

# The State of Mortgage Lending in New York City

*Mortgage lending trends provide an important window into the housing market and the changing availability of credit, both of which have been profoundly affected by the foreclosure crisis and the Great Recession. This section looks at how the trends have differed across different racial groups and also looks at the differences across income levels: both the income of borrowers and the income of the neighborhoods where loans are originated.*

In this section we use Home Mortgage Disclosure Act (HMDA) data, the most comprehensive source of publicly available mortgage lending data, to analyze home purchase and refinance lending activity in New York City and the U.S. in 2010 (the most recent year data are available) and to describe trends going back to 2004.<sup>1</sup> Our analysis also looks at these data for low and moderate income (LMI) neighborhoods and borrowers in particular, and explores some of the racial disparities in recent trends.

### Modest Increase in Lending to New York City Homebuyers in 2010

In 2010, lenders originated about 27,000 first-lien home purchase mortgages to owners of one- to four-family homes, condos and cooperative apartments<sup>2</sup> in New York City, an 11 percent increase over 2009. As Table 1 shows, this increase interrupted what had been a steady downward trend in annual home purchase lending since 2005. The increase in 2010 was driven by activity in Manhattan and Brooklyn, where home purchase lending was up by 30 and 20 percent respectively. In Staten Island and Queens, lending actually declined slightly. Even in Manhattan and Brooklyn, however, the number of home purchase loans originated in 2010

<sup>1</sup> For additional analysis of recent HMDA data (though only through 2009), see our recent reports *Mortgage Lending During the Great Recession: HMDA 2009*, available at [http://furmancenter.org/files/publications/HMDA\\_2009\\_data\\_brief.pdf](http://furmancenter.org/files/publications/HMDA_2009_data_brief.pdf) and *Mortgage Lending to Vulnerable Communities: A Closer Look at HMDA 2009*, available at <http://furmancenter.org/files/publications/MortgageLendingtoVulnerableCommunitiesUpdatedFinal.pdf>.

<sup>2</sup> Unless otherwise noted, all HMDA data reported in this section are for mortgages issued for owner-occupancy of one- to four-family homes, condos and cooperative apartments. For additional information about our methodology see page 146.

remained lower than the number originated in 2007 and 2008, and much lower than the number originated in the housing boom years from 2004 to 2006.

In contrast to New York, the number of home purchase mortgages issued in the U.S. fell by 10 percent between 2009 and 2010. Despite this difference, however, the longer-term trends for the U.S. and for New York were very similar.

### Increased Lending to New York's Black, Hispanic and White Homebuyers

Figure A, which indexes the number of mortgages issued to homebuyers of different races and ethnicities to a 2004 base year, shows that the number of loans issued to white, black, and Hispanic borrowers all increased in 2010; lending to Asian homebuyers, in contrast, decreased slightly. Despite the jump in 2010, the number of home purchase loans issued to black and Hispanic New Yorkers was still only one-third the number issued in 2004. Lending to white and Asian homebuyers was also down substantially compared to 2004, but to a lesser extent than for blacks and Hispanics.

For the country as a whole, home purchase lending to white, Hispanic, black and Asian borrowers all decreased in 2010. As was the case in New York, lending to each group nationally was far lower than during the housing boom.

Table 1: Home Purchase Mortgage Originations\*

	2004	2005	2006	2007	2008	2009	2010	% Change 2009–10
Bronx	5,311	5,623	5,480	4,146	2,685	1,933	2,027	4.9%
Brooklyn	14,527	15,061	13,990	11,448	8,331	6,208	7,445	19.9%
Manhattan	12,450	10,612	10,398	11,601	8,344	4,813	6,272	30.3%
Queens	20,746	21,616	20,043	15,761	10,884	8,968	8,869	-1.1%
Staten Island	6,625	6,257	4,940	4,187	2,701	2,549	2,417	-5.2%
New York City	59,659	59,169	54,851	47,143	32,945	24,471	27,030	10.5%
United States	4,652,002	4,828,715	4,288,894	3,324,044	2,510,669	2,383,754	2,151,549	-9.7%

\*First-lien home purchase loans issued to owner-occupants of 1–4 family homes, condominiums and cooperative apartments.

## Large Jump in Lending in New York's LMI Neighborhoods in 2010

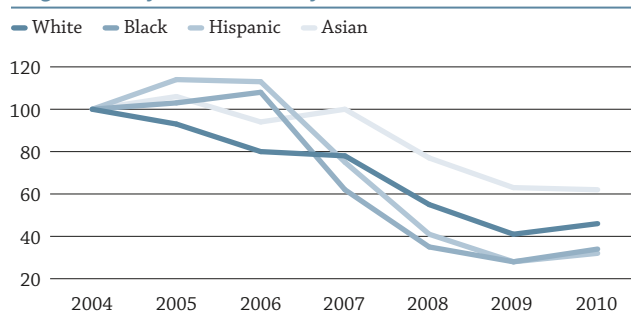
Much of the increase in home purchase lending in New York in 2010 took place in the city's LMI neighborhoods.<sup>3</sup> The number of homebuyers taking out mortgages in LMI neighborhoods rose from 4,957 in 2009 to 6,042 in 2010, a 22 percent increase. As Figure B shows, however, this level of home purchase lending was still far lower than during the housing boom. Home purchase lending in New York's LMI neighborhoods peaked in 2006 at 15,300 loans, before dropping precipitously every year from 2007 through 2009. As figure B shows, this decline was roughly in line with the drop in lending citywide over this period.

There is strikingly little overlap between the city's LMI neighborhoods (defined by the incomes of all residents living there, including renters) and the LMI borrowers who purchase homes in the city (defined by their individual incomes).<sup>4</sup> In 2010, only 35 percent of all LMI home purchase borrowers in New York purchased homes in LMI neighborhoods. Moreover, only 15 percent of all borrowers purchasing homes in LMI neighborhoods qualified as LMI. This explains how the lending trend for LMI borrowers can differ so much from that of LMI neighborhoods. As Figure B shows, lending to LMI homebuyers was almost unchanged in 2010 compared to 2009. This was despite the expiration of the federal First-Time Homebuyer Tax Credit program, which likely benefited many LMI homebuyers in particular. Lending to LMI homebuyers peaked in 2004 and began dropping sharply much earlier than lending to other borrowers. This trend reversed itself from 2007 to 2009, when lending to LMI homebuyers in the city increased, perhaps due to the creation of the tax credit program in 2008. As a result of this sustained rebound, the number of home purchase loans issued to LMI homebuyers in New York in 2010 was much closer to its pre-recession levels than was lending in LMI neighborhoods.

<sup>3</sup> We define LMI neighborhoods as census tracts with a median family income that, according to the 2000 Census, was less than 80 percent of the New York metropolitan area's median family income.

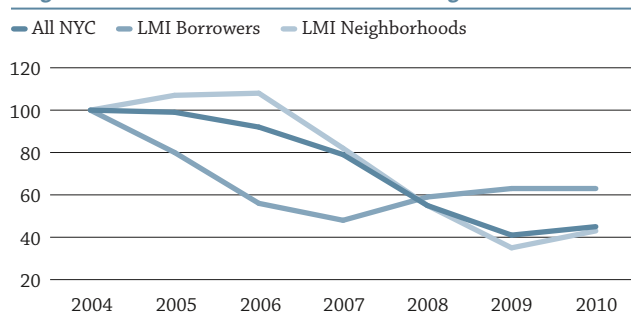
<sup>4</sup> We define LMI borrowers as those with an income reported by HMDA that is less than 80 percent of the New York City metropolitan area's median family income estimated that year by the U.S. Department of Housing and Urban Development.

**Figure A: Index of New York City Home Purchase Mortgage Originations by Race or Ethnicity\***



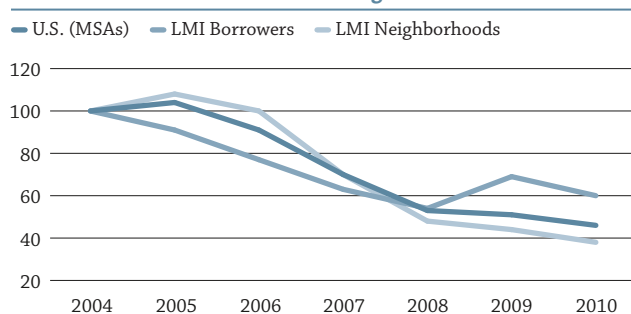
\*First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

**Figure B: Index of New York City Home Purchase Mortgage Originations\* to LMI Borrowers and in LMI Neighborhoods**



\*First-lien home purchase loans with reported borrower (census tract) income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

**Figure C: Index of Home Purchase Originations to U.S. LMI Borrowers and in U.S. LMI Neighborhoods\***



\*First-lien home purchase loans with reported borrower (census tract) income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

In the U.S. as a whole, the mortgage lending trend in LMI neighborhoods and to LMI borrowers in metropolitan areas was similar to New York, but with some conspicuous differences. As Figure C shows, in the U.S. as a whole, lending to LMI homebuyers did not increase until 2009, and then declined again in 2010, perhaps

because of the tax credit program’s expiration. In addition, in contrast to New York, the number of home purchase loans issued in U.S. LMI neighborhoods continued to decline in 2010 for the fourth consecutive year.

### Decline in Refinance Lending in New York and U.S.

The number of refinance mortgages issued to New York City homeowners declined by about 21 percent between 2009 and 2010, from about 33,500 to 26,500.<sup>5</sup> Table 2 shows that refinancing activity also declined nationally, as well as in all five boroughs of New York City. The reasons for the declines are not clear. Although interest rates were very low in 2010, they were not much lower than in 2009, when refinancing activity had increased significantly compared to the prior year.<sup>6</sup> Also, further price declines in many markets in 2010 may have reduced the number of homeowners with sufficient home equity to qualify for a new loan.

### Growing Role of FHA and VA Loans in New York City

Loans backed by the Federal Housing Administration (FHA), Veteran’s Administration (VA), Farm Services Administration and Rural Housing Services (which we refer to collectively as FHA/VA-backed) continued to make up a very large share of the mortgage market in

2010, as Figure D shows. As recently as 2007, less than one percent of all New York City home purchase mortgage originations were FHA/VA-backed. This share rose dramatically in 2008 and 2009, then in 2010 grew by almost five percentage points more, to 21 percent. Nationally, the share of all home purchase mortgages that were FHA/VA-backed was much higher than in New York in every year. The share also grew very rapidly in 2008 and again in 2009, to 38 percent and 54 percent respectively. As Figure D shows, the national FHA/VA share dropped slightly in 2010, but still these loans accounted for more than half of all home purchase mortgages.

In New York, the increase in the FHA/VA-backed share was particularly pronounced for black and Hispanic borrowers. Figure E shows that in 2010, two-thirds of all black home purchase borrowers in the city and almost half of all Hispanic home purchase borrowers took out an FHA/VA-backed loan compared to only 10 and 12 percent of Asian and white home purchase borrowers respectively. Nationally, the FHA/VA-backed share was larger than it was in New York for every group. The largest difference was for white homebuyers, more than half of whom relied on an FHA/VA-backed loan nationally, compared to only 12 percent in New York City. A complex set of reasons explains why a smaller share of New York homebuyers use FHA/VA-backed loans than do buyers in other cities. It is likely that more homebuyers in New York, who have higher incomes, on average, than other homebuyers, are able to make larger down payments and qualify for conventional prime loans. In addition, the share of mortgages in New York that are too large to be eligible for either FHA or VA backing, while small, is larger than in the rest of the country.

<sup>5</sup> Our analysis includes refinancings of both first-lien and junior-lien mortgages by owner occupants of one- to four-family homes, condos and cooperative apartments.

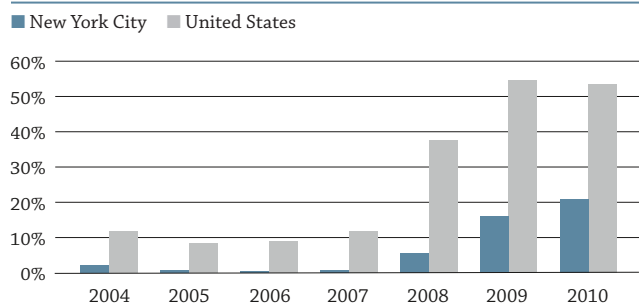
<sup>6</sup> According to the Freddie Mac Primary Mortgage Market Survey, the interest rate for a prime fixed rate 30-year mortgage in 2010 was, on average, 0.35 percentage points lower than in 2009. From 2008 to 2009, however, the average rate dropped by 0.99 percentage points, the largest year-to-year rate drop since 2000-2001.

**Table 2: Refinance Mortgage Originations\***

	2004	2005	2006	2007	2008	2009	2010	% Change 2009-10
<b>Bronx</b>	6,603	6,514	6,363	4,314	1,846	2,059	1,568	-23.8%
<b>Brooklyn</b>	18,014	17,393	16,090	10,852	5,102	7,884	5,831	-26.0%
<b>Manhattan</b>	6,930	5,384	3,672	3,546	3,859	11,243	9,169	-18.4%
<b>Queens</b>	23,852	22,595	20,744	14,125	6,316	8,626	6,871	-20.3%
<b>Staten Island</b>	8,411	7,717	7,282	5,089	2,387	3,732	3,067	-17.8%
<b>New York City</b>	63,810	59,603	54,151	37,926	19,510	33,544	26,506	-21.0%
<b>United States</b>	6,862,781	6,409,836	5,399,660	4,213,827	3,045,303	5,340,035	4,557,519	-14.7%

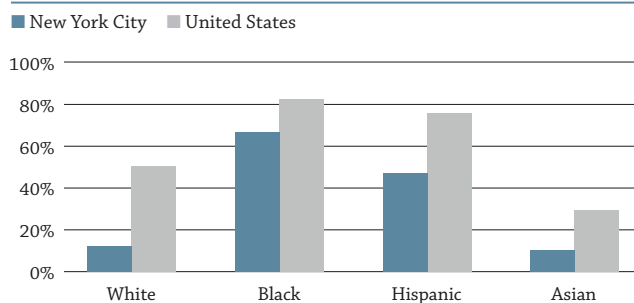
\*Refinance loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

**Figure D: FHA/VA Share of Home Purchase Mortgage Originations\***



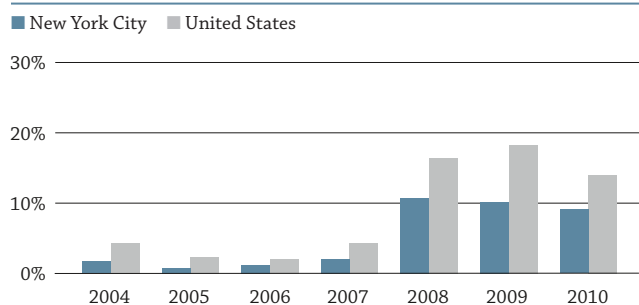
\*First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

**Figure E: FHA/VA Share of 2010 Home Purchase Mortgage Originations, by Race or Ethnicity\***



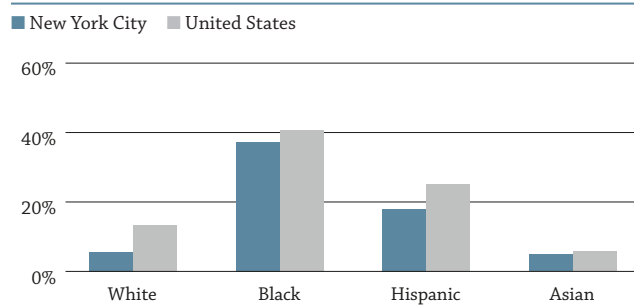
\*First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

**Figure F: FHA/VA Share of Refinance Mortgage Originations\***



\*First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

**Figure G: FHA/VA Share of 2010 Refinance Mortgage Originations\***



\*First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments.

Figure F shows that the FHA/VA share of refinance mortgages also grew rapidly after 2007, but in both New York and in the U.S., the increase was much smaller than for home purchase mortgages. From 2009 to 2010 this share declined in New York by one percentage point to nine percent, and nationally, it dropped by four percentage points to 14 percent. As was the case for home purchase mortgages, a much higher share of black and Hispanic refinance borrowers have relied on FHA/VA-backed loans in recent years than white and Asian refinance borrowers. Figure G compares the different racial groups to each other and also compares New York City to the country as a whole. The largest difference was for white refinance borrowers, who were less than half as likely to use FHA/VA-backed loans in New York City than the national average.

## Conclusion

Since 2006, the collapse of the housing market and financial crisis have led to sharp declines in home sales and tightened underwriting standards. As a result, home purchase lending, especially to black and Hispanic homebuyers and in LMI neighborhoods, has plummeted throughout the U.S. In New York City, however, the number of home purchase loans increased slightly in 2010, even in LMI neighborhoods, the first year-to-year increase in several years. However, even in New York, lending activity remained very low in 2010 compared to the early part of the decade, and it is not yet clear if the upward trend continued into 2011.

