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Foreclosures on Non-Owner-Occupied Properties in Ohio's Cuyahoga County: Evidence from Mortgages Originated in 2005–2006

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Foreclosures on Non-Owner-Occupied Properties in Ohio's Cuyahoga County: Evidence from Mortgages Originated in 2005–2006

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Abstract: One aspect of the past decade's housing boom was an increase in mortgage borrowing by non-occupant owners of residential property.[1] Using data on the 50 states and the District of Columbia, Breck Robinson and Richard M. Todd summarize some of the basic facts regarding home purchases and mortgage borrowing and default by non-occupants who borrowed from 2004 to 2007.[2] However, partly due to data limitations, few studies have examined home buying, borrowing, and mortgage default by non-occupant owners using detailed neighborhood and demographic data, including census tract data on the race and ethnicity of the non-occupant owners who borrowed and subsequently experienced foreclosure. I do so here, using results from loan and foreclosure data on Cuyahoga County, Ohio, that were compiled by researchers at Case Western Reserve University for loans originated in 2005–2006. I find that the incidence of non-occupant foreclosures in Cuyahoga County was very high by national standards and was even higher for loans to minority borrowers made by non-local lenders in low-cost, low-income, minority neighborhoods. Strictly speaking, these findings apply only to Cuyahoga County in 2006–2008, and results in Robinson and Todd suggest that the pattern of non-occupant home buying and borrowing varied significantly among the states. At the same time, Robinson and Todd also show that Ohio's pattern was similar to some other Midwestern and Northeastern states, suggesting that the more detailed findings here could have some parallels in other cities, at least in the Midwest and Northeast.

In an April 2010 article in the *Federal Reserve Bulletin*,[3] Robert B. Avery, Neil Bhutta, Kenneth P. Brevoort, Glenn B. Canner, and Christa N. Gibbs document that the share of home-purchase mortgages issued to investors and other non- occupant owners rose during the past decade's housing boom, from about 8 percent in 2000 to over 17 percent in 2005. In a working paper released in June 2010,[4] Breck Robinson and Richard M. Todd show that in the ensuing contraction, the incidence of foreclosures on mortgages to non-occupant owners rose to high levels in some states. Ohio was among these states, even though mortgages to non-occupant owners were not especially prevalent there. Instead, a high default

[1] Robert B. Avery, Neil Bhutta, Kenneth P. Brevoort, Glenn B. Canner, and Christa N. Gibbs, "The 2008 HMDA Data: The Mortgage Market during a Turbulent Year," *Federal Reserve Bulletin,* April 2010.
[2] See Robinson and Todd's paper, *The Role of Non-Owner-Occupied Homes in the Current Housing and Foreclosure Cycle*, Federal Reserve Bank of Richmond, June 2010, No. 10-11.
[3] See Footnote 1.
[4] See Footnote 2.

rate on mortgages to non-occupant owners pushed Ohio above the national average in the incidence of foreclosures involving non-occupant owners.

Robinson and Todd do not report foreclosure results for substate regions. This paper uses a different set of data than in Robinson and Todd to examine the characteristics of mortgages and foreclosures on non-owner-occupied properties in Cuyahoga County, which contains the city of Cleveland.[5] Because Cuyahoga County has experienced very high foreclosure rates in recent years, its experience may shed light on some of the factors behind Ohio's high incidence of foreclosures on non-owner-occupied properties. The Cuyahoga data confirm some of the patterns found at the national level by Robinson and Todd. These data also reveal details not covered by Robinson and Todd's data. They show that, at least in Cuyahoga County, non-local lenders disproportionately made risky mortgages to non-occupant borrowers and that a large fraction of these mortgages ended up in foreclosure. The result was a pattern of relatively high prevalence, poor performance, and high foreclosure impact associated with mortgages by non-local lenders to non- occupant owners in low-income, minority neighborhoods with low housing values.

Mortgages to non-occupants were more common in Cuyahoga County than in Ohio as a whole but not especially prevalent by national standards. Among single-family home-purchase and refinance loans originated in Cuyahoga County in 2005–2006, 13.9 percent were to non-occupant borrowers, on par with the national percentage computed from data collected under HMDA but higher than Ohio's 11.8 percent figure (from HMDA).

[5] The statistics used here were provided by Michael Schramm of Case Western Reserve University and were derived from data and models used in Claudia Coulton, Tsui Chan, Michael Schramm, and Kristen Mikelbank, *Pathways to Foreclosure: A Longitudinal Study of Mortgage Loans, Cleveland and Cuyahoga County, 2005–2008*, a report of the Center on Urban Poverty and Community Development, Mandel School of Applied Social Sciences, Case Western Reserve University, June 2008. For convenience, I refer to this report and its authors as CCSM. By matching data on home-purchase and refinance mortgages gathered under the Home Mortgage Disclosure Act (HMDA) with information from local property records, CCSM were able to link 68 percent of the HMDA loans originated in Cuyahoga County in 2005–2006 with local information on (1) the value of the underlying property and (2) whether a foreclosure notice had been filed on the property by April 30, 2008. (CCSM limited their analysis to home-purchase and refinance loans on one- to four-family properties.)

The Cuyahoga County data parallel Robinson and Todd's finding that non-occupant borrowers and their mortgages had several lower-risk characteristics, compared to owner-occupant borrowers and their mortgages. As in Robinson and Todd's Figure 2, non-occupant borrowers in Cuyahoga County tended to have higher incomes than owner-occupants. Using standard income categories from the Department of Housing and Urban Development, data from CCSM (i.e., Claudia Coulton, Tsui Chan, Michael Schramm, and Kristen Mikelbank, per Footnote 4) show that 42 percent of non-occupant borrowers were high-income, compared to only 30 percent of owner-occupants. Low- and moderate-income individuals were 39 percent of owner-occupant borrowers but just 25 percent of non-occupant borrowers. Also as in Robinson and Todd (Figure 4), mortgages were smaller for non-occupants (median size $79,200 for both home purchase and refinance) than for owner-occupants (median size $110,000 for home purchase and $100,000 for refinance). As a result, median loan-to-income ratios were much smaller for non-occupants (1.2 for home purchase and 1.1 for refinance) than for owner-occupants (2.1 for home purchase and 1.9 for refinance).

However, mortgages to non-occupant borrowers in Cuyahoga County also had some high-risk characteristics. CCSM identify high-interest-rate mortgages as the single most important indicator of high foreclosure risks in their data on all 2005–2006 residential mortgages in Cuyahoga County. Additional factors they associated with high foreclosure rates include loans from non-local institutions (those without an office in or adjacent to Cuyahoga County); borrowers who were low income or African American (or to a lesser degree Hispanic); and loans in neighborhoods with high poverty, a high concentration of African American residents, or low housing values.[6]

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[6] CCSM also identify non-occupant borrowers as having a much higher foreclosure rate (31 percent) than owner-occupants (11 percent). Since this paper focuses solely on loans to non-occupants, occupancy is not an independent factor here.

With the notable exception of the borrower's income (discussed above), the CCSM data show that 2005–2006 mortgages to non-occupant borrowers in Cuyahoga County disproportionately displayed many of the overall CCSM risk factors. Eighty-four percent were originated by non-local banks, compared to 61 percent of owner-occupied mortgages. Over half of all non-occupant mortgages involved minority borrowers, compared to just over a third for owner-occupied mortgages. Forty-four percent of non-occupant mortgages were in neighborhoods where the poverty rate was 20 percent or more, versus just 12 percent of the owner-occupied mortgages. Over 40 percent of the non-occupant mortgages were on properties in majority African American neighborhoods, compared to 18 percent of the owner-occupied mortgages. Forty-three percent of the non-occupant mortgages were in neighborhoods where the median home value was less than $60,000, compared to 11 percent of the owner-occupied mortgages. In light of these risk differences, it may not be surprising that 71 percent of non-occupant borrowers had high-priced mortgages, compared to only 30 percent of owner-occupant borrowers.[7]

High risks were followed by high foreclosure rates to non-occupant borrowers. Twenty-eight percent of the 2005–2006 home purchase and refinance mortgages to non-occupant owners in Cuyahoga County had a foreclosure notice filed on their mortgage by April 30, 2008, compared to just 9 percent for owner-occupied mortgages.[8] Even when the overall results are broken down into smaller groups to control for factors such as income, the race or ethnicity of the borrower, or neighborhood housing values, the foreclosure rate on mortgages to non-occupants is at least two times greater than the corresponding rate for owner-occupied mortgages.

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[7] First-lien mortgages in 2005–2006 were reported in HMDA as high-priced if their annual percentage rate of interest exceeded the average yield on 30-year Treasury bonds issued in the same month by 3 percentage points or more.

[8] This disparity is at least qualitatively consistent with Robinson and Todd's Figures 5 and 11. In their Figure 5, Ohio stands out as one of the few states in which the non-owner-occupied foreclosure rate is much higher than the owner-occupied foreclosure rate. In their Figure 11, Ohio exhibits one of the highest foreclosure rates on mortgages to non-occupants. This paper may identify some of the patterns that underlie Ohio's relatively unusual experience with foreclosures on mortgages to non-occupants. By the same token, the results may not generalize to most other states or the nation as a whole.

There is one exception to the pattern of higher foreclosure rates on non-occupant mortgages, and it is related to the location of the lender. CCSM defined a local bank as one that had an office in or adjacent to Cuyahoga County. According to the HMDA data, these banks accounted for 36 percent of all home-purchase and refinance mortgage originations in the county in 2005–2006 and 16 percent of the originations to non-occupants. CCSM found that when these local banks lent to non-occupant borrowers, the results were generally good and not different from loans to owner-occupants. Only about 2 percent of local banks' 2005–2006 mortgage originations, including those to non-occupants, had a foreclosure filing by April 2008. By contrast, the foreclosure filing rate on mortgages from non-local banks was 14 percent on owner-occupied mortgages and 36 percent on mortgages to non-occupants.

As shown in the table on page 10, the rate of foreclosure filings on 2005–2006 non-occupant mortgages in Cuyahoga County also varied markedly with the other CCSM risk factors. We have seen that many non-occupant mortgages were high-priced, and 42 percent of high-priced non-occupant mortgages had a foreclosure filing. Over 40 percent of non-occupant borrowers with low or moderate income had a foreclosure filing, compared to 21 percent for those with high incomes. Among non-occupant borrowers, foreclosure rates were disproportionately high for minorities, especially African Americans. Forty-five percent of non-occupant mortgages to African American borrowers had a foreclosure filing, versus 26 percent for Hispanics and 16 percent for non-Hispanic whites. Foreclosure rates on non-owner-occupied mortgages were positively related to the percentage of African Americans living in the neighborhood and the percentage of households in poverty and were negatively related to the average value of homes.

The Cuyahoga County data show that prevalence of non-owner-occupied mortgages was also linked to CCSM's risk factors. Eighty-four percent of all non-occupant mortgages were originated by non-local banks, compared to 61 percent of owner-occupied mortgages. Over half of all non-occupant mortgages involved minority borrowers, compared to just over a third for owner-occupied mortgages. Over 40 percent of the non-occupant mortgages were on properties in majority African American neighborhoods, compared to 18 percent of the owner-occupied mortgages. Forty-four percent of non-occupant mortgages were in neighborhoods where the poverty rate was 20 percent or more, versus just 12 percent of the owner-occupied mortgages. Forty-three percent of the non-occupant mortgages were in neighborhoods where the median home value was less than $60,000, compared to 11 percent of the owner-occupied mortgages. Relative to owner-occupants, non-occupant borrowers were more likely to have borrowed at high interest rates from non-local banks to purchase a low-cost home in a low-income, African American community.

With non-occupant mortgage lending disproportionately high in high-risk categories, it is not surprising to find a high incidence of foreclosure on non-occupant mortgages originated in Cuyahoga County in 2005–2006. As a measure of incidence, I divide the total number of foreclosure filings (through April 2008) on non-occupant home-purchase and refinance mortgages originated in 2005–2006 by the total number of home-purchase and refinance originations in the county in those years. The resulting 3.94 percent incidence is far above the corresponding 2004–2007 U.S. average of 0.85 percent reported in Appendix 5 of Robinson and Todd's working paper. The high level is consistent with Cuyahoga County contributing significantly to Ohio's above-average incidence of non-occupant foreclosures, reported by Robinson and Todd.

Looking at how Cuyahoga County's non-occupant foreclosures (on 2005–2006 mortgages) were distributed across some of the CCSM risk categories provides a complementary perspective. Ninety-nine percent of the non-occupant foreclosures were on mortgages originated by non-local banks, and 92 percent involved high-priced loans. The impact was spread somewhat evenly across borrowers by income. For example, the percentages of non-occupant foreclosures with moderate-, medium-, and high-income borrowers were 28, 28, and 31, respectively. However, non-occupant foreclosures were skewed along racial lines. African Americans received 40 percent of the non-occupant mortgages but experienced 63 percent of the foreclosures on such loans. Fifty percent of the non-occupant foreclosures were in heavily African American neighborhoods (where African Americans make up 75 percent or more of the population), although the next highest figure (32 percent) was in neighborhoods with fewer than 25 percent African American residents (which accounted for 52 percent of non-occupant mortgages). Fifty-four percent of non-occupant foreclosures occurred in neighborhoods with a poverty rate between 20 percent and 40 percent.[9] Sixty-three percent of non-occupant mortgages occurred in low-housing-cost neighborhoods (where the median home value was less than $60,000), while 29 percent of the non-occupant mortgages were originated in neighborhoods that would be categorized as having moderate housing costs (where the median home value was between $60,000 and $120,000). Overall, a disproportionate share of the foreclosures on mortgages to non-owner-occupants occurred on small but high-priced loans from non-local banks that were often made to minority borrowers of moderate to high income on properties in low-income, minority neighborhoods with relatively low-cost homes. The incidence of non-occupant foreclosures in Cuyahoga County was very high by national standards and was even higher among borrowers or neighborhoods with the high-risk attributes identified by CCSM.

[9] A low percentage of non-occupant foreclosures was in neighborhoods with greater than 40 percent poverty because few mortgages were made in those communities. For originations during the period 2005–2006, 44 percent of the originations were to non-occupants, and 48 percent of those had a foreclosure notice by April 2008.

Rates of Foreclosure Filings on Mortgages Originated in 2005–2006, Cuyahoga County, Ohio

Loan Variables	Foreclosure Rate on Owner-Occupied Mortgages (%)			Foreclosure Rate on Non-Owner-Occupied Mortgages (%)		
	Home-Purchase	Refinance	Total	Home-Purchase	Refinance	Total
All Loans	11.8	7.2	9.3	35.1	18.8	28.4
By Race/Ethnicity						
Non-Hispanic White	5.5	5.2	5.3	17.1	13.6	15.5
Hispanic	11.0	7.6	9.4	32.6	16.9	25.6
Black	28.0	12.3	20.2	53.2	28.5	44.7
Other Race—Unknown	17.6	9.0	12.2	32.6	15.2	24.1
By Type of Bank						
Local Bank	2.9	1.6	2.2	1.2	2.7	2.0
Non-Local Bank	17.4	10.7	13.9	40.2	23.2	33.6
By Borrower's Income						
Low	20.4	11.5	15.5	54.9	23.3	43.2
Moderate	16.4	9.5	13.1	49.3	22.1	40.6
Middle	10.4	6.8	8.5	38.1	17.3	29.7
High	5.3	4.2	4.7	23.1	19.4	21.4
Income Missing	6.6	5.5	5.8	20.5	10.0	15.4
By Neighborhood Characteristics						
<25% African American	7.8	5.8	6.7	21.1	12.6	17.5
25%–49% African American	16.8	10.0	13.3	47.6	21.9	38.4
50%–74% African American	25.3	11.0	16.7	40.3	17.2	30.9
75% + African American	37.2	12.6	22.3	52.6	29.2	43.1
<10% Below Poverty	7.6	5.7	6.6	13.5	12.1	12.9
10%–19% Below Poverty	17.9	8.9	12.9	32.4	17.0	25.5
20%–39% Below Poverty	34.7	14.0	23.2	51.4	25.6	41.1
40% Below Poverty	34.3	15.5	24.0	59.5	26.4	48.0
Median Home Value <$60,000	37.9	13.9	24.3	52.4	25.4	41.5
Median Home Value $60,000–$119,999	16.1	9.5	12.5	29.0	16.5	23.6
Median Home Value $120,000–$179,999	6.8	5.2	6.0	12.5	11.3	12.0
Median Home Value $180,000+	3.6	3.8	3.7	5.4	8.7	6.7