WOODSTOCK INSTITUTE

Advancing Economic Justice and Racial Equity

August 2, 2024

Director Rohit Chopra
Consumer Financial Protection Bureau
1700 G St. NW
Washington, DC 20038

RE: Request for Information regarding Mortgage Closing Costs (Docket No. CFPB-2024-0021)

Dear Director Chopra,

Woodstock Institute appreciates the opportunity to comment on the Consumer Financial Protection Bureau's (CFPB) Request for Information (RFI) regarding junk fees in mortgage closing costs. Based in Chicago, Woodstock Institute advances economic justice and racial equity within financial systems through research and advocacy at the local, state, and national levels.

We applaud the CFPB's aim of ensuring that consumers are not unduly burdened while trying to buy a home, and that junk fees don't put homeownership out of reach for consumers. However, the RFI did not mention any potential disparate impact of these costs on consumers by race or ethnicity. As the Bureau moves forward in further analyzing this issue, we urge your staff to pay special attention to racial disparities in these costs and apply a racial equity lens to further analyses or proposals in this area.

The glaring racial and ethnic wealth gap in this country is well documented. Chicago and Illinois are microcosms of patterns we see throughout the country. Recently, the Institute on Race, Power and Political Economy, in partnership with the Chicago Community Trust, published the *Color of Wealth in Chicago* report. Their research found that while the median White family in the Chicago metro region has a net worth of $210,000, for the median Black family that number is $0; for a U.S.-born Mexican family median wealth is $40,500; for a foreign-born Mexican family it is $6,000; and for a Puerto Rican family it is $24,000.[1]

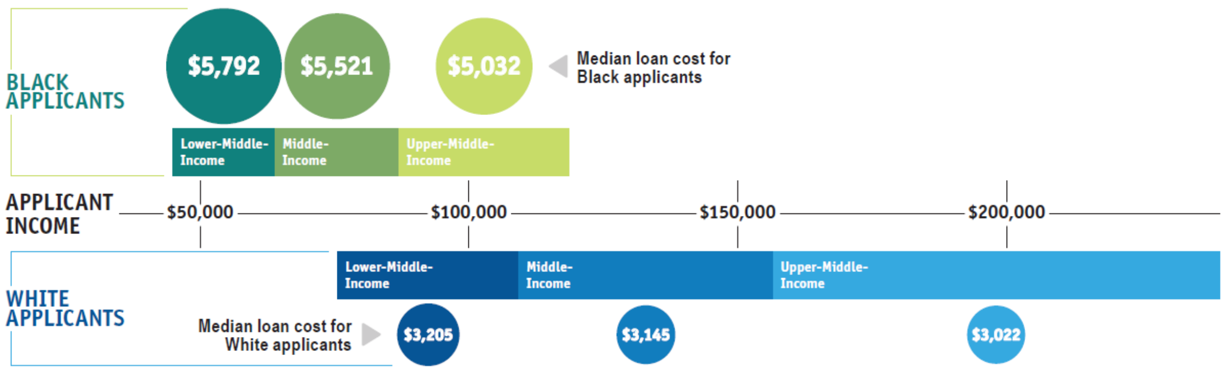
Closing the racial homeownership gap has been presented as a possible solution to closing the racial wealth gap. But similar disparities in mortgage costs make that strategy alone significantly

[1] Bhaskaran, Suparna, Fatimah Al-Khaldi, Ofronoma Biu, Elaine Chang, Chidera Ihejirika, Ana Patricia Muñoz, and Darrick Hamilton, *Color of Wealth in Chicago* (The New School Institute on Race, Power and Political Economy, 2024).

less productive (or even counterproductive).[2] For example, closing costs show marked disparities in price across racial categories, making buying a home more expensive for households of color.

In Figure 1, Woodstock examined the median loan costs in 2021 in the City of Chicago for Black and White mortgage applicants in the middle three quintiles for annual income, revealing racial disparities:[3]

Figure 1: Loan Costs for Middle-Income Applicants: Black applicants compared to White applicants, by relative income group[4]



The upper-middle-income Black quintile and the lower-middle-income White quintile both sit around $100,000 annual income, but their median loan costs are very different. The typical upper-middle-income Black applicant paid $5,032, while the typical lower-middle-income White applicant paid $3,205 in total loan costs.

Further analysis of Home Mortgage Disclosure Act (HMDA) data from 2018 to 2023 for the state of Illinois shows greater increases in median total loan costs for Black and Latine borrowers as compared to all borrowers:

Table 1: Average increase in median values from 2018-2023 for 1st lien, home purchase loans for 1-4 unit single family homes in Illinois[5]

	Median Total Loan Costs	Median Origination Fees	Median Loan Amount	Median Property Value
All	5.3%	7.8%	4.7%	5.6%
Black	7.1%	15.0%	5.3%	8.4%
Latine	6.4%	15.4%	4.7%	7.5%

[2] For more information on the nuances of the racial wealth gap, see Woodstock Institute's Reframing the Racial Wealth Gap series, especially the first article, "Homeownership Alone Will Not Close the Racial Wealth Gap: On Income Inequality and Systemic Differences."

[3] Neighborhood Housing Services of Chicago & Woodstock Institute, *Mortgage Access Initiative: Phase 1 Policy Recommendations* (2023), p.3. Authors' analysis of 2021 Home Mortgage Disclosure Act (HMDA) data on mortgage lending.

[4] Income distributions formed by Black and White applicants were separately divided into five pieces, each containing 20% of applicants. The "middle-income" groups shown are the three pieces that include the relative center (middle 60%) of the Black or White income distribution. Data source: 2021 HMDA Data on mortgage lending.

[5] Woodstock Institute analysis of 2018-2023 Home Mortgage Disclosure Act Data on mortgage lending.

Table 1 shows the average annual increase in each column over the period 2018-2023 for all single-family homebuyers in Illinois, just Black homebuyers, and just Latine homebuyers. While median total loan costs have increased slightly less than median property values, they've increased more than median loan amounts. Median origination fees have risen nearly twice as much for Black and Latine homebuyers as compared to the total population.

Table 2: Average difference in median values from 2018-2023 for 1st lien, home purchase loans for 1-4 unit single family homes in Illinois, as compared to the larger population within the state[6]

	Median Loan Costs	Median Origination Fees	Median Loan Amount	Median Property Value
Black	+29.6%	+14.5%	-9.8%	-17.8%
Latine	+19.4%	+14.7%	-3.0%	-11.2%

Table 2 shows the average difference in each column over the same period in Illinois, comparing Black homebuyers and Latine homebuyers to the population overall. For both Black and Latine homebuyers, median loan costs were higher than average, but property values were lower. For example, Black households typically paid nearly 30% more for their total loan costs than the average homebuyer and their properties were undervalued by almost 18% relative to other households.

Data also shows that median loan costs in general in Chicago have increased over the last five years. The Institute for Housing Studies at DePaul University analyzed HMDA data and found that median total loan costs for conventional loans in the City of Chicago grew from $4,934 in 2019 to $6,333 in 2023; the increase among FHA loans was even steeper, from $9,084 in 2019 to $13,134 in 2023.[7] Given the concentration of FHA loans among Black and Latine borrowers, this steep loan cost increase for FHA loans is all the more concerning from a racial equity standpoint.[8]

One closing cost whose future is uncertain is real estate agent and broker fees. News of the National Association of Realtors' (NAR) settlement agreement in March of this year shook the industry. Of particular importance here is the provision of the settlement agreement that ended the longstanding industry practice of a standard 5-6% brokers fee on home sales, to be split between the buyer's agent and the seller's agent and to be paid out of the seller's proceeds. Many stakeholders and policymakers are working to determine what future fee arrangements could look like, but if brokers fees end up falling to homebuyers to pay, that would add to total loan costs even further. We urge the CFPB and other industry stakeholders to monitor the issue of brokers fees and

[6] Ibid.
[7] Institute for Housing Studies at DePaul University, "Presentation: Recent house price and mortgage lending trends in Chicago" (2024). [Note: published report coming soon, see HousingStudies.org for more information.]
[8] Woodstock Institute, *Chicago Area Community Lending Fact Book: 2022 Data Edition* (Nov. 2023), pp. 4.

consider potential impacts on the affordability and accessibility of buying a home for low- and moderate-income consumers and consumers of color.

For homeownership to meaningfully contribute to closing the racial wealth gap and counteract the legacy of redlining, we must ensure that mortgages are not disproportionately more expensive for borrowers of color. The data show that closing costs are one area where borrowers of color are bearing a greater cost burden than White borrowers and the population at large. We appreciate the Bureau investigating this area further and soliciting input from the public. As you work to protect consumers and eliminate undue cost burdens on homebuyers, we urge you to apply a racial equity lens to your analysis, to promote a truly just and inclusive economy.

For any further questions or information, please contact Jane Doyle, Senior Regulatory Policy Associate at jdoyle@woodstockinst.org. Thank you for the opportunity to comment on this issue.