FEDERAL RESERVE BANK OF MINNEAPOLIS

Editor's note - Issue 2, 2005

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May 1, 2005

AUTHOR

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This edition of *Community Dividend*centers on the State of Minnesota's Emerging Markets Homeownership Initiative, or EMHI. As our main feature explains, EMHI is a comprehensive approach to closing some unacceptable gaps in Minnesota's homeownership rates. While a record percentage of the state's general population has achieved homeownership, the rates for Minnesota's new immigrants and people of color—collectively, its emerging market groups—are much lower. The gaps represent thousands who are left out of a significant rite of American life.

A second feature in this issue explores the facts behind Minnesota's homeownership disparities. It also offers points for EMHI's members to consider as they proceed. Next steps for the initiative are to finalize and enact a business plan, then measure its outcomes. At each stage, EMHI's partners will use existing tools and resources in new ways to achieve their desired results. The Home Mortgage Disclosure Act, which is the subject of our remaining feature, provides a likely tool for assessing EMHI's progress in the years ahead.

The idea of a statewide initiative to promote homeownership is not unique. Homeownership gaps for emerging market groups persist nationwide, and a number of other states have launched efforts to address them. For example, homeownership programs designed for Native American communities are a current focus of the South Dakota Housing Development Authority. One hoped-for result of EMHI and similar initiatives is that as they close gaps, they will open eyes to the importance of making homeownership a possibility in every community.

FEDERAL RESERVE BANK OF MINNEAPOLIS

Homeownership initiative targets Minnesota's emerging markets

The State of Minnesota Emerging Markets Homeownership Initiative is charged with developing a business plan for dramatically reducing the state's homeownership gap by 2010.

May 1, 2005

AUTHOR

Jacqueline King

Vice President, HRI, and Office of Minority and Women Inclusion

The benefits of homeownership are widely known and recognized. Owning a home is often referred to as the American Dream; it is the primary wealth-building tool for most Americans and contributes to stronger, more stable families and communities.

For many years, Minnesota has been a national leader in the percentage of residents who own homes. As of year-end 2002, Minnesota's homeownership rate of 77 percent was the highest in the country. While this figure represents a 78 percent homeownership rate for whites, the homeownership rate for minorities in the state is only 41 percent. (See Figures 1 and 2 for Minnesota homeownership rates by ethnic group.)

Given the continued growth in the state's minority population, Minnesota's wide homeownership gap is of increasing concern for business, community and political leaders. Recently, many of their organizations began developing strategies and programs aimed at closing the homeownership gap. In the process, they came to recognize the need for a comprehensive, multifaceted, statewide approach.

In early 2004, three organizations with a strong interest in the achievement and retention of homeownership in Minnesota—the Minnesota Housing Finance Agency (MHFA), Fannie Mae and the Federal Reserve Bank of Minneapolis—convened the Emerging Markets Homeownership Initiative (EMHI). The purpose of EMHI is to develop a business plan for dramatically reducing the state's homeownership gap by 2010. The role of the three conveners is to work with private- and public-sector leaders across the state to develop and implement the plan.

In remarks delivered at a kickoff ceremony in June 2004, Minnesota Governor Tim Pawlenty stressed the importance of homeownership for Minnesotans and the unacceptability of the current gap in the homeownership rate. Additional speakers at the kickoff included MHFA Commissioner Tim Marx, Minneapolis City Council Member Don Samuels, Minnesota State Senator Mee Moua, Neighborhood Development Alliance Associate Director Maritza Mariani, Fannie Mae Vice President Shalley A. Jones, and Minneapolis Fed officers Niel Willardson and Richard M. Todd. (Todd's remarks, which focus on the factors behind Minnesota's homeownership gap, are featured in this issue.)

The participants

As a first step, the conveners invited representatives of nearly 50 housing and community organizations and financial institutions to help identify homebuying barriers and develop strategies for reducing the homeownership gap. The participants were divided into two groups: the committee and the advisory group.

The committee consists of organizations that have principal roles in the home-purchase process. This group includes lenders, who provide mortgage funds and establish lending criteria; realtors, who serve as the key providers of information related to selecting and acquiring a home; and pre- and post-purchase counselors, who help buyers determine if they are financially prepared for acquiring and maintaining a home. The advisory group consists of more than 40 organizations that have a stake in the homebuying industry, including insurers, businesses and community organizations. Many advisory group representatives are members of racial or ethnic minority communities and work directly with the potential homebuyers that EMHI seeks to reach. These representatives played a key role in identifying barriers that people of color face during the homebuying process.

The process

The committee and advisory group met separately on a monthly basis at the start of the initiative, then held a series of joint meetings. To help the two groups expand their understanding of the issues facing emerging market populations, the conveners reviewed existing research on homeownership and emerging markets and presented these findings to the participants. The literature review focused on factors that influence a potential homebuyer's decision to purchase a home or continue renting, such as marital status, age, and immigration status.

The conveners also sponsored information sessions for committee and advisory group members that focused on the homebuying process, foreclosure prevention, housing attitudes and more.

To ensure that as many people as possible had an opportunity to participate in and contribute to EMHI, the conveners sponsored a series of focus groups, listening sessions and other community meetings. Focus groups were held in 10 different locations in the Twin Cities and greater Minnesota during October and November. Some of the meetings were industry-specific, to allow EMHI conveners to gather information from groups like loan originators or real estate professionals. Others were conducted with specific emerging market communities, such as African Americans, Native Americans, Latinos, Hmongs and new immigrants.

Three listening sessions were held across the state in October. The sessions were conducted to obtain information and feedback from interested stakeholders who do not serve on the committee or advisory group. Members of the public were also invited to attend.

The barriers

The literature review, focus groups, listening sessions and other meetings all served to identify a list of homeownership barriers for the EMHI business plan to address.

Financial obstacles are one of the major barriers. Many would-be homebuyers from emerging market groups do not have the savings to cover a down payment or lack sufficient income to qualify for a loan and make monthly mortgage payments. Although there are several down payment assistance programs available in the state, they do not have enough funds to meet demand.

The complexities of the homebuying process are also a barrier. Credit and lending practices can seem burdensome and complicated to potential borrowers, and the perceived difficulty may be compounded by cultural and language differences. For example, the volume of documents involved in a mortgage transaction may seem overwhelming, especially to borrowers who use English as a second language.

Another barrier, identified by the focus groups, is a lack of cultural sensitivity on the part of some housing and financial professionals, in both their marketing materials and treatment of potential borrowers. Also, racial discrimination was frequently identified as a critical issue. In an effort to help others understand the dynamics involved, EMHI conveners held separate meetings and information sessions on race relations.

Some of the identified barriers are community-specific. Native Americans noted continuing challenges in accessing mortgage products for homes that are located on trust land. The uniqueness of each tribe's rules regarding trust land makes it difficult to develop standardized products. Native Americans also discussed the lack of a resale market in many tribal communities.

Many recent African immigrants who are Muslim emphasized their aversion to interest payments, which stems from Islamic principles. They expressed a preference for operating on a cash basis and not incurring credit obligations that could burden family members and future generations.

Participants in the African American focus group discussed their history of being denied access to employment, wealth-building tools and banking relationships. Hispanics discussed how the fear of unstable employment is a deterrent to taking on mortgage debt. Hmong focus group participants revealed that while they have had success achieving homeownership through a collective, pooled-income approach, they would welcome more information about available homebuying resources for individual families.

Strategies and next steps

Following the information-gathering phase and identification of barriers, the conveners, committee and advisory group worked collectively to identify potential strategies to include in the business plan. All strategies must be achievable and measurable. As of early 2005, EMHI participants were developing the measures that will be established under each strategy. They were also identifying the organizations that are best suited to take leadership roles in creating timelines, designing accountability measures and ensuring that the strategies are implemented.

The EMHI business plan, which will feature the strategies, implementation timeline and success measures, will be delivered to Governor Pawlenty this June.

For more information about EMHI, visit www.mhfa.state.mn.us/homes/EMHI.htm.

EMHI participants

Conveners

Fannie Mae
Federal Reserve Bank of Minneapolis
Minnesota Housing Finance Agency

Honorary conveners

Helen Blue-Redner, Upper Sioux Community
Maritza Mariani, Neighborhood Development Alliance
Mee Moua, Minnesota State Senate
Don Samuels, Minneapolis City Council

Committee

At-large membership:

- Bremer Bank*
- TCF Bank*
- US Bank*
- Wells Fargo*

Home Ownership Center
Independent Community Bankers of Minnesota
Minnesota Association of Mortgage Brokers
Minnesota Association of Realtors
Minnesota Bankers Association
Mortgage Association of Minnesota

Advisory group

African American Family Services
African Development Center
American Indian OIC
Bremer Foundation
Builders Outreach Foundation
Center for Asians and Pacific Islanders
Chicanos Latinos Unidos En Servicio
City of Minneapolis
City of St. Paul
Cross Cultural Home Ownership Alliance
Don't Borrow Trouble
Duluth Local Initiatives Support Corporation
Family Housing Fund
First Homes
Freddie Mac
Greater Minnesota Housing Fund
Greater Twin Cities United Way
Habitat for Humanity (Minnesota)
Hmong American Partnership
Joint Religious Legislative Coalition
Metropolitan Alliance of Community Centers
Metropolitan Council
Mille Lacs Indian Housing Authority
Minneapolis Area Association of Realtors
Minneapolis Public Housing Authority
Minneapolis Urban League
Minnesota Coalition of Community Land Trusts
Minnesota Credit Union Network
Minnesota Housing Partnership

Minnesota Manufactured Housing Association
Mortgage Guaranty Insurance Company
Multicultural Network of Real Estate Professionals
National Association of Housing and Redevelopment Officials (Minnesota)
Pohlad Family Foundation
St. Paul Area Association of Realtors
St. Paul Urban League
Twin Cities Local Initiatives Support Corporation
United Migrant Opportunity Services, Inc.
USDA Rural Development
U.S. Department of Housing and Urban Development

*Also a member of the advisory group.

FEDERAL RESERVE BANK OF MINNEAPOLIS

Homeownership gap calls for broad, balanced response

In remarks delivered at the formal launch of the State of Minnesota Emerging Markets Homeownership Initiative on June 28, 2004, Richard M. Todd summarized some of the key facts about homeownership in Minnesota.

May 1, 2005

AUTHOR

Richard M. Todd

Former Vice President and Advisor to the CICD

The State of Minnesota's Emerging Markets Homeownership Initiative had its formal launch during a June 28, 2004, ceremony in St. Paul. Federal Reserve Bank of Minneapolis Vice President Richard M. Todd delivered the keynote address at the event. A condensed version of his remarks follows.

My task today is to summarize key facts regarding homeownership rates in Minnesota. My conclusions are only provisional, as I expect to learn more as I share in the analytical work of this initiative.

The basics

The most basic facts concern the gap between the overall rate of homeownership in Minnesota—77 percent, the highest in the country as of 2002—and the rate of homeownership in our emerging market communities, which is just 41 percent, or well below the national emerging markets average of 50 percent. (To be specific, these emerging market figures refer to households not headed by non-Hispanic whites.) We should think of this large gap as only partly a housing issue, because it also reflects broader social gaps and differences, such as income gaps among the communities that make up modern Minnesota. I applaud the organizers of the initiative for recognizing that we need to analyze both the housing and the nonhousing factors behind our homeownership gap in order to develop the broad and balanced responses needed to close it over time.

The emerging markets

There are many ways to think about homeownership gaps, and many differences to look at as we proceed. But the thrust of the Emerging Markets Homeownership Initiative concerns the wide racial and ethnic gaps in homeownership in Minnesota, so that's where I too will focus. In particular, I will present some perspectives on the homeownership gaps affecting Minnesota's African American, Native American, Asian Pacific American, and Hispanic populations, as compared to Minnesota's non-Hispanic white population. These communities, in both their U.S.-born and immigrant portions, have grown much faster than Minnesota's non-Hispanic white community in recent years and are likely to continue to do so in the coming decades. For this reason, and because their rates of homeownership are historically low but recently rising, these are Minnesota's "emerging markets" for homeownership. I rely primarily on Census 2000 to both define and provide the data on these four communities.

Gaps abound as markets grow

Emerging market homeownership rates are generally lower in Minnesota than nationally. Quite the opposite is true in Minnesota's non-Hispanic white community. As a result, the gap in homeownership rates for most groups, as compared to non-Hispanic whites, is high by national standards. Our African American community has the lowest homeownership rate of the major racial/ethnic groups in Minnesota, 32 percent, and the biggest gap, 45 percentage points. This is about double the national gap and second only to North Dakota's. Minnesota's Native American homeownership rate is 49 percent, resulting in a gap of 28 percentage points, also about twice the national gap and the ninth highest among individual states. Only 43 percent of Minnesota's Hispanics are homeowners, leaving a 34 percentage-point gap, or about half again as large as the national gap for Hispanics. Asian Pacific American households in Minnesota are doing a bit better now, with 52 percent owning in 2000, resulting in a 23 percentage-point gap that is not too different from the corresponding gap nationwide.

Clearly, we are already challenged by large emerging market homeownership gaps in Minnesota. These challenges are growing in importance. Between 1990 and 2000, Minnesota's non-Hispanic white population grew by about 6 percent. Over the same period, our African American and Asian Pacific American populations both grew by more than 80 percent, our Hispanic population by 166 percent, and our Native American population by 8 percent for single-race individuals and 57 percent for multirace individuals, based on estimates from our state demographer. As a result, the emerging markets' share of Minnesota's population rose from about 6 percent in 1990 to almost 12 percent in 2000. Immigrants drove much of this growth, as the share of foreign-born individuals in Minnesota's population rose from under 3 percent in 1990 to almost 6 percent in 2000. I think we can agree that our emerging market homeownership gaps are not only wide, but also of growing significance to our state.

Underlying factors

Let me turn now to some of the factors that underlie the gaps, and in particular, some "nonhousing" factors. Our staff at the Federal Reserve Bank began to study these factors after we noticed the steep and encouraging rise in Hmong homeownership in Minnesota in the 1990s. In 1990, Minnesota's Hmong population was much smaller and the Hmong homeownership rate was low—below 20 percent. By 2000, the Hmong population had more than doubled to over 45,000, and the homeownership rate in this expanded population had approximately tripled to over 50 percent.

We are working with the Hmong community to better understand what made this increase possible, partly by analyzing the following factors that researchers consider important for determining homeownership: household wealth and income; age of household head (or, for immigrants, years lived in the U.S.); and other life or family factors, such as whether the householders are married and whether children or extended family members are present.

The Emerging Markets Homeownership Initiative will need to examine factors like these to see what insights they provide into the nature of the housing gaps in Minnesota. The purpose—and let me be clear about this—is not to excuse our gaps, but rather to understand them, so as to develop the broad and balanced responses needed to effectively address them.

My staff and I have conducted a brief initial analysis, looking just at the effects of age and income. We found that families in Minnesota's emerging markets are significantly younger and, not surprisingly, poorer than our non-Hispanic white families. We also looked at what would happen if we somehow made our emerging market families older and more affluent, without changing the rates at which older and more affluent emerging markets families in Minnesota now buy homes. In other words, we calculated, somewhat mechanically, how much the homeownership gaps would close if the underlying gaps in two major nonhousing factors—age and income—disappeared. The results suggest that age and income differences might account for about 40 percent of our emerging market gaps. So, these age and income effects appear important enough to consider more carefully. The other, unexplained portion of the gap is even larger and more deserving of our attention.

We also found that the age- and income-adjusted homeownership gaps are especially large for low-income households. In other words, for households above a certain income threshold—somewhere between $40,000 and $60,000—racial and ethnic homeownership gaps shrink significantly or disappear, depending on exactly which group or age category you look at. However, among low-income households, non-Hispanic whites are much more likely to own homes, compared to almost all other groups and over all age categories.

So, we can think of our task in two parts. First, we need broad social initiatives to ensure that the racial and ethnic makeup of our middle- and upper-income households becomes representative of society. Racial and ethnic homeownership gaps among these more affluent households would then largely disappear. Second, we need additional initiatives to eliminate the legacy of large homeownership gaps between our low-income non-Hispanic white households and our low-income emerging market households. This second set of initiatives would be much more specific to housing markets, especially low-income housing markets.

Communities in focus

Let me give a few more examples of what even a quick look at the data can bring to our attention, focusing first on African Americans, who have the largest gap and are affected by all the factors—age, income, location, etc.—that I will discuss today.

You may know that Minnesota's African American families are typically younger than non-Hispanic white Minnesotans. Forty-one percent of Minnesota's African American heads of household are under 35 years of age, compared to 21 percent of their non-Hispanic white counterparts. And only 12 percent of African American heads of household are over 55 years old, compared to 33 percent for non-Hispanic whites. Since homeownership rates tend to increase with age, these differences matter. You may be less aware that, except for four states with very small African American populations, we have the highest percentage of African American heads of household under age 35. This is one of the reasons our African American gap is higher than its national counterpart.

Partly because it is so young, our African American population's median household income ranks 30th among the 50 states, as compared to our top 10 ranking overall. That puts our African American families at a relative disadvantage in bidding for houses, as indicated by our ranking of 39th in the ratio of African Americans' median household income to median housing value.

Another reason our African American gap is high is that in Minnesota and other Northern states, few African Americans take advantage of the low cost of rural housing. This is in stark contrast to the South, where many African Americans live in rural areas and have rates of homeownership well over 60 percent. I encourage us all to think more about why so many African Americans achieve homeownership in the rural South and so few do in rural Minnesota.

Now, a few words about our immigrant communities. Immigrants clearly emerged as a significant part of our population in the 1990s. The Somali population alone numbers about 25,000, up from a handful of individuals in 1990. Like the Hmong a decade earlier, many of these immigrants arrived as refugees with limited skills and income and, accordingly, their homeownership rates are still low. As we have seen with the Hmong, it can take a group 10 years or more after arrival before homeownership becomes widespread, and full convergence with non-Hispanic white rates may take decades. To foster homebuying in our Somali community, we will need creative approaches to devise sound housing finance vehicles that respect Islamic beliefs concerning the receipt and payment of interest.

Points to consider

I now turn to some of the more direct, housing-related factors that could affect our emerging market gaps, especially among low-income households. Some points I think we need to consider:

Discrimination is not dead, and we need to maintain regulatory and legal countermeasures.

Supply-side factors matter. Notably, zoning and land-use regulations can unduly inflate the cost of housing. The recent, rapid rise in house prices in the Twin Cities and other areas, combined with the growing need for affordable starter homes, suggests we should examine whether coordinated regulatory changes, especially across the Twin Cities metro area, are needed.

We need to build trust between emerging market individuals and our responsible financial institutions through initiatives like financial education, homebuyer counseling and efforts to hire more emerging market individuals into the financial and housing sector.

We need to consider what it takes for new homebuyers to sustain homeownership. Minnesota has some nationally recognized leaders in the areas of foreclosure prevention counseling. Our staff at the Federal Reserve Bank is involved in researching how foreclosure records might be used to assist homeownership preservation initiatives.

Homeownership is not for everyone. In other words: Don't forget the rental market. It is vital to this initiative, for several reasons. For one thing, many households need a few years to save for a down payment, and the availability of decent, affordable rental housing greatly facilitates that process.

We need to sustain private sector innovations that have reduced discrimination and made credit more widely available, such as automated underwriting and appropriate risk-based pricing, while seeking targeted means to weed out those who abuse these innovations. We also need good cooperation at the federal level. One example is to work with the Bureau of Indian Affairs on efficient processing of mortgages and title changes on Indian trust lands.

Economics and Education

In closing, let me return to the nonhousing factors that were my primary focus, to briefly suggest how to address them. Some cultural differences with implications for homeownership, such as the preferred age at which to marry, may endure and simply be accepted. But many nonhousing factors reflect economic differences related to income and wealth. Here we seek to eliminate differences, at least in opportunity. By far, our most important tool will be to equalize access to education.

In that regard, recent research from two of my Minneapolis Fed colleagues has stressed the key role that investments in early childhood development can play in closing educational gaps.* This is an example of the broad and balanced effort needed to eliminate our homeownership gaps. We must consider not only housing initiatives, but also initiatives that address the broad economic factors at work. On that note, I look forward to working with all of you to develop a broad and balanced response to Minnesota's emerging market homeownership gaps. Thank you.

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*Todd refers to a collection of articles and other materials by Art Rolnick, Senior Vice President and Director of Research; and Rob Grunewald, Regional Economic Analyst. The materials are posted on the Minneapolis Fed's Early Childhood Development Web page.

Financial education program effective, study says

May 1, 2005

An evaluation of the High School Financial Planning Program (HSFPP), a widely used financial education curriculum for high school seniors, reveals that students' financial knowledge and behavior improved significantly after they took the course.

The evaluation was sponsored by the National Endowment for Financial Education, which created the HSFPP, and conducted by a University of Minnesota professor. It surveyed 5,329 high school students and 202 teachers nationwide about their experience with the HSFPP. Immediately after completing the course, students assessed how it improved their financial behavior, knowledge and confidence. Three months later, a sampling of the surveyed students participated in a follow-up assessment.

According to the evaluation, 60 percent of students who studied the curriculum reported increased knowledge about the costs of credit, auto insurance and investments. Forty percent had begun tracking expenses and developing goals for managing and saving money, and 41 percent reported increased confidence in making financial decisions. Of the students surveyed three months later, 60 percent reported a positive change in their saving and spending patterns. The teachers, who were asked to assess the changes in their students' financial knowledge, reported that over 90 percent of students who took the course gained in their knowledge of credit, the time value of money and the career-income relationship.

To read the full evaluation results, visit the "Impact Evaluation" section of the HSFPP page at www.nefe.org/pages/educational.html.

FEDERAL RESERVE BANK of MINNEAPOLIS

Free annual credit reports available

May 1, 2005

Consumers from coast to coast will soon be entitled to free credit reports every year. A recent amendment to the Fair Credit Reporting Act requires each of the three national consumer reporting agencies—Equifax, Experian and Trans Union—to provide each consumer with one free credit report every 12 months, upon request. Eligibility for free reports is rolling out on a regional basis, from west to east. Consumers in western states, including Montana, became eligible on December 1, 2004. Eligibility for consumers in all Midwestern states, including the remaining states in the Ninth District, began on March 1. By September 1, consumers in all U.S. states and territories will be eligible to request free reports.

Credit reports include information on debts and credit cards, bill-paying records and bankruptcy histories. They do not indicate consumers' credit scores, which can be obtained separately for a fee. Consumers typically review their credit reports on occasion, when applying for loans, but many financial counselors recommend an annual review to check for errors or unauthorized activities. To request a free credit report from any or all of the three agencies listed above, visit https://www.annualcreditreport.com or call (877) 322-8228.

Consumer group surveys payday lending sites

May 1, 2005

Based on the results of a survey it recently conducted, the Consumer Federation of America (CFA) warns that online payday lending sites can be a risky choice for consumers seeking small loans. Such sites collect loan applications online, and borrowers send necessary paperwork—like checks and bank statements—via fax. Loans are deposited automatically into a borrower's checking account, and payments are automatically deducted from the account on the borrower's next payday. In the case of insufficient funds, the borrower incurs fees from the payday lender and the bank.

For its survey, the CFA sampled 100 payday loan Web sites and collected information on loan costs, contract terms and the identity and regulatory status of the lenders. The surveyed sites offered loan amounts ranging from $200 to $2,500, with $500 as the most frequently offered amount. The most common finance charge was $25 per $100 borrowed, which is equivalent to an annual interest rate of 650 percent if the loan is repaid in two weeks. Only 38 of the 100 sites disclosed the annual interest rate. Eighteen of the sites had no posted privacy policy, and 28 did not provide secure connections on pages requesting personal financial information. The survey also found that fewer than half of the lenders listed their street address or phone number, and nearly a quarter listed no contact information at all. Of the sites that listed their addresses, many were located in states with few or no consumer protection laws related to payday loans.

To read the full survey results, visit www.consumerfed.org/pdfs/Internet_Payday_Lending113004.PDF.

Fed guide explains Check 21 changes

May 1, 2005

A consumer guide from the Federal Reserve Board that explains recent changes in check processing is now available in English and Spanish. The *Consumer Guide to Check 21 and Substitute Checks*describes changes resulting from the Check Clearing for the 21st Century Act, or Check 21. The act, which took effect in October of 2004, facilitates the transfer of electronic check images. It allows banks to reduce the flow of paper checks, process them electronically and create "substitute checks," or paper copies of the front and back of the original check, when a paper check is needed. Check 21 reduces "float," or the lag time between when a check is processed and when the funds are actually deducted from a customer's account.

The guide describes how Check 21 affects consumers, provides examples of substitute checks and includes information on filing a refund claim if there is a problem with the receipt of a substitute check.

To access the guide in English or Spanish, visit www.federalreserve.gov/pubs/brochure.htm.

FEDERAL RESERVE BANK OF MINNEAPOLIS

Housing data show gains, not parity, for some groups

An examination of home lending trends in Minneapolis-St. Paul during the 1997-2003 housing boom.

May 1, 2005

AUTHOR

Michael Grover

Assistant Vice President, Community Development and Engagement

Supported by an extended period of declining interest rates, the housing market in the Minneapolis-St. Paul Metropolitan Statistical Area, 1/ or MSA, recently experienced a period of strong, sustained growth in home building, homebuying and mortgage lending. 2/ The growth has been one factor behind the region's increasing homeownership rate, which jumped from 69 percent to over 72 percent between 1990 and 2000, as the stock of owner-occupied housing grew by 180,967 units, or 28 percent.

Nevertheless, as the other articles in this issue reveal, homeownership rates did not rise equally across the state and the region. Which leads to the following question: How did households in different income or racial and ethnic groups fare in their pursuit of homeownership, especially during the housing market boom that occurred from roughly 1997 to 2003? To complement this issue's features on homeownership and emerging markets, this article examines home lending trends in the Minneapolis-St. Paul MSA during the boom period. It uses data from Census 2000 and Home Mortgage Disclosure Act (HMDA) records for the 1996 and 2003 calendar years. Data from 1996 provide a baseline for understanding home purchase lending patterns before the recent market boom, while data from 2003 are the most recent available for analysis. 3/

Measuring the boom

Examining HMDA data for lending activity in the Minneapolis-St. Paul MSA reveals a period of robust home purchase lending. In particular, originated loans for home purchases increased dramatically from 54,545 to 80,519, or by 48 percent, between 1996 and 2003. (See the table.) In order to standardize this measurement of home purchase lending, the calculation measures all originated loans as a proportion of the total owner-occupied housing units for that year. Total units are calculated using data from U.S. Census 2000 and the *Current Population Survey*for 1996-2003. Using this standardized measurement reveals that the number of loans per 100 owner-occupied units appears to have grown consistently over this period, from 6.9 in 1996 to 9.0 in 2003. In addition to the number of home purchase loans originated, the volume of lending—in terms of both the average loan size and total value of loans—also increased during this period. In 1996, the average loan size was slightly more than $128,000, with approximately $7 billion in total annual loan volume.

Low- and moderate-income households see gains

Did minority and low- and moderate-income households see the same levels of growth? For low- and moderate-income borrowers, defined as making 80 percent or less of the area's median family income, the number of originated home purchase loans increased from 21,987 to 35,210, or by 60 percent, between 1996 and 2003. As a standardized rate, the number of originated loans increased by four percentage points—a slightly stronger rate of increase when compared to the overall population. This group's share of originated home purchase loans increased from 41 to 46 percent during this period.

In terms of the overall lending volume, low- and moderate-income households also increased their share, from 28 percent to 35 percent. Due to increased housing costs in the region, low- and moderate-income households increased the amount they borrowed. For example, comparing the dollar amount that represents 80 percent of area median income to the average loan size over time reveals that the ratio of income to loan size increased during the eight years, from 1.68 in 1996 to 2.41 in 2003.

Nonwhites increase their share

For nonwhite households, which include all groups but non-Hispanic whites, home purchase originations increased from 4,020 to 8,349, or by 107 percent, between 1996 and 2003. Using the standardized measurement for this group reveals that the number of loans per 100 owner-occupied units increased by almost three percentage points over the past eight years, once again reflecting the increased volume of home purchase lending to nonwhite borrowers. The number of home purchase loans originated for white households also increased, but at a more modest rate of 32 percent. More importantly, the total amount of loans for nonwhite households increased by 235 percent, and the share of all home purchase lending for nonwhite households increased from 6.3 percent to 9.8 percent during this period. The increased percentage is closer to the group's actual share of the metropolitan population, which was approximately 15 percent in 2000. 4/

Viewed at the census tract level, the increase in home purchase originations by nonwhites was generally concentrated in the core central cities. Gains also occurred in the suburbs, particularly those to the north and northwest of Minneapolis, such as Brooklyn Center and Brooklyn Park, and to the east of St. Paul in Maplewood, North St. Paul and Oakdale. To the southwest, the suburbs of Shakopee and Chaska also experienced an increase in home purchase originations by nonwhites.

The challenge ahead

In summary, the findings detailed above suggest that a number of positive trends for low- and moderate-income and nonwhite households developed during the recent housing market boom. During a short period of eight years, both groups increased their share of total loan applications and lending volume. While these gains are promising, the level of home purchase lending to nonwhite households remains low relative to their share of the region's population. For nonwhite households, whose household heads tend to be younger than the rest of the population, the challenge will be to maintain the strong gains made over the last eight years and to target those subgroups whose lending activity and rates of homeownership remain sluggish.

1/ The Minneapolis-St. Paul MSA comprises 13 counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright in Minnesota and Pierce and St. Croix in Wisconsin.

2/ For example, see two articles by Martha McMurry: “Minnesota Housing Prices Continue to Soar,” *Population Notes*, Minnesota State Demographic Center, September 2003; and “Minnesota Housing Prices Continue to Rise in 2003,” *Population Notes*, Minnesota State Demographic Center, February 2005.

3/ All dollar amounts have been adjusted for inflation.

4/ According to the U.S. Census, minorities made up 15 percent of the Minneapolis-St. Paul MSA population in 2000.

HMDA 101

The Home Mortgage Disclosure Act (HMDA) was enacted in 1975 to target investments to needy neighborhoods, identify possible discriminatory lending patterns and help regulators determine whether financial institutions are meeting the mortgage lending needs of their service areas.

Under HMDA, mortgage loan data from a variety of financial institutions—such as banks, savings and loan associations, and credit unions—are collected and made public. Enforcement of the data collection process depends on an institution's asset size and other criteria. For a depository institution, regulators use assets, the locations of home and branch offices, and other factors to determine whether it must comply with the act. In 2003, HMDA covered depository institutions that had more than $32 million in assets and an office in a Metropolitan Statistical Area (MSA). The HMDA coverage threshold for nondepository institutions with an office or loan activity in an MSA was an asset size of $10 million or a record of making more than 100 home purchase loans during the previous calendar year.

Since the early 1990s, academics and community groups alike have used HMDA data to inform research and policy debates on a variety of lending issues. The data, released each year by the Federal Financial Institutions Examination Council, provide a useful annual snapshot of lending activity for a metropolitan region, especially with regard to home purchase and refinance. For each loan application, the lending institution collects information on characteristics of the loan, property and borrower. Information on the loan action taken by the financial institution is also gathered. Each loan is identified by census tract, county and MSA. Data on an applicant's race and gender and the gross annual income used in the lender's decision-making process are also collected.

Source: Federal Financial Institutions Examination Council, *A Guide to HMDA Reporting. Getting it Right!*May 2003. See also www.ffiec.gov/hmda.

Michael Grover

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Michael leads our efforts to promote the economic resilience and mobility of low- to moderate-income individuals and communities across the Ninth Federal Reserve District. He has conducted research and published articles on affordable housing, community development corporations, homeownership disparities, and foreclosure patterns and mitigation efforts.

U.S. House creates financial literacy caucus

May 1, 2005

Members of the U.S. House of Representatives recently announced the creation of the Financial and Economic Literacy Caucus. The group will provide a forum for House members to promote policies that advance financial and economic education. Specific goals of the caucus include identifying and analyzing relevant legislation; hosting roundtables, briefings and other events to increase public awareness of the importance of financial and economic education; and providing a point of contact for communicating about financial education issues with other government entities, including the U.S. Senate and the Financial Literacy and Education Commission.