



Foreclosure Fallout: Effects on Affordable Housing Development

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The views expressed are those of the author and do not necessarily reflect the positions of Federal Reserve Bank of Kansas City or the Federal Reserve System.

Foreclosure Fallout

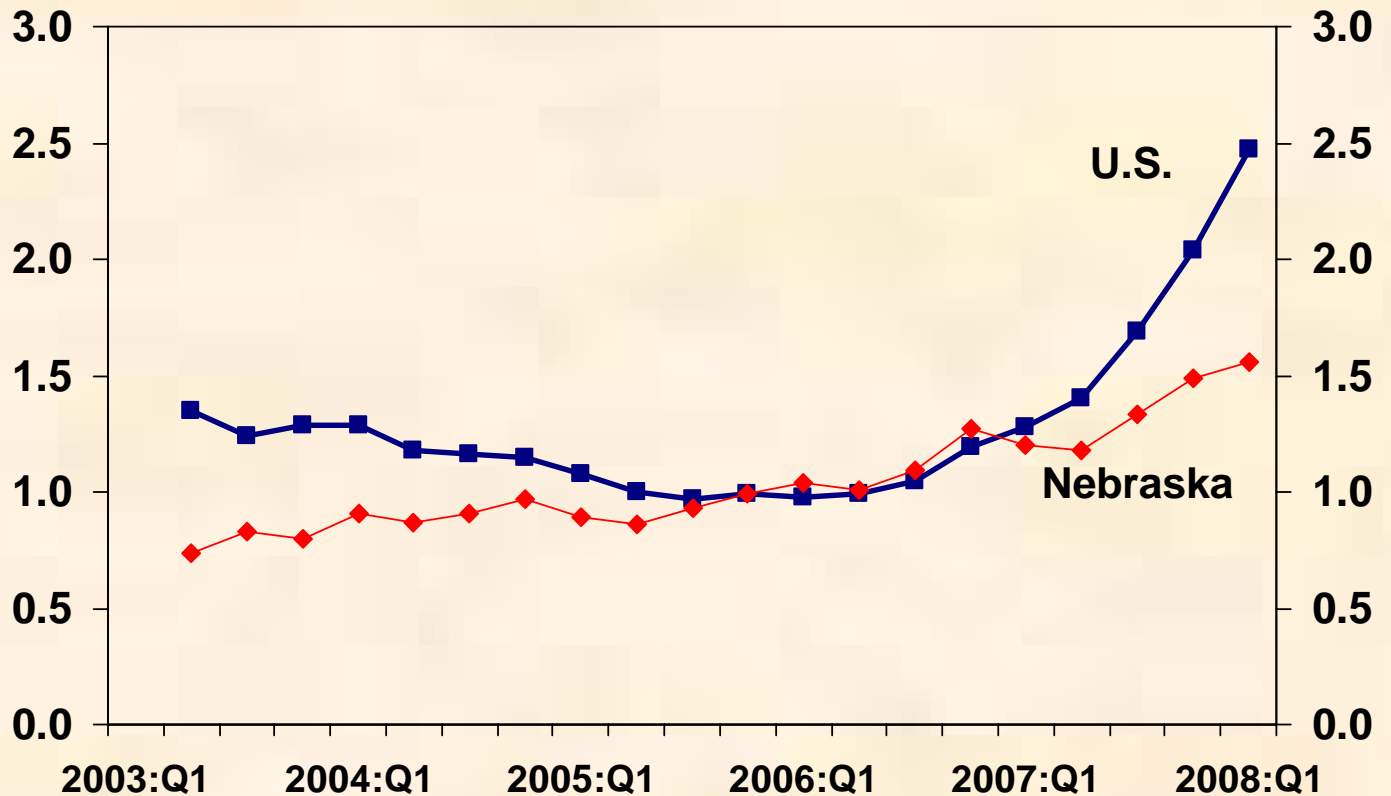
- Today's Outline
 - The current foreclosure status
 - The impacts on the mortgage market
 - When will this end?



Foreclosures accelerated in 2007 ...

Home Foreclosure Inventory

Percent of loans serviced

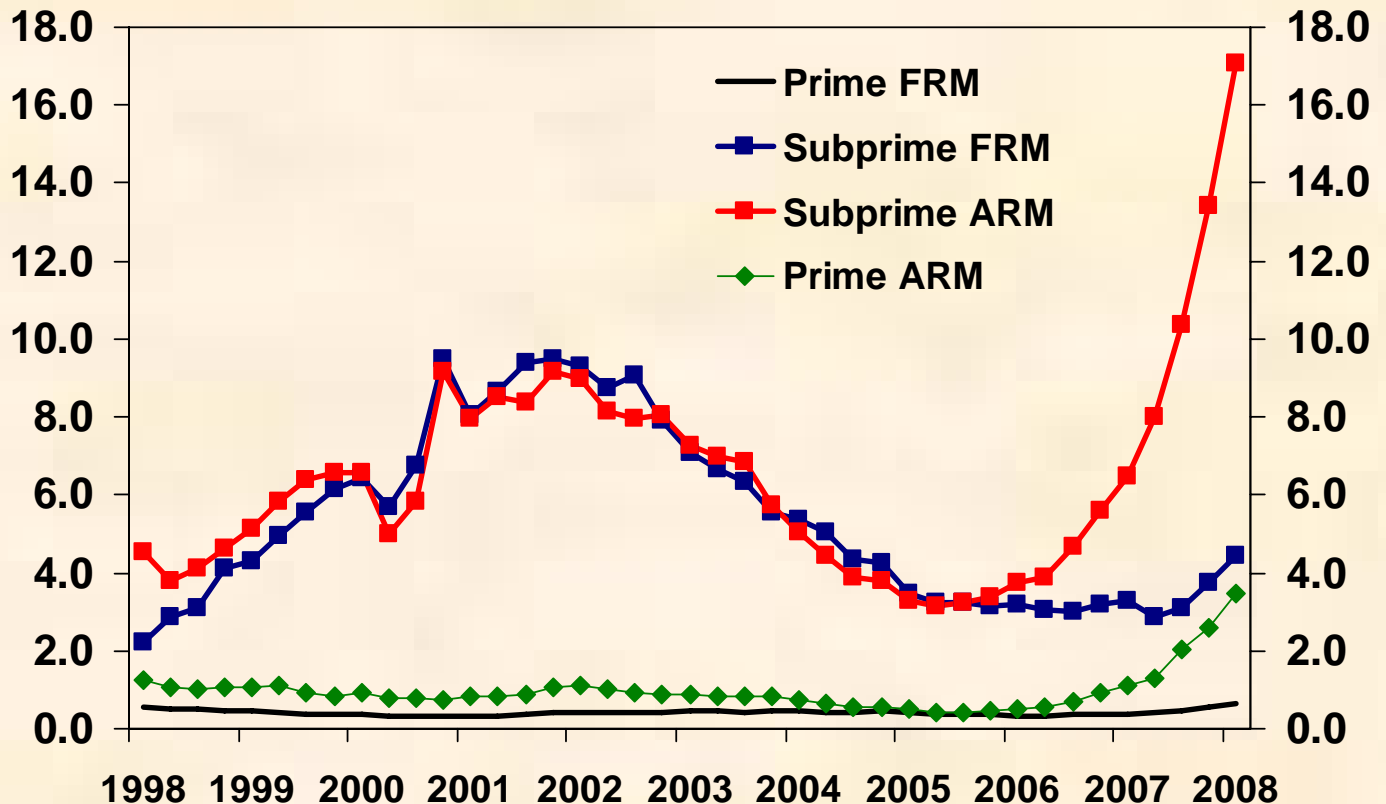


Source: Mortgage Bankers Association

Led by rising foreclosures of ARMs and Subprime loans.

Foreclosure Rates by Mortgage Type

Percent of loans serviced



Source: Mortgage Bankers Association

Payment Structure, by Mortgage Type ***\$200,000, June 2004***

Loan Product	Initial Payment	Reset Payment	Reset Date	Increase (%)
30-Year FRM	\$1,237	\$1,237	None	0%
3/1 ARM	\$1,039	\$1,420	Jun. 2007	37%
3/1 I-O ARM	\$786	\$1,462	Jun. 2007	86%
Option ARM	\$643	\$1,555	Aug. 2007	142%

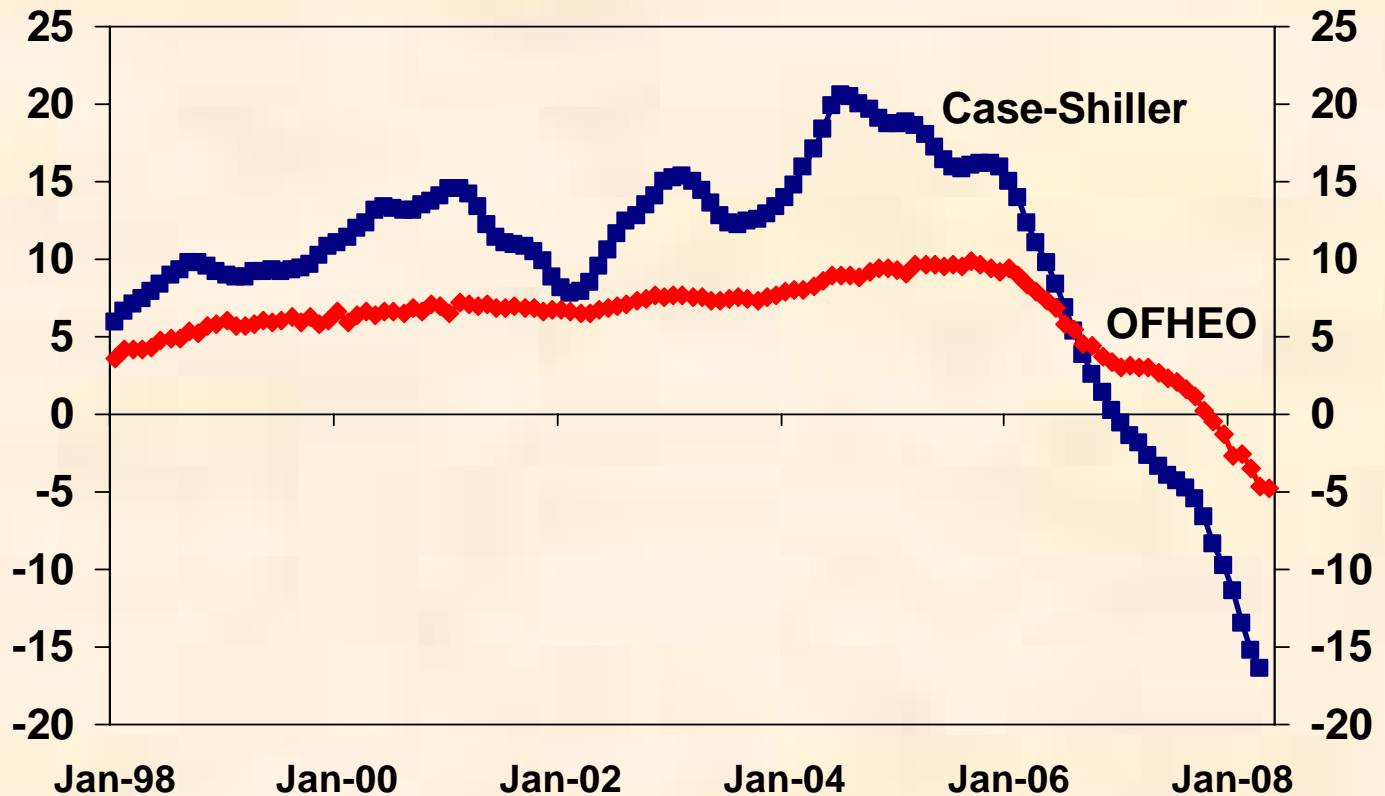
Assumptions: Option ARM has a 7.5% annual increase limit and a 110% negative amortization cap; Option ARM interest accrual is based off 1 year ARM rate as reported by Fannie Mae; Option ARM Minimum Payment is equivalent to a 1% interest rate; FRM is from Fannie Mae 30 Year FRM Index; ARM is set from LIBOR plus a 2.25% margin; 3/1 Interest Only ARM amortizes in 30 years.

Source: Edmiston (2007)

Nationally, home prices are falling.

U.S. Home Price Indexes

Percent change from previous year



Source: OFHEO and Standard & Poor's

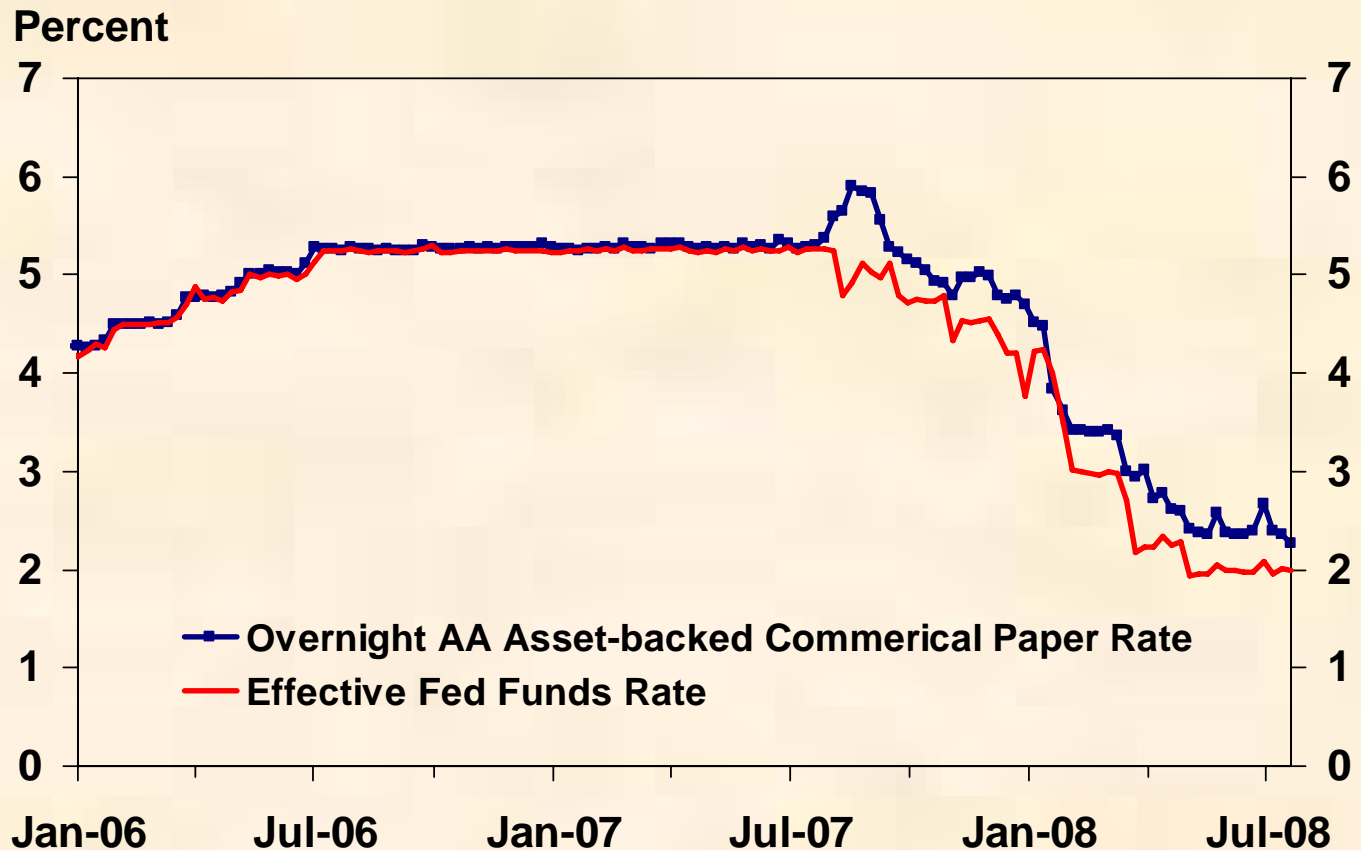
Foreclosure Fallout

- Today's Outline
 - The current foreclosure status
 - The impacts on the mortgage market
 - Collapse of mortgage-backed securities
 - Tighter credit standards
 - Increasing costs of funds for banks
 - Rising mortgage rates



The spread widened between mortgage-backed securities and other financial instruments.

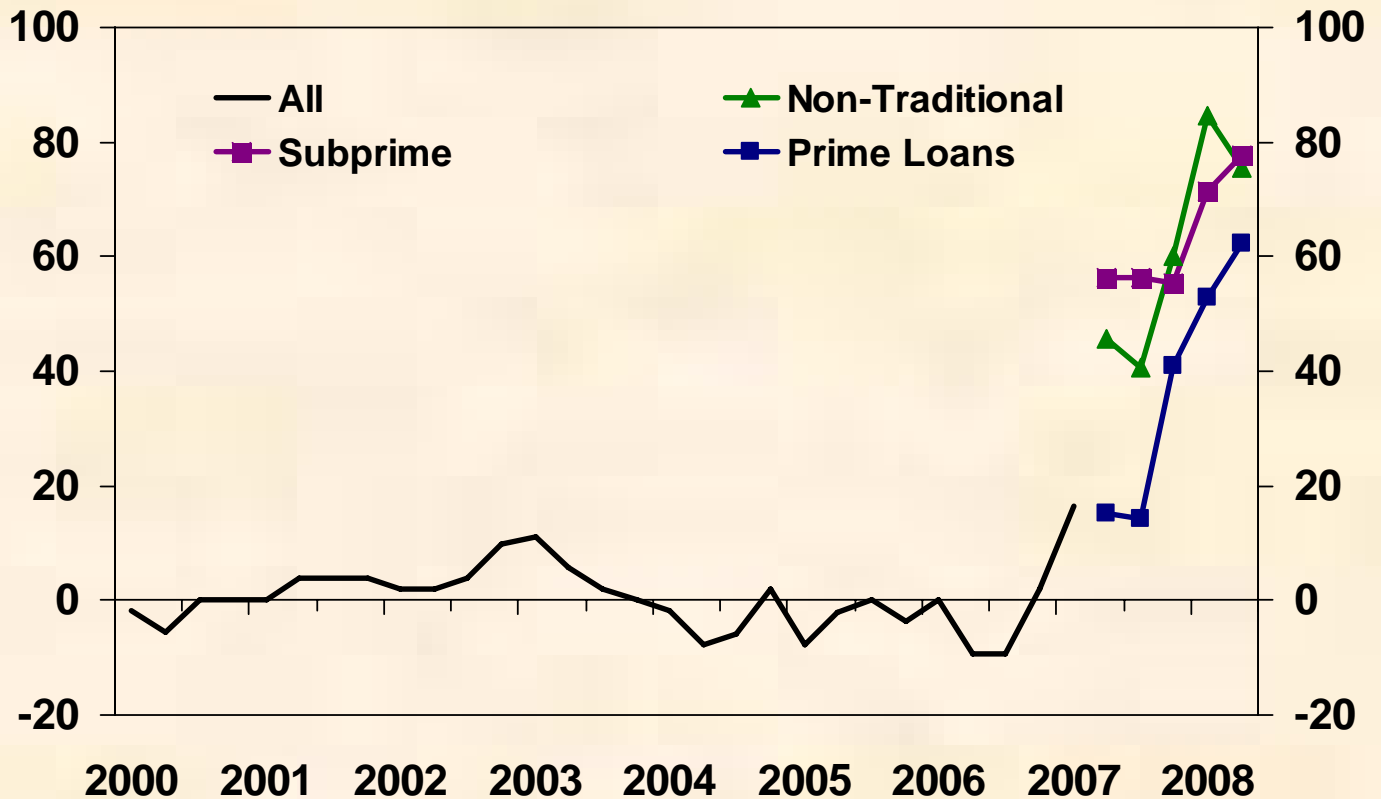
Short-term Commercial Paper and Fed Funds Rates



Credit standards have tightened.

Credit Standards on Residential Real Estate Loans

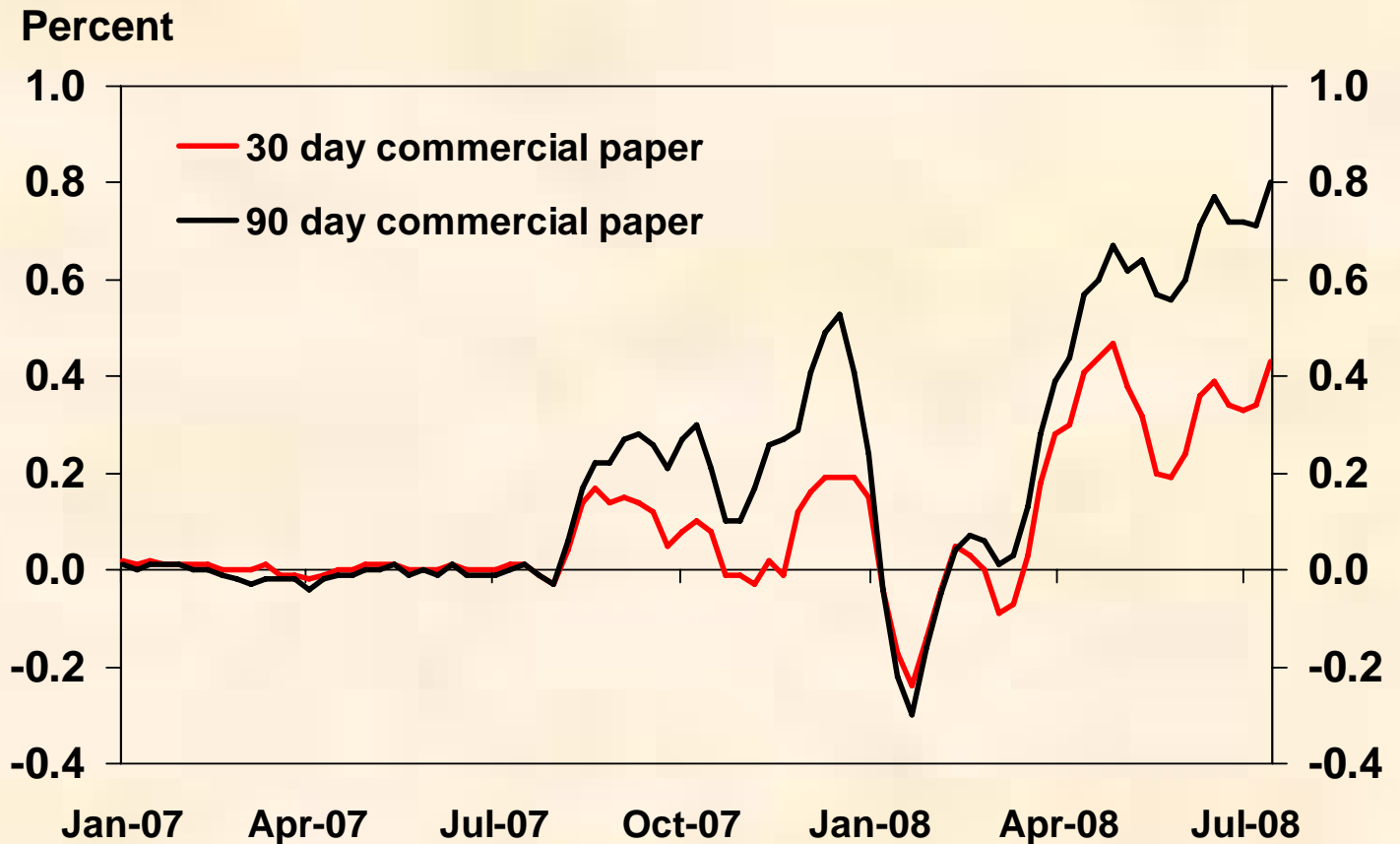
Net percent reporting tighter credit standards



Source: Federal Reserve Board of Governors

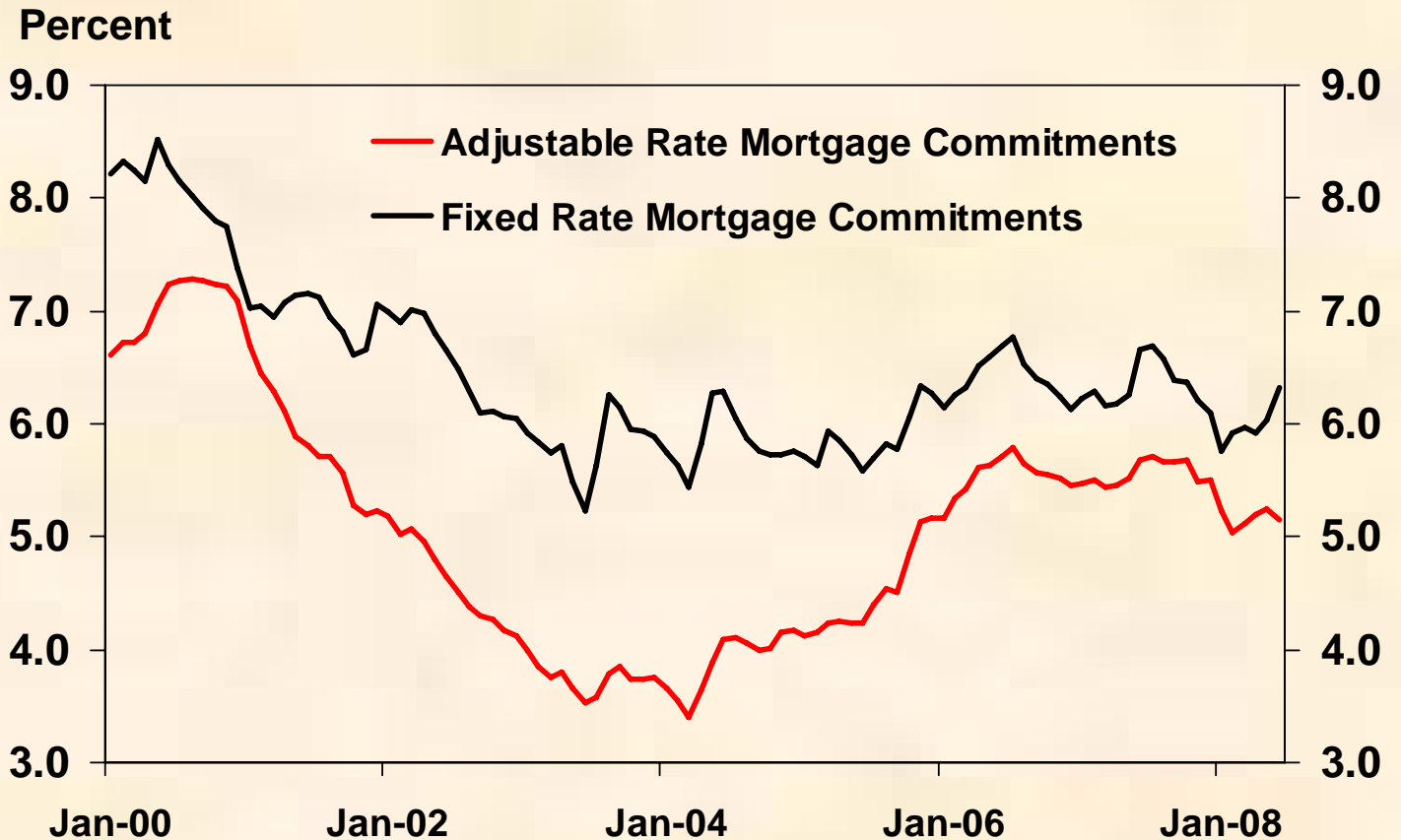
The cost of longer term funds has risen for financial firms.

Overnight and Longer Term Financial Commercial Paper Rates Spreads



Fixed-rate mortgage rates have risen.

Residential Mortgage Rates



Foreclosure Fallout

- Impacts on Mortgage Financing
 - Collapse of mortgage-backed securities
 - Tighter credit standards
 - Increasing costs of funds for banks
- Impacts on Homeowners
 - Potential loss of equity
 - Deteriorating credit worthiness
 - Where do we live (affordable housing issues)?
- Impacts on Communities
 - Concentrated foreclosures pull down prices
 - Neighborhood deterioration
 - Where do people live (affordable housing options)?
 - Local budgetary impact (expenditures and revenues)

What Can be Done?

- Try to fix the servicer problem
 - bring servicers and borrowers together
 - bring servicers and lenders together
- Educate Homeowners
 - before they buy
 - when they are in trouble
 - contact servicer
 - counseling agencies (888-995-HOPE)
- Educate and Inform Communities
 - what can happen
 - resources that are available



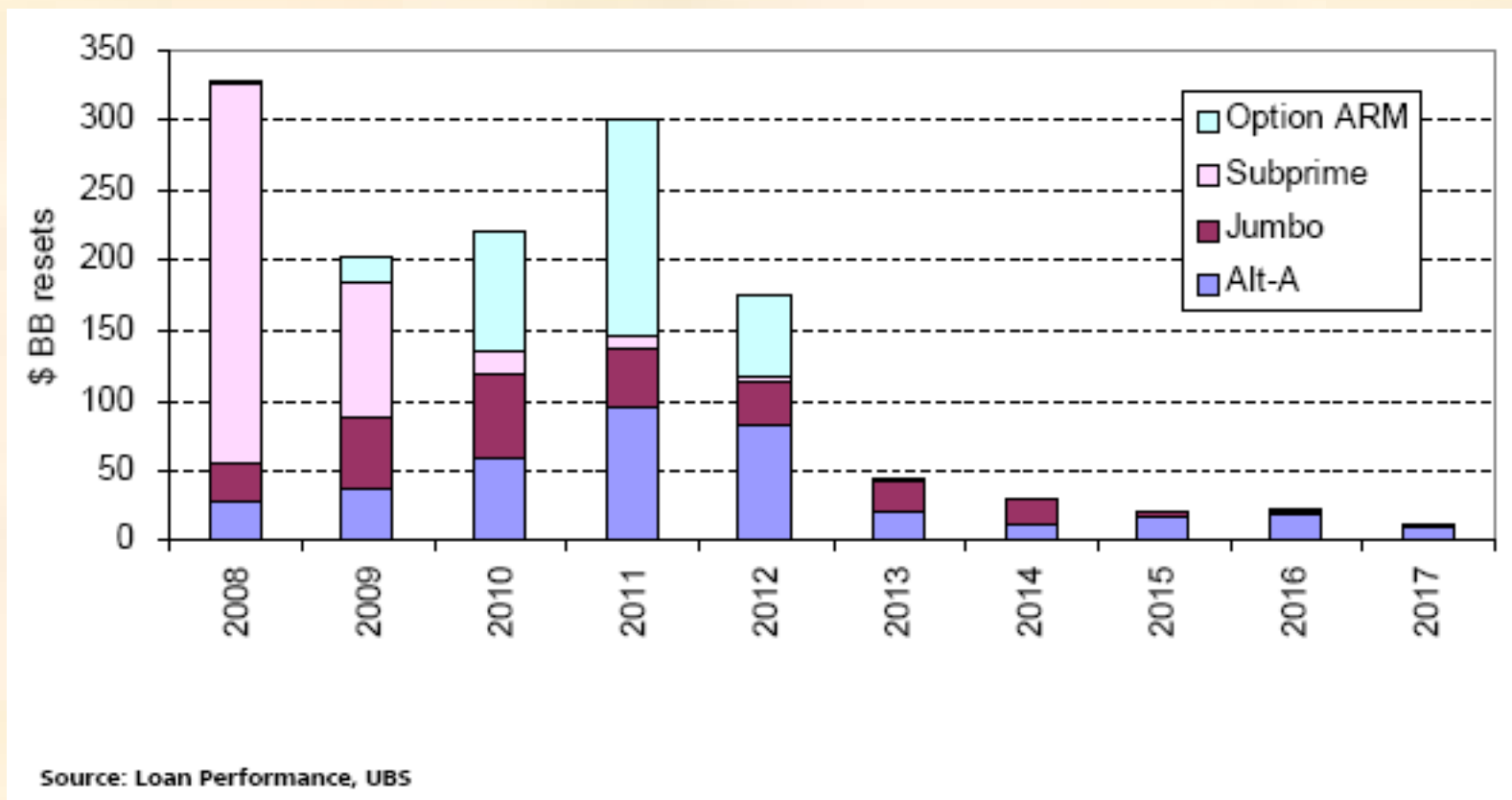
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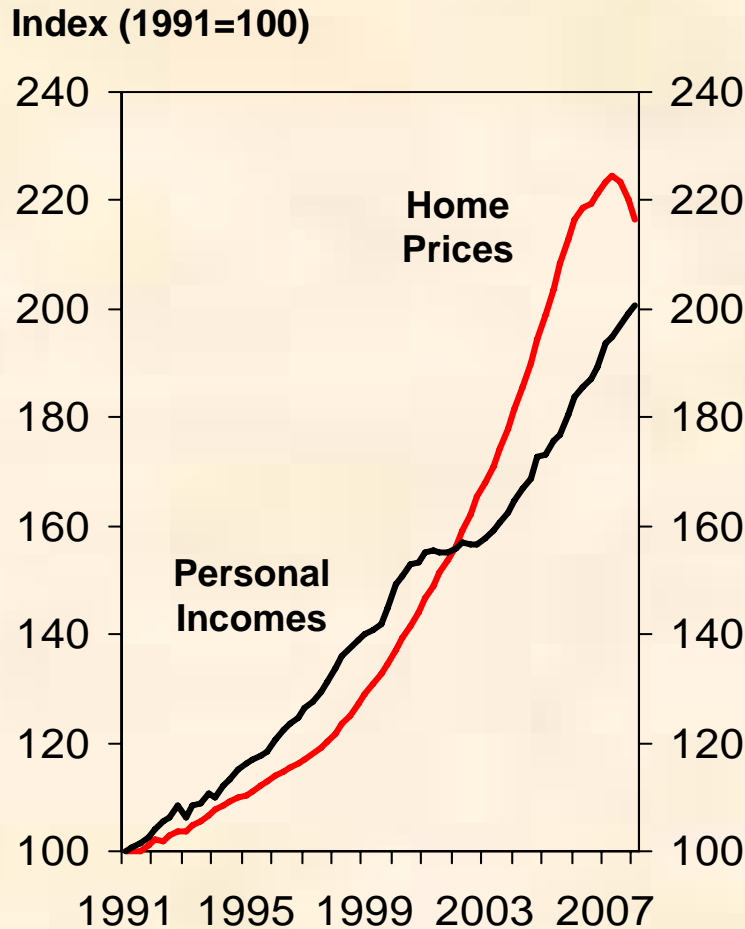
Mortgage resets will last through 2012.

Timing of Mortgage Resets

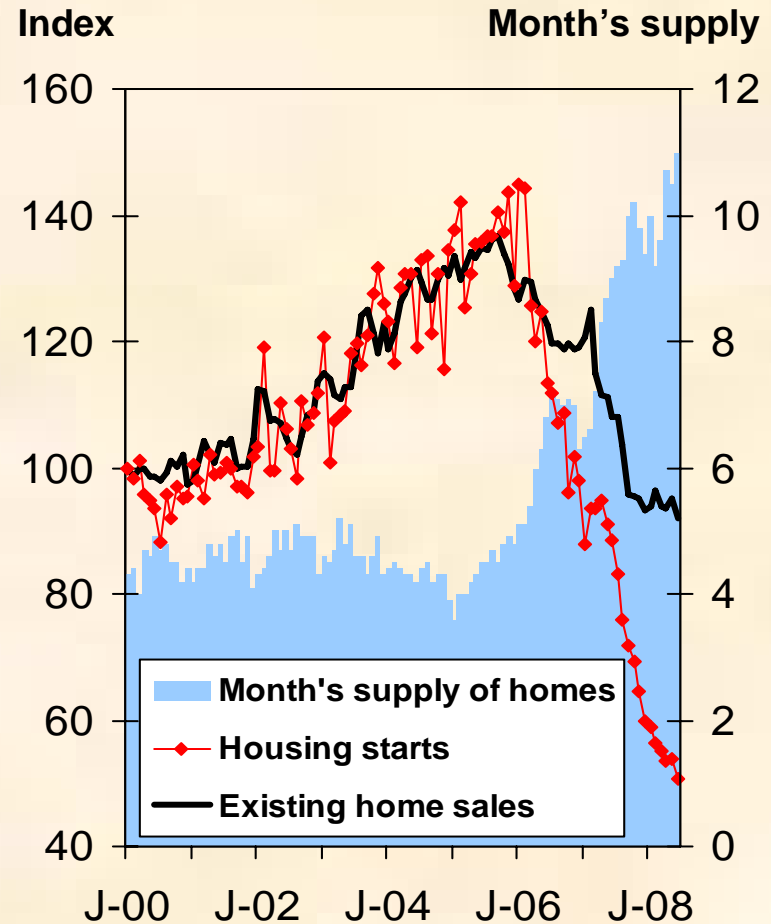


A new balance in the housing market.

Home Prices and Per Capita Incomes



Home Inventories, Sales, and Starts



Source: OFHEO, Bureau of Economic Analysis, NAR, Dept. of Commerce

Conclusion

- **Foreclosures present many financial challenges to market participants and communities.**
- **The challenges will continue until a new equilibrium in the housing market is formed.**
- **The key to easing housing market challenges starts with education.**

