Coalition on Homelessness
and Housing in Ohio
COHHIO

DIMENSIONS OF OHIO'S FORECLOSURE CRISIS

And the prominent role subprime lending plays

An analysis by Bill Faith, COHHIO Executive Director
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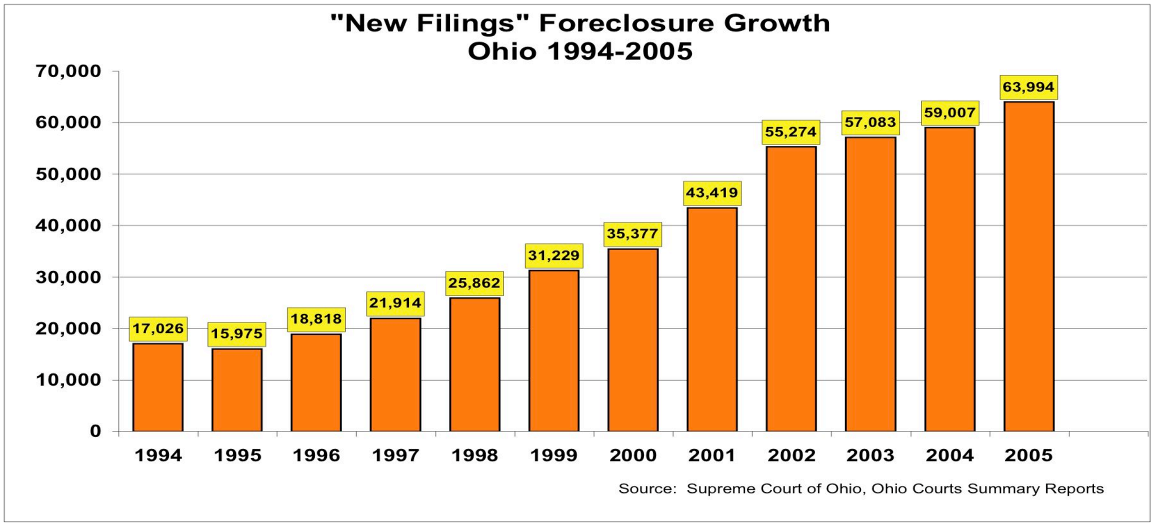
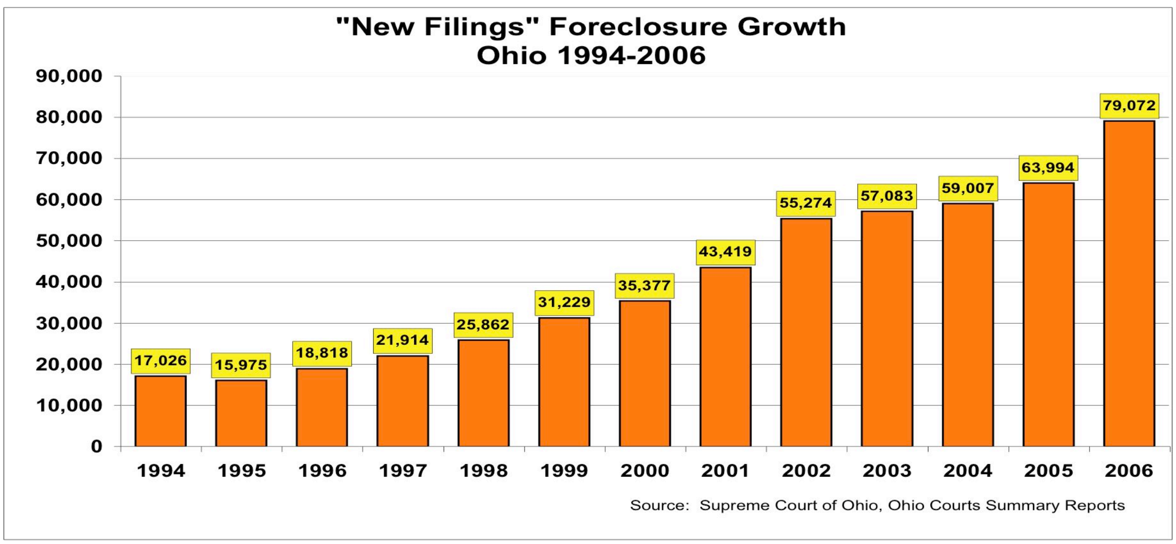
Dimensions of Ohio's Foreclosure Crisis

• **Ohio's foreclosure problem is not new** - Based on 2005 data compiled by the Ohio Supreme Court, foreclosure filings increased statewide by 8.5% with a record 64,000 filings.



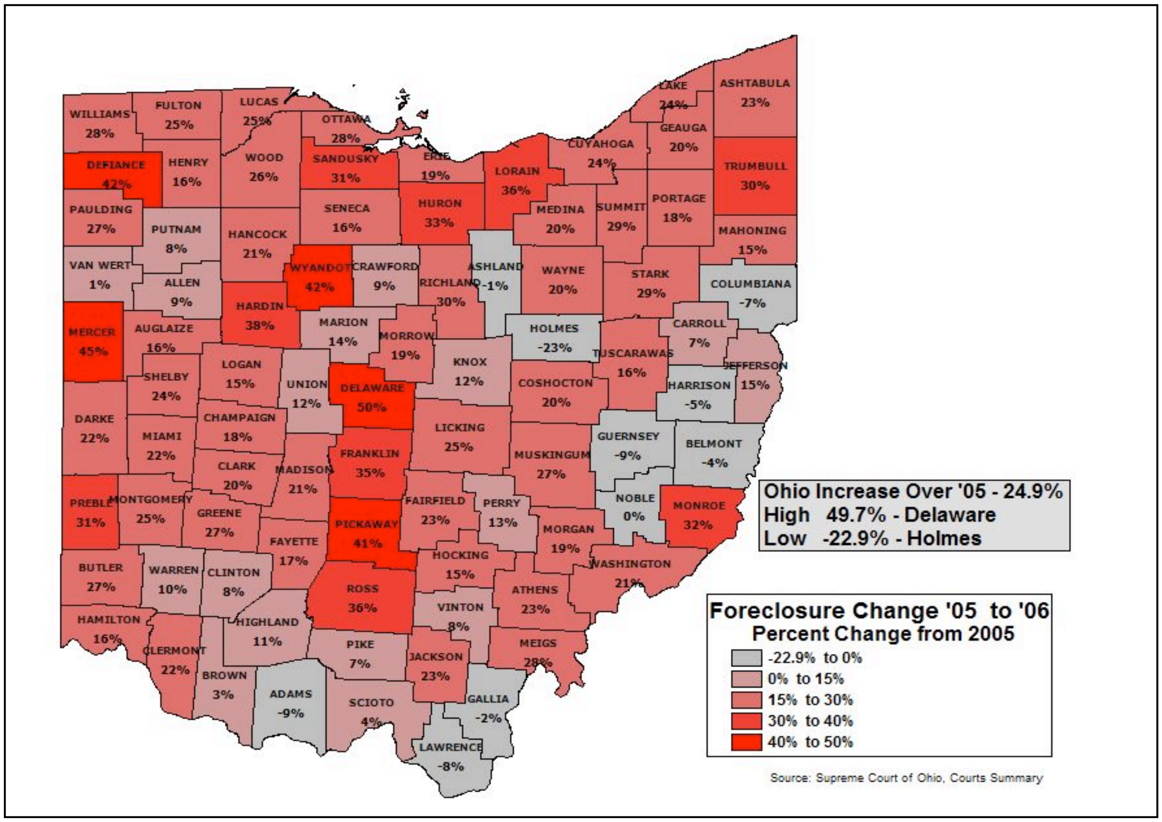
• **2006 foreclosures higher than any of the last 13 years -** 2006 Ohio foreclosure filings increased by 24% over 2005, with 79,072 foreclosure filings.



• **Thirty two counties had an increase in foreclosure filings above 24%,** including 6 of the 8 major metro counties:

Franklin	34.6%	Lucas	24.6%
Stark	29.2%	Cuyahoga	24.5%
Summit	29.1%	Hamilton	16.0%
Montgomery	25.3%	Mahoning	15%

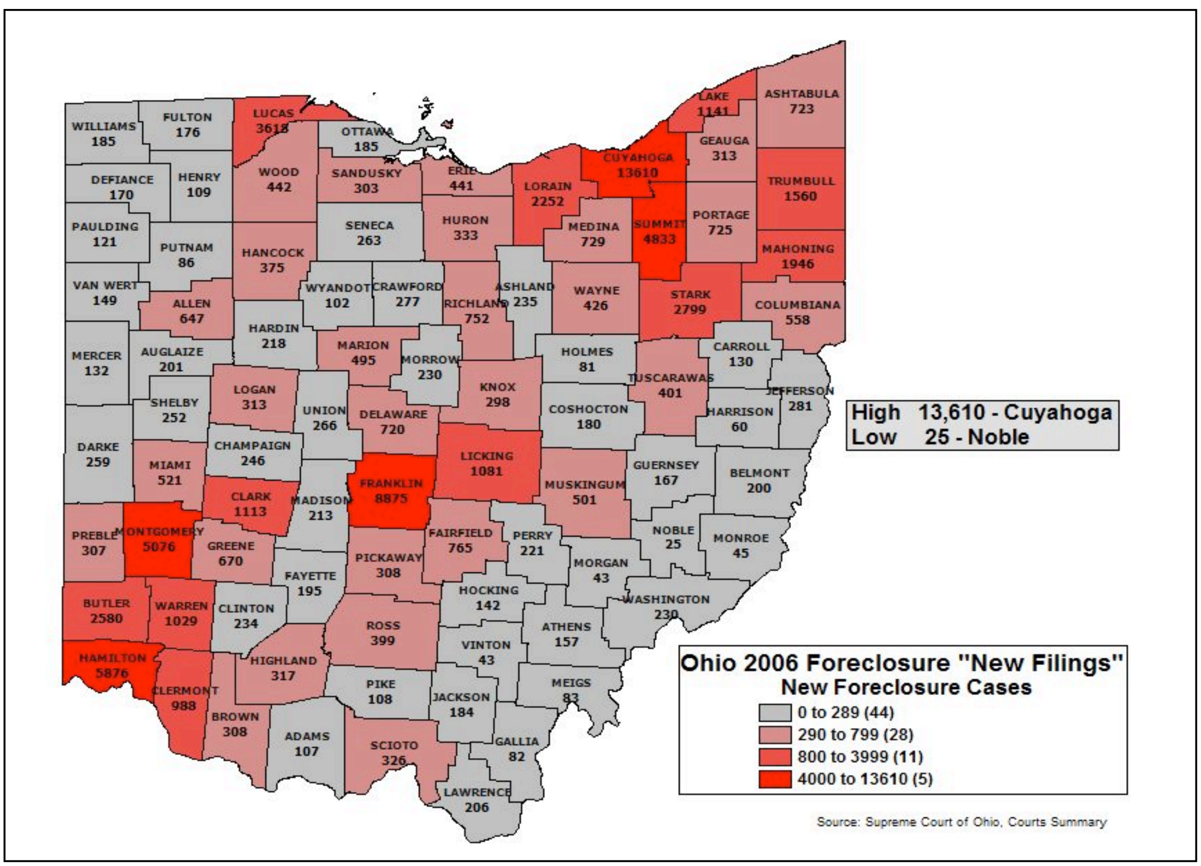
Foreclosure Percentage Change '05 to '06



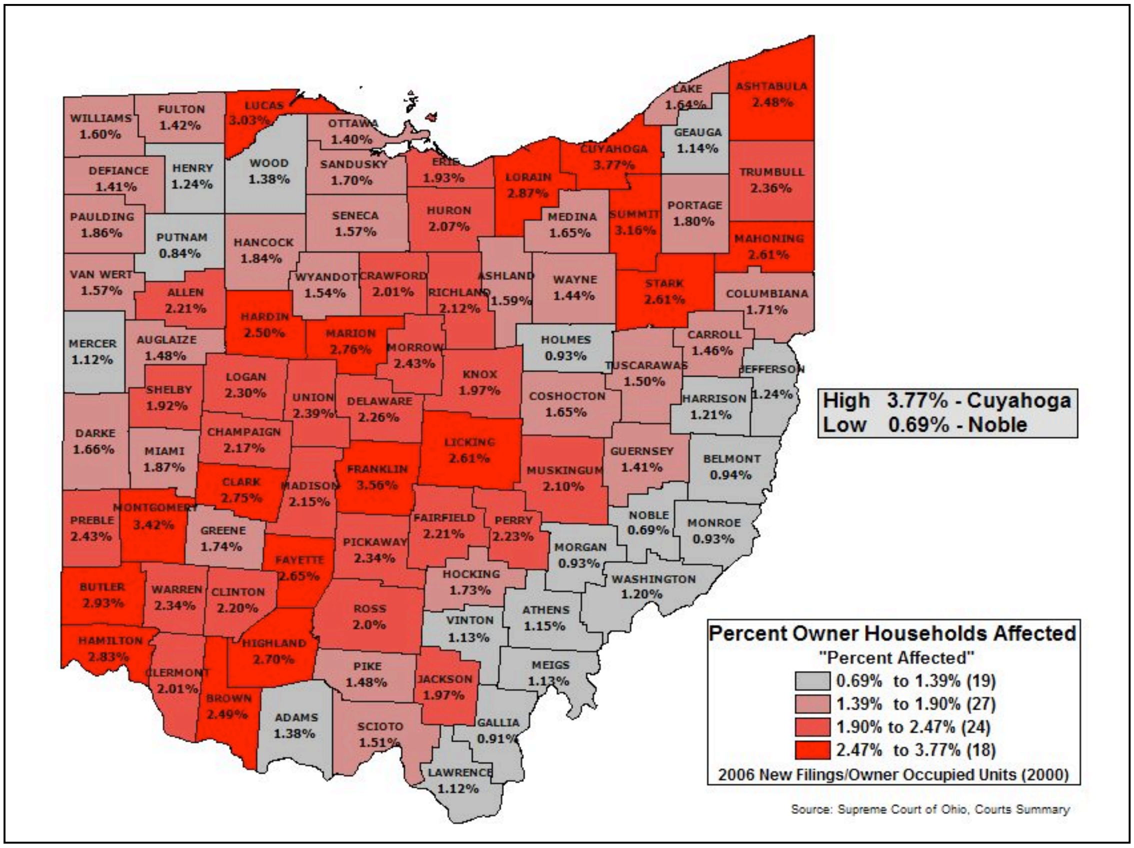
- **Counties with the largest numbers of foreclosure filings in 2006** were as follows:

Cuyahoga	13,610	Stark	2,799
Franklin	8,875	Butler	2,580
Hamilton	5,876	Lorain	2,252
Montgomery	5,076	Mahoning	1,946
Summit	4,833	Trumbull	1,560
Lucas	3,618		

Ohio 2006 New Foreclosure Cases



Percent Owner Households Affected



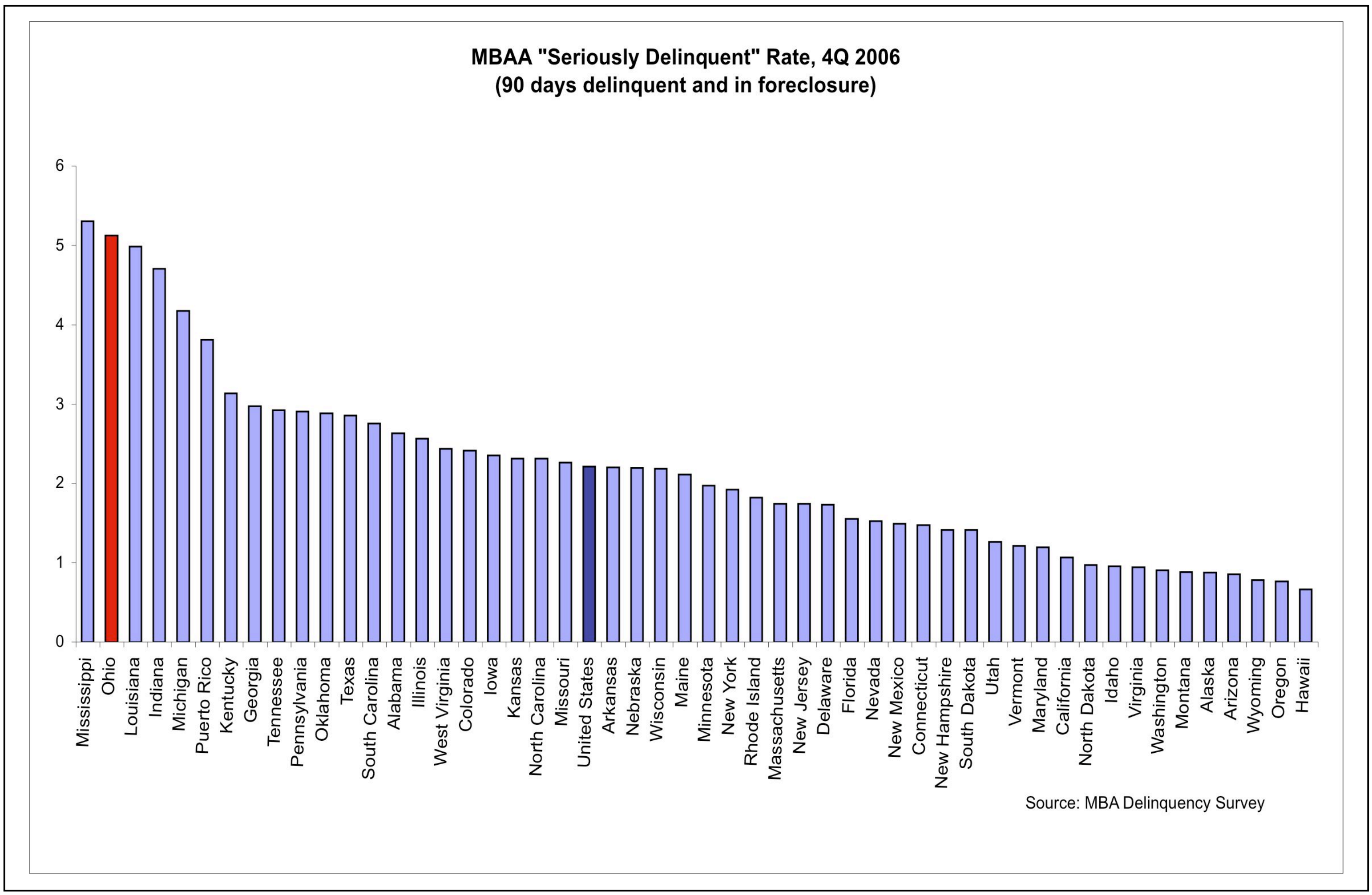
Note: The measure used in the Percent Owner Households Affected map is based on the number of owner households by county taken from the 2000 U.S. Census (an older number). The new foreclosure filings number for any given year will capture more than just owner household mortgage foreclosures. These data sources will usually overstate the number of affected units in any given county, but is still a good consistent measure of the relative size of the foreclosure problem for each county. We believe this is the best, most recent available, albeit imperfect, measure of relative scope of the foreclosure issue within each county.

- **Ohio has the highest foreclosure rate** of all states in the nation, based on the Mortgage Bankers Association (MBA), National Delinquency Survey, for the Fourth Quarter 2006. At the end of 2006, based on the inventory of foreclosures, across all types of loans, the national rate rose to 1.19% compared to Ohio's rate of 3.38%. Actually Ohio has been at the top of this list for the past few years.

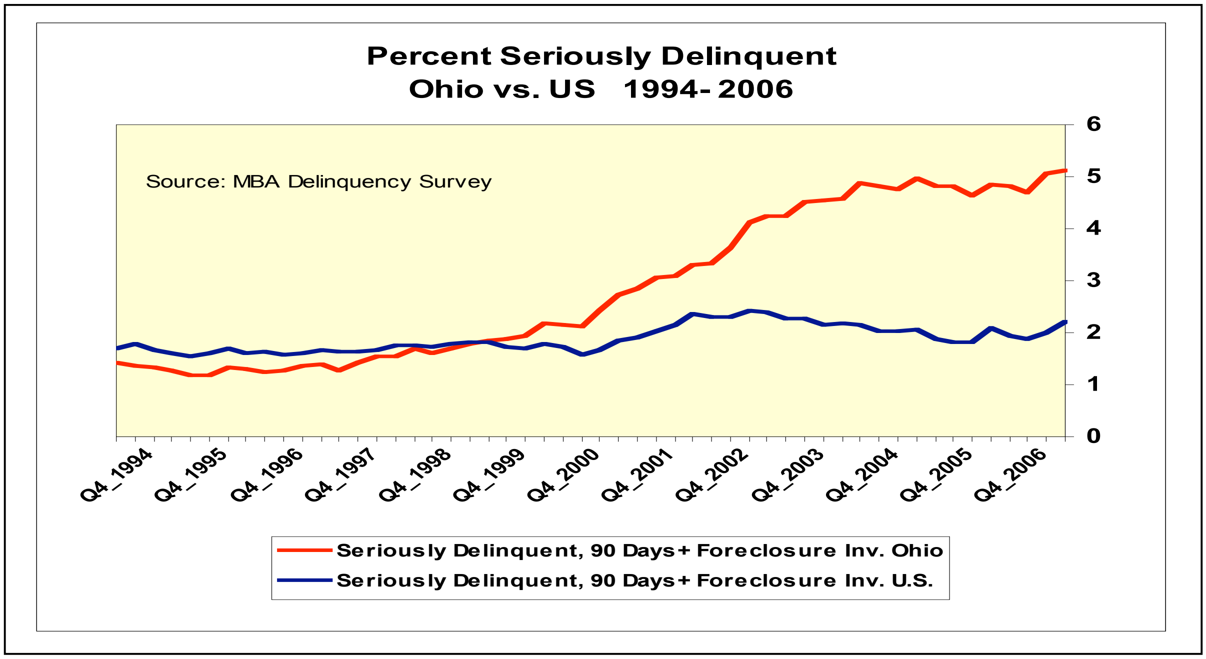
• **Ohio has the second highest percentage of loans in the Serious Delinquency** category. These are loans in foreclosure and loans where payments are 90 days or more late, (from the Mortgage Bankers Association (MBA), National Delinquency Survey, for the Fourth Quarter 2006). This is particularly alarming, because it shows mortgages already in foreclosure, as well as those most at risk in the immediate pipeline. Ohio's rate of 5.12%, is the highest for the state since MBA started keeping track in 1979. The national average for loans in the serious delinquency category is 2.21%.

Which state leads the country in serious delinquencies?
Mississippi at 5.3%.

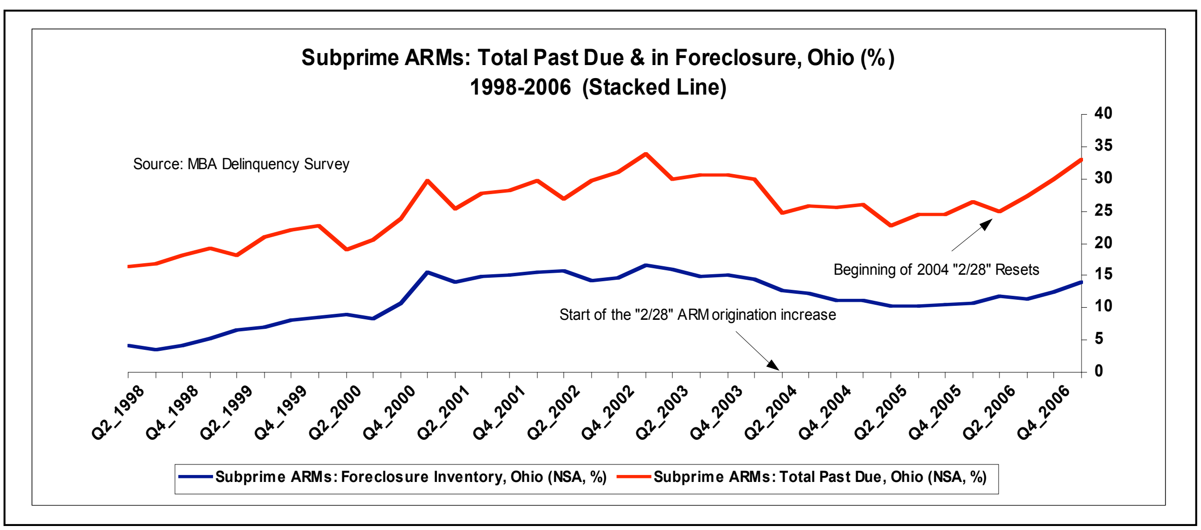
The third highest serious delinquencies state right behind Ohio?
Louisiana at 4.98%.



• **Ohio's problem has grown worse recently** - Ohio's rate of seriously delinquent mortgages was comparable to the national rate until the last six years.



• **Suprime ARM loans are fueling foreclosures -** The most common type of Ohio subprime mortgage is a "2/28" or "3-27" loan. These loans are sold with low initial "teaser rates" that are fixed for the first two or three years. After that, the interest rate increases as often as every six months, so the monthly payment grows dramatically. Often, these loans are not underwritten to anticipate the inevitable rate escalation. Large numbers of these teaser rate mortgages began to reset at the beginning of 2006. The percentage of Ohio subprime ARM loans, which were 30 days or more late grew to 19%. Additionally, 14% of Ohio subprime ARM loans were in foreclosure. Added together 33% of Ohio's subprime ARM loans were already in foreclosure or at risk.

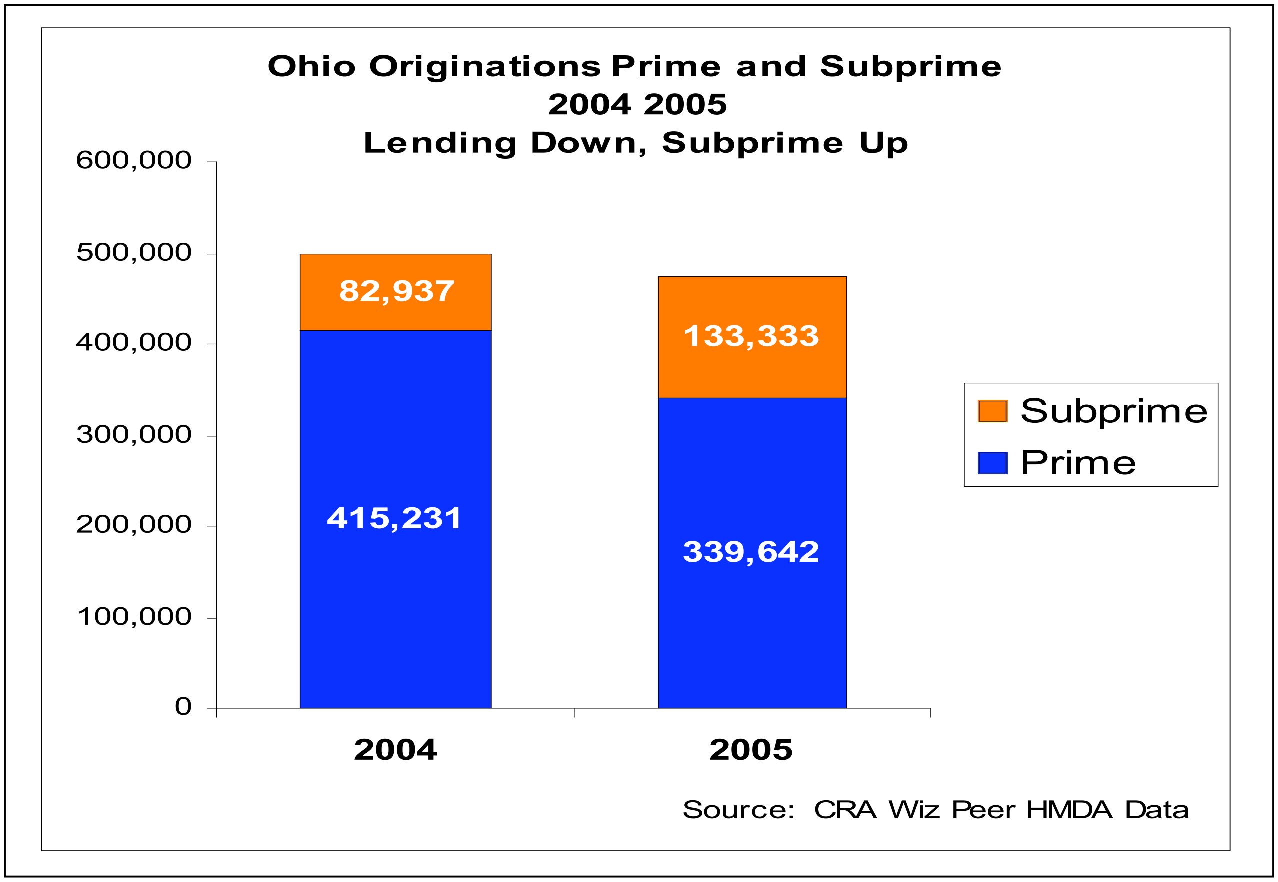


• **Foreclosures are expected to escalate in the next two years** – The volume of foreclosures is expected to grow much faster in 2007 and 2008 because of the number of subprime ARM loans that will be reset at much higher rates. In 2007 and 2008, roughly $14 *billion* of these 2/28 or 3/27 subprime loans are going to reset in Ohio, impacting some 150,000 to 200,000 mortgages.

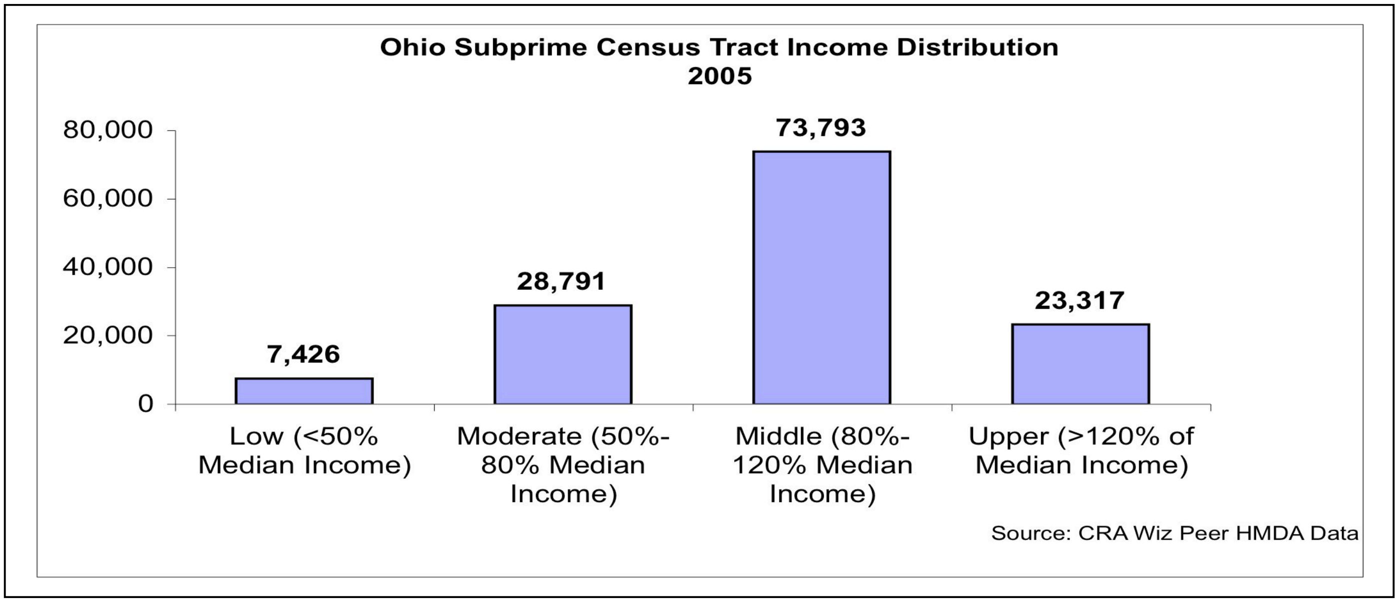
Sources

"Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners," The Center for Responsible Lending, December 19, 2006. Figures from databases maintained by lending industry trade groups actually suggest that over $20 billion 2-28 and 3-27 subprime loans will reset in Ohio during 2007 and 2008.

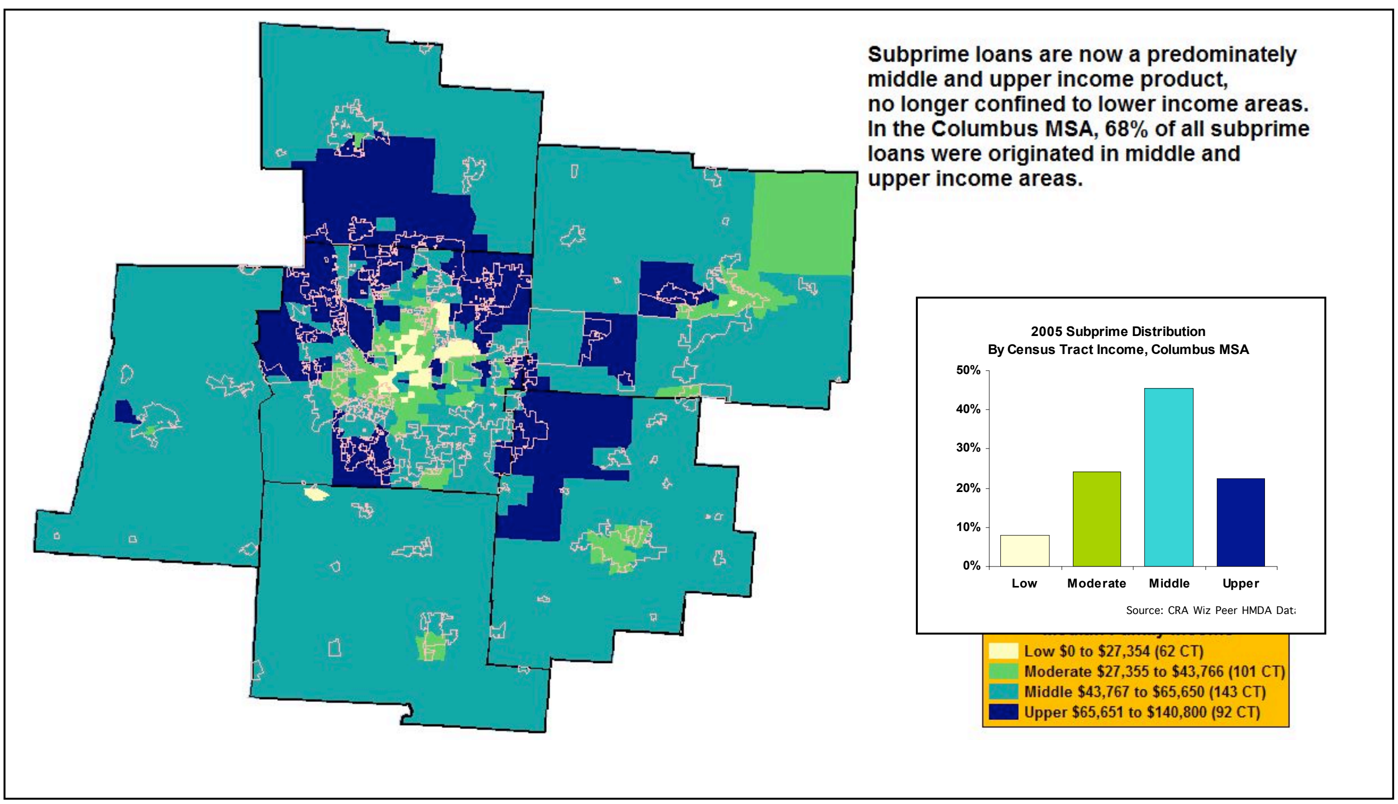
• **Subprime loans account for 63% of Ohio foreclosures** - Subprime loans account for 18 percent of all outstanding Ohio mortgages. Despite representing less than one of five outstanding mortgages, subprime loans account for 63% of foreclosure starts. Home Mortgage Disclosure Act (HMDA) data for 2004 and 2005 shows how much more the problematic subprime share has grown in Ohio's mortgage market. HMDA data shows that subprime increased from 16% of Ohio's mortgages in 2004, to just over 28% of the Ohio loan market in 2005.



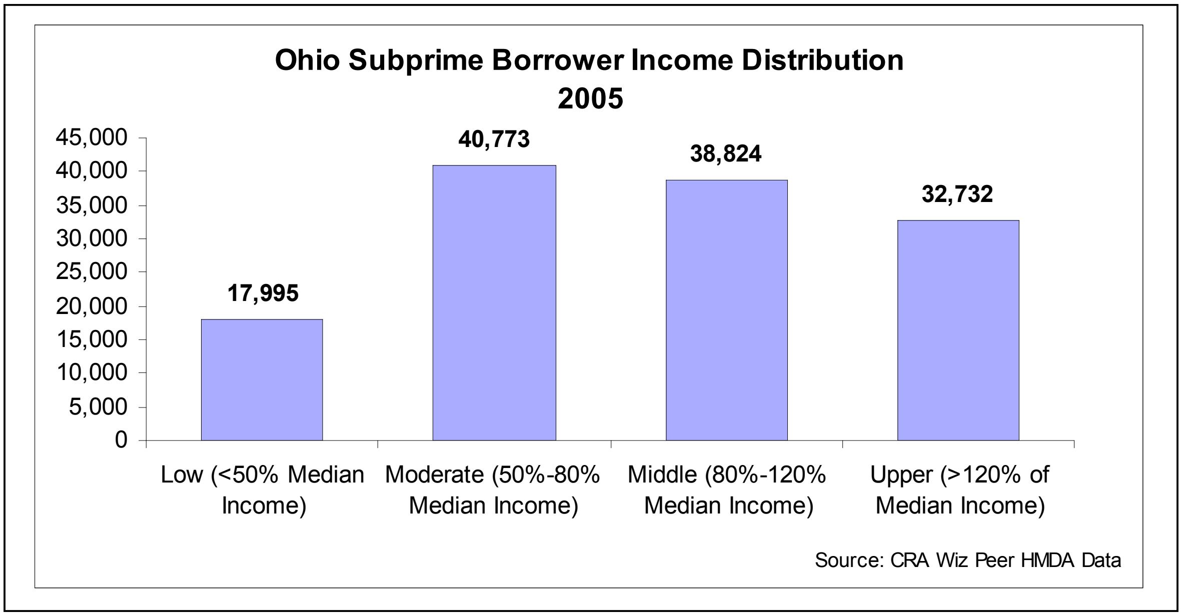
• **Subprime lending has moved to the suburbs** – HMDA data indicated, that of the 32 counties with the highest percentage of subprime loans originated in 2004, all but one were in suburban and rural areas of the state. In 2005, contrary to popular perceptions more subprime mortgages were originated in Ohio's middle and upper income areas, than in moderate and low income areas. Of the 133,327 subprime loans originated in Ohio in 2005, 73% were in middle/upper income areas vs. 27% in low/moderate income areas.



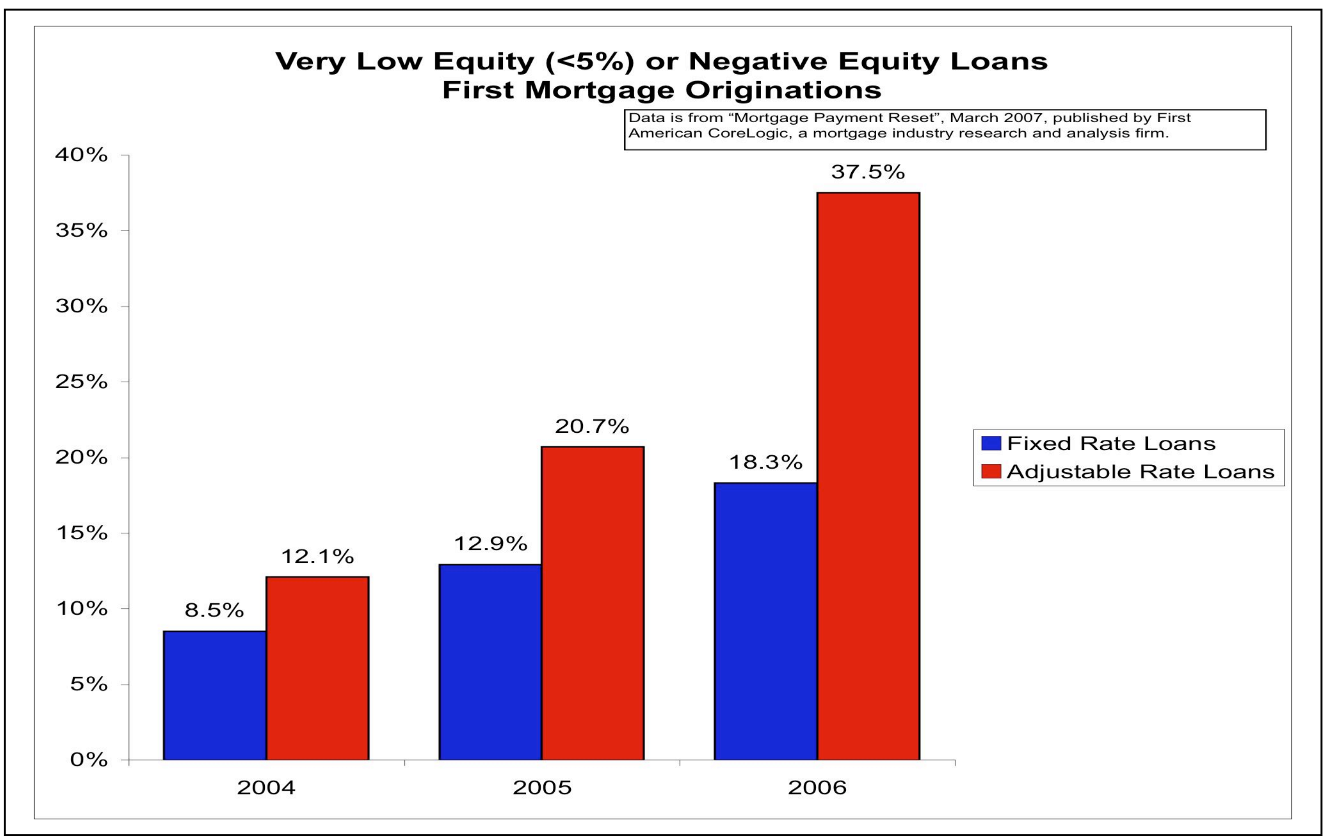
Franklin and Surrounding Counties
Subprime Lending Growth in the Suburbs



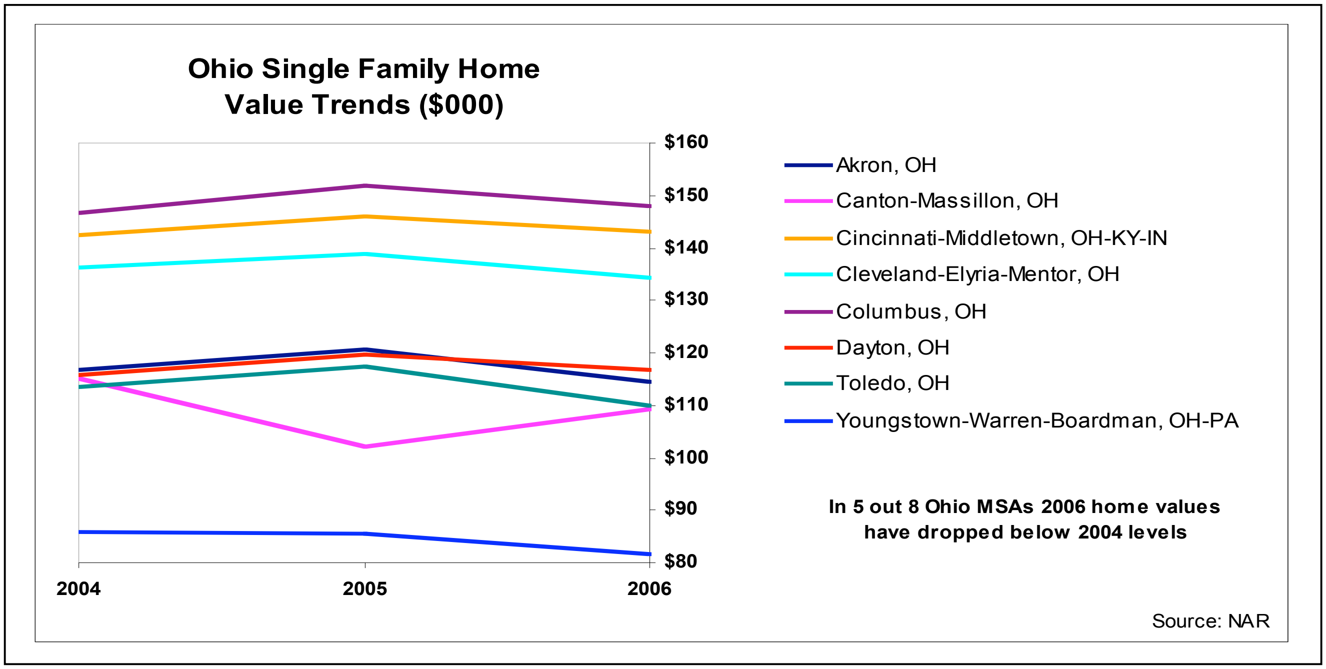
• **More subprime loans are originated to middle and upper income borrowers** – In 2005, contrary to popular perceptions more subprime mortgages were originated in Ohio's middle and upper income borrowers, than to moderate and low income borrowers. Of the 133,327 subprime loans originated in Ohio in 2005, 55% were to middle and upper income households vs. 45% were to low and moderate households.



• **Home values and mortgage debt mismatch** – Many borrowers with 2/28s and other ARMs can't refinance or sell to avoid default because their property is not worth what is owed. All too often, their original mortgage was based on an inflated appraisal. Certain types of exotic mortgages have become increasingly popular, such as loans with very high loan to value ratios or interest only mortgages. In 2006, 24% of the borrowers getting new ARM loans, owed more than the value of the home. Another 13.5% had less than 5% equity. This chart shows the percentage of loans originated nationally in the last three years, which had less than 5% equity or actual negative equity.



- **Ohio home values are down** - According to the National Association of Realtors, in 2006 six of Ohio's eight major metropolitan areas experienced depreciating real estate values between 3.5 and 7.7% over the previous year - well above the US average of 2.7%. The average home value for Ohio's eight metropolitan areas dropped from $120,400 to $116,100 from 2005 to 2006.



Other features of subprime loans, which contribute to foreclosure and make it more difficult for subprime borrowers to refinance into an affordable mortgage

- **Little or no income verification** - A study by the Mortgage Asset Research Institute found that over 90 percent of stated income loans had inflated incomes; and almost 60 percent exaggerated income by over 50 percent. In Ohio, nearly 50 percent of subprime mortgages used stated income or alternative income verification in the application process.

Sources: For first sentence source is Mortgage Asset Research Institute, Eighths Periodic Mortgage Fraud Case Report to Mortgage Bankers Association, Page 12.
For second sentence source is from Jim McCarthy, President/CEO of the Miami Valley Fair Housing Center, Dayton, Ohio Testimony to Ohio Attorney General RE: Proposed Regulations under SB 185, November 16, 2006

- **Excessively high debt-to-income ratios** - Ohio subprime lenders allow initial mortgage payments of 50 to 60 percent of a family's pretax income. Once the teaser rate expires, a subprime borrower could face monthly payments of 85 percent of their pretax income.

Source: Testimony of Martin Eakes, CEO Center for Responsible Lending and Center for Community Self-Help before the U.S. Senate Committee on Banking, Housing and Urban Affairs - February 7, 2007 at:
http://www.responsiblelending.org/pdfs/martin-testimony.pdf

- **Prepayment penalties can trap borrowers in bad loans** – Many of these mortgages contain stiff penalties for paying off the mortgage early. These penalties can apply for the first several years of the mortgage and can cost homeowners thousands of dollars, based on the size of the mortgage. Lenders encourage mortgage brokers to originate mortgages with prepayment penalties, since lenders compensate brokers more for loans with these penalties.

Sources: Why Prepayment Penalties are Abusive in Subprime Home Loans published April 2, 2003 Debbie Goldstein, Stacy Strohauer – Center for Responsible Lending.
The Impact of Predatory Loan Terms on Subprime Foreclosures: The Special Case of Prepayment Penalties and Balloon Payments January 25, 2005 University of North Carolina, Center for Community Capitalism.

- **Lack of escrow for property taxes and insurance** - Most subprime lenders don't consider the relatively fixed costs of property taxes, homeowners insurance, or escrow in their underwriting. A recent study found that 1 of 7 subprime defaults were because of the lack of escrow.

Source: The Federal Reserve Bank of Chicago, the City of Chicago and Neighborhood Housing Services founded the Home Ownership Preservation Initiative. See Partnership Lessons and Results: Three Year Final Report, p. 31 Home Ownership Preservation Initiative, (July 17, 2006) at www.nhschicago.org/downloads/82HOPI3YearReport_Jul17-06.pdf.

Strategies to Save Our Homes

A proactive, aggressive, coordinated and immediate response can help thousands of Ohioans save their homes.

To have meaningful impact, strategies must be deployed to address the structural flaws in subprime and other unaffordable mortgages, which are feeding growing defaults, delinquencies and foreclosures. While some borrowers might benefit from temporary rescue help, the bulk of the borrowers headed for trouble need significantly restructured mortgages.

Refinancing Programs

We should learn from and build on the pioneering efforts of the Strickland Administration such as the new refinancing program offered through the Ohio Housing Finance Agency**.** Awareness of the impending foreclosure crisis has motivated OHFA, for the first time ever, to develop a refinancing program backed by the sale of taxable bonds. The Conventional Refinance Program begins April 2, and is expected to grow to up to $500 million by the end of 2007. The goal of this program is to provide an affordable, fixed-rate financing alternative to homeowners with higher interest rate mortgages, ARM loans, and interest-only mortgages with payments that are no longer affordable. This program will serve homeowners with incomes up to 125% of the area median income, which is approximately $72,000 based on the county and family size.

If the program were to grow to $500 million this year, about 5,000 homeowners could receive a new loan. While this is a great start, the potential volume of mortgages to restructure is in the billions of dollars. Also, there are limits in terms of the qualifications for the refinancing program. While more lenient than many refinancing products, this program requires real underwriting standards to make sure the borrower has the ability to repay the new mortgage.

Private lenders, Fannie Mae, Freddie Mac, Federal Home Loan Bank and the FHA should be called on to offer refinancing products to reach eligible pools of borrowers to help mitigate this crisis.

Restructure current mortgages

The State needs to coordinate with the mortgage industry that holds large amounts of subprime loans to push for substantial restructuring of many of these mortgages. Because of the spike in foreclosures and defaults, the subprime mortgage industry is imploding and access to credit is tightening. Twenty or so subprime lenders, including some of the biggest players, have gone into bankruptcy or sold off their origination operations and/or mortgage portfolios. Secondary market investors who purchased packages of subprime mortgages are returning large amounts of early default loans to the originators, causing some lenders to simply shut down because they can't cover the liabilities.

This presents an opportunity for Ohio to address this crisis on the scale needed. These subprime lenders, mortgage holders, loan servicers and investors need to make significant concessions in restructuring the mortgage, such forgiving a portion of loan, writing off late fees, and setting a fixed interest rate so the borrower has a more affordable mortgage. This will not be easy, but the industry should be motivated for financial reasons to participate.

Why would the mortgage industry make big concessions to the borrowers in restructuring a bad mortgage? Because salvaging a payment stream from a mortgage and thus avoiding bringing thousands of vacant homes into their inventories is better than the alternative.

One large subprime servicing company foreclosed on almost 1,200 mortgages in Ohio over a seven-quarter period. The amount of total debt owed was $115 million. Once the mortgages went through foreclosure and the company sold off the properties, the total amount recovered was $54 million. That is a loss of 53% or $61 million. Industry estimates vary but paying the costs of the foreclosure process can be $20,000 or more.

Outreach, remediation, workout screenings, and housing counseling

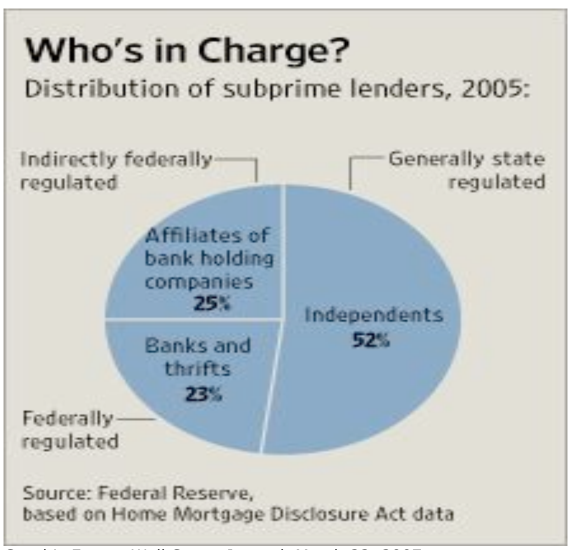
Non-profits who provide housing counseling services are overwhelmed with demand for help from homeowners facing foreclosure. If loan holders are willing to make major concessions in reworking these loans, the demand for outreach and assistance to homeowners will escalate further. Mortgage holders find it increasingly difficult to even communicate with homeowners who are behind in their payments. This is understandable; letters or calls from servicers are often interpreted by the homeowner as an advancing foreclosure threat. Foreclosure and credit counselors continue to encounter unresponsive mortgage companies that have no feedback loop for dealing with problem mortgages and no organized procedures or programs to offer concessions in mortgage workouts.

The State can lead this charge and marshal the resources to engage local governments, non-profit organizations and the mortgage industry to provide outreach to the homeowners in this crisis. This effort must be executed on a scale that far exceeds any previously foreclosure prevention efforts. The numbers of homeowners needing assistance will likely be in ten of thousands or more. The lending industry needs to provide resources for this, but the state needs to help lead the way.

One resource is the Ohio Housing Trust Fund. Set up in 1991 following a constitutional amendment making housing a public purpose. In 2003, the legislature established the Housing Trust Fund Fee, as a dedicated funding stream of about $65 million each year. The HTF is capped so only the first $50 million per year is used to help low-income Ohioans gain access to housing options, home repair, foreclosure prevention, and services related to homelessness. The remainder – roughly $15 million each year -- is siphoned off into the state’s General Fund. The HTF has helped address housing needs for 1 million Ohioans over the past 15 years. Lifting the Cap on the Housing Trust Fund could provide a big boost to the efforts to help prevent foreclosures.

Regulation of the subprime mortgage industry has been lax and has not kept pace by major shifts in the market.

Changes in the lending business and financial markets have moved large amounts of subprime lending from traditional banks and thrifts to companies outside of federal regulation and under sometimes minimal state regulation. In 2005, 23% of subprime mortgages were originated by federally regulated banks and thrifts. Another 25% were made by finance companies that are units of bank-holding companies and thus indirectly supervised by the Federal Reserve. 52% of subprime mortgages were originated by companies with no federal supervision -- primarily mortgage brokers and independent finance companies. Mortgage brokers, finance companies and to lesser extent, affiliates of bank holding companies, have come under more regulation in Ohio recently, with the passage of SB 185; but that act applies only to mortgages originated starting in 2007.



Graphic From : Wall Street Journal, March 22, 2007

Federal regulation of the subprime mortgage industry needs to be aggressively pursued by the Federal Reserve and be extended to apply to the entire subprime industry, including the secondary mortgage market, which provided the investment capital with a blind eye toward the abuses of the industry.

At the state level, while SB 185 provides new tools to address aspects of predatory lending, without strong enforcement the new consumer protections won’t much matter.

About Our Organization…

COHHIO is a 12-year-old statewide advocacy group and service providers network dedicated to ending homelessness while ensuring that Ohioans have decent, safe, fair, affordable housing, especially those low income and special needs populations.

We push for systemic changes to benefit people in need. We advocate for legislative change – whether it's fighting for justice for homeowners or for victims of Payday lending or for access to a safe place to life. We engage youth in leadership and advocacy, provide training and technical assistance to member organizations, strengthen underrepresented communities through voter participation, and promote and protect tenants rights. Our behind-the-scenes efforts build opportunity for those who need it most.

COHHIO's six-year fight for increased consumer protection in mortgage lending ended with the 2006 passage of SB 185, the Ohio Homeowners' Protection Act. SB 185 is considered the most comprehensive consumer protection measure since the enactment of the Consumer Sales Practices Act.