



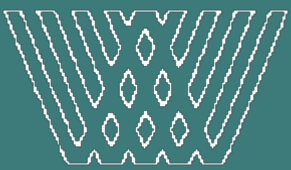
# WOODSTOCK INSTITUTE

## Framing the Need for HB 4050

Malcolm Bush, President  
Woodstock Institute

Geoff Smith, Project Director  
Woodstock Institute

HB 4050 Meeting  
Springfield, IL  
November 14, 2006



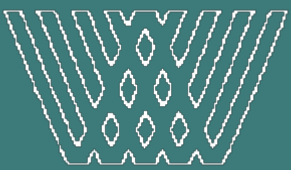
# Fair Mortgage Lending

## Individual: Problems with “Alternative” Mortgages

### 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).

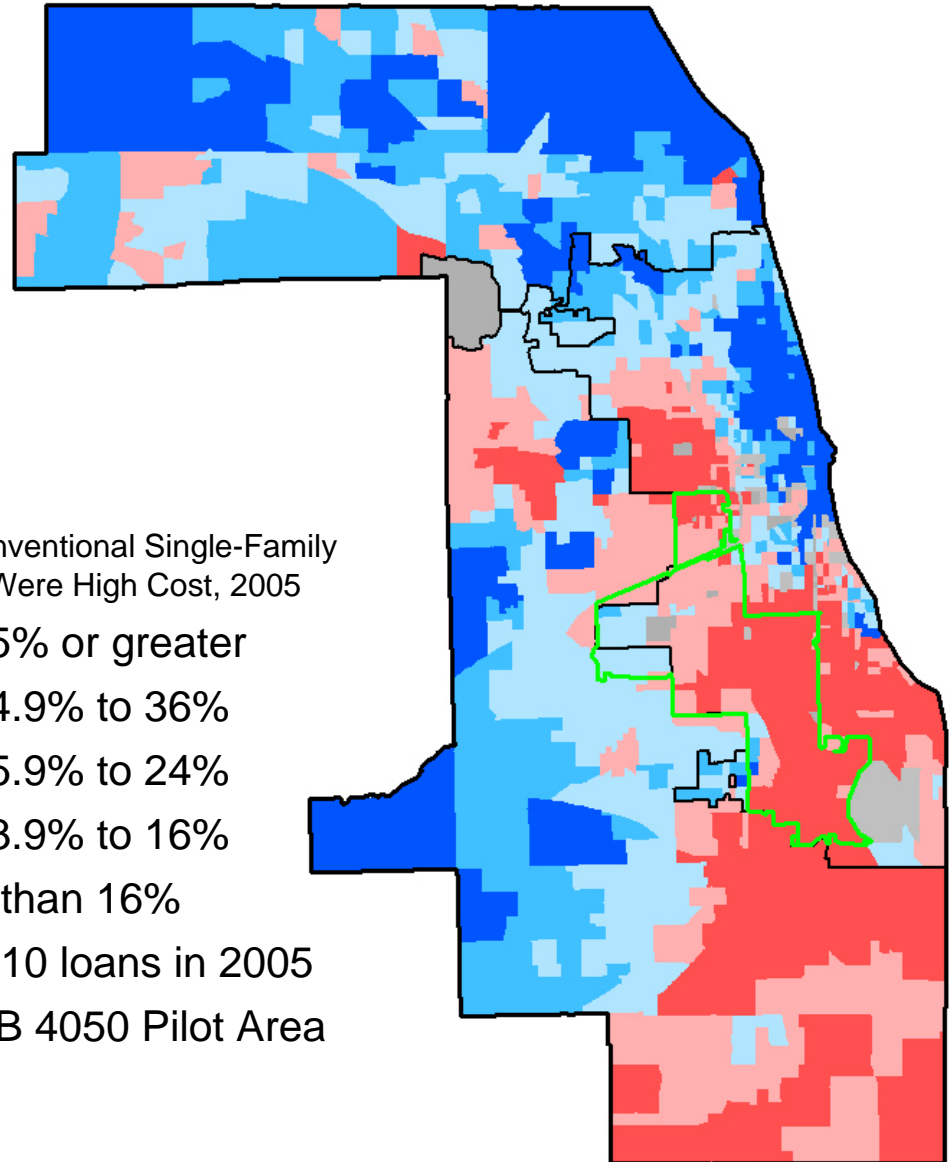
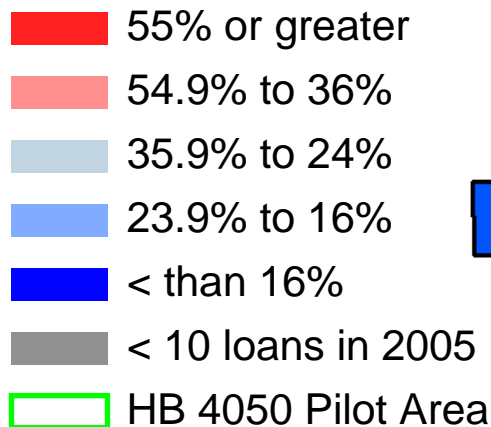


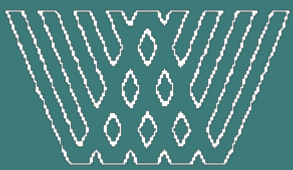
# Fair Mortgage Lending

## Community: Distribution of Subprime Lending

- In 2005, **nearly 57 percent** of the single-family conventional loans in the HB 4050 pilot area were high cost.
- **Less than 32 percent** of single-family conventional loans in Cook County were high cost
- **Less than 38 percent** single-family conventional loans in the City of Chicago were high cost

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





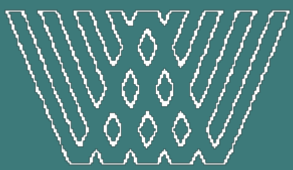
# Fair Mortgage Lending

## Individual: Implications of Inappropriate Pricing

### 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                           |

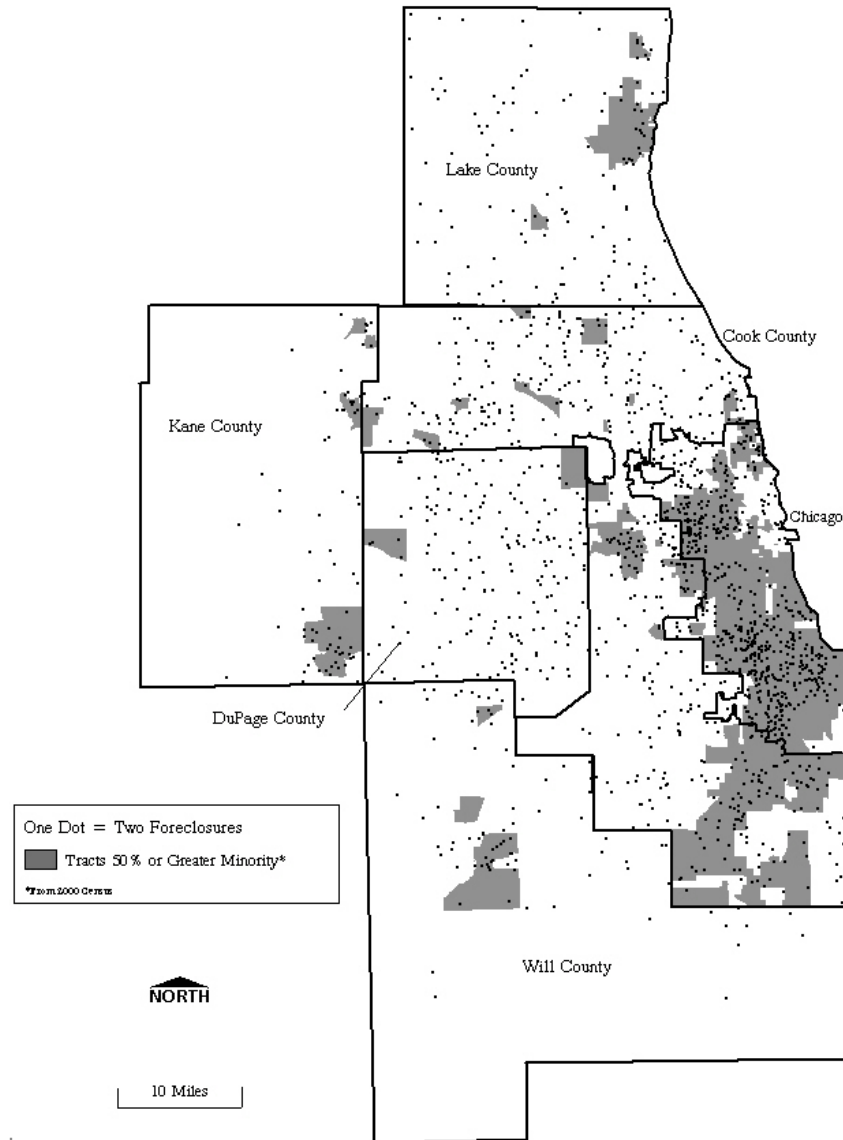
Source: Woodstock Institute calculations

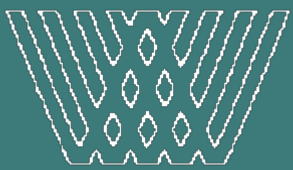


# Fair Mortgage Lending

## Community: Foreclosures a Growing Concern

- From 1995 to 2002, Chicago area foreclosure starts increased by 238 percent
- Growth driven by conventional foreclosures:
  - FHA foreclosures increased by 105 percent
  - Conventional foreclosures increased by 350 percent
- Neighborhoods 90 percent or greater minority accounted for:
  - 40 percent of total increase in conventional foreclosure starts, 1995-2002
  - 37 percent of all area foreclosures, 2002
  - 9.2 percent of owner-occupied housing units, 2000

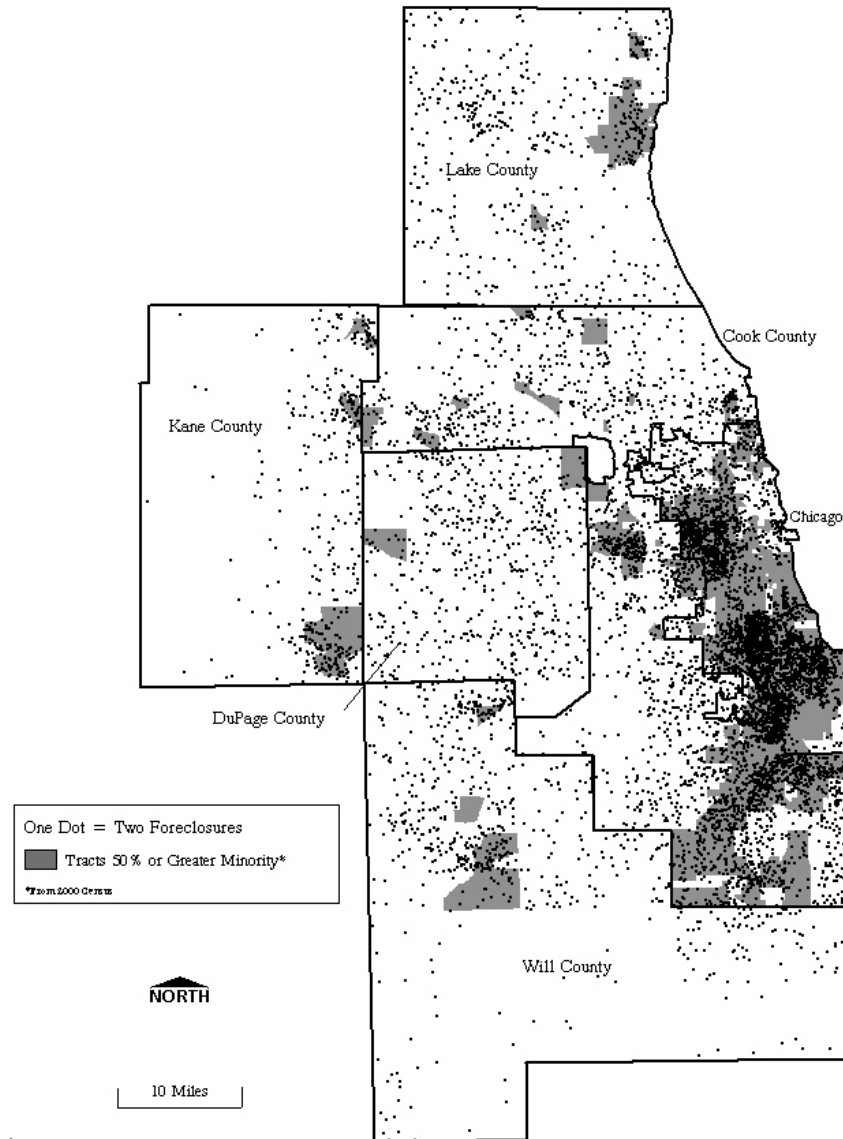


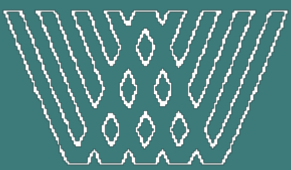


# Fair Mortgage Lending

## Community: Foreclosures a Growing Concern

- From 1995 to 2002, Chicago area foreclosure starts increased by 238 percent
- Growth driven by conventional foreclosures:
  - FHA foreclosures increased by 105 percent
  - Conventional foreclosures increased by 350 percent
- Neighborhoods 90 percent or greater minority accounted for:
  - 40 percent of total increase in conventional foreclosure starts, 1995-2002
  - 37 percent of all area foreclosures, 2002
  - 9.2 percent of owner-occupied housing units, 2000



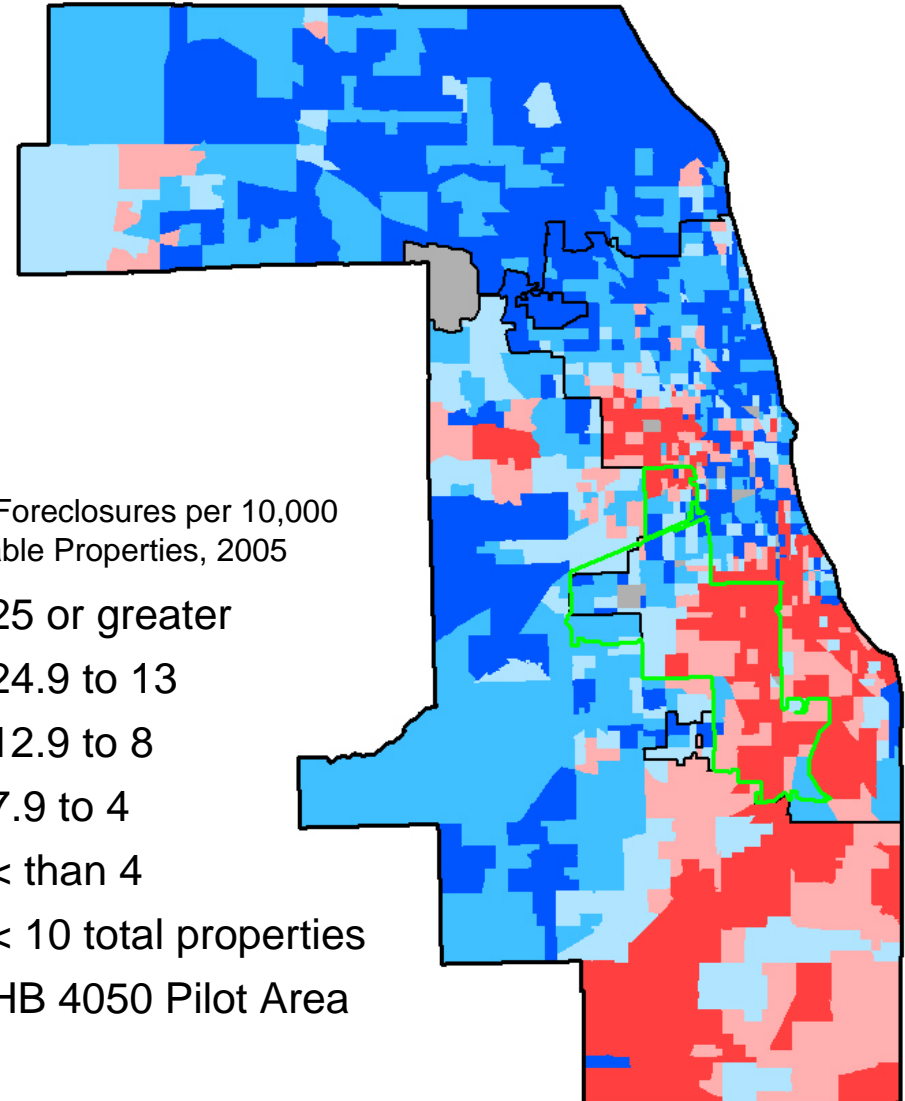
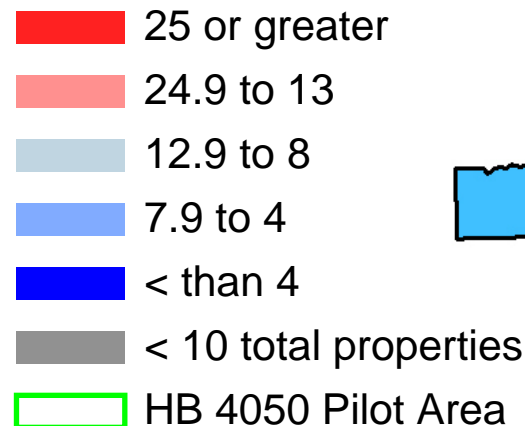


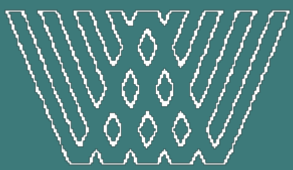
# Fair Mortgage Lending

## Community: 2005 Foreclosures in Cook County

- In 2005, there were **20.4 foreclosures** per 10,000 mortgageable properties in the HB 4050 pilot area.
  - This was an increase of 6.5 percent from 2004
- In Cook County there were **10.2 foreclosures** per 10,000 mortgageable properties
  - This was an increase of 5.8 percent from 2004
- In the City of Chicago there were **13.5 foreclosures** per 10,000 mortgageable properties
  - This was an increase of 4.2 percent from 2004

Cook County Foreclosures per 10,000 Mortgageable Properties, 2005

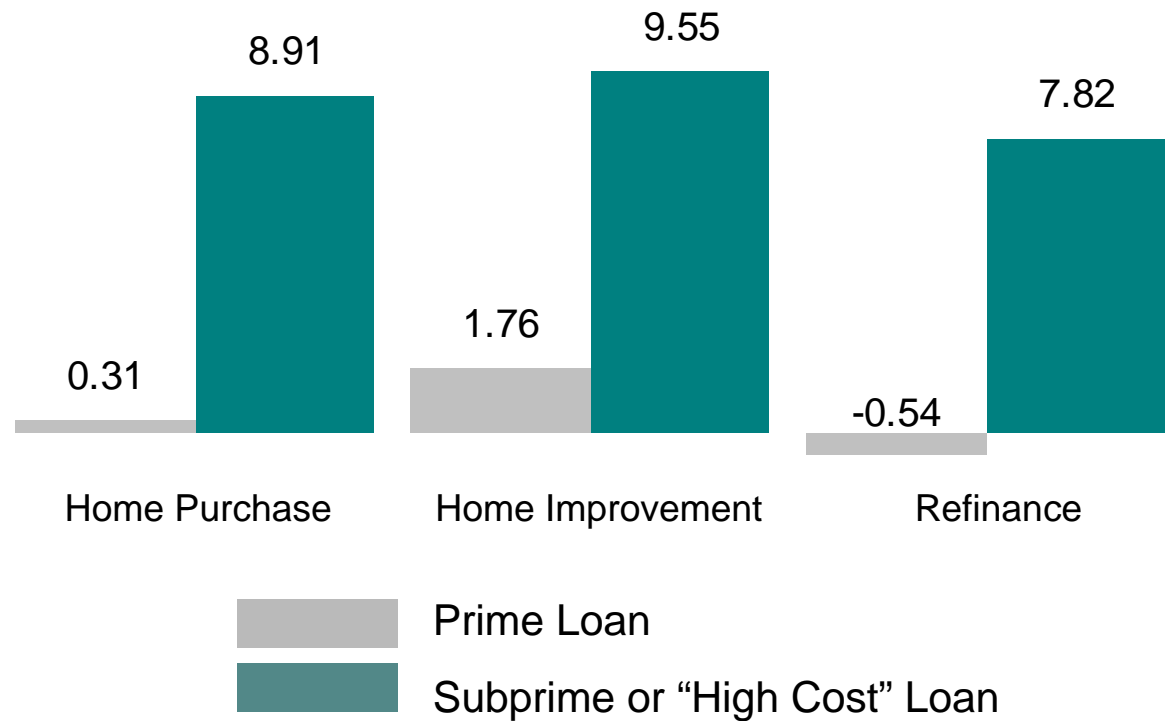


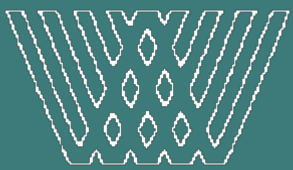


# Fair Mortgage Lending

## Community: Subprime Effect on Foreclosures

### Expected Foreclosures per 100 loans by loan type





# Fair Mortgage Lending

## Community: Foreclosures Reduce Property Values

### Concentrated subprime lending increases risk of foreclosure and reduces neighborhood property values



3,750 foreclosures in 1997 and 1998 are estimated to reduce nearby property values by more than **\$598 million**

average cumulative single-family property value effect of **\$159,000 per foreclosure**

**1.44 percent** decline in property values for each foreclosure within one-eighth of a mile of a house in a low- or moderate-income census tract.

Given the \$111,002 for properties in low- and moderate-income tracts, this amounts to a loss of nearly **\$1,600 per foreclosure** for the average property



# WOODSTOCK INSTITUTE

## Framing the Need for HB 4050

Malcolm Bush, President  
Woodstock Institute

Geoff Smith, Project Director  
Woodstock Institute

HB 4050 Meeting  
Springfield, IL  
November 14, 2006