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Unexpected Increase in Mortgage Lending to Low-And Moderate-Income Homebuyers in 2009, Despite Housing Market Turmoil

New study from NYU's Furman Center finds lending to LMI borrowers partially rebounded, particularly in higher income neighborhoods, even as overall lending fell nationwide

August 10, 2011—Mortgage lending to low- and moderate-income (LMI) borrowers in U.S. metro areas increased sharply in 2009, even as overall home purchase lending continued to sink in the wake of the foreclosure crisis, according to a new study by NYU's [Furman Center for Real Estate and Urban Policy](#), "[Mortgage Lending in Vulnerable Communities: A Closer Look at HMDA 2009.](#)"

The study finds that while overall home purchase lending declined from 2008 to 2009, the number of home purchase mortgages issued to LMI borrowers in U.S. metro areas jumped 26 percent from 2008 to 2009, the most recent year for which the data is available through the Home Mortgage Disclosure Act (HMDA). However, lending in LMI neighborhoods fell during the same time period, in part because more than three quarters of LMI homebuyers purchased their homes in either middle- or high-income neighborhoods. These findings suggest that low- and moderate-income potential homebuyers may have been especially likely to take advantage of the First Time Homebuyer Tax Credit in effect throughout 2009.

"Low- and moderate-income borrowers and neighborhoods have historically faced challenges accessing mortgage credit," said Furman Center research fellow Josiah Madar. "The availability of mortgage credit in these neighborhoods is crucial to the success of many federal and local stabilization programs, because a core goal is to return foreclosed homes to private, non-bank ownership."

"The rebound in lending to low- and moderate-income households in 2009 is striking, particularly in light of the overall tightening of underwriting standards since the onset of the foreclosure crisis, and the decline in lending in low- and moderate-income neighborhoods," said Vicki Been, faculty director of the Furman Center. "We are eager learn whether this pattern continued through 2010 when the data is released later this year."

Key findings:

- The number of mortgages issued to low- and moderate-income homebuyers in the U.S. overall increased by 26 percent in 2009, while overall home purchase lending decline by four percent.
 - Despite the increase, lending to LMI homebuyers in 2009 remained much lower than during the recent boom years of 2004 and 2005, especially lending to black LMI homebuyers.
 - The largest increase in home purchase mortgage lending to LMI borrowers occurred in metropolitan areas in the "Sand States" (Arizona, California, Florida and Nevada), where the increase was 71 percent in 2009. Home prices in these states fell more than in other areas of the country, which may have increased the housing stock available to LMI borrowers.

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- The number of home purchase loans issued in low-and moderate-income neighborhoods nationally declined by three percent between 2008 and 2009.
 - In contrast to prior years, a greater number of LMI borrowers purchased homes in high-income neighborhoods in 2009 than in low- and moderate-income neighborhoods.
 - In “Rust Belt” states, only 11 percent of all home purchase loans in 2009 were in LMI communities, while 46 percent of loans were issued to LMI borrowers.
 - LMI neighborhoods also experienced only small increases in mortgage refinancing in 2009, despite declining interest rates that fueled an 80 percent increase in mortgage refinancing nationally. The number of refinance loans increased by only 16 percent in these communities.

- Home purchase loan volume to black LMI borrowers nationally grew by only seven percent in 2009, compared to 25 percent for white, 38 percent for Hispanic and 44 percent for Asian borrowers.
 - Home purchase lending to black LMI borrowers was down by half in 2009 compared to 2004 and 2005.
 - While regional variation could explain some of the racial disparities in LMI lending patterns, black borrowers lagged in home purchase lending within the regions studied. In “Sand States,” the number of mortgages issued to black LMI homebuyers increased by 40 percent in 2009, compared to 61 percent for white, 100 percent for Hispanic and 84 percent for Asian homebuyers.

This analysis was originally conducted for a roundtable hosted by the Furman Center’s Institute for Affordable Housing Policy entitled “Navigating Uncertain Waters: Mortgage Lending in the Wake of the Great Recession.” A briefing paper and summary of the event can be found [here](#).

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About the Furman Center for Real Estate and Urban Policy

The Furman Center for Real Estate and Urban Policy is a joint center of the New York University School of Law and the Robert F. Wagner Graduate School of Public Service at NYU. Since its founding in 1995, the Furman Center has become the leading academic research center in New York City devoted to the public policy aspects of land use, real estate, and housing development. The Furman Center is dedicated to providing objective academic and empirical research on the legal and public policy issues involving land use, real estate, housing and urban affairs in the United States, with a particular focus on New York City.

About the Institute for Affordable Housing Policy

In February 2010, the Furman Center launched the [Institute for Affordable Housing Policy \(IAHP\)](#) to improve the effectiveness of affordable housing policies and programs by providing housing practitioners and policymakers with information about what’s working and what isn’t, and about promising new ideas and innovative practices. More information on the Furman Center and the IAHP can be found at: <http://furmancenter.org>