Identifying Issues in the Subprime Mortgage Market: North San Joaquin Valley

Presentation prepared by Carolina Reid, Ph.D.
Community Development Department
Federal Reserve Bank of San Francisco

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Analysis of First American LoanPerformance data provided by the Federal Reserve Board of Governors. Do not cite or reproduce without permission.
Overview of Presentation

- What are the trends in delinquencies and foreclosures in California and the North San Joaquin Valley?
  - Mortgage Bankers Association data on delinquencies and foreclosures

- What are the primary drivers of foreclosures in California and the North San Joaquin Valley?
  - Declining house values
  - Large percent of subprime and nontraditional loans
    - First American Loan Performance data on subprime loans
  - Impending resets may trigger further borrower distress and increased rates of delinquency

- What neighborhood “hot spots” exist in the North San Joaquin Valley?
Data Caveats

- Data on the real estate and mortgage markets are collected by many different sources, some proprietary and some public.
- As a result, it is important to consider the limitations of data presented:
  - Different definitions of subprime may affect the reporting of rates of delinquencies and foreclosures.
  - Different methodologies and different sampling methods may affect the reports.
  - Median property values are influenced significantly by the characteristics of the homes sold.
  - Aggregated data at the zip code level can mask significant geographic variation and the types of borrowers affected.
Trends in Delinquencies and Foreclosures
California has seen a rapid increase in foreclosure starts.

Source: Mortgage Bankers Association, National Delinquency Survey.
California: Foreclosure Trends

Mortgage Foreclosures Started: California

Source: Mortgage Bankers Association / Haver Analytics

03/07/08
California: Delinquency Trends

All Mortgages Past Due: California

NSA, %

Source: Mortgage Bankers Association /Haver Analytics 03/07/08
## Delinquency Rates Vary Significantly by Mortgage Type

**California: Delinquency and Foreclosure Rates, 4th Qtr 2007**

<table>
<thead>
<tr>
<th>Mortgage Type</th>
<th>Percent Past Due</th>
<th>Foreclosures Started</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Fixed</td>
<td>1.73</td>
<td>0.12</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>6.15</td>
<td>1.26</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>13.78</td>
<td>1.18</td>
</tr>
<tr>
<td>Subprime ARM</td>
<td>20.39</td>
<td>7.17</td>
</tr>
<tr>
<td>FHA</td>
<td>8.64</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Quarter 2007
Subprime ARM Market has Highest Rates of Delinquencies

Conventional Subprime ARM Mortgages: Total Past Due: California

Source: Mortgage Bankers Association / Haver Analytics 03/07/08
LoanPerformance Data on Subprime Loans in California

- Data are from December 2007
  - Show higher rates of delinquency and default among subprime loans than the Mortgage Bankers Association data
- Among owner occupied, first lien subprime loans
  - 21.7 percent were delinquent (30, 60 or 90 days past due)
  - 10.1 percent were in foreclosure
  - 6.8 percent were in REO
Trends in House Values
Subprime Foreclosure Rates Closely Track Declines in House Values in California

Sources: OFHEO, MBA /Haver
Price Declines in Modesto

House Price Index: Modesto, CA
Q1 1995=100

Source: OFHEO /Haver 03/06/08
Price Declines in Stockton

House Price Index: Stockton, CA
Q1 1995=100

Source: OFHEO /Haver 03/06/08
Price Declines in Merced

House Price Index: Merced, CA
Q1 1995=100

Source: OFHEO/Haver 03/06/08
Median House Value Price Declines in North San Joaquin Valley

- DataQuick Information Systems
  - 34.7 percent decline in median home prices in Merced County from Jan-07 to Jan-08
  - 27.5 percent decline in median home prices in San Joaquin County from Jan-07 to Jan-08
    - In Stockton, 33.8 percent decline
  - 25.7 percent decline in median home prices in Stanislaus County from Jan-07 to Jan-08
    - In Modesto, 29.2 percent decline
Subprime Loan Characteristics
Central Valley Has Significant Concentration of Subprime Loans
Many mortgages have “risky” features

- Among owner occupied, first lien subprime loans in the LoanPerformance data for California
  - Average balance of approximately $340,000
  - 88.4 percent had a prepayment penalty at origination
  - 31.4 percent were “interest-only” loans
  - Only 49.4 percent had full documentation
  - 69.4 percent had a variable interest rate

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
Interest-Rate Resets

- Economic research has shown that house value declines are more important than “resets” in predicting foreclosure
  - Resets do not appear to be the trigger for foreclosure
  - Current patterns of delinquency and foreclosure are being seen even before resets are occurring

- But coupled with house price declines in California, resets may increase borrower difficulties and increase the volume of delinquencies and foreclosures
  - In California, for loans with a variable interest rate
    - 43.4 percent will reset in 2008
Neighborhood “Hot Spots” in the North San Joaquin Valley
Distribution of Subprime Loans

Legend
Total Number of Subprime Loans
- Less than 250
- 250 - 500
- 500 - 1,000
- 1,000 - 2,000
- More than 2,000

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
Percent of Loans Past Due

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
Distribution of REO Loans

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
Percent of Subprime Loans to Reset in 2008

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
**Conclusion**

- North San Joaquin Valley has seen a significant increase in defaults and foreclosures.

- Foreclosure mitigation strategies:
  - Important to reach out to distressed borrowers and those facing resets to prevent additional foreclosures.
  - Expand access to services to households who are in the foreclosure process to ensure that they receive help in finding rental housing, credit repair services.
  - Mitigate the negative impact of foreclosures and REO properties on neighborhoods.