Framing the Need for HB 4050

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HB 4050 Meeting
Springfield, IL
November 14, 2006
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>

In 2005, **nearly 57 percent** of the single-family conventional loans in the HB 4050 pilot area were high cost.

**Less that 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.

### 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
• 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

Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago
• From 1995 to 2002, Chicago area foreclosure starts increased by 238 percent
• Growth driven by conventional foreclosures:
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Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago
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

Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago
Expected Foreclosures per 100 loans by loan type

- Home Purchase: Prime Loan = 0.31, Subprime or “High Cost” Loan = 8.91
- Home Improvement: Prime Loan = 1.76, Subprime or “High Cost” Loan = 9.55
- Refinance: Prime Loan = -0.54, Subprime or “High Cost” Loan = 7.82

Source: Risky Business: An Economic Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures. 2004 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 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
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