Metropolitan Housing and Communities Center

High-Cost and Investor Mortgages
Neighborhood Patterns

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The peak period of subprime lending in this country was from 2004 to 2006. Even though the foreclosures of Alt-A and prime loans will be increasingly important in the future, in early 2009 it is likely that the neighborhoods where the densities of those subprime loans were highest are the ones in greatest need of stabilization because of foreclosure impacts to this point.

This brief examines the characteristics and locations of such neighborhoods in the United States' 100 largest metropolitan areas. We define subprime density as the number of high-cost loans from 2004 through 2006 per 1,000 housing units in one- to four-unit structures. The brief also examines neighborhood patterns in the share of high-cost loans made to investors (as opposed to owner-occupant borrowers). High investor shares suggest higher rates of rental occupancy and, thus, the need for different approaches to neighborhood stabilization.

Main Findings

The neighborhoods hardest hit by the subprime crisis have been those where minority residents predominate, but among those, the highest subprime densities are found in census tracts with the *lowest* poverty rates.

- In predominantly Hispanic neighborhoods, for example, densities varied from only 47 in high-poverty tracts (those with a poverty rate of 30 percent or more) up to 84 where the poverty rate was low (below 10 percent). In predominantly black neighborhoods, the comparable range was from 51 in high-poverty areas to 79 in those with low poverty.
- The subprime density in predominantly white neighborhoods averaged a much-lower 32 and did not vary much by poverty level (although, as pointed out below, significant numbers of these had densities well above the average).

Average densities of subprime lending also varied by region: lowest in the Northeast (21) and more than twice as high in the South (49) and West (47), with the Midwest about halfway between (36). The U.S. average was 40.

But contrasts within metro areas were also striking. For each metro, we divided all tracts in the central city into three rings based on their distance from the central business district and then did the same for the suburbs.

- In the Northeast, the highest densities (27–30) were in the middle and outer rings of the central city.

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- In the Midwest, densities were higher in all locations, but the pattern was similar—the highest subprime densities (49–51) were in the middle and outer rings of the central city.
- In the South, in contrast, the highest density (55) was in the middle rings of the suburbs.
- In the West, the highest density (53) was in the outer rings of the suburbs.

To sense the composition of probable neighborhood-stabilization workloads, this brief examines the characteristics of tracts with the very highest subprime densities. Defining that group as the top fifth of all tracts (a density of 58 or more), we find substantial diversity:

- 60 percent were in the suburbs and of those, 53 percent were low-poverty neighborhoods and 45 percent had predominantly white populations.
- Of the 40 percent in the central cities, however, 18 percent were low poverty and 18 percent were predominantly white.
- 36 percent of the total were in the South and another 32 percent were in the West.

On average, 17 percent of all subprime loans over this period were made to investor-borrowers. In contrast to the more evenly spread pattern of subprime lending overall, subprime investor loans were much more concentrated in high-poverty, African American neighborhoods in central cities:

- Investor shares were highest at 31 percent in the inner rings of the central cities, dropping gradually to 18 percent in the cities' outer rings, and then ranging only from 13 to 15 percent in the suburbs.
- Across locations, investor shares averaged 32 percent in high-poverty neighborhoods, in contrast to only 13 percent in low-poverty neighborhoods.
- In predominantly African American neighborhoods, the investor share averaged 30 percent, more than twice the level where the predominant group was Hispanic (13 percent) or white (15 percent).

1. Introduction

The subprime mortgage market offered loans to people with impaired or limited credit histories in return for higher rates and fees. As is now well known, subprime lending mushroomed in the first half of this decade but, since such loans imposed less stringent standards than prime loans, they have had a much higher risk of foreclosure. The resulting acceleration of subprime foreclosures is considered central to the collapse of the mortgage market in 2007.

Subprime lending was highly concentrated in some regions and some types of neighborhoods within regions, rather than being spread evenly across the country. And considerable research has now shown that concentrations of foreclosures can have devastating effects on the well-being of neighborhoods, resulting in marked declines in property values, physical deterioration, and increases in crime and other signs of disorder. It is the concentration that magnifies the risk.

Policymakers and practitioners have a strong interest in finding out which neighborhoods are most likely to be affected by these problems. Some excellent studies on this issue have already been completed.[1] This brief adds to this literature by presenting the data in some new ways that should be of interest to policy audiences (particularly the distributions by rings within cities and suburbs), and by describing the characteristics of neighborhoods that have experienced the very highest densities of subprime lending and by examining variations in share of subprime loans made to investor-lenders (as opposed to owner-occupants) across different types of neighborhoods.

In this brief, we rely primarily on one measure: the density of subprime lending in an area. We define this as the number of high-cost conventional first-lien home-

purchase loans originated from 2004 through 2006 (the peak period of subprime lending) per 1,000 total housing units in one- to four-unit structures in the area as of the 2000 census.[2] The data on high-cost loans come from the Home Mortgage Disclosure Act data set.[3] High-cost loans are defined as those with an annual percentage rate 3 percentage points or more above the Treasury rate for first-lien mortgages with comparable maturities (or 5 points over in the case of junior liens).[4] We use the terms *subprime* and *high cost* interchangeably throughout.

Subprime density is not an ideal indicator for targeting neighborhoods for "foreclosure prevention," since foreclosures in the future are expected to be more dominated by Alt-A and prime loans than by subprime.[5] However, subprime densities from 2004 to 2006 should help identify neighborhoods in need of stabilization now, places where substantial damage from foreclosures has already occurred. Other studies have identified strong correlations between subprime lending and foreclosures through 2008.[6]

We characterize neighborhoods (i.e., census tracts), first by their poverty rates and racial/ethnic composition (as of the 2000 census). We present information on the full cross-tabulation implied by these variables, so the reader can see, for example, whether subprime densities in neighborhoods that are predominantly African American have been higher where poverty rates are high or low.

The next characteristic of interest is location within a metropolis. Here, our approach permits meaningful comparisons between different metropolitan areas. We divided all the tracts in the 100 largest metros into six geographical divisions based on the distances of their geographical centroids from the primary city's central business district.[7] We first ranked all tracts in the primary city by that distance and divided them into three equal groups, thereby establishing, in effect, three rings. We then followed the same procedure for the suburbs, establishing three additional rings, again ranging from the nearest to the farthest from the primary city central business district.[8]

We present data in this way for the 100 largest metropolitan areas, summarized for the four major regions in the United States (Northeast, Midwest, South, and West) and the nation as a whole.[9]

The next section of this brief provides background information on how the crisis emerged, how key measures of high-cost lending and home prices varied across metro areas, and how year-to-year changes in neighborhood lending activity varied with poverty rates. Section 3 then presents the data on neighborhood variations in subprime densities from 2004 through 2006. Section 4 looks at the data another way: the distribution of census tracts (again by race, poverty, and location) in the top 20 percent with respect to high-cost loan density. Section 5 then uses the same framework to examine neighborhood variations in the share of high-cost loans made to investors (rather than to owner-occupants) over the same period. The final section discusses implications for policy.

2. Background: The Evolution of the Mortgage Crisis
Market Trends

The early years of this century mark an unprecedented period for America's mortgage market. The market was healthy enough in the late 1990s as the nation's economy was booming. By 2001, the economy began to falter but, in contrast to almost all past periods of sluggish economic performance, the housing sector continued to surge upward.

According to the OFHEO Index, the rate of home-price appreciation for the nation between the first quarter of 2000 and the fourth quarter of 2006 averaged a remarkable 5.3 percent per year.[10] This was more than double the 2.5 percent annual rate in the last half of the 1990s—a rate considered outstanding at the time.

The mortgage-origination rate (the number of home-purchase loans originated per 1,000 existing housing units in one- to four-unit structures) in the 100 largest

metropolitan areas grew from 38 in 1997 to 49 in 2002 and, then, yet more rapidly to reach 66 in 2005 (before dropping back to 58 in 2006 and, more dramatically, to 39 in 2007).

That interest rates remained low during this period was no doubt essential to this expansion. Another explanation, however, was that the industry began to serve a broader class of borrowers. In the mid-1990s, new federal policies were designed to increase homeownership in general and among low-income and minority populations and neighborhoods in particular. The mortgage industry began to pay attention to the new policy incentives but also began to recognize these directions as real market opportunities it had been undervaluing before. Whatever the mix of causation, the period was one of marked change, bringing national homeownership rates to historic levels.

The growth of the subprime market played a major role in this transformation. Subprime lending increased dramatically from the mid-1990s through the middle of this decade. In the peak period,

2004 to -2006, high-cost loans accounted for 21.6 percent of all conventional loan originations.[11]

Differences across Metropolitan Areas

While America's housing market had boomed through 2006, performance across its regions and metropolitan areas differed notably. Among the 100 largest metropolitan areas (again relying on the OFHEO Index), it ranged from only +0.5 percent (Detroit) to a phenomenal +13.8 percent (Miami). The five lowest (ranging from +0.50 to +0.54 percent) were all declining areas in the Midwest (Detroit, Dayton, Warren, Cleveland, and Indianapolis). The five highest (ranging from +13.2 to +13.8 percent) were all in California or Florida (Miami, Riverside, Fort Lauderdale, Bakersfield, and Los Angeles).

Figure 1 shows the relationship between these rates of home-price appreciation and the 2004–2006 densities of subprime mortgage originations in the 100 largest metro areas.[12] High-cost origination densities averaged 40 per 1,000 units

FIGURE 1. *Metro Density of High-Cost Loans, 2004–2006, by Home-Price Trends, First Quarter 2000 to Fourth Quarter 2006*
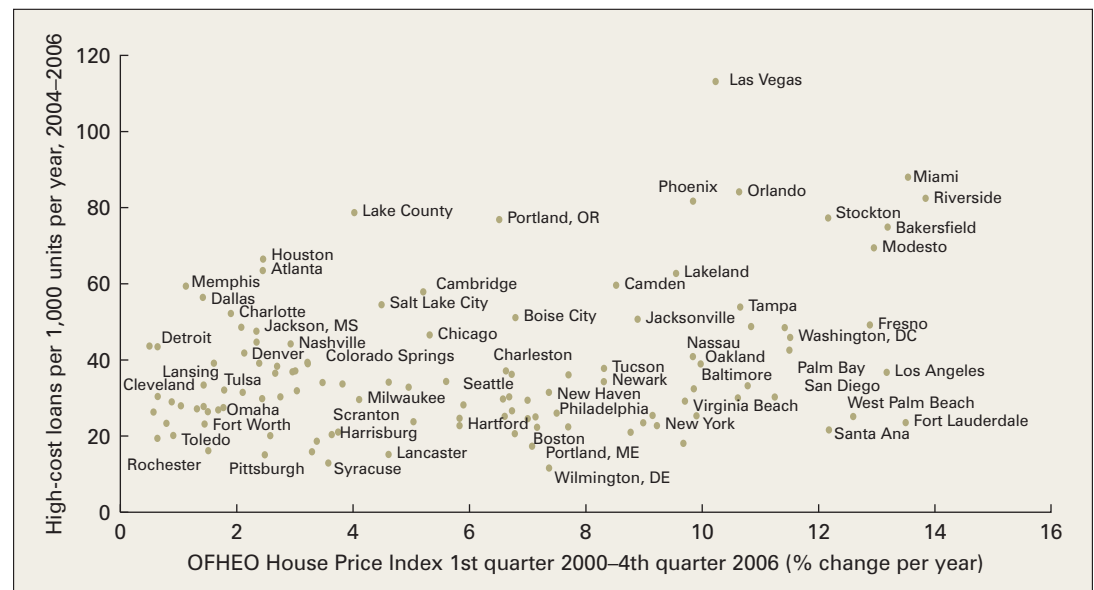
Source: Office of Federal Housing Enterprise Oversight (OFHEO) and Home Mortgage Disclosure Act dataset compiled by the Urban Institute.

Note: Density is defined here as the number of high-cost purchase loans per 1,000 units in one- to four-unit structures.

nationally over this period. The range was from a low of 12 (Buffalo) to a high of 114 (Las Vegas). The top five by this measure (ranging from 81 to 114) were Las Vegas, Riverside-San Bernardino, Orlando, Miami, and Phoenix. The five lowest (ranging from 12 to 15) were Buffalo, Wilmington, Syracuse, Pittsburgh, and Lancaster. Generally, the hotter mortgage markets (those that experienced the most rapid acceleration in home prices) had higher densities of high-cost loans, although the relationship is far from perfect.

This finding is generally consistent with the results of other studies on the incidence of subprime lending across metropolitan areas. For example, Dan Immergluck conducted a regression analysis for 103 metros with the subprime share of home-purchase loans in 2003 as the dependent variable.[13] Explanatory variables significant at conventional levels included the metro's change in the median loan amount from 1997 to 2003 and, interestingly, the proportion of residents with at least a college degree and the income-to-loan ratio. The last two were negatively related to the subprime share; that is, metro areas with

low educational attainment and low income-to-loan-size ratios had higher shares of subprime lending.

Figure 2 shows what happened to home prices in the large metropolitan areas "after the fall." It compares home-price changes earlier in the decade (from the first quarter of 2000 through the fourth quarter of 2006) with what has happened since (from the fourth quarter of 2006 through the third quarter of 2008). A metropolitan area would hope to be in the upper right quadrant of this chart (i.e., having had solid price increases in both periods). The chart, however, is a picture of one of the most dramatic upsets in housing-market performance in U.S. history. Nationally, the annual rate of change in prices collapsed from +5.3 percent to -7.1 percent. In the first part of the decade, all metros saw a growth in housing prices—outrageously high for most metros in California and Florida. Since 2006, however, the picture turned upside down. Only one metro on this chart (Austin) experienced an increase—all the rest faced losses, and the worst losses by far were for the California and Florida metros that had done the best

FIGURE 2. *Metro Home-Price Trends, First Quarter 2000 to Fourth Quarter 2006, by Fourth Quarter 2006 to Third Quarter 2008*
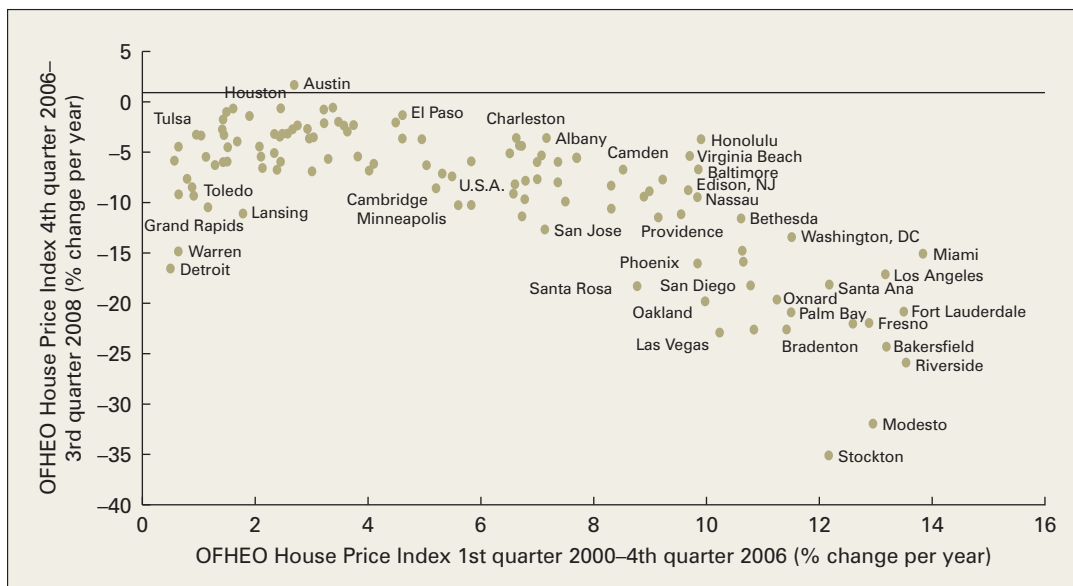
Source: Office of Federal Housing Enterprise Oversight (OFHEO).

before. Metros across this wide spectrum face very different challenges for policy.

Neighborhood Difference by Poverty Rates

All of the trends discussed above have also varied markedly in different neighborhoods, and one of the most relevant ways to classify neighborhoods for this purpose is by poverty level. We define four categories of neighborhoods based on their poverty rates in 2000. (The number of census tracts in each category in the 100 largest metropolitan areas is shown in parenthesis.)[14]

- *Low poverty:* poverty of 10 percent or less (23,267 tracts).
- *Moderately low poverty:* poverty from 10 to 20 percent (9,270 tracts).
- *Moderately high poverty:* poverty from 20 to 30 percent (4,354 tracts).
- *High poverty:* poverty rates of 30 percent or more (4,124 tracts).

Figure 3 confirms the conditions that drove public policy to expand mortgage lending in poor neighborhoods in the 1990s. The density of mortgage activity in high-poverty neighborhoods in 1997 (15 loans originated per 1,000 units in one- to four-unit structures) was only one-third of that in low-poverty neighborhoods (46), with levels for the two other categories falling in between. For all categories, mortgage-lending activity then increased modestly over the next two years, leveled off through 2002, and increased sharply between then and 2005, before turmoil in the market led to declines over the subsequent years. By 2005 the gaps were still significant (a rate of 41 for the low-poverty neighborhoods compared to 71 for the high-poverty group), but they had grown smaller as the volume of mortgage activity in moderate- and high-poverty neighborhoods accelerated. The level for high-poverty neighborhoods as a percentage of that for low-poverty neighborhoods increased from 33 percent in 1997 to 58 percent in 2005. Although the gap narrowed even further in 2006, the trend reversed in 2007, with the origination rate for high-poverty tracts equaling just under half of the low-poverty rate.

FIGURE 3. *Home-Purchase Loans Originated Per 1,000 Units in One- to Four-Unit Structures, by Poverty Rate of Census Tract, 1997–2007*
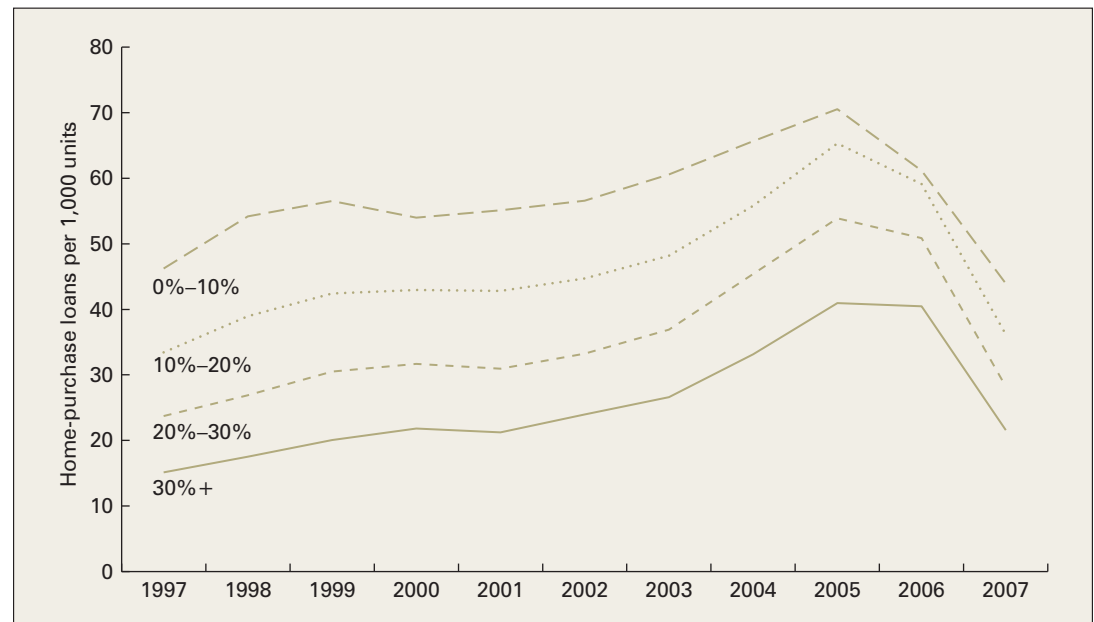
Source: Home Mortgage Disclosure Act dataset compiled by the Urban Institute.

The pattern is similar when we consider changes in mortgage amounts. For low-poverty neighborhoods, the median increased from $145,000 in 1997 to $201,000 in 2007. The loans for high-poverty neighborhoods were much lower ($76,000 in 1997, $144,000 in 2007) but had increased faster. The median mortgage amount in high-poverty tracts represented 72 percent of that for the low-poverty group in 2006, up notably from 52 percent in 1997. Data for 2008 loans should show the decline in prices that one would expect with a slowing number of transactions.

3. Neighborhood Patterns of Subprime Lending

Considerable research has shown that foreclosures indeed reduce the value of nearby properties and that this decline will be more severe as more foreclosures occur in the same vicinity.[15] In other words, a metropolitan area in which subprime loans and the foreclosures that result from them are spatially concentrated is likely to suffer substantially more than if the same loans and foreclosures were spread out evenly across all neighborhoods.

Variations by Poverty and Race/Ethnicity

Examining the neighborhood pattern of foreclosures directly would be ideal, but nationally complete and consistent data on foreclosures are not publicly available. However, as noted earlier, high-cost lending densities should serve as a reasonable proxy, at least for the first wave of foreclosures in the current crisis.

Figures cited below are densities of high-cost loans per 1,000 units in one- to four-unit structures from 2004 through 2006 for the 100 largest metropolitan areas. The measure varies dramatically for different types of neighborhoods.[16]

First, there are major differences according to the neighborhoods' predominant race, defined here as that accounting for 60 percent or more of a tract's 2000 population. For the large metros nationally, the density was 40 across all tracts, but 32

where whites were the predominant race. The subprime density was a much-higher 61 where blacks predominate, 57 where Hispanics are the predominant group, and also 57 where another race is predominant or there is no predominant race.

But there are major variations depending on the poverty rate of the tract as well. For these metros across all races, the density is highest at 51 for the groups with poverty rates in the 20 to 30 percent range, almost as high (48) for those in 10 to 20 percent group and the highest (30 percent or more) group. It stood at only 34 where poverty rates fell in the 0 to 10 percent range.

Putting both variables together for the 100 largest metros, figure 4 shows a strikingly disparate pattern. Within race categories, subprime densities are almost always highest in the lowest-poverty category and generally drop down consistently as poverty rates increase. The highest densities occur where Hispanics are predominant, ranging from only 47 in the highest-poverty tracts up to 84 where the poverty rate was lowest. Predominantly African American tracts come next, with 51 in the highest-poverty group and 79 in the lowest. The "other and mixed" category shows less variation with poverty rates (a 51 to 59 range) but the densities are again highest where poverty rates are low. For predominantly white tracts, there is also less variation, with the densities hovering in the much-lower 30 to 38 range.

In short, the neighborhoods hardest hit by the subprime crisis have been those where minority residents predominate. But within those, the highest subprime densities are found in neighborhoods with the least poverty. In some ways these results are particularly painful. It appears that the neighborhoods with the highest subprime densities are often those where young minority families were able to purchase their first homes in desirable surroundings, rather than the more-troubled neighborhoods they had finally been able to move away from.

This finding conflicts with a number of press accounts giving the impression

FIGURE 4. *Density of High-Cost Loans by Predominant Race and Poverty Rate of Census Tract, 100 Largest Metro Areas, 2004–2006*
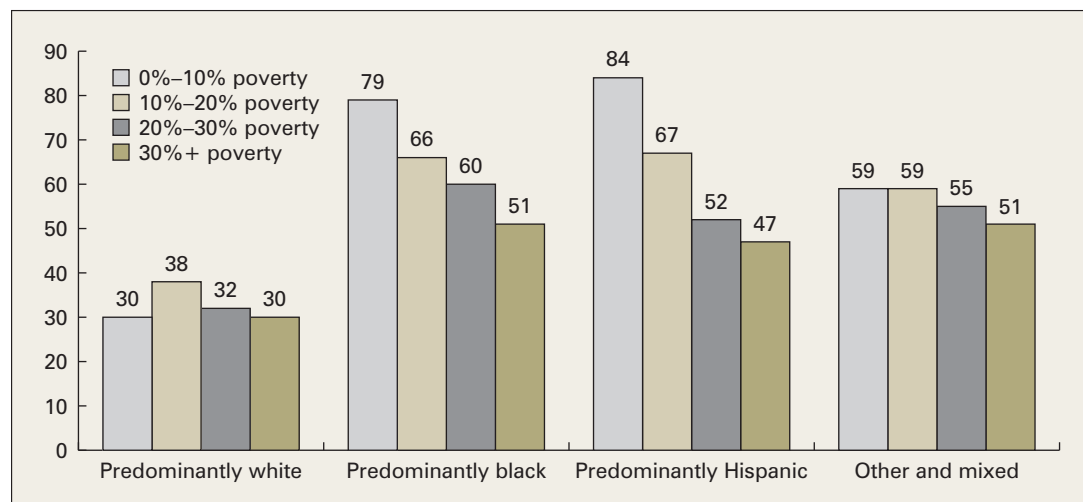
Source: Home Mortgage Disclosure Act dataset compiled by the Urban Institute.

Note: Density is defined here as the number of high-cost purchase loans per 1,000 units in one- to four-unit structures.

that subprime incidence is highest in low-income communities. In many cases, this is because the observers were using a different measure: subprime loans as a share of total lending. Indeed, high-cost loans do account for a higher percentage of all loans in poor neighborhoods. For the 2004–2006 period, the averages were 43 percent in high-poverty neighborhoods, 37 percent in the moderately high group, 29 percent in the moderately low group, and only 17 percent in low-poverty neighborhoods. But this measure is not what counts in terms of impact. In a neighborhood with only one subprime loan and one prime loan in a year, the subprime share would be an extremely high 50 percent, but few negative spillover effects would be expected. Again, it is high *densities* of subprime loans that create the impacts.

Why does this difference in rankings occur? Subprime loans do account for a higher share of all loans in poorer neighborhoods, but because the volume of home lending (per 1,000 units) is so much lower in such neighborhoods, subprime *densities* are lower there as a result.

Variations by Region

Table 1 shows how relationships in the 2004–2006 data for the 100 largest metros

differ for the four major U.S. regions. The average high-cost densities for these regions are quite different from each other: lowest at 21 in the Northeast, somewhat higher at 36 in the Midwest, but a significantly higher 49 in the South and 47 in the West.

Given that, however, the general patterns within regions are fairly similar. Densities for predominantly white tracts are always substantially below those for the other race/ethnicity categories. There are too few predominantly black tracts in the West to say much about variations within that category by poverty rate; the same is true for predominantly Hispanic tracts in the Northeast and Midwest. Otherwise, however, patterns within regions for these groups are similar to those nationally; that is, high-cost loan densities are always highest where poverty rates are low. Again, similar to the national pattern, there is less variation by poverty rate among predominantly white tracts. For the "other and mixed" category, densities are actually highest in the poorest neighborhoods in the Northeast and the West.

The differences shown on this table in densities of high-cost loans are quite dramatic. The lowest level (15 per 1,000 units) was reached in predominantly white tracts with low poverty rates in the Northeast. The highest (90 per 1,000 units), six times

TABLE 1. *Neighborhood Density of Subprime Lending, by Race, Poverty Rate, and Region, 100 Largest Metropolitan Areas*

	Tracts (N)	Average High-Cost Loans Per 1,000 Units (2004–2006)				
		Total U.S.	North-east	Mid-west	South	West
Total	41,015	40	21	36	49	47
0%–10% poverty	23,267	34	17	30	49	39
10%–20% poverty	9,270	48	30	47	51	59
20%–30% poverty	4,354	51	36	60	48	61
30%+ poverty	4,124	48	35	59	43	60
White (non-Hispanic)	25,924	32	17	29	42	40
0%–10% poverty	20,058	30	15	28	42	37
10%–20% poverty	4,646	38	23	35	40	52
20%–30% poverty	840	32	23	43	32	41
30%+ poverty	380	30	18	37	—	—
Black (non-Hispanic)	4,129	61	45	74	61	—
0%–10% poverty	483	79	54	85	90	—
10%–20% poverty	897	66	56	78	64	—
20%–30% poverty	1,052	60	42	76	58	—
30%+ poverty	1,697	51	33	68	47	—
Hispanic	2,537	57	42	48	57	62
0%–10% poverty	127	84	—	—	—	—
10%–20% poverty	641	67	—	—	74	69
20%–30% poverty	849	52	45	—	44	60
30%+ poverty	920	47	39	—	34	59
Other and mixed	8,425	57	39	58	69	56
0%–10% poverty	2,599	59	34	66	85	44
10%–20% poverty	3,086	59	38	56	64	63
20%–30% poverty	1,613	55	42	55	50	67
30%+ poverty	1,127	51	42	49	49	62

Source: Home Mortgage Disclosure Act dataset compiled by Urban Institute.

— = fewer than 100 tracts

larger, was reached in predominantly black neighborhoods with low poverty rates in the South.

Variations by Metropolitan Location

Figure 5 tells the story of subprime density patterns in a different way. As noted earlier, we divided all the tracts in the 100 largest metros into six geographical divisions based on the distances of their geographical centroids from the primary city's central business district. This approach permits understandable comparisons of spatial patterns between different metropolitan areas, even though the rings' sizes can be different in different metros.

The chart shows subprime densities in these six rings for the 100 metros by region, and there are some notable differences.

- In the Northeast (which had the lowest levels), the highest densities (27–30) are in the middle and outer rings of the central city. Densities are lower in the central portion of the city (21) and the outer two suburban rings (18–19).
- For the Midwest, densities are higher in all locations but the pattern is similar— the highest subprime densities (49–51) are in the middle and outer rings of the central city. Here, though, the average for the inner ring of the central cities is higher than for the suburbs (43 versus 30–34).

FIGURE 5. *Density of High-Cost Loans by Census-Tract Distance from Central Business District of Primary City, 100 Largest Metro Areas, by Region, 2004–2006*
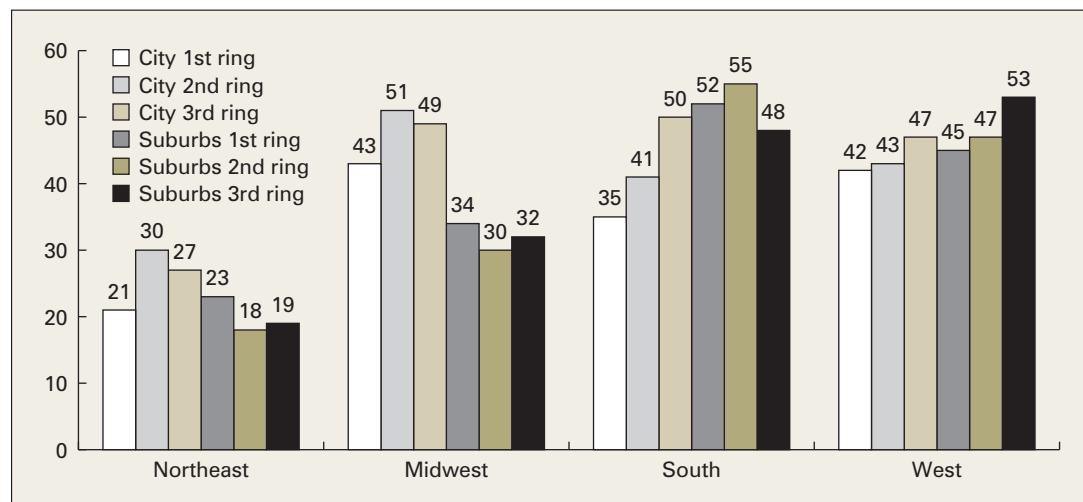
Source: Home Mortgage Disclosure Act dataset compiled by the Urban Institute.

Note: Density is defined here as the number of high-cost purchase loans per 1,000 units in one- to four-unit structures.

- Things change when we look at the South, where the highest density is in the middle suburban rings at 55. The outer rings of the cities and the inner rings of the suburbs are next highest (50–52). The density in the cities' inner rings is lowest at 35.
- In the West, there is not as much variation but, unlike the other regions, the highest average subprime density is reached in the outer rings of the suburbs (53) while variations in densities in the other rings is modest (42–47).

4. High-Density Tracts and Neighborhood-Stabilization Workloads

Healthy neighborhoods with only one or two foreclosures are not likely to face major negative effects. As the density of foreclosures goes up, however, so does the risk of serious problems. Presumably, when some critical threshold is reached, the negative impacts (physical deterioration, crime, decline in property values) will accelerate. So far, researchers have not discovered that threshold level—in fact, it most probably differs in different types of neighborhoods—but the concept is important nonetheless. It is the high foreclosure-density neighborhoods that should comprise the primary workload for neighborhood-stabilization programs.

Continuing the assumption that high subprime-loan densities are likely to correlate with high levels of foreclosure, we examined the distribution. A level of 58 loans per 1,000 units demarcates the top fifth (much above the mean of 40). It seems reasonable to consider these highest-density tracts as a rough proxy for potential neighborhood-stabilization workloads.

The patterns are different than might be expected. While tracts that are predominantly Hispanic and black had the highest average subprime densities, there are not that many of them; the highest-density tracts in those categories will not be a sizeable part of the workload.

Of the total 41,015 tracts in the largest 100 metros, 63 percent were predominantly white, compared to 10 percent black, 6 percent Hispanic, and 21 percent other and mixed. Of the 8,177 highest subprime-density tracts (the top fifth), 35 percent were predominantly white; 22 percent black; 10 percent Hispanic; and 33 percent other and mixed.

Table 2 shows the distribution of these highest subprime-density tracts by location and other characteristics. The suburbs were dominant nationally, accounting for 60 percent, as were the South and West regions

TABLE 2. *Distribution of Tracts with the Highest 20 Percent of High-Cost Loan Densities, 100 Largest Metropolitan Areas*

	Total U.S.	North-east	Mid-west	South	West
Census tracts (*N*)					
Total	8,177	852	1,735	2,967	2,623
Central cities	3,265	416	1,077	861	911
Lower poverty (<20%)	1,538	158	382	496	502
Predominantly white	497	26	105	184	182
Other tracts	1,041	132	277	312	320
Higher poverty (>20%)	1,727	258	695	365	409
Predominantly white	83	8	38	22	15
Other tracts	1,644	250	657	343	394
Suburbs	4,912	436	658	2,106	1,712
Lower poverty (<20%)	4,085	258	590	1,888	1,349
Predominantly white	2,178	72	359	996	751
Other tracts	1,907	186	231	892	598
Higher poverty (>20%)	827	178	68	218	363
Predominantly white	70	14	12	14	30
Other tracts	757	164	56	204	333
Census tracts (%)					
Total	100	10	21	36	32
Central cities	40	5	13	11	11
Lower poverty (<20%)	19	2	5	6	6
Predominantly white	6	0	1	2	2
Other tracts	13	2	3	4	4
Higher poverty (>20%)	21	3	8	4	5
Predominantly white	1	0	0	0	0
Other tracts	20	3	8	4	5
Suburbs	60	5	8	26	21
Lower poverty (<20%)	50	3	7	23	16
Predominantly white	27	1	4	12	9
Other tracts	23	2	3	11	7
Higher poverty (>20%)	10	2	1	3	4
Predominantly white	1	0	0	0	0
Other tracts	9	2	1	2	4

Source: Home Mortgage Disclosure Act dataset compiled by Urban Institute.

(36 and 32 percent, respectively). And by far the largest share of these tracts had low poverty rates: below 10 percent for 39 percent of tracts and below 20 percent for 68 percent of tracts.

Among these high subprime-density tracts in the suburbs, 53 percent were low-poverty neighborhoods (poverty rates below 10 percent) and 45 percent had predominantly white populations. In contrast, among the high subprime-density tracts in the cities, 18 percent were low poverty and 18 percent were predominantly white.

There were also similarly stark differences between the regions. The share of low-poverty, high subprime-density tracts was higher in the South and West (53 and 38 percent, respectively) than in the Northeast and Midwest (20 and 33 percent, respectively). The South and West also had higher shares that were predominantly white (42 and 38 percent) than the Northeast and Midwest (10 and 29 percent).

5. Investor-Borrowers

Neighborhoods with high densities of subprime loans are clearly at risk of decline. How the problems emerge and how they might best be mitigated, however, will

depend partly on characteristics of the borrowers. If most of the borrowers are owner-occupants, for example, there will be a different pattern of incentives than if most are investors who do not live in the community and have the same concern about its long-term future.

Where owner-occupants predominate, there will be strong efforts to prevent fore-closures and keep families in their homes. Planners are going to be less concerned about ownership change where investors own the threatened properties; the empha-sis will be on finding new owners (private or nonprofit) that will be financially stable and able to maintain the properties in the future. Where investors predominate, most of the families likely to be displaced will be renters. This will probably imply addi-tional burdens for local government: keep-ing the properties maintained during the foreclosure process and providing social services after evictions occur.

In this section, we present data on the share of all 2004–2006 high-cost loans made to investors and look at how that percentage varies across different neigh-borhoods. Nationally, an average of 17 percent of high-cost loans were investor loans. Even though this brief's analysis only includes one- to four-unit properties, investor loans surely cover properties with

a higher average number of units per property than owner-occupant loans. Therefore, renters will likely account for a considerably higher share of all occupants of foreclosed properties than 17 percent. In fact, one estimate has the nationwide renter share at 38 percent.[17] Individual studies have estimated even higher shares in some places, for example, as high as 60 percent in New York City.[18]

Variations by Poverty and Race/Ethnicity

Again, there are major differences accord-ing to the predominant race of the neigh-borhood. In this case, the share for predominantly black tracts (30 percent) is much higher than that for any other groups. Investor shares are only 15 percent for predominantly white tracts, 13 percent for predominantly Hispanic tracts, and 16 percent for the "other and mixed" group.

The variations in this measure by poverty rate are equally dramatic. Investor shares are highest in tracts with high poverty rates (32 percent) and poverty in the 20 to 30 percent range (25 percent). They are much lower for tracts with poverty rates in the 10 to 20 percent range (17 percent) and below 10 percent (13 percent).

But looking at both of these variables together (figure 6) yields results that might

FIGURE 6. *Percentage of High-Cost Loans Made to Investors, by Predominant Race and Poverty Rate of Census Tract, 100 Largest Metro Areas*
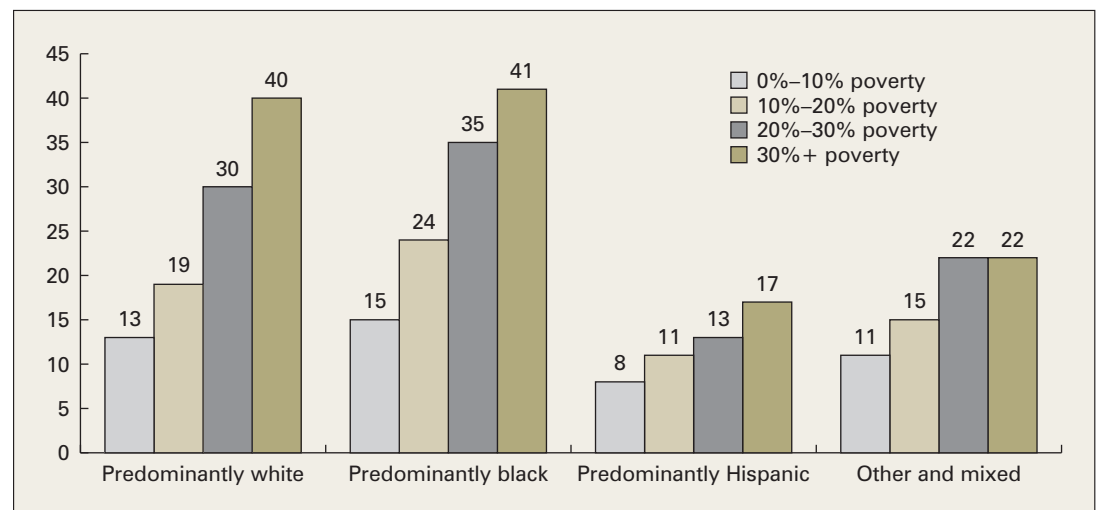
Source: Home Mortgage Disclosure Act dataset compiled by the Urban Institute.

not be expected. In all categories, investor shares go up notably as poverty rates increase. But the numbers for predominantly white neighborhoods (ranging from 13 percent in low-poverty tracts up to 40 percent in high-poverty tracts) are not that much different from those for predominantly black neighborhoods (which range from 15 percent in low-poverty tracts to 41 percent in high-poverty tracts). The average for black neighborhoods is so much higher only because a much-larger share of those neighborhoods is in the higher-poverty categories than for whites.

What stands out most on this chart, however, is how much lower the investor shares are in all predominantly Hispanic tracts, regardless of poverty. They range from 8 percent in low-poverty tracts up to 17 percent in high-poverty tracts. Investor shares for the "other and mixed" tracts fall between the levels for Hispanics and the other two racial/ethnic groups.

Variations by Region and Metropolitan Location

Regional location does matter in the pattern of investor shares. A notably higher percentage of high-cost loans were made to investors in the Midwest and South (20 and 19 percent) than in the Northeast (16 percent) and, particularly, the West

(12 percent). Contrasts were greater, however, between locations within metropolitan areas and, in all regions, investor shares were highest in the inner rings of the central cities, phasing down to their lowest levels in the suburbs (figure 7).

- The highest value on the chart was for the cities' innermost rings in the Midwest, where 41 percent of all high-cost loans from 2004 to 2006 were investor loans. Investor shares in that region then dropped consistently and fairly sharply to 11 percent in the outer rings of the suburbs.
- In the South, the peak investor share was 35 percent, again in the most central portion of the cities. The decline with distance from the central business district was more gradual, reaching a considerably higher level in the outer rings of the suburbs (17 percent) than in the Midwest.
- Levels of investor lending in the Northeast were a step down, ranging from 32 percent in the inner rings of the central cities to 13 percent in the outer suburbs.
- The pattern in the West was one of substantially lower investor lending everywhere, with a peak of only 18 percent in the center of the cities, declining to a 10 to 12 percent range in the suburbs.

FIGURE 7. *Percentage of High-Cost Loans Made to Investors, by Census-Tract Distance from Central Business District of Primary City, 100 Largest Metro Areas by Region*
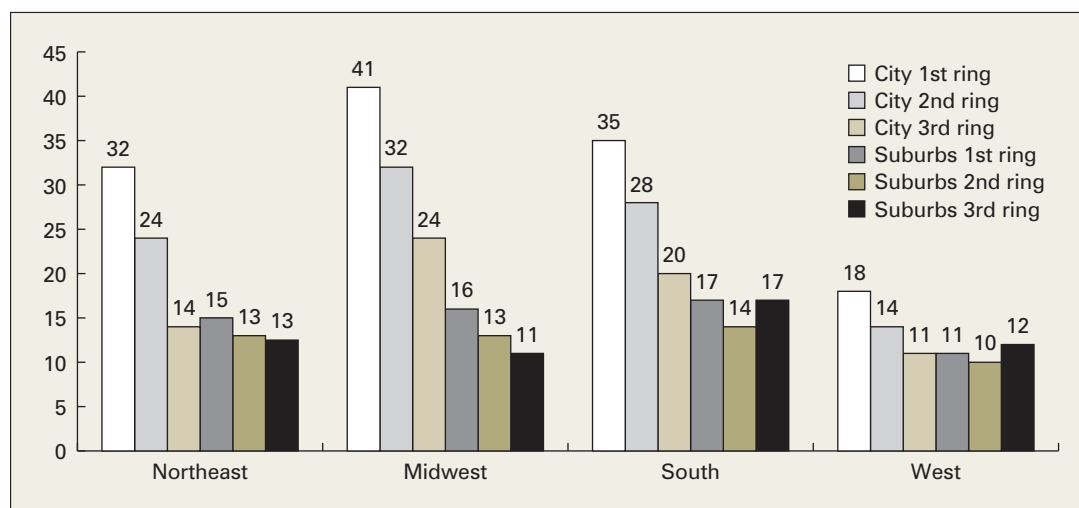
Source: Home Mortgage Disclosure Act Datasets compiled by the Urban Institute.

6. Implications for Policy

The most important finding in this brief about the neighborhoods hit hardest by sub-prime lending is their *diversity.* It would be a mistake to assume that this crisis will be all about the same distressed urban neighbor-hoods that have been the focus of our concern over the past several decades. In contrast, our analysis shows that the tracts with the highest subprime densities are con-siderably more suburban, lower poverty, whiter, and more Western or Southern than observers might have expected.

However, this difference is only a mat-ter of degree. The traditional distressed neighborhoods and those in the middle poverty ranges are indeed substantially represented in the high-problem set as well. The diversity makes local planners' jobs difficult. The "right" solution to stabi-lizing high-foreclosure neighborhoods is a range of different solutions to fit different places. Priorities will have to be set, and doing that is never easy.

A good principle is always to give con-siderable priority to averting harm to the most vulnerable families. These days, that means focusing attention on moderate- and higher-poverty neighborhoods in inner-ring suburbs as well as in the central cities. And in most areas, expanding ser-vices to address renter dislocation is urgent, since these are the places where the concentrations of subprime loans to investors are shown to be highest.

But there are many new minority owner-occupants in moderate-income city neighborhoods as well. Where market con-ditions are healthy enough to make it pos-sible, forceful efforts to maintain and upgrade properties could prevent a further slide in property values and may be the highest-payoff investment of all. As is already being recognized in a number of cities, reviving markets in all distressed neighborhoods in the short term is prohibi-tively expensive. The right solution for some neighborhoods may be to emphasize public acquisition, selective demolition, and public land banks that hold properties until general market conditions improve.

The current crisis demands that gov-ernments at all levels pay attention to low-poverty neighborhoods with high subprime densities as well. The data in this brief show that large numbers of lower-income families, many of them minorities, were using subprime loans to secure a stake in a good neighborhood. This had to be a plus for integration—69 percent of the tracts in the top fifth by subprime density had poverty rates below 20 percent in 2000, and 35 percent had predominantly white populations. Addressing foreclosure pre-vention and mitigation in these places surely warrants priority.

Even here, selectivity is key. Some now-distressed areas were likely new McMansion-dominated developments that represented the very essence of sprawl. Many such neighborhoods have already been devastated by foreclosure. Spending the outlandish sums needed to bring such developments back would not likely be in the public interest. Yet many other good neighborhoods with high subprime densi-ties are in locations where market revival would be a plus for smart growth as well as their current residents.

Stabilizing neighborhoods in these high-subprime, lower-poverty neighbor-hoods ought to be possible—and in ways that would address some housing-policy problems that existed before this crisis began. One approach would be metropoli-tan strategies that facilitate the low-cost purchase of selected foreclosed properties by nonprofit groups that would operate them long-term as affordable housing. Some would be rentals but, for others, ownership might be transferred to a com-munity land trust or other entity that would sell to low-income families in a shared-equity arrangement.

This would have to be managed care-fully. Planners would probably avoid devel-oping enough affordable housing in any one neighborhood to markedly alter the neighborhood's character. But if this were done even incrementally in several neigh-borhoods, the aggregate effect on poverty deconcentration could be substantial.

Again, the right solution is a diverse set of solutions. Whether local planners and practitioners have the capacity to design and manage such complex neighborhood-stabilization efforts is a legitimate question. One thing that will be fundamental to bolstering their capacity everywhere, however, is better information. Good data on local neighborhood conditions is essential to tailoring investment streams and other activities to fit different neighborhoods. Foreclosure-Response.org, a new web site jointly developed by the Center for Housing Policy, the Local Initiatives Support Corporation, the Urban Institute, and KnowledgePlex, offers guidance on incorporating information into local foreclosure planning. The National Neighborhood Indicators Partnership (NNIP) is a collaboration of civic groups and university institutes in 32 cities that maintain neighborhood-level information systems to support local policymaking and community building. NNIP offers examples of work by its local partners in this field at http://www2.urban.org/nnip/foreclosures.html. Finding ways to strengthen local data systems, then, should be a starting point, and the federal government could help make that happen.

Notes

1. See, for example: Christopher J. Mayer and Karen Pence, *Subprime Mortgages: What, Where, and to Whom?* Working Paper 14083 (Cambridge, MA: National Bureau of Economic Research, June 2008); Paul S. Calem, Jonathan E. Hershaff, and Susan M. Wachter, *Neighborhood Patterns of Subprime Lending: Evidence from Disparate Cities* (Washington, DC: Board of Governors of the Federal Reserve System, June 2004); and Michael Grover, Laura Smith, and Richard M. Todd, *Targeting Foreclosure Interventions: An Analysis of Neighborhood Characteristics Associated with High Foreclosure Rates in Two Minnesota Cities* (Minneapolis, MN: Federal Reserve Bank of Minneapolis, 2007).

2. The denominator can be thought of as the number of housing units in 2000 that were "potential candidates" to serve as collateral for such mortgages. It includes all owner-occupied units (single-family homes and condominiums) and rental units in one- to four-unit structures.

3. Under the Home Mortgage Disclosure Act (HMDA), lenders file reports on virtually all mortgage applications they receive in metropolitan areas. The reports include data on the property's location (i.e., census tract), the borrower's race and income, and whether the mortgage was denied or originated. While the HDMA's purpose was to provide a basis for assessing discrimination in mortgage lending, the reports also provided, for the first time, a basis for monitoring key aspects of housing-market activity year by year at the neighborhood level. Changes in volumes of lending and in loan amounts are important indicators in this regard. The HMDA data files used in this analysis were provided by DataPlace (http://beta.dataplace.org/). A comprehensive review of HMDA data and their uses is provided in Kathryn L. S. Pettit and Audrey E. Droesch, *A Guide to Home Mortgage Disclosure Act Data* (Washington, DC: DataPlace, KnowledgePlex Inc., December 2008). See also Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner, "The 2006 HMDA Data," *Federal Reserve Bulletin,* December 2007.

4. Data on high-cost loans were first provided in the 2004 HMDA dataset. The indicator of subprime lending used before then was based on loans originated by lenders designated as "sub-prime" lenders by the U.S. Department of Housing and Urban Development (HUD). The high-cost measure is more comprehensive because it includes the nontrivial number of subprime loans originated by prime lenders as well as those originated by the lenders on HUD's list.

5. Credit Suisse estimates that subprime loans will account for only 39 percent of all foreclosures in 2009 and 32 percent in 2010. See Rod Dubitsky, Larry Yang, Stevan Stevanovic, and Thomas Suehr, *Foreclosure Update: Over 8 Million Foreclosures Expected* (New York: Credit Suisse, December 2008).

6. The authors of one analysis state that "by far the strongest predictor of a loan foreclosing is its status as a high-cost subprime loan." Claudia Coulton, Tsui Chan, Michael Schramm, and Kristen Mikelbank, *Pathways to Foreclosure: A Longitudinal Study of Mortgage Loans, Cleveland and Cuyahoga County, 2005–2008* (Cleveland: Case Western Reserve University, June 2008). See also Dan Immergluck, "From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosure," *Journal of the American Planning Association* 74(1): 59–76, Winter 2008; Christopher Walker, Testimony on "Targeting Federal Aid to Neighborhoods Distressed by the Subprime Mortgage Crisis," before the Joint Hearing of the Domestic Policy Subcommittee, Committee on Oversight and Government Reform, and the Housing and Community Opportunity Subcommittee, Committee on Financial Services, U.S. House of Representatives, May 22, 2008.

7. Following an approach developed by Alan Berube and Benjamin Forman in *Living on the Edge: Decentralization within Cities in the 1990s* (Washington, DC: Center on Urban and Metropolitan Policy, The Brookings Institution, October 2002). Note: Loans in the central business district are included in the city first ring in this brief.

8. This approach permits valid comparisons but the rings' sizes can be quite different in different

metros. The three rings in Los Angeles, for exam-ple, are much larger than the three rings in Hartford.

9. The 100 largest metropolitan areas account for only 12 percent of the nation's land area, but for 65 per-cent of its population and 75 percent of its GDP (The Brookings Institution, *Metro Nation: How U.S. Metropolitan Areas Fuel American Prosperity,* Washington DC: Metropolitan Policy Program, The Brookings Institution, 2007).

10. Based on the Office of Federal Housing Enterprise Oversight (OFHEO) index. For an explanation of the methodology, see http://www.fhfa.gov/Default.aspx?Page=81.

11. For a thorough discussion of subprime lending and the evolution of the current crisis, see Edward M. Gramlich, *Subprime Mortgages: America's Latest Boom and Bust* (Washington, DC: Urban Institute Press, 2007) and James H. Carr, "Responding to the Foreclosure Crisis," *Housing Policy Debate* 18(4): 837–60, 2008.

12. Actually, figures 1 and 2 plot individual points for the 29 major divisions of 10 large metropolitan areas (New York; Los Angeles; Chicago; Philadelphia; Washington, D.C.; Miami; Detroit; Boston; San Francisco–Oakland; and Seattle) and additional points for the other 90 metropolitan areas that make up the top 100.

13. Dan Immergluck, "From the Subprime to the Exotic: Excessive Mortgage Market Risk and Foreclosure," *Journal of the American Planning Association* 74(1): 59–76, Winter 2008.

14. For examinations of how levels of well-being dif-fer across these categories and how populations shifted among them in the 1990s, see Paul A. Jargowsky, *Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s* (Washington, DC: Center on Urban and Metropolitan Policy, The Brookings Institution, 2003) and G. Thomas Kingsley and Kathryn L. S. Pettit, "Concentrated Poverty: A Change in Course," Neighborhood Change in Urban

America Brief 2 (Washington, DC: The Urban Institute, 2003).

15. Dan Immergluck and Geoff Smith, "The External Cost of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values," *Housing Policy Debate* 17(6): 57–79, 2006; Vicki Been, "External Effects of Concentrated Mortgage Foreclosures: Evidence from New York City." Testimony before the Subcommittee on Domestic Policy, Committee on Oversight and Government Reform, U.S. House of Representatives, May 21, 2008; John Harding, Eric Rosenblatt, and Vincent Yao, "The Contagion Effect of Foreclosed Properties," (July 15, 2008, http://ssrn.com/abstract=1160354).

16. For another analysis that takes different approach but has similar findings on patterns, see Christopher J. Mayer and Karen Pence, *Subprime Mortgages: What, Where, and to Whom?* Working Paper 14083 (Cambridge, MA: National Bureau of Economic Research, June 2008).

17. Estimates by RealtyTrac cited by Danilo Pelletiere and Keith Wardrip in "Renters and the Housing Credit Crisis," *Poverty & Race* 17(4), July–August 2008.

18. Furman Center, "New Analysis of NYC Foreclosure Data Reveals 15,000 Renter Households Living in Buildings that Entered Foreclosure in 2007" (New York: Furman Center for Real Estate and Urban Policy, New York University, April 2008).

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