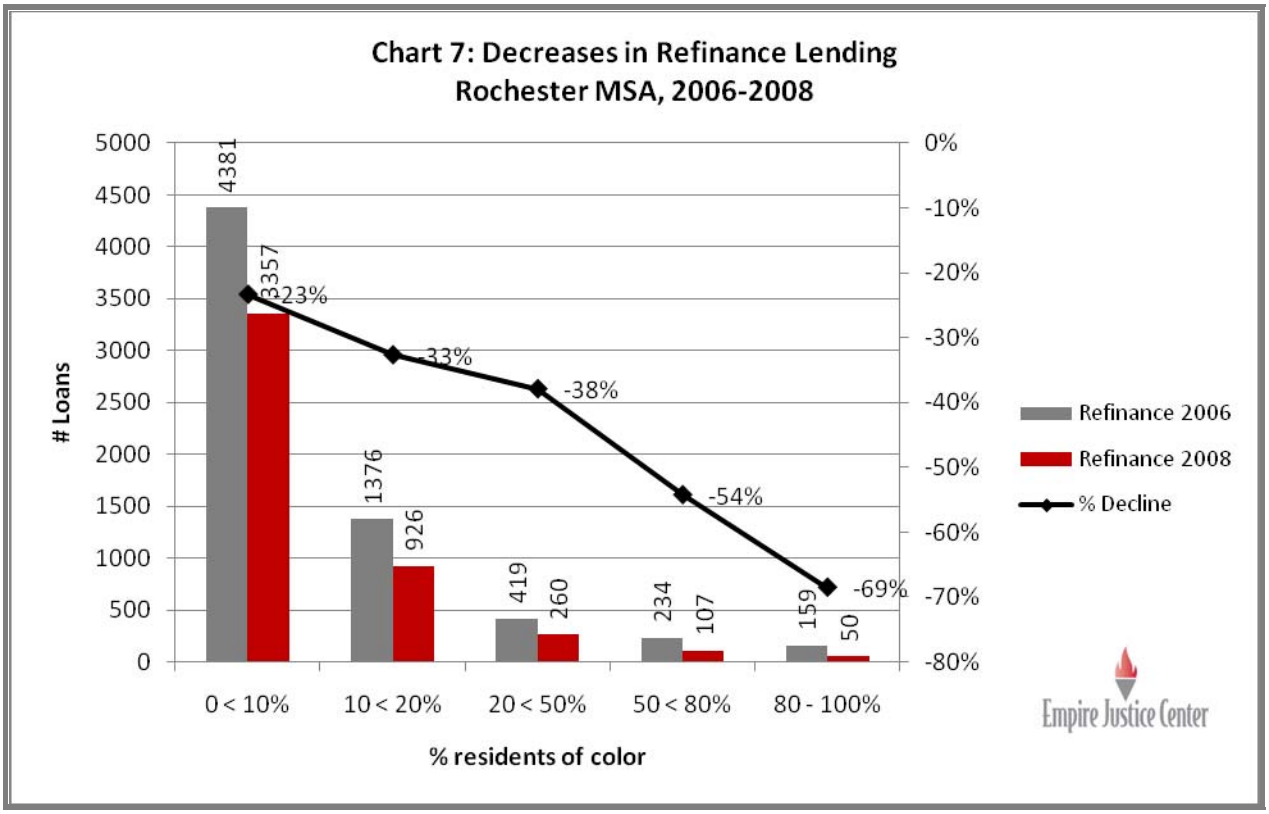
- Home purchase lending declined across the Rochester area, in predominantly white neighborhoods and in neighborhoods of color.
- The decline in home purchase lending was substantially greater in neighborhoods of color, particularly in neighbhoods with 80 percent or more people of color, than in communities with less than 20 percent residents of color.

- FHA home purchase lending increased in almost all communities and its share of home purchase lending increased in all communities. However, the increase in FHA lending was not enough to offset the dramatic decline in conventional lending.
- Higher cost FHA home purchase lending increased in all communities, particularly in neighborhoods with 80 percent or more residents of color.

This suggests that in 2008 Rochester's neighborhoods with 80 percent or more residents of color saw substantially less home purchase lending. Higher proportions of this smaller pool of lending were FHA loans, of which more were higher cost FHA loans.

Refinance Lending Changes in Neighborhoods of Color

Refinance lending (includes all 1st lien conventional and government guaranteed loans on owner-occupied 1-4 family site-built units) declined in the Rochester area by 29 percent—from 6,569 loans in 2006 to 4,700 loans in 2008.

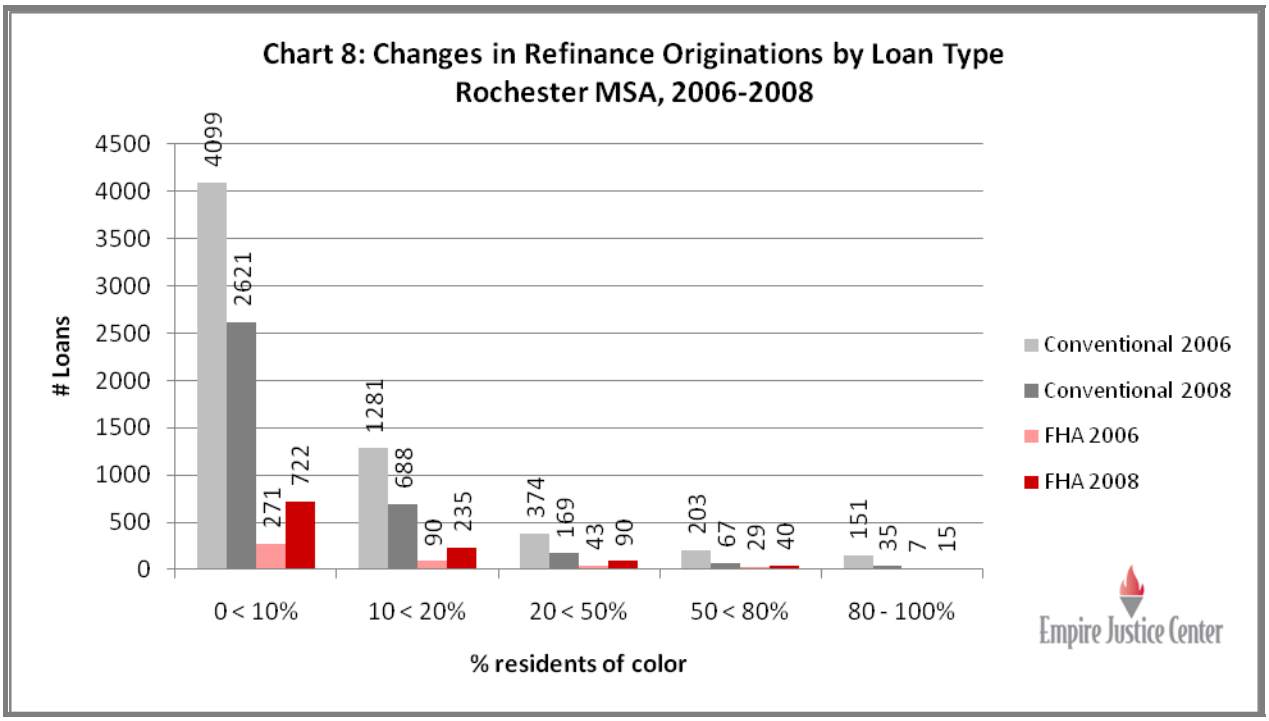


Neighborhoods of color were particularly hard-hit by the decline, however. As seen in Chart 7, refinance lending declined by 54 percent in neighborhoods with 50-80 percent residents of color and by 69 percent in neighborhoods with 80 percent or more residents of color. In 2008, less than 160 refinance loans were made in communities of color, of which only 50 were made in neighborhoods with 80 percent or more residents of color. In fact, of all the refinance loans made in the Rochester area in 2008, 71 percent were in neighborhoods with less than 10 percent residents of color.

Conventional v. FHA Lending

As with home purchase lending, conventional refinance lending declined in the Rochester area between 2006 and 2008 while FHA lending increased. Between 2006 and 2008,

- Conventional refinance lending declined from 6,108 to 3,580 loans, a decline of 41 percent.
- FHA refinance lending increased from 440 to 1,102 loans, an increase of 151 percent.



Most of these additional FHA loans went to majority white communities. Chart 8 shows that of the 662 additional FHA refinance loans originated in 2008, 451 went to neighborhoods with less than 10 percent residents of color and only 19 additional loans went to neighborhoods with 50 percent or more residents of color. For all communities, the increase in FHA refinance lending was not enough to replace the decreased conventional lending. This had a much more devastating impact on communities of color, however, because they were already experiencing a dearth in lending.

FHA Lending

One of the most interesting changes between 2006 and 2008 was the increase in the proportion of refinance loans that were FHA loans. FHA lending has traditionally been considered an avenue for home buyers, not those refinancing a loan. However, in 2008 one out of every three FHA loans were refinance loans and over 23 percent of refinance loans were FHA loans. This is two and one-half times larger than 2006 when less than 7 percent of refinance loans were FHA loans.

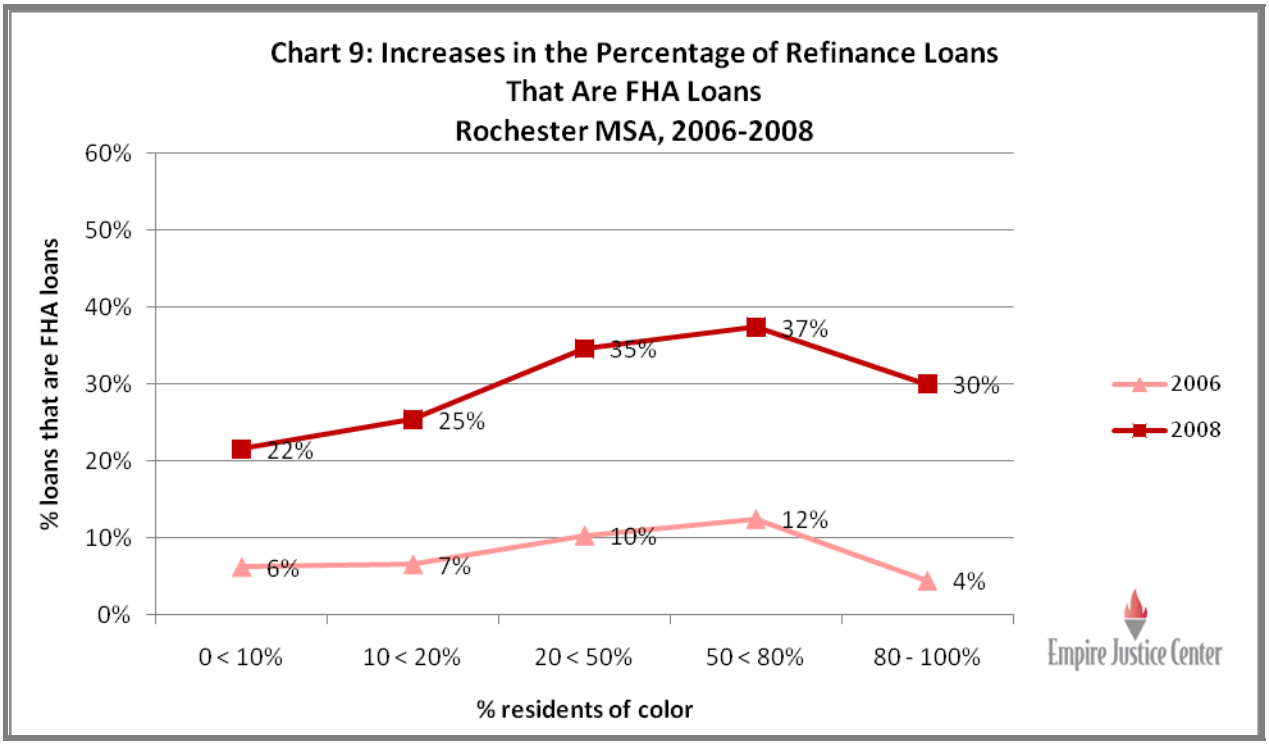
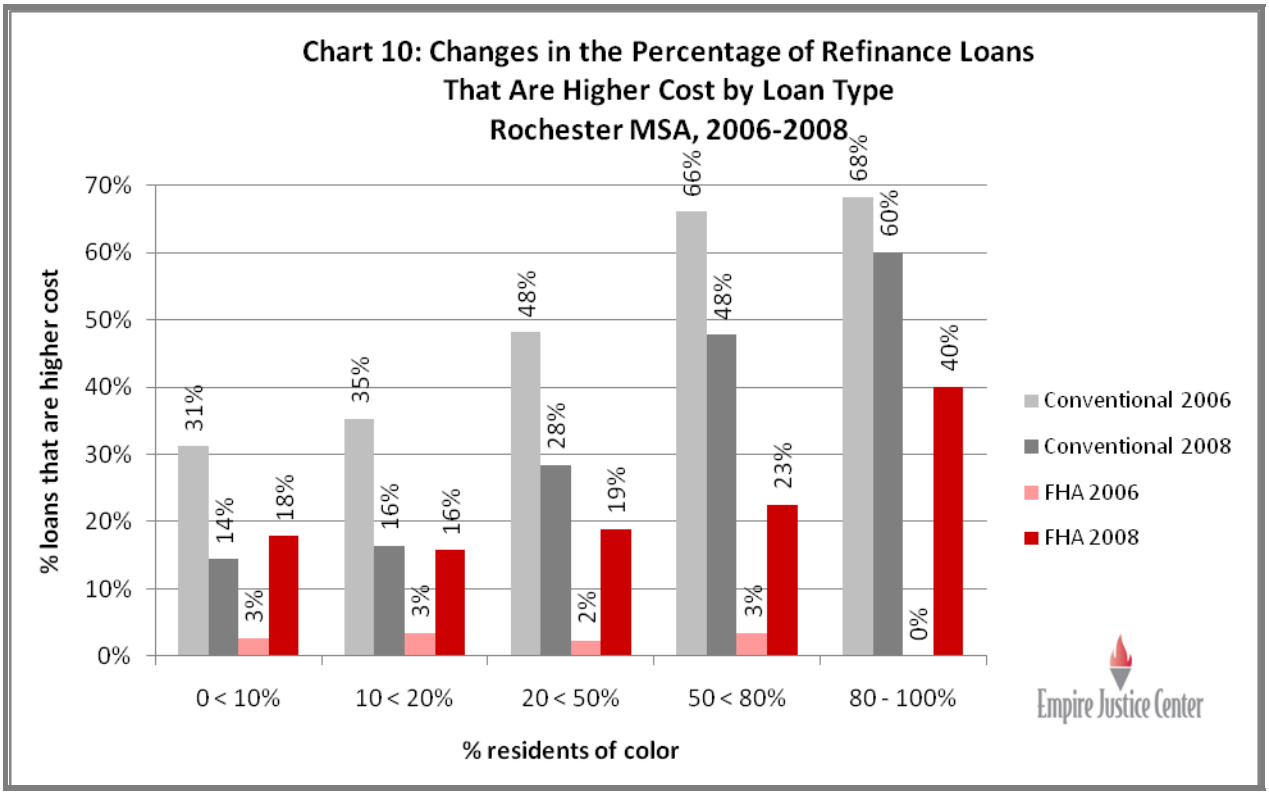


Chart 9 shows that in 2008, refinance loans were more likely to be FHA loans in neighborhoods of color than in majority white areas, particularly with the eight-fold increase between 2006 and 2008 in the proportion of FHA refinance loans in neighborhoods with 80 percent or more residents of color. In 2008, at least one-third of refinance loans made in neighborhoods with 20 percent or more residents of color were FHA loans, compared to less than one-fourth of the loans in neighborhoods with less than 20 percent residents of color.

Higher Cost Lending

Higher cost refinance lending in the Rochester area declined dramatically between 2006 and 2008, both in the number of higher cost loans originated and in the percentage of loans that were higher cost.

- The number of higher cost refinance loans declined from 2,160 in 2006 to 789 loans in 2008.
- While 33 percent of refinance loans were higher cost in 2006, only 17 percent were higher cost in 2008.
- Higher cost conventional refinance lending declined from 2,148 to 591 loans, while higher cost FHA lending increased from 12 to 198 loans.



As with home purchase lending, these changes in higher cost refinance lending differed across loan type and neighborhood. Chart 10 shows that in every neighborhood, the percentage of conventional refinance loans that were higher cost declined while the percentage of FHA refinance loans that were higher cost increased. Comparing changes in majority white neighborhoods to those in neighorhoods of color, the declines in proportions of higher cost conventional lending were smaller while the increases in the proportions of higher cost FHA lender were steeper. Thus, in 2008, 60 percent of the conventional and 40 percent of the FHA refinance loans were higher cost in neighborhoods with 80 percent or more residents of color, while only 14 percent of conventional and 18 percent of FHA were higher cost in neighborhoods with less than 10 percent residents of color.

Summary

The findings from the analysis of refinance lending in the Rochester area reflect those of the home purchase lending analysis, but suggest a more detrimental impact on communities of color than the changes in home purchase lending.

- Refinance lending declined across the Rochester area, in predominantly white neighborhoods and in neighborhoods of color.
- The rates of decline in refinance lending were larger than those for home purchase lending.
- The decline in refinance lending was substantially greater in neighborhoods of color than in majority white communities, and these differences were larger than those for home purchase lending.

- FHA refinance lending increased in all communities, as did its share of total refinance lending. However, the increase in FHA lending was not enough to offset the dramatic decline in conventional lending.
- Higher cost FHA refinance lending increased, and higher cost conventional refinance lending declined, in all communities. These changes had the most adverse impact on neighborhoods with 80 percent or more residents of color, where higher cost conventional refinance lending declined the least and higher cost FHA lending increased the most.

As with home purchase lending, in 2008 Rochester's neighborhoods with 80 percent or more residents of color saw substantially less refinance lending. Higher proportions of this smaller pool of lending were FHA loans, of which more were higher cost FHA loans.

The Tightening of Credit in Low and Moderate Income Neighborhoods

Despite the fact that low and moderate income communities are covered by the Community Reinvestment Act, 2008 was a very tight year with respect to mortgage credit in lower income neighborhoods (low and moderate income neighborhoods). Low income neighborhoods are census tracts in which the median family income (MFI) is less than 50 percent of the area median income (AMI); moderate income neighborhoods are those in which the MFI is 50-79 percent of the AMI; middle income neighborhoods are those in which the MFI is 80-119 percent of the AMI; upper income neighborhoods are those in which the MFI is 120 percent or more of the AMI.

Home Purchase Lending Changes Lower Income Neighborhoods

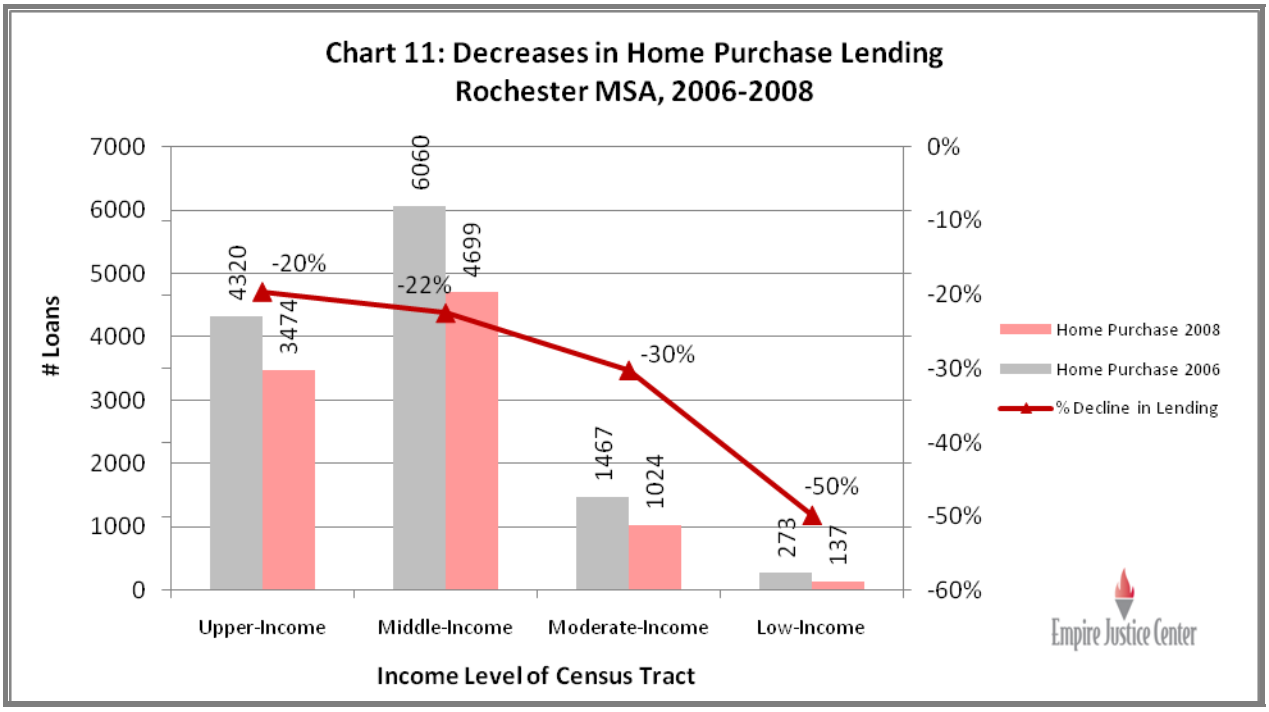
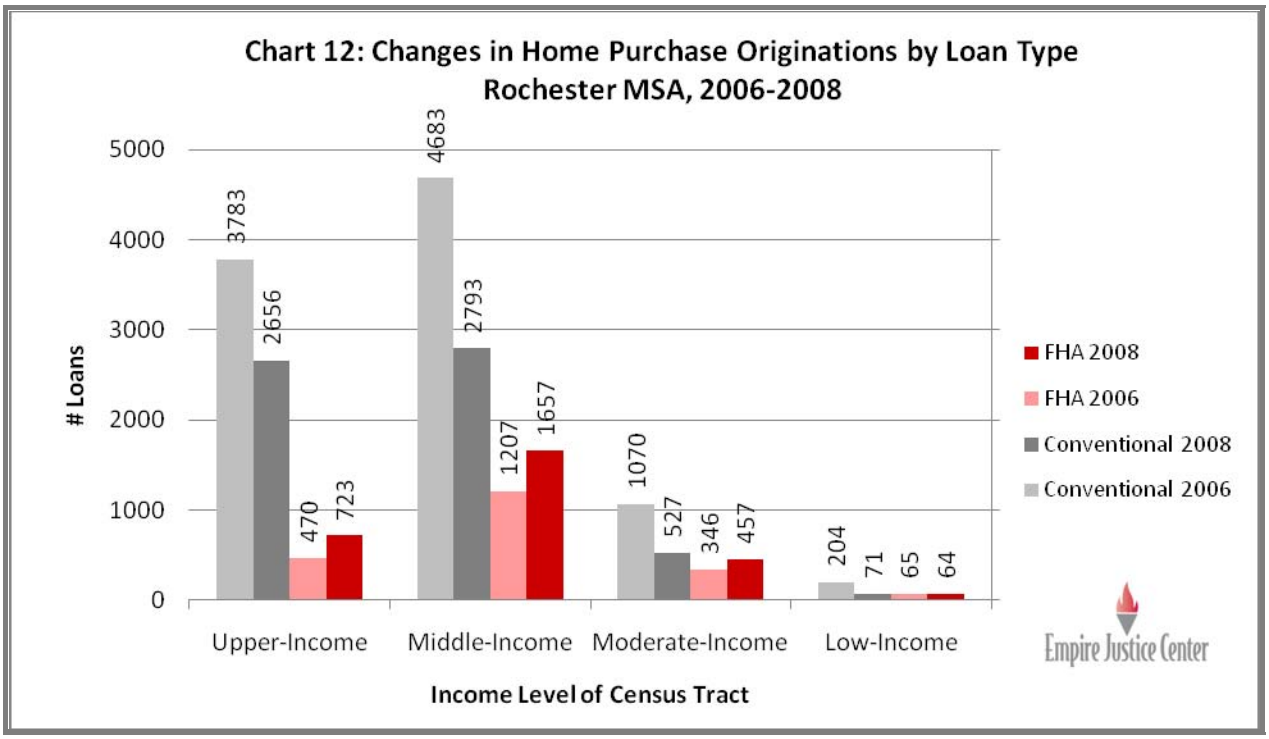


Chart 11 shows that the area's average 23 percent decline in home purchase lending was not distributed evenly across neighborhood. Between 2006 and 2008, low and moderate income neighborhoods experienced higher rates

of decline in home purchase lending than did middle and upper income areas. Lending declined by 50 percent in low income neighborhoods and by 30 percent in moderate income areas while declining by 22 percent in middle and 20 percent in upper income areas.

Conventional v. FHA Lending



Of the 813 loan increase in FHA home purchase lending between 2006 and 2006, Chart 12 shows that only 111 of them were in moderate income neighborhoods and none were in low income neighborhoods. The other 86 percent of the additional FHA loans were in middle and upper income areas of the Rochester MSA. Thus the increase in FHA lending did little to offset the 50 percent drop in conventional home purchase lending in low and moderate income areas.

FHA Lending

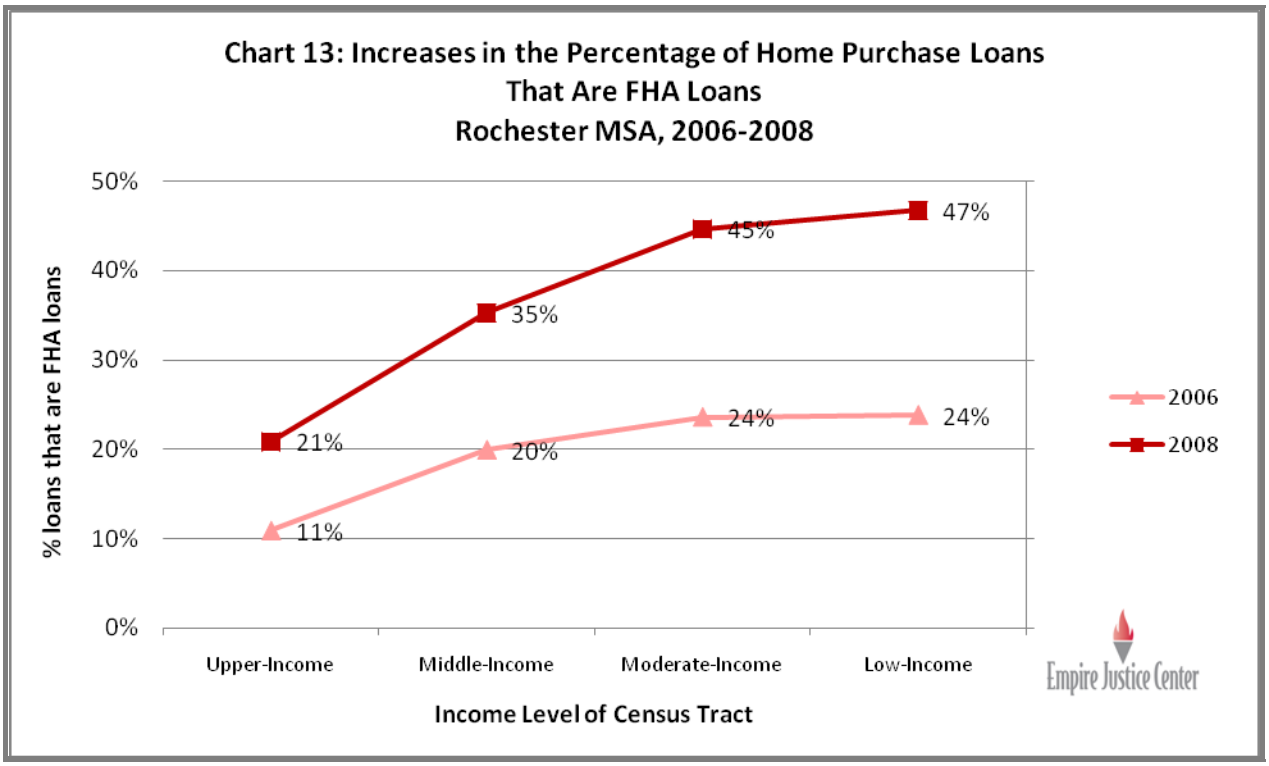


Chart 13 shows that across all neighborhood income levels FHA lending in 2008 made up a higher proportion of home purchase lending than in 2006. Forty-seven percent of the home purchase loans originated in low income neighborhoods were FHA loans in 2008, twice the rate of 2006. In upper income neighborhoods, the proportion of home purchase loans that were FHA loans doubled as well, but from a much lower starting point—from 11 percent in 2006 to 21 percent in 2008.

Higher Cost Lending

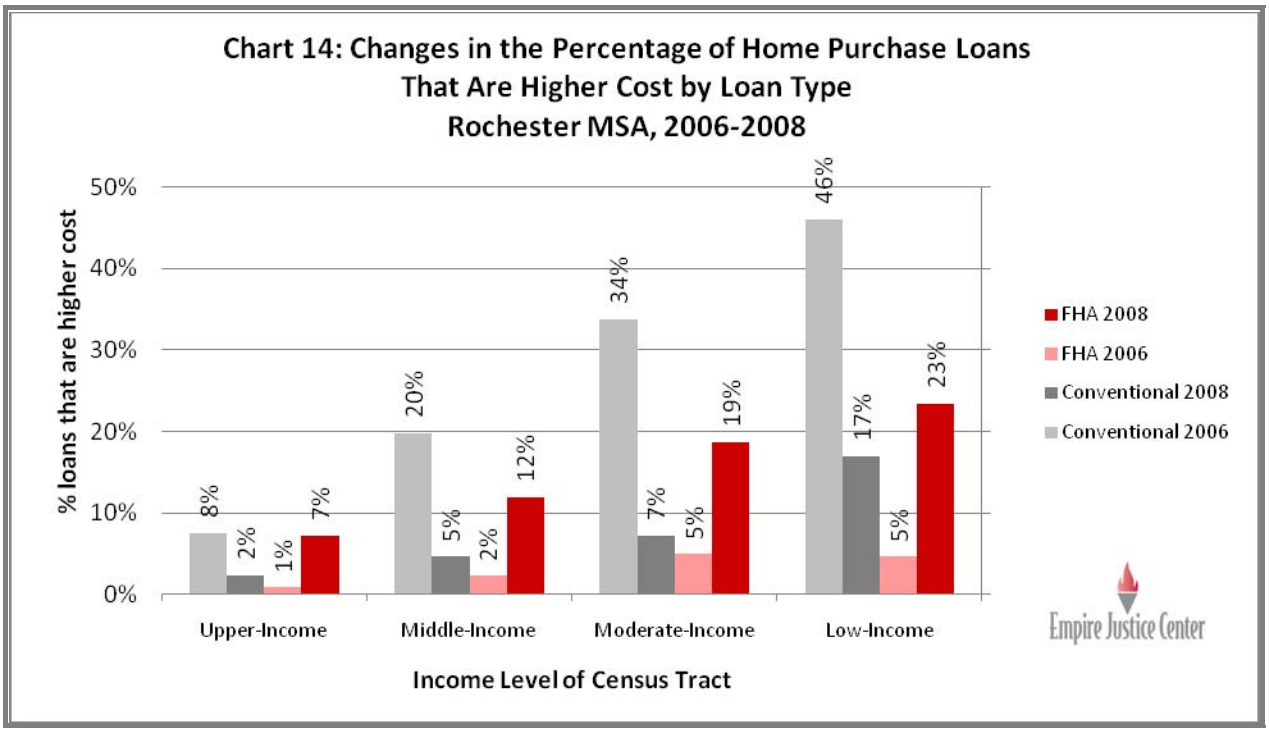


Chart 14 shows that in every neighborhood, the percentage of conventional home purchase loans that were higher cost declined dramatically while the proportion of FHA loans that were higher cost increased by at least 275 percent. In upper income neighborhoods in 2008 only 2 percent of the conventional and 7 percent of the FHA home purchase loans were higher cost, while in low income neighborhoods 17 percent of the conventional and 23 percent of the FHA loans were higher cost. Despite the changes in higher cost lending, in both 2006 and 2008, conventional and FHA home purchase loans were more often higher cost in low and moderate income neighborhoods than in middle and upper income neighborhoods.

Summary

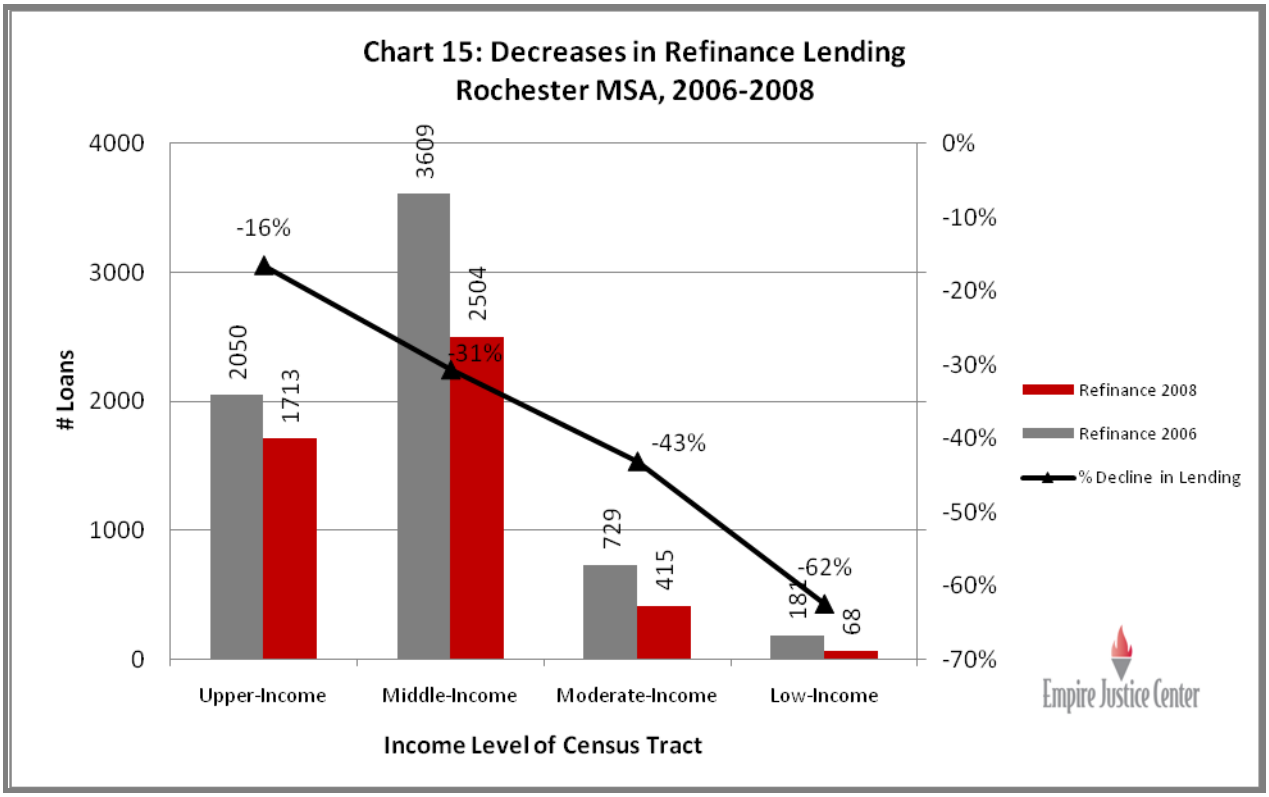
As with one group of traditionally underserved neighborhoods, neighborhoods of color, we find that the decline in home purchase lending had a more detrimental impact on lower income neighborhoods than middle and upper income communities.

- The decline in home purchase lending was substantially greater in low income neighborhoods than in middle and upper income communities.
- FHA home purchase lending increased in almost all communities and its share of home purchase lending increased across all neighborhood income levels. However, no matter what the community, the increase in FHA lending was not enough to offset the dramatic decline in conventional lending.

- Higher cost FHA home purchase lending increased in all communities, particularly in low income neighborhoods.

Only 137 home purchase loans were originated in 2008 in Rochester area low income neighborhoods, a decline of 50 percent from 2006. Of these 137 loans, 64 or 47 percent were FHA loans and 23 percent of these were higher cost FHA loans.

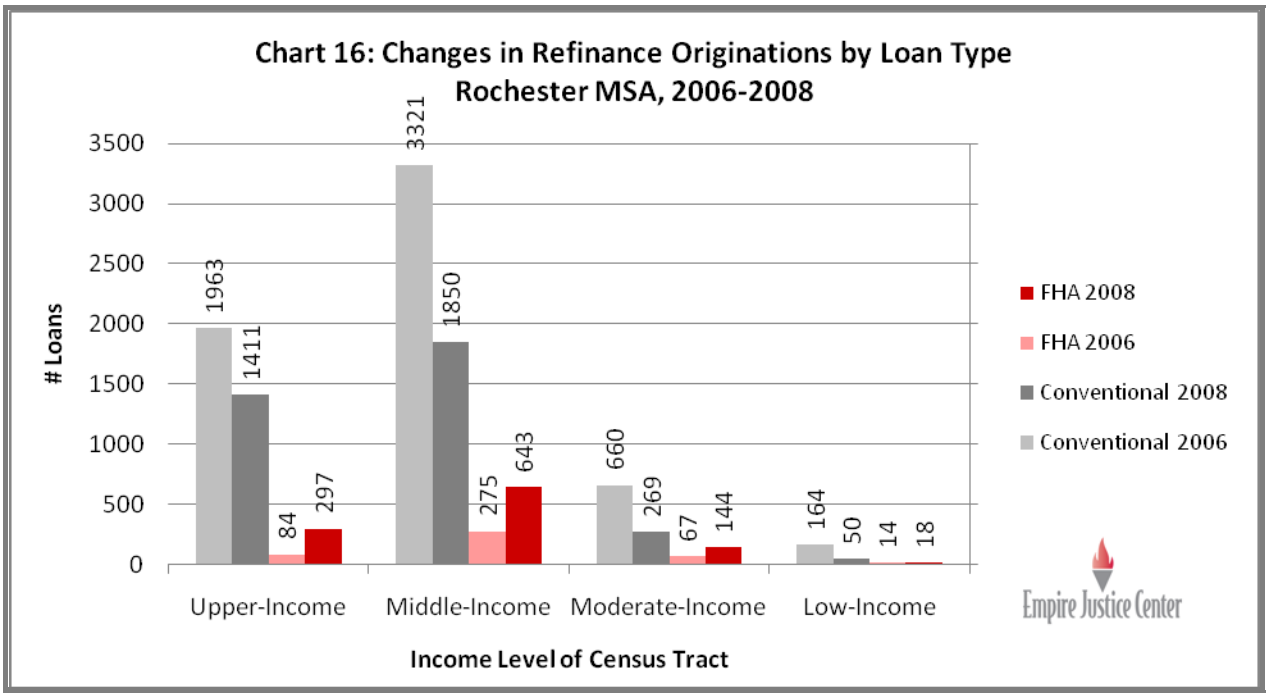
Refinance Lending Changes in Lower Income Neighborhoods



Refinance lending declined across all neighborhood levels between 2006 and 2008. However, as seen in Chart 15, the flow of refinance credit to Rochester's low income neighborhoods slowed to a trickle. Lending declined by a dramatic 62 percent in low income areas to only 68 refinance loans in 2008. In comparison, refinance lending declined by only 16 percent in upper income areas to 1713 loans in 2008.

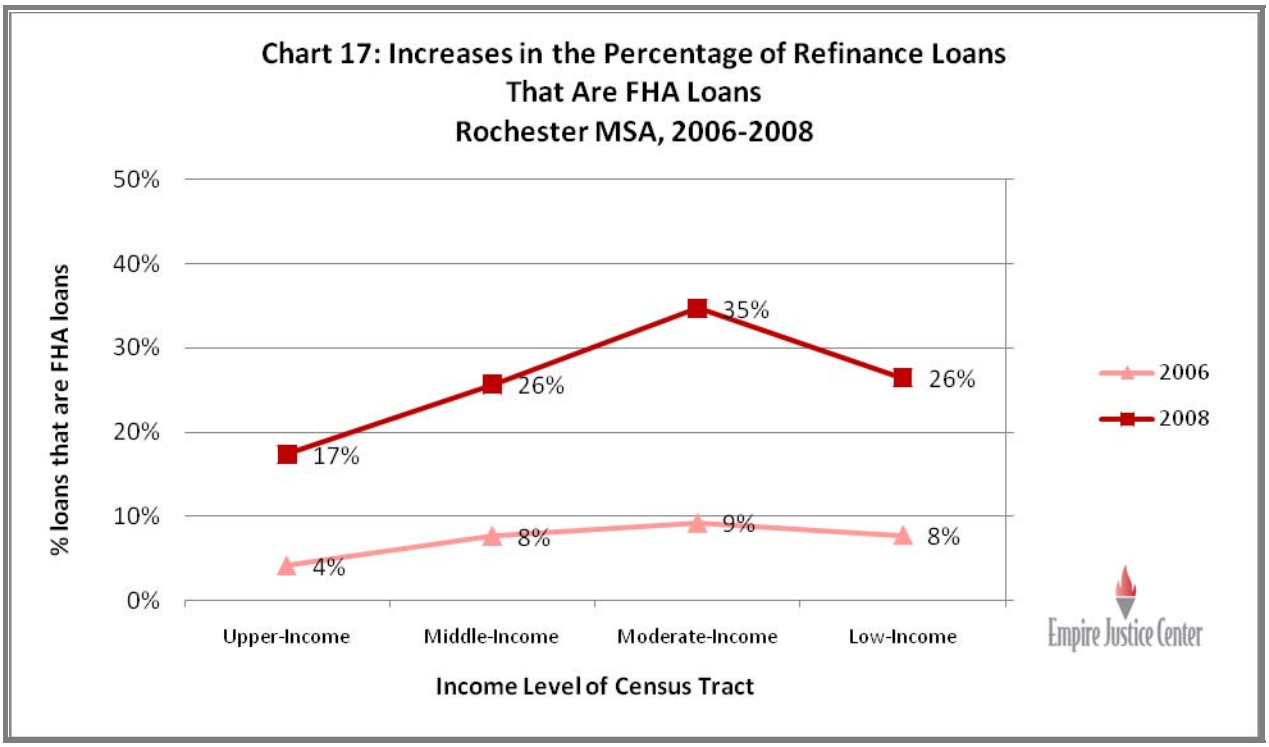
Conventional v. FHA Lending

Across all neighborhood income levels, conventional refinance lending declined between 2006 and 2008 while FHA lending increased. While not shown here, the rate of decline of conventional lending was greater and the increase in FHA lending was smaller in lower income communities than in middle and upper communities. In low income communities, conventional refinance lending declined by 60 percent and FHA lending increased by 29 percent; while in upper income areas, conventional lending declined by 28 percent and FHA lending increased by 254 percent.



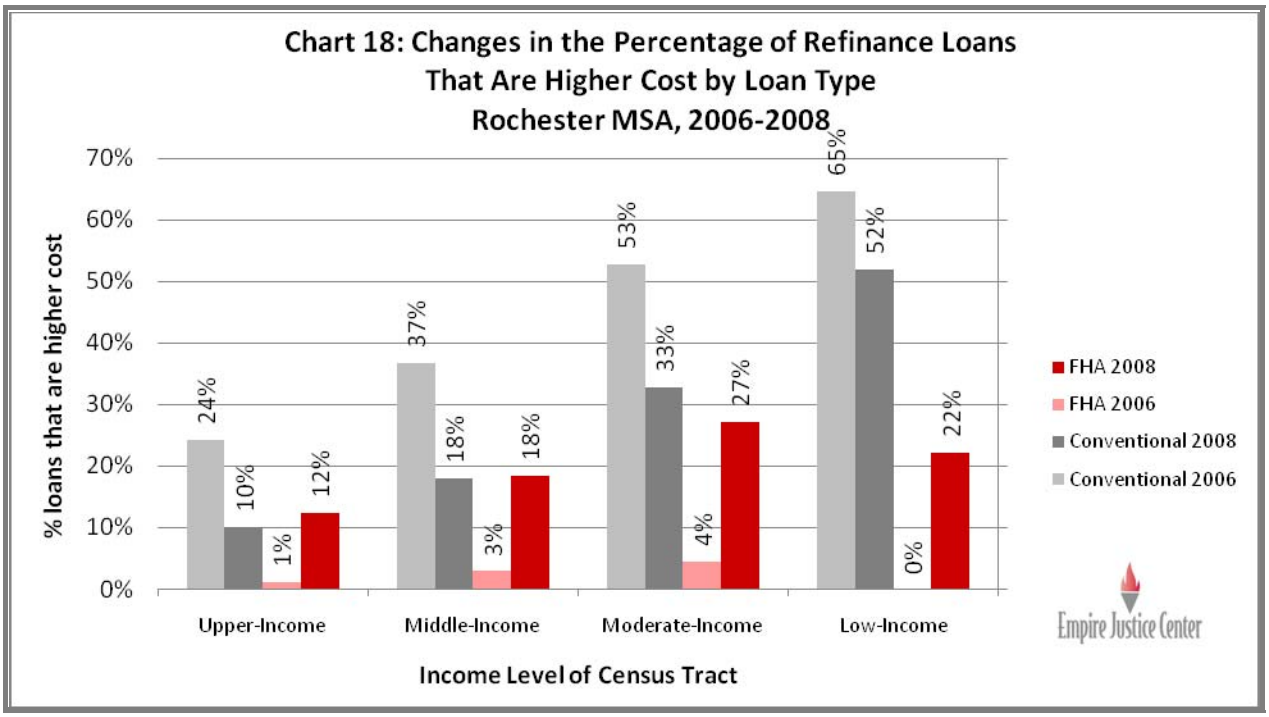
Most of the additional FHA loans went to middle and upper income communities. Chart 16 shows that of the 662 additional FHA refinance loans originated in 2008, 368 went to middle income neighborhoods and 213 went to upper income areas. Only 4 additional FHA loans went to low income neighborhoods and 77 went to moderate income communities. While the increase in FHA refinance lending was not enough to replace the decreased conventional lending for all communities, this had a greater impact on low income communities because they were already experiencing a derth in lending.

FHA Lending



All neighborhoods experienced an increase between 2006 and 2008 in the proportion of refinance loans that were FHA loans. Chart 17 shows that in 2008, refinance loans were most likely to be FHA loans in moderate income neighborhoods where 35 percent of the refinance loans were FHA loans, a 275 percent increase from 2006. Despite a three-fold increase, only 17 percent of the loans in upper income neighborhoods were FHA loans in 2008, one-half the rate of moderate income areas.

Higher Cost Lending



As with home purchase lending, changes in higher cost refinance lending differed across loan type and neighborhood income level. Chart 18 shows that in every neighborhood, the percentage of conventional refinance loans that were higher cost declined between 2006 and 2008 while the percentage of FHA refinance loans that were higher cost increased. The rates of decline in proportions of higher cost conventional lending were more dramatic in upper and middle income neighborhoods than in low and moderate income areas. In 2008, 52 percent of the conventional and 22 percent of the FHA refinance loans were higher cost in low income neighborhoods, while only 10 percent of conventional and 12 percent of FHA were higher cost in upper income neighborhoods.

Summary

The findings from the analysis of refinance lending in the Rochester area by neighborhood income level reflect those of the home purchase lending analysis. Low and moderate income neighborhoods felt the pinch resulting from the decline of refinance lending more than middle and upper income areas.

- The decline in refinance lending was substantially greater in low income neighborhoods than in upper income communities, and these differences were larger than those for home purchase lending.
- While FHA refinance lending increased across all neighborhood income levels, its rate of increase was smaller in low income areas than in upper income neighborhoods. Moreover, conventional refinance lending declined at higher rates in low income neighborhoods than in upper income areas.

- Higher cost FHA refinance lending increased, and higher cost conventional refinance lending declined, across all neighborhood income levels. These changes had the most adverse impact on low income neighborhoods, where higher cost conventional refinance lending declined the least and higher cost FHA lending increased the most.

As with home purchase lending, in 2008 Rochester's low income neighborhoods saw substantially less refinance lending. Higher proportions of this smaller pool of lending were FHA loans, of which more were higher cost FHA loans.

Mapping the Reduced Access to Credit

To examine more closely how the access to prime credit changed, we compared the number of prime refinance loans made in 2006 and 2008 at the census tract level for the city of Rochester and Monroe County. While prime refinance lending declined in both the city and the county overall, the decline was more dramatic in the city than in the county.There were 295 prime refinance loans made in 2008 in the city of Rochester, a decrease of 28 percent from 2006. In the rest of Monroe County, prime refinance lending declined by 5 percent to 2,362 loans in 2008.

While many census tracts saw fewer loans in 2008 than in 2006, other areas experienced increases in prime refinance lending. (See Figures 1 through 4.)

Access to Credit in the City of Rochester

Figures 1 through 3 below show the overall levels of prime refinance lending for 2006 and 2008 (by the size of the pie), the difference in lending between 2006 and 2008 (the size of the pieces) and how neighborhoods with 80 percent or more residents of color (Figure 1), neighborhoods with 50-79 percent residents of color (Figure 2) and low income neighborhoods (less than 50 percent of the area median income) (Figure 3) fared with respect to other neighborhoods.

Most striking are the fourteen census tracts with small red pies. These indicate that very few prime refinance loans were made there in 2006 and zero loans were made there in 2008. All of these neighborhoods, including Upper Falls, South Marketview Heights, Brown Square, Edgerton, Plymouth Exchange (PLEX) and South Wedge, are near Rochester's Center City,[9] most (10 of 14) are neighborhoods with 80 percent or more residents of color (Figure 1), four are areas with 50-79 percent residents of color (Figure 2) and 13 are lower income neighborhoods (Figure 3). In addition, five census tracts, all of which are low income neighborhoods with at least 50 percent residents of color, had zero prime refinance loans in both years (dotted tracts on the maps).

While only two of the 26 predominantly minority (80 percent or more minority) neighborhoods experienced no change or an increase in prime refinance lending between 2006 and 2008 (Figure 1), 13 of the twenty-five 50-79 percent minority neighborhoods (Figure 2) and seven of the 38 low income neighborhoods did so (Figure 3).

[9] The locations and names of Rochester neighborhoods were found on the interactive map at: http://www.rochestercityliving.com/.

A review of all of the city maps indicate that the traditionally underserved neighborhoods (majority minority and/or low income) hurt most by the decline in prime refinance lending include: Upper Falls, Marketview Heights, Group 14621, PLEX, Brown Square, and parts of Edgerton and the 19th Ward.

On the other side of the coin, several Rochester neighborhoods on the outer eastside (including Browncroft, Park Avenue and Homestead Heights and Northland-Lyceum (which are both north of Beechwood)) and the central westside (Maplewood and Lyell Otis) of the city show increased lending between 2006 and 2008 (gray area of pie is larger than red area). While none of these are neighborhoods with 80 percent or more residents of color, some are low income neighborhoods and several are neighborhoods with 50-79 percent residents of color.

More specifically, the city of Rochester experienced increases in prime refinance lending between 2006 and 2008 in the following areas:

- One (4 percent) of the 26 census tracts with 80 percent or more residents of color. This is located in the 19th Ward.
- Two (5 percent) of the 38 low income census tracts.These are located in the Edgerton neighborhood.
- Six (24 percent) of the 25 census tracts with 50-79 percent residents of color. These are in the Edgerton, 19th Ward, Homestead Heights and Beechwood neighborhoods.
- Twelve (44 percent) of the 27 majority white census tracts. These include parts of the Northland-Lyceum (north of Beechwood), Browncroft, Park Avenue, Highland, Maplewood and Lyell-Otis neighborhoods.

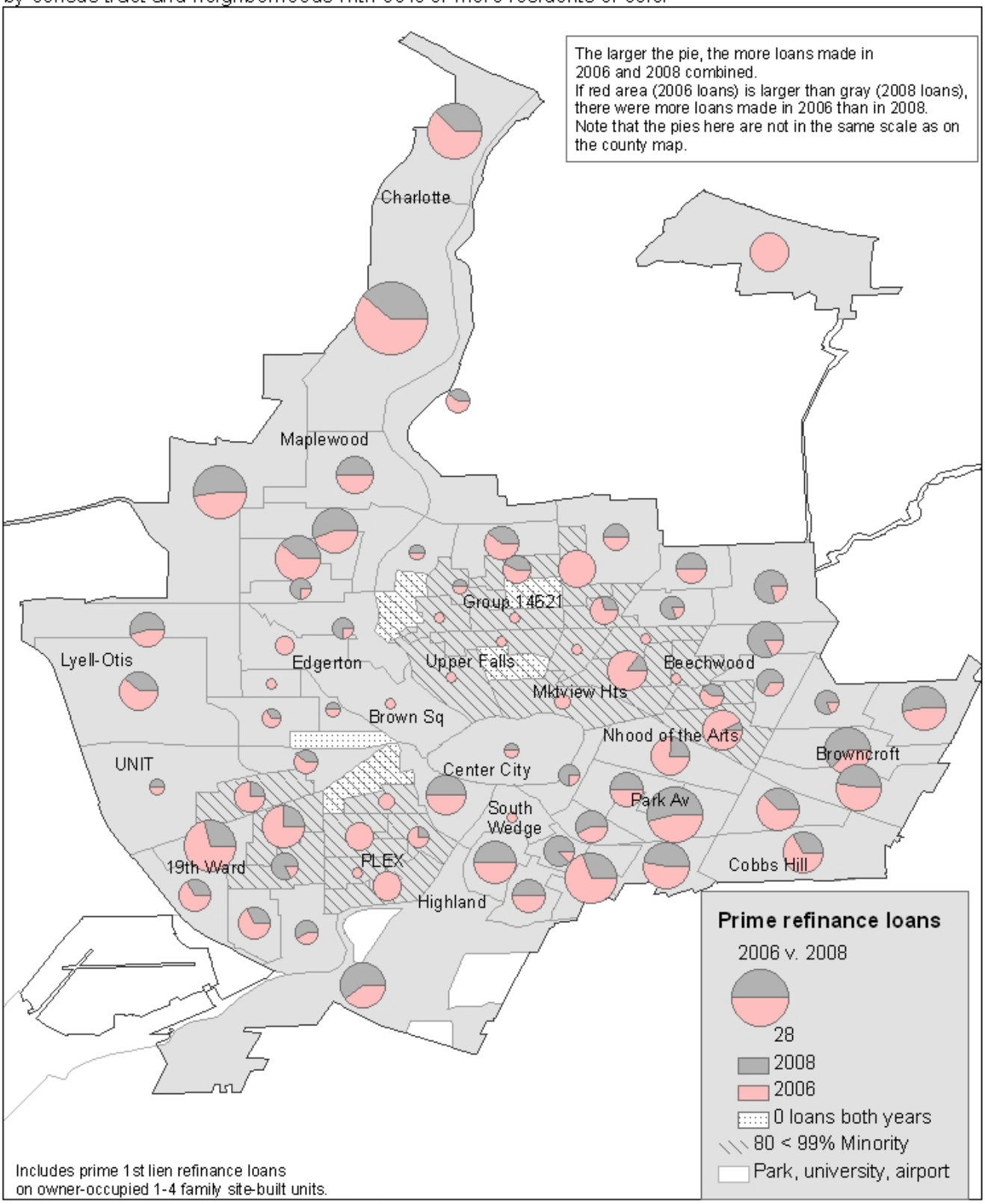
And, while not shown on the maps, increases in prime refinance lending were also found in:

- Thirteen (48 percent) of the city's 27 moderate income census tracts.
- Four (27 percent) of the city's 15 middle and upper income census tracts.

Figure 1: Comparing 2006 to 2008 Prime Refinance Lending in the City of Rochester

Empire Justice Center

by census tract and neighborhoods with 80% or more residents of color



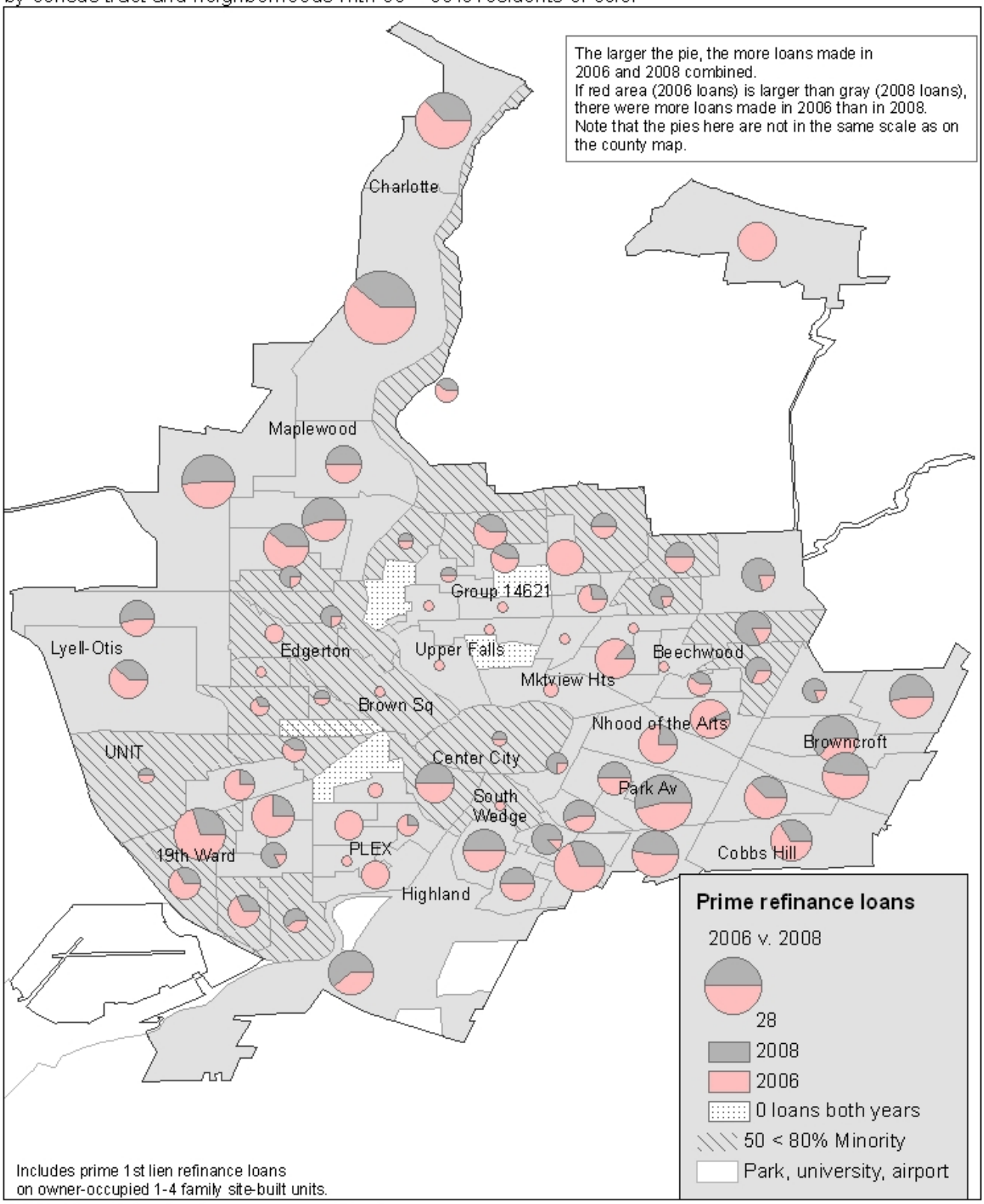
Includes prime 1st lien refinance loans on owner-occupied 1-4 family site-built units.

Sources: FFIEC (2006, 2008), Census (2000), ESRI (2008)

Figure 2: Comparing 2008 to 2006 Prime Refinance Lending in the City of Rochester

Empire Justice Center

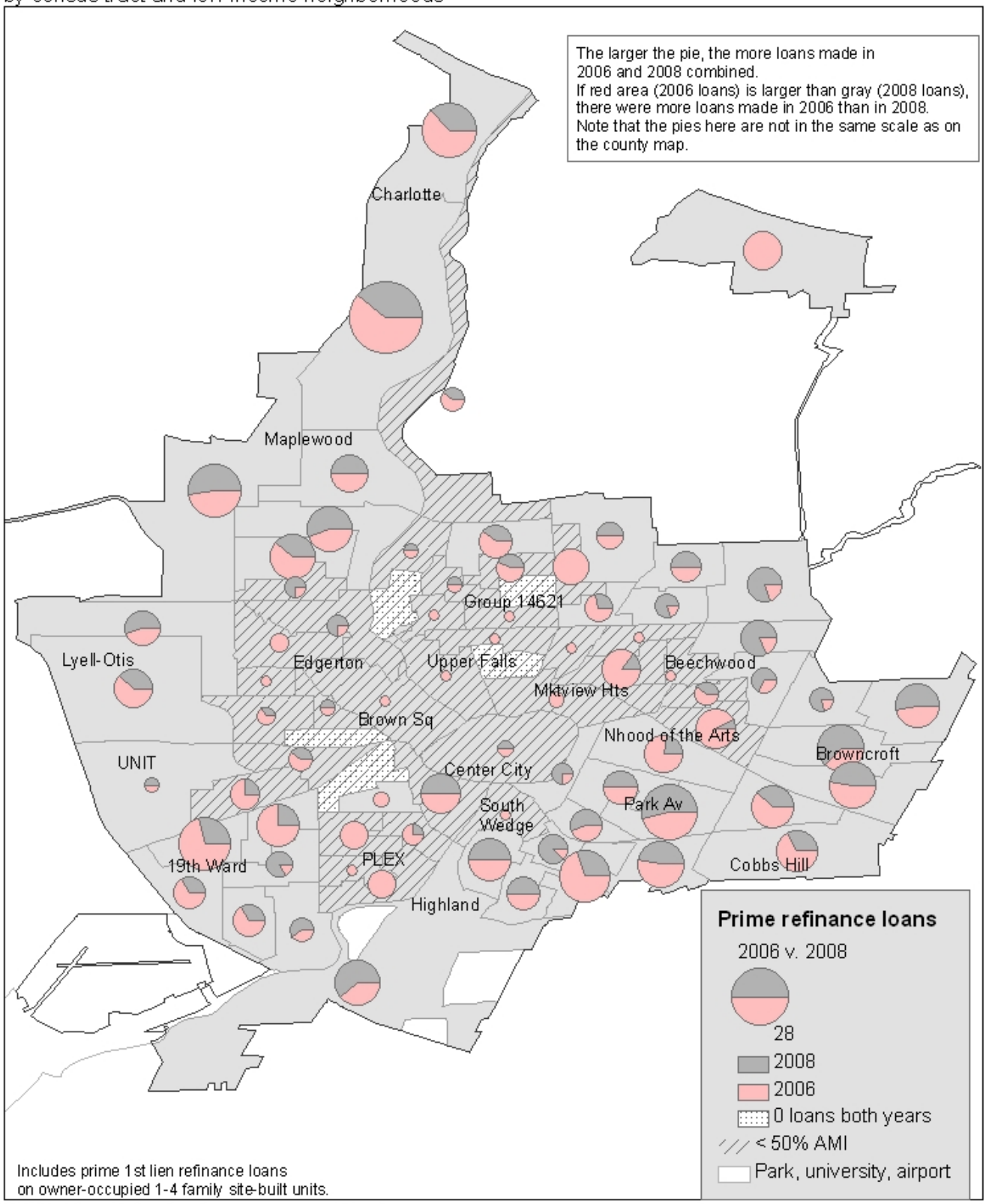
by census tract and neighborhoods with 50 < 80% residents of color



Sources: FFIEC (2006, 2008), Census (2000), ESRI (2008)

Figure 3: Comparing 2006 to 2008 Prime Refinance Lending in the City of Rochester

by census tract and low income neighborhoods



Sources: FFIEC (2006, 2008), Census (2000), ESRI (2008)

Access to Credit in Monroe County

Figure 4 below shows the overall levels of lending for 2006 and 2008 (by the size of the pie), the difference in lending between 2006 and 2008 (the size of the pieces) and how moderate income neighborhoods (50-79 percent area median income) in suburban Monroe County fared with respect to other neighborhoods.[10]

This map shows that prime refinance lending increased between 2006 and 2008 in some parts of Monroe County while decreasing in other parts. Prime refinance lending generally increased in Pittsford, Perinton and Brighton; generally decreased in Greece, Gates, northern Chili and West Irondequoit; and remained about the same in Mendon, Wheatland, Webster, Riga, Rush and East Irondequoit.

Of the four moderate income neighborhoods in suburban Monroe County, only one (in southern Irondequoit) experienced an increase in prime refinance lending between 2006 and 2008.

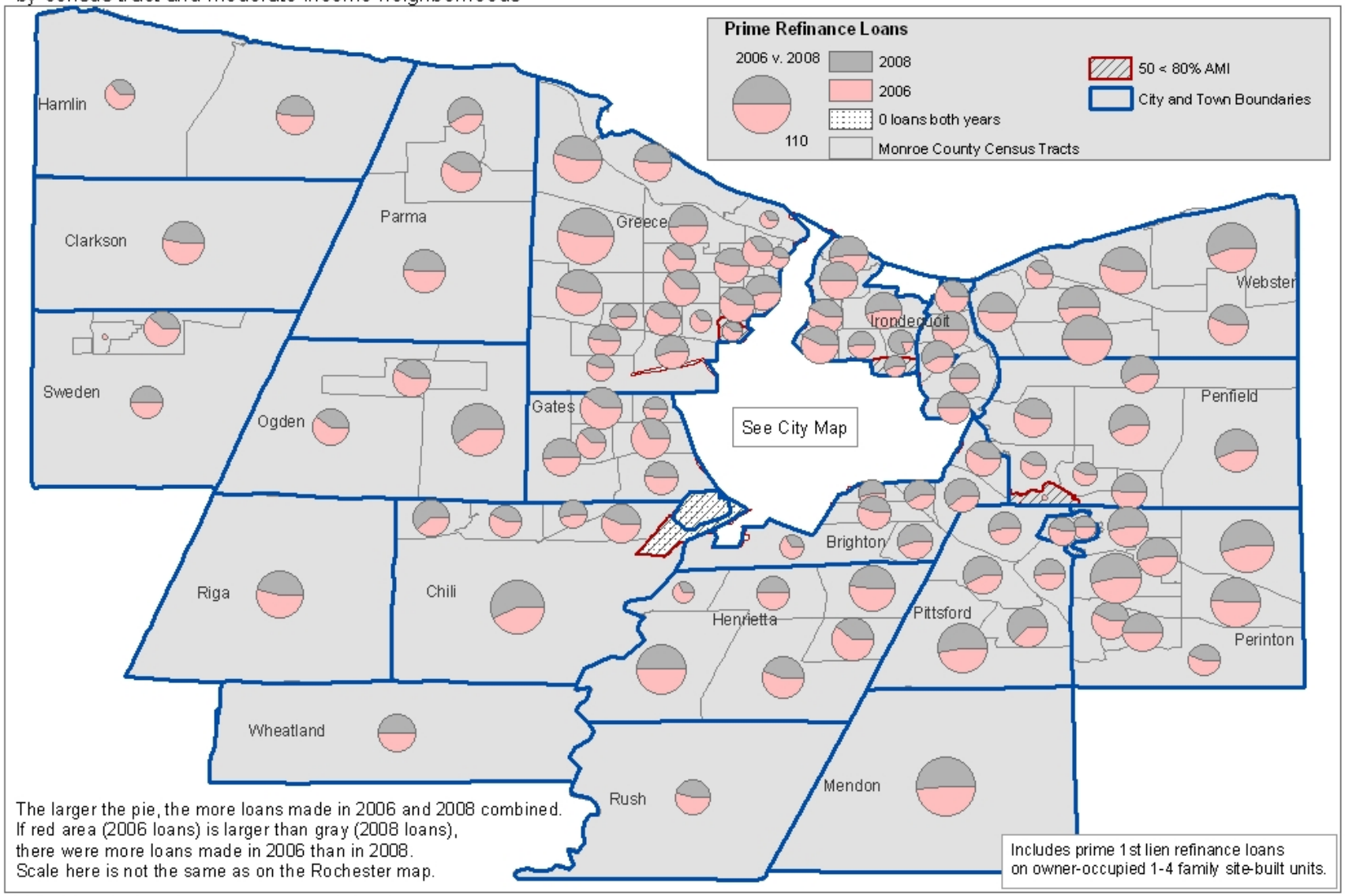
Overall, of the 103 census tracts in suburban Monroe County:

- 37 (35 percent) saw an increase in prime refinance lending between 2006 and 2008
- 7 (7 percent) saw no change.
- 59 (57 percent) saw a decline in prime refinance lending.

[10] There are no low income neighborhoods or neighborhoods of color in suburban Monroe County, hence only one map.

Figure 4: Comparing 2006 to 2008 Prime Refinance Lending in Monroe County

by census tract and moderate income neighborhoods



Sources: FFIEC (2006, 2008), Census (2000), ESRI (2008)

Summary

While mortgage lending was substantially lower in 2008 than in 2006 throughout the Rochester area, neighborhoods with 80 percent or more residents of color and low income communities were hit the hardest. Compared to majority white and middle and upper income neighborhoods, these traditionally underserved communities:

- Had dramatically less access to prime refinance lending in 2008 than in 2006.
- Saw the largest declines in overall lending and in conventional home purchase and refinance lending.
- Gained only a small proportion of the area's increase in FHA lending.
- Still had higher cost loans more often, particularly higher cost FHA loans, despite the overall decline in higher cost lending.

Recommendations

To improve the level and quality of lending in low and moderate income neighborhoods and communities of color while, at the same time, addressing the negative impacts of foreclosures and reverse redlining on these neighborhoods, we recommend the following:[11]

1) Expand the Community Reinvestment Act (CRA)

As mentioned earlier in this report, the Community Reinvestment Act (CRA) encourages depositories to meet the credit needs of the communities in which they do business, including low and moderate income neighborhoods. Changes in the financial services landscape, however, have limited CRA's scope and effectiveness. CRA must be modernized to keep pace with industry practices by:

- Explicitly considering communities and people of color. This will encourage financial institutions to lend and invest in our nation's communities of color, as they do now in low and moderate income communities.
- Extending coverage to non-bank lenders and mortgage companies. As shown in numerous reports, the majority of higher cost lending was done by lenders not covered by CRA.[12] Including these lenders

[11] Many of these recommendations come from Empire Justice Center's recent collaborative report, "Paying More for the American Dream IV," which can be found at: http://www.empirejustice.org/publications/reports/paying-more-for-the-american-3.html.

[12] See California Reinvestment Coalition, Community Reinvestment Association of North Carolina, Empire Justice Center, Massachusetts Affordable Housing Alliance, Neighborhood Economic Development Advocacy Project, Ohio Fair Lending Coalition and Woodstock Institute, "Paying More for the American Dream III: Promoting Responsible Lending to Lower-Income Communities and Communities of Color," April 2009, as found at: http://www.empirejustice.org/publications/ for such an analysis and for other reports.

under the purview of CRA will reduce higher cost lending in the future and help ensure that subprime lending is responsible subprime lending.

- Expanding coverage to geographies where financial institutions have a significant lending market share. This will encourage banks to be responsible lenders and investors in most places where they do business, not just where they take deposits.

2) Expand the Home Mortgage Disclosure Act (HMDA)

The federal Home Mortgage Disclosure Act (HMDA), enacted in 1975 and implemented by Regulation C, requires the public disclosure of mortgage lending data. It's key to giving communities and policy makers information about how well banks and other mortgage lenders are serving communities under CRA. Despite new reporting requirements added in 2002, the foreclosure crisis highlights the limitations on the current data. Therefore, we recommend that HMDA data be expanded to include:

- The term and annual percentage rate (APR) of loans.
- Credit scores of loan applicants.
- Risky loan features such as adjustable rates, negative amortization, interest-only payments, prepayment penalties, yield spread premiums, and no income documentation.
- Data on loan performance.

3) Prioritize fair lending enforcement

To ensure a level playing field, the Department of Justice (DOJ), banking regulators and Treasury officials must vigorously investigate and enforce fair lending violations in lending and loan modification programs. Recent DOJ initiatives to investigate reverse redlining practices are positive, to be encouraged, and consistent with the authors' prior analyses. At the same time, enforcement agencies should also investigate in a more timely fashion concerns relating to borrower challenges in accessing new loans and loan modifications so that historically redlined neighborhoods are not subjected to continuing redlining practices.

4) Prevent foreclosures

Congress should enact bankruptcy reform to allow bankruptcy judges to modify mortgages and reduce principal on homeowners' primary residences. Financial institutions must offer long-term, sustainable loan modifications with principal reduction on a broad scale to stop all preventable foreclosures.

5) Require banks to keep people in their homes and fund neighborhood revitalization

The impact of years of abusive lending and foreclosures on communities of color has been severe. Financial institutions, whose practices triggered the foreclosure crisis, should now help rebuild neighborhoods by working to keep families in their homes, mitigating the harmful effects of foreclosure, and significantly increasing loans and investments in neighborhoods so that residents, small businesses and community institutions can thrive. Financial institutions must:

- Prevent vacancy, blight and community destabilization by allowing homeowners whose homes have gone into foreclosure, as well as tenants living in foreclosed properties, to stay in their homes.
    - Allow homeowners the option to repurchase their homes at fair market value after a long-term tenancy.
    - Tenants who have been paying rent in homes that have gone into foreclosure should be offered long-term leases, building on the current policies of the government-related entities Fannie Mae and Freddie Mac.
- Invest in hard-hit neighborhoods. Financial institutions that facilitated the current crisis in their roles as loan brokers, originators, funders, securitizers, trustees and servicers of abusive loans must now help rehabilitate neighborhoods hardest hit by foreclosure. Loans and investments are needed to help families rebuild credit histories, promote financial literacy, improve the housing stock, transfer foreclosed properties to local nonprofit groups and first-time homebuyers, finance quality affordable housing, infuse equity into community institutions that sustain neighborhoods, and spur small business development and job creation.
- Reverse the decline in access to credit by developing safe and sound, yet creative methods of underwriting new loans. Borrowers in neighborhoods that have been targeted by predatory lending should not be denied credit for failing to satisfy traditional underwriting criteria or because they are deemed to live in "declining markets," provided that they can demonstrate a clear ability to repay a new loan. Sound, affordable loans are needed to help borrowers improve their homes, start new businesses, finance children's education, and build or rebuild wealth.

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