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Bringing Subprime Mortgages to Market and the Effects on Lower-Income Borrowers

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Graduate School of Design

John F. Kennedy School of Government

HARVARD UNIVERSITY

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Abstract

Little systematic work exists to address the many and varied ways some borrowers end up with subprime mortgages and to what extent those loans serve the true financial needs of those borrowers. This paper is an attempt to fill this gap by exploring patterns of subprime lending activity in the City of Philadelphia. We concentrate on the mechanisms through which low- and moderate-income individuals obtain their loans with a particular emphasis on "outcomes" of those loans. Data used in this paper come from a variety of sources including quantitative information extracted from comprehensive data on a sample of properties in the City of Philadelphia detailing their mortgage and sale histories. Additionally, data on mortgage foreclosures and Sheriff Sales were obtained from offices within City government legally responsible for processing these actions. Qualitative information adding to this effort comes from a considerable number of interviews conducted with subject matter experts – from the borrowers themselves to securitizers on Wall Street.

We conclude that the evidence is clear that the market penetration of the subprime mortgage products is much greater in lower and moderate income areas and as such, the benefits of the GSEs are less likely to be found. Our interviews suggest that this penetration occurs not only because of a contemporary lack of prime credit but because of the legacy of constrained access to credit for minority and lower income populations. Subprime lenders tend to actively target their borrowers and aggressively sell credit. Disproportionalities were found among foreclosures and Sheriff Sales such that these adverse outcomes are found more frequently not in the lower home value areas, but in a home value level up. The data also suggest that subprime loans make up a vastly disproportionate share of all foreclosures and Sheriff Sales and they occur much more quickly from the point of origination to foreclosure than prime loans. Finally, the data also suggest that these subprime loans are more frequently made in amounts that likely exceeding a reasonable estimation of home value.

Introduction

While much is known about the prime mortgage market, our understanding of the subprime mortgage market is less well developed. One certainty about subprime lending is that it grew at nothing short of a meteoric pace during the second half of the 1990s.[1] Also, research to date has done reasonably well delineating the characteristics of people with subprime loans. Borrowers with subprime loans generally have: lower-income;[2] FICO® scores below 620 – 660; high loan-to-value ratios;[3] collateral property that fails to meet one or more critical appraisal standard; incomplete or unverifiable documentation of income, savings, down payment sources and / or employment; housing and other debt that exceeds 45% of monthly gross income. Borrowers with subprime loans are also more likely than borrowers with prime loans to have loan provisions that penalize refinancing,[4] to end up in foreclosure and to be brought to foreclosure faster.[5,6] In contrast, the information gap is pronounced with respect to the many and varied ways borrowers end up with subprime mortgages and to what extent those loans serve the true financial needs of the borrowers.

This paper will start to fill this gap by exploring patterns of subprime lending activity in the City of Philadelphia. We will address the mechanisms through which individuals obtain their loans and the outcomes of those with a particular focus on the delivery of subprime loans to low-income borrowers.

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[1] HUD (2000) reports dollar volumes of subprime refinance loans rose from $35 billion to $160 billion between 1994 and 1999. Courchane, et al. (2003) estimate subprime origination volume at $213 billion in 2002. Observed increases in the number and dollar volume of subprime loans occurred in tandem with a decline in the share of all loans that are prime. For example, Canner et al. (1999) report that in 1993 prime mortgage applications represented 89.6% of all applications for purchase money mortgages; that percent dropped to 65.9% by 1998. Nationally, the Center for Community Change (2002) reports that 25.31% of all conventional refinance loans are subprime.

[2] 2001 HMDA data for the Commonwealth of PA show that 23.8% of prime borrowers compared to 38.7% of subprime borrowers have income below 80% of the MSA median. In Philadelphia alone, 51.7% of prime and 65.5% of subprime borrowers have income below 80% of the MSA median.

[3] Standard and Poor's (2000) estimates that loans with LTVs of 95% are three times riskier than loans with LTVs of 80%; loans with LTVs of 100% are four times riskier than loans with 80% LTVs.

[4] See, for example, Cutts and Van Order (2003). The prepayment penalty makes it more difficult for subprime borrowers to take advantage of drops in the interest rate. The theoretical trade-off is that the subprime borrower may end up with a lower interest rate if they accept a loan with a prepayment penalty. Notwithstanding the penalty, many subprime borrowers do prepay and accept the penalty so as to refinance their mortgage. In some instances, this is a rational economic choice; but in others, it is not.

[5] A recent survey by the Mortgage Bankers Association of America shows that the percent of all subprime loans in foreclosure at the end of 2002 was 7.97% versus 0.54% for prime loans. The percent of subprime loans that were 90 days or more past due was 3.31% versus 0.30 for prime loans.

[6] See Fishbein and Bunce (2001) "Subprime Market Growth and Predatory Lending" from the United States Department of Housing and Urban Development's Housing Policy in the New Millennium Conference Proceedings.

Philadelphia: Past and Present

Philadelphia has experienced a steady and substantial decline in population since its peak of over 2.1 million in 1950 to its current total population of 1.52 million. Were it not for natural increases in population and a small increase due to net international migration, net domestic migration would have taken the population down by an additional 260,000 people.[7] The housing stock, built largely prior to the city's peak population period[8] has been abandoned and devalued in many areas. In the most recent decade, while some residential rents and property values have appreciated strongly (e.g., in the residential downtown), average values fell by 5.9% and rents by 6.1% (net of inflation). During the 1990s, Philadelphia demolished more than 1,000 buildings a year, but could not keep pace with the ever-increasing supply of vacant housing. Today, Philadelphia is struggling with more than 26,000 vacant residential buildings, 2,500 vacant industrial buildings and 31,000 vacant lots (City of Philadelphia, 2001). These properties act as a "blight machine," further weakening transitional and distressed neighborhoods.

At the same time, Philadelphia's banking community has historically invested more heavily in certain communities, leaving the others to rely upon smaller banking institutions and other outlets for housing capital (c.f., Adams, et al., 1991). Several significant CRA settlements and special programs like the Philadelphia Mortgage Plan and its successor, the Delaware Valley Mortgage Plan, represent the only access to the City's mainstream financial institutions for many lower-income and minority communities. Since its founding in 1975 in response to community-based charges of redlining and disinvestment, the Delaware Valley Mortgage Plan has provided nearly 28,000 loans, totaling $763 million; roughly three-quarters of these loans went to low-income or minority Philadelphia residents.[9] Between 1990 and 1998, the Delaware Valley Mortgage Plan issued roughly 1,600 loans annually. As much as that sounds, recognize that in any single year, more than 15,000 loans are made for the purchase of homes or refinance of mortgages in Philadelphia. So the Delaware Valley Mortgage Plan has clearly been a help, but it hasn't fundamentally altered access to credit for the majority of Philadelphia's lower income people and places.

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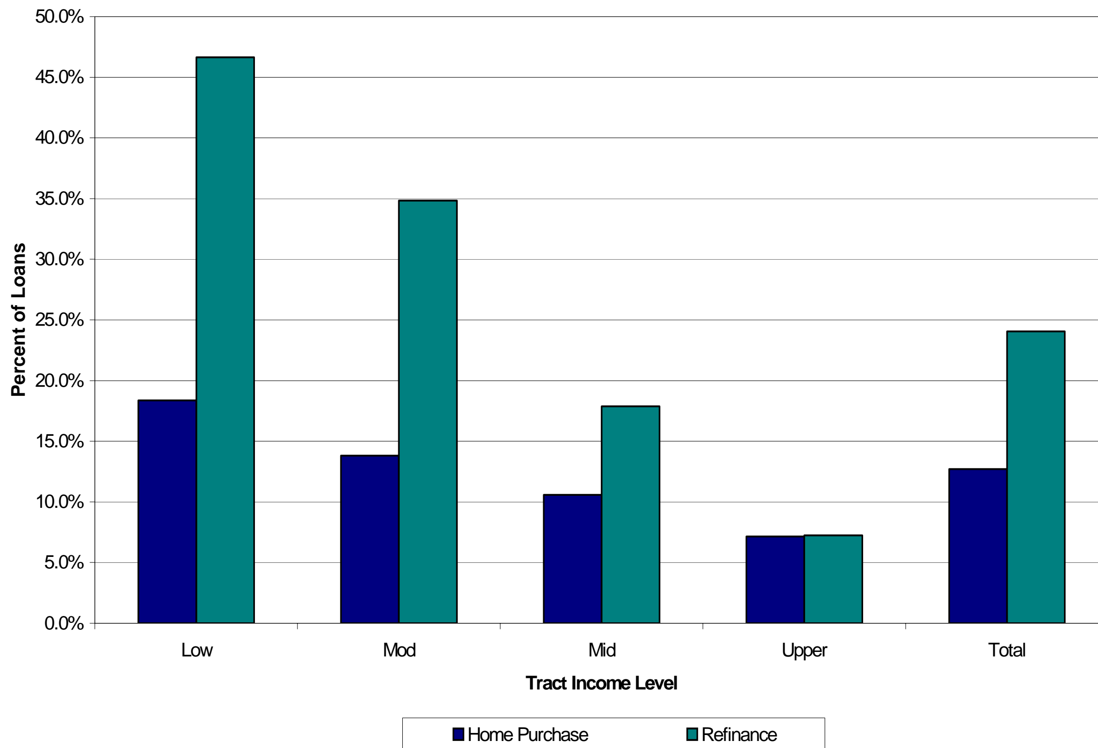
[7] U.S. Census report CO-99-4, County Population Estimates for July 1, 1999 and Demographic Components of Population Change: April 1, 1990 to July 1, 1999.
[8] Census data indicate that approximately 58% of the City's 660,000 housing units were build prior to 1950. In the last decade, rental housing construction outpaced owner occupied housing more than 2-to-1. Much of that has been construction subsidized by one or another form of public housing subsidy.
[9] Listokin & Wyly, 2000.

Our quantitative data and interviews show that subprime loans are making credit available in communities where credit is not otherwise readily available. Moreover, interview reports suggest that subprime lending generally prices against the risk that borrowers present.[10] However, the data also suggest that these loans are oftentimes made in amounts exceeding the value of the underlying property (i.e., collateral) and at levels beyond that which the borrowers want, need or can afford. Specific findings of this analysis include the following: (1) subprime loans are more prevalent in lower-income communities; (2) subprime loans, disproportionately serving lower-income communities, are not as able to achieve the economic benefits of the Government-Sponsored Enterprises ("GSEs") as prime loans; (3) financing patterns, particularly the financing of consumer debt, suggest an erosion of home equity over a relatively short period of time; (4) mortgage foreclosure rates are disproportionately higher in communities with lower and moderate housing values; (5) subprime loans in communities with lower and moderate housing values go into foreclosure very quickly (i.e., within two years of origination). The paper closes with a consideration of how both lenders and consumers experience subprime market activity.

Lending in Lower-Income Areas of Philadelphia

Using data from the 2001 HMDA reports for the City of Philadelphia we observe that 14% of all purchase money mortgages were originated by subprime lenders; 24% of refinances originate with subprime lenders.[11,12] The proportions of prime and subprime loans in a given census tract vary dramatically by the tract's average income level. Specifically, as incomes fall, the portion of subprime loans increases. In low-income tracts (those with average incomes below 50% of the MSA average) and in moderate income areas (those areas with average incomes between 50% and 79% of the MSA average), the percent of purchase money mortgages that is subprime is 21%. This portion is *double* that found in middle-income areas (those with incomes between 80% and 119% of the MSA average) and *quadruple* that in high-income areas

[10] This position is not without dispute. For example, White (2003) argues that "opportunity pricing" in the subprime market causes borrowers with subprime loans to pay substantially more than their risk profile would dictate.
[11] HMDA data for this report were obtained through subscription to PCI Services, Inc. *CRA Wiz.*
[12] The categorization of HMDA reporting lenders as prime and subprime is made based on the HUD Subprime and Manufactured Home Lenders List, 2001 prepared by Randall M. Scheessele.



(those with incomes greater than 120% of the MSA average); the percent of subprime purchase money mortgages in these neighborhoods are 11.1% and 5.4%, respectively.[13]

Subprime activity in Philadelphia is generally more prevalent among mortgage refinances. These loans' shares of prime and subprime also vary by Census Tract income level such that lower-income areas have higher rates of subprime lending. In low-income tracts, nearly half of refinance mortgages (46.6%) are subprime; in moderate income areas, just over one-third (34.8%) are subprime. This contrasts sharply with refinancing loans in higher income areas: fewer than one-in-five refinance mortgages (17.9%) in middle-income areas and just one out of every fourteen (7.2%) in high-income areas are subprime.

The presence of subprime loans in and of itself does not necessarily mean that borrowers are getting a less appropriate product. To the extent that differences in credit history, income and collateral justify subprime loans, they are entirely appropriate. On the other hand, subprime loans are disadvantageous when borrowers' characteristics qualify them for prime loans with

[13] The median family income for the Philadelphia PA-NJ MSA in 1999 as reported in the 2000 Census is $58,395.

lower interest rates. This typically results from qualified borrowers' lack of access to prime lending.[14,15]

HMDA data show that the array of institutions most active in the lower- and moderate-income communities is substantially different than those in the middle- and higher-income places. [See Appendix A] The substantial market penetration of subprime lenders into lower- and moderate-income communities represents a double-edged sword. While lenders are making credit available, they are doing so at a price. Williams, et al. (2001) said it well when they stated:

> As classical economic theory would predict, a deregulated marketplace has made it possible for low income and minority groups to get credit like never before. This has helped them to achieve record rates of home ownership and to also get loans for any number of other purposes. But, as sociological network theories suggest, the new lenders are quite unlike the old ones. As a result, the gains made by underserved markets have come in very different ways than those made by the rest of American society. For better or for worse, as the old inequalities have slowly diminished, new inequalities have replaced them. (29)

Extent of GSE Benefit in Lower Income Communities

Congress established the Fannie Mae Corporation and later Freddie Mac to accomplish several goals. First was to create liquidity in the home mortgage market. Beyond that, Congress intended to help standardize mortgage lending, creating market efficiencies that would translate into advantageous pricing for borrowers. However, subprime loans are generally not purchased by the nation's GSEs. As a result, communities and households that rely on subprime lending, namely lower-income communities, tend not to benefit from the economic advantages afforded by the GSEs to higher income communities. Temkin, et al., (2002) and Ambrose, et al., (2002) suggest that were the GSEs to get more actively involved in the market the price differential (rates, points and fees) between prime and subprime rates borrowers with subprime credit pay would shrink.[16]

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[14] Barr (forthcoming 2004) points out that lower-income people oftentimes do not have well established credit histories, and as such, their profiles generally make them difficult to underwrite and thus subject to "alternative financial services."
[15] Carr and Kolluri (2001) report survey results that indicate anywhere from 35% and 50% of individuals with subprime loans could have qualified for prime loans.
[16] Freddie Mac (1996) suggests that adoption of their automated underwriting could help move borrowers with subprime loans into the prime market saving them up to $100 million annually.

In Philadelphia, the percent of all purchase money mortgages purchased by GSEs in low-income areas is 39.9%; in moderate income areas, the percent is 47.8%; in middle-income areas, the percent is 58.8%; in high-income areas, the percent is 57.9%.[17] The percent of purchase money mortgages purchased by "other" (i.e., neither a FSA, commercial bank, savings bank or savings institution, life insurance company or affiliate institution) purchasers in low-income areas is 42.0%; in moderate income areas, the percent is 33.2%; in middle-income areas, the percent is 29.1%; in high-income areas, the percent is 27.8%.

Portion of Mortgages Purchased by Government-Sponsored Enterprises

Area Income Level	Prime Loans	Subprime Loans	All Loans
Low-Income (Less than 50% AMI)	51.4%	2.9%	39.9%
Moderate-Income (50% to 79% AMI)	60.5%	5.8%	47.8%
Middle-Income (80% to 119% AMI)	65.1%	5.9%	58.8%
High-Income (120% AMI or More)	60.7%	3.3%	57.9%

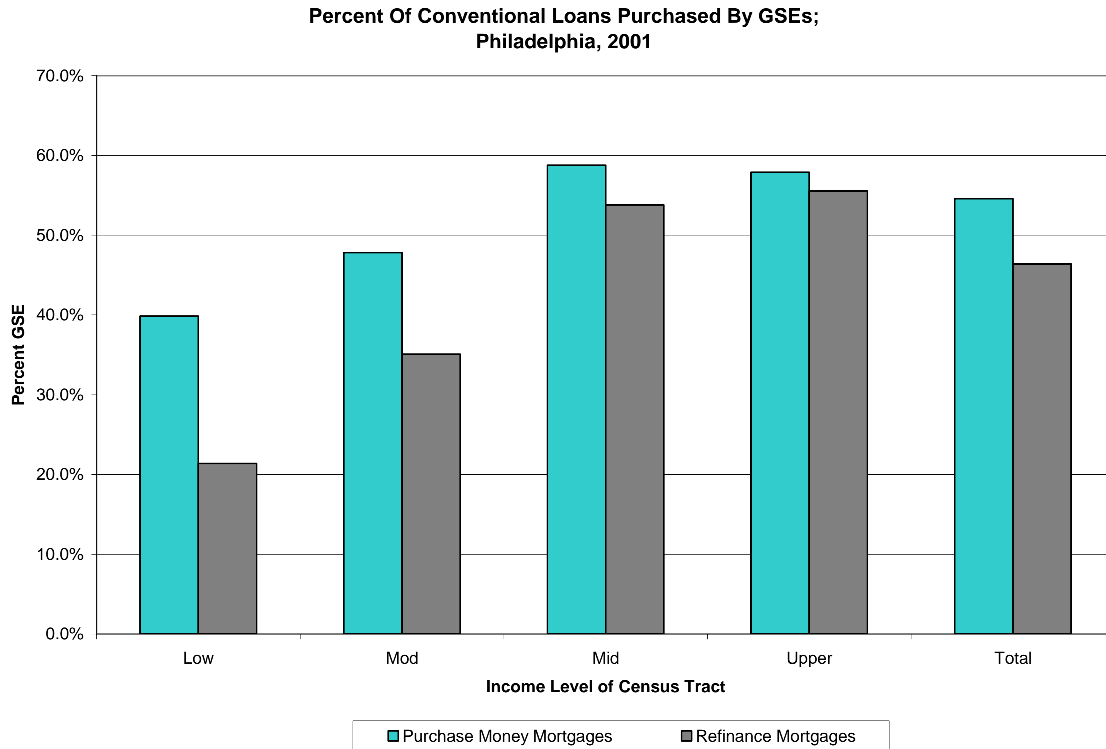
GSEs are even less likely to purchase refinance mortgages. Among all refinance mortgages, GSEs purchase just 21.4% of those made in low-income areas; 35.1% in moderate income areas; 53.8% in middle-income areas; 55.6% in high-income areas. Less than 2% of subprime refinance loans made in low-, moderate-, and middle-income areas are purchased by GSEs.

Portion of Refinance Mortgages Purchased by Government-Sponsored Enterprises

Area Income Level	Prime Loans	Subprime Loans	All Loans
Low-Income (Less than 50% AMI)	51.2%	0.0%	21.4%
Moderate-Income (50% to 79% AMI)	60.0%	0.9%	35.1%
Middle-Income (80% to 119% AMI)	65.9%	1.8%	53.8%
High-Income (120% AMI or More)	59.0%	5.9%	55.6%

The percent of refinance mortgages purchased by "other" purchasers in low-income areas is 55.5%; 43.1% in moderate-income areas; 27.8% in middle-income areas; 28.3% in high-income areas.

[17] According to one commenter, the absolute accuracy of GSE activity using HMDA data may be questioned. Using data from the GSE public access database for single family mortgage purchases in 2002, we observe that 7.4% of all GSE purchases were in the lowest income areas, 31.5% were in moderate income areas, 49.3% were in middle income areas and 11.8% were in the highest income areas.

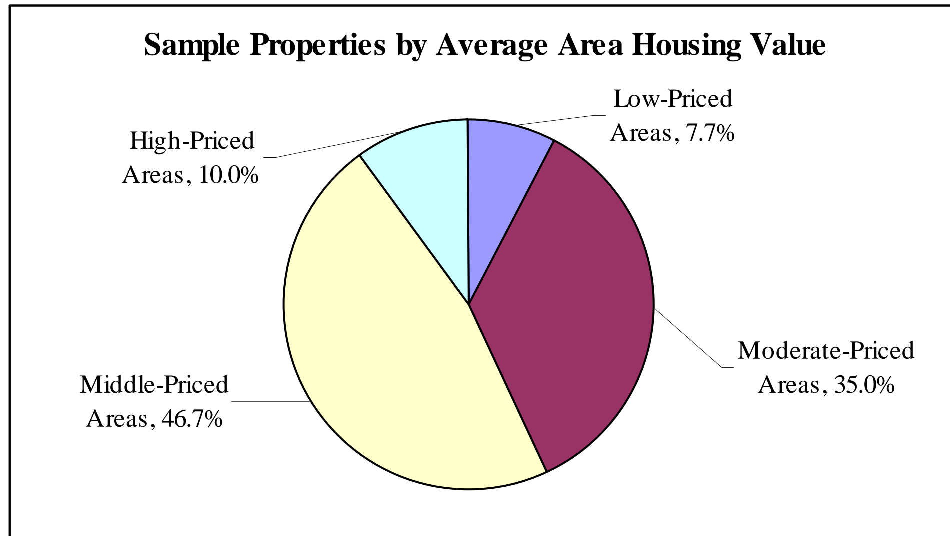


This circles back to the important question regarding whether the price paid by borrowers with subprime loans is commensurate with the risk they present and whether that risk exceeds the reward (namely, the loan) to both the borrower and community.

Patterns of Lending in Philadelphia; When Lending Erodes Equity

In order to comprehend the totality of loan transactions on a property, we selected at random 2,289 properties in the City of Philadelphia. These properties are representative of the entirety of the City of Philadelphia.[18]

[18] 7.7% of properties are in low-priced areas; 35.0% are in moderate-priced areas; 46.7% are in middle-priced areas; 10.0% are in high-priced areas. These figures are sufficiently comparable to believe the random sample produced a result representative of the City of Philadelphia.



Among those properties, 24.6% had a refinance mortgage in the recorded mortgage history. Seven percent of the sample properties had a Sheriff Sale recorded – the culmination of Philadelphia's tax foreclosure process. The likelihood of a Sheriff Sale is higher in lower-priced areas. The percent of properties in low-priced areas with a history including a Sheriff sale is 13.6%; in moderate-priced areas, 10.5%; in middle-priced areas, 4.3%; in high-priced areas, 2.1%.[19]

The loan-to-value ratio represents the extent to which the collateral for a mortgage is commensurate in value with the size of the mortgage. Although higher ratios are possible, most lenders prefer to limit the LTV to less than 95% of the property's value. Lenders will typically require an appraisal of the fair market value for a property prior to approving a loan.[20] Among the sample properties, approximately 18% have loans exceeding their full value.[21]

This figure, however, is not uniform across the City; variation between differently priced neighborhoods shows an interesting pattern. For this sample, excessive loans were most prevalent in moderately-priced areas (23.0% of all properties had loans greater than the home's

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[19] Low-priced areas are defined as those with median housing values reported in the Census (2000) under $25,000. Moderate-priced areas have median values between $25,000 and $49,999; middle-priced areas have values between $50,000 and $99,999; high-priced areas have median values of $100,000 or more.
The principal amount could exceed the estimated market value for a number of reasons – as noted previously. First and most obviously, values could have fallen since the loan was obtained. Second, there could have been an appraisal of value that was greater than the true value.
[20, 21] In Philadelphia, the Board of Revision of Taxes ("BRT") is responsible for assessing the value of all property. The BRT estimates a property's market value based typically on comparable properties in the area and then applies a ratio to determine the assessed value of the property for tax purposes. That ratio is approximately one-third. It is acknowledged locally that properties are not evaluated at their true and complete market value; there is something known locally as the "implicit discount." If we use a ratio of 5.0 – far in excess of the 3.3 that the ratio of market to assessed value should be – we can determine a conservative estimate of a home's value. Then, by comparing that value to the principal amount due, we can determine whether homes have mortgages in excess of their value.

value). Just 12.5% of properties with loans in low-priced areas, 16.7% in middle-priced areas, and 13.4% in high-priced areas, had similarly excessive loans.[22]

Focusing only on those homes with two or more liens (attempting to capture the phenomena of a refinance in excess of the home's value), the percentages of loans exceeding value is substantially different. In low- and moderately-priced areas, *half* of properties (50% and 50.9%, respectively) have excessive loans. In contrast, 23.1% of properties in middle-priced areas and just 15.8% in high-priced areas do so. Under either scenario, it appears that homes in lower and moderately-priced areas are more likely to have principal balances in excess of the home's value.

In terms of the nature of mortgage refinances, approximately 21% of all properties in the sample had a mortgage refinance in its history with the current owner and had complete information on the first and most recent mortgages. Among those properties, 61.1% had their first mortgage with a prime lender; among those same properties, 52.1% had a second / subsequent loan with a prime lender.[23]

Repeated mortgage refinances on a home may suggest a loss of equity through fees and the refinancing of other (oftentimes consumer) debt. One distinct (and measurable) pattern is when the property owner has multiple small loans that are ultimately rolled into a larger loan. If we focus on owners with multiple small loans refinanced into a large loan after 1993 (i.e., a watershed year for the securitization of subprime loans),[24] we observe that in lower-value areas, refinances suggesting equity loss is more prevalent.[25] Owing to sample size concerns, we've collapsed low- and moderate-priced areas into one group ("low/mod"). In low/mod areas, 20.4% of homes manifest this pattern; in middle-priced areas, 16.3% manifest this loss of equity; in high-priced areas, the percent reduces to 12.8%.

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[22] Research has shown that one of the most consistent predictors of foreclosure is the loan-to-value ratio (c.f., Quercia and Stegman, 1992). Specifically, properties with a higher loan to value ratio are more likely to go into foreclosure. Where the loan exceeds a reasonable property value one must question the veracity of the appraisal. An important question then becomes why this would be so prominent in lower- and moderate-value areas.

[23] When analyzing lenders that are HMDA reporters, we are able to use the HUD list of reputed subprime lenders. However for this analysis (and the analysis of mortgage foreclosures), there were a large number of lenders that are not (or were not) HMDA reporters and therefore we needed to augment that list to include the other lenders. The process involved review of a lender's advertising, website, corporate filings, and where possible, reviews of descriptions of loans within a pool of mortgages. Additionally, we conferred with subject matter experts who could confirm our designation and/or provide supplemental information for lenders we were otherwise unable to locate.

[24] See, for example, U.S. Department of Housing and Urban Development and U.S. Treasury Department. 2000. Curbing Predatory Home Mortgage Lending.

[25] The sample for this analysis includes only properties with three or more liens with the current owner.

One can always argue that the refinance and consolidation of various forms of debt into a mortgage is advantageous to the borrower by making interest paid tax deductible. However there is research to suggest that at lower-income levels, people are less likely to itemize their deductions and thus are not reaping such benefits.[26] Further, it is not uncommon to find people who have rolled small, short-term unsecured debt into home mortgages. This may lower monthly payments, but it raises long term debt and removes equity from the home. It also makes the impact of any (even minor) household financial stressor far more serious because the loss of a home, rather than the repossession of some household goods, hangs in the balance. [See Appendix C for a sample HUD-1 Settlement Sheet]

Among those properties that started out with a prime loan and had that loan refinanced, 66.6% refinanced into a prime loan; 27.9% refinanced into a subprime loan; 5.6% refinanced with a lender that could not readily be identifiable as either prime or subprime (i.e., these lenders did both sorts of lending).[27] Among those properties that started with a subprime loan and refinanced, 29.0% ended up with a prime lenders, 66.7% ended up with a subprime lender and 4.3% ended up with a lender that did both sorts of lending.

The refinance pattern is very different depending upon the value of homes in the surrounding area. For example, the likelihood of a prime to subprime refinance in a lower-price area (34.8%) is substantially higher than in higher-price areas (12.5%). The refinance pattern reflective of "credit repair" (i.e., subprime to prime loan refinances) is far more prevalent in higher-value areas (42.9%) than in lower-value areas (20.7%).

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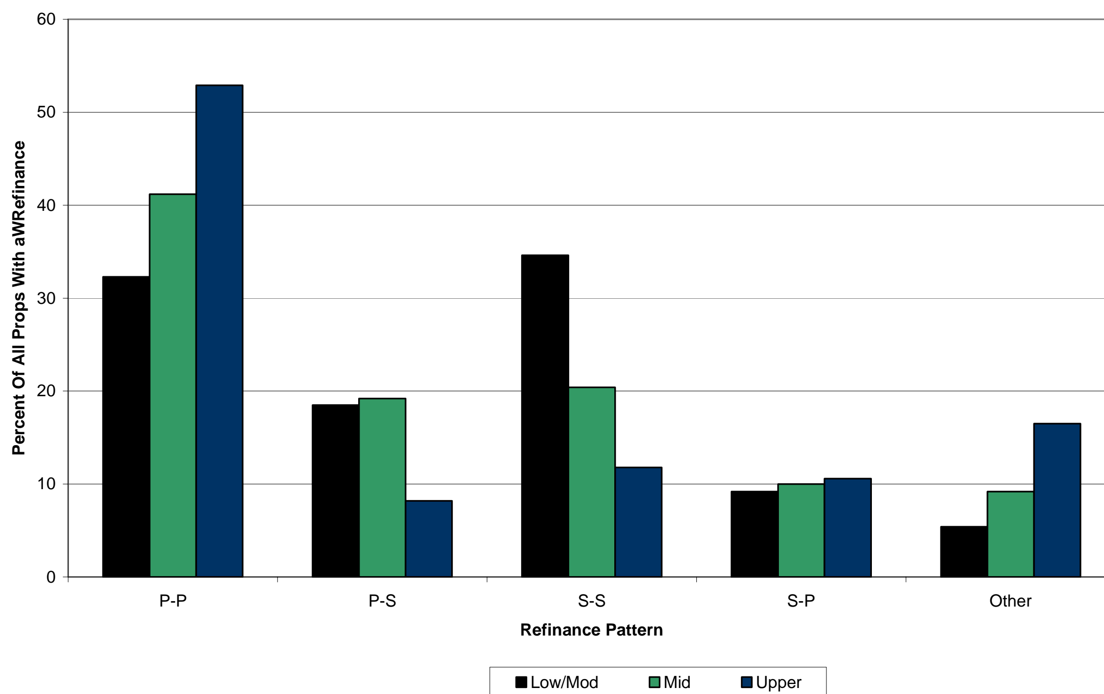
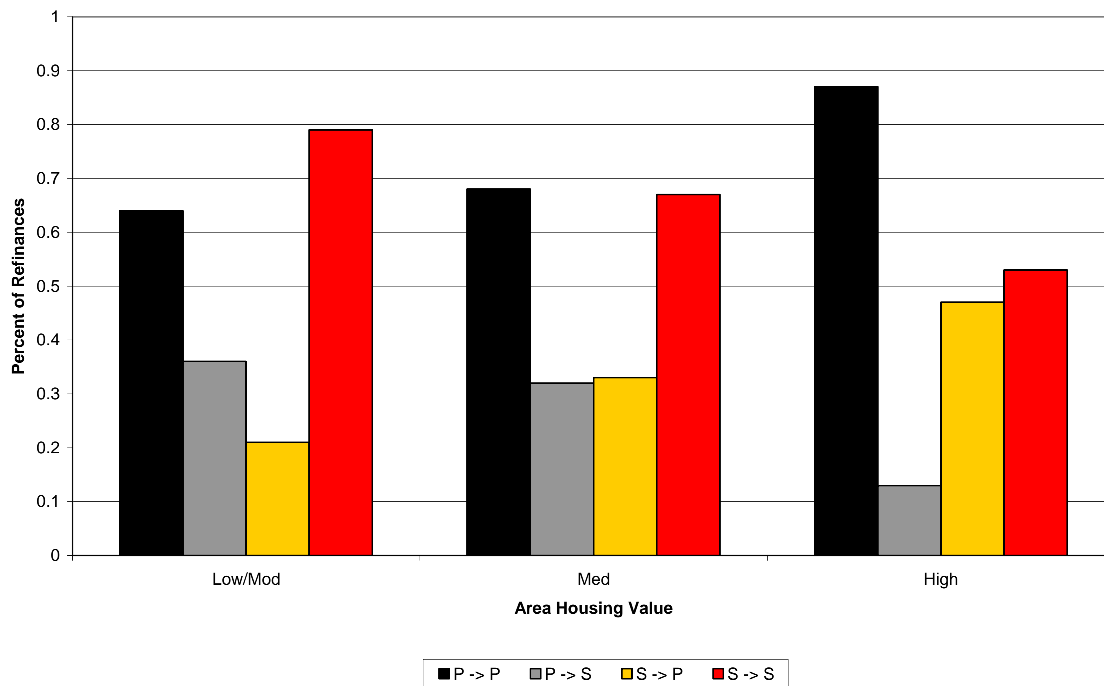
[26] See, for example, Glaeser and Shapiro, "The Benefits of the Home Mortgage Interest Deduction."
[27] Examples of these lenders include, but are not limited to: GMAC, Cendant, Bank of America, FSB.



Refinance Patterns of Loans By Census Tract Housing Values
Percent Of All Props With aWRefinance
60
50
40
30
20
10
0
P-P
P-S
S-S
S-P
Other
Refinance Pattern
Low/Mod
Mid
Upper



Likelihood of a Specified Refinance Pattern By Area Housing Value
Percent of Refinances
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Low/Mod
Med
High
Area Housing Value
P -> P
P -> S
S -> P
S -> S

Foreclosures in Philadelphia[28]

Legally, a foreclosure is defined as:

> The process by which a mortgagor of real property or personal property, or other owner of property subject to a lien, is deprived of his interest therein. A proceeding in equity whereby a mortgagee either takes title to or forces the sale of the mortgagor's property in satisfaction of a debt. (Black's Law Dictionary)

At the most basic level, a foreclosure generally means that an individual has voluntarily or involuntarily stopped making payments on their mortgage and, unless those payments resume, the State intervenes, a bankruptcy is successfully filed, or some other extraordinary event occurs, the individual is going to lose their home.[29] Whether the foreclosure results from an abusive lending practice or an abuse of an individual's credit, the result is the same. For the individual, the loss is devastating. And unless the vitality of the housing market is strong, the property is unlikely to attract a buyer at Sheriff Sale and could remain vacant for an extended period of time.

A random sample of 770 mortgage foreclosures filed in Philadelphia between 2000 and 2002 was selected from a database provided by the Prothonotary of the City of Philadelphia, the entity that receives these filings on behalf of the court. We then reviewed public record filings for each of the sampled foreclosures to identify the lender originally making the loan in foreclosure[30] and the loan's origination date.[31] (See Appendix D for a sample of the data used to identify the lender responsible for originating the loan in foreclosure.)

Portion of Foreclosures in Low-, Moderate-, Middle- and High-Cost Areas

Of all foreclosed loans, 6.2% occurred in areas with average housing values under $25,000; 48.9% occurred in areas with homes valued between $25,000 and $49,999; 41.3% occurred in areas with homes valued between $50,000 and $99,999; 3.6% occurred in areas with

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[28] Counting mortgage foreclosures may represent a conservative estimate of those who lose their homes, because oftentimes people refinance only to find that their taxes and insurance are no longer being escrowed by the lender / servicer. At this time, there are approximately 75,000 residential properties in the City of Philadelphia with tax delinquencies – some of these are likely a result of a disadvantageous mortgage refinance.

[29] Preliminary data suggest that, among properties in foreclosure, the median time lapsed between the original purchase of the property and the foreclosure filing is just under seven years.

[30] Foreclosures however are not necessarily filed in the name of the originating lender. These filings are typically in the name of whatever entity is servicing the loan at the time of the foreclosure; they could also be filed in the name of the trust into which a loan has been sold or even the attorney who filed the foreclosure action. Since any issues related to the underwriting or origination of the loan needs to be attributed back to that original lender, each of the sampled foreclosures was looked up in a database of public record filings which allowed us to, in most cases, identify the original lender

[31] Most research to-date on this topic has simply coded the "plaintiff" as a prime or subprime entity (cf., Gruenstein and Herbert, 2000(a); Gruenstein and Herbert, 2000(b); Burnett, Herbert and Kaul, 2002; U.S. Department of Housing and Urban Development, 2000; U.S. Department of Housing and Urban Development and U.S. Treasury Department, (2000).

homes valued at $100,000 and over.[32] Loans in foreclosure originated by prime lenders were slightly more concentrated in higher-cost areas: 6.8% were in low-priced areas; 40.7% were in moderate-priced areas; 45.8% were in middle-priced areas; 6.8% were in high-priced areas. In contrast, loans in foreclosure originated by subprime lenders were more concentrated in lower-cost areas, particularly housing markets with values between $25,000 and $49,999: 6.5% were in low-priced areas; 51.4% were in moderate-priced areas; 39.5% were in moderate-priced areas; 2.6% were in high-priced areas.

Period of Time between Origination and Foreclosure

In general, loans in lower-priced areas failed faster than those in higher-priced areas, and subprime lenders were quicker to foreclose than prime lenders. Among all loans, average period of time between origination and foreclosure in low-priced areas was just 2.4 years (median = 2.0 years), compared to 3.1 years (median = 2.6 years) in moderately-priced areas, 3.4 years (median = 2.9 years) in middle-priced areas, and 4.9 years (median = 3.7 years) in high-priced areas. The average prime loan reached foreclosure 5.9 years (median = 5.0 years) after origination; the average subprime loan reached foreclosure in *half* that time, or 2.9 years (median = 2.5 years). Subprime loans were also nearly *six times* as likely as prime loans to reach foreclosure within 2 years of origination: 37.8% of the foreclosure filings by subprime lenders occurred within 2 years of origination versus just 6.5% of filings by prime lenders.[33] Of all foreclosure filings, 33.9% occurred within 2 years of loan origination; 49.9% occurred between 2 and 5 years of origination; 16.1% occurred after 5 years.[34]

Loan-to-Value

In low-priced areas, the average principal amount due exceeds the average estimated value of the homes in foreclosure (i.e., average principal is 1.4 times average estimated value); in moderate-priced areas, the average principal amount is slightly less than the average estimated value of homes in foreclosures; in middle-priced areas, the average principal amount is

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[32] Census data for Philadelphia indicate that 11.0% of homes are valued under $25,000; 26.3% are valued between $25,000 and $49,999; 46.2% are valued between $50,000 and $99,999; 16.5% are valued at $100,000 and over.

[33] Although the methodology differed somewhat and we were able to trace back in most cases to the originating lender, these results do not vary markedly from those reported by Bunce, Gruenstein, Herbert and Scheessele in "Subprime Foreclosures: The Smoking Gun of Predatory Lending" (2001) from the U.S. Department of Housing and Urban Development's Housing Policy in the New Millennium Conference Proceedings.

[34] It is unclear whether this discrepancy implies that subprime lenders are quicker to foreclose or that subprime borrowers are quicker to default.

approximately 82% of the average estimated value of homes in foreclosure; in high-priced areas, the average principal amount is 74.3%. Among loans in foreclosure originated by prime lenders, the average principal amount is 84% the average value of homes in foreclosure; among loans in foreclosure originated by subprime lenders, the average principal amount is 90.1% the average value of homes in foreclosure.[35] As a higher percentage of loans originated in higher priced areas tend to be prime and as those loans take longer to go to foreclosure, some of the difference in average time to foreclosure by area housing price may be explained simply by the different market penetration of prime and subprime lenders. What that does not explain, though, is how so many homes have principal amounts due exceeding average home values. That can only be explained by two things: (1) drops in home prices since mortgages were originated; (2) loans initially made in excess of the home's value.[36] Data on housing prices in Philadelphia suggests that prices in lower value areas have been relatively stable over the 1990s and recently increased.

The Sheriff Sale is one possible conclusion of a mortgage foreclosure; other possibilities include curing the mortgage, entering into a forbearance agreement, obtaining assistance from the Commonwealth of Pennsylvania's Homeowners' Emergency Mortgage Assistance Program,[37] giving up the deed in lieu of foreclosure. (See Appendix E for a particularly egregious use of the forbearance agreement where the lender routinely requires the borrower to not only pay a fee, but execute a deed in lieu of foreclosure which the lender holds should the borrower again go into default. The result of this is that the borrower then loses all rights to contest the foreclosure action.)

Data describing the monthly number of homes actually sold at Sheriff Sale between the second half of calendar year 1996 and first half of 2002 depict a radical rise in Philadelphia. In 1996, the average monthly number of homes sold was 104; by the first half of 2002, the monthly average had *more than doubled* to 239.

The distribution of properties in foreclosure and/or sold at Sheriff Sale between 2000 and 2003 (first half of the calendar year) reveals that a disproportional amount are located in moderately-priced areas. That is, there are many more homes sold at Sheriff Sale than one

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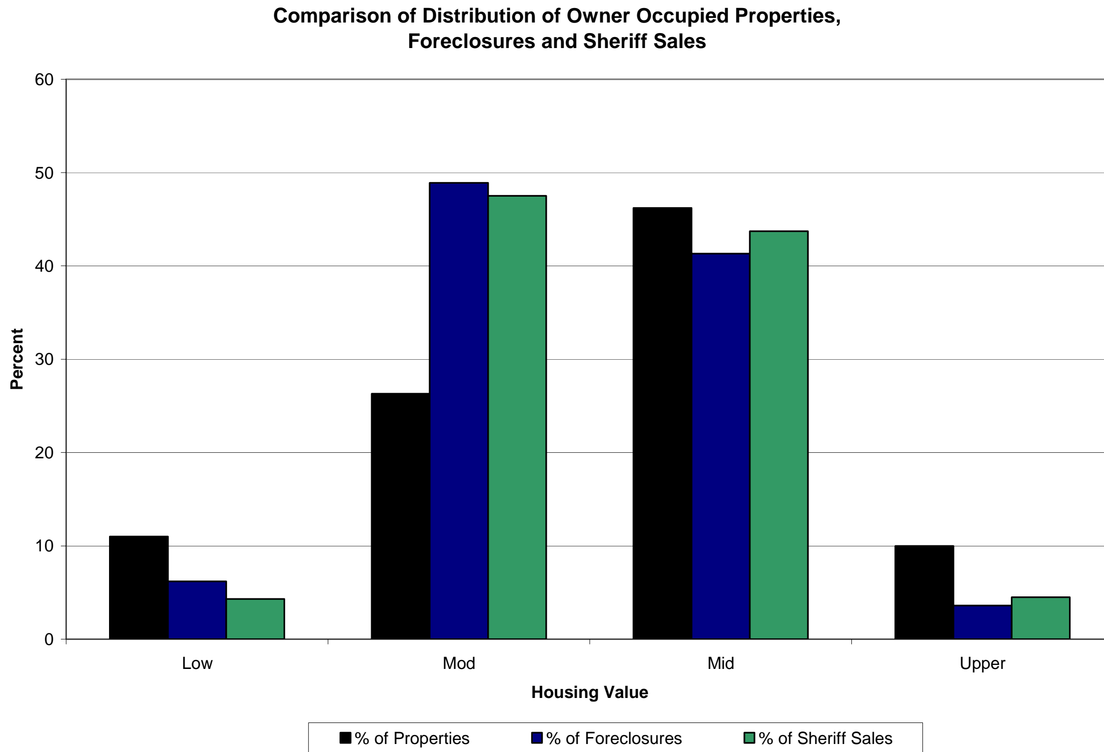
[35] One would expect that for a loan amortizing over a 30 year period, approximately 2% of the principal amount would be paid at the end of 2 years; approximately 5% would be paid at the end of 5 years.

[36] One interviewee, a licensed appraiser in the City of Philadelphia, reports that lenders try and "direct the value of the appraisal." Appraisers are then confronted with the conflict of remaining true to their estimate of the value of the property or altering the value in concert with that which the broker / lender is seeking.

[37] See http://www.phfa.org/programs/hemap/ for a full description of the program.

would expect based on the number of owner occupied properties and foreclosure actions filed. Some possible explanations for greater foreclosure rates in these areas include properties' having sufficient value to strip (through predatory lending practices); more properties in these markets may be selling at Sheriff Sale due to these areas' attraction to speculators.



• Properties Sold At Sheriff Sales

Median Home Value

- Less than $25,000
- $25,000.00 - $49,999.99
- $50,000.00 - $99,999.99
- $100,000.00 and Over

Properties in Philadelphia Sold at Sheriff Sale Jan 1, 2000 - July 1, 2003 and Median Home Value in 2000 by Census Tract

Source: US Census 2000, Philadelphia Sheriff's Department

What the Consumers and Practitioners Say

The processes and outcomes that we describe in this research are more than just the consequence of a series of economically rational (or irrational) decisions. They are processes that impact people, families and communities in a most tangible way. Purely economic logic may suggest that the underlying transaction(s) should never have taken place because of the complete lack of obvious benefit to the consumer or the fact that the loans were unlikely to be repaid.[38] But in the context of what people bring to the transaction – they are understandable.

Lack of Access to Credit

Interviews with both brokers and borrowers affirm what we know of a historical pattern that lower-income individuals and individuals residing in lower-priced areas typically have not had complete access to mainstream financial institutions. Unilaterally, interviewees in the lending industry report a history of restricted capital access in lower-priced areas (and especially areas home to members of minority groups). This absence of mainstream mortgage money left a void filled by (largely unregulated) consumer discount and finance companies that make loans in small amounts (albeit commensurate with need) but with very high interest rates. One interviewee, a former owner of a finance company quite active in the Philadelphia market, reported that his institution was more lenient than the mainstream banks that simply would not lend money in the communities in which he operated. Another interviewee, an attorney who conducts closings primarily for subprime lenders, notes that in many of the lower- and moderate-income African American communities of Philadelphia there are no (or few) bank branches. Once outside of the city limits, bank branches are plentiful.[39]

From Redlining to Greenlining

With changes in the legal environment and the concomitant evolution of the lending industry, the consumer discount and finance companies were largely replaced by the bigger

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[38] One interviewee securitized loans for one of the largest securities firms in the world. Upon showing him a sample property history that displays a set of loans culminating in one that far exceeds the value of the collateral property, he suggested that the property owner should just "…give up the keys…" and subject the lender to the loss that it deserves for making that irrational loan. While that sort of "ruthless put" would indeed make purely economic sense, the problem is that they homeowner was more than 75 years old with no place to go while exercising that put option.

[39] While the presence of branch locations is generally considered an important factor in the extent to which people in a community avail themselves of traditional banking services, there is evidence to suggest that other factors, such as convenience, impact the extent to which people utilize those services (c.f., Barr or Caskey).

subprime lenders that were willing to make loans in the areas of more modest means.[40] But, those loans were in amounts far in excess of what people needed - or wanted. People were talked into paying off items that simply made no financial sense.

Lower-income people are more likely to suffer from a lack of savings and sufficient income to maintain their homes.[41] Not able to rely on savings as higher-income households do, lower-income individuals have historically used their homes as credit cards, securing various purchases against the equity in their homes. Not only does this dramatically increase the stakes of not repaying loans, another consequence of this is to create a data artifact that is used to identify individuals who may be solicited for various financial products. Brokers and those who sell credit information report that some brokers will seek out people with a history of borrowing from finance companies – which is more frequent among lower-income individuals – and solicit them for subprime debt-consolidation / refinance loans. Brokers and those who sell credit information additionally report that credit scores help target those whose alternatives may be limited.[42]

Consumer Knowledge

Lower-income individuals are also less likely to be able to fully comprehend the totality of the transactions – with all of its complexities (See White and Mansfield, 2002; Courchane, et al., 2003). First, most borrowers interviewed had no knowledge of the fees associated with their loans. Some had a general idea about the interest rate for their loan. Most also had an idea of what they were to be paying monthly, as that was the focus of discussion between them and the loan officer or broker. One interviewee, a 48 year old African American female, upon being asked about whether the lender discussed the costs associated with her loan, responded "What do you mean costs?" And the current collection of disclosure documents does not add much to the understanding of the process. In the words of an African American mortgage broker interviewee, "…they don't mean shit."

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[40] See, for example, Mansfield, 2000.

[41] Data from the 1998 Survey of Consumer Finances as reported by Catherine Montalto to the Consumer Federation of American and the National Credit Union Foundation (5/02) demonstrate that households with no or little net asset value were disproportionately low-income. "Householders with households with low net assets were younger, less educated, less likely to be White Non-Hispanic, less likely to be married, and less likely to own their homes, compared to the total population of householders." (p. 2)

[42] Although not a brokered transaction, one interviewee reports that she was referred to one of the nation's largest subprime lenders over the telephone by a person attempting to collect a delinquent credit card bill.

Second, borrowers did not always understand other aspects of their loans. For example, a 67 year old African American male interviewee stated that he understood he had one loan that was not very advantageous to him; what he did not know was that there was a second loan, with a higher interest rate, that covered just the fees in his first loan – and costs associated with making the second loan. Another interviewee, a 71 year old African American female, stated that she thought she had only one loan only to find out that there was a second loan representing the costs associated with a forced-placed property insurance policy. The loan was for more than $3,000 and it covered one year and excluded the contents of her home; she already had a policy.

Lower income borrowers generally do not have a completely accurate, let alone "wide angle," view of financial alternatives and deal with a restricted set of lenders. This finding is generally supported by data showing which lenders are active in lower priced areas. White (2003) argues that unlike prime lenders, subprime lenders do not openly publicize the retail costs of loans. He states:

> In contrast, subprime mortgage rates at the retail level are secret. No newspaper's real estate section will list current subprime mortgage rates. The rate tables used by wholesale subprime lenders are made available only to brokers and are sometimes regarded as trade secrets. (8)

And to the extent that lower-income individuals deal with institutions that deliver product through wholesale channels (i.e., brokers), as those brokers report typically dealing with as few as 3-5 lenders, the lower-income individual is not seeing the benefit of the totality of the market.[43]

Brokers

Brokers remain a troubled part of the transaction – especially for individuals of more modest means. Interviewees representative of the Title and Appraisal businesses report many more problematic transactions when brokers are involved. One representative of a title company stated quite clearly that he preferred to deal with retail lenders so that brokers were not involved.

Brokers in PA have a very low threshold for licensure and have no fiduciary responsibility to the borrower.[44] Although they typically view the borrower as their customer, in the final analysis, the brokers can just as easily arrange deals that benefit them more than the

[43] See, for example, Woodward (2003) "Consumer Confusion in the Mortgage Market." Sand Hill Econometrics. www.sandhill.com

[44] Although most states have some sort of licensure or registration, most do not require registration of employee originators nor do most have a continuing education requirement. National Association of Mortgage Brokers, Model State Initiative (2002).

borrower. Brokers report a range of behavior in this regard with some stating that they do whatever is quickest and easiest;[45] others report shopping a borrower's application around and finding the best deal. In fact, the "NAMB Model Mortgage Loan Origination Agreement" states:

> Section 1. Nature of Relationship
>
> In connection with this mortgage loan we are acting as an independent contractor and not as your agent. We will enter into separate independent contractor agreements with various lenders. While we seek to assist you in meeting your financial needs, we do not distribute the products of all lenders or investors in the market and cannot guarantee the lowest price or best terms available in the market.

For most borrowers, the legal distinction between "agent" and "independent contractor" is meaningless. They think the broker is working for them.[46]

Structurally, there may in fact be a market problem finding ways to deliver small loans. While reports vary by broker, brokers report actual costs per transaction in excess of $1,000 – accordingly individuals needing smaller amounts of money are likely to have to pay more (as a percentage) than individuals needing larger amounts of money. In the alternative, as has been reported by borrowers and others, small needs for money are converted into larger loans than the borrower would otherwise require.

Conclusions

There is a dearth of financially responsible loan products available in the lower and moderately-priced areas of Philadelphia. Accordingly, persons who reside in these areas

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[45] One broker, a former official of the mortgage broker trade association, stated during an interview that one practice brokers use involves getting customers started with an especially disadvantageous loan product that is easily refinanced in the not too distant future.

[46] The confusion experienced by borrowers is certainly reasonable given the dual roles – and allegiances - of mortgage brokers. In a deposition of mortgage broker Jules Clearfield by Irv Ackelsberg, Esq. (Plaintiff Attorney) in the case Priscilla Fountain v. United Companies Lending Corporation, we observe the following:

BY MR. ACKELSBERG:

Q. Mr. Clearfield, I do have some other questions of a general nature but - -

A. Before we get to that, you know, there's one point I wanted to bring up when you were hassling me about customers and you got me confused who my customers were.

Q. Mr. Clearfield, it certainly wasn't - - there was no intent to be hassling or meddling.

A. You were hassling me. You kept who are your customers. And I just want to bring out the contractors, I consider them my clients. The customer who gets the loan, I consider them my customers. I just want to separate the two.

Q. Well, now you have me completely confused. What's the difference between your client and your customer?

A. The clients are people I have dealt with up through the years that I went along with to service them and help them in their field just like a doctor or an attorney has clients. They would be my clients. The customers would be the people who needed the money who are actually the lending sources who needed the money to do whatever purpose it was; whether it was financing, home improvement. They're the customers.

Civil Action 96-8095 in the United States District Court for the Eastern District of Pennsylvania.

historically have resorted to borrowing from a set of lenders and taking on loan products that, unlike the routinized and economically efficient ones in higher priced areas, tend to be less routine, more expensive, and end up producing severe financial distress for the borrower far more frequently. These effects touch not only the persons who have experienced the loss, but their neighbors as well.[47] Estimates of the impact of a mortgage foreclosure on surrounding values can be as much as 20%. Our own interviews with attorneys who handle mortgage foreclosures suggest that the extended time period between foreclosure and Sheriff Sale and then post-Sheriff Sale adversely impacts the property itself as well as those around the vacated property. Some other research suggests that the foreclosure, independent of other factors, can actually speed the process of racial transition (c.f., Baxter and Lauria, 2000). And so, lower- and moderate-income areas, already strained by the array of products and financial actors available to them are placed under added social and economic pressure.

In recognition of this effect of the lower-income communities and residents of Philadelphia, the City created two loan products – PHIL Plus and Mini Phil.[48] These are products designed to make credit available to people with less than perfect credit, in amounts not exceeding need, and at reasonable rates. To facilitate the participation of the City's mainstream financial institutions, the City used funds from its neighborhood municipal blight bond to create a reserve fund for those lenders who are participating. Additionally a fund was created to refinance those people who have fallen victim to abusive lending practices through the Home Equity Loan Preservation Program. That loan fund is administered by a housing counseling association, Acorn and The Reinvestment Fund.

Almost all who have studied this issue, regardless of political orientation, conclude that in order to improve the financing experience of lower-income people and people residing in lower-priced communities, three things must happen. First, there must be vigorous law enforcement to protect consumers from fraudulent and other illegal acts. Second, cities, foundations and prime lenders must create and deliver appropriate products to supplant those that are problematic. Third, there must be increased efforts to educate consumers about their credit options and to support consumers through the loan process. All of these have their role.

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[47] See, for example, Carr and Schuetz, 2001.
[48] PHIL is an acronym for Philadelphia Home Improvement Loan. See: www.phila.gov/mayor/jfs/mayorsnti/news/releases/releases_2.html.

Yet it is without doubt that the number of foreclosures in the pipeline threatens the very life of not only the poorest of communities but those at the next rung up.[49] Law enforcement, reasonable product and education must therefore be targeted to those places under financial stress before the tidal wave of foreclosure threatens their very existence.

Finally, the question of price versus risk needs to be broadened. The analysis must not only include the risk of default[50] or prepayment against the price of capital, but also the individual costs to the homeowner who loses a home and the social costs that ensue when homes in a community are foreclosed upon and sit vacant acting as a blighting influence on the neighbors.[51]

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[49] A matter of local public policy concern involves the City's decision not to write-down municipal tax liens on properties sold at Sheriff Sale. One interviewee, an attorney who handles literally thousands of mortgage foreclosures annually, stated that the City Solicitor of Philadelphia refuses to write-down tax liens at all, so lenders walk away from the properties (especially where the amount owed exceeds the value of the property – which he estimated to be true in more than 90% of the cases he handles). These properties, in his experience, stay vacant for extended periods and become obvious blighting influences on the neighborhood.

[50] The source of risk is itself important to appreciate. Borrowers who were interviewed often report that the amount of money they were seeking was far less than that which they ultimately borrowed. If they had borrowed what they needed, they would not be in financial distress. Yet, the larger loan amount (induced by the loan officer or broker) made the transaction unaffordable and thus riskier than it would have otherwise been. Borrowing a phrase from the medical world, this may be considered "iatrogenic risk." Hudson (1996) states that lenders will "…milk[ing] as much money as possible out of customers who can't afford it. It's a high wire act: When the game's played well, the lenders squeeze customers to the limit…" (p. 16)

[51] One study that begins to address the question of the impact of vacant property on a community was completed recently in Philadelphia by Research for Democracy, a collaboration between Temple University and the Eastern Philadelphia Organizing Project (2001). This study estimates that the impact of an abandoned home on a block on the surrounding property values is approximately $6,720. While we cannot draw an exact parallel between abandoned property and Sheriff Sales, this study offers some insight into how significant the impact may be of a home that ends up being offered at Sheriff Sale and for which there is no buyer.

Appendix A: Lenders Active in Various Philadelphia Housing Sub-Markets

The most active sub-prime lenders for conventional refinance mortgages are:

Upper Income	Lower / Moderate Income
Greenpoint Mortgage	Delta Funding
Aegis Mortgage	American Business Financial
First Union National Bank	Option One Mortgage
Decision One Mortgage	Beneficial Corporation
Travelers Bank & Trust, FSB	Conseco Finance – tied with: Household Bank, FSB[52]

The most active prime lenders for conventional refinance mortgages are:

Upper Income	Lower / Moderate Income
GMAC Mortgage	First Union NB
Wells Fargo Home Mortgage	PNC Bank NA
Chase Manhattan Mortgage	Police & Fire CU
Washington Mutual Bank, FA	Key Bank USA, NA
PNC Bank NA	GMAC Mortgage

The most active sub-prime lenders for conventional purchase money mortgages are:

Upper Income	Lower / Moderate Income
Greenpoint Mortgage Funding	Option One Mortgage Corp
Chase Manhattan Bank USA, NA	Greenpoint Mortgage Funding
Equity One, Inc	Equity One, Inc
Option One Mortgage Corp	First Franklin Financial Corp
Aegis Mortgage Corp	Superior Bank FSB

The most active prime lenders for conventional purchase money mortgages are:

Upper Income	Lower / Moderate Income
Sovereign Bank	Sovereign Bank
Chase Manhattan Mortgage	Countrywide Home Loans
Wells Fargo Home Mortgage	First Union Mortgage Corp
Cendant Mortgage	Beneficial Savings Bank
GMAC Mortgage	Mellon Bank, NA

[52] With the merger of Beneficial and Household, Household would have the largest market share with over 4% of all originations.

Appendix B: Leading Lenders Among Properties In Foreclosure

Leading lenders among loans going quickly to foreclosure (i.e., within 2 years of origination) are:

Lender	% Of All Foreclosures Within Two Years
Equicredit	16.9%
Option One	12.8%
Delta Funding	7.4%
New Century	5.4%
Ameriquest	4.1%

Leading Lenders among loans going to foreclosure in Census tracts with median value under $25,000 are:

Lender	% Of All Foreclosures In Areas With Median Value < $25,000
Equicredit	17.4%
Ameriquest	8.7%
New Century	8.7%
Delta Funding	6.5%
United Companies	6.5%

Leading Lenders among loans going to foreclosure in Census tracts with median value between $25,000 and $49,999 are:

Lender	% Of All Foreclosures In Areas With Median Value > $25,000 and < $50,000
Equicredit	13.5%
Option One	6.3%
Delta Funding	4.9%
United Companies	4.7%
Advanta	3.3%
Money Store	3.3%

Appendix C: Sample HUD-1 Settlement Sheet showing the refinance of a mortgage and other unsecured debt into a high cost loan.

7.25% "Discount Points" ($4,642)

Loan Features:

- Mandatory Arbitration
- Inflated appraisal
- Excessive debt: income
- Prepayment penalty
- Rate increased; payment increased over previous loan

Settlement Statement
Optional Form for
Transactions without Sellers

U.S. ' artment of Housing and Urban Develop nt (Page 2 of 2)

Name and Address of Borrower:	Name and Address of Lender:
LOUISE [redacted] [redacted] MARWOOD ROAD PHILADELPHIA, PA 19120	HOUSEHOLD FINANCE CONSUMER DISCOUNT COMPANY 7142 RIDGE AVENUE PHILADELPHIA, PA 19128
Property Location (If different than above)	Settlement Agent: ● Lender ( ) Other Place of Settlement: SAME AS ABOVE
Loan Number: 7171210085556	Settlement Date 09/13/2001

L. SETTLEMENT CHARGES	
800. ITEMS PAYABLE IN CONNECTION WITH LOAN:	
801. Loan Origination Fee ("Closing Costs"): %	
802. Loan Discount Fee ("Points"). 7.25 %	4,642.06
803. Appraisal Fee To: IRES	280.00
804. Credit Report To:	
805. Inspection Fee To:	
806. Mortgage Insurance Application Fee To:	
807. Mortgage Broker Fee To:	
808. Document Preparation Fee	
809. Application Fee %	
810. Flood Certification	
811.	
900. ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE:	
901. Invest From To @ $ Per Day	
902. Mortgage Insurance Premium For Months To	
903. Hazard Insurance Premium For Year(s) To	
904.	
1000. RESERVES DEPOSITED WITH LENDER:	
1001. Hazard Insurance Months @ $ Per Month	
1002. Mortgage Insurance Months @ $ Per Month	
1003. City Property Taxes Months @ $ Per Month	
1004. County Property Taxes Months @ $ Per Month	
1005. Annual Assessments Months @ $ Per Month	
1006. Months @ $ Per Month	
1007. Months @ $ Per Month	
1008. Months @ $ Per Month	
1100. TITLE CHARGES	
1101. Settlement Or Closing Fee ("Escrow Fee") To:	
1102. Abstract Or Title Search To:	
1103. Title Examination To:	
1104. Title Insurance Binder To:	
1105. Document Preparation To:	
1106. Notary Fees To:	
1107. Attorney's Fees To: (Includes Above Item Numbers	
1108. Title Insurance To: IRES (Includes Above Item Numbers	613.75
1109. Lender's Coverage $	
1110. Owner's Coverage $	
1111.	
1112.	
1113.	
1200. GOVERNMENT RECORDING AND TRANSFER CHARGES:	
1201. Recording Fees: Mortgage/Deed of Trust $ 43.50 Release $	43.50
1202. City/County Tax/Stamps: $	
1203. State Tax/Stamps $	0.00
1204	
1205.	
1300. ADDITIONAL SETTLEMENT CHARGES:	
1301. Survey To:	
1302. Pest Inspection To:	
1303. Architectural/Engineering Services To:	
1304. Building Permit To:	
1305.	
1306.	
1307.	
1400. TOTAL SETTLEMENT CHARGES (Enter On Line 1602)	5,584.31

M. DISBURSEMENT TO OTHERS	
1501. AMERICAN APPLIANCE	282.00
1502 CHASE MORTGAGE	49,581.15
1503. FINGERHUT	1,480.00
1504. HOME DEPOT	1,068.00
1505 M WARD	170.00
1506. UNVL BK NATIONAL	408.00
1507 CADWICKS	368.00
1508. LERNER	355.00
1509. VICTORIA	253.00
1510. CREDIT LIFE INSURANCE	2,458.05
1511. CREDIT DISABILITY INSURANCE	1,928.71
1512.	
1513.	
1514.	
1515.	
1520. TOTAL DISBURSED (Enter On Line 1603)	58,351.91
N. NET SETTLEMENT	
1600 LOAN AMOUNT RL= Initial Advance (includes line 1400) CE= Principal Loan Amount	$64,028.39
1601. Plus Cash/Check From Borrower	
1602. Minus Total Settlement Charges (Line 1400)	$5,584.31
1603 Minus Total Disbursement To Others (Line 1520)	$58,351.91
1604. Equals Disbursement To Borrower (After Expiration Of Any Applicable Rescission Period Required By Law)	$92.17

Borrower's Signature

Date.

Borrower's Signature

Date.

Lender:

09-01-96 HUD - 1A SETTLEMENT STATEMENT - A

-24-

US422742

Some of the Borrower's Disbursements:

Chase Mortgage $49,518.15
Fingerhut $1,480
Montgomery Ward $170
American Appliance $282
Home Depot $1,068
Credit Life $2,458
Credit Disability $1,928

Appendix D: Sample data used to identify the lender originating the loan in foreclosure.

Data from the foreclosure filing stated that the process was initiated by Manufacturers and Traders Trust Company on October 17, 2002. The principal balance of the loan at that time was $33,501. From the data below, we can see that the mortgage in foreclosure was originated by Greentree Mortgage in January, 1998.

RealQuest.com ® Page 1 of 2

Property Detail Report

For Property Located At

6464 MUSGRAVE ST, PHILADELPHIA PA 19119-2331 C001

Owner Information:

Owner Name:	BANKS AARON L		
Mailing Address:	6464 MUSGRAVE ST, PHILADELPHIA PA 19119-2331 C001		
Phone Number:		Vesting Codes:	/ /

Location Information:

Legal Description:	103' N CLIVEDEN; LOT 14'6"X60'		
County:	PHILADELPHIA, PA	APN:	22-1230200
Census Tract/Block:	252.00 / 6	Alternate APN:	22-52N50-51
Township-Range-Sect:		Subdivision:	
Legal Book/Page:		Map Reference:	/ 17-D7
Legal Lot:	51	Tract #:	
Legal Block:	52N50	High School District:	1
Market Area:	17-D7	Munic/Township:	PHILADELPHIA

Owner Transfer Information:

Recording/Sale Date:		Document Number:	
Sale Price:		Deed Type:	

Last Market Sale Information:

Recording/Sale Date:	01/15/1998 08/19/1997	1st Mtg Amount/Type:	$34,350 / CONV
Sale Price:	$45,800	1st Mtg Int. Rate/Type:	/
Sale Type:		2nd Mtg Amoun/Type:	$13,740 / PRIVATE PARTY
Document Number:	540-381	2nd Mtg Int. Rate/Type:	/
Deed Type:	DEED (REG)	Price Per SqFt:	
Transfer Doc Number:		Multi/Split Sale:	
New Construction:			
Title Company:			
Lender:	GREENTREE MTG		
Seller Name:	SAMPSON ANGELINE C		

Prior Sale Information:

Prior Rec/Sale Date:	07/01/1950	Prior Lender:	
Prior Sale Price:		Prior 1st Mtg Amt/Type:	/
Prior Doc Number:		Prior 1st Mtg Rate/Type:	/
Prior Deed Type:	DEED (REG)		

Property Characteristics:

Gross Area:		Parking Type:	BASEMENT	Construct Type:	
Living Area:	1,164	Garage Area:		Heat Type:	
Tot Adj Area:		Garage Capacity:		Exterior wall:	MASONRY
Above Grade:		Parking Spaces:		Porch Type:	
Total Rooms:		Basement Area:		Patio Type:	
Bedrooms		Finish Bsmnt Area:		Pool:	
Bath(F/H):	/	Basement Type:		Air Conditioning:	
Year Built / Eff:	/	Roof Type:		Style:	
Fireplace:		Foundation:		Quality:	
# of Stories:	2.00	Roof Material:		Condition:	AVERAGE
Other Improvements:					

Site Information:

Zoning:		Acres:	0.02	County Use:	R30
Flood Zone:	X	Lot Area:	870	State Use:	
Flood Panel:	4207570095F	Lot Width/Depth:	14 x 60	Res/Comm Units:	1 /
Flood Panel Date:	08/02/1996	Site Influence:		Sewer Type:	
Land Use:	TOWNHOUSE/ROWHOUSE			Water Type:	

Tax Information:

Assessed Value:	$11,968	Assessed Year:	2002	Property Tax:	$989.04
Land Value:	$1,067	Improve %:	091%	Tax Area:	
Improvement Value:	$10,901	Tax Exemption:		Tax Year:	2003
Total Taxable Value:					

Transaction History Report

For Property Located At

6464 MUSGRAVE ST, PHILADELPHIA PA 19119-2331 C001

TRANSACTION HISTORY

History Record #:	**1**		
Mortgage Recording Date:	**05/24/2002**	Mortgage Loan Type:	**CNV**
Mortgage Document No:	50463925	Mortgage Rate Type:	**FIXED**
Lender:	**PENNSYLVANIA HSNG FIN AGCY**	Mortgage Term:	
Loan Amount:	**$1,000**	Mortgage Rate:	**9**

History Record #:	**2**		
Mortgage Recording Date:	**03/01/2002**	Mortgage Loan Type:	**CNV**
Mortgage Document No:	50414316	Mortgage Rate Type:	**FIXED**
Lender:	**PENNSYLVANIA HSNG FIN AGCY**	Mortgage Term:	
Loan Amount:	**$13,000**	Mortgage Rate:	**9**

History Record #:	**3**	Sale Price:	**$45,800**
Sale Recording Date:	**01/15/1998**	Sale Price Type:	
Sale Date:	**08/19/1997**	Multi/Split Sale:	
Recording Document No:	540-381	Other Document No:	
Document Type:	**DEED (REG)**		
Title Company:			
Grantor:	**SAMPSON ANGELINE C**		
Grantee:	**BANKS AARON L**		
Mortgage Recording Date:	**01/15/1998**	Mortgage Loan Type:	**CNV**
Mortgage Document No:	986-443	Mortgage Rate Type:	
Lender:	**GREENTREE MTG**	Mortgage Term:	**30 YEARS**
Loan Amount:	**$34,350**	Mortgage Rate:	
Mortgage Recording Date:	**01/15/1998**	Mortgage Loan Type:	**PP**
Mortgage Document No:	986-450	Mortgage Rate Type:	
Lender:		Mortgage Term:	**20 YEARS**
Loan Amount:	**$13,740**	Mortgage Rate:	
Mortgage Recording Date:	**01/15/1998**	Mortgage Loan Type:	**CNV**
Mortgage Document No:	986-454	Mortgage Rate Type:	
Lender:		Mortgage Term:	
Loan Amount:	**$6,870**	Mortgage Rate:	

History Record #:	**4**	Sale Price:	
Sale Recording Date:	**07/01/1950**	Sale Price Type:	
Sale Date:		Multi/Split Sale:	
Recording Document No:		Other Document No:	
Document Type:	**DEED (REG)**		
Title Company:			
Grantor:			
Grantee:	**SAMPSON LAWRENCE H**		

Appendix E: Forbearance Agreement and Accompanying Deed in Lieu of Foreclosure

FORBEARANCE AGREEMENT

THIS FORBEARANCE AGREEMENT is made this ____ day of December, 2002, by and between American Business Mortgage Services, Inc. ("ABMS"), a Pennsylvania corporation with an office at 111 Presidential Boulevard, Suite 103, Bala Cynwyd, Pennsylvania 19004, [redacted] an individual with an address of [redacted] Michener Avenue, Philadelphia, Pennsylvania 19150.

BACKGROUND

A. On October 31, 2001, ABMS made a certain loan, advance and extension of credit to or for the benefit of [redacted] (the "Borrower") in the original principal amount of $53,000.00 (the "Loan") pursuant to the terms and subject to the conditions of that certain promissory note dated October 31, 2001 in the original principal amount of $53,000.00 (the "Note") executed and delivered by the Borrower to ABMS.

B. In consideration of the Loan and as collateral security for the debts, liabilities and obligations of the Borrower to ABMS as set forth in the Note (the "Obligations"), [redacted] granted, mortgaged and pledged to ABMS a continuing first lien on and security interest in that certain parcel of real property and the improvements thereon located at [redacted] Michener Avenue, City of Philadelphia, County of Philadelphia , Commonwealth of Pennsylvania (the "Property"), pursuant to the terms and subject to the conditions of that certain mortgage dated October 31, 2001 (the "Mortgage") executed and delivered by [redacted] to ABMS.

C. The Borrower is sometimes referred to herein as the "Obligor".

D. The Note and the Mortgage, together with all other instruments, agreements and documents delivered in connection therewith are sometimes hereinafter collectively referred to as the "Loan Documents".

E. The Obligor is in default under the Obligation to ABMS by reason, <u>inter alia</u>, of (i) the failure to make timely payments as required under the Loan Documents, and (ii) the acknowledgment of the inability to cure the past due Obligation (the "Existing Defaults").

F. The Obligor's Existing Defaults under the Obligation constitute an event of default under the Note and the Loan Documents. As a result of the Existing Defaults, ABMS is permitted to exercise various rights and remedies arising under the Loan Documents.

G. The Obligor has offered to deliver to ABMS for the Property a Deed in Lieu of Mortgage Foreclosure which is to be held but not filed or recorded by ABMS <u>provided</u> that (i) the Obligor is in compliance with the obligations under the terms of this Forbearance Agreement, and (ii) this Forbearance has not terminated.

payments, $1,986.96, late charges of $298.03, unpaid fees of $6.00 and the Forbearance Fee of $500.00, shall be assessed to the Obligors as a Miscellaneous Fee. This Miscellaneous Fee of $2,790.99 must be paid in full by the Obligor as set forth in the following Paragraph.

VI. **Forbearance Payments by Obligors.**

The Obligor shall make the following payments to ABMS, each of which, to be deemed timely and properly made, must be in good U.S. funds, and must be received by ABMS on or before its due date:

a. $500.00 upon the execution of this Forbearance Agreement.

b. On or before February 5, 2003, the Obligor shall commence the regular monthly payments under the Loan Documents in the amount of $496.74.

c. In addition to the regular monthly payment due, as well as any repayment of the Miscellaneous Fee described above, the Obligor shall pay ABMS one-half (1/2) of any and all income tax refunds received, from both federal and state taxing authorities, within ten (10) days of receipt of such refund.

DEED IN LIEU OF FORECLOSURE

This Deed is made on December ___, 2002,

BETWEEN Ann M. Walton, unmarried, whose address is [redacted] Michener Avenue, Philadelphia, Pennsylvania 19150, referred to as the **Grantor,**

AND

Tiger Relocation Company, whose address is 111 Presidential Boulevard, Suite 103, Bala Cynwyd, PA 19004, referred to as the **Grantee;**

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