

Home Run: Asian American homeowners and the subprime mortgage fallout

November 14, 2008

[Print](#) [Email](#) [Share](#)



It is hard to imagine that it has been over a year since the American housing market first showed signs of collapse. July 2007 seems like a distant memory, when the Dow Jones Industrial Average hit an all-time record high, a mere month before financial institutions first began recognizing record losses related to high-risk mortgage write-downs.

Since then, the subprime mortgage-lending crisis has crushed venerable companies and snaked its tendrils into every American home as it slammed the brakes on economic growth.

How have Asian Americans fared in this environment? While no household has been immune from the effects of the economic downturn, Asian Americans have fared relatively well.

Only 17 percent of the mortgage loans made to Asian Americans in 2006 were subprime loans, compared to 30 percent for whites, according to a study conducted earlier this year by the Asian Real Estate Association of America (AREAA). Asian American homebuyers also have the highest median household income and buy higher-priced homes than other ethnic demographics.

This evidence would suggest that Asian Americans were an attractive target for mortgage lenders, when subprime options were widespread and heavily marketed. Indeed, according to the AREAA, Asian American home ownership experienced breakneck growth from 2000 to 2005, leaping from 53 percent to 60 percent in five years. This growth rate outpaced that of every other ethnic group in the country over the same time period and would appear to signal a healthy appetite for home purchases at precisely the wrong time.

And yet, something changed in 2006. According to a 2007 report on minority lending by Compliance Technologies Inc. and Genworth Financial, home buying among Asian Americans dropped a stunning 21.5 percent in a single year. After five years of relentless buying, new home ownership among Asian Americans quickly slowed right before the housing market burst.

Was it precognition? Actually, it was much simpler.

“The Asian community, from a finance point of view, on average, is much more conservative,” said Jim Park, president and chief executive officer of AREAA, in an interview with the real estate finance magazine *Mortgage Banking* in April. “If you think about the 2006 book of business and the high number of [subprime] loans that made up the bulk of the originations in that year and on into 2007, it’s really no surprise that the loan volumes were down in the Asian community. Those loans just don’t match up well with this market.”

Asian Americans were seemingly not attracted to the low introductory rates offered with many subprime loans; they prefer large down payments, thereby reducing their loan amount and interest payments. They also prefer fixed-rate mortgages over the more exotic adjustable-rate mortgages that have landed so many American homeowners in hot water.

While conservative borrowing practices have contributed significantly to shielding Asian American homeowners from the subprime fallout, there are also other factors at work. Language barriers, for one, are a difficult gap to bridge between potential homebuyers and their lenders. There is also a lack of understanding in regard to the credit system used in the home-buying process.

For better or for worse, these obstacles have inadvertently provided protection in a hostile environment where new home ownership and mortgage-related borrowing have placed large segments of the American population at great financial risk.

“The Asian community wasn’t really a big part of the feeding frenzy we’ve seen in the industry over the past couple of years, and I think that is going to serve borrowers in this segment well,” Park told *Mortgage Banking*. “So I don’t see the drop in loan volumes last year as a bad thing.”

But considering the time delay on studies of this size and the volatile lending environment of the past year, data are constantly changing. A study released in late October by the Furman Center for Real Estate and Urban Policy at New York University showed the number of new mortgages extended to Asian Americans in the New York City area grew by 6 percent in 2007. Mortgage growth for non-Hispanic whites was flat over the same period and dropped for Hispanic and black borrowers. When controlling for subprime loans, the number of loans extended to Asian Americans grew by 18 percent. Yet, researchers expect a sharp drop across all demographics when 2008 data is released.

AREAA is still working hard to close the existing home-ownership gap for Asian Americans, which is its mission statement. The group, in collaboration with Bank of America, has developed a continuing education course for mortgage lenders and real estate agencies to ensure fair treatment for immigrant homebuyers, many of whom still face significant cultural and language barriers.

The most important thing that remains is to stay educated, and remember what a boon conservative-borrowing practices have proven to be.

Written by Rex Feng · Filed Under [National](#), [Real Estate](#)

