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FURMAN CENTER DATA BRIEF

Mortgage Lending to Vulnerable Communities: A Closer Look at HMDA 2009

In the wake of the foreclosure crisis, national policymakers are debating the future structure of the country's mortgage finance system and the role government should play in that system. The availability of credit to low- and moderate-income (LMI) communities, which have had difficulty accessing affordable mortgage credit in the past, is of great concern to many in this debate. In addition, local policymakers continue to implement federally-funded programs aimed at stabilizing neighborhoods identified as particularly vulnerable to the foreclosure crisis. The availability of mortgage credit in these neighborhoods is crucial to the success of these programs, because many aim to return foreclosed homes to sustainable, private, non-bank ownership.

This Data Brief analyzes home purchase and refinance mortgage lending data collected under the Home Mortgage Disclosure Act (HMDA), focusing on loans made to LMI homebuyers, loans made in LMI neighborhoods, and loans made in neighborhoods expected to be most vulnerable to destabilization as a result of the foreclosure crisis. In addition, we analyze lending patterns by borrower race and ethnicity. To uncover regional variations obscured by the nationwide numbers, we investigate these lending patterns both in the U.S. as a whole and in a selection of regional housing markets.

Key Findings

Across the U.S., the number of home purchase mortgages issued to LMI borrowers jumped by 26 percent in 2009, even as overall home purchase lending declined by four percent. Even so, lending to LMI borrowers remained far lower than during the housing boom.

The number of home purchase loans issued in LMI neighborhoods, on the other hand, declined by three percent between 2008 and 2009. In contrast to prior years, LMI borrowers in 2009 purchased more homes in high-income census tracts than in LMI tracts.

From 2008 to 2009, the number of home purchase loans issued to black LMI borrowers grew by only seven percent, compared to 25 percent for white, 38 percent for Hispanic, and 44 percent for Asian borrowers. Even with this increase, lending to black LMI homebuyers was still down by half compared to 2004 and 2005.

Despite an 80 percent increase in mortgage refinancings nationally between 2008 and 2009, in LMI neighborhoods, refinance lending increased by only 16 percent.

In census tracts eligible for federal neighborhood stabilization funds, home purchase lending declined in 2009, but at a rate similar to that in other tracts.

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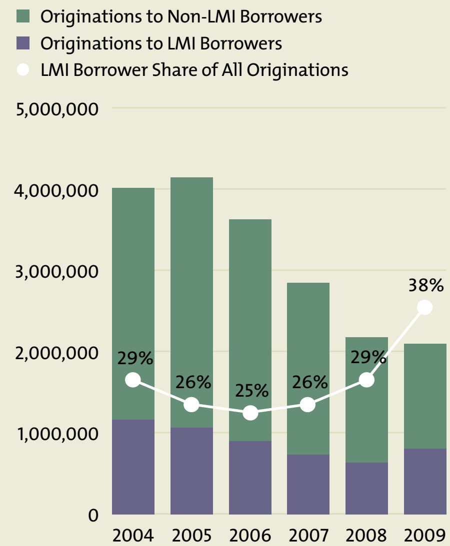
Lending to LMI Borrowers

Figure 1 illustrates the number of first-lien, home purchase mortgages issued each year between 2004 and 2009 low-and-moderate income (LMI) and other homebuyers for owner occupancy of a one- to four-family home, condominium or cooperative apartment in a metropolitan area.[1] We define LMI borrowers as those reporting an income on their mortgage application that is less than 80 percent of their metropolitan area's median family income in the year the loan was originated, a commonly used definition by researchers and policymakers.[2] Throughout this report, our analysis excludes loans originated outside of metropolitan areas, which made up only about ten percent of all home purchase mortgage originations reported under HMDA in each year of our analysis period.

Figure 1: Home Purchase Mortgage Originations,* by Borrower Income Level



**First-lien home purchase loans with reported borrower income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs.*

Lending to LMI Homebuyers Increased Significantly in 2009

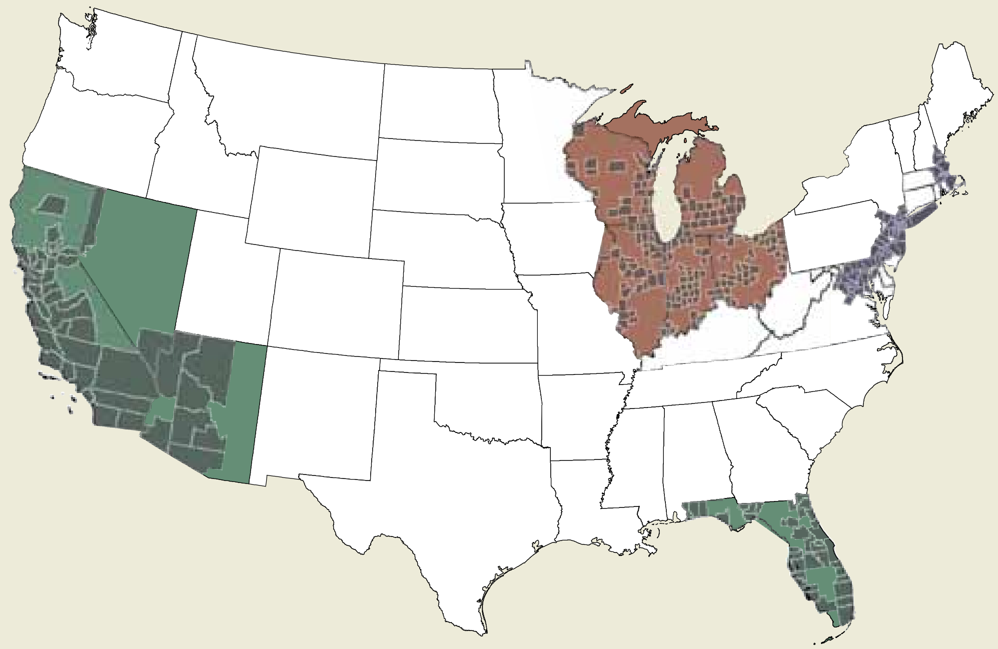
As Figure 1 shows, the number of home purchase loans issued to LMI homebuyers each year began declining significantly in 2005, before the beginning of the Great Recession and while total home purchase lending was still increasing. Lending to LMI homebuyers continued to drop in the following three years, and was 46 percent lower in 2008 than in 2004. In 2009, however, the number of home purchase loans issued to LMI borrowers across the country jumped by about 26 percent compared to 2008, even though the total number of home purchase mortgage originations once again declined. As a result, in 2009, loans to LMI homebuyers made up about 38 percent of all home purchase loan originations, a much higher share than in any of the previous five years. The availability of federal homebuyer tax credits throughout 2009 and declining home prices were likely key drivers of this partial rebound of lending to LMI homebuyers.[3] In addition, lending to LMI homebuyers relied heavily on loan products backed by the Federal Housing Administration and other government agencies, which also showed steep growth in 2009 (see inset box). However, even with this partial rebound, the number of home purchase loans made to LMI borrowers in 2009 remained far below lending levels just a few years earlier, in 2004 and 2005. Moreover, the temporary nature of the tax credits (they expired in the spring of 2010) suggests that this rebound may not have been sustained in 2010, a possibility we will investigate later this year when the 2010 HMDA data are released.

1 Unless otherwise stated, we use "home purchase loans" in this report to refer only to first-lien home purchase loans issued for owner occupancy of a one- to four-family home, condominium or cooperative apartment in a metropolitan area. For more information about HMDA data and our analysis, see the Methodology and Notes section.

2 Median family income in 2009 ranged from $32,000 in the McAllen-Edinburg-Pharr, Texas metro area to $102,500 in the San Jose-Sunnyvale-Santa Clara, California metro area, so the actual dollar threshold of our LMI definition varied widely between metro areas.

3 A full or partial tax credit was available to taxpayers earning up to $95,000 or $145,000, depending on when the purchase was completed ($170,000 or $245,000 for married couples filing jointly). However, the credit's value was capped at $8,000 for the first-time homebuyer tax credit and $6,500 for the non-first-time homebuyer credit, so the credits were more likely to sway homebuyers purchasing relatively less expensive homes. For more information, see http://www.irs.gov/newsroom/article/0,,id=206291,00.html.

Analysis Regions



Sand States
Counties in metropolitan areas

Metropolitan areas in the "Sand States" (Arizona, California, Florida and Nevada), which experienced particularly high levels of new housing construction and price growth in the years before the foreclosure crisis and severe foreclosure rates and housing prices declines since.

Rust Belt States
Counties in metropolitan areas

Metropolitan areas in the "Rust Belt States" (Illinois, Indiana, Michigan, Ohio and Wisconsin), which include urban areas that have suffered prolonged economic distress, higher-than-average foreclosure rates, and generally low housing values throughout much of this period.

Large Northeastern Metro Areas
Counties in metropolitan areas

The five largest metropolitan areas in the northeastern U.S. (the Baltimore, Boston, New York City, Philadelphia and Washington D.C. metro areas), which have relatively high housing prices and have experienced a comparatively low foreclosure rate from 2004 to 2009.

Home Purchase Lending to LMI Borrowers Increased Most in the "Sand States"

The overall trend of lending to LMI homebuyers conceals significant variations among different regional housing markets. Table A shows the number of home purchase mortgages issued to LMI borrowers each year from 2004 to 2009 in three distinct parts of the country (shown in the accompanying map) and New York City.[4]

As Table A shows, the annual number of loans issued to LMI homebuyers in the Sand States jumped by 71 percent in 2009, so that the total in 2009 was almost a full rebound to the number of loans issued to LMI purchasers in 2004. Equally dramatic is the increased share of all home purchase loans originated in these states that went to LMI homebuyers. Between 2004 and 2006, the LMI borrower share of all Sand State home purchase mortgages dropped from 16 percent to only 8 percent, far lower than the national LMI borrower share. In 2009, however, 34 percent of all home purchase mortgages in these four states were issued to LMI homebuyers, roughly in line with the share nationally. In contrast to the other regions we analyzed, in the Sand States, there was also a sharp increase in lending to LMI homebuyers between 2007 and 2008.

4 For additional information about mortgage trends in New York City, see the Furman Center's November 2010 data brief *Mortgage Lending During the Great Recession: HMDA 2009* at http://furmancenter.org/files/publications/HMDA_2009_data_brief.pdf.

Table A: Home Purchase Mortgage Originations to LMI Borrowers in U.S. Regions and New York City

First-lien home purchase loans with reported borrower income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs

	2004	2005	2006	2007	2008	2009	% Change, 2008-09
U.S.							
Originations to LMI borrowers	1,167,993	1,066,932	899,390	731,753	636,424	801,320	26%
LMI borrower share of all originations	29%	26%	25%	26%	29%	38%	
(LMI share of all families: 39%)*							
"Sand States" (AZ, CA, FL, NV)							
Originations to LMI borrowers	173,796	114,072	71,937	62,593	97,996	167,439	71%
LMI borrower share of all originations	16%	10%	8%	11%	21%	34%	
(LMI share of all families: 39%)*							
"Rust Belt" (OH, MI, IN, IL, WI)							
Originations to LMI borrowers	229,310	224,739	196,849	147,397	114,436	128,497	12%
LMI borrower share of all originations	38%	37%	38%	36%	38%	46%	
(LMI share of all families: 39%)*							
Large Northeastern Metro Areas							
Originations to LMI borrowers	129,510	104,900	83,319	76,416	70,838	87,084	23%
LMI borrower share of all originations	24%	20%	19%	21%	25%	33%	
(LMI share of all families: 40%)*							
New York City							
Originations to LMI borrowers	4,066	3,260	2,282	1,966	2,411	2,561	6%
LMI borrower share of all originations	7%	6%	4%	4%	7%	11%	
(LMI share of all families: 47%)*							

**Estimated share of all families earning less than 80% of area median family income based on data from the American Community Survey (2005–2009 rolling average).*

None of the other regions we analyzed experienced the explosive growth in home purchase lending to LMI borrowers in 2009 that occurred in the Sand States, but there was at least some increase in all regions. The increase in lending to LMI homebuyers was smaller in the Rust Belt states than in the country as a whole. The LMI borrower share of all home purchase loans in the Rust Belt was relatively high in every year of our analysis period, however, and in 2009, almost half of all home purchase mortgages originated in the Rust Belt states went to LMI homebuyers. In fact, in the Rust Belt states, the LMI share of homebuyers in 2009 was seven percentage points higher than the LMI share of all families in those states. In the Large Northeastern Metro Areas, the increase in home purchase lending to LMI borrowers in 2009 almost matched the increase in the U.S. as a whole, and the share of all borrowers who were LMI increased to about one third. In New York City, however, the number of loans issued to LMI homebuyers increased by only about six percent from 2008 to 2009. Such loans made up only 11 percent of the city's total home purchase lending market in 2009, despite the fact that 47 percent of all New York City families were LMI.

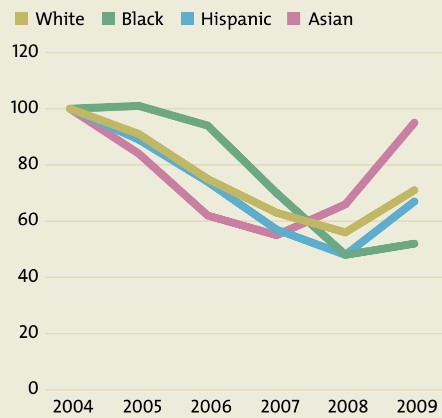
Increase in Home Purchase Lending to LMI Borrowers Showed Large Racial and Ethnic Disparities

The partial rebound in lending to LMI borrowers in 2009 was primarily driven by an increase in loans to white, Hispanic and

Asian homebuyers. Figure 2 indexes the number of home purchase mortgages issued each year to LMI borrowers of different races or ethnicities against a 2004 base year. This allows us to easily compare the trend for each group over this period. As Figure 2 shows, the annual number of home purchase loans issued to Asian LMI homebuyers jumped dramatically from 2008 to 2009 (by about 44 percent) and nearly returned to the same level as 2004. The number of home purchase loans issued to white and Hispanic LMI borrowers also showed large increases in 2009 (25 percent and 38 percent, respectively). In contrast, the number of home purchase loans issued to black LMI borrowers was only about seven percent higher in 2009 than in 2008 and, despite this increase, was still only half of its peak in 2005.

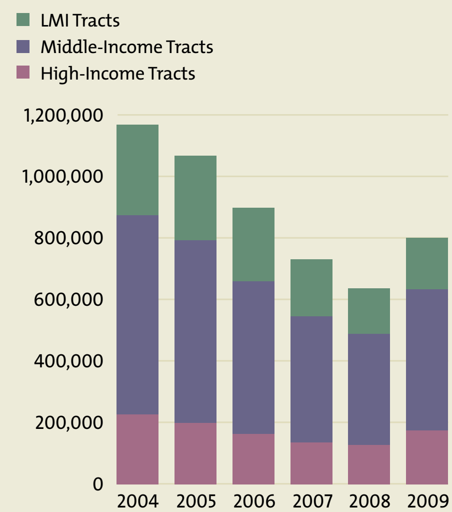
At least some of these disparities are likely due to the geographic distribution of borrowers of different races and ethnicities across the country. In every year of our data, the share of homebuyers making their purchases in the Sand States was much higher for Asians and Hispanics (both LMI and higher income) than for whites or blacks. If the housing markets or economic conditions of the Sand States contributed to the particularly large increase in home purchases by LMI borrowers in those states, we would expect a greater share of Asian and Hispanic homebuyers to benefit, because borrowers from these groups are disproportionately living and buying homes there. But while these differences in geographic distribution explain some of the story, we also find significant racial disparities in the change in home purchase lending to LMI borrowers within each of the regions we analyzed, with the increase to black borrowers consistently lagging the increases to white and Asian borrowers. For example, in the Sand States, the number of mortgages issued to black LMI homebuyers increased by 40 percent from 2008 to 2009, compared to increases of 61, 100 and 84 percent for white, Hispanic and Asian LMI homebuyers, respectively.

Figure 2: Index of Home Purchase Mortgage Originations* to LMI Borrowers of Different Races/Ethnicities (2004 base year)



First-lien home purchase loans with reported borrower income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs.

Figure 3: Home Purchase Mortgage Originations* to LMI Borrowers, by Location of Purchased Home



First-lien home purchase loans with reported borrower income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs.

Most LMI Homebuyers Purchased Homes Located in Relatively Higher-Income Neighborhoods

From 2004 to 2009, a large majority of LMI home purchase borrowers bought homes in middle- and high-income neighborhoods rather than in the lowest-income census tracts. Figure 3 shows the total number of home purchase loans issued each year to

LMI borrowers, broken out by the income level of the neighborhood where the purchased home was located. We define three categories of neighborhoods using data from the 2000 Census: LMI (census tracts in which the median family income is less than 80 percent of the metropolitan area's median), middle-income (between 80 and 120 percent of the area's median), and high-income (more than 120 percent of the area's median).[5] As Figure 3 illustrates, about three quarters of LMI borrowers purchased a home in either middle-income or high-income neighborhoods throughout our study period.

From 2008 to 2009, the number of LMI borrowers buying homes in high-income tracts grew by 36 percent, compared to increases of 27 percent in middle-income tracts and only 14 percent in LMI tracts. As a result, in 2009, for the first time in our study period, across the nation as a whole, more LMI borrowers purchased homes in high-income tracts than in LMI tracts.

The large increase in the number of LMI borrowers purchasing homes in non-LMI neighborhoods could be a sign that many relatively low-income families were able to take advantage of the homebuyer tax credits and/or falling prices to move into neighborhoods with higher incomes than they might have been able to choose in in the previous three years. Even after the large increase in 2009, however, the number of LMI borrowers purchasing homes in non-LMI neighborhoods remained lower than in 2004, 2005 and 2006.

The number of LMI borrowers purchasing homes in high-income tracts also increased significantly from 2008 to 2009 in each of the individual regions we analyzed. Despite that increase, however, LMI borrowers in 2009 continued to purchase more homes in LMI tracts than in high income tracts in the Sand States, the Large Northeastern Metro Areas, and New York City.

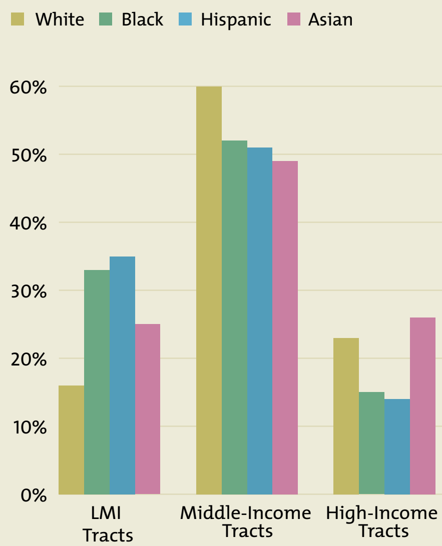
5 Of all census tracts in metropolitan areas, about 31 percent are LMI, 44 percent are middle income and 25 percent are high income.

The Impact of "Low-Doc" and "No-Doc" Loans on Borrower Income Data

During the peak of the housing boom, for a significant portion of mortgage originations, lenders did not require applicants to provide customary documentation of income, such as tax returns or pay stubs. For example, a team analyzing securitized mortgages originated between 2003 and 2007 found that 35 percent of the subprime loans and 71 percent of the "Alt-A" loans in their sample had low or no documentation of borrower financial information.* As a result, it is likely that misrepresentation or fraud by borrowers, mortgage brokers, and others inflated the income for some number of mortgage originations reported to HMDA in this period. Because of this, some of the loans that we classify as issued to relatively higher-income borrowers during this time might have in fact been made to LMI borrowers and some of the borrower income trends we have identified may be overstated. However, the non-prime lending industry and its lax documentation practices ground to halt in 2007, so our observed increase in lending to LMI borrowers from 2008 to 2009 is unlikely to be biased by these income misrepresentations.

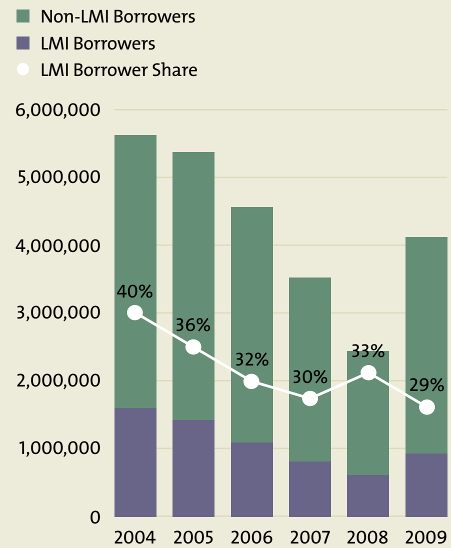
*Mayer, C., Pence, K. & Sherlund, S. M. (2009). The Rise in Mortgage Defaults. *Journal of Economic Perspectives*, 23(1), 27-50.

Figure 4: Distribution of LMI Home Purchase Mortgage Originations* Across Census Tract Income Level, 2009



**First-lien home purchase loans with reported borrower income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs.*

Figure 5: Refinance Mortgage Originations,* by Borrower Income Level



**Refinance loans with reported borrower income issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs.*

Figure 4 shows that the income levels of the tracts in which LMI borrowers purchased homes was not the same for borrowers of different races and ethnicities. In 2009, about 26 percent of all Asian and 23 percent of white LMI homebuyers purchased homes in high-income neighborhoods, compared to only 15 percent and 14 percent of black and Hispanic LMI homebuyers, respectively. In contrast, only 16 percent of white LMI homebuyers bought homes in LMI tracts, compared to 25 percent of Asian, 33 percent of black, and 35 percent of Hispanic LMI homebuyers.

LMI Homeowners Participate in Jump in Refinance Lending

From 2008 to 2009, interest rates declined, and there was a large increase nationally in refinance mortgage originations. Figure 5 shows that this jump was the result of increased refinancing activity by both LMI homeowners and relatively higher income homeowners. The number of refinance mortgages issued to LMI homeowners increased by 52 percent nationally in 2009, and by more than 40 percent in each of the regions we analyzed, though each increase was smaller than the 80 percent jump for all borrowers nationwide.[6]

Lending in LMI Neighborhoods

Figure 6 (on page 8) shows the number of home purchase mortgages originated each year between 2004 and 2009 to borrowers of any income, broken down according to whether the loan was issued in an LMI census tract. As before, we define as LMI those tracts that in 2000 had a median family income less than 80 percent of their metropolitan area median family income, a commonly used definition for LMI neighborhoods. See the Methodology and Notes section for demographic information about LMI tracts.

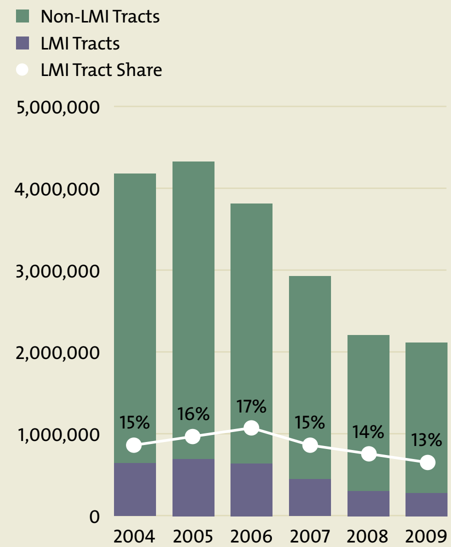
6 Figure 5 reports only those refinancing mortgages with borrower income information provided in HMDA. Because the number and share of refinancing originations without borrower income information was unusually high in 2009, particularly for black borrowers, we are unable to analyze the refinancing trend for LMI borrowers by race and ethnicity. See the Notes and Methodology for more information.

Lending in LMI Neighborhoods Lagged Higher Income Areas

As Figure 6 shows, the number of home purchase mortgages issued in LMI tracts did not rebound at all in 2009, but instead declined for the fourth straight year. In fact, the volume of mortgages issued in LMI tracts actually declined at a faster rate than mortgages issued in other tracts. As a result, LMI tracts, which contain about 18 percent of all U.S. owner-occupied housing units, accounted for only 13 percent of all home purchase originations in 2009, down from a high of 17 percent in 2006.

As Table B shows, consistent with the national trend, the number of home purchase mortgages originated in LMI tracts decreased in each of the individual regions we analyzed, except for the Sand States, where there was a seven percent increase.

Figure 6: Home Purchase Mortgage Originations* in LMI and Non-LMI Census Tracts



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

Table B: Home Purchase Mortgage Originations in LMI Census Tracts in U.S. Regions and New York City
First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs

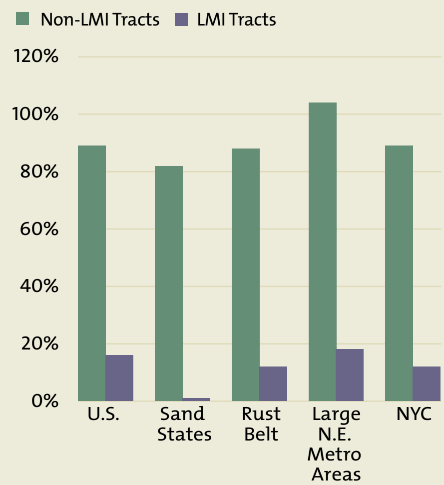
	2004	2005	2006	2007	2008	2009	% Change, 2008-09
U.S.							
Originations in LMI tracts	645,038	697,094	643,091	450,815	307,913	284,113	-8%
LMI tract share of all originations	15%	16%	17%	15%	14%	13%	
*(LMI tract share of all owner occupied housing units: 18%)**							
"Sand States" (AZ, CA, FL, NV)							
Originations in LMI tracts	200,438	223,166	188,491	104,668	75,006	80,464	7%
LMI tract share of all originations	18%	19%	20%	18%	16%	16%	
*(LMI tract share of all owner occupied housing units: 19%)**							
"Rust Belt" (OH, MI, IN, IL, WI)							
Originations in LMI tracts	92,762	97,212	88,704	59,831	36,719	30,088	-18%
LMI tract share of all originations	15%	16%	16%	14%	12%	11%	
*(LMI tract share of all owner occupied housing units: 18%)**							
Large Northeastern Metro Areas							
Originations in LMI tracts	102,099	108,792	101,895	73,899	51,382	44,726	-13%
LMI tract share of all originations	18%	20%	22%	20%	18%	17%	
*(LMI tract share of all owner occupied housing units: 17%)**							
New York City							
Originations in LMI tracts	14,114	15,059	15,288	11,550	7,828	4,957	-37%
LMI tract share of all originations	24%	25%	28%	25%	24%	20%	
*(LMI tract share of all owner occupied housing units: 21%)**							

**Estimated share of all owner-occupied housing units that is located in LMI tracts, based on data from the 2000 Census.*

In general there was no obvious relationship in any of the individual regions between the share of home purchase loans issued to LMI homebuyers (shown on Table A) and the share of borrowers (of any income) buying homes in LMI census tracts. In 2009, although 46 percent of all home purchase loans made in the Rust Belt went to LMI borrowers, only 11 percent of all home purchase mortgages were used to buy homes in LMI neighborhoods. In the Large Northeastern Metro Areas, the difference was narrower, but the LMI borrower share was again significantly higher than the LMI tract share: 33 percent compared to 17 percent. The relationship was the reverse in New York City, where only 11 percent of home purchase mortgages went to LMI borrowers (the lowest of our regions), but about 20 percent of all home purchase mortgages were used by borrowers to buy homes in LMI neighborhoods in 2009.

Within LMI neighborhoods, the share of all home purchase loan originations issued to LMI homebuyers rose rapidly in recent years. In 2005 and 2006, during the height of the housing market, LMI borrowers accounted for only about 40 percent of all the mortgages used to buy homes in LMI neighborhoods, compared to 60 percent for non-LMI borrowers. In 2009, the ratio flipped, with LMI borrowers accounting for about 59 percent of all home purchase mortgages. This shift was the result of the sudden jump in originations to LMI borrowers in 2009, but also a steady decline in the number of home purchase mortgages issued to non-LMI borrowers in these tracts in every year after 2005. The shift was particularly pronounced in the Sand States, where from 2006 to 2009, the LMI borrower share of all home purchase loans issued in LMI neighborhoods increased from just 14 percent to 55 percent. As noted in the inset box, however, some of this shift may have been due to large numbers of "low-doc" and "no-doc" loans originated during the housing boom.

Figure 7: Percentage Change in Refinance Mortgage Originations,* 2008 to 2009, in LMI and Non-LMI Tracts



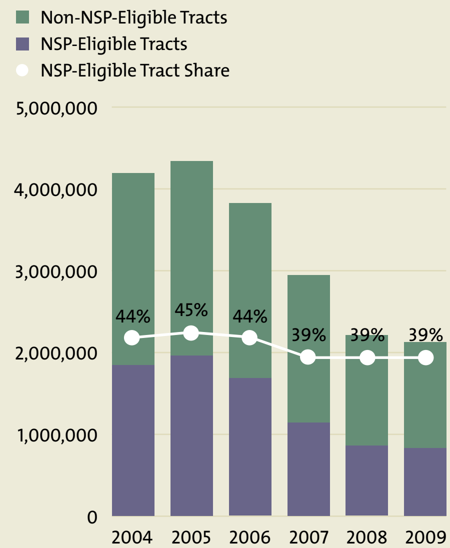
**Refinance loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs.*

Refinance mortgage originations also lagged in LMI neighborhoods. Figure 7 compares the percentage change in refinance mortgage originations from 2008 to 2009 in LMI tracts to the change in non-LMI tracts, for the country as a whole and for each of the regions we analyzed. Although there was an increase in the number of refinancings in the LMI tracts of every region (which is not surprising given the falling interest rates during this period), in each case, the increase was much smaller than in the higher-income tracts in that region. Particularly striking is that in the Sand States, the number of refinance mortgages originated in LMI tracts increased by only one percent compared to an 82 percent increase in the region's other neighborhoods. As a result of disparate trends in refinance lending in LMI tracts and higher income tracts, the share of all refinance mortgages that were originated in LMI tracts across the nation declined sharply, from a peak of 18 percent in 2006 to only eight percent in 2009.

Lending in Neighborhoods Most Vulnerable to Destabilization

Figure 8 breaks out the total number of home purchase mortgages originated each year from 2004 to 2009 by whether or not they were in census tracts that were eligible for programs funded by the second stage of the federal Neighborhood Stabilization Program ("NSP-eligible tracts") under criteria developed by the Department of Housing and Urban Development. These neighborhoods had high levels of subprime lending during the real estate boom and had relatively high unemployment rates, large price declines and high vacancy rates as of 2008, raising fears that they were particularly vulnerable to decline as a result of the foreclosure crisis and recession. Through the Neighborhood Stabilization Program, the federal government provides funds and technical assistance to local entities to stem decline in these neighborhoods, often through the redevelopment and resale of vacant and foreclosed homes. (For more information about the eligibility criteria and for demographic data about eligible tracts, see the Methodology and Notes section.) Although there are some similarities between the lending trends in NSP-eligible neighborhoods and LMI neighborhoods, the two groups of census tracts only partially overlap. About 31 percent of all U.S. census tracts in metropolitan areas are NSP-eligible. Of these, only about 42 percent have median incomes that made them LMI. Similarly, only about 47 percent of all LMI tracts in metropolitan areas are NSP-eligible.

Figure 8: Home Purchase Loan Originations,* by NSP-Eligibility of Census Tract



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

Home Purchase Lending in NSP-Eligible Tracts Continued to Decline

Compared to the peak year of home purchase lending in 2005, the number of loans originated for home purchases in NSP-eligible neighborhoods in 2009 was almost 60 percent lower, a steeper drop than in other neighborhoods over this period. The relative severity of this drop since the peak of the housing boom is not surprising, because NSP-eligibility is determined, in part, by high levels of subprime lending, almost all of which disappeared after 2007. Since the disappearance of the subprime lending industry in 2007, however, the share of all home purchase lending originated in NSP-eligible neighborhoods remained at 39 percent through 2009. In other words, lending in these neighborhoods generally tracked the overall national trend from 2007 to 2009, despite the unique challenges these neighborhoods face as a result of high rates of foreclosure and vacancy, and steep home price declines.

Table C shows that in the Sand States, about 68 percent of all owner-occupied housing units and more than three-quarters of all home purchase mortgages since 2004 were in NSP-eligible tracts, much higher shares than in the other regions we analyzed and an indication of how widespread the foreclosure crisis has been in this region. Unlike other regions, in 2009, home purchase lending in the Sand States' NSP-eligible tracts increased slightly over 2008 levels. In the Rust Belt states, though, where about 42 percent of all owner-occupied housing units are in NSP-eligible tracts, the number of home purchase loans originated in NSP-eligible tracts in 2009 was down 11 percent from 2008, a much steeper decline than the country as a whole.

In the Large Northeastern Metro Areas, home purchase lending in NSP-eligible tracts dropped modestly, in line with the overall decline in lending, and the NSP-eligible tract share of all home purchase lending remained steady. However, in New York City, where only 11 percent of all owner-occupied housing units are located in NSP-eligible tracts, the trend was more troubling: home purchase lending in New York's NSP-eligible neighborhoods dropped by 20 percent from 2008 to 2009, and from its 2006 peak, was down by almost 80 percent. Because of this steep decline, NSP-eligible neighborhoods accounted for only seven percent of all New York City home purchase lending in 2009, less than half the share they accounted for in 2006.

Table C: Home Purchase Mortgage Originations in NSP-Eligible Census Tracts in U.S. Regions and New York City

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

	2004	2005	2006	2007	2008	2009	% Change, 2008-09
U.S.							
Originations in NSP-eligible tracts	1,836,948	1,954,228	1,674,452	1,136,037	852,496	823,656	-3%
NSP-eligible tract share of all originations	44%	45%	44%	39%	39%	39%	
*(NSP-eligible tract share of all owner-occupied housing units: 35%)**							
"Sand States" (AZ, CA, FL, NV)							
Originations in NSP-eligible tracts	872,654	936,801	741,707	439,770	356,160	371,771	4%
NSP-eligible tract share of all originations	77%	79%	79%	75%	76%	75%	
*(NSP-eligible tract share of all owner-occupied housing units: 68%)**							
"Rust Belt" (OH, MI, IN, IL, WI)							
Originations in NSP-eligible tracts	271,101	277,248	240,205	169,957	118,121	105,235	-11%
NSP-eligible tract share of all originations	44%	45%	44%	41%	39%	38%	
*(NSP-eligible tract share of all owner-occupied housing units: 42%)**							
Large Northeastern Metro Areas							
Originations in NSP-eligible tracts	143,626	144,230	121,366	80,443	61,135	58,560	-4%
NSP-eligible tract share of all originations	26%	26%	26%	22%	22%	22%	
*(NSP-eligible tract share of all owner-occupied housing units: 18%)**							
New York City							
Originations in NSP-eligible tracts	7,177	8,100	8,496	4,197	2,198	1,764	-20%
NSP-eligible tract share of all originations	12%	14%	15%	9%	7%	7%	
*(NSP-eligible tract share of all owner-occupied housing units: 11%)**							

**Estimated share of all owner-occupied housing units that are located in NSP-eligible tracts, based on data from the 2000 Census.*

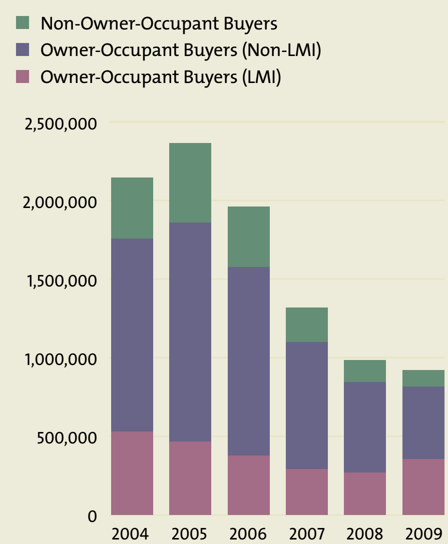
Figure 9 shows that non-LMI homebuyers were considerably less likely to purchase homes in NSP-eligible neighborhoods in 2009 than in previous years. Additionally, the number of home purchase loans issued to non-owner occupants (generally investors or second home purchasers) dropped steeply throughout the period from 2004 to 2009. However, many investors and even some owner-occupants buy homes with cash rather than with a mortgage loan, so Figure 9 may understate the total number of home purchases in these neighborhoods.

Slower Growth for Refinance Lending in NSP-Eligible Neighborhoods

Figure 10 shows that in the U.S. as a whole, and in most of the regions we analyzed, the neighborhoods expected to be hit hardest by the foreclosure crisis experienced an increase in refinance lending in 2009 that was sizable, though smaller than the growth in refinancings in other neighborhoods.

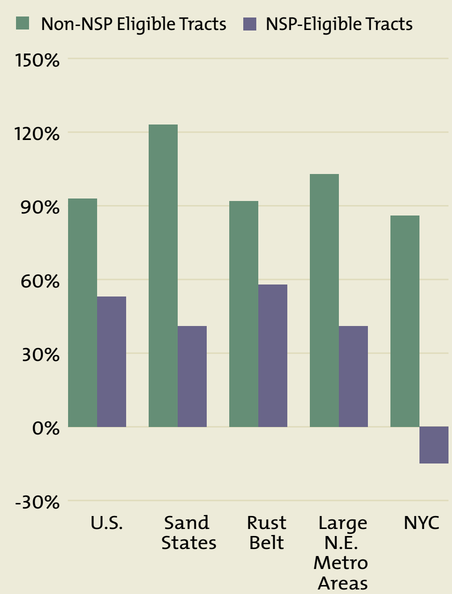
The conspicuous exception was New York City, where refinance lending in NSP-eligible neighborhoods decreased by 15 percent from 2008 to 2009, even as it increased by 86 percent in the city's other neighborhoods. As a result of this sharp decline, only seven percent of all refinance mortgages in 2009 were in NSP-eligible neighborhoods, compared to 25 percent in 2005. This steep relative decline may reflect high levels of subprime refinance activity in these neighborhoods during the housing boom, but may also be a result of particularly large price declines in these neighborhoods, which would leave a relatively large share of homeowners with inadequate equity in their home to qualify for a new loan.

Figure 9: Composition of Home Purchase Mortgage Originations* in NSP-Eligibile Census Tracts, by Borrower Type



**First-lien home purchase loans issued to owner-occupants of 1-4 family homes, condominiums and cooperative apartments in MSAs. Source: HMDA*

Figure 10: Percentage Change in Refinance Mortgage Originations,* 2008 to 2009, in NSP-Eligible and Other Census Tracts



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

FHA and VA Lending to LMI Communities and in NSP-Eligible Neighborhoods

As a result of dramatic changes to the mortgage market during the foreclosure crisis, an increase in eligible loan sizes and the the homebuyer tax credits, mortgages backed by the Federal Housing Administration (FHA) and Veteran's Administration (VA) (and to a lesser extent, the Farm Service Agency (FSA) and Rural Housing Service (RHS)), exploded in popularity across the country in 2008 and 2009. In just three years, from 2007 to 2009, the number of home purchase loans backed by these agencies more than tripled, and their share of the total home purchase mortgage market jumped to 55 percent from only 12 percent. Loans backed by FHA, VA and FSA/RHS have been particularly important to LMI borrowers and to buyers in LMI- and NSP-eligible neighborhoods; indeed, these loans made up about two-thirds of all home purchase mortgages issued in 2009 to LMI buyers or in LMI or NSP-eligible neighborhoods. These data underscore the fact that these federal lending programs were crucial to the increase in lending to LMI borrowers in 2009 and that reforms to these programs could have particularly profound impacts on these borrowers and neighborhoods.

In New York City, only about eight percent of LMI home purchase borrowers in 2009 obtained an FHA- or VA-backed loan, which, surprisingly, was a smaller share than for non-LMI home purchase borrowers. It is not clear why so few LMI homebuyers in New York City rely on these types of loans.

Policy Implications and Conclusions

Following the collapse of the subprime mortgage market in 2007 and subsequent reforms to Fannie Mae, Freddie Mac, and FHA, many policymakers and advocates have expressed concerns about the industry's ability to fulfill the country's demand for mortgage credit. These concerns are particularly acute with respect to low- and moderate-income households and neighborhoods vulnerable to destabilization as a result of the foreclosure crisis and Great Recession.

Our analysis reveals that despite the overall decline in home purchase lending since the onset of the Great Recession, the share of home purchase mortgages issued to LMI borrowers increased substantially between 2006 and 2009, from 25 percent to 38 percent. Whether or not this resilience in lending to LMI borrowers survived the expiration of the homebuyer tax credits in 2010 remains to be seen. This will be crucial information for policymakers determining how, if it all, they should intervene further to ensure credit access to LMI homebuyers in a mortgage market still chastened by the foreclosure crisis.

Already evident in the data, however, are clear racial disparities. While an increasing share of white and Asian LMI borrowers used loans to purchase homes in higher income neighborhoods, which may offer greater opportunities to residents, a smaller share of black and Hispanic LMI borrowers did so. In addition, the number of home purchase mortgages issued to black LMI homebuyers increased in 2009 at a much lower rate than the increase to LMI borrowers of other races and remained at very low levels compared to the period from 2004 to 2007. The causes of these disparities are complex and continue to deserve a great deal of attention from researchers and policymakers.

As result of a decline in home purchase lending to non-LMI borrowers, but also a rising proportion of LMI borrowers purchasing-homes in relatively higher-income neighborhoods, the share of all home purchase loans that were issued in LMI neighborhoods continued to decline in 2009. The surprising lack of overlap between LMI homebuyers and LMI neighborhoods suggests that concerns about the stability or economic health of LMI neighborhoods are unlikely to be successfully addressed through efforts aimed solely at LMI homebuyers. This is particularly true in the Rust Belt states, where only 16 percent of LMI homebuyers purchased homes in LMI neighborhoods in 2009. Possibly exacerbating economic problems within LMI tracts is the fact that relatively few homeowners in these neighborhoods have been able to reduce their housing expenses by taking advantage of particularly low interest rates in 2009 through mortgage refinancing.

Finally, the declines in lending to NSP-eligible neighborhoods we report are dramatic, but to a significant extent reflect the disappearance of the subprime lending industry, which itself contributed to the threat of instability in these neighborhoods. Our data show that since the collapse of the subprime market, these neighborhoods have, on average, maintained a roughly constant share of the total home purchase loan market, despite their unique challenges. This is an encouraging sign, particularly because the data precede the full implementation of local NSP-funded programs. On the other hand, this stable share in 2009 was partly the result of an increase in lending to LMI homebuyers in these neighborhoods, which may not have been sustained after the expiration of the homebuyer tax credits. We have yet to see the full impact of the foreclosure crisis and mortgage market changes in credit availability to these neighborhoods.

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Methodology and Notes

Except as otherwise indicated, all analysis in this Data Brief is of data reported by lenders to federal regulators under the Home Mortgage Disclosure Act (HMDA) and made publicly available by the Federal Financial Institutions Examination Council. The most recent data cover loans originated in 2009 and was made available in September 2010. HMDA data cover the vast majority of all mortgages originated across the country, particularly within metropolitan areas.

All figures in our analysis are based on one-to-four-family, non business-related home purchase loans originated in metropolitan areas. Our analyses of home purchase lending includes only first-lien mortgages, but our analyses of refinance lending includes both first-lien and junior-lien mortgages. Except for the data reported for non-owner occupants in Figure 9, we excluded from our analysis any loans for properties that the loan applicant did not report as their principal dwelling (or intended principal dwelling), any loans for manufactured or multifamily housing (five or more units), 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").

We assigned borrowers to a racial or 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" we classified the applicant as Hispanic, regardless of the applicant's reported race. For approximately eight percent of all 2009 U.S. home purchase loans we analyzed, HMDA reported no race or ethnicity information. This occurs when a mortgage applicant provides information to the lender via mail, internet or telephone and does not provide information about his or her race. This percentage is roughly constant for each year of our analysis. Loan originations with no race or ethnicity information were included in all analyses, except for our calculations regarding racial and ethnic disparities.

Our identification of LMI borrowers uses the median family income estimated by the U.S. Department of Housing and Urban Development each year for every metropolitan statistical area (MSA) or, for certain larger MSAs, for each metropolitan division within the MSA. In our analysis of LMI borrowers, we exclude loans for which no borrower income was reported. Such loans made up less than five percent of all home purchase mortgages originated in each year of our analysis period. The share of refinance loans with no reported borrower income was eight percent in 2004, dropped to between four and six percent from 2005 to 2008, but rose to eleven percent in 2009. About one third of all black refinance loan originations in 2009 did not include borrower income information. As a result, of the large increase in originations without reported incomes we likely undercount the absolute number of refinance loans issued to LMI borrowers in 2009 and the percentage increase from 2008.

Because we define LMI borrowers and LMI neighborhoods with respect to the median family income of an MSA or metropolitan division, our analyses excludes all loans originated outside of MSAs. These loans made up about ten percent of all reported home purchase mortgages originated in each year of our analysis period.

For our calculations of the LMI share of all families in Table A, we use data from the American Community Survey (2005-2009 rolling average), which reports the number of families in fixed income ranges. In each MSA, we only count families as LMI if the upper limit of the income range in which they are included is below 80 percent of that MSA's median family income.

In our analyses of lending in LMI tracts, we use the tract-level income for each census tract and MSA or metropolitan division derived from the 2000 census and included in the HMDA data set. We exclude from these analyses loans in tracts for which HMDA includes no tract-level median income. These tracts accounted for less than one tenth of one percent of all home purchase and refinance loan originations in each year of our analysis period.

Repeating the same analyses using more recent estimates of tract-level income from the U.S. Census Bureau's American Community (2005-2009 rolling average) results in an LMI-tract share of all U.S. mortgage originations that each year is three to four percentage points higher than reported in Figure 6. However, this alternative method results in largely identical year-to-year trends, including the sharp increase in lending to LMI homebuyers in non-LMI tracts in 2009.

Additional Information about NSP-Eligible Neighborhoods

The U.S. Department of Housing and Urban Development's multi-staged Neighborhood Stabilization Program (NSP) has allocated almost $7 billion to local programs aimed at stabilizing the housing markets of the neighborhoods expected to be most affected by the foreclosure crisis. For the second round of NSP funding, HUD developed a statistical formula to determine which census tracts were eligible for local program proposals. The formula is based on two scoring systems: a foreclosure risk score and a vacancy risk score (both ranging from 1–20). The foreclosure risk score evaluates certain factors that could lead to high foreclosure rates, including the number of high cost loans or highly leveraged loans made in the census tract between 2004 and 2007, average unemployment for the MSA, the change in unemployment between 2007 and 2008, and the decline in home values for the area (specifically, the percentage change in sale prices at the MSA level from the peak of sales prices to December 2008). Tracts with foreclosure risk scores higher than 10 were also given a vacancy risk score, which is based on a 90-day vacancy rate assessed by the United States Postal Service. Tracts with either a foreclosure risk score or a vacancy risk score of 18 or higher are considered "at-risk" and qualified for the second round of NSP funding. Of all U.S. census tracts that had home purchase mortgage lending activity reported in HMDA, about one-third so qualified. For more information about NSP and HUD's scoring system, see the July 2009 Furman Center publication *An Opportunity to Stabilize New York City's Neighborhoods: A Fact Sheet on the Neighborhood Stabilization Program* at http://furmancenter.org/files/publications/Furman_Center_NSP_II_Fact_Sheet.pdf

Demographic Data for LMI and NSP Census Tracts

For reference, the table below shows the racial/ethnic distribution and certain other socio-economic information for the aggregated populations of all U.S. census tracts, all tracts in metropolitan areas, all LMI tracts, and all NSP-eligible tracts, in each case, that had at least one mortgage origination in 2005. All demographic and socio-economic data are from the 2000 census.

	Number of Tracts	*Percent NH White*	*Percent NH Black*	*Percent Hispanic*	*Percent Asian*	*Mean Family Income*	*Home-ownership Rate*	*% with Bachelors Degree*
All tracts	65,443	69.8%	12.5%	12.5%	4.1%	$56,644	66.2%	24.4%
All tracts in MSAs	52,916	67.1%	13.3%	14.0%	4.7%	$59,602	64.5%	26.4%
LMI tracts (in MSAs)	16,332	39.9%	27.9%	26.4%	4.6%	$37,967	44.0%	13.4%
All NSP-eligible tracts (in MSAs)	16,543	55.9%	21.5%	18.1%	3.6%	$53,665	66.1%	20.0%

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