



## Consumer Federation of America

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### **REPORT DOCUMENTS 316,000 SUBPRIME CALIFORNIA LOANS ORIGINATED IN 2006 POISED FOR PAYMENT SHOCK IN 2008**

#### ***High Piggyback Lending Levels throughout State – Central and San Joaquin Valley Highest; Latinos, African Americans Most Likely to Receive Exploding Loans***

Washington, D.C. – California subprime home purchase and refinance lending levels rose in 2006. The majority of 316,769 California borrowers that received subprime loans in 2006 are likely to have their interest rates reset in 2008 and face significant payment shock. Additionally, one-third of California home purchase borrowers used a second, piggyback loan on top of their primary mortgage to finance their loans. These borrowers took out loans on as much as 100 percent of the value of the home in 2006, and in a declining housing market these borrowers could owe more than their homes are worth.

“The high level of piggyback and subprime mortgage lending in California in 2006 could unravel in 2008 as the subprime loans reset to higher rates at the same time California’s housing market implodes, potentially putting more than a quarter million homeowners at risk of losing their homes to foreclosure,” said Allen Fishbein, Director of Housing and Credit Policy at the Consumer Federation of America (CFA).

The study examined all of the 1.2 million conventional, owner-occupied home purchase and refinance mortgage originations in all of California’s metropolitan areas in 2006. The loan level data was obtained from the Home Mortgage Disclosure Act’s Loan Application Register provided by the Federal Reserve Board. The study provides a comprehensive analysis of lending patterns for home purchase and refinance lending in California’s metropolitan areas, including the prevalence of subprime and piggyback lending among Latino, African American and Asian borrowers.

The levels of subprime and piggyback lending are not uniform across California; many communities have considerably higher subprime and piggyback lending rates. The Central Valley, San Joaquin Valley and the eastern Mexican border region have higher rates of subprime or piggyback lending.

Among the study’s key findings:

- ***Many Californians Received Subprime Loans in 2006:*** One sixth (16.1 percent) of all California borrowers received subprime home purchase mortgage loans. Homeowners received 134,543 subprime home purchase mortgages in California in 2006. Nearly a

quarter (23.4 percent) of refinance borrowers received subprime loans, amounting to 182,226 subprime refinance loans in 2006.

- ***One-Third of California Home Purchase Mortgage Borrowers Used Piggyback Mortgages, Considerably More Frequently than the National Average.*** More than a third (37.3 percent) of California home purchase borrowers also used a piggyback mortgage – 55.5 percent higher than the national average of nearly 24 percent. In 2006, 161,121 homeowners used piggyback mortgages to finance their home purchases in California.
- ***California Piggyback Borrowers More than Three Times More Likely to Receive Subprime Loans as Borrowers without Piggyback Loans:*** More than half (56.5 percent) of California borrowers that used a second, piggyback loan to finance their purchase also received a subprime loan on their primary, first lien mortgage.
- ***California Latino and African American Borrowers were Three Times More Likely than White Borrowers to Receive Subprime Purchase Loans in 2006.*** One fourth (25.3 percent) of Latino borrowers and nearly one third (32.5 percent) of African-American borrowers received subprime home purchase mortgages in 2006, compared to about one in eleven (8.9 percent) of white borrowers.

CFA’s findings provide a local context to the subprime and piggyback lending rates in California cities. As California’s housing market downturn continues and foreclosure rates creep higher, the new data reports the level of 2006 subprime and piggyback lending in each of California’s metropolitan area.

“The CFA findings indicate that thousands of distressed California homeowners will need additional tools to save their homes. Very few of these homeowners will be able to sell or refinance their homes. Voluntary industry loan modifications have been insufficient to address the magnitude of this crisis. Congress needs to step-in and do it quickly,” said Allen Fishbein.

The study recommends two key actions for Congress to take:

- Amend the bankruptcy code to permit judicial modification of mortgages to enable families to continue paying on their loans and keep their home;
- Establish new consumer protections to restore responsible lending in order to prevent the crisis from happening again.

Piggyback Loans at the Trough: California Subprime Home Purchase and Refinance Lending in 2006, including a complete listing of subprime and piggyback lending data for every California metropolitan area is available at:  
[www.consumerfed.org/pdfs/California\\_Subprime\\_2006.pdf](http://www.consumerfed.org/pdfs/California_Subprime_2006.pdf) .

*CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.*