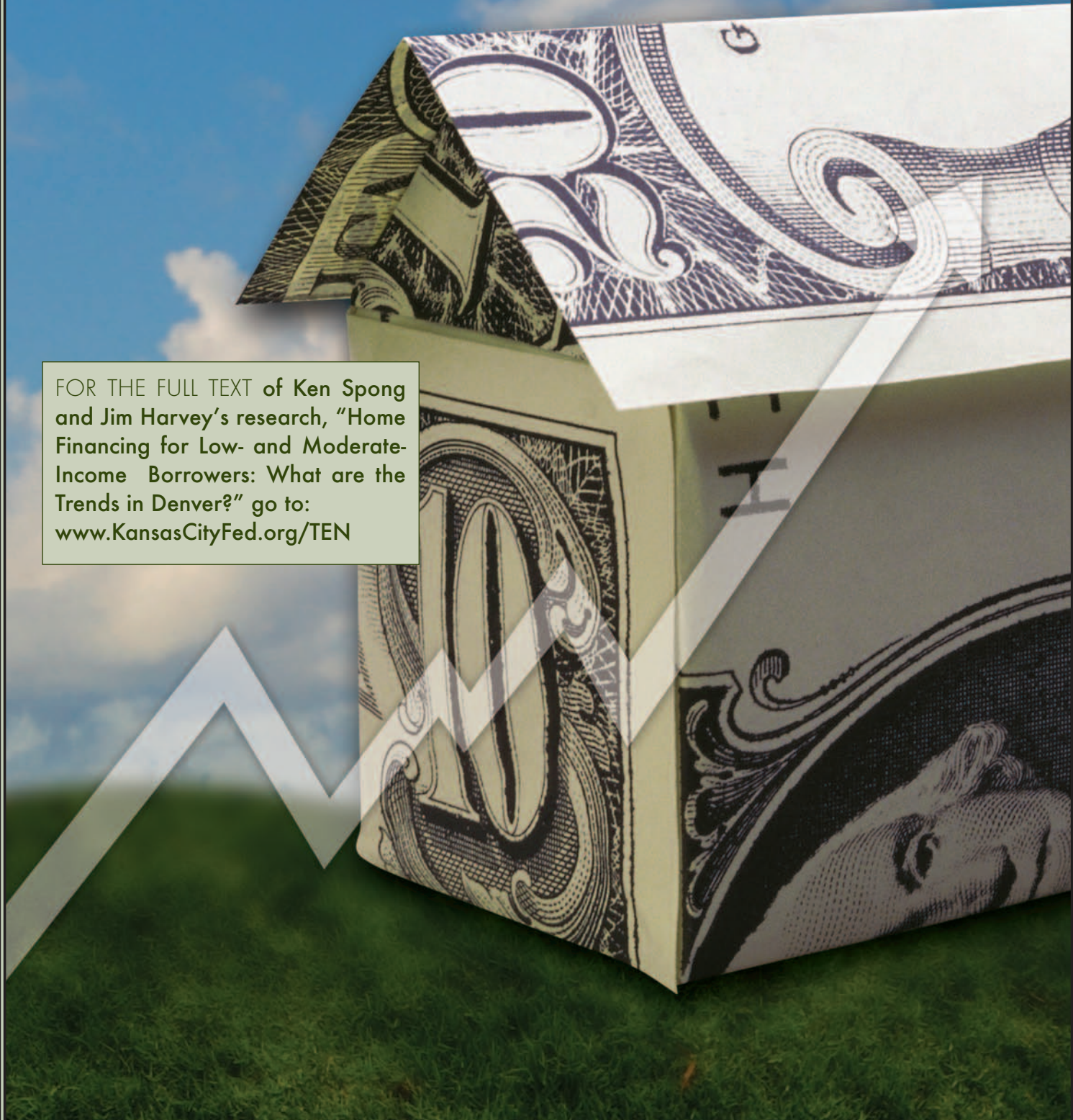


House and Home

THE SURGE IN DENVER'S LOW- AND MODERATE-INCOME MORTGAGE LENDING

FOR THE FULL TEXT of Ken Spong and Jim Harvey's research, "Home Financing for Low- and Moderate-Income Borrowers: What are the Trends in Denver?" go to:
www.KansasCityFed.org/TEN





BY KEN SPONG, SENIOR POLICY ECONOMIST
AND JIM HARVEY, POLICY ECONOMIST

Over the last decade, dramatic changes have taken place in home lending and mortgage markets. These changes have been spurred on by a number of factors, including a strong economy, rapid technological innovation and increased public and regulatory scrutiny of fair lending laws and affordable housing programs. An outgrowth of all of these changes is a rapid increase in the volume of home lending across much of the United States.

This trend has been particularly evident in the Denver metropolitan area. The dollar volume of loans extended for home purchases in Denver increased by nearly four-fold between 1992 and 2002, and housing prices appreciated at twice the annual nationwide rate during the 1990s.

These numbers point to a significant increase in home lending and homeownership—71 percent of Denver households now own their homes compared to less than 66 percent in 1995. But how have local families with low and moderate incomes fared in obtaining financing and increasing their rate of homeownership?

Changes and developments in home lending

A number of factors may have improved the flow of credit to low- and moderate-income borrowers in recent years. One factor is a strong economy that has provided one of the most stimulative environments on record for homeownership. The longest period of uninterrupted growth in U.S. history occurred between 1991

and 2001, thus giving many lower-income borrowers a solid employment record and the willingness to undertake the long-term financial commitment required to purchase a home. Declining interest rates are another part of the relatively bright economic picture. The average interest rate on new 30-year, fixed-rate mortgages fell from 10.13 percent in 1990 to 6.54 percent in 2002 and has mostly stayed below 6.0 percent since then.

Another set of factors, technological innovation and improvements in information processing, is helping lenders do a better job of constructing household financial histories and finding data to support the creditworthiness of lower-income borrowers. Moreover, innovations in financial markets, such as the development of mortgage-backed securities, are opening the door for a wider group of investors and thereby contributing to a more even flow of funds into the affordable housing market.

Public policy changes are providing an additional incentive for lending to lower-income groups. The Community Reinvestment Act of

TABLE 1: HOME PURCHASE LENDING TO LOW- AND MODERATE-INCOME BORROWERS IN THE DENVER METROPOLITAN AREA (average annual amount)

	1992-1994		1995-1998		1999-2002	
	Amount (\$ Millions)	Share of All Lending	Amount (\$ Millions)	Share of All Lending	Amount (\$ Millions)	Share of All Lending
All Low- and Moderate-Income Borrowers	918.4	21.9%	1,394.8	22.4%	2,419.3	22.7%
Low- and Moderate-Income Borrowers in Low- and Moderate-Income Census Tracts	219.0	5.2%	361.4	5.8%	598.8	5.6%
Low- and Moderate-Income Borrowers in All Other Census Tracts	699.4	16.7%	1,033.4	16.6%	1,820.5	17.1%
All Home Purchase Lending in Denver	4,187.6	100%	6,222.9	100%	10,670.2	100%

1977 (CRA), which focuses on how depository institutions meet the credit needs of the communities in which they maintain deposit-taking offices, was amended in 1990 to provide for public disclosure of supervisors' CRA evaluations. Also, banking agencies implemented a performance-based CRA rating system in 1995 to provide quantitative measures of an institution's low-income lending activities. The Home Mortgage Disclosure Act of 1975

median household income in the Denver metropolitan area—benefit from the generally strong home lending market? This question is of particular importance to lower-income households because financing plays a significant role in their choice of housing and in their financial prosperity. Also, recent housing trends may provide some perspective on which factors and public policies have been most influential in expanding homeownership.

How have local families with low and moderate incomes fared in obtaining financing and increasing their rate of homeownership?

(HMDA), which requires mortgage lenders to publicly disclose information about their home lending in urban areas, has been amended several times to expand the types of reporting institutions and the information reported (see the sidebar on page 31 for a description of the new loan pricing disclosures HMDA reporters must make). These changes are thus giving community groups and public authorities a better means for comparing institutions' records on lending to lower-income groups.

Lending to low- and moderate-income borrowers

Did low- and moderate-income households—those with less than 80 percent of the

As shown in Table 1, the dollar volume of home purchase lending to all low- and moderate-income borrowers increased significantly from a yearly average of \$918 million in the 1992-1994 period to a \$2.4 billion average between 1999 and 2002. This growth, moreover, exceeded the rate for all borrowers in Denver, leaving low- and moderate-income borrowers with a slight increase in their share of overall home lending in Denver—from a 21.9 percent share in the 1992-1994 period to a 22.7 percent share in the final period. Given the very rapid growth and price appreciation that occurred in the middle and upper end of the Denver housing market during much of the 1990s, the fact that lower-income borrowers

more than held their own represents a good sign of progress.

Table 1 also indicates that about three-fourths of all home lending to low- and moderate-income borrowers occurs outside of low- and moderate-income areas. As a result, much of this lending is being dispersed into other parts of the Denver metropolitan area—a sign that lower-income borrowers may be finding a range of opportunities in housing, employment and public services.

The total amount of lending in low- and moderate-income neighborhoods is also an important measure determining the stability and future, quality of life, and public services in these areas. Moreover, the CRA stresses the importance of local depository institutions serving lower-income neighborhoods. Within Denver's low- and moderate-income areas, the volume of lending to home purchasers at all income levels rose from a yearly average of \$425 million during the 1992-1994 period to \$1.3 billion between 1999 and 2002. This represents a 226 percent rise compared to a 155 percent increase in home lending across all areas. As a result, low- and moderate-income neighborhoods have experienced a gain in their share of all home purchase lending, but this share is still just a little over one-eighth of all home lending in Denver.

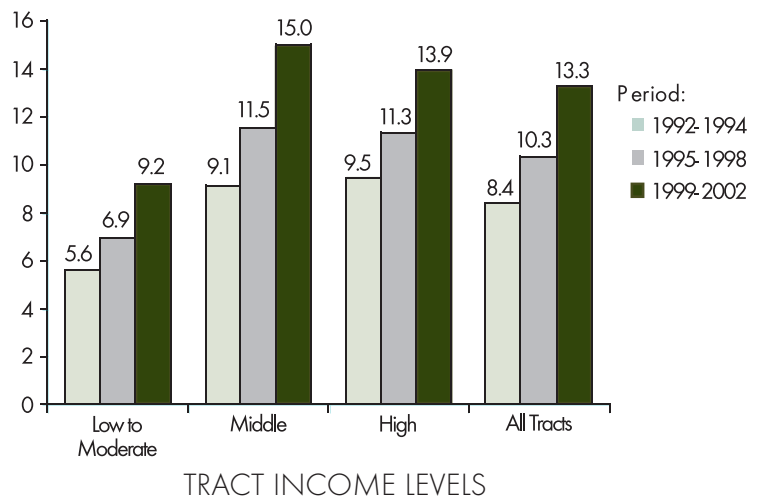
A more detailed way to look at the relative level of lending in low- and moderate-income neighborhoods is to compare the number of home purchase loans to the number of owner-occupied housing units. This comparison helps adjust for housing differences across varying economic levels, especially between neighborhoods composed of mostly rental housing and others where single-family homes and the need for home financing may be more prevalent. As shown in Chart 1, the number of loans in low- and moderate-income neighborhoods has jumped from an annual average of 5.6 loans per every 100 owner-occupied housing units to 9.2 loans. While this trails the 13.3 loans for all

of Denver, there are reasons why a lower rate might occur in lower-income neighborhoods, for example staying in a home longer to take advantage of terms in a special lending program or because the costs of changing homes—such as loan closing costs and real estate sales expenses—are proportionately higher.

Who is lending?

Another interesting aspect of low- and moderate-income lending is who is doing the lending—have the major lenders stayed much the same over time, or are technologies and other factors bringing new players on the scene? Independent mortgage companies were the most common lenders across the Denver metropolitan area and at all income levels. As a group, they increased their lending in lower-income neighborhoods from an average annual rate of 3.06 loans per 100 owner-occupied

CHART 1: HOME PURCHASE LOANS APPROVED PER 100 OWNER-OCCUPIED UNITS (Denver metropolitan area)



units in the 1992-1994 period to 4.55 loans in the 1999-2002 period. Some of the greatest gains between these two periods, though, were achieved by thrifts and banking organizations without Denver deposit-taking offices, which tripled and quadrupled the numbers of loans they made in low- and moderate-income neighborhoods.

Help for Denver's low- and moderate-income homebuyers

BY ARIEL CISNEROS, SENIOR ADVISOR, COMMUNITY AFFAIRS

Low interest rates played a major role in the surge of homeownership in Denver, but they are not always enough for low- and moderate-income (LMI) residents to attain homeownership.

Even with low interest rates, some potential homebuyers still have difficulty because they have low credit scores, limited funds for downpayment and closing costs or a lack of available affordable inventory.

To ease the burden on LMI families, various public and private partnerships and collaborations have developed products and services that help prepare potential home buyers and get them into homes. Along with financial education so that potential homeowners can get on the right financial track, there is pre- and post-home buyer education and counseling, downpayment and closing cost assistance, and an ongoing effort to develop a viable inventory of affordable housing.

Many Denver LMI residents have benefited from funds that were passed through to aid organizations by NeighborWorks America, which is part of the NeighborWorks system, a national collaborative effort of businesses, government officials, residents and many other partners. Rocky Mountain Mutual Housing Association, Inc., an affiliate of NeighborWorks America, has been providing home buying opportunities along with homebuyer and financial education for its clients for many years. The organization has developed partnerships with local financial institutions, local government and housing authorities to provide these needed services for potential homebuyers.

Colorado Housing Enterprises, LLC, a part of Colorado Rural Housing Development Corporation, also helps limited-income families with home buying by providing homebuyer education and downpayment assistance.

Assisting on the development side, the Housing Development Project (HDP), a collaboration of the Enterprise Foundation, Denver area banks and corporations, the City and County of Denver seeks to build the capacity of nonprofit community development organizations to develop, manage and preserve affordable housing benefiting LMI people and neighborhoods in metro Denver, says Lisa Goldberg, senior program director for HDP. HDP supported local nonprofit housing developers to accomplish the following from 1993 to

second quarter 2005: Almost 1,200 affordable homeownership units developed, in both new construction and rehabilitation. HDP support provided homeownership counseling to approximately 1,500 families that purchased homes, along with assisting over 1,100 families considering homeownership and needing financial education.

Ray Stranske, executive director and founder of Hope Communities, started Hope Communities, a community development corporation, in 1980, after a task force of citizens concerned with the lack of affordable, comfortable housing for people with low incomes came together. Hope Communities has developed the neighborhood, with over 60 units for sale along with over 700 units of affordable rental housing. Hope has rehabilitated and built new construction, including a mixed use development along the light rail corridor. Hope's office and most of its housing units are located in the diverse Five Points neighborhood, just north of downtown Denver.

For-profit developers are also filling some of the need for affordable housing, or workforce housing, for individuals and families that are 80 percent or below the median income. At Stapleton, the former airport for the city of Denver, and now a redevelopment for housing and commercial space, units of affordable housing, in one development, have a starting sales price of \$99,990 for a one bedroom unit, \$129,990 for a two bedroom and \$159,990 for a three bedroom condominium.

Through inclusionary zoning (IZ), the city of Denver is promoting the development of more units of affordable housing,

requiring developers that develop more than 30 units of housing in a single development to provide 10 percent of the units as affordable for a population earning less than 80 percent of the area median income.

Public and private partnerships involving government, the nonprofit community, and the private sector, including financial institutions, have been developing appropriate and flexible lending tools, financial education, pre- and post homebuyer education and counseling, and developing units of affordable housing that will support safe and decent neighborhoods in a high cost community like Denver.

Much of this lending is being dispersed into other parts of the Denver metropolitan area — a sign that lower-income borrowers may be finding a range of opportunities in housing, employment and public services.

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NEW HMDA LOAN

Lending progress

During a period of rapid growth in home lending throughout the Denver area, low- and moderate-income borrowers income neighborhoods have thus experienced an increase in their share of all home purchase loans. In addition, the level of lending in relation to the number of owner-occupied housing units has increased significantly in low- and moderate-income neighborhoods. These results suggest that home financing has become more readily available to lower-income households, thus ensuring greater progress toward their homeownership goals.

Some of the factors behind this progress undoubtedly are a strong economy, declining interest rates, and greater regulatory incentives. An additional and very noteworthy development, though, is the increasing role that banking organizations and thrifts without Denver deposit-taking offices are playing in low- and moderate-income home lending in Denver. The fact that these organizations have overcome the lending advantages that local institutions once held suggests that innovations in technology and financial markets are dramatically reshaping our mortgage markets and bringing new competitors into these markets.

From a longer-term perspective, the emergence of such competition should greatly benefit low- and moderate-income borrowers, while providing a sign that lower-income lending can meet the same market tests as other forms of lending. To the extent this is true, a broader range of lenders and investors will develop to serve low- and moderate-income households, and a more

In response to the growth of the subprime mortgage market and concerns about higher-rate loans, the Federal Reserve expanded the HMDA reporting regulations to include selected loan pricing data. For home purchase, refinance or secured home improvement loans, lenders must now report the spread between the annual percentage rate on a loan and the yield on Treasury securities of comparable maturity, provided this spread exceeds three percent on first-lien loans and five percent on subordinate-lien loans. As of March 31, 2005, lenders must disclose their loan pricing data to anyone upon request, and edited, aggregate data was made available on September 13, 2005.

These disclosures will not provide a complete picture of loan pricing practices, since several factors relevant to the pricing of loans will be missing—most notably, loan-to-value ratios, credit scores and histories, and borrower debt-to-income ratios. The pricing data, though, will serve as a starting point for community groups and lenders to discuss loan pricing policies, identify higher-rate markets in need of more competitive entry and obtain better information on where to look for credit.

PRICING DISCLOSURES

continuous and competitive source of financing will be available to support lower-income neighborhoods.

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FURTHER RESOURCES

LOW- AND MODERATE-INCOME HOME FINANCING:
WHAT ARE THE TRENDS IN KANSAS CITY?

www.KansasCityFed.org/TEN

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.