Rising Foreclosure Rates in Kansas and the U.S.: A Perfect Storm

KAR Vision Team
Kansas Museum of History
Koch Educational Center
Topeka, KS
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Federal Reserve Bank of Kansas City
The Kansas Picture
Foreclosure Rates, Kansas and U.S.

Source: Mortgage Bankers Association
Foreclosure Initiation Rates, Kansas and U.S.

Source: Mortgage Bankers Association
## Where Kansas Stands:
### State Foreclosure Rates, 3rd and 4th Quarter 2007

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ohio</td>
<td>3.72</td>
<td>3.88</td>
</tr>
<tr>
<td>2</td>
<td>Indiana</td>
<td>3.28</td>
<td>3.53</td>
</tr>
<tr>
<td>3</td>
<td>Michigan</td>
<td>3.07</td>
<td>3.38</td>
</tr>
<tr>
<td>4</td>
<td>Florida</td>
<td>2.19</td>
<td>3.22</td>
</tr>
<tr>
<td>27</td>
<td>Kansas</td>
<td>1.37</td>
<td>1.52</td>
</tr>
</tbody>
</table>

*United States Avg.*

1.69 2.04

*Source: Mortgage Bankers Association*
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 Median Household Income and Foreclosure Rates

Median Income by Census Tract

Foreclosure Rate by Census Tract

Legend

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
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
Wichita MSA Median Household Income and Foreclosure Rates

**Median Income by Census Tract**

- 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**

- Less than 0.5% of Mortgages
- 0.5% to 1% of Mortgages
- 1% to 2% of Mortgages
- 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 Current 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
Increasing “Nonprime” Share of Mortgages
“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*
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
High Foreclosure, High Subprime by Zip Code

Legend
- High Foreclosures and Subprime Penetration
- High Foreclosure Rate, Moderate or Low Subprime Penetration
- Low Foreclosure Rate, Low Subprime Penetration
- High Subprime Penetration, Low or Moderate Foreclosure Rate

Source: US Census 2006 American Community Survey, RealtyTrac, LoanPerformance, Geolytics
Foreclosure Rates by Mortgage Type
1998 – 4th Quarter, 2007

Source: Mortgage Bankers Association
Payment Shock
Innovations in the Mortgage Market

The Evolution of Lending

1913
50% LTV
Limited geography
Limited term
Balloons

1935
80% LTV

1946
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
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.
Adverse Equity Position
# Loan-to-Value Ratios at Purchase Among Foreclosees (Massachusetts)

<table>
<thead>
<tr>
<th>Year</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
# Annual Change in Home Prices

<table>
<thead>
<tr>
<th></th>
<th>2004-05</th>
<th>2005-06</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (NAR)</td>
<td>12.2</td>
<td>1.3</td>
<td>(1.8)</td>
</tr>
<tr>
<td>United States (S&amp;P C-S)</td>
<td>15.5</td>
<td>0.7</td>
<td>(9.1)</td>
</tr>
<tr>
<td>Kansas City MSA</td>
<td>4.5</td>
<td>(0.6)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Topeka MSA</td>
<td>3.5</td>
<td>0.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Wichita MSA</td>
<td>3.9</td>
<td>6.4</td>
<td>0.6</td>
</tr>
</tbody>
</table>

*Source: National Association of REALTORS®*
House Prices Keep Falling
(quarterly; Y/Y percent change; relative to CPI)

- Existing homes, price index (OFHEO)
- Existing homes, median price (NAR)
- Case-Shiller composite-10 price index

Source: Christopher Henderson, Federal Reserve Bank of Philadelphia
Existing Home Sales

Source: National Association of REALTORS®
Where Do We Go From Here?
Many 2/28s are Prepaid

Cumulative Prepayment Rates by Vintage for 2/28s

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

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

• 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?
(Greater KC Foreclosure Task Force)

• 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
What Do We Do About It?  
(Federal Reserve System)

• **Outreach**: The Federal Reserve is concerned about the impact of high foreclosure rates on families, neighborhoods and communities. We are working with other regulators, community groups, policy organizations, public officials and others to identify solutions to help mitigate foreclosures and their negative effects.

• **Regulation**: The Federal Reserve is committed to fostering an environment that supports the homeownership goals of credit-worthy borrowers with appropriate consumer protection and responsible lending practices.

• **Research and Evaluation**: The Federal Reserve is actively pursuing ways to leverage our analytical resources. We provide community groups, counseling agencies, regulators and others with detailed analysis so that outreach efforts to help troubled borrowers can be as effective as possible.

• **Ongoing**: The Federal Reserve will continue its long history of providing educational resources so consumers can make informed personal financial decisions, including those about home ownership.
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