

City of San Marcos

Analysis of Barriers to Lending Equity

June 2023

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EXECUTIVE SUMMARY

BACKGROUND

The San Diego FY 2020-2025 AI (Analysis of Impediments) determined the existence of barriers to accessing housing throughout the County of San Diego, including disparities in loan approval rates based on race and ethnicity.¹ Lending disparities in San Marcos were some of the highest within the County of San Diego, and additional analysis is required to identify “why the practice exists and what can be done to address the issue and create more racial and ethnic equity in lending practices.”² By examining loan approval rates and identifying potential discriminatory practices in lending, Program 25 works to promote equitable access to housing opportunities for all San Marcos residents, with a particular priority for historically underserved racial and ethnic populations.³

PURPOSE AND OBJECTIVE

This report examines Program 25, Barriers to Lending Practices, which has been included in San Marcos’s 2020-2025 Housing Plan. The primary objective of Program 25 is to identify and address any factors contributing to barriers in accessing housing throughout San Marcos. Program 25 places a strong emphasis on addressing disparities in loan approval rates based on race and ethnicity. This report provides an analysis of lending practices in San Marcos using Home Mortgage Disclosure Act (HMDA) data, which requires many financial institutions to maintain, report, and publicly disclose loan-level information about mortgages.³

The findings of this analysis will inform evidence-based policy recommendations and the promotion of fair and equal access to home loans for individuals, with particular attention focused on home loan approvals and housing equity for historically underserved racial and ethnic populations.

KEY FINDINGS

In San Marcos, Black or African American applicants saw the lowest rate of mortgage approvals, at 76 percent, in comparison to the County of San Diego and California, well below the overall approval rate for San Marcos applicants of nearly 90 percent.

While San Diego County and California saw a similar disparity in outcomes for Black or African American applicants, the difference was not as pronounced as in San Marcos. Racial disparities in mortgage lending continue to persist, emphasizing the need to improve efforts to ensure equitable housing lending practices.

Approval rates (57.14%) for mortgage applications submitted by Black or African American applicants lagged applicants in all other racial and ethnic categories in San Marcos (92.47%), especially at lower debt-to-income ratios.

¹ San Diego Regional Alliance for Fair Housing. (2020, August). *San Diego Regional Analysis of Impediments to Fair Housing Choice*. sdfairhousing.org. <https://sdfairhousing.org/wp-content/uploads/2022/12/Regional-Analysis-of-Impediments2020.pdf>

² City of San Marcos. (2021, July 13). *2021 - 2029 Housing Element*. san-marcos.net. <https://www.san-marcos.net/home/showpublisheddocument/25740/637689416879030000>

³ *Home Mortgage Disclosure Act (HMDA) Data* | Consumer Financial Protection Bureau. (2022, September 19). Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/data-research/hmda/>

These findings suggest that Black or African American applicants may face greater challenges in securing mortgage approvals, even with low debt-to-income ratios. This data may suggest that racial inequity exists in mortgage lending practices within San Marcos.

Black or African American applicants with debt-to-income ratios of 50 percent or higher experienced a mortgage application approval rate of 79 percent, while the approval rate for comparable White non-Hispanic, White Hispanic, and Asian applicants was significantly lower.

Typically, a lower debt-to-income ratio is considered more favorable for mortgage application approvals, as it signifies that the applicant has a lower level of debt obligation. In San Marcos, however, the inverse is true for Black or African American applicants with high debt-to-income ratios. This finding calls for additional analysis to gain a deeper understanding of the underlying factors contributing to this trend in San Marcos.

The number of Black or African American applicants applying for a home loan in San Marcos was small compared to the size of the other categories; fewer than 50 mortgage applications from Black or African American applicants were included in the dataset from 2020 - 2021.

While San Marcos is typically considered a Latino-White city, San Marcos's Black population is approximately 2.5%, which is below the County of San Diego at a difference of 2.2%, and of California, at a difference of 3%. Within the County of San Diego, there is an overrepresentation of White applicants in the loan application pool, while Hispanics are severely underrepresented. Additionally, data suggests that Black and Hispanic applicants are significantly more prone to receive subprime loans.¹

LITERATURE REVIEW

The wealth disparity observed between historically underserved racial and ethnic minorities and Whites is largely in part attributable to the disparate access to affordable homes in high-quality neighborhoods, “which produces racial differences in homeownership rates, home values, and the accumulation of home equity, the principal source of wealth for most American families.”⁴ When a specific racial or ethnic group is disproportionately overrepresented or underrepresented in the overall applicant pool, it could serve as an indicator of unequal access to housing opportunities.

As a result of systemic racism, discriminatory practices, historical inequalities, and the disproportionate effects of regressive federal housing policies spanning back as far as the 1930s, Black and Latino households have faced a significant disadvantage in accumulating the many benefits related to homeownership, in comparison to other races.⁵ Because of these factors, homeownership rates among Black and Latino populations remains consistently lower than those of White Americans.⁶

Lending discrimination comprises various instances, including, but not limited to, guiding a potential borrower towards loans with less favorable terms based on race, color, religion, sex (including gender identity and sexual orientation, or disability); denying a mortgage or imposing a higher interest rate based on property location and neighborhood, specifically in a majority-minority neighborhoods, and engaging minority communities in fraudulent home loan modification assistance.⁷

The HMDA, passed by Congress in 1975 and since expanded, includes reporting requirements for many, if not most, mortgage lenders. The HMDA functions to disclose lending practices to reduce discrimination, which creates more opportunity for equitable access to credit among populations who have been historically discriminated against.⁸ The loans subject to the HMDA requirements include various categories, such as home purchase loans, home improvement loans, and mortgage refinancing. The HMDA data captures valuable information about applicants’ demographics and loan terms, as well as the geographical context of the loan.^{9,10}

In 1977, the Community Reinvestment Act (CRA) was passed by Congress,¹¹ mandating financial institutions fulfill the credit requirements and needs of all communities in which they conduct business, including those communities considered low-and moderate-income (LMI) neighborhoods. Shortly following the CRA, Congress passed the Housing and Community Development Act in 1980,¹² which assigned the Federal Financial Institutions Examination Council (FFIEC) the role of being a central

⁴ Melvin, M., & Shapiro, T. (2013). *Black Wealth / White Wealth: A New Perspective on Racial Inequality*. (Original work published 2005)

⁵ Almeida, L. (2023). A History of Racist Federal Housing Policies. *Mass. Budget and Policy Center*.
<https://massbudget.org/2021/08/06/a-history-of-racist-federal-housing-policies/>

⁶ Perry, V. G. (2019). A Loan at Last? Race and Racism in Mortgage Lending. In *Springer eBooks* (pp. 173–192).
https://doi.org/10.1007/978-3-030-11711-5_11

⁷ *Fair Lending*. (n.d.). HUD.gov / U.S. Department of Housing and Urban Development (HUD).
https://www.hud.gov/program_offices/fair_housing_equal_opp/fair_lending

⁸ ASH Center for Democratic Governance and Innovation. (2015, February). *Discriminatory Lending*. harvard.edu.
<https://ash.harvard.edu/discriminatory-lending>

⁹ Stackhouse, J. (2018, March 21). *Do Home Mortgage Disclosure Act Data Prove Lending Discrimination?* Federal Reserve Bank of St. Louis. <https://www.stlouisfed.org/en/on-the-economy/2018/march/do-hmda-data-prove-lending-discrimination>

¹⁰ Samlin, S. D., & Dabertin, M. T. (2017). Major Changes Looming for HMDA Reporting. *Lexology*.
<https://www.lexology.com/library/detail.aspx?g=112d30df-c5c5-4bb2-bc48-4a15cdb06511>

¹¹ *Federal Reserve Board - Community Reinvestment Act (CRA)*. (n.d.). Board of Governors of the Federal Reserve System.
https://www.federalreserve.gov/consumerscommunities/cra_about.htm

¹² S.2719 - Housing and Community Development Act of 1980. (1980). In *congress.gov*. United States Congress.
<https://www.congress.gov/bill/96th-congress/senate-bill/2719>

repository for mortgage lending data. Congress then approved the Federal Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)¹³ in 1989 in response to the savings and loan crisis of the 1980s. This act aimed to stabilize and introduce enhanced oversight for the savings and loan industry.⁸

Since the implementation of such policies, extensive research has been conducted to examine the presence of racial and other forms of discrimination in lending practices. Additionally, advancements in technology, such as automated underwriting, have been leveraged to minimize racially biased credit decisions.¹⁴ According to data from the 2013-2017 American Community Survey, there has been an eleven-percentage point decrease in neighborhood segregation for Black populations in the U.S, from 65.7% in 1995 to 54.6% in 2015.^{15,16}

While research finds that housing discrimination has declined since the late 1970s, in the mortgage market, racial disparities in loan approvals have declined only marginally, along with no noticeable reductions in racial disparities in mortgage costs at all.¹⁷ Additionally, in the decade leading up to the U.S housing crash, both Black and Latino borrowers encountered a disproportionately higher number of high-cost, high-risk mortgages.¹⁸

Some research has found that high-cost loan originations and loan rejections are more prevalent among Latinos and Blacks across similar income levels compared to white applicants, and middle- and upper-income Latinos and Blacks show similar rates to low-income Whites.¹⁹ In 2021, Black applicants experienced home loan denial rates for closed-end home purchase loans of 15.7%, whereas denial rates for non-Hispanic White applicants were only 5.6%, a ratio of more than two-to-one.²⁰ Black homeowners faced a rejection rate of 24% when seeking to refinance their existing loans, compared with Whites, who experienced a rejection rate of 12% within the same year.²⁰

¹³ H.R. 1278 - Financial Institutions Reform, Recovery, and Enforcement Act of 1989. (1989). In *congress.gov*. United States Congress. <https://www.congress.gov/bill/101st-congress/house-bill/1278>

¹⁴ Bhutta, N., Hizmo, A., & Ringo, D. (2022). How Much Does Racial Bias Affect Mortgage Lending? Evidence from Human and Algorithmic Credit Decisions. *Finance and Economic Discussion Series*. <https://www.federalreserve.gov/econres/feds/files/2022067pap.pdf>

¹⁵ Jargowsky, P. A., Ding, L., & Fletcher, N. (2019). The Fair Housing Act at 50: Successes, Failures, and Future Directions. *Housing Policy Debate*, 29(5), 694–703. <https://doi.org/10.1080/10511482.2019.1639406>

¹⁶ US Census Bureau. (2023, March 7). *American Community Survey 2013-2017 5-year Data Release*. Census.gov. <https://www.census.gov/newsroom/press-kits/2018/acs-5year.html>

¹⁷ Quillian, L., Lee, J. D., & Honoré, B. (2020). Racial Discrimination in the U.S. Housing and Mortgage Lending Markets: A Quantitative Review of Trends, 1976–2016. *Race and Social Problems*, 12(1), 13–28. <https://doi.org/10.1007/s12552-019-09276-x>

¹⁸ Steil, J., Albright, L., Rugh, J. S., & Massey, D. S. (2018b). The Social Structure of Mortgage Discrimination. *Housing Studies*, 33(5), 759–776. <https://doi.org/10.1080/02673037.2017.1390076>

¹⁹ Loya, J. (2023). Ethno-Racial and Relative Income Disparities in Access to Mortgage Credit. *Research in Social Stratification and Mobility*, 85, 100785. <https://doi.org/10.1016/j.rssm.2023.100785>

²⁰ *Summary of 2021 Data on Mortgage Lending | Consumer Financial Protection Bureau*. (2022, June 16). Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/data-research/hmda/summary-of-2021-data-on-mortgage-lending/>

DISCRIMINATION IN HOUSING AND RACIAL DEMOGRAPHICS

The *San Diego Fair Housing Survey*,²² conducted as part of community outreach in 2019, was administered to collect the perceptions of housing needs and concerns among the County of San Diego residents. The survey received a total of 1,132 respondents, with most of those respondents feeling that housing discrimination is not an issue in their neighborhood. Nevertheless, three hundred and five respondents answered yes to having personally experienced discrimination in housing. ^{Error! Bookmark not defined.}

Among those surveyed in the County of San Diego who felt they were discriminated against in fair housing, 16% believed they were discriminated against based on race, 15% on the source of income, 13% on family status, 12% on other, and 9% on age. ^{Error! Bookmark not defined.} A breakdown of those survey perceived reasons for discrimination is in Figure 1, at right.

Basis	Number	Percent
Race	105	9%
Source of Income	93	8%
Family Status	82	7%
Other	78	7%
Age	60	5%
Disability/Medical Conditions	54	5%
Color	45	4%
Marital Status	40	4%
Gender	40	4%
National Origin	13	1%
Religion	12	1%
Ancestry	10	1%
Sexual Orientation	9	1%
Total Responses	1,132	

Figure 1: Perceived Bases²¹ for Housing Discrimination

Those who seek to report housing discrimination faces several impediments, including burden of proof, which wrests on the individual who lodges a complaint of discrimination, the financial and time cost for litigation, and the fear of retaliation, harassment, or deportation as a result of reporting an incident. ^{Error! Bookmark not defined.} Across the U.S., there are over four million incidents of housing discrimination each year, most of which go unreported.²³

In data obtained from the *San Diego Regional Analysis of Impediments to Fair Housing Choice*, In San Marcos, the percentage of the minority population has grown from 51% in 2010 to 55% in 2017. ^{Error! Bookmark not defined.} Between 2000 and 2010, the County of San Diego became a minority-majority area, meaning that the population of the County's racial and ethnic composition is more than 50% non-White. ^{Error! Bookmark not defined.} As seen in the table below, the percent minority composition of San Marcos is one percentage point higher compared to the County of San Diego, and seven percentage points lower than the state of California overall. A breakdown of these percentages is found in Figure 2, below.

Jurisdiction	White	Black	Hispanic	AAPI	Other	Percent Minority 2010	Percent Minority 2017
San Marcos	45%	2.5%	39%	10%	1.0%	51%	55%
San Diego Co.	46%	4.7%	33%	12%	4.0%	52%	54%
California	38%	5.5%	39%	14%	4.6%	60%	62%

Figure 2: Population Race & Ethnicity

²¹ When completing the survey, respondents could select one basis or multiple basis for perceived discrimination.

²² San Diego Regional Alliance for Fair Housing. (n.d.). *Housing Discrimination Survey*. sandiego.gov. https://www.sandiego.gov/sites/default/files/san_diego_regional_ai_-_fh_survey_final_english.pdf

²³ National Fair Housing Alliance. (n.d.). *What is Housing Discrimination and How Can I Report It?* nationalfairhousing.org. <https://nationalfairhousing.org/what-is-housing-discrimination/>

METHODOLOGY

To evaluate the extent to which families of all races and ethnicities have equitable access to housing opportunities, PCG analyzed data reported by lending institutions under the Home Mortgage Disclosure Act (HMDA) of 1975; that data, which is publicly available through the Consumer Financial Protection Bureau (CFPB), contains detailed information on mortgage applications. For each application in the dataset, the data includes the type of loan (e.g., home purchase, refinance), the loan purpose (e.g., primary residence, investment property), the loan amount, the loan disposition (approval or denial), as well as various borrower characteristics, including the race, ethnicity, and gender of loan applicants.

WHICH RECORDS WERE ANALYZED

Not all applications were included; in order to focus on those mortgage applications most relevant to the availability of affordable housing, the following filters were applied to the analytic data set:

Data Element	Included	Excluded
Dwelling Category	<ul style="list-style-type: none"> • Single Family: Manufactured • Single Family: Site-Built 	<ul style="list-style-type: none"> • Multi-Family: Manufactured • Multi -Family: Site-Built
Action Taken (Decision)	<ul style="list-style-type: none"> • Application approved, not accepted • Application denied • Loan originated • Preapproval request denied 	<ul style="list-style-type: none"> • Application withdrawn by applicant • File closed for incompleteness • Purchased loan • Preapproval request approved but not accepted
Occupancy Type	<ul style="list-style-type: none"> • Principal residence 	<ul style="list-style-type: none"> • Investment property • Second residence
Loan Purpose	<ul style="list-style-type: none"> • Home purchase 	<ul style="list-style-type: none"> • Cash-out refinancing • Home improvement • Other purpose • Refinancing • Not applicable

Figure 3: HMDA Dataset Inclusion & Exclusion Criteria

WHICH DATA ELEMENTS WERE COLLAPSED

In order to ensure that the analytic data sets were large enough to be statistically meaningful, for several data elements, PCG “collapsed” multiple allowable values into a single larger group. This not only improves the statistical power of the analysis, but allows us to draw more reliable conclusions about lending disparities and other patterns within San Marcos:

- Debt-to-Income Ratio:** The HMDA dataset reports applicants’ debt-to-income ratio as either a discrete whole number percentage between 36 and 49, or in one of five larger categories of less than 20 percent; 20 to 29.99 percent; 30 to 35.99 percent; 50 to 60 percent; and more than 60 percent. For the purposes of this analysis, PCG further collapsed the reported debt-to-income ratios for applicants into four categories:
 - Less than 36 percent;
 - 36 percent to 42.99 percent;
 - 43 percent to 49.99 percent;
 - 50 to 60 percent; and
 - More than 60 percent.
- Hispanic Ethnicity:** The HMDA allows lenders to report each applicant’s Hispanic ethnicity (Hispanic or Latino, not Hispanic or Latino, not provided, not applicable), or a specific sub-

ethnicity (Mexican, Puerto Rican, Cuban or Other Hispanic/Latino). For the purposes of this analyses, PCG rolled up applicants for whom any of the following ethnicities were reported into a single “Hispanic or Latino ethnicity” group:

- Hispanic or Latino;
 - Mexican;
 - Puerto Rican; or
 - Other Hispanic or Latino
- **Consolidated Race/Ethnicity:** While the HMDA data set contains separate fields for the racial and ethnic characteristics of mortgage applicants, for the purposes of this analysis, PCG combined the “race” and “ethnicity” fields into a single field representing the consolidated race/ethnicity/minority status of each applicant. That categorization was done as described in Figure 4 below.

HMDA Race/Ethnicity Characteristics	Analytic Category
Derived applicant race is “White” AND Either applicant is Hispanic ethnicity	White Hispanic
Derived applicant race is “White” AND Neither applicant is Hispanic ethnicity	White Non-Hispanic
Derived applicant race is “Black or African American”	Black or African American
Derived applicant race is “Asian”	Asian
All other applicants	Other minority race/ethnicity
<i>Figure 4: Consolidated Applicant Race/Ethnicity Category</i>	

FINDINGS

As noted above, PCG evaluated mortgage application data from calendar years 2020 and 2021 across the state of California to identify the extent to which the action arising from mortgage applications differ significantly for applicants depending on their race or ethnicity. Figure 5 at right gives the number of mortgage applications reviewed within each jurisdiction.

	2020	2021	Total
San Marcos	819	1,026	1,845
San Diego Co.	38,773	40,171	78,944
California	421,366	467,854	889,220

Figure 5: Number of Mortgage Applications Analyzed

MORTGAGE APPROVAL RATES

Across each of the three geographic regions, approximately nine out of every ten mortgage applications were ultimately approved. As seen in Figure 6, right, In San Marcos, 89.54 percent of mortgage applications submitted in 2020 and 2021 that were not later withdrawn were accepted, while for San Diego County the approval rate was 92.18 percent, and for the entire state of California, the approval rate was 92.15 percent.

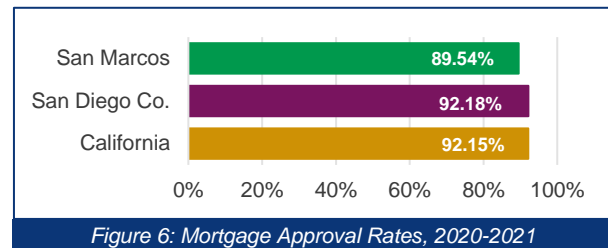


Figure 6: Mortgage Approval Rates, 2020-2021

Within each jurisdiction, approval rates increased as the proposed loan amount increased; even then, however, the approval rates did not significantly vary across San Marcos, San Diego County, or the state of California.

	Under \$315,000	\$315,000 - \$474,999	\$475,000 - \$674,999	\$675,000 and Up
San Marcos	78.65%	89.52%	92.37%	91.69%
San Diego Co.	77.93%	92.18%	92.79%	91.49%
California	83.82%	91.77%	92.40%	91.91%

Figure 7: Mortgage Approval Rates by Loan Amount, 2020-2021

As seen in Figure 7 above, mortgage approval rates for loans of \$475,000 and higher were comparable, at approximately 91 to 92 percent in San Marcos, San Diego and California as a whole. For smaller mortgages, however, approval rates were lower in San Marcos than elsewhere; for mortgages between \$315,000 and \$474,999, slightly fewer than nine in ten applications (89.52%) were approved in San Marcos; for San Diego County and California, in contrast, the approval rates were around 92 percent. For mortgages below \$315,000, San Marcos residents experienced a lower approval rate compared to California applicants, but which was comparable to San Diego County applicants as a whole – approximately 78 percent.

APPROVAL RATES BY RACE AND ETHNICITY

Building off the above analysis, which showed that in 2020 and 2021, mortgage loan application approval rates in San Marcos were comparable to San Diego County and the State of California, PCG then re-evaluated the mortgage approval rates based on the race and ethnicity of the loan applicants. As noted above, the HMDA “derived race” was used for this analysis, as was the Hispanic ethnicity of the applicant (and where applicable, the co-applicant).

Within the HMDA data, each application was categorized into one of five race categories based on the race(s) of the applicant (and where applicable, co-applicant):

- American Indian or Alaska Native;
- Asian (including Asian Indian, Chinese, Filipino, Japanese, Korean, Vietnamese and Other Asian);
- Black or African American;
- Native Hawaiian or Other Pacific Islander (including Native Hawaiian, Guamanian or Chamorro, Samoan and Other Pacific Islander); and
- White.

Two additional categories allowed the applicants' race to be noted as not collected or not applicable. In addition, the Hispanic ethnicity (Hispanic or non-Hispanic) was noted for each applicant (and where applicable, co-applicant), independent of his or her race.

Fourteen distinct race and ethnicity combinations were found in the analysis; several of those fourteen categories saw eleven or fewer mortgage applications submitted from San Marcos in 2020 and 2021; in order to prevent the confidentiality of those data, each of those ten race/ethnicity categories were combined with other racial categories – for example, the small number of applications from Asian Hispanic applications were combined with the larger number of applications from Asian non-Hispanic applicants into a single “Asian” category. In addition, three race categories were combined into an “Unknown” category: “free form text only,” “joint” and “race not available.”

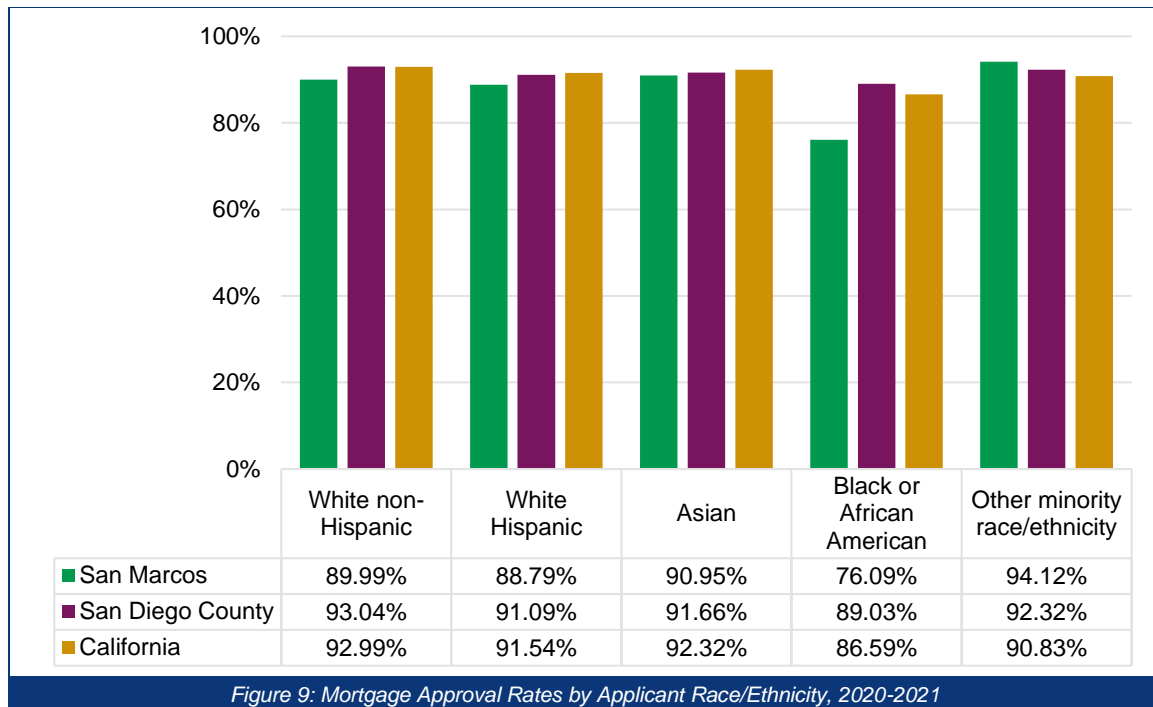
In the final analysis, mortgage data was evaluated for applicants whose race and ethnicity were categorized into one of six discrete race/ethnicity categories, which are listed in Figure 8 at right.

- White Non-Hispanic
- White Hispanic
- Asian
- Black or African American
- Other minority race/ethnicity
- Unknown

Figure 8: Race/Ethnicity Categories

As seen in Figure 9 below, in San Marcos, Black or African American applicants saw the lowest rate of mortgage approvals, at 76 percent, well below the overall approval rate for San Marcos applicants of nearly 90 percent. While San Diego County and California saw a similar disparity in outcomes for Black or African American applicants, with mortgage approval rates roughly three percentage points below those of the overall population, the difference was not as pronounced as in San Marcos.

It should be noted, however, that the number of Black or African American applicants was small, compared to the size of the other categories; fewer than 50 mortgage applications from Black or African American applicants were included in the dataset.



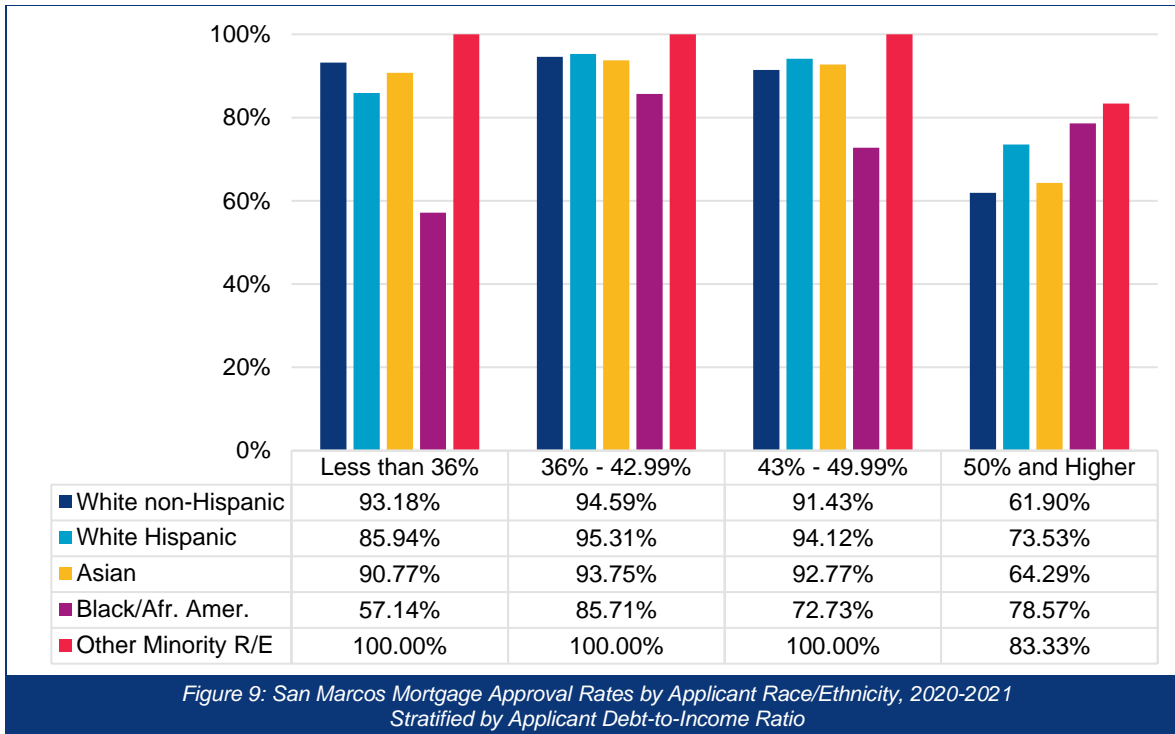
DEBT-TO-INCOME RATIO

When making a decision on what action to take in response to a mortgage application, lending institutions consider the ratio of the applicant's total monthly debt to total monthly income, or the "debt-to-income ratio," which is expressed as a percentage. As described in the "Methodology" section above, within the HMDA data, applicants' debt-to-income ratio is reported in as either a numeric percentage between 36 percent and 49 percent, or within an aggregate category: under 20 percent; 20 percent to under 30 percent; 30 percent to under 36 percent; 50 percent to 60 percent; and higher than 60 percent.

For this analysis, PCG merged the debt-to-income ratios of applicants into four analytic cohorts:

- Under 36 percent;
- 36 percent to 42 percent;
- 43 percent to 49 percent; and
- 50 percent and higher.

PCG compared the loan approval rates for each racial/ethnic category, stratifying the analysis based on each applicant's debt-to-income ratio.



As seen in Figure 10 above, even when controlling for the debt-to-income ratio of applicants, the approval rates for mortgage applications submitted by Black or African American applicants lagged behind applicants in other racial/ethnic categories, especially at lower debt-to-income ratios. Notably, the inverse is true for applicants with debt-to-income ratios of 50 percent or higher – while Black or African American applicants so situated saw 79 percent of mortgage applications approved, the approval rate for similar White non-Hispanic, White Hispanic and Asian applicants was significantly lower.

As seen in Figure 10 below, those same disparities exist at the County and state level. In San Diego County, Black or African American applicants saw their loans approved at a rate approximately four percentage points lower than the overall approval rate in the County – except for applicants with a debt-to-income ratio of 50 percent or higher. For those applicants, Black or African American mortgage applications were approved at a rate approximately 7.5 percentage points higher (84.52% vs. 77.03%) than the County as a whole.

Similarly, Black or African American applicants statewide saw their applications approved at a rate approximately four percentage points lower than applicants statewide, but applicants with a high debt-to-income ratio were five percentage points more likely (70.69% vs. 65.60%) to be approved.

Geographic Area	Category	Debt-to-Income Ratio				Total
		Less than 36%	36% - 42.99%	43% - 49.99%	50% and Higher	
San Marcos	Black or African American	57.14%	85.71%	72.73%	78.57%	76.09%
	Overall Total	92.28%	94.11%	91.71%	67.70%	89.54%
San Diego County	Black or African American	90.14%	91.98%	91.45%	84.52%	89.03%
	Overall Total	94.80%	95.27%	93.99%	77.03%	92.18%
California	Black or African American	91.97%	91.55%	89.51%	70.69%	86.59%
	Overall Total	95.15%	95.26%	93.53%	65.60%	92.15%

*Figure 11: Mortgage Approval Rates for Black or African American Applicants, 2020-2021
Stratified by Applicant Debt-to-Income Ratio*

REASONS FOR DENIAL

Building on the above observation that loan applications from Black or African American applicants are denied at a rate exceeding those of their non-Black or African American counterparts, PCG analyzed the reason(s) associated with the denials. Across all demographic categories, the most common reasons for denials of mortgage applications were the applicants' debt-to-income ratio, the applicant's credit history, and unverifiable information in the application, as seen in Figure 12 below.

	San Marcos	San Diego County	California
Debt-to-Income Ratio	3.96%	4.02%	4.07%
Unverifiable Information	2.33%	1.01%	1.11%
Credit History	2.17%	1.81%	2.07%
Other	1.68%	1.54%	1.60%
Application Incomplete	0.92%	1.34%	1.18%
Insufficient Cash	0.87%	0.87%	0.91%
Collateral	0.76%	1.42%	1.33%
Employment History	0.38%	0.35%	0.44%
PMI Denied	<0.10%	<0.10%	<0.10%

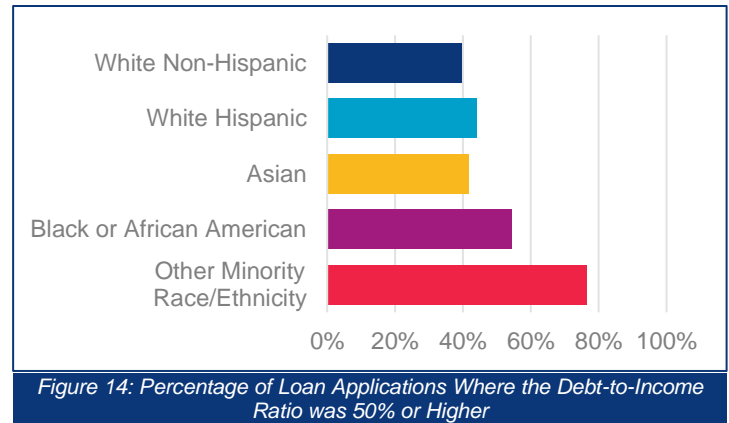
Figure 12: Reasons for Denial of Mortgage Loan Applications, 2020-2021

Among Black or African American loan applicants, however, the most prevalent reason for an application being denied was the credit history of the applicant, which triggered a denial in 6.5 percent of mortgage applications; a rate comparable to the percentage denied due to a high debt-to-income ratio. As seen in Figure 13 below, this disparity – in which Black or African American applicants are more than twice as likely as applicants from other racial/ethnic backgrounds to have a mortgage application denied due to a poor credit history – also exists at the County and statewide level as well, however.

	San Marcos	San Diego County	California
White Non-Hispanic	2.29%	1.42%	1.60%
White Hispanic	2.59%	2.97%	2.66%
Asian	0.86%	1.20%	1.29%
Black or African American	6.52%	3.15%	4.27%
Other Minority Race/Ethnicity	0.00%	3.94%	4.61%

Figure 13: Percentage of Loan Applications Denied due to Credit History, 2020-2021

Black or African American applicants also experience a disproportionately high percentage of denials due to an unfavorable debt-to-income ratio, at 6.5 percent of all mortgage applications. That, however, can be traced to the fact that loan applications from Black or African American applicants were more likely to reflect a high debt-to-income ratio, as seen in Figure 14 at right.



CONCLUSION

While the data obtained from the HMDA imply some level of disparities in lending outcomes, the reader should exercise caution when interpreting these results, especially for the City of San Marcos. The total number of mortgage applications from San Marcos was sufficiently high ($n=1,845$) to draw conclusions from the data about the overall disposition of mortgage applications, the underlying rates of approval/denial, and the reasons for those dispositions; the number of non-White applicants was relatively small (fewer than 300 applicants). The disparities identified in this report also exist at the County and State levels, albeit to a lesser degree.

It is also important to note that, as described in this report, a multitude of factors, such as applicant's credit history and applicant's employment history, play significant roles in lending decisions. While the HMDA data will indicate when a mortgage loan application was denied due to one of those factors, detailed information about those factors is not available within the HMDA data; as such, PCG was not able to identify the extent to which denial reasons correlate to the factors associated with the mortgage application. One exception was mortgage applications denied due to a poor applicant debt-to-income ratio. When we evaluated mortgages denied for that reason, after controlling for the debt-to-income ratio associated with the application, the previously identified disparities among minority applicants disappeared.

Additionally, HMDA data only covers mortgage applications and originations for certain types of mortgage loans. It does not include other types of lending such as personal loans, credit cards and secured loans, which can also contribute to disparities in overall access to affordable credit. That lack of affordable credit can also have a significant impact on the ability of families to secure affordable housing; the extent to which those financial instruments are promoted or otherwise made available to families may vary by racial/ethnic characteristics even more strongly than those of mortgage data.