

The State of New York City's Mortgage Lending

The 2007 edition of the *State of the City* included an in-depth analysis of mortgage lending in New York City between 1996 and 2006. Based on data reported by mortgage lenders under the Home Mortgage Disclosure Act (HMDA), the analysis reviewed the overall volume of conventional home purchase and refinance mortgages originated each year during this period for owner-occupied, 1–4 family homes, condos and co-ops. The analysis also examined the rapid growth of subprime and piggyback loans—a harbinger of the current foreclosure crisis—and differences in mortgage borrowing trends across New York City's different neighborhoods and racial and ethnic groups.

In an October, 2008 report,¹ we analyzed 2007 HMDA data and observed a 60% drop-off in high-cost, first-lien home purchase mortgage originations in New York City compared to the previous year, as well as a number of other declines and shifts in mortgage lending in the City and the country as a whole. In this year's *State of the City*, we analyze 2008 HMDA data, the first full year of data since the onset of the financial crisis in late 2007. These 2008 data, the source of some of our indicators on the citywide and individual borough and community district pages, provide a fuller picture of the dramatic declines in mortgage lending that have taken place in the past three years. Below, we offer some additional analysis of these data that is not available on the borough and community district pages, and compare changes in lending patterns in New York City to the country as a whole.

HOME PURCHASE LENDING CONTINUED TO DECLINE

As Table 1 shows, the number of first-lien, conventional home purchase loans originated in New York City in 2008 dropped by a third from 2007, the largest of three consecutive year-over-year declines.² Even Manhattan,

1 Furman Center, *Declining Credit & Growing Disparities: Key Findings from HMDA 2007*. (October, 2008). Available at <http://furmancenter.org/files/publications/KeyFindingsfromHMDA2007FurmanCenterReport.pdf>.

2 Unless otherwise noted, all HMDA data reported in this section are for conventional mortgages issued for owner-occupied, 1–4 family homes, condos and co-ops. “Conventional” mortgages are those issued by private lenders without backing from the Federal Housing Administration, Veterans Administration or Farmers Home Administration.



which seemed immune to the slowdown in lending in 2007, saw a 28% drop in first-lien, conventional home purchase mortgages issued. This overall drop is evident in the decline in our Home Purchase Loan Rate indicator in every one of the City's community districts. The decline in the country as a whole in 2008 was even more severe than in New York City. Nationally, the number of first-lien, conventional home purchase mortgages issued fell by 47%.

As Table 2 shows, high-cost and piggyback³ home purchase lending virtually disappeared in 2008 as the

3 High-cost first-lien loans are those with an APR at least 3 percentage points higher than the interest rate of treasury bonds with a comparable maturity issued at the time the mortgage was originated. “Piggyback loans” are junior-lien loans that homebuyers take out in addition to their first mortgage to help fund their home purchase.

Table 1: First-Lien Conventional Home Purchase Originations

	2004	2005	2006	2007	2008	% '07-'08
Bronx	5,060	5,537	5,431	4,079	2,355	-42.3%
Brooklyn	14,040	14,948	13,911	11,363	7,881	-30.6%
Manhattan	12,449	10,611	10,398	11,599	8,337	-28.1%
Queens	20,313	21,512	19,967	15,671	10,195	-34.9%
Staten Island	6,493	6,202	4,885	4,087	2,374	-41.9%
NYC	58,355	58,810	54,592	46,799	31,142	-33.5%
U.S.	4,102,543	4,418,408	3,906,321	2,931,195	1,566,837	-46.5%

Table 2: Junior-Lien and High-Cost, First-Lien Conventional Home Purchase Loan Originations

	2004	2005	2006	2007	2008	% '07-'08
Junior-Lien						
NYC	5,196	12,271	15,482	7,308	864	-88.2%
U.S.	733,969	1,220,104	1,263,821	548,985	90,947	-83.4%
High-Cost, First-Lien						
NYC	4,973	11,886	12,517	4,593	1,021	-77.8%
U.S.	451,184	1,082,956	985,762	411,438	113,874	-72.3%

Table 3: First-Lien FHA Home Purchase Loan Originations

	2004	2005	2006	2007	2008	% '07-'08
Number						
NYC	1,300	344	251	335	1,775	429.9%
U.S.	409,678	281,313	252,477	258,256	743,860	188.0%
% of all First-Lien Home Purchase Loans						
NYC	2.2%	0.6%	0.5%	0.7%	5.4%	4.7 points
U.S.	8.8%	5.8%	5.9%	7.8%	29.6%	21.9 points

real estate market slumped, subprime lenders went out of business, and surviving lenders tightened underwriting standards. After making up almost a quarter of all first-lien, conventional home purchase loans in 2006, the number of high-cost loans originated in New York City dropped by more than 90% over the following two years. Similarly, the number of piggyback loans issued in New York City plummeted from more than 15,000 in 2006 to fewer than 900 in 2008. These trends were also evident for the country as a whole.

As conventional lending (including high-cost lending) declined, more borrowers in New York City and around the country looked to loans backed by the Federal Housing Administration (FHA) to purchase homes. As Table 3 shows, the number of first-lien FHA home purchase loans issued in New York City jumped significantly between 2007 and 2008, from only about 300

to almost 1,800. Even with this jump, however, FHA loans still made up only about 5% of all first-lien home purchase loans in New York City in 2008, compared to about 30% in the country as a whole.

THE DECLINE IN HOME PURCHASE LENDING WAS GREATER FOR BLACKS AND HISPANICS

While the number of first-lien, conventional home purchase loans issued to borrowers of each race declined in New York City in 2008, the decline was particularly steep (more than 50%) for black and Hispanic borrowers. Even with the increase in FHA-backed home purchase loans, which are disproportionately used by black and Hispanic homebuyers, the disparity in the decline in home purchase loans indicated a further shift in the racial composition of home purchasers in the City in

2008. As shown in Table 4, Asians make up about 11% of New York City households, but were responsible for 27% of the first-lien loan originations (conventional and FHA) in 2008. Blacks, on the other hand, make up about 23% of New York City households but were responsible for only 11.1% of home purchase loan originations.

Nationally, there was a similar pattern in the changes from 2007 to 2008. Because of particularly steep declines in first-lien home purchase loans issued to black and Hispanic borrowers, the shares of all first-lien home purchase loans issued to blacks and Hispanics declined significantly in the country as a whole. As Table 4 shows, the percentage of all first-lien home purchase loans issued to black borrowers in the U.S., for example, declined from 7.5% to only 4%. Making up these differences were large increases in the shares of first-lien home purchase loans issued to white and Asian borrowers nationally.

REFINANCING ACTIVITY DECLINED EVEN MORE THAN HOME PURCHASE

Mortgage refinancing in New York City declined in 2008 at an *even* faster rate than home purchase lending.

As Table 5 shows, the number of conventional mortgage refinancings in New York City dropped by more than 50%, a much greater decline than in the country as a whole. Manhattan was the only borough to see an increase in refinancing activity between 2007 and 2008, likely because the price declines of the current real estate downturn arrived later in Manhattan than in the other boroughs. As a result, homeowners in Manhattan were able to take advantage of historically low interest rates. While there was a drop in the number of refinance loans issued to borrowers of every race in New York City in 2008, the declines in refinance loans issued to black and Hispanic homeowners were particularly steep, at over 60%.

As was the case for home purchase loans, high-cost refinancing declined dramatically in 2008, by more than 80% in both New York City and the country as a whole. Even with this decline, however, as shown in Table 5, high-cost loans still made up more than 8% of all conventional refinancing mortgages in 2008 in New York City, and about 11% nationally. ■

Table 4: Share of all First-Lien Conventional and FHA Home Purchase Loan Originations, by Race and Ethnicity

	Share of Households*	Share of all First-Lien Conventional and FHA Home Purchase Loan Originations				
		2004	2005	2006	2007	2008
NYC						
White	44.6%	50.3%	46.8%	43.8%	49.6%	51.6%
Black	23.2%	16.9%	17.5%	19.9%	13.3%	11.1%
Hispanic	24.1%	13.3%	15.1%	16.4%	12.7%	10.0%
Asian	10.7%	19.0%	20.1%	19.5%	24.1%	27.0%
Other	0.7%	0.6%	0.5%	0.4%	0.4%	0.3%
U.S.						
White	71.1%	73.8%	70.8%	69.1%	74.4%	79.5%
Black	12.1%	6.9%	7.9%	9.1%	7.5%	4.0%
Hispanic	11.4%	12.3%	14.3%	15.5%	11.6%	8.1%
Asian	3.8%	6.6%	6.6%	6.0%	6.1%	8.0%
Other	1.6%	0.4%	0.4%	0.4%	0.4%	0.3%

*From 2008 Housing and Vacancy Survey for NYC and 2008 American Housing Survey for U.S.

Table 5: Conventional Refinance Mortgage Originations

	2004	2005	2006	2007	2008	% '07-'08
NYC	62,703	59,125	53,516	37,136	17,424	-53.1%
% High-Cost	15.6%	30.2%	32.9%	23.3%	8.4%	
U.S.	6,565,185	6,259,120	5,289,707	4,033,823	2,545,052	-36.9%
% High-Cost	16.0%	26.2%	30.4%	21.3%	10.9%	