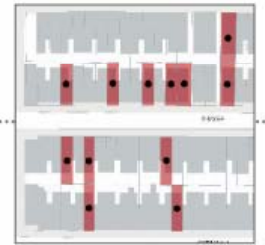


Lost Values

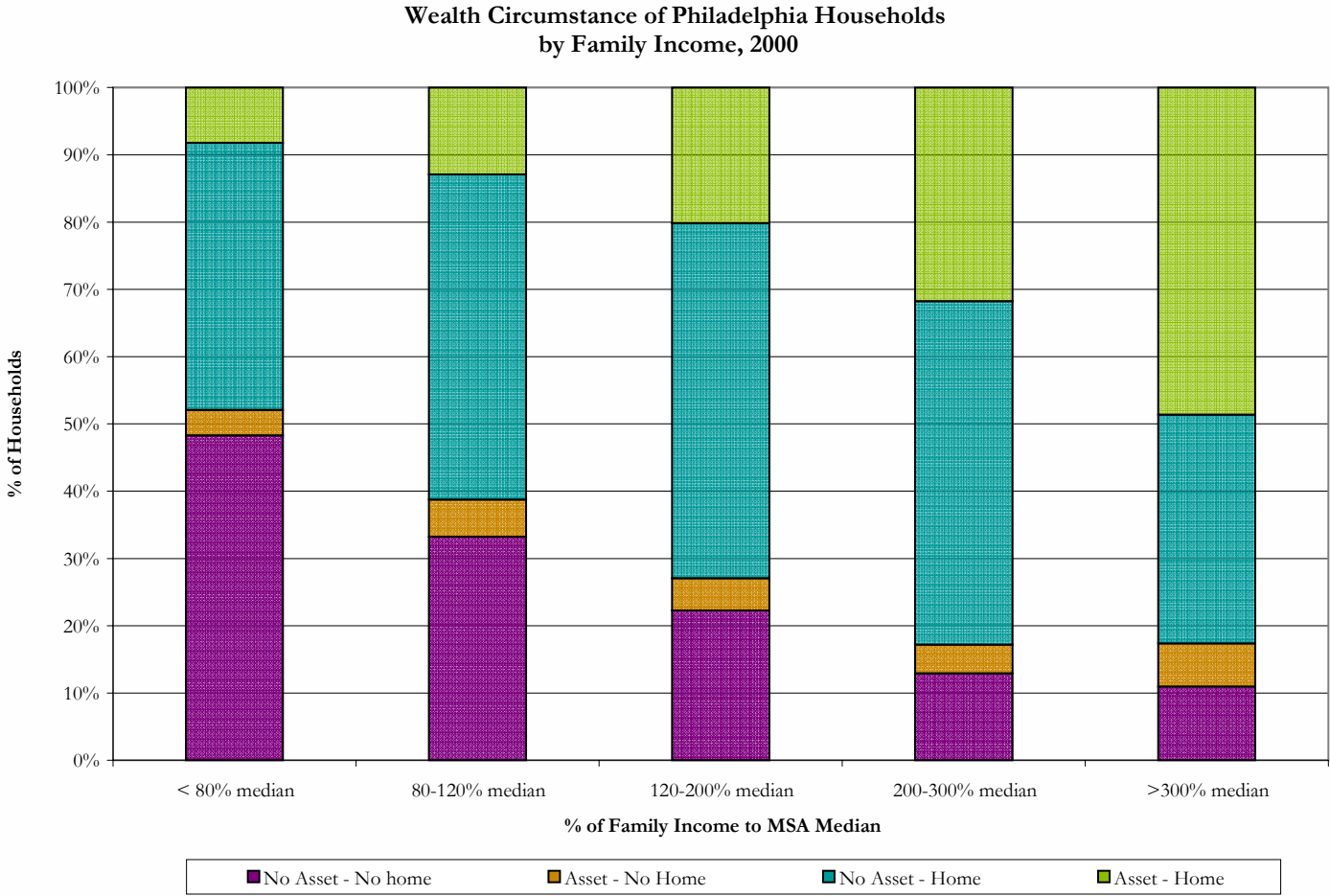
A Study of Predatory Lending in Philadelphia

Ira Goldstein - May 2, 2007



Capital at the point of impact.

For most middle- and lower-income Philadelphians, if they have an asset at all, that asset is their home. This is uniquely so for lower income Philadelphians. Predatory lending robs them of the asset.



Source: TRF analysis of Census PUMS data, 2000



TRF set out to answer three basic questions:

- Can predatory lending be operationally defined and measured on a large scale?
- How much predatory lending exists in Philadelphia?
- When people lose their homes (or are threatened with the loss of their homes) through mortgage foreclosure, how often does predatory lending play a role?



In order to more fully comprehend the context of all of the quantitative analysis and observed patterns in the data, TRF interviewed:

- Borrowers
- Mortgage brokers
- Mortgage bankers
- Attorneys representing borrowers and lenders
- Law enforcement officials at the state and federal levels
- Appraisers
- Representatives of various trade associations
- Mortgage securitizer for one of the largest Wall Street firms
- Title and settlement professionals

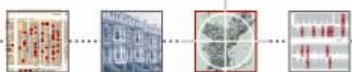


TRF studied the complete sale and mortgage / lien history for more than 15,500 properties across the City of Philadelphia.

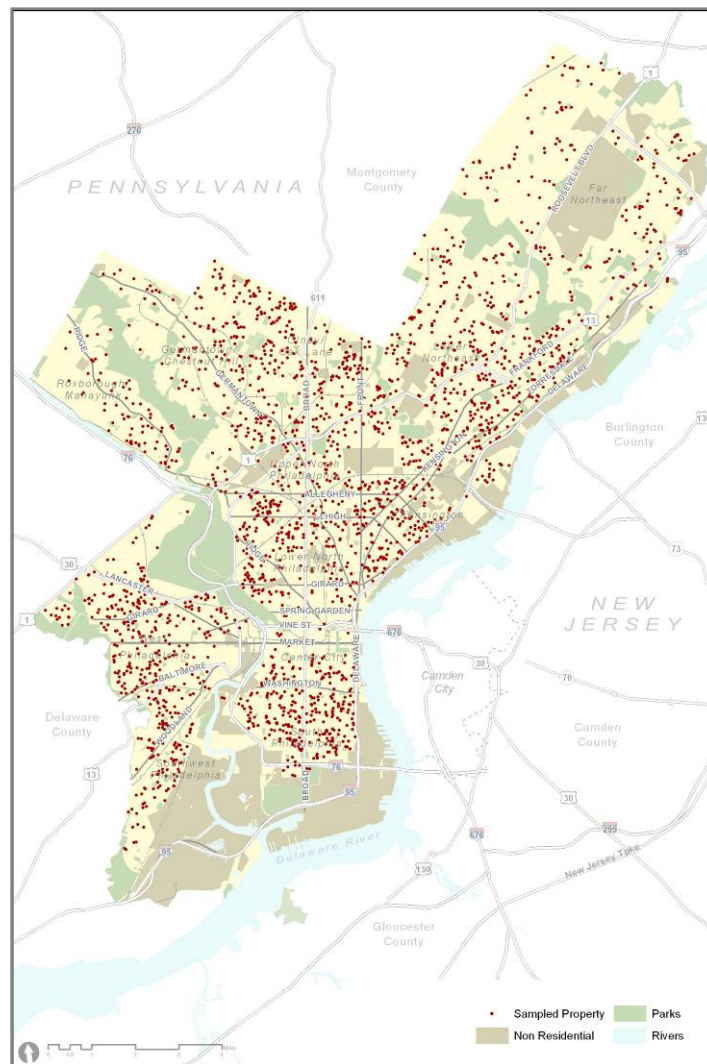
One sample of 2,289 randomly selected properties from across the City of Philadelphia representative of the more than 444,000 residential properties in Philadelphia.

Specific neighborhoods

- 1,079 Pennsport
- 321 Wynnefield
- 1,769 West Kensington
- 1,863 Glenwood
- 3,067 Harrowgate
- 2,434 Juniata Park
- 1,334 Roxborough
- 829 East Mt. Airy
- 568 Bustleton



Random Sample of Properties



Sample Property Sheets Used to Characterize Predatory Lending Indicators

Mun :16	2328 W HAGERT ST	Carrier
Map :31N23	PHILADELPHIA, PA 19132-4245	Route : C031
Prcl :210	PHILADELPHIA	Census: 0168.0
TaxId:162276800		

----- Ownership Data -----

Current Owner: HARDING, Veronica
 Mail Address : 2328 W HAGERT ST PHILADELPHIA PA 19132-4245
 Phone : 215-225-6147

----- Tax Data -----

Bldg/Subdiv :
 Land Use: O30, Row (3 or more), 2 Stories, Masonry
 Land Assm: \$1,203 Lot Size: 152' x 112' Style : Unknown
 Totl Assm: \$4,960 Lot Area: 17,156 sqft Units : 1
 Exmp Assm: Bld Area: 1,357 sq ft Zoning :
 YearlyTax: \$410 Stories : 2.0 Corner : No
 CrossSts :

----- Recording History -----

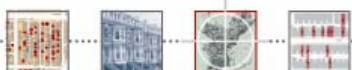
Type	Amount	Rec Dt/ Stlmt Dt	Book/ Page	Grantee/Mortgagee Address
Sale	\$7,500	10/01/1980	0	HARDING, Veronica
Mort	\$8,064	08/26/1987	1198 0	MID PENN CONS DISC CO
Mort	\$5,676	02/19/1988	1371 286	ALL STATE DISC BLDRS INC
Mort	\$7,063	03/29/1988	1413 474	MID PENN NATL BK
Mort	\$6,840	06/15/1990	2227 550	MID PENN CONS DISC CO
Mort	\$5,128	07/16/1992	220 23	MID PENN CONS DISC CO
Mort	\$7,680	03/31/1993	526 335	SECOND NATL MTGE CO
Mort	\$17,233	12/16/1993	886 273	COMMERCIAL CREDIT PLAN CONS DISC CO
Mort	\$19,062	01/24/1994	935 481	COMMERCIAL CRÉDIT CORP
Mort	\$24,503	03/21/1995	1526 153	COMMERCIAL CREDIT CORP
Mort	\$29,250	12/15/1995	1824 220	INDUSTRY MTGE CO
Mort	\$3,828	11/26/1996	308 133	PHILA GAS HEATING CO
Mort	\$35,250	02/12/1997	423 451	AMERICAN MTGE REDUCTION INC
Mort	\$2,815	02/12/1997	426 153	AMERICAN MTGE REDUCTION INC
Mort	\$2,880	10/27/1999	3328 497	NORWEST FINANCIAL CONS DISC CO
end.			278	



Defining Predatory Lending

- Terms and consequences
- The manner by which the borrower came to have the loan
- The imbalance of information, experience and consequently power between the borrower and lender

TRF's quantitative analysis speaks most clearly to the first two dimensions of the definition



Operational Definitions of Predatory Lending Indicators

- Rapid Refinancing
 - Two or more liens with increasing amounts within a one year period
- Equity Stripping
 - Two or more liens of increasing amounts rolled into a larger loan ($\geq 2x$ amount of small loans) and the larger loan is subprime originated post 1993
- Mortgage 5x Assessed Value
 - BRT assessed value should be approximately $1/3$ market value – 5x allows for underassessment



Quantitative Analysis of Predatory Lending Indicators for the City of Philadelphia and Specific Neighborhoods

	Rapid Refinancing	Props 3+ Liens and Rapid Refinancing	Mortgage > 5x Assessed Value	Props 3+ Liens and Mortgage > 5x Assessed Value	Props 3+ Liens and Equity Stripping	Median Household Income, 1999	Median Home Value, 2000
Pennsport	4.5%	15.2%	23.5%	49.7%	17.5%	\$26,250	\$69,500
Wynnefield	7.8%	20.9%	17.1%	22.0%	20.9%	\$44,954	\$164,900
West Kensington	2.7%	29.9%	22.8%	62.6%	27.1%	\$19,098	\$21,800
Glenwood	2.3%	27.7%	24.8%	83.2%	30.3%	\$19,770	\$31,000
Harrowgate	2.2%	22.7%	18.7%	43.6%	8.2%	\$15,687	\$25,800
Juniata Park	3.5%	21.5%	15.9%	35.1%	18.1%	\$22,489	\$35,300
Roxborough	4.6%	15.3%	18.1%	27.0%	12.5%	\$45,464	\$80,200
East Mount Airy	5.8%	13.8%	14.8%	14.3%	13.8%	\$50,699	\$107,700
Bustleton	5.5%	20.4%	6.9%	17.2%	14.0%	\$31,049	\$88,900
City of Philadelphia	4.7%	19.3%	18.0%	31.1%	17.0%	\$30,746	\$59,700



Significant numbers of Philadelphia properties had more than one indicator of predatory lending

- Of all properties in Philadelphia
 - 22.3% had at least one of the three indicators of predatory lending
 - **3.1%** had two or more of the three indicators of predatory lending
- Of all properties with 3+ liens in Philadelphia
 - 50.9% had at least one of the three indicators of predatory lending
 - **14.1%** had two or more of the three indicators of predatory lending



Census Tract 188 – Juniata Park



Comparing foreclosure properties to all properties in Philadelphia shows that properties in foreclosure are more likely to manifest indicators of predatory lending

Area	Rapid Refinancing	Properties with 3 Liens or More to Their Owner and Rapid Refinancing	Mortgages 5 Times Assessed Value	Properties with 3 Liens to Owner, and Mortgages 5 Times Assessed Value	Properties with Both Rapid Refinancing and Mortgages Five Times	Properties with 3 Liens to Owner, and Both Rapid Refinancing and Mortgages 5 Times
Foreclosure Properties	12.81%	51.91%	29.78%	31.74%	4.56%	18.00%
All City Sample	4.62%	19.05%	18.17%	31.22%	2.09%	8.20%
Foreclosures in Middle/High Value Areas	12.63%	50.60%	14.34%	13.63%	2.14%	7.84%
All City in Middle/High Value Areas	5.46%	18.25%	15.82%	20.07%	2.06%	6.20%
Foreclosures in Low/Medium Value Areas	12.98%	53.23%	44.60%	49.83%	6.89%	28.15%
All City in Low/Medium Value Areas	3.59%	21.15%	21.05%	60.58%	2.13%	13.46%



Recommendations

Based on Quantitative Analysis & Interviews

- Establish a suitability standard applied to lenders and mortgage brokers
- Enhance record-keeping practices to bolster transparency of the lending transaction



Recommendations

Based on Quantitative Analysis & Interviews

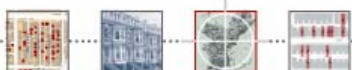
- Enhance the ability of consumers to make informed decisions
 - Simplify notices
 - Create a fiduciary obligation of a broker to a borrower
 - Establish a legal safe harbor for title and closing agents who inform borrowers of problems at closing
 - Raise the threshold for housing counselor certification through HUD



Recommendations

Based on Quantitative Analysis & Interviews

- Legislative threshold
 - Establish a federal threshold that a state must meet or exceed otherwise state law is federal law
- Vigorous law enforcement
 - *Question: What would facilitate more active law enforcement at the local, state and federal levels? Are there any changes to existing laws that would help?*
- Competing small loans products
 - Smart subsidy for loan costs associated with small loans amount
 - Use the infrastructure of the GSEs as the securitizers of small loans



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