Response to Questions on the FY 2008 Advertised Budget Plan

Request By: Supervisor Hudgins and Supervisor Kauffman

Question: Provide detailed information on subprime mortgages and foreclosures in Fairfax County.

Response: As home prices around the nation rose over the last several years so did the number of nontraditional mortgages such as 100 percent loans and loans that do not require borrowers to document income. Many of nontraditional mortgages are made to borrowers who would otherwise not have qualified for a loan due to low credit scores or income. These loans are considered subprime. The Urban Institute in partnership with the Washington D.C. Local Initiatives Support Corporation released information in March 2007 on subprime lending and high interest rate loans by jurisdiction for the Washington D.C. metropolitan area. An overview of the findings is attached along with specific information for Fairfax County. This information shows that the share of home purchases and refinancing loans from subprime lenders increased to 11.1 percent in Fairfax County in 2005, up from 4.2 percent in 2003. High interest rate loans defined as having interest rates of 3 or more percentage points above the U.S. Treasury yield made up over 15 percent of the new mortgage loans in 2005.

Subprime borrowers are more likely to be delinquent or to go into foreclosure. The Mortgage Bankers Associations recently reported that the delinquency rate for subprime loans was 13.3 percent as of the fourth quarter of 2006 compared to just 2.6 percent for prime loans. The Center for Responsible Lending projects that 22.8 percent of the homes purchased with subprime mortgages in 2006 in the Washington Metro area will ultimately be forced into foreclosure.

Current information on homes available due to foreclosure or bankruptcy in Fairfax County was obtained from Foreclosures.com. As of March 26, there were 278 properties available due to foreclosure and 349 properties available due to bankruptcy in Fairfax County. Of the 278 foreclosed properties, 41 were in Springfield, 39 were in the Alexandria area of Fairfax County, 36 in Herndon, 29 in Centreville, 24 in Reston, 23 in Fairfax, 19 in Lorton, 13 in Falls Church, 12 in Annandale, 11 in Vienna, 10 in Burke, 7 in Chantilly, 5 in McLean, 3 in Oakton, 2 in Great Falls and Fort Belvoir, and 1 in Fairfax Station and Clifton. The locations of the properties available due to bankruptcy were: Alexandria, 78; Centreville, 34; Herndon, 33; Springfield 30; Falls Church, 27; Fairfax, 26; Reston, 25; Vienna, 18; Annandale, 17; Burke, 16; Lorton, 12; Chantilly, 7, McLean, 6; Oakton, 5; Great Falls, 5; Fairfax Station, 4; Clifton 4; and, Fort Belvoir, 2.

Information is not available concerning the type of financing that was used to obtain the mortgage that is now in foreclosure or available due to bankruptcy nor is demographic information available for the owners of these properties. Some demographic data is collected by metro area under the Home Mortgage Disclosure Act (HMDA) for the number of loans granted and denied but HMDA data does not specifically identify subprime loans. There are studies of the subprime market that have approximated which loans are subprime by using lists of predominately subprime lenders published by the U.S. Department of Housing and Urban Development. These studies of the subprime market indicate that subprime borrowers are more likely to be lower income persons and/or minorities. A January 2007 study by the University of Massachusetts found that in the Greater Boston area, the share of high interest rate loans made up 58 percent of the loans made to Latinos, 57 percent of loans made to African Americans, but less than 15 percent of loans made to whites. In other words, black and Latino borrowers were over 3.8 times more likely than white borrowers to receive a higher-cost home loan. In another study, the Center for Responsible Lending reported that half of the mortgages nationwide taken out by blacks over the past few years were subprime. The report also indicated that there is evidence that some subprime borrowers could have qualified for prime loans but were "steered" toward the higher-cost subprime loan. This practice is considered predatory lending.

The rise of subprime lending and increasing loan defaults has gained widespread attention of late. On March 2, 2007, federal financial regulatory agencies including the Board of Governors of the Federal Reserve, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation requested comment on jointly proposed guidance for subprime mortgages. The proposed "Statement on Subprime Mortgage Lending" addresses subprime mortgage lending practices and procedures that institutions should implement in regard to risk management and consumer protection. In addition, Congress is considering tightening lending regulations and a hearing was held on March 27, 2007 before the U.S. House Committee on Financial Services. At the hearing, the federal financial regulatory agencies listed above and other organizations such as the Mortgage Bankers Association, the Center for Responsible Lending and the Consumer Federation of American provided testimony on what regulatory actions are needed regarding the subprime mortgage market and predatory lending practices.

The degree to which the problems in the subprime market will impact the overall housing market is uncertain. The rising default rate will have personal ramifications for borrowers who will lose their homes and will add to the currently high inventory of homes for sale. In addition, stricter lending guidelines may eliminate potential borrowers from the market and reduce the demand for home purchases. These actions will put further downward pressure on home prices.

NeighborhoodInfo DC Fact Sheet

A Partnership of the Urban Institute and the
Washington DC Local Initiatives Support Corporation (LISC)

Subprime and High Interest Rate Mortgage Lending
in the Washington, D.C., Region

March 2007

There is increasing concern around the country with the amount of subprime and high cost mortgages issued in recent years. Subprime lending has made credit available to households with low incomes or credit scores that would not allow them to qualify for prime-rate loans. Nevertheless, as is now becoming all too clear, subprime lending can be detrimental if borrowers who take out higher-cost loans later have difficulty repaying them and risk defaulting on those loans.

This fact sheet looks at the latest data on subprime mortgage lending and high interest rate loans from the Home Mortgage Disclosure Act (HMDA) for the 25 jurisdictions that make up the Washington, D.C., metropolitan area.[1] A full set of supporting tables and charts with the data discussed in this fact sheet can be found on the NeighborhoodInfo DC web site: http://www.NeighborhoodInfoDC.org/subprime.

Subprime Lenders

Subprime loans are those that have higher costs (such as higher interest rates) than prime loans. Subprime loans are designed for applicants with poor credit histories, high loan-to-home-value ratios, or other credit risk characteristics that would disqualify them from lower cost, prime-rate loans. The U.S. Department of Housing and Urban Development

[1] HMDA data are collected and published by the Federal Financial Institutions Examination Council (FFIEC). We used HMDA data files provided by DataPlace (http://www.dataplace.org) for this analysis.

(HUD) classifies mortgage lenders as specialists if such subprime loans account for at least half of their conventional (i.e., not government-backed or insured) business. HUD also uses feedback from lenders, policy analysts, and housing advocacy groups to update the list of subprime lenders (Pettit and Droesch 2005, 8).

By matching HUD's subprime lender list to HMDA loan records, we can track lending by subprime specialists from 1997 to 2005.

High Interest Rate Loans

In 2004, HMDA began collecting information on the interest rate for individual mortgages, allowing the identification of high interest rate loans. High interest rate loans have annual percentage interest rates exceeding the comparable U.S. Treasury yield by 3 percentage points or more, for first liens, and by 5 points or more, for second liens. While trends in high interest rate loans cannot be compared as far back as loans from subprime lenders, these loans do include costly mortgages issued by lenders other than those in HUD's subprime specialist list.[2] They therefore help give a more complete picture of the subprime lending market than the subprime lender data alone.

In this fact sheet, we present data on high interest rate loans for 2005.

Current Conditions and Trends

Analysis of the HMDA data by NeighborhoodInfo DC shows the following:

- **Subprime lending reached a new high in the region in 2005.** The percentage of new conventional home purchase and refinance mortgages issued by subprime lenders was 17.6 percent in the Washington, D.C., region in 2005. This was an increase from 15.1 percent in 2004 and more than three times the share of subprime loans in 2001 (5.5 percent).

- **One-quarter of mortgage loans had high interest rates in 2005.** One out of every four (25.1 percent) home-purchase and refinance mortgage loans issued in the Washington, D.C., region in 2005 had high interest rates. The region's share

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[2] Since high interest rate loan data are relatively new for HMDA and are subject to reporting inconsistencies, comparisons between 2004 and 2005 may be misleading. The FFIEC also cautions that changes in the interest rate environment—specifically, in the relationship between short-term and long-term interest rates—as well as changes in lenders' business practices and in consumers' borrowing practices or credit risk profiles can affect comparisons of the loan cost data (FFIEC 2006). Therefore, we chose not to compare 2004 and 2005 data on high interest rate loans in this fact sheet.

of high interest rate loans was 7.5 percentage points higher than the share of loans from subprime lenders. This was also true within the individual jurisdictions, indicating that the subprime lending rates most likely *underestimate* the proliferation of high-cost mortgage loans.

- **The highest rates of subprime lending and high interest rate loans were in Prince George's County, Maryland, and several of the further Maryland and Virginia suburban jurisdictions.** One out of every three (33.0 percent) home-purchase and refinance loans in Prince George's County was issued by subprime lenders in 2005 (figure 1), and 44.0 percent were high interest rate loans, the highest rates among all jurisdictions in the region (figure 2). The share of subprime lending in the county has been steadily increasing since 2001, when 14.2 percent of loans were issued by subprime lenders. The next highest shares of high cost loans were in Manassas Park city, Virginia, with 25.3 percent of loans from subprime lenders and 36.9 percent high interest rate loans in 2005; Charles County, Maryland, with 24.5 percent of loans from subprime lenders and 33.6 percent high interest rate loans; and Manassas city, Virginia, with 23.0 percent of loans from subprime lenders and 35.5 percent high interest rate loans.

- **Although not among the areas with the highest use of subprime loans, the shares of loans from subprime lenders in Montgomery County, the District of Columbia, Fairfax County, and Fairfax city have increased sharply since the beginning of the decade.** The share of home purchase and refinance loans from subprime lenders increased to 15.6 percent in Montgomery County, Maryland, in 2005, up from 12.7 percent in 2004 and a recent low of 4.1 percent in 2001. In the District of Columbia, shares of loans from subprime lenders shot up from 8.0 percent in 2004 to 12.5 percent in 2005, a dramatic increase from a low of 3.2 percent in 2002. Fairfax County and Fairfax city experienced similar increases. The share of loans from subprime lenders in Fairfax city, Virginia, grew from 3.7 percent in 2001 and 2002 to 12.0 percent in 2005. In Fairfax County, Virginia, the rates increased from 3.7 percent in 2001 to 11.1 percent in 2005.

- **The lowest rates of subprime lending and high interest rate loans were in Falls Church city, Arlington County, and Alexandria city.** Each of these Virginia jurisdictions had less than 7 percent of home purchase and refinance mortgages issued by subprime lenders in 2005. The shares were 6.3 percent in Alexandria city, Virginia, 5.5 percent in Arlington County, Virginia, and 5.3 percent in Falls Church city, Virginia. These all represent slight increases in subprime lending levels from earlier in the decade. Shares of high interest rate loans were 10 percent or lower in these three jurisdictions in 2005.

A complete set of HMDA data profiles on subprime lending and high interest rate loans is available at http://www.NeighborhoodInfoDC.org/subprime.

In addition to the information described in this fact sheet, the supporting data profiles list the top 10 subprime and high interest rate loan lenders for each jurisdiction in the region in 2005.

References

Federal Financial Institutions Examination Council. 2006. "Press Release, September 08, 2006." http://www.ffiec.gov/hmcrpr/hm090806.htm.

Pettit, Kathryn, and Audrey Droesch. 2005. *A Guide to Home Mortgage Disclosure Act Data.* Washington, DC: DataPlace.

For further information, contact NeighborhoodInfo DC by e-mail at info@neighborhoodinfodc.org.

Fig. 1 - Percent of New Conventional Home Purchase and Refinance Mortgages by Subprime Lenders, 2005

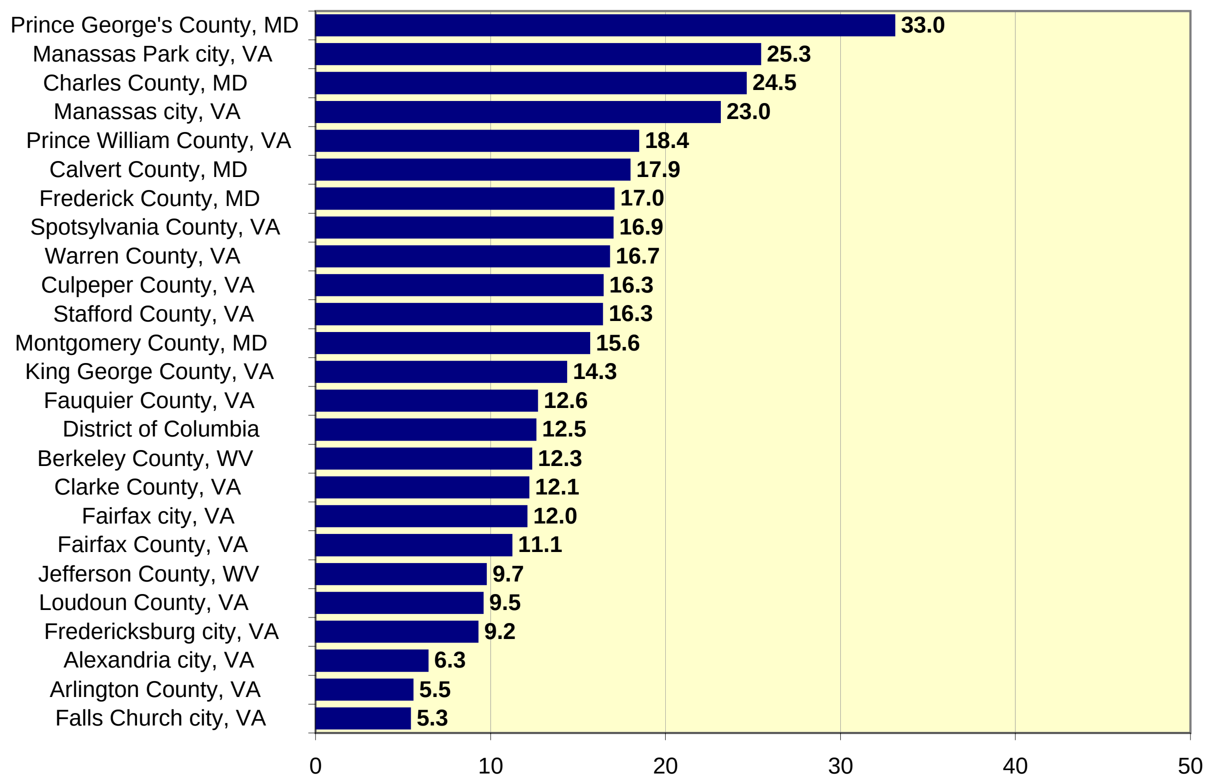
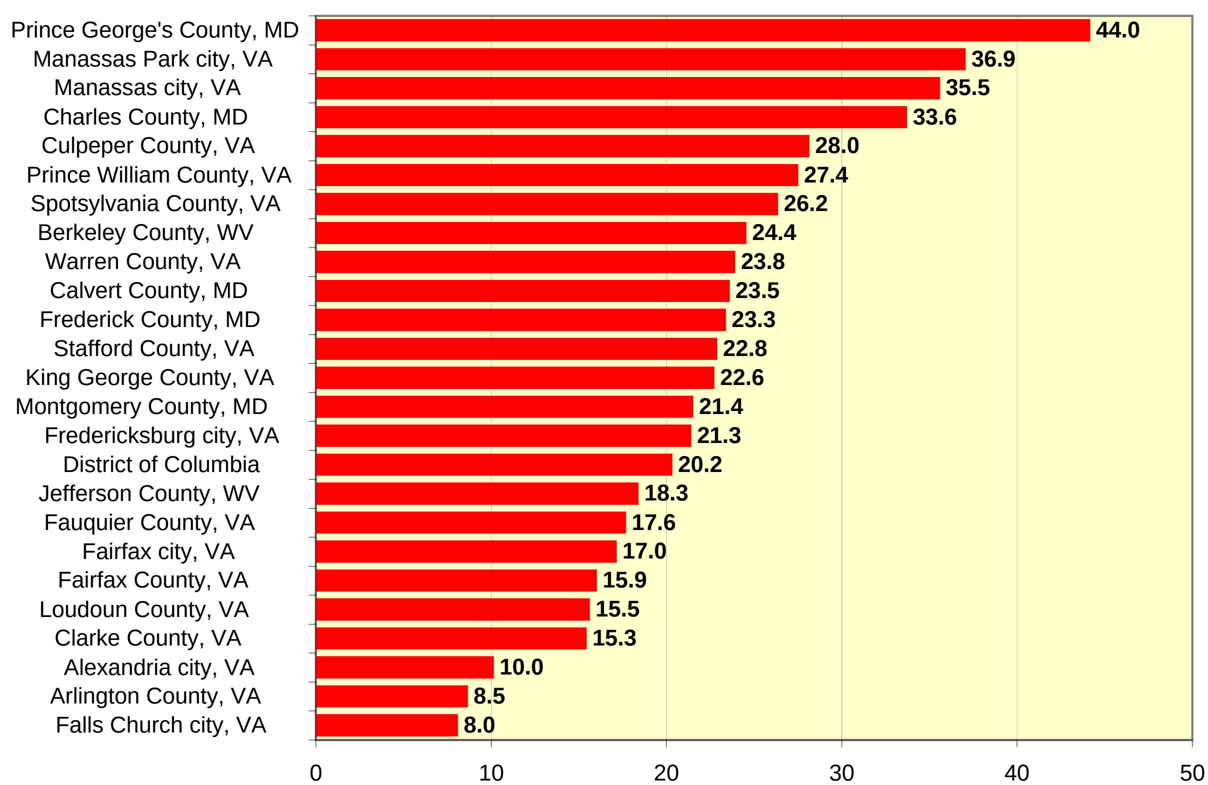
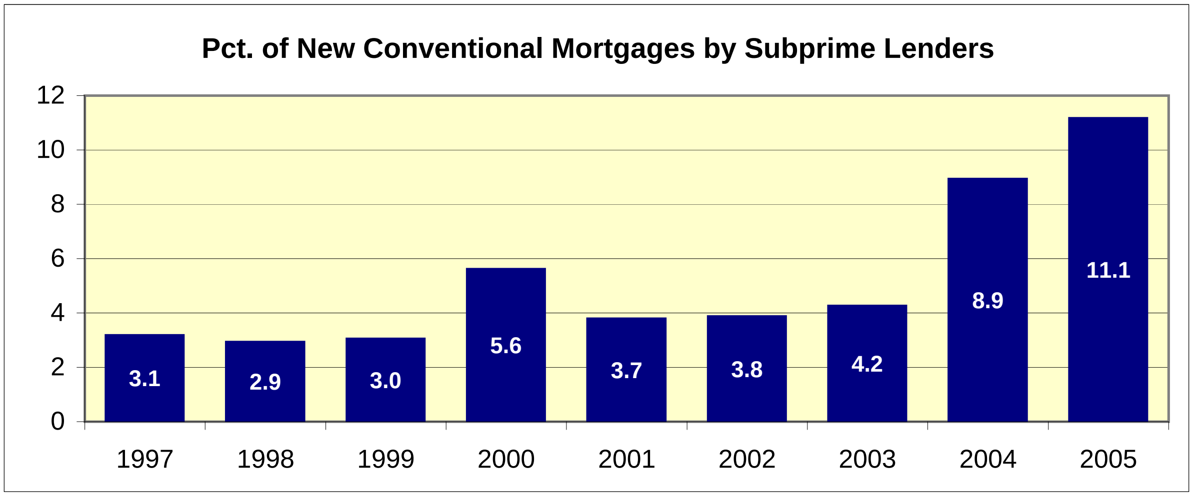


Fig. 2 - Percent of New Conventional Home Purchase and Refinance Mortgages with High Interest Rates, 2005



Fairfax County, VA

Subprime Mortgage Lending, 1997 - 2005



New Conventional Mortgage Loans

	Home Purchase			Refinance		
Year	**Total**	**Subprime Lenders**	**Pct. Subprime**	**Total**	**Subprime Lenders**	**Pct. Subprime**
1997	15,026	226	1.5	10,476	572	5.5
1998	19,695	348	1.8	31,075	1,113	3.6
1999	22,017	297	1.3	16,184	849	5.2
2000	23,854	951	4.0	6,912	760	11.0
2001	26,608	917	3.4	42,614	1,670	3.9
2002	28,631	1,164	4.1	69,848	2,604	3.7
2003	32,148	1,525	4.7	103,650	4,202	4.1
2004	37,255	3,024	8.1	41,819	4,004	9.6
2005	37,499	4,726	12.6	38,480	3,720	9.7

Top 10 Subprime Lenders, 2005

New Conventional Home Purchase and Refinance Loans

		Amount (Thous. $)	
	Number of Loans	**Total**	**Percent**
All Subprime Lenders	8,446	2,214,510	100.0
Fremont Investment & Loan	1,320	364,998	16.5
Wmc Mortgage Corp.	1,265	301,922	13.6
Long Beach Mortgage Co.	907	222,896	10.1
Option One Mortgage Corp	602	176,803	8.0
Aig Federal Savings Bank	475	124,950	5.6
Accredited Home Lenders, Inc	508	116,675	5.3
New Century Mortgage Corporati	354	102,853	4.6
Encore Credit Corp	335	100,868	4.6
Novastar Mortgage, Inc.	344	92,442	4.2
Equifirst Corporation	195	51,001	2.3

Fairfax County, VA

High Interest Rate Mortgage Lending, 2005

	New Conventional Mortgage Loans					
	Home Purchase			Refinance		
Year	Total	High Int. Rate	Pct. High Int. Rate	Total	High Int. Rate	Pct. High Int. Rate
2005	37,441	7,714	20.6	38,465	4,361	11.3

Top 10 Lenders of High Interest Rate Loans, 2005

High Interest Rate Home Purchase and Refinance Loans			
		Amount (Thous. $)	
	Number of Loans	Total	Percent
All Lenders	12,083	2,928,203	100.0
Fremont Investment & Loan	1,169	346,467	11.8
Wmc Mortgage Corp.	1,225	294,303	10.1
Long Beach Mortgage Co.	829	206,297	7.0
Option One Mortgage Corp	522	155,797	5.3
National City Bank Of Indiana	373	112,953	3.9
Accredited Home Lenders, Inc	459	108,344	3.7
Encore Credit Corp	317	96,912	3.3
New Century Mortgage Corporati	317	92,566	3.2
Aig Federal Savings Bank	358	87,576	3.0
American Home Mortgage Corp.	444	83,823	2.9

Data tabulated by NeighborhoodInfo DC and DataPlace (www.dataplace.org) from Home Mortgage Disclosure Act loan and lender records. Report updated 3/19/07.