



COMMUNITY DEVELOPMENT COUNCIL

Summary of Key Findings and Implications
From the 2006 Lending Study

Beyond Subprime Lending:

**Using Lending Study Data
to Stabilize Neighborhoods
In a Post-Foreclosure Environment**



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Beyond Subprime Lending:
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Summary of Key Findings and Implications from the 2006 Home Mortgage Disclosure Act
and Related Housing Market Data

A Collaborative Project of the Community Development Council and the
Center for Community Building and Neighborhood Action

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Introduction: This analysis of 2006 HMDA data marks the third year of collaboration between the Community Development Council and CBANA. During this period, subprime lending in Shelby County grew from 25% of all mortgages in 2004 to 38% in 2005, stabilizing at 36% for 2006. In the meantime, the national mortgage meltdown and foreclosure crisis have virtually brought subprime lending to a standstill, a reality that we will begin to see reflected in the 2007 data.

Previous lending studies have focused on the role of subprime lending in Shelby County: its association with independent mortgage brokering and the dominance of unregulated mortgage companies over traditional retail banks in an increasingly deregulated financial market (the dual mortgage market); the relationship between subprime mortgage lending and foreclosures in Shelby County and elsewhere; and the geographical representation of subprime lending and foreclosures that disproportionately effect identifiable neighborhoods.

We have also documented the continued disparity in lending patterns for African Americans and white borrowers and the target marketing of black Shelby Countians for subprime loans in identifiable neighborhoods. We came to understand ongoing racial disparities in terms of “predatory greenlining,” where it was no longer a question of mortgage money failing to flow to minority neighborhoods and borrowers, but where instead deceptive and imprudent lending practices benefit brokers and lenders and temporarily appear to be pumping up homeownership and building wealth among targeted borrowers and “greenlined” neighborhoods.

The standard analysis of 2006 HMDA data – which is contained in the 2006 Lending Study Technical Report and Appendices – documents very little change from 2005. The only meaningful difference is that we have begun to see some falloff in the percentage of loan applications and originations attributable to both subprime and non-local lenders. In other words, the subprime market in Shelby County peaked in 2005 and some subprime lenders had already cut back or gone out of business by 2006.

With three years of detailed HMDA analysis, integrated with housing market data from other sources, we are able to frame the 2006 Lending Study to anticipate the differential impact of foreclosures on different types of local neighborhoods and envision what the already-arrived “post-subprime” lending environment will mean for homeownership, neighborhood housing markets, and community development in Memphis and Shelby County.

This Summary of Key Findings and Implications from the 2006 Lending Study analysis will – if used to mobilize stakeholders and marshal resources – position us to cope with the fallout from subprime lending and its flip-side -- the tight mortgage market -- that is sure to disadvantage lower income and African American borrowers and neighborhoods that were already disproportionately disadvantaged by subprime lending. Key findings and implications are outlined below and illustrated by accompanying tables, graphs, and maps. As noted above, this Summary is accompanied by an in-depth technical report with detailed appendices on particular lenders and geographic areas in Memphis and Shelby County. The summary is organized in four sections:

1. Trends in Home Ownership and the Housing Market

2. Subprime Lending by Non-Local Lenders Stabilizes in 2006: Geographic and Racial Disparities Continue

3. 2008 Foreclosures Trending Upward about 10% from 2007

4. Marginal Buyers and Debt-Driven Equity Borrowing Associated with Home Ownership in High Foreclosure Neighborhoods

1. Trends in Home Ownership and the Housing Market

Key Findings and Implications: Subprime lending is associated with foreclosures, vacancies, and property maintenance issues. At the same time, the demise of subprime lending – accompanied by a sprawl-driven oversupply of single family homes – means diminished market demand, stagnant and declining property values, and transition of owner-occupied housing to the rental market. This set of circumstances poses special issues for neighborhoods in Memphis and Shelby County, special challenges for community developers, and public sector problems if property tax revenues decline.

Historically, because of modest property values and cost of living, Memphis' homeownership rate was higher than would have been expected given its high poverty rate and low median income.¹ The homeownership rate, however, was supported by long-time and elderly low-income and inner-city homeowners. Younger low-income households in those same neighborhoods have been losing property through subprime equity loans and cash-out refinancing on inherited family homes. Elderly homeowners have also been losing homes to predatory financing on home repair schemes. These kinds of foreclosures have risen steadily since we began tracking them in 2000 for Memphis and Shelby County, paralleling the deregulation of the lending environment and the growing evidence of predatory lending.²

Arguably, it was nevertheless subprime lending that sustained demand and increased homeownership marginally from 1990 to 2004: as housing in older inner-city neighborhoods shifted to the rental market with the passing of low income and elderly homeowners, younger low-income buyers sought out newer housing in more decentralized neighborhoods. Memphis's post WWII subdivision-style neighborhoods – outside the Parkways and inside and outside the 240 Beltway and extending into newly annexed neighborhoods close to still-growing subdivisions -- from Sherwood Forest to Parkway Village to Fox Meadows to Hickory Hill on the south and from Berclair to Highland Heights and Frayser to Raleigh on the north -- accounted for most of the increase in the Shelby County subprime market from 25% to 40% from 2004 to 2005.³ These neighborhoods have also borne the brunt of escalating foreclosures, so much so that we refer to them as the “vulnerable, swing neighborhoods” of “Zone 2.”⁴

¹ Derived from detailed analysis of census data comparing local homeownership rates among different income and age groups with national data.

² Predatory lending is most often distinguished in terms of targeting unsophisticated borrowers and deceptive marketing and/or underwriting techniques. Predatory brokers, originators, and servicers earn high fees for their role in originating, packaging for sale to investors, and servicing “high risk but high return” loans. Long term success is not relevant compared to up-front fees; as long as investors were absorbing losses amidst record returns on remaining loans, there was no cause for alarm among investors. With declining property values, however, in overheated markets (the “bursting of the bubble” in California, Florida, and Nevada), foreclosures were less easily absorbed. Investors were spooked and the “meltdown” began. Subprime lending is a more generic term for high-cost, higher risk loans that may or may not involve targeting and deception. In practice, however, target marketing in Shelby County makes it difficult to distinguish between up-front subprime lending and predatory lending.

³ The subprime market also crept into Cordova and the unincorporated county, and began to touch the more affluent suburbs.

⁴ Zone 2 neighborhoods are one category in our “Zone Analysis,” which replaced the earlier “center city” and “suburban” distinctions for lending studies beginning in 2004. Based originally on the geographic foundation of “inner city” (Zone 1), “mid-city” (Zone 2), and “suburban” (Zone 3), the 2006 lending study will refer to these zones less in geographic terms and more in terms of the strength of zones' respective housing markets. The Zone

In other words, as families moved away from Zone 2 neighborhoods – typically to one of newer subdivisions farther east – demand for housing in Zone 2 was sustained by subprime lending. As Zone 2 mortgages fail in large numbers, combined with shifts to the rental market in older, lower-income neighborhoods, it is likely that the small increase in homeownership since 1990 will not be sustained in the post-subprime market. Community developers are faced with the growing specter of excess supply, reduced demand, escalating vacancies, and stagnant property values.

The key question is to what extent homeownership can be – with innovative support systems – sustainably expanded to match the already existing supply of single family homes. If effective demand does not match the supply we can expect increasing vacancy and even abandonment in older neighborhoods and not-so-old Zone 2 neighborhoods, and significant transition of single family homes to the rental market in neighborhoods that retain greater appeal for investors. In either case, there are special challenges for community development, especially when sprawl-driven oversupply and stagnant property values are exacerbated by foreclosure-driven vacancies and obstacles to acquiring and reintegrating lender-owned properties (REO) into the productive housing stock.

- In the city of Memphis the homeownership rate of 56.4 in 2004 represents a peak and an increase from 55.1 in 1990 and 55.8 in 2000.⁵ By 2006, homeownership had already begun to decline at 54.9%. When 2007 and 2008 data become available, we are likely to see a continued decline in homeownership.
- About 15% of housing units in Memphis (and 13% for Shelby County as a whole) were vacant in 2006. Vacancies seem about equally evident in multi-family rentals and single family homes, with the latter subject to escalation with an increased foreclosure rate. (In Shelby County, few foreclosures involve multi-family developments.)⁶
- Using the first quarter of January 2006 as a baseline against which recent changes in homes sales prices might be compared, the average sales price for homes in Shelby County was \$160,181 in 2006. Since 1990, the average annual increase in sales prices for Shelby County was about 4%, well behind national increases; this discrepancy became clear in the late 1980s and has persisted. In January 2007, the average sales price was \$162,000, but was down to \$142,000 as the mortgage meltdown set in during the summer of 2007: a decline of 12.5% in an already “undervalued” market. Particular neighborhoods stand to bear even greater burden when foreclosures are concentrated in Zone 2.⁷

concept is elaborated later in this 2006 Summary of Key Findings and Implications for the Post-Subprime Housing Market in Shelby County.

⁵ This compares to a 62.9% homeownership rate for Shelby County and 69.9% for Tennessee in 2006.

⁶ Vacancies are estimated by the annual American Community Survey, which includes a margin of error of one to two percentage points and by HUD for the rental market. ACS does not provide vacancy rates for zipcodes or other smaller geographies. The United States Postal Service has recently begun to make its vacancy data available for analysis, and it is also possible to estimate vacancies using utility records. Closer tracking of both of these sources of data is a good idea as we attempt to grapple with the impact of foreclosures on neighborhoods. CBANA is also in the process of surveying residential properties neighborhood by neighborhood, and will be able to provide baseline numbers for 2008 at the end of the year.

⁷ As reported by John Gnuschke and Richard Evans, Sparks Bureau of Business and Economic Research, Fogelman College of Business and Economics, the University of Memphis in March 2008. Based on data from Memphis Area Association of Realtors.

2. Subprime Lending by Non-Local Lenders Stabilizes in 2006: Geographic and Racial Disparities Continue

Key Findings and Implications: Loan applications were down 11% from 2005 (94,479) to 2006 (83,988.) At the same time, subprime originations (13,772) decreased slightly from 38% to 36% of all loans. Subprime lending continued to target particular Zone 2 zipcodes, African Americans, and lower income people amidst slowly emerging evidence of subprime lender retreat. *Understanding how subprime lending has been supporting neighborhood housing markets is critical to understanding challenges in different kinds of neighborhoods in a post-subprime environment.*

Unchanged from 2005, subprime lending accounted for at least 50% of loans in half of the city's zipcodes, or one of three zipcodes county-wide. Predominantly African American zipcodes are most vulnerable, as are African American borrowers, who at 70% of subprime borrowers in 2006 continue the pattern established in previous years.

When we distinguish between subprime purchase loans and subprime refinance loans, there is a somewhat different geographic distribution. Subprime refinance is skewed toward inner city Zone 1 neighborhoods, which have lower median incomes and higher poverty rates, while subprime purchase loans are skewed to Zone 2, and increasingly Zone 3. Interestingly, piggy-backed loans (first and second lien loans at time of purchase and typically zero down; may or may not be subprime), are skewed toward Zone 3. This suggests some "pushing of the envelope" in terms of purchase prices in these higher cost Zone 3 (downtown, Poplar corridor, and suburban) neighborhoods. A dramatic decline in subprime-supported home purchases (including piggy-backing) is expected for 2007, begging the question of how demand in high-impact neighborhoods can be sustained.

Non-local lenders, mostly independent mortgage companies, continue to be responsible for the lion's share of subprime lending: 91% in 2006. Reflecting the slowdown in subprime lending, 2006 applications for non-local lenders declined slightly from 83% in 2005 to 79% in 2006. Overall, counting both subprime and prime lending, the local retail bank share of originations increased by 8% from 10,904 in 2005 to 11,730 in 2006.

Small local banks made big inroads in mortgage lending in 2005, almost exclusively in the prime sector, but their share compared to well-established local banks actually shrank somewhat as the larger banks appeared to be re-entering the picture in 2006. Both small and large local banks – with the exception of First Tennessee, increased mortgage activity in 2006. It is unclear what role smaller, community-based banks (and credit unions) might play in a post-subprime environment; *national discussion among policymakers is suggesting that community-based banks may be in a better position to be flexible with, for example, community-based financing for acquisition of vacant foreclosures.*

Characteristics of applicants, borrowers, and loans (prime and subprime combined) are documented zipcode by zipcode in the table below. The table is accompanied by maps illustrating the distribution of subprime purchase, refinancing, and piggy-backed loans.

Key summary points from the table and maps and related tables in the technical report include:

- Subprime loans decreased from 38% to 36% of all loans from 2005-2006.**
- There were 13,300 subprime originations in 2006 compared to 15,080 in 2005.**
- One of five purchase originations is a 2nd lien loan, meaning that about 25% of all purchases include these “piggybacked” loans; this is down, however, from 39% in 2005.**
- Nearly one of five originations is for a loan worth three or more times the applicant’s annual income – considered outsized by industry standards; this is up from 16% in 2005.**
- Black borrowers are more than twice as likely to have a subprime loan as white borrowers, with disparities at all income levels.**

Zip Code Application Totals (2006 HMDA Data)

Zip Code	Total Applications	% Purchase Applications	% Conventional Loan Applications	% High Income Loan Applications 1	% Low Income Loan Applications 2	% High Cost Loans 3	% High Loan-To-Income 4	% 2nd Lien/Purchase 5	Origination Yield 6	Denial Rate 7	Attrition Rate 8	Denial Rate/White Applications	Denial Rate/Black Applications	B/W Application Index 9	B/W Origination Index 10	% Female Applications
38002	3,650	57.3%	95.4%	69.2%	9.4%	15.8%	20.7%	25.0%	59.3%	21.9%	21.7%	17.1%	33.6%	0.27	0.20	27.3%
38016	3,729	57.3%	94.1%	50.7%	18.6%	26.8%	20.2%	26.2%	50.7%	29.8%	24.2%	23.4%	34.3%	0.72	0.59	40.4%
38017	4,899	55.4%	97.4%	73.8%	9.5%	19.1%	23.9%	26.0%	55.3%	23.6%	24.9%	16.0%	34.3%	0.59	0.41	30.9%
38018	5,451	55.9%	93.3%	50.1%	20.0%	26.5%	22.0%	25.1%	52.3%	28.6%	23.5%	21.9%	31.9%	0.81	0.66	39.6%
38053	2,503	37.4%	95.9%	41.1%	33.8%	34.6%	18.1%	15.2%	43.2%	38.2%	25.4%	29.7%	47.5%	0.60	0.42	36.4%
38103	900	83.7%	99.9%	72.4%	10.7%	10.2%	10.0%	23.0%	59.7%	21.1%	22.2%	14.5%	34.0%	0.32	0.21	31.7%
38104	1,737	56.8%	97.6%	54.6%	22.1%	21.8%	17.6%	18.7%	51.7%	30.4%	22.8%	21.6%	45.4%	0.41	0.24	36.5%
38105	243	44.0%	90.9%	29.6%	45.3%	43.4%	13.9%	7.5%	34.2%	47.0%	27.6%	32.0%	46.2%	4.74	2.76	34.3%
38106	1,967	42.1%	98.0%	20.8%	59.4%	67.0%	9.7%	7.7%	33.3%	51.2%	23.7%	38.6%	50.7%	11.27	7.89	48.1%
38107	2,314	50.7%	98.3%	39.6%	37.4%	40.2%	13.2%	13.7%	43.9%	39.9%	22.1%	15.2%	49.0%	2.26	1.17	43.9%
38108	1,202	45.3%	96.8%	27.3%	55.4%	52.2%	10.5%	8.6%	37.8%	46.0%	22.5%	36.5%	51.1%	1.50	0.94	40.2%
38109	4,520	37.1%	97.3%	20.7%	57.2%	61.6%	14.1%	13.7%	33.1%	48.8%	27.1%	43.4%	47.2%	10.25	9.29	52.0%
38111	3,470	46.3%	95.7%	37.0%	42.0%	33.8%	12.2%	15.8%	48.0%	34.1%	23.3%	17.9%	48.9%	0.92	0.45	40.9%
38112	1,286	48.2%	98.4%	43.9%	37.8%	38.3%	12.1%	13.9%	48.1%	35.7%	21.5%	18.9%	46.9%	1.11	0.59	42.6%
38113	3	66.7%	100.0%	0.0%	66.7%	0.0%	0.0%	0.0%	33.3%	50.0%	33.3%	0.0%	50.0%	2.00	N/A	33.3%
38114	2,208	40.3%	97.7%	24.6%	52.4%	55.0%	11.7%	9.2%	37.8%	46.0%	22.6%	24.4%	46.4%	4.60	3.16	50.2%
38115	2,640	42.6%	96.7%	23.8%	44.6%	54.5%	16.2%	21.5%	33.4%	47.9%	28.0%	33.0%	46.2%	7.27	5.59	51.1%
38116	3,705	33.9%	97.0%	22.8%	46.4%	56.5%	17.8%	20.4%	30.9%	49.1%	30.2%	48.7%	46.3%	13.08	15.93	52.1%
38117	2,202	54.1%	94.1%	45.0%	30.1%	20.5%	14.3%	17.6%	59.1%	23.2%	21.2%	18.3%	34.8%	0.17	0.11	38.2%
38118	7,083	41.9%	96.4%	26.5%	45.7%	55.1%	20.5%	22.4%	35.1%	46.4%	27.0%	42.6%	44.1%	6.89	7.15	50.7%
38119	1,159	52.7%	94.0%	52.8%	20.2%	23.4%	19.4%	21.3%	51.7%	29.9%	22.9%	21.9%	34.1%	0.70	0.55	44.0%
38120	1,202	57.7%	98.0%	70.5%	12.2%	12.5%	17.8%	19.0%	63.7%	18.9%	19.8%	14.4%	45.2%	0.08	0.05	35.0%
38122	1,266	48.7%	95.4%	30.6%	49.1%	43.1%	9.8%	16.4%	48.6%	35.9%	20.5%	30.1%	43.4%	0.34	0.25	37.9%
38125	2,429	47.9%	96.0%	33.3%	30.4%	47.0%	23.0%	28.0%	36.9%	41.9%	28.9%	50.0%	39.0%	6.92	8.87	48.0%
38126	183	41.5%	98.4%	29.3%	50.0%	53.6%	9.1%	3.9%	30.6%	54.7%	24.6%	13.3%	55.5%	7.28	4.10	44.4%
38127	3,975	41.4%	97.7%	24.3%	54.8%	59.8%	9.5%	11.0%	34.0%	48.6%	25.6%	32.8%	50.4%	3.82	2.42	47.3%
38128	4,563	43.0%	96.4%	24.6%	47.9%	55.4%	15.3%	18.7%	35.1%	47.4%	25.5%	39.6%	46.2%	4.17	3.70	49.4%
38133	1,076	43.5%	92.5%	43.6%	23.8%	23.3%	18.0%	21.2%	53.1%	25.3%	26.0%	23.4%	20.9%	0.11	0.09	30.7%
38134	3,814	47.4%	94.4%	28.5%	36.6%	39.1%	17.5%	22.2%	44.2%	36.7%	25.6%	27.9%	42.8%	0.80	0.58	42.3%
38135	2,858	50.1%	94.4%	53.7%	18.9%	26.7%	21.1%	25.7%	53.4%	28.6%	22.1%	23.1%	30.7%	0.83	0.71	38.5%
38138	3,088	51.5%	98.7%	80.3%	7.4%	13.0%	19.7%	20.9%	59.1%	21.1%	22.8%	15.8%	40.0%	0.19	0.10	28.9%
38141	2,663	44.4%	96.2%	18.5%	51.9%	57.5%	15.4%	21.6%	34.1%	46.6%	28.3%	39.3%	44.7%	8.04	7.58	50.0%
All Zip Totals	83,988	47.5%	96.2%	40.1%	34.7%	36.1%	17.2%	20.2%	44.3%	37.1%	24.8%	22.9%	43.8%	1.41	0.90	42.5%
Shelby County Totals	83,988	47.5%	96.2%	40.1%	34.7%	36.1%	17.2%	20.2%	44.3%	37.1%	24.8%	22.9%	43.8%	1.41	0.90	42.5%

¹High income means greater than 120% of area median income.

²Low income means 80% or less of area median income.

³Rate spreads of 3+ percentage points on first liens and 5+ on 2nd liens. Reported as percentage of originated loans.

⁴Loans equal to or greater than three times reported annual income.

⁵2nd lien at purchase typically means no down payment. Reported as percentage of purchase applications.

⁶Percent of all initiated applications (including incomplete and withdrawn) that result in loan origination.

⁷Percent of all completed applications that are denied (subtract denial rate from 100 for approval rate).

⁸Percent of all initiated applications (including incomplete, withdrawn, and approved but declined by the borrower) that fall out of the origination pipeline at the discretion of the consumer.

⁹Number of applications from black applicants for each application from a white applicant.

¹⁰The number of originations for black borrowers for each origination from a white borrower.

NOTE: N/A means not applicable, but in the case of racial identifiers, black or white borrowers who chose not to report can not be included. Therefore, this table does not conclude that there were no black or white borrowers.

