APPENDIX B: ACTIVITIES OF NATIONAL BANKS RELATED TO SUBPRIME LENDING

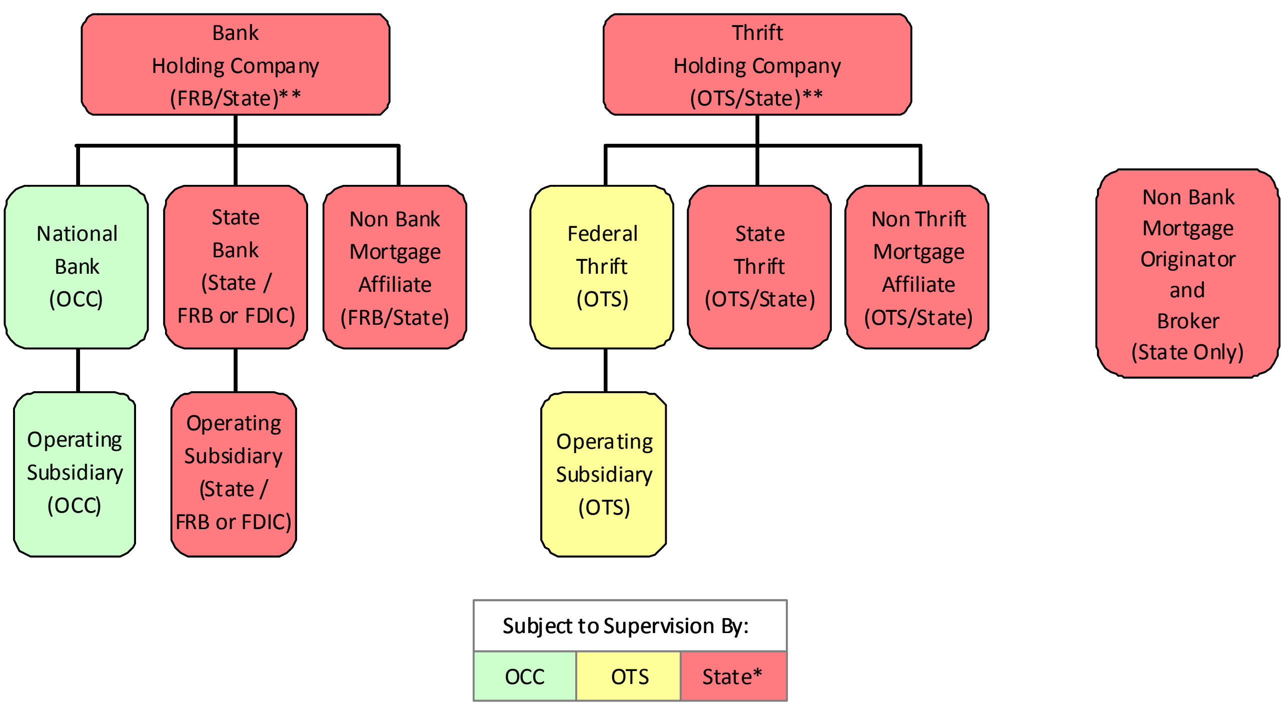
National banks and their operating subsidiaries can be engaged in several different types of activities that are related to nonprime residential mortgage lending, including direct loan origination, loan servicing, providing warehouse lines of credit to subprime originators, purchasing loan for securitization, or acquiring various types of securities that are backed by subprime loans.

I. Direct Origination

OCC analysis has found that national bank subprime origination during the period preceding the financial crisis was small relative to the total subprime market. However, some analyses by others have reached conflicting conclusions, finding significantly higher percentages of overall subprime mortgage lending. To some extent the existence of conflicting estimates is not surprising. Developing precise estimates of subprime lending activity is difficult because comprehensive data for the market simply do not exist, from either private or public sources. Statements about subprime activity also suffer from lack of agreement at a more basic level regarding how to define "subprime" or other variants of nonprime mortgage loans. Some of the potential approaches to measuring or approximating the size of the subprime market and banks' shares of that market are reasonable, others less so. As described below, the OCC has taken a rigorous approach that produces estimates of subprime activity that are more accurate than other, conflicting estimates.

Estimates of subprime activity often accompany discussions of which supervisors were responsible for subprime mortgages lenders. This requires careful identification of both lenders and their associated supervisor; a common source of confusion stems from failure to recognize important distinctions between banks, subsidiaries of banks, and affiliates of banks within bank holding companies, and how those distinctions determine the responsible regulator. Chart 1 illustrates the differences:

Chart 1



* As noted, some mortgage originators are regulated by both state and federal regulators.
** Some (mostly smaller) banks and thrifts are not part of holding companies and are not represented separately here.

Banks may make subprime loans, and may have operating subsidiaries that also make loans; however, other non-bank subsidiaries owned by parent holding companies can and do originate loans as well. In addition, many mortgage lenders, including independent mortgage companies and brokers, are not affiliated with banking or thrift companies at all. Only national banks, federal thrifts, and their operating subsidiaries (the green and yellow boxes in the chart) are subject to exclusive federal regulation; state-chartered banks and thrifts and nonbank subsidiaries of bank and thrift holding companies are subject to both federal and state regulation, and lenders that are not affiliated with banks or thrifts are not subject to regulation by the federal banking agencies.

Using the most reliable data available on nonprime mortgage lending, and accurately accounting for corporate organization and regulatory responsibilities, national banks and their subsidiaries subject to OCC supervision accounted for less than 15 percent of nonprime activity. This percentage is strikingly and disproportionately low, given the central role of national banks in the U.S. mortgage markets; according to the comprehensive data collected under the Home Mortgage Disclosure Act, national banks and their operating subsidiaries originated nearly 30 percent of all mortgages during the corresponding period. In contrast, lenders supervised solely by the states accounted for well over half of nonprime lending; combining originations by those lenders with the totals for state-chartered banks reveals that nearly three quarters of nonprime mortgages originated at lenders that were wholly or partly the responsibility of state authorities. Other, higher estimates of the share of national banks are based on less reliable data or fail to accurately account for the corporate structure of holding companies and the regulators responsible for different entities within those holding companies, *e.g.*, often combining a bank's holding company affiliates with the bank. Moreover, the data show that subprime mortgages originated by OCC-supervised lenders have performed better than other subprime loans, with lower rates of foreclosure.

A. OCC Estimates of Subprime Activity

1. Early estimates

In early 2007, OCC staff estimated that national banks accounted for about 10 percent of subprime (so-called "B/C") mortgage originations during 2006. This estimate was a rough approximation done on a best-efforts basis using the best information available at the time.

Specifically, in the absence of any formal reporting of subprime activity, OCC supervisory staff collected information on the dollar volume of subprime lending from major mortgage originators in the national bank population; this yielded an estimate of national bank subprime lending, although it was only an approximation since it reflected definitions of "subprime" that varied across banks. That supervisory estimate of national bank volume corresponded to about 10 percent of overall subprime market originations for 2006, estimated at $600 billion based on data published in the March 23, 2007, edition of the industry publication *Inside Mortgage Finance*.[1]

Using *Inside Mortgage Finance* to estimate the overall size of the market for the analysis was expedient, since it was one of the few sources of information on what had recently become a

[1] March 23, 2007.

prominent part of the mortgage market. However, the figures presented in *Inside Mortgage Finance* were compiled by that publication from various sources (including analyst reports and self-reported figures from staff at the originating institutions), and may not be reliable; in some cases institutions chose to report figures using varying definitions and methods to create particular market perceptions. Market share figures computed from *Inside Mortgage Finance* may be particularly misleading, because the methods did not encompass the entire market, and the overall size of the market can only be very roughly approximated from the published tables of data.

2. Later estimates

To refine estimates of national bank activity in non-prime residential mortgage markets, the OCC acquired a database developed and marketed by Loan Performance Corp. (or "LPC," now a unit of First American CoreLogic Inc). This is the premier data source on nonprime (that is, both subprime or B/C and Alt-A) mortgage activity. LPC covers virtually all securitized B/C and Alt-A mortgages; the database covers the market fairly well because most such mortgages have been securitized since they were originated.

A 2008 OCC analysis focused on loans in LPC originated during the years 2005, 2006, and 2007, the peak years of subprime mortgage activity. One challenge with using LPC is that originator name information – that is, the identity of the bank or mortgage company that actually made the loan in the first place – is captured and presented inconsistently in the database. Many loans (about 43 percent) have no originator information, others have ambiguous names, and still others do not adequately distinguish among affiliated entities with similar names. OCC staff used a variety of automated and manual methods to identify the originators of as many loans in LPC as possible.

The result was a large dataset consisting of roughly five million nonprime loans for which the originator was known. For each originator in LPC, the OCC then identified the primary supervisor, taking into account dates at which the primary supervisor changed during the time period considered (for example, one major subprime originator, First Franklin, shifted from OCC to OTS supervision in late 2006), and wherever possible distinguishing between depository institutions and their holding company affiliates.

Some significant subprime originators had a large number of loans in LPC for which it was difficult to determine whether the loans were originated by the bank or by an affiliate within the larger holding company. Referring to Chart 1, it was clear that the loans originated somewhere within the holding company structure, but not from which specific box on the chart; without that, estimates of the sources of subprime (for example, OCC-supervised versus others) would remain imprecise. In those cases, other information available to the OCC in its supervisory role – including confidential information from resident examiners at banks – was used to determine realistic allocations of the loans in the database. However, the OCC also conducted sensitivity analysis to determine the impact of alternative allocations and how much the results might change. Estimates of the nonprime mortgage share of national banks varied from about 11 percent to about 15 percent, but the most likely allocations of originations suggested that the national bank share of nonprime loans in the LPC data originated during 2005, 2006, or 2007 was 14 percent or less.

3. *Most recent estimates*

More recently, the OCC has updated and refined the analysis of the LPC nonprime data. One obvious development since the 2008 analysis is that more loans have entered foreclosure. Summary results are presented in the tables below. Of the roughly 5 million nonprime loans from 2005-2007 in the LPC data for which the originator could be reliably identified, OCC-supervised institutions accounted for 10.6 percent of subprime loans (B/C), and 12.1 percent of nonprime loans including both B/C and Alt-A. Lenders supervised only by the states originated 63.6 percent of subprime loans during these years, and 57.1 percent of combined nonprime; including loans originated by state-chartered banks, 72 percent of all nonprime mortgages came from lenders subject to state authority.[2]

Nonprime (B/C and Alt-A) Originations, 2005-2007

Supervisor	Originations	Share
State	2,818,126	57.1%
FDIC	436,981	8.9%
Federal Reserve	295,343	6.0%
*Subtotal**	*3,550,450*	*72.0%*
OCC	**595,304**	**12.1%**
OTS	783,719	15.9%
NCUA	3,024	0.1%
Total	4,932,497	100.0%

*Subtotal reflects institutions subject to state supervision

Subprime (B/C) Originations, 2005-2007

Supervisor	Originations	Share
State	2,423,355	63.6%
FDIC	318,796	8.4%
Federal Reserve	224,882	5.9%
*Subtotal**	*2,967,033*	*77.9%*
OCC	**403,958**	**10.6%**
OTS	439,488	11.5%
NCUA	233	0.0%
Total	3,810,712	100.0%

Source: LPC data and OCC calculations

B. Other Estimates of Subprime Activity

Analyses conducted by others have produced different estimates of subprime activity and its allocation among institutions and regulators. After reviewing many of these analyses, the OCC has concluded that most have shortcomings that raise significant questions about their accuracy and relevance compared to results based on a careful analysis of the LPC data.

[2] The figure understates the actual extent of state authority, because loans made by affiliates of federal thrifts are included in the OCC/OTS total but actually are subject to state authority.

1. HMDA data

Some discussions of residential mortgage problems are based on the annual reporting required of mortgage lenders under the Home Mortgage Disclosure Act ("HMDA"). However, HMDA data cannot be relied upon directly to evaluate subprime lending by financial institutions, because rate-spread loans and subprime loans are not necessarily the same.

The HMDA data have the advantage of providing a fairly comprehensive picture of mortgage applications and originations, as well as identifying the originators and their associated regulators. But the HMDA data do not include any designation for subprime loans, nor do they include information such as credit scores (which might be used to infer subprime status). What HMDA *does* contain, which makes the data potentially relevant to subprime activity, is information on higher-priced or "rate-spread" loans. Under HMDA, a loan is deemed to have a high "rate spread" that must be reported if the loan has an APR at least 3 percentage points higher than the yield on a Treasury security of comparable maturity, for first-lien mortgages. Since subprime loans might be expected to have higher interest rates than otherwise similar loans, the HMDA rate-spread loan data may be useful as a supplement to other estimates of subprime activity, given the generally poor quality of information on subprime.

In view of this, it is not surprising that the rate-spread data are sometimes used in the context of subprime mortgage discussions. A notable example is the 2009 Senate testimony of Professor Patricia McCoy.[3] In that testimony, Professor McCoy observed "In 2006, depository institutions and their affiliates, which were regulated by federal banking regulators, originated about 54% of all higher-priced home loans. In 2007, that percentage rose to 79.6%." Professor McCoy's testimony accurately characterizes the figures on rate-spread loans.

However, the percentages quoted by Professor McCoy include a large number of loans made not by banks, but rather by other lenders owned by the banks' parent holding companies; as described above in the discussion of Chart 1, such lenders are subject to regulatory oversight that is different in nature and degree than the oversight of depository institutions. Excluding holding company affiliates, the corresponding percentages of rate-spread lending for depository institutions – banks and thrifts together – were 41 percent in 2006 and 62 percent in 2007. In fact, depository institutions actually account for a disproportionately low share of rate-spread loans in the HMDA data, considering their central role in providing mortgage credit in the United States; for example, in 2006 when their share of rate-spread loans was 41 percent, they accounted for 59 percent of all originations.

Moreover, the only reason the bank and thrift *share* of rate-spread loans rose between 2006 and 2007 was because a very large number of independent mortgage companies either disappeared or dramatically reduced originations, leaving banks and thrifts as the main providers of home loans of all types. The *number* of "higher-priced" originations by depository institutions and their affiliates actually fell in 2007, but since these institutions were the primary lenders remaining in the market for home loans, their *share* of lending increased.

[3] Prepared statement of Patricia A. McCoy, Hearing on "Consumer Protections in Financial Services: Past Problems, Future Solutions" before the Senate Committee on Banking, Housing, and Urban Affairs, March 3, 2009, *available at* http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=40666635-bc76-4d59-9c25-76daf0784239.

But rate-spread loans are not necessarily subprime, and subprime loans may not necessarily have high rate spreads. Using data from LPC and from the OCC's own Mortgage Metrics[4] database, the OCC has been able to assess the extent of overlap between HMDA rate-spread loans and the nonprime loans from the other data sources. This again requires a careful and complex process of matching loans from different data sources, to ensure that a particular loan reported under HMDA is in fact the same loan as one appearing in one of the other databases. The OCC has devoted significant resources to creating an accurate mapping of this type, because the matched data are valuable for supervision, analysis, policy development, and other uses.

For the peak subprime year of 2006, the OCC found that 64 percent of rate-spread loans were subprime, and another 11 percent were Alt-A; the remaining 25 percent of rate-spread loans were prime mortgages. However, not all subprime and Alt-A loans have rate spreads that cause them to be captured in the rate-spread reporting; again for 2006, the OCC found that 37 percent of the loans in Mortgage Metrics designated as "subprime" were not reported as rate-spread loans under HMDA, and the non-rate-spread percentage for Alt-A was much higher, at 82 percent. These percentages vary over time due to market conditions; in 2007 a higher percentage of prime loans were rate-spread loans and more rate-spread loans were prime compared to 2006, whereas the opposite was true in 2005.

Although data from HMDA are valuable for some purposes, the limited overlap between HMDA rate-spread loans and the nonprime loan population makes HMDA a potentially misleading source of information on subprime mortgage lending.

2. Inside Mortgage Finance

Some other discussions of subprime activity continue to rely on data from *Inside Mortgage Finance*, despite the clear drawbacks discussed above of using information from that source to make inferences about subprime market shares.

A notable recent example is a paper prepared by the National Consumer Law Center ("NCLC"). That report uses data from *Inside Mortgage Finance* to argue that a group of eight federally supervised institutions accounted for 31.5 percent of subprime originations, as shown in the table reproduced from that report[5] below:

[4] These data are the basis for the *Mortgage Metrics Report*, a joint publication of the OCC and the Office of Thrift Supervision that provides performance and other data on approximately 34 million first mortgage loans serviced by national banks and federal thrifts.

[5] *Preemption and Regulatory Reform: Restore the States' Traditional Role as 'First Responder'*, National Consumer Law Center White Paper (September 2009).

<u>From NCLC White Paper:</u>

Table 1: Subprime Loans By National Banks and Federal Thrifts 2006
(includes operating subsidiaries)

LENDER	RANK	$ (BILLIONS)	*MARKET SHARE*
CitiMortgage, NY*	4	$38	6.3%
WMC Mortgage (GE), CA	5	33	5.5%
Wells Fargo Home Mort., IA	9	28	4.6%
First Franklin (National City Bank), CA	10	28	4.6%
Washington Mutual, WA	11	27	4.4%
BNC Mortgage, CA (Lehman Bros. Bank)	16	15	2.4%
Chase Home Finance, NJ	17	12	1.9%
Equifirst, NC (Regions Bank)	18	11	1.8%
TOTAL		$190	31.5%

Source: Inside Mortgage Finance
*CitiMortgage became an operating subsidiary of CitiBank in October 2006. Its volume of subprime originations rose in the 4th quarter, and its market share increased to 10%.

NCLC incorrectly characterizes Equifirst as a national bank when in fact it was a subsidiary of state-chartered Regions Bank, and the figures given for some lenders (most notably WMC Mortgage) differ somewhat from the original source numbers provided by *Inside Mortgage Finance*. Removing Equifirst and correcting other data errors reduces the total "market share" of these federally supervised institutions to 26 percent.[6] However, as noted above, little confidence should be placed even in this corrected figure, due to the unreliable estimate of the overall size of the subprime market used as its denominator.

C. OCC Analysis of Subprime and Alt-A Loan Performance

National banks and their operating subsidiaries engaged in subprime mortgage lending to a relatively modest extent, as demonstrated above. However, not all subprime loans have subsequently caused problems for borrowers, lenders, and others. Subprime and Alt-A loans may be appropriate for some borrowers in some situations. The quality of the underwriting process – that is, determining through analysis of the borrower and market conditions that a borrower is highly likely to be able to repay the loan as promised – is a major determinant of subsequent loan performance. The quality of underwriting varies across lenders, a factor that is evident through comparisons of rates of delinquency, foreclosure, or other loan performance measures across loan originators. Through analysis of the available data, the OCC has determined that subprime loans originated by OCC-supervised institutions have generally performed better than similar loans originated by other lenders.

The subprime data from LPC used for the analysis of market share above also contains information on how loans have performed since they were originated. In analysis done in 2008, the OCC used that information to analyze the foreclosure experience in the ten metropolitan areas hardest hit by foreclosures, and to identify the ten originators with the largest number of non-prime loans that went into foreclosure in those markets. The results are described in the

[6] The correct figure for BNC Mortgage is $14 billion, and for WMC Mortgage $11 billion.

attached note on the "Worst 10 in the Worst 10" analysis. As noted there, nearly 60 percent of non-prime mortgage loans and foreclosures in the "Worst 10" markets were from originators not supervised by any federal banking agency. *See* Attachment 1.

The OCC recently updated the "Worst 10" analysis using the most recently available data from LPC. Market conditions have continued to deteriorate, and the identity of the hardest hits markets has evolved, with metropolitan areas in California and Florida now dominating the list. However, the list of originators is largely unchanged, as are the overall conclusions. The updated "Worst 10" tables are included as Attachment 2.

In addition to the Worst 10 analysis, the OCC also analyzed the performance of the broader nonprime mortgage market using LPC. That work, shown in Tables 1 and 2, below, found that nonprime loans originated by national banks and their subsidiaries have generally presented fewer problems than loans made by other lenders under two measures of distress. In the column headed "Foreclosure Start Rate," Table 1 shows the percentage of nonprime loans that entered foreclosure at any time after origination (even if they did not go all the way through to eventual foreclosure). Those results indicate that 22 percent of nonprime loans originated by national banks from 2005 through 2007 experienced a foreclosure start as of November 2009, compared to a market average of 25.7 percent. Aside from credit unions, which were not significant originators, that percentage was the lowest of any federal regulator. State-chartered banks, supervised by state regulators and either the FDIC or Federal Reserve, and other lenders subject solely to state authority were the source of <u>73 percent</u> of the nonprime mortgages that experienced a foreclosure start.

The OCC conducted a similar analysis of the LPC data using a broader indicator of loan deterioration: whether a loan ever became 60 days or more delinquent. The results of that analysis, shown in Table 2, below, mirror those for foreclosures. Of the nonprime loans originated by national banks and their subsidiaries, 37.1 percent became delinquent by 60 days or more at some time after origination, compared to a market average of 45.5 percent. National banks originated 9.8 percent of those nonprime loans. State-chartered banks, supervised by state regulators and either the FDIC or Federal Reserve, and other lenders subject solely to state authority were the source of <u>73.9 percent</u> of those loans, with the vast majority originated by non-bank lenders subject exclusively to state authority.

Table 1: Nonprime Loans that Experienced a Foreclosure Start

NONPRIME (COMBINED SUBPRIME AND ALT-A) LOANS

Agency	Originations	Market Share	Foreclosure Starts	Foreclosure Start Rate	Share of Foreclosure Starts
OTS	783,719	15.9%	210,943	26.9%	16.6%
STATE*	2,818,126	57.1%	741,068	26.3%	58.4%
FDIC	436,981	8.9%	110,976	25.4%	8.7%
FED	295,343	6.0%	74,169	25.1%	5.8%
OCC	595,304	12.1%	130,806	22.0%	10.3%
NCUA	3,024	0.1%	364	12.0%	0.0%
Total	4,932,497	100.0%	1,268,326	25.7%	100.0%

ALT-A LOANS

Agency	Originations	Market Share	Foreclosure Starts	Foreclosure Start Rate	Share of Foreclosure Starts
FDIC	118,185	10.5%	33,241	28.1%	13.3%
STATE*	394,771	35.2%	98,437	24.9%	39.5%
FED	70,461	6.3%	17,082	24.2%	6.9%
OTS	344,231	30.7%	74,028	21.5%	29.7%
OCC	191,346	17.1%	26,045	13.6%	10.5%
NCUA	2,791	0.2%	351	12.6%	0.1%
Total	1,121,785	100.0%	249,184	22.2%	100.0%

SUBPRIME LOANS

Agency	Originations	Market Share	Foreclosure Starts	Foreclosure Start Rate	Share of Foreclosure Starts
OTS	439,488	11.5%	136,915	31.2%	13.4%
STATE*	2,423,355	63.6%	642,631	26.5%	63.1%
OCC	403,958	10.6%	104,761	25.9%	10.3%
FED	224,882	5.9%	57,087	25.4%	5.6%
FDIC	318,796	8.4%	77,735	24.4%	7.6%
NCUA	233	0.0%	13	5.6%	0.0%
Total	3,810,712	100.0%	1,019,142	26.7%	100.0%

* Denotes entities not subject to supervision by any federal banking agency (reporting to HUD under HMDA).
"Originations" include all subprime and Alt-A loans in LPC originated during 2005-2007 for which the originator could be identified reliably.
"Foreclosure Starts" counts the number of loans that entered foreclosure at any time between origination and November 2009.

Table 2: Loans That Became 60 Days or More Delinquent at Any Time after Origination

NONPRIME (COMBINED SUBPRIME AND ALT-A) LOANS

Agency	Originations	Market Share	Number of Loans Ever 60 Days or More Delinquent	60 Days or More Delinquency Rate	Share of Loans Ever 60 Days or More Delinquent
OTS	783,719	15.9%	783,719	46.6%	16.3%
STATE*	2,818,126	57.1%	1,323,178	47.0%	58.9%
FDIC	436,981	8.9%	212,332	48.6%	9.5%
FED	295,343	6.0%	124,026	42.0%	5.5%
OCC	595,304	12.1%	220,895	37.1%	9.8%
NCUA	3,024	0.1%	538	17.8%	0.1%
Total	4,932,497	100.0%	2,246,092	45.5%	100.0%

ALT-A LOANS

Agency	Originations	Market Share	Number of Loans Ever 60 Days or More Delinquent	60 Days or More Delinquency Rate	Share of Loans Ever 60 Days or More Delinquent
FDIC	118,185	10.5%	46,632	39.3%	12.4%
STATE*	394,771	35.2%	143,402	36.3%	38.4%
FED	70,461	6.3%	24,255	34.4%	6.5%
OTS	344,231	30.7%	119,001	34.6%	31.8%
OCC	191,346	17.1%	40,221	21.0%	10.8%
NCUA	2,791	0.2%	455	16.3%	0.1%
Total	1,121,785	100.0%	373,726	33.3%	100.0%

SUBPRIME LOANS

Agency	Originations	Market Share	Number of Loans Ever 60 Days or More Delinquent	60 Days or More Delinquency Rate	Share of Loans Ever 60 Days or More Delinquent
OTS	439,488	11.5%	246,102	56.0%	13.1%
STATE*	2,423,355	63.6%	1,179,776	48.7%	63.0%
OCC	403,958	10.6%	180,674	44.7%	9.6%
FED	224,882	5.9%	99,791	44.4%	5.3%
FDIC	318,796	8.4%	165,940	52.1%	8.9%
NCUA	233	0.0%	83	35.6%	0.0%
Total	3,810,712	100.0%	1,872,366	49.1%	100.0%

* Denotes entities not subject to supervision by any federal banking agency (reporting to HUD under HMDA).
"Originations" include all subprime and Alt-A loans in LPC originated during 2005-2007 for which the originator could be identified reliably.
"Foreclosure Starts" counts the number of loans that entered foreclosure at any time between origination and November 2009.

D. Other Analyses of Mortgage Loan Performance

Other analysts have presented findings that appear to contradict these general results, finding worse performance for subprime mortgage (or other mortgage) loans from OCC-supervised originators. For example, a recent paper by Ding, Quercia, Reid, and White ("DQRW") released by the Center for Community Capitalism at the University of North Carolina examines the performance of mortgages originated by lenders subject to different regulators in states with and without anti-predatory lending laws.[7]

The study uses loan-level performance data for subprime and Alt-A loans matched to HMDA to compare delinquency rates for loans originated by OCC-regulated institutions in states with anti-predatory lending laws (APL states), before and after finalization of the OCC's 2004 preemption rules. DQRW state at the onset of the study that they expect to find that loans originated by national banks after preemption have higher delinquency rates than loans originated prior to 2004. To control for changes in market conditions before and after adoption of the preemption rules, the changes in OCC delinquency rates over time are compared to changes in delinquency rates for loans originated by independent mortgage companies (HUD-regulated).

DQRW find that delinquency rates increased for OCC loans originated after the preemption rules were issued (2005-2006) in states with anti-predatory lending laws - using HUD loans as a control group – in only one of the four categories of loans (refinance fixed-rate loans). DQRW interpret this result as indicating that the OCC's 2004 preemption regulation led "both to a deterioration in the quality of and an increase in the default risk for mortgages originated by OCC-regulated (or OCC-preempted) (sic) lenders in states with anti-predatory lending laws."

It is doubtful that the results from DQRW are relevant for the broad mortgage market. The unique sample used in the study has some advantages, but a significant disadvantage is that the sample is relatively small, and the mortgage loans contained in that unique dataset do not appear to be generally representative of the mortgage market. Loans from lenders regulated by the Federal Reserve, FDIC and NCUA are limited. Loans originated in California represent 25 percent of the sample (as compared to a 16 percent share in the HMDA data). In addition, although the analysis uses loans originated during the years 2002-2006, the data contain only the subsample of those originations that were active as of December 2006. Thus, loans originated early in the data period that had prepaid or already foreclosed (likely a large percentage) were excluded from the analysis.

But beyond that concern, the reported results do not support the authors' primary conclusion; if anything, the results tend to point in the other direction. For example, the authors find only one type of loan (fixed rate refinances) for which their delinquency measure increased more for OCC-supervised lenders than for other lenders, and emphasize that as their conclusion – ignoring the fact that the other loan types do not show that effect. Their own results show that the delinquency measure for adjustable-rate purchase loans – which are a much more important part of the market – increased by 30 percent less at national banks than at the lenders not subject

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[7] Ding, Quercia, Reid, and White, "The Preemption Effect: the Impact of Federal Preemption of State Anti-Predatory Lending Laws on the Foreclosure Crisis", Research Report, Center for Community Capital University of North Carolina, Chapel Hill (March 23, 2010).

to federal preemption in their sample. They also find that loans from OCC-supervised institutions were less risky across the board than loans from other lenders, consistent with the OCC analysis of loan performance summarized above.

Table 6 in DQRW (reproduced below) provides their results from applying the well-accepted method of logit regression to the sample of loans to measure the risk of delinquency and to try to isolate the impact of being regulated by the OCC or by the states (the "IND lenders"). Odds ratios are used to measure how likely a loan is to become delinquent compared to a comparable or "reference" loan used as a neutral standard of comparison. The authors use as their neutral reference point the group of otherwise similar mortgage loans made by OCC-supervised banks in states that did not have anti-predatory lending laws (APLs) that could be preempted in 2004.

The odds ratios are uniformly lower for the national banks than for the state lenders; that is, *loans of all types in all periods made by national banks had lower delinquencies*. As an extreme example, fixed-rate home purchase loans in 2005-2006 were 28.4 percent less risky for national banks in these states than for the reference group, while the same type of loan from a state lender has an odds ratio of 1.399 for that vintage, making it about 40 percent riskier than the comparison group. The difference between 40 percent riskier for state lenders and 28 percent less risky for OCC lenders is a big difference.

Then the authors estimate the same odds-ratio risk measures after the preemption rule was issued, to see how they changed, and then compare the relative changes in risk for OCC-regulated lenders versus state-regulated lenders. The authors focus on the results for "refi_frm", that is for fixed-rate refinancings; those loans became more risky at OCC lenders after preemption, by about 20 percent, whether one looks at the 2004 loans or the 2005-2006 loans. But the other results in Table 6 are either very close to 1.0, suggesting no material difference, or less than 1.0 showing that risk actually *fell* at OCC-supervised lenders compared to state-supervised lenders. For example, the 2005-2006 adjustable-rate purchase loans made by national banks *became more than 30 percent less risky than the same loans made by state-regulated IND lenders. Thus the reported results for the "Preemption Effect" do not strongly support the authors' main conclusion, and a larger number of the results actually go the other way.*

Table 6 Impact of the OCC Preemption on Mortgage Performance (based on logit regression results)

	Before preemption (2002-2003)		Post-preemption (2004)		Post-preemption (2005-2006)		Relative change		Preemption Effect	
	p_value	Odds Ratio	p_value	Odds Ratio	p_value	Odds Ratio	2004/Pre	2005-2006/pre	2004	2005-2006
OCC lenders										
purchase_frm	0.007	0.753	0.004	0.806	<.0001	0.716	1.070	0.951	1.023	0.901
purchase_arm	0.000	0.797	0.001	0.882	<.0001	0.789	1.107	0.990	0.766	0.691
refi_frm	<.0001	0.653	0.047	0.864	<.0001	0.786	1.323	1.204	1.199	1.201
refi_arm	<.0001	0.728	0.587	1.026	<.0001	0.841	1.409	1.155	1.012	0.998
IND lenders										
purchase_frm	0.001	1.326	<.0001	1.388	<.0001	1.399	1.047	1.055		
purchase_arm	0.283	0.941	<.0001	1.359	<.0001	1.348	1.444	1.433		
refi_frm	0.986	1.001	0.103	1.105	0.921	1.003	1.104	1.002		
refi_arm	0.824	0.988	<.0001	1.376	<.0001	1.144	1.393	1.158		

Note: Odds ratios and p-values are obtained from a set of logit regression models where serious delinquency (90+day) is the outcome variable and the reference lender group is OCC_nonAPL (see Table 8); relative change=odds ratios for the 2004 or 2005-2006 cohort divided by the odds ratios for the pre-preemption cohort (2002-2003); preemption effect=relative change of OCC lenders/relative change of independent mortgage companies (IND_APL). The preemption effect with a value greater than one suggests the default risk for the lender type increases after the preemption after accounting for the change in market conditions. Conventional, 30-year, first-lien mortgages only; loans originated in states that adopted APLs after February 12, 2004 and before December 31 2007 were excluded.

II. Servicing

The quarterly OCC and OTS Mortgage Metrics Report ("MMR") provides extensive data on the extent to which major national banks and thrifts service first-lien residential mortgages of all types, including subprime loans. The OCC and OTS collect data on first-lien residential mortgages from the nine national banks and three thrifts with the largest mortgage-servicing portfolios among national banks and thrifts. [8] These 12 depository institutions are owned by nine holding companies,[9] and represent most of the industry's largest mortgage servicers, covering approximately 65 percent of all mortgages outstanding in the United States.

More than 90 percent of the mortgages in the portfolio were serviced for third parties because of loan sales and securitization. At the end of December 2009, the reporting institutions serviced almost 34 million first-lien mortgage loans, totaling nearly $6 trillion in outstanding balances.

MMR uses standardized definitions for three categories of mortgage creditworthiness based on the following ranges of borrowers' credit scores at the time of origination: "Prime" with scores of 660 and above, "Alt-A" with scores from 620 to 659, and "Subprime" with scores below 620.[10] Approximately 13 percent of loans in the data are not accompanied by credit scores and are classified as "other." This group includes a mix of prime, Alt-A, and subprime loans. In large part, the lack of credit scores results from acquisitions of loan portfolios from third parties for which borrower credit scores at the origination of the loans were not available.

As of December 31, 2009, these institutions serviced 2,758,613 loans in the Subprime score range, accounting for 8% of all loans serviced. The number of Subprime loans has declined by 9 percent over the past year, whereas the total portfolio declined 2 percent as origination of new Subprime loans has not kept pace with foreclosures, loan payoffs, and sales and transfers.

Table 3 displays the composition of the servicing portfolio covered by MMR. At year-end 2007, national bank servicers combined to service more than $267 billion in Subprime first mortgage loans; the volume of Serviced subprime loans increased to $283 billion at the end of 2008 and $378 billion at the end of 2009.

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[8] The nine banks are Bank of America, JPMorgan Chase, Citibank, First Tennessee (formerly referred to as First Horizon), HSBC, National City, USBank, Wachovia, and Wells Fargo. The thrifts are OneWestBank (formerly IndyMac), Merrill Lynch, and Wachovia FSB. Wachovia FSB was merged into Wells Fargo National Bank in November 2009.

[9] The holding companies are Bank of America Corp., JPMorgan Chase, Citigroup, First Horizon, HSBC, OneWest (formerly IndyMac), PNC, US Bancorp, and Wells Fargo Corp.

[10] Note that the definition of "subprime" used in MMR is based entirely on credit score in order to create a definition that is standardized across firms; this definition of subprime may not match definitions use in other contexts. In particular, this definition of subprime does not directly correspond to criteria used by institutions to self-identify loans considered subprime, which generally reflect a combination of credit scores, LTV, loan structure, and the institution's business focus.

Table 3

Overall Mortgage Portfolio in *Mortgage Metrics Report*					
	12/31/08	3/31/09	6/30/09	9/30/09	12/31/09
Total Servicing (Millions)	$6,106,764	$6,014,455	$5,969,246	$5,998,986	$5,952,423
Total Servicing (Number of Loans)	34,551,061	34,096,603	33,832,014	34,024,602	33,824,889
Composition (Percent of All Mortgages in the Portfolio)*					
Prime	66%	67%	68%	68%	68%
Alt-A	10%	10%	10%	10%	11%
Subprime	9%	8%	8%	8%	8%
Other	14%	14%	13%	14%	13%
Composition (Number of Loans in Each Risk Category of the Portfolio)					
Prime	22,963,965	22,867,059	22,929,113	23,064,371	23,136,115
Alt-A	3,567,323	3,519,821	3,528,840	3,524,305	3,560,656
Subprime	3,034,620	2,888,029	2,847,412	2,774,028	2,758,613
Other	4,985,153	4,821,694	4,526,649	4,661,898	4,369,505

* Percentages may not total 100 percent due to rounding.

III. Warehouse lines of credit to independent subprime originators

In the fourth quarter of 2006, large national banks had warehouse lines to subprime companies totaling $32.9 billion, although only approximately $12.4 billion had been advanced on those lines. The volume of such warehouse facilities decreased to $14.6 billion as of the third quarter of 2007, with approximately $6 billion advanced on the lines. These warehouse lines compare with the total market warehouse lending capacity, per *National Mortgage News*, of over $200 billion in 2006 and 2007. Total market capacity declined dramatically to approximately $20 to $25 billion in 2008.[11]

IV. Purchasing subprime loans for securitizations and purchasing interests in MBS

As previously discussed, in 2006 and 2007, subprime mortgages, mostly originated by nonbanks, were a very important share of the total market. Additionally, many subprime mortgages were bundled into residential mortgage-backed securities ("RMBS"), and many of these RMBS were then repackaged into collateralized debt obligations ("CDOs"). Both subprime RMBS and CDOs backed by subprime RMBS were sold to a broad range of investors. A few large national banks also were involved in structuring products to be sold that included subprime mortgages.

The Federal Reserve's Flow of Funds data presented in Table 4 below show that RMBS issued by or guaranteed by housing government sponsored enterprises ("GSEs") accounted for the largest share of outstanding RMBS during the subprime boom. Private-label RMBS were a much smaller component of the market, even during the peak subprime years, and of course not all of those securities were subprime. For example, credible estimates indicate that only one third

[11] *National Mortgage News*, October 20, 2008; March 23, 2009; and April 1, 2009.

of the outstanding dollar volume of private-label RMBS at the end of 2007 was subprime, although an additional 43 percent was Alt-A, with the remainder consisting largely of prime jumbo MBS.[12] Commercial banking firms as a group hold only a small share of the outstanding private-label RMBS, and national bank holdings are even smaller; as shown in Table 4, national banks hold between 5 and 10 percent of outstanding private RMBS.

Table 4: Residential Mortgage-Backed Securities Outstanding

Flow of Funds Data ($ bil)	**2005**	**2006**	**2007**	**2008**
Issued or guaranteed by GSEs	3,420	3,711	4,319	4,801
Private label RMBS	1,622	2,140	2,172	1,859
Held by commercial banking firms	170	192	272	246
Held by other investors	1,452	1,948	1,900	1,613
Total RMBS	5,042	5,851	6,491	6,660
Call Report Data ($ bil)				
National bank holdings of GSE RMBS	505	594	542	640
National bank holdings of private RMBS	87	114	193	155
Total national bank holdings of RMBS	592	709	735	795
National bank share of private RMBS	5.4%	5.3%	8.9%	8.4%

[12] Deutsche Bank "Projecting Mortgage Losses" MBS Special Report, May 5, 2008.

Attachment 1

11/13/2008

Worst Ten in the Worst Ten

- The table below sets forth the ten metropolitan areas experiencing the highest rates of foreclosure as reported by RealtyTrac (the "Worst Ten" MSAs). Foreclosure rates for sub-prime and Alt-A mortgages originated from 2005 through 2007 in these MSAs were computed using data from Loan Performance.

Rank	MSA	Non-prime Mortgage Foreclosure Rate
1	Detroit	22.9%
2	Cleveland	21.6%
3	Stockton	21.5%
4	Sacramento	18.0%
5	Riverside/San Bernardino	16.1%
6	Memphis	15.6%
7	Miami/Fort Lauderdale	14.3%
8	Bakersfield	14.3%
9	Denver	14.0%
10	Las Vegas	13.9%

- For each of these metro areas, the "Worst Ten" originators were identified: the ten originators in each MSA with the largest number of non-prime mortgage foreclosures in the Loan Performance database for 2005-2007 originations.

- Only 21 companies in various combinations (see attached tables for MSA-level details) occupy the Worst Ten slots in the Worst Ten metro areas:

AEGIS FUNDING CORPORATION
AMERICAN HOME MORTGAGE CORP.
AMERIQUEST MORTGAGE COMPANY
ARGENT MORTGAGE COMPANY
BNC MORTGAGE
COUNTRYWIDE
DECISION ONE MORTGAGE
DELTA FUNDING CORPORATION
FIELDSTONE MORTGAGE COMPANY
FIRST FRANKLIN CORPORATION
FREMONT INVESTMENT & LOAN
GREENPOINT MORTGAGE FUNDING
INDYMAC BANK, F.S.B.
LONG BEACH MORTGAGE CO.
NEW CENTURY MORTGAGE
OPTION ONE MORTGAGE CORP
OWNIT MORTGAGE SOLUTIONS INC.
PEOPLE'S CHOICE FINANCIAL CORP
RESMAE MORTGAGE CORPORATION
WELLS FARGO
WMC MORTGAGE CORP.

- Of these 21 firms, 12 were exclusively supervised by the states; overall, such originators accounted for nearly 60 percent of non-prime mortgage loans and foreclosures in the Worst Ten metro areas in 2005-2007.

- Only three firms on the list were subject to OCC supervision during 2005-2007, and those three accounted for fewer than 12 percent of foreclosures in the Worst Ten metro areas.

- Results for the U.S. as a whole are similar to those for the Worst Ten metropolitan areas. OCC-supervised institutions accounted for approximately 12 to 14 percent of the non-prime originations; moreover, foreclosure rates for OCC-supervised institutions were markedly lower on average than for other types of originators.

Worst Ten in the Worst Ten:
Results for individual metropolitan areas

Bakersfield

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	WMC MORTGAGE CORP.	731	3998	18.3%
2	LONG BEACH MORTGAGE CO.	680	2817	24.1%
3	NEW CENTURY MORTGAGE	647	3864	16.7%
4	OPTION ONE MORTGAGE CORP	302	1673	18.1%
5	ARGENT MORTGAGE COMPANY	276	1527	18.1%
6	OWNIT MORTGAGE SOLUTIONS INC.	232	1069	21.7%
7	FREMONT INVESTMENT & LOAN	207	1286	16.1%
8	FIRST FRANKLIN CORPORATION	206	1186	17.4%
9	AMERIQUEST MORTGAGE COMPANY	124	1002	12.4%
10	COUNTRYWIDE	106	1232	8.6%

Memphis

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	669	1853	36.1%
2	WMC MORTGAGE CORP.	376	2141	17.6%
3	FIRST FRANKLIN CORPORATION	355	3290	10.8%
4	OPTION ONE MORTGAGE CORP	300	1224	24.5%
5	NEW CENTURY MORTGAGE	295	1705	17.3%
6	WELLS FARGO	202	1249	16.2%
7	AMERIQUEST MORTGAGE COMPANY	184	900	20.4%
8	ARGENT MORTGAGE COMPANY	159	536	29.7%
9	DECISION ONE MORTGAGE	119	518	23.0%
10	FREMONT INVESTMENT & LOAN	92	393	23.4%

Cleveland

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	ARGENT MORTGAGE COMPANY	1327	3251	40.8%
2	NEW CENTURY MORTGAGE	912	2437	37.4%
3	LONG BEACH MORTGAGE CO.	525	968	54.2%
4	FIRST FRANKLIN CORPORATION	425	2332	18.2%
5	AEGIS FUNDING CORPORATION	412	1276	32.3%
6	OPTION ONE MORTGAGE CORP	370	1538	24.1%
7	AMERIQUEST MORTGAGE COMPANY	245	1166	21.0%
8	WELLS FARGO	239	1275	18.7%
9	PEOPLE'S CHOICE FINANCIAL CORP	217	550	39.5%
10	DELTA FUNDING CORPORATION	155	570	27.2%

Miami

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	FREMONT INVESTMENT & LOAN	1655	8961	18.5%
2	ARGENT MORTGAGE COMPANY	1383	8967	15.4%
3	LONG BEACH MORTGAGE CO.	1176	5255	22.4%
4	WMC MORTGAGE CORP.	1168	5861	19.9%
5	NEW CENTURY MORTGAGE	1018	7456	13.7%
6	OPTION ONE MORTGAGE CORP	883	4637	19.0%
7	FIRST FRANKLIN CORPORATION	777	3946	19.7%
8	AMERIQUEST MORTGAGE COMPANY	538	4002	13.4%
9	AMERICAN HOME MORTGAGE CORP.	508	4114	12.3%
10	COUNTRYWIDE	504	5568	9.1%

Denver

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	758	2570	29.5%
2	NEW CENTURY MORTGAGE	703	3585	19.6%
3	ARGENT MORTGAGE COMPANY	670	1737	38.6%
4	FREMONT INVESTMENT & LOAN	670	3129	21.4%
5	OPTION ONE MORTGAGE CORP	613	2770	22.1%
6	FIRST FRANKLIN CORPORATION	533	3325	16.0%
7	OWNIT MORTGAGE SOLUTIONS INC.	404	2292	17.6%
8	AMERIQUEST MORTGAGE COMPANY	293	1173	25.0%
9	FIELDSTONE MORTGAGE COMPANY	275	961	28.6%
10	WMC MORTGAGE CORP.	260	1099	23.7%

Riverside

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	4600	22736	20.2%
2	WMC MORTGAGE CORP.	4577	21191	21.6%
3	FREMONT INVESTMENT & LOAN	2380	11584	20.5%
4	LONG BEACH MORTGAGE CO.	2374	7608	31.2%
5	FIRST FRANKLIN CORPORATION	2301	10701	21.5%
6	ARGENT MORTGAGE COMPANY	2175	9138	23.8%
7	OPTION ONE MORTGAGE CORP	2175	10752	20.2%
8	RESMAE MORTGAGE CORPORATION	1717	5763	29.8%
9	COUNTRYWIDE	1304	13280	9.8%
10	BNC MORTGAGE	876	3591	24.4%

Detroit

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	ARGENT MORTGAGE COMPANY	2532	5582	45.4%
2	LONG BEACH MORTGAGE CO.	1956	3816	51.3%
3	NEW CENTURY MORTGAGE	1894	6376	29.7%
4	OPTION ONE MORTGAGE CORP	1757	5780	30.4%
5	FIRST FRANKLIN CORPORATION	1578	7733	20.4%
6	FREMONT INVESTMENT & LOAN	1308	3583	36.5%
7	AMERIQUEST MORTGAGE COMPANY	910	3347	27.2%
8	WELLS FARGO	671	2621	25.6%
9	AMERICAN HOME MORTGAGE CORP.	518	3365	15.4%
10	PEOPLE'S CHOICE FINANCIAL CORP	479	1284	37.3%

Sacramento

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	1997	4836	41.3%
2	NEW CENTURY MORTGAGE	1510	5878	25.7%
3	WMC MORTGAGE CORP.	1155	4082	28.3%
4	FREMONT INVESTMENT & LOAN	889	3444	25.8%
5	OPTION ONE MORTGAGE CORP	886	3518	25.2%
6	ARGENT MORTGAGE COMPANY	637	2067	30.8%
7	FIRST FRANKLIN CORPORATION	626	2686	23.3%
8	COUNTRYWIDE	565	4697	12.0%
9	GREENPOINT MORTGAGE FUNDING	535	4101	13.0%
10	RESMAE MORTGAGE CORPORATION	460	1472	31.3%

Las Vegas

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	1671	8623	19.4%
2	ARGENT MORTGAGE COMPANY	1093	4598	23.8%
3	WMC MORTGAGE CORP.	999	4886	20.4%
4	COUNTRYWIDE	957	9638	9.9%
5	FIRST FRANKLIN CORPORATION	945	4743	19.9%
6	FREMONT INVESTMENT & LOAN	879	4174	21.1%
7	OPTION ONE MORTGAGE CORP	696	3710	18.8%
8	AMERICAN HOME MORTGAGE CORP.	489	4904	10.0%
9	GREENPOINT MORTGAGE FUNDING	468	4963	9.4%
10	INDYMAC BANK, F.S.B.	423	4288	9.9%

Stockton

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	1213	3056	39.7%
2	NEW CENTURY MORTGAGE	870	3263	26.7%
3	WMC MORTGAGE CORP.	677	2259	30.0%
4	ARGENT MORTGAGE COMPANY	476	1402	34.0%
5	FREMONT INVESTMENT & LOAN	466	1762	26.4%
6	OPTION ONE MORTGAGE CORP	362	1448	25.0%
7	GREENPOINT MORTGAGE FUNDING	343	1978	17.3%
8	FIRST FRANKLIN CORPORATION	291	1046	27.8%
9	COUNTRYWIDE	263	1931	13.6%
10	AMERIQUEST MORTGAGE COMPANY	217	920	23.6%

Worst Ten in the Worst Ten: Supervisory Status of Mortgage Originators

Originator	Supervisor	Foreclosures in Worst 10 Metro Areas, based on 2005-07 Originations
New Century Mortgage Corp.	State supervised. Subsidiary of publicly-traded REIT, filed for bankruptcy in early 2007.	14,120
Long Beach Mortgage Co.	State and OTS supervised. Affiliate of WAMU, became a subsidiary of thrift in early 2006; closed in late 2007 / early 2008.	11,736
Argent Mortgage Co.	State supervised until Citigroup acquired certain assets of Argent in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	10,728
WMC Mortgage Corp.	OTS supervised. Subsidiary of GE Money Bank, FSB, closed in late 2007.	10,283
Fremont Investment & Loan	FDIC and State supervised. California state chartered industrial bank. Liquidated, terminated deposit insurance, and surrendered charter in 2008.	8,635
Option One Mortgage Corp.	State supervised. Subsidiary of H&R Block, closed in late 2007.	8,344
First Franklin Corp.	Data includes loans originated by (1) OCC supervised subsidiary of National City Bank until 12/06; and (2) OTS supervised subsidiary of Merrill Lynch Bank & Trust Co., FSB, after 12/06. Closed in 2008.	8,037
Countrywide	Data includes loans originated by (1) Countrywide Home Loans, an FRB/State supervised entity until 03/07, and an OTS/State supervised entity after 03/07; and (2) Countrywide Bank, an OCC supervised entity until 03/07, and an OTS supervised entity after 03/07.	4,736
Ameriquest Mortgage Co.	State supervised. Citigroup acquired certain assets of Ameriquest in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	4,126
ResMae Mortgage Corp.	State supervised. Filed for bankruptcy in late 2007.	3,558
American Home Mortgage Corp.	State supervised. Filed for bankruptcy in 2007.	2,954
IndyMac Bank, FSB	OTS supervised thrift. Closed in July 2008.	2,882
Greenpoint Mortgage Funding	FDIC and State supervised. Acquired by Capital One, NA, in mid 2007 as part of conversion and merger with North Fork, a state bank. Closed immediately thereafter in 08/07.	2,815
Wells Fargo	Data includes loans originated by (1) Wells Fargo Financial, Inc., an FRB and State supervised entity, and (2) Wells Fargo Bank, an OCC supervised entity.	2,697
Ownit Mortgage Solutions, Inc.	State supervised. Closed in late 2006.	2,533
Aegis Funding Corp.	State supervised. Filed for bankruptcy in late 2007.	2,058
People's Choice Financial Corp.	State supervised. Filed for bankruptcy in early 2008.	1,783
BNC Mortgage	OTS supervised. Subsidiary of Lehman Brothers, FSB, closed in August 2007.	1,769
Fieldstone Mortgage Co.	State supervised. Filed for bankruptcy in late 2007.	1,561
Decision One Mortgage	State and FRB supervised. Subsidiary of HSBC Finance Corp. Closed in late 2007.	1,267
Delta Funding Corp.	State supervised. Filed for bankruptcy in late 2007.	598

Monday, March 22, 2010

Attachment 2

Worst Ten in the Worst Ten: Update

- This attachment updates the OCC's November 2008 analysis of subprime origination and performance in the markets hit hardest by foreclosures, using the most recently available LPC data (November 2009).
- An updated list of the ten metropolitan areas experiencing the highest rates of foreclosure (the "Worst Ten" MSAs) was developed from data reported by RealtyTrac. The ten worst metropolitan areas were distributed across seven states in 2008, but now are concentrated in only three: California, Florida, and Nevada. Six of the ten are in California.

Worst 10 Markets (from RealtyTrac data)

Rank	MSA/PMSA	Non-prime Mortgage Foreclosure Rate
1	Fort Myers-Cape Coral, FL MSA	43.3%
2	Merced, CA MSA	40.5%
3	Fort Pierce-Port St Lucie, FL MSA	40.1%
4	Stockton-Lodi, CA MSA	38.1%
5	Modesto, CA MSA	37.9%
6	Las Vegas, NV MSA	32.9%
7	Riverside-San Bernardino, CA PMSA	31.7%
8	Vallejo-Fairfield-Napa, CA PMSA	30.6%
9	Bakersfield, CA MSA	29.4%
10	Reno, NV MSA	27.5%

- As in the original analysis, the ten originators in each market with the most foreclosures were identified. (See the next page for lists of individual markets.)
  - The number of "worst" originators on the list decreased from 21 companies in November 2008 to 16 in November 2009.
  - In 2009, as in 2008, only three firms on the list were subject to OCC supervision at any time during 2005 through 2007. However, those three firms now account for a larger share of foreclosure starts (20 percent in 2009, compared to 12 percent in 2008).
  - The fraction of companies supervised exclusively by the states remained at roughly 56 percent, while their share of originations fell from 60 to 54 percent.

Worst Ten in the Worst Ten
Results for individual metropolitan areas - November 2009 data

Bakersfield, CA MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	1,238	3,902	32%
2	WMC MORTGAGE CORP.	1,234	3,998	31%
3	LONG BEACH MORTGAGE CO.	1,186	2,817	42%
4	OPTION ONE MORTGAGE CORP	478	1,673	29%
5	OWNIT MORTGAGE SOLUTIONS INC.	442	1,069	41%
6	FIRST FRANKLIN CORPORATION	414	1,201	34%
7	ARGENT MORTGAGE COMPANY	394	1,527	26%
8	FREMONT INVESTMENT & LOAN	363	1,286	28%
9	COUNTRYWIDE	342	1,277	27%
10	AMERICAN HOME MORTGAGE CORP.	258	780	33%

Modesto, CA MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	1,407	2,526	56%
2	NEW CENTURY MORTGAGE	918	2,337	39%
3	GREENPOINT MORTGAGE FUNDING	603	1,559	39%
4	OPTION ONE MORTGAGE CORP	521	1,222	43%
5	WMC MORTGAGE CORP.	505	1,218	41%
6	COUNTRYWIDE	426	1,285	33%
7	FREMONT INVESTMENT & LOAN	414	1,088	38%
8	FIRST FRANKLIN CORPORATION	358	792	45%
9	ARGENT MORTGAGE COMPANY	325	798	41%
10	INDYMAC BANK, F.S.B.	269	765	35%

Fort Myers-Cape Coral, FL MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	1,067	2,579	41%
2	FREMONT INVESTMENT & LOAN	872	1,983	44%
3	FIRST FRANKLIN CORPORATION	822	1,526	54%
4	AMERICAN HOME MORTGAGE CORP.	760	1,590	48%
5	OPTION ONE MORTGAGE CORP	749	1,689	44%
6	COUNTRYWIDE	721	1,591	45%
7	WELLS FARGO	636	1,249	51%
8	LENDERS DIRECT CAPITAL CORP	603	1,085	56%
9	ARGENT MORTGAGE COMPANY	566	1,223	46%
10	WMC MORTGAGE CORP.	524	1,129	46%

Reno, NV MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	372	1,168	32%
2	COUNTRYWIDE	208	727	29%
3	WELLS FARGO	203	647	31%
4	OPTION ONE MORTGAGE CORP	194	555	35%
5	AMERICAN HOME MORTGAGE CORP.	190	753	25%
6	ARGENT MORTGAGE COMPANY	173	446	39%
7	FIRST FRANKLIN CORPORATION	121	355	34%
8	WMC MORTGAGE CORP.	121	373	32%
9	GREENPOINT MORTGAGE FUNDING	112	436	26%
10	OWNIT MORTGAGE SOLUTIONS INC.	87	184	47%

Fort Pierce-Port St Lucie, FL MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	OPTION ONE MORTGAGE CORP	531	1,230	43%
2	FREMONT INVESTMENT & LOAN	397	890	45%
3	NEW CENTURY MORTGAGE	340	905	38%
4	AMERICAN HOME MORTGAGE CORP.	326	826	39%
5	LONG BEACH MORTGAGE CO.	269	530	51%
6	ARGENT MORTGAGE COMPANY	263	602	44%
7	COUNTRYWIDE	240	544	44%
8	WMC MORTGAGE CORP.	222	477	47%
9	FIRST FRANKLIN CORPORATION	201	449	45%
10	AMERIQUEST MORTGAGE COMPANY	180	540	33%

Riverside-San Bernardino, CA PMSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	NEW CENTURY MORTGAGE	7,802	22,991	34%
2	WMC MORTGAGE CORP.	7,183	21,192	34%
3	FIRST FRANKLIN CORPORATION	4,387	10,822	41%
4	FREMONT INVESTMENT & LOAN	3,889	11,585	34%
5	OPTION ONE MORTGAGE CORP	3,709	10,752	34%
6	LONG BEACH MORTGAGE CO.	3,618	7,608	48%
7	COUNTRYWIDE	3,515	13,498	26%
8	ARGENT MORTGAGE COMPANY	3,150	9,138	34%
9	RESMAE MORTGAGE CORPORATION	2,587	5,812	45%
10	INDYMAC BANK, F.S.B.	2,427	8,098	30%

Las Vegas, NV MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	COUNTRYWIDE	3,518	9,903	36%
2	NEW CENTURY MORTGAGE	3,144	8,722	36%
3	FIRST FRANKLIN CORPORATION	2,085	4,816	43%
4	ARGENT MORTGAGE COMPANY	1,774	4,598	39%
5	WMC MORTGAGE CORP.	1,759	4,886	36%
6	GREENPOINT MORTGAGE FUNDING	1,578	4,967	32%
7	FREMONT INVESTMENT & LOAN	1,546	4,175	37%
8	AMERICAN HOME MORTGAGE CORP.	1,439	4,905	29%
9	OPTION ONE MORTGAGE CORP	1,344	3,710	36%
10	INDYMAC BANK, F.S.B.	1,289	4,320	30%

Stockton-Lodi, CA MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	1,652	3,056	54%
2	NEW CENTURY MORTGAGE	1,286	3,296	39%
3	WMC MORTGAGE CORP.	921	2,259	41%
4	GREENPOINT MORTGAGE FUNDING	782	1,978	40%
5	FREMONT INVESTMENT & LOAN	675	1,762	38%
6	COUNTRYWIDE	646	1,968	33%
7	ARGENT MORTGAGE COMPANY	597	1,402	43%
8	OPTION ONE MORTGAGE CORP	592	1,448	41%
9	AMERICAN HOME MORTGAGE CORP.	478	1,228	39%
10	FIRST FRANKLIN CORPORATION	467	1,064	44%

Merced, CA MSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	776	1,442	54%
2	NEW CENTURY MORTGAGE	411	1,054	39%
3	COUNTRYWIDE	281	676	42%
4	GREENPOINT MORTGAGE FUNDING	252	605	42%
5	FIRST FRANKLIN CORPORATION	214	436	49%
6	OPTION ONE MORTGAGE CORP	208	451	46%
7	WMC MORTGAGE CORP.	197	457	43%
8	FREMONT INVESTMENT & LOAN	177	438	40%
9	ARGENT MORTGAGE COMPANY	143	370	39%
10	INDYMAC BANK, F.S.B.	139	384	36%

Vallejo-Fairfield-Napa, CA PMSA

Rank	Originator	Foreclosure Starts	Originations	Foreclosure Rate
1	LONG BEACH MORTGAGE CO.	934	1,790	52%
2	WMC MORTGAGE CORP.	767	2,039	38%
3	NEW CENTURY MORTGAGE	651	1,844	35%
4	GREENPOINT MORTGAGE FUNDING	494	1,873	26%
5	FREMONT INVESTMENT & LOAN	416	1,177	35%
6	OPTION ONE MORTGAGE CORP	360	989	36%
7	AMERICAN HOME MORTGAGE CORP.	358	1,212	30%
8	COUNTRYWIDE	357	1,690	21%
9	FIRST FRANKLIN CORPORATION	284	777	37%
10	ARGENT MORTGAGE COMPANY	248	614	40%

Worst Ten in the Worst Ten: Supervisory Status of Mortgage Originators

Originator	Supervisor	Foreclosures in Worst 10 Metro Areas, based on 2005-07 Originations
New Century Mortgage Corp.	State supervised. Subsidiary of publicly-traded REIT, filed for bankruptcy in early 2007.	17,229
WMC Mortgage Corp.	OTS supervised. Subidiary of GE Money Bank, FSB, closed in late 2007.	13,433
Long Beach Mortgage Co.	State and OTS supervised. Affiliate of WAMU, became a subsidiary of thrift in early 2006; closed in late 2007 / early 2008.	10,997
Countrywide	Data includes loans originated by (1) Countrywide Home Loans, an FRB/State supervised entity until 03/07, and an OTS/State supervised entity after 03/07; and (2) Countrywide Bank, an OCC supervised entity until 03/07, and an OTS supervised entity after 03/07.	10,254
First Franklin Corp.	Data includes loans originated by (1) OCC supervised subsidiary of National City Bank until 12/06; and (2) OTS supervised subsidiary of Merrill Lynch Bank & Trust Co., FSB, after 12/06. Closed in 2008.	9,353
Fremont Investment & Loan	FDIC and State supervised. California state chartered industrial bank. Liquidated, terminated deposit insurance, and surrendered charter in 2008.	8,829
Option One Mortgage Corp.	State supervised. Subsidiary of H&R Block, closed in late 2007.	8,686
Argent Mortgage Co.	State supervised until Citigroup acquired certain assets of Argent in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	7,633
Greenpoint Mortgage Funding	FDIC and State supervised. Acquired by Capital One, NA, in mid 2007 as part of conversion and merger with North Fork, a state bank. Closed immediately thereafter in 08/07.	6,485
American Home Mortgage Corp.	State supervised. Filed for bankruptcy in 2007.	5,721
IndyMac Bank, FSB	OTS supervised thrift. Closed in July 2008.	5,508
ResMae Mortgage Corp.	State supervised. Filed for bankruptcy in late 2007.	4,019
Wells Fargo	Data includes loans originated by (1) Wells Fargo Financial, Inc., an FRB and State supervised entity, and (2) Wells Fargo Bank, an OCC supervised entity.	3,982
Ameriquest Mortgage Co.	State supervised. Citigroup acquired certain assets of Ameriquest in 08/07. Merged into CitiMortgage (NB opsub) shortly thereafter.	3,516
Ownit Mortgage Solutions, Inc.	State supervised. Closed in late 2006.	2,468
Lenders Direct Capital Corp.	State supervised. Closed in early 2007.	1,127

March 29, 2009 (Foreclosures in Worst 10 Metro Areas as of Nov. 2009, based on 2005-07 Originations)