

The Double-Edged Sword of Borrowing: Increasing Costs of Homeownership and the Roles of Property and Loan Flipping in New York City

*Anthony Ababon*¹

Introduction

For many low- and moderate-income homeowners, home equity represents their single largest asset. ¹ Unfortunately, unscrupulous lenders and real estate sales people are targeting low-income residents in financial distress to profit from rising house values. They are offering equity-stripping refinancing, selling over-appraised homes to first-time buyers, and offering financial assistance that can place unaware homeowners in serious jeopardy of default, foreclosure, or eviction.

This paper explores the processes of loan and property flipping, through interviews with residents and housing counselors, and analysis of secondary, publicly-available data. ² The goals of this paper are to explore how loan and property flipping occur, to identify actors and parties involved and affected by the processes, and to draw attention to the detrimental effects these practices have on communities and livelihoods in six census tracts located in three service areas of Neighborhood Housing Services of New York City (NHSNYC) ³: Bedford-Stuyvesant, Brooklyn; Jamaica/St. Albans, Queens; and Williamsbridge, Bronx.

Loan flipping occurs when lenders encourage homeowners to frequently refinance their mortgages to draw out available equity. With each refinancing the various loan fees charged gradually strip the homeowner of his or her equity. The new (refinanced) mortgage often does not truly benefit the homeowner and may instead result in over-borrowing that increases both the monthly mortgage payment and the likelihood of future mortgage default ⁴.

Property flipping results in homeowners buying houses that are overpriced and mortgage payments which cannot be satisfied. The Department of Housing and Urban Development (HUD) defines “property flipping” as “the practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value, often abetted by a lender’s collusion with the appraiser.” ⁵ Often, houses need major repairs and mortgage payments become unaffordable as homeowners

¹ Anthony Ababon is a student in Cornell’s City and Regional Planning Department and a candidate for the MPA in 2006.

confront significant repair costs. Together, loan and property flipping negatively impact neighboring homeowners because victims are more likely to default on their mortgages, lose their homes to foreclosure, or simply abandon the properties—outcomes which hurt the fabric of the community and depress neighborhood property values.

Bedford-Stuyvesant, Brooklyn; Jamaica/St. Albans, Queens; and Williamsbridge, Bronx were selected for study because they had either high incidences or high proportions of tax delinquent properties. It was suspected that tax delinquency would be an early indicator of financial distress which leads some homeowners to fall victim to loan and property flipping schemes. Loan and property flippers use lists of tax delinquent properties (which are available for a subscription fee from private companies) to market predatory products and services to financially vulnerable homeowners. Counselors and residents interviewed, however, reported that real estate speculators target entire communities, rather than specific households. They report that some speculators approach specific neighborhoods, offering cash up-front for houses or credit and financial counseling services that are (ultimately) designed to defraud the homeowner. Interviews with homeowners and housing counselors revealed that property taxes were only one source, among many, causing financial distress, thus making tax delinquency a poor predictor of loan and property flipping. A more detailed analysis of the relationship between property tax delinquency and loan and property flipping is recommended.

Interviews were conducted with residents of four of the six census tracts to complement the data and explore the personal effects of property and loan flipping on residents. Interviews and conversations with foreclosure prevention counselors at local non-profit housing agencies—among them, the Homeownership Center of NHS, Margert Community Development Corporation, Neighbors Helping Neighbors, NHS of Bedford-Stuyvesant, NHS of Jamaica, NHS of the North Bronx, the Parodneck Foundation, Pratt Area Community Council—were also conducted to explore community-based non-profit responses to these forms of predatory lending.

Major Findings

- Expanding and preserving homeownership are among the core goals of the surveyed organizations, but the majority of residents surveyed were unaware of available, legitimate pre-purchase counseling, default and foreclosure-prevention counseling resources.
- Homeownership counselors reported that loss of income, loss of employment, loss of tenants, medical emergencies, and lack of reserve funds were the most common immediate causes of defaults among homeowners. Predatory lending was reported as a common cause of foreclosure in some areas, particularly in Jamaica, Bedford-Stuyvesant and the South Bronx, but not in others.

- All homeowners surveyed reported being harassed by door-to-door refinancing and “cash for house” solicitations—solicitations that lead to loan and property flipping.
- The segments of the mortgage market identified as the property and loan flipping markets are less competitive than the mortgage market as a whole.
- In an environment of rising interest rates, increasing costs of living, decreasing job security, and stagnant incomes, demand for Foreclosure Prevention Programs will increase as rates of defaults and foreclosures increase.

Methodology

Two research methods were used to explore property and loan flipping: analysis of publicly available secondary data, and interviews with residents and homeownership and foreclosure prevention counselors. The research used data from the New York City Housing and Neighborhood Information System (NYCHNIS) and the New York City Department of Finance Automated City Register Information System (ACRIS). Lending, tax delinquency, and default statistics were downloaded from NYCHNIS 6. Mortgage histories for block-and-lot were collected from ACRIS 7.

Using NYCHNIS, two census tracts with either high incidences of tax delinquency or high proportions of tax delinquent properties in 2003—the most recent year for which tax delinquency rates were available—were selected in each of the three service areas.

Six census tracts were examined in three of NHSNYC’s service areas:

- 267 and 383 in Bedford Stuyvesant, Brooklyn
- 292 and 376 in Jamaica and St. Albans, Queens
- 396 and 398 in Williamsbridge, The Bronx

The tracts selected in Bedford-Stuyvesant and Jamaica were chosen because the tracts contained the highest number of tax delinquent properties in the target areas served by NHS. The two Williamsbridge tracts had the highest proportion of tax delinquent properties in NHS’s service areas located within that community district.

Mortgage, deed, and assignment records for each lot located in the above named census tracts were downloaded from the New York City Department of Finance, ACRIS online database. The data was sorted to include only transactions recorded from 2000 to July 2005. Using the ACRIS database, lots on which at least two deeds recorded within 12 months or three deeds were recorded between 2000 and 2005 were identified as lots where “property flipping” may have occurred. Lots where at least three mortgages were recorded with the same borrower from 2000 to 2005 were identified as lots where “loan flipping” may have occurred. Lastly, lots where any tax lien documents were recorded on the property were identified. Tax lien documents are recorded on residential, class one properties after three years of non-payment of

property taxes have elapsed. Class one properties are one- to three-unit residential dwellings. Pursuant to Local Law 26 of 1996 and Local Law 37 of 1996, the New York City Department of Finance sells tax liens to responsible third parties that purchase the collection rights to the tax liens. If the homeowner does not pay the tax lien or enter into a repayment schedule within one-year following the tax lien sale, the lien holder can begin foreclosure proceedings against the homeowner. 8

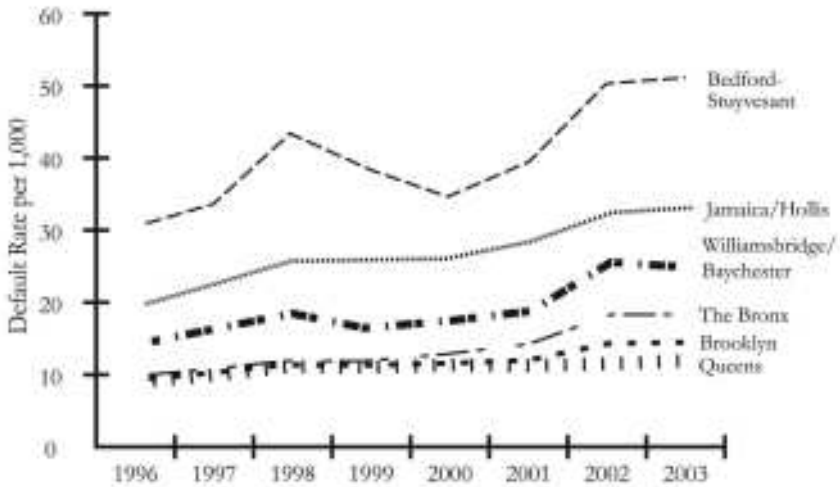
After compiling a list of likely property and loan flips and tax liens within a census tract, homeowners of properties with any two of the three designations were selected as interview candidates. This list was used to identify property homeowners for surveys regarding their home-buying and mortgage/refinancing experience. This sorting allowed the identification of between 20 and 40 survey candidates per tract. Other residents not on the interview list were also approached to participate.

The purpose of the interviews was to understand how the homeowners came to acquire their houses, to learn about their search for lenders, to examine the purchase-loan transaction, and to identify the actors involved and sources of financial distress. For lots with three or more mortgages, the interviews were intended to determine whether the loans were indeed equity stripping. Interviews were conducted in four of the six census tracts: tract 396 in Williamsbridge, Bronx; tracts 376 and 292 in St. Albans and Jamaica, Queens; and tract 383 in Bedford-Stuyvesant, Brooklyn. Interviews were conducted in the neighborhood between 5:00 pm and until about sunset at 8:30 to 9 pm.

Sources of Financial Distress among Homeowners

The combined trends of lower per capita incomes, increasing unemployment rates, projected future increases in interest rates, increasing reliance on subprime 9 lending for home purchase, and higher rates of mortgage default indicate that financial hardship is on the rise among homeowners in the areas examined. Figure 1 below shows the uneven geography of mortgage defaults and the increasing rate of default in the community districts selected for closer examination. From 1996 to 2003, the rate of defaults in the three community districts was higher than at the borough level. Bedford Stuyvesant's default rates are up to 4 times higher than the borough rate. From 2000 to 2003, default rates have increased in both Bedford Stuyvesant and Jamaica/Hollis. In Williamsbridge, defaults increased from 2000 to 2002 and decreased in 2003. An overview of selected market trends below suggests some possible factors that are financially squeezing homeowners, subjecting many to property and loan flipping schemes, and tending to increase rates of default.

Figure 1: Single-family mortgage defaults per 1,000 by selected boroughs and community districts, 1996-2003.



Source: New York City Housing and Neighborhood Information System (NYCHNIS). Category: Mortgage Lending and Foreclosures, Group: Single Family Homes. Provided by the Public Data Corporation.

The increase in default rates has benefited some real estate speculators. According to homeownership counselors and residents surveyed, real estate speculators have engaged in “foreclosure rescue” schemes whereby they have targeted homeowners in financial distress—usually minority, elderly, and financially inexperienced homeowners who have defaulted on their mortgage—offering to temporarily assist the homeowner as she gets her financial situation in order.

These foreclosure rescue schemes typically involve blatant fraud, with the intent of collecting “service” fees or assuming the title to the property without fully disclosing the terms and conditions of the “rescue” service, as described by Sotirious Assimacopoulos, Loan Officer at The Parodneck Foundation:

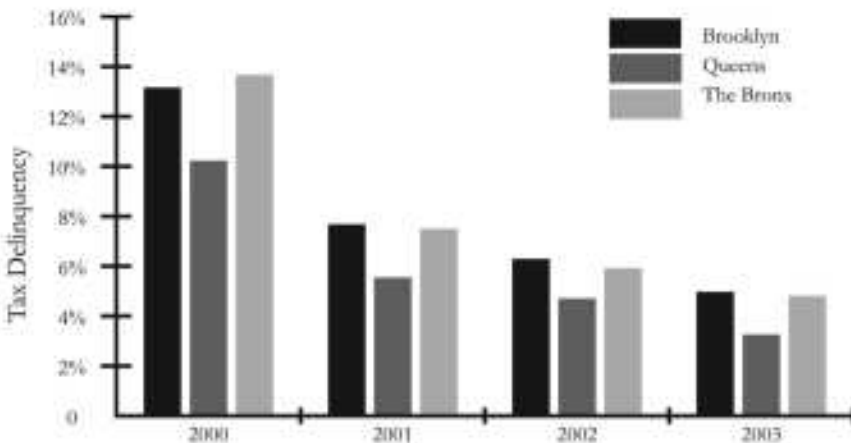
It’s morphing into different things now. We’re seeing people with tax lien problems, have realtors come to them and say, ‘I lent you that money to get you out of the tax lien problem, so put my name on the deed and pay me back monthly.’ What the senior doesn’t realize is that the guy has not only changed the deed, he’s taken the senior’s name off the deed so that a couple of missed rental payments or pay-back payments to that realtor can trigger eviction. Those are the real tough ones... In Jamaica and you see the signs on the telephone poles asking ‘Are you in foreclosure? We can help.’

The tax lien sales or auctions to which Mr. Assimacopoulos refers are publicly advertised and identify the property and property owner subject to the tax lien sale. The “foreclosure rescuer” contacts the tax delinquent homeowners and earns their confidence through deception and the promise of financial assistance, while the

homeowners are unaware that the documents they are signing are transferring the title of the house to the “rescuer” until they later receive eviction notices from the “foreclosure rescuer”.

While default rates at the borough level have increased from 2000 to 2003, rates of tax delinquency—defined as the non-payment of property taxes, sewer and rent charges—have decreased in the census tracts and community districts examined from 2000 to 2003, to a certain extent masking increasing financial distress among households. At the borough level, tax delinquency rates have decreased in Brooklyn, the Bronx, and Queens, which would seem to indicate improving household financial conditions-- if not for increasing rates of mortgage default. Property tax delinquency rates, depicted in Figure 2 below for the borough level, declined between 2000 and 2003 by 65.6 percent, on average. Of the three boroughs, Queens had the lowest tax delinquency rate in 2003 at 3.5 percent, followed by the Bronx at 4.6 percent and Brooklyn at 4.8 percent.

Figure 2: Property tax delinquency rate for Brooklyn, Queens, and The Bronx, 2000-2002.



Source: New York City Housing and Neighborhood Information System (NYCHNIS), Category: Property Tax Delinquencies, Group: Class 1 Tax Delinquent Properties. Provided by the New York City Department of Finance, Open Balance File. Only balances greater than \$500 were included among the property tax delinquent.

Why the decline in property tax delinquencies?

New York City and New York State have implemented various measures that improve the collection of property taxes and ease the property tax burden on elderly homeowners who have paid off their mortgage but must still pay property taxes on homes with rapidly appreciating market values. For example, the Enhanced New York State School Tax Relief Program (STAR) and the Senior Citizen Homeowners Exemption (SCHE)

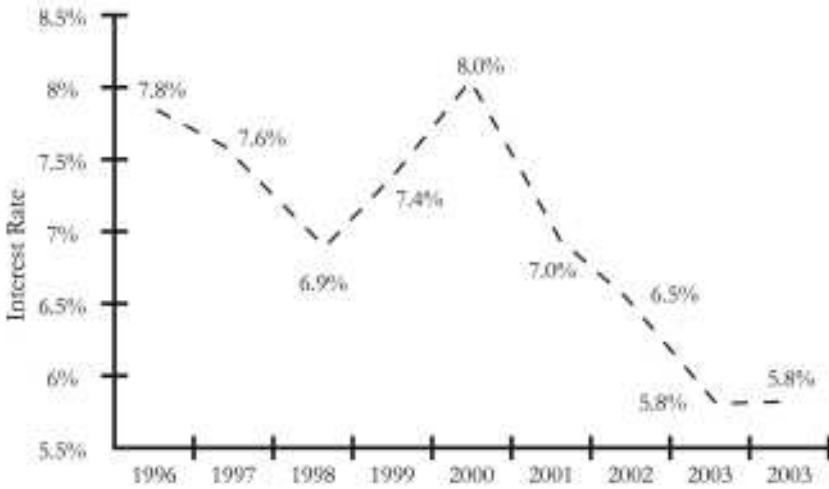
enable senior citizens who meet household income limits to save around \$350 on property taxes. 10 Lower tax delinquency rates also may be the result of improved and more stringent collection methods by the New York City Department of Finance and by the sale of tax liens to responsible third-parties, rather than because of improved financial situations among homeowners. 11

Local Laws No. 26 and No. 37, both enacted in 1996, restructured New York City's tax lien procedures to reduce the cost of the City's In Rem program, which in 1996 totaled \$2.2 million for property managed by the City under the program. Under Local Law No. 26, the Commissioner of the Department of Finance has the authority to sell tax liens to responsible third parties, entitling the purchaser to the amount of the tax lien "due and payable one year from the date of sale", interest from any unpaid balance, and a surcharge of five percent of the tax lien. 12 Local Law No. 26 also requires publicly advertised descriptions by "block and lot" or some other identifying characteristic of properties included in the sale. Under Local Law No. 37, residential properties designated as distressed by the New York City Housing Preservation and Development (HPD) are removed from tax lien sales to further HPD's housing preservation mandate and decrease rates of property abandonment. Local Law No. 37 authorizes HPD to transfer certain lien-encumbered properties to new owner-occupiers, restoring the property to the City's tax rolls and accounting for some of the decrease in tax delinquency rates. Local Laws No. 26 and No. 37, and later laws which extend and modify these two, had the effect of increasing tax collection rates and decreasing the City's costly In Rem housing stock.

Overview of Market Trends

The proliferation of alternative mortgage products found in the subprime lending market (for example, interest-only, no down payment, balloon, and negative amortization loans) and risk-based pricing has allowed more first-time homebuyers with lower credit ratings to obtain (higher cost) mortgages on more expensive houses. 13 Since 2000, the fixed-rate, 30-year conventional mortgage interest rate has steadily declined from over 8 percent in 2000 to 5.82 percent in 2003, increasing slightly to 5.84 percent in 2004—a decrease of 216 basis points or 28 percent. In New York City, the median price for non-condominium residential sales has increased from \$299,000 in 2002 to \$396,500 in 2004, an increase in the nominal price of 32.6 percent over three years, or 10.9 percent annually. Many lower credit score borrowers are excluded from the benefits of lower mortgage interest rates because they are taking on higher-cost, higher-interest mortgages, while perhaps over-borrowing to pay for increasing median sales prices.

Figure 3: Fixed-rate, 30-year conventional mortgage interest rate, 1996-2004



Source: Federal Reserve and Federal Home Loan Mortgage Corporation, Federal Reserve

Table 1: Median for-sale, non-condominium sale prices, New York City

	2002	2003	2004
Median Price	\$299,000	\$355,000	\$396,500

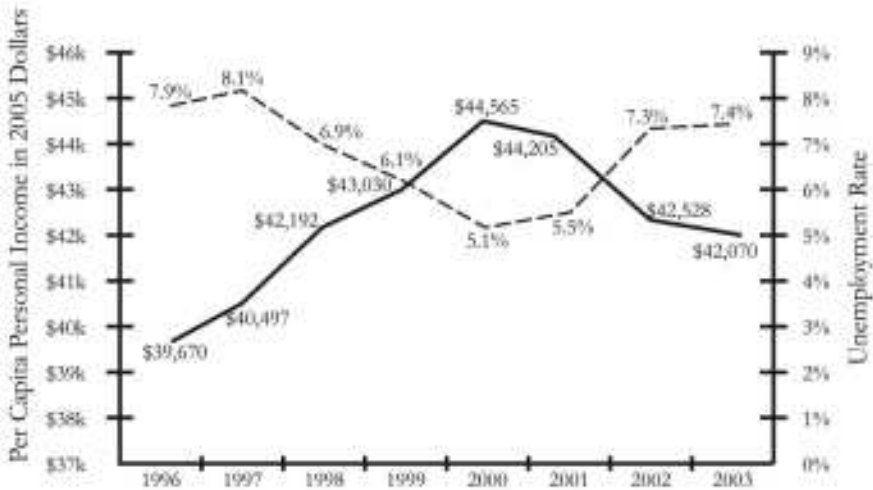
Source: New York State Office of Real Property Services, Residential non-condominium arm's length sale, greater than \$10. <http://www.orps.state.ny.us/>

Since 2000, job insecurity has increased in the New York Metropolitan Division 14 while per capita incomes have been decreasing, leaving some homeowners affected by the squeeze desperate for any assistance available. Between 2000 and 2003, the per capita personal income in the New York Metropolitan Division has decreased by 5.6 percent from \$44,565 to \$42,070. Over the same period, the unemployment rate has increased from 5.1 percent to 7.4 percent—an increase of 45.1 percent. Homeownership and foreclosure prevention counselors interviewed for this report noted that stagnant or declining household incomes and job insecurity were two factors that led many homeowners to default.

Home Purchase Lending

Home purchase lending increased in New York City by 31.7 percent between 2000 and 2002 while the median for-sale purchase price in New York City grew by over 32 percent from 2002 to 2004. 15 Figures 5 and 6 below illustrate growing demand for housing citywide as well as in the sub-borough 16 areas selected for closer examination: Bedford-Stuyvesant, Jamaica, and Williamsbridge. Lending in these areas has increased

Figure 4: Per capita personal income and unemployment rates, New York Metropolitan Division, 1996-2003



Source: Income from the U.S. Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income, CA1-3. Unemployment rate from the U.S. Bureau of Labor Statistics. Unemployment rates from Current Employment Statistics (CES), series ID LAUDV36356403, LAUDV36356404, LAUDV36356405, LAUDV36356406.

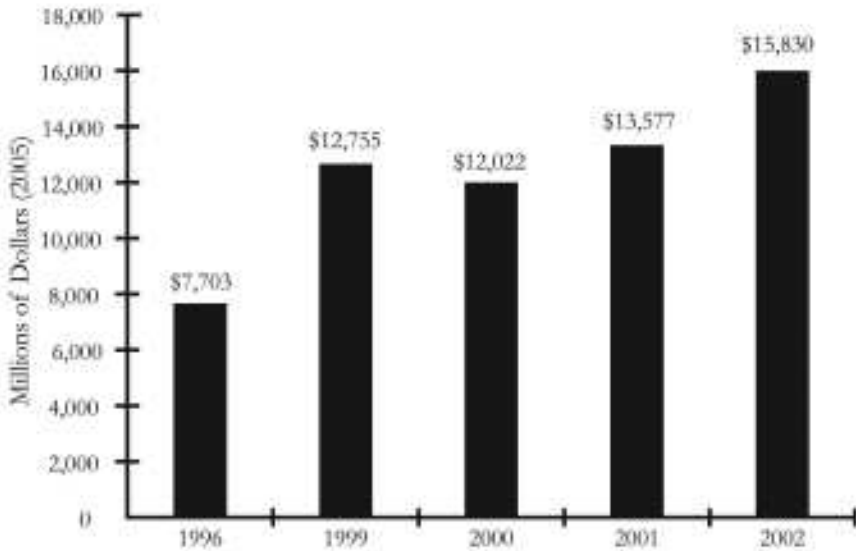
over the same period, with Bedford-Stuyesant leading the increase at 41.2 percent from 2000 to 2002. Home purchase lending in Jamaica grew by 38.6 percent during the same period while lending in Williamsbridge grew by 18.2 percent.

Figure 6: Home purchase loans in selected community districts, 1996, 1999 – 2002

Source: New York City Housing and Neighborhood Information System (NYCHNIS), Category: Mortgage Lending and Foreclosure, Group: Home Purchase Mortgage Loans, Dollar Amount. Provided by the Federal Financial Institutions Examination Council (FFIEC) and extracted from national Home Mortgage Disclosure Act (HMDA) data.

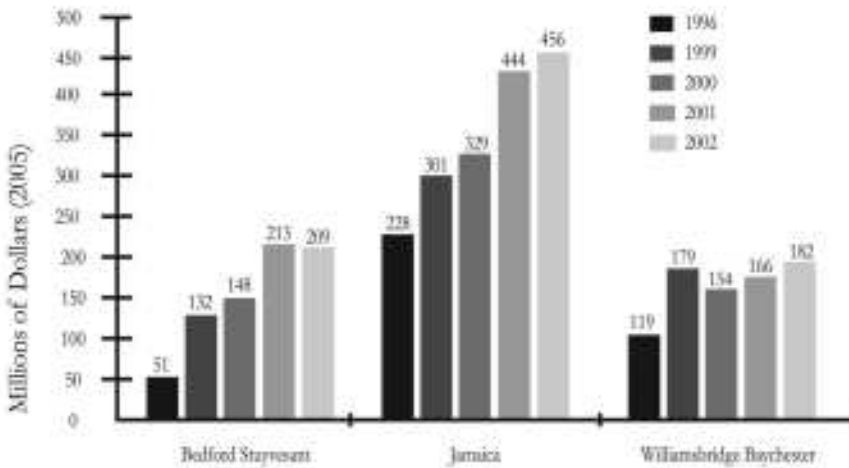
One of the forces driving the growth in home purchase loans citywide as well as in the selected sub-borough areas is the increasing use of subprime lending.¹⁷ In New York City, the percentage of all home purchase loans that were subprime increased from 2.2 percent in 2000 to 6.2 percent in 2002, an increase of 182 percent. The most dramatic increase in the study area were found in Williamsbridge/Baychester in The Bronx. In Williamsbridge-Baychester, subprime mortgages grew from 5.3 percent in 2000 to 15.3 percent in 2002, an increase of 238 percent, approaching the citywide subprime growth of 273 percent. The Bedford Stuyvesant area experienced a slower rate of growth of 44 percent over the same period, while the Jamaica area experienced the slowest rate of growth of 32 percent.

Figure 5: Home purchase loans in New York City, 1996, 1999 – 2002



Source: New York City Housing and Neighborhood Information System (NYCHNIS), Category: Mortgage Lending and Foreclosure, Group: Home Purchase Mortgage Loans, Dollar Amount. Provided by the Federal Financial Institutions Examination Council (FFIEC) and extracted from national Home Mortgage Disclosure Act (HMDA) data.

Figure 6: Home purchase loans in selected districts, 1996, 1999 - 2002



Source: New York City Housing and Neighborhood Information System (NYCHNIS), Category: Mortgage Lending and Foreclosure, Group: Home Purchase Mortgage Loans, Dollar Amount. Provided by the Federal Financial Institutions Examination Council (FFIEC) and extracted from national Home Mortgage Disclosure Act (HMDA) data.

The growth of subprime lending citywide and in the selected sub-boroughs has expanded homeownership opportunities, but housing counselors' perceptions of these trends differed. Sotirios Assimacopoulos, Loan Officer at the Parodneck Foundation, believes that among the factors driving the growth of subprime lending is homebuyers and homeowners' misconception that conventional lenders are unwilling to lend to them and that they have few alternatives, stating:

A lot of people feel if their credit has been tarnished a little bit... they feel everybody is going [to deny them credit]. That fear of rejection is what ends up leading them to somebody that's always going to tell them, 'Yes'. And that 'Yes' ends up doing more damage than if they had been a little more patient... When people are in trouble they... grasp at anything and that's what [predatory lenders]... prey on.

Subprime lenders lend to riskier borrowers but charge higher points, fees, and interest for the added risk. According to Mr. Assimacopoulos, with a little more research and education, many borrowers with credit blemishes would find that prime lenders would also be willing to structure suitable and affordable loans than they will find among subprime lenders. In the Far Rockaways, Queens, however, subprime lending has had neither a positive nor negative effect in the community because the area has been historically starved for credit, according to Angela Barrow, Housing Counselor at Margert Community Corporation. Ms. Barrow stated, "I don't know if subprime lending has affected this community. I think this community has been so low on the totem poll for so many years that I'm not sure that [subprime lending] has affected this community."

Lisa-Nicolle Grist, Chief Executive Officer of Neighbors Helping Neighbors (NHN), connected the increasing use of subprime mortgages and creative financing by homeowners to higher rents and the prevalence of illegal units in Sunset Park, Brooklyn, the area in which NHN is located. Ms. Grist states:

I do think that the emergence of subprime lending... has probably contributed to the escalating rents in the neighborhood and the increasing rate at which illegal units are created because the mortgages are expensive and the house values are high. People will do anything to make their property generate income. Ultimately that's going to lead to health and fire hazards as apartments get chopped up... As rents go higher and higher, it pushes working-class people out of the neighborhood.

Describing one of the causes of Sunset Park's changing demographic, Ms. Grist recounts how homeowners with high cost mortgages are under financial pressure to meet mortgage payments. And with the neighborhood currently still in transition, it is somewhat unclear what the end result will be. Some homeowners raise rents and price-out low-income renters; other homeowners are illegally subdividing units to boost rental income.

Higher cost, subprime mortgages may be one of the factors—among several—driving the increase in default rates in the examined areas. Subprime borrowers will be more

likely to fall victim to loan and property flipping because they believe that they have few alternatives and are trying various, sometimes illegal, ways of coping with mortgage costs, as recounted by housing counselors above. Indeed, research conducted by the Joint Center for Housing Studies at Harvard University found that subprime borrowers have about a 5 percent default rates whereas prime borrowers have about a 0.5 percent default rate and that the length of time between origination and foreclosure is typically shorter for subprime borrowers than prime borrowers, 2 years and 5 years respectively. 18 A joint HUD-Treasury report released in June 2000 found that between January 1998 and September 1999 the foreclosure rate for subprime loans was ten times higher than for prime loans. 19 All housing counselors surveyed reported that educating borrowers regarding the costs and benefits of alternative mortgage loans would help avoid over-borrowing and property and loan flipping situations.

Homeownership Counseling and Mortgage Lending

Housing counselors generally regard predatory lending and its property and loan flipping variations as a distinct segment of the overall mortgage market—observations that are reinforced with findings from an analysis of the ACRIS database. First-time homebuyers with little experience in loan transactions and blemishes in their credit history are more likely to fall victim to predatory lending schemes, according to counselors interviewed.

A predatory lender will attempt to qualify a buyer for a more expensive home with an unaffordable mortgage, setting up the homeowner to refinance loans later on once the homeowner defaults on the original mortgage. Homeowners residing in Jamaica, Queens managed to avoid falling victim to this type of scheming, stating:

They weren't giving us a chance to breathe or think... They were trying to tell us that you shouldn't look at the overall cost of the house ...[T]hey were saying to just look at your monthly payment, if you can afford that, then forget the half a million that is the overall cost for your house. It was something crazy ...It was just kind of funny that they were trying to force us to buy this house.

Unfortunately, many first-time homebuyers are led to believe that they can afford such homes. Everette Samuel, Homeowner Counselor at Pratt Area Community Council (PACC), describes the predicament that victims of predatory lending are in and their seemingly hopeless situation:

I had a client ...and her income for the month was \$2,100. And guess what her mortgage payment was—\$2,300. But her income was \$2,100 and she's working part-time ...I asked her to come back to me, I asked her to bring the documents from the mortgage. I didn't see her, she didn't come back ...In a situation like that, what do you do, how do you do a workout with something like that? You can't.

Some victims of property flipping abandon their homes because they are unaware of

legitimate sources of assistance and do not seek legal remedies for deceptive business practices. One homeowner in Queens who lives next door to a home abandoned by victims of property flipping reported:

This house... [was] sold to a real estate [speculator]. And they fixed it up so rapidly, they did such a butcherous job on it that the first time homeowners that bought it... abandoned it [after two years]... They were all working... [T]hey were from foreign islands. They were all working doing domestic living type work.... So I know they had to be scrambling to meet payments. All four of them trying to make ends meet and they eventually took off and left the place.

The first-time homebuyer, stuck in an over-appraised home, sometimes may receive foreclosure prevention counseling from a non-profit housing agency and benefit from a loan work-out, forbearance period, or other alternative to foreclosure. Through legal agencies like South Brooklyn Legal Services, the homeowner may be able to file a complaint and recoup some damages from the real estate agent. In other instances, the homeowner receives no counseling and faces foreclosure and eviction proceedings. Some victims of property flipping, as recounted above, simply abandon the home altogether.

Interviewed residents all experienced aggressive refinance and “cash-for-home” solicitations. Lenders and brokers are indiscriminately contacting all homeowners in the census tracts surveyed, fishing for homeowners that are desperate for financial assistance but are inexperienced with refinancing alternatives. Most, but not all, homeowners interviewed reported that their first source for loans would be their local bank branches, and were suspicious of unsolicited refinancing offers.

Lending patterns on flipped properties

Lending on flipped lots in the census tracts examined, except for tract 398 in Williamsbridge, is distinctive for its lack of competition. With the exception of tract 398, the top ten lenders in each tract have a smaller portion of the market than the top ten lenders in the property flipped market in each census tract.

Some lenders on flipped properties appear to specialize in this market segment and have a higher probability of lending on flipped lots than all lenders combined—a pattern that appears when comparing the percent of a single lender’s loans going to flipped properties with the percent of all lenders’ loans going to a flipped properties. However, the property flipping market constitutes a distinct segment of the market in only five of the six census tracts, suggesting that not all census tracts suffer from property flipping. A wider study of all census tracts would be necessary to determine the spatial patterns that are only partially explored here.

Tables 2 and 3 below divide the mortgage market in the 383 census tract in Bedford-Stuyvesant, Brooklyn into two segments. Table 2 depicts the top ten lenders overall, according to the total number of loans made in the tract. Table 3 depicts the top ten flip lenders in the same census tract. In census tract 383 in Bedford-Stuyvesant, the top ten lenders had 30.3 percent of the mortgage market, as shown in Table 2 below. Of all the loans made to flipped properties, the top ten lenders had 16.8 percent of the property flipped market. Also, 8.8 percent of the top ten lenders' loans were to flipped lots, compared with 15.9 percent for all lenders in the census tract. A possible explanation for this difference may be that most borrowers in this tract shop around for the lowest-cost mortgage and benefit from competition among lenders, with lenders lowering points, fees, and interest rates to win borrowers.

Table 2: Top ten lenders' share of total mortgage market and percent of loans to flipped properties, census tract 383, Bedford-Stuyvesant, Brooklyn, 2000 to July 2005.

Bedford Stuyvesant 383	All Mortgages	Mortgages to Flipped Properties	
	% Total	% Total	% to Flip
Top Ten Lenders	30.3	16.8	8.8
Other Lenders	69.7	83.2	18.9
Total	100	100	15.9

Source: New York City Department of Finance, ACRIS database.

Table 3: Top ten lenders to flipped properties and share of mortgages to flipped properties, census tract 383, Bedford-Stuyvesant, Brooklyn, 2000 – July 2005.

Bedford Stuyvesant 383	All Mortgages	3+ Mortgages	
	% Total	% Total	% to Flip
Top Ten Flip Lenders	19.8	34.4	27.6
Other Lenders	80.2	65.6	13
Total	100	100	15.9

Source: New York City Department of Finance, ACRIS database.

In contrast, the top ten flip lenders only had 19.8 percent of the overall mortgage market but had 34.4 percent of the property flipping market, as shown in Table 3 below. Moreover, 27.6 percent of loans made by the top ten flip lenders went to flipped properties while only 15.9 percent of all loans went to flipped properties.

Tables 4 and 5 below show similar patterns in the other five census tracts examined. Census tract 398 in Williamsbridge is the exception among the six census tracts examined. The top ten flip lenders do not lend to flipped properties at a higher rate than non-flipped properties. In this tract, the top ten flip lenders only had 26 percent of the property flipped market but had 28.5 percent of the total mortgage market. Also, the top ten flip lenders had a smaller share of loans going to flipped lots compared to all lenders, 13.9 percent and 15.2 percent respectively.

Table 4: Top ten lenders share of total mortgage market and percent of loans to flipped properties, 2000 to July 2005.

	All Mortgages	3+ Mortgages	
Bedford Stuyvesant 267	% Total	% Total	% to Flip
Top Ten Flip Lenders	28.1	20.6	18.3
Other Lenders	70.9	79.4	27.7
Total	100	100	25.1
Jamaica 292			
Top Ten Flip Lenders	29.8	19.3	12.0
Other Lenders	70.2	80.7	21.2
Total	100	100	18.5
Jamaica 376			
Top Ten Flip Lenders	28.3	18.3	9.4
Other Lenders	71.7	81.7	16.6
Total	100	100	14.5
Williamsbridge 396			
Top Ten Flip Lenders	29.0	24.3	17.7
Other Lenders	71.0	75.7	22.6
Total	100	100	21.2
Williamsbridge 398			
Top Ten Flip Lenders	31.7	18.8	9.0
Other Lenders	68.3	81.3	18.1
Total	100	100	15.2

Source: New York City Department of Finance, ACRIS database.

Unfortunately, the data downloaded from the ACRIS database does not provide detailed information regarding the type of mortgage recorded—i.e. whether first or second lien mortgages, Home Equity Line of Credit (HELOCs) or Consolidation, or whether the mortgage is subprime or prime. The analysis is thus a very rough picture of the lending activity in the examined census tracts and represents a simple count of lenders active in the selected time frame, January 2000 to July 2005.

Lenders' increasing use of Mortgage Electronic Systems, Inc. (MERS)—which acts as the nominee of record for the lender and loan servicer—complicates the analysis because MERS appears on ACRIS instead of the actual loan originator and/or servicer. This complication is particularly troublesome in The Bronx and Queens, where MERS is the nominee of record for a large share of mortgages. Despite these limitations, certain patterns among lenders are revealed, which are important for borrowers, housing professionals, and policymakers to consider.

Table 5: Top ten lenders to flipped properties and share of mortgages to flipped properties, 2000 - July 2005.

Bedford Stuyvesant 267	All Mortgages	3+ Mortgages	
	% Total	% Total	% to Flip
Top Ten Flip Lenders	21.0	26.1	31.1
Other Lenders	79.0	73.9	23.5
Total	100	100	25.1
Jamaica 292			
Top Ten Flip Lenders	18.1	35.5	36.2
Other Lenders	81.9	64.5	14.5
Total	100	100	18.5
Jamaica 376			
Top Ten Flip Lenders	16.3	30.6	27.2
Other Lenders	83.7	69.4	12.1
Total	100	100	14.5
Williamsbridge 396			
Top Ten Flip Lenders	23.3	33.0	30.1
Other Lenders	76.7	67.0	18.5
Total	100	100	21.2
Williamsbridge 398			
Top Ten Flip Lenders	28.5	26.0	13.9
Other Lenders	71.5	74.0	15.7
Total	100	100	15.2

Source: New York City Department of Finance, ACRIS database.

Lending patterns to repeat refinanced properties

A review of mortgages on properties with three or more mortgages recorded between 2000 and July 2005—identified as the loan flipping or repeat refinancing market—reveals patterns similar to the property flipping market according to the ACRIS database. Generally, the top ten lenders exhibit the same refinancing patterns as in the mortgage market as a whole but lenders engaged in the repeat refinancing market tend to specialize in repeatedly refinanced properties. The differences in the shares of the mortgage market are less dramatic among repeat refinance lenders than between flip lenders, which seem to suggest that there is generally more competition among lenders for owners seeking to refinance. It should be noted that the operational definition of loan flipping, as with property flipping above, is imperfect and captures a significant, unknown portion of legitimate refinancing loans that do financially benefit the homeowner. These findings thus attempt to approximate true levels of property and loan flipping and merely point to areas for further study.

In the 383 census tract in Bedford Stuyvesant, the top ten lenders captured 30.3 percent of the lending market, as shown in Table 6 below. In the repeat refinance market, the top ten repeat lenders captured 31 percent of the market—that is, of all loans made to properties on which three or more mortgages were recorded, the top ten lenders overall captured 31 percent of that market. Of all the loans the top ten lenders made, 42.8 percent of the loans were to properties on which three or more mortgages were recorded, which is slightly more than the percentage made by all lenders, 41.8 percent. Table 6: Top ten lenders by share of total loans and percent of loans to properties with 3+ mortgages, census tract 383, Bedford-Stuyvesant, Brooklyn, 2000 – July 2005.

Table 6: Top ten lenders by share of total loans and percent of loans to properties with 3+ mortgages, census tract 383, Bedford-Stuyvesant, Brooklyn, 2000 - July 2005.

Bedford Stuyvesant 383	All Mortgages	3+ Mortgages	
	% Total	% Total	% to Flip
Top Ten Flip Lenders	30.3	31.0	42.8
Other Lenders	69.7	69.0	41.3
Total	100	100	41.8

Source: New York City Department of Finance, ACRIS database.

In the same census tract in Bedford Stuyvesant, Table 7 below shows that the top ten repeat refinance lenders captured 34.5 percent of the repeat refinance market, whereas the same lenders only captured 28.2 percent of the market overall. Moreover, 51.3 percent of loans made by repeat refinance lenders were made to properties on which three or more mortgages were made compared to 41.8 percent for all lenders.

Table 7: Top ten lenders by share of total loans to lots with 3+ mortgages and percent of loans to properties with 3+ mortgages, census tract 383, Bedford-Stuyvesant, Brooklyn, 2000 - July 2005.

Bedford Stuyvesant 383	All Mortgages	3+ Mortgages	
	% Total	% Total	% to Flip
Top Ten Flip Lenders	30.3	31.0	42.8
Other Lenders	69.7	69.0	41.3
Total	100	100	41.8

Source: New York City Department of Finance, ACRIS database.

In the other five census tracts examined, repeat refinance lenders tended to specialize in properties on which three or more mortgages were made, as shown in Tables 8 and 9 below. Consequently, households that refinance mortgages are approached by the same lenders that are in the mortgage market generally. To the extent that these lenders are helping homeowners by refinancing mortgages with lower interest rate loans, such patterns should be welcomed. However, from interviews of homeowners, it appears that some lenders are targeting homeowners in financial distress who otherwise have few if any refinancing options.

Table 8: Top ten lenders by share of total loans and percent of loans to properties with 3+ mortgages, 2000 - July 2005.

	All Mortgages	3+ Mortgages	
	% Total	% Total	% to Flip
Bedford Stuyvesant 267			
Top Ten Flip Lenders	28.1	28.2	33.2
Other Lenders	71.9	71.8	33.1
Total	100	100	33.1
Jamaica 292			
Top Ten Flip Lenders	29.8	28.5	30.9
Other Lenders	70.2	71.5	32.9
Total	100	100	32.3
Jamaica 376			
Top Ten Flip Lenders	28.3	26.9	29.0
Other Lenders	71.7	73.1	31.1
Total	100	100	30.5
Williamsbridge 396			
Top Ten Flip Lenders	29.0	28.6	34.0
Other Lenders	71.0	71.4	34.8
Total	100	100	34.6
Williamsbridge 398			
Top Ten Flip Lenders	31.7	38.3	32.0
Other Lenders	68.3	61.7	23.9
Total	100	100	26.5

Source: New York City Department of Finance, ACRIS database.

Conclusions

Predatory lending, property flipping, and loan flipping continue to negatively affect residents of low-income communities and should be of serious concern to residents, community leaders, non-profit housing agencies, and local government officials. Interviews with residents in Bedford Stuyvesant, Brooklyn; Jamaica, Queens; and Williamsbridge, Bronx revealed that lenders are aggressively marketing their loan products to them and that real estate speculators are pressuring homeowners to sell their homes to capitalize on rapidly appreciating home values. Interviews with foreclosure prevention counselors at local non-profit housing agencies revealed the difficulties associated with assisting homeowners in default, particularly homeowners victimized by predatory lending practices.

Table 9: Top ten lenders by share of total loans to lots with 3+ mortgages and percent of loans to properties with 3+ mortgages, 2000 - July 2005.

	All Mortgages		3+ Mortgages	
	% Total	% Total	% to Flip	
Bedford Stuyvesant 267				
Top Ten Flip Lenders	23.3	30.7	43.7	
Other Lenders	76.7	69.3	29.9	
Total	100	100	33.1	
Jamaica 292				
Top Ten Flip Lenders	27.7	32.5	37.9	
Other Lenders	72.3	67.5	30.1	
Total	100	100	32.3	
Jamaica 376				
Top Ten Flip Lenders	26.6	27.5	31.6	
Other Lenders	73.4	72.5	30.1	
Total	100	100	30.5	
Williamsbridge 396				
Top Ten Flip Lenders	28.2	30.4	37.2	
Other Lenders	71.8	69.6	33.5	
Total	100	100	34.6	
Williamsbridge 398				
Top Ten Flip Lenders	28.4	40.1	37.4	
Other Lenders	71.6	59.9	22.1	
Total	100	100	26.5	

Source: New York City Department of Finance, ACRIS database.

NYCHNIS data was used to illustrate trends in home purchase lending, housing supply, tax delinquency, and mortgage default at the borough and sub-borough and/or community district levels. The combined effects of lower per capita incomes, increasing unemployment rates, increasing interest rates, increasing reliance on subprime lending for home purchase, and higher rates of default indicate that financial hardship is on the rise among homeowners in the areas examined. Analyses of the combined trends suggest a need for the expansion of homebuyer and homeownership counseling—education that has proven invaluable in promoting sustainable homeownership and in raising awareness of the dangers of predatory lending. With appropriate education on the common pitfalls of home-buying, refinancing, and true costs of homeownership, foreclosure prevention counselors feel that homeownership would be more sustainable and default and foreclosure rates would decrease.

Review of lending patterns on flipped properties in the census tracts examined, confirmed the suspicion among housing counselors that a distinct segment of lenders tend to make loans on flipped properties. The lenders in the property flipping market

generally captured a greater share of that market, indicating less competition among lenders. Alternatively, the top ten lenders in each tract have a smaller portion of the overall mortgage market than the top ten lenders in the property flipped market, except for census tract 398 in Williamsbridge, Bronx where property flipping is perhaps less prevalent.

Review of mortgages on properties with three or more mortgages recorded, revealed patterns similar to the property flipping market. Generally, the top ten lenders exhibited the same refinancing patterns as in the mortgage market as a whole, and lenders who engaged in repeat refinancing tended to specialize in repeatedly refinanced properties. These patterns were evident in all six census tracts examined.

Endnotes

² Barefoot, Jo Ann S., “All’s Quiet on the Fair-Lending Front... Or is it?” ABA Banking Journal (2002) Vol. 94: 63. In January 2002, Alan Greenspan, chairman of the Federal Reserve, noted that homeownership accounts for about 44 percent of assets of families with incomes less than \$50,000 a year. At the same time, increases in home sales prices over the 1990s increased the value of homeowner’s assets stored in home equity.

³ The tactics used by loan and property flippers are similar to those of abusive or predatory lenders and are characterized by the following practices: aggressive sales techniques, deceit, fraud, forging signatures, and manipulation.

⁴ From June to August of 2005, the research was carried out at Neighborhood Housing Services of New York City (NHSNYC or NHS) under the supervision of Juan Santana, Director of Homeownership Services, and through the support of the Cornell Graduate Urban Scholars Program and Prof. Ken Reardon, chair City and Regional Planning Department and Prof. Susan Christopherson of Cornell University. A description of NHSNYC can be found at www.nhsnyc.org. NHSNYC’s mission statement summarizes the organization goals and objectives: “Neighborhood Housing Services of New York City is a not-for-profit citywide organization working to increase and protect investment in underserved low- and moderate-income neighborhoods, help people through education to help themselves, build communities that encourage and support neighborhood self-reliance, and create, preserve, and promote affordable housing in New York City neighborhoods.”

⁵ Mortgage defaults are tracked by *lis pendens*, which are defined by the New York City Housing and Neighborhood Information System (NYCHANIS) as “a legal document filed to provide the public with notice that the title to the property is being contested.” While the filing of a *lis pendens* does not necessarily lead to foreclosure, the lender files a *lis pendens* before a mortgage foreclosure. www.nychanis.com/NYU/NYCHANIS/Data.aspx#Public%20Data%20Corporation

⁶ Federal Register Vol. 68, No. 84, 24 CFR Part 203: Prohibition of Property Flipping in HUD’s Single Family Mortgage Insurance Programs, p. 23370. <http://www.nychanis.com/NYU/NYCHANIS/>

⁷ New York City Housing and Neighborhood Information System, developed by the Furman Center for Real Estate and Urban Policy at New York University School of Law and Bowne Management Systems, Inc.

⁸ New York City Department of Finance. <http://a836-acris.nyc.gov>

⁹ Caras, Jim and Nadine Felton, “Oversight: Tax Lien Sale Program,” The Council:

Report of the Finance Division, Committee on Finance, October 7, 2003.

10 A type of lending that relies on risk-based pricing¹⁰ serve borrowers who cannot obtain credit in the prime market, where higher degrees^{of} risk for borrowers carry higher costs for loans. Subprime loans are often called “A- through D” credits.

11 “Benefit Guide for Older New Yorkers,” Department for the Aging, New York City.

12 The Finance Division of New York City defines tax liens thusly, “[L]egal claims against properties with a prior position to mortgages and many other types of liens arising from unpaid property taxes, water and sewer rents, and other lienable City charges.” From Weinberg, Richard M., Director and General Counsel and Kathleen Cudahy, Director Infrastructure Division, “Oversight: Proposed Administration Changes to Tax Lien Sale Program and Tax Lien Foreclosure by Action in Rem,” The Council: Report of the Legal and Governmental Affairs Division, October 10, 2000.

¹³ Ibid.

¹⁴ Other factors not discussed include increased liquidity in mortgage markets due to securitization and lower transaction costs from automated underwriting and advances in information technology.

¹⁵ The Bureau of Labor Statistics defines the New York Metropolitan Division as including the following jurisdictions surrounding New York City: Bergen, Hudson, and Passaic, NJ; Bronx, Kings, New York, Putnam, Queens, Richmond, Rockland, and Westchester, NY. The New York Metropolitan Division is used here because it is the lowest level for which income trends were available.

¹⁶ Unfortunately, home purchase lending data was unavailable for 2003 to 2004 and median sale prices were unavailable from 2000 to 2001.

¹⁷ ’s community district boundaries and require at least 100,000 in population. If there are less than 100,000 people in a sub-borough area approximation of a single community district, then the community district is combined with a neighboring community district. Established in 1975, community districts are New York City defined areas used for the delivery of city services. There are 59 community districts and 55 sub-borough areas in New York City. For simplicity, sub-borough areas and community districts are used interchangeably.

¹⁸ ’s subprime lender list. Unfortunately, the most recent data is listed only up to 2002.

¹⁹ Engel, Jeanne, “Building Assets, Building Credit: Symposium Proceedings November 2003,” Joint Center For Housing Studies, Harvard University, November 2003: 12.

²⁰ United States General Accounting Office (GAO), “Consumer Protection: Federal and State Agencies Face Challenges in Combating Predatory Lending,” Report to the Chairman and Ranking Minority Member, Special Committee on Aging, United States Senate, January 2004: 24.

