Woodstock Institute

applied research, policy and practice
innovation for community economic development

Subprime Lending and Foreclosures: A Local Perspective

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Woodstock Institute

10th District Mortgage Roundtable
March 31, 2008

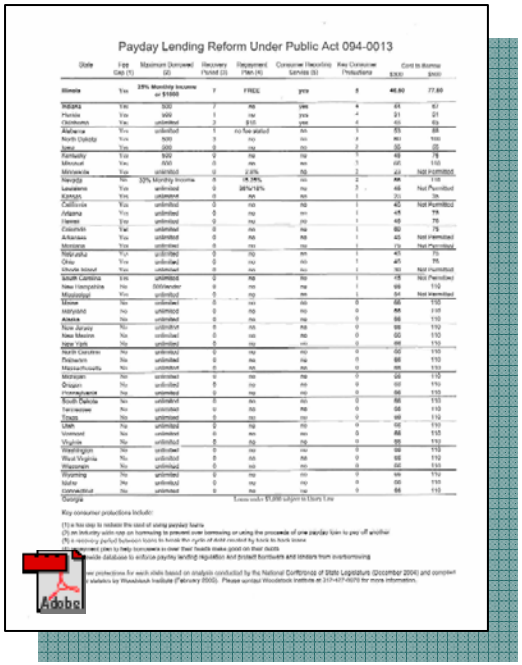
Woodstock Institute

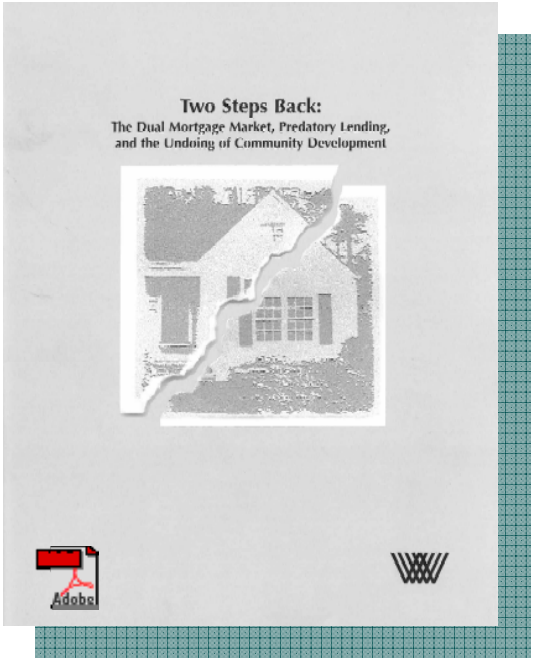
Improving Financial Outcomes for Underserved People and Communities

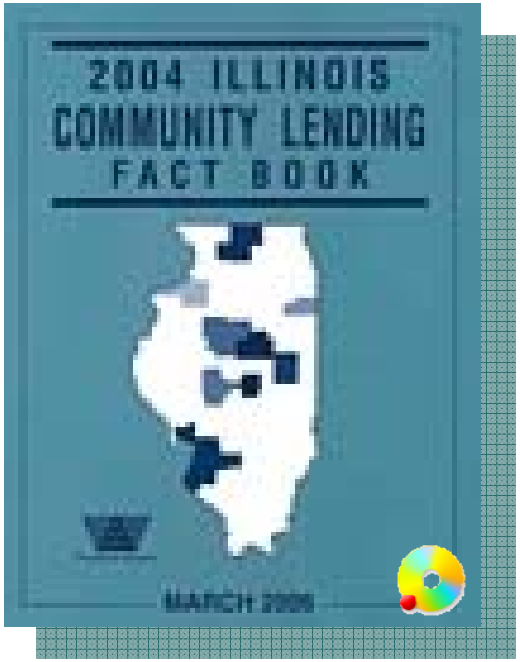
Informing communities about the financial services policy issues that impact them most

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



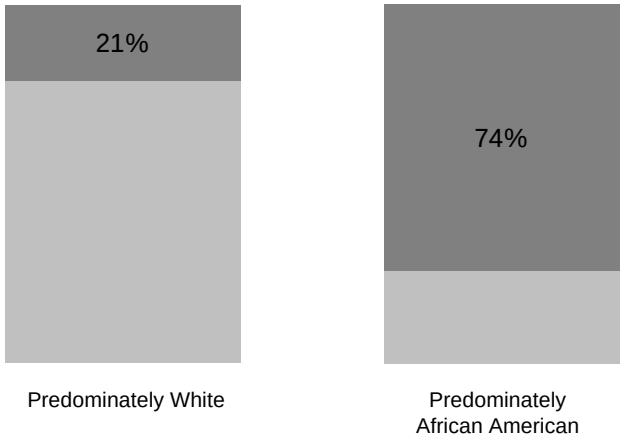




Concerns about Subprime Lending:

Loans are concentrated in minority communities and contribute to increased foreclosure rates

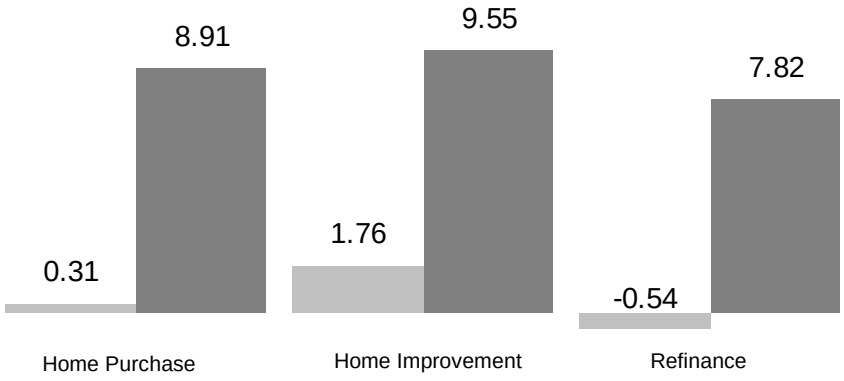
Percent of refinance application by type of lender



Prime Lenders

Subprime or “High Cost” Lenders

Expected Foreclosures per 100 loans by loan type



Prime Loans

Subprime or “High Cost” Loans

Source: Woodstock Institute

Concerns about Subprime Lending

Effect on property values

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.

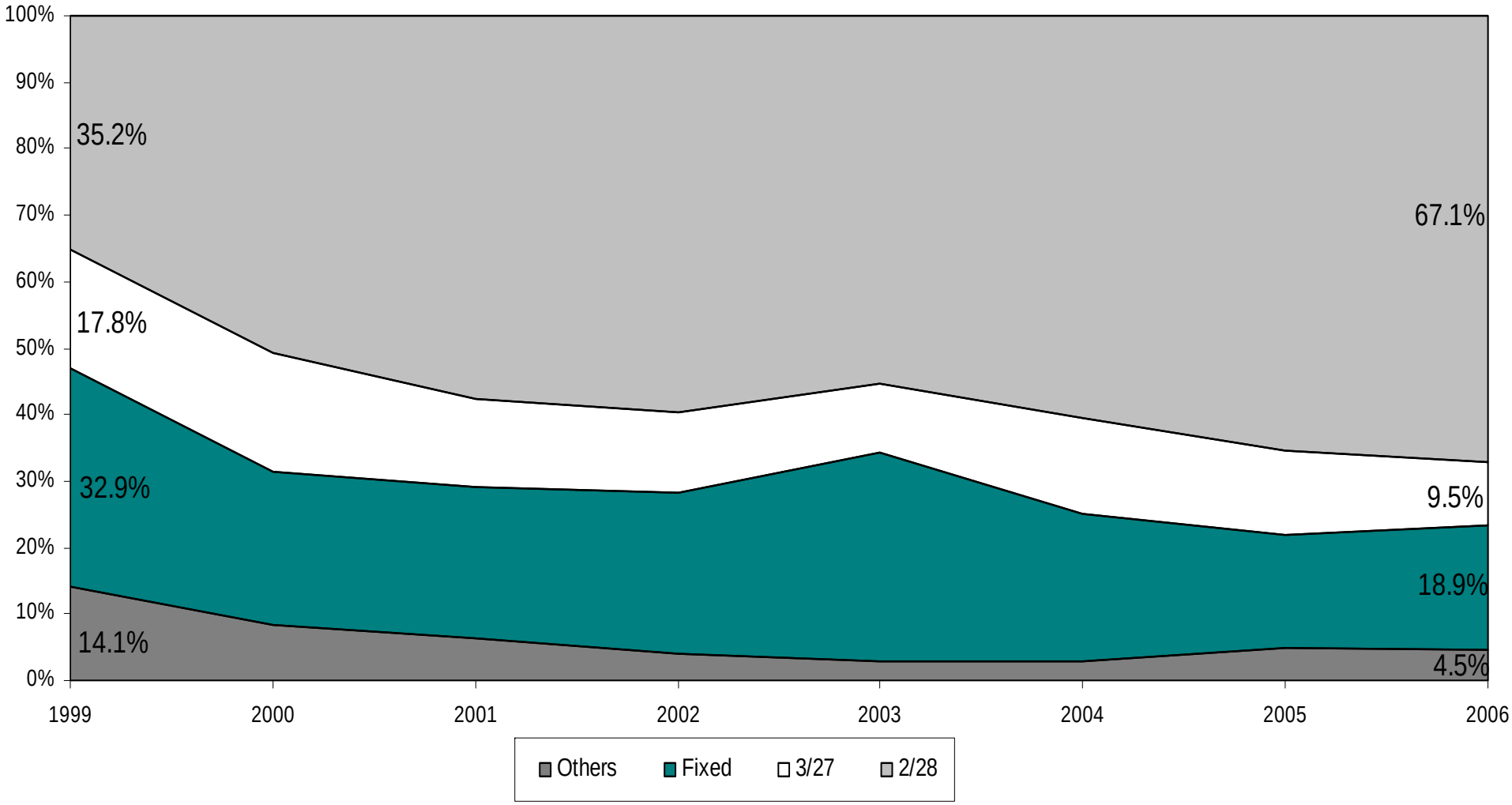
Given the $111,002 average value for properties in low- and moderate-income tracts, this amounts to a loss of nearly **$1,600 per foreclosure** for the average property

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

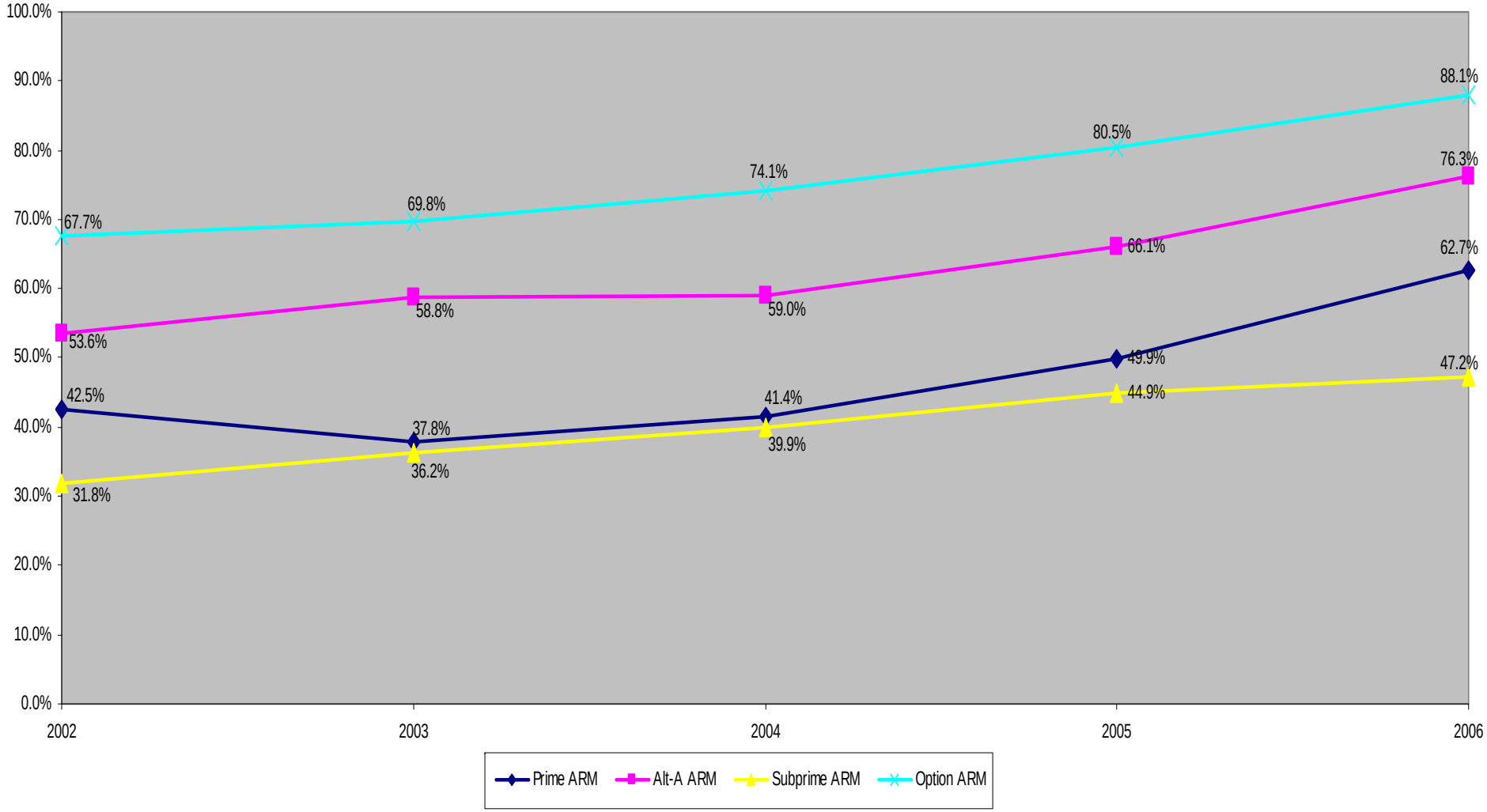


Source: LoanPerformance, UBS from "The U.S. Subprime Industry in Turmoil" by Thomas Zimmerman. March 2007

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)

Lake County

Countrywide
Wells Fargo
Washington Mutual
LaSalle Bank
National City
American Home Mortgage
JP Morgan Chase
Bank of America
First Magnus
Harris
Citimortgage
Taylor, Bean & Whitaker
Argent Mortgage
Indymac Bank
Fremont
WMC Mortgage
Countrywide Bank
Accredited Home Lenders
New Century Mortgage
US Bank
Citibank

North Cook

Washington Mutual
Countrywide
LaSalle Bank
American Home Mortgage
JP Morgan Chase
Bank of America
Wells Fargo National City
Citimortgage
Harris
American Mortgage
Taylor, Bean & Whitaker
Indymac Bank
First Magnus
Citibank
Argent Mortgage
PHH Home Loans
MidAmerica Bank
ING Bank
Provident Funding
Fremont
1st Advantage Mortgage

Suburban Chicago

Countrywide
Wells Fargo
National City
JP Morgan Chase
LaSalle Bank
Washington Mutual
American Home Mortgage
Bank of America
Taylor, Bean & Whitaker
Argent Mortgage
MidAmerica Bank
Citimortgage
Fremont
WMC Mortgage Co.
Indymac Bank
New Century
Accredited Home Lenders
Countrywide Bank
First Magnus
Citibank
Bancgroup Mortgage

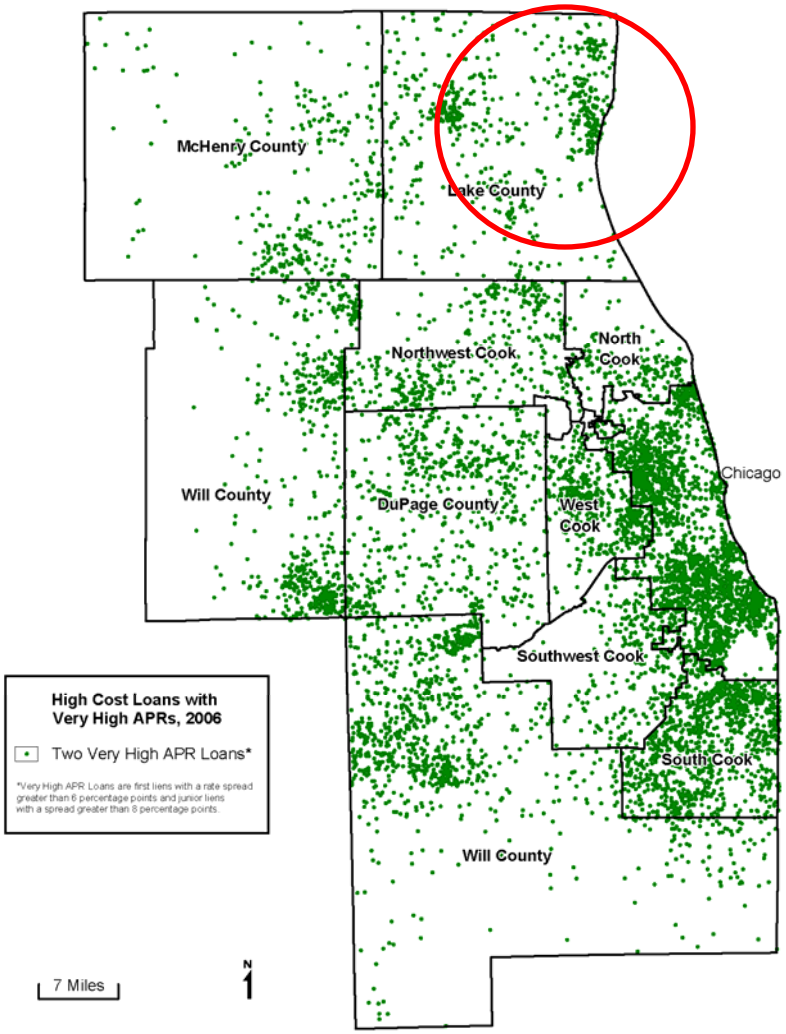
City of Chicago

Countrywide
JP Morgan Chase
LaSalle Bank
Wells Fargo
National City
Washington Mutual
Bank of America
American Home Mortgage
Fremont
Argent Mortgage
Citimortgage
WMC Mortgage Co.
Indymac Bank
New Century Mortgage
Long Beach Mortgage
Accredited Home Lenders
Countrywide Bank
Citibank
Taylor, Bean & Whitaker
BNC Mortgage
Harris

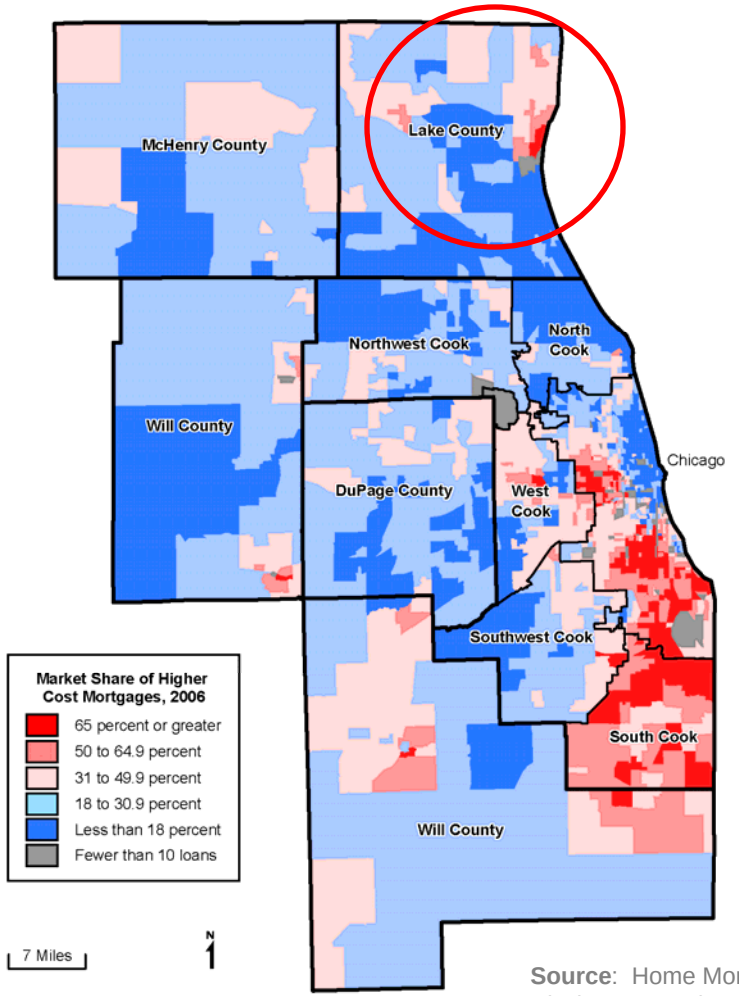
Chicago Region Lending Trends:

Possible Foreclosure Trouble Spots

Higher Cost Mortgages with Very High APRs, 2006



Market Share of Higher Cost Loans, 2006

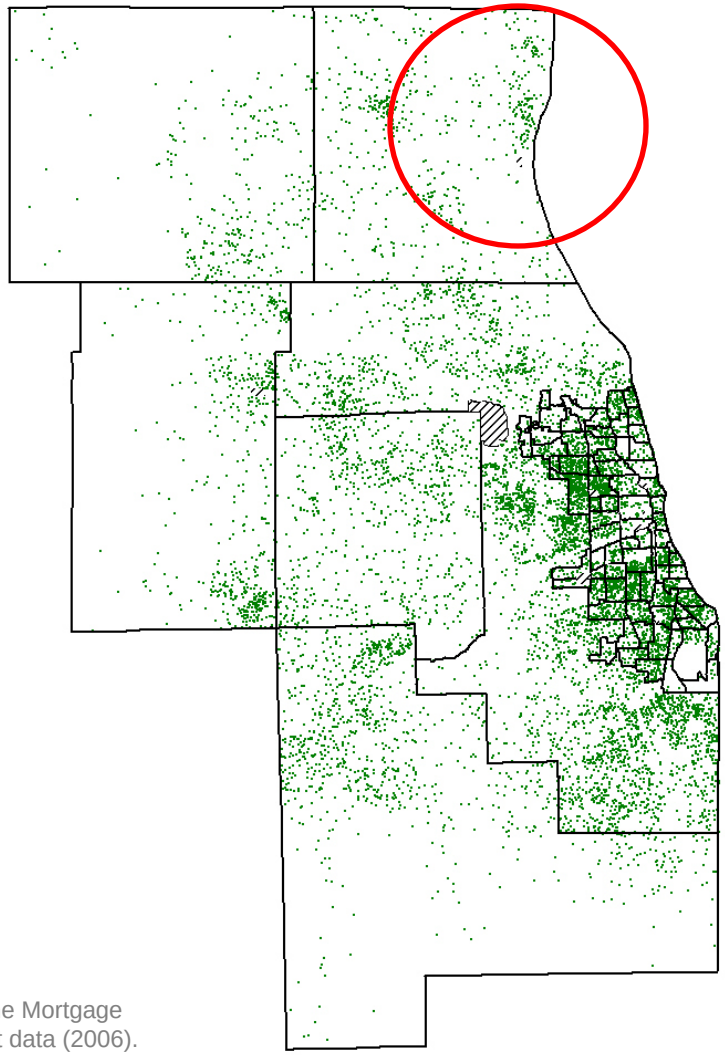


Source: Home Mortgage Disclosure Act data (2006).

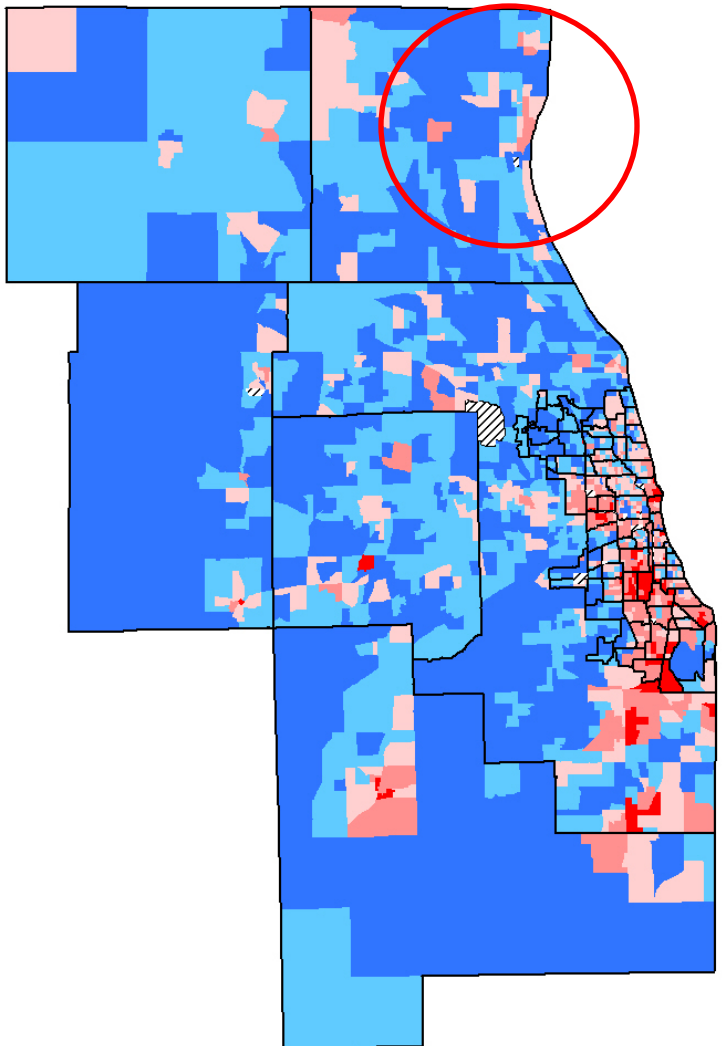
Chicago Region Lending Trends:

Possible Foreclosure Trouble Spots

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



Non Owner Occupied (Investment) Properties, 2006

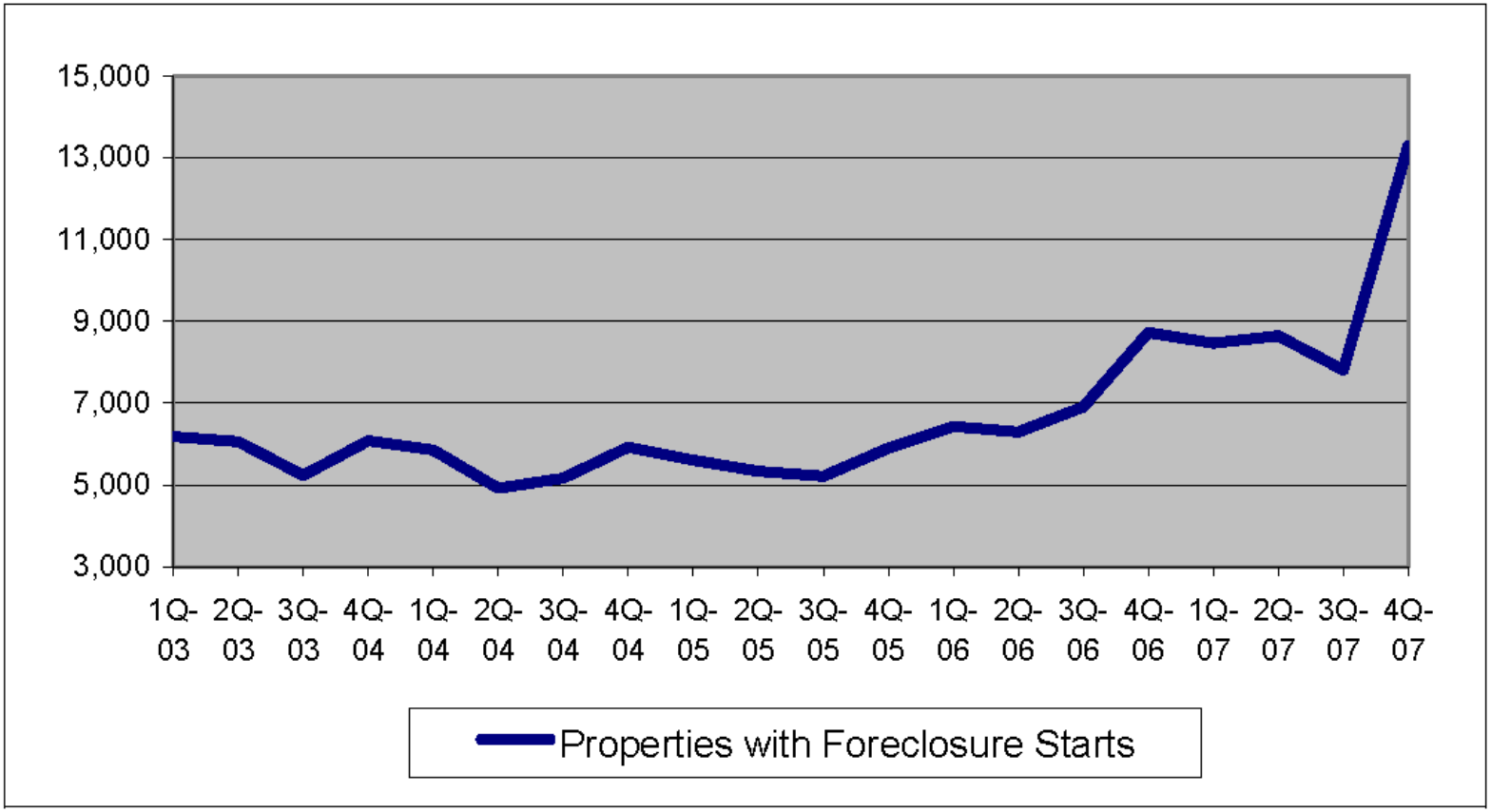


Source: Home Mortgage Disclosure Act data (2006).

Chicago Region 2007 Foreclosures

Per 1,000 Mortgageable Properties in 2007

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



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

Chicago Region 2007 Foreclosures

Per 1,000 Mortgageable Properties in 2007

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

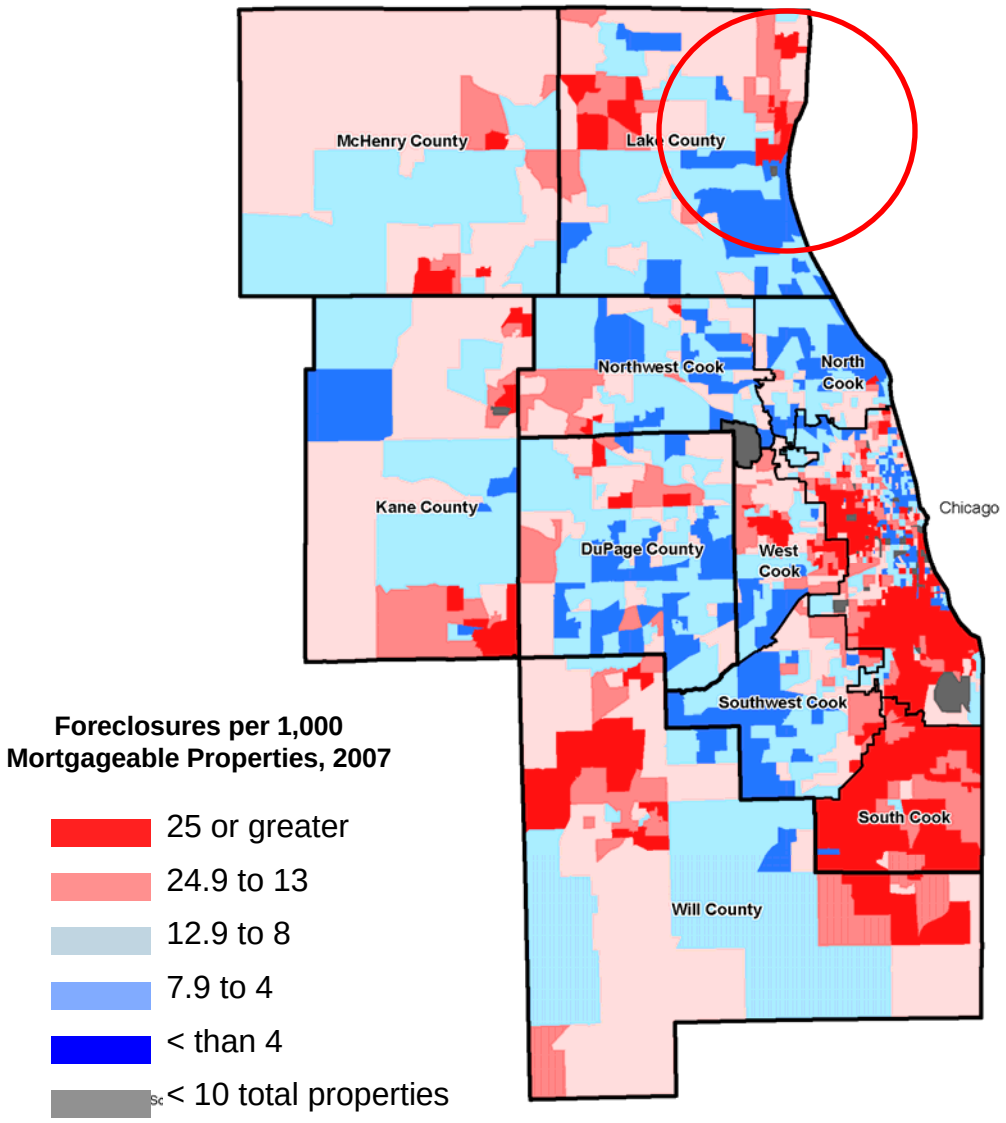
Southwest Cook – 11.2

NW Cook – 9.8

DuPage – 9.4

North Cook – 7.2

Six County Region – 16.8



Source: Foreclosure Report of Chicago