

Executive Summary

This 2007 edition of the Furman Center's *State of New York City's Housing and Neighborhoods* (*State of the City*, for short) analyzes mortgage lending trends in the City since 1996, exploring how the population of home borrowers has shifted, and how new innovations like subprime and piggyback loans have transformed the home mortgage landscape in New York City. In addition, we provide our annual review of key neighborhood quality indicators for the City's five boroughs and 59 community districts. For the first time, we look at these indicators going back to 1990 to get a broader view of the changes that have taken place during what has been a very dynamic period for the City. We have added as well a review of how New Yorkers of different racial and ethnic backgrounds fare on key health, housing and demographic measures. This review goes beyond our usual neighborhood focus to examine how quality of life differs for the various racial and ethnic groups within the City.

The data presented in this book are among the most important indicators of neighborhood conditions of the more than 1,800 types of data available through our online data service—New York City Housing and Neighborhood Information System (NYCHANIS.com). Readers interested in statistical information beyond the key indicators provided in the *State of the City* are encouraged to explore NYCHANIS.com for additional data.

In last year's *State of the City*, we looked closely at homeownership trends in the City and documented how the affordability of housing has declined as home prices have outpaced relatively flat income growth. We reported that even though the homeownership rate in New York City increased modestly between 1990 and 2005, it was still less than half that in the U.S. as a whole, and was significantly lower than the rates in other large U.S. cities. Within New York City, homeownership rates widely vary among different racial and ethnic groups, ranging from just 16% for Hispanics to 44% for whites in 2005. Our research showed that out-of-pocket homeownership costs for lower income homeowners on average were not very different from the out-of-pocket housing costs of higher income homeowners with mortgages, meaning that low income homeowners were paying a much higher percentage of their incomes for their homes each month. We also revealed that as a result of steep climbs in the cost of housing, the percentage of all

housing sold that was affordable to residents earning the City's median household income declined from 11 percent to 5 percent between 2000 and 2005.

This year, we take a close look at the mortgage financing that makes homeownership a possibility for New York City homebuyers. If housing prices have been increasingly less affordable by standard measures, how have New York's homebuyers been pulling together enough financing to pay ever-higher home prices? Our analysis of mortgage lending trends uses eleven years of data provided by mortgage lenders under the Home Mortgage Disclosure Act (HMDA) to answer that question and others about New Yorkers' use of mortgage financing.

TRENDS IN MORTGAGE LENDING

How Has Mortgage Financing Changed in New York City?

Our analysis reveals that from 1996 to 2006, mortgages increased in number and size, and homebuyers increasingly relied on piggyback and subprime loans to come up with enough funding to pay ever-higher purchase prices.

- The number of home purchase loans issued each year rose dramatically after 2001, increasing by more than 75% between 2001 and 2006.

- Between 2004 and 2006, the percentage of homebuyers obtaining a first mortgage who also obtained a junior lien home purchase loan (known as a “piggyback” mortgage) increased from approximately 9% to 28%. Piggyback loans are most often used to finance some or all of the down payment, so this trend means that an increasing number of New Yorkers buying homes are putting very little of their own money down.
- The median first lien home purchase loan increased in size from \$320,000 in 2004 to \$384,000 in 2006 (in constant 2006 dollars), a 20% increase. The median piggyback mortgage increased by 31%, from \$75,000 to \$98,000 (in constant 2006 dollars) during this time.
- The percentage of new home purchase loans that were subprime increased dramatically in recent years, jumping from about 3% of all loans issued in 1996 to almost 25% of those issued in 2005, before receding slightly to 21% in 2006.
- In 2006, the percentage of new loans issued in New York City that were subprime was significantly higher than that for the U.S. as a whole and higher than most other high cost metropolitan areas around the country.
- The percentage of new refinance loans that were subprime peaked at 41% in 2000, but was higher than 27% for each year between 2004 and 2006.
- The increased size of first lien home purchase loans and the high number of piggyback mortgages and subprime loans mean that many New York City homeowners face a heightened risk of foreclosure if home prices fall. In addition to the negative consequences for individual homeowners, a spike in foreclosures could reverse growth in homeownership rates and threaten the stability of individual neighborhoods.

Do All New Yorkers Access the Same Mortgage Market?

Last year, we revealed significant racial disparities in homeownership rates in New York City. This year, we explore the racial disparities in mortgage lending trends and find them no less stark.

- Although more than 67% of New York City’s households are black or Hispanic, only about 35% of homes purchased with a mortgage were purchased by blacks and Hispanics.
- While fewer than 8% of first lien home purchase loans issued to white borrowers in 2006 were subprime, 37% and 24% of first lien home purchase loans issued to black and Hispanic borrowers, respectively, were subprime. We find similar disparities in the percentage of home purchase loans that were subprime for borrowers of each race in each of the years between 1996 and 2005.
- Only about 16% of white homebuyers receiving first lien mortgages in 2006 also received a piggyback loan, compared with 22% of Asian homebuyers, 46% of Hispanic homebuyers, and 51% of black homebuyers.
- Even though blacks and Hispanics together made up only about 31% of all homeowners, black and Hispanic borrowers obtained almost 51% of all refinance loans in 2006 and 69% of all subprime refinance loans. Because interest rates generally were not declining between 2004 and the end of 2006, many of these borrowers were likely refinancing to extract equity from their property rather than to lower their monthly payments.
- As a result of the concentration of risky lending—both subprime and piggyback loans—in New York City’s black and Hispanic communities, these populations (and predominantly black and Hispanic 1-4 family home neighborhoods) are likely to be disproportionately affected by the rising number of foreclosures New York City has seen and is likely to continue to see.

SIGNS OF CONTINUED PROGRESS IN THE CITY ON OTHER MEASURES

As reported in last year's *State of the City*, New York City appears to be headed in the right direction on many neighborhood quality measures. Our analysis of key neighborhood indicators for the City's boroughs and community districts reveals good news in terms of both recent trends and cumulative improvements since 1990.

- Felony crime rates continued to decline significantly in all five boroughs from 2005 to 2006. The cumulative drop in felony crime rates since 1990 has been dramatic, decreasing by more than 70%.
- Housing construction continued at a fast pace in 2006. The number of certificates of occupancy issued (19,312) and the number of units authorized by new building permits (33,434) were not only a big jump from 2005, but were also higher than in any year going back to 1990.
- The large number of homebuyers investing in their neighborhoods continued to push the homeownership rate up between 2005 and 2006, from 33% to 34%, despite the rise in foreclosures noted below.
- Housing of every type continued to appreciate in most of the City. While rising prices made it more difficult for New Yorkers to afford housing, it indicates that strong market interest in New York City housing continued through 2006 even as it began to wane in much of the U.S.
- The percentage of students performing at grade level in reading held steady in 2006 after increasing substantially since 2000, and the percentage of students performing at grade level in math jumped dramatically between 2005 to 2006, from about 53% to almost 67%.
- New elevated blood lead level diagnoses and asthma hospitalizations showed modest declines from 2005 to 2006 and are significantly lower than they were in the early '90s.

CHALLENGES FACING THE CITY

Not all the news in 2006 was good, of course. In addition to the high rates of subprime and piggyback borrowing described above, other data indicate that the foreclosure crisis is spreading to New York City. Given the correlation between subprime and high leverage borrowing and foreclosure, it is likely that the impact of the foreclosure crisis will deepen significantly if housing prices in the City fall. In addition, our first ever "State of New Yorkers" section, which reports a number of neighborhood quality indicators by race rather than geography, highlights the significant gulf between white and Asian residents on one hand, and black and Hispanic residents on the other. Among our troublesome findings are two especially difficult challenges for the City:

- Notices of foreclosure increased in every borough. In the Highbridge/Concourse community of the Bronx, for example, the number of notices of foreclosure per 1,000 1-4 family homes doubled, from an already high 20 in 2005 to 40.5 in 2006. Bedford Stuyvesant's notice of foreclosure rate rose from 35 per 1,000 1-4 family homes in 2005 to 52 in 2006, the highest in the City.
- Large racial disparities persist in homeownership rates, median income, poverty rates, student achievement, infant mortality, asthma hospitalizations and elevated blood lead level diagnoses, among other indicators, demonstrating how much the quality of life of New Yorkers varies by race and ethnicity.

As in previous editions, this year's *State of the City* presents vast amounts of data. Our hope is that our presentation and analysis make these data a useful tool for policy-makers, service-providers and City residents alike, and inform the ongoing debates about how the city, state and federal governments can continue to improve New York City's neighborhoods and the lives of their residents. The Furman Center welcomes feedback from readers regarding format and data changes reflected in this year's edition and suggestions for further improvements. Please send any comments to furmancenter@nyu.edu.