



HOME LENDING INEQUITIES IN MARION COUNTY

BACKGROUND

Owning a home has been shown to be an important avenue for families to build wealth and increase financial security.¹ While the homeownership rate in Marion County is 54 percent, there are disparities in homeownership among certain neighborhoods and racial/ethnic groups. Only 34 percent of Black residents in Marion County own their homes compared to 64 percent of white residents.² Additionally, the homeownership rate in majority-Black neighborhoods is 42 percent—well below the county rate. That's despite the fact that homes in these neighborhoods are typically older and valued at nearly \$41,000 less than the average Marion County home.²

Residents in majority-Black neighborhoods make up about 20 percent of Marion County's population. They experience multiple obstacles when trying to buy a home, including lower incomes and higher poverty rates. These barriers widen the homeownership gap between Black and white residents.³ To better understand homeownership trends among Black residents, it is important to look at what kind of home lending opportunities are available to them. Minority residents in the United States have historically been met with discriminatory lending practices. For example, redlining was the practice of denying credit and other financial services to residents in non-white neighborhoods. In recent years, they have also been targeted for risky, higher-cost home loans.⁴ This brief assesses the status of home lending among Black residents in Marion County's majority-Black neighborhoods, which lag behind most county-wide indicators of homeownership and borrowing.

KEY FINDINGS

- Black residents in majority-Black neighborhoods experience the greatest barriers to home purchase loans across all racial/ethnic groups and Marion County neighborhoods.
- Black residents are the least likely to apply for a home purchase loan and the most likely to be denied.
- Black residents in majority-Black neighborhoods apply for guaranteed home loans more frequently than conventional home loans.
- People in majority-Black neighborhoods are more likely to be denied for both types of loan compared to applicants in other areas.
- Black residents in majority-Black areas are more likely to refinance or upgrade their existing home, rather than purchase a new home.

METHODOLOGY

We analyzed 2018 Home Mortgage Disclosure Act data from the Federal Financial Institutions Examination Council, which includes information on the type and number of home loans that were applied for and denied in Marion County. Loan applications which did not include race/ethnicity information were excluded from this analysis. For the purpose of this brief, majority-Black neighborhoods are defined as census tracts in which Black residents make up at least half of the population.

FINDINGS

HOME PURCHASE LOANS

One of the most common types of home lending services available to residents are loans to buy a home. Overall, residents in Marion County’s majority-Black neighborhoods apply for home purchase loans at a lower rate than the rest of the county (Figure 1). While white and Hispanic residents apply for home purchase loans at similar rates regardless of where they live, Black residents in majority-Black areas are less likely to apply than Black residents in other neighborhoods.

Additionally, Black residents apply at a lower rate than both white and Hispanic residents across all areas. The disparity is even more pronounced in majority-Black neighborhoods. Black residents are half as likely to apply for a home loan compared to their Hispanic neighbors and nearly three times less likely than white neighbors. These trends suggest that Black residents in majority-Black areas are the least likely to seek a home purchase loan in Marion County.

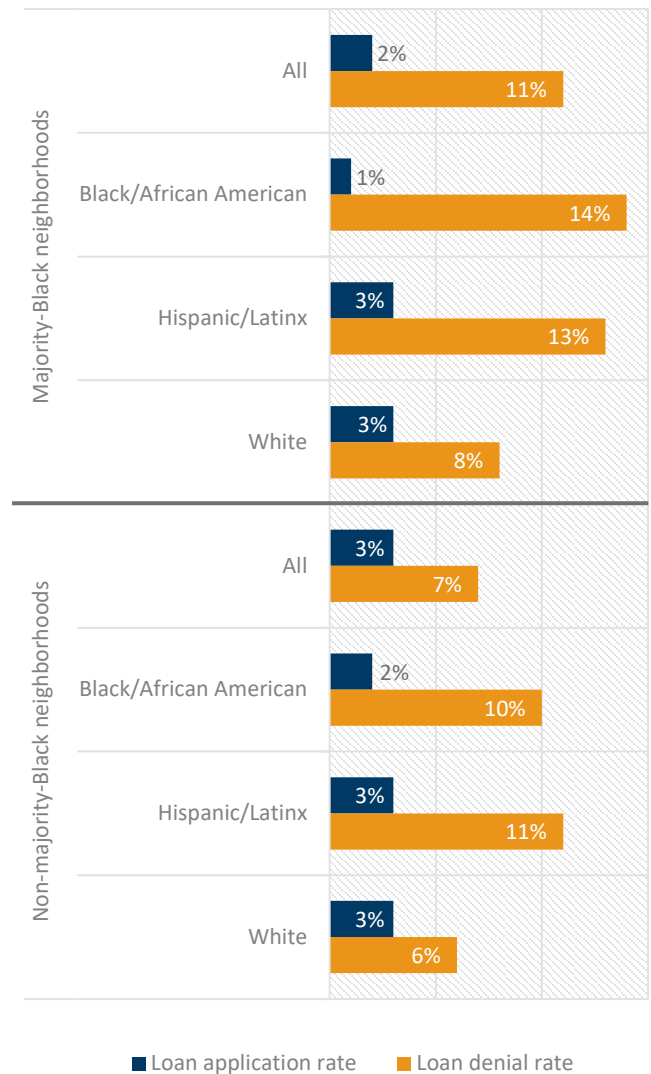
Black residents in majority-Black areas are also the most likely to be denied a home purchase loan when they apply. As seen in Figure 1, residents in majority-Black neighborhoods are denied at a higher rate than those in other neighborhoods. More specifically, Black residents in predominately Black neighborhoods are denied at even higher rates than their Hispanic and white neighbors.

CONVENTIONAL & GUARANTEED HOME PURCHASE LOANS

Conventional loans are available through private lenders or government-sponsored enterprises. These are more prevalent among those with established credit and higher credit scores.⁵ On the other hand, guaranteed loans are supported by a third-party, such as the Federal Housing Administration (FHA). These loans are often used by people who do not qualify for a conventional loan or cannot provide a sufficient down payment. Although guaranteed loans typically offer lower interest rates than conventional loans,⁶ associated mortgage insurance premiums can often increase borrowers’ monthly payments.⁷

In 2018, 69 percent of all home purchase loan applications in Marion County were for conventional loans. However, Black residents in majority-Black neighborhoods applied

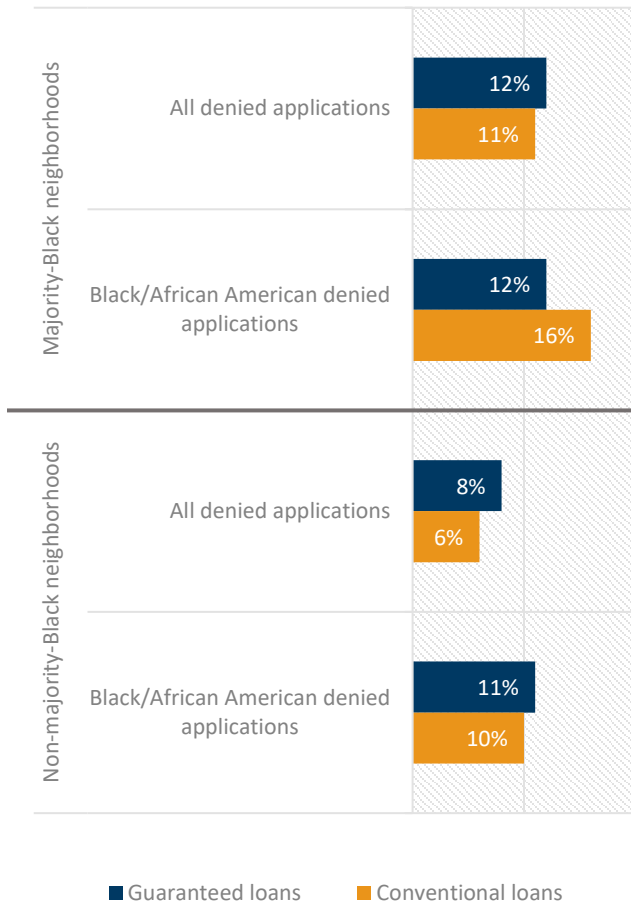
FIGURE 1. Home purchase loan application and denial rates (2018)



NOTE: The home purchase application rate is calculated as the number of applications per group divided by the population 25 years and older in each group.

for guaranteed loans more frequently than conventional loans. This contrasts majority-white neighborhoods, where borrowers only apply for guaranteed loans 23 percent of the time. These trends are like others found throughout the United States that indicate Black and Hispanic borrowers are much more likely to use guaranteed loans compared to other racial and ethnic groups.⁸

FIGURE 2. Home purchase loan applications denials, by type (2018)

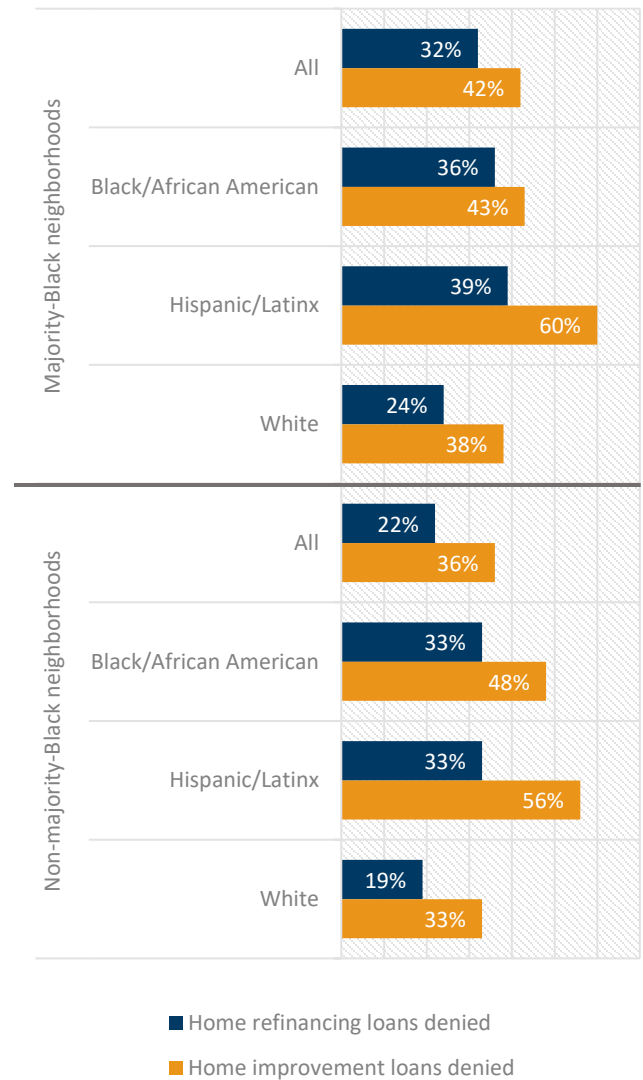


Across Marion County, guaranteed loans (9 percent) are more likely to be denied than conventional loans (6 percent). Interestingly, Black applicants are more likely to be denied for a conventional loan than a guaranteed loan. However, applicants in majority-Black neighborhoods are more likely to be denied for both types of loans compared to applicants in other areas (Figure 2).

REFINANCING & HOME IMPROVEMENT LOANS

Refinancing loans allow a borrower to pay off an existing loan and move to a new one, often to obtain a lower interest rate or consolidate debt.⁹ Home improvement loans are often used to make emergency repairs or upgrades when the homeowner does not have existing savings to cover these expenses. Black residents in majority-Black areas of Marion County are more likely to refinance or upgrade their existing home, rather than purchase a new one. Even though refinancing and home improvement loan applications are common, denial rates for both types of

FIGURE 3. Home refinancing and home improvement loan denials (2018)



loans are high in majority-Black neighborhoods. Thirty-two percent of all refinancing applications are denied in majority-Black neighborhoods, compared to 22 percent in other areas (Figure 3). Among Black applicants in majority-Black neighborhoods, the denial rate is even higher at 36 percent. Home improvement applications have a similar trend. Forty-two percent of applications in majority-Black neighborhoods are denied compared to 36 percent in other neighborhoods. However, Black residents in majority-Black neighborhoods are more successful in securing a home improvement loan than Black residents elsewhere in the county.

IMPLICATIONS

The higher rates of denial for home purchase, refinancing, and home improvement loans among residents in majority-Black neighborhoods can have several implications. Renters in these neighborhoods may be unable to attain homeownership due to lower incomes, lower credit scores, or higher debt-to-income ratios. Since renters are more likely to be housing cost-burdened—spending at least 30 percent of their income on housing—they may be less likely to accumulate wealth or save money for a down payment on a home. Current homeowners who are denied a refinancing loan may be forced to continue paying a higher interest rate on their home, meaning more of their income must be diverted toward their mortgage payment. Additionally, when residents are denied home improvement loans, they may be unable to make upgrades to increase their home value or make necessary repairs to maintain the safety of their home.

POLICY CONSIDERATIONS

Although strategies to increase lending opportunities and homeownership in majority-Black neighborhoods must consider multiple factors, Marion County lending institutions and other organizations should consider the following:

Connect residents to federal, state, and local loan programs that offer affordability assistance

Lack of wealth is one of the biggest limiting factors of homeownership.¹⁰ Offering support, such as down payment assistance, can potentially increase homeownership in these households by relaxing traditional mortgage requirements.

Educate residents on managing financial resources

A person's debt-to-income ratio and poor and/or insufficient credit history are the most common reasons for home loan application denials.⁵ Financial education services, such as budgeting classes, credit counseling, or prepurchase homeownership counseling, have the potential to increase residents' financial literacy and money management skills. This could increase opportunities for homeownership.

Invest in practices, programs, and partnerships that can build trusting relationships in majority-Black communities

To build trust and relationships in majority-Black neighborhoods, financial institutions should ensure equitable banking terms for all customers, prioritize diversity among their lending staff, re-evaluate staff compensation structures that may disincentivize working with lower-income individuals, and partner with local organizations that have strong ties and investments in majority-Black neighborhoods in Indianapolis.

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PREPARED BY

Joti K. Martin, *Policy Analyst*

Katie Rukes, *Program Analyst*

Abbey Chambers, *Research Associate*

101 W. Ohio Street, Suite 400
Indianapolis, IN 46204

Phone: (317) 278-1305

Email: iuppi@iu.edu

policyinstitute.iu.edu

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