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Investing in Hartford's Diverse Communities: Analysis of Financial Institutions' Record of Mortgages in the Metro Hartford Area

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Investing in Hartford's Diverse Communities: Analysis of Financial Institutions' Record of Mortgages in the Metro Hartford Area

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 Community Partner: Hartford Community Loan Fund
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ABSTRACT

How well are different urban areas and communities served by traditional financial markets and institutions? Are some communities persistently underserved, and if so, what are the factors that explain under-investment in those areas? Our project explores these questions by examining bank mortgage lending in the metro Hartford area. We employ a multi-method approach to the analysis of individual-level data (mortgage applications and approvals across the metro area) and a two-stage quantitative analysis of neighborhood-level data (applications and approvals by neighborhood tract) in order to uncover the factors behind varying levels of bank mortgage lending. **We find that the approval rate of individual mortgage applications differs by race, and that the neighborhood in which a dwelling is found affects mortgage approvals.** Moreover, the neighborhood characteristics that are important in explaining the variation in banking lending include the percentage of minority households in the local census tracts, the percentage of owner-occupied dwellings, the level of poverty, and the median income level in the neighborhood. Together, **these findings** point to the next step in our research project, and **underpin the importance of community development financial institutions** that advocate on behalf of underserved Hartford communities for greater access to banking services and investment. Increased homeownership and investment in local businesses (and by extension local jobs) are critical for community revitalization.

INTRODUCTION

Previous research on bank mortgage lending in underserved urban areas suggest that access to bank loans can vary by who the applicant is, and where the home is located. Many factors may help to explain this difference, some focusing on the individuals and others on the characteristics of the neighborhood. We therefore ask the questions:

- Does race play a role in bank mortgage lending in the metropolitan Hartford area?
- Does bank lending activity differ in neighborhoods where a majority of the population is non-white?

METHODOLOGY

We address our research questions in **two stages**:

Stage One: Replication of the National Community Reinvestment Coalition (NCRC) study for the metro Hartford area.

- We identify patterns of banking lending at both the individual level and the neighborhood level.
- Our Data: 2010 U.S. Decennial Census, the 2013 5-year American Community Survey, and the Consumer Financial Protection Bureau (CFPB) Home Mortgage Disclosure Act (HMDA) 2011-2015 data.
- Review of literature on access to mortgage lending and in-depth interview with banking expert on the workings of the Community Reinvestment Act, support our interpretation of the patterns of mortgage lending at the individual level.

Stage Two: Econometrics analysis looking at different neighborhoods in the metro Hartford area.

FINDINGS AND DISCUSSION

Approval Rate Hartford M.S.A. 2011

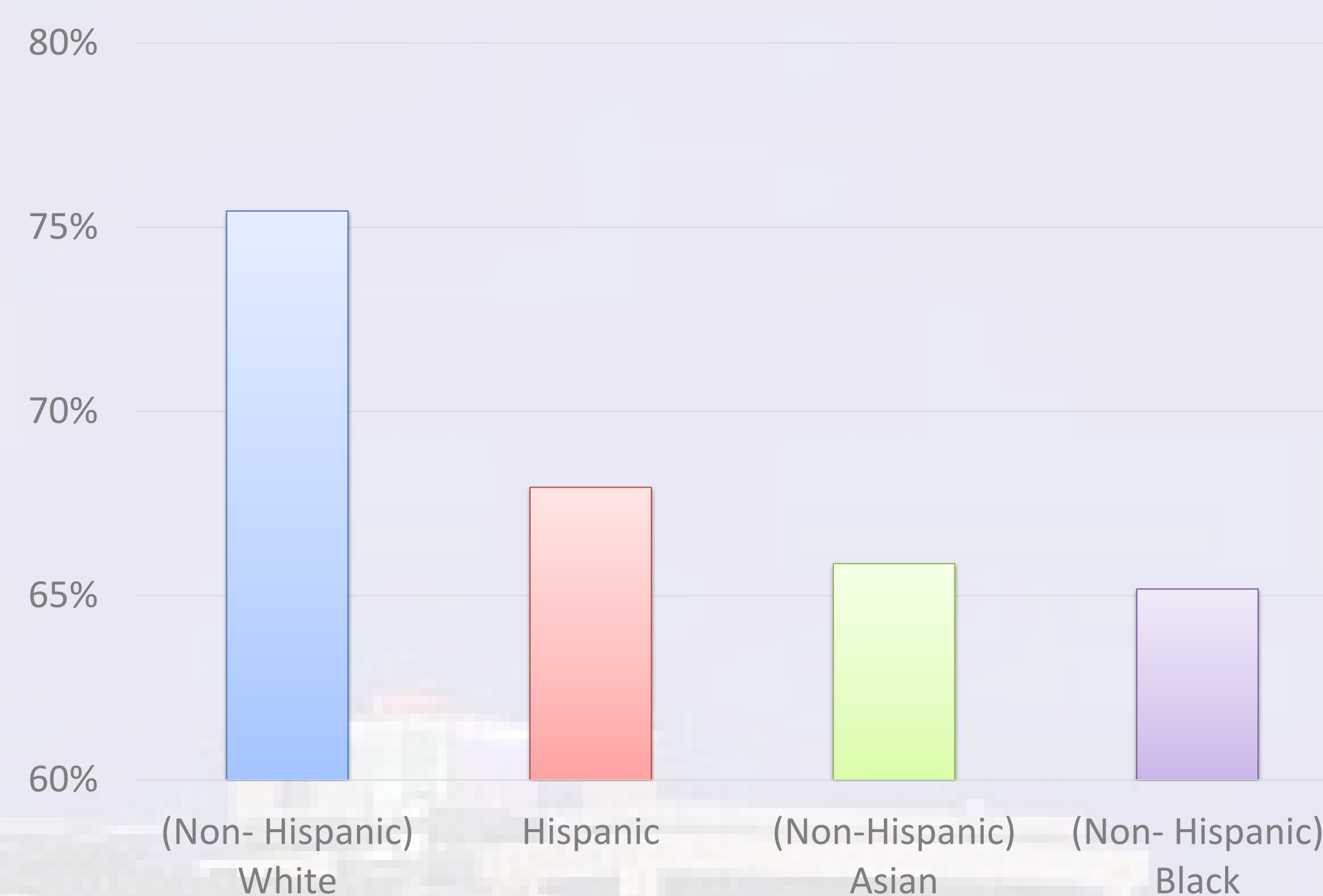


Figure 1

Approval Rate Hartford M.S.A. 2015

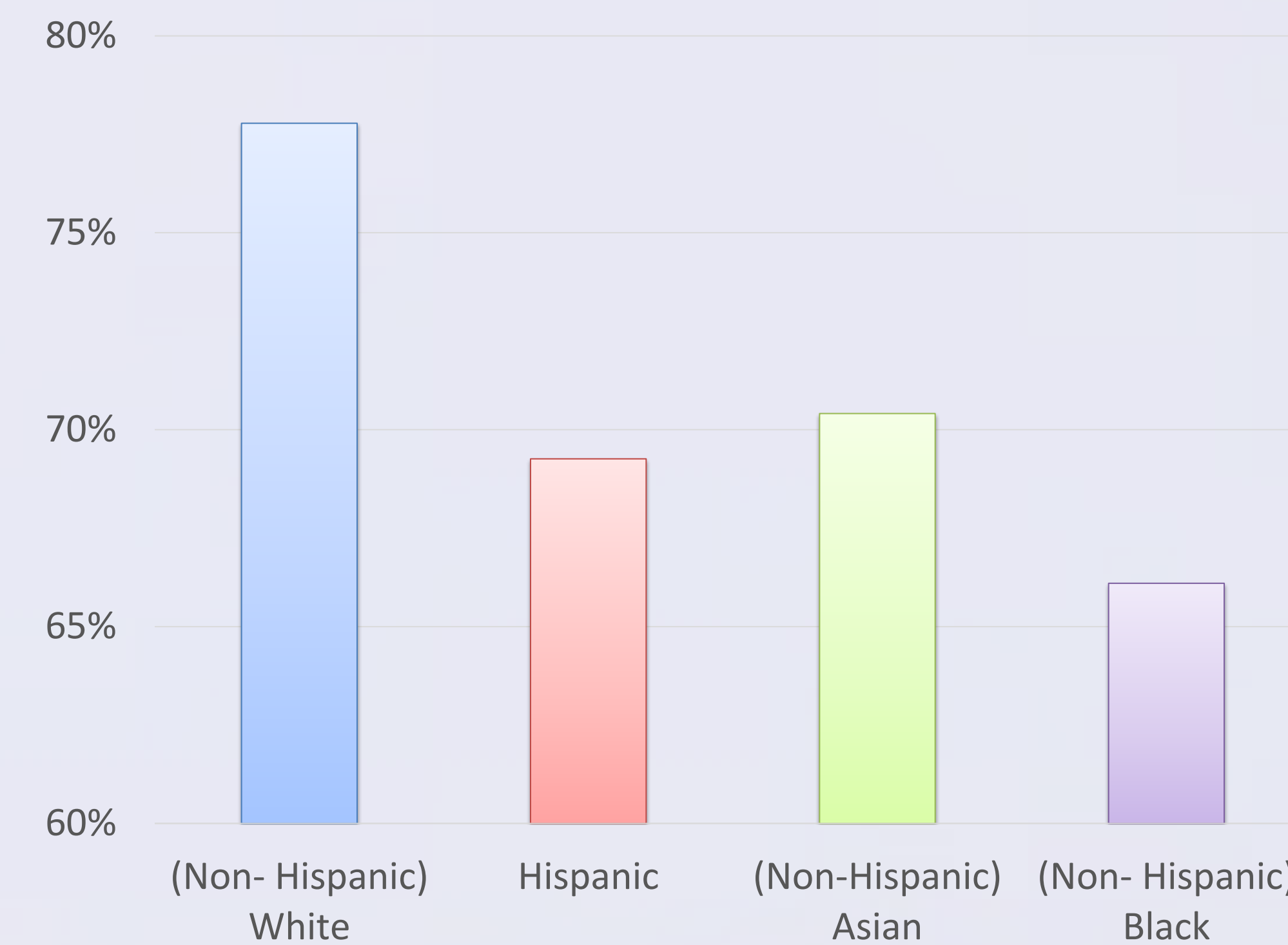


Figure 2

About 75% of the applications made to banks for mortgage loans for homes located in the Hartford metropolitan region in 2011 and 2015 were approved. But this approval rate, the percentage of applications approved, was not constant across race. As seen in Figures 1 and 2 above:

- In both 2011 and 2015, **whites always had by far the highest approval rate**, followed by Hispanics and Asians, and then Blacks.
- Between 2011 and 2015, there was a small increase in approval rate for each of the four groups of applicants.

Race appears to enter into the mortgage lending picture through another door, not directly related to the race of the applicant. Approval rates vary across the neighborhoods in which the house is located. **As the percentage minority population in the neighborhood in which the house is located rises, the approval rate falls - BOTH for low-moderate income (LMI) applicants and for moderate-upper income (MUI) applicants!**

Approval Rate Comparison by Neighborhood Minority Level for LMI & MUI Groups

2011 Home Purchase Loans

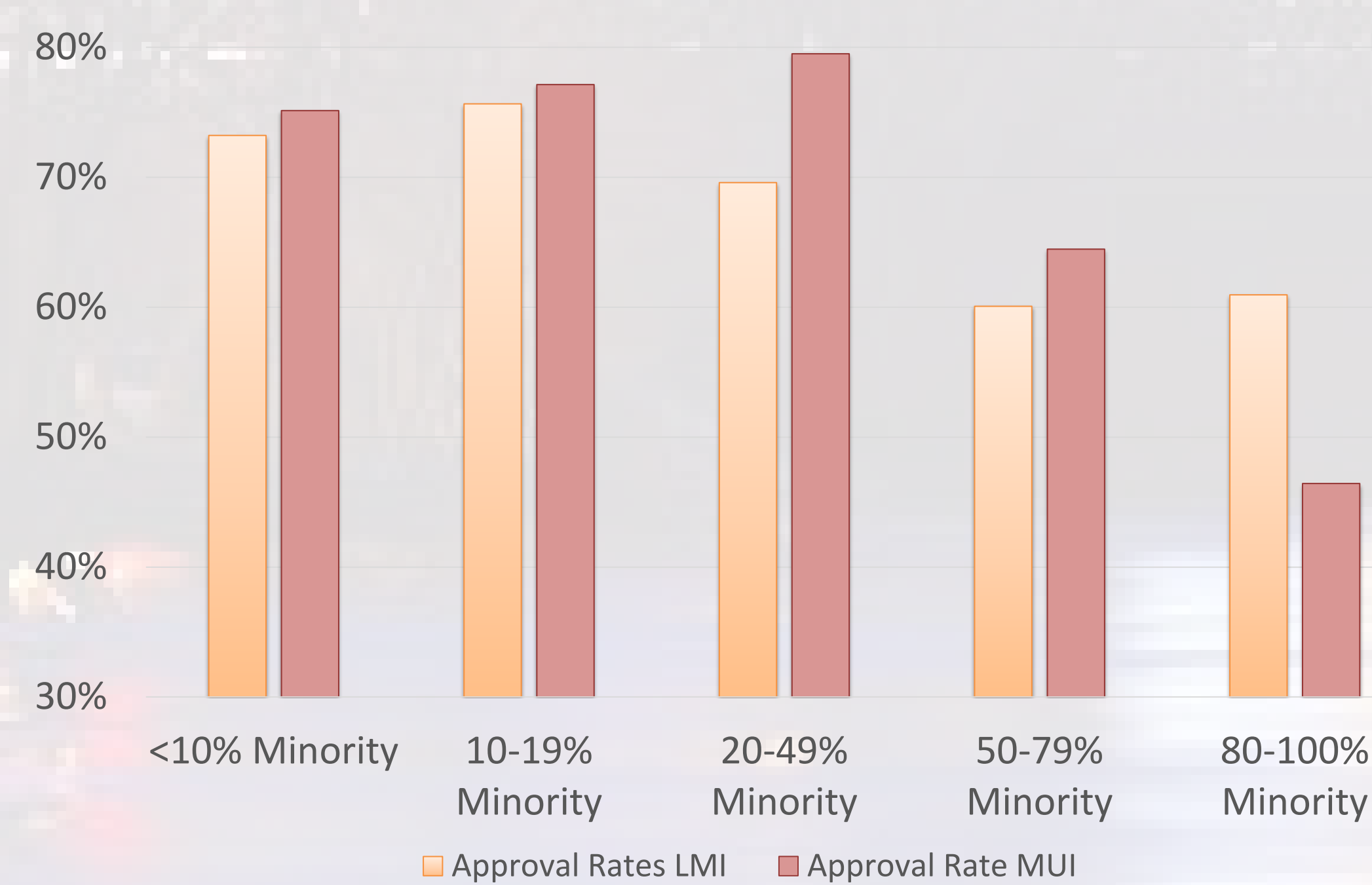


Figure 3

2015 Home Purchase Loans

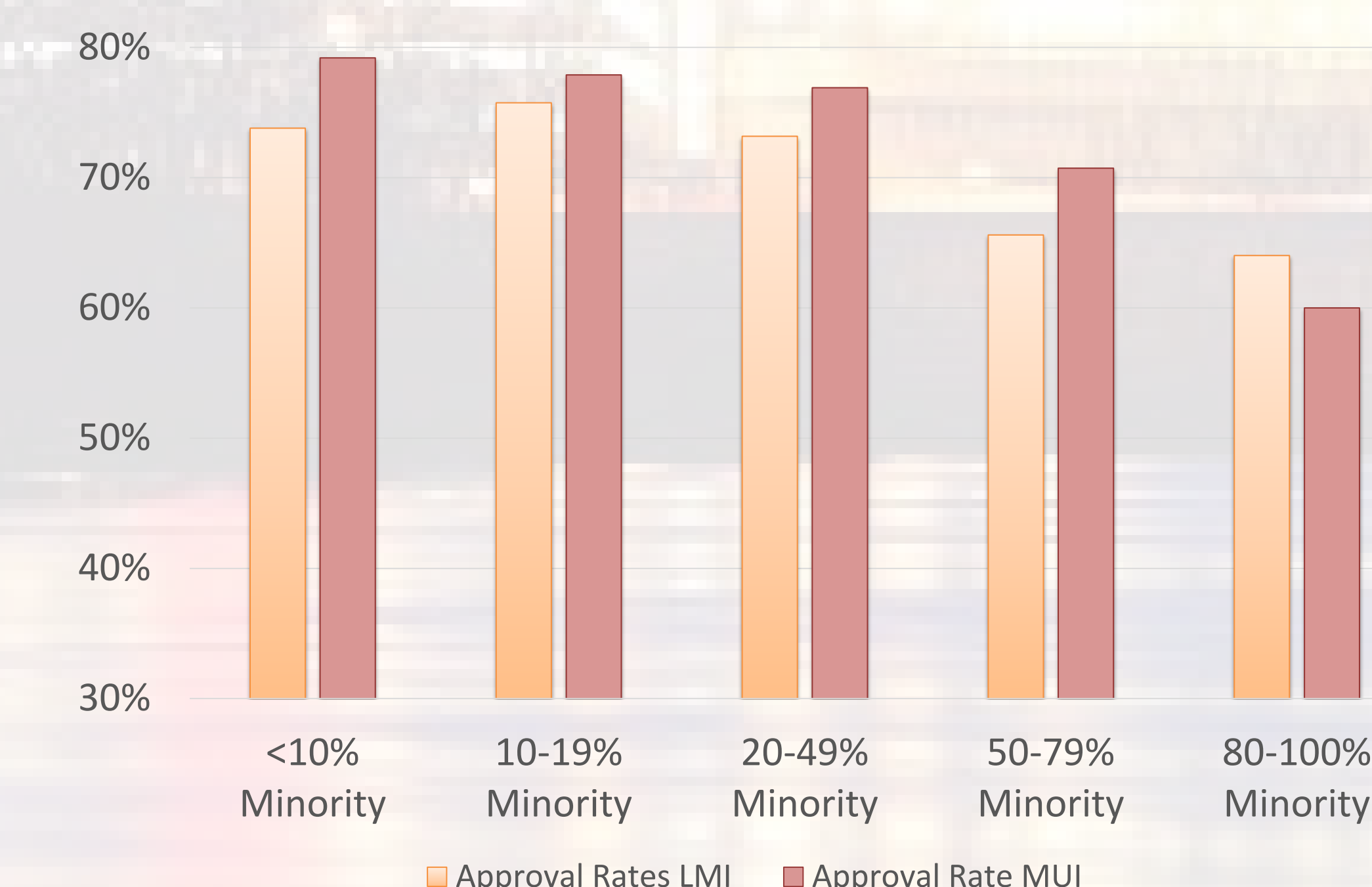


Figure 4

As seen in Figures 3 and 4 above:

- In both 2011 and 2015, as the percentage of minority population in the neighborhood rose from less than 10% to over 80%, the approval rate fell, in all but one case for both low-moderate income and moderate-upper income home buyers.
- In both 2011 and 2015, moderate-upper income home buyers had higher approval rates in each neighborhood.*

*Footnote: There were very few applications from moderate-high income home buyers in the census tracts with 80% or more minority population. Therefore, the number is not reliable.

Difference in LMI and MUI Approval Rates, 2011 - 2015

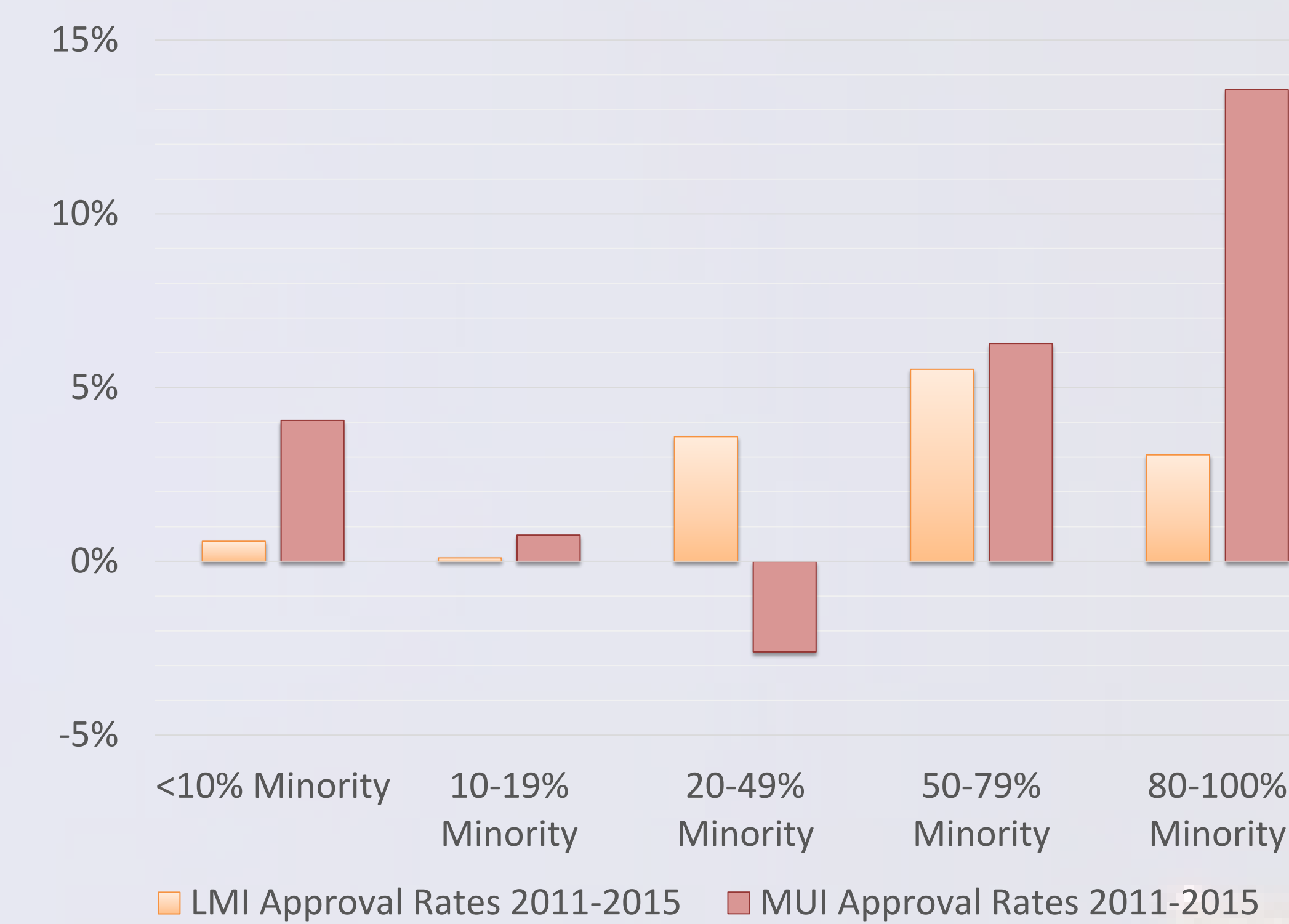


Figure 5

Between 2011 and 2015, there was an increase in the approval rates for each income category across neighborhoods categorized by minority level as seen in Figure 5 above.*

CONCLUSIONS AND NEXT STEPS

Figures 1 and 2 provide only a starting point for understanding the impact of race on the decision made by the lender when confronted by a mortgage loan application. The variation in approval rates by race does not "hold constant" the income of the applicant, the mortgage amount requested, or the applicant's credit history. **More work needs to be done on an individual level to determine the demographic and socioeconomic characteristics of the individual that are significant in determining whether a person's application is approved.** A group of Trinity students will be exploring this question next semester.

Figures 3 and 4 indicate that neighborhood matters in the lending decision. **More work needs to be done on a variety of characteristics of the neighborhood in which the house is located in order to identify those that are significant in explaining the variation in lending across neighborhoods.** This is stage two of our empirical work. An econometrics study of neighborhood characteristics, where we identify the important factors underlying the variation in banking lending by neighborhood. (Please turn to next poster)

ACKNOWLEDGEMENTS

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