

Foreclosure Data for Subprime Mortgage Loans

Michael D. Calhoun, President, Center for Responsible Lending



About Center for Responsible Lending (CRL)

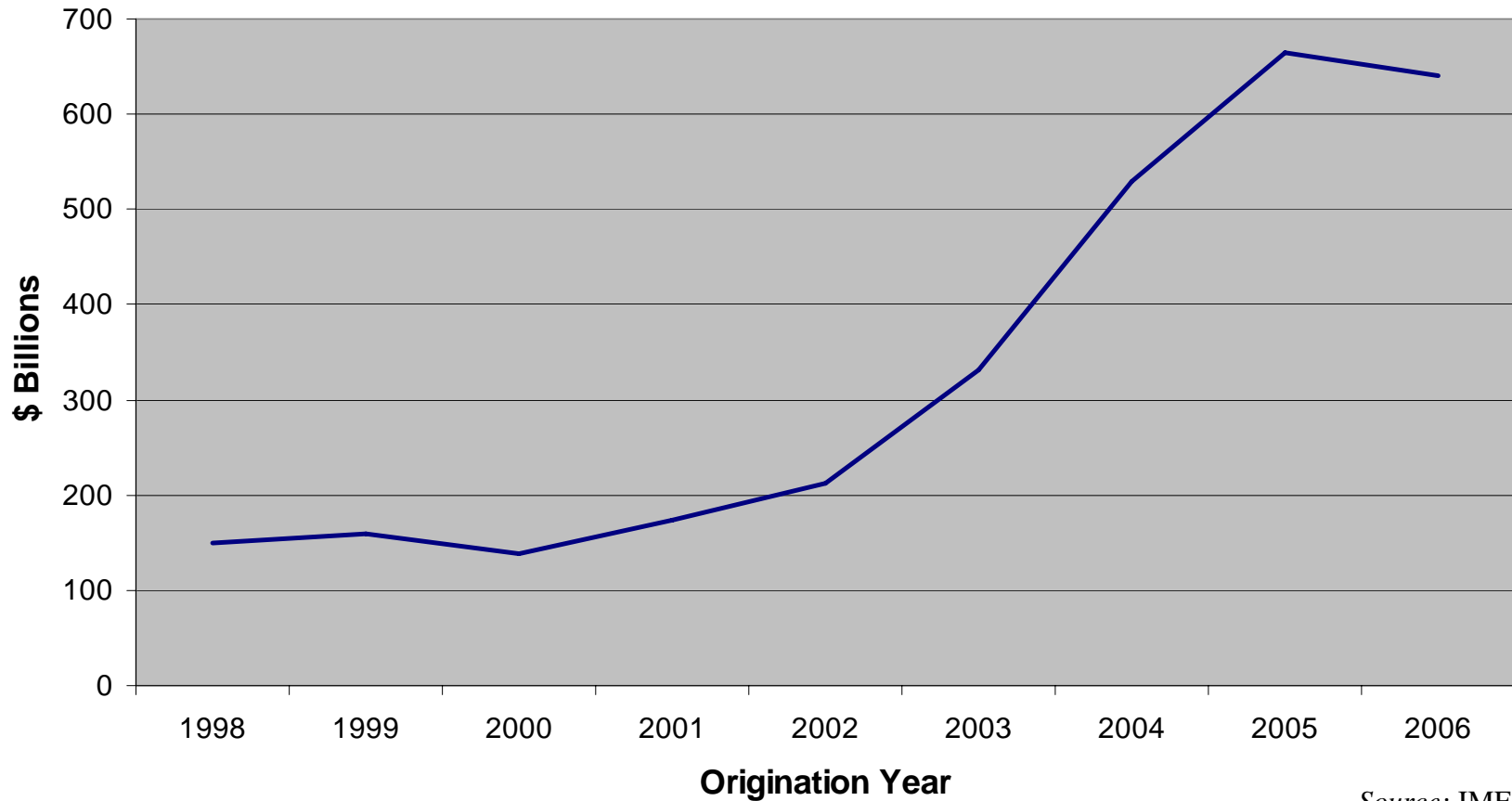
- Nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices.
- Affiliated with Self-Help, one of the nation's largest community development financial institutions.

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Subprime Growth



Source: IMF Publications

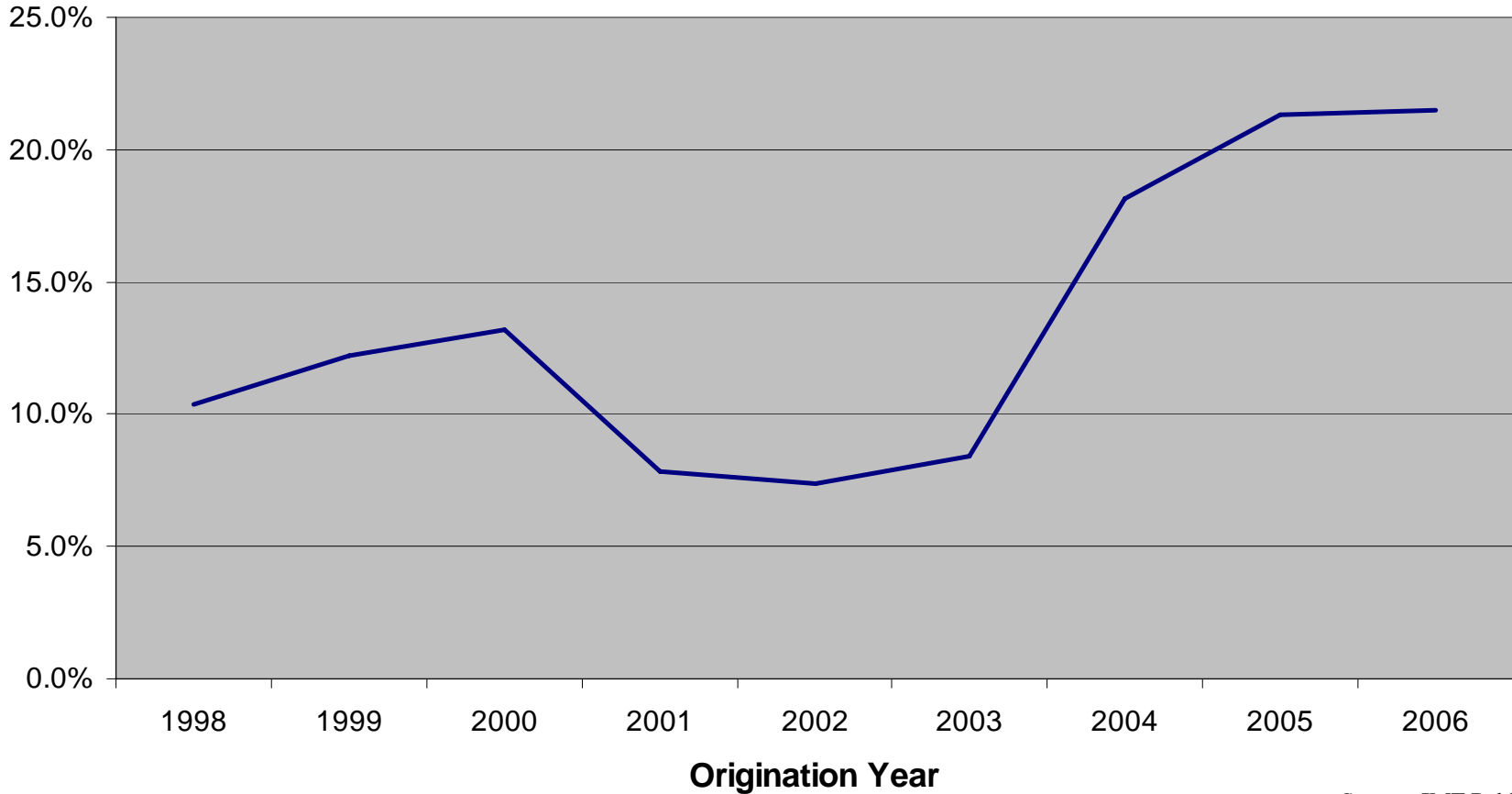


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Subprime Share of All Mortgages (by origination year)



Source: IMF Publications



Impact on Communities

Higher cost 1st lien total loans (2005 HMDA)

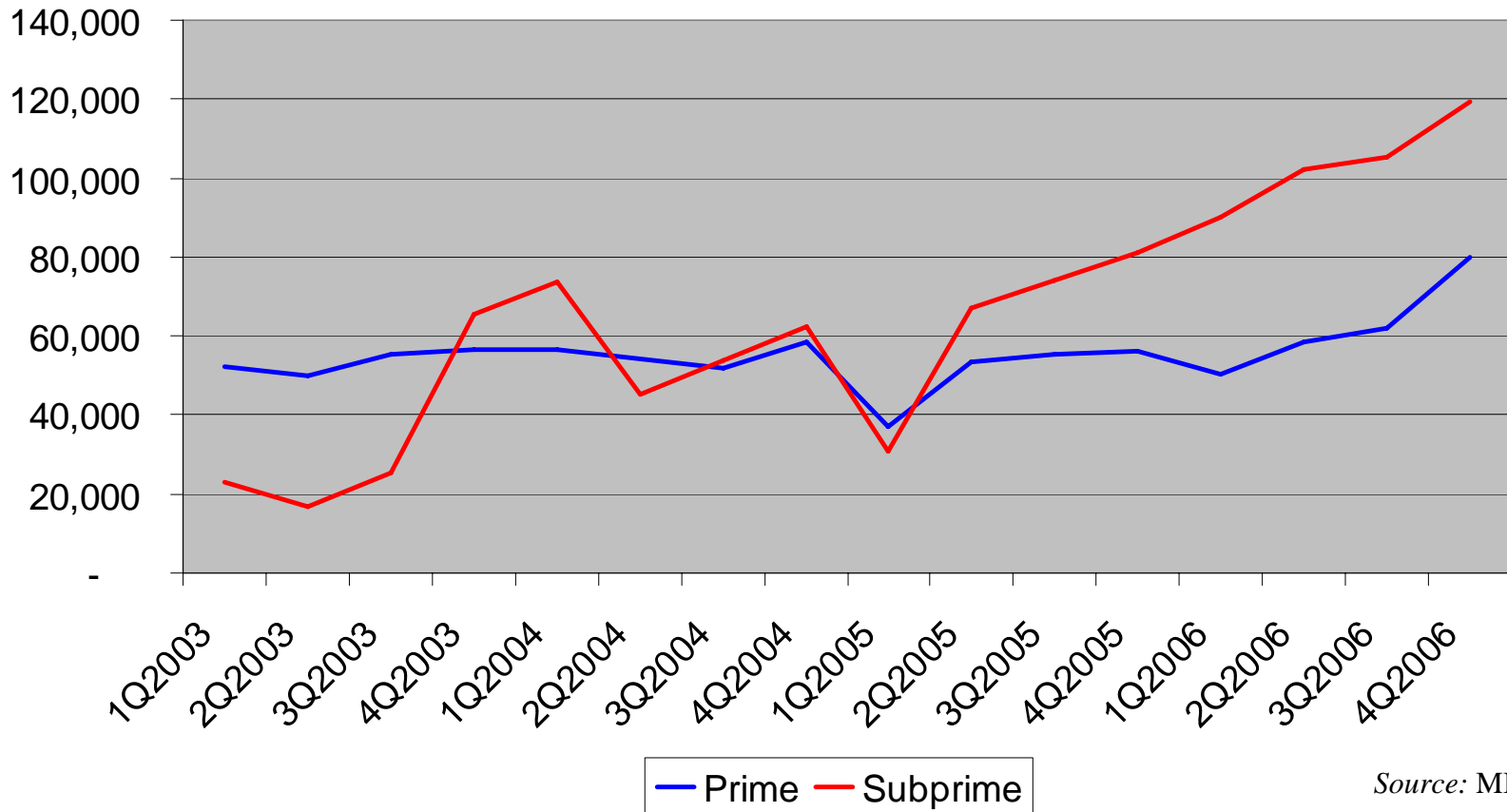
	# Higher cost	% of total
• African American	388,471	52%
• Latino	375,889	40%
• White	1,214,003	19%

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Subprime Foreclosure Starts Now Drive MBA Overall Foreclosure Starts



Source: MBA

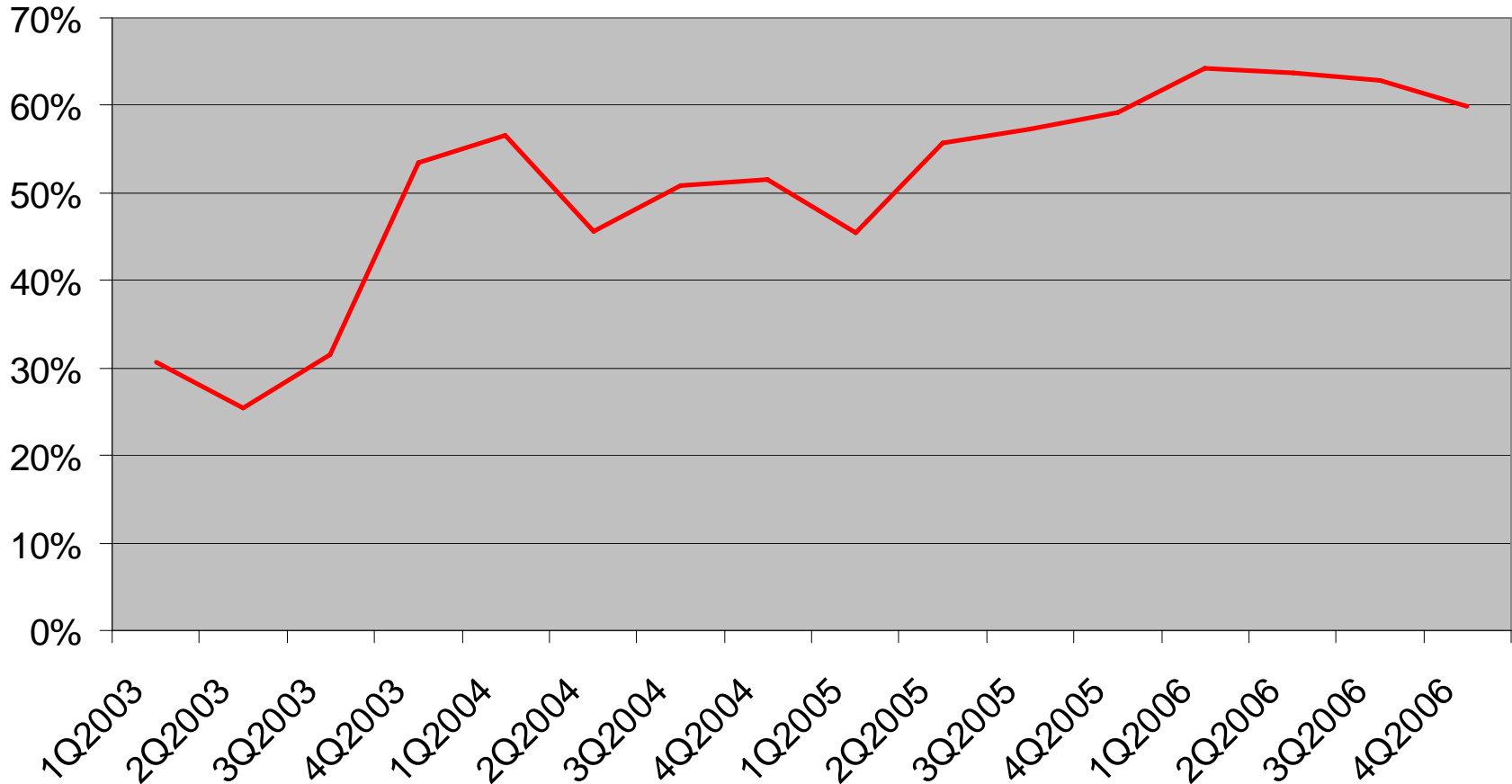


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Subprime Proportion of MBA Conventional Foreclosure Starts



Source: MBA



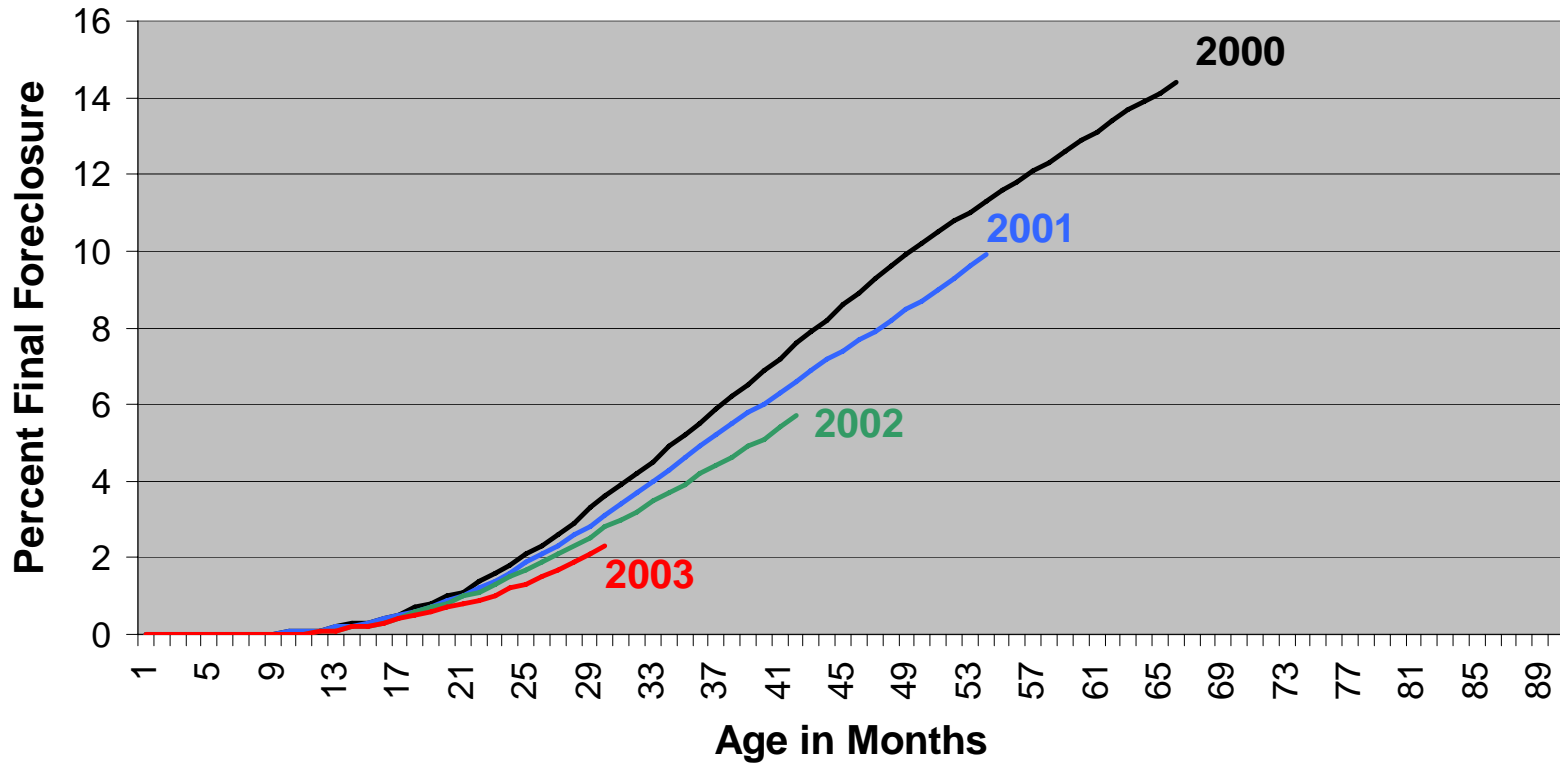
CRL Losing Ground Report - December 2006

- 6 million securitized subprime mortgage loans totaling \$1.2 trillion.
- Originated between 1998 and December 2004.
- Originated in 50 states and DC.
- Secured by first lien on owner-occupied home, excluding manufactured & multifamily homes.
- Covers 70% of U.S. subprime market by dollar volume.

Losing Ground Report

- Observed Foreclosures
- Distressed Prepayments (loans paid off after at least 30 days delinquent)
- Home price appreciation

Final Foreclosures by Annual Loan Cohort (May 2005)



Subprime Foreclosure Rates on Loans originated in 2000 (as of May 2005)

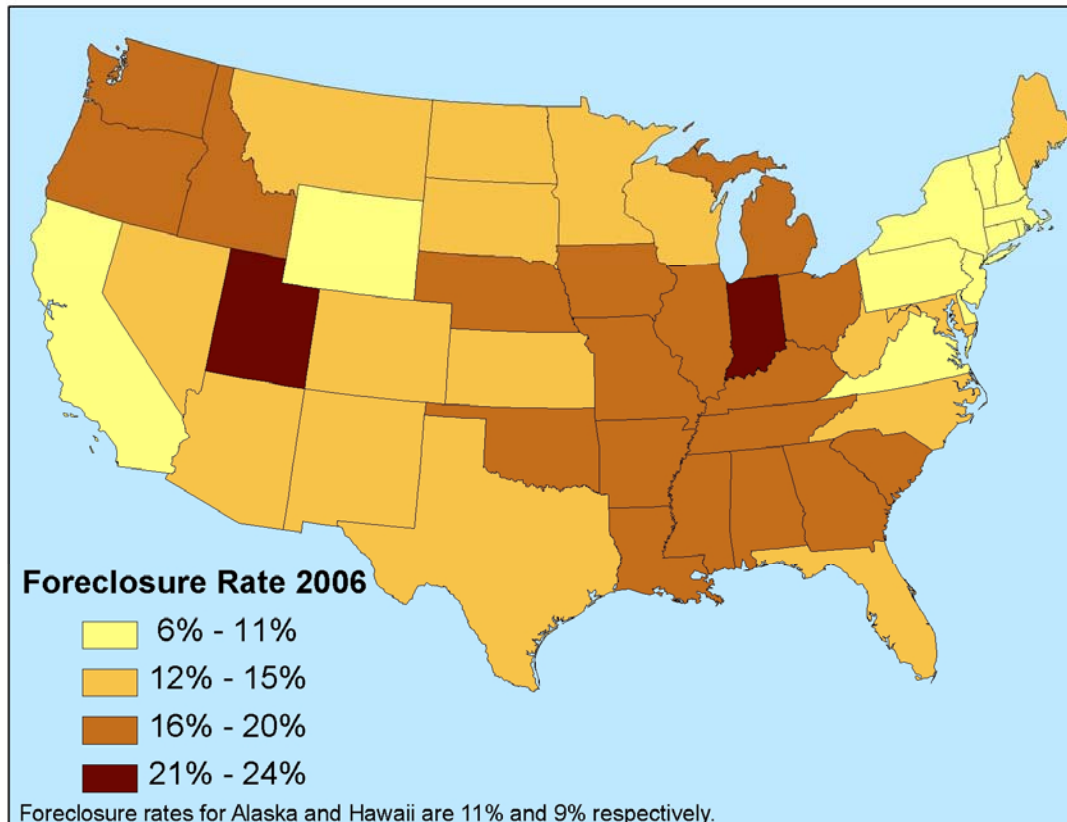
- One in eight (12.5%) subprime loans made in 2000 had foreclosed by May 2005.
- An additional 11% prepaid while they were delinquent for at least 30 days.

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Subprime Foreclosures by State (as of 5/2005; loans originated in 2000)

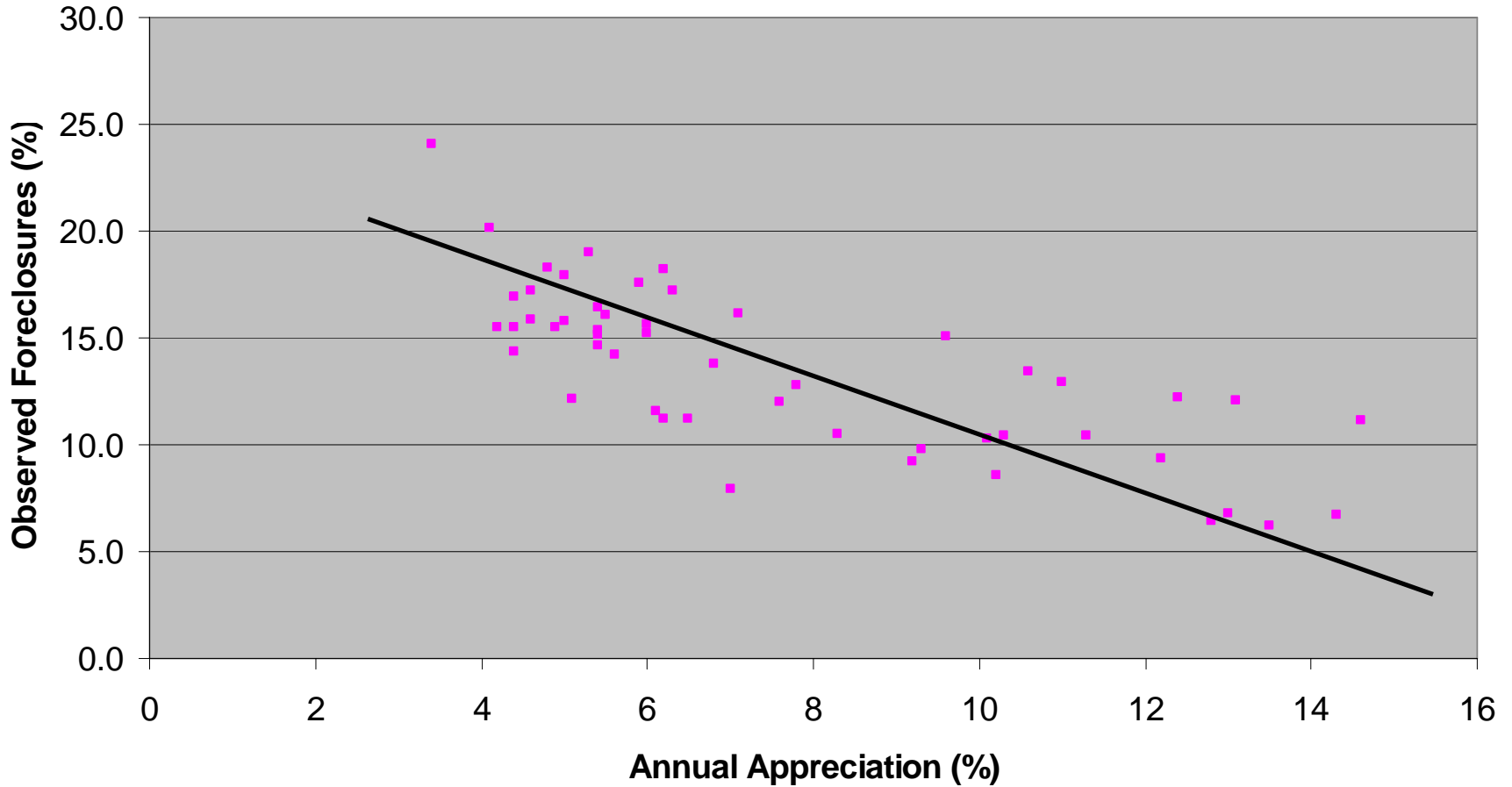


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State Housing Prices vs. Foreclosures



Predicted Foreclosure rate for SP mortgages originated from 1998 - 2006

- Approximately 1 in 5 mortgages (20%) will end in completed foreclosure (i.e., loss of home)

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Subprime Foreclosure Over Time (20% Cohort FC Rate; 70% SP Refi Rate)

	Begin Balance	Paid off Loans	Stage FC	Cumulative Foreclosure
Stage 1	100	80	20	20%
Stage 2	56	45	11	31%
Stage 3	31	25	6	37%
Stage 4	18	14	4	41%

Sensitivity to Refi Rate to Another Subprime Loan

Refi Rate to Another Subprime Loan	60%	70%	80%	90%
Cumulative Foreclosure Over 4 stages	36%	41%	46%	52%

Projected SP Foreclosures: Lost Homes & Lost Equity

- At a 60% refinance rate, 1 in 5 mortgages ending in completed foreclosure translates to:
 - » Over 1/3 of SP borrowers losing their homes
 - » That's over 2.2 million homeowners losing their homes
 - » \$164 billion in lost equity

Loan Features Carry Risk

- Among subprime loans originated in 2000, after controlling for credit score:
 - » ARMs had 72% greater risk of foreclosure than FRM.
 - » Balloons had 36% greater risk than FRM.
 - » Prepayment penalties associated with 52% greater risk.
 - » Low/no doc loans with 29% greater risk.
 - » Purchase money with 29% greater risk than refinance.

Other Key Subprime Facts

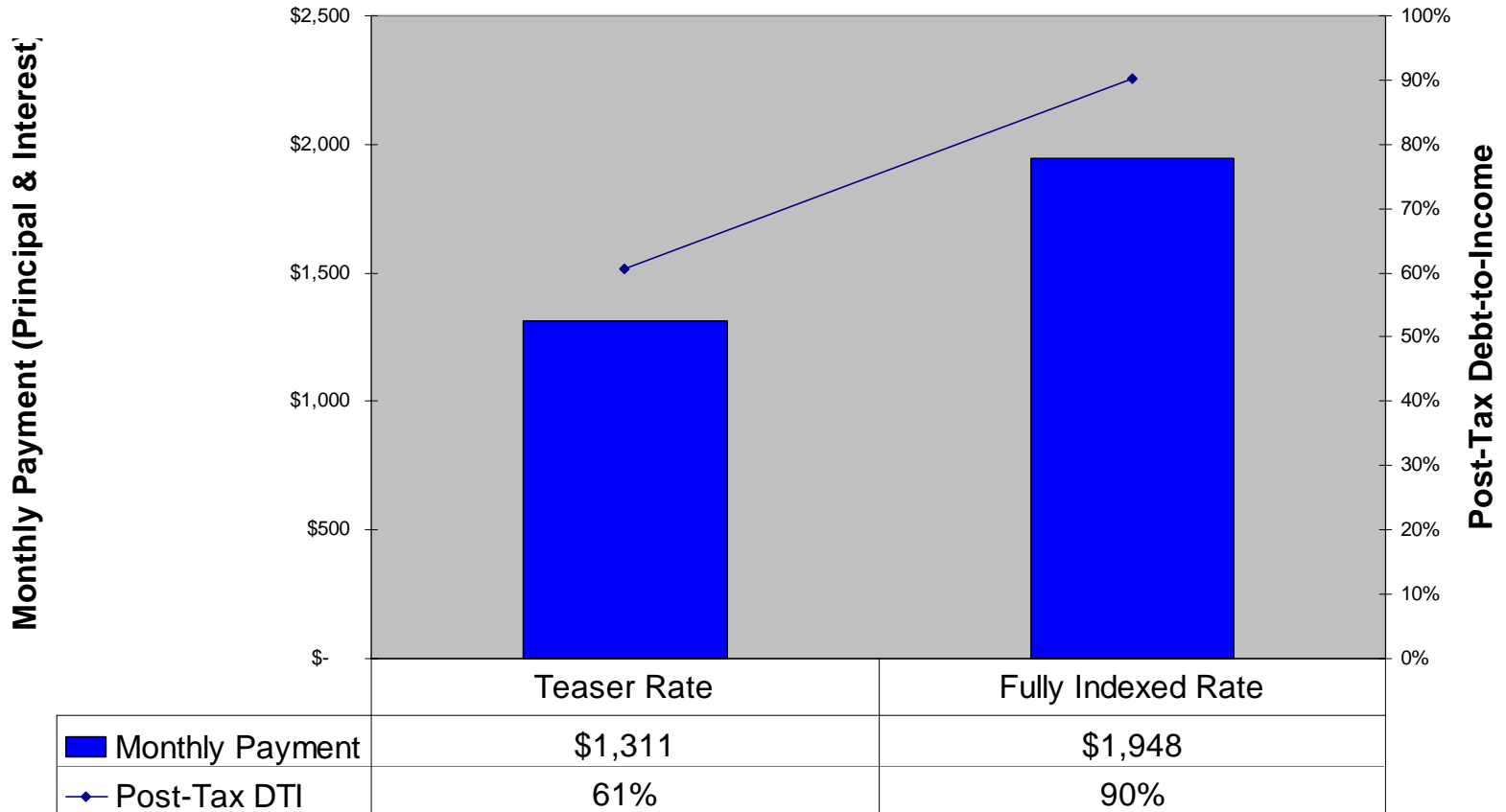
- 57% of 2005 subprime loans as HUD supervised
- \$600 billion rate reset in next two years
- 72% of subprime as exploding ARMs (Lehman,2004)
 - » Rates jump from 7% to 12%
 - » Monthly payments up 30% to 50% or more
 - » Lack of escrows causes flipping
- 70% of subprime have prepayment penalties
- 40+% utilize stated income for “ability to repay”

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Example of 2-28, \$200,000 ARM, No Change in Rates

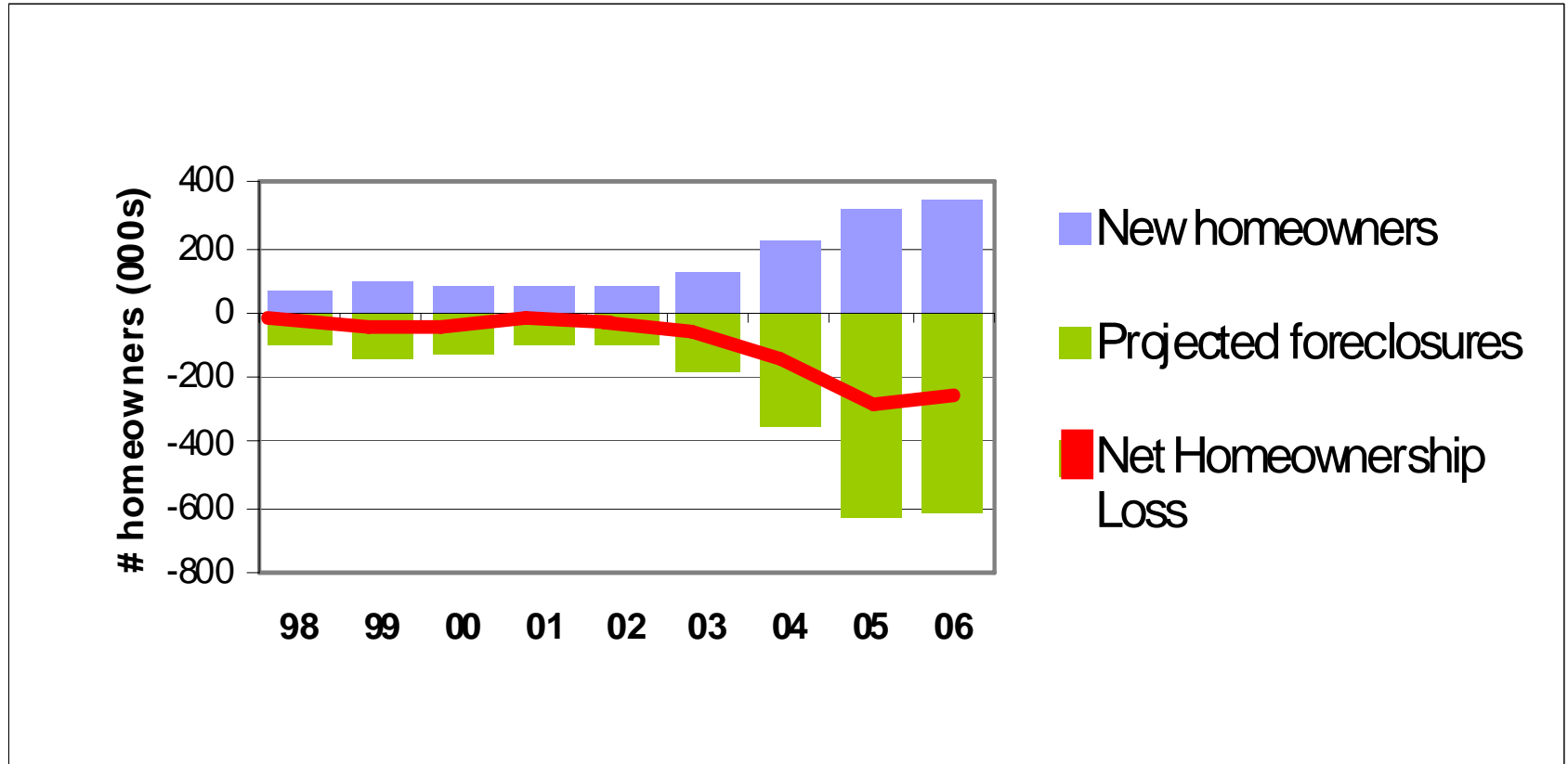


Source: CRL Calculations

Subprime Lending: Net Impact on Homeownership

	SP loans to FT Homebuyers	Projected SP foreclosures	Net gain (loss)
1998	73,253	94,750	(21,497)
1999	89,309	144,567	(55,258)
2000	87,651	133,126	(45,475)
2001	80,856	105,464	(24,608)
2002	85,883	102,252	(16,369)
2003	120,807	181,464	(60,657)
2004	219,180	348,345	(129,165)
2005	324,361	632,302	(307,941)
2006	354,172	624,631	(270,459)
Total	1,435,472	2,366,901	(931,429)

Impact of Subprime Lending 1998-2006



Policy Recommendations: Avert Future Foreclosures

- Require sound lending practices
 - » Establish borrower ability to repay
 - » Underwrite to fully indexed rate
 - » Third party verification of Income
 - » Escrow for taxes and insurance
- Eliminate incentives that put brokers' interests in conflict with their clients' interests
 - » Make clear that brokers owe fiduciary duties to their clients
- Require loan purchasers to take reasonable steps to avoid purchasing predatory loans

Policy Recommendations: Help Borrowers at Risk of Losing their Homes

- Push Lenders to offer, on reasonable terms, loan modifications and refinancing into sustainable loans.
- Tax Code amendment to ensure that borrowers are not hit with an income tax liability when lenders agree to write down their outstanding mortgage debt.
- Bankruptcy Code amendment to end the favored status of home mortgage loans.