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District of Columbia Housing Monitor

Spring 2007

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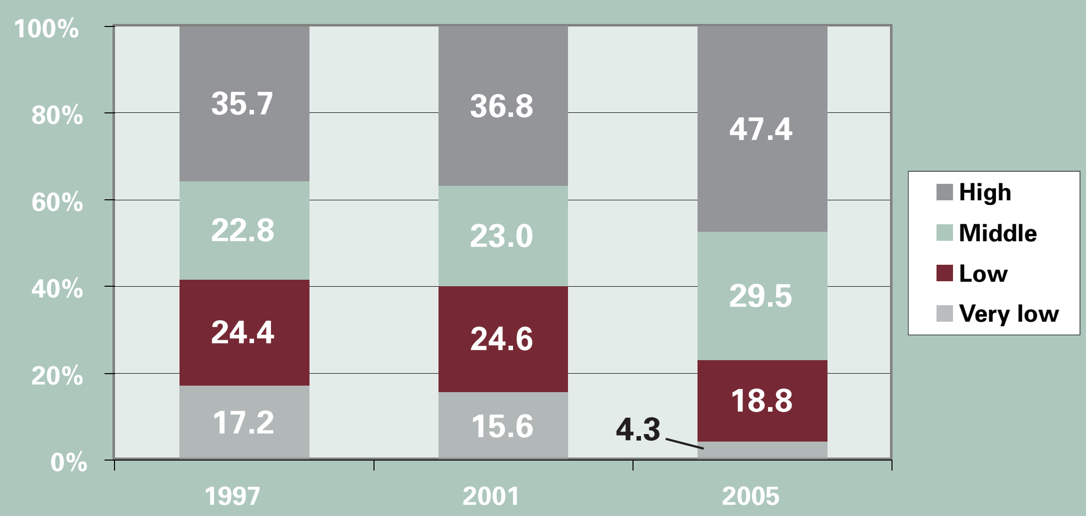
In the Spotlight

High-Priced Market Crowds Out Lower-Income Home Buyers



Source: Home Mortgage Disclosure Act (HMDA) data tabulated by DataPlace (www.dataplace.org) and NeighborhoodInfo DC.

Note: Incomes are classified according to HUD income categories, which are based on household size and area median income (AMI): very low = under 50% AMI; low = 50 to 80% AMI; middle = 80 to 120% AMI; high = above 120% AMI.

About the author of this issue of the *District of Columbia Housing Monitor*

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NeighborhoodInfo DC is a partnership between the Urban Institute and the Washington, D.C., Local Initiatives Support Corporation to provide community-based organizations and citizens in the District of Columbia with local data and analysis they can use to improve the quality of life in their neighborhoods. The Fannie Mae Foundation funds NeighborhoodInfo DC to produce the *District of Columbia Housing Monitor*.

The quarterly *District of Columbia Housing Monitor* uses the most recent available data to illuminate housing market and affordable housing trends in the city. In addition, each report includes a special focus section that analyzes, in greater depth, developments that are shaping the Washington, D.C., housing landscape. In this issue, the special section uses mortgage lending data to examine trends in home purchase loans through 2005 and to present a ward-specific analysis of the changes in the characteristics of District home buyers from 1997 to 2005.

The information presented in this report is supplemented by data provided on the NeighborhoodInfo DC Web site (www.NeighborhoodInfoDC.org/housing).

Key findings:

- *Housing demand continues to slow; median third-quarter sales prices for single-family homes and condominiums are down from one year earlier.* In the third quarter of 2006, sales of single-family homes were down 11.6 percent from the prior year, while condominium sales dropped 54.1 percent. Prices are starting to fall in response to the slower demand. The median sales price of a single-family home dropped to $465,000 in the third quarter of 2006, down 5.3 percent in inflation-adjusted prices from one year earlier. The median price of a condominium was $354,000, down 10.2 percent in real terms from the third quarter of 2005.

- *Real estate listings of single-family homes and condominiums decreased between the third and fourth quarters of 2006, but the time houses spend on the market continued to increase.* The number of single-family housing units listed for sale averaged 1,486 per month for the fourth quarter of 2006, a decrease from the third quarter but still considerably higher than the 2005 average of 774 listings per month. Listings of condominiums and cooperatives decreased to an average of 1,659 units per month in the fourth quarter, but are still more than twice as high as in 2005. Further evidence of a market slowdown is provided by the increasing time that both single-family and multifamily ownership units spent on the market.

- *Prices show definite signs of declining or flattening in all wards except Wards 7 and 8.* The two highest-priced wards in the city, Wards 2 and 3, saw real decreases of more than 10 percent in the median prices of single-family homes between the third quarters of 2005 and 2006. Meanwhile, prices in the two lowest-priced wards, Ward 7 and 8, grew by more than 8 percent in real terms. Other wards experienced modest price changes (declines or increases) over the year.

- *Home building slowed in the fourth quarter of 2006, and housing permits for the entire year were down for the first time since 2003.* New, privately-owned housing units authorized by building permits totaled 2,105 for 2006, down from 2,294 units in 2005 but still higher than the 1,936 units approved in 2004.

- *Denial rates for home purchase loan applications rose again in 2005; almost one quarter of all loan applications in Wards 7 and 8 were denied.* The denial rate for new conventional home purchase loans increased to 14.3 percent of all applications in 2005, up from 13.4 percent in 2004. Denial rates were highest in Wards 7 and 8, at 24.8 and 24.9 percent, respectively.

- *Home buyers in Wards 5, 7, and 8 were more than 12 times more likely to take out a high interest rate loan than were buyers in Ward 3.* In 2005, almost one of every five conventional home purchase mortgages originated in the District was a high interest rate loan. While only 3.1 percent of home purchase loans in Ward 3 were high interest rate loans, Wards 7 and 8 had the most prevalent use of such loans, 44.3 and 45.0 percent, respectively.

- *The share of home purchase loans for second-home and investment properties continues to increase.* Between 1997 and 2005, the share of home purchase mortgage loans to borrowers who did not intend to use the home as a principal dwelling (second-home buyers and investors) almost tripled. In 2005, the highest rates of second-home and investment borrowing occurred in Ward 8 (30.7 percent), Ward 7 (24.3 percent), and Ward 5 (21.2 percent).

- *As housing prices have increased, the share of home purchasers who are very low income has dropped dramatically.* In Ward 2, one of the highest-priced wards in the city, the share of borrowers who were very low income dropped from 11.5 percent in 1997 to 2.0 percent in 2005. In Ward 5 (mid-priced), very low income buyers accounted for 33.9 percent of home purchase loans in 1997 but only 3.9 percent in 2005. In Ward 8 (low-priced), more than half of all home purchase mortgages in 1997 (52.6 percent) were to very low income households, but since then the share has dropped to 20.7 percent.

Home Sales

Housing demand continues to slow; median third-quarter sales prices for single-family homes and condominiums are down from one year earlier.

Previous issues of the *Housing Monitor* have documented the decline in sales volume of single-family homes and condominiums since 2005. This slowdown has continued into the third quarter of 2006 but, in addition, for the first time we note an overall drop in median real sales prices from the previous year. Total sales of single-family homes in the District of Columbia fell slightly between the second and third quarters of 2006 and were down 11.6 percent from the prior year, going from 1,211 to 1,070 sales (Table 1 and Figure 1). Condominium sales were also down dramatically, dropping from 1,638 to 752 sales between the third quarters of 2005 and 2006, a decline of 54.1 percent. This puts current condominium sales volume at a level comparable to five years ago (670 sales in the third quarter of 2001).

Although sales prices had been holding steady in previous quarters, we are now seeing signs of price declines in response to the slower demand for housing. The median sales price of a single-family home in the District of Columbia was $465,000 in the third quarter of 2006. Although this was a modest increase from the median price in the second quarter, it represents an inflation-adjusted decline of 5.3 percent from one year earlier when the median price was $490,000. Condominium prices are also down. The median price of a condominium was $354,000 in the third quarter of 2006, 10.2 percent lower in real terms than the third quarter 2005 price of $394,000.

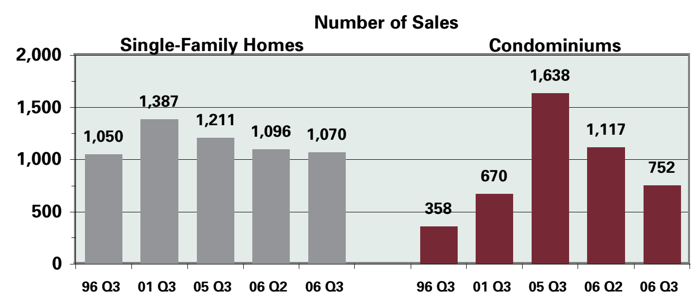
Real estate listings of single-family homes and condominiums decreased between the third and fourth quarters of 2006, but the time houses spend on the market is still increasing.

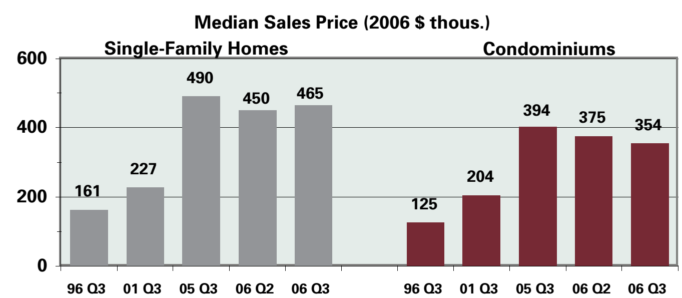
Real estate listing data are consistent with the general slowing of the housing market.[1] Although the average number of housing units listed for sale was down slightly from the previous quarter, listings were still much higher than a year earlier. The number of listings per sale was also up, and houses were spending a longer time on the market.

The average number of single-family housing units listed for sale was 1,486 per month for the fourth quarter of 2006, a decrease from 1,569 units per month in the third quarter but still considerably higher than the 774 listings per month in 2005 (Table 2). Listings of condominium and cooperative housing units also decreased from an average of 1,827 listings per month in the third quarter of 2006 to 1,659 in the fourth quarter. Still, this is more than twice the average number of listings per month (736) reported in 2005.

Despite the lower number of listings, the declining pace of sales drove the average listings per sale up in the fourth quarter. The average listings per sale for single-family homes was 5.4 in the fourth quarter of 2006, compared with 4.7 listings per sale for the third quarter and 1.8 listings per sale in 2005. For condominium and cooperative units, the average listings per sale was 6.2 in the fourth quarter of 2006, up from 5.7 in the third quarter and almost three times the 2.1 listings per sale in 2005.

Figure 1. Single-Family Home and Condominium Quarter-to-Quarter Sales Trends, 1996 Q3 – 2006 Q3, Washington, D.C.





Source: D.C. real property sales data tabulated by NeighborhoodInfo DC.

[1] Data were obtained from the Metropolitan Regional Information Systems, Inc. (MRIS) web site, http://www.mris.com/reports/stats/, and are used with permission.

Table 1: Home Sales and Project-Based Section 8 Housing by Ward, Washington, D.C., 1996 – 2006 Q3

	D.C. Total	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8
Single-Family Home Sales									
Number of Sales									
2006 Q3	1,070	94	70	145	217	167	170	134	73
2006 Q2	1,096	103	78	140	209	179	178	140	69
2006 Q1	736	61	41	80	149	129	124	103	49
2005	4,666	438	332	590	867	756	815	583	285
2001-2004 (annual average)	4,710	505	378	668	859	726	814	491	270
1996-2000 (annual average)	4,703	507	404	752	860	683	781	478	237
Median sales price (2006 $ thousands)									
2006 Q3	465	551	845	830	475	375	530	252	246
2006 Q2	450	540	1,148	905	460	380	510	255	247
2006 Q1	430	587	900	842	462	375	508	241	235
2005	449	516	929	908	439	361	509	223	206
2001-2004	301	325	700	748	301	211	335	140	142
1996-2000	167	158	434	461	172	131	161	107	104
Percent change, median sales price									
2006 Q2 - 2006 Q3	3.2	2.0	-26.4	-8.2	3.3	-1.3	3.9	-1.2	-0.6
2005 Q3 - 2006 Q3	-5.3	-0.5	-11.5	-10.7	2.3	-3.5	1.7	8.6	13.2
2001 Q3 - 2006 Q3 (annualized)	15.4	17.4	6.0	5.9	17.0	18.6	13.0	16.1	13.4
1996 Q3 - 2006 Q3 (annualized)	11.2	15.1	9.3	7.5	10.7	10.9	14.1	8.6	8.8
Percent units sold, owner occupants									
2006 Q3	91.5	92.0	94.9	96.4	93.5	89.7	91.6	89.2	77.2
2006 Q2	93.7	96.7	97.1	97.1	95.7	92.2	91.9	91.0	84.6
2006 Q1	93.3	94.7	93.9	100.0	97.0	88.9	92.9	89.4	86.8
Condominium Sales									
Number of Sales									
2006 Q3	752	183	255	134	10	33	83	38	16
2006 Q2	1,117	246	394	232	17	37	78	79	34
2006 Q1	740	189	234	108	17	40	82	32	38
2005	5,283	926	1,766	750	136	163	1,252	162	128
2001-2004 (annual average)	2,866	517	1,112	557	40	94	385	73	89
1996-2000 (annual average)	1,890	289	782	500	16	47	201	31	25
Median sales price (2006 $ thousands)									
2006 Q3	354	355	399	362	265	190	345	180	141
2006 Q2	375	404	412	411	275	230	373	180	160
2006 Q1	356	410	420	356	200	248	325	181	210
2005	381	412	416	391	271	271	361	159	124
2001-2004	271	280	318	267	155	170	273	100	96
1996-2000	147	158	157	150	144	122	132	53	54
Percent change, median sales price									
2006 Q2 - 2006 Q3	-5.6	-12.3	-3.1	-11.8	-3.7	-17.6	-7.4	0.0	-12.3
2005 Q3 - 2006 Q3	-10.2	-18.2	-12.2	-7.3	-24.3	-33.2	-5.2	4.5	13.4
2001 Q3 - 2006 Q3 (annualized)	11.7	10.1	13.3	8.9	25.4	5.8	15.7	26.4	15.1
1996 Q3 - 2006 Q3 (annualized)	11.0	11.1	10.9	10.5	3.9	5.1	12.6	11.5	13.1
Percent units sold, owner occupants									
2006 Q3	80.2	73.1	88.9	91.1	55.6	53.1	87.2	53.1	40.0
2006 Q2	72.3	71.7	71.2	85.9	41.2	59.5	86.3	48.6	52.9
2006 Q1	73.3	68.7	71.9	97.1	73.3	67.5	77.5	50.0	48.6
Housing Units in Section 8 Multifamily Projects									
Current active units (as of 10/1/06)	11,101	2,114	1,112	18	54	1,776	1,632	1,228	3,167
Upcoming expiring (Oct 2006 - Sep 2007)	3,517	275	359	0	0	0	891	786	1,206
Renewals (Oct 2005 - Sep 2006)	3,706	640	621	0	0	420	204	194	1,627
Expirations (Oct 2005 - Sep 2006)	264	19	99	40	0	24	0	0	82

Sources: D.C. Real Property and HUD Section 8 databases tabulated by NeighborhoodInfo DC.

The market slowdown is also reflected in the increasing length of time housing units spend on the market. In the fourth quarter of 2006, 40 percent of single-family and multifamily housing units sold were on the market for 60 days or more, up from 38 percent in the third quarter. Twenty-seven (27) percent were on the market 90 days or more, up from 21 percent in the third quarter, and 17 percent were on the market 120 days or more, up from 12 percent. All these percentages are considerably higher than in the first half of the decade.

Prices show definite signs of declining or flattening in all wards except Wards 7 and 8, where real prices are up more than 8 percent from the previous year.

The slowdown in the housing market is having an impact on prices in most wards in the city, particularly those with the highest-priced housing. The Winter 2007 *Housing Monitor* reported that the median price of single-family homes in Ward 2 surpassed $1 million in the second quarter of 2006. Prices in Ward 2 are down in the third quarter, however, and the overall price trend in the ward is on the decline (Table 1 and Figure 2). The median price of single-family homes in Ward 2 was $845,000 in the third quarter of 2006, down 11.5 percent in real terms from the third quarter of 2005. Ward 3, with the second highest median house price of $830,000 in the third quarter of 2006, saw a real price drop of 10.7 percent from the third quarter of 2005.

Most other wards experienced modest price declines over the year (Wards 1 and 5) or modest increases (Wards 4 and 6). While median prices east of the Anacostia River still lag far behind those in other parts of the city, Wards 7 and 8 continued to have the strongest price growth in the city. The median price of a single-family home in Ward 7 was $252,000 in the third quarter of 2006, up 8.6 percent in real terms from the third quarter 2005. Prices in Ward 8 rose even faster, reaching $246,000 in the third quarter of 2006, up 13.2 percent from the previous year.

Condominium prices also experienced positive real growth in Wards 7 and 8 over the year; in all other wards, the median prices of condominium units declined.[2] The median price of a condominium unit rose 4.5 percent in Ward 7 and 13.4 percent in Ward 8 between the third quarters of 2005 and 2006. During the same period, condominium prices fell 12 percent in Ward 2, the ward with the largest volume of condominium sales in the city, dropping to $399,000 by the third quarter of 2006. In Ward 1, which had the second largest number of condominium sales, the median price fell 18.2 percent for the year to $355,000 in the third quarter of 2006.

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[2] Condominium sales were low in Wards 4, 5, 7, and 8 (under 50 sales for the quarter). Median price trends in these wards might be more volatile because of the low sales volume.

Table 2: Real Estate Listing Trends by Housing Type, Washington, D.C., 1997 – 2006 Q4

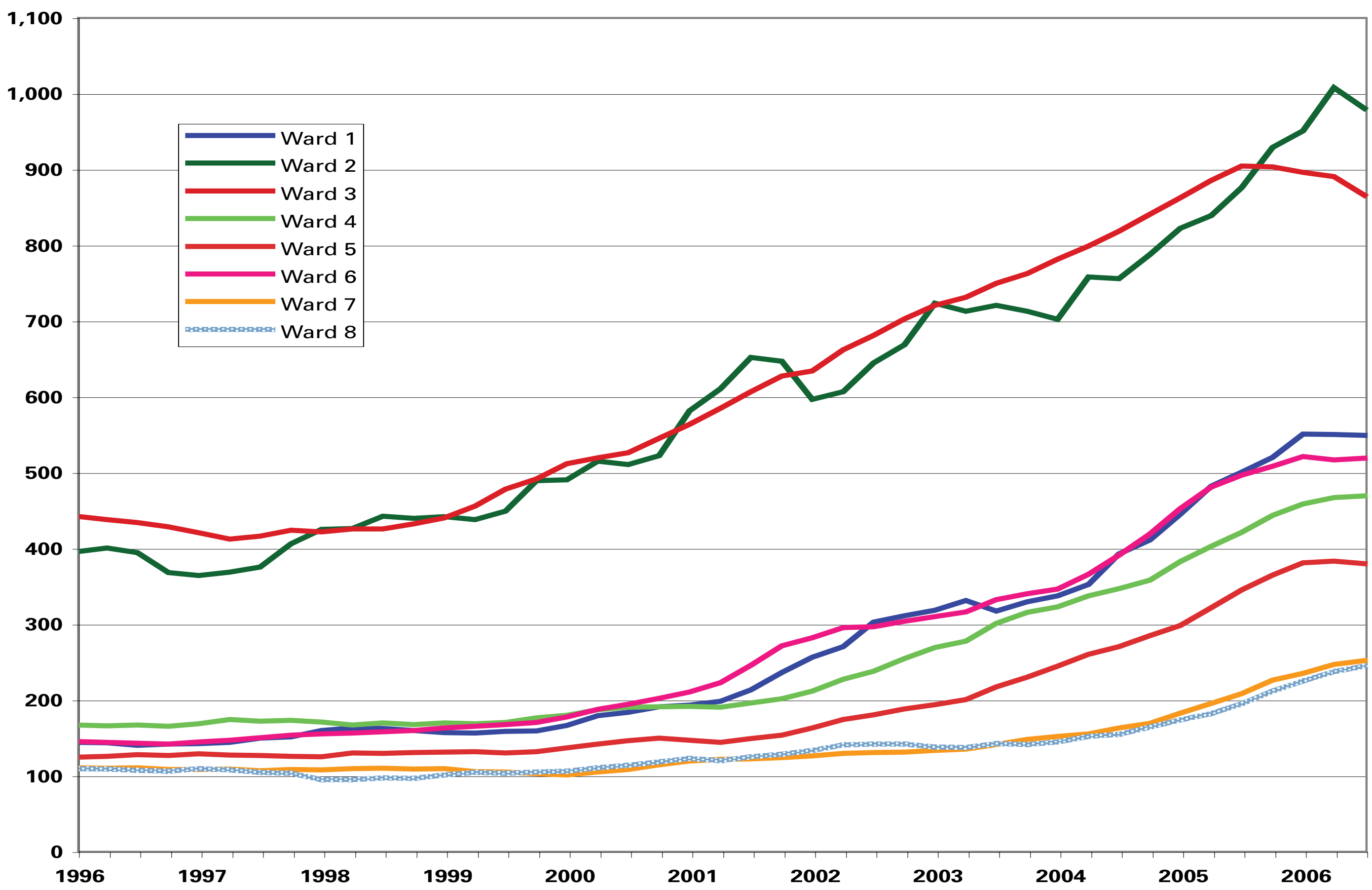
Year	Single-Family Homes Listings/Month	Single-Family Homes Listings/Sale	Condo/Coop Units Listings/Month	Condo/Coop Units Listings/Sale	Percentage of All Housing Sales by Days on the Market 60+ Days	90+ Days	120+ Days
2006 Q4	1,486	5.4	1,659	6.2	40.0	27.0	17.0
2006 Q3	1,569	4.7	1,827	5.7	38.0	21.0	12.0
2006 Q2	1,464	3.9	1,783	5.3	29.0	19.0	11.0
2006 Q1	1,102	3.9	1,318	5.5	32.0	19.0	9.6
2005	774	1.8	736	2.1	16.0	9.4	6.2
2001-2004	843	1.9	438	1.6	18.0	12.0	8.3
1997-2000	1,679	4.4	783	4.0	n/a	n/a	n/a

Source: Metropolitan Regional Information Systems, Inc., data tabulated by NeighborhoodInfo DC. (Data used with permission.)

Notes: Listings are current active listings from monthly reports. n/a = Data not available for these years.

Figure 2. Single-Family Home Price Trends by Ward, 1996 – 2006 Q3 (Quarterly), Washington, D.C.

Four-quarter moving average of median price (2006 $ thousands)



Source: D.C. real property sales data tabulated by NeighborhoodInfo DC.

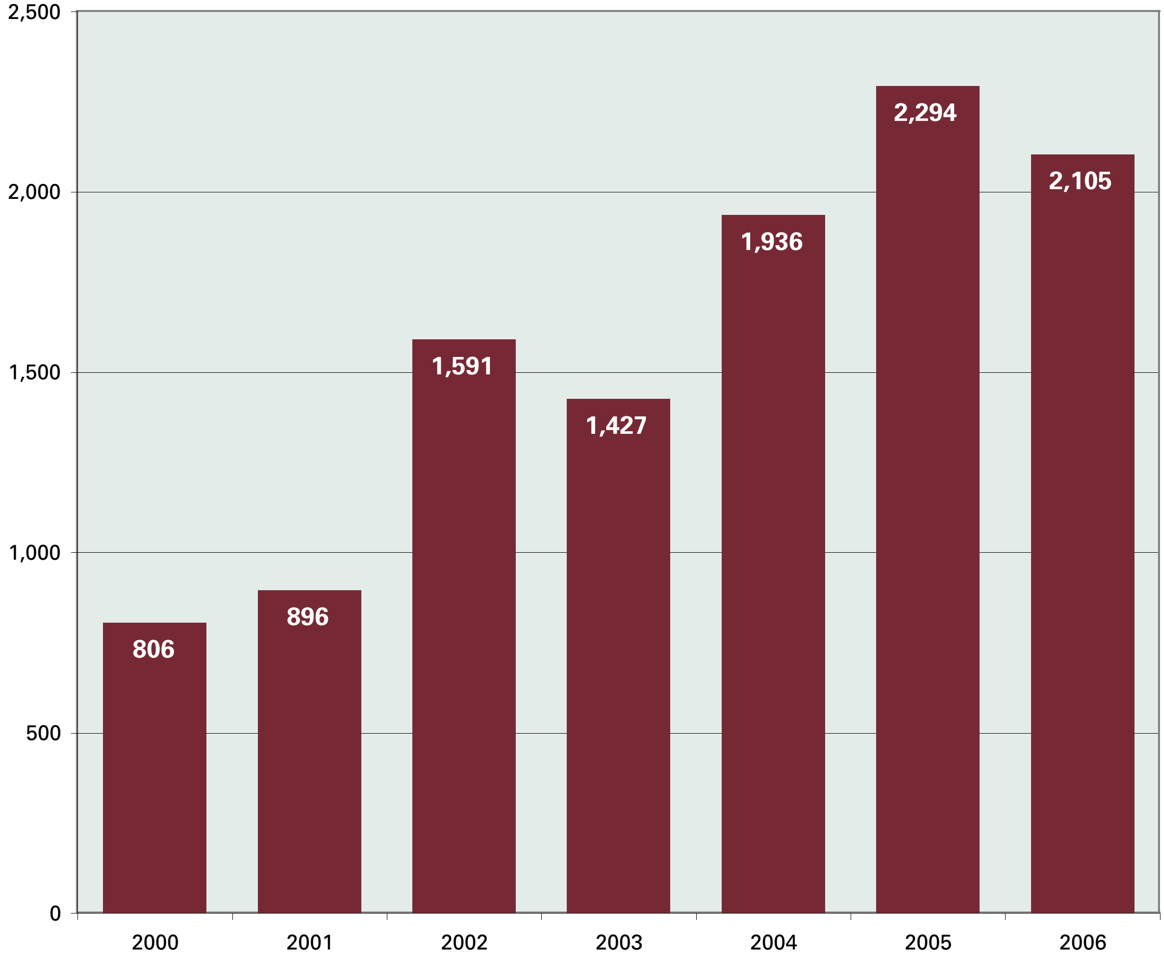
Housing Stock

Home building slowed in the fourth quarter of 2006, and housing permits for the entire year were down for the first time since 2003.

Previous issues of the *Housing Monitor* have documented the rapid increase in home building in the District of Columbia, particularly for multifamily housing units (rental, condominium, and cooperative apartments). At the end of 2006, we note that the number of new housing units authorized by building permits has begun to drop off, although 2006 still registered the second highest level of home building in the past seven years.

New, privately-owned housing units authorized by building permits in the District of Columbia totaled 2,105 for 2006 (figure 3), including 1,979 units in new multifamily properties and 126 new single-family homes. The 2006 total was down from the 2,294 units authorized in 2005, a decline of 8.2 percent, but still higher than the 1,936 units approved in 2004.[3]

Figure 3. New, Privately-Owned Housing Units Authorized by Permit, January through December, 2000 – 2006, Washington, D.C.



Source: U.S. Census Bureau Building Permits Survey data tabulated by NeighborhoodInfo DC.

[3] The building permit unit counts presented in this report are compiled from unadjusted monthly estimates with imputation for nonreporting. These figures differ from the adjusted annual totals, which were presented in the Summer 2006 *Housing Monitor*.

Affordable Housing Update

This section of the *Housing Monitor* focuses on Washington, D.C.'s federally subsidized multifamily housing, primarily units assisted under the project-based Section 8 Housing Assistance Payments program (Section 8).[4] Preserving federally assisted housing projects is an important part of the city's strategy for providing an adequate supply of affordable housing for low-income and working families.

Thousands of federally assisted housing units continue to be at risk.

As of October 1, 2006, the District of Columbia had 11,101 active housing units subsidized under Section 8 and other federal multifamily programs (Table 1).[5] Contracts for almost one-third (3,517 units) of these units are set to expire between October 2006 and September 2007, putting these units at risk of being lost from the city's affordable housing stock. If past experience is a guide, however, many of these units will have their rental assistance contracts renewed—although for shorter terms. During the previous 12 months (October 2005 to September 2006), 3,706 assisted units were renewed, almost half of them (1,824 units) for terms of one to two years. Three contracts with a total of 442 units were renewed for terms of 10 years or more.

The largest number of active subsidized units are located in Ward 8 (3,167 units) and Ward 1 (2,114). Wards 2, 5, 6, and 7 each have more than 1,000 active units; Wards 3 and 4 each have fewer than 100. Of the 3,517 units set to expire between October 2006 and September 2007, the largest numbers are in Ward 8 (1,206 units), Ward 6 (891), and Ward 7 (786).

As of October 1, 2006, 264 units in eight contracts had expiration dates between October 2005 and September 2006, which would put them in expired status. Ward 2 had the largest number of units with expired contracts (99 units), followed by Ward 8 (82), Ward 3 (40), Ward 5 (24), and Ward 1 (19). Wards 4, 6, and 7 had none.

It is possible that renewals for some of these expired contracts have not yet been entered into the HUD database on which this information is based, so their status may change in future *Housing Monitor* reports. In the Winter 2007 *Housing Monitor*, we reported that 265 units in seven contracts had expired in the prior four quarters. More recent HUD data indicate that three of these contracts (127 units) were, in fact, renewed. The remaining four contracts (138 units) were still listed as expired, however.

Additional detailed reports on Section 8 and other multifamily projects are available on our Web site: www.NeighborhoodInfoDC.org/housing.

Special Section: Mortgage Lending Trends

For the special section of this quarter's *District of Columbia Housing Monitor*, we examine trends in home purchase mortgage lending in Washington, D.C., using data provided under the Home Mortgage Disclosure Act (HMDA).[6] HMDA requires most lending institutions to report on home mortgage loan applications, including the application outcome (e.g., approved or denied), loan- and applicant-related characteristics, and property location. Using HMDA data, we can calculate mortgage denial rates, that is, the number of denied applicants out of total applicants. Because HMDA collects the income, race, ethnicity, and sex of mortgage borrowers, we can use these data to track changes in the economic and demographic characteristics of people who are buying homes in different parts of the city.

The number of new home purchase loans increased in 2005, continuing a steady upward trend.

The number of new home purchase mortgages continued to increase, both in absolute numbers and in loans

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[4] For more explanation of these data and the Section 8 housing program, please see the Summer 2006 *Housing Monitor* (p. 9).

[5] The number of active units reported will vary from quarter to quarter because of updating delays in the HUD database upon which these figures are based, as well as other revisions to project information made by HUD in this file. Data in this report are derived from the February 6, 2007 update of the HUD database.

[6] HMDA data are provided through the Federal Financial Institutions Examination Council (FFIEC). Because of the time involved in collecting, processing, and releasing HMDA data, the most recent data available for this report were for 2005. We used versions of the HMDA data compiled and tabulated by DataPlace (www.dataplace.org).

per existing housing unit. In 2005, 16,175 home purchase loans were issued in the District, up 16.7 percent from 2004 and almost twice as high as the yearly average between 1997 and 2000 (Table 3). Ward 2 registered the highest number of new purchase mortgages (3,109), closely followed by Ward 6 (3,043 loans).

We also present lending volume normalized by the size of the existing housing stock (i.e., numbers of single-family homes and condominiums) to account for different numbers of housing units in wards. In 2005, the number of new home purchase loans in the city was 12.4 per 100 existing housing units, up from 10.9 in 2004. The highest rate of lending occurred in Ward 1, with 19.5 loans per 100 existing housing units, and Ward 6, with 17.9 loans per 100 existing housing units. The lowest rates of mortgage lending were in Ward 4 (8.1 loans per 100 existing units), Ward 7 (8.6), and Ward 3 (9.0).

The median amount of a home purchase mortgage rose to $278,000 in 2005, up 9.9 percent in real terms from 2004. The highest median mortgage amount in 2005 was in Ward 3, at $397,000. This represented a real decrease of 7.0 percent, however, from the median loan amount in Ward 3 in 2004.

Denial rates for home purchase loan applications rose again in 2005; almost one quarter of all loan applications in Wards 7 and 8 were denied.

The denial rate for new conventional home purchase loans increased to 14.3 percent of all applications in 2005, up from 13.4 percent in 2004 (Table 3). This is the highest denial rate since 1997 to 2000, when the average rate was also 14.3 percent. The higher denial rates may be partially a result of the cooling housing market, which could be causing lenders to be more selective in approving loans.

Denial rates were up in almost every ward. The lowest denial rate for purchase loans was for homes in Ward 3, with a rate of 5.9 percent in 2005. The next lowest denial rates were almost twice as high—9.3 percent in Ward 2, 10.9 percent in Ward 6, and 12.2 percent in Ward 1. Denial rates for homes in Wards 4, 5, 7, and 8 were three to four times higher than those in Ward 3, with rates ranging from 17.8 percent in Ward 4 to 24.8 percent in Ward 7 and 24.9 percent in Ward 8. Denial rates in Wards 5, 7, and 8 have dropped considerably from the late 1990s, however.

Because HMDA data do not provide information, such as credit scores, that may reveal why an applicant was refused a loan, it is not possible to determine whether a loan was fairly or unfairly denied. Therefore, it is not possible to say whether the much higher denial rates in certain wards are best explained by the poor credit histories of residents in these neighborhoods or by the use of improper or illegal mortgage evaluation criteria, such as redlining.

Purchasers buying a home in Wards 5, 7, and 8 were more than 12 times more likely to take out a high interest rate loan than were home buyers in Ward 3.

In 2004, HMDA began collecting information on the interest rate for individual mortgages, allowing the identification of high interest rate loans. High interest rate loans have annual percentage interest rates exceeding the comparable U.S. Treasury yield by three percentage points or more, for first liens, and by five points or more, for second liens. High interest rate loans (which may also be used as a proxy for subprime loans) may be appropriate for applicants with poor credit histories, high loan-to-home value ratios, or other credit risk characteristics that would disqualify them for lower cost, prime-rate loans.[7]

[7] We were not able to report the levels of lending by subprime specialists as we did in the Fall 2006 *Housing Monitor* because HUD had not yet issued its list of subprime lenders for 2005. Furthermore, since the high cost loan data is relatively new for HMDA and subject to reporting inconsistencies, comparisons between 2004 and 2005 may be misleading. The FFIEC also cautions that changes in the interest rate environment—specifically, in the relationship between short-term and long-term interest rates—as well as changes in lenders' business practices and in consumers' borrowing practices or credit risk profiles can affect comparisons of the loan cost data (FFIEC press release, September 08, 2006). Therefore, we have not shown 2004 data on high cost loans in this report.

While high interest rate loans can make credit more available to households with low incomes or imperfect credit, the unregulated status of subprime lending makes it potentially—although not necessarily—predatory in nature.[8] Predatory subprime loans are those that carry unreasonable and unjustifiable loan terms, such as excessive penalties for late payment or a monthly payment that represents an extremely high share of a household's income. Use of higher cost loans might also be a result of poor information on the part of home buyers, who may be unaware of alternative, lower-cost mortgage products.

In 2005, almost one out of every five conventional home purchase mortgages in the District (18.1 percent) were high interest rate loans (Table 3). The use of high interest rate loans varies widely among the wards. Only 3.1 percent of home purchase loans in Ward 3 were high interest rate loans, the lowest among all the wards. The largest use was in Wards 5, 7, and 8, where 37 to 45 percent of all conventional mortgages were high interest rate loans.

The share of home purchase loans for second-home and investment properties continues to increase.

Between 1997 and 2005, the share of home purchase mortgage loans to borrowers who did not intend to use the home as a principal dwelling (second-home buyers and investors) almost tripled (Table 3). In 2005, 16.2 percent of all home mortgages were made to second-home buyers and investors, up from 14.4 percent in 2004 and 5.9 percent between 1997 and 2000. The shares of borrowing by second-home buyers and investors increased in all wards between 2004 and 2005. The highest rates of second-home and investment borrowing in 2005 were in Ward 8 (30.7 percent), Ward 7 (24.3 percent), and Ward 5 (21.2 percent).

Lone female borrowers continue to account for about one third of all home purchase mortgage borrowing in the District of Columbia.

For those interested in the economic development of Washington, D.C., and the well-being of the city's families, households headed by women are an important population. Female-headed households are more likely to be in poverty than other family types, and more than half of all District children live in households headed by a woman. While HMDA data do not report loans to female heads-of-household per se, HMDA does identify the sex of the borrower or borrowers on individual loans. This information can be used to track home purchase loans made to a woman with no co-borrower, which we refer to as "lone female borrowers."

Almost one-third (31.3 percent) of all home purchase loans made in 2005 were to lone female borrowers, down slightly from 33.1 percent in 2004 (table 3). Levels of lending to lone female borrowers were significantly higher in Wards 7 and 8. In 2005, lone female borrowers accounted for 48.5 percent of all home purchase loans in Ward 7 and 43.2 percent in Ward 8. The shares of lone female borrowers have been very consistent in the city and across the wards since 1997.

As housing prices have increased, the share of home purchasers who are very low or low income has dropped dramatically in most wards.

Incomes of home purchase mortgage borrowers have been increasing steadily, and this has had a profound effect on neighborhoods throughout the city. The median borrower income in 2005 was $106,400, up 14.1 percent in real terms from 2004 (Table 3). Median borrower incomes in 2005 ranged from $156,300 in Ward 3 to $66,800 in Ward 8.

[8] Kathryn L.S. Pettit and Audrey Droesch, *A Guide to Home Mortgage Disclosure Act Data,* Washington, D.C.: The Fannie Mae Foundation, August 2005, p. 8. It is important to note that because the District of Columbia does not have a law prohibiting predatory lending, loans with predatory features may not necessarily be illegal. To the extent that predatory lending involves targeting to protected classes or violations of truth in lending laws, however, they can be considered illegal.

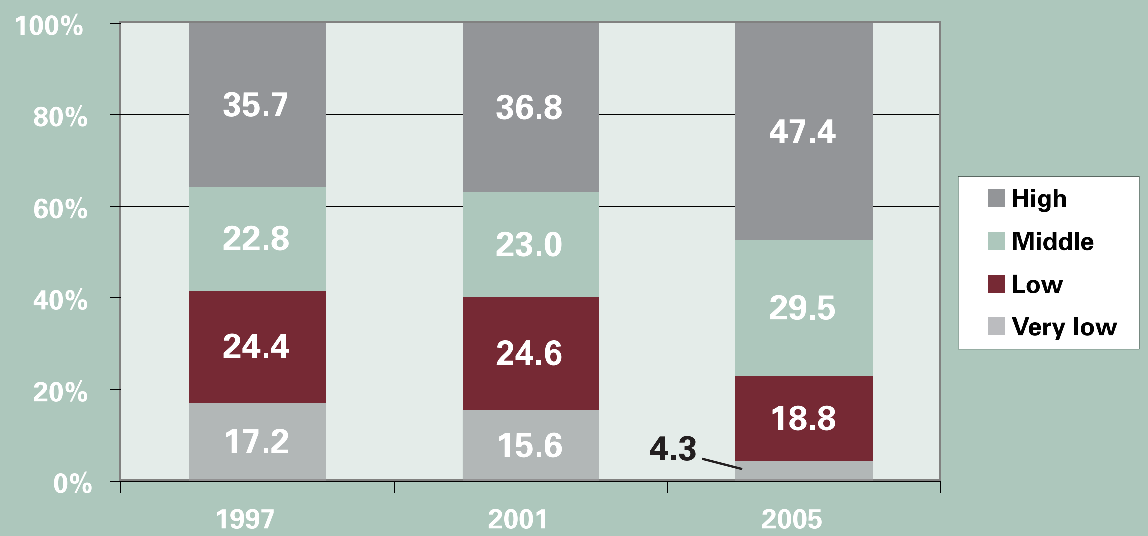
Figures 4 and 5 show how the composition of home purchase mortgage borrowers has changed by income for the city and in each of the eight wards. Income levels are expressed as HUD income categories, which are based on percentages of the area median income (AMI).[9] Households with very low income are those that earn less than 50 percent of the AMI; low income, 50 to 80 percent of the AMI; middle income, 80 to 120 percent of the AMI; high income, above 120 percent of the AMI.

Overall, the share of homebuyers in the District who are very low income has declined dramatically, while those with middle or high incomes has increased (figure 4). Most of this change occurred between 2001 and 2005, the period comprising the recent housing market boom. In 1997, about one of every six homes in the city was sold to a very low income household (17.2 percent). By 2005, however, this share had dropped to 4.3 percent. Over the same period, the share of high-income homebuyers increased from 35.7 to 47.4 percent, while the share of middle-income homebuyers grew from 22.8 to 29.5 percent.

These citywide trends were reflected in all wards, in some more dramatically than others. In Ward 2, one of the highest priced wards in the city, the percentage of home buyers who were very low income was 11.5 percent in 1997 and 8.9 percent in 2001 (figure 5). The share dropped substantially after 2001, however, falling to 2.0 percent in 2005. Correspondingly, shares of high income borrowers rose from 43.7 percent in 1997 to 49.2 percent in 2001 to 57.0 percent in 2005. The share of middle-income borrowers was relatively stable over this period, while shares of low-income borrowers fell.

In Ward 5, which is a mid-priced ward, very low and low-income borrowers constituted an even larger share

Figure 4. Home Purchase Mortgage Loans by Income of Home Buyer, 1997, 2001, and 2005 Washington, D.C.



Source: Home Mortgage Disclosure Act (HMDA) data tabulated by DataPlace (www.dataplace.org) and NeighborhoodInfo DC.

Note: Incomes are classified according to HUD income categories, which are based on household size and area median income (AMI): very low = under 50% AMI; low = 50 to 80% AMI; middle = 80 to 120% AMI; high = above 120% AMI.

[9] Area median income is updated each year by HUD to account for changes in household incomes. Area median income for a four-person household in the Washington, D.C., region was $90,300 in 2006.

of home buyers than in Ward 2, but these shares also fell precipitously. Very low income home buyers accounted for 33.9 percent of home purchase loans in Ward 5 in 1997. That share fell to 26.3 percent in 2001 and to 3.9 percent in 2005. High-income buyers were only 5.2 percent of mortgage borrowers in 1997 and 8.8 percent in 2001. Their share quickly grew, however, to about a third of all borrowers (33.7 percent) in 2005. Middle-income households also increased their share among the ward's home buyers, going from 18.8 percent in 1997 to 40.1 percent in 2005.

Even the city's lowest-price wards have experienced a similar shift in the incomes of home buyers. In Ward 8, more than half of all home purchase mortgages in 1997 (52.6 percent) were to very low income households. This level remained about the same through 2001, but since then has dropped by more than half to 20.7 percent. Low- and middle-income households have increased their shares among home buyers in the ward, going from a combined total of 43.4 percent in 1997 to 70.4 percent in 2005. High-income home buyers have also become relatively more prevalent in the ward, but still only accounted for 8.9 percent of home purchase mortgage loans in 2005.

Home-buyer patterns have the potential to dramatically change the racial and ethnic composition of Washington, D.C.'s wards and neighborhoods.

HMDA data also track the race and ethnicity of home mortgage borrowers, so this data can be used to assess recent demographic trends in different parts of the city.[10] Overall, the share of black home buyers in the District of Columbia has been fairly steady since 2001, accounting for 27 to 28 percent of all home purchase loans, but this is down from 31.7 percent between 1997 and 2000 (Table 3). White borrowers account for the majority of home buyers in the city, but their share has been slowly decreasing, from 60.3 percent between 2001 and 2003 to 56.5 percent in 2005.

Hispanic and Asian/Pacific Islander home buyers have been increasing their presence in the city's housing market. The share of Hispanics among all home purchase loan borrowers grew to 7.2 percent in 2005, up from 5.6 percent in 2004 and almost double the 1997 to 2000 average of 3.7 percent. Asian/Pacific Islanders represented 5.9 percent of home purchase mortgage borrowers in 2005, up from 4.4 percent in 2004 and more than three times their share between 1997 and 2000 (1.8 percent).

The impact of these demographic shifts can be seen to varying degrees in all city wards. In Ward 2, the share of black home buyers has dropped from 7.0 percent between 1997 and 2000 to 4.4 percent in 2004. The share of black home buyers has rebounded slightly, however, rising to 5.7 percent in 2005. Shares of white home buyers in Ward 2 have been steadily declining over this same period, but still accounted for three-quarters of all home purchase mortgage loans (75.7 percent) in 2005. Both Hispanics and Asian/Pacific Islanders have comprised increasing shares of home buyers in Ward 2.

Ward 5 has seen a more dramatic drop in the share of black home buyers, along with a corresponding increase in white home buyers. While blacks received 84.9 percent of all home purchase loans in the ward between 1997 and 2000, by 2005 they accounted for 53.1 percent of such loans. Over the same period, whites increased their share of purchase loans from 9.5 to 33.6 percent. Hispanic and Asian/Pacific Islander home buyers also increased their presence in the ward and accounted for 7.1 and 3.3 percent, respectively, of home purchase mortgages in 2005.

Wards 7 and 8 have been less affected by these demographic shifts, but have nonetheless experienced some changes. In Ward 8, where the share of black home buyers has always been quite high, blacks accounted for 88.7 percent of home purchase loans in 2005, up slightly from 85.2 percent in 2004 but down from over 91 percent between 1997 and 2003. The share of white home buyers in the ward has fluctuated, from a low of 4.3 percent between 2001 and 2003 to a high of 8.6 percent in 2004. The 2005 share of white home buyers is about average over the past nine years, at 5.5 percent. Furthermore, while more Hispanic home buyers are being attracted to the area (4.2 percent in 2005), Asians/Pacific Islanders are not showing much interest in buying homes in Ward 8, with only 0.8 percent of all home purchase mortgages in 2005.

[10] Reporting of race and ethnicity is voluntary on the part of the loan applicants and has varied from year to year. Between 1997 and 2000, 89 percent of all home purchase loans had race and ethnicity of the borrower reported. Reporting rates have dropped more recently, to 82 percent in 2004 and 2005.

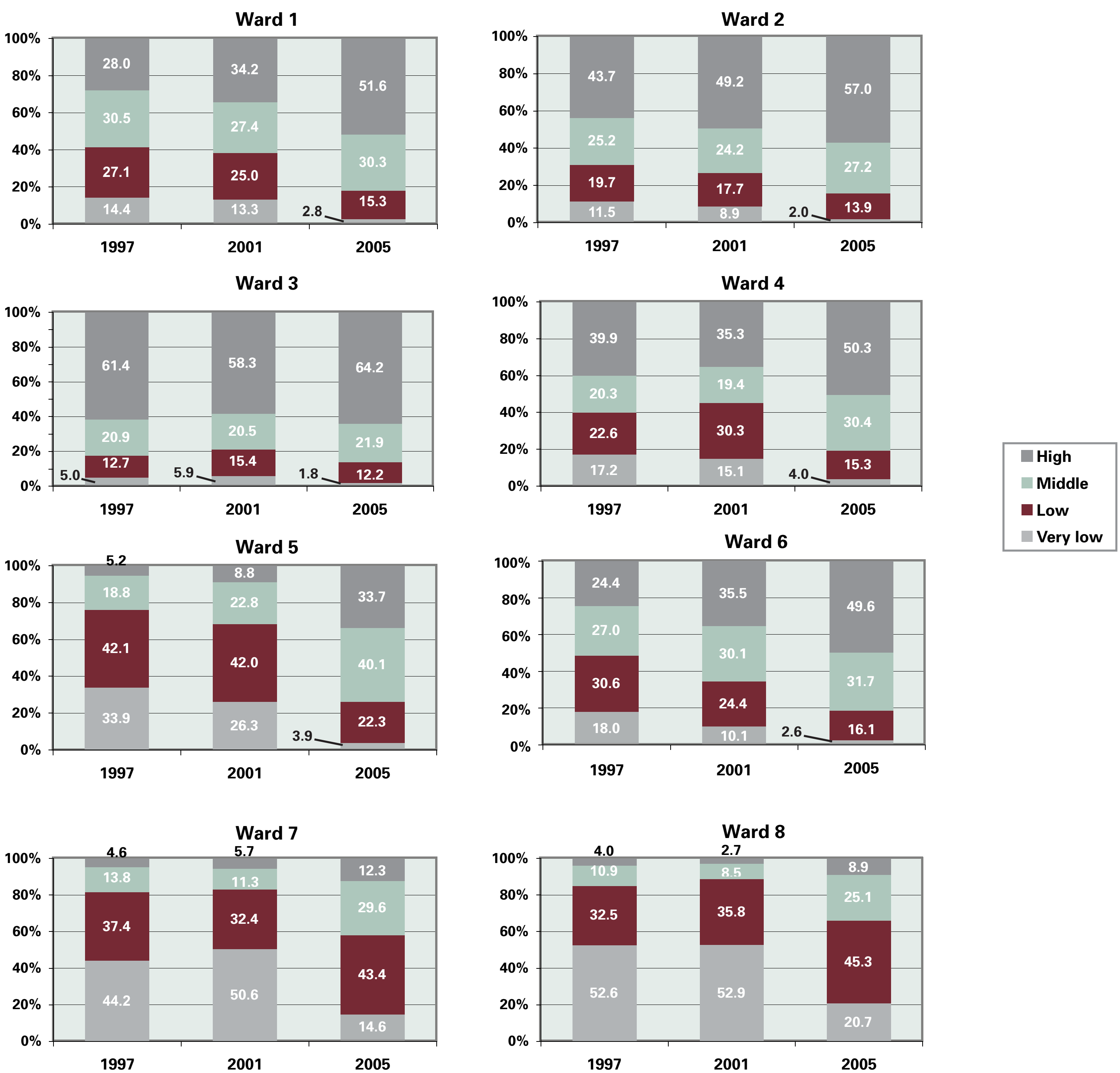
Table 3: Home Purchase Mortgage Trends by Ward, Washington, D.C., 1997 - 2005

	D.C. Total	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8
Loan Volume and Characteristics									
New mortgages									
2005	16,175	2,419	3,109	2,064	1,655	1,750	3,043	1,292	844
2004	13,857	1,832	2,799	1,927	1,463	1,509	2,485	1,208	634
2001-2003 (average per year)	10,621	1,692	2,046	1,870	1,104	1,054	1,756	616	482
1997-2000 (average per year)	8,344	1,132	1,663	1,763	968	715	1,349	489	263
New mortgages per 100 housing units									
2005	12.4	19.5	16.9	9.0	8.1	10.1	17.9	8.6	11.6
2004[r]	10.9	15.5	15.9	8.5	7.3	8.8	15.8	8.1	8.7
2001-2003 (average per year)	8.5	14.8	12.2	8.3	5.5	6.2	11.6	4.2	6.8
1997-2000 (average per year)	6.8	10.4	10.2	8.0	4.8	4.2	9.0	3.4	3.9
Median loan amount (2006 $ thous.)									
2005	278	306	333	397	332	241	334	163	156
2004[r]	253	297	293	427	298	214	277	155	124
2001-2003 (average)	197	222	225	320	237	164	215	131	106
1997-2000 (average)	149	165	161	239	183	132	149	109	92
Annual % change, median loan amt.									
2004-2005	9.9	2.8	13.7	-7.0	11.4	12.3	20.6	4.9	26.3
2003-2004	15.0	17.8	13.9	19.9	9.4	12.3	19.3	11.2	13.6
2001-2003	11.2	15.4	11.4	14.8	14.4	14.7	6.9	5.6	3.5
1997-2000	3.3	2.0	5.3	4.2	4.2	1.6	5.0	-1.7	2.8
Pct. mortgage applications denied									
2005	14.3	12.2	9.3	5.9	17.8	21.0	10.9	24.8	24.9
2004	13.4	11.6	9.1	5.0	14.9	20.5	11.0	24.7	24.1
2001-2003	9.9	8.5	6.9	3.5	12.5	17.4	8.6	21.6	25.1
1997-2000	14.3	13.2	9.9	5.2	15.6	32.3	14.3	34.3	43.6
Pct. of mortgages, high interest rates									
2005	18.1	13.2	5.4	3.1	27.9	37.1	11.0	44.3	45.0
Borrower Characteristics									
Median borrower income (2006 $ thous.)									
2005	106.4	110.1	125.9	156.3	125.3	90.6	122.4	69.5	66.8
2004[r]	93.2	105.6	111.5	161.4	101.7	75.4	101.4	59.8	52.8
2001-2003 (average)	85.0	92.7	109.8	148.8	93.9	64.4	94.5	51.0	46.3
1997-2000 (average)	72.2	77.6	93.5	134.2	79.0	57.2	74.1	44.3	39.5
Pct. of mortgages, not principal dwelling									
2005	16.2	11.5	17.0	9.6	12.5	21.2	15.1	24.3	30.7
2004	14.4	10.0	15.0	7.6	9.2	21.1	13.3	22.3	29.9
2001-2003	9.7	8.0	11.7	5.7	6.2	14.6	8.8	15.8	15.7
1997-2000	5.9	5.5	7.7	4.0	4.5	7.9	5.3	7.1	8.1
Pct. of mortgages, black borrowers									
2005	27.2	14.9	5.7	3.7	39.8	53.1	15.7	82.2	88.7
2004	27.0	12.5	4.4	3.0	39.4	53.5	16.1	83.5	85.2
2001-2003	27.8	15.5	4.3	3.2	40.0	65.1	20.5	86.6	91.7
1997-2000	31.7	19.8	7.0	3.6	51.1	84.9	31.2	90.0	91.2
Pct. of mortgages, white borrowers									
2005	56.5	67.7	75.7	80.9	35.1	33.6	68.2	9.4	5.5
2004	59.6	71.1	80.8	83.8	42.8	35.8	69.6	10.7	8.6
2001-2003	60.3	70.0	82.3	83.9	43.0	25.3	70.1	7.7	4.3
1997-2000	58.1	65.9	81.6	84.9	34.7	9.5	62.7	5.2	5.7
Pct. of mortgages, Hispanic borrowers									
2005	7.2	8.1	5.8	4.1	18.2	7.1	4.5	7.0	4.2
2004	5.6	5.1	4.8	4.7	12.2	6.4	4.1	4.0	3.7
2001-2003	4.2	5.8	3.8	3.4	9.9	3.9	2.1	2.1	1.6
1997-2000	3.7	7.9	3.0	2.9	8.2	1.9	1.5	0.5	1.1
Pct. of mortgages, Asian/P.I. borrowers									
2005	5.9	5.4	9.9	7.0	2.7	3.3	8.5	0.4	0.8
2004	4.4	6.2	6.5	4.6	1.7	2.2	6.3	0.6	2.0
2001-2003	2.9	3.9	5.1	3.5	1.9	1.5	2.2	0.4	0.5
1997-2000	1.8	1.8	3.6	2.4	1.1	0.5	1.2	0.2	0.2
Pct. of mortgages, lone female borrower									
2005	31.3	27.3	28.5	30.4	30.3	35.0	27.3	48.5	43.2
2004	33.1	29.7	29.5	29.5	31.0	35.7	30.1	52.7	47.2
2001-2003	32.9	29.6	28.1	30.1	29.8	42.1	29.2	51.3	53.1
1997-2000	31.9	26.6	26.2	28.0	32.8	43.4	31.2	49.3	53.5

Source: Home Mortgage Disclosure Act (HMDA) data tabulated by DataPlace (www.dataplace.org) and NeighborhoodInfo DC.

Notes: High interest rate loans and mortgage denial data are for conventional loans only. [r]Data are revised from Fall 2006 Housing Monitor. P.I. = Pacific Islanders.

Figure 5. Home Purchase Mortgage Loans by Income of Home Buyer and Ward, 1997, 2001, and 2005, Washington, D.C.



Source: Home Mortgage Disclosure Act (HMDA) data tabulated by DataPlace (www.dataplace.org) and NeighborhoodInfo DC.

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For More Information:

Electronic versions of current and past editions of the *District of Columbia Housing Monitor* and more detailed data tables are available online at www.NeighborhoodInfoDC.org.

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