SUBPRIME MORTGAGE LENDING IN THE DISTRICT OF COLUMBIA

A Study for the Department of Insurance, Securities and Banking

Prepared by:
Capital Area Asset Builders
Center for Responsible Lending
National Community Reinvestment Coalition
The Reinvestment Fund
and
The Urban Institute

May 2008

DISB
Government of the District of Columbia
Department of Insurance, Securities and Banking

Letter from the Mayor

The delinquency rate for all mortgages, especially subprime or high-cost mortgages, has increased in the District of Columbia over the past year. These higher delinquencies have resulted in more home foreclosures in certain wards of our city. Increased delinquency and foreclosure rates are critical issues for hundreds of District families who may lose their homes. Foreclosures not only impact individual families, but they may also have a more serious negative impact on neighborhoods and the city as a whole.

I am pleased that the D.C. Department of Insurance, Securities and Banking (DISB) has commissioned this study, which will give a clearer picture of subprime lending in the District of Columbia. Its findings will provide a better opportunity for various groups to better deal with this encompassing problem. It is my hope that the recommendations contained within this report will help prevent even more home foreclosures in the District.

I am happy that DISB continues to put consumer protection first, and that more District residents will take advantage of DISB's available resources.

Adrian M. Fenty

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Executive Summary

Homeownership can provide families with financial security and a tangible asset that can be leveraged and passed on to future generations. Over the past few decades, innovations in the mortgage market have opened homeownership opportunities up to lower-income and minority households. Unfortunately, many recent innovations in the subprime mortgage sector have led not to increased wealth building opportunities, but instead to lost equity and foreclosures which have affected entire communities.

The subprime mortgage market is designed to offer homeownership opportunities to borrowers with impaired or limited credit histories who do not qualify for financing under conventional terms. While once a small niche, the subprime sector has now grown to encompass over a quarter of all loan originations. While the number of loans originated has increased greatly, subprime mortgages are still concentrated in lower-income communities and/or communities of color. In the District, subprime loans are disproportionately made to borrowers who are African American and lower-income.

	Purchase Loans		Refinance Loans	
	% of Prime Loans Made to this Group	% of Subprime Loans Made to this Group	% of Prime Loans Made to this Group	% of Subprime Loans Made to this Group
African Americans	29.4%	69.6%	60.4%	83.7%
Very low- income	3.7%	3.1%	15.5%	21.0%
Low-Income	16.7%	19.9%	26.6%	33.8%

In addition, the bulk of subprime loans are made for homes in Wards 4, 5, 7, and 8.

	Purchase Loans		Refinance Loans	
	% of Prime Loans Made to this Group	% of subprime Loans Made to this Group	% of Prime Loans Made to this Group	% of Subprime Loans Made to this Group
Ward 1	15.0%	10.4%	10.4%	7.7%
Ward 2	19.3%	5.6%	9.6%	2.6%
Ward 3	12.8%	1.8%	9.6%	1.7%
Ward 4	10.3%	16.5%	17.8%	19.2%
Ward 5	10.8%	23.6%	17.4%	22.7%
Ward 6	18.9%	12.6%	13.7%	10.9%
Ward 7	7.9%	17.5%	13.8%	22.1%
Ward 8	5.0%	11.9%	7.8%	13.1%

Subprime lending has been fraught with abuses and predatory practices which greatly increase the likelihood that borrowers will ultimately lose equity and—in many cases—face foreclosure. Some of the most common features of subprime loans include:

- "Exploding"adjustable rate in which borrowers receive a low, teaser rate for the initial two years, and a much higher rate which adjusts every six months thereafter;

- Requiring little or no documentation of income, in return for a higher interest rate; and,

- Prepayment penalties which often extend out beyond the teaser rate term, making it difficult for borrowers facing interest rate adjustments to refinance.

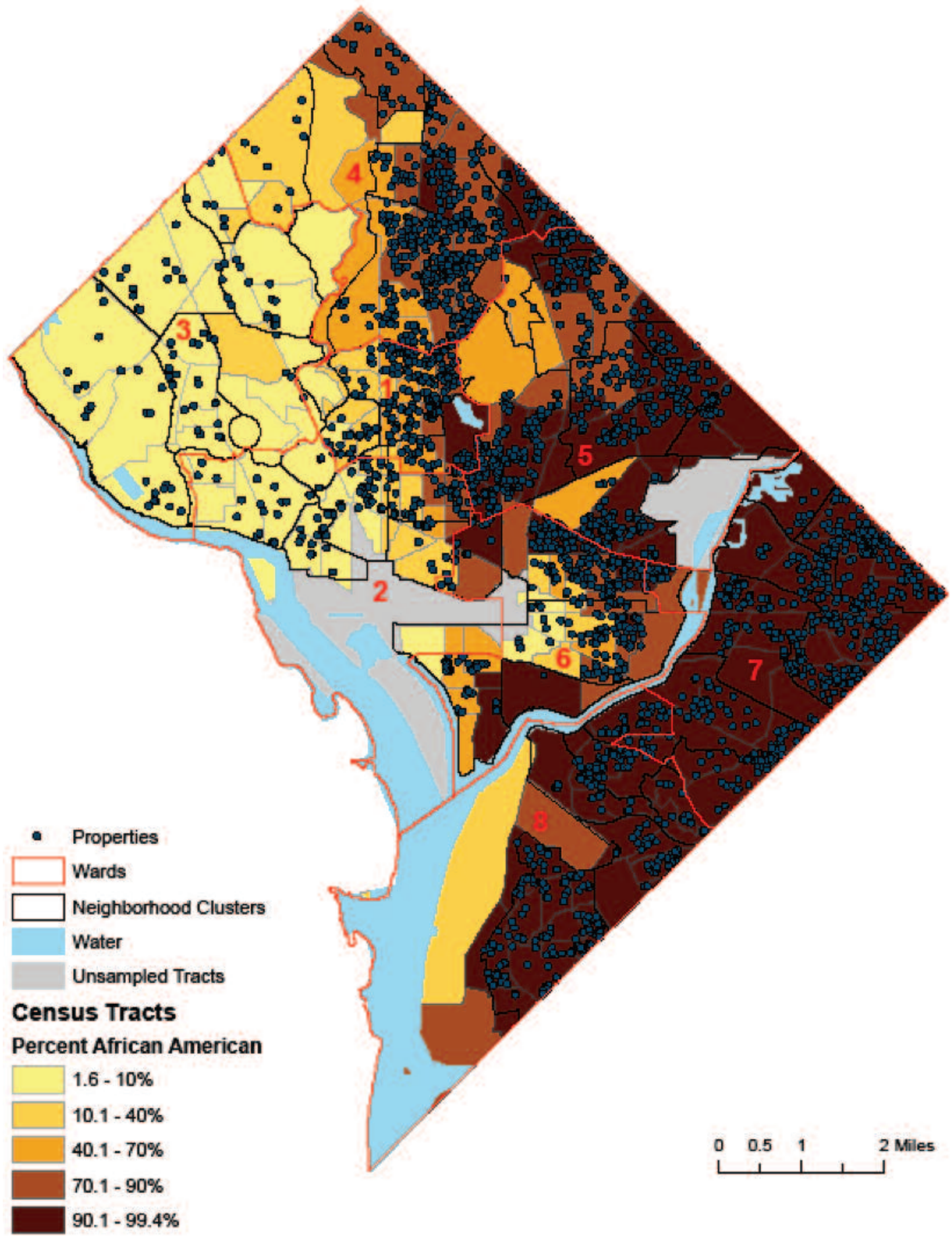
The majority of subprime loans to made to District homeowners have one or more of these risky features.

	Percent of Subprime Loans with Feature
Exploding adjustable interest rate	67.1%
Little or no documentation of income	69.7%
Prepayment penalty	46.6%

Foreclosures not only cause borrowers to lose their homes, they can impact the wealth of entire communities. Researchers have found that each foreclosure lowers surrounding home values for a period of two years and the impact is more pronounced in lower-income communities.

In the District, the areas hardest hit by foreclosures mirror those neighborhoods with higher rates of subprime lending. Wards 4, 5, 6, 7, and 8 have the highest foreclosure rates, with African Americans and communities east of the Anacostia River particularly hard hit.

Location of owner-occupied properties that received a Foreclosure Notice between January 2005 and September 2007 and the proportion of African American residents as of 2000 residing in the property's census tract.



Sources: Authors' calculation of District of Columbia Recorder of Deeds and 2000 U.S. Census.

Many of the homes in foreclosure were purchased or refinanced within the past several years, when underwriting standards were at their loosest. In addition, homeowners in these areas without substantial downpayments who financed their homes through a first and second (piggyback) lien where found to be more at risk for foreclosure.

Subprime borrowers in the District reported different experiences with the mortgage lending process than borrowers taking out prime loans. Instead of seeking out a loan and weighing a variety of product offerings, subprime borrowers were more likely to be approached by someone marketing services and to use a mortgage broker offering only one loan product. Subprime borrowers are more likely to report being surprised by loan terms after closing than prime borrowers. They also anticipate future problems keeping up with mortgage payments at a higher rate. While most District residents report that they were not aware of homeownership counseling offered by public or private organizations, this type of education may help residents better navigate through the homeownership process.

The District of Columbia should consider the following recommendations to encourage responsible mortgage lending and empower prospective homeowners to make good decisions:

- Update the District's predatory lending law so that it takes into account the growth and abuses occurring in the subprime lending market, including stronger underwriting standards which require an assessment of the borrower's ability to repay and increasing accountability of lenders and brokers.

- Influence the lending practices of area financial institutions by placing city deposits at banks that offer responsible loan products to all qualified applicants throughout the District.

- Increase awareness and expand data collection on risk factors for foreclosure so that policymakers, city agencies, and housing counselors have the tools needed to prevent subprime borrowers from losing their homes.

- Reform the foreclosure process to give borrowers expanded rights and a better chance to remain in their homes.

- Create a comprehensive financial education strategy through coordination among City agencies and other interested parties.

About The Study

This study on subprime mortgage lending in the District of Columbia was commissioned by the Department of Insurance, Securities and Banking (DISB) in August 2007 as part of a broader consumer protection initiative. With this study, DISB, aims to determine the level of impact the sub-prime lending market has had on the residents of the District of Columbia and what changes, if any, the department needs to make in its regulatory infrastructure to protect the citizens from unscrupulous and unfair schemes which can cause an undue burden on homeowners in the District of Columbia.

The contract to conduct this study was awarded to a consortium of research organizations—the Center for Responsible Lending, the Urban Institute, the National Community Reinvestment Coalition, The Reinvestment Fund, and Capital Area Asset Builders—which conducted the following tasks from August to December 2007:

- the collection of qualitative information through a series of focus groups of subprime mortgage borrowers, as well as a telephone survey of subprime and prime borrowers to better understand the recent borrowing experiences of DC homeowners;
- an analysis mortgage lending data to uncover patterns in subprime and high-cost mortgage lending;
- an analysis loan delinquency and related data to assess the performance of DC mortgages and the likelihood of future foreclosures; and,
- an assessment financial education resources in the District, and how to better structure these offerings to create opportunities for better informed current and prospective homeowners.

This report details the findings of this research and provides recommendations that can serve as the basis for an informed discussion on policies and programs to address access to quality financial services and protection from predatory practices.

The remainder of the report is organized as follows:

Chapter 1: Overview of Subprime Lending

Chapter 1 provides a general overview of subprime mortgage lending, detailing the growth of this segment of the mortgage market, features of subprime loans, and the negative impact that some predatory aspects of these loans have had on borrowers.

Chapter 2: Subprime Lending Patterns in DC

Chapter 2 takes a detailed look at the mortgage loans made across the District, including the variations between geographic areas and demographic groups. The chapter also describes the prime and subprime lending practices of the District's largest mortgage lenders, with special emphasis on lending done by financial institutions which hold deposits from the District government.

Chapter 3: Attitudes and Experiences of Subprime Borrowers

Based on the results of a telephone survey and focus groups, Chapter 3 describes the attitudes and experiences of District residents who have received subprime loans. The focus groups provided in depth information on the experiences of a small number of borrowers while the survey describes a broader set of information from a larger group of prime and subprime borrowers.

Chapter 4: Foreclosure Analysis and Prevention Strategies

Chapter 4 examines recent delinquencies and foreclosures in the District and looks at potential models to help troubled borrowers avoid losing their homes. In addition, a gap analysis is performed to identify the extent to which a 30-year fixed mortgage, given current interest rates and underwriting requirements can serve homeowners who face foreclosure in the District of Columbia.

Chapter 5: Homebuyer Education and Counseling

Chapter 5 describes the financial education resources that are currently available in DC and offers ideas for a more comprehensive approach to ensure residents have the information to make good financial decisions about mortgage loans.

Chapter 6: Recommendations

Finally, the report concludes with recommendations on how to influence the creation of a responsible mortgage loan market in the District and protect the wealth of current and future homeowners.

Chapter I: Overview of Subprime Lending

Homeownership can provide families with financial security and a tangible asset that can be leveraged and passed on to future generations. The subprime mortgage loan market can provide the opportunity to build wealth through homeownership to borrowers with impaired or limited credit histories. These borrowers often have other characteristics including lower or unstable incomes, little savings, erratic employment histories, or a high level of debt relative to their income that may increase the risk to the lender.

Over the past several years, the subprime sector has grown from a small niche to a major component of the overall mortgage market. In 2003, subprime loans made up 8 percent of total originations.[1] Today, over a quarter (28 percent) of all loans originated are subprime.[2] More than seven million families[3] currently hold a subprime mortgage, with $1.3 trillion outstanding[4] nationwide.

Subprime loans are far more prevalent in communities of color. More than half of African American families getting a home loan in 2006 received a subprime loan. Similarly, 41 percent of Latino households receiving a loan in 2006 were served by the subprime market. This stands in contrast with the experience of white borrowers, only 22 percent of whom received a subprime loan in the same year. [5]

Subprime Lending Snapshot

- 28% of all loans originated are subprime
- 7.2 million families have a subprime loan
- $1.3 trillion in total subprime loans outstanding

- 52% of loans to African Americans in 2006 were subprime
- 41% of loans to Latinos in 2006 were subprime
- 22% of loans to whites in 2006 were subprime

While some praise subprime lending for opening the doors to homeownership to households who would not otherwise qualify, the subprime mortgage market has been fraught with abuses and predatory practices at a great cost to subprime borrowers and the communities in which they reside. This is especially the case for borrowers who could have qualified for lower-cost prime loans, but were instead "steered" into a less desirable subprime product.[6]

Some of the most common features of subprime loans put borrowers at an increased risk of foreclosure. Research has shown that this increased risk is present even when controlling for other factors such as the borrower's credit score. These features—adjustable interest rates and balloon payments, low- or no-documentation loans, failing to escrow for taxes and insurance, and prepayment penalties—are discussed in more detail below.

Adjustable interest rates

The most common type of subprime loan is an adjustable rate mortgage with an intial fixed "teaser" rate for the first two or three years, followed by rate adjustments for the remainder of the loan term in six-month increments. Because the borrower's payment often increases substantially once the teaser period is over and the interest rate starts to adjust, these loans have been described as "exploding ARMs." These loans often function as two or three year balloon loans, since borrowers are typically only approved for these loans based on their ability to repay at the low teaser rate and cannot afford the loan after the interest rate reset. In the last few years (2004-2006), 89-93 percent of subprime loans originated were these exploding ARMs with teasers rates of two to three years.[7]

Low- or no-documentation

Underwriting by mortgage lenders without fully documenting a borrower's income is intended to serve a small group of borrowers who are self-employed or whose incomes are otherwise legitimately not reported on a W-2 tax form. In the subprime mortgage market, however, lenders offer these loans to a substantial segment of borrowers to obscure violations of sound underwriting practices. For example, a review of a sample of these "stated-income" loans disclosed that 90 percent had inflated incomes compared to IRS documents, and "more disturbingly, almost 60 percent of the stated amounts were exaggerated by more than 50 percent."[8] Approximately 43-50 percent of subprime loans are approved without fully documenting the borrower's income.[9]

Failure to escrow for taxes and insurance

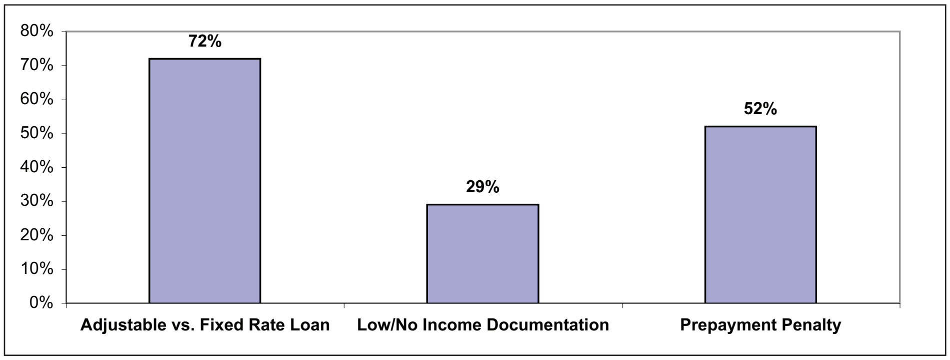
A lender's failure to assess the borrower's ability to repay beyond the initial teaser rate period is compounded by failing to escrow for property taxes and hazard insurance. While escrowing for these obligations by requiring a borrower to pay a portion of the annual cost as part of each monthly mortgage payment is common in the prime mortgage market, 75 percent of loans in the subprime mortgage market do not escrow for these expenses.[10] This deceptive practice gives the borrower the impression that the payment is more affordable when, in fact, there are significant additional costs. When faced with these large tax and insurance bills, borrowers may be forced to refinance their loan to take cash out for these expenses, paying additional fees to the lender for their new loan.

Prepayment penalties

Dramatic increases in monthly payments after the teaser rate expires, shaky underwriting without full documentation, and unexpected tax and insurance bills will cause many subprime borrowers to need to refinance to afford their home. However, subprime loans often come with prepayment penalties that are in effect for periods longer than the initial few years. Borrowers will therefore need to pay substantial fees in order to get into a more affordable loan, resulting in a loss of home equity or could potentially cause the borrower to remain trapped in an unaffordable loan, if they do not have sufficient equity in the home to pay the fee. The vast majority (70 percent) of subprime loans include a prepayment penalty, [11] compared to just two percent in the prime market.[12]

As noted above, these common subprime loan features increase the risk of foreclosure. For example, having an adjustable rate subprime mortgage, rather than a loan with the interest rate fixed for the life of the term, increase the chance of foreclosure by 72 percent.

Increased Foreclosure Risk for Select Loan Terms



Source: Losing Ground, Center for Responsible Lending

When the housing market was strong, troubled subprime borrowers could sell quickly or often had enough equity in their home to refinance. With the recent slowdown in the housing market, however, many subprime borrowers cannot sell or refinance, and end up losing their home to foreclosure.

CRL projects that 2.2 million subprime loans originated between 1998 and 2006 will ultimately end in foreclosure. Nearly one in five of the most recent loans—those made in 2005 and 2006—will be foreclosed upon. The affected homeowners will lose an estimated $164 billion in home equity.[13]

Subprime borrowers are not the only casualties of a foreclosure, however. The entire community is impacted when a borrower's loan ends in foreclosure. Researchers have found that a foreclosure on one home will lower surrounding single family home values by 0.9 percent, and that this downward pressure on prices continues for homes sold within two years of the foreclosure. Multiple foreclosures compound this effect, with each additional foreclosed home adding another 0.9 percent price decrease. This impact is even greater in lower-income communities, which experience a price drop of 1.44 percent on average.

Chapter II: Subprime Lending Patterns In DC

This chapter provides a summary of patterns of subprime lending in the District of Columbia. Using data from the Home Mortgage Disclosure Act (HMDA), the Urban Institute highlights which borrowers in the District are receiving subprime loan, while an analysis by the Center for Responsible Lending uses data McDash Analytics to describe the terms of these subprime loans. Finally, the National Community Reinvestment Coalition provides an overview of the Community Reinvestment Act (CRA) and fair lending performance of banks receiving City deposits in Washington, D.C..

Key Findings:

1) **Subprime loans in DC disproportionately went to African-Americans, lone applicants, moderate-income and borrowers living in Wards 5, 7 and 8.** The share of subprime loans to each of these groups exceeded their share of all conventional mortgages in 2004 and 2005.

2) **Many subprime loans in DC had potentially abusive features.** Many recent subprime loans in DC had "exploding" adjustable interest rates, prepayment penalties and/or required low or no income documentation. All of these features have the potential to strip equity from borrowers and increase the likelihood of foreclosure.

3) **Subprime lending with potentially abusive terms is disproportionately concentrated in Wards 5, 7 and 8.** Per owner-occupied home, these three wards consistently had among the highest rates of subprime loans with these abusive features.

4) **More consistent performance by the City depositories would increase the overall number of loans to minorities, women, and low- and moderate-income borrowers.** Overall banks receiving City deposits are performing at a satisfactory level in terms of reaching women, minorities, and low- and moderate-income borrowers and neighborhoods. The study, however, found inconsistencies in performance regarding City depositories as a whole and individually. For example, banks receiving City deposits performed well on the home purchase ranking, but their refinance lending was less impressive. In addition, a number of banks perform reasonably well on one loan type but perform in a mediocre manner on another loan type.

Part I. HMDA Analysis of Subprime Loans and Subprime Borrowers in Washington, D.C.

Prepared by: The Urban Institute

I. Introduction

This section examines data on subprime mortgage lending and high interest rate loans from the Home Mortgage Disclosure Act (HMDA). HMDA was enacted by Congress in 1975 and implemented by Federal Reserve Board regulations. These regulations require certain banks and other mortgage lending institutions to report information about mortgage applications (amount, location of property, and type of loan), the applicant (race, sex, and income), and the application resolution (approved, denied, etc.).[14] Annual data collected through HMDA provide a unique set of annually updated files with information at the neighborhood level (Pettit and Droesch 2005, 4-5).

By matching HMDA loan records to the U.S. Department of Housing and Urban Development's (HUD) subprime lender list, we can track lending by subprime specialists from 1997 to 2005.[15] 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. HUD classifies mortgage lenders as subprime specialists if 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).

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.[16] They therefore help give a more complete picture of the subprime lending market than the subprime lender data alone.

Tables 1 and 2 contain the breakdown of the overall conventional mortgage market in DC for 1997-2005 for home purchase and refinance loans, respectively. After providing the total number of loans, the tables give percentages of loans based on the characteristics of the borrower—race and ethnicity, income, and sex—as well as the location of the home by D.C. council ward. Borrower income levels are expressed as HUD income categories, which are based on percentages of the area median income (AMI).[17] Households with very low income are those under 50 percent of AMI; low income are 50 to 80 percent of AMI; middle, 80 to 120 percent of AMI; high, above 120 percent of AMI.

II. Analysis of Conventional Loans

Levels of conventional mortgage lending have grown substantially over the past decade. In 1997, lenders reported making a total of 4,690 conventional home purchase loans and 4,738 refinance loans to borrowers in the District of Columbia. By 2005, these numbers had risen to 16,075 home purchase loans and 17,159 refinance loans. The housing market boom, along with historically low interest rates and the growth in the subprime lending market are the primary explanations for this dramatic increase in mortgage lending.

Although home purchase lending increased steadily since 1997, the volume of refinance loans has dropped from a recent high of 28,346 loans in 2003. While homeowners often refinance loans to take advantage of more favorable interest rates or lending conditions, or to finance home improvements, excessive use of refinance credit can also indicate that more households are under financial stress and are borrowing against their homes to pay for medical bills or other needs.

Table 1. Conventional Home Purchase Loans in DC, 1997-2005

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of Loans	4,690	6,531	7,370	7,849	8,501	9,477	10,599	13,416	16,075
% loans by borrower race/ethnicity									
Black	19.9	18.6	19.4	21.6	21.5	22.4	22.3	27.2	29.4
White	69.7	71.1	70.3	68.3	67.7	64.4	64.4	59.1	54.1
Asian/Pacific Islander	1.7	2.1	2.4	2.5	2.9	3.2	3.6	4.9	6.4
Latino	3.7	3.0	3.2	3.5	3.4	4.3	4.2	5.5	7.1
Other	5.0	5.1	4.7	4.1	4.5	5.7	5.6	3.4	3.0
% loans by borrower income									
Very Low	9.2	9.2	12.2	11.6	9.9	9.5	7.3	4.4	3.7
Low	19.9	19.6	23.0	22.7	20.5	23.0	21.7	18.0	16.7
Moderate	25.0	24.9	23.0	22.6	24.5	25.2	26.9	27.1	27.7
High	45.9	46.3	41.8	43.2	45.1	42.2	44.1	50.6	51.9
% loans by number/sex of borrower									
Lone Male	31.6	33.3	34.7	36.6	36.8	36.7	37.6	39.0	42.2
Lone female	26.0	27.2	29.5	29.4	29.6	29.2	31.6	31.0	29.8
Male and female	36.9	34.0	30.9	29.2	29.1	28.5	26.4	25.6	23.5
Same Sex	5.5	5.5	4.9	4.8	4.5	5.6	4.4	4.5	4.5
% loans by ward									
Ward 1	12.3	13.8	14.8	16.5	17.4	17.3	15.9	13.6	15.0
Ward 2	24.6	23.0	23.5	22.8	21.3	21.7	20.5	20.8	19.3
Ward 3	27.5	28.2	25.7	22.2	21.7	18.2	18.6	14.3	12.8
Ward 4	12.3	10.2	10.4	10.0	9.6	10.2	10.1	10.7	10.3
Ward 5	5.4	4.8	4.9	6.0	6.7	8.8	9.7	10.8	10.8
Ward 6	13.5	16.1	16.6	17.3	17.7	17.3	16.9	18.4	18.9
Ward 7	3.0	2.6	2.5	3.5	3.3	3.9	5.1	7.2	7.9
Ward 8	1.4	1.3	1.7	1.7	2.2	2.5	3.3	4.2	5.0

The majority of home purchase loans have been made to white borrowers, while the majority of refinance loans have been made to black borrowers. White borrowers accounted for 54.1 percent of all conventional home purchase loans in 2005. Although whites have accounted for the majority of loans throughout the decade, their share has steadily declined from a high of 71.1

percent in 1998. Black, Latino, and Asian/Pacific Islander borrowers have all seen their share of home purchase loans increase between 1997 and 2005. In contrast to home purchase loans, the majority of home refinance loans were made to blacks in 2005. Black borrowers accounted for 60.4 percent of conventional refinance loans in 2005, with white borrowers making up another 32.3 percent. The shares of black and white borrowers were reversed in 2001, 2002, and 2003.

Table 2. Conventional Home Refinance Loans in DC, 1997 - 2005

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of Loans	4,738	9,885	7,188	3,800	11,254	17,324	28,346	16,441	17,159
% loans by borrower race/ethnicity									
Black	50.9	36.7	48.7	56.4	29.2	28.0	33.2	52.7	60.4
White	46.0	60.0	47.6	39.5	66.3	67.1	61.2	40.4	32.3
Asian/Pacific Islander	1.2	1.2	1.3	1.4	1.5	1.9	2.0	1.8	1.7
Latino	1.9	2.1	2.4	2.7	2.9	3.0	3.6	5.1	5.6
Other	4.9	5.3	3.7	3.6	4.0	5.5	5.1	2.7	2.3
% loans by borrower income									
Very Low	20.6	15.5	23.1	25.7	11.2	10.6	10.0	14.0	15.5
Low	22.0	17.8	22.6	26.1	19.3	20.1	20.2	25.1	26.6
Moderate	19.8	21.1	18.9	18.9	22.7	23.2	23.8	23.9	25.0
High	37.7	45.6	35.4	29.3	46.8	46.0	46.0	37.0	32.8
% loans by number/sex of borrower									
Lone Male	26.9	24.7	27.3	32.4	30.5	29.5	30.1	34.3	34.6
Lone female	29.6	29.8	32.7	34.5	28.6	28.9	32.3	38.6	41.7
Male and female	39.0	41.2	35.5	28.4	36.1	37.4	33.7	24.2	21.0
Same Sex	4.4	4.4	4.4	4.7	4.8	4.2	3.8	2.9	2.7
% loans by ward									
Ward 1	9.3	9.6	10.5	11.4	13.3	12.4	12.1	11.7	10.4
Ward 2	12.5	14.2	12.3	11.4	17.4	17.2	15.7	11.0	9.6
Ward 3	18.2	24.7	18.5	12.8	24.9	26.8	23.0	13.2	9.6
Ward 4	18.5	17.5	17.5	18.6	14.0	14.6	15.8	17.2	17.8
Ward 5	14.3	10.3	12.8	14.4	8.1	7.7	9.9	16.1	17.4
Ward 6	11.3	12.6	13.7	15.2	15.5	15.4	15.5	14.3	13.7
Ward 7	10.8	7.6	9.7	10.1	5.0	4.1	5.4	10.6	13.8
Ward 8	5.1	3.4	5.0	6.1	2.0	1.8	2.6	5.9	7.8

The share of mortgage loans to low income borrowers has been dropping steadily since the beginning of the decade. In 1997, very low income borrowers accounted for 9.2 percent of home purchase loans and 20.6 percent of refinance loans. By 2005, however, these percentages had dropped to 3.7 percent for home purchase and 15.5 percent for refinance loans. The shift to more higher-income borrowers has been most pronounced in the home purchase market. High income borrowers accounted for more than half of all home purchase loans in 2005, the highest share over the period.

The highest share of home purchase loans were taken out by a lone male borrower (i.e., a male applicant without a co-applicant), 42.2 percent in 2005. Lone female borrowers accounted for 29.8 percent of home purchase loans in 2005, while loans made to male and female co-applicants were 23.5 percent. Lone female borrowers were more likely to take out a refinance loan than other borrowers, however. In 2005, 41.7 percent of conventional refinance loans were made to lone female borrowers, compared with 34.6 percent to lone male and 21.0 percent to male and female borrowers.

In 2005, the highest share of purchase loans were for homes in Ward 2 (19.3 percent), followed by Ward 6 (18.9 percent), and Ward 1 (15.0 percent). Wards 7 and 8 had notably smaller shares of home purchase loans, 7.9 and 5.0 percent, respectively, in 2005, but their share has been rising since the start of the decade. Although it had the highest share of home purchase loans, Ward 2 had the second lowest share of refinance loans in 2005, 9.6 percent, tied with Ward 3. The lowest share was 7.8 percent of refinance loans in Ward 8. The highest shares of refinance loans were in Wards 4 and 5, 17.8 and 17.4 percent, respectively.

III. Loans from Primarily Subprime Lenders

The pattern of subprime lending in the District of Columbia differs notably from that for the mortgage lending market overall. Subprime loans are much more likely to go to black borrowers than would be suggested by their overall participation in the mortgage lending market. Subprime loans are also more likely to be taken out by moderate income borrowers, lone male or lone female borrowers, and borrowers living in Wards 4, 5, and 7.

Table 3. Home Purchase Loans from Subprime Lenders, Washington DC, 1997 - 2005

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of Loans	183	385	332	404	267	267	381	711	1,615
% loans by borrower race/ethnicity									
Black	71.8	81.4	68.3	53.9	50.9	51.6	54.0	68.6	69.6
White	20.1	14.0	20.6	39.4	41.5	32.8	19.0	17.6	15.7
Asian/Pacific Islander	1.3	1.0	1.6	1.5	2.2	2.0	3.6	2.7	3.9
Latino	6.0	2.0	2.8	2.7	2.7	4.0	9.8	10.4	9.1
Other	0.7	1.7	6.7	2.4	2.7	9.6	13.6	0.8	1.7
% loans by borrower income									
Very Low	6.2	14.7	28.6	17.1	12.1	13.9	5.4	4.6	3.1
Low	36.7	42.7	35.1	26.1	24.2	22.3	29.5	20.1	19.9
Moderate	29.4	24.2	19.9	27.1	25.4	31.1	29.2	35.1	36.8
High	27.7	18.5	16.5	29.6	38.3	32.7	35.9	40.2	40.3
% loans by number/sex of borrower									
Lone Male	55.6	54.1	42.6	39.7	33.8	48.0	46.0	47.0	52.7
Lone female	28.1	32.5	37.6	30.9	33.3	29.3	38.0	38.4	34.9
Male and female	14.0	12.3	11.1	21.5	30.8	18.4	13.0	12.0	9.4
Same Sex	2.2	1.1	8.7	8.0	2.1	4.3	3.0	2.6	3.0
% loans by ward									
Ward 1	13.0	15.2	10.5	13.3	16.9	15.1	13.6	12.5	10.4
Ward 2	6.6	4.5	6.5	10.2	11.2	8.5	6.5	4.9	5.6
Ward 3	7.2	4.1	5.3	12.2	9.3	9.7	4.0	3.3	1.8
Ward 4	12.5	11.7	14.1	13.5	11.7	11.7	15.0	15.7	16.5
Ward 5	21.2	24.5	23.1	15.3	17.1	22.4	25.2	22.8	23.6
Ward 6	21.5	20.5	16.7	17.7	21.1	16.9	13.4	13.2	12.6
Ward 7	13.7	11.9	13.7	11.4	6.6	8.6	14.4	19.0	17.5
Ward 8	4.4	7.5	10.1	6.4	6.1	7.2	7.9	8.6	11.9

Source: HMDA data, tabulated by Urban Institute

Consistent with national trends, subprime lending has grown along with the overall mortgage market in the District of Columbia. Home purchase loans issued by subprime lenders increased almost ten times between 1997 and 2005, from 183 to 1,615 loans, while refinance loans issued by subprime lenders more than doubled, from 1,200 to 2,536 loans.

Although black borrowers accounted for only 29.4 percent of the overall conventional home purchase market in 2005, they took out 69.6 percent of all subprime home purchase loans in that year. This is not the highest share of subprime lending to black borrowers, however. In 1998, blacks took out 81.4 percent of all subprime loans. The second highest users of subprime home purchase loans in 2005 were white borrowers, with 15.7 percent, followed by Latino borrowers, with 9.1 percent. Black borrowers also had, by far, the highest share of subprime refinance loans, accounting for 83.7 percent of such loans in 2005. The second highest share was to white borrowers, 9.0 percent, followed by Latino borrowers, 5.6 percent.

Table 4. Home Refinance Loans from Subprime Lenders in Washington DC, 1997 – 2005

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of Loans	1,200	1,540	1,461	941	742	593	1,286	1,681	2,536
% loans by borrower race/ethnicity									
Black	86.1	83.4	87.7	84.9	73.6	66.4	67.1	83.0	83.7
White	7.5	11.5	7.6	9.8	18.3	21.0	20.4	11.8	9.0
Asian/Pacific Islander	0.7	0.6	0.6	0.4	0.9	0.7	0.9	0.6	0.9
Latino	0.8	1.1	1.7	2.6	2.9	3.5	3.7	3.3	5.6
Other	4.9	3.4	2.4	2.3	4.3	8.3	7.9	1.2	0.8
% loans by borrower income									
Very Low	39.2	39.9	44.4	37.6	30.8	26.8	21.2	21.0	21.0
Low	30.8	28.9	30.4	32.2	33.8	33.2	33.9	34.3	33.8
Moderate	18.2	18.3	13.4	18.3	18.5	22.5	24.8	25.5	24.3
High	11.9	12.9	11.8	11.9	16.9	17.5	20.1	19.2	20.9
% loans by number/sex of borrower									
Lone Male	29.9	30.0	29.7	31.3	34.1	36.3	36.4	37.4	36.9
Lone female	34.1	38.0	40.7	40.2	39.1	44.8	43.5	45.3	47.7
Male and female	31.5	27.2	24.4	23.0	21.0	16.9	18.2	15.6	13.6
Same Sex	4.5	4.7	5.2	5.5	5.9	1.9	2.0	1.8	1.7
% loans by ward									
Ward 1	7.8	9.1	10.1	11.7	12.3	11.6	8.5	8.4	7.7
Ward 2	4.9	3.2	4.3	4.6	6.5	5.8	6.8	3.2	2.6
Ward 3	1.3	2.7	1.5	1.9	5.4	5.6	5.4	1.9	1.7
Ward 4	20.8	22.0	20.1	23.5	22.4	21.3	22.2	21.4	19.2
Ward 5	23.0	23.9	21.3	21.2	20.5	21.9	21.8	26.3	22.7
Ward 6	12.2	10.4	12.7	12.6	14.4	17.2	14.9	10.3	10.9
Ward 7	20.4	18.2	18.9	15.2	12.7	10.6	13.0	17.2	22.1
Ward 8	9.6	10.5	11.2	9.3	5.9	6.1	7.4	11.3	13.1

Source: HMDA data, tabulated by Urban Institute

Moderate income borrowers accounted for 27.7 percent of conventional home purchase loans in 2005, but 36.8 percent of home purchase loans from subprime lenders in that year. The highest share of subprime purchase loans, however, was to high income borrowers, with 40.3 percent. For refinance loans, low income borrowers, who accounted for 26.6 percent of conventional loans overall in 2005, took out 33.8 percent of loans from subprime lenders.

Loans made to a lone borrower, be it a lone male or lone female, were more likely to be from a subprime lender than were loans made to co-applicant borrowers. Lone male borrowers accounted for more than half (52.7 percent) of all home purchase loans from subprime lenders in 2005, while lone female borrowers accounted for 34.9 percent. Similarly, lone male borrowers took out 36.9 percent of subprime refinance loans in 2005, while lone female borrowers took out 47.7 percent.

The highest share of home purchase loans from subprime lenders in 2005 was for homes in Ward 5, with 23.6 percent of all loans. Second highest was Ward 7 (17.5 percent) and third highest was Ward 4 (16.5 percent). A similar geographic pattern was observed for refinance loans.

IV. High-Rate Loans

As noted earlier, HMDA only began tracking high interest rate loans starting in 2004. Borrowers in the District of Columbia took out a total of 2,902 high interest rate home purchase loans in 2005, and 3,808 high interest rate refinance loans (see Appendix 3). The characteristics of users of high interest rate loans are very similar to those receiving loans from subprime lenders.

As with loans from subprime lenders, black borrowers were much more likely to take out high interest rate loans than were borrowers of other races. Black borrowers accounted for 66.9 percent of all high interest rate home purchase loans in 2005, and 85.8 percent of all high interest rate refinance loans. White and Latino borrowers had the second and third highest shares of such loans, respectively.

Lone male and lone female borrowers had the highest shares of high interest rate loans. More than half of all high interest rate home purchase loans (53.1 percent) in 2005 were made to lone male borrowers, with another 34.5 percent made to lone female borrowers. For high interest rate refinance loans, the largest share was to lone female borrowers, 48.5 percent, followed by lone male borrowers with 36.3 percent.

The geographic pattern of high interest rate loans was also similar to that for loans from sub-prime lenders. The largest shares of high interest rate home purchase and refinance loans in 2005 were made to borrowers in Wards 5, 7, and 4. Ward 5 accounted for almost a quarter of all high interest rate loans of both types.

Table 5. High Interest Home Purchase Loans Washington, D.C., 2004 - 2005

Year	2004	2005
Number of Loans	938	2,902
% loans by borrower race/ethnicity		
Black	68.3	66.9
White	18.7	19.0
Asian/Pacific Islander	2.9	3.8
Latino	10.0	10.3
% loans by borrower income		
Very Low	6.4	3.9
Low	23.9	19.7
Moderate	31.7	34.3
High	38.0	42.1
% loans by number/sex of borrower		
Lone Male	51.2	53.1
Lone female	36.3	34.5
Male and female	10.4	9.7
Same Sex	2.2	2.7
% loans by ward		
Ward 1	10.0	11.0
Ward 2	5.8	5.8
Ward 3	3.2	2.2
Ward 4	14.9	15.9
Ward 5	22.6	22.1
Ward 6	11.6	11.4
Ward 7	21.2	19.3
Ward 8	10.7	12.4

Source: HMDA data, tabulated by Urban Institute
Note: HMDA did not include information on interest rate until 2004.

Table 6. High Interest Home Refinance Loans Washington, D.C., 2004 - 2005

Year	2004	2005
Number of Loans	1,703	3,808
% loans by borrower race/ethnicity		
Black	83.9	85.8
White	11.5	8.0
Asian/Pacific Islander	0.8	0.9
Latino	3.8	5.3
% loans by borrower income		
Very Low	23.0	21.2
Low	36.6	36.6
Moderate	21.7	23.5
High	18.7	18.6
% loans by number/sex of borrower		
Lone Male	35.6	36.3
Lone female	48.0	48.5
Male and female	14.6	13.4
Same Sex	1.8	1.8
% loans by ward		
Ward 1	8.6	7.3
Ward 2	3.4	2.7
Ward 3	2.0	1.8
Ward 4	17.2	18.1
Ward 5	25.4	23.0
Ward 6	10.7	10.5
Ward 7	19.7	22.4
Ward 8	13.0	14.3

Source: HMDA data, tabulated by Urban Institute
Note: HMDA did not include information on interest rate until 2004.

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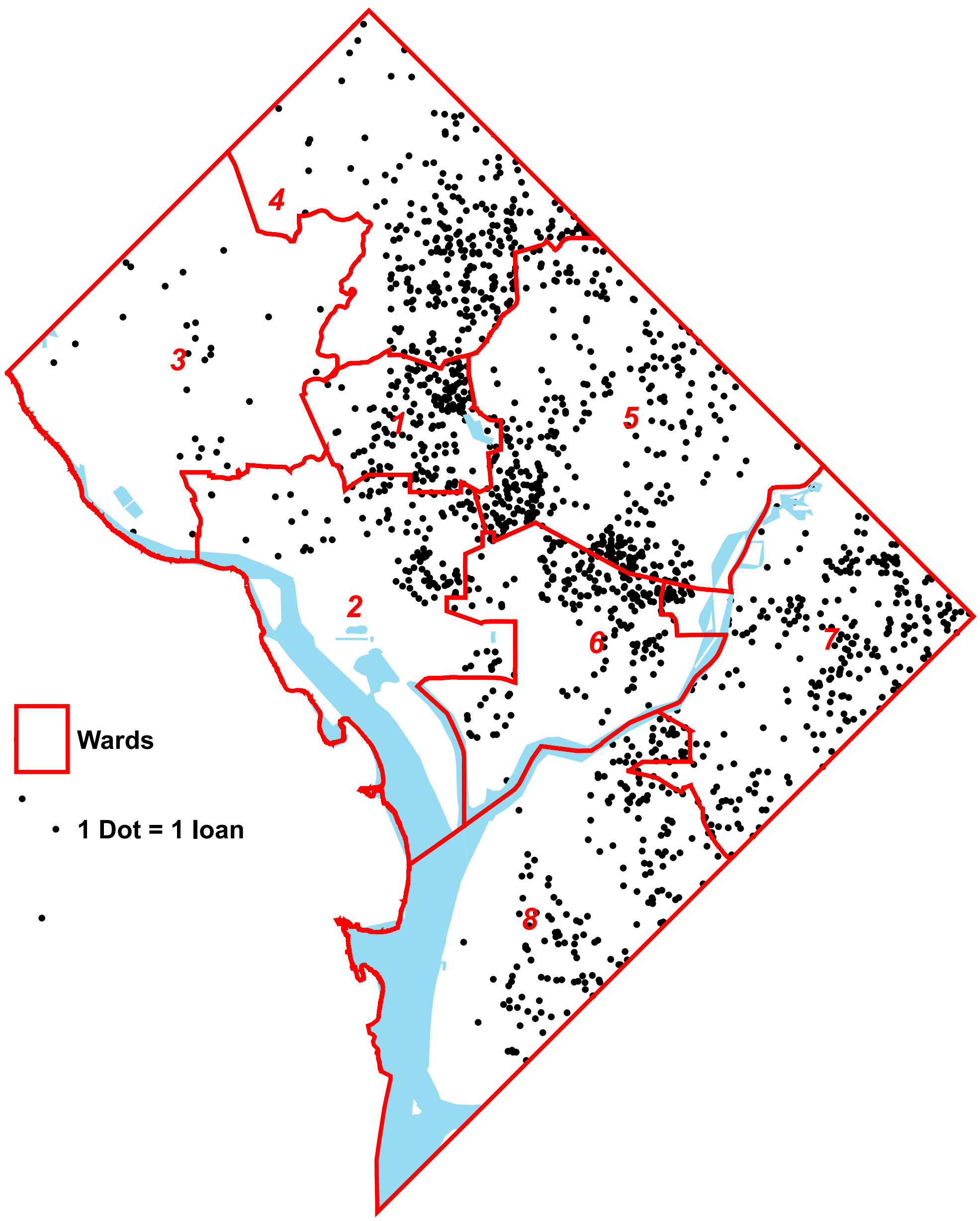
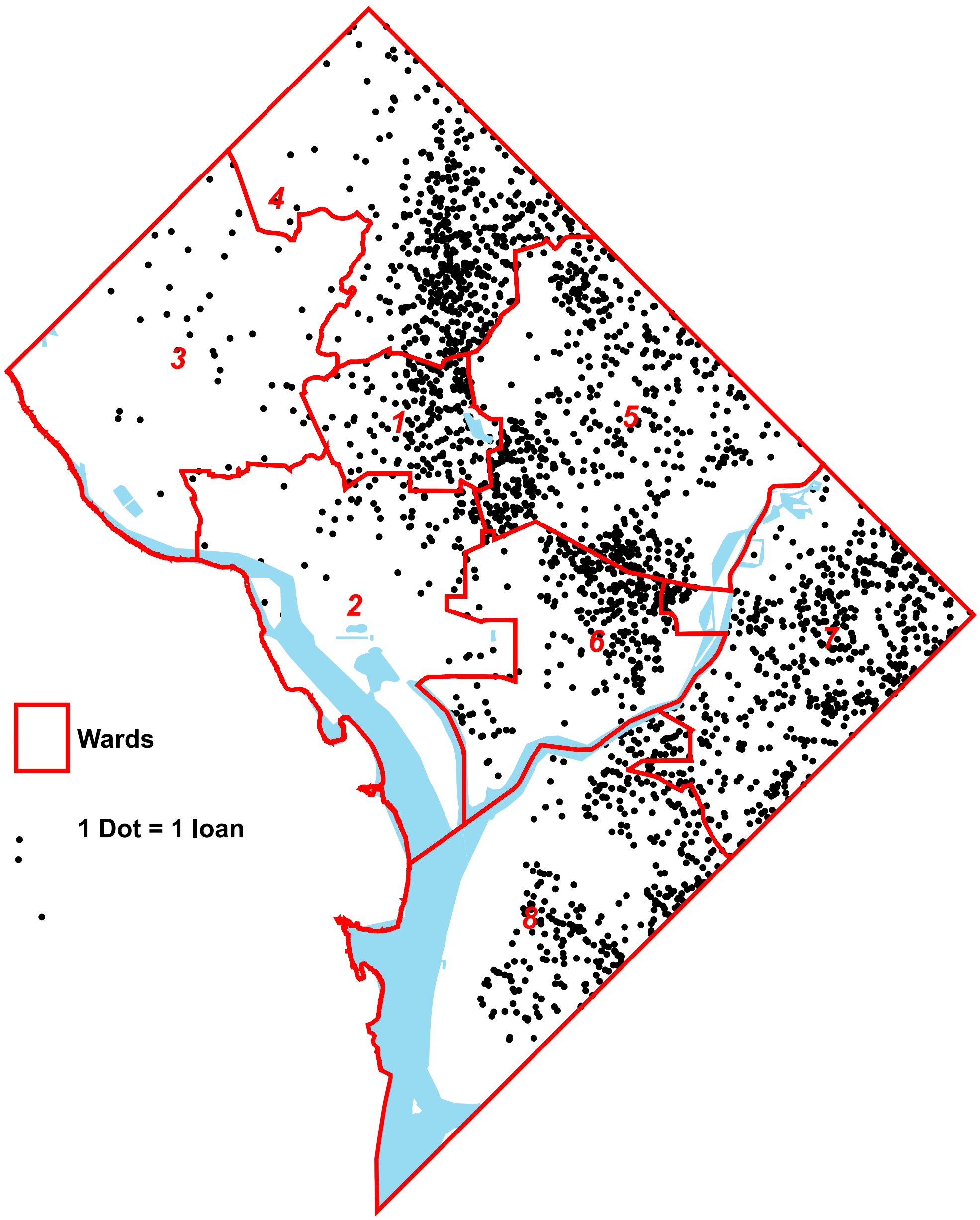
Map 1. Subprime Home Purchase Loans
Washington, D.C., 2005



Source: Home Mortgage Disclosure Act data tabulated by The Urban Institute/NeighborhoodInfo DC.

Map 2. Subprime Refinance Loans Washington, D.C., 2005



Source: Home Mortgage Disclosure Act data tabulated by The Urban Institute/NeighborhoodInfo DC.

Part II. McDash Data Analysis of District Subprime Loans

Prepared by: The Center for Responsible Lending

For this section, we analyzed first-lien, owner-occupied, 1-4 family residence, home purchase or refinance, loan originations from a database provided by McDash Analytics. The McDash database contains loan-level information collected from 15 mortgage servicers. While market coverage varies from year to year, the McDash data includes loans from many of the nation's largest servicers[18] and includes over 70 variables related to loan characteristics and performance, including loan amount, loan purpose, borrower credit score, combined loan-to-value ratio (CLTV), debt-to-income ratio (DTI), documentation level and origination channel.

I. Data Coverage

To estimate McDash's coverage of the DC market, we compared the number of loans and loan volume for DC in 2005 and 2006 with those from HMDA, which we take to be the universe of mortgage loans made each year. The McDash database contains 21,259 loans that were originated in DC between 2005 and 2006, compared to 44,340 loans in HMDA. The total loan volume for these loans was $7.4 billion and $14.5 billion for McDash and HMDA, respectively. Based on these comparisons, we estimate that the McDash data covered about half of the of DC market in both 2005 and 2006.

Table 1. Estimated McDash Loan Coverage for DC: First-Lien Owner-Occupied Purchase and Refinance Loans

Year	# HMDA Loans	HMDA Loan Volume	# McDash Loans	McDash Loan Volume	McDash Loan Coverage	McDash Loan Volume Coverage
2005	24,160	$7.83B	11,739	$4.07B	48.6%	52.0%
2006	20,180	$6.70B	9,520	$3.35B	47.2%	50.0%

Based on our definition of subprime loans[19], McDash contains information on 2,626 number of subprime loans originated in 2005 and 2006, compared to 9,149 loans in HMDA for these years.

Table 2. Estimated McDash Loan Coverage for DC: First-Lien Owner-Occupied Subprime Loans

Year	# Subprime Loans: HMDA	# Subprime Loans: McDash	Estimated McDash Subprime Market Coverage
2005	4,301	1,310	30.5%
2006	4,848	1,316	27.1%
Total	9,149	2,626	28.7%

Though McDash does not have the near-universal subprime loan coverage that HMDA does, it has far richer information on the specific loan terms associated with each mortgage. Therefore, whereas the HMDA analysis in the previous chapter was used to identify where subprime lending has been concentrated, the McDash analysis will look at the terms of subprime loans originated in DC.[20]

II. Loan Terms of Concern

Below, we describe several loan attributes that are common in the subprime market in general and determine how prevalent these attributes were in subprime loans made in the District in 2005 and 2006.

1) Hybrid-Adjustable Rate Loans:

Very generally, there are two basic mortgage loan types, fixed-rate (FRM) and adjustable-rate (ARM). As their names implies, interest rates on FRMs are fixed for the life of the loan, while the rates on ARMs vary over time. Of particular concern in the subprime market are hybrid-ARMs, also called "exploding ARMs." These loans have initial "teaser rates" that are fixed for a few years, afterwards the rates reset to much higher, adjustable rates for the duration of the loan. The most common subprime hybrid-arm products are the 2/28 and 3/27 products, which have initial fixed rates for two and three years, respectively, and then reset to a higher adjustable rate. When the rates on these loans are reset, the monthly payments for the borrowers often jump by several hundreds of dollars.

Importantly, lenders and brokers have been underwriting these 2/28 and 3/27 loans based on the teaser rates alone. That is, originators of these loans have been evaluating the ability of borrowers to meet monthly payments based only on the initial, low rates. These loans are also marketed based on the initial teaser rates and originators often obfuscate the fact that such rates are temporary. As a result, these loans often prove to be unsustainable for borrowers who, while able to meet the low initial payments, cannot afford the loan once the rate resets

Table 3. Example of 2/28 Payment Shock

Hybrid ARM Example	Months 1-24	Months 25-360
Interest Rate	8.1%	10.95%
Monthly Payment	$2,157	$2,745

The loan has a teaser rate of 8.1 percent for two years, after which it adjusts to 10.95 percent.[21] **For a loan of $291,230 (the average loan amount for subprime 2/28 loans originated 2006 in DC in McDash), the monthly interest and principal payment jumps from $2,157 to $2,745, an increase of almost $600.**

Hybrid ARMs were the dominant subprime loan product in the District in 2005 and 2006. Of the 2,626 subprime loans that are in McDash, 59.8 percent were 2/28 ARMs and additional 7.3 percent were 3/27 ARMs. The remaining loans were fixed rate or other adjustable rate products. The proportion of hybrid ARMs in DC was slightly lower than for the US during the same time.

Table 4. Incidence of Subprime 2/28 and 3/27 Loans in DC: 2005-2006

	Total # Subprime: McDash	2/28 Loans	3/27 Loans	Fixed Rate Mortgages	Other
DC	2,626	1,570 (59.8%)	193 (7.3%)	480 (18.3%)	383 (14.6%)
US	864,608	570,913 (66.0%)	88,964 (10.3%)	95,518 (11.0%)	109,213 (12.6%)

2) Prepayment Penalties

Payment penalties are fees required by lenders when borrowers pay off mortgages early. Prepayment penalties usually last for a few years and, in theory, allow lenders to offer lower interest rates to borrowers by ensuring that borrowers will not refinance out of a loan before the loan is profitable to the lender. Lenders claim that prepayment penalties are optional and are presented to borrowers as a way to lower interest rates. However, in practice, borrowers in the subprime market often do not know that their loans carry prepayment penalties and these penalties trap them in a high-interest loan. Importantly, prepayment penalties often accompany yield-spread premiums (YSPs), which are financial kick-backs from lenders to brokers for putting borrowers into loans that are more expensive than they qualify for. A lender will only pay the maximum YSPs to a broker if a loan contains a prepayment penalty and, as a result, prepayment penalties can impose undue hardship on borrowers by preventing them from refinancing out of unnecessarily expensive or unsustainable loans. It is important to note that prepayment penalties are rarely found on prime loans.

Table 5. Incidence of Subprime Prepayment Penalties: 2005-2006

	Total*	Number of Subprime Loans with Prepayment Penalties
DC	2,626	1,224 (46.6%)
US	864,608	440,188 (50.9%)

* *Total represents those loans for which the prepayment penalty status is known (i.e. not missing)*

About 47 percent of the subprime loans in McDash in DC had prepayment penalties, compared to about 51 percent for the country as a whole.

3) Interest-Only Loans

In recent years, many mortgage providers have focused on structuring loan terms to attract new home-buyers and those consumers who cannot afford more conventionally-structured loans. One type of product that has become more common is the interest-only (I-O) loan. With an I-O loan, the borrower will pay only interest and no loan principal for a set period of time. As with hybrid ARMs, I-O loans allow borrowers to make low payments for the early stages of a mortgage, then make larger payments or refinance when the loan adjusts, theoretically enabling a borrower who anticipates an increase in their income to buy sooner. There are two potential hazards that can result from I-O loans. The first is that, after the interest-only period expires, the borrower may not be able to afford the higher monthly payments. The second is that, since payments made in the I-O period do not pay down the loan principal, if housing prices depreciate, borrowers can end up with "negative equity" where the loan balance exceeds the market value of the home. As with hybrid ARMs, borrowers are often convinced to take I-O loans based on the initial payments and may not be told that those low payments are only temporary.

Table 6. Incidence of Interest-Only Loans: 2005-2006

Year	Total number of Subprime Loans	Number of Subprime Loans with I-O terms
DC	2,626	306 (11.7%)
US	864,608	112,515 (13.0%)

For subprime loans originated in DC between 2005 and 2006, about 12 percent were interest-only, roughly the same as for the country as a whole.

4) Low- and No-Documentation Loans

In traditional mortgage lending, borrowers must provide proof of their income to demonstrate their financial solvency and ability to repay the money financed. Sometimes, however, borrowers have complicated revenue streams or, for some other reason, do not want to provide income documentation. For these borrowers, alternative loan products were created. These "low doc" or "no doc" loans (sometimes called "stated income" loans) require little or no documentation of income but, as a result, carry higher interest rates. Unfortunately, low- and no-doc loans have proven rife with abuse. While some borrowers may use these loans to mislead lenders about their incomes, many other borrowers unknowingly take no-doc loans because loan originators inflate their income to qualify them for larger, and often unaffordable, loans. Therefore, while low- or no-documentation loans may not always be predatory, they have increasingly been used in abusive ways.

Table 7. Incidence of No/Low Doc Loans: 2005-2006

Year	Total*	Number of No/Low Doc Subprime Loans
DC	970	676 (69.7%)
US	259,097	148,378 (57.3%)

** Total represents those loans for which the documentation status is known (i.e. not missing)*

Close to 70 percent of subprime loans made in DC were no- or low-doc loans, compared to only 57 percent of subprime loans across the country.

III. Neighborhood Concentrations

To compare lending between different DC neighborhoods, we estimated the total number of loans with each of the terms of concern per unit of owner-occupied housing in each zip code.[22] This estimate allows us to make comparisons between neighborhoods to determine where the most troubling lending patterns have occurred.

Table 8 contains the results for the zip codes with estimated saturation levels that exceeded the average for all four terms of concern (i.e. hybrid-ARMs, prepayment penalties, interest-only, and low-/no-doc). Importantly, while these zip codes include parts of Wards 1, 2, 4, and 6, they make up essentially all of Wards 5, 7 and 8.[23] In many cases, most of the highest concentrations were in the three of the zip code areas southeast of the Anacostia River (i.e. 20019, 20020, and 20032). Excluding 20001, these three zip codes had the highest concentrations of hybrid-ARMs, prepayment penalties, and no- or low-documentation loans.

Table 8. Zip Codes with Highest Estimated Saturation of Loan Terms of Concern

ZIP Code	Estimated Number of 2/28 and 3/27 loans per 10,000 units	Estimated Number of Prepayment Penalties per 10,000 units	Estimated Number of IO Loans per 10,000 units	Estimated Number of No- or Low-Doc per 10,000 units
20001	1203	733	264	842
20002	922	429	136	806
20010	712	511	241	642
20011	810	557	121	649
20017	871	606	133	1025
20018	868	681	111	1023
20019	1298	928	109	1374
20020	1016	713	108	1351
20032	1292	984	111	1536
Average Across Zip Codes	577	400	106	626

These patterns are a serious concern, as CRL research has shown in the past the effect of irresponsible lending and foreclosure on the community as a whole. These three ZIP codes are highly populated by minority residents and physically separate from the rest of the District. In this situation, the negative outcomes of abusive lending can rapidly erode the wealth and stability of these borrowers and their communities.

IV. Third-Party Originations

The rapid growth of the subprime market over the past decade has largely been fueled by the willingness of subprime lenders to rely on third-party originators. Rather than build brick-and-mortar storefronts, subprime lenders have recruited legions of mortgage brokers to market and originate their subprime loans. Borrowers often rely on mortgage brokers to serve as trusted advisers in the often-confusing process of shopping for a loan and presume that the broker is working to find them the best loan.

However, there are several problems with the dominance of brokers in the subprime market. First, unlike traditional lenders, mortgage brokers are virtually unregulated. There are no federal regulatory agencies that oversee brokers, nor are there national standards for the licensing or oversight of brokers. Second, brokers do not actually fund loans nor is their compensation based on the performance of the loans they originate. Rather, broker compensation is based on the volume of loans that they originate and on the interest rates carried by those loans. Brokers receive two types of revenue: an origination fee and a yield spread premium (YSP). The origination fee is paid directly by the borrower and is generally a fixed percentage of the loan amount (usually one to two percent). The YSP, however, is paid by the lender based on the difference between the par rate of a loan (i.e. the minimum rate at which the lender will approve a loan) and the actual note rate that the borrower accepts. In other words, brokers essentially receive kickbacks from lenders for putting borrowers into loans with inflated interest rates. In the subprime market, lenders will only pay the maximum YSP if loans contain prepayment penalties, making the YSPs particularly pernicious. Finally, despite the fact that many borrowers perceive brokers to be acting on their behalf, brokers have no fiduciary responsibility to the borrowers they serve.

Because of the potential for abuse that can occur when third parties originate loans, we looked to see where brokered subprime loans were concentrated in the District.[24] Of the ten zip codes with a higher than average saturation of brokered loans, nine of them of them were the same as were mentioned in the previous section.[25] And, again, three of the four highest concentrations were in the zip codes east of the Anacostia River.

Table 9. Zip Codes with the Highest Estimated Saturation of Third-Party Originated Subprime Loans

Zip Code	Estimated Number of Third Party Originations per 10,000 units
20001	469
20002	320
20005	301
20010	291
20011	340
20017	274
20018	323
20019	505
20020	411
20032	566
Average Across Zip Codes	228

V. Conclusion

Subprime loans in DC basically look the same as subprime loans across the country. This is not surprising, as the subprime loan products in recent years have been securitized. Consequently, subprime loan products have become somewhat commoditized. The exception to this is the documentation-level, as DC subprime loans were more likely to have no- or low-documentation of income than the country as a whole.

Importantly, the highest concentrations of loan terms of concern were in Wards 5, 7 and 8. These wards consistently had the highest concentrations of hybrid-ARMs, prepayment penalties, and no- or low-documentation loans. In addition, these wards had among the highest concentration of third-party originated loans. As a result, these neighborhoods are likely to have the highest concentrations of predatory lending.

Part III. CRA and Fair Lending Analysis of Major Lenders in the District of Columbia

Prepared by: National Community Reinvestment Coalition

I. Introduction

This analysis provides an overview of the Community Reinvestment Act (CRA) and fair lending performance of banks receiving District of Columbia (City) deposits in the Washington, D.C. in 2006. The most recent publicly available Home Mortgage Disclosure Act (HMDA) data is for the year 2006. NCRC uses CRA Wiz, a software program produced by Wolters Kluwer Financial Services, to analyze HMDA data. CRA Wiz is widely used across the mortgage industry for tracking and submitting HMDA data.

The National Community Reinvestment Coalition (NCRC) has ranked lending institutions based on their lending performance. The type of analysis provided is for all single family lending together (which includes home purchase, refinance, and home improvement loans), as well as for home purchase and refinance lending separately. Moreover, this type of analysis is conducted for both prime and subprime lending in the District of Columbia.

II. Method

Lending Institutions
Sixteen prime and twelve subprime major lending institutions and their affiliates that operate in the District of Columbia were identified and included in this report. Of these, twelve out of sixteen lenders in the prime ranking analysis and three of twelve lenders in the subprime analysis received City deposits. The analysis therefore compares banks receiving municipal deposits against banks and independent mortgage companies that do not receive city deposits (for detailed information on the lenders included in this analysis, please see below).

Measures of Lending Performance
Lending institutions were ranked based on 15 indicators of lending performance. These measures of performance fall into three main categories:

1) Portfolio Share Indicators – Seven indicators such as percent of loans to various groups of borrowers (that is, minorities and low- and moderate-income borrowers), percent of loans to female borrowers, as well as percent of loans that went to predominantly minority and low- and moderate-income neighborhoods.

2) Denial Disparity Ratios – These four indicators compared the denial rates to minorities to white denial rates.

3) Market Share Indicators – These four indicators measured a single lending institution's share of all the loans made by all financial institutions in a certain geographical area to a specific demographic group of traditionally underserved borrowers (for instance, African –Americans) to a single institution's share of loans to the control group of borrowers (for instance, whites).

For a detailed description of the 15 lending performance indicators used in this analysis, please see Appendix 2. NCRC shared initial study results with a subset of the lenders in the analysis in order to check the technical accuracy of the study and to receive input on the interpretation of results. The lenders provided useful input and double-checked the data analysis for their institutions. A discussion of their input is provided below.

Ranking Lenders on their Performance

Ranking analysis was conducted for all single family lending together, as well as for home purchase and refinance lending separately. The lower the score of a lending institution, the better they have performed on our analysis. A rank of "1" indicates that the lender has performed best on a measure of performance such as percent of loans in minority neighborhoods. Correspondingly, the last place (that is, highest number) is assigned when a lender performed the lowest on an indicator. Note that the lowest rank may vary from one indicator to another, as a few banks could not be ranked on each indicator. This is to say that, while the lowest rank for prime and subprime lending analysis is usually 16 and 12 respectively,[26] this number varies according to the total number of lenders that were ranked on a specific indicator (for example, if only 10 banks are ranked on a certain indicator of performance, the lowest rank assigned would be 10).

In a case of an insufficient number of loan originations for a ranking analysis to be meaningful, a lending institution was assigned no rank. The threshold for assigning a rank to a lending institution was 40 loan originations. Any lending institution that has originated less than 40 loans was not ranked; yet, its lending activity is still displayed in our analysis. NCRC would have used a higher threshold such as 100 but the number 40 was chosen so that some of the institutions receiving City deposits could be ranked for at least one loan type.[27]

III. Prime Lending

All Single Family Lending

NCRC chose institutions that were the market leaders in terms of their total number of single family originations in the District of Columbia during 2006 (single family lending refers to home purchase, refinance, and home improvement lending combined). If they had more than 40 loans, banks receiving City deposits were also ranked in the analysis (see Table 1 at the back of the narrative). Of the 16 prime lending institutions included in this study, Bank of America and Wells Fargo were the two institutions originating the greatest number of prime single family loans at 1,849 and 1,477 originations, respectively in Washington, D.C. during 2006. M&T and PNC Financial Services Group (FSG), on the other hand, were the two lending institutions that made less than 100 prime loan originations (65 and 44 originations, respectively) in the District of Columbia during the year 2006. Institutions that made more than 500 loans but less than 1,000 included Countrywide, First Savings, National City, Suntrust, and Wachovia. Institutions that made more than 300 loans but less than 500 included Chevy Chase, Washington Mutual, and JP Morgan Chase.

The lenders listed below represent the highest and lowest performing institutions on our lending performance indicators (see Table 2).

Table 2. Prime Single Family Lending Ranking

Institution	Rank
M&T	1
Countrywide FC	2
Lehman Brothers Bank	3
Wachovia Corporation	4
Fidelity & Trust FC	5
Citigroup Inc.	6
Suntrust	7
PNC FSG	8
JPMorgan Chase & Co.	9
Bank of America Corporation	10
BB&T Corporation	11
Washington Mutual Bank	12
Chevy Chase Bank	13
National City Corporation	14
Wells Fargo	15
First Savings MC	16

Findings for Banks Receiving City Deposits

Of the prime single family loans originated by all lending institutions, 6,613 prime loans were issued by banks receiving City deposits included in this study. That is, 42 percent of all prime loans were issued by the 12 banks receiving City deposits. This sizable number of prime loans issued by City depositors is important because the City has the potential to increase access to credit for traditionally underserved communities by influencing the lending patterns of these banks.

On 4 out of the 7 Portfolio Share Indicators used in this study (that is, percent of loans to African-Americans, low- and moderate-income borrowers, minority, or low- and moderate-income census tracts), more than half of the banks receiving City deposits performed better than all lenders, as a group[28] (see Table 3 at the end of narrative). In other words, more than half of the banks receiving City deposits issued a higher percentage of their loans to minority or low- and moderate-income (LMI) borrowers than all lenders, as a group.

Moreover, more than half of the banks receiving City deposits exceeded the threshold for levels of performance on all 4 Market Share Measures (that is, LMI to middle- and upper-income (MUI) borrower market share, African-American to white borrower market share, LMI to MUI tract market share, and minority to non-minority tract market share). The threshold level on these indicators was a ratio of one indicating that the bank's market share of prime loans to traditionally underserved communities was at least equal to its market share of loans to control groups of borrowers such as whites.

The majority of banks receiving City deposits performed better than all lenders, as a group, on just one of the four denial disparity ratios. On the denial disparity ratios of African-Americans compared to whites, Latinos compared to whites, and Asians compared to whites, less than half the City depositories did better than all lenders, as a group. More than half the banks receiving City deposits performed better than all lenders, as a group, on the denial disparity ratio comparing minority to white census tracts.

In sum, more than half the banks receiving City deposits performed better than threshold levels on half or more of the portfolio and market share indicators. In contrast, more than half of the banks receiving City deposits performed better than threshold levels on just 25% of the denial disparity indicators. Overall, more than half of the banks receiving City deposits performed better than threshold levels on 9 of 15 indicators or 60% of the indicators. While this is an acceptable level of performance, it could be improved, with particular focus on bolstering performance on the denial disparity ratios.

Single Family Lending to Minorities

PNC and M&T performed best regarding the proportion of their loans to African-Americans during 2006. PNC and M&T issued 72.7 percent and 67.2 percent of their loans to African-Americans while all lenders as a group, made 43.8 percent of their loans to African-Americans (see Table 4 and Chart 1). Wachovia Corporation and Countrywide ranked third and fourth with regard to the percentage of prime loans made to African-American borrowers (61.8 percent and 60.6 percent, respectively, of their loans to African-Americans). On the other end of the scale, Wells Fargo and Bank of America were the two institutions that ranked last in terms of their lending activity to African-American borrowers (24.4 percent and 38.2 percent, respectively, of prime loans to African-Americans). Finally, 8 out of the 12 lending institutions receiving City deposits performed better than all lenders, as a group, indicating a generally good performance on this indicator for banks receiving municipal deposits.

With regard to prime loans made to Latino borrowers, Lehman Brothers Bank, Fidelity & Trust Financial Corporation, and Suntrust were the lending institutions that performed best in our analysis, issuing 17.3 percent, 15 percent, and 11.3 percent, respectively, of their prime loans to Latinos. By way of comparison, all lenders, as a group, made just 7.1 percent of their loans to Latinos (see Table 4 and Chart 2). Conversely, National City, PNC, and Chevy Chase Bank were the lending institutions at the bottom in terms of prime loans to Latinos, issuing between 2 and 3.5 percent of their prime loans to this borrower group. Moreover, only 5 out of 12 City depositories performed better than all lenders, as a group, on this portfolio share indicator.

JP Morgan Chase & Co., First Savings, and Fidelity & Trust ranked best on prime lending to Asians, while PNC and M&T made no loans to this borrower group, thus, ranking last. Only 6 out of 12 City depositories included in this analysis exceeded the performance of all lenders, as a group.

Another measure of a bank's lending performance is comparing the lender's market share of prime loans made to African-Americans compared to its market share to white borrowers. In other words, what is a lender's share of all loans made in the District of Columbia to African-Americans compared to its share of all loans made to whites? M&T, PNC, and Wachovia Corporation ranked best on this indicator. M&T and PNC's share of prime loans made to African-Americans was 2.9 times greater than their share of loans to whites, and the corresponding number for Wachovia Corporation was 2.4 (see Table 4 and Chart 3). First Savings and Wells Fargo, on the other hand, ranked on the bottom. First Savings share of the African-American market was less than 20 percent of its share of the white market; Wells Fargo's share of the African-American market was less than 40 percent of its share of the white market.

Chart 1. Percent of Loans to African-Americans

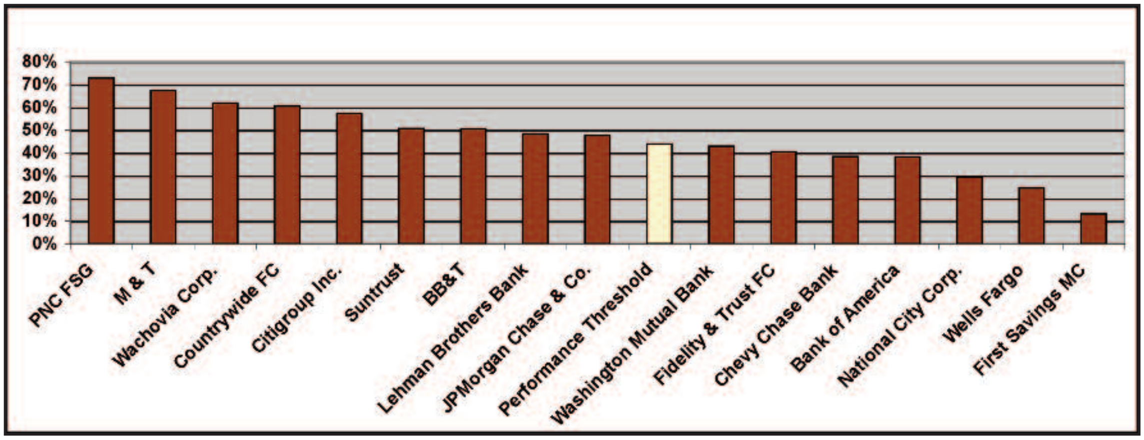


Chart 2. Percent of Loans to Hispanics

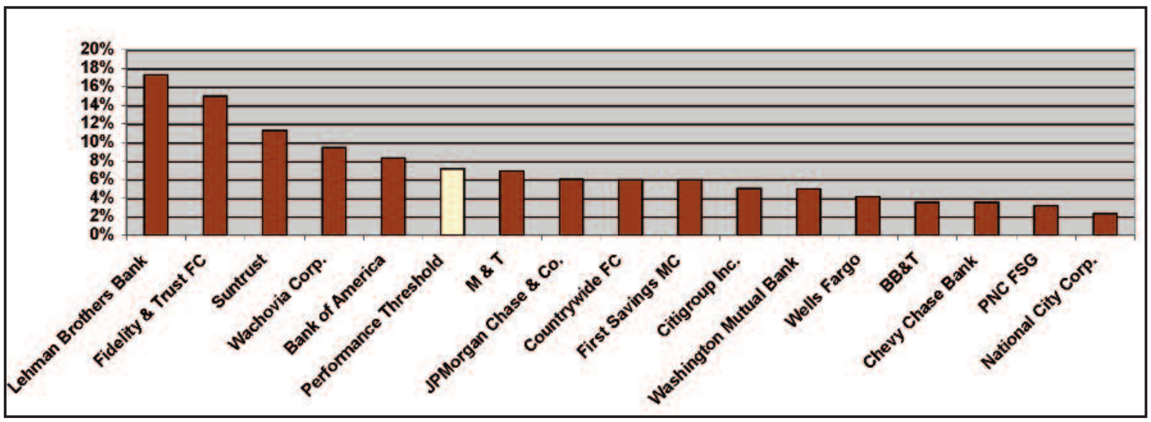
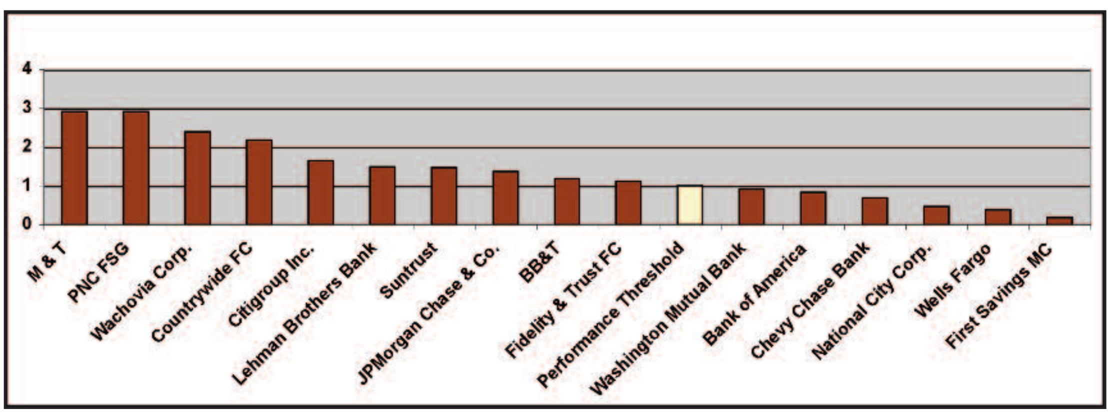


Chart 3. African-American to White Market Share



Single Family Lending to Low- and Moderate-Income Borrowers

All lenders, as a group, made about 33 percent of their prime loans to low- and moderate-income (LMI) borrowers. Nine out of 12 City depositories exceeded the performance of all lenders, as a group, on this indicator, and two depositories issued over 50 percent of their loans to LMI borrowers. Namely, M&T and PNC were ranked best on this indicator of lending performance; making 59.6 percent and 54.5 percent of their prime loans to LMI borrowers respectively (see Table 4 and Chart 4). Citigroup Inc. was ranked third, issuing around 43 percent of its prime loans to LMI borrowers. Conversely, Wells Fargo ranked lowest with only 19.3 percent of its prime loans issued to this borrower group.

The LMI-MUI market share indicator assesses a bank's lending performance with regard to its market share of prime loans made to LMI borrowers compared to its market share of loans to middle- and upper-income (MUI) borrowers. Once again, M&T, PNC, and Citigroup Inc were ranked best. The share of prime loans made to LMI borrowers of these three banks was respectively 3.1, 2.5, and 1.6 times greater than their share of loans to MUI borrowers (see Table 4 and Chart 5). Further, 9 out of the 12 City depositories included in this analysis exceeded the ratio of 1, indicating that their share of loans made to LMI borrowers is larger than their share of loans to MUI borrowers. Conversely, First Savings and Wells Fargo were the lowest performers with LMI vs. MUI market share ratios of 0.21 and 0.49, respectively.

Single Family Lending to Females
All lenders, as a group, issued just above 40 percent of their prime loans to female borrowers. The overall performance of City depositories included in this analysis was not impressive, as only 4 out of 12 depositories exceeded the threshold level of all lenders, as a group. M&T and Countrywide performed best on this indicator, making 55.9 percent and 50.1 percent, respectively, of their prime loans to female borrowers (see Table 4 and Chart 6).The two lowest performing institutions were First Savings and Fidelity & Trust with 28.1 percent and 33.3 percent, respectively, of loans to females.

Single Family Lending to Minority and Low- and Moderate-Income Neighborhoods
Borrowers in substantially minority census tracts received almost 70 percent of all prime single family loans made by all lenders, as a group, in Washington, D.C., during 2006[29] (see Table 4 and Chart 7). Furthermore, 8 of 12 City depositories exceeded the performance of all lenders, as a group. Leading the way were M&T, Countrywide, and Lehman Brothers Bank, which issued 90.8 percent, 85.3 percent, and 84.7 percent, respectively, of their prime single family loans to predominantly minority neighborhoods.

On the other end of the scale were First Savings and National City with about 53 percent of their loans issued to residents of predominantly minority tracts.

Chart 4. Percent of Loans to LMI borrowers

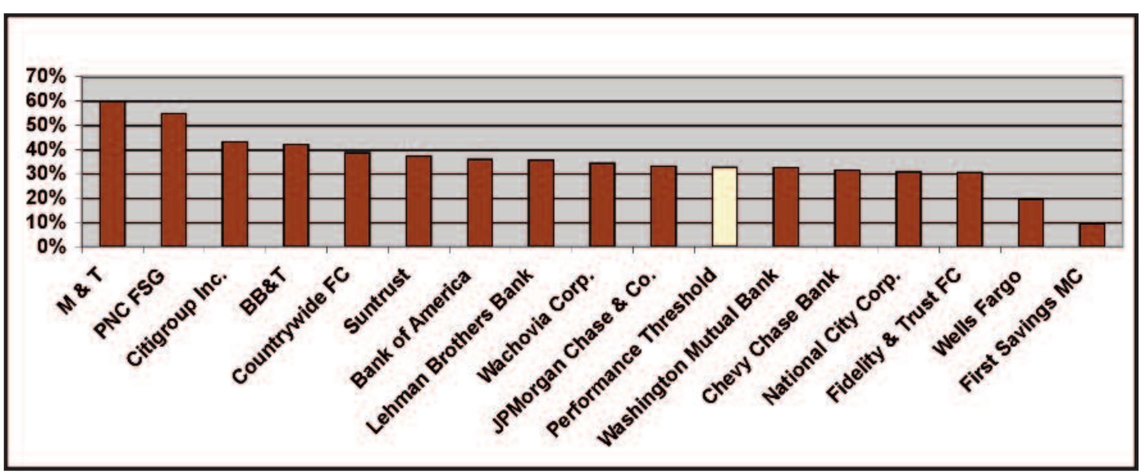


Chart 5. LMI to MUI Borrower Market Share

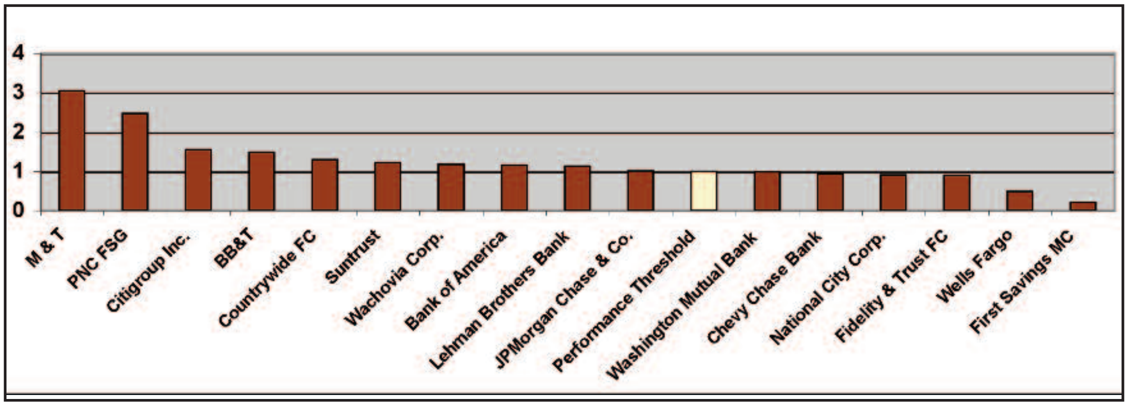
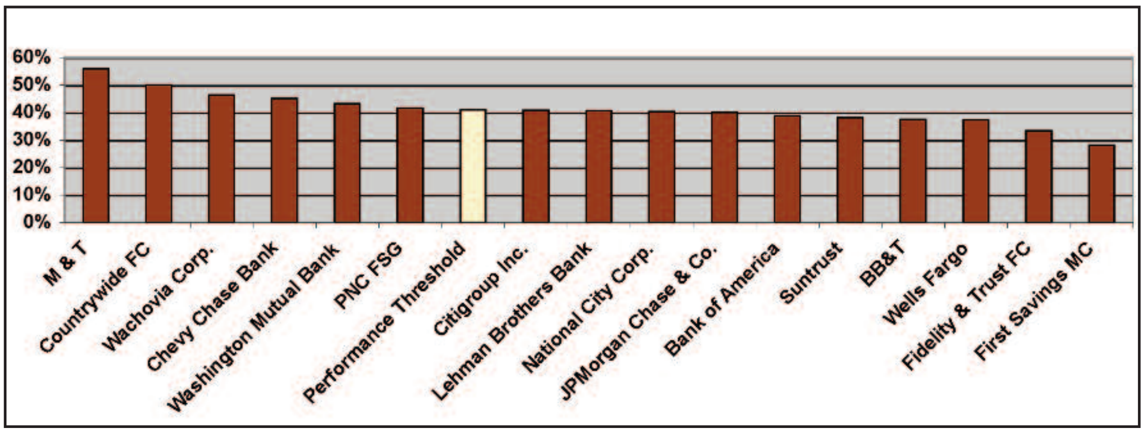


Chart 6. Percent of Loans to Female Borrowers



M&T and Lehman Brothers Bank also emerged as leaders on the minority tract market share indicator. M&T and Lehman Brothers Bank's market share of all loans made to minority tracts were, respectively, 4.3 and 3 times greater than their market share of loans made to non-minority neighborhoods (see Table 4 and Chart 8). At the opposite end of the ranking scale, Wells Fargo and First Savings had a market share in minority tracts that was just half of their market share in predominantly white tracts. Overall, most depositories (7 out of 12) performed well on this market share indicator exceeding the ratio of 1.

M&T and Lehman Brothers Bank were ranked first in terms of the percentage of their prime single family lending in LMI neighborhoods. M&T and Lehman Brothers Bank made, respectively, 83 percent and 76 percent of their prime loans to borrowers residing in LMI tracts (see Table 4 and Chart 9). On the other end of the spectrum, Wells Fargo and Chevy Chase Bank ranked last on their lending performance to residents of LMI tracts, issuing slightly above 50 percent of their prime loans to this borrower group. Further, 7 out of the 12 City depositories included in this analysis exceeded the performance of all lenders, as a group, on this indicator.

M&T, Lehman Brothers Bank, and Fidelity & Trust had a market share of all prime loans made to LMI tracts more than two times greater than their market share of prime loans to MUI tracts (see Table 4 and Chart 10). Wells Fargo and Chevy Chase Bank, on the other hand, had a greater market share of prime single family loans to MUI neighborhoods than for LMI ones, ranking last on this lending performance indicator. Most (8 out of 12) City depositories had a

LMI market share ratio greater than 1, indicating that their market share of prime loans to LMI tracts was greater than their market share of prime loans to MUI tracts.

Denial Disparity Ratios

The four denial disparity ratios included in this analysis compare the white denial rate to the denial rates of various minority groups. Within minority groups, African-Americans experienced the highest denial rates relative to white borrowers. African-Americans were denied prime single family loans by all lenders, as a group, more than twice as often as whites (see Table 4 and Chart 11). Chevy Chase Bank was the lowest performer on this indicator denying prime single family loans to African-Americans almost 10 times more often than to white borrowers. Suntrust ranked second lowest on this indicator denying prime loans to African-Americans almost 6 times more often than to whites. Performing best was Fidelity and Trust, the only lender denying African-Americans less often than whites.

Chevy Chase Bank, Fidelity & Trust, Suntrust, Lehman Brothers Bank, and Wachovia took the lead in favorable treatment to Latinos; denying prime loans to Latinos less often than to whites (see Table 4 and Chart 12). In addition, Chevy Chase Bank, Fidelity & Trust, Citigroup Inc, and Suntrust recorded no prime single family loan denials to Asians, ranking first on this indicator.

Chart 7. Percent of Loans in 50-100% Minority Tracts

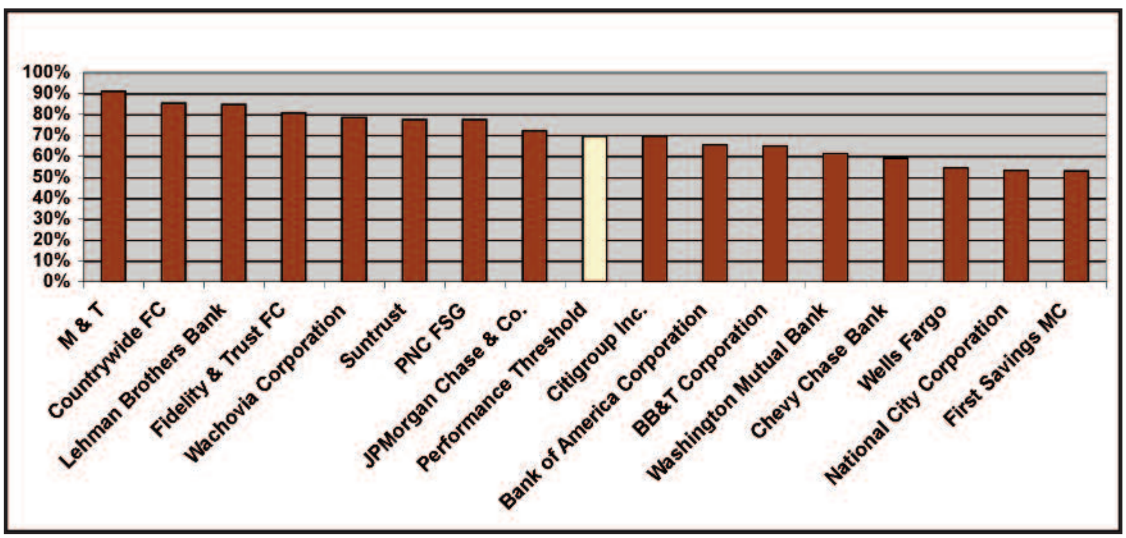


Chart 8. Minority to Non-Minority Tract Market Share

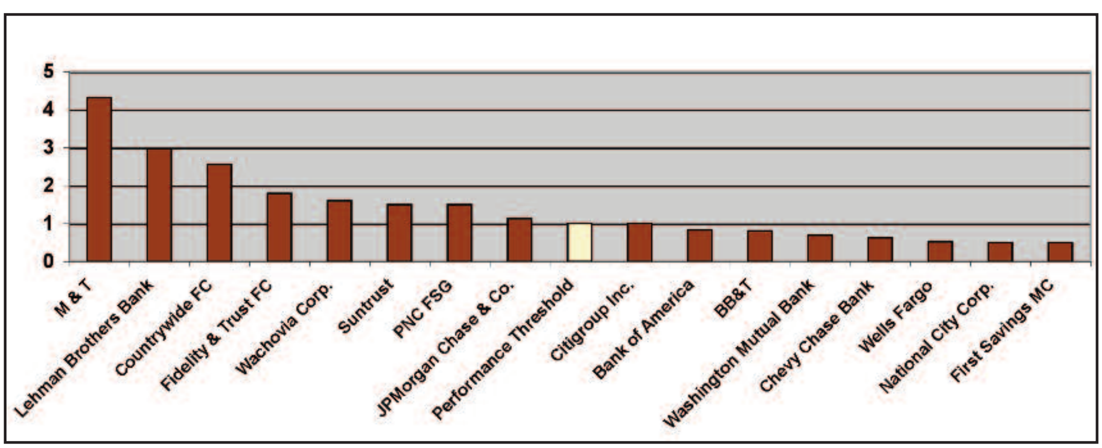


Chart 9. Percent of Loans in LMI Tracts

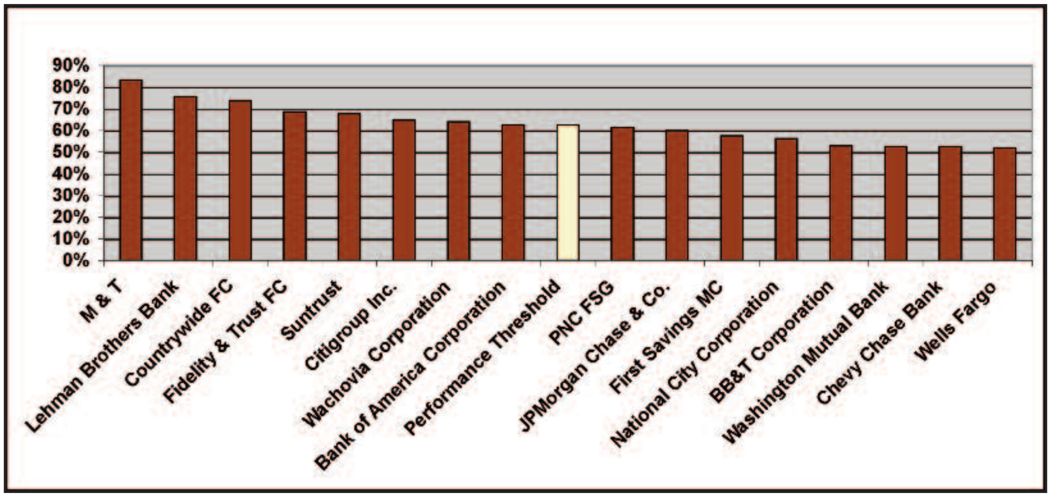


Chart 10. LMI Tract to MUI Tract Market Share

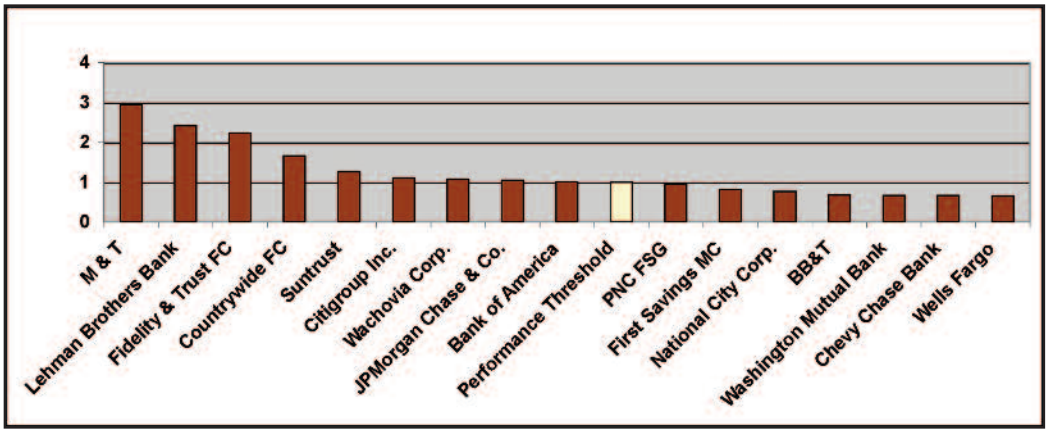


Chart 11. African-American to White Denial Disparity Ratio

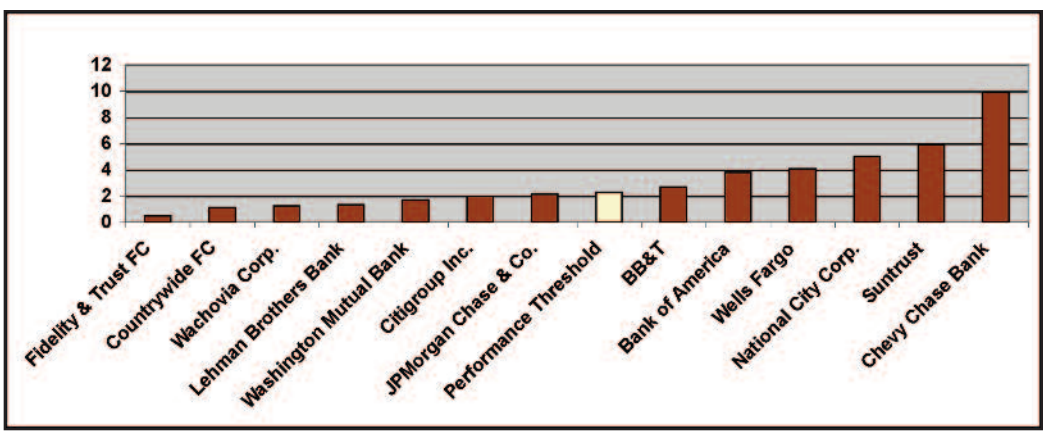
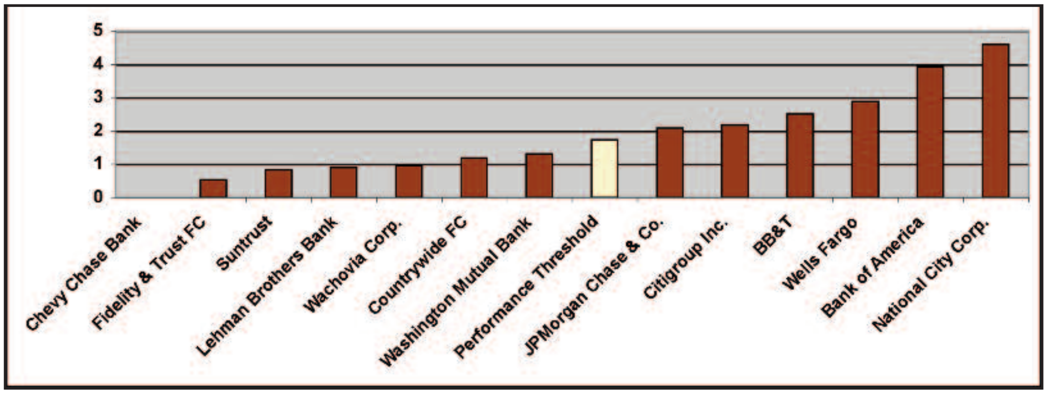
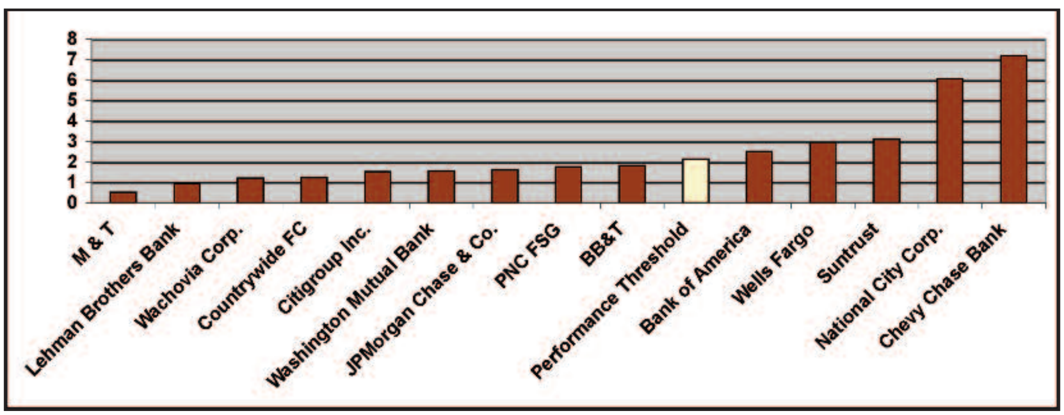


Chart 12. Hispanic to White Denial Disparity Ratio



Denial rates for residents of minority neighborhoods were more than two times higher than denial rates to residents of non-minority neighborhoods for all lenders, as a group. M&T and Lehman Brothers Bank ranked first, denying prime loans to residents of minority tracts less often than to borrowers from non-minority tracts. Chevy Chase Bank performed on the bottom for this indicator denying single family loans to minority tracts more than 7 times as often as to non-minority tracts (see Table 4 and Chart 13). National City was the second lowest performer with a minority to non-minority tract denial disparity ratio of 6 to 1.

Chart 13. Minority to Non-Minority Tract Denial Disparity Ratio



IV. Home Purchase and Refinance Lending

Performance of Banks Receiving City Deposits

Banks receiving City deposits performed notably well on the prime home purchase lending indicators, but their refinance lending performance was less impressive. In 2006, more than half of the depositories exceeded all lenders, as a group, on all of the indicators for home purchase lending (see Table 3). In contrast, half or more of the depositories exceeded the all lender benchmark on only 27 percent of the refinance lending indicators.[30]

In the area of refinance lending, the banks receiving City deposits performed well in lending to African-Americans and LMI borrowers. The four indicators of performance in which more than half the City depositories exceeded threshold levels was the African-American portfolio share indicator, the LMI portfolio share indicator, the African-American and white market share ratio, and the LMI/MUI market share ratio. Building upon their performance to African-Americans and LMI borrowers, City depositories need to improve their refinance lending to Latinos, Asians, and minority and LMI neighborhoods.[31]

Performance of City Depositories on Specific Indicators in Home Purchase and Refinance Lending

All lenders, as a group, made merely 22.3 percent of their prime home purchase loans to LMI borrowers (see Table 5 at the end of narrative). Yet, 7 out of 11 City depositories included in this analysis exceeded the rather modest all lender benchmark on this indicator (see Table 3). For refinance lending, all lenders, as a group, did notably better issuing 42.2 percent of their prime refinance loans to LMI borrowers, and 7 out of 10 depositories exceeded this all lender benchmark (see Table 6). Furthermore, the majority of City depositories had a greater market share of both prime home purchase and prime refinance loans to LMI borrowers than their share to MUI borrowers.

With respect to minority communities, all lenders, as a group, issued 59 percent of their prime home purchase loans to residents of predominantly minority tracts. Further, more than half (6 out of 11) City depositories did better than all lenders, as a group, on this indicator of lending performance (see Table 3). For refinance lending, the performance of all lenders, as a group, appears even more impressive with 79 percent of all prime refinance loans made to predominantly minority tracts. Five out of 10 City depositories exceeded the all lender benchmark.

Borrowers residing in predominantly minority neighborhoods were two and a half times more likely to be refused a prime home purchase loan by all lenders, as a group, as compared to residents of non-minority tracts. This denial disparity ratio was smaller for refinance lending, in which minority tract residents were just over one and a half times more likely to get prime refinance loan refusals than non-minority tracts residents. On a positive note, City depositories were less likely to deny prime home purchase loans to minority tract residents than non-minority tract ones, as compared to all lenders, as a group. Namely, 7 out of 11 depositories were less likely, than all lenders, as a group, to deny prime home purchase loans to borrowers in minority tracts. For prime refinance lending, the depositories did not perform as well; only 4 out of 10 had a lower denial disparity ratio on this indicator than all lenders, as a group.

Table 7. Prime Home Purchase Lending Ranking

Institution	Rank
Fidelity & Trust FC	1
Suntrust	2
Citigroup Inc.	3
Lehman Brothers Bank	4
Countrywide FC	5
Wachovia Corporation	6
Chevy Chase Bank	7
Bank of America Corporation	8
Washington Mutual Bank	9
JPMorgan Chase & Co.	10
BB&T Corporation	11
First Savings MC	12
National City Corporation	13
Wells Fargo	14
M & T	N/A

Table 8. Prime Refinance Lending Ranking

Institution	Rank
M & T	1
Countrywide FC	2
Lehman Brothers Bank	2
JPMorgan Chase & Co.	4
Wachovia Corporation	5
Suntrust	6
BB&T Corporation	7
Bank of America Corporation	8
Citigroup Inc.	9
Wells Fargo	10
National City Corporation	11
Washington Mutual Bank	12
Chevy Chase Bank	13
First Savings MC	13
Fidelity & Trust FC	N/A
PNC FSG	N/A

Performance of All Lenders

Lending institutions in the analysis tended to be inconsistent in the performance across loan types. For example, Citigroup was ranked third in home purchase lending, but dropped to ninth in refinance lending (see Table 7 & 8 above). Likewise, JP Morgan Chase was fourth in refinance lending, but was tenth in home purchase lending. Chevy Chase Bank was seventh in home purchase lending but 13th in refinance lending.

Some institutions maintained consistent performance. For example, Lehman Brothers Bank was ranked fourth on its home purchase lending activities and second on its refinance lending performance. Similarly, Countrywide was second in all single family lending, fifth in home purchase lending, and second in refinance lending. Wachovia was fourth in all single family lending, sixth in home purchase lending, and fifth in refinance lending. At the lower end of the performance spectrum, First Savings has been persistently lagging its peers; it was ranked 16th, 12th and 13th, respectively, on all single family lending, home purchase, and refinance lending.

V. Subprime Lending

This analysis also produced separate rankings for subprime or high-cost lending. The analysis considered a loan to be high-cost if the Home Mortgage Disclosure Act (HMDA) data indicated that a loan had pricing information. For first lien loans considered by this study, HMDA has pricing information if the Annual Percentage Rate (APR) on the loan is three percentage points greater than the rate of Treasury securities of comparable maturities. The Federal Reserve, which writes the HMDA regulation, developed this reporting procedure to identify loans considered to be high-cost.

NCRC analyzes prime and high-cost lending separately because the interpretation of the results is very different for prime and high-cost lending. For prime lending, scoring at the top of the rankings is laudatory since the best performing lenders are making the greatest percentages of their prime loans with the fewest denials to traditionally underserved populations. On the other hand, it is not at all clear that scoring towards the top for high-cost lending is noteworthy. The lenders at the top of the rankings are making a greater portion of high-cost loans to traditionally underserved populations than their peers. Given the tendency of subprime lenders to focus on minorities and other underserved populations, it is of concern when analysis identifies individual lenders in a city or metropolitan area making particularly high numbers and percentages of subprime loans, relative to their peers, to underserved populations. NCRC generally recommends that public officials and regulatory agencies conduct further investigations into the fair lending procedures of subprime lenders identified as making extremely high portions of their loans to minorities, women, and low- and moderate-income borrowers.

Overall, the analysis confirms that traditionally underserved borrowers receive a higher portion of subprime than prime loans. For example, for single-family lending, all lenders, as a group, made 80.9 percent of their subprime loans to African-Americans while the corresponding figure for prime lending was about half, at 43.8 percent. (Table 9) The difference is not as great for LMI borrowers, but still reveals a greater concentration of high-cost loans to LMI borrowers. All lenders, as a group, issued 43.4 percent of their subprime loans to LMI borrowers while making 32.7 percent of their prime loans to LMI borrowers. For neighborhoods, all lenders issued 93.7 percent of their subprime loans in minority census tracts and 69.5 percent of their prime loans in these tracts. Similarly, they made 81.7 percent of their subprime loans in LMI census tracts and just 62.5 percent of their prime loans in these tracts.

Just as was done for lenders in the prime analysis, this study identified the lenders in the District of Columbia making the greatest numbers of high-cost loans. A number of lenders specializing in high-cost lending are now bankrupt or no longer making subprime loans, though they were making large numbers of loans in the District of Columbia during 2006. These included Fremont Investment and Loan, New Century Mortgage Corporation, BNC Mortgage, Indymac Bank, FSB, Decision One Mortgage, American Home Mortgage, and Greenpoint Mortgage Funding. After subtracting these lenders from the analysis, NCRC analyzed the 12 lenders that were among the top 20 lenders in the City in terms of issuing subprime loans in 2006.

Three of the lenders in the subprime analysis received City deposits; these are JP Morgan Chase, Lehman Brothers Bank, and Wells Fargo. These three banks issued 652 subprime single family subprime loans or just 13 percent of the 4,994 subprime loans issued in the District of Columbia during 2006.

The four lenders at the top of the subprime ranking (making the highest percentage of subprime loans to traditionally underserved borrowers) for all single family lending were Saxon Mortgage, Accredited, Encore, and JP Morgan Chase. The four lenders at the bottom on the subprime ranking for all single family lending were National City, Wells Fargo, Novastar, and Washington Mutual (see Table 10) NCRC also conducted separate analyses for subprime home purchase and refinance lending (see Table 11 & 12).

Special attention to the performance of City depositories in the prime and subprime ranking can potentially assist the City in leveraging more prime loans for City residents. For example, JP Morgan Chase is 4th in subprime all single family lending, 10th in prime home purchase lending, and 2nd in prime refinance lending. The bank appears to have the capacity to be more consistent in its lending performance. It could be prodded to perform as well in prime home purchase lending as well as it performs in prime refinance and subprime lending.

Table 10. Summary of Subprime Ranking for All Single Family, Home Purchase, and Refinance Lending.

All Single Family lending

Institution	Rank
Saxon Mortgage	1
Acredited	2
Encore	3
JP Morgan Chase	4
WMC Mortgage	5
Lehman Brothers	6
Countrywide	7
Option One	8
Washington Mutual	9
Novastar	10
Wells Fargo	11
National City	12

Home Purchase lending

Institution	Rank
Countrywide	1
WMC Mortgage	1
Washington Mutual	3
Lehman Brothers	4
Wells Fargo	5
National City	6
Acredited	N/A
Encore	N/A
JP Morgan Chase	N/A
Novastar	N/A
Option One	N/A
Saxon Mortgage	N/A

Refinance lending

Institution	Rank
Acredited	1
Saxon Mortgage	2
JP Morgan Chase	3
WMC Mortgage	4
Encore	5
Lehman Brothers	6
Wells Fargo	7
Countrywide	8
Novastar	9
Option One	10
Washington Mutual	11
National City	N/A

VI. Conclusions and Recommendations

The District of Columbia has an exciting opportunity to influence overall lending patterns in the City and to bolster product choice through its relationships with banks receiving municipal deposits. This study found that 42 percent of all prime loans made in the City during 2006 were from banks receiving City deposits. The large market share of the City depositories means that influencing their lending patterns may change overall access to credit for city residents.

This study found that minorities and working class borrowers and communities received a disproportionate amount of subprime lending in the District of Columbia. It is desirable to increase product choice. A disproportionate amount of subprime lending leaves communities vulnerable since an absence of vigorous competition creates opportunities for unfair and deceptive high-cost lending. The City depositories are well equipped to increase their prime lending to minorities, women, and low- and moderate-income borrowers. The City depositories had a larger market presence in the prime market than the subprime market. This analysis found that 12 City depositories had a sizable prime market presence but that just three City depositories had a significant subprime market presence.

This study found that overall banks receiving City deposits are performing at a satisfactory level in terms of reaching women, minorities, and low- and moderate-income borrowers and neighborhoods. The study, however, found inconsistencies in performance regarding City depositories as a whole and individually. For example, banks receiving City deposits performed well on the home purchase ranking, but their refinance lending was less impressive. In addition, a number of banks perform reasonably well on one loan type but perform in a mediocre manner on another loan type. More consistent performance by the City depositories would increase the overall number of loans to minorities, women, and low- and moderate-income borrowers.

Recommendations

- The District of Columbia should consider adopting the City of Philadelphia Community Reinvestment Act (CRA) goals for banks receiving municipal deposits. In return for the privilege of receiving municipal deposits, banks are required to submit annual CRA goals and strategic plans detailing how many loans, investments, and services they will offer to minority and low- and moderate-income neighborhoods. The City of Philadelphia also commissions an annual report examining the CRA and fair lending performance of City depositories. This law and annual report has leveraged increases in lending as documented by two NCRC reports commissioned by the City.

- The District of Columbia should ask City depositories to address specific weaknesses in their CRA and fair lending performance. For example, if a depository performed much better in serving low- and moderate-income borrowers than African-Americans and Latinos, the City ought to ask that lender to explain how it will bolster its lending to African-Americans and Latinos. Asking for specific and detailed plans is more likely to stimulate increases in prime lending and product choice than requiring general or vague goal statements.

- Banks receiving City deposits should be asked to bolster their lackluster performance refinance lending while maintaining and improving upon their good performance in home purchase lending. The risky lending of the last few years has likely saddled a sizable number of minority and working class borrowers with Adjustable Rate Mortgages (ARMs) that will soon reset to much higher rates. Offering refinance loans to borrowers with these unsustainable loans will be an important component of a foreclosure prevention strategy.

- The City should probe the lending practices of financial institutions making the highest numbers and percentages of subprime loans to minorities, women, and low- and moderate-income borrowers. HMDA data does not have information on loan terms and conditions, but lenders making an unusually high number and percentage of subprime loans should be evaluated very carefully to ensure that their lending is safe and sound. The study identified a number of high-cost loan specialists making large numbers of subprime loans in 2006, but that are now out of business or no longer making subprime loans due, in part, to dubious lending practices.

- The District of Columbia should expect the subset of City depository institutions making a sizable number of subprime loans and prime loans to perform as well or better on the prime ranking than on the subprime ranking. If this subset of depositories is offering a balanced number of prime and subprime loans, then the entire City may benefit from a healthy array of product choice. On the other hand, if this subset of depositories with their considerable market presence is focused primarily on subprime lending, then the product choice offered citywide may be restricted.

Appendix 1: Additional Tables

Table 1. Institutions Receiving City Deposits, Washington, D.C., 2006

Depositor	All Originated Loans	All Prime Loans	All Subprime Loans
Bank of America	1,867	1,849	18
Wells Fargo	1,747	1,477	270
Wachovia Corporation	820	785	35
SunTrust Bank	666	622	44
J P Morgan Trust Co.	629	461	168
Citigroup	519	495	24
Chevy Chase Bank	434	393	41
Lehman Brothers Bank	390	176	214
BB&T	152	144	8
Fidelity and Trust	129	102	27
M&T Bank	68	65	3
PNC FSG	46	44	2
Merrill Lynch	33	33	0
Industrial Bank NA	16	15	1
Morgan Stanley	15	15	0
Independence Bank FSB	14	13	1
The National Capital Bank of W	14	14	0
US Bank	14	14	0
DC Teachers FCU	12	12	0
Commerce Bank	10	10	0
Bank of Georgetown	7	7	0
OBA Federal Svg & Loan Assoc.	7	7	0
United Bank	3	2	1
Cardinal Bank	1	1	0
Deutsche Banc	1	1	0
The Adams National Bank	0	0	0
City First Bank	0	0	0
Hospitality Community Federal Credit Union	0	0	0
Provident Bank	0	0	0
UBS	0	0	0
Vanderbilt Capital Advisors	0	0	0

Note: City depositories included in our analysis are highlighted in light green color.

Table 3. Summary of Prime Home Lending Ranking Analysis for Banks Receiving City Deposits

Indicator	All Single Family Lending		Home Purchase Lending		Refinance Lending	
	# Banks ⇢ Threshold		# Banks ⇢ Threshold		# Banks ⇢ Threshold	
Percent of Loans to African American Borrowers	8		6		8	
Percent of Loans to Hispanics	5		6		3	
Percent of Loans to Asians	6		6		3	
Percent of Loans to LMI Borrowers	9		7		7	
Percent of Loans to Female Borrowers	4		6		3	
Percent of Loans in 50-100% Minority Tracts	7		6		5	
Percent of Loans in LMI Tracts	7		6		3	
African-American to White Denial Disparity Ratio	5		6		4	
Hispanic to White Denial Disparity Ratio	5		6		4	
Asian to White Denial Disparity Ratio	6		6		5	
Minority Tract/Non-Minority Tract Denial Disparity Ratio	7		7		4	
LMI/MUI Borrower Market Share	9		7		7	
African-American Borrower Mkt Share/White Borrower Mkt share	9		7		8	
LMI Tract/MUI Tract Market Share	8		6		3	
Minority Tract Mkt share / Non-Minority tract Mkt share	7		6		5	
Summary of Performance - Number of Cases in Which More than Half of Banks Receiving City Deposits Exceed Threshold						
	Number	Percent	Number	Percent	Number	Percent
7 Portfolio Share Indicators	4	57%	7	100%	2	29%
4 Denial Disparity Share Indicators	1	25%	4	100%	0	0%
4 Market Share Indicators	4	100%	4	100%	2	50%
Total 15 Indicators	9	60%	15	100%	4	27%

Threshold is defined as exceeding all prime lenders as a group benchmark. For market share measures, threshold is defined as a ratio equaling or exceeding one.
All Single Family lending: More than half of banks receiving city deposits refers to 7 or above (out of 12 banks).
Home Purchase: More than half of banks receiving city deposits refers to 6 or above (out of a total of 11 banks).
Refinance: More than half of banks receiving city deposits refers to 6 or above (out of a total of 10 banks).

Table 4. Home Lending Ranking Analysis: Prime All Single Family Loans, District of Columbia

Institution	All Applications	All Prime Loan Originations	Percent of Loans to African American Borrowers	Rank	Percent of Loans to Hispanics	Rank	Percent of Loans to Asians	Rank	Percent of Loans to LMI Borrowers	Rank	Percent of Loans to Female Borrowers	Rank	Percent of Loans in 50-100% Minority Tracts	Rank	Percent of Loans in LMI Tracts	Rank
Bank of America Corporation	2,377	1,849	38.2%	13	8.32%	5	4.33%	6	35.77%	7	38.7%	11	65.3%	10	62.5%	8
BB&T Corporation	250	144	50.5%	7	3.54%	13	3.60%	9	41.94%	4	37.5%	13	64.6%	11	52.8%	13
Chevy Chase Bank	505	393	38.2%	12	3.51%	14	1.3%	14	31.4%	12	45.1%	4	58.8%	13	52.4%	15
Citigroup Inc.	770	495	57.3%	5	5.04%	10	1.5%	13	42.9%	3	40.8%	7	69.5%	9	64.6%	6
Countrywide FC	2,395	920	60.6%	4	5.98%	8	5.0%	4	38.5%	5	50.1%	2	85.3%	2	73.5%	3
Fidelity & Trust FC	135	102	40.4%	11	15.00%	2	6.1%	3	30.4%	14	33.3%	15	80.4%	4	68.6%	4
First Savings MC	855	741	13.1%	16	5.94%	9	6.1%	2	9.3%	16	28.1%	16	52.8%	16	57.5%	11
JPMorgan Chase & Co.	990	461	47.7%	9	6.01%	7	8.5%	1	32.9%	10	40.1%	10	72.0%	8	59.9%	10
Lehman Brothers Bank	800	176	48.1%	8	17.28%	1	4.3%	7	35.4%	8	40.7%	8	84.7%	3	75.6%	2
M & T	97	65	67.2%	2	6.90%	6	0.0%	15	59.6%	1	55.9%	1	90.8%	1	83.1%	1
National City Corporation	1,334	896	29.4%	14	2.28%	16	3.7%	8	30.6%	13	40.3%	9	53.0%	15	56.1%	12
PNC FSG	118	44	72.7%	1	3.13%	15	0.0%	15	54.5%	2	41.7%	6	77.3%	7	61.4%	9
Suntrust	891	622	50.7%	6	11.26%	3	2.2%	11	37.1%	6	38.1%	12	77.3%	6	67.7%	5
Wachovia Corporation	1,594	785	61.8%	3	9.44%	4	2.0%	12	34.2%	9	46.3%	3	78.5%	5	63.9%	7
Washington Mutual Bank	1,034	322	42.9%	10	5.00%	11	2.9%	10	32.3%	11	43.2%	5	61.2%	12	52.5%	14
Wells Fargo	2,569	1,477	24.4%	15	4.11%	12	4.7%	5	19.3%	15	37.2%	14	54.3%	14	51.9%	16
All Lenders	34,252	15,803	43.84%		7.12%		3.53%		32.65%		40.9%		69.5%		62.5%	

Institution	All Applications	All Denials	African-American to White Denial Disparity Ratio	Rank	Hispanic to White Denial Disparity Ratio	Rank	Asian to White Denial Disparity Ratio	Rank	Minority Tract/Non-Minority Tract Denial Disparity Ratio	Rank	LMI/MUI Borrower Market Share	Rank	African-American Borrower Mkt Share/White Borrower Mkt share	Rank	LMI Tract/MUI Tract Market Share	Rank	Minority Tract Mkt share / Non-Minority tract Mkt share	Rank
Bank of America Corporation	2,377	267	3.79	9	3.92	12	2.44	11	2.51	10	1.15	8	0.83	12	1.00	9	0.82	10
BB&T Corporation	250	42	2.68	8	2.51	10	2.76	12	1.82	9	1.49	4	1.18	9	0.67	13	0.80	11
Chevy Chase Bank	505	13	9.89	13	0.00	1	0.00	1	7.18	14	0.94	12	0.69	13	0.66	15	0.63	13
Citigroup Inc.	770	86	1.97	6	2.17	9	0.00	1	1.52	5	1.55	3	1.64	5	1.10	6	1.00	9
Countrywide FC	2,395	643	1.10	2	1.17	6	0.90	5	1.22	4	1.29	5	2.18	4	1.66	4	2.55	3
Fidelity & Trust FC	135	6	0.45	1	0.53	2	0.00	1	N/A	N/A	0.90	14	1.11	10	2.23	3	1.80	4
First Savings MC	855	0	N/A*	N/A	N/A*	N/A	N/A*	N/A	N/A*	N/A	0.21	16	0.18	16	0.81	11	0.49	16
JPMorgan Chase & Co.	990	280	2.12	7	2.08	8	1.02	6	1.60	7	1.01	10	1.36	8	1.05	8	1.13	8
Lehman Brothers Bank	800	337	1.32	4	0.89	4	1.53	8	0.93	2	1.13	9	1.48	6	2.42	2	2.98	2
M & T	97	6	N/A	N/A	N/A	N/A	N/A*	N/A	0.51	1	3.05	1	2.91	1	2.94	1	4.31	1
National City Corporation	1,334	88	5.00	11	4.58	13	4.40	13	6.05	13	0.91	13	0.47	14	0.77	12	0.50	15
PNC FSG	118	43	N/A	N/A	N/A	N/A	N/A*	N/A	1.76	8	2.48	2	2.91	1	0.95	10	1.49	7
Suntrust	891	51	5.92	12	0.82	3	0.00	1	3.10	12	1.22	6	1.47	7	1.26	5	1.50	6
Wachovia Corporation	1,594	354	1.24	3	0.96	5	1.07	7	1.21	3	1.17	7	2.39	3	1.06	7	1.60	5
Washington Mutual Bank	1,034	358	1.68	5	1.31	7	1.76	9	1.54	6	0.99	11	0.91	11	0.66	14	0.69	12
Wells Fargo	2,569	308	4.08	10	2.88	11	1.95	10	2.95	11	0.49	15	0.38	15	0.65	16	0.52	14
All Lenders	34,252	6,692	2.24		1.74		1.46		2.12									

Table 4. (Continued)

	Score	Ranking
Bank of America Corporation	9.40	10
BB&T Corporation	9.73	11
Chevy Chase Bank	11.07	13
Citigroup Inc.	6.47	6
Countrywide FC	4.07	2
Fidelity & Trust FC	6.29	5
First Savings MC	13.18	16
JPMorgan Chase & Co.	7.80	9
Lehman Brothers Bank	4.93	3
M & T	2.67	1
National City Corporation	12.73	14
PNC FSG	6.92	8
Suntrust	6.73	7
Wachovia Corporation	5.53	4
Washington Mutual Bank	9.87	12
Wells Fargo	12.87	15

Note: The light green color indicated that the bank is receiving City deposits.
** both numerator and denominator are zero.*

Table 5. Home Lending Ranking Analysis: Prime Home Purchase Loans, Washington DC

Institution	All Applications	All Prime Loan Originations	Percent of Loans to African American Borrowers	Rank	Percent of Loans to Hispanics	Rank	Percent of Loans to Asians	Rank	Percent of Loans to LMI Borrowers	Rank	Percent of Loans to Female Borrowers	Rank	Percent of Loans in 50-100% Minority Tracts	Rank	Percent of Loans in LMI Tracts	Rank
Bank of America Corporation	1,533	1,268	27.0%	7	8.60%	6	5.54%	10	31.33%	3	36.16%	4	59.23%	7	59.70%	7
BB&T Corporation	89	51	23.1%	10	5.13%	10	7.69%	5	26.83%	6	22.73%	14	47.06%	11	47.06%	13
Chevy Chase Bank	288	250	33.0%	5	3.11%	12	1.55%	14	33.33%	2	46.97%	1	58.40%	8	56.40%	9
Citigroup Inc.	358	256	51.5%	1	5.63%	9	2.43%	13	43.75%	1	35.56%	5	68.75%	5	70.70%	4
Countrywide FC	762	317	34.9%	4	6.39%	8	11.49%	2	20.13%	11	39.35%	3	76.97%	3	73.50%	2
Fidelity & Trust FC	101	74	36.1%	3	19.18%	1	6.94%	7	25.53%	8	31.08%	10	82.43%	1	70.27%	5
First Savings MC	701	605	11.0%	12	6.79%	7	6.43%	9	9.95%	13	26.14%	12	52.73%	10	60.00%	6
JPMorgan Chase & Co.	232	152	10.9%	13	9.30%	5	17.97%	1	9.33%	14	29.08%	11	54.61%	9	53.29%	11
Lehman Brothers Bank	268	84	32.1%	6	14.81%	2	7.41%	6	20.55%	10	34.94%	6	79.76%	2	75.00%	1
M & T	23	15	41.7%	N/A	8.33%	N/A	0.00%	N/A	38.46%	N/A	30.77%	N/A	93.33%	N/A	86.67%	N/A
National City Corporation	829	551	14.5%	11	1.36%	14	4.50%	11	24.54%	9	34.44%	8	45.55%	13	54.08%	10
Suntrust	460	366	37.3%	2	14.02%	3	3.14%	12	28.82%	5	34.77%	7	75.41%	4	70.77%	3
Wachovia Corporation	268	153	23.9%	9	10.99%	4	10.87%	3	29.71%	4	39.72%	2	64.05%	6	59.48%	8
Washington Mutual Bank	305	71	25.0%	8	2.27%	13	9.09%	4	26.76%	7	25.00%	13	42.25%	14	43.66%	14
Wells Fargo	1,394	965	9.86%	14	4.23%	11	6.61%	8	11.94%	12	33.56%	9	45.70%	12	47.36%	12
All Lenders	13,399	7,589	24.01%		7.5%		5.63%		22.26%		34.1%		59.1%		59.1%	

Institution	All Applications	All Denials	African-American to White Denial Disparity Ratio	Rank	Hispanic to White Denial Disparity Ratio	Rank	Asian to White Denial Disparity Ratio	Rank	Minority Tract/Non-Minority Tract Denial Disparity Ratio	Rank	LMI/MUI Borrower Market Share	Rank	African-American Borrower Mkt Share/White Borrower Mkt share	Rank	LMI Tract/MUI Tract Market Share	Rank	Minority Tract Mkt share / Non-Minority tract Mkt share	Rank
Bank of America Corporation	1,533	119	4.42	9	4.52	10	3.09	10	1.94	9	1.59	3	1.25	8	1.02	7	1.00	7
BB&T Corporation	89	12	11.88	12	0.00	1	9.50	12	1.87	8	1.28	6	0.88	10	0.61	13	0.61	11
Chevy Chase Bank	288	1	N/A*	N/A	N/A*	N/A	N/A*	N/A	N/A	N/A	1.75	2	1.37	7	0.89	9	0.97	8
Citigroup Inc.	358	27	2.49	6	2.91	9	0.00	1	1.20	3	2.72	1	3.12	2	1.67	4	1.52	5
Countrywide FC	762	199	1.23	2	1.21	7	0.93	4	1.43	6	0.88	11	1.87	5	1.92	2	2.31	3
Fidelity & Trust FC	101	5	0.47	1	0.00	1	0.00	1	N/A	N/A	1.20	8	2.64	3	1.63	5	3.24	1
First Savings MC	701	0	N/A*	N/A	N/A*	N/A	N/A*	N/A	N/A*	N/A	0.39	13	0.37	13	1.04	6	0.77	10
JPMorgan Chase & Co.	232	36	2.93	7	1.52	8	1.72	8	1.02	1	0.36	14	0.47	12	0.79	11	0.83	9
Lehman Brothers Bank	268	106	1.88	5	0.79	6	1.31	7	1.14	2	0.90	10	1.72	6	2.08	1	2.72	2
M & T	23	1	N/A	N/A	N/A*	N/A	N/A*	N/A	0.00	N/A	2.18	N/A	2.03	N/A	4.50	N/A	9.68	N/A
National City Corporation	829	55	6.71	11	5.89	12	4.42	11	3.98	11	1.14	9	0.47	11	0.81	10	0.58	13
Suntrust	460	5	3.12	8	0.00	1	0.00	1	1.35	4	1.41	5	2.13	4	1.67	3	2.12	4
Wachovia Corporation	268	43	1.81	4	0.74	4	1.24	5	1.42	5	1.48	4	1.14	9	1.02	8	1.23	6
Washington Mutual Bank	305	97	1.29	3	0.77	5	1.30	6	1.48	7	1.28	7	3.36	1	0.54	14	0.51	14
Wells Fargo	1,394	120	6.09	10	4.58	11	2.17	9	3.60	10	0.47	12	0.32	14	0.62	12	0.58	12
All Lenders	13,399	1,887	3.90		2.52		2.15		2.54									

Note: The light green color indicated that the bank is receiving City deposits.
** both numerator and denominator are zero.*

Table 5. (Continued)

	Score	Ranking
Bank of America Corporation	7.13	8
BB&T Corporation	9.47	11
Chevy Chase Bank	7.00	7
Citigroup Inc.	4.60	3
Countrywide FC	4.87	5
Fidelity & Trust FC	3.93	1
First Savings MC	10.09	12
JPMorgan Chase & Co.	8.93	10
Lehman Brothers Bank	4.80	4
M & T	N/A	N/A
National City Corporation	10.93	13
Suntrust	4.40	2
Wachovia Corporation	5.40	6
Washington Mutual Bank	8.67	9
Wells Fargo	11.20	14

Table 6. Home Lending Ranking Analysis: Prime Refinance Loans, District of Columbia

Institution	All Applications	All Prime Loan Originations	Percent of Loans to African American Borrowers	Rank	Percent of Loans to Hispanics	Rank	Percent of Loans to Asians	Rank	Percent of Loans to LMI Borrowers	Rank	Percent of Loans to Female Borrowers	Rank	Percent of Loans in 50-100% Minority Tracts	Rank	Percent of Loans in LMI Tracts	Rank
Bank of America Corporation	650	458	63.1%	8	6.65%	5	1.89%	4	45.32%	7	43.8%	11	77.5%	7	68.8%	4
BB&T Corporation	150	90	67.14%	6	1.39%	13	1.43%	8	50.00%	3	46.9%	7	74.4%	8	55.6%	11
Chevy Chase Bank	210	143	46.7%	12	4.17%	9	0.83%	11	28.1%	14	42.1%	13	59.4%	13	45.5%	14
Citigroup Inc.	353	218	62.0%	9	4.17%	9	0.60%	12	39.5%	9	47.3%	5	68.3%	10	56.0%	10
Countrywide FC	1,523	561	75.2%	2	5.49%	7	1.43%	7	47.8%	5	55.2%	2	89.7%	2	73.4%	3
Fidelity & Trust FC	34	28	51.9%	N/A	3.70%	N/A	3.70%	N/A	40.9%	N/A	39.3%	N/A	75.0%	N/A	64.3%	N/A
First Savings MC	154	136	22.4%	14	1.90%	15	4.67%	1	6.5%	13	36.9%	14	52.9%	14	46.3%	13
JPMorgan Chase & Co.	705	288	68.2%	4	4.52%	8	3.64%	2	47.2%	6	46.0%	9	81.3%	5	63.9%	6
Lehman Brothers Bank	529	91	63.8%	7	20.00%	1	1.25%	9	51.4%	2	46.6%	8	89.0%	3	75.8%	2
M & T	68	49	75.6%	1	6.67%	4	0.00%	14	67.4%	1	64.4%	1	89.8%	1	81.6%	1
National City Corporation	456	305	50.6%	10	4.09%	12	2.66%	3	40.8%	8	49.8%	3	64.9%	12	60.7%	9
PNC FSG	76	32	60.9%	N/A	4.55%	N/A	0.00%	N/A	50.0%	N/A	42.3%	N/A	75.0%	N/A	59.4%	N/A
Suntrust	381	254	68.2%	3	7.61%	3	1.04%	10	48.2%	4	42.8%	12	79.9%	6	63.0%	7
Wachovia Corporation	1,267	606	67.7%	5	8.68%	2	0.38%	13	37.8%	10	47.2%	6	81.8%	4	64.4%	5
Washington Mutual Bank	695	238	46.5%	13	5.85%	6	1.60%	5	32.7%	12	48.0%	4	66.4%	11	54.2%	12
Wells Fargo	1,054	453	50.3%	11	4.17%	9	1.58%	6	33.4%	11	44.7%	10	70.9%	9	60.5%	8
All Lenders	19,606	7,681	61.48%		6.7%		1.69%		42.18%		47.1%		79.0%		65.6%	

Institution	All Applications	All Denials	African-American to White Denial Disparity Ratio	Rank	Hispanic to White Denial Disparity Ratio	Rank	Asian to White Denial Disparity Ratio	Rank	Minority Tract/Non-Minority Tract Denial Disparity Ratio	Rank	LMI/MUI Borrower Market Share	Rank	African-American Borrower Mkt Share/White Borrower Mkt share	Rank	LMI Tract/MUI Tract Market Share	Rank	Minority Tract Mkt share / Non-Minority tract Mkt share	Rank
Bank of America Corporation	650	100	1.57	7	2.66	11	2.11	9	2.46	9	1.14	7	1.07	7	1.15	4	0.91	7
BB&T Corporation	150	28	1.36	5	1.94	8	0.00	1	1.56	6	1.37	3	1.03	8	0.66	11	0.77	8
Chevy Chase Bank	210	8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.53	13	0.48	13	0.44	14	0.39	13
Citigroup Inc.	353	44	1.30	4	1.47	6	0.00	1	1.67	8	0.90	9	1.01	9	0.67	10	0.57	10
Countrywide FC	1,523	420	1.04	2	1.10	5	0.91	5	1.08	2	1.25	5	2.05	2	1.45	3	2.30	2
Fidelity & Trust FC	34	1	N/A*	N/A	N/A	N/A	N/A*	N/A	N/A	N/A	0.95	N/A	0.59	N/A	0.94	N/A	0.80	N/A
First Savings MC	154	0	N/A*	N/A	N/A*	N/A	N/A*	N/A	N/A*	N/A	0.10	14	0.16	14	0.45	13	0.30	14
JPMorgan Chase & Co.	705	224	1.56	6	1.84	7	0.81	4	1.36	4	1.23	6	1.50	4	0.93	6	1.15	5
Lehman Brothers Bank	529	230	0.98	1	0.82	2	1.81	8	0.79	1	1.45	2	1.68	3	1.64	2	2.15	3
M & T	68	2	N/A	N/A	N/A*	N/A	N/A*	N/A	N/A	N/A	2.84	1	2.61	1	2.33	1	2.33	1
National City Corporation	456	31	3.41	11	2.14	9	4.28	11	6.03	11	0.94	8	0.55	11	0.81	8	0.49	12
PNC FSG	76	23	N/A	N/A	N/A	N/A	N/A	N/A	1.35	N/A	1.37	N/A	0.81	N/A	0.77	N/A	0.80	N/A
Suntrust	381	18	2.87	10	0.00	1	0.00	1	3.37	10	1.27	4	1.47	5	0.89	7	1.06	6
Wachovia Corporation	1,267	298	1.19	3	1.01	4	1.11	6	1.14	3	0.83	10	1.46	6	0.95	5	1.20	4
Washington Mutual Bank	695	247	1.91	8	2.16	10	2.16	10	1.55	5	0.67	12	0.50	12	0.62	12	0.52	11
Wells Fargo	1,054	167	2.53	9	0.92	3	1.28	7	1.63	7	0.69	11	0.56	10	0.80	9	0.64	9
All Lenders	19,606	4,479	1.38		1.24		1.21		1.56									

Table 6. (Continued)	Score	Ranking
Bank of America Corporation	7.13	8
BB&T Corporation	7.07	7
Chevy Chase Bank	12.64	13
Citigroup Inc.	8.07	9
Countrywide FC	3.60	2
Fidelity & Trust FC	N/A	N/A
First Savings MC	12.64	13
JPMorgan Chase & Co.	5.47	4
Lehman Brothers Bank	3.60	2
M & T	2.45	1
National City Corporation	9.20	11
PNC FSG	N/A	N/A
Suntrust	5.93	6
Wachovia Corporation	5.73	5
Washington Mutual Bank	9.53	12
Wells Fargo	8.60	10

Note: The light green color indicated that the bank is receiving City deposits.
** both numerator and denominator are zero.*

Table 9. Home Lending Ranking Analysis: Subprime All Single Family Loans, District of Columbia

Institution	All Applications	All High Cost Loan Originations	Percent of Loans to African American Borrowers	Rank	Percent of Loans to Hispanics	Rank	Percent of Loans to Asians	Rank	Percent of Loans to LMI Borrowers	Rank	Percent of Loans to Female Borrowers	Rank	Percent of Loans in 50-100% Minority Tracts	Rank	Percent of Loans in LMI Tracts	Rank
Acredited	217	61	82.5%	7	6.78%	6	1.75%	3	47.54%	6	52.5%	3	98.4%	1	85.2%	2
Countrywide	2,395	355	81.8%	9	6.64%	7	3.35%	1	47.86%	5	49.3%	6	93.8%	7	78.6%	10
Encore	316	106	86.0%	5	3.23%	11	0.00%	8	58.5%	3	60.6%	1	98.1%	3	81.1%	8
JP Morgan Chase	990	168	89.1%	1	4.51%	10	0.00%	8	66.9%	1	55.9%	2	96.4%	4	82.1%	7
Lehman Brothers	800	214	86.7%	4	6.01%	8	0.00%	8	42.4%	8	48.3%	9	96.3%	5	84.6%	4
National City	1,334	129	78.6%	10	12.15%	2	0.00%	8	31.9%	12	47.1%	11	83.7%	12	78.3%	11
Novastar	301	141	74.0%	11	9.38%	4	1.04%	7	45.5%	7	49.6%	5	92.9%	10	82.3%	6
Option One	454	199	83.9%	6	4.83%	9	2.01%	2	41.2%	9	48.4%	8	93.0%	9	79.9%	9
Saxon Mortgage	135	55	88.6%	2	11.36%	3	0.00%	8	61.8%	2	45.3%	12	98.2%	2	90.9%	1
Washington Mutual	1,034	282	72.3%	12	13.94%	1	1.17%	5	36.2%	10	48.1%	10	93.3%	8	82.6%	5
Wells Fargo	2,569	270	87.7%	3	2.68%	12	1.42%	4	53.6%	4	52.3%	4	91.5%	11	77.8%	12
WMC Mortgage	914	423	82.1%	8	9.30%	5	1.07%	6	31.9%	11	48.9%	7	95.7%	6	84.6%	3
All Lenders	34,252	4,994	80.92%		8.5%		1.38%		43.43%		49.7%		93.7%		81.7%	

Institution	All Applications	All Denials	African-American to White Denial Disparity Ratio	Rank	Hispanic to White Denial Disparity Ratio	Rank	Asian to White Denial Disparity Ratio	Rank	Minority Tract/Non-Minority Tract Denial Disparity Ratio	Rank	LMI/MUI Borrower Market Share	Rank	African-American Borrower Mkt Share/White Borrower Mkt share	Rank	LMI Tract/MUI Tract Market Share	Rank	Minority Tract Mkt share / Non-Minority tract Mkt share	Rank
Acredited	217	120	1.11	5	0.60	2	0.50	2	0.72	3	1.22	6	1.84	2	1.29	2	4.07	1
Countrywide	2,395	643	1.10	4	1.17	6	0.90	3	1.22	8	1.23	5	1.18	7	0.82	10	1.03	7
Encore	316	41	1.24	6	1.55	9	0.00	1	0.56	1	1.89	3	0.94	8	0.96	8	3.52	3
JP Morgan Chase	990	280	2.12	10	2.08	10	1.02	6	1.60	10	2.71	1	1.80	3	1.03	7	1.83	4
Lehman Brothers	800	337	1.32	7	0.89	5	1.53	7	0.93	6	0.99	8	1.54	4	1.23	4	1.75	5
National City	1,334	88	5.00	12	4.58	12	4.40	12	6.05	12	0.63	12	0.79	10	0.81	11	0.35	12
Novastar	301	68	1.79	9	1.44	8	2.88	11	1.20	7	1.12	7	0.70	11	1.04	6	0.89	10
Option One	454	184	0.83	3	0.65	3	0.98	5	0.86	5	0.94	9	0.92	9	0.89	9	0.90	9
Saxon Mortgage	135	31	0.52	1	0.00	1	2.33	10	0.67	2	2.18	2	4.59	1	2.24	1	3.66	2
Washington Mutual	1,034	358	1.68	8	1.31	7	1.76	8	1.54	9	0.76	10	0.68	12	1.07	5	0.94	8
Wells Fargo	2,569	308	4.08	11	2.88	11	1.95	9	2.95	11	1.55	4	1.45	5	0.78	12	0.73	11
WMC Mortgage	914	359	0.81	2	0.86	4	0.92	4	0.85	4	0.63	11	1.25	6	1.23	3	1.53	6
All Lenders	34,252	6,692	2.24		1.74		1.46		2.12									

Note: The light green color indicated that the bank is receiving City deposits.
** both numerator and denominator are zero.*

Table 9. (Continued)		
	Score	Ranking
Acredited	3.40	2
Countrywide	6.33	7
Encore	5.20	3
JP Morgan Chase	5.60	4
Lehman Brothers	6.13	6
National City	10.60	12
Novastar	7.93	10
Option One	6.93	8
Saxon Mortgage	3.33	1
Washington Mutual	7.87	9
Wells Fargo	8.27	11
WMC Mortgage	5.73	5

Table 11. Home Lending Ranking Analysis: Subprime Home Purchase Loans, District of Columbia

Institution	All Applications	All High Cost Loan Originations	Percent of Loans to African American Borrowers		Percent of Loans to Hispanics		Percent of Loans to Asians		Percent of Loans to LMI Borrowers		Percent of Loans to Female Borrowers		Percent of Loans in 50-100% Minority Tracts		Percent of Loans in LMI Tracts	
				Rank		Rank		Rank		Rank		Rank		Rank		Rank
Acredited	72	20	65.0%	N/A	15.00%	N/A	0.00%	N/A	20.00%	N/A	70.0%	N/A	100.0%	N/A	75.0%	N/A
Countrywide	762	87	82.1%	1	5.13%	5	8.97%	1	19.05%	4	45.8%	1	94.3%	2	87.4%	1
Encore	46	4	50.0%	N/A	0.00%	N/A	0.00%	N/A	25.0%	N/A	25.0%	N/A	100.0%	N/A	100.0%	N/A
JP Morgan Chase	232	17	80.0%	N/A	0.00%	N/A	0.00%	N/A	13.3%	N/A	26.7%	N/A	82.4%	N/A	76.5%	N/A
Lehman Brothers	268	54	80.4%	2	7.69%	4	0.00%	5	10.4%	6	34.6%	6	92.6%	4	83.3%	3
National City	829	92	73.6%	5	14.47%	2	0.00%	5	24.1%	2	41.5%	4	79.3%	6	77.2%	5
Novastar	76	25	55.0%	N/A	20.00%	N/A	0.00%	N/A	8.0%	N/A	45.8%	N/A	92.0%	N/A	84.0%	N/A
Option One	79	23	95.0%	N/A	5.00%	N/A	0.00%	N/A	30.0%	N/A	52.2%	N/A	95.7%	N/A	91.3%	N/A
Saxon Mortgage	13	6	100.0%	N/A	0.00%	N/A	0.00%	N/A	16.7%	N/A	33.3%	N/A	100.0%	N/A	100.0%	N/A
Washington Mutual	305	112	63.3%	6	29.63%	1	0.92%	4	14.3%	5	36.4%	5	92.9%	3	82.1%	4
Wells Fargo	1,394	55	79.1%	4	2.27%	6	6.98%	2	29.6%	1	43.8%	2	80.0%	5	74.5%	6
WMC Mortgage	445	213	79.4%	3	11.22%	3	1.0%	3	20.2%	3	42.3%	3	94.8%	1	84.0%	2
All Lenders	13,399	1,551	71.03%		13.6%		2.89%		21.39%		43.6%		90.9%		81.2%	

Institution	All Applications	All Denials	African-American to White Denial Disparity Ratio		Hispanic to White Denial Disparity Ratio		Asian to White Denial Disparity Ratio		Minority Tract/ Non-Minority Tract Denial Disparity Ratio		LMI/MUI Borrower Market Share		African-American Borrower Mkt Share/White Borrower Mkt share		LMI Tract/ MUI Tract Market Share		Minority Tract Mkt share / Non-Minority tract Mkt share	
				Rank		Rank		Rank		Rank		Rank		Rank		Rank		Rank
Acredited	72	41	3.00	N/A	0.83	N/A	2.50	N/A	0.69	N/A	0.92	N/A	0.75	N/A	0.69	N/A	N/A	N/A
Countrywide	762	199	1.23	2	1.21	5	0.93	1	1.43	3	0.86	4	1.86	1	1.60	1	1.64	2
Encore	46	6	0.46	N/A	0.00	N/A	0.00	N/A	0.35	N/A	1.22	N/A	0.17	N/A	N/A	N/A	N/A	N/A
JP Morgan Chase	232	36	2.93	N/A	1.52	N/A	1.72	N/A	1.02	N/A	0.57	N/A	1.04	N/A	0.75	N/A	0.47	N/A
Lehman Brothers	268	106	1.88	4	0.79	1	1.31	3	1.14	2	0.43	6	1.43	5	1.15	3	1.25	4
National City	829	55	6.71	6	1.06	4	4.42	6	3.98	6	1.16	2	0.84	6	0.78	5	0.38	6
Novastar	76	24	N/A	N/A	N/A	N/A	N/A	N/A	0.60	N/A	0.32	N/A	0.96	N/A	1.21	N/A	1.15	N/A
Option One	79	43	0.78	N/A	0.00	N/A	1.50	N/A	0.89	N/A	1.57	N/A	N/A	N/A	2.43	N/A	2.20	N/A
Saxon Mortgage	13	3	N/A	N/A	N/A*	N/A	N/A*	N/A	0.25	N/A	0.73	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Washington Mutual	305	97	1.29	3	1.05	3	1.30	2	1.48	4	0.61	5	1.50	3	1.06	4	1.30	3
Wells Fargo	1,394	120	6.09	5	1.68	6	2.17	5	3.60	5	1.55	1	1.48	4	0.68	6	0.40	5
WMC Mortgage	445	173	0.88	1	0.96	2	1.40	4	0.71	1	0.93	3	1.67	2	1.22	2	1.84	1
All Lenders	13,399	1,887	3.90		2.52		2.15		2.54									

Table 11. (Continued)		
	Score	Ranking
Acredited	N/A	N/A
Countrywide	2.27	1
Encore	N/A	N/A
JP Morgan Chase	N/A	N/A
Lehman Brothers	3.87	4
National City	4.67	6
Novastar	N/A	N/A
Option One	N/A	N/A
Saxon Mortgage	N/A	N/A
Washington Mutual	3.67	3
Wells Fargo	4.20	5
WMC Mortgage	2.27	1

Note: The light green color indicated that the bank is receiving City deposits.
** both numerator and denominator are zero.*

Table 12. Home Lending Ranking Analysis: Subprime Refinance Loans, District of Columbia

Institution	All Applications	All High Cost Loan Originations	Percent of Loans to African American Borrowers		Percent of Loans to Hispanics		Percent of Loans to Asians		Percent of Loans to LMI Borrowers		Percent of Loans to Female Borrowers		Percent of Loans in 50-100% Minority Tracts		Percent of Loans in LMI Tracts	
				Rank		Rank		Rank		Rank		Rank		Rank		Rank
Acredited	145	41	91.9%	1	2.56%	9	2.70%	1	60.98%	3	43.90%	11	97.56%	3	90.24%	1
Countrywide	1,523	252	82.1%	8	7.22%	3	1.12%	5	56.97%	6	49.58%	9	93.25%	9	75.40%	11
Encore	268	101	87.6%	5	3.37%	8	0.00%	7	59.41%	4	62.63%	1	98.02%	1	81.19%	8
JP Morgan Chase	705	145	90.6%	2	5.22%	5	0.00%	7	71.83%	1	58.54%	2	97.93%	2	82.07%	6
Lehman Brothers	529	159	89.1%	4	4.62%	7	0.00%	7	52.60%	8	53.38%	7	97.48%	5	84.91%	4
National City	456	35	89.7%	N/A	6.90%	N/A	0.00%	N/A	53.13%	N/A	62.86%	N/A	94.29%	N/A	80.00%	N/A
Novastar	225	116	78.9%	11	6.58%	4	1.32%	4	54.21%	7	50.54%	8	93.10%	10	81.90%	7
Option One	363	165	81.1%	9	5.13%	6	2.46%	2	42.94%	11	48.00%	10	92.73%	11	80.61%	9
Saxon Mortgage	104	40	86.1%	6	11.43%	1	0.00%	7	65.00%	2	53.85%	6	97.50%	4	87.50%	2
Washington Mutual	695	165	79.6%	10	2.16%	11	1.41%	3	51.52%	9	57.82%	3	93.94%	8	83.03%	5
Wells Fargo	1,054	201	89.8%	3	2.37%	10	0.00%	7	58.97%	5	54.89%	5	94.53%	7	78.61%	10
WMC Mortgage	464	209	85.0%	7	7.25%	2	1.11%	6	43.54%	10	55.50%	4	96.65%	6	85.17%	3
All Lenders	19,606	3,287	85.60%		6.06%		0.69%		52.81%		52.76%		94.80%		82.05%	

Institution	All Applications	All Denials	African-American to White Denial Disparity Ratio		Hispanic to White Denial Disparity Ratio		Asian to White Denial Disparity Ratio		Minority Tract/Non-Minority Tract Denial Disparity Ratio		LMI/MUI Borrower Market Share		African-American Borrower Mkt Share/White Borrower Mkt share		LMI Tract/MUI Tract Market Share		Minority Tract Mkt share / Non-Minority tract Mkt share	
				Rank		Rank		Rank		Rank		Rank		Rank		Rank		Rank
Acredited	145	79	0.67	2	0.63	2	0.00	1	0.81	4	1.40	3	N/A	N/A	2.02	1	2.20	3
Countrywide	1,523	420	1.04	6	1.10	7	0.91	6	1.08	6	1.18	6	0.88	7	0.67	11	0.76	9
Encore	268	35	3.32	11	5.50	11	0.00	1	0.63	2	1.31	4	0.94	6	0.94	8	2.72	1
JP Morgan Chase	705	224	1.56	8	1.84	9	0.81	5	1.36	8	2.28	1	2.04	2	1.00	6	2.60	2
Lehman Brothers	529	230	0.98	5	0.82	4	1.81	9	0.79	3	0.99	8	1.58	3	1.23	4	2.13	5
National City	456	31	3.41	N/A	2.14	N/A	4.28	N/A	6.03	N/A	1.01	N/A	2.50	N/A	0.88	N/A	0.91	N/A
Novastar	225	44	1.25	7	1.50	8	0.00	1	3.07	11	1.06	7	0.58	9	0.99	7	0.74	10
Option One	363	141	0.93	4	0.87	5	1.00	7	0.88	5	0.67	11	0.59	8	0.91	9	0.70	11
Saxon Mortgage	104	26	0.63	1	0.00	1	2.50	11	0.61	1	1.66	2	2.98	1	1.53	2	2.14	4
Washington Mutual	695	247	1.91	9	2.16	10	2.16	10	1.55	9	0.95	9	0.49	10	1.07	5	0.85	8
Wells Fargo	1,054	167	2.53	10	0.92	6	1.28	8	1.63	10	1.28	5	1.23	4	0.80	10	0.95	7
WMC Mortgage	464	184	0.77	3	0.76	3	0.00	1	1.13	7	0.69	10	1.13	5	1.26	3	1.58	6
All Lenders	19,606	4,479	1.38		1.24		1.21		1.56									

Note: The light green color indicated that the bank is receiving City deposits.
** both numerator and denominator are zero.*

Table 12. (Continued)		
	Score	Ranking
Acredited	3.21	1
Countrywide	7.27	8
Encore	5.20	5
JP Morgan Chase	4.40	3
Lehman Brothers	5.53	6
National City	N/A	N/A
Novastar	7.40	9
Option One	7.87	10
Saxon Mortgage	3.40	2
Washington Mutual	7.93	11
Wells Fargo	7.13	7
WMC Mortgage	5.07	4

Appendix 2: Detailed Description of Methodology

The following is a detailed description of the NCRC methodology. NCRC used Home Mortgage Disclosure Act (HMDA) data for the year 2006, which is the most recent year for which data is publicly available. As noted above, the analysis considered a loan to be high-cost if the HMDA data indicated that a loan had pricing information. For first lien loans considered by this study, HMDA has pricing information if the Annual Percentage Rate (APR) on the loan is three percentage points greater than the rate of Treasury securities of comparable maturities.

The following specifications were used when analyzing the HMDA data:

- Property Type: traditional site built single family units; manufactured homes and multi-family homes excluded from the analysis.

- Loan type: conventional and government-insured loans were included.

- Occupancy: owner-occupied only.

- Lien status: first lien only.

For each major lending institution, NCRC analyzed performance on the following fifteen indicators:

1) Percent of loans to African-Americans: This indicator measures the percent of a financial institution's loans that are made to African-Americans. Another way to think about this indicator is the portion of the institution's loan portfolio devoted to African-Americans.

2) Percent of loans to Latinos: This indicator measures the percent of a financial institution's loans that are made to Latinos.

3) Percent of loans to Asians: This indicator measures the percent of a financial institution's loans that are made to Asians.

4) Percent of loans to Low- and Moderate-Income (LMI) borrowers: This indicator measures the percent of a financial institution's loans that is made to LMI borrowers. Low- and moderate-income definitions conform to CRA definitions; in other words, LMI borrowers have incomes up to 80 percent of area median income.

5) Percent of loans to women: This indicator measures the percent of a financial institution's loans that are made to women.

6) Percent of loans to substantially minority tracts: This indicator measures the percent of a financial institution's loans that are made to residents of substantially minority census tracts. A census tract is defined as substantially minority if more than 50 percent of the residents are of a race that is non-white and/or of Latino ethnicity.

7) Percent of loans to LMI tracts: This indicator measures the percent of a financial institution's loans that are made to residents of LMI census tracts.

8) African-American/white denial disparity ratio: This indicator divides the African-American denial rate by the white denial rate. Higher ratios are worse. Higher ratios indicate that a lender is denying African-Americans at higher rates relative to whites.

9) Latino/white denial disparity ratio: This indicator divides the Latino denial rate by the white denial rate.

10) Asian/white denial disparity ratio: This indicator divides the Asian denial rate by the white denial rate.

11) Minority tract/non-minority tract denial disparity ratio: This indicator divides the denial rate experienced by residents of minority census tracts by the denial rate experienced by residents of predominantly white census tracts.

12) Ratio of LMI to MUI market share to borrowers: Market share measures an institution's share of all the loans made by all financial institutions in a geographical area to a certain demographic group. The LMI and MUI market share ratio indicator measures the ratio of the institution's share of all loans made to LMI borrowers divided by the institution's share of all loans made to MUI borrowers. If an institution's share of the LMI market is larger than its share to the MUI market, the institution is making more of an effort to lend to LMI borrowers than MUI borrowers. The LMI and MUI market share ratio indicator will then be greater than one. In contrast, if an institution is making a greater effort to lend to MUI borrowers than LMI borrowers, this market share ratio indicator will be less than one.

13) Ratio of African-American to white market share: This indicator measures the ratio of the institution's share of loans made to African-American borrowers divided by its share of loans made to white borrowers.

14) Ratio of market share in minority and white tracts: This indicator is a ratio of a bank's market share in minority tracts divided by its market share in white tracts.

15) Ratio of LMI and MUI market share by tracts: Market share measures the institution's share of all the loans made by all financial institutions in a geographical area to a certain census tract category. The LMI and MUI market share ratio indicator measures the ratio of the institution's share of all loans made to LMI census tracts divided by the institution's share of all loans made to MUI census tracts.

On each CRA and fair lending indicator, a lender receives a score. The best possible score is one and the lowest possible score is the number of lenders in the ranking analysis. For example, since the prime single family ranking in this study included 16 lenders, the lowest possible score on an indicator was 16. It is possible for a lender not to be ranked on a denial disparity ratio indicator (If a lender has not denied any loans to whites, the denial rate to whites is zero, and it is not possible to divide a minority denial rate by a white denial rate). Therefore, for each lender, NCRC totals the scores on all the indicators for which it is possible to assign a score. NCRC then divides the sum by the number of indicators for which it is possible to assign a score. The average score for each lender are then sorted from lowest to highest, with the lowest average scores being the best rankings.

In the case of an insufficient number of loan originations for a ranking analysis to be meaningful, a lending institution was assigned no rank. The threshold for assigning a rank to a lending institution was 40 loan originations. Any lending institution that has originated less than 40 loans was not ranked, yet, its lending activity is still displayed in our analysis. NCRC would have used a higher threshold such as 100 but the number 40 was chosen so that some of the institutions receiving City deposits could be ranked for at least one loan type.[32]

Lender Input to Study

As mentioned above, NCRC solicited the input of a subset of lenders analyzed in this study. Similar to the process employed by the Government Accountability Office (GAO), NCRC shares embargoed drafts of reports with lending institutions in order to bolster the rigor and integrity of the analysis. This process enables lending institutions to identify any technical inaccuracies in the data analysis. Conducting data analysis is demanding in part because a number of lenders have several affiliates. Allowing lenders to examine the draft report ensures that NCRC had identified all the affiliates making loans in the District of Columbia. In addition, sharing the report with lenders provides NCRC with insights into how to interpret the study's results and how to modify our methodology for this and/or future studies.

Importantly, the lender review of the draft study did not identify any technical inaccuracies. The following issues were raised by lenders:

Using Purchases in Addition to Loan Originations
In addition to loan originations, HMDA data contains information on loans that lending institutions purchase from other lending institutions and brokers. CRA exams provide points for banks' purchases of loans as well as banks' loan originations. One large lending institution suggested that NCRC include an analysis of loan purchases. In response, NCRC examined the HMDA data for lenders in the analysis. As anticipated, the data on purchases for the great majority of the lenders did not include key demographic information on the borrowers such as race, income levels or gender. Under Regulation C implementing HMDA, lending institutions are not required to collect this information on loans they purchase. NCRC agrees that a separate analysis on purchases would have been desirable, but would have not been too meaningful in this case. HMDA reporting requirements should be enhanced for loan purchases so that analyses can examine demographic trends in loan purchasing activity.

Examining Loan Approvals in Addition to Denials
One lender asked NCRC to consider evaluating loan approval rates to minorities compared to whites in addition to evaluating loan denial rates to minorities compared to whites. Other lenders asked NCRC not to include too many indicators focusing on denial or approval rates since the emphasis should be on how many loans various borrower groups received.

NCRC agrees that approval rate analysis is an interesting endeavor but we are also sensitive to not devoting too much attention to differences in approval and denials by race. Sometimes, a lender can have a relatively high denial rate to minorities because that lender has aggressive marketing efforts that have attracted a large number of minority applicants. In this case, it is more important that the lender has issued a sizable percentage of its loans to minorities and working class residents than focusing on denial and approval rates. NCRC has therefore included more portfolio and market share indicators examining the number of loans received by various borrower groups than denial rate indicators. Adding more indicators would have titled the balance too far towards denial and approval rate indicators.

Examining Small Business and Community Development Financing
One lender commented that more complete understanding of a lender's performance in a city would be gleaned if the analysis had considered small business lending and community development lending and investing. NCRC agrees with this comment, but notes that as a subcontractor, we were tasked with analyzing home lending trends. Also, given the looming foreclosure crisis, it is important for cities to understand home lending trends in their jurisdictions and which lenders are making large numbers of prime and high-cost loans to their populations. Nevertheless, NCRC recommends that the District of Columbia consider follow-up studies, including a study that comprehensively analyzes bank performance in making loans, investments, and branches available to city residents.

Consideration of Loan Volumes
Some lenders raised concerns that the volume of lending was not fully considered by the study. High volume lenders commented that they may have issued lower percentages of loans to minorities, women, and working class borrowers, but they issued much higher numbers of loans to these borrower groups than lenders that issued lower overall numbers of loans. As discussed above, NCRC is cognizant of these concerns and choose a threshold number of loans below which a lender would not be included in the analysis.

An argument can also be made asserting that it is more impressive when a lower volume lender issues a higher percentage of its loans to traditionally underserved borrowers than a higher volume lender. Consider two lenders, each of which made 100 loans to African-Americans. The high volume lender issued 1,000 loans in the District of Columbia and the lower volume lender issued 500 loans in the City. The lower volume lender made 20 percent of its loans to African-Americans while the higher volume lender made 10 percent. While reasonable observers can differ about the interpretation of this result, one interpretation is that the lower volume lender was making more of an effort to market to and serve African-Americans than the higher volume lender as measured by the portion of its portfolio devoted to African-Americans.

Absence of Loan Terms and Conditions
A couple of lenders commented that the analysis did not consider loan terms and conditions. HMDA data has information on which loans are high-cost and which loans are generally considered to have prime rates. For prime loans, however, HMDA data lacks information on loans terms and conditions, making it impossible to determine how many of the prime loans were option ARM loans or other types of loans with suspect loan terms and conditions. A finer analysis for product type would be desirable. Therefore, NCRC has and will continue to advocate for more information in HMDA data concerning loan terms and conditions.

Appendix 3: List of Banks and Their Affiliates and Subsidiaries

A financial institution often has more than one affiliated company. Banks are usually organized as holding companies with a parent holding company owning banks and mortgage companies. Non-banks can also be affiliated with other non-bank mortgage companies. For each financial institution in the analysis, NCRC endeavored to locate all the affiliates as of the end of 2006 using Federal agency websites and the websites of the financial institutions. Below is a list of the lending institutions and their affiliates.[33]

Accredited
Accredited Home Lenders, INC (77185300006)

BB&T Corporation
Liberty Mortgage Corporation (358-0692236)
Branch Banking and Trust Company of Virginia (30000022584)
Lendmark Financial Services, INC. (358-2257419)
Branch Banking and Trust (30000009846)

Bank of America Corporation
Bank of America, NA (10000013044)
Nexstar Financial Corporation (122-3654383)

Chevy Chase Bank
Chevy Chase Bank, FSB (40000008145)
B.F. Saul Mortgage Company (0521440906)

Citigroup, Inc.
Citibank, N.A. (10000001461)
Citimortgage, INC (13-3222578)
Citicorp Trust Bank, FSB (40000014470)

Countrywide Financial Corporation
Countrywide Home Loans (20001644643)
Countrywide Bank, N.A. (10000024141)

Encore
Encore Credit Corp (71857500007)
Bear Stearns Residential Mortgage (72276200003)

Fidelity & Trust Financial Corporation
Fidelity & Trust Bank (20003211768)
Fidelity & Trust Mortgage, INC. (20003211759)

First Savings Mortgage Corporation (77280100005)

JPMorgan Chase & CO.
JPMorgan Chase Bank, NA (10000000008)
Chase Manhattan Bank USA, NA (10000023160)

Lehman Brothers Bank
Lehman Brothers Bank, FSB (40000006069)
BNC Mortgage (433-0661303)

M&T
M&T Mortgage Corporation (20001966578)
Manufacturers and Traders Trust Company (20000501105)

National City Corporation
National City Bank (10000000786)

Novastar
Novastar Mortgage, INC. (71512400000)

Option One
H&R Block Mortgage Corporation (77592700002)
Option One Mortgage Corp (77604800006)

PNC Financial Services Group
PNC Bank, NA (0000001316)

Saxon
Saxon Mortgage (77943800003)

Suntrust
Suntrust Banks, INC. (20000675332)
Suntrust Mortgage, INC. (20001072246)

Wachovia Corporation
Wachovia Bank, NA (10000000001),
American Mortgage network, INC (133-0970030)
Wachovia Mortgage Company (156-0811711)
World Savings Bank, FSB (40000012642)

Washington Mutual Bank
Washington Mutual Bank (40000008551)
Long Beach Mortgage Co (40330703444)

Wells Fargo
Wells Fargo NA (0000001741)
Wells Fargo Funding, Inc. (141-1704421)
PNC Mortgage, LLC (20-3207833)

WMC
GE Money Bank (40000015044)
WMC Mortgage Company (70458600405)

Chapter III: Attitudes and Experiences of Subprime Borrowers

As a complement to the analysis of subprime lending patterns in the previous chapter, we conducted a set of focus groups and a telephone survey. The primary objective of these tasks was to get a better understanding of the experiences of subprime borrowers in the District, both as they shopped for and after they received their loans. The focus groups, conducted by Urban Institute, were used to get in depth information from a small number of borrowers while the survey was used to get a broader set of information from a larger group of subprime borrowers. The survey, conducted by the Center for Responsible Lending with Greenberg Quinlan Rosner Research, was also performed on prime borrowers to allow for a comparison between the experiences of subprime and prime borrowers.

Key Findings:

1) **Recent Subprime Borrowers in DC were difficult to contact and recruit for participation for both focus groups and the survey.** This may be due to the fact that many subprime borrowers have struggled to meet their mortgages and, as a result, may have moved, disconnected their phones, or not answer their phones for fear of it being their mortgage servicer or other creditor.

2) **Homeownership education classes could provide significant benefits to borrowers.** DC borrowers could benefit from homebuying classes that include, among other things: 1) in-depth descriptions of the closing process; 2) shopping for a broker/lender; 3) the process and risks of refinancing; and 4) the potential role of emotions during the homebuying process.

3) **The marketing and shopping experiences of subprime borrowers appears to differ from that of prime borrowers in a way that leaves them more vulnerable to abusive practices.** Subprime borrowers were far more likely to receive a marketing call on the phone, were more likely to use a mortgage broker, and were more likely to be offered only one loan product. In addition, though the majority of both prime and subprime borrowers both believe the terms of the loan were well explained to them, subprime borrowers were more than three times as likely to think their loan officer or broker did not explain their loan terms well.

4) **Subprime borrowers appear to be more likely to be surprised by some of their loan terms at closing or later than prime borrowers and were more likely to have trouble making their payments.** While the majority of subprime borrowers say they were not surprised by anything at their closing or since, the proportion who were surprised was twice as high as for prime borrowers. In addition, though the majority of subprime respondents have not experienced trouble making their payments since closing on the loan, the proportions of those who have had trouble and who anticipate having trouble in the future is twice as high as for prime borrowers.

Part I. Focus Groups of Subprime Borrowers in the District

Prepared by: The Urban Institute

I. Introduction & Overview of Focus Group Task

The Urban Institute carried out focus groups with homeowners in the District of Columbia who were identified as holding a subprime mortgage. The purpose for the discussion groups was to understand better the experiences of subprime borrowers with locating a lender or broker, choosing a loan product, and managing the loan after closing. We were interested in hearing from people who borrowed to purchase or to refinance their home. While the telephone survey component of this study allowed the team to gather information from a large sample of District homeowners, the focus groups offered the opportunity to ask in-depth questions, though to fewer people. In this memo, we discuss what we learned from homeowners about their experiences with subprime mortgages. After presenting findings, we review our initial research plan and discuss the implementation challenges and steps we took to address them.

II. Methodology

We set out to hold six focus groups organized by race and ethnicity, and by type of loan originator. Specifically, we planned to hold two groups with African American homeowners (one of which would be homeowners with loans originated by retail lenders and the other of homeowners with brokered loans), two Latino and two white groups, also organized by type of loan originator.

Sampling and recruitment
CRL provided UI with a list of subprime borrowers from First American Real Estate Solutions (FARES). Data include the name, address, telephone number, and loan features for all homeowners in the District who borrowed to purchase or refinance their home between 2004 and the first quarter of 2007. Although the list was comprised only of subprime borrowers as defined by FARES, we further targeted our recruiting to borrowers who had piggyback loans (first and second loans with the same origination date) or who had an initial interest rate greater than seven percent as an extra precaution to make sure we were recruiting subprime borrowers. After applying these criteria, we worked with a sample of 636.

While the data allowed us, with some confidence, to identify a sample of subprime mortgage holders, the information did not include race or ethnicity of borrowers nor type of origination channel. Because we could not draw samples for specific focus groups by race or ethnicity or by origination channel (i.e. broker vs lender), we organized groups by wards. After grouping the addresses by city ward, we drew samples for each ward or group of wards. In an attempt to organize at least one focus group by ethnicity, we drew the sample for the focus group with residents from wards 1 and 4 by selecting only those households with a Latino or other non-English sounding surname. For all other samples but one, we drew randomly from the list of households within the ward or wards where there were many names, or worked with the full sample of subprime mortgage holders within the ward or wards if the list was short. Recruiting for the focus groups proved to be very difficult, however, and for the sixth focus group, we worked with Housing Counseling Services, Inc., a nonprofit organization, to recruit from their program participants. HCS serves clients who live throughout the District, as well as in surrounding areas. The difficulty of recruiting and the consequential change in recruitment strategy is discussed in Appendix 1.

Number and composition of groups

For the first focus group (Ward 8), we drew a sample of 30 households, mailed a letter inviting the homeowner to participate in the focus group, and followed up with multiple telephone calls at different times of the day. For the second group (Wards 2 and 3), we worked with the full sample of 41 households, and for subsequent groups, a sample of 60 or worked with the full sample. Prior to the date of each focus group we placed reminder calls to people who had agreed to participate and left messages for households we had been unable to reach, asking that they call us if they wanted to participate. We present the details on the number of participants in Table 1.

Confidentiality

At the start of the focus groups, we read the IRB-approved statement on confidentiality and consent. At the end of the discussion, participants completed a short form asking their sex, age, and city quadrant of residence. The confidentiality and consent statement, the participant form, and the receipt form all are attached, as is the discussion guide.

III. Focus Group Participants and Findings

Participants

Out of six scheduled focus groups with an anticipated 34 participants, we were able to hold three focus groups, with a total of 20 participants. The majority of participants were Black women.[34] Ages of participants split with half above and half below 50. Most people worked with a broker, and most reported their most recent mortgage loan to be for refinance rather than home purchase.

At least three participants were first-time home buyers (two of which were a couple).[35] The people who refinanced their home did so for a number of reasons: to draw on their equity to pay for needed home renovations; to pull out some of the value before the market dipped, which one person anticipated; to refinance out of an adjustable rate mortgage; and to pay credit card debt.

Table 1. Focus Group Participants by Ward

Area	Declined	Anticipated	Attended
Wards 1 & 4	6	3	0
Wards 2 & 3	8	1	0
Ward 5	6	10	6
Ward 6	9	5	0
Ward 8	0	5	4
HCS	-	10	10

Financial Education

Participants' experiences with financial education and home buying workshops ranged from attending a course years prior to purchasing a home, to attending just before buying, to never participating in any program. The programs mentioned included those offered through HPAP and VPAP, Home Free USA, and NACA. Even people who had taken a course long before buying a house said the experience was worthwhile. People remembered learning how to get their credit in order, to evaluate spending habits to ensure they could afford mortgage payments, to avoid defaults, to contact one's lender if they ran into financial difficulties, and learning tips for maintaining one's home.

Most of the participants who did not participate in any pre-purchase program said it would have been helpful to have learned the importance of and how to shop for a mortgage broker and loan products before deciding who to work with and what loan to take. Other participants said it would have been helpful to learn what the HUD terms mean that appear on closing papers, such as 'loan origination fee.' Learning that their mortgage likely would be sold to the secondary market not long after settlement also would have removed this surprise for a few people, and would have kept one person from mailing her payment to the incorrect address.

One person talked about her efforts to research the entire home buying process on her own, which she used to her advantage, insisting on loan terms she wanted, and even walking out during closing when the terms were different from what she had been told. Ultimately, she was able to find a broker willing to work on her terms, and she remained in a position of control throughout the process. While other focus group participants were impressed with her willingness to draw a hard line in negotiations, they talked about the pull of their emotions that affected their home buying experience.

Participants talked of the impact of their emotions on their dealings with a broker or lender, or on the closing process itself. As one person stated, "…all this would be helpful information to know. But at the time, you don't even care. You just want to get the loan and get out of there." People talked about feeling excited or having fallen in love with a house—feelings that they acknowledged affected their willingness to insist on getting the loan terms they wanted from their broker or lender, or their willingness to insist on thoroughly reviewing closing documents. Though no one suggested that home buying courses should cover the emotional aspects of buying a home, the discussion itself suggests that courses would serve homebuyers well if they included such a component.

Other things people said it would be helpful to learn include:

- What is a refinance mortgage
    - A refinance loan won't necessarily be the same type of loan as the initial loan (the refinance loan might not be an FHA loan though the purchase loan was an FHA product)
    - A refinance loan is a new loan – loan payments start at month 1 rather than continue from the same payment month as the previous mortgage
- How to prevent multiple credit checks when exploring broker / lender options
- What to look out for at closing, including changed terms or conditions
- Information on home warranty
- Who to contact if treated poorly by a broker or lender, or during the closing process
- Who to contact if the borrower experiences financial difficulties

Shopping for broker / lender

Participants found brokers through a variety of ways. Some people took recommendations from friends or family members, or worked with a broker they met through a home buying program, realtor, or in one case, suggested by the FHA program. Other participants were contacted by brokers once the interest rate on their adjustable-rate mortgage was about to change for the first time. Few people talked about shopping for a broker or lender, working instead with someone recommended or with whomever would work with them. A couple of people felt they did not have much of a choice. One young woman worked with the only broker who would work with her, after receiving no response from staff of the HPAP, VPAP or the DC bond program.

The people who believed they had few, if any, broker options talked about the problems they had with their broker. Brokers were not qualified or took advantage of the person's situation rather than working to find a good loan product, or in one case, steered the person to a particular lender with whom the broker seemed to have ties. Two people recounted experiences in which their respective broker offered financial help or suggested that the buyer increase or decrease the amount of money in their bank account. In one case, the broker offered to loan money to the person so that there would be more money in the buyer's account at closing. In the other case, a broker told the person to spend money in their bank account to decrease the balance so that they could show greater need and qualify for a higher loan amount. Two other participants, Latino women, talked about the broker they both knew from their spiritual group who promised to work with each of them as though they were family. Instead, the broker took advantage of each woman's trust by requiring large sums of money up front, claiming the funds were for legitimate costs or fees, before stealing $8,000 from one woman and $22,000 from the other.

Participants who did shop around were able to find a broker willing to work with them, meaning the broker answered their questions, explained terms and processes, and provided consistent information. When we asked what was the most important criteria for selecting a broker or lender, people said they wanted someone who would treat them with respect, follow-up on things, provide good information, and answer all their questions in simple terms.

When we asked who participants believed their broker / lender was working for, each participant in Ward 8 said they believed their broker worked on their behalf – even the people who had cited problems with their broker. Participants in from Ward 5, however, were more critical, saying that in a few instances the broker worked for him or herself or for himself and a lender. A few people did say they ended up with a good and fair broker or lender who worked with the borrower's interest in mind.

Understanding of Loan Products

Most of the participants said they had understood the loan products that were offered to them (for those who were offered more than one product) or that they took. A couple of people did say that their choices were limited due to their financial situation. When asked if loan products were explained clearly, people indicated that they were, or initially thought they were. The terms that mattered most to participants included the interest rate, down payment amount, total monthly payment, having a fixed rate, and the length of time before balloon payments kicked in.

Closing

Though people said they understood their loan product, a number of them told of problems and surprises they encountered with their loan at settlement or afterwards. Our discussion guides did not include questions about closing experiences, but participants talked about this step in the home buying process and how frustrating it could be. In particular, people talked about not receiving closing documents prior to the settlement, as they were told should have happened. Consequently, they were unable to review the settlement papers beforehand and some people arrived to find loan terms or conditions different from what they had been told.

Among the discrepancies people encountered at closing were higher interest rates than they had been led to expect. One person who asked about the difference was told that the initial rates were "numbers they just put in," not the rate that would be offered. A couple of people who took out an adjustable rate mortgage found out that the period of time before the rate would change was shorter than they had expected; one person had been told that the rate was locked for three years, but later found out that it was not locked that long. One participant had thought the interest rate on her mortgage was 2.5 percent — the broker had not explained that the product was a balloon loan. Another participant thought she had one loan only to find out later that she had two. Another person discovered that there would be a penalty for refinancing during the first two years of the loan. People also talked about having a shorter than anticipated window during which they could back out of the loan after closing, including one person who was not offered any window.

Some participants talked about how the need to ask questions at closing was outweighed by the excitement of being so close to finishing a lengthy process and owning their home, and feeling overwhelmed. Even those who were faced with discrepancies in terms or conditions were ready for the buying or refinancing process to be done. Two people, however, walked out during the closing. In one case, a woman called her brother, an attorney, during the closing when she felt uneasy about the terms. He advised her to walk away, which she did. Another woman who also found different terms than what she had been told, also walked out.

Differences by Area of City

The small number of focus group participants makes it difficult to draw clear differences by area, race, sex or age. That said, we offer tentative differences between the experiences of participants in the Ward 5 and Ward 8 discussion groups. Ward 8 participants seemed to be in tougher circumstances with their mortgages. One person was considering a reverse mortgage; two people said they did not have income sufficient to cover their increasing monthly mortgage payments. One of these people is retired and the other disabled. The participant who had bought a home under unfavorable terms was just hoping she could make it through two years of payments after which she would be able to refinance without penalty. Ward 5 participants seemed clearer about their rights to be treated with respect and to get terms they want – some of them learned through previous mortgage experiences how to get what they wanted from brokers. Only one of the participants from Ward 5 said she had felt backed into a corner without options. Even the participants with a balloon loan felt the process they went through had been fair; they were planning to refinance in a couple of years once their financial circumstances improved. They did not indicate surprise at their situation or a sense that they had been treated unethically.

Ideas to improve experiences buying and owning a home

In addition to the points made above about what people would like to have learned prior to buying or refinancing their home, participants offered additional thoughts on how to improve the home financing experience.

Ideas included:

- Making available a thorough home buyers' manual
- Encouraging home buyers to consider broker/lender options and mortgage product options, and offering guidance on how to shop around
- Developing a standard mortgage application form so that consumers do not become tired of filling out applications while shopping for a good product; completing multiple applications can hinder the exploration of options
- Simplifying contracts so that they are understandable to home buyers

- Increasing oversight and regulation of brokers and settlement companies
    - Developing an evaluation process in which borrowers can describe what they experienced and provide information on particular brokers, lenders and related players
    - Creating an oversight body to review evaluation information and act on it
    - Rating mortgage brokers and lenders and making the ratings public
- Encouraging people to lodge complaints when they have bad experiences

Appendix 1. Implementation Challenges for Focus Groups

There were a number of challenges to recruiting participants for the focus groups, including the household data itself and motivating people to attend.

1) Household data

The household data included some information that was out of date by the time we used it. Once we started calling people in the sample, we discovered that a significant percent of the sample for each area was no longer good. Problems included disconnected numbers, wrong numbers, business numbers, and so on. Overall, for the five household samples pulled for the by-Ward focus groups, 33 percent of the contact information was out of date (see Figure 2 for a breakdown of problems by ward).

2) Recruitment & Attendance

We were able to solicit participants for each of the planned groups, even though for two of the groups, Wards 1 & 4 and Wards 2 & 3, the numbers were extremely low. However, for three sessions none of the people who agreed to participate attended (Wards 1 & 4, Wards 2 & 3, and Ward 6).

To address these challenges, we changed our sample size, stipend, and for the final group, recruitment approach. As mentioned, we increased our sample from 25 to 60 in order to increase the likelihood of reaching people. We also increased the stipend once to $30 and then again to $50 for the last two groups.

After the fourth attempted focus group, we contacted four community-based organizations to ask if they would work with us to recruit from their client base. One group, Housing Counseling Services, Inc. (HCS), agreed to distribute fliers about the project and to ask clients if they would be willing to participate. Meanwhile, we continued with our own process to organize a focus group in Ward 5.

Table 2. Sample problems by Ward

	Starting Sample	Letter Returned	Disconnected Or # Not in Service	Wrong Number	Fax or Business Number	Deceased	Percent Out of Date
Wards 1 & 4	60	1	12	4	2	0	32
Wards 2 & 3	41	2	8	1	2	0	32
Ward 5	61	2	7	5	2	1	28
Ward 6	57	7	4	2	6	1	35
Ward 8	30	2	5	5	0	0	40
HCS	NA	NA	NA	NA	NA	NA	NA

Part II. Telephone Survey of DC Borrowers

Prepared by: The Center for Responsible Lending with Greenberg Quinlan Rosner Research

I. Introduction

The Center for Responsible Lending, together with Greenberg Quinlan Rosner Research, a polling research firm located in Washington DC, conducted a telephone survey of prime and sub-prime borrowers who had received home loans within the last few years. Like the focus groups, the primary objective of the survey was to get a better understanding of the subprime mortgage market in DC and the process by which subprime borrowers in the District are ultimately matched with specific mortgage products.

In this section, we discuss the results from this survey. Part 2 describes the methodology for conducting the survey and Part 3 describes the demographic and economic profile of the survey respondents. Parts 4 and 5 describe the shopping and marketing experiences as well as the outcomes of and satisfaction with the borrowing process.[36]

II. Methodology

The Center for Responsible Lending (CRL) purchased a list of borrowers used in this study from First American Real Estate Solutions (FARES), which combined data from publicly available financial records with proprietary loan- and lender-level data. The list included records of all private purchase and refinance mortgages that originated in the District of Columbia between January 1, 2004 and March 31, 2007. Using a proprietary methodology to determine which borrowers were prime versus subprime, the list vendor identified and flagged 4,039 subprime loans in this universe.

After receiving this sample from CRL, Greenberg Quinlan Rosner Research (GQR) submitted all 4,039 of the subprime records and a simple random sample of 6,000 prime loan records to a phone match vendor to update the phone records associated with each loan address. 1,572 number of phone records were ultimately matched for the subprime borrowers and 3,884 number for prime borrowers. Completing surveys for prime borrowers proved to be fairly typical, with a response rate of 10.2 percent. However, completing the survey for subprime borrowers proved to be extremely difficult. A large number of the phone numbers that were matched to the loan records for these borrowers were no longer in service. Calls to many of the other numbers that were in service went unanswered and many that were answered did not result in completed surveys because the person who answered was not the borrower or would not participate.[37] As a result, postcards were sent out to 500 subprime borrowers, explaining the purpose of the survey and offering $10 for survey participation. They were asked to call an 800 number to schedule a convenient time to complete the survey. Despite all of these efforts, only 105 subprime borrowers ultimately completed the survey.

Therefore, in interpreting this data we need to keep in mind that the sample of subprime borrowers who ultimately completed the survey is unlikely to be representative of subprime borrowers as a whole. Although it is impossible to know for sure, it seems probable that the survey respondents are more likely to have had relatively positive lending experiences and outcomes, since those who have had difficulty meeting their mortgage obligations are more likely to have moved, disconnected their phones, or not answered the phone. In addition, as is true with any survey where personal financial questions are asked, the response error (i.e. the difference between what the participants say and what is true) is likely to be significant. No one likes to admit they do not recall the details of a financial transaction, that they are having financial difficulties, or that they may have been taken advantage of. For that reason, comparisons between the responses of prime and subprime respondents may be more meaningful than analyses of either group independently.

For more specific information on the methodology, see Appendix 1.

III. Demographic and Economic Profile of Survey Respondents

Subprime borrowers differ significantly from prime borrowers, both demographically and in their economic security. This was reflected in the survey respondents. Subprime respondents were more likely to be people of color, retired, have lower incomes and less education.

Table 1. Demographic Comparison of Prime and Subprime Survey Respondents

	Subprime	Prime
Total Number of Respondents	105	152
Gender	Percent of Respondents	
Male	37	46
Female	63	54
Age	Percent of Respondents	
Ages 18-39	8	28
Ages 40-49	18	21
Ages 50-64	48	31
Ages 65 and older	20	14
Race	Percent of Respondents	
White	10	45
African American	78	39
Other race	12	15
Education	Percent of Respondents	
High school degree or less	21	12
Some college or non-college/post H.S.	31	14
Four year college graduate	26	38
Post graduate school	20	38
Employment Status	Percent of Respondents	
Employed	60	80
Retired	30	16
Other	11	4
Income	Percent of Respondents	
Less than $10K	3	1
$10K to under $20K	3	1
$20K to under $30K	10	3
$30K to under $50K	12	7
$50K to under $75K	10	12
$75K to under $100K	9	13
$100K or higher	21	43
Don't Know/Refused	33	22

Given these characteristics, it is not surprising that subprime respondents were much more likely to be worried about debt than prime respondents. Specifically, 65 percent of subprime borrowers were worried about personal debt, compared to 48 percent of prime borrowers. They are almost twice as likely (26 percent) as prime borrowers (15 percent) to say that they worry about their personal debt often.

IV. Shopping and Marketing Experiences

The marketing of subprime loans and prime loans to these borrowers varied substantially, at least as recollected by survey respondents. Subprime borrowers were much more likely to have been contacted through telemarketing and through personal references. Subprime borrowers were also more likely to work through a mortgage broker and were more likely to be offered cash equity, lower monthly payments and a loan despite past credit problems. All told, these results suggest not only "different" marketing tactics, but tactics that are arguably predatory in nature.

- 54 percent of subprime borrowers obtained their mortgage from a broker, compared to only 39 percent of prime borrowers. It is worth noting that while subprime borrowers were more likely to use brokers, they were no more likely to believe that brokers primarily represent the interest of borrowers. Thirty-percent of both prime borrowers and subprime borrowers who used mortgage brokers believed their broker primarily served the borrower's interests.

- 24 percent of subprime borrowers came into contact with their loan originator through a telephone solicitation, compared to just 7 percent of prime borrowers. This likely reflects that a greater proportion of subprime loans are refinance loans, since brokers and lenders target their telemarketing to existing homeowners to see if they want to refinance their mortgage. It also suggests that subprime borrowers were less likely to have been actively shopping for a loan but decided to get a loan after contact from the broker or lender.

- Among borrowers who were contacted by a broker or loan officer, subprime borrowers were more likely to hear certain offers than prime borrowers were. Promises to deliver cash or equity out of the borrower's home (73 percent to 54 percent), to consolidate debt (65 percent to 46 percent), and to provide a loan despite any past credit problems (38 percent to 15 percent) all characterize lenders' pitches to subprime borrowers. Although a low sample size precludes any definitive conclusion on this measure, one of the most dramatic differences emerge between the subprime and prime when they are asked about lower monthly payments (69 percent among subprime, 38 percent among prime borrowers).[38]

When asked what the two most important loan features was to them when shopping for their mortgage, the responses of prime borrowers and subprime borrowers were very similar. The majority of both groups came into the process looking for low interest rates (65 percent among subprime borrowers, 66 percent among prime borrowers). One interesting finding was that the subprime respondents were significantly more likely to seek loans whose monthly payments do not change. Given the dominance of adjustable rate products in the subprime market, this is somewhat surprising and suggests that either our subprime respondents are not representative of the subprime market or that, though they wanted fixed rates, did not receive them.

Table 2. Two Most Important Features of a Home Loan, by Subprime and Prime Borrowers

Two most important loan features:	Subprime Respondents (%)	Prime Respondents (%)
A low interest rate	65	66
Monthly payments that don't change	30	20
Low monthly payments	24	28
Low fees associated with the loan	14	14
The total loan amount	9	14
Options each month to make a complete principal and interest payment, an interest-only payment, or a payment that is less than the amount of interest that has accumulated in the past month	7	10
Lower or zero down payment	5	3
No requirement to provide proof of income	3	3
(Other)	6	7
(Don't know/refused)	2	4

Neither prime, nor subprime borrowers relied heavily on outside experts in shopping for a loan. Thirty-seven percent of subprime and 46 percent of prime spoke with family member and a majority of both did their own financial calculations. The disparity in the percentage of prime borrowers (80 percent) and subprime borrowers (63 percent) who did their own calculations suggest a greater reliance among subprime borrowers on the words and figures of vendors.

Table 3. Help with Determining the Amount of the Home Loan, by Prime and Subprime Borrowers

Help determining loan amount:	Subprime respondents (%)	Prime respondents (%)
Speak with the loan officer or broker you did business with	81	75
Do your own financial calculations	63	80
Speak with a family member	37	46
Speak to a financial planner	16	17
Speak to an accountant	15	9
Speak to a credit counselor	9	9

Only 13 percent of prime and subprime borrowers attended a homebuyer training or financial education workshop.[39] However, a fair number of prime borrowers used a website to help educate themselves (38 percent). This number drops to 18 percent among subprime borrowers, perhaps reflecting the large digital divide among these two populations.

Both prime and subprime borrowers believed their loan officer or broker explained the terms of the loan well or very well and, moreover, in recalling specific details discussed during the loan process, few significant differences emerge. Importantly, however, subprime borrowers were more likely to only be offered one type of loan (40 percent vs. 28 percent).

Though both subprime (86 percent) and prime borrowers (94 percent) believe their loan officer or broker did a good job explaining the terms of the loan, there is somewhat more intensity among prime borrowers (74 percent said the loan officer explained the terms very well, compared to 63 percent among subprime). Furthermore, 13 percent of subprime borrowers complain that the depth of explanation was inadequate, more than three times the percent for prime borrowers (4 percent).

V. Outcomes

Few subprime respondents reported being surprised by some of the terms in their loan, either at closing or after, and few reported struggling to make their payments or being worried about making their payments in the future. Furthermore, 70 percent of subprime respondents believe they are better off, financially, for having taken the loan. This could be because respondents are unwilling to concede a financial mistake or that the financial burdens of these loans have yet to materialize. But it may also be true that for those subprime borrowers who responded to the survey, their loans have been reasonably sound. It is worth reiterating, however, that the response bias in this survey may be very high and that the non-respondents, that is, those people who could not be contacted or who did not want to participate, may have had much more negative experiences than those who did participate for the reasons outlined earlier (e.g. they may have had to move, may be less likely to answer the phone for fear of creditors calling, etc.).

In addition, the negative impacts of subprime lending are, perhaps, more effectively realized comparing the prime and subprime populations. Though few subprime borrowers report being surprised by the terms of their loan at closing (23 percent) or since (16 percent), these percentages run higher than we see among prime borrowers (13 percent surprised at closing, 10 percent surprised since). While the sample size among those who were surprised is too low to look at statistically, the most prominent reason for the surprise was in having their monthly payment change.

Similarly, subprime borrowers are three times more likely to struggle making their payments (16 percent, compared to 6 percent). Much of this strain seems to reflect unexpected expenses and bills such as car repair or medical—very few complain about increased loan payments—though again, the low sample size makes this conclusion speculative at best. Subprime borrowers are twice as likely to worry about making payments in the future (19 percent among subprime borrowers, 9 percent among prime borrowers), with income not keeping pace and with the loan payment being the most prominent cause mentioned.

Despite these results, an impressive majority of subprime borrowers believe they are better off, financially, as a result of taking the loan (70 percent better off, 24 percent much better off). Just 17 percent believe they worse off and 12 percent report no difference. These results are not substantially different than we see among prime borrowers.

VI. Conclusion

Perhaps the most important finding from conducting this survey was the great difficulty in contacting subprime borrowers. Part of this is likely due to the fact that lower-income people are traditionally harder to reach for telephone surveys. However, the degree of difficulty in reaching this population surpassed our expectations. While it is impossible to know for sure, it is possible that many subprime borrowers have had difficulty paying their mortgages and, as a result, have moved, disconnected their phone, have decided not to answer the phone or refuse to participate. Consequently, it is important to be aware that those subprime borrowers who did participate in our survey may have had experiences that are not representative of the subprime borrower population as a whole.

With that caveat in mind, our survey found that the marketing and shopping experiences of subprime borrowers differs from that of prime borrowers in a way that leaves them more vulnerable to abusive practices. Subprime borrowers were far more likely to receive a marketing call on the phone, were more likely to use a mortgage broker, and were more likely to be offered only one loan product. In addition, though the majority of both prime and subprime borrowers both believe the terms of the loan were well-explained to them, subprime borrowers were more than three times as likely to think their loan officer or broker did not explain their loan terms well.

In addition, while the great majority of subprime respondents say they were not surprised by anything at their closing or since, the proportion who were surprised was twice as high as for prime borrowers. In addition, though the majority of subprime respondents have not experienced trouble making their payments since closing on the loan, the proportions of those who have had trouble and who anticipate having trouble in the future is twice as high as for prime borrowers.

Appendix 1. Survey Methodology

Sample Design

The Center for Responsible Lending (CRL) obtained the listed sample used in this study from a private vendor of publicly available financial records. The list included records of all 56,357 private home loans that originated in the District of Columbia between January 1, 2004 and March 31, 2007. Using a proprietary methodology that meets industry standards, the list vendor identified and flagged 4,039 subprime loans in this universe.

After receiving this sample from CRL, Greenberg Quinlan Rosner Research (GQR) submitted all 4,039 of the subprime records and a simple random sample of 6,000 prime loan records to a phone match vendor to update the phone records associated with each loan address.

Known Sources of Error

The primary sources of known error in this study are coverage error and non-response error. The response rate for the prime sample is 10.2 percent, while the response rate for the subprime universe is 32.3 percent (AAPOR R.E.2). The response rates for the prime sample and subprime universe are not comparable due to intentional attempts to increase the number of responses from subprime borrowers. Unanswered telephone numbers for subprime borrowers received 8 or more call backs before the number was resolved; accordingly, only 62 percent of subprime telephone numbers were resolved in three or fewer call backs compared to 92 percent of phone numbers for prime borrowers. Additionally, property addresses of roughly 500 unresolved telephone numbers in the subprime universe received survey invitation postcards allowing the borrower to pre-schedule their telephone survey.

Coverage error was the result of records that did not have a valid phone number associated with them. It is important to note that 38.9 percent of the subprime sample could be associated with a phone number before data collection began. It is likely that this coverage error results in the under-representation of subprime borrowers, borrowers in lower income brackets, and those who took out their home loans in 2004 or earlier. This is of analytic importance to this study because it is theorized that these are the borrowers most likely to have defaulted on their loans or sold their homes and, therefore, have disconnected phone numbers associated with the original loan documents.

A comparison of the original subprime universe and the subprime interviews completed using variables from the original sample file indicate that the subprime respondents, as a group, are roughly similar to the total subprime universe, at least with regards to region (determined by zip code), loan amount, and date of loan origination. Further analysis of the sample universe was not possible due to a lack of traditional demographic variables associated with the original sample file.

There is no margin of error associated with the 105 interviews completed among subprime borrowers. No margin of error is calculated for subprime loan data because it is a population study, where all members of the population were selected in the sample, as in a census (see Cochran, William, 1977 Sampling Techniques, John Wiley and Sons, New York). An attempt was made to contact every eligible member of the population defined as a subprime loan holder with a working telephone number. (Cochran, pp. 24-25) Despite the lack of a sampling error, the coverage error associated with this data requires that it be interpreted with care, particularly where the n size for subgroups is 30 or less. Subgroups with n sizes of 30 or less should be analyzed as qualitative, rather than quantitative data. The maximum margin of error (sampling error) associated with the 152 interviews completed among prime borrowers is +/-7.5 percent. This margin of error statistic takes into account that the sample was drawn from the total universe of prime home loan borrowers.

Data Collection

Computer assisted telephone interviewing (CATI) occurred from November 14 to December 6, 2007. Prospective subprime respondents were offered a $10 cash incentive to complete the survey. All known phone numbers were dialed for each record, and each subprime record received a minimum of eight call attempts at varying times during the week. On December 1st, 574 postcards were mailed to hard-to-reach subprime respondents in an effort to further boost response rates. We also conducted two more nights of dialing on the same list of 574 active numbers after the postcards would have arrived at the residences. Overall, this effort resulted in 15 additional completed surveys.

Appendix 2. Sample and Universe Comparison for Subprime Home Loans

(data for most recent subprime home loan, determined by origination date)	Subprime sample (respondents with subprime loans who participated in the survey; N=105)	Universe of all subprime borrowers (Washington, DC; N=4039)
Telephone number		
Recorded telephone number	100	39
No telephone number available	0	61
Year of loan origination		
2004 or earlier	11	11
2005	31	28
2006	47	47
2007	10	8
(missing information)	0	6
Value of home loan		
Under $100,000	10	6
$100,000 to under $200,000	35	31
$200,000 to under $300,000	25	30
$300,000 or more	30	33
Region, by median income/zip		
Highest income quartile	3	4
Second income quartile	5	7
Third income quartile	51	46
Lowest income quartile	41	43

Appendix 3. Dialing Disposition for Prime and Subprime Borrowers

	Subprime home loan borrower universe with telephone numbers (Washington, DC; N=1572)	Prime home loan borrower sample with telephone numbers (Washington, DC; N=3884)
Completes	105	152
Refusals	59	118
Disconnects/unregistered tone/changed number	269	304
No answer (last status)	572	953
Answering machine (last status)	153	294
Call back at another time (last status)	95	282
"No such person" (screener)	85	75
"No home loan/mortgage" (screener)	25	24
Other non-answers and resolved numbers (e.g. fax, business, busy, etc)	163	209
Other resolved numbers*	44	1400

** This number for prime borrowers is especially high because we did not need the full sample to complete our target of 150 interviews. Once we reached our target number of completes, the unnecessary numbers were resolved.*

Appendix 4. Survey Questions and Results

How much do you worry about your personal debt from things like home loans, credit cards, student loans, car loans, and other sources? Do you worry about your personal debt often, sometimes, rarely, or never?

	Subprime	Prime
Often	26	15
Sometimes	39	33
Rarely	13	31
Never	22	21
(Don't know/refused)	-	-
Often/Sometimes	**65**	**48**
Rarely/Never	**35**	**52**
O/S - R/N	**30**	**-4**

(ref:DETWORRY)

Now I would like to ask you some questions about your home loan or mortgage. As you may know, some basic information about all home loans in the District of Columbia are placed in the public record. However, that information is not always complete and up to date. The most recent copy of those records indicates that you obtained a home loan or mortgage in the last five years. Is that correct?

	Subprime	Prime
Yes	100	100
No	-	-
(Don't know)	-	-
(Refused)	-	-

(ref:PUBREC)

What was your primary reason for getting your most recent home loan? Was it to purchase a home, refinance a home you already own, or to get a home equity loan?

	Subprime	Prime
Purchase a home	11	43
Refinance a home loan you already own	64	35
Get a home equity loan	21	18
(Other: specify)	1	1
(Don't know/Refused)	3	2

(ref:MOTIVE)

[92 Respondents]
(ASK ONLY IF REFINANCE IN MOTIVE) What was your primary reason for refinancing your most recent home loan? Was it to…

	Subprime	Prime
Reduce the interest rate	17	35
Finance home improvements	24	22
Consolidate your debt or pay off other bills	36	18
Lower monthly payments	2	14
Change from an adjustable rate to a fixed rate mortgage	12	8
Change from a fixed rate to an adjustable rate mortgage	-	2
(Other: specify)	9	-
(Don't know/Refused)	-	2

(ref:REFIMTV)

When looking for a home loan, some people use loan officers and some people use mortgage brokers.

The loan officers at a bank, credit union, mortgage company, or other lending institution are employees who offer home loans provided by their employer. They often have a wide variety of loan types to draw from, but all loans originate from one lending institution.

Mortgage brokers are professionals who are paid a fee to bring together lenders and borrowers. They usually work with dozens or even hundreds of lenders, not as employees, but as freelance agents acting as middlemen between borrowers and lenders.

Now thinking about your most recent home loan, did you primarily use a mortgage broker or a loan officer?

	Subprime	**Prime**
Loan Officer	37	52
Mortgage Broker	54	39
(Don't know)	9	9
(Refused)	-	-

(ref:LNDRBRKR)

How many lenders or brokers did you speak with about applying for your most recent home loan before picking one?

	Subprime	**Prime**
Mean	2.1	2.1
0-1	**41**	**51**
2-3	**42**	**37**
4 or more	**12**	
(Don't know)	**3**	**1**
(Refused)		

(ref:NUMLNDRS)

[104 Respondents]

(IF BROKER IN LNDRBRKR) Whose interests did you feel the broker was primarily representing during the loan process? Were they your interests, the lending institution's interests, or the broker's interests?

	Subprime	**Prime**
Your interests	30	30
The broker's interests	25	28
The lending institution's interests	16	15
(All three parties equally)	19	25
(The loan officer and the broker, but not the respondent)	7	-
(Some other party)	2	-
(Don't know/Refused)	2	2

(ref:BRKR1)

Still thinking about your most recent home loan, how did you first come into contact with your loan officer or broker?

	Subprime	**Prime**
Reference from a friend	33	20
Reference from a real estate agent	6	22
Conducted your own search of local loan officers	17	22
Your bank or another loan officer referred you	5	14
Contacted by the loan officer or broker by phone	24	7
Saw an advertisement	6	3
Contacted by the loan officer or broker by mail	2	3
Already had a loan with them/Prior relationship with lender	3	3
The developer arranged financing	2	1
Home improvement contractor arranged financing	-	1
(Other: specify)	1	3
(Don't know/Refused)	2	3

(ref:WHOCNTCT)

[25 Respondents]
(ASK ONLY IF CONTACTED BY OFFICER IN WHOCNTCT) When you first spoke with the loan officer or broker that contacted you, did he or she offer to deliver any of the following things in a home loan?

	Yes	No	DK/Ref
11 To consolidate your debt			
Subprime	65	35	-
Prime	46	54	-
12 To lower your monthly payments			
Subprime	69	31	-
Prime	38	62	-
13 To provide you with a fixed loan payment			
Subprime	73	23	4
Prime	77	23	-
14 To qualify you for a high loan amount			
Subprime	46	54	-
Prime	38	46	15
15 To process your loan application quickly			
Subprime	81	19	-
Prime	77	23	-
16 To provide you with a loan despite any credit problems you might have had			
Subprime	38	62	-
Prime	15	85	-
17 To get cash or equity out of your home			
Subprime	73	27	-
Prime	54	46	-

(ref:WHATPROM)

When you were shopping for your most recent home loan, what were the two most important features of a loan to you? Was it…

	Subprime	Prime
A low interest rate	65	66
Low monthly payments	24	28
Monthly payments that don't change	30	20
Low fees associated with the loan	14	14
The total loan amount	9	14
Options each month to make a complete principal and interest payment, an interest only payment, or a payment that is less than the amount of interest that has accumulated in the past month	7	10
Lower or zero down payment	5	3
No requirement to provide proof of income	3	3
(Other: specify)	6	7
(Don't know/Refused)	2	4

(ref:LOANFEAT)

When shopping for your most recent home loan, did you get help determining what loan amount you could afford? Did you...

	Yes	No	DK/Ref
19 Speak to a credit counselor			
Subprime	9	90	2
Prime	9	91	-
20 Speak to a financial planner			
Subprime	16	84	-
Prime	17	82	1
21 Speak to an accountant			
Subprime	15	85	-
Prime	9	89	1
22 Speak with the loan officer or broker you did business with			
Subprime	81	18	1
Prime	75	24	1
23 Speak with a family member			
Subprime	37	63	-
Prime	46	54	-
24 Do your own financial calculations			
Subprime	63	37	-
Prime	80	19	1

(ref:FINPLAN)

Did your loan officer or broker offer you multiple types of loans to choose from, or did he or she offer just one type of loan to you?

	Subprime	Prime
Just one loan type offered	40	28
Multiple loans types offered	55	66
(Don't know)	5	6
(Refused)	-	-

(ref:LNCHOICE)

How well did your loan officer or broker explain the terms of your loan to you before you accepted it?

	Subprime	Prime
Very well	63	74
Somewhat well	23	20
Not too well	7	3
Not well at all	7	1
(Don't know/Refused)	1	2
Total Very/Somewhat	**86**	**94**
Total Not too/Not At All	**13**	**4**
Total Very/Somewhat – Total Not Too/Not At All	**72**	**90**

(ref:EXPLAIN)

At any time before the closing of your most recent home loan, did the loan officer or broker discuss with you or provide you with written descriptions about any of the following:

	Yes, discussion	Yes, written	Yes, both	No	DK	Ref	Total Yes
27 The fees associated with the loan							
Subprime	29	9	48	11	4	-	**85**
Prime	32	12	45	9	1	-	**89**
28 The interest rate associated with the loan							
Subprime	32	5	54	6	3	-	**91**
Prime	32	9	55	3	1	-	**95**
29 The discount points							
Subprime	24	4	26	36	10	-	**53**
Prime	22	5	23	32	17	-	**51**
30 The origination points							
Subprime	22	8	22	30	18	-	**51**
Prime	25	10	28	26	11	-	**63**
31 Prepayment penalties							
Subprime	28	6	31	30	6	-	**65**
Prime	22	7	32	33	7	-	**61**
32 Potential for increases in your monthly payments in the future							
Subprime	24	8	26	39	4	-	**57**
Prime	30	7	27	30	7	-	**64**

(ref:DISCUSS)

At any time in the home loan process did you use any of the following sources of information to learn more about the home loan process?

	Yes	No	DK/Ref
33 Homebuyer training or financial education workshop			
Subprime	13	84	3
Prime	13	88	-
34 Family or friends			
Subprime	37	62	1
Prime	47	52	1
35 Credit counselor			
Subprime	8	90	2
Prime	6	94	-
36 A website			
Subprime	18	78	4
Prime	38	59	3

(ref:SOURCE)

[32 Respondents]
(IF YES TO HOMEBUYER OR FINANCIAL EDUCATION WORKSHOPS IN SOURCE) How valuable to you was the homebuyer or financial education workshop? Was it very valuable, somewhat valuable, not too valuable, or not at all valuable?

	Subprime	Prime
Very valuable	64	79
Somewhat valuable	36	16
Not too valuable	-	5
Not at all valuable	-	-
(Don't know/Refused)	-	-
Total Very/Somewhat	**100**	**95**
Total Not too/Not At All	**-**	**5**
Total Very/Somewhat – Total Not too/Not At All	**100**	**89**

(ref:WRKSHP3)

[32 Respondents]
(IF YES TO HOMEBUYER OR FINANCIAL EDUCATION WORKSHOPS IN SOURCE) Who sponsored the homebuyer training or financial education workshop?

	Subprime	Prime
A nonprofit organization	21	37
The DC Government	36	21
A private, for profit company	7	16
(Other: specify)	36	21
(Don't know/Refused)	-	5

(ref:WRKSHPO)

Now, I'd like to ask you a few specifics about your home loan. Please remember that all responses are both confidential and anonymous. There are a lot of details to home loans that not everyone remembers, so if you aren't sure about a specific item, please feel free to say so.

Now, please tell me if any of the following things are true about your loan. Please answer YES if the statement is true or NO if the statement is false.

	Yes	No	DK	Ref
39 There are penalties if you pay the loan off early				
Subprime	30	57	12	1
Prime	14	73	13	-
40 You took out two home loans at the same time, sometimes called a first and second lien or piggyback loans				
Subprime	16	80	4	-
Prime	31	66	3	-
41 Your monthly payment includes homeowner's insurance				
Subprime	66	33	-	1
Prime	53	43	4	-
42 Your monthly payment includes property taxes				
Subprime	67	32	1	-
Prime	69	29	1	1
43 Your loan is "interest only," whereby your initial monthly payments are applied only to the interest of the loan, not the principal				
Subprime	22	72	6	-
Prime	29	63	9	-

44 You were required by your loan officer or broker to provide documentation of your income

Subprime	92	7	1	-
Prime	89	8	3	-

45 You put little to no money down

Subprime	62	37	1	-
Prime	44	54	2	-

46 You have a fixed payment for the life of the loan

Subprime	64	32	3	1
Prime	58	36	6	-

47 You have a fixed payment at first, but then a variable payment for the remainder of the loan

Subprime	34	64	1	1
Prime	26	69	5	-

48 Your payment can vary for the life of the loan

Subprime	41	50	9	1
Prime	39	55	6	-

(ref:LNDTLSX)

At the closing of your most recent home loan, were any of the details of your loan different than what you expected them to be based on your conversations with your loan officer or broker before you went to closing?

	Subprime	Prime
Yes	23	13
No	74	88
(Don't know)	2	-
(Refused)	1	-

(ref:CHANGES)

Since your closing, has anything surprised you about your home loan?

	Subprime	Prime
Yes	16	10
No	84	90
(Don't know)	-	-
(Refused)	-	-

(ref:SURPRISE)

[27 Respondents]
(IF YES IN SURPRISE) Please tell me, what was the one thing that surprised you the most about your loan after you began making payments? Was it...

	Subprime	Prime	
You knew your monthly payment would change, but did not know how much it could change	6	40	
Your monthly payment changed when you expected it to stay the same		18	13
Your total loan balance was not decreasing with each monthly payment		6	13
Your title or homeowner's insurance payments were not included in the payment	6	-	
Interest rate changed/Amount of interest	5	1	
Your property taxes were not included in the payment	-	-	
Or was it something else?	29	13	
(Don't know/Refused)	6	13	

(ref:SURPRIS2)

Sometimes people have trouble making their home loan payments after their closing. This can happen for a lot of different reasons. Since you closed on your home loan, have you had any trouble making your mortgage payments?

	Subprime	Prime
Yes	16	6
No	81	94
(Don't know/Refused)	3	-

(ref:TRBLPAY)

[23 Respondents]

(IF YES IN TRBLPAY) What would you say is the primary reason you have had difficulty in making your home loan payments? And, is there a second reason you had difficulty making your home loan payment?

	Subprime	Prime	
Your household had unexpected expenses such as car repair or medical bills	20	42	
A job loss	25	17	
Your household income has fallen or not risen fast enough to keep up with your bills	10	17	
Your monthly home loan payment increased	5	8	
At the beginning, the monthly payment was already more than you expected	5	8	
You didn't realize that you wouldn't be able to afford the payments		-	8
You were unable to sell your previous home	5	-	
Your cost of living has increased	5	-	
You received an unexpected tax bill	-	-	
(Other)	30	8	
(Don't know/Refused)	-	-	

(ref:TRBLPAY2)

[17 Respondents]
(IF YES IN TRBLPAY) People consider many solutions when they have trouble paying their home loans. Now, please tell me if you have done or have considered doing any of the following:

	Yes, done	Yes, cons	No	DK/ Ref	Total Yes
54 Declare bankruptcy					
Subprime	6	-	94	-	**6**
Prime	-	-	100	-	**-**
55 Refinance your home loan					
Subprime	12	35	53	-	**47**
Prime	-	44	56	-	**44**
56 Sell your home					
Subprime	-	24	76	-	**24**
Prime	22	22	56	-	**44**
57 Find a roommate or renter to help pay the bills					
Subprime	-	29	71	-	**29**
Prime	22	11	67	-	**33**
58 Work with your lender to modify the terms of your loan					
Subprime	12	35	53	-	**47**
Prime	22	44	33	-	**67**
59 Get a second job, or work more hours in your current job					
Subprime	29	29	41	-	**59**
Prime	56	11	33	-	**67**
60 Use credit cards to pay your home loan					
Subprime	-	6	94	-	**6**
Prime	-	-	100	-	**-**
61 Use retirement savings to pay your home loan					
Subprime	35	6	59	-	**41**
Prime	11	11	78	-	**22**
62 Borrow money from friends					
Subprime	18	-	82	-	**18**
Prime	11	-	89	-	**11**
63 Borrow money from family					
Subprime	18	12	71	-	**29**
Prime	22	11	67	-	**33**

(ref:TRBLPAY3)

[239 Respondents]
(IF NO IN TRBLPAY) Are you concerned about your ability to make your home loan payments in the future?

	Subprime	Prime
Yes	19	9
No	78	91
(Don't know)	4	-
(Refused)	-	-

(ref:TRBLPAY4)

[23 Respondents]
Q.65 (IF YES IN TRBLPAY4) Why are you concerned about your ability to make your home loan payments in the future? And, is there a second reason you are concerned about making your home loan payments in the future?

	Subprime	Prime
Income might not keep up with home loan payments	38	38
You might lose your job	25	38
Rising interest rate may drive payments too high	19	23
Unexpected tax bill	-	23
Other bills are rising	13	15
Unable to sell previous home	-	-
(Other: specify)	31	31
(Don't know/Refused)	-	-

(ref:TRBLPAY5)

Q.66 Would you say that your financial health is better or worse off as a result of having taken out your most recent home loan?

	Subprime	Prime
Much better off	24	30
Somewhat better off	46	45
Somewhat worse off	12	11
Much worse off	5	3
(No difference)	12	11
(Don't know/refused)	1	1
Total better off	**70**	**75**
Total worse off	**17**	**13**
Better - Worse	**52**	**62**

(ref:BETTROFF)

These last questions are for statistical purposes only: Please tell me the year in which you were born.

	Subprime	Prime
18 - 24	-	1
25 - 29	-	1
30 - 34	3	13
35 - 39	5	13
40 - 44	10	14
45 - 49	9	7
50 - 54	13	8
55 - 59	21	16
60 - 64	13	7
Over 64	20	14
(No answer)	7	5

(ref:AGE)

What is the last year of schooling that you have completed?

	Subprime	Prime
1 - 11th grade	6	3
High School graduate	15	9
Non-college post H.S.	1	1
Some college	30	13
College graduate	26	38
Post-graduate school	20	38
(Don't know/refused)	3	-

(ref:EDUC)

Are you married, not married but living with your partner, single, separated, divorced, or widowed?

	Subprime	Prime
Married	50	48
Not married but living with partner	5	7
Single	14	24
Separated/divorced	16	11
Widowed	10	7
(Don't know/Refused)	4	3
Sep/Div/Wid	**27**	**18**

(ref:MARITAL)

Do you have any children under 18 living at home?

	Subprime	Prime
Yes	28	29
No	70	70
(Don't know/refused)	2	1

(ref:KIDS)

In terms of your job status, are you employed, unemployed but looking for work, retired, a student, or a homemaker?

	Subprime	Prime
Employed	60	80
Unemployed	4	1
Retired	30	16
Student	2	-
Homemaker	1	1
(Other)	3	1
(Don't know/Refused)	1	1

(ref:EMPLOY)

[202 Respondents]
(IF PUNCH 1 IN EMPLOY) Are you employed full time or part time?

	Subprime	Prime
Full time	90	93
Part time	8	7
(Don't know/Refused)	2	-

(ref:EMPLOY2)

[202 Respondents]
(IF PUNCH 1 IN EMPLOY) Are you employed by either the Federal Government or the District of Columbia?

	Subprime	Prime
Yes, federal government	22	26
Yes, DC	19	5
No	56	67
(Don't know/Refused)	3	2

(ref:EMPLOY3)

What is your race?

	Subprime	Prime
White	10	45
Black	78	39
Latino	2	6
Asian/Pacific Islander	-	2
Native American	1	-
(Other)	5	3
(Don't know/Refused)	4	4

(ref:RACE)

Last year, that is in 2006, what was your total family income from all sources, before taxes? Just stop me when I get to the right category.

	Subprime	Prime
Less than $10K	3	1
$10K to under $20K	3	1
$20K to under $30K	10	3
$30K to under $50K	12	7
$50K to under $75K	10	12
$75K to under $100K	9	13
$100K or more	21	43
(Refused)	32	22
(Don't know)	1	-

(ref:INCOME)

And, is there a language other than English spoken regularly in your home?

	Subprime	Prime
Yes	9	18
No	88	82
(Don't know/refused)	4	-

(ref:LANG)

Respondent Gender

	Subprime	Prime
Male	37	46
Female	63	54

(ref:GENDER)

Chapter IV: Foreclosure Analysis and Prevention Strategies

This chapter provides an overview of foreclosure activity in the District and proposes various strategies that could be undertaken to more readily identify troubled borrowers and prevent loan delinquencies to result in completed foreclosures. The Urban Institute summarizes recent foreclosure trends and recommends specific policy responses tailored to individual borrower circumstances. The Reinvestment Fund describes a model which could be used to predict homes at risk of future foreclosure and proposes changes to the District's delinquency and foreclosure laws and processes.

Key Findings:

5) **Foreclosures are concentrated in neighborhoods in the eastern part of the District with a high concentration of African Americans.** Neighborhoods located in Wards 4, 5, 6, 7, and 8 which have a higher than average concentration of African American households also have the highest concentration of foreclosures. Areas south of the Anacostia River have particularly high foreclosure rates. Most properties facing foreclosure are located in areas with relatively high levels of subprime lending, and were purchased in the past few years with underwriting standards were generally less rigorous.

6) **Most homeowners facing foreclosure have a substantial amount of equity in their properties.** Three out of four homeowners receiving a notice of foreclosure had equity in their properties. Rather than walking away from a home losing equity, these owners likely faced problems such as an interest rate reset that rendered them unable to afford their new mortgage payment.

7) **Foreclosures are more common among owner-occupied homes that are lower-priced, those in areas with fluctuating prices, and those secured by both a first- and second ("piggyback") lien.** The District should closely monitor and intervene in those areas where: (1) the trend in sales prices is up—paying particular attention to those areas with lower prices that are trending up; and (2) where piggyback loans are being used to purchase homes instead of a substantial down payment.

8) **The District could help homeowners avoid foreclosures and allow better tracking and more effective policy responses by better data collection and record keeping efforts, as well as considering a change from the current administrative to a judicial foreclosure process.** Having better information available to homeowners and housing counselors could help prevent foreclosures. Policymakers could benefit from being able to assess current trends and predictions of where foreclosure problems may soon occur. A change in the District's foreclosure statute to a judicial foreclosure process would allow homeowners the right to a hearing and other protections that help them remain in their homes.

Part I. Foreclosure and Intervention Gap Analysis in Washington DC

Prepared by: The Urban Institute

I. Background

The delinquency rate for all mortgages and especially subprime mortgages increased over the past year. Nationally, the seasonally adjusted delinquency rate for all mortgages on properties with between one and four units was 5.59 percent as of the third quarter of 2007, up from 4.67 percent in the third quarter of 2006. The delinquency rate increase was even greater for subprime loans: the seasonally adjusted delinquency rate for those loans as of the third quarter of 2007 was 14.82 percent, up 3.12 percentage points from the 11.7 percent rate in the third quarter of 2006.[40]

Higher delinquency rates resulted in more foreclosures: 1.2 percent of all mortgages on properties with between one and four units were in a foreclosure process in the third quarter of 2007, up from 0.79 percent of all such mortgages in the third quarter of 2006. Subprime loans are much more likely to be in foreclosure: the foreclosure rate for subprime loans (5.52 percent in the third quarter of 2007) was nearly ten times the foreclosure rate for prime loans (0.59 percent) in the same period.[41]

The increased delinquency and foreclosure rates are largely the result of resets to adjustable-rate loans that were made with an initial "teaser" rate that was affordable to the borrower. Subprime adjustable-rate mortgages accounted for 6.8 percent of mortgages outstanding, but 43 percent of all foreclosures initiated in the third quarter of 2007.[42] In response to declining loan performance and corresponding increased levels of foreclosure activity, market participants have enacted initiatives to minimize foreclosure activity. All of the plans have a common theme: refinance an owner's existing mortgage that has too high an interest rate with a new mortgage with an interest rate that is affordable to the owner.

In August 2007 HUD, through the FHA introduced its *FHASecure* product that allows homeowners to receive an FHA-guaranteed loan who meet the following criteria: 1) a history of on-time mortgage payments before the borrower's teaser rates expired and loans reset; 2) interest rates must have or will reset between June 2005 and December 2008; 3) three percent cash or equity in the home; 4) a sustained history of employment; and 5) sufficient income to make the mortgage payment.[43] The *FHASecure* product is subject to the FHA loan limit, which is $362,790 in Washington, D.C.[44]

In addition to the *FHASecure* product, private sector market participants have introduced initiatives aimed at borrowers who face foreclosure. The Neighborhood Assistance Corporation of America's (NACA) HomeSave product offers refinance mortgages to owner-occupants who live in areas eligible for NACA products (Washington, D.C. is such an area), have been current on their mortgage for at least 24 months prior to applying for the loan, have a current interest rate of at least 10 percent, and own a property that is worth less than the maximum limit for the owner's region ($362,790 in Washington, D.C.).[45]

More recently, the HOPE NOW alliance, which consists of counselors, servicers, investors, and other mortgage market participants announced a plan that servicers can use for mortgages with an adjustable rate mortgage whose rate will reset. Under the plan, servicers will offer homeowners, who received subprime, adjustable-rate loans between January 1, 2005, and July 31, 2007, that are scheduled to reset between Jan. 1, 2008, and July 31, 2010 to refinance into a new private mortgage or an *FHASecure* loan. If neither of those options is feasible for a borrower, servicers can freeze a borrower's current interest rate on an adjustable mortgage for up-to five years.[46]

Because rate freezes are only supposed to be for loans that could not be refinanced either with a conventional or FHA loan, there are a number of eligibility criteria. Rate freezes can only be made to borrowers 1) who are current on their loan, which has not yet reset, 2) who received a 2/28 or 3/27 adjustable-rate mortgage (adjustable-rate mortgages with a payment option or that are interest only are not eligible); 3) whose FICO score is below 660, (and whose credit score cannot be 10 percent greater than when the loan was made) and 4) whose loan is at least 97 percent of the value of their home.[47]

There is criticism that the initiatives described above will not be able to prevent a sizable number of foreclosures. Senator Charles Schumer of New York claims that the HOPE NOW plan will serve only 90,000 borrowers out of an estimated 2.2 million borrowers who face foreclosure in the next two years.[48] According to CNBC, only 600 *FHASecure* loans closed in the three months after the product was announced in August 2007, and about 60,000 borrowers will receive an *FHASecure* loan in 2008.[49]

Foreclosures have serious negative financial consequences on the families that purchased the home, the neighborhood and the municipality in which the home is located. A recent report estimates that a foreclosure costs all stakeholders, on average, a total of $80,000. Of this total, the homeowner, on average incurs about $7,200 in costs, the lender holding the loan realizes, on average a $50,000 loss on the sale of the foreclosed property and the municipality bears $20,000 in costs associated with lost property taxes, unpaid utility bills, property upkeep, sewage and maintenance.[50]

In addition to these direct costs, studies suggest that property values decline in areas that are near foreclosed homes. Most recently, an analysis of the impact of foreclosed properties in Chicago found that property values of homes within about a block from a foreclosed property declined by between 0.9 percent and 1.4 percent.[51] In a study of properties in Flint, MI, Griswold estimates that the presence of abandoned properties as a result of a tax foreclosure within 500 feet of a home has a 2.6 percent negative effect on that home's value.[52] A similar finding is reported in a study of foreclosures in Dallas in which the author analyzes property value changes in areas in which homeowner associations foreclose on properties. While the study does not control fully for the impact of foreclosures on neighborhood property values, the findings suggest that foreclosures have a negative effect on surrounding property values.[53]

II. Purpose of the Analysis

Given the high costs associated with foreclosed loans, it is critical for policymakers and lenders to formulate and target loss mitigation strategies that allow families who face foreclosure to remain in their homes. One way to achieve this objective is to make a new, fixed-rate fully amortizing loan that is affordable to the owner (given his/her income) and whose proceeds are used to pay off the existing mortgages on the property. In this section we analyze the extent to which such a strategy is feasible in Washington, D.C. by analyzing the mortgage total debt outstanding, the estimated home values and incomes of a sample homeowners who received a Notice of Foreclosure (a Notice) between 2005 and September 2007.

Notices are sent to a homeowner when a power of sale clause exists in a mortgage or deed of trust. A "power of sale" clause is the clause in a deed of trust or mortgage, in which the borrower pre-authorizes the sale of property to pay off the balance on a loan in the event of his/her default. In deeds of trust or mortgages where a power of sale exists, the power given to the lender to sell the property may be executed by the lender or their representative, typically referred to as the trustee. There can be no foreclosure sale unless the lender gives a Notice, by certified mail (return receipt requested), to the borrower at his last known address. This Notice must also be sent to the mayor or his designated agent. Both Notices must be sent at least 30 days prior to the sale, with the 30 day period beginning on the day the notice is received by the mayor. This Notice must be given in addition to any notices set forth by the court, the mortgage or the deed of trust.[54]

Homeowners who receive a Notice are delinquent on their mortgage, but in principle recipients have time to either make a minimum payment equal to the amount past due or to refinance the delinquent loan. Of course, Notice recipients will have a difficult time qualifying for a new loan, since they are already delinquent on their existing mortgage. As a result, even Notice recipients who have equity in their property may not be able to refinance their loan, and so lose that equity once the lender forecloses on the property. As mentioned earlier, foreclosures impose costs on homeowners, lenders, surrounding property owners and the municipality in which the foreclosed property is located. Therefore, any intervention that increases the likelihood of lenders making new loans to Notice recipients will help minimize such costs.

III. Descriptive Analysis of the Location of Properties with Notices

Owner-occupied properties that received a Notice between January 2005 and September 2007 were concentrated in certain portions of the city: ten neighborhood clusters had at least 100 owner-occupied properties with a Notice. (A complete count of Notices by neighborhood cluster is presented in the Appendix.) These ten neighborhood clusters had 59 percent of the properties that received a Notice between January 2005 and September 2007, but only 38 percent of owner-occupied units in 2000 and 45 percent of the city's total population (Table 1).

Table 1. Neighborhood Clusters with at least 100 Notices between January 2005 and September 2007.

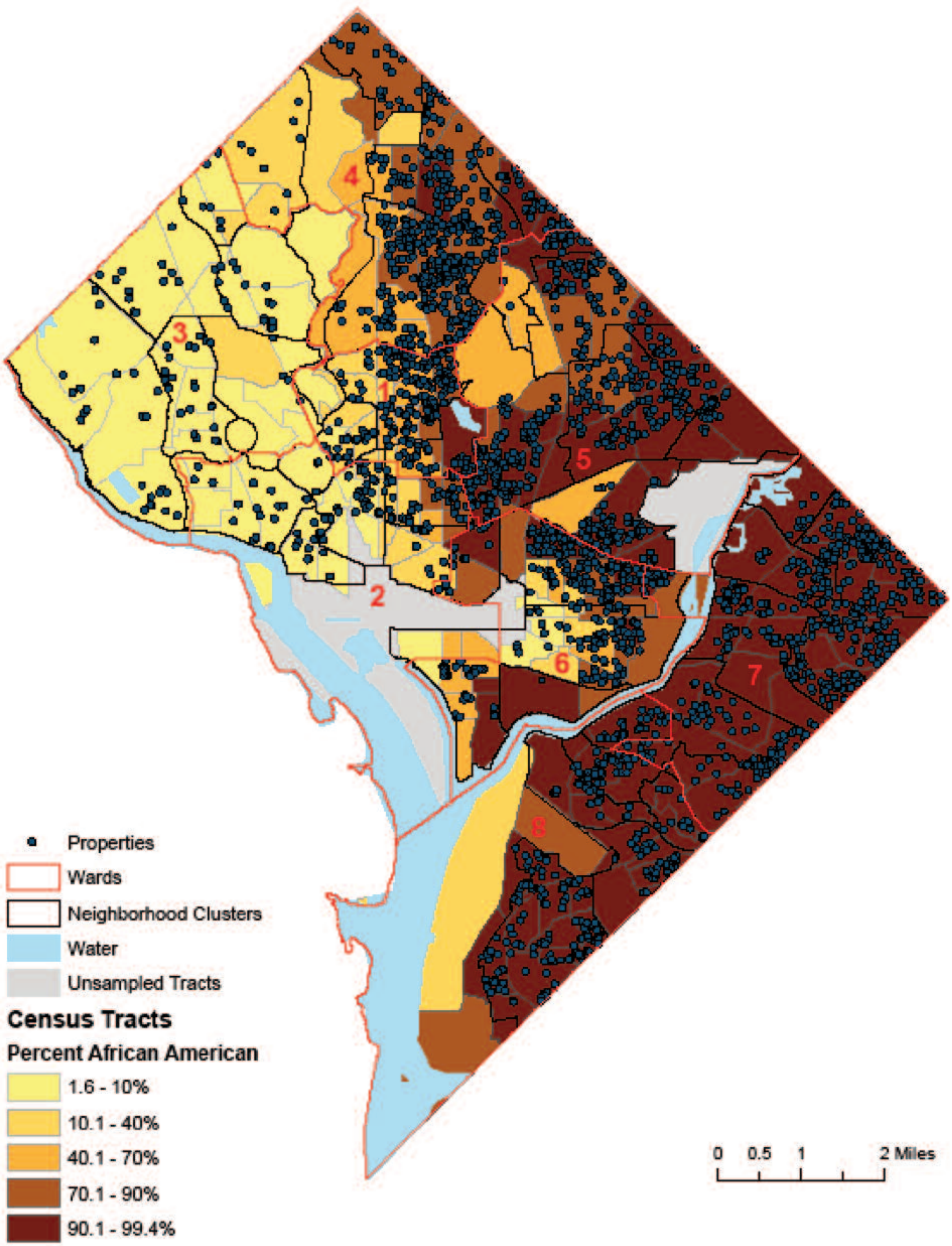
Cluster Name	Cluster	Number of Properties with a Notice	Owner Occupied Housing Units in 2000	Total Population in 2000	% African American in 2000
Brightwood Park, Crestwood, Petworth	Cluster 18	268	8,225	39,233	77
Union Station, Stanton Park, Kingman Park	Cluster 25	212	6,279	27,370	67
Columbia Heights, Mt. Pleasant, Pleasant Plains, Park View	Cluster 2	172	4,539	46,779	53
Edgewood, Bloomingdale, Truxton Circle, Eckington	Cluster 21	171	3,158	18,429	92
Congress Heights, Bellevue, Washington Highlands	Cluster 39	141	2,778	30,583	97
Capitol View, Marshall Heights, Benning Heights	Cluster 33	141	2,180	15,080	99
Deanwood, Burrville, Grant Park, Lincoln Heights, Fairmont Heights	Cluster 31	136	2,437	14,113	98
Brookland, Brentwood, Langdon	Cluster 22	130	1,853	8,906	88
Takoma, Brightwood, Manor Park	Cluster 17	129	4,067	18,441	80
Twining, Fairlawn, Randle Highlands, Penn Branch, Fort Davis Park, Fort Dupont	Cluster 34	103	3,292	15,536	97
Total for top 10 Neighborhood Clusters		1,603	38,810	234,470	83
Total for all Neighborhood Clusters		2,738	100,908	524,537	60
Percentage of Total		59%	38%	45%	

Sources: Authors' calculation of District of Columbia Recorder of Deeds and 2000 U.S. Census.

Neighborhoods in which property owners received a Notice between January 2005 and September 2007 are disproportionately African-American. African-Americans comprise 60 percent of all residents within the city's 39 clusters. Weighted for the number of Notices, African-Americans account for 69 percent of neighborhood cluster residents. The weighted proportion of residents who are African-American (83 percent) is even higher for the ten clusters with at least 100 Notices (Table 1.)

The relationship between the number of Notices in a neighborhood and the proportion of African American residents is shown in Figure 1, which shows the location of all 2,738 owner-occupied properties and the proportion of African American residents within the property's census tract. A large number of properties that received a Notice are located tracts in which at least 70 percent of residents as of 2000 were African American.

Figure 1: Location of owner-occupied properties that received a Notice between January 2005 and September 2007 and the proportion of African American residents as of 2000 residing in the property's census tract.

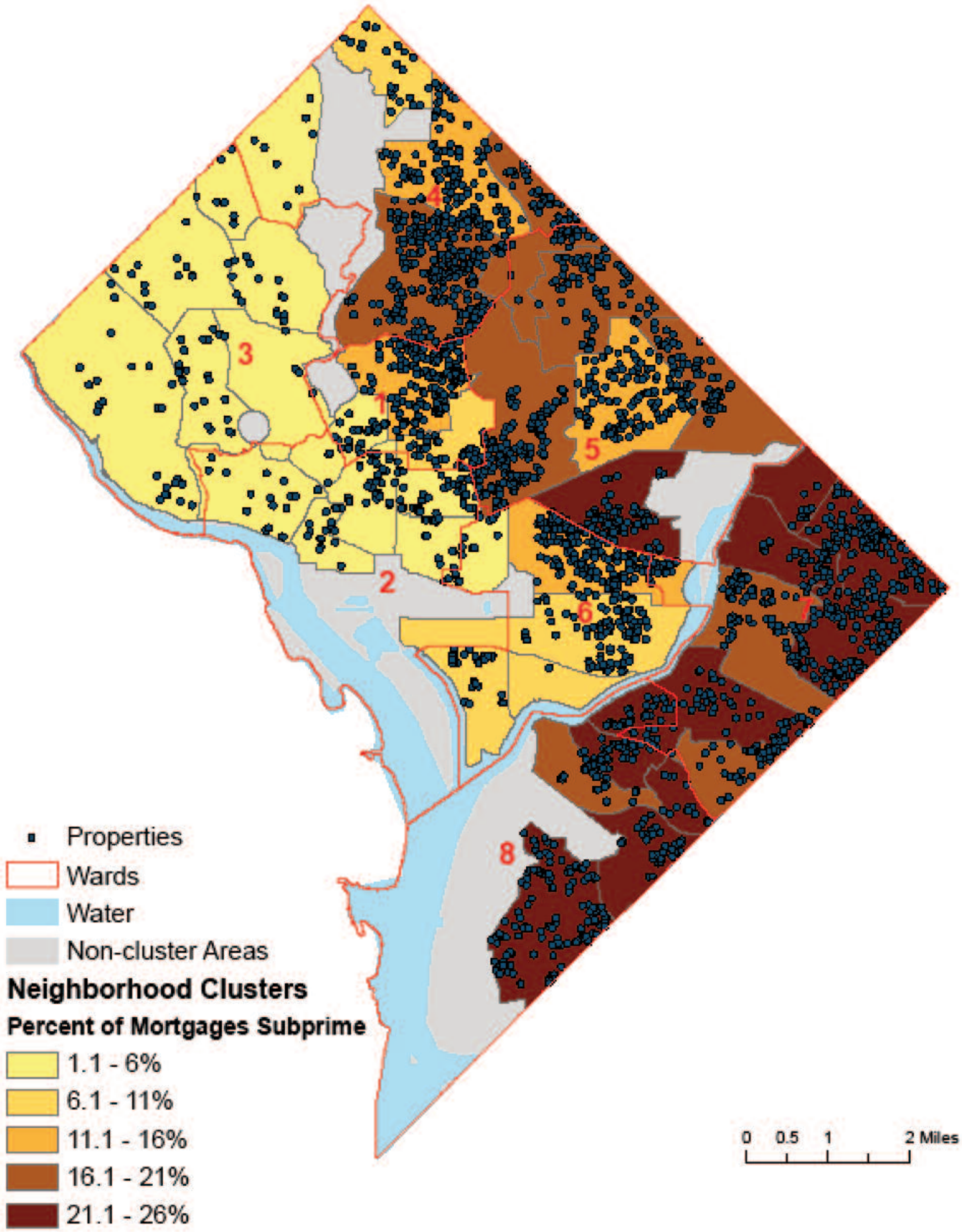


Sources: Authors' calculation of District of Columbia Recorder of Deeds and 2000 U.S. Census.

The concentration of properties with a Notice in African American neighborhoods in Washington, D.C. is similar to other cities. A study of Buffalo found that foreclosures are most likely in tracts that have higher income, minority residents.[55] A study of two counties in Minnesota has similar findings: the number of foreclosures in a neighborhood is directly related to the proportion of minority residents in that neighborhood, holding credit quality of residents constant.[56]

Analysts suggest that the higher incidence of foreclosures in minority neighborhoods is a direct result of a well-documented pattern of higher rates of subprime lending in such communities.[57] While higher rates of subprime lending may result from overall lower credit ratings for residents, subprime lending is more likely in minority communities, even holding the credit risk of neighborhood residents constant.[58] Some suggest that subprime lending may be higher in minority communities because some lenders and mortgage brokers target such neighborhoods for subprime mortgage products.[59] As a result, residents in minority communities are more likely to receive a subprime loan, even if they have credit scores sufficiently high to qualify for prime loans.[60]

Figure 2: Location of owner-occupied properties that received a Notice between January 2005 and September 2007 and the proportion of loans that were made by subprime lenders in 2005.



Sources: Authors' calculation of District of Columbia Recorder of Deeds and 2005 HMDA.

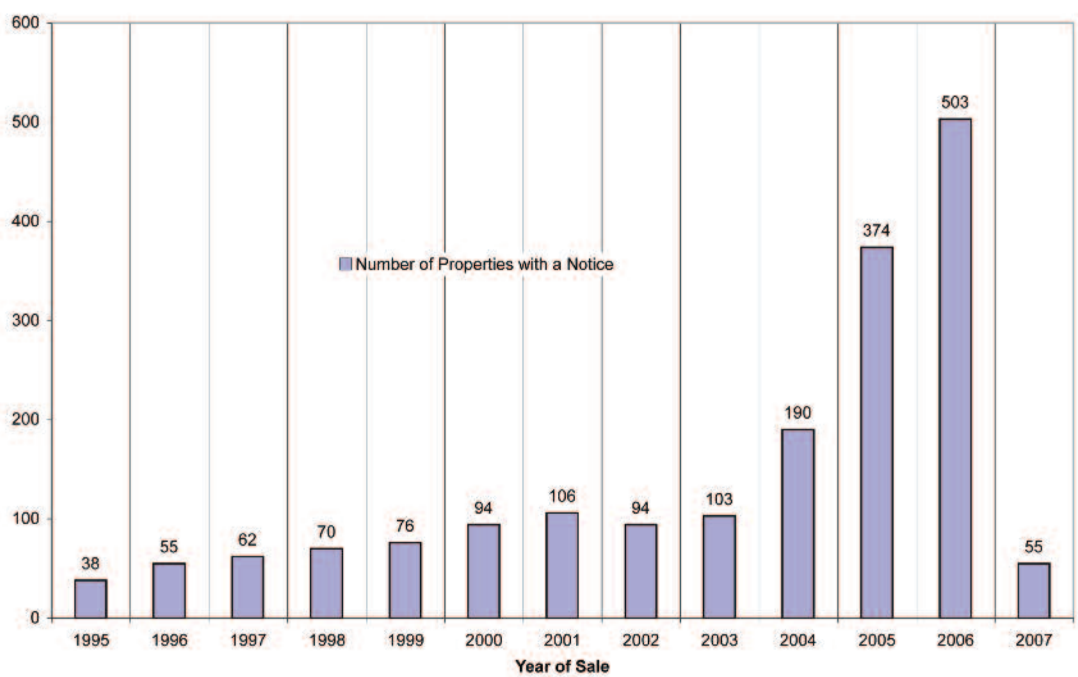
Properties with a Notice are located in areas in which subprime loans account for a large share of mortgages originated in 2005 (Figure 2). Most of the properties with a Notice are in census tracts in which subprime lender made at least 16 percent of loans in 2005; relatively few properties with a Notice are in census tracts in which subprime lenders accounted for less than six percent or all loans in 2005.

This is consistent with other studies. Immergluck and Smith, in a study of Chicago estimate, "[f]or every 100 additional subprime loans on owner-occupied properties made in a typical neighborhood from 1996 to 2001, there were an additional 9 foreclosure starts in the community in 2002 alone."[61] A study of foreclosures in Atlanta, Baltimore, Boston and Chicago concludes that "[g]iven the rapid growth of subprime loans throughout [the four] market areas, the risks of foreclosure are evident in all neighborhoods. But given the very high concentration of [subprime] loans in low-income and African-American neighborhoods, the growth in subprime lending and resulting very high levels of foreclosure is a real cause for concern."[62]

IV. Descriptive Analysis of the Year of Sale and Prices of Properties that Received a Notice

As detailed below in our methodology section, we were able to identify a sales date and price for 1,820 of the 2,738 single-family and condo properties that received a Notice between January 2005 and September 2007. Most of these properties were purchased after 2003: 190 properties that received a Notice were purchased in 2004, 374 of such properties were purchased in 2005, 503 properties with a Notice were purchased in 2006 and 55 were purchased in 2007 (Figure 3).

Figure 3: Latest year of sale for properties that received a Notice between January 2005 and September 2007.

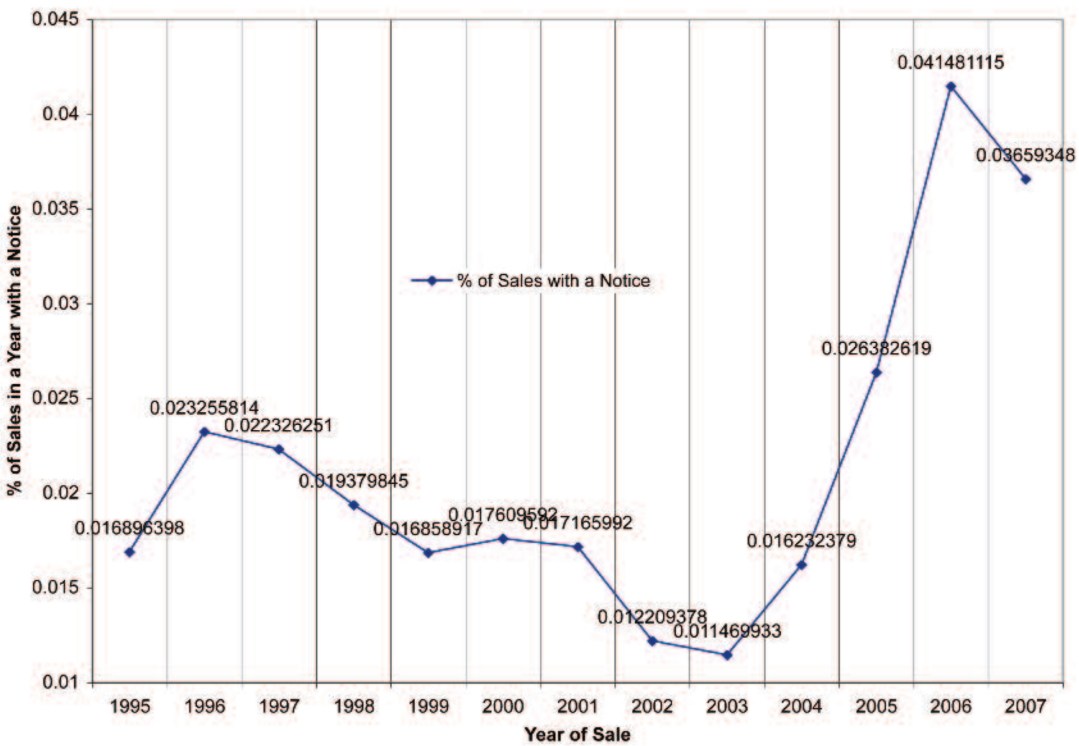


Sources: Authors' calculation of District of Columbia Recorder of Deeds and First American Real Estate Data

The large number of properties with a Notice that sold after 2004 may reflect less rigorous underwriting used by lenders, especially by subprime lenders after 2003. It is interesting to note that the number of properties with a Notice that sold in 2004 (190) is almost twice as large as any previous year's number of properties that received a Notice between 2005 and September 2007.

Properties sold after 2004 were more likely to receive a Notice than properties sold in previous years. Between 1995 and 2004 an average of 1.7 percent of properties sold received a Notice between 2005 and 2007. This percentage increased in 2005, as 2.6 percent of properties sold in that year received a Notice after 2005. Slightly more than four percent of properties sold in 2006 received a Notice, and even though the properties sold relatively recently, slightly less than four percent of properties sold in 2007 received a Notice through September 2007 (Figure 4).

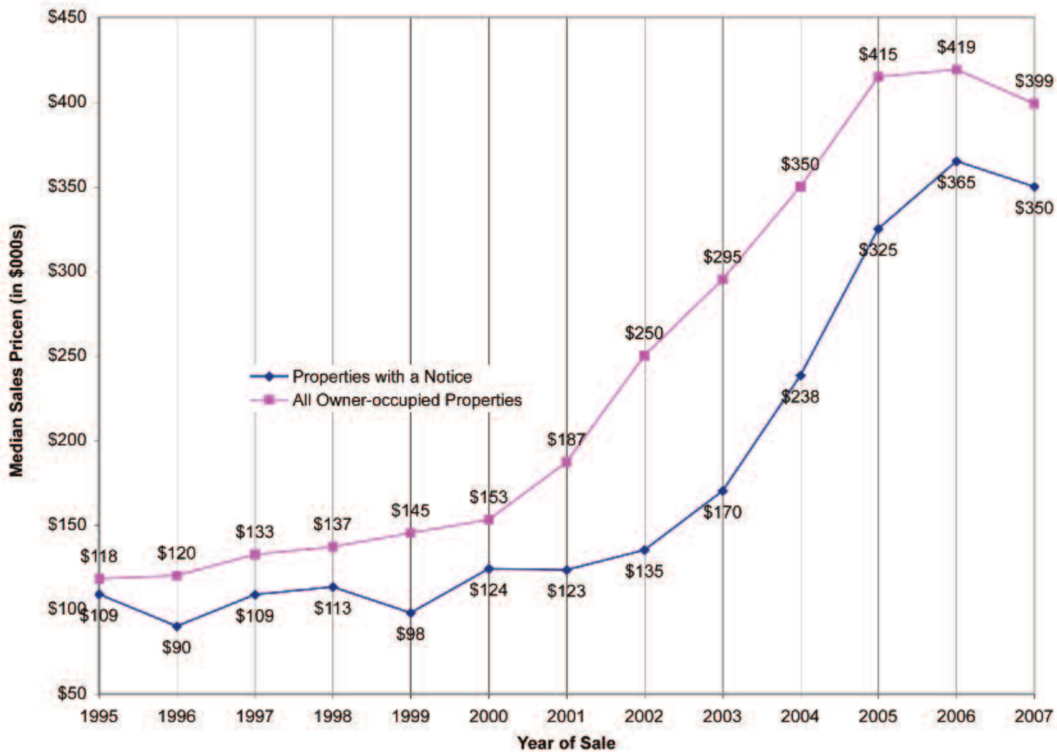
Figure 4: Percentage of properties sold between 1995 and 2007 that received a Notice between January 2005 and September 2007.



Sources: Authors' calculation of District of Columbia Recorder of Deeds and First American Real Estate Data

The median sales price for properties sold in any year between 1995 and 2007 that received a Notice between 2005 and September 2007 was lower than the median sales price for all owner-occupied single-family and condo properties sold in Washington, D.C. (Figure 5). The median sales price for such properties sold in Washington, D.C. in 1995 was $118,000, compared to a median sales price of $109,000 for homes sold in that year that received a Notice. The average difference in the median sales price for all homes sold in a given year and the homes sold in the same year that received a Notice was $59,000.

Figure 5: Median sales price by year for all owner-occupied properties that sold after 1995 and properties that received a Notice between January 2005 and September 2007.



Sources: Authors' calculation of District of Columbia Recorder of Deeds and First American Real Estate Data

This difference was greatest between 2002 and 2004: the average difference between the median sales price for all homes sold in those years and homes that received a Notice was $117,000. This difference declined after 2004, to an average of $64,000. It could be that the large increase in the share of properties purchased after 2004 that received a Notice resulted from borrowers stretching to purchase more expensive homes, and thereby unable to pay their mortgage.

V. Methodology and Findings

Our analyses are based on a sample of single-family and condo properties that received a Notice between January 1, 2005 and September 30, 2007.[63] We examined all of the Notices issued to owners of the sampled properties and determined the total mortgage amount due for these properties. In addition, we estimated the value of the property and the borrower's income. Based on these estimates, we determined if the owner had any equity in the property by dividing the total mortgage amount due by the estimated value of the property. For properties in which there was equity, we calculated the maximum 30-year, fixed rate, fully amortizing loan amount for which the borrower would qualify, given current interest rates, a maximum payment-to-income ratio of 40 percent and a maximum loan-to-value ratio of 100 percent. In some cases the maximum loan amount was less than the total amount owed; in these cases we calculated the gap between the maximum loan amount and total amount owed. We detail each step below.

Sampling

We constructed a sampling frame by matching all of the Notices issued between January 2005 and September 30, 2007 to single-family or condo units based on the Square, Suffix and Lot (SSL) number recorded in the Notice.[64] Using this procedure we were able to identify 2,738 such single-family and condo units. (We analyze the location of these units below.) We then matched the 2,738 matched SSL records against a database of all property sales within Washington, D.C. between 1995 and 2007 to identify the last sales price for a given property before the first Notice was sent to the owner. This procedure resulted in the last sales price, prior to the owner receiving a Notice for 1,820 properties. Some of the 1,820 properties were not owner-occupied, and so we developed our sampling frame by only selecting owner-occupied single-family and condo units from the 1,820 properties. We could not make this distinction for properties sold before 1999, so our sampling frame only includes properties whose last sale before the owner received a Notice was in 1999 or later.

After censoring for owner-occupied status, our sampling frame had 1,063 owner-occupied single-family and condo units. We randomly selected 250 of these properties. In some cases the sampled properties included multifamily rental units; these were excluded from the sample, resulting in a final sample of 208 owner-occupied single-family and condo units.

Table 2. Comparison of sampled properties included in the financial analysis to owner-occupied properties in the sampling frame.

	Sample Single-Family and Condo Owner-Occupied Sales with a Notice			Frame of Single-Family and Condo Owner-Occupied Sales with a Notice		
Year of Sale	# of Sales	% of Total	Median Sales Price	# of Sales	% of Total	Median Sales Price
1999	6	3%	$135,800	26	2%	$112,637
2000	19	9%	$119,500	84	8%	$125,000
2001	17	8%	$109,000	85	8%	$123,903
2002	20	10%	$139,865	73	7%	$139,000
2003	17	8%	$160,000	73	7%	$170,000
2004	34	16%	$232,500	128	12%	$250,000
2005	54	26%	$350,000	245	23%	$340,000
2006	37	18%	$400,000	316	30%	$385,000
2007	4	2%	$419,475	33	3%	$409,500
All Years	208	100%	$246,500	1,063	100.0%	$269,000

Sources: Authors' calculation of District of Columbia Recorder of Deeds and First American Real Estate Data

The sample of 208 units, with respect to the year of the latest sale and the median sales price is similar to the full frame of 1,063 units. The median sales price for all units in the sample is $246,500, compared to $269,000 for the full frame. The median sales price for sampled properties that sold in a given year between 1999 and 2007 are also similar to the properties in the full sampling frame, as is the distribution of sales by year (Table 1) and location by ward (Table 3). As a result, there appears that the sampled properties are a good representation of all of the properties in the sampling frame.

Table 3. Comparison of the location of sampled properties to the location of properties in the sampling frame.

Ward	Sampled properties	Properties in sampling frame
1	8%	10%
2	5%	5%
3	2%	3%
4	19%	19%
5	24%	22%
6	13%	12%
7	19%	20%
8	11%	10%
Total	100%	100%

Source: Authors' calculation of District of Columbia Recorder of Deeds.

House Price and Borrower Income

We used our sales price database to identify the most recent property sale prior to the date of the first Notice sent to the owner. The sales database also permitted us to locate the ward and neighborhood cluster for the property.[65] We estimated the value of the home at the time that last Notice was received by the owner by multiplying the sales price by an index calculated from all property sales within the ward between the time of the last sale and the date of the latest Notice received by the owner. For example, if a property that received a Notice in 2006 was last sold in 2000 for 200,000, and all properties in the ward increased by a cumulative 20 percent between 2000 and 2006, we estimated the value of the property to be 20 percent greater than $200,000, or $240,000 at the time that the owner received his/her last Notice. We estimated the owner's income based on the median income, as reported in 2005 HMDA for recipients of single-family home purchase loans in the sampled property' census tract.

The results of our financial analysis are only as accurate as the estimates for property value and owners' income. The estimated median household income for the sampled owners is $89,500, compared to the estimated $77,820 median household income for owner-occupants as reported in the 2005 American Community Survey (ACS). The median value of the sampled properties is $332,000, compared to $417,000 for all owner-occupied properties purchased in Washington, D.C. since 2000 (Table 4).

Table 4. Comparison of estimated median household income of owners and estimated median house value of sampled properties included in financial analysis to the 2005 American Community Survey (ACS) for Washington, D.C.

Median estimated houshold income of sampled owners	$89,500
2005 ACS median houshold income of owner-occupants	$77,820
Median estimated value of sampled owner-occupied homes	$332,221
2005 ACS median estimated value of owner-occupied homes moved into since 2000	$416,900

Sources: Authors' calculation of District of Columbia Recorder of Deeds, First American Real Estate Data and the 2005 American Community Survey

These differences between the median owners' income and value for sampled properties and for Washington, D.C. for a whole are not so great to invalidate the financial analyses. Moreover, the higher median household income for sampled owners could result from the sample only including sales since 1999; such households may have a higher income than owners who purchases their homes before that year.

Amount Outstanding on Sampled Properties

We collected information for all of the Notices sent to owners of the 208 sampled properties through the District of Columbia's Online Public Records website. Each Notice shows the total balance (the Balance) on the note in default (that balance does not include any foreclosure fees and costs) and a minimum balance due from the owner to cure the current default obligation, pursuant to D.C. Law 5-82, "Right to Cure a Residential Mortgage Foreclosure Default Act of 1984."

For properties with one Notice we assumed that the total amount outstanding for a property was the Balance. Some properties have multiple Notices. For these cases we examined each Notice's Balance. In most cases the total balance on the note in default was identical or nearly identical for each Notice. For these properties we assumed that the amount outstanding on the property was the Balance as of the latest Notice sent to the owner. In a few cases there were two Notices sent to the owner within a few weeks of each other for different amounts, and for these cases we assumed that the total amount outstanding was the sum of the total Balances included in the Notices.

Category Classification

We used the estimated borrower income, estimated property value and total amount outstanding (from the Notices) to classify owners of the sampled properties into the following three categories.

Category 1: The homeowner has no equity in the property.

The value of homeowners in this category as of the date of the last Notice received is worth less than the total amount outstanding on their property. Such owners have negative equity, and are unlikely to be able to qualify for a new mortgage that would allow them to pay the total amount outstanding. A lender could modify the terms of loan by writing down the remaining principal due to a lower amount that is affordable to the borrower, rather than foreclose on the property.

Category 2: The homeowner has equity in the property and can meet payment-to-income and loan-to-value underwriting standards.

Homeowners in this category own properties with an estimated value (as of the date of the last Notice received) that is greater than the total amount outstanding on the property. In addition the homeowner's estimated monthly income is enough so that the ratio of payments associated with a new mortgage equal to the total amount outstanding is no more than 40 percent of his/her gross income. Included in this ratio are a mortgage payment based on current interest rates for a new 30-year fixed rate conventional mortgage (or a 30-year fixed rate jumbo mortgage if the total outstanding amount exceeds $417,600),[66] estimated annual property taxes of 0.4 percent times the estimated value of the property[67] and $720 for annual homeowner's insurance.[68] Owners in category 2 meet the loan-to-value and payment-to-income ratios typically used by lenders. Of course, we do not have information about the owner's credit score or other debts, and so cannot be certain that owners in this category could refinance and pay off the total amount outstanding on their property. Nonetheless, they do represent a group of owners who may be able to prevent a foreclosure with a new loan.

Category 3: The homeowner has equity in the property, but cannot meet payment-to-income and/or loan-to-value standards.
Homeowners in this category, similar to those classified as Category 2, have equity in their property. Their income, however, is not sufficient to qualify for a mortgage (given a 40 percent maximum payment-to-income ratio) equal to the total amount outstanding on the property. For owners in this category we calculated the maximum loan amount for which they could qualify, and the gap between that loan amount and the total amount outstanding. Category 3 owners would need two loans to pay the total amount outstanding: one for the maximum amount that their income allows for and a second mortgage that could be repaid from the proceeds of a future sale. Because the combined value of both loans would not exceed the value of the property, they both are secured.

Financial Analysis of Properties with a Notice
Only 49 out of the sampled 208 owners (24 percent) who received a Notice between January 2005 and September 2007 had no equity in their property (category 1 owners). Of the remaining owners, 145 (70 percent) had equity in their property and could qualify for a new mortgage for the total amount owed, given a maximum payment-to-income ratio of 40 percent and loan-to-value ratio of 100 percent (category 2 owners); 14 category 3 owners (7 percent) had equity in their property, but could only qualify for a mortgage for a portion of the total amount outstanding (Table 5).

Most empirical analyses of loan performance show that owners whose homes are worth less than the mortgage amount outstanding (and so have "negative equity") are more likely to default than borrowers with positive equity.[69] Therefore, it is surprising that only one-quarter of the sampled owners who received a Notice are in category 1, which means they have negative equity. These owners, on average owed $128,000 more on their property than it was worth at the time they received their Notice.

Studies of loan performance also show that a "trigger event," such as job-loss, an increase in the mortgage interest rate, an unanticipated reduction to income and divorce also cause mortgage delinquencies.[70] It appears that three-quarters of the delinquencies for the sampled properties resulted from a trigger event, which could have been a higher interest rate for an adjustable-rate mortgage that reset. The 145 category 2 Notice recipients who had sufficient income to qualify for a new mortgage at the time they received their last Notice had an average of $244,672 due to the lender sending the Notice. The average amount owed was only two-thirds of the average value of properties owned by these Notice recipients, and so it is unlikely that the delinquency resulted from the owner's negative equity. In fact, category 2 owners had a strong incentive to remain in their property: on average they had $122,000 of equity, which would be lost through a foreclosure (Table 5).

Table 5. Financial analysis results of sampled properties that received a Notice between January 2005 and September 2007.

	Owner Category			
	1	2	3	Total
Total Number of Properties	49	145	14	208
Average Amount Owed per Property	$392,361	$244,672	$592,022	$302,844
Average Qualified Amount per Property	$264,272	$244,672	$484,451	$265,429
Average Property Value	$268,052	$367,320	$732,097	$368,487
Average Gap per Property	$128,089		$107,570	$123,530
Average Equity Lost per Property through Foreclosure	n/a	$122,648	$140,075	$124,182

The income for an additional fourteen owners (7 percent of the sampled owners) was not sufficient to qualify for a mortgage for the full amount owned to the lender. These owners, on average owed $592,000, and had an income that qualified them for an average loan of $484,000, leaving an average gap of $108,000. Category 3 owners have an incentive to avoid foreclosure, since they have an average of $140,000 in home equity.

A lender could make a soft second mortgage, which could be repaid when the property is sold for this gap amount, since the average property value for category 3 owners is $732,000. Therefore, the first mortgage amount is only 66 percent of the home's value and the soft second is 15 percent of the home's value; the combined loan-to-value ratio for both loans is only 81 percent. While it is unlikely that a for-profit lender would make such a soft-second loan, non-profit lenders may be willing to make them, especially if the loans could be financed with proceeds raised by a local government.

About one-third of the sampled properties that received a Notice in 2007 had negative equity (Table 6). This is not surprising: property values, measured by the S&P Case/Schiller index declined in Washington, D.C. by 7 percent between October 2006 and October 2007.[71] The average difference between the amount owed and average property value for 2005 Notice recipients was $415,000. The gap declined for 2006 Notice recipients to $75,000 and increased to $81,000 for 2007 Notice recipients.

Even with recent price declines, 66 percent of owners who received a Notice in 2007 had equity in their property down from 85 percent for owners who received their last Notice in 2005 and 83 percent of owners who received their last Notice in 2006. Although lower than the 80 percent of owners who received their last Notice in either 2005 or 2006, 55 percent of owners who received a Notice in 2007 had sufficient income to qualify for a new mortgage equal to the total amount owed.

Table 6. Borrower category the year in which the owner received his/her last Notice

	Owner Category			
Year of Last Notice	1	2	3	Total
2005	7	40	1	48
2006	11	54	3	68
2007	31	51	10	92
Total	49	145	14	208
Year of Last Notice	1	2	3	Total
2005	15%	83%	2%	100%
2006	16%	79%	4%	100%
2007	34%	55%	11%	100%
Total	24%	70%	7%	100%

Sources Authors' calculation of District of Columbia Recorder of Deeds data.

The average amount owed by category 2 owners who received their last Notice in 2005 was $195,000, increasing to $243,000 for owners who received their Notice in 2006 and $285,000 for owners who received a Notice in 2007. Perhaps due to slowing (or declining) property values, owners who received their last Notice in 2005 had an average of $151,000 of home equity, compared to $113,000 for owners that received their last Notice in 2006 and $110,000 for owners that received their Notice in 2007. Moreover, the average amount owed as a percentage of the average property value increased from 56 percent for owners who received their last Notice in 2005 to 68 percent in 2006 and 72 percent in 2007.

Table 7. Financial analysis results of sampled properties that received a Notice between January 2005 and September 2007, by year of last Notice received by the owner.

Single-Family and Condo Owner-Occupied Sales that Received a Notice in 2005	Owner Category			
	1	2	3	Total
Total Number of Properties	7	40	1	48
Average Amount Owed per Property	$664,644	$195,594	$1,547,000	$292,151
Average Qualified Amount per Property	$248,842	$195,594	$710,454	$214,085
Average Property Value	$248,842	$346,889	$2,211,362	$371,433
Average Gap per Property	$415,802	n/a	$836,546	$468,395
Average Equity Lost per Property through Foreclosure	n/a	$151,295	$664,362	$163,809
Single-Family and Condo Owner-Occupied Sales that Received a Notice in 2006	**Owner Category**			
	1	2	3	Total
Total Number of Properties	11	54	3	68
Average Amount Owed per Property	$331,688	$242,724	$606,492	$273,164
Average Qualified Amount per Property	$256,606	$242,724	$589,664	$260,276
Average Property Value	$256,606	$356,468	$777,113	$358,872
Average Gap per Property	$75,081	n/a	$16,828	$62,598
Total Equity Lost through a Foreclosure	n/a	$6,142,175	$511,862	$6,654,037
Average Equity Lost per Property through Foreclosure	n/a	$113,744	$170,621	$116,737
Single-Family and Condo Owner-Occupied Sales that Received a Notice in 2007	**Owner Category**			
	1	2	3	Total
Total Number of Properties	31	51	10	92
Average Amount Owed per Property	$352,408	$285,228	$492,182	$330,360
Average Qualified Amount per Property	$270,476	$285,228	$430,287	$296,025
Average Property Value	$276,452	$394,835	$570,666	$374,057
Total Gap	$2,539,875		$618,956	$3,158,830
Average Gap per Property	$81,931	n/a	$61,896	$77,045
Average Equity Lost per Property through Foreclosure	n/a	$109,607	$78,483	$104,505
Based on Sample of Single-Family and Condo Owner-Occupied Sales that Received a Notice between 2005 and 2007	**Owner Category**			
	1	2	3	Total
Total Number of Properties	49	145	14	208
Total Amount Owed	19,225,713	35,477,489	8,288,301	$62,991,502
Average Amount Owed per Property	$392,361	$244,672	$592,022	$302,844
Total Qualified Loan Amounts	12,949,331	35,477,489	6,782,314	$55,209,134
Average Qualified Amount per Property	$264,272	$244,672	$484,451	$265,429
Total Property Values	13,134,562	53,261,416	10,249,357	$76,645,335
Average Property Value	$268,052	$367,320	$732,097	$368,487
Total Gap	$6,276,381		$1,505,987	$7,782,368
Average Gap per Property	$128,089		$107,570	$123,530
Total Equity Lost through a Foreclosure	n/a	17,783,927	1,961,056	$19,744,983
Average Equity Lost per Property through Foreclosure	n/a	$122,648	$140,075	$124,182

Ten out the total 14 category 3 owners received their Notice in 2007. The average gap for owners that received their last Notice in 2005 was $664,000, declining to 51,000 in 2006 and $62,000 in 2007 (Table 7). The ratio of the average mortgage amount to the average property value for category 3 owners who their Notice in 2005 was only 32 percent, due to a property with $2.0 million in loans outstanding whose owner received a Notice in that year. The ratio was 75 percent for owners who received their last Notice in either 2006 or 2007. The remaining gap amount represented 38 percent of the estimated value of the home for owners who received their Notice in 2005, declining to a more reasonable 2 percent and 11 percent, respectively, for owners who received their last Notice in 2006 and 2007.

VI. Policy Implications and Caveats

The number of foreclosures, given recent loan performance deterioration is expected to increase over the next year. While market participants recognize the costs associated with foreclosures, and only a small share of delinquent homeowners are likely to be able to benefit from recent policy initiatives introduced by private-sector and government mortgage market participants. Therefore, any loss mitigation initiatives that reduce foreclosures would benefit homeowners, lenders and local government, all of whom lose money through a foreclosure.

The analyses presented above show that 70 percent of owners who received a Notice had sufficient income and home value to qualify for a new mortgage that could have been used to pay off their delinquent loan. Even with declining property values, more than half of 2007 Notice recipients had an income and property value to qualify for a new mortgage. An additional 7 percent of Notice recipients with home equity required a second mortgage on top of a new mortgage to pay off the delinquent mortgage.

Recommendation 1: Increase awareness of loss mitigation strategies. A key implication of these findings is that many owners who receive a Notice in the future could prevent a foreclosure if they could find a lender that would be willing to make a new loan. The problem, of course is that the owners are already delinquent, and so lenders may not be willing to make a new loan, especially within 30 days before a foreclosure sale. Moreover, some Notice recipients have negative equity. Yet, their income is sufficient to qualify for a loan amount that would create a smaller write-down for the lender than the loss resulting from a foreclosure, and so a lender (or servicer) may be willing to modify the loan amount.

It is unlikely that the Notice recipient is aware of these potential loss mitigation strategies, and so it is critical that Notice recipients receive assistance from mortgage counselors who can evaluate a Notice recipient's income, property value, other debts and additional information that a lender uses when deciding on a loss-mitigation strategy. Freddie Mac, in a 2005 study found that 31 percent of borrowers who had a problem paying their mortgage did not contact their lender and that 61 percent of delinquent borrowers were unaware of the types of the available loss mitigation options.[72] As a result, Notices could include language that urges the recipient to contact a District of Columbia government-approved mortgage counseling agency along with contact information of such agencies.

Recommendation 2: Establish a loan pool capitalized by public and/or private sources. The District of Columbia, perhaps through its Housing Finance Agency (DCHFA) could work to establish a loan pool that could be capitalized with funds invested by lenders that are active in the Washington, D.C. area, or with lenders that already have a relationship with DCHFA. These lenders could develop a common set of underwriting standards that are appropriate, given the credit history of Notice recipients and use the loan pool to make first-lien loans that borrowers would use to pay off their delinquent mortgage. The District of Columbia could provide a partial credit enhancement to the lenders; the maximum credit enhancement for a given loan could be the expected cost to the District of Columbia in the event of a foreclosure.

Alternatively, the DCHFA could establish a loan program itself for qualified delinquent homeowners, and use proceeds of taxable bonds to finance loans made by private lender partners. Such a program has been established in Delaware, Massachusetts, Michigan, Montana, Ohio, New York and Pennsylvania.[73] Any loan program could also finance second mortgages to Notice recipients who have equity in their property, but insufficient income to qualify for a mortgage that allows them to pay off the delinquent mortgage (The Ohio program finances second mortgages in addition to first lien mortgages.) These second mortgages would be repaid once the owner sells the property; the total amount due upon sale could increase annually, so that the loan has an effective interest rate established by the District of Columbia.

Lenders who sell foreclosed properties often do so for at a price that reflects a "liquidating discount" that is the difference between a property's market value and net realizable value. The reason for accepting a liquidating discount is that lenders must retain capital reserves for non-performing assets. Thus, lenders face relatively large opportunity costs for holding REO assets in portfolio in addition to the carrying costs associated with managing the property.[74] Some analysts suggest that lenders recover only 75 percent of the unpaid mortgage balance from the proceeds of a sale of foreclosed properties.[75]

Rather than foreclose and sell a property at a discount, a lender could write-down the value of the mortgage to an amount that is affordable to the owner. The average category property was worth $270,000 at the time the owner received his/her Notice, while the average amount owed was $392,000. Assuming that the lender would receive 75 percent of the value of the home, (or $202,000) the resulting difference between the sales proceeds and the average amount owed would have been $189,000. However, the average loan amount affordable to category 1 owners was $265,000, which is $127,000 less than the average loan amount owned.

Therefore, if lenders wrote-down the value of the mortgage to the loan amount that was affordable to the owner, they would have incurred an average loss of $127,000, compared to an estimated loss of $189,000 if they foreclosed on those properties. The District of Columbia government could work with rating agencies, mortgage servicers and lenders to explore the feasibility of writing down mortgages for owners whose loan balance is more than the current property value to a level that is affordable to the current homeowner, and more than the property's value. Such a strategy would only be feasible for write-downs that would be less than the loss resulting from a foreclosure sale, or where legal restrictions do not prohibit a write-down.[76]

Caveats

Our analysis suggests that mortgage counseling combined with other loss mitigation strategies could reduce the number of foreclosures in Washington, D.C. The District of Columbia government could coordinate such efforts for Notice recipients, who are now responsible for contacting their lender or servicer to discuss potential loss mitigation options, such as receiving forbearance or modifying loan terms.

Our conclusions, of course are subject to the accuracy of our assumptions regarding owners' income, estimated property values and the underwriting standards that lenders would use to evaluate mortgage applications from Notice recipients.[77] Moreover, our sample of 208 properties that received a Notice did not include any properties purchased before 1999. Any loss mitigation strategies based on the sampled properties may not be applicable to Notice recipients who purchased their homes before 1999, to the extent that their income and property values are different from the sampled owners.

Despite these caveats, it appears that the District of Columbia government, in partnership with mortgage counseling agencies, for-profit and non-profit lenders could take steps that would minimize costs associated with the expected increase in foreclosures.

Appendix

Table 8. Number of owner-occupied single-family and condo properties, by neighborhood cluster that received a Notice between January 2005 and September 2007.

Cluster Name	Cluster Number	Number of Properties with a Notice
Kalorama Heights, Adams Morgan, Lanier Heights	1	26
Columbia Heights, Mt. Pleasant, Pleasant Plains, Park View	2	172
Howard University, Le Droit Park, Cardozo/Shaw	3	52
Georgetown, Burleith/Hillandale	4	19
West End, Foggy Bottom, GWU	5	21
Dupont Circle, Connecticut Avenue/K Street	6	37
Shaw, Logan Circle	7	45
Downtown, Chinatown, Penn Quarters, Mount Vernon Square, North Capitol Street	8	44
Southwest Employment Area, Southwest/Waterfront, Fort McNair, Buzzard Point	9	36
Hawthorne, Barnaby Woods, Chevy Chase	10	15
Friendship Heights, American University Park, Tenleytown	11	16
North Cleveland Park, Forest Hills, Van Ness	12	14
Spring Valley, Palisades, Wesley Heights, Foxhall Crescent, Foxhall Village, Georgetown Reservoir	13	25
Cathedral Heights, McLean Gardens, Glover Park	14	26
Cleveland Park, Woodley Park, Massachusetts Avenue Heights, Woodland-Normanstone Terrace	15	5
Colonial Village, Shepherd Park, North Portal Estates	16	23
Takoma, Brightwood, Manor Park	17	129
Brightwood Park, Crestwood, Petworth	18	268
Lamont Riggs, Queens Chapel, Fort Totten, Pleasant Hill	19	80
North Michigan Park, Michigan Park, University Heights	20	79
Edgewood, Bloomingdale, Truxton Circle, Eckington	21	171
Brookland, Brentwood, Langdon	22	130
Ivy City, Arboretum, Trinidad, Carver Langston	23	82
Woodridge, Fort Lincoln, Gateway	24	75
Union Station, Stanton Park, Kingman Park	25	212
Capitol Hill, Lincoln Park	26	95
Near Southeast, Navy Yard	27	1
Historic Anacostia	28	39
Eastland Gardens, Kenilworth	29	10
Mayfair, Hillbrook, Mahaning Heights	30	48
Deanwood, Burrville, Grant Park, Lincoln Heights, Fairmont Heights	31	136
River Terrace, Benning, Greenway, Dupont Park	32	72
Capitol View, Marshall Heights, Benning Heights	33	141
Twining, Fairlawn, Randle Highlands, Penn Branch, Fort Davis Park, Fort Dupont	34	103
Fairfax Village, Naylor Gardens, Hillcrest, Summit Park	35	44
Woodland/Fort Stanton, Garfield Heights, Knox Hill	36	27
Sheridan, Barry Farm, Buena Vista	37	32
Douglas, Shipley Terrace	38	45
Congress Heights, Bellevue, Washington Highlands	39	141
No Cluster Identified		2
Total All Clusters		2,738

Source: Authors' calculation of District of Columbia Recorder of Deeds Data

Part II. Predicting Mortgage Foreclosures and Delinquencies

Prepared by: The Reinvestment Fund

The objective of this project is to establish whether there are a series of readily (and regularly) available data that the DISB can use to establish where delinquency and foreclosure is high and will likely rise going forward. This project required a significant data collection effort as well as some complex overlaying of geographic areas. Each of these tasks will be addressed.

I. Data Collection and Preparation

When we first started this project, we were of information and belief that foreclosure filing data would not be available. This was the representation of city officials at various times over the last few years when such data was sought. This was also the representation of advocates with whom we spoke in preparation for conduct of this study. We found that this was not entirely true; in fact, the foreclosure filings themselves were available through the DC Recorder of Deeds. The data were not entirely complete nor were they in an easily manipulable electronic format. That said, the data were extracted from the Recorder's website, cleaned up and geocoded. Aside from the foreclosure filings, there were other databases that we needed to acquire in order to do this analysis. Those databases include:

- **Home Mortgage Disclosure Act, 2006 (HMDA)** – HMDA data are the best, systematic information about loans that were originated in the District for the purchase, refinance or maintenance of homes. HMDA data are summarized to the Census tract level.

- **McDash Analytics, LLC, 2004-2007 (McDash)** – McDash data are a collection of information from nine of the top ten loan servicers in the country. These data were acquired at the zip code level for the District and describe various levels of delinquency (30, 60, 90 and 120+ days delinquent).

- **Boxwood-Means, 2007 and 2004 (Boxwood)** – Boxwood data were acquired through Policymap.com. These are data, summarized at the Census block group level, detailing sales volume (i.e., number of sales), mean and median sale price, and loan to price ratios.

As noted, all of these data are summarized to different levels of geography. The most disaggregated of the data come from the Recorder. Recorded data detail foreclosure filings at the actual address of the property subject to the foreclosure, and as such, through geocoding those addresses, we are able to identify the property's precise location. We can summarize that address to any larger geography. The Boxwood (Census block group) and HMDA (Census tract) data easily fit together as block groups are components of tracts. However, bringing these data together with the McDash data is complex.

Figure 1 represents how various geographies can fit together. Notice that the Census block groups (denoted in brown, gold and beige) fit perfectly within the boundaries of the Census tract. The foreclosure (represented with a star), given its precise address location, can be located on the map placed in its proper Census block group and tract. Where all of this becomes difficult is when data are summarized only at some non-Census geography – in this instance, a zip code.

Figure 2 shows a hypothetical zip code; note how its boundaries are not necessarily coterminous with the smaller geographies. Nor, for that matter, is there any perfect way to get the pieces to fit together. TRF had to make approximations of the Census block groups and tracts to the zip code because that is the smallest geography for which McDash data were available.

Figure 1: Hypothetical Census Block Group, Tract and Foreclosure Filing

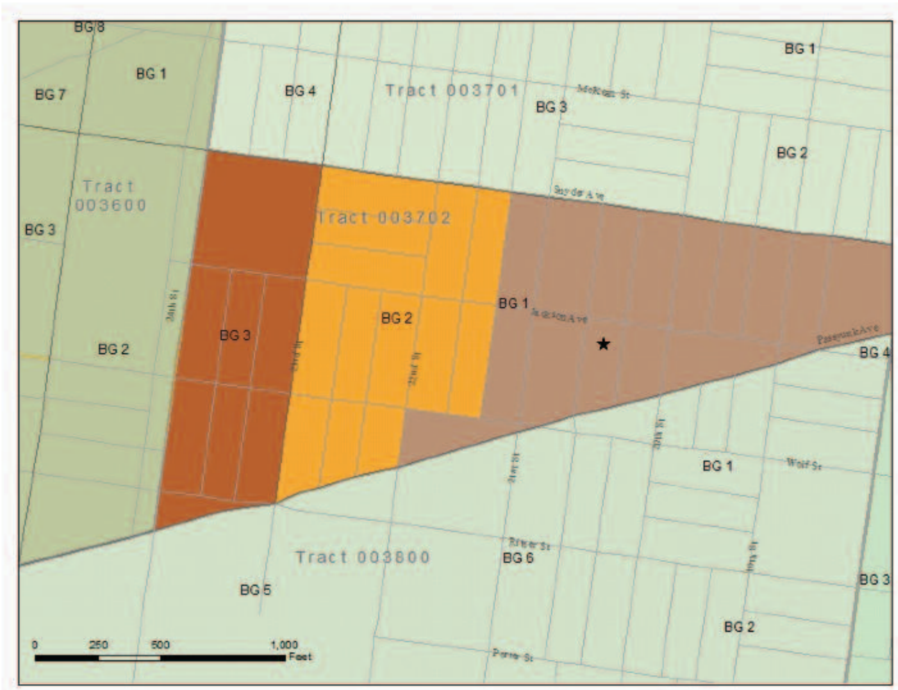
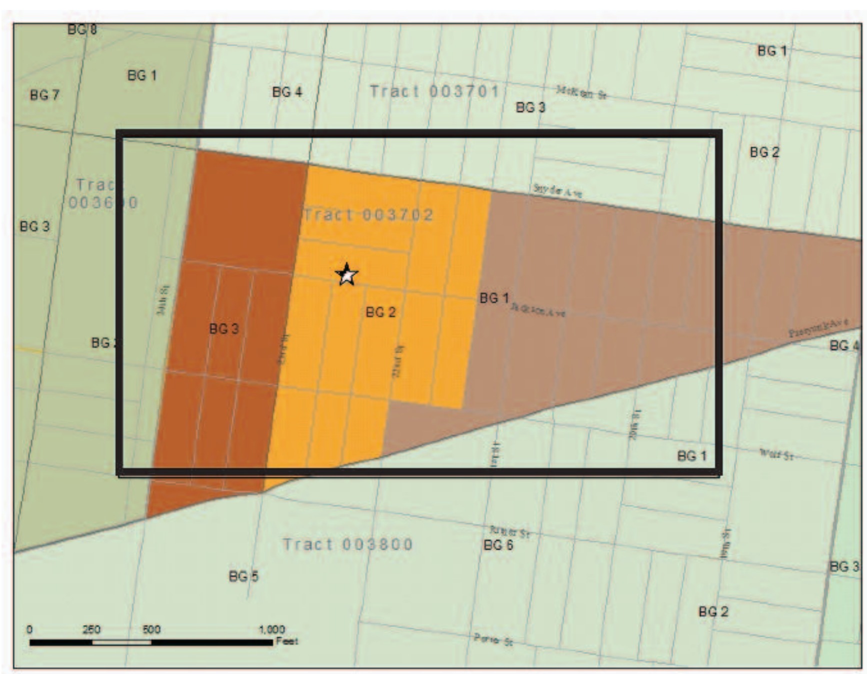


Figure 2: Hypothetical Area with Zip Code Overlay



TRF created correspondences between the filing addresses, Census block groups and tracts and zip codes. Thus, for all of the analysis that follows, the zip code is "case" and all data have been made to fit into those zip codes. There are 22 zip codes in the District that we map and analyze.

II. Analysis

The purpose of the analysis was, first, to explore whether the geographic concentration of delinquent mortgages could be statistically modeled. However once filing data from the Recorder came available, we expanded the project to include an analysis of whether the density of foreclosures could similarly be modeled.

The primary self-imposed constraint of the analysis was that we sought to create a statistical model that included indicators that could: (1) be available to the District on a regular basis so that, going forward, the District could proactively understand where delinquency and foreclosure filings were emerging; (2) were logically related to the likelihood that a homeowner would become delinquent or fall into a foreclosure status.

Table 1 depicts the number of foreclosure sales from the Recorded of Deeds in 2006 and 2007, as well as the sum of the two years as a percent of owner occupied housing units. This standardization is necessary because there is tremendous variation in the number of owner occupied housing units across zip codes. Without such standardization, while we could know where the most filings occur, we could not know if that number was proportionate (or disproportionate) to the existing housing stock.

District zip codes with the highest number of filings over the time period studied are 20002, 20011, and 20019. Several zip codes had a relatively few filings (e.g., 20004, 2005, 20006, 20007, 20008, 20015 and 20036). Foreclosures—as a percent of the owner occupied housing stock—are greatest in zip codes 20001, 20002, 20018, 20019, 20020 and 20032. Notably, these areas are all in the eastern part of the District and predominantly in southeast below the Anacostia River.

Table 1. Foreclosure Filings, 2006 & 2007

Zip Code	Foreclosure Sales, 2006	Foreclosure Sales, 2007	Foreclosures (2006-2007) as a Percent of Owner-Occupied Housing Units
20001	83	107	5.16
20002	191	199	4.39
20003	27	40	1.55
20004	1	1	1.04
20005	8	14	1.63
20006	0	0	0.00
20007	14	17	0.55
20008	6	5	0.18
20009	43	35	1.13
20010	57	46	2.93
20011	165	174	2.94
20012	25	29	1.57
20015	4	5	0.21
20016	12	13	0.31
20017	56	48	2.70
20018	70	62	3.53
20019	164	169	4.23
20020	107	99	3.68
20024	15	12	1.20
20032	72	46	4.33
20036	5	3	0.91
20037	14	10	1.09
Total	1139	1134	

Table 2 depicts the average sale prices as of the 2nd quarter of 2007 and the percent change over the last three years. Zip codes with the highest average sale prices are 20007, 20015 and 20016 – all of which are in the northwest portion of the District. The lower priced areas (20006, 20019, 20020 and 20032) are, with the exception of 20006, in the southeast portion of the District. Note that zip code 2006 is one with relatively few housing units and a miniscule percent of them are owner occupied.

The percent change in sale prices tends to vary inversely with price. That is, those zip codes that have the highest prices in 2007 tended to experience lower percent increases in the prior three years; those zips with the lowest prices in 2007 experienced the highest percent increases in price. As an example, 20032 is a zip code that had an average price in 20007 of $240,000 (one of the lower average prices); that $240,000 represented a 122 percent increase over the last three years. On the other hand, zip code 20015 had an average price of $815,000 in 2007; that represented an increase of 28.2 percent over the last three years. This general pattern is not invariant; the two indicia are modestly related (r = -.472).

Two indicators were taken from the HMDA for 2006: the percent of purchase money mortgages that are subprime (i.e., carried a reportable rate spread of 3 percentage points or more) or were part of a piggyback loan transactions (i.e., two loans used to purchase a home – one that is the main part of the mortgage and the second, substantially smaller, that covers the downpayment). Subprime loans are by no means evenly distributed across the District. In general, they are infrequently used to purchase homes in 20004, 20005, 20007, 20008, 20009, 20015, 20016, 20036 and 20037. All of these are in the western and northwestern parts of the District. Utilization of subprime loans to purchase homes is quite high in 20002, 20011, 20012, 20017, 20018, 20019, 20020 and 20032. These zip codes are predominantly in the northeast and southeast parts of the District.

The distribution of piggyback loans across the District is quite interesting. There are a number of zip codes (e.g., 20002, 20010, 20011, 20012, 20017 and 20018) where prices are modest and piggyback usage is high. Piggyback usage is also quite high in 20032, 20019 and 20020 where prices are on the lower range.

Figure 3: Relationship between Sale Price and Percent Change in Sale Price

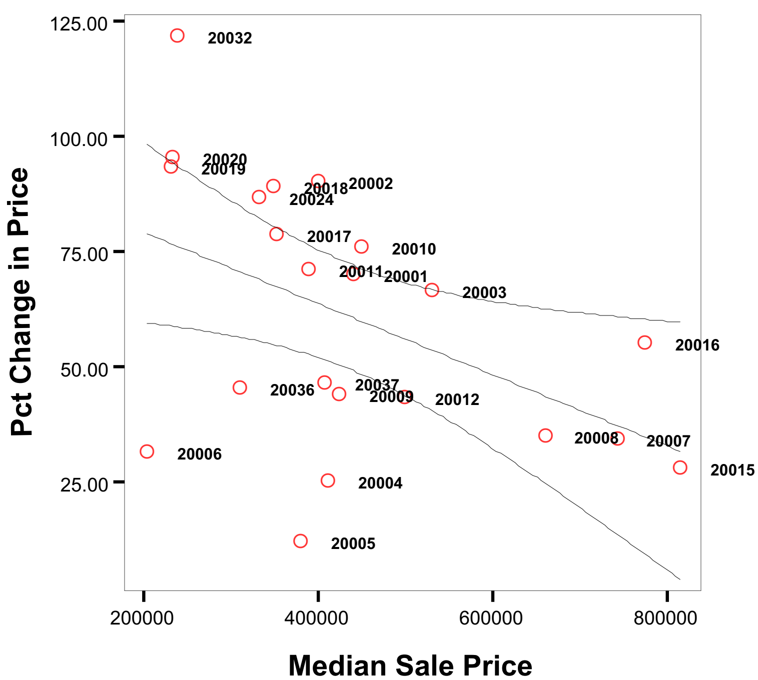


Figure 4: Relationship between Sale Price and Utilization of Piggyback Loans

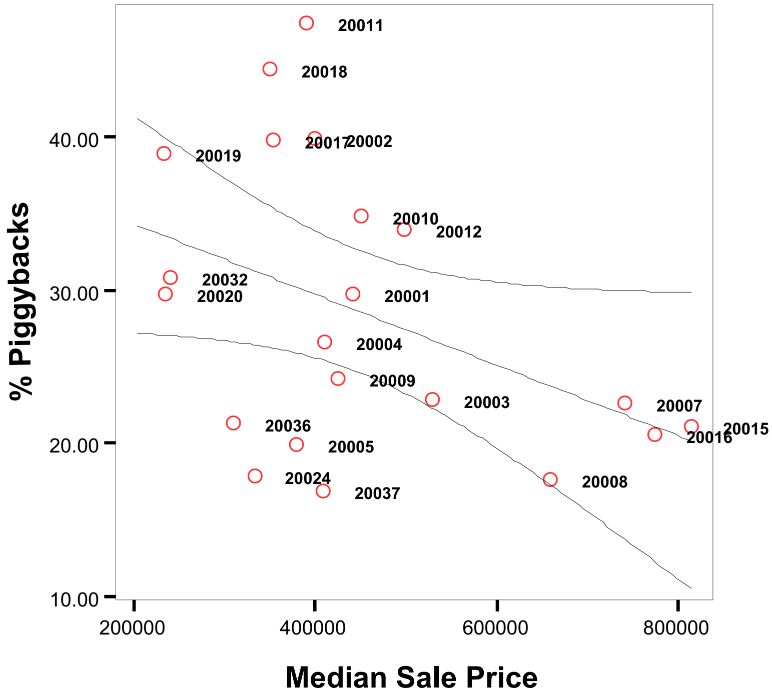


Table 2. Sales Price and Mortgage Activity

Zip Code	Median Sale Price, 2007	Median Loan to Price Ratio	Percent Change in Sale Price, 2004-2007	Percent of Purchase Money Mortgages that are Subprime	Percent of Purchase Loans that are Piggyback Loans
20001	$441,000	0.80	70.24	16.59	29.71
20002	$399,900	0.80	90.42	23.68	39.91
20003	$530,000	0.80	66.53	11.21	22.79
20004	$411,000	0.80	25.11	4.03	26.61
20005	$379,842	0.80	12.04	7.22	19.97
20006	$204,000	0.80	31.61	NA	NA
20007	$742,500	0.80	34.14	3.64	22.57
20008	$660,000	0.77	34.83	3.65	17.65
20009	$425,000	0.80	44.06	5.06	24.21
20010	$449,950	0.80	75.93	18.16	34.86
20011	$390,000	0.80	71.05	34.62	47.49
20012	$499,000	0.80	43.39	23.46	33.95
20015	$815,000	0.80	28.19	3.52	21.09
20016	$775,000	0.80	55.01	5.01	20.57
20017	$353,500	0.80	78.98	30.11	39.78
20018	$350,000	0.80	89.18	37.96	44.44
20019	$232,000	0.80	93.33	36.03	38.97
20020	$234,513	0.80	95.42	32.06	29.79
20024	$332,450	0.80	86.76	13.43	17.91
20032	$240,000	0.80	122.11	32.09	30.85
20036	$310,000	0.80	45.43	2.37	21.30
20037	$408,000	0.80	46.43	4.29	16.86

Table 3 depicts the delinquency rate of prime and subprime mortgages. First, it is noticeable that in every zip code, the prime delinquency rate is lower than the subprime rate; that is to be expected. Second, in general, those areas that have higher prime delinquency rates tend to have higher subprime delinquency rates. There are some notable exceptions (e.g., 20004 which has a relatively low prime delinquency rate but a high subprime rate). Zip code 20024 is similarly anomalous. That said, zip codes 20019, 20020 and 20032 – all in the southeast portion of the District – have both high prime and subprime delinquency rates.

Figure 5: Relationship between Prime and Subprime Delinquency Rates

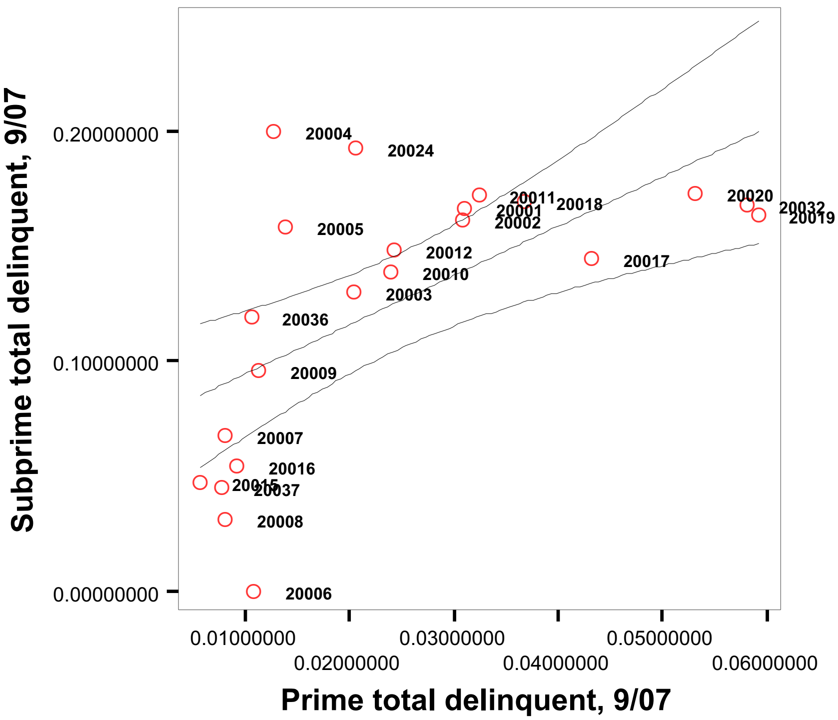


Table 3. Prime and Subprime Total Loan Delinquency Rate

Zip Code	Prime Total Delinquency Rate	Subprime Total Delinquency Rate
20001	3.10%	16.63%
20002	3.09%	16.14%
20003	2.04%	13.03%
20004	1.28%	20.00%
20005	1.39%	15.84%
20006	1.09%	0.00%
20007	0.81%	6.77%
20008	0.81%	3.13%
20009	1.13%	9.58%
20010	2.39%	13.88%
20011	3.24%	17.23%
20012	2.43%	14.81%
20015	0.57%	4.72%
20016	0.92%	5.45%
20017	4.32%	14.49%
20018	3.69%	16.92%
20019	5.92%	16.32%
20020	5.32%	17.27%
20024	2.06%	19.23%
20032	5.82%	16.77%
20036	1.06%	11.90%
20037	0.77%	4.55%

Predictive models were built to explore whether we could predict where foreclosures and delinquencies were occurring, and if so, how well we could do that prediction. As it turns out, we can predict both foreclosures and delinquencies quite well. The predictive models use a very basic statistical multiple regression analysis and this allows us to look at each predictive variable as it uniquely predicts foreclosures (or delinquencies) net of the effect of the other predictive variables. In general we find that foreclosures have occurred in greatest density across the District in areas that are:[78]

- Lower priced
- Experiencing higher rates of price change
- *Transacting homes using mortgages that constitute a higher percentage of sale price*
- Transacting homes with greater percentages of loans that are piggybacks
- *Lower percent of subprime loans*

Italics indicate that the factor is of minimal importance.

The finding with respect to subprime loans is somewhat counterintuitive especially since without controlling for other factors, the relationship between the density of foreclosures and utilization of subprime lending is strong and positive (i.e., areas with higher percentages of homes purchased with subprime loans are areas with higher foreclosure densities). What these findings indicate is that the adverse effect of the subprime loans is essentially mitigated (or subsumed) by the other variables in the predictive model. We expect that this is a result of having an indicator of piggyback loans in the model. Once one statistically exacts the effect of piggyback loans (and secondarily the other variables in the model) on the relationship between foreclosures and subprime lending, that relationship essentially substantially reduces.

The typical measure of the strength of the predictive equation is the R2 - a value that ranges from 0 to 1.00 where the higher the value, the greater the predictive strength. With an R2 of .739, it is fair to say that the strength of our predictive equation is quite good.

Figure 6 shows actual foreclosure filings and those that are predicted based on the aforementioned predictive variables. Zip code 20032 has the highest predicted level of foreclosures (and in fact has one of the highest actual levels). The notable exception between actual and predicted foreclosures is 20001.

What this analysis suggests is that the District should closely monitor and intervene proactively in those areas where: (1) the trend in sale prices is up – paying particular attention to those areas with lower prices that are trending up; (2) where piggyback loans are being used to purchase homes.

Figure 6: Predicted and Actual Foreclosure Filings

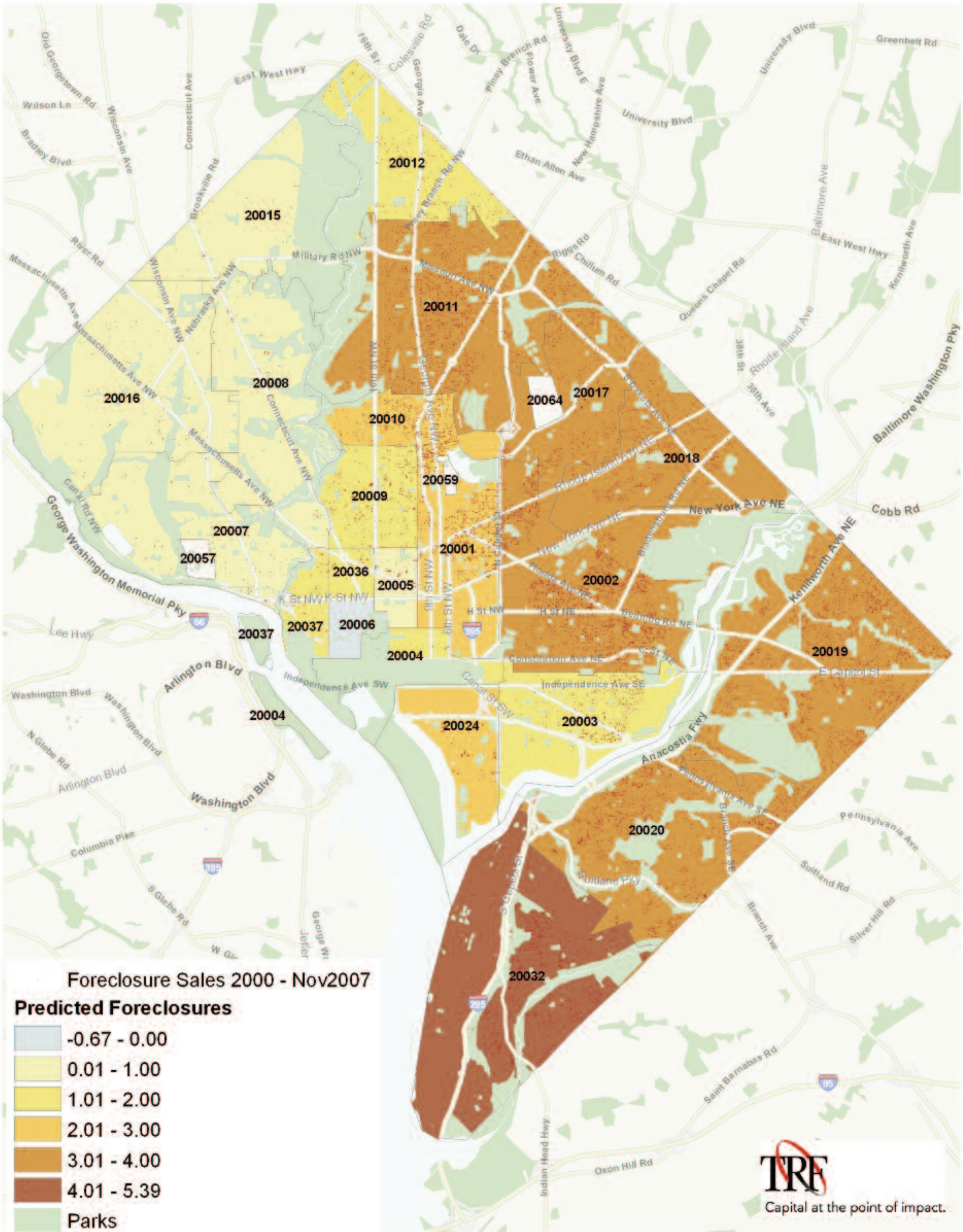


Figure 7 shows the magnitude of the discrepancy between what we predict the level of foreclosure filings *should be* based on the aforementioned factors and the actual level. A number of areas have a substantially higher level of foreclosures than we predict; those are 20001, 20005 and 20002. The northeast and northwest areas have filings commensurate with the underlying housing market conditions; the southeast however tends to have more foreclosures than one expects given the housing market indicators.

What *else* do we know about these three zip codes? From NeighborhoodInfodc[79], we know the following:

20001

- Population of approximately 33,000 people which is down slightly between 1980-2000.
- Racially, the area is over 80 percent African American, which is greater than the overall District percentage African American
- Homeownership is below the District average
- Median sale prices in this area were below the district average in 1995 but above the average in 2005. Thus the rate of change was greater than the District rate, particularly between 2000 and 2005.
- Subprime lending is above the District average, but not exceptionally high.

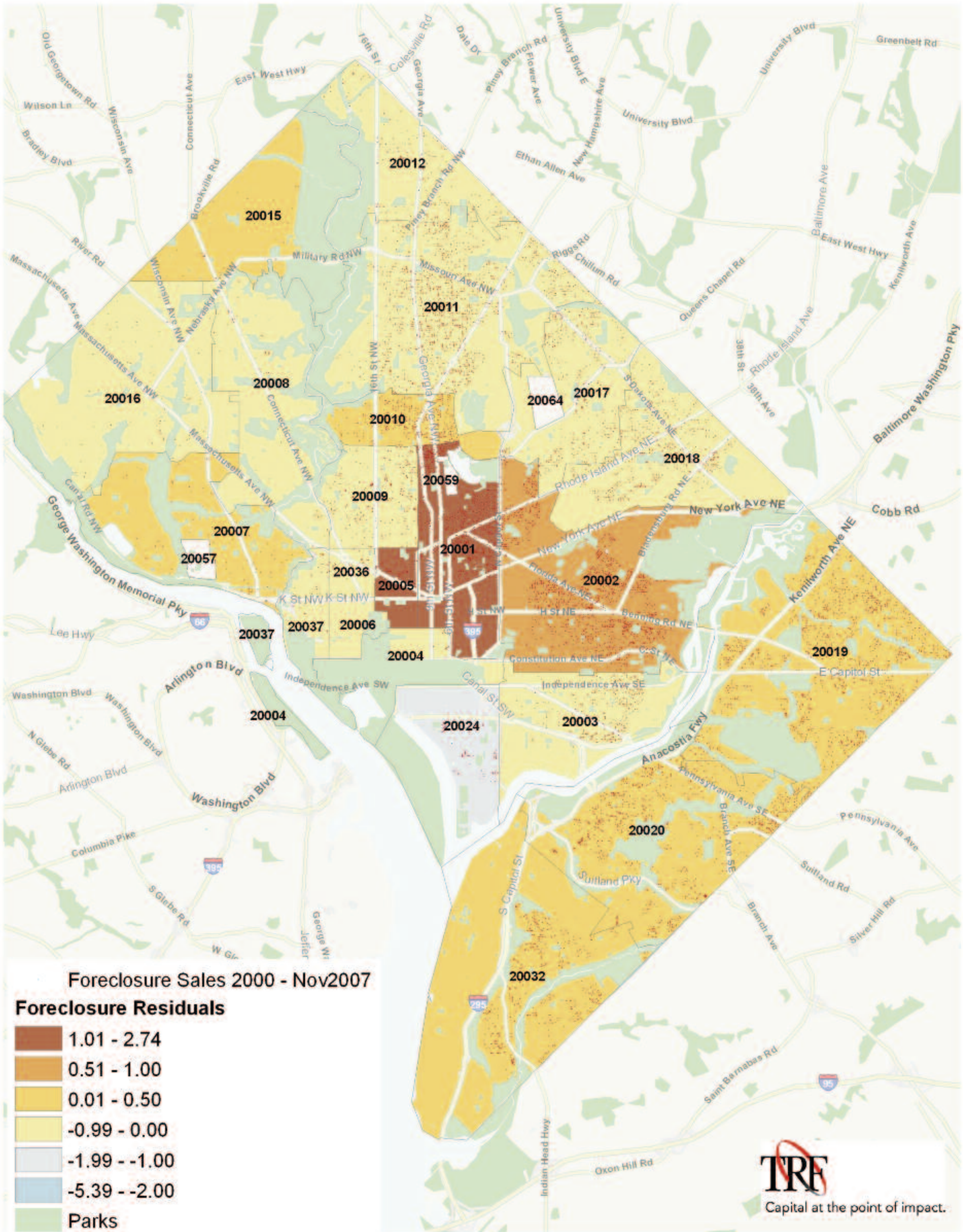
20002

- Population of approximately 50,000 people which is down substantially between 1980-2000.
- Racially, the area is approximately 80 percent African American, which is greater than the overall District percentage African American
- Homeownership is on par with the District average
- Median sale prices in this area were below the district average in 1995 and below the average in 2005. The rate of change, however, between 2000 and 2005 was substantially greater than the District average.
- Subprime lending is above the District average, but not exceptionally high.

20005

- Population of approximately 10,500 people which is up approximately 1,700 between 1980-2000.
- Racially, the area is approximately 35 percent African American, which is substantially lower than the overall District percentage African American
- Homeownership is substantially below the District average
- Median sale prices in this area were below the district average in 1995 and substantially above the average in 2005. The rate of change has consistently exceeded the District average.
- Subprime lending is well below the District average.

Figure 7: Difference between Actual and Predicted Foreclosures



In predicting prime and subprime delinquencies, we estimate equations that are similar to that which we found for foreclosure filing density – although there are some differences. In predicting prime delinquencies we observe that delinquencies are higher in areas that are:

- Lower priced
- Experiencing higher rates of price change
- *Transacting homes using mortgages that constitute a higher percentage of sale price*
- Transacting homes with lower percentages of loans that are piggybacks
- Higher percent of subprime loans

R2 = .906

Italics indicate that the factor is of minimal importance.

Figure 8: Difference between Actual and Predicted Prime Delinquency

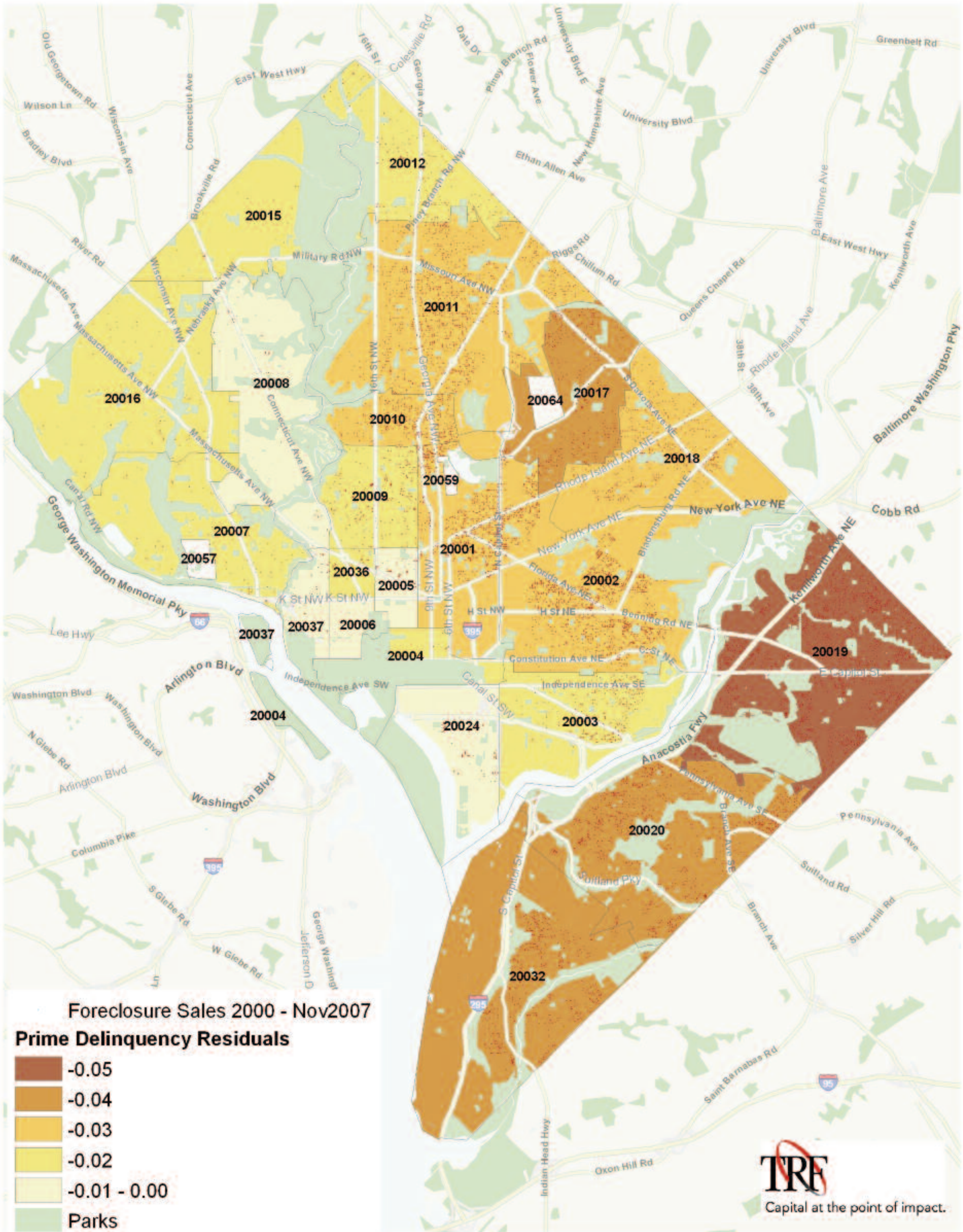
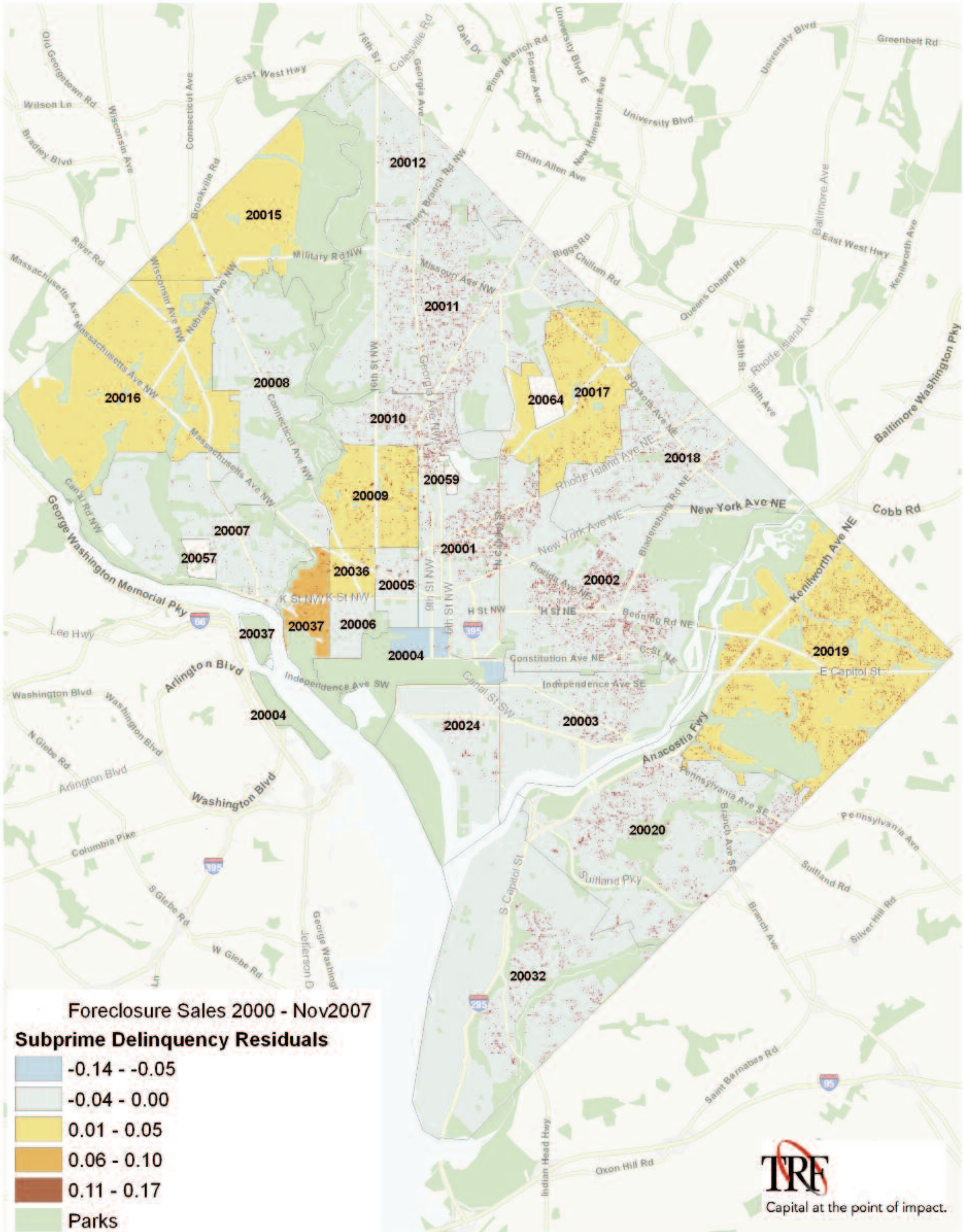


Figure 9: Difference between Actual and Predicted Subprime Delinquency



In predicting subprime delinquencies we observe that delinquencies are higher in areas that are:

- Lower priced
- *Experiencing lower rates of price change*
- Transacting homes using mortgages that constitute a higher percentage of sale price
- Transacting homes with lower percentages of loans that are piggybacks
- *Higher percent of subprime loans*

$R2 = .665$

Italics indicate that the factor is of minimal importance.

III. Recommendations

There are a number of ways to improve the foreclosure process of Washington D.C. to give homeowners a better chance to avoid foreclosure, and to allow District policymakers the chance to better track foreclosures and formulate effective public policy responses.

Washington D.C has a non-judicial mortgage foreclosure process.[80] When a mortgage is in default, the borrower receives two notices: a notice of acceleration and a notice of foreclosure sale. The notice to foreclose is required to be sent to both the homeowner and the D.C. office of the Recorder of Deeds, and must occur thirty days prior to any sale. The homeowner has a statutory right to cure the mortgage, and to return himself to "the same position as if the default… had not occurred."

Technically, the right to cure legally exists up to five business days prior to the date of foreclosure. However, according to consumer advocates, most lenders will accept payment up to the actual foreclosure proceedings. The right to cure cannot be used more than one time in two consecutive calendar years.

The District requires that lenders submit a robust amount of information when they file a foreclosure. This includes the address of the home in question, the loan amount due, the amount needed to bring the mortgage current, the loan recording number, and a number for a homeowner to call to stop the foreclosure sale and other important information. From this starting point, there are a number of reforms that the District can make to its foreclosure process that can aid both policy makers and homeowners.

Recommendation 1: Expand Electronic Record Keeping and Reporting. The underlying suggestion below is simple: No matter what changes are made to the information collected by the City, all of the information received must be recorded and indexed electronically, so that District policy makers can quickly and effectively access and compile information. Cities such as Philadelphia, for example, compile foreclosure data into files that can be read by programs such as Microsoft Excel. Until the District does something similar, comprehensive analyses on the state of foreclosures in the City will be time consuming, expensive, and limited in their scope.

From a record keeping perspective, the amount of information that comes into the Recorder of Deeds office is fairly robust and, according to both a consumer advocate and a City official, is generally filled out completely. However, despite this information being received, very little information is electronically recorded by the City. According to the Recorder of Deeds, the only information electronically indexed is the date of filing, the parties to the foreclosure, and effectively, the address of the property (specifically, the square and lot of the property). Recording this information electronically would augment the ability of the District to enforce current statutes. For example, in the Home Loan Protection Act of 2002, the District Mayor is authorized to conduct investigations into suspect patterns of abusive lending.[81] Having the ability to quickly access extensive information on foreclosures will enhance the ability of the District to understand patterns of abusive practices, in faster, cheaper, and systematic method.

Recommendation 2: Increase Access to Information. Intertwined with collecting additional information is the understanding that the information must be available to a number of parties, including homeowners. Once a consumer receives a notice of foreclosure, they effectively have 30 days before they will lose their home. However, according to consumer advocates, there are times homeowners think they may be in foreclosure, but are unsure and do not have any documents such as a notice to foreclose. Consumer advocates cannot access foreclosure information electronically to help homeowners understand their status. If consumer advocates cannot access electronic information quickly, an ability to scan through all paper foreclosure records in a given time period to determine whether their client is being foreclosed upon will provide an additional tool. (The unintended consequence to immediately opening District records in this way is that it could increase the ability of foreclosure 'rescue scams' to target homeowners.)

One solution is to encourage or require foreclosure attorneys to submit their foreclosure notices in an electronic manner that automatically populates a database run by the Recorder of Deeds. Such a system could save time and resources for the Recorder of Deeds Office, so that they no longer have to manually enter information that comes into their office. Additionally, the instantaneous nature of electronic submission of the notice would assist homeowners to determine their mortgage status while giving the District a constantly updated database of consumers that are on the verge of losing their homes.

Recommendation 3: Collect Additional Information on Parties to Foreclosure. Currently when a foreclosure is filed in the District, the foreclosing entity must list the borrower and the holder of the note. From an information standpoint, this effectively means that the borrower and servicer are identified on the foreclosure filing. However, when trying to understand overall patterns of foreclosure, and when trying to understand an individual homeowner's situation, there are additional parties to the loan that are important to identify.

From a research and response perspective, there are four potential parties to a mortgage foreclosure that would be useful to identify in the filing: the borrower, the servicer, the actual holder of the note, and the originating lender. For some loans, the servicer, note holder and originator may be the same party. However, with many loans sold multiple times in the secondary market, and with specialized servicers, these three roles are often represented by three distinct entities. Each party has a different impact on foreclosures within the District, and therefore should be recorded.

Additionally, in terms of these parties, Mortgage Electronic Registration System, or MERS, is sometimes listed as a foreclosing party on foreclosure notices. MERS is not, in fact, an actual servicer, but instead a registration service that mortgage companies use to track loans. According to a consumer advocate, a MERS listing can make it more difficult to defend a consumer in foreclosure, because MERS itself does not have the same authority to make a decision on a loan, as opposed to an actual holder of a loan. And from a research and response perspective, having MERS listed as a foreclosing party is effectively useless.

Recommendation 4: Create a Strict Liability Standard for Notices. Both consumer advocates and the Recorder of Deeds Office have noted that in large part, information submitted by foreclosure notices is generally completed. However, to ensure that this continues, and to ensure that lenders comply with potentially new reporting requirements, the District can set a strict liability standard for incomplete notices as a defense to foreclosure. More specifically, the City could issue guidance that incomplete or inexact information is, in and of itself, considered improper notice delivered to the City as required under D.C. law.

Recommendation 5: Plain English Notice of Foreclosure, with Loss Mitigation Information. It is worthwhile to give a troubled homeowner as much information as possible when a foreclosure is filed. However, the District's notice to foreclosure is also very dense, and could be hard to understand for a consumer. The District notice itself should contain important information in clear, plain language, telling the homeowner what is happening, and where they can seek help. If the goal is the keep more homeowners from reaching foreclosure, then the contact information on loss mitigation departments must be featured prominently on any foreclosure and acceleration notices prepared by note holders. Additionally, the notice should provide the names of City-funded housing counseling agencies.

Recommendation 6: Give Consumers Concrete Amounts Owed to Bring Mortgages Current, and Create Guidance as to Appropriate Amounts of Legal Fees and Publishing Costs. While the foreclosure notice is intended to tell the consumer the amount of money they must raise to bring their mortgage current, the amount often does not include all costs and fees required to stop the action. The notice generally notes the amount that is due, and adds broad language similar to "plus attorney fees, foreclosure costs and other charges or payments which come due." A consumer advocate reported that clients have raised the money indicated on the foreclosure notice, only to learn that additional fees were added to their deficiency. The District can increase homeowners' chances of keeping their homes by ensuring that notices disclose all fees and costs required to stop the foreclosure. This disclosure can identify fees and costs that increase based on the number of days the homeowner waits to cure the default.

Recommendation 7: An Earlier Notice of Mortgage Trouble. Currently, two notices are sent to homeowners when they are in default: a notice of acceleration, telling them their loan will be foreclosed upon, and the actual notice of foreclosure. The homeowner can receive these notices at approximately the same time. Conventional wisdom suggests that the earlier a financially struggling homeowner can be reached, the more likely they will be able to recover from missing loan payments. Many homeowners who could recover after missing one payment cannot do so after missing two or three, as well as the accumulating penalties and fees. It is important to get information to homeowners earlier about available resources, and to notify District representatives sooner, so that they can proactively respond.

Recommendation 8: Issue Guidance to Courts on Amounts Needed to Temporarily Stay Foreclosures. Because of the District's non-judicial foreclosure status, a homeowner must take affirmative action to stop their foreclosure. Within their thirty-day window, when a homeowner asserts a legal defense to a foreclosure filing, they are generally required to post a bond by the

Court. That bond, determined by the presiding Judge, can range from paying the real estate taxes that are due into a monthly escrow, to paying the full amount of money that is needed to cure the default.

For the large majority of homeowners in foreclosure in DC, posting a bond for the full amount needed to cure the mortgage (which includes penalties and fees) is likely to be impossible, and therefore a barrier to having their legal claim heard. In addition, in the case of alleged predatory lending, the homeowner may have reached default because of abusive lending which created the unaffordable monthly payment. Almost by definition, these consumers are not likely to have the ability to afford their monthly payment. Unless guidance is issued to create affordable payment levels for homeowners, especially in the case of abusive or suspected predatory lending, legitimate legal defenses cannot be raised.

Recommendation 9: Changes to the Statutes: Create a Judicial or Quasi-Judicial Foreclosure Process, Staying Foreclosure during Loss Mitigation, Expanding the Right to Cure. Most of the changes above are administrative changes to the District's foreclosure process. However, if the District is willing to modify the foreclosure statute, there are reforms that can be considered. For example, it is the stated position of groups like the National Consumer Law Center, that a judicial foreclosure process, or something resembling it, with the availability of a hearing before an impartial officer (including associated due process protections), is better for consumers and will keep more residents from losing their homes. The District could develop a hybrid system, whereby consumers who have objections to foreclosure can opt-in to some kind of adjudicatory process. Additional changes, such as eliminating the limitation that a consumer has a right to cure only once every two years, could also be considered.

Chapter V: Homebuyer Education and Counseling

To complement the information obtained from subprime borrowers in telephone surveys and focus groups, Capital Area Asset Builders (CAAB) conducted a survey of agencies offering homebuyer education and counseling services to District residents. The goals of this survey were to: identify the types of homebuyer education classes currently offered; assess the number of residents who take advantage of homebuyer education and counseling services annually; assess providers' capacity to serve additional residents through current programs; and identify resources to strengthen the provision of homebuyer education and counseling services in DC.

Key Findings:

1) **Homebuyer education and housing counseling services are not widely used by District residents.** Only 13 percent of the homebuyers who participated in the Center for Responsible Lending's telephone survey had received information about the home loan process from a homebuyer training or financial education workshop, and this was equally true for both prime and subprime borrowers. Yet national research indicates that pre-purchase education and counseling gives borrowers the knowledge of what elements to look for in a fair mortgage offer, and also the confidence to refuse an unfair offer and seek a better one.

2) **The District government could do much more to coordinate financial education programs and market them effectively.** Currently, consumer education and protection programs – including those targeted at homebuyers and homeowners – are administered by four District agencies that are largely disconnected from each other. Better coordination among these agencies and with for-profit and non-profit financial education providers would make it easier for residents to access the information and help they need to make good financial decisions and investments.

3) **The quality of housing counseling services funded by taxpayer dollars appears to be uneven, but is difficult to assess.** In our survey of housing counseling providers, we found no common source of or minimum requirements for counselor training or certification, even for agencies funded and recommended by the federal and District governments. The perception among our survey respondents is that quality of service varies a great deal from one provider to the next – but there is no formal evaluation data to substantiate this belief. The lack of common professional standards and data reporting requirements limits accountability and makes it difficult to compare providers and assess the quality of services currently available to District residents.

Survey of Homebuyer Education & Counseling Providers in the District of Columbia

Prepared by: Capital Area Asset Builders

I. Methodology

We surveyed all agencies (nineteen in total) in the District of Columbia that are currently approved by the U.S. Department of Housing and Urban Development to provide housing counseling services.[82] Respondents were initially invited via email to complete an online survey consisting of twenty-six questions within a ten-day period. A copy of the survey is included in Appendix A. To encourage honest responses and improve the overall response rate, the invitation letter explained that specific responses would not be attributed to individual respondents in the final report or its appendices; rather, all data would be reported in an aggregate summary format. Seven days after sending the invitation letter, we began following up with personal emails and telephone calls to non-respondents. We also extended the response deadline by two weeks to allow additional time for data collection.

During the follow-up period, we learned that four of the nineteen HUD-approved agencies located in the District of Columbia are national organizations that do not provide education and counseling services to DC residents; thus, these four agencies were excluded from the survey.

The findings summarized below are based on survey responses from nine housing counseling agencies, eight of which were complete.

II. Findings

General

All of the eight agencies that provided complete responses to the survey are currently offering homebuyer education services to all DC residents, and together, these agencies served approximately 14,000 individuals through homebuyer education classes in 2006.[83] Geographically, four of the respondents are located in Ward 1, and the others are located (one each) in Wards 5, 6, 7, and 8. With the exception of one agency that specifically targets residents who are "within 3 to 6 months of being mortgage-ready", all indicated that their homebuyer education and counseling services are open to the general public. All eight provide services in English; six offer services in Spanish; and one can serve clients who speak French, Chinese, Amharic, or Portuguese. All eight agencies indicated a willingness to provide homebuyer education and counseling services at other locations in the community upon request.

With respect to advertising their homebuyer services, eight use local newspapers and community partners; six use radio advertising; six advertise online; and four run ads on public television. Additional methods of advertising include flyer distribution and participation in housing fairs.

Type of Counseling Services Provided

All eight respondents provide pre-purchase homebuyer education, foreclosure prevention education, financial management/counseling, and credit counseling and repair. Most also provide post-purchase homebuyer education (7) and mortgage delinquency and default resolution counseling

(6). Fewer than half provide home equity conversion mortgage counseling or reverse mortgage counseling. Other services and types of counseling offered by the agencies include training for real estate professionals on city financing programs (i.e. DC Bond and HPAP); pre-rental and post-rental counseling; home rehabilitation training; family financial management; tenant rights and responsibilities training; training on forming a tenants' association; housing search; coop and condo training; and homeowners club for new homeowners.

Pre-purchase homebuyer education and credit counseling and repair appear to be the services for which there is greatest demand, with 8,696 and 3,967 clients served in 2006 in 537 and 185 classes, respectively, among the responding agencies. Significant demand also exists for post-purchase homebuyer education and financial management/budgeting classes. About 7,600 clients received one-on-one counseling from the eight agencies in 2006.

	Agencies Currently Offering	Classes Offered in 2006	Clients Receiving Training in 2006
Pre-purchase homebuyer education	8	537 (7 agencies responding)	8,696 (6 agencies responding)
Post-purchase homebuyer education	7	233 (6 agencies responding)	1,494 (5 agencies responding)
Foreclosure prevention education	8	68 (5 agencies responding)	1,101 (4 agencies responding)
Financial management/budgeting	8	242 (7 agencies responding)	2,491 (6 agencies responding)
Credit counseling and repair	8	185 (6 agencies responding)	3,967 (5 agencies responding)
Home equity conversion mortgage counseling	4	67 (4 agencies responding)	755 (4 agencies responding[3])
Reverse mortgage counseling	4	60 (4 agencies responding)	572 (3 agencies responding[3])
Mortgage delinquency and default resolution counseling	6	50 (5 agencies responding)	725 (4 agencies responding[84])

Staffing and Capacity

Housing counseling agencies in DC appear to be adequately but unevenly staffed to handle the current demand for homeownership education. Four of the seven agencies responding to this portion of the survey said they are able to meet the current demand for their services but could not serve many more clients; one stated that monthly demand for their services greatly exceeds their ability to provide it; and the other two reported having capacity to serve "more" or "many more" clients. In total, they reported 34 housing counselors on staff currently, down from 37 on staff in 2006. Four agencies indicated that they have other staff (13 persons in total) who are available to teach classes but who cannot provide one-on-one counseling services. One of those four stated that they have as many as 50 staff working as counselors, trainers, and intake and social workers; even so, it was this larger-scale organization that said client demand and referrals for their services exceeds their current capacity.

Interestingly, the two agencies that reported having excess capacity were among the four that reported a belief that there are not enough homebuyer education and counseling services available to meet the need in DC. These four agencies suggested there is a need for more services in the areas of general housing counseling, mortgage counseling, post-purchase education and counseling, foreclosure prevention, reverse mortgage counseling, and longer term case management and counseling. One pointed out that while agencies providing housing counseling services may be plentiful, financial support is not based on quality of services provided or results produced, suggesting that the District's funding mechanism could do more to promote quality assurance.

The focus groups and telephone survey also conducted as part of this research project corroborate our finding that there are many more DC homebuyers who could benefit from pre-purchase education and counseling. Only 13 percent of the homebuyers who participated in the Center for Responsible Lending's telephone survey had received information about the home loan process from a homebuyer training or financial education workshop, and this was equally true for both prime and subprime borrowers. When asked to evaluate the helpfulness of homebuyer training and financial education workshops, responses from those participating in the telephone survey, though small in number, were overwhelmingly positive, as were the responses of participants in the focus groups conducted by the Urban Institute.

Training

All agencies that responded to this section of the survey do require housing counseling staff to complete training, and most of them require training to occur on an ongoing basis to keep their staff aware of the changing housing and housing finance market. Four agencies require training for their staff every year, two require additional training every two to three years, and one offers in-house training and speakers and encourages attendance at conferences and outside training classes. The content of these ongoing trainings includes housing counseling training as well as training on related issues, such as credit counseling and financial education, indicating the counselors are holistically prepared to help their clients achieve homeownership. In addition, two agencies require staff training on loss mitigation and foreclosure prevention. Sources of training and/or certification for area housing counseling agency staff include NeighborWorks America, the National Association of Housing Counselors and Agencies, the DC chapter of the National Association of Housing Counselors and Agencies, and formal degrees (bachelors or masters) related to housing counseling.

Funding and Other Support

When asked about funding sources for homebuyer education and counseling services, six of eight respondents indicated that they receive funding from the District government; three receive funding from the federal government; five receive funding from private foundations; and two receive funding from mortgage lenders. Other sources of funding include banks and fees from property developers.

Over half of the respondents believe that the District government is not currently providing an adequate level of funding to support homebuyer education and counseling services. One elaborated that while funding for first time buyers is sufficient, more funding and support is needed for default counseling. When asked what else the District government could do to better ensure that all residents have access to high quality homebuyer education and counseling services, recommendations included:

- Reach out to homeowners to help them resolve high-cost mortgage issues and refinance adjustable rate mortgages before they go into default, and engage lenders in this effort.
- Provide low-income residents with greater access to responsible lenders so they can avoid high-cost loans and refinance out of high-cost loans that they currently hold.
- Conduct a full-scale public education campaign to provide residents with information

and access to resources (homebuyer education, counseling, and responsible loans) to help them avoid bad mortgage loans, default, and foreclosure.

- Require agencies receiving District government funding to document the results of their services and show high quality outcomes, and reduce or eliminate funding for those that cannot do so.
- Finally, housing counseling agencies want to be better informed of each other's activities and evolving issues in homeowner education. One suggested a need for increased funding for ongoing training and professional development of housing counseling staff, and another would like to see information on District-specific homeownership financing products and resources (such as HPAP, DC Bond, and the Employer Assisted Housing Program) incorporated in new counselor training. Several agencies indicated that it would be beneficial to foster greater collaboration among the agencies that provide homeownership education and counseling to District residents.

III. Conclusion

Overall, this survey paints a picture of a system that is just barely able to meet current client demand, and could not satisfy an increased demand such as is expected in the next year. Furthermore, it is highly likely that there is more need in the District for housing counseling services than the active client demand of these agencies reflects. There is evidence of this unmet need in increasing foreclosure rates, the continued use of predatory lenders for initial purchase and refinancing, and the Urban Institute focus group members' uptake of refinancing on an as-offered basis instead of an as-sought basis. To connect these clients to safer home purchase financing and services requires that they are at least equally as visible and accessible.

Our difficulty in collecting data on the type and number of homebuyer education classes offered and taken by District residents suggests the need for a more formal data collection system, perhaps by a common funder like the DC government. Varying certification and training requirements reported by providers suggests that not all housing counseling agencies are providing the same quality of education and counseling, which could be addressed by adopting standards around certification and training. And finally, markedly different perceptions by providers of resident demand for services indicates that a better referral system (to housing counseling agencies and among housing counseling agencies) could be beneficial, provided the quality of services offered is consistent across providers.

IV. Recommendations Based on Successful City & State Initiatives

There is widespread agreement among city and state leaders and affordable homeownership advocates that financial education and housing counseling play a critical role in minimizing the incidence of unnecessary subprime lending and enabling delinquent borrowers to avoid foreclosure. In their 2005 report entitled *Effective Community-Based Strategies for Preventing Foreclosures,* NeighborWorks America identified financial counseling as one of seven key components of successful foreclosure-intervention programs, noting that "the most successful programs provide a variety of services that generally interact, which may include budget counseling, job and family counseling, loan products or access to loans, and financial education." (NeighborWorks America, September 2005)

While specific data pointing to the impact of education and counseling is harder to come by, one study found that counseled borrowers face half the default risk of their non-counseled peers (Ohio State University, 2001). In another, researchers at Freddie Mac looked at the effectiveness of pre-purchase homeownership counseling and found that "borrowers receiving counseling have, on average, a 19 percent lower 90-day delinquency rate." This finding was based on a study of 40,000 mortgage packages originated in Freddie Mac's Affordable Gold low-cost single family home mortgage program. The study also suggested that although the source of pre-purchase counseling—be it from government agencies, lenders, mortgages insurers, or non-profits—did not seem to impact the effectiveness of the counseling, the format of the counseling did: borrowers receiving individual counseling exhibited a 34 percent reduction in delinquency rates, classroom counseling was linked to a 26 percent reduction, and home study was linked to a 21 percent reduction; there was no evidence that telephone counseling programs serve to reduce delinquency rates (Hirad and Zorn, Freddie Mac, 2001)

In light of these findings, if it's true that, as the NeighborWorks Center for Homeownership reported in 2004, "only 15 percent of first-time homebuyers receive quality training," there is much that can be done nationally and locally to enhance the role that financial education and counseling play in promoting successful homeownership (NeighborWorks Center for Homeownership, August 2004).

Therefore, in addition to looking at financial education and counseling services currently available to home buyers in Washington, DC, we also reviewed recent studies on the impact of financial education and housing counseling programs across the country and talked to national and local experts to find out what they have learned about the role that financial education and counseling can play in mitigating delinquency and foreclosure rates (see Appendices 3 and 4). Our research was wide-ranging and included a review of statewide financial education programs, as well as specific outreach and counseling interventions that have proven to be effective in preventing foreclosures. We found that the strongest financial education initiatives have a very broad, highly visible, and well-coordinated approach that integrates consumer education and protection functions across various government agencies and connects those efforts to complementary programs and services offered by non-profit and for-profit partners. Based on these findings, we offer below a set of recommendations aimed at strengthening the delivery of financial education – and specifically, homebuyer education and counseling – to District residents.

The first two recommendations pertain to financial education broadly, while the last three are directed more specifically at improving the delivery of homebuyer education and housing counseling programs.

1) **Create a highly visible initiative – with strong city leadership – to highlight the importance of financial literacy and market financial education resources.** Building and sustaining an effective financial literacy agenda requires cooperation from public, private, and nonprofit partners, and strong leadership is needed to achieve this goal. Three statewide and citywide initiatives provide good examples of the role that government leaders can play in galvanizing support and resources for financial education initiatives:

    Delaware's Financial Literacy Initiative
    In 1999, State Treasurer Jack Markell developed "Delaware's Financial Literacy Initiative," which consists of four separate programs: the Delaware Bank at School Program; Money $marts Kids Conference; Delaware Money School; and Everywoman's

Money Conference. What started as 12 mortgage and financial professionals recruited by the Treasurer's Office to teach basic financial literacy classes for Delaware women has grown to more than 120 volunteer teachers at the Delaware Money School offering 500 classes annually, reaching more than 10,000 residents. Promotion of Delaware Money School classes is primarily done through their extensive mailing list, but is also distributed directly to all state employees as a quarterly payroll stuffer, and as an email blast to some county employees. In 2002 the initiative was spun out to an independent nonprofit foundation, the Delaware Financial Literacy Institute, to work with the private sector to promote financial literacy across the state. The initiative has received immense interest from the banking industry, with Bank of America and Chase executives in leadership positions on the Delaware Financial Literacy Institute board, and the state's Deputy Banking Commissioner teaching regular classes on credit reports, identity theft, and foreclosure prevention (Council of State Governments, 2002).

Pennsylvania Office of Financial Education

In April of 2004, Governor Edward G. Rendell of Pennsylvania issued an executive order establishing the Pennsylvania Office of Financial Education. Housed within the Pennsylvania Department of Banking, the Office of Financial Education has a mission of involving schools, employers, and the community in increasing residents' financial education and is funded by the assessments, fees, and fines paid by Pennsylvania's regulated financial community. In 2006, the OFE partnered with Pennsylvania State Employees Credit Union to offer money management education to state employees and their families. The sessions, taught by PSECU staff and chosen based on employee demand, have been delivered at the departments of Environmental Protection, Treasury, Banking, and the Board of Probation and Parole. About 30 daytime events on topics like retirement planning, identify theft, and long-term care have attracted nearly 400 state employees. Perhaps the Office of Financial Education's most successful partnership so far has been with the Department of Education. Mary Rosenkrans, the OFE's school-based financial education specialist, divides her time between the two offices, coordinating a survey of the state's 650 high schools to assess what financial education is already being taught, offering recommendations on how to integrate financial management issues into the curriculum while still meeting standardized test requirements, and helping to establish credit union branches in high schools, where credit union staff speak to classes and students act as tellers for their peers and faculty. Additionally, in an effort sure to attract the attention of their target audience, the OFE is introducing "Financial Football," an NFL-themed video game about money management, into high schools statewide. Philadelphia Eagles and Pittsburgh Steelers players were on hand for the launch event at high schools in their respective cities. The game can be played online for free at the OFE website www.moneysbestfriend.com, and the OFE has created lesson plans on how to incorporate the game into the classroom (Commonwealth of Pennsylvania, 2007). "These programs do a fantastic job of establishing patterns and behavior," says Hilary Hunt, Director of the OFE. "Most people form their financial habits by the age of 10. In these programs, kids get comfortable going into financial institutions and learn about savings and checking accounts. They establish a good habit that is much harder to instill in any other way" (Federal Reserve Bank of Philadelphia, 2007).

"Bank on San Francisco"

In 2006, San Francisco Mayor Gavin Newsom, City Treasurer Jose Cisneros, and the Federal Reserve Bank of San Francisco launched *Bank on San Francisco*, a comprehensive initiative to address the financial needs of the city's unbanked consumers. Their ambitious goal was to help 10,000 unbanked residents open bank accounts within 2 years. They had already convinced fifteen area banks and credit unions to offer starter accounts that would appeal to consumers who had avoided formal banking relationships in the past. The next step was to create the demand for these accounts, by convincing unbanked consumers of the value of account ownership and taking action against predatory alternatives like check cashers and payday lenders. At the same time, the city would expand access to quality money management education and conduct an awareness campaign on the issues.

The focus groups that informed *Bank on San Francisco* revealed that unbanked consumers did want to have formal accounts, but faced legal, logistical, and personal barriers. *Bank on San Francisco*'s financial institution partners responded by offering low-cost and no-cost accounts with no minimum balance requirement. In addition, they lowered legal barriers for many immigrants by accepting the Mexican Matricula and Guatemalan Consular identification cards as a primary ID, and for consumers on the ChexSystems by allowing them to open "second-chance" checking accounts. The banks and credit unions committed to teaching at least four financial management training sessions in the community every each year, and increase their marketing in targeted low-income neighborhoods (Mayors' National DollarWi$e Campaign). The city is conducting an extensive media campaign on the wider campaign message of avoiding predatory financial services through billboards, multi-lingual posters and coupons, and radio and television PSAs (EARN, 2007).

While *Bank on San Francisco* began with a focus on account ownership, improving financial literacy is an equally important and underlying goal, and with strong city leadership the initiative continues to evolve. Given its similarity to *DC Saves*[85] – a citywide effort launched in April of 2007 to motivate and encourage District residents to save more, reduce debt, and build wealth – *Bank on San Francisco* could inform the future work of *DC Saves* and the Department of Insurance, Securities and Banking's participation in that campaign.

2) **Create an interagency committee to better coordinate consumer education and protection functions across District agencies.** Consumer education and protection services are currently spread across several District agencies. Three agencies are responsible for consumer protection: the Department of Insurance, Securities and Banking, which regulates financial service businesses; the Department of Consumer & Regulatory Affairs, which issues licenses and permits, conducts inspections, enforces building, housing, and safety codes, regulates land use and development, and provides consumer education and advocacy services; and the Office of the Attorney General, which enforces the District's regulatory laws and consumer protection laws when there is a pattern of abuse. Additionally, consumer information and financial education programs targeted to prospective homebuyers fall under the direction of the Department of Housing and Community Development.

   There is currently minimal coordination among the consumer education and protection functions of these agencies, making it difficult for residents to know who provides what and how to access those services. Nor do these agencies provide much information on additional programs and services available through financial institutions and community organizations. While the Department of Insurance, Securities, and Banking's recent branding campaign to elevate awareness of its consumer protection activities is worthwhile, it would be strengthened by making other local sources of consumer education and financial literacy more accessible. Better coordination and marketing would make it easier for residents to access the information and help they need through a "one stop" portal, available both online and by telephone.

An excellent example of cross-agency and cross-sector promotion of available consumer protection and financial education resources is that coordinated by the Pennsylvania Office of Financial Education. Their colorful and appealing website, www.moneysbestfriend.com, offers information arranged by life stage as well as by topic, and hosts a directory of financial education resources and assistance, searchable by zip code. The website refers people to the state's Bureau of Consumer Protection 1-800 number or website if they think they've been victims of consumer fraud, to the Penn State University Cooperative Extension System for articles about talking to one's family about money, and to the Pennsylvania Housing Finance Agency for information about their Homeowners Emergency Mortgage Assistance Program. The New York City Department of Consumer Affairs website (http://www.nyc.gov/dca) is another example of a comprehensive, easy-to-navigate portal to a wide range of consumer tips and information on services provided by government, nonprofit and private agencies.

While we have highlighted websites here as vehicles for sharing financial education and homebuyer education opportunities and resources, it is important that other delivery and marketing methods are used as well. The telephone survey of recent DC homebuyers conducted by the Center for Responsible Lending as part of this research project found that the likelihood of borrowers who received subprime loans to get information about the home loan process from a website was much lower (18 percent) than that of those who received prime loans (38 percent), which could be indicative of a digital divide among these two populations. If the DC government wants to effectively reach residents who are likely targets of subprime lenders and others who may be in need of financial education, it must reach out to residents through multiple channels, including radio, television, and the dissemination of information through community partners.

In addition to providing accessible, consumer-friendly information to the public, it is also important for the public, private, and nonprofit agencies to share information and engage in regular planning sessions amongst themselves. This could be accomplished by establishing an interagency committee or advisory council to promote financial literacy. For example, the Pennsylvania Office of Financial Education was created to carry out the recommendations made by the Pennsylvania Task Force for Working Families, established by Governor Rendell in 2004 to bring attention across agencies and in the private sector to helping working families succeed financially. Their 2005 report to the Governor established "connect[ing] working families to financial education" as one of its priority areas, asking the newly formed Pennsylvania Office of Financial Education to:

- Establish, maintain, and market a clearinghouse with information about financial education resources, income supports, and savings programs.
- Integrate financial education in the curriculum already taught in Pennsylvania's K-12

schools.
- Expand community-based financial education and counseling.
- Help employers provide financial education in the workplace.
- Encourage financial professionals to volunteer in financial education efforts.
- Conduct a long-term study to find out which financial education strategies are most effective (Governor's Task Force for Working Families, 2005).

Each of these areas has been studied and expanded upon by the Task Force, and is at some stage of implementation.

More recently, in March of 2006 the New York City Commission for Economic Opportunity was assembled to "study the nature of poverty in New York City and devise a blueprint to reduce poverty and increase access to opportunity" (New York City Commission for Economic Opportunity, 2006). The Commission was comprised of the Deputy Mayors for Economic Development and Rebuilding, Health and Human Services, Legal Affairs, and Education and Community Development; the First Deputy Mayor; and representatives of 33 for-profit, non-profit, university, and foundation stakeholders. Six months after their initial meeting, the Commission presented Mayor Bloomberg with a set of strategies—some tried and proven, some innovative and experimental—to address poverty in three populations with high degrees of poverty: working poor adults; young adults aged 16 to 24; and children 5 years old and younger. In December of 2006, Mayor Bloomberg announced a $150 million annual commitment to implement the Commission's recommendations, the first act of which was to establish the Office of Financial Education (New York City Department of Consumer Affairs, 2006).

A similar interagency approach is currently under consideration by the DC Council. As currently drafted, the "Financial Literacy Council Establishment Act of 2007" has two primary goals: 1) to develop a plan to establish and implement a financial education program for District high school students; and 2) to establish a Financial Literacy Council to assist and advise the Mayor and Council "in promoting the financial education and awareness of the residents of the District."[86] While the legislation is a worthwhile attempt to devote additional attention and resources to the promotion of financial literacy, we see three potential weaknesses in the proposal. First, the directive to establish and implement a financial program for District high school students is a tall order and one that probably warrants its own legislation with more detail about how and why such a plan is to be created. Secondly, the proposed establishment of a Financial Literacy Council consisting of eight members, only two of whom are non-government representatives with "extensive knowledge of financial institutions and personal finance", seems to be limited in the expertise and input that would be required to drive the desired change. And finally, the proposed length of members' terms of service (four years) without a clear directive for producing specific recommendations during a prescribed timeline calls into question the group's overall accountability and ability to effect change in a reasonable time frame. We recommend that the District Council and Mayor examine work of the Pennsylvania Task Force for Working Families and New York City Commission for Economic Opportunity as they think about how to structure a financial literacy advisory council to achieve maximum results.

3) **Standardize training for homebuyer education and housing counseling services funded by the city.** The District government has invested $2.7 million in fiscal year 2008 to support comprehensive housing counseling (purchase and tenant) services for DC residents, plus

another $700,000 to support pre-purchase counseling for residents using HPAP and the city's Employer Assisted Housing Programs (Mulderig, December 2007.) To ensure that those funds are being effectively used and that residents are receiving high quality homebuyer education and counseling services, the District should incorporate training standards into its grant-making process. Given that national training standards and programs already exist, we recommend that the District adopt existing standards as eligibility criteria for its grantees.

Currently, the sole "seal of approval" for agencies offering homeownership education and counseling services in DC is provided by HUD. Section 106(a)(2) of the Housing and Urban Development Act of 1968 authorized the Department to establish a federal system for funding local homeownership education providers to advise low- and moderate-income families on buying a home, renting, defaults, foreclosures, credit issues, and reverse mortgages. While being HUD-approved is a nationally recognized endorsement for a housing counseling agency, it alone does not set high enough of a standard for quality and consistency of service. In a recent assessment of HUD's Housing Counseling program, the Office of Management and Budget rated it as adequate and identified the following as goals for improvement:

- Performing more in-depth analysis of client data from grantees.
- Establishing best practices and adopting standards for housing counseling programs as well as requirements for housing counselor credentials.
- Establishing efficiency measures to compare grantees against each other and show improved administrative and cost-effectiveness in achieving program goals (OMB).

In the interest of ensuring its own reputation for high quality service, a group comprised of public, private, and non-profit stakeholders has set National Industry Standards for Homeownership Education and Counseling. The Standards they agreed upon require, among other things, homeownership educators to receive at least 30 hours of facilitated instruction on the topics like money management, mortgage financing, foreclosure prevention, adult education techniques, cultural competency, and participatory training techniques. Over 100 industry groups have given their endorsement of these Standards, including the city of San Francisco, the New York Coalition of Homeownership Educators, and the state of Tennessee, which make funding contingent upon the adoption the Standards (Bower, December 2007).

The DC government should take note of the federal government's self-assessment and the industry's efforts, and adopt that higher set of standards for the homeownership education and counseling services it funds. Since many of the housing counseling agencies on the HUD-approved list receive funding from the District government, it could easily make local funding and promotion contingent upon meeting certain training and reporting requirements. Furthermore, it could help local housing counseling providers meet these elevated standards by partnering with the NeighborWorks Center for Homeownership Education and Counseling (NCHEC) to offer training and certification on basic content and skills, as well as advanced topics in homeownership counseling, like how to address the upcoming increase in foreclosures that is widely expected.

NeighborWorks Center for Homeownership Education and Counseling courses can be taken at NeighborWorks Training Institutes or HUD Regional Place-Based Trainings, and each HUD-approved housing counseling agency is eligible to receive a tuition scholarship for one staff member. Alternatively, the District government could establish a training contract with

NeighborWorks to serve all housing counseling staff who are supported by District funding. The NeighborWorks curriculum, *Realizing the American Dream,* uses a case-study method of instruction, employing adult learning methods by encouraging practitioner learners to teach modules to their peers. The NCHEC model complements and encompasses HUD standards for housing counseling providers, which focus on operating activities, but goes beyond them by having developed a model for delivery and giving weight to topics they think are most essential, while also allowing for local flexibility (Bower, December 2007).

Our proposed partnership with NeighborWorks has precedent in the Texas Statewide Homebuyer Education Program. In 1997, the Texas legislature sanctioned the state's Department of Housing and Community Affairs (TDHCA) to provide education and counseling to prospective homebuyers. To fulfill this task with even quality across such a large state, TDHCA contracted with NeighborWorks to train counselors at local nonprofits and city and county agencies. So far about 400 counselors have completed the initial, 5-day "Train the Trainer" course to become certified housing counseling providers, which addresses both the content and effective teaching methods for adult learners. In addition to the basic certification course, TDHCA contracts with NeighborWorks to offer continuing education on more advanced topics. In 2007, they offered two day classes on introduction to foreclosure prevention and combating predatory lending, and in 2008 they will offer a more advanced class on foreclosure. For the 2008 classes, TDHCA released a competitive request for proposals for the contract to offer the foreclosure classes, and which NeighborWorks won. All certified TSHEP providers across the state use the NeighborWorks curriculum, and have access to technical assistance from NeighborWorks. Only the initial training is required to for TSHEP participants, but refresher trainings are also available to providers who need to complete them every 5 years to stay in compliance with the HUD approval process (Gonzalez, December 2007).

4) **Make sure that homeowners in default know that foreclosure prevention resources and counseling are available.** Too often, homeowners who go into default don't know the basic steps that they can take to prevent reaching foreclosure and feel like there is no one available to help them. This is an unfortunate and avoidable perception for homeowners in DC, as most of the area's homeownership counseling agencies also offer mortgage delinquency and default resolution counseling. The District should take measures to ensure that homeowners are aware of this help by: 1) making foreclosure prevention resources a visible part of the larger initiative to connect citizens to financial education resources; 2) requiring that foreclosure-prevention information be included in all pre-purchase counseling; and 3) setting up a referral system whereby lenders agree to notify counselors when borrowers go into default.

   Chicago has been the model for cities looking to create easily accessible, one stop information sources for foreclosure prevention resources. The *311 Home Ownership Preservation Campaign* has widely advertised the availability of a non-emergency 311 phone number to direct distressed homeowners to available resources. Sometimes the homeowners are referred to the immediate nationwide telephone foreclosure counseling available from the Homeownership Preservation Foundation, while others are referred to Neighborhood Housing Services of Chicago to meet with a counselor in person. In addition, the City and the City Treasurer's Office are sponsoring Borrower Outreach Days, when housing counselors and lenders go out into the communities most seriously affected by the foreclosure crisis, to offer loan work-out sessions, access to free legal assistance, workshops, and information about the city's financial literacy programs. "These sessions are for those who might already find themselves in over their heads with their mortgage payments and for those who want to make sure it doesn't happen to them," says Chicago Mayor Richard M. Daley (NeighborWorks, 2005).

Successful foreclosure prevention programs in major cities like Chicago and New York have come to see the importance of including basic foreclosure prevention information in their pre-purchase programs. While the participants' immediate focus is on getting to closing, it can still be effective to plant the seed of what to do and whom to contact if payments are missed. Doing so may eliminate the need for more expensive, individualized foreclosure prevention counseling down the road: In the words of says Ken Davis, foreclosure-prevention counselor at Neighborhood Counseling Services of New York, "We never had to do foreclosure-prevention counseling for anyone who had taken our pre-purchase homeownership education classes." (NeighborWorks, 2005).

Lenders themselves have great incentive to work out an alternate payment plan with their borrowers rather than go into foreclosure proceedings. So in addition to empowering homeowners to avoid foreclosure, the District could also work with lenders to get their clients who are defaulting on their mortgage payments access to counseling. Such a system is in place in other cities, like Chicago; Roxbury, MA; and Boise, where local real estate agents and lending institutions know that they can refer clients who have missed mortgage payments to Neighborhood Housing Services of Boise for one-on-one counseling and possible financial assistance. In another model, all participants in the pre-purchase homebuyer education program of NeighborWorks of Western Vermont must sign an agreement authorizing their lender to contact the counseling agency if they fall behind on their payments (NeighborWorks, 2005).

5) **Collect data to evaluate the effectiveness of publicly funded financial education and housing counseling programs.** As entities receiving taxpayer dollars, financial education and housing counseling programs should be held accountable to the city for the effectiveness of the services they provide. To do so requires regular data collection for a range of indicators—including numbers and types of classes offered and residents served—to allow comparison of programs and identify the ones with high output. This could be done by requiring DC government grantees to complete a service provider survey similar to that used by the Texas Statewide Homebuyer Education Program, which was also the model for our survey of homebuyer education & counseling providers in DC. Like in Texas, this survey could be the source for a referral list of education and counseling programs made easily and publicly available by the District government.

   In addition to collecting data on classes and services offered, an ideal data system would also capture information on the quality of services provided. That could be accomplished by requiring grantees to distribute standardized class and individual counseling evaluation forms – to be returned to the Department of Housing & Community Development – to assess customer satisfaction with the content and quality of instruction and counseling received. The names of homeowners who face foreclosure could also be cross-checked with the list of residents who have attended classes or counseling sessions. These efforts would bring a greater level of accountability into the housing counseling arena and enable the District government to ensure that it is targeting funding to high performing, high quality financial education and housing counseling providers.

Appendix 1: Survey of Homebuyer Education & Counseling Providers in DC

General Information

Your name
Name of housing counseling agency
Street Address
City, State, Zip
DC Ward
Phone
Fax
Email

Is your agency currently providing homebuyer education? Y/N

Are your services open to all DC residents? Yes/No

If you target a specific population(s), please identify:

Which types of homebuyer education and counseling do you currently offer? [currently offer; plan to offer]
Pre-purchase homebuyer education
Post-purchase homebuyer education
Foreclosure prevention education
Financial management/budgeting
Credit counseling and repair
Home equity conversion mortgage counseling
Reverse mortgage counseling
Mortgage delinquency and default resolution counseling

What other types of education and counseling services (not listed above) do you provide?

Is your agency HUD approved? Y/N

Is your agency a member of the National Community Reinvestment Coalition? Y/N

What types of funding do you receive to support your homebuyer education programs? [federal government; District government; private foundation; private lenders]

In which languages do you offer your services? __ English __ Spanish __Other ______

How do you advertise your services? [Internet; local newspapers; public television; radio; through community partners; other]

In addition to providing services at your offices, do you also provide them at other locations on request? Y/N

2006 Data

Please provide as much information as possible about your activities for calendar year 2006: [number of classes; total # served]

Pre-purchase homebuyer education
Post-purchase homebuyer education
Foreclosure prevention education
Financial management/budgeting
Credit counseling and repair
Home equity conversion mortgage counseling
Reverse mortgage counseling
Mortgage delinquency and default resolution counseling

Staffing & Training

How many housing counselors do you currently have on staff? ____ In 2006? ______

Do you have other staff members who teach classes but do not provide one-on-one counseling? Y/N

If yes, how many? _______ In 2006? _________

Which of the following best describes your ability to provide services with existing staff? [monthly demand for our services greatly exceeds our ability to provide it; we are able to meet the current demand, but we can't serve many more; we are not working at full capacity and are able to serve more clients; we working well under our capacity and would like to serve many more clients]

Do you require housing counseling staff to complete any type of training? Y/N

If yes, how often? [annually; every two years; other______]

What types of training do you require? [list training provider, name of training class, and length of class if known]

If you require any staff to maintain specific credentials or certifications, please list them here:

Assessment of Housing Counseling Services in DC

When answering the questions below, please consider all homebuyer education and counseling services in DC, not just those provided by your agency. Also, please be assured that responses to this section will be treated confidentially by CAAB and the Urban Institute; specific comments and recommendations will not be attributed to individuals or agencies in our report.
Based on your knowledge of other housing counseling services, which if the following statements best describes the services available to DC residents? [most services are high in quality and I would recommend them; the quality of services is very uneven, I would recommend only a few; I would not recommend any other housing counseling services; I don't know enough about other

services to answer this question.]

Would you be in favor of standardized training classes to improve the quality and consistency of housing counseling services available to DC residents? Y/N

Do you believe there are currently enough homebuyer education and counseling services to meet the need for these services in DC? Y/N

If no, which services should there be more of?

Do you think the District government is currently providing an adequate level of funding to support homebuyer education and counseling services? [yes; no; not sure]

Aside from providing more funding, please share any other thoughts about what the District government could do to better ensure that all residents have access to high quality homebuyer education and counseling services.

Appendix 2: List of HUD Approved Housing Counseling Agencies in Washington, DC

Agency Name: HOMEFREE - U S A
Phone: 301-891-8404-0
Toll Free:
Fax: 301-891-8434
Email: williamw@homefreeusa.org
Address: 3401 A East West HighWay
Hyattsville, District of Columbia 20782
Counseling Services: - Mortgage Delinquency and Default Resolution Counseling
- Prepurchase Counseling
Languages: - English Only
Website: http://www.homefreeusa.org

Agency Name: AARP FOUNDATION
Phone: 800-209-8085
Fax: 202-434-6068
Email: rmcounsel@aarp.org
Address: 601 E. Street, NW
Washington, District of Columbia 20049
Counseling Services: - Home Equity Conversion Mortgage Counseling
Languages: - Spanish

Agency Name: ACORN HOUSING, WASHINGTON, DC
Phone: 202-547-9295
Fax: 202-546-6849
Email: rcarroll@acornhousing.org
Address: 737 1/2 8th Street, SE
Washington, District of Columbia 20003-2802
Counseling Services: - Home Equity Conversion Mortgage Counseling
- Home Improvement and Rehabilitation Counseling
- Homebuyer Education Programs
- Loss Mitigation
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Predatory Lending
- Prepurchase Counseling
Languages: - English
- Spanish
Affiliation: ACORN HOUSING CORPORATION
Website: www.acornhousing.org

Agency Name: CARECEN-CENTRAL AMERICAN RESOURCES CENTER
Phone: 202-328-9799-15
Email: ssolorzano@carecendc.org
Address: 1460 COLUMBIA ROAD NW
Washington, District of Columbia 20009
Counseling Services: - Mobility and Relocation Counseling

- Mortgage Delinquency and Default Resolution Counseling
- Prepurchase Counseling
- Renters Assistance

Languages: - Spanish
Affiliation: NATIONAL COUNCIL OF LA RAZA

Agency Name: CATHOLIC CHARITIES, ARCHDIOCISE OF WASHINGTON, DC
Phone: 202-574-3442
Fax: 202-574-3474
Email: Jacqurie.frye@ccs-dc.org
Address: 220 Highview Place, SE
Washington, District of Columbia 20032
Counseling Services: - Loss Mitigation
- Marketing and Outreach Initiatives
- Mobility and Relocation Counseling
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Prepurchase Counseling
- Renters Assistance
- Services for Homeless

Languages: - English Only
Affiliation: CATHOLIC CHARITIES USA

Agency Name: CCCS OF GREATER WASHINGTON, A DIVISION OF MMI
Phone: 800-747-4222
Toll Free: 800-747-4222
Fax: 202-393-7373
Email: lori.johnson@moneymanagement.org
Address: 1250 Connecticut Avenue NW, Office 48
Washington, District of Columbia 20036
Counseling Services: - Home Equity Conversion Mortgage Counseling
- Homebuyer Education Programs
- Loss Mitigation
- Marketing and Outreach Initiatives
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Predatory Lending
- Prepurchase Counseling
- Renters Assistance
- Services for Homeless

Languages: - Spanish
Affiliation: CCCS OF GREATER WASHINGTON, A DIVISION OF MMI
Website: http://www.creditcounselingnetwork.org/

Agency Name: DISTRICT GOVERNMEMT EMPLOYEES FCU
Phone: 202-671-1626
Fax: 202-673-3508

Email: cdecker@dgefcu.org
Address: 2000 14th Street, NW, Suite 2
Washington, District of Columbia 20001
Counseling Services: - Fair Housing Assistance
- Home Improvement and Rehabilitation Counseling
- Homebuyer Education Programs
- Loss Mitigation
- Marketing and Outreach Initiatives
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Predatory Lending
- Prepurchase Counseling
Languages: - Spanish
Website: www.dgefcu.org

Agency Name: DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY
Phone: 202-777-1635
Fax: 202-986-6705
Email: gadams@dchfa.org
Address: 815 Florida Ave., NW
Washington, District of Columbia 20001
Counseling Services: - Loss Mitigation
- Marketing and Outreach Initiatives
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Prepurchase Counseling
Languages: - English Only
Website: http://dchfa.org

Agency Name: EDUCATIONAL ORGANIZATION FOR UNITED LATIN AMERICANS
Phone: 202-483-5800
Fax: 202-483-5801
Email: alirene@eofula.org
Address: 1842 Calvert Street, NW
Washington, District of Columbia 20009
Counseling Services: - Renters Assistance
Languages: - Spanish
Website: http://www.eofula.org

Agency Name: GREATER WASHINGTON URBAN LEAGUE
Phone: 202-265-8200
Fax: 202-265-8929
Address: 2901 14th St NW
Washington, District of Columbia 20009
Counseling Services: - Home Equity Conversion Mortgage Counseling
- Homebuyer Education Programs
- Marketing and Outreach Initiatives

- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Predatory Lending
- Prepurchase Counseling
- Renters Assistance
Languages: - Spanish
Affiliation: NATIONAL URBAN LEAGUE

Agency Name: HF-USA HOMEOWNERSHIP CENTER
Phone: 202-526-2000
Fax: 202-526-4072
Email: williamw@homefreeusa.org
Address: 318 Riggs Road, NE
Washington, District of Columbia 20011-2534
Counseling Services: - Homebuyer Education Programs
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Prepurchase Counseling
- Renters Assistance
Languages: - English Only
Affiliation: HOMEFREE - U S A

Agency Name: HOUSING COUNSELING SERVICES, INCORPORATED
Phone: 202-667-7006-108
Fax: 202-667-1939
Email: mariansiegel@housingetc.org
Address: 2410 17th St NW
Adams Alley Entrance
Washington, District of Columbia 20009
Counseling Services: - Fair Housing Assistance
- Home Equity Conversion Mortgage Counseling
- Home Improvement and Rehabilitation Counseling
- Homebuyer Education Programs
- Loss Mitigation
- Marketing and Outreach Initiatives
- Mobility and Relocation Counseling
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Predatory Lending
- Prepurchase Counseling
- Renters Assistance
- Services for Homeless
Languages: - Arabic
- Chinese Mandarin
- French
- Portuguese
- Spanish

Agency Name: LATINO ECONOMIC DEVELOPMENT CORPORATION
Phone: 202-588-5102-16
Fax: 202-588-5204
Email: egutierrez@ledcdc.org
Address: 2316 18th Street NW
Washington, District of Columbia 20009-0000
Counseling Services: - Mortgage Delinquency and Default Resolution Counseling
- Prepurchase Counseling
- Renters Assistance
Languages: - English
- Spanish
Website: http://www.ledcdc.org

Agency Name: LYDIA'S HOUSE
Phone: 202-373-1050
Fax: 202-373-5270
Email: lydiashouse2@hotmail.com
Address: 3939 S. Capitol Street, SW
Washington, District of Columbia 20032-0000
Counseling Services: - Fair Housing Assistance
- Home Equity Conversion Mortgage Counseling
- Homebuyer Education Programs
- Mobility and Relocation Counseling
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Prepurchase Counseling
- Renters Assistance
Languages: - English Only
Affiliation: MISSION OF PEACE
Website: http://www.lydiashouse@hotmail.com

Agency Name: MANNA, INC.
Phone: 202-832-1845
Email: grothman@mannadc.org
Address: 828 Evarts Street, NE
Washington, District of Columbia 20018
Counseling Services: - Homebuyer Education Programs
- Marketing and Outreach Initiatives
- Postpurchase Counseling
- Prepurchase Counseling
Languages: - Spanish
Affiliation: STRUCTURED EMPLOYMENT ECONOMIC DEVELOPMENT CO

Agency Name: MARSHALL HEIGHTS COMMUNITY DEVELOPMENT ORGANIZATION
Phone: 202-396-1201-122
Fax: 202-396-4106
Email: BWILLIAMS@MHCDO.ORG
Address: 3939 Benning Road, NE

Washington, District of Columbia 20019-2662
Counseling Services: - Home Equity Conversion Mortgage Counseling
- Mortgage Delinquency and Default Resolution Counseling
- Prepurchase Counseling
- Renters Assistance
Languages: - Spanish
Website: http://www.mhcdo.org

Agency Name: NATIONAL COMMUNITY REINVESTMENT COALITION
Phone: 202-628-8866
Email: snelms@ncrc.org
Address: 727 15th Street, NW, Suite 900
Washington, District of Columbia 20005
Counseling Services: - Homebuyer Education Programs
- Marketing and Outreach Initiatives
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Prepurchase Counseling
Languages: - English Only
Affiliation: HOMEFREE - U S A

Agency Name: NATIONAL CREDIT UNION FOUNDATION
Phone: 202-508-6751
Toll Free: 800-356-9655
Fax: 202-638-3912
Email: sbosack@ncuf.coop
Address: 601 Pennsylvania Ave. NW
South Building, Suite 600
Washington, District of Columbia 20004-2601
Counseling Services: - Fair Housing Assistance
- Home Equity Conversion Mortgage Counseling
- Home Improvement and Rehabilitation Counseling
- Homebuyer Education Programs
- Marketing and Outreach Initiatives
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Predatory Lending
- Prepurchase Counseling
Languages: - English Only
Website: http://www.ncuf.coop

Agency Name: NEAR NORTHEAST COMMUNITY IMPROVEMENT CORP.
Phone: 202-399-6900
Fax: 202-399-6942
Email: ipholmes@nnecic.org
Address: 1326 Florida Ave NE
Washington, District of Columbia 20002-7108

Counseling Services: - Home Equity Conversion Mortgage Counseling
- Mortgage Delinquency and Default Resolution Counseling
- Prepurchase Counseling
- Renters Assistance
Languages: - English Only

Agency Name: SOCIETY FOR FINANCIAL EDUCATION
Phone: 301-292-3528
Email: tdaniels@sfepd.org
Address: P.O. Box 23558
Washington, District of Columbia 20026
Counseling Services: - Money Debt Management
Languages: - English Only
Affiliation: HOMEFREE - U S A

Agency Name: UNIVERSITY LEGAL SERVICES
Phone: 202-547-4747
Toll Free:
Fax: 202-547-2083
Email: mbeard@uls-dc.org
Address: 220 I St NE Ste 130
Washington, District of Columbia 20002-4389
Counseling Services: - Fair Housing Assistance
- Home Equity Conversion Mortgage Counseling
- Home Improvement and Rehabilitation Counseling
- Homebuyer Education Programs
- Loss Mitigation
- Money Debt Management
- Mortgage Delinquency and Default Resolution Counseling
- Postpurchase Counseling
- Prepurchase Counseling
- Renters Assistance
- Services for Homeless
Languages: - English Only

Agency Name: UNIVERSITY LEGAL SERVICES
Phone: 202-547-4747
Fax: 202-547-2083
Email: jbrown@uls-dc.com
Address: 3220 Pennsylvania Avenue SE, Suite 4
Washington, District of Columbia 20020
Counseling Services: - Fair Housing Assistance
- Home Equity Conversion Mortgage Counseling
- Home Improvement and Rehabilitation Counseling
- Homebuyer Education Programs
- Loss Mitigation
- Mobility and Relocation Counseling
- Money Debt Management

Appendix 3. Experts Referenced

Jayna Bower, Director of Homeownership Programs, NeighborWorks America. Telephone interview December 21, 2007.

Maya Brennan, Research Associate, Center for Housing Policy. Interview December 18, 2007.

Ronni Cohen, Executive Director, Delaware Financial Literacy Institute. Telephone interview December 14, 2007.

Dina Gonzalez, Program Administrator, Texas Homeownership Division, Texas Department of Housing and Community Affairs. Telephone interview December 19, 2007.

Dustin Tyler Joyce, Manager, Mayors' National DollarWi$e Campaign, U.S. Conference of Mayors. Telephone interview November 21, 2007.

Bob Mulderig, Deputy Director for Residential and Community Services, DC Department of Housing and Community Development. Telephone interview on December 31, 2007.

Karen Murrell, Senior Research Fellow, Asset Building Program, New America Foundation. Telephone interview November 21, 2007.

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NeighborWorks. "Effective Community-Based Strategies for Preventing Foreclosures." 2005. http://nw.org/network/pubs/studies/documents/foreclosureReport092905.pdf

NeighborWorks Center for Homeownership. "Education and Counseling Facts and Figures." August 2004. http://www.nw.org/training/homeownership/pdf/NCHECFactSheet.pdf

New York City Commission for Economic Opportunity. "Increasing Opportunity and Reducing Poverty in New York City." September 2006. http://www.nyc.gov/html/om/pdf/ceo_report2006.pdf

New York City Department of Consumer Affairs press release. "Mayor Bloomberg Announces $150 Million Annual Investment for Solutions to Challenges Raised by the Commission for Economic Opportunity" December 2006. http://www.nyc.gov/html/dca/html/pr2006/pr_121806_om.shtml

U.S. Office of Management and Budget and Federal agencies' ExpectMore.gov assessment of the HUD Housing Counseling Program. http://www.whitehouse.gov/omb/expectmore/summary/10002194.2004.html.

Chapter VI: Recommendations

Based on the analyses in this report, we have several recommendations for how the District of Columbia can help current subprime borrowers who are facing foreclosure as well as protect future borrowers from predatory practices in the future. These recommendations are broken down into four categories: 1) foreclosure prevention; 2) financial education; 3) influencing lending institutions; and 4) amending the District's predatory lending law. Most of these recommendations were outlined in detail in the previous five chapters and are briefly summarized below. In addition, we provide recommendations for how to amend the District's current predatory lending laws to better protect D.C. borrowers from abusive practices.

1. Foreclosure Prevention

There are a number of ways to improve the foreclosure process of Washington D.C. to give homeowners a better chance to avoid foreclosure, and to allow District policymakers the chance to better track foreclosures and formulate effective public policy responses.

- **Increase awareness of loss mitigation strategies.** Many owners who receive a Notice of foreclosure could prevent a foreclosure if they could find a lender that would be willing to make a new loan. Notice recipients should receive assistance from mortgage counselors who can evaluate a Notice recipient's income, property value, other debts and additional information that a lender uses when deciding on a loss-mitigation strategy. To facilitate mortgage counseling, Notices could include language that urges the recipient to contact a District of Columbia government-approved mortgage counseling agency along with contact information of such agencies.

- **Establish a loan pool capitalized by public and/or private sources.** The District of Columbia, perhaps through its Housing Finance Agency (DCHFA) could work to establish a loan pool that could be capitalized with funds invested by lenders that are active in the Washington, D.C. area, or with lenders that already have a relationship with DCHFA. Alternatively, the DCHFA could establish a loan program itself for qualified delinquent homeowners, and use proceeds of taxable bonds to finance loans made by private lender partners.

- **Expand electronic record keeping and reporting.** Having the ability to quickly access extensive information on foreclosures will enhance the ability of the District to understand patterns of abusive practices, in faster, cheaper, and systematic method. The amount of information that currently comes into the Recorder of Deeds office is fairly robust. However, despite this information being received, very little of this information is electronically recorded. Since it is crucial to effective loss mitigation that policy makers be able to quickly and effectively access and compile information, we strongly recommend that all of the City's information on foreclosures be recorded and indexed electronically.

- **Increase access to information:** Frequently, homeowners think they may be in foreclosure, but are unsure and do not have any documents such as a notice to foreclose. It is therefore important to make sure that borrowers and consumer advocates have access to clear, comprehensive information on the status of their situation, including the amount of money they must raise to bring their mortgage current. In addition, we recommend that borrowers be contacted earlier in their delinquency to increase the likelihood that they will be able to cure the loan.

- **Collect comprehensive information on foreclosure.** Currently when a foreclosure is filed in the District, the foreclosing entity must list the borrower and the holder of the note. However there are two additional parties to the loan that are important to identify: the servicer and the originating lender. Each party has a different impact on foreclosures within the District, and therefore should be recorded. In addition, to ensure that lenders report complete information, the District can set a strict liability standard for incomplete notices as a defense to foreclosure. More specifically, the City could issue guidance that incomplete or inexact information is, in and of itself, considered improper notice delivered to the City as required under D.C. law.

- **Issue guidance to courts on amounts needed to temporarily stay foreclosures.** Because of the District's non-judicial foreclosure status, a homeowner must take affirmative action to stop their foreclosure, generally by posting a bond. That bond, determined by the presiding Judge, can range from paying the real estate taxes that are due into a monthly escrow, to paying the full amount of money that is needed to cure the default. For the large majority of homeowners in foreclosure in DC, posting a bond for the full amount needed to cure the mortgage (which includes penalties and fees) is likely to impossible, and therefore a barrier to having their legal claim heard. In addition, in the case of alleged predatory lending, the homeowner may have reached default because of abusive lending which created the unaffordable monthly payment. Almost by definition, these consumers are not likely to have the ability to afford their monthly payment. Unless guidance is issued to create affordable payment levels for homeowners, especially in the case of abusive or suspected predatory lending, legitimate legal defenses cannot be raised.

- **Create a judicial or quasi-judicial foreclosure process, staying foreclosure during loss mitigation and expanding the right to cure.** Most of the changes above are administrative changes to the District's foreclosure process. However, if the District is willing to modify the foreclosure statute, there are reforms that can be considered. For example, it is the stated position of groups like the National Consumer Law Center, that a judicial foreclosure process, or something resembling it, with the availability of a hearing before an impartial officer (including associated due process protections), is better for consumers and will keep more residents from losing their homes. The District could develop a hybrid system, whereby consumers who have objections to foreclosure can opt-in to some kind of adjudicatory process. Additional changes, such as eliminating the limitation that a consumer has a right to cure only once every two years, could also be considered.

In addition to the recommendations described above, the District of Columbia Government must employ sensible strategies to minimize the devastation caused by bad loans that have already been made by helping families avoid foreclosure. It must noted that any effective measures for addressing the current foreclosure crisis will not only help District homeowners; these measures will help District neighborhoods and stabilize the potential loss of tax revenue to the District's coffers.

- **The best and most effective help for homeowners placed into loans they cannot afford is for the lender or servicer to modify the loan terms to make them sustainable.** The Mayor, through the Department of Insurance, Securities, and Banking and the Attorney General for the District of Columbia should formally demand and direct that servicers and lenders make meaningful and sustainable modifications to District residents with existing loans who are facing foreclosure.

- **Lenders and servicers operating in the District should be required to implement specific loss mitigation efforts prior to any foreclosure filing.** The District should set forth that lender and servicer failure to provide such loss mitigation can be used as an affirmative defense against foreclosure.

- **District support is also needed for current proposed federal legislation that will eliminate an anomaly in the federal Bankruptcy Code, which currently allows judges to modify unaffordable mortgages on a vacation home or investment property, but not on the homeowner's primary residence, would also help District residents currently facing foreclosure due to the subprime lending.**

2. Financial Education

Given the importance of financial education in supporting sustainable homeownership, we recommend the following:

- **Create a highly visible initiative – with strong city leadership - to highlight the importance of financial literacy and market financial education resources.** Building and sustaining an effective financial literacy agenda requires cooperation from public, private, and nonprofit partners, and strong leadership is needed to achieve this goal.

- **Create an interagency committee to better coordinate consumer education and protection functions across District agencies.** Consumer education and protection services are currently spread across several District agencies: the Department of Insurance, Securities and Banking, the Department of Consumer & Regulatory Affairs, and the Office of the Attorney General. Additionally, consumer information and financial education programs targeted to prospective homebuyers fall under the direction of the Department of Housing and Community Development. There is currently minimal coordination among the these agencies and better coordination would make it easier for residents to access the information and help they need.

- **Standardize training for homebuyer education and housing counseling services funded by the city.** To ensure that DC's financial education funds are being effectively used and that residents are receiving high quality homebuyer education and counseling services, the District should incorporate training standards into its grant-making process. This could be done by either creating a training program with District funding, or requiring grantees to complete training classes offered by a third-party provider.

3. Influencing Lending Institutions

The City, both by where it places its deposits and through its regulatory authority, has the potential to greatly influence the lending practices of lenders. As such, we recommend the following:

- **The District of Columbia should consider adopting the City of Philadelphia Community Reinvestment Act (CRA) goals for banks receiving municipal deposits.** In return for the privilege of receiving municipal deposits, banks are required to submit annual CRA goals and strategic plans detailing how many loans, investments, and services they will offer to minority and low- and moderate-income neighborhoods. The City of Philadelphia also commissions an annual report examining the CRA and fair lending performance of City depositories. This law and annual report has leveraged increases in lending as documented by two NCRC reports commissioned by the City.

- **The District of Columbia should ask City depositories to address specific weaknesses in their CRA and fair lending performance.** For example, if a depository performed much better in serving low- and moderate-income borrowers than African-Americans and Latinos, the City ought to ask that lender to explain how it will bolster its lending to African-Americans and Latinos. Asking for specific and detailed plans is more likely to stimulate increases in prime lending and product choice than requiring general or vague goal statements.

- **Banks receiving City deposits should be asked to bolster their lackluster performance refinance lending while maintaining and improving upon their good performance "in home purchase lending.** The risky lending of the last few years has likely saddled "a sizable number of minority and working class borrowers with Adjustable Rate Mortgages (ARMs) that will soon reset to much higher rates. Offering refinance loans to borrowers with these unsustainable loans will be an important component of a foreclosure prevention strategy.

- **Through DISB and the Department of Human Rights, the City should probe the lending practices of financial institutions making the highest numbers and percentages of subprime loans to minorities, women, and low- and moderate-income borrowers.** HMDA data does not have information on loan terms and conditions, but lenders making an unusually high number and percentage of subprime loans should be evaluated very carefully to ensure that their lending is fair, safe and sound. The study identified a number of high-cost loan specialists making large numbers of subprime loans in 2006, but that are now out of business or no longer making subprime loans due, in part, to dubious lending practices.

- **The District of Columbia should expect the subset of City depository institutions making a sizable number of subprime loans and prime loans to perform as well or better on the prime ranking than on the subprime ranking.** If this subset of depositories is offering a balanced number of prime and subprime loans, then the entire City may benefit from a healthy array of product choice. On the other hand, if this subset of depositories with their considerable market presence is focused primarily on subprime lending, then the product choice offered citywide may be restricted.

4. Amending DC's Predatory Lending Law

The problem of subprime lending and its impact on District of Columbia residents outlined in this report is consistent with today's overall crisis in the subprime market. This crisis has been driven by three core market failures. First, the subprime industry forgot the fundamentals of its own business. It failed to underwrite mortgage loans and failed to assess whether the borrower had an ability to pay the loan. Second, this market lacked competition in the traditional sense. Incentives to compete for business lead to the delivery to investors of more higher-priced and more dangerous mortgage lending products. Finally, the subprime mortgage market lost its accountability and responsibility.

To address the problems outlined in this report, we recommend that the District of Columbia take steps to protect those borrowers who seek to become District homeowners. In 2002, during the early growth stages of the subprime mortgage lending market, The District passed the Home Loan Protection Act, found in Title 26, Chapter11A of the District of Columbia Official Code. Just as the federal Home Ownership Equity Protection Act (HOEPA) has insufficiently protected the nation's citizens, the protections and remedies of the District's mini-HOEPA statute have, likewise, not kept pace with the growth and abuses of the subprime lending market over the past 5-6 years. To sufficiently protect District residents, the Home Loan Protection Act must be amended and revised. Recommended equity stripping protections include:

- **Define "high-cost" for points and fees as *five percent* or more of the loan amount.** The high-cost threshold for points and fees should be set at five percent. This threshold will not prevent high cost loans from being made. It simply will ensure additional protections for these more expensive loans.

- **Use a comprehensive points and fees trigger that includes yield spread premiums, prepayment penalties and single premium credit insurance in the points and fees calculation.** Amend the definition of "origination/discount points and fees" in Section 26-115.01(17) to include other forms of mortgage broker and lender compensation in the calculation of the points and fees trigger, since these forms of compensation are costs that are practically speaking, born by the borrower. By including all forms of compensation, the borrower will get a fairer picture of the true cost of the loan, and more expensive loans that fall into the high cost category will trigger additional consumer protections.

- **Include open-ended loans in the definition of a "covered loan."** Amend the definition of "covered loan" in Section 26-1151.01(7) (A) to include open-ended loans. This recommendation will ensure that there is no loophole in District law that would allow high-cost loans to be made without the appropriate protections.

- **Require mandatory credit counseling for high cost loans.** Amend Section 26-1152.19 to require all borrowers of "covered" loans undertake credit counseling before taking out the loan. This helps ensure that the borrower is fully informed of the consequences of the loan. It is similar to the federally required counseling for reverse mortgages.

- **Prohibit the financing of fees for high-cost loans.** Prohibiting excessive financing of fees deters lenders from making fee-laden "high-cost" loans, and again, encourages lenders to put the cost of the loan into the interest rate, rather than into fees. Limiting the financing of fees also has the simple impact of making the borrower more aware of the actual costs of the loan. Financed fees are often invisible to the borrower, who does not actually see cash paid out for these costs.

Additional strong predatory lending protections include:

- **Reduce the "covered loan" Annual Percentage Rate (APR) threshold.** Amend the definition of "covered loan" in Section 26-1151.01(7) (A). The APR used on a loan secured by a first lien mortgage or deed of trust should be reduced from 6 percentage points to 3 percentage points and the APR used on a loan secured by a subordinate lien mortgage or deed of trust should be reduced from 7 percentage points to 5 percentage points. This threshold will not prevent high cost loans from being made. It simply will ensure additional protections for these more expensive loans.

- **Require a return to sound common-sense underwriting practices.**

  1) Amend Section 26-1152.02 to require lenders and brokers to determine that their customers have the ability to repay the loan at the fully indexed rate, assuming fully amortizing payments and considering the debt-to-income ratio of the borrower.

  2) Require lenders to verify a customer's income using tax documents, payroll or bank records, or other reasonable documentation. Inadequate documentation compromises a lender's ability to assess the true affordability of a loan and makes any reported debt-to-income ratio meaningless.

  3) Require lenders to escrow for real estate taxes and property insurance (at a minimum, for subprime and nontraditional loans). Failing to escrow for taxes and insurance on a subprime loan is an unfair and deceptive practice that contributes to high rates of foreclosure.

- **At a minimum, ban prepayment penalties (PPPs) and yield spread premiums (YSPs) for subprime and nontraditional loans.** Amend Title 28, Chapter 33 of the District of Columbia Official Code to eliminate prepayment penalties. Prepayment penalties are often used to trap borrowers in unaffordable or unfavorable loans. This is particularly true in the subprime market – while only 2 percent of prime loans have prepayment penalties, more than 80 percent of subprime loans have them. These penalties increase cost on the front end, as well, because they are linked to higher rates on loans that pay higher yield-spread premiums to brokers. It is this market-distorting relationship that has made subprime prepayment penalties the "glue" for steering borrowers into higher-cost loans than loans for which they qualify.

  Yield-spread premiums must also be banned for subprime and nontraditional mortgages. These fees put the broker in a direct conflict of interest with the client borrower, as the brokers have strong incentives to sell excessively expensive loans. Yield-spread premiums and prepayment penalties both substantially undercut the benefits of homeownership by stripping equity from the borrower.

- **Require lenders and brokers to have a duty of agency, good faith and fair dealing.** Amend the District's Mortgage Lender and Broker Act (Title 26, Chapter 11 of the District of Columbia Official Code) to ensure that all mortgage lenders and mortgage brokers operating in the District are agents of the borrowers and are always acting in the borrower's best interest. Hold mortgage brokers and nonbank lenders accountable for abusive lending practices by establishing rigorous affirmative duties to serve the best interests of their customers.

- **Hold lenders responsible for abusive lending practices, regardless of whether the loan was originated by the lender or mortgage brokers.** As the market operates today, lenders can benefit from abusive loans made by brokers without any adverse consequences.

Footnotes

1 Statement of Scott M. Polakoff, Deputy Director, Office of Thrift Supervision before the Senate Banking Committee, March 22, 2007; Souphala Chomsisengphet and Anthony Pennington-Cross, "The Evolution of the Subprime Mortgage Market," Federal Reserve Bank of St. Louis Review (Jan/Feb 2006).

2 CRL analysis of the 2006 Home Mortgage Disclosure Act (HMDA) data reported by the Federal Financial Institutions Examination Council.

3 Federal Reserve Board Chairman Ben S. Bernanke, speech on May 17, 2007, based on FRB adjustments to MBA numbers.

4 Testimony of Emory W. Rushton, Senior Deputy Comptroller and Chief National Bank Examiner, Office of the Comptroller of the Currency, before the Senate Banking Committee (March 22, 2007).

5 Percent of African American, Latino and white borrowers receiving a subprime loan in 2006 from a CRL analysis of the 2006 Home Mortgage Disclosure Act (HMDA) data reported by the Federal Financial Institutions Examination Council.

6 For most types of subprime loans, African Americans and Latino borrowers are more likely to be given a higher-cost loan even after controlling for legitimate risk factors. See Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages, Center for Responsible Lending (May 31, 2006).

7 David W. Berson, "Challenges & Emerging Risks in the Home Mortgage Business," presented at The National Housing Forum, Office of Thrift Supervision (December 11, 2006).

8 Merle Sharick, Erin E. Omba, Nick Larson, and D. James Croft, MARI Eighth Periodic Mortgage Fraud Case Report to the Mortgage Bankers Association (April 2006).

9 FBR Investment Management (September 28, 2007).

10 See e.g. "B&C Escrow Rate Called Low," Mortgage Servicing News Bulletin (February 23, 2005).

11 See e.g. David W. Berson, "Challenges and Emerging Risks in the Home Mortgage Business," presented at the National Housing Forum, Office of Thrift Supervision (December 11, 2006). According to MBA data, there was a 69.2 percent penetration rate for prepayment penalties on subprime ARMs originated in 2006. Doug Duncan, Sources and Implications of the Subprime Meltdown, Manufactured Housing Institute (July 13, 2007).

12 See Berson, id. A recent MBA analysis shows that 97.6 percent of prime ARMs originated in 2006 had no prepayment penalty, and 99 percent of 2006 prime fixed rate mortgages had no penalty. Doug Duncan, id.

13 Keith Ernst, Kathleen Keest, Wei Li, and Ellen Schloemer. Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners, Center for Responsible Lending (December 19, 2006).

14 Institutions required to report under HMDA include both depository lending institutions (banks, credit unions, and savings associations) and for-profit nondepository institutions (e.g., mortgage companies) meeting specified criteria. For more information, see Pettit and Droesch 2005, 5.

15 HUD's subprime lender list had not been updated for 2006 at the time this report was prepared.

16 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, comparisons of high interest rate loans between 2004 and 2005 should be made with caution.

17 Area median income is updated each year by HUD to account for changes in household incomes. Area median income for a four-person household in the Washington, D.C., region was $90,300 in 2006.

18 Among the larger servicers contributing to McDash are Wells Fargo, GMAC, Bank of America, Natinoal City,Washington Mutual, Citi Mortgage, and Wachovia. A few of the servicers began contributing to the McDash database in 2004 and 2005. For these lenders, while the database will include all loans originated between 2004 and 2006 that were active when they began contributing, any loans that prepaid prior to the lender joining will not be included.

19 McDash does not specifically identify subprime loans.. Therefore, we have identified subprime loans as loans that have been given a grade of B or C by the servicer or are adjustable-rate loans with margins of at least three percentage points and which do not allow for negative amortization. Our definition, therefore, will not capture A- grade loans which are conventionally considered to be subprime.

20 While it is impossible to know whether the subprime loans identified in McDash is representative of the market as a whole, it is unlikely that the characteristics are dramatically different. First, McDash Analytics claims their database is "industry-representative" (www.mcdash.com/products). Furthermore, since the database contains loans from many of the largest servicers and since subprime loan products have become fairly standardized, it is reasonable to assume that the description of the McDash loans reflect the larger DC subprime market. Finally, we compared the rate type in McDash to those contained in the list of DC subprime borrowers derived from courthouse records that was purchased for the telephone survey. This list indicated that 20.0 percent of subprime borrowers in DC in 2005 and 2006 had fixed-rate mortgages and 80.0 percent had adjustable rate mortgages. The McDash data for the same loan cohorts shows 18.3 percent had fixed-rate mortgages and 81.7 percent had adjustable rates. This reassured us that we had a sample of loans that was roughly representative of the subprime market.

21 These are average values for 2006 2/28 loans originated in DC.

22 See Appendix 2 for estimation methodology and results for all zip codes.

23 Ward 8 includes zip codes 20336, 20332 and 20375, which are not included in our analysis because no loans were in McDash for these zip codes.

24 Unlike the loan terms that we describe in Section III, McDash is not necessarily going to be representative of the market when it comes to origination channel since the proportion of third-party originations will vary considerably from lender to lender and, therefore, may be affected by which lenders contribute to McDash. As a result, we cannot speak to the percentage of DC loans that were originated by third parties. However, we can use the McDash information on origination channel to highlight where third-party originations were likely concentrated.

25 Only 20005 was not in the previous table.

26 There were 16 lending institutions in the prime ranking and 12 in the subprime analysis.

27 The Federal Reserve commonly uses a threshold of 100 before conducting a statistical analysis of a lending institution. A threshold of 50 is another commonly used threshold.

28 All lenders, as a group, refers to all institutions making loans in the District of Columbia.

29 Substantially minority tracts are those in which more than 50% of the residents are of a race that is non-White and/or of Latino or Latino ethnicity.

30 For home purchase lending, one bank receiving City deposits did not issue the threshold number of loans so was excluded from the analysis. Thus 11 City depositories were ranked for home purchase lending. For refinance lending, two lenders did not meet the threshold, so 10 City depositories were ranked.

31 Substantially minority tracts are those in which more than 50% of the residents are of a race that is non-White and/or of Latino or Latino ethnicity.

32 The Federal Reserve commonly uses a threshold of 100 before conducting a statistical analysis of a lending institution. A threshold of 50 is another commonly used threshold.

33 The number next to each affiliate's name is a HMDA reporting identifier.

34 Sixteen participants were Black non-Hispanic, 1 was White non-Hispanic, and three were Latino. Twelve were women and 8 were men. One participant was younger than 30, 3 were between 30 and 39, 6 were between 40 and 49, 7 were between 50 and 59, and 3 were 60 years of age or older.

35 We did not get information from each participant on whether their most recent mortgage was for purchase or refinance, or whether they worked with a lender or a broker. Of those for whom we know, nine participants had worked with a mortgage broker, 4 people (two of whom were a couple) with a lender, and 1 with both a broker and a lender. The most recent mortgage for at least 5 participants was for home purchase; 12 people had refinanced their mortgage, some of whom had refinanced more than once.

36 While the survey also asked borrowers about the terms of their loans, these results appeared to contain some very strange, and occasionally contradictory, results. For example, the majority of subprime respondents claimed that their monthly payments contained taxes and homeowners insurance. However, very few subprime loans actually escrow for taxes and insurance. Consequently, either these respondents are mistaken or they have loans that are very unrepresentative of subprime loans. It is impossible to know which is true, we did not think speculation would be helpful. Despite these results not being discussed in the body of this chapter, the results from the entire survey are in Appendix 3.

37 See Appendix 3 for a breakdown of record dispositions.

38 As with other questions here, the number of respondents in that subsample is only 25, so the results need to interpreted with extreme caution.

39 Due to this low number, we cannot calculate with any certainty the kind of experience these borrowers had, but the few who report overwhelmingly describe the experience as very valuable.

40 Delinquencies and Foreclosures Increase in Latest MBA National Delinquency Survey. December 6, 2007. http://www.mortgagebankers.org/NewsandMedia/PressCenter/58758.htm. Last accessed December 26, 2007.

41 Ibid. http://www.mortgagebankers.org/NewsandMedia/PressCenter/58758.htm. Last accessed December 26, 2007.

42 Ibid. http://www.mortgagebankers.org/NewsandMedia/PressCenter/58758.htm. Last accessed December 26, 2007

43 Bush Administration to Help Nearly One-quarter of a Million Homeowners Refinance, Keep their Homes. FHA to implement new "FHASecure" refinancing product. August, 31, 2007. http://www.hud.gov/news/release.cfm?content=pr07-123.cfm. Last accessed December 26, 2007.

44 FHA Loan Limit. http://www.fhainfo.com/frameloanlimits.htm. Last accessed December 26, 2007.

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46 Fact Sheet: Helping American Families Keep Their Homes. December 6, 2007. http://www.whitehouse.gov/news/releases/2007/12/20071206-7.html. Last accessed December 26, 2007.

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54 Washington DC Foreclosure Law Summary. Quick Facts. http://www.foreclosurelaw.org/DC_Foreclosure_Law.htm. Last accessed December 26, 2007.

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62 Bunce, Harold L, Debbie Gruenstein, Christopher E. Herbert, and Randall M. Scheessele. 2000 "Subprime Foreclosures: The Smoking Gun of Predatory Lending?" Proceedings of Housing Policy in the New Millennium, pp. 257-272. http://www.huduser.org/intercept.asp?loc=/Publications/pdf/brd/12Bunce.pdf.

63 We limited our analysis to owner-occupied single-family and condo units, and so did not include multifamily or investor-owned properties.

64 Some properties received multiple Notices at different dates between January 2005 and September 2007. For such cases we used the date at which the first Notice sent to the owner.

65 Neighborhood clusters are groups of three or more neighborhoods used by the D.C. government for neighborhood planning and analysis.

66 Based on the most recent information available, we assumed a 6.17 percent interest rate for conventional loans and a 7.02 percent interest rate for jumbo loans in our analyses. For conventional mortgage interest rates see Weekly Primary Mortgage Market Survey, http://www.freddiemac.com/dlink/html/PMMS/display/PMMSOutputYr.jsp last accessed December 26, 2007 The 0.92 percentage point spread for jumbo loans is based on information available at http://www.bankrate.com/brm/rate/mtg_home.asp, last accessed December 26, 2007.

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68 "Homeowners Insurance Costs Up by 2.5% in 2005; Smallest Increase in 6 years." Insurance Journal. http://www.insurancejournal.com/news/national/2005/03/01/52034.htm. Last accessed December 29, 2007.

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77 Lenders may use a maximum payment-to-income ratio of less than 40 percent. Using a lower ratio would reclassify a higher number of category 2 borrowers (who have equity and, based in their income can qualify for a new mortgage equal to the amount outstanding) to category 3 borrowers.

78 Ordinarily, a regression analysis utilizes a measure of statistical significance to reflect the statistical importance of each indicator. A feature of statistical significance is that it is highly unusual to find statistically significant factors when the number of cases is very small. In this instance, with 22 cases (i.e., zip codes) we focus on the nature of the relationship and size of the effect – not its statistical significance.

79 http://www.neighborhoodinfodc.org/zip/nbr_prof_zip1.html

80 D.C. Code § 42-815, 42-815.01

81 D.C. Code § 26-1151.01.

82 See http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm and list included at Appendix B.

83 Clients may be double counted in this estimate.

84 One agency reported providing these services only through individual counseling, not in a class setting.

85 Like Bank on San Francisco, DC Saves partners offer accounts with low opening deposit requirements and no monthly maintenance or minimum balance fees.

86 See Bill 17-0434 at http://www.dccouncil.washington.dc.us/lims/getleg1.asp?legno=B17-0434