



CRL Report Doesn't Show the True Picture of Subprime Role in Homeownership

The CRL "study" claiming that the subprime market has led to a net reduction in homeownership is misleading. CRL has invented a set of assumptions, developed a worse case scenario and presented the results of those questionable assumptions as facts.

Here are the facts.

- The percentage of foreclosures in the subprime market is far below the rates cited by CRL, and not all of these foreclosures result in the borrower losing the house:

Percent of Foreclosure started in each year on subprime loans	
Year	Percent
1999	6.97%
2000	8.20%
2001	9.34%
2002	8.54%
2003	6.57%
2004	5.86%
2005	5.63%
2006	7.28%

(source: MBA National Delinquency Survey)

- These numbers are well below those presented by CRL which assume a worst case scenario of economic conditions, interest rates and home prices to inflate its "facts".
- CRL's latest analysis mixes apples and oranges, combining performance data on refinance loans with data on purchase loans. This confused approach is the only way they could generate a "net loss" in terms of homeownership. A more honest analysis, even using their pessimistic numbers, would show that 85-90 percent of subprime borrowers are ultimately successful on their loan.
- Subprime loans accounted for about 20 percent of all mortgage originations in the first half of 2006, according to MBA's Mortgage Origination Survey. Contrary to many perceptions that subprime loans are just a way for people to refinance their way out of other debt problems, many consumers use subprime credit to purchase a home. In the first half of 2006, 45 percent of subprime originations were for the purchase of a home. 25 percent of these purchase loans were by a first-time homebuyer.

- Subprime loan performance is fundamentally a result of local economic conditions, not the loan terms or the product. For example, the fact that the seriously delinquent rate (loans in foreclosure and 90 days or more past due) for subprime adjustable rate loans in Ohio is six times that of Arizona is due to the local economic conditions in the Ohio, not problems with the loans. Similarly, the seriously delinquent rate for prime fixed rate loans in Ohio is nine times that of Arizona.

**Seriously Delinquent rates for Subprime ARMs
2006 Q4**

Highest		Lowest	
Mississippi	19.63	Nevada	5.22
Louisiana	19.38	Wyoming	5.20
Ohio	19.03	Virginia	5.04
Michigan	17.70	Maryland	4.97
Indiana	16.70	Idaho	4.77
Iowa	15.21	Hawaii	4.74
Kentucky	13.08	Washington	4.49
Oklahoma	12.68	Utah	4.08
Nebraska	12.58	Oregon	3.78
Wisconsin	12.56	Arizona	3.08

(source: MBA National Delinquency Survey)

- California accounts for approximately 40 percent of subprime lending in this country. Homeownership rates in California increased from 2004 to 2006 by more than a percentage point, while they have fallen in states like Ohio. Again, this points to the importance of local economic conditions when assessing foreclosures and delinquencies.
- The subprime market exists to provide credit to people who would not be able to qualify for loans in the prime market. It provides an opportunity for them to buy a house earlier than they might otherwise be able to, or to stave off problems that occur after they own the house. It provides them an opportunity to either build or repair their credit records and whether they take advantage of that opportunity is up to them. The simple fact is that the majority of subprime borrowers perform well and do not go into foreclosure.