Trends In New York City Mortgage Lending

In last year's *State of the City* the Furman Center explored recent homeownership trends in New York City. Specifically, we reported that only about one third of all New York City households own their homes, a rate less than half that of the country as a whole, and significantly lower than that of other large U.S. cities. Additionally, we documented the stark racial disparities in homeownership rates in the City, disparities that were much greater than in the rest of the country. Despite the many barriers to homeownership that all New Yorkers (and especially African American and Latino New Yorkers) face, however, we observed steady growth in the homeownership rate over the past 15 years, for each major racial group in the City.

Undoubtedly, a key factor in the growth in homeownership rates in New York City, like the rest of the country, was the increased availability of mortgage financing. Several innovations in the mortgage industry—such as the rise of a secondary mortgage market, the advent of automated underwriting systems, and the explosion of nontraditional mortgage products—expanded the pool of potential borrowers and created incentives for lenders and mortgage brokers to dramatically increase the number of loans they originated. While these innovations brought homeownership within the reach of millions of households, unprecedented rates of mortgage default in recent years have raised serious questions about the sustainability of recent homeownership gains.[1]

In this chapter, we explore how mortgage lending has changed in New York City over the past 11 years. How has the number of mortgage loans issued fluctuated from year-to-year? What types of loans have been made? How have the demographics of borrowers shifted? Have changes in the types of mortgage loans issued affected different racial groups equally? To answer these questions, we use data reported by mortgage lenders under the Home Mortgage Disclosure Act (HMDA), a federal law requiring mortgage lenders to disclose certain information about the mortgage loans they originate each year.[2]

[1] See, e.g., Center for Responsible Lending 2007.

[2] A description of HMDA data is provided in Appendix A.

WHAT ARE JUNIOR LIEN LOANS?

Junior lien home purchase loans, known as "piggyback" loans, are mortgages extended to homebuyers at the same time as a first mortgage to fund all or some of the difference between a home's purchase price and the amount of the first mortgage. While borrowers traditionally make up that difference by drawing from their savings to put up a down payment, a borrower may resort to a piggyback loan for several reasons. For borrowers without the savings to make a down payment, for example, a piggyback loan may mean that their first lien loan can be kept small enough for the borrower to meet the applicable underwriting requirements, or that the corresponding loan to value ratio for the first lien loan can be kept low enough that the borrower need not purchase expensive private mortgage insurance.* For borrowers purchasing a relatively expensive home, a piggyback loan may mean that the first lien loan can be kept small enough to conform to the underwriting requirements of Fannie Mae and Freddie Mac (government sponsored enterprises which buy and securitize loans in large volumes), allowing originating lenders to keep the interest rates relatively low for loans meeting these requirements.**

When a lender issues a junior lien mortgage (e.g., a piggyback loan or any other second mortgage, third mortgage, etc.), that mortgage is, by definition, subordinate to the first lien mortgage. In practical terms, this means that the junior lien lender cannot foreclose on the property until it pays off the first lien mortgage. If the first lien lender forecloses, the junior lien lender will only recover funds still available after the first lien lender has been repaid in full from the proceeds of a foreclosure auction. Accordingly, if the borrower is highly leveraged, as is often the case when there are multiple mortgages on a property, and/or the value of the mortgaged property declines (further increasing the borrower's leverage), the junior lien lender stands a significant chance of not being fully repaid the loan principal or all of the accrued interest. Because of this higher risk, junior lien mortgage loans generally carry higher interest rates and less favorable terms than first mortgage loans.

* Until recently, private mortgage insurance premiums, payable monthly along with mortgage payments, were not tax deductible, making second mortgages a comparably attractive option.

** In 2006, the maximum conforming loan amount ranged from $417,000, for a single family home, to $801,950, for a 4-family home. It has been estimated that nationally, in 2006, almost 10% of all junior lien loans were obtained by borrowers for just such a reason (Avery, Brevoort & Canner 2007).

MORTGAGE LENDING IN NEW YORK CITY: MORE LOANS, LARGER LOANS AND INCREASED PIGGYBACK AND SUBPRIME BORROWING

In 2006, lenders originated more than 66,000 conventional mortgage loans to New York City households who were buying cooperative apartments, condominiums or 1 to 4 family homes for their own use.[3] In the same year, lenders refinanced more than 49,000 conventional mortgages. As shown in **FIGURE 1**, between 1996 and 2006, the number of reported conventional home purchase loans originated each year more than doubled, and the number of conventional refinancings more than tripled. Those 11 years coincided with historically low interest rates, increased rates of housing construction in the City and increased homeownership rates for every racial and ethnic group in the City.[4]

As shown in **FIGURE 2**, between 2004 and 2006, junior lien home purchase loans, known as "piggyback" loans (see inset: *What are Junior Lien Loans?*), increased significantly in number and grew as a share of all home purchase loans. From 2005 to 2006, in fact, while the number of first lien home purchase loans decreased by 7% (indicating a sizable decrease in the annual number of home purchases[5]), the number of piggyback loans issued grew by 24%.

In addition to becoming more numerous over the past 11 years, conventional home purchase mortgage loans and refinance loans also grew much larger. This increase in loan size was predictable, given that the average increase in inflation-adjusted residential property prices in New York City was well over 100% during this period.[6] Specifically, as shown in **FIGURE 3**, the median size of conventional home purchase loans rose from approximately $188,000 to $322,000 between 1996 and 2006, an increase of more than 70%.[7] The median conventional refinance loan, meanwhile, more than doubled in size during this period, jumping from $146,000 to $308,000. Not surprisingly, given New York City housing prices, the median loan amounts for New York City borrowers were much higher than their national counterparts, which in 2006 stood at $185,000 for home purchase loans and $186,000 for refinance loans.[8]

At first glance, the fact that increases in housing costs outpaced the increases in median home purchase loan size might indicate that New Yorkers were actually

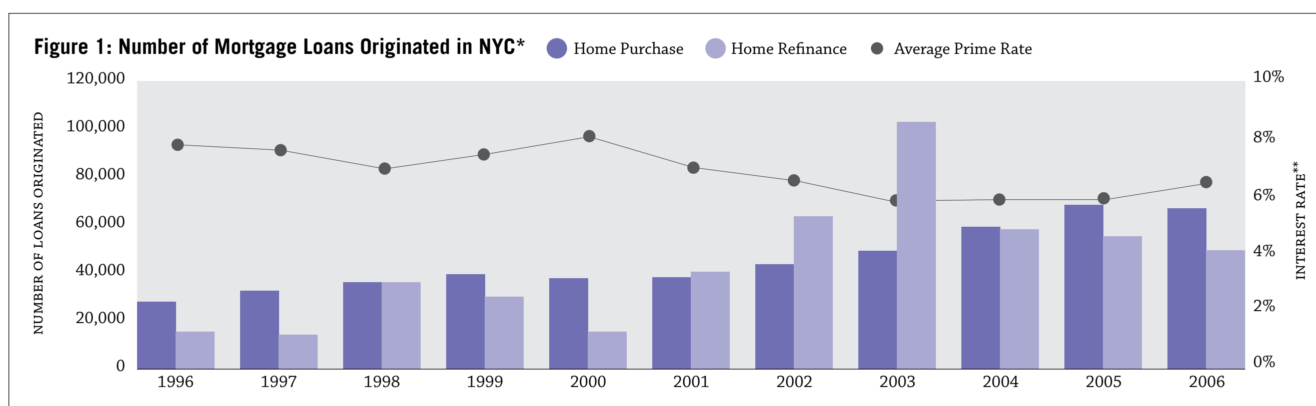

Figure 1: Number of Mortgage Loans Originated in NYC*

*Conventional, 1-4 family, owner-occupied. Source: HMDA **For 30 year Fixed Rate Conforming Mortgages. Source: Freddie Mac Primary Mortgage Market Survey.

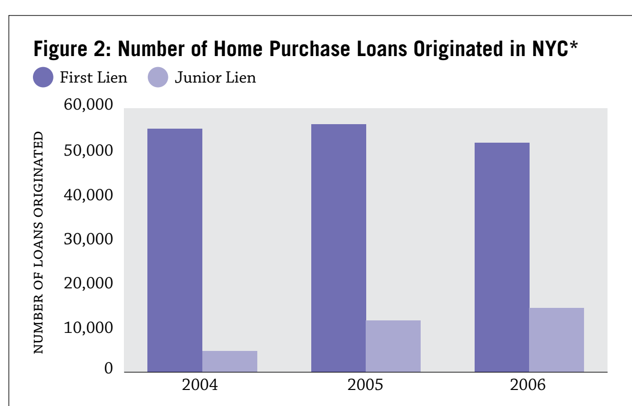

Figure 2: Number of Home Purchase Loans Originated in NYC*

*Conventional, 1-4 family, owner-occupied. Source: HMDA.

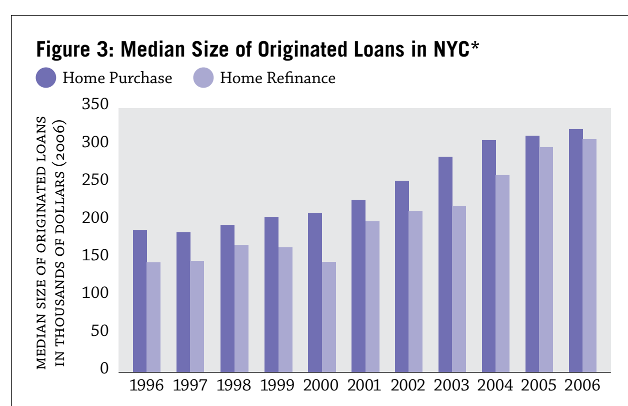

Figure 3: Median Size of Originated Loans in NYC*

*Conventional, 1-4 family, owner-occupied. Source: HMDA.

funding a larger portion of their home purchase out of their own pockets. But these medians do not fully capture the increasing amount of total mortgage debt New York homebuyers incurred, because they represent a mix of both first lien mortgages and typically smaller junior lien mortgages which, by definition, are extended to borrowers who also have first lien mortgages. Accordingly, these medians are lower than what we would see if data were available for just first lien loans.[9] Furthermore, these medians do not account for the total debt incurred by a home purchaser taking out both a first and junior lien loan.

Although HMDA data do not match junior lien home purchase loans to corresponding first lien loans, multiple indicators suggest a substantial increase in the aggregate mortgage debt incurred by homeowners over the past few years, an increase more in line with the increased cost of homes. First, in just the three years from 2004 to 2006, the median size of originated first lien home purchase mortgages jumped from $320,000 to $384,000. Second, during these same years, the median size of originated junior lien home purchase loans increased from $75,000 to $98,000. Third, as stated above, New Yorkers have been relying on piggyback loans with increasing frequency; from 2004 to

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[3] For clarity and convenience, we refer to mortgage loans for owner occupied, condominiums, coops or 1-4 family homes that are not insured by the federal government, whether prime or subprime, as "conventional" to distinguish them not only from government-insured loans issued under FHA or other Federal programs, but also from those issued for the purchase of investment properties or larger multifamily properties and those issued to finance home improvements. Unless otherwise noted, our analysis in this chapter is restricted only to these conventional loans. Data concerning other loan types, including government-insured loans, are reported in Appendix B.

[4] For more information regarding homeownership trends and housing construction, see the 2006 edition of *State of the City.*

[5] While some number of buyers may not finance their home purchase, we believe this group makes up a very small portion of all homebuyers. Accordingly, here and in other section of this chapter, we use the number of first lien home purchase loans issued as a measure of all home purchases.

[6] During this period, repeat sales-based price indices for New York City residential properties showed average price increases of 166%, 116% and 138% for condominiums, single-family homes and 2-4 family homes, respectively. These indices exclude coops.

[7] All dollar amounts in this chapter are in 2006 dollars. For more information about the price index see the Methods section, page 128.

[8] See Avery, Brevoort & Canner 2007.

[9] HMDA has required lenders to report whether an originated loan is a first lien mortgage or junior lien mortgage (or the refinancing of either) only since 2004.

2006, the percentage of homebuyers obtaining a first lien home purchase loan who also obtained a piggyback loan increased from approximately 9% to 28%.[10] For first lien home purchase loan borrowers earning between $100,000 and $150,000, the percentage obtaining piggyback loans in 2006 was about 43%.[11]

EXPANDING CREDIT THROUGH GREATER RELIANCE ON SUBPRIME LENDERS, BUT AT WHAT COST?

The rapid increases in the number and size of loan originations in recent years have been accompanied by the well-reported growth in subprime mortgage lending. Assessing the effects of this growth is complex. On the one hand, subprime lenders have used new mortgage products to lend enormous sums to New York City home-purchasers and homeowners refinancing their mortgages, many of whom, presumably, did not have the credit history or meet other underwriting criteria to qualify for prime loans,[12] and most of whom will never face foreclosure. On the other hand, there is ample evidence that borrowers with subprime loans are more likely to default than those with prime loans.[13]

In order to get a historical perspective on mortgage lending in New York City, we classify as subprime all loans issued by a lender identified by HUD as a subprime specialist, as discussed in the inset "*Identifying Subprime Loans*." **FIGURE 4** shows that 21% of home purchase loans and 27% of refinance loans originated in New York City in 2006 were subprime.[14] Those rates not only exceeded those for the country as a whole, but were higher than those in many other expensive cities in the country that were experiencing (until recently) rapid price appreciation.

FIGURE 5 reveals that the prevalence of subprime home purchase loans is a relatively recent phenomenon, with the percentage of all home purchase loans that were subprime almost quadrupling from 2002 to 2006. This is partially a result of the increased use of piggyback loans, which, given the increased risks to lenders, are disproportionately subprime.[15] But a large proportion of first lien home purchase loans were subprime too; the subprime share ranged from 13% to 18% between 2004 and 2006. We unfortunately do not have data on the share of first lien home purchase loans that were subprime prior to 2004, but we expect it was much lower. In 2003, for instance, only 9.7% of all home purchase loans were subprime at a time when virtually all home purchase loans were first lien.

For refinance loans, in contrast, subprime lenders have held a significant foothold in the New York City market for a much longer time. As early as 1996, subprime lenders were responsible for approximately 23% of the reported refinance loan originations, a share that never dipped below 15% for any of the following ten years, and reached as high as 35% in 2004 and 2005. Looking only at the percentage of refinance loans that is subprime masks the scale of the potential problem, however, because the total number of refinance loans originated each year rose substantially. In 1996, the approximately 23% of new refinance loans that was subprime translated into 3,553 loans. In 2006, the rate of subprime lending among new refinance loans, at 27%, was only a few percentage points higher, but the total number of subprime refinance loans originated was 13,442, or almost quadruple the number originated ten years prior.

THE CHANGING FACE OF BORROWERS

In this section, we analyze how the demographics of new borrowers shifted as the changes in the mortgage market described above unfolded. We take a close look at the incomes and racial characteristics of borrowers of new mortgage loans and identify several notable disparities between borrowers of different races.

IDENTIFYING SUBPRIME LOANS: HUD'S SUBPRIME LENDER LIST

Since 1993, HUD has compiled and updated a list of lenders that are specialists in subprime lending, based on HUD's analysis of HMDA data and its research on the lending industry.* While there is no universal or objective definition of "subprime," researchers (including those at the Furman Center) have frequently used this list as a rough way to identify subprime loans. *See www.huduser.org/datasets.manu.html for more information.

The Incomes of Borrowers Are Rising

As we reported in last year's *State of the City*, and as anyone trying to find housing in the City knows, New York City's staggering housing price appreciation has left homeownership out of the reach of most households. Not surprisingly, then, the median income of borrowers taking out home purchase loans in New York City has grown. **FIGURE 6** shows that between 1996 and 2006, the median reported income for recipients of conventional home purchase loans increased from $86,000 to $120,000, a jump of almost 40%.[16] The median income of all New York households, by comparison, rose far more slowly during this period.[17] As of 2006, the median income reported for the City's home purchase borrowers was two and half times the median income of all New York households. Nationally, in contrast, the median income reported for borrowers of conventional purchase loans in 2006 ($76,000) was only one and half times the median income of all households ($48,500), a much narrower gap.[18] Focusing on the incomes reported just for new first lien home purchase loans provides an even

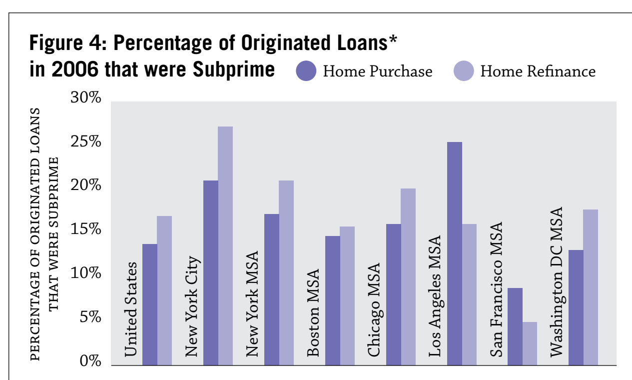

Figure 4: Percentage of Originated Loans* in 2006 that were Subprime

*Conventional, 1-4 family, owner-occupied. Source: HMDA.

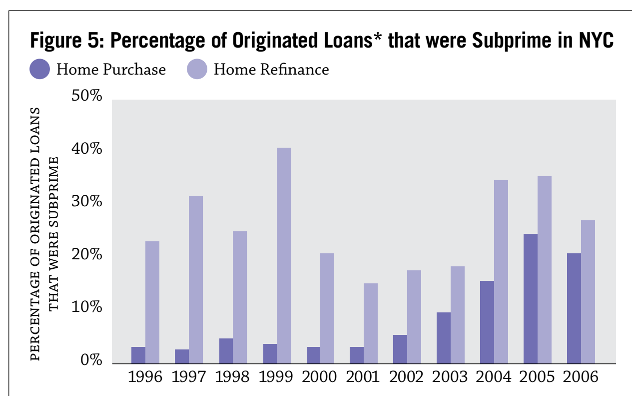

Figure 5: Percentage of Originated Loans* that were Subprime in NYC

*Conventional, 1-4 family, owner-occupied. Source: HMDA.

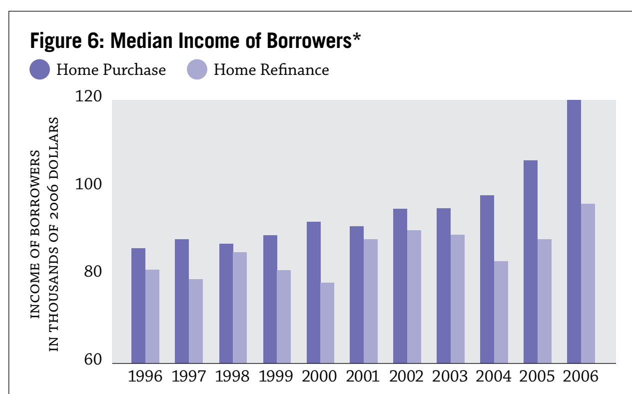

Figure 6: Median Income of Borrowers*

*Conventional, 1-4 family, owner-occupied. Source: HMDA.

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10 These percentages are calculated by dividing the number of junior lien home purchase loans by the number of first lien home purchase loans.

11 For other income groups, the percentage of home purchase loan borrowers that also obtained piggyback loans in 2006 was as follows: (i) for borrowers earning under $50,000 per year: 3%; (ii) for borrowers earning between $50,000 and $100,000 per year: 19%; and (iii) for borrowers earning more than $150,000: 25%.

12 Research by Freddie Mac and Fannie Mae from the late 1990s indicates that between 35% and 50% of all black borrowers in the subprime market could have qualified for a prime loan (see, e.g., Carr & Kolluri 2001).

13 For example, the Federal Reserve Bank of New York recently analyzed existing mortgage loans in New York City and found that, as of December 2007, approximately 6% of subprime fixed rate first mortgages and approximately 20% of the more common subprime adjustable rate first mortgages were in foreclosure. In both cases, these foreclosure rates exceeded the corresponding national rates. Similarly ominous is the fact that for New York City homeowners with subprime first mortgages and a junior lien mortgage outstanding as of December 2007, the average aggregate debt at origination was well over 90% of the value of their home. (See http://www.ny.frb.org/regional/subprime.html).

14 Because our analysis of HMDA data for this chapter employed different methodology (see Appendix C for this chapter's methodology and "Indicators, Definitions and Rankings" for the methodology used in the rest of this edition of *State of the City*), the percentage of loans that were subprime cited in this chapter is slightly higher than those cited in the remainder of this year's *State of the City*.

15 From 2004 to 2006, between 13% and 18% of all first lien loans originated each year were subprime, compared to a subprime rate of between 41% and 56% for piggyback loans.

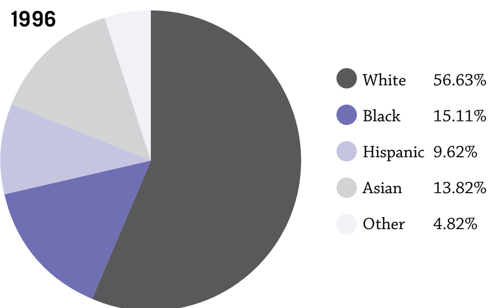
16 In recent years, some portion of originated mortgages were so-called "no-document" loans for which the income of the borrower was not verified by the lender. For this reason, the reported income for some loans may be overstated. For other loans, a household may have reported the income of only one member if it was sufficient to qualify for the loan, resulting in an under-reporting of total household income.

17 Although the U.S. Census Bureau cautions against comparing median income figures between years due to sampling and methodology changes, a conservative reading of the available data suggests that New York City's median income has been relatively stagnant and has surely not kept pace with the 40% increase in the median income reported by borrowers taking out new home purchase mortgages.

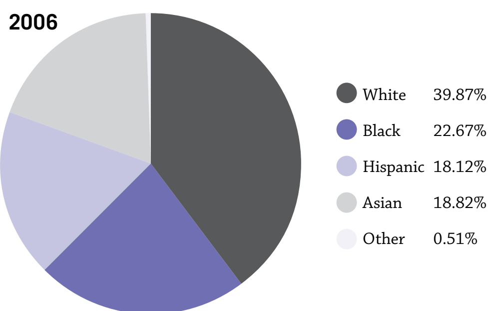
18 National median income of home purchase loan borrowers is as reported by Avery, Brevoort & Canner 2007. National median income of all households is from the Census Bureau's 2006 American Community Survey.

Figure 7: Share of All Home Purchase Loans (first lien and junior lien)* Issued to the Race Indicated

1996



2006



*Conventional, 1-4 family, owner-occupied. Source: HMDA.

Table A: Racial Breakdown of Households, Homeowners, and 2006 Mortgage Originations

	*Share of all households**	*Share of all homeowner households**	*First Lien Home Purchase Loans***		*Second Lien Home Purchase Loans***	
			All	*Subprime*	*All*	*Subprime*
White	44.2%	57.4%	44.5%	18.4%	24.0%	15.9%
Black	23.0%	19.9%	19.3%	44.6%	34.3%	44.7%
Hispanic	23.0%	11.4%	16.0%	24.3%	25.5%	26.0%
Asian	9.5%	10.7%	19.8%	12.0%	15.4%	12.5%
Other	0.3%	0.6%	0.4%	0.8%	0.8%	0.9%
Total	100%	100%	100%	100%	100%	100%

* Source: 2005 New York Housing Vacancy Survey. ** Source: HMDA

Table B: Percentage of Home Purchase Loans* that were Subprime, by Race of Borrower

	2004		*2005*		*2006*	
	First Lien	*Junior Lien*	*First Lien*	*Junior Lien*	*First Lien*	*Junior Lien*
White	6.0%	31.6%	8.4%	42.8%	6.6%	27.5%
Black	32.1%	63.2%	42.6%	65.9%	37.0%	53.9%
Hispanic	25.1%	58.2%	33.6%	63.6%	24.4%	42.1%
Asian	7.7%	45.9%	13.3%	54.1%	9.7%	33.6%

*Conventional, 1-4 family owner-occupied of any lien priority. Source: HMDA.

clearer picture of the increasing affluence of homebuyers over the past few years.[19] From 2004 to 2006, the median income of these borrowers jumped from $97,000 to $119,000, a 23% increase.

New York City's refinancing borrowers generally have lower median incomes than home purchase loan borrowers. From 1995 through 2006, the median income reported for recipients of New York City conventional refinance loans rose by less than 20%, from approximately $81,000 to $96,000. The lower median income of refinancing borrowers may be explained by the fact that any existing homeowner with a previous mortgage may seek to refinance his or her mortgage, while the population borrowing for a home purchase in any given year consists only of those households who can afford the then current level of home purchase prices. It also may be that the lower income homeowners have been able to qualify for refinancing despite their incomes because of the accrued equity in their homes resulting from the dramatic housing price appreciation New York City has seen in recent years.

Racial Disparities in Lending Persist

As reported in the 2006 edition of *State of the City*, there are stark disparities between the homeownership rates of different racial and ethnic groups in New York City.[20] As of 2005, more than 40% of non-Hispanic white and Asian households owned their own homes, while the homeownership rates for non-Hispanic black households and Hispanic households stood at only 28% and 16%, respectively.[21] Our analysis of the HMDA data reveals that borrowing patterns also differ markedly among the racial and ethnic groups in New York City.

FIGURE 7 shows the percentage of all conventional home purchase loans (of any lien priority) issued in New York City between 1996 and 2006 to borrowers of each race. This rough comparison illustrates that lenders issued an increasing share of all home purchase mortgage loans to minority borrowers during this period.[22]

To put the 2006 data from Figure 7 in context, **TABLE A** shows the percentage of all first lien home purchase loans and junior lien home purchase loans issued to borrowers of each race in 2006, compared with the

2005 racial breakdown of all New York City households and of only those New York City households that owned their homes. These comparisons reveal a more nuanced picture than the simple racial distribution of all home purchase loans shown in Figure 7. The table reveals, for instance, that the share of first lien home purchase loans extended to white households in 2006 was approximately in line with the proportion of all city households that were white. Black and Hispanic borrowers, in contrast, were underrepresented among first lien home purchasers, while Asian borrowers represented a disproportionately large share of first lien home purchase loans.

Despite their continued under-representation among homebuyers, however, Table A suggests that the percentage of all homeowners who are black remained stable in 2006, and the percentage of homeowners who are Hispanic grew.[23] Black households, for example, received approximately 19% of all first lien home purchase loans in 2006 (up from only 16% in 2004), roughly equal to the percentage of all homeowner households who were black. Hispanics received 16% of all first lien home purchase loans in 2006 (up from only 13% in 2004), a share significantly higher than the 11% of all homeowner households who were Hispanic. Asian households, in turn, received 20% of all first lien home purchase loans issued in 2006, even though they made up only 11% of all homeowner households, implying an increase in the percentage of homeowners that are Asian. White households, in contrast, though they made up 57% of all homeowners in 2005, received only 44% of all first lien home purchase loans in 2006, implying a reduction in the percentage of homeowners that are white. In general, the data indicates that home purchasing patterns in 2006 partly closed the gap between the racial distribution of all the City's total households and the racial distribution of those enjoying homeownership.

There are some discouraging signs for black and Hispanic homebuyers, however. While each home purchase involving a mortgage has a first lien loan, only some homebuyers take on second, or other junior liens. In 2006, approximately 51% of all black home purchase loan borrowers and 46% of all Hispanic home purchase loan borrowers obtained piggyback loans.[24] For white and Asian borrowers, the piggyback shares were 13% and 18%, respectively. As a result, as shown in Table A, while black and Hispanic borrowers together made up only approximately 35% of all home purchase borrowers, they received a majority of all new piggyback loans issued in 2006. The troubling implication is that a disproportionate share of black borrowers and, to a lesser degree, Hispanic borrowers, obtained a junior lien home purchase loan in order to meet the loan-to-value requirements of the first lien loan. In other words, many of these borrowers financed the down payment for their first mortgage with a piggyback loan. Because these borrowers have very little equity in their property, they are more likely to lose their home in a housing downturn. While they may not have very much, or even any, of their own money at risk (aside from moving expenses), losing a home is personally disruptive and will affect credit ratings, and increased foreclosures could threaten the stability of neighborhoods and reduce homeownership rates.

As shown in **TABLE B**, from 2004 through 2006, new home purchase loans, both first and junior lien, issued to blacks and Hispanics were far more likely to be subprime than those issued to white or Asian borrowers. As a result, blacks and Hispanics, although

[19] Though useful for comparing recent years' data to data predating the 2004 HMDA amendments requiring lenders to report the lien priority of originated loans, the median income reported for all home purchase loans double counts the incomes of piggyback borrowers, because they are receiving two (or more) separate loans.

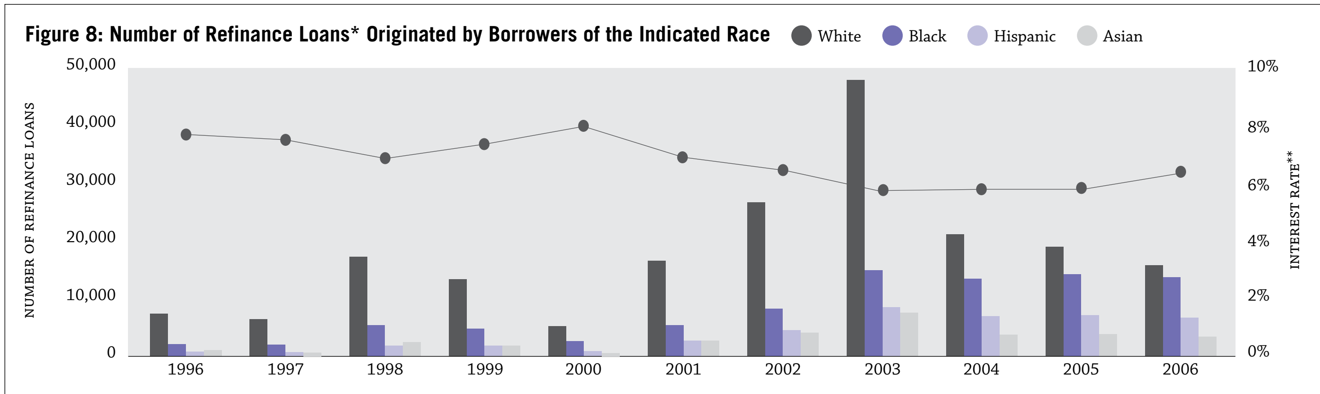
[20] In this chapter, we use "race" to mean race or Hispanic ethnicity. Further detail about our racial classification methodology is in Appendix C.

[21] We derived 2005 homeownership rates from the American Community Survey (ACS).

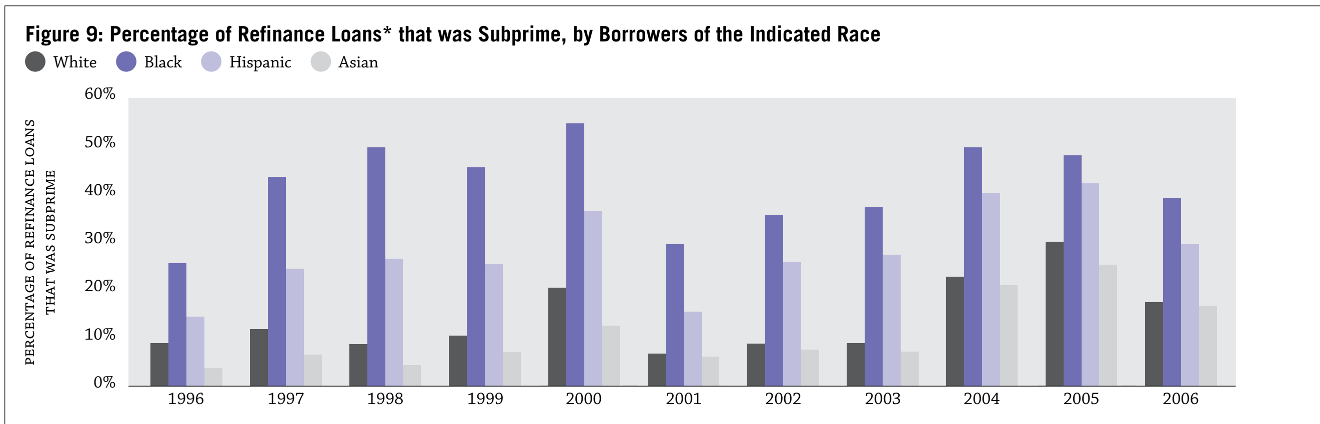
[22] Throughout this section, percentages of a given loan category attributed to each race are calculated based on the total number of loans in that category for which the race of the borrower was reported. As more fully discussed in Appendix B, no race is reported for some loans. If the racial distribution of the unreported race loans differs significantly from the distribution of the reported race loans, the actual percentages attributable to each race could vary from those described in this section.

[23] Because we have no data indicating the racial distribution of home sellers, we assume for this portion of our analysis that no racial group is responsible for a share of home sales out of proportion to its share of all homeowner households. Thus, for example, we assume that white households, who constituted approximately 57% of all homeowner households in 2005, also were responsible for 57% of all home sales in 2006.

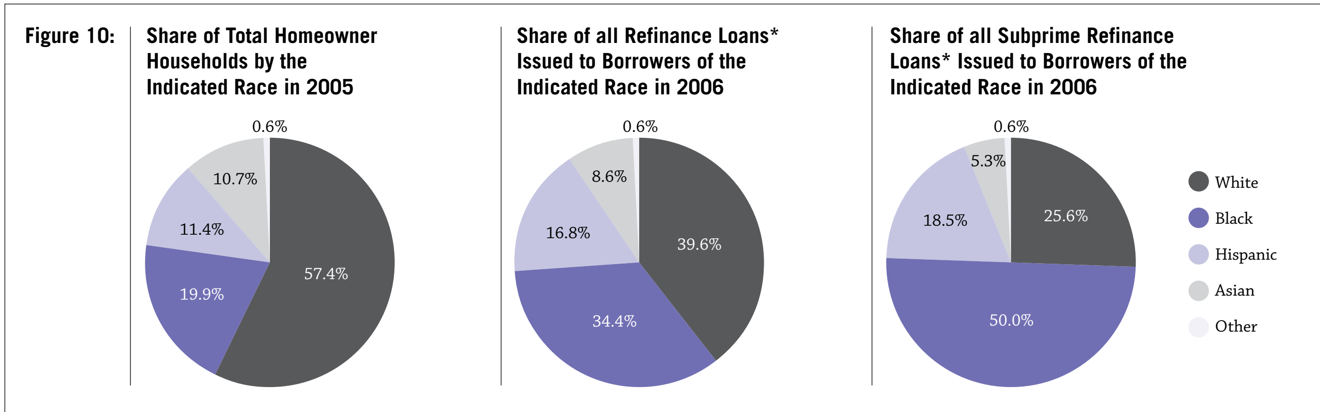
[24] These percentages are calculated by dividing the number of junior lien home purchase loans by the number of first lien home purchase loans originated by each group in 2006.



*Conventional, 1-4 family, owner-occupied. Source: HMDA. **30 Year Fixed Rate Conforming Mortgages. Source: Freddie Mac Primary Mortgage Market Survey.



*Conventional, 1-4 family, owner-occupied. Source: HMDA.



*Conventional, 1-4 family, owner-occupied. Source: HMDA.

together accounting for only 35% of the City's home purchase borrowers in 2006, received nearly 70% of all subprime first lien and junior lien home purchase loans issued that year.

Recent refinancing patterns also differ markedly by race and ethnicity.[25] **FIGURE 8** shows the number of refinance loans issued to borrowers of each racial group from 1996 to 2006 as well as the average annual prime interest rate in each year during this period. While the number of refinance loans peaked for all racial groups in 2003 as interest rates hit historic lows, the subsequent decline in refinancing activity as interest rates started to rise again was much more pronounced for white and Asian homeowners (declining by 67% and 55%, respectively, from 2003 to 2006) than it was for black and Hispanic homeowners (declining by only 8% and 22%, respectively). As a result, the share of all refinance loans issued to black borrowers almost doubled, from 18% in

2003, to over 34% in 2006. In the same time period, the Hispanic share rose from 10% to almost 17%.

FIGURE 9 shows the percentage of all refinance loans issued to borrowers of each racial group that was subprime from 1996 to 2006. As was the case for home purchase loans, black and Hispanic refinancing borrowers have been disproportionately more likely to obtain subprime loans than white or Asian refinancing borrowers. Once again, the percentages do not tell the whole story, however, because as stated above, the share of all refinance loans issued to black and Hispanic borrowers also rose in recent years. **FIGURE 10** shows that by 2006, although black households made up only about 20% of all homeowner households, they received approximately half of all subprime refinance loans.

The disproportionate spike in subprime refinancing since 2003 for black and Hispanic borrowers raises troubling questions. Because these loans generally have relatively high interest rates, borrowers probably are using them to withdraw equity accrued in the borrower's home rather than refinancing to lower monthly payments.[26] Accrued equity is a vital source of funding for households faced with unexpected or life-cycle driven financial demands (such as medical bills or college tuition) or higher-interest rate debts (such as credit card balances). But so-called "cash-out" refinancings, in which the borrower obtains a new loan for more than he or she owes under the old loan, leave the homeowner more financially stretched (and, as a result, more vulnerable to downturns in the housing market) and with less equity for future needs, such as retirement. The sharp increase in the number of subprime refinance loans issued to black and Hispanic borrowers in recent years thus raises further concerns that blacks and Hispanics will suffer disproportionately higher rates of foreclosure. Foreclosure not only means losing one's home, but also losing the path to wealth-building that homeownership can offer.

[25] This analysis is subject to error because of the relatively high number of refinance loans for which the race of the borrower was not reported (and which are, consequently, omitted from this portion of our analysis). About 20% of all refinance loans extended in 2006 were to borrowers for whom no race was reported.

[26] See Avery, Brevoort & Canner 2007.

[27] See U.S. Census Bureau 2008.

CONCLUSION

Recent changes in the mortgage industry have allowed an ever greater number of New Yorkers to participate in the City's real estate market; the number of conventional mortgage loans originated each year grew by 167% from 1996 to 2006. In fact, the availability of mortgage credit may have even fueled some of the extraordinary increase in housing prices over that 10-year period. But the high prices of real estate and the corresponding jump in loan amounts needed to finance these high prices have encouraged an increasing number of New Yorkers to borrow in untraditional ways: using piggyback loans to cover down payments and taking subprime loans from lenders willing to underwrite higher-risk borrowers or higher loan-to-value ratios. These changes have transformed the mortgage lending landscape at an incredibly fast rate. Just between 2004 and 2006, the number of piggyback loans issued in New York City tripled and the number of subprime home purchase loans (of any lien priority) rose by more than 50%. During this same time period, however, the number of first lien home purchase loans actually declined by 5%, indicating that the number of home purchases in New York City is currently decreasing.

We do not yet know the full impact of these dramatic shifts. Recent census data for the country as a whole reveals that the national homeownership rate actually declined during 2007 as the foreclosure crisis hit many markets.[27] To date, New York City has largely escaped the declining housing prices and staggering foreclosure numbers witnessed in parts of the Sun Belt and Rust Belt in the past year. But the scale of risky borrowing patterns has left many New Yorkers highly leveraged relative to both income and the value of their homes. Those homeowners, accordingly, are more likely to suffer foreclosures if a real estate downturn does arrive and removes the option of selling the home to pay off mortgage debt.

This concern is especially worrisome in New York's communities of color, which have made notable strides in homeownership in recent years. On the one hand, indisputable progress has been made in closing the racial homeownership gap: the racial distribution of New York's homeowners in 2006 looked more like the City's overall racial composition than ever before, and in 2006, more prime first lien loans were issued to

black and Hispanic borrowers than in any of the previous several years. On the other hand, the concentration of subprime and piggyback lending, as well as the likely concentration of cash-out refinancings in these communities pose serious threats to the sustainability of homeownership.

In 2007 radical changes occurred in the mortgage industry as lenders responded to ever greater numbers of subprime loans ending in default and foreclosure. As a result, the risky lending practices we describe in this report are unlikely to continue at the scale witnessed during the boom years of the mid 2000s. Moving forward, it is likely that new homeowners will face greater obstacles to accessing credit, and existing homeowners saddled with substantial housing debt may be unable to refinance into more affordable loans. Combined, these factors may lead to declining rates of homeownership, particularly in communities of color.

Appendices

APPENDIX A: THE HMDA DATA SET

Initially enacted in 1975 in response to concerns that commercial banks had been unfairly restricting access to credit in urban neighborhoods (i.e., "redlining"), HMDA requires each regulated depository institution with a location in a metropolitan area, as well as all private mortgage companies, that meet relatively modest asset size or lending activity criteria to provide information to the federal government about each residential mortgage loan application it processes. The law's original reporting requirements were modest, enabling only the tracking of the geographic distribution of residential mortgage lending. In the subsequent three decades, the law has been amended several times to significantly broaden the scope of information mortgage lenders are required to report. As of 2006, this information included, among other items: demographic characteristics of the applicant (such as race, gender, and income), whether or not the applicant intends to occupy the underlying property, and several characteristics of the proposed loan, such as its dollar amount, whether it is for a new home purchase or a refinancing, whether it is government-insured, the property type (e.g., multi-family or 1-4 family dwelling) of the underlying property, and the census tract of the underlying property. Since 2004, covered lenders also have been required to report the lien priority of applied for loans (e.g., whether the loan is a first mortgage or junior mortgage) and interest rate information if the loan is "high cost" (carrying an interest more than 3% above a specified federal benchmark rate if a first lien loan, 5% if a junior lien loan).

Despite the breadth of information HMDA requires, it has several limitations worth noting for the purposes of this chapter. First, as noted above, HMDA requires only lenders meeting certain criteria to report. Although there is little available research evaluating HMDA's coverage (and none specifically for New York City), researchers at the Federal Reserve Bank of New York recently estimated its national coverage to be approximately 80% of all originated mortgage loans, and there appears to be little concern that the available data suffers from significant selection bias.[29] Second, certain demographic fields, including the race and gender of the applicants, are reported for applications received by telephone, mail or internet only if applicants agree to provide the information. Over the past decade, the borrower's race was unreported for between 15% and 23% of all completed applications for conventional 1-4 family, owner occupied home purchase and refinancing mortgage loans in New York City resulting in a loan origination. Third, HMDA reporting only provides mortgage loan application and origination data for a given year; it does not provide any direct insight into the performance or tenure of past originated loans, nor does it provide a "snapshot" of all outstanding mortgage loans at any one time. Fourth, while HMDA requires lenders to report the income of a loan applicant when it is relied upon for underwriting purposes, there is no report-

ing requirement regarding the applicant's credit score, the appraised value of the applicable dwelling, or any existing or additional debt secured by a mortgage on the applicable property. For these reasons, HMDA is of limited value in assessing whether lending practices are discriminatory or in assessing trends in borrower leverage. Finally, although we rely on HUD's subprime lender list, and, since 2004, the reporting of high cost loans has been required, neither of these measures perfectly captures subprime loans. Notwithstanding these limitations, however, the information HMDA reporting does include remains the broadest publicly available data set for tracking mortgage originations and provides a valuable tool for identifying mortgage lending trends each year.

APPENDIX B: NEW YORK CITY HMDA SAMPLE

In 2006, the most recent year of data included in this analysis, lenders subject to HMDA reporting requirements issued almost 139,000 residential mortgage loans in New York City, reflecting an increase of more than 300% between 1996 to 2003 and a subsequent modest decline between 2003 and 2006. Of this total, a small portion (less than 2.5% of the total in 2006) were issued in connection with the purchase or refinancing of a multi-family property rather than a 1-4 family dwelling. Because multi-family housing financing is more typically provided as a commercial loan (and thus not reported under HMDA), these data are not generally indicative of multifamily lending trends. Further, because our focus is on the implication of mortgage lending patterns for homeownership, we have excluded the small number of multifamily loans reported in the HMDA data from the analysis in this chapter.

Of the total number of reported mortgage loans in 2006, more than 90% of borrowers reported that they intended to occupy the subject property. Although this percentage has declined slightly over the past 11 years (from almost 95% in 1996), the corresponding share of mortgage originations attributed to non-owner occupied properties (typically described as "investment properties") remains relatively modest. Because our focus is on mortgage lending as a factor in homeownership (as opposed to mere residential property ownership), we excluded the non-owner occupied portion of HMDA's reported mortgages from the analysis in this chapter.

We also excluded from the analysis in this chapter the subset of mortgage loans made up of FHA, VA or other government insured loans. While programs offering standardized government-sponsored mortgage insurance have historically played a significant role in homeownership, the incidence of such loans among the reported total for New York City has declined significantly over the past eleven years, from almost 9% in 1996, to less than 0.6% in 2006. The decrease in government-insured loans at the national level has been similarly dramatic, plunging from about 16% of all originations in 2000 to about 3% in 2006.[30]

The relative proportions of the reported mortgage loans issued for the purposes of purchasing a home, refinancing an existing loan, or funding (at least partially) home improvements (whether technically secured by a mortgage or not), have varied significantly over the last 11 years. In 1996, for example, home purchase loans made up more than 64% of all reported New York City mortgage loans. That share declined to 32% in 2003 as a result of the dramatic increase in refinancings encouraged by historically low interest rates. Home improvement loans have made up a comparatively modest share of all reported New York City mortgage loans throughout this period, ranging from approximately 2.3% in 2003 to 10.5% in 1998. For loans originated in 2006, approximately 53.4% were for home purchase, 40.2% were refinancings, and 6.4% were for home improvement. Given their relatively small number and less significant role in reflecting the availability of mortgage funds to New York City residents, we have excluded home improvement loans from the analysis in this chapter.

The conventional 1-4 family owner-occupied loans which we focused on in this chapter constituted approximately 84% of the nearly 139,000 mortgage loans originated in New York City in 2006, and no fewer than 74% of the total number originated in each of the preceding 10 years.

[29] Avery, Brevoort & Canner 2007. One study examining coverage in the early 1990s reported coverage of over 70% (see Berkovec & Zorn 1996).

[30] See Avery, Brevoort & Canner 2007.

APPENDIX C: METHODOLOGICAL NOTES

Racial Categories

Loans were assigned to a racial 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," the loan was classified as Hispanic, regardless of the applicant's reported race. For example, if the primary applicant for a loan record reported his or her race as "white" and his or her ethnicity as "Hispanic," the applicant was classified as Hispanic. Only about 1.7% of the conventional loans we examined had a primary applicant and co-applicant with different races.

Inflation Adjustments

Using the U.S. national Consumer Price Index (CPI) reported by the Bureau of Labor Statistics, annual loan and income amounts for the period 1996 to 2006 are adjusted to constant 2006 inflation-adjusted dollars.

Deletion of Certain Observations

Observations were deleted if (i) they were outside the range of minimum or maximum possible values (e.g., a negative loan amount), (ii) they had missing values or (iii) if the income amount is reported as "Not Applicable."

Changes in Definitions Over Time

HMDA data started to include information on property type in 2004 according to the following categories:

1-One to four family (other than manufactured housing);
2-Manufactured housing; and
3-Multifamily.

In order to identify property type prior to 2004, we used information on loan purpose. In HMDA data from 1996 to 2003, loan purpose was categorized into:

1-Home purchase (one-to-four family);
2-Home improvement (one-to-four family);
3-Refinancing (one-to-four family); and
4-Multifamily dwelling (home purchase, home improvement, and refinancings).

For these earlier data, we identified loans that had 1, 2 or 3 listed as their loan purpose as 1-4 family homes, while those with a loan purpose of 4 were identified as multifamily (coded as property type 3 after 2004). No information is available to distinguish manufactured housing prior to 2004.

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