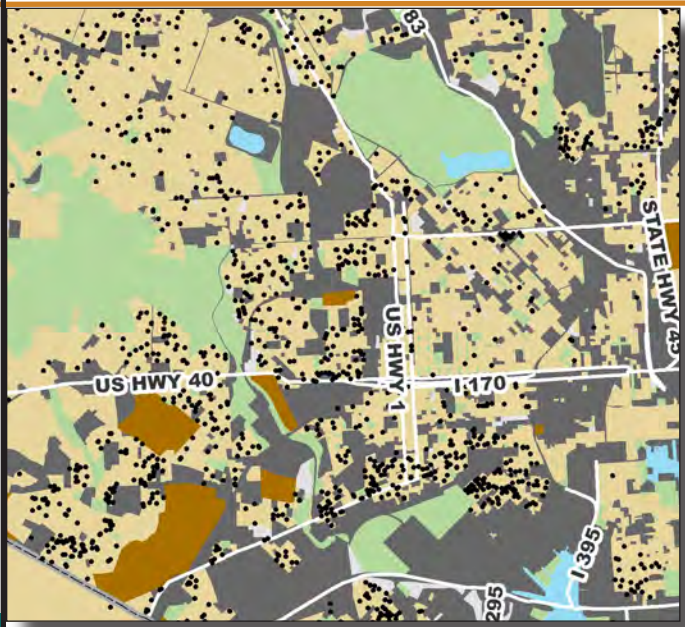
Mortgage Foreclosures in Baltimore, Maryland

A Study by The Reinvestment Fund for the Goldseker Foundation



September 2006

TRF Capital at the point of impact.

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Mortgage Foreclosures in Baltimore
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I. Introduction

The Reinvestment Fund (TRF) was asked by the Goldseker Foundation in the fall of 2005 to undertake a study of mortgage foreclosures in the state of Maryland. This report represents the completion of the first part of that study and details what TRF was able to observe in regard to foreclosure activity in Baltimore over the past five years. Mortgage foreclosure data will likely not be available for the rest of the state until later this year – at which point TRF will conduct an analysis of statewide trends, look at how Maryland's foreclosure rate compares to that of the nation and the region and see where, outside of Baltimore, foreclosure activity is most concentrated.

The fundamental goal of the final study is to establish a clear picture for decision makers and practioners of the foreclosure situation in Maryland, describing the causes and patterns of foreclosure. This phase of the study describes a set of facts regarding foreclosures in Baltimore and focuses on a detailed analysis of the properties and transactions in foreclosure between January 2000 and April of 2005. To do this, TRF:

- Collected recorded foreclosure filing information from January 2000 through April 2005 in Baltimore. This data allowed TRF to identify spatial clusterings of foreclosures and obtain full mortgage and transaction histories from the First American Real Estate Solutions (FARES) database in order to identify:

  - When the person bought the home now in foreclosure; and
  - Whether the person likely took out loans totaling more than the purchase price.

- Randomly selected 1,000 properties in foreclosure and identified the actual loan in foreclosure in order to determine:

  - When the loan in foreclosure was made;
  - Who made the loan in foreclosure; and
  - Whether the loan was for a home purchase or a refinance.

- Created a weighted sample of all sales that took place in Baltimore from 2000 through April of 2005 and accessed their mortgage transaction histories from FARES in order to determine if and how transactions in foreclosure differed from the typical mortgage transaction in Baltimore at this time. (The sample included 1,000 sales.)

- Conducted face-to-face interviews with housing assistance providers in some of the harder hit neighborhoods within the City, attorneys for households in foreclosure and persons who have been on the verge of foreclosure. TRF also reviewed case files of approximately 75 households that were delinquent on their mortgages during this time period.

1 A foreclosure filing represents the first legal action taken by a mortgage lender 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 fails to satisfy back payments and resume 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 the home.

II. Executive Summary

Between January 2000 and April 2005, 25,616 mortgage foreclosures were filed in the city of Baltimore. While the number of filings declined between 2000 and 2004 (-8.5%), the ratio of properties in foreclosure to homeowners in Baltimore remains high.

In 2004, 30.6 foreclosures were filed for every 1,000 owner-occupied households in Baltimore. This is significantly higher than other places TRF has studied such as Philadelphia, Pennsylvania where this foreclosure ratio was 16.1 and New Castle County, Delaware where this ratio was 12.2.

Traditional "triggers" used to explain an area's foreclosure rate, such as unemployment, are advantageous in Maryland - but not necessarily in Baltimore. To better understand what types of properties and transactions are in foreclosure – and what might be causing these high levels – TRF mapped the location of these properties and analyzed their mortgage histories.

Findings

What types of properties or loans are in foreclosure?

Areas experiencing foreclosure activity tend to have higher percentages of African American households with average priced homes for Baltimore.

While three areas appear to have been hit hardest – Belair-Edison, East Baltimore and Washington Village to Carrollton Ridge – filings are actually becoming more scattered throughout the city.

The typical home in foreclosure was purchased in 1998 and is a single-family row home with an current average assessed value of $49,600.

62% of all sampled loans in foreclosure were for the purchase of a home. 38% were either home equity or refinance loans.

The median time from loan origination to foreclosure is 3 years. This is fast compared to other places studied by TRF and suggests that homeowners in Baltimore are quite "stressed" by the costs of homeownership. In Philadelphia, the median time from origination to foreclosure is 4 years; in New Castle County it is 4.3 years.

What might be causing this high foreclosure rate?

FHA insured loans: 32% of all homes in the foreclosure pool were purchased with FHA insured mortgages compared to only 22.4% originated in Baltimore overall. Baltimore has historically had high FHA origination rates – and these originations carry a higher risk of default.

Lack of home equity at time of purchase: On average, typical buyers of properties in Baltimore had more equity in their home at the time of purchase than those homeowners in foreclosure. 55% of homeowners in foreclosure purchased their home with a loan(s) that was either equal to or greater than the sale price.

"Creative" financing: A number of homeowners in foreclosure used some type of alternative financing to purchase their home. These types of alternative financing arrangements can be quite risky for homebuyers of modest incomes:

- Two loans at closing – 25% of the properties in foreclosure were originally purchased with 2 or more loans.
- Adjustable Rate Mortgages – 13% of the loans in foreclosure have adjustable rates or are balloons.

High default rate within City's Settlement Expense Loan Program (SELP): 9.2% of the properties in foreclosure were purchased through the City's SELP program. According to the City, this first-time homebuyer program provided home purchase second mortgages to approximately 4,000 buyers between 1993 and 2000, when the City terminated the program. The foreclosure pool analyzed for this study contains 1,826 of these properties.

It is a historical fact that the SELP program was problematic. The City recognized the difficulties with the program, ended it and established a revised program requiring homeownership counseling.

Flipping scams: In the late 1990s, two "flipping" schemes made headlines in Baltimore. Loans from these scams account for approximately 2% of the properties in foreclosure – and 5% of the properties in foreclosure insured through FHA.

Lenders: Loans in foreclosure are disproportionately subprime. TRF estimates that 55% of loans in foreclosure were likely subprime; compared to 49% of all originations in Baltimore.

High level of sales by investors: While not necessarily a potential driver of foreclosure activity, TRF found that 14% of the properties in foreclosure were originally sold to owners by "investors"– corporations, LLCs or individuals appearing in the foreclosure database at least 5 times. The sellers motivation in these transactions can sometimes lead to disadvantageous terms for homebuyers. Entities involved in the publicized "flipping" scams appear in this list as well.

High percentage of young homebuyers: A growing percentage of younger households is buying homes in Baltimore. In 2004, almost 35% of homes in Baltimore were owned by a householder under the age of 35. This is 10% higher than in 1990. Younger households are traditionally least able to afford the costs of homeownership.

In the end, what impact are these foreclosures having on homeowners in Baltimore?

Loss of property: TRF estimates that 70% of all property owners in foreclosure either sold or lost their home subsequent to the foreclosure filing. The median time from foreclosure filing to transfer of ownership is less than one year. While TRF does not have data with which to compare the speed of this transfer to other cities, it does seem strikingly fast.

Property transfer to investor: The loss of the home in foreclosure does not necessarily immediately translate into an opportunity for another family to purchase a home. At least 14% of the properties lost after foreclosure were purchased by an LLC or company. (Another 24% were purchased by

individuals who could be acting as investors.) Purchases by LLCs increased significantly during the time period studied. In 2000, 5% of foreclosure properties were purchased by an LLC; in 2005, 17% were.

Loss in residential home values: TRF estimates that mortgage foreclosures have lowered housing values across Baltimore – in the aggregate - by just under $1.8 billion in the last two years (2004 and 2005). As of 2006, the estimated aggregate value of residential real estate for tax purposes in the city of Baltimore is approximately $17.8 billion, suggesting that between 5% and 10% of the value of residential real estate is lost as a result of these foreclosures.

The adverse wealth effect of foreclosures hurts many Baltimoreans particularly those living in areas where foreclosure is heavily concentrated. This also translates into a potential loss of approximately $41.9 million in City real estate tax revenue in FY 2006. (If the City were to capture fully the lost value.)

Underlying Causes

Interviews and case reviews suggest that the combined impact of a set of factors may be contributing to the high foreclosure ratio in Baltimore:

- Increased consumer access to mortgage products through the subprime market that allow for lower down payments, lower savings balances, higher loan-to-value ratios and lower credit scores may make long-term homeownership for some people (especially those of more modest means) unsustainable. These subprime products have replaced a portion of the FHA market in Baltimore, yet do not carry the same protections afforded a homeowner in a traditional FHA mortgage.

- For many, balancing the upfront costs of renting (first month, last month and security deposit) against purchasing a home makes purchasing appear to be a reasonable financial option.

- Many borrowers lack financial education, ranging from understanding the economics of interest rates to the importance of paying bills on time. This lack of education makes it particularly difficult for new homebuyers to successfully participate in the mortgage market place.

- Borrowers and potential borrowers lack information about alternatives to high cost loans.

- The growing use of adjustable rate mortgages and 80/20 loans may cause an increased number of foreclosure filings – particularly as high home appreciation rates of the past few years taper off and interest rates rise.

- Homeowners, when faced with a delinquent mortgage, wait too long before seeking the help of a counselor thereby increasing the chance of actual foreclosure.

- Many homeowners, when faced with a pending foreclosure, file bankruptcy as a way to save their home. More often than not, bankruptcy only postpones actual foreclosure.

- The lack of savings or income sufficient to pay bills forced many homeowners into disadvantageous and ultimately unsuccessful refinance products.

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

Recommendations

TRF suggests that the Homeownership Preservation Coalition consider the following:

Target areas with heavy concentrations of foreclosure filings, particularly those where the market appears to be in a state of transition, with information regarding foreclosure prevention resources.

Advise the City and local housing agencies to only engage in home purchase assistance programs that require significant pre- and post-counseling: Encourage agencies to keep track of the households they assist in order to measure the long-term success and impact of their programs.

Supplement training to housing counselors about the problems related to 80/20 loans and ARMS: 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. As the market is changing rapidly, it would be beneficial to ensure that counselors have the latest information available.

Prevent foreclosure schemes: States around the nation have grown concerned about the number of individuals and companies misleading homeowners in financial trouble. TRF estimates that at least 16% of the properties in foreclosure were purchased by investors; another 24% were purchased by individuals who could be acting as investors. The proliferation of cardboard signs in certain neighborhoods that advertise "We Buy Homes" and give owners a 1-800 number to call for help suggests that this type of investor purchase activity may be problematic. Maryland has enacted legislation to curb mortgage and foreclosure fraud and should begin to test the impact of the legislation to ensure it is in fact a useful tool against fraudulent practices.

Create a pool of emergency funds for homeowners in trouble: Many homeowners could avoid foreclosure and return their mortgage to a current status with a program like that of Pennsylvania's Homeowner 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. It is virtually self-sustaining and has helped 4,250 homeowners keep their homes between 2000 and the early part of 2004.

TRF has worked closely on the development of this report with the **Homeownership Preservation Coalition** in Baltimore, a group of private and public sector leaders that is working to develop and implement strategies to reduce and prevent home mortgage foreclosure in Baltimore. TRF hopes this examination of foreclosure filings can assist the Coalition in its work. TRF looks forward to completing a similar analysis for the rest of Maryland once data becomes available.

III. The Database

TRF collected mortgage foreclosure filing information from the City of Baltimore for the period January 2000 through April of 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. Of the total 25,616 filings, TRF was able to find property information for 22,839 filings. Of these, TRF found that 21,973 were residential mortgage filings that represented 20,839 unique properties as some mortgages went into foreclosure more than once. This is the pool of transactions analyzed for this study.

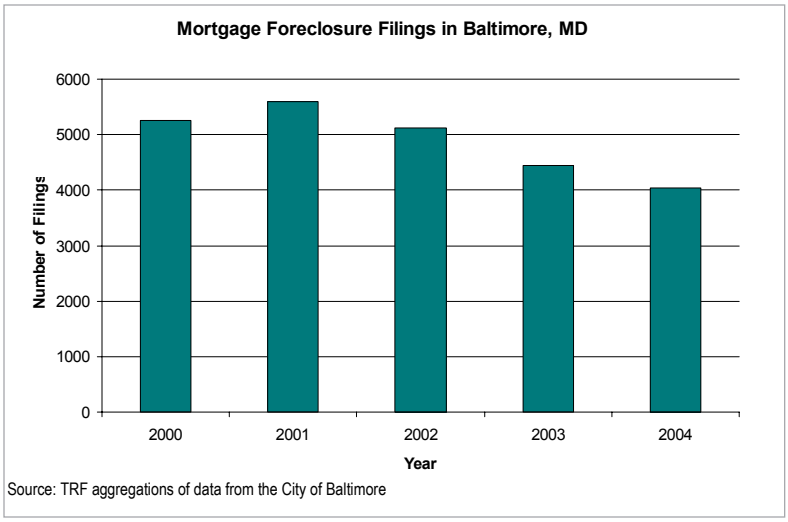
Number of filings reported by Baltimore: January 2000 – April 2005	25,616
Properties found in FARES	22,839
Residential properties only	21,973
Unduplicated list of properties (analyzed)	20,839
Sampled loans in foreclosure (analyzed)	1,000

The FARES database was able to provide property descriptions and mortgage transaction histories for these properties in foreclosure. The foreclosure filing list provided to TRF by the City of Baltimore did not, however, contain a book and page reference for the loan in foreclosure. Without this, TRF could not systematically identify the exact loan in foreclosure on a particular property, as some properties have multiple loans taken out against them. As a result, TRF selected a random sample of 1,000 properties in foreclosure and compared the loan amounts and the amount due on the foreclosure filing to best identify the loan in foreclosure.

TRF also selected a sample of 1,000 home sales that occurred in Baltimore during this same time period and queried the FARES database for those property and mortgage histories. This dataset served as a means for comparing properties in foreclosure and properties in the general Baltimore housing market.

IV. The Problem

Between 2000 and April 2005, 25,616 mortgage foreclosures were filed in the city of Baltimore. While the number of filings and properties in foreclosure declined during this time, the ratio of foreclosure filings to homeowners overall is high.



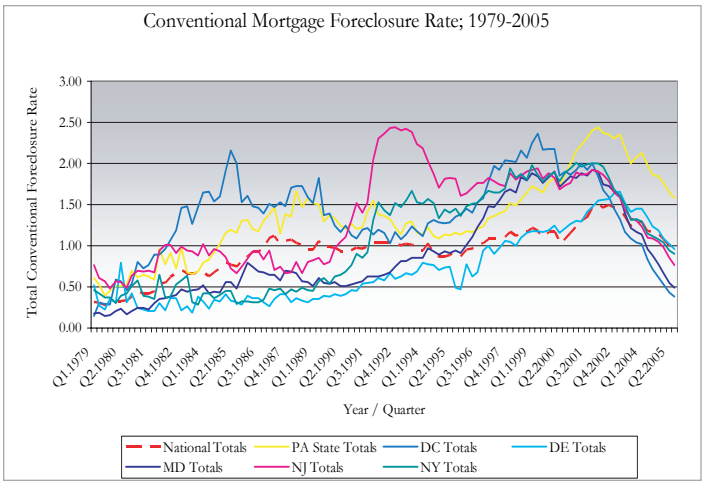
While the overall number of foreclosure filings decreased by 8.5% between 2000 and 2004, the ratio of properties in foreclosure to homeowners is high. Compared to other MidAtlantic areas of Philadelphia, Pennsylvania where the ratio is 16.1 and New Castle County, Delaware (home to the city of Wilmington), where the ratio is 12.2, Baltimore's foreclosure ratio seems extraordinarily high. While Philadelphia and New Castle experienced an increase in their foreclosure ratio between 2000 and 2004, Baltimore experienced a decrease from 45.1 to 30.6.

Area	Foreclosure Filings, 2000	Foreclosure Filings, 2004	Owner Occupied Households, 2000	Owner Occupied Households, 2004	Foreclosure Ratio, 2000	Foreclosure Ratio, 2004
Baltimore	5,263	4,032	116,580	131,908	45.1	30.6
Philadelphia	5,112	5,441	349,633	337,513	14.6	16.1
New Castle County, DE (Wilmington)	1,099	1,645	132,514	135,209	8.3	12.2

Source: Census, 2000; American Community Survey, 2004; TRF studies of foreclosures in Pennsylvania (2004) and Delaware (June 2006).

Maryland's overall foreclosure rate, however, is consistently one of the lowest in the MidAtlantic and sits in stark contrast to its city of Baltimore.

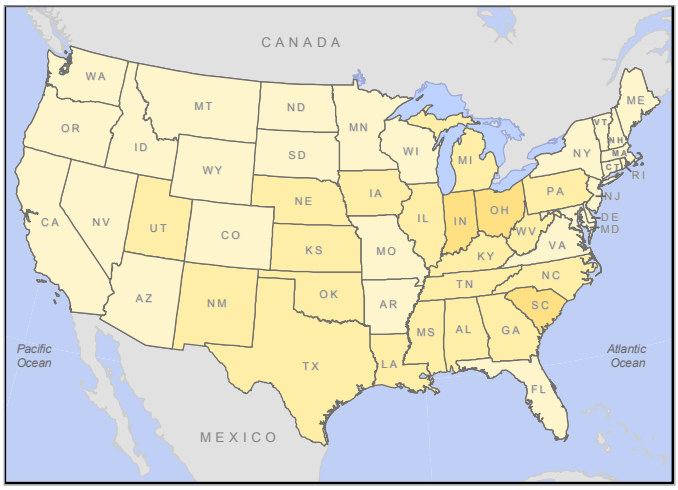
Data from the Mortgage Bankers Association of America (MBAA) show that Maryland now has the 2nd lowest foreclosure rate in the region. Only DC has a lower rate.



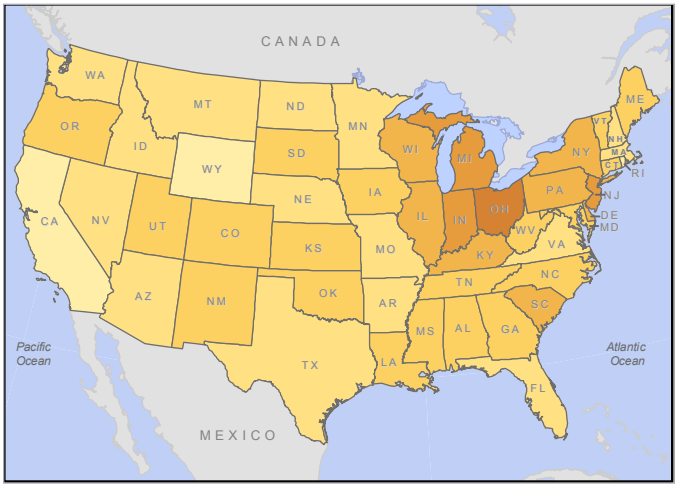
Source: Mortgage Bankers Association of America

According to the MBAA, Maryland's percent of prime loans in foreclosure was .20 in 2005 positioning the state with the 7th lowest prime foreclosure rate in the nation. Maryland also has the 8th lowest subprime foreclosure rate (1.66), though Maryland's FHA-insured mortgages had a foreclosure rate of 2.46 – among the 20 highest in the nation.

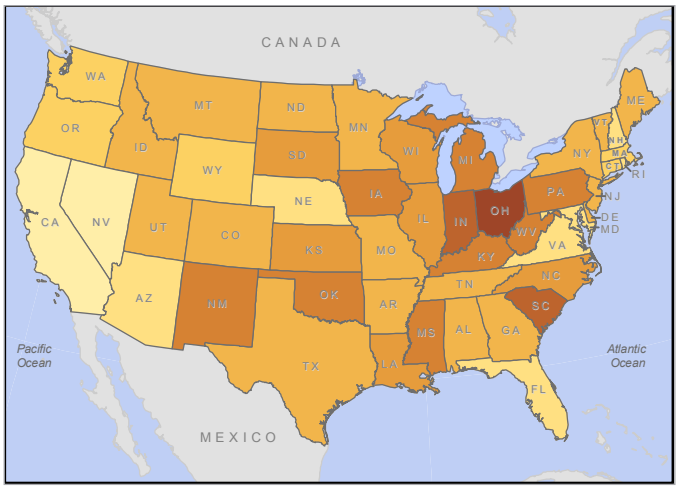
Foreclosure Rate for Prime Loans, 2005



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%

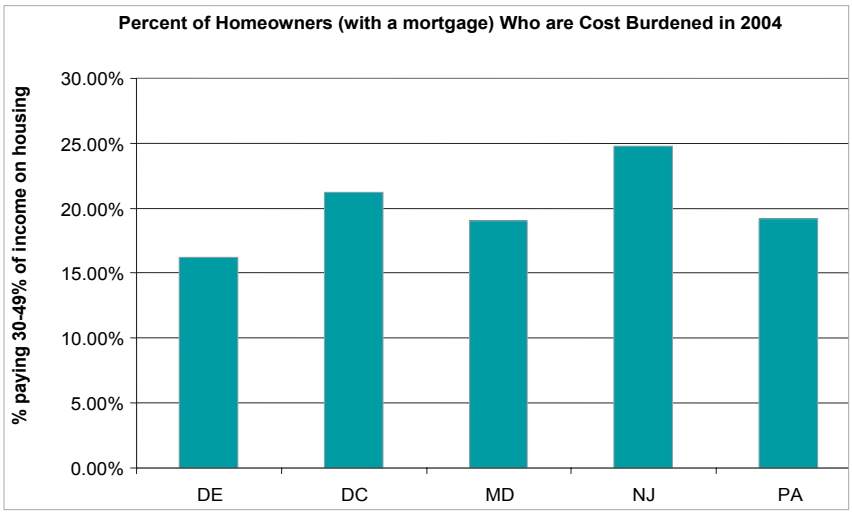
Overall, economic factors and "triggers" traditionally used to explain foreclosure rates are at advantageous levels in Maryland. This is not always the case in Baltimore.

Compared to other states in the Midatlantic, few homeowners in Maryland are burdened by the costs of owning a home. Significantly higher percentages of homeowners in Baltimore are burdened.

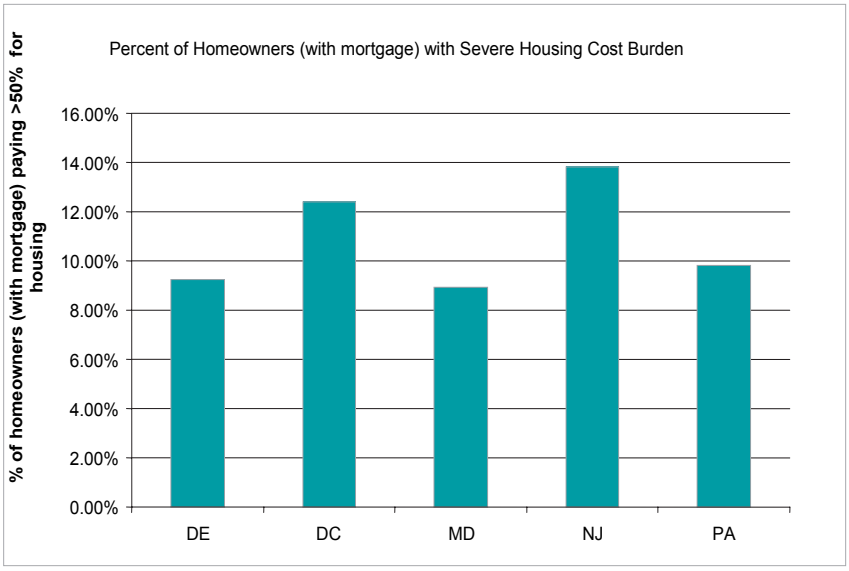
Census estimates suggest that in 2004, almost 20% of homeowners in Maryland (with a mortgage) were paying more than 30% of their income for housing – better than New Jersey and D.C. and on par with Pennsylvania.

Data also suggests that a lower percentage of homeowners are severely cost burdened as 9.0% of Maryland homeowners (with a mortgage) were paying more than 50% of their income for housing. Maryland has the smallest percentage of homeowners in the region facing this severe burden.

In Baltimore, however, almost 40% of homeowners are burdened and paying more than 30% of their income for housing. Those at the lowest incomes are most burdened by these costs.



Source: American Community Survey, 2004



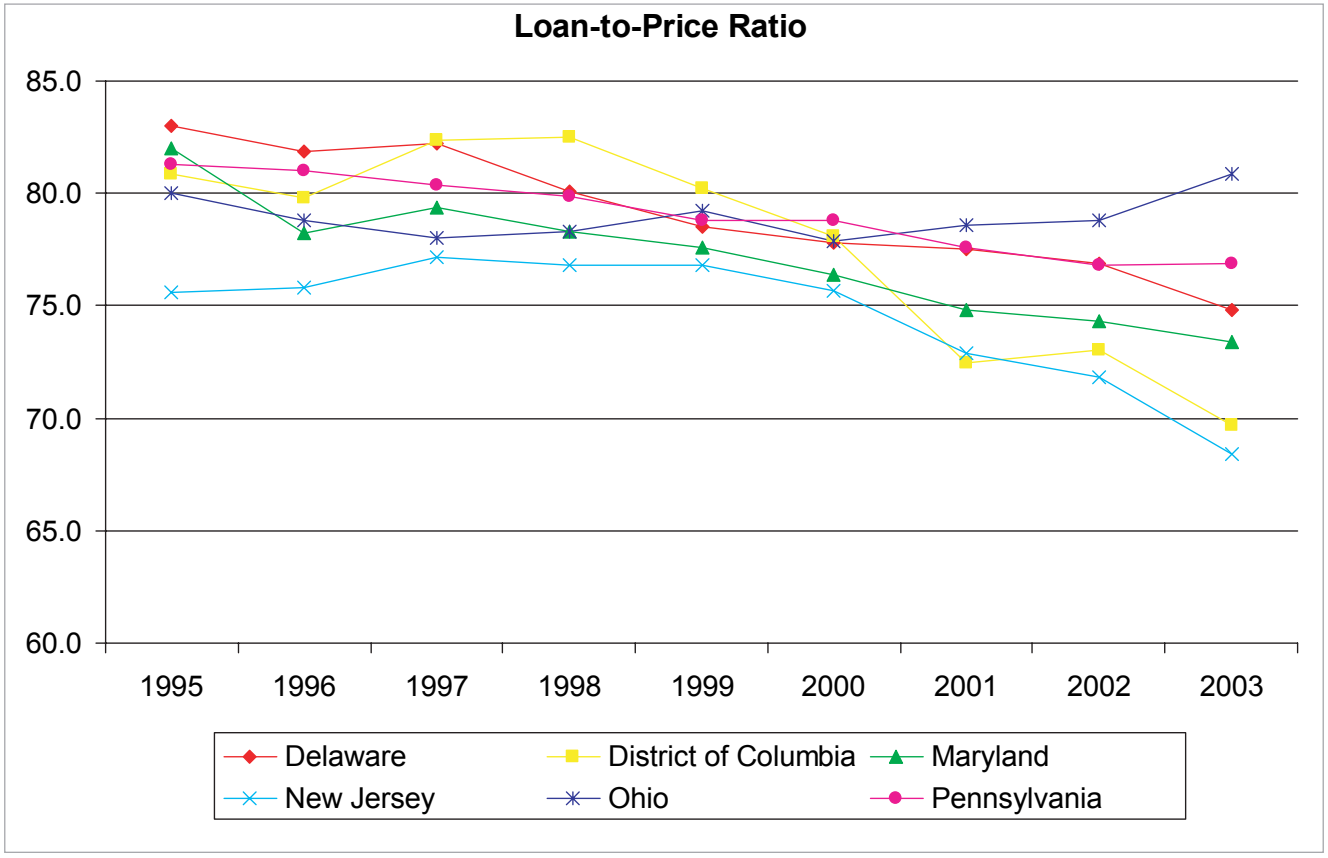
Source: American Community Survey, 2004

Loan-to-price ratios are decreasing in Maryland, but are much higher in Baltimore.

Data from the Federal Housing Finance Board indicates that in 2004, the average conventional single family mortgage loan in Maryland had a loan-to-price ratio of 74%. This is the third lowest ratio in the region and is on par with the nation.

While the FHFB does not report this data at a city level, TRF found – among a sample of all home sales that occured in Baltimore between 2000 and 2005 – that the average loan-to-price ratio in those sales was 89%.

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

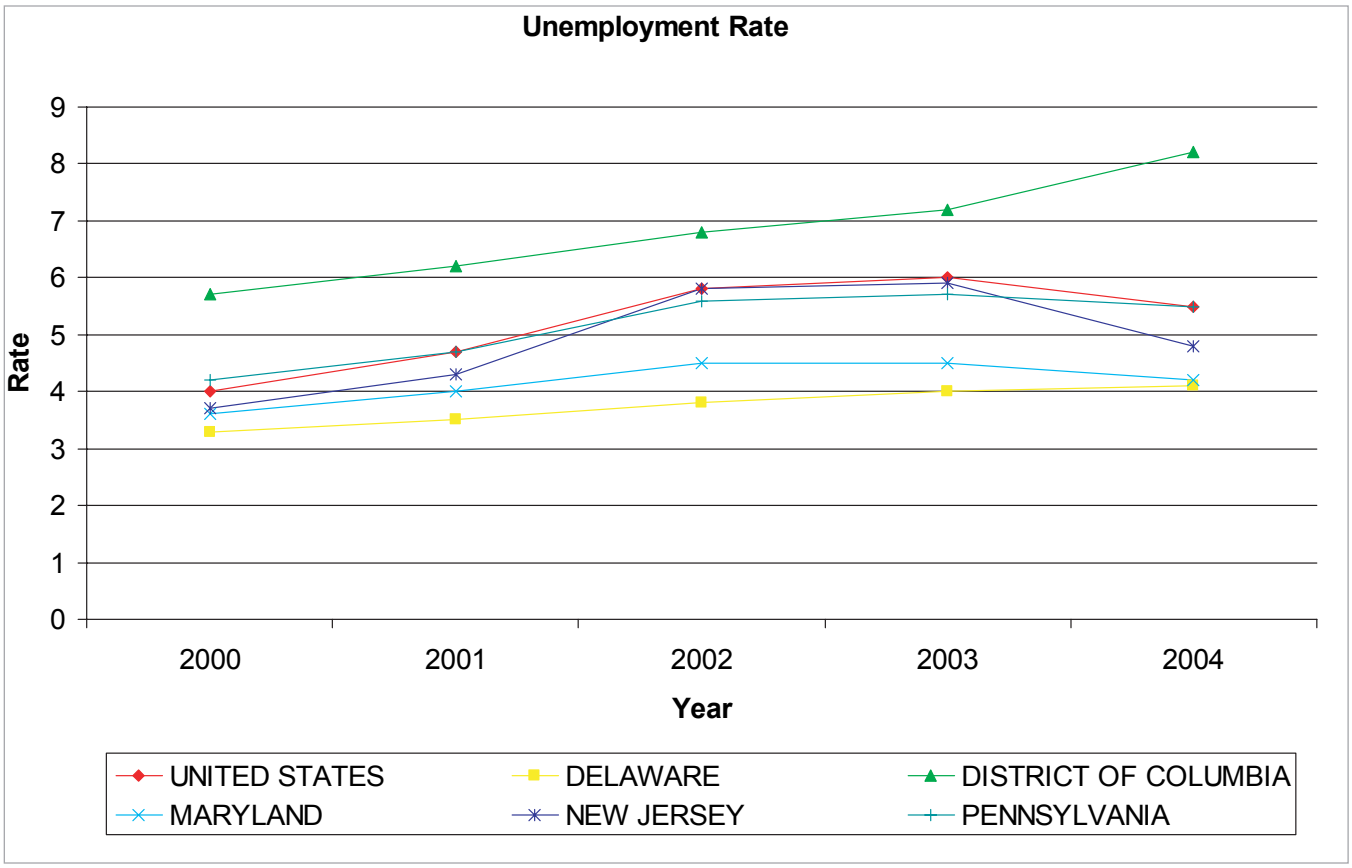


Source: Federal Housing Finance Board

The unemployment rate in Maryland is consistently one of the lowest among neighboring states and is currently the 8th lowest in the nation.

In 2004, the unemployment rate in Maryland was 4.3. Within the region, Maryland and Delaware have the lowest unemployment rates. In Baltimore, however, unemployment is substantially higher at 7.5.

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



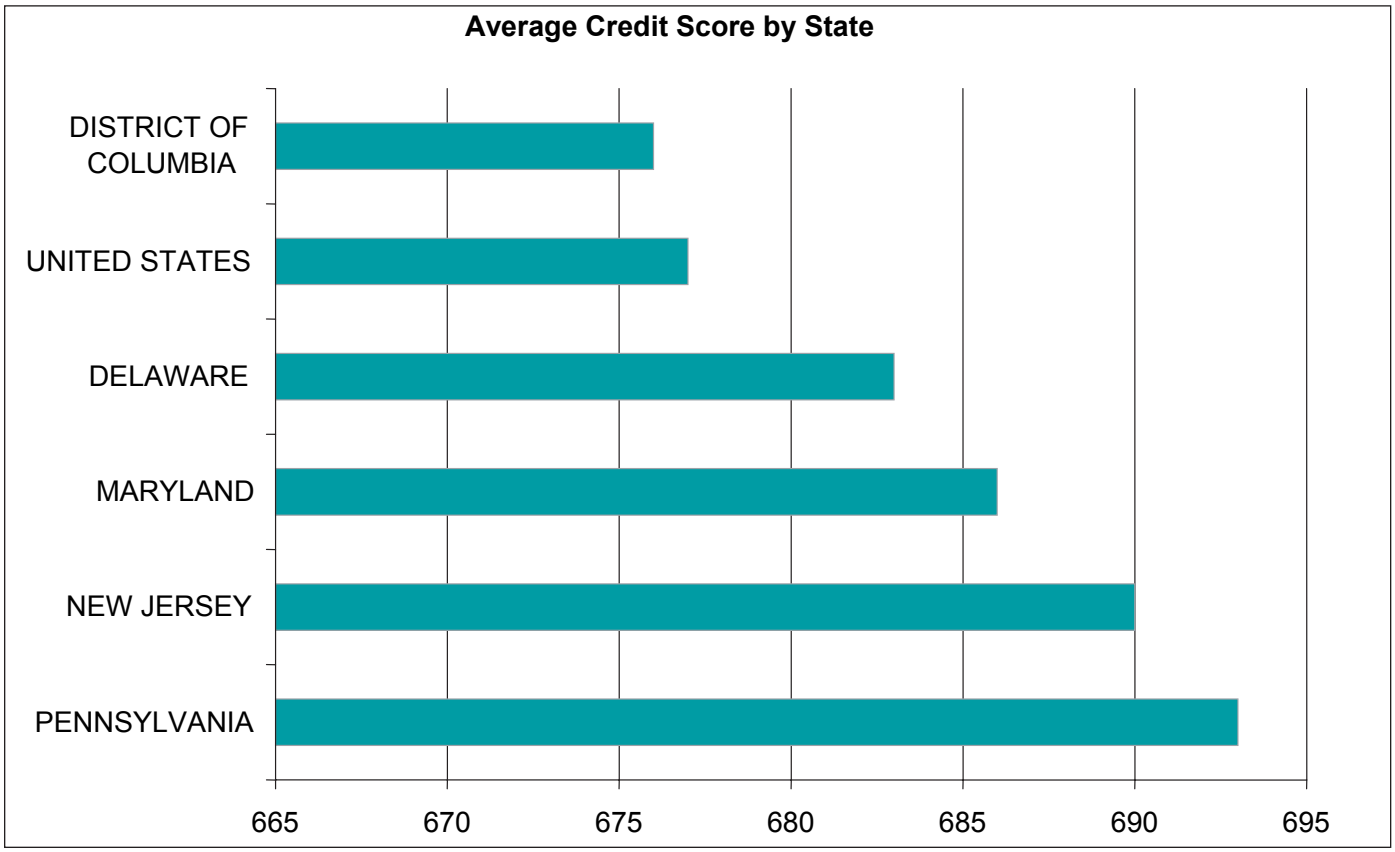
Source: Bureau of Labor Statistics

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 Maryland in 2006 was 686. While better than the national average, Pennsylvania and New Jersey 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.

Similar data is not available for Baltimore.



Source: Experian, December 2006

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

According to the Federal Housing Finance Board, the average mortgage made in Maryland in 2004 carried an interest rate of 5.9% and initial fees and charges of .63%

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.

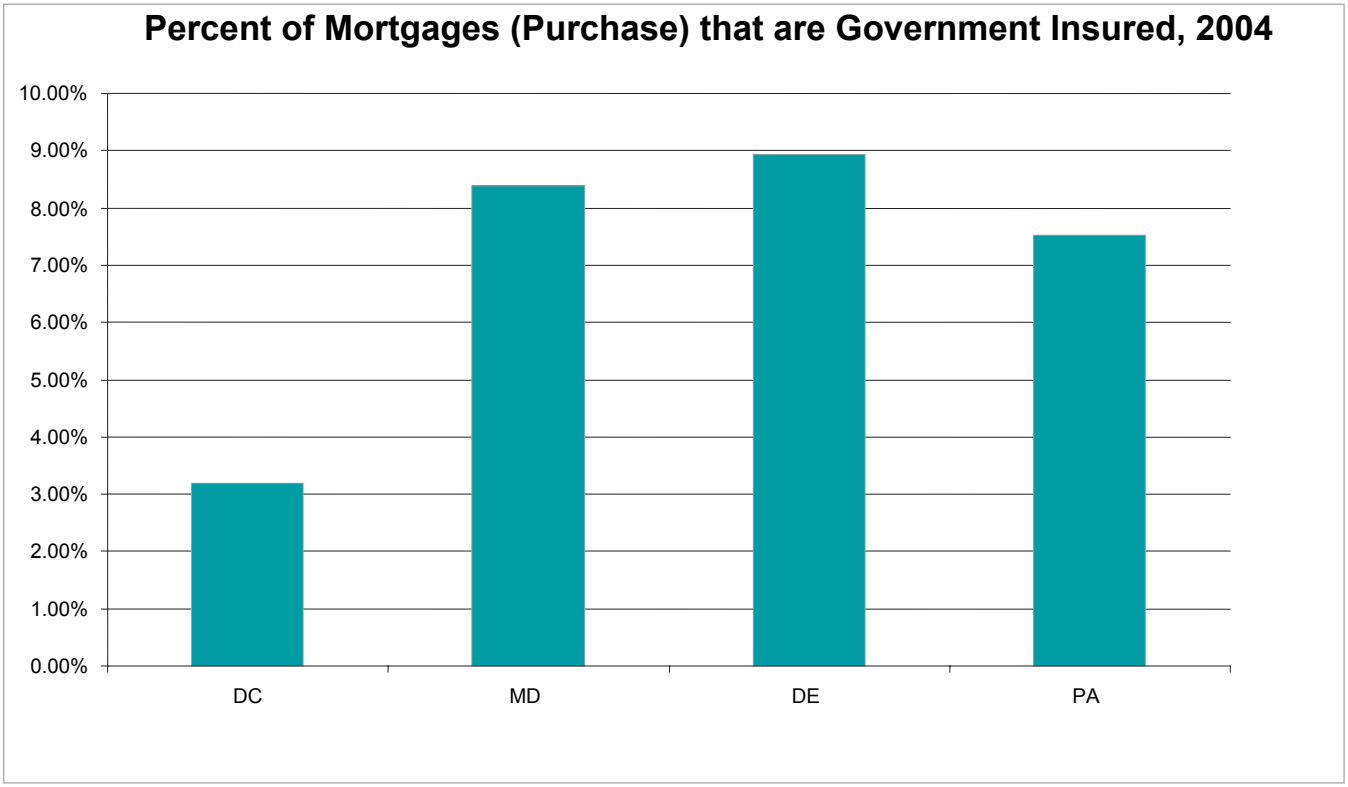
Potentially negative factors include:

Maryland has a higher rate of government insured originations than its neighboring states. Baltimore's rate is even higher.

8.5% of all purchase mortgages originated in Maryland in 2004 were government (FHA and VA) insured. This is higher than all neighboring states but Delaware.

In Baltimore, 20.8% of all single family originations were government insured in 2004.

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



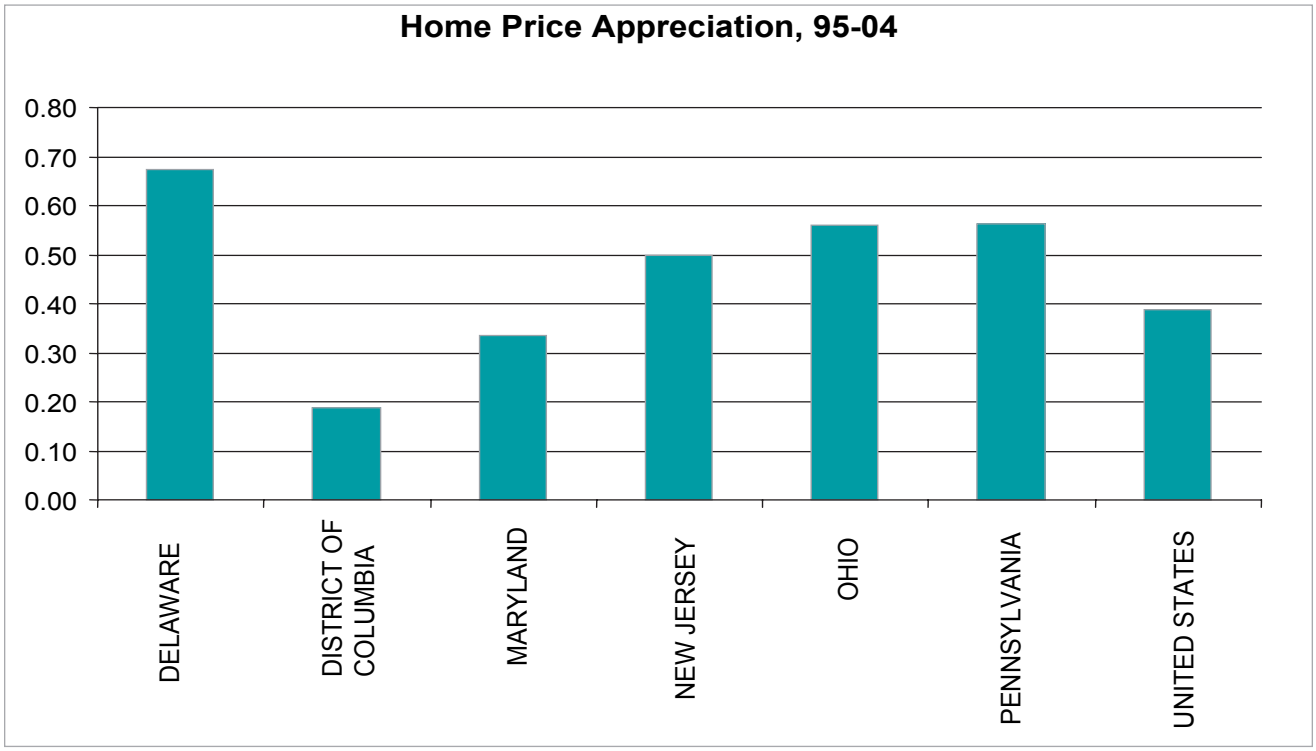
Source: Home Mortgage Disclosure Act, 2004

Single family home prices are high but appreciating slowly in Maryland. By comparison, appreciation in Baltimore has been relatively strong.

Data from the Federal Housing Finance Board indicates that between 1995 and 2004, the median home sale price in Maryland appreciated at one of the slowest rates in the region.

By comparison, according to the Live Baltimore Home Center, the average home sale price in Baltimore more than doubled between 1998 and 2004; rising from $63,837 to $130,160 respectively. During this same time period, according to the FHFB, Maryland prices only rose by 50%; rising from $192,000 to $290,000 respectively.

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.



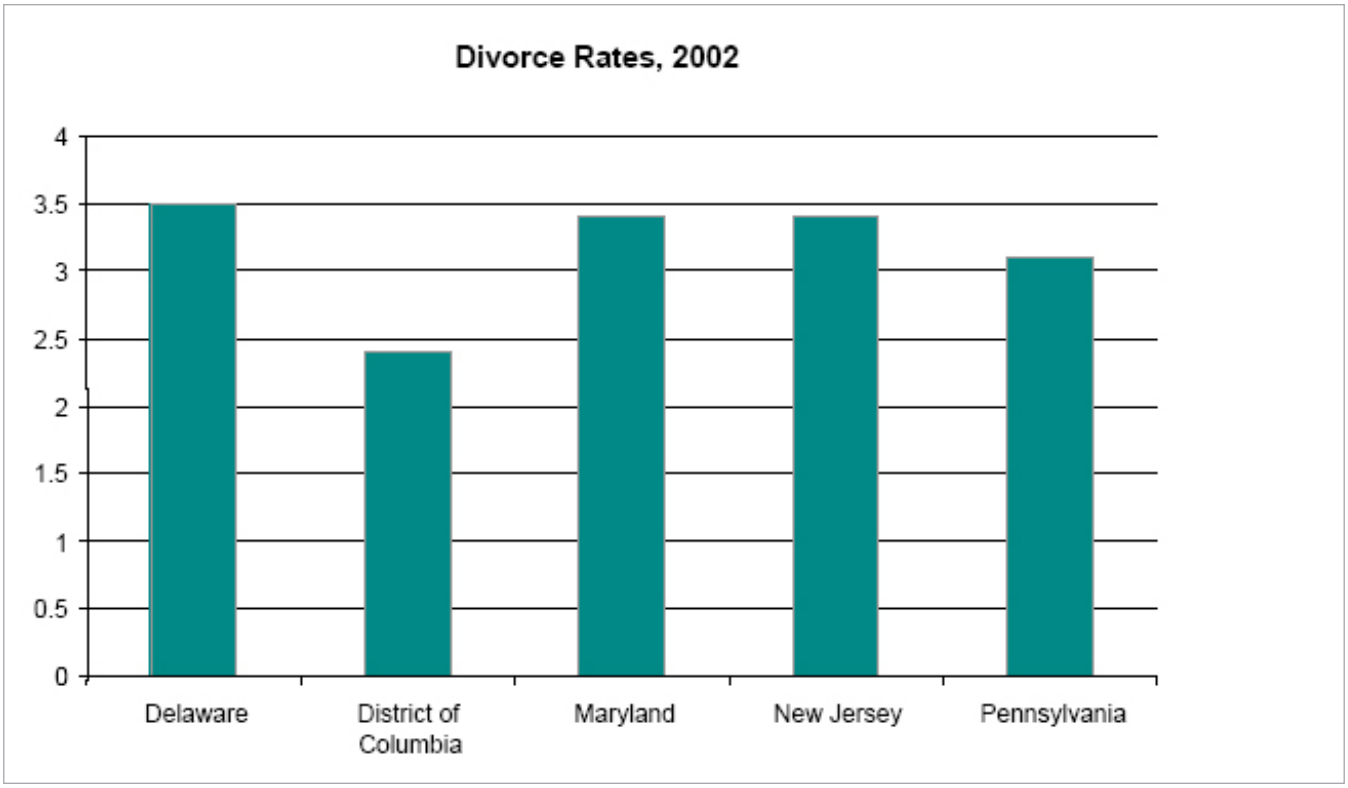
Source: Federal Housing Finance Board

Maryland has the second highest divorce rate in the region.

In 2002, the divorce rate was 3.4 as reported by the Division of Vital Statistics, National Center for Health Statistics. The divorce rate has remained essentially the same since 1990.

Similar data is not available for Baltimore.

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.



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

V. Findings

What types of properties or loans are in foreclosure?

Filings are scattered throughout neighborhoods of Baltimore, but areas experiencing foreclosure activity tend to have higher percentages of African American households.

60% of all block groups in the city experienced modest levels of foreclosure activity (5-19 filings per block group) between January 2000 and April 2005; another 18% experienced high levels of activity (20-39 filings per block group); and 2% experienced extreme levels (40 or more filings per block group).

The average block group in the city is 82% African American. Areas with very few foreclosures (less than 4) have a much lower percent of African American residents than the average block group (24.8% vs. 82%). At the same time, blocks with modest levels of foreclosure are 90% African American. (See Map 1.)

There is no significant difference, however, in home values across these block groups. (See Map 2.)

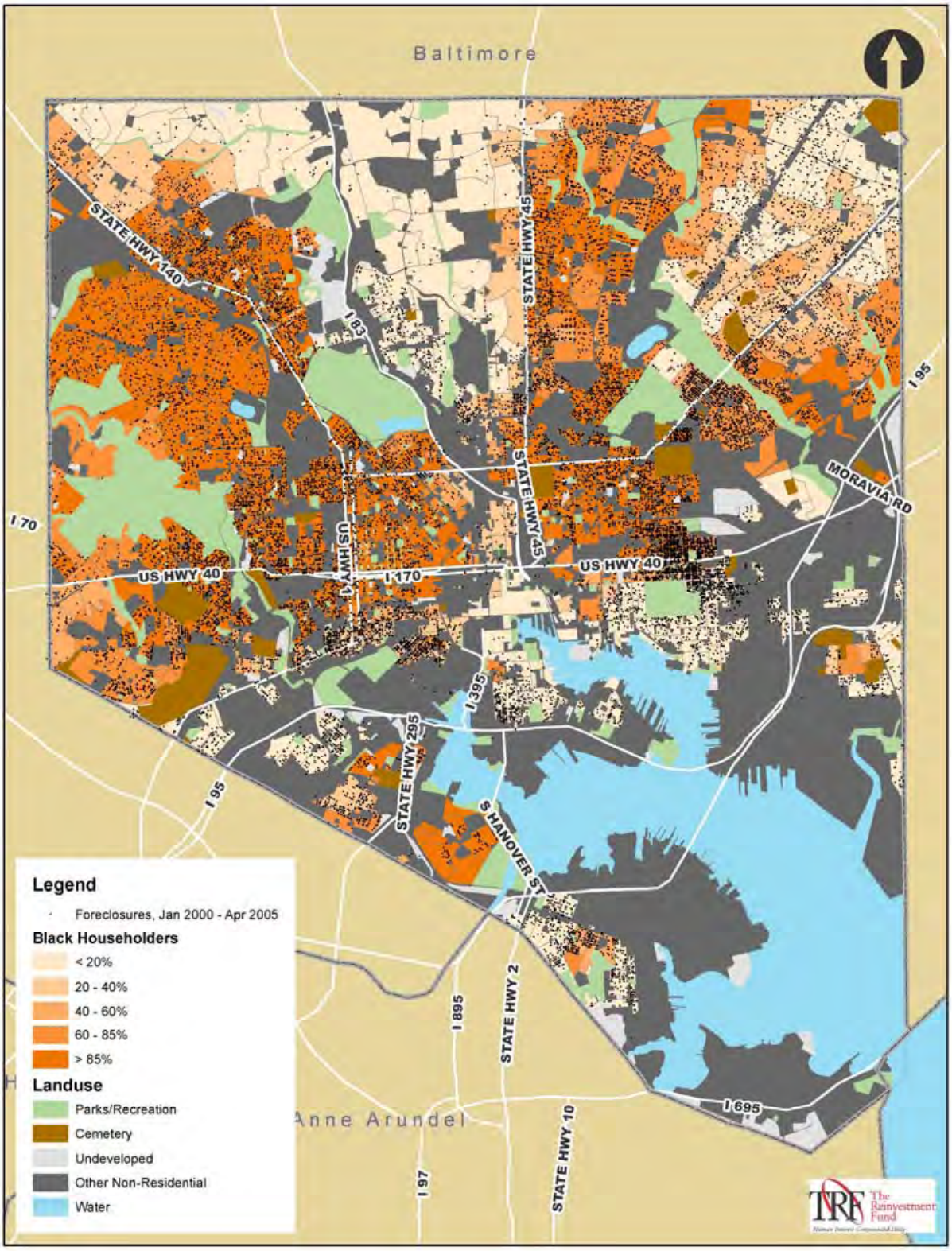
While three areas appear to have been hit hardest – Belair-Edison, East Baltimore and Washington Village to Carrollton Ridge – filings are actually becoming more scattered throughout the City. (See Map 3.)

Between 2000 and 2002, 77 block groups experienced minimal foreclosure activity (four or less filings per block group). Between 2003 and April 2005, the number of areas experiencing this minimal level of activity almost doubled (138 block groups). At the opposite extreme, 40 block groups each had forty or more filings between 2000 and 2002. By April 2005, only 8 block groups had forty or more.

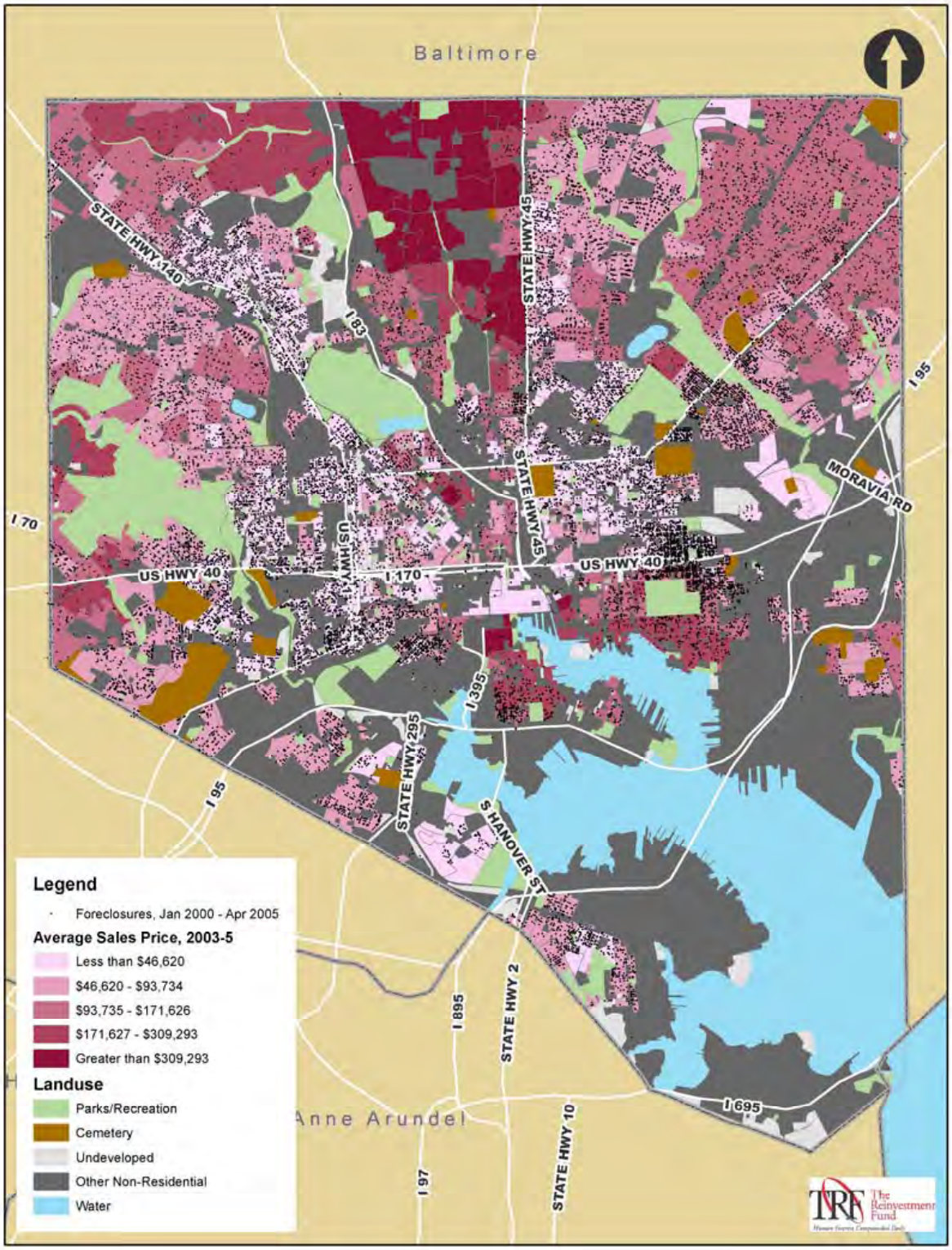
To gain a better understanding of the concentrations of filings in communities, it is useful to compare the number of filings in a block group with the number of owner-occupied housing units in that block group. This, in essence, creates a "foreclosure ratio" that can be used to compare the concentration 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 provided by the Census in 2000. The darker red areas in the map are block groups with significantly higher foreclosure ratios. (See Map 4.)

Map 1


Baltimore
STATE HWY 140
STATE HWY 45
I 83
I 95
MORAVIA RD
I 70
US HWY 40
I 170
US HWY 1
I 395
STATE HWY 295
S HANOVER ST
I 895
STATE HWY 2
I 695
Anne Arundel
I 97
STATE HWY 10
Legend
Foreclosures, Jan 2000 - Apr 2005
Black Householders
< 20%
20 - 40%
40 - 60%
60 - 85%
> 85%
Landuse
Parks/Recreation
Cemetery
Undeveloped
Other Non-Residential
Water
TRF The Reinvestment Fund

Map 2


Baltimore
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I 395
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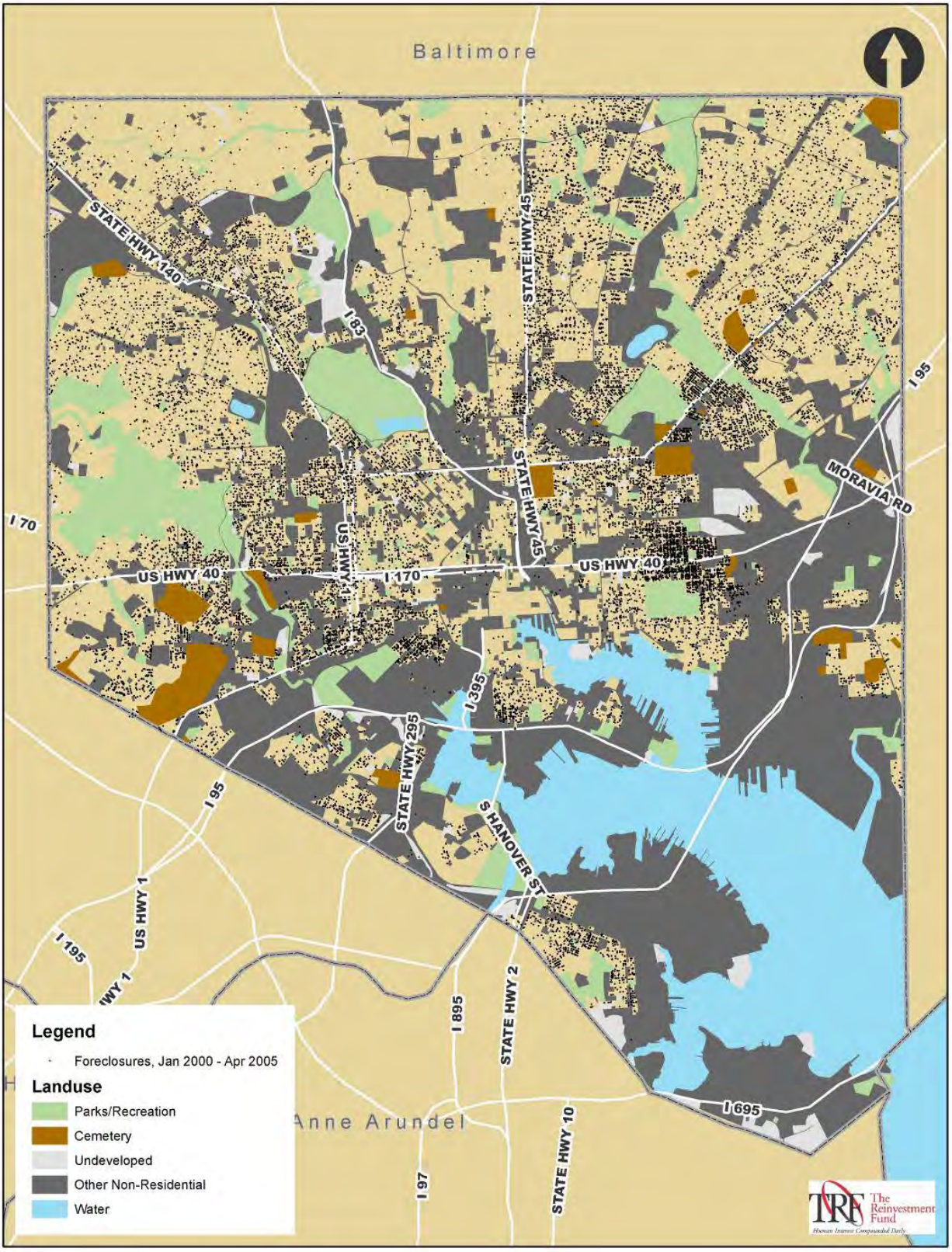
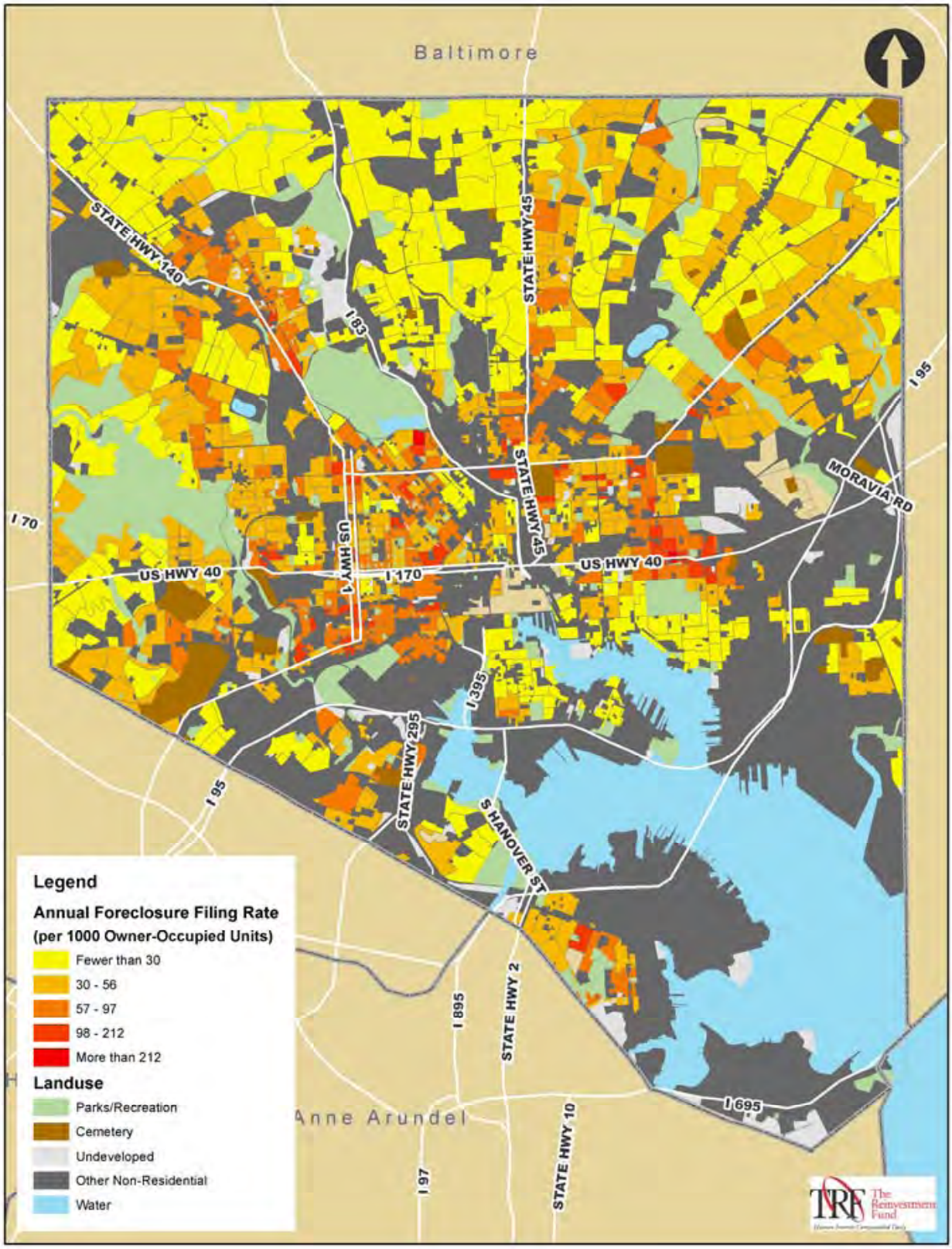
I 895
STATE HWY 2
I 695
Anne Arundel
I 97
STATE HWY 10
Legend
Foreclosures, Jan 2000 - Apr 2005
Average Sales Price, 2003-5
Less than $46,620
$46,620 - $93,734
$93,735 - $171,626
$171,627 - $309,293
Greater than $309,293
Landuse
Parks/Recreation
Cemetery
Undeveloped
Other Non-Residential
Water
The Reinvestment Fund

Mortgage Foreclosures in Baltimore
A Study by The Reinvestment Fund for the Goldseker Foundation

Map 3

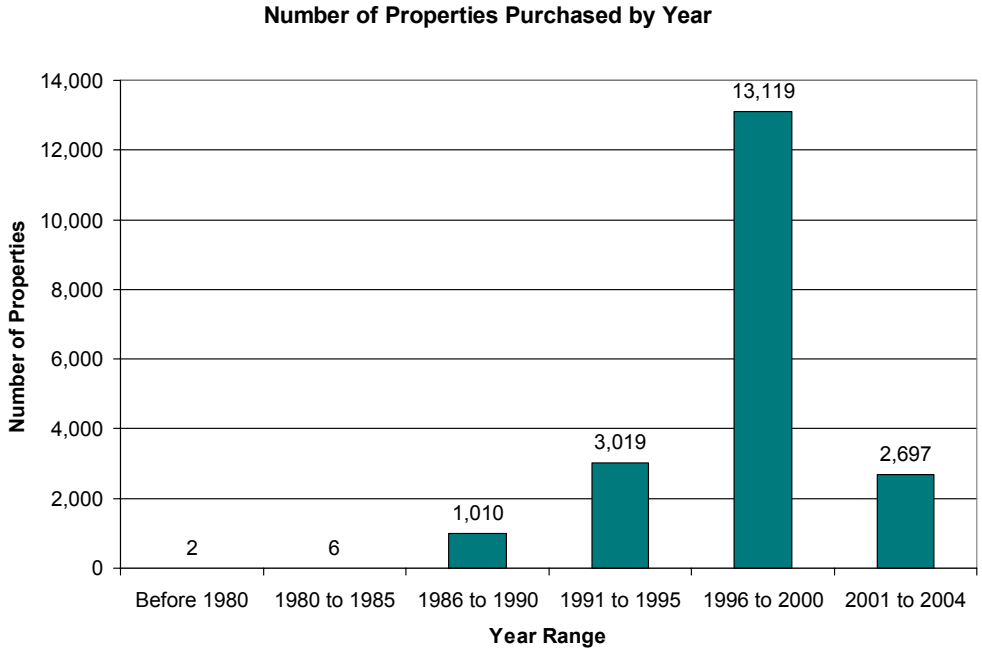


Map 4


Baltimore
STATE HWY 140
STATE HWY 45
I 83
I 95
MORAVIA RD
I 70
US HWY 1
US HWY 40
I 170
US HWY 40
I 395
STATE HWY 295
I 95
S HANOVER ST
Legend
Annual Foreclosure Filing Rate
(per 1000 Owner-Occupied Units)
Fewer than 30
30 - 56
57 - 97
98 - 212
More than 212
Landuse
Parks/Recreation
Cemetery
Undeveloped
Other Non-Residential
Water
I 895
STATE HWY 2
Anne Arundel
I 695
I 97
STATE HWY 10
The Reinvestment Fund

The typical home in foreclosure was purchased in 1998 and is a single-family row home with a current average assessed value of $49,600.

The majority of properties in foreclosure were purchased between 1996 and 2000. The median purchase date was September of 1998.



Source: TRF analysis of FARES database.

The vast majority of properties in foreclosure were listed as "single family row" homes in the FARES database.

Property Type	Count
Single Family Detached	2,935
Single Family Semi-Detached	1,489
Single Family Row Home	16,274
Duplex	1,092
Condo - Garden	116
Condo - High Rise	46
Condo - Mid Rise	21
Converted Apartments	388
Vacant Land	364
Commercial/Industrial	364
No Property Type Listed	19
Total	22,839

Single family row homes had the lowest average assessed value of all residential property types in foreclosure.

Property Types	Total Assessed Value 2005	Average Value
Single-Family Detached	$270,665,450	$92,220
Single Family Semi-Detached	$98,606,690	$66,223
Single Family Row Home	$808,176,750	$49,667
Duplexes	$71,092,510	$65,103
Condos (All Types)	$48,528,460	$84,989

Source: TRF analysis of FARES database

62% of all sampled loans in foreclosure were for the purchase of a home. 38% were either home equity or refinance loans.

As discussed in the methodology section of this report, TRF randomly sampled 1,000 properties in the foreclosure and identified the precise loan in foreclosure based on the amount owed in foreclosure and the date of the filing. In doing so, TRF determined that 62% of the sampled loans in foreclosure were purchase loans.

This is quite reflective of other places TRF has studied. In Philadelphia, for example, TRF examined foreclosure filings between 2000 and 2003 and found that 60% of loans in foreclosure were purchase loans; only in Allegheny County, Pennsylvania (home to the city of Pittsburgh) did TRF find that only 40% of loans in foreclosure were purchase loans.

The median loan in foreclosure was originated 3 years prior to the date of foreclosure.

Time from origination to foreclosure is a commonly used way of determining the "stress" of a homeowner at the time of purchase. Compared to other places TRF has studied, the time from loan origination to foreclosure is short in Baltimore, suggesting that homeowners are quite stressed. In Philadelphia, for example, the median time from origination to foreclosure is 4 years; in New Castle County it is 4.3 years.

What might be causing this high rate?

FHA insured loans

32% of all homes in the foreclosure pool were purchased with FHA insured mortgages compared to only 22.4% originated in the sample of all Baltimore sales. Baltimore has historically had high FHA origination rates – and these originations carry a higher risk of default.

The bulk of properties in foreclosure that were purchased with an FHA loan were originated in the late 1990s (when most of the loans in foreclosure were originated) and have tapered off in recent years.

Year Property in Foreclosure was Purchased	Number with FHA	Percent FHA
1986	0	0
1987	23	9.24%
1988	107	50.71%
1989	150	53.96%
1990	212	61.10%
1991	152	49.03%
1992	142	43.56%
1993	183	46.45%
1994	231	40.67%
1995	285	46.04%
1996	571	60.17%
1997	674	50.91%
1998	918	50.30%
1999	1,054	45.37%
2000	794	44.88%
2001	465	45.54%
2002	197	32.62%
2003	77	23.91%
2004	15	13.51%

Source: TRF aggregations of FARES Database

Type of Mortgage	Counts	Percent
Conventional	6,502	32.9%
Not listed – likely conventional	6,079	30.6%
FHA	6,250	32.0%
VA	617	3.0%
Private Party	314	1.5%
	19,762	100.00%

Source: TRF analysis of FARES database. Note: Of the 20,601 properties analyzed, FARES had some purchase mortgage information for 19,762 properties.

Lack of home equity at time of purchase

On average, typical homebuyers in Baltimore had more equity in their home at the time of purchase than those who ended up in foreclosure.

TRF compared the purchase loan amount(s) to the purchase price for a sample of 1,000 home sales in Baltimore to the purchase loan amount(s) and purchase prices of properties in foreclosure. The comparison revealed that, on average, the typical homebuyer in Baltimore paid $135,366 for a home and took on a mortgage(s) at the time of purchase of $121,535 with a Loan-to-Value ratio of 89%. Homebuyers in foreclosure, however, typically purchased a home with a sale price of $56,681 and mortgage(s) totaling $56,677 – a Loan-to-Value ratio of 99.9%.

TRF expected the average sale price for all homes to be higher than the average sale price of properties in foreclosure because the sample was drawn from a universe of home sales that took place between 2000 and April 2005. The foreclosure properties were typically purchased in the late 1990s when home prices were somewhat lower. This, however, does not minimize the fact that persons in foreclosure purchased lower priced homes with larger mortgage amounts.

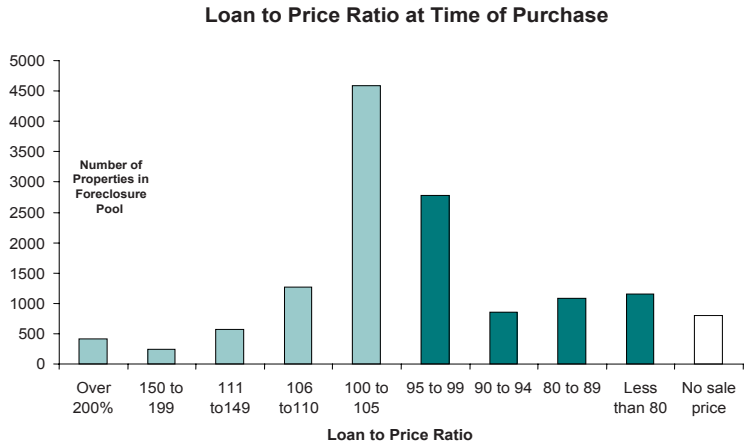
This is further evidenced by the fact that 55% of homeowners in foreclosure purchased their home with a loan(s) that was either equal to or greater than the sale price. In simple terms, these homeowners walked away from the settlement table already owing more on their house than it was worth.

When faced with an economic hardship, a borrower living in a home with equity can either tap the equity 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 when the homeowner has equity. For the borrower without equity, the "choice" is foreclosure.

Purchase and Mortgage Amount Comparison, All Sales vs. Properties in Foreclosure

	All Sales	Properties in Foreclosure
Typical Purchase Price	$135,366	$56,681
Typical Mortgage(s) Amount	$121,535 LTV of 89%	$56,677 LTV of 99.9%

Source: TRF aggregations of FARES Database



Source: TRF aggregations of FARES Database

Creative Financing: Two loans at closing

25% of the properties in foreclosure were originally purchased with 2 or more loans. The use of this financing mechanism does not appear more prevalent in the foreclosure pool compared to the sample of all sales, but the purpose of this second loan appears to be quite different between the two groups.

Homebuyers in foreclosure appear to have used the 2nd loan simply to afford the purchase of the house. In the sample of all sales, homebuyers appeared to use the 2nd loan in order to purchase a more expensive home than they otherwise may have bought. The typical buyer in Baltimore that used two loans to purchase his/her home paid an average sale price of $171,375 compared to an average sale price of $135,366 for all sampled homes. In contrast, the typical homeowner in foreclosure that used two loans to purchase his/her home, paid an average of $57,854 compared to $56,681.

MD Foreclosure Study, Sale and Foreclosure Sample Comparisons, 4/24/2006

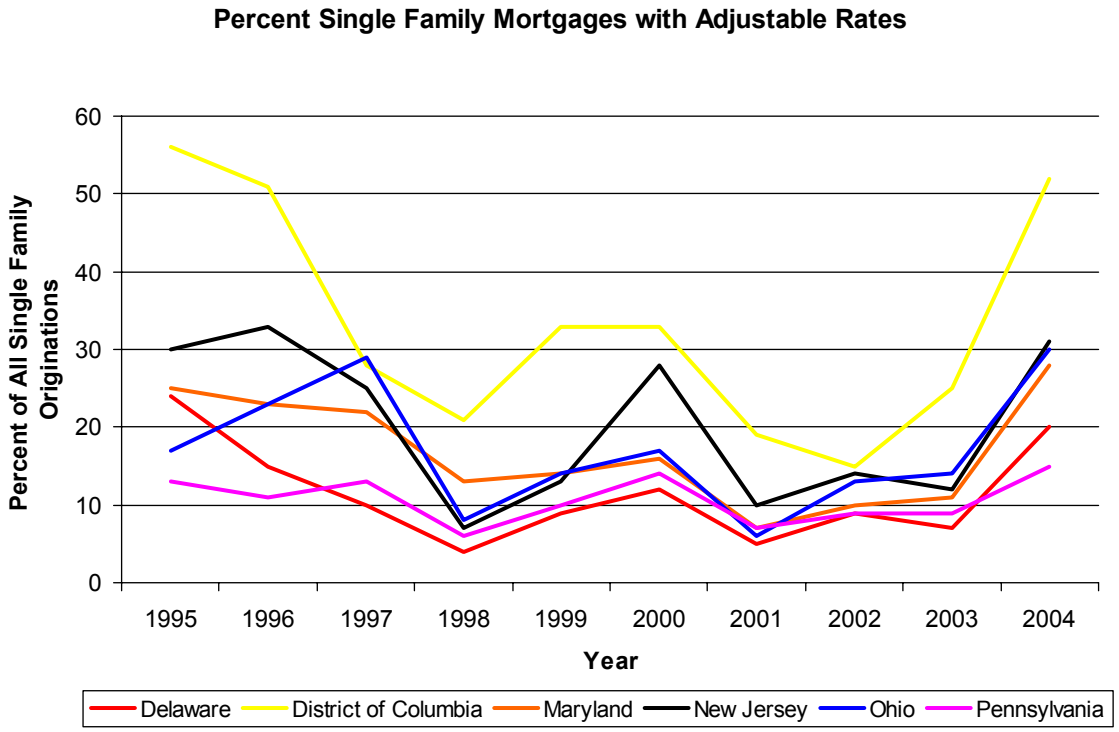
	Sales	Foreclosures
Average Sale Price (sales with loans)	$135,366.66	$56,681.83
Average Total Debt	$121,535.10	$56,677.09
For First Position Loans		
Average Loan Amount	$114,137.46	$54,005.61
% Originated by Prime Lenders	13.15%	11.41%
% Originated by Subprime Lenders	31.09%	32.72%
% Originated by Hybrid Lenders	8.37%	8.56%
% Originated by Government Sources	1.35%	2.01%
% Originated by Private Individuals	4.48%	1.68%
% Originated by Unknown Lenders	41.55%	43.62%
For Second Position Loans		
Average Loan Amount	$31,384.63	$7,742.64
Average Sale Price (n = *column*)	$171,375.96	$57,854.84
% Originated by Prime Lenders	7.74%	1.16%
% Originated by Subprime Lenders	21.29%	4.05%
% Originated by Hybrid Lenders	16.13%	0.00%
% Originated by Government Sources	31.61%	52.02%
% Originated by Private Individuals	1.94%	8.09%
% Originated by Unknown Lenders	21.29%	34.68%

Source: TRF analysis of Baltimore sale data and FARES database.

Creative Financing: Adjustable Rate Mortgages

14% of the properties in foreclosure were purchased with loans that had adjustable rates (11%) or balloons (3%). Similarly, of the 1,000 sales sampled in Baltimore, 141 (14%) were purchased with an adjustable rate mortgage; 3% were purchased using a balloon.

The use of ARMS in Maryland has fluctuated, with the region, from a low of around 13% in 1998 to 28% in 2004. Nationally in 2004, 35% of all single family mortgages were originated using ARMS. According to the Federal Housing Finance Board, this number both nationally and in Maryland, dropped slightly by 2005. If the percentage of buyers using ARMS to purchase homes increases, as many mortgage experts predict, this study suggests that the percentage of ARMS in foreclosure will rise at a similar rate.



Source: Federal Housing Finance Board

High default rate within City's Settlement Expense Loan Program (SELP)

9.2% of the properties in foreclosure were purchased through the City's SELP program. According to the City, this first-time homebuyer program provided home purchase second mortgages to approximately 4,000 buyers between 1993 and 2000. The foreclosure pool contains 1,826 of these properties.

SELP properties represent 45% of all properties in foreclosure with second loans.

It is a historical fact that the SELP program was problematic. The City recognized the difficulties with the program, ended it and established a revised program requiring homeownership counseling.

Flipping scams

In the late 1990s, two "flipping" scams made headlines in Baltimore. Loans from these scams account for approximately 2% of the properties in foreclosure – and 5% of the properties in foreclosure that were insured by FHA.

TRF interviewed a leading attorney in the cases against some of these companies and was able to search the FARES database for all transactions involving these entities as well as alternate company names they have used.

The schemes involved a group of entities associated with Lucky Realty and American Skycorp; and another associated with West Star Properties. Together, these entities account for 408 (2%) of the 19,762 foreclosure properties for which TRF has sale information. (They represent 5% of the properties with FHA loans.)

Entities	Number of Properties Sold Now in Foreclosure
Torrey Pines Realty Co Inc / LELE Land Co/ Hussey Inv./ Furble Ent/ Politzer/Pomerantz, Alvin	89
West Star Properties Inc/ West Star Company LLC	43
American Skycorp (as lender on the transaction without involvement of Torrey Pines or associates)	274

Loans in foreclosure are disproportionately subprime.

TRF identified the originating lender of a sample of all loans in foreclosure and compared these lenders to those that originated the loans in our sample of all sales in Baltimore. TRF found:

- 55% of the sampled loans in foreclosure were likely subprime – compared to 49% of originations overall.

Originating Lenders of All Sales - Sample	
Government	4%
Prime	19%
Prime/Subprime	15%
Private	5%
Subprime	49%
Unknown	8%
Originating Lenders of Mortgages in Foreclosure - Sample	
Government	3%
Prime	14%
Prime/Subprime	11%
Private	2%
Subprime	55%
Unknown	15%

The method used by TRF to identify and characterize the originating lenders of loans in foreclosure is a two-step process:

1) TRF took a sample of 1,000 homes in foreclosure and, based on the mortgage history provided by RealQuest, identified the originating lender of the loan in foreclosure.

2) TRF then characterized the originating lender as either one that predominantly does prime or subprime business or that does a mix of both. Ideally, TRF would prefer to make an absolute determination about whether a particular loan, not lender, was either prime or subprime. Given the inability to view loan documentation for every loan in foreclosure, TRF employed a commonly used methodology that characterizes the lender as one that generally makes prime or subprime loans.

The U.S. Department of Housing and Urban Development (HUD) publishes, annually, a list of lenders it identifies as those that specialize in subprime lending. TRF recognizes and acknowledges the potential flaws of characterizing lenders rather than loans. Most notably, there are lenders that have a full array of loan products. To ameliorate this, TRF modified the list published by HUD to identify some lenders as those that do both prime and subprime lending. TRF also modified the list to include lenders that were not on the HUD list but originated loans in foreclosure. TRF characterized these lenders based on its own research and input from the Homeownership Preservation Coalition.

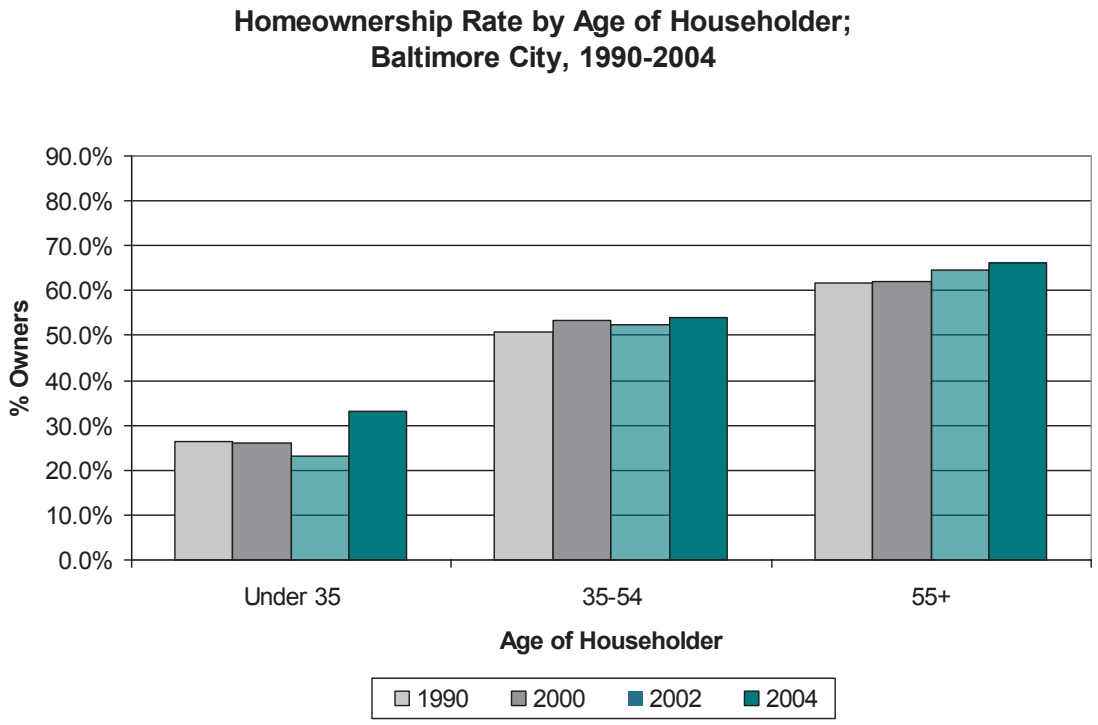
High level of sales by investors

While not necessarily a potential driver of foreclosure activity, TRF found that 14% of the properties in foreclosure were originally sold to owners by "investors": corporations, LLCs or individuals appearing in the foreclosure database at least 5 times.

These sellers do not necessarily have the same ties to the community and are potentially more "price" motivated in the sale of the home than when a traditional homeowner is the seller. These types of sale transactions are more likely to be different, with less advantageous terms.

High percentage of young homebuyers

Growing percentages of younger households are buying a home. In 2004, almost 35% of homes in Baltimore were owned by a householder under the age of 35. This is 10% higher than in 1990. Younger households are traditionally least able to afford the costs of homeownership.



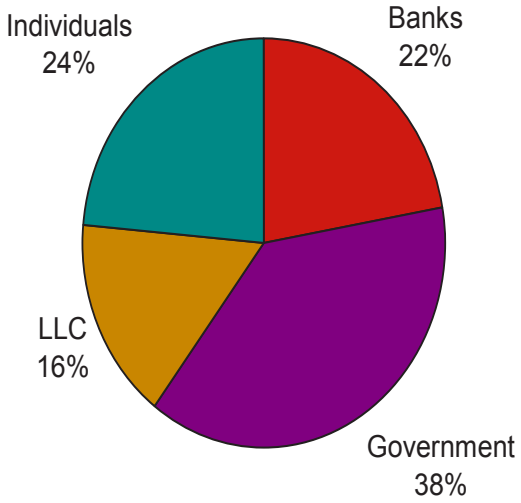
Source: American Community Survey

In the end, what is the impact of this foreclosure activity?

Loss of Property

TRF estimates that 70% of all property owners in foreclosure either sold or lost their home subsequent to the foreclosure filing. This is significantly higher than in New Castle County, Delaware (home of the city of Wilmington) where 46% of property owners appear to have lost their home post foreclosure filing.

Of the 20,601 foreclosure filings for which TRF has data, 14,514 (or 70%) represent properties that now have new owners.



Property Transfer to Investor

The loss of the home in foreclosure does not immediately translate into an opportunity for another family to purchase a home. Of the properties that were either sold or lost after the foreclosure filing, 60% were taken back by the federal government (HUD or VA) or the lender; 24% were purchased directly by another individual; and the rest (16%) were purchased by "investors" identified in the database as an LLC or company. The percent purchased by "investors" is likely somewhat higher as some of the individuals may be acting as investors and not intending to live in the home as their own; other properties purchased by the government or FNMA may have subsequently been sold to investors..

Purchases by investors, specifically LLCs, increased each year during the time period studied. In 2000, 5.4% of all foreclosure properties were purchased by an LLC. By 2005 it had increased to 16.5%.

Year	LLC Purchase	All Purchase	Percent of All Purchases
2000	40	746	5.36%
2001	153	2339	6.54%
2002	245	2846	8.61%
2003	276	2950	9.36%
2004	377	3003	12.55%
2005	434	2629	16.51%

Source: TRF aggregations of FARES data

APPENDIX

i. Data Sources

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 post-censal estimates of these indicators for 2005.

Mortgage Foreclosure Filings – TRF obtained mortgage foreclosure filing information from the City of Baltimore for the period January 2000 through April 2005. Data was provided in Excel format and included the address of the property in foreclosure, the name of the plaintiff and defendant, and the date of the filing.

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.

Home Sales – TRF obtained home sale transactions from the City for 2000 through 2005. Data included address, year of sale and sale price.

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.

ii. Estimating the Financial Impact of Mortgage Foreclosures in Baltimore

In estimating the financial impact of mortgage foreclosures in Baltimore, we turn to the results of research conducted by The Reinvestment Fund (TRF) and EConsult Corp. in the City of Philadelphia, PA. In this work (forthcoming), TRF and EConsult used econometric techniques designed to quantify the impact mortgage foreclosures have had on residential sale prices in Philadelphia. That estimation procedure included foreclosures within 1/8th of a mile and two years (prior to) the sale of a home. It was based on a fixed-effects hedonic regression model designed to reveal the independent effect of foreclosures, net of other relevant housing and neighborhood characteristics. The basic result in Philadelphia is that each foreclosure within 1/8th of a mile of a home sale and occurring up to two years prior to that sale reduced the price of the home by approximately 1%.

Assumptions and Methodology

The process of estimating the aggregate impact of foreclosures on housing values in Baltimore takes as a starting point the assumption that Philadelphia's result can be generalized to Baltimore (i.e., residential values are decreased by 1% per foreclosure within 1/8th of a mile and two years of the estimated value of a home). We must also assume that the results obtained for homes that sold in Philadelphia can be extended to homes that did not sell; and if that is true in Philadelphia, that the same assumption holds in Baltimore. Because we do not have a value for all properties in Baltimore, we considered a few alternatives: (1) use values for each property as established by the taxing authority; (2) assume that the value of properties in each Census block group can be estimated by the average sale price for properties recently sold in that block group. We chose the second alternative because: (1) although the average may not perfectly represent any given property in the block group, it is a reasonable estimator and it is the single value, that if substituted for all properties, would yield the same block group aggregate value as the "true" aggregate value; (2) we believe it will be an "unbiased estimator" meaning that it will not be systematically higher or lower than true values – an assumption that we cannot make if tax values are used.

The aforementioned assumptions are considerable and must be taken into account when we evaluate the overall "reasonableness" of the conclusion we ultimately draw in Baltimore. And so, to be clear, any estimate that we derive for the aggregate impact of foreclosures in Baltimore is just that – an estimate – and must be considered in light of the several important assumptions upon which that estimate rests.

The steps TRF used to estimate the aggregate impact of foreclosures on the residential property market were:

(1) Assign each property to its proper block group;
(2) Count the number of foreclosures within 1/8th of a mile of each property in the years 2003 and 2004;
(3) Obtain average sale prices for block groups based on homes that sold in calendar years 2004 and 2005;
(4) Associate properties with their respective average block group sale prices;
(5) Multiply the number of relevant foreclosures for each property times 1% and then apply that factor to the average sale price in the block group (call this "foreclosure reduction factor");
(6) Add together all of the individual foreclosure reduction factors yielding both the block group and citywide impact measures of foreclosures on residential home values.

Results

The typical property in Baltimore had approximately 11.00 (median) [14.28 (mean)] foreclosures within 1/8th of a mile and during the period 2002-2003. [Map #1 identifies residential properties that experienced a foreclosure between 2002 and 2003.] The data show that 25% of Baltimore properties had at least 6 foreclosures and 25% had more than 19 foreclosures in the relevant distance and time period. [Map #2a – 2c show the number of foreclosures, number of residential properties and foreclosure densities upon which TRF's computations were based.]

The City of Baltimore had average residential sale prices of $130,160 in 2004 and $152,501 in 2005. The average (mean) loss per home resulting from foreclosures is $8,799 (median = $6,545). The data show that 25% of Baltimore properties had experienced at least a $3,437 loss and 25% experienced more than $11,222 loss during the relevant distance and time period. [Map #3 and Map #4 show the mean and median loss of value per Census block group resulting from mortgage foreclosures.]

In the aggregate, TRF estimates that the total loss of value due to mortgage foreclosures in Baltimore is $1.798 billion.

In order to place this number in some context, TRF looked to several sources for estimates of the total value of residential property in Baltimore. According to the MD State Department of Assessment and Taxation, the city of Baltimore had a tax base of $13.9 billion in fiscal year 2006 which, if we apply the ratio reported in the State's Assessment Ratios Survey Report extends to approximately $17.8 billion. Depending upon the "true" aggregate value of residential real estate in Baltimore, this would mean that likely somewhere between 5% and 10% of the value of residential real estate in Baltimore is lost as a result of mortgage foreclosures.

Conclusion

There is a growing professional literature to suggest that there is a demonstrable adverse economic effect of mortgage foreclosures on the value of real estate – not to mention the social and individual family effects. Although it is unclear that specific results from one city are transferable to another, it is relatively certain that the impact of foreclosures will be likely negative and non-trivial.

Given the high density of foreclosures in Baltimore, even a small adverse effect extended across the city's large stock of residential property is going to yield a large aggregate effect. We can't say for certain that the result is $1.8 billion – it is an estimate. But without question, the adverse wealth effect of foreclosures on residential property value hurts many Baltimoreans and owing to where the impact is greatest (e.g., McElderry Park, Madison-Eastend, Ashburton, Belair-Edison, to name a few), we conclude that the adverse effect is likely greatest in the working and middle-class communities of Baltimore.

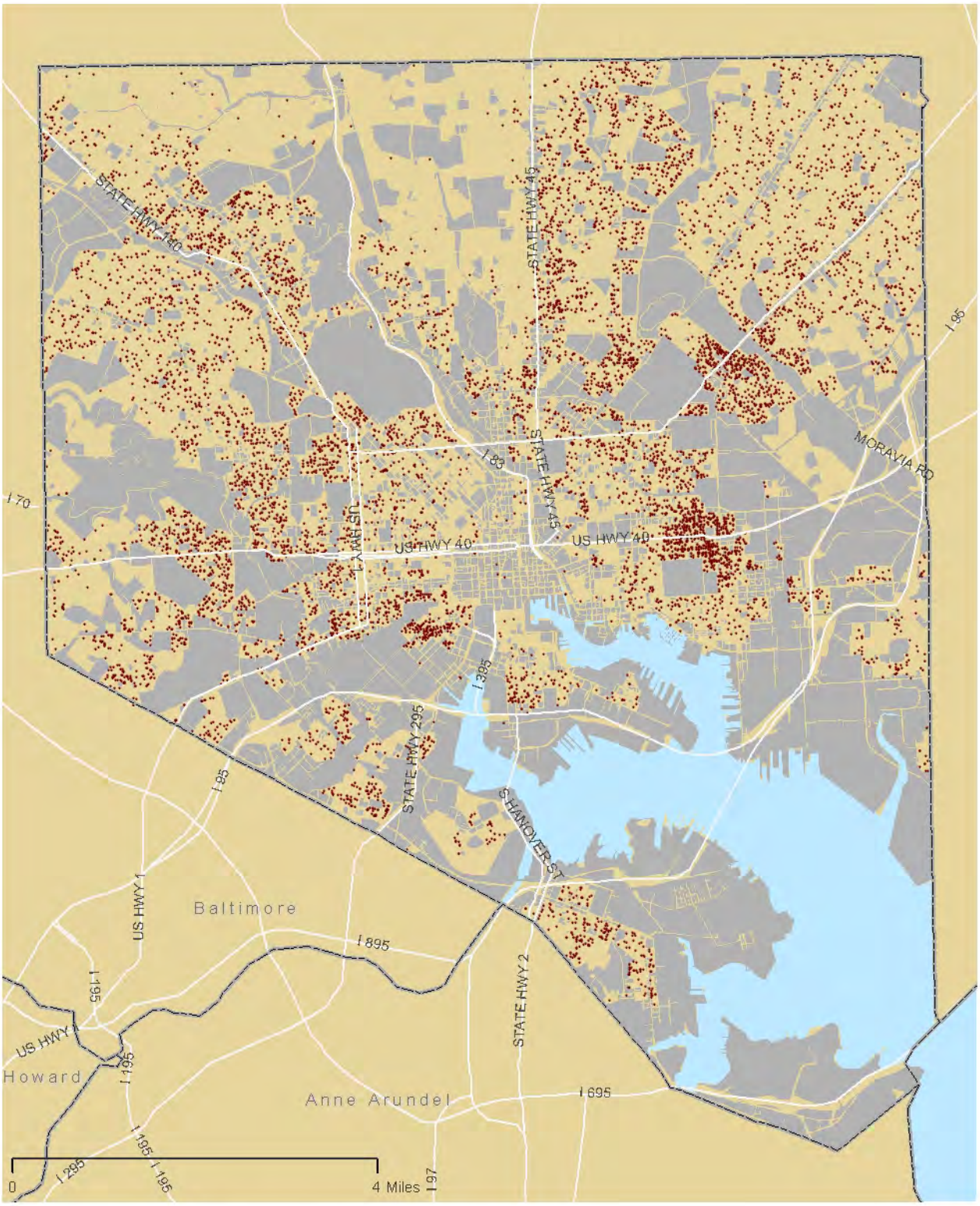
Selected References:

Cagan, Christopher. 2005. "Residential Foreclosures: The Prevalence, the Power, and the Opportunity." Retrieved from http://www.firstamres.com/pdf/Cagan_Foreclosures_102805.pdf

Goldstein, Ira and Richard Voith. 2006. One Industry's Risk is another Community's Loss: The Impact of Clustered Mortgage Foreclosures on Neighborhood Property Values in Philadelphia. Forthcoming.

Immergluck, Dan and Geoff Smith. 2005. "There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values." Retrieved from http://www.woodstockinst.org/publications/research_reports

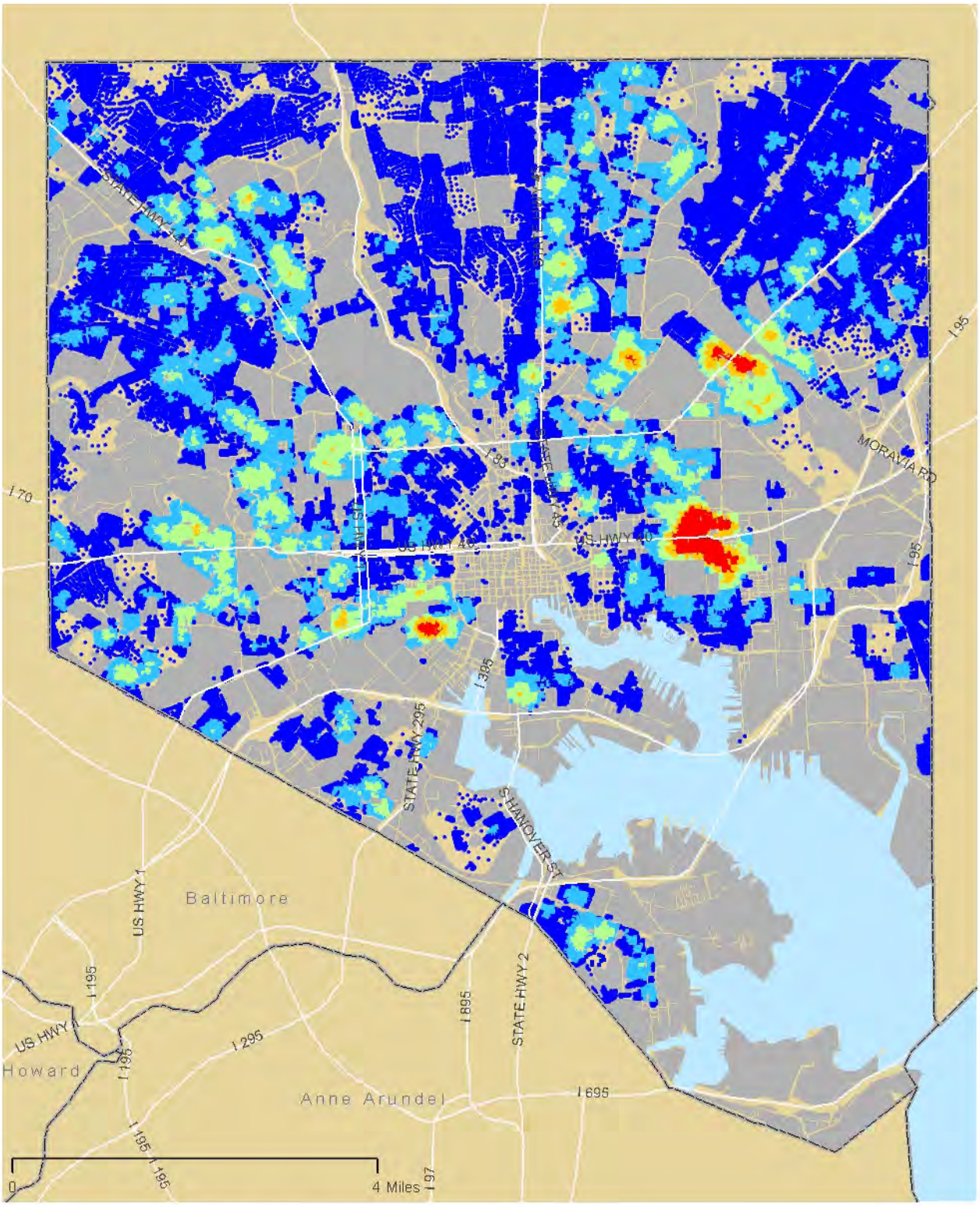
Map #1



Residential Foreclosures, 2002-2003

- Foreclosure
- Non-Residential

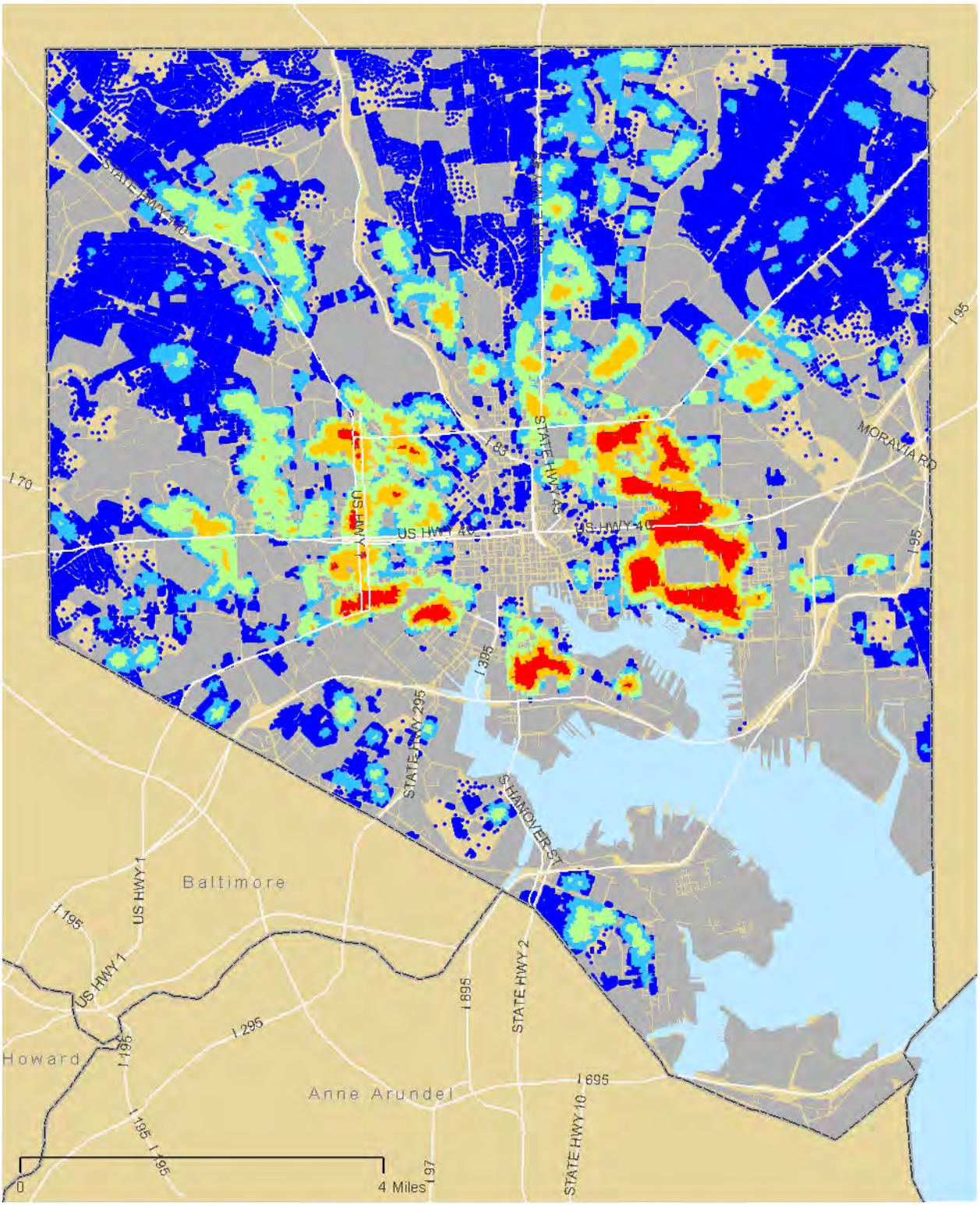
Map #2A



Count of Foreclosures within 1/8th mile radius

- 10 or Less
- 11 - 20
- 21 - 35
- 36 - 50
- Over 50
- Non-Residential

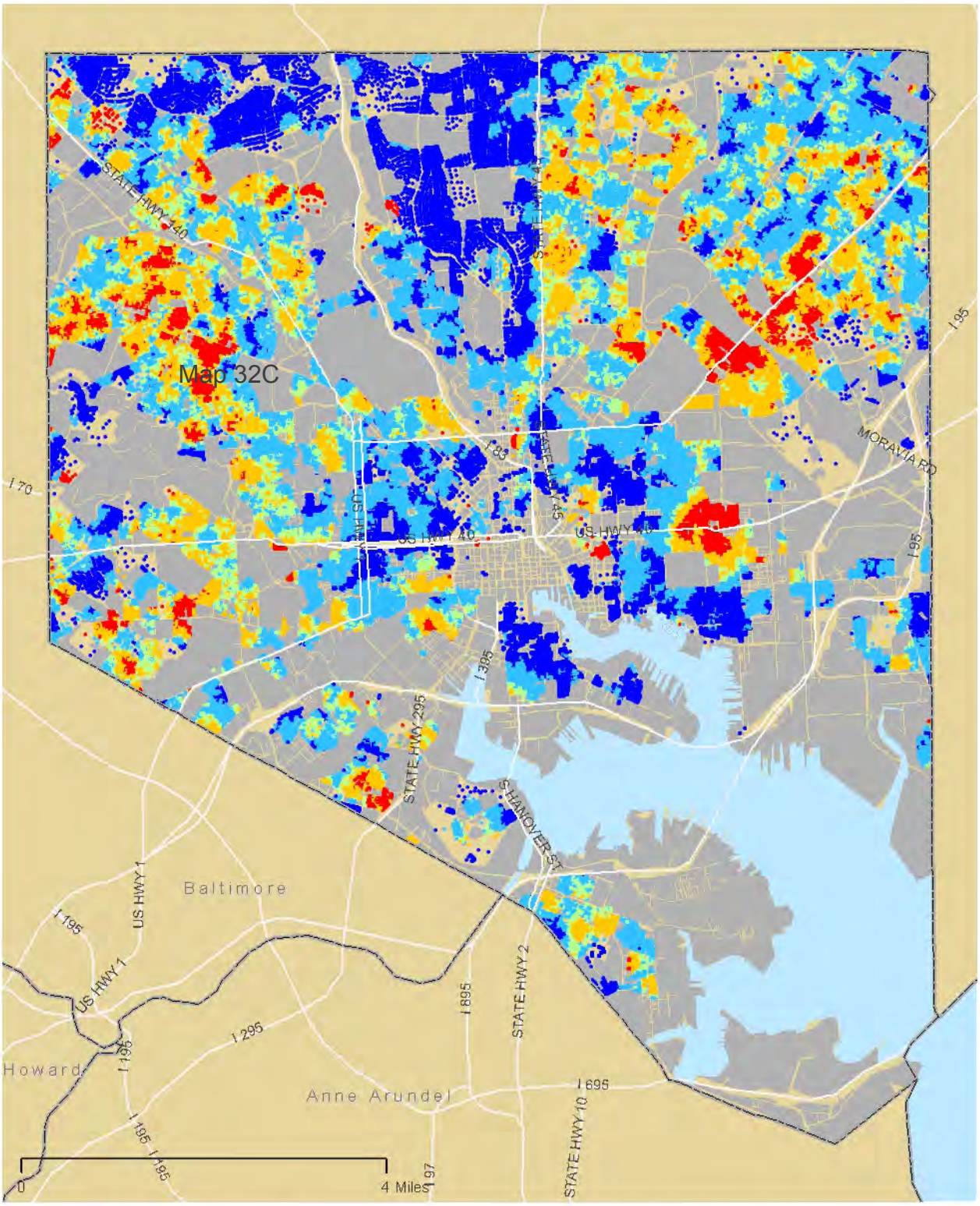
Map #2B



Count of Residential Properties within 1/8th mile radius

- 200 or Less
- 201 - 300
- 301 - 450
- 451 - 600
- Over 600
- Non-Residential

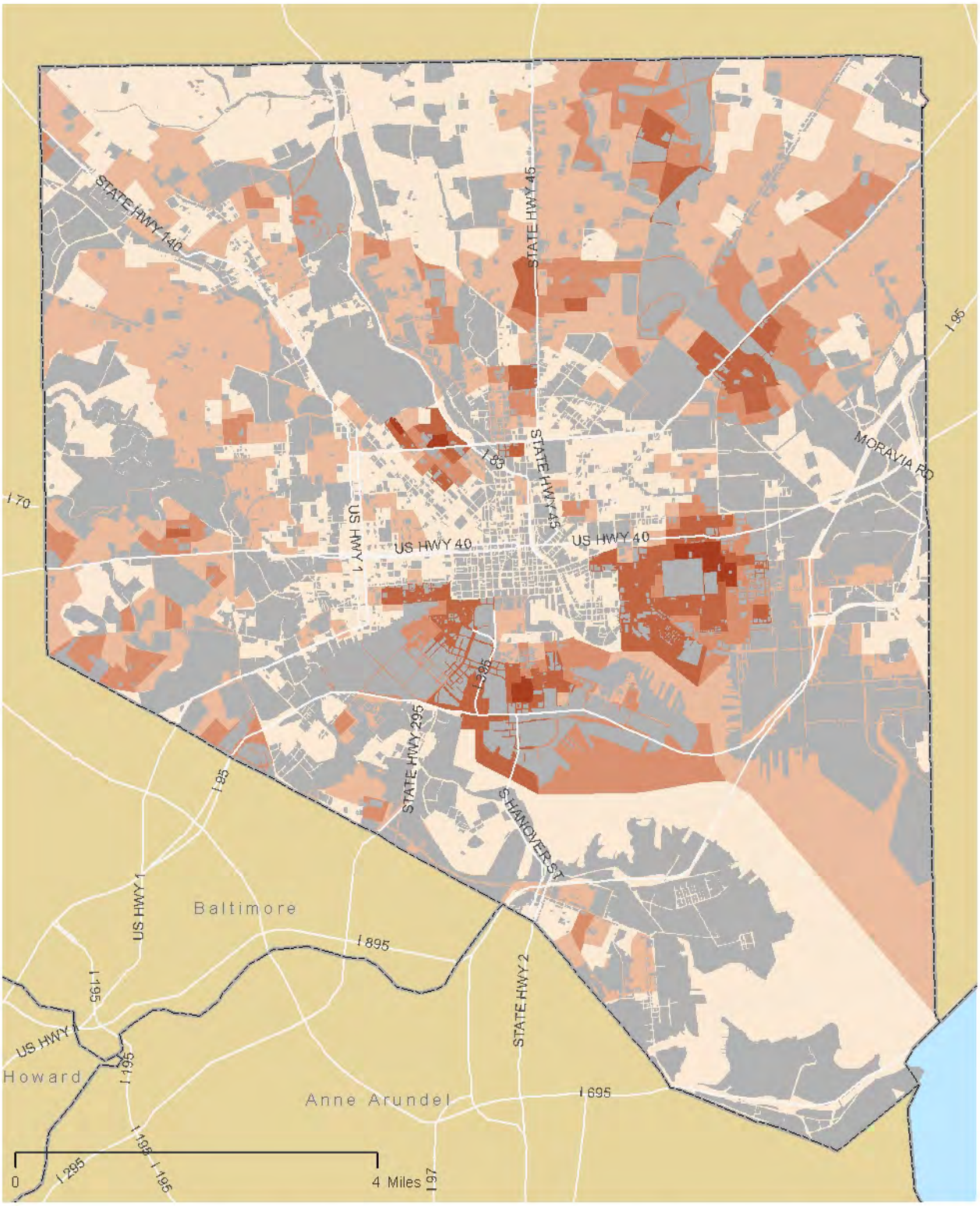
Map #2C



Local Foreclosure Rate

- 2% or Less
- 2.01% - 5%
- 5.01% - 6%
- 6.01% - 9%
- Over 9%
- Non-Residential

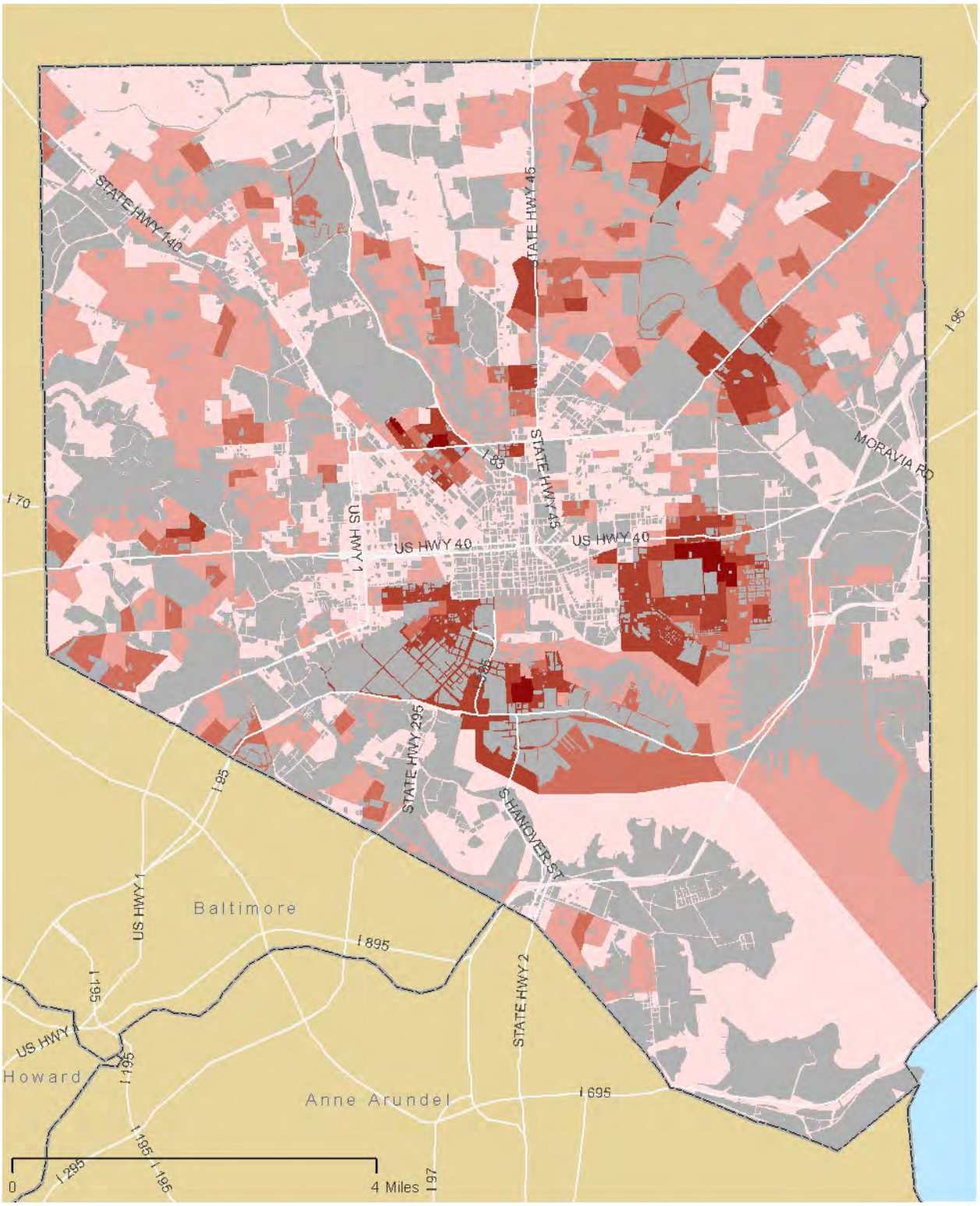
Map #3



Mean Loss of Property Value Due to Proximate Foreclosures

- $0.00 - $5,000.00
- $5,000.01 - $10,000.00
- $10,000.01 - $15,000.00
- $15,000.01 - $30,000.00
- Over $30,000
- Non-Residential

Map #4



Median Loss of Property Value Due to Proximate Foreclosures

- $0.00 - $5,000.00
- $5,000.01 - $10,000.00
- $10,000.01 - $15,000.00
- $15,000.01 - $30,000.00
- Over $30,000
- Non-Residential

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 $386 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 Delaware: Using the methodology presented in this report, TRFcompleted a similar analysis for the State Bank Commissioner in Delaware.

· 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. The former Secretary of Banking for the Commonwealth of Pennsylvania contracted with TRF to analyze and recommend regulatory strategies to the State Legislature, which was concerned with the rising level of mortgage foreclosures.

· 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

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Additional copies of this report can be obtained by visiting TRF's web site at www.trfund.com