



## A SHARED FUTURE

Fostering Communities of  
Inclusion in an Era of Inequality

# Minority Banks, Homeownership, and Prospects for New York City's Multi-Racial Immigrant Neighborhoods

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This paper was originally presented at *A Shared Future: Fostering Communities of Inclusion in an Era of Inequality*, a national symposium hosted by the Harvard Joint Center for Housing Studies in April 2017. The symposium examined how patterns of residential segregation by income and race in the United States are changing and the consequences of residential segregation for individuals and society, and sought to identify the most promising strategies for fostering more inclusive communities in the years to come.

This paper was presented as part of Panel 2 at the symposium, entitled “**What would it take... To promote residential choices that result in greater integration?**”

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## **Introduction**

New York City's global city status is, in part, attributable to its diverse immigrant neighborhoods. Fueled by post-1965 immigration from Asia, Latin America, and the Caribbean, a full 38 percent of New Yorkers were born outside of the United States. The immigrant presence is even greater in the borough of Queens, where nearly half of all residents are foreign-born and neighborhood streetscapes reflect a "hyperdiversity" of ethnicities, languages, and cultures.<sup>1</sup> Asian and Latino residential choices have been a driving force of neighborhood racial change; however, immigrant settlement has not tempered anti-Black segregation, which remains a durable feature of the spatial ecology of the city's neighborhoods.<sup>2</sup> My paper investigates the neighborhood locations and mortgage financing for Asian home purchasers for two years, 2010 and 2015 (the most recent year the data is available). As the primary strategy for individual asset building, homeownership contributes to neighborhood stability and higher levels of civic engagement, and home purchasers may be indicative of neighborhood demographic trends with respect to race and class.<sup>3</sup>

Asian Americans are the fastest growing racial group in the United States. Since Asian Americans are also highly diverse, an aggregated socioeconomic profile that claims parity with non-Hispanic whites is misleading. As a majority immigrant population, many Asians continue to face multiple incorporation challenges due to limited English language ability, low levels of educational attainment, and concentration in informal economies. Recent studies find deepening economic disparities (including high rates of poverty) among Asian Americans based on ethnicity and class.<sup>4</sup> My paper focuses on the role of Asian minority banks, formed to serve the underbanked population, in facilitating home mortgage lending.<sup>5</sup> The nearly exclusive lending to Asian borrowers by Asian minority banks expands the sources of credit for this population group. However, between 2010 and 2015, the share of mortgage loans originated

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1. Miyares (2004).

2. Flores and Lobo (2013).

3. Immergluck and Smith (2003).

4. Weller and Thompson (2016); Guo (2016).

5. A major deficiency in HMDA data is the inability to disaggregate racial categories by ethnic groups. In October 2015, the Consumer Financial Protection Bureau announced improvements in HMDA data collection and reporting to include disaggregated data on ethnicity for Asian Americans starting in 2018.

by Asian minority banks for property purchases by Asian investors, as opposed to owner-occupants, increased significantly. This finding raises concerns about the impact of investment real estate capital on neighborhood stability, affordability, and demographic composition.

I utilize several public databases to locate New York City's multi-racial immigrant neighborhoods and examine home mortgage lending patterns and property sales prices. I focus on the role of minority financial institutions, including community banks, in originating home mortgages to Asian borrowers, both owner-occupants and investors, for residential property purchases in Queens and Brooklyn. I conclude with a discussion of the potential impacts of Asian investment capital in the city's multi-racial immigrant neighborhoods.

### **Data and Methods**

The 1975 Home Mortgage Disclosure Act (HMDA) requires mortgage companies and depository institutions, such as commercial banks and credit unions, to collect and make public home mortgage loan data including applicant race and ethnicity, income level, census tract of property, lender, loan amount, and application decision. HMDA also includes an occupancy variable that differentiates between individuals buying homes for their primary residence (owner-occupied purchasers) and individuals buying homes as investments or as second or vacation homes (non-owner-occupied purchasers). Although the HMDA data does not indicate whether a non-owner-occupant purchase is intended as a vacation or second home or as an investment, New York City outer borough neighborhoods are not prime locations for *pièds-à-terre*, so it is highly probable that most of the non-owner-occupant home purchases are for investment purposes rather than for a vacation or second home.<sup>6</sup>

I utilize the occupancy variable in HMDA to study the trends and impact of minority banks and investor property purchases on the prospects for neighborhood diversity and stability. New York City is a high-priced housing market, and the outer boroughs such as Brooklyn and Queens have experienced recent spikes in residential property values.<sup>7</sup> The share of home mortgage lending to non-owner-occupants may be an indication of rising property

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6. Board of Governors of the Federal Reserve System (2011), 8-9.

7. Barbanel (2016).

values and rents. Investments in residential properties may price out renters who seek to become homeowners and may also result in direct displacement of those who can no longer afford market rents.<sup>8</sup> For this study, I focus on first-lien home purchase mortgages for one- to four-family properties including individual condominium or cooperative units in buildings with more than four units. Finally, my paper examines trends in the average sales prices for these property types in neighborhoods with significant numbers of investor purchases.

Neighborhoods with such purchases experience increased real estate speculation and prospects for socio-demographic change.

My research draws from several public databases, including the 2011-2015 American Community Survey 5-year estimates and 2010 and 2015 HMDA. On the municipal level, I utilize the New York City Department of City Planning (DCP) Neighborhood Tabulation Area (NTA) definitions and the Department of Finance sales data for 2010 and 2015 to develop a two-year profile of purchasers of one- to four-family properties by race and occupancy status (owner-occupied and investor), lending institutions, and neighborhood location. Studies on neighborhood diversity employ a typology based on the racial composition of census tracts.<sup>9</sup> While I similarly identify majority race and diverse or integrated tracts, I then locate these census tracts in neighborhoods based on the NYC DCP NTA definitions because neighborhoods encompass the local geography of everyday life, civic engagement, and social identity. Based on aggregating census tracts into neighborhoods, I focus on those with significant clusters of integrated and majority-minority census tracts for a deeper look at minority banks, mortgage lending and homeownership, and neighborhood diversity.

### **Locating NYC's Diverse Neighborhoods**

I modified the census definitions in a NYU Furman Center 2012 report to categorize New York City's census tracts into three broad types—majority race (with at least 70 percent of tract population is comprised of one racial group); integrated white (with at least 30 percent non-Hispanic whites and at least 20 percent of another racial group); and integrated nonwhite

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8. Pettit and Droesch (2003), 16.

9. Flores and Lobo (2013); Immergluck and Smith (2003); NYU Furman Center (2011a).

(where non-Hispanic whites are less than 10 percent and a combination of minority groups, each at least 20 percent, comprise the largest share of the tract's population) (see Table 1). Integrated (white and nonwhite) tract typologies were further categorized according to the two largest racial groups that make up the tract population.<sup>10</sup> While the census tract typologies are mutually exclusive, neighborhoods are typically larger spatial geographies and are defined by aggregating a number of census tracts. Therefore, the neighborhood composition may include multiple census tract typologies, and this is often the case for New York City's immigrant neighborhoods.

The majority of New York City's multi-racial neighborhoods inclusive of Asians are located in Brooklyn and Queens. These are also the neighborhoods where Asian homeownership is concentrated and where new homebuyers, especially Asians, are purchasing one- to four-family properties. Asian-white, white-Asian, and white mixed census tracts are concentrated in Brooklyn's Bensonhurst, Dyker Heights, Bay Ridge, Gravesend, Sheepshead Bay, and Bath Beach, which are largely clustered in south Brooklyn.<sup>11</sup> In 2013, the NYU Furman Center found that nearly all of Bensonhurst's residents lived in a racially integrated census tract.<sup>12</sup> In Queens, Asian-white and white-Asian census tracts are concentrated in affluent and once-exclusive neighborhoods such as Auburndale, Douglaston, Forest Hills, and Oakland Gardens. Forest Hills' fierce resistance to the city's scattered-site housing program that sought to integrate white middle-class neighborhoods received extensive media coverage during the

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10. Majority race tracts are those where at least 70 percent of the census tract population is comprised of one racial group. Integrated white tracts are those where at least 30 percent of the population is non-Hispanic white, and the sequence of the hyphenated typology indicates the first and second largest racial groups that add up to a majority 80 percent or more of the tract population. Integrated White mixed tracts are those tracts with at least 30 percent non-Hispanic white and a significant presence (20 percent or greater) of two other racial groups. Integrated nonwhite tracts are those where non-Hispanic whites are less than 10 percent of the tract population, and the sequence of the hyphenated typology similarly indicates the first and second largest racial groups. Integrated nonwhite mixed tracts are those where non-Hispanic whites are less than 10 percent and more than two nonwhite racial groups have a significant presence (20 percent or greater).

11. Neighborhood maps of Brooklyn and Queens showing the boundaries of community board districts are included in the Appendix.

12. NYU Furman Center 2013 defines a racially integrated tract as one with 20 percent or greater white population and 20 percent or greater of at least one other racial category.

1970s. Mediation by then-Mayoral appointed attorney, Mario Cuomo, resulted in a compromise that reduced the number of proposed housing units by half, with 40 percent set aside for seniors.<sup>13</sup>

Majority Asian tracts anchor several Asian-Latino neighborhoods including Sunset Park in Brooklyn and Elmhurst in Queens. Roger Sanjek's *The Future of Us All* chronicled the public spaces, namely the community board, where Elmhurst-Corona's majority-minority transition was negotiated during the 1980s.<sup>14</sup> "Quality-of-life" issues such as illegal conversions, overcrowded and strained infrastructure (including public schools, subways, and sanitation services), and the lack of youth recreational facilities continue to be sources of tension in Elmhurst, Corona, and Sunset Park. Most recently, a long-time Community Board 4 member was removed for her comment that bicycle lanes would no longer be necessary once President Trump deports the neighborhood's "illegals."<sup>15</sup>

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13. The neighborhood's lead protestor of racial integration died in early March 2017. See Roberts (2017).

14. Sanjek (1998)'s ethnographic research site was defined by the boundaries of Queens Community Board 4 that primarily encompasses two neighborhoods, Elmhurst and Corona.

15. Colon (2017). Since Trump's election, the climate of fear is palpable in New York City's immigrant neighborhoods. See for example O'Reilly (2017) and Yee (2017).

**Table 1: New York City Population by Census Tract Typology and Borough**

Census Typology	Num. of Census Tracts    Total Population		Racial Composition					Distribution of Census Tracts by Borough				
			Non Hispanic White	NH Black	NH Asian	Hispanic- Latino	Other Race	Manhattan	Brooklyn	Queens	Bronx	Staten Island
<b>Majority Race Tracts</b>												
Majority White	464	1,887,647	77%	3%	8%	10%	2%	120	200	63	16	65
Majority Black	333	1,082,809	5%	79%	3%	11%	3%	12	193	105	23	0
Majority Latino	175	830,411	8%	10%	7%	74%	2%	19	36	54	65	1
Majority Asian	46	196,793	9%	3%	72%	12%	3%	5	7	34	0	0
<b>Integrated White Tracts</b>												
White-Asian	172	627,801	55%	3%	28%	11%	3%	32	71	65	1	3
White-Latino	146	516,661	56%	5%	9%	28%	2%	18	36	55	25	12
White Mixed	132	510,358	33%	13%	22%	29%	3%	12	32	74	3	11
Latino-White	66	277,315	30%	7%	8%	53%	2%	11	10	20	21	4
Asian-White	60	215,704	33%	2%	52%	11%	2%	3	27	30	0	0
White-Black	55	184,956	36%	44%	5%	12%	3%	5	44	4	2	0
<b>Integrated Nonwhite Tracts</b>												
Latino-Black	192	892,240	5%	30%	3%	61%	2%	23	25	12	129	3
Black-Latino	142	613,562	6%	57%	3%	32%	2%	17	57	6	43	9
Asian-Latino	62	248,902	9%	6%	48%	31%	6%	3	6	53	0	0
Latino-Asian	44	199,715	9%	5%	31%	50%	4%	3	4	32	5	0
Mixed Nonwhite	33	124,928	6%	26%	25%	24%	20%	0	3	27	3	0
Asian-Black	4	13,130	7%	26%	41%	14%	12%	4	0	0	0	0
Black-Asian	2	3,811	5%	32%	22%	18%	23%	0	0	2	0	0

Source: American Community Survey 2011-2015 5-year estimates.

Asian-Latino and Latino-Asian tracts are also concentrated in majority Latino neighborhoods such as Woodhaven and Jackson Heights in Queens. Jackson Heights is widely recognized as one of the world’s most diverse neighborhoods.<sup>16</sup> The neighborhood’s largely South Asian population is reflected in Indian, Bangladeshi, and Pakistani small businesses clustered around Diversity Plaza. Jackson Heights also anchors northwest Queens’ small but visible Himalayan population, including Nepalis and Tibetans. The pan-Latino population includes Columbians, Ecuadorians, and Mexicans, all similarly reflected in the commercial streetscape.<sup>17</sup> Even though community activists thwarted a proposal to expand a Business Improvement District along Roosevelt Avenue, a major commercial corridor linking Queens’

16. Miyares (2004); Kasinitz, Bazzi, and Doane (1998). See also Frederick Wiseman’s 2015 documentary, *In Jackson Heights*.

17. Tonnelat and Kornblum (2017) is an example of recent scholarship on the hyperdiversity of Queens neighborhoods and public spaces.



dense, multi-racial immigrant neighborhoods, real estate market pressures and rising commercial rents threatening small businesses have not abated.<sup>18</sup>

South Asian New Yorkers are also concentrated in the southern Queens neighborhoods of South Ozone Park and Richmond Hill, with sizable numbers of mixed nonwhite, Asian-Latino, Latino-Asian, and black-Asian census tracts. These neighborhoods make up “Little Guyana,” representing the heart of New York City’s Indo-Caribbean community as well as the epicenter of the 2008 foreclosure crisis for Asian New Yorkers.<sup>19</sup> In addition to providing assistance in multiple South Asian languages, Chhaya CDC’s studies documented the prevalence of illegal conversions.

While two black-Asian census tracts are located in South Ozone Park, three of the four Asian-Black census tracts are part of Queens’ concentrated African American and Afro-Caribbean middle-class neighborhoods of Jamaica Estates-Holliswood, Hollis, and Queens Village. Along with Richmond Hill, Ozone Park, and South Ozone Park, these neighborhoods are concentrated across southeast Queens with relatively high levels of Black and Asian homeownership.<sup>20</sup> One Asian-black census tract is part of downtown Flushing, Queens, and this tract is mostly occupied by Bland Houses, one of Flushing’s two New York City Housing Authority complexes. Like many urban neighborhoods during the 1950s, Flushing’s working-class African American community was destroyed by “slum clearance,” a section of it razed for the city’s first municipal parking lot.<sup>21</sup> Some residents were relocated to newly constructed public housing along the industrial waterfront.

### **Minority Banks**

The United States has a long history of minority banks that formed to meet the credit needs of populations excluded from mainstream financial institutions. The Federal Deposit

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18. Russonello (2017). The Chinese language newspaper, *World Journal*, published an article about a popular café in Flushing, Queens that closed in early March because the owners could no longer pay the \$30,000 monthly rent; Chu (2017).

19. Chhaya Community Development Corporation (2009).

20. Roberts (2006).

21. New York Times (1953).

Insurance Corporation (FDIC) defines a minority bank as a federally insured depository institution with 51 percent or more of the voting stock owned by minority individuals who are Black American, Asian American, Hispanic American, or Native American. Historically, minority banks were primarily Black-owned institutions, but at present Black-owned banks represent a mere 15 percent of all minority banks while nearly one in two (48 percent) are owned by Asian Americans. The statutory framework for minority banks was established by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, which included a section outlining the federal government's support to preserve and promote minority ownership of insured financial institutions through its Minority Depository Institutions Program, provision of training, technical assistance, and educational programs, and efforts to preserve the minority character in the event of failing institutions.<sup>22</sup>

Most minority banks are community banks that make credit decisions with nonstandard data garnered through their community insider positions, local knowledge, and long-term relationships. This “special skill set” provides a competitive advantage to financial institutions that “play a crucial role to many minority communities and small businesses, *often serving as the only option for their customers.*”<sup>23</sup> Much of the literature on Asian minority banks emphasizes the social and cultural nature of institutional practices such as relationship banking.<sup>24</sup> Established to counter financial exclusion due to discrimination and linguistic and cultural barriers, minority banks serve as a “key facilitator for capital circulation” by establishing ethnic businesses, expanding the spatial boundaries of residential communities, and promoting opportunities for immigrant homeownership.<sup>25</sup> As a Chinese immigrant homeowner in Forest Hills explained, “major banks have trouble evaluating our credit history and sources of money.”<sup>26</sup>

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22. FDIC (2002).

23. Independent Community Bankers of America (2012), 1 (emphasis added).

24. Li et al. (2002); Dymski and Mohanty (1999); Zonta (2012).

25. Li et al. (2002), 779.

26. Jing Wang, interviewed by the author, February 8, 2017.

The FDIC defines community banks based not on an asset size threshold, but rather on standard lending and deposits gathering activities as well as geographic scope of operations.<sup>27</sup> Noncommunity banks are institutions with more than 10 percent of total assets in foreign holdings or more than 50 percent of total assets in specialty banking companies.<sup>28</sup> Based on this definition of a community bank, the FDIC reported at the end of 2013 that 93 percent of all FDIC-insured institutions, approximately 6,313 institutions, are community banks, with the remaining 499 institutions as noncommunity banks.<sup>29</sup> While all black, Native American, and multi-race banks are community banks, this is not the case for Asian and Latino minority banks, whose shares of community banks, at 88 percent and 83 percent respectively, fall below the national share (90 percent) of minority banks that qualify as community banks (see Table 2). There is only one Latino minority bank based in New York that is also a community bank— Ponce De Leon Federal Bank—and in 2015 this bank originated only two mortgages to Latino purchasers of a one- to four- family property. Transnational banks such as Banco Popular are also on the FDIC list of minority banks. Even though Banco Popular was rebranded Popular Community Bank in 2012 and has numerous branches in majority Latino neighborhoods, this bank originated no home mortgages in New York City in 2015.

While Asian minority banks include transnational banks (i.e., noncommunity banks with foreign holdings), there are eleven Asian community banks established in the New York metropolitan area, including Abacus Federal Savings Bank and First American International Bank. Asian-owned banks now make up the largest segment of minority banks; however, the scope and mission of a significant number of Asian banks is to serve a transnational rather than a community-oriented market. In addition to minority banks, there are financial institutions such as mortgage companies that also originate residential mortgages. Self-described as a “full service mortgage banking entity,” Summit Mortgage Bankers, Inc., serves a largely Asian American market through its main office in Flushing, Queens.<sup>30</sup> With a focus on the majority

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27. FDIC (2012).

28. Specialty banking companies are credit card specialists, consumer nonbank banks, industrial loan companies, trust companies, and bankers’ banks; FDIC (2012), 1-2.

29. FDIC (2014), 33.

30. See <http://www.smb-mortgage.com> (accessed April 13, 2017).

immigrant population, these minority banks and lending institutions offer an additional option for Asian Americans not typically available to other borrowers.

**Table 2: Minority Banks by Racial Group, Total Assets, and Community Banks**

Minority Banks	Number	Percent	Total Assets July 13, 2016 (000s)	Average Assets (000s)	Community Banks	% Community Banks	NY-NJ HQs
Total	162	100%	\$199,837,714	\$1,233,566	146	90%	13
Asian	78	48%	\$95,742,702	\$1,227,471	69	88%	11
Latino	41	25%	\$95,352,089	\$2,325,661	34	83%	1
Black	24	15%	\$5,997,961	\$249,915	24	100%	1
Native American	18	11%	\$2,674,390	\$148,577	18	100%	0
Multi-Race	1	1%	\$70,572	\$70,572	1	100%	0

Source: FDIC Minority Depository Institutions Program.

### **Profile of New York City Home Purchasers by Race and Occupancy Status**

In 2010, lenders originated about 29,000 first-lien home mortgages to purchasers of one- to four-family properties including condominiums and cooperative apartments in New York City. Although far below the loan volumes in the years preceding the 2008 foreclosure crisis, the number of home purchase mortgages did increase by 10 percent to about 32,000 mortgages in 2015. The pre-2008 foreclosure crisis peak year for New York City home mortgage lending was 2004, when nearly 60,000 mortgage loans were originated for a one- to four-family property purchase. The volume of residential mortgage originations in 2015 represents only 54 percent of this peak year loan volume (see Table 3). There are notable racial differences in mortgage lending in the post-crisis period, particularly for Asians, who have rebounded most strongly with a 2015 loan volume at 80 percent of the 2004 peak year. We will see that the rebound for Asian borrowers is driven by loan originations to finance investor property purchases. In contrast, 2015 residential mortgage lending to blacks and Latinos is well below the peak year levels: black and Latino borrowers received only 8 percent and 7 percent, respectively, of the mortgage loans originated in 2015.

**Table 3: Mortgage Originations for 1- to 4-Family Property Purchase in 2004 and 2015**

	Peak Year 2004	% Loans by Race Group 2004	2015	% Loans by Race Group 2015	Difference in Loan Volume	% Peak Year Loans
Total	59,659	100%	32,127	100%	-27,532	54%
Non Hispanic White	26,105	44%	14,812	46%	-11,293	57%
Asian	9,862	17%	7,880	25%	-1,982	80%
Black	8,801	15%	2,545	8%	-6,256	29%
Latino	6,886	12%	2,375	7%	-4,511	34%
Other	290	0.5%	176	1%	-114	61%
No Information	7,715	13%	4,339	14%	-3,376	56%

Source: NYU Furman Center 2011b and 2015 Home Mortgage Disclosure Act Data.

If borrowers are differentiated based on occupancy status, it is evident that the recent increase in home mortgage loans between 2010 and 2015 is due to the growth of lending to investor borrowers. While the overwhelming majority of home mortgages in 2010 and 2015 were for owner-occupants, in 2015, the number of loans to investors more than doubled to 4,775 mortgage loans (see Table 4). Moreover, the local geography of investor purchases expanded. In 2010, nearly one in two investor mortgages was for a property in Manhattan. This was not the case for 2015, as the volume of mortgages for investor purchases in the outer boroughs of Brooklyn and Queens increased dramatically, with the largest number in Queens. Even though owner-occupants remain the dominant type of borrower, the number of mortgage loans to owner-occupants declined slightly in Brooklyn and Queens in 2015.

**Table 4: Mortgage Originations for 1- to 4-Family Property Purchase Secured by First Lien**

	2010			2015			Change 2010-2015		
	Owner-Occupant	Investor	Total	Owner-Occupant	Investor	Total	Owner-Occupant	Investor	Total
New York City	27,036	2,195	29,266	27,328	4,775	32,127	1%	118%	10%
Manhattan	6,285	1,013	7,316	6,794	1,376	8,177	8%	36%	12%
Brooklyn	7,449	500	7,956	6,780	1,319	8,105	-9%	164%	2%
Queens	8,861	518	9,387	8,565	1,567	10,139	-3%	203%	8%
Bronx	2,025	71	2,096	2,103	215	2,321	4%	203%	11%
Staten Island	2,416	93	2,511	3,086	298	3,385	28%	220%	35%

Source: 2010 and 2015 Home Mortgage Disclosure Act Data.

While the total volume of home mortgage loans to New Yorkers increased from 2010 to 2015, this was not the case for black borrowers, whose numbers of home mortgage loans declined by 15 percent (see Table 5). Among the racial groups that experienced an increase in home mortgage loans, the increases were uneven, with Latinos at a nominal 5 percent while loans to Asian borrowers increased by 21 percent. The racial profile of borrowers who financed the purchase of a one- to four-family property with a mortgage in New York City remained consistent in 2010 and 2015: about 45 percent were non-Hispanic white, 25 percent were Asian, and Latinos and Blacks comprised 10 percent or less.

**Table 5: First-Lien Mortgage Originations for 1- to 4-Family Property Purchase by Race Group**

	2010			2015			Change 2010-2015		
	Owner-Occupant	Investor	Total	Owner-Occupant	Investor	Total	Owner-Occupant	Investor	Total
Total	27,036	2,195	29,266	27,328	4,775	32,127	1%	118%	10%
Non Hispanic White	12,018	1,046	13,068	13,128	1,682	14,812	9%	61%	13%
Asian	5,989	539	6,531	6,120	1,760	7,880	2%	227%	21%
Black	2,950	59	3,010	2,457	87	2,545	-17%	47%	-15%
Latino	2,190	75	2,266	2,239	134	2,375	2%	79%	5%

Source: 2010 and 2015 Home Mortgage Disclosure Act Data.

Asian borrowers drove the dramatic increase in investor mortgage loans for purchasing one- to four-family properties in 2015. In 2010, investor borrowing accounted for less than 10 percent of total originated home mortgages, of which the majority were secured by non-Hispanic white investors. This profile changed in 2015, when the number of investor loans more than doubled and loans to Asian borrowers exceeded the number of loans to non-Hispanic white borrowers. In fact, among Asian borrowers in 2015, loans to investors represent more than one-fifth (22 percent) of total home mortgage loans for one- to four-family properties, which is the highest share of loans to non-owner-occupants for all racial groups. The spike in investor purchases results from several trends related both to the migration of a sizable middle and upper middle class Asian population and to an influx of Chinese real estate investment capital, from sources ranging from transnational corporations to individuals.<sup>31</sup>

31. Feng (2016); Putzier and Chen (2016).

In 2015, a comparable number of mortgages for one- to four-family properties were made to Asian investors (1,760 loans) and non-Hispanic white investors (1,682), but there is a significant geographic difference in that 56 percent of the properties mortgaged by Asian investors were in Queens, compared to only 14 percent for non-Hispanic white investors. The concentration of Asian investor purchases in Queens portends continued Asian population growth, but increased investments raise property values and rents and may therefore have consequences for neighborhood integration and stability.

The median income for non-Hispanic white home purchasers exceeds the median incomes of Asian, Latino, and black home purchasers in 2010 and 2015. Generally, the median income of investor borrowers is greater than that of owner-occupant borrowers, with the exception of Asian investors in 2015 (see Table 6). In addition to banks, credit unions, and nonbank mortgage companies, minority banks present another source of capital for Asian borrowers. The median income of Asian investors in 2015 is \$87,000, which is significantly lower than the median income of non-Asian investors as well as co-ethnic borrowers purchasing a one- to four-family property for a primary residence.

**Table 6: Median Applicant Income and Loan Amount by Race Group and Occupancy Status**

App. Race	2010						2015					
	Investors			Owner-Occupied			Investors			Owner-Occupied		
Num. Loans	App. Inc. (000)s	Loan Amt. (000)s	Num. Loans	App. Inc. (000)s	Loan Amt. (000)s	Num. Loans	App. Inc. (000)s	Loan Amt. (000)s	Num. Loans	App. Inc. (000)s	Loan Amt. (000)s	
NHW	1,046	\$238	\$368	12,018	\$114	\$364	1,682	\$251	\$463.5	13,128	\$136	\$432
Asian	539	\$131	\$353	5,891	\$85	\$319	1,760	\$87	\$420	6,120	\$96	\$378
Latino	75	\$158	\$330	2,190	\$81	\$332	134	\$131	\$407.5	2,239	\$92	\$373
Black	59	\$118	\$282	2,950	\$80	\$342	87	\$111	\$315	2,457	\$91	\$396

Source: 2010 and 2015 Home Mortgage Disclosure Act Data.

There are several reasons why Asian investor borrowers with exceptionally modest incomes are able to secure mortgages to finance investment property purchases. One reason is that Asian minority banks offer niche products such as the post-2008 reduced-documentation loans also called “portfolio loans.” While portfolio loans do not require tax returns, they may require as much as a 50 percent down payment as well as proof that a borrower can cover

closing costs and has reserves in the bank.<sup>32</sup> Lenders typically keep portfolio loans on their books rather than securitizing and selling them in the secondary mortgage market. Established in 1999 in Sunset Park, a majority Latino-Asian neighborhood in southwest Brooklyn, First American International Bank (FAIB) is a Chinese community bank also designated as a Community Development Financial Institution (CDFI); it offers reduced document portfolio loans with different down payment thresholds by borrower type.<sup>33</sup> For an owner-occupant borrower, FAIB requires a down payment of 35-40 percent; for an investor borrower, the minimum is 45 percent. FAIB services these reduced document portfolio loans in-house.

The 2014 Manhattan District Attorney's indictment of Abacus Federal Savings Bank for mortgage fraud provides further insight on the practices that may account for the modest median income of Asian investors.<sup>34</sup> The indictment listed numerous counts of falsifying business records in the form of gift letters toward the purchase of residential properties. In two cases involving properties in Flushing, Queens, gift letters exceeded \$300,000. An explanation for the modest median income of Asian investors is that these practices enable borrowers to provide sizable down payments in cash, which reduces the loan-to-value ratio.

In 2010, Asian financial institutions made about 1,600 loans to Asian borrowers for the purchase of a one- to four-family home as a primary residence in New York City. These loans represent 27 percent of all mortgages originated for Asian owner-occupant borrowers. Notably, the sources of these mortgages are largely from a handful of Asian financial institutions, including Summit Mortgage Bankers, Inc. In 2015, the relatively modest share of home mortgages made by Asian financial institutions declined to only 15 percent of all mortgages secured by Asian owner-occupant borrowers. Notably, the drop in mortgage originations by Abacus Federal Savings Bank is quite steep (from 330 plus loans to only 3) and may be explained by the highly publicized Manhattan District Attorney's indictment and subsequent criminal trial in 2015 charging the bank of fraudulent practices such as falsification of loan documents including employment verification and income.<sup>35</sup>

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32. Chamoff (2013).

33. Phone conversation with FAIB mortgage specialist, April 13, 2017.

34. *People of the State of New York v. Abacus Federal Savings Bank*.

35. Morgenson (2015).



While the volume of home mortgage lending by Asian financial institutions to Asian owner-occupant borrowers declined by 43 percent between 2010 and 2015, this was not the case for loans to Asian investors. As in 2010, Asian financial institutions continued to be a key source of financing for investors purchasing one- to four-family properties and originated 26 percent of all mortgages to investors in 2015. This represents a notably greater share than their lending to Asian owner-occupant borrowers at 15 percent. Minority community banks such as First American International Bank (FAIB) were top lenders to Asian investors in both 2010 and 2015. In fact, FAIB made more loans to Asian investor borrowers for one- to four-family residential properties than CTBC BK Corp. and East West Bank, two transnational banks with local branches in New York City neighborhoods with large Chinese immigrant populations.

A final observation is that nearly a third of all investor loans originated by Asian lenders were to borrowers who did not provide information about their race and ethnicity. For a significant number of Asian lenders, including Cathay Bank, BCB Community Bank, United Orient Bank, and local community banks such as Abacus Federal Savings Bank and Amerasia Bank, the number of loans originated to investor borrowers who did not provide information about their race and ethnicity exceeds the number of loans originated to Asian investors. Lenders are required to record the race and ethnicity of loan applicants, but when an application is made via mail, telephone, or the Internet and the applicant fails to provide this information, the lender indicates the information was not provided. It is highly likely these borrowers are Asian because Asian financial institutions lend almost exclusively to co-ethnics, and this would mean that Asian lenders provided the financing for 39 percent of the mortgages for Asian investors compared to 15 percent for Asian owner-occupant borrowers in 2015.

### **Neighborhood Property Sales and Asian Investor Purchases**

Real estate investments in New York City's multi-racial neighborhoods increase the value of homeowner equity and contribute to rising property values and residential rents. While property owners benefit, rising market prices make the cost of homeownership prohibitive for many, including immigrants whose initial settlement catalyzed the neighborhood's revitalization. In 2015, the number of neighborhoods with significant Asian

investments in residential properties includes majority white-Asian neighborhoods in Queens such as Bayside and College Point, and Bensonhurst and Dyker Heights in Brooklyn. Notably, Asian investor purchases were also significant in Latino-Asian neighborhoods including Elmhurst, Queens, and Sunset Park, Brooklyn as well as in the majority Latino neighborhoods of Corona, North Corona, and Woodhaven, Queens. Flushing continues to serve as an epicenter of Asian capital, with a high number of property purchases particularly among investors. For a number of neighborhoods including Sunset Park, Corona, and Dyker Heights, investors represent the majority of Asian home purchasers.

**Table 7: 2015 Investor Loans and Average Sales Prices in Select Neighborhoods**

Neighborhood	2015 Asian 1-4 Family			1 Family House		2 Family House		3 Family House	
	Asian Investor Loans	Total Mortgage Loans	% Investor Loans	10-15 Differential (000)s	Avg. Sales Price 2015 (000)s	10-15 Differential (000)s	Avg. Sales Price 2015 (000)s	10-15 Differential (000)s	Avg. Sales Price 2015 (000)s
<b>Integrated White-Asian</b>									
College Point, Queens	64	116	55%	\$159	\$621	\$166	\$724	\$86	\$725
Dyker Heights, Brooklyn	44	97	45%	\$224	\$831	\$420	\$1,094	\$404	\$1,119
Bayside, Queens	54	173	31%	\$137	\$761	\$266	\$1,012	\$288	\$1,050
Bensonhurst, Brooklyn	82	304	27%	\$201	\$817	\$222	\$886	\$226	\$982
<b>Integrated Asian-White</b>									
Flushing, Queens	94	227	41%	\$170	\$760	\$214	\$922	\$207	\$982
<b>Integrated Latino-Asian</b>									
Sunset Park, Brooklyn	62	82	76%	\$561	\$1,099	\$330	\$1,016	\$471	\$1,080
Corona, Queens*	75	136	55%	\$151	\$557	\$195	\$667	\$118	\$792
Elmhurst, Queens	66	184	36%	\$151	\$634	\$201	\$785	\$90	\$924
Woodhaven, Queens	44	140	31%	\$86	\$408	\$123	\$516	\$157	\$580

\*Includes North Corona

Source: 2015 Home Mortgage Disclosure Act Data and NYC Department of Finance Data 2010 and 2015.

## **Conclusion**

Minority banks provide a key source of credit, especially for Asians who may not qualify for conventional loans. However, minority banks also play a significant role in financing mortgages for investor purchases. In multi-racial immigrant neighborhoods, particularly in Brooklyn and Queens, the growing presence of Asian investment capital contributes to two trends: rising property prices that are prohibitive for prospective low- and moderate-income purchasers and which place renters at risk of displacement; and illegal conversions as homeowners (both owner-occupants and investors) are incentivized to subdivide their property to make mortgage payments or exploit the outstanding demand for affordable housing. In New

York City's tight housing market, these trends may destabilize neighborhoods and facilitate transformative change in a neighborhood's race and class composition.

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Appendix 1





Appendix 2

