Homebuyer tax credit may explain surge in lending to less affluent

Studies: Minorities more likely to get subprime loans, end up in foreclosure

BY STEVE BERGSMAN , FRIDAY, JANUARY 13, 2012.
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I was scanning two recent studies of the U.S. housing market that focused on what some might call "vulnerable communities" or "vulnerable population groups," and at first I wasn't discerning any real surprises, but after closer scrutiny I came to realize one of the two reports had some real eye-opening statistics.

New homeowners via Shutterstock.com.

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The first study I looked at was produced by the Center for Responsible Lending and is called "**Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures**"; the second was done by New York University's Furman Center for Real Estate and Urban Policy, and was titled, "**Mortgage Lending in Vulnerable Communities: A closer look at HMDA (Home Mortgage Disclosure Act) 2009**."

The second study may seem dated, but it actually came out in 2011 and was using the most recent data, which happened to be from 2009.

Before I discuss the section of the one study that caught my eye, I'm going to first review the key points of the two, which involved race/ethnicity, and it's here where the two were closely aligned.

"Lost Ground" concluded the majority of people affected by foreclosures have been white families. However, borrowers of color are more than twice as likely to lose their homes as white households.

The reason: The higher rates reflect the fact that African Americans and Latinos were consistently more likely to receive high-risk loan products, even after accounting for income and credit status.

The reports reached two principal conclusions in this regard:

- African Americans and Latinos were much more likely to receive higher-interest-rate (subprime) loans and loans with features that are associated with higher foreclosure rates. These disparities were evident even comparing borrowers with the same credit-score ranges. In fact, the disparities were especially pronounced for borrowers with higher credit scores.
- Racial and ethnic disparities in foreclosure rates cannot be explained by income, as disparities persist even among higher-income groups. Overall, low- and moderate-income African Americans and middle- and higher-income

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Latinos have experienced the highest foreclosure rates.

"Lost Ground" really focused on racial disparities, but the Furman Center's "Vulnerable Communities" looked more at the economic grouping of low- and moderate-income, or LMI, borrowers -- although, "Vulnerable Communities" also touched on ethnicity.

One of the more interesting findings in "Vulnerable Communities": From 2008 to 2009, the number of home purchase loans issued to black LMI borrowers grew by only 7 percent compared with 25 percent for white, 38 percent for Hispanic and 44 percent for Asian borrowers. Even with this increase, lending to black LMI homebuyers was still down by half compared to 2004 and 2005.

While always startling to read about inherent biasness in mortgage issuance, even in this late date in American history with an African-American president, it's not really all that surprising.

The data that I found to be unusual was more economic-based and more racially neutral (some would argue "not really"), and was found in "Vulnerable Communities" with its focus on low- and moderate-income borrowers.

Here's the data point that caught my eye: While overall home purchase lending declined from 2008 to 2009, the number of home purchase mortgages issued to LMI borrowers in the U.S. metropolitan areas jumped by 26 percent from 2008 to 2009, the most recent year the data was made available through HMDA.

OK, we are in the heart of the recession, homebuying has dropped off a cliff, and the least likely economic group experienced a big leap forward in homebuying, assuming they got a mortgage because they intended to buy a home. Was that correct?

I called Josiah Madar, the research fellow at the Furman Center who did the study.

"We try not to be optimistic until we start analyzing data," Madar said, "but everyone was surprised when we first looked at it."

Well, any conclusions?

"We don't really have a perfect explanation that we can really test," Madar said. "However, we are pretty sure that the first homebuyer tax credit was why you saw that big increase."

Madar has done some updating with recent data to try to confirm this assertion, but the 2010 data from the HMDA was not recent enough, as the tax credit was still in place during the first part 2010.

"It wouldn't surprise us if we saw the number of loans to LMI homeowners dropped as the tax credit disappears," Madar said. "We certainly expect a decrease in absolute numbers as eventually fewer people were able to use the tax credit."

Another shocker: The annual number of loans issued to LMI homebuyers in the "sand states" (the recession-pummeled states of Florida, Arizona, Nevada and California) jumped by 71 percent in 2009, so that the total in 2009 was almost a full rebound to the number of loans issued to LMI purchasers in 2004.

Equally dramatic is the increased share of all home purchase loans in these states that went to LMI borrowers. Between 2004 and 2006, the LMI borrower share of all home purchases in the Sand States fell to 8 percent; in 2009, it climbed to 34 percent.

Madar was also a little fuzzy on the cause of this anomaly, but he gamely suggested a combination of tax credits and home prices.

"It could be that home prices fell in those states so much more than the other states (that) it brought home prices more in line to what people found affordable," he said. "Home prices had previously been so expensive (that) it resulted in pent-up demand by LMI homebuyers."

The tax credits also had something to do with it, Madar added. In fact, if readers come away with anything from his study, Madar would hope it's the conclusion that tax credits really do help LMI borrowers.

Steve Bergsman is a freelance writer in Arizona and author of several books. His *latest book, "**Growing Up Levittown: In a Time of Conformity, Controversy and Cultural Crisis**," is now available for sale on Amazon.com.*

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