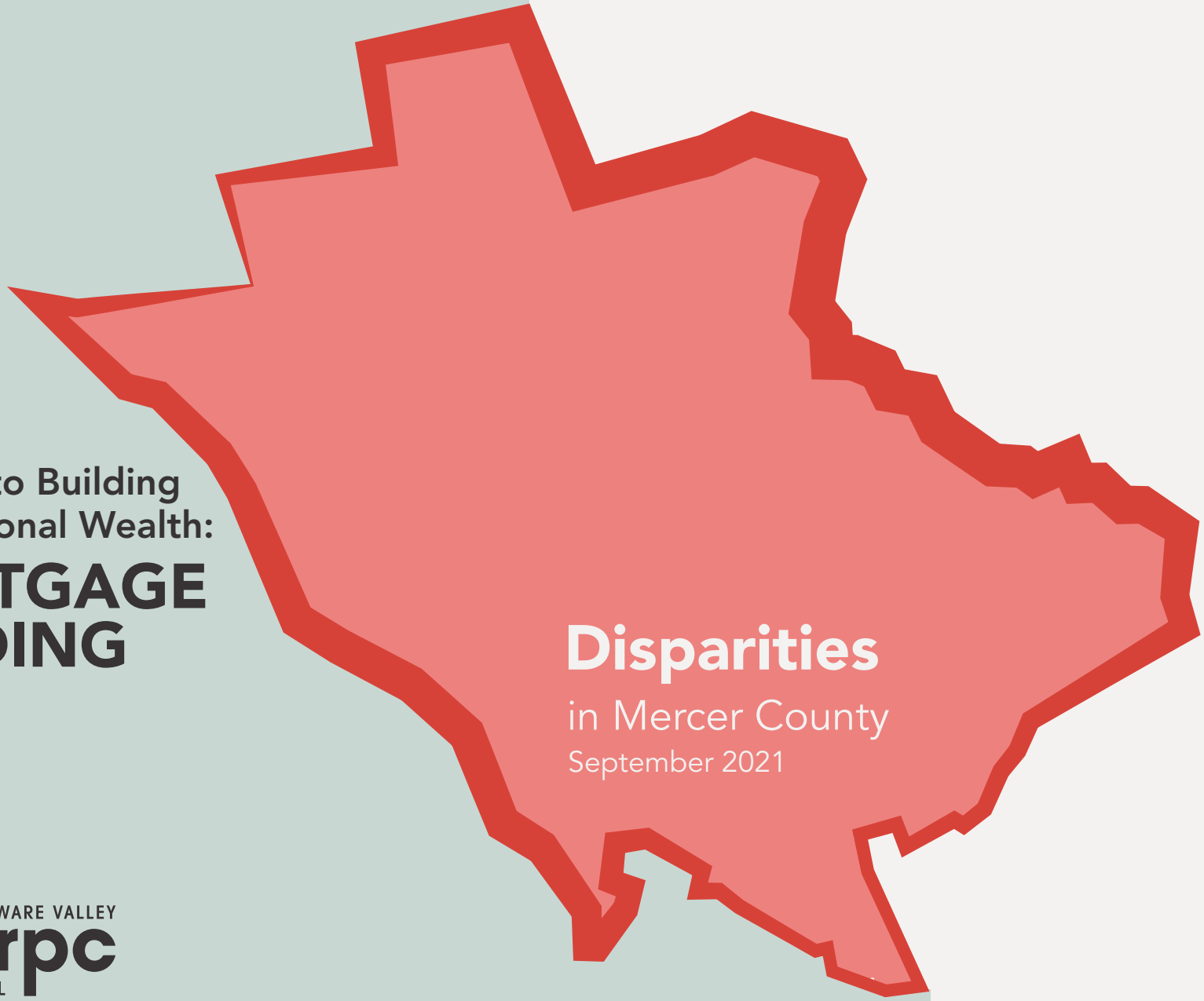
Barriers to Building Generational Wealth:

MORTGAGE LENDING



Disparities

in Mercer County

September 2021

DELAWARE VALLEY dvrpc REGIONAL PLANNING COMMISSION

The Delaware Valley Regional Planning Commission is the federally designated Metropolitan Planning Organization for the Greater Philadelphia region, established by an Interstate Compact between the Commonwealth of Pennsylvania and the State of New Jersey. Members include Bucks, Chester, Delaware, Montgomery, and Philadelphia counties, plus the City of Chester, in Pennsylvania; and Burlington, Camden, Gloucester, and Mercer counties, plus the cities of Camden and Trenton, in New Jersey.

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DELAWARE VALLEY dvrpc REGIONAL PLANNING COMMISSION

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DVRPC's mission is to achieve this vision by convening the widest array of partners to inform and facilitate data-driven decision-making. We are engaged across the region, and strive to be leaders and innovators, exploring new ideas and creating best practices.

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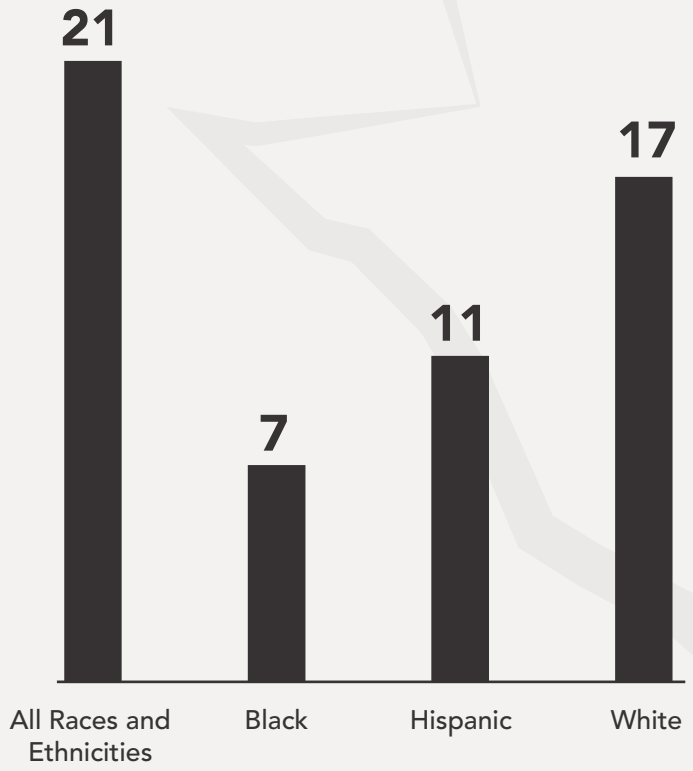
Definitions of Key Terms

Applicant	An individual applying for a mortgage.
Application	Mortgage applications reported by mortgage lending institutions, includes all types and purposes.
Collateral	Property owned by the applicant and used to secure a mortgage. This property is forfeited if the loan goes into default. Collateral is also one of ten possible reasons for an applicant to be denied, and one of the four most frequent reasons for denial within Greater Philadelphia. This type of denial would occur if the value of the collateral (the home) was assessed at a value lower than the value of the mortgage.
Core Cities	The cities of Camden, Chester, Philadelphia, and Trenton.
Credit History	Mortgage lending institutions may deny due to a poor or insufficient credit history. Thresholds for denial may vary between mortgage lending institutions as well as mortgage loan type and purpose. Credit History is one of ten possible reasons for an application to be denied, and one of the four most frequent reasons for denial within Greater Philadelphia.
Debt to Income Ratio	The share of an applicant's income that goes towards paying for debt obligations each month. Acceptable Debt to Income Ratios may differ between lending institutions, and by mortgage loan type and purpose. Debt to Income Ratio is also one of ten possible reasons for an applicant to be denied, and one of the four reasons most often provided for denial within Greater Philadelphia.
Denial	The explicit refusal by a mortgage lending institution to lend financing to an applicant.
Denial Reason	Following regulatory changes that went into effect in 2006, some mortgage lending institutions were required to provide a reason for why an applicant was denied. Although there are ten possible reasons for denial, this report focuses on the three most common reasons: Collateral, Credit History, and Debt to Income Ratio.
Fallout	Refers to applications where the mortgage lender locks in a rate for the applicant, but for any number of reasons (some of which are outside the lenders' control) the application does not ultimately end in an origination nor a denial. This report does not focus on mortgage fallout given that there are unknown factors that may lead to a fallout, and that this outcome does not make up a significant share of all outcomes.

Generational Wealth	Wealth that is passed from generation to generation, including real estate assets.
Generational Wealth Gap	Disparities in wealth within the population that are passed from one generation to the next, which have the ability to impact subsequent generations' educational attainment, employment prospects, and even physical and mental health.
Housing Crisis of 2008	Used in this report to refer to the specific year in which unsustainable mortgage lending practices led to the collapse of the housing market and a prolonged economic recession known as the Great Recession.
Housing Mortgage Disclosure Act	Enacted in 1975, the Housing Mortgage Disclosure Act (HMDA) requires that information regarding mortgage lending practices be reported by financial institutions and made available to the public. This report presents findings from an analysis of HMDA data from 2004 through 2019.
Missing	Providing a reason for denial is optional for exempt mortgage lending institutions. These denials are then reported as missing a denial reason. The list of exempt institutions has been revised several times in recent years, the details of which are beyond the scope of this report, but the list was significantly shortened by regulations that went into effect on January 1, 2018.
Mortgage	In this report, the term refers to the specific agreement between an applicant and mortgage lender where the lender agrees to lend money to the applicant for the purchase, refinance, or improvement of a home.
Mortgage Lending Institution	A financial institution that lends mortgages.
Origination	The result is the execution of a mortgage between the mortgage lending institution and the applicant.
Racial Wealth Gap	Disparities in wealth within the population that exist because of race and/or ethnicity, with ramifications similar to that of the generational wealth gap.

Table 01: Originations per 1,000 People (2019)



Sources: U.S. Census Bureau American Community Survey, Five-Year Estimates 2015–2019; LendingPatterns, 2019; and DVRPC.

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Summary of Findings

Since peaking in 2005, mortgage applications in Mercer County have declined by 63.3 percent, which was the second greatest decline in the region. The declines in applications from Black and Hispanic applicants are the highest in the region at 78.1 percent and 61.9 percent, respectively. The decline in applications from White applicants was 61.7 percent. Regionwide applications are down by 55.2 percent.[1]

As shown in Table 1, in Mercer County there were 21 originations per 1,000 people in 2019, compared to 26 for the region as a whole. That number is 7 within the Black population, compared to 11 at the regional level, and 11 within the Hispanic population, compared to 13 for the region. Originations per capita for Black and Hispanic applicants are the lowest and second lowest in the region, respectively. Conversely, in Mercer County there are 17 originations per 1,000 people within the White population, compared to 25 at the regional level.

On average since 2004, 21.1 percent of applications were denied in Mercer County, compared to denial rates of 33.7 percent, 28.3 percent, and 17.5 percent for Black, Hispanic, and White applicants, respectively.

1. A report on mortgage lending disparities across Greater Philadelphia was published in April 2021, and presents findings from a similar analysis at the regional level.

In Mercer County, Black applicants are denied at significantly higher rates on average compared to their White counterparts, and Hispanic applicants are denied at higher rates as well.

33.7%

of Black applicants were denied on average between 2004 and 2019, which accounted for 19.0 percent of all denials. However, Black applicants only accounted for 12.1 percent of all mortgage applications during this same period.

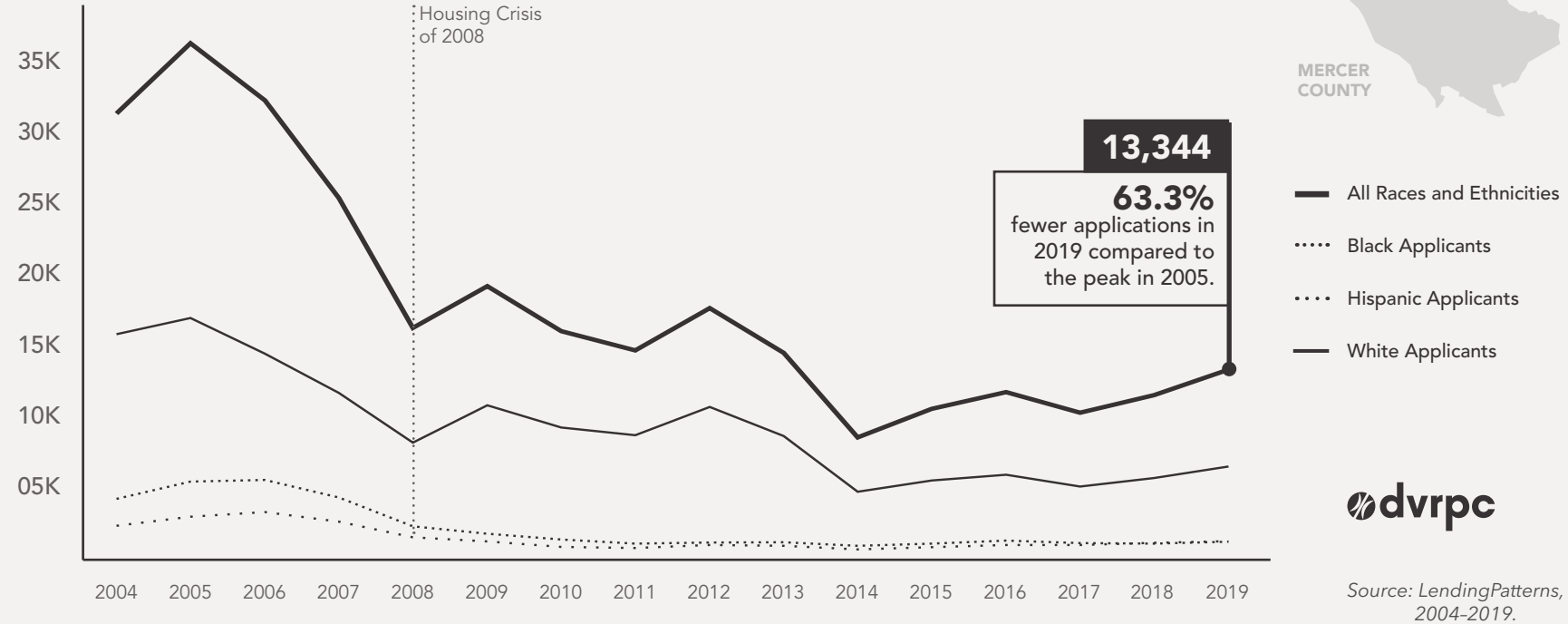
28.3%

of Hispanic applicants were denied on average during that same period of time. This represented 10.6 percent of all denials, while Hispanic applicants only represented 8.0 percent of all applications.

17.5%

of White applicants were denied on average between 2004 and 2019. Although White applicants accounted for 51.3 percent of all applications, they only accounted for 41.6 percent of denials.

Table 02: Total Applications (2004–2019)

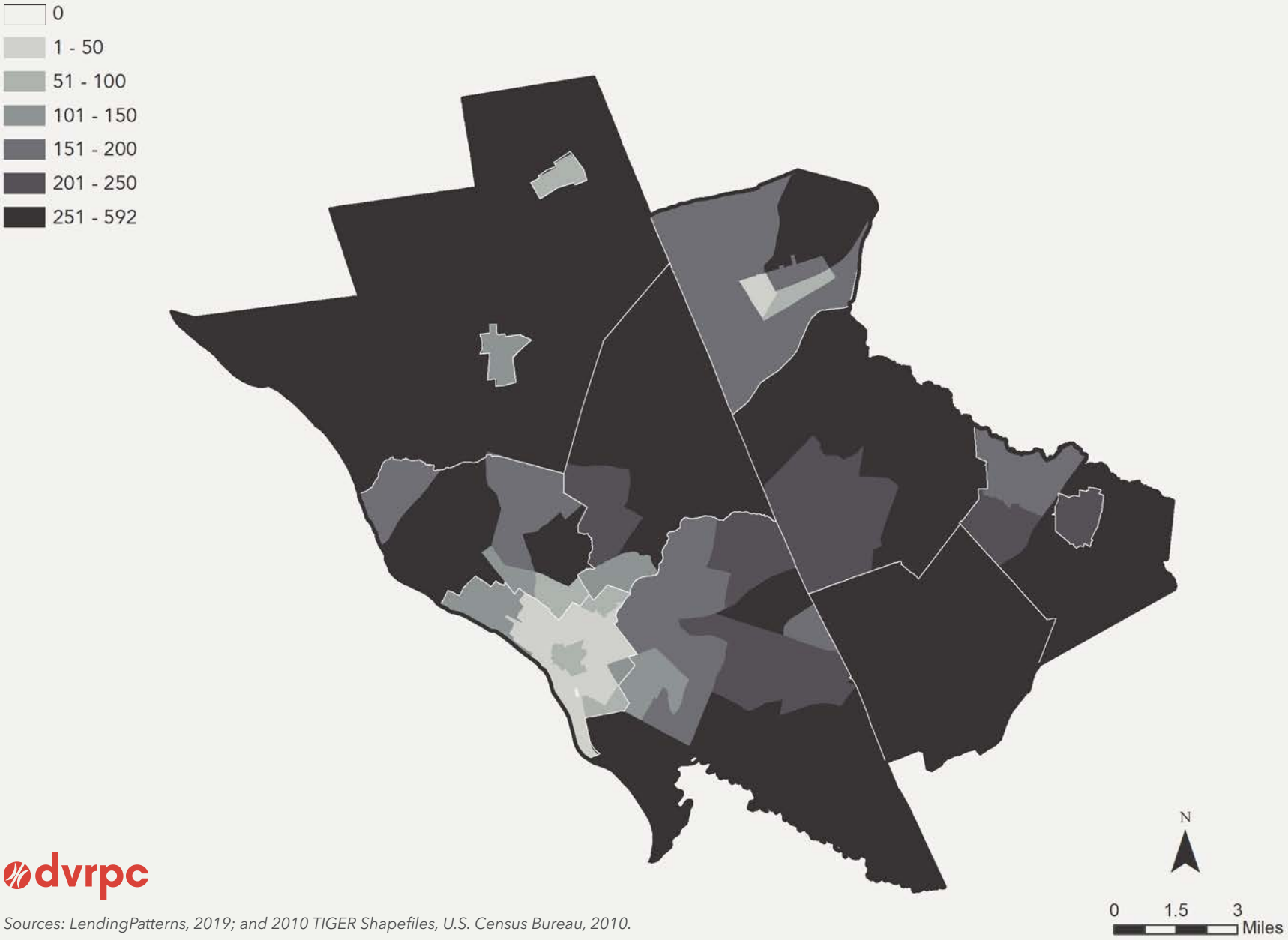


Source: LendingPatterns, 2004–2019.

Applications

As shown in Table 2, applications peaked in 2005, with 36,353 mortgage applications submitted that year, which represented 6.4 percent of all applications in Greater Philadelphia. Heading into the Housing Crisis of 2008, applications fell significantly, before falling to an all-time low in 2014 at 8,566 applications (5.2 percent of the regional total). In 2019, there were 13,344 applications, which was 63.3 percent fewer than the 2005 peak. This represented 5.3 percent of all applications in Greater Philadelphia in 2019, and the second greatest decline for the region's nine counties. Since 2005, applications are down by 77.6 percent, 57.8 percent, and 61.7 percent for Black, Hispanic, and White applicants, respectively. However, applications from Black and Hispanic applicants peaked in 2006, and are down by 78.1 percent and 61.9 percent, respectively, since that time. In 2019, Black applicants accounted for 4.3 percent of all Black applicants in the region, Hispanic applicants accounted for 9.0 percent of the region's Hispanic applicants, and White applicants accounted for 4.3 percent of the region's White applicants. Totals by race and ethnicity can be seen at the census tract level in Figures 1, 2, 3, and 4 on the following pages.

Figure 01: Total Applications, by Census Tract (All Races and Ethnicities, 2019)



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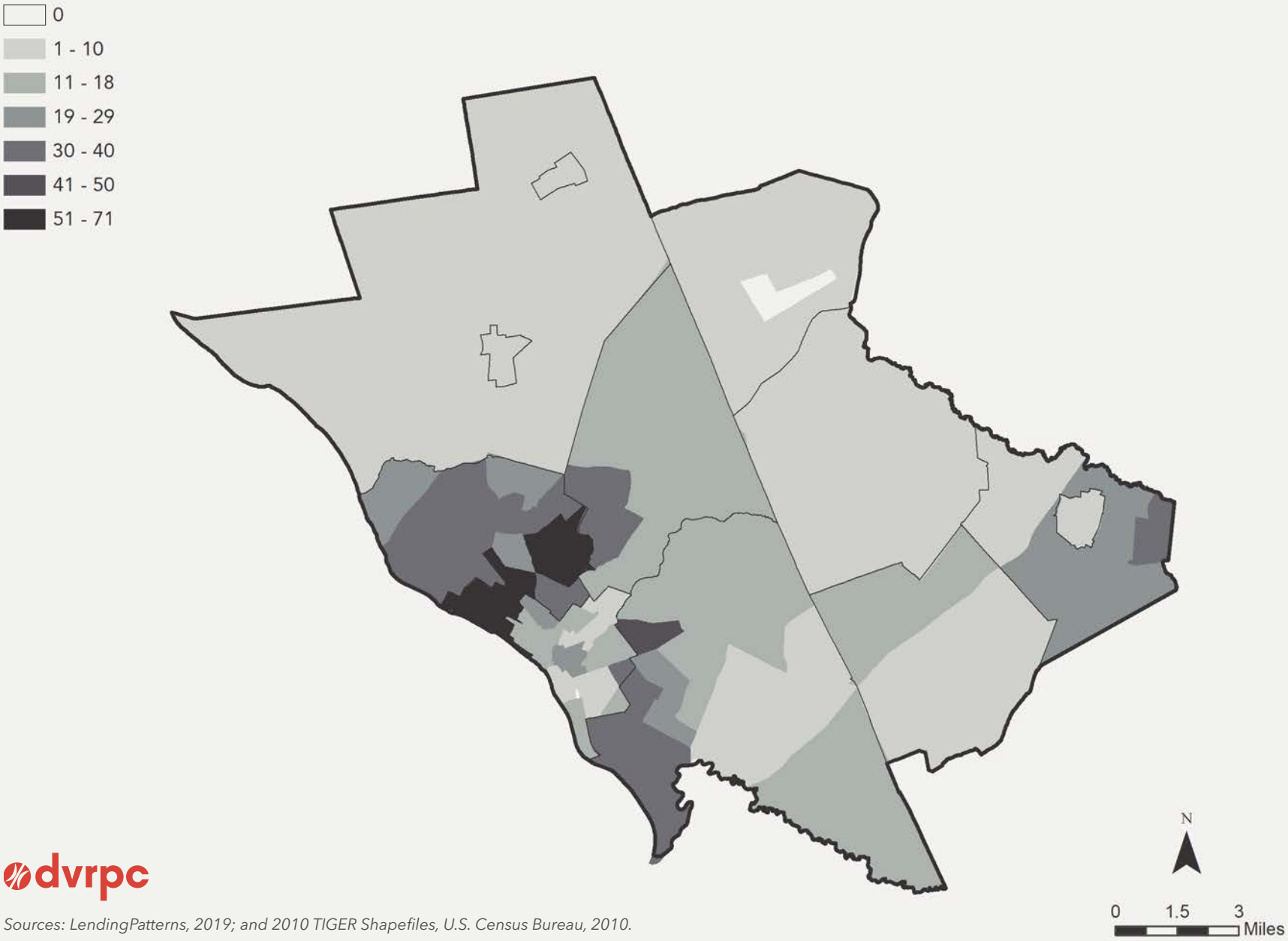
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 02: Total Applications, by Census Tract (Black Applicants, 2019)



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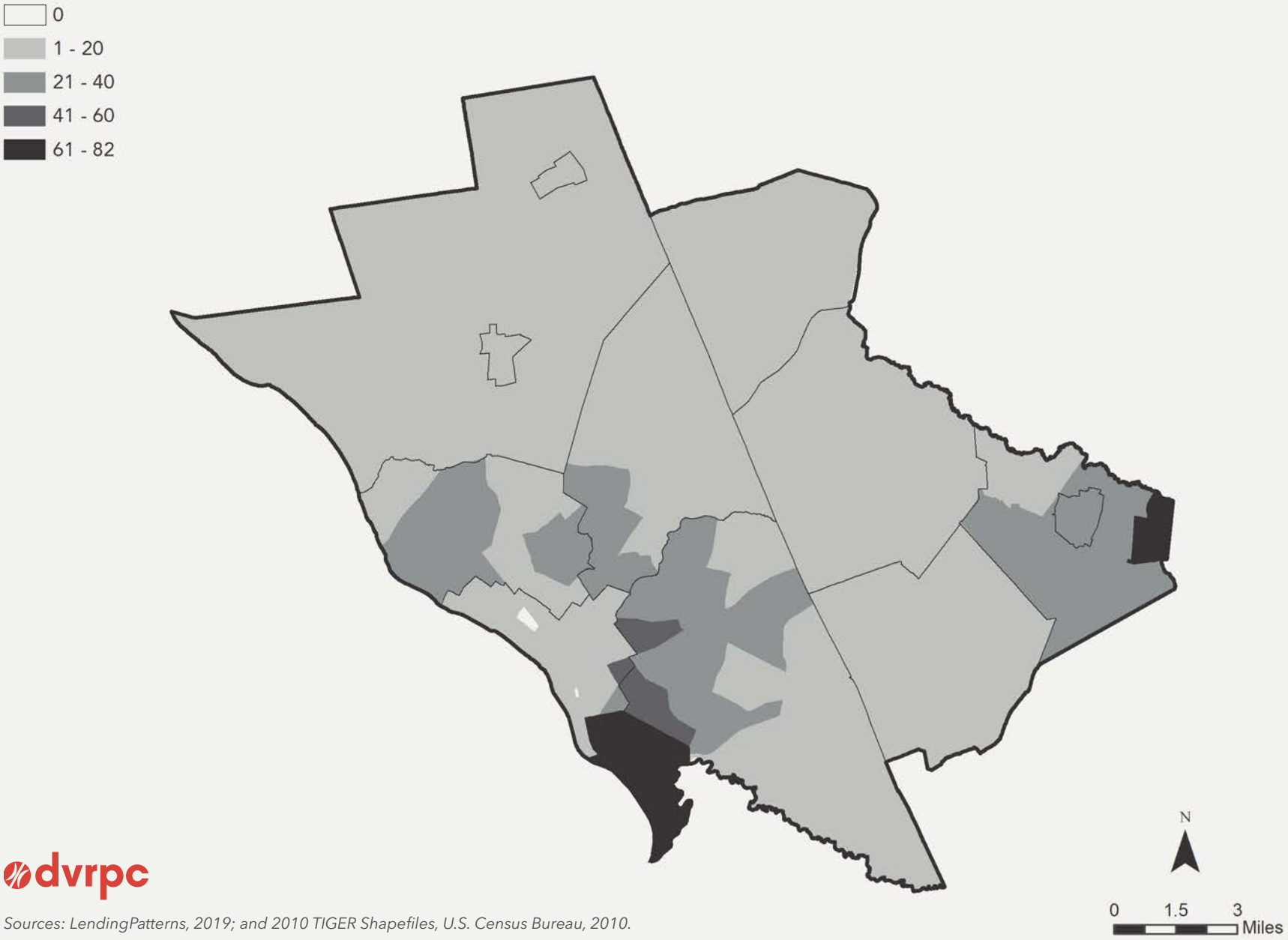
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 03: Total Applications, by Census Tract (Hispanic Applicants, 2019)



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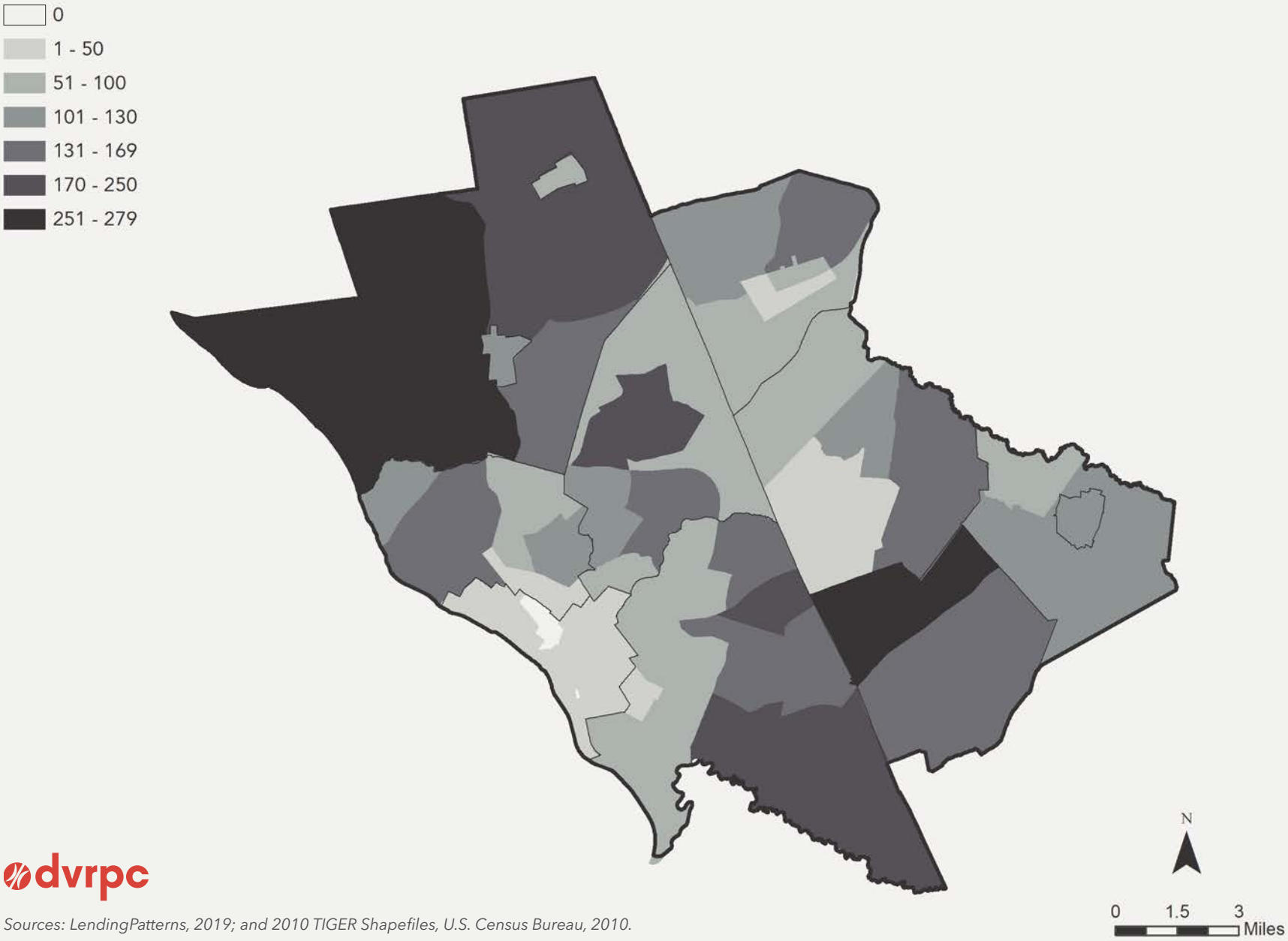
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 04: Total Applications, by Census Tract (White Applicants, 2019)



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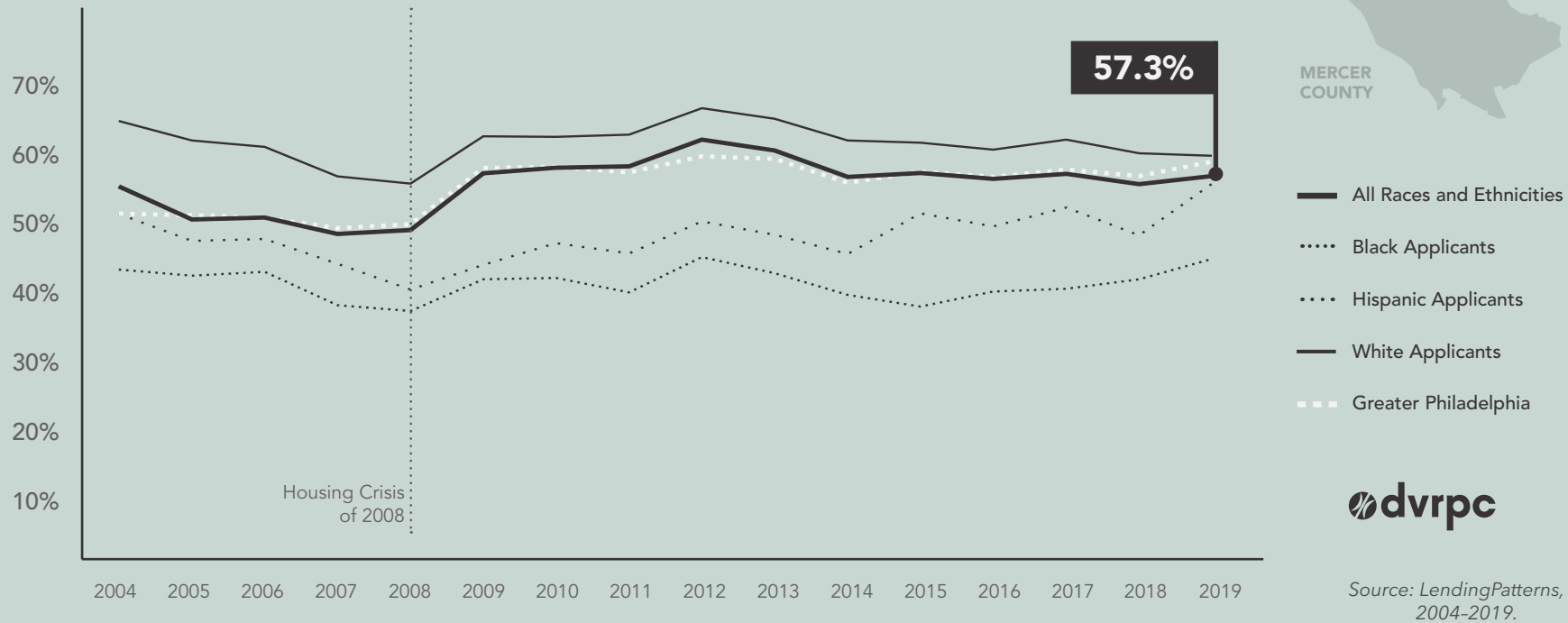
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Table 03: Originations as Share of Total Applications (2004–2019)



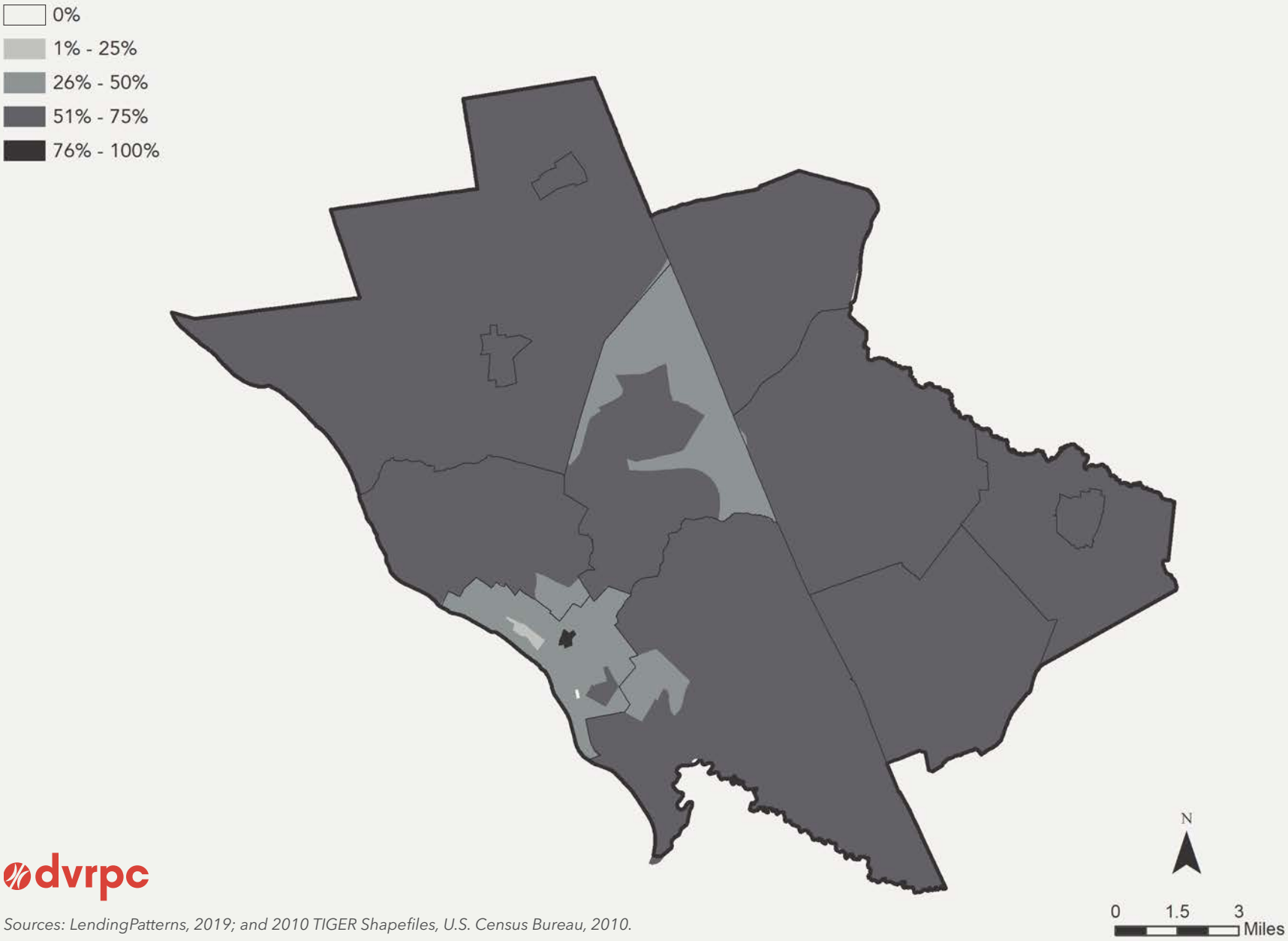
Source: LendingPatterns, 2004–2019.

Originations

The average origination rate is 56.1 percent in Mercer County. However, applications are originated at average rates of 62.1 percent for White applicants (61.8 percent regionwide), 48.5 percent for Hispanic applicants (47.5 percent regionwide), and 41.8 percent for Black applicants (40.7 percent regionwide). In 2019, the average origination rate was 57.3 percent, as shown in Table 3.

For Mercer County as a whole, the rate increased somewhat following the Housing Crisis of 2008 to a high of 62.5 percent in 2015, before declining slightly in the years that followed. However, the trend varies by race and ethnicity. For Black applicants, the orignation rate climbed to an all-time high of 45.6 percent in 2012 before falling to 38.5 percent in 2015. In 2019, the rate was 45.3 percent. Conversely, the origination rate for Hispanic applicants has risen from an all-time low of 40.1 percent in 2008 to an all-time high of 56.1 percent in 2019. The inverse is true for White applicants, with origination rates climbing to an all-time high of 67.1 percent in 2012 before declining and reaching a post-recession low of 60.2 percent in 2019. Origination rates by race and ethnicity can be seen at the census tract level in Figures 5, 6, 7, and 8 on the following pages.

Figure 05: Originations as Share of Applications, by Census Tract (All Races and Ethnicities, 2019)



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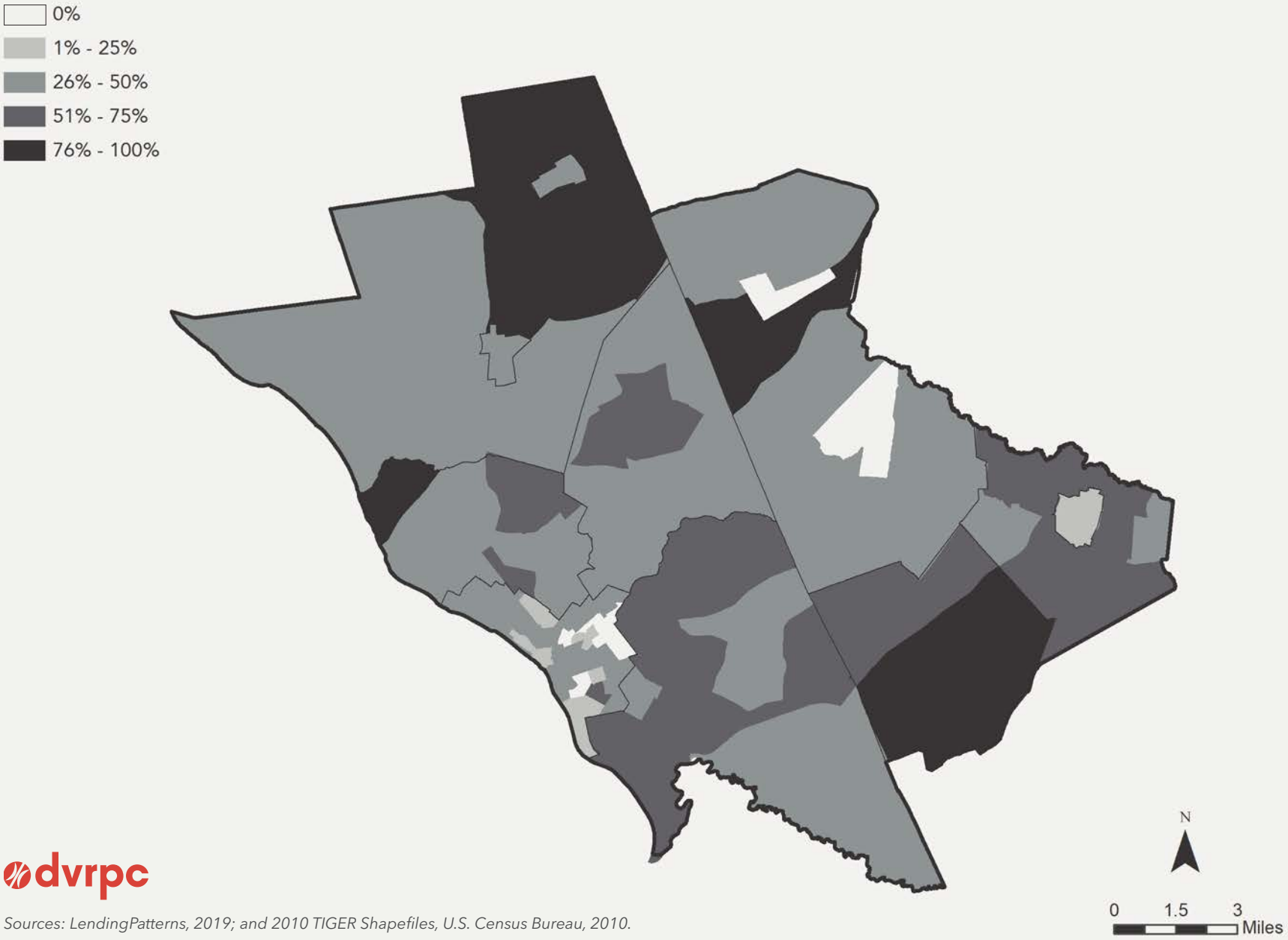
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 06: Originations as Share of Applications, by Census Tract (Black Applicants, 2019)



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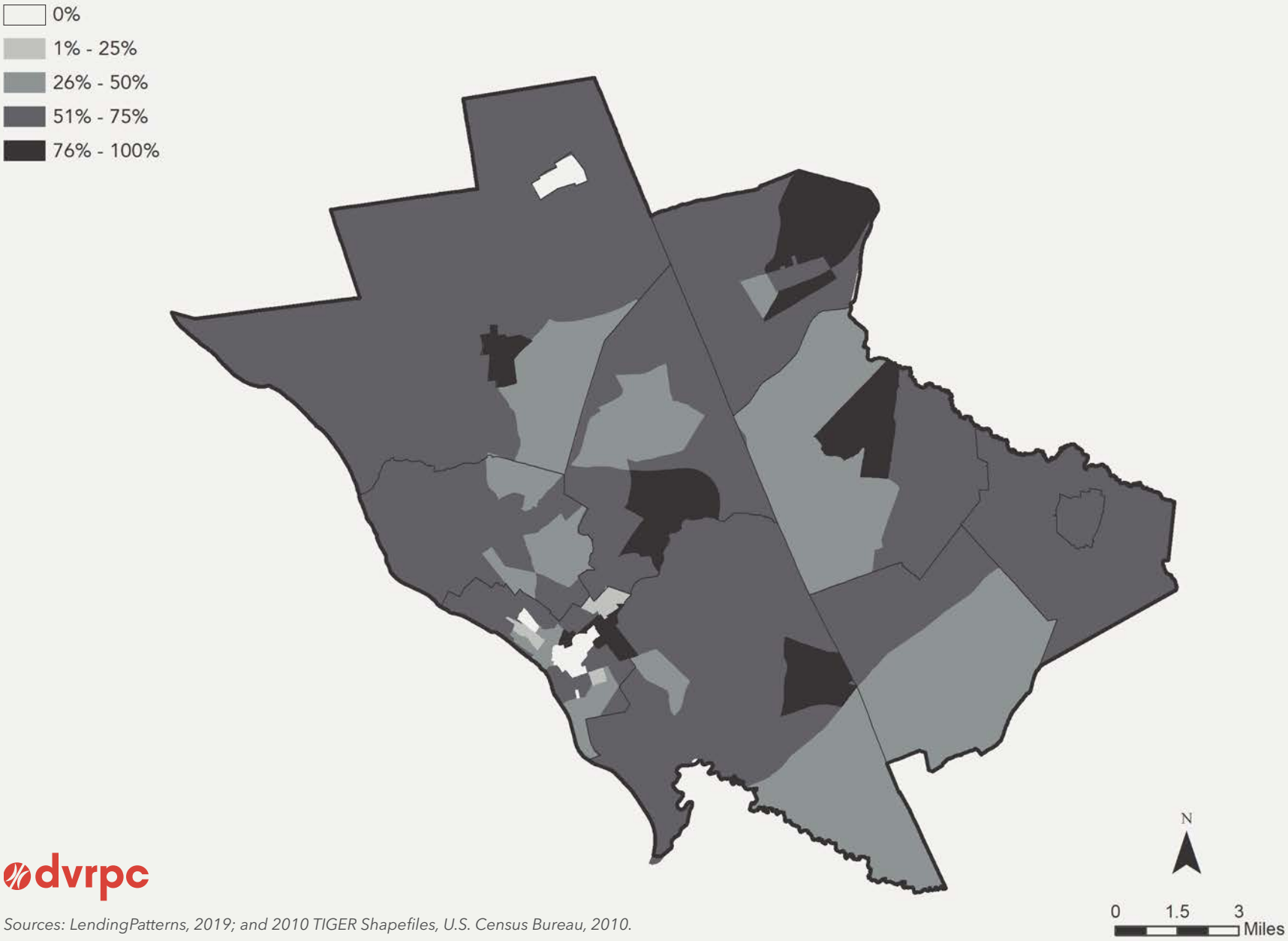
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 07: Originations as Share of Applications, by Census Tract (Hispanic Applicants, 2019)



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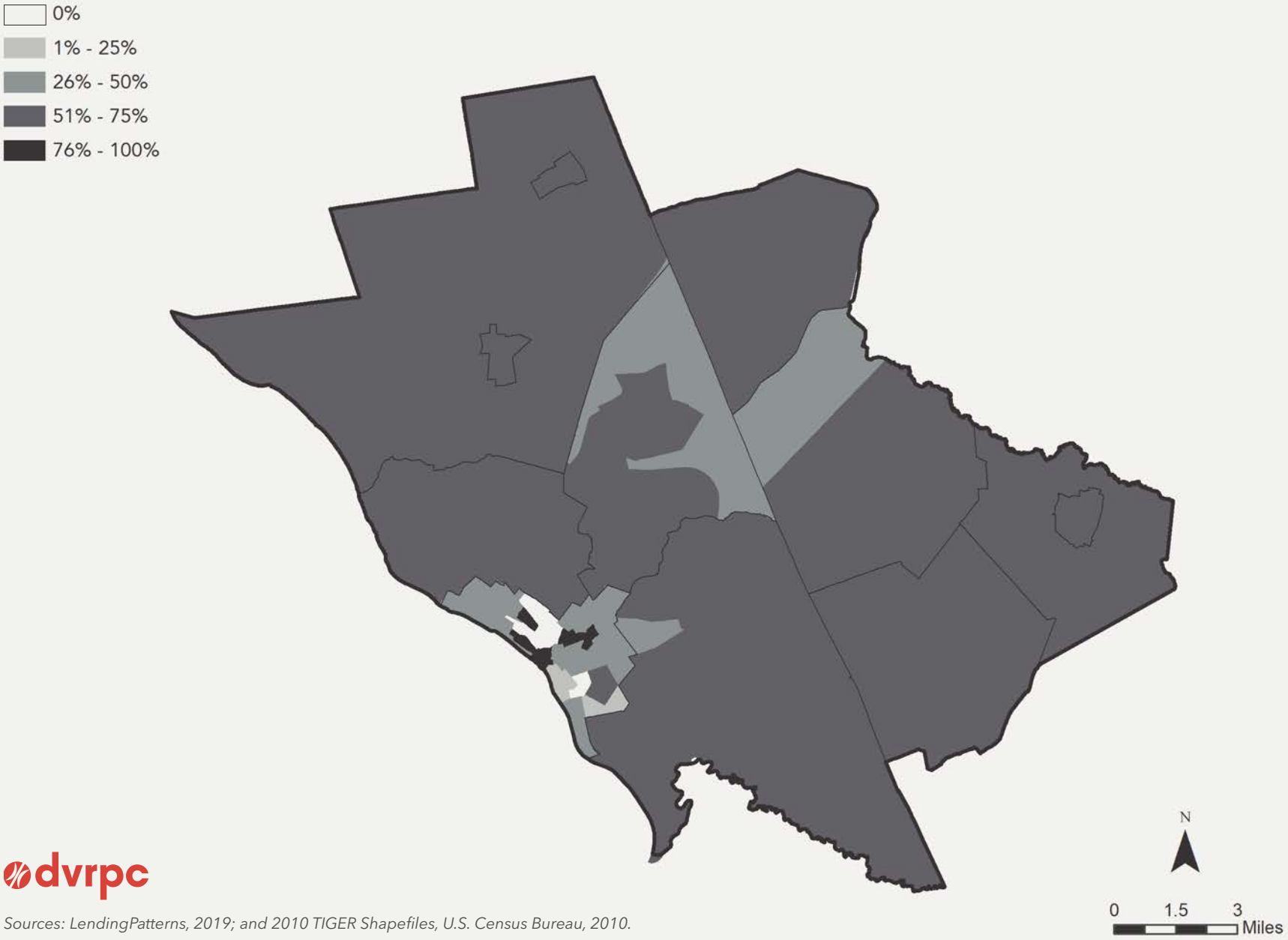
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 08: Originations as Share of Applications, by Census Tract (White Applicants, 2019)



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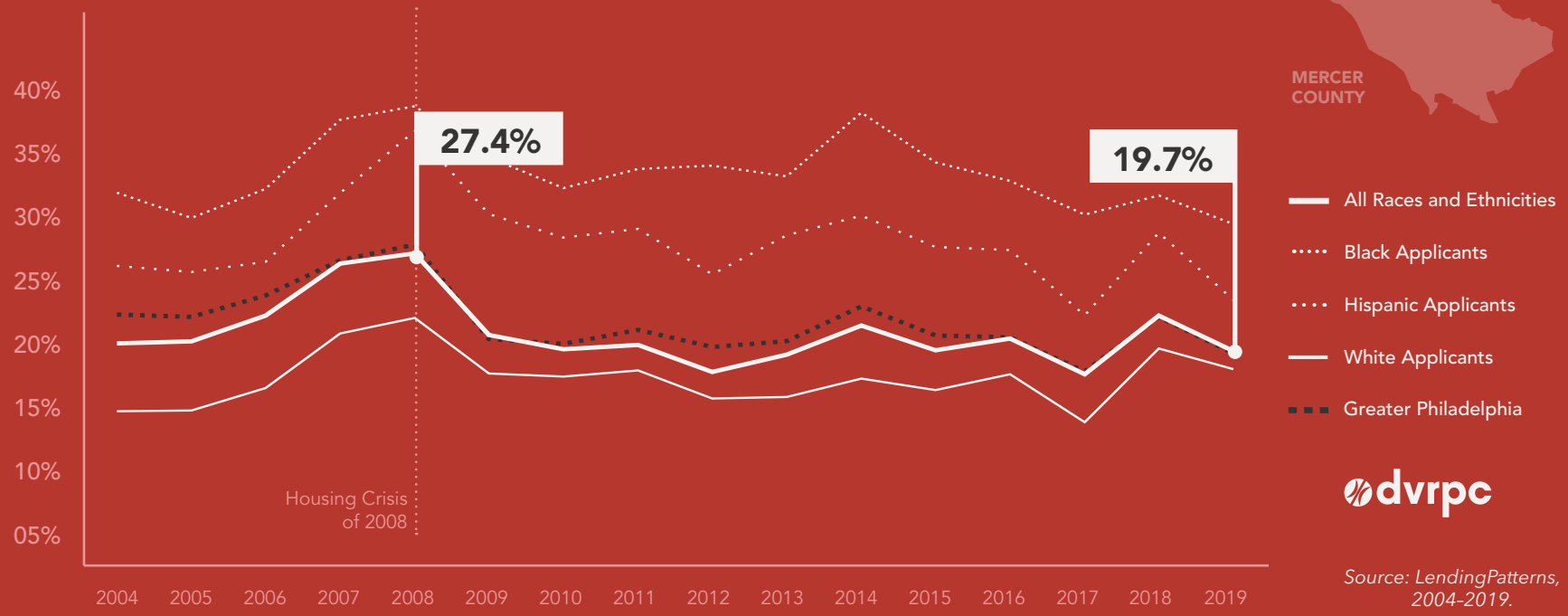
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Table 04: Denials as Share of Total Applications (2004–2019)

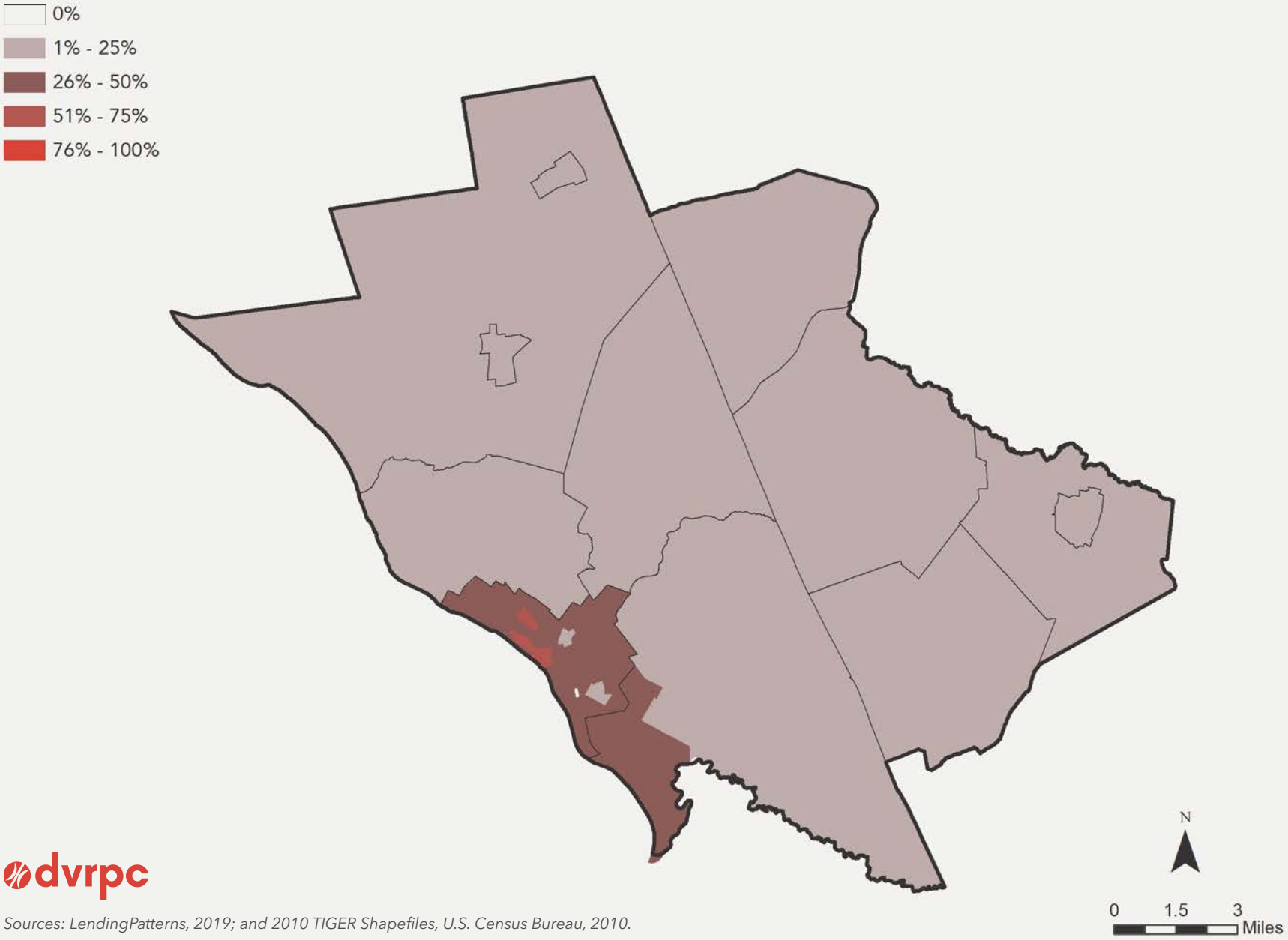


Source: LendingPatterns, 2004–2019.

Denials

Denials as a share of applications reached an all-time high at the peak of the Housing Crisis in 2008, when 28.1 percent of the region's applications were denied and 27.4 percent were denied in Mercer County. However, the peak for denials among Black, Hispanic, and White applicants was 39.0 percent, 37.1 percent, and 23.9 percent, respectively. The disparity in Mercer County with regards to differences in denial rates between Black and White applicants, and Hispanic and White applicants, is the third-highest in the region. Since 2009, denials rates have held relatively steady for the county as a whole and for White applicants, but have generally been declining for Black and Hispanic applicants, as shown in Table 4. In 2019, the denial rate for Black applicants reached an all-time low of 29.7 percent, and Hispanic applicants had the second-lowest denial rate since 2004 at 23.7 percent. The denial rate for White applicants was 18.3 percent in 2019. The share of applications that were denied in 2019 can be seen at the census tract level for all races and ethnicities, as well as for Black, Hispanic, and White applicants, in Figures 9, 10, 11, and 12 on the following pages.

Figure 09: Denials as Share of Applications, by Census Tract (All Races and Ethnicities, 2019)



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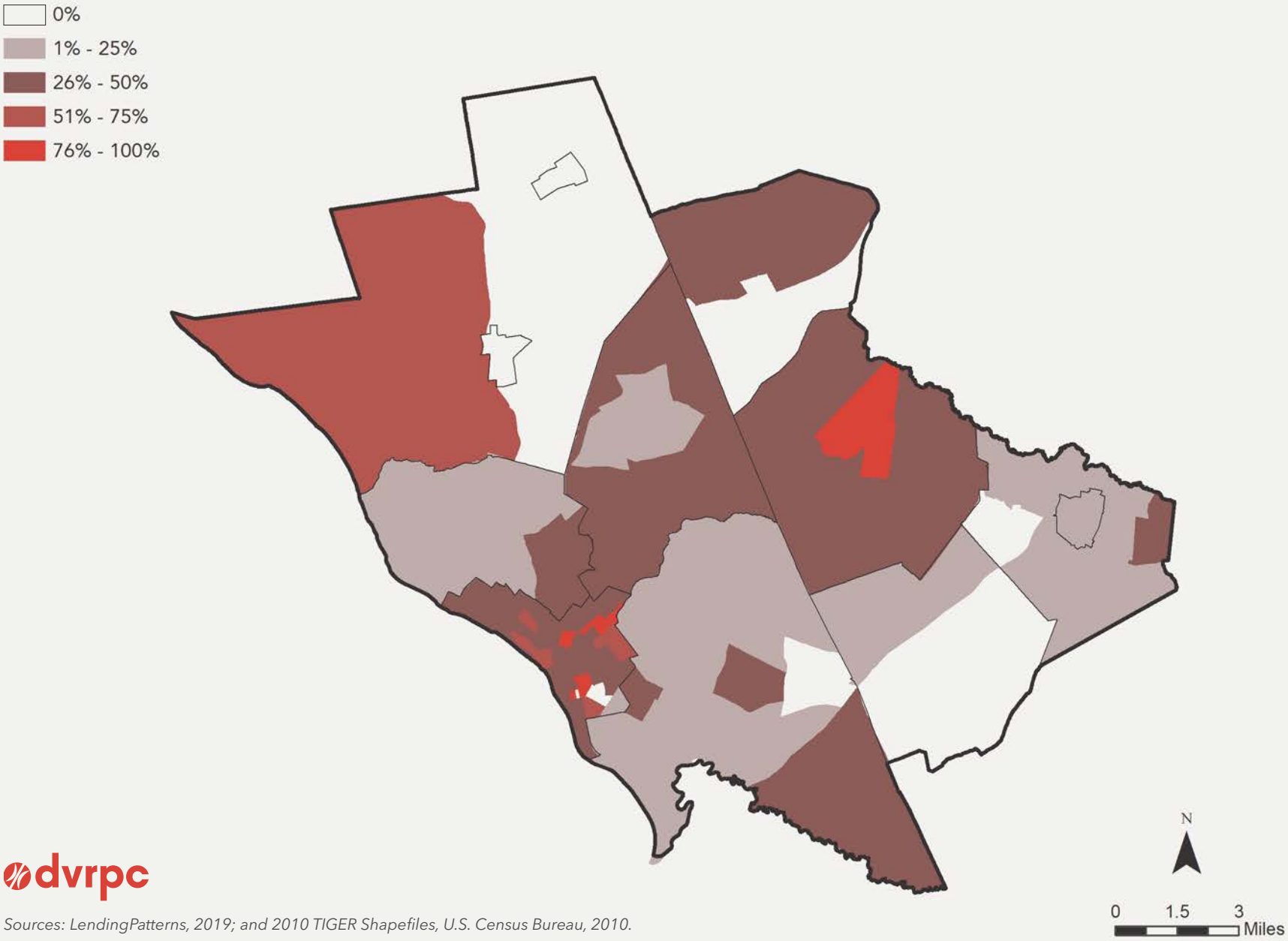
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 10: Denials as Share of Applications, by Census Tract (Black Applicants, 2019)



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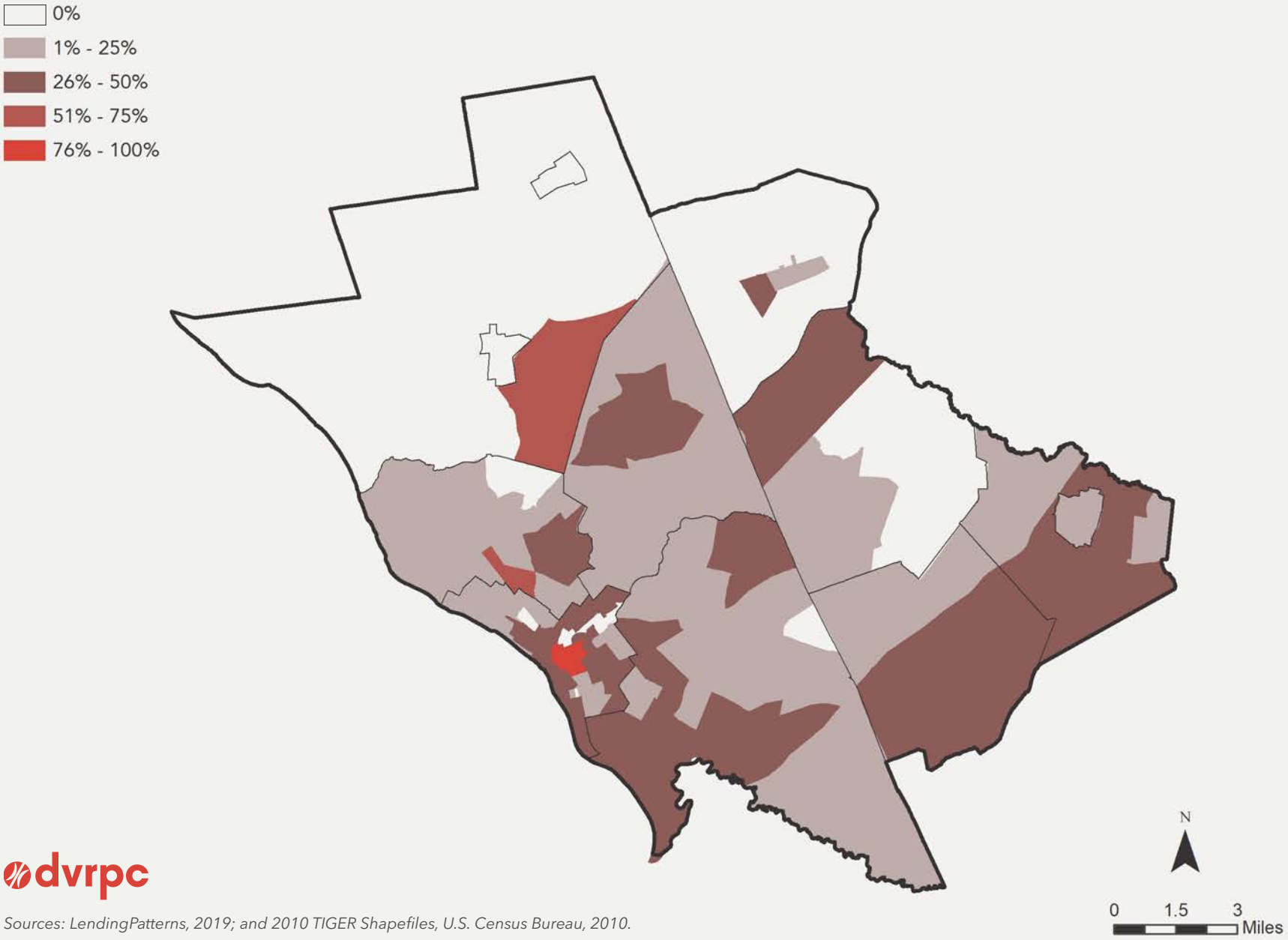
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 11: Denials as Share of Applications, by Census Tract (Hispanic Applicants, 2019)



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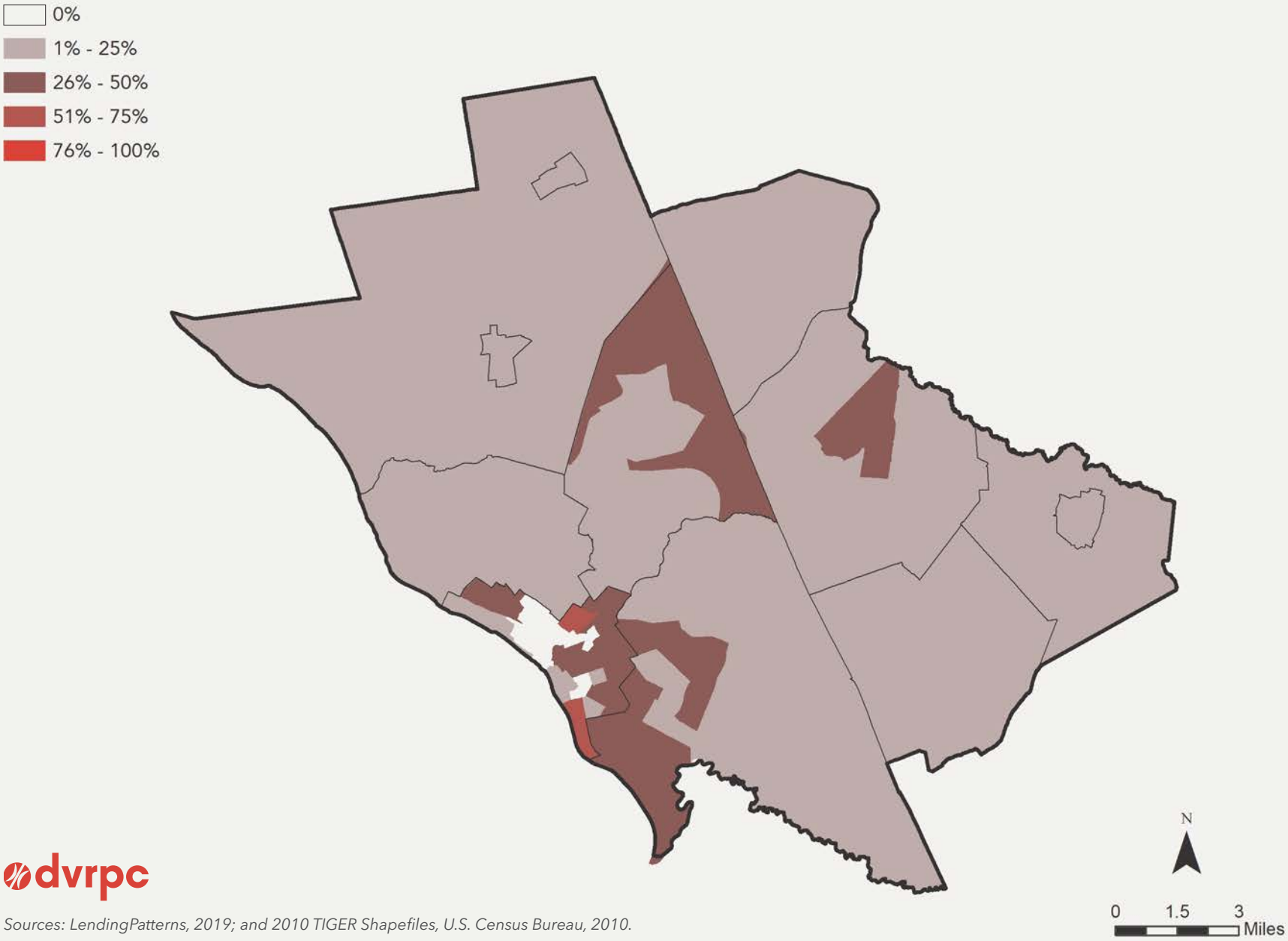
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Figure 12: Denials as Share of Applications, by Census Tract (White Applicants, 2019)



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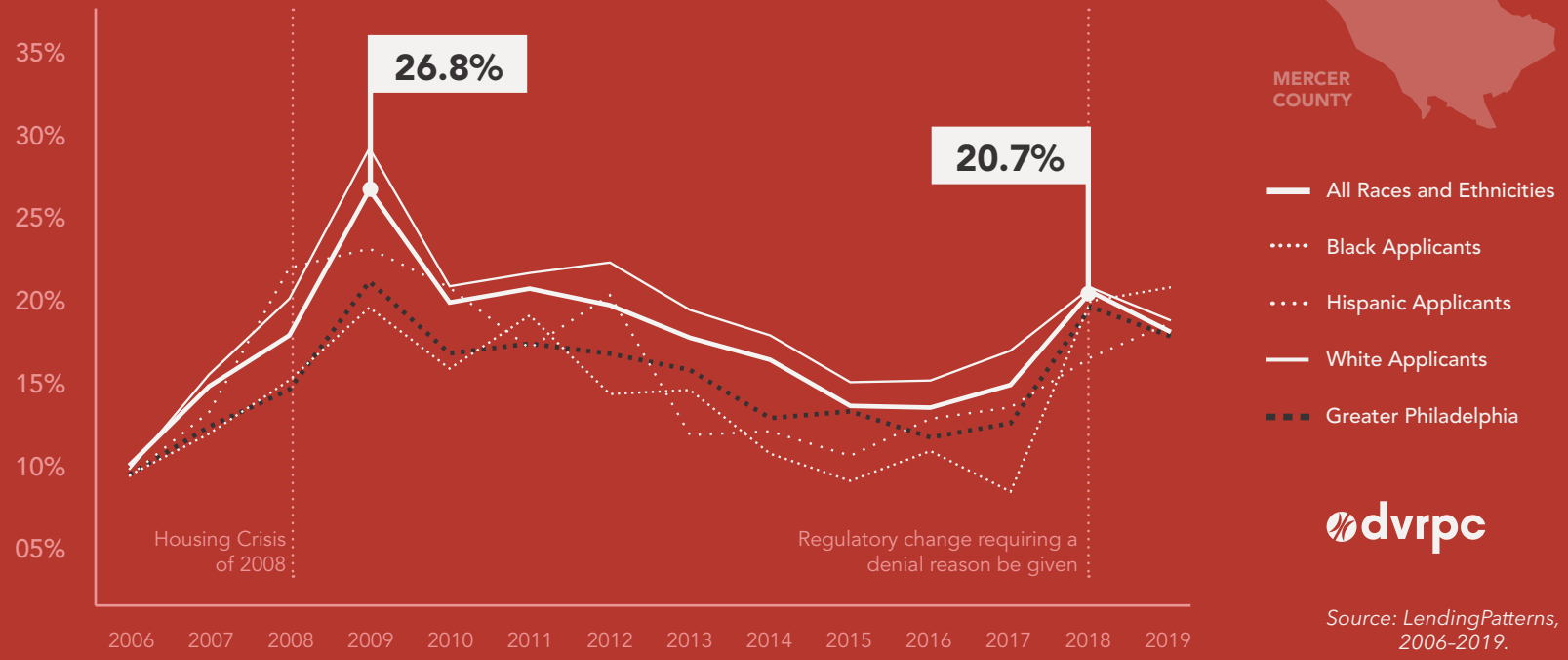
Sources: LendingPatterns, 2019; and 2010 TIGER Shapefiles, U.S. Census Bureau, 2010.

Table 05: Collateral as Share of All Denials (2006–2019)



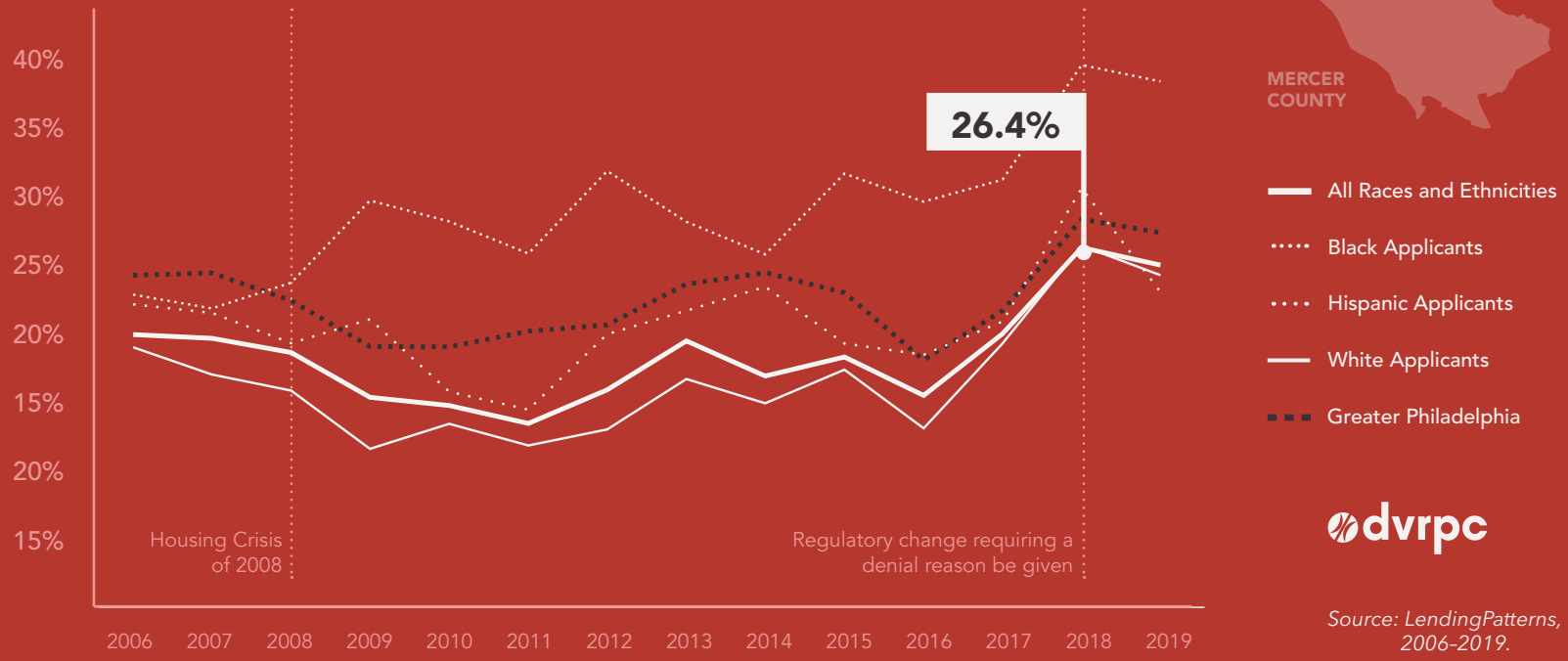
Source: LendingPatterns, 2006-2019.

Collateral Denials

On average, applications in Mercer County are denied due to Collateral at a rate of 17.6 percent, which is the highest rate in the region. This rate is also higher than the average of 16.4 for Greater Philadelphia as a whole. This holds true for Black, Hispanic, and White applicants as well, at rates of 14.4 percent, 16.0 percent, and 19.0 percent, respectively. The average Collateral denial rate was 20.7 percent in 2018, as shown in Table 5.

Since 2009, Collateral as a denial reason was trending downward for the region as a whole, as well as for applicants in Mercer County, before rising again in 2018 to 19.8 percent for the region and 20.7 percent for Mercer County. That same year, 20.9 percent of White applicants were denied due to Collateral. However, denials due to Collateral reached an all-time high for Black applicants in 2019, at 21.0 percent, and reached a relative high for Hispanic applicants at 18.8 percent.

Table 06: Credit History as Share of All Denials (2006–2019)



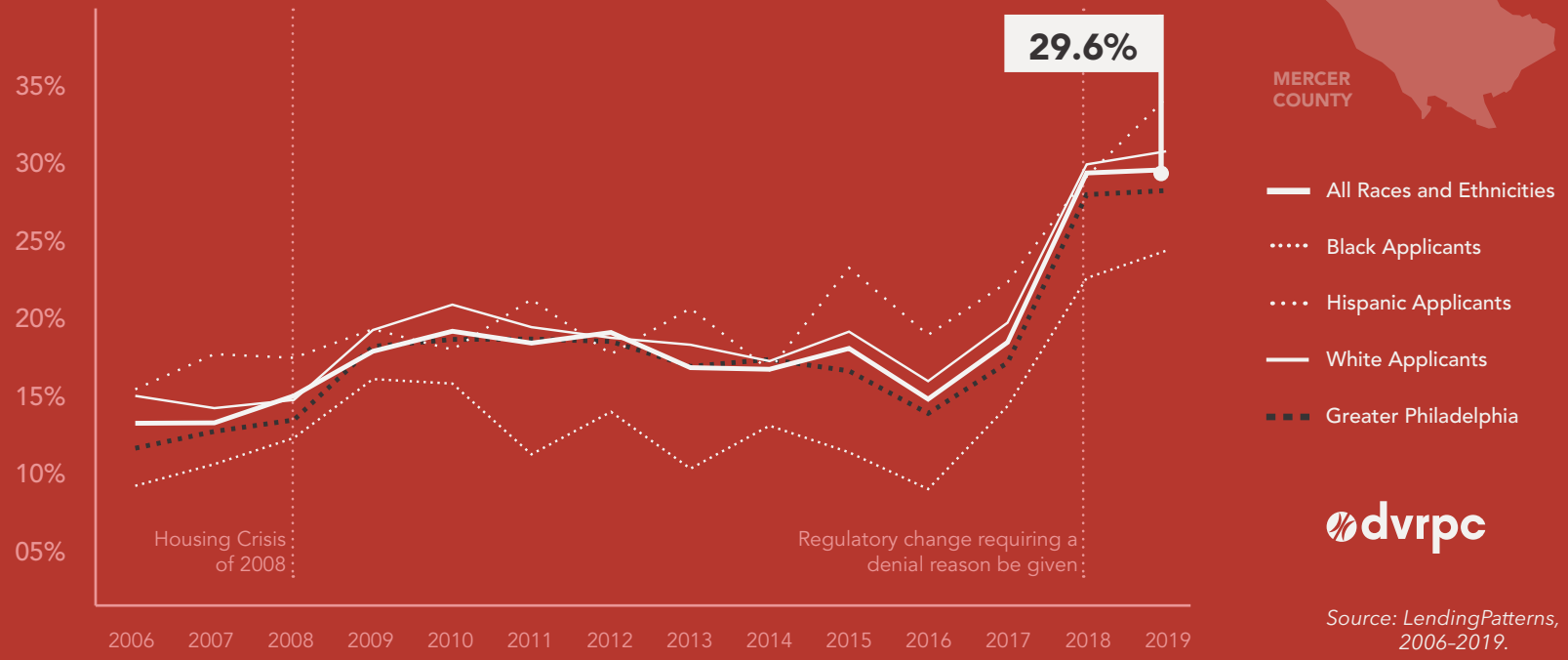
Source: LendingPatterns, 2006-2019.

Credit History Denials

Applications in Mercer County are denied due to Credit History at an average rate of 18.6 percent, compared to the average rate of 22.7 percent for the region as a whole. The average rate of denial due to Credit History for Black, Hispanic, and White applicants in Mercer County is 29.3 percent, 20.9 percent, and 16.8 percent, respectively. The Credit History denial rate for Hispanic applicants is the second lowest in the region. In 2018, the average rate of denial due to Credit History was 26.4 percent, as shown in Table 6.

In 2006, there was little disparity between applicant race and ethnicity with regards to denials due to Credit History, and applicants, regardless of race or ethnicity, were denied for this reason less often than in the region as whole. Since 2006, denials due to Credit History have increased by 25.1 percent on average, by 67.4 percent for Black applicants and 27.3 percent for White applicants, but just 4.0 percent for Hispanic applicants. Denials due to Credit History peaked in 2018 at 39.7 percent, 30.7 percent, and 26.5 percent for Black, Hispanic, and White applicants, respectively.

Table 07: Debt to Income Ratio as Share of All Denials (2006–2019)



Source: LendingPatterns, 2006-2019.

Debt to Income Ratio Denials

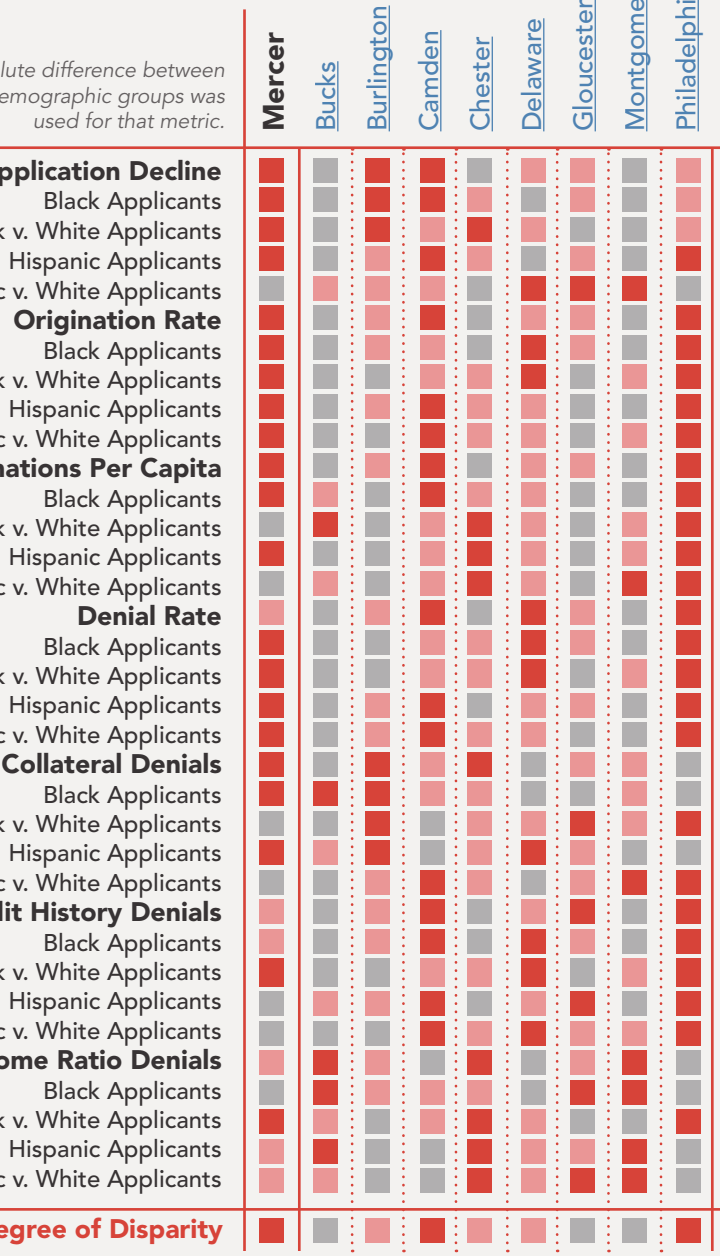
Applicants in Mercer County are denied due to Debt to Income Ratio at an average rate of 18.6 percent, which is slightly higher than the regional average of 17.9 percent. On average, the rates of denial due to Debt to Income Ratio are 13.9 percent, 20.8 percent, and 19.6 percent for Black, Hispanic, and White applicants, respectively. In 2019, the average rate of denial due to Debt to Income Ratio was 29.6 percent, as shown in Table 7.

The denial rate due to Debt to Income Ratio in Mercer County remained steady over the past decade before rising to an all-time high in 2019 at a rate of 29.6 percent for all races and ethnicities, which was 1.3 percent higher than the regional average of 28.3 percent that year. The denial rate in 2019 was 24.4 percent, 34.2 percent, and 30.8 percent for Black, Hispanic, and White applicants, respectively.

Table 08: Degrees of Disparity by County

Degree of Disparity
- High
- Moderate
- Low

**Absolute difference between the demographic groups was used for that metric.*



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Degrees of Disparity

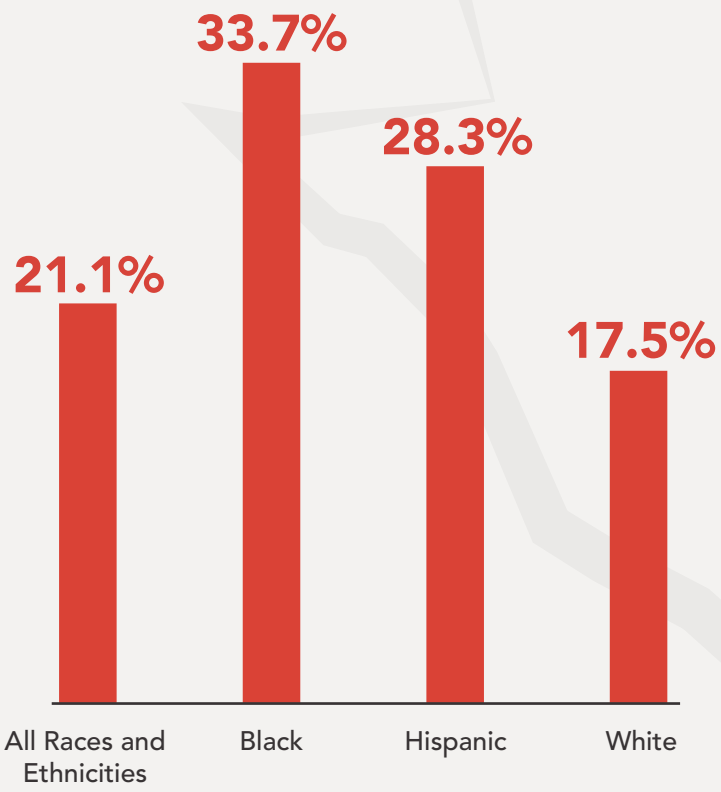
Each of the region's nine counties were scored across 35 different metrics, as shown in Table 8, based on the degree to which a mortgage lending disparity exists for that metric. Scores ranged from 9, indicating the highest degree of disparity, to 1, which indicated the lowest degree of disparity.

An average score was calculated, and the counties were then categorized as either having a high (7-9), moderate (4-6), or low (1-3) overall degree of disparity.

The purpose of these categorizations is to more clearly highlight the specific mortgage lending disparities unique to each county. This information can then be used to develop more nuanced, relevant, and effective policies geared towards addressing the specific inequities at the local and county levels.

Note: County-level reports for the region's eight other counties can be found by clicking the name of the county in the table header. Additionally, a report for Greater Philadelphia as a whole can be found at www.dvrpc.org/Products/21019.

Table 09: Average Denial Rates (2004–2019)



Source: LendingPatterns, 2004–2019.

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Conclusion

The degrees of disparity identified within Mercer County are some of the highest in the region based on the data presented. This is evidenced by the the following:

- Decline in applications is the second highest.
- Application decline is the highest for both Black and Hispanic applicants.
- For Black applicants, origination rates are the second lowest, and originations per capita are the lowest.
- Origination rates for Hispanic applicants are the third lowest, and the second lowest per capita.
- The disparities between origination rates for Black and White applicants, and Hispanic and White applicants, are both the second highest.
- The average denial rates for Black and Hispanic applicants, shown in Table 9, are the third highest.
- The disparities between denial rates for Black and White applicants, and Hispanic and White applicants, are both the third highest.

The greatest degree of disparity for Mercer County is with regards to denials due to Collateral. Across the board, denials due to Collateral are the highest in Mercer County at an average rate of 17.6 percent. However, denials due to Collateral in 2019 were at rates of 21.0 percent, 18.8 percent, and 18.9 percent for Black, Hispanic, and White applicants, respectively.

Sources

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ABSTRACT	This report provides an analysis of mortgage lending trends within Mercer County from 2004 to 2019, and presents findings of racial, ethnic, and geographic mortgage lending disparities that exist within Mercer County and across the region.

STAFF CONTACT

Spencer K. Gober, AICP
Senior Planner, Office of Community and Economic Development
(215) 238-2844
sgober@dvrpc.org

DELAWARE VALLEY dvrpc REGIONAL PLANNING COMMISSION

Delaware Valley Regional Planning Commission
190 N Independence Mall West, 8th Floor
Philadelphia, PA 19106-1520
Phone: (215) 592-1800
Fax: (215) 592-9125
Internet: www.dvrpc.org

DELAWARE VALLEY
dvrpc
REGIONAL
PLANNING COMMISSION

190 N Independence Mall West
8th Floor
Philadelphia, PA 19106-1520
215.592.1800 | fax: 215.592.9125
www.dvrpc.org

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