A Look at the FHA's Evolving Market Shares by Race and Ethnicity[1]

Introduction

Much attention has been devoted to the Federal Housing Administration's (FHA's) evolving role of providing financing for the 1- to 4-family home purchase mortgage market both before and after the housing market downturn that began in 2007. In early 2008, FHA market share increased dramatically and the conventional mortgage share, in both the prime and subprime markets, was severely curtailed. An additional observation during the boom years just preceding the downturn was that FHA home purchase mortgage market shares, especially those for racial and ethnic minority borrowers, fell dramatically. During the peak boom years of 2005 and 2006, FHA overall home purchase mortgage market share declined from the levels recorded during the 1990s, which were consistently near 15 percent (by loan count), to less than 5 percent. During the boom years, conventional lenders offered a range of nontraditional (often high-risk subprime) loan products along with expedited underwriting decisions. These loan products increasingly appealed to homebuyers who were facing ever-increasing home sales prices. This shift away from FHA was even greater for many racial and ethnic minority homebuyers who until the peak boom years had been choosing more sustainable FHA financing. After the full effects of the housing downturn became evident and the boom had turned to bust, however, the trend in FHA home purchase mortgage market share, and especially the minority home purchase mortgage market, dramatically reversed to such an extent that by 2009, FHA shares not only recovered, but far exceeded the shares observed in the preceding decade. In the future, as the market undergoes institutional changes to prevent a similar boom/bust cycle, the ability of the prime conventional market to serve racial and ethnic minority homebuyers is likely to be an issue of concern to policymakers.

This article examines these FHA market trends primarily by analyzing loan origination data that were reported under the auspices of the Home Mortgage Disclosure Act (HMDA), which was enacted in 1975. HMDA data are published annually by the Board of Governors of the Federal Reserve System in conjunction with the Federal Financial Institutions Examination Council and are the most comprehensive information source on the home purchase mortgage market that enables market share estimation by finance method (for example, conventional conforming,[2] FHA, other government guaranteed, and jumbo), by loan purpose (home purchase or refinance), and by racial and ethnic borrower characteristics. Other sources for FHA market share are often preferred when racial and ethnic breakouts are not required because HMDA data release comes with a typical time lag of up to a year or more, and HMDA data on home purchase mortgage market coverage are not 100 percent.[3] U.S. Department of Housing and Urban Development (HUD) research estimates that between 90 and 95 percent of FHA-insured originations and 75 and 85 percent of conventional originations are reported in HMDA data.

HUD's estimates of FHA market share, which are more current and complete than the estimates available from HMDA data are not straightforward calculations. Since 2009, HUD has been reporting estimates of FHA market shares from (1) internal administrative records as the source of complete FHA origination volumes (using dollar volumes of aggregate loan balance for one measure and loan counts for another), and (2) external sources on marketwide origination dollar volumes, with HUD adjustments to derive corresponding marketwide loan counts. The HUD estimates are published quarterly on HUD's website and also in *U.S. Housing Market Conditions* and are available through the fourth quarter of 2010.[4] HMDA data, in contrast, are only available through 2009, but they provide the racial and ethnic characteristics and loan purpose data breakdowns necessary for the analysis performed in this article.

Background on FHA and Overall Market Share Fluctuations

Since the 1930s, FHA has been an important component of the federal government's involvement in the national housing finance system. FHA adds liquidity (loanable funds) to the mortgage market by insuring lenders against borrower default, thereby making private lenders more willing to offer mortgages at favorable mortgage interest rates. FHA mortgage insurance is funded by mortgage insurance premiums assessed on all borrowers, and these premiums have historically been sufficient to cover FHA's insurance losses, even during economic downturns when insurance losses increase.

Historically, FHA home mortgage programs have played an important countercyclical role in the market. Prime conventional lenders and private mortgage insurers typically curtail their risk exposure in regions experiencing a recession by tightening underwriting standards to limit lending to only the most creditworthy applicants in those regions. Subprime lenders often curtail lending more severely when funding sources for higher risk loans become scarce. FHA, on the other hand, maintains its presence in all markets, providing stability and liquidity in markets experiencing recession.

Because FHA charges a mortgage insurance premium that is paid by all FHA borrowers, many homebuyers who can qualify for conventional lending with less costly private mortgage insurance choose conventional mortgages when the local economy is robust. Thus, in good times, FHA home purchase mortgage market share may decline. When the local or national economy is weak, however, conventional lenders or private insurers tighten underwriting and reduce their exposures in these markets, and FHA home purchase mortgage market shares increase as FHA continues to provide liquidity. In the post 2007 market, nearly all U.S. regions have experienced rising defaults and foreclosures, and conventional mortgage liquidity has been severely curtailed. Nationwide tightening of conventional credit is why the recent increase in FHA overall home purchase mortgage market share has been so dramatic. Figure 1 shows FHA's reported home purchase mortgage market shares quarterly from 2003 through the first quarter of 2011, based on the combined internal and external data sources noted above, illustrating the rapid increase in FHA shares after 2007.

Estimating FHA Market Shares by Race and Ethnicity Using HMDA Data

HDMA requires most mortgage lending institutions to publicly disclose information about their home lending activity each year. The data include (1) the disposition of each application for mortgage credit (whether the loan was originated or denied); (2) the type (FHA, Department of Veterans Affairs, other government-insured, or conventional), purpose, lien status, and other characteristics of the mortgages that lenders originate; and (3) the demographic and other information about the borrowers including racial and ethnic characteristics. These disclosures are used to help the public determine whether institutions are adequately serving their community housing finance needs, to facilitate national fair lending law enforcement, and are valuable as a research tool, providing insights in many fields of interest.

Using HMDA data, FHA home purchase mortgage market share can be estimated by counting the number of mortgage originations used to purchase homes reported as being FHA insured and dividing this number by the reported total number of mortgages originated in the market. Similarly, FHA's share could be computed from HMDA data using aggregate dollar amounts reported for both FHA-insured originations and all loan originations, but this article focuses on FHA shares based on loan counts. FHA market shares for racial and ethnic groups are similarly calculated—just divide FHA loan counts or dollar amounts for a particular group by total origination counts or dollar amounts for that group.

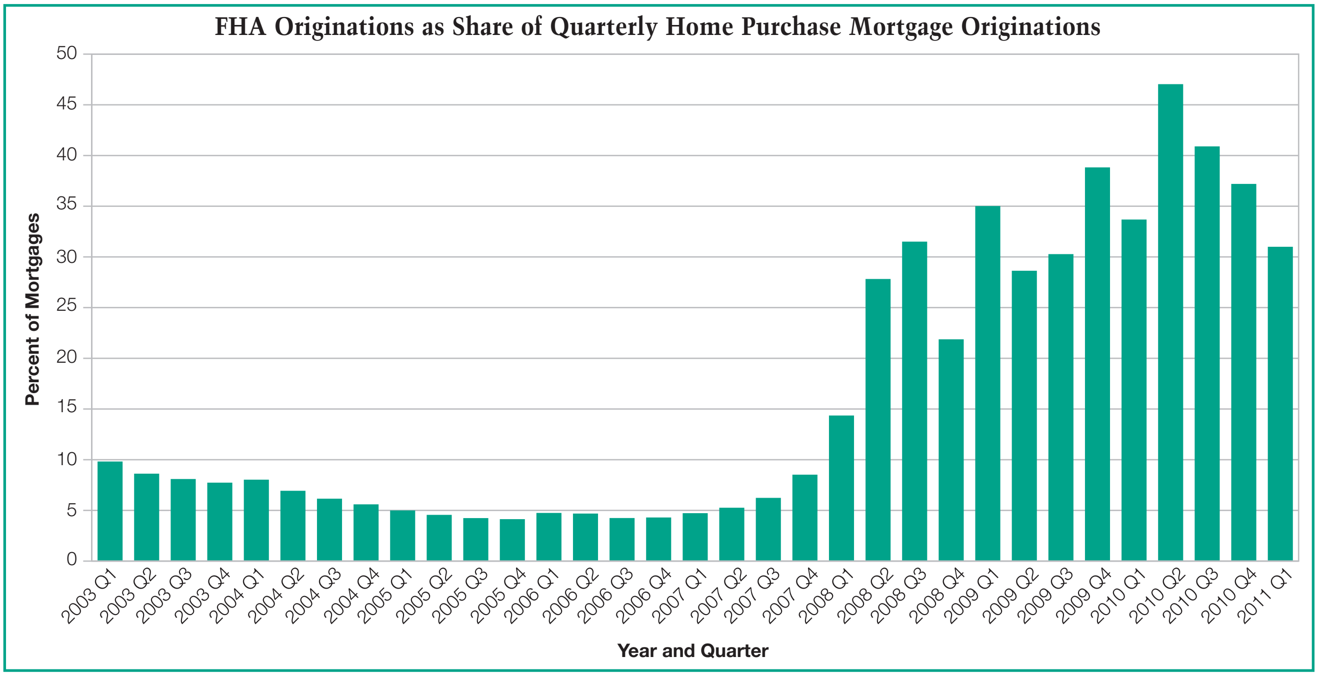
When analyzing minority and ethnic market shares, focusing on loan counts avoids differences introduced by differential home sales prices by group or by region.

Because a small number of lenders are exempt from HMDA reporting (mostly small-volume lenders and those operating in rural or nonmetropolitan areas) HUD has estimated that HMDA data generally covers between 90 and 95 percent of FHA-insured originations, but only between 75 and 85 percent of conventional originations. That means FHA market shares computed with HMDA data may appear greater than those estimated by HUD (like those shown in Figure 1, which are based on administrative records and external total market origination estimates). For example, FHA annual home purchase mortgage market shares reported by HUD were 4.5, 6.0, 24.1, and 32.6 percent for 2006 through 2009, respectively. The corresponding FHA shares based on HMDA data are higher for each year at 5.3, 7.0, 25.5, and 37.3 percent, most likely because of the differential coverage rates in HMDA data. To adjust the HMDA data on loan origination counts for the differential coverage rates, divide the FHA counts by the average FHA coverage rate (0.93), and similarly dividing the conventional counts by the average conventional coverage rate (0.80) to better reconcile the two methods for computing FHA market share. Adjusting HMDA data counts for differential coverage is less precise when estimating market shares for racial and ethnic minority groups, however. HMDA data coverage rates by racial and ethnic group can be estimated for FHA originations using detailed HUD administrative records as the universe of FHA originations, but no comparable source exists with which to estimate the conventional market coverage rates by racial and ethnic group. The average FHA and conventional coverage rates of 0.93 and 0.80, respectively, could be applied for each racial and ethnic group in the HMDA data, but that approach would not accurately account for differential coverage across groups. Thus, this article reports market share calculations using unadjusted HMDA data, with the caveat that the resulting FHA market shares may be overstated by the differential coverage rates imbedded in HMDA data.

FHA Market Share Trends by Race and Ethnicity

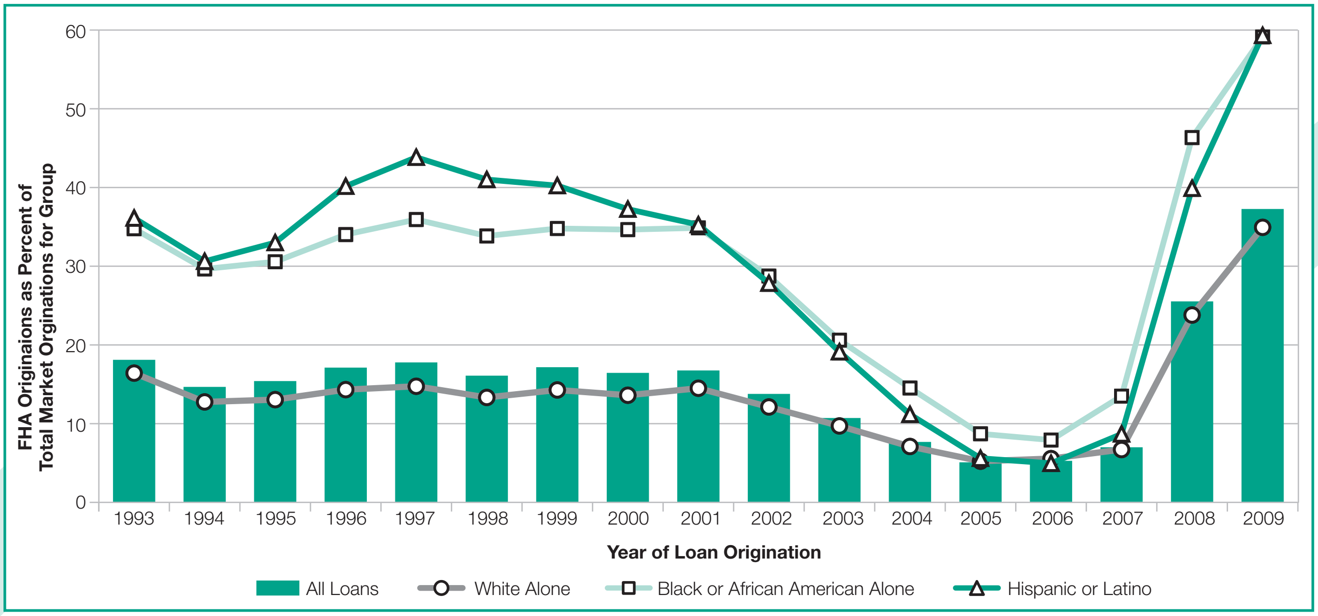
Figure 2 graphically illustrates FHA home purchase mortgage market shares overall and by selected racial or ethnic groups from 1993 through 2009 using unadjusted HMDA data of loan counts (not dollar amounts). When selecting HMDA data records for Figure 2 and all subsequent figures in this article, the criteria were to include only reported one- to four-unit (single-family) home purchase loan originations that were secured by first-lien mortgages, representing both owner- and

Figure 1. FHA Market Share Rose Dramatically in Response to Crisis



Source: U.S. Department of Housing and Urban Development

Figure 2. FHA Total Annual Share of 1- to 4-Family Home Purchase Market With Breakouts for Largest Borrower Racial and Ethnic Groups



FHA = Federal Housing Authority.

One- to four-unit (single-family) home purchase loan originations: first-lien, owner- and nonowner-occupant borrowers, including manufactured housing.

Source: Home Mortgage Disclosure Act

nonowner-occupant borrowers, and including purchases of manufactured housing. As Figure 2 shows, FHA share of the home purchase mortgage market averaged about 16 percent annually from 1993 through 2001.[5] For the most part, the mortgage market in the 1990s was composed of conventional prime and government-insured sectors, especially in the home purchase segment for which subprime conventional loans were less prevalent. Thus, variation in FHA home purchase mortgage market share in the 1990s was primarily related to changes in the mortgage interest rate level. Whenever mortgage interest rates declined, FHA's market share declined and, proportionally, more borrowers could qualify for a conventional mortgage.

After 2001, FHA home purchase mortgage market share declined from more than 13 percent in 2002 to approximately 5 percent in 2005 and 2006. Sustained low interest rate levels were the primary cause of the initial decline in FHA market share. The availability of innovative, but risky, subprime and nontraditional mortgages, however, along with expedited underwriting decisions that were made possible by automated underwriting advances (or, as some analysts have conjectured, a near absence of underwriting), had increasing appeal to homebuyers facing ever higher home sales prices. These trends increased the number of borrowers who could purchase a home without FHA, which led to further FHA market share decline.

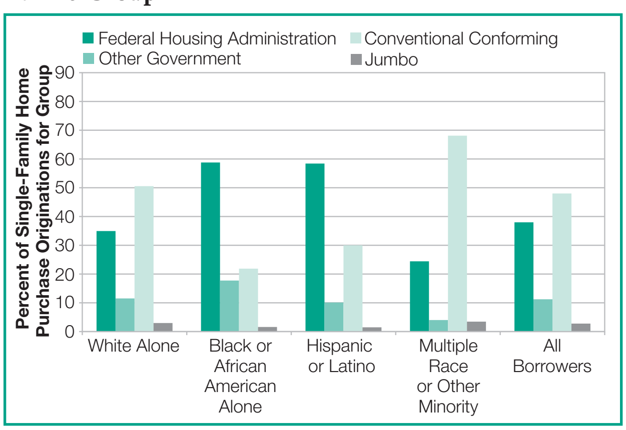
FHA home purchase mortgage market share dramatically increased in 2008; the conventional market tightened underwriting, especially in the nontraditional sectors; and the home purchase mortgage market contracted with falling home sales prices. FHA share, as reported by HMDA data, increased from approximately 7 percent in 2007 to 26 and 37 percent, respectively, in 2008 and 2009.

For racial and ethnic minorities, particularly Blacks and Hispanics, the swings in FHA market share over this time were even greater. Figure 2 shows that among borrowers in these two racial and ethnic groups, their FHA shares peaked in 1997 at 36 percent for Blacks, and 44 percent for Hispanics.[6] Their respective FHA shares declined rapidly between 2001 and 2006, with the share for Blacks dropping dramatically to 8 percent in 2006, and the share for Hispanics falling even more dramatically to 5 percent in 2006. It is likely the case that a relatively higher proportion of racial and ethnic minority homebuyers, who until the peak boom years had been choosing more sustainable FHA financing, were attracted to the subprime and nontraditional conventional market sectors during the boom years of 2002 through 2006.

In 2008 and 2009, the increase in FHA share for Blacks and Hispanics was even greater than that for FHA as a whole. In these 2 years, FHA shares increased to 46 and 59 percent, respectively, for Blacks, and to 40 and 59 percent, respectively, for Hispanics. Blacks and Hispanics appear to have been affected more by the tightening of prime conventional underwriting requirements during these 2 years; the drying up of the subprime and nontraditional loan markets resulted in relatively more need for FHA's less restricted underwriting requirements. Going forward, the ability of the prime conventional market to serve racial and ethnic minority homebuyers in the post-crisis financial environment is likely to be an issue of concern to policymakers.

The remainder of this article presents a table and additional figures that detail the trends in racial and ethnic home purchase lending patterns between 2006 and 2009, based on HMDA data. Figures 3-A and 3-B, for example, show the large shifts that occurred between 2006 and

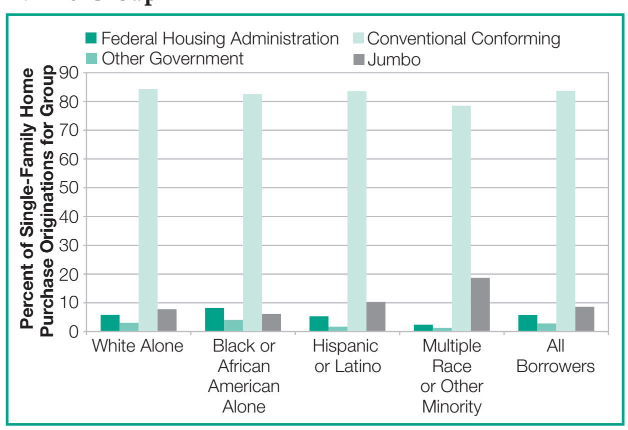
Figure 3-A. 2009 Mortgage Sector Shares by Racial and Ethnic Group



Excludes loans for which race and ethnicity are missing or not reported.

Source: U.S. Department of Housing and Urban Development analysis of 2009 Home Mortgage Disclosure Act data

Figure 3-B. 2006 Mortgage Sector Shares by Racial and Ethnic Group

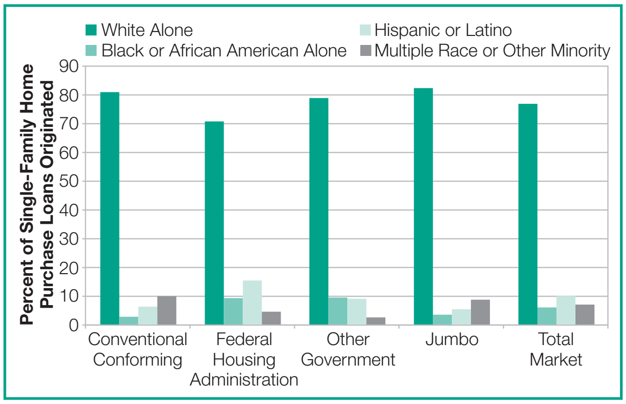


Excludes loans for which race and ethnicity are missing or not reported.

Source: U.S. Department of Housing and Urban Development analysis of 2009 Home Mortgage Disclosure Act data

2009 in the mortgage sector shares (for all sectors not just FHA shares) by racial and ethnic group. In 2006, nearly 80 percent or more of the homebuyers in each group were using conventional loans, but by 2009, with the exception of Asians, only 50 percent or less of homebuyers were using conventional loans. Figures 4-A and 4-B show the shifts that occurred between 2006 and 2009 in the racial and ethnic distribution of the home purchase loans made by lending sector. Finally, Table 1 provides the detailed HMDA data loan counts of home purchase loans by racial and ethnic group and by lending sector for each year from 2006 through 2009.

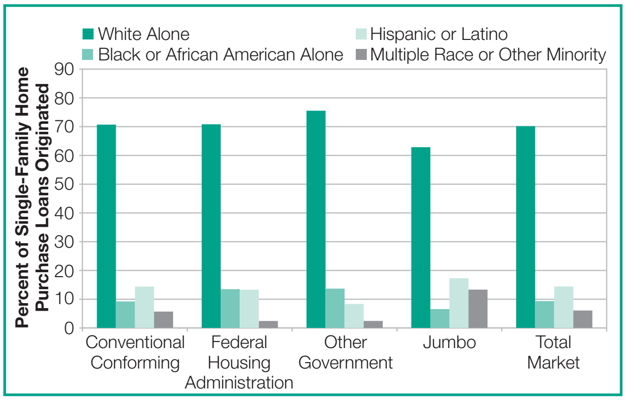
Figure 4-A. 2009 Racial and Ethnic Distribution of Business by Loan Sector



Excludes loans for which race and ethnicity are missing or not reported.

Source: U.S. Department of Housing and Urban Development analysis of 2009 Home Mortgage Disclosure Act data

Figure 4-B. 2006 Racial and Ethnic Distribution of Business by Loan Sector



Excludes loans for which race and ethnicity are missing or not reported.

Source: U.S. Department of Housing and Urban Development analysis of 2009 Home Mortgage Disclosure Act data

Table 1. Detailed Breakouts of 2006 Through 2009 HMDA-Reported Home Purchase Mortgage Originations by Borrower Race and Ethnicity and Loan Sector

2009 HMDA					
Borrower Race and Ethnicity by Loan Sector—Counts of Mortgages Originated*					
Borrower Race and Ethnicity	Loan Sector				
	Conventional Conforming	FHA	Other Government	Jumbo	Total Market
Hispanic or Latino	74,619	145,337	25,171	3,689	248,816
American Indian/Alaska Native/ Native Hawaiian	7,271	8,185	2,568	454	18,478
Asian alone	107,369	31,093	3,026	5,400	146,888
Black or African American alone	32,456	87,203	26,320	2,372	148,351
White alone	969,502	670,234	220,991	57,042	1,917,769
Two or more races	3,364	3,044	1,355	136	7,899
Not provided/not applicable	141,337	75,884	22,235	11,699	251,155
All borrowers	1,335,918	1,020,980	301,666	80,792	2,739,356

Table 1. Detailed Breakouts of 2006 Through 2009 HMDA-Reported Home Purchase Mortgage Originations by Borrower Race and Ethnicity and Loan Sector (continued)

2008 HMDA					
Borrower Race and Ethnicity by Loan Sector—Counts of Mortgages Originated*					
Borrower Race and Ethnicity	Loan Sector				
	Conventional Conforming	FHA	Other Government	Jumbo	Total Market
Hispanic or Latino	144,633	107,857	16,757	2,574	271,821
American Indian/Alaska Native/ Native Hawaiian	10,877	6,348	1,823	300	19,348
Asian alone	122,385	15,395	1,909	5,207	144,896
Black or African American alone	75,008	83,846	21,046	1,488	181,388
White alone	1,404,812	501,327	146,159	51,944	2,104,242
Two or more races	5,066	2,402	910	160	8,538
Not provided/not applicable	206,158	54,141	15,069	15,959	291,327
All borrowers	1,968,939	771,316	203,673	77,632	3,021,560

2007 HMDA					
Borrower Race and Ethnicity by Loan Sector—Counts of Mortgages Originated*					
Borrower Race and Ethnicity	Loan Sector				
	Conventional Conforming	FHA	Other Government	Jumbo	Total Market
Hispanic or Latino	333,356	36,084	11,583	29,899	410,922
American Indian/Alaska Native/ Native Hawaiian	19,805	2,740	1,241	2,458	26,244
Asian alone	143,284	3,025	1,172	33,651	181,132
Black or African American alone	225,550	40,113	17,360	13,741	296,764
White alone	2,264,670	183,885	96,764	188,569	2,733,888
Two or more races	8,294	849	576	767	10,486
Not provided/not applicable	319,415	16,943	9,914	47,494	393,766
All borrowers	3,314,374	283,639	138,610	316,579	4,053,202

2006 HMDA					
Borrower Race and Ethnicity by Loan Sector—Counts of Mortgages Originated*					
Borrower Race and Ethnicity	Loan Sector				
	Conventional Conforming	FHA	Other Government	Jumbo	Total Market
Hispanic or Latino	575,764	35,155	10,498	69,636	691,053
American Indian/Alaska Native/ Native Hawaiian	28,502	2,434	1,303	4,592	36,831
Asian alone	188,110	3,147	1,247	47,988	240,492
Black or African American alone	368,311	35,648	17,195	26,433	447,587
White alone	2,826,390	187,310	94,967	253,409	3,362,076
Two or more races	10,667	821	513	1,140	13,141
Not provided/not applicable	423,386	15,463	8,522	61,110	508,481
All borrowers	4,421,130	279,978	134,245	464,308	5,299,661

HMDA = Home Mortgage Disclosure Act. FHA = Federal Housing Authority.

Note: Counts of Mortgages Originated—Unadjusted*.

*One- to four-unit (single-family) home purchase loan originations: first lien, owner- and nonowner-occupant, including manufactured housing. HMDA data not adjusted for differential coverage of FHA and conventional loans.

Source: U.S. Department of Housing and Urban Development analysis of HDMA data

Notes

[1] Contributions to this article were made by Edward Szymanoski, Randall Scheessele, and Christian Malagon of HUD and by Ismail Mohammed from the firm of L3-Stratis.

[2] "Conforming," in this context, means that the original loan balance did not exceed the conforming limit governing eligible loan purchases by Fannie Mae or Freddie Mac, the two government-sponsored enterprises that provide liquidity to the conventional mortgage market. Conventional loans above the conforming limit are called "jumbo loans." The national conforming loan limit for mortgages that finance single-family properties was $417,000 for the 2006through-2008 period, with limits 50 percent higher for four high-cost areas: Alaska, Hawaii, Guam, and the U.S. Virgin Islands. Beginning early in 2008, the Economic Stimulus Act of 2008 and the American Reinvestment and Recovery Act of 2009 temporarily raised the limits up to $729,750 in certain additional high-cost areas based upon local median sales price. Permanent limits are now set under the terms of the Housing and Economic Recovery Act of 2008. In 2011, the one-unit conforming loan limit ranges from $417,000 to $729,750 in high-cost areas in the continental United States. (Exceptions are given for counties in Hawaii and go as high as $793,750.)

[3] For an examination of HMDA coverage of the mortgage market see Scheessele, Randall M. "HMDA Coverage of the Mortgage Market," *Housing Finance Working Paper Series*. U.S. Department of Housing and Urban Development. July 1998.

[4] See http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamktqtrly.

Although HUD collects extensive data on each loan that FHA insures, a complete set of comparable data does not exist on conventional lending. Private industry sources, which publish their own mortgage share estimates, often rely on several sources of data and generally report overall market shares based only on aggregate dollar volumes. In general, these industry estimates do not report shares by loan count and do not disaggregate by loan purpose (home purchase, refinance, or home improvement). The HUD market share estimates start with administrative records on FHA overall originations by dollar volume and by loan count and loan purpose. HUD relies on Mortgage Bankers Association (MBA) data on origination aggregate dollar volumes by loan purpose and Core Logic Servicing data on average loan size by loan purpose for deriving estimated origination loan counts from the MBA dollar volumes. HUD combines these data to estimate FHA market shares. HUD's methodology was discussed in greater detail in "New Tables Document the Rise in FHA's Share of the 1- to 4-Family Mortgage Market" in *U.S. Housing Market Conditions*, 2nd Quarter 2009.

[5] FHA's share of the refinance market for 1- to 4-family homes is typically less than its share of the home purchase mortgage market. This share difference is because of the fact that more homeowners seeking to refinance an existing mortgage are able to qualify for conventional loans with or without private mortgage insurance, and relatively fewer need to pay FHA's higher mortgage insurance premiums. Refinance market shares are not considered in this article.

[6] Note that these counts exclude borrowers with one or more coborrowers who report multiple race identifiers—for example, a Black borrower with a White coborrower would be classified as a multiple race borrower and reported in a separate racial category in Figures 2 through 5 in this article.