

Prospectus

Geographic Credit Risk, 2009-2010

Loss Rate Scores By County Based On:

- Under-Water Home Owners
- Subprime Concentrations
- Bankruptcy Filing Rates
- New Home Affordability
- Unemployment
- Non-Owner-Occupied Properties

With Full 2008 Completed Foreclosure Rates

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SUMMARY

Geographic Credit Risk, 2009-2010

The debacle of 2007 and 2008 teaches one lesson that no one will ever forget (we hope):

Consumer lending lives or dies on the rate of loan defaults.

Now, we have assembled – in a single large volume – all of the salient data that tell you where credit risk will be best and worst over the next 1 to 2 years.

An accompanying [Excel spreadsheet](#) makes these numbers easy to use. Clients can re-sort the local markets on any risk item they deem most important.

We reveal the numbers for each of nearly 500 counties, handily shown by state and also by the metro areas where the counties are located.

Moreover, we have developed a rating system that puts all the risk numbers together and yields a single **risk score**, enabling users to rank-order all locales by their overall risk status going forward.

Risk Data For Home Lenders & All Others

The risk data we assembled do reflect SMR's historical focus on mortgage and home equity loans.

However, some risk elements are general reflections of credit quality, applicable to both renters and home owners. **We strongly believe the same scores will rank-order local area risk for secured [and](#) unsecured lenders.**

Objectives; Uses

The objective of this research is to rank-order local markets for their likely levels of default risk over the next 1 to 2 years.

Lenders may wish to use the results in determining where to focus their lending efforts, in making branch expansion or acquisition decisions, or in setting maximum LTV ratios for home-secured loans.

Individual loan decisions should always be made based on the individual applicant. There are good applicants even in risky places. These data are not designed for use in applicant underwriting or to make adverse decisions. The goal is to aid lenders in formulating strategy.

Why We Selected County-Level Data

Some researchers define a "local market" as an entire metropolitan area. We instead selected county subdivisions for this study – although we realize clients are often unfamiliar with county names and locations.

The reason we picked counties becomes clear when you see the data. For example, we cover 18 different counties that make up the Atlanta metro area. The overall risk scores for them range from 389 (very risky) to only 20 (very safe). The national "norm" score is 100.

Lenders should benefit from this more granular approach. Still, counties are relatively sizeable places. We wanted a fairly granular outcome, but not one that looked at neighborhoods.

Counties covered in the research include most of the populous ones, and together comprise a large majority of the U.S. population.

To make our use of counties easier for clients, we provide the metro area location of each of them, and report results for counties within metro areas and counties by state.

The Risk Data Elements

SMR tapped numerous sources, including our own national property database, to provide the following risk data on each county:

- 1. The completed home foreclosure rate for 2008.** This is the percent of owner-occupied homes that experienced a completed foreclosure during 2008, the worst year.
- 2. The percentage of home owners with debt who were under water** (owing more than their homes were worth) as of March, 2009.
- 3. The percentage of borrowers with subprime characteristics**, as defined by Home Mortgage Disclosure Act (HMDA) high-rate loans over four years.
- 4. The personal bankruptcy filing rate per 1,000 residents**, sourced from the U.S. Courts and Census Bureau.
- 5. The unemployment rate as of early 2009.**
- 6. The percentage of homes sold to investors** instead of occupants over four recent years (the non-owner-occupied loans have higher default rates).
- 7. Home affordability going forward**, calculated as the average incomes of existing homeowners as a percentage of an average home purchase mortgage in the same community. This is a key measure of the ability of a local population to cope with its cost of living.

8. Overall risk score. We compare each variable in each county to the national "norm" to calculate an overall score. The higher the score, the higher the risk.

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Please feel free to call us for more information (908-852-7677). We can email a more detailed explanation of the various risk elements – and our scoring system – at your request.