

REINVESTMENT ALERT

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PATTERNS OF FHA LENDING IN CHICAGO

If disparities in home loan originations and denials reveal that the color of money is not green, disparities in FHA and conventional loan originations seem to confirm it, based on lending patterns for the city of Chicago.

FHA loans were developed to make home ownership possible for low- and moderate-income families. The current maximum loan amount in the Chicago area of \$124,875 and the minimum down payment feature make FHA loans not only attractive but the only affordable financing for some families. Households that have low levels of savings relative to their income, and those that simply hesitate to invest all of their savings in one long-term investment will tend to be more attracted to this mortgage product. However, FHA does not appeal to everyone.

CHART 1

LIST OF COMMUNITIES WITH 40 PERCENT OR MORE FHA LOANS 1991

Community Areas	Number Of Units	Median Household Income	Black Population	Number of Loans Originated	Percent FHA
Humboldt Park	18,576	\$20,038	49.0%	480	50.6%
Austin	36,150	\$24,877	86.3%	961	42.0%
South Chicago	13,266	\$22,840	60.5%	257	41.2%
Roseland	17,259	\$28,601	98.5%	421	40.0%
West Pullman	11,347	\$31,699	93.6%	280	49.7%
West Englewood	13,747	\$22,112	98.1%	226	57.5%
Englewood	15,203	\$13,243	98.8%	143	58.7%

1991 Home Mortgage Disclosure Act (HMDA) data, coupled with 1987-1991 HUD records of Chicago FHA endorsements/defaults/foreclosures, reveal that FHA loans are more common in neighborhoods with a high percentage of African-American residents. "White" neighborhoods with similar median incomes and number of housing units, on the other hand, receive a much higher percentage of conventional loans.

In 1991, 30 of Chicago's 77 community areas received 25 percent or more of their loan originations as FHA loans. Twenty of these communities have median household incomes below the citywide level, which is \$26,301. These same communities are also predominantly African-American; 20 of the 30 areas have populations that are 90 percent or greater African-American. As noted in Chart 1, in seven of the communities where loan originations were greater than 100 loans, 40 percent or more of the loans were FHA.

Twenty-seven of Chicago's 77 community areas are predominantly African-American; that is, the population is at least 65 percent African-American. In 1991, 2,327 FHA loans were originated in these communities, representing 46 percent of the 5,093 FHA originations in the city of Chicago.

Twenty-five of the 77 community areas are predominantly white, meaning 65 percent of the population or more is white. In these communities, 1,070 loan originations, or 21 percent, were FHA.

Since FHA was developed to make homeownership accessible for low- and moderate-income families, it is reasonable to assume that the predominance of FHA loans in Chicago's African-American communities may be attributed to the income level of the residents of these communities. In fact, the average median household income of the 29 communities that are predominantly African-American is \$17,220 less than that of the 26 communities that are predominantly white.

However, a comparison of similar African-American and white communities suggests that income differences alone can not explain the predominance of FHA loans in African-American communities. Archer Heights, with a median household income of \$31,702, contains 3,435 housing units and a population of 9,227 people. Avalon Park has a median household income of \$34,622; it contains 4,138 housing units and a population of 11,638. These two communities differ in racial composition and in the percentage of FHA loan originations (see Chart 2). Archer Heights is 91 percent white and only ten percent of its 1991 loan originations were FHA. Avalon Park, on the other hand, is 98 percent African-American and 30 percent of its loan originations were FHA.

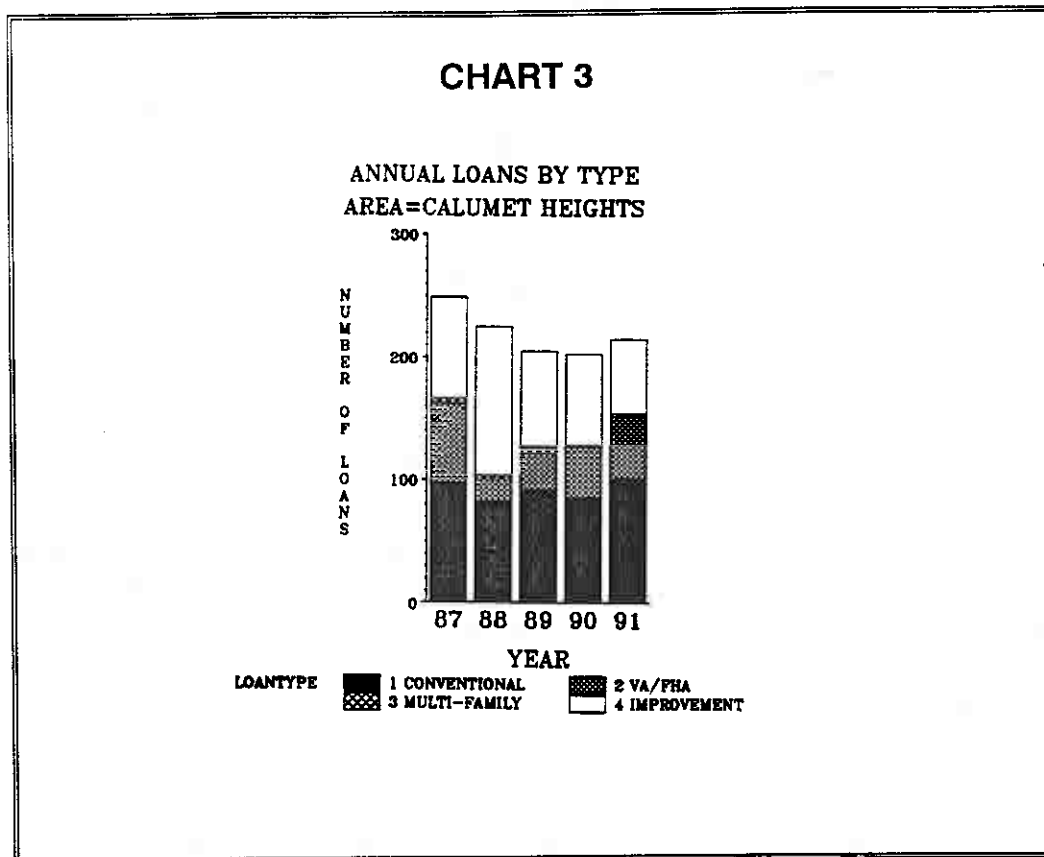
Calumet Heights is a community with a median household income of \$38,237 which is more than \$10,000 over the median household income for the city of Chicago, which is \$26,301. Yet, this community which is 91.7 percent

CHART 2		
COMPARISON OF ARCHER HEIGHTS AND AVALON PARK COMMUNITY AREAS		
	Archer Heights	Avalon Park
Number of Units	3,435	4,138
Median Household Income	\$31,702	\$34,622
Population	9,227	11,638
Racial Composition	90.9% white	98.2% black
Number of Loans Originated	148	145
Percent FHA	10%	29%

African-American, has a 31 percent FHA loan origination rate. White communities similar to Calumet Heights in size and income, such as Edison Park or Clearing, have significantly lower FHA rates. Edison Park and Clearing boast FHA rates of 1.1 percent and 9.7 percent, respectively, of 1991 loan originations. This trend continues throughout the 77 community areas: as the percentage of African-American residents increases so too does the rate of FHA loan originations.

A review of FHA loan originations over the five year period from 1987-1991 reveals the same racial discrepancies. While almost all of Chicago's 77 community areas experienced a decrease in FHA loans between 1987 and 1988, many community areas experienced an increase during the period from 1989 to 1991 and the majority of these communities were predominantly black.

On close examination it appears that the increase in FHA loan originations can not be attributed solely to income differences. For example, while the number of conventional loans in Calumet Heights fluctuated throughout the five year period from 1987 to 1991, FHA loan originations increased steadily from 1988 to 1991. At the same time, median household income increased from \$26,550 in 1988 to \$38,237 in 1991 (see Chart 3).



FHA is one of several home mortgage loan products. For many families, it is the only method for financing a home purchase. However, when a mortgage loan product is misused or steered to one segment of the population or a particular type of community area, it begins to weaken and destroy access to home ownership for those families that have limited alternatives. Misuse of FHA can also have a devastating effect on a neighborhood. Some neighborhoods experience high rates of defaults on FHA mortgages partly as a result of poor underwriting decisions. Home buyers, regardless of race, gender or income, should be entitled to choose from an array of mortgage products. The high percentage of FHA loans in African-American communities raises the question whether these communities have been designated eligible only for this loan product. FHA should be used as a loan product for families that are unable to afford conventional lending. It should not be used as a product reserved for one racial group.

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