



Subprime LOAN REPORT

Joplin

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Joplin Subprime Loan Report

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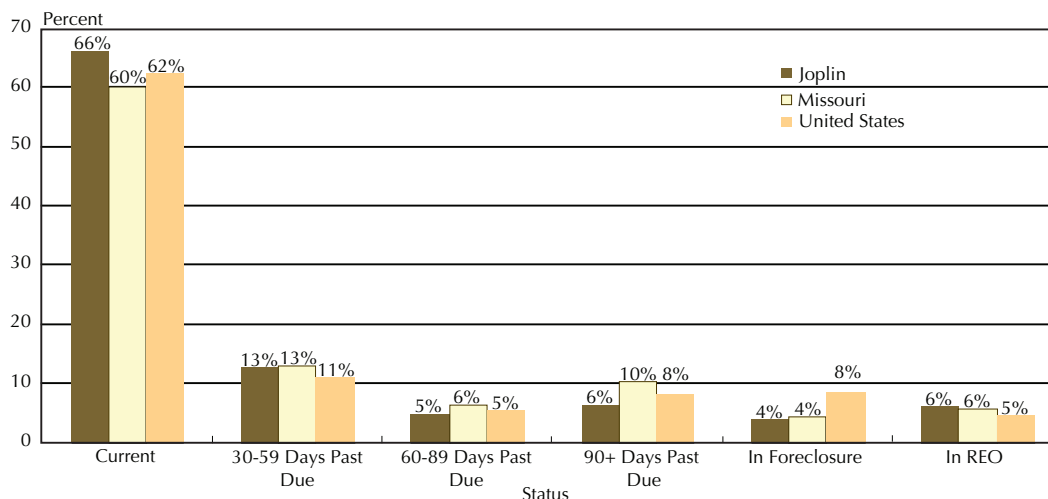
The foreclosure rate of subprime loans in the Joplin, Mo., area was low in 2007 when compared to the nation overall. Almost two-thirds of these loans were current at the end of the year, which represents a better on-time payment record than the nation generally. Although subprime lending in the area experienced a rise in activity in 2006, as seen in many other areas of the country, just more than half of all subprime loans made in 2007 or earlier have reset; the majority of the remaining loans will reset within the next year. A closer examination of this class of mortgages in Joplin reveals the following key findings:

1. The rate of borrowers current on their loans (66 percent) was higher than the national average of 62 percent. The rate of seriously delinquent loans in Joplin – those 60-plus days past due—was lower than the national average for subprime loans in 2007.
2. The origination of subprime loans peaked in 2006, consistent with many areas of the country.

3. The average credit score of the area (605) was lower than the nation (617). Loans in the Joplin area, however, were 13 percent more likely to be fully documented than the nation.
4. Joplin borrowers on average paid higher rates on both fixed-and adjustable-rate loans than the national average.
5. Just more than one-half of the adjustable-rate subprime loans in the area had already reset as of December 2007. More than half the loans still have prepayment penalties in force. Recent declines in international interest rates should help the remaining borrowers facing a reset in the near future.

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Chart 1
Subprime Loan Status



In the Joplin area, although 66 percent of subprime borrowers were current on their loan payments at the end of 2007, 13 percent were more than 30 days past due, and 11 percent were more than 60 days delinquent. Four percent were in foreclosure, and another 6 percent were already owned by the lender (REO).

The origination of subprime loans peaked in 2006, consistent with many areas of the country.

Subprime loans originated in 2006 comprised 35 percent of all subprime loans outstanding in the area at the end of 2007. Twenty-nine percent were originated in 2005, 29 percent were made in 2004 or earlier, and only 7 percent were originated in 2007. This distribution of lending is

generally representative of the nation as a whole, although slightly less weighted towards the 2006 stock.

The average credit score of the area (605) was lower than the nation (617). Loans in the Joplin area, however, were 13 percent more likely to be fully documented than in the nation as a whole.

The recent rise in foreclosures has been largely associated with subprime lending. These subprime loans have recently been characterized, in part, by the credit score of the borrower. The FICO credit score was developed by Fair Isaac & Company and is frequently used by many mortgage lenders to determine the possibility of default. As such, it may affect the interest rate charged to the

Chart 2
The Timing of Subprime Origination

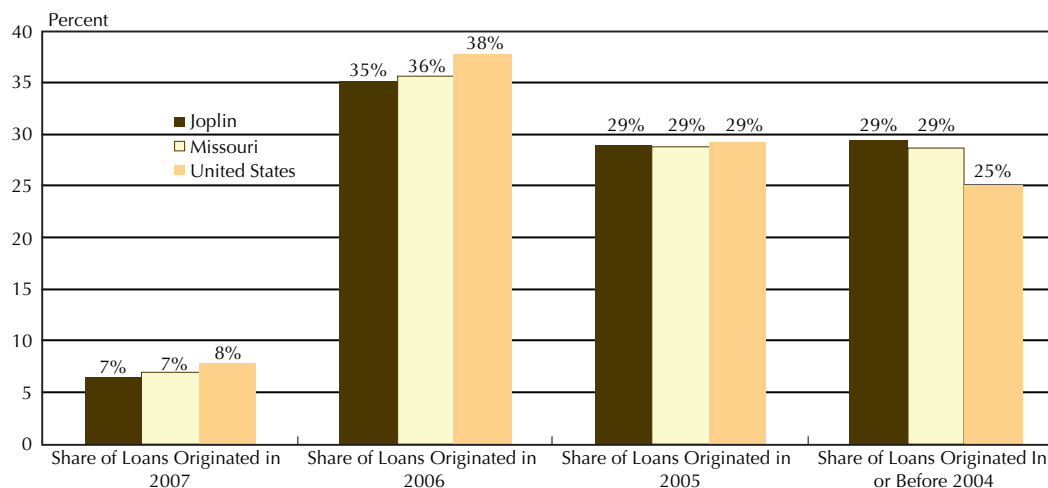
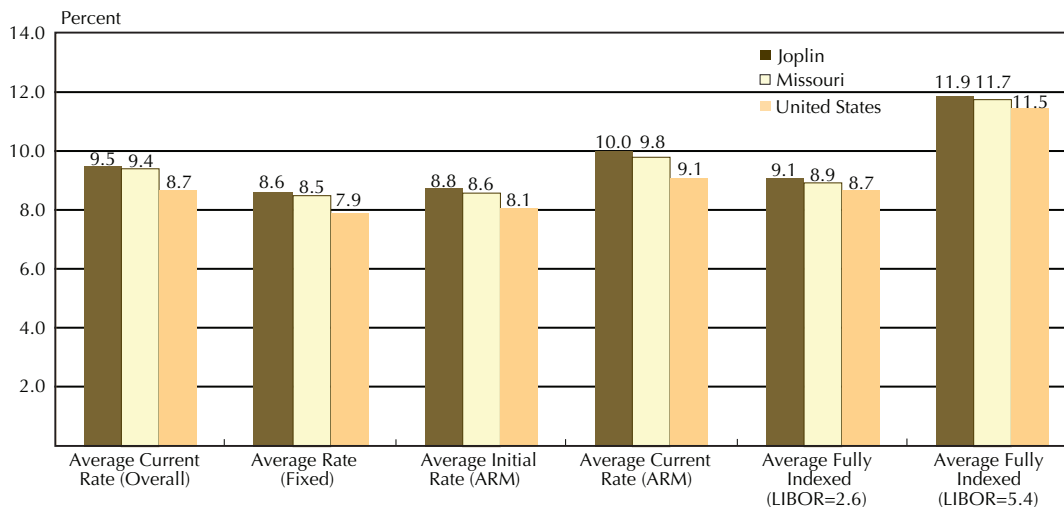


Chart 3

Average Interest Rates on Subprime Loans



borrower to compensate for the perceived risk of the loan. The FICO score is one determinant used to classify a loan as subprime. Joplin borrowers' credit scores were lower, on average, than those in the nation as a whole.

The share of property financed also affects the classification of the loan as subprime, particularly when the loan amount is more than 90 percent of the value of the property. The share of loans with high loan-to-value ratios (more than 90 percent) was greater in the Joplin area (42 percent) than nationally (37 percent).

The level of documentation provided for loans is yet another factor used in loan classification. Low-documentation loans are more likely to be classified as subprime. The subprime loans of the Joplin area were primarily fully documented, which is an important factor in providing sound underwriting. Eighty percent of the loans were fully documented in Joplin, which is higher than the national average of 67 percent.

Joplin borrowers on average paid higher rates on both fixed- and adjustable-rate loans than either the state or the nation on average.

The relatively lower credit scores and large proportion of high loan-to-value products suggest higher interest rates for borrowers in the Joplin area, and this scenario is in fact what was found. Joplin subprime borrowers on average

paid rates several basis points higher than the national average. In 2007, on fixed-rate loans, they paid 8.6 percent versus 7.9 percent nationwide. Initial adjustable rates for the area were 8.8 percent versus 8.1 percent nationally. At the end of 2007, the average current rate paid for adjustable-rate loans was almost full percent point higher (10.0 percent versus 9.1 percent).

Just more than one-half of the adjustable-rate subprime loans in the area had already reset as of December 2007. More than half the loans still have prepayment penalties in force. Recent declines in international interest rates should help the remaining borrowers facing a reset in the near future.

Approximately half of adjustable-rate subprime loans in Joplin had already reset by 2008. Another 36 percent of loans will reset within the next year. Resets on adjustable-rate loans often cause concern among borrowers who may potentially face higher payments. The reset rates of adjustable-rate mortgages (ARMs) are generally indexed to the London Interbank Offered Rate (LIBOR). Throughout much of 2007, LIBOR was near 5.4 percent, making resets to around 11.9 percent likely in the Joplin area. LIBOR has declined substantially, however, over the past few months, making resets closer to 9.1 percent likely in the area, which is a little more than a one-half percent rise from the average initial rate on loans in the area.

In addition to facing resets, many subprime loans were made with prepayment penalties. A prepayment penalty is a provision in the contract with the lender that states that in the event the loan is paid off entirely, the borrower will pay additional costs. Penalties are usually expressed as a percent of the outstanding balance at the time of prepayment, or a specified number of months of interest. A relatively high number (88 percent) of subprime loans in the Joplin market included prepayment penalties relative to 73 percent nationwide. At the end of 2007, 51 percent of subprime loans in the area had a prepayment penalty still in effect. For those subprime borrowers wishing to refinance, prepayment penalties may limit their ability to do so. For this group of borrowers particularly, the decline in LIBOR may alleviate some of the expected difficulties of refinancing.

This analysis of subprime loans in the Joplin MSA was conducted using estimates provided by the Federal Reserve Board and the Federal Reserve Bank of Kansas City based on First American LoanPerformance data from December 2007. This data source includes more than 70 percent of securitized subprime loans made nationally, so these estimates should accurately reflect the subprime loan pool in the Joplin MSA. Jane Dokko and Andreas Lehnert at the Board of Governors provided many of the estimates used in this report.

The analysis and views in this report are the authors' and do not necessarily reflect the views of the Federal Reserve System.