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
• Characteristics of the subprime market
• Statistics on the growth in foreclosures
• Implications for individuals and communities
Dramatic Increase in Subprime Originations from 1998 to 2006

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
• 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

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

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

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

Source: LoanPerformance, UBS from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007
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
What type of mortgage do you currently have?

- Fixed-Rate (57%)
- Interest Only (3%)
- Adjustable Rate Mortgage (6%)
- Don’t Know (34%)

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

- Refinance to a fixed rate loan (36%)
- Won’t have the loan anymore (24%)
- Get Another ARM (2%)
- Don’t Know (34%)
- Move (4%)

Source: Elizabeth Razzi, “Mortgage Ignorance Rampant.” Bankrate.com [March 26, 2007]
## 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

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

• Roughly 32 percent of all single-family conventional loans in Cook County were high cost.

• Roughly 38 percent of 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

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

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

<table>
<thead>
<tr>
<th>Rate</th>
<th>Monthly Payment</th>
<th>Interest paid over life of the loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>$537</td>
<td>$93,256</td>
</tr>
<tr>
<td>7%</td>
<td>$665</td>
<td>$139,509</td>
</tr>
<tr>
<td>10%</td>
<td>$878</td>
<td>$215,926</td>
</tr>
</tbody>
</table>

Source: Woodstock Institute calculations
Quarterly Changes in Chicago Area Foreclosure Starts, January 2003 to June 2007

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

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

*Source: FirstAmerican LoanPerformance, from “Sheltering Neighborhoods from the Subprime Foreclosure Strom” 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

Source: There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values. 2005 Woodstock Institute
Foreclosure: The State of the Problem at the National and State Level

Geoff Smith
Research Director
Woodstock Institute
407 S. Dearborn, Suite 550
Chicago, IL 60605
www.woodstockinst.org