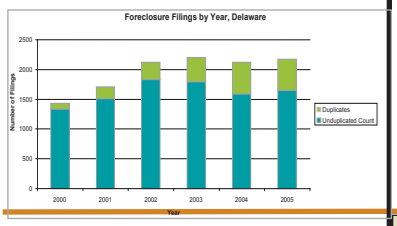
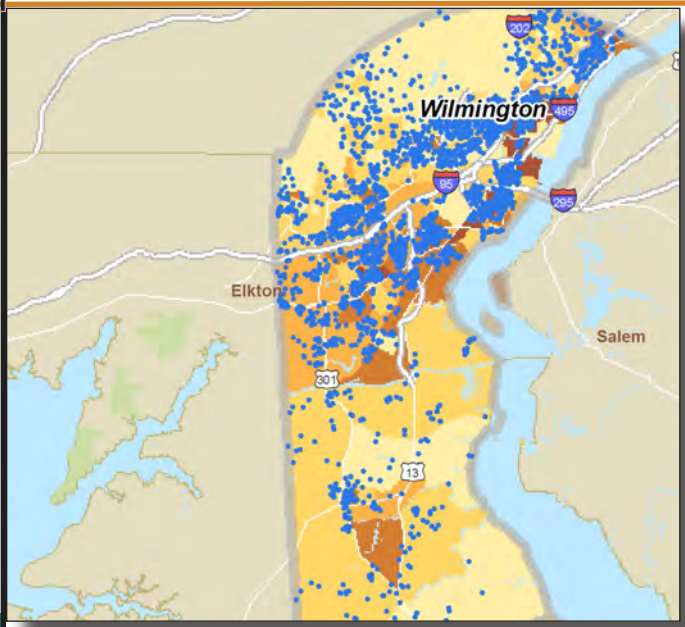


Mortgage Foreclosure Filings in Delaware

A Study by
The Reinvestment Fund
for the Office of the
State Bank
Commissioner



June 2006

TRF Capital at the point of impact.

TABLE OF CONTENTS

I. Introduction

To understand the "drivers" behind mortgage foreclosures in Delaware, the State Bank Commissioner hired The Reinvestment Fund (TRF) to gather as much data as possible about foreclosures in Delaware and systematically analyze trends. The fundamental goals of this study are to understand how Delaware's foreclosure trends compare to other places; develop a set of facts regarding overall foreclosures in Delaware; and conduct a detailed analysis of foreclosure activity in New Castle, Kent and Sussex counties. To do this, TRF:

Reviewed literature related to foreclosures, including that which identifies traditional triggers of mortgage foreclosure, abusive lending, loss mitigation, and efficacy of housing counseling.

Analyzed how traditional economic indicators affect foreclosure rates in Delaware and across the nation.

Conducted face-to-face interviews with mortgage lending industry representatives, foreclosure attorneys, representatives of the New Castle County Sheriff's Office and housing assistance providers.

Collected and analyzed recorded foreclosure filing[1] information from 2000 through 2005 in Delaware. This analysis allowed TRF to:

- Identify spatial clusterings of foreclosures.
- Access mortgage transaction histories from the First American Real Estate Solutions (FARES) database for properties subject to a mortgage foreclosure filing during this period and identify:
  When the loan in foreclosure was made;
  Who made the loan in foreclosure;
  Whether the loan was for a home purchase or a refinance;
  When the person bought the home now in foreclosure; and
  Whether the person likely took out loans totaling more than the purchase price.

TRF was able to geocode and map most properties and could analyze the change in the number of filings for all three counties – but a detailed analysis of the loans and properties in foreclosure was only possible in New Castle County as the FARES database did not contain a sufficient number of mortgage histories in Kent and Sussex counties.

1 A foreclosure filing represents the first legal action taken by a bank when a homeowner stops making payments on their mortgage. A filing does not represent the actual loss of the home to foreclosure, but rather indicates the beginning of a process that could lead to a loss if the owner failes to satsify back payments and resume their normal payments. Unless the payments begin again, an arrangement is made with the lender, a consumer seeks and receives bankruptcy protection, or some other extraordinary event occurs, the individual will lose their home.

II. Executive Summary

Delaware is one of the smallest states in the nation and is home to an estimated 311,000 households. It boasts one of the highest median home prices in the nation ($270,000) and has been one of the most active home sale markets in the last couple of years. 73% of households own their own home. Delaware contains three counties: New Castle, Kent and Sussex. The City of Wilmington sits within the largest of the three counties - New Castle County. The City of Dover sits within Kent County.

According to the Mortgage Bankers Association, the prime foreclosure rate in Delaware in 2005 was .43; the subprime rate was 3.67. While these rates are comparable to rates across the nation, they are high within the MidAtlantic region. TRF's analysis suggests that 11,763 mortgage foreclosures were filed in Delaware between 2000 and 2005 – a 52% increase during this time.

The traditional "triggers" used to explain changes in an area's foreclosure rate, such as unemployment, are advantageous in Delaware and do not explain the growing trend. To better understand what types of properties and transactions are in foreclosure – and what might be causing the rise - TRF obtained foreclosure filings for the period 2000 through 2005, mapped the location of these properties and analyzed their mortgage histories.

In sum, this analysis revealed:

As in other parts of the country, many homeowners in Delaware went in and out of foreclosure more than once during this time period. When the list of filings is distilled to unique properties in foreclosure, the increase in the actual number of properties in foreclosure was closer to 23.6%.

Foreclosure filings are disproportionately concentrated in New Castle County. 54% of all owner occupied housing units in Delaware sit within New Castle County, yet 76% of all foreclosure filings occurred in New Castle. Across the state, foreclosures are concentrated in a number of Wilmington neighborhoods including Browntown, Hedgeville, Eastside and Southbridge; as well as Elsmere and Middletown in New Castle County; Milford, Harrington, Dover and Smyrna in Kent County; and Laurel and Seaford in Sussex County.

Foreclosure filings are concentrated in areas with significantly higher percentages of African American households and only slightly lower home values. Home appreciation rates and incomes are virtually the same. In New Castle County, the median block group is 7.9% African American. Foreclosure properties, however, sit within block groups that are typically 19.2% African American.

The median homeowner in foreclosure purchased their home in 1998 and paid between $80,000 and $110,000 for their home (depending upon the year of purchase).

A number of homeowners in foreclosure used some type of alternative financing to purchase their home:

- *Purchases with 1st and 2nd Mortgages*- 17% of the properties in foreclosure were originally purchased with 2 or more loans.
- *No Downpayment* - 34% of homeowners in foreclosure purchased their home with a loan(s) that was either equal to or greater than the sale price.
- *Adjustable Rate Mortgages* - 17% of the loans in foreclosure have adjustable rates or are balloons.

Loans in foreclosure were made by a mix of lenders who do prime and subprime loans. A significant number of lenders, however, were lenders (banks, mortgage companies, etc.) that TRF was unable to characterize as primarily engaged in prime or subprime mortgage lending or both.

35% of the properties in foreclosure were purchased with FHA loans. Longer term homeowners in the foreclosure pool were more likely to have purchased their home with an FHA loan than the newer homebuyers in the foreclosure pool.

22% of the properties in foreclosure were originally purchased from someone other than another homeowner (i.e. builder, LLC, bank or government agency).

TRF estimates that 46% of owners in foreclosure during the time period studied either lost or sold their home subsequent to the foreclosure filing.

Potential Causes

The data, interviews with subject matter experts, and a review of foreclosure literature suggest that the combined impact of a set of factors may be contributing to the foreclosure activity:

- ✓ Increased consumer access to mortgage products that allow for lower down payments, lower savings balances, higher loan-to-value ratios and lower credit scores to buy a home may make long-term homeownership for some people (especially those of more modest means) unsustainable.
- ✓ The growing use of adjustable rate mortgages and 80/20 loans may lead to an increased number of foreclosure filings – particularly as high home appreciation rates of the past few years taper off.
- ✓ Borrowers and potential borrowers lack information about alternatives to high cost loans. The desire to purchase a home is so strong that consumers are willing to enter into risky mortgage products.
- ✓ Many borrowers lack financial education, ranging from understanding the economics of interest rates to the importance of paying bills on time.
- ✓ Securitization of the residential mortgage market makes higher foreclosure rates acceptable to investors through proper pricing.
- ✓ Consumer expenditures on health care costs have risen faster than the growth in incomes. Subject matter experts suggested that households are choosing to pay medical costs – at the expense of making mortgage payments.

- ✓ While not analyzed as a part of this study, interviewees suggested that growing energy costs are also making homeownership unaffordable.

- ✓ Abusive lending practices are evident in segments of the mortgage industry.

Recommendations

TRF suggests that the State Bank Commissioner continue to monitor changes in foreclosure filings as home appreciation rates are expected to slow and interest rates rise. TRF also suggests that the Commissioner consider the following:

Target areas with heavy concentrations of foreclosure filings with information regarding foreclosure prevention resources: The State Bank Commissioner's office is working to publicize a variety of resources available for homeowners in or on the verge of foreclosure. This campaign should first target those areas where foreclosure activity is most concentrated.

Supplement training to housing counselors and consumers by holding conferences related to problems with 80/20 loans, ARMS and securitization: The TRF study suggests that a number of the properties in foreclosure were originally purchased with two or more loans at the time of closing. This, as well as the growing use of ARMS to purchase a home, may cause a rise in foreclosure filings over the coming months and years.

Prevent foreclosure schemes: States around the nation have grown concerned about the number of individuals and companies misleading homeowners in financial trouble. While TRF did not find any evidence of this type of activity in the data analysis, in the interviews or in our document reviews, the proliferation of cardboard signs in certain neighborhoods which advertise "We Buy Homes" and give owners a 1-800 number to call for help suggests that this type of activity is likely occurring.

Create a pool of emergency funds for homeowners in trouble: Homeowners could prevent foreclosure with the help of a program like that of Pennsylvania Homeowners' Emergency Mortgage Assistance Program (HEMAP). This revolving-loan program is designed to assist homeowners who, through no direct fault of their own, have fallen into foreclosure and who have a good chance of resuming normal mortgage payments in the future. This Pennsylvania program has proven to be quite successful in helping owners who suffered a job loss, divorce, medical event or other catastrophe. HEMAP has helped 4,250 homeowners keep their homes between 2000 and the early part of 2004.

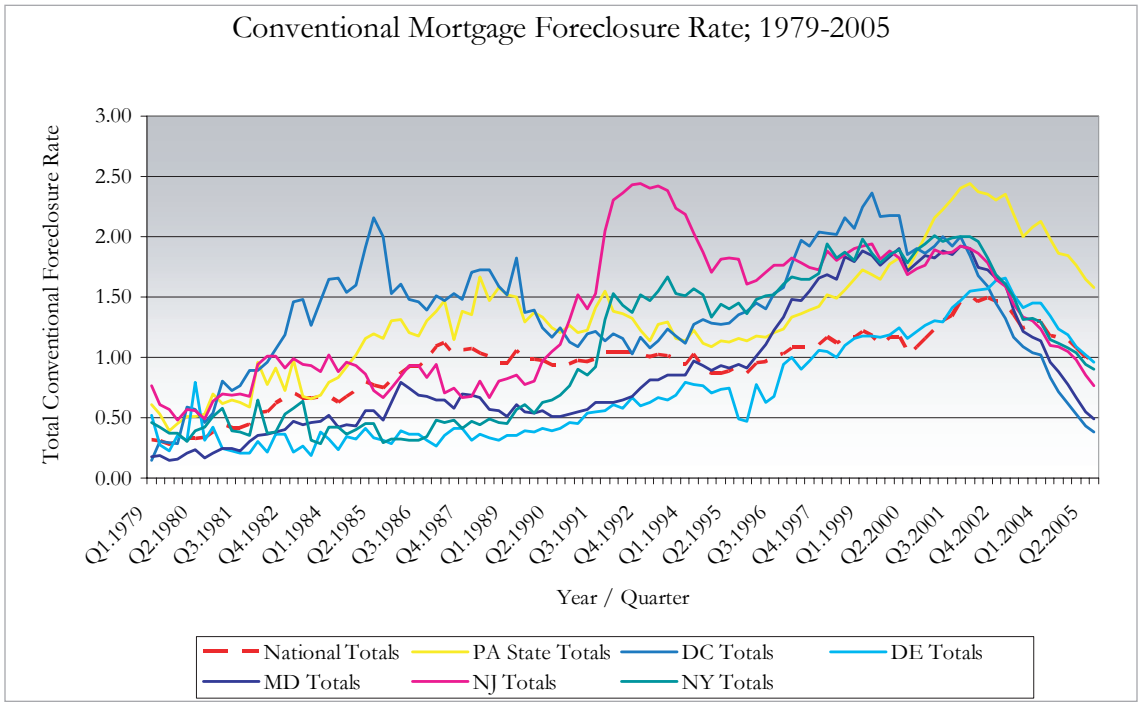
Enhance the availability of legal representation for those facing foreclosure: Interviews suggest that there are limited resources for people with mortgages who need to initiate an affirmative defense to their foreclosure (or even pre-foreclosure).

Improve data collection: Delaware is fortunate to have a single entity (the Judicial Information Center) responsible for uniformly capturing information about mortgage foreclosures in all three counties. Capturing additional data in a more searchable database will allow the state to conduct more accurate and frequent analysis of trends.

III. The Problem

Delaware's overall foreclosure rate has historically been lower than any state in the MidAtlantic, but in 1997 the rate began to run higher than neighboring states.

Data from the Mortgage Bankers Association of America (MBAA) show that Delaware now has the 2nd highest foreclosure rate in the region behind Pennsylvania.



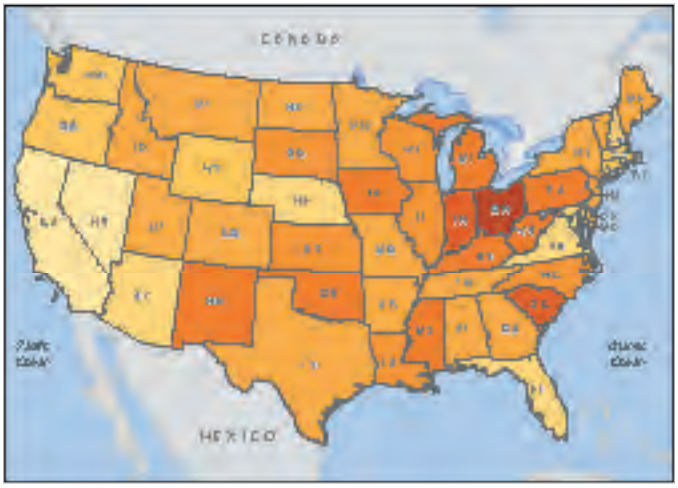
III-1 Source: Mortgage Bankers Association of America

According to the MBAA, Delaware's percent of prime loans in foreclosure was .43 in 2005 and ranked the state as having the 24th highest prime foreclosure rate in the nation. Delaware also has the 22nd highest subprime foreclosure rate (3.67). FHA-insured mortgages had a foreclosure rate of 3.14 – 11th highest in the nation.

Foreclosure Rate for Prime Loans, 2005

Foreclosure Rate for FHA Loans, 2005

Foreclosure Rate for Subprime Loans, 2005



Foreclosure Rate

- .5% or Less
- 0.6% - 1%
- 1.1% - 2%
- 2.1% - 3%
- 3.1% - 4%
- 4.1% - 5%
- 5.1% - 7.5%
- 7.6% - 10%
- Over 10%

RealtyTrac's Foreclosure Market Report similarly suggests that the foreclosure rate in the first quarter of 2006 (1 household entering foreclosure for every 4,288 households) in Delaware is quite favorable compared to the nation and region.

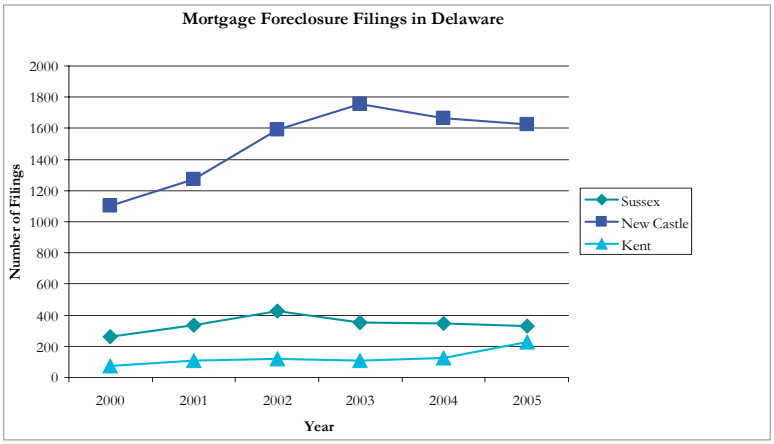
Unlike its neighboring states, Delaware's foreclosure rate experienced a sharp increase between the 4th quarter of 2005 and the 1st quarter of 2006 (167%), but dropped over the course of the year by 33% between the 1st quarter of 2005 and the 1st quarter of 2006. Delaware was the only state in the region to experience a drop in the number of households entering foreclosure per household during this past year.

State Name	Jan 2006	Feb 2006	Mar 2006	Q1 2006 (Total)	Q1 1/every #Hshlds	% Change from Q4 2005	%Change from Q1 2005
US 2006	104,354	117,151	101,597	323,102	358	38	72
Delaware	36	19	25	80	4288	167	-33
D.C.	7	7	13	27	10179	-33	170
Maryland	583	272	226	1081	1982	-25	62
New Jersey	3474	3278	3708	10460	316	-22	61
New York	5205	4595	3995	13795	557	8	160
Pennsylvania	4190	4382	3683	12255	428	42	141

III-2 Source: RealtyTrends, Volume 2, Issue 5, May 2006

The total number of foreclosure filings in Delaware increased by 51.6% between 2000 and 2005.

TRF collected foreclosure filing information from the Judicial Information Center (JIC) for the five year period 2000 through 2005. Filings have increased proportionately the most in Kent County and, while filings in New Castle and Sussex peaked in 2002 and 2003, filings in Kent continue to grow.



III-3 Source: TRF aggregations of JIC data.

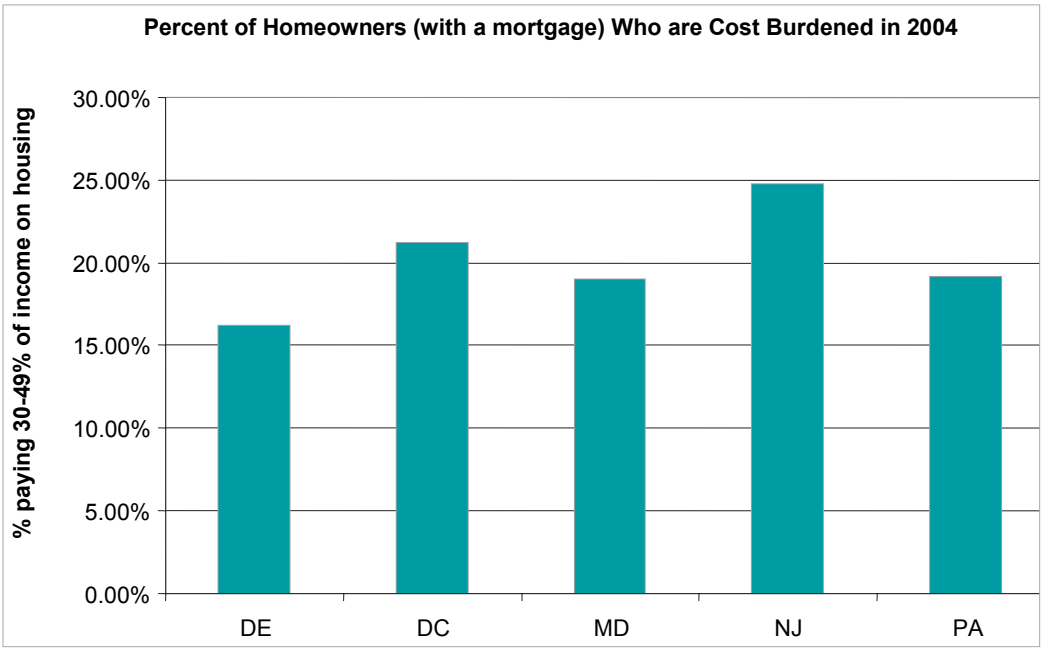
Number of Foreclosure Filings by County and Year, 2000-2005

Year	Kent	Sussex	New Castle	Total
2000	72	263	1,099	1,434
2001	110	338	1,260	1,708
2002	122	426	1,573	2,121
2003	110	354	1,740	2,204
2004	127	349	1,645	2,121
2005	227	332	1,615	2,174
Total	768	2,062	8,932	11,762
%Change	215.3%	26.2%	47.0%	51.6%

III-4 Source: TRF aggregations of JIC data.

Overall, economic factors and "triggers" traditionally used to explain foreclosure rates are at advantageous levels in Delaware and do not seem to explain the current growth:

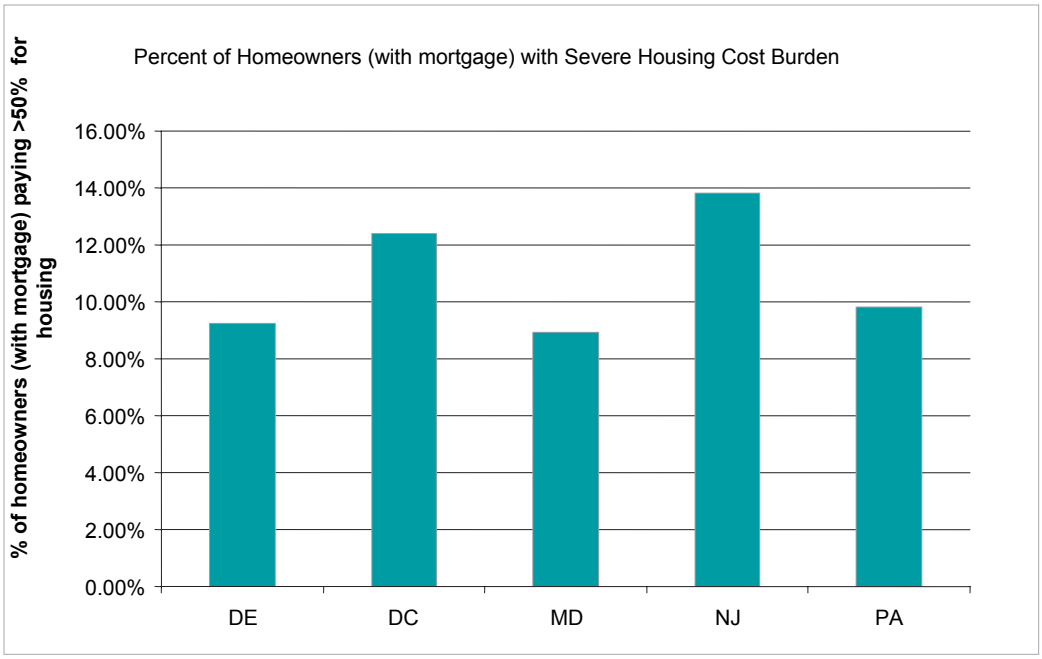
Fewer homeowners are burdened by the costs of owning a home in Delaware compared to homeowners in surrounding states.



III-5 Source: American Community Survey, 2004

Census estimates suggest that in 2004, just over 15% of homeowners in Delaware (with a mortgage) were paying more than 30% of their income for housing – better than any state in the region.

Data also suggests that a small percentage of homeowners are severely cost burdened as 9.2% of Delaware homeowners (with a mortgage) were paying more than 50% of their income for housing. Delaware has one of the smallest percentage of homeowners in the region facing this severe burden.

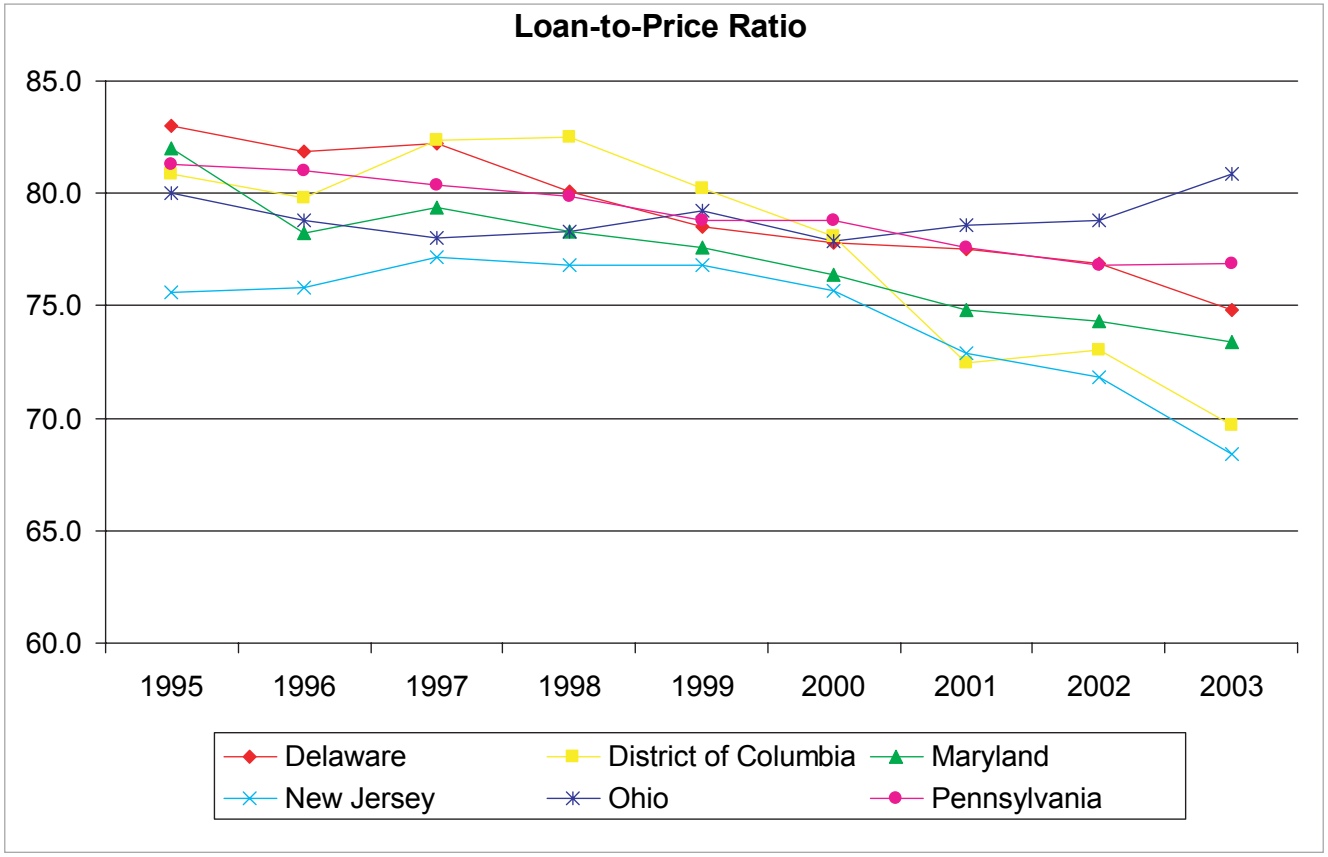


III-6 Source: American Community Survey, 2004

Loan-to-price ratios are decreasing.

Data from the Federal Housing Finance Board indicates that in 2004, the average conventional single family mortgage loan in Delaware had a loan-to-price ratio of 75%. This is the third lowest ratio in the region and is on par with the nation. More importantly, the loan- to- price ratio has decreased steadily in Delaware since 1995 when, at 83%, it had the highest ratio in the region.

Higher loan-to-price ratios are generally considered to be a traditional cause of mortgage foreclosures as borrowers have less invested in the property.

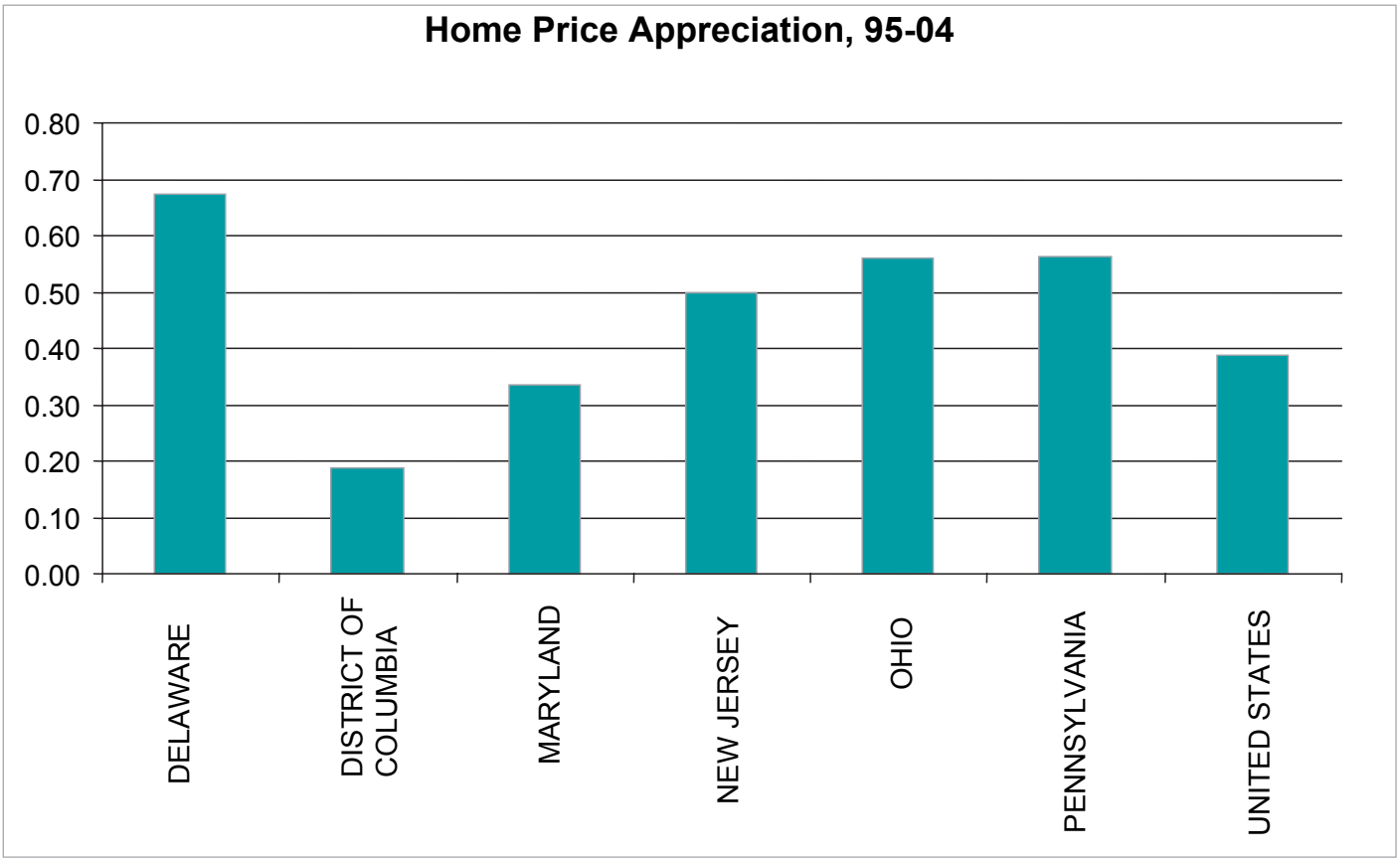


III-7 Source: Federal Housing Finance Board

Single family home prices are appreciating at one of the fastest rates in the nation.

Data from the Federal Housing Finance Board indicates that between 1995 and 2004, the median home sale price in Delaware appreciated at the second fastest rate in the nation (behind Massachusetts) and at the fastest rate in the region.

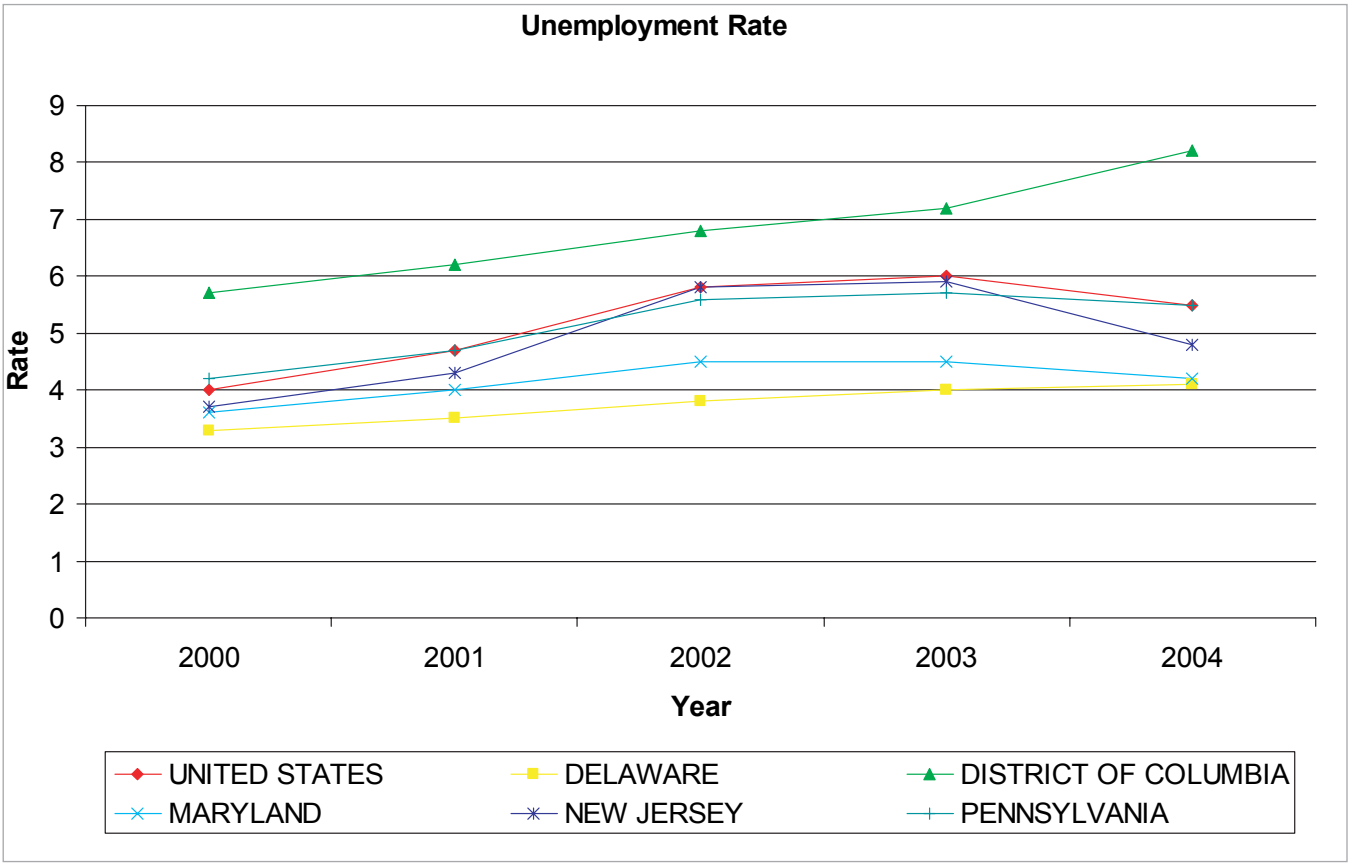
Non-appreciating real estate markets tend to have higher foreclosure rates for two reasons. When faced with an economic hardship, a borrower living in an appreciating market can either tap the equity in their home until the financial hardship passes or sell the home and walk away with some money instead of losing the home to foreclosure. Either of these may be a rational choice in an appreciating market. For the borrower in a non-appreciating market, without equity, the choice is foreclosure.



III-8 Source: Federal Housing Finance Board

The unemployment rate is consistently the lowest among neighboring states and is currently the 7th lowest in the nation.

Unemployment or job loss, logically, makes it more difficult for households to afford their mortgage payments and increases the likelihood of default and foreclosure.

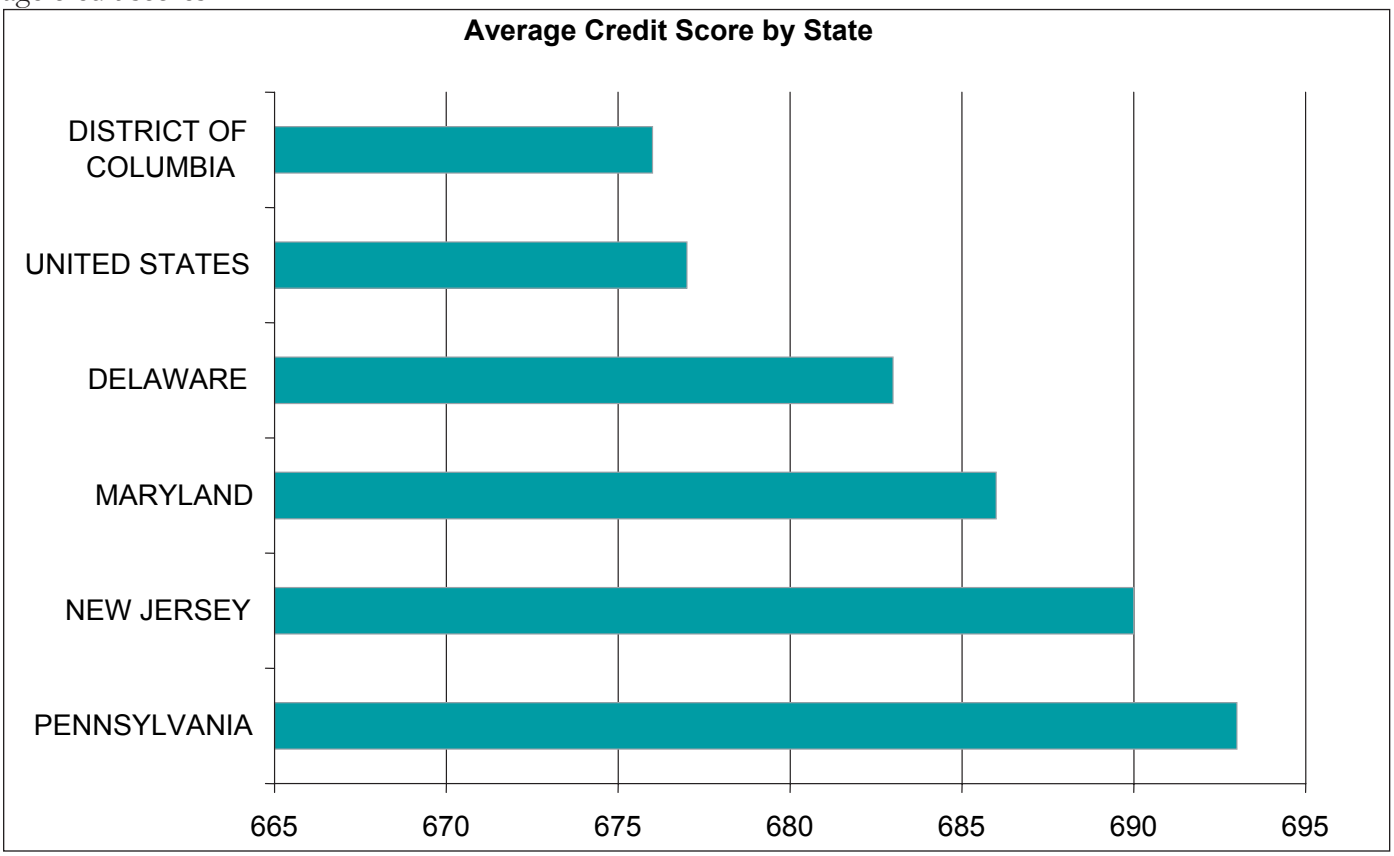


III-9 Source: Bureau of Labor Statistics

The average credit score is above the national average, although not among the highest in the region.

According to Experian, a repository of consumer credit information, the average credit score in Delaware in 2006 was 683. While better than the national average, Pennsylvania, New Jersey and Maryland all have higher average credit scores.

Credit scores generally range from 300 to 800. Lower scores represent higher risk consumers who carry a greater possibility of default and foreclosure.



III-10 Source: Experian, December 2006

Mortgage terms in Delaware tend to be similar to states across the nation.

According to the Federal Housing Finance Board, the average mortgage made in Delaware in 2004 carried an interest rate of 5.8% and initial fees and charges of .4% Across the nation, interest rates ranged from 5.3% in Massachusetts to 6% in Oklahoma; fees and charges ranged from .07% in Vermont to 1.3% in Alaska.

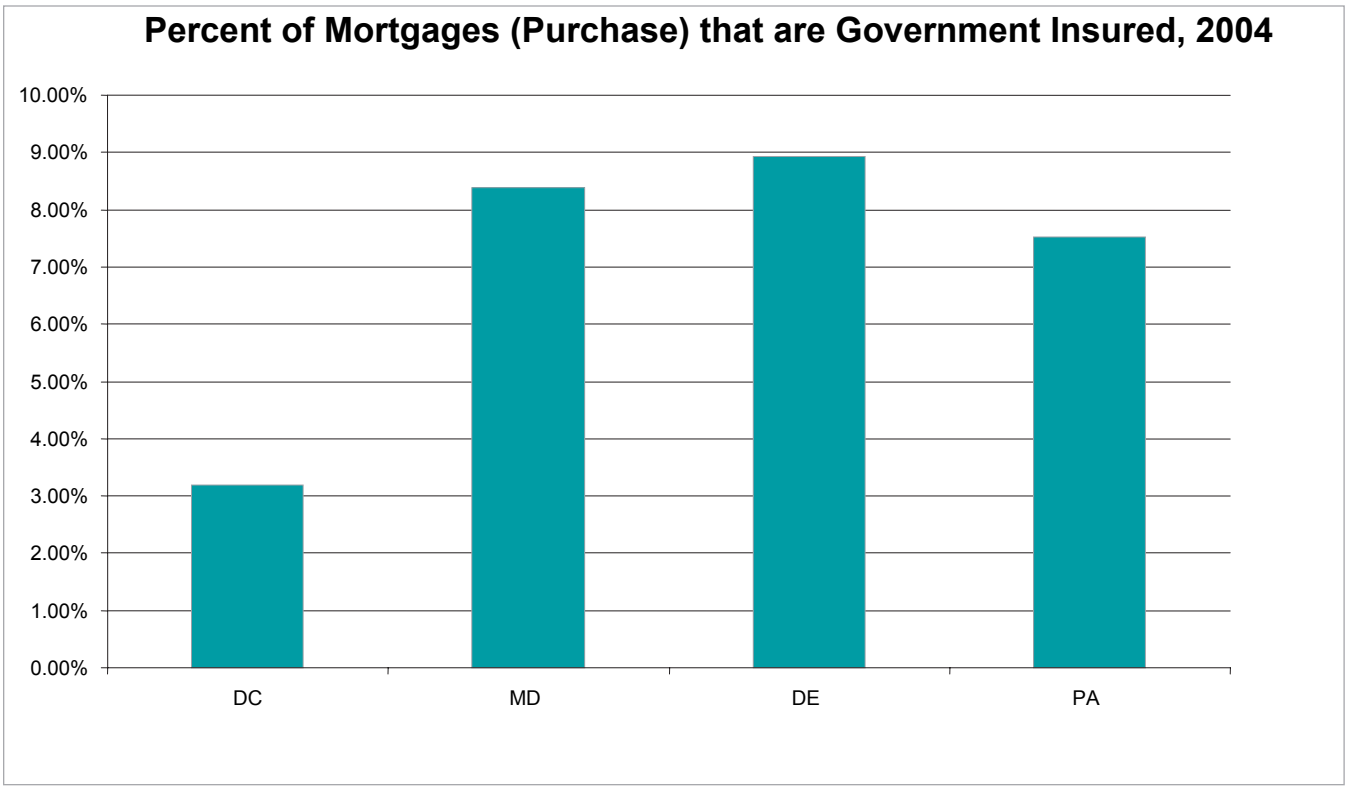
Studies suggest that those states where average mortgage rates, fees and terms are higher may have higher foreclosure rates as the loans are more expensive to borrowers.

Potentially negative factors include:

Delaware has a higher rate of government originations than its neighboring states.

8.9% of all purchase mortgages originated in Delaware in 2004 are government (FHA and VA) insured. This is higher than neighboring states.

Government loans, particularly FHA loans, tend to be riskier and carry a higher rate of deafult.

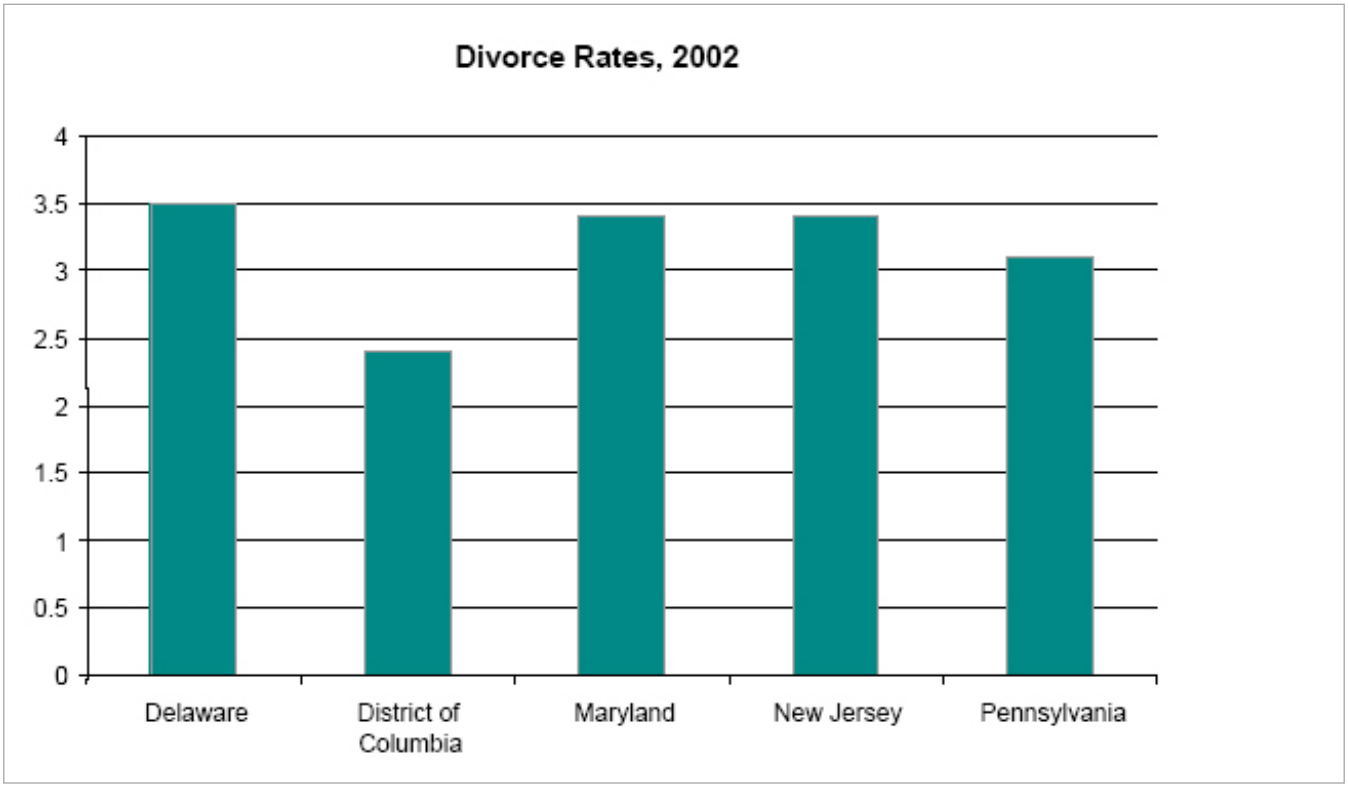


III-11 Source: Home Mortgage Disclosure Act, 2004

Delaware has the highest divorce rate in the region.

In 2002, the divorce rate was 3.5 as reported by the Division of Vital Statistics, National Center for Health Statistics. It has consistently declined since 1995 but is the highest within the region.

One of the more frequently cited triggers of foreclosure is divorce. Studies suggest that divorce, with the accompanying loss of income, increases the likelihood of foreclosure.



III-12 Source: Division of Vital Statistics, National Center for Health Statistics 2002

IV. The Database

TRF collected foreclosure filing information from the JIC for the period 2000 through 2005. As described in the methodology section of this report, TRF was able to systematically search the First American Real Estate Solutions (FARES) database for property details and mortgage histories. The total 11,763 filings represent 9,385 unique properties as some mortgages went into foreclosure more than once. Of these, TRF found property descriptions and or mortgage histories for 6,891 (or 73%) of these unique properties. Of these, 5,831 related to residential mortgages. This is the pool of transactions analyzed for this study.

Two issues prevented TRF from fully analyzing Kent and Sussex county transactions. First, while 90% of the filings reported by the JIC for New Castle are predominately residential filings, the Kent and Sussex listings tend to include a significant number of agricultural, mobile home lots and commercial uses. As discussed in the recommendation section of this report, this makes analysis of residential mortgage foreclosures difficult to conduct and requires a different set of inquiries to understand the dynamics of foreclosure. Second, while the FARES database contained some property information for Sussex and Kent counties, it did not include mortgage transaction histories and the addresses were only sufficient to geocode and map a small percentage.

Number of Filings Reported and Analyzed

	New Castle	Kent	Sussex
Reported by JIC: 2000-2005	8,933	768	2,062
Unduplicated list of properties searched in RQ	6,926	721	1,738
Properties found in RQ	5,524	551	816
Residential properties only (analyzed)	4,956	368	507
Residential properties successfully mapped	3,919	367	129

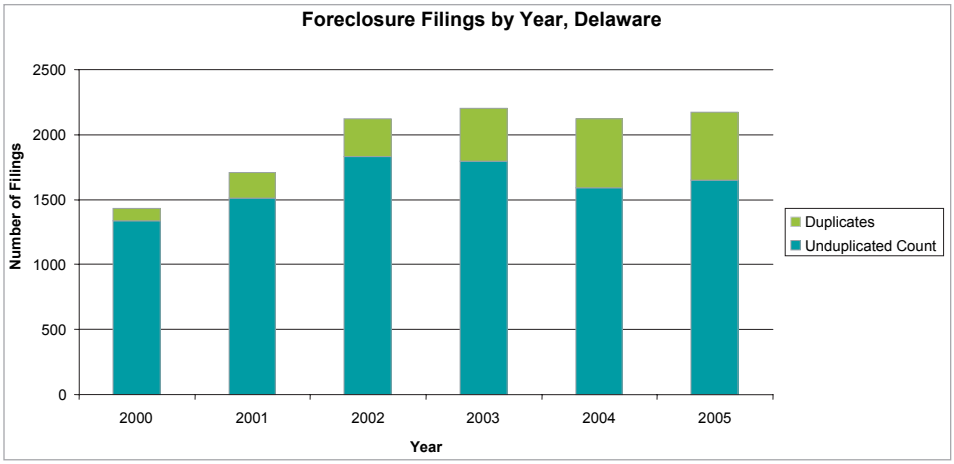
III-13 Source: TRF analysis of JIC data.

V. Findings

As in other parts of the country, many homeowners in Delaware went in and out of foreclosure more than once during this time period.

When the list of filings is distilled to unique properties in foreclosure, the increase in the actual number of properties in foreclosure was closer to 23.6%. 11,762 mortgage foreclosures were filed in Delaware between 2000 and 2005. These filings represent 9,721 properties.

As mentioned earlier, foreclosure filings do not represent the actual loss of a home, but rather signal a lender's first legal action against a homeowner who has stopped making mortgage payments. Sometimes homeowners manage to resume payments with their lender or declare bankruptcy as a way to avoid foreclosure. Even so, many become delinquent again and find themselves in foreclosure a second or third time. As a result, a count of the number of foreclosure filings in an area often will capture the same homeowner/property more than one time. TRF was able to distill the list down to unique properties and found that the rise was partly attributable to the number of homeowners appearing over and over again on the foreclosure list.



IV-1 Source: TRF aggregations of JIC data.

Foreclosure Filings and Unique Properties by Year and County, 2000-2005

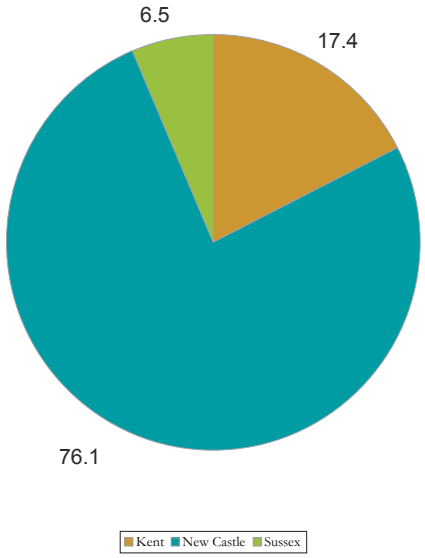
	Kent County		Sussex County		New Castle County		Total	
Year	Filings	Properties	Filings	Properties	Filings	Properties	Filings	Properties
2000	72	70	263	253	1,099	1014	1,434	1,337
2001	110	103	338	299	1,260	1107	1,708	1,509
2002	122	114	426	359	1,573	1359	2,121	1,832
2003	110	108	354	287	1,740	1402	2,204	1,797
2004	127	118	349	277	1,645	1199	2,121	1,594
2005	227	208	332	263	1,615	1181	2,174	1,652
Total	768	721	2,062	1738	8,932	7,262	11,762	9,721
%Change	215.3%	197.1%	26.2%	4.0%	47.0%	16.5%	51.6%	23.6%

IV-2 Source: TRF aggregations of JIC data. 2000-2005

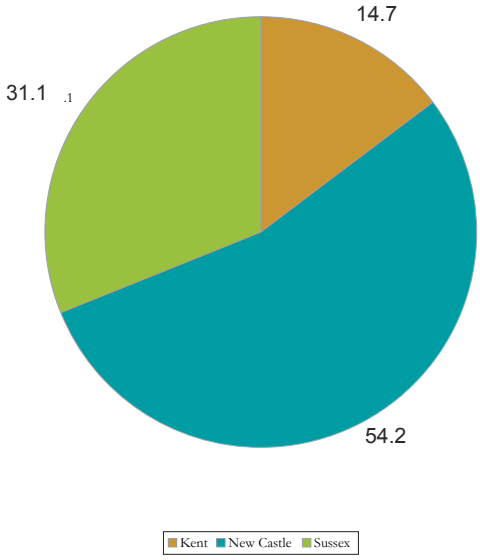
Foreclosure filings are disproportionately concentrated in New Castle County.

54% of all owner occupied housing units in Delaware sit within New Castle County, yet 76% of all foreclosure filings occurred in New Castle.

Percent of Foreclosure Filings by County, 2000-2005

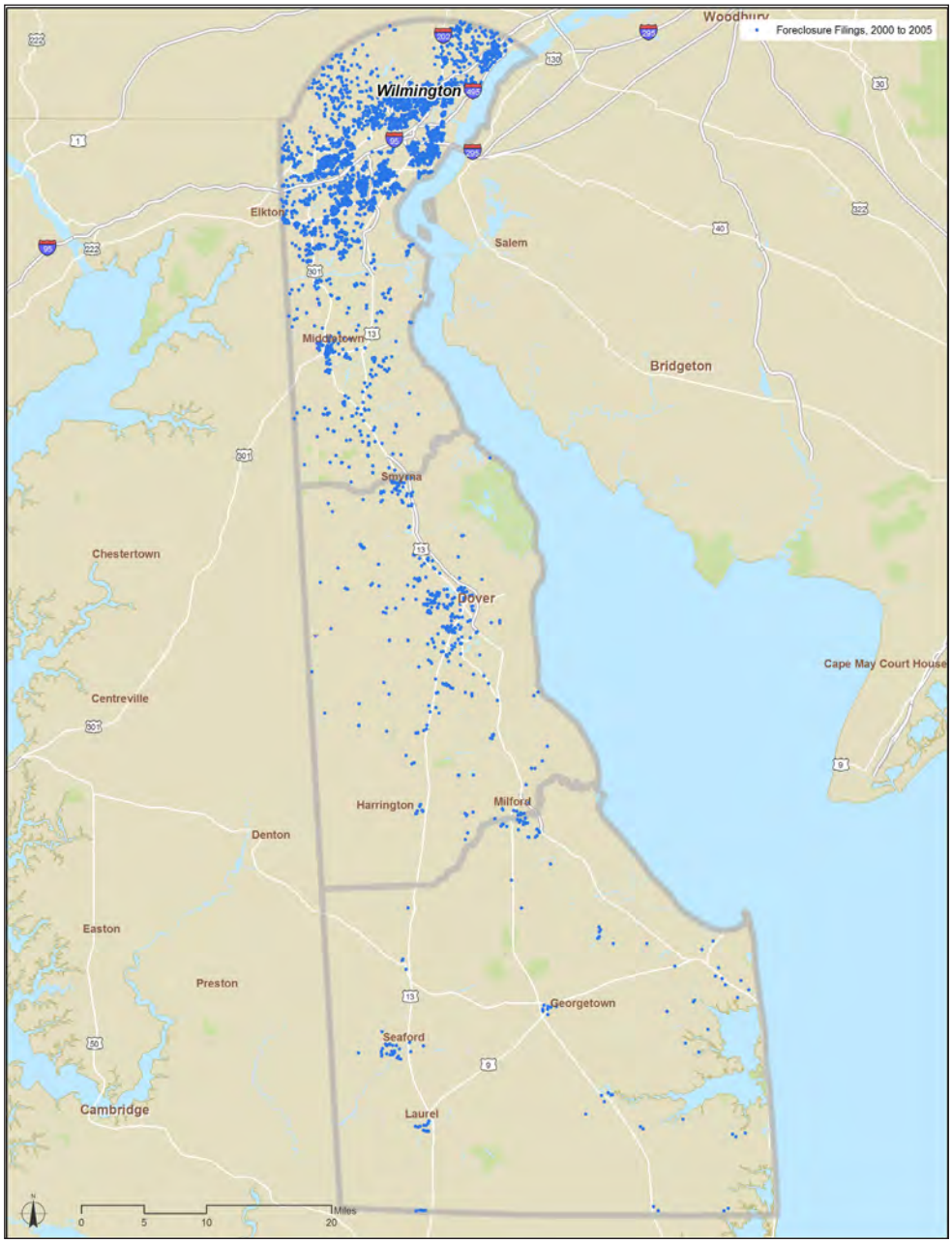


Estimated Percent of Owner Occupied Housing Units, 2004



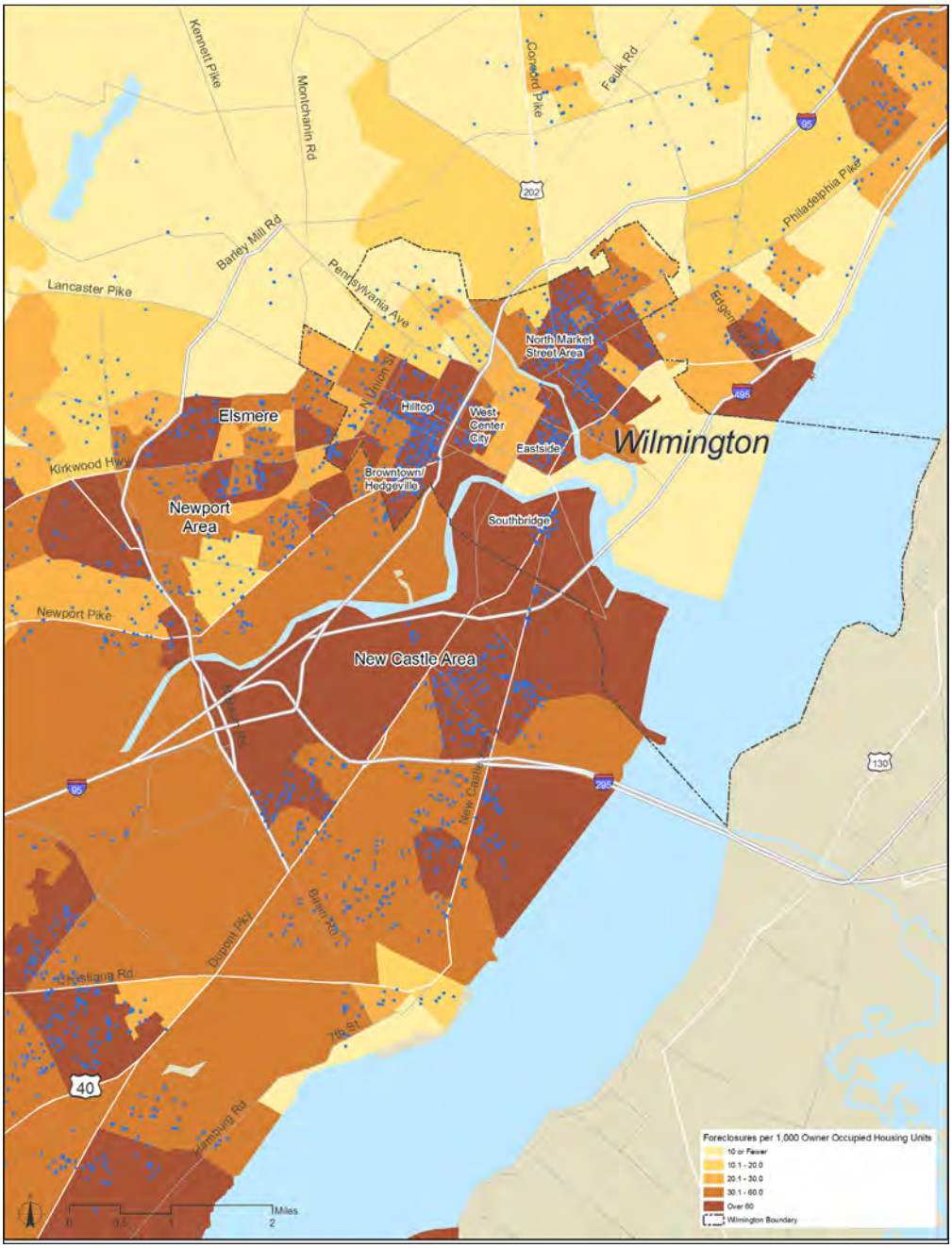
IV-3 Source: TRF aggregation of JIC data

Across the state, foreclosures are concentrated in several communities including : Browntown, Hedgeville, Eastside and Southbridge in Wilmington; Elsmere and Middletown in New Castle County; Milford, Harrington, Dover and Smyrna in Kent County; and Laurel and Seaford in Sussex County.

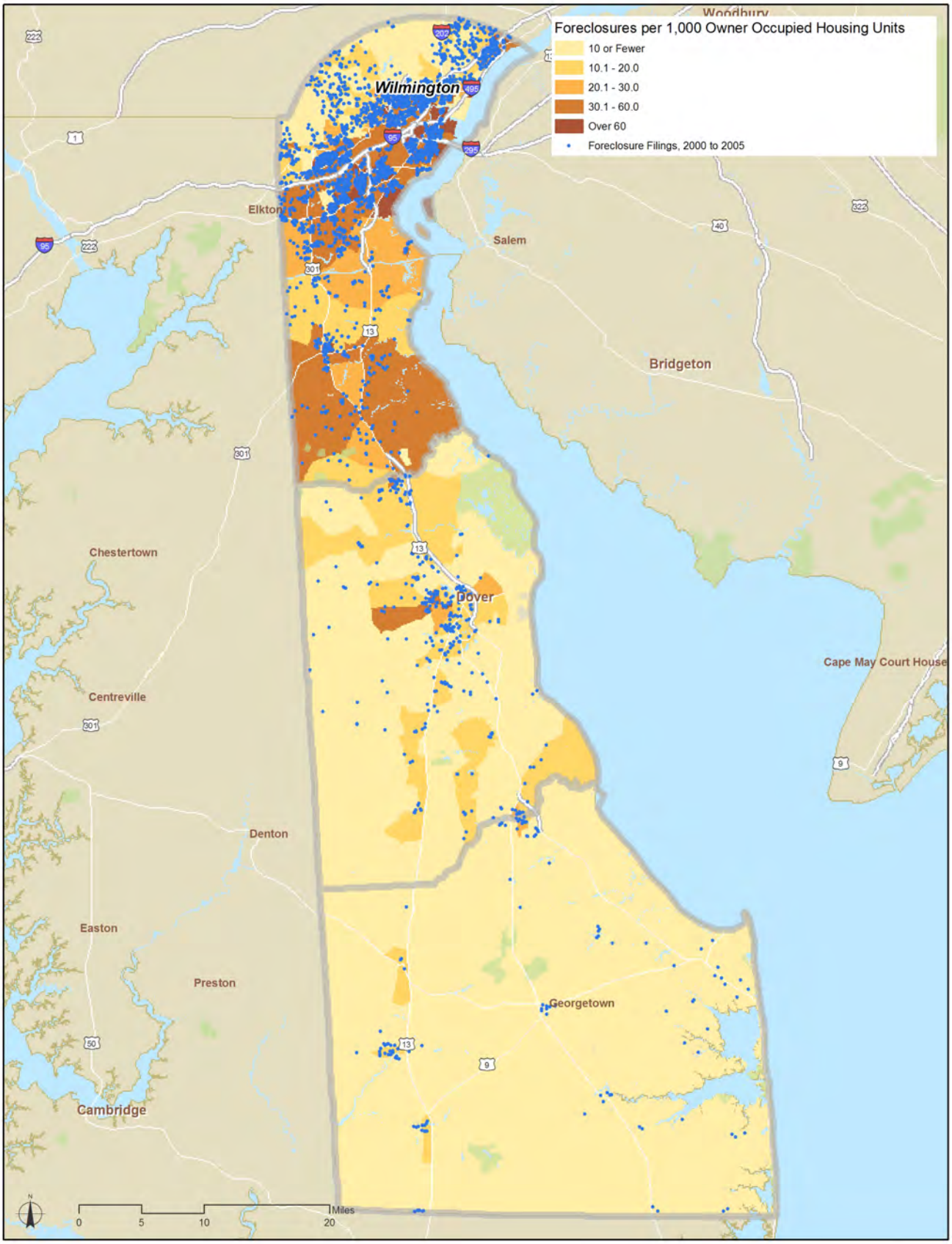


IV-4 Source: TRF geocoding of JIC filings based on FARES addresses.

To gain a better understanding of the concentration of filings in communities, it is useful to compare the number of filings in a block group with the number of owner-occupied housing units in that block group. This, in essence, creates a "foreclosure ratio" that can be used to compare the concentration of filings in one community to that of another. TRF calculated this ratio using the number of owner-occupied housing units in each area (block group) as estimated by Claritas, Inc. in 2005. The darker areas in the two maps here are block groups with significantly higher foreclosure ratios.

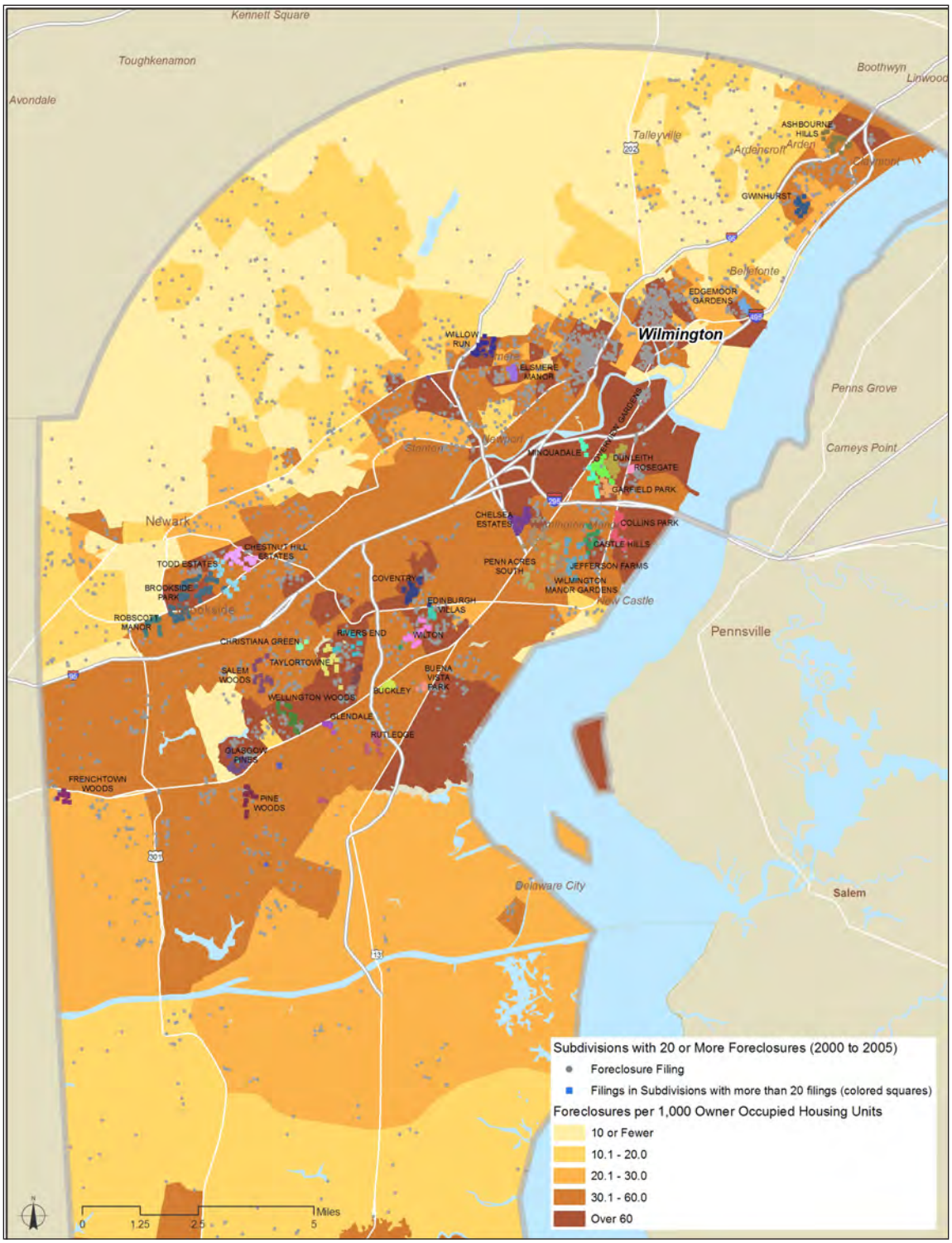


IV-5 Source: TRF geocoding of JIC filings based on FARES addresses; ratio as computed by TRF.



IV-6 Source: TRF geocoding of JIC filings based on FARES addresses; ratio as computed by TRF.

Of the foreclosure properties in New Castle County which had property descriptions in the FARES database, 80% were listed as being part of a "subdivision". These subdivisions are clearly scattered throughout New Castle County but a few sit within block groups that have very high foreclosure ratios. For spatial reference, these subdivisions include Collins Park, Chelsea Estates, Coventry, Willow Run, Rivers End, Taylortowne, Wellington Woods, Glasgow Pines and Chestnut Hill Estates.

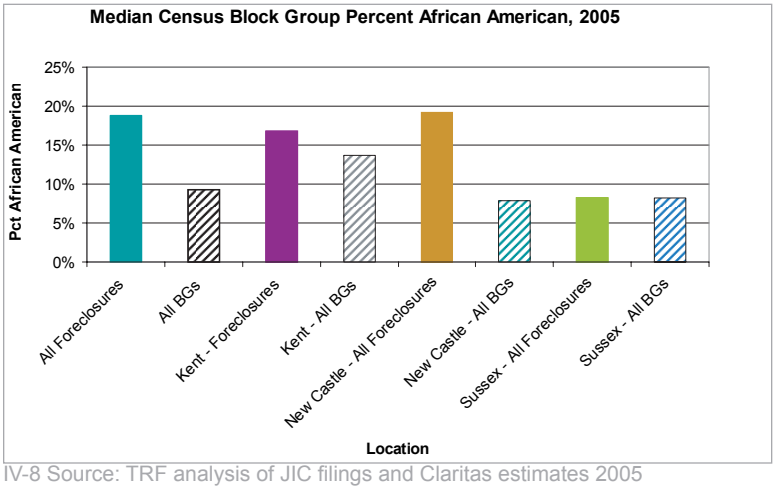


IV-6 Source: TRF geocoding of JIC filings based on FARES addresses; ratio as computed by TRF.

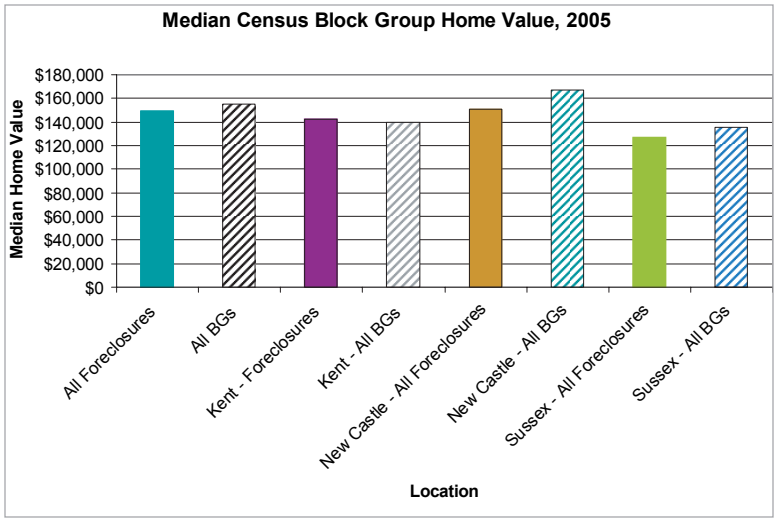
Foreclosure filings are concentrated in areas with significantly higher percentages of African American households and only slightly lower home values. Home appreciation rates and incomes are virtually the same.

In New Castle County, the median block group is 7.9% African American. Foreclosure properties, however, sit within block groups that are typically 19.2% African American.

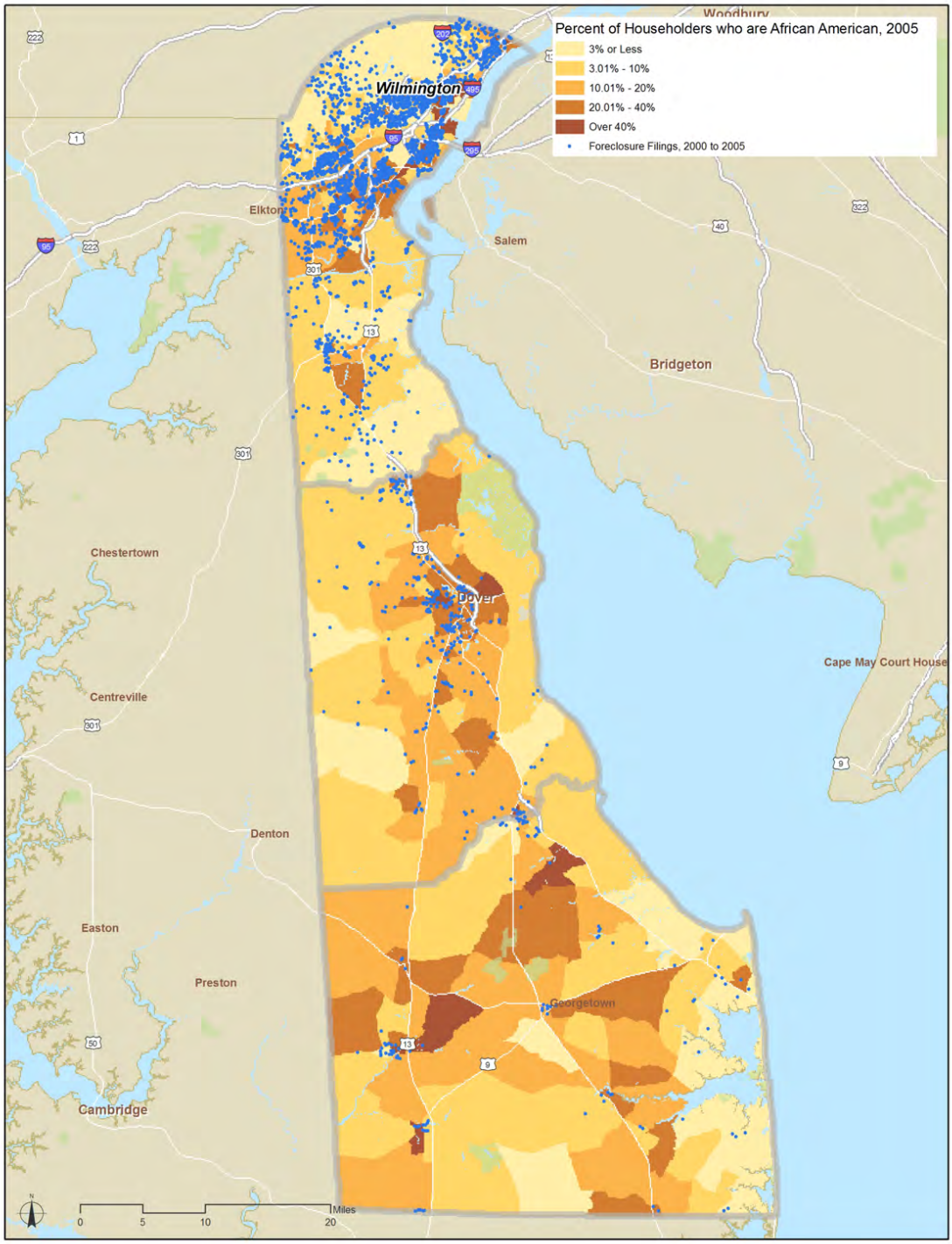
There does not, however, appear to be a significant difference in home values between block groups with foreclosure filings and all block groups. The difference, to the extent that it exists, is most noticeable in New Castle County where the median home value in block groups with foreclosure filings is $151,136 compared to the median among all block groups ($166,951).



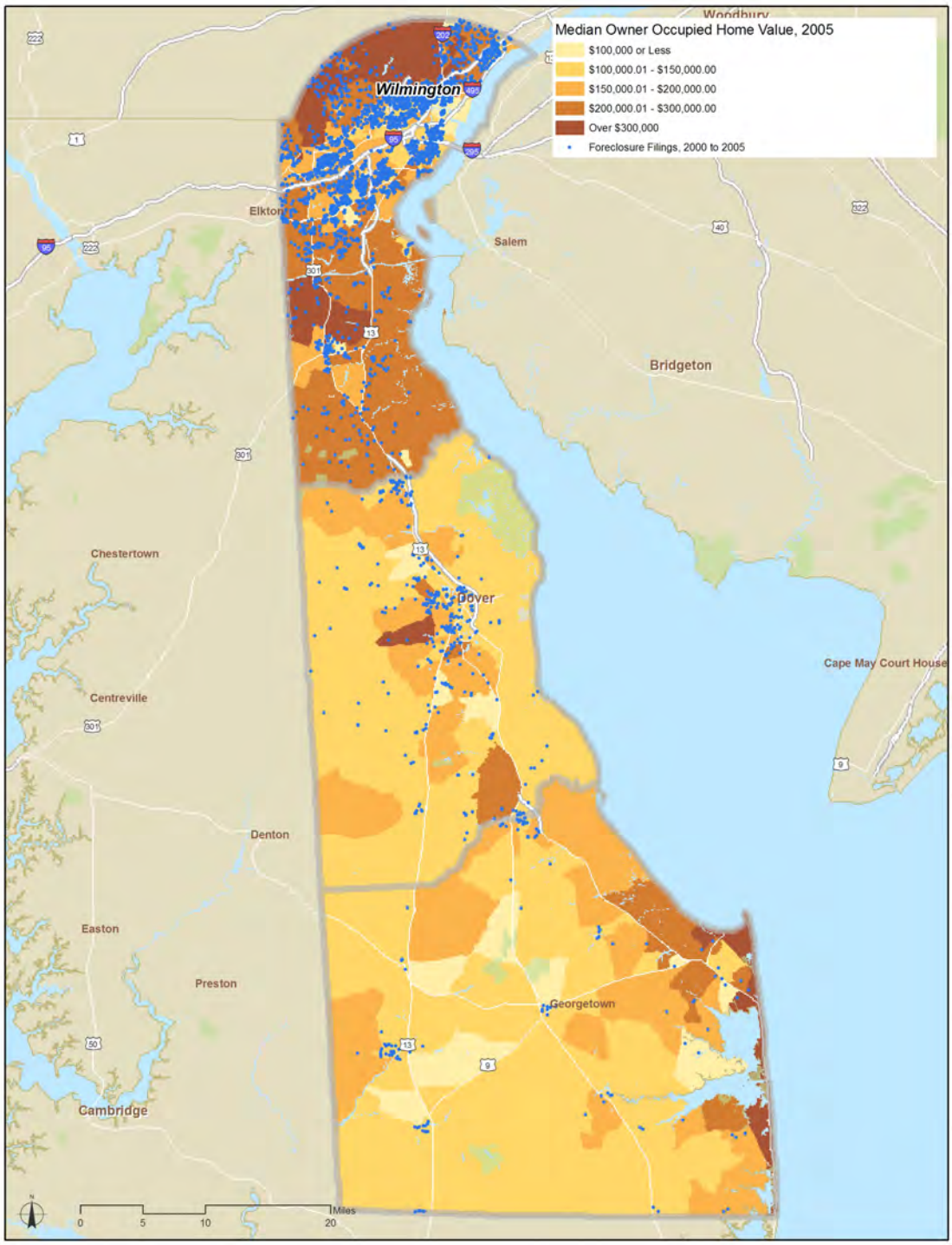
IV-8 Source: TRF analysis of JIC filings and Claritas estimates 2005



IV-9 Source: TRF analysis of JIS filings and Claritas estimates 2005



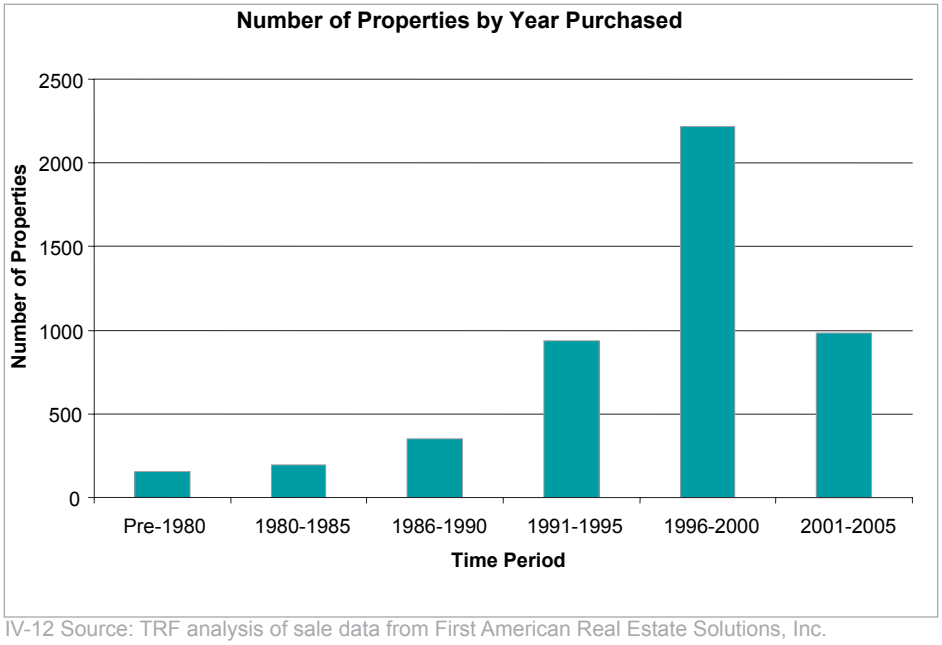
IV-10 Source: JIC and Claritas, Inc.



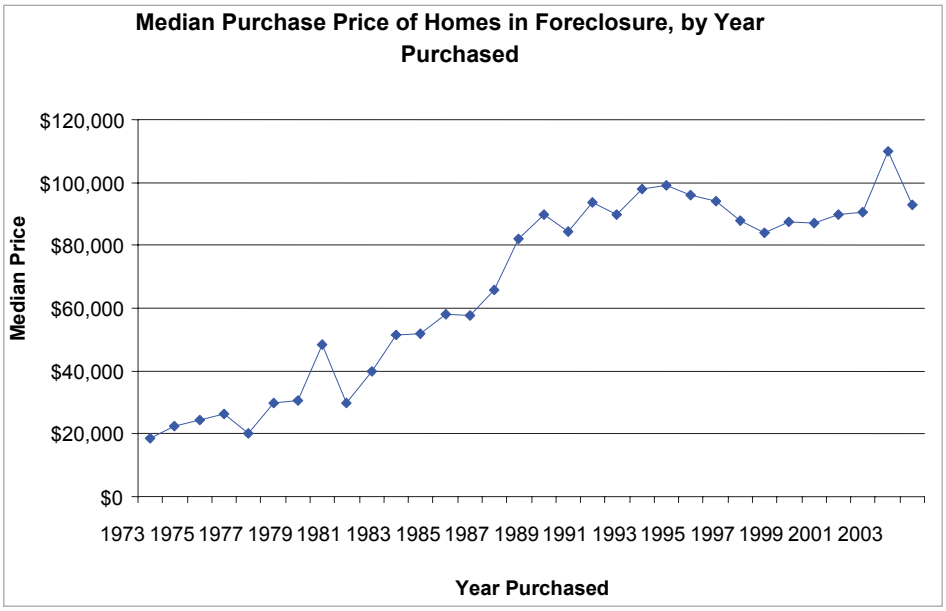
IV-11 Source: JIC and Claritas, Inc.

Of the 4,956 properties in New Castle County for which TRF could find property data and mortgage histories, TRF found all or part of the home purchase information for 4,544. This sale information revealed:

The typical homeowner in foreclosure in New Castle County bought their home in 1998 and paid a median sale price of $80,000 to $110,000 (depending upon the year purchased).



IV-12 Source: TRF analysis of sale data from First American Real Estate Solutions, Inc.



IV-13 Source: TRF analysis of sale data from First American Real Estate Solutions, Inc.

17% of the properties in foreclosure in New Castle County were originally purchased with 2 or more loans. Half of these 2nd position loans were made by private or unlisted lenders; the other half by government entities.

TRF identified 760 properties in foreclosure that were originally purchased with two loans. These second loans are not home equity loans taken out after the purchase of the home, but instead are second loans originated on the same day as the purchase of the home. Lenders in the 2nd position on at least 5 properties in foreclosure include:

Name of 2nd Position Lender (5 or more properties)	# of properties in foreclosure pool	% of properties in foreclosure pool
Delaware State Housing Authority	208	4.6%
Lender Not Listed	132	2.9%
Department of Community Services/ New Castle County	84	1.8%
Department of Housing/ Community Development	50	1.1%
Wilmington Housing Partnership	47	1.0%
Wilmington Trust Co.	27	0.6%
American National Bank	13	0.3%
Private Individual	12	0.3%
GMAC Mtg	10	0.2%
Private Co	8	0.2%
Chase Manhattan Mtg	7	0.2%
Wilmington Savings Fund Society	7	0.2%
Accubanc Mtg	6	0.1%
Fremon Invs & Ln	6	0.1%
MNC Mtg Corp	6	0.1%
Home Buyers Inc	5	0.1%
Norwest Mtg Inc	5	0.1%

IV-14 Source: TRF analysis of mortgage transactions from First American Real Estate Solutions, Inc.

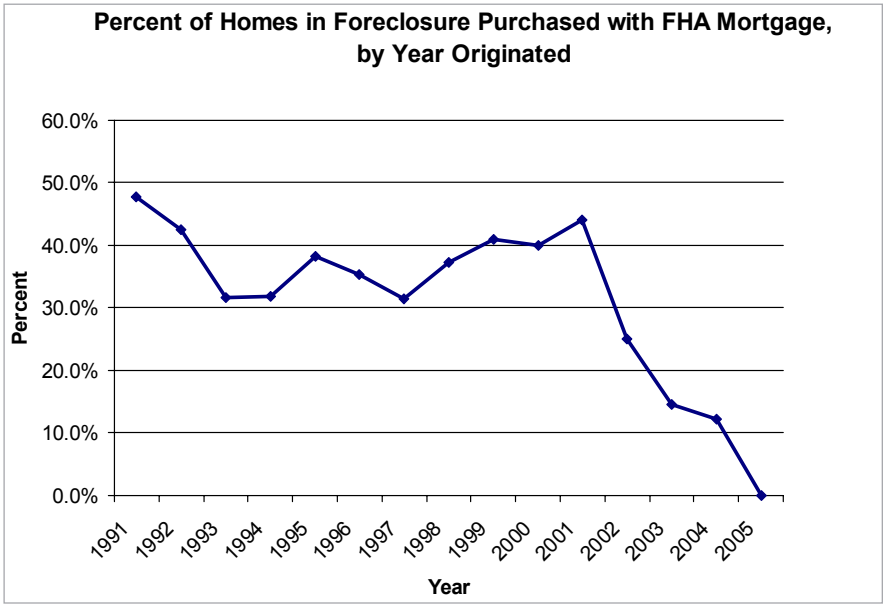
34% of homeowners in foreclosure purchased their home with a loan(s) that was either equal to or greater than the sale price.

As discussed earlier, studies suggest that this is one of the frequent causes of foreclosure. Buyers purchase homes without making a downpayment, run into financial trouble early in the life of the mortgage and have no equity to either finance their way out of trouble, or sell and walk away from the house whole.

IV-15 Source: TRF analysis of mortgage and sale data from First American Real Estate Solutions, Inc.

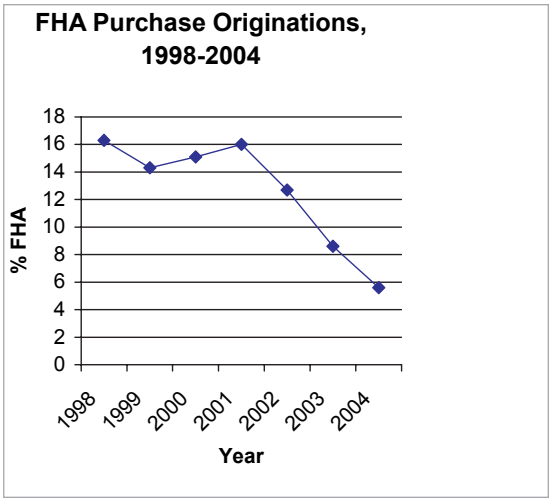
35% of the properties in foreclosure were purchased with FHA loans. Longer term homeowners in the foreclosure pool more likely purchased their home with an FHA loan than the newer homebuyers in the pool.

The percentage of homes purchased with an FHA loan in the foreclosure pool has been declining since 2001.



IV-16 Source: TRF analysis of mortgage data from First American Real Estate Solutions, Inc.

FHA originations overall in Delaware have similarly been declining. In 1998, 16.3% of all purchase loans originated in Delaware were FHA insured. By 2004, that number had fallen to 5.6%.



IV-17 Source: Home Mortgage Disclosure Act, 1998-2004

22% of the properties in foreclosure were originally purchased from someone other than a homeowner (i.e. builder, LLC, bank or government agency).

While not necessarily a potential driver of foreclosures, TRF found a number of builders listed as the "seller" of the property now in foreclosure. This suggests that some of these homes are relatively new. Additionally, HUD and the New Castle County Sheriff appear as sellers suggesting that some of these properties had been in foreclosure once before. Some of the most frequently listed sellers and builders include:

Seller/ Builder	Number of Homes
NVR INC/RYAN HOMES	80
PULTE HOME CORP	67
LENAPE HOMES INC	47
SECRETARY/HUD	34
BLENHEIM HOMES	28
DOUBLE S DEVELOPERS INC	22
ROBINO GROUP LLC	20
GILMAN DEV CO	18
WALSH MICHAEL P (New Castle Sheriff)	18
MEYER & MEYER INC	17
ACIERNO FRANK E	11
D M PEOPLES INV CORP	11
HOME BUYER INC	11
RYLAND GRP	11
GEMCRAFT HOMES DELAWARE INC	10

IV-18 Source: TRF analysis of sale data from First American Real Estate Solutions, Inc.

Of the 4,956 properties in foreclosure, TRF was able to identify the exact loan in foreclosure for 61% (3,028) of properties.

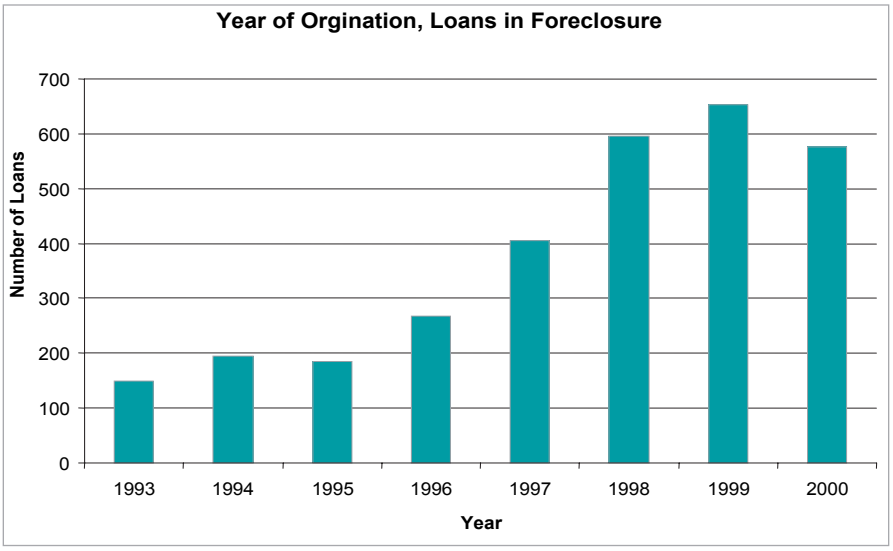
Loan information revealed:

All of the identified loans in foreclosure appear to be purchase loans, but there are likely refinance loans in foreclosure as well.

The JIC, in recording the fact of a foreclosure filing, sometimes records the book and page of the mortgage in foreclosure. This allowed TRF to identify the exact loan in foreclosure from the FARES database. If book and page numbers are only entered into the JIC database for purchase mortgages, this may suggest that the other 39% of mortgages in foreclosure are refinance loans. The findings that follow pertain to the 3,028 identified original loans.

The median loan in foreclosure was originated in July of 1998 for $85,046. The median time from origination to foreclosure filing was 4.3 years.

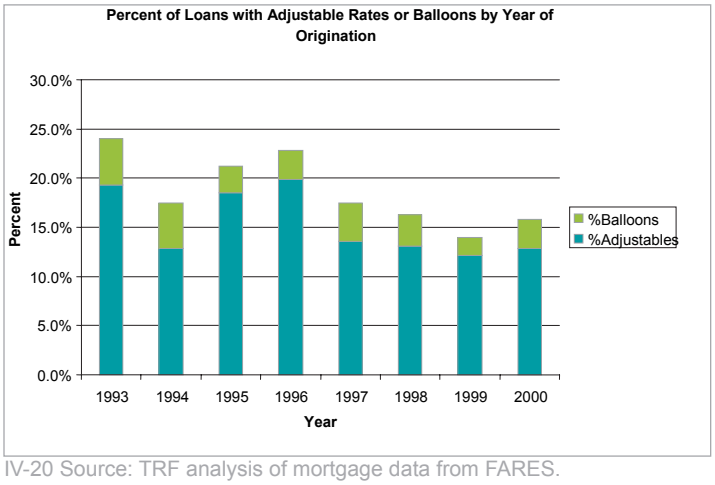
Time from origination to foreclosure is a commonly used way of determining the "stress" of a homeowner. Most of the places that TRF has studied in the region have shorter time spans from origination to foreclosure – suggesting homeowners in New Castle are less "stressed". New Castle County looks most similar to Philadelphia and Montgomery counties in Pennsylvania where the median time from origination to foreclosure is 4 years.



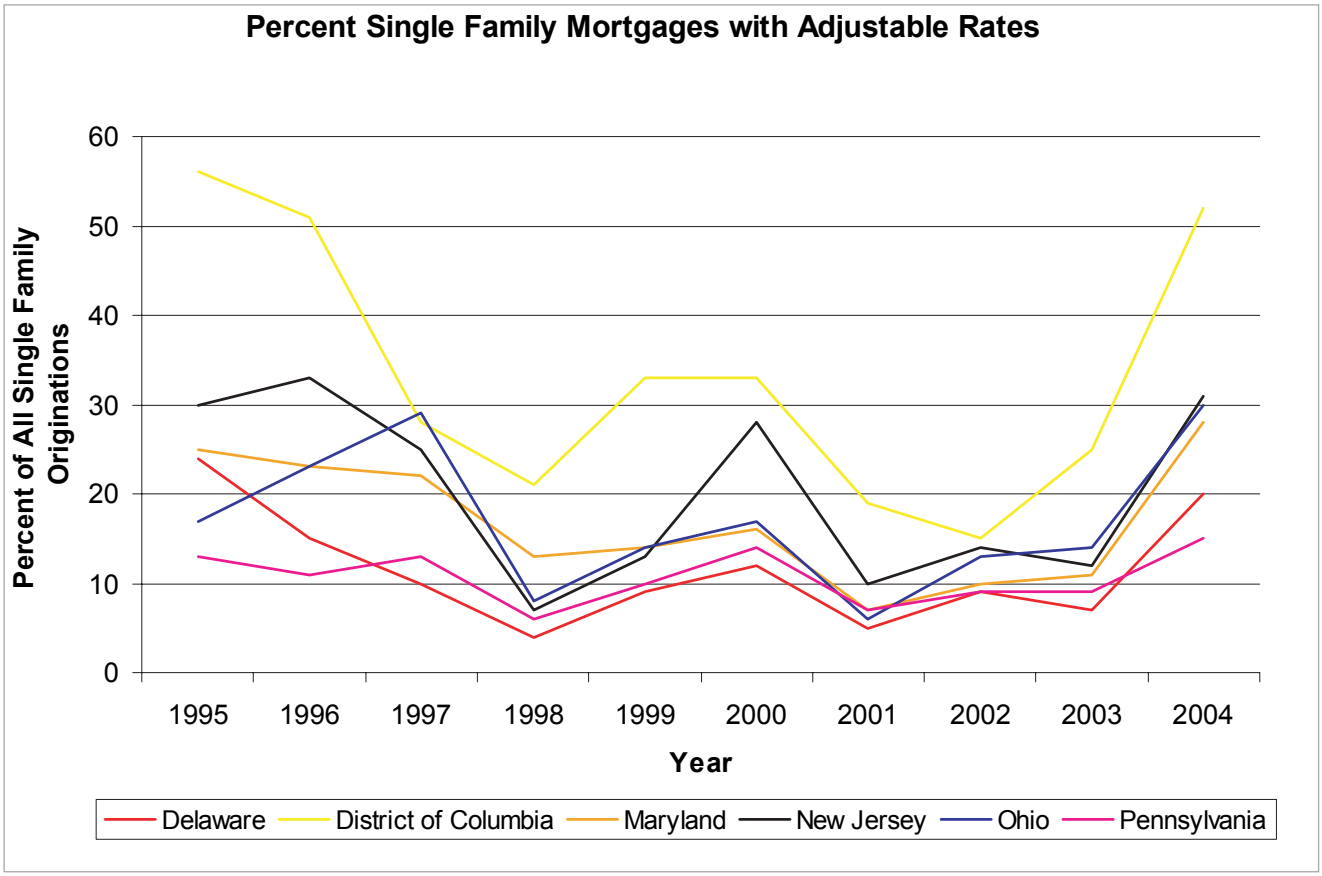
IV-19 Source: TRF analysis of mortgage data from FARES.

An estimated 17% of the loans have adjustable rates or are balloons. This is beginning to trend up again and is consistent with origination trends in the state and nation.

Of the 3,028 loans identified, 17% were listed by FARES as either having an adjustable rate or balloon mortgage. TRF assumes that those without any loan type provided are traditional/conventional mortgages.



IV-20 Source: TRF analysis of mortgage data from FARES.



IV-21 Source: Federal Housing Finance Board

Loans in foreclosure were made by a mix of lenders who do prime and subprime loans.

A significant number of lenders, however, were lenders (banks, mortgage companies, etc.) that TRF was unable to characterize as primarily engaged in prime or subprime mortgage lending or both.

Lender Type	Count
UNKNOWN	1,420
Subprime	671
Prime	518
Prime/Subprime	404
Private	10
Government	3
Credit Union	2
Broker	1
Grand Total	3,029

IV-22 Source: TRF categorization of lenders identified in mortgage data from FARES

The top twenty originating lenders in the foreclosure pool are:

Lender	#	%
AMERICAN NAT'L BK	140	4.7%
MNC MTG CORP	135	4.5%
WILMINGTON TR CO	110	3.7%
CHASE MANHATTAN MTG	92	3.1%
NORWEST MTG INC	79	2.6%
PNC MTG CORP/AMERICA	76	2.5%
EQUICREDIT CORP/DE	68	2.3%
EQUITY ONE INC	53	1.8%
ACCUBANC MTG	50	1.7%
BANK OF AMERICA FSB	47	1.6%
AMERICAN SKYCORP INC	42	1.4%
GILPIN FIN'L SVCS INC	38	1.3%
MONEY STORE	37	1.2%
IRWIN MTG CORP	34	1.1%
SOVEREIGN BK	32	1.1%
CAPITOL MTG BANKERS	32	1.1%
BANK OF AMERICA	31	1.0%
AMERIQUEST MTG CORP	31	1.0%
ADVANTA NAT'L BK	30	1.0%
WILMINGTON SVGS FUND SOCIETY	29	1.0%

IV-23 Source: TRF analysis of mortgage data from FARES.

TRF estimates that 46% of owners in foreclosure either lost or sold their home subsequent to the foreclosure filing.

TRF was able to identify those properties where the name on the deed changed after the date of the most recent foreclosure filing. New names on these deeds are a wide ranging mix of lenders, government entities and individuals.

VI. Recommendations

Target areas with heavy concentrations of foreclosure filings with information regarding foreclosure prevention resources: The State Bank Commissioner's office is working to publicize a variety of resources available for homeowners in or on the verge of foreclosure. This campaign should first target those areas where foreclosure activity is most concentrated. These areas are displayed on the maps in this report and include the Wilmington neighborhoods of Hilltop, Browntown and Hedgeville; as well as Middletown and Elsmere in New Castle County; Milford, Harrington, Dover and Smyrna in Kent County; and Laurel in Sussex County. Homeowners in these areas should be encouraged to call their lender or seek help from a housing counselor at the first sign of delinquency – prior to a foreclosure action by the lender.

Conventional wisdom and research on mortgage servicing suggests that early intervention in mortgage delinquency is most effective at returning homeowners to a current status. However, interviews suggest that homeowners tend to wait until the very last minute to seek help to save their home. That delay adds significant fees to their delinquency and tends to make any modified payment arrangements with the lender unaffordable and "selling to get out from under" less likely as the debt owed on the home increases.

Supplement training to housing counselors and consumers by holding conferences related to the problems with 80/20 loans, ARMS and securitization: The TRF study suggests that many of the properties in foreclosure were originally purchased with two or more loans at the time of closing. This, as well as the growing use of ARMS to purchase a home, may cause a rise in foreclosure filings over the coming months and years. Housing counselors and consumers should learn more about these products in order to realistically weigh these financing options when purchasing a home.

Prevent foreclosure schemes: States around the nation have grown concerned about the number of individuals and companies misleading homeowners in financial trouble. The FBI, which compiles data on mortgage fraud, defines foreclosure schemes as a situation in which "The perpetrator identifies homeowners who are at risk of defaulting on loans or whose houses are already in foreclosure. Perpetrators mislead the homeowners into believing that they can save their homes in exchange for a transfer of the deed and up-front fees. The perpetrator profits from these schemes by remortgaging the property or pocketing fees paid by the homeowner." TRF did not find any evidence of this type of activity in the data analysis, in the interviews or in our document reviews. The proliferation, however, of cardboard signs in certain neighborhoods which advertise "We Buy Homes" and give owners a 1-800 number to call for help suggests that this type of activity is likely occurring. Colorado, which the FBI has labeled as the 10th worst state for mortgage and foreclosure fraud in the nation, recently introduced legislation to attack this problem. Delaware may want to review existing/pending legislation in other locales and determine if any could help prevent a significant problem from occurring in Delaware.

Create a pool of emergency funds for homeowners in trouble: Homeowners could prevent foreclosure with the help of a program like that of Pennsylvania Homeowners' Emergency Mortgage Assistance Program (HEMAP). This revolving-loan program is designed to assist homeowners who, through no direct fault of their own, have fallen into foreclosure and who have a likely chance of resuming normal mortgage payments in the future.

Enhance the availability of legal representation for those facing foreclosure: The TRF study suggested that there are limited resources for people with mortgages who need to initiate an affirmative defense to their foreclosure (or even pre-foreclosure). Our interviews suggest that legal referrals for bankruptcy seem to be about the only recourse, and it is not always the best approach for the borrower. Data on the speed and certainty by which people in Delaware who receive notices of foreclosure lose their home lends support to the notion that there may not be ample legal resources for homeowners. Community Legal Services, Inc. in Philadelphia has pioneered a training course for private attorneys who can represent homeowners in trouble. These attorneys are available for referrals from housing counseling agencies and can access CLS, Inc. for technical support.

Improve data collection: Delaware is fortunate to have a single entity (the Judicial Information Center) responsible for uniformly capturing information about mortgage foreclosures in all three counties. Data is captured electronically about the fact of the filing, the date of the filing, the parties involved, the final disposition of the matter and sometimes the parcel number of the property in trouble. This data was provided to TRF in an Excel format for the last 5 years and was of tremendous use to TRF in its analysis.

The Excel chart was, however, difficult to manipulate as strings of potentially valuable information were contained within single cells making the data difficult to "mine". The data captured by the JIC should be saved in a searchable database with set field names such as county code, case id, case date, book and page, plaintiff, defendant, judgment, judgement amount, judgment date, and a memo field of the judgment description that could be broken out farther.

In addition, the JIC should also capture two additional items to allow for a simpler, more accurate and more frequent analysis of trends: the address of the property in foreclosure and the type of filing (residential mortgage, commercial mortgage, farm loan, etc.)

- **Address:** Capturing the property address of the homes in foreclosure is essential if the state wants to easily: 1) understand where foreclosures are concentrated around the state and; 2) find mortgage and transaction histories for the properties. As noted in this report, TRF backed into the addresses in New Castle County by searching the Recorder of Deeds records and by searching the defendant's name in the First American Real Estate database. This was time consuming and meant that TRF could not find addresses for many of the properties in foreclosure; the lack of addresses was particularly problematic in Sussex County. The lack of address information makes analysis quite difficult – and will hamper the state's ability to regularly check-in on foreclosure activity in the state.

- **Type of Filing:** While 90% of the filings reported by the JIC for New Castle County are residential filings, the Kent and Sussex listings tend to include substantial numbers of properties categorized as agricultural, mobile home lots and commercial uses. This makes simple analysis of residential mortgage foreclosures difficult to conduct. A field noting the type of property and/or its use is needed if the state wants to monthly or quarterly track the number of residential mortgage foreclosures in each county.

DATA SOURCES AND METHODOLOGY

U.S. Census Data & Census Estimates 2000, 2005 - U.S. Census Bureau 2000 Summary Files 1 and 3 data permit a categorization of areas in terms of any number of relevant social, demographic and economic characteristics (e.g., income level, housing value, racial composition, etc.). Claritas, Inc. provides estimates of these indicators for 2005.

Foreclosure Filings from the Judicial Information Center (JIC)- The JIC is an administrative office of the Delaware State Courts which has among its many duties "establishing and maintaining the infrastructure that provides access to various court data." The JIC provided TRF with foreclosure filing lists from 2000 through 2005 which included information about the fact of the filing, the date of the filing, the parties involved, the final disposition of the matter and sometimes the parcel number of the property and the book and page of the loan in trouble.

The Recorder of Deeds - The Recorder of Deeds is the repository for all land transaction records, corporate filings and financing statements in New Castle County. Their on-line searchable database allowed TRF to find addresses for a number of the properties on the JIC foreclosure file listing.

Property Specific Sale and Mortgage Data- TRF developed a methodology employed in our foreclosure studies to date. Unlike methods used in most studies of loans in foreclosure which look only at the loan in foreclosure, this technique allows TRF to trace a foreclosure filing back to the originating loan and lender and review the transactional history of a property in foreclosure. This distinction is important as most loans – particularly subprime loans - are not held by originating lenders anymore, but sold oftentimes more than once, in the secondary market.
To obtain this data, TRF queried each foreclosure property studied in the First American Real Estate Solutions (FARES) database. This database allows TRF – where property information is available – to document the transaction history on each property. The database records when a property was sold, at what price, and to whom; recorded liens; lenders or mortgage lenders involved; and the assessed value given the property by the County. This data allows TRF to determine the types of lenders involved in originating loans now in foreclosure, when the loan in foreclosure was originated, some of the terms associated with the loan, how much of the foreclosure activity is associated with loans to purchase a house or refinance an existing loan(s) and the geographic concentration of foreclosures.

A fuller study of Delaware's foreclosure activity is constrained, however, by the fact that mortgage transaction histories for properties in Kent and Sussex counties were not reflected in the FARES database. Histories, however, for New Castle County were quite extensive and allowed TRF to conduct a rich analysis of the filings in this county.

Home Mortgage Disclosure Act (HMDA) – HMDA data, together with the Census data, allowed an examination of the types of mortgage loans made and the characteristics of areas in which they are made.

Face-to-Face Interviews - All TRF studies use interview results to inform and complement findings revealed by data analysis. Data findings can many times be confirmed or better understood by learning from practitioners and those who are experiencing first-hand what we observe statistically. TRF conducted a number of interviews for this project including representatives of the following offices, institutions and organizations:

- New Castle County Sheriff Office
- Mortgage industry representatives (local and national)
- Housing counselors
- Attorneys representing lenders and consumers

The Reinvestment Fund (TRF)

The Reinvestment Fund is a leading innovator in the financing of neighborhood and economic revitalization. Central to its mission is a commitment to put capital and private initiative to work for the public good. TRF is a development finance corporation with a wealth-building agenda for low- and moderate-income people and places through the strategic use of capital, knowledge and innovation.

TRF manages $278 million in assets from over 850 investors, including individuals, religious and civic groups, financial institutions, private foundations, and the public sector. It uses these assets to finance housing, community facilities, businesses, renewable energy projects and public policy research.

Policy Analysis and Information Services

TRF conducts research and analysis on policy issues that influence neighborhood revitalization and economic growth. While a lot of TRF's data analysis is focused on helping us identify opportunities to invest our own resources, many of our current projects are for public sector and private clients seeking assistance with their own strategies to preserve and rebuild vulnerable communities.

TRF is nationally recognized for its expertise on housing-related policy issues and is currently engaged in several statewide projects on the subject in the mid-Atlantic region. TRF is also becoming increasingly renowned for its proprietary Market Value Analysis (MVA), an innovative tool that can help cities analyze local real estate market conditions and guide investment.

TRF also provides consulting services on a broad range of policy issues. Our services are characterized by strong research and objective analysis that can help any organization, private or public, shape its investment strategies.

TRF understands that for many households, particularly those with lower incomes, home equity is their single greatest asset - and, as a result, is committed to the continued study of the dynamics that undermine the value of this asset. Our most recent studies regarding foreclosure include:

- The Federal Reserve Bank of Philadelphia: On behalf of the Federal Reserve, TRF analyzed the effect of mortgage foreclosures on communities across the City of Philadelphia.

- Mortgage Foreclosure Filings in Baltimore, Maryland: Using the methodology presented in this report, TRF is conducting a similar analysis for the Goldseker Foundation of foreclosure activity in Maryland with a specific emphasis on the city of Baltimore.

- Mortgage Foreclosure Filings in Pennsylvania: Using the methodology presented in this report, the study explored the growing rate of mortgage foreclosures in Pennsylvania. The study was conducted for the Pennsylvania Department of Banking and expanded on TRF's analysis of the foreclosure epidemic in the Poconos' Monroe County.

- Mortgage Foreclosure Filings in Monroe County, 2000 to 2003: Under contract with the Pennsylvania Department of Banking, TRF investigated the sharp increase in foreclosures in the Poconos' in Monroe County.

- TRF has received three grants from the Ford Foundation to study the issue of predatory lending in Philadelphia and its environs. Those grants have permitted us to develop nationally recognized methodologies to identify and estimate the extent to which predatory lending occurs within an area. There is forthcoming a publication detailing those methodologies.

- The U.S. Attorney is using TRF analysis to support ongoing litigation against predatory lending.

RESEARCH CONDUCTED BY THE POLICY GROUP @ THE REINVESTMENT FUND

Ira Goldstein, Director
Maggie McCullough, Deputy Director
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