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Trends in Montgomery County Home Lending: 2018–2022

10 Things to Know

By Matt Klesta, Senior Policy Analyst

Introduction

This series of chartbooks examines home mortgages and refinances from 2018 through 2022 for seven large counties in Kentucky, Ohio, and Pennsylvania:

- Allegheny County, Pennsylvania (Pittsburgh); Cuyahoga County, Ohio (Cleveland); Fayette County, Kentucky (Lexington); Franklin County, Ohio (Columbus); Hamilton County, Ohio (Cincinnati); Lucas County, Ohio (Toledo); and Montgomery County, Ohio (Dayton)

These charts are derived from the Home Mortgage Disclosure Act (HMDA) data set. Signed into law in 1975 by President Ford, the HMDA requires most financial institutions to disclose information on their mortgage lending. Annually, this information creates a publicly accessible data set that includes millions of records and covers about 90 percent of mortgage lending in the United States (Gerardi, Willen, and Zhang, 2020). More information on the HMDA can be found in this summary: *What is HMDA and why is it important?*

Notes

- Home purchases and refinances refer to first-lien, owner-occupied, one- to four-family units.
- This analysis only includes home purchases for which the borrower took out a mortgage loan.
- Low- and moderate-income (LMI) is defined as less than 80 percent of the Metropolitan Statistical Area’s estimated median family income, while middle- and upper-income (MUI) is defined as greater than or equal to 80 percent.
- This analysis compares Black (non-Hispanic) and white (non-Hispanic) applications, which make up the majority of home purchase and refinance applications in the Fourth District’s largest counties (79 percent in 2022).

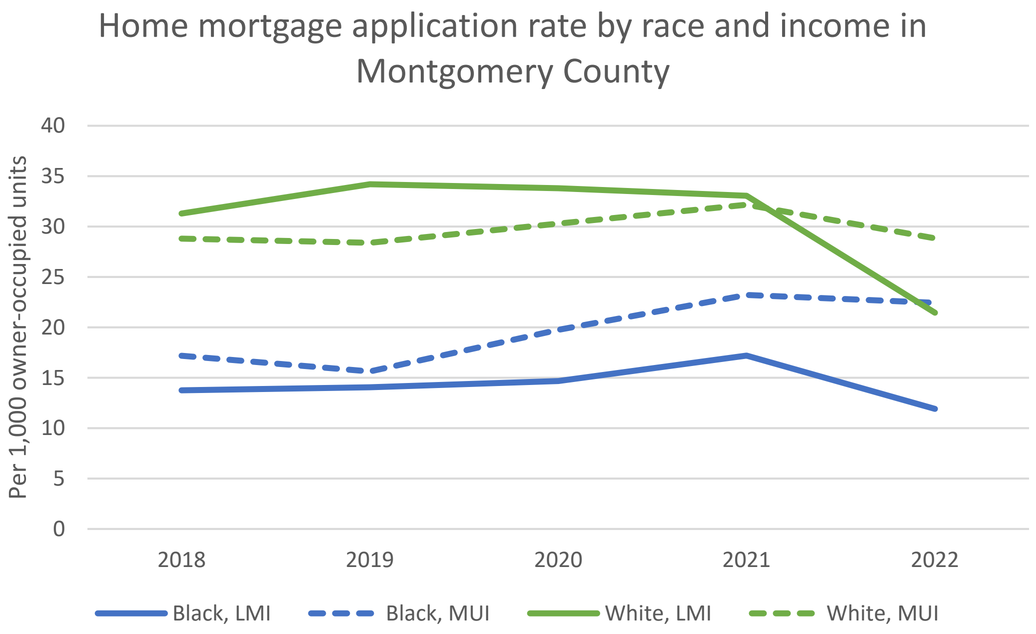
Lending environment at the time

From 2018 through 2019, the mortgage lending environment was functioning in a relatively normal way. However, since then, several events have greatly impacted it: the COVID-19 pandemic and interest rates hitting a record low, followed by a rise.

By the end of 2020, the average interest rate for 30-year, fixed-rate mortgages reached 2.65 percent. That is the lowest rate recorded, with data going back to 1971 (Freddie Mac, 2022). The result was a surge in refinances and a general increase in home purchases (Newton and Vickery, 2022). Along with low interest rates, millennials, currently the largest adult population in the United States, were entering their peak homebuying years as the COVID-19 pandemic was causing people to rethink their housing situations (Friedman, 2020). Stimulus checks, student loan forbearance, and less spending on travel and entertainment during the COVID-19 lockdowns allowed many households to save for down payments (Friedman, 2021). However, decades of underbuilding combined with homeowners' moving less frequently and living in the same homes longer contributed to low inventory (Khater, Kiefer, and Yanamandra, 2021; Friedman, 2021).

Things began to shift again in 2022, as interest rates doubled during the year, which had never happened before (Freddie Mac, 2022). This increased the cost to borrow, causing mortgage lending activity, particularly refinances, to decline. This decrease was most noticeable for LMI households, which saw the greatest declines in home purchases from 2021 through 2022 (Choi and Walsh, 2023). At the same time, existing homeowners were experiencing the "lock-in effect." This refers to homeowners with low-interest-rate mortgages who are reluctant to sell in a high-interest-rate environment and potentially incur higher housing costs (Boesel, 2022).

1. Home mortgage applications decreased for all race and income groups in 2022, particularly for LMI households



Black households applied for home mortgages (blue lines) at lower rates than white households (green lines) from 2018 through 2022, but the gap narrowed in 2022. LMI households (solid lines) generally saw larger declines in application rates in 2022, with total applications declining by 24 percent for Black LMI households and by 26 percent for white LMI households.

Note: Calculated as applications by race per 1,000 owner-occupied units by race

Sources: Author's calculation using HMDA data and census microdata from Steven Ruggles, Sarah Flood, Matthew Sobek, Daniel Backman, Annie Chen, Grace Cooper, Stephanie Richards, Renae Rogers, and Megan Schouweiler. IPUMS USA: Version 14.0 [dataset]. Minneapolis, Minnesota: IPUMS, 2023. https://doi.org/10.18128/D010.V14.0

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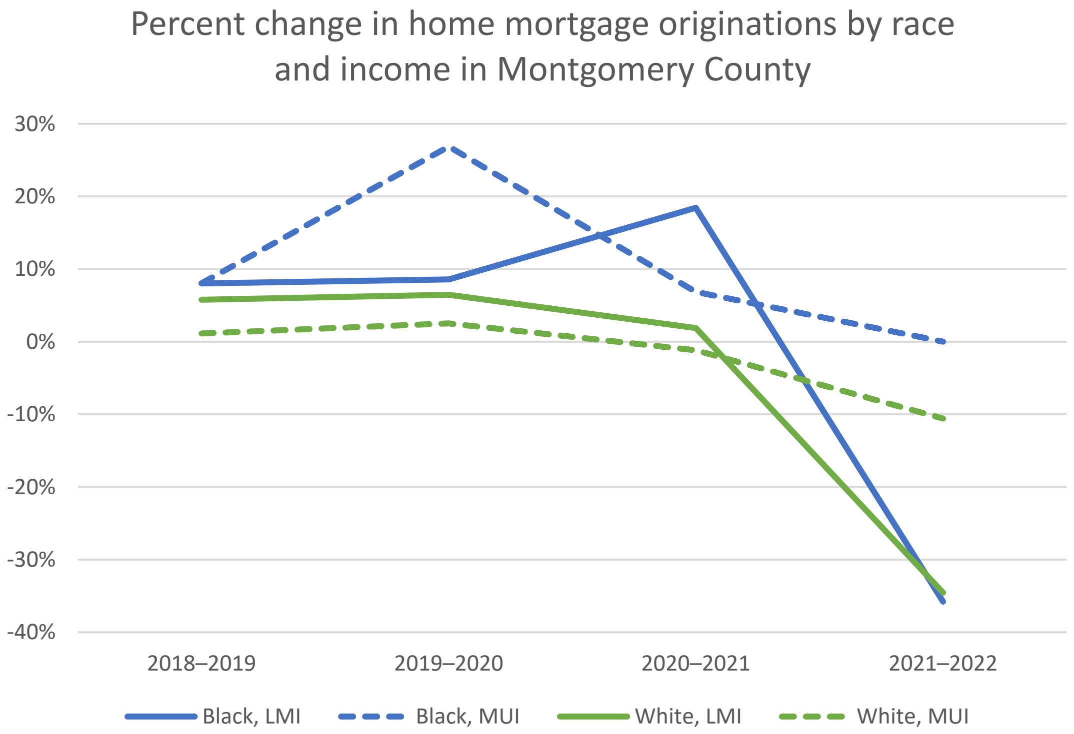
2. Across-the-board declines in home purchase originations occurred in 2022 and were greatest for LMI borrowers



From 2018 through 2020, home purchases in Montgomery County increased for all race and income groups. These increases were largest for Black borrowers (blue lines). In 2022, originations declined across all race and income groups, and these declines were greatest for LMI borrowers (solid lines).

Increases in Black home purchases led to a rising Black homeownership rate in Montgomery County, which reached 41 percent in 2022 (up 5 percentage points from 2018). The white homeownership rate increased by 3.6 percentage points during the same period. However, the gap between Black and white homeownership rates remained wide at 30 percentage points.

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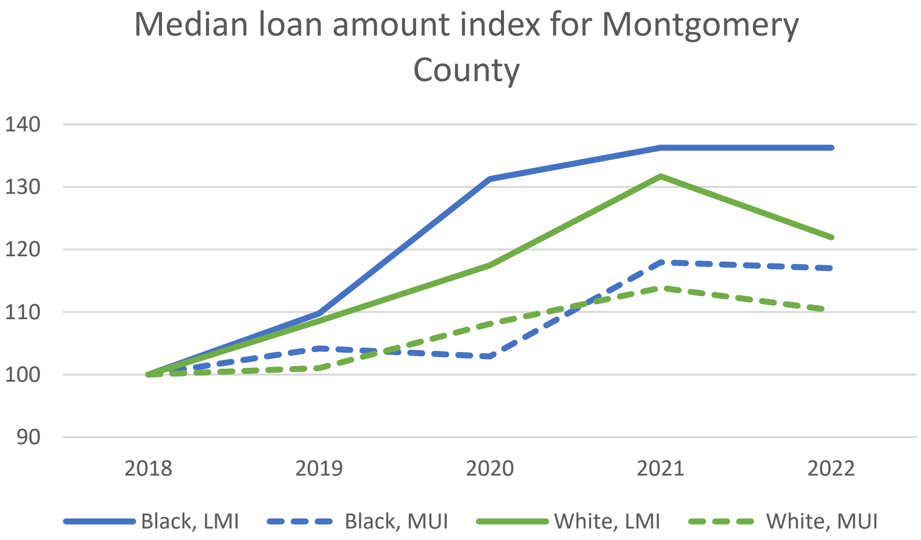
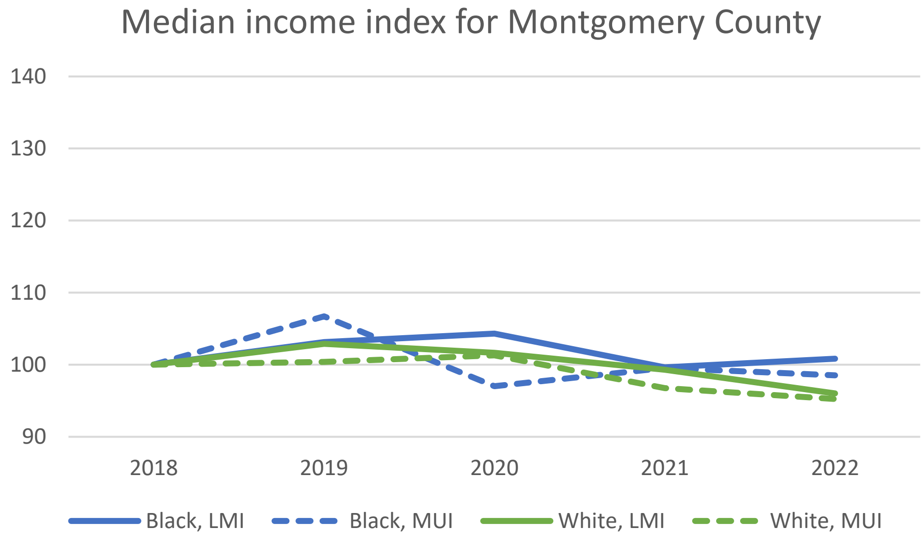
Source: HMDA data

3. Median loan amounts increased faster than median incomes





From 2018 through 2021, median loan amounts in Montgomery County increased, while in 2022, they leveled out or even declined slightly. However, median incomes increased markedly slower and even declined for some groups from 2018 through 2022.

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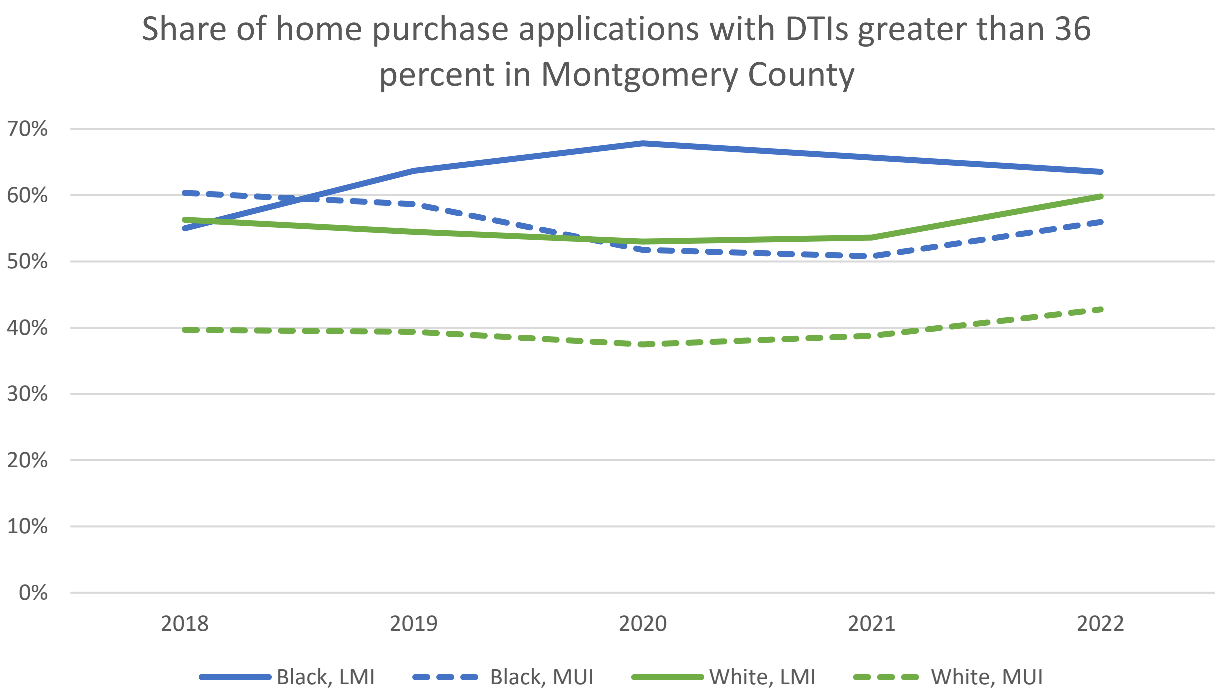
Note: Median loan amounts and incomes in 2022 adjusted US dollars.
Source: HMDA data

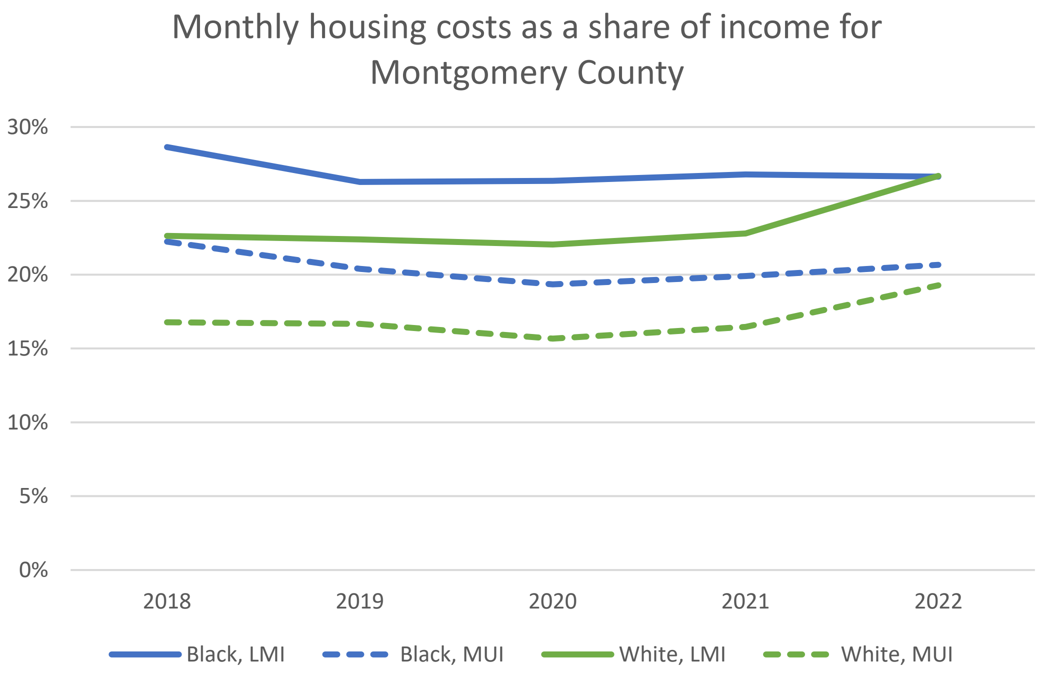
4. Shares of debt-to-income ratios that were greater than 36 percent increased for all borrower groups except Black LMI applicants



A general rule of thumb is that banks prefer a debt-to-income (DTI) ratio of 36 percent or less to signal a healthy amount of income. Since 2021, the share of home purchase applicants in Montgomery County with a DTI of greater than 36 percent has been increasing across all race and income groups except Black LMI applicants.

Source: HMDA data

5. Housing costs remain higher for LMI borrowers but have increased faster for white borrowers



Since 2018, housing costs for the median LMI borrower have remained higher (solid lines) than for the median MUI borrower (dashed lines). Housing costs refer to what a borrower spent on mortgage payments, real estate taxes, homeowners' insurance, and utilities. These increases have been greatest for white borrowers (green lines), for whom housing costs have exceeded 2018 levels. Black borrowers have seen their housing costs dip below 2018 levels (blue lines).

Note: Cost-burden is the sum of the borrower's monthly mortgage payment (computed using the reported loan amount, interest rate, and loan term) and estimated taxes, insurance, and utility payments (estimated as a fraction of the property value using census microdata), divided by the borrower's stated income.

Sources: Author's calculation using HMDA data and census microdata from Steven Ruggles, Sarah Flood, Matthew Sobek, Daniel Backman, Annie Chen, Grace Cooper, Stephanie Richards, Renae Rogers, and Megan Schouweiler. IPUMS USA: Version 14.0 [dataset]. Minneapolis, Minnesota: IPUMS, 2023. https://doi.org/10.18128/D010.V14.0

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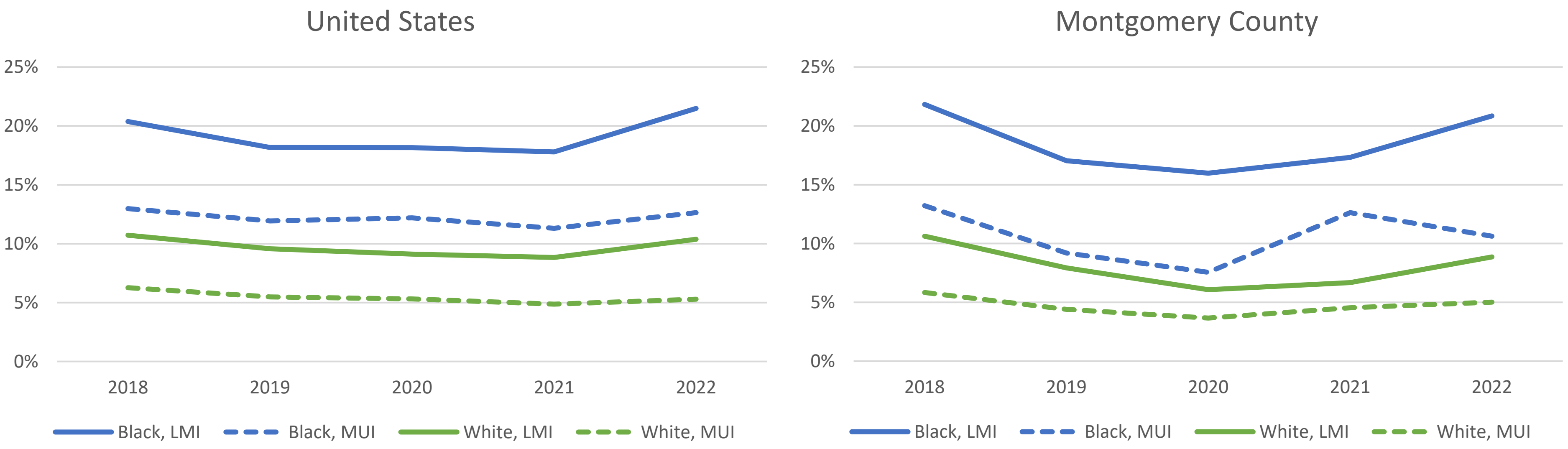
6. Home purchase denial rates increased across all race and income groups in 2022 except Black MUI applicants



In Montgomery County, home purchase denial rates have risen for all race and income groups since 2020 except Black MUI applicants. However, they have remained below 2018 rates for all categories. This increase has been largest for Black LMI applicants, who have seen an increase of 4.1 percentage points since 2020 (solid blue line). The gap between Black and white denial rates remains stubbornly wide in Montgomery County, averaging 11 percentage points for LMI applicants (solid lines) and 6 percentage points for MUI applicants (dashed lines) during 2018–2022. In fact, denial rates for Black MUI applicants (dashed blue line) exceeded those for white LMI applicants during the entire period (solid green line).

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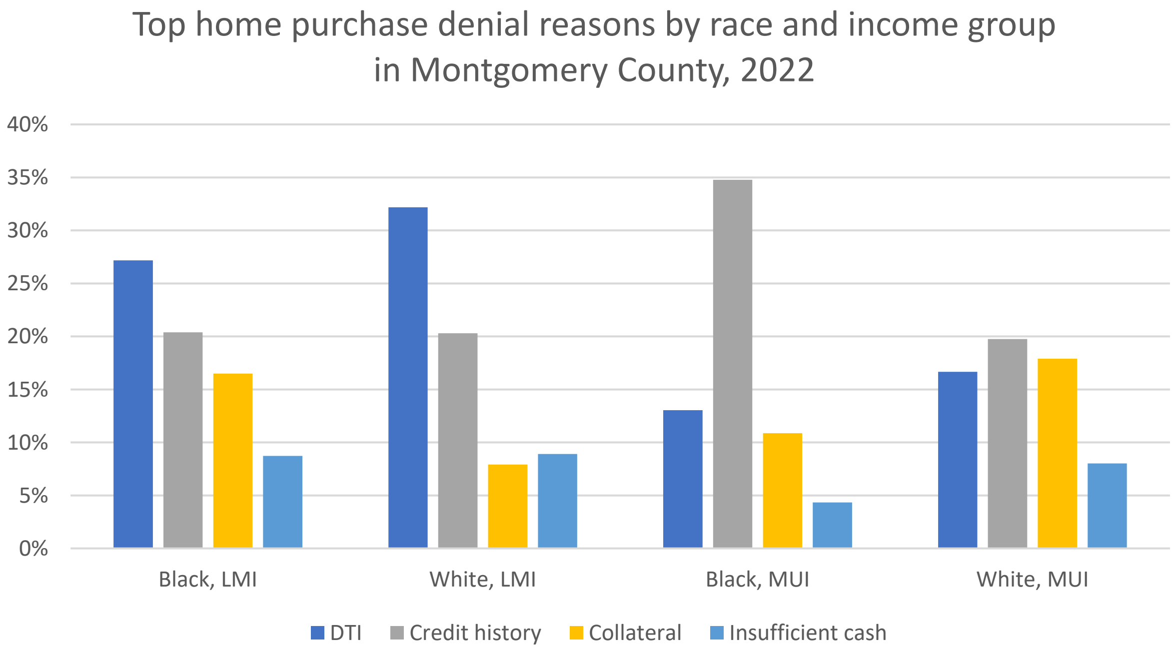
Source: HMDA data

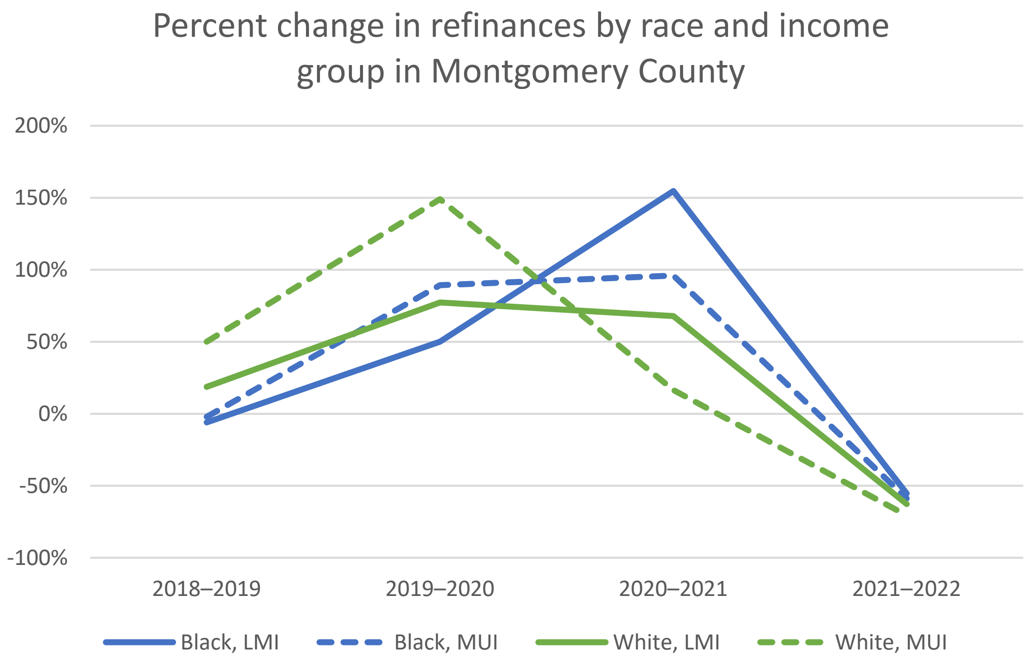
7. In 2022, DTI was a more common denial reason for LMI home purchase applicants, while credit history was more common for Black MUI applicants



In 2022, DTI was the top denial reason for LMI home purchase applicants, while credit history was more common for Black MUI applicants. Collateral refers to a home's appraised value being too low to support the required loan-to-value ratio.

Notes: Top denial reasons differ by race and income group. There are eight possible denial reasons (DTI ratio, employment history, credit history, insufficient cash for the down payment and closing costs, unverifiable information, credit application incomplete, mortgage insurance denied, and other).
Source: HMDA data

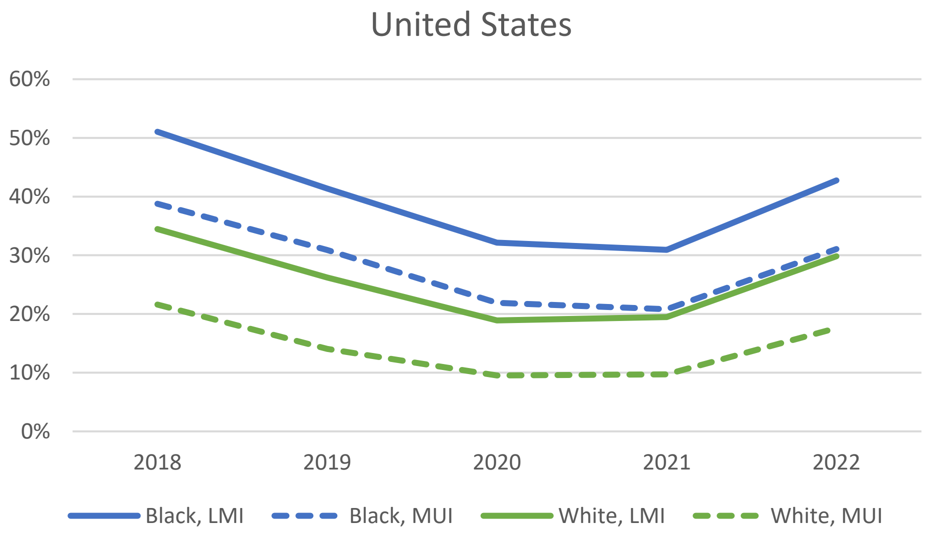
8. Rising interest rates led to a dramatic decrease in refinances across all race and income groups

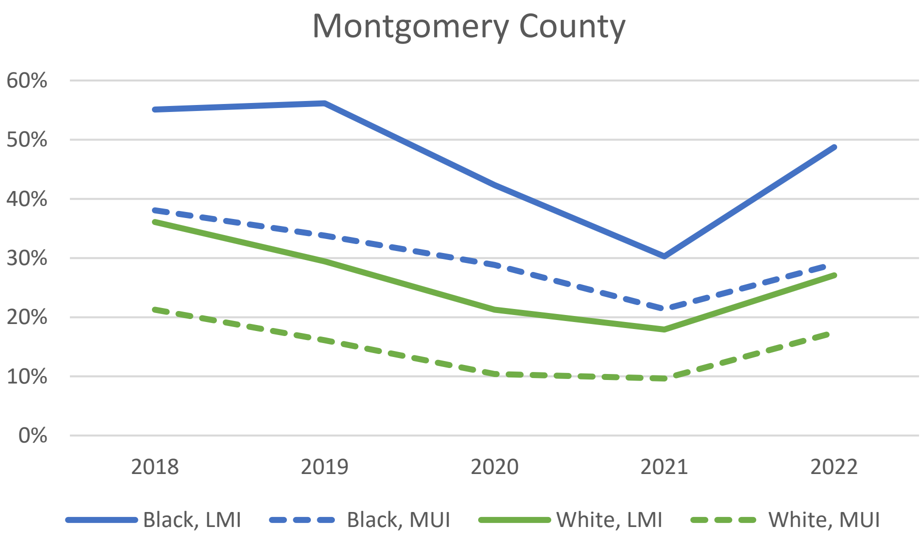


Refinances in Montgomery County increased from 2018 through 2021, particularly for white MUI homeowners in 2020 and for Black LMI homeowners in 2021. In 2022, refinances across all race and income groups declined precipitously as interest rates rose.

Source: HMDA data

9. Refinance denial rates increased for all race and income groups in 2022





Refinance denial rates in Montgomery County increased in 2022 but remained below 2018 rates for all race and income groups. While the gap between Black and white denial rates has narrowed, it remained stubbornly wide in 2022: 20 percentage points for LMI applicants (solid lines) and 15 percentage points for MUI applicants (dashed lines). In fact, denial rates for Black MUI applicants (dashed blue line) were greater than for white LMI applicants (solid green line) from 2018 through 2022.

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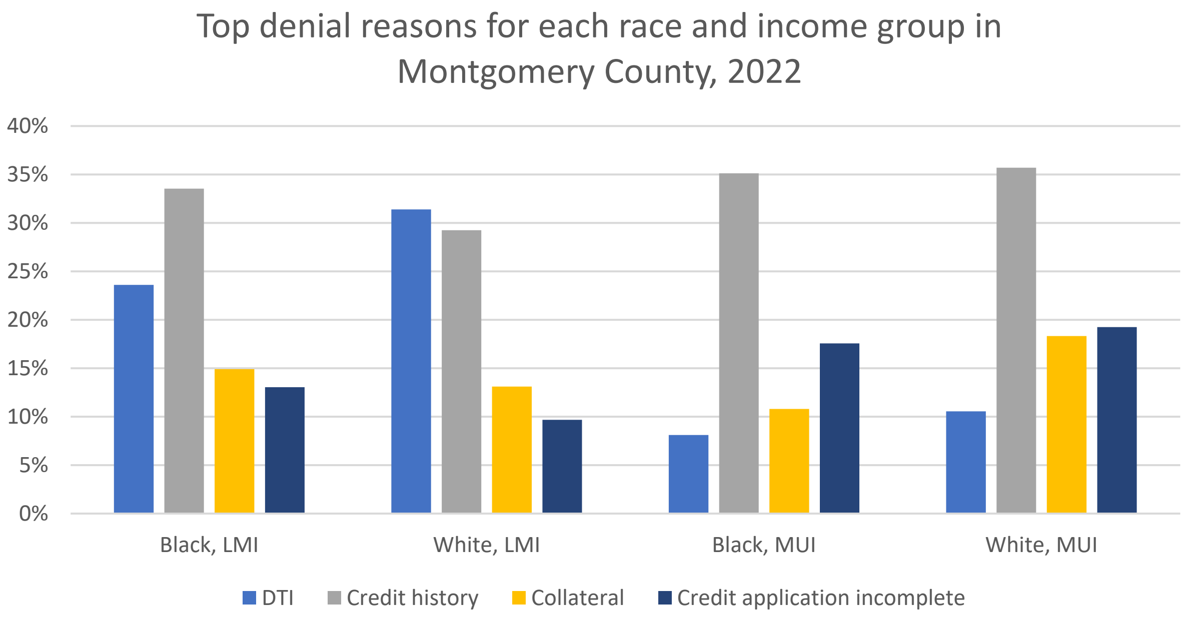
Source: HMDA data

10. In 2022, DTI was a more common denial reason for LMI refinance applicants, while credit history was one of the top reasons for all race and income groups



In 2022, DTI was a more common denial reason for LMI applicants, while credit history was one of the top reasons for most race and income groups. Collateral refers to a home's appraised value being too low to support the required loan-to-value ratio.

Notes: Top denial reasons differ by race and income group. There are eight possible denial reasons (DTI ratio, employment history, credit history, insufficient cash for the down payment and closing costs, unverifiable information, credit application incomplete, mortgage insurance denied, and other).
Source: HMDA data

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