Capital at the point of impact.

Update on Mortgage Foreclosures in Pennsylvania

As we all try and figure out what recent developments in the subprime lending market mean for Pennsylvania, it is important to take stock of a few things. Recent increases in the national foreclosure and delinquency rates – particularly among subprime loans, and especially among those subprime loans that carry adjustable rate[1] – have drawn the attention of elected officials at all levels, regulators, lending industry professionals, investors and borrowers alike. Pundits hypothesize about what impact all this will have on the housing market. Hopefully our policy and legislative responses will be tailored to an objective and comprehensive analysis of the problem.

In 2005, 17.4% of loans originated to purchase homes and 26.0% of loans originated to refinance existing mortgages in Pennsylvania carried an APR more than three points above the comparable Treasury security. This kind of interest rate difference is reasonably interpreted as indicative of a subprime mortgage. Pennsylvania's 2005 profile manifests substantially lower subprime loan utilization than the US rate for home purchases and equivalent rates for mortgage refinances.

In 2005 when The Reinvestment Fund completed its study of mortgage foreclosures in Pennsylvania at the request of the PA Department of Banking (Banking) and the Pennsylvania Housing Finance Agency (PHFA),[2] the prime foreclosure rate was 0.85 ranking Pennsylvania 9^{th} highest in the nation. The subprime foreclosure rate was 11.94% ranking Pennsylvania 4^{th} highest in the nation. As of the 4^{th} quarter of 2006, the prime foreclosure rate was 0.70 (ranking Pennsylvania 12^{th}) and the subprime foreclosure rate was 5.65 (ranking Pennsylvania 15^{th}). Pennsylvania's foreclosure rates and national rankings are down – a good sign.

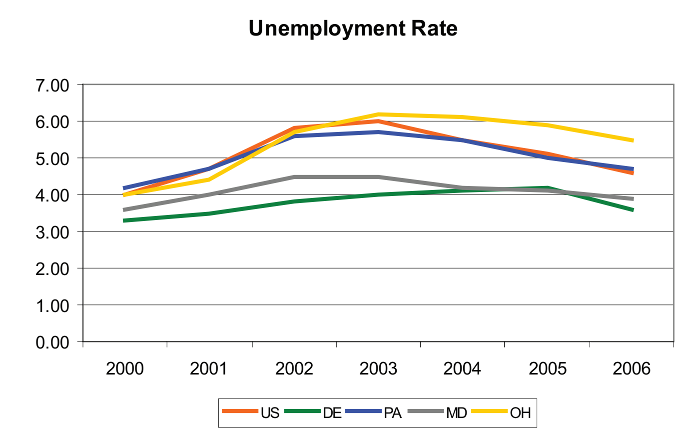
Looking forward though, Pennsylvania's percentage of prime loans that are "seriously delinquent"[3] is 1.21 - substantially higher than the 0.86 US average for prime loans. On the subprime side, Pennsylvania's seriously delinquent rate is 10.29 - also well above the US average for subprime loans of 7.78. These percentages warn of problems on the horizon about which we should be concerned.

What are some of the factors that distinguish Pennsylvania from other states that have seen a rise in foreclosures?

Much of Pennsylvania is affordable to households at or near the median income. Among states in the mid-Atlantic, Pennsylvania has the highest percentage of homes valued under $50,000 (11.9%) and between $50,000 and $100,000 (25.1%). With a median household income of over $44,000, these values are quite reasonable.

Housing cost burdens for owners, taking into account a full range of owner costs, show that 13.9% of households with a mortgage spend between 30% and 39.9% on housing, 6.2% spend 40% to 49.9%, and 11% spend more than 50%. It is primarily those spending in excess of 40% or 50% for whom we have the greatest worry. There are an estimated 371,000 households across Pennsylvania in this circumstance.[4]

On the unemployment side, Pennsylvania has been fortunate over the last few years. After peaking in 2003, Pennsylvania's unemployment rate has fallen from 5.7% to 4.7%.[5]



Credit scores in Pennsylvania are strong, averaging 687 (well above the threshold for subprime loans).[6] Compared to our mid-Atlantic peers and the nation, Pennsylvania is well situated.

Pennsylvania also has a nationally recognized program, Homeowners' Emergency Mortgage Assistance Program (HEMAP) administered by the PHFA. Each year, more than

5,000 people make application to PHFA for assistance and each year, several thousand people receive assistance thereby avoiding foreclosure.

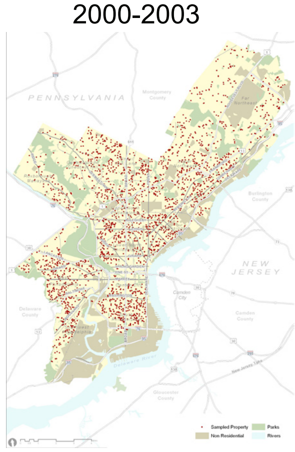
Adding those households to Pennsylvania foreclosure numbers would trigger a significant statewide rise.

Recently the Pennsylvania Department of Banking recommended the passage of several pieces of legislation based on the study completed by TRF for the state in 2005. Among the recommendations in this legislation is individual licensing for mortgage brokers, enhanced public notice of findings that the law was violated by a licensee, and enhanced collection of information about foreclosure filings in Pennsylvania. Each of these things are important changes that should help protect consumers from the abusive lending practices that strip equity and often land homeowners in foreclosure.

On the issue of abusive lending practices, TRF recently completed a study of predatory lending based on data collected in the city of Philadelphia.[7] Among the most salient findings are:

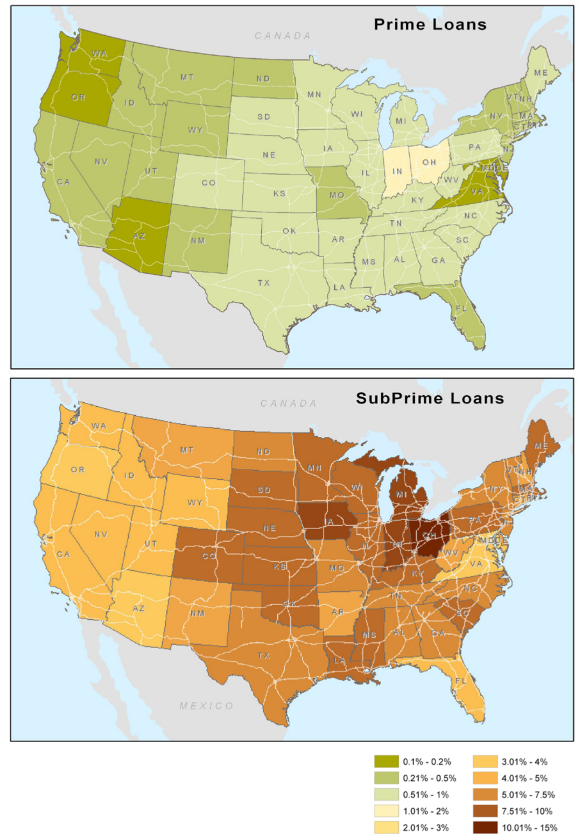
(1) 3.1% of all owner occupied properties in Philadelphia experience a mortgage history reflective of predatory lending;
(2) 14.1% of homes with mortgage refinances in their past manifest a pattern reflective of predatory lending;
(3) Comparing homes in foreclosure to a random sample of properties shows that foreclosure properties are substantially more likely to manifest a pattern of predatory lending;
(4) These patterns vary significantly across the city such that areas with homes valued in the more modest ranges actually manifest more frequent indicators of predatory lending than lower or higher-priced areas.

Philadelphia Foreclosures; 2000-2003

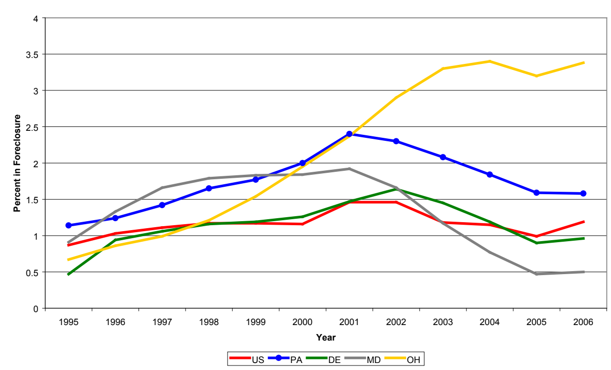


These data help policymakers right-size the policy responses to the various causes of the foreclosure problem. In the end, TRF makes several suggestions about approaches to the abusive lending problem – several of which are now addressed by Banking in its agenda. One item worthy of note is creating a "suitability standard" for mortgage brokers and lenders like that which professionals in the securities industry operate under. Such a standard will help make certain that the right kind of mortgage products are made available to consumers.

Prime Foreclosure Rate; 4th Quarter, 2006



Percent of All Loans in Foreclosure; 1995-2006



Endnotes: 1) Mortgage Bankers Association "National Delinquency Survey from the Mortgage Bankers Association" 4th quarter 2006. 2) A copy of this study can be found at: http://www.trfund.com/resource/downloads/policypubs/Mortgage-Forclosure-Filings.pdf 3)According to the Mortgage Bankers Association, seriously delinquent is operationally defined as the sum of those loans 90 days or more past due and the number of loans in the foreclosure inventory. 4) American Community Survey, 2005; Table B25091. 5) Bureau of Labor Statistics. 6) Experian Information Solutions, National Score Index. 7) The Reinvestment Fund (2006), Lost Values.). 8) Source: Mortgage Bankers Association National Delinquency Survey