
Foreclosure Rates on Mortgages Above and Below \$417,000 - Implications for GSE Loan Limits

Findings for the Illinois Association of REALTORS®

March 15, 2011

RCF ECONOMIC & FINANCIAL CONSULTING, INC.

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Executive Summary

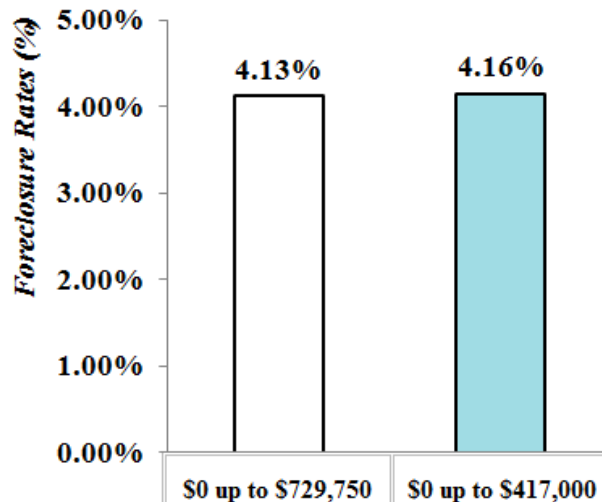
Information on residential 1st mortgages originated between January 2008 and December 2009 was obtained from Record Information Services (RIS) for the 7-County Chicago MSA - Cook, Du Page, Kane, Kendall, Lake, McHenry, and Will Counties in Illinois. The performance of these mortgages was observed through December 2010.

The white bar on following slide shows that the total 7-County Chicago MSA foreclosure rate for loans between \$0 and \$729,750 was 4.13%. The blue bar on the following page shows that the foreclosure rate of mortgages between \$0 and \$417,000 was 4.16%.

Comparing the white bar and the blue bar shows that increasing the current GSE loan limit of \$417,000 to \$729,750 for the 7-County Chicago MSA does not increase the foreclosure risk.

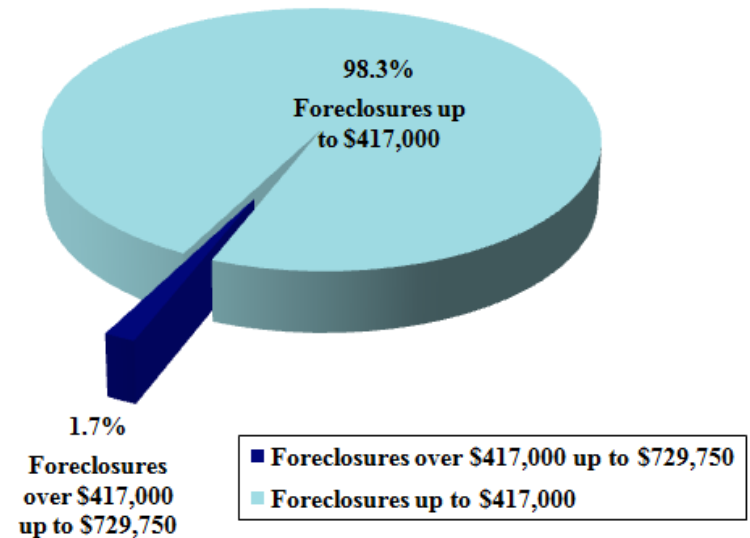
Executive Summary, cont'd

7-County Chicago MSA Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



	\$0 up to \$729,750	\$0 up to \$417,000
Foreclosures (#)	15,643	15,384
Mortgages (#)	378,492	370,244
Foreclosure Rates (%)	4.13%	4.16%
Total Value of Foreclosures (\$)	\$3.5 billion	\$3.3 billion
Total Value of Mortgages (\$)	\$79.3 billion	\$74.8 billion

Percentage Breakdown of Foreclosures

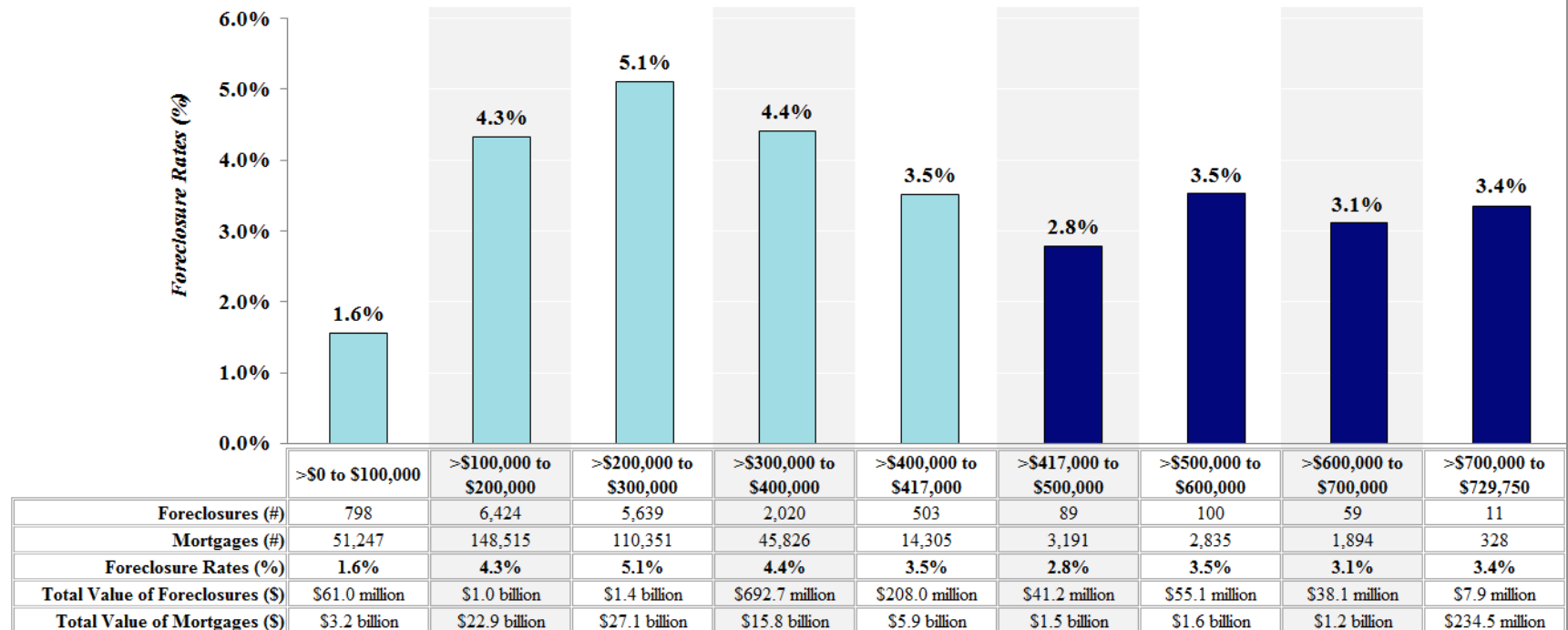


Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Executive Summary, cont'd

In the combined 7-County area, the highest foreclosure rate was for mortgages between \$200,000 to \$300,000. Going to higher valued mortgages, the foreclosure rates typically decreased.

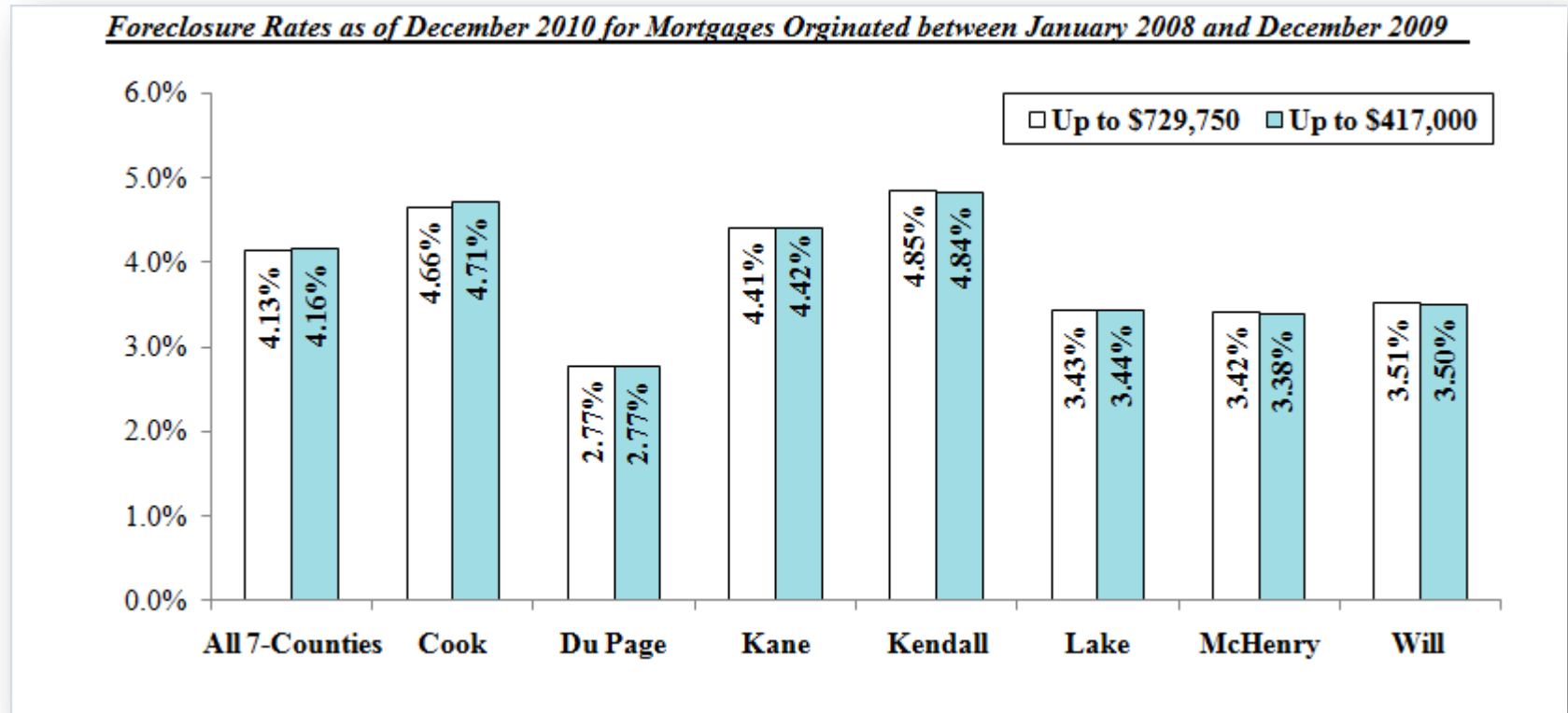
7-County Chicago MSA Foreclosure Rates as of December 2010 on Mortgages Originated between January 2008 and December 2009



Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Executive Summary, cont'd

The graph below shows foreclosure rates for the individual counties in the Chicago MSA. The white bars give foreclosure rates for all loans with values between \$0 and \$729,750. The blue bars give foreclosure rates for loans with values between \$0 and \$417,000.



Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Executive Summary, cont'd

The overall result for this study is that for the combined 7-County area the GSE loan limit could be raised to \$729,750 without increasing the overall rate of foreclosure. \$729,750 is the current highest loan limit for any area of the country.

At the county level, using the GSE procedure of accepting loans up to 125% of the median home price using the highest median home price area in the county, the results were:

- **Cook, Du Page, and Lake Counties – the GSE limit could be raised to \$729,750**

For the other counties the GSE loan limits would be less than \$729,750 because of lower median prices:

- **Kane County – the GSE limit would remain at \$417,000**
- **Kendall County – the GSE limit could be raised to \$427,687**
- **McHenry County – the GSE limit could be raised to \$524,875**
- **Will County – the GSE limit could be raised to \$519,375**

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- 7-County Chicago, IL MSA

- **Individual Counties**

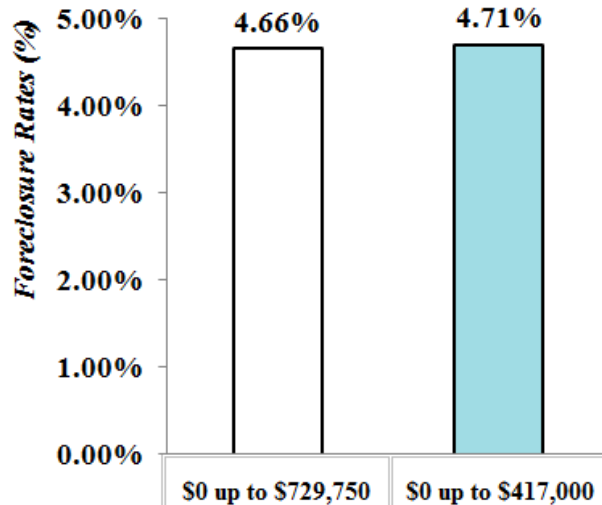
- Addendum: Source of Mortgage Information

Cook County – Summary

- **Using Winnetka as the area within Cook County with the highest median home price (\$1,085,000), the 125% loan limit calculation is \$1,356,250 which is above the potential maximum of \$729,750.**
- **As shown on the following slide, there were a total of 207,569 mortgages originated with values between \$0 and \$729,750. As shown by the white bar, the foreclosure rate for these mortgages was 4.66%.**
- **There were 201,917 mortgages with values between \$0 and \$417,000 representing 97.2% of the total mortgages originated. As shown by the blue bar, the foreclosure rate for these mortgages was 4.71%.**
- **Comparing the white bar and the blue bar shows that raising the loan limit for Cook County to \$729,750 does not increase the risk of foreclosure.**

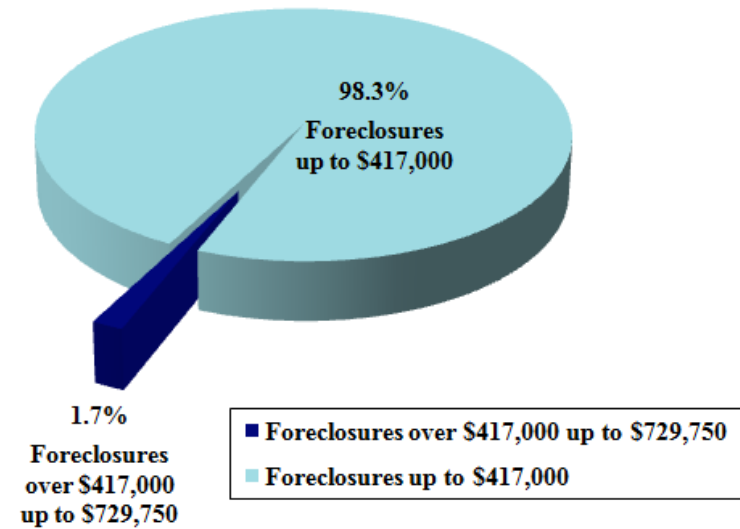
Cook County – Foreclosure Rates

Cook County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



	\$0 up to \$729,750	\$0 up to \$417,000
Foreclosures (#)	9,673	9,507
Mortgages (#)	207,569	201,917
Foreclosure Rates (%)	4.66%	4.71%
Total Value of Foreclosures (\$)	\$2.2 billion	\$2.1 billion
Total Value of Mortgages (\$)	\$44.5 billion	\$41.5 billion

Percentage Breakdown of Foreclosures



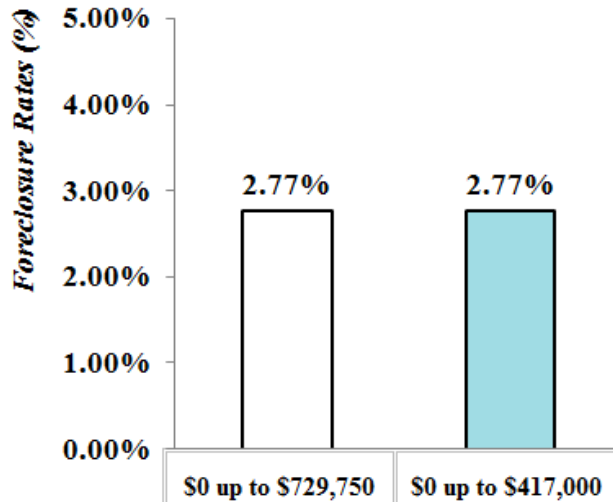
Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Du Page County – Summary

- **Using Hinsdale as the area within Du Page County with the highest median home price (\$762,000), the 125% loan limit calculation is \$952,500 which is above the potential maximum of \$729,750.**
- **As shown on the following slide, there were a total of 45,285 mortgages originated with values between \$0 and \$729,750. As shown by the white bar, the foreclosure rate for these mortgages was 2.77%.**
- **There were 44,367 mortgages with values between \$0 and \$417,000 representing 98% of the total mortgages originated. As shown by the blue bar, the foreclosure rate for these mortgages was also 2.77%.**
- **Comparing the white bar and the blue bar shows that raising the loan limit for Du Page County to \$729,750 does not increase the risk of foreclosure.**

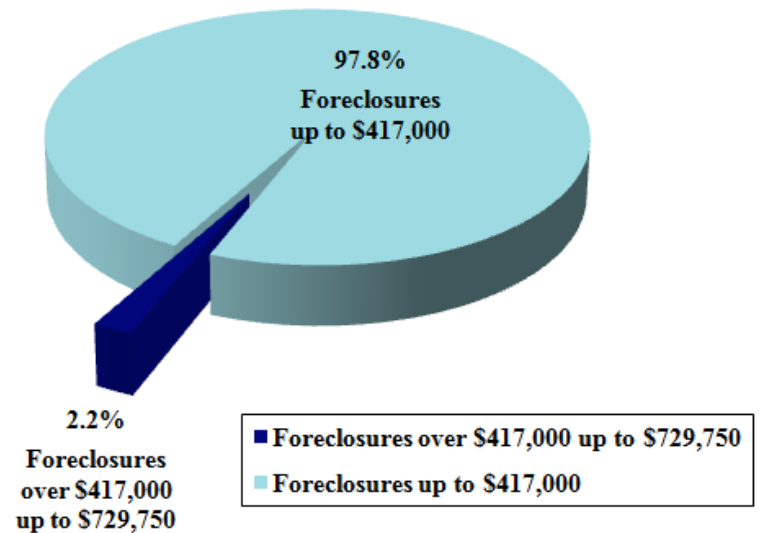
Du Page County – Foreclosure Rates

Du Page County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



	\$0 up to \$729,750	\$0 up to \$417,000
Foreclosures (#)	1,254	1,227
Mortgages (#)	45,285	44,367
Foreclosure Rates (%)	2.77%	2.77%
Total Value of Foreclosures (\$)	\$294.9 million	\$280.2 million
Total Value of Mortgages (\$)	\$9.9 billion	\$9.4 billion

Percentage Breakdown of Foreclosures



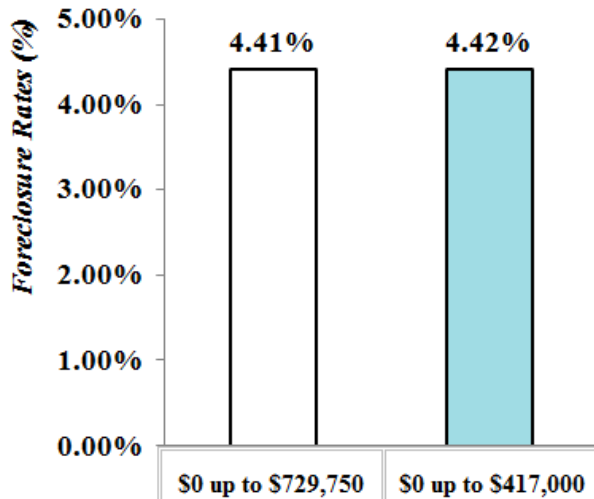
Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009 regardless of LTV ratio.

Kane County – Summary

- **Using St. Charles as the area within Kane County with the highest median home price (\$285,000), the 125% loan limit calculation is \$356,250 which is below the current loan limit of \$417,000.**
- **Based on this calculation, the analysis then indicates that the GSE loan limit of \$417,000 would remain unchanged.**
- **However, as shown by comparing the white and blue bars on the following page, raising the loan limit to \$729,750 does not increase the risk of foreclosure.**

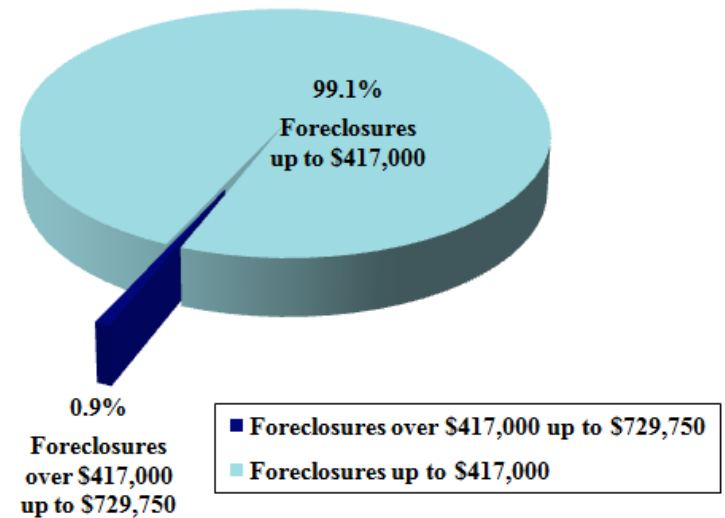
Kane County – Foreclosure Rates

Kane County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



Foreclosures (#)	1,154	1,144
Mortgages (#)	26,148	25,905
Foreclosure Rates (%)	4.41%	4.42%
Total Value of Foreclosures (\$)	\$239.0 million	\$233.5 million
Total Value of Mortgages (\$)	\$5.1 billion	\$5.0 billion

Percentage Breakdown of Foreclosures



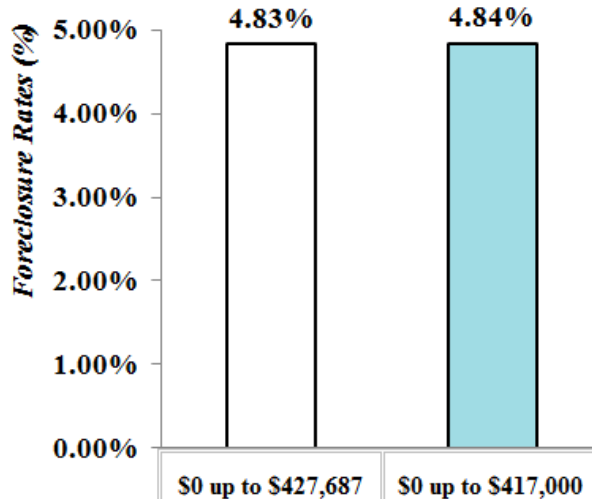
Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Kendall County – Summary

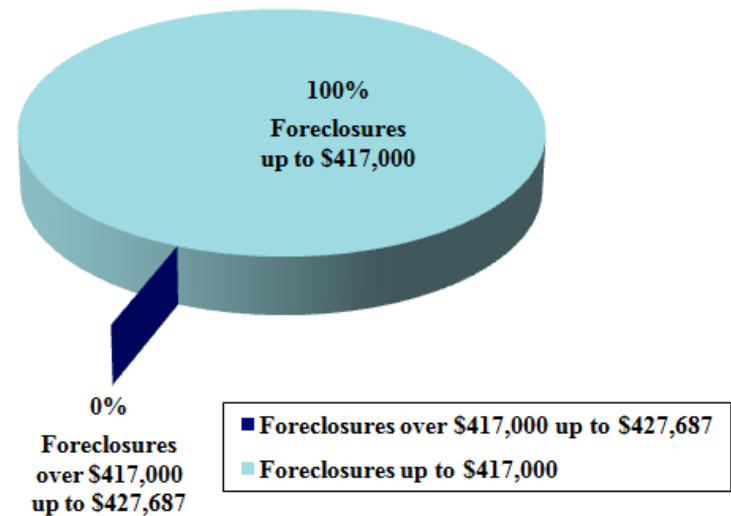
- **Using Millbrook as the area within Kendall County with the highest median home price (\$342,150), the 125% loan limit calculation is \$427,687 which is above the current loan limit of \$417,000.**
- **As shown on the following slide, there were a total of 8,546 mortgages originated with values between \$0 and \$427,687. As shown by the white bar, the foreclosure rate for these mortgages was 4.83%.**
- **There were 8,539 mortgages with values between \$0 and \$417,000 representing 99.9% of the total mortgages originated. As shown by the blue bar, the foreclosure rate for these mortgages was 4.84%.**
- **Comparing the white bar and the blue bar shows that raising the loan limit for Kendall County to \$427,687 does not increase the risk of foreclosure.**

Kendall County – Foreclosure Rates on mortgages up to \$427,687

Kendall County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



Percentage Breakdown of Foreclosures



	\$0 up to \$427,687	\$0 up to \$417,000
Foreclosures (#)	413	413
Mortgages (#)	8,546	8,539
Foreclosure Rates (%)	4.83%	4.84%
Total Value of Foreclosures (\$)	\$92.8 million	\$92.8 million
Total Value of Mortgages (\$)	\$1.6 billion	\$1.6 billion

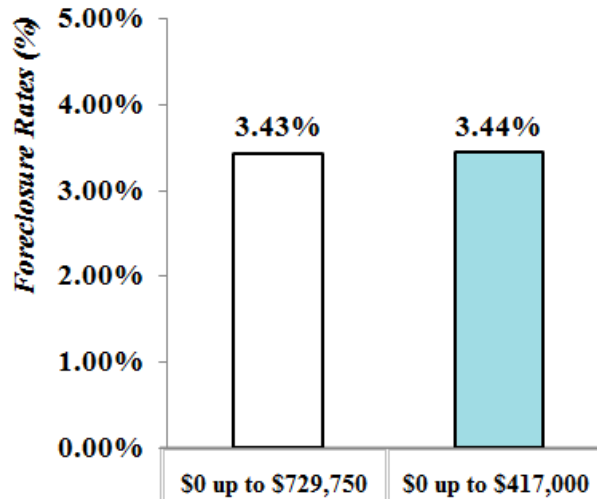
Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Lake County – Summary

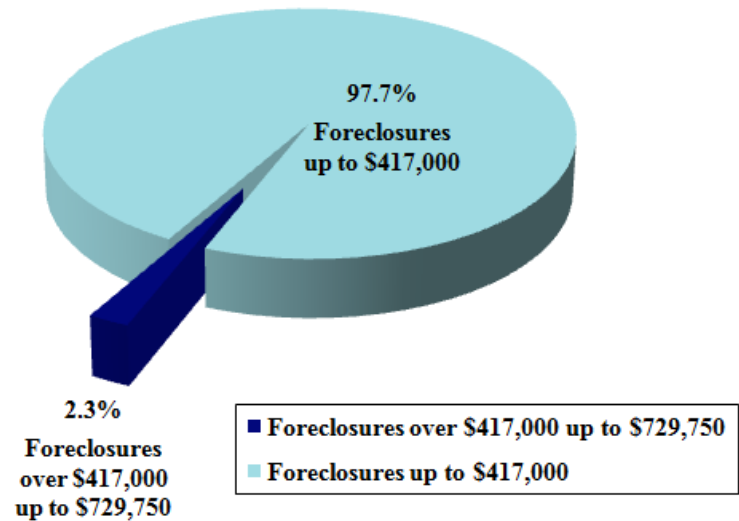
- **Using Bannockburn as the area within Lake County with the highest median home price (\$1,047,500), the 125% loan limit calculation is \$1,309,375 which is above the current loan limit of \$417,000.**
- **As shown on the following slide, there were a total of 33,686 mortgages originated with values between \$0 and \$729,750. As shown by the white bar, the foreclosure rate for these mortgages was 3.43%.**
- **There were 32,799 mortgages with values between \$0 and \$417,000 representing 97.4% of the total mortgages originated. As shown by the blue bar, the foreclosure rate for these mortgages was 3.44%.**
- **Comparing the white bar and the blue bar shows that raising the loan limit for Lake County to \$729,750 does not increase the risk of foreclosure.**

Lake County – Foreclosure Rates

Lake County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



Percentage Breakdown of Foreclosures



	\$0 up to \$729,750	\$0 up to \$417,000
Foreclosures (#)	1,154	1,128
Mortgages (#)	33,686	32,799
Foreclosure Rates (%)	3.43%	3.44%
Total Value of Foreclosures (\$)	\$259.9 million	\$245.5 million
Total Value of Mortgages (\$)	\$7.2 billion	\$6.7 billion

Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

McHenry County – Summary

- **Using Lakewood as the area within McHenry County with the highest median home price (\$419,900), the 125% loan limit calculation is \$524,875 which is above the current loan limit of \$417,000.**
- **As shown on the following page, there were a total of 17,936 mortgages originated with values between \$0 and \$524,875. As shown by white bar, the foreclosure rate for these mortgages was 3.41%.**
- **There were 17,858 mortgages between \$0 and \$417,000, representing 99.6% of the total mortgages originated. As shown by the blue bar, the foreclosure rate for these mortgages was 3.38%.**
- **Comparing the white bar and the blue bar shows that raising the loan limit for McHenry county to \$524,875 does not materially affect the total risk of foreclosure.**

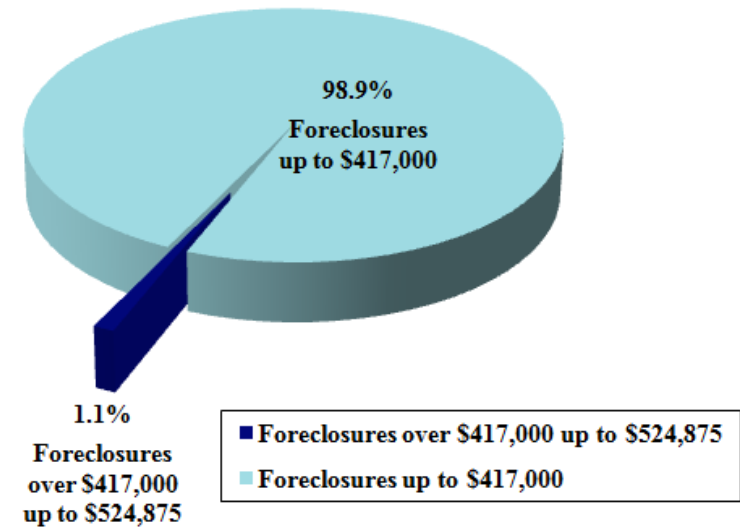
McHenry County – Foreclosure Rates on mortgages up to \$524,875

McHenry County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



	\$0 up to \$524,875	\$0 up to \$417,000
Foreclosures (#)	611	604
Mortgages (#)	17,936	17,858
Foreclosure Rates (%)	3.41%	3.38%
Total Value of Foreclosures (\$)	\$132.9 million	\$129.5 million
Total Value of Mortgages (\$)	\$3.3 billion	\$3.3 billion

Percentage Breakdown of Foreclosures



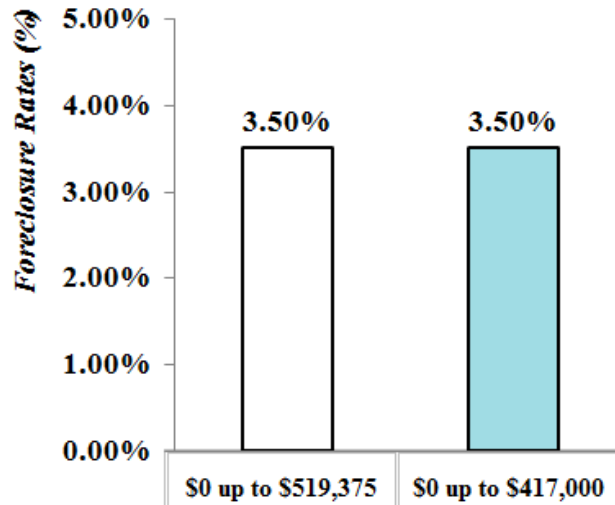
Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

Will County – Summary

- **Using Naperville as the area within Will County with the highest median home price (\$415,500), the 125% loan limit calculation is \$519,375 which is above the current loan limit of \$417,000.**
- **As shown on the following slide, there were a total of 39,035 mortgages originated with values between \$0 and \$729,750. As shown by the white bar, the foreclosure rate for these mortgages was 3.50%.**
- **There were 38,859 mortgages with values between \$0 and \$417,000 representing 99.5% of the total mortgages originated. As shown by the blue bar, the foreclosure rate for these mortgages was also 3.50%.**
- **Comparing the white bar and the blue bar shows that raising the loan limit for Will County to \$519,375 does not increase the risk of foreclosure.**

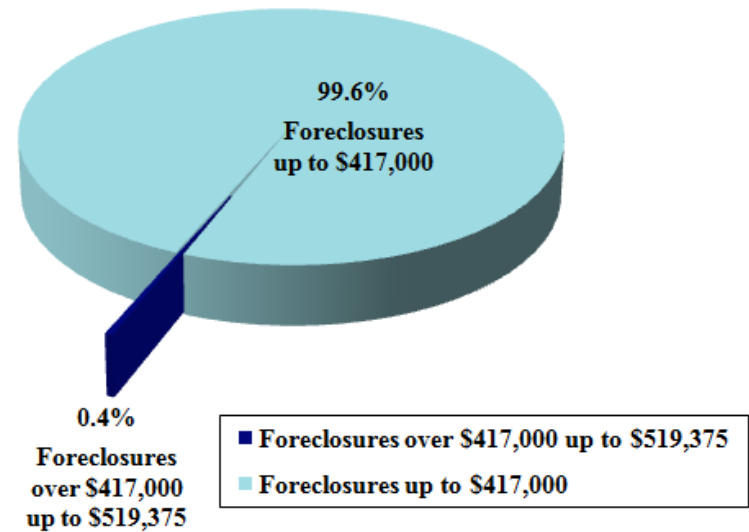
Will County – Foreclosure Rates on mortgages up to \$519,375

Will County Foreclosure Rates as of December 2010 for Mortgages Originated between January 2008 and December 2009



Foreclosures (#)	1,367	1,361
Mortgages (#)	39,035	38,859
Foreclosure Rates (%)	3.50%	3.50%
Total Value of Foreclosures (\$)	\$292.3 million	\$289.3 million
Total Value of Mortgages (\$)	\$7.4 billion	\$7.3 billion

Percentage Breakdown of Foreclosures



Note: Includes 1st mortgages and foreclosures for residential single family properties with mortgages originated between January 2008 and December 2009, regardless of LTV ratio.

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Source of Mortgage Information

Using information on all mortgages and mortgage foreclosures obtained from Record Information Services (RIS), RCF has analyzed foreclosure rates for 1st mortgages of residential single family properties originated between January 2008 and December 2009 in the following seven Illinois Counties: Cook, Du Page, Kane, Kendall, Lake, McHenry, and Will.

Since the RIS information pertains to all mortgages and mortgage foreclosures, the following exclusions were necessary:

- To obtain single family detached and single family attached properties, multi-family residential properties were excluded. Also, commercial, construction, business and corporate, reverse and owner-financed mortgages were excluded.**
- Mortgages and foreclosures that were missing original mortgage amounts or an original mortgage date were removed.**
- Only 1st mortgages were included in the analysis; lines of credit and homes missing a mortgage type classification were excluded.**
- Mortgages considered were originated between January 2008 and December 2009, in order to focus on foreclosures that coincide with the introduction of stricter lending standards.**
- At the instruction of IAR, mortgages greater than \$729,750 were excluded.**

Source of Mortgage Information, cont'd

For characteristics on the preceding slide, the number of excluded observations is relatively low so that even if the proportions excluded of foreclosed or non-foreclosed mortgages are different, the direction of results is almost certainly not affected. Furthermore, reasons for bias, i.e., differences in proportions of total and defaulted mortgages, are not apparent. Therefore, it is reasonable to suppose that about the same proportion of defaulted mortgages and total mortgages are excluded.

After the exclusions, there were **378,492 mortgages** and **15,643 foreclosures**.

LTV Issue

IAR requested that mortgages with loan-to-value (LTV) ratios greater than 97% be excluded. This calls for using mortgages for which loan-to-value ratios are recorded. Because so few loan-to-value ratios are recorded, the number of observations excluded is extremely great. Furthermore, it is very disproportionate as between total mortgages and foreclosed mortgages. Only 25 percent of foreclosed mortgages had available loan-to-value ratios, and only 60 percent of total mortgages had available loan-to-value ratios.

(LTV Issue continued on next slide)

Source of Mortgage Information, cont'd

For some counties the number of mortgage foreclosures using the reduced data set is extremely small. For example, in Will County total foreclosures are reduced to 3 based on omitted loan-to-value data, as opposed to the 15 observations that are currently shown in the data set.

A preliminary review of data using loan-to-value criteria provided no evidence that leaving in the loan-to-value ratios over 97 percent biases the results, because the proportion of mortgages above and below \$417,000 was not affected and patterns found in the data are similar. For instance,

- For the combined 7-County area, the foreclosure rate of mortgages above \$417,000 was below the foreclosure rate of mortgages below \$417,000.**
- Mortgages between \$200,000 and \$300,000 typically had the highest rate of foreclosure, regardless of applying or removing the loan-to-value criteria.**

It has been concluded that calculations based on mortgages where loan-to-value ratio is available are not reliable. Therefore it seems reasonable to conclude that the results are not likely to be affected by the loan-to-value considerations.