The Foreclosure Crisis in NYC: Patterns, Origins, and Solutions

Ingrid Gould Ellen
Reasons for Rise in Foreclosures

- Risky underwriting
  - Over-leveraged borrowers
  - High debt to income ratios
- Economic downturn
  - Job losses among borrowers
- Fall in house prices
Share of Loan Originations that Were High Cost
United States and NYC, 2004 – 2007

Source: Home Mortgage Disclosure Act (HMDA)

NYU's Furman Center for Real Estate and Urban Policy
Piggyback Lending
Number of Home Purchase Loans Originated in NYC

Source: Home Mortgage Disclosure Act (HMDA)

NYU’s Furman Center for Real Estate and Urban Policy
Piggyback Lending in U.S.

- In 2006, 24 percent of borrowers nationally used a piggyback loan.
- Rates are higher in high-priced markets like NYC.
- More than a third (37.3 percent) of California home purchase borrowers also used a piggyback mortgage in 2006.
## Share of Home Purchase Loans that Were High Cost NYC by Race, 2006

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>New York City</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>17.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Black</td>
<td>53.0%</td>
<td>50.7%</td>
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<tr>
<td>Hispanic</td>
<td>44.9%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Asian</td>
<td>17.4%</td>
<td>15.8%</td>
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</tbody>
</table>

NYU’s Furman Center for Real Estate and Urban Policy
Racial Disparities in Piggyback Lending
New York City, 2006

- 51% of black home purchase borrowers obtained piggyback loans
- 46% of all Hispanic home purchase borrowers obtained piggyback loans
- 13% and 18% of white and Asian home purchase borrowers obtained piggyback loans
Unemployment Rate

Source: Current Population Survey, Local Area Unemployment Statistics
Housing Prices: Booms and Busts

Sources: NYC Department of Finance, Furman Center; Case-Shiller National Housing Price Index
Housing Prices: Booms and Busts

Sources: NYC Department of Finance, Furman Center; Case-Shiller National Housing Price Index
Single Family Homes Authorized by New Building Permits, NYC

Sources: NYC Department of Buildings, Furman Center
Note: Due to changes in data collection, one should not compare data collected before and after 2005.
Percentage of Loans Past Due
United States, by Loan Type

Source: Mortgage Bankers Association, National Delinquency Survey, 2008Q4
Percentage of Loans in Foreclosure
United States, by Loan Type

Source: Mortgage Bankers Association, National Delinquency Survey, 2008Q4
Percentage of Loans Entering Foreclosure
United States, 2004Q1 – 2008Q4

Source: Mortgage Bankers Association, National Delinquency Survey, 2008Q4
Percentage of 1-4 Family Properties Entering Foreclosure
New York City, 2004Q1 – 2009Q1

Source: Public Data Corporation, NYC Department of Finance, Furman Center
## Foreclosures in the US & NYC

### Lis Pendens Filings for 1 – 4 Family Buildings

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>Bronx</td>
<td>851</td>
<td>740</td>
<td>1106</td>
<td>1511</td>
<td>1468</td>
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<tr>
<td>Brooklyn</td>
<td>2143</td>
<td>2284</td>
<td>3132</td>
<td>4675</td>
<td>4369</td>
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<tr>
<td>Manhattan</td>
<td>50</td>
<td>30</td>
<td>34</td>
<td>41</td>
<td>68</td>
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<tr>
<td>Queens</td>
<td>2301</td>
<td>2306</td>
<td>3534</td>
<td>5833</td>
<td>5960</td>
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<tr>
<td>Staten Island</td>
<td>724</td>
<td>726</td>
<td>917</td>
<td>1171</td>
<td>1440</td>
</tr>
<tr>
<td>New York City</td>
<td>6,069</td>
<td>6,086</td>
<td>8,723</td>
<td>13,231</td>
<td>13,305</td>
</tr>
<tr>
<td>U.S. (all foreclosures &amp; property types)</td>
<td>-</td>
<td>885,462</td>
<td>1,259,098</td>
<td>2,203,295</td>
<td>3,157,806</td>
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</tbody>
</table>

*Source: Public Data Corporation and Realty Trac*
Foreclosures by Building Type
New York City, 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 2008Q4
Concentration of Foreclosures

- In 2008, 76% of City’s 15,000 foreclosure filings were located in Queens and Brooklyn.
- In 2008, 56% of foreclosure filings took place in just 10 of the city’s 59 community districts.
- Nine out of 10 of those community districts were over 85% non-white.
Foreclosures and Race in NYC

2007 Race Data (ACS)
2008 Foreclosures
(Public Data Corporation & NYC Dept of Finance)
Collateral Costs of Foreclosures

- Neighboring properties
  - The value of neighboring properties fall after foreclosure

- Renters
  - More than half of the 31,600 households living in properties receiving foreclosure notices in NYC in 2008 were renters.

- Taxpayers
  - Falling property values mean falling property tax revenues

- Children
  - Children may suffer from moves to new schools and communities
Federal Policy Responses

- Foreclosure prevention
  - Loan modifications and refinancing
- Foreclosure mitigation
  - Communities
  - Renters
- Regulatory restructuring and reform
Foreclosure Prevention: Modifications

- Carrots: Incentives for Loan Modifications
  - Subsidize cost reductions from 38 DTI to 31 DTI
  - Up front fee and ‘pay for success’ awards to servicers for current loans; bonus for modifying current loans
  - Rewards for borrowers able to stay current

- Sticks?
  - Judicial Modifications of Mortgages During Bankruptcy

- Legal Protections:
  - Establishing industry standards for modifications
Foreclosure Prevention: Refinancing

- Keeping mortgage rates low
- Provide access to low-cost refinancing for homeowners with conforming loans owned or guaranteed by Fannie Mae or Freddie Mac.
  - Current borrowers
  - Loans up to 105 LTV eligible
- New and improved Hope for Homeowners to provide refinancing option for other underwater borrowers.
Foreclosure Mitigation

- Communities
  - Neighborhood Stabilization Program
  - Incentives for Short Sales and Deed in Lieu

- Renters
  - Homelessness Prevention Fund
  - *Helping Families Save Their Homes Act of 2009 (S. 896)* now permits renters to stay in their apartments for term of lease and requires lenders to provide 90 days notice before eviction
Regulatory Reform

- Reforming GSEs
- Improving mortgage disclosures
- Rethinking mortgage regulation
  - Change broker incentives
  - Require brokers to be licensed
  - Require lenders to offer 30-year, fixed mortgage as default
  - Barney Frank: prevent lenders from securitizing the full value of their loan