

Geographic and Racial Variations in Mortgage Loan-to-Value Ratios

Nicholas Kacher

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- This report highlights regional variation in median Loan-to-Value (LTV) ratio, a key indicator of housing affordability volatility.
- Colorado’s median LTV ratio is below the national average, and has fallen since 2018.
- In Colorado and the US, Black and Hispanic buyers have substantially higher median LTV ratios than White and Asian buyers.

Amid concerns over a lack of affordable housing and a possible bubble in US housing prices, this report uses data from the Home Mortgage Disclosure Act to examine trends in the loan-to-value ratio of Colorado home mortgages. The loan-to-value (LTV) ratio compares the size of a mortgage against the assessed value of the home; a higher LTV ratio can signal a riskier purchase as it leaves the buyer with less equity in the home, and a greater risk of going ‘underwater,’ or owing more than the home is worth, if the home’s value declines. Accordingly, buyers with lower LTV are more likely to be approved for a mortgage, and to be offered a lower interest rate. More broadly, higher LTV ratios might make a region more susceptible to systemic risk in the event of a housing market decline. Figure 1 details LTV’s across all US counties.

Despite Colorado’s relatively high housing costs, the state’s 2020 median LTV ratio is below the national average, at 74.16 compared to 76.25 for the US as a whole. Perhaps surprisingly, the expensive Front Range and Metro Denver areas have some of Colorado’s lowest LTV ratios (see Figure 2). Moreover, Colorado’s median LTV has fallen in recent years, down from just shy of 80 in 2018.

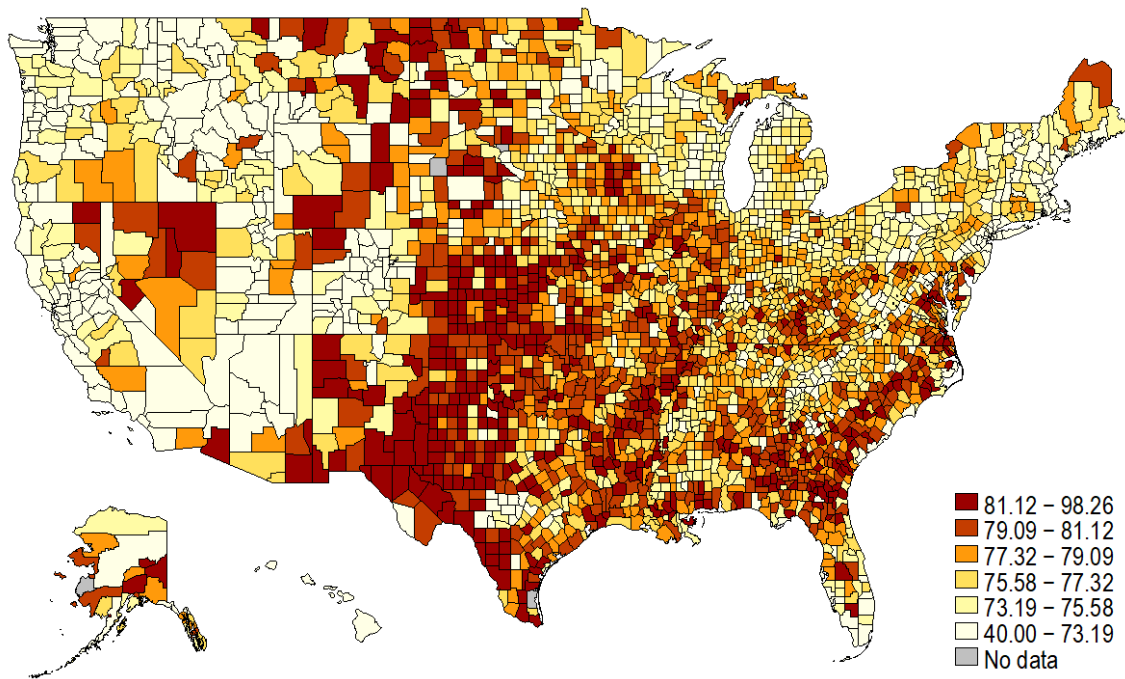


Figure 1: Median Loan-to-value ratio by county, 2020. Data: Federal Financial Institutions Examinations Council Home Mortgage Disclosure Act data. Excludes observations with LTV ratio >110.

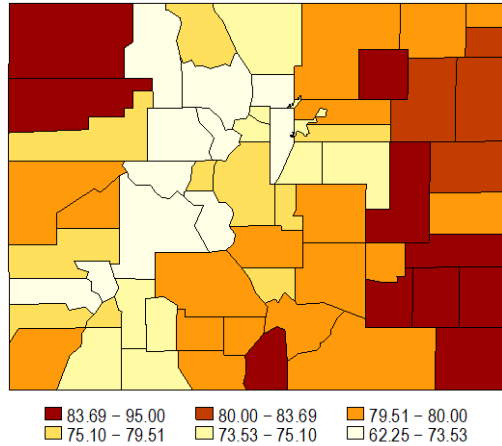


Figure 2: Median Loan-to-value ratio by county in Colorado, 2020. Data: Federal Financial Institutions Examinations Council Home Mortgage Disclosure Act data. Excludes observations with LTV ratio >110.

These data also reveal that loan-to-value ratios vary across racial and ethnic groups. Across the US, Black or African American buyers have a median LTV of 90, compared to 80 or less for all other racial and ethnic groups. In Colorado, this discrepancy is somewhat less pronounced, with a median LTV for Black or African American buyers of 83.2, compared to 74 for Asian and White buyers.

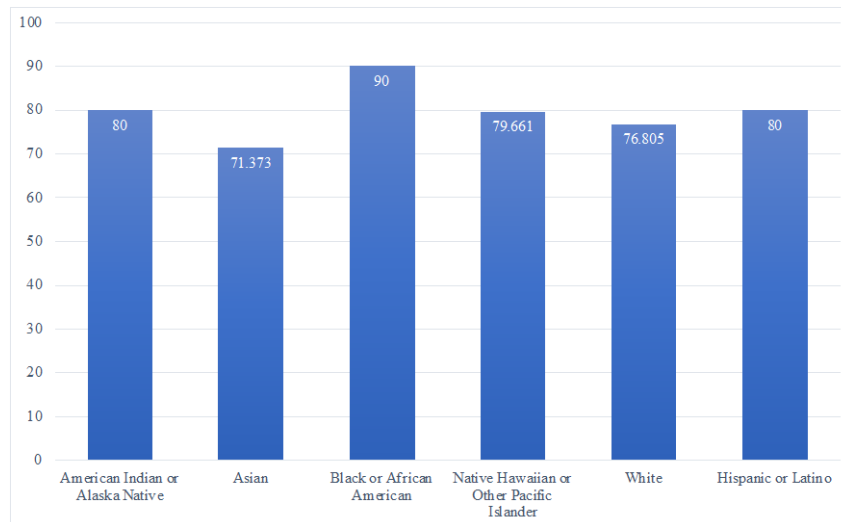


Figure 3: Median Loan-to-value ratio by racial and ethnic group of primary borrower, 2020. Data: Federal Financial Institutions Examinations Council Home Mortgage Disclosure Act data.

It should be noted that the 2020 data shown here doesn't capture the full extent of the housing boom, which continued to accelerate into the first half of 2022 until higher mortgage rates began to cool the housing market. It also bears noting that in 2020, the median home sale price was roughly \$450,000, according to the Colorado Association of Realtors. Purchasing a home at this price with a LTV ratio of 74, the state-wide median, requires roughly a \$117,000 down-payment. Prospective homebuyers without sufficient down-payment capital face either riskier mortgages, or find themselves restricted to the rental market, which, as detailed in prior REDI reports, is expensive relative to local earnings, especially in Metro Denver. So while the loan-to-value data presented here don't show a pronounced risk of a housing bubble in urban regions of Colorado, high LTV ratios among Black and Hispanic buyers and across much of the US underscore the unevenness of risk and affordability in the housing market.