Rural Nebraska Housing Trends and Issues

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The views expressed are those of the author and do not necessarily reflect the positions of Federal Reserve Bank of Kansas City or the Federal Reserve System.
Housing Trends and Issues

• Housing weakness leads to an economic slowdown.
• Rural areas face different challenges.
  – Quality of homes
  – Abandoned homes
  – Access to rental units
Home prices outpace income gains nationally, but not in Nebraska.

U.S. and Nebraska Home Price-to-Income Ratio

Index (2000:Q1=100)

Source: Census Bureau and Bureau of Economic Analysis
As a result, the use of ARMs and Sub-prime loans accelerated.
### Hypothetical Initial and Reset Mortgage Payments by Loan Type
($200,000 first mortgage initiated in June 2004)

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Initial Payment</th>
<th>Payment at Reset</th>
<th>Payment Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Yr FRM</td>
<td>$1237</td>
<td>$1237</td>
<td>-</td>
</tr>
<tr>
<td>3/1 Prime ARM</td>
<td>$1039</td>
<td>$1420</td>
<td>37%</td>
</tr>
<tr>
<td>3/1 Prime Interest-Only ARM</td>
<td>$786</td>
<td>$1462</td>
<td>86%</td>
</tr>
<tr>
<td>3/27 Sub-prime ARM</td>
<td>$790</td>
<td>$1741</td>
<td>120%</td>
</tr>
<tr>
<td>3/1 Sub-prime Option ARM</td>
<td>$643</td>
<td>$1907</td>
<td>196%</td>
</tr>
</tbody>
</table>

Source: Edmiston (2007)
Foreclosures accelerated in 2007 ...

Home Foreclosure Inventory

Percent of loans serviced

Source: Mortgage Bankers Association
Led by rising foreclosures of ARMs and Sub-prime loans.

Foreclosure Rates by Mortgage Type

Percent of loans serviced

Source: Mortgage Bankers Association
## Subprime Adjustable Rate Mortgage Resets
### Fourth Quarter 2007

<table>
<thead>
<tr>
<th>State</th>
<th>Percent of Subprime ARMs Already Reset</th>
<th>Percent of Subprime ARMs Resetting in the next 11 Months</th>
<th>Percent of Subprime ARMs Resetting in 12-23 Months</th>
<th>Percent of Subprime ARMs Resetting in 24+ Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>41.1</td>
<td>39.0</td>
<td>19.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Wyoming</td>
<td>37.8</td>
<td>41.3</td>
<td>23.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Nebraska</td>
<td>53.6</td>
<td>37.4</td>
<td>13.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Missouri</td>
<td>49.7</td>
<td>36.0</td>
<td>17.0</td>
<td>4.9</td>
</tr>
<tr>
<td>New Mexico</td>
<td>36.0</td>
<td>35.8</td>
<td>25.3</td>
<td>8.4</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>51.8</td>
<td>34.9</td>
<td>14.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Colorado</td>
<td>51.4</td>
<td>32.6</td>
<td>15.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Kansas</td>
<td>52.7</td>
<td>31.6</td>
<td>15.4</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board of Governors
Housing Trends and Issues

• Housing weakness leads to an economic slowdown.
• Rural areas face different challenges.
  – Affordability not a major issue
  – Quality of homes
  – Abandoned homes
  – Access to rental units
**Rural Nebraska has More Affordable Homes**

**Median Home Value to Income Ratio**

Source: U.S. Census Bureau
Rural Nebraska tends to have older homes.

Percent of Homes Built Before World War II

Source: U.S. Census Bureau
Rural Nebraska has more Abandoned Homes

Percent of Homes that are Abandoned

Source: U.S. Census Bureau
Rural Nebraska has Fewer Rental Homes

Percent of Homes that are Renter-Occupied

Source: U.S. Census Bureau
In SE Nebraska, mid-priced homes are less prevalent

Source: U.S. Census Bureau
Housing Trends and Issues

• Nebraska takes a glancing blow from a weak housing market
• Housing issues are different in rural Nebraska.
  – Rural housing is affordable.
  – But the quality of homes and
  – Access to rental and mid-priced homes is a challenge.