

Where Are We On Sub Prime Mortgage and Foreclosure Issues?

Kansas City Association for Financial Professionals

Harrah's North Kansas City

May 15, 2008



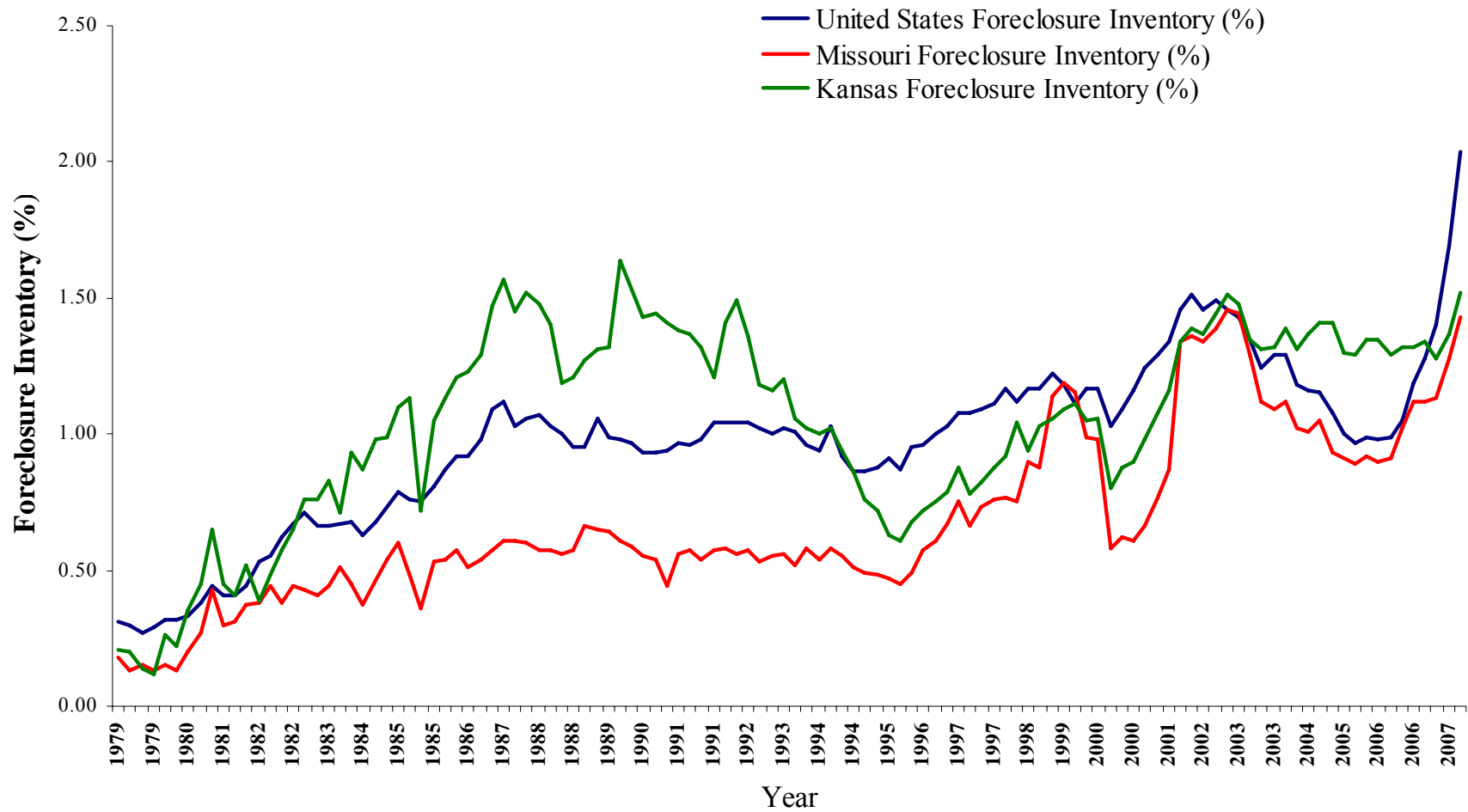
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Regional, Public, and Community Affairs Division

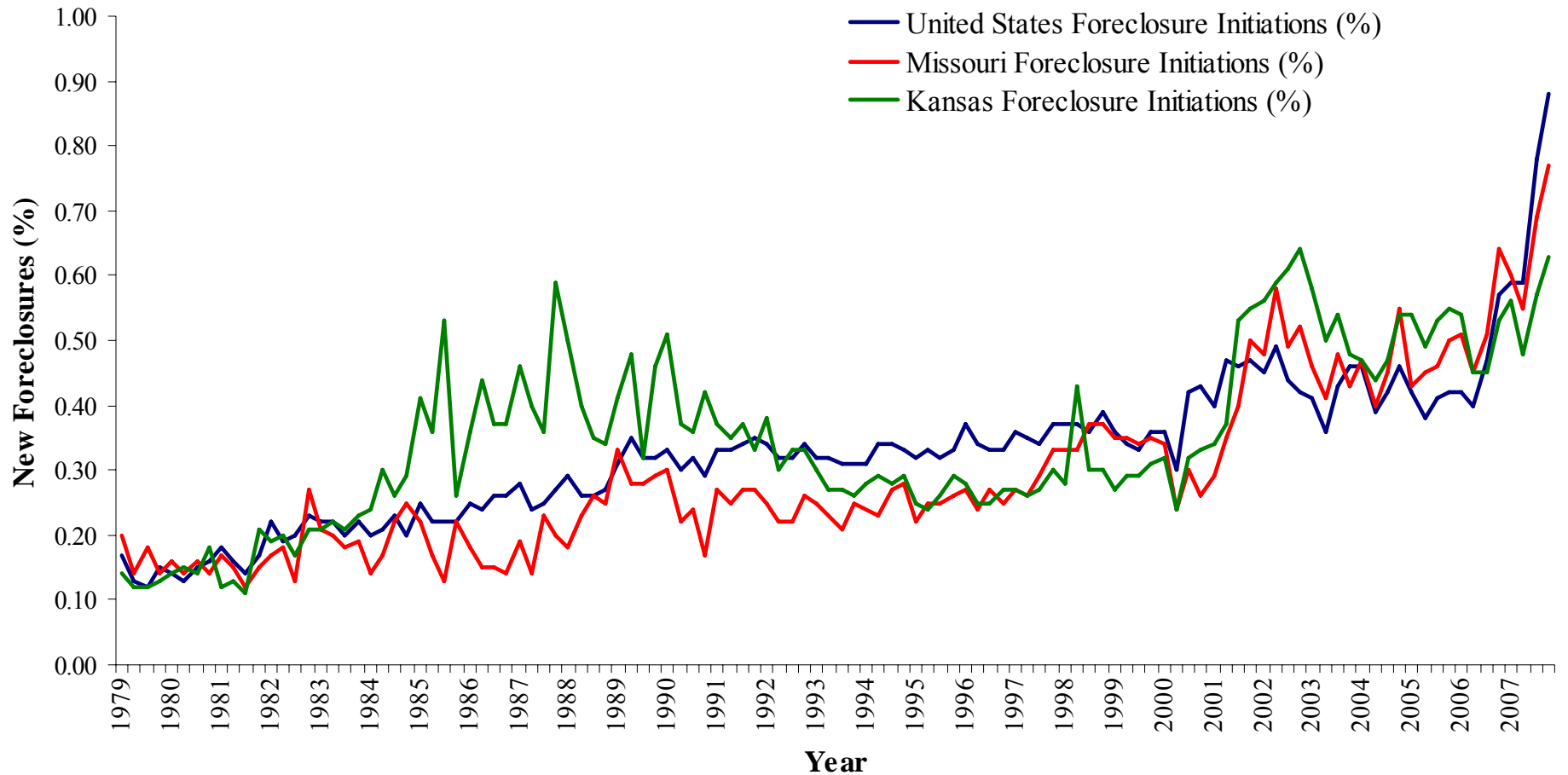
Federal Reserve Bank of Kansas City

Foreclosure Rates, Missouri, Kansas and U.S.



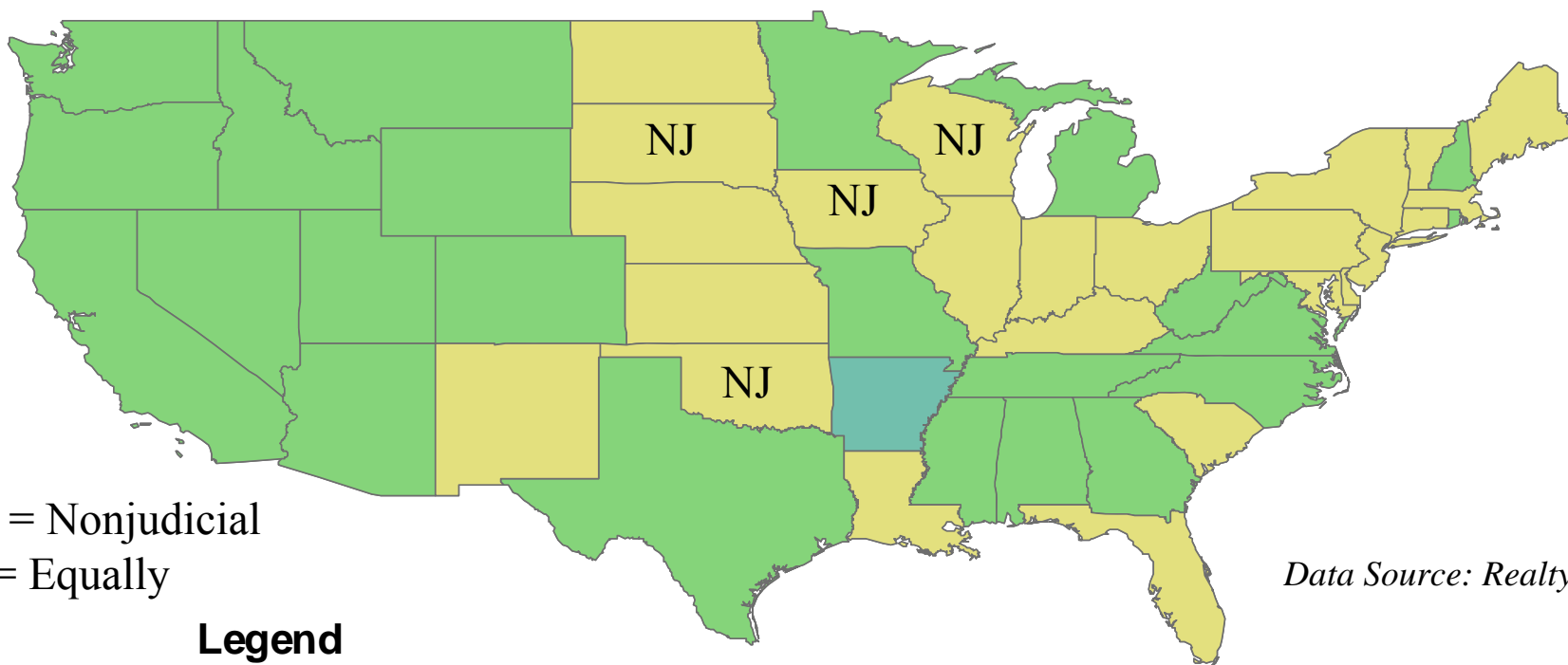
Source: Mortgage Bankers Association

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

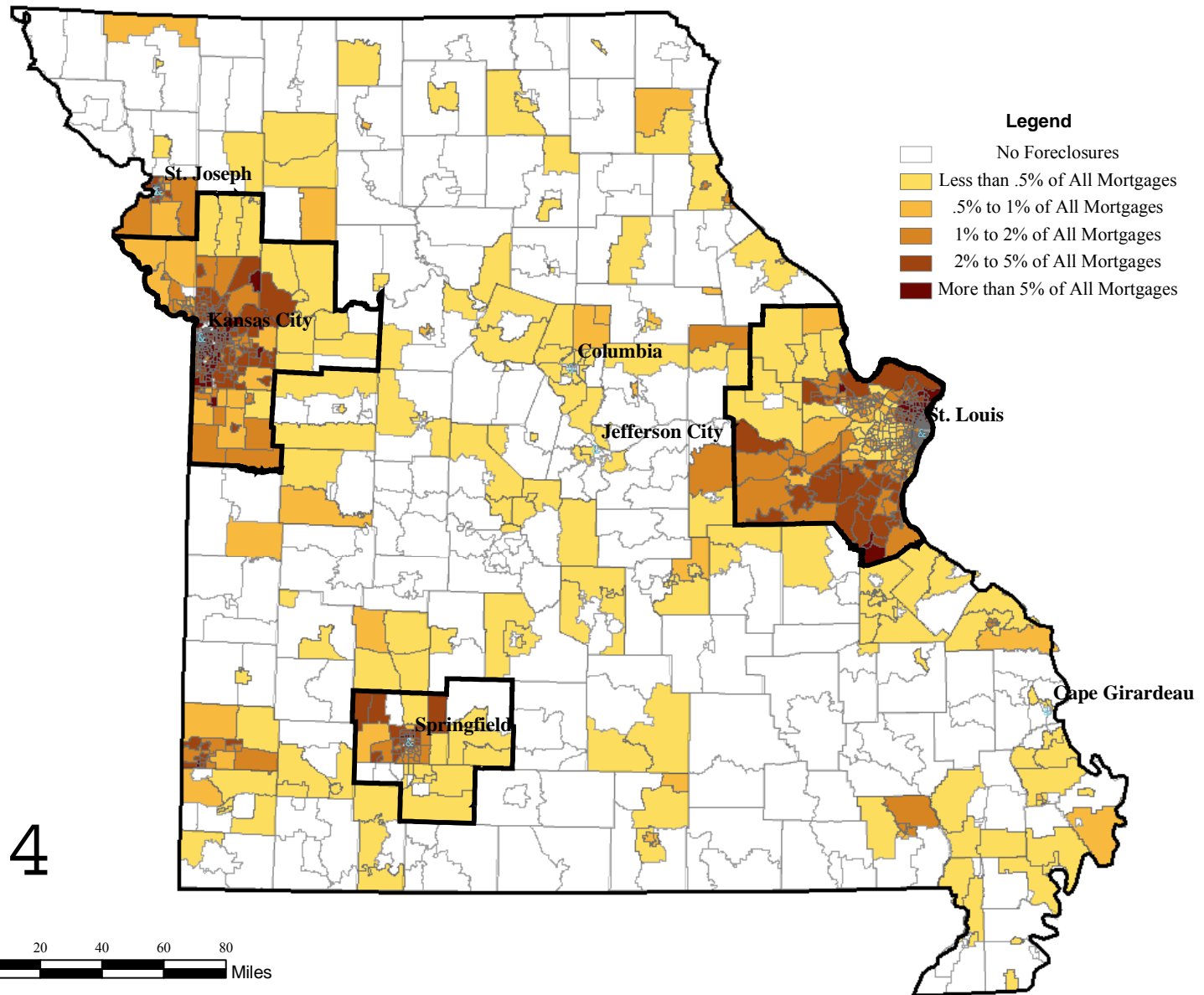
- Judicial Foreclosure = 24 (Avg. 186.3 days)
- Nonjudicial Foreclosure = 25 (Avg. 87.1 days)
- Range is 27 (TX, NJ) to 445 (NY, J)
- Missouri is 60 (NJ)
- Kansas is 130 (J)

Where Missouri and Kansas Stand: State Foreclosure Rates, 3rd and 4th Quarters 2007

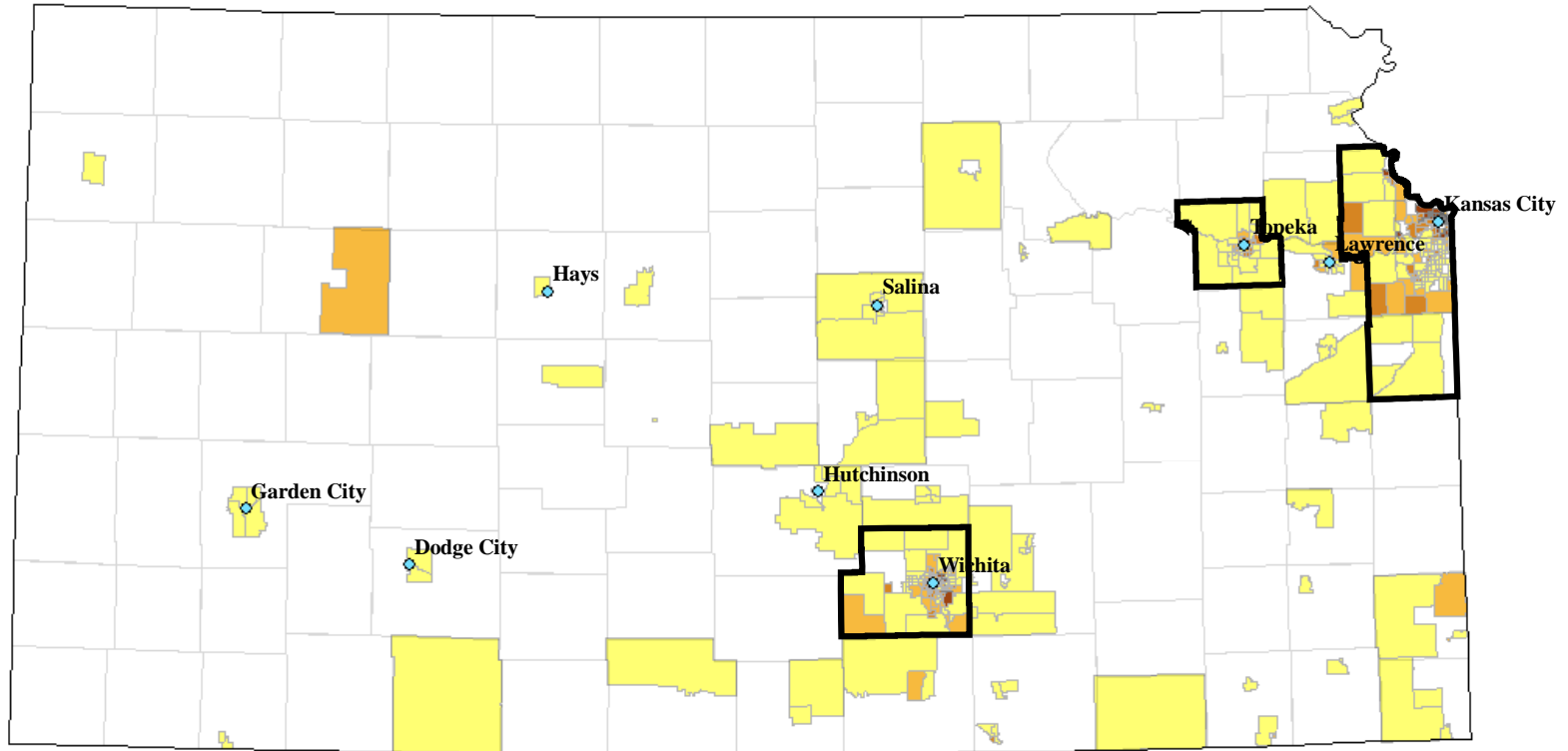
1.	Ohio	3.72	3.88
2.	Indiana	3.28	3.53
3.	Michigan	3.07	3.38
4.	Florida	2.19	3.22
	<i>United States Avg.</i>	<i>1.69</i>	<i>2.04</i>
25.	Kansas	1.28	1.52
27.	Missouri	1.37	1.43

Source: Mortgage Bankers Association

Missouri Statewide Foreclosure Rate, 2007



Kansas Foreclosure Rates by Census Tract

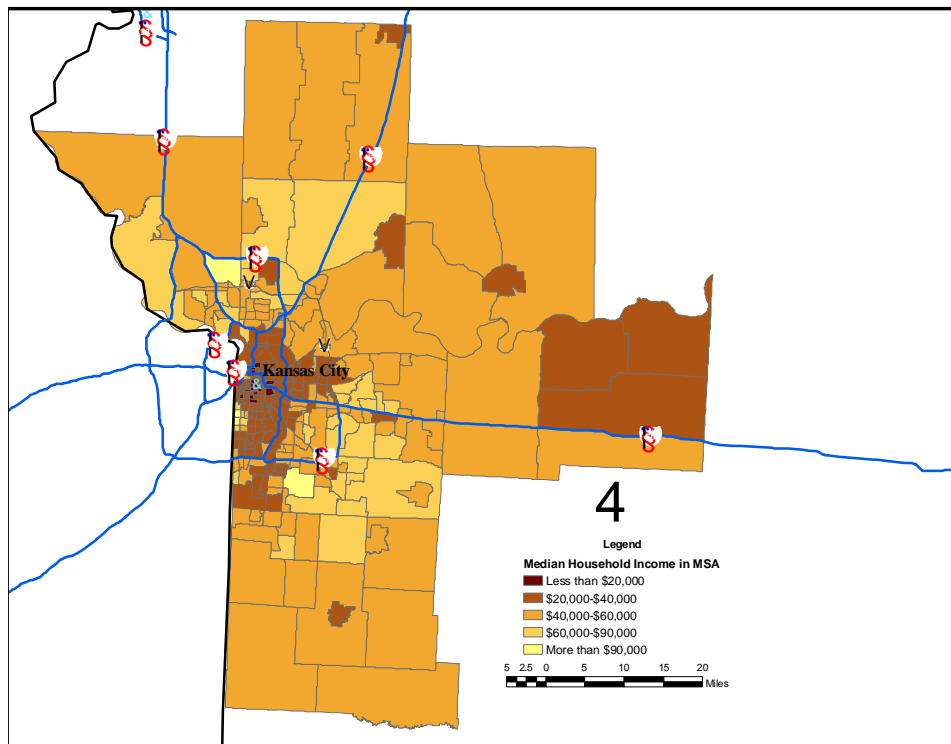


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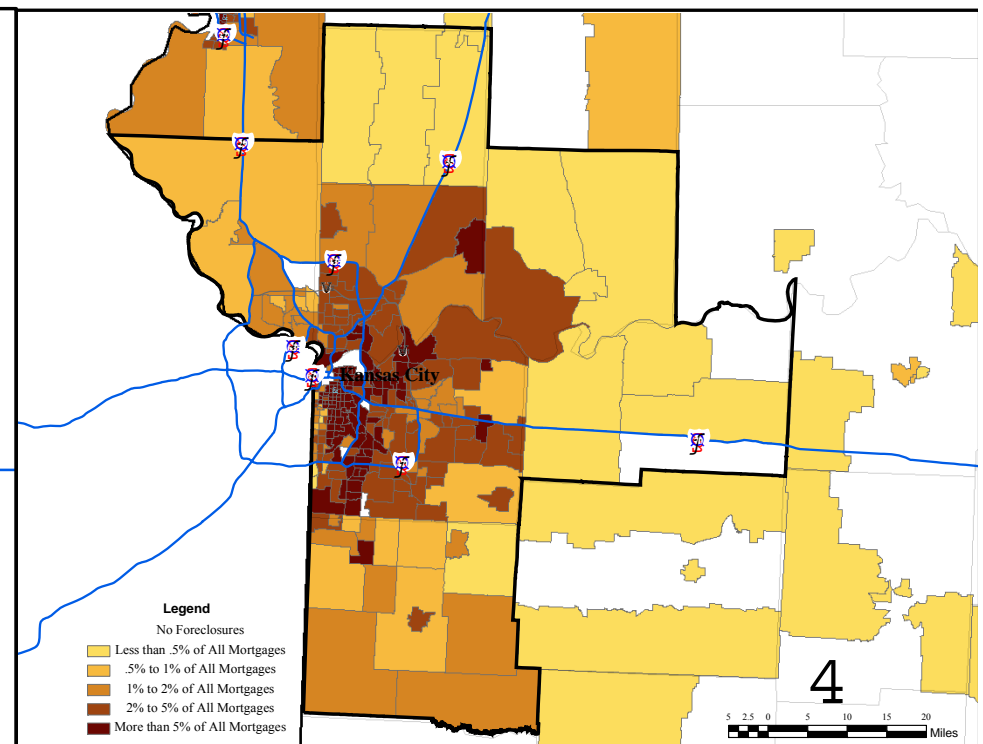
- No Foreclosures Identified
- Less than .5% of Mortgages
- .5% to 1% of Mortgages
- 1% to 2% of Mortgages
- 2% to 5% of Mortgages
- More than 5% of Mortgages

Kansas City, Missouri Median Household Income and Foreclosure Rates

Median Income by Census Tract



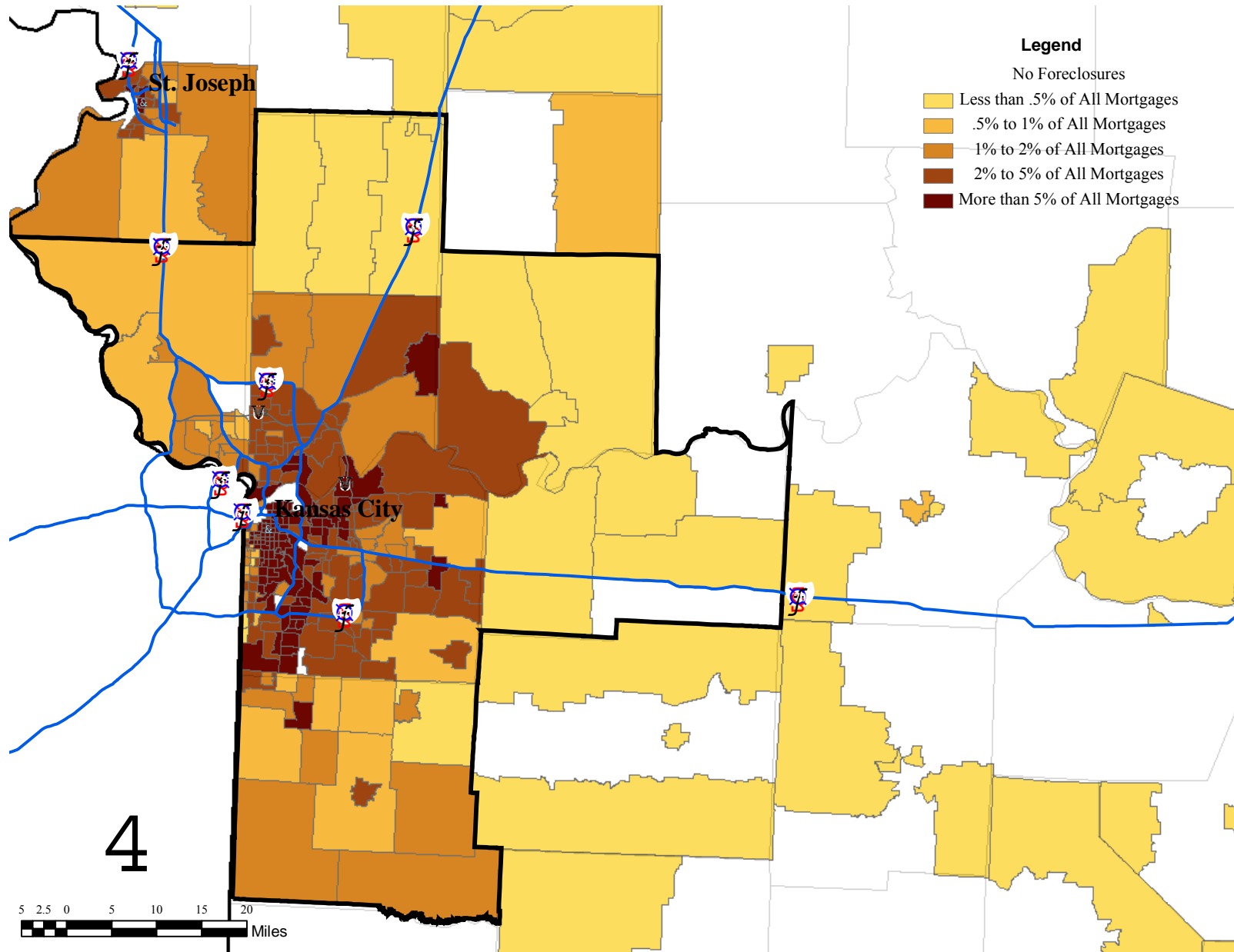
Foreclosure Rate by Census Tract



Source: 2000 U.S. Census

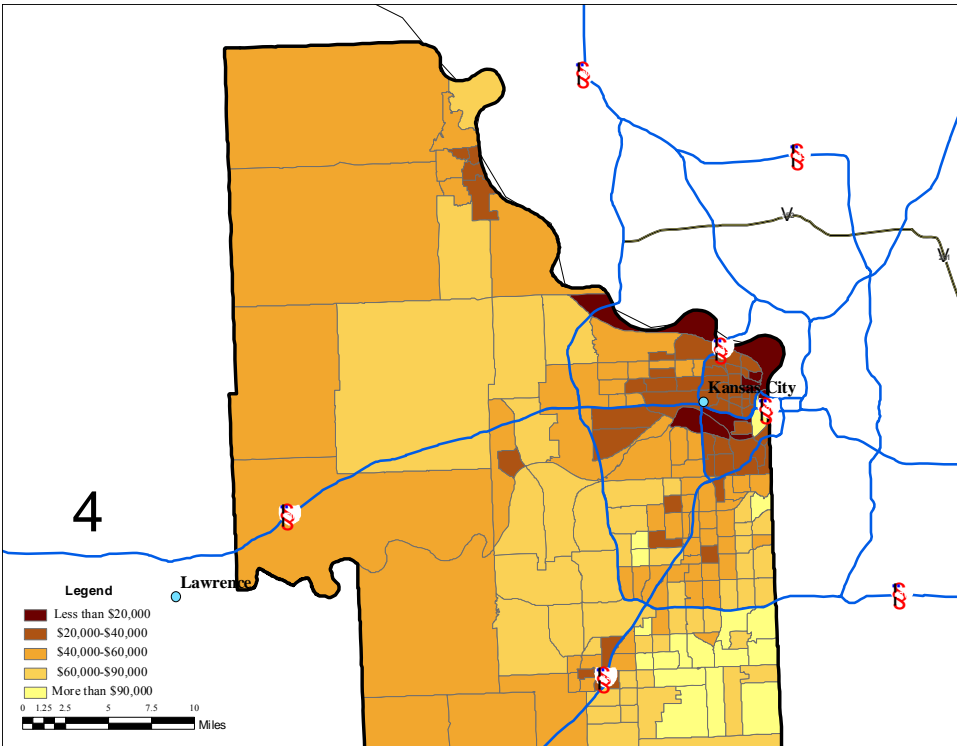
Normalized per number of mortgages outstanding by Census Tract
 Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures

Kansas City/St. Joseph Foreclosure Rate, 2007



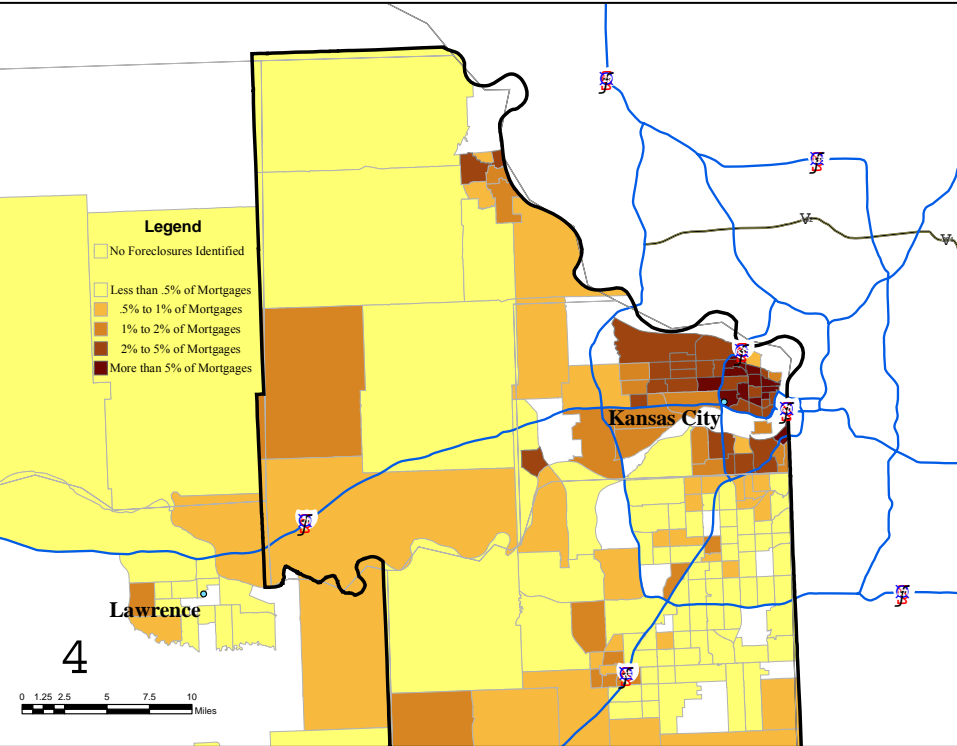
Kansas City Median Household Income and Foreclosure Rates

Median Income by Census Tract

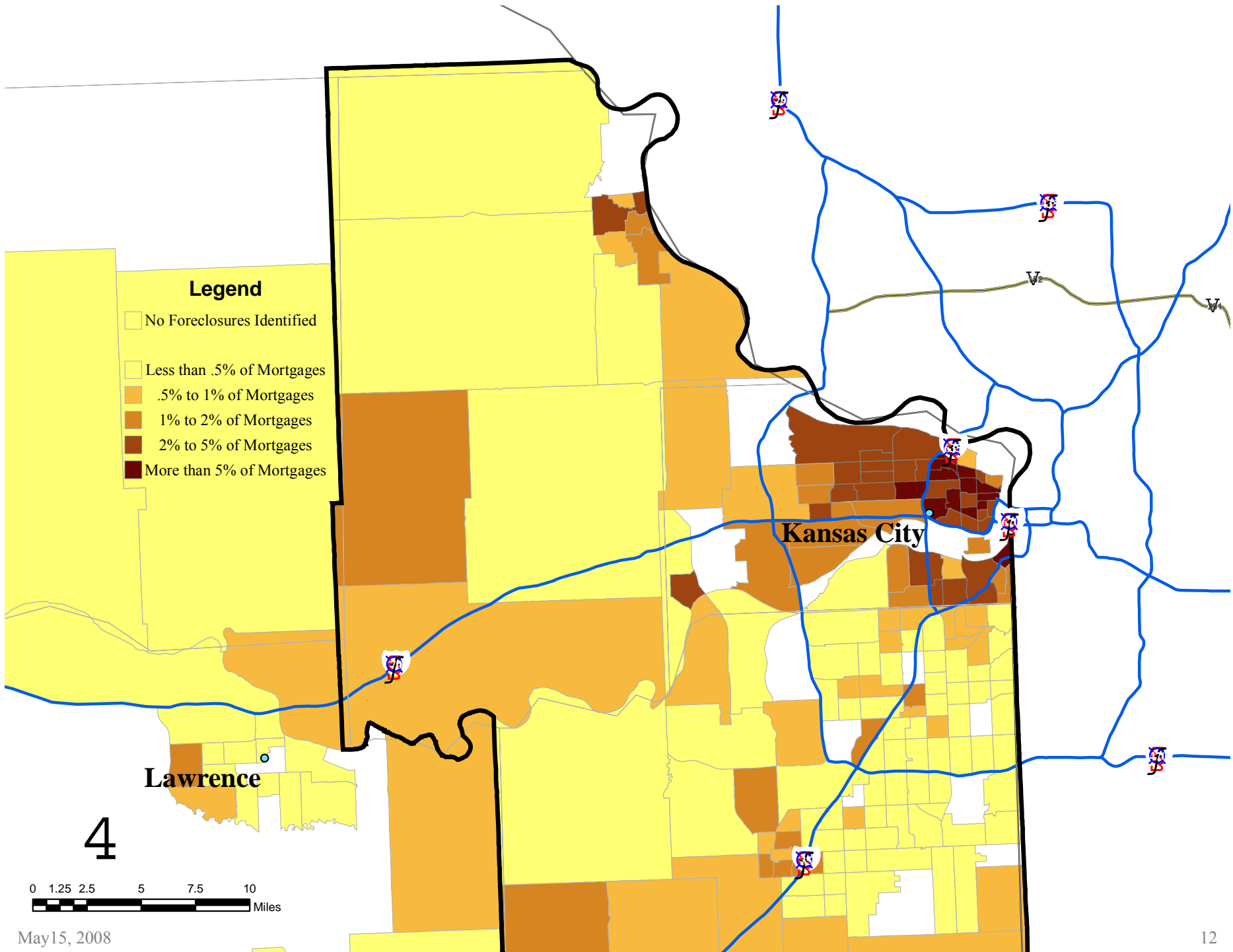


Source: 2000 U.S. Census

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



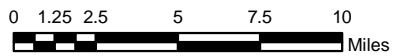
Legend

- No Foreclosures Identified
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Lawrence

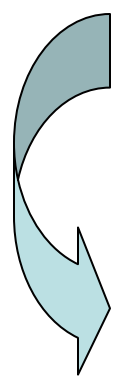
Kansas City

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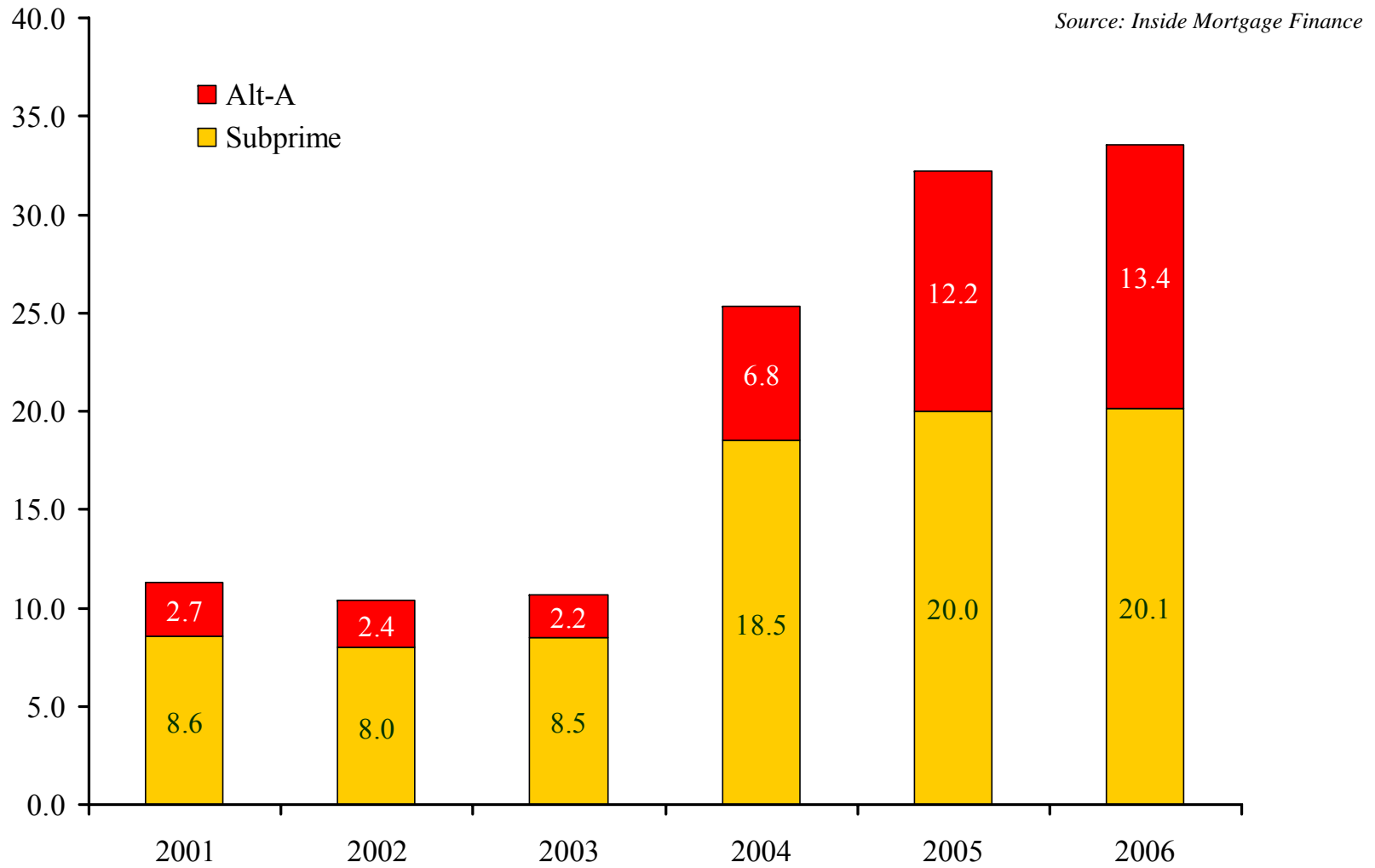
May 15, 2008

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

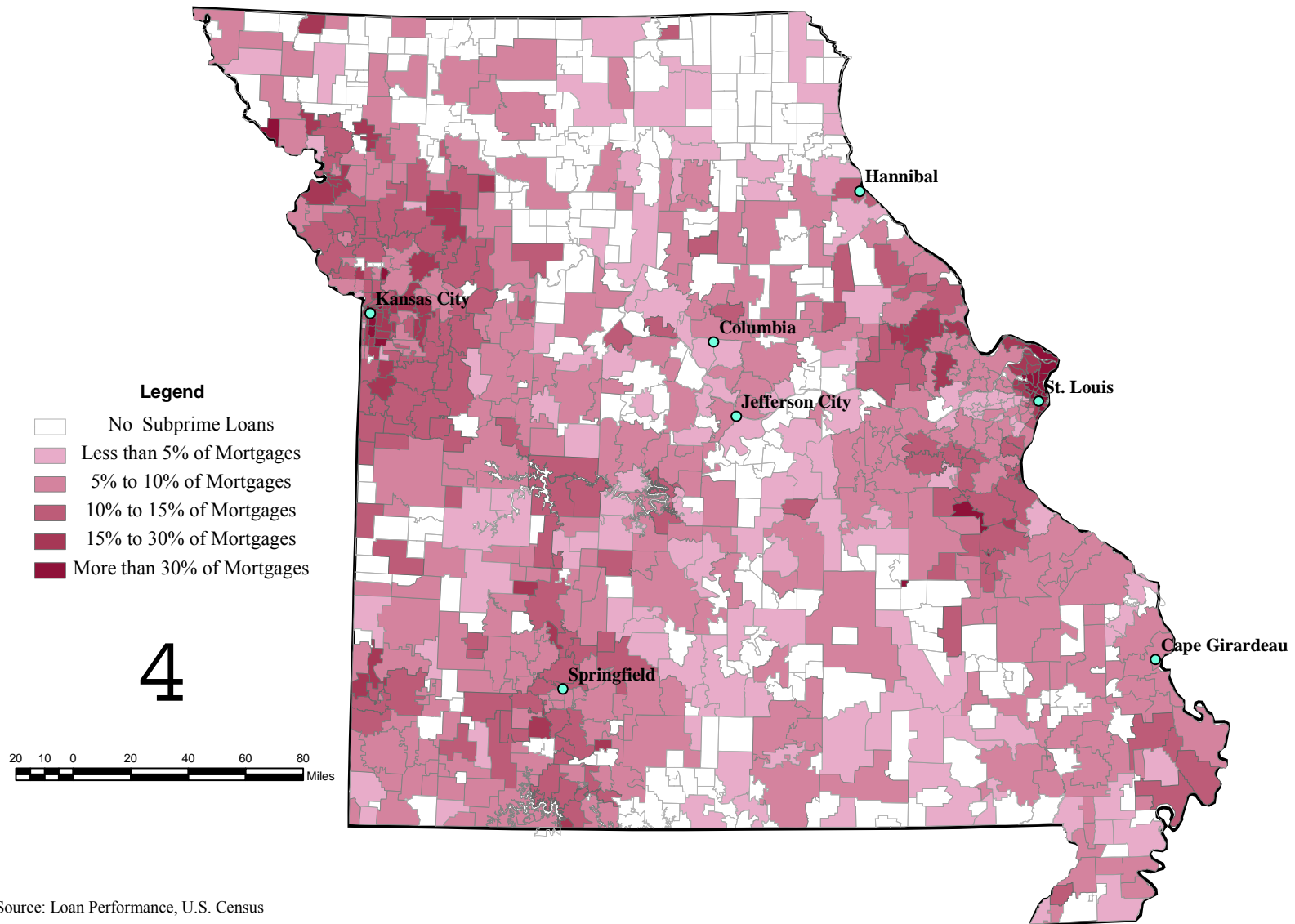


Foreclosure Rates by Type of Mortgage Fourth Quarter, 2007

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

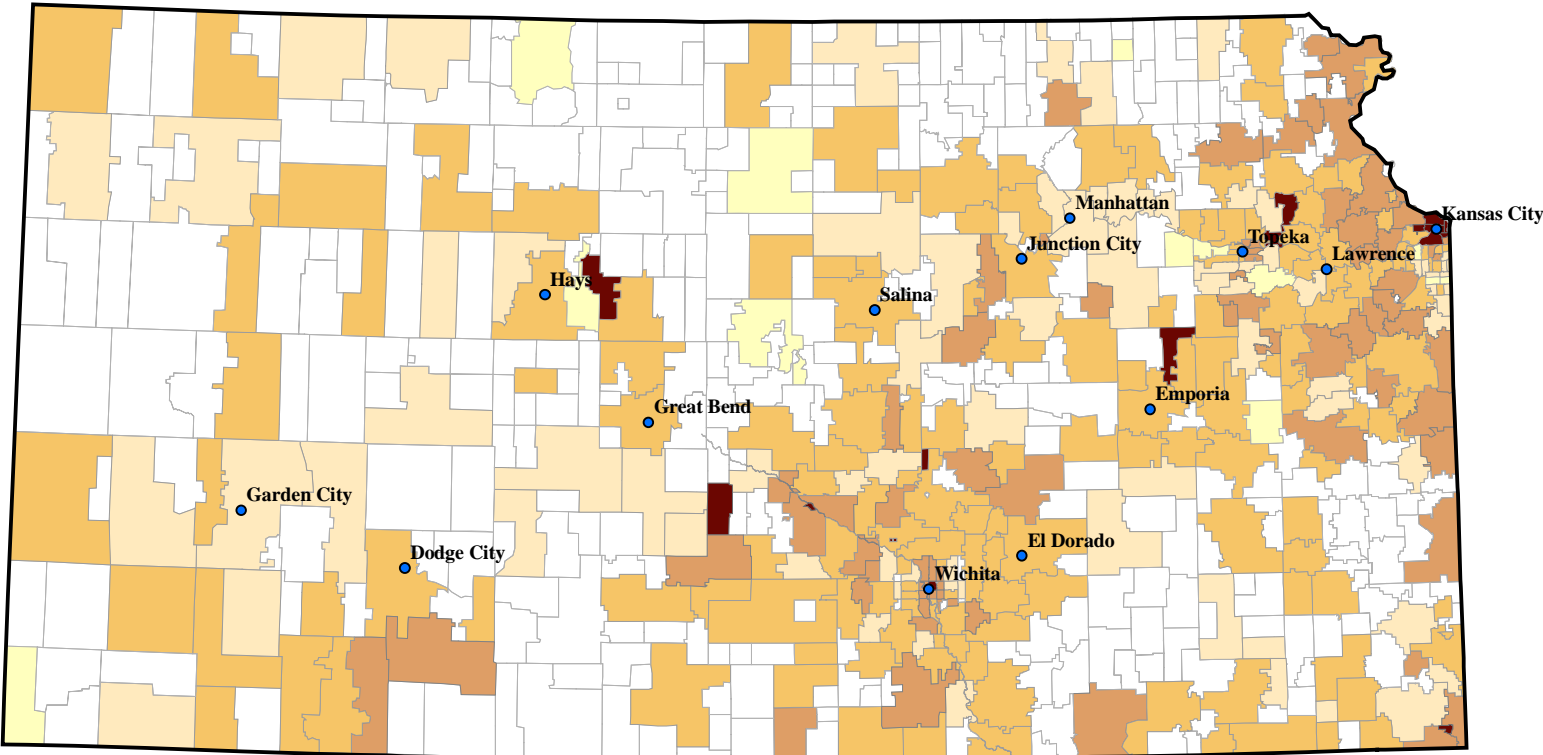
Source: Mortgage Bankers Association

Missouri Subprime Penetration Rate by Zip Code



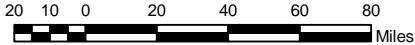
Source: Loan Performance, U.S. Census

Kansas Subprime Penetration Rate by Zip Code



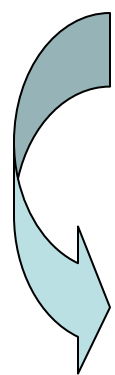
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- Legend**
- No Subprime Mortgages
 - Less than 2% of All Mortgages
 - 2% to 5% of All Mortgages
 - 5% to 10% of All Mortgages
 - 10% to 20% of All Mortgages
 - More than 20% of Mortgages



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

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Innovations in the Mortgage Market

The Evolution of Lending



1913

50% LTV
Limited geography
Limited term
Balloons

1935
60% LTV

1964
80% LTV

1970
90% LTV

1989
100% LTV

1995
Automated Underwriting
FICO Scores

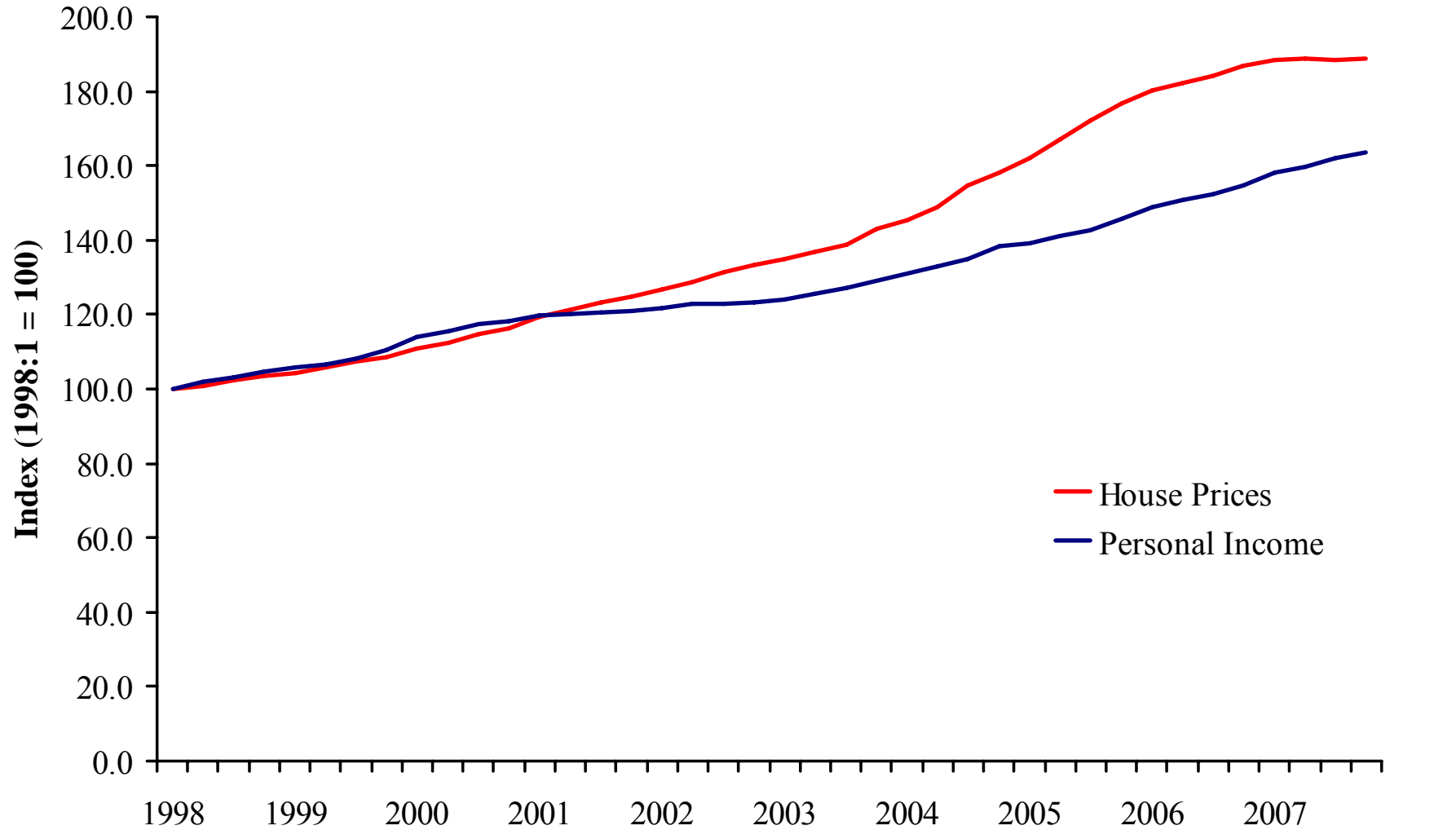
Today

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



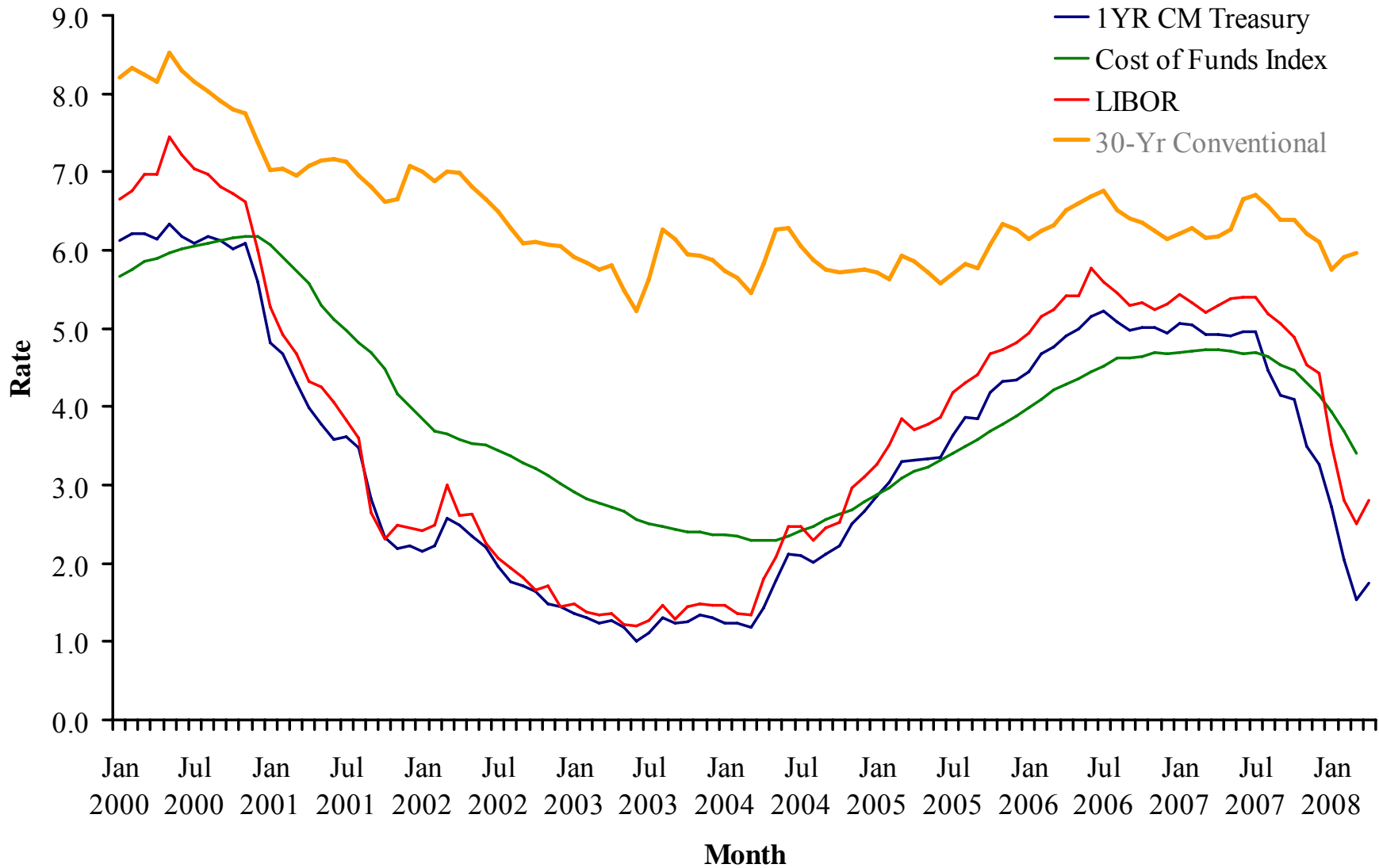
Source: Christopher Henderson, Federal Reserve Bank of Philadelphia

Home Price Appreciation Outpaces Personal Income Growth

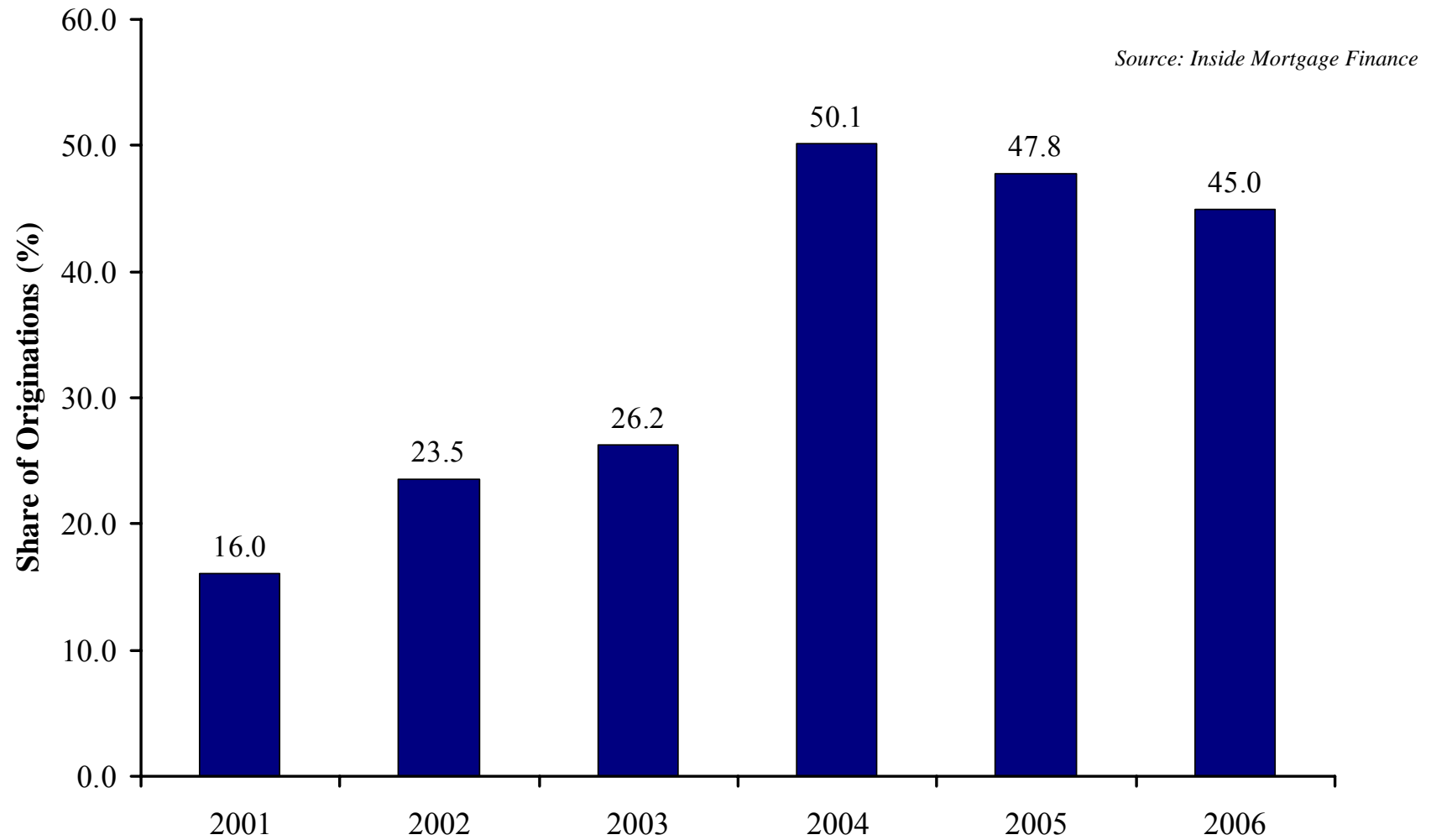


Sources: Office of Housing Enterprise Oversight; U.S. Bureau of Economic Analysis

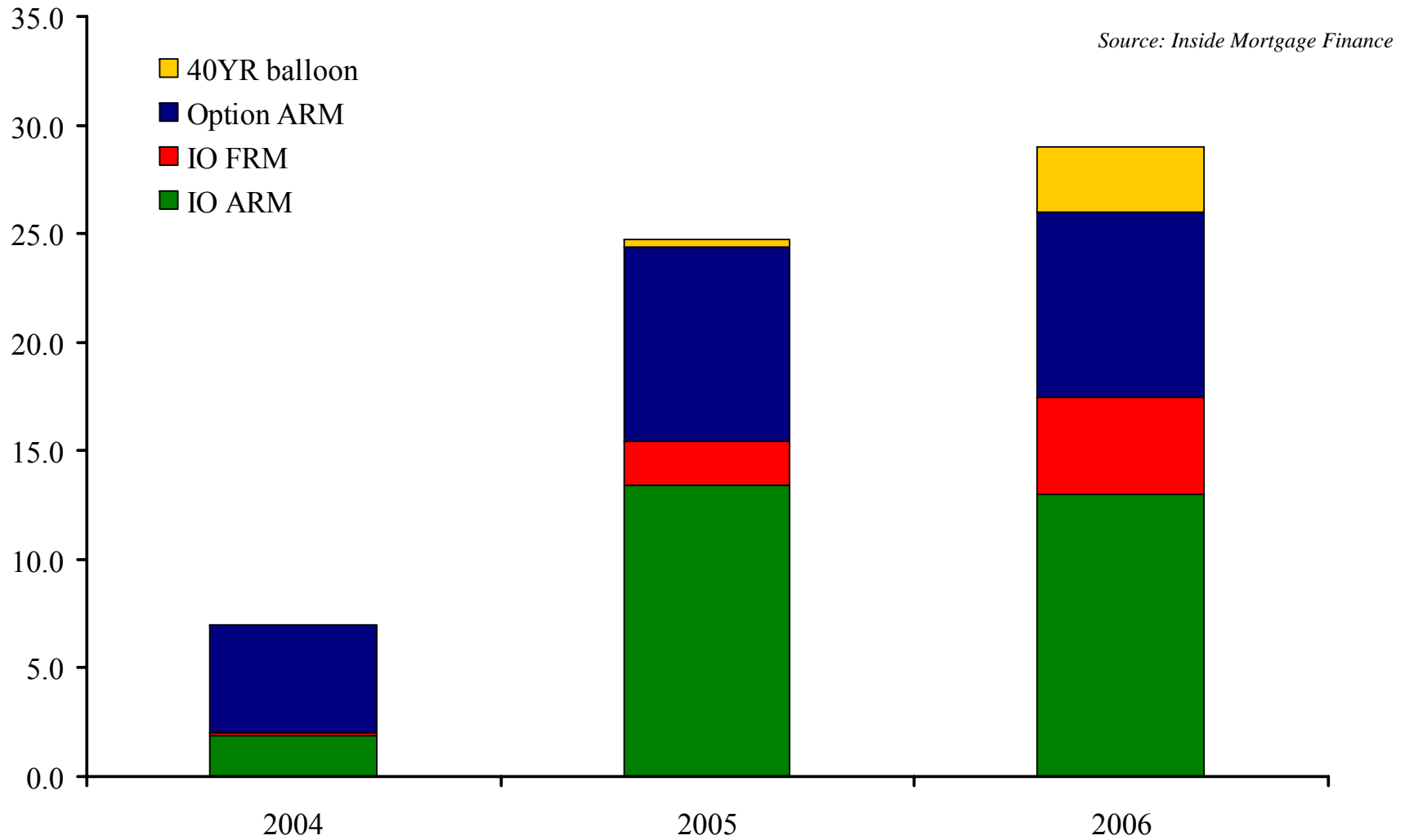
Interest Rate Indexes, 2000 – Present



ARM Share of Mortgage Originations



Alternative Mortgage Originations



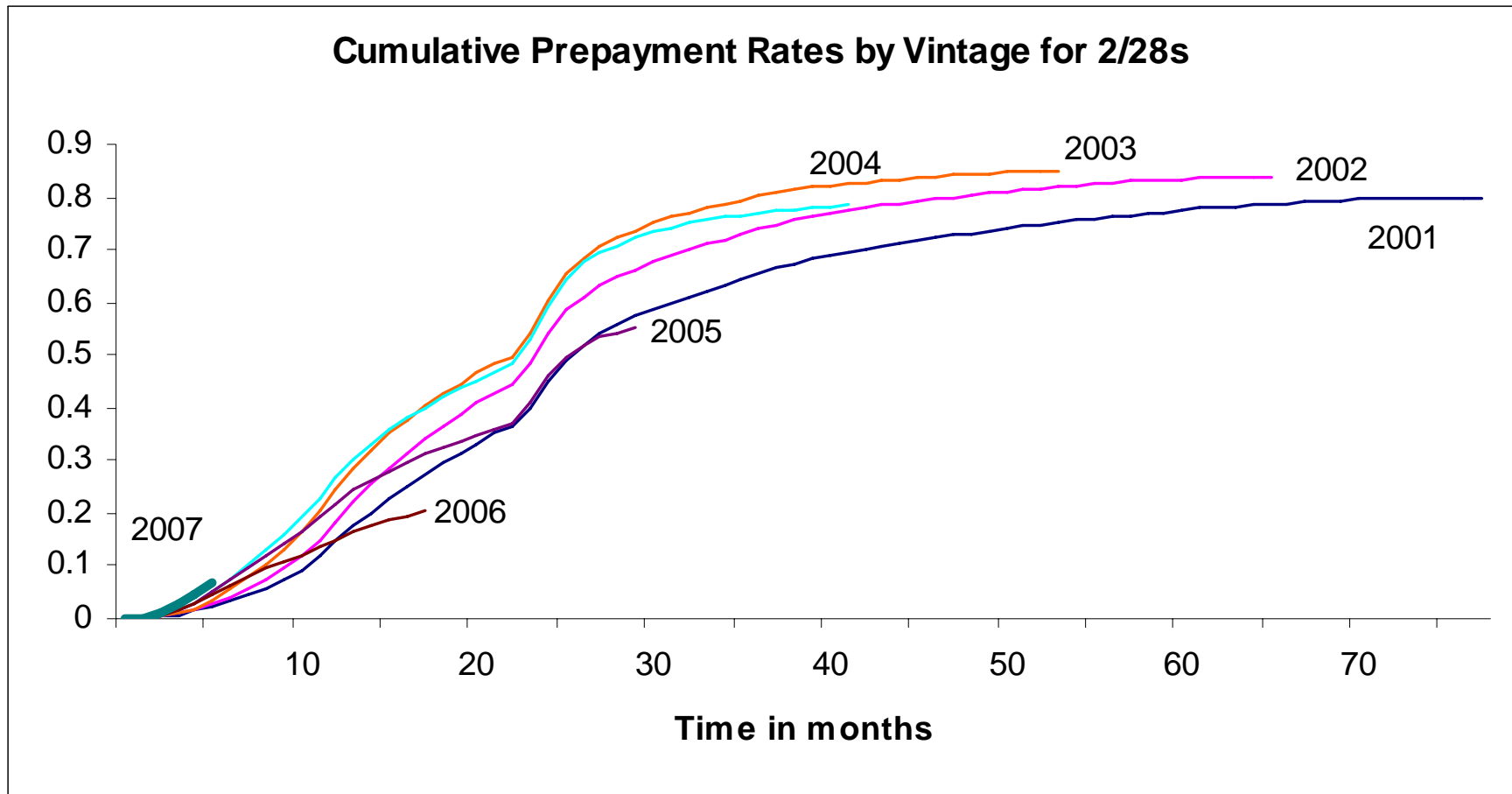
Payment Structure, by Mortgage Type

\$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%

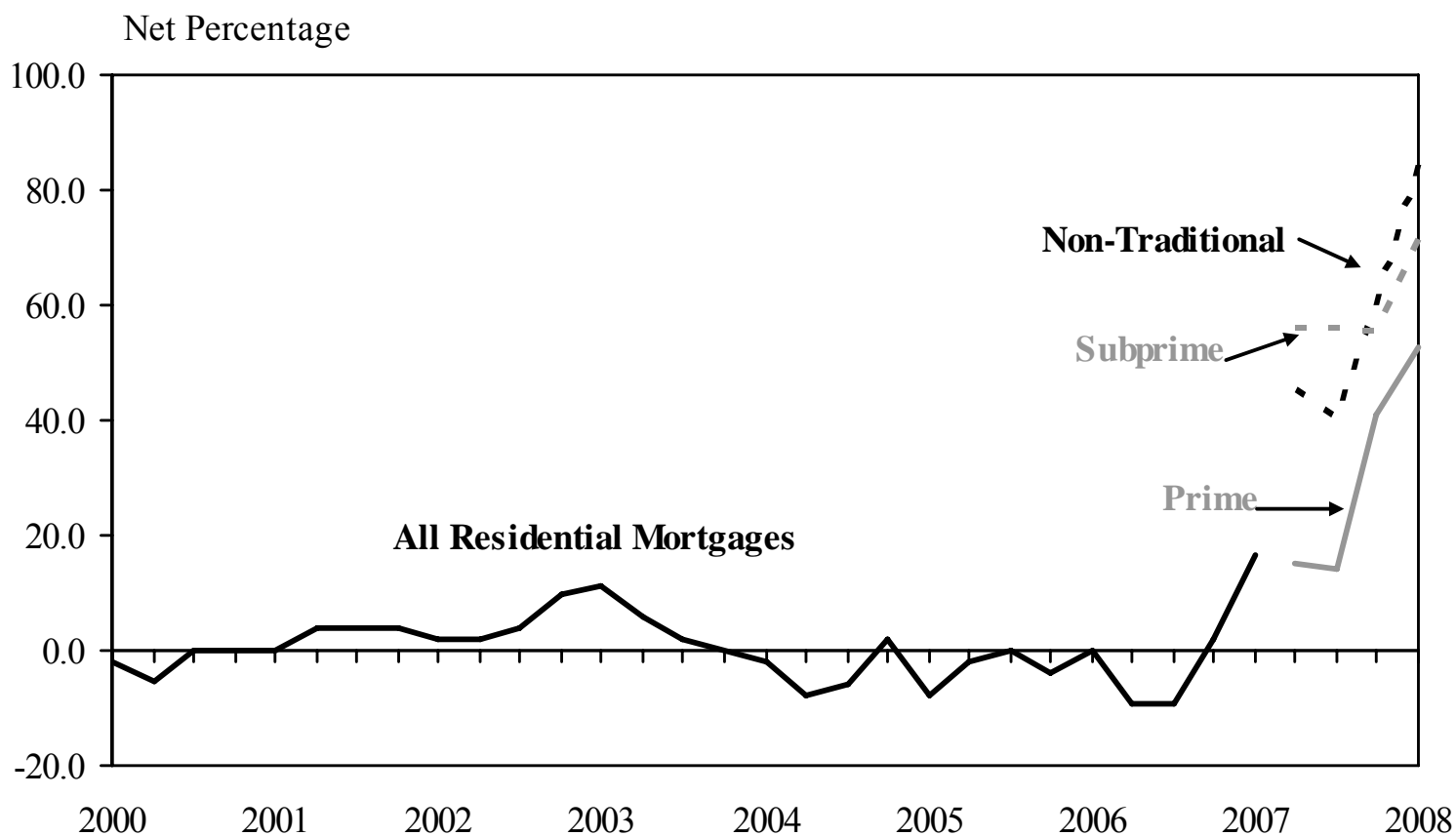
Assumptions: Option ARM has a 7.5% annual increase limit and a 110% negative amortization cap; Option ARM interest accrual is based off 1 year ARM rate as reported by Fannie Mae; Option ARM Minimum Payment is equivalent to a 1% interest rate; FRM is from Fannie Mae 30 Year FRM Index; ARM is set from 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.

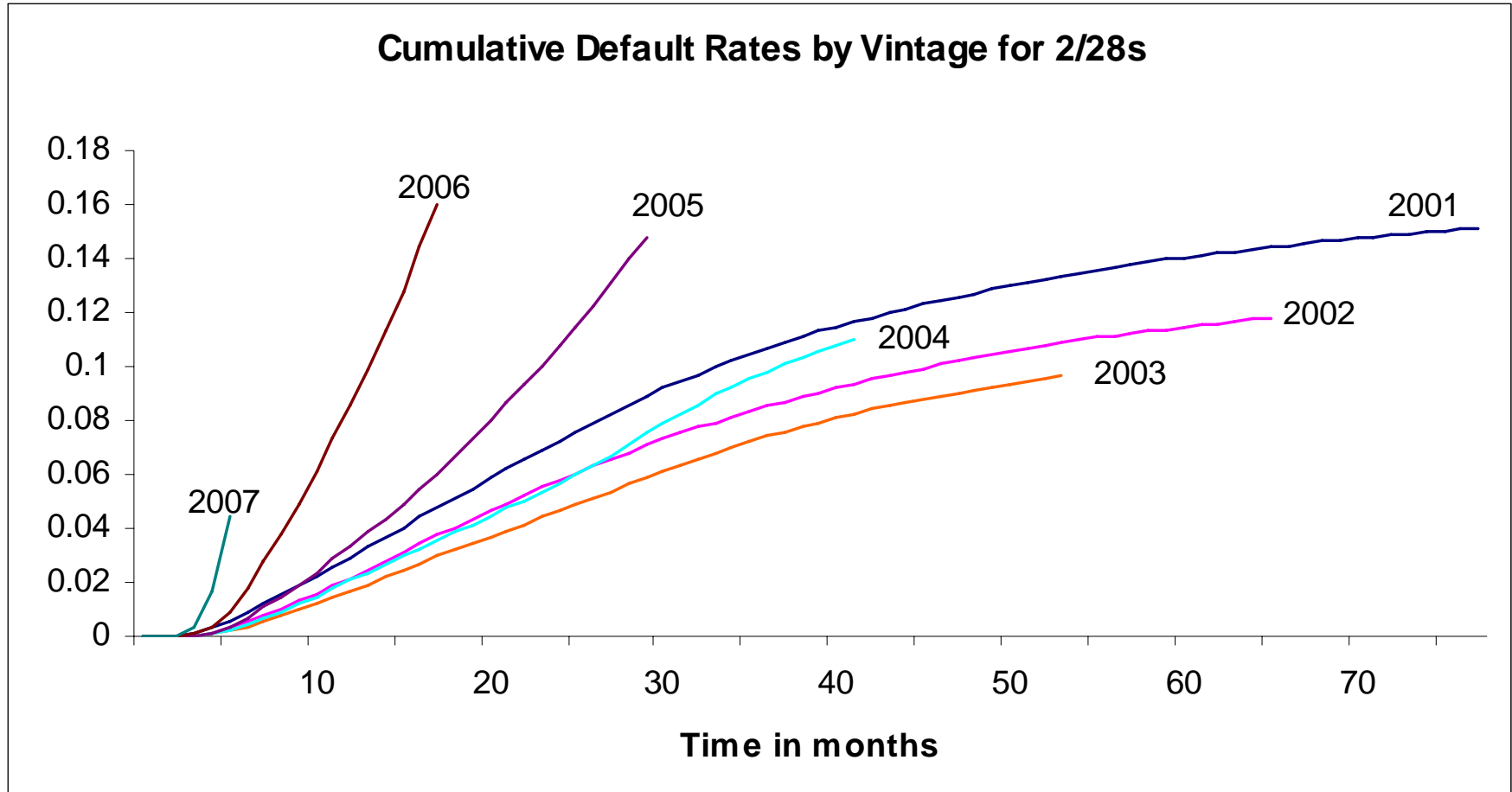
Banks Reporting Tighter Lending Standards for Residential Mortgages



Source: Federal Reserve; Senior Loan Officer Opinion Survey

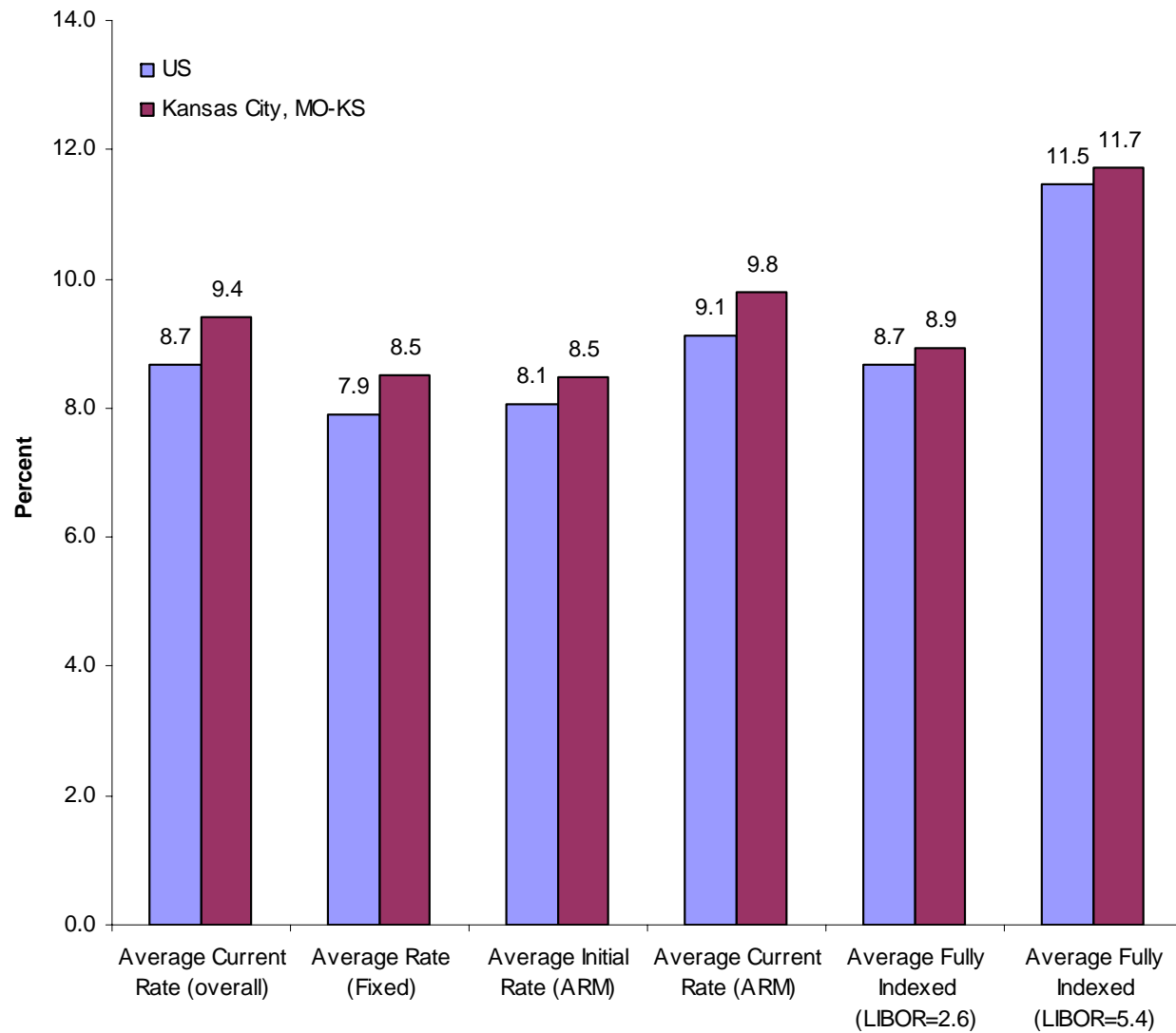
Latest Release: 02/04/2008

Subprime 2/28 Default Rates

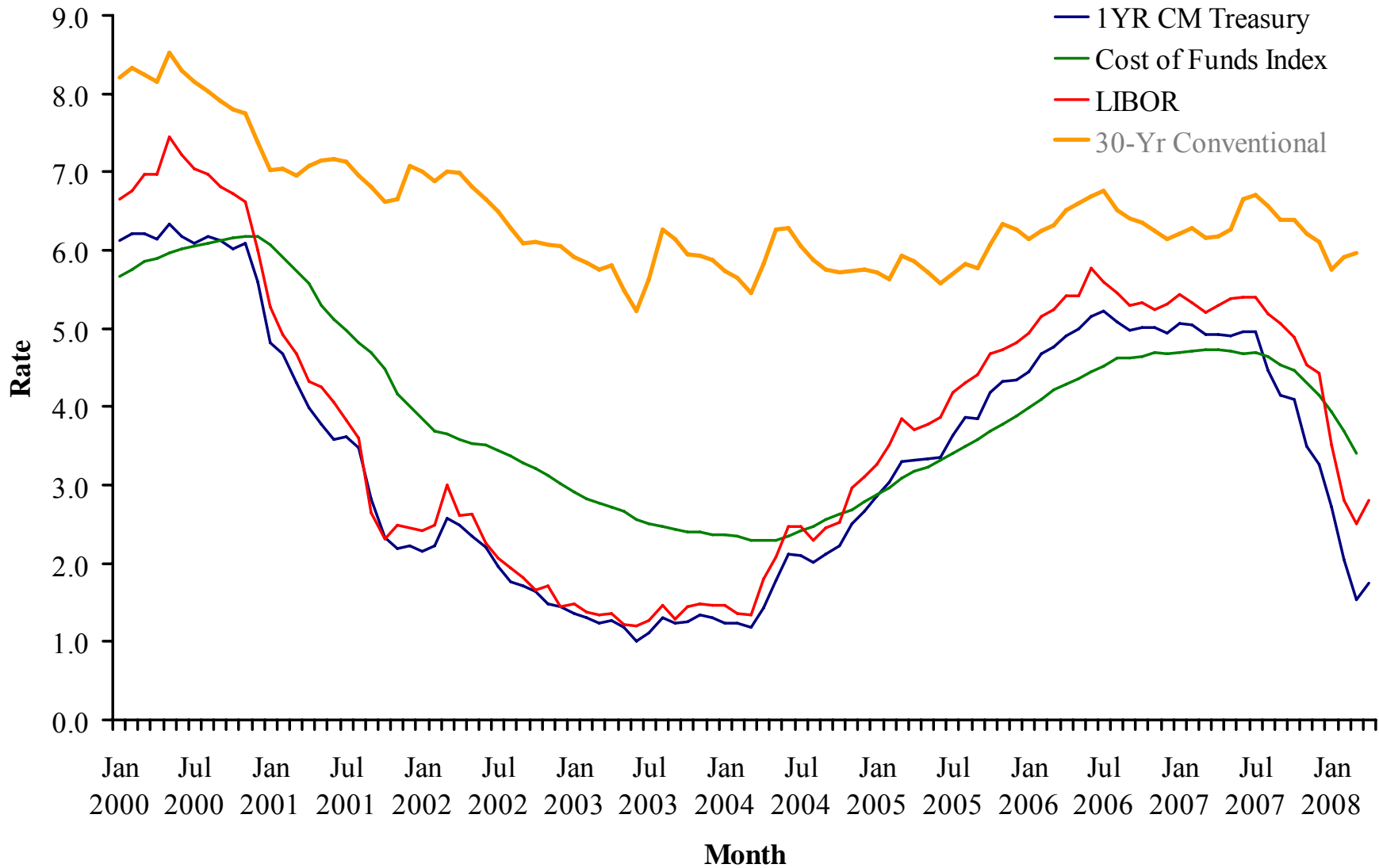


Source: Federal Reserve Board staff calculations from Loan Performance data.

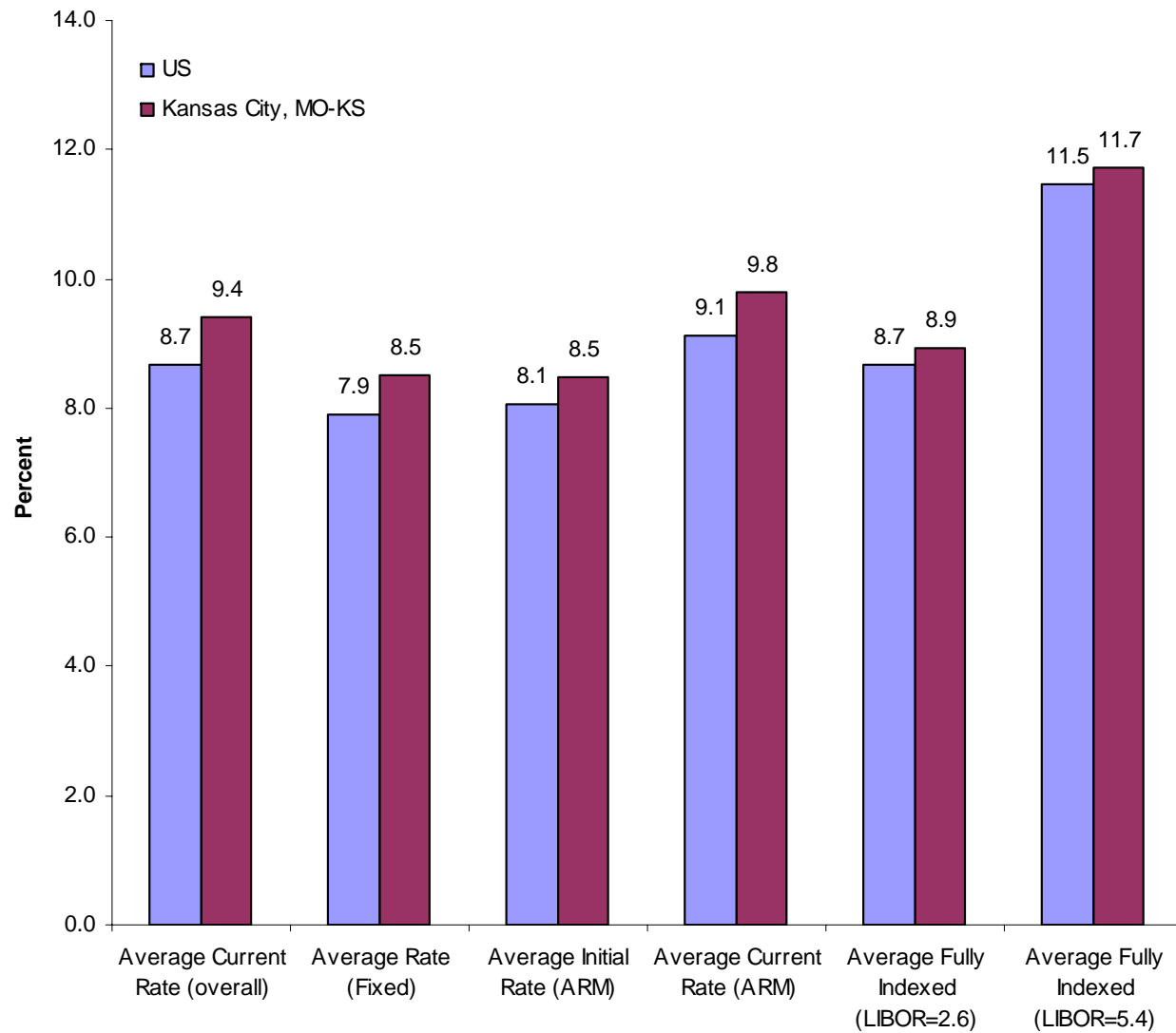
Average Interest Rates on Subprime Loans



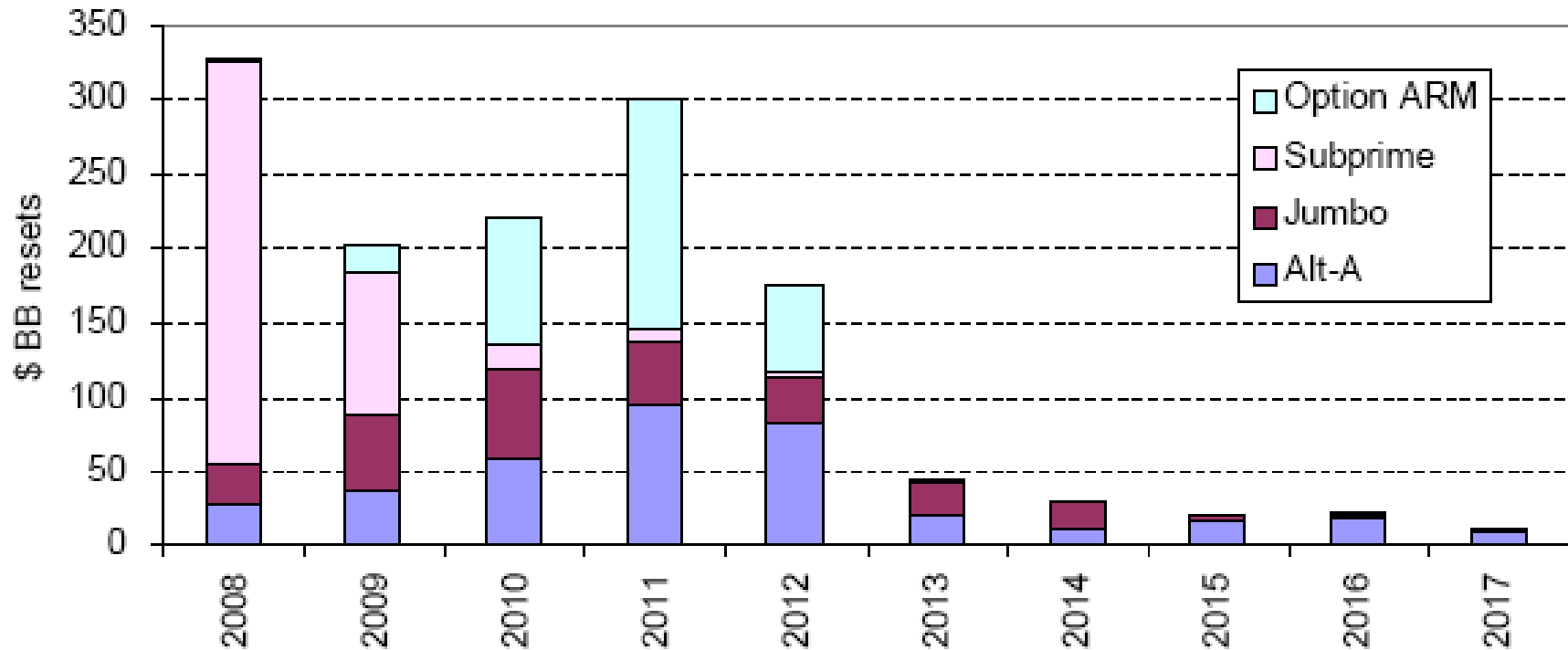
Interest Rate Indexes, 2000 – Present



Average Interest Rates on Subprime Loans



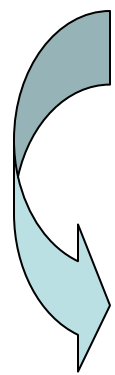
When Are the Resets Going to Happen?



Source: Loan Performance, UBS

Provided by Larry Cordell, Federal Reserve Bank of Philadelphia

The Perfect Foreclosure Storm



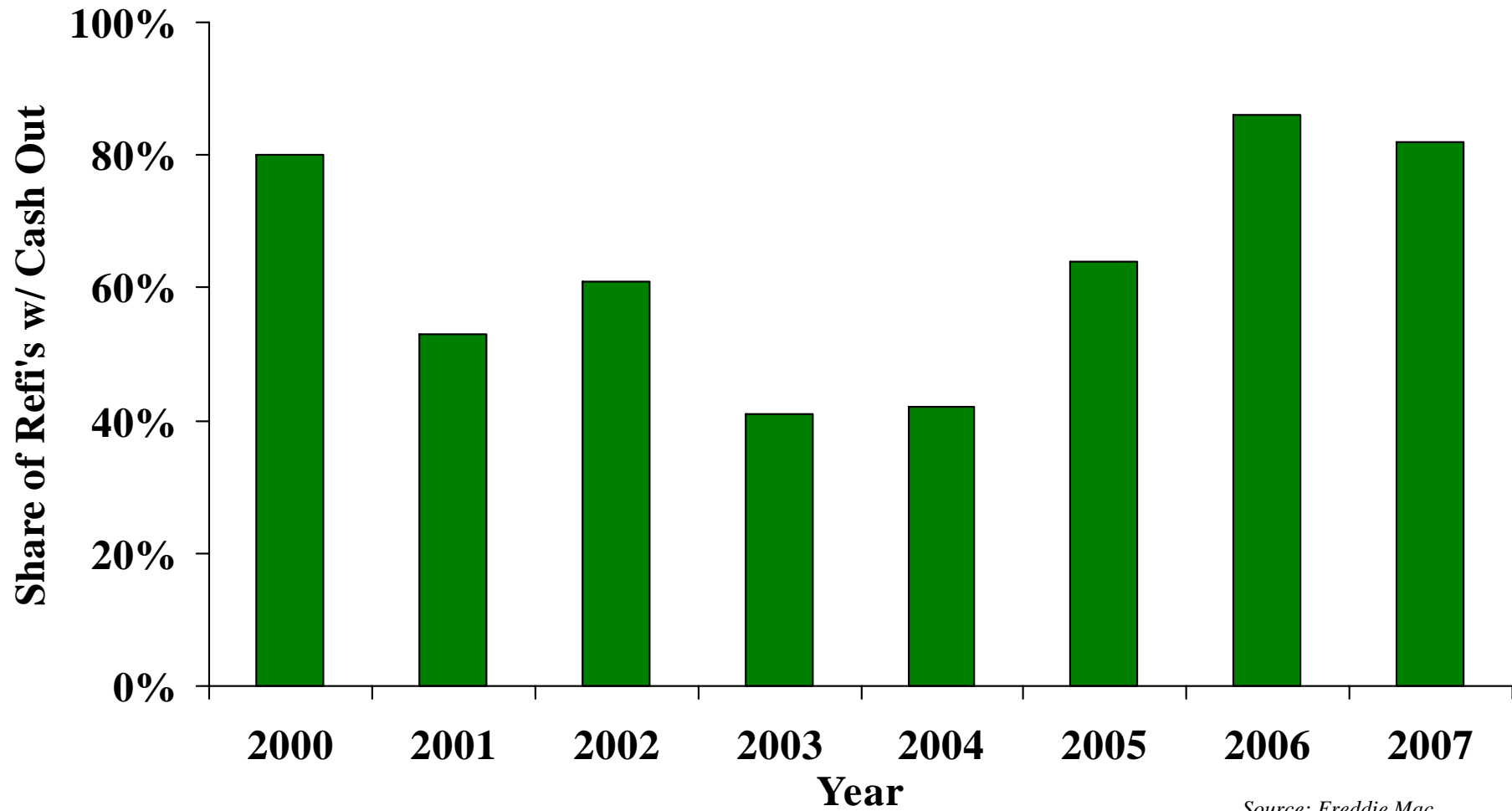
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Loan-to-Value Ratios at Purchase Among Foreclosees (Massachusetts)

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

Source: Federal Reserve Bank of Boston

Cash-Out Refinances



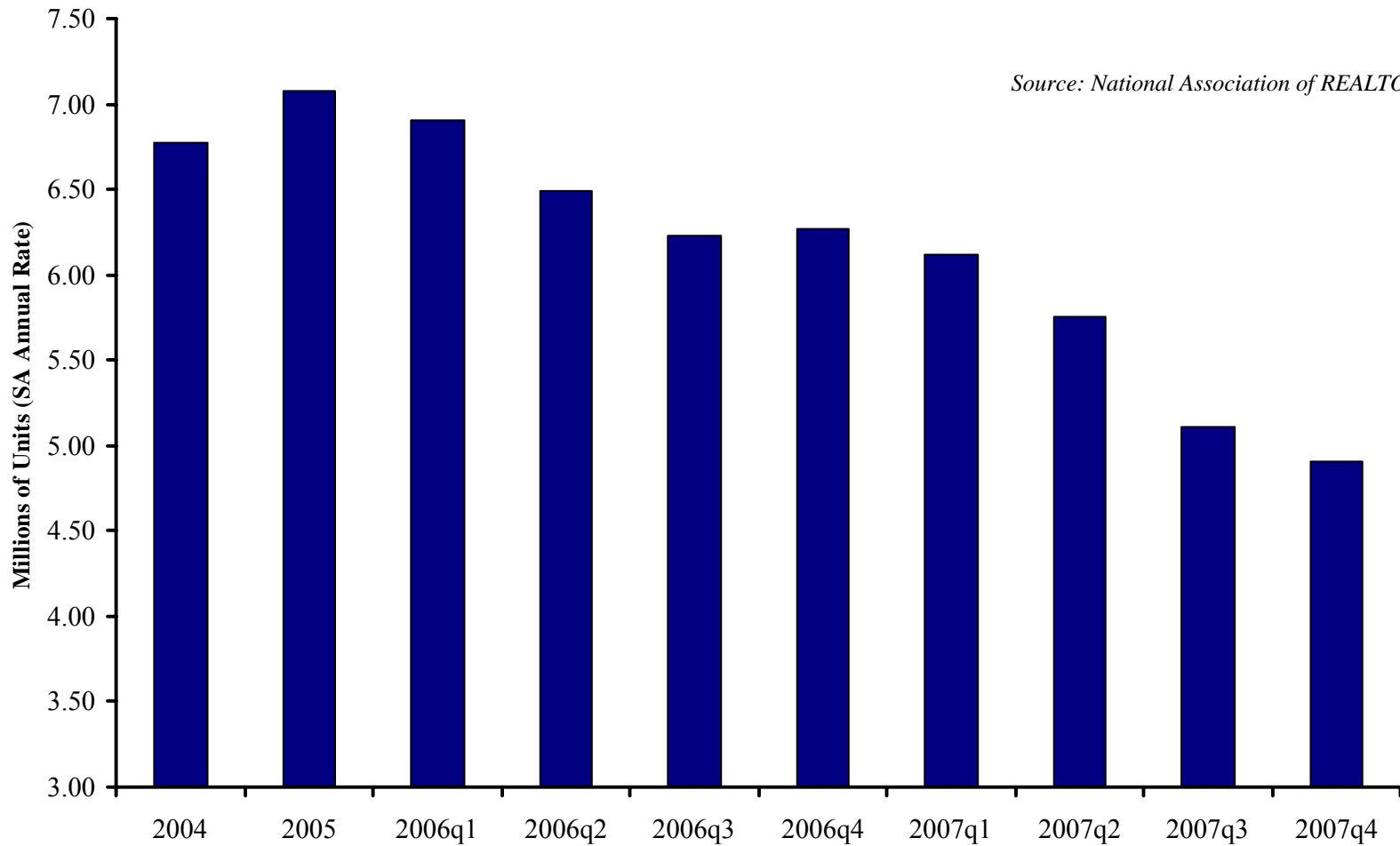
Source: Freddie Mac

Annual Change in Home Prices

	2004-05	2005-06	2006-07
United States (NAR)	12.2	1.3	(1.8)
<i>United States (S&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)
St. Louis MSA	9.6	5.2	(2.0)
Wichita MSA	3.9	6.4	0.6

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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