



Highlights of [GAO-10-805](#), a report to the Joint Economic Committee, United States Congress

## Why GAO Did This Study

The surge in mortgage foreclosures that began in late 2006 and continues today was initially driven by deterioration in the performance of nonprime (subprime and Alt-A) loans. Nonprime mortgage originations increased dramatically from 2000 through 2006, rising from about 12 percent (\$125 billion) of all mortgage originations to about 34 percent (\$1 trillion). The nonprime market contracted sharply in mid-2007, partly in response to increasing defaults and foreclosures for these loans.

This report (1) provides information on the performance of nonprime loans through December 31, 2009; (2) examines how loan and borrower characteristics and economic conditions influenced the likelihood of default (including foreclosure) of nonprime loans; and (3) describes the features and limitations of primary sources of data on nonprime loan performance and borrower characteristics, and discusses federal government efforts to improve the availability or use of such data. To do this work, GAO analyzed a proprietary database of securitized nonprime loans and Home Mortgage Disclosure Act data, and reviewed information on mortgage data sources maintained by private firms and the federal government.

## What GAO Recommends

GAO makes no recommendations in this report.

View [GAO-10-805](#) or [key components](#). To view the e-supplement online, click [GAO-10-806SP](#). For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

## NONPRIME MORTGAGES

### Analysis of Loan Performance, Factors Associated with Defaults, and Data Sources

#### What GAO Found

The number of active nonprime loans originated from 2000 through 2007 that were seriously delinquent (90 or more days late or in the foreclosure process) increased from 1.1 million at the end of 2008 to 1.4 million at the end of 2009. Serious delinquency rates were higher for certain adjustable-rate products common in the subprime and Alt-A market segments than they were for fixed-rate products. The number of nonprime loans that were 90 or more days late grew throughout 2009, accounting for most of the overall growth in the number of serious delinquencies. By comparison, the number of active loans in the foreclosure process grew in the first half of the year, and then began to decline somewhat. Additionally, 475,000 nonprime mortgages completed the foreclosure process during 2009. The persistently weak performance of nonprime loans suggests that problems in the nonprime market will not be resolved quickly, and underscores the importance of federal efforts to assist distressed borrowers and prevent a recurrence of the aggressive lending practices that helped precipitate the foreclosure crisis.

In addition to performance differences between mortgage products, GAO found across product types that house price changes, loan amount, the ratio of the amount of the loan to the value of the home, and borrower credit score were among the variables that influenced the likelihood of default on nonprime loans originated from 2004 through 2006. In addition, loans that lacked full documentation of borrower income and assets were associated with increased default probabilities, and the influence of borrowers' reported income varied with the level of documentation. GAO found that borrower race and ethnicity were associated with the probability of default, particularly for loans used to purchase rather than to refinance a home. However, these associations should be interpreted with caution because GAO lacks data on factors that may influence default rates and that may also be associated with race and ethnicity, such as borrower wealth and first-time homebuyer status.

Existing sources of data on nonprime mortgages contain a range of information to support different uses. While these data sources offer some similar elements, they vary in their coverage of loan, property, and borrower attributes. The data sources generally lack information on certain attributes that could help inform policy decisions or regulatory efforts to mitigate risk. For example, first-time homebuyers are not identified in any of the data sources, limiting the ability of analysts to compare the marginal effect of prior homeownership experience on default probabilities. In addition, most of the data sources do not cover the entire nonprime mortgage market. Ongoing federal efforts have the potential to provide data that may not have some of the constraints of the existing sources. For example, officials from the Board of Governors of the Federal Reserve System and Freddie Mac are collaborating on a pilot project to develop a publicly available National Mortgage Database, which would compile data on a representative sample of outstanding mortgages and provide more comprehensive data than are currently available.