

Regulatory Responses to the Subprime Financial Crisis & their Implications

Presented at

*“An Informed Discussion of Nontraditional Mortgage Products &
Escalating Foreclosures ”*

December 12th 2007

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Presented by:

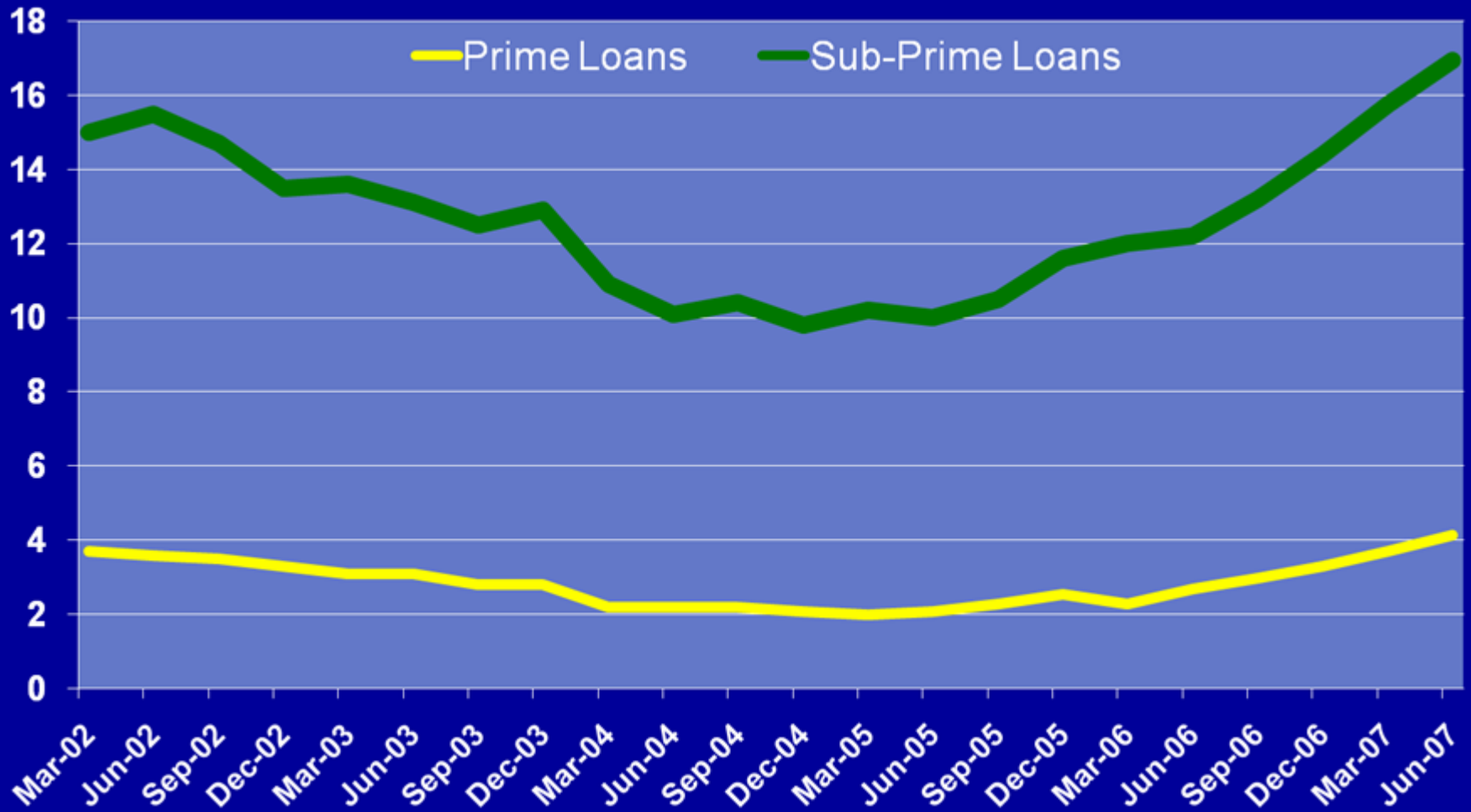
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Introduction

- Increasing access to credit
 - Prime & subprime (high cost) mortgages
 - Homeownership increases
 - Failing as homeowners
- Mortgage lending has gone
 - Back to the Future
- Designing loans to terminate
 - 2/28 mortgage, low & no documentation, low credit scores
 - Default or prepay
 - Contagion & flight to quality

Foreclosure Rate

Adjustable Rate Mortgages



“Implode O Meter” up to 174

“Imploded” Lenders:

156. Long Beach

(WaMu Warehouse/Correspondent)

155. Expanded Mortgage Credit Wholesale

154. The Mortgage Store Financial

153. C & G Financial

152. CFIC Home Mortgage

151. BrokerSource (BSM Financial - Wholesale)

150. All Fund Mortgage

149. LownHome Financial

148. Sea Breeze Financial Services

147. Castle Point Mortgage

146. Premium Funding Corp

145. Group One Lending

144. Allstate Home Loans / Allstate Funding

143. Home Loan Specialists (HLS)

142. Transnational Finance Wholesale

141. CIT Home Lending

140. Capital Six Funding

139. Mortgage Investors Group (MIG) - Wholesale

138. Amstar Mortgage Corp

137. Quality Home Loans

136. BNC Mortgage (Lehman)

135. Accredited Home Lenders, Home Funds Direct

134. First National Bank of Arizona (FNBA) Wholesale, Correspondent

133. Chevy Chase Bank Correspondent

132. GreenPoint Mortgage –

Capital One Wholesale

131. NovaStar (Wholesale), Homeview Lending

130. Quick Loan Funding

129. National City Home Equity

128. Calusa Investments

127. Mercantile Mortgage

126. First Magnus

125. First Indiana Wholesale

124. GEM Loans / Pacific American Mortgage (PAMCO)

123. Spectrum Financial Group - Wholesale

122. Kirkwood Financial Corporation

121. Lexington Lending

120. Express Capital Lending

119. Deutsche Bank Correspondent Lending Group (CLG)

118. MLSG

117. Trump Mortgage

116. HomeBanc Mortgage Corporation

115. Mylor Financial

114. Aegis

113. Alternative Financing Corp (AFC) Wholesale

112. Winstar Mortgage

111. American Home Mortgage / American Brokers Conduit

110. Optima Funding

109. Equity Funding Group

108. Sunset Mortgage

107. Fieldstone Mortgage Company

106. Nations Home Lending

105. Wells Fargo Alternative

Lending Wholesale

104. Entrust Mortgage

103. Alera Financial (Wholesale)

102. Flick Mortgage/Mortgage Simple

101. Alliance Bancorp

100. Choice Capital Funding

99. Premier Mortgage Funding

98. Stone Creek Funding

97. FlexPoint Funding (Wholesale & Retail)

96. Starpointe Mortgage

95. Unlimited Loan Resources (ULR)

94. Freestand Financial

93. Steward Financial
92. Wells Fargo (Correspondent)
91. Bridge Capital Corporation
90. Altivus Financial
89. ACT Mortgage
88. Alliance Mortgage Banking Corp (AMBC)
87. Concord Mortgage Wholesale
86. Hardwell Mortgage
85. Oak Street Mortgage
84. The Mortgage Warehouse
83. First Street Financial
82. Right-Away Mortgage
81. Heritage Plaza Mortgage
80. Horizon Bank Wholesale Lending Group
79. Leicester Mortgage Bank (LMB)
78. Byco (Wholesale)
77. No Red Tape Mortgage
76. The Lending Group (TLG)
75. Pro 30 Funding
74. NatBank Funding
73. Columbia Home Loans, LLC
72. Mortgage Tree Lending
71. Homeland Capital Group
70. Nation One Mortgage
69. Dana Capital Group
68. Millenium Funding Group
67. MIA
66. Home Equity of America
65. Odeum (Wholesale, Conduit)
64. Innovative Mortgage Capital
63. Home Capital, Inc.
62. Home 123 Mortgage
61. Homesfield Financial
60. First Horizon Subprime, Equity Lending
59. Platinum Capital Group (Wholesale)
58. First Source Funding Group (FSFG)
57. Altima Mortgage
56. Solutions Funding
55. People's Mortgage
54. Lowe's Payment.com
53. Zone Funding
52. First Consolidated (Subprime Wholesale)
51. EquiFirst
50. SouthStar Funding
49. Warehouse USA
48. H&R Block Mortgage
47. Madison Equity Loans
46. HSBC Mortgage Services (correspondent div.)
45. Sunset Direct Lending
44. Keller Mortgage Investments
43. LoanCity
42. CoreStar Financial Group
41. Ameriquest, ACC Wholesale
40. Investment Corp.
39. People's Choice Financial Corp.
38. Master Financial
37. Maribella Mortgage
36. TRIF Capital LLC
35. New Century Financial Corp.
34. Wachovia Mortgage (Correspondent div.)
33. Ameritrust Mortgage Company (Subprime Wholesale)
32. Trojan Lending (Wholesale)
31. Framont General Corporation
30. Domestic Bank (Wholesale Lending Division)
29. Ivanhoe Mortgage/Central Pacific Mortgage
28. Eagle First Mortgage
27. Coastal Capital
26. Silver Star Mortgage
25. ResMort Mortgage Corporation
24. ECC Capital/Encore Credit
23. Lender's Direct Capital Corporation (wholesale division)
22. Concorde Acceptance
21. DeepGreen Financial
20. Millennium Bankshares (Mortgage Subsidiaries)
19. Summit Mortgage
18. Mandalay Mortgage
17. Rose Mortgage
16. EquiBank
15. FundingAmerica
14. Popular Financial Holdings
13. Clear Choice Financial/Bay Capital
12. Oregon Wholesale Lending
11. Schleuder Funding
10. Preferred Advantage
9. MLN
8. Sovereign Bancorp (Wholesale Ops)
7. Harbourton Mortgage Investment Corporation
6. Onnit Mortgage
5. Sabrino Capital Partners
4. Axis Mortgage & Investments
3. Meritage Mortgage
2. Acoustic Home Loans
1. Merr Financial

Regulatory Response

Mini-HOEPAs

- State, County & City Regulations
 - Predatory lending laws
 - Patterned after HOEPA
 - Does the law apply?
 - » coverage
 - If the law does apply
 - What types of lending are not allowed?
 - » restrictions
 - What are the penalties if the restrictions are violated?
 - » Enforcement mechanisms (*Assignee liability*)
- Majority of States have a law in effect today
- Congress is considering national legislation

The Legal Dataset

- **Coverage**
 - Loan type, two APR triggers, points and fees trigger
- **Restrictions**
 - Prepayment penalty restrictions, balloon payment restrictions, credit counseling requirements, mandatory arbitration limits
- **Enforcement mechanisms**
 - Assignee liability, enforcement against originators
- **Coding: More stringent gets higher score**

Index Example: Alaska

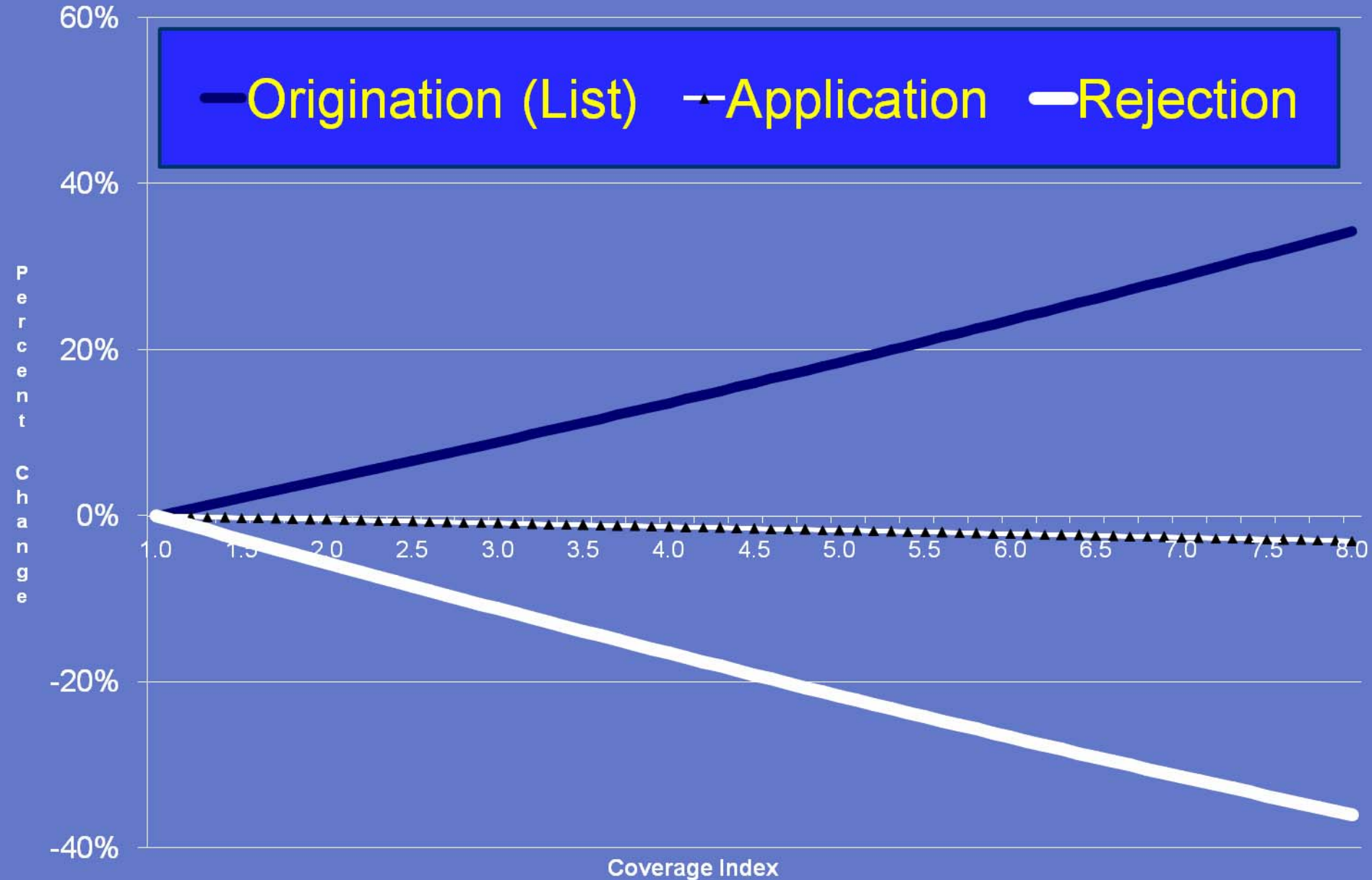
- Steps 1 and 2 for Coverage

Loan type	APR I	APR II	Points
$2/4 = 0.5$	$3/3 = 1$	$4/4 = 1$	$4/4 = 1$

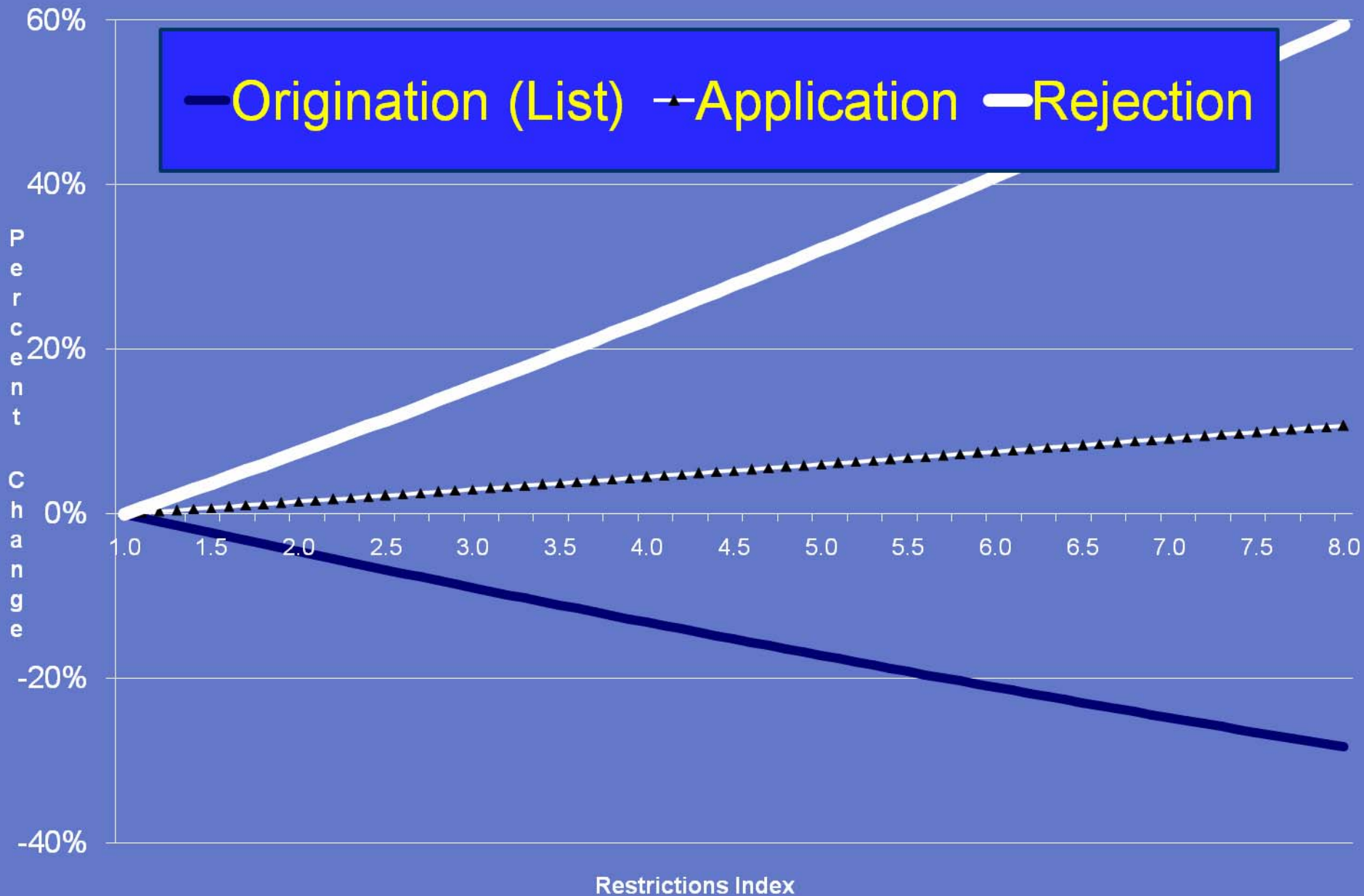
- Coverage score = $1 + (0.5+1+1+1)/2.07 = 2.69$
- Total across categories

Coverage	Restrictions	Enforcement	Total
2.69	3.68	1.64	8.02

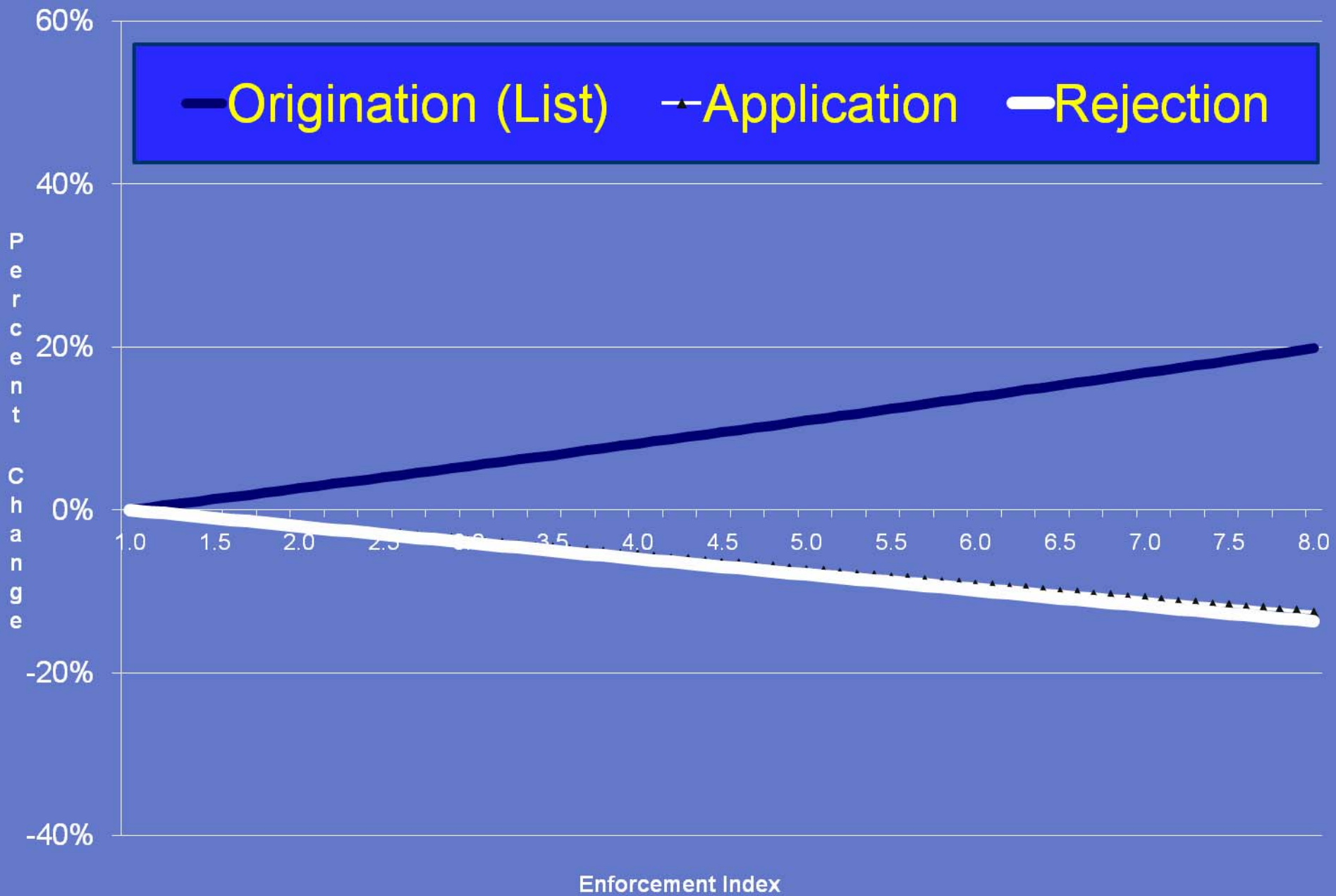
Coverage Index



Restrictions Index



Enforcement Index



Designing State Predatory Laws

Percent change relative to typical state with no law

	Minnesota	North Carolina	Georgia	Wisconsin	Fed/Frank
<i>Outcome</i>					
Origination	27.8%	-4.5%	-1.5%	-3.0%	19.4%
Application	-2.0%	1.3%	-0.4%	0.1%	-1.5%
Rejection	-32.4%	8.4%	5.0%	6.3%	-22.9%
<i>Index Values</i>					
Coverage	7.5	2.7	2.7	1.9	7.0
Restrictions	1.6	4.3	4.0	3.2	3.2
Enforcement	1.0	2.4	3.1	2.4	2.1

Source:

Raphael W. Bostic, Kathleen C. Engel, Patricia A. McCoy,
Anthony Pennington-Cross, & Susan M. Wachter,
2007 Harvard Business School Symposium

Conclusions

- Anti-predatory lending laws can make things better or worse
- **My favorite Law**
 - Restrict unsuitable loans
 - Make all market participants liable (well defined)
 - Preserve or even increase the vitality of the legitimate/suitable subprime mortgage market
- **Assignee liability**
 - Does NOT greatly impede the market
 - Poorly defined & unlimited liability does impede the market

Law Index Appendix, Pre-2005

State	New Laws (Mini-Hoepa)				
	Coverage	Restrictions	Enforcement	Index -- Additive	Index -- Multiplicative
Alaska	1.00	1.00	1.00	3.00	1.00
Alabama	1.00	1.00	1.00	3.00	1.00
Arizona	1.00	1.00	1.00	3.00	1.00
Arkansas	2.72	3.73	3.11	9.56	31.58
California	3.15	2.36	2.41	7.93	17.95
Colorado	1.43	2.64	3.11	7.18	11.73
Connecticut	1.86	2.91	3.11	7.88	16.85
Delaware	1.00	1.00	1.00	3.00	1.00
District of Columbia	4.74	2.91	3.11	10.75	42.85
Florida	1.00	2.64	3.11	6.75	8.20
Georgia	2.72	4.00	3.11	9.83	33.89
Hawaii	1.00	1.00	1.00	3.00	1.00
Idaho	1.00	1.00	1.00	3.00	1.00
Illinois	4.74	2.91	3.46	11.11	47.69
Indiana	2.29	4.00	3.46	9.76	31.75
Iowa	1.00	1.00	1.00	3.00	1.00
Kansas	1.00	1.00	1.00	3.00	1.00
Kentucky	1.86	3.18	3.81	8.86	22.59
Louisiana	1.00	1.00	1.00	3.00	1.00
Maine	1.00	1.55	3.46	6.01	5.35
Maryland	2.44	1.55	2.41	6.39	9.06
Massachusetts	3.15	4.82	3.46	11.44	52.63
Michigan	6.17	1.82	1.00	8.99	11.22
Minnesota	7.46	1.55	1.00	10.01	11.54
Mississippi	1.00	1.00	1.00	3.00	1.00
Missouri	1.00	1.00	1.00	3.00	1.00
Montana	1.00	1.00	1.00	3.00	1.00
Nebraska	1.00	1.00	1.00	3.00	1.00
Nevada	1.00	1.00	3.81	5.81	3.81
New Hampshire	1.00	1.00	1.00	3.00	1.00
New Jersey	3.15	3.73	3.46	10.34	40.71
New Mexico	5.17	4.27	3.46	12.90	76.42
New York	3.15	2.91	2.76	8.82	25.32
North Carolina	2.72	4.27	2.41	9.40	28.01
North Dakota	1.00	1.00	1.00	3.00	1.00
Ohio	1.00	2.36	3.11	6.47	7.35
Oklahoma	1.00	3.18	3.11	7.29	9.90
Oregon	1.00	1.00	1.00	3.00	1.00
Pennsylvania	1.00	2.36	3.11	6.47	7.35
Rhode Island	1.00	1.00	1.00	3.00	1.00
South Carolina	1.86	3.18	2.76	7.80	16.34
South Dakota	1.00	1.00	1.00	3.00	1.00
Tennessee	1.00	1.00	1.00	3.00	1.00
Texas	1.86	2.36	3.11	7.34	13.69
Utah	2.72	3.18	1.00	6.91	8.67
Vermont	1.00	1.00	1.00	3.00	1.00
Virginia	1.00	1.00	1.00	3.00	1.00
Washington	1.00	1.00	1.00	3.00	1.00
West Virginia	6.60	2.64	2.76	12.00	48.02
Wisconsin	1.00	1.00	1.00	3.00	1.00
Wyoming	1.00	1.00	1.00	3.00	1.00
Average	2.00	2.00	2.00	6.00	13.03
Min	1.00	1.00	1.00	3.00	1.00
Max	7.46	4.82	3.81	12.90	76.42
Standard Deviation	1.62	1.17	1.10	3.19	17.36

Source:
 Bostic, Engel, McCoy,
 Pennington-Cross, &
 Wachter,
 2007 Harvard Business
 School Symposium

1 indicates that there is no law or that one of the parts of the law has little or no impact

Law Index Appendix, Pre-2005

State	Older laws (Before Mini-Hoopa)				
	Coverage	Restrictions	Enforcement	Index -- Additive	Index -- Multiplicative
Alaska	2.69	3.68	1.64	8.02	16.28
Alabama	2.57	3.68	3.57	9.82	33.78
Arizona	1.00	1.00	1.00	3.00	1.00
Arkansas	2.93	2.34	1.00	6.28	6.87
California	2.93	1.67	2.92	7.53	14.34
Colorado	2.45	3.68	2.92	9.06	26.40
Connecticut	2.81	2.34	1.00	6.15	6.59
Delaware	1.00	1.00	1.00	3.00	1.00
District of Columbia	2.93	2.34	2.28	7.56	15.69
Florida	1.00	1.00	1.00	3.00	1.00
Georgia	1.00	1.00	1.00	3.00	1.00
Hawaii	1.85	1.67	2.92	6.44	9.02
Idaho	2.81	2.34	3.57	8.72	23.49
Illinois	1.00	1.00	1.00	3.00	1.00
Indiana	2.93	2.34	2.92	8.20	20.09
Iowa	2.93	3.68	1.64	8.26	17.74
Kansas	2.93	3.68	3.57	10.18	38.54
Kentucky	2.57	1.67	2.92	7.17	12.57
Louisiana	2.81	1.67	1.00	5.48	4.70
Maine	2.57	3.68	2.92	9.18	27.70
Maryland	2.57	3.68	3.57	9.82	33.78
Massachusetts	1.00	1.00	1.00	3.00	1.00
Michigan	2.57	2.34	1.96	6.88	11.82
Minnesota	1.00	1.00	1.00	3.00	1.00
Mississippi	2.93	1.67	2.92	7.53	14.34
Missouri	2.81	1.67	2.92	7.41	13.75
Montana	1.00	1.00	1.00	3.00	1.00
Nebraska	2.93	1.00	1.64	5.58	4.82
Nevada	1.00	1.00	1.00	3.00	1.00
New Hampshire	1.00	1.00	1.00	3.00	1.00
New Jersey	1.00	1.00	1.00	3.00	1.00
New Mexico	2.93	3.68	3.57	10.18	38.54
New York	1.00	1.00	1.00	3.00	1.00
North Carolina	2.69	2.34	2.92	7.96	18.44
North Dakota	1.00	1.00	1.00	3.00	1.00
Ohio	2.93	1.67	2.92	7.53	14.34
Oklahoma	1.97	3.68	3.57	9.22	25.84
Oregon	1.00	1.00	1.00	3.00	1.00
Pennsylvania	1.00	1.00	1.00	3.00	1.00
Rhode Island	2.93	3.01	1.00	6.95	8.84
South Carolina	2.93	3.68	3.57	10.18	38.54
South Dakota	1.00	1.00	1.00	3.00	1.00
Tennessee	1.00	1.00	1.00	3.00	1.00
Texas	1.00	1.00	1.00	3.00	1.00
Utah	2.81	3.68	3.57	10.06	36.95
Vermont	2.57	3.68	2.92	9.18	27.70
Virginia	2.81	1.00	3.57	7.38	10.03
Washington	1.00	1.00	1.00	3.00	1.00
West Virginia	1.00	1.00	1.00	3.00	1.00
Wisconsin	1.00	1.00	1.00	3.00	1.00
Wyoming	1.85	3.68	3.57	9.10	24.25
Average	2.00	2.00	2.00	6.00	12.09
Min	1.00	1.00	1.00	3.00	1.00
Max	2.93	3.68	3.57	10.18	38.54
Standard Deviation	0.88	1.12	1.09	2.75	12.47

1 indicates that there is no law or that one of the parts of the law has little or no impact

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