behind the numbers

data analysis from the
center on urban poverty
and community development

BRIEF NO. 8

Trends in 'home purchase loan' origination in Cleveland and Cuyahoga County: 1995 — 2008

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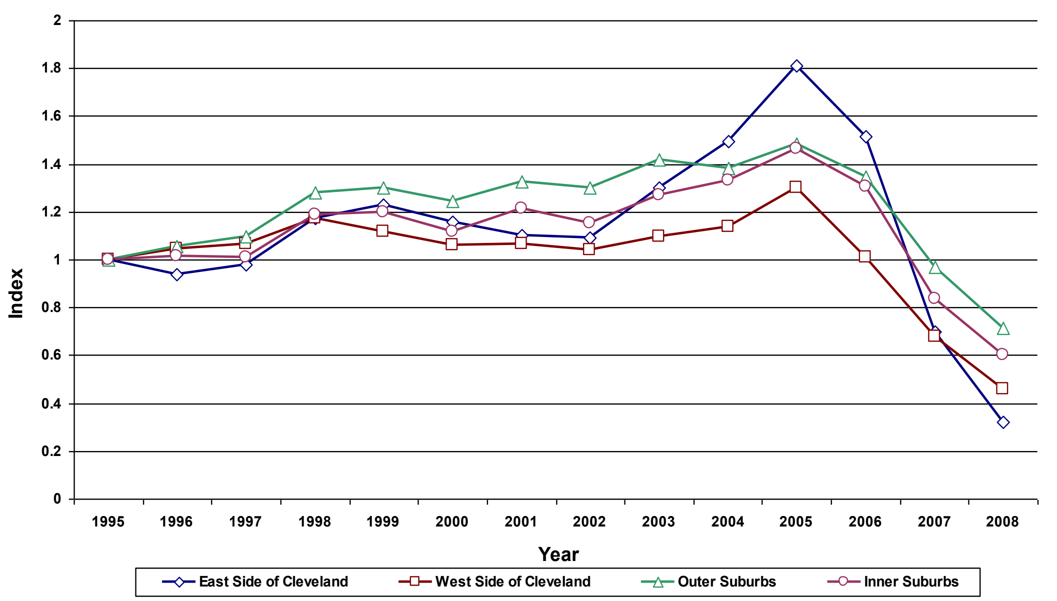
This study examines recent trends in 'home purchase loan' origination in Cleveland and Cuyahoga County in comparison to the nation. A sudden decline in 'home purchase loan' originations points to the stalling of housing markets in these areas. Data also show a decline in the number of high-cost[1] 'home purchase loan' originations. Data are primarily drawn from the Home Mortgage Disclosure Act (HMDA) database and Northeast Ohio Community and Neighborhood Data for Organizing (NEO CANDO). HMDA, passed in 1975 to monitor credit access to minorities, is federal legislation that requires lenders in metropolitan areas to report certain characteristics of mortgages.[2] NEO CANDO is an online database that houses a rich collection of indicators for a 17-county region of northeast Ohio.

Unusual trends 1995-2008

From 1995 to 2005, Cleveland experienced an increase in one- to four-family 'home purchase loan' originations; from 4,673 in 1995 to 7,128 in 2005—a 53% increase. Cuyahoga County saw a slightly smaller proportional increase of 49% from 17,275 in 1995 to 25,698 in 2005. In both Cleveland and Cuyahoga County, the number of originations periodically rose and fell between 1995 and 2002, increasing as much as 16% and falling as much as 5% between years. However, the largest percent increase in originations occurred between 2002 and 2005, with Cleveland's 'home purchase loan' originations rising by 43% and Cuyahoga County's by 26%. Following this rise is a dramatic decrease in one- to four-family home purchase mortgage loan originations for three consecutive years. In 2008, Cleveland saw only 1,863 mortgage loan originations; a 74% decrease from its 2005 high. The trend in Cuyahoga County is similar, with only 10,156 mortgage loan originations in 2008; a 60% decrease from its 2005 high.

Figure 1 shows the trends by geography in Cuyahoga County and in the City of Cleveland. Home purchase mortgage originations are indexed to the year 1995, showing change over time relative to 1995. The region in general follows a pattern of an increase from 1995 to 2005, followed by a steep decline.[3] However, it is clear that the East side of the City of Cleveland saw the highest increase in loan originations relative to 1995, and also saw the steepest

Figure 1: 'Home Purchase Loan' Originations (1-4 family homes), Indexed* to 1995



*Loan originations for all years, within each geography, are in comparison to the number of loan originations in 1995 (taken to be 1) in that geography.
Source: NEO CANDO system, 1995-2008 HMDA.
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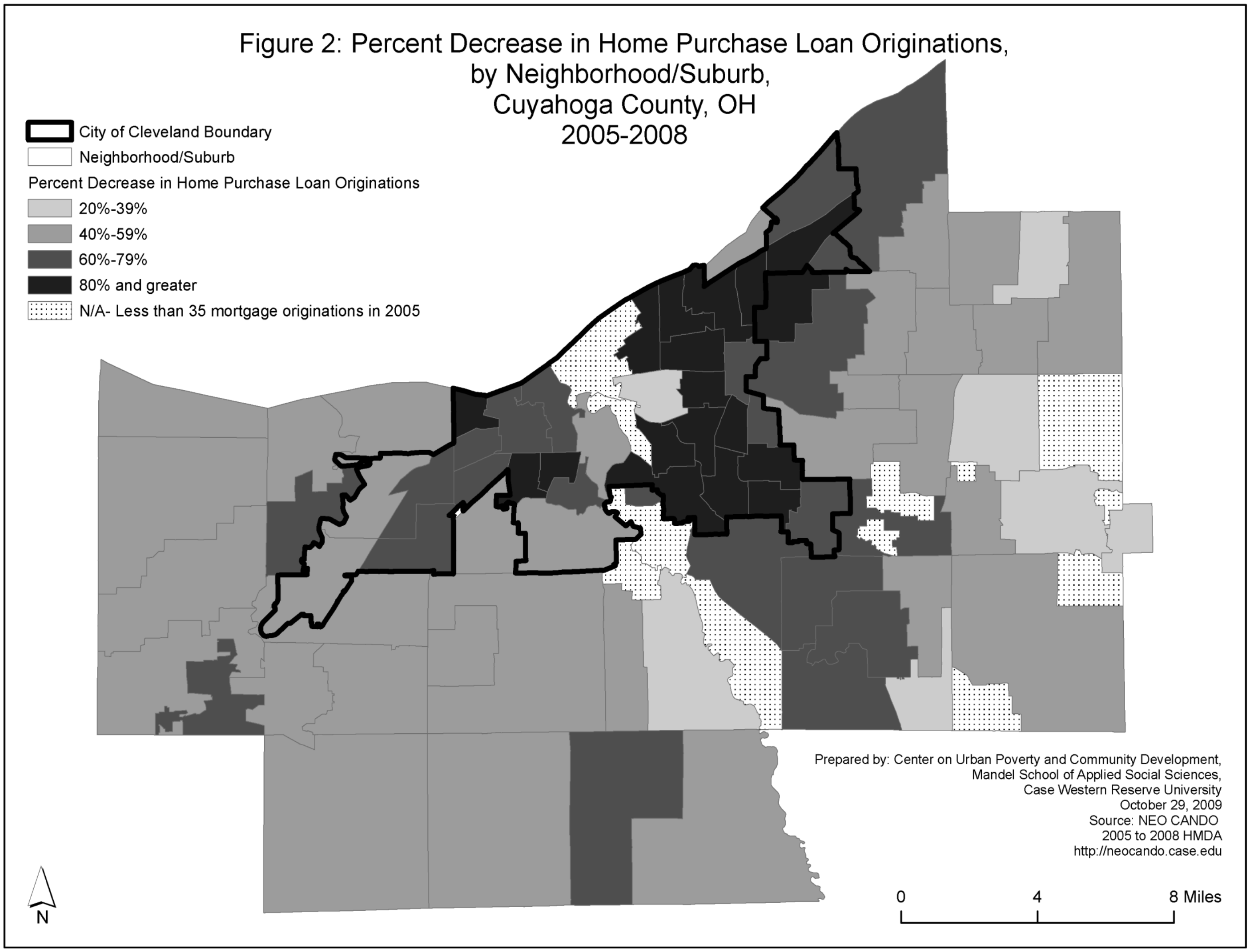


Figure 2: Percent Decrease in Home Purchase Loan Originations, by Neighborhood/Suburb, Cuyahoga County, OH 2005-2008

decline. While trends among the inner and outer suburbs of Cuyahoga County are similar, the East and West sides of Cleveland differ tremendously after 2002.

A similar rise in mortgage loan originations nation-wide from 2002 through 2005 has been attributed to low interest rates and the frenzy of a housing bubble. While house-price appreciation in Cleveland was not as large, and the growth of housing market not as strong as it was nationally, much of the increase in 'home purchase loan' originations in Cleveland was thought to be driven by the push of credit availability by subprime lenders.

Current status of housing markets: Cuyahoga County

The number of 'home purchase loan' originations per 1,000 structures in Cleveland decreased from 41 in 2005 to 11 in 2008. In Cuyahoga County, the number decreased from 52 to 21 during the same period. Nation-wide numbers decreased from 69 'home purchase loan' originations per 1,000 structures in 2005 to 30 in 2008.[4] While figures for all three geographies are low, Cuyahoga County, and Cleveland especially, remain well below the nation in loan originations per 1,000 structures.

Some neighborhoods in the City of Cleveland, especially on the East side, experienced a near stalling of housing markets by 2008. **Figure 2** shows the percentage decrease in 'home purchase loan' originations in Cleveland and Cuyahoga County by municipality and neighborhood, from 2005 to 2008. The East side of the City of Cleveland and the inner-ring Eastern suburbs such as East Cleveland, Cleveland Heights, Garfield Heights, Maple Heights, Bedford, and Walton Hills experienced drastic decline. The Eastern neighborhoods of the City of Cleveland and the inner-ring suburb of East Cleveland saw decrease in mortgage originations of 80% or higher. At the same time, some of the municipalities with the lowest declines, like Pepper Pike, Moreland Hills, and Chagrin Falls Township, are also located on the East side of Cuyahoga County. The Central neighborhood on the East side of Cleveland peaked in loan originations prior to 2005 and so its decline from 2005 through 2008, relative to most Eastern neighborhoods and municipalities, may seem not as drastic. Western suburbs almost consistently saw declines between 40% and 59%, while the West side neighborhoods of the City of Cleveland mostly experienced declines of 60% and greater. Neighborhoods and cities marked "N/A" had less than 35 mortgage originations in 2005, too small a number to be considered representative of the general trends.

Trends in high-cost loans

A substantial number of loans originated in Cleveland and Cuyahoga County have interest rates three percentage points higher than treasury bonds with comparable term limits. Such high-cost loans were a key component of the rise and fall of total 'home purchase loan' originations in Cleveland.

In Cleveland and Cuyahoga County, from 2005 to 2008, high-cost loans made up a higher percentage of total 'home purchase loan' originations, compared to the entire nation. **Figure 3** shows a comparison of this data for the City of Cleveland, Cuyahoga County, and the United States. Almost 60% of all the 'home purchase loans' originated in Cleveland were high-cost loans in the year 2006 compared to 35% for Cuyahoga County and less than 30% for the nation. The pattern of increase and decrease of percentages of high-cost loans from 2005 through 2008 is consistent among these three geographies, with high-cost loans making up a decreasing percent of the home-purchase mortgage loan market.

Increase in government backed loans

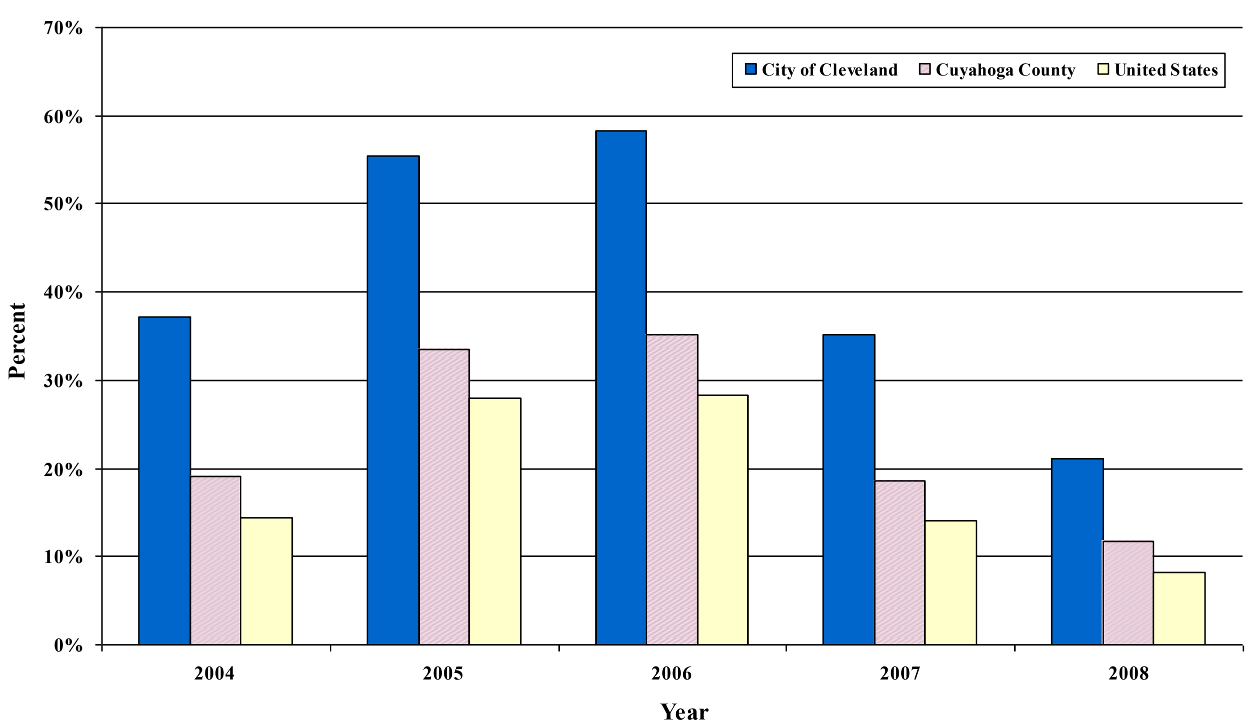
HMDA requires that lenders report if a loan is government-backed or conventional. Government-backed loans are those that are either guaranteed or insured by federal agencies such as Department of Veterans' Affairs or Federal Housing Administration. Conventional loans are not guaranteed or insured by federal agencies. Between 2005 and 2008, as the total amount of lending fell in Cuyahoga County, there has been a notable increase in the proportion of mortgages that are government backed, from 7% to 37%. A similar increase in government-backed loans is also observed at a national level.[5] The preponderance of government-backed loans is even more striking in Cleveland, where conventional loans fell from 6,592 in 2005 to 946 in 2008 while government- backed loans rose from 536 to 917 during the same time frame. For a list of loan originators in the Cuyahoga County during the year 2008, please refer to the NEO CANDO blog at http://blog.case.edu/msass/2009/11/30/hmda_hp_lenders_2008.pdf

Conclusion

Conventional mortgage lending has fallen precipitously in Cuyahoga County, as in the nation as a whole. The near elimination of high-cost loans is responsible for a disproportionate share of loss, especially in Cleveland. Government-backed loans have picked up to a modest degree, and with their solid underwriting standards they are welcome after the glut of subprime lending that drove the recent foreclosure crisis.

For more information on high-cost lending and its impact, see "**Pathways to foreclosure: a longitudinal study of mortgage loans, Cleveland and Cuyahoga County, 2005-2008**" produced by the Center in June 2008. This report is available on the Center's blog at: http://blog.case.edu/msass/2008/06/23/pathways_to_foreclosure.html

Figure 3: High-Cost Home Purchase Loans as Percent of all Home Purchase Loans Originated*



*Includes only 1-4 unit, nonbusiness related, owner-occupied, site-built houses.
Source: NEO CANDO system, 2004-2008 HMDA; National aggregate figures from Federal Reserve Reports, see reference section for more information.
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sources and notes

[1] Beginning in 2004, HMDA data included information on the rate-spread for each loan. It is defined as the difference in interest rate between a loan and treasury bonds with comparable term limits. Rate-spread is reported if interest rate difference is higher by three percent (on first lien loans) or five percent (on second lien loans). Data reported here include both first and second lien loans. We refer to these loans as 'high-cost'.

[2] Regulation C - home mortgage disclosure, 12 C.F.R. § 203 (2002).

[3] HMDA data indicate that the mortgage loan originations peaked in 2005 nationally.
Mian, A. R., & Sufi, A. (2008) The Consequences of Mortgage Credit Expansion: Evidence from the 2007 Mortgage Default Crisis. NBER Working Paper Series, Vol. w13936. Retrieved November 17, 2009, from http://papers.nber.org/papers/w13936.pdf

[4] Kingsley, G. T., & Pettit, K. L. S. (2009). *High cost and investor mortgages: Neighborhood patterns.* Washington DC: The Urban Institute.

[5] Avery, R. B., Bhutta, N., Brevoort, K. P., Canner, G. B. and Gibbs, C. N. (In Press). The 2008 HMDA data: the mortgage market during a turbulent year. *Federal Reserve Bulletin,* 95. Retrieved November 17, 2009, from http://www.federalreserve.gov/pubs/bulletin/2009/pdf/hmda08draft.pdf.

about this publication

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The mission of the Center on Urban Poverty and Community Development is to create, communicate, and apply valuable knowledge to a broad range of constituents concerned with the ultimate goal of reducing urban poverty and its consequences. The Center's approach to research places high value on being responsive to the research questions and issues that emerge from residents and the community.

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