

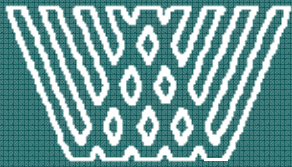


WOODSTOCK INSTITUTE

Foreclosure: The State of the Problem at the National and State Level

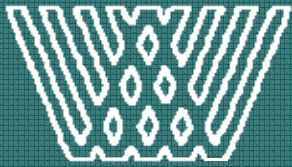
Geoff Smith, Research Director
Woodstock Institute

Homeownership Preservation Summit
Chicago, IL
July 24, 2007



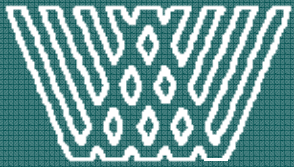
Woodstock Institute

- Chicago-based non-profit research and policy organization working locally and nationally to promote economic development in lower-income and minority communities
- Work with financial institutions, policy makers, regulators, and community organizations to promote access to affordable mortgage products, small business loans, and other financial services in underserved communities
- Concerns around predatory and subprime mortgage lending have been key community development issue
 - Research
 - Policy
 - Alternatives



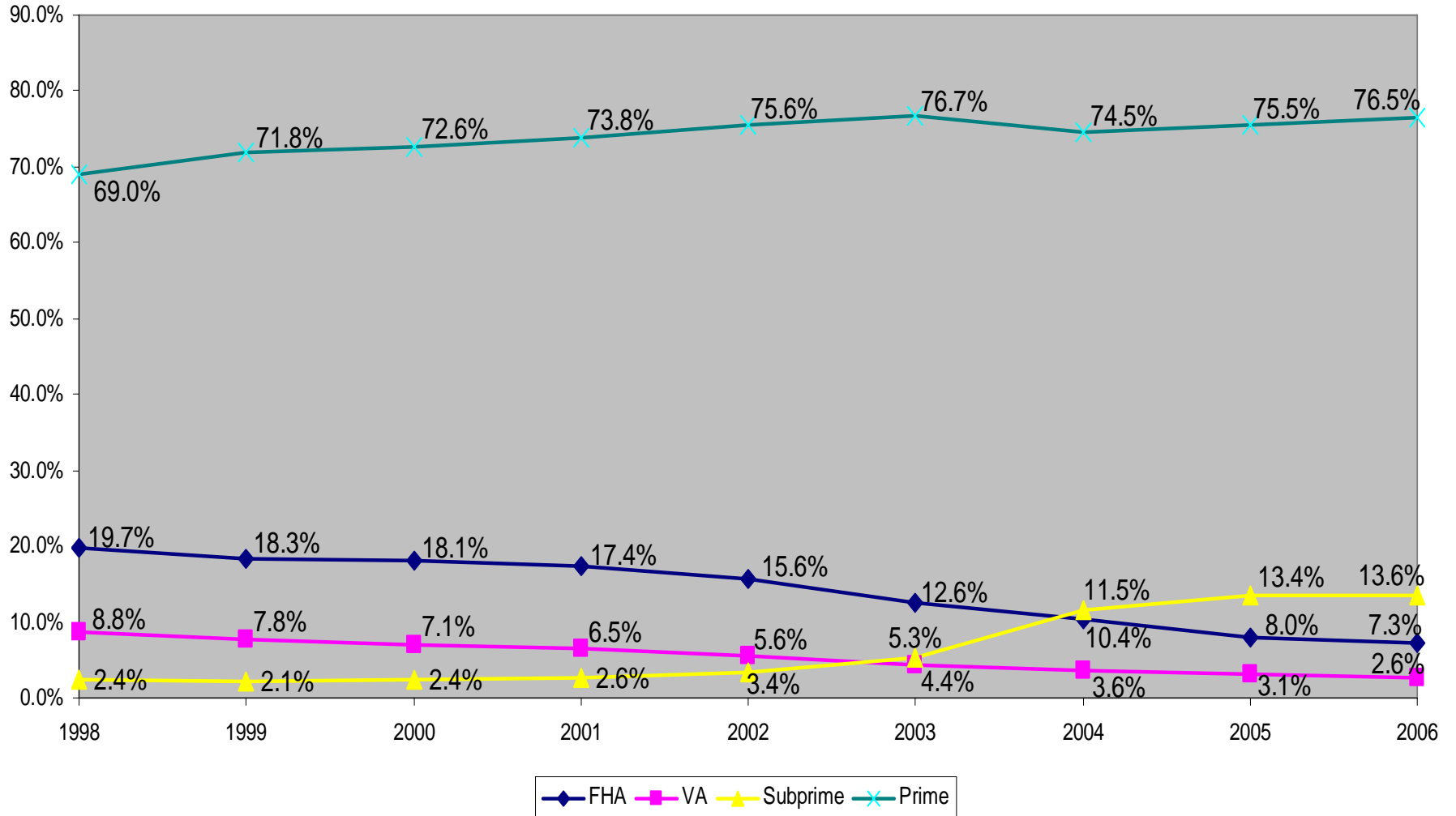
Subprime Lending, Foreclosures, and Today's Mortgage Market - Overview

- Characteristics of the subprime market
- Statistics on the growth in foreclosures
- Implications for individuals and communities

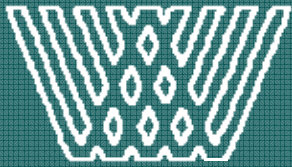


Changes in Mortgage Market Make-Up

Dramatic Increase in Subprime Originations from 1998 to 2006



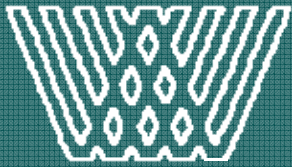
Source: Mortgage Bankers Association from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007



Concerns about the Subprime Market

Features of Subprime Loan Products

- Brokers more common in subprime market
 - Subprime: 71%
 - All Loans: 50%
- Increasing popularity of risky products and loan terms in subprime market
 - Interest Only
 - Option ARM
 - Hybrid ARM
 - Piggyback 80/20
- Poor underwriting
- Fraud

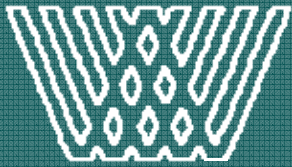


Trends & Characteristics of the Subprime Market Industry

- Growth of interest-only lending
- 40-year mortgage becoming popular
- Growth of low doc loans and silent seconds
- Larger share of loans are for home purchase

	Interest Only	40 Yr Mtg	Low Doc	Purchase	Silent Seconds
2000	0.0%	0.0%	23.2%	34.7%	1.3%
2001	0.0%	0.0%	26.1%	29.9%	3.2%
2002	0.7%	0.0%	30.5%	28.7%	3.1%
2003	3.7%	0.0%	33.7%	28.5%	7.7%
2004	15.3%	0.0%	37.4%	35.6%	15.8%
2005	26.5%	4.8%	41.4%	41.3%	24.3%
2006	16.3%	22.9%	42.9%	42.6%	25.3%

Source: LoanPerformance, UBS from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007

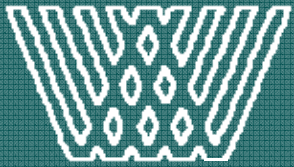


Trends & Characteristics of the Subprime Market Industry

- Subprime borrowers are increasingly burdened with debt
- Subprime borrowers have higher LTVs and less equity in their homes, putting them at risk in an economic downturn
- Increasing FICO scores

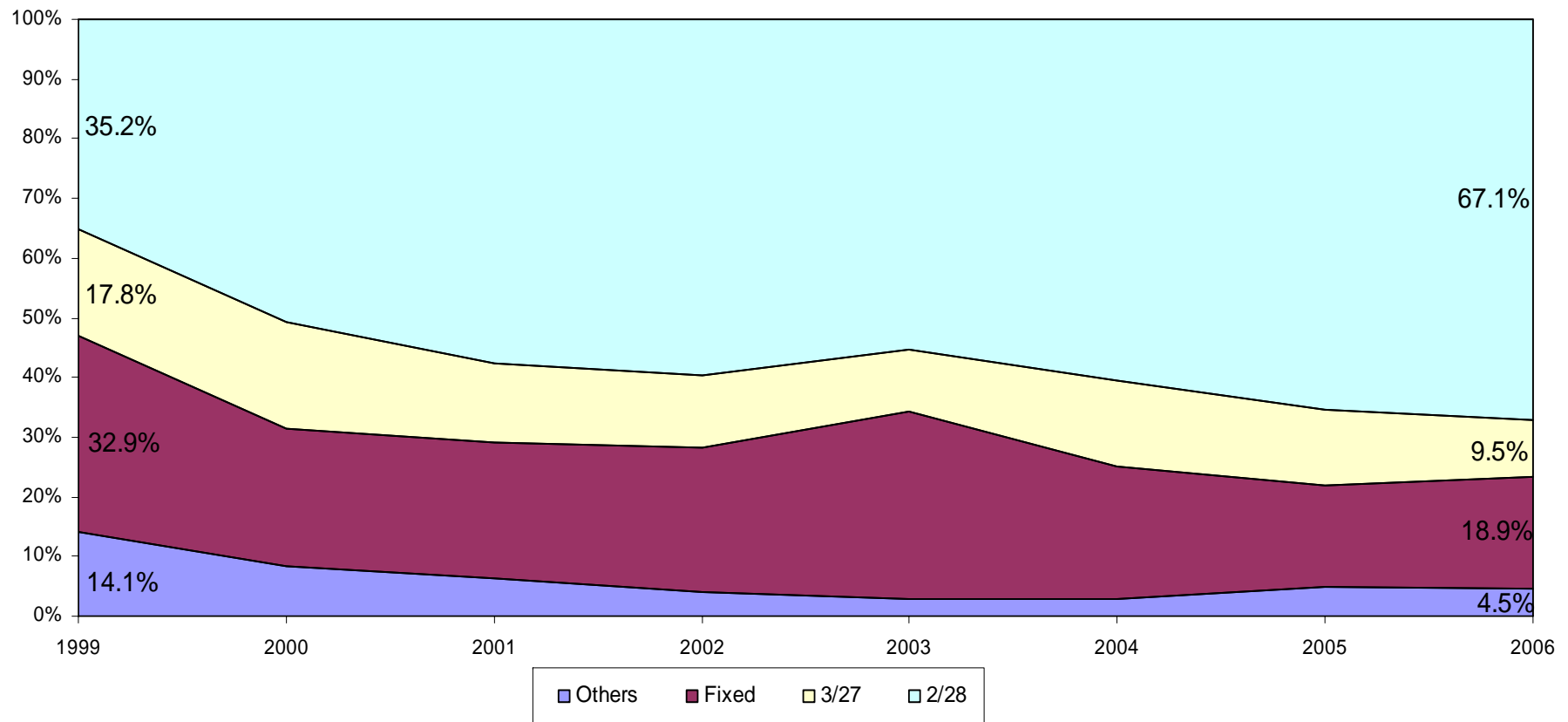
	DTI	CLTV	CLTV > 80	FICO	FICO < 600
2000	38.6%	78.1%	35.4%	590	58.5%
2001	39.1%	79.6%	42.4%	598	52.1%
2002	39.4%	80.5%	45.3%	612	43.1%
2003	39.7%	82.0%	51.8%	621	37.1%
2004	40.3%	83.9%	57.6%	623	35.2%
2005	41.0%	85.7%	62.3%	627	32.0%
2006	41.8%	86.0%	62.8%	624	32.5%

Source: LoanPerformance, UBS from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007

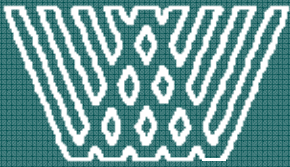


Trends & Characteristics of the Subprime Market Industry

Increase in Hybrid ARMs from 53% to 76% of all Subprime Loans

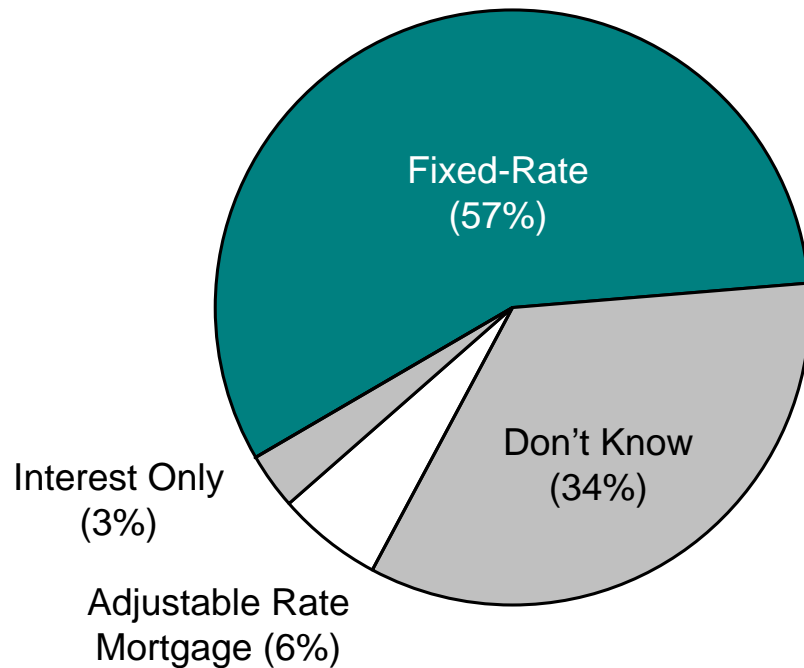


Source: LoanPerformance, UBS from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007

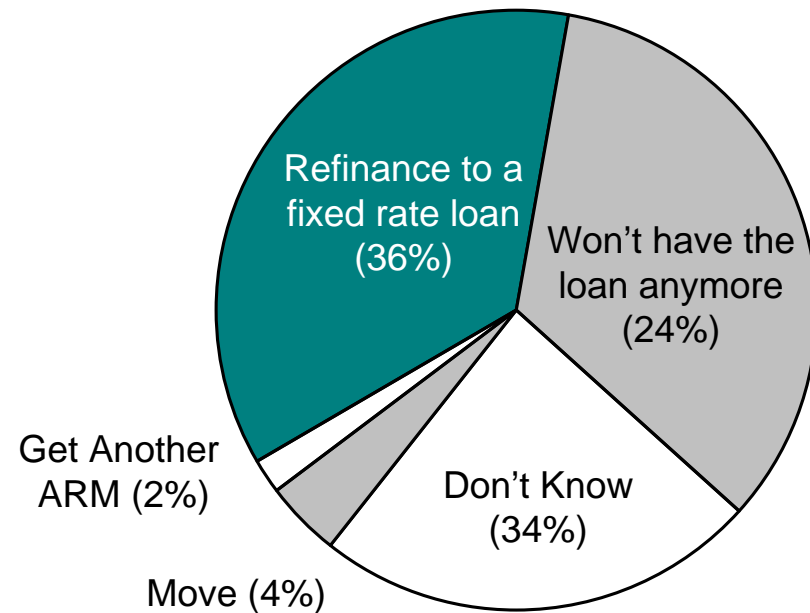


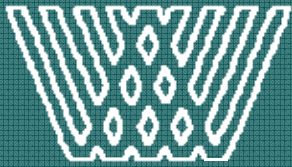
Subprime borrowers are often unaware of their loan terms

What type of mortgage do you currently have?



What do you plan to do when your ARM loan readjusts?





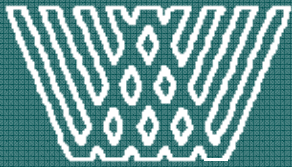
Problems with “Alternative” Mortgages

Alternative Products Produce Borrower Payment Shock

Increase in Minimum Monthly Payments and Outstanding Loan Balance with an April 2004 \$400,000 Payment-Option ARM, Assuming Rising Interest Rates

Year	Minimum Monthly Payment	Total increase in outstanding balance
1	\$1,287	N/A
2	\$1,383	\$3,299
3	\$1,487	\$10,714
4	\$1,598	\$19,735
5	\$1,718	\$27,278
6 and beyond	\$2,931	\$33,446

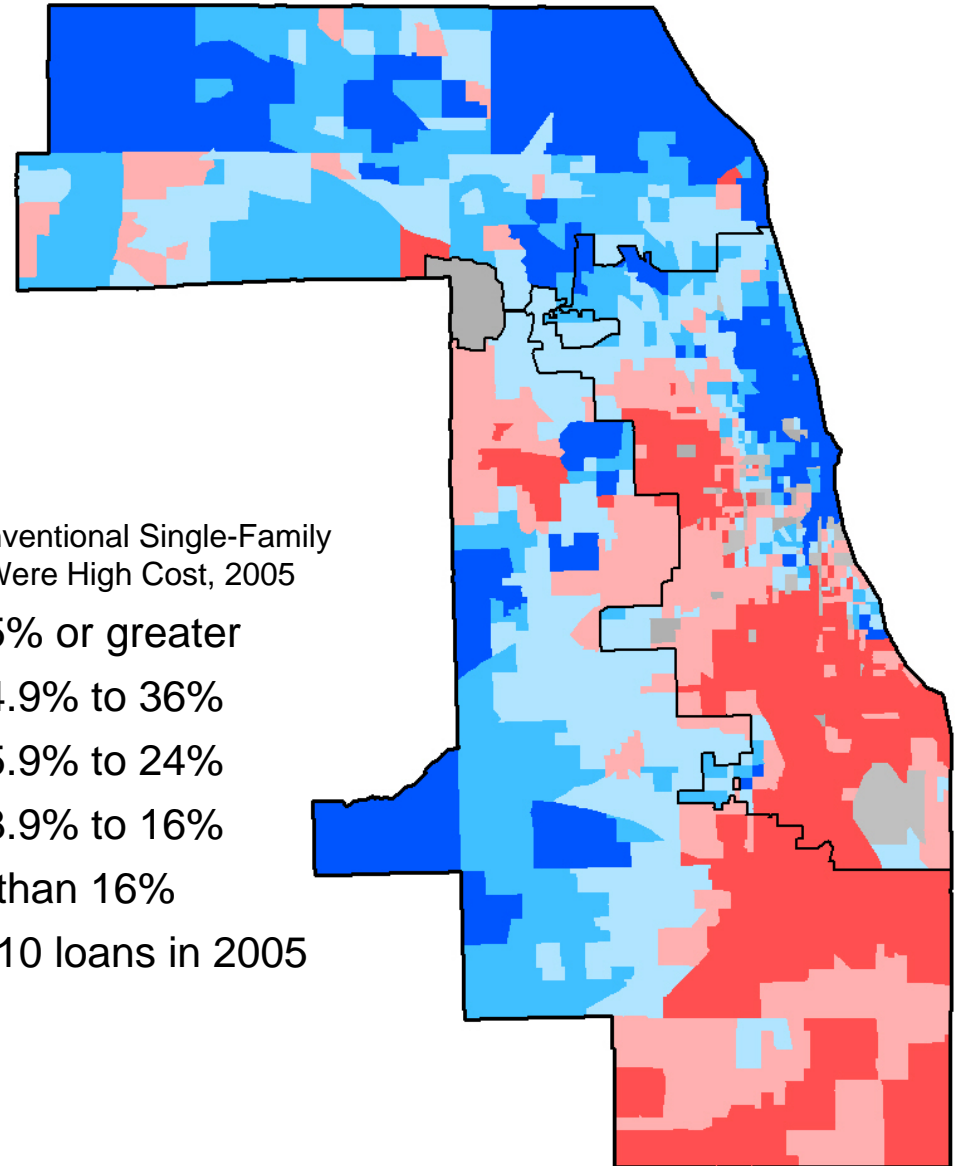
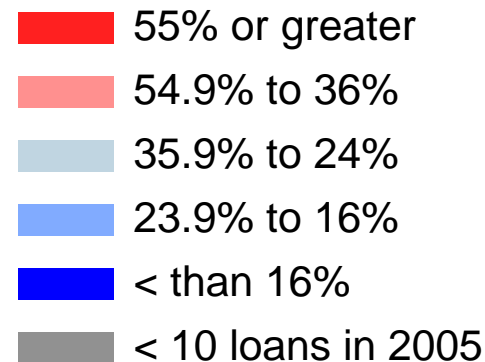
Source: GAO-06-1021 Alternative Mortgage Products (2006).

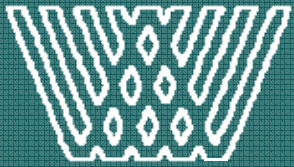


Distribution of Chicago Area Subprime Lending

- Roughly 32 percent of all single-family conventional loans in Cook County were high cost
- Roughly 38 percent all single-family conventional loans in the City of Chicago were high cost
- Home Purchase Lending
 - White – 15.3%
 - African American – 64.2%
 - Hispanic – 48.7%
- Disparities:
 - AA/White – 4.2
 - Hispanic/White – 3.2

Share of Conventional Single-Family Loans that Were High Cost, 2005





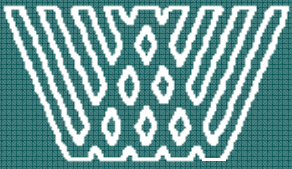
Implications of Inappropriate Loan Pricing

Subprime Borrowers are Often Placed in Products Unsuitable to Their Credit Risk

Pricing implications of interest rate changes on \$100,000 30-year fixed rate mortgage

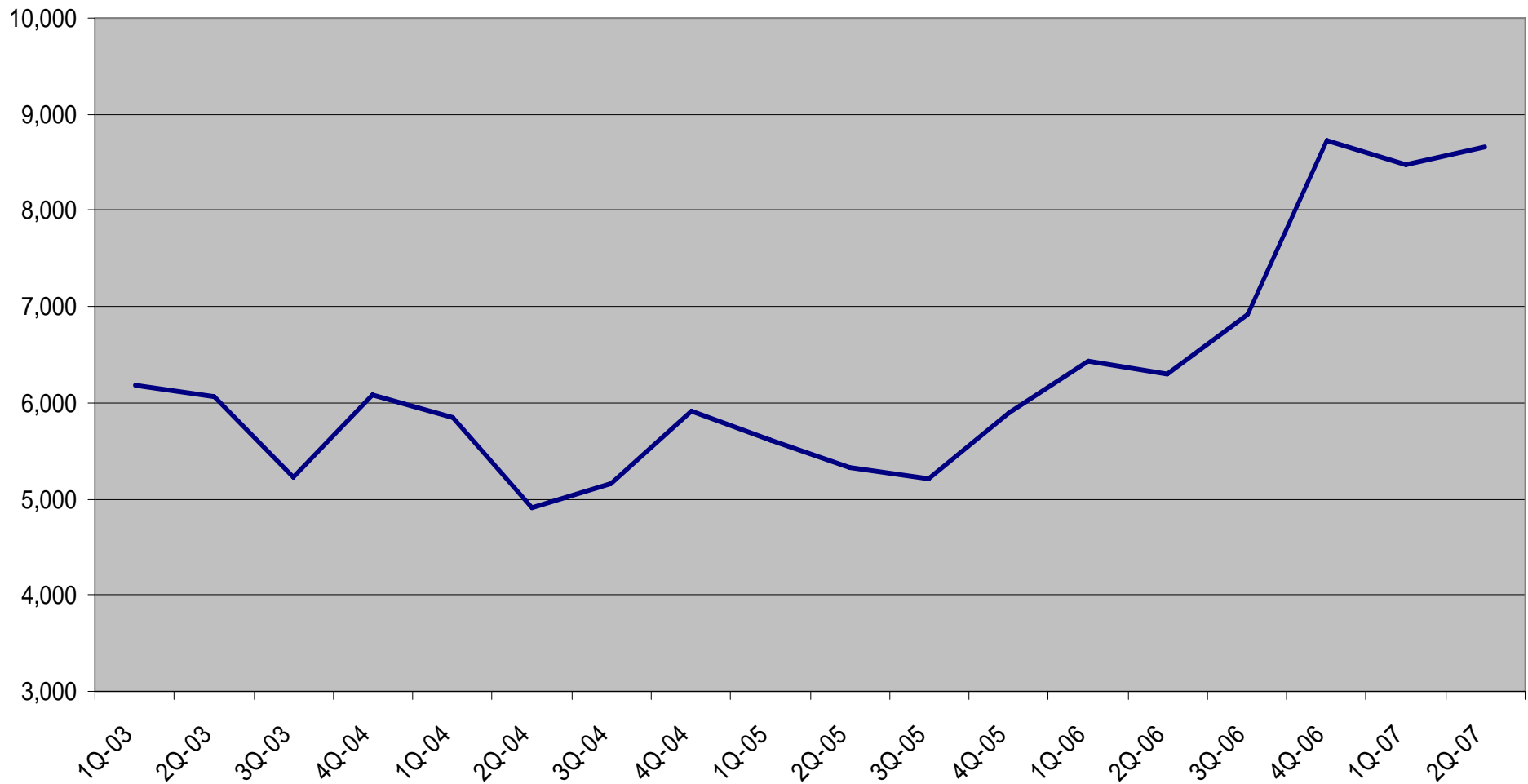
Rate	Monthly Payment	Interest paid over life of the loan
5%	\$537	\$93,256
7%	\$665	\$139,509
10%	\$878	\$215,926

Source: Woodstock Institute calculations

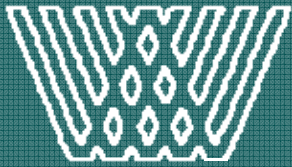


Foreclosure Trends in the Chicago Region

Quarterly Changes in Chicago Area Foreclosure Starts, January 2003 to June 2007

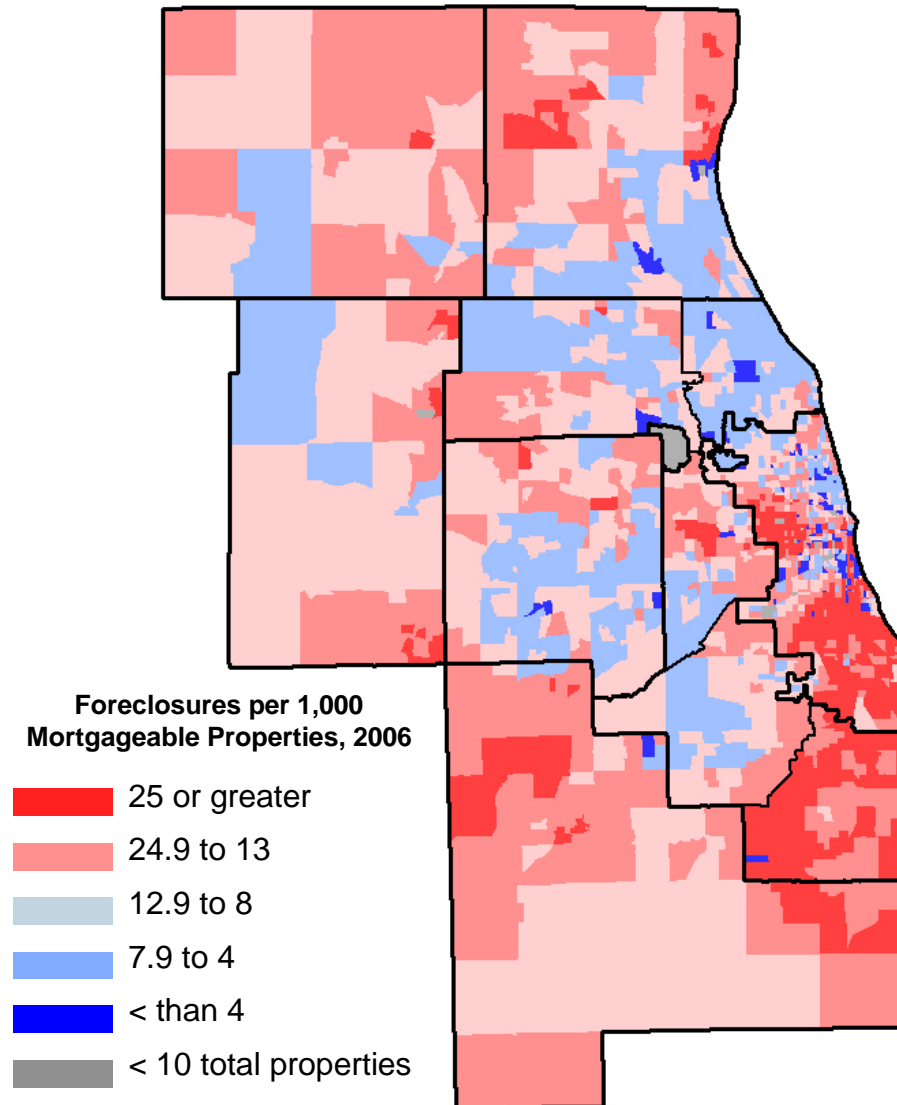


Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago

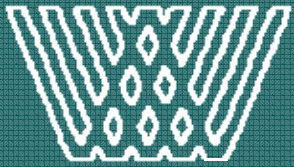


2006 Foreclosures in the Chicago Region

- Regionally there was a 36% increase in foreclosures 2005 to 2006
 - North Cook – 52.1%
 - NW Cook – 48.7%
 - DuPage – 46.4%
 - Will – 44.8%
 - Kane – 37.5%
 - Chicago – 36.9%
 - Lake – 36.1%
 - Southwest Cook – 29.3%
 - West Cook – 29%
 - South Cook – 26.9
 - McHenry – 25.3%

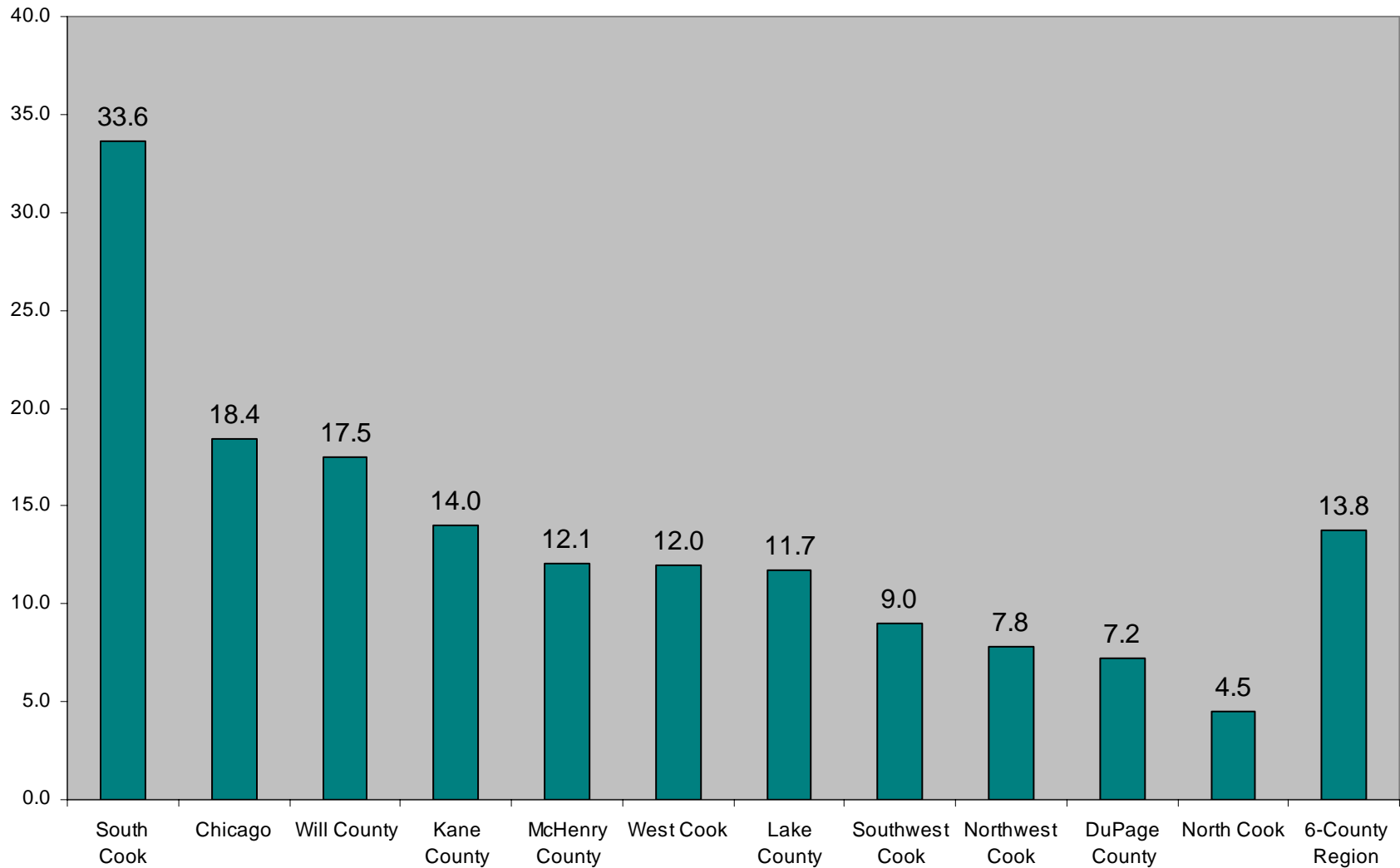


Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago

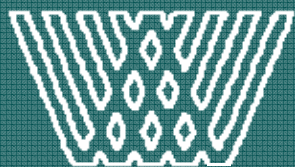


2006 Foreclosures in the Chicago Region

Foreclosures per 1,000 Properties



Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago

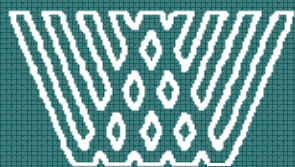


Subprime Delinquencies in Illinois MSAs

Percentage of Subprime Mortgages over 60 Days Late

MSA	February 2007	February 2006	February 2005	Percentage Point Change 2007-2005
Bloomington	14.4%	9.7%	9.1%	5.3%
Champaign	13.0%	9.6%	7.7%	5.3%
Chicago	13.9%	9.4%	8.8%	5.1%
Quad Cities	15.0%	13.1%	10.0%	5.0%
Decatur	13.8%	11.5%	9.9%	3.9%
Kankakee	17.3%	13.5%	13.6%	3.7%
Peoria	14.6%	12.2%	11.7%	2.9%
Rockford	14.5%	11.9%	11.1%	3.4%
Springfield	14.6%	14.4%	11.4%	3.2%
St. Louis	14.3%	12.2%	10.8%	3.5%
No MSA	16.7%	10.4%	8.5%	8.2%
Illinois	14.8%	9.8%	8.9%	5.9%

Source: FirstAmerican LoanPerformance, from "Sheltering Neighborhoods from the Subprime Foreclosure Storm" Joint Economic Committee. April 2007



The Implications of Increased Foreclosures

- Housing Market
 - Difficult to obtain favorable mortgage terms
 - Increased inventory
- Local Property Values
 - Foreclosures affect values of surrounding properties
- Crime
 - Foreclosures lead to increased crime
 - Neighborhood instability and vacant properties
- Municipal Costs
 - Lost property tax revenue
 - Increased burden on city services (police, fire, public health) to secure and monitor vacant properties



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Foreclosure: The State of the Problem
at the National and State Level

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