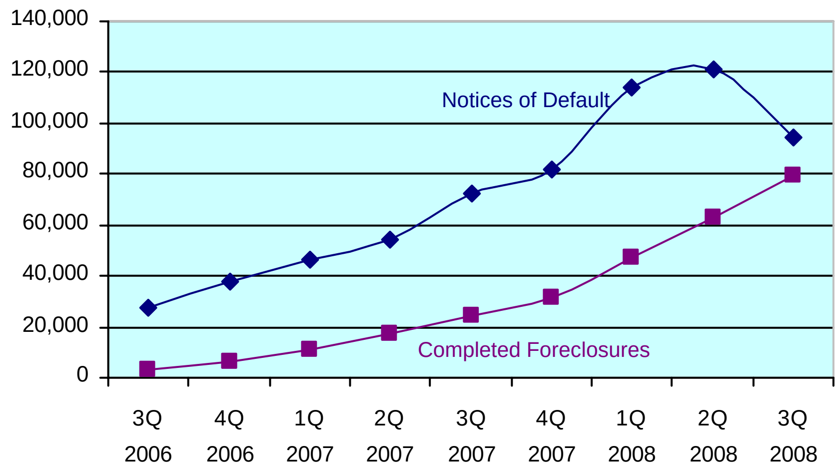
SNAPSHOT:
California Mortgage and Foreclosure Data
January 2009

After years of industry-blocked efforts to strengthen lending standards, the growth in reckless lending and abusive practices has left California facing a foreclosure crisis with catastrophic consequences for families, communities, and the California economy as a whole. California needs policy reforms to stem the tide of foreclosures, and to tighten lending standards to prevent a repeat of this foreclosure crisis.

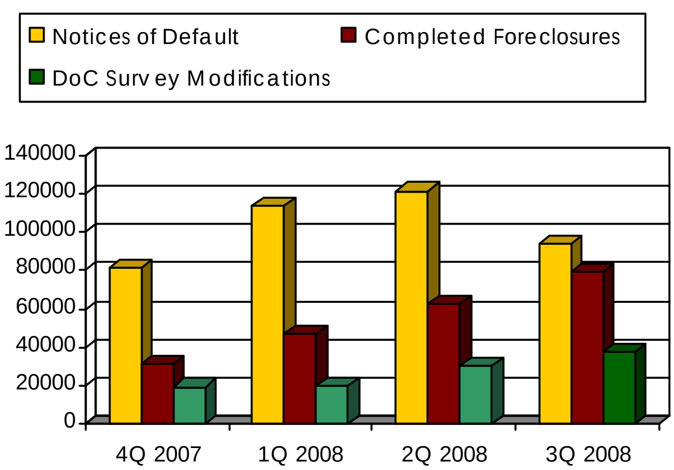
Defaults And Foreclosures Have Increased Sharply Since 2006. Completed quarterly foreclosures increased from less than 3,500 in 3Q 2006, to ***nearly 80,000 foreclosures in 3Q 2008,*** setting the pace for more than 300,000 foreclosures in the next 12 months. Notices of default – the first step in the foreclosure process – have steadily increased, topping out at over 120,000 in 2Q 2008, with a drop in 3Q 2008 following a statutory delay in the foreclosure process. It remains unclear whether this will avert (rather than just delay) more foreclosures.



Which CA loans are past due or in foreclosure? [1]

- 10.9% of all loans
- 7.2% of prime loans
- *45.4% of subprime ARMs*

Loan Modifications Are Not Keeping Pace With Growing Foreclosures, Nor Providing Long-Term Affordability.[2]



Although the number of loan modifications has increased incrementally, there were still twice as many foreclosures in 3Q as modifications, ***79,511 foreclosures*** versus **38,095 modifications**, with ***94,240 notices of default*** added to the pipeline**.**[3]

Recent reports of "re-defaults" on modified loans likely are due to work-outs that don't provide affordability. Many loan workouts are short-term fixes that increase monthly payments, and lead to higher rates of default.[4] Not surprisingly, closer examinations show that re-default rates are significantly lower for true loan modifications that produce lower monthly payments.[5]

Rise of the Subprime and Alt-A Mortgage Markets[6]

Record Levels Of Foreclosures Are A Direct Result Of Growth In Reckless Subprime Lending. Between 2004 and 2006 the share of subprime loans tripled to more than a quarter all CA loans. At the same time, lenders sharply relaxed their lending standards and routinely included risky and often abusive terms and practices. (*See* Types & Features of CA loans, below).

Risky Loans Were Made By State-Regulated Mortgage Companies. State-regulated lenders originated 60 percent of California's subprime loans in 2006.[7]

	2004	2005	2006	2007
Total # CA Loan Originations	1,899,355	1,764,485	1,307,557	870,274
Total # CA Subprime	158,190	402,043	334,951	131,432
Total $ Vol. CA Subprime	$39.3 billion	$127.9 billion	$125 billion	$53.4 billion
Subprime, as % of all CA Loans	8.3%	22.8%	25.6%	15.1%

Mortgage Brokers with Financial Incentive at Odds with Borrowers Played a Key Role, Especially For Subprime Loans. By 2006, mortgage brokers were originating 45 percent of all mortgages, and 72 percent of subprime loans.[8]

The Next Foreclosure Wave Is Coming. A second tier of risky loans – called Alt-A, or nontraditional loans – was made to near-prime quality borrowers**.** Risky features of these loans included stated incomes, interest only, and often negative amortization (in payment option ARMs).[9] In 2007, $61.7 billion in Alt-A loans were made in California, a full 44.6% of all Alt-A loans.[10] Of this, $31.4 billion were payment option ARMs, accounting for 55.9% of the U.S. market share. As subprime loans begin to pass their payment reset dates, Alt-A loans will enter a period of dramatic payment resets, often resulting in even bigger percentage payment increases than on subprime loans. The Alt-A loans will represent the next large wave of foreclosures, hitting in 2009-2012, and given California's market share, this wave will hit California especially hard.[11]

California Mortgage Loans (As Of Aug. 2008): Types & Features

This snapshot of California loans illustrates the prevalence of risky features in recent subprime and Alt-A loans. The presence of these types of features increases the risk of foreclosure on a given loan.[12]

	Subprime Loans	Alt-A Loans
Number	445,678 (3.6% of all housing units)	699,337 (5.7% of all housing units)
Adjustable Rate	71.6%	70.8%
Prepayment Penalty	394876 (88.6%)	314,922 (45%)
Negative Amortization	379	212,839 (30.4%)
Interest Only	135,759 (30.5%)	248,003 (35.5%)
Late Pmt. Last 12 mos.	60.7%	30%
Low Doc/No Doc	46.5%	83.1%

[1] MBA Delinquency Data, 3Q 2008.
[2] California DoC mortgage servicer survey 3Q, at http://www.corp.ca.gov/press/news/spl/LLMS0808.pdf.
[3] Loan "Workouts" include all loss mitigation tools, including accounts paid current, deeds-in-lieu, short sales (lender agrees to accept the "short" proceeds of a sale in full satisfaction), paid-in-fulls, forbearance plans (a repayment plan that typically requires extra or higher monthly payments), or a "modification" – "the type of workout most beneficial to consumers" – which is an agreement to modify one or more loan terms. A modification may consist of a reduction of the interest rate, capitalization of delinquent payments, extension of the duration of the note, conversion of the repayment terms from ARM to Fixed (or vice versa). California DoC mortgage servicer survey 3Q, at http://www.corp.ca.gov/press/news/spl/LLMS0808.pdf.
[4] California DoC mortgage servicer survey 3Q, at http://www.corp.ca.gov/press/news/spl/LLMS0808.pdf. *See also* Credit Suisse, *Subprime Loan Modifications Update* (Oct. 1, 2008).
[5] Credit Suisse, *Subprime Loan Modifications Update* (Oct. 1, 2008).
[6] *Source*: Home Mortgage Disclosure Act Data. Originations only include 1st lien, owner-occupied, single family dwellings. On a national level, subprime originations grew from $124.5 billion in 1997 to $600 billion in 2006. "The 2008 Mortgage Market Statistical Annual," *Inside Mortgage Finance* Vol. 1 at pp. 217, 229.
[7] CRL calculations based on 2006 HMDA data.
[8] *See* Mortgage Bankers Association, "Subprime Originations Survey Yearend 2006" (July 2007) at 2; See also MBA Research Data Notes, "Residential Mortgage Origination Channels" (Sept. 2006).
[9] A payment option ARM (POARM) provides borrowers with at least three payment options each month: a fully amortizing payment, an interest only payment, and a minimum payment, which is less than interest due. Typically, the minimum payments are capped for the first five years, but adjust annually by 7.5%. The difference between the minimum payment and the full amount of interest due is added into the principal balance of the loan, so that the balance of the loan grows. This is called "negative amortization." The payment then resets upon one of two triggers, either at five years, or when the loan balance grows to a certain threshold, usually 115 to 125 percent of the original balance. At that time, the monthly payment recasts, and requires the borrower to make a fully amortizing payment (principal and interest that will pay off the loan at the end of the loan term) on the larger loan balance.
[10] "California Claims Nearly Half of 2007 Alt-A Lending," *Inside B&C Lending* (Apr. 4, 2008).
[11] *See, e.g.*, "Second Wave Of Mortgage Defaults On The Horizon?," *60 Minutes* (Dec. 14, 2008), available at http://www.cbsnews.com/video/watch/?id=4668112n (video); http://www.cbsnews.com/stories/2008/12/12/60minutes/main4666112.shtml (transcript); "Assessing Risks to Global Financial Stability," at 8, Fig. 1.7 (Credit Suisse monthly mortgage rate rests by loan type). http://www.imf.org/external/pubs/ft/gfsr/2007/02/pdf/chap1.pdf
[12] Ellen Schloemer, et al. *Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners* at p. 21 (Center for Responsible Lending Dec. 2006). The study analyzed the performance of subprime loans originated 1998 – 2004 as of May 2005 (before the subprime boom), and found that an adjustable rate feature increased the chances of foreclosure by 72%, prepayment penalties increased the risk by 52%, and low doc/no doc loans had a higher foreclosure rate by 29%. *See generally id.* Unless otherwise stated, the increased odds of foreclosure are those for 2000 vintage subprime loans. *See generally id.*