Housing

MAINE STATE
HOUSING
AUTHORITY

RESIDENTIAL MORTGAGE DELINQUENCIES AND FORECLOSURES IN MAINE

A Study by the Maine State Housing Authority

January 1989

295 WATER STREET • P.O. BOX 2669 • AUGUSTA • MAINE • 04330 • (207) 623-2981

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I. OVERVIEW

The Maine State Housing Authority in response to L.D. 1817 "An Act to Provide for the Compilation of Data and Information Relating to the Reasons for Residential Mortgage Foreclosure in Maine" examined the residential mortgage delinquency and foreclosure climate in Maine. The study involved eleven private lending institutions, Farmers Home Administration, and the Maine State Housing Authority. In total, 203 loans were examined which had been foreclosed since January 1984.

The study points out that residential mortgage delinquencies and foreclosures are relatively rare in Maine. Available data shows that only slightly more than two per 1,000 residential mortgages were ninety or more days delinquent as of February, 1988. Only 1.4 residential mortgages per 1,000 were being foreclosed at that time compared with a national rate of more than ten per 1,000.

The results of this study do not emphasize industry declines within the state, nor do the results highlight regional economic diversity. Fully 60% of the loans examined listed divorce, disability, hospitalization, death, criminal convictions, or legal problems as the primary cause of mortgage payment delinquency. Of the remaining 40% of foreclosures examined, such factors as business failures, job displacement, and chronic unemployment were listed as the causes of payment delinquency. Available data, however, did not establish any correlation between the number of foreclosures and a particular county/industry or between the incidence of foreclosure and any type of lending institution.

The Maine State Housing Authority does recognize that, though the numbers are small, foreclosure is a crisis to those households which have exhausted all repayment options. For this reason, the Maine State Housing Authority offers this report as support for its legislation "An Act to End Homelessness in Maine".

II. INTRODUCTION

This report is written at a time when high home prices and rising interest rates have pushed homeownership beyond the reach of many Maine households. When affordable housing is at the forefront of municipal agendas, it is necessary to examine the causes of mortgage failure. As the rate of homeownership declines it becomes vital for those who own homes to fulfill their mortgage obligations. Since 1970 the selling price for the average Maine home has increased 492% while the average household income has increased only 181%. Re-entry into the homeownership market may be beyond economic reach for those households which experience foreclosure.

This study examines mortgage delinquency and foreclosure for the state of Maine. An estimated 2.8% of Maine's residential mortgages are delinquent and 0.14% are in foreclosure. The number of personal bankruptcies increased 48% from 1984 to 1987. The 1988 total through November has already surpassed the 1987 year-end figure. Even though Maine's economic performance has exceeded that of the nation for the eighth consecutive year, in-state regional differences continue to exist. The gradual shift in employment levels from goods-producing jobs to lower paying non-manufacturing service-sector jobs may slow Maine's economic resurgence. Income levels may not support the rising costs of homeownership.

Section three of this report will provide a base of knowledge concerning the mortgage industry and foreclosure procedure for Maine. Section four will focus on delinquent Maine mortgages. Section five will respond to the data which is presented and offer possible recommendations to alleviate the threat of foreclosure and maintain affordable housing for Maine citizens.

III. MAINE MORTGAGE DELINQUENCY AND FORECLOSURE OVERVIEW

Mortgage Origination

Many types of institutions, as well as private individuals, can originate mortgage loans. In Maine, the three primary types of mortgage lending institutions are mortgage companies, commercial banks, and thrifts.

1. Mortgage Companies: Mortgage companies specialize in financing and servicing mortgages that are then sold to other institutions. Mortgage companies originate mortgages by using the funds they have acquired from bank loans. Though comprehensive data is not available, an informal survey of ten mortgage companies which originate loans in Maine highlight their market presence. In 1987 ten of the nearly fifty companies licensed to originate mortgages closed loans in excess of $318 million.

2. Commercial Banks: Historically, commercial banks held deposit liabilities which were payable upon demand and made commercial and industrial loans. Nationwide, commercial banks are the largest in terms of asset base and the most diversified in the services which they offer.

   As of June 30, 1988 twenty two commercial lending institutions with assets totaling more than $7.1 billion were chartered in the state of Maine. Mortgage originations by commercial lenders increased 6.5% from 7,440 for the year ending December 31, 1985 to 7,924 for year end 1987. The dollar volume of originations for this period consequently increased from approximately $313 million to $462 million. Commercial lenders originated more fixed rate (57%) than variable rate (43%) mortgage loans. A primary explanation may be that nine of the twenty two commercial lending institutions in Maine are owned by out-of-state entities. Banks with out-of-state ownership have historically originated more fixed rate mortgages to sell on the secondary market.

3. Thrifts: The structure of the New England thrift industry is more complex than that in other parts of the country. In Maine, thrift institutions have traditionally supplied most of the funds borrowed to finance the purchase of residential property. Half of the total assets of New England thrift institutions are in residential mortgages while for commercial banks, the figure is about 10%. Nationally, the dominant type of thrift is the savings and loan association. However, savings banks constitute the predominant type of thrift in New England and in Maine.

a) - <u>Savings and Loan Associations</u>: Savings and Loan Associations developed as a result of the housing boom immediately following World War II. Historically, savings and loan associations have been oriented toward the mortgage market for their assets, dealing primarily with long-term investments. The traditional savings and loan association collected the savings deposits of households and lent to depositor to purchase housing. As of 1987, for the nation, savings and loan associations comprised the larger share (83%) of the thrift market, with over 3,200 institutions in operation. Assets for savings and loan associations exceeded $1,165 trillion nationwide.

By comparison, savings and loan associations in Maine account for only 16% of the assets in the thrift market. Eleven savings and loan associations operate statewide with an asset base totaling in excess of $1.046 billion. Mortgage originations by savings and loan associations totaled 9,740 for 1987, a 367% increase from the 1985 figures. The dollar volume of originations also increased from $105 million to $683 million in 1987.

b) - <u>Mutual Savings Banks</u>: Concentrated in the northeastern segment of the United States, mutual savings banks were designed to encourage savings by laborers in the early 19th century. Mortgages, government bonds and corporate bonds dominate the assets side of the balance sheet. As of year end 1986, 366 savings banks were functional nationwide with assets totaling more than $236.8 billion, nearly 60% of which were mortgage investments.

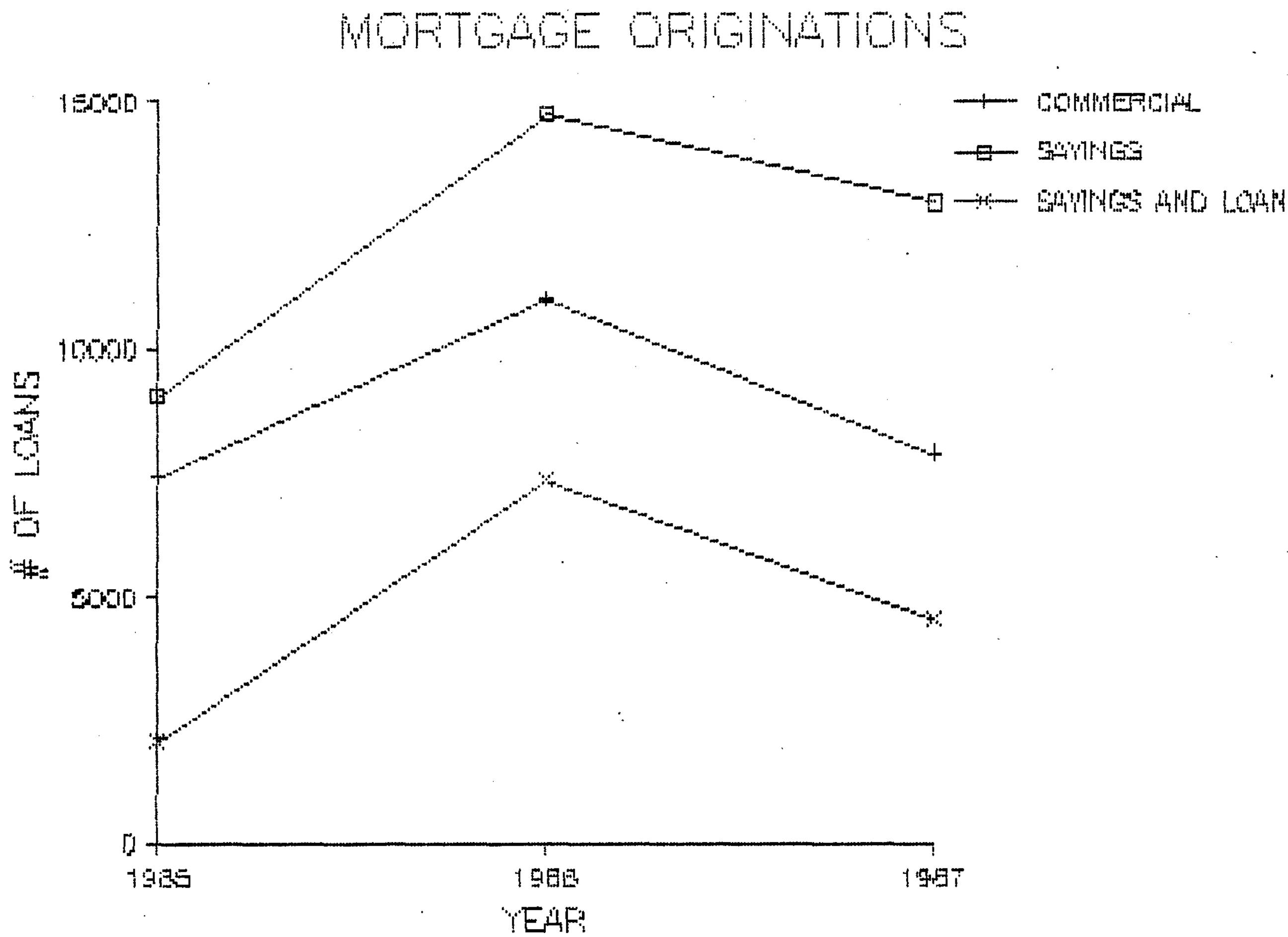
For the state of Maine, the assets of the twenty four savings banks comprise 84% of the thrift market and 39% of the assets for all Maine financial institutions. As of June 30, 1987 the assets of savings banks totaled more than $5.5 billion. The dollar volume of mortgage originations by savings banks increased 79% from $414 million to $741 million as a result of the growth in the number of mortgages originated from 9,073 in 1985 to a 1987 high of 12,961. Exhibits A and B highlight Maine's mortgage origination activity.

EXHIBIT A:

MORTGAGE ORIGINATIONS (source:Maine Bureau of Banking)

	1987			1986			1985		
	NUMBER	DOLLARS (000'S)	DOLLARS (%)	NUMBER	DOLLARS (000'S)	DOLLARS (%)	NUMBER	DOLLARS (000'S)	DOLLARS (%)
COMMERCIAL BANKS									
CONVENT'L	7456	437757	95	9589	479601	86	6521	267388	86
INSURED	468	24152	5	1451	77034	14	919	45295	14
TOTAL	7924	461889		11040	556635		7440	312683	
VARIABLE	2786	199390	43	2466	136222	24	1842	88301	28
FIXED	5138	262449	57	8574	420413	76	5598	224382	72
TOTAL	7924	461889		11040	556635		7440	312683	
SAVINGS BANKS									
CONVENT'L	12615	728809	98	13811	688470	93	7215	330338	80
INSURED	346	12535	2	969	48848	7	1858	83550	20
TOTAL	12961	741344		14780	737318		9073	413888	
VARIABLE	7095	438889	59	7076	364967	49	4970	243166	59
FIXED	5866	302455	41	7704	372351	51	4103	170722	41
TOTAL	12961	741344		14780	737318		9073	413888	
SAVINGS AND LOANS									
CONVENT'L	4436	288403	97	7004	548394	95	1888	94801	90
INSURED	126	7853	3	385	26444	5	197	10603	10
TOTAL	4562	296256		7389	574838		2085	105404	
VARIABLE	1925	134972	46	1808	110211	19	897	47539	45
FIXED	2637	161284	54	5581	464627	81	1188	57865	55
TOTAL	4562	296256		7389	574838		2085	105404	
TOTAL ORIGINATIONS	25447	1499489		33209	1868791		18598	831975	

Exhibit B



MORTGAGE ORIGINATIONS
15000
10000
5000
0
OF LOANS
1985
1986
1987
YEAR
COMMERCIAL
SAVINGS
SAVINGS AND LOAN

Secondary Market

The secondary mortgage market for residential mortgages is a network of mortgage lenders who sell loans that they have originated and investors who buy loans or securities backed by groups of mortgage loans. The secondary market serves to redistribute mortgage funds through its purchase of mortgages in newer, faster-growing regions of the country and its sale of mortgages in the older, slower-growing regions. In effect, investors replenish the funds loaned and make more funds available to the mortgage banker for additional lending.

In Maine, the volume of mortgages sold on the secondary market increased dramatically from 1985 to 1987, with 8,505 mortgages totaling $309 million in 1985 and 11,495 mortgages totaling $700 million in 1987. Mortgages sold as a percent of originations has increased from 32% in 1985 to 45% in 1987. Of the mortgages sold in 1987, 82% (9,474 loans) were fixed rate mortgages. Most banks and thrifts retain variable rate mortgages for their own portfolios. Available statistics tend to support this observation. (See Exhibit C)

EXHIBIT C:

MORGAGES SOLD ON THE SECONDARY MARKET (source: Maine Bureau of Banking)

	1987			1986			1985		
	NUMBER	DOLLARS (000'S)	DOLLARS (%)	NUMBER	DOLLARS (000'S)	DOLLARS (%)	NUMBER	DOLLARS (000'S)	DOLLARS (%)
COMMERCIAL BANKS									
CURRENT YR ORIG'N	1976	120072	69	4730	244056	99	1392	71575	83
SEASONED (1YR+)	1083	54643	31	103	3590	1	300	15000	17
TOTAL	3059	174715		4833	247646		1692	86575	
VARIABLE	397	22963	13	12	588	1	10	572	1
FIXED	2662	151752	87	4821	247058	99	1682	86003	99
TOTAL	3059	174715		4833	247646		1692	86575	
SAVINGS BANKS									
CURRENT YR ORIG'N	3241	179780	92	3411	168637	86	1720	75730	65
SEASONED (1YR+)	688	15049	8	1290	26529	14	2396	41461	35
TOTAL	3929	194829		4701	195166		4116	117191	
VARIABLE	306	19266	10	296	11700	6	110	5777	5
FIXED	3623	175563	90	4505	183466	94	4006	111414	95
TOTAL	3929	194829		4701	195166		4116	117191	
SAVINGS AND LOANS									
CURRENT YR ORIG'N	4365	318492	96	2806	133557	92	1028	67082	64
SEASONED (1YR+)	142	12131	4	256	11207	8	1669	38379	36
TOTAL	4507	330623		3062	144764		2697	105461	
VARIABLE	1318	97544	30	138	7774	5	0	0	0
FIXED	3189	233079	70	2924	136990	95	2697	105461	100
TOTAL	4507	330623		3062	144764		2697	105461	
TOTAL SOLD	11495	700167		12596	587576		8505	309227	

Types of Mortgages

As a result of economic changes and deregulation of the banking industry in the early 1980's, the mortgage finance industry has evolved from offering the basic 25-year fixed rate mortgage to offering a variety of "creative financing" tools which shift the risk of interest rate increases from the lender to the consumer. Homes can be purchased in one of five ways or with a combination of these methods:

1. With cash: No mortgage is needed.
2. With a conventional loan: A down payment is made and financing is obtained through a mortgage from a lender.
3. With a government-backed loan: A government-guaranteed or government-insured loan is obtained, often with reduced downpayment restrictions.
4. An assumed mortgage: An existing mortgage is taken over by the buyer from the seller.
5. Owner financed mortgage.

According to a statewide survey conducted in 1986, approximately 26% of the households in Maine rent their housing. The remaining 74% of the households own their homes. Fifty-five percent of the homeowners own their property free and clear. Forty-five percent of the homeowners have a mortgage obligation. The majority (69%) of the mortgages are conventional in nature. U.S. Government-backed mortgages account for 19% of the outstanding debt. Nearly five percent of the households have a Maine State Housing Authority mortgage. The remaining mortgage loans (7%) may be a combination of financing methods or include other private loan arrangements. Exhibits D and E outline a number of the financial tools available to prospective homeowners and provide some risk considerations for the borrower.

EXHIBIT D:

Type Of Mortgage	Description	Considerations
A. CONVENTIONAL		
1. Fixed Rate	The interest rate is fixed-usually long term. Monthly payments of principal and interest are equal until debt is paid in full.	Offers stability. Interest rates may be higher than other types of financing.
2. Flexible Rate	Interest rate changes are based on a financial index. Changes may occur in monthly payment amounts, the term of the loan, or the principal amount due. Most plans have rate or payment caps.	Initial interest rate may be lower than fixed market rates. Payments may increase depending on the movement of the index. Caps may safeguard against wide fluctuations in payment amounts.
3. Balloons	Monthly payments are made at level rates and often consist of interest only. A large (balloon) payment is due at the end of the term.	Offers low monthly payments. There is a possibility that no equity is developed until the loan is fully paid. When due, the loan must be redeemed or refinanced.
4. Graduated Payment	Lower monthly payments increase at preset intervals.	Income must be able to keep pace with payment increases. With a flexible rate, payment increases beyond the graduated payments can result in negative amortization.
5. Assumed	Buyer takes over the seller's original below market rate mortgage.	Monthly payments are lower. May not be permitted if "due on sale" clause is in original mortgage.
6. Shared Appreciation	Interest rates are below market and monthly payments are lower in exchange for a share of profits when the property is sold.	If the home appreciates greatly, the total cost of the loan increases. If the home fails to appreciate, the projected increase in value may still be due, possibly requiring refinancing at higher rates.

EXHIBIT E:

Type of Mortgage	Description	Considerations
B. U.S. GOVERNMENT		
1. Veteran's Admin.	Loans are granted to veterans and qualified widows of veterans. The interest rate is generally fixed. VA mortgages require minimal downpayment requirements.	Not all conventional lenders will participate in the program. The approval period may be lengthy.
2. Federal Housing Admin.	The FHA insures mortgages granted by commercial lenders for loan applicants who would not otherwise qualify. Low down payment, 30 year term, no pre-payment penalty. Closing costs may be financed.	FHA must inspect the property prior to purchase. Not all lenders participate in the program. Approval time may be lengthy.
3. Farmers Home Admin.	The borrower must live in a rural area and not qualify for conventional loan. Income limits are imposed. Down payment requirements are minimal. Interest rates are below market.	FmHA grants a smaller number of loans. Approval process may be lengthy.
C. ME STATE HOUSING AUTH.	An interest subsidy is provided which lowers the monthly mortgage payments. Income and home purchase price are limited. Smaller down payment requirements because of private, FHA, or VA insurance.	MSHA has limited bonding resources. Program is primarily designed for the first-time homebuyer.

Foreclosure Defined

In Maine, a mortgage vests legal title to mortgaged property to the lender. The borrower retains the right of possession of the property. If the borrower fails to make payments on the mortgage when the payments are due, the lender must foreclose the borrower's right of redemption; the right to bring the account current and cease the pending legal action.

Until 1975, existing foreclosure methods provided a redemption period of one full year from the commencement of the foreclosure proceedings. In other words, the borrower had one year to remit payment for all outstanding debt, interest, and the costs of the foreclosure proceedings to the lender. If the borrower failed to do this within one year, his right of redemption was foreclosed. In turn, his rights in the mortgaged property were terminated. In 1975, Maine's 107th Legislature added an alternative method of foreclosure which shortened the one-year redemption period to ninety days.

Foreclosure in Maine: The Methods

Non-corporate Maine mortgages may be foreclosed by any one of seven methods:

(A) Foreclosure by Possession: Maine statutes provide three methods to obtain possession of the mortgaged property for the purpose of foreclosure. Possession obtained in any of these three methods and continued for one full year forecloses the borrower's right of redemption. In all three cases evidence of possession must be recorded in the registry of deeds.

1. By Writ of Possession: The court determines the amount due and rules that the lender may take possession of the property if the borrower fails to pay the amount due plus interest within two months.

2. By Consent: The lender may obtain possession of the property by written consent of the borrower.

3. By Unopposed Entry: The lender may openly enter the property, if not opposed, in the presence of two witnesses.

(B) Foreclosure Without Possession: Two methods of foreclosure are available if the lender does not wish to take possession of the property:

1. By Public Notice: The lender may publish a notice of default and its intention to foreclose. The one year redemption period begins after the first published notice.

2. By Service of Notice: The lender may have the notice of foreclosure served by a sheriff on the borrower. The one year redemption period begins upon service of the notice.

Prior to 1975, the foreclosure without possession methods were most prevalent. The effects of a completed foreclosure under any of these five methods extinguished the mortgage debt to the fair market value of the property at the end of the one year period of redemption. The lender was entitled to a deficiency judgment against the borrower if, at that time, the value of the property was less than the outstanding mortgage debt. If at the end of the redemption period the value of the mortgaged property exceeded the amount due, the borrower was not entitled to the excess. Since 1975, however, any surplus must be paid to the borrower.

(C) The sixth method, General Equitable Foreclosure, is rarely utilized. Under this method the superior court exercises its right to permit foreclosure under terms it deems equitable.

(D) Foreclosure by Civil Action (Judicial Sale) is the seventh and most prevalent method of foreclosure and can be used for mortgages executed after October 1, 1975. The lender may commence foreclosure proceedings by filing a complaint with the district or superior court. The court determines whether there has been a violation of condition in the mortgage, the amount due on the condition in the mortgage, and the order of priority of claimants. In turn, the borrower has ninety days within which he must redeem the mortgage. If the borrower fails to bring his account current within the ninety day period, the borrower's equity of redemption passes to the lender. The borrower no longer has any interest in the property. The lender must sell the property at a public sale to satisfy the debt.

IV. FOCUS ON DELINQUENT MAINE MORTGAGES

The Mortgage Bankers Association of America reported in August 1988 that, for the U.S., employment growth and wage increases contributed to the downward trend in delinquency rates that has developed over the past two and a half years. More disappointing, however, are the rising U.S. foreclosure statistics which are influenced by the severe economic downturn in several regions of the country, primarily those dependent on agriculture and energy production.

Since February of 1984 Maine has experienced declines in its delinquency rates.

	% Installments Past Due			
Quarter/Year	Total	30-day	60-day	90-day
2/84	4.65	3.32	0.85	0.48
4/84	4.88	3.77	0.86	0.25
2/85	3.44	2.66	0.68	0.10
4/85	4.53	3.36	0.86	0.31
2/86	3.10	2.46	0.40	0.24
4/86	3.87	2.89	0.62	0.36
2/87	3.72	2.93	0.57	0.22
4/87	3.92	2.97	0.70	0.25
2/88	2.80	2.19	0.40	0.21

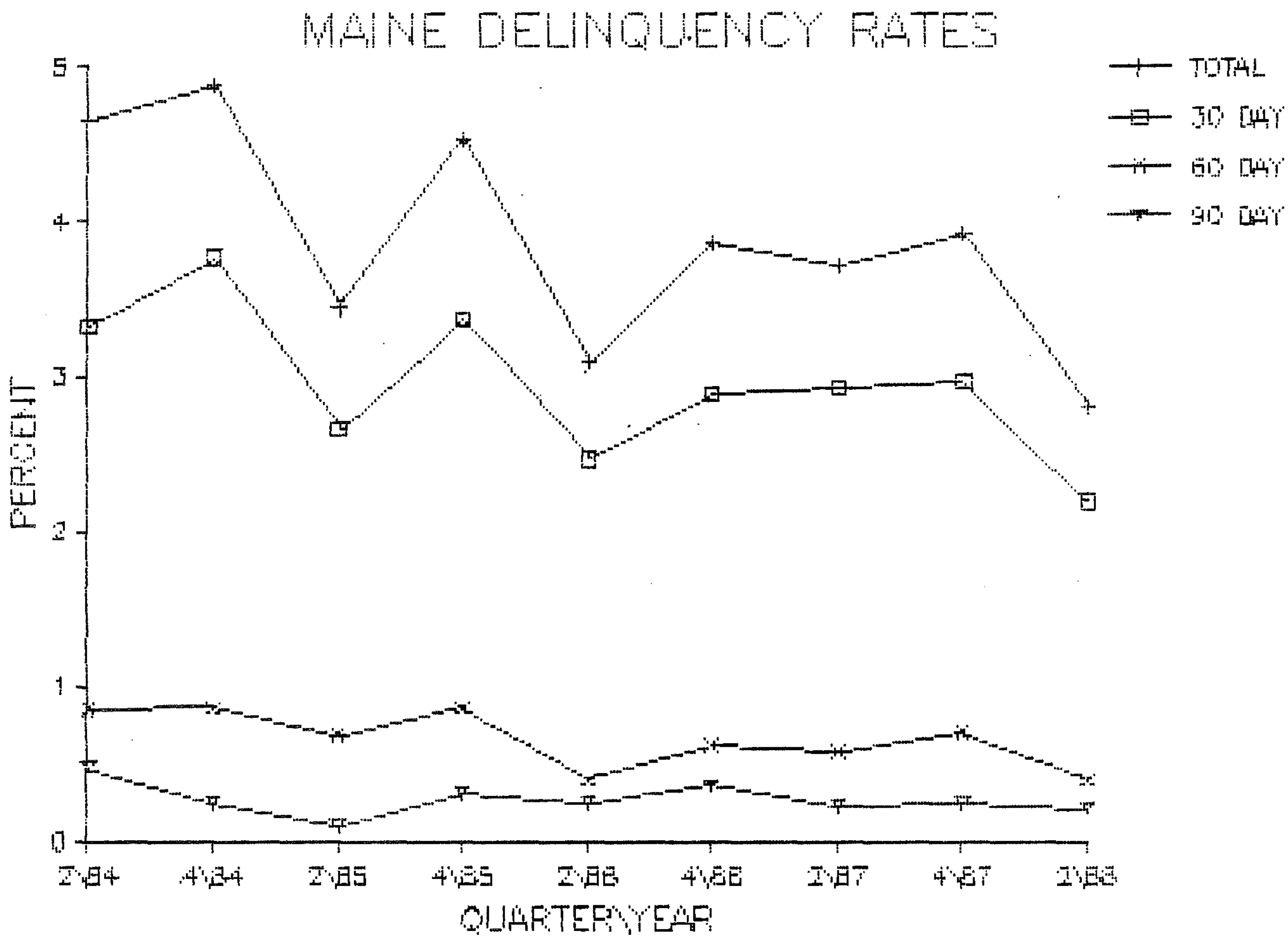
Though 2.8% of Maine mortgages were delinquent in February 1988, a much smaller percentage of loans (0.21%) were more than 90 days delinquent. This data shows that the majority of borrowers do, in fact, bring their accounts current. (Exhibit F)

Maine foreclosure statistics, as reported by the Mortgage Bankers Association of America, are much more positive than those for the U.S. as a whole.

	% of Loans in Foreclosure		
Quarter/Year	Maine	New England	U.S.
2/84	0.36	0.27	0.63
4/84	0.33	0.22	0.73
2/85	0.40	0.28	0.76
4/85	0.22	0.23	0.81
2/86	0.21	0.19	0.92
4/86	0.34	0.19	0.98
2/87	0.22	0.18	1.12
4/87	0.25	0.16	1.06
2/88	0.14	0.16	1.03

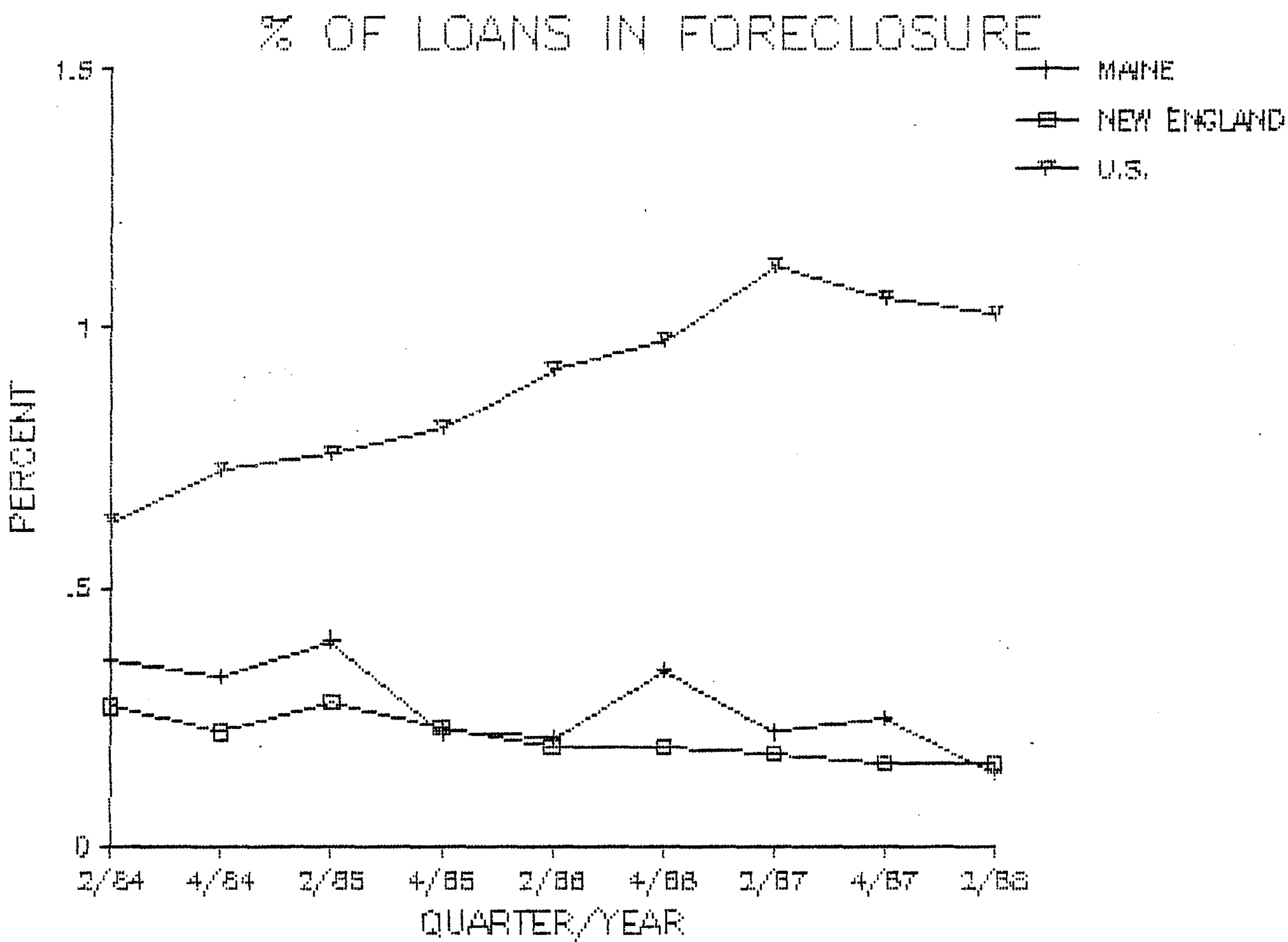
The rate, though slightly higher on average than that for New England, is significantly lower than the U.S. rate. The economic growth of the northeast region of the U.S. and declining interest rates have provided an environment in which more Maine homeowners are able to meet monthly mortgage obligations. (Exhibit G)

Exhibit F



MAINE DELINQUENCY RATES
TOTAL
30 DAY
60 DAY
90 DAY
PERCENT
5
4
3
2
1
0
2\84
4\84
2\85
4\85
2\86
4\86
2\87
4\87
2\88
QUARTER\YEAR

Exhibit G



% OF LOANS IN FORECLOSURE
MAINE
NEW ENGLAND
U.S.
PERCENT
1.5
1
.5
0
2/84
4/84
2/85
4/85
2/86
4/86
2/87
4/87
2/88
QUARTER/YEAR

Composition of the Sample:

From a listing supplied by the Bureau of Banking, a random sample of twenty two financial institutions was chosen to participate in the study. The original sample attempted to provide statewide coverage and, at the same time, provide a balance of financial institution types in terms of asset size. Due to difficulties in locating historical qualitative data for foreclosed loans, only eleven financial institutions contributed data for the completion of this study in addition to the Maine State Housing Authority (MSHA) and the Farmers Home Administration (FmHA). The small sample, though not acceptable for rigorous statistical validity, does provide sufficient data to examine general tendencies.

Data collection efforts concentrated on the characteristics of mortgage loans which had been involved in foreclosure proceedings since January of 1984. The sample included those loans which had been originated by a depository institution. For this reason, loans originated by mortgage companies, unless financed through MSHA, have not been included in this analysis.

Geographic Coverage:

In all, 203 foreclosed loans were examined. The available data represented each of Maine's counties and 126 Maine communities.

County	# of Loans Examined
Androscoggin	8
Aroostook	15
Cumberland	17
Franklin	2
Hancock	6
Kennebec	23
Knox	5
Lincoln	3
Oxford	8
Penobscot	75
Piscataquis	10
Sagadahoc	3
Somerset	9
Waldo	6
Washington	5
York	8
	203

The sample tended to be more heavily represented by Maine's rural counties. Of those loans surveyed, 152 (75%) were located outside of Maine's four metropolitan statistical areas.

Characteristics of the Mortgage:

More than half (65%) of the sampled loans were originated by savings banks. Commercial lenders comprised 21% of the originations. The remaining 14% of the loan sample were originated by savings and loan associations, mortgage companies, and FmHA.

	# of Loans	%
Savings Bank	131	65
Savings and Loan Association	4	2
Commercial Bank	42	21
Mortgage Company	5	2
Other (FmHA)	21	10
	203	100

Included in this breakdown are forty five loans originated by lending institutions which were, in turn, financed by Maine State Housing Authority. The sample tends to be more heavily weighted toward savings bank and government-backed loans. Available data suggests that this may be due to the nature and number of the survey respondents.

More than 90% of the loans surveyed were originated after January 1, 1975. Nearly 60% of the surveyed loans were originated after January 1, 1980. This data implies that the borrowers have not accumulated much equity in their homes as a greater percentage of monthly payments are applied to interest payments early on in a mortgage term. Refinancing options may not be viable alternatives when these borrowers are experiencing a financial strain.

Origination Date	# of Loans	%
before 1970	5	2
1/1/70-12/31/74	11	5
1/1/75-12/31/79	57	28
1/1/80-12/31/84	89	44
1/1/85-present	16	8
unknown	25	13
	203	100

Overall, interest rates for the sample ranged from 5.125% to 18.0% Interest rates for the conventional loans averaged 12.07%. The interest rates for FmHA and MSHA loans tended to be lower at 9.06% and 11.21% respectively.

The terms of the loans ranged from three to thirty three years with an average of twenty four years. Maine State Housing Authority and Farmers Home Administration loans had average terms of twenty seven and thirty three years respectively, slightly longer than the conventional loan terms.

The mortgage amount for the sample averaged $28,806. Monthly payments for principal and interest ranged from a low $40 to a high of $1187. The average principal and interest payment totaled $300 monthly. Adjustable rate mortgages accounted for only 6% of the foreclosure sample. In 94% of the examined loans, the monthly principal and interest payments remained constant.

Available data indicates that the borrower's average down payment totaled 11% of the selling price of the home. For this reason, nearly half (49%) of the sampled loans required mortgage insurance. An examination of a subset of the sample indicates that, on average, the length of time between the origination of the mortgage loan and the date of the judgment for foreclosure was 4.6 years. For these cases, the original mortgage amount was $28,764 and the outstanding principal on the loan at the time of the judgment averaged $27,331. The principal amount due on the loan had been reduced only 5%. Again, in these cases, the borrowers had not accumulated much equity in their homes.

Reasons for Delinquency/Foreclosure:

Financial reversals such as the loss of a job, the disability or death of a wage earner, or divorce are prime reasons for a borrower's payment delinquency. Exhibit H highlights the sample's recurring reasons for chronic delinquency.

For the sample as a whole, the most often noted reason for delinquency was divorce (27%) followed by credit problems/poor money management (20%) and job displacement (18%). Exhibit I provides a county breakdown of the reasons for delinquency.

Exhibit H

REASONS FOR MORTGAGE DELINQUENCY

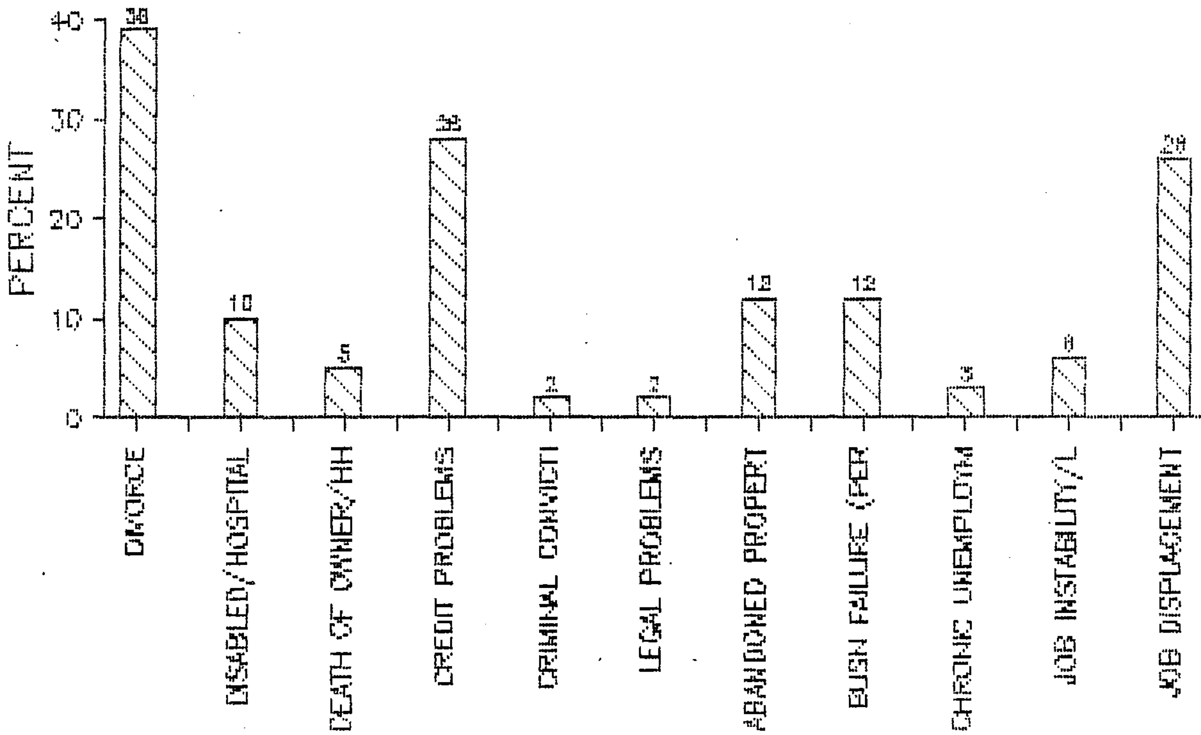


EXHIBIT I:

REASONS FOR MORTGAGE DELINQUENCY

	AND	ARO	CUM	FRA	HAN	KEN	KNO	LIN	OXF	PEN	PIS	SAG	SOM	WAL	WAS	YOR	TOTAL
DIVORCE	1	5	3	1	0	5	0	1	1	13	2	1	1	1	2	2	39
DISABLED/HOSPITALIZATION	0	1	0	0	0	2	0	0	0	4	1	0	1	0	0	1	10
DEATH OF OWNER/HHOLD MEMBER	0	0	1	0	0	1	0	0	0	2	0	0	0	1	0	1	5
CREDIT PROBLEMS	2	3	1	0	1	3	2	2	1	7	0	0	2	1	1	2	28
CRIMINAL CONVICTION	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	2
LEGAL PROBLEMS	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1	2
ABANDONED PROPERTY	0	2	0	0	1	2	0	0	2	4	0	0	0	0	1	0	12
BUSN FAILURE (PERSONAL LIAB)	2	0	2	0	0	3	2	0	0	3	0	0	0	0	0	0	12
CHRONIC UNEMPLOYMENT	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	3
JOB INSTABILITY/LOSS OF INCOME	1	0	2	0	0	1	0	0	0	1	0	0	0	1	0	0	6
JOB DISPLACEMENT	0	3	2	0	1	1	0	0	2	10	1	0	2	2	1	1	26
UNKNOWN	0	0	5	1	2	5	1	0	2	30	6	2	3	0	0	1	58
TOTAL	8	15	17	2	6	23	5	3	8	75	10	3	9	6	5	8	203

A number of cited reasons cannot be directly tied to external economic factors. Divorce, disabilities, hospitalization, death, criminal convictions, and legal problems are among those reasons. The unexpected turn of events brought on by any one of these factors limits the money available to meet monthly mortgage obligations. Sixty percent of the surveyed loans fall into this category.

However, there is a distinct segment of the loan sample for which delinquency can be attributed to external economic distress. Business failures, job displacement, and unemployment are economic variables which affect a borrower's financial stability.

Business Failures:

In 8% of the foreclosures examined delinquency occurred as a result of a personal business failure. In these cases borrowers took advantage of the equity in their homes to start a business or attempt to maintain their self-employed profitability. In one instance the borrower refinanced his home to purchase a fishing vessel. Regular monthly payments for the boat and the home were not made. Consequently, the borrower lost his home through foreclosure.

Since 1984 the incidence of Chapter 7 bankruptcies, in which the debtor turns his assets, including his principal residence and real estate holdings, over to a trustee for liquidation and debt settlement will have nearly doubled.

Maine Bankruptcies (source: Clerk of Court)

	1984	1985	1986	1987	1988**
Chapter 7	442	531	664	684	749
Chapter 11	23	30	31	33	30
Chapter 13	125	143	155	151	134
Total	590	704	851	876	916

** Figures for Jan.-Nov. only

Job Displacement:

Statistics compiled by the Dun & Bradstreet Corporation suggest that Maine's business failure rate is among the lowest nationwide. Preliminary figures show that the total number of business failures declined from 105 in 1984 to 59 in 1987. This translates into a failure rate of twenty per 10,000 concerns for Maine compared to 102 per 10,000 for the United States as a whole.

As Exhibit J indicates, over 70% of Maine's 1987 business failures were in the wholesale trade, retail trade, and services industry sectors; traditionally lower paying industries which require less skill development. Though Maine's business failure record is impressive, it is somewhat deceptive. The figures do not take into account those establishments where employees have been displaced to maintain profitability. Maine Department of Labor statistics indicate that the number employed by the leather, chemical, and fabricated metal industries have decreased 40%, 34%, and 33% respectively since 1980. Those counties hardest hit include Androscoggin, Franklin, Oxford, Penobscot and York where the percentage decline in manufacturing employment ranged from 10-15%. Overall, changes in the number of persons employed ranged from a decline of 1% in Franklin county to an increase of 10% in York county.

Business starts and new job creation have fostered an extremely low unemployment rate throughout Maine. The Dun & Bradstreet corporation reported that, for the state, business starts increased 22% between 1985 and 1987 and more than 13,000 new employees were added to the labor force. The statistics also show that those industries which have the highest failure rates also have the highest rates of business starts. Workers who are displaced will, more often than not, be re-employed in industries where wage levels are lower. A cut in monthly income translates into a higher percentage of income spent on mortgage obligations.

Nearly 18% of the loans in the sample experienced delinquency due to job displacement. Nearly three-fourths of the delinquency due to job displacement occurred in Maine's rural areas. For example, other than divorce, job displacement was the primary cause of mortgage delinquency for Penobscot county. Maine Department of Labor statistics show that the county suffered a decrease of 11% in the number of workers employed by manufacturing firms between 1984 and 1986. With the manufacturing industry's wages among the highest in Penobscot county, more than 1,600 manufacturing employees lost their jobs. Re-employment for these workers occurred at lower wage levels. Likewise, decreases in the number of manufacturing jobs occurred in eleven other counties affecting an additional 6,000 workers.

Job Instability/Loss of Income

A small number of loans noted job instability and the ensuing loss of income as the prime cause for delinquency. Unlike job displacement, the term job instability infers that the job change is more often a matter of choice than of necessity. Nevertheless, re-employment often occurs at wage levels which are lower than prior job earnings. Only 4% of the sample were categorized as such.

Chronic Unemployment

Maine's unemployment levels are at record low levels. The Department of Labor reported that the expenditure for unemployment insurance decreased 24% from 1985 to 1987. The length of time claimants received compensation also declined from 16.8 weeks in 1984 to 14.4 weeks in 1986. This data suggests that more people are working, and, in some areas of the state, the number of jobs being created is outpacing the available labor force.

EXHIBIT J:

MAINE BUSINESS FAILURES BY INDUSTRY SECTOR (source: The Dun and Bradstreet Corp. Publications)

	Agriculture Forestry Fishing	Mining	Construction	Manufacturing	Transportation, Public Utilities	W/sale Trade	Retail Trade	Finance, Insurance, Real Estate	Services	Unclassified Establishments	TOTAL	Failure Rate % per 10,000
1984	0	0	14	10	2	15	44	3	17	0	105	45
1985	0	0	9	12	2	6	38	0	13	0	80	33
1986	2	0	4	11	5	6	23	0	8	0	59	24
1987 prelim.	1	0	5	7	3	9	25	1	8	0	59	20
TOTAL	3	0	32	40	12	36	130	4	46	0	302	

MAINE BUSINESS STARTS BY INDUSTRY SECTOR (source: The Dun and Bradstreet Corp. Publications)

	Agriculture Forestry Fishing	Mining	Construction	Manufacturing	Transportation, Public Utilities	W/sale Trade	Retail Trade	Finance, Insurance, Real Estate	Services	Unclassified Establishments	TOTAL
1985	14	0	120	65	23	67	282	40	179	24	814
1986	19	1	161	74	35	71	377	49	208	16	1011
1987	19	0	168	70	36	68	344	84	192	16	997
TOTAL	52	1	449	209	94	206	1003	173	579	56	2822

It is not surprising then that chronic unemployment is not listed as a major cause of residential mortgage delinquency. Only three loans out of the sample experienced foreclosure due to a state of chronic unemployment.

Abandoned Property/Unable to Sell:

Since 1982 the speculative real estate market boom created a seller's market. The number of residential real estate transactions on which a transfer tax was paid increased 85% from 8,690 in 1982 to 16,075 in 1986. In southern Maine a rise in the population and number of households has fueled the economic vitality of the region. Urban sprawl and the emergence of broader labor market areas are also contributing factors to the development of many rural Maine communities.

Statistics compiled by the Maine State Housing Authority indicate that the construction of single family units increased 135% from 2,604 in 1981 to 6,112 in 1987. The growth, however, has not been balanced throughout the state. Cumberland and York counties have absorbed nearly half of all new single family unit construction in Maine in the 1980's due to the economic growth of the region.

New England Econometrics reported that personal income increased an average of 4.3% annually from 1976 through 1986. The U.S. Bureau of the Census reported that median family income increased 43% from 1980 to 1986. These statistics, though optimistic, fail to keep pace with the increase in housing prices. Statewide, the median sell price of a home increased 83% from 1980 to 1986.

The real estate boom has carried mixed blessings for those who are chronically delinquent with mortgage payments and face the possibility of foreclosure. In the southern and coastal areas of the state, borrowers who cannot meet their obligations have experienced substantial appreciation in the value of their home. For example, in Cumberland and Sagadahoc counties, where homes stay on the market an average of 68-75 days, a borrower who is voluntarily relocating can sell his property and eliminate the possibility of carrying mortgage payments for two properties.
A delinquent borrower can, in most cases, sell the property to payoff the mortgage.

In the economically depressed areas of the state, such as Somerset and Waldo counties where homes are on the market an average of 136-142 days the likelihood of selling the property within the ninety day redemption period and recognizing any appreciation is not so great. Eight percent of the loan sample who were relocating were unable to sell their homes, had abandoned the property, and failed to make payments. The inability to sell the property was more often cited as a reason for residential foreclosure in Aroostook, Kennebec, Oxford, Washington and the rural areas of Penobscot county.

V. RESPONSES TO DELINQUENCY AND FORECLOSURE

An estimated 4.65% of Maine mortgage loans have installments which are past due. However, the percentage of loans which have installments ninety days or more past due is much lower at 0.21%. The problem is not solely the homeowner's. Delinquencies are costing lenders an estimated $2.2

million per month in cash flow. Data compiled from the loan sample indicated that the average time between the judgment for foreclosure and sale of real estate owned property was 1.4 years. This did not include the time prior to the judgment in which the borrower failed to make monthly payments. In many cases, the lenders carried delinquent loans in their portfolios for two years or more.

The condition of the property also may deteriorate. Borrowers who are not able to make regular monthly mortgage payments and are threatened with losing their home often do not maintain the property. Maine's housing stock is the oldest in the nation. For example, in Aroostook, Piscataquis and Somerset counties where the new unit construction is low, existing stock must be maintained to meet housing demand created as a result of household formation and changing demographics.

The causes of delinquency and the reasons for foreclosure may be very different. The causes listed previously center on the cause of the financial problems of the household which trigger the delinquency. They are factors which affect economic stability within the household. The causes of foreclosure, however, may focus on the lack of equity in the home, a declining real estate market, or the borrower's lack of knowledge concerning his options. A household faced with chronic delinquency has several personal and institutional options available to avoid foreclosure.

Methods of Averting Foreclosure:

1) Refinancing the Loan: Based on a household's ability to pay, a lender may adjust the monthly mortgage expenditure. Commonly found arrangements include partial payments, interest-only payments, or the extension of the mortgage term. The mortgage may also be refinanced with new terms and conditions.

2) Deed in Lieu of Foreclosure: The borrower gives a deed in lieu of foreclosure voluntarily to the lender. The lender saves time and legal expenses. Using this method, the necessity for a public sale is eliminated.

3) Redeeming the Property After Judgment: After a court judgment has been made to foreclose, the borrower has a period of redemption - usually ninety days in a civil action suit or a year by other methods - in which to pay off the mortgage amount, interest, and the costs of foreclosure. Within the redemption period the borrower may sell the home privately. Selling the property on the open market may result in a higher selling price than a public sale and return some form of control to the borrower.

4) Filing Bankruptcy: Bankruptcy law is designed to accomplish two main goals; to provide relief and protection to debtors and to provide an equitable means of distributing a debtor's assets among the creditors.

Mortgagors are eligible to seek protection under the United States Bankruptcy Code in three chapters, all of which provide for an automatic stay from ongoing collection efforts from the date the bankruptcy petition is filed.

a) Chapter 7 is the most familiar type of bankruptcy in which a debtor turns all assets over to a trustee. These assets include their principal residence as well as other real estate holdings. The trustee then sells or liquidates the assets and distributes the proceeds to the creditors, in turn discharging the debtor of all obligations.

b) Chapter 11 reorganization is a second option although it is most often used by corporate debtors. In a reorganization, the debtor pays a portion of the debts and is discharged from the rest.

c) Under Chapter 13 the debtor is provided with an opportunity to adjust his debt without losing control of his assets. The debtor files a plan to modify payment of existing debts but excludes debts secured by a mortgagee on real property used or the debtor's principal residence. However, after all other payments have been satisfied the debtor must convert the case to Chapter 7 or 11 in order to modify the mortgage debt structure.

5) <u>FHA Assignment</u>: Homeowners with FHA-backed mortgages may avert foreclosure through FHA's assignment program. FHA accepts the assignments of delinquent mortgages after paying a claim to the lender. FHA agrees to accept reduced payments or suspend payments for up to three years if the following criteria are met:

1.) the lender must indicate and notify the borrower of its intention to foreclose.
2.) three full monthly payments due are in arrears.
3.) the property must be the principal residence of the borrower.
4.) the default is due to circumstances beyond the borrower's control.
5.) reasonable prospect that the borrower will be able to resume full mortgage payments in the future.

<u>Summary</u>

For most Maine households, their home is their single largest investment. The loss of a home through foreclosure can have a devastating economic and social impact on the family. In today's housing environment, the household may never again be able to afford to purchase a home.

The MSHA study found that residential mortgage delinquencies and foreclosures are relatively rare in Maine. Available data shows that only slightly more than two mortgages, in 1,000 (0.21%) were 90 or more days past due as of February 1988. Only 1.4 mortgages per 1,000 (0.14%) were being foreclosed at that time, compared with a rate of more than 10 per

1,000 nationally. The rate for both delinquencies and foreclosures in Maine has declined by more than half in the past four years. This may be attributed to the robust economy in a number of Maine's counties, the reduction in mortgage interest rates, and the booming real estate market in many areas of the state.

In some areas of the county it may be possible to link a large percentage of foreclosures with a particular economic downturn. For example, the reduction of energy and steel production in Texas and Pennsylvania has resulted in foreclosures of epidemic proportions.

No such similar pattern emerges in the Maine study. Fully, 60% of all foreclosures examined in the study cannot be linked to any single external economic factor. These foreclosures resulted from divorce, disability, hospitalization, death, criminal convictions, or legal problems. Of the remaining 40% of foreclosures, such factors as business failures, job displacement, job instability, and chronic unemployment were listed as causes of delinquency.

Data available to MSHA did not establish any correlation between the number of foreclosures and a particular county nor between foreclosures and any type of lending institution.

However, a few factors prevailed among the foreclosed loans:

Small Equity Investment: This relates to the low downpayment and the short duration of the mortgage prior to foreclosure. On average, the borrowers had reduced the outstanding principal on the mortgage only 5%. Refinancing or restructuring the debt may not be a viable alternative. Borrowers may be forced to sell the property to realize its appreciation.

Affordable Mortgage Amount: It is interesting to note that in the sample, the average income of the borrower's household at the time of loan application was $20,718. Using today's standards, an "affordable" mortgage (including an interest rate of 10.5%, private mortgage insurance and a 30-year term) which could be supported by $20,718 would be nearly $53,000. The sample's average mortgage amount was $28,800; considerably less than that which is mathematically "affordable". The average monthly principal and interest payment was lower than most rental costs in the 1980's. Data which is not available is the average household salary at the time of the judgment for foreclosure.

Maine faces a number of critical housing problems including the inability of young families to purchase first homes, the lack of affordable rental housing for lower income elderly households and families, the increase in homelessness, and the potential loss of existing federally-subsidized low income housing. Compared with these problems, residential mortgage foreclosure remains a relatively minor statewide problem. Less than one-fourth of one percent of Maine's residential mortgages currently result in foreclosure. Based on data reported in this study, the prevalence of other housing problems, and the limited resources available, the Maine State Housing Authority recommends that the findings of this study be used as support for legislation being submitted by Maine State Housing Authority, "An Act to End Homelessness in Maine". Should Maine in the future experience a substantial decline in a particular industry or segment of the economy, the MSHA recommends that the foreclosure issue be re-examined.

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Fleet Bank; Robert Norris, Vice President; Kim Nason.

Gardiner Savings Institution; James Quinn, Vice President.

Kennebunk Savings Bank; Dorris Chapin, Vice President.

Kingfield Savings Bank; Susan Froelich, Assistant Vice President.

Maine Savings Bank; Sabato Colucci, Vice President.

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