

Mortgage Market Transformations and Foreclosure

A Report to the New Jersey Institute for Social Justice
Rutgers University Community Development Studio

May 2006

Overview

- The Problem
- Client
- Research Methods
- Findings
- Recommendations

Key Questions

- Foreclosures: How substantial a problem and for whom?
- What are the benefits and risks of recent mortgage market transformations?
- Is there a relationship between subprime lending and foreclosure?
- What are the roles and risks of NTMs?
- What can be done to reduce the risks?
- What are the unintended consequences of homeownership policy?

Research Methods

- Quantitative Data Analysis
 - HMDA
 - Sheriff Sales
 - Mortgage Foreclosure Filings
 - U.S. Census
- Qualitative Data Analysis
 - Interviews
 - Literature Review
- GIS

Mortgage Market Transformations

- Policy
 - Advocates
 - GSE lending goals
- Markets
 - Securitization and secondary markets
 - Technology
 - Broker-originated loans
 - Subprime market
 - Nontraditional mortgages (NTMs)

Subprime Market

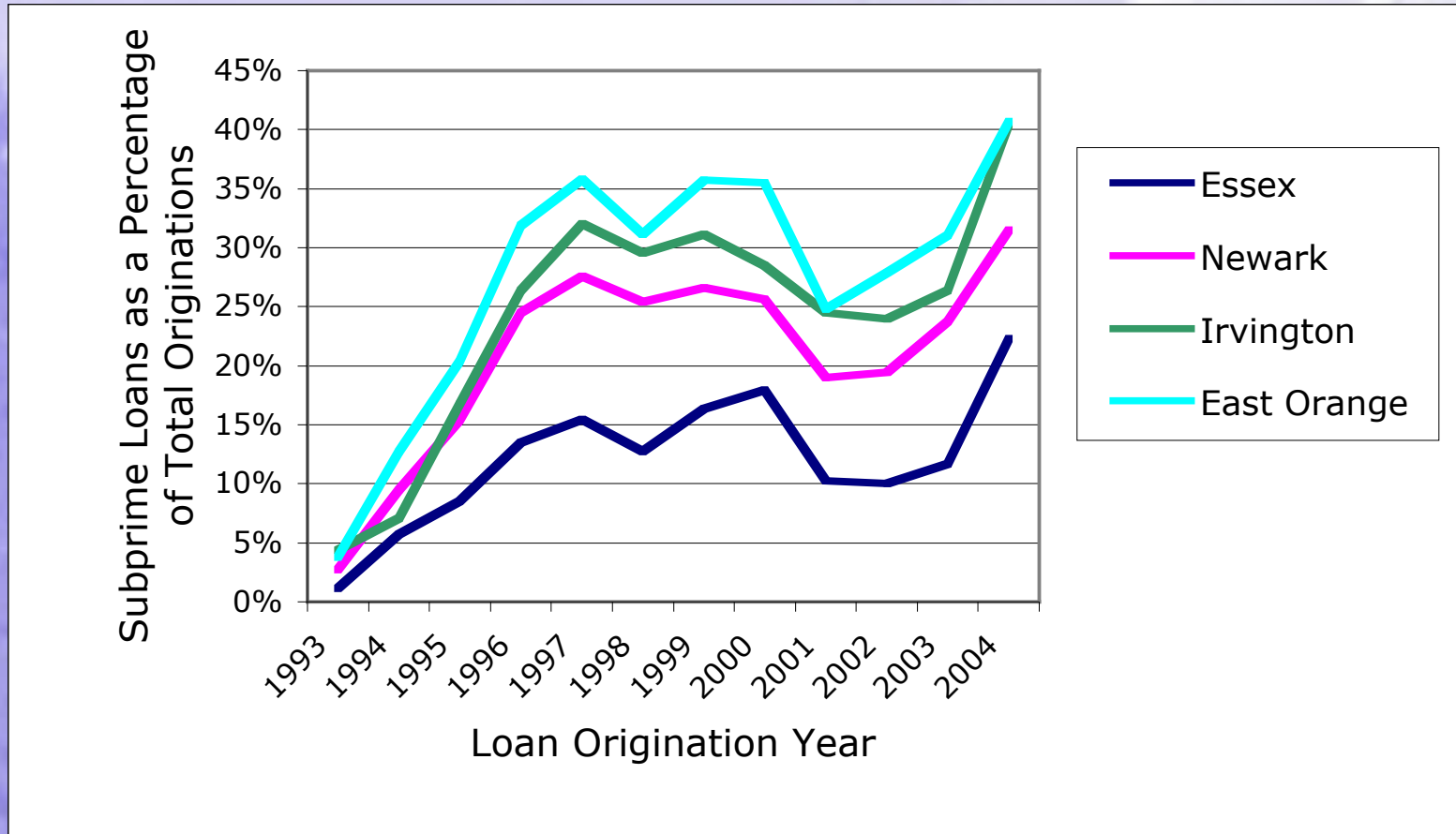
- Increased risk, increased rates, fees and points
- Racial Disparities
 - 50% of all loans in African American neighborhoods
 - 9% of all loans in white neighborhoods

Subprime Market



- Predatory Loans
 - Abusive features
 - Not beneficial to borrower
 - Equity stripping
- Subprime Lending and Foreclosure
 - Increased delinquency rates
 - High foreclosure rates

Subprime Market Share 1993-2004



Source: HMDA 1993-2004

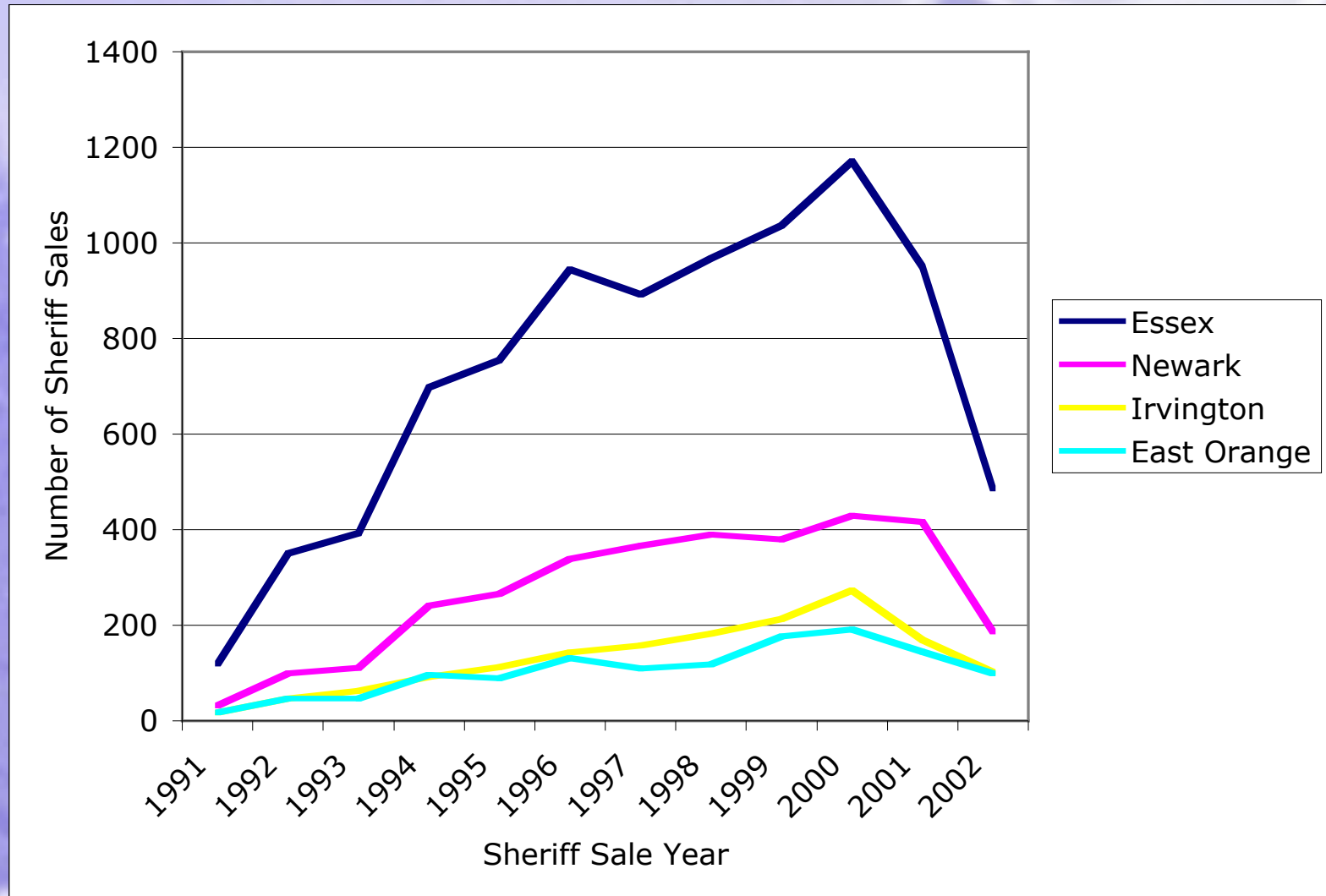
Nontraditional Mortgages

- Rise of NTMs
 - Historically low interest rates
 - Decline of “The Gold Standard” (30-year fixed-rate mortgage)
- Types of NTMs
 - Adjustable rate mortgages—option ARMs
 - Interest-only mortgages
 - Others

Foreclosures

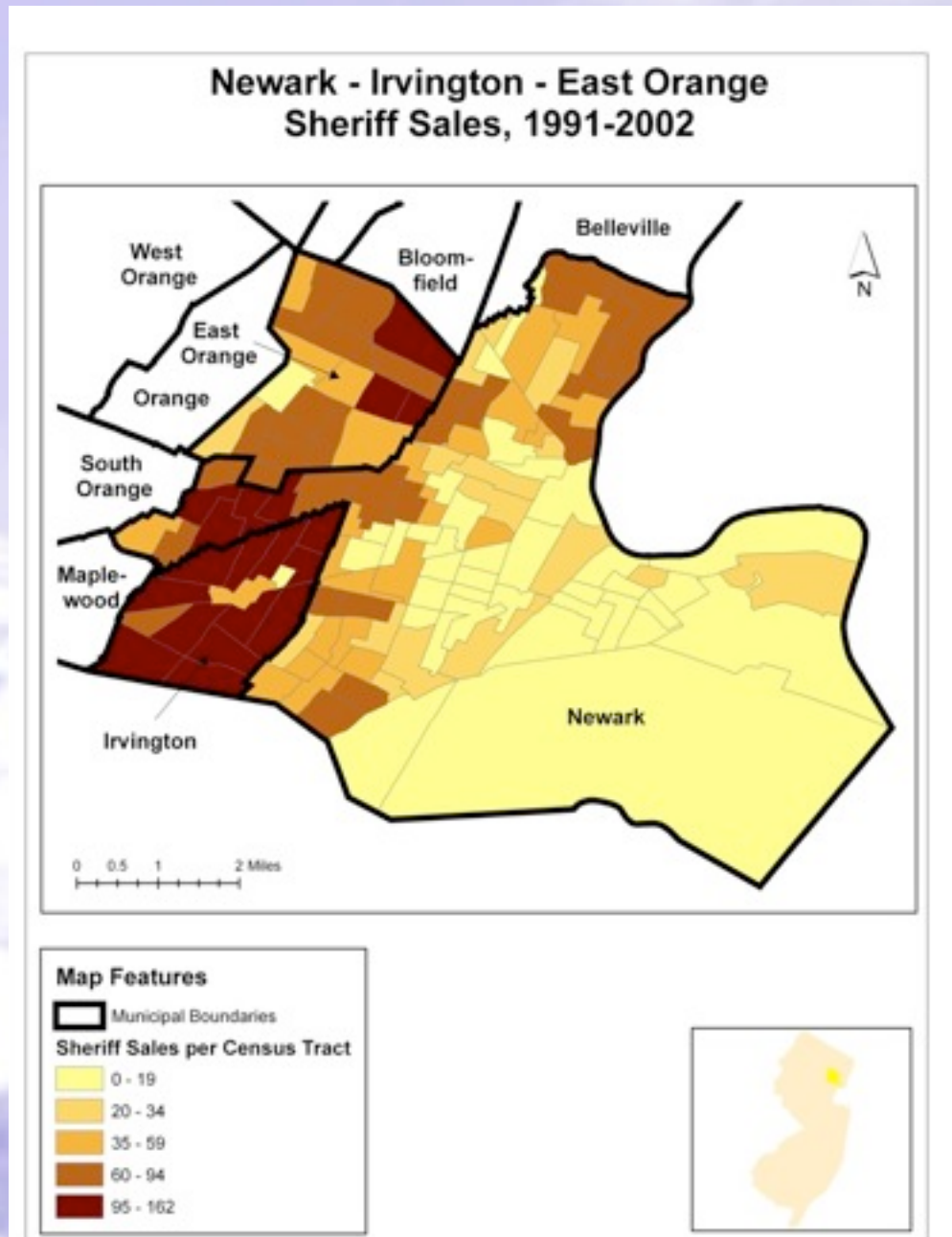
- What are Foreclosures?
- Measuring Foreclosures
 - Sheriff Sales
1991 - 2002
 - Mortgage Foreclosure Filings
January & February 2004

Sheriff Sales 1991-2002

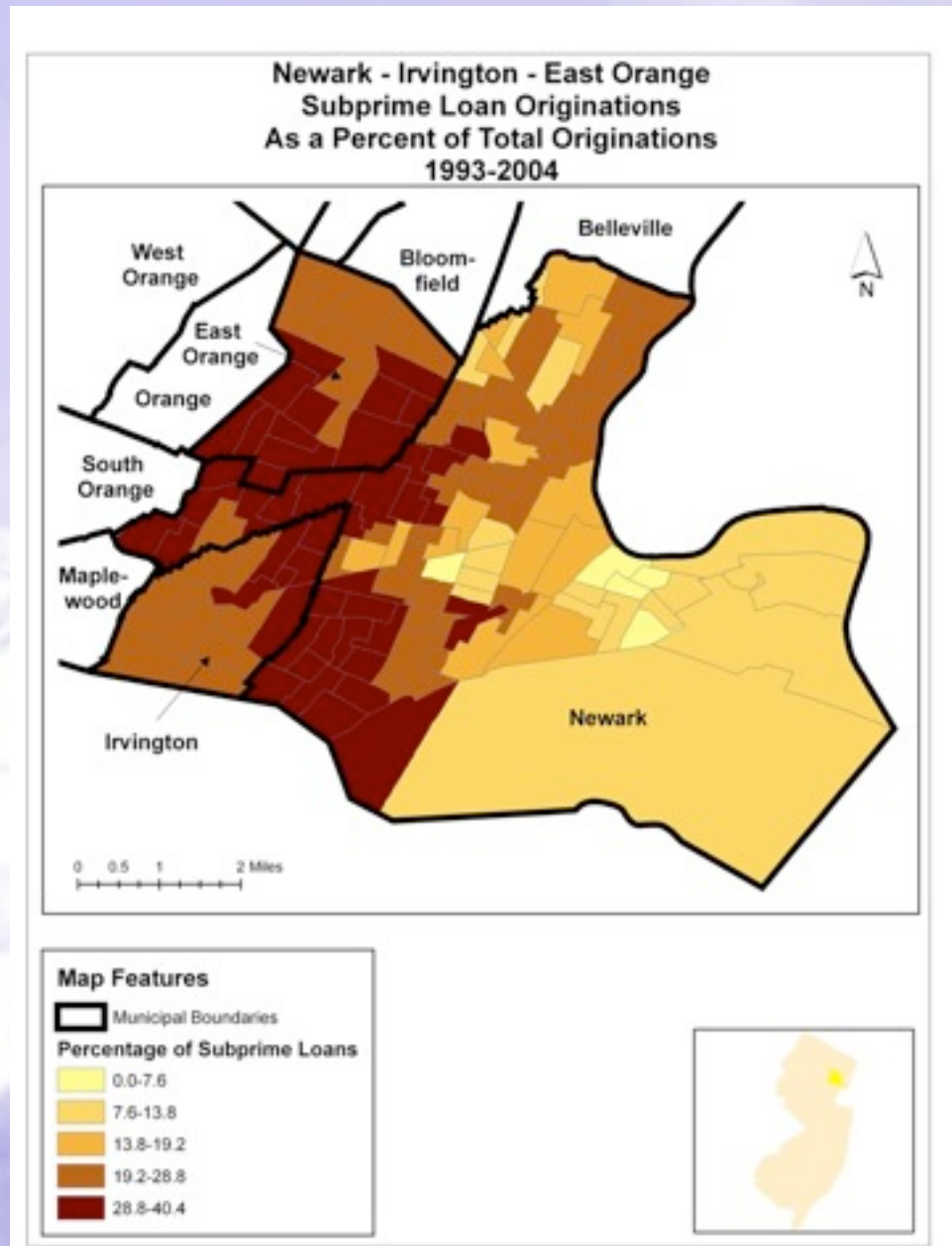


Source: Sheriff Sales 1991-2002, TRF 2006

Sheriff Sale Concentration 1991-2002

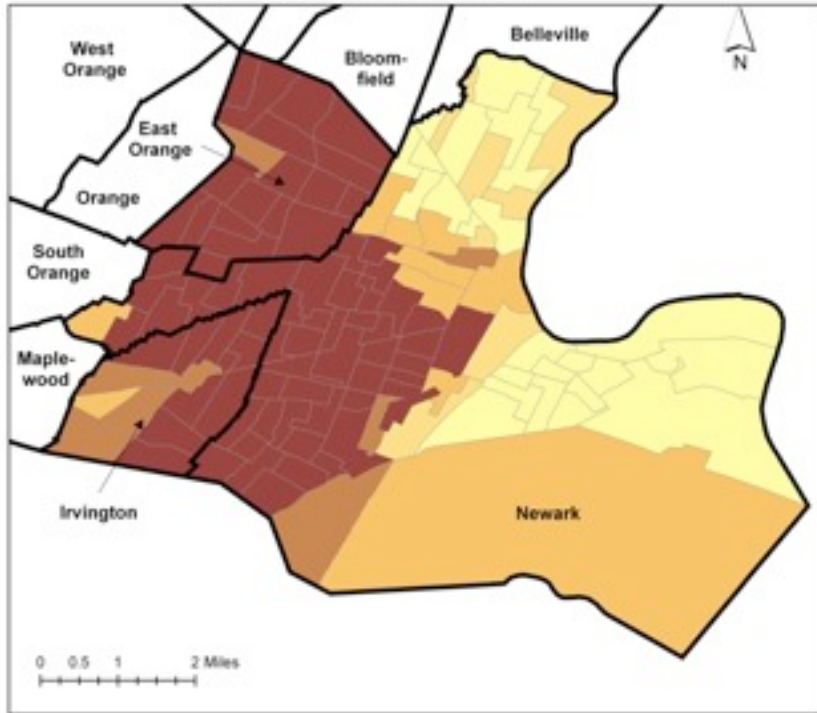


Subprime Originations 1993-2004



Race and Ethnicity

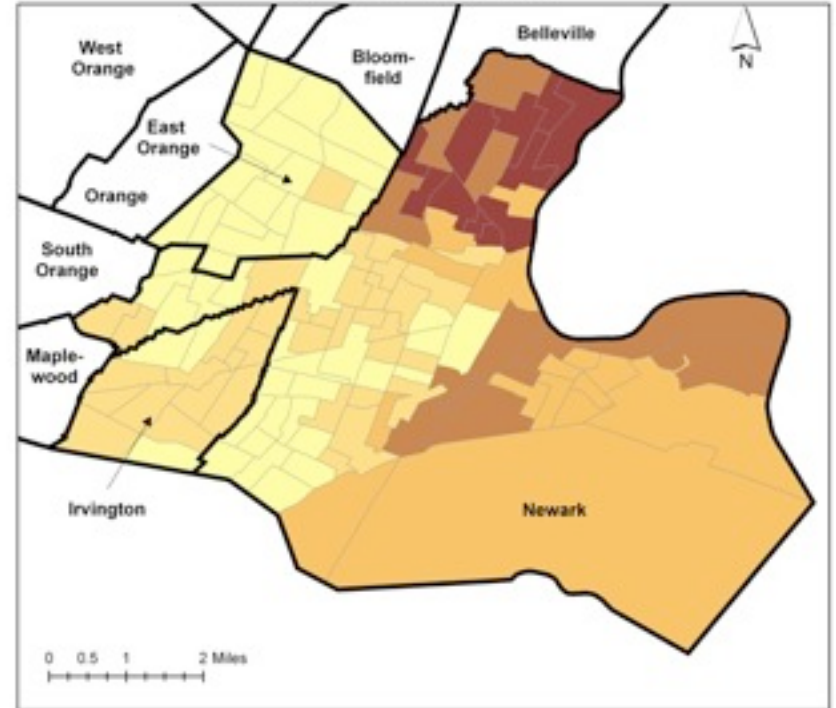
**Newark - Irvington - East Orange
Black Population as a Percent
of Total Population**



Map Features

- Municipal Boundaries
- Black Population as % of Total Population**
- 0.0-23.2
- 23.2-44.3
- 44.3-65.2
- 65.2-81.3
- 81.3-98.0

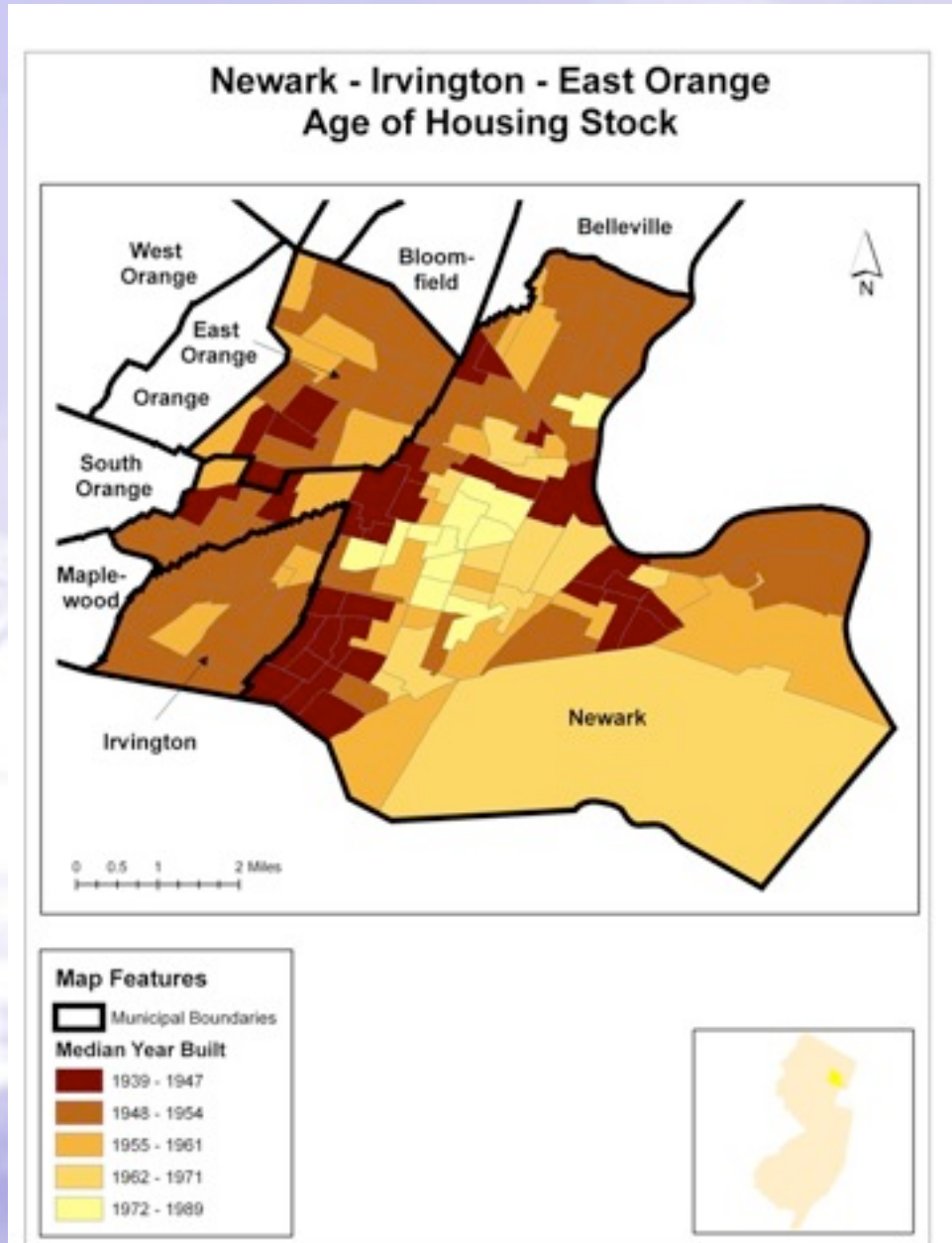
**Newark - Irvington - East Orange
Latino Population as a Percent
of Total Population**



Map Features

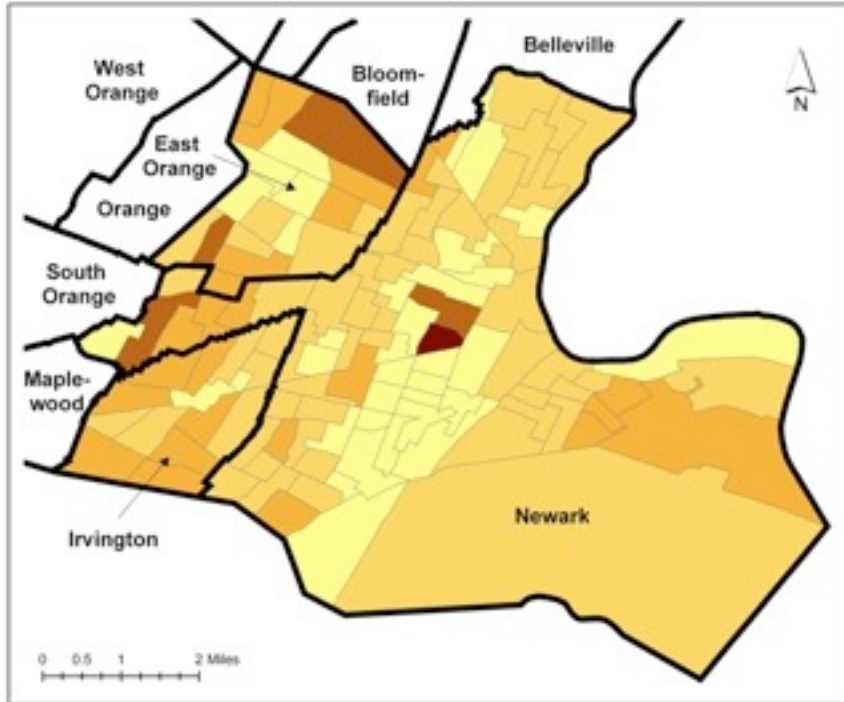
- Municipal Boundaries
- Latino Population as % of Total Population**
- 0.0-6.9
- 6.9-18.4
- 18.4-35.2
- 35.2-58.4
- 58.4-84.2

Age of Housing Stock



Homeownership and Income

Newark - Irvington - East Orange
Home Ownership Rates



Map Features

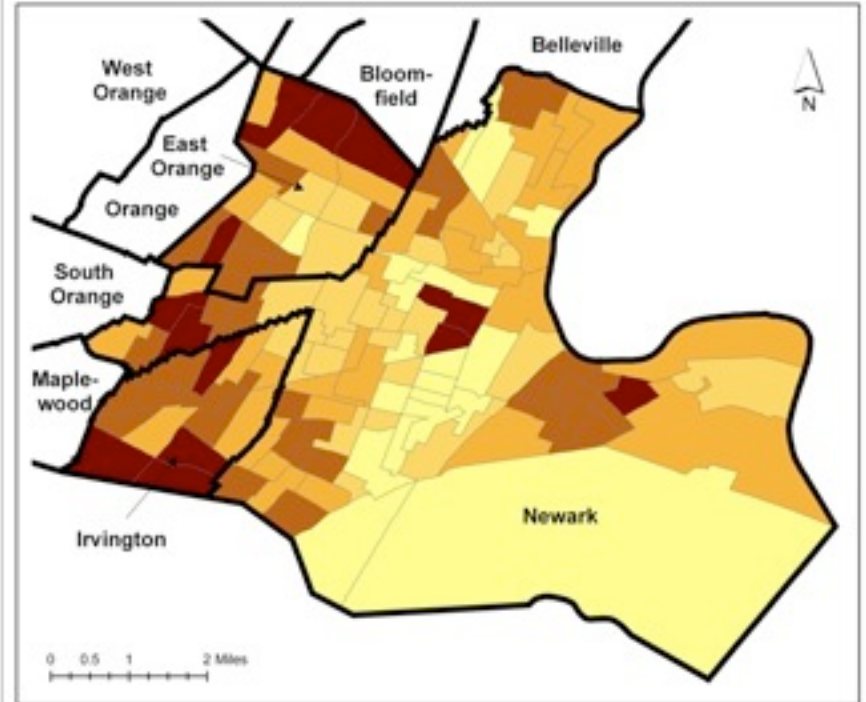
▭ Municipal Boundaries

Housing Units Owned as % of Total Units

- 0.0-16.3
- 16.3-29.6
- 29.6-43.1
- 43.1-74.9
- 74.9-97.2



Newark - Irvington - East Orange
Median Household Income



Map Features

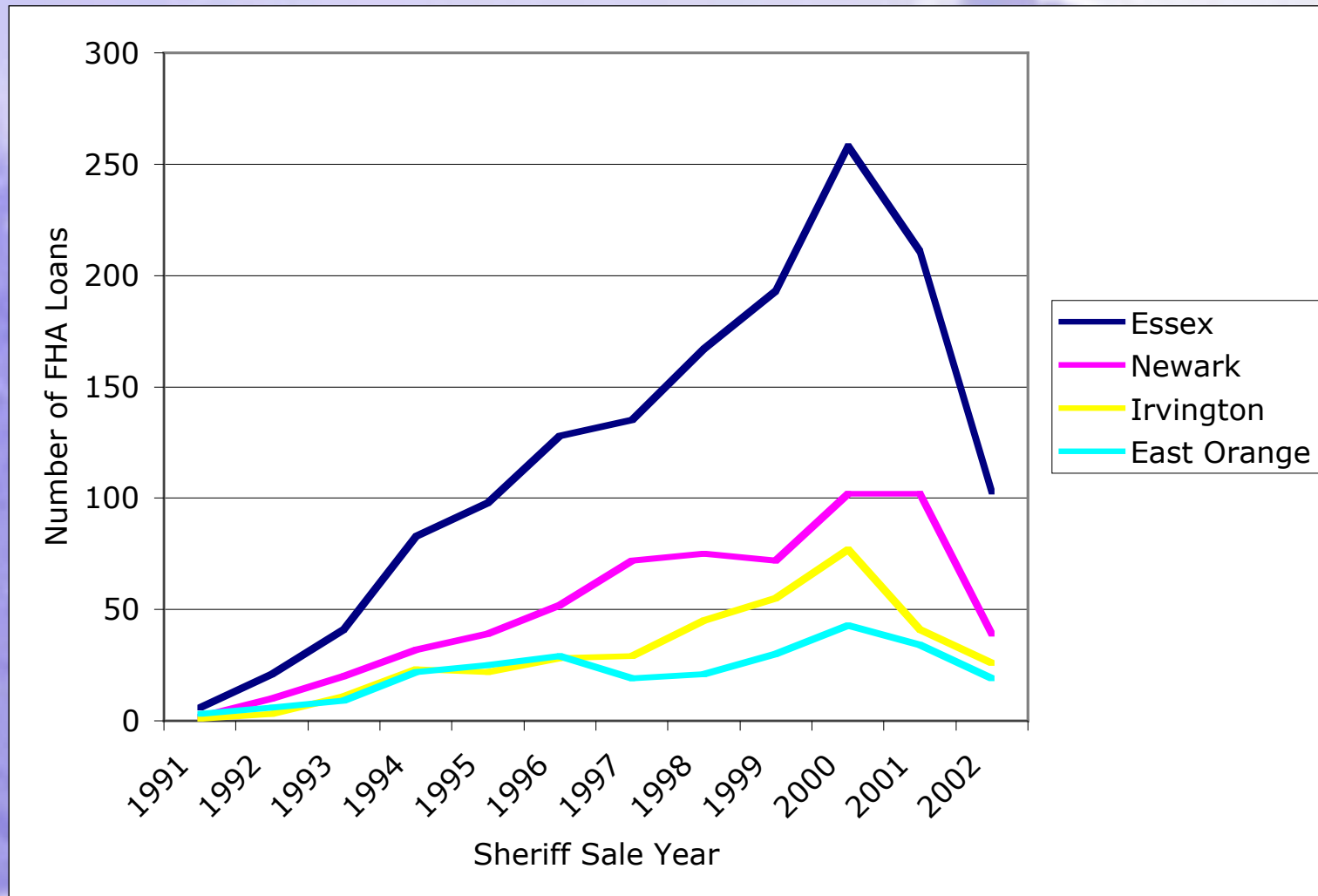
▭ Municipal Boundaries

Median Household Income (in dollars)

- 8,151 - 17,575
- 17,576 - 25,567
- 25,568 - 32,516
- 32,517 - 39,181
- 39,182 - 56,705

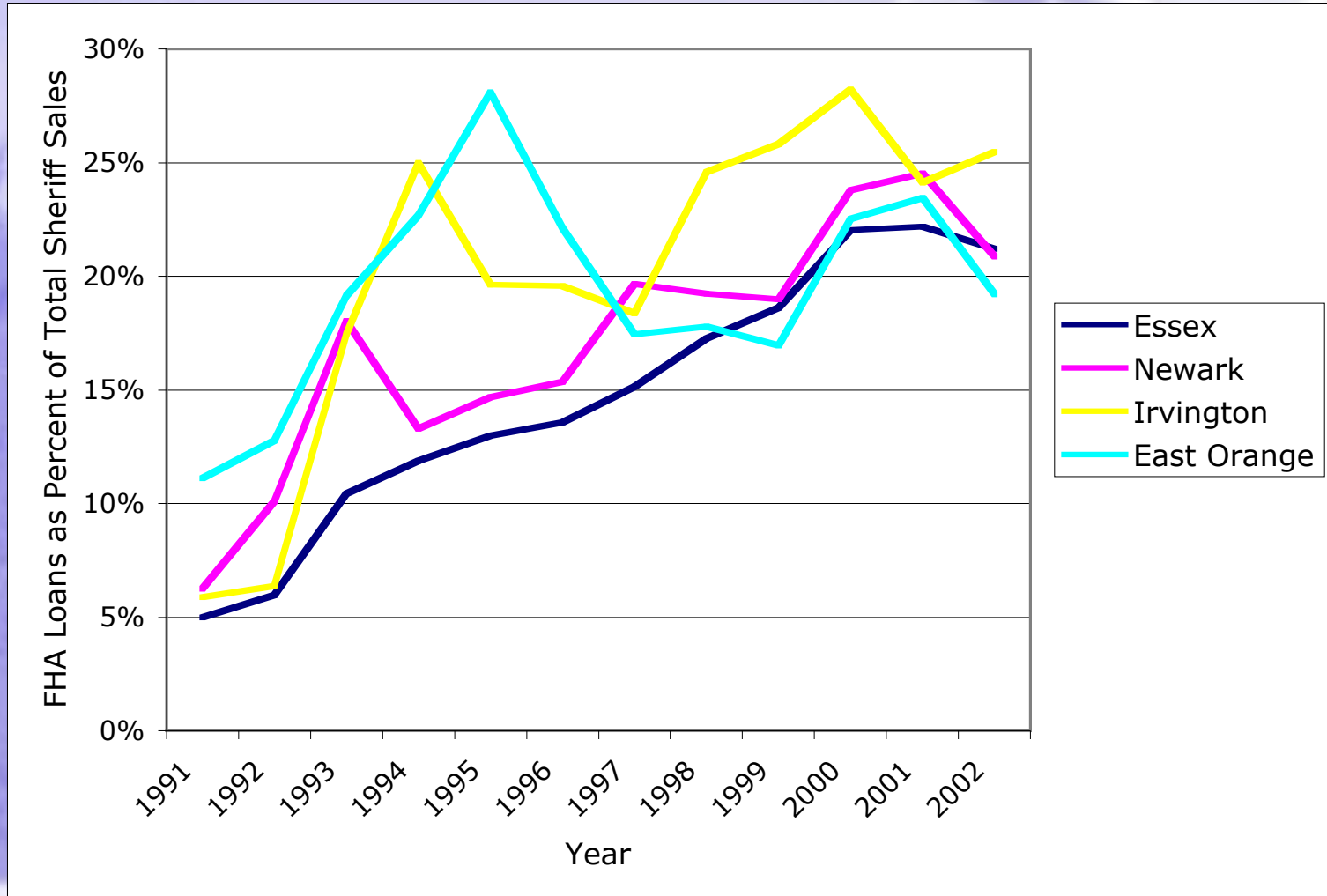


Number of FHA Properties Sold at Sheriff Sale 1991-2002



Source: Sheriff Sales 1991-2002, TRF 2006

FHA Loans as a Percent of Total Sheriff Sales 1991-2002



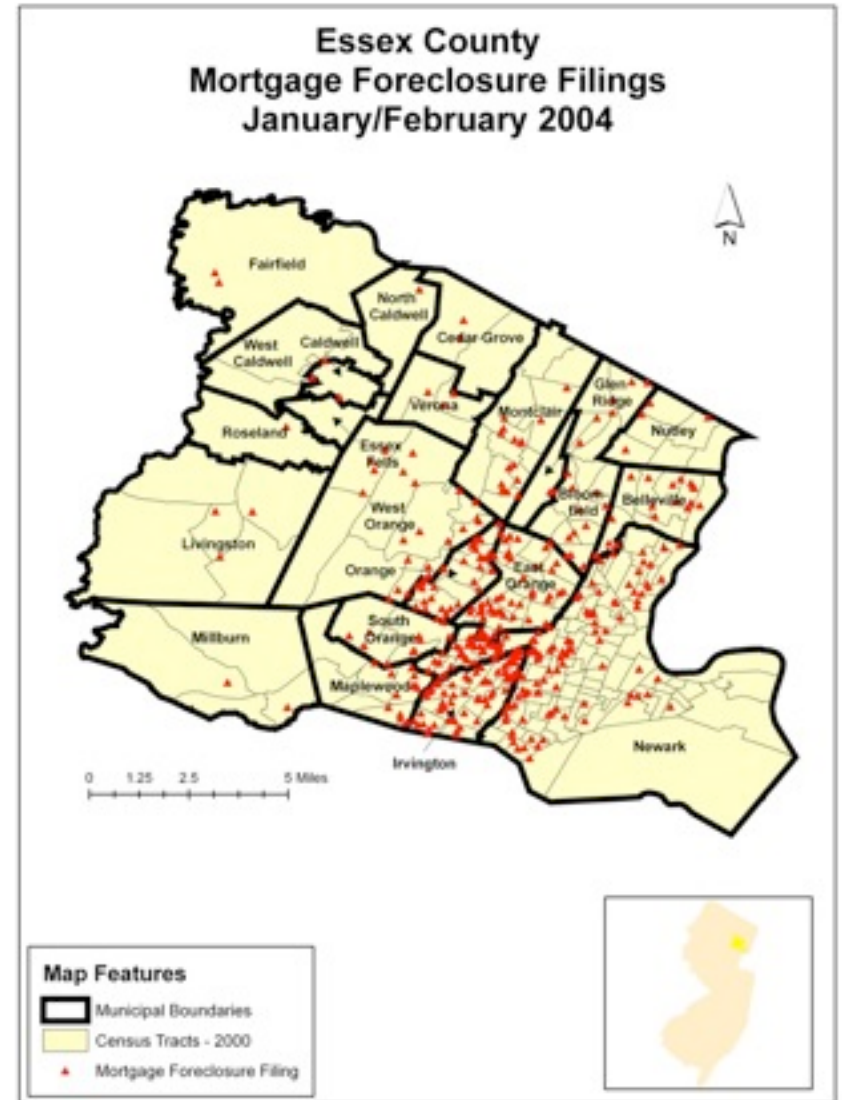
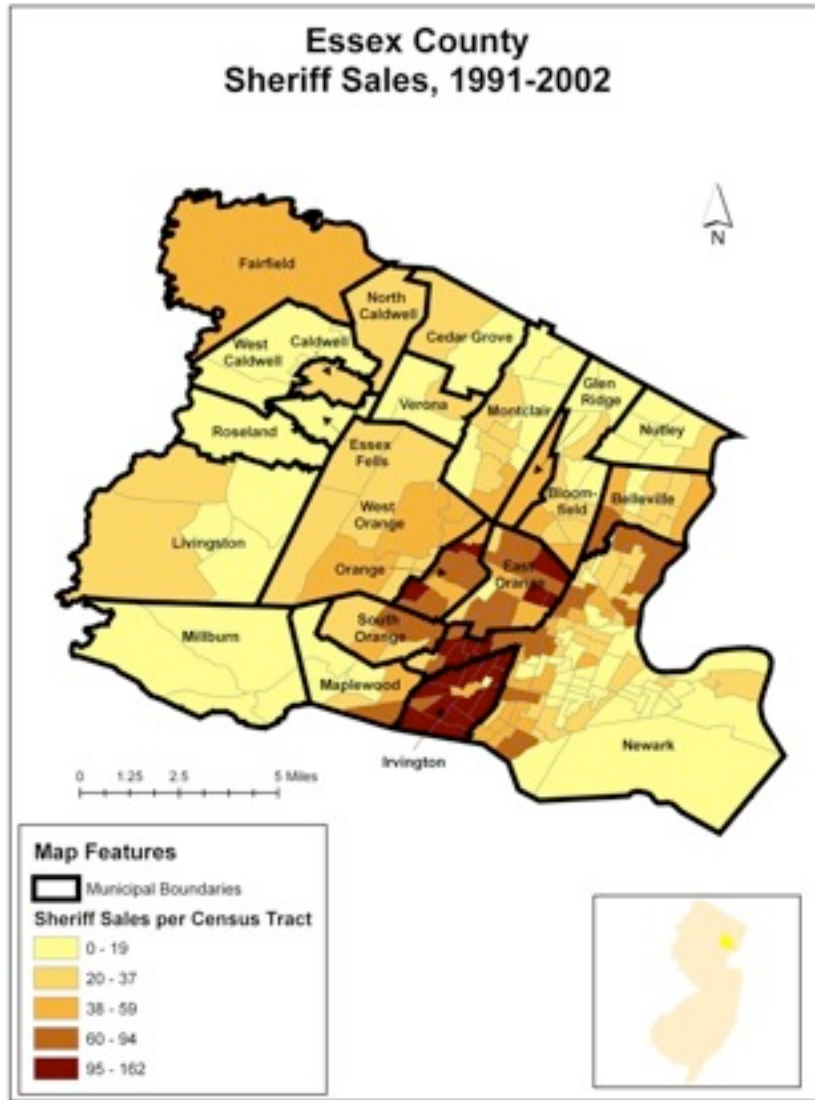
Source: Sheriff Sales 1991-2002, TRF 2006

Mortgage Foreclosure Filings



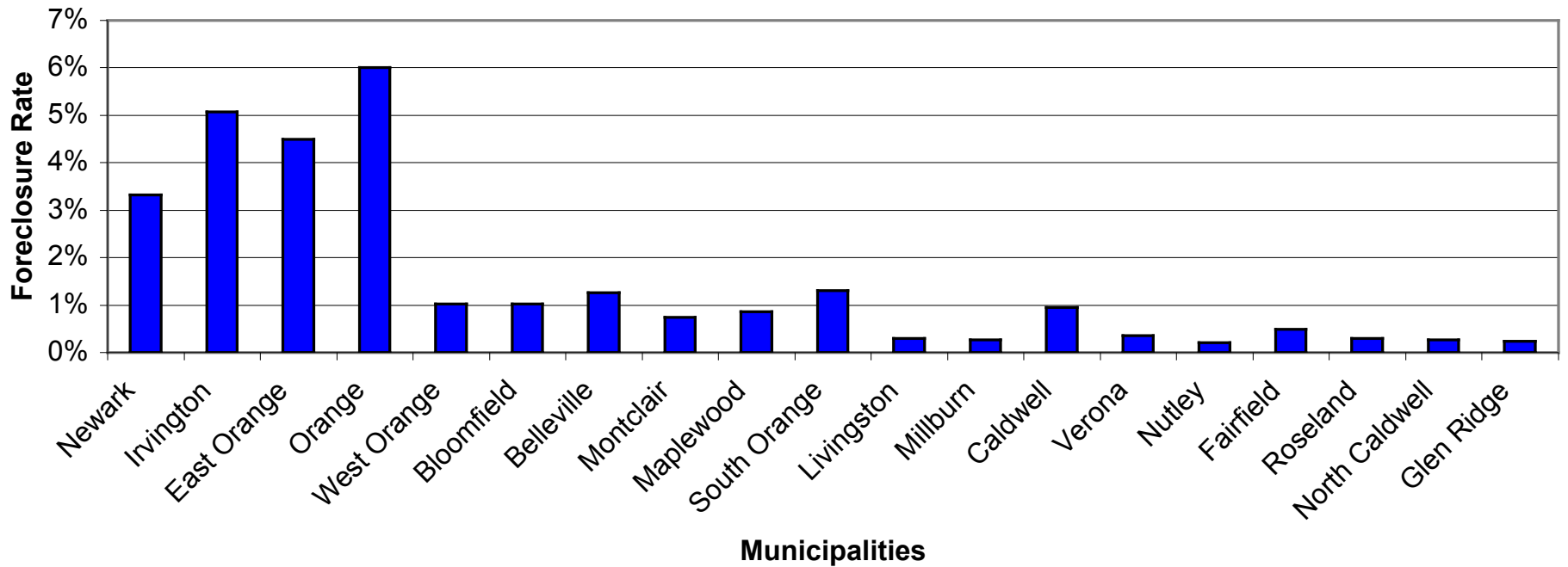
- Mortgage Foreclosure Filings (MFF)
 - January & February of 2004
 - One-fifth of all 2004 filings
 - Provide additional details about the loan

Foreclosures



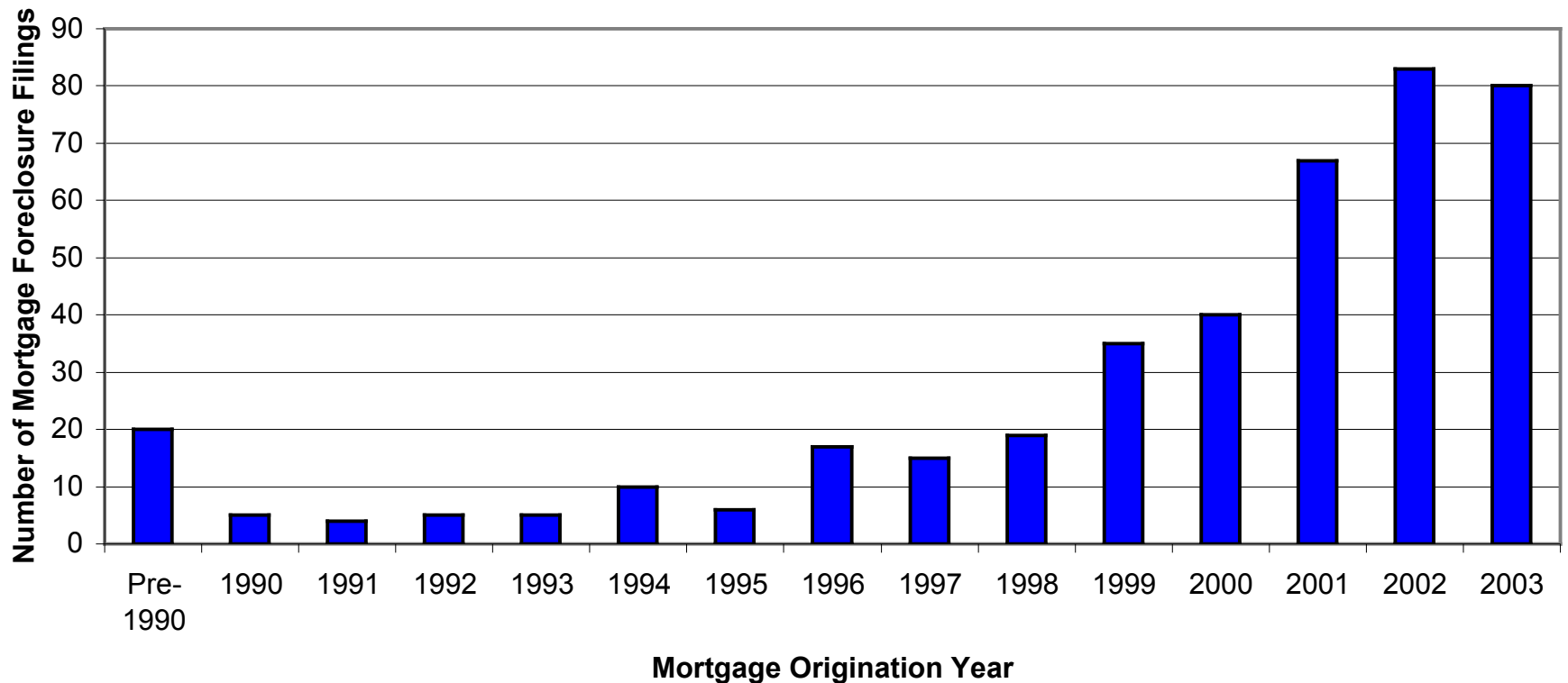
Source: Sheriff Sales data & State mortgage foreclosure filings

MFF Foreclosure Rate by Municipality



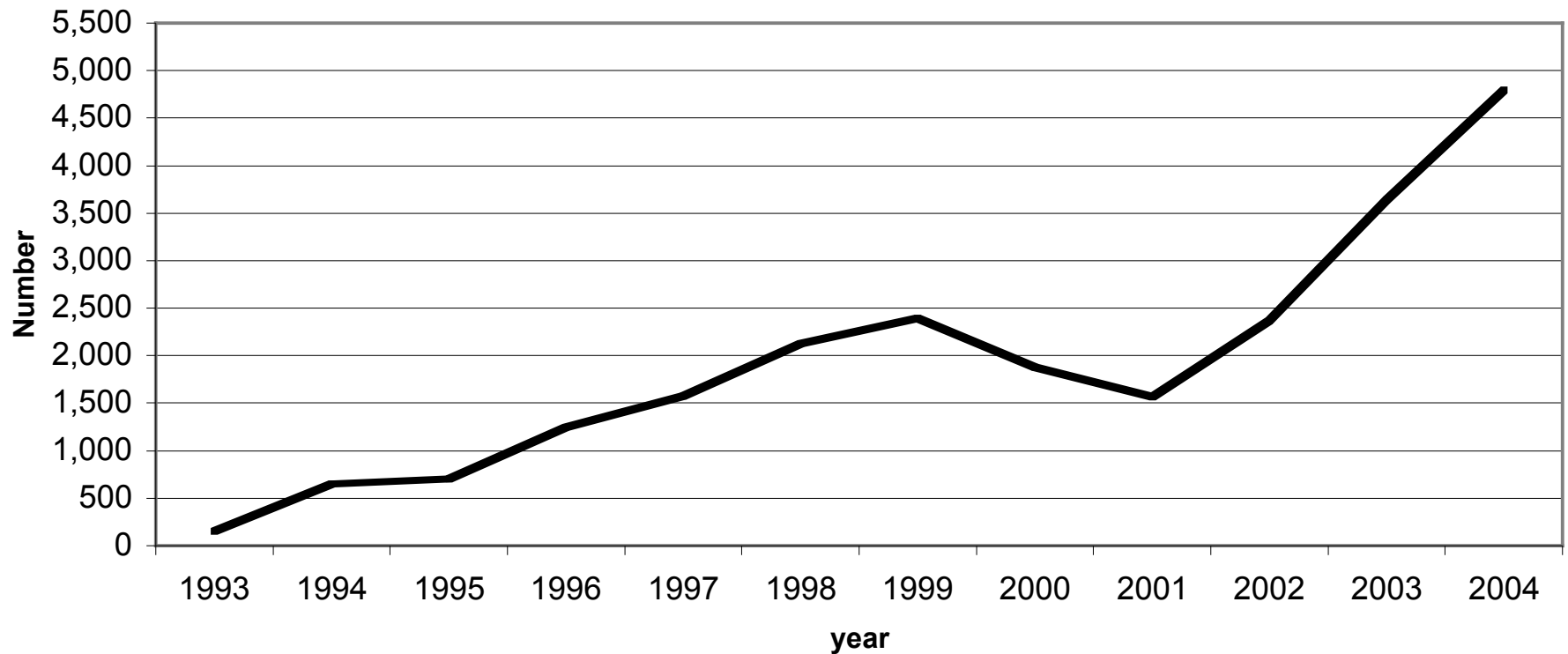
Source: Administrative Office of the Courts, New Jersey 2006

MFF: Short Time Between Origination and Foreclosure



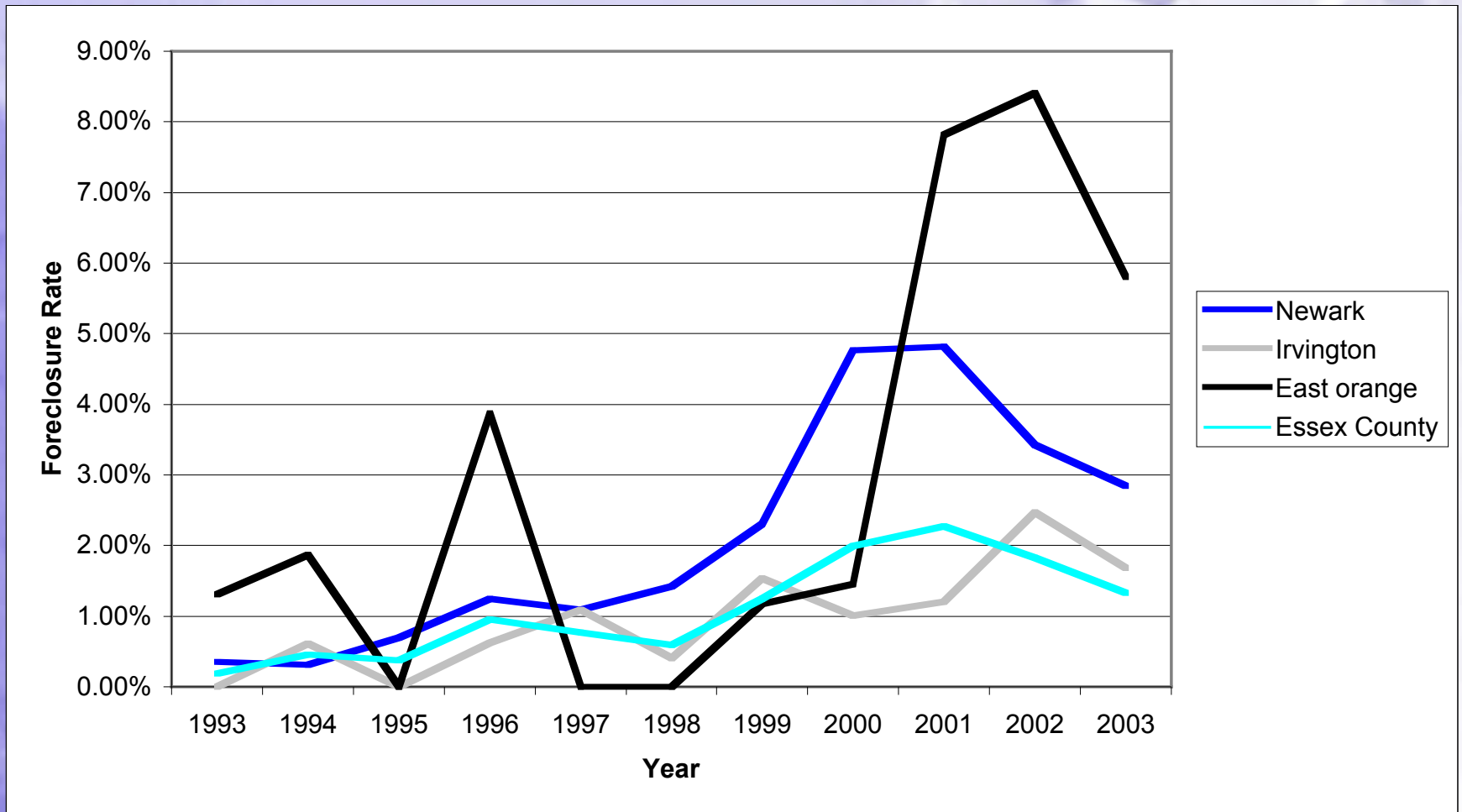
Source: Mortgage Foreclosure Filings, Administrative Office of the Courts, New Jersey 2006

Increase in Subprime Loan Originations 1993-2004



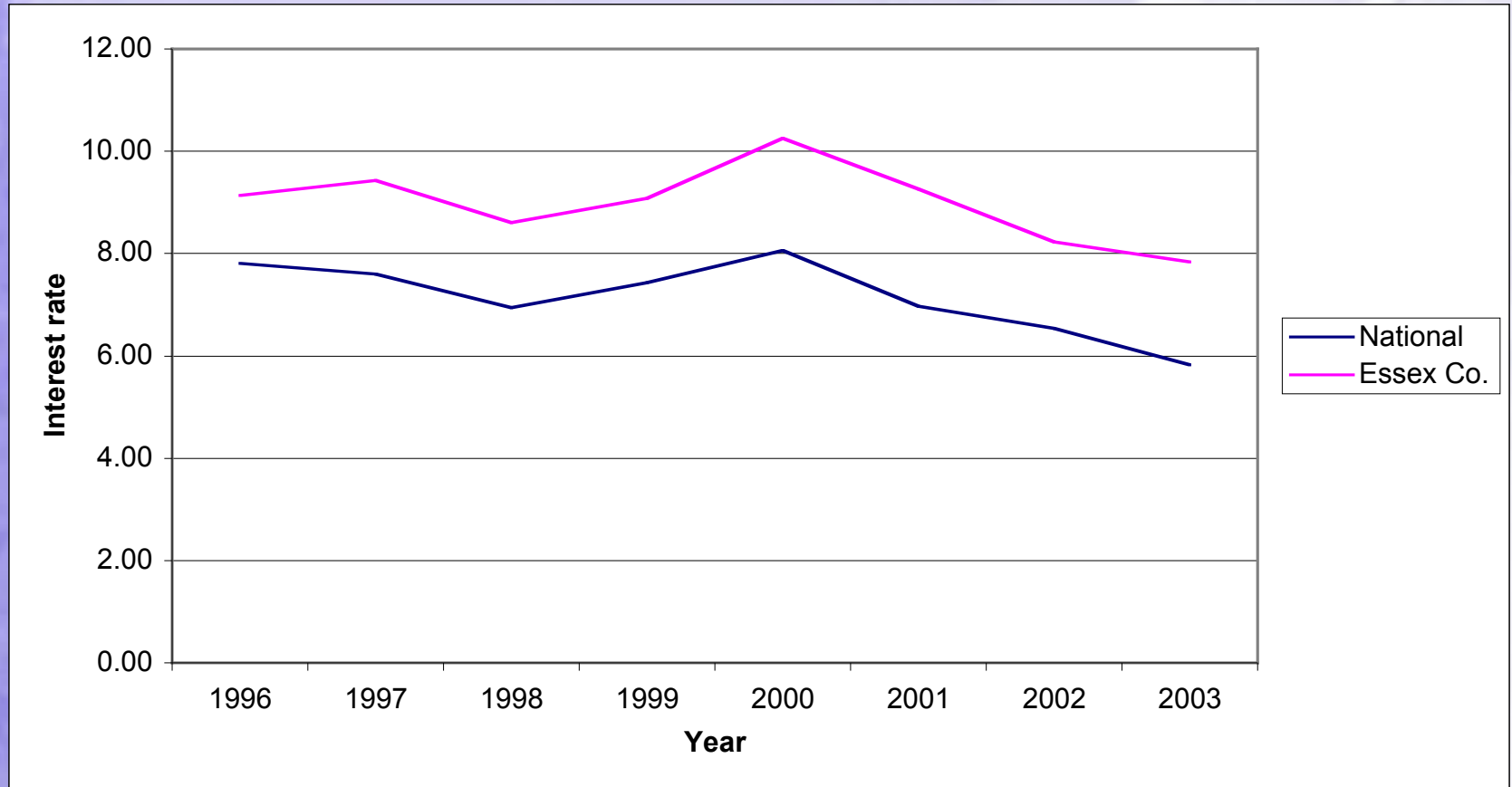
Source: HMDA 1993-2004

Percentage by Year of Loans in Foreclosure in January and February 2004



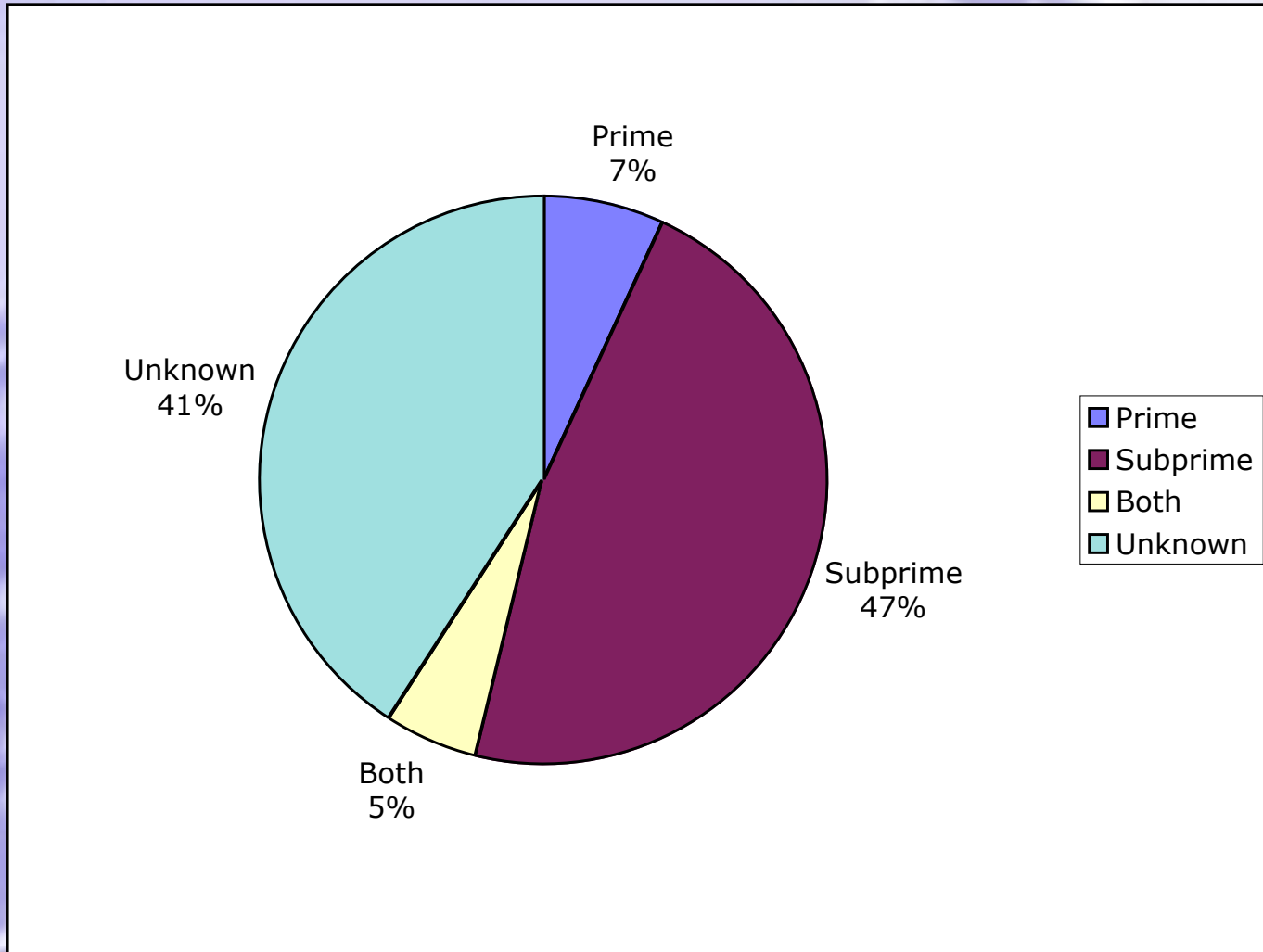
Source: Mortgage Foreclosure Filings, Administrative Office of the Courts, New Jersey 2006 and HMDA 1993-2004.

Essex County MFFs had Higher Interest Rates than National Average



Source: Freddie Mac; Administrative Office of the Courts, New Jersey 2006

Percentage of MFF Originations that are Subprime



Source: HUD and The Reinvestment Fund, 2006

MFF and Nontraditional Mortgages



- Few NTMs listed
- Why?
 - Too early
 - Reporting problems

Vailsburg

- Why is Vailsburg a target?
 - Neighborhood characteristics
- Why are foreclosures a problem?
 - Counteracts community development policy
- Description of foreclosure in Vailsburg
 - Volume, FHA, Subprime

Vailsburg: Demographic and Housing Characteristics

	Home-Ownership %	Median Household Income	# of Sheriff Sales (1991-2002) (Non FHA)	Foreclosure Rate (Owner Occupied Units/Non FHA Sheriff Sales)	Sub Prime Market Share as % of Total 2004	% of Population that is Black
Vailsburg	34%	\$34,687	601	16.67%	31.52%	81%
Newark	24%	\$26,913	2,638	9.68%	22.71%	53%

Source: Census 2000, Sheriff Sales 1991-2002, HMDA

Neighborhood Impacts



- **Impacts of Concentrated Foreclosure**
 - Neighborhood
 - Individual

Reasons For Foreclosures

- Life Events
- Credit Industry Shifts
- Mortgage Market Transformations
- Financial Literacy
- Aggressive Marketing
- Abusive Loans

NTMs: Roles, Benefits and Risks

- **Role**
 - Increases Access to Home Ownership
 - Buys More House
 - Investment Tool
- **Benefits**
 - Short-term
 - Liquidity
- **Risks**
 - Negative Amortization
 - Payment Shock
 - Unclear Loan Terms

Payment Shock for a \$200,000 Loan with an Adjustable Rate Mortgage

	<u>30-year fixed-rate (at 6% interest rate)</u>	<u>5/1 ARM (at 5.625% for 5 years, adjusted annually thereafter)</u>	<u>Option ARM (minimum payment of 1% with 115% negative amortization ceiling)</u>
Initial Monthly Payment	\$1,199	\$1,151	\$643
Loan Balance after yr.5	\$186,106	\$185,225	\$230,000
<u>Monthly Payment, Year 5:</u>			
(2) Interest Rate decreases by 1%	\$1,199	\$1,043	\$1,295
(3) Interest Rate remains the same	\$1,199	\$1,151	\$1,430
(1) Interest Rate rises by 1%	\$1,199	\$1,265	\$1,571

Recommendations

- Data
- Loan Counseling
- Consumer Education
- Regulation

Conclusion

- Mortgage market transformations
- Subprime lending and foreclosures
- Sheriff sales and MFFs
 - Increasing foreclosures
 - Neighborhood concentrations
 - Impacts - Vailsburg
- Future link between NTMs and foreclosure

Thanks

- Ken Zimmerman and Yahonnes Cleary, NJISJ
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- Class Speakers
- Field interviewees



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