

**Slide 4:****Changes in Mortgage Market Make-up: Residential Mortgage –Backed Security (RMBS) Issuance by Mortgage Type, 1995- 2007 2<sup>nd</sup> Quarter**

This chart illustrates changes in the composition of the mortgage market by tracking the change in percentage for five types of RMBS loans issued from 1995-2007 including Agency, Alt-A, Subprime, Jumbo, and Other. The most dramatic change occurs in the number of Agency loans issued. From 1995 to 2003 these types of loans made-up between 78% to 85% of the mortgage market. The percentage drops in 2004 to 54%, dropping further in 2005 and 2006 to 45%. Alt-A and Subprime loans issued increase over this time period from approximately 6% of the market in 1995 to about 38% in 2006 with the biggest upward jump occurring in 2004. Jumbo loans remain fairly constant ranging from 8% to 11% of the market.

Source: Inside MBS & ABS from “The Deflating Mortgage and Housing Bubble, Part II” by Thomas Zimmerman. October 2007

**Slide 6:****Trends and Characteristics of the Subprime Market: Decreasing Equity**

This chart depicts the percentage of adjustable rate mortgages (ARM) with loan to value ratios below 80% by type of mortgage from 2002 to 2006. The percentage of subprime loans with a loan to value (LTV) ratio below 80% dropped from 47% in 2003 to 37% in 2006. Alt-A loans went from 13% in 2002 to 5% in 2006. Prime ARMs remained fairly constant with a range of 1% to 2%. Option ARMs increased from 2% in 2002 to 8% in 2006. The fact that all but the Option ARM loans decreased in the percentage of loans with LTV ratios below 80% is an indicator of decreasing home equity due to either an increasing instance of borrowers are taking out mortgages with small down payments or due to borrowers repeatedly refinancing home mortgages.

Source: LoanPerformance, UBS from “The Deflating Mortgage and Housing Bubble, Part II” by Thomas Zimmerman. October 2007

**Slide 7:****Trends and Characteristics of the Subprime Market: Increasing Popularity of Low Income Documentation**

This chart tracks the increasing popularity of adjustable rate mortgage loans with low documentation on income by type of mortgage, including Prime ARMs, Alt-A ARMs, Subprime ARMs, and Option ARMs from 2002 to 2006. In all types, there was approximately a 15% to 20% increase in the percentage of loans issued with low documentation on income. Option ARMs increased from 68% in 2002 to 88% in 2006. Alt-A ARMs increased from 54% in 2002 to 76% in 2006. Prime ARMs increased from

43% in 2002 to 63% in 2006 and Subprime ARMs increased from 32% in 2002 to 47% in 2006.

Source: LoanPerformance, UBS from “The Deflating Mortgage and Housing Bubble, Part II” by Thomas Zimmerman. October 2007

### **Slide: 8**

Trends and Characteristics of the Subprime Market: Growing Popularity of Hybrid Adjustable Rate Mortgages (ARM)

This chart tracks the popularity of 2/28 and 3/27 hybrid ARMs in the subprime market from 1999 to 2006. 2/28 and 3/27 loans comprised 53% of the subprime market in 1999 and increased steadily to 77% in 2006. Fixed ARMs decreased from 33% in 1999 to 19% in 2006. This chart demonstrates that the majority of the subprime market consists of loans that have a low initial monthly payment that will reset to a significantly higher monthly payment rate after two or three years.

Source: LoanPerformance, UBS from “The U.S. Subprime Industry in Turmoil” by Thomas Zimmerman. March 2007

### **Slide 9**

This slide has two pie charts from an informal survey completed by bankrate.com in March 2007. The first of the charts illustrates respondents' answers to the question that asks what type of loan they have. 57% of respondents indicated that they have a fixed rate loan, 34% did not know what type of loan they had, 6% indicated that they had an adjustable rate, and 3% replied that they had an interest only mortgage. Given that the number of mortgage loans that have an adjustable rate is much higher than 6% and that fixed rate loans comprise less than 57% of the market, these responses highlight concerns that borrowers may not know that they have an adjustable rate mortgage or that they will be prepared for their monthly mortgage payment to change to a higher rate.

The second pie chart shows responses to the question, “What do you plan to do when your ARM loan readjusts?” which was posed to those who indicated they had an adjustable rate mortgage. 36% indicated that they will refinance to a fixed rate loan, 24% indicated that they would not have the loan anymore, 34% did not know what they would do, 4% said they would move, and 2% said they would get another ARM.

Source: Elizabeth Razzi, “Mortgage Ignorance Rampant.” *Bankrate.com* [March 26, 2007]

### **Slide 10:**

Upcoming Reset Schedule of Loans by Loan Type

This chart illustrates that the crisis may go on for more than just a couple of years due to the reset schedule for loans. Taking into consideration the subprime loan types 2/28 and 3/27 issued in 2006 and 2007 the graph depicts these loans resetting to a higher payment

rate in 2008 or 2009. In addition, the chart depicts Option ARM loans that allow borrowers to make low minimum payments for up to five years before resetting to a higher monthly payment in 2010 and 2012.

Source: IMF and Credit Suisse

**Slide 11:**

Problems with “Alternative” Mortgages

This graph shows an example of the increase in minimum monthly payments and outstanding loan balance for an April 2004 loan of \$400,000 with a Payment Option ARM assuming rising interest rates. The chart begins with a minimum monthly payment in year one is \$1,287 that steadily increases incrementally to \$1,718 in year five and jumps to \$2,931 in year six when the loan resets to include payment on the principle. The increase to the total outstanding balance steadily increases from \$3,299 in year 2 to \$33,446 in year 6.

Source: GAO-06-1021 Alternative Mortgage Products (2006).

**Slide 13:**

Possible trouble spots for Foreclosures: Problem Lenders and Investment Properties

This slide contains two maps of the Chicago region that display possible trouble spots for foreclosures. One of the maps depicts where the top three worst subprime lenders including Freemont, New Century, and WMC Mortgage have made loans. All three of these lenders are now out of business. The map shows a concentration in the southern and western areas of Cook County however, there are pockets of these types of loans dispersed throughout the state. These areas are spots where you would expect troubled mortgages due to the type of lender. The second map shows the percentage of loans that are on non-owner occupied properties or investment properties. In Chicago, there was an average of 9% of mortgages on non-owner occupied properties in 2006. This map depicts higher percentages than the average in southern and western Cook County. In some cases the percentage of non-owner occupied loans is 30% or higher. The areas highlighted on this map correspond with the areas depicted on the first map.

**Slide 14:**

Foreclosure Trends in the Chicago Region

This chart tracks foreclosures in the region by quarter from the first quarter in 2003 to the second quarter in 2007. The number ranges from 5,000 to 6,000 from 2003 to 2006. There is big jump from 6,500 at the beginning in the second quarter of 2006 to 8,700 at the end of 2006. The number of foreclosures remains steady in 2007 at about 8,500.

Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago

**Slide 15:**

## 2006 Foreclosures in the Chicago Region

This slide includes statistics on the percentages of foreclosures in the Chicago region. Regionally there was a 36% increase in foreclosures from 2005 to 2006. Every area shows at least a 27% increase in foreclosures. The highest percentage of increase includes a 52% increase in North Cook, a 49% increase in Northwest Cook, and a 46% increase in DuPage County. The slide also includes a map that shows the number of foreclosures per 1,000 properties in the Chicago Region. Areas that are showing 25 properties per 1,000 in foreclosure or greater include a good portion of southern areas. The map shows an average of about 13 to 24 properties per 1,000 in foreclosure in most areas of the region.

Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago

**Slide 16:**

## 2006 Foreclosures in the Chicago Region

The slide shows a bar graph that depicts the number of properties in foreclosure per 1,000 properties. South Cook has a rate of 33.6 properties in foreclosure per 1,000 which is double the six county average and much higher than any of the other regions of Cook County or other counties in the state. Chicago has a rate of 18.4 properties per 1,000. North Cook is the lowest at 4.5 properties per 1,000 in foreclosure.

Source: Woodstock Institute analysis of data from Foreclosure Report of Chicago