FURMAN CENTER FOR REAL ESTATE & URBAN POLICY
NEW YORK UNIVERSITY SCHOOL OF LAW ▪ WAGNER SCHOOL OF PUBLIC SERVICE
40 Washington Square South, Suite 314, New York, NY 10012 ▪ Tel: (212) 998 6713 ▪ www.furmancenter.nyu.edu

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FURMAN CENTER REPORT

Declining Credit & Growing Disparities: Key Findings from HMDA 2007

Each fall, the Federal Financial Institutions Examination Council (FFIEC) releases annual Home Mortgage Disclosure Act (HMDA) data, which reveal a great deal about the mortgage lending trends of the previous year. This year, the newly released HMDA data provide a critical new lens into a tumultuous mortgage market. In the wake of unprecedented federal intervention to preserve and stabilize Fannie Mae and Freddie Mac and their capacity to fund residential mortgage loans, the new data show that the availability of mortgage financing already had declined sharply in 2007. Specifically, in New York City, 14% fewer borrowers secured home purchase loans in 2007 than did in 2006, and in the nation as a whole, 25% fewer borrowers secured home purchase loans. New York saw a much bigger decline in home refinance loans, which dropped by 31% between 2006 and 2007, as compared to a 24% drop for the country as a whole.

In New York City, much of the decline in home purchase originations can be attributed to dramatic decreases in high cost[1] loan originations, and the City now has a much lower rate of high cost lending than the nation as a whole, and than many other large cities. Prime lending was relatively unaffected in New York City during this time period, while the rest of the country saw a decline of 14% in prime home purchase originations.

The tightening of credit has had starkly different impacts on New Yorkers of different backgrounds, with blacks and Hispanics seeing the largest drop in originations, in line with the national trend. In contrast, and contrary to the national pattern, the number of white borrowers obtaining home purchase financing in New York City barely decreased in 2007 and the number of Asian borrowers actually increased. As a result, the racial composition of homebuyers changed more dramatically between 2006 and 2007 in New York than in the country as whole.

The full impact of these trends remains to be seen. The following summary of key findings, however, will help to provide policy-makers with the context and background they need to develop responses to stabilize the mortgage lending industry, support neighborhoods in distress, and identify where to most effectively target limited resources.

[1] High cost loans are the most dependable measure of subprime lending in HMDA data. To be classified as high cost, a loan's interest rate must be more than 3 percentage points higher than federal treasury rates of like maturity.

Evidence of the Credit Crunch in New York City

In 2007, despite having a robust housing market and escaping many of the mortgage troubles that devastated many communities around the country, New York City nevertheless saw a dramatic decline in the number of mortgages issued, both for home purchases and refinancings. As shown in Table A, in New York City between 2006 and 2007, 14% fewer borrowers took out home purchase mortgages.[2] While dramatic, this drop was significantly lower than that experienced by the country as a whole, where 25% fewer borrowers took out home purchase mortgages. This drop in home purchase loan originations appears to have been driven not by higher rates of denied mortgage applications, but by far fewer applications being submitted. Denial rates stayed roughly the same between 2006 and 2007 in New York City (27% in 2006 and 28% in 2007) and in the country as a whole (19% in 2006 and 2007).[3] The number of home purchase applications submitted, however, fell by 10% in New York City and 24% nationally.

New York City residents taking out home purchase mortgages also were much less likely to use a piggyback loan in 2007 than in 2006. Piggyback loans—junior liens issued to a homebuyer at the same time as a first mortgage to bridge the gap between the purchase price and his or her first mortgage—generally result in less homeowner equity, higher leverage and, accordingly, increased vulnerability to foreclosure or a forced sale in the event of a market downturn or family financial emergency. In 2006, 28% of home purchase borrowers in New York City used a piggyback loan; by 2007, only 16% used a piggyback loan. Nationally, there also was a steep decline in piggyback lending: in 2006, 32% of home purchase borrowers relied on junior liens, but by 2007 that number was down to 19%.

The refinancing market saw an even greater decline in the number of loan originations. Between 2006 and 2007, the number of refinance loans[4] issued in New York City decreased by 31%, dropping to the lowest level since 2000. Unlike the trends in home purchase lending, the decline in refinance originations in New York City was even steeper than that experienced in the country as a whole, where refinancing originations fell by 24% between 2006 and 2007.

Table A: Changes in Lending Activity (2006–2007)

	U.S.	NEW YORK CITY
2006 Home Purchase Loan Originations	3,906,321	54,592
2007 Home Purchase Loan Originations	2,931,195	46,799
% Change in Home Purchase Loan Originations (2006–2007)	-25.0%	-14.3%
Denial Rate for Home Purchase Loans (2006)	18.6%	26.8%
Denial Rate for Home Purchase Loans (2007)	19.0%	27.9%
2006 Refinance Loan Originations	5,289,707	53,516
2007 Refinance Loan Originations	4,033,823	37,136
% Change in Refinance Loan Originations (2006–2007)	-23.7%	-30.6%

2 In this report "home purchase" loans, originations or financing refers to conventional, 1-4 family, owner-occupied, non-business related, home purchase loans and only includes first liens; piggyback loans are reported separately.

3 Denial rate is calculated out of all loan applications that were completed by the lending institution. Incomplete applications or those withdrawn by the applicant were not included.

4 In this report "refinance loans" refers to conventional, 1-4 family, owner occupied, non-business related, refinance loans (including refinancings of both first and junior liens).

These declines occurred despite a slight dip in mortgage interest rates.[5] Unlike home purchase originations, the decline in refinance originations appears to have been caused by both a drop in applications and an increase in denial rates. In New York City, refinance applications dropped by 19% and the denial rate increased from 37% in 2006 to 43% in 2007. Nationally, refinance applications dropped by 16% and the denial rate increased from 35% in 2006 to 39% in 2007.

It is unclear whether this steep reduction in refinance activity is a troubling or a positive development, and it very well might be both. On the one hand, it could signal that homeowners were less likely to become over-extended, particularly to the extent that refinance loans were high-cost. On the other hand, it could signal an unnecessary restriction of credit for responsible homeowners who would like to access the equity in their homes, or for homeowners who would like to refinance into a loan with more favorable terms.

As shown in Table B, all of New York City's boroughs saw a decrease in mortgage originations except for Manhattan, which actually saw a 12% increase in the number of borrowers securing home purchase mortgages (though refinancing originations in Manhattan did decline by 4%.) The Bronx saw the biggest decline—the number of borrowers originating home purchase loans dropped by 25%, and the number of homeowners securing refinance loans dropped by 33%.

Steep Drop Off in High Cost Lending; Relative Strength in the Prime Market

In 2006, nearly a quarter of all home purchase mortgage loans issued in New York City were high cost. As the market for securities backed by high cost and subprime loans disintegrated in 2007, the number of these riskier mortgage originations was more than cut in half. Specifically, between 2006 and 2007, New York saw a 63% decline in the number of high cost home purchase loans originated (from 12,517 to 4,593). As a result, the share of all home purchase loans that were high cost dropped from 23% in 2006 to just 10% in 2007. These numbers track the national trend very closely: nationally, the number of high cost home purchase loans originated dropped by 58%, and as a share of all home purchase mortgages originated, those that were high cost fell from 25% in 2006 to 14% in 2007.

Table B: Lending Activity Within New York City's Boroughs (2006–2007)

	% CHANGE IN HOME PURCHASE LOAN ORIGINATIONS	% CHANGE IN PRIME HOME PURCHASE LOAN ORIGINATIONS	% CHANGE IN HIGH COST HOME PURCHASE ORIGINATIONS	% OF HOME PURCHASE LOANS THAT ARE HIGH COST (2007)	% CHANGE IN REFINANCE LOAN ORIGINATIONS
NEW YORK CITY	-14.3%	0.3%	-63.3%	9.8%	-30.6%
BRONX	-24.9%	-5.4%	-62.0%	17.4%	-33.2%
BROOKLYN	-18.3%	-0.7%	-65.2%	11.6%	-33.2%
MANHATTAN	11.6%	11.3%	23.8%	2.2%	-3.5%
QUEENS	-21.5%	-4.2%	-66.1%	12.1%	-32.5%
STATEN ISLAND	-16.3%	-4.0%	-60.8%	10.2%	-31.0%

[5] Freddie Mac's Primary Mortgage Market Survey, for instance, reports that the average 30 year fixed rate mortgage carried an interest rate of 6.41% in 2006 and 6.34% in 2007 (see http://www.freddiemac.com/pmms/pmms30.htm).

The drop in high-cost home purchase loans appears to explain much of the overall decline in home purchase lending in New York City, where the number of prime home purchase loans issued stayed about the same from 2006 to 2007.[6] The continued strength of the prime market for home purchase loans appears to be unique to New York (and specifically to Manhattan) and, of the other cities we analyzed, San Francisco (see Table F). Nationally, the number of prime home purchase loans originated fell by 14% between 2006 and 2007.

High cost refinance lending also saw a big drop, albeit a smaller one than home purchase lending. Between 2006 and 2007, the number of high cost refinance mortgages issued in New York City dropped by 51% (from 17,606 to 8,654). High cost loans, consequently, made up a smaller share of all refinancing originations, decreasing from 33% of all refinance mortgages issued in 2006 to 23% in 2007. These trends are very similar to those across the country: nationwide, the number of high cost refinance loans issued dropped by 47%, and the share of refinancing loans issued that were high cost decreased from 30% in 2006 to 21% in 2007.

Unlike the decline in home purchase lending (which, in New York City, was almost entirely attributable to the drop in high cost lending), the total decline in refinance mortgages issued in New York City in 2007 was the result of both a drop in high cost lending, and a 21% decline in the number of prime loans issued between 2006 and 2007. It is perhaps surprising, given the relative strength of the New York City real estate market, that New York has seen a more substantial drop off in prime refinancing than the rest of the country, where the number of prime refinance loans dropped by 14% between 2006 and 2007. New York City's decline continues a downward trend in refinancings since the peak in 2003 when interest rates hit historic lows. Indeed, between 2004 and 2007, the number of prime refinance loans issued in New York City fell by 46%.

A Note of Caution Interpreting the 2007 HMDA Data

These new data may overstate the reduction in home purchase and refinance lending because the new data may not include loans issued in 2007 by lenders that went out of business before the deadline for reporting their lending activity to the regulatory authorities. This may have led to an underreporting of high cost loans in particular, many of which were originated by the very types of lending institutions (subprime specialists) that have gone out of business in large numbers during the real estate downturn, such as New Century Mortgage, Long Beach Mortgage and American Home Mortgage. Of the approximately 181 different mortgage originators that issued at least one high cost home purchase loan in New York City in 2006, approximately 29 (including 5 of the 20 most prolific high cost lenders in the City in 2006) had ceased operations by the end of 2007. While it is impossible to know the extent to which lender bankruptcies may have led to an undercounting of loans, we calculated how the numbers we've discussed above would change if the lenders that ceased operations in 2007 in fact made loans that were unreported. For that calculation, we conservatively assumed that the number of mortgages issued by the now bankrupt lenders in 2007 declined at the same rate from 2006 as the number of mortgages issued by surviving lenders. That calculation shows that even if the lenders that ceased operations made loans that were unreported, high cost home purchase loan originations in New York City still would have declined by more than 50%.

[6] When we refer to "prime" loans, we are referring to the share of all loans that were not classified as high cost. Other researchers sometimes refer to these loans as "lower cost."

Black and Hispanic Borrowers See Greatest Decline in Credit, and Highest Rates of High Cost Lending; Disparities in New York Far Greater Than the Rest of the Country

While New York City as a whole saw a large drop in mortgage originations from 2006 to 2007, a closer examination reveals that blacks and Hispanic borrowers bore the brunt of the decline. As shown in Table C, the number of black New Yorkers taking out home purchase mortgages dropped by 44% between 2006 and 2007 and the number of Hispanic New Yorkers taking out home purchase mortgages dropped by 34%. The number of white borrowers taking out home purchase mortgages, on the other hand, saw a much smaller decrease of 3% and the number of Asian New Yorkers taking out home purchase mortgages actually increased by 6% from 2006 to 2007. These trends do not appear to simply be the result of the subprime market drying up; the number of prime loans awarded to black and Hispanic borrowers fell by 23% and 15% respectively between 2006 and 2007. By contrast, the number of prime loans issued to white borrowers rose by 4% while the number issued to Asians increased by 18%.

Nationally, borrowers of all races saw a significant decline in the number of home purchase loans issued (both prime and high cost). The number of black and Hispanic borrowers saw the largest declines, 38% and 44%, respectively, but the numbers of white and Asian borrowers also saw big drops of 19% and 23% respectively. In other words, whites and Asians seeking home purchase loans in New York City defied the national trends, and were relatively unaffected by the steep decline in mortgage lending in 2007, while black and Hispanic New Yorkers saw the same staggering declines as the nation as a whole.

The disparities in the impacts the slowdown in mortgage originations has had on different groups has resulted in a considerable shift in the racial composition of home buyers obtaining financing in New York City. As shown in Table D, the share of borrowers who were white increased by 6 percentage

Table C: Changes in Home Purchase and Refinance Loan Activity, by Race (2006–2007)

	% Change in Home Purchase Originations		*% Change in Prime Home Purchase Originations*		*% Change in Refinance Originations*	
	U.S.	NEW YORK CITY	U.S.	NEW YORK CITY	U.S.	NEW YORK CITY
WHITE	-19.1%	-2.8%	-12.2%	3.8%	-20.2%	-25.4%
BLACK	-38.1%	-43.8%	-12.5%	-22.5%	-34.5%	-38.8%
HISPANIC	-43.7%	-34.4%	-25.9%	-15.4%	-33.5%	-35.0%
ASIAN	-22.6%	6.1%	-13.8%	18.2%	-22.4%	-21.2%
ALL BORROWERS	-25.0%	-14.3%	-13.7%	0.3%	-23.7%	-30.6%

Table D: Share of Home Purchase Originations by Race or Ethnicity

	U.S.			NEW YORK CITY		
	2006	*2007*	*Percentage Point Change*	*2006*	*2007*	*Percentage Point Change*
WHITE	69.1%	74.4%	5.3%	44.0%	49.9%	5.9%
BLACK	9.1%	7.5%	-1.6%	19.7%	12.9%	-6.8%
HISPANIC	15.5%	11.6%	-3.9%	16.4%	12.5%	-3.8%
ASIAN	6.0%	6.1%	0.2%	19.6%	24.2%	4.7%

Table E: Share of Home Purchase Loans that were High Cost, by Race (2006–2007)

	U.S.		New York City	
	2006	*2007*	*2006*	*2007*
WHITE	17.6%	10.5%	10.7%	4.6%
BLACK	53.0%	33.7%	50.7%	32.0%
HISPANIC	44.9%	27.6%	36.3%	17.8%
ASIAN	17.4%	8.0%	15.8%	6.2%

Table F: Cross-City Comparisons of Changes in Lending Activity (2006–2007)

	% CHANGE IN HOME PURCHASE LOAN ORIGINATIONS	% CHANGE IN PRIME HOME PURCHASE LOAN ORIGINATIONS	% CHANGE IN HIGH COST HOME PURCHASE ORIGINATIONS	% OF HOME PURCHASE LOANS THAT ARE HIGH COST (2007)	% CHANGE IN REFINANCE LOAN ORIGINATIONS
U.S.	-25.0%	-13.7%	-58.3%	14.0%	-23.7%
NEW YORK CITY	-14.3%	0.3%	-63.3%	9.8%	-30.6%
BOSTON	-19.5%	-7.1%	-64.1%	9.7%	-30.8%
CHICAGO	-26.9%	-11.4%	-59.6%	17.7%	-13.7%
CLEVELAND	-34.7%	-12.9%	-57.3%	32.1%	-39.6%
HOUSTON	-23.2%	-4.1%	-57.3%	20.0%	-14.7%
LOS ANGELES	-31.0%	-10.4%	-70.4%	14.7%	-29.9%
SAN FRANCISCO	-3.3%	2.4%	-54.1%	4.8%	-12.6%

points, to make up half of all home purchase borrowers, and the share that were Asian increased by 5 percentage points, to make up nearly a quarter of all home purchase borrowers (the greatest share Asians have held over the past decade). The share of home purchase borrowers who are black and Hispanic, on the other hand, saw a significant decline: in 2006, they collectively made up 36% of home purchase borrowers, but in 2007 their share fell to 26%.

These shifts likely indicate a reversal of the gains in minority homeownership we've seen over the past few years, but also raise questions as to whether those gains were unsustainable because of the high concentration of risky lending in the black and Hispanic communities. Nationally, we saw similar, though more subtle, trends: the share of home purchase borrowers who were white increased by 5 percentage points to make up 74% of all those obtaining home purchase financing in 2007, and the share that were black and Hispanic decreased by 2 and 4 percentage points, respectively.

Also of great concern, the black and Hispanic borrowers who took out loans continued to take out a disproportionate share of high cost loans, in New York City and nationally (see Table E). In New York City in 2007, 32% of home purchase loans issued to black borrowers were high cost and 18% of home purchase loans to Hispanics were high cost; compared to 5% and 6% of home purchase loans issued to whites and Asians, respectively. Nationally, 34% of home purchase loans issued to black borrowers were high cost, and 28% of those issued to Hispanic borrowers were high cost, compared to 11% and 8% of home purchase loans issued to whites and Asians. The disparities between black and white borrowers are greater in New York City than in the country as a whole, but the disparities between Hispanic and non-Hispanic white borrowers are greater across the nation than in the City.

How Does New York Compare to Other Big Cities?

The decline in lending activity in New York City was dramatic and surprising considering the relatively strong real estate market. But when compared to other large U.S. cities, New York has fared relatively well. As shown in Table F, the 14% drop in home purchase borrowers in NYC was far less than Chicago, Cleveland or L.A., which all saw declines ranging from 27% to 35%. Similarly, in the other cities we analyzed, high cost loans continued to constitute a relatively high percentage of all loans in 2007, while the rate of high cost lending in New York has now dropped well below the national average.

Looking at refinancing originations, on the other hand, New York appears to have seen larger declines than the other cities we analyzed: refinance loans dropped by nearly a third between 2006 and 2007, a much higher rate of decrease than in the country as a whole.

Looking Forward

The decline in home purchase lending between 2006 and 2007 was so steep and so swift that it is impossible to know precisely what the impacts will be, particularly in light of the considerable tumult that the markets have witnessed throughout 2008, and ambiguity surrounding the government's evolving response. On the one hand, the decline in lending activity means fewer homebuyers were making investments in neighborhoods and getting the opportunity to build wealth through home equity. It also means a hit to local revenues through lost transfer taxes and mortgage recording taxes. On the other hand, to the extent that the decline in lending reflects a decline in high cost or otherwise risky lending (which it does very closely in New York City), it could mean fewer homeowners facing foreclosure down the road.

Similarly, it is hard to know what the dramatic decline in refinancing activity means, although it likely represents a growing realization on the part of lenders and borrowers that the low equity/high leverage homeownership of recent years was not sustainable.

The national decline in mortgage originations had disparate impacts on borrowers of different races and ethnicities, but all groups took out fewer loans. In New York City, the decline in originations was almost entirely at the expense of black and Hispanic borrowers who saw big drops in both prime and high cost originations. This disparity has likely had a profound impact on who is buying homes. Similarly troubling, even with significant drops in the instances of high cost lending in 2007, black and Hispanic borrowers continued to take out a disproportionate share of these risky mortgages, in New York City and across the country.

Methodology

All figures in our analysis are based on conventional, owner-occupied, one to four family, non business-related loans. We excluded from our analysis any government sponsored loans (such as FHA insured or VA guaranteed), any loans for properties that the owner acknowledged he or she did not occupy as a principle dwelling, any loans for manufactured or multifamily housing (5 or more families), and any loans deemed to be business related (classified as those loans for which a lender reports an applicant's ethnicity, race and sex all as "not applicable"). Conventional, owner occupied, one to four family, non business-related loans made up over 89% of all loan applications in New York City in 2007.

HMDA requires lenders to report when the spread between the annual percentage rate (APR) of a loan and the rate of Treasury securities of comparable maturity is greater than three percentage points for first lien loans and five percentage points for junior lien loans. In this report, all loans with APRs above this threshold were referred to as high-cost loans.

Loans were assigned to a racial/ethnic group for purposes of our research based on the first reported race of the primary applicant. However, if the applicant reported his or her ethnicity as "Hispanic" the loan was classified as Hispanic, regardless of the applicant's reported race. When an applicant provided information to the lender via mail, internet or telephone and did not provide information on their race we assigned those loans to the "not reported" racial category. These loans were included in our national, city and borough level analyses, but were not included in our calculation of the racial share of new home purchase borrowers.

For each city that we analyzed, we created a subset of loan records for that city from the national data set. In each of these subsets, we included only those loans where the census tract associated with the loan is included within city boundaries. The list of census tracts for each city was obtained from the American Fact Finder.

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