Subprime Lending and Foreclosures: A Local Perspective

Tom Feltner, Policy Director
Woodstock Institute

10th District Mortgage Roundtable
March 31, 2008
Informing communities about the financial services policy issues that impact them most

Documenting patterns in the financial services industry and helping policy makers, community organizations and media understand problems

Improving transparency and giving communities the tools to make better, safer financial decisions
Concerns about Subprime Lending:
Loans are concentrated in minority communities and contribute to increased foreclosure rates

Percent of refinance application by type of lender

Expected Foreclosures per 100 loans by loan type

Source: Woodstock Institute
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 average value for properties in low- and moderate-income tracts, this amounts to a loss of nearly $1,600 per foreclosure for the average property.

Source: There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values. 2005 Woodstock Institute
Problem Loans:
Increasing popularity of 3/27 and 2/28 loans

Subprime Loans By Mortgage Adjustment Period, 1999 to 2006

Source: LoanPerformance, UBS from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007
Problem Loans:
Fewer and fewer lenders documenting borrower ability to repay

Percent of ARM Loans with No Income Documentation by Type of Mortgage, 2002 to 2006

Source: LoanPerformance, UBS from "The Deflating Mortgage and Housing Bubble, Part II" by Thomas Zimmerman. October 2007
# Concerns about Subprime Lending

2007 Lenders that are bankrupt, closed or sold (in bold)

<table>
<thead>
<tr>
<th>Lake County</th>
<th>North Cook</th>
<th>Suburban Chicago</th>
<th>City of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Countrywide</em></td>
<td>Washington Mutual</td>
<td><em>Countrywide</em></td>
<td><em>Countrywide</em></td>
</tr>
<tr>
<td>Wells Fargo</td>
<td><em>LaSalle Bank</em></td>
<td>Wells Fargo</td>
<td>JP Morgan Chase</td>
</tr>
<tr>
<td>Washington Mutual</td>
<td><em>American Home Mortgage</em></td>
<td>National City</td>
<td>LaSalle Bank</td>
</tr>
<tr>
<td>LaSalle Bank</td>
<td><em>JP Morgan Chase</em></td>
<td>JP Morgan Chase</td>
<td>Washington Mutual</td>
</tr>
<tr>
<td>National City</td>
<td><em>Bank of America</em></td>
<td><em>American Home Mortgage</em></td>
<td>Bank of America</td>
</tr>
<tr>
<td>American Home Mortgage</td>
<td><em>Wells Fargo National City</em></td>
<td><em>Citimortgage</em></td>
<td>Taylor, Bean &amp; Whitaker</td>
</tr>
<tr>
<td>JP Morgan Chase</td>
<td><em>Citimortgage</em></td>
<td><em>MidAmerica Bank</em></td>
<td>Argent Mortgage</td>
</tr>
<tr>
<td>Bank of America</td>
<td><em>Harris</em></td>
<td><em>Citimortgage</em></td>
<td>WMC Mortgage Co.</td>
</tr>
<tr>
<td>First Magnus</td>
<td><em>American Mortgage</em></td>
<td><em>Fremont</em></td>
<td>Indymac Bank</td>
</tr>
<tr>
<td>Harris</td>
<td><em>Taylor, Bean &amp; Whitaker</em></td>
<td><em>WMC Mortgage Co.</em></td>
<td>New Century Mortgage</td>
</tr>
<tr>
<td>Citimortgage</td>
<td><em>MidAmerica Bank</em></td>
<td><em>Fremont</em></td>
<td>Long Beach Mortgage</td>
</tr>
<tr>
<td>Taylor, Bean &amp; Whitaker</td>
<td><em>Indymac Bank</em></td>
<td><em>New Century</em></td>
<td>Accredited Home Lenders</td>
</tr>
<tr>
<td><em>Argent Mortgage</em></td>
<td><em>First Magnus</em></td>
<td><em>Accredited Home Lenders</em></td>
<td>Countrywide Bank</td>
</tr>
<tr>
<td>Indymac Bank</td>
<td><em>Citibank</em></td>
<td><em>Countrywide Bank</em></td>
<td>Citibank</td>
</tr>
<tr>
<td><em>Fremont</em></td>
<td><em>Argent Mortgage</em></td>
<td><em>First Magnus</em></td>
<td>Taylor, Bean &amp; Whitaker</td>
</tr>
<tr>
<td><em>WMC Mortgage</em></td>
<td><em>Indymac Bank</em></td>
<td><em>Citibank</em></td>
<td>BNC Mortgage</td>
</tr>
<tr>
<td><em>Countrywide Bank</em></td>
<td><em>PHH Home Loans</em></td>
<td><em>Provident Funding</em></td>
<td><em>Harris</em></td>
</tr>
<tr>
<td>Accredited Home Lenders</td>
<td><em>MidAmerica Bank</em></td>
<td><em>Fremont</em></td>
<td></td>
</tr>
<tr>
<td><em>New Century Mortgage</em></td>
<td><em>ING Bank</em></td>
<td><em>1st Advantage Mortgage</em></td>
<td></td>
</tr>
<tr>
<td>US Bank</td>
<td><em>Provident Funding</em></td>
<td><em>Bancgroup Mortgage</em></td>
<td></td>
</tr>
<tr>
<td>Citibank</td>
<td><em>Fremont</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Higher Cost Mortgages with Very High APRs, 2006

Market Share of Higher Cost Loans, 2006

Chicago Region Lending Trends:
Possible Foreclosure Trouble Spots

Loans Made by Subprime Lenders that are Out of Business, 2006

Non Owner Occupied (Investment) Properties, 2006

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

Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago
By Region
South Cook – 36.4
Chicago – 24.4
Will – 16.6
West Cook – 16.6
Kane – 16.0
McHenry – 13.2
Lake – 13.0
Southwest Cook – 11.2
NW Cook – 9.8
DuPage – 9.4
North Cook – 7.2
Six County Region – 16.8

Source: Foreclosure Report of Chicago