

Foreclosures in the Tenth District: State of the States, Impacts, and Potential Solutions

Community Development Advisory Council

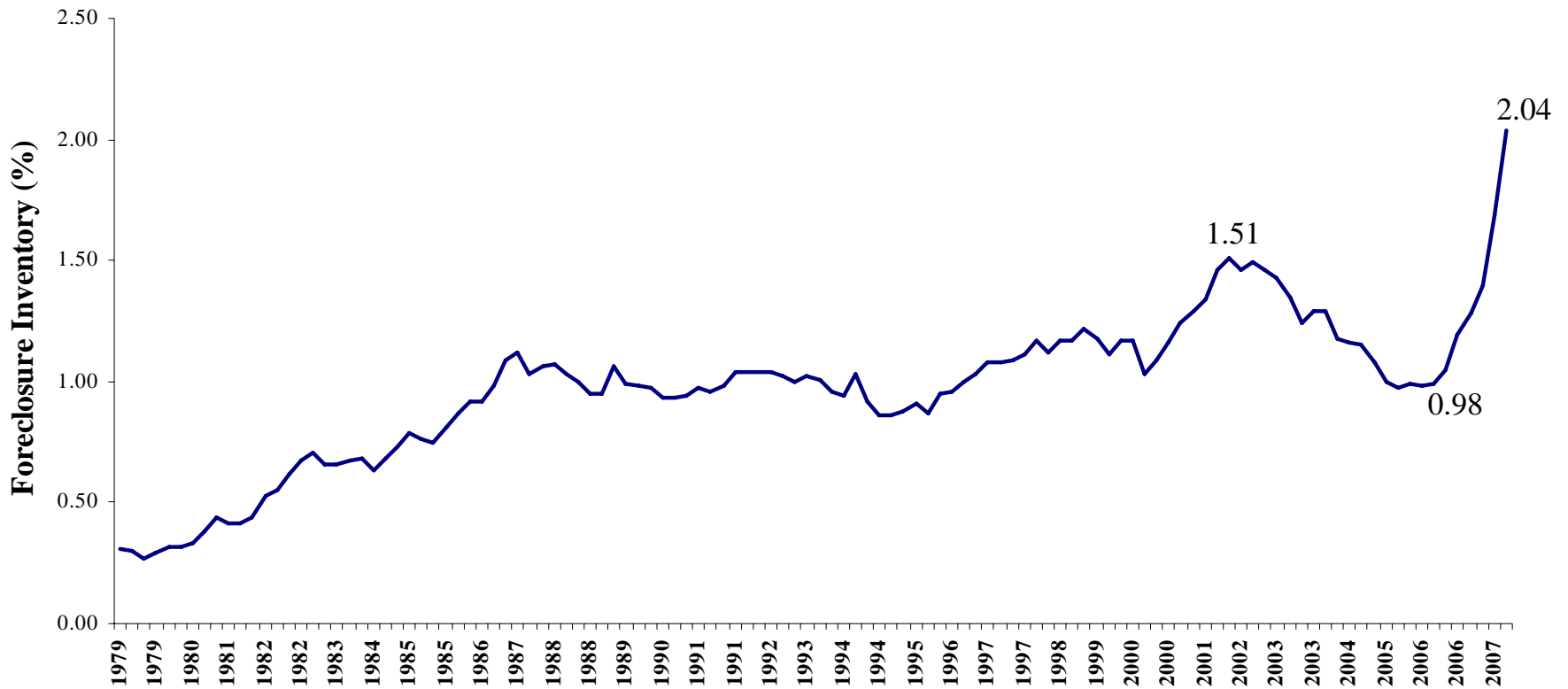
Federal Reserve Bank of Kansas City

April 2, 2008



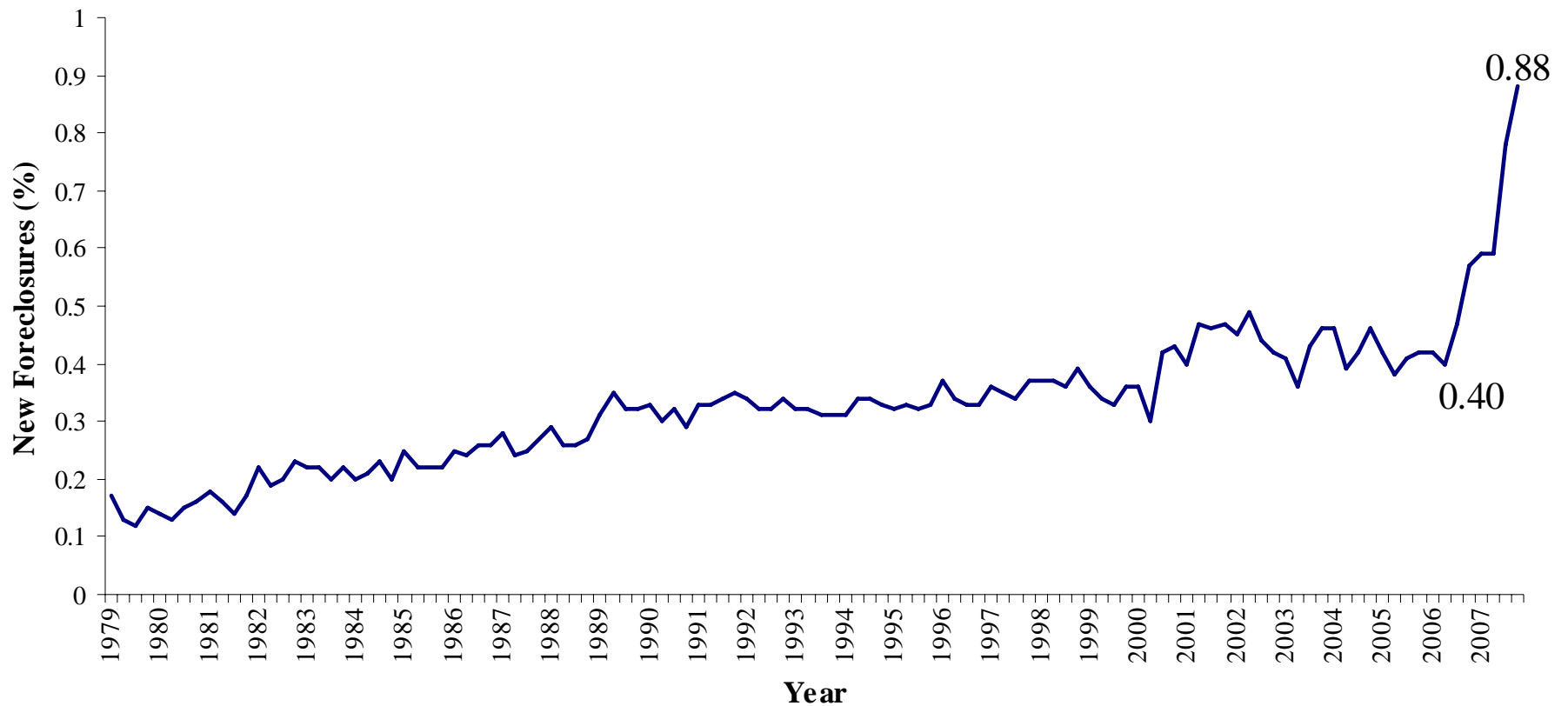
Kelly D. Edmiston
Senior Economist
Regional, Public, and Community Affairs Division
Federal Reserve Bank of Kansas City

U.S. Foreclosure Rate, 1979 – Present



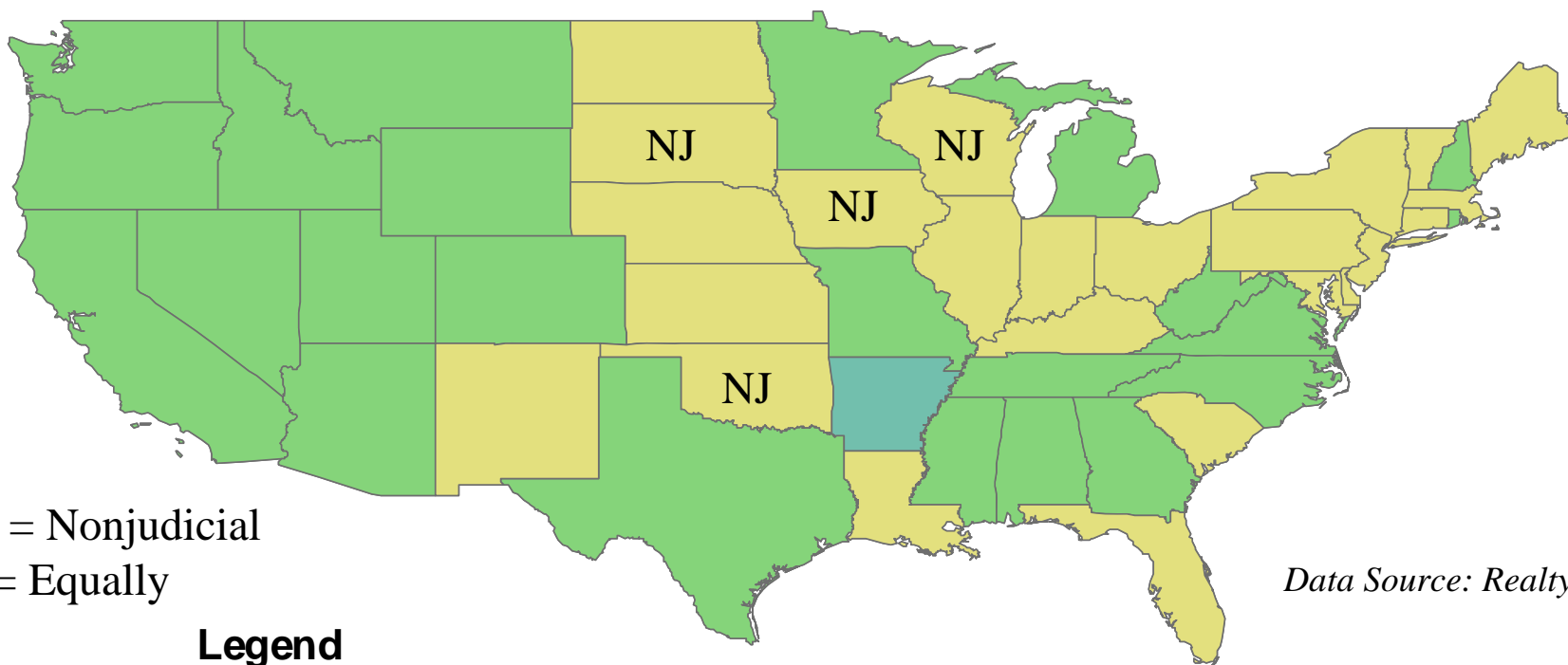
Source: Mortgage Bankers Association

U.S. Foreclosure Initiation Rate



Source: Mortgage Bankers Association

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



AK = Nonjudicial
 HI = Equally

Legend

Judicial / Nonjudicial Foreclosure

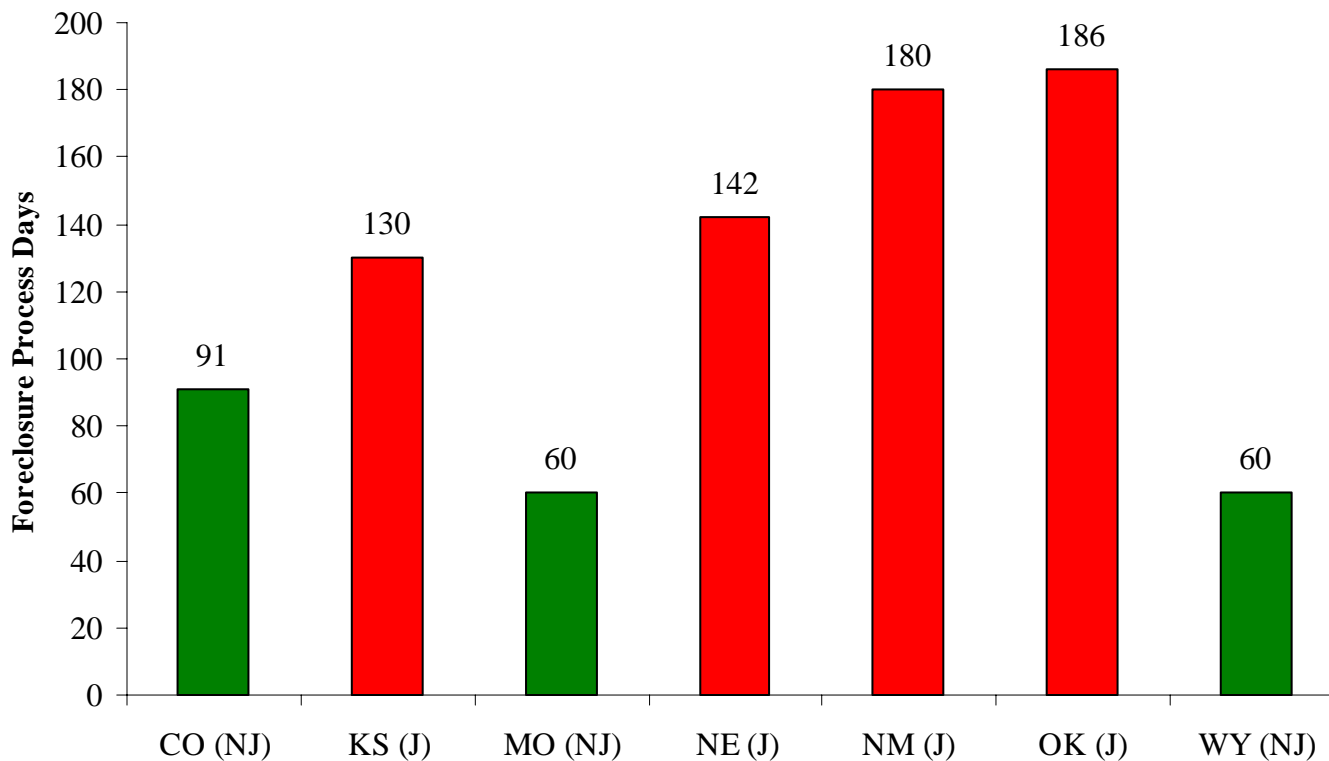
- Equally
- Judicial
- Nonjudicial

Data Source: RealtyTrac

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

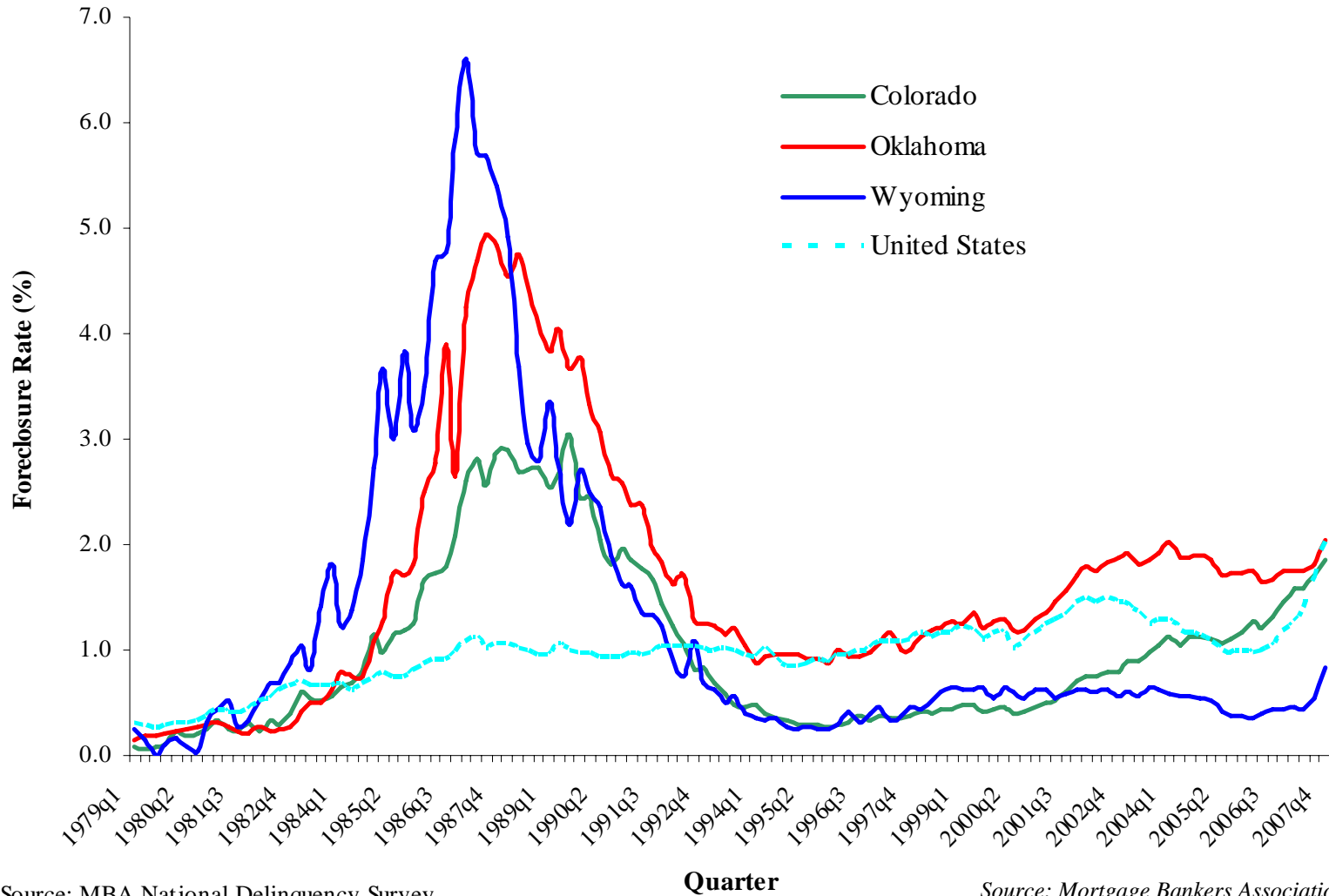
Counts and Effects on Process Days

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



Foreclosure Trends in the Tenth District

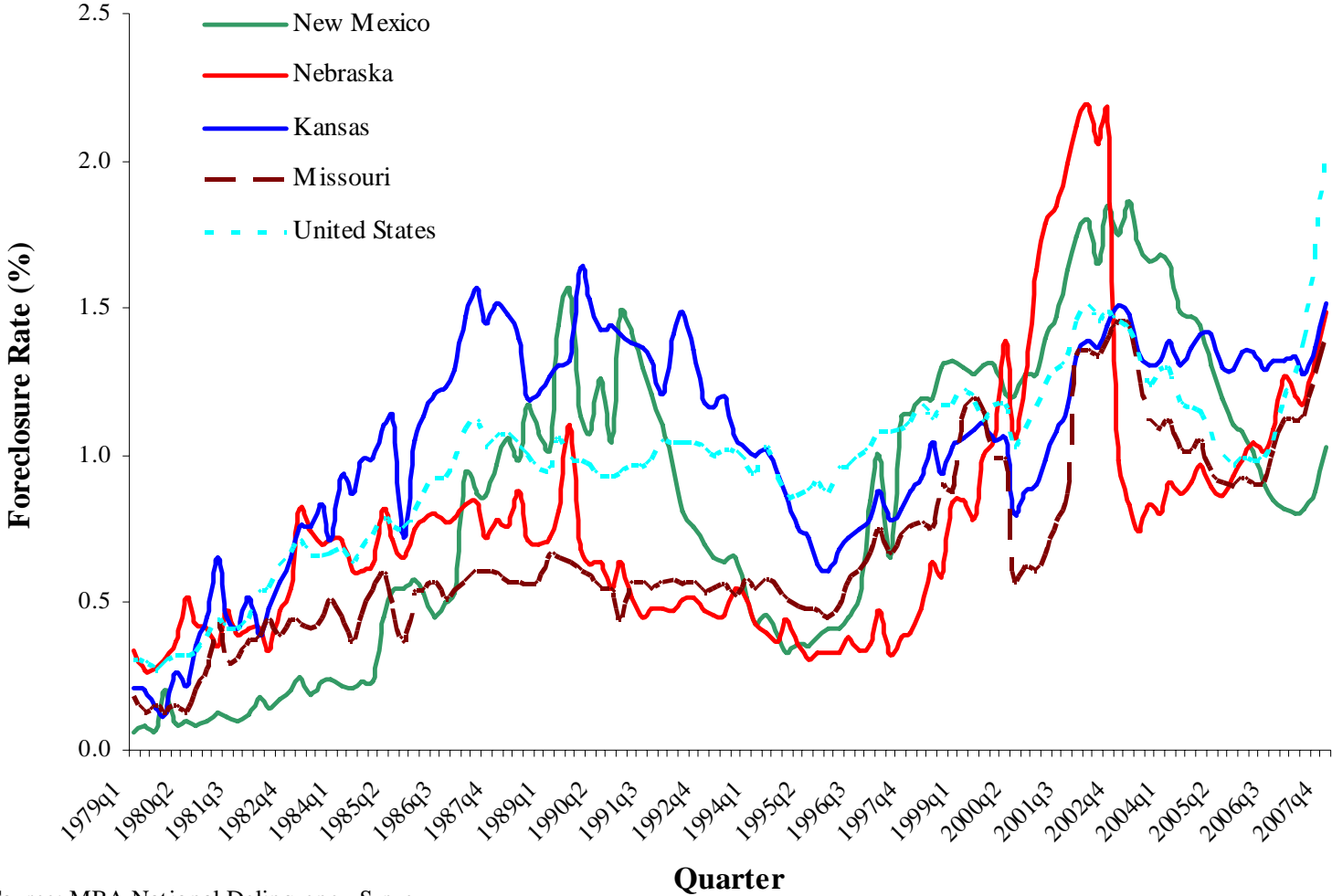
Foreclosure Rates: US, CO, OK, and WY



Source: MBA National Delinquency Survey

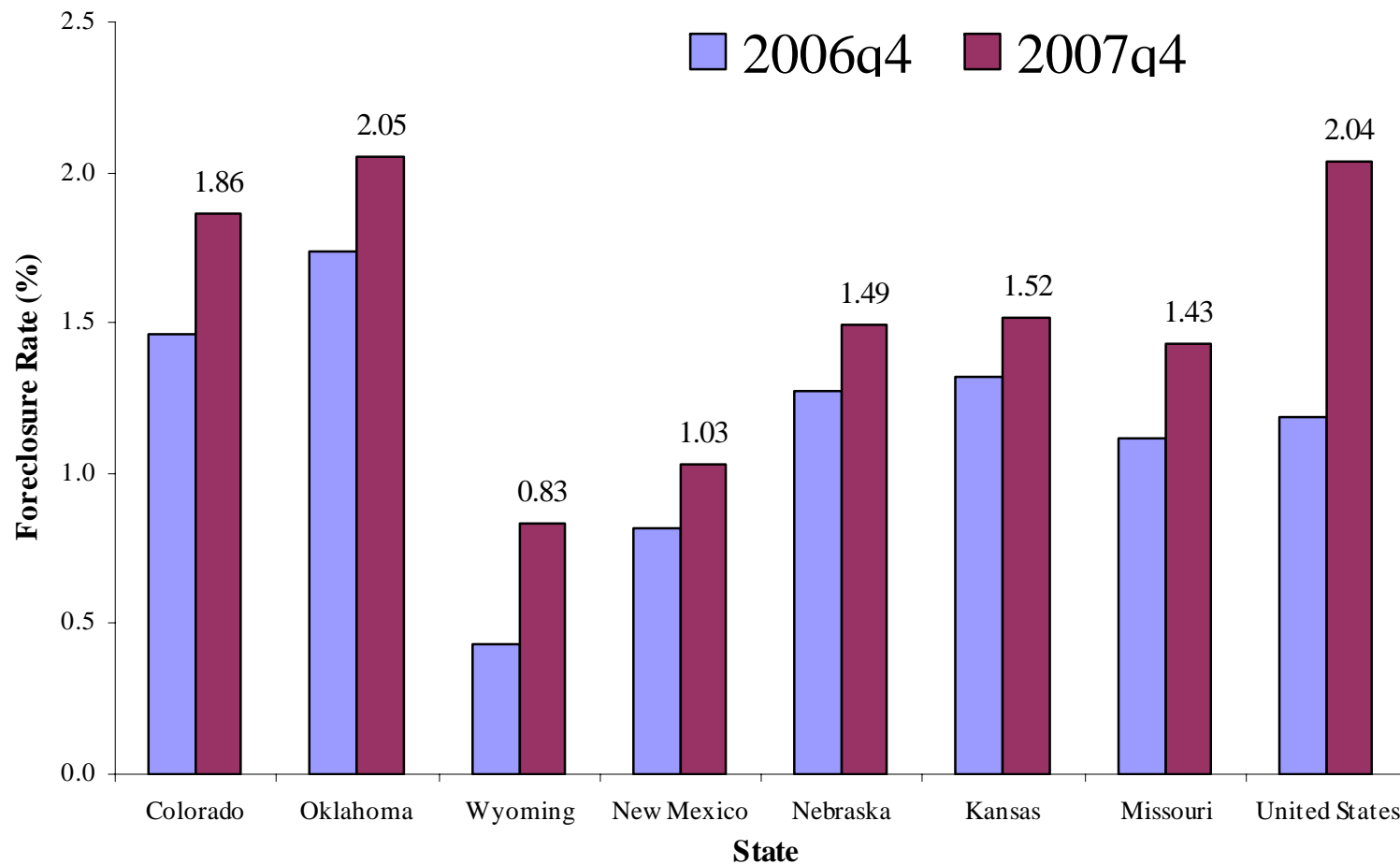
Source: Mortgage Bankers Association

Foreclosure Rates: US, NM, NE, KS, and MO



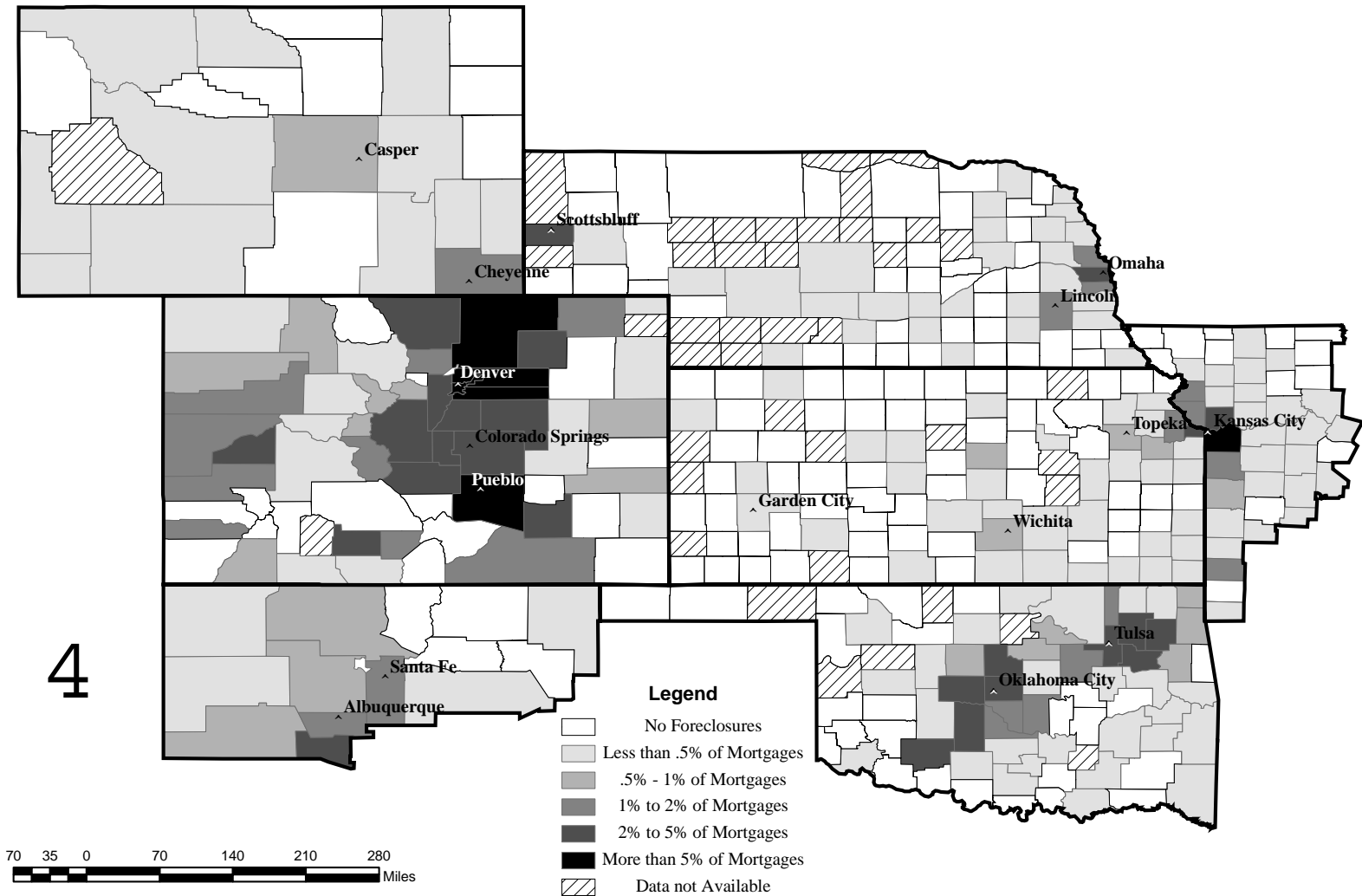
Source: MBA National Delinquency Survey

State Foreclosure Rates in 10J, 4th Quarters 2006 and 2007



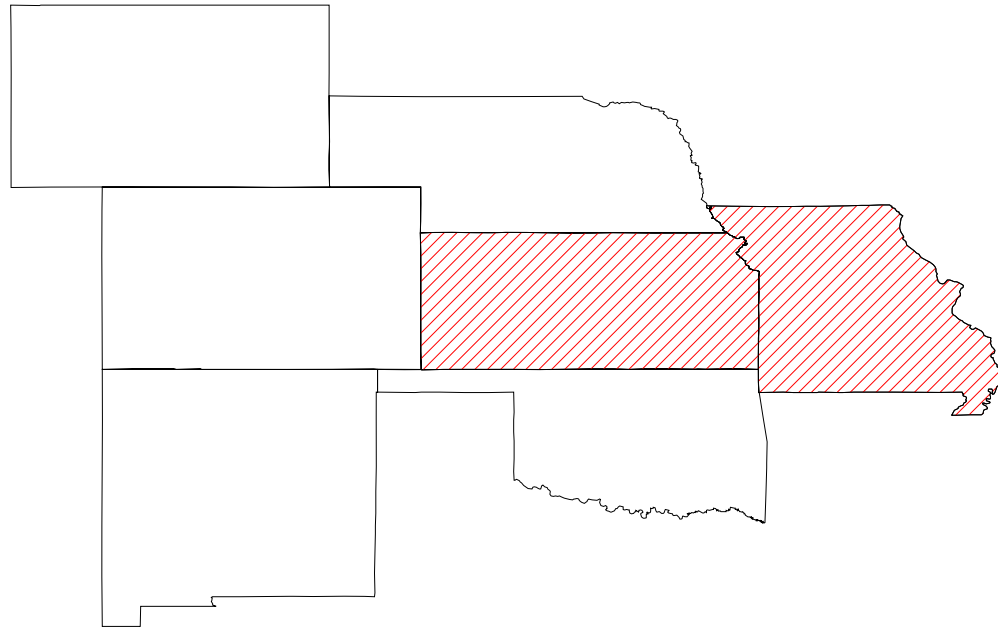
Source: MBA National Delinquency Survey

Tenth District Foreclosure Hotspots

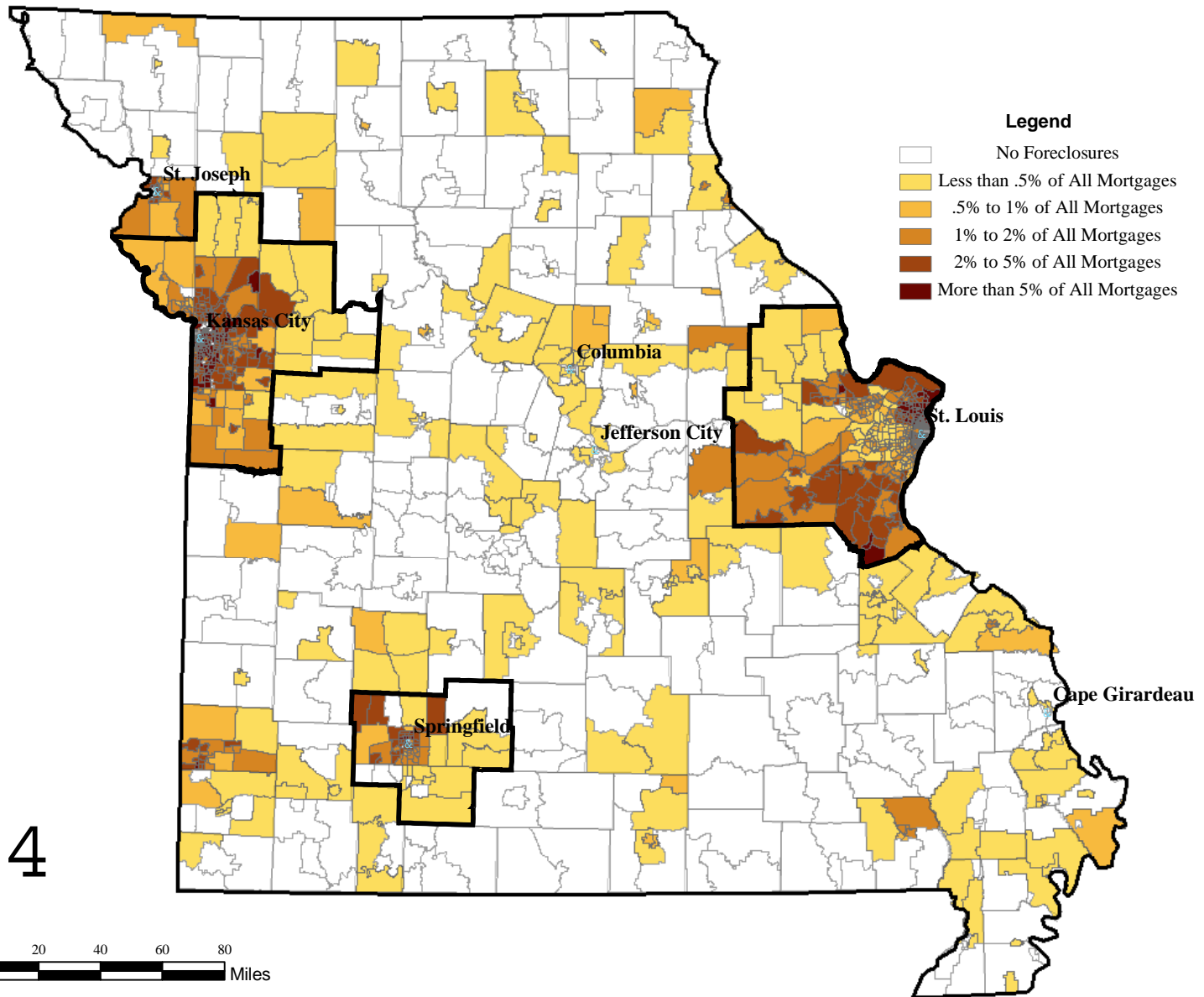


Source: RealtyTrac and U.S. Census

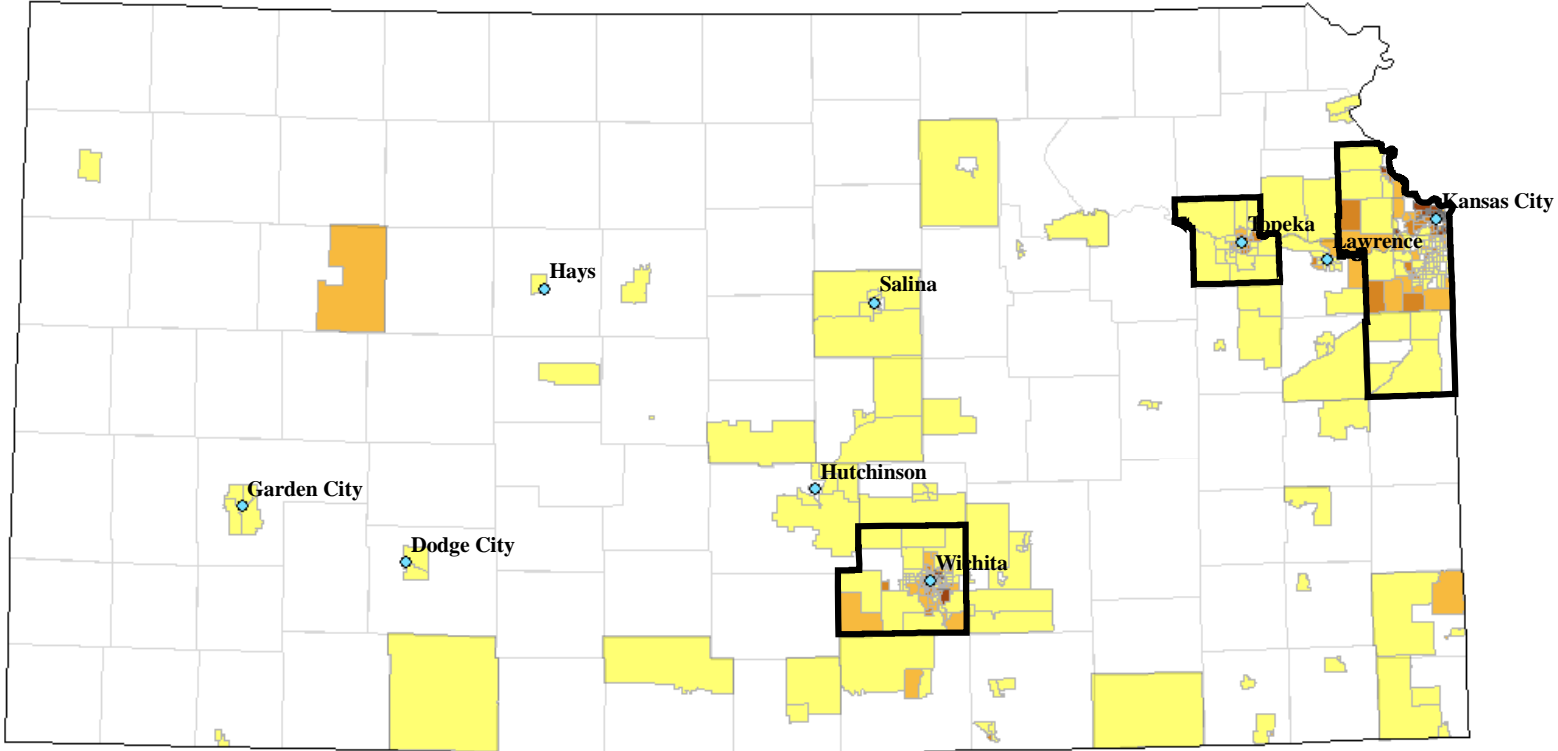
Where are the Hot Spots? A Closer at Missouri and Kansas



Missouri Foreclosure Rates, 2007



Kansas Foreclosure Rates by Census Tract

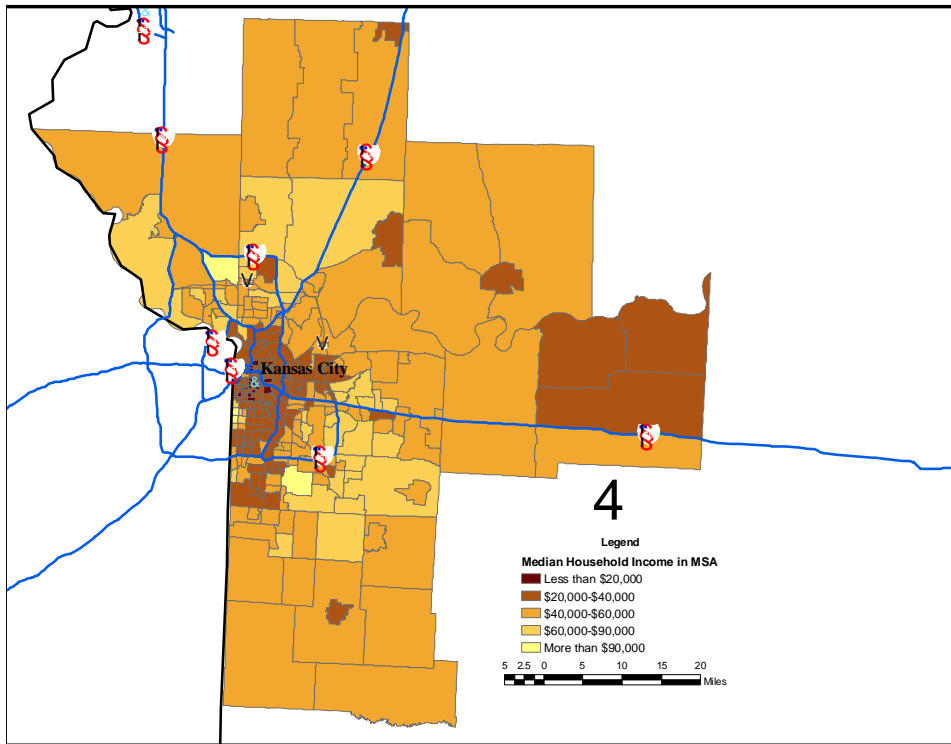


Legend

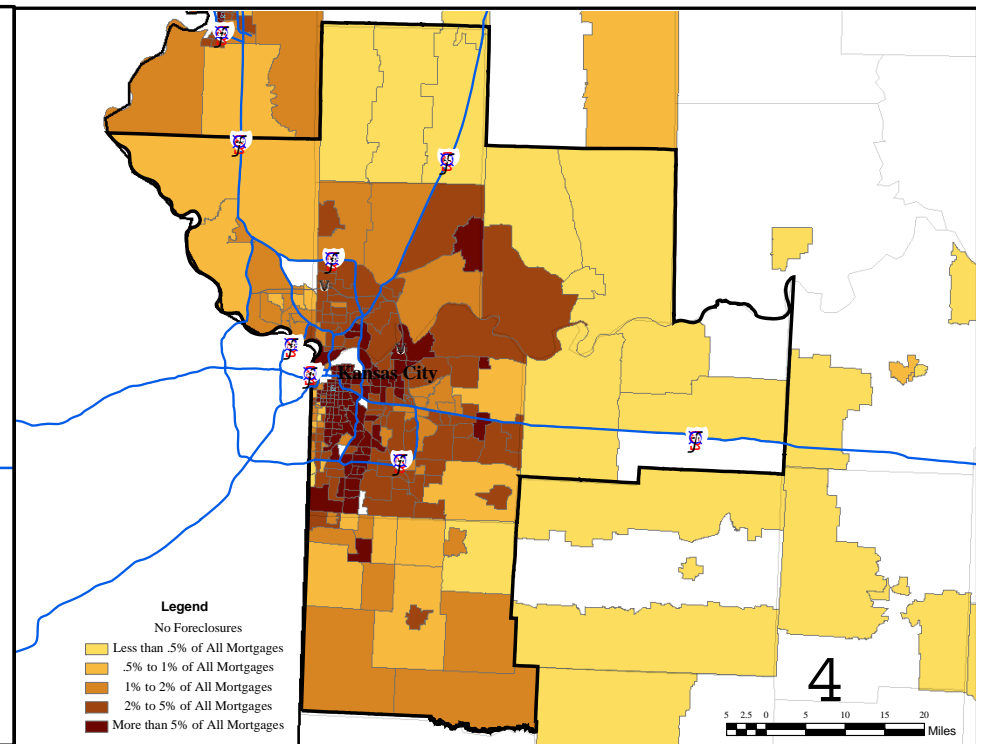
- No Foreclosures Identified
- Less than .5% of Mortgages
- .5% to 1% of Mortgages
- 1% to 2% of Mortgages
- 2% to 5% of Mortgages
- More than 5% of Mortgages

Kansas City, Missouri Median Household Income and Foreclosure Rates

Median Income by Census Tract



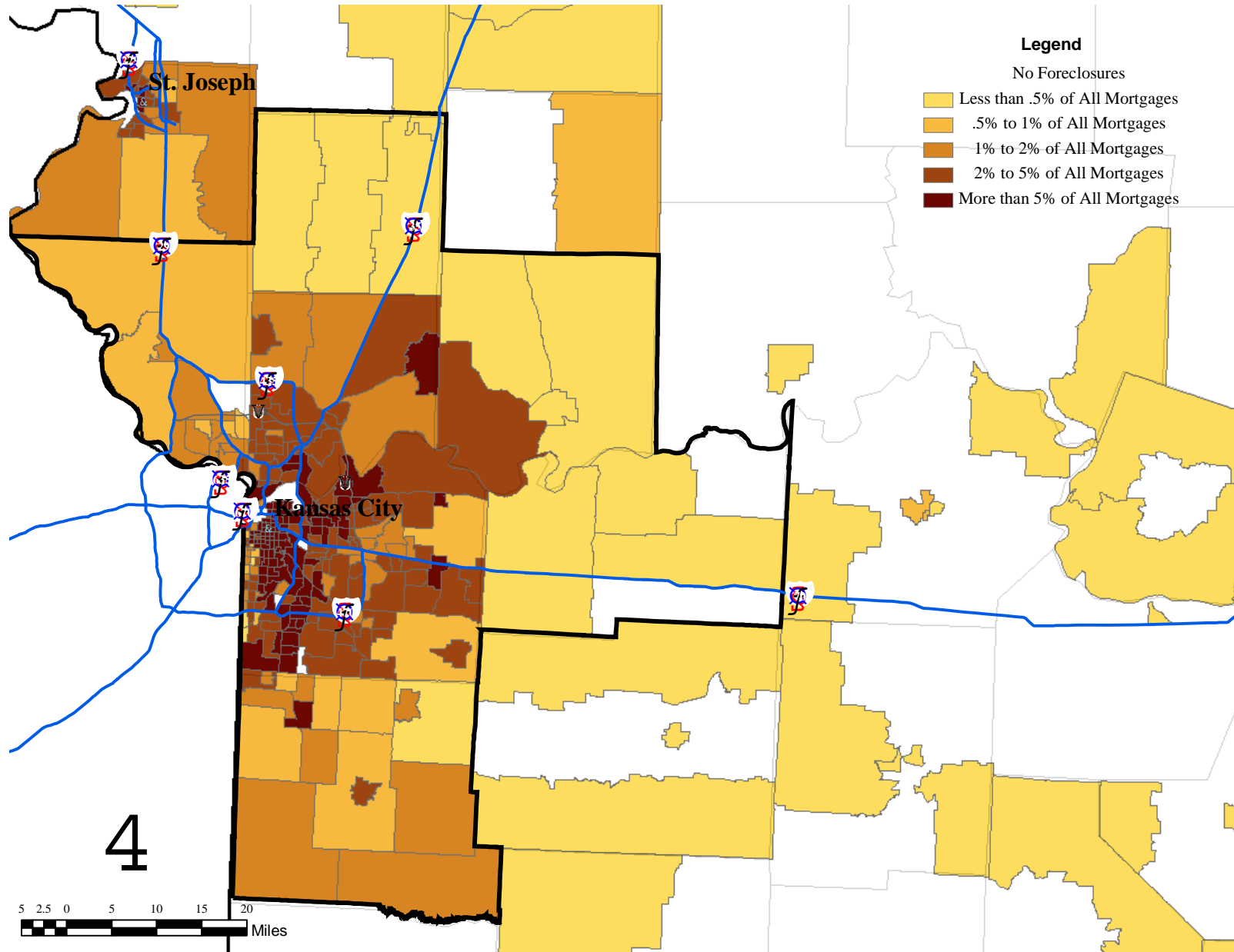
Foreclosure Rate by Census Tract



Source: 2000 U.S. Census

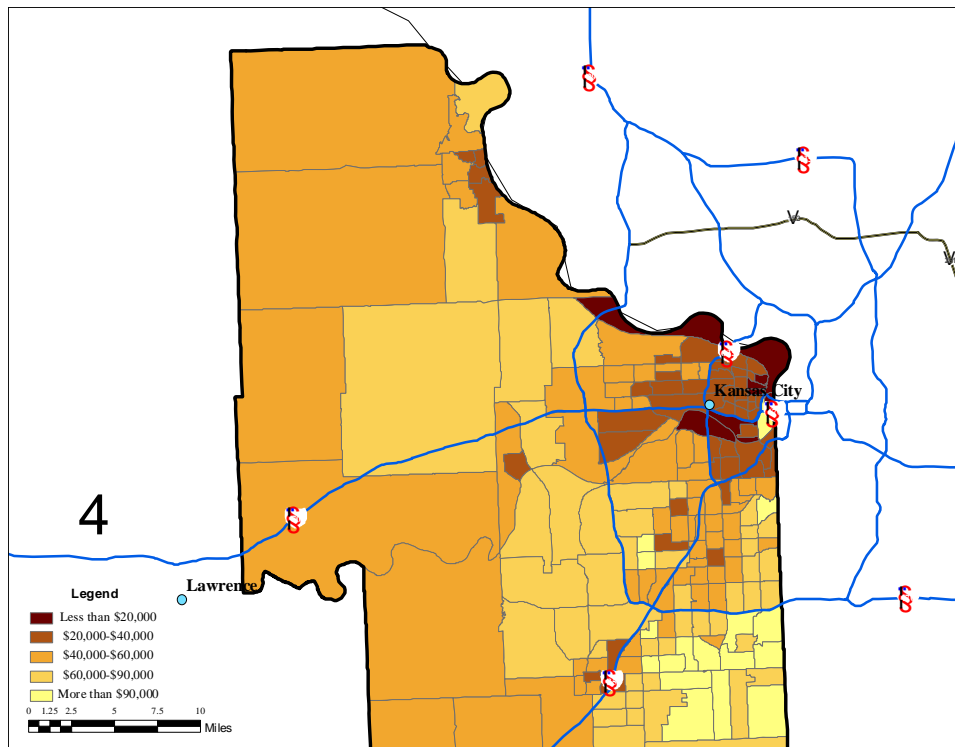
Normalized per number of mortgages outstanding by Census Tract
Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures

Kansas City/St. Joseph Foreclosure Rates, 2007

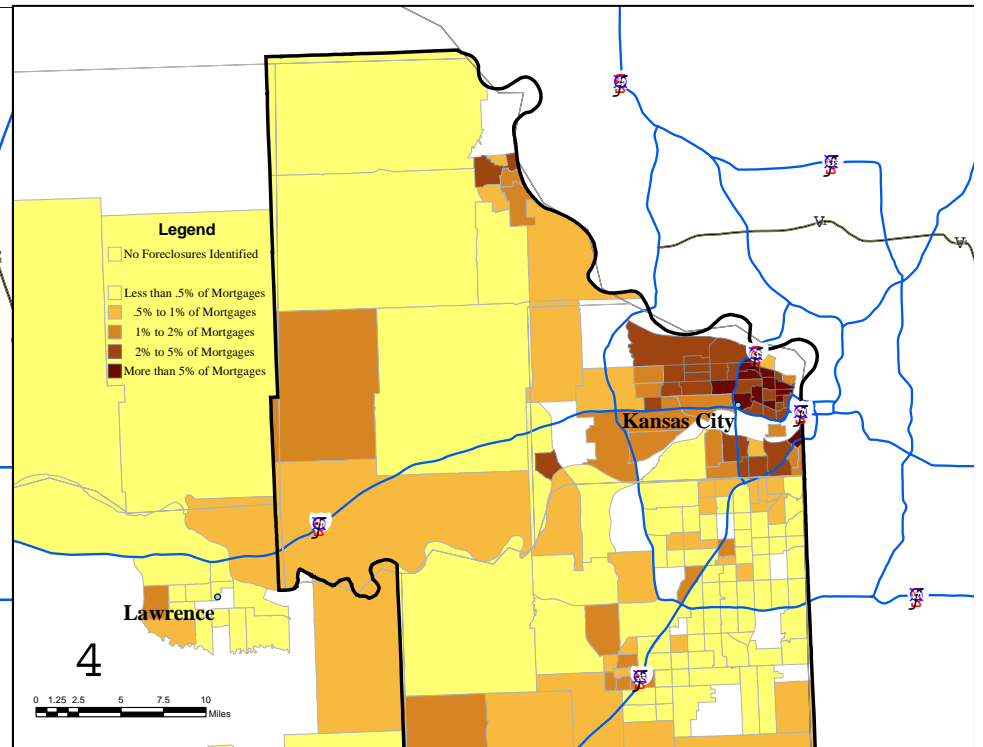


Kansas City Median Household Income and Foreclosure Rates

Median Income by Census Tract

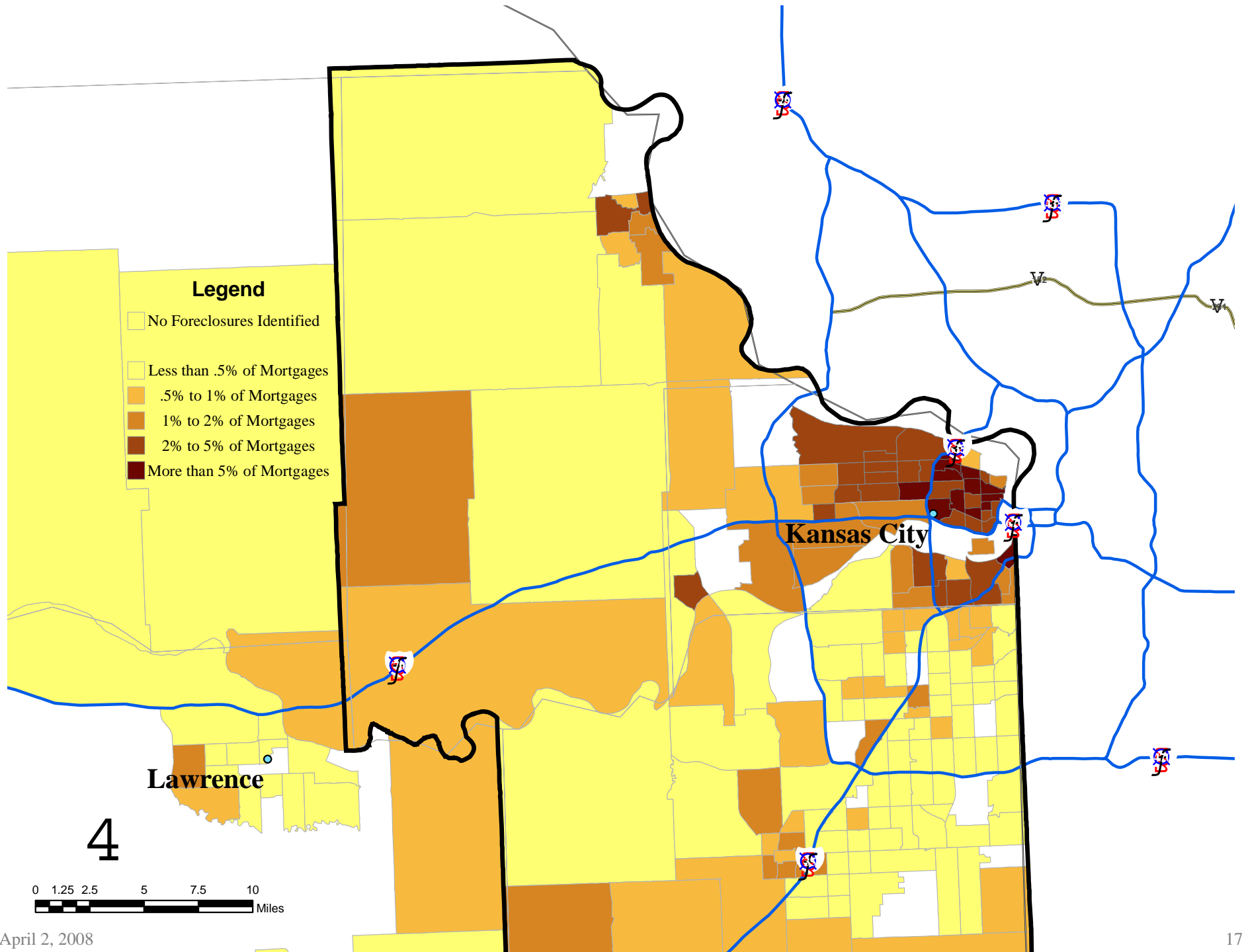


Foreclosure Rate by Census Tract



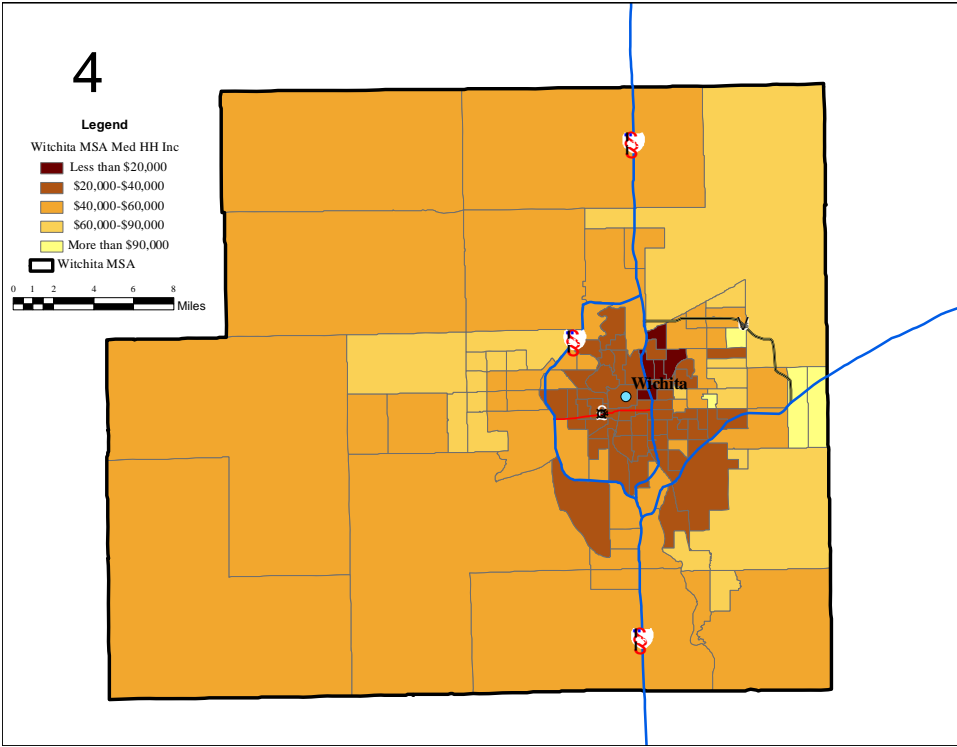
Source: 2000 U.S. Census

Normalized per number of mortgages outstanding by Census Tract
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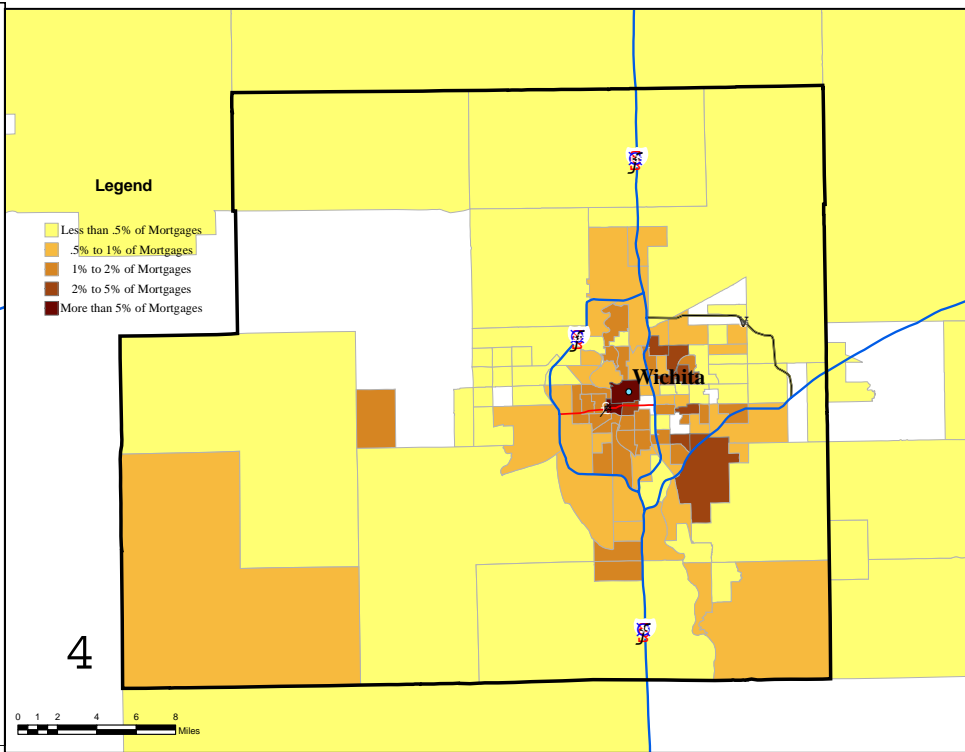
Wichita MSA Median Household Income and Foreclosure Rates

Median Income by Census Tract



Source: 2000 U.S. Census

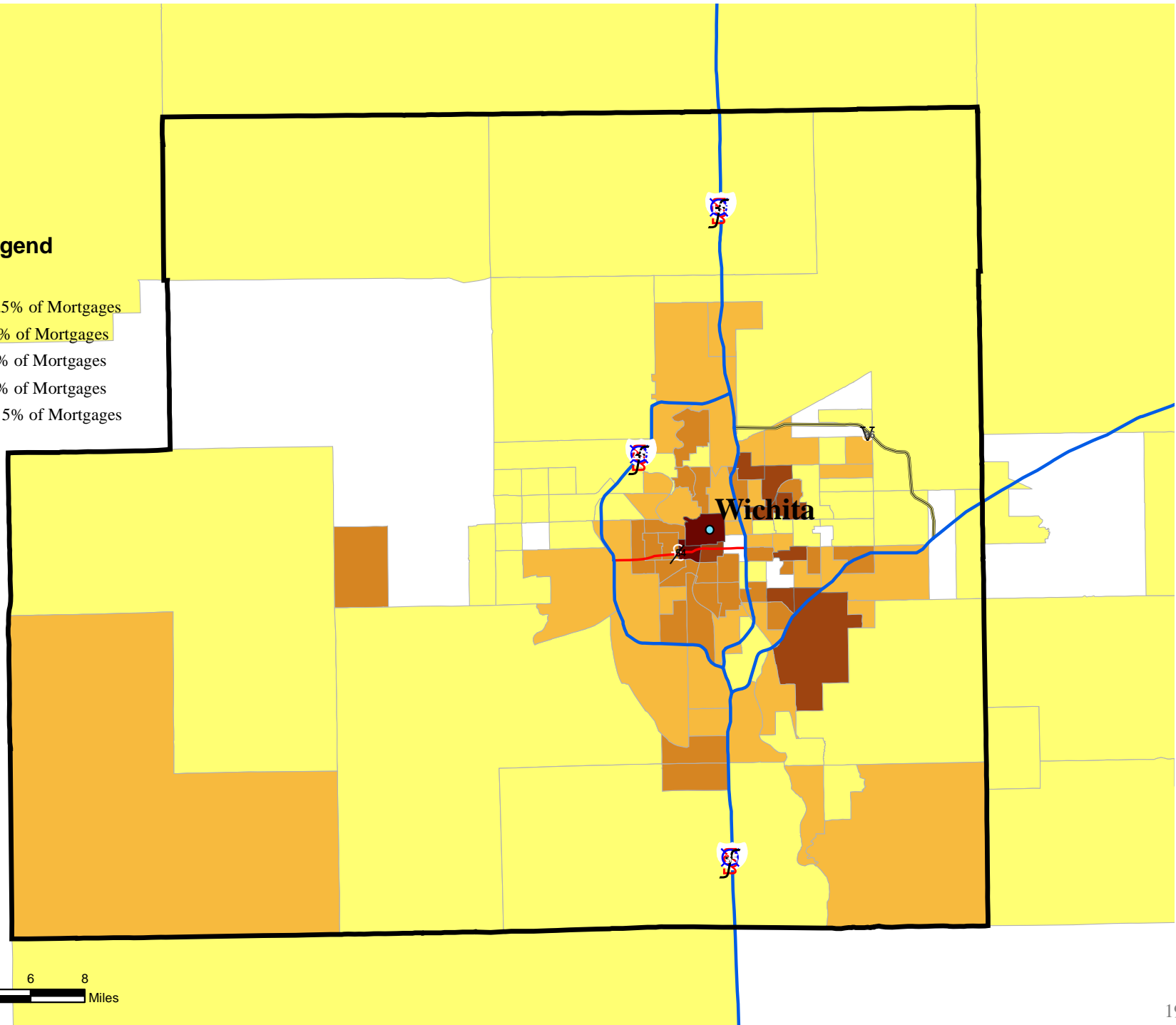
Foreclosure Rate by Census Tract



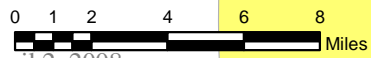
Normalized per number of mortgages outstanding by Census Tract
 Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures

Legend

- Less than .5% of Mortgages
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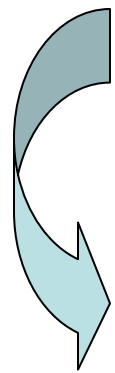


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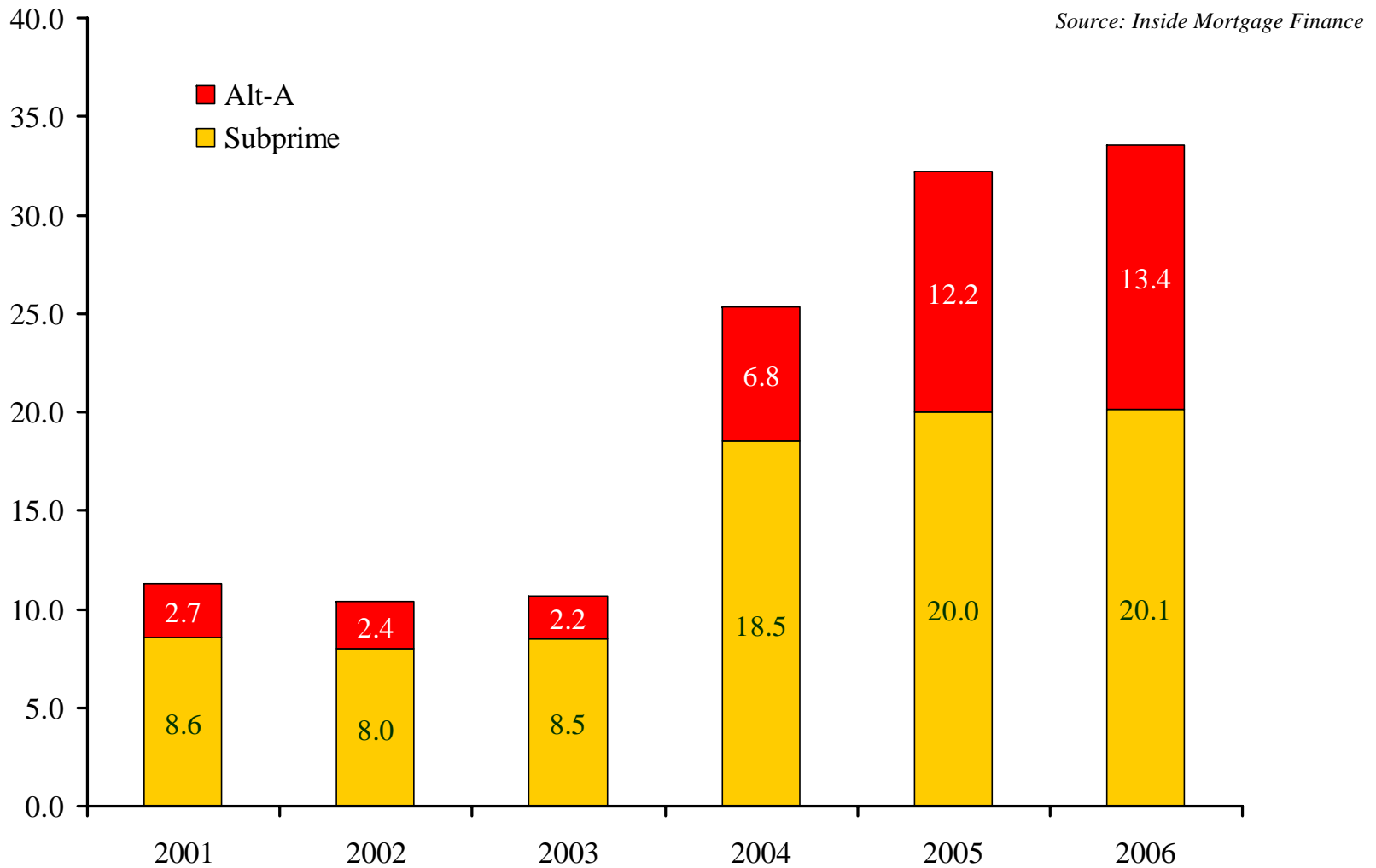
April 2, 2008

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)
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“Nonprime” Mortgage Originations

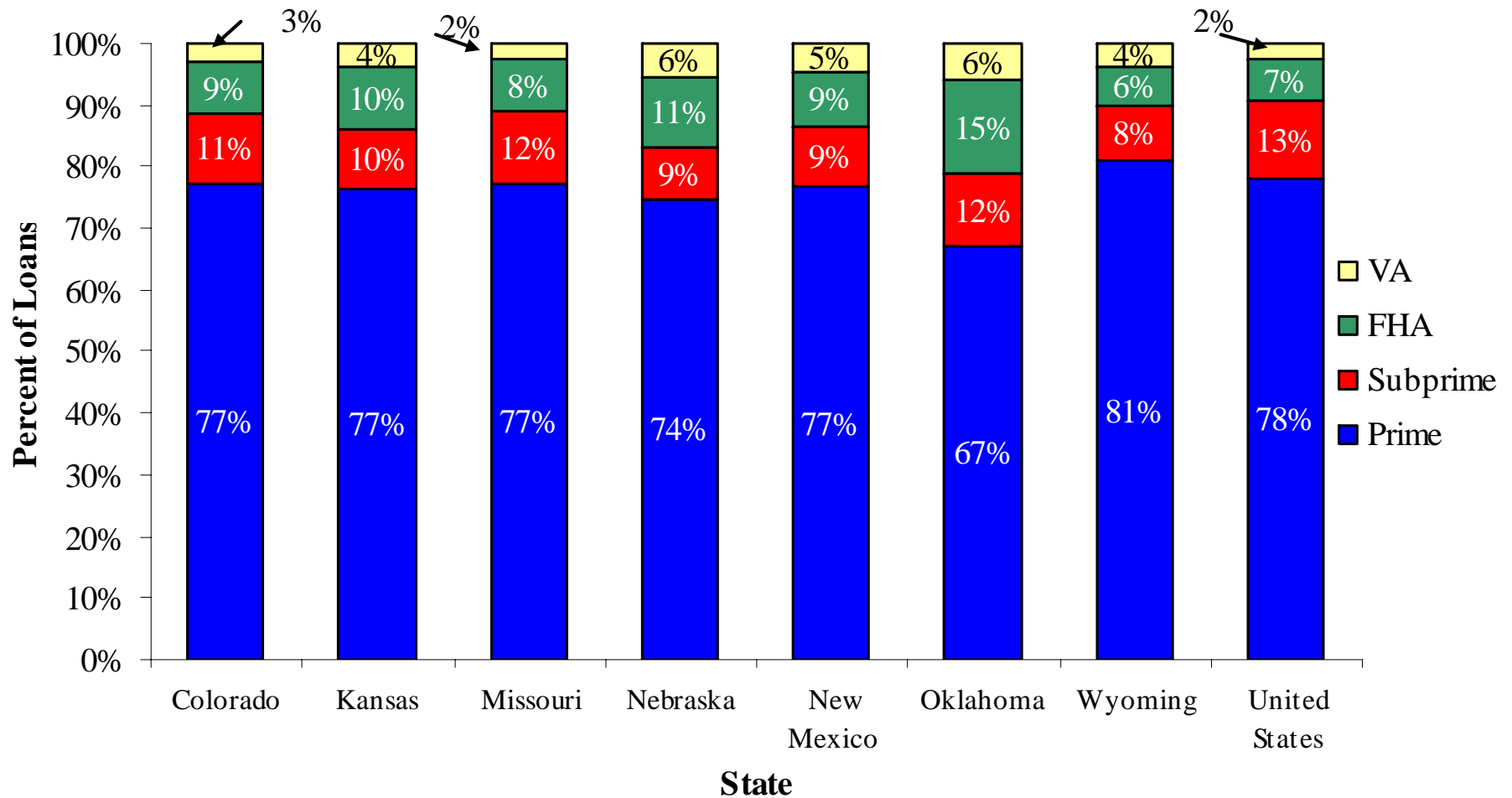


Foreclosure Rates by Type of Mortgage Fourth Quarter, 2007

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

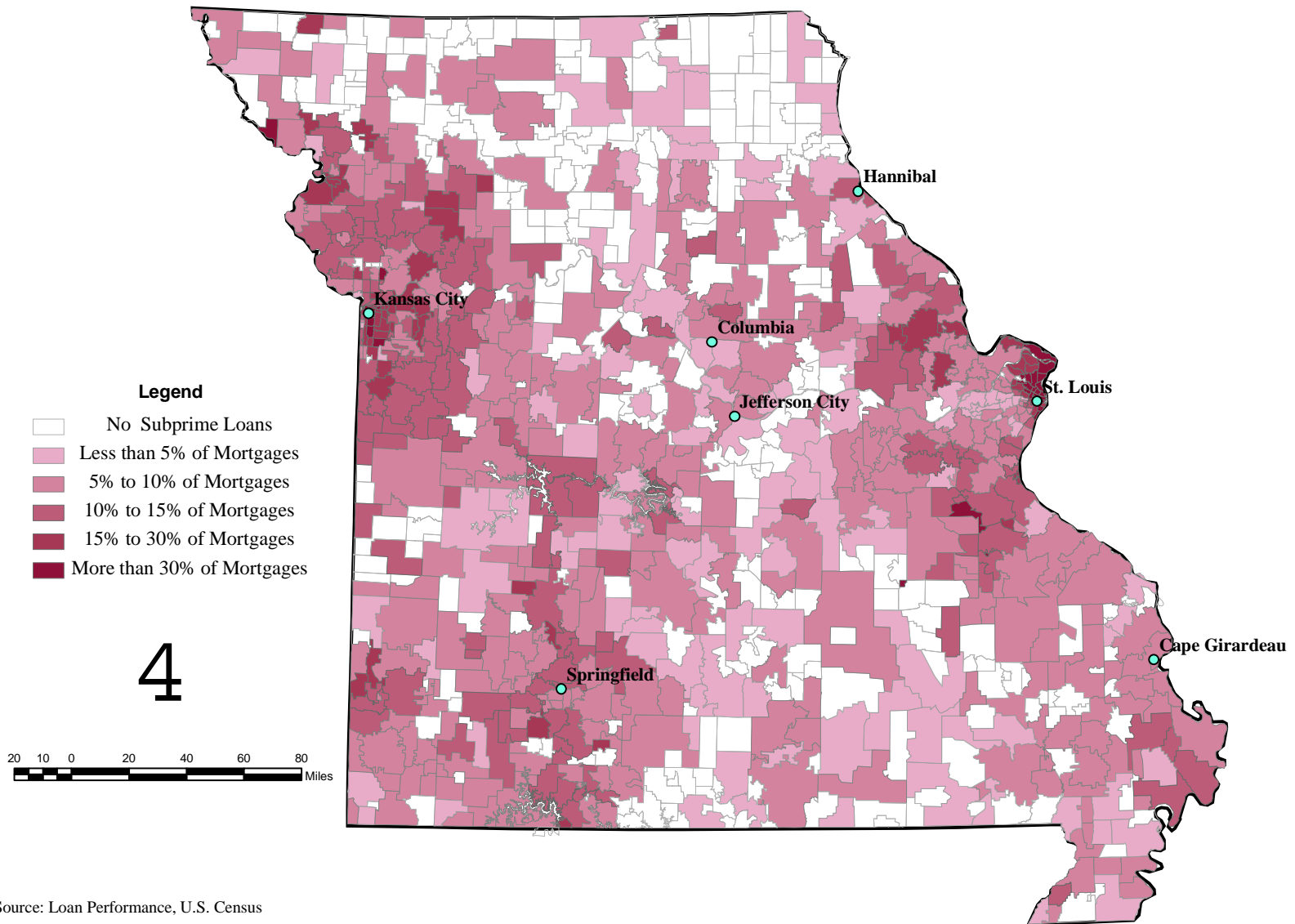
Composition of Outstanding Mortgages



Source: MBA National Delinquency Survey, 4th Quarter 2007

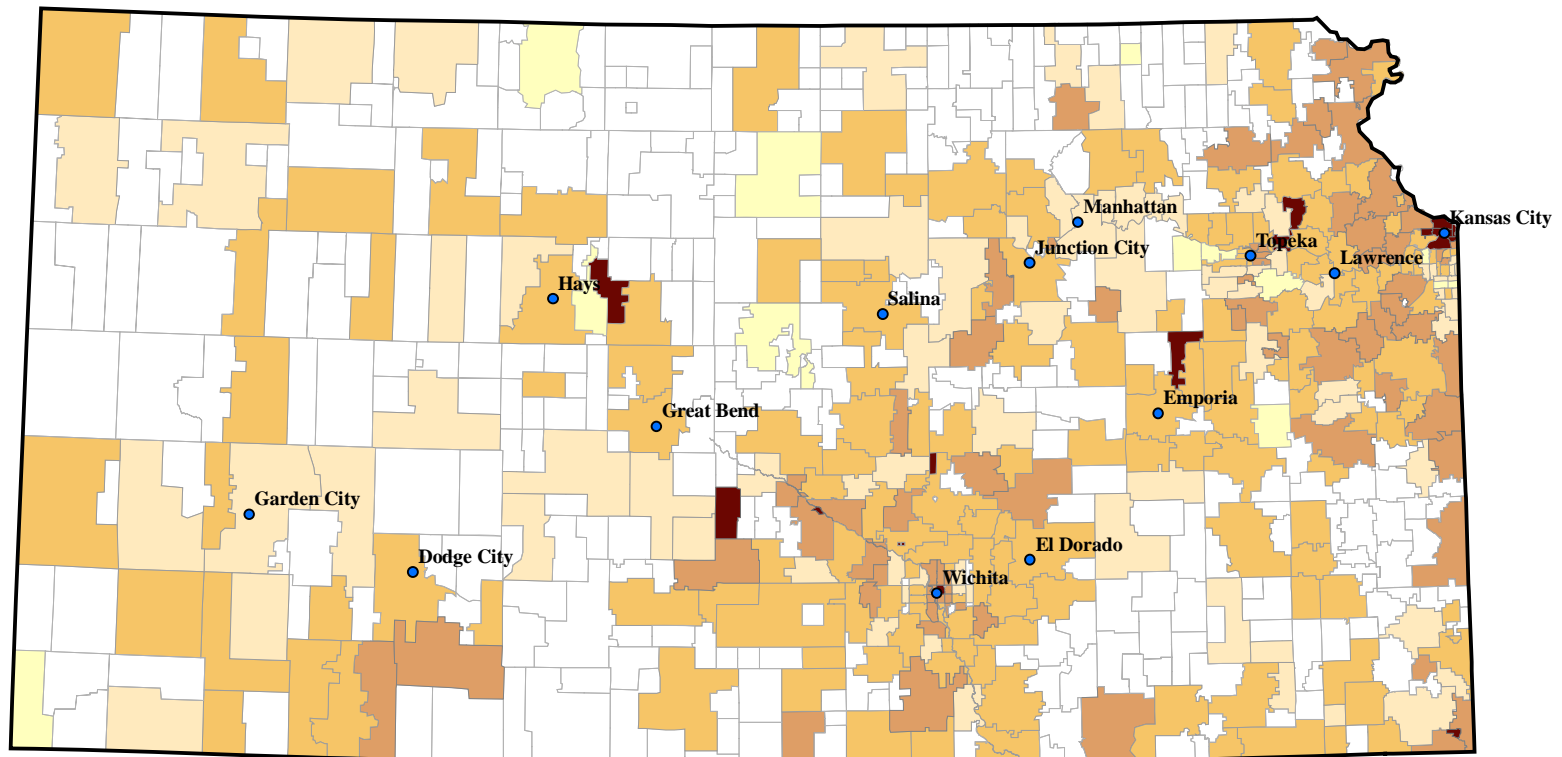
Missouri Subprime Penetration Rate by Zip Code

as of December, 2007

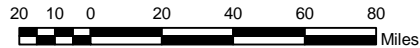
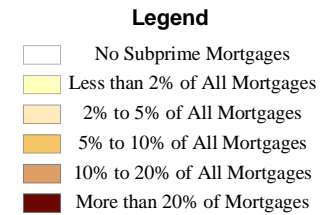


Source: Loan Performance, U.S. Census

Kansas Subprime Penetration Rate by Zip Code

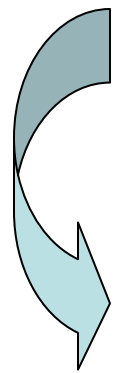


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Source: US Census 2006 American Community Survey, Loan Performance, Geolytics

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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

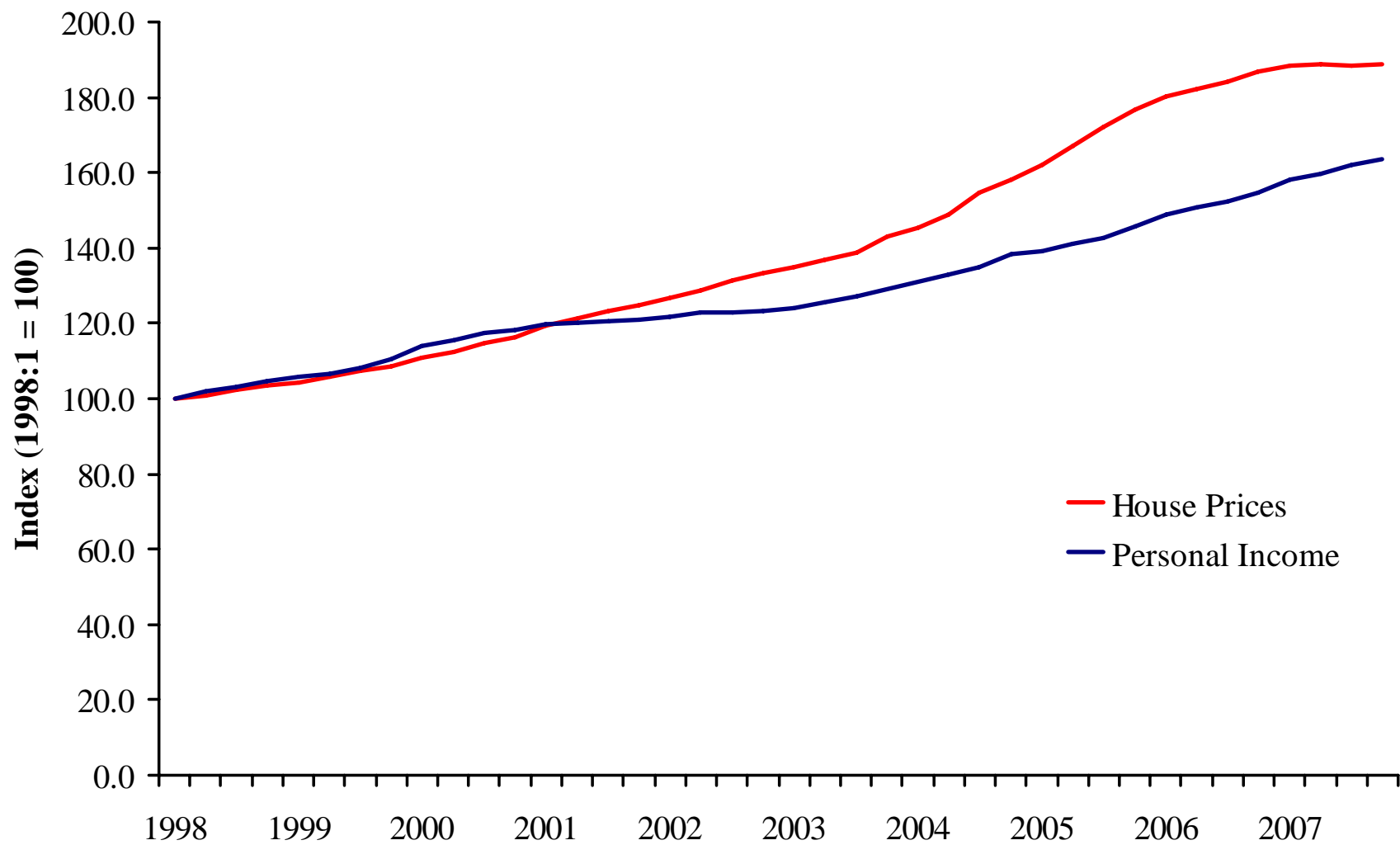
Today

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



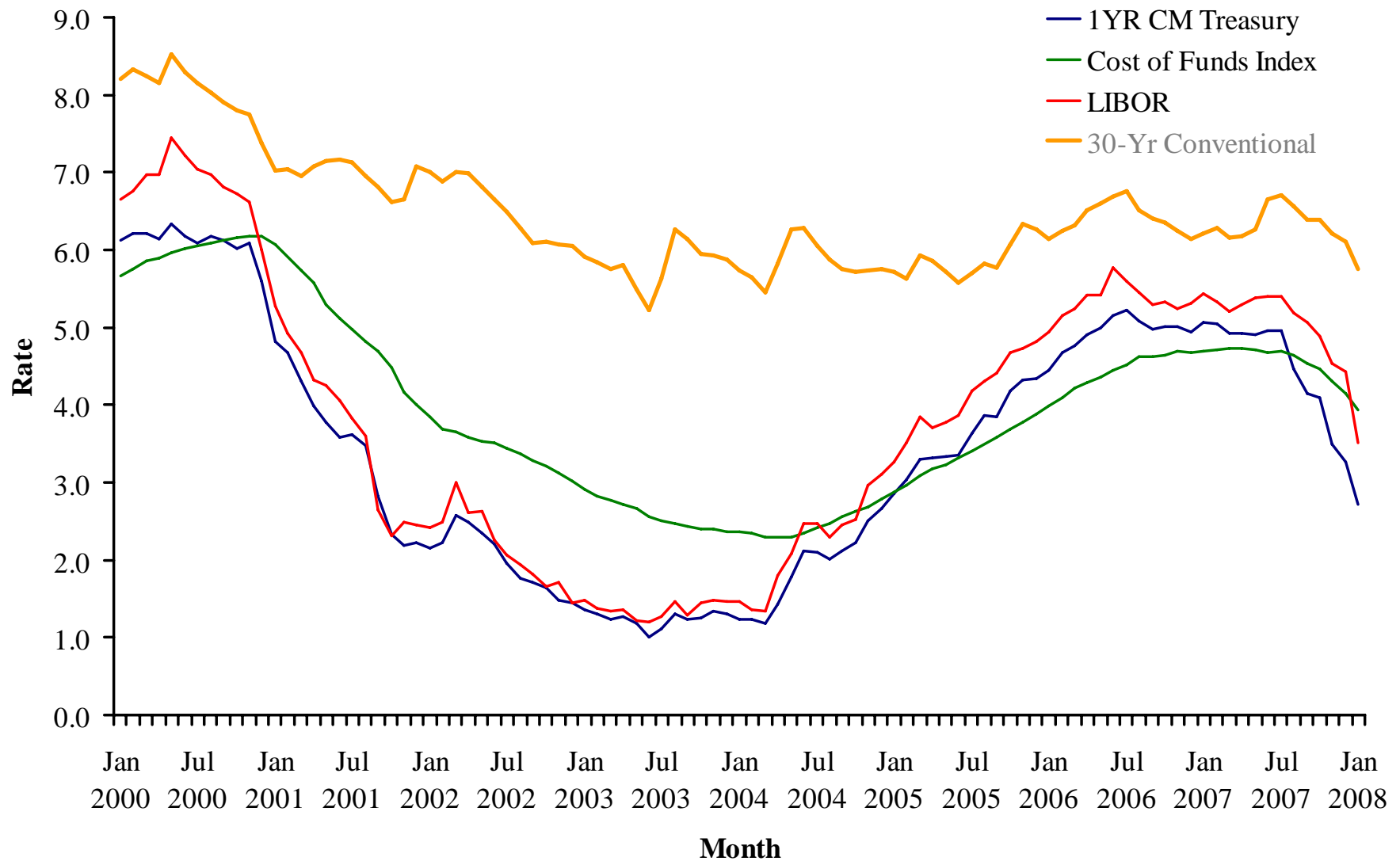
Source: Christopher Henderson, Federal Reserve Bank of Philadelphia

Home Price Appreciation Outpaces Personal Income Growth

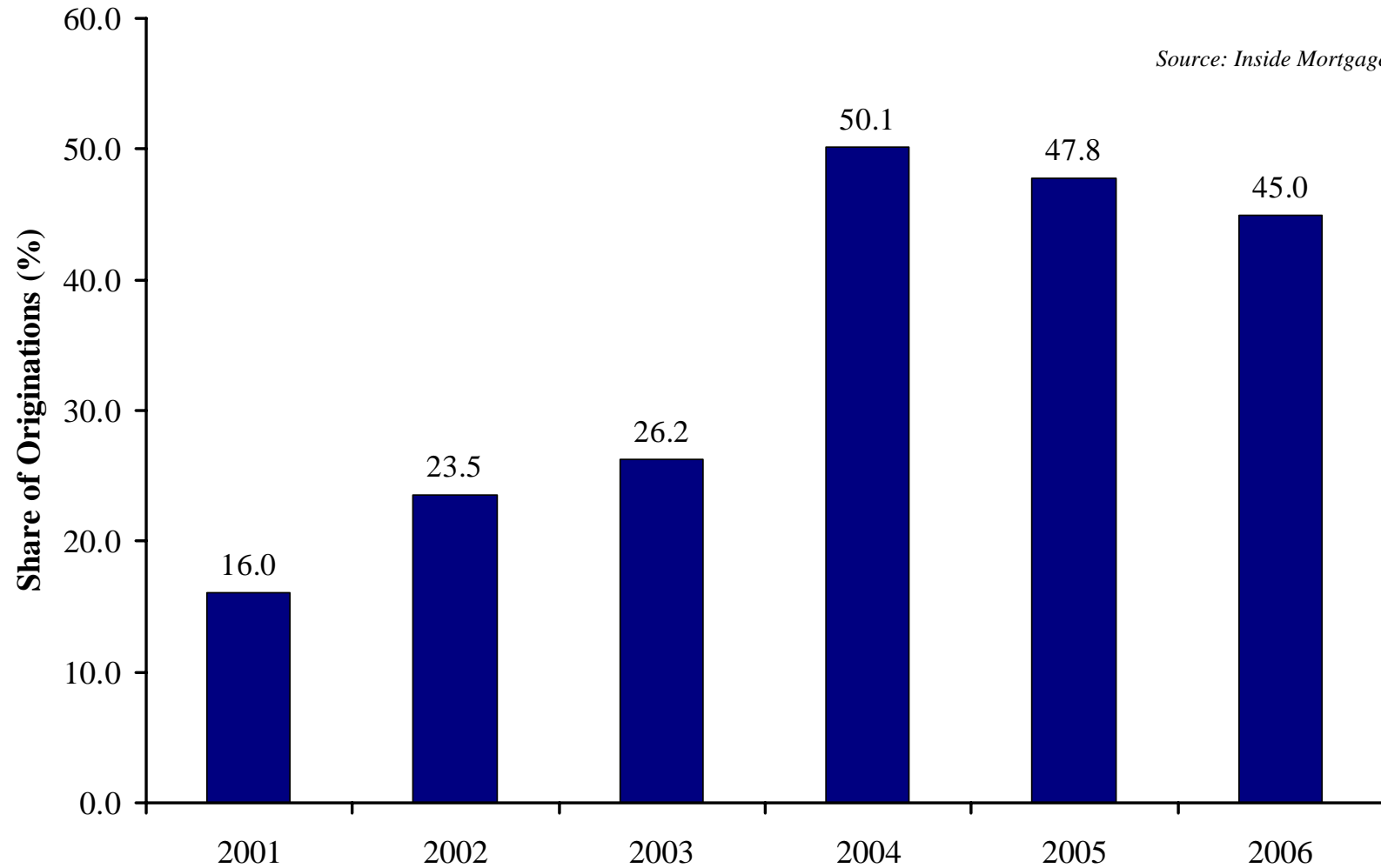


Sources: Office of Housing Enterprise Oversight; U.S. Bureau of Economic Analysis

Interest Rate Indexes, 2000 – Present

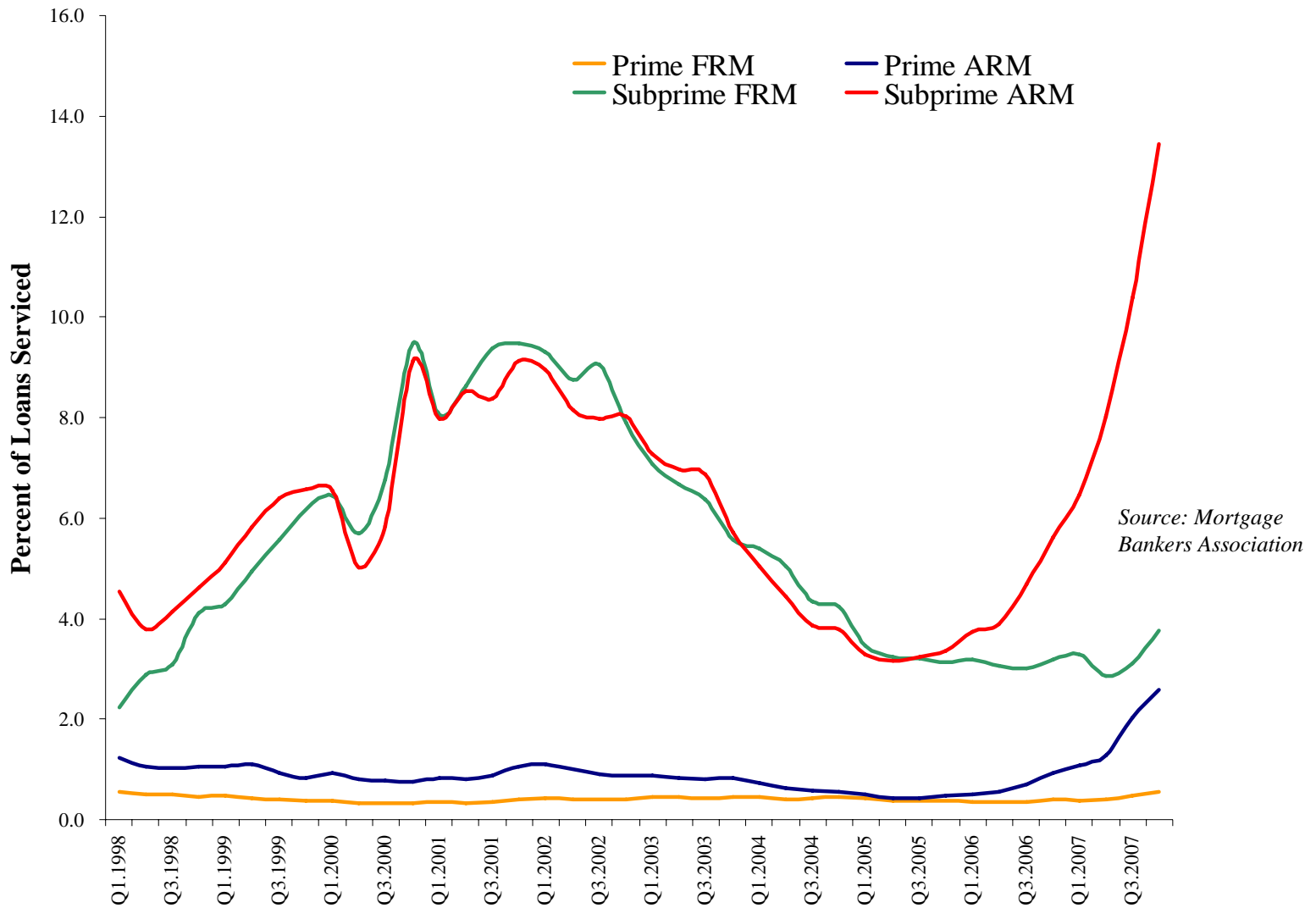


ARM Share of Mortgage Originations

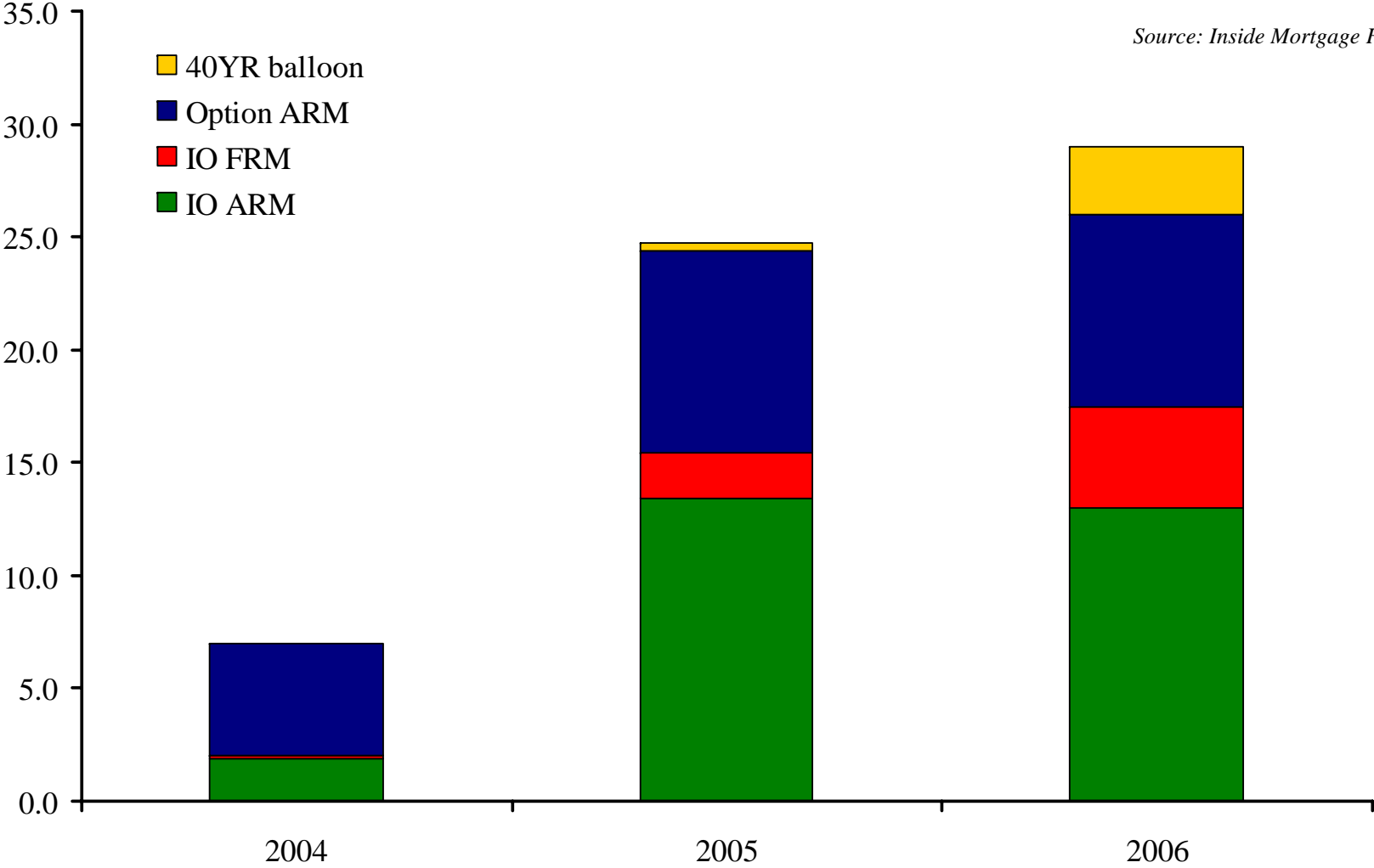


Source: Inside Mortgage Finance

Foreclosure Rate by Loan Type



Alternative Mortgage Originations



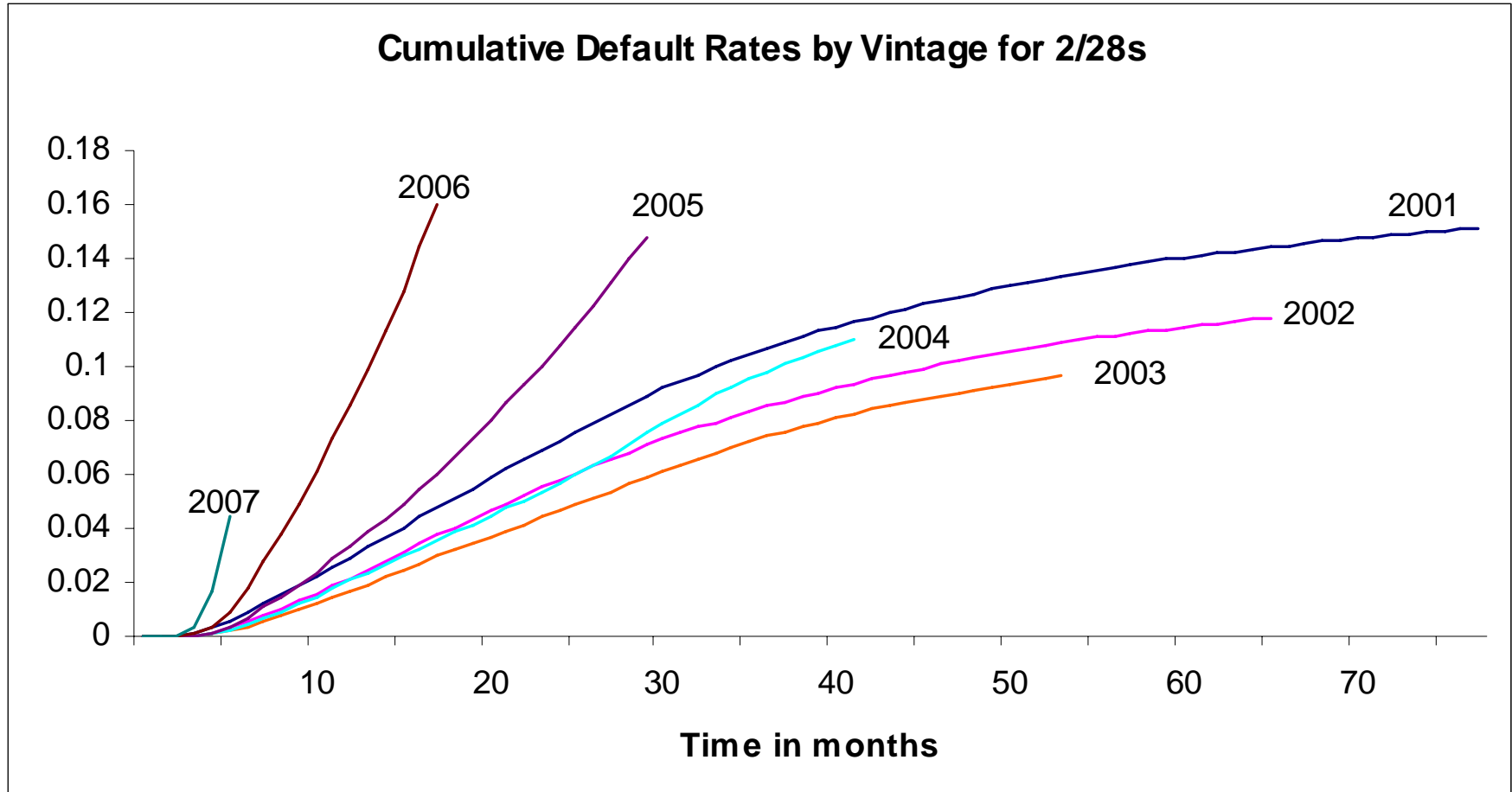
Payment Structure, by Mortgage Type

\$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%

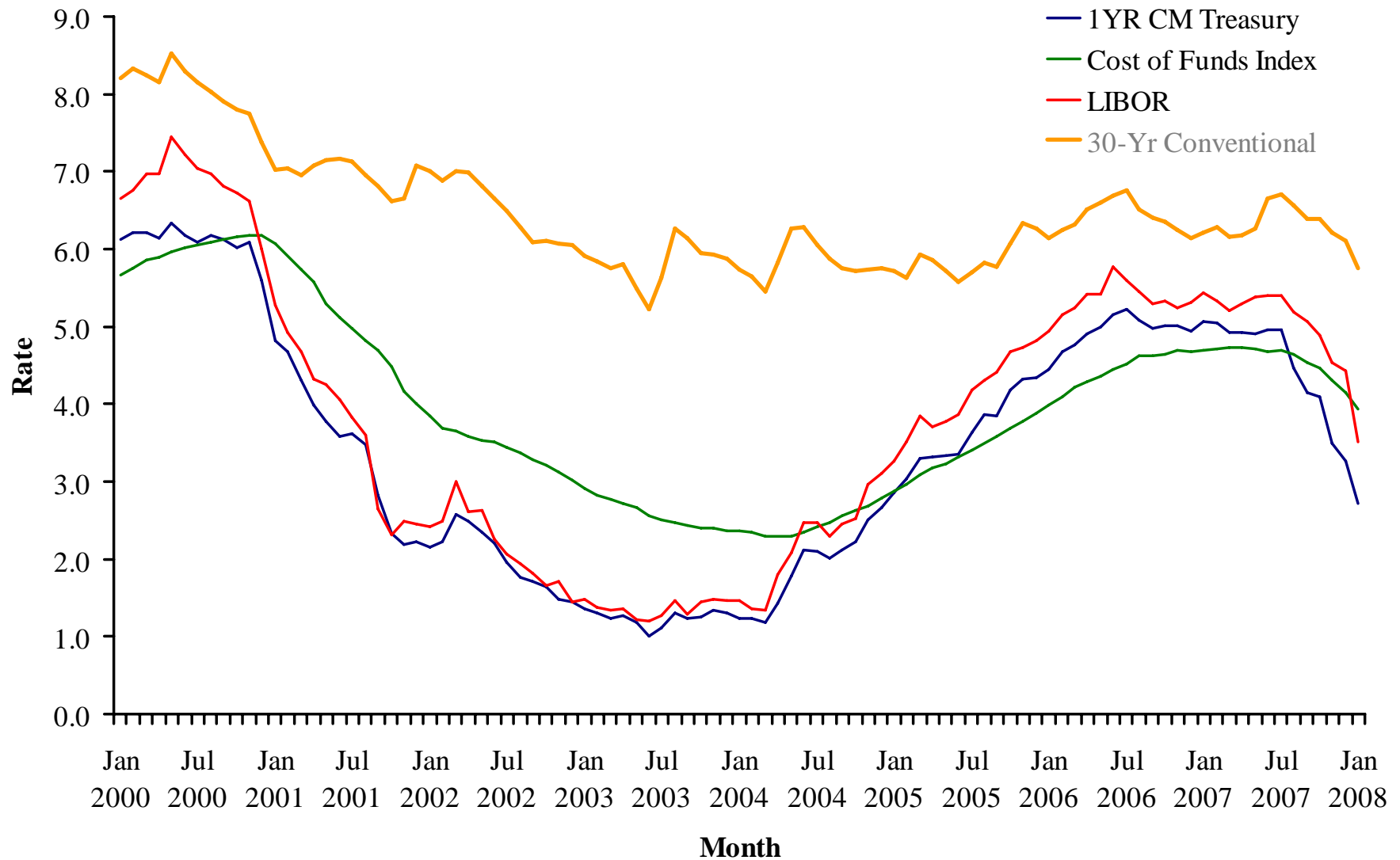
Assumptions: Option ARM has a 7.5% annual increase limit and a 110% negative amortization cap; Option ARM interest accrual is based off 1 year ARM rate as reported by Fannie Mae; Option ARM Minimum Payment is equivalent to a 1% interest rate; FRM is from Fannie Mae 30 Year FRM Index; ARM is set from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

Subprime 2/28 Default Rates

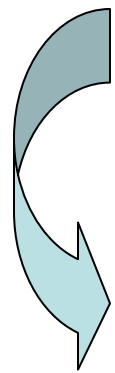


Source: Federal Reserve Board staff calculations from Loan Performance data.

Interest Rate Indexes, 2000 – Present



The Perfect Foreclosure Storm



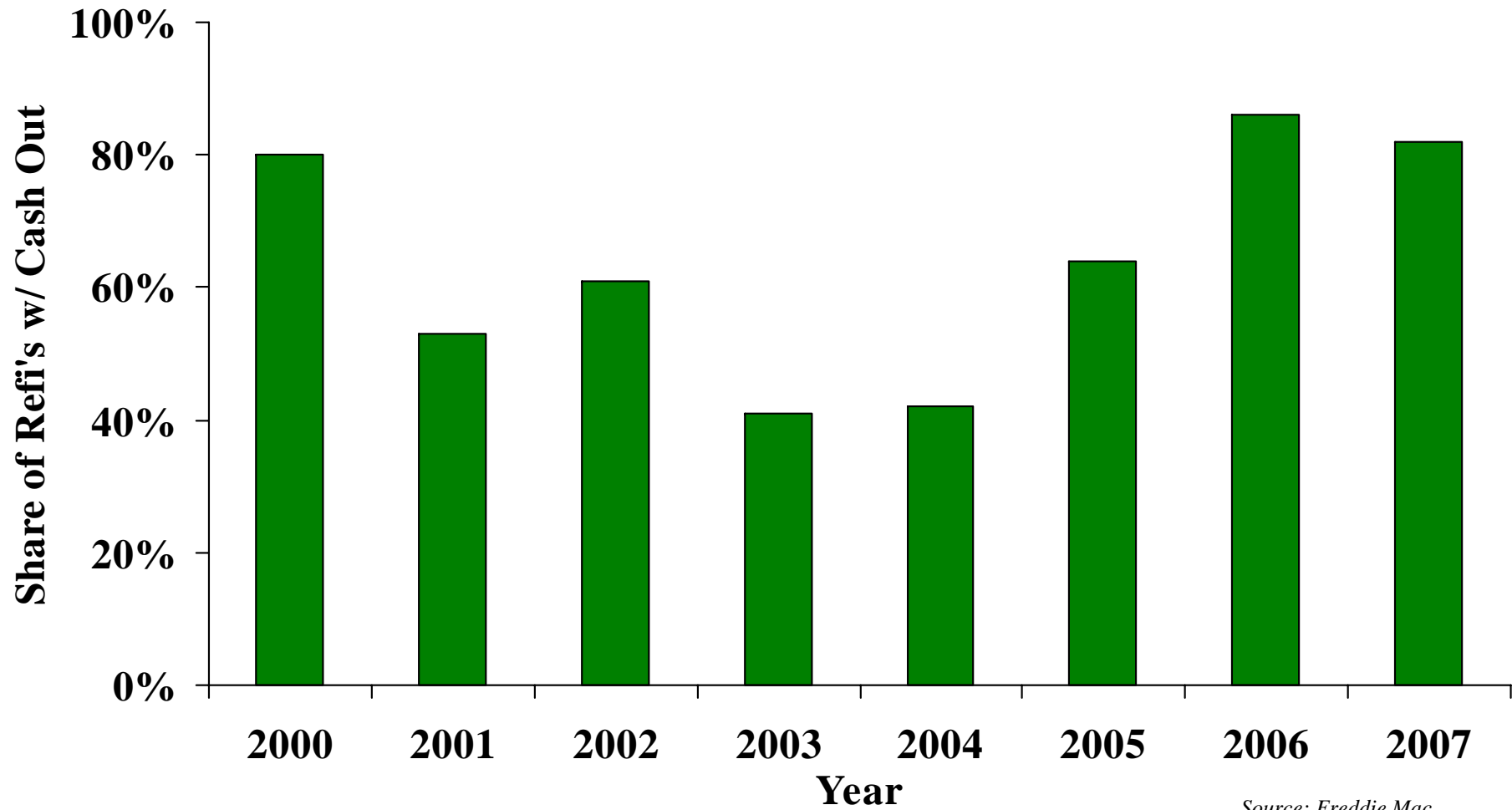
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Loan-to-Value Ratios at Purchase Among Foreclosees (Massachusetts)

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

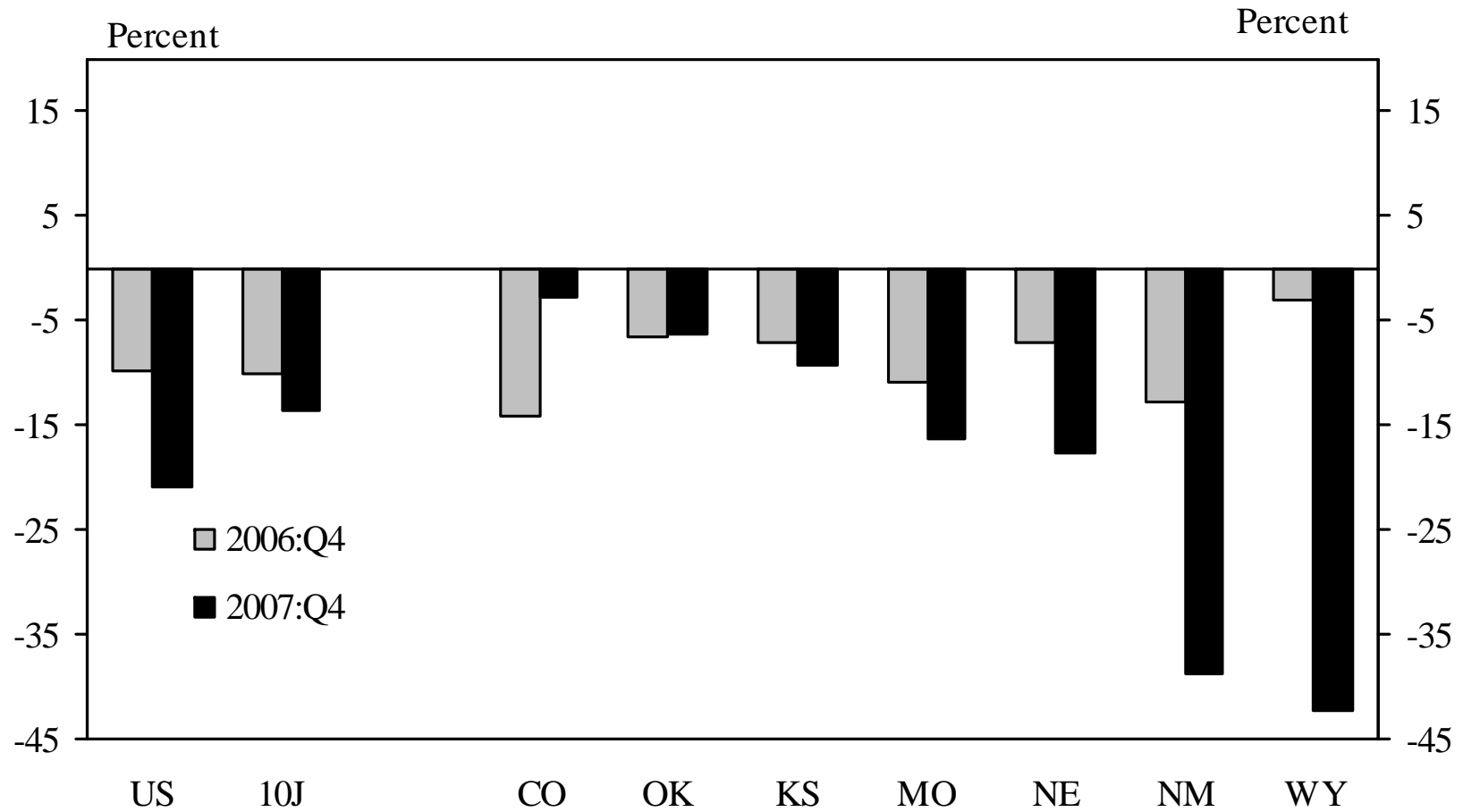
Source: Federal Reserve Bank of Boston

Cash-Out Refinances



Source: Freddie Mac

Existing Home Sales (Y-o-Y Growth)



Source: National Association of Realtors

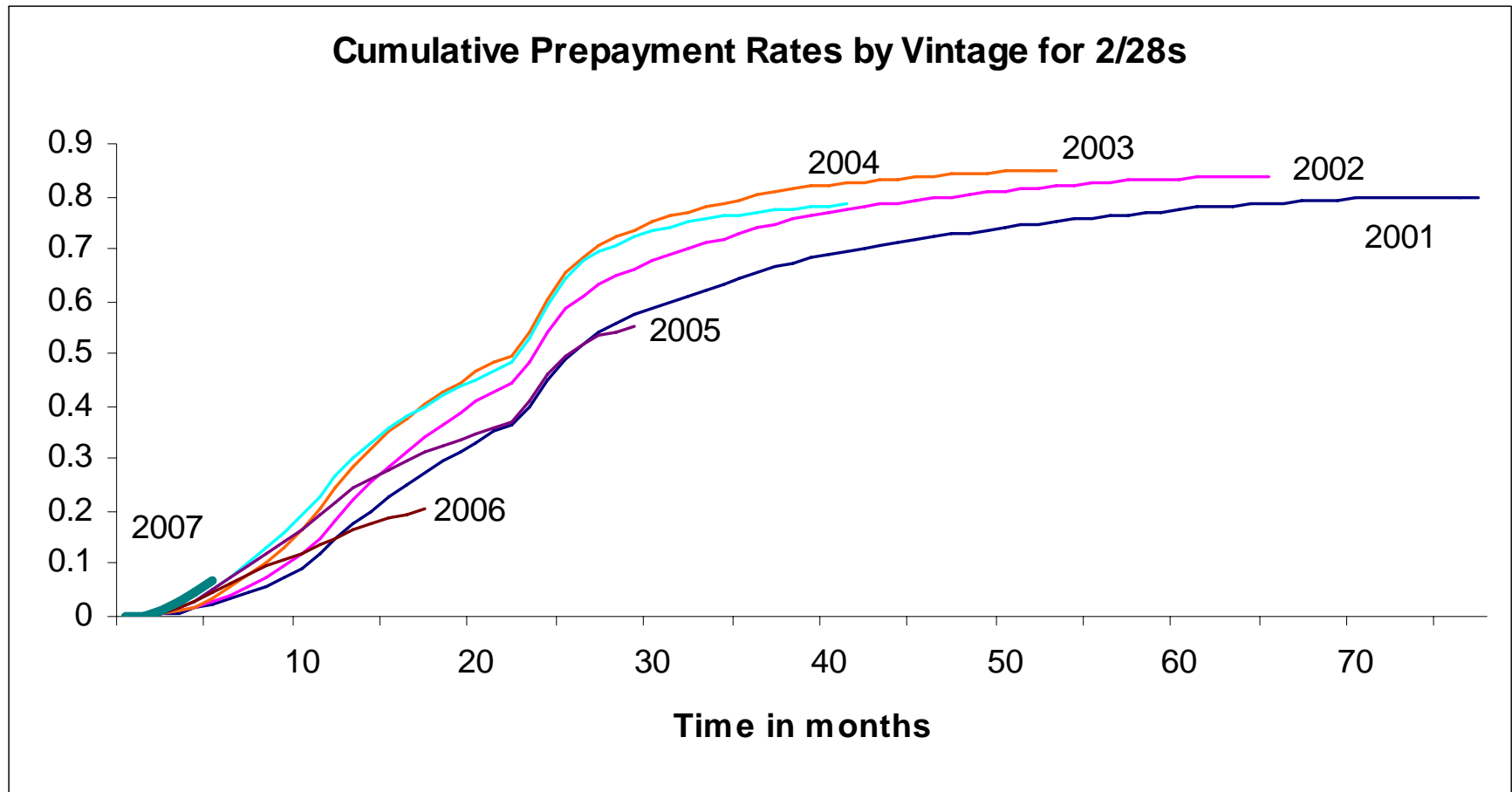
Annual Change in Home Prices, Selected 10J MSAs

	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>
Denver MSA	3.3	1.0	(1.6)
<i>Denver MSA (S&P C-S)</i>	<i>3.9</i>	<i>(0.7)</i>	<i>(4.5)</i>
Kansas City MSA	4.5	(0.6)	(1.7)
Oklahoma City MSA	2.0	9.0	7.4
Omaha MSA	3.7	1.6	(0.3)
Albuquerque MSA	16.4	8.9	7.8

Source: National Association of REALTORS®

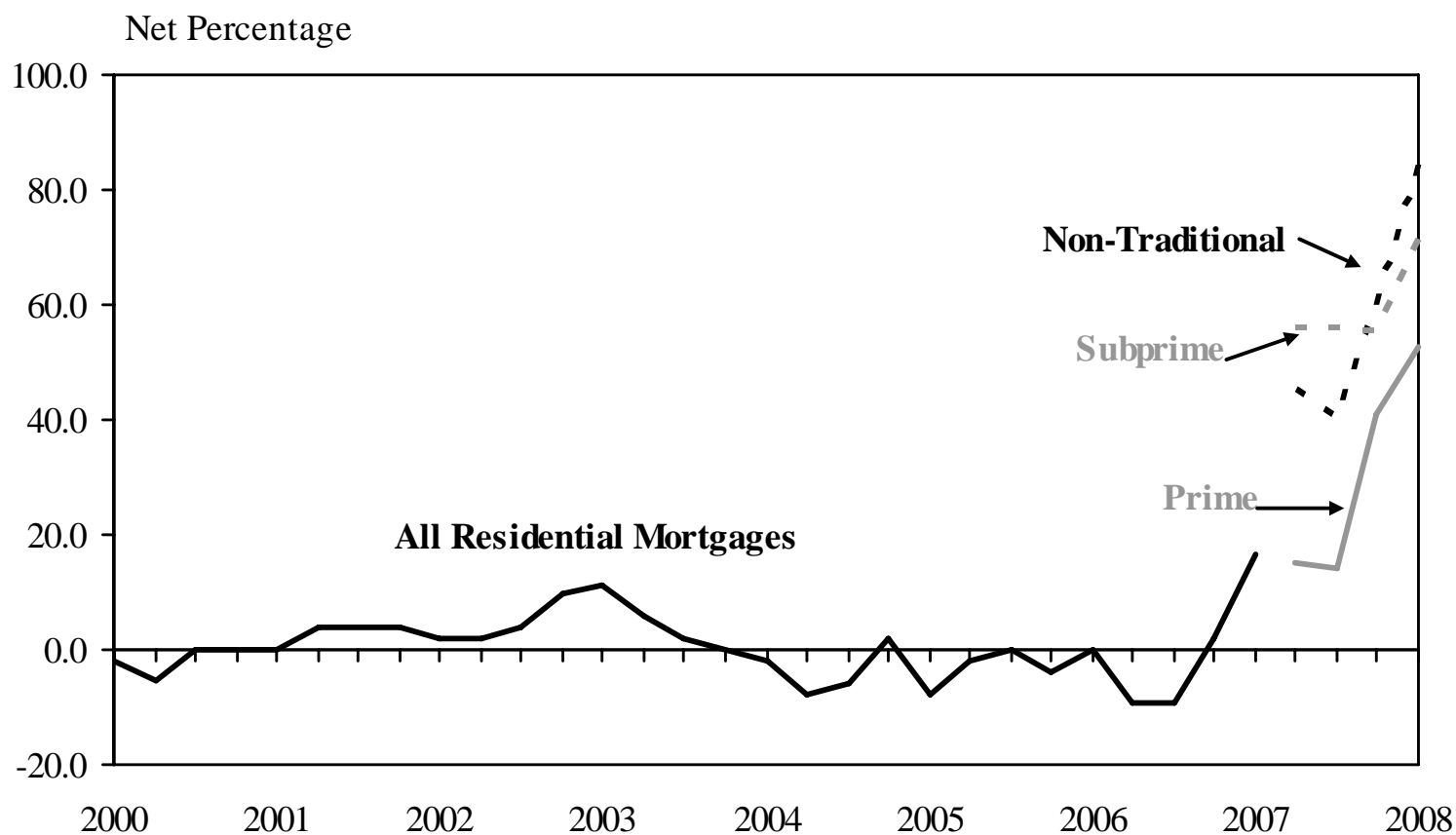
Where Do We Go From Here?

Many 2/28s are Prepaid



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

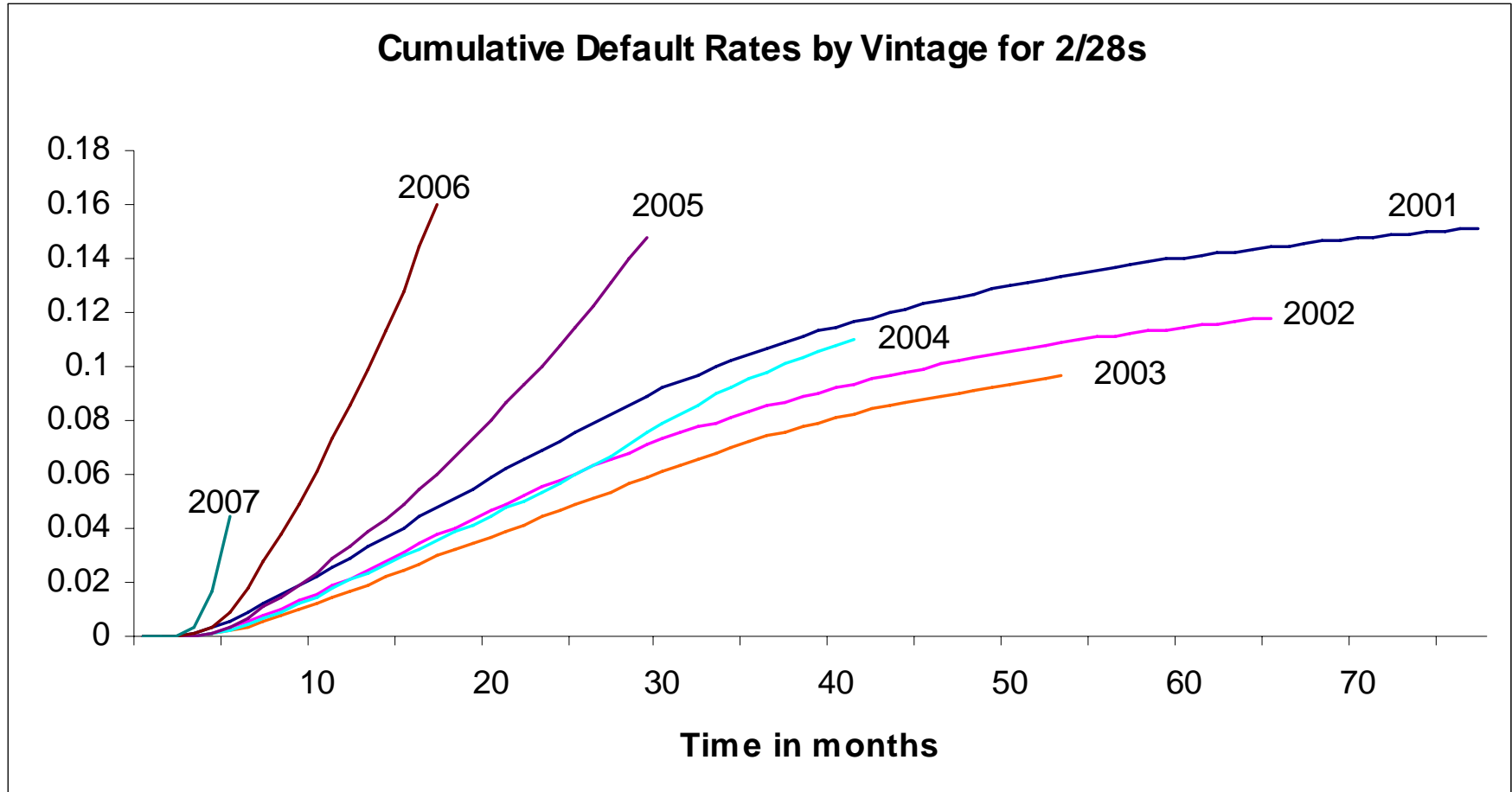
Banks Reporting Tighter Lending Standards for Residential Mortgages



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
 - 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

Federal Reserve Bank of Kansas City and Federal Reserve System Efforts

Federal Reserve System Foreclosure Project Coordinating Committee

- Foreclosure Mitigation Resource Centers on each Federal Reserve Bank website
 - http://qa.chicagofed.org//community_development/foreclosure.cfm

Federal Reserve System Foreclosure Project Coordinating Committee

- Community Foreclosure Toolkit
 - Addressing the problem in your community
 - <http://www.newyorkfed.org/mortgagemaps/>
 - Understanding state foreclosure laws
 - Building coalitions and task forces
 - Informing homeowners in trouble
 - Working directly with borrowers (summits and clinics)
 - Facilitation of communication between servicers, lenders, counselors, and borrowers

Federal Reserve System Foreclosure Project Coordinating Committee

- **Community Foreclosure Toolkit (Continued)**
 - Post-foreclosure solutions
 - Preserving and maintaining foreclosed properties
 - Neighborhood stabilization and revitalization

Federal Reserve System Foreclosure Project Coordinating Committee

- Forging Partnerships
 - HOPE Now
 - Neighborworks America
 - HUD

Federal Reserve System Foreclosure Project Coordinating Committee

- Collecting, Disseminating, and Fostering Mortgage and Foreclosure Research
 - research “snapshot”
 - analytical document
 - identification of gaps in knowledge
 - commissioning of needed research

Federal Reserve System Foreclosure Project Coordinating Committee

- **Communications Strategy**
 - Development of core messages and talking points
 - Development of Q & A document
 - Nationally branded foreclosure web presence
 - Catalogue efforts by the various Reserve Banks

Kansas City Fed Efforts

- Kansas City
- Denver
- Omaha
- Oklahoma City



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