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Risky Lending Patterns and Increasing Foreclosure Filings Pose Significant Threats to Many NYC Neighborhoods

A New Report by the Furman Center Examines Mortgage Lending Trends Over the Past Decade and Finds a Troubling Concentration of Risky Lending Among Black and Hispanic Borrowers

While New York City has so far escaped the staggering foreclosure numbers witnessed in many parts of the country in the past year, a new report on mortgage lending trends reveals that the level of risky lending in the City has grown dramatically over the past few years, leaving many communities vulnerable to large scale foreclosures should the housing market slow.

"Although notices of foreclosures thus far have hit just a few neighborhoods hard, New York is not immune to the high rates of foreclosure many parts of the country have seen," said Vicki Been, director of the Furman Center. "In recent years, homebuyers in New York took out subprime loans at rates higher than most other large cities and increasingly relied on piggyback loans, leaving our homebuyers highly leveraged and vulnerable to default. Should we see a downturn in real estate prices, New York City may face serious challenges from increasing numbers of foreclosure filings."

The report, the [State of New York City's Housing and Neighborhoods 2007](#), finds that in recent years, increasing numbers of New York City borrowers took out subprime home purchase and refinance loans, which tend to default at a higher rate than prime loans. In 2006 (the most recent year for which data are available), 21% of all home purchase loans and 27% of all refinance loans were subprime, compared to the national rates of 13% and 16% respectively.

Another danger sign the report highlights is the dramatic increase in the use of second liens, or piggyback loans, which may limit the amount of equity a homebuyer has in his/her house. In 2006, almost 30% of all New York City homebuyers taking out a first mortgage simultaneously took out a second lien, or piggyback loan. This is up from just 9% in 2004. In a real estate downturn, homeowners with less equity may be more likely to forfeit their homes than homeowners who put up more of their savings for the down payment.

One of the report's more troubling findings is that both subprime and piggyback lending are disproportionately affecting black and Hispanic borrowers, leaving the majority of the risk concentrated within these communities, which have only recently made significant gains in homeownership. In 1996, about 26% of all New York City home purchase loans were issued to black and Hispanic borrowers; by 2006, more than 40% of all home purchase loans were issued to blacks and Hispanics. But the report reveals that this apparent progress was largely the result of disproportionate reliance on risky borrowing.

"As a result of the concentration of risky lending in New York City's communities of color, predominantly black and Hispanic neighborhoods have been disproportionately affected by the rising number of foreclosures the City already has witnessed, and are most at risk should the housing market experience a downturn," commented Ingrid Gould Ellen, co-director of the Furman Center.

New York City has already begun to see a dramatic increase in foreclosure filings, growing by 50% between 2006 and 2007, from about 10,000 in 2006 to nearly 15,000 in 2007. Most of the foreclosure activity has happened in areas that have seen high rates of subprime lending, which also tend to be largely minority communities. Among the ten community districts with the highest

rates of foreclosure in 2007, seven also were among the ten community districts with the highest rates of subprime lending in 2006. In every case, those neighborhoods are at least 88% non-white.

Below is a sample of data from the report which reveal a concentration of risky loans among black and Hispanic homebuyers, suggesting that they are more likely to face foreclosure should New York see a housing slowdown:

Subprime Lending. Black and Hispanic borrowers together accounted for only 35% of the City's home purchase borrowers in 2006, but they received nearly 70% of all subprime first lien and junior lien home purchase loans issued that year.

- Blacks are four times as likely to receive a subprime home purchase loan as whites, and Hispanics are three times as likely as whites
- In 2006, black homeowners (though making up only 20% of all homeowner households in the City) received 50% of all subprime refinance loans

Piggyback Lending. Black and Hispanics together made up only approximately 35% of all home purchase borrowers, but received nearly 65% of all new piggyback loans issued in 2006.

- Only 16% of white homebuyers took out a piggyback loan in 2006, compared to 46% of Hispanic and 51% of black homebuyers

Refinance Activity. In recent years, rates of refinancing activity (both prime and subprime) have been much higher for black and Hispanic homeowners. Because much of this refinance activity took place well after the record low interest rates of 2003, when rates were rising, much of this refinance activity probably reflects "cash-outs" as opposed to refinancing for better terms.

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About the State of New York City's Housing and Neighborhoods

Recognizing the need for a comprehensive source of information on trends in New York City's housing and neighborhoods, the Furman Center began publishing this report annually in 2001. Earlier volumes have become the standard reference that policymakers, non-profit organizations, and community leaders turn to for reliable and timely housing and demographic statistics in New York City.

This edition of the report—the *State of the New York City's Housing and Neighborhoods 2007*—can be downloaded free of charge on the Furman Center website: <http://furmancenter.nyu.edu>. All data included in the report, as well as data on more than 1,800 additional measures of New York City's housing and neighborhood quality, also are available in the Furman Center's online information and mapping service, the New York City Neighborhood and Information System (NYCHANIS): www.nychanis.com.

About the Furman Center for Real Estate and Urban Policy

The Furman Center for Real Estate and Urban Policy is a joint center of the New York University School of Law and the Robert F. Wagner Graduate School of Public Service at NYU. Since its founding in 1995, the Furman Center has become the leading academic research center in New York City devoted to the public policy aspects of land use, real estate, and housing development. The Furman Center is dedicated to providing objective academic and empirical research on the legal and public policy issues involving land use, real estate, housing and urban affairs in the United States, with a particular focus on New York City. More information on the Furman Center can be found at: <http://furmancenter.nyu.edu>.