Race, Ethnicity, and Lending in Urban Florida

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Introduction

Laws designed to protect minorities seeking mortgage loans have been in effect for decades. Both the 1968 Fair Housing Act and the Equal Credit Opportunity Act of 1974 make it illegal for lenders to discriminate against loan applicants on the basis of race, color, or national origin. Further, the Community Reinvestment Act of 1977 requires lenders to meet the credit needs of the entire community in which they operate, including low-income areas. This act is designed to prevent "spatial discrimination" by making it illegal for lenders to ignore poor, inner-city neighborhoods, which are often populated by minority groups.

Related to these anti-discrimination laws is the Home Mortgage Disclosure Act of 1975 (HMDA). This act requires lenders to maintain records about loan applicants. Information collected includes the race and income of applicants and the amount of money each applicant wishes to borrow. The records also include property locations. HMDA was enacted to permit better enforcement of the laws designed to prevent discrimination by lenders. The purpose of the data sets is to allow government agencies, researchers, and "watch-dog" organizations to identify problem areas and/or problem lenders whose patterns or activities warrant further research or investigation.

The issue of discrimination in mortgage lending gained widespread attention through a Pulitzer-prize winning piece published by the Atlanta Journal-Constitution (Dedman 1988). The work, which reported on lending patterns in Atlanta, analyzed racial differences in loan approvals and examined the lending records of individual financial institutions. The series received widespread attention. It served as a catalyst for a national debate on race and

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mortgage lending, and it prompted further research on the topic.

Since then numerous studies have examined race-related patterns in lending. Several of these have identified distinct race-based differences in loan approvals and concluded that race affects the decisions of lenders (*see* for example Munnell et al. 1992; Dymski and Veitch 1994; Squires and Velez 1996; Gotham 1998). Others, however, dispute the argument that race plays a role in the decision-making process employed by lenders. It has been argued that "the market" will not allow discrimination to take place in the sense that if one creditor does discriminate, others will see the potential for profit and step in to provide credit. Proponents of this view do concede that minorities receive loans at a lower rate than do Whites. However, they argue that other factors such as employment history, credit history, housing stock quality, and residential stability account for variation in lending rates rather than race itself (*see* for example Perle et al. 1994; Holmes and Horovitz 1994; Lacker 1995; Day and Liebovitz 1998).

The question remains unresolved. However, the empirical evidence showing race-based bias on the part of lenders is difficult to ignore (Nesiba 1996) and further research is needed.

Most of the studies dealing with lending patterns have focused on a single metropolitan area and none have looked at the patterns associated with the major racial/ethnic groups in an entire state. The present essay seeks to provide such a snapshot by examining loan approval rates for Whites, Blacks, and Hispanics in all of Florida's metropolitan areas.

In providing such a picture it is important to note that the racial/ethnic variations revealed through the analysis of HMDA data do not necessarily mean that discrimination is taking place. Other factors can come into play. For example, credit history and employment history affect lending decisions. Furthermore, other assets held by applicants will have an impact on the loan process, and it may well be that some groups are more likely to have greater wealth than others. However, the data can be used to identify problem areas where further research is needed or to support policy proposals designed to improve credit opportunities for minorities.

Data and Methodology

This study examines lending patterns associated with White, Black, and Hispanic loan applicants for all of Florida's metropolitan areas for the years 1994 to 1996. Only applicants seeking home purchase or home improvement loans for owner-occupied units are considered. In all, nearly 900,000 loan applications are included in the study. Ten percent of these applications were submitted by Blacks, 14 percent were from Hispanics, and 76 percent were from Whites. Approval/denial rates are considered for each group vis-à-vis city size, applicants' incomes, loan amounts requested, and the racial characteristics of neighborhoods.

Table 1
Study Sites

I. Small Metropolitan Areas (125,000-250,00)
- Panama City
- Fort Walton
- Naples
- Ocala
- Gainesville
- Tallahassee

II. Medium Metropolitan Areas (250,000-500,000)
- Fort Pierce
- Sarasota
- Fort Myers
- Pensacola
- Daytona Beach
- Melbourne-Titusville-Palm Bay
- Lakeland-Winter Haven

III. Large Metropolitan Areas (750,000-2,000,000)
- West Palm Beach-Boca Raton-Delray
- Jacksonville
- Orlando
- Fort Lauderdale-Hollywood-Pompano
- Tampa-St. Petersburg-Clearwater
- Miami (Dade County)

Findings

In examining the overall pattern of loan approvals it is readily apparent that Whites are more likely to receive loans than are either Blacks or Hispanics (Table 2). For all cities combined Whites had an approval rate of 70 percent. Hispanics lagged behind the White rate somewhat with a 67 percent approval rate. However, Blacks received lenders' approvals at a rate well below that of Whites and Hispanics with an overall approval rate of only 58 percent.

When city size is added to the equation, there is essentially no change in loan approvals for Whites whose approval rates remain at 70 percent in large and small metropolitan centers and edge up to 71 percent in medium-sized centers (Table 2). However, city size does matter for Blacks and Hispanics. These groups are more likely to gain mortgage and home-improvement loan approvals in large metropolitan areas than in small or medium-sized areas. For example, Hispanics received approval 68 percent of the time in large metropolitan areas but their approval rates dropped to 61% in small and medium-sized cities. For Blacks the differences are even more dramatic. In large metropolitan areas Blacks were approved 62 percent of the time. In medium-sized centers the Black approval rate declined to 54 percent, an eight-point drop. However, in small cities Black approvals fell markedly. In smaller communities Black applicants received approvals only 44 percent of the time, 18 points below Blacks seeking loans in large cities and 26 points below approvals for Whites living in small or large centers.

It is not readily apparent why city size impacts Florida's Black and Hispanic approval rates to the degree that it does. One possible explanation is that lenders in larger cities face greater scrutiny by regulators and, hence, make greater efforts to lend to minority applicants. On the other hand, it may be that there is

Table 2
Loan Approvals by Race/Ethnicity, Florida Metropolitan Areas, 1994-1996

	% of Applications Approved		
	Blacks	Hispanics	Whites
All Metropolitan Areas	58%	67%	70%
Small Centers	44%	61%	70%
Medium Centers	54%	61%	71%
Large Centers	62%	68%	70%

(based on 893,946 loan applications)

greater competition among lenders in larger areas resulting in more aggressive lending and greater outreach to minorities. Yet another possibility is that bias is simply more prevalent among lenders in smaller cities. Whatever the cause (or causes), the differences in minority approvals vis-à-vis city size are such that further study of this phenomenon is warranted.

The data in Table 2 suggest that Hispanics in small and medium-sized cities and Blacks in all cities face significant barriers when seeking mortgages. However, the data do not take differences in applicants' incomes and loan amount requests into account. Obviously these are primary considerations in the loan decision-making process. To take these differences into account the loan applications have been sorted into income and loan amount categories. Income groupings are "very low income" (less than 51 percent of the MSA median income), "low income" (51 percent to 80 percent of the median), "moderate income" (81 percent to 95 percent of the median), "medium income" (96 percent to 120 percent of the median), and "high income" (more than 120 percent of the median). In addition, the loan amounts requested are grouped as follows: $0 to $25,000; $26,000 to $50,000; $51,000 to $100,000; more than $100,000.

In looking at all cities in aggregate and controlling for incomes and loan amount requests, it is again clear that lenders favor Whites over Blacks (Table 3). In fact, Whites were more likely to gain approval than Blacks for all income and loan amount categories. Black approval rates ranged from 33 percent for very low-income Blacks seeking loans of more than $100,000 to 73 percent for medium-income Blacks also requesting loans of more than $100,000. White approval rates ranged from 40 percent for very low-income Whites wanting loans in excess of $100,000 to 79 percent for high-income Whites requesting loans of more than $100,000.

In general, Whites were favored to a greater degree over Blacks when loan amounts were relatively small. In the income categories associated with loans of $50,000 or less White approval rates exceeded those for Blacks by between 9 and 19 percentage points. Interestingly, some of the greatest Black-White differences are found among higher-income applicants seeking loans of $25,000 or less. For example, 66 percent of high-income Whites were approved for such loans compared to only 50 percent of high-income Blacks, a 16 percent difference. Similarly, 58 percent of medium-income Whites requesting small loans were approved as opposed to 43

Table 3
Loan Approvals by Income and Loan Amount Requested

All Cities

Loan Amount

	$0-25,000			$26,000-50,000			$51,000-100,000			$100,000+		
INCOME	B	H	W	B	H	W	B	H	W	B	H	W
Very Low	37%	43%	48%	52%	64%	61%	52%	50%	57%	33%	33%	40%
Low	38%	45%	57%	53%	66%	62%	67%	71%	74%	43%	43%	52%
Moderate	43%	48%	55%	48%	65%	61%	71%	75%	75%	65%	63%	66%
Medium	43%	47%	58%	47%	62%	60%	70%	76%	78%	73%	69%	76%
High	50%	53%	66%	52%	63%	65%	68%	74%	78%	70%	73%	79%

percent of medium-income Blacks seeking like loan amounts (Table 3).

When loan amounts increased, the difference in Black-White approvals narrowed. For loan requests exceeding $100,000 White approval rates exceeded Black rates by a low of one percentage point for moderate-income Blacks and Whites wanting loans of more than $100,000 to a high of ten percentage points for high-income Blacks and Whites wanting loans of $51,000 to $100,000.

Approval rates for Hispanics fall between those of Blacks and Whites. In six of the twenty loan-amount/income categories shown in Table 3 Hispanic approval rates equal or exceed approval rates for Whites. Further, in five categories Black approval rates equal or exceed approval rates for Hispanics. Beyond this, differences between Hispanics and the other two groups are mixed. For Hispanics seeking loans less than $25,000 or more than $100,000 approval rates tend to be closer to the rates of Blacks rather than Whites. However, Hispanics seeking loans of $26,000 to $100,000 are more likely to have approval rates that are closer to the rates of Whites rather than Blacks (Table 3).

Interestingly, in many cases intra-racial differences in income do not have a significant impact on the approval rate. This is especially true in the $26,000 to $50,000 loan category and, to a lesser extent, in the $51,000 to $100,000 loan category. For example, very low-income Blacks seeking loans of $26,000 to $50,000 had an approval rate of 52 percent. High-income Blacks seeking like loan amounts also had a 52 percent approval rating. Whites and Hispanic also have only small variations in their approval rates for this loan-amount category despite variations in income. The seemingly limited impact that income has on the process is difficult to explain. It may be that lower-income applicants are sometimes counseled out of the lending pro-cess before a formal application is submitted, thereby "evening out" the rejection rates for all income groups. However, if this is the case similar relationships should exist for other loan-amount categories.

Regardless of race or ethnicity, approval rates tended to increase for moderate-, medium-, and high-income groups as the loan amounts they requested increased. For example, approval rates for medium-income Blacks, Hispanics, and Whites seeking loans of $25,000 or less were 43 percent, 47 percent, and 58 percent respectively. However, when medium-income Blacks, Hispanics, and Whites sought loans of $51,000 to $100,000 their approval rates were 70 percent, 76 percent, and 78 percent respectively

(Table 3).

Since all groups experience this shift, race appears to have little to do with it. One likely explanation for this pattern is that many lenders are reluctant to make smaller loans simply because there is limited profit associated with such transactions. However, this does not explain the fact that for small loan amounts Whites are favored over Blacks by 9 to19 percentage points while Black-White percentage differences range from only 1 to 10 percentage points for larger loans. Here race is obviously a factor. While lenders tend to avoid granting smaller loans to all groups, they are especially reluctant to give small loans to Blacks. One might hypothesize that Blacks seeking smaller loans are the majority of all applicants, and the figures simply reflect an avoidance of Black applicants in general. However, Blacks seeking loans of $50,000 or less make up only 48 percent of all Black applicants so this cannot be the case. One possible reason for the pattern is that the smaller loans requested by minorities are for older, lower-cost homes in areas where lenders are reluctant to invest because they are perceived as high-risk neighborhoods. Further research is called for to undertake a spatial analysis of these loans to determine if redlining may be a factor here.

When race, income, and loan amount are considered by city size, the pattern of lower Black approval rates remains. However, in some instances the differences in small cities are quite stark (Table 4). For example, in small metropolitan areas 29 percent of very low-income Blacks seeking loans of $25,000 or less were approved. For Hispanics in the same income/loan amount category the approval rate was 42 percent and for Whites it was 45 percent. Similarly, 32 percent of low-income, small-community Blacks wanting loans of $26,000 to $50,000 were approved. Hispanics and Whites in the same category had approval rates of 52 percent and 53 percent respectively. In a third small-city example high-income Blacks applying for loans of $26,000 to $50,000 were approved 36 percent of the time. However, Hispanics in the same category had a 57 percent approval rate while the White rate was 58 percent. In large communities it can be noted that Blacks also tended to lag behind both Whites and Hispanics for most loan amount and income categories. However, in large metropolitan areas the differences tend to be much narrower than is the case for small cities (Table 4).

Related to the matter of racial and ethnic variations in lending approvals are the spatial dimensions associated with the loan

Table 4
Loan Approvals by Income, Loan Amount Requested, and City Size

	Loan Amount											
	$0-25,000			$26,000-50,000			$51,000-100,000			$100,000+		
SMALL CITIES												
INCOME	B	H	W	B	H	W	B	H	W	B	H	W
Very Low	29%	42%	45%	35%	56%	53%	33%	61%	57%	*	*	*
Low	34%	42%	51%	32%	52%	53%	59%	70%	73%	*	*	*
Moderate	43%	42%	55%	28%	57%	53%	57%	74%	78%	*	*	*
Medium	45%	49%	60%	32%	46%	51%	60%	77%	78%	*	*	*
High	56%	63%	71%	36%	57%	58%	64%	71%	79%	77%	76%	84%
MEDIUM CITIES												
Very Low	39%	41%	48%	50%	59%	63%	41%	30%	62%	*	*	*
Low	42%	42%	55%	56%	64%	66%	62%	68%	74%	*	*	*
Moderate	40%	46%	57%	52%	50%	65%	68%	69%	67%	*	*	*
Medium	39%	39%	58%	48%	51%	62%	63%	72%	78%	*	*	*
High	49%	51%	69%	53%	54%	67%	64%	70%	79%	69%	75%	81%
LARGE CITIES												
Very Low	41%	43%	48%	58%	65%	61%	54%	51%	56%	*	*	*
Low	39%	46%	50%	60%	67%	63%	68%	71%	74%	43%	43%	52%
Moderate	44%	48%	53%	55%	67%	62%	72%	76%	78%	65%	63%	68%
Medium	44%	48%	57%	54%	64%	62%	71%	76%	78%	66%	76%	75%
High	49%	52%	64%	56%	63%	66%	69%	74%	78%	70%	73%	78%

* data insufficient to permit comparison

process. Of importance here is the degree to which lenders are willing to invest in minority areas relative to investments in non-minority neighborhoods. HMDA data are available by census tract and examination of spatial variations in loan approvals can offer some insight into whether or not lenders are systematically avoiding certain areas. To consider this possibility approval rates for all tracts with a minority population of more than 80 percent are examined

Table 5
Approval Rates for Minority and Non-minority Areas

Census Tracts with More than 20% Minorities

	Loan Amount											
	$0-25,000			$26,000-50,000			$51,000-100,000			$100,000+		
INCOME	B	H	W	B	H	W	B	H	W	B	H	W
Very Low	36%	43%	50%	49%	63%	63%	48%	51%	57%	*	*	*
Low	36%	46%	54%	54%	67%	65%	66%	70%	74%	45%	49%	54%
Moderate	47%	49%	58%	50%	64%	63%	69%	74%	78%	65%	67%	67%
Medium	45%	49%	62%	47%	58%	61%	68%	74%	79%	72%	69%	76%
High	52%	55%	66%	58%	62%	67%	68%	73%	80%	71%	84%	80%

Census Tracts with More than 80% Minorities

	Loan Amount											
	$0-25,000			$26,000-50,000			$51,000-100,000			$100,000+		
INCOME	B	H	W	B	H	W	B	H	W	B	H	W
Very Low	42%	47%	32%	57%	67%	39%	55%	50%	*	*	*	*
Low	44%	50%	30%	60%	67%	51%	70%	72%	60%	*	*	*
Moderate	47%	45%	33%	51%	68%	53%	71%	75%	62%	*	*	*
Medium	44%	49%	35%	54%	64%	47%	71%	76%	61%	*	*	*
High	49%	56%	40%	55%	64%	51%	67%	74%	66%	*	*	*

* data insufficient to permit comparison

by income and loan amount requested (Table 5). In these cases no distinction is drawn between minority tracts that are primarily Hispanic and those that are primarily Black. Since minority tracts (and, hence, numbers of loan applications) are limited in small- and medium-sized metropolitan areas, the data are not broken down by city size. Rather, they are presented for all cities combined. To permit comparisons with non-minority areas data are also presented for all tracts with a minority population of less than 20 percent.

Lending patterns in minority areas are distinctly different than those found in non-minority areas. Of interest here is that for nearly all income groups and loan amount categories, Blacks in minority areas are ***more*** likely to obtain loans than are Whites (Table 5). In some cases the differences are quite distinct. For example, 33 percent of moderate-income Whites seeking loans of $25,000 or less in minority areas received approval. However, their Black counterparts were approved 47 percent of the time, a 14 percent increase. Similarly, 61 percent of medium-income Whites seeking loans of $51,000 to $100,000 in minority areas gained approval. However, when medium-income Blacks applied for similar loan amounts in minority areas their approval rate increased 10 points to 71 percent. In general, the Black/White gap in minority areas is greatest for lower income groups and smaller loan amounts (Table 5).

A similar situation is seen with Hispanic applicants. For every income group and loan amount requested Hispanic applicants in minority tracts were more likely to be approved for loans than were White applicants also seeking loans in minority areas. Further, in all but two categories Hispanics wanting loans in minority areas fared better than Blacks seeking loans in minority tracts.

In examining intra-racial differences between minority areas and non-minority areas some interesting patterns emerge as well. First, Blacks are more likely to be approved if they are applying for loans in minority areas. In 10 of the 15 loan amount/income categories for which comparisons can be made, minority-area Blacks were more likely to be approved than were Blacks seeking loans in non-minority areas (Table 5). Further, in six of these categories minority-area Blacks were favored over Blacks in non-minority areas by more than 5 percentage points.

A similar pattern is seen for Hispanics. Of the 15 categories for which comparisons can be made, Hispanics seeking loans in minority areas were favored over Hispanics seeking loans in non-minority areas in 11 instances. However, in most of these cases the differences among Hispanics are narrower than is the case for Blacks, with mi-nority-area Hispanics typically being favored over their counterparts in non-minority areas by less than 5 percentage points (Table 5).

When White applicants are considered the lending pattern is reversed and the differences between Whites applying for loans in minority areas and Whites seeking loans in non-minority areas are much more pronounced. For all income/loan amount categories Whites seeking loans in non-minority areas were favored over Whites wanting loans in minority areas, with differences ranging from 10 to

27 percentage points (Table 5). For example, 61 percent of medium-income Whites requesting loans of $51,000 to $100,000 for houses in minority areas were approved. However, Whites with like incomes seeking like loan amounts for housing in non-minority areas were approved 79 percent of the time, a difference of 18 percentage points. For smaller loans the gaps among Whites tends to increase even more. For instance, only 40 percent of high-income Whites wanting loans of less than $26,000 for housing in minority areas gained approval. However, their counterparts in White neighborhoods were approved 66 percent of the time.

The fact that Blacks and Hispanics fare better than Whites with respect to lending in minority areas raises questions about the White applicants themselves. Who constitutes this group is a question that merits investigation. One possibility is that they are elderly individuals who remained in minority areas after racial/ethnic transition took place and their rejection rates may reflect an age bias in the lending process. A second is that they are applicants of any age who seek housing in minority neighborhoods and the rejection rates reflect a form of spatial bias on the part of lenders. It may be that since Whites are being rejected the action results in less scrutiny on the part of regulators and, hence, lenders can avoid making some loans in minority areas without their practices being called into question. Yet a third possibility is that these are applicants from White enclaves adjacent to minority neighborhoods. Lenders may avoid such neighborhoods for fear that they will experience racial transition in the near term along with a drop in property values. It may be that all three of the above factors come into play.

Further, the fact that Blacks and Hispanics have fared better in minority areas than in White areas also raises questions. It is possible that lenders recognize an obligation to invest in minority areas and, hence, make a greater effort to lend in such areas. However, if this were the case one would expect White rates to be higher in these areas as well. Another possible explanation is that some lenders may view the movement of minorities into White neighborhoods in negative terms. This may be a social response on the part of a few lenders who see segregation as the preferred residential pattern. For other lenders this could be an economic response in that they view the movement of minorities into White areas as disruptive to the real estate market. For example, the in-migration of minorities might be seen as a catalyst for wholesale racial or ethnic change thereby causing falling prices and, hence, increased risk to a lender's investment. This too is a pattern that merits further research.

Summary and Conclusions

Mortgage and home improvement loan approval rates in Florida's metropolitan areas indicate that for the three groups examined there is a hierarchy in the lending process whereby White applicants are more likely to obtain loans than any other group. Next in this hierarchy are Hispanics who, in turn, are followed Blacks, the group least likely to obtain loans.

The success of Hispanic loan applicants relative to Whites and Blacks is largely dependent on the loan amounts requested. With small loan requests Hispanic approval rates are closer to Black approval rates than to White approval rates. However, as loan amounts increase Hispanics fare better in the approval process and their approval rates are closer to those of Whites than to Blacks.

While Blacks fare worse than the other two groups in nearly every case, they are most likely to be denied loans when the amounts requested are small. City size also affects their chances of success with lenders in smaller communities being more reluctant than lenders in larger metropolitan areas to approve the applications of African Americans.

Finally, applicants in minority tracts face different lending responses than do applicants in predominantly White areas. Both Blacks and Hispanics are somewhat more likely to be approved for loans associated with units in minority areas. For Whites the situation is reversed. Whites are unlikely to obtain approval when applying for loans linked to housing in or near minority areas, a pattern that raises the possibility of redlining and/or age discrimination in lending.

Although HMDA data alone cannot be used to prove discrimination is taking place, mortgage approval patterns found in Florida do raise questions about the practices followed by the state's lenders. It is clear that minorities are less likely to be granted mortgage loans and, hence, less likely to become homeowners. This situation deprives people of the opportunity to participate in this country's most common form of capital accumulation. In effect, it prevents a segment of the population from joining society's economic mainstream.

Denying credit to creditworthy minorities has an adverse impact on urban environments since home ownership is more apt to result in increased maintenance of housing stock and more likely to create greater neighborhood stability. In short, increased homeownership brings both social and economic benefits to the entire metropolitan region and efforts to be more inclusive in lending need to be encouraged.

Greater outreach efforts on the part of lenders and more aggressive lending policies directed toward minorities would serve to enhance opportunities for Florida's Blacks and Hispanics. Further, greater vigilance on the part of regulators and more stringent enforcement of fair lending laws would open additional doors for applicants. Increasing lending opportunities for minorities is ultimately in the best interest of the entire metropolitan area (including the interests of lenders). However, many lenders seem to have not recognized this since the system does not appear to be operating in an equitable manner. It is incumbent on both government and the lending industry to address this issue and adopt policies that will bring a greater degree of fairness to the process.

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