Key Trends in Chicago Area Mortgage Lending:

Analysis of Data From
The *2004 Chicago Area Community Lending Fact Book*

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This analysis of Chicago area mortgage lending is intended as a companion piece to Woodstock Institute's 2004 *Chicago Area Community Lending Fact Book*. The *Fact Book* compiles data on neighborhood mortgage lending patterns and foreclosures to help inform community organizations, government regulators, and financial institutions about trends in neighborhood housing markets.[1] The following analysis is meant to help put the mortgage lending data found in the *Fact Book* in a broader regional context. What follows is a two part analysis using key pieces of data found in the *Fact Book*. The first section analyzes regional trends in home purchase lending with a focus on changes in home buying patterns between 1999 and 2004. The second section focuses on patterns of high cost lending and foreclosures in the region.

Key Findings

Home Purchase Lending

- **The south suburbs and the City of Chicago saw substantial increases in single-family home purchase lending.** Between 1999 and 2004, the number of single-family home purchase loans in suburban South Cook County increased by nearly 59 percent while home purchase lending in the City of Chicago and Will County each increased by over 52 percent over the same period. The smallest increase in single-family home purchase lending over this period was in DuPage County which saw a modest 5.8 percent increase in total home purchase lending. Of the 77 Chicago community areas, the 22 with the largest increases in home purchase lending between 1999 and 2004 were located either on the South or West Sides of the city.

- **The Chicago collar counties had the most lending turnover in the region in 2004.** When examining single-family home purchase loans per mortgageable property in 2004, the Chicago Six County Area was led by the collar counties of Will, McHenry, and Kane which had 13.6, 11.8, and 11.2 home purchase loans per 100 mortgageable properties respectively in 2004. In the City of Chicago, there were 10.3 loans per 100 mortgageable properties. Suburban Cook County lagged the region in terms of loans per property. North Cook and Southwest Cook County had the fewest loans per property with 7.2 and 7.5 loans per 100 mortgageable properties respectively in 2004.

- **The City of Chicago's dominance over the regional home purchase lending market grew between 1999 and 2004.** In 2004, over 28 percent of the home purchase loans in the Chicago Six County Area were in the City of Chicago. This was an increase of 3.4 percentage points from 1999 where 25 percent of the area's home purchase loans were in the City of Chicago. DuPage County's share of the regional single-family home purchase lending market declined by 2.9 percentage points between 1999 and 2004 from 13.8 percent to 10.9 percent.

- **Home buying by low-income borrowers declined between 1999 and 2004 while middle-income borrowers had the largest net increase.** Reversing a long-standing trend, the number of owner-occupied single-family home purchase loans to low-income home buyers declined between 1999 and 2004 by over 15 percent. Middle-income home buyers had the largest net increase in owner-occupied home purchase loans growing by 41 percent between 1999 and 2004.

[1] Mortgage lending data is reported under the federal Home Mortgage Disclosure Act (HMDA). Foreclosure data is purchased from the Foreclosure Report of Chicago and compiled by Woodstock Institute.

- **The overall share of home buyers who were low- and moderate-income declined between 1999 and 2004.** Region-wide, the share of home buyers who were low- and moderate-income declined by nearly 5 percentage points from 36.5 percent in 1999 to 31.7 percent in 2004. The largest declines were seen in West Cook County where the percent of home buyers who were low- and moderate-income declined by over 13 percentage points from 45.6 percent in 1999 to 32.3 percent in 2004.

High Cost Lending and Foreclosures[2]

- **In the Chicago Six County Area, minority borrowers were more likely to receive high cost loans than white borrowers.** An examination in 2004, over 40 percent of the conventional single-family mortgages to African-American borrowers in the Chicago area were high cost and over 25 percent of the loans to Hispanic borrowers were high cost. Ten percent of mortgages to white borrowers were high cost in 2004. This disparity widens as borrower income increases.

- **In the Chicago Six County Area, minority communities were more likely to receive high cost loans than white communities.** Nearly 38 percent of the conventional single-family mortgages originated in census tracts 80 percent or greater minority were high cost. This is greater than the regional average of 16.3 percent and far greater than in communities that are less than 10 percent minority where less than 9 percent of the conventional loans were high cost in 2004. Middle-income census tracts that were 80 percent or greater minority had the highest incidence of high cost lending for any type of census tract.

- **In the Chicago area, Federal Deposit Insurance Corporation (FDIC)-regulated lenders had the highest rate of high cost lending of any regulatory agency.** In 2004, nearly 32 percent of all conventional loans originated by FDIC-lenders were high cost. The FDIC regulates nonFederal Reserve member state banks. By comparison, 29.7 percent of loans originated by lenders regulated by the Department of Housing and Urban Development (HUD); 14.6 percent of loans originated by Federal Reserve-regulated lenders; 7.1 percent of loans originated by Office of Thrift Supervision (OTS); 4.8 percent of loans originated by Office of the Comptroller of the Currency (OCC)-regulated lenders; and 3.6 percent of loans originated by National Credit Union Administration (NCUA)-regulated lenders were high cost.

- **There were over 1,400 "High Risk" home loans originated in the Chicago Area in 2004.** There were 1,480 refinance and home improvement loans that crossed the APR triggers set in the Illinois High Risk Home Loan Act.

- **Between 1999 and 2004, foreclosures declined in the City of Chicago, but were on the rise in the suburbs.** Foreclosures in the City of Chicago decreased by 1.2 percent between 1999 and 2004. Over the same period, foreclosures in the suburban Chicago Six County Area increased by over 20 percent. The largest increase in foreclosures was in McHenry County where foreclosures more than doubled, increasing by over 230 percent.

[2] We define a "high cost" loan as any conventional, single-family mortgage where APR spread was reported. As of 2004, lenders are required to report the spread (or difference) between a loan's annual percentage rate (APR) and the U.S. Treasury rate for securities of comparable maturities if that spread is equal to or greater than 3 percentage points for first lien mortgages or equal to or greater than 5 percentage points for junior lien mortgages.

Trends in Home Purchase Lending

Home purchase lending is an important indicator of the health of a neighborhood economy. A home purchase loan represents an investment in a neighborhood by both a borrower and a lender. A home buyer or borrower, chooses where to live based not only on characteristics of the specific property they purchase, but also on the mix of amenities found in the neighborhood where that property is located. A buyer also chooses a home based on the potential for properties in a particular area to appreciate in value. When a financial institution agrees to lend money to a borrower for the purchase of a home, this loan is secured by the property being purchased. A lender underwrites a loan based on the credit quality of a borrower, but, if the lender believes that the property, or asset, will not retain or increase its value, they are less likely to make a loan or will charge a higher cost for the loan. Increasing levels of home buying in a neighborhood represents growing levels of investment in that community and a growing level of confidence in the future prospects of that area.

The following section examines trends in Chicago Six County Area home purchase lending. It first looks at geographic changes in the flow of home purchase lending within the region between 1999 and 2004 and then looks at changes in the distribution of home buyers by income level in the region over that same period. Overall, home purchase lending increased by 34 percent in the Chicago Six County Area between 1999 and 2004. This was driven by increases in the number of conventional home purchase loans which grew by nearly 58 percent. The number of government-insured home purchase loans such as FHA and VA loans declined by over 62 percent over this same period. General trends show home purchase lending becoming increasingly concentrated in the City of Chicago, particularly in neighborhoods near the lake, and in the rapidly growing suburban collar counties. Conversely, the intensity of mortgage lending in more established suburban areas such as suburban Cook County and DuPage County lagged the rest of the region. There was also the continuation of a trend of decreasing low- and moderate-income home buying in the city of Chicago. However there were also declines in low- and moderate-income home buying in suburban Chicago, a reversal of trends seen in earlier periods.

Looking more closely within the region:

The south suburbs and the City of Chicago saw substantial increases in single-family home purchase lending. South Cook County, the City of Chicago, and Will County had the largest increases in home purchase lending between 1999 and 2004. The number of home purchase loans in South Cook increased by nearly 59 percent while home purchase lending in the City of Chicago and Will County each increased by over 52 percent during the same period. The smallest increase in home purchase lending over this period was in DuPage County which saw a modest 5.8 percent increase in total home purchase lending.

The collar counties and the City of Chicago had the most lending turnover in the region in 2004. One way to measure the activity of local housing markets is to look at the number of loans made per mortgageable property.[3] A high number of loans per property in an area indicates a very active local mortgage market where a large share of the single-family housing stock is being bought and sold. Table 1 shows that the Chicago Six County Area averaged 9.6 home purchase loans per 100 mortgageable properties in 2004. The region was led by the collar counties of Will, McHenry, and Kane which had 13.6, 11.2, and 11.8 home purchase loans per 100 mortgageable properties respectively in 2004. In the City of Chicago, there were 10.3 loans per 100 mortgageable properties in 2004. Suburban Cook County lagged the region in terms of loans per property. North Cook and Southwest Cook County had the fewest loans per property with 7.2 and 7.5 loans per 100 mortgageable properties respectively in 2004. Despite substantial

[3]Woodstock Institute estimates the number of mortgageable single-family properties. This estimate is based on 2000 census numbers and includes 1-4 unit structures and condos. This number may underestimate the number of mortgageable properties in areas with high levels of new construction since 2000.

Table 1: Change in Chicago Six County Area Total Home Purchase Lending 1999 to 2004

Area	Home Purchase Loans 1999	Home Purchase Loans 2004	Percent Change 1999-2004	2004 Loans per 100 Props
City of Chicago	37,459	57,103	52.4%	10.3
North Cook	7,848	9,446	20.4%	7.2
Northwest Cook	13,363	17,298	29.4%	9.3
West Cook	9,398	12,058	28.3%	8.0
Southwest Cook	8,650	10,425	20.5%	7.5
South Cook	6,899	10,945	58.6%	8.8
Cook County Total	83,617	117,275	40.3%	9.1
Dupage County	20,650	21,848	5.8%	8.3
Kane County	9,781	13,580	38.8%	11.8
Lake County	14,674	17,322	18.0%	9.1
McHenry County	7,029	9,416	34.0%	11.2
Will County	14,034	21,352	52.1%	13.6
Six County Area Total	149,785	200,793	34.1%	9.6

increases in total home purchase loans, South Cook County also fell below the regional average for loans per property. Figure 1 maps first lien home purchase loans per 100 mortgageable properties by tract in the Six County Area in 2004. It shows a pattern of high levels of lending per property in the City of Chicago, particularly in neighborhoods near the lake. Figure 1 also reveals a semi-circular pattern of high lending per property in the collar counties. Starting in northern Lake County the pattern extends southwest and south through McHenry and Kane Counties and then southeast and east through Will County and South Cook County. Lower levels of lending per property are seen in an inner ring between Chicago near the lake and the outer suburban ring. This area includes much of suburban Cook County, parts of the City of Chicago on the south and northwest sides, and DuPage County.

In the City of Chicago, community areas on the South and West Sides experienced the most growth in home purchase lending. Between 1999 and 2004, the south side community area of Grand Boulevard had the largest increase in home purchase lending with an increase of over 415 percent. In fact, of the 77 Chicago community areas, the 22 with the largest increases in home purchase lending over this period were located either on the South or West Sides of the city (see *Fact Book* community area profiles). Many of these community areas are lower-income and started the period with very low lending levels. Despite significant increases, these areas still lag the city average in terms of lending per property. Only three community areas in the City of Chicago saw declines in home purchase lending between 1999 and 2004. Douglas, a community area on the city's near south side experienced a decline of over 24 percent. Additionally, the northwest side community areas of Forest Glen and North Park each experienced about a six percent decline in home purchase lending.

The City of Chicago's dominance over the regional home purchase lending market is growing. In 2004, over 28 percent of the home purchase loans in the Chicago Six County Area were in the City of Chicago (Table 2). This was an increase of 3.4 percentage points from 1999 where 25 percent of the area's home purchase loans were in the City of Chicago. Will County saw a slight increase in its share of regional home purchase loans with a 1.3 percentage point increase from 9.4 percent of area home purchase loans in 1999 to 10.6 percent in 2004. DuPage County saw the biggest decline in its share of regional home purchase lending. In 2004, 10.9 percent of area home purchase loans were in DuPage County. This was down 2.9

Figure 1

2004 Home Purchase Lending in the Chicago Six-County Area

First Lien Home Purchase Loans per 100 Mortgageable Properties

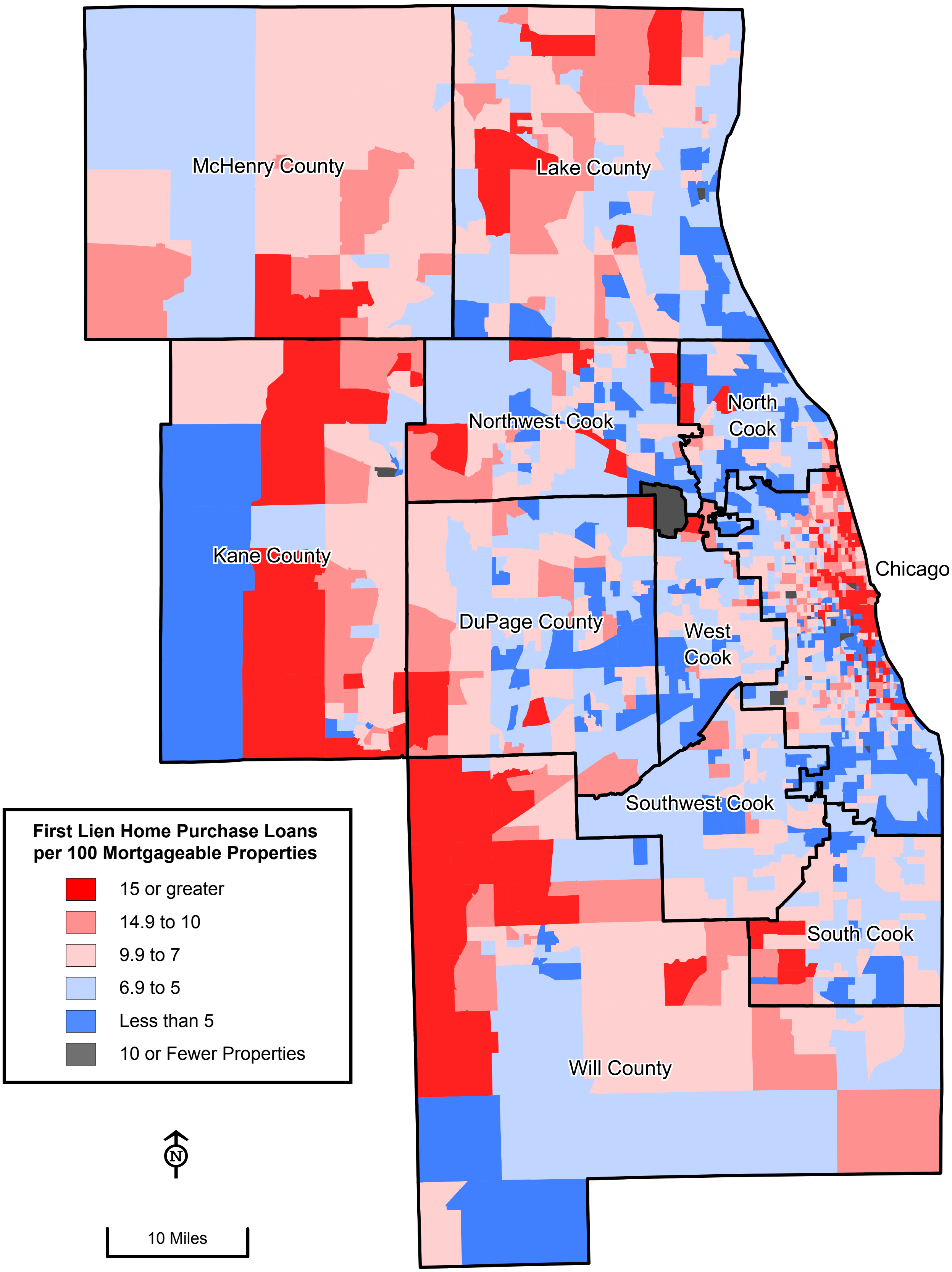


Table 2: Change in Distribution of Chicago Area Home Purchase Loans by Region 1999-2004

Area	Share of Home Purchase Loans 1999	2004	Change
City of Chicago	25.0%	28.4%	3.4%
North Cook	5.2%	4.7%	-0.5%
Northwest Cook	8.9%	8.6%	-0.3%
West Cook	6.3%	6.0%	-0.3%
Southwest Cook	5.8%	5.2%	-0.6%
South Cook	4.6%	5.5%	0.8%
Dupage County	13.8%	10.9%	-2.9%
Kane County	6.5%	6.8%	0.2%
Lake County	9.8%	8.6%	-1.2%
McHenry County	4.7%	4.7%	0.0%
Will County	9.4%	10.6%	1.3%
Chicago Six County Area	100%	100%	NA

percentage points from 1999 where 13.8 percent of the region's loans were in the county. This is further indication of a shift in home buying towards the central city and the collar counties and away from more established areas of suburban Cook County and DuPage County.

Examining the mix of the income-levels of home buyers in a neighborhood and how this mix changes over time can also be very useful in understanding neighborhood trends. In addition to absolute levels of home purchase lending, the changing income levels of homebuyers in a neighborhood can be a strong indicator of the condition of the local housing market. A community with rapidly increasing home purchase lending and a growing share of upper-income home buyers is likely in the process of gentrification. This could mean rapidly appreciating housing values or increased levels of condominium conversion or new construction geared towards higher-income households. This may have an effect on the supply of affordable purchase or rental housing in both the short- and long-terms and make it difficult for modest-income households to afford homeownership.

We examine changes in the income levels of home buyers of owner-occupied properties in the Chicago Six County Area. We focus on owner-occupied properties because these buyers will actually live in a community. Non-owner-occupied properties are typically investment or rental properties. Borrowers may or may not live in the community, and their income-level may not be reflective of neighborhood trends. For each given year, we define a "low-income" borrower as one whose income is less than 50 percent of the area median; a "moderate-income borrower" has income 50 to 79.9 percent of the median; a "middle-income" borrower is one with income 80 to 119.9 percent of the median. An "upper-income" borrower is one with an income between 120 and 199.9 percent of the area median. "High-income" borrowers are those with an income 200 percent or greater than the area median. To calculate income levels, we use annually updated estimates of median family income created by the U.S. Department of Housing and Urban Development. For example, in 2004 the estimated median family income for Cook, DuPage, Kane, McHenry, and Will Counties was $67,800 and for Lake County the median income used was $80,200.[4]

[4]Prior to 2004, the entire Chicago Six County Area was considered part of one metropolitan statistical area for the purpose of HUD's estimate of median family income. Starting in 2004, the greater Chicago metropolitan statistical area was divided up into separate metropolitan divisions. For the purpose of this analysis, Cook, DuPage, Kane, McHenry, and Will Counties comprise one metropolitan division and Lake County is part of a separate metropolitan division.

The results of our analysis show:

Home buying by low-income borrowers declined between 1999 and 2004 while middle-income borrowers had the largest net increase. Table 3 examines the change in owner-occupied home buying by income level of home buyers between 1999 and 2004. It shows that low-income home buyers were the only income level that saw a net decrease in home buying over this period. There were 15.5 percent fewer low-income home buyers in the Chicago Six County Area in 2004 than in 1999. This decline was most significant in Cook County where low-income home buying declined by nearly 31 percent with North Cook, West Cook, and the City of Chicago seeing the largest declines. The only regions of the Six County Area that experienced increases in low-income home buying were Will, McHenry, and Lake Counties.[5] While home buying by moderate-income households increased by nearly 19 percent, the largest increase in home buying in the Chicago area were seen by higher-income households. Middle-income home buyers had the largest net increase in owner occupied home purchase loans growing by 41 percent. This increase was largest in South Cook County and the City of Chicago where the number of middle-income home buyers increased by over 70 percent from 1999 to 2004. Will County had the largest increases in the highest-income home buyers. Between 1999 and 2004 in Will County, upper-income buyers making between 120 percent and 200 percent of the area median income increased by 71 percent, and high-income home buyers earning over 200 percent of the area median income increased by 92 percent.

Table 3: Change in Owner-Occupied Home Purchase Loans by Borrower Income-Level 1999-2004

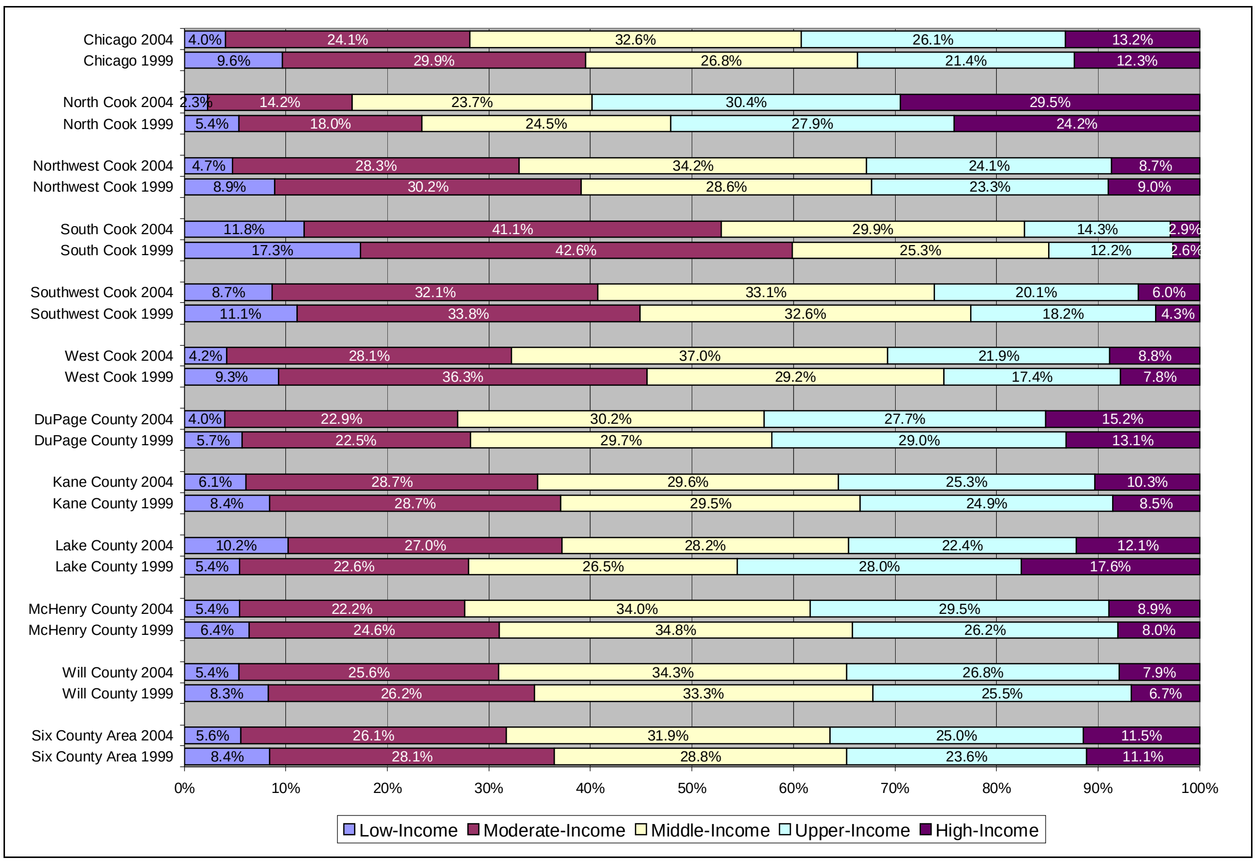
	Home Buyer Income Level				
	Low	**Moderate**	**Middle**	**Upper**	**High**
City of Chicago	-41.4%	12.9%	70.2%	70.3%	50.2%
North Cook	-53.7%	-14.2%	4.8%	18.1%	32.5%
Northwest Cook	-24.2%	33.2%	70.4%	47.1%	37.7%
West Cook	-46.2%	-7.0%	52.2%	50.6%	36.5%
Southwest Cook	-11.2%	7.7%	15.4%	25.2%	59.3%
South Cook	-1.7%	39.6%	71.1%	69.1%	59.3%
Cook County Total	-30.8%	14.0%	55.4%	53.4%	44.3%
DuPage County	-30.3%	0.6%	0.2%	-5.6%	13.9%
Kane County	-5.6%	29.6%	30.1%	31.7%	56.8%
Lake County	106.8%	31.4%	16.9%	-11.8%	-24.0%
McHenry County	6.1%	13.0%	22.6%	41.2%	38.8%
Will County	5.7%	58.9%	66.9%	71.0%	92.0%
Six County Area	-15.5%	18.6%	41.1%	34.6%	31.2%

These trends are a reversal from the 1990s which saw large increases in low- and moderate-income home buying and more modest increases in home buying by higher-income households. Between 1993-1994 and 1999-2000, the Chicago Six County Area saw a 72 percent increase in low-income home buying and a 51 percent increase in moderate-income home buying compared to 15 percent and 25 percent increases for

[5] For Lake County, our analysis shows a net increase of nearly 1,800 low- and moderate-income home buyers and a net decrease of over 1,000 upper- and high-income home buyers. These changes are much larger than those seen in other parts of the Six County Area. The magnitude of these changes is likely related to the new, higher median family income estimate used for Lake County in 2004. However, the trends that these numbers express are consistent with patterns seen prior to 2004. From 1999 to 2003, Lake County saw a net increase of 127 owner-occupied home purchase loans to low- and moderate-income home buyers and a net decrease of 144 loans to upper- and high-income borrowers.

middle- and upper-income households.[6] Figure 2 charts the composition of home buyers in the Chicago Six County Area by income level in 1999 and 2004. It shows a marked decline in the share of home buyers in the region that are low- and moderate-income. Region-wide, the share of home buyers who were low- and moderate-income declined by nearly 5 percentage points from 36.5 percent in 1999 to 31.7 percent in 2004. Over this period, all regions of the Chicago Six County Area saw declines in the share of home buyers who were low- and moderate-income except for Lake County. The largest declines were seen in West Cook County where the percent of home buyers who were low- and moderate-income declined by over 13 percentage points from 45.6 percent in 1999 to 32.3 percent in 2004 and in the City of Chicago where the percent of home buyers who were low- and moderate-income declined by over 11 percentage points from 39.5 percent in 1999 to 28.1 percent in 2004. This trend raises concerns about the ability of low- and moderate-income households, particularly first time home buyers, to purchase homes in the region.

Figure 2: Composition of Chicago Six County Area Home Buyers by Borrower Income-Level 1999 and 2004



The *2004 Chicago Area Community Lending Fact Book* charts changes in the income-level of home buyers at the neighborhood-level in the City of Chicago and the regional level for the Six County Area. For a more detailed examination of specific communities see the *Fact Book*.

[6]See Immergluck, Dan and Smith, Geoff. 2001. *Who's Buying Where? Part I: Home Buying By Income, 1993-2000* at www.woodstockinst.org

High Cost Mortgage Lending and Foreclosure Trends

Since the mid-1990s, community-based organizations, fair housing advocates, and many policy makers have been concerned about the rapid growth and extreme concentration of subprime mortgage lending in highly minority communities. A subprime loan is a mortgage made to a borrower with impaired or limited credit. In exchange for the increased risk of lending to such a borrower, a lender charges a higher cost for the loan. Concerns grew as research showed higher concentrations of subprime loans to minority communities and borrowers than white communities and borrowers with similar characteristics.[7] Evidence also showed that many loans in the subprime market contained abusive features such as onerous, unnecessary, and hidden fees and terms. These features enriched mortgage lenders and brokers, but stripped equity from borrowers who were often left with unaffordable loans that inevitably went into foreclosure.

High levels of subprime lending to minority markets can have substantial economic development implications. A borrower who may qualify for a low-cost prime mortgage, but receives a higher cost subprime loan is likely to pay tens or even hundreds of thousands of dollars in additional interest payments over the life of that loan. A recent report by the California Reinvestment Coalition estimates that minority borrowers in California pay $47.5 million per month more that white borrowers due to higher levels of high cost lending.[8] Woodstock Institute's research has shown that increased levels of subprime lending were the leading driver of skyrocketing foreclosures in minority communities in the Chicago area.[9] Foreclosures also have significant external impacts to the surrounding neighborhood. The Institute's research has shown that foreclosures have a negative impact on the value of nearby properties.[10] Research has also shown that higher foreclosure rates lead to higher rates of neighborhood violent crime.[11]

In 2004, federal regulators began to require that mortgage lenders who report data under the Home Mortgage Disclosure Act (HMDA) report pricing information for the high cost loans they originate. Starting with data collected in 2004, lenders are required to report the spread (or difference) between a loan's annual percentage rate (APR) and the U.S. Treasury rate for securities of comparable maturities if that spread is equal to or greater than 3 percentage points for first lien mortgages or equal to or greater than 5 percentage points for junior lien mortgages.

The following section examines the incidence of high cost loans in the conventional single-family mortgage market in the Chicago region. We consider a "high cost" loan any conventional, single-family mortgage where an APR spread was reported. Our analysis shows:

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[7]For example, see Immergluck, Dan and Marti Wiles. 1999. *Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development*. Woodstock Institute: Chicago, IL; National Community Reinvestment Coalition. 2003. *Broken Credit System: Discrimination and Unequal Access to Affordable Loans by Race and Age*. National Community Reinvestment Coalition: Washington, D.C.

[8]California Reinvestment Coalition. December 2005. W*ho Really Gets Higher-Cost Home Loans?* San Francisco, CA www.calreinvest.org

[9]Immergluck, Dan and Smith, Geoff. 2004. *Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures.* Woodstock Institute, Chicago, IL.

[10]Immergluck, Dan and Smith, Geoff. 2005. *There Goes the Neighborhood: The Relationship Between Single Family Mortgage Foreclosures and Property Values*. Woodstock Institute: Chicago.

[11]Immergluck, Dan and Smith, Geoff. 2005. *The Impact of Single-Family Mortgage Foreclosures on Neighborhood Crime*. From Federal Reserve System Community Affairs Research Conference. See http://www.chicagofed.org/cedric/files/2005_conf_paper_session1_immergluck.pdf

African-American and Hispanic borrowers are more likely to receive high cost loans than white borrowers. As reported in previous Woodstock's research,[12] in 2004, African-American and Hispanic borrowers were more likely to get high cost mortgage loans than white borrowers in the Chicago area. Table 4 shows that in 2004, over 40 percent of the loans to African-American borrowers in the Chicago area were high cost and over 25 percent of the loans to Hispanic borrowers were high cost. Ten percent of mortgages to white borrowers were high cost in 2004. This disparity in high cost lending increases as borrower income increases. Overall, African-American borrowers were four times more likely to receive high cost loans than white borrowers. However, "high-income" African-American borrowers, or those earning more than twice the area median income, were over five times more likely to receive high cost loans than high income white borrowers. In fact, a high-income African-American borrower was twice as likely to receive a high cost loan as a low-income white borrower. The patterns for Hispanic borrowers are much the same although the disparity is not as extreme.

Table 4. Percent of All Loans That Were High Cost by Borrower Race/Ethnicity and Income in the Chicago Six County Area, 2004

	White	African-American	Hispanic	Asian	Other	Total
Low-Income	12.1%	40.4%	19.1%	7.6%	31.5%	21.1%
Moderate-Income	13.2%	45.4%	26.8%	9.2%	31.4%	22.5%
Middle-Income	12.6%	42.5%	28.5%	10.4%	25.4%	19.4%
Upper-Income	9.3%	36.2%	24.8%	8.1%	17.7%	13.2%
High-Income	5.2%	26.6%	17.5%	5.7%	13.4%	7.0%
Total	10.0%	40.1%	25.3%	8.4%	23.1%	16.3%

Minority Communities were more likely to receive high cost loans than white communities with similar income-levels. Table 5 shows that as the percent of residents in a community who are minority declines, so does the percent of loans that are high cost. Nearly 38 percent of the conventional single-family mortgages originated in census tracts, 80 percent or greater minority were high cost. This is greater than the regional average of 16.3 percent percent and far greater than in communities that are less than 10 percent minority where less than 9 percent of the conventional loans were high cost in 2004. Middle-income census tracts that were 80 percent or greater minority had the highest incidence of high cost lending for any type of census tract. Nearly 41 percent of conventional loans in these tracts were high cost. On average, less than 18 percent of conventional loans to middle-income census tracts were high cost. The largest disparity between incidence of high cost lending in highly minority tracts and the regional average was in upper-income tracts, or those where the tract median family income was between 120 and 200 percent of the area median income. High cost lending is four times more likely in upper-income tracts where the population is 80 percent or greater minority, than in the average upper-income census tract.

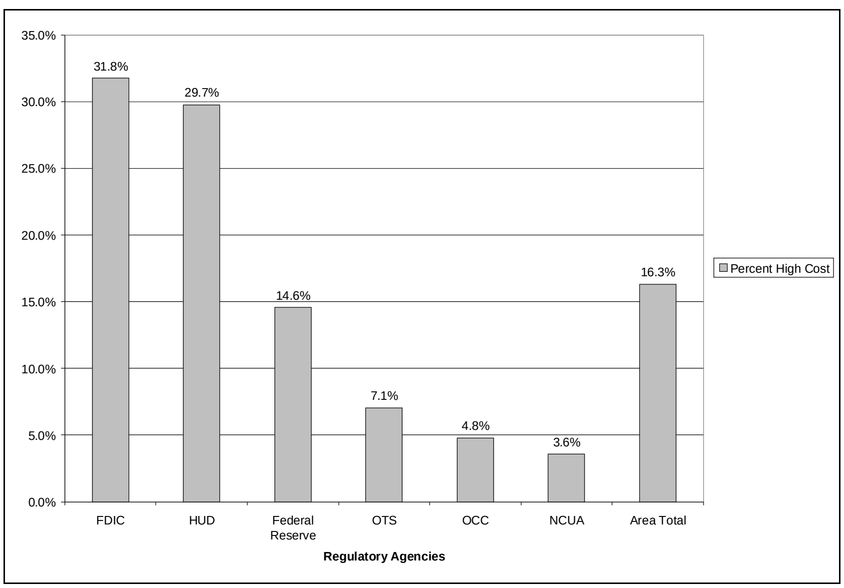
[12] *Reinvestment Alert 28: New Mortgage Lending Data Sheds Light on Subprime Market* examine high cost lending patterns for a sample of the largest lenders in the Chicago area. This alert can be found at www.woodstockinst.org.

Table 5: Percent of All Loans That Were High Cost by Tract Minority Status and Income-Level in the Chicago Six County Area, 2004

	Tract Minority Share					
Income-Level	**100%-80%**	**79.9%-50%**	**49.9%-25%**	**24.9%-10%**	**9.9%-0%**	**Total**
Low-Income	37.8%	13.1%	3.8%	NA	NA	34.5%
Moderate-Income	36.6%	20.6%	18.0%	18.0%	17.3%	27.8%
Middle-Income	40.9%	23.2%	17.3%	14.2%	12.8%	17.7%
Upper-Income	34.1%	17.1%	9.9%	8.4%	7.0%	8.4%
High-Income	NA	NA	4.9%	3.7%	2.8%	3.4%
Total	37.6%	21.2%	15.3%	10.6%	8.7%	16.3%

In 2004, FDIC-regulated lenders had the highest level of high cost lending of any regulatory agency. In the Chicago area, nearly 32 percent of the conventional single-family mortgages originated by FDIC-regulated lenders were high cost (see Figure 3). The FDIC regulates state banks that are not members of the Federal Reserve system. Lenders regulated by the Department of Housing and Urban Development (HUD) originated the second highest share of high cost loans with just under 30 percent. HUD has limited supervisory powers over independent mortgage companies. HUD-regulated lenders originated over 46,000 high cost loans in 2004. This is far greater than the 8,100 high cost loans originated by lenders regulated by the Federal Reserve, the next highest agency. FDIC-regulated lenders originated 7,774 high cost loans. Lenders regulated by the Office of Thrift Supervision originated 6,867 high cost loans, and lenders regulated by the Office of the Comptroller of the Currency (OCC) originated 5,927 high cost loans. Lenders regulated by the National Credit Union Administration originated had the lowest share of high cost loans among the regulatory agencies at just over 4 percent. Credit unions originated 152 high cost mortgages, the lowest of any regulatory agency.

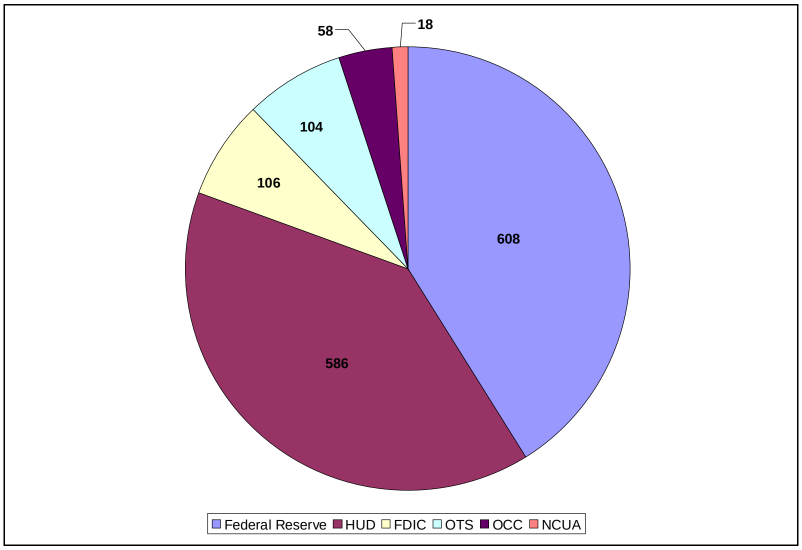
Figure 3: Percent of Conventional, Single-Family Loans That Were High Cost by Regulatory Agency 2004



There were over 1,400 "High Risk" home loans originated in the Chicago Area in 2004. On January 1, 2004, the Illinois High Risk Home Loan Act went into effect. The law was designed to protect Illinois home owners from some of the most abusive practices seen in the subprime lending market. The Act defines a set of loans that are considered "high risk" and requires that these loans are subject to increased protections and disclosures. A loan is considered high risk if it either A) is a home equity loans where the difference between the loan's APR and the U.S. Treasury rate for securities of comparable maturities is greater than 6 percentage points for first lien mortgages or greater than 8 percentage points for junior lien mortgages or B) the points and fees paid by the borrower exceed the greater of 5 percent of the total loan volume or $800. High risk loans are subject to a number of restrictions including limitations on prepayment penalties, a cap on the amount of points and fees that can be financed into the loan, a prohibition on financing single-premium credit life insurance, and restricting negative amortization. The High Risk Home Loan Act law covers state regulated mortgage lenders such as state banks, thrifts, and credit unions as well as independent mortgage companies and mortgage companies that are not direct operating subsidiaries of national banks or thrifts.

Examining only refinance and home improvement loans that exceed the High Risk Home Loan Act's APR triggers for first and junior lien mortgages, there were 1,480 high risk loans in the Chicago area in 2004.[13] The High Risk Home Loan Act may not cover all of these mortgages. The Act does not cover open-ended home equity lines of credit or reverse mortgages. Also, federal preemption exempts nationally chartered banks, thrifts, and their direct subsidiaries from complying with state banking laws. Of the loans exceeding the APR triggers, Figure 4 shows that the largest number of such loans were originated by lenders regulated by the Federal Reserve. These were primarily loans made by mortgage companies owned by a bank or thrift holding company. HUD was the regulatory agency with lenders originating the second largest number of loans surpassing High Risk Home Loan Act APR triggers.

Figure 4: Refinance and Home Improvement Loans Exceeding High Risk Home Loan Act APR Triggers by Regulatory Agency, 2004

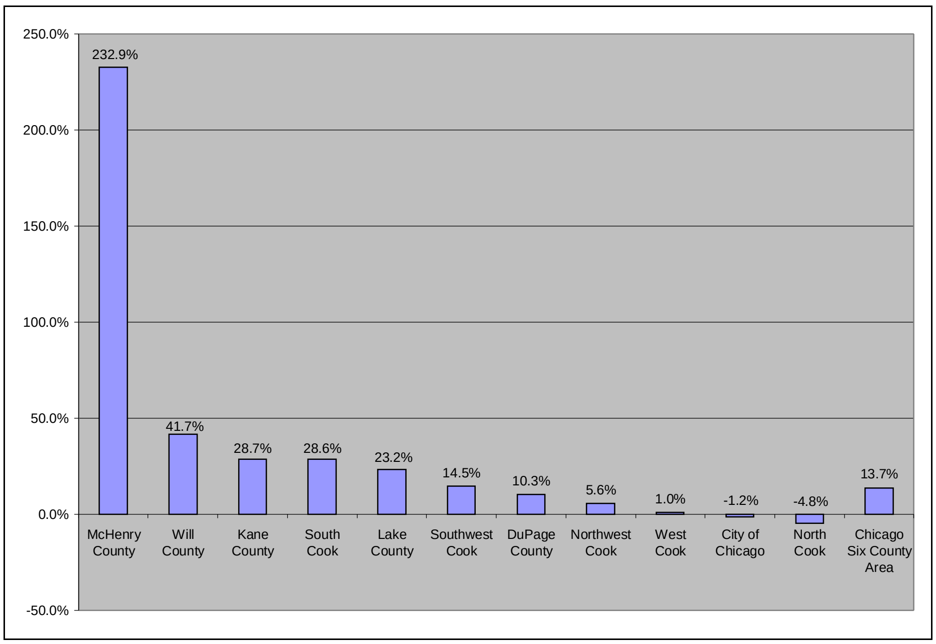


[13] This is likely a conservative estimate of the number of High Risk loans in the region.

These lenders are independent mortgage companies not affiliated with a bank or thrift holding company. Most of the lenders regulated by these two agencies are subject to the Illinois High Risk Home Loan Act. The Office of the Comptroller of the Currency (OCC) regulates national banks that are exempt for state banking law. These lenders originated 58 loans exceeding the High Risk Home Loan Act APR triggers. Figure 5 maps high risk home loans across the Chicago Six County Area and overlays these loans with census tracts that had an above average foreclosure rate in 2004.[14] Over 60 percent of such loans were in neighborhoods with high foreclosure levels.

Foreclosures are on the decline in the city, but on the rise in the suburbs. Between 1999 and 2004, foreclosures increased by over 12 percent in the Chicago Six County Area (see Figure 6). However, foreclosures in the City of Chicago decreased by 1.2 percent over this period. Over the same period, foreclosures in suburban Chicago increased by over 20 percent. The largest increase in foreclosures was in McHenry County where foreclosures increased by over 230 percent. In 2004, the Chicago area averaged 9.6 foreclosures per 1,000 mortgageable properties. South Cook County led the region by a substantial amount with 25.5 foreclosures per 1,000 mortgageable properties in 2004. The City of Chicago was second with 12.9. North Cook County and DuPage County had the lowest levels of foreclosures per property with 2.8 and 4.9 foreclosures per 1,000 mortgageable properties.

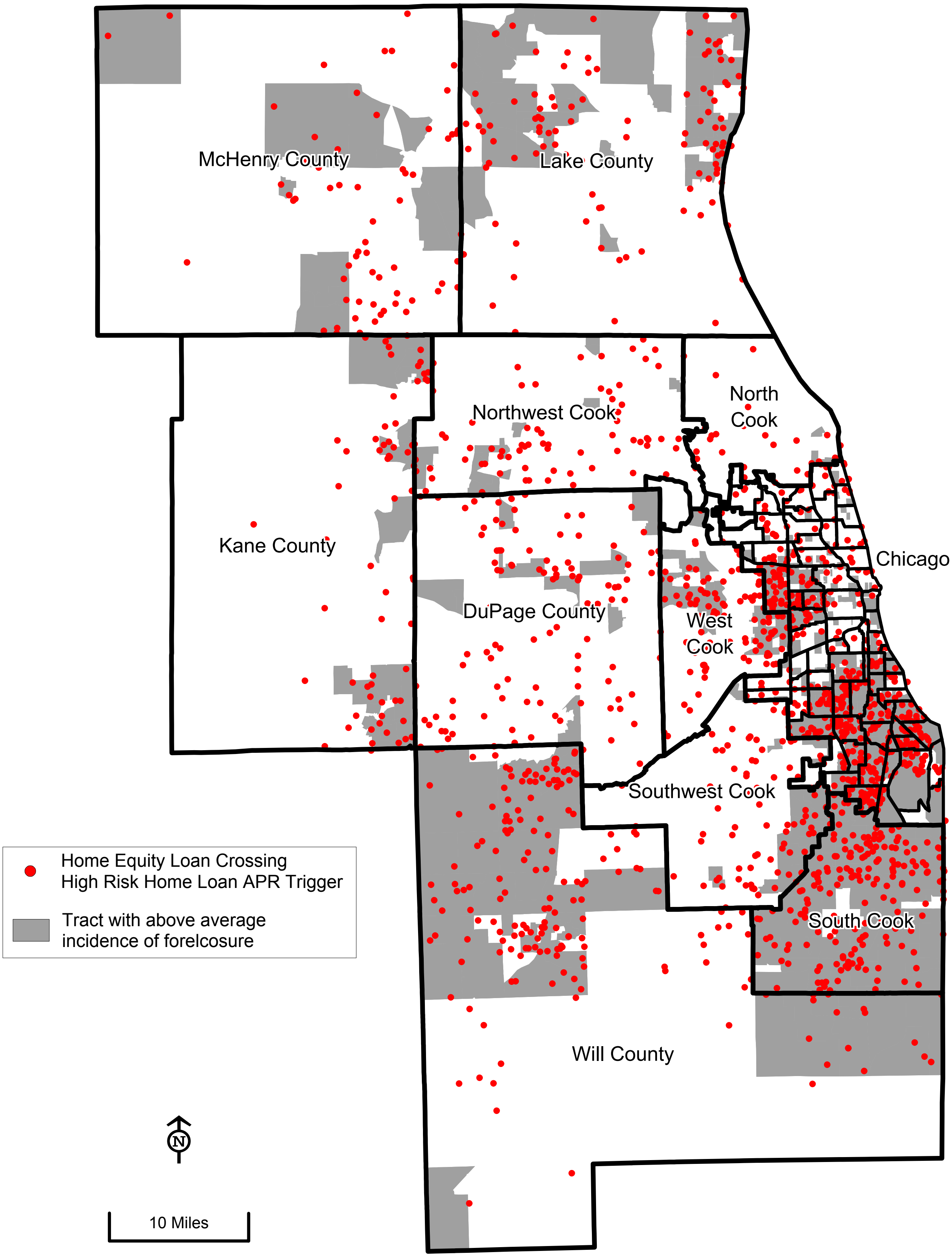
Figure 6: Change in Foreclosures in the Chicago Six County Area 1999 to 2004



[14]We classify any tract with 9.6 or greater foreclosures per 1,000 mortgageable property in 2004 as having an above average foreclosure rate.

Figure 5

Incidence of Home Equity Loans Crossing the Illinois High Risk Home Loan Act APR Triggers



Conclusion

The above mortgage lending trends have significant implications for low- and moderate-income households in the coming years. Declines in the share of low- and moderate-income home buying in the region is an indicator of growing housing affordability concerns in the Chicago area. Although real estate prices in the Chicago area have not appreciated at rates seen on parts of the East and West Coasts, an analysis by Moody's Economy published in the New York Times indicates that Chicago is the only Midwestern market to see a decline in housing affordability in the last 20 years.[15] This decline in affordability has been coupled with stagnant wage increases for low- and moderate-income households. According to recently released results of the 2004 Federal Reserve Board's Survey of Consumer Finances, between 2001 and 2004 the median income of low-income households increased by less than two percent and the median income of moderate-income households declined by over one percent. By comparison, between 1998 and 2001, the median income of low-income households increased by over 13 percent and the median income of moderate-income households increased nearly 11 percent.[16] The Survey of Consumer Finances also reveals that in 2004 the median net worth of White non-Hispanic households was nearly six times greater than that of non-white or Hispanic households. For most modest-income families, the largest component of net worth is the family home. Concentrated levels of high cost lending to minority markets threaten the ability of minority households to build equity and narrow this disparity in net worth.

[15] See Leonhardt, David and Motoko Rich. December 29, 2005. "Twenty Years Later, Buying a House is Less of a Bite." *New York Times*

[16] The Survey of Consumer Finances (CSF) defines income-levels differently than we do in this report. The CSF looks at the distribution of all household incomes of survey participants and places each household into a quintile category. We define low- and moderate-income as a household in one of the two lowest quintiles. See Bucks, Brian, et. al. March 2006. *Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances*. Federal Reserve Bulletin.

Appendix

Chicago Area Community Lending Fact Book

For the last 21 years, Woodstock Institute has produced the *Community Lending Fact Book*, an annual guide to mortgage lending in the City of Chicago and its neighborhoods.[17] The goal of the *Fact Book* is to empower community-based organizations concerned with the economic health of their neighborhoods through access to data on neighborhood mortgage markets. The *Fact Book* is also meant to inform policy makers, regulatory agencies, and financial institutions about access to mortgage finance in the region and opportunities for investment in underserved markets.

The *Fact Book* compiles mortgage lending data made publicly available under the Home Mortgage Disclosure Act (HMDA). HMDA was passed in 1975 in response to concerns that banks were not making mortgage loans to qualified borrowers in minority communities. The data reported under HMDA are used to monitor lenders to ensure that they are meeting the housing finance needs of all communities, to aid enforcement of fair lending laws, and to provide information on gaps in local housing markets. HMDA requires that most lenders report information on the mortgage applications that they receive. Information available in the HMDA data includes an applicant's race, gender, and income; the census tract location of the property; the type and purpose of the loan; whether or not the loan application was granted; and who, if anyone, purchased the loan after origination. Recent changes to data reported under HMDA also require lenders to report data on the pricing of the higher cost loans they originate. These changes were driven by concerns that minority borrowers were receiving higher cost mortgage loans that white borrowers with similar credit qualifications.

The *Chicago Area Community Lending Fact Book* is a comprehensive guide to mortgage lending in the Chicago region. It includes profiles for each of Chicago's 77 community areas as well as for regions of suburban Cook County and DuPage, Kane, Lake, McHenry, and Will Counties. Each area profile contains information on neighborhood housing characteristics, mortgage lending trends, foreclosure trends, the incidence of high cost lending by borrower race/ethnicity, and changes in the income-levels of local home buyers. Each profile also lists the area's top 30 lenders and the percent of loans that each originated that were high cost. The *Fact Book* includes maps for the City of Chicago and the Six County Area showing home purchase lending per property, the incidence of high cost lending, and foreclosures per property.

The analysis in this report uses data found in the *Fact Book* to examine trends in home purchase lending and high cost lending in the region. Readers should refer to the *Fact Book* to see how individual neighborhoods fit into the regional context discussed above.

[17] In 2002, the *Fact Book* was expanded to include mortgage lending activity in the suburban counties surrounding Chicago.

Major Municipalities in Suburban Cook County Regions

North
Arlington Heights
Deerfield
Des Plaines
Evanston
Glencoe
Glenview
Kenilworth
Lincolnwood
Mount Prospect
Niles
Northbrook
Northfield
Park Ridge
Skokie
Wilmette

Northwest
Arlington Heights
Barrington
Barrington Hills
Bartlett
Buffalo Grove
Des Plaines
Elk Grove Village
Hoffman Estates
Inverness
Mount Prospect
Palatine
Prospect Heights
Rolling Meadows
Rosemont
Schaumberg
South Barrington
Streamwood
Wheeling

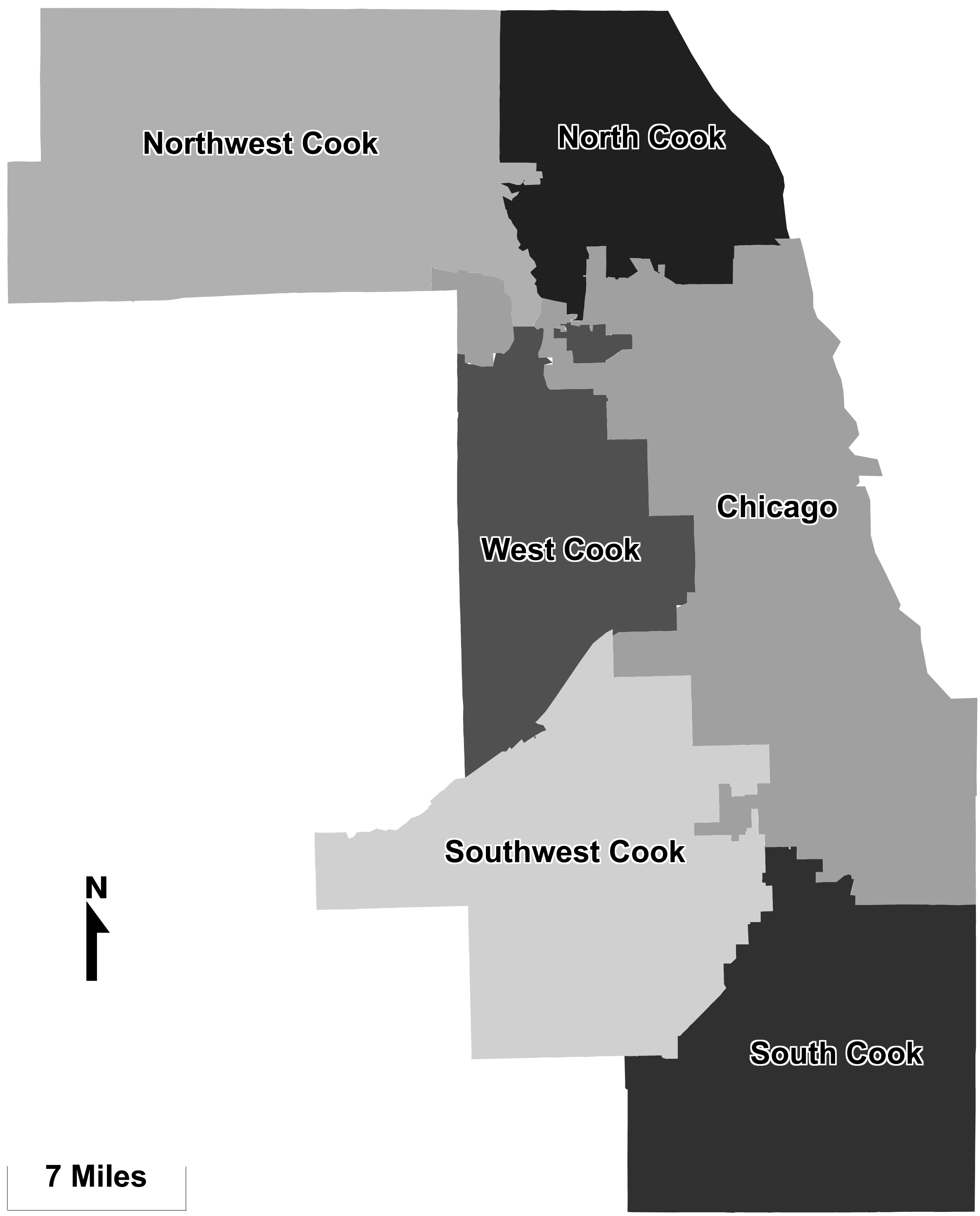
West
Bedford Park
Bellwood
Bensenville
Berkeley
Berwyn
Broadview
Brookfield
Burr Ridge
Cicero
Countryside
Elmwood Park
Forest Park
Forest View
Franklin Park
Harwood Heights
Hillside
Hinsdale
Hodgkins
Indian Head Park
Justice
Lagrange
Lagrange Park
Lyons
Maywood
McCook
Melrose Park
Norridge
North Riverside
Northlake
Oak Park
River Forset
River Grove
Riverside
Schiller Park
Stickney
Stone Park
Summit
Westchester
Western Springs
Willow Springs

Southwest
Alsip
Bedford Park
Blue Island
Bridgeview
Burbank
Chicago Ridge
Crestwood
Evergreen Park
Hazel Crest
Hickory Hills
Justice
Lemont
Merrionette Park
Midlothian
Oak Forest
Oak Lawn
Orland Hills
Orland Park
Palos Heights
Palos Hills
Palos Park
Robbins
Summit
Tinley Park
Willow Springs
Worth

South
Blue Island
Burnham
Calumet City
Calumet Park
Chicago Heights
County Club Hills
Dixmoor
Dolton
Flossmor
Ford Heights
Glenwood
Glenwood
Harvey
Hazel Crest
Homewood
Lansing
Lynwood
Matteson
Oak Forest
Olympia Fields
Park Forest
Phoenix
Posen
Richton Park
Riverdale
Sauk Village
South Chicago Heights
South Holland
Steger
Thornton

*Italics indicate that a municipality primarily lies in another region

Cook County Subregions



WOODSTOCK INSTITUTE

Woodstock Institute, a Chicago nonprofit incorporated in 1973, works locally and nationally to promote sound community reinvestment and economic development in lower-income and minority communities. It collaborates with community organizations, financial institutions, foundations, government agencies, and others to promote its goals.

The Institute engages in applied research, policy analysis, technical assistance, public education, and program design and evaluation. Its areas of expertise include: CRA and fair lending policies, financial and insurance services, small business lending, community development financial institutions, and economic development strategies.