

Foreclosure Trends, Costs & Policy Considerations

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Today's Discussion

- I. Foreclosure Trends and Outlook
- II. Foreclosure Drivers & Options
- III. Foreclosure Costs & Disincentives
- IV. Policy Implications & Questions

The 10 Year Boom

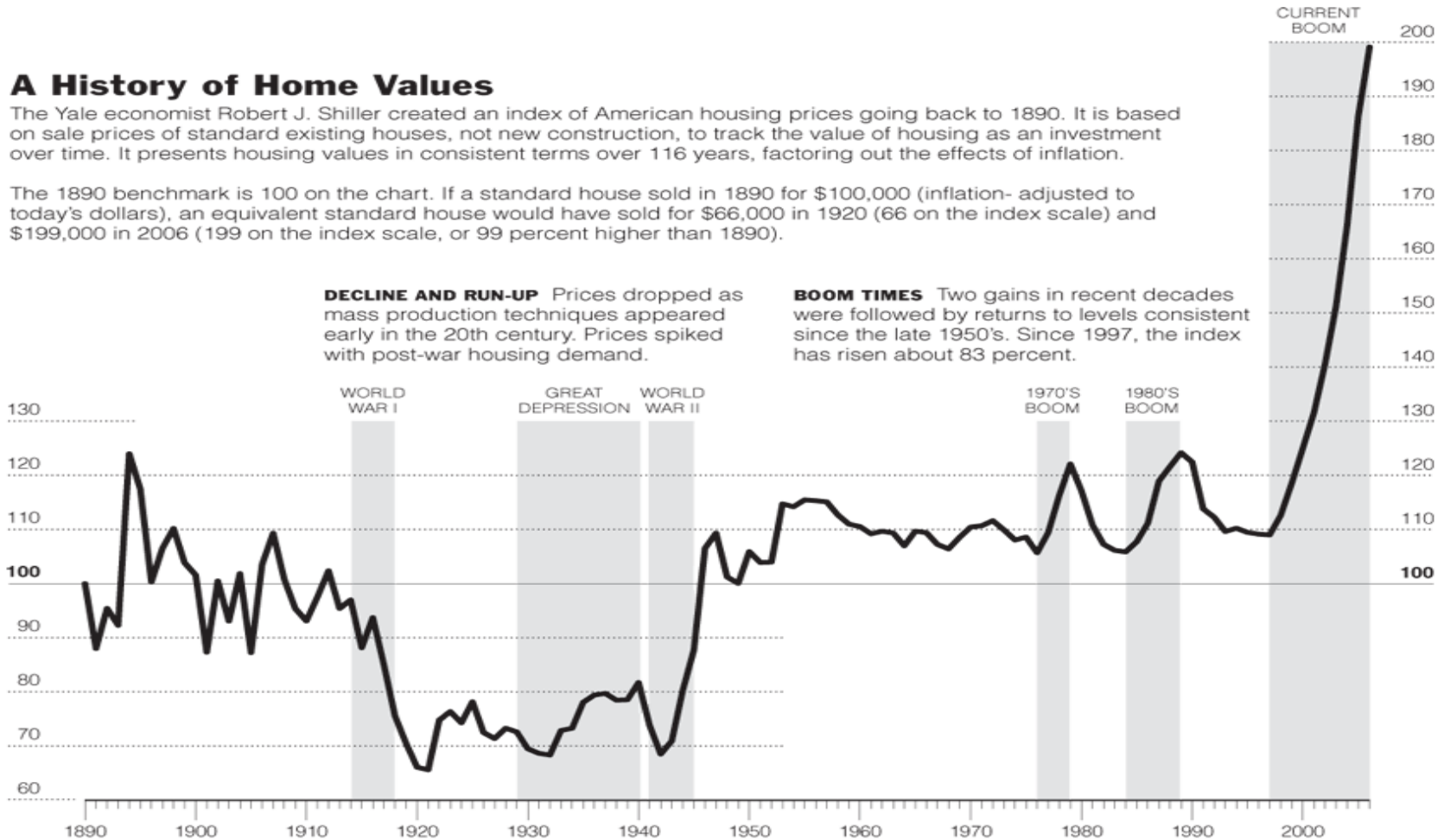
A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).

DECLINE AND RUN-UP Prices dropped as mass production techniques appeared early in the 20th century. Prices spiked with post-war housing demand.

BOOM TIMES Two gains in recent decades were followed by returns to levels consistent since the late 1950's. Since 1997, the index has risen about 83 percent.

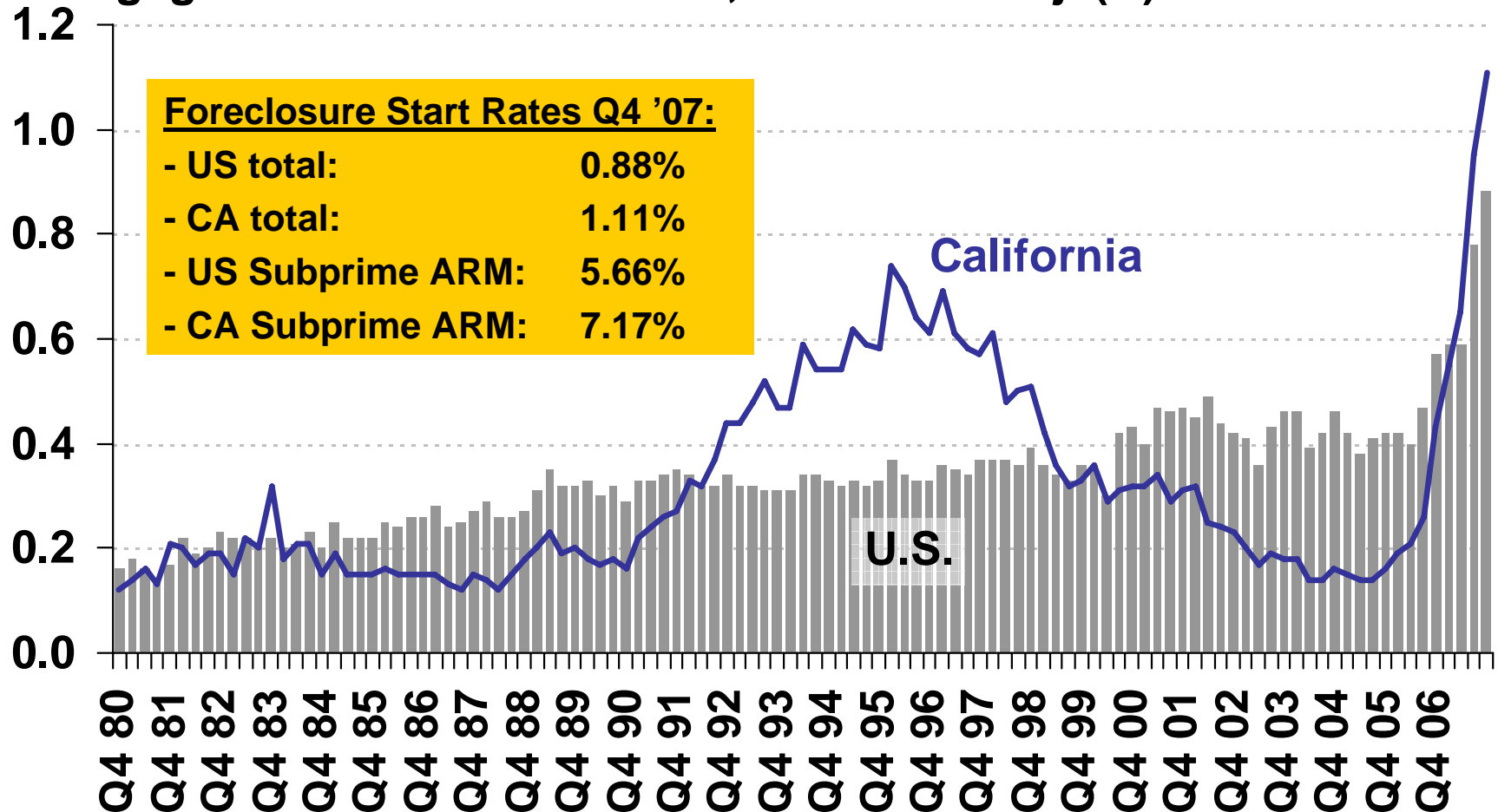


Source: "Irrational Exuberance," 2nd Edition, 2006, by Robert J. Shiller

Bill Marsh/The New York Times

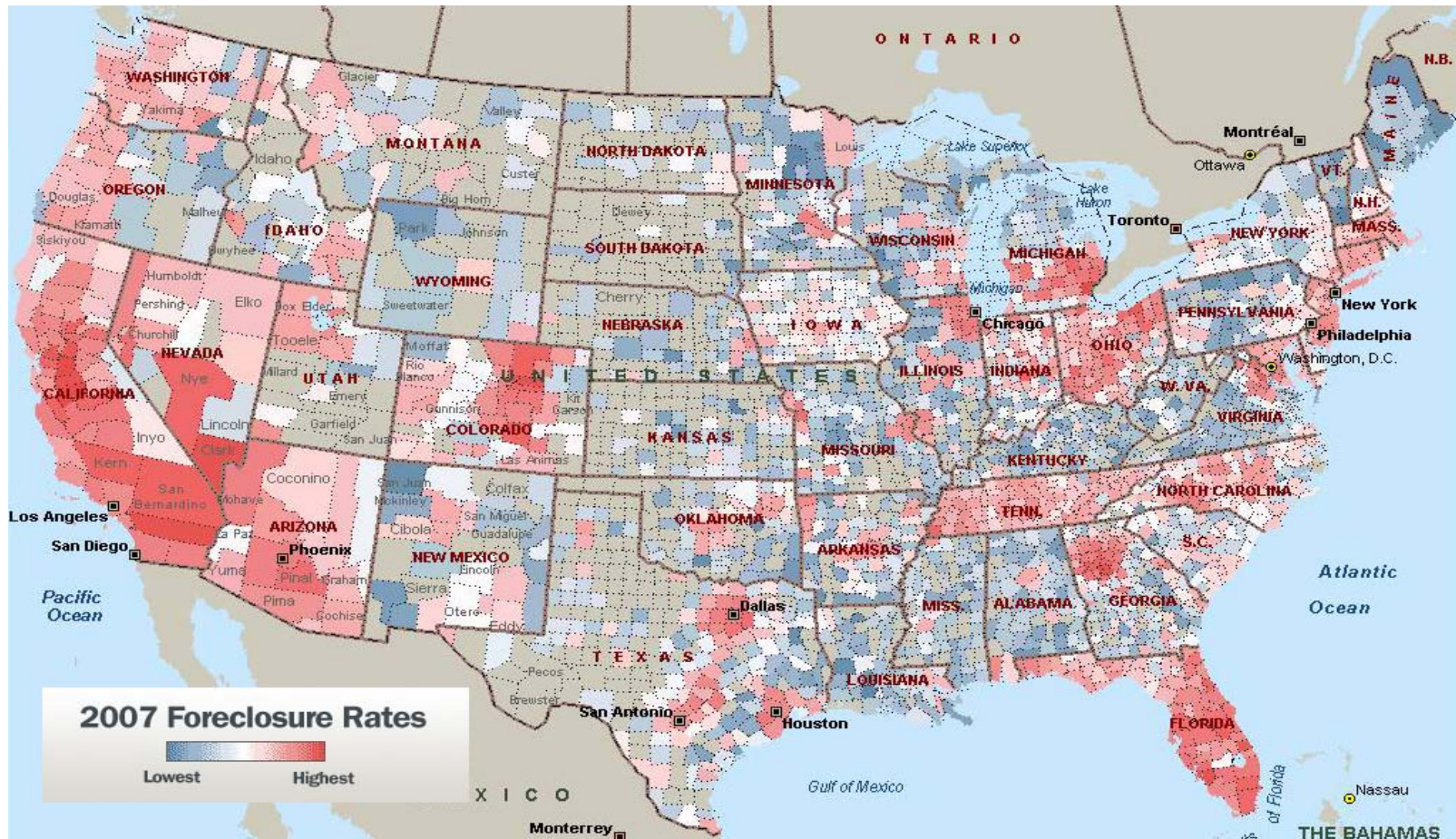
... Foreclosure-Start Rates Are at Record Levels

Mortgage Foreclosure Start Rate, Non-Seas. Adj. (%)



Note: Source: Mortgage Bankers Association

Foreclosure Impact on the U.S.



Source: RealtyTrac data 12/31/07

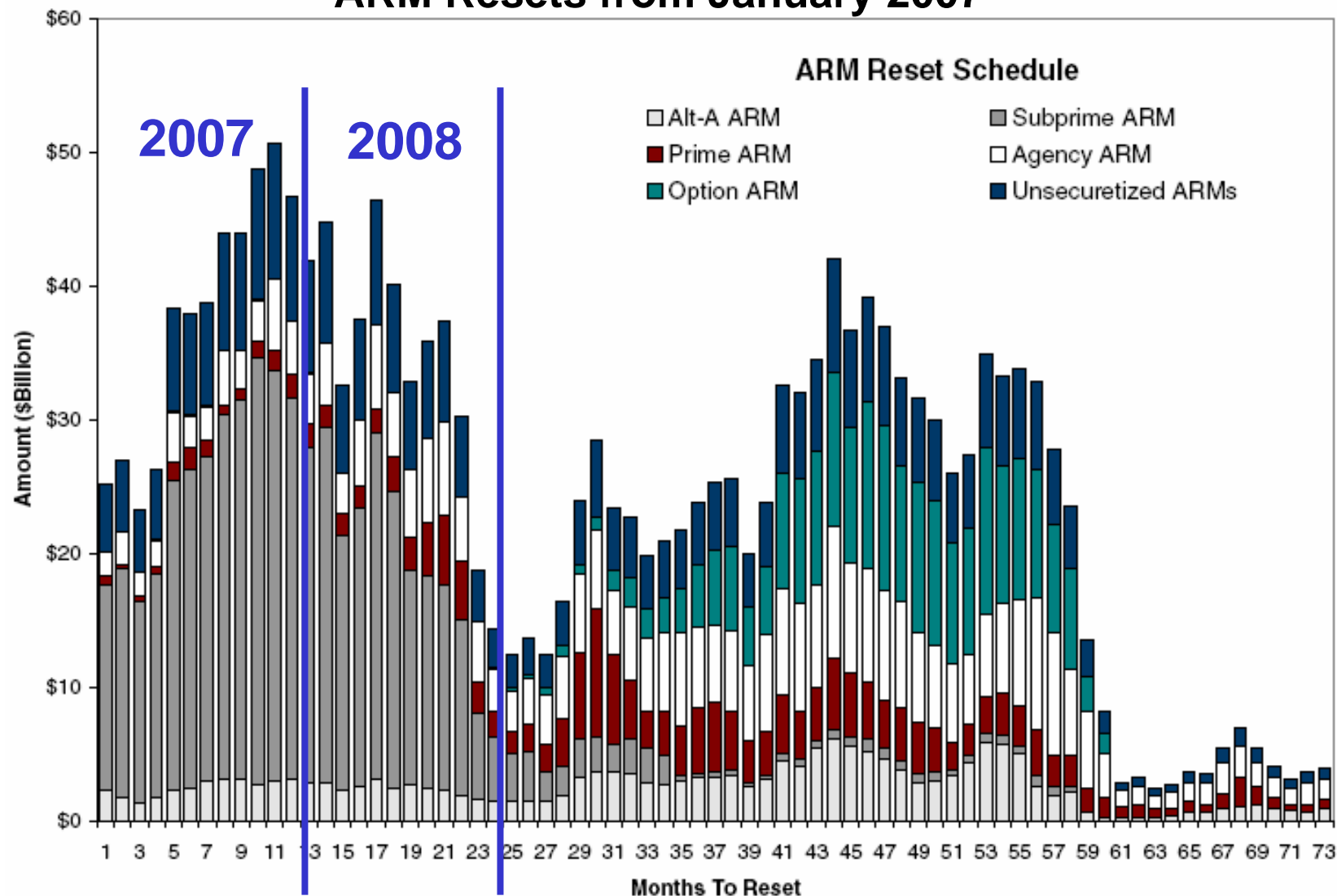
Communities under stress.....

MSA's > 10,000	Past-Due & Foreclosure Rate – Percentage of Subprime and Alt A loans	Rank
Flint, MI	36.4%	1
Detroit – Warren –Livonia, MI	36.2%	2
Stockton, CA	34.7%	3
Merced, CA	34.7%	4
Grand Rapids – Wyoming, MI	33.8%	5
Modesto, CA	33.8%	6
Worcester, MA	33.3%	7
Toledo, OH	32.6%	8
Memphis, TN-MS-AR	32.5%	9
Cape Coral –Fort Myers, FL	32.2%	10
Port St. Lucie, FL	31.7%	11
Cleveland –Elyria-Mentor, OH	30.6%	12
St. Louis, MO-IL	30.6%	13
Springfield, MA	30.4%	14
Riverside-San Bernardino- Ontario, CA	30.2%	15
Providence-New Bedford-Fall River, RI	29.5%	16
Cincinnati-Middletown, OH-KY-IN	29.2%	16
Birmingham-Hoover, AL	28.7%	18
Milwaukee-Waukesha-West Allis, WI	28.7%	19

Source: First American Loan Performance - 12/31/07

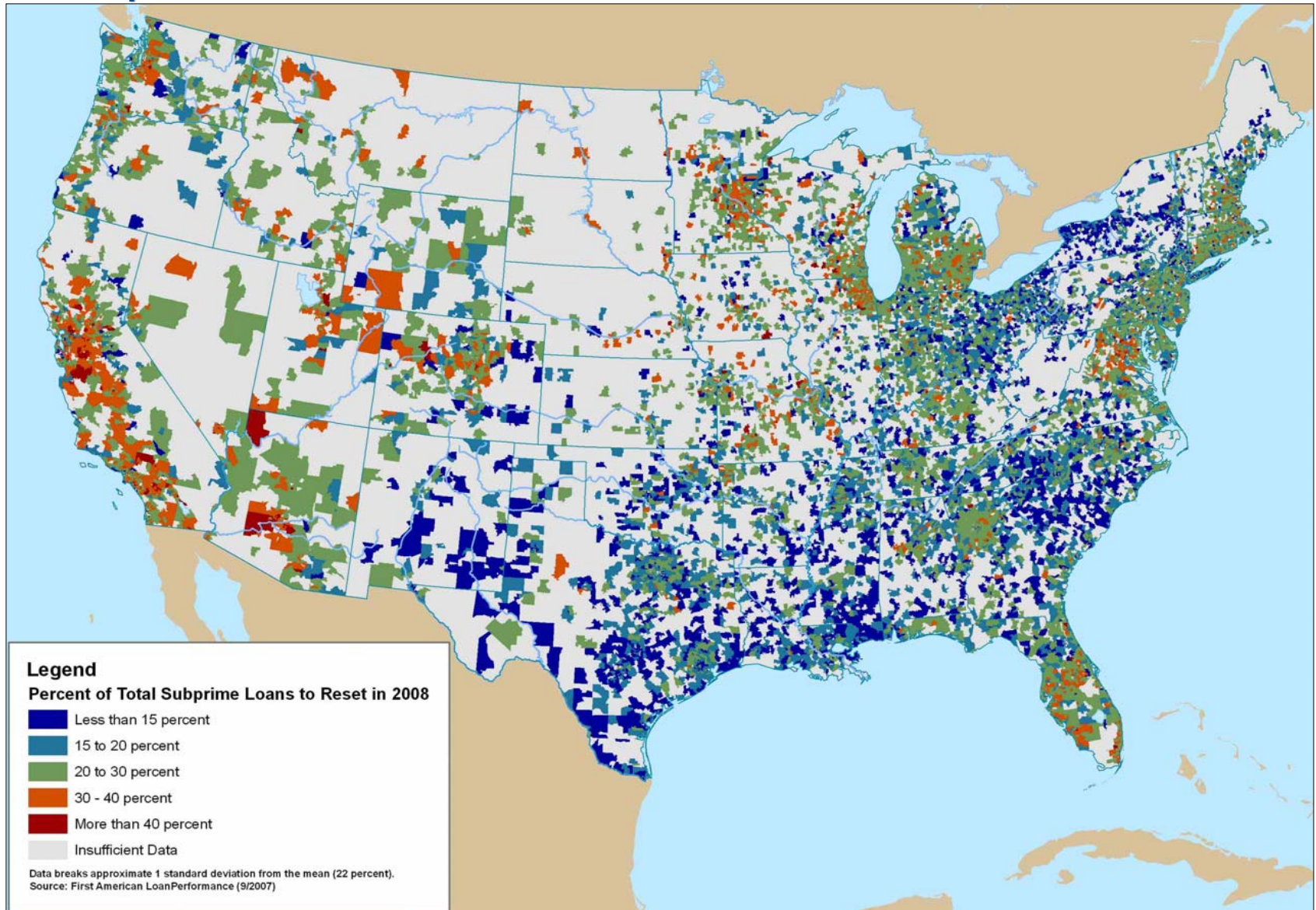
Outlook for Foreclosures: ARM Resets Provide Clues

ARM Resets from January 2007



Source: Credit Suisse

Percent of Subprime Loans



- ❑ Understanding the root cause of a default is essential for the lender or servicer to determine appropriate action
- ❑ Is it a short-term disruption (e.g., illness, loss of job, divorce, etc.) that will self-correct or long-term disruption (e.g., permanent disability, loan structure weakness, no economic incentives, etc.)
- ❑ Is foreclosure a better option than loss modification or mitigation?
- ❑ Analysis is typically driven by Servicer/Lender NPV cash flow calculations on borrower capacity and market conditions.

- ❑ \$40,000 to \$70,000 (on average - JEC, Freddie Mac, Lender estimates)
 - *Avg subprime loan size is \$130,000 (fixed) & \$200,000 (ARM)*

- ❑ Costs are comprised of:
 - *Legal – varies by case and state, judicial, non-judicial, etc.*
 - *Home Maintenance – initial and ongoing*
 - *Property Valuation – valuing the property, write-downs*
 - *Misc. - admin, sales & marketing, closing costs, delinquent prop taxes*
 - *Lost Income – and added expense; ties up capital and liquidity*

❑ **Considerations regarding Borrowers, Financial Institutions & Investors**

- *New programs for borrowers with limited options – expand government programs?*
- *Direct and/or indirect intervention with mortgage servicers and the investment community (i.e., expand Hope Now, ASF Streamlined Framework, etc.)*
- *Borrower education to reduce foreclosures - financial counseling (funding additional resources).*
- *Publish material on borrower rights regarding foreclosure*
- *Improve reporting and disclosure transparency on loss mitigation programs (SR 08-2/CA 08-2)*
- *Standardize/streamline foreclosure processes to reduce cost when inevitable*

Contact

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