Fund Profile ..............7

SUNDAY, JULY 29, 2007 A The Philadelphia Inquirer WWW.PHILLY.COM

**For the Week**

| Dow Jones Industrials | Nasdaq Composite | Standard & Poor's 500 | 10-Year Treasury Note | $1 = |
|---|---|---|---|---|
| 13,265.47 Down 585.61, 4.23% | 2,562.24 Down 125.36, 4.66% | 1,458.95 Down 75.15, 4.90% | 4.77 yield Down 0.18 | 0.7327 Euro ($ Up 0.0092)<br>118.78 Yen ($ Down 2.46) |

# SPREADING SUBPRIME PAIN

Many homeowners with adjustable mortgages face growing monthly payments. Some wonder where the money will come from.

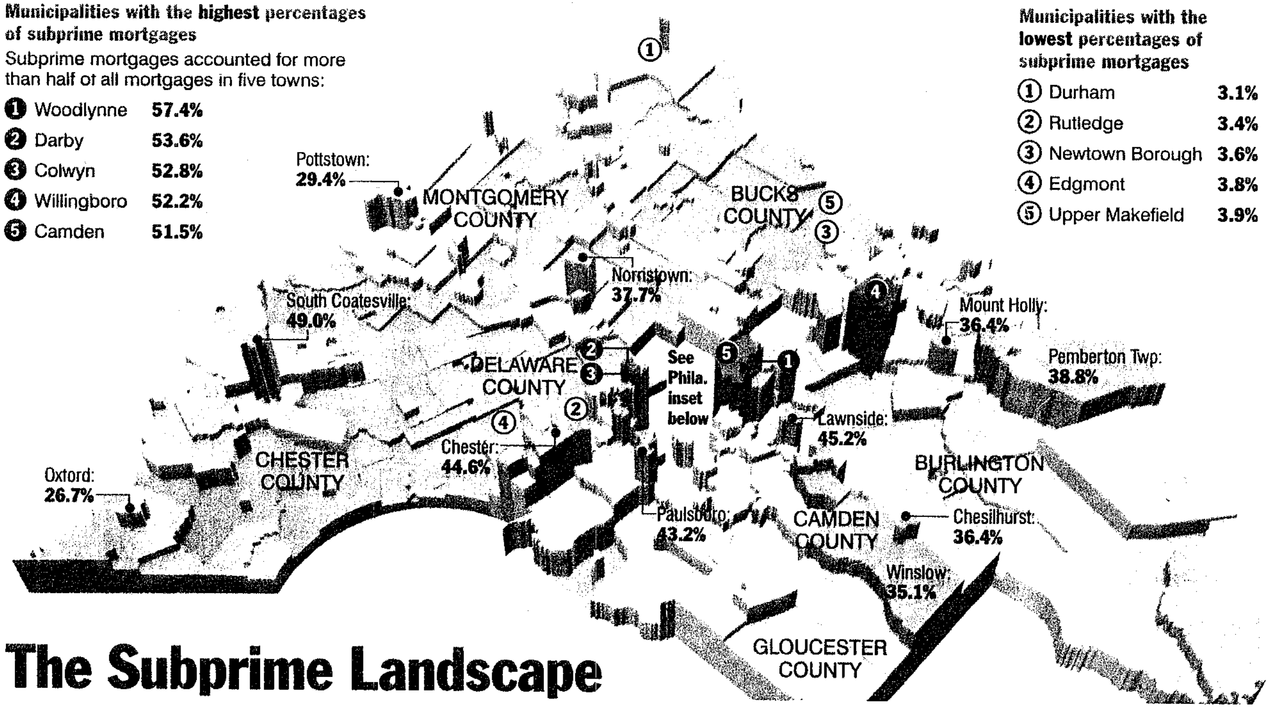
**Municipalities with the highest percentages of subprime mortgages**

Subprime mortgages accounted for more than half of all mortgages in five towns:

1. Woodlynne 57.4%
2. Darby 53.6%
3. Colwyn 52.8%
4. Willingboro 52.2%
5. Camden 51.5%

**Municipalities with the lowest percentages of subprime mortgages**

1. Durham 3.1%
2. Rutledge 3.4%
3. Newtown Borough 3.6%
4. Edgmont 3.8%
5. Upper Makefield 3.9%




## The Subprime Landscape

By Harold Brubaker
INQUIRER STAFF WRITER

Linda Reid-Williams is in trouble. Her mortgage payment is increasing about $200 next month, and she's worried she can't afford it.

Her plight is an example of the pressures rocking the mortgage industry — pressures rippling through the economy that contributed to last week's stock market swoon.

Reid-Williams tried for months to refinance the house she bought in Yeadon eight years ago, but recently decided against it — to avoid a $4,000 penalty for paying off her existing loan early, she said.

This is quite a contrast from two years ago. When Reid-Williams refinanced in 2005, it seemed like the lender was coming to her rescue with money she needed to pay off her car and other bills. When it was too late, she read the fine print.

"What did I just do?" she recalled asking herself

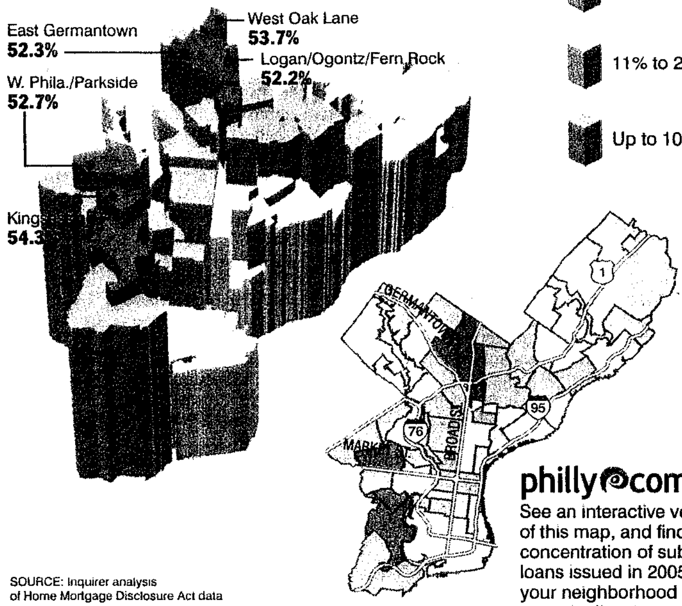
**Impact on Wall Street**

Correction or return to normalcy? Either way, a new respect for risk has been instilled in investors. E8.

many of those loans are going up now, pushing some borrowers into foreclosure.

The mortgage data used for this report were compiled by federal banking regulators under the Home Mortgage Disclosure Act. The loans included here are for the purchase, refinancing or improvement of owner-occupied, one- to four-family homes. High-priced loans are those with an annual percentage rate three percentage points or more above a comparable Treasury yield for first-lien loans and five pecentage points or more for a subordinate-lien loan.

### Philadelphia neighborhoods




Map legend
*Percentage of subprime loans*

- More than 50%
- 36% to 50%
- 26% to 35%
- 11% to 25%
- Up to 10%

**philly.com**
See an interactive version of this map, and find the concentration of subprime loans issued in 2005 in your neighborhood or municipality at
**http://go.philly.com/subprime**

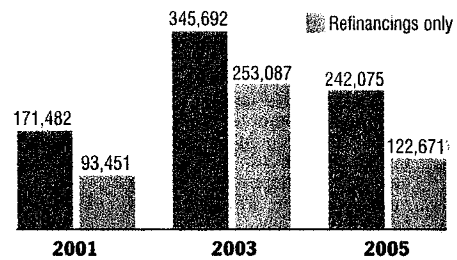
SOURCE: Inquirer analysis of Home Mortgage Disclosure Act data

JOHN DUCHNESKIE and MIKE PLACENTRA / Inquirer Staff Artists

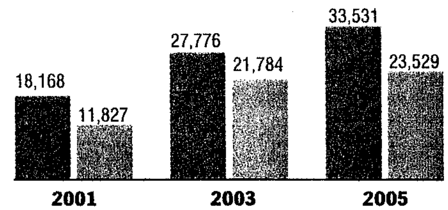
## The Rise of Subprimes

From 2003 to 2005, the overall volume of mortgage lending in the region fell from $50.45 billion to $37.75 billion, but lenders on the Department of Housing and Urban Development's list of companies that specialize in subprime loans increased their business from $3.65 billion, or 7 percent of the total, to $4.97 billion, or 13 percent of the total.

### Number of Philadelphia-region loans by any type of lender




### Number of loans by companies specializing in subprime lending




NOTE: There are major subprime lenders, such as Countrywide Home Loans and Wells Fargo Bank, whose primary business is not subprime lending, keeping them off the HUD list.

cost, risky mortgages totaling $6.54 billion in the eight-county Philadelphia area in 2005, according to the most recent detailed federal data on home loans.

Poor, heavily minority neighborhoods in Philadelphia were not the only hot spots for subprime-mortgage loans — those given to borrowers with shaky credit records. There was also particularly fertile ground in South Jersey. In sections of Pemberton, Winslow and Willingboro Townships, half the 2005 mortgages bore a significantly higher cost for borrowers than prime loans.

In Philadelphia's Pennsylvania suburbs, Norristown, Coatesville, Darby and Yeadon had high proportions of subprime mortgages.

Many subprime loans, including Reid-Williams', had fixed interest rates for two years, but are now resetting to adjustable market rates. That means borrowers may face a 3- to 5-percentage-point jump in their interest rates, to 11 percent or more. The average rate Friday for a 30-year fixed-rate mortgage was roughly 6.37 percent.

Nationwide, about $500 billion in so-called hybrid ARMs are scheduled to reset over the next 18 months, with an average increase in monthly payments of 30 percent, according to the investment bank

See **SUBPRIME** on E8

**What You May Have Missed**
*Highlights of the last week, and what's next*

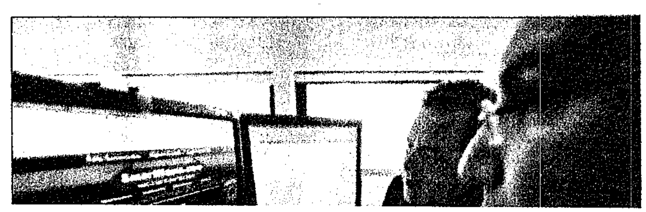
# Battle over nation's patent laws

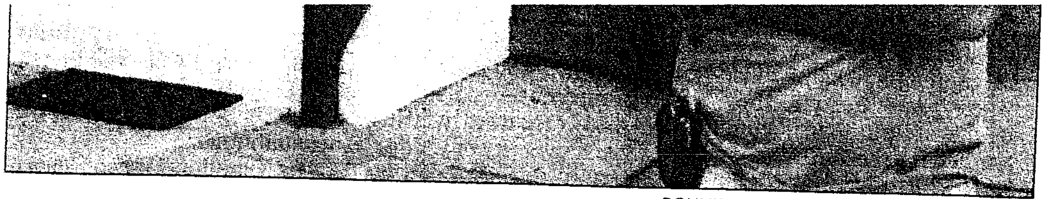
Leading industries are battling over the nation's patent laws with the potential to shape the economy powerfully for a

chemical and aerospace companies against software firms that rely less heavily on patent protections. See:

drugs, which stood at fewer than a handful when he arrived, now bulges with 31 compounds nearing approval. Yet one big

# Inside





BONNIE WELLER / Inquirer Staff Photographer

**Wayne Huber, who refinanced** the hybrid adjustable-rate mortgage on his Woodbury home, has seen his monthly payment grow by $100. Many subprime borrowers are stretched financially and may not be able to afford higher payments each month.

# Subprime pain: A spreading woe

**SUBPRIME** from E1

JPMorgan Chase & Co.

Wayne Huber of Woodbury refinanced a hybrid ARM this month that was going to start adjusting in December. Huber found a fixed-rate loan through Allied Mortgage Group Inc., of Bala Cynwyd. He is happy about it, even though his monthly payment increased $100, to $1,337, including taxes and insurance.

"Now I don't have to worry about December and getting a letter saying 'Your mortgage is going up' and it's $400 more a month," Huber said.

However, most subprime borrowers already are stretched financially and may not be able to make higher payments. On top of that, this year's adoption of tougher credit standards by mortgage lenders — and stagnant or falling house prices in most areas — are making it hard for those borrowers to qualify for new loans.

The result, according to Mark Zandi, chief economist at Moody's Economy.com in West Chester, will be a surge in defaults this year and next that could cost investors in securities backed by subprime and other risky mortgages more than $100 billion.

The accompanying rise in foreclosures is adding to the record supply of houses on the market, putting further pressure on an already weak housing market, Zandi said Thursday.

"I'm laughing because that's what I have to do to stay sane."

**Linda Reid-Williams**
Yeadon homeowner whose monthly mortgage payment will increase about $200 next month

The impact already has been seen in Willingboro, where 436 houses were for sale last week, said Martha Lee Boyer, owner of Imani Realty & Associates, citing Multiple Listing Service data.

Boyer, whose business is based in Willingboro, said that in 2004 and 2005, the biggest number of listings at any one time would have been 100.

Boyer said that while she continued to see home buyers who were trading up, "we're still seeing more and more distressed sales."

In 2005, more than half — 1,409 of 2,716 — of the mortgage loans made in Willingboro were high-cost loans, based on a federal benchmark.

The three top lenders there were Fremont Investment & Loan, with 138 loans worth $18 million; Option One Mortgage Corp., with 90 loans worth $13 million; and New Century Mortgage Corp., with 90 loans worth $12 million. Fremont — ordered by federal regulators in March to tighten loan policies — and Option One are being sold at steep discounts, and New Century went bankrupt.

Mortgage brokers and real estate brokers attributed subprime lenders' big market share in Willingboro to high turnover and the presence of many working-class families without much financial sophistication.

"I just think there's a big opportunity for mortgage lenders to take advantage of people who are not fully tuned in to what they are doing when they do it," said Joe Di Leo, a partner in H.L.F. Mortgage Services Inc., of Riverton.

Reid-Williams offered herself as an example of not fully understanding what she had agreed to in 2005.

"When I did a two-year adjustable, I knew there was a penalty if I got out too quickly," she said. But she said she did not believe until recently that the penalty was in effect for three years.

"I'm laughing because that's what I have to do to stay sane," she said as she told her story.

Now, her payment, including taxes and insurance, is going from $1,172 to more than $1,300. She could not say exactly what the payment would be.

"I'm just going to try to see how I can go on with it," she said.

Contact staff writer Harold Brubaker at 215-854-4651 or hbrubaker@phillynews.com.