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

Community Development Advisory Council
Federal Reserve Bank of Kansas City
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U.S. Foreclosure Rate, 1979 – Present

Source: Mortgage Bankers Association
U.S. Foreclosure Initiation Rate

Source: Mortgage Bankers Association

AK = Nonjudicial
HI = Equally
NJ indicates that nonjudicial foreclosure is an option in the state, but judicial foreclosures generally are pursued.

Legend

Judicial / Nonjudicial Foreclosure

- Equally
- Judicial
- Nonjudicial

Data Source: RealtyTrac
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

Legend
- No Foreclosures
- Less than .5% of Mortgages
- .5% - 1% of Mortgages
- 1% to 2% of Mortgages
- 2% to 5% of Mortgages
- More than 5% of Mortgages
- Data not Available

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**

Legend:
- Median Household Income in MSA
  - Less than $20,000
  - $20,000-$40,000
  - $40,000-$60,000
  - $60,000-$90,000
  - More than $90,000

Legend:
- No Foreclosures
- Less than .5% of All Mortgages
- .5% to 1% of All Mortgages
- 1% to 2% of All Mortgages
- 2% to 5% of All Mortgages
- More than 5% of All Mortgages

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

Legend
- No Foreclosures
- Less than .5% of All Mortgages
- .5% to 1% of All Mortgages
- 1% to 2% of All Mortgages
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Kansas City Median Household Income and Foreclosure Rates

Median Income by Census Tract

Foreclosure Rate by Census Tract

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Source: 2000 U.S. Census

Source: 2000 U.S. Census and RealtyTrac Survey of New Foreclosures

April 2, 2008
K. Edmiston, FRB KC
Legend

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- .5% to 1% of Mortgages
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- 2% to 5% of Mortgages
- More than 5% of Mortgages
Wichita MSA Median Household Income and Foreclosure Rates

Median Income by Census Tract

Legend
- Less than $20,000
- $20,000-$40,000
- $40,000-$60,000
- $60,000-$90,000
- More than $90,000

Foreclosure Rate by Census Tract

Legend
- Less than .5% of Mortgages
- .5% to 1% of Mortgages
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- 2% to 5% of Mortgages
- More than 5% of Mortgages

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
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

Source: Inside Mortgage Finance
## Foreclosure Rates by Type of Mortgage

### Fourth Quarter, 2007

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>In Foreclosure</th>
<th>Foreclosures Started</th>
<th>Past Due (30+ Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>0.96</td>
<td>0.43</td>
<td>3.55</td>
</tr>
<tr>
<td>Subprime</td>
<td>8.65</td>
<td>3.71</td>
<td>18.82</td>
</tr>
</tbody>
</table>

*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

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
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
Innovations in the Mortgage Market

The Evolution of Lending

1913
50% LTV
Limited geography
Limited term
Balloons

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

- 1YR CM Treasury
- Cost of Funds Index
- LIBOR
- 30-Yr Conventional
ARM Share of Mortgage Originations

Source: Inside Mortgage Finance
Foreclosure Rate by Loan Type

Source: Mortgage Bankers Association
Alternative Mortgage Originations

Source: Inside Mortgage Finance
## Payment Structure, by Mortgage Type
**$200,000, June, 2004**

<table>
<thead>
<tr>
<th>Loan Product</th>
<th>Initial Payment</th>
<th>Reset Payment</th>
<th>Reset Date</th>
<th>Payment Increase</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Year FRM</td>
<td>$1,237</td>
<td>$1,237</td>
<td>None</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td>3/1 ARM</td>
<td>$1,039</td>
<td>$1,420</td>
<td>June, 2007</td>
<td>$381</td>
<td>37%</td>
</tr>
<tr>
<td>3/1 I-O ARM</td>
<td>$786</td>
<td>$1,462</td>
<td>June, 2007</td>
<td>$676</td>
<td>86%</td>
</tr>
<tr>
<td>Option ARM</td>
<td>$643</td>
<td>$1,555</td>
<td>August, 2007</td>
<td>$912</td>
<td>142%</td>
</tr>
</tbody>
</table>

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

![Cumulative Default Rates by Vintage for 2/28s](#)

Time in months

Source: Federal Reserve Board staff calculations from Loan Performance data.
Interest Rate Indexes, 2000 – Present

- 1YR CM Treasury
- Cost of Funds Index
- LIBOR
- 30-Yr Conventional

Rate vs. Month

Jan 2000 to Jan 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 ARM

- **Adverse Equity Position**
  - Declining Home Price Appreciation (or Depreciation)
  - High LTV originations
  - Cash-Out Refinancing
## Loan-to-Value Ratios at Purchase Among Foreclosees (Massachusetts)

<table>
<thead>
<tr>
<th></th>
<th>≤ 80%</th>
<th>80%-95%</th>
<th>95%-100%</th>
<th>≥ 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>8.6</td>
<td>41.1</td>
<td>15.7</td>
<td>34.5</td>
</tr>
<tr>
<td>2007</td>
<td>8.0</td>
<td>38.4</td>
<td>13.4</td>
<td>40.0</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2005-06</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States (NAR)</strong></td>
<td>12.2</td>
<td>1.3</td>
<td>(1.8)</td>
</tr>
<tr>
<td><strong>United States (S&amp;P C-S)</strong></td>
<td>15.5</td>
<td>0.7</td>
<td>(9.1)</td>
</tr>
<tr>
<td>Denver MSA</td>
<td>3.3</td>
<td>1.0</td>
<td>(1.6)</td>
</tr>
<tr>
<td><strong>Denver MSA (S&amp;P C-S)</strong></td>
<td>3.9</td>
<td>(0.7)</td>
<td>(4.5)</td>
</tr>
<tr>
<td>Kansas City MSA</td>
<td>4.5</td>
<td>(0.6)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Oklahoma City MSA</td>
<td>2.0</td>
<td>9.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Omaha MSA</td>
<td>3.7</td>
<td>1.6</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Albuquerque MSA</td>
<td>16.4</td>
<td>8.9</td>
<td>7.8</td>
</tr>
</tbody>
</table>

*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

Cumulative Default Rates by Vintage for 2/28s

Time in months

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
Federal Reserve System Foreclosure Project Coordinating Committee

• Community Foreclosure Toolkit
  – Addressing the problem in your community
    • [http://www.newyorkfed.org/mortgagemaps/](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