



Subprime Lending in Tennessee

July 19, 2007

Hulya Arik, Ph.D.
Research Coordinator

Graphic Design by Paul Henkel, A.B.D.
Asst. Director for Research, Planning & Technical Services



Presentation Overview

- I. **Housing Market Conditions in Tennessee**
- II. **Subprime Mortgage Lending**
- III. **Some Trends in Subprime Lending**
- IV. **Perspectives on Subprime Lending in Tennessee**



Presentation Overview

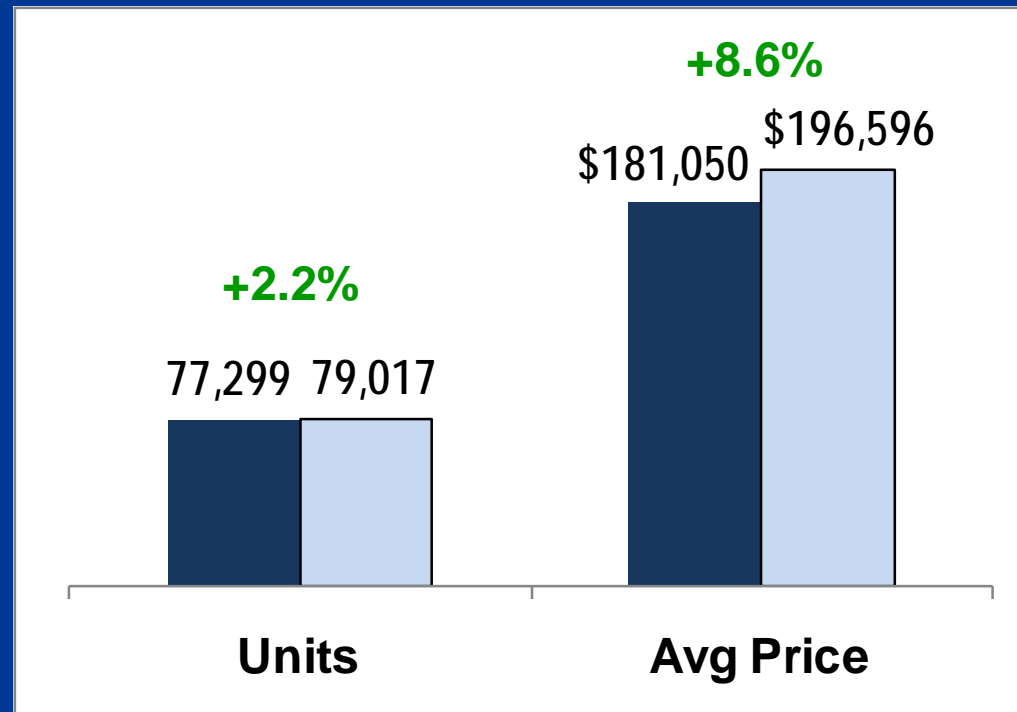
- v. **Extent of Subprime Lending in Tennessee**
- vi. **Subprime Lending and Economic Fundamentals**
- vii. **What Can We Do?**



I. Housing Market Conditions in Tennessee

Housing market in Tennessee is robust as both number of units sold and average price increased between 2005 and 2006.

HOUSING MARKET CONDITIONS, 2005-2006



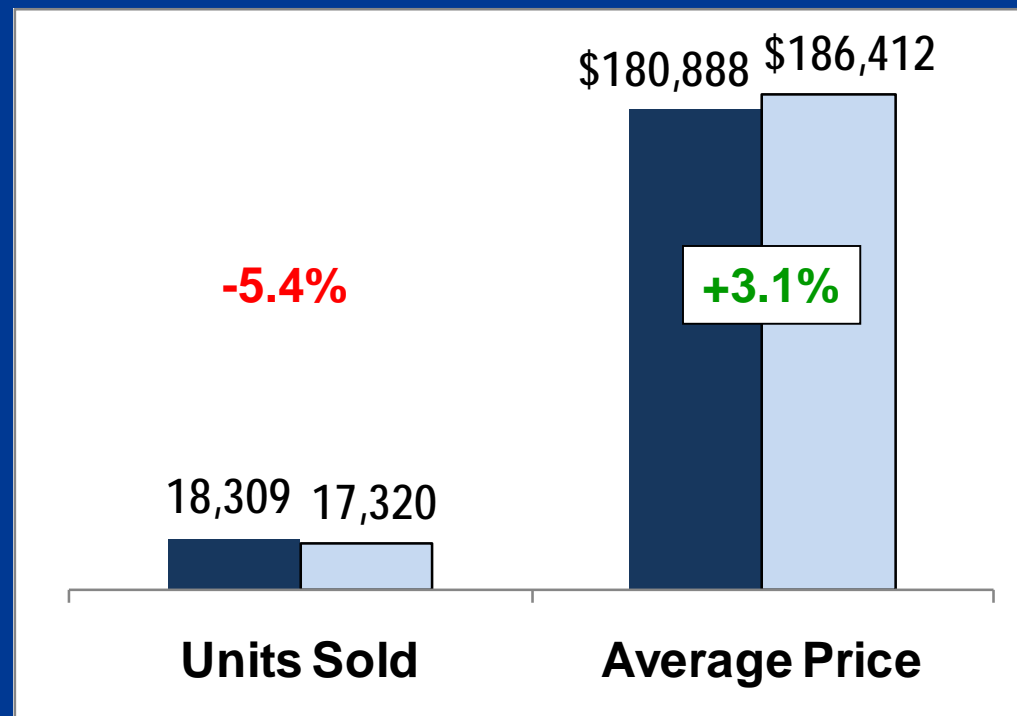
Note: These numbers are average prices annually and represent only the sales by real estate agents.



I. Housing Market Conditions in Tennessee

However, the change in the number of units sold and the average price from the first quarter of 2006 to the same quarter in 2007 is not as favorable.

HOUSING MARKET CONDITIONS, Q1:2006-Q1:2007



Note: These numbers are average quarterly price and represent only the sales by real estate agents.



I. Housing Market Conditions in Tennessee

HOME EQUITY CONCERNS

- If the mortgage interest rate adjusts or any unexpected event happens such as job loss, medical bills, death or divorce:

Selling the house instead of going through foreclosure might protect the borrower's credit.

However, having low equity makes the borrower unable to refinance or sell without a significant loss.

* Cagan, C.L. (2006), "Mortgage Payment Reset: the Rumor and the Reality," *First American Real Estate Solutions*



I. Housing Market Conditions in Tennessee

HOME EQUITY CONCERNS

- Nationwide estimate: 1.1 million borrowers, out of 8.4 million with ARMs originated in 2004, 2005 and 2006, will lose their homes in the next six to seven years.
- In Tennessee, almost 48 percent of mortgage holders have 15 percent or less equity in their homes.*

* Cagan, C.L. (2006), "Mortgage Payment Reset: the Rumor and the Reality," *First American Real Estate Solutions*



II. Subprime Mortgage Lending

➤ What is subprime mortgage?

Mortgages to borrowers with (FICO) credit score below 620



II. Subprime Mortgage Lending

➤ Some Facts about Subprime Loans

- ◆ Used for refinancing and home purchase*
- ◆ Higher rates
- ◆ Mostly ARM
- ◆ Higher loan-to-value ratios
- ◆ Higher loan-to-income ratios

*According to a recent study by Center for Responsible Lending, nationwide 56% of all subprime loans originated in 2006 were for refinancing. In Tennessee, in 2005 , approximately 49% of subprime loans were for refinance.



II. Subprime Mortgage Lending

Why is subprime mortgage important?

Creates homeownership opportunities



II. Subprime Mortgage Lending

Why is subprime mortgage important?

Lets people use equity in their home

This spending leads to additional rounds of spending, income and jobs in the economy through multiplier effect



II. Subprime Mortgage Lending

However

Leads to higher levels of delinquency and foreclosure

Prone to abusive/predatory lending practices



II. Subprime Mortgage Lending

Adverse effects may increase dramatically when overlapped with

- Economic slowdown
- Increasing unemployment rates
- Decreasing home prices



III. Some Trends in Subprime Lending

Nationally, subprime loans increased dramatically

Up from \$35 billion in 1994 to more than \$530 billion in 2004*.

According to Fed Chairman, based on data from Mortgage Banker Association, “about 7.5 million first-lien subprime mortgages are now (2007) outstanding, accounting for about 14% of all first-lien mortgages.”

**Source: New Information Reported Under HMDA and its Application in Fair Lending Enforcement, Federal Reserve Board Bulletin, 2004*



IV. Perspectives on Subprime Lending in Tennessee

This is particularly important for Tennessee given that:

Subprime lending in Tennessee is historically higher than in the U.S.

In Q1 of 2007, subprime loans accounted for a larger share of the conventional market.

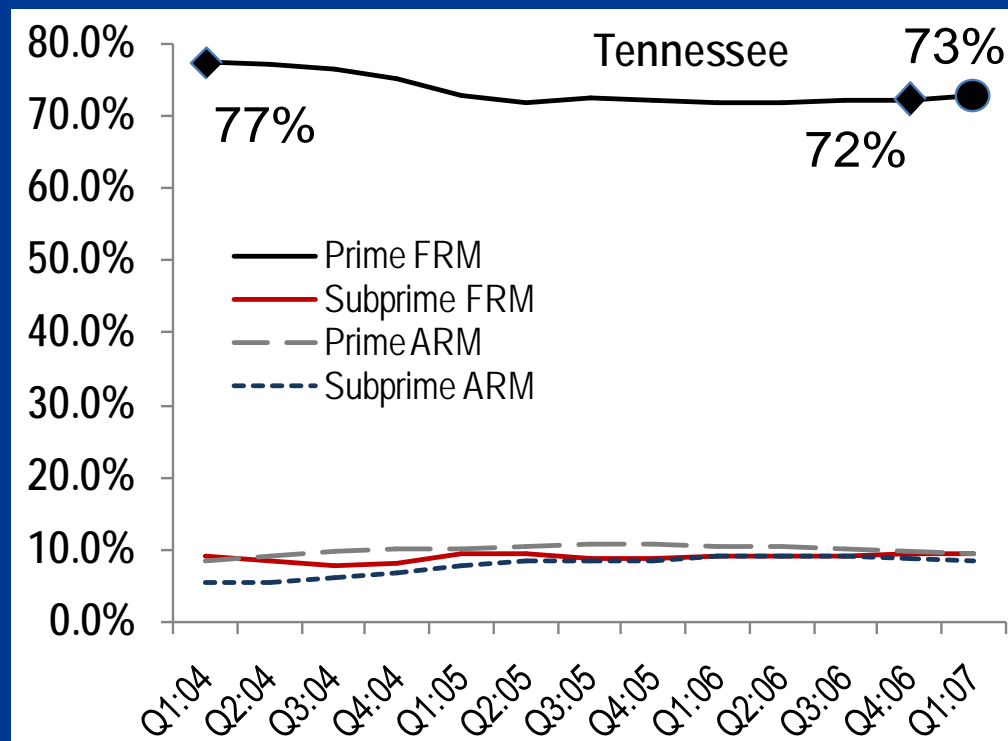
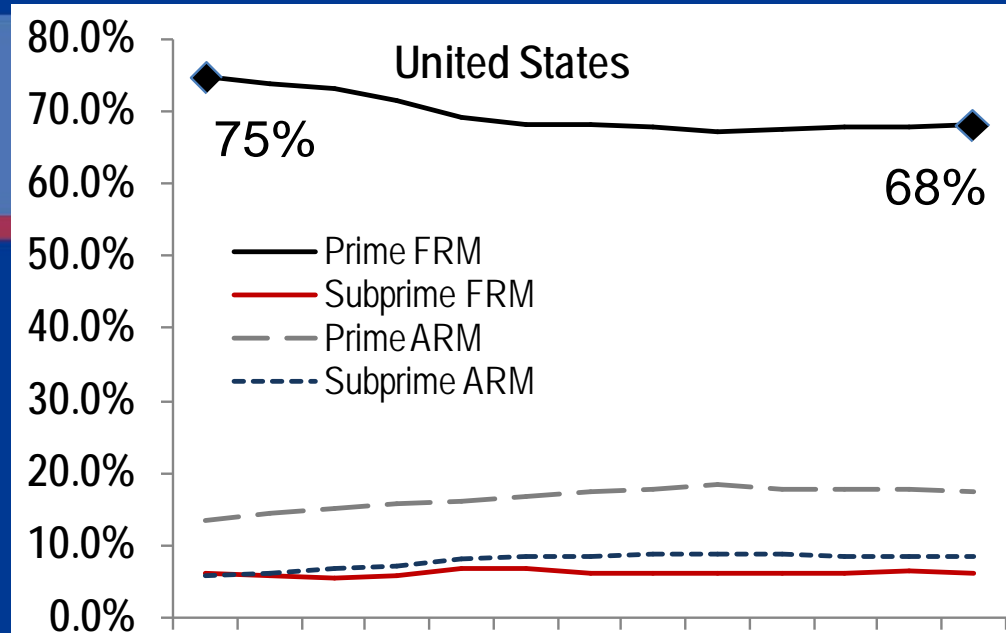
And between Q1 of 2004 and Q1 of 2007, the share of subprime loans in Tennessee grew faster than the share nationwide.



Conventional Mortgage Market Share

US & Tennessee Q1:2004 - Q1:2007

Source: MBA Delinquency Surveys
and author's own calculations

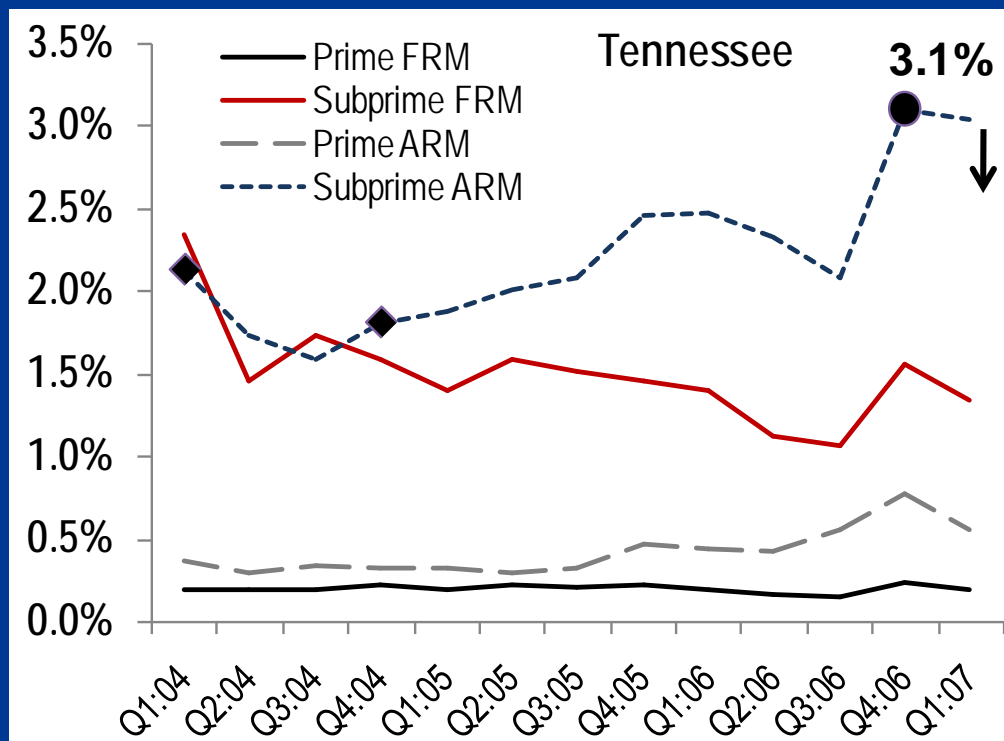
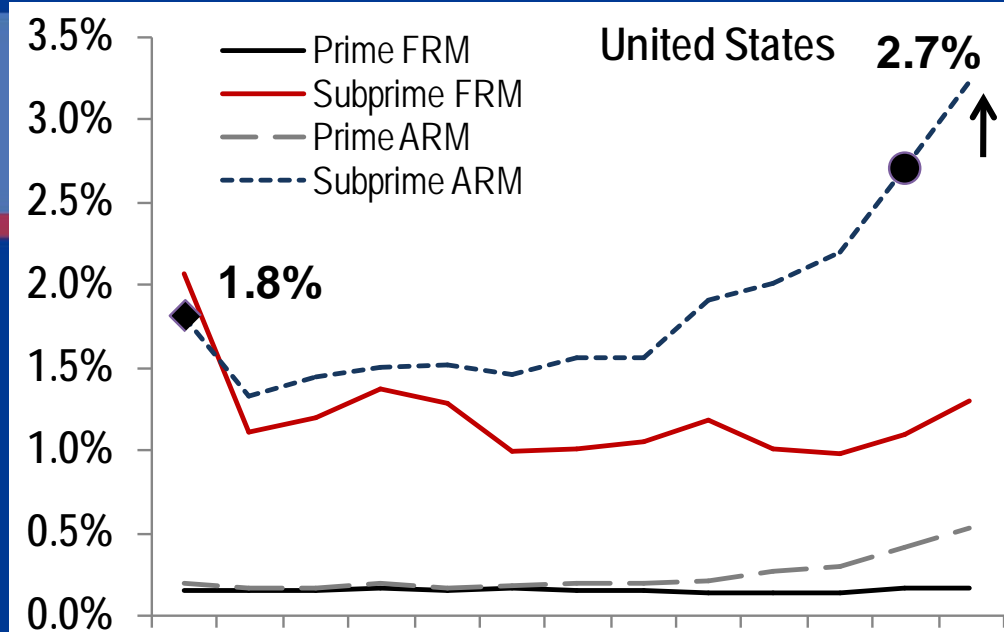




Foreclosure Rates by Mortgage Type

US & Tennessee Q1:2004 - Q1:2007

Source: MBA Delinquency Surveys
and author's own calculations





IV. Perspectives on Subprime Lending in Tennessee

FORECLOSURES – MARKET SHARE, 2007 (Q1)

In Tennessee, subprime fixed rate loans represented 9.3 percent of conventional loans but 21.7 percent of all foreclosures

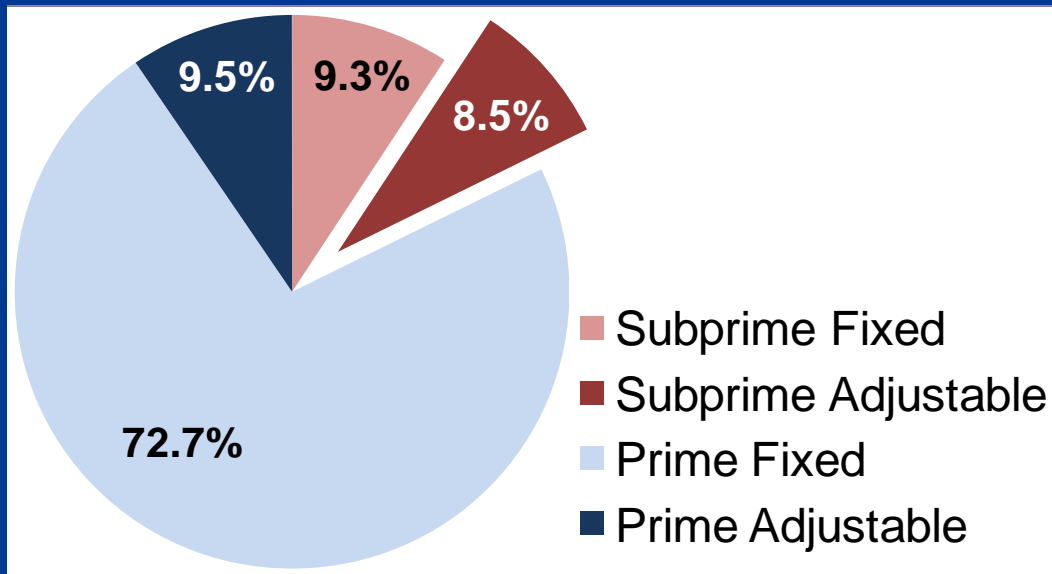
More notably, Tennessee's subprime adjustable mortgage loans accounted for 8.5 percent of loans but accounted for 45 percent of foreclosures



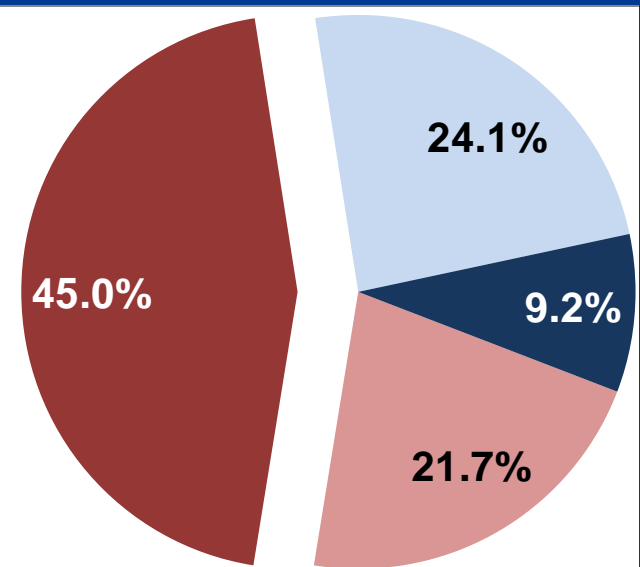
IV. Perspectives on Subprime Lending in Tennessee

Conventional Mortgage Products' Share of Market and Foreclosures in Tennessee, 2007 (Q1)

Market Share by Type



Foreclosure Share by Type



Source: MBA Delinquency Surveys and author's own calculations



IV. Perspectives on Subprime Lending in Tennessee

FORECLOSURES – MARKET SHARE, 2007 (Q1)

Similarly, nationwide, subprime fixed rate loans represented 6.1 percent of conventional loans but 14.2 percent of all foreclosures

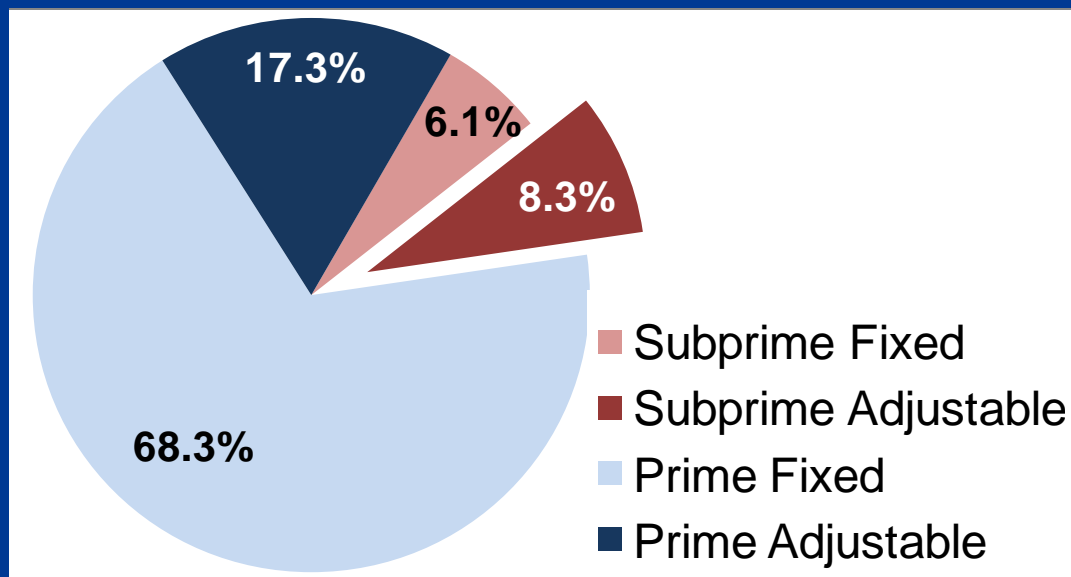
And, nationwide, subprime adjustable mortgage loans accounted for 8.3 percent of loans but 48.2 percent of foreclosures



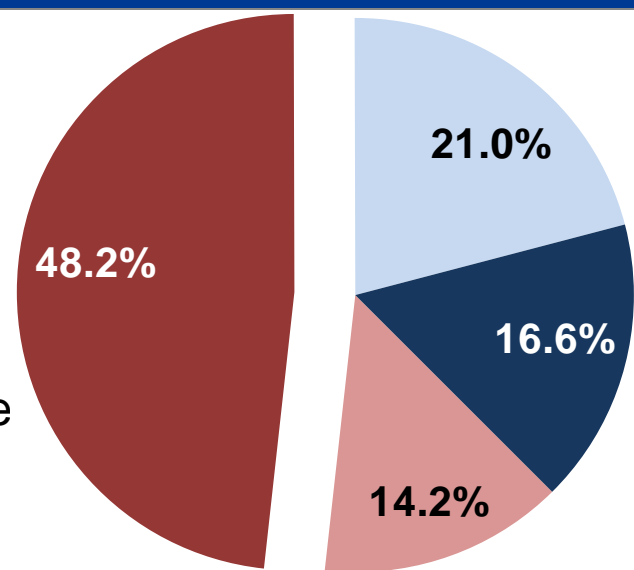
IV. Perspectives on Subprime Lending in Tennessee

Conventional Mortgage Products' Share of Market and Foreclosures in the U.S., 2007 (Q1)

Market Share by Type



Foreclosure Share by Type

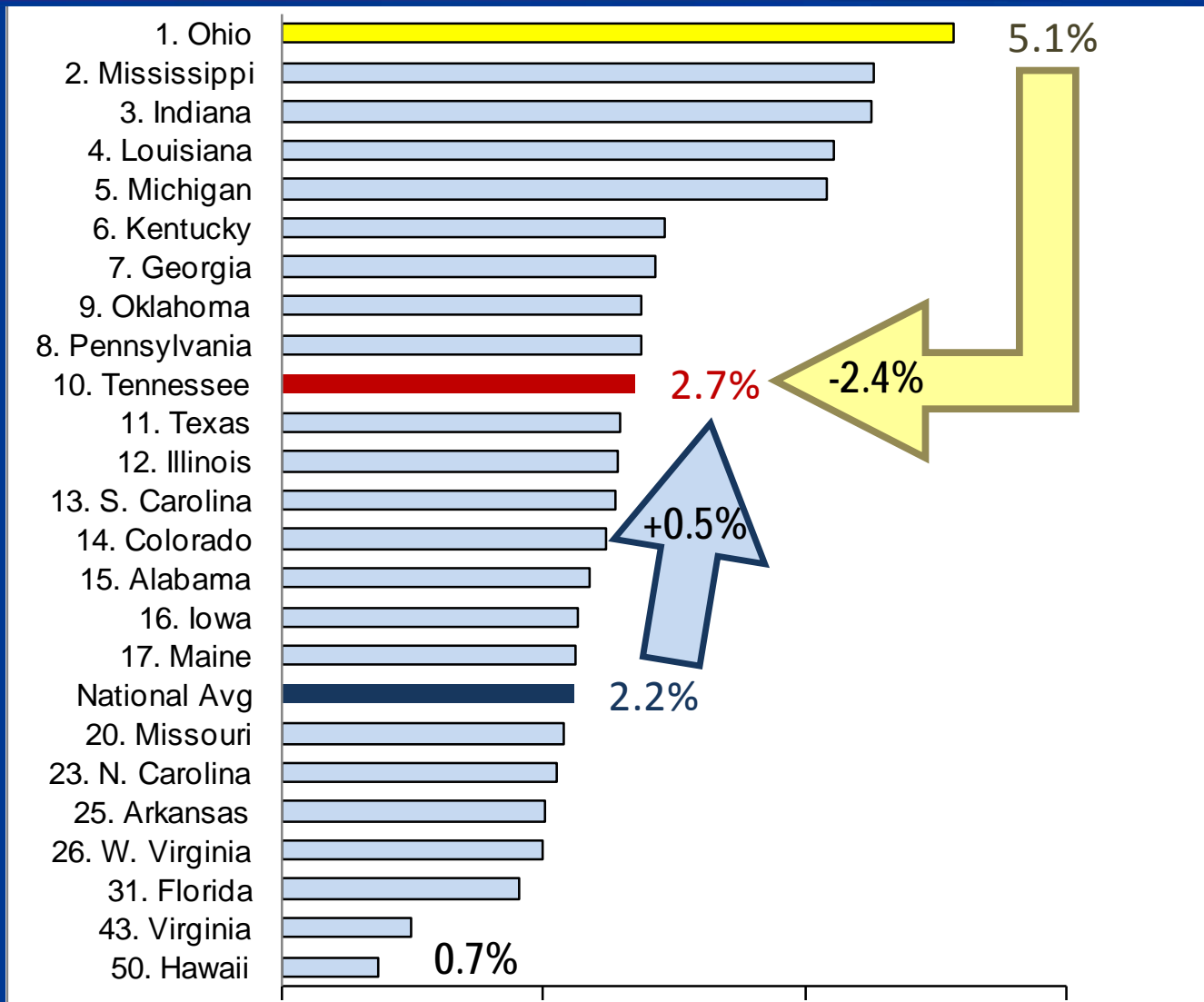


Source: MBA Delinquency Surveys and author's own calculations



Percent Seriously Delinquent, Q1:2007

(90 Days or more Delinquent Loans plus Foreclosure Inventory at the End of the Quarter)



Source: MBA Delinquency Surveys and author's own calculations



IV. Perspectives on Subprime Lending in Tennessee

FORECLOSURE FILINGS

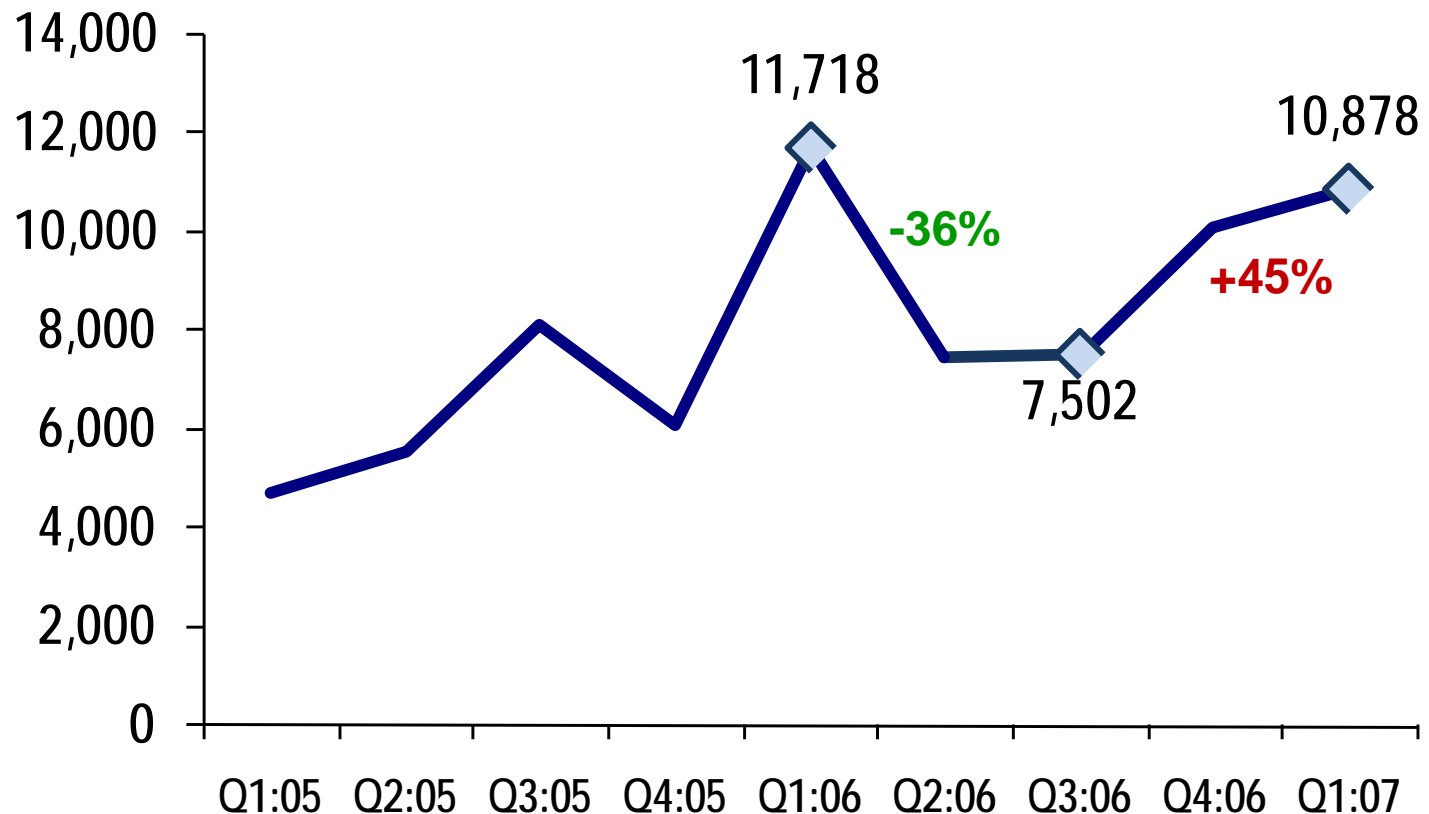
Number of foreclosure filings were 10,878 in the first quarter of 2007 in Tennessee.

The latest monthly data (May 2007) indicates 3,823 foreclosure filings in Tennessee, one foreclosure for every 638 households.



IV. Perspectives on Subprime Lending in Tennessee

Number of Foreclosures in Tennessee Q1:2005 – Q1:2007



Source: RealtyTrac



V. Extent of Subprime Lending in Tennessee

FACTS ABOUT TENNESSEE, 2005

Rates

-About 75 percent of subprime mortgages are considered “higher priced” loans*

➤**Higher priced “loans are loans with prices above the threshold (rate spread between the interest rate on the loan and the rate on a Treasury security with comparable terms and maturity: 3% or above for first lien loans and 5% and above for junior lien loans)



V. Extent of Subprime Lending in Tennessee

FACTS ABOUT TENNESSEE, 2005

Purpose

-49 percent of subprime loans were for refinancing*

➤*Nationwide, in 2006, 56% of all subprime loans were for home purchase



V. Extent of Subprime Lending in Tennessee

FACTS ABOUT TENNESSEE, 2005

Geography

- Nashville-Murfreesboro accounted for 34% of subprime loans.
- Memphis accounted for another 31% of subprime loans.



VI. Subprime Lending and Economic Fundamentals

Subprime lending is a major problem, but there is hope.

- Fewer houses built means fewer houses waiting to be sold, presenting more opportunities for sale rather than foreclosure.*
- In Tennessee, building permits declined by 2.4 percent from 2005 to 2006.



VI. Subprime Lending and Economic Fundamentals

Subprime lending is a major problem, but there is hope.

- Economic conditions are favorable for a recovery in Tennessee.
- Unemployment rate declined from 5.3% in May 2006 to 4.7% in May 2007.
- Per capita income, increased from \$30,969 in 2005 to \$32,304 in 2006 (a 4.3 percent change)



VII. What can we do?

Keep doing what we do best.

Continue helping Tennessee families achieve dream of homeownership.



VII. What can we do?

Keep doing what we do best.

In 2006 Tennessee Housing Development Agency (THDA) helped 3,270 families to become first time homeowners the first time homeowners (30 percent higher than number of loans originated in 2005).



VII. What can we do?

Keep doing what we do best.

With the help of outreach programs and partnership with our originating agents, THDA was able to reach almost all counties in Tennessee, missing 10 out of 95 counties.



VII. What can we do?

Keep doing what we do best.

June 2007 set an all-time record, in terms of \$ value of loan applications received.

Applications for 610 mortgages totaled \$68.45 million.