MORTGAGES

The State of Lending in America & its Impact on U.S. Households

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Mortgages

AN INTRODUCTION TO MORTGAGES

Despite the worst housing crisis since the Great Depression, homeownership is still central to the hopes and aspirations of many Americans. Recent polls show that the American public places very high importance on owning a home[1] and that homeownership is more closely associated with living the American Dream than are graduating from college, becoming wealthy, or securing a comfortable retirement. Four out of five Americans believe that buying a home is a better financial decision than renting one (Allstate/National Journal, 2011). This steadfast belief in the importance of homeownership, despite the recent collapse of home values, reflects America's deeply-held conviction that owning a home bestows more financial and non-financial benefits than any other single asset.

The Value of Homeownership

Financial Benefits. Owning a home has long been the most accessible way to build wealth in the United States. Although not without financial risks, homeownership provides the opportunity to build equity through two separate mechanisms.

First, over the long term, housing prices tend to appreciate. Nominal home values have increased, on average, about 5.5% annually between 1977 and 2011.[2] Although adjusting for inflation lowers the real price appreciation to 0.5-1.5% per year,[3] homeowners realize returns on the entire value of the home, not just their initial down payment. Consequently, their overall rate of return is actually higher than real-price appreciation rates would suggest.[4]

Second, because traditional mortgage products require borrowers to pay off a portion of the loan's principal balance each month, over time homeowners gradually reduce their debt and build equity. Therefore, when such traditional mortgages are used, homeownership provides a "forced savings" mechanism for households. This is particularly important because the actual savings rate in the U.S. has been quite low in recent years.[5] In addition, although the relative cost of owning a home compared with renting depend on a host of factors (e.g., rental prices, prevailing interest rates, property taxes, homeowners' insurance premiums, home maintenance costs, etc.), there are federal tax deductions for mortgage interest, mortgage insurance, and property taxes. These tax deductions, as well as the special treatment of capital gains for primary residences, provide considerable public subsidies for homeownership that enhance its financial benefits (Dietz, 2009).

1 A recent poll commissioned by the Woodrow Wilson Center found that, on a scale of one to ten, homeownership scored an average of 8.6 in terms of importance, with 62 percent giving it a score of ten (Sackett & Handel, 2012).
2 This rate is a CRL calculation derived from the monthly CoreLogic housing price index from January 1976 through March 2012. The index is not adjusted for inflation.
3 Estimates of inflation–adjusted annual returns range from 0.5–1.5% (McBride, 2012).
4 For example, if homes increase, on average, one percent annually after inflation, a borrower who purchased a $200,000 home would realize a $2,000 gain in one year. Assuming a ten percent downpayment of $20,000, that $2,000 represents a ten percent return on investment.
5 According to the Bureau of Economic Analysis data on personal savings as a percentage of disposable personal income (BEA's definition of personal savings rate), since 1950, personal savings as a percent of disposable income has averaged 7.1%. However, between 2001 and 2011, the average was only 3.6%.

The wealth acquired through homeownership has been a key source of economic mobility and financial security in this country for decades. Home equity can be tapped to start a new business, pay for higher education, and secure retirement. In addition, home equity provides a financial cushion against unexpected financial hardships, such as job loss, divorce, or medical expenses. Perhaps the high value that Americans place on homeownership may be explained, at least in part, by the country's relatively low public subsidization for many of these expenses.

Nonfinancial Benefits. Homeownership also bestows a host of non-financial benefits on individuals and families. Research suggests that children who grow up in home-owning households perform better academically, are more likely to graduate from high school, and are less likely to become teen parents (Dietz, 2003).

In addition, studies have shown homeowners to be happier (Dietz, 2003) and have higher levels of satisfaction than similarly-situated renters (Rohe, Van Zandt, & McCarthy 2001). It is not known exactly why homeowners are happier or more satisfied, but some potential reasons include greater feelings of control, more desirable locations of owner-occupied properties, and the relatively limited tenants' rights in the U.S.[6] (Immergluck, 2011).

External Benefits. The advantages of homeownership extend beyond the direct benefits to homeowners. Neighborhoods with high homeownership rates tend to have higher property values (Rohe & Stewart, 1996) and consequently higher levels of tax revenues. These resources can then be used to support community assets that benefit all residents such as schools, parks and recreational facilities, and public safety programs. The evidence also suggests that homeownership increases civic engagement, since home owners are more likely to vote and volunteer in civic and philanthropic activities (Rohe et al, 2001).

Homeownership Compensates for Lower Levels of Public Benefits in U.S.

Compared with other countries, U.S. public subsidies for retirement, unemployment, college, and health care are relatively low. The U.S. ranks 26th out of 30 countries in retirement "replacement rates"—the rate at which public retirement systems replace pre–retirement incomes (Anrig, 2011). The U.S. ranks last among OECD countries in terms of generosity of unemployment benefits (Organisation for Economic Co-operation and Development [OECD], 2007), and U.S. public subsidies for higher education also are relatively low. As for health care, of the OECD countries, only Chile was below the U.S. in a ranking of public share of health expenditures (OECD, 2011). **The relatively low level of public subsidy for these expenses may explain why homeownership's role in the American dream is so unshakable: home equity has been critical to helping American families to pay for retirement, education, and health care.**

6 Because of a long history of exclusionary zoning policies, in most parts of the country, rental housing is disproportionately concentrated in less desirable neighborhoods.

The Historic Role of the Federal Government in Promoting Homeownership

The federal government has long been involved in the U.S. mortgage markets. Its range of actions, from stemming the tide of foreclosures during the Great Depression to addressing discriminatory redlining in the 1970s, demonstrates a public commitment to expanding access to homeownership that has guided federal policy for decades. Here are several of the major federal actions involving homeownership:

1932: Federal Home Loan Bank Act created the Federal Home Loan Bank System of 12 regional banks, to provide a source of low–cost capital to certain mortgage lenders (primarily Savings & Loans, mutual savings banks, and insurance companies). The Federal Home Loan Banks began lending money in 1933 so that financial institutions could honor customer withdrawals and refinance distressed mortgages.

1933: In response to the Great Depression, Congress created the Home Owners' Loan Corporation (HOLC) to purchase and refinance distressed residential mortgages. HOLC raised money in the bond market to purchase the distressed mortgages and then restructure them from short–term loans with balloon payments into 15–year or 20–year, fully amortizing loans with fixed interest rates.

1934: The National Housing Act created the Federal Housing Administration (FHA) to administer a federal mortgage insurance program to reduce lenders' default risks. By 1938, FHA–insured loans accounted almost 20% of all new mortgage originations. Importantly, FHA established the long–term, low down payment, fixed–rate amortizing mortgage as a tool for expanding homeownership for low–income families. The National Housing Act created the Federal Savings and Loan Insurance Corporation (the precursor of the FDIC) and authorized federally chartered, privately owned National Mortgage Associations. This led to the 1938 amendment that established the Federal National Mortgage Association (now known as Fannie Mae) to buy FHA loans.

1968: The Fair Housing Act prohibited discrimination on the basis of race, religion, and national origin (expanded to include gender in 1988) in the sale, rental, and financing of housing.

1970: Fannie Mae is allowed to purchase private mortgages, and Congress establishes Freddie Mac.

1974: The Equal Credit Opportunity Act (ECOA) prohibited discrimination on the basis of race, religion, national origin, sex, marital status, or age in any part of a credit transaction. (ECOA protections are not limited to housing finance.)

1975: The Home Mortgage Disclosure Act (HMDA) required lenders to collect and disclose information on lending activity.

1977: The Community Reinvestment Act (CRA) required depository institutions to serve the credit needs of the communities from which they receive deposits.

1986: The Tax Reform Act of 1986 eliminated interest rate deductions for all personal loans except for home mortgages.

1992: The Housing and Community Development Act established affordable housing goals and amended the charter of Fannie Mae and Freddie Mac to reflect the view that they "have an affirmative obligation" to facilitate affordable housing.

2008: Congress passed the Troubled Asset Relief Program (TARP), an attempt to stabilize the financial markets during the collapse of the subprime market. TARP authorized the federal government to purchase or insure up to $700 billion in "troubled assets," including mortgages originated before March 2008 or any financial instrument based on such a mortgage. This program allowed the Treasury department to purchase complex financial derivatives based on subprime loans, which were defaulting in high numbers.

2008: Congress passed the Housing and Economic Recovery Act (HERA) to stabilize the housing market. It created a temporary first-time home buyer tax credit and provided funds to purchase and redevelop foreclosed properties through its Neighborhood Stabilization Program. It also authorized the Federal Housing Authority to guarantee loans for underwater subprime borrowers whose lenders reduce their principles. HERA also modernized FHA (through the FHA Modernization Act of 2008), raising its loan limits and changing its down-payment guidelines. HERA also strengthened the regulations of and injected capital into Fannie Mae and Freddie Mac.

MARKET AND INDUSTRY OVERVIEW

Traditionally, mortgages were relatively simple transactions between lenders and borrowers. However, in recent decades, the mortgage market has grown in size and complexity. As the market has evolved, the number of market participants—both public and private—has greatly expanded.

U.S. Government

With a few exceptions, the federal government does not directly lend money for mortgages.[7] Rather, it promotes homeownership through a variety of other mechanisms. Most notably, the federal government offers preferential tax treatment of mortgage interest, property taxes, and capital gains on owner-occupied homes. In addition, the federal government affects the mortgage market by increasing capital liquidity, providing credit enhancements, and overseeing mortgage-market participants.

Liquidity. The federal government promotes homeownership by increasing the availability of mortgage capital through the secondary market activities of the Government-Sponsored Enterprises (GSEs) of Fannie Mae and Freddie Mac. The GSEs do not lend directly to borrowers but rather purchase mortgages that meet certain criteria (called "conforming loan standards") from private lenders. Once purchased, the GSEs pool the mortgages into investment securities, called mortgage-backed securities (MBSs), backed by the payment streams from the loan pools. This creates capital liquidity in the market; without this secondary market, private lenders would be able to extend far fewer mortgages, since much of their capital would be inaccessible until loans were repaid. By selling the mortgages to the GSEs private lenders' capital is replenished, allowing them to make new loans.

The GSEs are technically "publicly chartered private corporations," and their securities are not explicitly guaranteed by the federal government. Nevertheless, there has always been a widespread public perception that the federal government would not allow these institutions to fail. As a result of this implicit guarantee, the GSEs have been able to gain access to funds at lower rates and sell their securities at higher prices than they might have been able to do otherwise, leading to greater liquidity in the mortgage markets. Currently, both Fannie Mae and Freddie Mac are in conservatorship under the federal government, and their future is unclear. Still, there is no question that the GSEs help enhance access to the residential mortgage market by facilitating the constant and stable supply of capital for single-family and multi-family loans.

Another way the federal government increases liquidity is through deposit insurance and by providing funding through the Federal Home Loan Bank system. By insuring deposits up to $250,000, the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration help private depository institutions maintain a steady supply of capital for making home loans. The 12 Congressionally chartered Federal Home Loan Banks—collectively called the Federal Home Loan Bank System—offer advances to their member-banks at lower rates than they would receive without the implicit guarantee provided by the federal charter. These funds are used to fund mortgage and community development lending.

Credit Enhancements. The federal government also provides credit enhancements to promote home lending through a variety of programs:

7 One exception is the Rural Housing Direct Loan Program, a program of the Department of Agriculture, which extends loans to low–income borrowers to purchase homes in rural areas.

- Federal Housing Administration (FHA): The FHA provides insurance on loans that meet FHA loan guidelines, which generally are more flexible than underwriting standards for conventional prime loans. FHA loans, which can only be originated by approved lenders, require relatively low down payments but borrowers are charged insurance premiums. In the event that a borrower defaults, the FHA reimburses the lender for losses. The FHA is entirely self-funded, since its capital reserves have been adequate to cover losses and program administration.

- Veterans Affairs (VA) Loan Program: Like the FHA, the VA loan program insures loans issued by approved private lenders. However, only U.S. military veterans are eligible to receive VA loans and, rather than purchasing insurance through a premium, the borrower pays a VA loan funding fee, the size of which depends on the size of the loan down payment.

- Rural Housing Service (RHS) Program: The Rural Housing Service was created by the Department of Agriculture to promote homeownership in rural parts of the U.S and provides a loan guarantee for low-income borrowers who cannot find financing elsewhere. Like the FHA program, borrowers obtain loans from private lenders and the loan is guaranteed by RHS.[8]

- Ginnie Mae (Government National Mortgage Association): Ginnie Mae insures timely payments on securities backed by government-insured mortgages (VA, FHA, and RHS). The federal guarantee on these payments allows the issuers of these securities to receive better prices on these loans.

Oversight. The federal government regulates the mortgage market by passing, interpreting, and enforcing lending laws and by supervising financial institutions that participate in the mortgage market. Several agencies share the responsibility for overseeing lenders: the Federal Reserve Board (the Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB or Bureau). In addition, the Federal Housing Finance Agency (FHFA) oversees Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks, ensuring their safety and soundness and guaranteeing that they are fulfilling their charters.

Private Lenders

Despite the strong role the federal government plays in promoting a robust housing market, private lenders relying on private capital fund almost all U.S. mortgages. These lenders generally fall into two basic categories:

- Portfolio Lenders: Portfolio lenders are financial institutions that accept deposits, and include commercial banks, savings banks, and credit unions. Their deposits allow them to hold at least some loans as part of their overall investment portfolio. Some portfolio lenders, such as banks, engage in a wide variety of lending activities, while others, such as thrifts, use funds primarily for residential mortgages. These entities are chartered under state and federal law.

- Mortgage Companies: Mortgage companies (also called mortgage banks) do not accept deposits and instead rely on investments to finance the mortgages they extend and on the sale of their mortgages to the secondary market to finance payments to investors (Guttentag, 2000). Generally, mortgage companies are chartered under state law.

8 The RHS also has another program, the Section 502 program, in which the RHS actually provides the loan.

Brokers and Private Securitizers

Over the last few decades, two major developments in the mortgage market fundamentally have altered how it operates. First, lenders began to rely on third-party originators (mortgage brokers). Using brokers enabled lenders to lower their fixed costs and expand operations into new markets without having to hire new loan officers, acquire office space, or invest heavily in consumer marketing. In 2005, at the height of the housing boom, half of all mortgage originations and 71% of subprime originations were brokered (Mortgage Bankers Association, 2006).

Second, Wall Street financial companies began issuing their own mortgage-backed securities (called private label securities) and selling these directly to investors. Unlike Fannie Mae and Freddie Mac, private companies did not have to limit their loan purchases to those meeting the standards set by the GSE regulators. As a result, the growth in the private-label securities market was heavily driven by subprime loans, which the GSEs were not allowed to purchase directly. Between 1995 and 2005, the volume of private-label securities backed by subprime loans increased from $18 billion to $465 billion. Meanwhile, the private-label market for "Alt–A" loans,[9] virtually nonexistent in 1995, reached $334 billion by 2005.[10]

The combination of increased reliance on mortgage brokers and private securitization sparked dramatic changes in the composition of mortgage originations. Between 2001 and 2006, the share of the overall mortgage market comprised by subprime and Alt–A lending increased from 10% to 39%.[11] Meanwhile, the market share of government-backed loans (FHA/VA) and GSE-purchased loans declined tremendously. **This change in market composition is particularly notable because of the degree to which it represented a shift away from regulated underwriting and standard products to unregulated ones.**

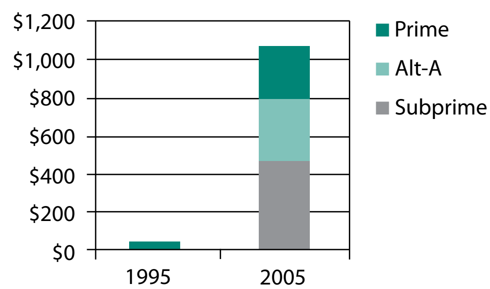
9 The Alt-A market is defined differently by different people. Some define it as the market serving people with good credit but who don't meet the traditional prime underwriting standards, such as documentation standards. Others define it by product, including interest-only and payment option adjustable rate (POARMs) loans as Alt-A products. Finally, others define it as borrowers with credit scores that are somewhere in the "gray area" between subprime and prime.

10 CRL calculations of FDIC data on agency and non-agency MBS issuance.

11 CRL calculations of data from Inside Mortgage Finance, *2008 Mortgage Market Statistical Annual.* Excludes home equity lines of credit (HELOCs).

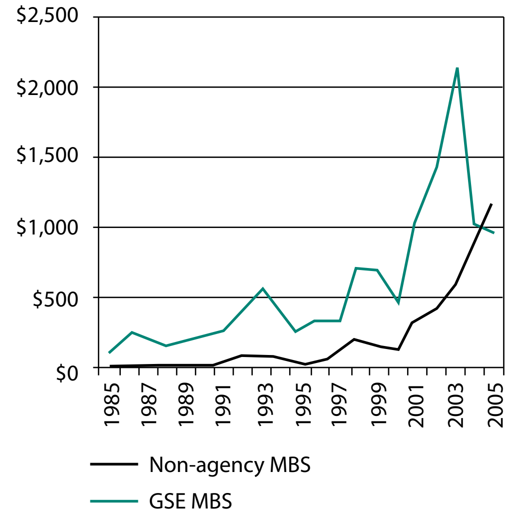
Pre-Housing Crisis Shifts in the Mortgage Origination Market

Figure 1. Private Label Issuance of Mortgage-Backed Securities ($billions)



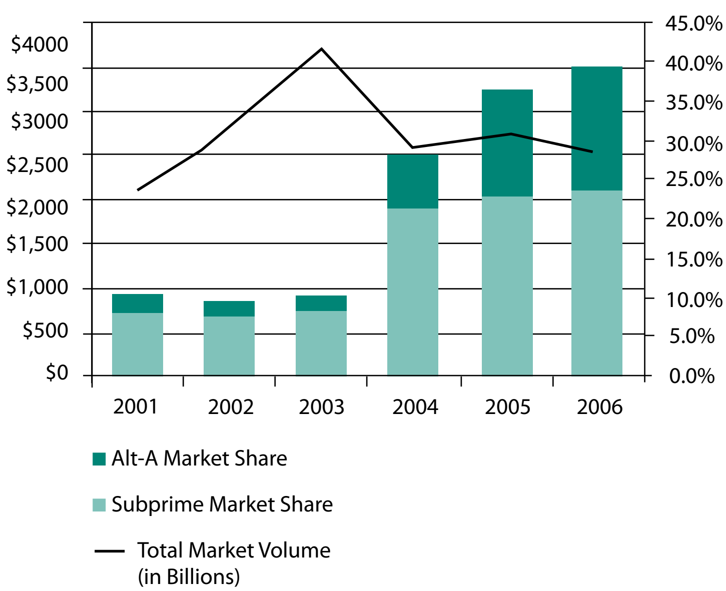
Source: CRL calculations based on data presented in FDIC's Outlook, Fall 2006, Charts 2 & 4.

Figure 2. Private Label vs GSE MBS Issuance



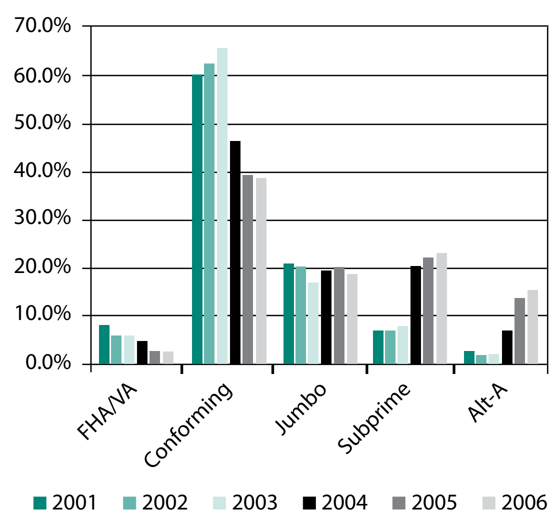
Source: FDIC's Outlook, Fall 2006, Chart 2.

Figure 3. Total Mortgage Market Volume and Market Share of Alt-A and Subprime Loans, 2001-2006



Source: Inside Mortgage Finance 2008 Mortgage Market Statistical Annual.

Figure 4. Market Share by Loan Type, 2001-2006



Source: Inside Mortgage Finance 2008 Mortgage Market Statistical Annual

Mortgage Servicers

Servicing a mortgage involves collecting and tracking mortgage payments from borrowers, establishing escrow accounts for their taxes and insurance, and remitting payments for taxes and insurance on behalf of homeowners. Mortgage servicers also determine whether borrowers are delinquent and how to manage delinquent loans, i.e., "loss mitigation." In addition, some servicers provide foreclosure services and even manage foreclosed properties. Although some lenders service the mortgages they originate, others sell the servicing rights of their loans to other lenders or independent third-party servicers.

Changes in the mortgage market have increased the complexity of mortgage servicing and the challenges faced by the servicing industry. The fundamental responsibility of a servicer is to "manage the relationship among the borrower, the servicer, the guarantor, and the investor/trustee of a given loan."[12] However, the specific guidelines that servicers must follow in each of their activities—from how mortgage payments are collected to how foreclosed properties are managed—vary depending on the specific language contained in the contractual agreements with lenders (called "Servicing Guides" or "Pooling and Servicing Agreements").[13]

We will discuss the challenges of the mortgage-servicing industry in the third part of *State of Lending*, available in 2013.

12 *Alternative Mortgage Servicing Compensation Discussion Paper,* (FHFA, 2011, p.2).
13 Ibid.

LENDING ABUSES AND PREDATORY PRACTICES

The increased complexity in the mortgage market created a chasm between those who originated loans and those who bore the risk of defaults. Under a "traditional" lending model—where lenders both originated and held their mortgages—lenders had a vested interest in ensuring that borrowers could afford to repay their loans. In the more recent "originate-to-securitize" system, the compensation of brokers, lenders, and securitizers was based on transaction volume, not loan performance. Consequently, many lenders and brokers aggressively marketed and originated loans without evaluating the borrowers' ability to repay them.

This evolution led to a new breed of dangerous mortgages—such as loans with introductory "teaser" rates that reset after a few years to much higher rates; loans that did not require income verification; and loans with prepayment penalties that locked borrowers into high rates or risky terms. These loans were often made with scant underwriting and marketed without regard for whether they were suitable for the borrowers. Accompanying this expansion of risky loan terms was a deterioration of lending standards. These developments are discussed in more detail in the following *Abuses in Subprime and Alt-A Lending* section.

The severe decline in loan quality was facilitated by two factors. First, the growth in private-label securitization by Wall Street meant that mortgage originators did not need to conform to the lending standards of the GSEs in order to sell their loans. In fact, Wall Street rewarded loan originators for riskier loan products by paying a higher premium for non-conforming loans. At the same time, subprime lenders targeted many of the same borrowers who had been traditionally served by the FHA and VA programs, saddling these borrowers with much riskier debt than they would have received had they gone through the government programs. Worse, evidence suggests that many subprime borrowers could have qualified for conforming or lower-priced loans.[14] Meanwhile, the credit agencies charged with rating the quality of mortgage-backed investments were assigning high ratings to securities backed by these dangerous and unsustainable loans. This gave false assurance to investors that these products were safe.[15]

14 *The Wall Street Journal* reported that 61% of subprime loans originated in 2006 "went to people with credit scores high enough to often qualify for conventional [i.e., prime] loans with far better terms" (Brooks & Simon, 2007).
15 For a more detailed analysis of the contribution of risky products, irresponsible underwriting, and regulatory failures in creating the crisis, see U.S. Department of Housing and Urban Development's "Report to Congress on the Root Causes of the Foreclosure Crisis."

Abuses of the Subprime and Alt–A Markets

Dangerous Loan Terms

Unlike the 30–year fixed-rate loans that dominated the prime market, subprime and Alt–A loans were often structured with initial "teaser" rates that reset to higher rates (common products included "2–28s,""3–27s," and interest–only loans) or with payment options where the balance of the loans could increase over time. Prepayment penalties often locked borrowers into these products so that they were unable to refinance into safer, more affordable products.

Poor Underwriting

Subprime loans were commonly originated without a careful evaluation of whether borrowers could afford to repay them. Originators, lenders, and securitizers ignored traditional underwriting criteria—such as debt burden, income levels, and other indicators of loan sustainability—in their push to make as many loans as possible.

Flipping

Serial refinancing or "flipping" —where borrowers were repeatedly refinanced into new loans—was common in the subprime market Each time refinancing occurred, fees and closing costs were rolled into the loan, stripping equity away from the homeowners in the process.

Steering

Unlike the prime market (where rates are fairly transparent and loan products are relatively standard), subprime rates were rarely published, and the complexity of the loan products made comparison–shopping difficult. Contrary to the beliefs of many borrowers, brokers had no fiduciary responsibility to find them the best–priced, or even a suitable, loan. Instead brokers had financial incentives to originate higher-priced loans because of yield-spread premiums, which lenders paid to brokers for putting borrowers into more expensive loans, even when they qualified for cheaper ones (Ernst, Bocian, & Li, 2008).

Discrimination/Targeting

There is significant evidence that African–American and Latino borrowers and their neighborhoods were disproportionately targeted by subprime lenders. Borrowers of color were about 30% more likely to receive higher–rate subprime loans than similarly situated white borrowers, and borrowers in non-white neighborhoods were more likely to receive higher–cost loans with risky features such as prepayment penalties (Bocian, Ernst, & Li, 2006).

Mandatory Arbitration

In the early years of the subprime market, many subprime mortgage contracts contained mandatory arbitration clauses. These clauses prevented borrowers from pursuing legal remedies in court if their loan contained illegal or abusive terms.

Single–Premium Credit Insurance

One of the early abuses in the subprime market was single–premium credit insurance, which charged a high up–front fee to cover monthly payments in the event that a borrower could not meet his or her mortgage payment. Benefits under this insurance were rarely paid out.

LEGISLATION AND REGULATION

Federal Regulation

The abusive practices that led to the mortgage crisis were enabled by an out-of-date and fractured federal regulatory system. The problems included the following:

- Failure to adapt. Federal regulation failed to adapt to the increasingly complex mortgage market and many of the market participants, such as brokers and servicers, were virtually unregulated at the federal level.

- Diffusion of responsibility. Authority for interpreting and enforcing consumer protections was fractured among several agencies, none of which had protecting borrowers as its primary mission.

- Creation of loopholes. Federal regulators actively hindered consumer protection at the state level by ruling that strong state anti-predatory lending laws could not be enforced on nationally chartered banks or thrifts (*Neglect and Inaction*, 2009).

- Weak actions. Even when agencies did provide limited attention on consumer protection, they tended to rely on disclosure rules and the issuance of nonbinding “guidance” over hard and fast rules.

Borrowers, state regulators, and consumer advocates repeatedly raised concerns about abuses in the subprime market and pointed to evidence demonstrating the destructive consequences of such practices. As early as 2000, consumer groups were not only urging Congress to support new measures to prevent predatory practices, but were calling on the Federal Reserve to act under its existing regulatory authority to “prohibit unfair or deceptive mortgage lending practices and to address abusive refinance practices" (*Predatory Mortgage Lending*, 2000). However, it was not until July 2008 that the Federal Reserve implemented any rules to ban some abusive, unfair, or deceptive practices; this was some fourteen years after Congress had given the Federal Reserve the authority to do so, and almost two years since the start of the foreclosure crisis.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

Recognizing the role that inadequate oversight of the mortgage market played in the financial collapse, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). Dodd-Frank reformed the mortgage market in two critical ways. First, it explicitly outlined new rules for mortgage lending in order to prevent the specific types of market abuses that prevailed over the last decade. Second, it established the CFPB as a new consumer protection agency to provide focused oversight moving forward.

Explicit Mortgage Reforms of Dodd-Frank

Dodd-Frank’s mortgage provisions are designed to reorient the market back to the well-underwritten, sensible mortgages that have traditionally been used to build wealth for American families. It disfavors the types of loan terms that had been common in the private-label securities market and that have defaulted in great numbers. Dodd-Frank’s reforms will go a long way toward achieving stability and healthy growth in the housing market.

Among the most important aspects of Dodd-Frank is the establishment of an "Ability-to-Repay" standard. Ensuring that a borrower can repay a loan is such a basic tenet of sound lending that, historically, most lenders would not have dreamed of deviating from it. But modern financing arrangements that rewarded lenders based on volume rather than performance provided incentives for lenders to depart from this principle. Dodd-Frank states that loan originators must make a "reasonable and good faith determination based on verified and documented information that, at the time the loan is consummated, the consumer has a reasonable ability to repay the loan, according to its terms, and all applicable taxes, insurance (including mortgage guarantee insurance) and assessments."[16]

To help enforce the ability-to-repay standard, Dodd-Frank creates a preference against risky loan terms through a category of safe loans called "Qualified Mortgages" (QMs). Lenders who originate QMs receive litigation protection from the ability-to-repay provision. To qualify as a QM loan, a loan must meet the following criteria:[17]

- *Fully amortizing (i.e., no deferment of principal or interest);*
- *No balloon payments;*
- *Points and fees no greater than 3% of the total loan amount;*
- *Loan term not to exceed 30 years;*
- *For adjustable-rate mortgages, lenders must evaluate the borrower's ability to repay based on the maximum rate permitted during the first five years.*

In addition, Dodd-Frank:

- *Expands HOEPA protections to include additional high-risk loans* Specifically, Dodd-Frank lowered the limit on up-front points and fees to 5% for loans to be exempt from the requirements for high-cost loans outlined in the Home Ownership and Equity Protection Act (HOEPA, 2004)[18];
- *Prohibits yield-spread premiums* Dodd-Frank prohibited lenders from paying brokers or loan officers compensation that varies with the terms of the loan (other than loan amount). This eliminates brokers' financial incentive to steer borrowers into unnecessarily expensive loans;
- *Significantly restricts prepayment penalties* In the recent crisis, many borrowers were trapped in expensive, exploding-rate loans because the penalties for refinancing were too steep. Dodd-Frank addressed this by banning the use of prepayment penalties except on fixed-rate loans with an interest rate that does not exceed the conventional rate by more than 1.5%. Even for these loans, prepayment penalties are limited in amount and duration, and borrowers must be offered a loan without a prepayment penalty;

16 See Dodd-Frank (2010), §1411(a)(2).

17 In addition, a QM loan may have to comply with additional rules set by the CFPB concerning debt–to–income or alternative measures of ability to repay.

18 The Home Ownership and Equity Protection Act (HOEPA, 2004) mandates additional requirements and disclosures for "HOEPA loans" that meet at least one of the following two conditions: (1) points and fees that exceed a given threshold; and (2) an annual percentage rate (APR) that exceeds a given rate. Dodd-Frank lowered the points and fees threshold from 8% to 5% and changed the APR spread from 8 points over a Treasury note of comparable maturity to 6.5 points over prime rate (for first liens). Dodd-Frank also expanded HOEPA's coverage to include purchase loans, whereas it had previously only included refinance loans.

- *Banned single-premium credit insurance and mandatory arbitration;*

- *Required escrows of taxes and insurance for higher-priced mortgages;*

- *Required that lenders document borrowers' incomes.*

Focused Oversight through the new CFPB

Dodd-Frank created the CFPB as an independent consumer watchdog agency with the sole purpose of ensuring that financial transactions, including mortgages, are fair and transparent. Dodd-Frank empowered the CFPB to enforce existing consumer protection laws and regulations and respond to new abuses as they emerge. The agency's effectiveness and independence are supported by the following:

- *Oversight of all market participants* Before the CFPB, there was no federal oversight of many mortgage market participants, such as mortgage companies and brokers. As a result, they were largely free to engage in the reckless business practices that led to the subprime mortgage crisis. Banks, who were more closely supervised, created non-bank affiliates that lacked oversight. And third-party loan originators, mortgage brokers, produced millions of dollars in mortgages without federal scrutiny. The CFPB will be able to regulate the practices of all mortgage-market participants, including banks, non-banks, brokers, and servicers.

- *Stable, nonpartisan funding* Like the OCC, the FDIC, the Federal Reserve, and the FHFA, Congress directed the CFPB to operate with stable funding not subject to the highly political appropriations process. By leaving funding outside the appropriations process, Congress protected the agency from lobbying efforts to weaken the resources available for supervision and enforcement.

- *A clear consumer protection mission* Despite having consumer protection responsibilities, bank regulators of large banks were criticized during the mortgage crisis for having viewed the banks they regulated as "clients" and, as a result, having failed in their consumer protection job. For example, funded by bank assessment fees and fearing that banks might switch to a more lenient regulator, the OCC repeatedly ignored abusive practices by its member-banks. The CFPB is not subject to this conflict of interest because its purview covers all financial institutions that lend to consumers and its only mission is to protect consumers.

- *Research capacity for data-driven policy* Congress vested the CFPB with the capacity and mandate to develop strong research tools to ensure smart and efficient evidence-based rulemaking and oversight.

- *Safeguards to avoid regulatory deadlock* Like the OCC, the FDIC, and the Federal Housing Finance Agency, the CFPB is led by a single Director, who must take responsibility for his or her decisions and the actions of the Bureau. Some who have sought to weaken the CFPB have urged that the Bureau's leadership be turned into a commission that could not act without the approval of a group of commissioners, making the agency subject to the delays, diffusion of responsibility, and deadlock that often accompany a commission structure. Congress thus far has rejected this course.

Foreclosure Crisis Red Herrings: The Community Reinvestment Act and the GSEs

Some observers have charged that the Community Reinvestment Act (CRA) and the affordable housing goals of the GSEs precipitated the explosion of risky lending during the subprime boom by requiring banks to make loans to unqualified borrowers.

The facts do not support these claims:

- CRA has been on the books for three decades, while the rapid growth of subprime and other non–prime loan securitization and the pervasive marketing of risky loan products did not occur until recent years.

- The predominant players in the subprime market—mortgage brokers, independent mortgage companies, and Wall Street investment banks—were not subject to CRA requirements at all. Only six percent of subprime loans were subject to CRA, meaning that they were extended by CRA–obligated lenders to lower–income borrowers within their CRA assessment areas (Kroszner, 2008).

- Studies have shown that loans made to low– and moderate–income homebuyers as part of banks' efforts to meet their CRA obligations have actually performed better than the rest of the subprime market.

- In an analysis of CRA–motivated loans sold to CRL's affiliate Self–Help, a community development financial institution (CDFI), Ding, Quercia, Ratcliffe, and Li (2008) found that the default risk of these loans was much lower than subprime loans made to borrowers with similar income and credit risk profiles. A study by the Federal Reserve Bank of San Francisco found that CRA–eligible loans made in California during the subprime boom were half as likely to go into foreclosure as loans made by independent mortgage companies (Laderman & Reid, 2008).

- Research also shows no evidence that the GSEs' affordable housing targets were a primary cause of the crisis. For example, GSE guidelines prohibited them from purchasing or securitizing subprime mortgages directly Wall Street firms, not the GSEs, created subprime mortgage–backed securities.

- Although the GSEs did purchase subprime mortgage–backed securities as investments and did receive affordable housing goal credits for those purchases, their share of such purchases was a fraction of that of the private sector, and a decreasing share at that, disproving the argument that the GSEs pushed the market towards unsound, risky lending.

- The mortgages that accounted for most of the GSEs' losses were loans that generally went to higher–income families, not borrowers who received subprime loans. At the end of 2010, among loans acquired by the GSEs between 2005 and 2008, affordable housing–targeted purchases represented less than eight percent of their 90–days delinquent portfolio, only a small share of overall troubled assets held by the GSEs (Seiler, 2010). Most of the GSEs' losses are tied to Alt–A mortgages, and those loans did not count toward their affordable housing targets.

- Research by Robert Avery and Kenneth Brevoort at the Federal Reserve Board has shown that neither CRA nor the GSEs caused excessive or less prudent lending in low– and moderate–income neighborhoods (Avery & Brevoort, 2011).

State Regulation

Long before Dodd-Frank passed, several states recognized the abuses of the subprime market and passed groundbreaking legislation to rein in predatory mortgage lending. For example, a number of states banned specific loan terms that made mortgages unnecessarily risky or expensive, such as prepayment penalties and yield-spread premiums. Today, everyone, regardless of the state in which they own their home, has the protections afforded by federal financial reforms and the CFPB's work. Still, states continue to play a critical role in protecting the financial well-being of consumers.

First, the CFPB does not operate in a vacuum; the agency seeks information and guidance from the states. It is a data-driven agency that by statute may rely on "established public policies" to determine what consumer protections are needed and which policy responses are most effective.[19] To do so, it examines the impact of state laws and regulations. Second, **the states continue to play a vital role in identifying and addressing lending abuses.** Since states will likely be the first to see new abuses and predatory practices, they will be able to respond to threats in their markets even if a federal response is lagging. (Dodd-Frank allowed states to establish stronger mortgage protections than federal standards.) Finally, the enforcement powers of states' Attorneys General increased under Dodd-Frank, since they have the authority to enforce the rules of the CFPB.

State Anti–Predatory Lending Laws

While federal regulators and legislators failed to adequately protect borrowers in the years leading up to the housing crisis, a number of states did take action. North Carolina was the first state to pass a strong anti–predatory lending law to protect borrowers from abusive mortgages. This law banned prepayment penalties on loans under $150,000, the financing of up–front single–premium credit insurance, and loan flipping that failed to provide a tangible net benefit to the borrower. The North Carolina law also imposed additional restrictions for high–cost loans that exceeded certain point and fee thresholds. Several other states, including New York, Massachusetts, New Jersey, and New Mexico, passed similar legislation in subsequent years.

As subprime lending nationwide became even more aggressive, a new wave of anti–predatory lending legislation began in state legislatures. Ohio enacted the first of this second generation laws in 2006. Among other provisions, that law created an ability–to–repay standard and required a duty of good faith and fair dealing by loan originators. This was followed by mortgage reform in Minnesota and ten other states.[20] State anti–predatory lending laws proved to be very effective while not decreasing the availability of capital. Ultimately, these state laws paved the way for the mortgage protections in Dodd-Frank.

19 Title X § 1031 of Dodd-Frank (2010), "Prohibiting Unfair, Deceptive or Abusive Acts or Practices," specifically states that the CFPB can consider "established public policies" in determining whether a financial practice is unfair.
20 Colorado, Illinois, New Mexico, Maine, Connecticut, New York, North Carolina, Maryland, West Virginia and Massachusetts.

IMPACT ON U.S. HOUSEHOLDS

The predatory lending practices in the mortgage market caused the worst foreclosure epidemic in U.S. history. Since housing prices began their severe decline in early 2007, millions of homes have gone into foreclosure, and millions more remain in distress. The crisis has devastated families and communities across the country and continues to impair economic growth for the nation as a whole.

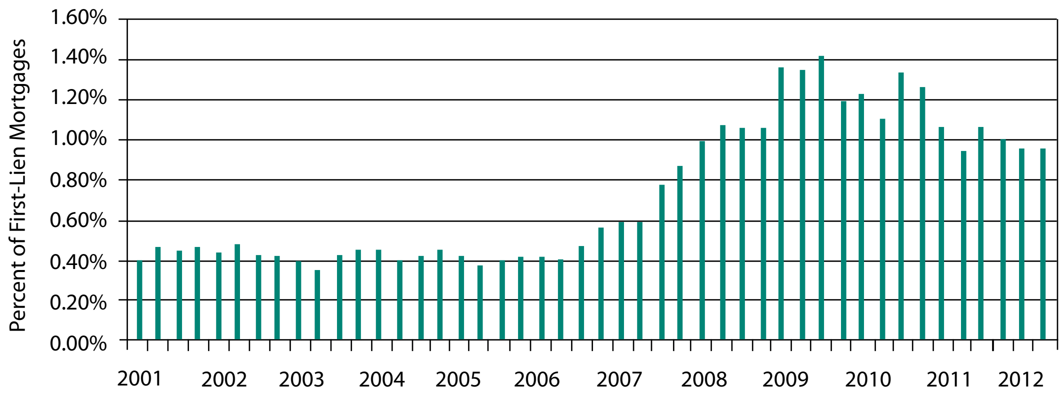
Impact on Individuals

We estimate that 12 million homes have entered the foreclosure process between January 2007 and June 2012.[21] The percent of mortgages entering the foreclosure process in any given quarter—historically less than one-half of one percent[22]—has more than doubled, and in some cases, tripled, during this crisis. (See Figures 5–6.)[23]

Foreclosures can take months or even years to complete; millions of homes that have started the foreclosure process have not yet completed it. By the middle of 2012, 2.1 million homes were in the foreclosure inventory, on their way to foreclosure but not yet there.[24] Unfortunately, it is difficult to find data on the actual number of completed foreclosures. CoreLogic estimated that 3.2 million homes completed the foreclosure process between September 2008 and December 2011, with an additional three million homes 90 days or more delinquent or in the foreclosure process.[25] These figures are consistent with CRL's estimates that 3.3 million of 2004–2008 first-lien, owner-occupied originations completed the foreclosure process as of February 2012, with an additional 3.2 million of these loans 60 days or more delinquent or in some stage of the foreclosure crisis.[26]

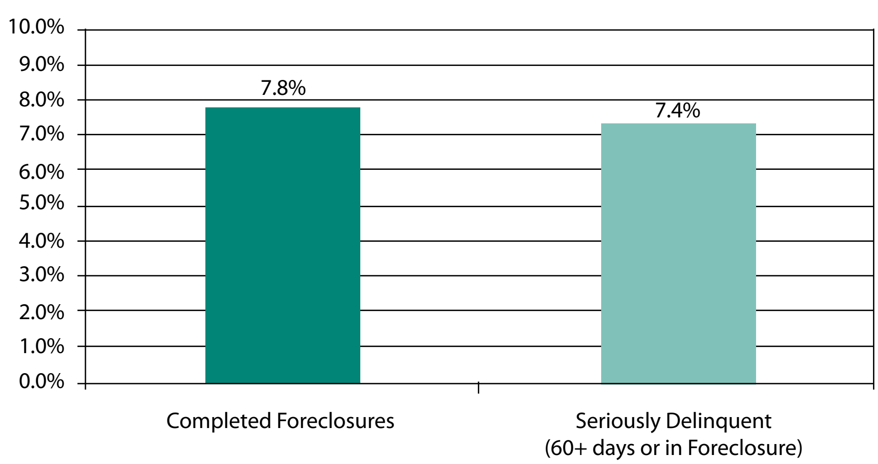
21 CRL calculation based on 2007-2012q2 MBA National Delinquency Survey, scaled to reflect market coverage. Per MBA's claims, we assume 85% market coverage for 2007q1–2010q2 and 88% coverage for 2010q3 and after.
22 See chart 5 for quarterly foreclosure start rates back to 2000. For annualized rates from 1950–1994, see Elmer and Seelig (1998), *The rising long–term trend of single–family mortgage foreclosure rates.*
23 Not all of these foreclosure starts represent home owners that have lost their homes. First, a small percentage of borrowers are able to avoid foreclosure even after the foreclosure process commences. On very rare occasions, borrowers "self–cure" and become current again on their mortgages. Others work with their lenders to avoid foreclosure through short–sales; although this can still be devastating to the home owner, it is often less financially and emotionally damaging than enduring the entire foreclosure process. In addition, some foreclosures are not of owner–occupied properties but rather of investor–owned properties and, as a result, do not result in home owners losing their house. However, these foreclosures are not without serious harm, both to displaced tenants and to surrounding property owners whose home values decrease.
24 CRL calculation based on MBA National Delinquency Survey to 2012q2, scaled up to assume 88% market coverage in that year.
25 CoreLogic National Foreclosure Report, February 8, 2012. CRL calculations of 90 days + delinquent imputed from CoreLogic's national rate of 90+ delinquency rate, national rate of foreclosure inventory and estimate of 1.4 million homes in foreclosure inventory.
26 Estimates are based on an update of an analysis from CRL's 2011 paper *Lost ground, 2011: Disparities in mortgage lending and foreclosures.* The methodology for this analysis can be found in the paper.

Figure 5. National Foreclosure Starts, 2001-2012



Source: MBA National Delinquency Report

Figure 6. Completed Foreclosures and Serious Delinquencies (2004–2008 First–Lien, Owner–Occupied Loans)



Source: CRL estimates based on loan status as of February 2012

Homeowners with all types of loans are vulnerable to financial stress, especially given high and persistent unemployment rates that have characterized this recession. However, Figure 7 demonstrates that borrowers who received risky loan features had a greater incidence of mortgage defaults.

Figure 7. Loan Status by Feature (2004-2008 Originations)

		Loan Status		
		Completed Foreclosures	Seriously Delinquent	Total
Rate Type	Hybrid or Option ARM	14.7%	10.0%	24.7%
	Fixed Rate or Standard ARM	4.9%	6.4%	11.3%
Prepayment Penalty	Prepayment Penalty	16.7%	12.5%	29.2%
	No Prepayment Penalty	5.9%	5.6%	11.5%
Higher Rate	Higher Rate	17.1%	13.5%	30.6%
	Not Higher Rate	5.9%	6.2%	12.1%

Source: CRL's "Lost Ground, 2011" (updated to reflect loan performance through February 2012).

Note: We define hybrid and payment–option ARM loans as loans with any one of the following characteristics: ARMs with interest-rate resets of less than five years, negative amortization, or interest–only payment schedules. "Higher–rate" is defined as first–lien loans for which the APR spread was 300 basis points or more above Treasuries of comparable maturity.

Foreclosure Demographics

Foreclosures have touched almost every U.S. community, affecting borrowers across racial, ethnic, and income lines. The majority of families who have lost their homes have been middle- or higher-income[27] and white non-Hispanics.[28] As of February 2012, over 1.9 million white borrowers and 2.3 million middle- or higher-income borrowers who received their loans between 2004 and 2008 had lost their homes to foreclosure.[29]

However, while the foreclosure crisis has been widespread and the majority of affected borrowers have been white, the crisis has disproportionately affected borrowers of color. 11% of Among African-American borrowers and 14% of Latino borrowers have already lost their home to foreclosure.[30] This compares with 8% of Asian borrowers and 6% of non-Hispanic whites. Although these rates for Asians and whites are extremely high when compared to historic levels, it is significantly lower than the current rate for African-American and Latino borrowers.[31] (See Appendix 2.)

The disparate impact of the foreclosure crisis on borrowers of color reflects that African-American and Latino borrowers were far more likely to receive higher-rate and other risky loan terms than white borrowers. For example, as Figure 8 shows, African-American borrowers were 2.8 times as likely to receive a higher-rate loan as a white borrower, and Latino borrowers were 2.3 times as likely to receive a loan with a prepayment penalty. As noted earlier, there is evidence that many of these borrowers could have qualified for more affordable and sustainable loans.

27 We define borrower income categories as follows: "low–income" – less than 50 percent of the Metropolitan Statistical Area (MSA) median income; "moderate–income" – at least 50 percent and less than 80 percent of the MSA median income; "middle–income" – at least 80 percent and less than 120 percent of the MSA median income; and "higher–income" – at least 120 percent of MSA median income. The mean incomes for each of the categories are $26,000 for low–income, $41,000 for moderate–income, $61,000 for middle–income, and $108,000 for higher–income.
28 Borrower race and ethnicity are derived from the HMDA data and refer to the race/ethnicity of the primary applicant. African–American borrowers are those who are classified as "Black or African-American", and can be of any ethnicity. Asian borrowers are those who are classified as "Asian", and can be of any ethnicity. Latinos are those who are classified as "Hispanic or Latino" as their ethnicity and who indicate "White" as their race. "Others" include American Indians, Alaska Natives, Native Hawaiian and other Pacific Islanders, and can be of any ethnicity.
29 Data on completed foreclosures based on an update to CRL's 2011 report *Lost Ground, 2011*. New analysis reflects loan performance through February 2012.
30 The foreclosure rate for borrowers in the "Other" category, which is not shown, is also notably higher, at 9.1 percent. This group includes American Indians, Alaska Natives, and Native Hawaiian and other Pacific Islanders
31 For state-level completed foreclosure rates, please see Appendix.

Figure 8. Incidence and Increased Incidence (Disparity Ratio) of Risky Loan Features by Race/Ethnicity (2004–2008 Originations)

	Incidence of Risky Loan Features (as percent of originations)				Disparity Ratio (versus Non–Hispanic Whites)			
	One or More High Risk Feature	Higher Rate	Hybrid or Option ARM	Prepayment Penalty	One or More High Risk Feature	Higher Rate	Hybrid or Option ARM	Prepayment Penalty
Non–Hispanic White	38.2	12.5	21.5	12.3	NA	NA	NA	NA
African American	62.3	35.3	32.0	24.8	1.6	2.8	1.5	2.0
Latino	61.9	27.9	37.1	28.5	1.6	2.2	1.7	2.3
Asian	48.3	9.8	33.5	15.6	1.3	0.8	1.6	1.3

Note: We define "hybrid" and "option–ARM" loans as loans with any one of the following characteristics: ARMs with interest rate resets of less than 5 years, negative amortization, or interest–only payment schedules. "Higher–rate" is defined as first–lien loans for which the APR spread was 300 basis points or more above Treasuries of comparable maturity. "Risky" is defined as a loan with one or more risky features, including hybrid and option ARMs, loans with prepayment penalties, and loans with higher interest rates.

These racial and ethnic disparities show no signs of abating. Among Latino and African-American households, an additional 11.5% and 13% of loans, respectively, were seriously delinquent, compared with six percent for non-Hispanic whites. Not all of these delinquencies will result in completed foreclosures. But given that the housing market and economic recovery are still weak, more defaults are still to come. It is possible that more than 25 percent of all home loans to African-American and Latino borrowers during this time period will eventually end in foreclosure.

Impact on Communities

When homes go into foreclosures, the negative effects extend beyond individual families, spilling over to nearby residents and the wider community. Foreclosures decrease the values of surrounding properties, causing losses of wealth for neighboring families.

We estimate that $1.95 trillion in home equity has been lost to property owners who happen to live in proximity to foreclosed homes (Bocian, Smith and Wei, 2012). On average, each affected nearby household lost over $21,000. Importantly, this "spillover" estimate does not include non-financial negative neighborhood impacts from foreclosures, such as neighborhood blight or increased crime (Kingsley, Smith, & Price, 2009). The estimate also does not account for the direct costs to local governments related to vacant and abandoned properties, which can range from several hundred to tens of thousands of dollars per foreclosure (Kingsley et al, 2009). The $1.95 trillion spillover estimate is limited to the marginal loss in home values to surrounding property owners, not the total amount of lost equity resulting from the housing collapse. In fact, an estimated $7 trillion in total home equity has been lost as a result of the collapse in the housing market (Federal Reserve Board [FRB], 2012). (See Appendix A for state-level data.)

Impact on U.S. Financial and Economic Stability

In addition to the damage to individual homeowners and communities, the collapse of the subprime market triggered a much broader economic crisis.[32] Through mortgage securitization, subprime defaults spread throughout national and international investments, against which the financial industry was highly leveraged. As a result, more than 400 banks have failed since 2007, compared with the 2000–2007 period in which only 26 banks failed.[33]

Despite the government bailout of the financial industry, the U.S. economy suffered extensive damage. The housing market collapsed, and the U.S. was thrown into the deepest recession since the Great Depression, causing high and persistent unemployment that has yet to recede fully.

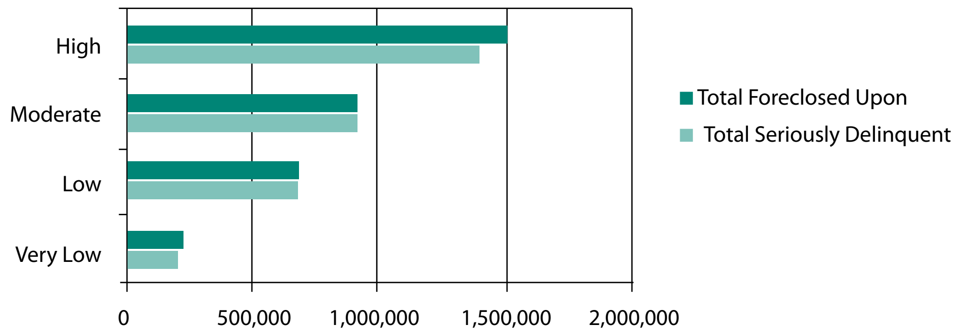
Figure 9. U.S. Unemployment and Foreclosure Rates

Source: Bureau of Labor Statistics and Mortgage Bankers Association National Delinquency Survey

32 The financial losses generated by subprime lending were so extensive because of the high degree to which subprime loans were securitized and packaged into complicated financial instruments, which were then sold to investors throughout the world. Many banks which were not directly involved in originated subprime loans were nonetheless heavily leveraged against such securities.
33 See FDIC Failed Bank List.

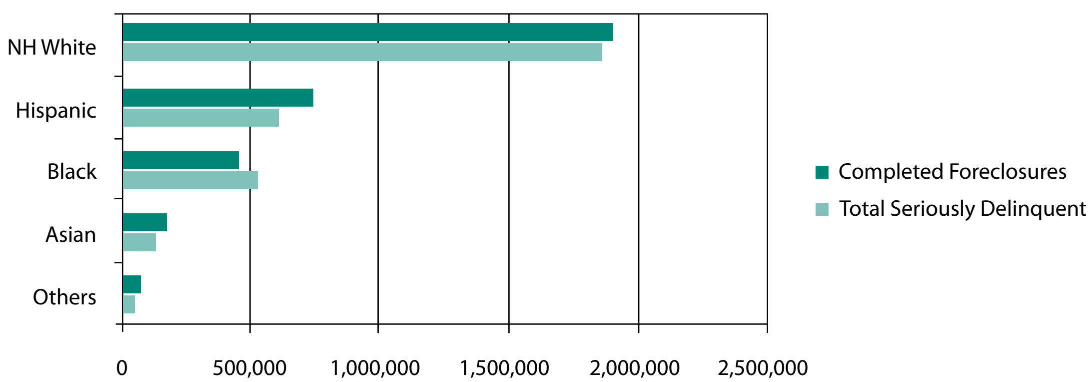
Demographics of the Foreclosure Crisis

Figure 10. Number of Completed Foreclosures and Seriously Delinquent Loans by Income (2004–2008 Originations)



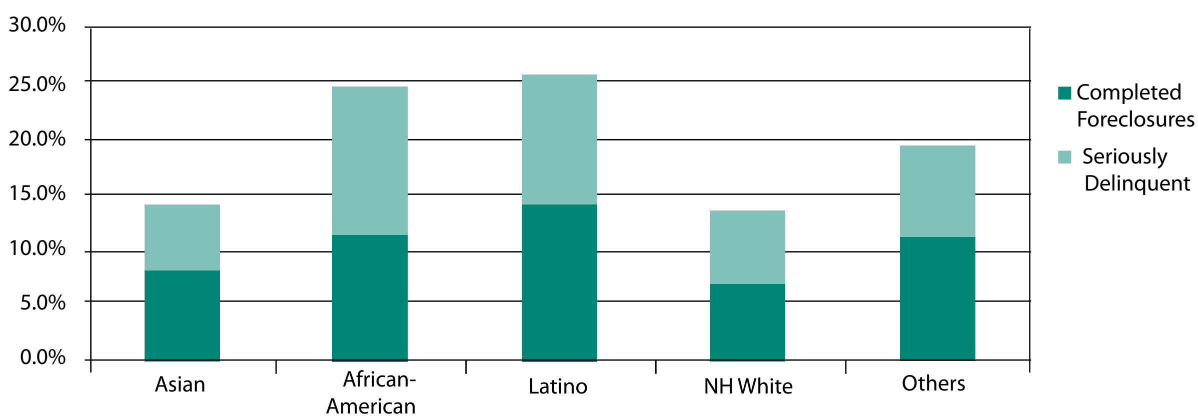
Source: Update to 2011 CRL Report "Lost Ground." Loan status as of February 2012.

Figure 11. Number of Completed Foreclosures and Seriously Delinquent Loans by Race/Ethnicity (2004–2008 Originations)



Source: Update to 2011 CRL Report "Lost Ground". Loan status as of February 2012.

Figure 12. Rates of Completed Foreclosures and Serious Delinquencies, by Race/Ethnicity (2004–2008 Originations)



Source: Update to 2011 CRL Report "Lost Ground". Loan status as of February 2012.

TODAY'S CHALLENGES

Foreclosure Crisis Nowhere Near the End

Although well into the fifth year of the foreclosure crisis, we are nowhere near the end. During the second quarter of 2012, over 460,000 homes had entered the foreclosure process, and by the middle of the year, more than four million loans were 60 days or more delinquent or in some stage of the foreclosure process.[34] Although housing prices have stabilized in most parts of the country, overall housing prices are down 17.4% from five years ago.[35] As of 2012q1, an estimated 11 million residential properties, representing 23.7% of loan modifications is declining.[36] Despite the high volume of troubled loans, the number of loan modifications is declining. During the first quarter of 2012, fewer than a quarter of a million troubled home owners received a loan modification, down 31 percent from the previous year.[37]

Figure 13. Homes at Risk Snapshot

	Source	Latest Figure	Change from Prior Year
Number of Foreclosure Starts	CRL calculation based on MBA National Delinquency Survey	463,711 (2012q2)	–3% (vs 2011q2)
Number of Seriously Delinquent Homes*	CRL calculation based on MBA National Delinquency Survey	4,096,110 (2012q2)	–10% (vs 2011q2)
Number of Underwater Homes	CoreLogic Negative Equity Report	11.4 million (2012q1)	-1.4% (vs 2011q1)
Number of Modifications	Hope Now	181,505 (2012q2)	–28% (vs 2011q2)

*60 days+ or in foreclosure

Borrowers Face Barriers to Accessing Mortgage Credit

The housing crisis also has affected the availability of credit for new purchase and refinance loans for current borrowers. Since the collapse of the subprime market, mortgage credit has dried up considerably. As shown in Figure 14, total originations had crept back to 6.9 million loans by 2010, about where it was at the beginning at the decade:

Figure 14. U.S. Mortgage Originations, 2000–2010 (Owner–Occupied Loans, in Millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	$6.6	$11.8	$14.0	$19.0	$12.5	$12.7	$11.1	$8.3	$5.8	$7.9	$ 6.9

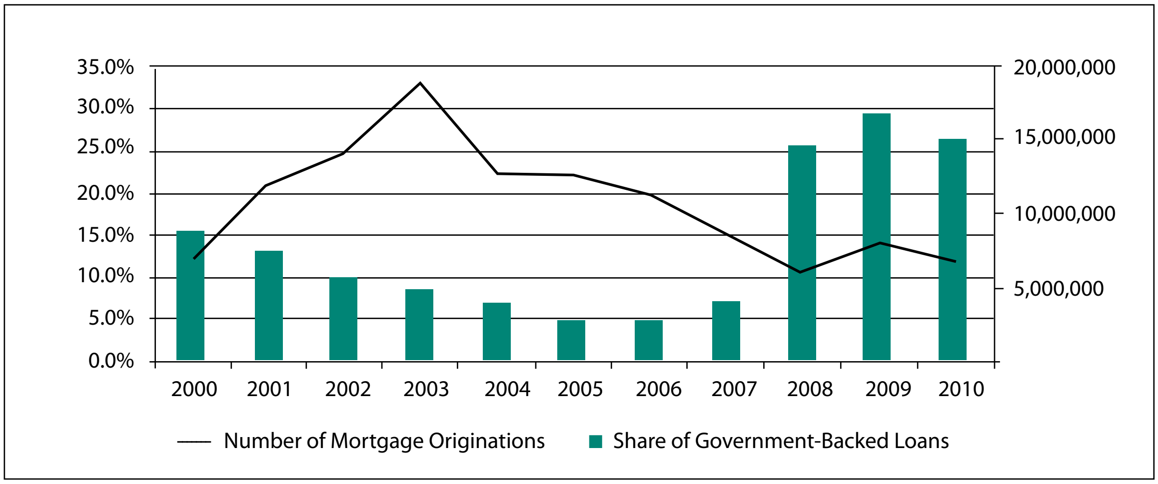
Source: Home Mortgage Disclosure Act

34 CRL calculations based on MBA data, scaled to market assuming MBA market coverage of 85–87%.
35 According to FHFA's state housing price indexes, all but eight states saw positive housing price growth between 2011q2 and 2012q2.
36 CRL calculations based on Mortgage Bankers Association National Delinquency Survey data for 2012q2, scaled to market assuming MBA market coverage of 88%
37 Based on data contained in Hope Now Industry Snapshot.

Contraction of Conventional Credit

The overall decline in lending has been driven by the drop in conventional (non-government-backed) lending. Between 2006 and 2010, the annual number of conventional loan originations declined from 12.1 million to 5.0 million, a decrease of 58.3%.[38] While conventional lending volume was especially high in 2006 because of the subprime boom, conventional lending in 2010 was down by 10 percent even compared with the 2000 level. This suggests that the post-boom contraction has gone beyond a normal market correction.

Figure 15. Total Number of Loan Originations and Market Share of Government-Backed Loans, 2000-2010

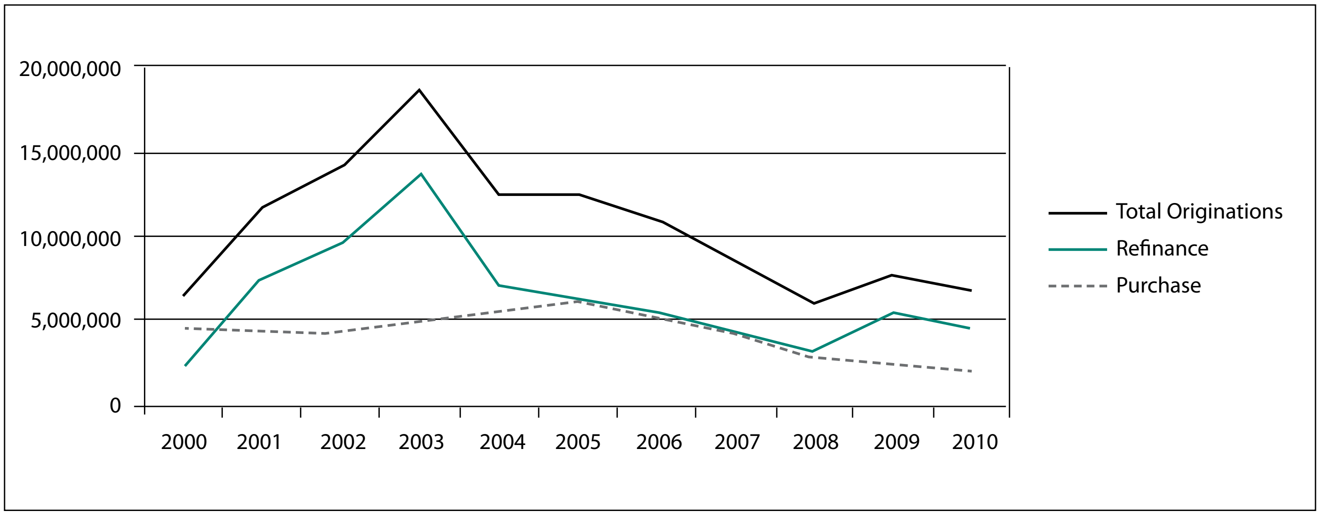


The decline in conventional lending, despite historically low interest rates, is in part due to the tighter lending standards imposed by the GSEs. As Figure 18 demonstrates, the share of conforming, conventional loan volume (in this case, represented by Fannie Mae's purchases) for borrowers with credit scores under 700 has decreased from about 70% in 2000 to under 10 percent today. The average borrower who was denied a conforming loan in August 2012 had a FICO score of 734 (Sreekumar, 2012). **This suggests that the current conventional market may be overemphasizing the role of borrowers' credit profiles and creating an overly tight market, even though the foreclosure crisis was caused by risky products and poor underwriting.**

At the same time that conventional credit has contracted, FHA lending has expanded dramatically. The FHA has always played a critical role in the national effort to expand homeownership opportunities for lower-income and minority families. However, as Figures 14 and 15 demonstrate, during the subprime boom, the FHA lost market share to subprime lenders targeting the same communities. Now with subprime lending gone and conventional credit restricted, the FHA has stepped in with counter-cyclical lending, significantly increasing its market share across demographic groups. Overall, the share of loans with government backing went from 15.5% in 2000, to 5% in 2005, to 26.6% in 2010.

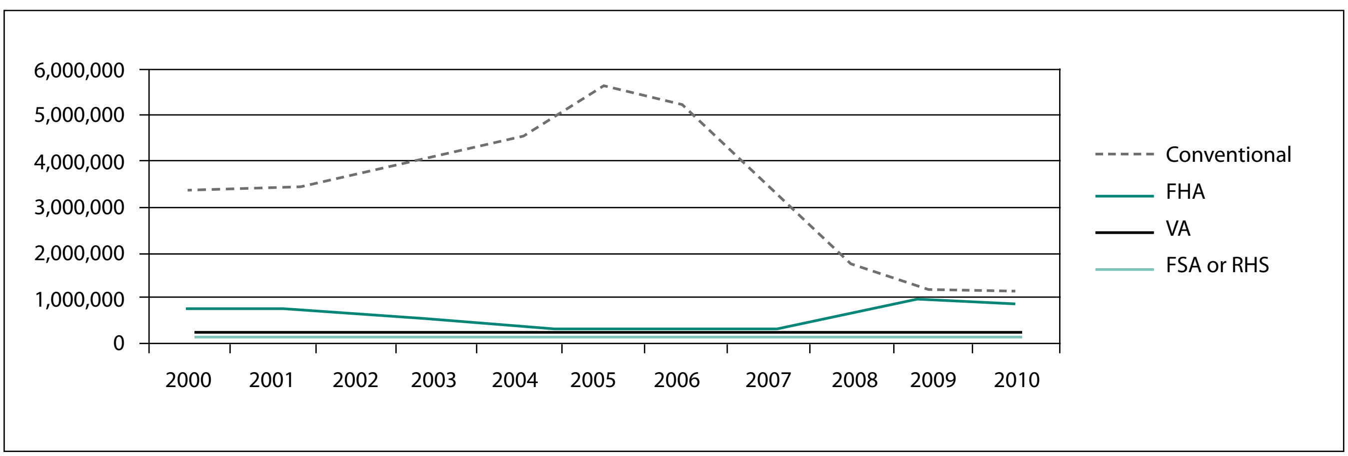
38 CRL analysis of first– and second–lien owner–occupied originations from HMDA data.

Figure 16. Purchase versus Refinance Loan Originations, 2000-2010 (First and Second Lien, Owner Occupied)



Although the total number of loans originated has climbed back to its 2000 level, most of that is refinance lending; purchase loans are still far beneath their numbers from a decade ago. Between 2000 and 2010, purchase loans have fallen by 48%, from 4.4 million to 2.3 million. Once again, this decline has been driven by a sharp drop in conventional lending, with these loans falling 68%. At the same time, FHA purchase loans, having fallen dramatically between 2000 and 2006, have increased dramatically.

Figure 17. Conventional versus Government-Backed Mortgage Purchase Loans, 2000-2010

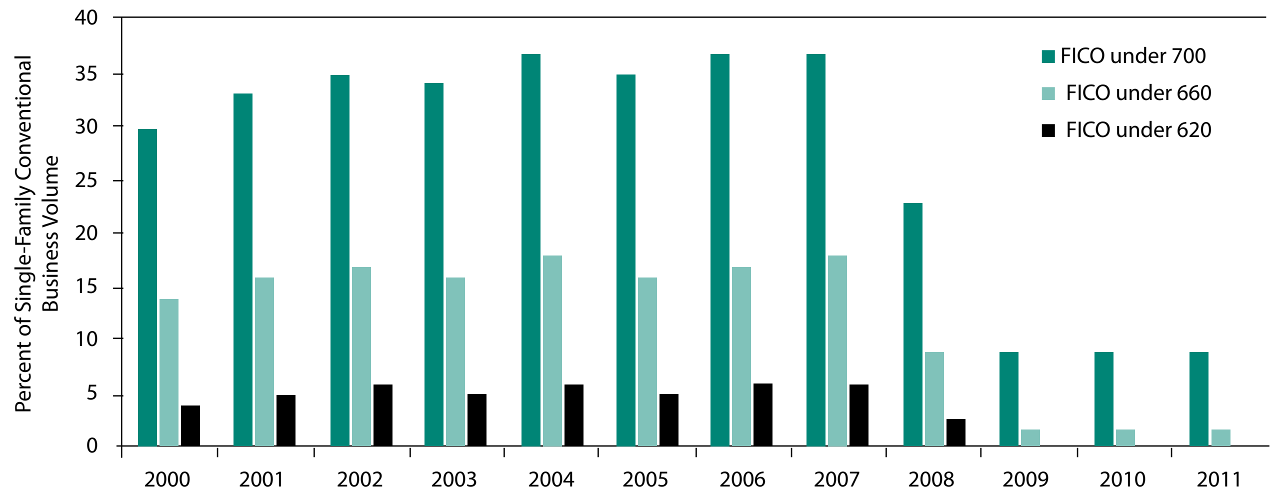


The drop in conventional purchase loans has been significant for all racial and ethnic groups, but particularly for African-Americans and Latinos. From 2000–2010, conventional purchase lending to African-American and Latino borrowers dropped 83% and 75%, respectively, compared to 67% and 36% for whites and Asians. More of these loans are now government-backed as well: For African-Americans, the share of mortgages used to purchase a home and backed by a government program increased to almost 80% in 2010. For Latinos and whites, the share increased to 73% and 49%, respectively. (See Figure 19.)

These current trends in mortgage credit may be temporary responses to the crisis and could abate once the market fully adjusts to the new regulations and protections of Dodd-Frank. It is critical, however, that this dynamic not result in a new, permanent "dual mortgage market," where only the highest-wealth borrowers with near-perfect credit can gain access the conventional market, while lower-income and minority borrowers who can be successful home owners are relegated to more expensive FHA loans, or find credit largely unavailable.

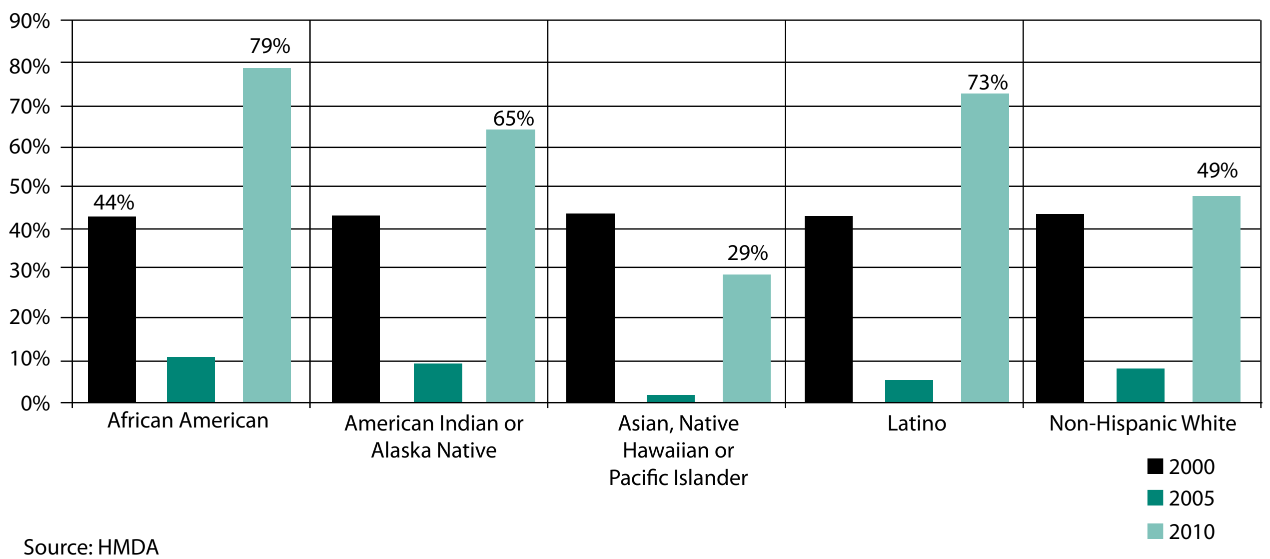
Decline in Mortgage Originations by Race/Ethnicity and Credit Score

Figure 18. Fannie Mae Single-Family Volume by Credit Score, 2000 to 2011



Source: CRL Compilation of Fannie Mae Annual 10K Reports

Figure 19. Share of Purchase Originations Comprised by Government-Backed Loans, by Race/Ethnicity, 2000-2010



Source: HMDA

Figure 20. Change in Purchase Loans by Race/Ethnicity, 2000-2010

	Overall	Conventional	Gov't Backed
African American	–52.2%	–82.5%	–14.9
Asian	–18.5%	–35.9%	57.2%
Latino	–45.0%	–74.6%	–2.9%
White	–47.7%	–66.9%	25.7%

Source: HMDA

Down Payment Requirements

One key determinant of access to credit in the next decade will be down payment regulations set by regulators and the market. Federal policymakers are currently considering regulatory and programmatic proposals regarding the design and operation of the secondary market. These include proposals for defining "Qualified Residential Mortgages" (QRMs), a category of home loans established by the Dodd-Frank Act[39] and for reforming Fannie Mae and Freddie Mac. For both of these issues, there have been proposals to impose new down-payment requirements as a way to decrease mortgage defaults. Such federally mandated down-payment requirements would be on top of the Dodd-Frank reforms that will already keep the riskiest mortgages out of the secondary market.[40]

The costs of imposing any federally mandated down payment are unacceptably high. Not only would such requirements exclude creditworthy families from homeownership, but they would also undermine the nation's economic recovery by further depressing the housing market. Consider these facts:

- Low down-payment loans are not the same as subprime loans and have been successfully used to help families become homeowners for decades. The current housing crisis was the result of abusive loan terms and practices in the subprime and Alt-A mortgage markets, not low down-payment loans. **Low down payments, when paired with responsible underwriting and safe loan terms, have proven to be a successful strategy for expanding sustainable homeownership for decades.**

- Arbitrary minimum down-payment requirements would lock middle-income families out of the mainstream market and widen the wealth disparities that already exist between whites and communities of color. Given median housing prices and incomes, it would take over 20 years for the average family to save a 10-percent down payment plus closing costs. The barriers would be even greater for typical African-American and Latino families, for whom it would take 31 and 26 years, respectively, to save enough to meet such a requirement. Even a 5-percent down-payment requirement would pose significant barriers to homeownership for African-American and Latino borrowers, exacerbating the homeownership gap between whites and families of color. Again, lending history has shown that many families who don't have the funds for a significant down payment can become successful homeowners.

It would take over 20 years for the average family to save a 10-percent down payment plus closing costs. The barriers would be even greater for typical African-American and Latino families, for whom it would take 31 and 26 years, respectively.

39 Under Dodd-Frank, mortgage lenders that sell their loans into the private secondary market must retain a portion of the loan's risk unless the loan is designated as a QRM. Federal regulators in charge of defining QRM are the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Securities and Exchange Commission, Department of Housing and Urban Development, and the Department of the Treasury.

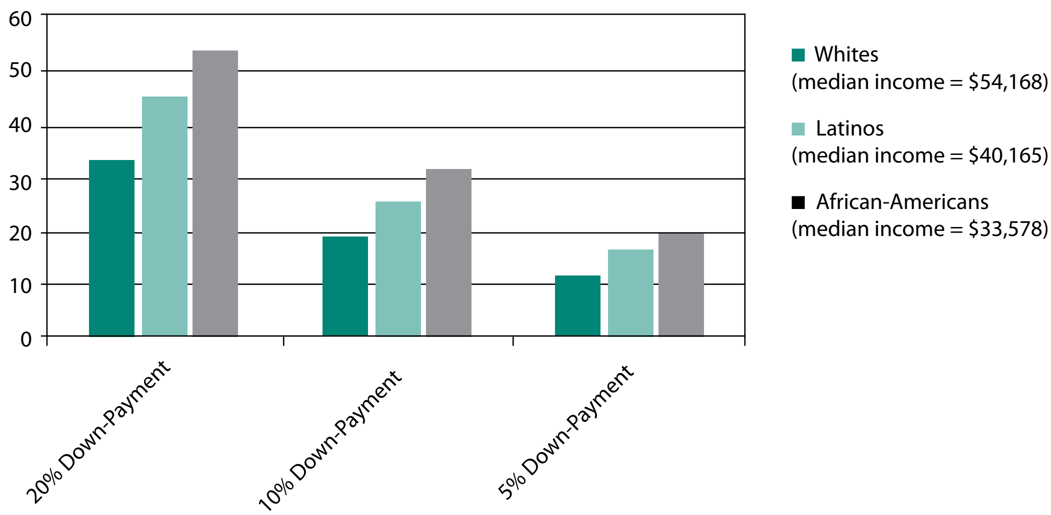
40 Loans with risky product features such as high fees, balloon payments, low teaser rates, or interest-only or negative amortization schedules will automatically be ineligible for preferred secondary market status, as will loans that do not verify borrower income (so-called "no-doc" or "low-doc" loans). The Center for Responsible Lending (CRL) supports these restrictions.

Figure 21. Years to Save by Down-Payment Requirement

	Down-Payment Requirement		
	20%	10%	5%
Cash Required for Down-Payment	$ 31,620	$ 15,810	$7,905
Cash Required for Closing Costs[41]	$4,662	$4,820	$4,900
Total Cash Required at Closing	$36,282	$20,630	$12,804
Number of Years Required to Save Required Cash	36	21	13

Source: CRL analysis

Figure 22. Years to Save Down-Payment, by Race/Ethnicity



Source: CRL calculations based on median income by race and ethnicity from the 2010 American Community Survey.

- The high costs of down-payment requirements far outweigh sparse marginal benefits. Imposing a mandatory minimum down-payment requirement would produce a small reduction in default rates, but the marginal benefit would be dwarfed by the cost of denying millions of families the opportunity to become successful homeowners with mainstream mortgages.

41 According to a 2012 survey, the average closing cost on a $200,000 mortgage was $3,754, excluding escrow for taxes and insurance. We assume this can be decomposed into a 1% origination fee plus $1,754 in fixed fees. Using the 2009 national median property tax rate of 1% and the current average homeowner insurance premium of $853, we estimate an additional $1,643 is required at closing to cover escrows for insurance plus six months of taxes. See www.bankrate.com/finance/mortgages/2012-closing-costs/ for survey of closing costs.

Dodd-Frank's protections against the worst abuses of the subprime and Alt-A markets will go a long way to prevent the types of lending that caused the current crisis. **It is important to bear in mind that down-payment requirements would be layered on top of the other specific underwriting protections in Dodd-Frank, such as the required ability to repay assessment.** As a result, the marginal benefit of reducing defaults through a down-payment requirement must be balanced against the cost of restricting access to affordable mortgages. A recent study by the University of North Carolina's Center for Community Capital and CRL suggests that the trade-off is not worthwhile.

Looking at large sample of mortgages originated between 2000 and 2008, the UNC/CRL study shows that, after applying Dodd-Frank's other mortgage protections, a 10-percent down-payment requirement would have had a relatively small benefit in reducing defaults. Specifically, while a 10-percent down-payment requirement would have reduced the default rate from 5.8 percent to 4.7 percent, it also would have locked 30 percent of all borrowers out of the market and would have excluded nine borrowers who are currently successfully paying their mortgage for every foreclosure it would have prevented (Quercia, Ding, & Reid, 2012).[42] Furthermore, the impact of a 10-percent down-payment standard would be particularly acute for communities of color, as 60 percent of African-American and 50 percent of Latino borrowers who are currently successfully paying their mortgages would have been excluded from the mainstream mortgage market had such a requirement been in place. A five-percent down-payment requirement would have excluded six successful borrowers for every one prevented foreclosure and would have locked out 33 percent of African-American and 22 percent of Latino borrowers.

Figure 23. Exclusion Ratios

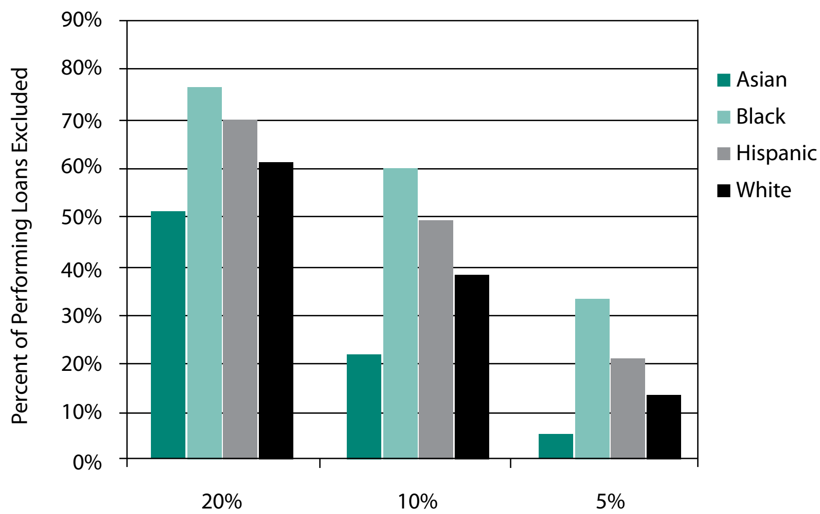
	Exclusion Ratio (Number of Performing Loans Excluded: Number of Foreclosures Prevented)
Qualified Mortgage Standards + 20 Percent Down Payment	10:1
Qualified Mortgage Standards + 10 Percent Down Payment	9:1
Qualified Mortgage Standards + 5 Percent Down Payment	6:1

Source: Quercia, Ding and Reid, 2012.

Note: Exclusion ratio for five-percent down-payment not published in original report.

42 In contrast, the study shows that a three-percent down-payment requirement reduces the default rate to 5.2 percent while excluding eight percent of borrowers (and would have excluded 6 successful borrowers for every one prevented foreclosure).

Figure 24. Percent of Performing Loans Excluded from the QRM Mortgage Market, Alternate LTV Definitions, by Borrower Race/Ethnicity[43] (2004 – 2008 Originations)



Source: Figure 8 from "Balancing Risk and Access: Underwriting Standards and Qualified Residential Mortgages"

The benefit of down payments in reducing individual borrowers' default rates could be counteracted by the toll it would take on the larger housing market and economy. Including a down-payment requirement in secondary market standards would depress housing demand, threatening the future recovery of the nation's housing market and overall economy. By excluding so many families from accessing affordable mortgages, a high down-payment requirement would likely depress home prices, decreasing the home equity of families across the country, and act as a drag on economic growth and employment. In doing so, it could actually undermine its primary objective of reducing individual default rates.

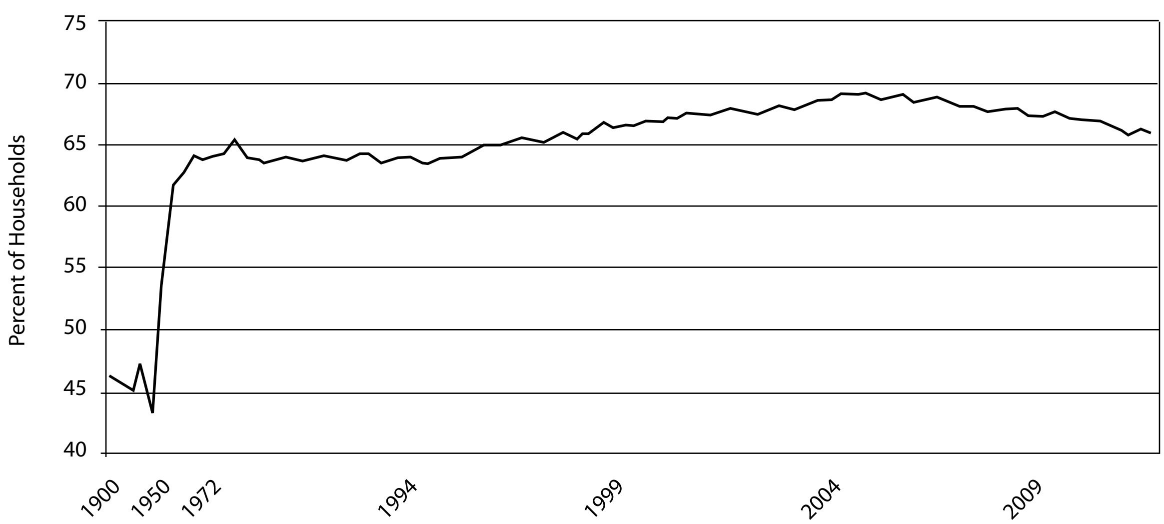
43 Loan status as of February 2011.

MORTGAGE POLICY RECOMMENDATIONS

For the first time since World War II, the homeownership rate in this country is declining. Despite most Americans' steadfast belief in the importance of owning their own home, the combination of high rates of foreclosures and constricted access to credit are preventing many American families from owning their homes. While housing policy must strike the right balance between homeownership and affordable rental housing goals, it is essential that lower-income borrowers and borrowers of color regain access to credit for homeownership and not remain blocked out of the market.

Figure 25.

The U.S. Homeownership Rate, 1900–2011



Source: Current Population Survey/Housing Vacancy Survey, Series H–111 Reports, Bureau of the Census, Washington, DC.

Federal and state policies should continue to address the true causes of the crisis—abusive loan terms and irresponsible underwriting practices—while also helping families still facing foreclosure and facilitating a stable supply of mortgage financing that ensures access to credit for qualified borrowers:

Protect Reforms that Regulate Harmful Mortgage Products.

Policymakers should not weaken or undermine the mortgage reforms established in the Wall Street Reform and Consumer Protection Act, because this could result in future abusive lending and the possibility of a new foreclosure crisis. The mortgage reforms in the law include provisions that will limit harmful and abusive loan provisions. In addition, these reforms also require that all lenders take the common-sense step of evaluating a borrower's ability to repay a mortgage. These straightforward reforms address the causes of the still ongoing foreclosure crisis, because research has shown that mortgage defaults are strongly tied to abusive loan practices, such as having prepayment penalties, including "exploding" ARMs, and originating loans through mortgage brokers who received kickbacks for placing borrowers in riskier, more expensive mortgages than those for which they qualified. Reversing these reforms and returning to the pre-crisis status quo would have long-term costs for both the economy and individual families.

Promote Reasonable Foreclosure Prevention Activities.

Because the foreclosure crisis is not over and to protect future borrowers facing the prospect of foreclosure, policy makers should require mortgage servicers to provide borrowers with full and fair consideration for loan modifications and other cost-effective alternatives to foreclosure. In particular, servicing standards should prohibit the practice, known as dual tracking, where servicers process a borrower for a foreclosure while the servicer is reviewing the borrower for a loan modification. At the same time, Congress and state legislatures should also fund more housing counseling and legal-aid assistance for home owners who are at risk of foreclosure. Every successful intervention that prevents an unnecessary foreclosure helps home owners, their communities, and the economy as a whole.

Support Mortgage Finance Reform that Prioritizes Broad Market Access.

The timing of mortgage finance reform is uncertain, but policymakers must ensure that a future system balances both broad market access and borrower protections. In assessing this balance, the significant protections against risky lending already included as part of the Dodd-Frank Act must be taken in to account. As a result, further reforms to the GSEs and the secondary market should not add additional loan restrictions and instead must prioritize the issue of equitable access to the mortgage finance system. Policymakers should adopt the following key principles to ensure a robust and secure secondary market:

- Government Guarantee: The U.S. government should provide an explicit, actuarially sound guarantee for mortgages in a future secondary market structure. This is an appropriate role to for the government to play in the event of a housing-market crash or market disruption. Discussion about the role of private capital in sharing losses is an important part of the conversation, but a catastrophic government guarantee is essential to the future of mortgage finance.

- Duty to Serve Entire Market: Mortgage finance reform should require secondary market entities that benefit from federal guarantees to serve all qualified homeowners, rather than preferred market segments. Without a duty to serve the entire market, lenders could recreate the dual credit market that characterized lending during the subprime crisis.

- Encourage Broad Market Access by All Lenders: The future mortgage finance system should encourage competition and further broad market access to the secondary capital markets for both small and large lenders. These goals should be met by establishing a cooperative secondary market model of one non-lender entity, owned in equal shares by member-users, that is able to issue guaranteed securities. Such a model of aligned interests will correct the shortcomings of Fannie Mae and Freddie Mac's past and also prevent a further concentrated lending marketplace in the future.

Appendix 1: Foreclosure Spillover Estimates by State

State	Number of Foreclosure Starts	Housing Units Affected by Spillover Impact	Lost Wealth Due to Spillover (in Millions)	Lost Wealth Per Affected Household	Average Home Equity Lost (as % of Total Home Value)
US	**10,868,651**	**92,531,622**	**$1,950,324**	**$21,077**	**7.2%**
AL	111,068	1,027,026	$2,526	$2,460	1.9%
AK	9,294	126,261	$601	$4,764	2.1%
AZ	469,923	2,259,997	$53,540	$23,690	10.9%
AR	50,052	484,463	$808	$1,668	1.3%
CA	1,857,591	12,234,575	$594,975	$48,631	11.0%
CO	195,477	1,578,749	$20,685	$13,102	6.1%
CT	100,295	1,169,614	$14,211	$12,151	4.8%
DE	30,759	295,764	$1,910	$6,459	3.4%
DC	16,495	279,023	$14,773	$52,944	12.4%
FL	1,560,026	7,954,494	$286,001	$35,955	13.8%
GA	467,183	2,842,312	$20,886	$7,348	3.8%
HI	32,498	385,323	$12,777	$33,158	7.8%
ID	56,904	344,386	$2,103	$6,106	3.6%
IL	476,400	4,310,335	$160,358	$37,203	13.6%
IN	218,928	1,920,809	$6,994	$3,641	3.5%
IA	55,371	629,536	$1,718	$2,729	2.4%
KS	54,523	695,949	$1,988	$2,856	2.4%
KY	88,664	909,023	$3,395	$3,735	3.0%
LA	88,898	1,042,210	$4,780	$4,587	2.7%
ME	29,360	235,918	$881	$3,735	1.8%
MD	201,748	1,935,476	$33,724	$17,424	6.8%
MA	144,963	2,242,050	$39,753	$17,731	5.4%
MI	435,314	3,337,048	$35,924	$10,765	9.0%
MN	193,707	1,524,530	$16,777	$11,005	5.0%
MS	61,270	516,040	$1,104	$2,140	2.0%
MO	163,367	1,730,548	$10,431	$6,028	4.8%
MT	16,418	140,132	$295	$2,104	1.2%
NE	31,616	433,189	$1,327	$3,064	2.6%
NV	299,767	983,796	$56,426	$57,355	21.5%
NH	38,841	307,496	$1,587	$5,162	2.1%
NJ	290,710	3,189,495	$108,693	$34,079	10.4%
NM	45,452	477,973	$2,299	$4,810	2.7%
NY	359,685	6,198,420	$257,914	$41,610	9.2%
NC	239,727	2,288,317	$6,144	$2,685	1.6%
ND	4,619	104,262	$170	$1,629	1.3%
OH	394,681	3,888,090	$21,967	$5,650	5.0%
OK	76,421	902,317	$2,284	$2,531	2.4%
OR	117,206	1,126,551	$11,567	$10,268	3.8%
PA	241,909	3,620,807	$25,371	$7,007	5.2%
RI	39,643	400,079	$9,315	$23,283	9.3%
SC	137,693	1,191,321	$5,077	$4,262	2.0%
SD	8,429	109,128	$236	$2,163	1.7%
TN	173,741	1,540,740	$4,529	$2,939	2.4%
TX	513,698	6,592,722	$21,741	$3,298	2.4%
UT	88,704	717,291	$4,978	$6,940	3.4%
VT	8,520	68,826	$175	$2,537	1.2%
VA	234,383	2,205,271	$32,368	$14,678	4.5%
WA	177,806	2,086,016	$21,113	$10,121	3.2%
WV	24,178	306,255	$545	$1,779	1.5%
WI	127,252	1,555,643	$10,376	$6,670	4.7%
WY	7,473	86,027	$203	$2,357	1.5%

Appendix 1: Foreclosure Spillover Estimates by State

State	Lost Wealth Due to Spillover (in Millions)	Lost Wealth Due to Spillover in Minority Tracts (in Millions)	Percentage of Lost Wealth Coming from Minority Tracts	Lost Wealth Per Affected Household in Minority Tracts	Average Home Equity Lost (as % of Total Home Value) in Minority Tracts
US	**$1,950,324**	**$1,015,767**	**52.1%**	**$37,084**	**13.1%**
AL	$2,526	$808	32.0%	$2,502	3.0%
AK	$601	$75	12.4%	$3,982	2.2%
AZ	$53,540	$15,505	29.0%	$27,678	17.2%
AR	$808	$130	16.1%	$1,340	1.6%
CA	$594,975	$376,219	63.2%	$57,909	14.3%
CO	$20,685	$5,305	25.6%	$20,056	11.8%
CT	$14,211	$7,011	49.3%	$25,273	11.5%
DE	$1,910	$752	39.4%	$14,113	9.9%
DC	$14,773	$9,867	66.8%	$55,375	14.8%
FL	$286,001	$130,214	45.5%	$60,259	25.0%
GA	$20,886	$9,339	44.7%	$8,468	5.8%
HI	$12,777	$11,351	88.8%	$32,767	8.0%
ID	$2,103	$8	0.4%	$2,869	3.3%
IL	$160,358	$74,988	46.8%	$57,725	25.3%
IN	$6,994	$1,614	23.1%	$6,152	7.4%
IA	$1,718	$51	3.0%	$3,959	5.3%
KS	$1,988	$221	11.1%	$3,166	4.5%
KY	$3,395	$521	15.3%	$6,167	7.4%
LA	$4,780	$1,731	36.2%	$4,340	3.3%
ME	$881	$0	0.0%	$446	0.7%
MD	$33,724	$19,391	57.5%	$23,431	10.3%
MA	$39,753	$13,428	33.8%	$48,954	15.9%
MI	$35,924	$13,752	38.3%	$21,657	23.3%
MN	$16,777	$3,240	19.3%	$33,393	18.9%
MS	$1,104	$359	32.5%	$1,935	2.5%
MO	$10,431	$3,434	32.9%	$12,890	13.7%
MT	$295	$0	0.0%	$479	0.7%
NE	$1,327	$141	10.6%	$3,824	5.1%
NV	$56,426	$18,209	32.3%	$56,226	27.6%
NH	$1,587	N/A	N/A	N/A	N/A
NJ	$108,693	$74,138	68.2%	$73,436	23.7%
NM	$2,299	$1,110	48.3%	$4,395	3.0%
NY	$257,914	$172,540	66.9%	$75,476	17.5%
NC	$6,144	$1,570	25.6%	$2,541	2.2%
ND	$170	$0	0.0%	$412	0.7%
OH	$21,967	$5,460	24.9%	$9,544	11.0%
OK	$2,284	$345	15.1%	$2,257	3.2%
OR	$11,567	$327	2.8%	$9,301	4.6%
PA	$25,371	$8,195	32.3%	$12,927	13.7%
RI	$9,315	$4,306	46.2%	$64,373	27.3%
SC	$5,077	$514	10.1%	$2,084	1.8%
SD	$236	$0	0.0%	$568	0.7%
TN	$4,529	$1,568	34.6%	$4,357	4.8%
TX	$21,741	$10,447	48.1%	$2,960	2.7%
UT	$4,978	$275	5.5%	$6,757	4.9%
VT	$175	N/A	N/A	N/A	N/A
VA	$32,368	$11,968	37.0%	$20,327	7.1%
WA	$21,113	$2,108	10.0%	$12,277	4.3%
WV	$545	$3	0.5%	$1,193	2.1%
WI	$10,376	$3,230	31.1%	$19,119	17.4%
WY	$203	$0	0.0%	$586	0.7%

Appendix 2: Completed Foreclosure and Serious Delinquency Rates by State and Race/Ethnicity, 2004-2008 Originations (Loan Status as of February 2012)

	Total*		Asian		African-American		Latino		NH White	
State	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure
Alabama	6.5%	6.0%	4.2%	3.6%	10.0%	12.5%	7.8%	6.2%	5.8%	4.6%
Alaska	3.7%	2.6%	4.9%	3.7%	5.2%	5.3%	4.6%	3.3%	3.4%	2.3%
Arizona	14.7%	6.3%	18.1%	6.0%	17.6%	8.0%	21.2%	8.6%	12.8%	5.7%
Arkansas	5.6%	6.5%	5.1%	5.1%	6.3%	13.9%	15.5%	12.3%	4.9%	5.4%
California	11.5%	6.9%	10.6%	6.1%	13.7%	9.0%	17.2%	8.8%	8.8%	6.0%
Colorado	8.6%	4.1%	9.2%	3.9%	16.0%	7.4%	18.7%	6.7%	6.9%	3.6%
Connecticut	3.6%	7.9%	3.1%	5.8%	6.6%	14.6%	7.4%	14.1%	2.9%	6.5%
DC	3.3%	7.2%	3.2%	3.4%	4.9%	8.7%	6.2%	7.3%	1.3%	1.9%
Delaware	3.0%	5.1%	2.8%	4.2%	4.7%	13.1%	3.8%	9.2%	3.0%	5.8%
Florida	10.1%	16.4%	10.5%	15.8%	11.3%	20.6%	14.6%	21.6%	8.6%	14.2%
Georgia	10.3%	7.7%	9.9%	5.2%	15.8%	13.2%	17.3%	10.8%	7.8%	5.5%
Hawaii	3.4%	6.4%	2.2%	5.1%	5.8%	7.5%	5.9%	8.2%	4.1%	6.3%
Idaho	6.8%	4.8%	5.5%	3.4%	10.3%	6.5%	9.7%	7.7%	6.7%	4.7%
Illinois	6.1%	8.6%	4.9%	6.9%	11.0%	15.0%	10.0%	14.0%	4.8%	6.8%
Indiana	7.2%	7.4%	4.4%	4.5%	12.9%	14.0%	9.3%	10.3%	6.7%	6.9%
Iowa	5.1%	4.9%	4.4%	3.7%	9.1%	9.3%	7.3%	7.5%	4.9%	4.7%
Kansas	5.6%	4.4%	5.0%	3.0%	10.7%	9.6%	8.6%	6.6%	5.1%	4.0%
Kentucky	5.5%	6.1%	3.2%	2.9%	9.2%	10.9%	7.1%	7.8%	5.2%	5.7%
Louisiana	4.4%	6.9%	4.1%	4.3%	6.6%	13.9%	5.0%	7.9%	3.7%	5.0%
Maine	3.6%	7.5%	3.6%	6.1%	6.1%	12.6%	4.4%	7.0%	3.5%	7.4%
Maryland	4.1%	7.5%	4.8%	6.1%	5.3%	10.9%	11.7%	12.1%	2.8%	5.4%
Massachusetts	5.0%	6.0%	3.5%	3.1%	11.8%	12.7%	14.4%	11.0%	3.9%	5.3%
Michigan	15.2%	6.2%	9.0%	3.6%	32.2%	12.5%	22.5%	7.7%	12.8%	5.4%
Minnesota	9.8%	4.6%	19.0%	6.0%	24.1%	9.8%	23.4%	7.2%	8.5%	4.2%
Mississippi	7.7%	8.9%	5.6%	6.3%	11.8%	16.3%	11.3%	9.3%	6.2%	6.5%

(Chart continued next page.)

Appendix 2: Completed Foreclosure and Serious Delinquency Rates by State and Race/Ethnicity, 2004-2008 Originations (Loan Status as of February 2012)
(Continued from previous page.)

	Total*		Asian		African-American		Latino		NH White	
State	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure	Completed Foreclosure	Imminent Risk of Foreclosure
Missouri	7.8%	4.7%	5.3%	3.0%	17.1%	11.1%	10.2%	5.9%	6.7%	4.0%
Montana	3.5%	3.4%	0.8%	3.9%	3.6%	4.4%	4.8%	4.7%	3.4%	3.3%
Nebraska	5.3%	4.0%	4.1%	2.4%	11.3%	10.3%	8.7%	6.2%	4.9%	3.7%
Nevada	19.0%	10.3%	25.0%	11.1%	20.2%	11.6%	25.0%	13.1%	16.8%	9.5%
New Hampshire	6.1%	4.6%	6.0%	2.6%	10.8%	7.6%	12.3%	6.6%	5.9%	4.4%
New Jersey	2.5%	10.2%	2.0%	8.2%	4.4%	16.7%	5.8%	17.5%	1.9%	8.4%
New Mexico	3.3%	5.7%	3.3%	4.8%	5.1%	7.9%	3.9%	7.8%	2.9%	4.5%
New York	2.2%	9.8%	1.8%	7.6%	3.9%	17.5%	4.0%	17.9%	1.8%	7.8%
North Carolina	4.5%	6.1%	3.1%	4.1%	7.6%	12.1%	6.2%	8.9%	3.8%	4.9%
North Dakota	2.1%	2.2%	1.4%	0.0%	4.4%	3.1%	1.7%	4.8%	2.1%	2.2%
Ohio	8.3%	8.2%	5.1%	4.9%	15.9%	15.9%	10.8%	10.1%	7.4%	7.4%
Oklahoma	5.3%	5.5%	3.5%	3.8%	8.6%	10.7%	6.6%	6.4%	5.0%	5.0%
Oregon	5.2%	5.5%	5.2%	4.8%	5.9%	7.7%	8.7%	9.4%	5.1%	5.3%
Pennsylvania	3.0%	6.4%	2.4%	4.6%	5.0%	13.2%	5.0%	11.3%	2.7%	5.5%
Rhode Island	7.5%	7.2%	10.0%	7.3%	15.2%	12.7%	15.9%	12.6%	6.1%	6.2%
South Carolina	4.8%	7.1%	3.8%	5.5%	7.4%	12.7%	7.1%	9.9%	4.3%	6.1%
South Dakota	3.8%	3.3%	4.1%	4.2%	7.7%	4.9%	3.3%	6.2%	3.7%	3.2%
Tennessee	6.9%	6.3%	5.0%	4.4%	13.1%	14.0%	9.3%	7.1%	5.8%	5.0%
Texas	6.5%	5.5%	4.8%	3.3%	13.0%	11.5%	8.3%	7.9%	5.0%	4.0%
Utah	4.9%	4.2%	5.2%	4.1%	7.3%	6.8%	8.2%	7.2%	4.6%	3.9%
Vermont	1.5%	5.2%	0.8%	4.7%	5.9%	8.1%	2.2%	10.1%	1.4%	5.1%
Virginia	6.6%	4.4%	10.1%	4.3%	7.5%	7.9%	22.2%	6.0%	4.6%	3.5%
Washington	4.2%	6.0%	5.4%	6.9%	6.3%	9.8%	6.7%	9.1%	4.0%	5.7%
West Virginia	6.0%	5.2%	8.8%	3.5%	11.2%	8.9%	18.4%	7.0%	5.6%	4.9%
Wisconsin	5.7%	5.4%	7.0%	5.9%	12.7%	13.7%	9.6%	8.9%	5.0%	4.7%
Wyoming	4.0%	2.4%	5.0%	3.4%	7.4%	5.3%	3.9%	3.1%	3.9%	2.3%

Note: Rates based on are based on the methodology derived in the CRL paper "Lost Ground: Disparities in Mortgage Lending and Foreclosures", updated to reflect loan status as of February 2012.

* Rates for "Total" also include borrowers from racial/ethnic categories that are not included in this table and borrowers for whom no race/ethnicity was listed.

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