

# Rising Foreclosure Rates in Kansas and the U.S.: A Perfect Storm

## **KAR Vision Team**

Kansas Museum of History

Koch Educational Center

Topeka, KS

March 6, 2008



Kelly D. Edmiston

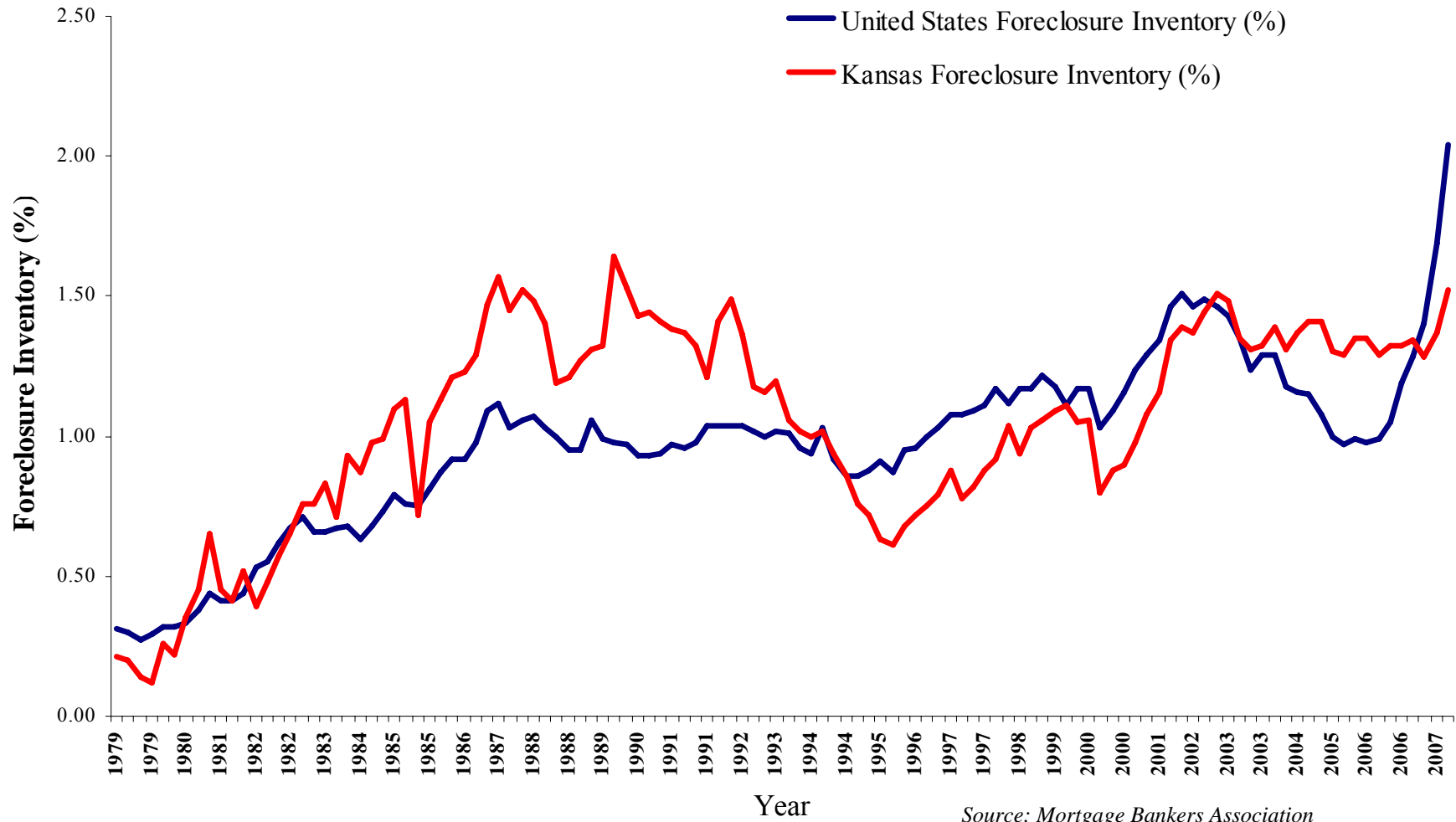
Senior Economist

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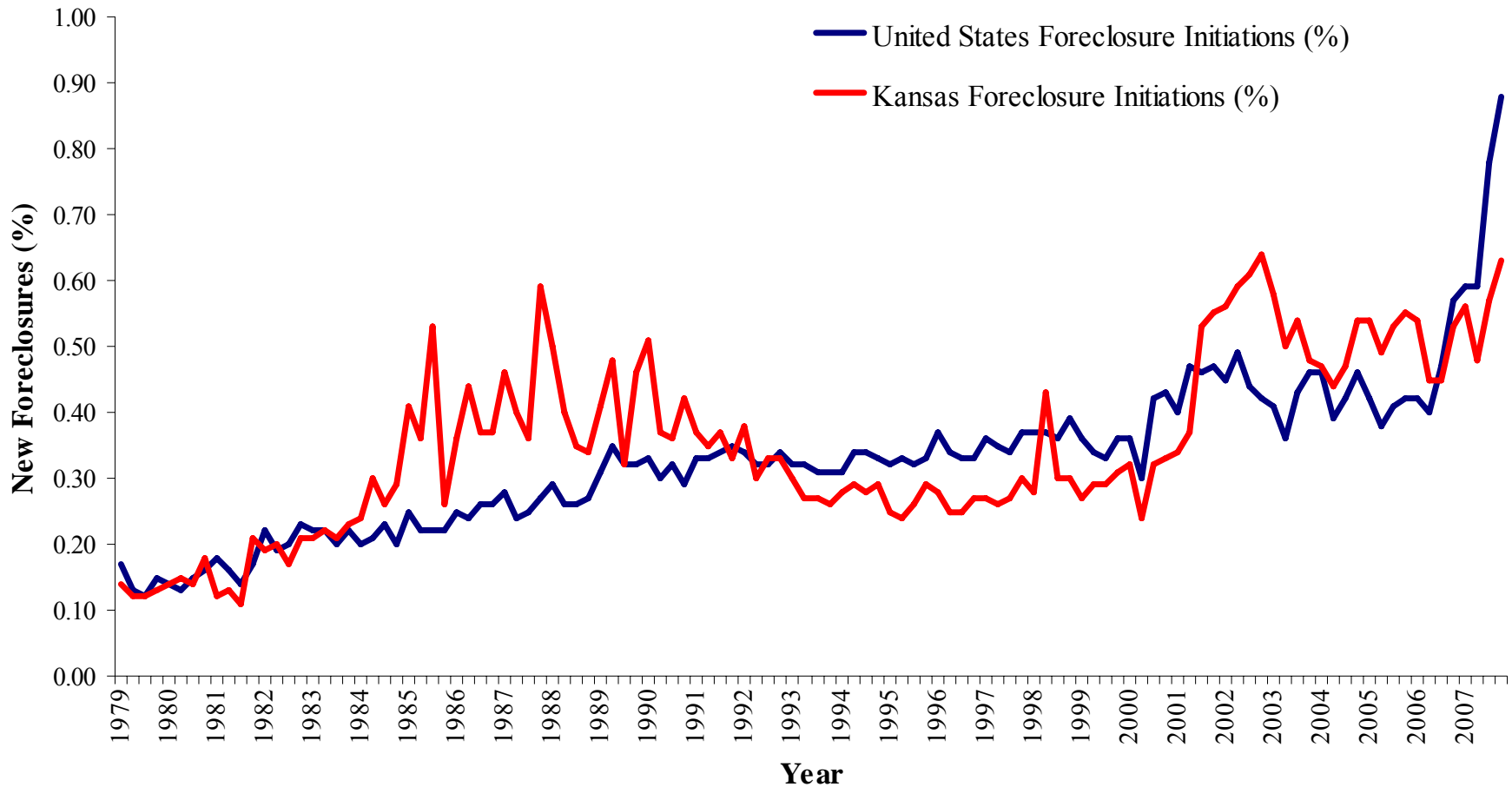
Federal Reserve Bank of Kansas City

# **The Kansas Picture**

# Foreclosure Rates, Kansas and U.S.



# Foreclosure Initiation Rates, Kansas and U.S.



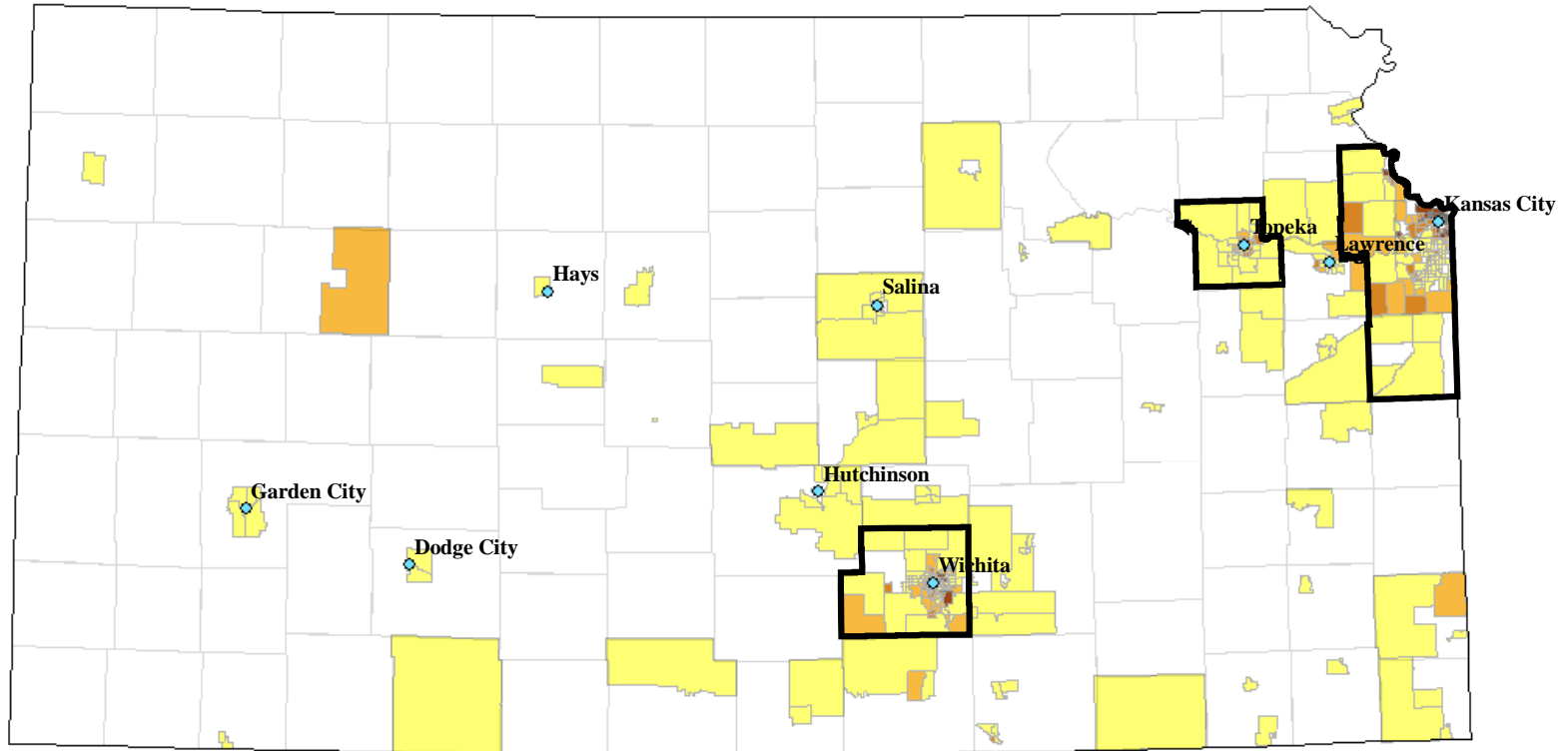
Source: Mortgage Bankers Association

## Where Kansas Stands: State Foreclosure Rates, 3<sup>rd</sup> and 4<sup>th</sup> Quarter 2007

1.	Ohio	3.72	3.88
2.	Indiana	3.28	3.53
3.	Michigan	3.07	3.38
4.	Florida	2.19	3.22
	<i>United States Avg.</i>	<i>1.69</i>	<i>2.04</i>
<b>27.</b>	<b>Kansas</b>	<b>1.37</b>	<b>1.52</b>

*Source: Mortgage Bankers Association*

# Kansas Foreclosure Rates by Census Tract

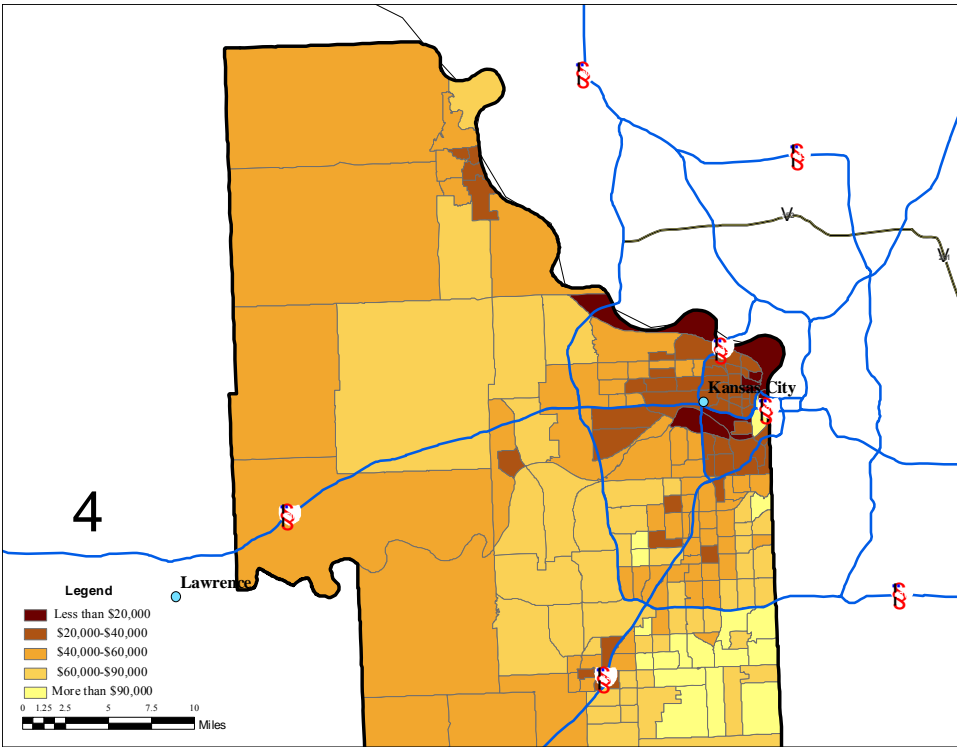


## Legend

- No Foreclosures Identified
- Less than .5% of Mortgages
- .5% to 1% of Mortgages
- 1% to 2% of Mortgages
- 2% to 5% of Mortgages
- More than 5% of Mortgages

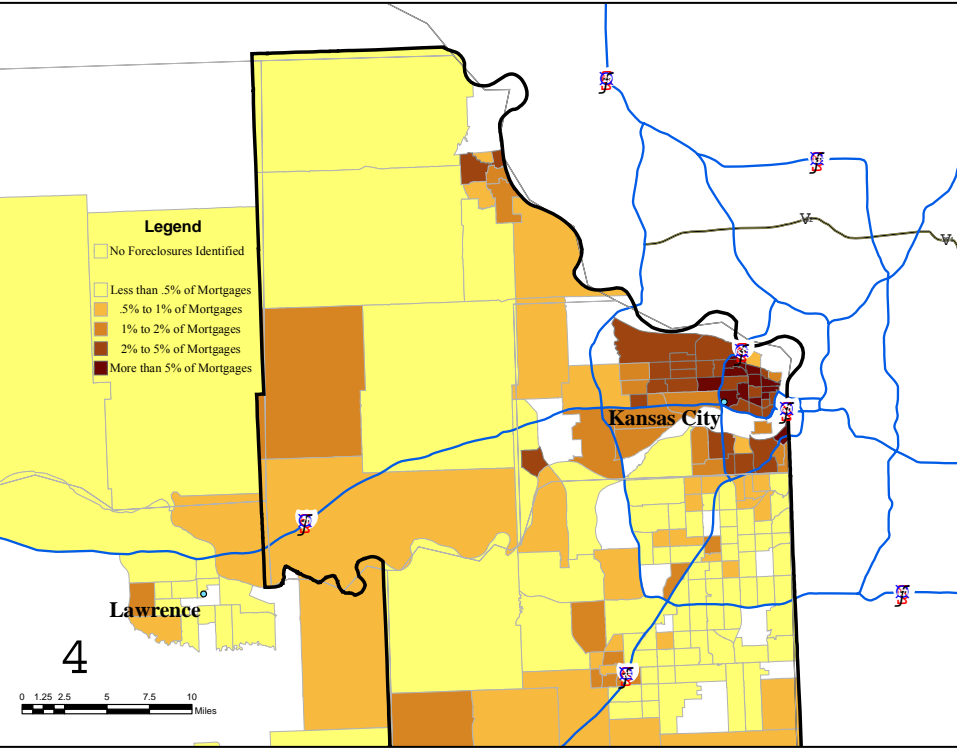
# Kansas City Median Household Income and Foreclosure Rates

*Median Income by Census Tract*

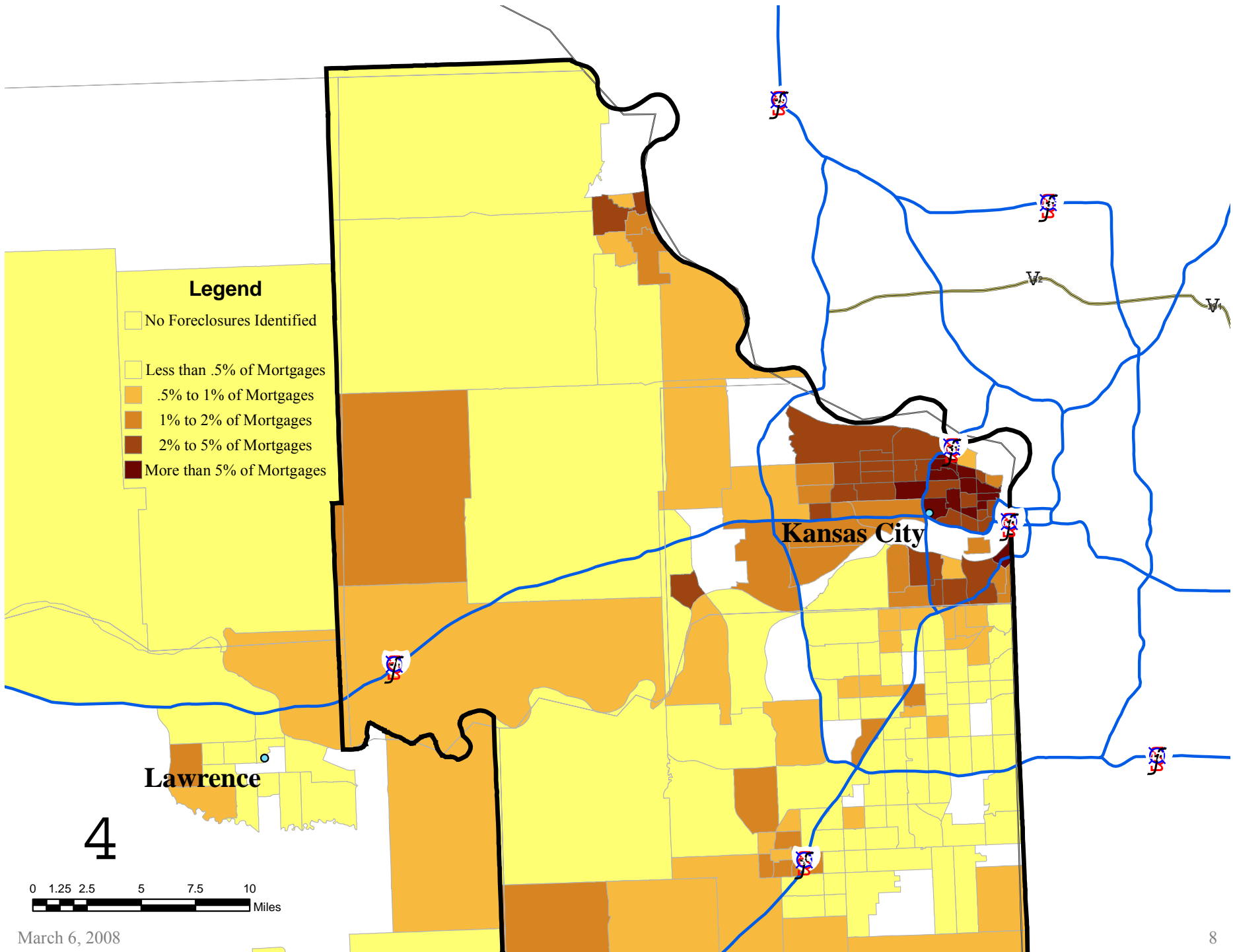


Source: 2000 U.S. Census

*Foreclosure Rate by Census Tract*



Normalized per number of mortgages outstanding by Census Tract  
 Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures



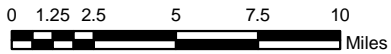
**Legend**

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**Lawrence**

**Kansas City**

**4**

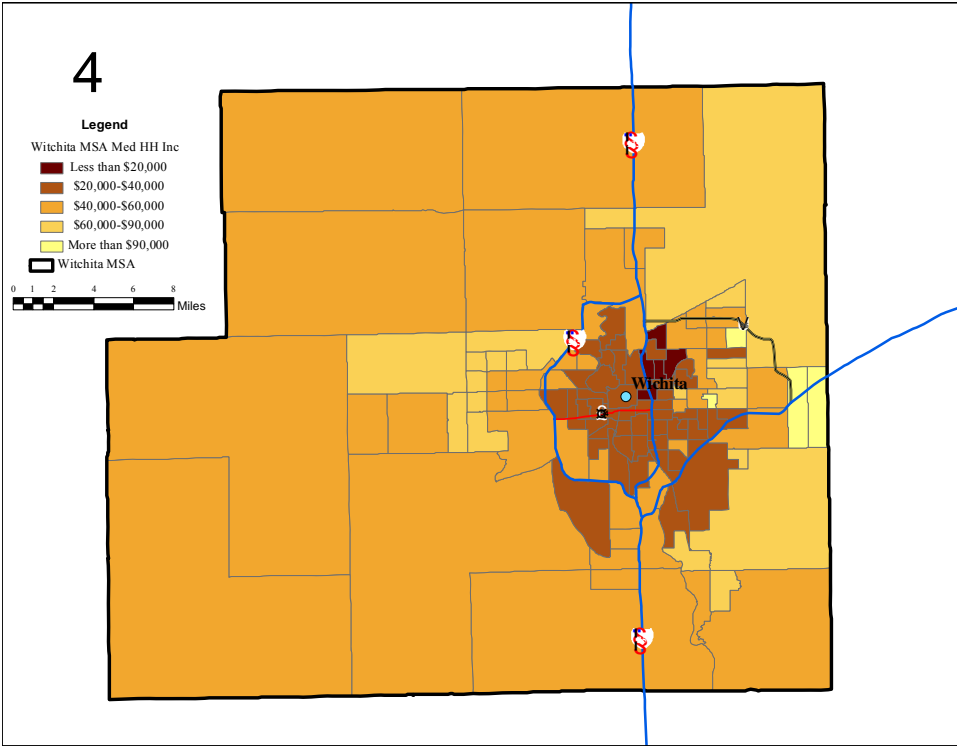


March 6, 2008



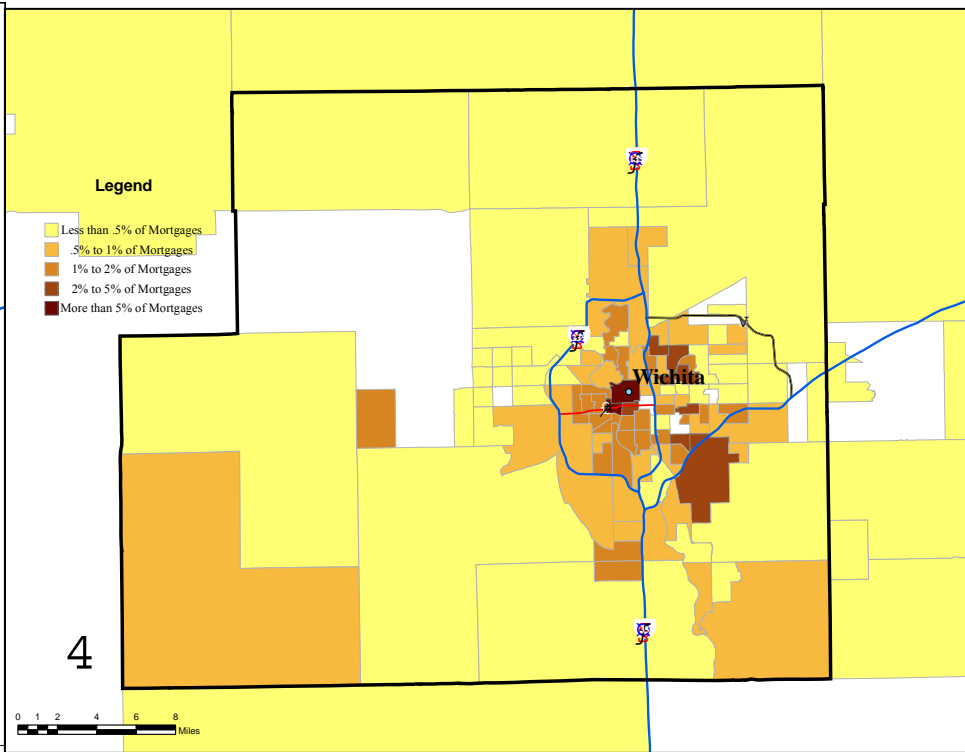
# Wichita MSA Median Household Income and Foreclosure Rates

*Median Income by Census Tract*



Source: 2000 U.S. Census

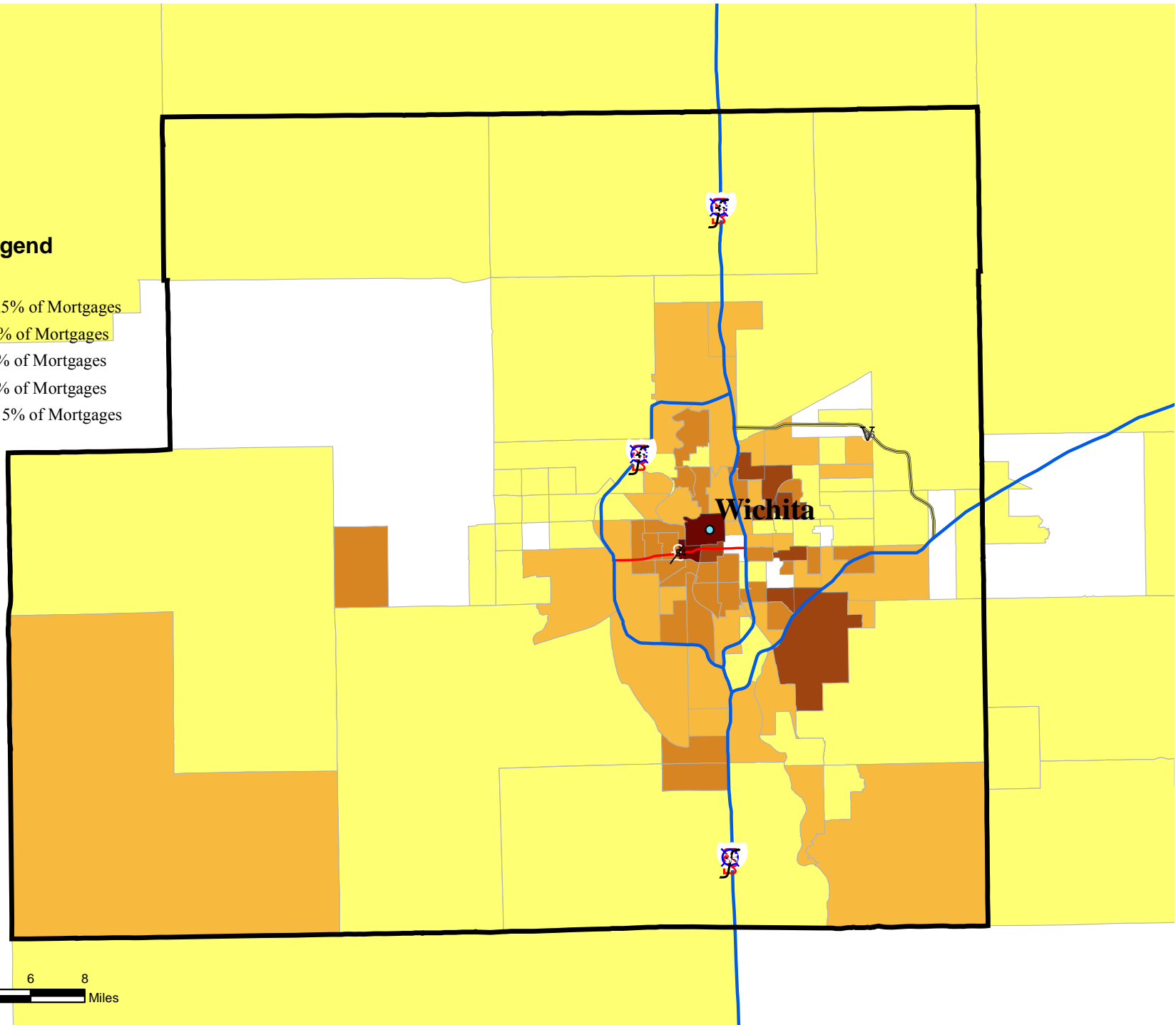
*Foreclosure Rate by Census Tract*



Normalized per number of mortgages outstanding by Census Tract  
Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures

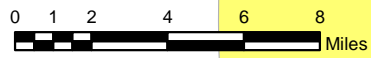
**Legend**

- Less than .5% of Mortgages
- .5% to 1% of Mortgages
- 1% to 2% of Mortgages
- 2% to 5% of Mortgages
- More than 5% of Mortgages

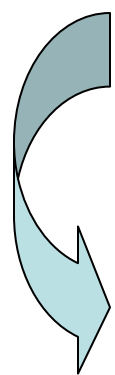


**Wichita**

4



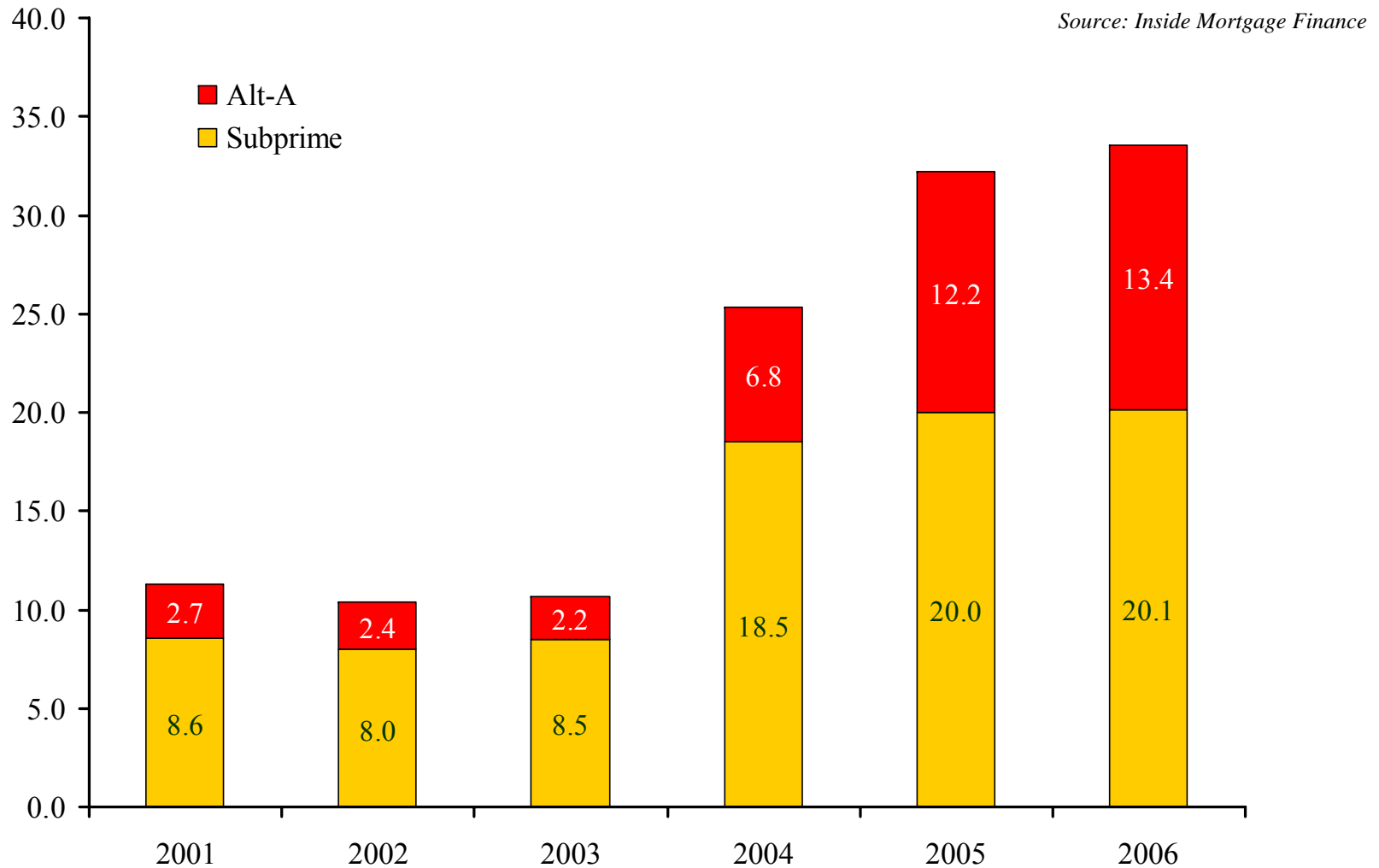
# The Current Foreclosure Storm



- “Nonprime” Mortgage Share
  - Subprime Mortgages
  - Alt-A Mortgages
- Payment Shock for Non-Traditional Mortgages
  - Adjustable-Rate Mortgages (ARMs)
  - Interest-Only Mortgages
  - Payment Option ARMs
- Adverse Equity Position
  - Declining Home Price Appreciation (or Depreciation)
  - High LTV originations
  - Cash-Out Refinancing

# **Increasing ‘Nonprime’ Share of Mortgages**

# “Nonprime” Mortgage Originations



## Foreclosure Rates by Type of Mortgage Fourth Quarter, 2007

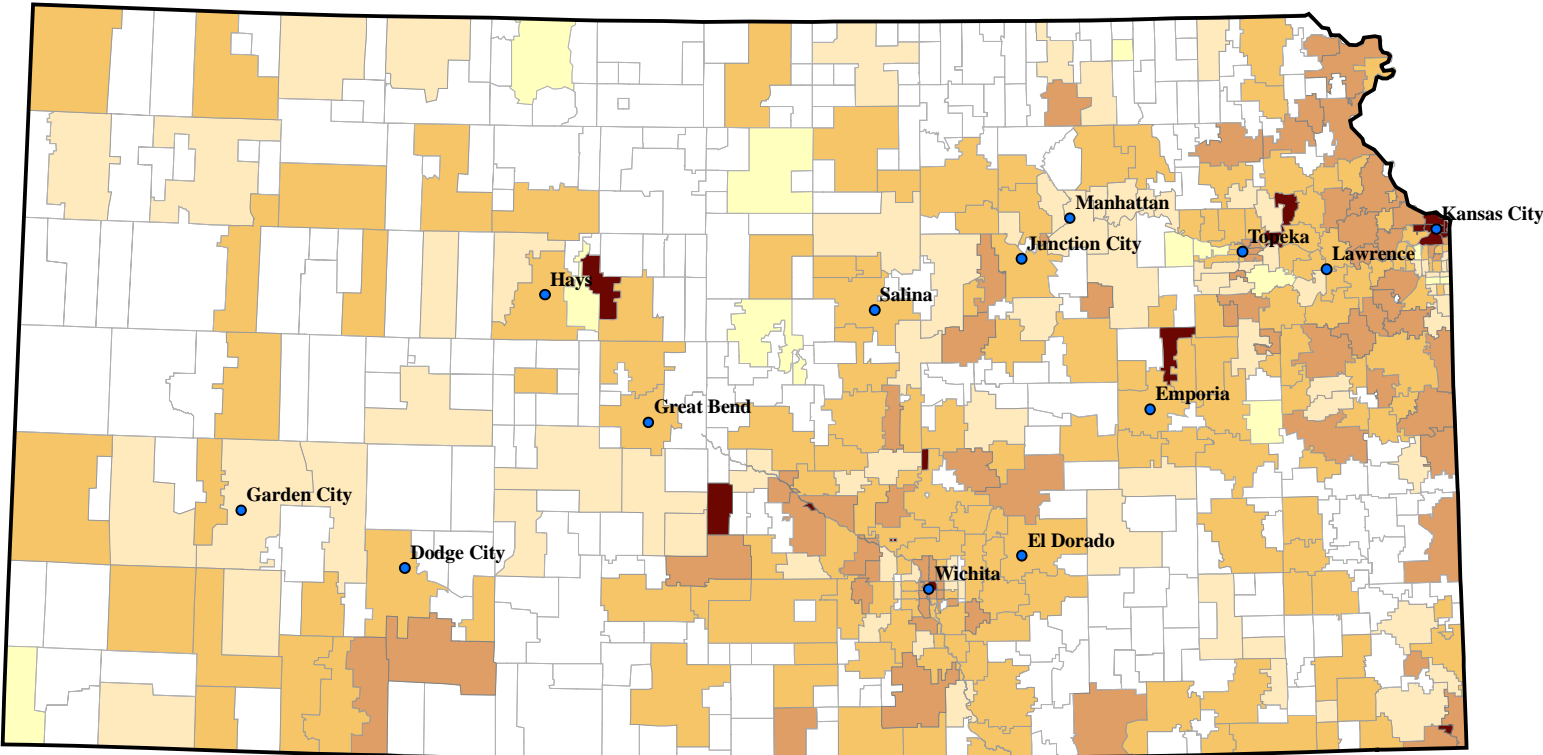
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Loan Type	In Foreclosure	Foreclosures Started	Past Due (30+ Days)
Prime	0.96	0.43	3.55
Subprime	8.65	3.71	18.82

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*Source: Mortgage Bankers Association*

# Kansas Subprime Penetration Rate by Zip Code



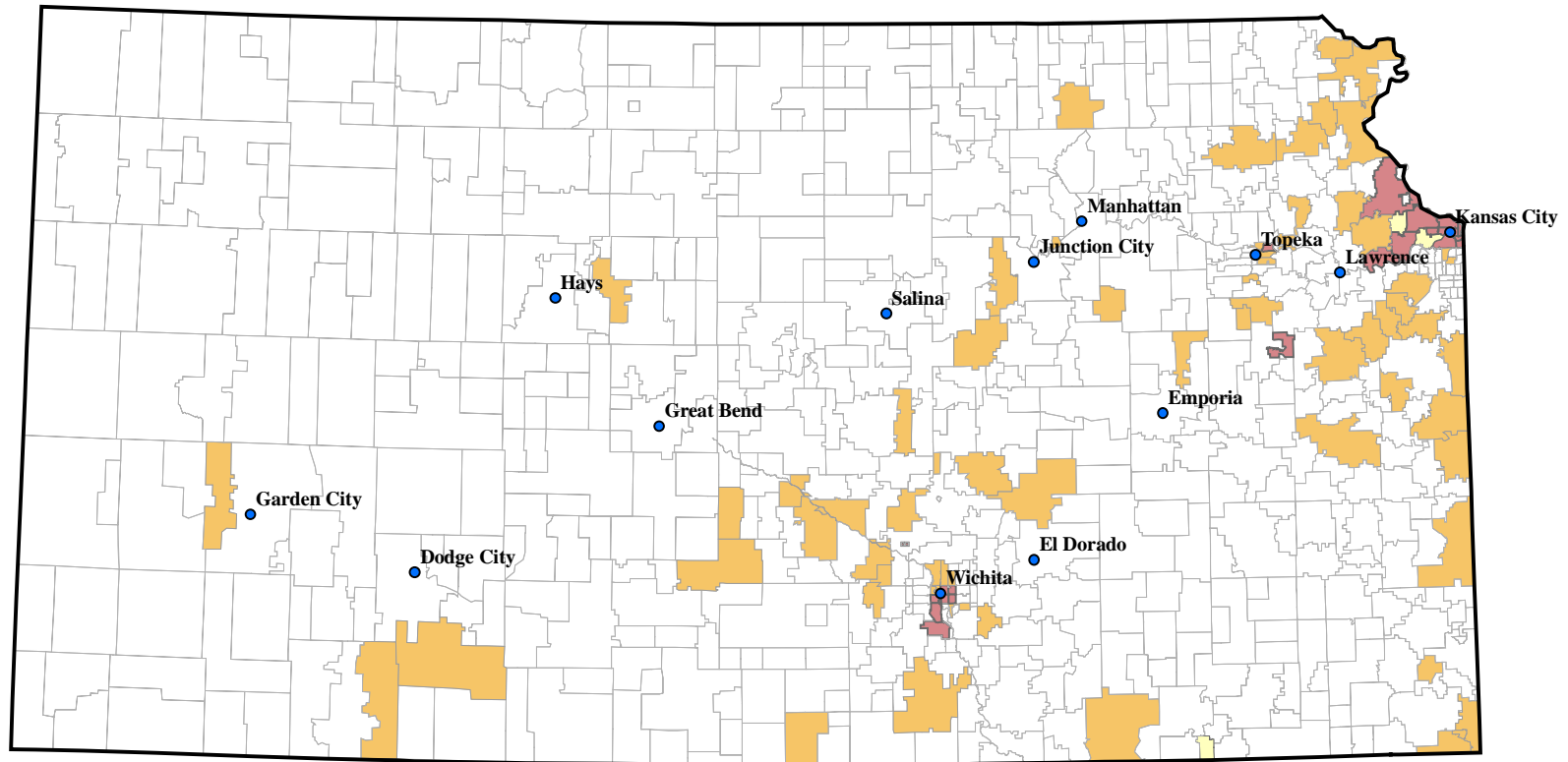
4

- Legend**
- No Subprime Mortgages
  - Less than 2% of All Mortgages
  - 2% to 5% of All Mortgages
  - 5% to 10% of All Mortgages
  - 10% to 20% of All Mortgages
  - More than 20% of Mortgages



Source: US Census 2006 American Community Survey, Loan Performance, Geolytics

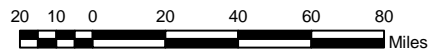
# High Foreclosure, High Subprime by Zip Code



4

### Legend

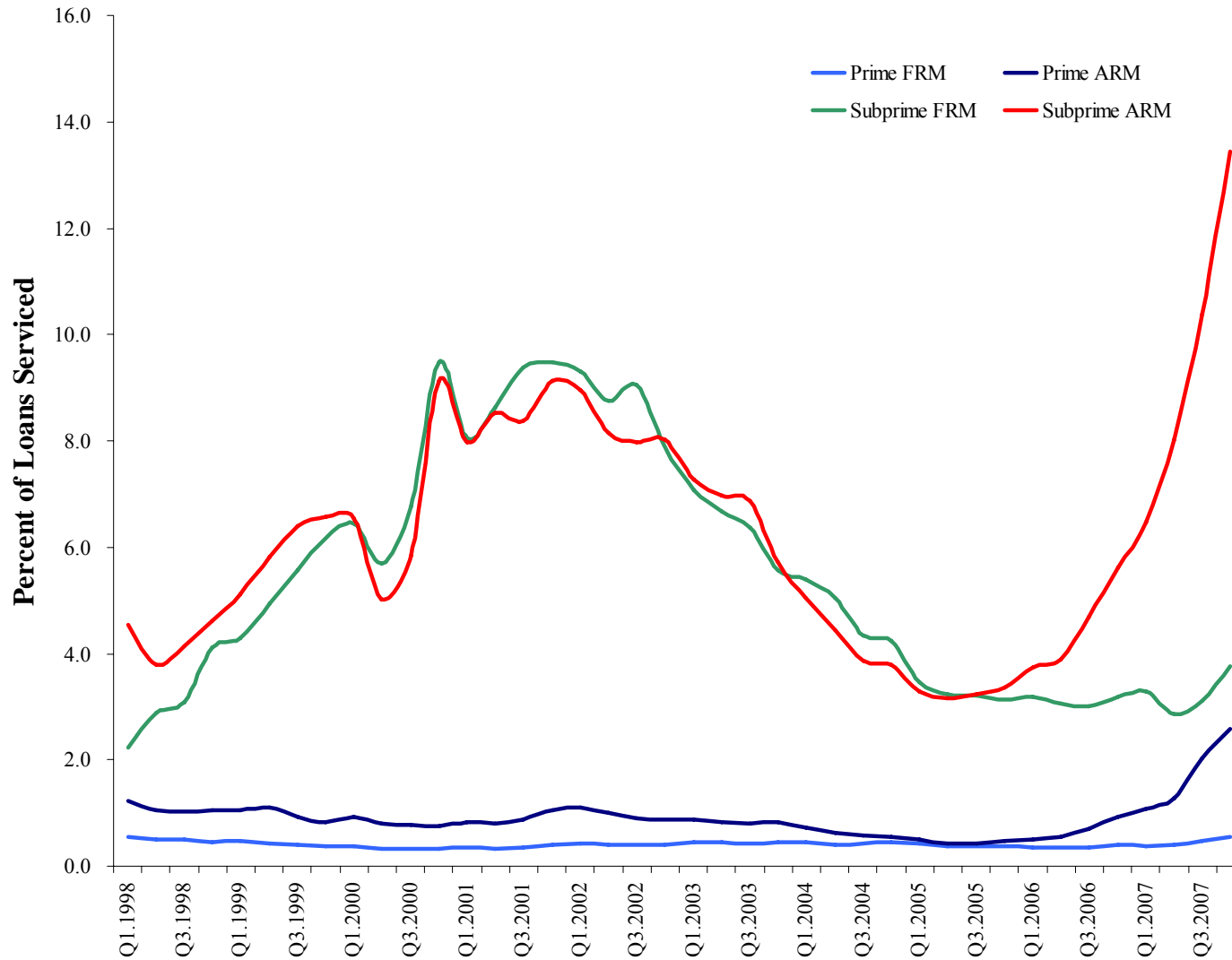
- High Foreclosures and Subprime Penetration
- High Foreclosure Rate, Moderate or Low Subprime Penetration
- Low Foreclosure Rate, Low Subprime Penetration
- High Subprime Penetration, Low or Moderate Foreclosure Rate



Source: US Census 2006 American Community Survey, RealtyTrac, LoanPerformance, Geolytics



# Foreclosure Rates by Mortgage Type 1998 – 4<sup>th</sup> Quarter, 2007



Source: Mortgage Bankers Association

# **Payment Shock**

# Innovations in the Mortgage Market

## The Evolution of Lending

Today

**Over 100% LTV**  
**Unlimited geography**  
**Up to 40 yr term**  
**Negative amortization**  
**Piggyback lending**  
**Interest only**  
**No documentation**

1995

**Automated Underwriting**  
**FICO Scores**

1989

**100% LTV**

1970

**90% LTV**

1964

**80% LTV**

1935

**60% LTV**

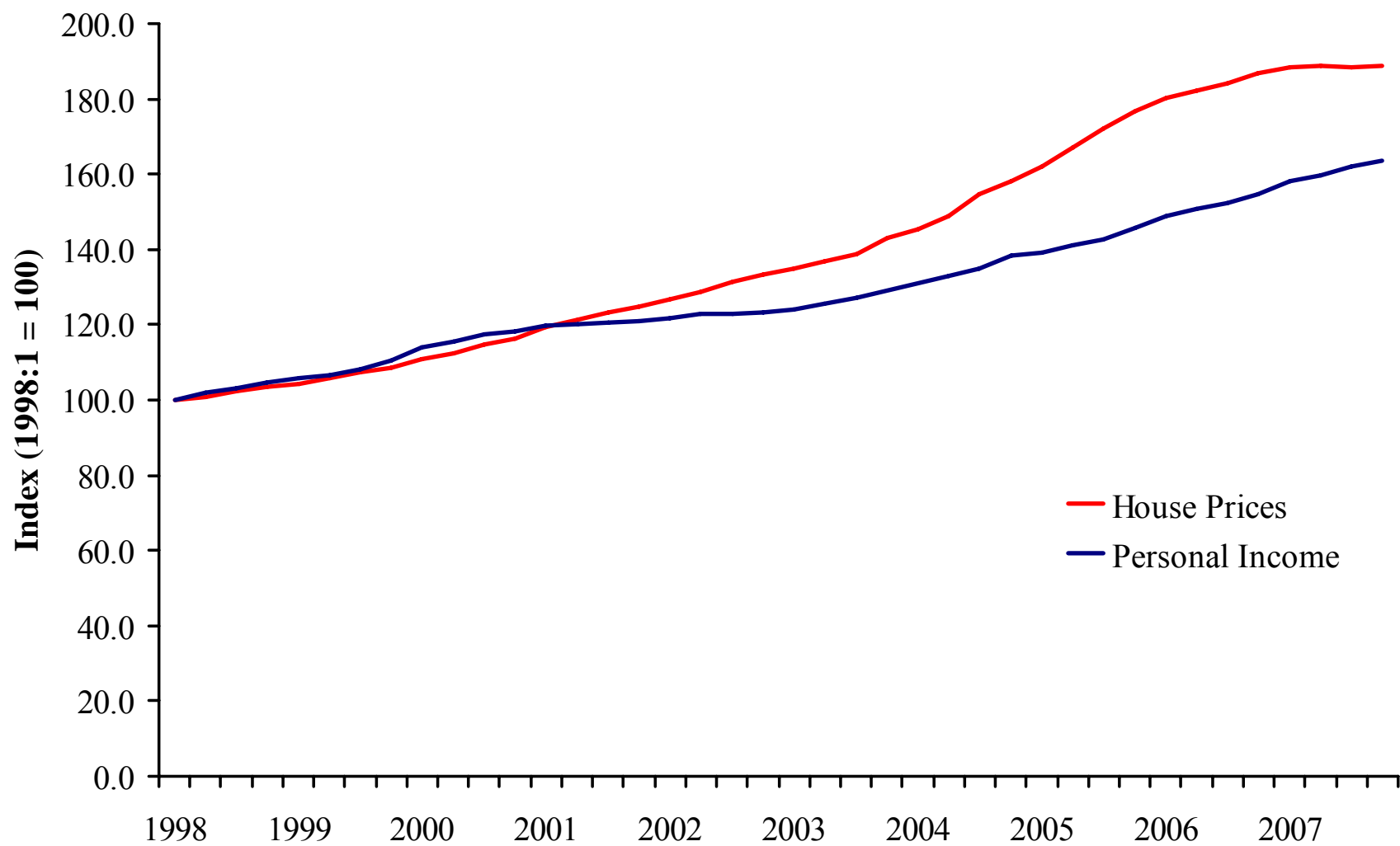
1913

**50% LTV**  
**Limited geography**  
**Limited term**  
**Balloons**



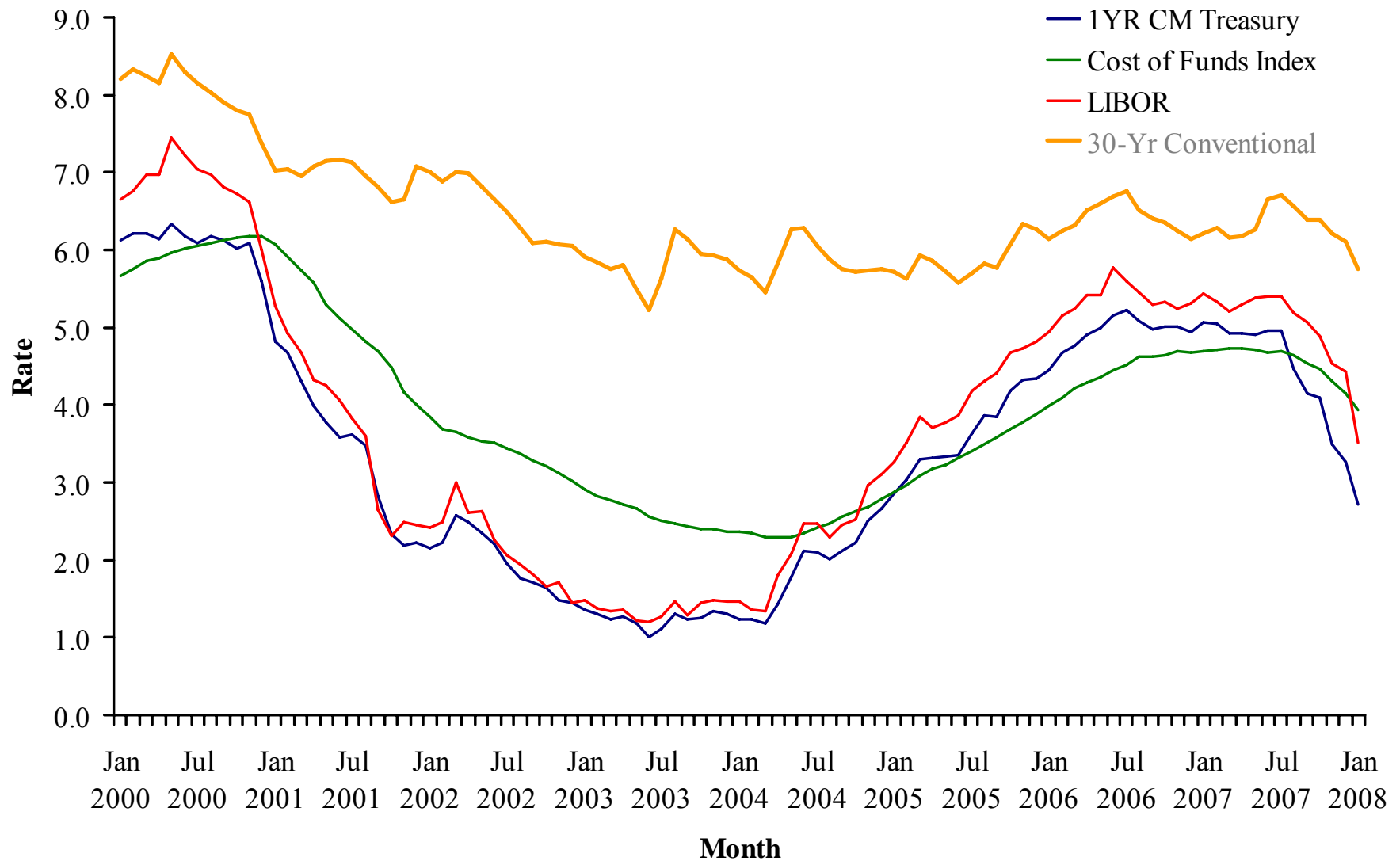
Source: Christopher Henderson, Federal Reserve Bank of Philadelphia

# Home Price Appreciation Outpaces Personal Income Growth

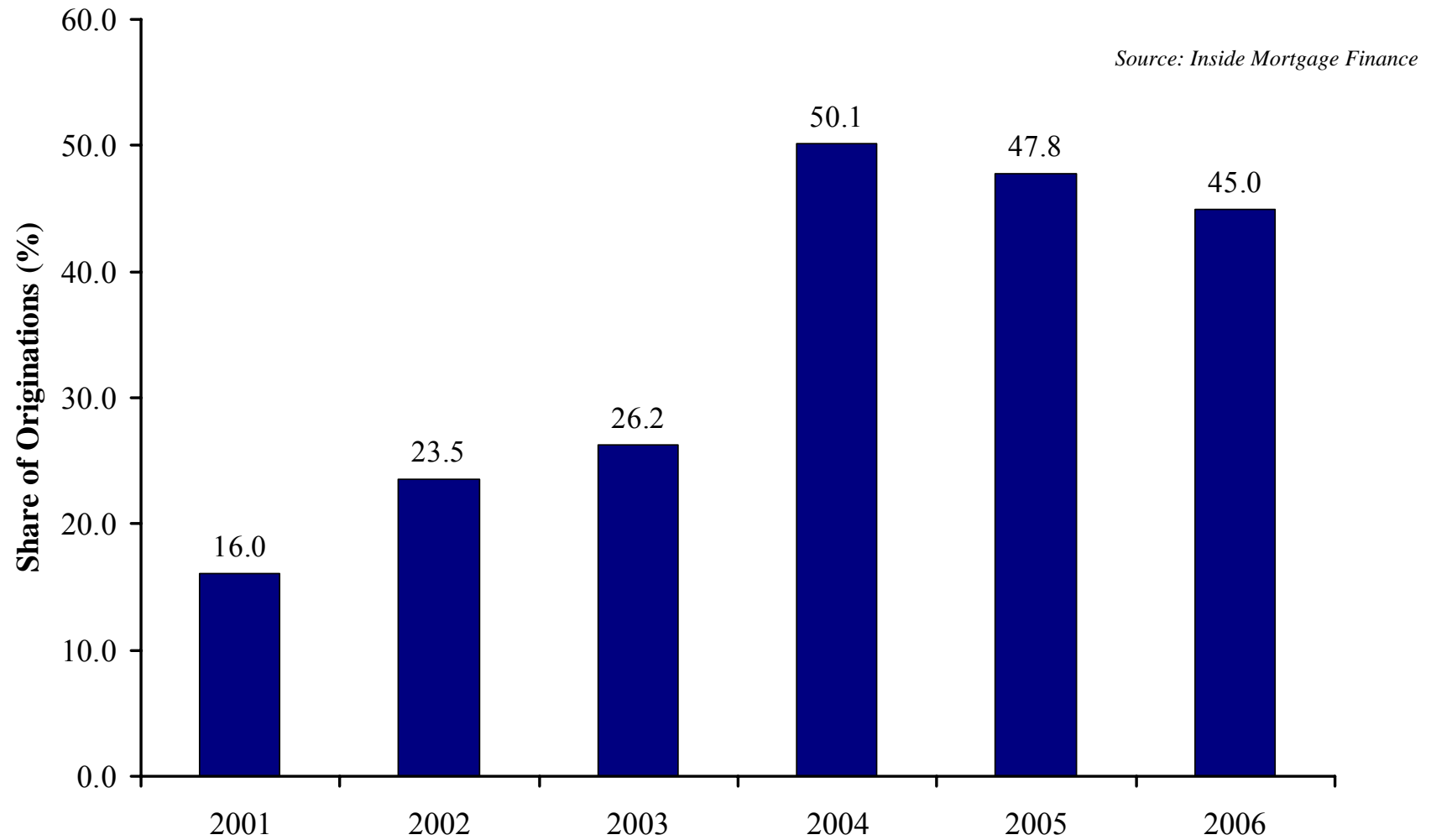


Sources: Office of Housing Enterprise Oversight; U.S. Bureau of Economic Analysis

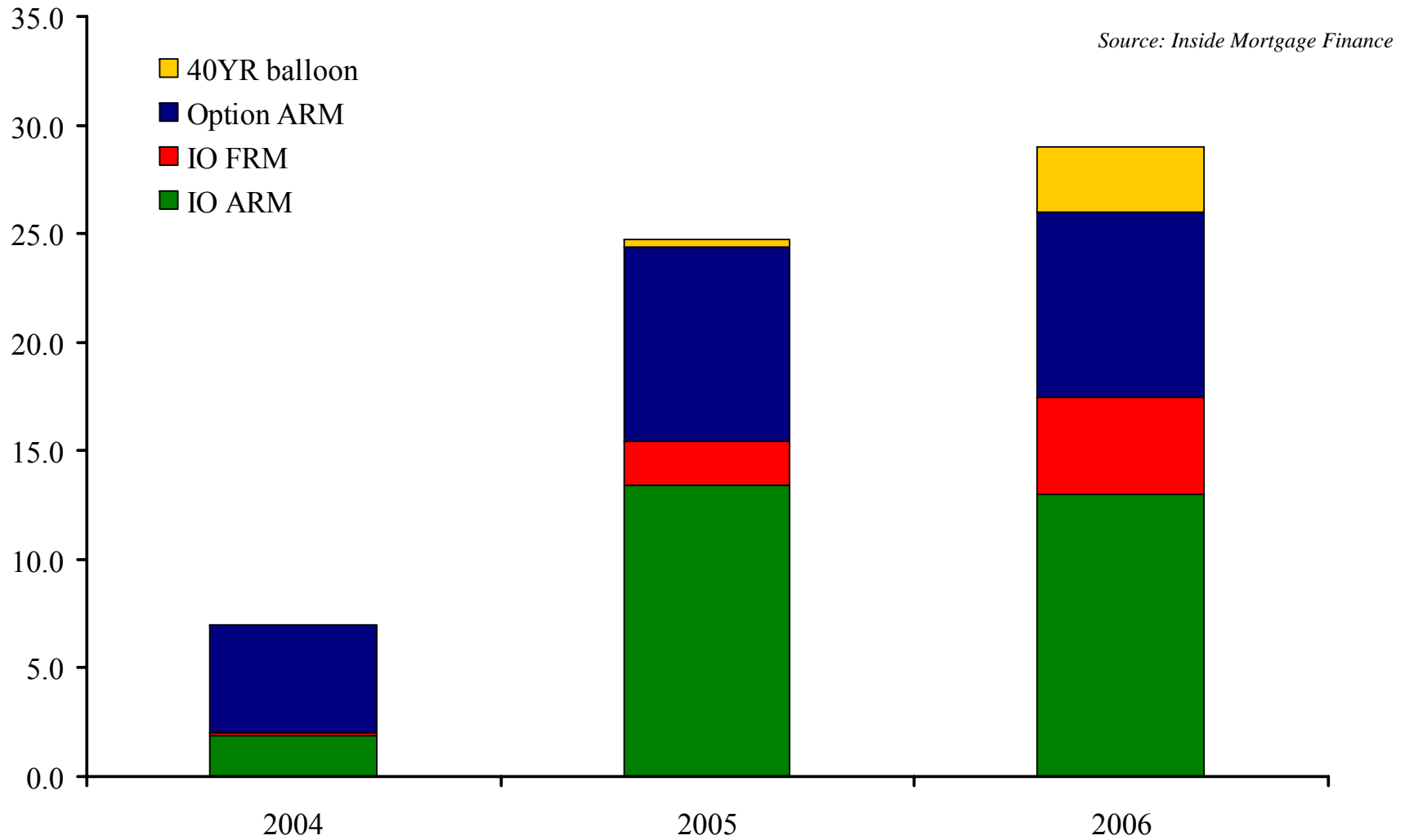
# Interest Rate Indexes, 2000 – Present



# ARM Share of Mortgage Originations



# Alternative Mortgage Originations



## Payment Structure, by Mortgage Type

### \$200,000, June, 2004

Loan Product	Initial Payment	Reset Payment	Reset Date	Payment Increase	Increase (%)
30-Year FRM	\$1,237	\$1,237	None	\$0	0%
3/1 ARM	\$1,039	\$1,420	June, 2007	\$381	37%
3/1 I-O ARM	\$786	\$1,462	June, 2007	\$676	86%
Option ARM	\$643	\$1,555	August, 2007	\$912	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.



# **Adverse Equity Position**

# Loan-to-Value Ratios at Purchase Among Foreclosees (Massachusetts)

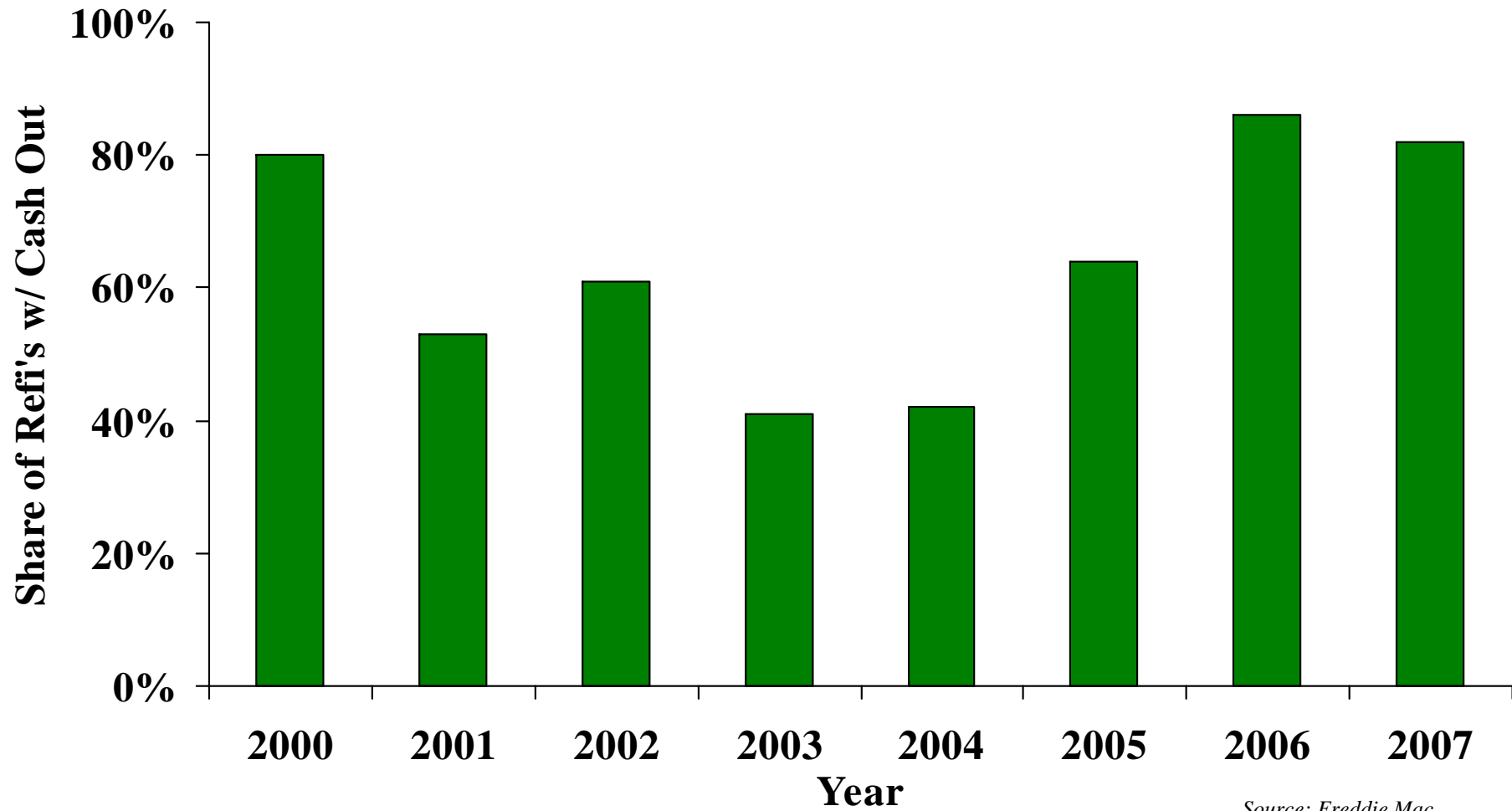
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	$\leq 80\%$	80%-95%	95%-100%	$\geq 100\%$
2006	8.6	41.1	15.7	34.5
2007	8.0	38.4	13.4	40.0

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Source: Federal Reserve Bank of Boston

# Cash-Out Refinances



Source: Freddie Mac

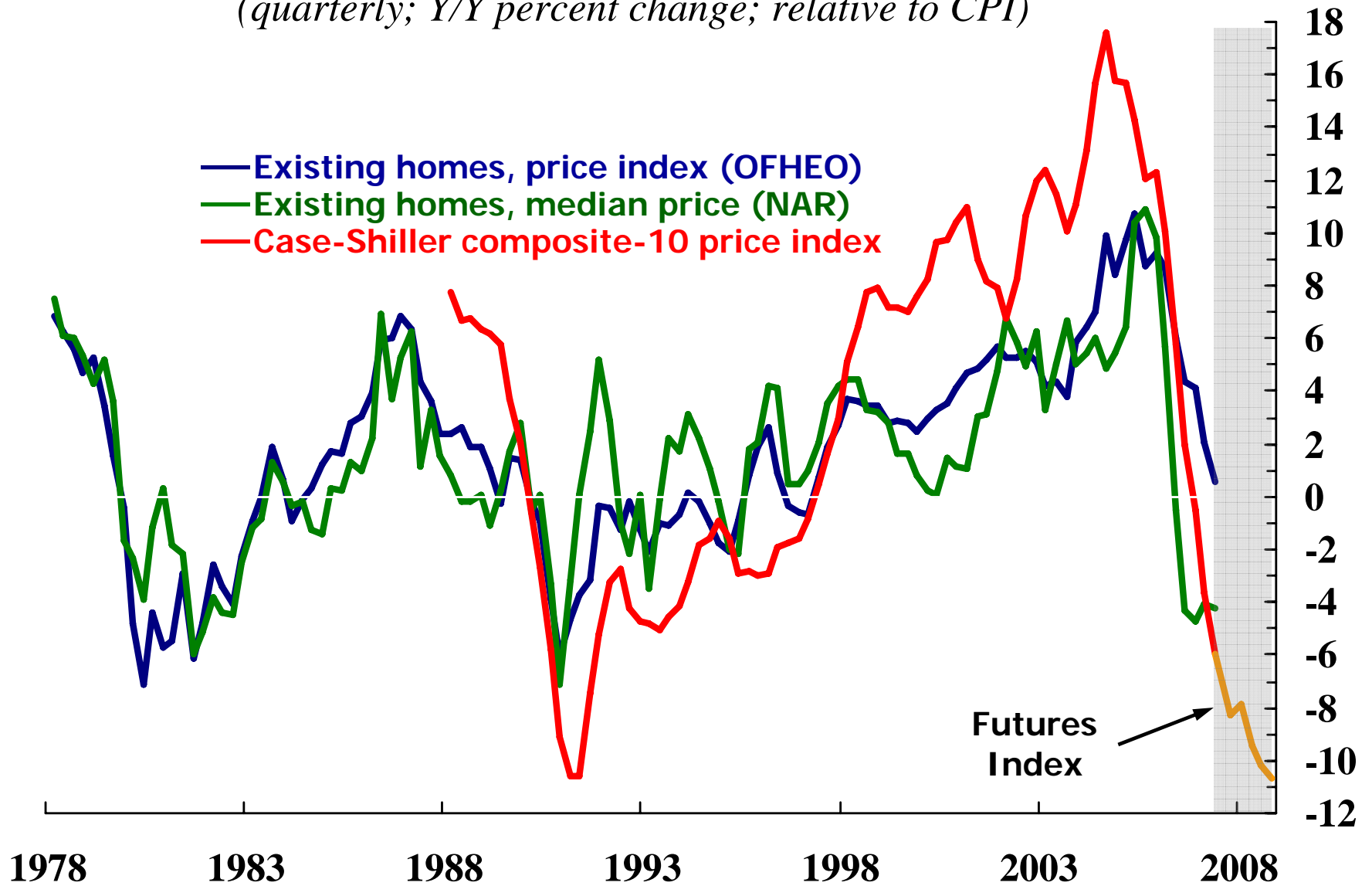
# Annual Change in Home Prices

	2004-05	2005-06	2006-07
United States (NAR)	12.2	1.3	(1.8)
<i>United States (S&amp;P C-S)</i>	<i>15.5</i>	<i>0.7</i>	<i>(9.1)</i>
Kansas City MSA	4.5	(0.6)	(1.7)
Topeka MSA	3.5	0.4	5.5
Wichita MSA	3.9	6.4	0.6

*Source: National Association of REALTORS®*

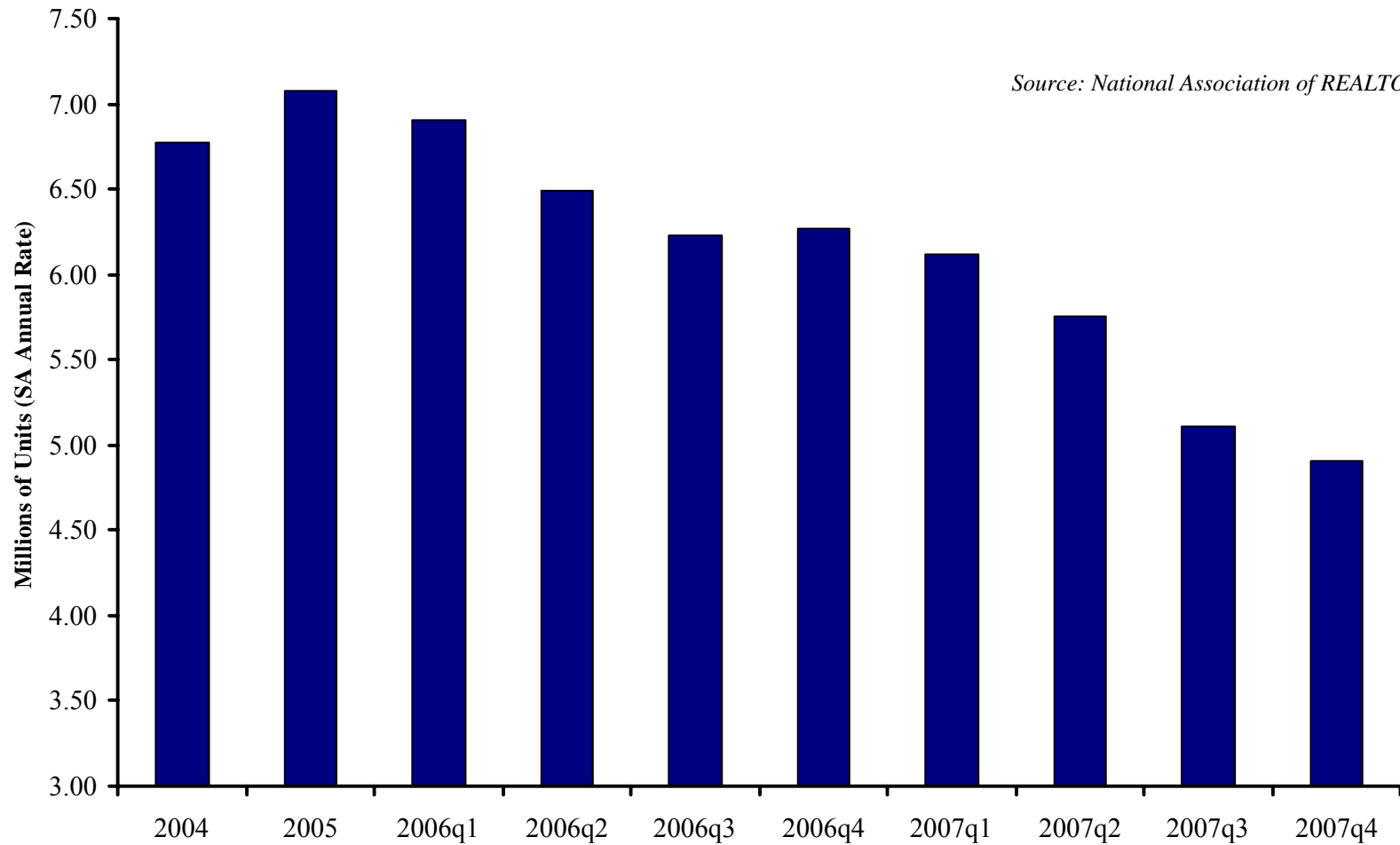
# House Prices Keep Falling

*(quarterly; Y/Y percent change; relative to CPI)*



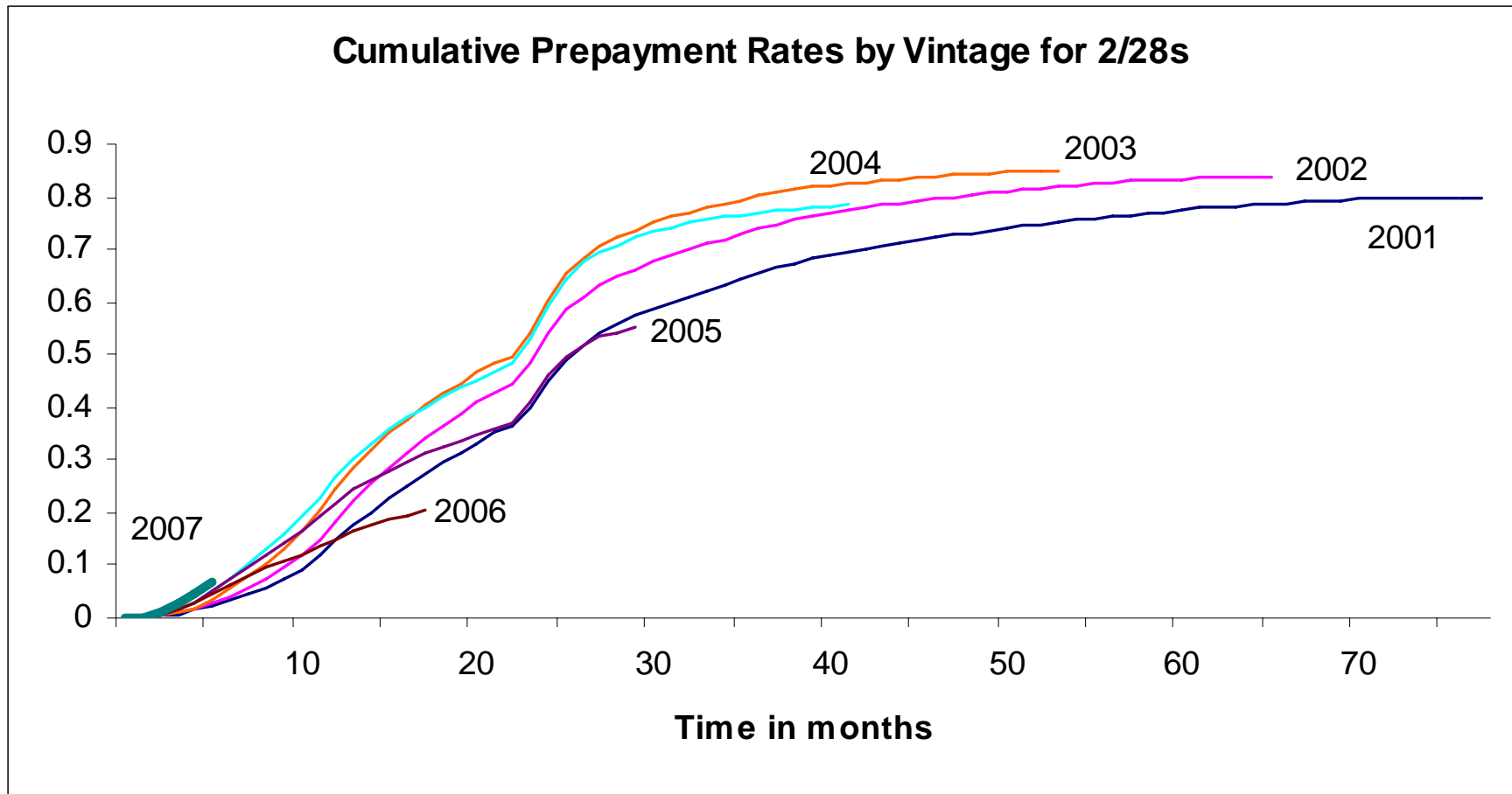
Source: Christopher Henderson, Federal Reserve Bank of Philadelphia

# Existing Home Sales



**Where Do We Go From Here?**

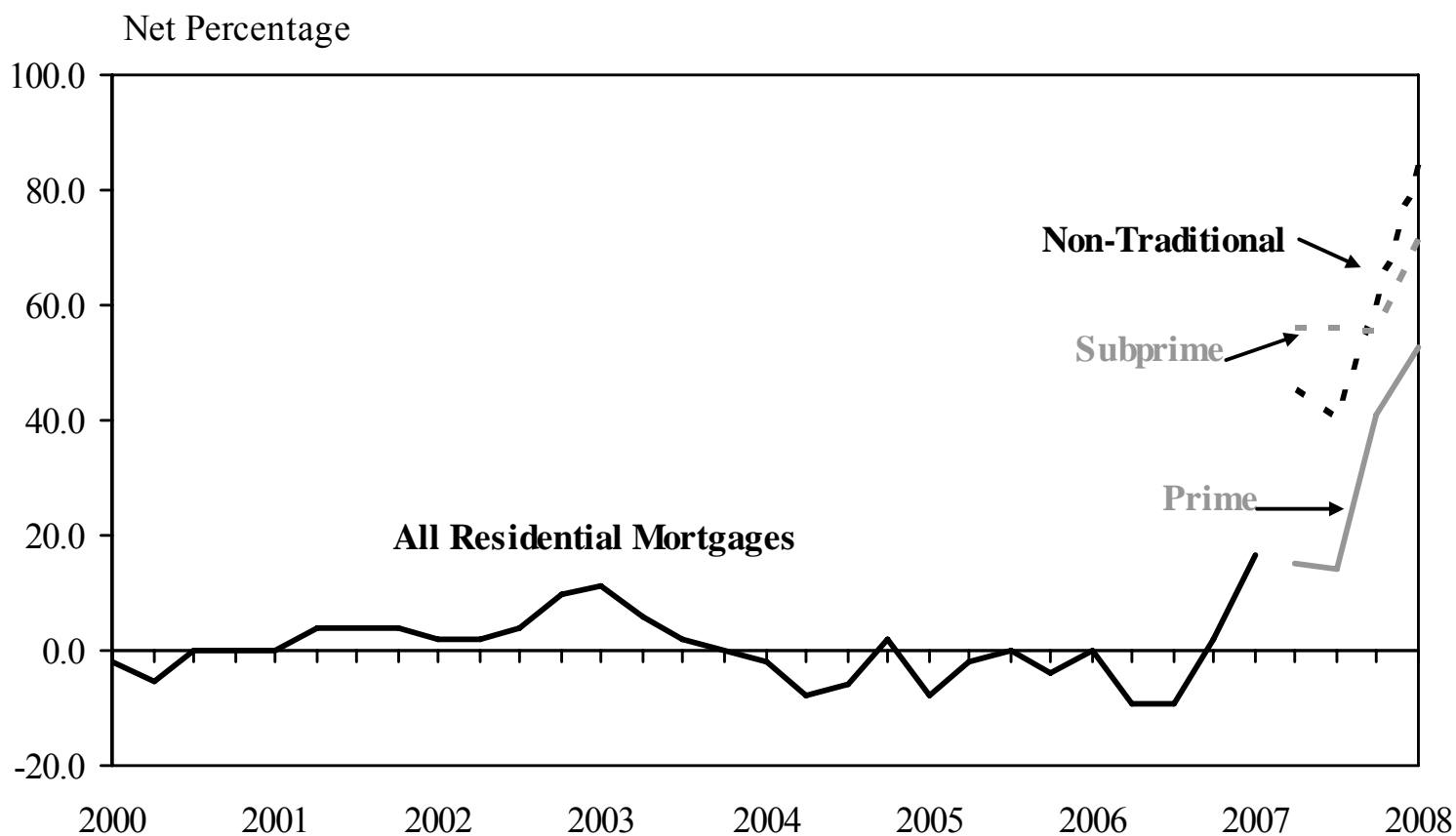
# Many 2/28s are Prepaid



Source: Federal Reserve Board staff calculations from Loan Performance data.



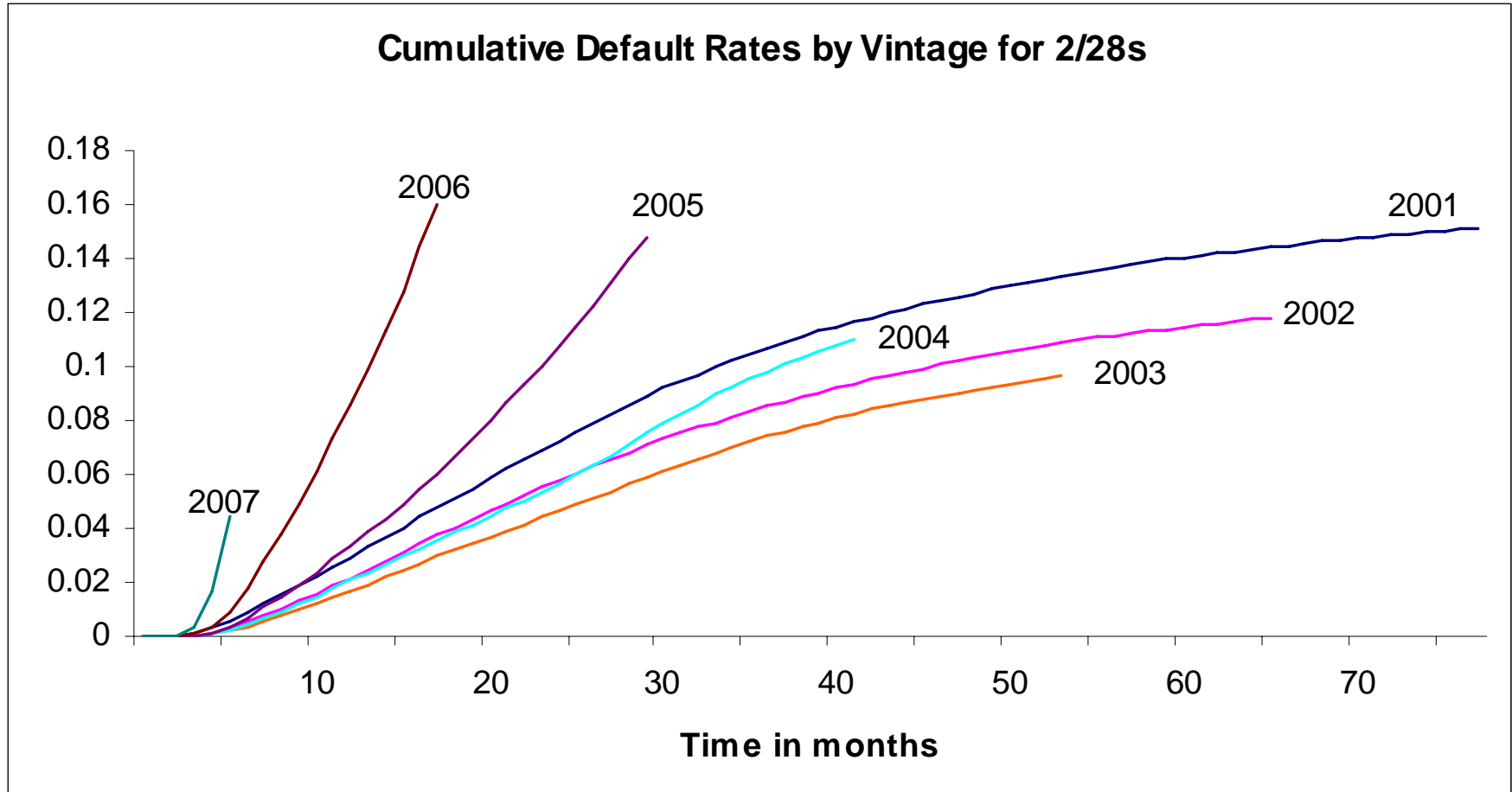
# Banks Reporting Tighter Lending Standards for Residential Mortgages



Source: Federal Reserve; Senior Loan Officer Opinion Survey

Latest Release: 02/04/2008

# Subprime 2/28 Default Rates



Source: Federal Reserve Board staff calculations from Loan Performance data.

# Impacts

- Homeowners
  - Loss of equity (maybe) and credit worthiness
  - Where do we live (affordable housing issues)
- Communities
  - External price effects
  - Neighborhood deterioration
- Financial Markets
  - Losses to investors (e.g., pension funds)
  - Mark to market and capital loss recovery reserves
  - Tighter underwriting standards

# What Do We Do About It?

## (Greater KC Foreclosure Task Force)

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

# What Do We Do About It? (Federal Reserve System)

- **Outreach**: The Federal Reserve is concerned about the impact of high foreclosure rates on families, neighborhoods and communities. We are working with other regulators, community groups, policy organizations, public officials and others to identify solutions to help mitigate foreclosures and their negative effects.
- **Regulation**: The Federal Reserve is committed to fostering an environment that supports the homeownership goals of credit-worthy borrowers with appropriate consumer protection and responsible lending practices.
- **Research and Evaluation**: The Federal Reserve is actively pursuing ways to leverage our analytical resources. We provide community groups, counseling agencies, regulators and others with detailed analysis so that outreach efforts to help troubled borrowers can be as effective as possible.
- **Ongoing**: The Federal Reserve will continue its long history of providing educational resources so consumers can make informed personal financial decisions, including those about home ownership.



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