



FURMAN CENTER  
FOR REAL ESTATE & URBAN POLICY  
NEW YORK UNIVERSITY  
SCHOOL OF LAW • WAGNER SCHOOL OF PUBLIC SERVICE



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

Ingrid Gould Ellen

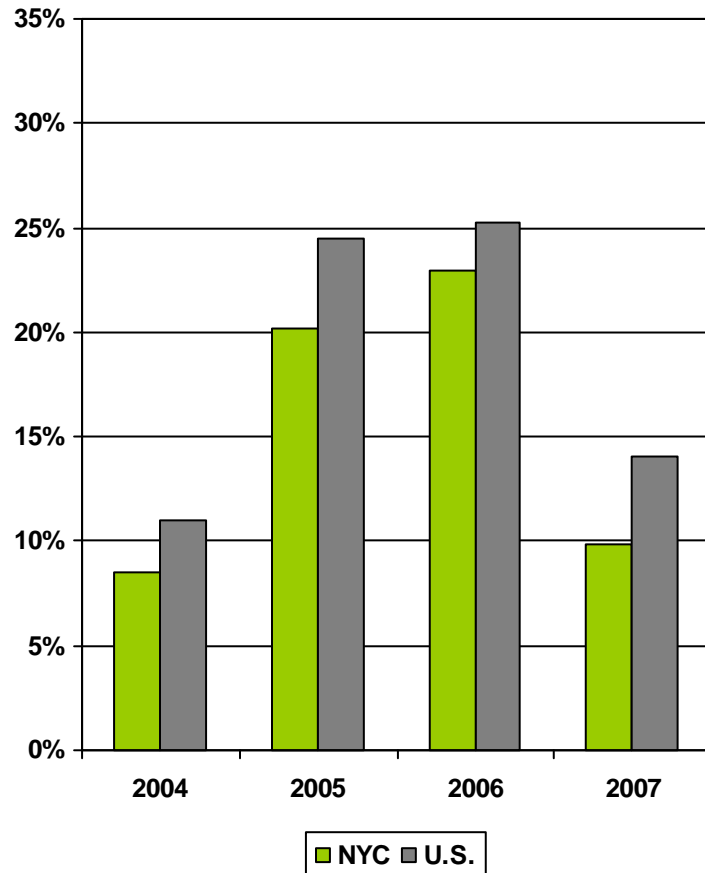
# Reasons for Rise in Foreclosures

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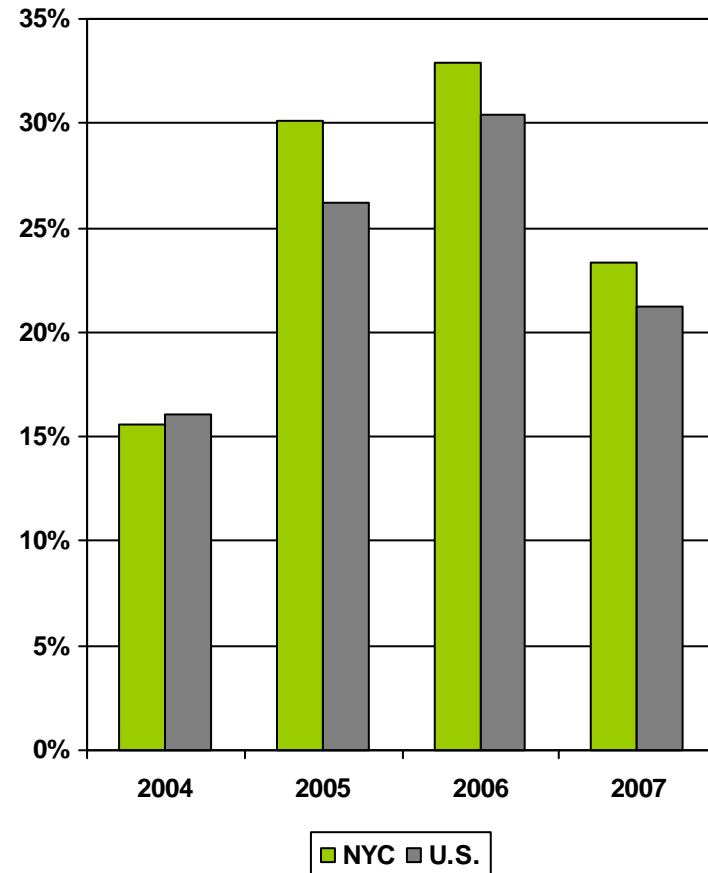
- Risky underwriting
  - Over-leveraged borrowers
  - High debt to income ratios
- Economic downturn
  - Job losses among borrowers
- Fall in house prices

# Share of Loan Originations that Were High Cost United States and NYC, 2004 – 2007

## Home Purchase Loans



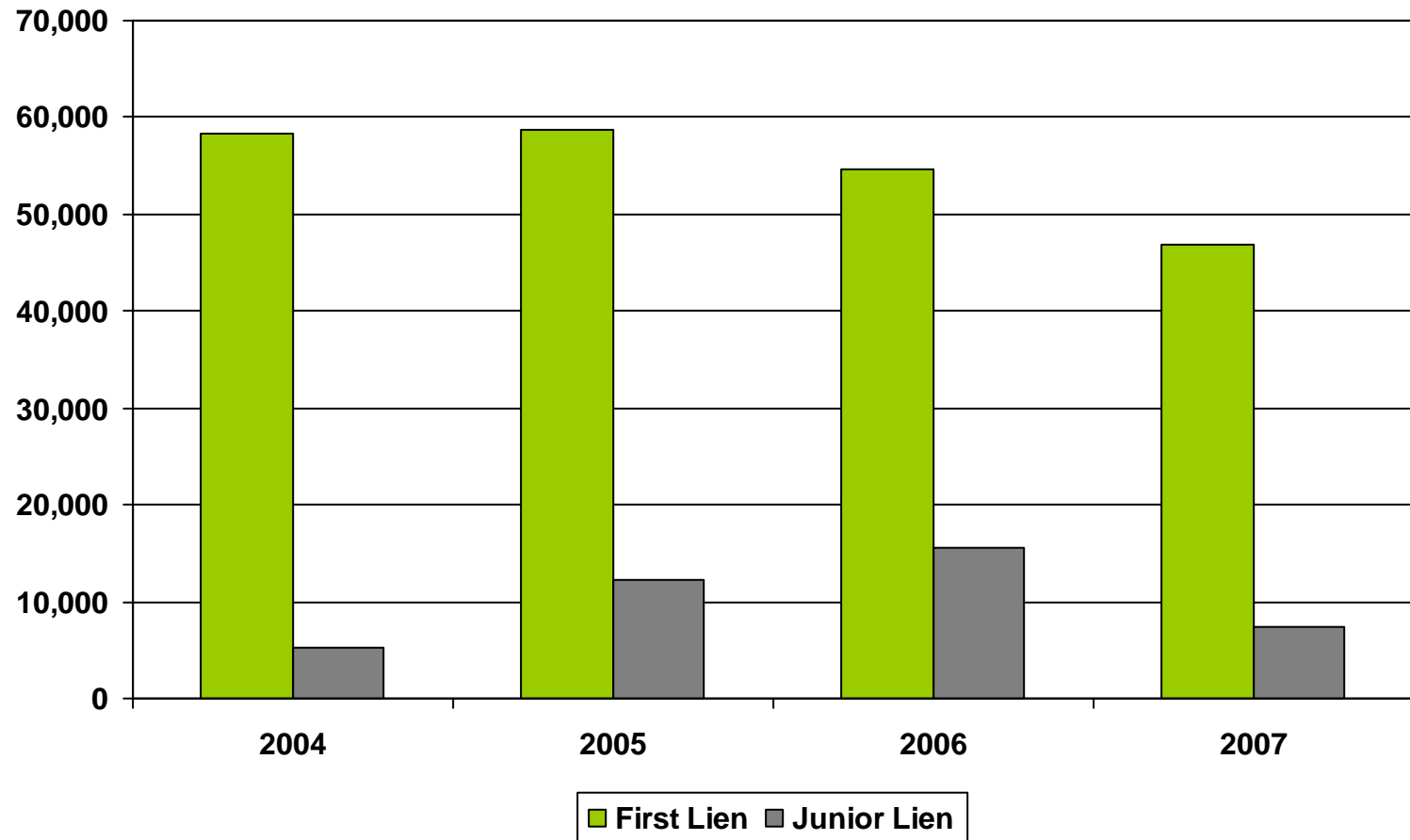
## Refinance Loans



Source: Home Mortgage Disclosure Act (HMDA)

# Piggyback Lending

## Number of Home Purchase Loans Originated in NYC



Source: Home Mortgage Disclosure Act (HMDA)

# Piggyback Lending in U.S.

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- 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

|          | U.S.  | New York City |
|----------|-------|---------------|
| White    | 17.6% | 10.7%         |
| Black    | 53.0% | 50.7%         |
| Hispanic | 44.9% | 36.3%         |
| Asian    | 17.4% | 15.8%         |

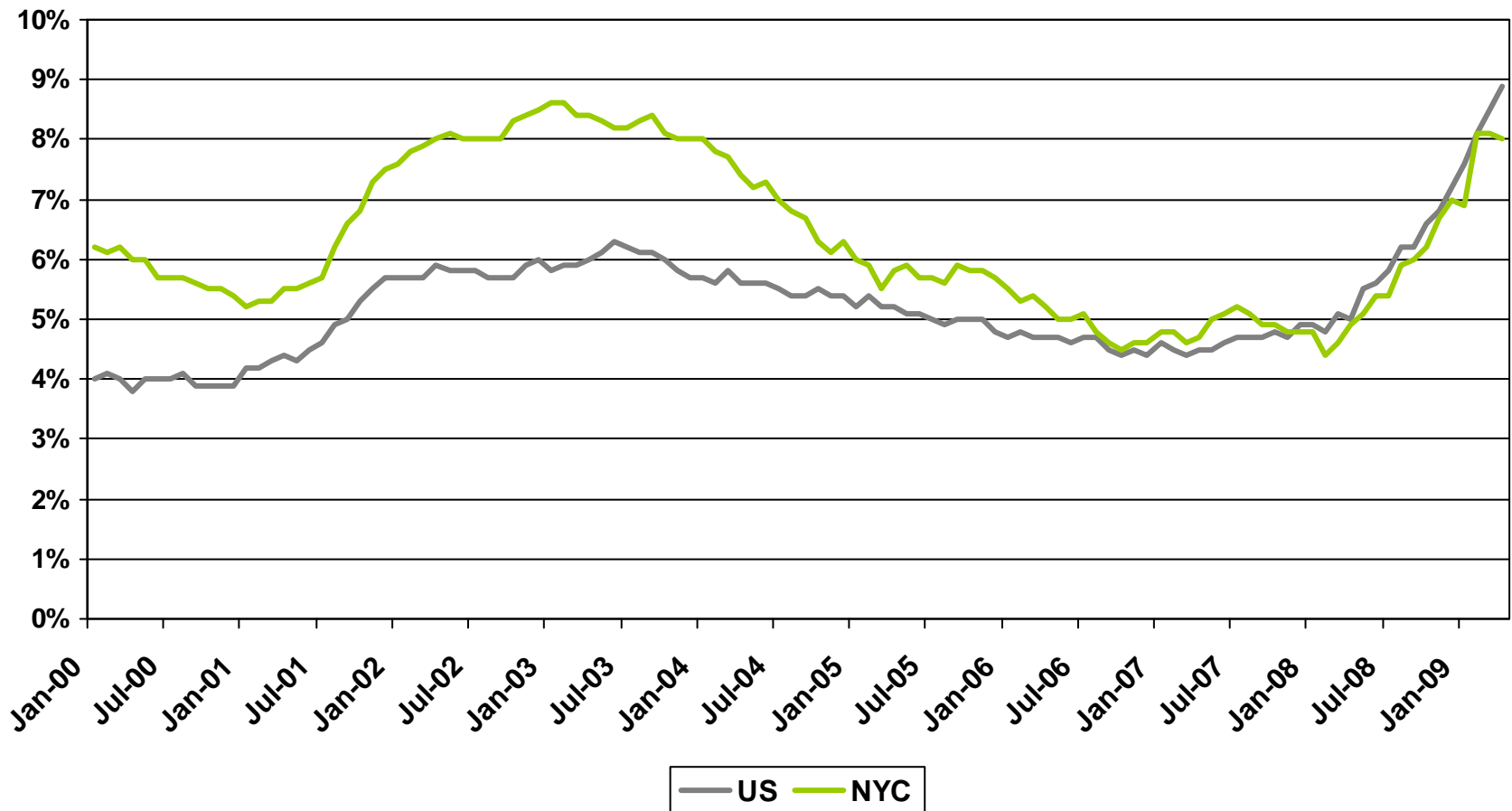
# Racial Disparities in Piggyback Lending

New York City, 2006

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- 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

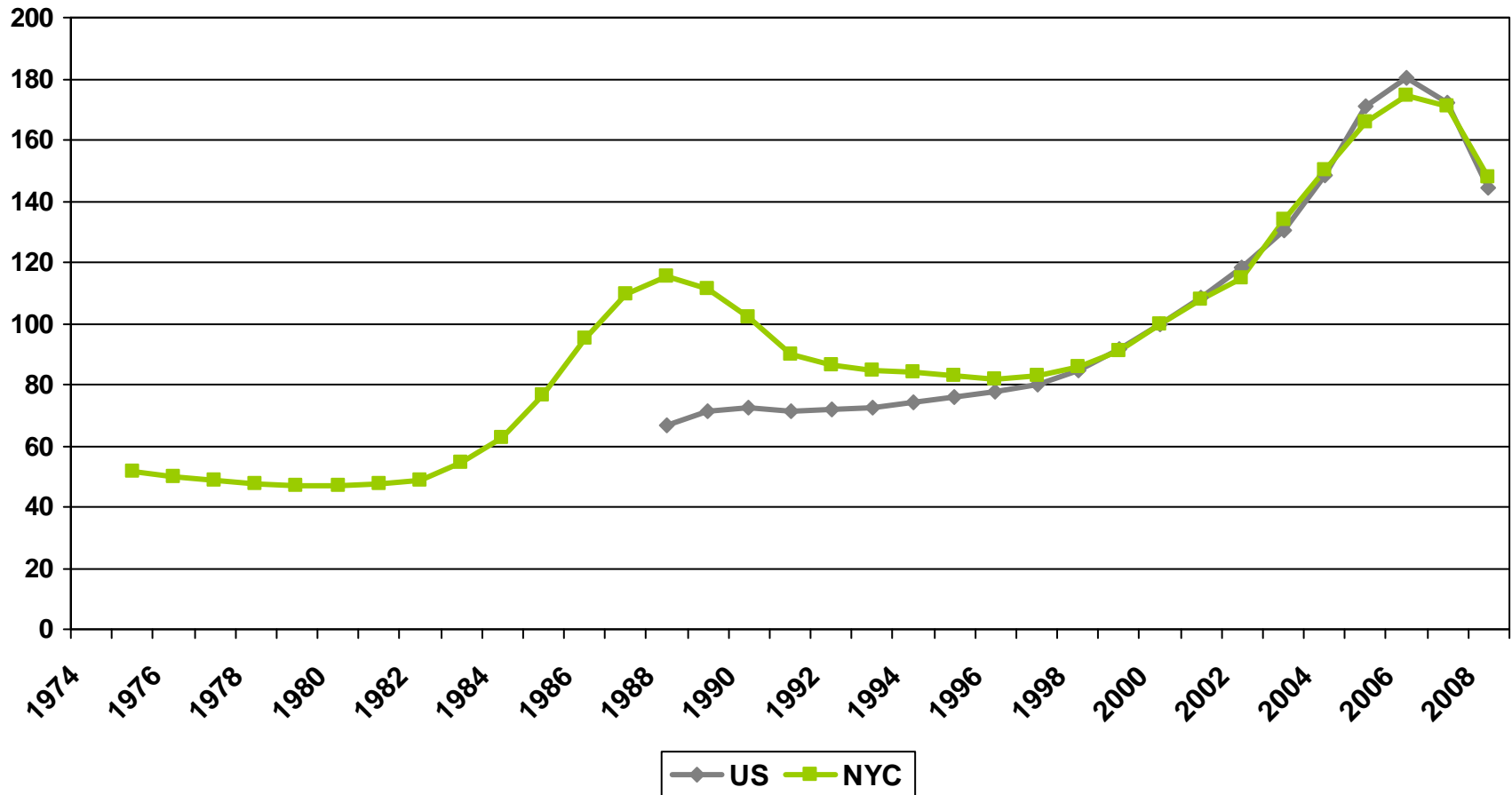
# Unemployment Rate



Source: Current Population Survey, Local Area Unemployment Statistics

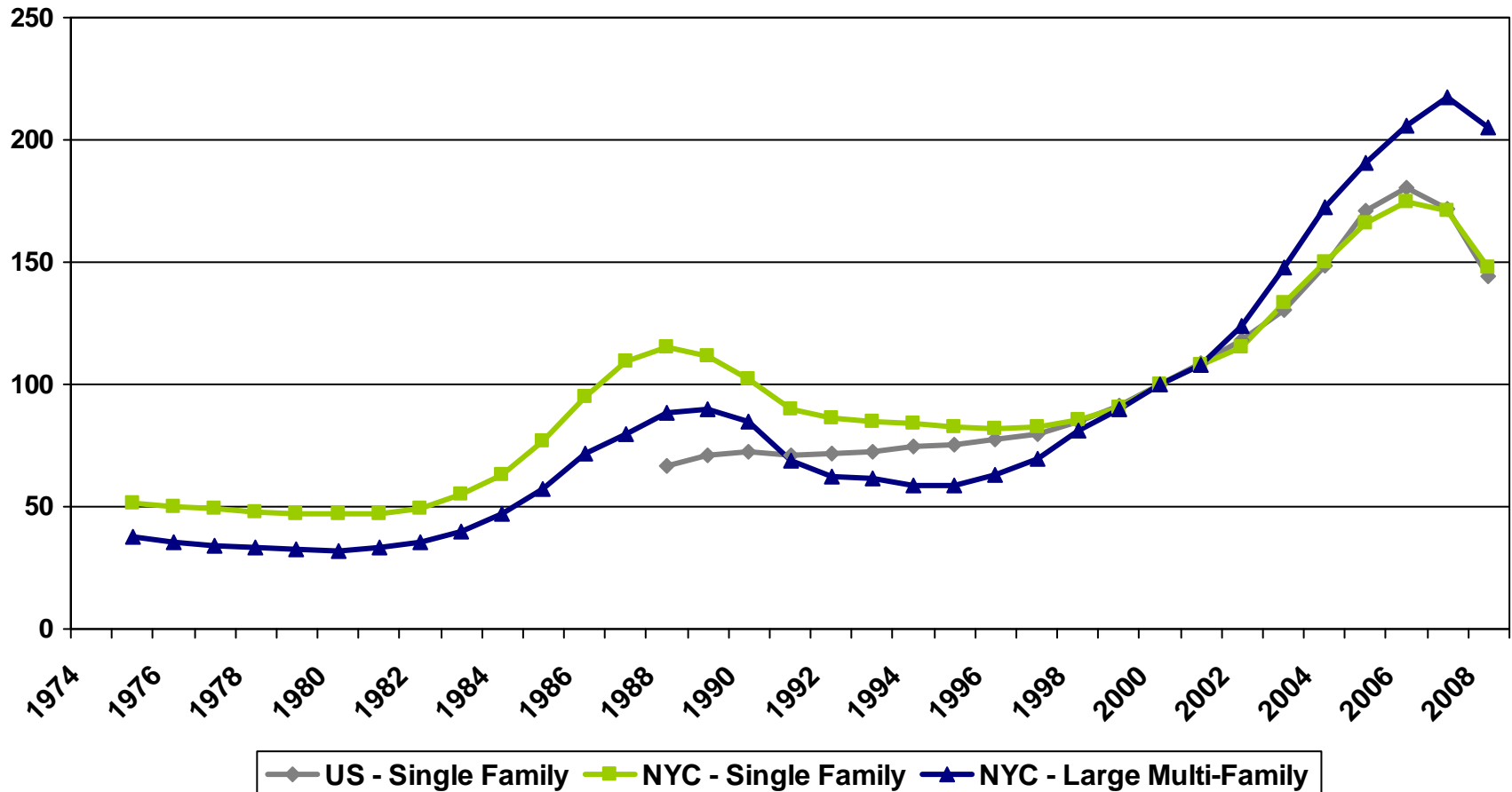


# Housing Prices: Booms and Busts



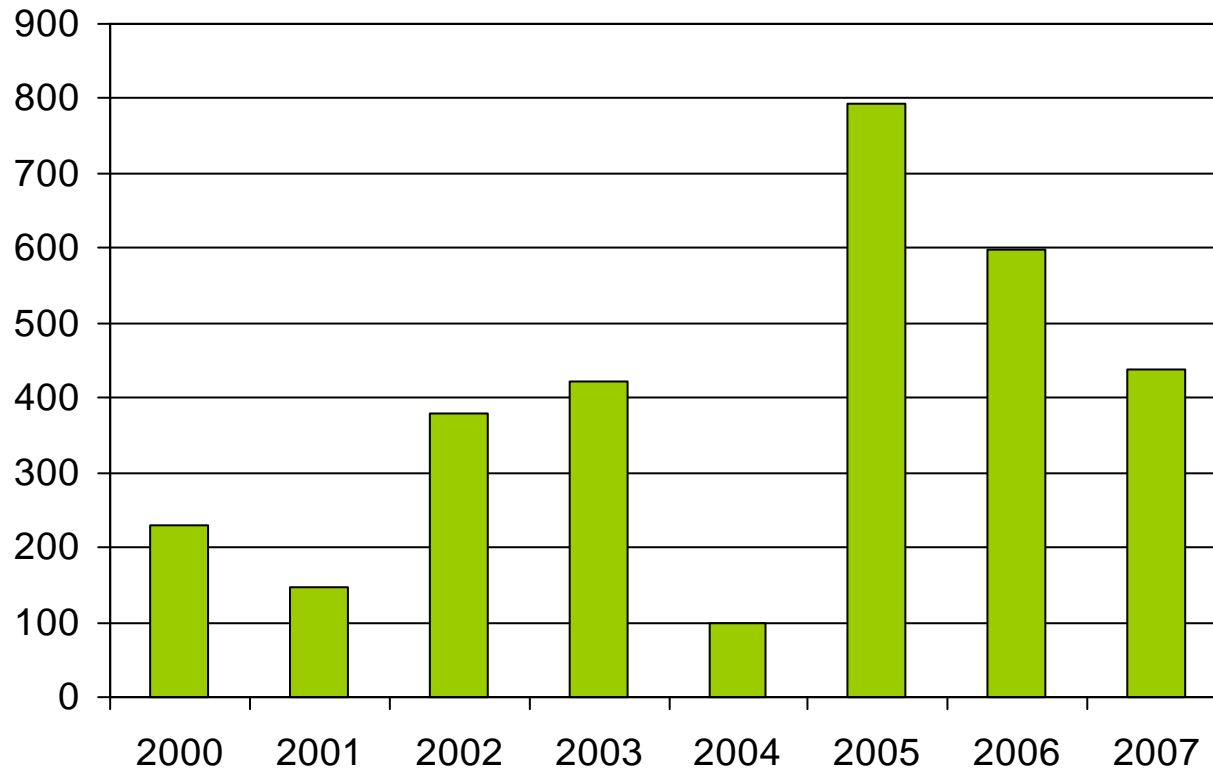
Sources: NYC Department of Finance, Furman Center; Case-Shiller National Housing Price Index

# 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

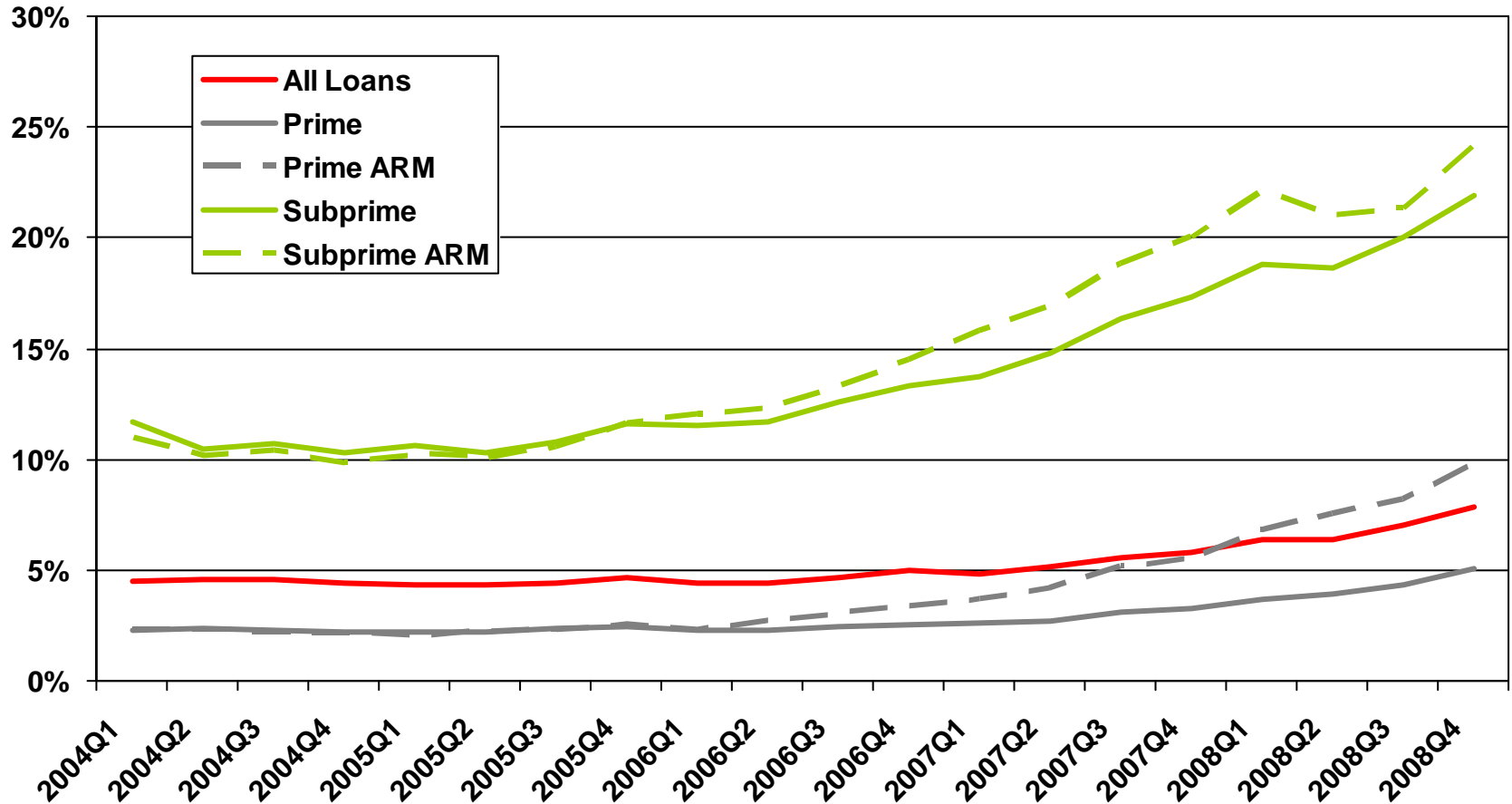


Sources: NYC Department of Buildings, Furman Center

Note: Due to changes in data collection, one should not compare data collected before and after 2005.

# Percentage of Loans Past Due

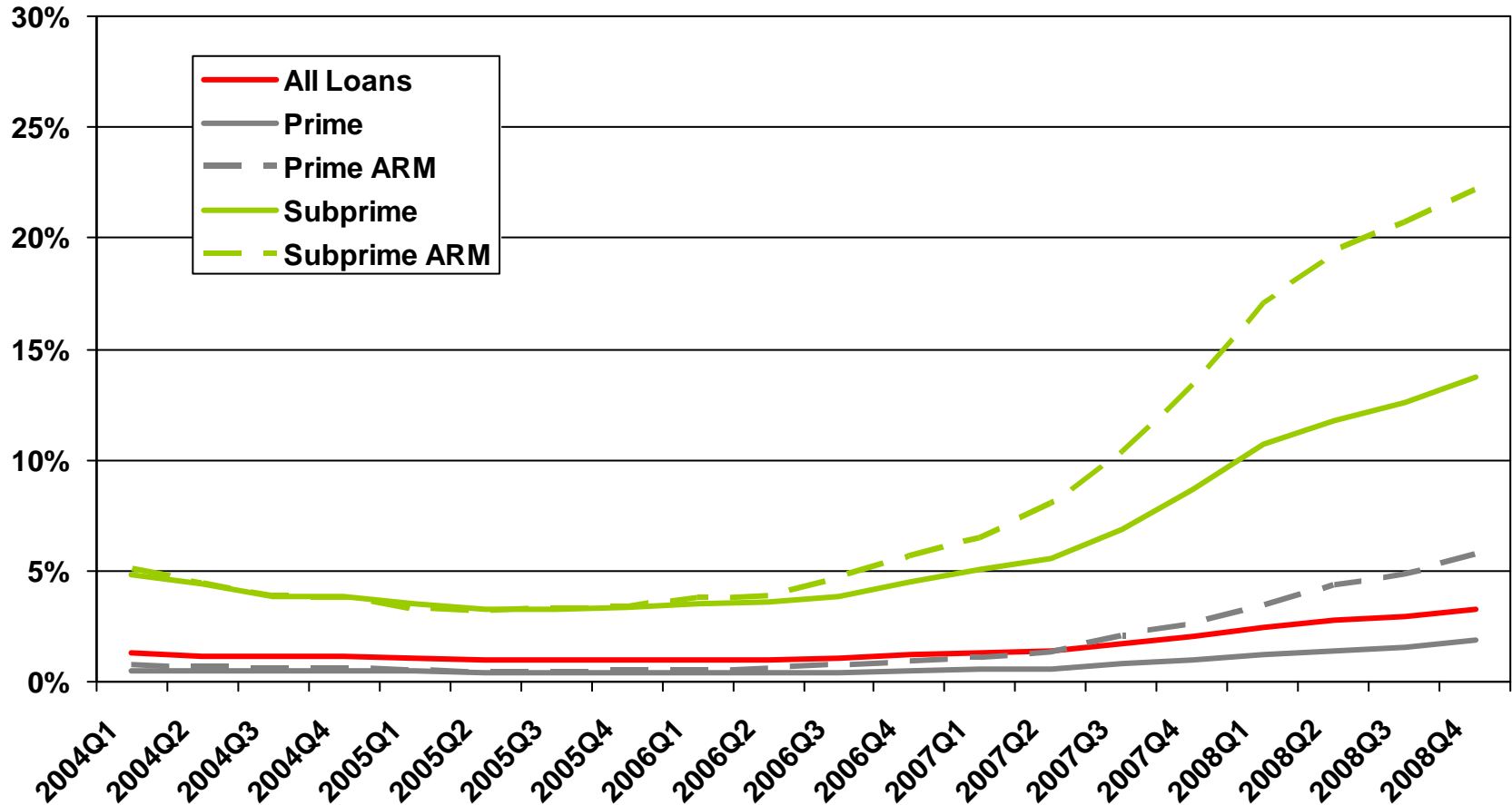
United States, by Loan Type



Source: Mortgage Bankers Association, National Delinquency Survey, 2008Q4

# Percentage of Loans in Foreclosure

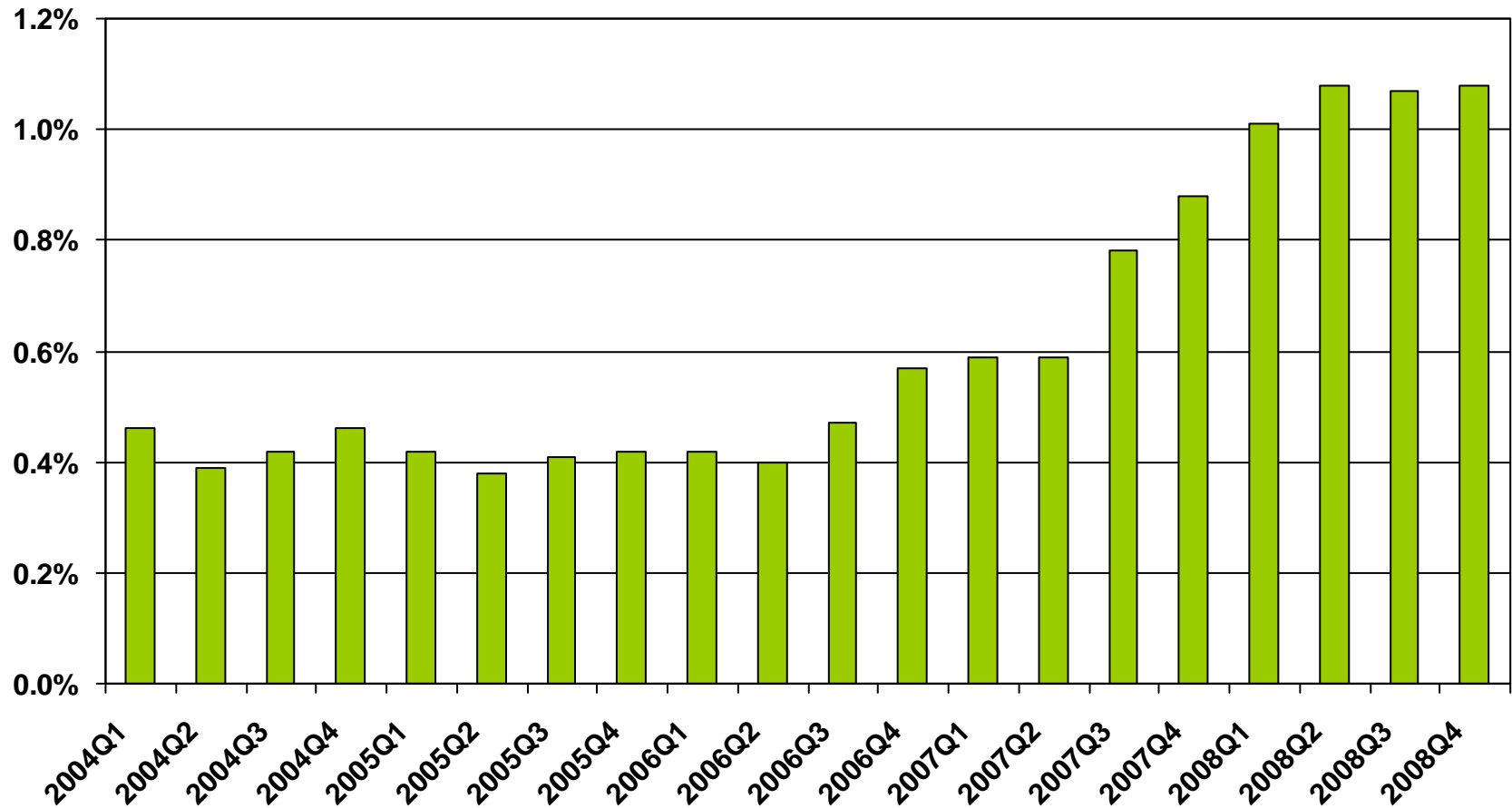
## United States, by Loan Type



Source: Mortgage Bankers Association, National Delinquency Survey, 2008Q4

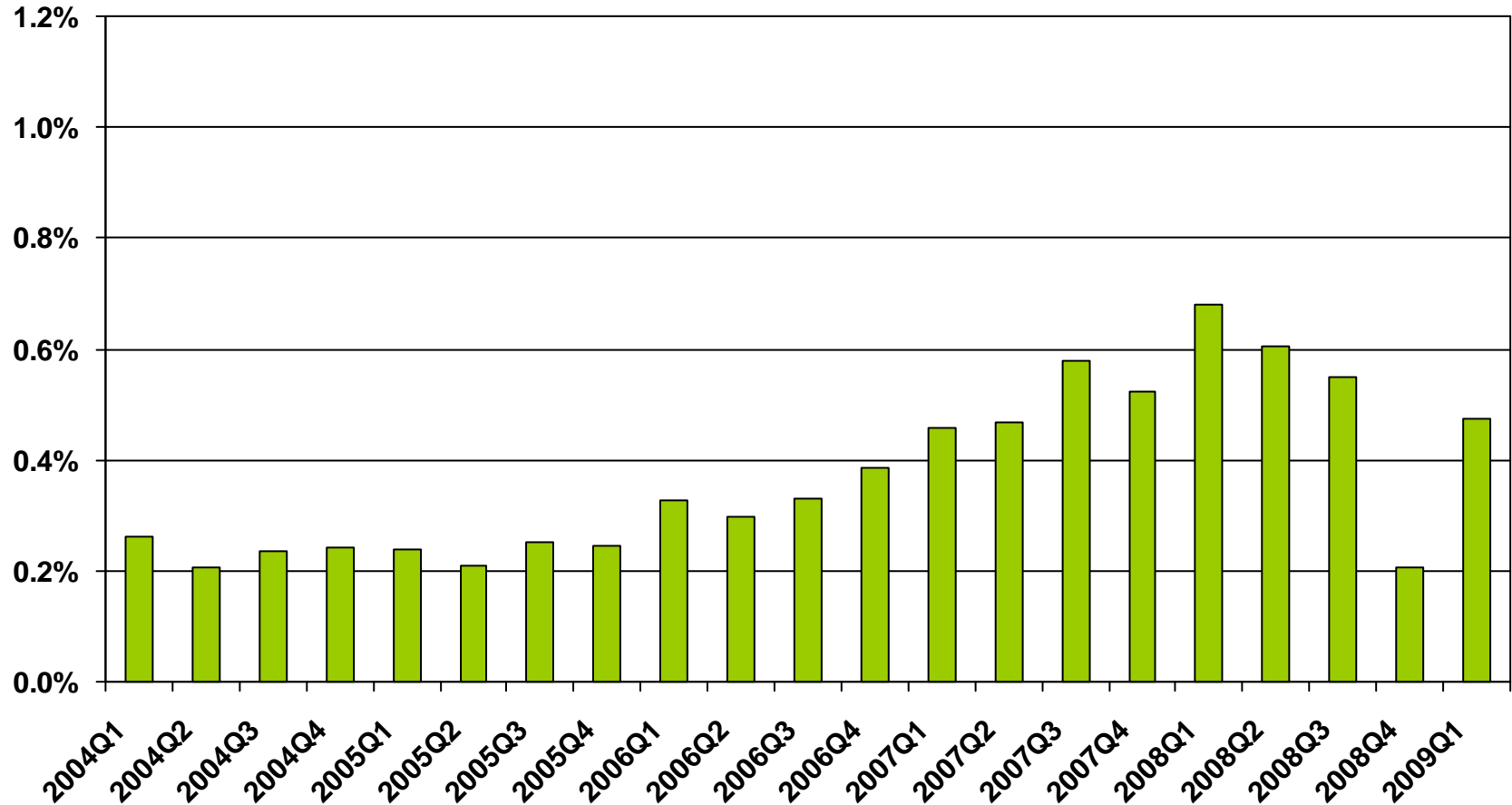
# Percentage of Loans Entering Foreclosure

## 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

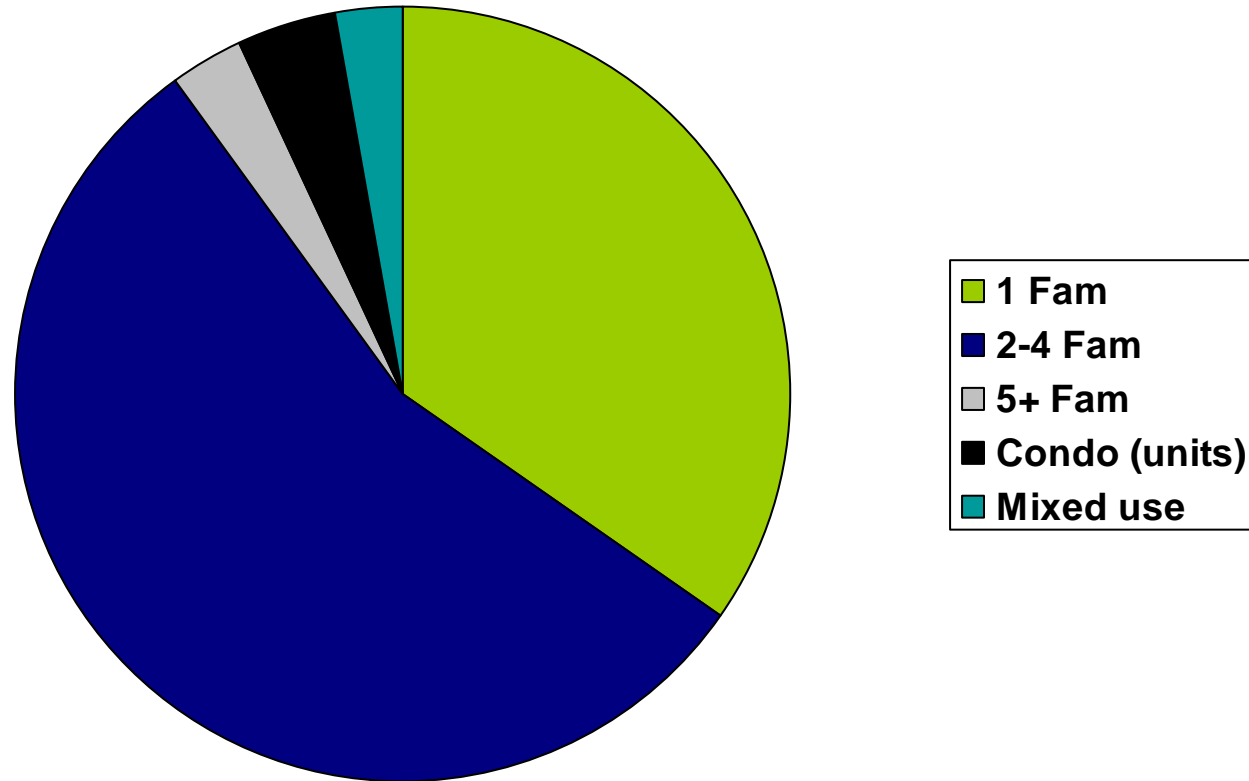
|   | 2004         | 2005           | 2006             | 2007             | 2008             |
|---|--------------|----------------|------------------|------------------|------------------|
| Bronx   | 851          | 740            | 1106             | 1511             | 1468             |
| Brooklyn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

*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

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- 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

## % Non-white

16.2% - 42.1%

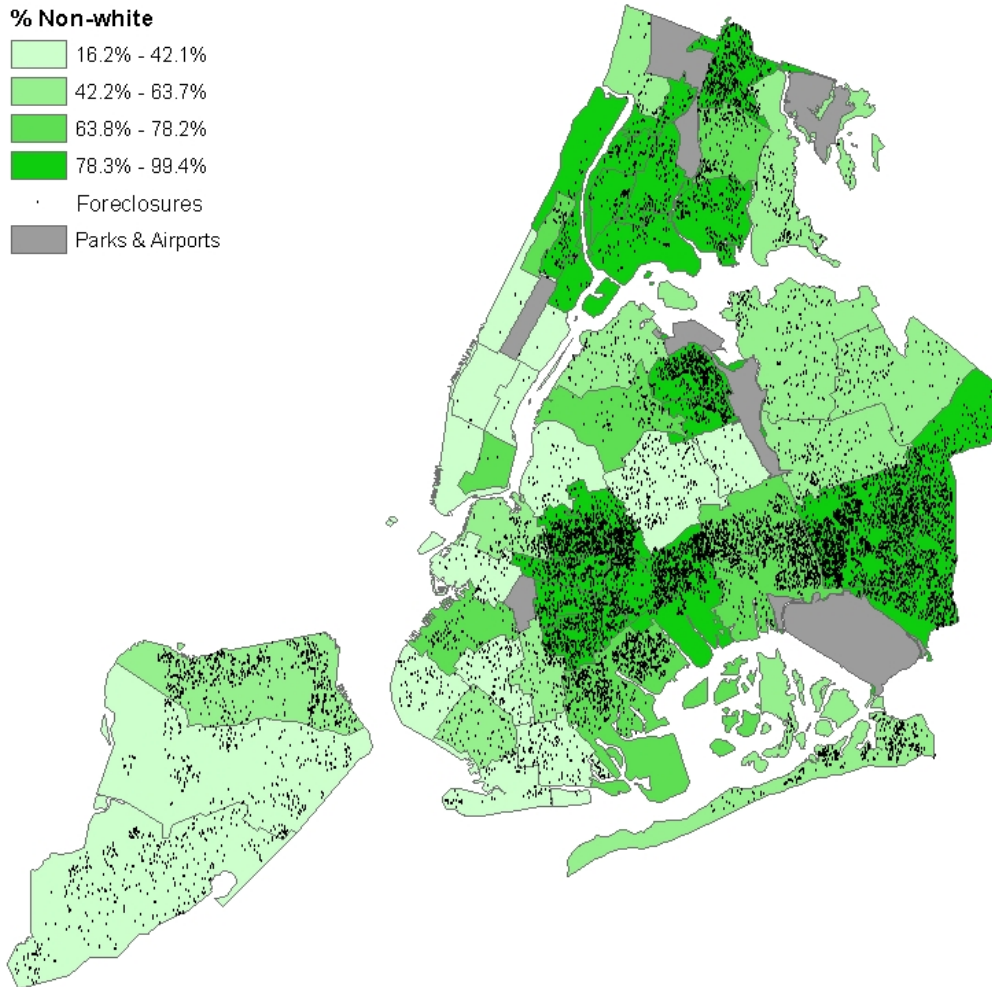
42.2% - 63.7%

63.8% - 78.2%

78.3% - 99.4%

Foreclosures

Parks & Airports



2007 Race Data (*ACS*)

2008 Foreclosures  
(*Public Data Corporation & NYC  
Dept of Finance*)

# Collateral Costs of Foreclosures

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- 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

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

# Foreclosure Prevention: Modifications

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- 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

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- 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

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- 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

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- 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