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August 14, 2006

via e-mail

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
20th Street & Constitution Avenue, N.W.
Washington, DC 20551
Reg.Comments@FederalReserve.gov

Re: FRB Docket No. OP-1253
Comments of the National Training and Information Center

The National Training and Information Center (NTIC) thanks the Federal Reserve Board for the opportunity to appear at the June 7, 2006 hearing in Chicago and for this opportunity to submit written comments. Attached to these comments is our most recent analysis of foreclosures started in the city of Chicago as it is relevant to the issues being explored in this docket.

Background

NTIC was founded by Gale Cincotta and Shel Trapp in 1972 as a resource center for neighborhood organizations working to improve the quality of life in their communities. As we have worked to fulfill this mission for more than three decades, NTIC has worked with local groups on a wide variety of issues: from insurance and bank redlining to FHA fraud and abuse, neighborhood safety and environmental issues to school reform and job creation. Access to credit is central to neighborhood health—but not just credit, access to quality loans to help residents achieve *their* goals and to build *their* wealth.

Because NTIC works directly with neighborhood groups across the country, our perspective is different than other parties interested in the mortgage industry. As with all of the issues we work on, our most basic source of information are the stories that are told by residents at their front doors or in public meetings. These are stories about what happens at loan closings or in conversations leading up to the formal closing. These are stories about how brokers or loan officers encouraged a borrower not to question or even read loan documents; told lies; asked borrowers to sign partially completed documents; or committed fraud. These are stories about how borrowers discovered what their actual payment would be when they received their first statement; or how they found out that their interest rate was not fixed when their payment unexpectedly increased; or how they discovered that the amount they thought they were borrowing was several thousand dollars greater because of junk fees that had been tacked on to their loan. These are stories from borrowers who, realizing that they had made a mistake, found they faced steep prepayment penalties to get out of the loan or found that their properties had been so over-appraised that other lenders would not refinance their outstanding balance.

For NTIC and many groups in the inner-city neighborhoods, these stories are not surprising. Predators—whether using private sales contracts or FHA loans, home improvement scams or property flipping schemes, block-busting techniques or racial discrimination, guarantees of extra cash or promises foreclosure rescue—have operated in our neighborhoods for what seems like forever. Federal regulatory attempts to protect our neighborhoods from predators using macro-level approaches and are always handicapped by the fact that the preditation takes place on the most micro of levels: interactions—often verbal—between borrowers and the financial professional from whom they seek service. With the millions of mortgage transactions that take place, devising a single set of regulatory rules to govern all these transaction may be impossible. Furthermore, an army of investigators and prosecutors would be needed to enforce the rules. The rising incidence of mortgage fraud has led to complaints about the lack of resources available to fight back.

Predatory mortgage lending and mortgage fraud needs to be fought on a multitude of fronts, by all levels of government, by community groups and by the industry itself.

1) Impact of HOEPA rules and state and local anti-predatory lending laws on the subprime market:

Given the vibrant Chicago mortgage market, it is unlikely that the Illinois High Risk Home Loan Act or that our city and county ordinances have put much of a damper on lending. What has happened since the enactment of the state law is a growing number of foreclosures on what appear to be low-cost loans.

NTIC's analysis of foreclosure data for Chicago (the entire publication is attached) shows that the Illinois anti-predatory lending regulations, the High Risk Home Loan Act, the work of community initiatives, NHS's HOPI program and Chicago's 311 program have worked:

- Foreclosures started in Chicago fell in both 2003 and 2004 (13% and 10%, respectively); and
- Foreclosures started on newly originated high-cost loans have almost disappeared from the data in 2003 and 2004.

Preliminary analysis of foreclosures started in 2005, however, shows some disturbing results:

- Foreclosures started rose 1% in Chicago in 2005;
- The number of foreclosures on newly originated, lower interest rate conventional loans has increased dramatically, almost doubling from 2004; and
- The number of these that has ARM or balloon characteristics nearly tripled over 2004 levels.

These results raise concerns about the changing face of predatory lending. A definition of predatory or abusive lending that is geared only to the interest rate or the fees charged may miss what is going on in the market now. In order to get monthly payments down, brokers may be encouraging borrowers to accept ARMs, interest only loans or payment option loans without the borrower fully understanding the implications of the terms. The result is a payment shock that may or may not lead to foreclosure. We should not forget that households will go to great lengths not to default on their loans—no one wants to lose a home to foreclosure.

A foreclosure started is a symptom, an advanced stage, of financial distress preceded by months of juggling bills, missing payments on other obligations, cutting back expenses, running up credit card balances, failing to save for emergencies, and/or borrowing money from friends, family or payday lenders. The foreclosure is filed once the borrower falls at least 90 days behind on the mortgage. At this point, the battle is nearly lost; the household's resources have been depleted; its credit score diminished; and it is easy prey for unscrupulous bankruptcy attorneys, foreclosure specialists and rescue defrauders.

While anti-predatory lending regulation and consumer protection laws, both federal and local, may have an impact on mortgage practices, predators continue to take advantage of borrowers, deceiving them and stripping equity from the home. The nature of the scams change, but the results persist.

2) Nontraditional Mortgage products such as interest-only mortgage loans and payment option adjustable rate mortgages, and reverse mortgages:

Too often the emphasis is not on finding an affordable property but on constructing a deal that reduces payments to an affordable level. But this leads to ARMs that may only be affordable for a few years or to quoting payments that do not include escrow account payments. In either case, the borrow gets a surprise when the payment adjusts or the tax bill arrives. Interest-only loans and payment option loans are said to have been designed for borrowers with very specific circumstances. These products, and no doubt other products in the future, have been added to the arsenal that predators can employ to fill their own pockets with cash from the equity that homeowners should accumulate in their homes.

The issue of "suitability" of loan products is a difficult one. Originating an adjustable rate mortgage to a senior citizen, whose initial payment is 50% of her fixed income and which soon adjusts to leave her more than $200 per month short of meeting her monthly obligations, (an actual case reported to us by one of our community partners) can hardly be considered a suitable product.

But it may prove difficult to write a rule that clearly defines what is suitable and what is not. It is clear that the broker and all of the institutions involved in a mortgage have a responsibility *not* to set borrowers up for failure or to fail to warn borrowers of the risk of these products and the likelihood of future payment shocks.

Not only do the terms of loans need to be spelled out in a clear and easily accessible manner, but possible future scenarios also must be laid out. The payments that will result from a future increase in the interest rate of a various amounts should be calculated, the impact of making only minimum payments should be clearly illustrated and the resulting equity after 5, 10 , 20 or 30 years of each loan product should be calculated.

3) How consumers select lenders and mortgage products in the subprime mortgage market:

Neighborhoods and homeowners are vulnerable to predatory lending and lending scams largely because of the way the home mortgage industry conducts business. Because of the way the business is structured, the emphasis is on the volume of loans originated, not on keeping people in their homes. The goal of the mortgage industry must be to create successful homeowners, not just to originate loans. Consumer education works when it comes from a local source that is trusted in the community and is willing to work with a family to achieve the appropriate end, which may or may not be immediate homeownership. Whether the training comes in the form of a seminar or one-on-one—the groups we work with do one or both—it must be honest and tailored to people's needs.

Too often discussions about consumer education as a solution to predatory lending focus on blaming the borrower. "If the borrower had known more he or she would not have agreed to that loan," the argument goes. Often a financially troubled homeowner will echo this sentiment. When asked why they did not come in for help sooner, the homeowner may respond, "I was too embarrassed," or "I felt stupid admitting that I had been duped." Often the real mistake the borrower made was to take the advice of a real estate or finance professional that did not have the borrower's best interests at heart. General consumer education will never prepare a borrower well enough to go up against a well-trained finance professional.

What many borrowers are looking for and what they mistakenly believe they are getting from a real estate agent or a broker is professional advice and guidance navigating through an array of mortgage products and a very complicated transaction. Real estate agents and mortgage brokers are under no obligation to act in the best interest of the borrower. Whether through lender oversight of the brokers, government regulation or some other means, a higher standard of conduct, a fiduciary duty, needs to be established for mortgage brokers. Brokers should be required to disclose how their compensation is affected by the choice of loan products and how different loan products will affect the borrower's long-term costs and equity position. Brokers should be required to advise clients that they might qualify for loan products other than sub-prime.

Addition Information

NTIC works with community organizations across the country. These groups have as their mission the improvement of their neighborhoods. Few are likely to know the neighborhood better or be known better by the community. When working with one of our community partners, a borrower receives more than consumer education: They gain an ally who shares their interest in the neighborhood and in the success of the home buying experience. The partner wants the loan to succeed because they want the borrower to succeed—this is how to build neighborhoods. They are not interested in simply closing the deal or forcing a family into a home for which they are not financially prepared. The group also stays in the picture after the sale to help the new homeowner deal with the problems that are inevitable attached to homeownership. Years of working on housing and banking issues and their knowledge of their neighborhoods make these groups valuable in understanding successful homeownership.

It was this valuable insight which made developing the "NTIC Low Down Payment Mortgage" product with Fannie Mae in the 1990s possible. The product has a low down payment and low mortgage insurance premiums. It uses alternative credit and has a strong pre- and post-purchase counseling component and, perhaps most importantly, relies heavily on local community groups and their lender partners to market the product and provide the counseling. The product was initially offered in six cities (expanded later to eight) and became the model for the new enhanced My Community Mortgage introduced last year throughout the country by Fannie Mae.

The goal was to design a product that is appropriate to low- and moderate-income homeowners, not to force homeowners into bad loans and then blame them for failure.

On the back end of loans, NTIC and its community partners have formed partnerships with lenders and servicers to review and repair existing loans in order to keep more families in their homes. Again, local neighborhood groups are integrally involved. They are the trusted partner in the community to whom a home owner will respond to even when they are hesitant to talk to their lender. The process we have developed uses a Hot Spot™ form that the community organization assists the homeowner to fill out. The form is then faxed to the lender or servicer and the loan is reviewed. Homeowners can fill out Hot Spot™ forms if they believe they are the victim of predatory lending or if they are simply having trouble making payments. In some cases the corporate partner will put a pending foreclosure on hold while the case is reviewed. Groups monitor local foreclosure conditions and participate in workgroups with the corporate partners to improve the project. While data collection and synchronization has been challenging, we know that more than 800 Hot Spot™ forms have been submitted from more than 25 cities over the last three years. Early results suggest that more than three-fourths of the reviewed loans received some sort of credit or adjustments.

Recommendations

1. Strengthen federal laws, but do not pre-empt local jurisdictions from taking steps they deem necessary to react to the ever-0changing face of predatory lending.
2. Expand CRA examinations of institutions to include all geographic areas where they do business and not just narrowly defined assessment areas.
3. Expand HMDA to include credit scores, points and fees, actual interest rates, borrower age and gender, terms and the type of loan to include ARMs and their adjustment schedule, balloon and payment options.
4. Seek comments for community groups, track complaints about lenders and include these in CRA examinations.

Chicago Foreclosure Update 2006

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What is the National Training and Information Center?

National Training and Information Center (NTIC) is a not-for-profit resource center for grassroots community organizations. For more than 30 years, NTIC has provided training, technical assistance, consulting and research to groups across the country. NTIC's mission is to build leadership skills in neighborhoods across the country through issue-based community organizing.

Contents

Dedication

As Gale Cincotta's life was coming to an end, she admonished NTIC to "Get the Crooks." In that spirit, this report is intended to shine light on the practices the "crooks" use to steal a family's wealth, leaving broken dreams and social problems in their wake.

Introduction

Overview

The purpose of this study is to provide public officials and non-profits throughout Chicago with accurate information on foreclosure trends in the city. It is meant to serve as an update of NTIC's previous studies[1]. In 2003, the number of foreclosures started on properties in the city fell for the first time in over a decade. The trend continued in 2004. In both years the evidence suggested that the decline was principally the result of reductions in the number of foreclosures on high cost loans. Since the state's anti-predatory lending law and regulations targeted high cost loans, NTIC concluded that these policies, as well as the City of Chicago's 311 program and community efforts like Neighborhood Housing Services of Chicago's Homeownership Preservation Initiative (HOPI), were reducing foreclosures.

For 2005, NTIC's analysis shows a slight increase (1%) in foreclosures started. While the downward trend may have leveled out, a continued decrease in foreclosures started on high cost loans suggests that the effort to target these loans is still having the intended effect. The results, however, reveal a disturbing trend that will have ramifications for years to come: the growing number of foreclosures started on loans with ARMs and balloon payment features that have initially low interest rates. The dramatic growth in recent years of marketing of loan products with interest-only payments, teaser rates and other specialized features has been well documented. These "exotic" loan products may lead to "payment shock" (a sudden increase in the amount of the monthly payment).

The results of NTIC's analysis of foreclosures started in 2005 revealed in the tables and graphs that follow shows that foreclosures started on high cost loans are being affected by state policies and local programs. However, the new concern lies in the inappropriate use of loan products that are technically low cost but which homeowners and neighborhoods pay the high cost of foreclosure and failed dreams.

Background

In the 1980s and early 1990s, NTIC became the leader in drawing attention to the negative affects that FHA-insured loan foreclosures and housing abandonment had on low- and moderate-income and minority neighborhoods. NTIC's research, based mainly on data obtained from government agencies (eg. HUD and the FFIEC), and work with community groups on FHA issues, led to many reforms of the FHA program.

In the mid-1990s, however, community groups began working with growing numbers of residents who were losing homes to foreclosure on conventional loans. Unlike FHA-insured loans, reliable loan performance data was only available through industry sources (eg. the Mortgage Banker's Association and LoanPerformance.com). Sources like these are under no obligation to share data for independent analysis. A number of services, however, market lists of homeowners facing foreclosure to mortgage brokers, foreclosure specialists, real estate investors and bankruptcy attorneys who used the names as a source of potential clients. While many sources existed, few purported to capture all real estate foreclosures. One service, Foreclosure Report of Chicago, became the basis for NTIC's new approach to foreclosure analysis. This source was significant because it provided information on all foreclosure court filings, even conventional loans, and provided some information on the loan origination terms. A 1998 analysis by NTIC, *Preying on Neighborhoods*, documented the

[1] *NTIC's previous research on foreclosures in Chicago,* Preying on Neighborhoods, Preying on Neighborhoods II, *and* Chicago Foreclosure Update *(2005), is available on NTIC's website,* **www.ntic-us.org**. *These publications provide much more detail about NTIC's efforts to curb predatory lending in Illinois and other states through strategic partnerships with lenders, servicers and secondary market participants, principally Fannie Mae.*

dramatic rise in foreclosures started from 1993 and demonstrated that this trend was related to the rapid rise in sub-prime lending.

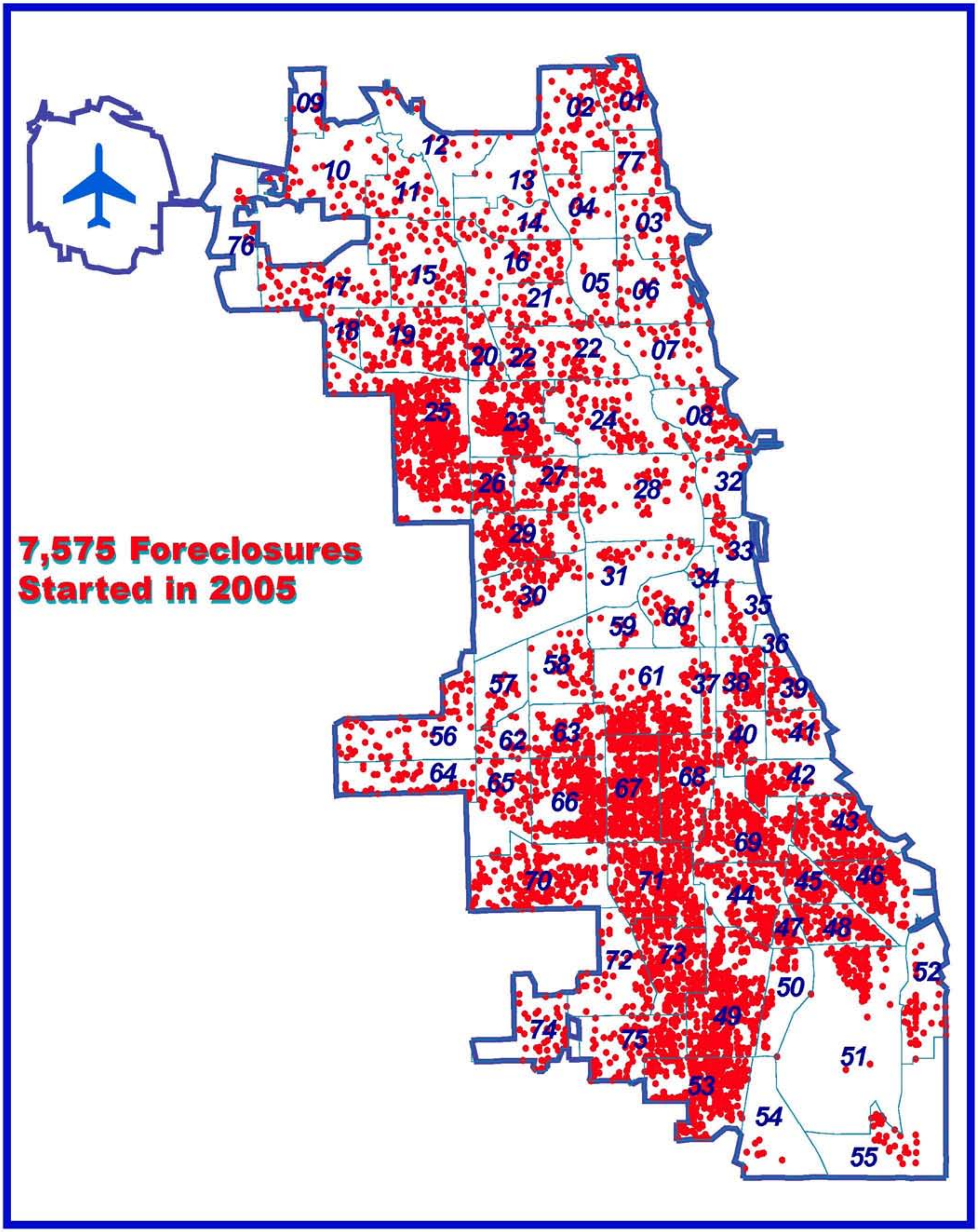
NTIC used the foreclosure research to supplement and support its mission to build strong community groups through issue-based organizing and to help protect neighborhoods from the growing epidemic of home foreclosures. Periodic updates and refinements to the original research helped to inspire research in other parts of the country and was used by the Illinois Coalition Against Predatory Home Loans[2], a project of NTIC, to push for tough regulation of the mortgage industry in Illinois. Furthermore, the research was integral to the development of the City of Chicago's 311 program to assist victims of predatory lending and the Neighborhood Housing Services of Chicago's Homeownership Preservation Initiative (HOPI).

Foreclosures are a citywide problem. The map on the next page shows that while the entire city is affected, certain neighborhoods pay a heavier cost than others. A foreclosure does not simply represent a failure of a single family to maintain the dream of homeownership, it represents a danger for the entire neighborhood affecting property values and neighborhood safety. Foreclosures create opportunities for predators who profit from the financial distress of others.

[2]Coalition members supporting the state law included: Central Illinois Organizing Project, Leadership Council for Metropolitan Open Communities, Legal Assistance Foundation of Metropolitan Chicago, Maywood Citizens Fight Against Crime, National Center on Poverty Law, NTIC, Neighborhood Housing Services of Chicago, Inc., Rogers Park Community Development Corp., South Austin Coalition Community Council, Southwest Organizing Project, and the Woodstock Institute. The American Association of Retired People, although not a coalition member, was a coalition partner in this effort.

Community Areas

01	Rogers Park	21	Avondale	41	Hyde Park	61	New City
02	West Ridge	22	Logan Square	42	Woodlawn	62	West Elsdon
03	Uptown	23	Humboldt Park	43	South Shore	63	Gage Park
04	Lincoln Square	24	West Town	44	Chatham	64	Clearing
05	North Center	25	Austin	45	Avalon Park	65	West Lawn
06	Lakeview	26	West Garfield Park	46	South Chicago	66	Chicago Lawn
07	Lincoln Park	27	East Garfield Park	47	Burnside	67	West Englewood
08	Near North	28	Near West Side	48	Calumet Heights	68	Englewood
09	Edison Park	29	North Lawndale	49	Roseland	69	Greater Grand Crossing
10	Norwood Park	30	South Lawndale	50	Pullman	70	Ashburn
11	Jefferson Park	31	Lower West Side	51	South Deering	71	Auburn Gresham
12	Forest Glen	32	Loop	52	East Side	72	Beverly
13	North Park	33	Near South Side	53	West Pullman	73	Washington Heights
14	Albany Park	34	Armour Square	54	Riverdale	74	Mount Greenwood
15	Portage Park	35	Douglas	55	Hegewisch	75	Morgan Park
16	Irving Park	36	Oakland	56	Garfield Ridge	76	O'Hare
17	Dunning	37	Fuller Park	57	Archer Heights	77	Edgewater
18	Montclare	38	Grand Boulevard	58	Brighton Park		
19	Belmont Cragin	39	Kenwood	59	McKinley Park		
20	Hermosa	40	Washington Park	60	Bridgeport		


7,575 Foreclosures
Started in 2005
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Finding 1: Foreclosures started in Chicago showed a slight increase in 2005.

After two consecutive years of decreases, foreclosures started in Chicago rose only slightly in 2005. While significantly down from 2001-03 levels, foreclosures started in 2005 are still more than 50% higher than in 1993.

The modest increase would not be a cause for alarm, however, what underlies the increase may reveal the current face of predatory lending.

Figure 1

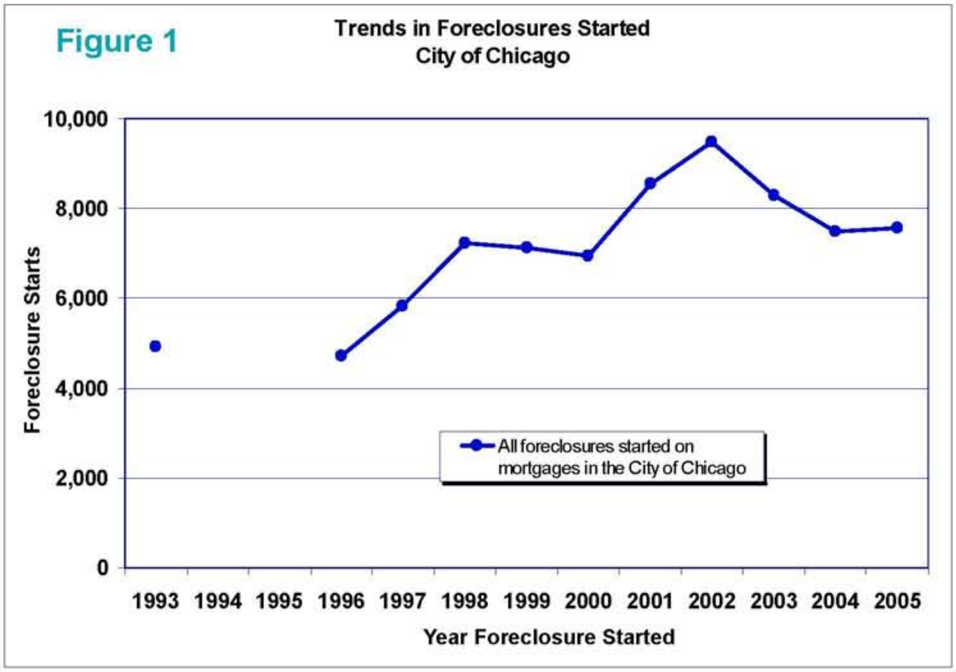


Table 1: Trends in Foreclosures Started

Foreclosures Started	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
City of Chicago	4,917			4,726	5,825	7,228	7,128	6,944	8,542	9,490	8,286	7,496	7,575	54%	1%
Percent Change from Previous Year(s)[1]	-			-4%	23%	24%	-1%	-3%	23%	11%	-13%	-10%	1%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 2: Foreclosures started on conventional and N/A loans in Chicago in 2005 rose significantly.

The largest percentage decrease was on FHA/VA loans (down 28%), which have been generally declining since 1993. Foreclosures initiated on conventional loans rose significantly (up 13%).

Loan type information was missing on more than half of the records in the original data for 2005. The number of records with missing loan type information was reduced significantly (from 4,325 to 809), by incorporating information obtained from Public-record.com from which loan type information was posted to the foreclosure data for all years to preserve comparability. In previous studies NTIC has maintained that the bulk of "N/A" records were likely to be conventional loans. The dashed line in Figure 2 shows the combination of remaining "N/A" loans and the identified conventional loans.

Figure 2

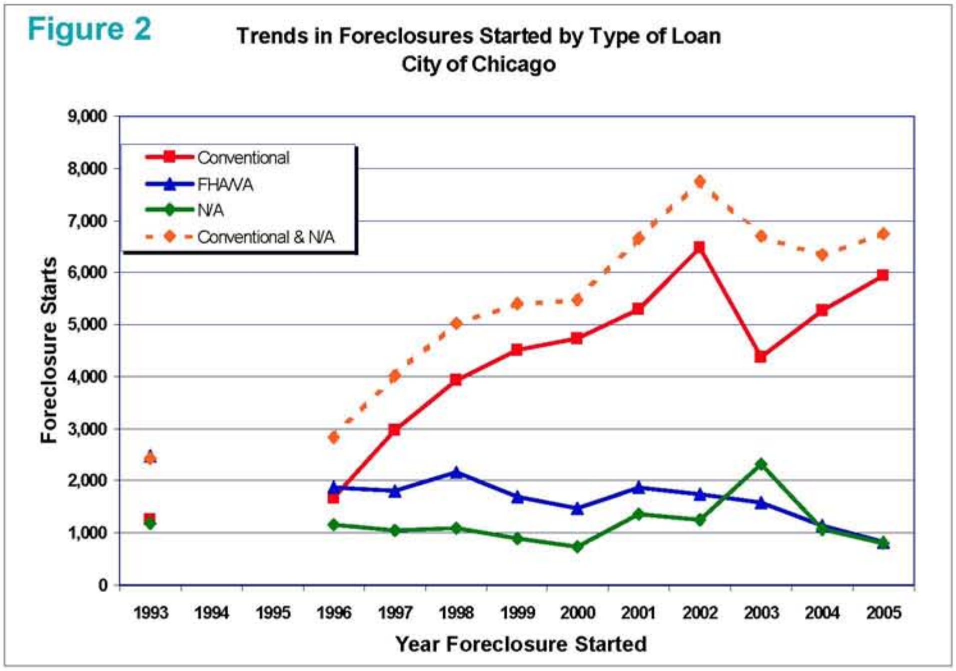


Table 2: Trends in Foreclosures Started by Type of Loan

Type of Loan	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Conventional	1,243			1,677	2,966	3,941	4,508	4,741	5,295	6,485	4,382	5,274	5,941	378%	13%
FHA/VA	2,490			1,883	1,814	2,158	1,708	1,474	1,885	1,750	1,578	1,145	825	-67%	-28%
N/A	1,183			1,165	1,044	1,091	897	729	1,362	1,255	2,326	1,076	809	-32%	-25%
Other	1			1	1	38	15	0	0	0	0	1	0	-100%	-100%
Total	4,917			4,726	5,825	7,228	7,128	6,944	8,542	9,490	8,286	7,496	7,575	54%	1%
Percent Change from Previous Year(s)[1]	-			-4%	23%	24%	-1%	-3%	23%	11%	-13%	-10%	1%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins obtained from the Foreclosure Report of Chicago and data from Public-record.com.

Finding 3: The decrease in foreclosures started on sub-prime and high-cost loans (6% and 27%, respectively) in 2005 was completely off-set by a 43% increase on prime rate loans.

For this analysis "Prime" rate loans are those with an initial interest rate less than 3% above the Treasury rate, "High Cost" are those with an interest rate 6% or more above the Treasury rate, and "Sub-prime" are those with an interest rate between 3% and 6% above the Treasury rate. The Illinois anti-predatory lending regulations (effective May 2001) and the High Risk Home Loan Act (effective January 2004) targetted high cost loans. The trends in Figure 3 demonstrate the impact these policies, as well as the impact of the work of NTIC, NHS, the City of Chicago and others, have had on high cost and sub-prime foreclosures. This impact, however, has been undermined by an accellerating number of foreclosures on lower interest loans.

Figure 3 **Trends in Foreclosures Started by Interest Rate Level (Conventional & N/A loans only) City of Chicago**

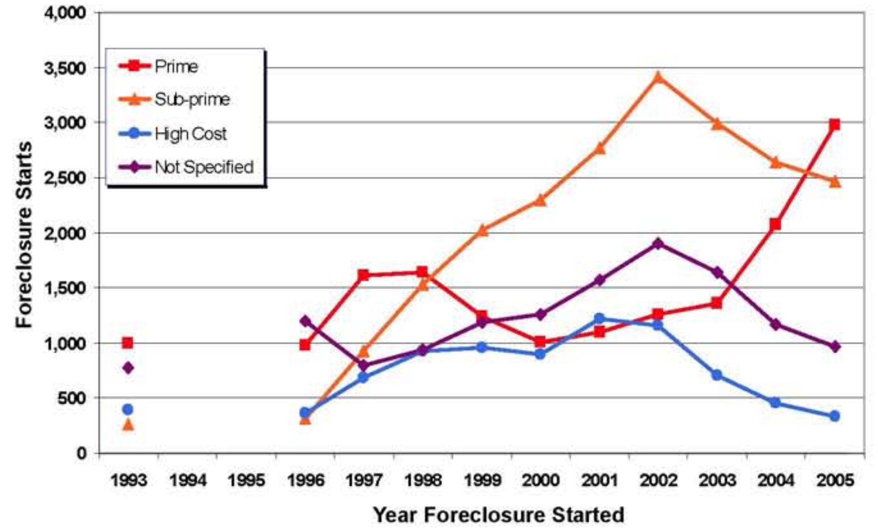


Table 3: Trends in Foreclosures Started by Interest Rate Level

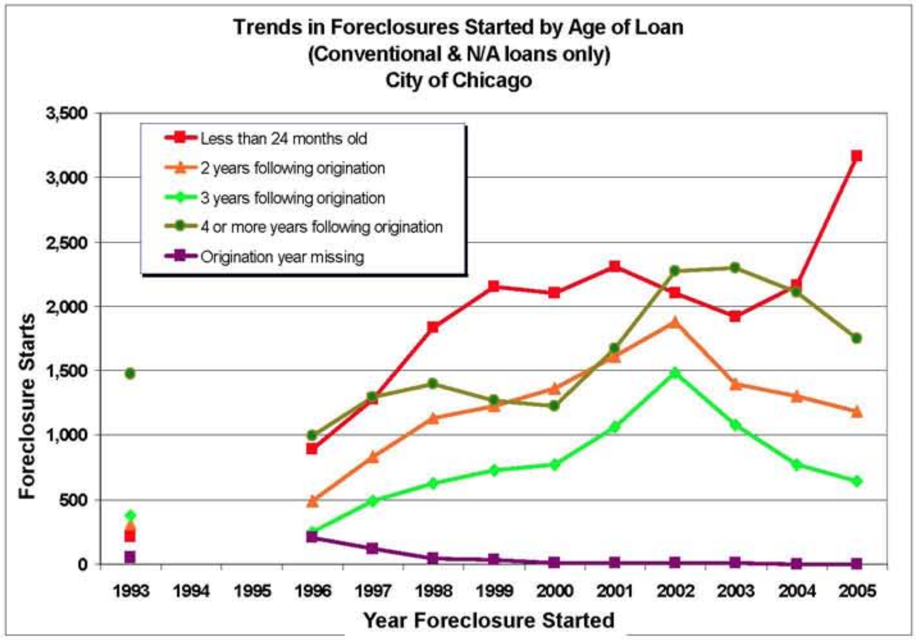
Interest Rate Level	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Prime: Less than 3% above comparable Treasury Securities	1,000			976	1,615	1,640	1,237	1,011	1,101	1,264	1,365	2,080	2,978	198%	43%
Sub-prime: Between 3% & 6% above comparable Treasury Securities	261			310	922	1,532	2,022	2,302	2,774	3,413	2,997	2,642	2,472	847%	-6%
High Cost: 6% or more above comparable Treasury Securities	391			358	681	928	960	897	1,215	1,162	708	455	331	-15%	-27%
No Interest Rate Information Provided	774			1,198	792	932	1,186	1,260	1,567	1,901	1,638	1,173	969	25%	-17%
Total	2,426			2,842	4,010	5,032	5,405	5,470	6,657	7,740	6,708	6,350	6,750	178%	6%
Percent Change from Previous Year(s)[1]	-			17%	41%	25%	7%	1%	22%	16%	-13%	-5%	6%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 4: Foreclosures started on young conventional and N/A loans increased 47% in 2005.

The increase in foreclosures started on young loans may be a combination of brokers defrauding borrowers, poor underwriting, and over-valued appraisals. Rising home prices have made homeownership increasingly expensive. Loan products that reduce monthly payments in the early months of a loan may make homeownership affordable in the short term; however, borrowers may be shocked by an unaffordable payment a year or two into the loan. Lenders approving these loans need to scrutinize the ability of borrowers to pay the future higher payments.



The increase in foreclosures started on young conventional and N/A loans is particularly disturbing. NTIC worked extensively in the 1990s to get HUD to stop fraud and abuse of the FHA insurance program by cracking down on lenders that originated bad loans. HUD now evaluates FHA lenders on the performance of their young loans. Excessive early defaults (ie. 90-day delinquents) and claims on loans less than 24 months old can lead to the termination of a lender's participation in the FHA program. There is no comparable penalty for conventional lenders.

Table 4: Trends in Foreclosures Started by Age of Loan

Approximate Age of Loan	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Less than 24 months old	214			894	1,276	1,832	2,149	2,099	2,304	2,099	1,922	2,159	3,164	1379%	47%
2 years following origination	305			490	831	1,130	1,225	1,362	1,611	1,877	1,398	1,304	1,184	288%	-9%
3 years following origination	376			250	485	630	725	772	1,065	1,484	1,079	775	647	72%	-17%
4 or more years following origination	1,477			998	1,295	1,398	1,269	1,226	1,670	2,271	2,302	2,108	1,754	19%	-17%
Origination year missing	54			210	123	42	37	11	7	9	7	4	1	-98%	-75%
Total	2,426			2,842	4,010	5,032	5,405	5,470	6,657	7,740	6,708	6,350	6,750	178%	6%
Percent Change from Previous Year(s)[1]	-			17%	41%	25%	7%	1%	22%	16%	-13%	-5%	6%		

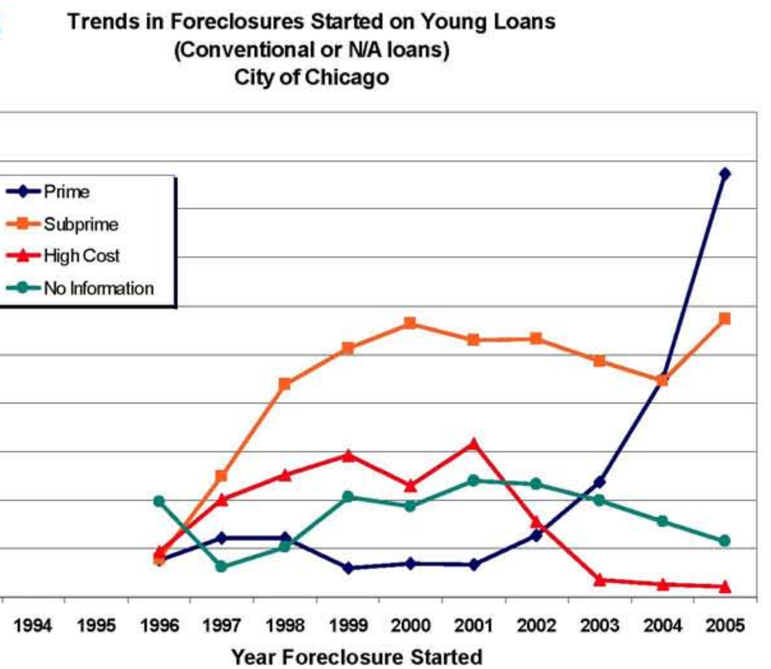
[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 5: Foreclosures started on newly originated prime rate loans increased by 93% in 2005.

Finding 4 showed that foreclosures started are increasing on new originated or "young" loans. Finding 5 shows that foreclosures started on young loans with interest rates well below the APR triggers in the Illinois anti-predatory lending regulations and the High Risk Home Loan Act have been increasing since 2002, the year following the effective date of the regulations. Illinois policy has sought to reduce predatory lending by regulating high risk (high cost) loans. Foreclosures started on high interest rate loans have become almost non-existent in the data. It seems clear from the data that attempts to curb predatory lending need to focus now on loans with initial low rates.

Figure 5



Predatory or "high risk" loans do not necessarily have high interest rates. The data does not include information on points and fees which can also trigger the provisions of the High Risk Home Loan Act.

Table 5: Trends in Foreclosures Started on Young Loans by Interest Rate Level

Interest Rate Level	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Prime: Less than 3% above comparable Treasury Securities	64			155	244	243	122	140	133	256	476	903	1,744	2625%	93%
Subprime: Between 3% & 6% above comparable Treasury Securities	17			156	501	877	1,027	1,128	1,061	1,064	973	890	1,144	6629%	29%
High Cost: 6% or more above comparable Treasury Securities	54			189	404	504	587	459	631	314	73	54	44	-19%	-19%
No Interest Rate Information Provided	79			394	127	208	413	372	479	465	400	312	232	194%	-26%
Total	214			894	1,276	1,832	2,149	2,099	2,304	2,099	1,922	2,159	3,164	1379%	47%
Percent Change from Previous Year(s)[1]	-			318%	43%	44%	17%	-2%	10%	-9%	-8%	12%	47%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

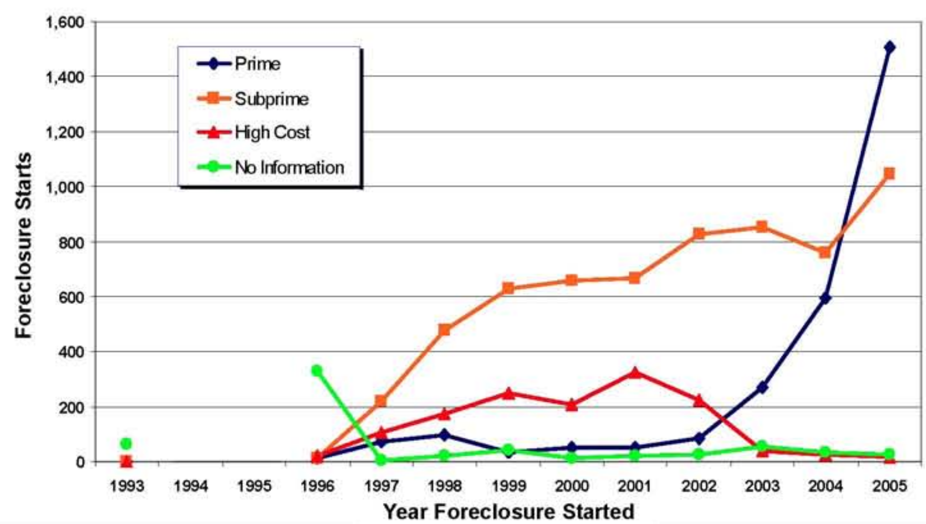
SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 6: Foreclosures started on newly originated prime rate loans that were identified as ARMs and/or balloon payment loans increased by 152% in 2005.

It is clear that adjustable rate mortgages (ARMs) and loans with balloon payments are becoming more and more prevalent in foreclosure cases. The rapid increase in the share of ARMs and "exotic" loan types has been widely reported in industry publications. Finding 6 reveals that ARMs and other loan products that do not carry high initial interest rates are fueling the rise in foreclosures started on so called "prime" rate loans. Of the 2005 foreclosures started that were on loans originated in 2004 or 2005, 82% were ARMs and/or loans with balloon payments.

Figure 6

Trends in Foreclosures Started on Young Loans with ARMs or Balloon Characteristics (Conventional or N/A Loans Only) City of Chicago



A possible explanation is that home values are rising much more rapidly than wages resulting in a situation where brokers use interest-only, teaser rate loans and traditional ARMs and loans with balloon payments to get monthly payments into an affordable range for most home buyers.

Table 6: Trends in Foreclosures Started on Young Loans with ARMs or Balloon Characteristics

Interest Rate Level	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Prime: Less than 3% above comparable Treasury Securities	0			13	73	98	35	51	50	86	272	597	1,506	-	152%
Subprime: Between 3% & 6% above comparable Treasury Securities	0			13	219	479	627	660	668	829	852	759	1,047	-	38%
High Cost: 6% or more above comparable Treasury Securities	0			20	106	173	248	207	325	223	37	25	16	-	-36%
No Interest Rate Information Provided	63			328	5	22	43	13	23	27	55	34	27	-57%	-21%
Total	63			374	403	772	953	931	1,066	1,165	1,216	1,415	2,596	4021%	83%
Percent Change from Previous Year(s)[1]	-			494%	8%	92%	23%	-2%	15%	9%	4%	16%	83%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 7: The rate at which foreclosures started on young loans doubled in 2004 and does not seem to be related to origination volume.

Figure 7

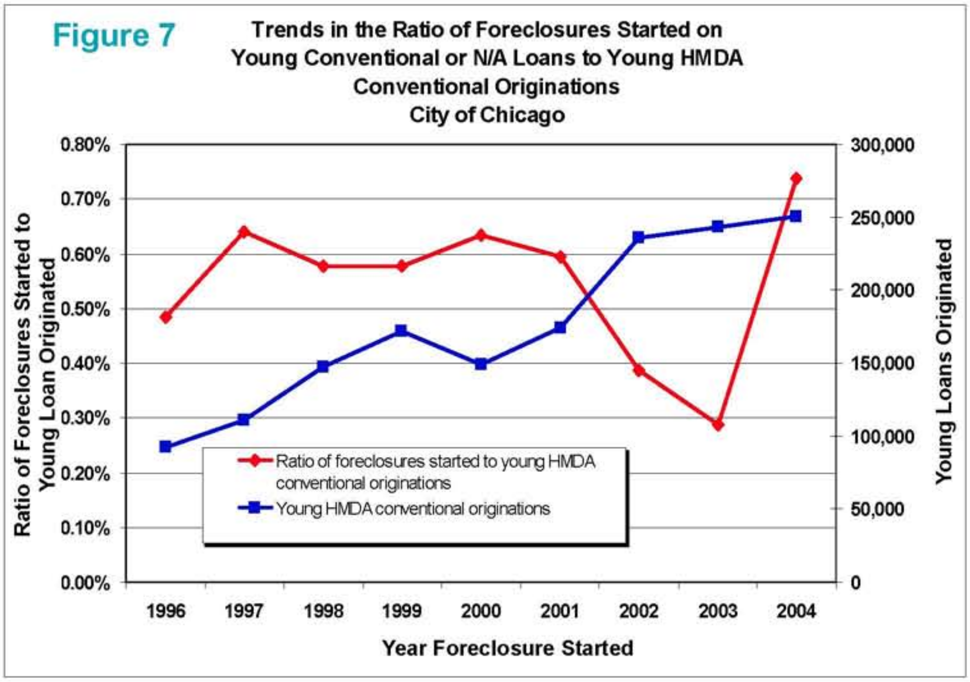


Figure 7 shows the relationship between foreclosures started on young conventional and N/A loans and origination volume. The blue line represents originated single-family, conventional loans reported by lenders under the Home Mortgage Disclosure Act (HMDA) that are 24 months old or less. Thus the number of young loans in 2004 is equal to the combination of 2003 and 2004 conventional, single-family originations. The red line represents the number of foreclosures started on young conventional and N/A loans divided by the corresponding number of young conventional originations. This is only an estimate of the foreclosure started rate, not a true rate, because not all originations are reported through HMDA. The rate, however, is comparable to previous years and the data shows a tremendous jump in 2004. For example, in 2003 the ratio of foreclosures started on loans identified as being originated in 2002 and 2003 to the number of 2002 and 2003 HMDA originations was less than 0.30%. The similar ratio in 2004 (on 2003 and 2004 originations) was 0.74%, more than twice the 2003 value.

Table 7: Trends in the Ratio of Foreclosures Started on Young Conventional and N/A Loans to Young HMDA Conventional Originations

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Ratio of foreclosures started to young HMDA conventional originations	0.48%	0.64%	0.58%	0.58%	0.63%	0.60%	0.39%	0.29%	0.74%
Young HMDA conventional originations	92,438	111,097	147,569	171,684	148,807	174,091	235,771	243,230	250,266

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago and HMDA data covering 1995 to 2004.

Finding 8: Fifteen institutions or holding companies were associated with 61% of all conventional and N/A foreclosures started in 2005. Three institutions were associated with 31%.

More than 700 institutional names (or variations of names) appear in the 2005 data for Chicago. Also more than 1,100 foreclosures identified the plaintiff (lender, servicer or trustee) as MERS. The number of MERS records were reduced by posting information from Public-record.com. NTIC standardized the names and combined affiliates under their respective holding companies to produce Table 6 which shows the top foreclosing institutions. After 15th ranked Countrywide no other institution had more than 100 foreclosures started in 2005.

Table 8: Most Active Foreclosing Institutions in 2005
(Conventional and N/A loan types only)

		Foreclosures Started	
Rank	Institution/Holding Company	Number	Percent Share
1	Wells Fargo	827	12.3%
2	Deutsche Bank	761	11.3%
3	JP Morgan Chase	487	7.2%
4	Washington Mutual	244	3.6%
5	US Bank	200	3.0%
6	ABN Amro	199	2.9%
7	HSBC	199	2.9%
8	Bank of New York	194	2.9%
9	CitiGroup	192	2.8%
10	Fremont Investment & Loan	178	2.6%
11	Wachovia	169	2.5%
12	BNC Mortgage	126	1.9%
13	ACC Capital Holdings	125	1.9%
14	Homecomings/GMAC	111	1.6%
15	Countrywide Home Loans	103	1.5%
	Top 15	4,115	61.0%
	MERS	246	3.6%
	All others	2,389	35.4%
	All Lenders/Servicers/Trustees	6,750	100.0%

SOURCE: NTIC analysis of weekly bulletins obtained from the Foreclosure Report of Chicago and data from Public-record.com.

Finding 9: Fifteen institutions or holding companies were associated with 63% of all *newly originated* conventional and N/A foreclosures started in 2005. Three institutions were associated with 32%.

Table 9 is the result of screening the data used to construct Table 8 for those foreclosures started on conventional and N/A loans that were originated in 2004 or 2005 only. As shown in Finding 5, foreclosures started are growing significantly among these loans. Abusive origination practices and/or disregard for the ability of borrowers to repay loans are likely to be accompanied by early default and foreclosure. While some borrowers may struggle for many months or years to keep up with unrealistic payments, others fall behind quickly. Looking only at the newly originated loans reveals the results of current lending practices and early defaults on these loans may indicate abusive or misleading practices.

Table 9: Most Active Foreclosing Institutions in 2005
(Newly Originated Conventional and N/A loan types only)

		Foreclosures Started	
Rank	Institution/Holding Company	Number	Percent Share
1	Wells Fargo	510	16.1%
2	Deutsche Bank	408	12.9%
3	Fremont Investment & Loan	146	4.6%
4	Washington Mutual	118	3.7%
5	BNC Mortgage	101	3.2%
6	HSBC	96	3.0%
7	Bank of New York	89	2.8%
8	JP Morgan Chase	87	2.7%
9	Peoples Choice Home Loan	82	2.6%
10	ACC Capital Holdings	76	2.4%
11	Wachovia	74	2.3%
12	US Bank	71	2.2%
13	ABN Amro	58	1.8%
14	WM Specialty Mortgage	49	1.5%
15	Countrywide Home Loans	43	1.4%
	Top 15	2,008	63.5%
	MERS	141	4.5%
	All others	1,015	32.1%
	All Lenders/Servicers/Trustees	3,164	100.0%

Taking Tables 8 and 9 together reveals that 61% of the foreclosures started in 2005 on conventional and N/A loans by Wells Fargo affiliates were on loans originated in 2004 and 2005 (loans less than 24 months old). The corresponding percentage for Deutsche Bank 54%.

SOURCE: NTIC analysis of weekly bulletins obtained from the Foreclosure Report of Chicago and data from Public-record.com.

Finding 10: Foreclosures started on non-FHA/VA loans were higher in all neighborhood income levels except the wealthiest.

This finding signals a change from recent years. The decreases in foreclosures started in 2003 and 2004 took place in low-, moderate- and middle-income neighborhoods. In 2005, foreclosures started in these neighborhoods increased to just above 2003 levels.

The vast majority, 87%, of non-FHA/VA loan foreclosures were in low- and moderate-income neighborhoods.

Figure 8 **Trends in Foreclosures Started by Census Tract Income Level (Conventional or N/A Loans Only) City of Chicago**

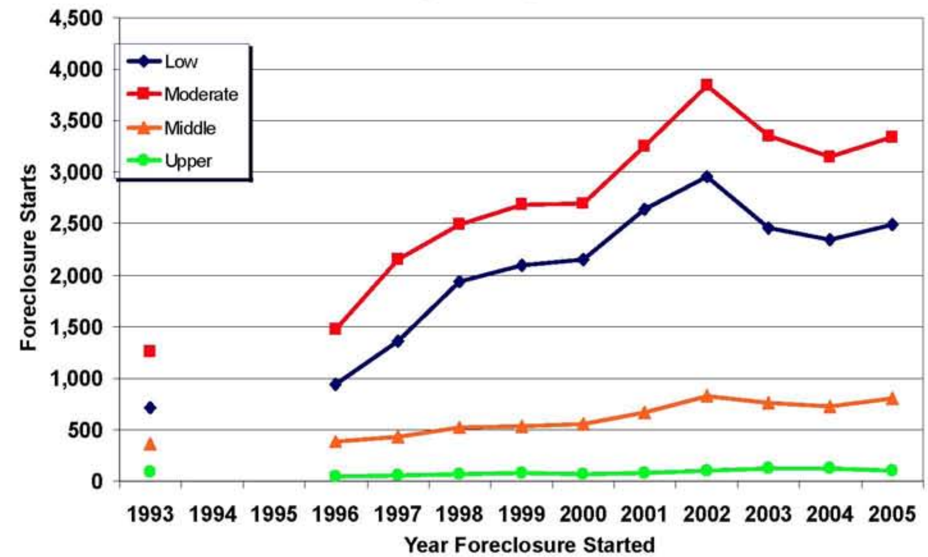


Table 10: Trends in Foreclosures Started by Census Tract Income Level

Census Tract Income Level	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Low: *up to 50% of MSA Median Family Income*	719			936	1,362	1,942	2,099	2,158	2,644	2,960	2,464	2,341	2,492	247%	6%
Moderate: *up to 80% of MSA Median Family Income*	1,256			1,478	2,155	2,499	2,686	2,695	3,258	3,847	3,356	3,154	3,345	166%	6%
Middle: *up to 120% MSA Median Family Income*	363			381	435	522	538	551	672	826	757	727	806	122%	11%
Upper: *over 120% of MSA Median Family Income*	88			47	58	66	80	66	81	107	130	127	106	20%	-17%
N/P: *No Population Data*	0			0	0	3	0	0	1	0	0	1	1	-	0%
N/G: *Census Tract unknown*	0			0	0	0	2	0	1	0	1	0	0	-	-
Total	2,426			2,842	4,010	5,032	5,405	5,470	6,657	7,740	6,708	6,350	6,750	178%	6%
Percent Change from Previous Year(s)[1]	-			17%	41%	25%	7%	1%	22%	16%	-13%	-5%	6%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 11: Foreclosures started on non-FHA/VA loans increased in white and minority neighborhoods.

While it is true that the number of foreclosures started increased in both white and non-white neighborhoods, the vast majority (73%) of foreclosures started on non-FHA/VA loans were in neighborhoods where 80% or more of the residents are not white. In 2003 and 2004, these neighborhoods saw a decrease in foreclosures started. These are many of the same neighborhoods that were hard hit by FHA foreclosures in the past. The high number of conventional foreclosures are a barrier to rebuilding these neighborhoods.

Figure 9

Trends in Foreclosures Started by Census Tract Racial Composition (Conventional or N/A Loans Only) City of Chicago

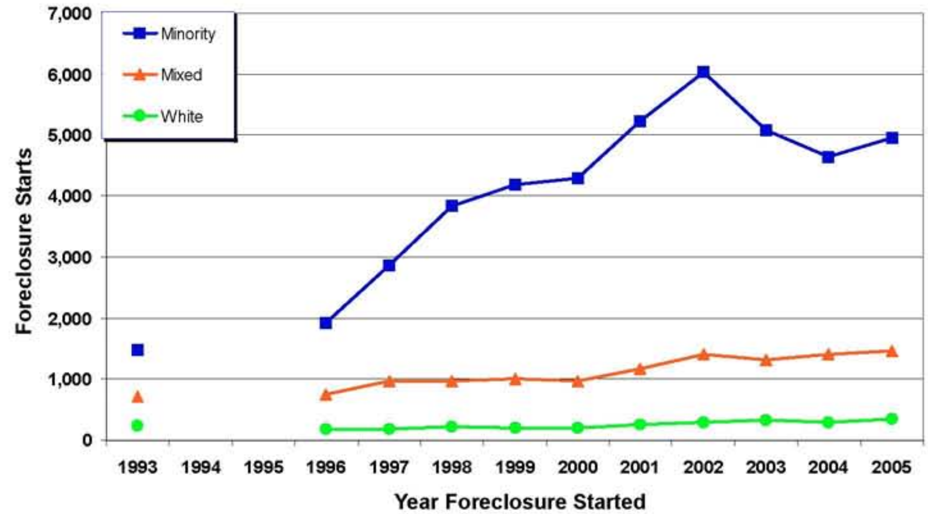


Table 11: Trends in Foreclosures Started by Census Tract Racial Composition

Census Tract Racial Composition	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Minority: *More than 80% non-white*	1,477			1,914	2,861	3,834	4,186	4,302	5,227	6,030	5,075	4,649	4,945	235%	6%
Mixed: *Between 80% and 20% non-white*	710			741	967	973	1,008	962	1,176	1,409	1,312	1,408	1,466	106%	4%
White: *Less than 20% non-white*	239			187	182	223	209	206	253	301	320	293	339	42%	16%
N/P: *No Population Data*	0			0	0	2	0	0	0	0	0	0	0	-	-
N/G: *Census Tract unknown*	0			0	0	0	2	0	1	0	1	0	0	-	-
Total	2,426			2,842	4,010	5,032	5,405	5,470	6,657	7,740	6,708	6,350	6,750	178%	6%
Percent Change from Previous Year(s)[1]	-			17%	41%	25%	7%	1%	22%	16%	-13%	-5%	6%		

1 For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 12: Changes from 1993 to 2005 in all foreclosures started vary greatly among community areas.

While foreclosures started have increased in Chicago by more than 50% since 1993, many neighborhoods on the west and south sides of the city have seen an increase 4 or 5 times this rate. Some communities like Austin, Roseland, West Englewood and West Pullman had large numbers of foreclosures started in 1993 and continue to have high levels.

Table 12: Community Area Comparison: Foreclosures Started 1993 and 2005

Non-White	Low/Mod		Community Area	Foreclosures Started 1993	Foreclosures Started 2005	Percent Change 1993-2005
	Y	01	Rogers Park	50	55	10.0%
	Y	02	West Ridge	42	66	57.1%
	Y	03	Uptown	48	43	-10.4%
	Y	04	Lincoln Square	18	23	27.8%
		05	North Center	23	16	-30.4%
		06	Lakeview	68	57	-16.2%
		07	Lincoln Park	60	37	-38.3%
		08	Near North	100	152	52.0%
		09	Edison Park	3	10	233.3%
		10	Norwood Park	22	36	63.6%
		11	Jefferson Park	12	34	183.3%
		12	Forest Glen	14	19	35.7%
		13	North Park	6	11	83.3%
	Y	14	Albany Park	33	24	-27.3%
		15	Portage Park	45	80	77.8%
	Y	16	Irving Park	47	64	36.2%
		17	Dunning	21	70	233.3%
		18	Montclare	6	21	250.0%
	Y	19	Belmont Cragin	80	134	67.5%
Y	Y	20	Hermosa	27	36	33.3%
	Y	21	Avondale	23	31	34.8%
	Y	22	Logan Square	98	86	-12.2%
Y	Y	23	Humboldt Park	202	223	10.4%
	Y	24	West Town	76	96	26.3%
Y	Y	25	Austin	389	492	26.5%
Y	Y	26	West Garfield Park	32	114	256.3%
Y	Y	27	East Garfield Park	35	76	117.1%
	Y	28	Near West Side	15	81	440.0%
Y	Y	29	North Lawndale	45	156	246.7%
Y	Y	30	South Lawndale	40	87	117.5%
Y	Y	31	Lower West Side	11	28	154.5%
		32	Loop	25	42	68.0%
		33	Near South Side	3	21	600.0%
Y	Y	34	Armour Square	0	11	-
Y	Y	35	Douglas	7	36	414.3%
Y	Y	36	Oakland	2	5	150.0%
Y	Y	37	Fuller Park	6	22	266.7%
Y	Y	38	Grand Boulevard	27	85	214.8%
Y	Y	39	Kenwood	18	55	205.6%
Y	Y	40	Washington Park	7	62	785.7%
		41	Hyde Park	34	43	26.5%
Y	Y	42	Woodlawn	43	115	167.4%
Y	Y	43	South Shore	170	214	25.9%
Y	Y	44	Chatham	89	164	84.3%
Y		45	Avalon Park	45	90	100.0%
Y	Y	46	South Chicago	139	189	36.0%
Y	Y	47	Burnside	23	40	73.9%
Y		48	Calumet Heights	60	110	83.3%
Y	Y	49	Roseland	295	385	30.5%
Y	Y	50	Pullman	32	58	81.3%
Y	Y	51	South Deering	106	109	2.8%
	Y	52	East Side	26	51	96.2%
Y	Y	53	West Pullman	324	331	2.2%
Y	Y	54	Riverdale	10	9	-10.0%
		55	Hegewisch	10	29	190.0%
		56	Garfield Ridge	20	67	235.0%
	Y	57	Archer Heights	5	19	280.0%
Y	Y	58	Brighton Park	23	50	117.4%
	Y	59	McKinley Park	4	11	175.0%
	Y	60	Bridgeport	14	34	142.9%
Y	Y	61	New City	253	192	-24.1%
		62	West Elsdon	7	23	228.6%
Y	Y	63	Gage Park	50	82	64.0%
		64	Clearing	17	52	205.9%
		65	West Lawn	26	73	180.8%
Y	Y	66	Chicago Lawn	184	272	47.8%
Y	Y	67	West Englewood	276	415	50.4%
Y	Y	68	Englewood	110	263	139.1%
	Y	69	Greater Grand Crossing	89	212	138.2%
		70	Ashburn	59	207	250.8%
Y	Y	71	Auburn Gresham	208	331	59.1%
		72	Beverly	54	56	3.7%
Y	Y	73	Washington Heights	154	235	52.6%
		74	Mount Greenwood	21	43	104.8%
		75	Morgan Park	89	132	48.3%
		76	O'hare	4	9	125.0%
	Y	77	Edgewater	58	63	8.6%
			All Chicago:	4,917	7,575	54.1%

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Finding 13: Changes from 2004 to 2005 in all foreclosures started vary greatly among community areas; however, foreclosures started on loans with ARMs and/or balloon payments are significant in nearly all neighborhoods.

Definitions for Tables 12 & 13

Non-white Community Area: these are neighborhoods in which non-white people make up more than 80% of the total neighborhood population according to the 2000 census.

Low/Mod Community Area: these are neighborhoods where weighted average of the census tract median incomes is less 80% of the MSA median income according to the 2000 census.

While foreclosures started increased by only 1% citywide the greatest increases were in commuities like Rogers Park (#01), Near North (#05), Edison Park, Jefferson Park (#11) and Bridgeport (#60).

Humboldt Park (#23), Austin (#25), South Chicago (#46), Roseland (#49), South Deering (#51), New City (#61), Englewood (#68), Ashburn (#70), Washington Heights (#73) and Morgan Park (#75) all saw decreases in foreclosures started between 2004 and 2005; however, all still had more than 100 in each. Other high foreclosure neighborhoods including Belmont Cragin (#19), North Lawndale (#29), Woodlawn (#42), South Shore (#43), Chatham (#44), Calumet Heights(#48), West Pullman (#53), New City (#61), Chicago Lawn (#66), West Englewood (#67), Greater Grand Crossing (#69) and Auburn Gresham (#71) experienced increases in foreclosures started ranging from 1.8% for Woodlawn to 12.6% for Belmont Cragin.

In 22 out of 77 (28.6%) neighborhoods, foreclosures started on new loans (those less than 24 months old) made up 50% or more of all foreclosures started. In 54 out of 77 (70.1%) neighborhoods, loans with ARM and/or balloon characteristics made up 50% or more of all foreclosures started.

Table 13: Community Area Comparison: Foreclosures Started 2004 and 2005

Non-White	Low/Mod			2004 Number	2005 Number	Percent Change 2004-05	Percent Loans less than 24 mos. old in 2005	Percent of 2005 Foreclosures Started with ARMs and/or Balloon Characteristics
	Y	01	Rogers Park	37	55	48.6%	41.8%	60.0%
	Y	02	West Ridge	73	66	-9.6%	31.8%	57.6%
	Y	03	Uptown	40	43	7.5%	44.2%	58.1%
	Y	04	Lincoln Square	26	23	-11.5%	26.1%	60.9%
		05	North Center	27	16	-40.7%	56.3%	75.0%
		06	Lakeview	58	57	-1.7%	17.5%	47.4%
		07	Lincoln Park	42	37	-11.9%	48.6%	56.8%
		08	Near North	92	152	65.2%	59.2%	69.7%
		09	Edison Park	6	10	66.7%	60.0%	60.0%
		10	Norwood Park	40	36	-10.0%	50.0%	55.6%
		11	Jefferson Park	18	34	88.9%	50.0%	67.6%
		12	Forest Glen	20	19	-5.0%	47.4%	42.1%
		13	North Park	13	11	-15.4%	18.2%	54.5%
	Y	14	Albany Park	49	24	-51.0%	50.0%	41.7%
		15	Portage Park	79	80	1.3%	53.8%	68.8%
	Y	16	Irving Park	56	64	14.3%	46.9%	53.1%
		17	Dunning	62	70	12.9%	30.0%	50.0%
		18	Montclare	25	21	-16.0%	61.9%	71.4%
	Y	19	Belmont Cragin	119	134	12.6%	48.5%	59.0%
Y	Y	20	Hermosa	31	36	16.1%	47.2%	52.8%

Table 13: Community Area Comparison: Foreclosures Started 2004 and 2005 (cont.)

Non-White	Low/Mod			2004 Number	2005 Number	Percent Change 2004-05	Percent Loans less than 24 mos. old in 2005	Percent of 2005 Foreclosures Started with ARMs and/or Balloon Characteristics
	Y	21	Avondale	43	31	-27.9%	54.8%	67.7%
	Y	22	Logan Square	90	86	-4.4%	50.0%	54.7%
Y	Y	23	Humboldt Park	225	223	-0.9%	51.1%	65.9%
	Y	24	West Town	92	96	4.3%	49.0%	58.3%
Y	Y	25	Austin	504	492	-2.4%	41.1%	53.5%
Y	Y	26	West Garfield Park	106	114	7.5%	64.0%	67.5%
Y	Y	27	East Garfield Park	92	76	-17.4%	52.6%	59.2%
	Y	28	Near West Side	84	81	-3.6%	38.3%	64.2%
Y	Y	29	North Lawndale	142	156	9.9%	50.0%	60.3%
Y	Y	30	South Lawndale	78	87	11.5%	34.5%	43.7%
Y	Y	31	Lower West Side	33	28	-15.2%	25.0%	39.3%
		32	Loop	37	42	13.5%	47.6%	66.7%
		33	Near South Side	29	21	-27.6%	38.1%	66.7%
Y	Y	34	Armour Square	8	11	-	18.2%	90.9%
Y	Y	35	Douglas	56	36	-35.7%	38.9%	47.2%
Y	Y	36	Oakland	5	5	0.0%	60.0%	60.0%
Y	Y	37	Fuller Park	27	22	-18.5%	59.1%	86.4%
Y	Y	38	Grand Boulevard	97	85	-12.4%	48.2%	65.9%
Y	Y	39	Kenwood	58	55	-5.2%	41.8%	47.3%
Y	Y	40	Washington Park	56	62	10.7%	54.8%	64.5%
		41	Hyde Park	34	43	26.5%	32.6%	46.5%
Y	Y	42	Woodlawn	113	115	1.8%	47.8%	56.5%
Y	Y	43	South Shore	203	214	5.4%	40.2%	54.2%
Y	Y	44	Chatham	150	164	9.3%	45.7%	54.9%
Y		45	Avalon Park	77	90	16.9%	38.9%	46.7%
Y	Y	46	South Chicago	193	189	-2.1%	37.0%	57.1%
Y	Y	47	Burnside	34	40	17.6%	35.0%	62.5%
Y		48	Calumet Heights	107	110	2.8%	30.9%	45.5%
Y	Y	49	Roseland	391	385	-1.5%	37.7%	53.5%
Y	Y	50	Pullman	55	58	5.5%	32.8%	51.7%
Y	Y	51	South Deering	130	109	-16.2%	28.4%	45.0%
	Y	52	East Side	48	51	6.3%	41.2%	37.3%
Y	Y	53	West Pullman	319	331	3.8%	33.2%	53.5%
Y	Y	54	Riverdale	23	9	-60.9%	33.3%	66.7%
		55	Hegewisch	28	29	3.6%	24.1%	37.9%
		56	Garfield Ridge	66	67	1.5%	34.3%	35.8%
	Y	57	Archer Heights	21	19	-9.5%	36.8%	47.4%
Y	Y	58	Brighton Park	62	50	-19.4%	38.0%	34.0%
	Y	59	McKinley Park	26	11	-57.7%	45.5%	45.5%
	Y	60	Bridgeport	16	34	112.5%	38.2%	55.9%
Y	Y	61	New City	202	192	-5.0%	53.6%	63.0%
		62	West Elsdon	34	23	-32.4%	34.8%	43.5%
Y	Y	63	Gage Park	69	82	18.8%	26.8%	43.9%
		64	Clearing	38	52	36.8%	53.8%	67.3%
		65	West Lawn	75	73	-2.7%	34.2%	34.2%
Y	Y	66	Chicago Lawn	266	272	2.3%	37.5%	49.6%
Y	Y	67	West Englewood	380	415	9.2%	44.1%	60.2%
Y	Y	68	Englewood	274	263	-4.0%	54.0%	68.4%
	Y	69	Greater Grand Crossing	190	212	11.6%	39.2%	52.4%
		70	Ashburn	233	207	-11.2%	32.4%	45.9%
Y	Y	71	Auburn Gresham	295	331	12.2%	39.0%	52.0%
		72	Beverly	61	56	-8.2%	50.0%	58.9%
Y	Y	73	Washington Heights	237	235	-0.8%	32.3%	54.0%
		74	Mount Greenwood	35	43	22.9%	41.9%	53.5%
		75	Morgan Park	147	132	-10.2%	38.6%	57.6%
		76	O'Hare	12	9	-25.0%	55.6%	66.7%
	Y	77	Edgewater	77	63	-18.2%	30.2%	42.9%
			All Chicago:	7,496	7,575	1.0%	41.8%	55.4%

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

Policy Implications and Recommendations

The reversal in the downward trend in foreclosures started is significant in itself, but it is even more significant because of the reasons for it. From 1993 to 2001, the rise in foreclosures started was mainly due to increases of foreclosures started on sub-prime loans (ie. loans with interest rates greater than 3% above the Treasury rate). After 2001, foreclosures started began to decline overall and the decline was due to reductions in foreclosures started on sub-prime and especially high-cost loans (ie. loans with interest rates 6% above the Treasury rate). The bad news in 2005 is not that foreclosures started increased by 1% but that newly originated prime rate loans with ARM or balloon features increased 152%.

In addition, this study supports the conclusions that:

- The downward trend of foreclosures started in low- and moderate-income and minority neighborhoods has reversed.
- The suitability of a loan product should replace the costliness of a loan (measured by APR) as a standard for what makes a loan predatory. Previous definitions of predatory lending focused on whether borrowers overpaid for loans. Policy changes have effectively reduced foreclosures on these high cost loans. Today, however, ARMs and/or balloon payments have replaced high cost loans in the composition of foreclosures started.
- ARMs are prevalent in nearly all neighborhoods regardless of neighborhood income.

Prior to the mid-1990s, borrowers who could not qualify for conventional loans (ie. sub-prime borrowers) could become homeowners through the FHA program which was and is still a 100% mortgage insurance program. If a borrower defaulted, the lender was reimbursed and HUD dealt with the vacant property. Because the lender faced little if any risk, HUD had to monitor performance and enforce regulations to insure that the lender performed "due diligence' in underwriting loans and overseeing brokers. If HUD's oversight failed, as it did in some neighborhoods in Chicago, then fraud and abuse became rampant. Since the mid-1990s, the industry and the investment community in general seem increasingly more comfortable with the idea that as long as losses are predictible and the risk of such losses are appropriately accounted for by the interest rate charged to the borrower, then mortgage insurance, loan-to-value and debt-income ratios, and prudent underwriting no longer matter. The lenders who continue to care about loan quality, borrower success and neighborhood development, and who do the necessary work of serving borrowers and prudently underwriting loans, are at a competitive disadvantange with the segments of the industry who push the frontiers of risky lending. In the end, good lenders, borrowers and neighborhoods lose.

Recommendations

The Industry needs to adopt an approach to lending that minimizes risk by maximizing the likelihood that borrowers will successfully repay loans. The industry's mission needs to include promoting successful homeownership. This should include:

- Develop effective monitoring systems for brokers and loan officers to ensure that origination professionals follow ethical and honest practices.
- Conform compensation for loan officers and brokers to the mission of promoting good responsible lending.

- Use alternative products like the NTIC Experiment product developed with Fannie Mae. It is a low down payment product designed for first-time homebuyers using non-traditional credit standards and home ownership counselling.
- Responsibly underwrite interest only and payment option loans to make sure that borrowers can afford the future higher monthly payments rather than only the initial payment.
- Assess the "suitability" of loan products offered in low- and moderate-income or minority neighborhoods or to low- or moderate-income borrowers.

National policy-makers need to take a tough stance on predatory lending and unfair or unethical lending practices. This should include:

- Expand CRA exams to include mortgage lending quality test. Outstanding or satisfactory CRA grades should be reserved for those lenders whose track record demonstrates diligence in making good, ethical and successful loans throughout their enterprises. A standard of excellence in lending needs to be developed to identify and reward lender's consistent effort to promote a climate of service to borrowers and successful homeownership throughout its banking and consumer finance subsidiaries and affiliates.
- Improve the Home Mortgage Disclosure Act (HMDA) to include gender and age of borrowers, information on loan-to-value ratios, interest rates type and rate, the level of fees charged, credit scores, type of underwriting, appraised value, and whether or not the loan was originated through brokers to support the improved lending test and to increase public scrutiny of lending activities.
- Reform RESPA reform to make disclosure more clear and understandable. Borrowers must be informed how their payments will change over time. This is critical with interest only, payment options, loans with balloon payments.
- Support housing counselling. Resources to non-profits who offer quality homebuyer and post-purchase counselling and foreclosure intervention are key to successful homeownership. Counselling alone, however, is not the answer.
- Eliminate rescue fraud by preventing people from getting into foreclosure in the first place and making illegal any real estate transaction that is not substantially beneficial to the homeowner.
- The industry must adopt an attitude to produce successful homeowners, not merely originating loans. As a service industry, banking and financial services must be held accountable for practices that increase the likelihood of default and foreclosure. The industry has a responsibility to families, neighborhoods and America—it cannot just price products to compensate stockholders and investors for risk.

Innovative Programs and Initiatives

- NTIC Corporate Agreements and HOT SPOT Cards™ program: NTIC and its community partners form partnerships with national servicers and/or lenders to facilitate keeping families in their homes. The agreements require participation in our HOT SPOT Cards™ program through which loans are submitted to the corporate partner using a HOT SPOT Card™ that records information about the loan and the borrower's experiences and circumstances. NTIC's corporate partner reviews the loan and in

Innovative Programs and Initiatives (cont.)

most cases develops a workout plan that may include redressing predatory terms in the original loan through loan modifications, account credits and/or refunds. During one 18-month period, loan reviews saved borrowers more than $1.6 million. $23 million in housing assets were protected from foreclosure.

- Northwest Side Housing Centers Affordability Gap Financing Pool: a partnership to help families refinance out of loans with predatory characteristics that are by nature unaffordable into "good" loans they can afford. The project makes up the "gap" between the amount that must be refinanced and what the family can afford. The partnership includes regular homeowner counselling and financial literacy training.
- Neighborhood Housing Services of Chicago's Home Ownership Preservation Initiative (HOPI): a partnership to identify and support ways to preserve sustainable affordable housing in the City, and when saving a loan is not possible, to preserve property as a neighborhood asset.
- City of Chicago's 311 Program: Troubled homeowners or borrowers who believe they are victims of predatory lending can call this non-emergency number and receive counselling over the phone.