

# Foreclosures in Missouri: State of the State, How We Got Here, and Potential Impacts

Government Finance Officers Association of Missouri –  
Western Chapter

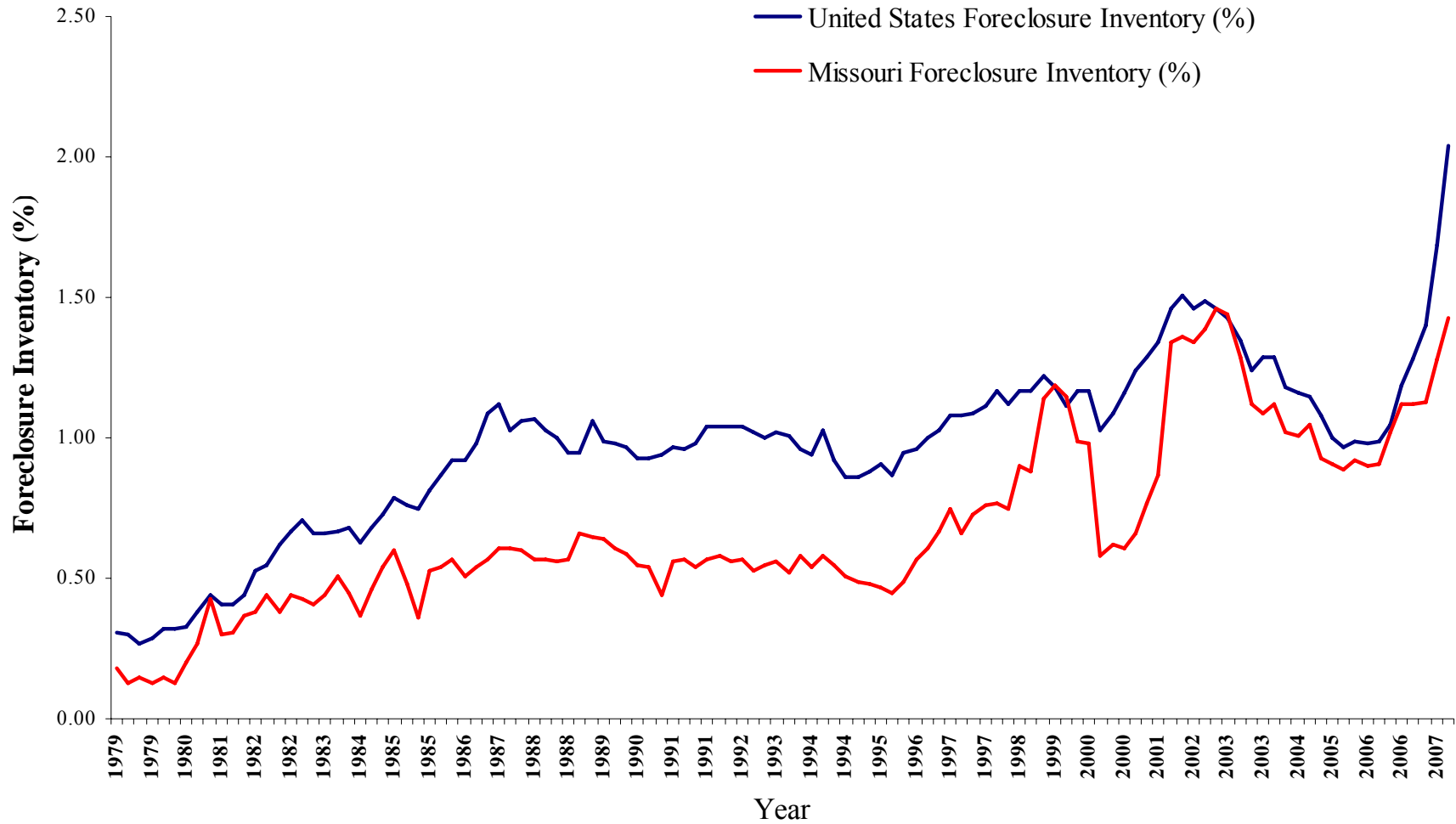
Kansas City, MO

May 8, 2008



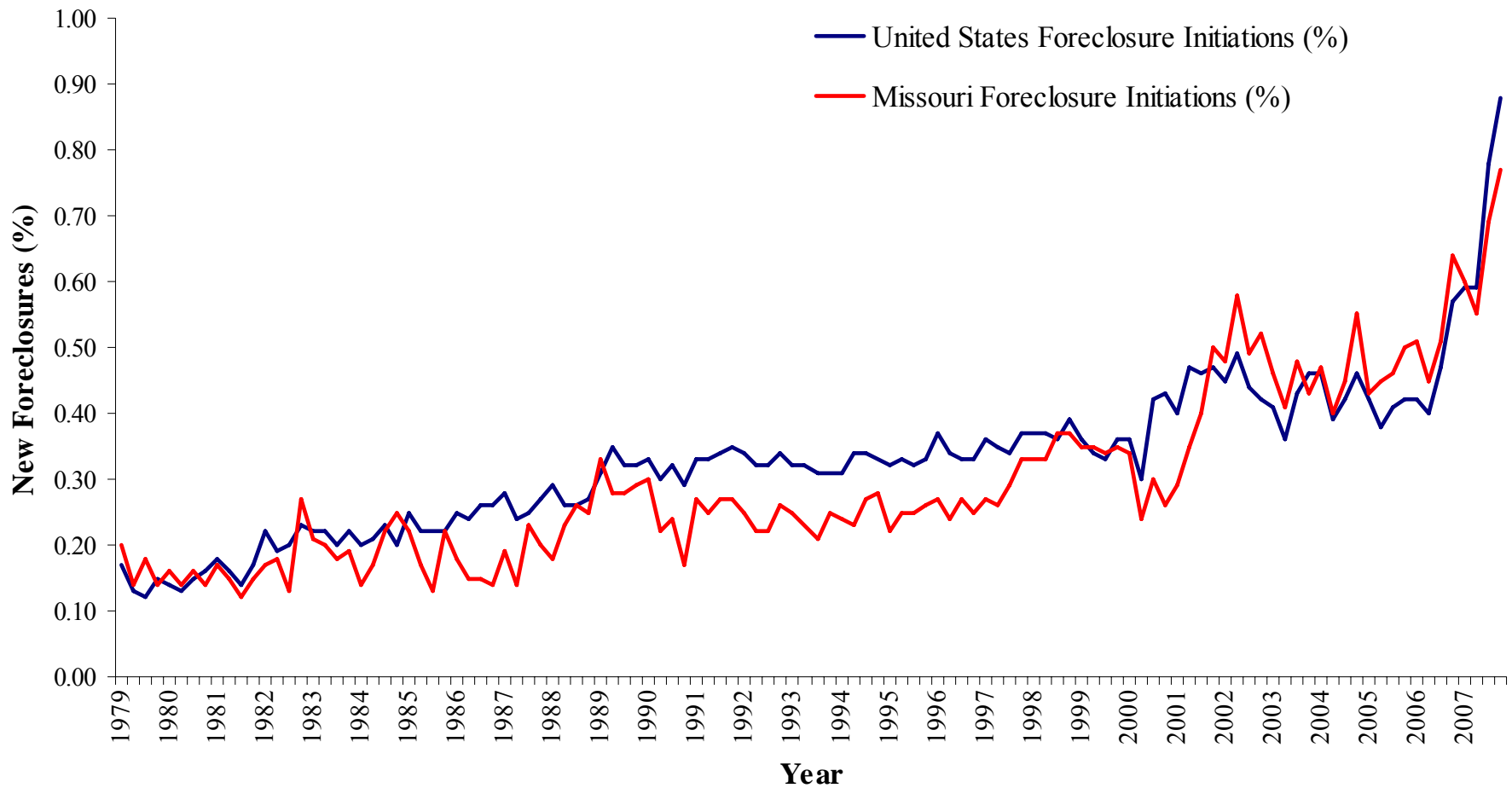
Kelly D. Edmiston  
Senior Economist  
Regional, Public, and Community Affairs Division  
Federal Reserve Bank of Kansas City

# Foreclosure Rates, Missouri and U.S.



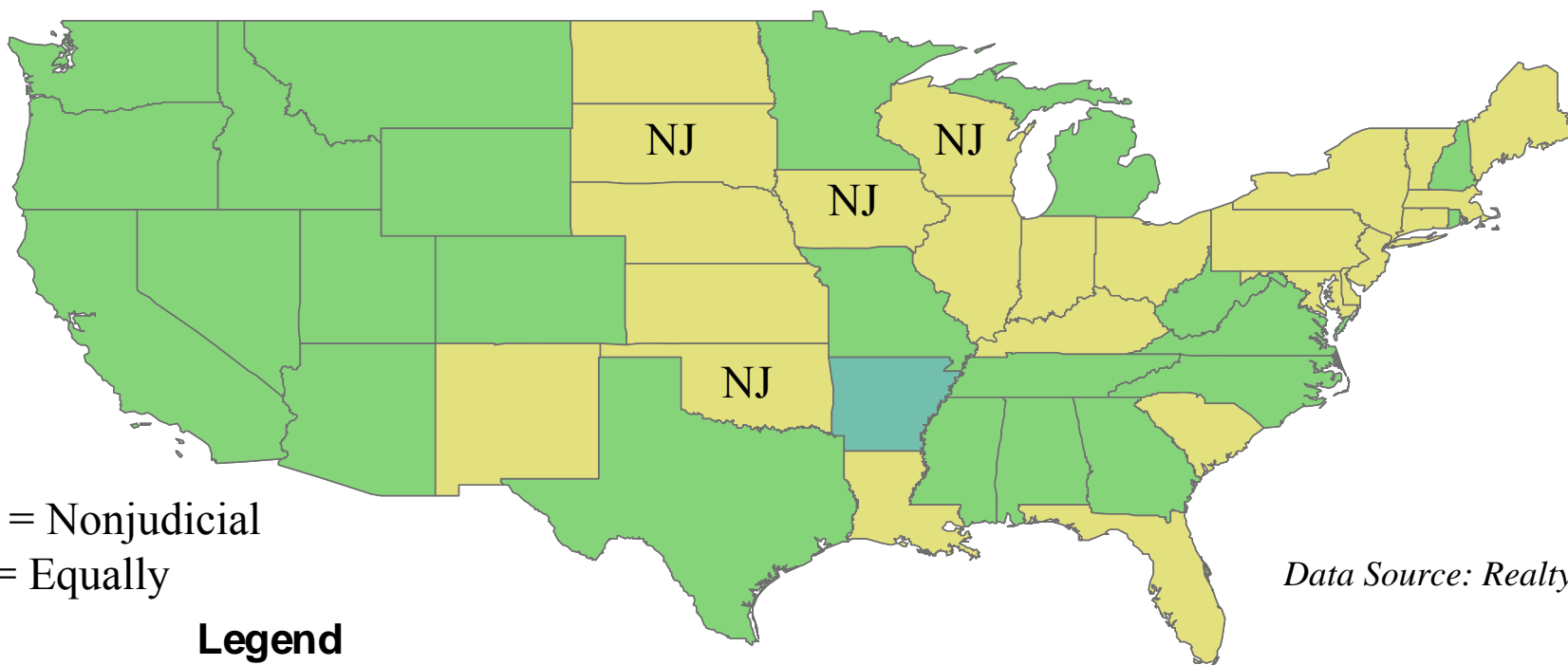
Source: Mortgage Bankers Association

# Foreclosure Initiation Rates, Missouri and U.S.



Source: Mortgage Bankers Association

# “Effective” Judicial and Nonjudicial Foreclosure in the United States, 2007



AK = Nonjudicial  
HI = Equally

## Legend

### Judicial / Nonjudicial Foreclosure

- Equally
- Judicial
- Nonjudicial

*Data Source: RealtyTrac*

**NJ** indicates that nonjudicial foreclosure is an option in the state, but judicial foreclosures generally are pursued.

## Counts and Effects on Process Days

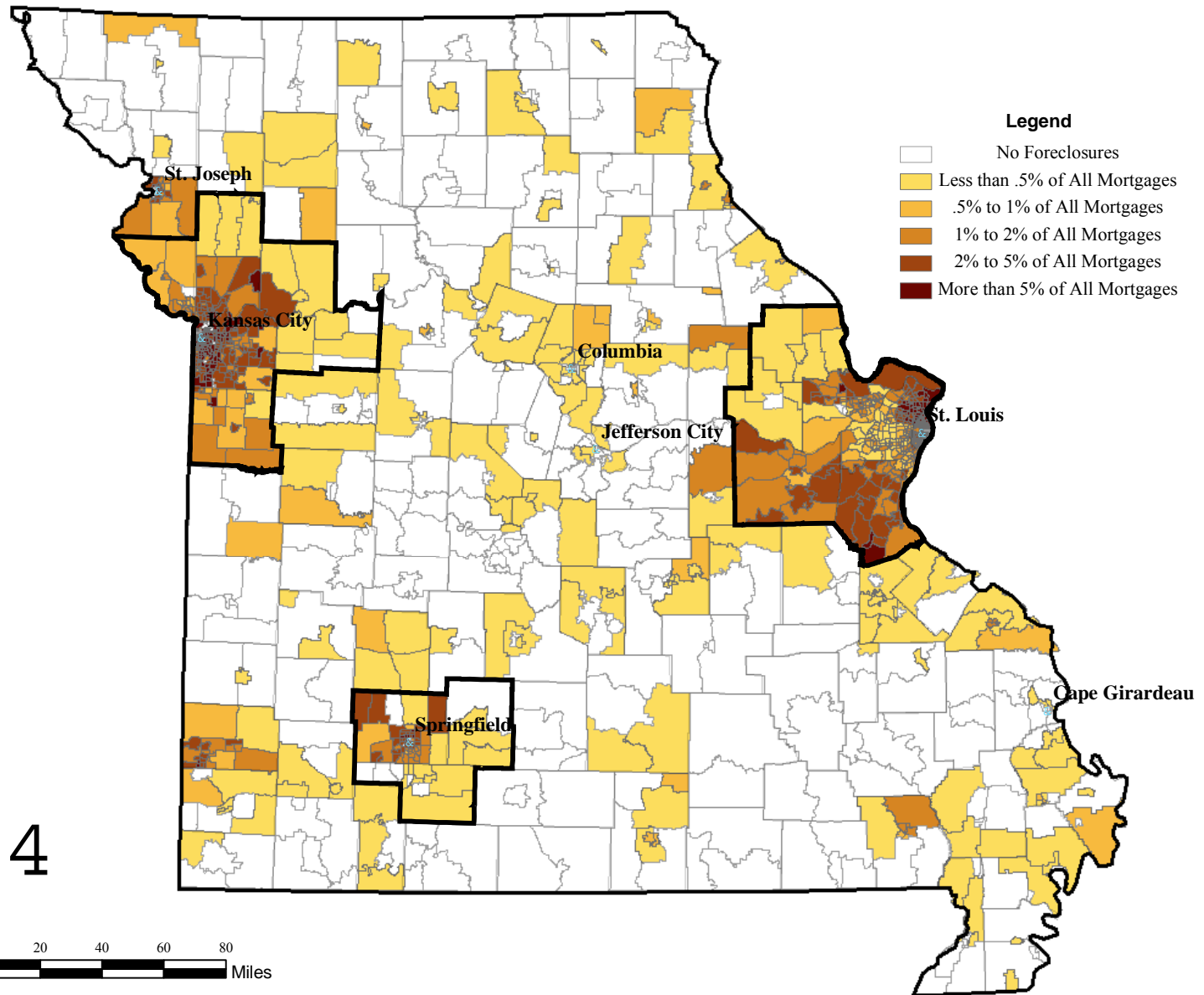
- Judicial Foreclosure = 24 (Avg. 186.3 days)
- Nonjudicial Foreclosure = 25 (Avg. 87.1 days)
- Range is 27 (TX, NJ) to 445 (NY, J)
- Missouri is 60 (KS = 130; IL = 300)

## Where Missouri Stands: State Foreclosure Rates, 3rd and 4<sup>th</sup> Quarters 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>Missouri</b>	<b>1.37</b>	<b>1.43</b>

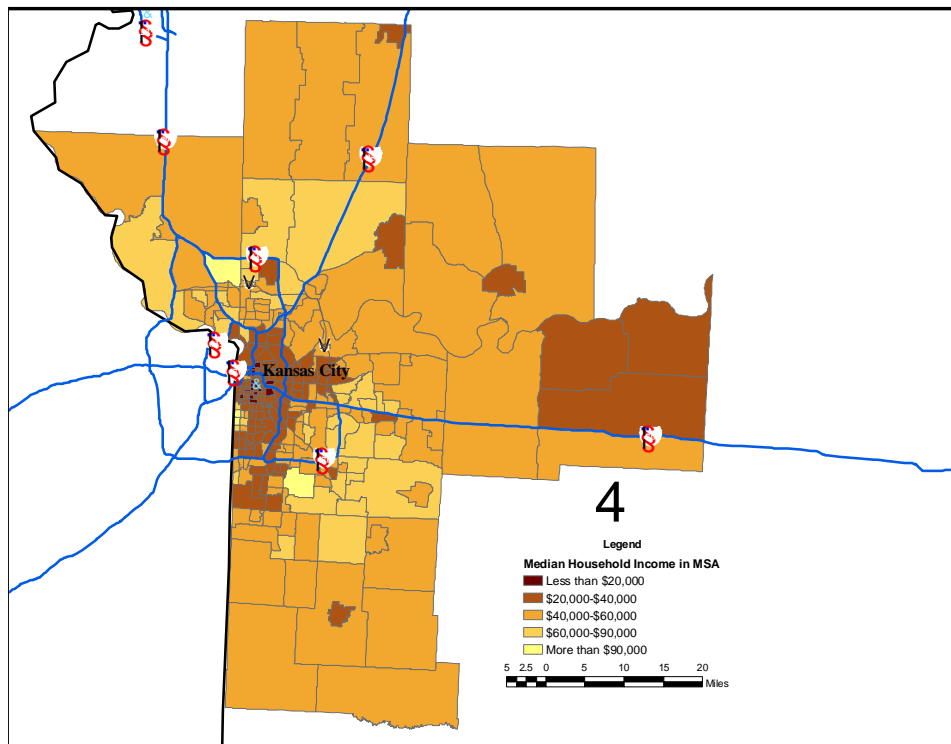
*Source: Mortgage Bankers Association*

# Missouri Statewide Foreclosure Rate, 2007

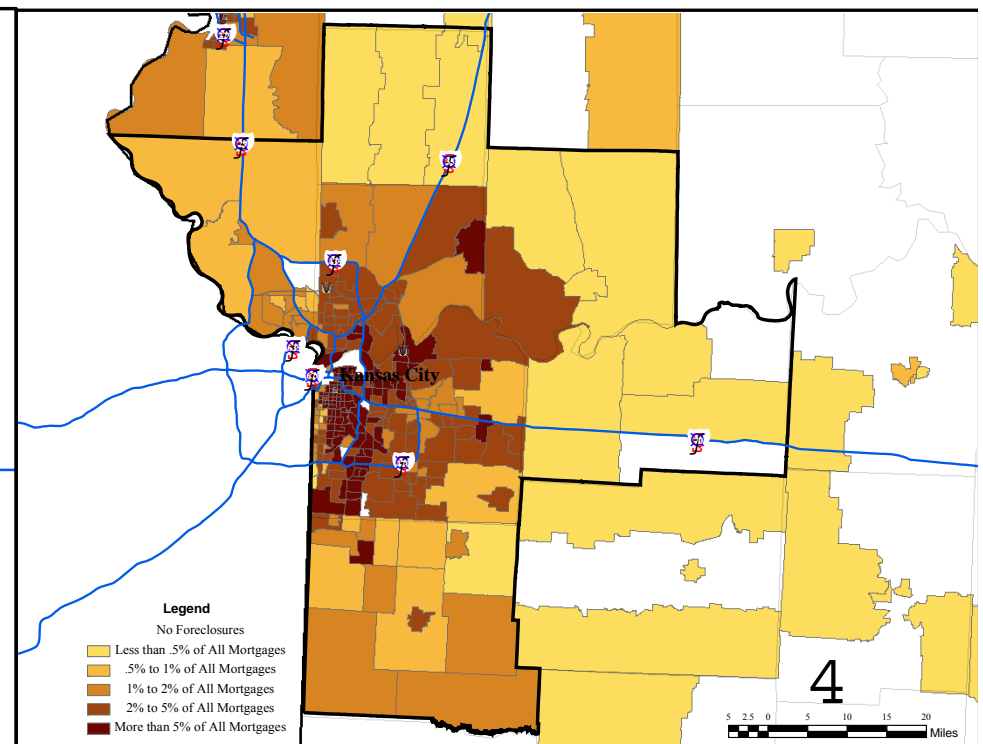


# Kansas City, Missouri Median Household Income and Foreclosure Rates

*Median Income by Census Tract*



*Foreclosure Rate by Census Tract*

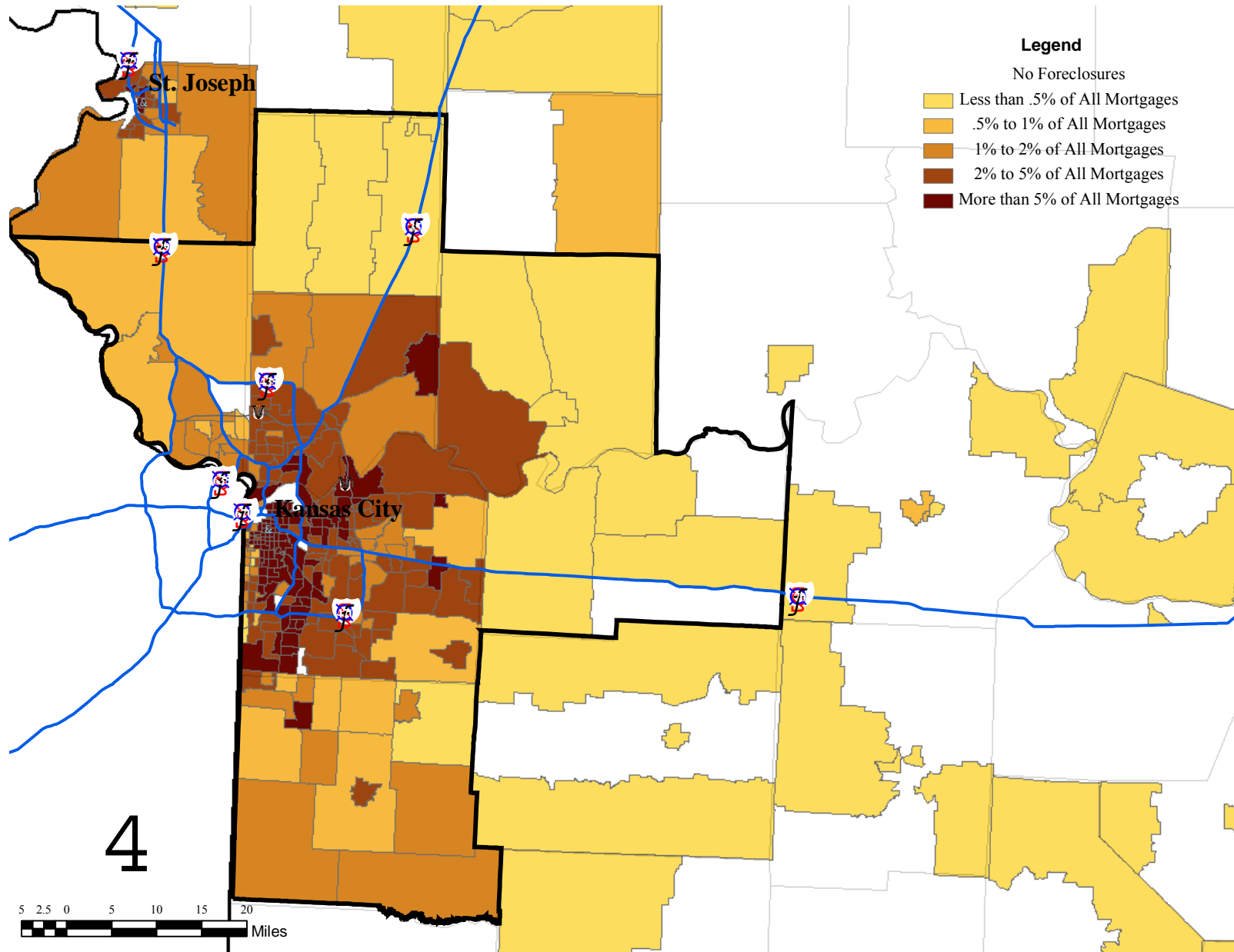


Source: 2000 U.S. Census

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

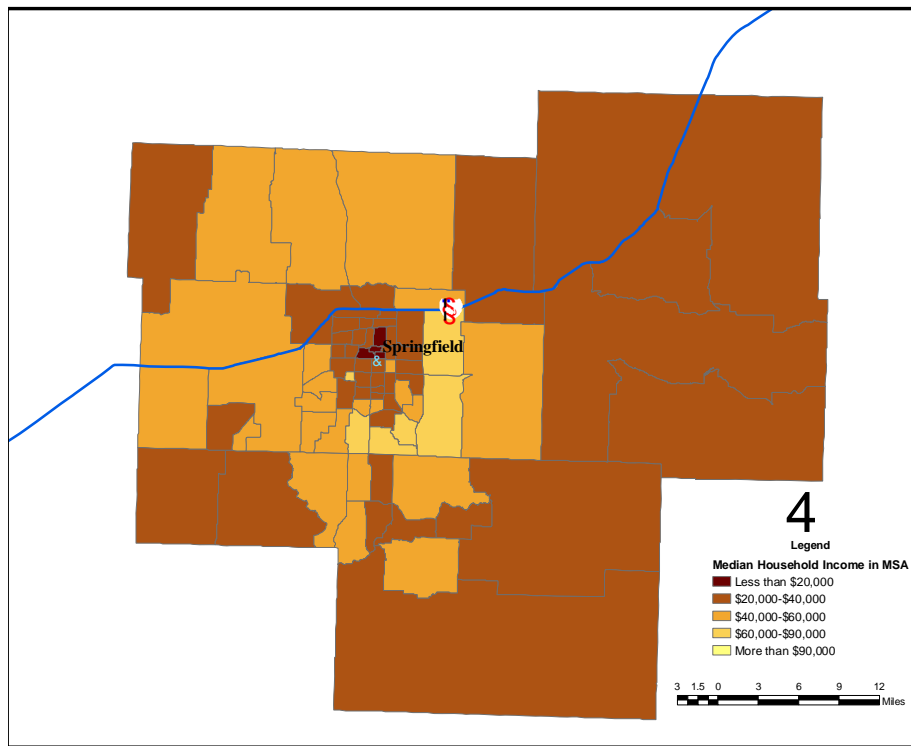


# Kansas City/St. Joseph Foreclosure Rate, 2007

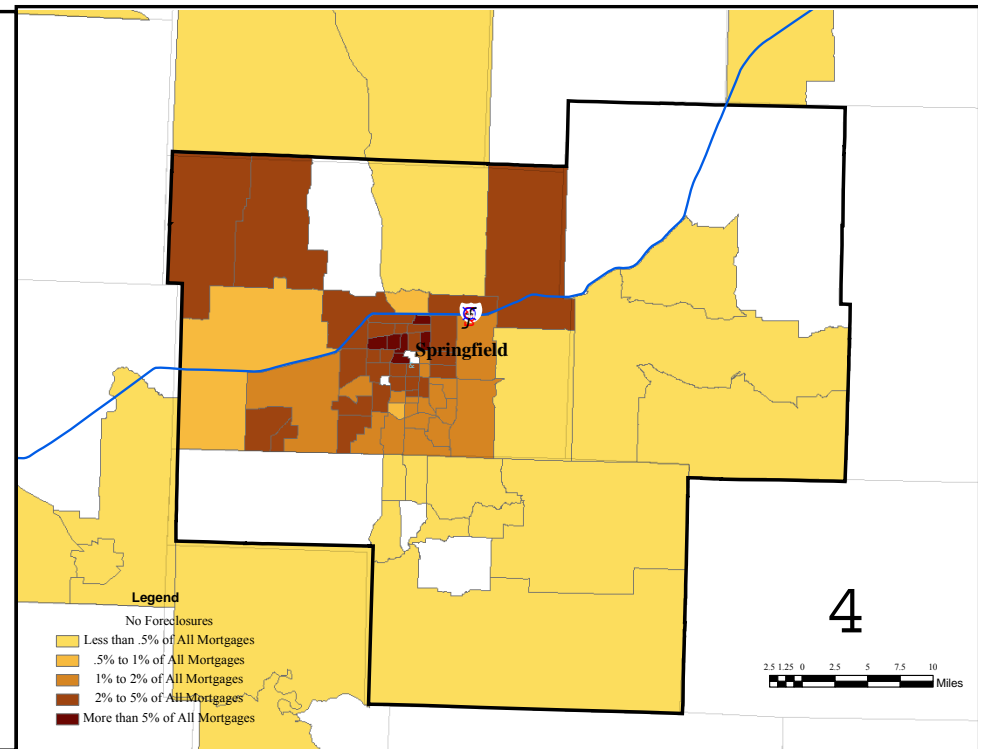


# Springfield MSA Median Household Income and Foreclosure Rates

*Median Income by Census Tract*



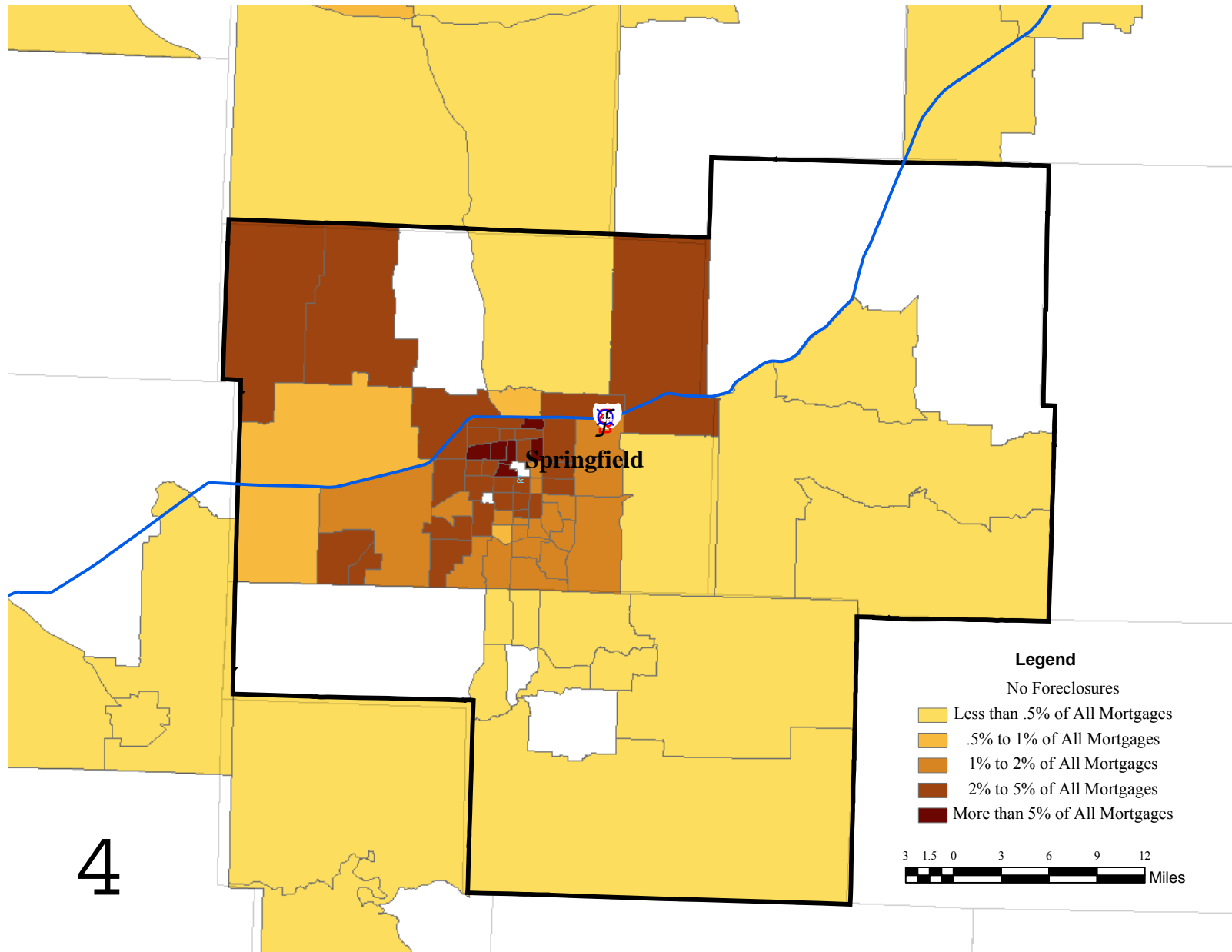
*Foreclosure Rate by Census Tract*



Source: 2000 U.S. Census

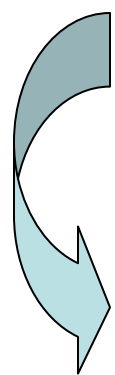
Normalized per number of mortgages outstanding by Census Tract  
Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures

# Springfield Foreclosure Rate, 2007



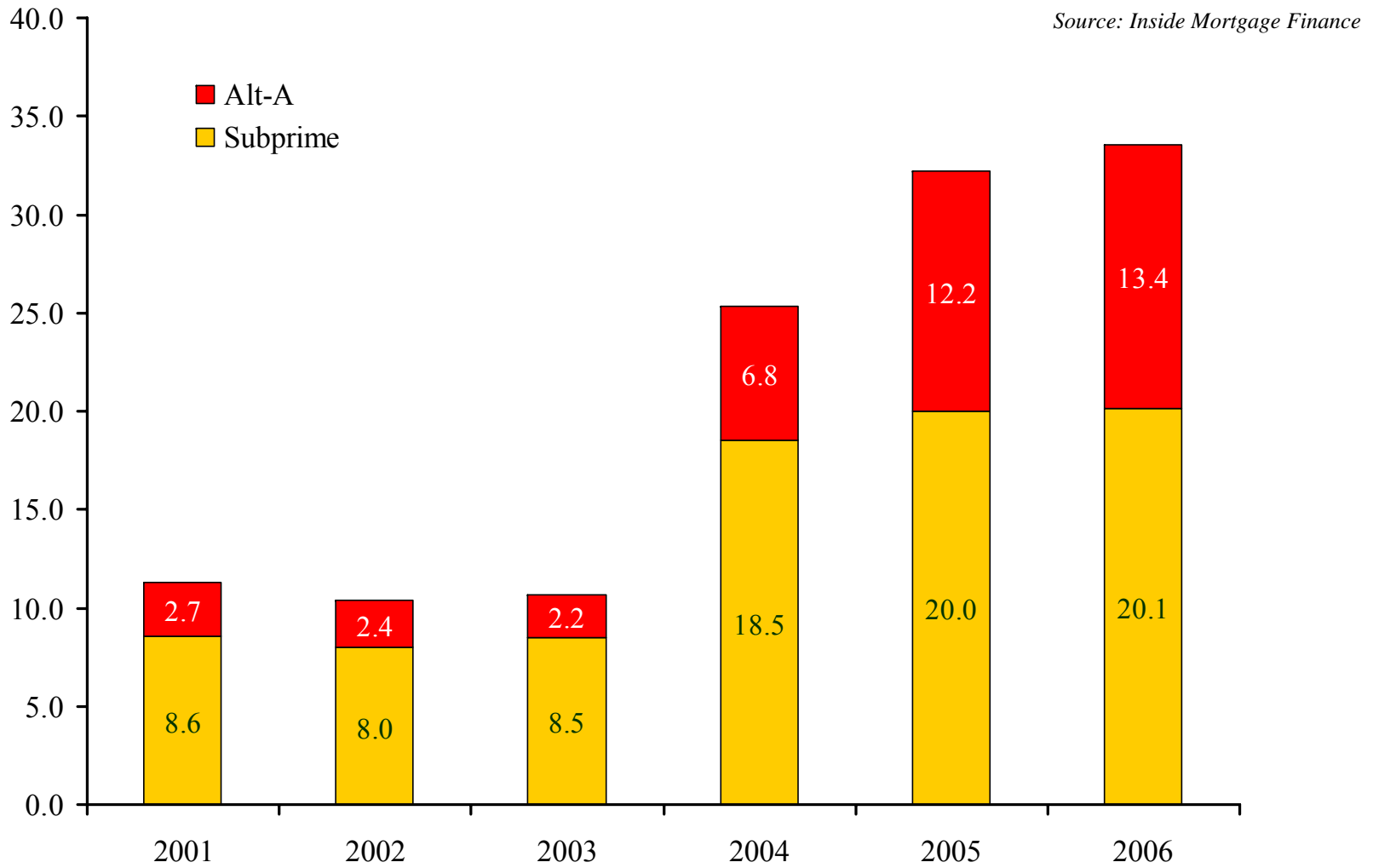
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# The Perfect Foreclosure Storm



- “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

# “Nonprime” Mortgage Originations



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

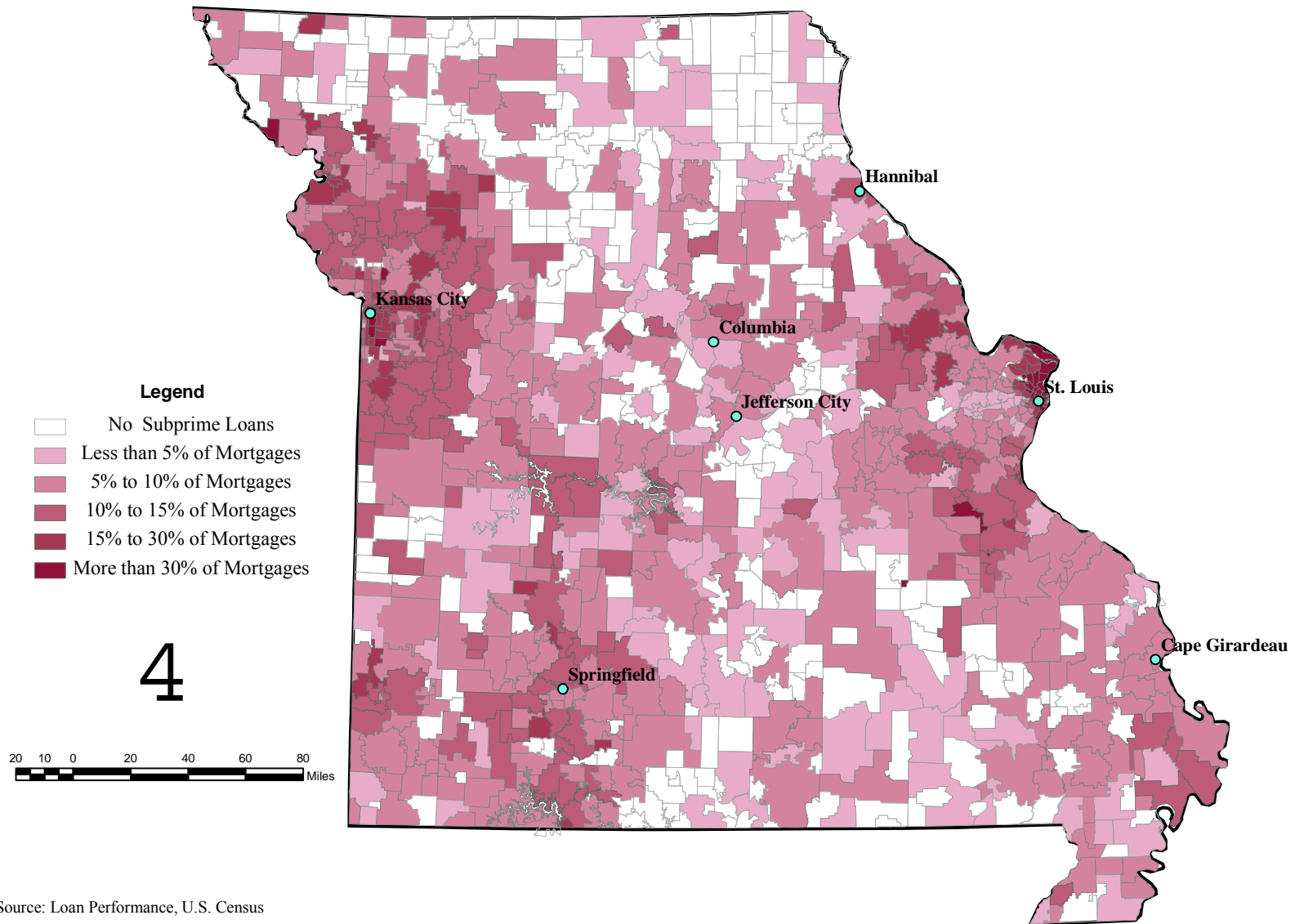
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Loan Type	In Foreclosure	Foreclosures Started	Past Due (30+ Days)
Prime	0.96	0.43	3.55
Subprime	8.65	3.71	18.82

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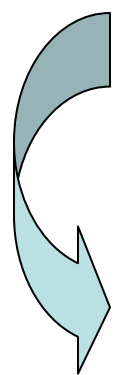
*Source: Mortgage Bankers Association*

# Missouri Subprime Penetration Rate by Zip Code



Source: Loan Performance, U.S. Census

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# Innovations in the Mortgage Market

## The Evolution of Lending



1913

**50% LTV**

**Limited geography**

**Limited term**

**Balloons**

**60% LTV**

1935

**80% LTV**

1964

**90% LTV**

1970

**100% LTV**

1989

**Automated  
Underwriting  
FICO Scores**

1995

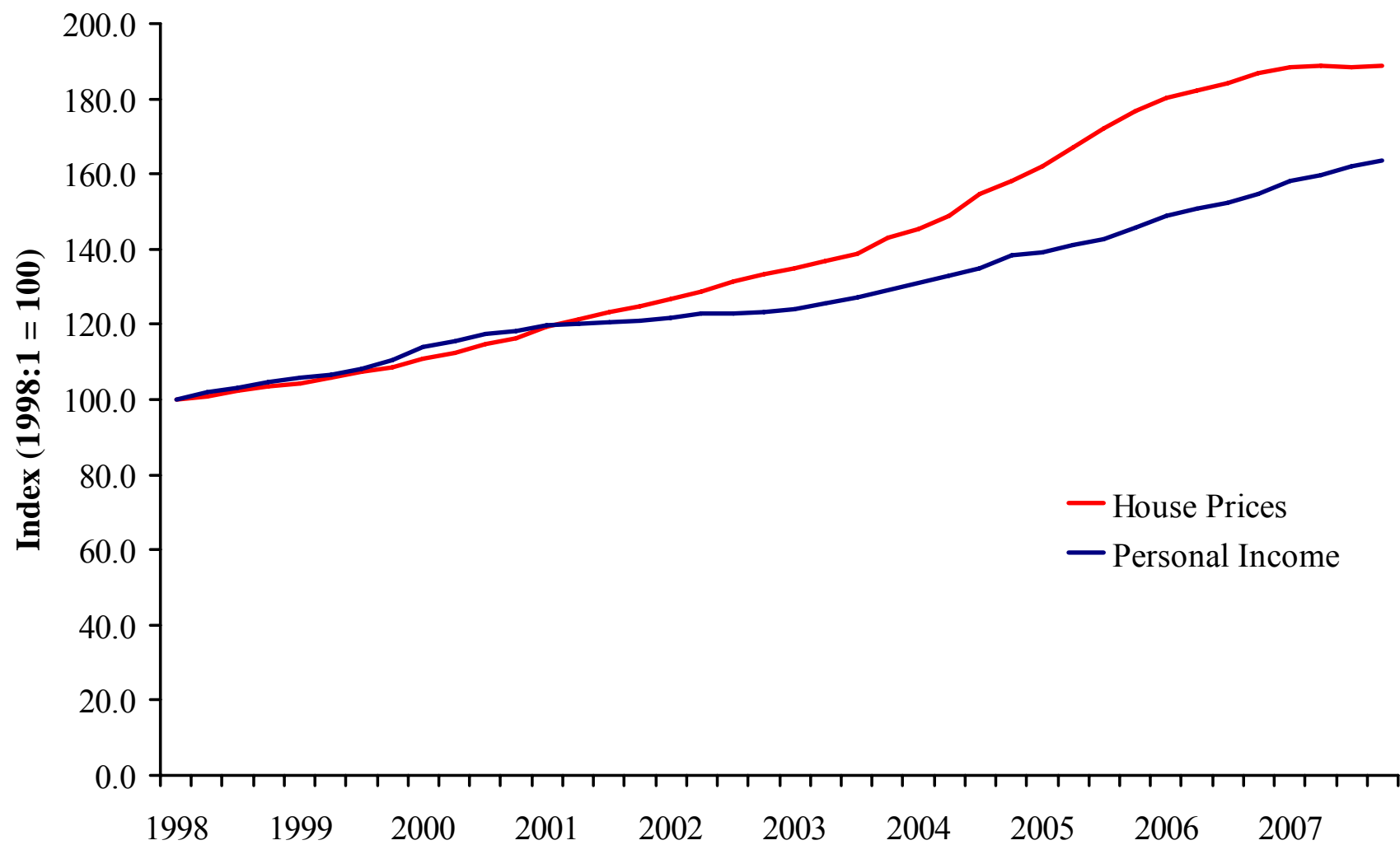
**Over 100% LTV  
Unlimited geography  
Up to 40 yr term  
Negative amortization  
Piggyback lending  
Interest only  
No documentation**

Today



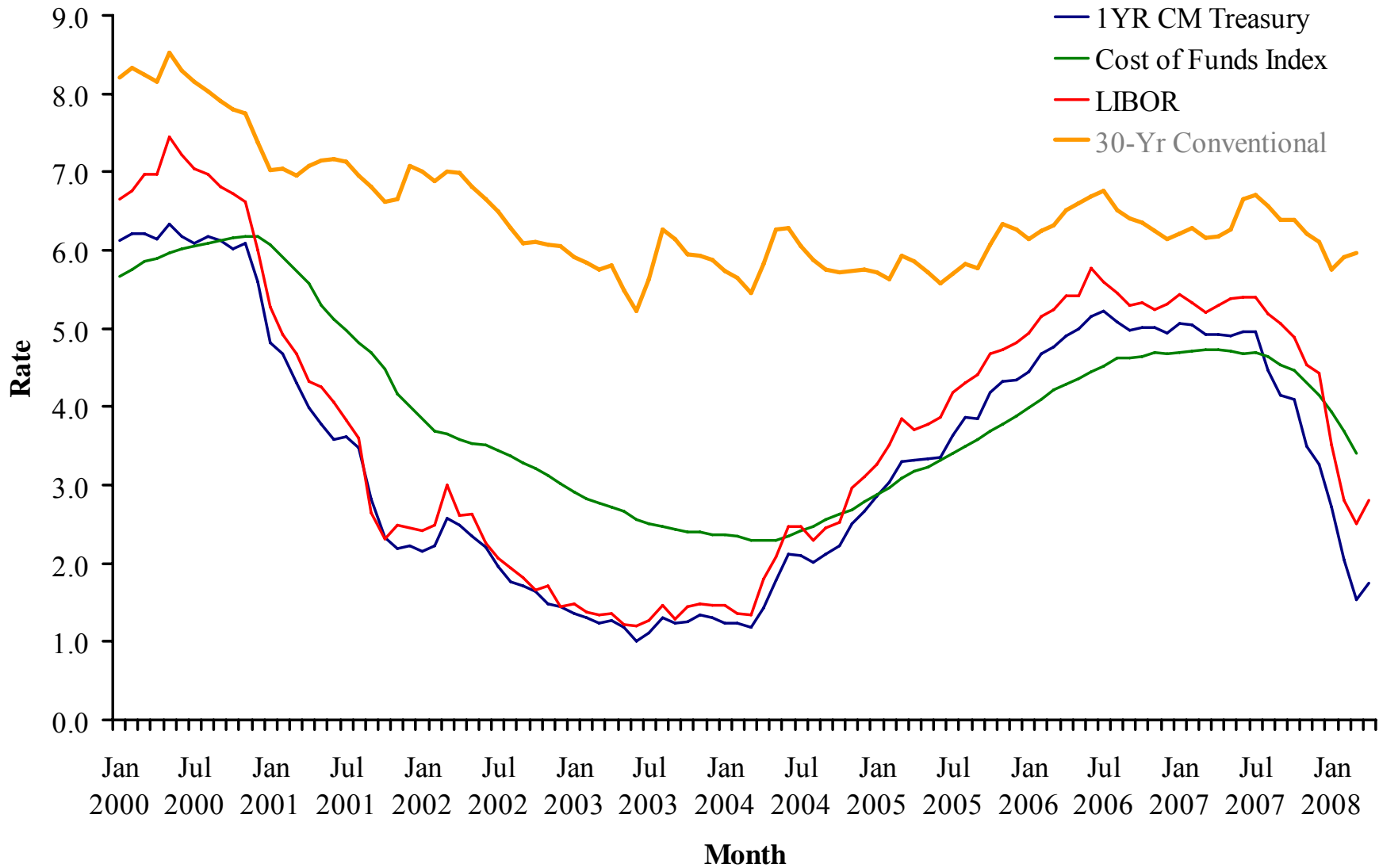
Source: Christopher Henderson, Federal Reserve Bank of Philadelphia

# Home Price Appreciation Outpaces Personal Income Growth

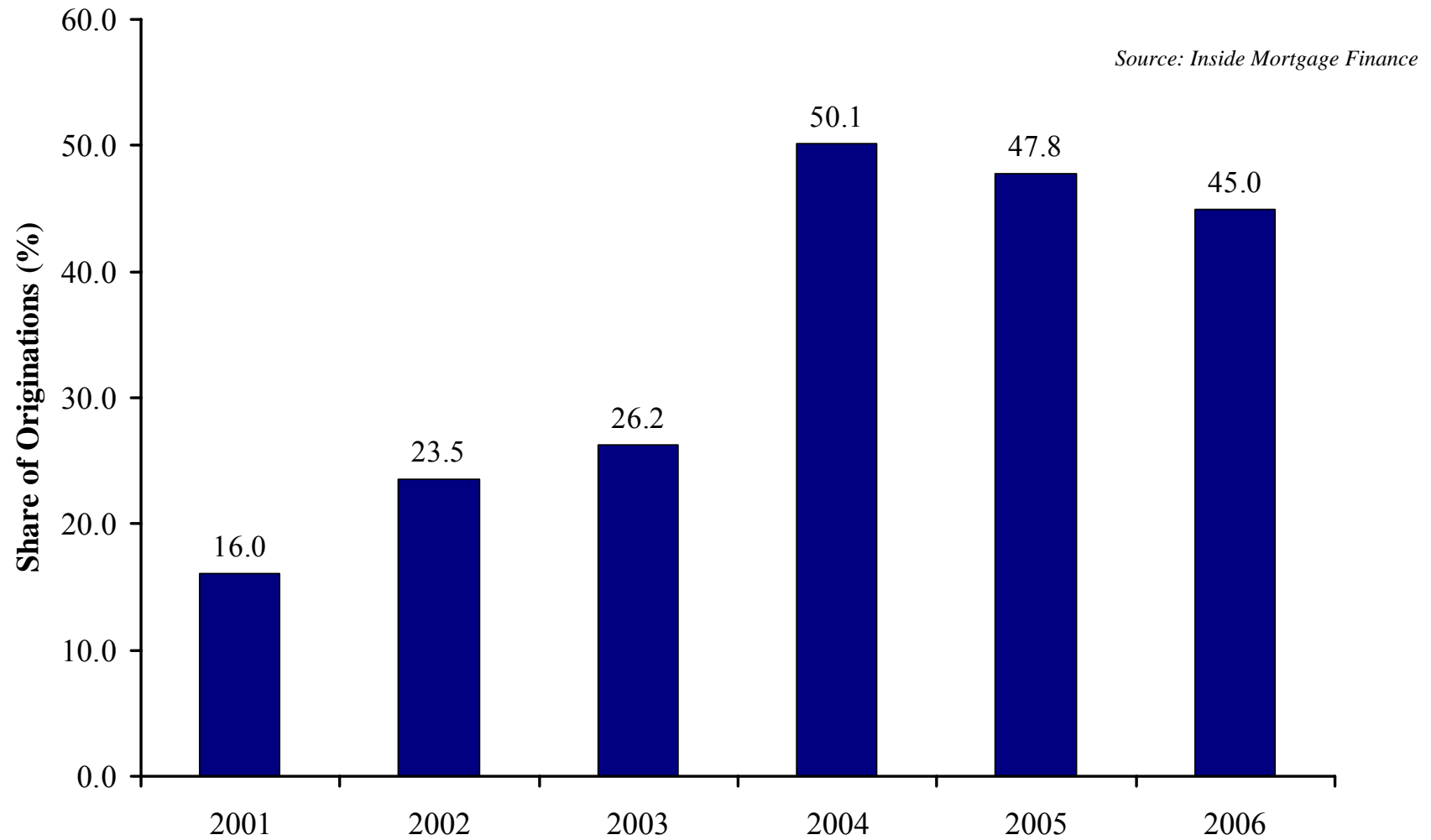


Sources: Office of Housing Enterprise Oversight; U.S. Bureau of Economic Analysis

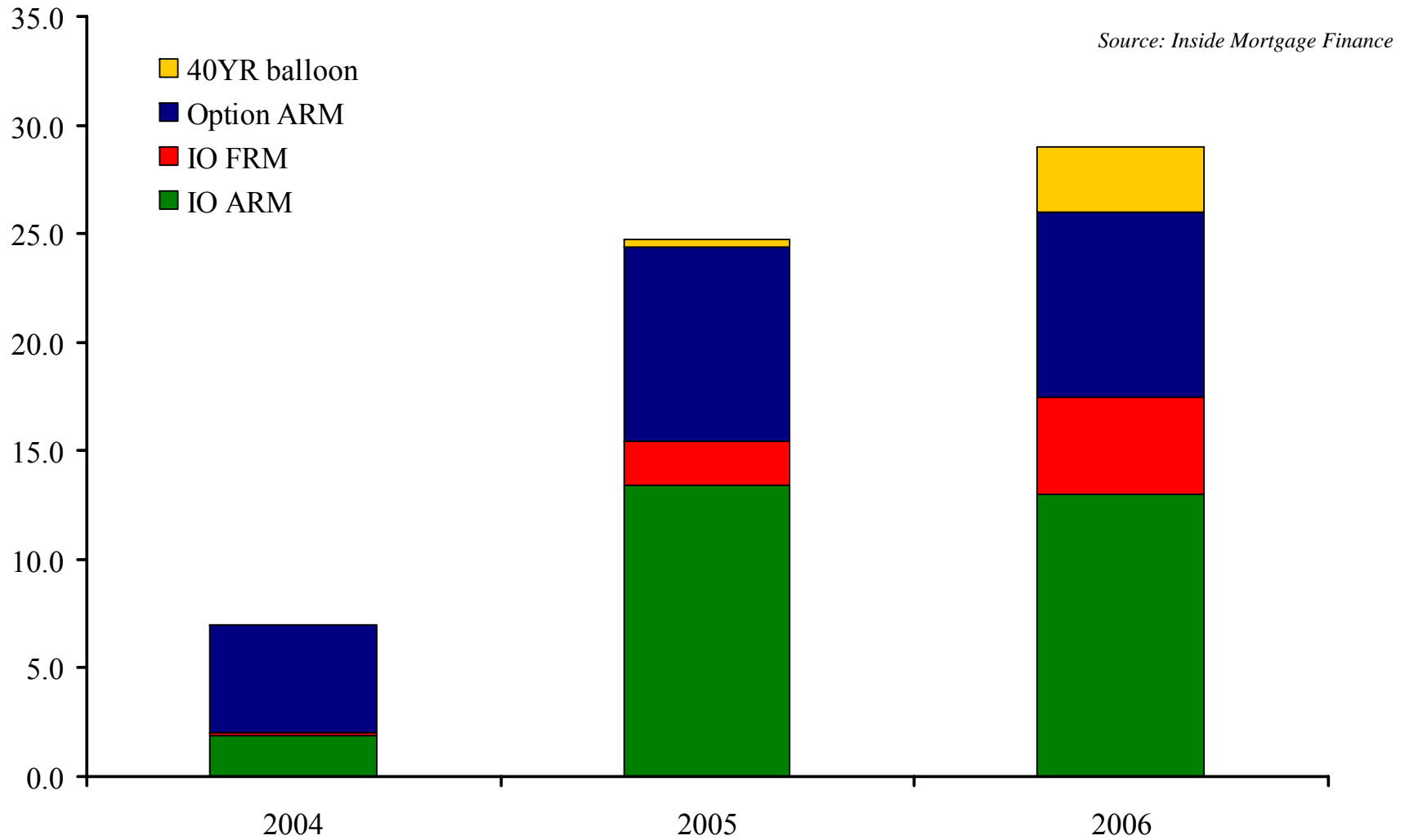
# Interest Rate Indexes, 2000 – Present



# ARM Share of Mortgage Originations



# Alternative Mortgage Originations



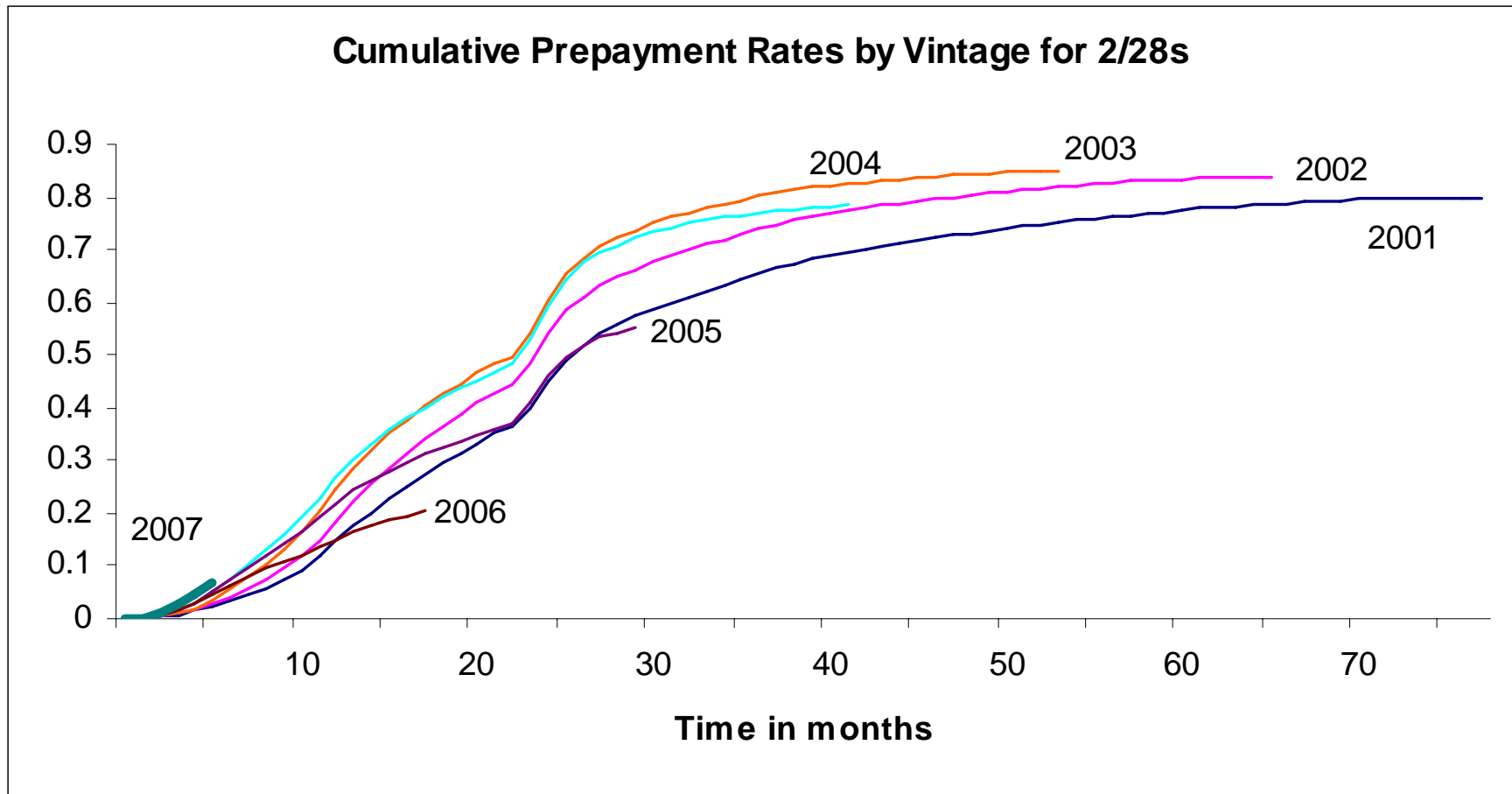
## Payment Structure, by Mortgage Type

### \$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%

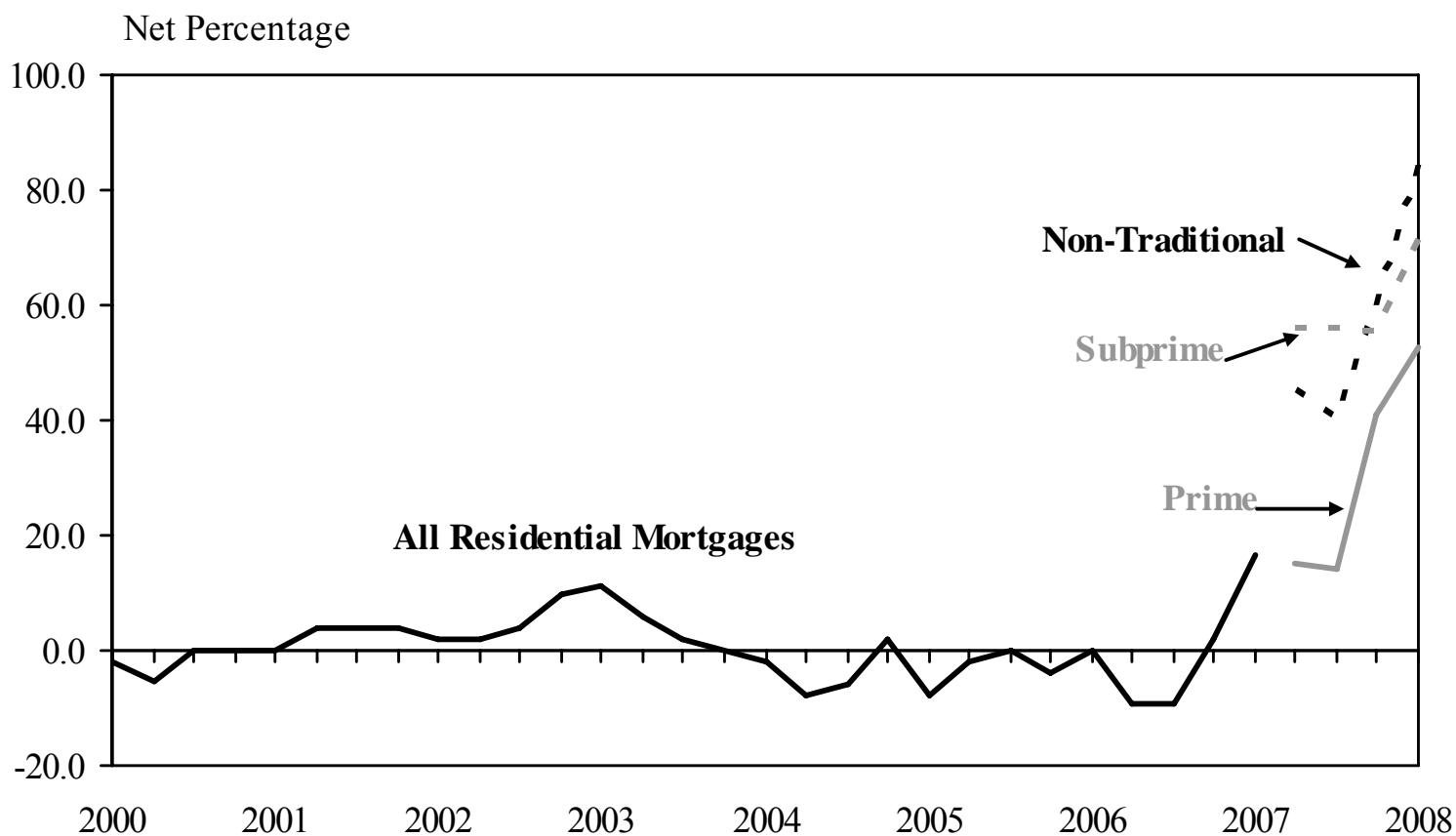
Assumptions: Option ARM has a 7.5% annual increase limit and a 110% negative amortization cap; Option ARM interest accrual is based off 1 year ARM rate as reported by Fannie Mae; Option ARM Minimum Payment is equivalent to a 1% interest rate; FRM is from Fannie Mae 30 Year FRM Index; ARM is set from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

# Many 2/28s are Prepaid



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

# Banks Reporting Tighter Lending Standards for Residential Mortgages

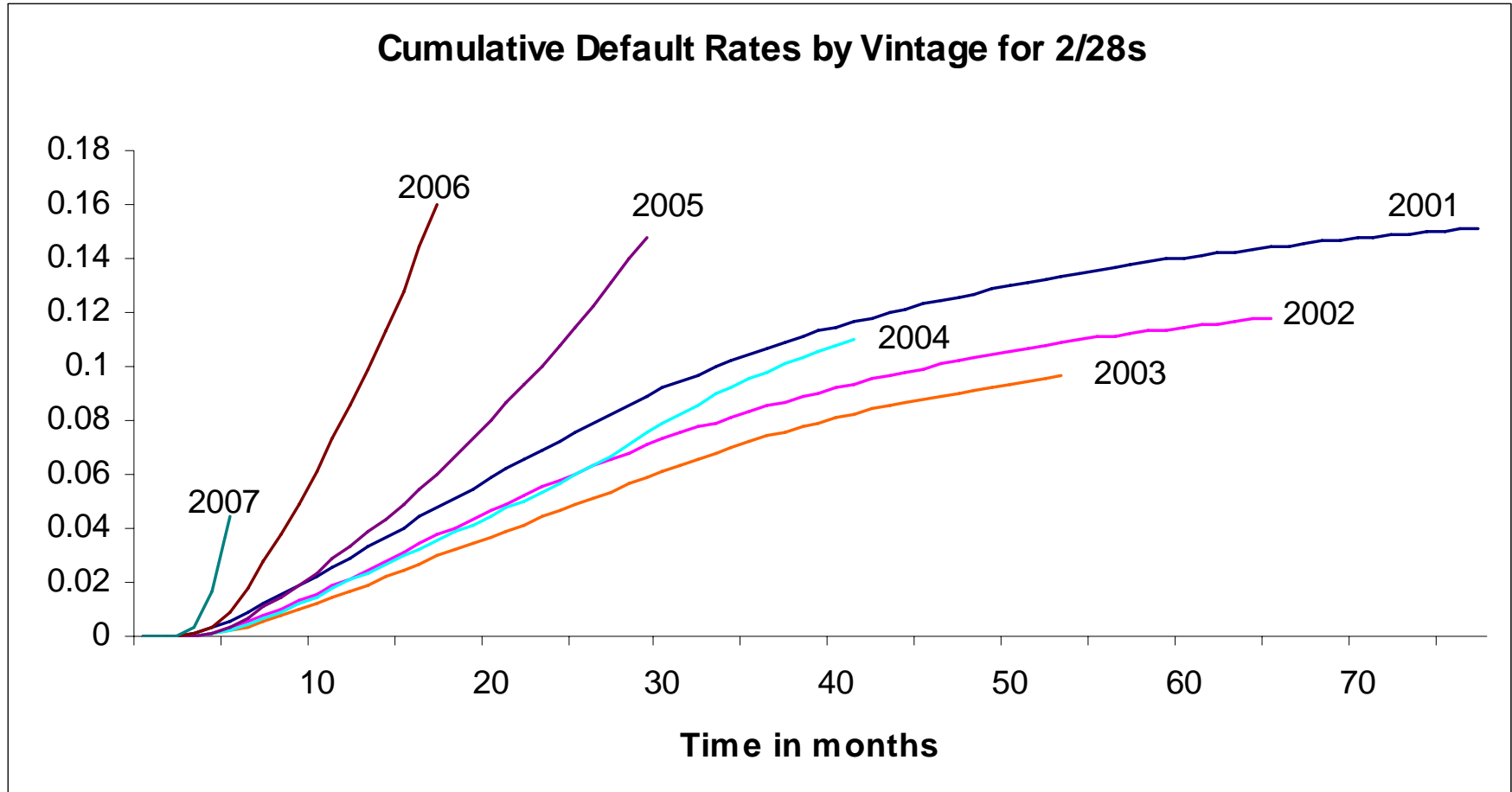


Source: Federal Reserve; Senior Loan Officer Opinion Survey

Latest Release: 02/04/2008

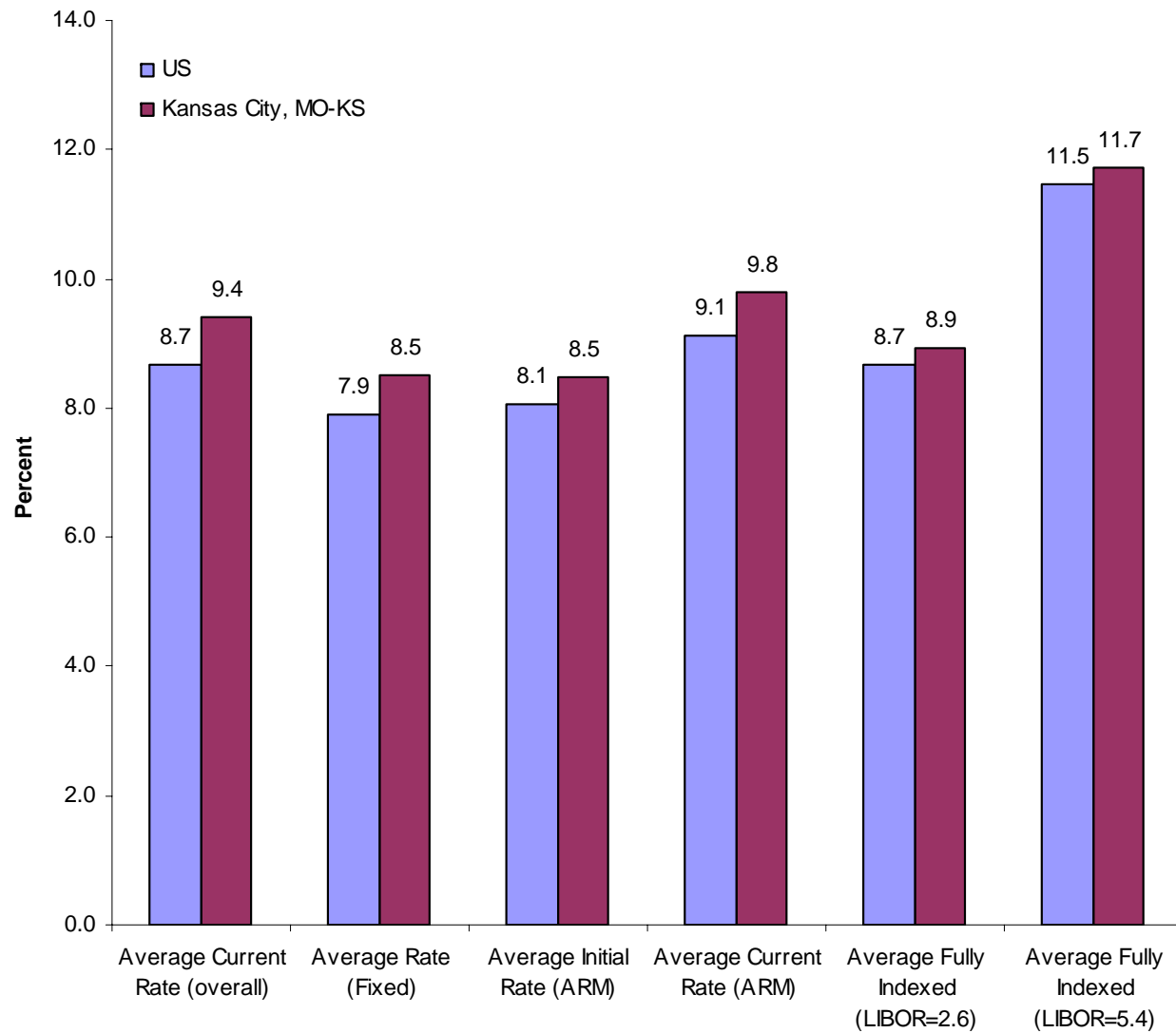


# Subprime 2/28 Default Rates

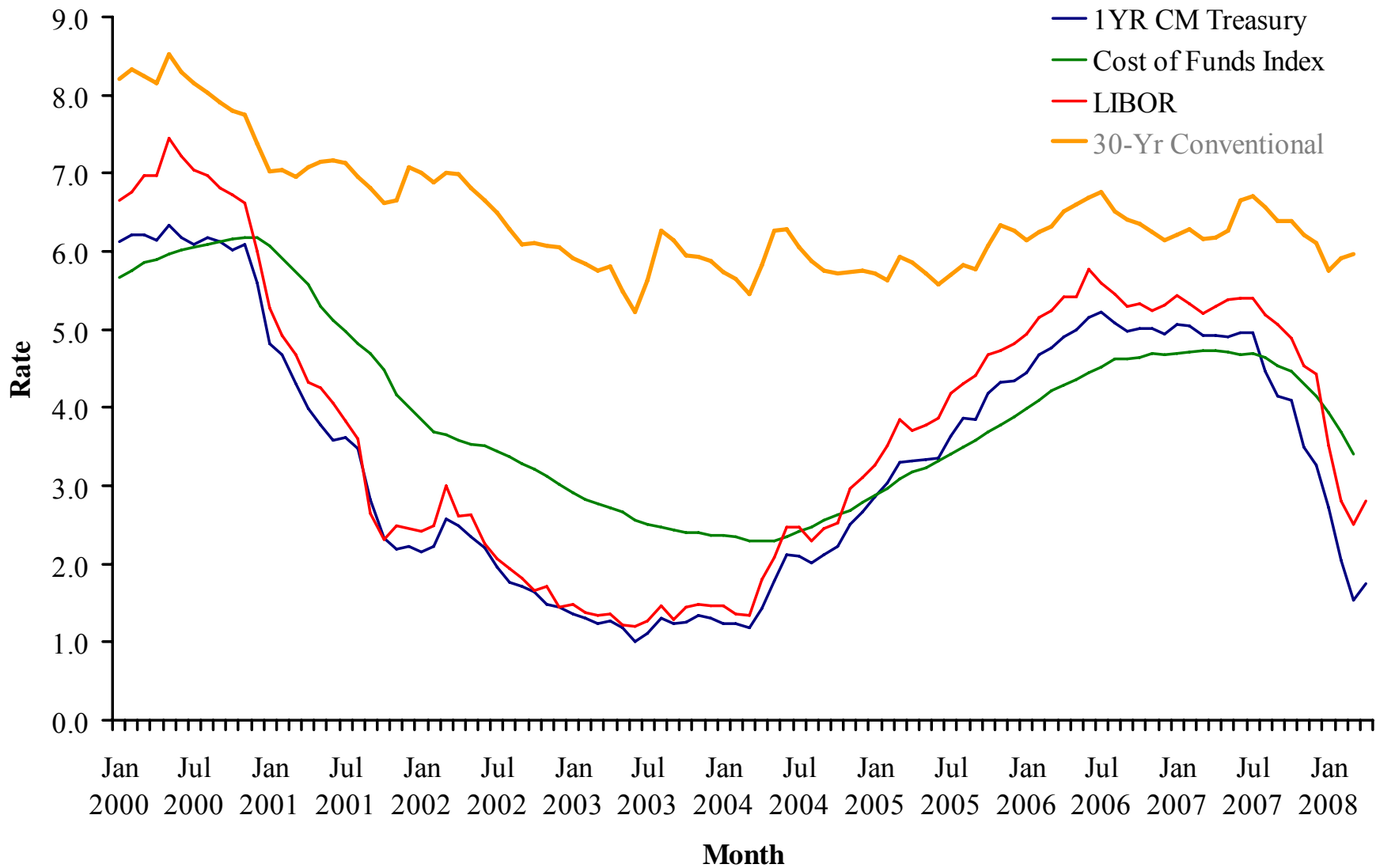


Source: Federal Reserve Board staff calculations from Loan Performance data.

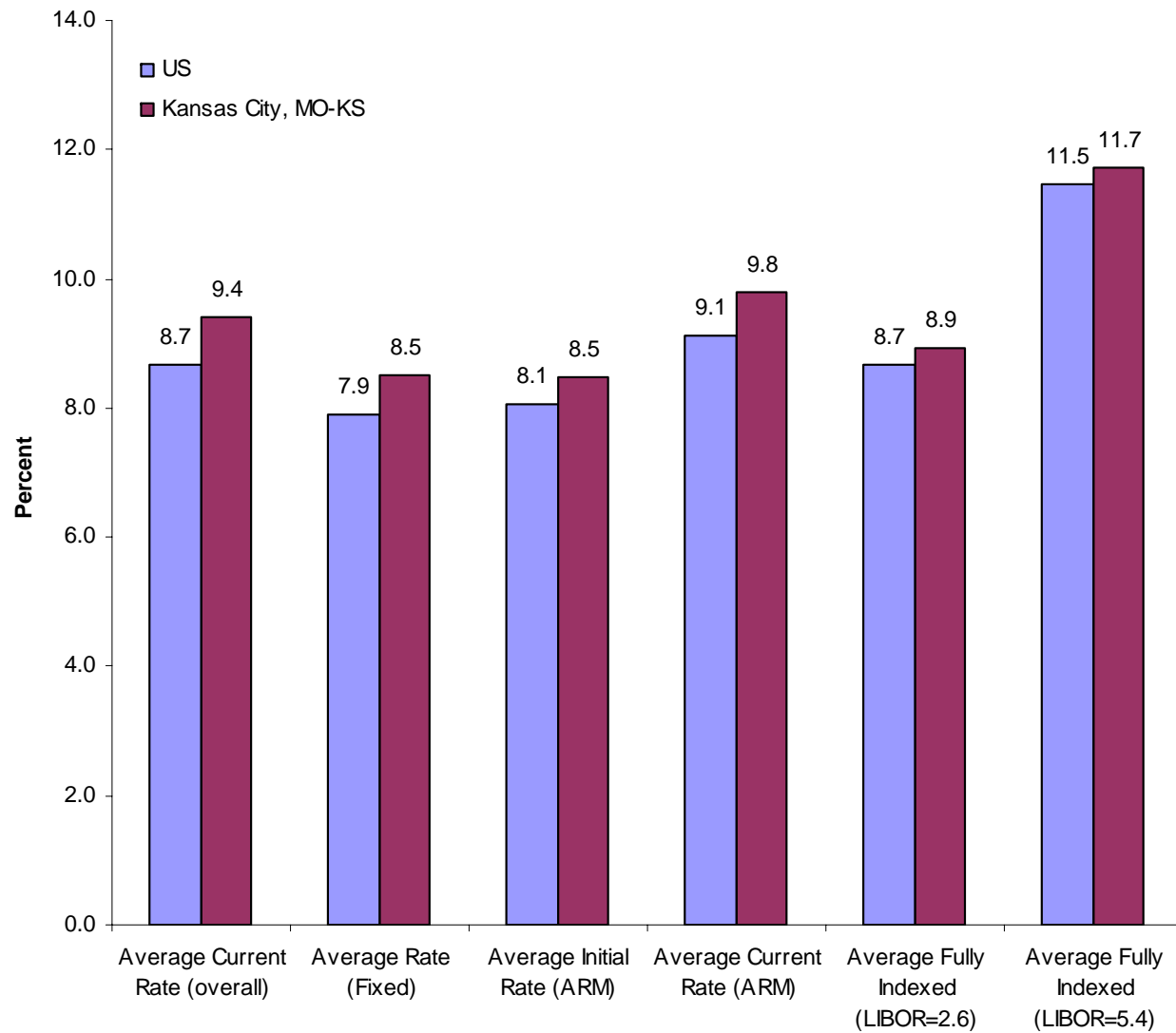
# Average Interest Rates on Subprime Loans



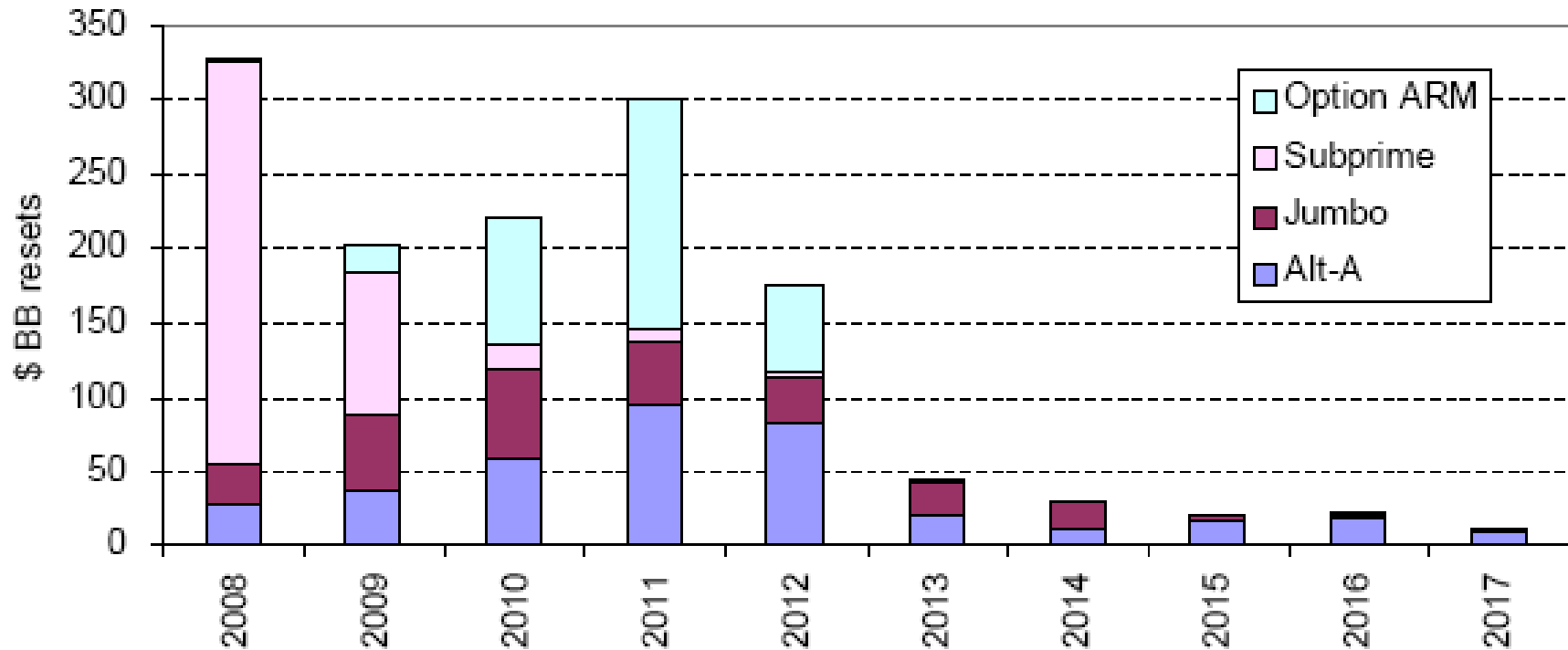
# Interest Rate Indexes, 2000 – Present



# Average Interest Rates on Subprime Loans



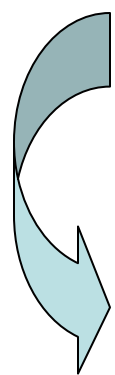
# When Are the Resets Going to Happen?



Source: Loan Performance, UBS

Provided by Larry Cordell, Federal Reserve Bank of Philadelphia

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

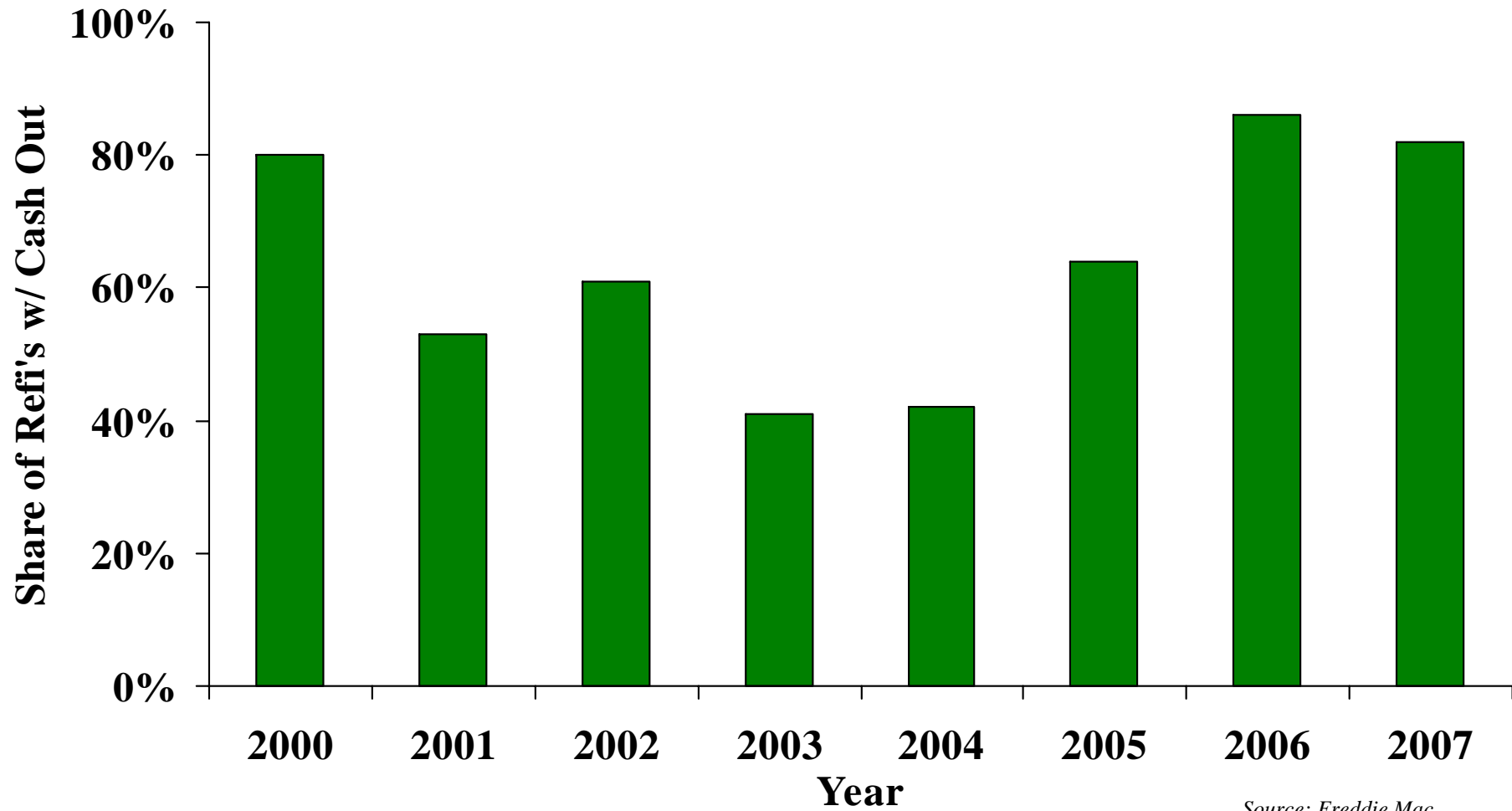
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	$\leq 80\%$	80%-95%	95%-100%	$\geq 100\%$
2006	8.6	41.1	15.7	34.5
2007	8.0	38.4	13.4	40.0

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Source: Federal Reserve Bank of Boston

# Cash-Out Refinances



Source: Freddie Mac

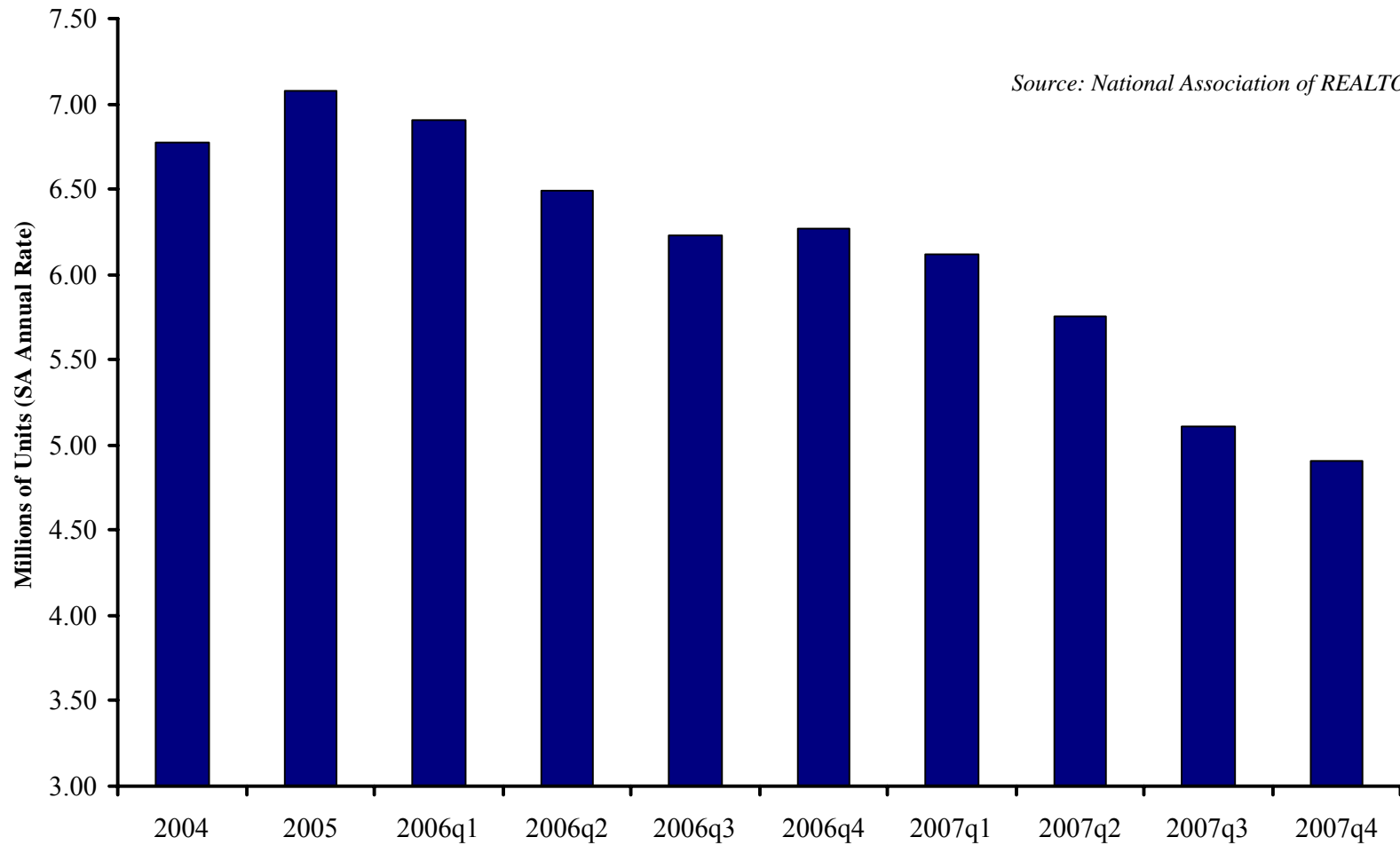


# Annual Change in Home Prices

	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)
Springfield MSA	6.1	3.1	(1.8)

*Source: National Association of REALTORS®*

# Existing Home Sales



**Where Do We Go From Here?**

# Impacts

- Homeowners
  - Loss of equity (maybe) and credit worthiness
  - Where do we live (affordable housing issues)
- Communities
  - External price effects
  - Neighborhood deterioration
  - Homelessness / lack of affordable housing
  - Local budgetary impact (expenditures and revenues)
- 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?

- 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



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