

# **A Look at Subprime Mortgage Originations: 2000-2007**

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**&**

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**Disclaimer:**

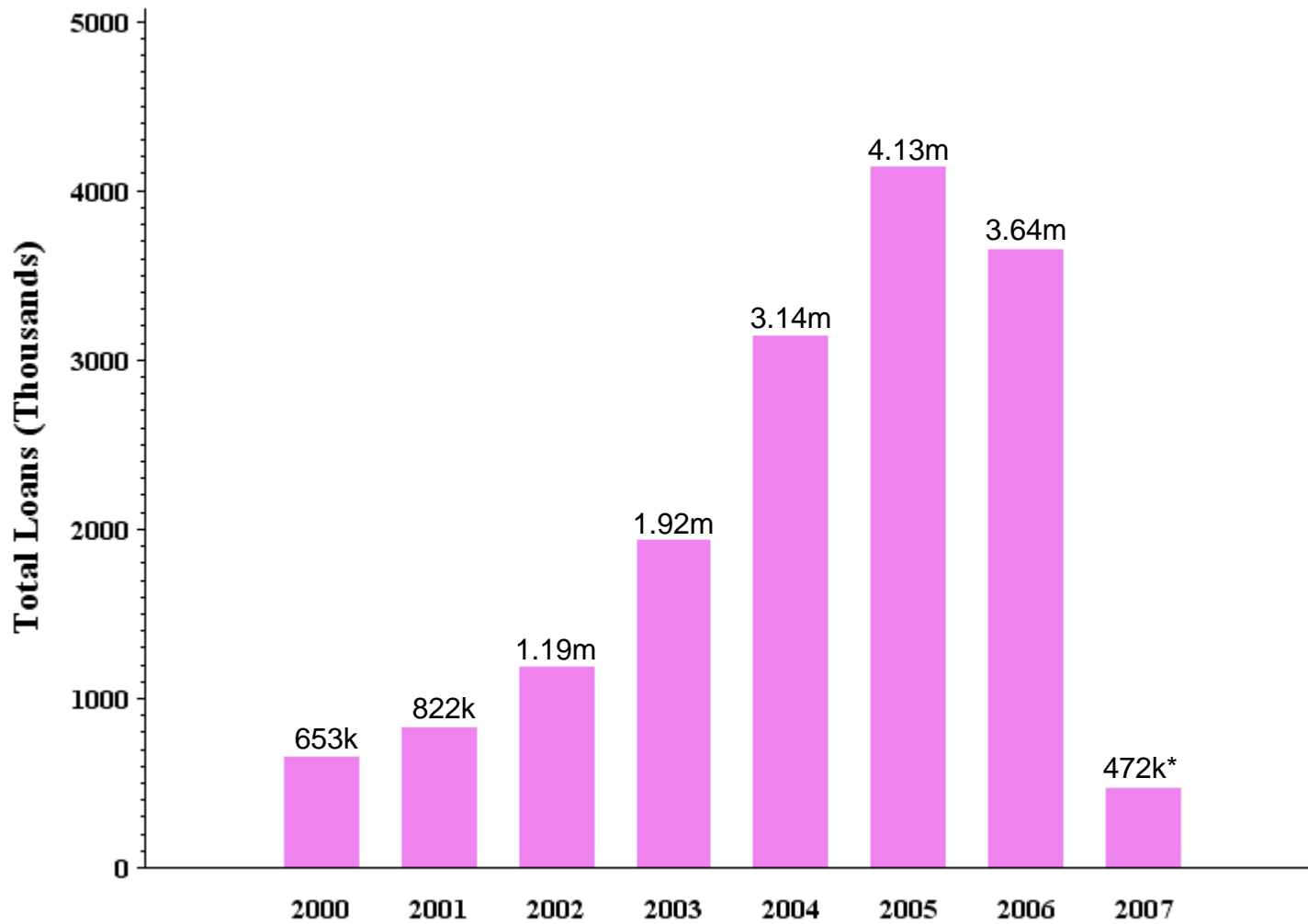
The views and opinions in this presentation may not reflect those of the authors  
affiliations.

**May 29<sup>th</sup>, 2008**

# Data

- Loan Performance Non-prime ABS
  - ABS market coverage: ~85%
- Time Period: 2000:Jan – 2007:July
- Total # Originations: ~ 16 million loans
- Focus on mortgage originations by
  - Product Types
  - Loan Types
  - Borrower Types

# Subprime Mortgage Originations



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

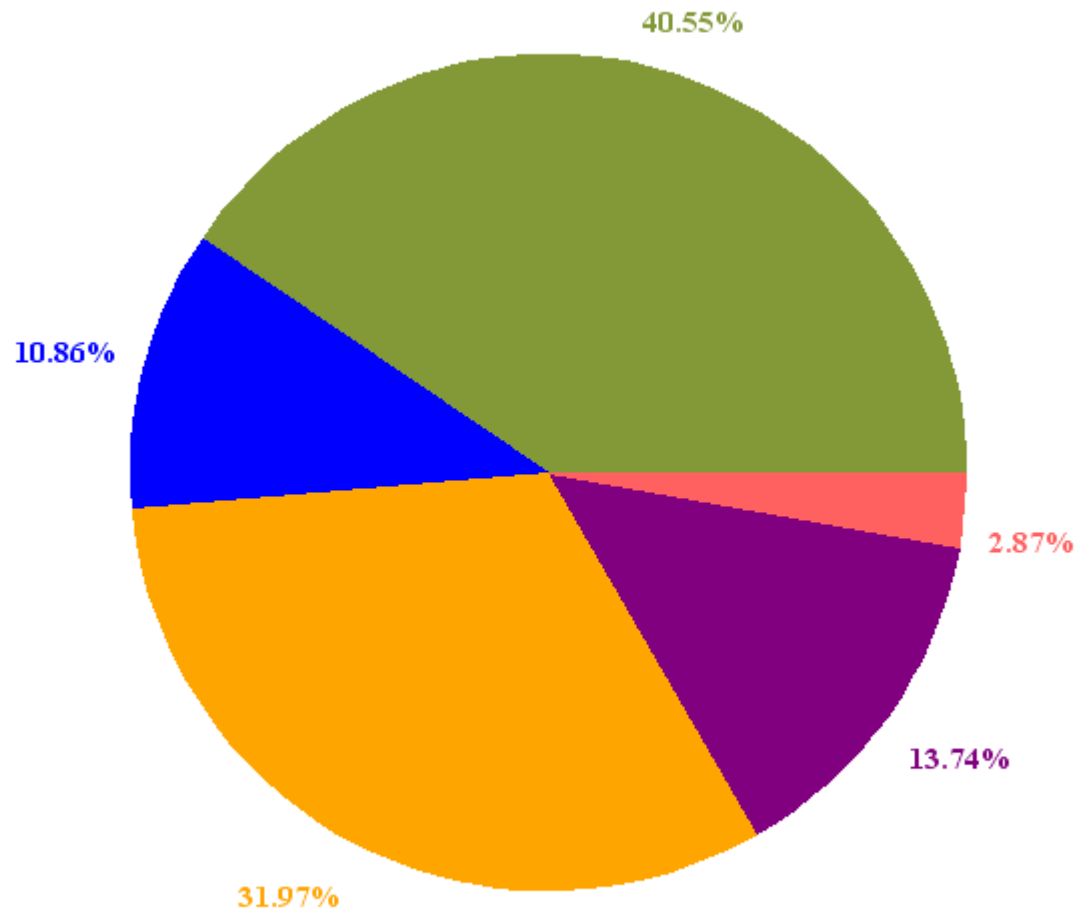
Origination Year

# PRODUCT TYPES

# Product Types

- What are they?
  - ARM (non-IO, non-balloon)
  - FRM (non-IO, non-balloon)
  - Balloon
    - Amortization > Term
      - FRM, ARM, Hybrid etc...
  - IO ARM
  - Other
    - IO FRM, step, etc...

# Subprime Mortgage Originations by Product

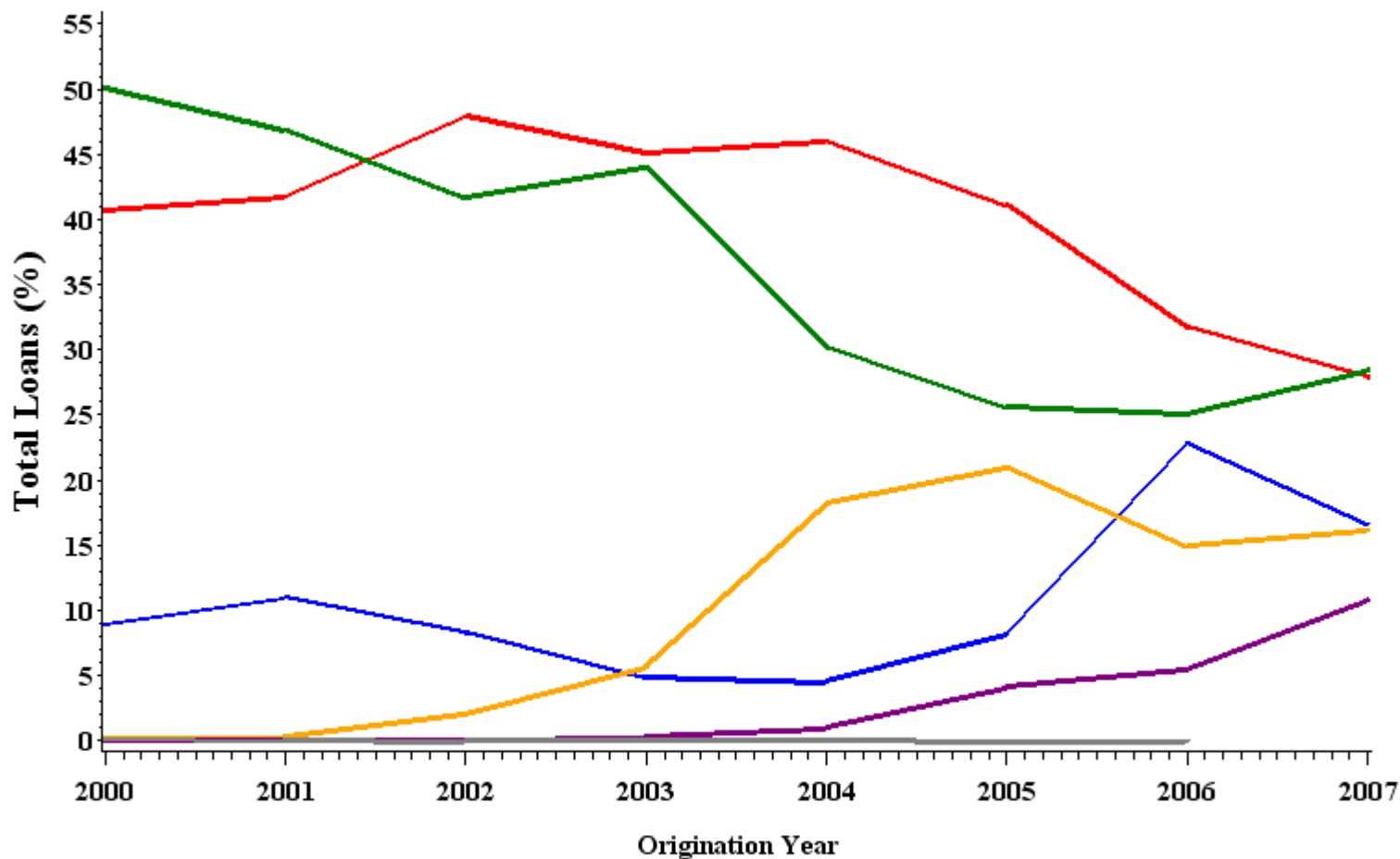


DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

## Product Type

ARM BALLOON FRM IO\_ARM OTHER

## Subprime Mortgage Originations by Product



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Product Type    ARM    BALLOON    FRM  
                   IO\_ARM    IO\_FRM    OTHER

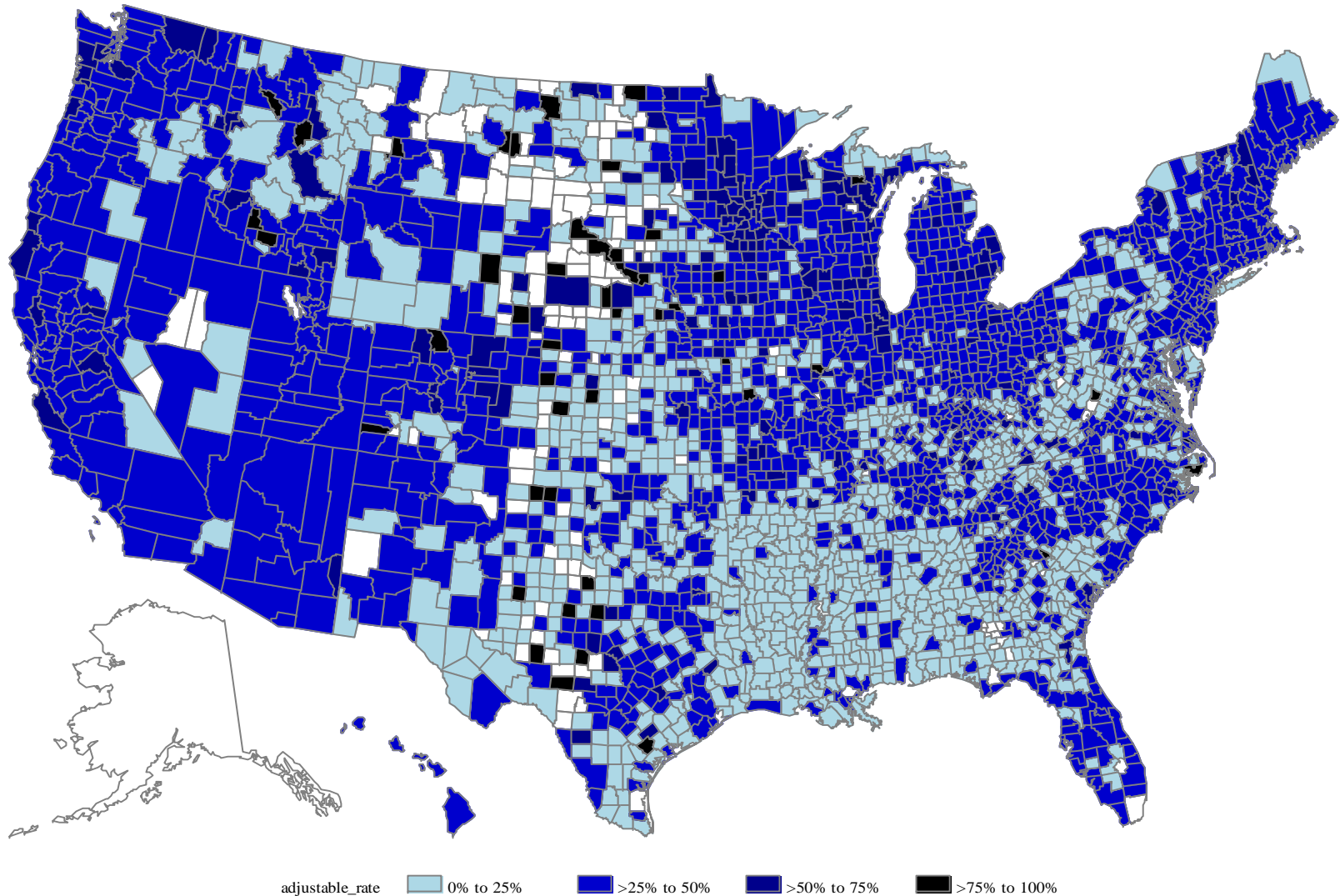
# Product Types

- Why did the subprime market use these loan types?
- To help answer this question
  - Lets look at some maps
    - Spatial Distribution of products



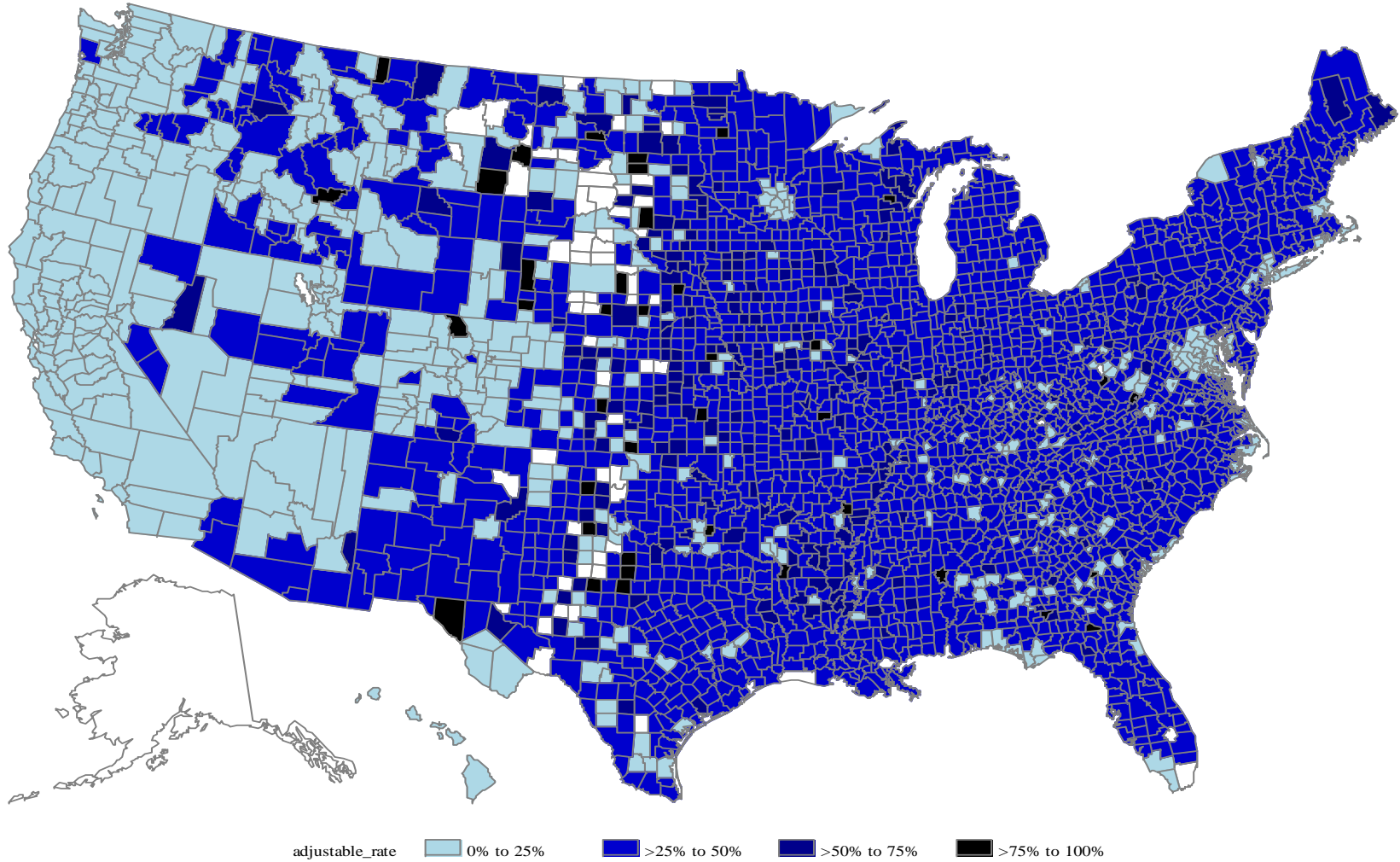
# 2000 - Percent of All Loans – Adjustable Rate

(does not include IO or Balloon ARMs)

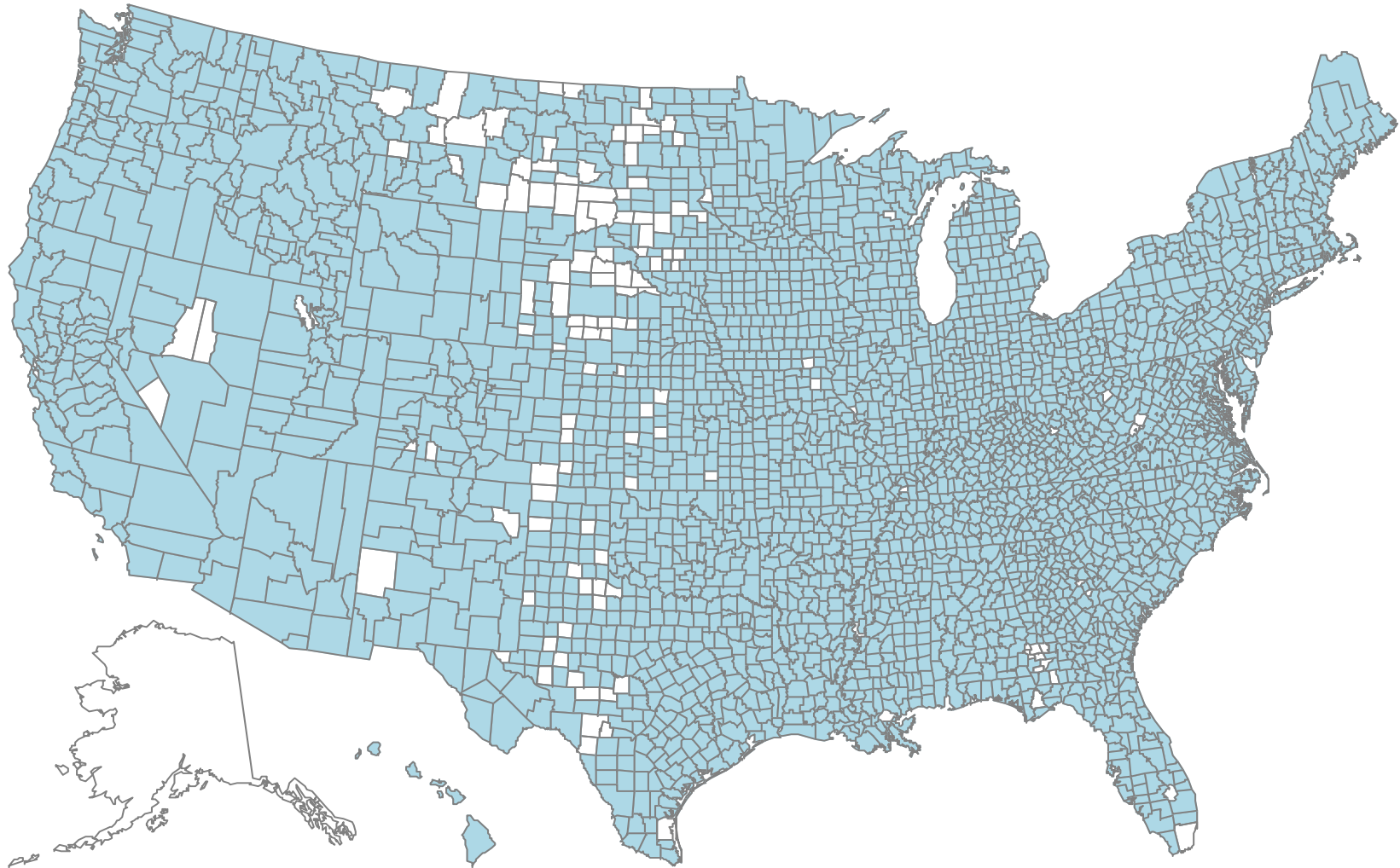


# 2006 - Percent of All Loans – Adjustable Rate

(does not include IO or Balloon ARMs)

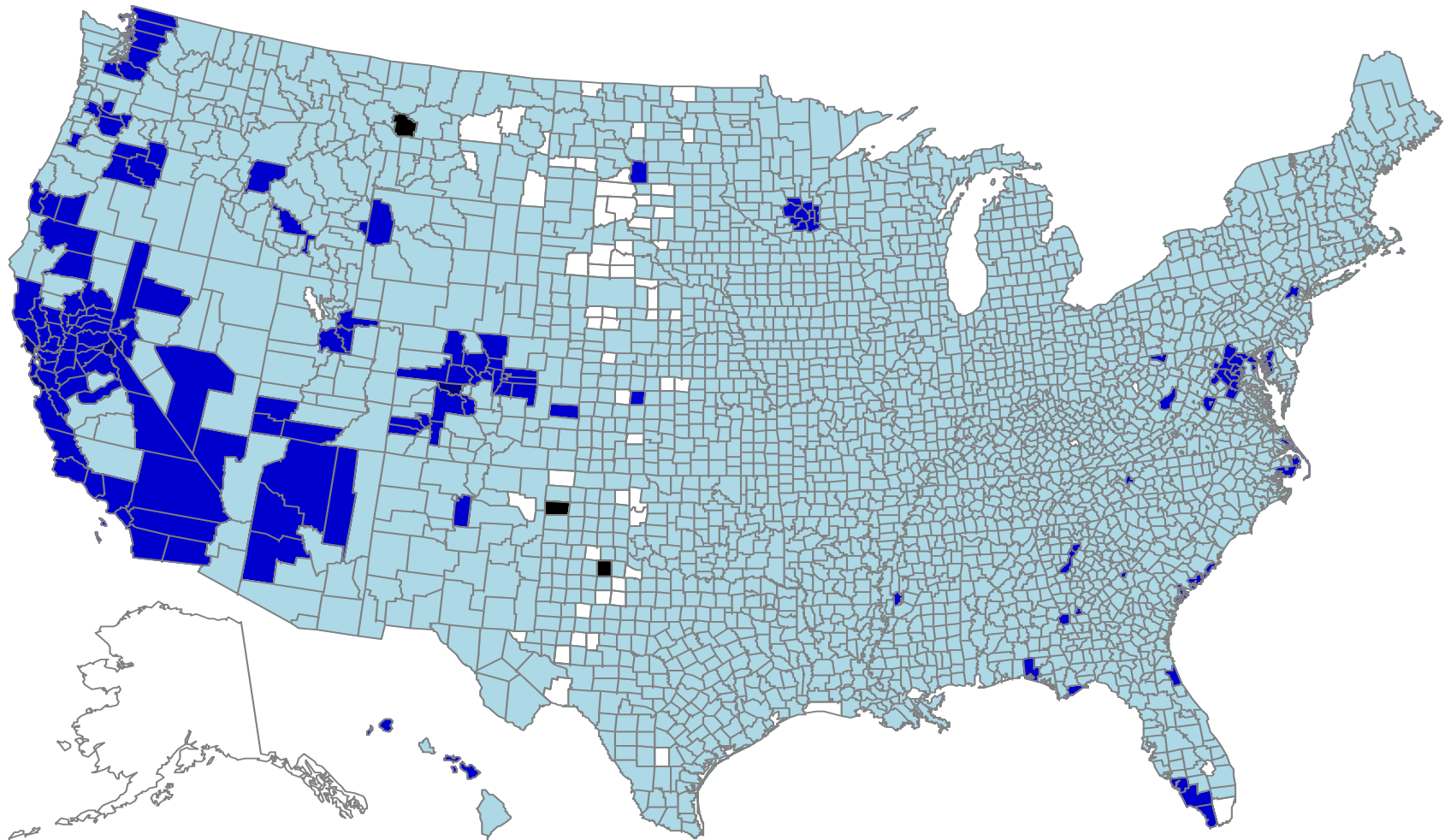


# 2000 - Percent of All Loans – Interest Only



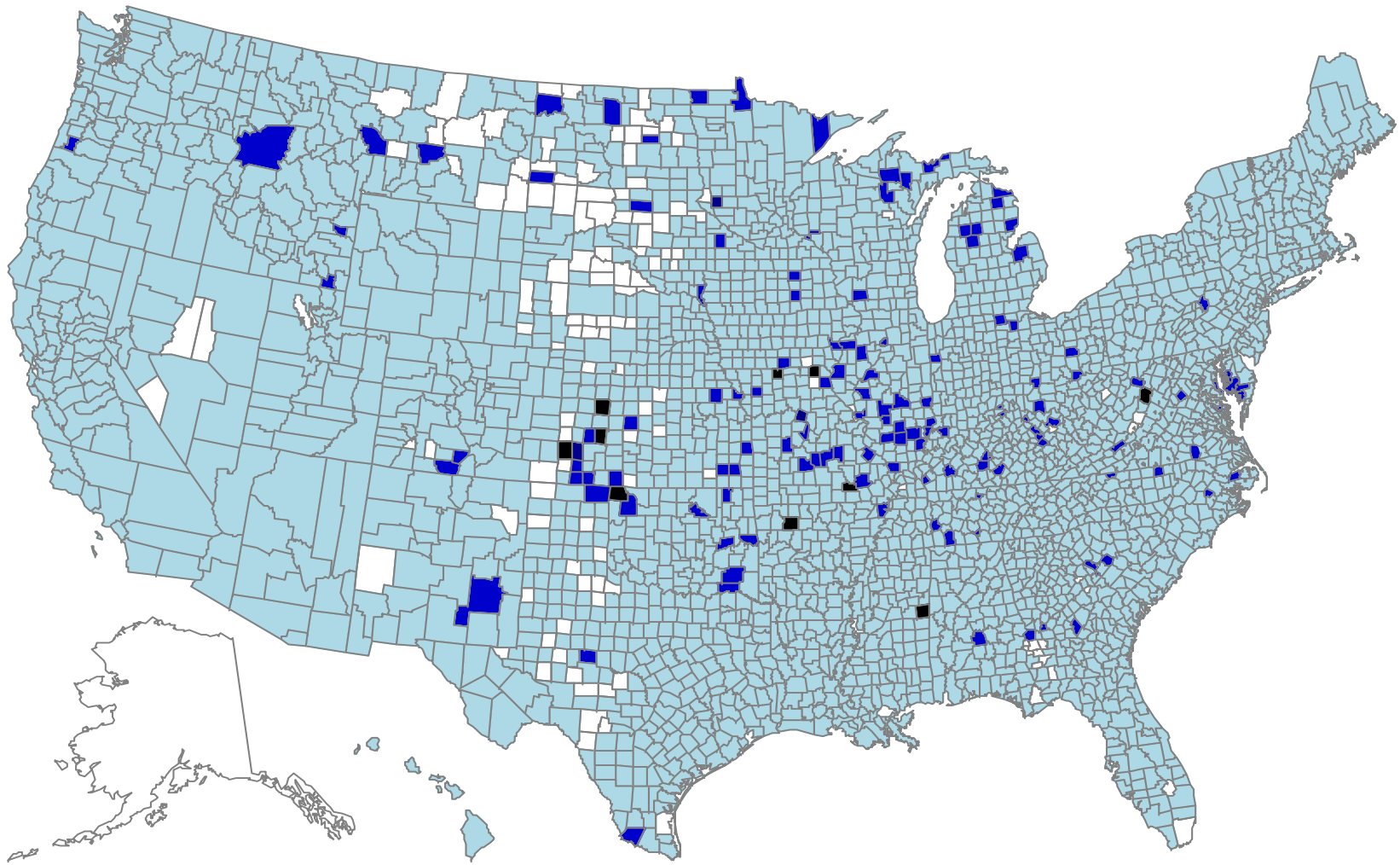
interest\_only 0% to 25%

# 2006 - Percent of All Loans – Interest Only



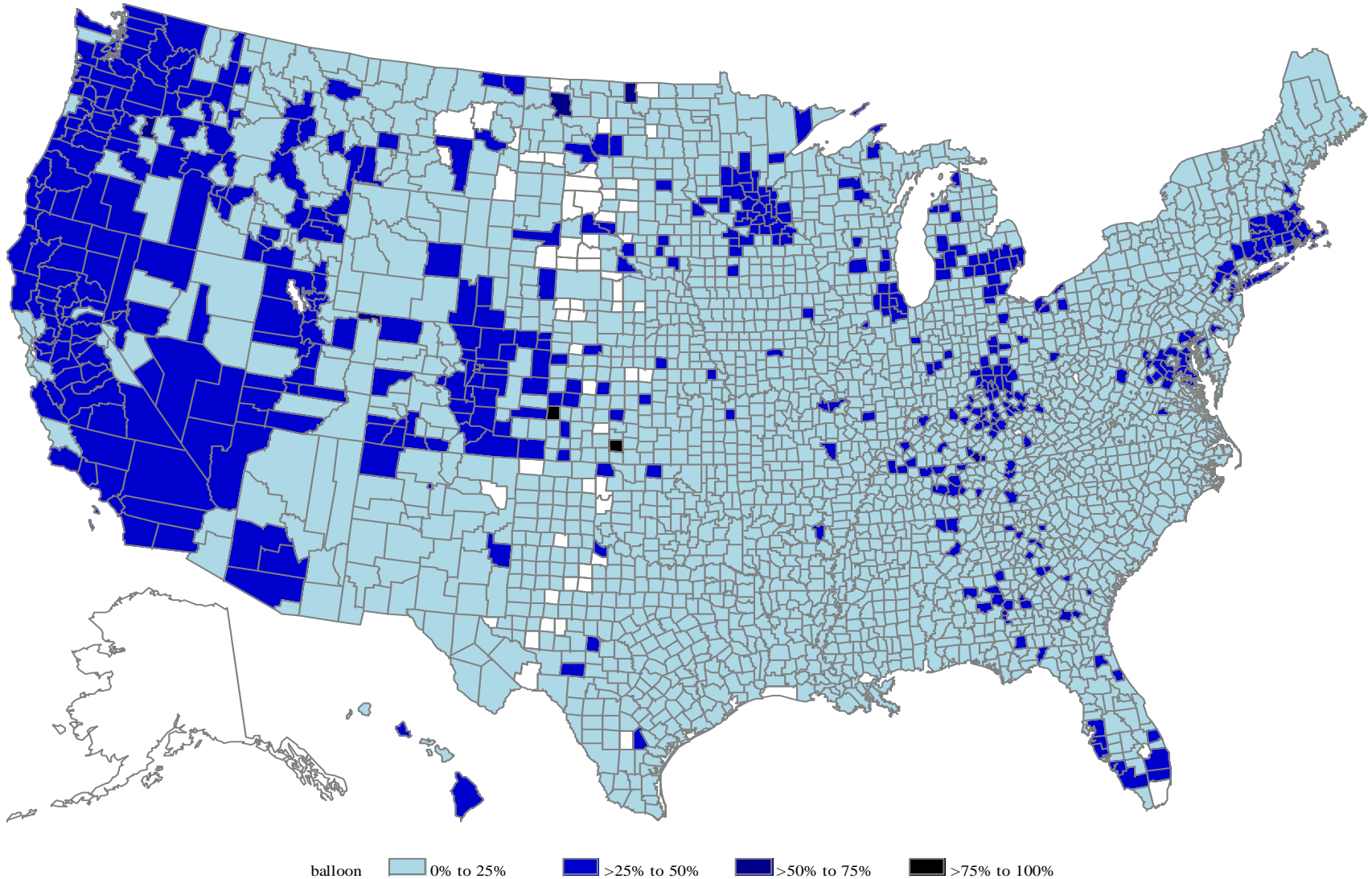
interest\_only    0% to 25%    >25% to 50%    >50% to 75%    >75% to 100%

# 2000 - Percent of All Loans – Balloons

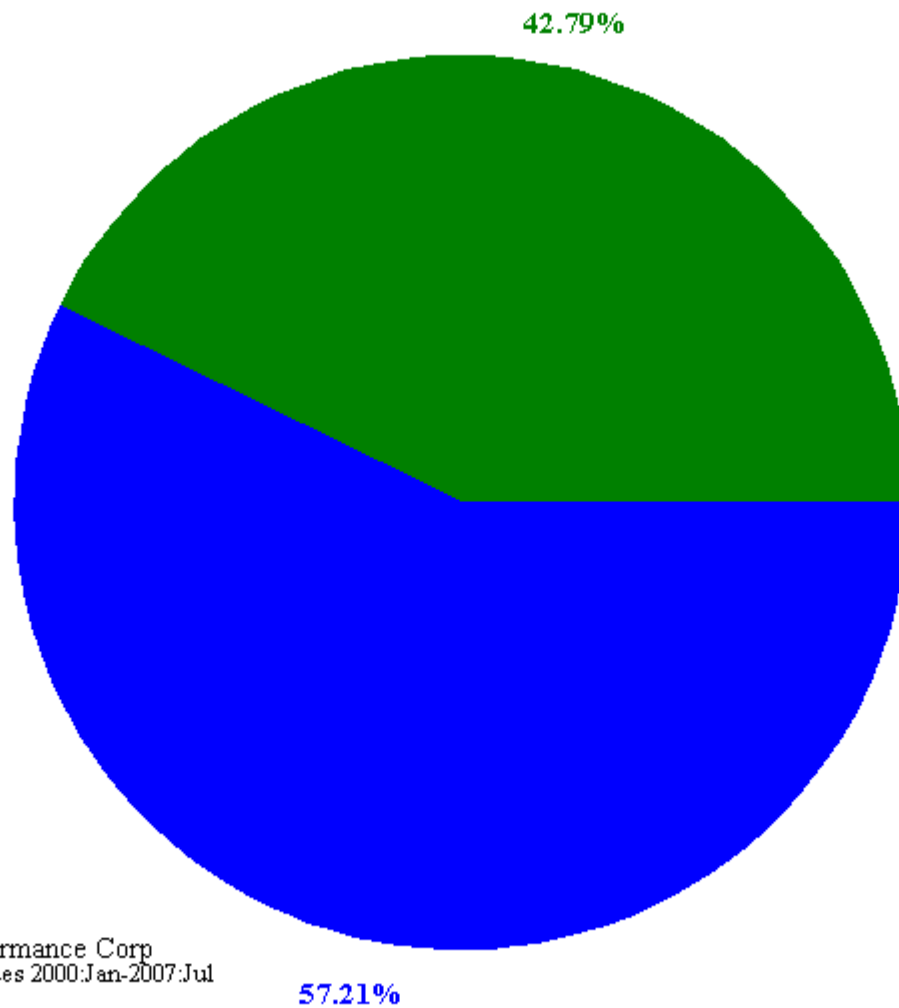


balloon    0% to 25%    >25% to 50%    >50% to 75%    >75% to 100%

# 2006 - Percent of All Loans – Balloons



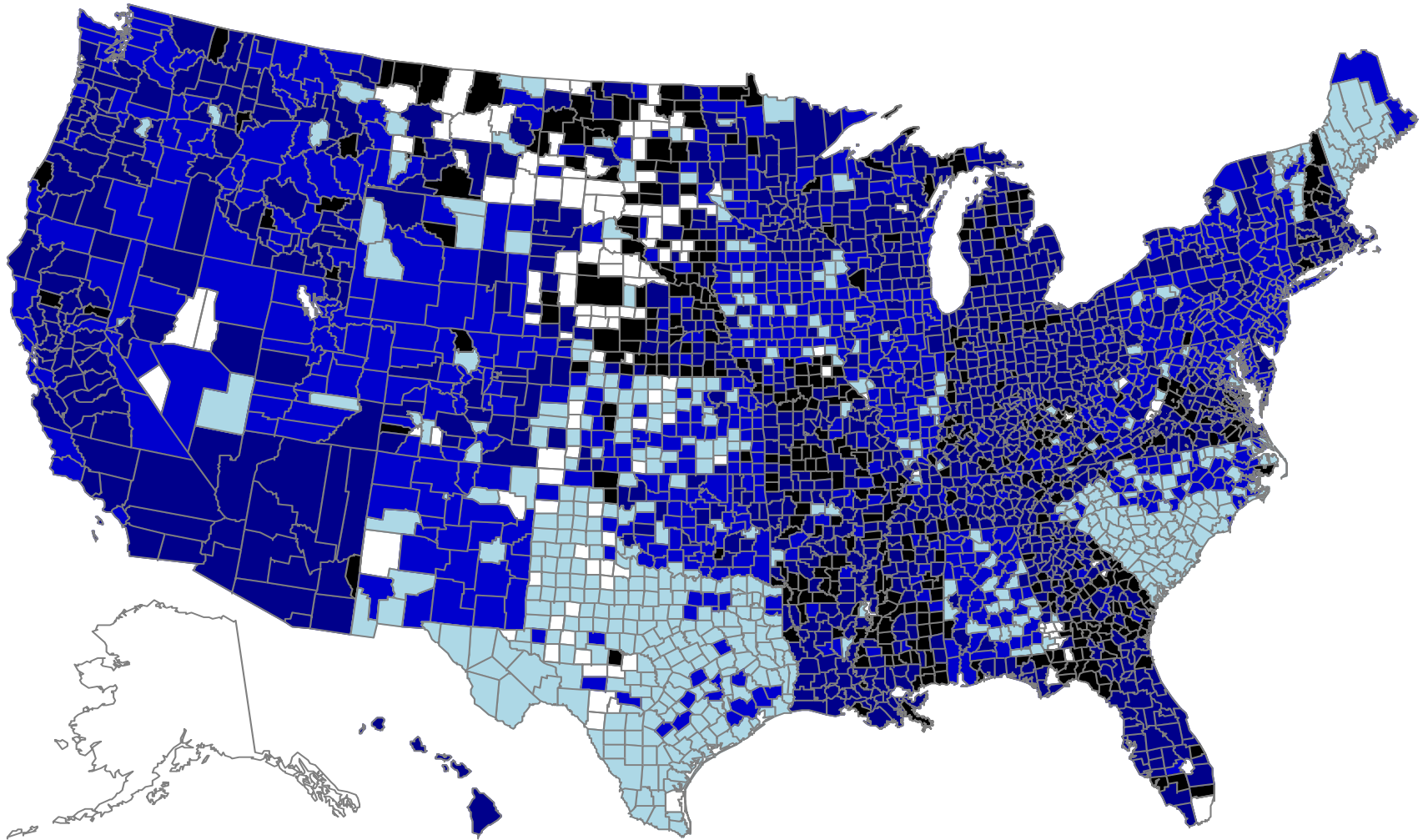
# Subprime Mortgage Originations by Prepayment Penalty



SOURCE: LoanPerformance Corp  
Data includes 2000:Jan-2007:Jul

Prepayment Penalty    ■ No    ■ Yes

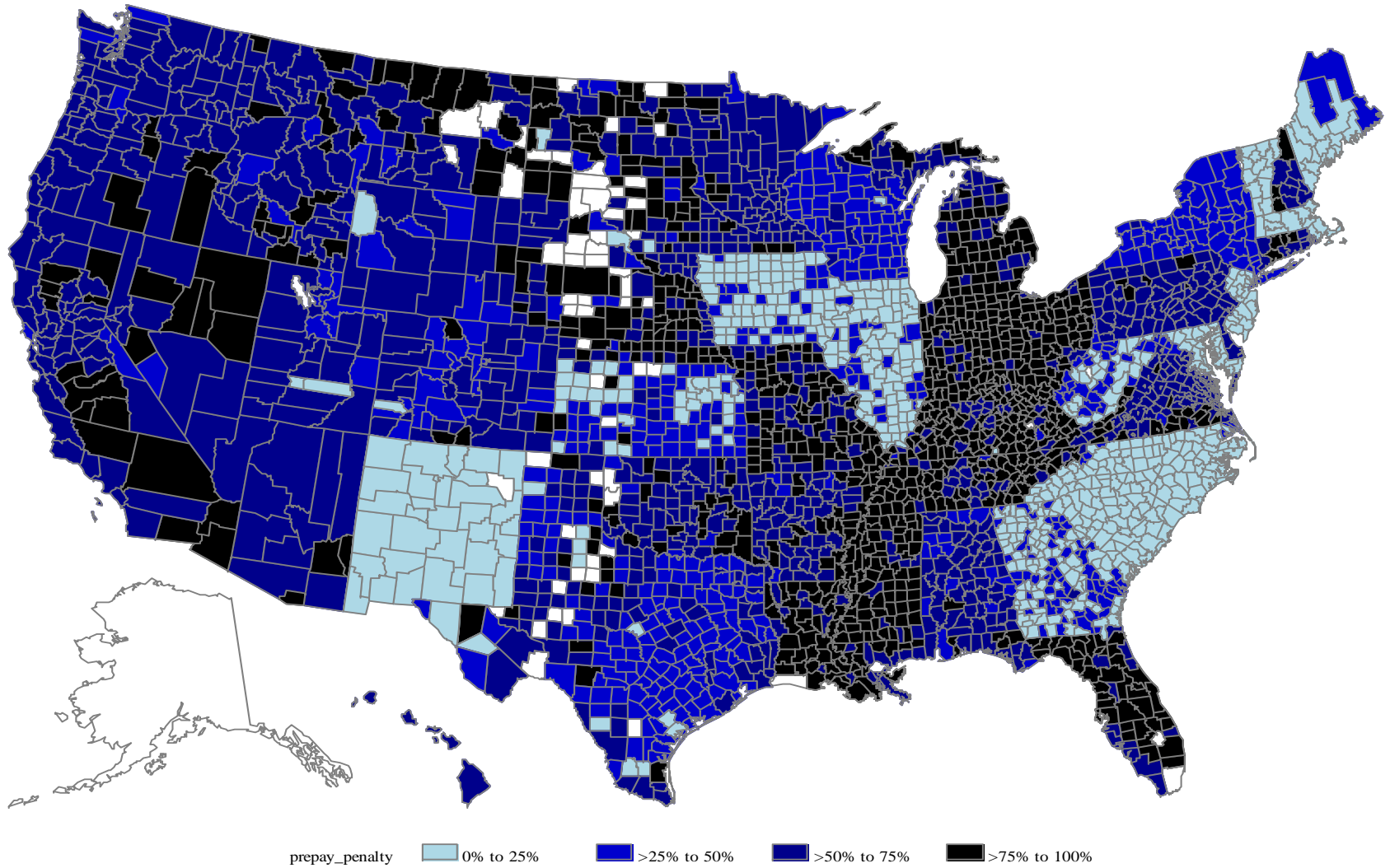
# 2000 - Percent of All Loans – Prepay Penalty



prepay\_penalty    0% to 25%    >25% to 50%    >50% to 75%    >75% to 100%



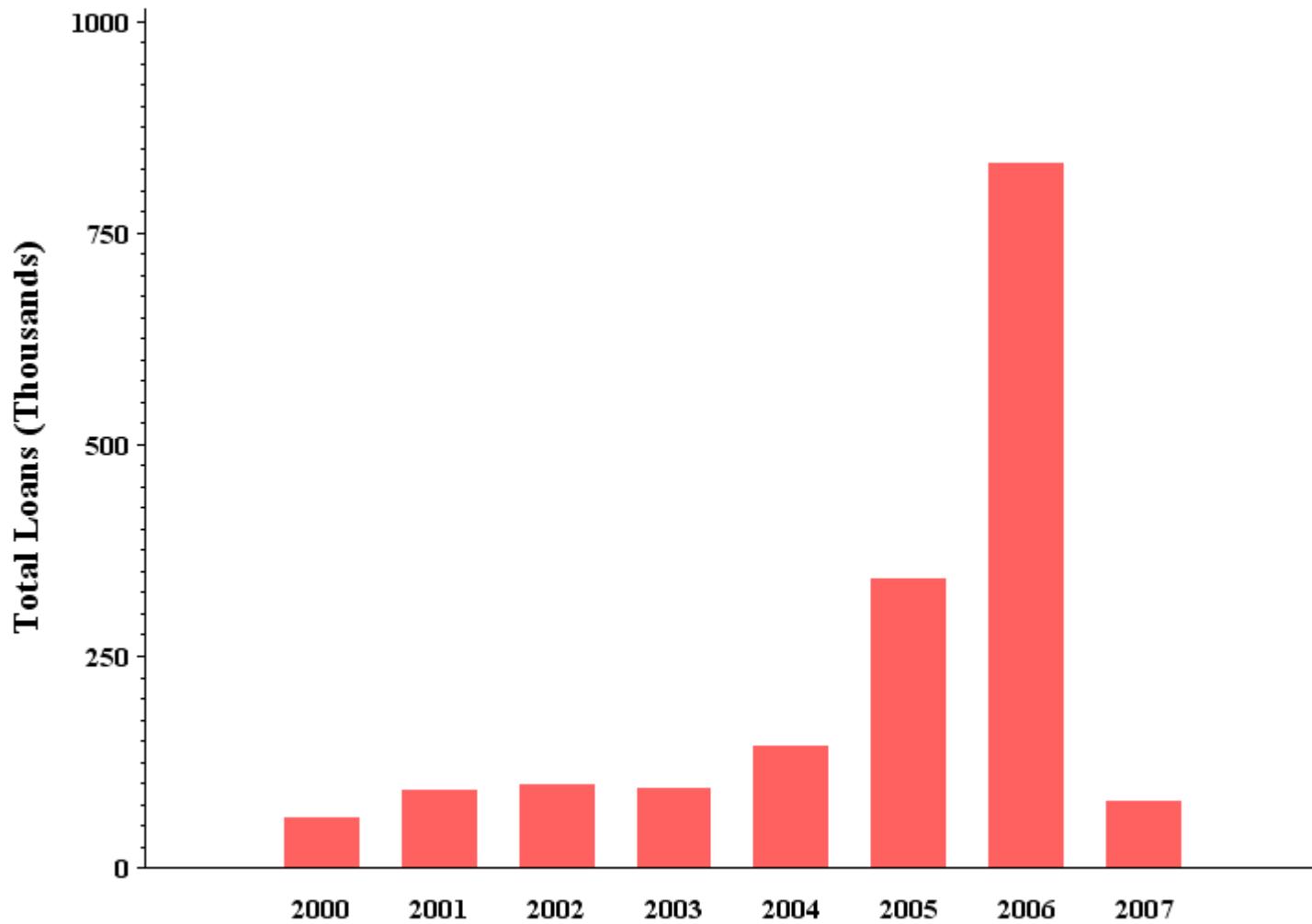
# 2006 - Percent of All Loans – Prepay Penalty



# Product Types

- Why did the subprime market use these loan types?
  - ARMs, IOs, Balloons, Hybrids, Low Documentation, Prepayment Penalties
- Affordability
  - Lower monthly payments

# Balloon Loan Originations

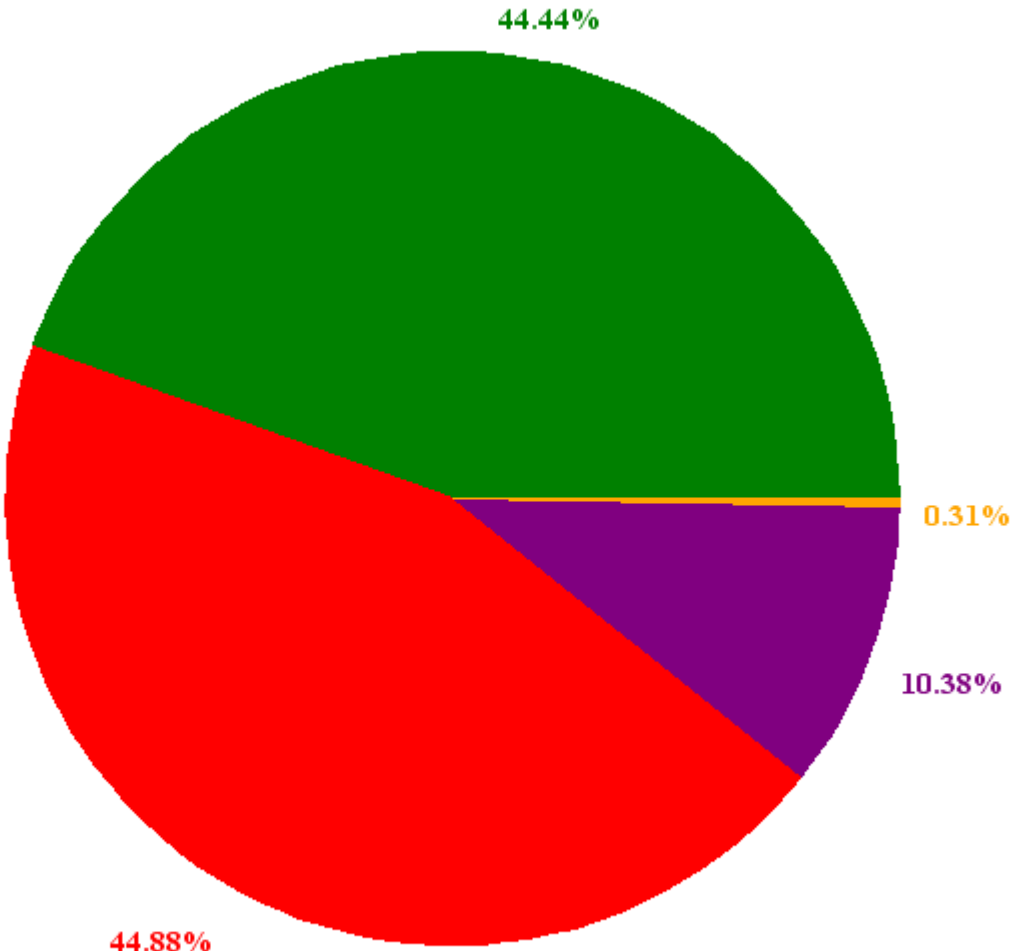


DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Origination Year

# LOAN TYPES

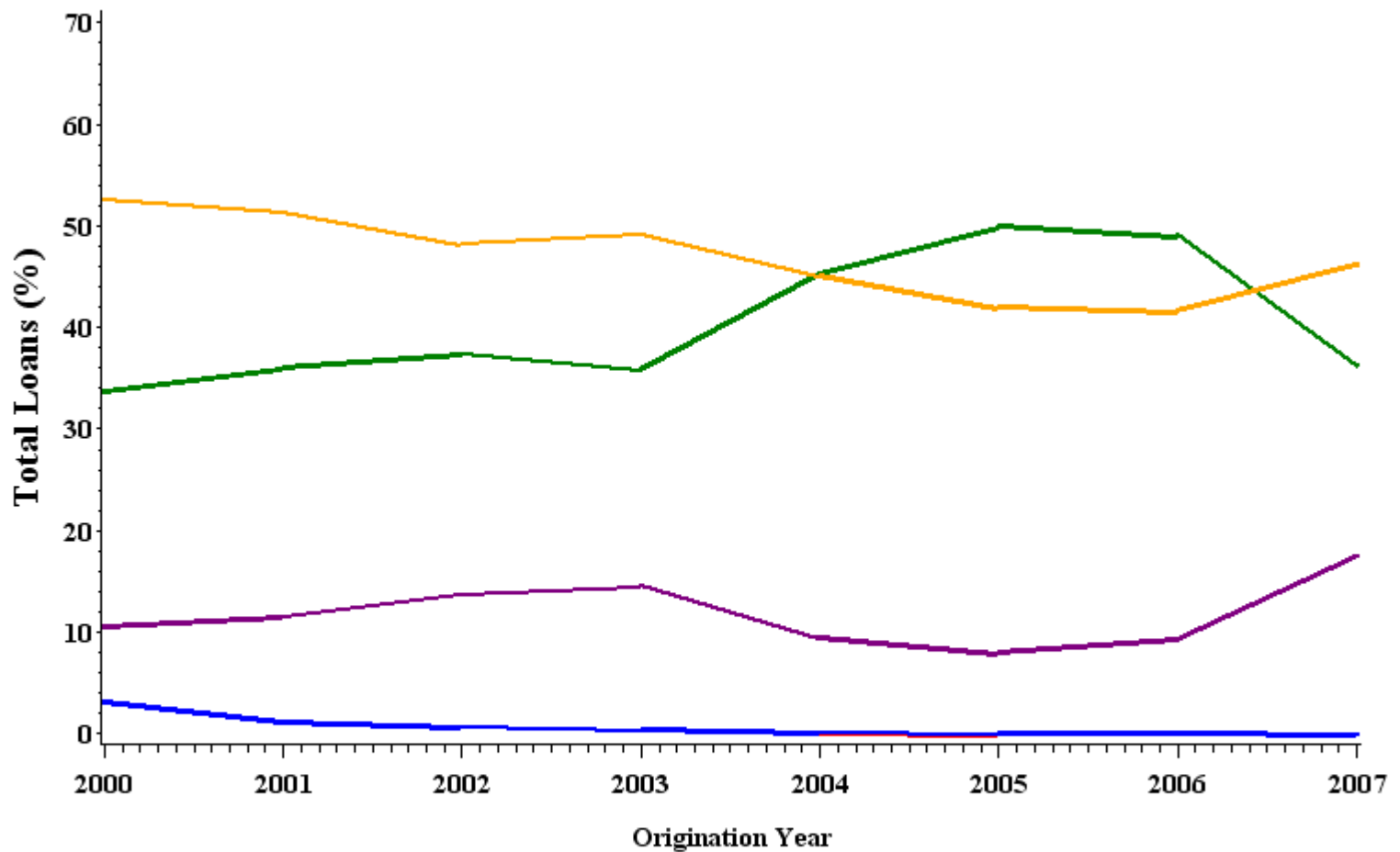
# Subprime Mortgage Originations by Loan Purpose



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Loan Purpose    ■ Purchase    ■ Refi (CO)    ■ Refi (NCO)    ■ OTHER

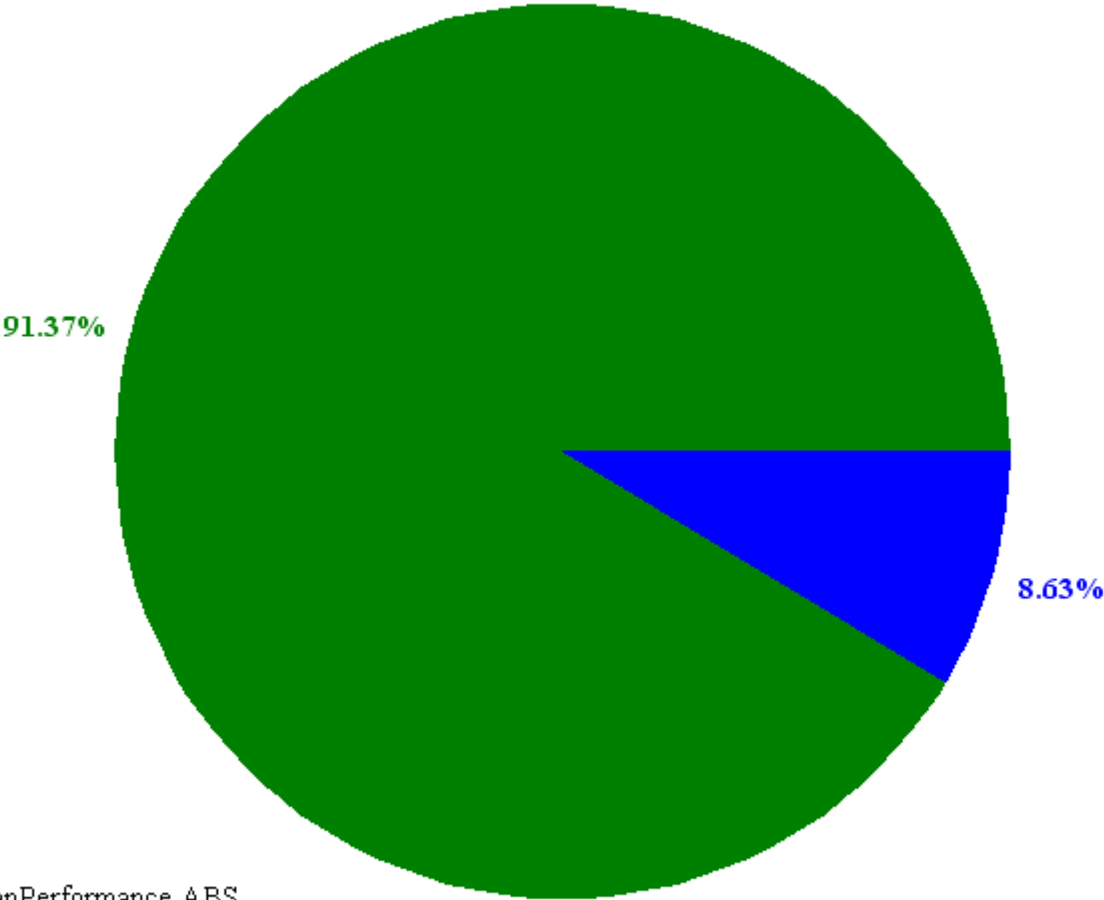
# Subprime Mortgage Originations by Loan Purpose



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Purpose    2nd Mtg    Other    Purchase    Refi (CO)    Refi (NCO)

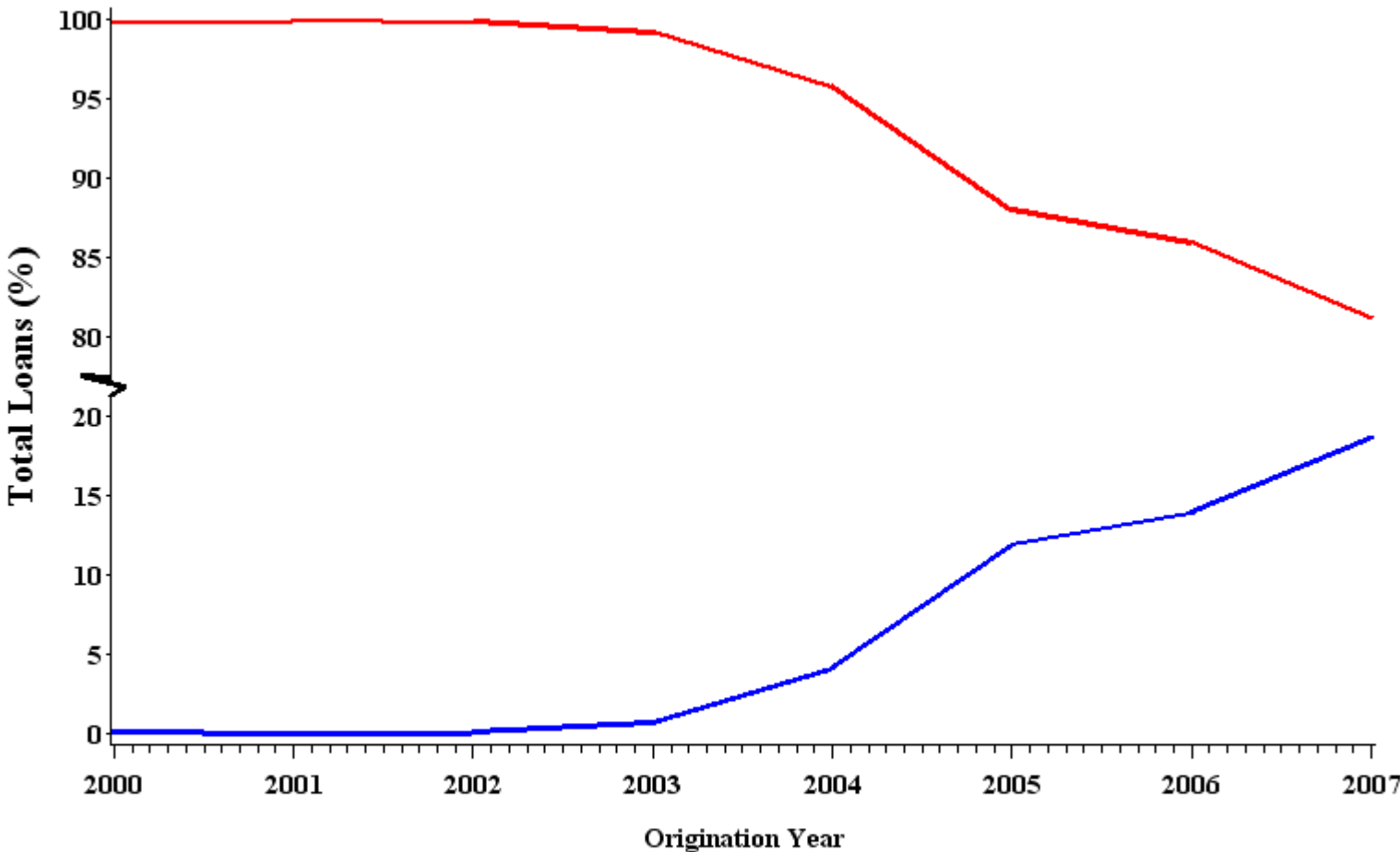
# Subprime Mortgage Originations by Negative Amortization



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Negative Amortization    ■ No    ■ Yes

# Subprime Mortgage Originations by Negative Amortization



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Negative Amortization    — No    — Yes

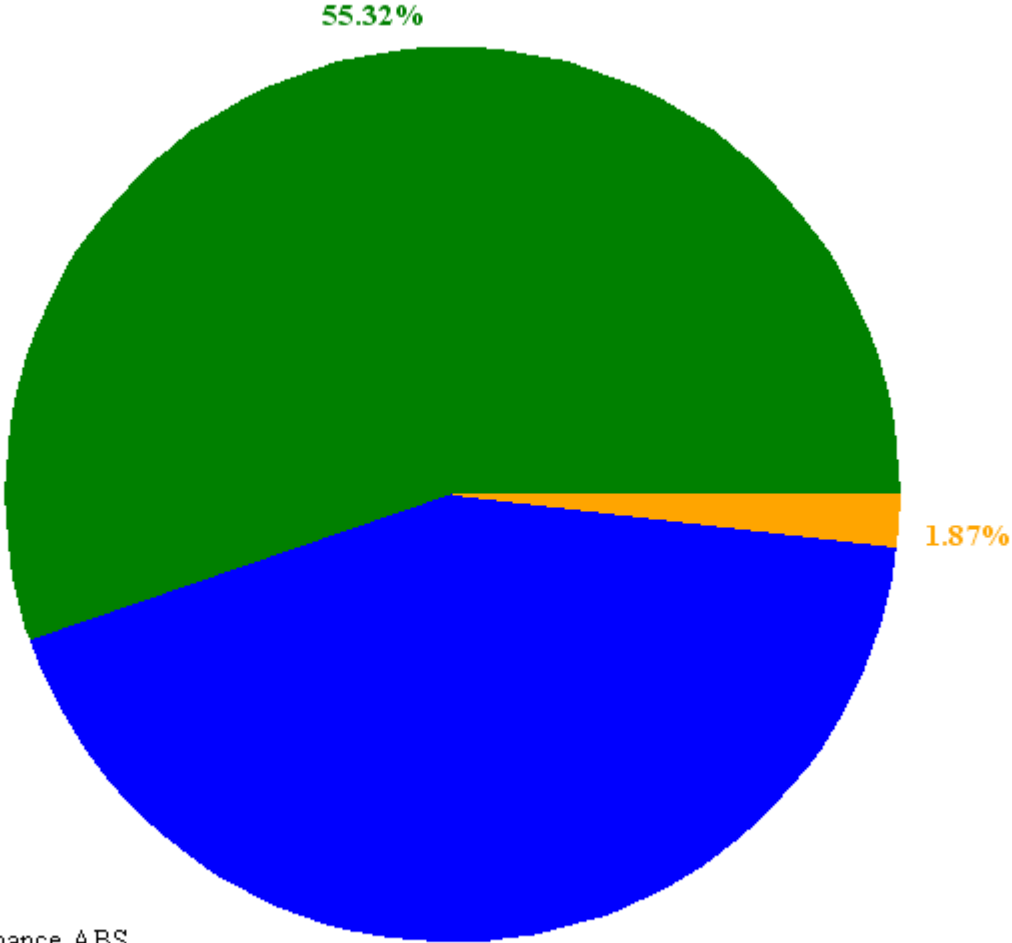


# Loan Types

- Driven by affordability
  - Lower monthly payments
    - Negative amortization
  - Need for cash
    - Cash out refinancing

# **WHO NEEDS/USES THESE TYPES OF LOANS?**

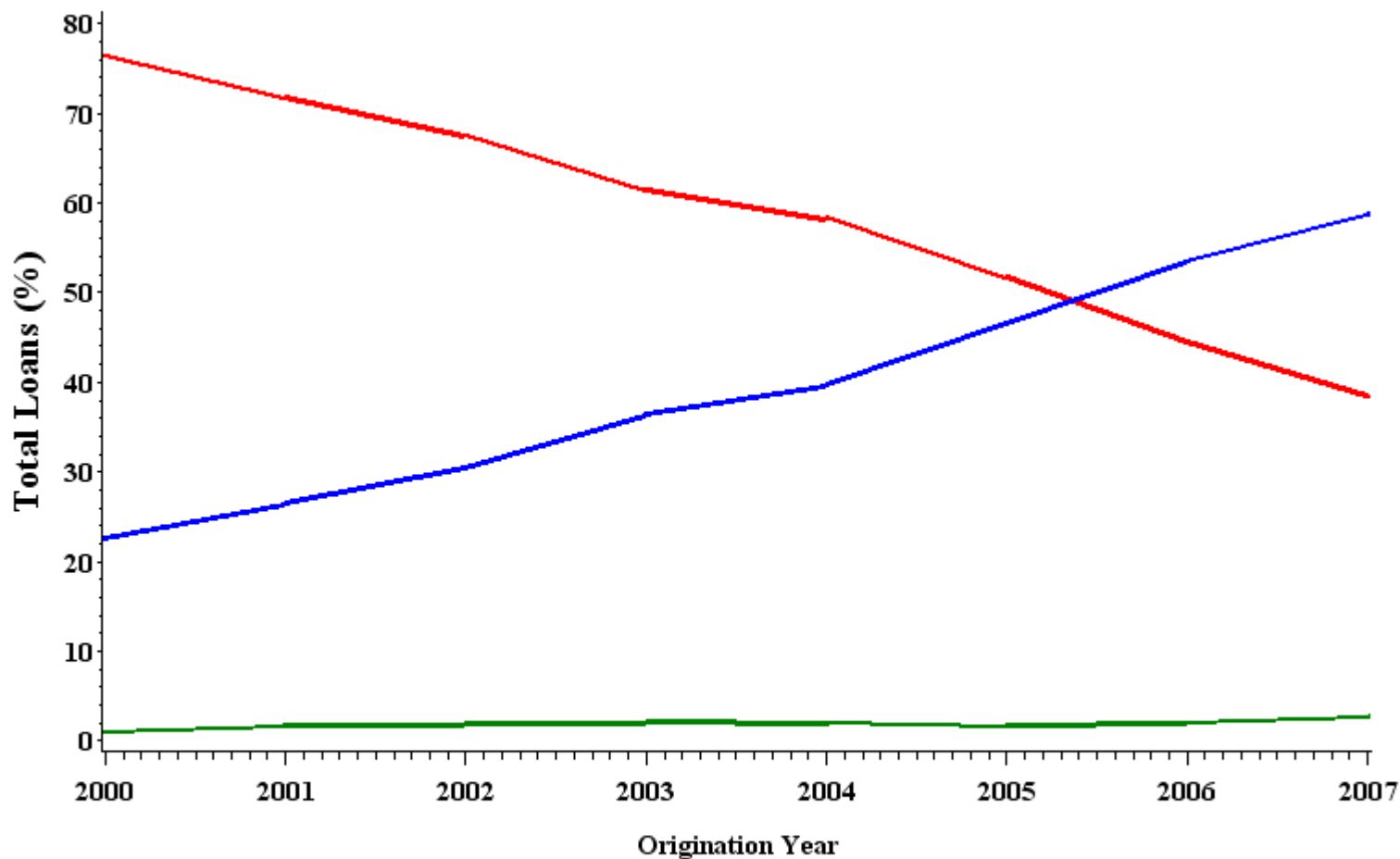
# Subprime Mortgage Originations by Documentation Type



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Documentation Type   ■ Full   ■ Low   ■ No

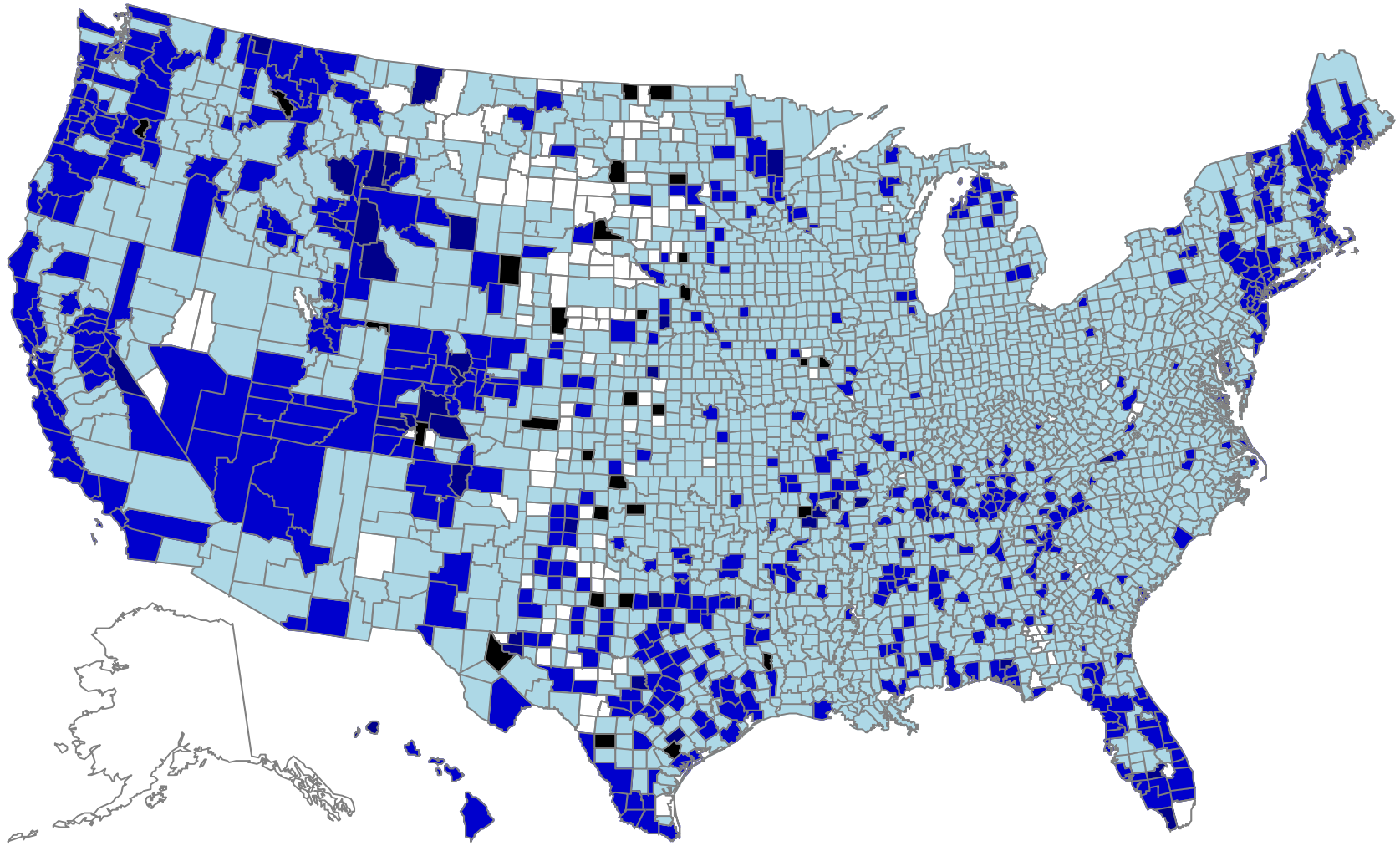
# Subprime Mortgage Originations by Documentation Type



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

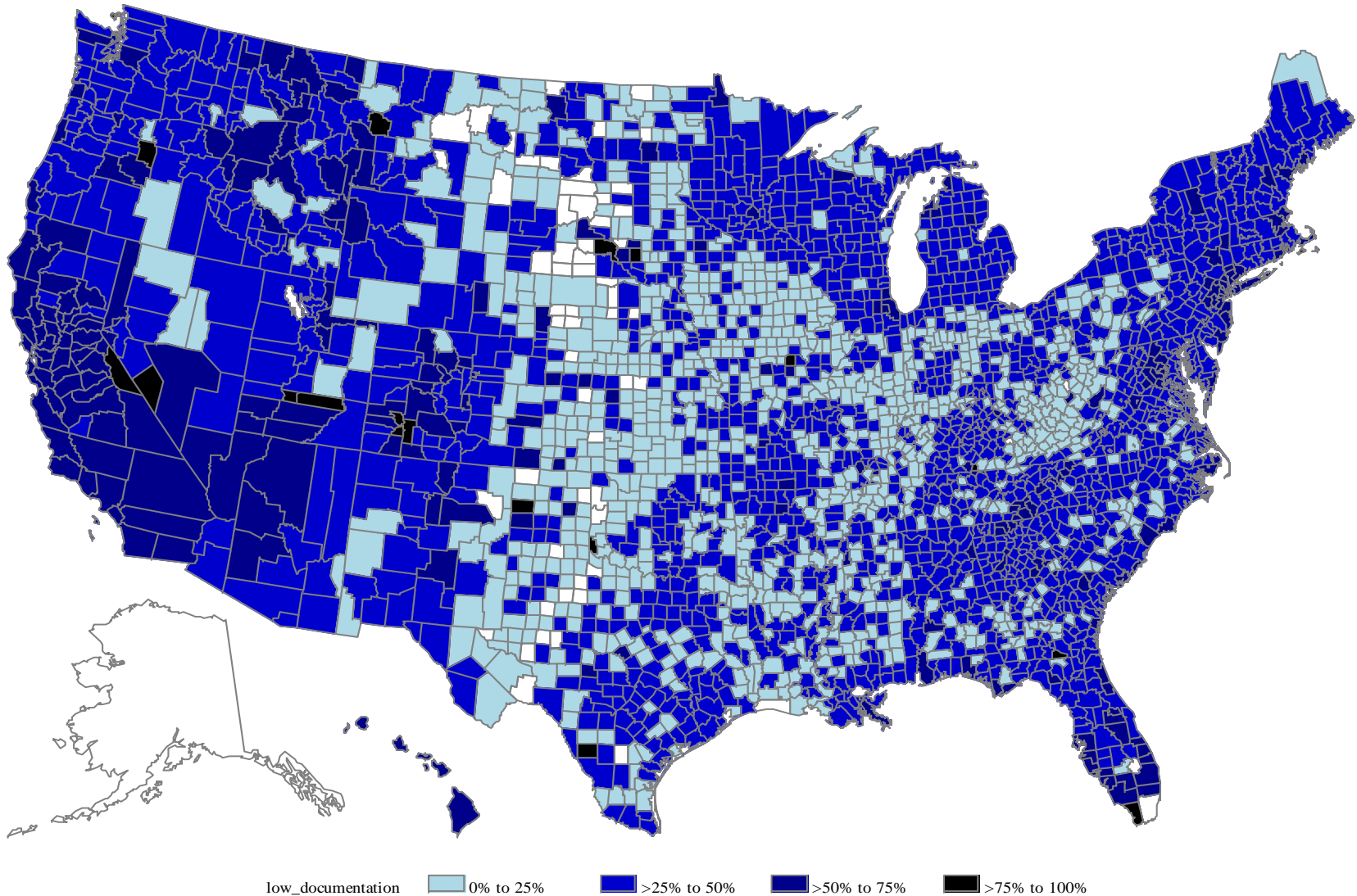
Documentation Type: — Full — Low — No

# 2000 - Percent of All Loans – Low Documentation

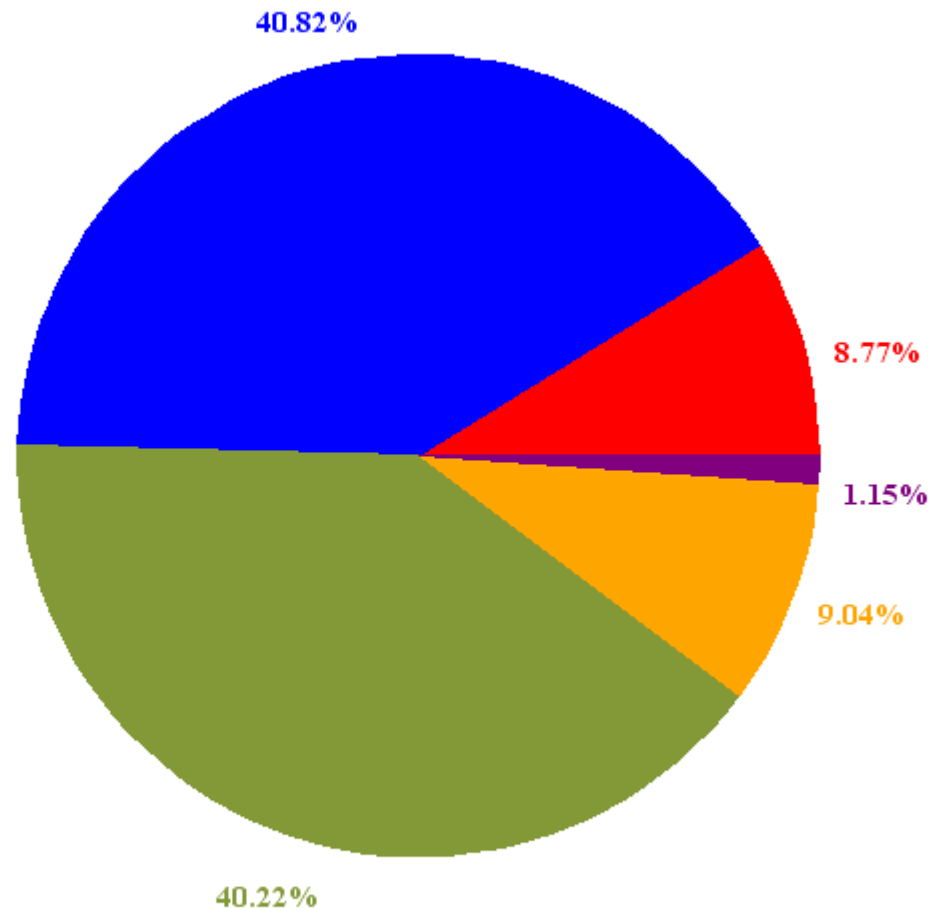


low\_documentation    0% to 25%    >25% to 50%    >50% to 75%    >75% to 100%

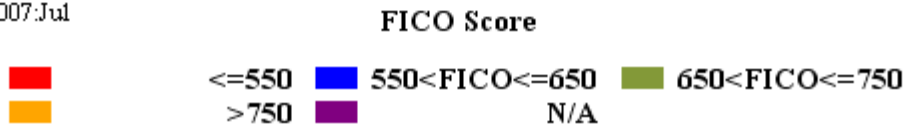
# 2006 - Percent of All Loans – Low Documentation



# Subprime Mortgage Originations by FICO Score



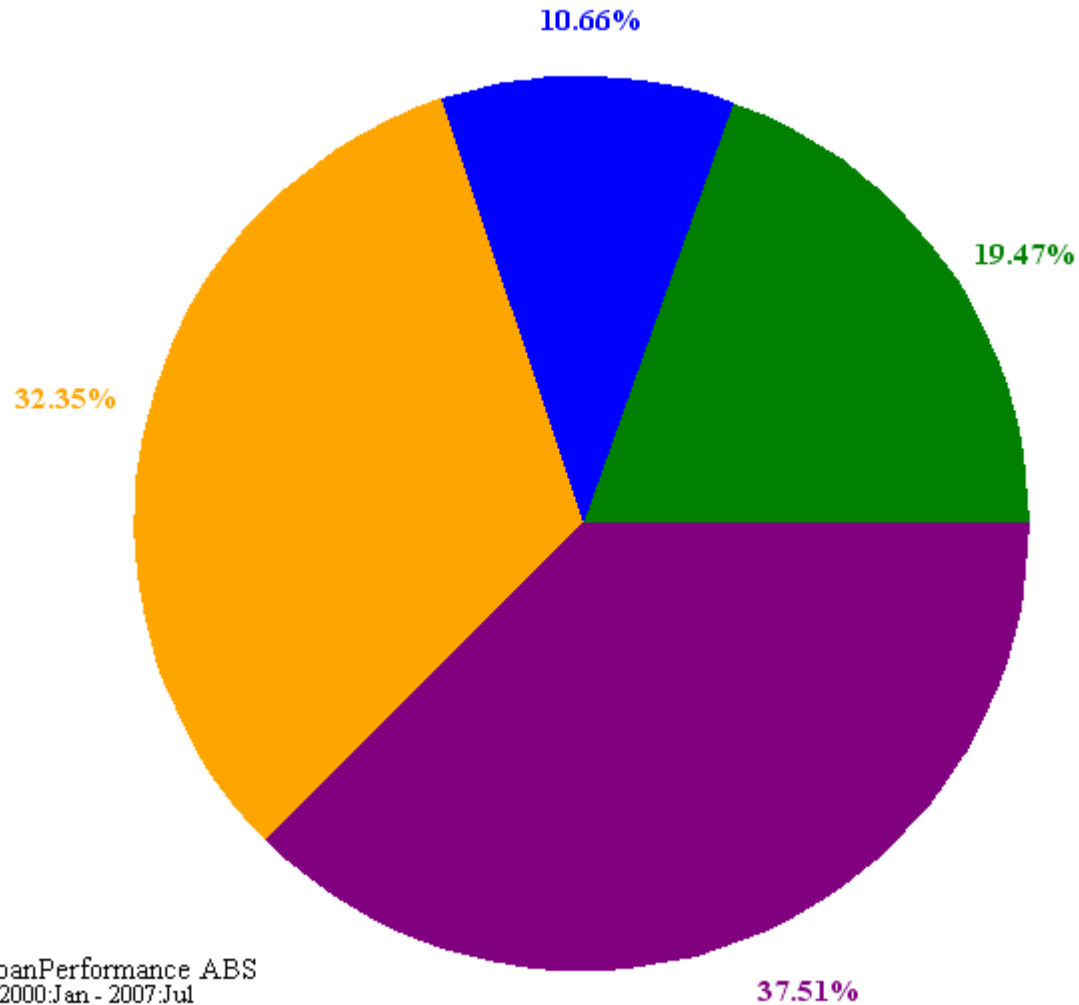
DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul







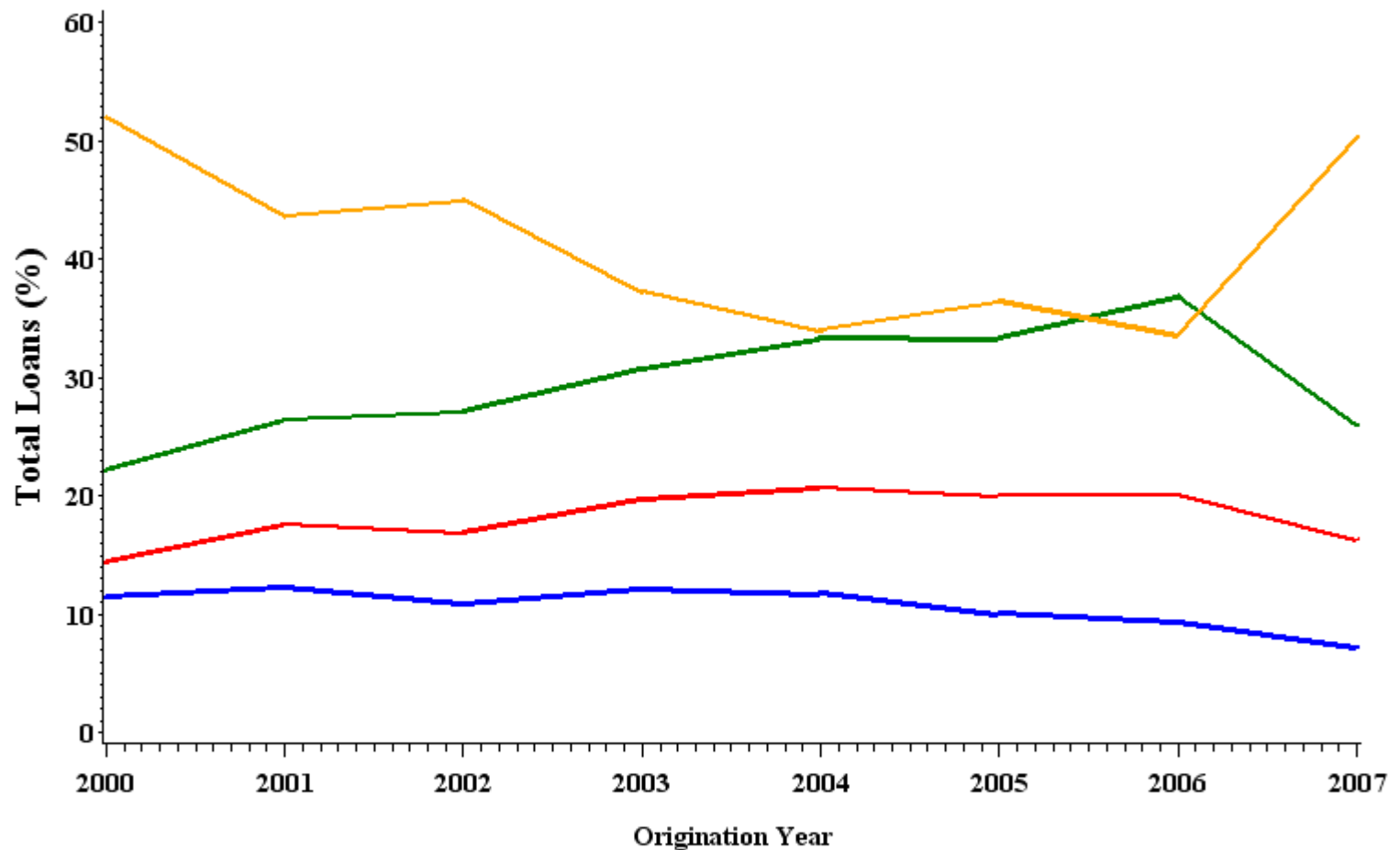
# Subprime Mortgage Originations by Debt to Income Ratio



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Debt to Income Ratio    ■ 30<=DTI<=40    ■ DTI<30    ■ DTI>40    ■ N/A

# Subprime Mortgage Originations by Debt to Income Ratio



DATA: LoanPerformance ABS  
2000:Jan - 2007:Jul

Debt to Income Ratio    — 30 <= DTI <= 40    — DTI < 30    — DTI > 40    — N/A

# Borrower Types

- Affordability Constrained
  - Lots of Debt
  - Weak credit history
    - Temporary?
    - Permanent?
  - Stretching to buy
  - Unreported income

# Summary

- Subprime
  - Cash and Credit Constrained Borrowers
  - Affordability Drives Products
    - Low Doc
    - IO
    - Balloons