

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

March 5, 2008

Analysis of First American Loan Performance 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 Do not cite or reproduce without permission.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?

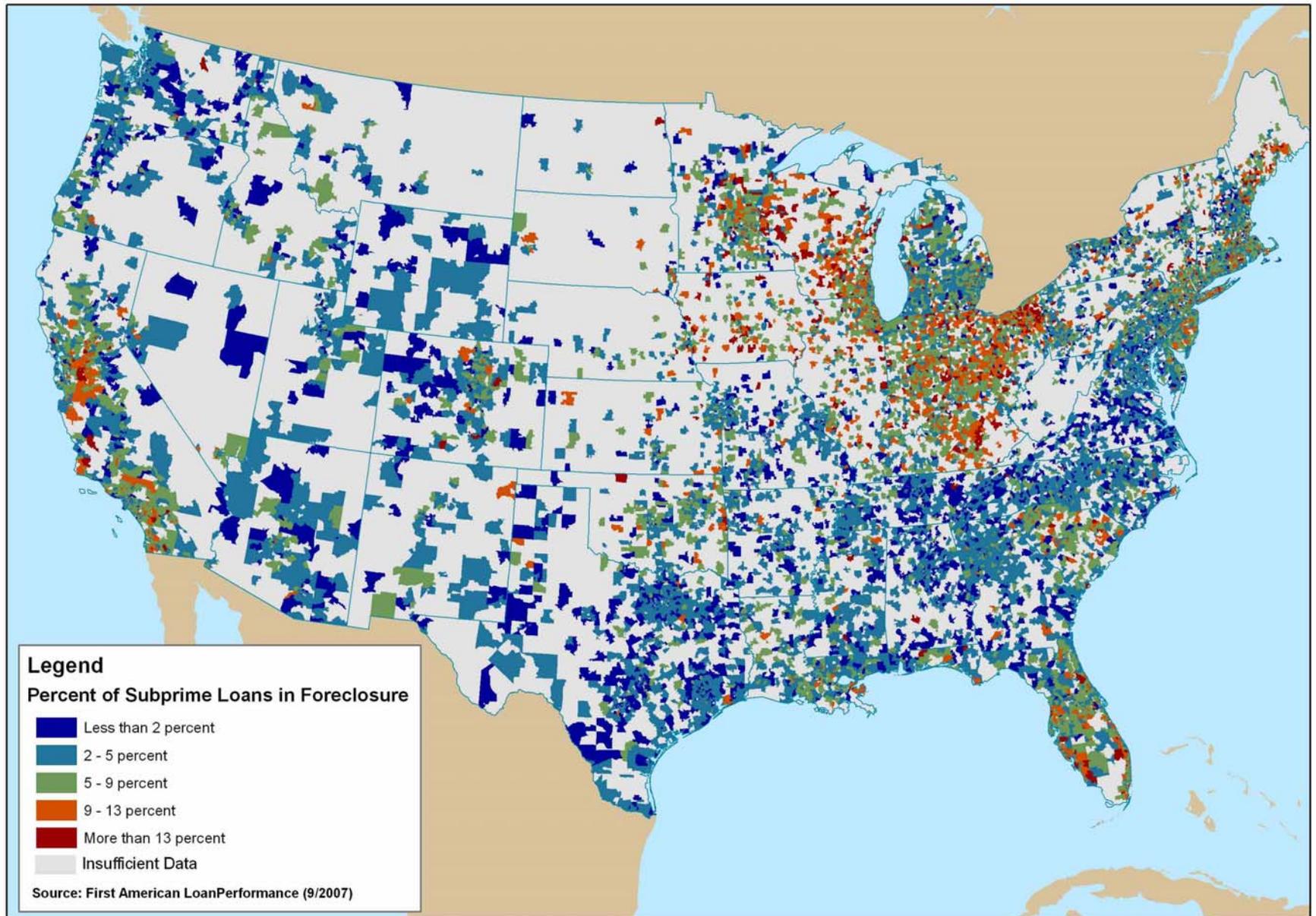
Data Caveats

- ❑ 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

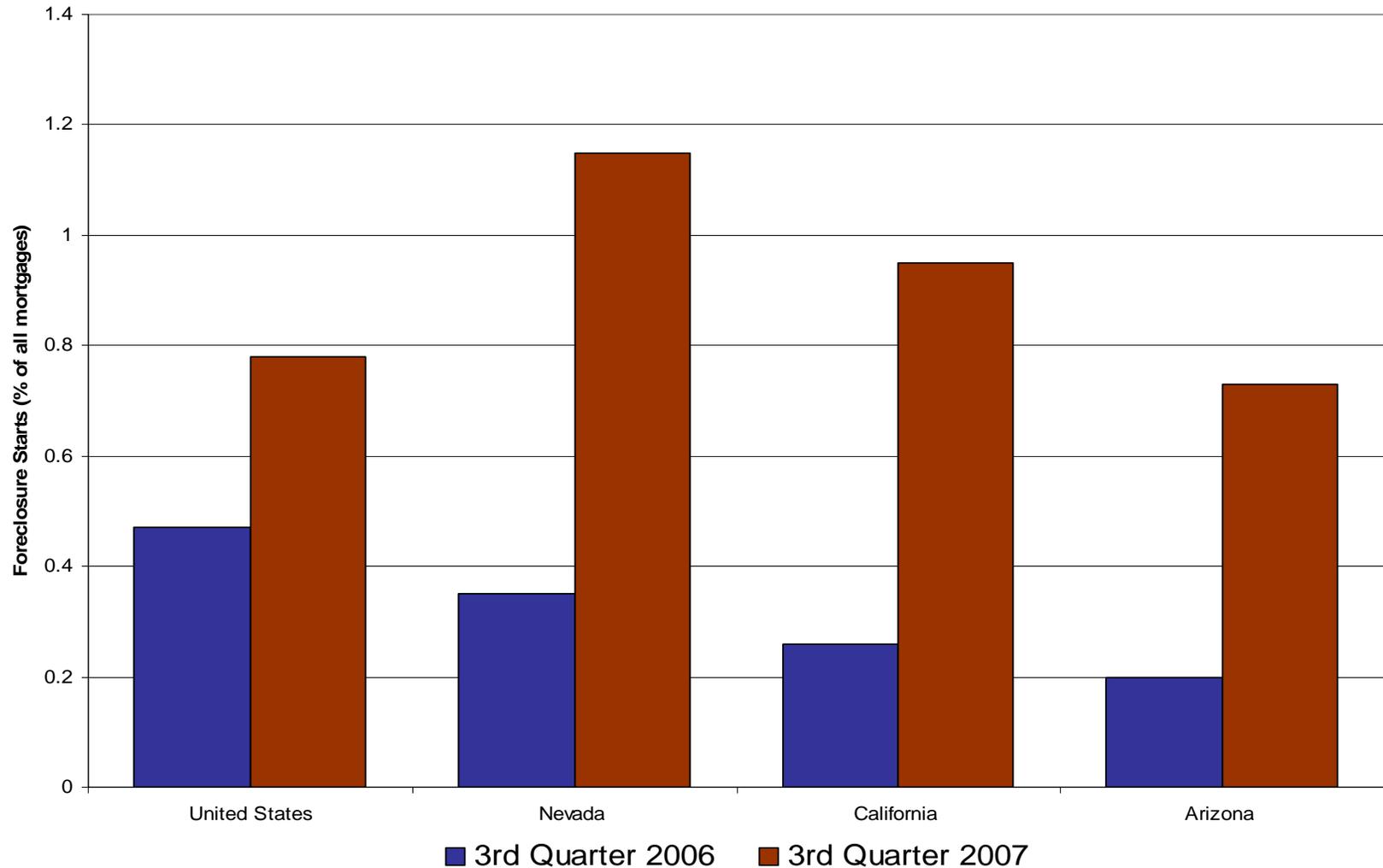
Trends in Delinquencies and Foreclosures



Foreclosure Rates Among Subprime Loans



California has seen a rapid increase in foreclosure starts

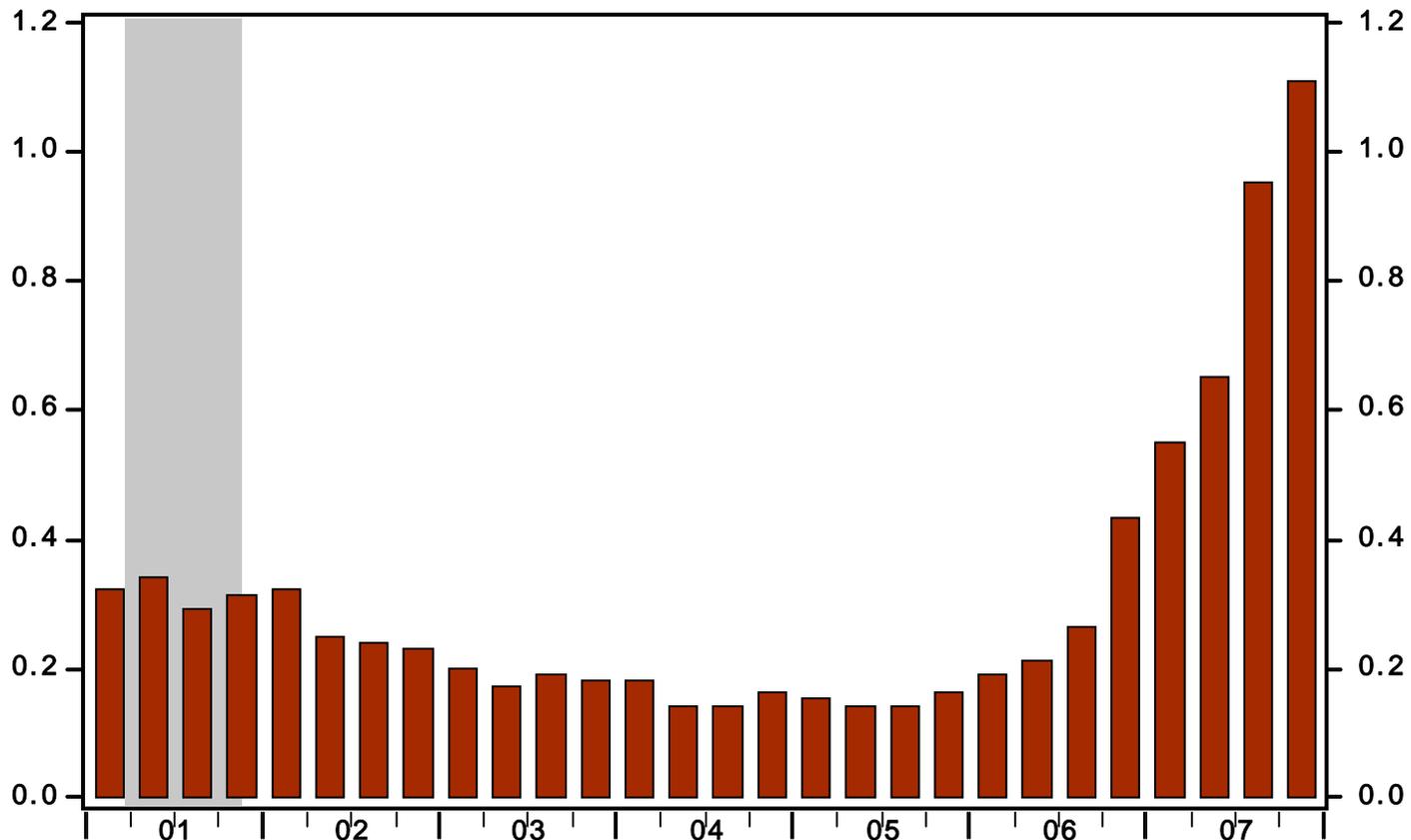


Source: Mortgage Bankers Association, National Delinquency Survey.

California: Foreclosure Trends

Mortgage Foreclosures Started: California

NSA, %



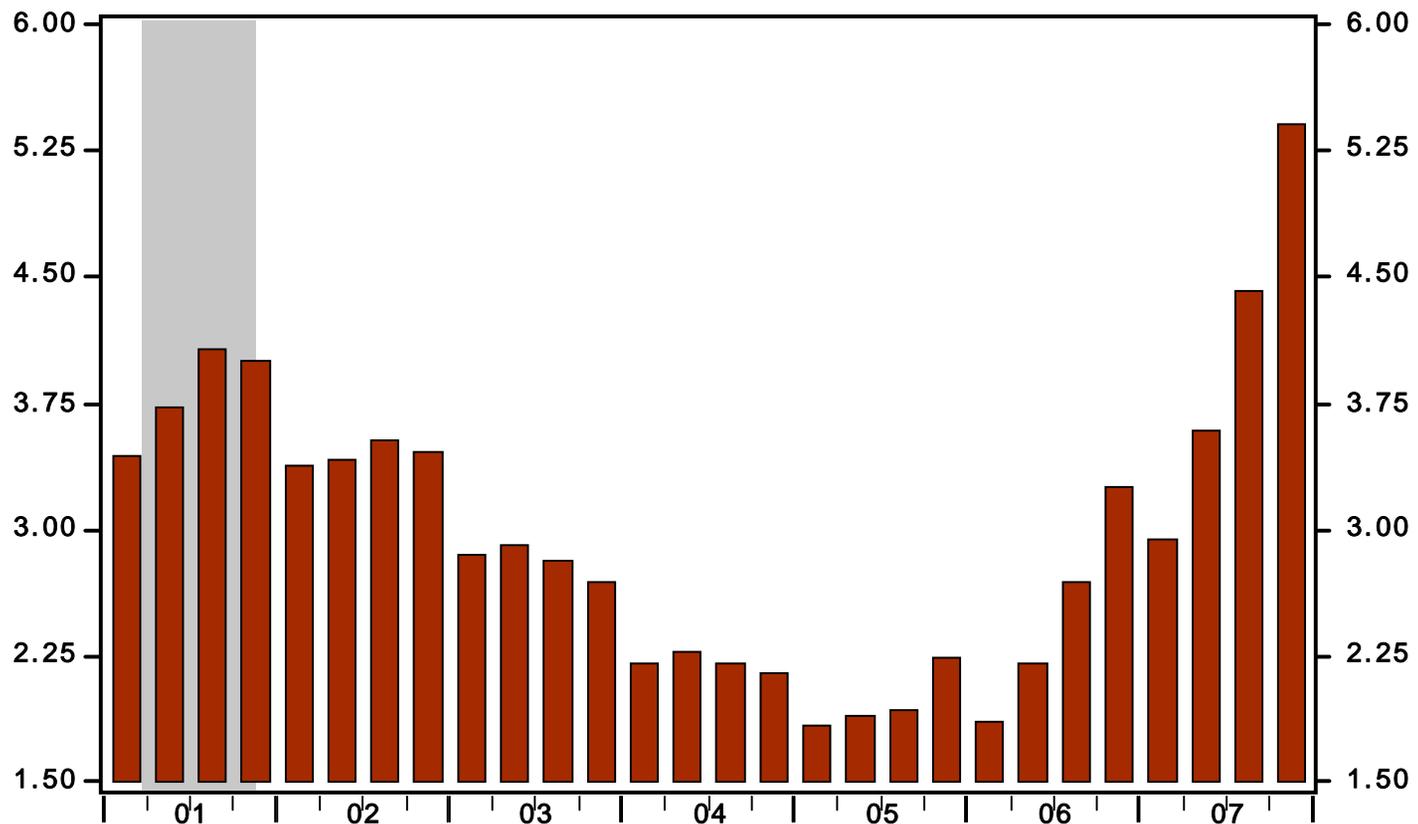
Source: Mortgage Bankers Association /Haver Analytics

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

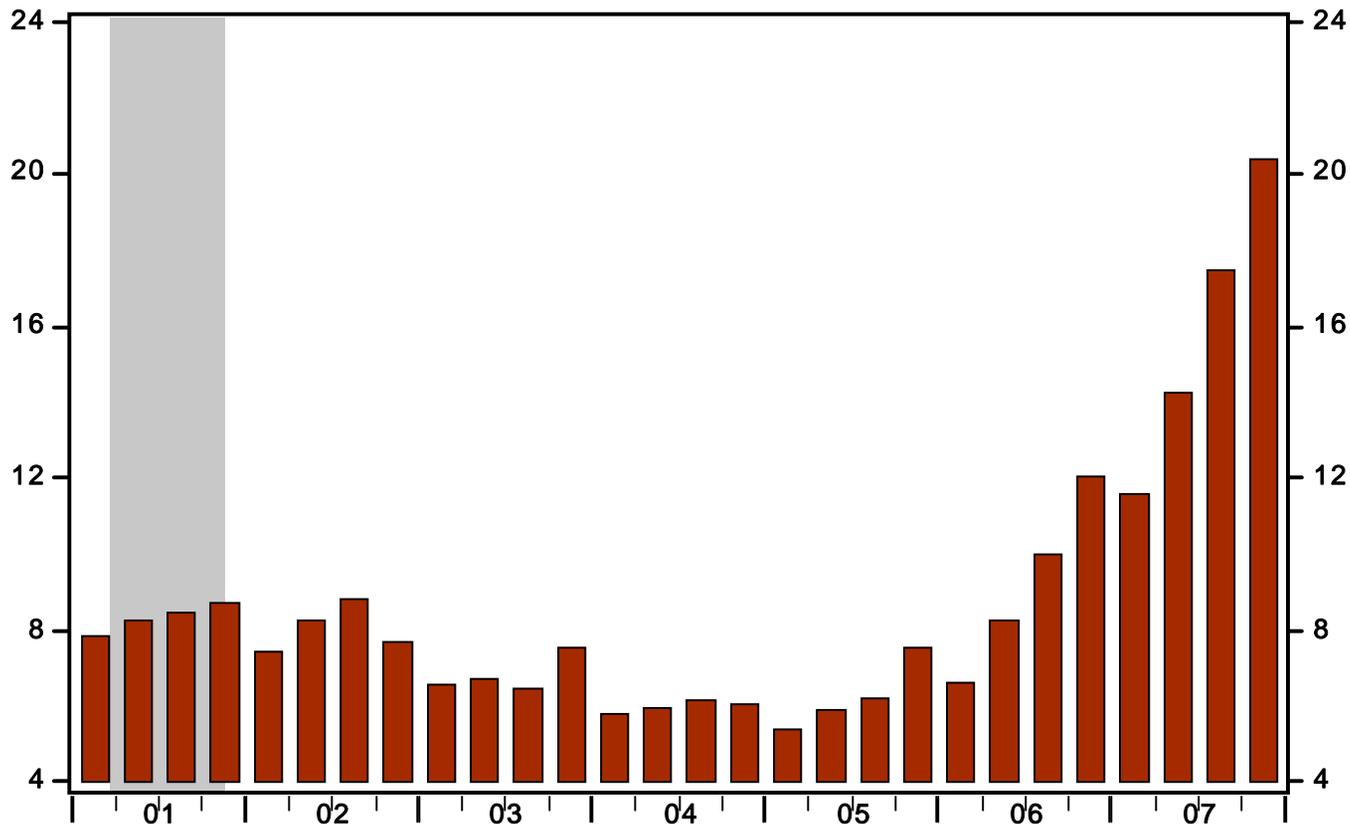
| Mortgage Type | Percent Past Due | Foreclosures Started |
|-----------------------|-------------------------|-----------------------------|
| Prime Fixed | 1.73 | 0.12 |
| Prime ARM | 6.15 | 1.26 |
| Subprime Fixed | 13.78 | 1.18 |
| Subprime ARM | 20.39 | 7.17 |
| FHA | 8.64 | 0.53 |

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

NSA, %



Source: Mortgage Bankers Association /Haver Analytics

03/07/08

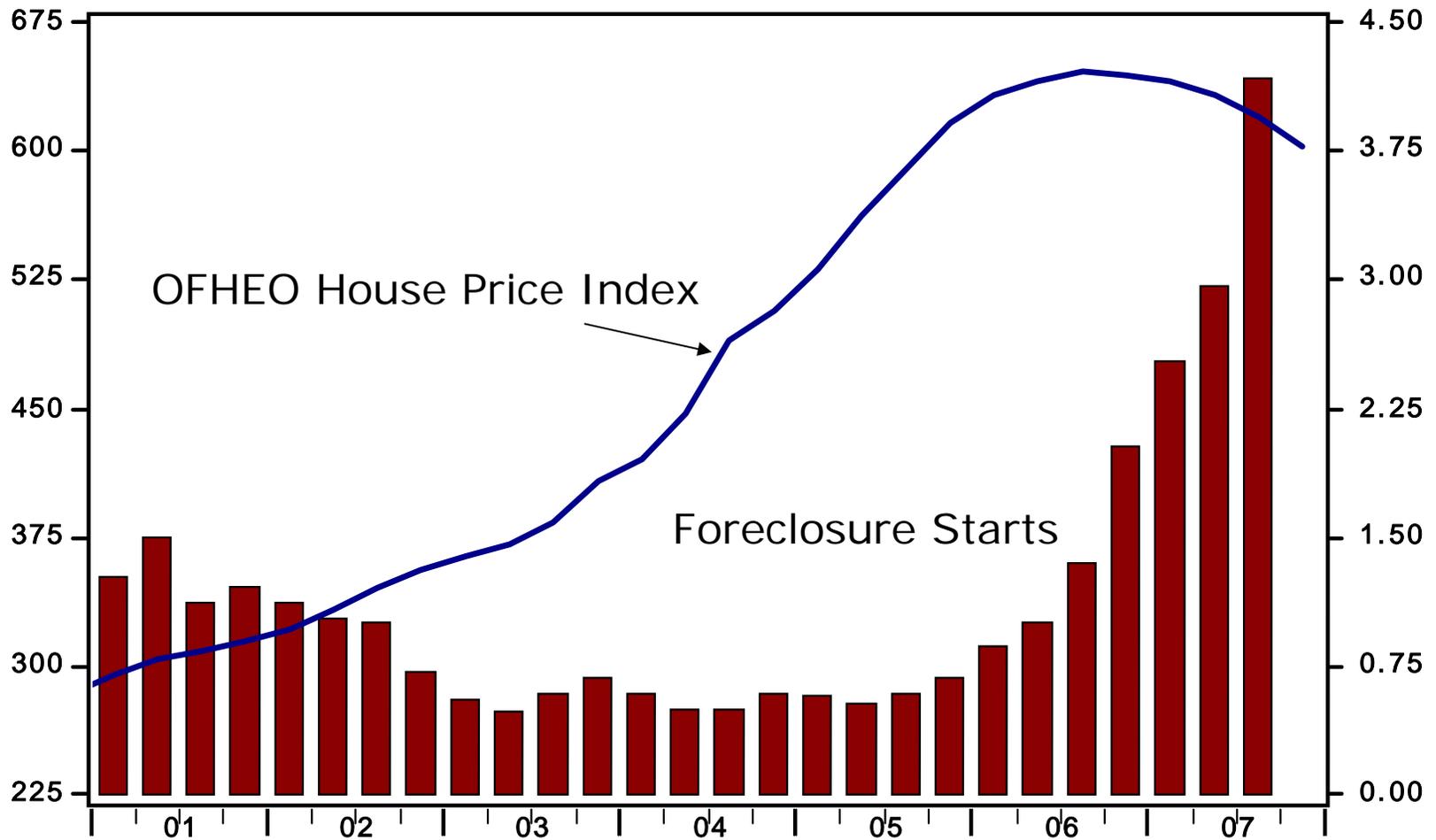
Loan Performance Data on Subprime Loans in California

- 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



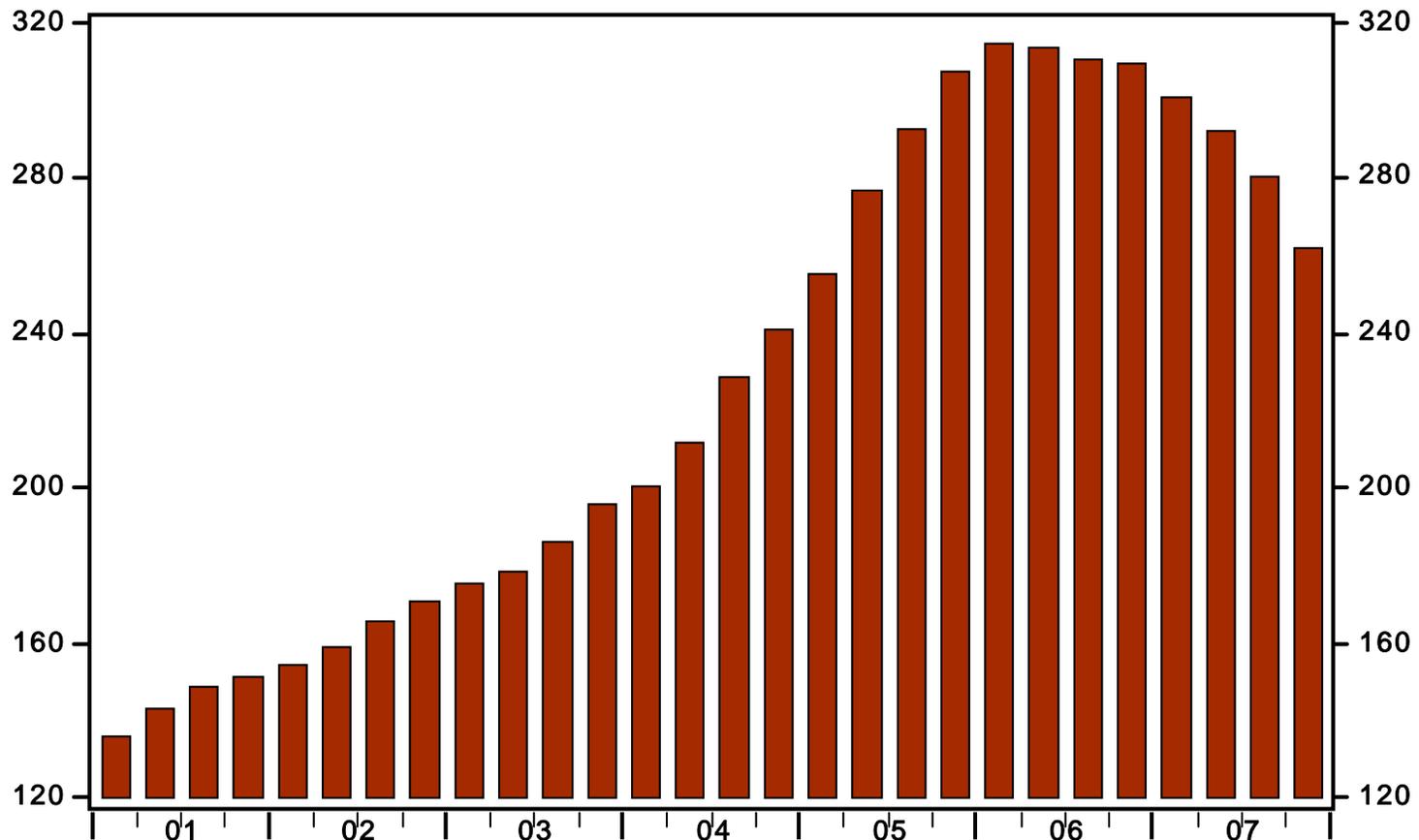
Sources: OFHEO, MBA /Haver

03/05/08

Price Declines in Modesto

House Price Index: Modesto, CA

Q1 1995=100



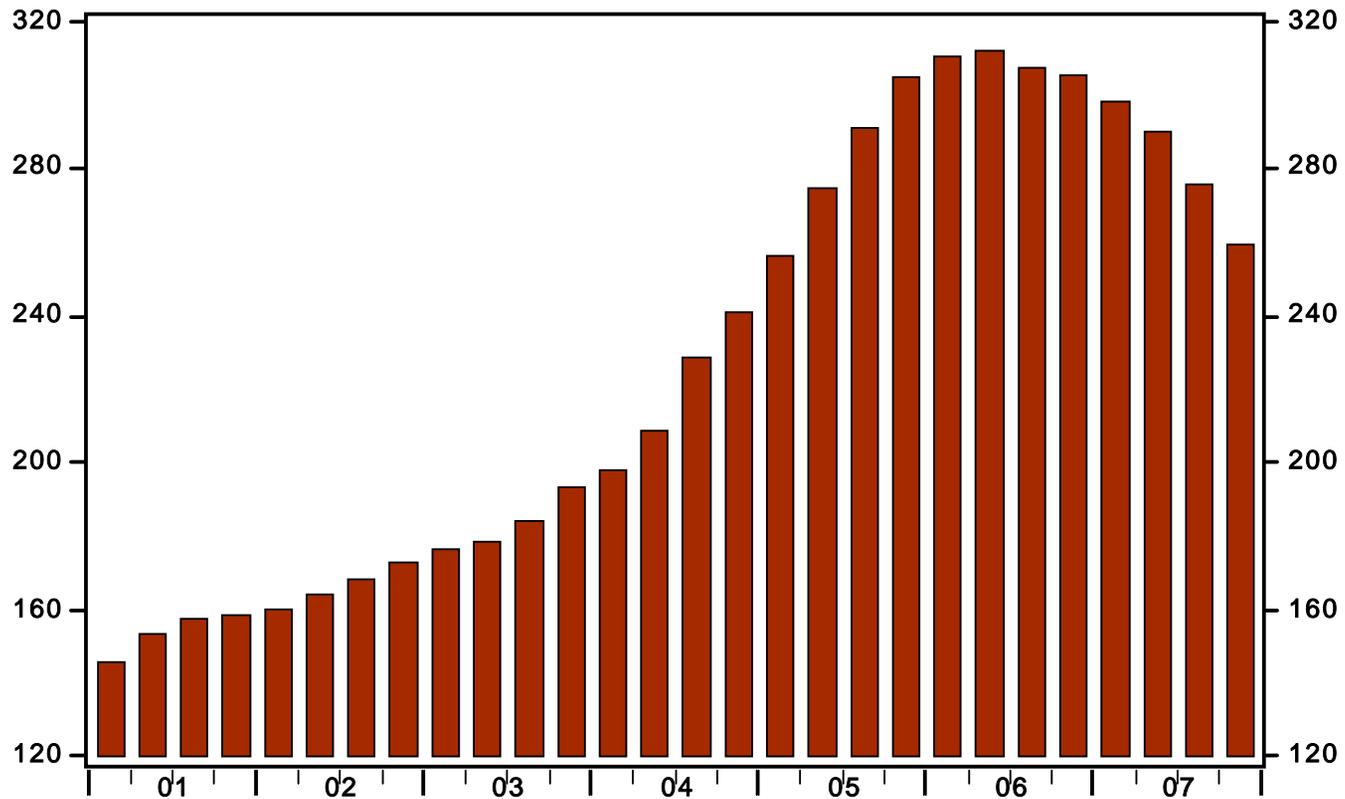
Source: OFHEO /Haver

03/06/08

Price Declines in Stockton

House Price Index: Stockton, CA

Q1 1995=100



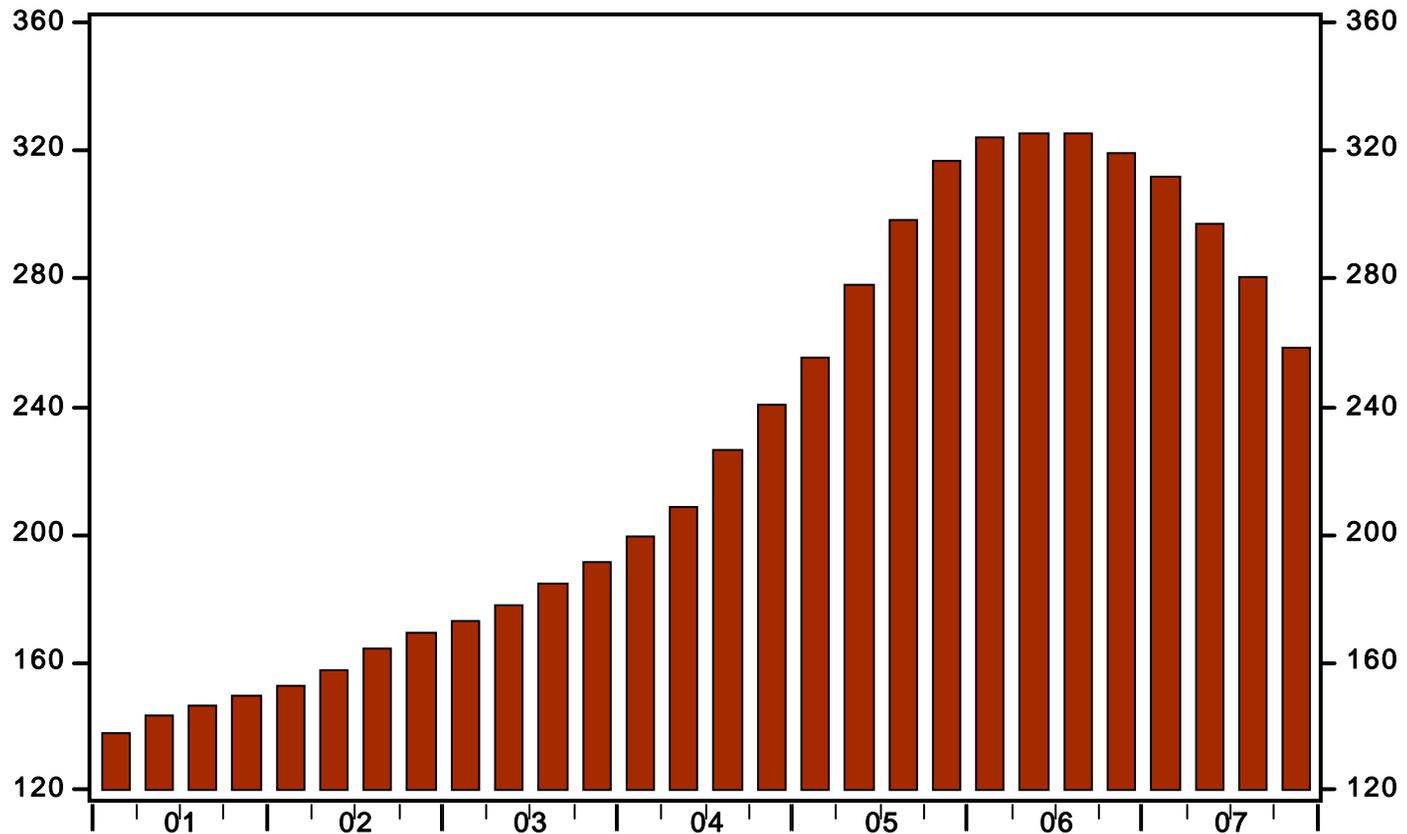
Source: OFHEO /Haver

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

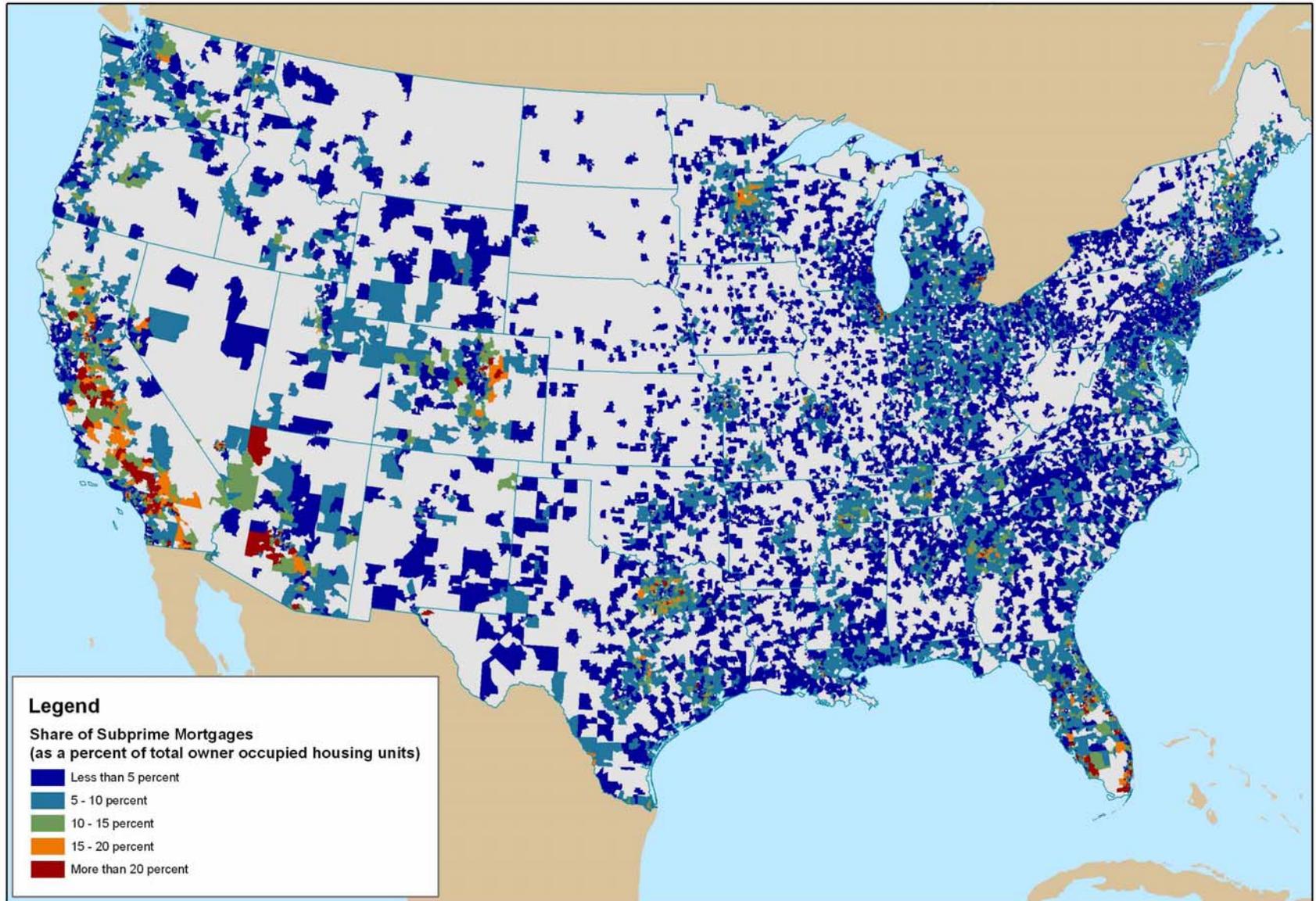
□ DataQuick Information Systems

- 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

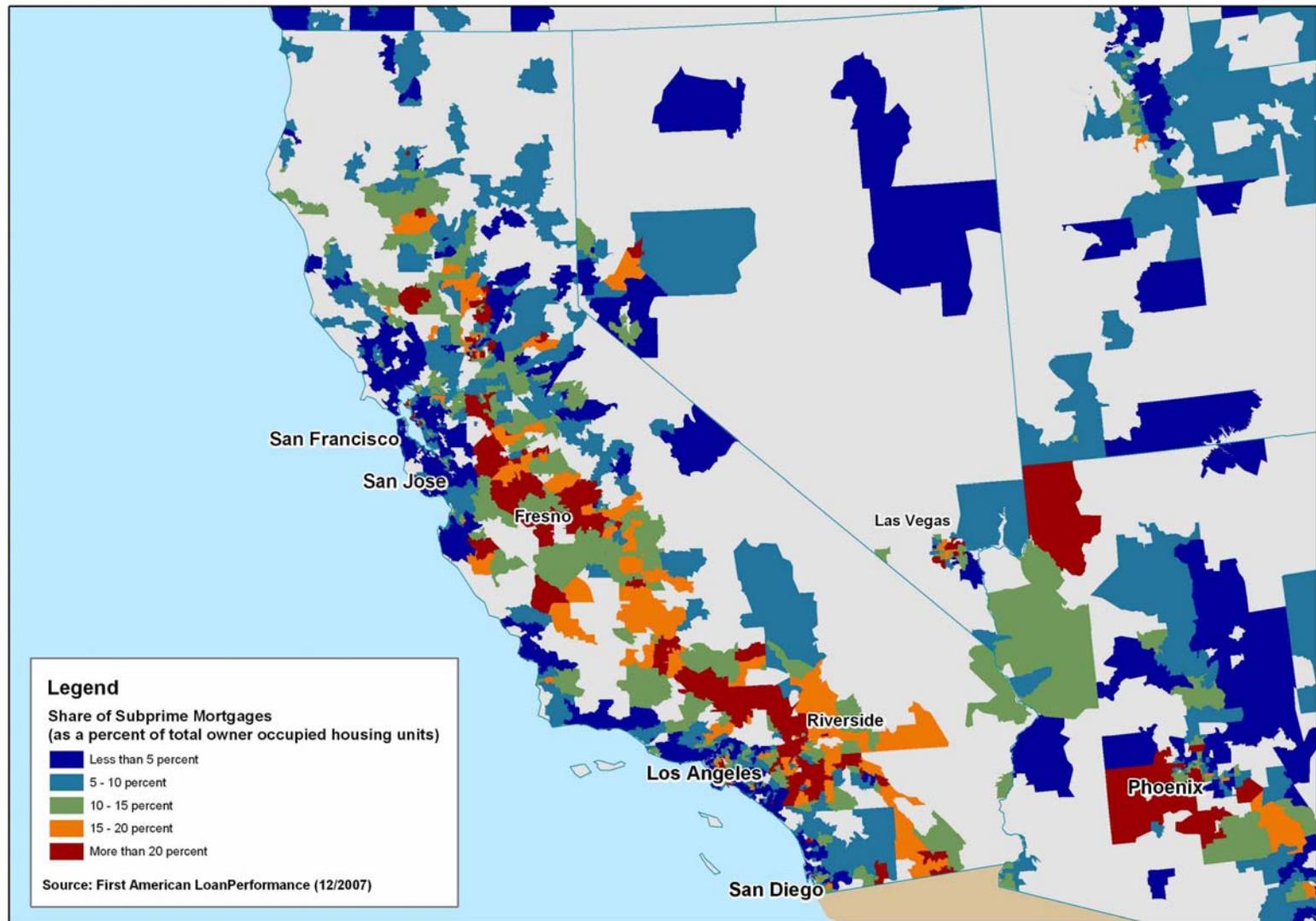


Distribution of Subprime Lending in the United States



Source: First American Loan Performance (Subprime 12/2007)

Central Valley Has Significant Concentration of Subprime Loans



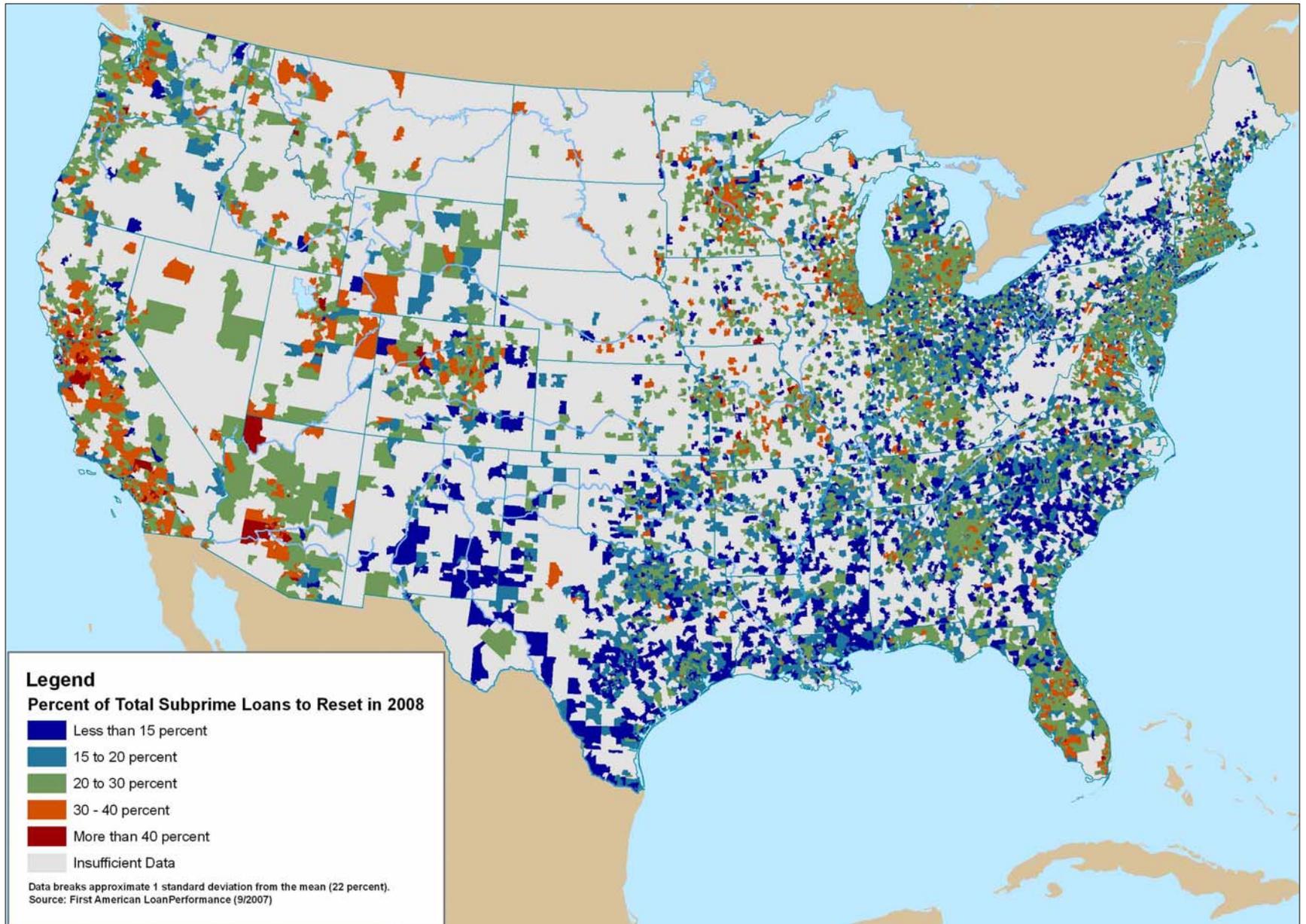
Many mortgages have “risky” features

- 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

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

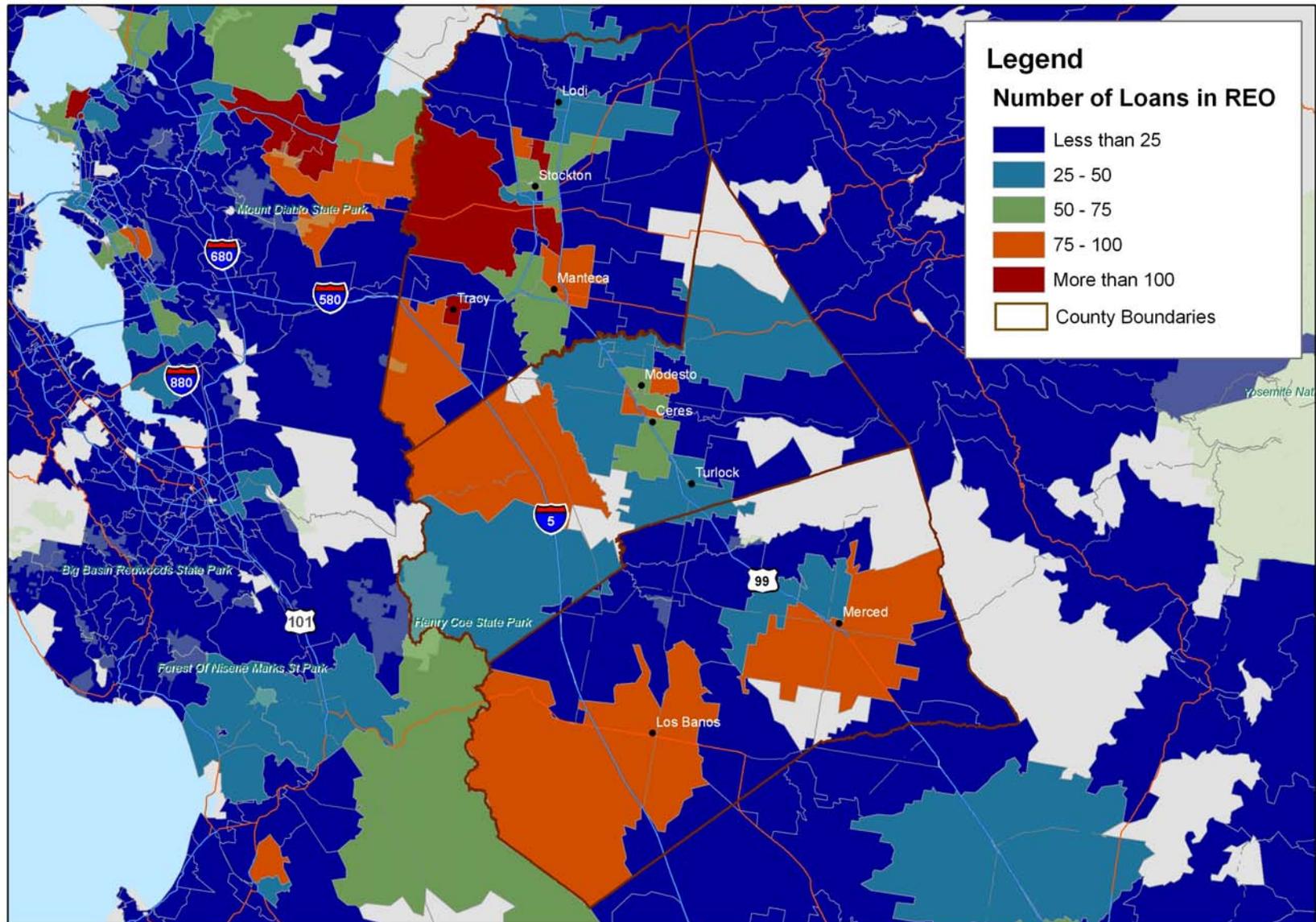
Percent of Subprime Loans to Reset in 2008



Neighborhood “Hot Spots” in the North San Joaquin Valley



Distribution of REO Loans



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