Identifying Issues in the Subprime Mortgage Market: Utah

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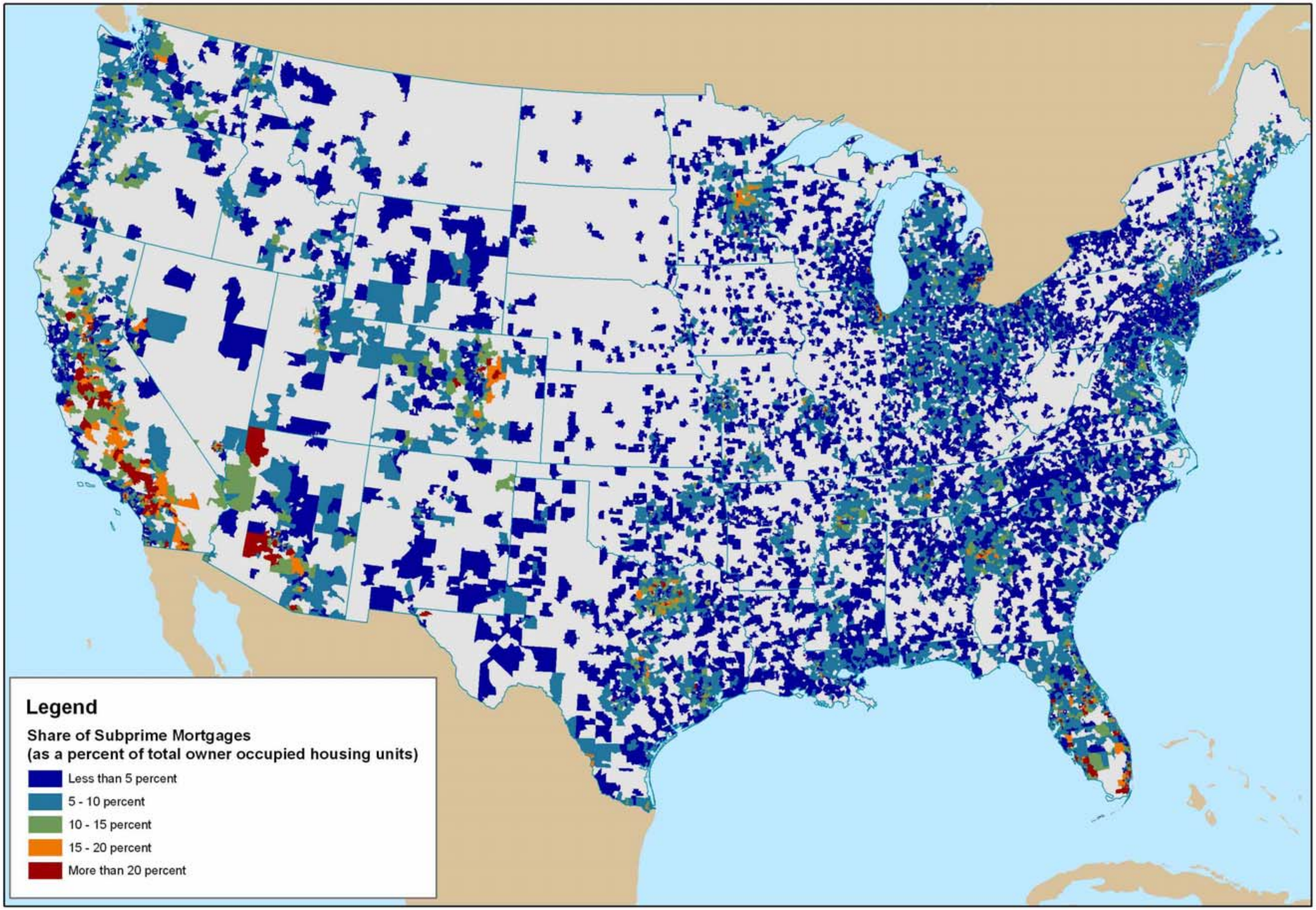
Overview: The Subprime Market

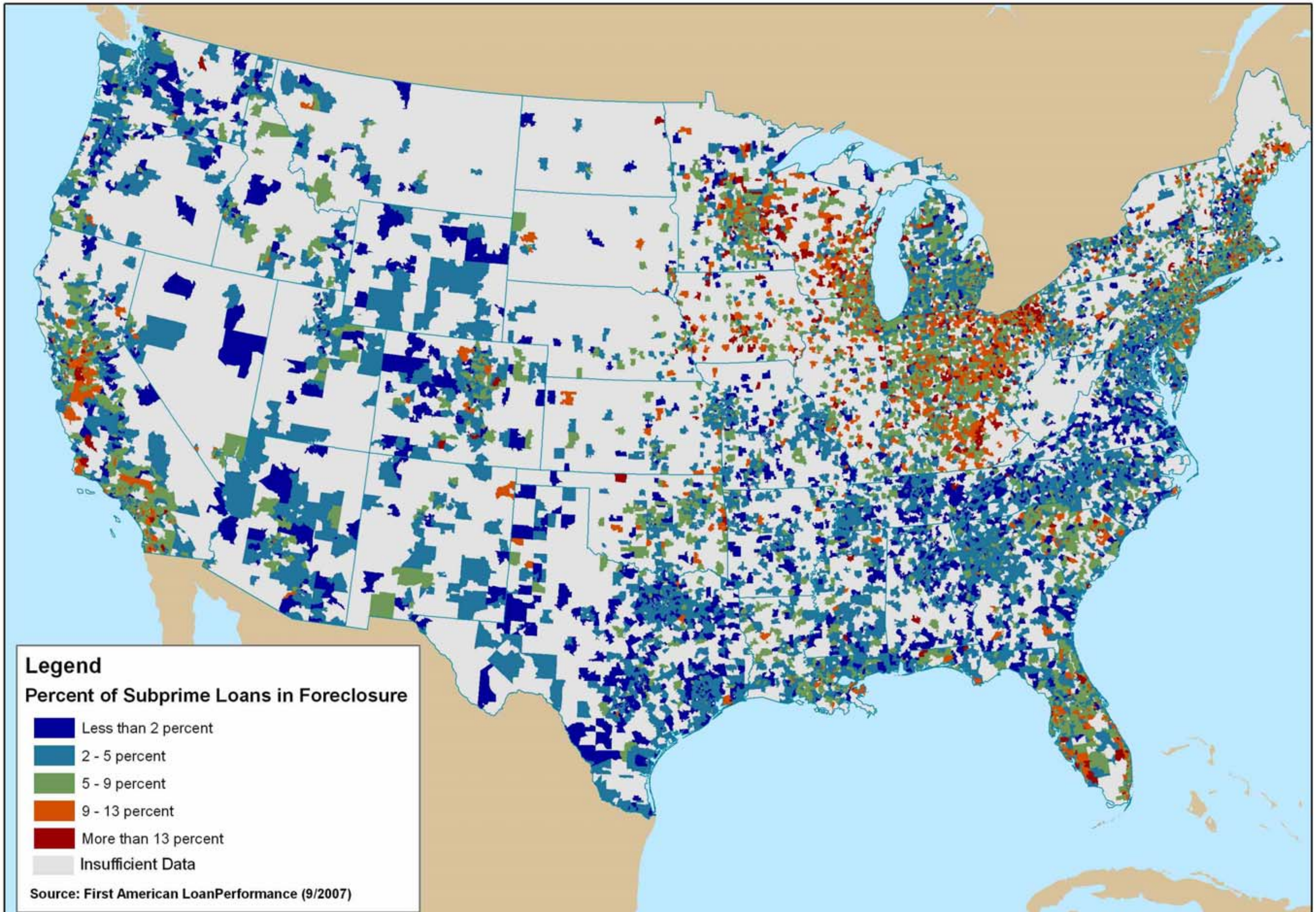
- Subprime lending has grown rapidly since 2000, but is unevenly distributed across the U.S.
- Foreclosures and delinquency rates are rising, particularly in parts of California, Nevada, and Arizona
  - Utah has been fairly insulated due to continued house price appreciation, but this may be “masking” borrower distress
- Key drivers of delinquency rate patterns in U.S.
  - House prices
  - Economic conditions
  - Underwriting standards
  - Resets

Distribution of Subprime Lending in the United States

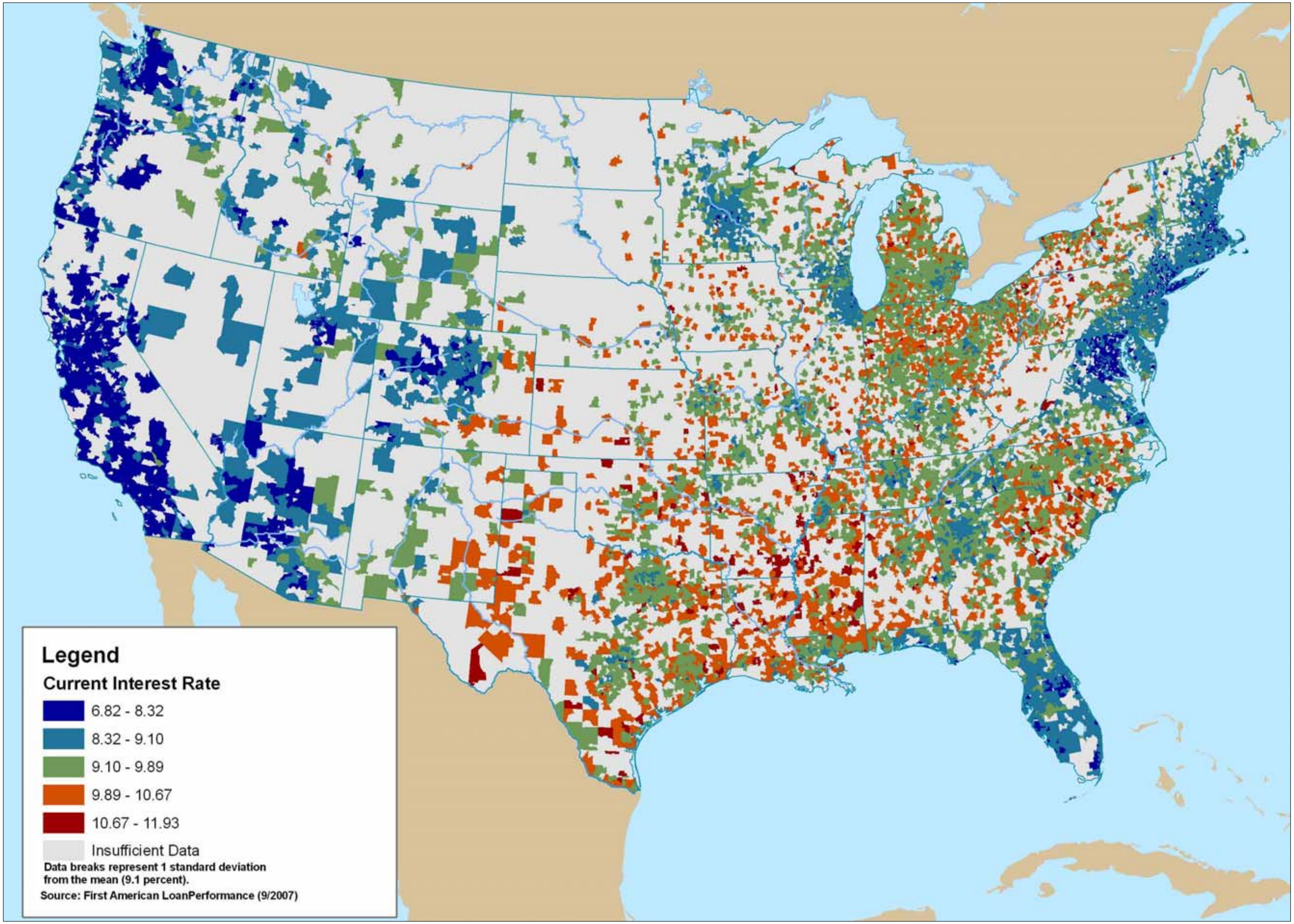


Source: First American Loan Performance (Subprime 9/2007)

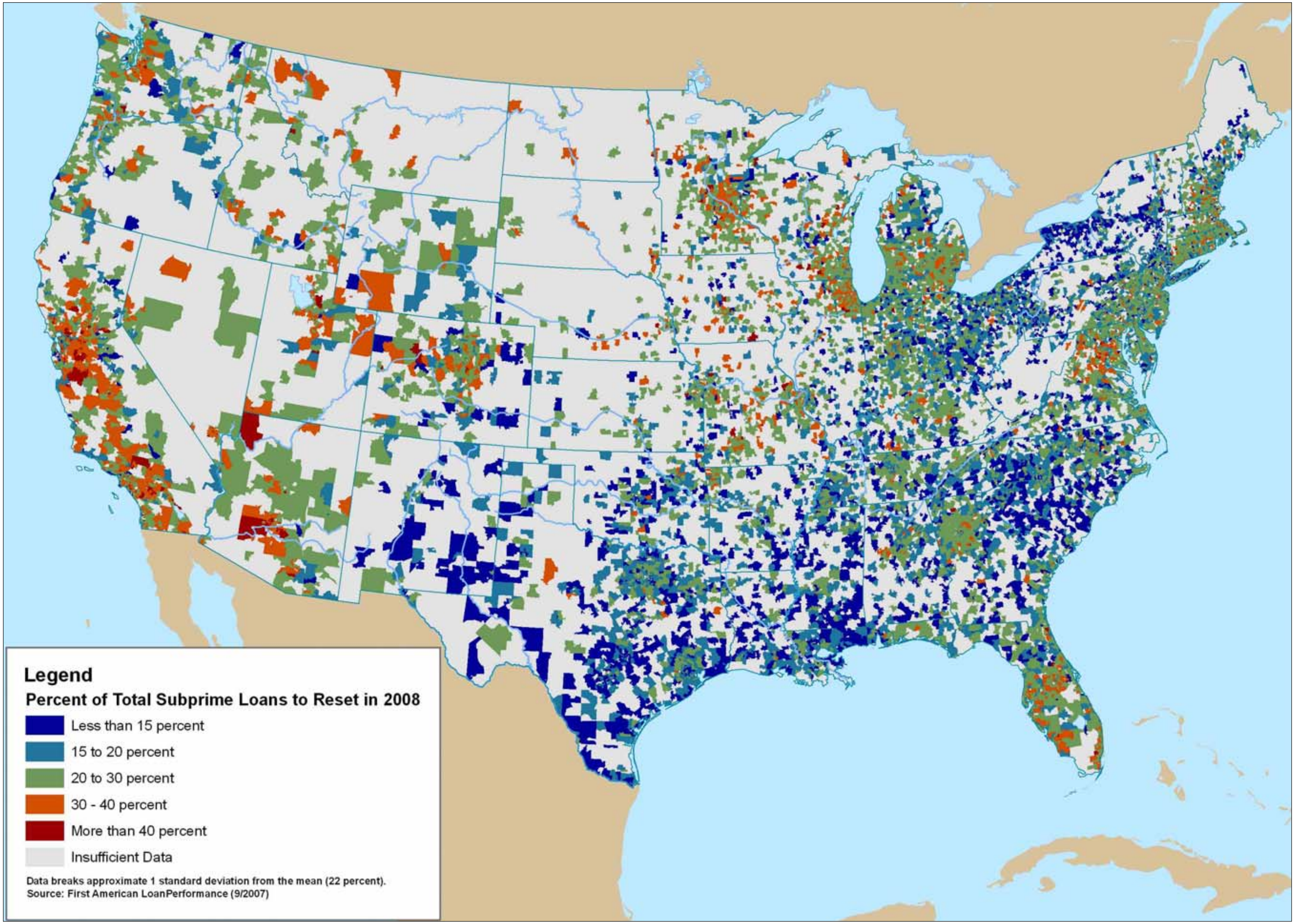
Foreclosure Rates Among Subprime Loans



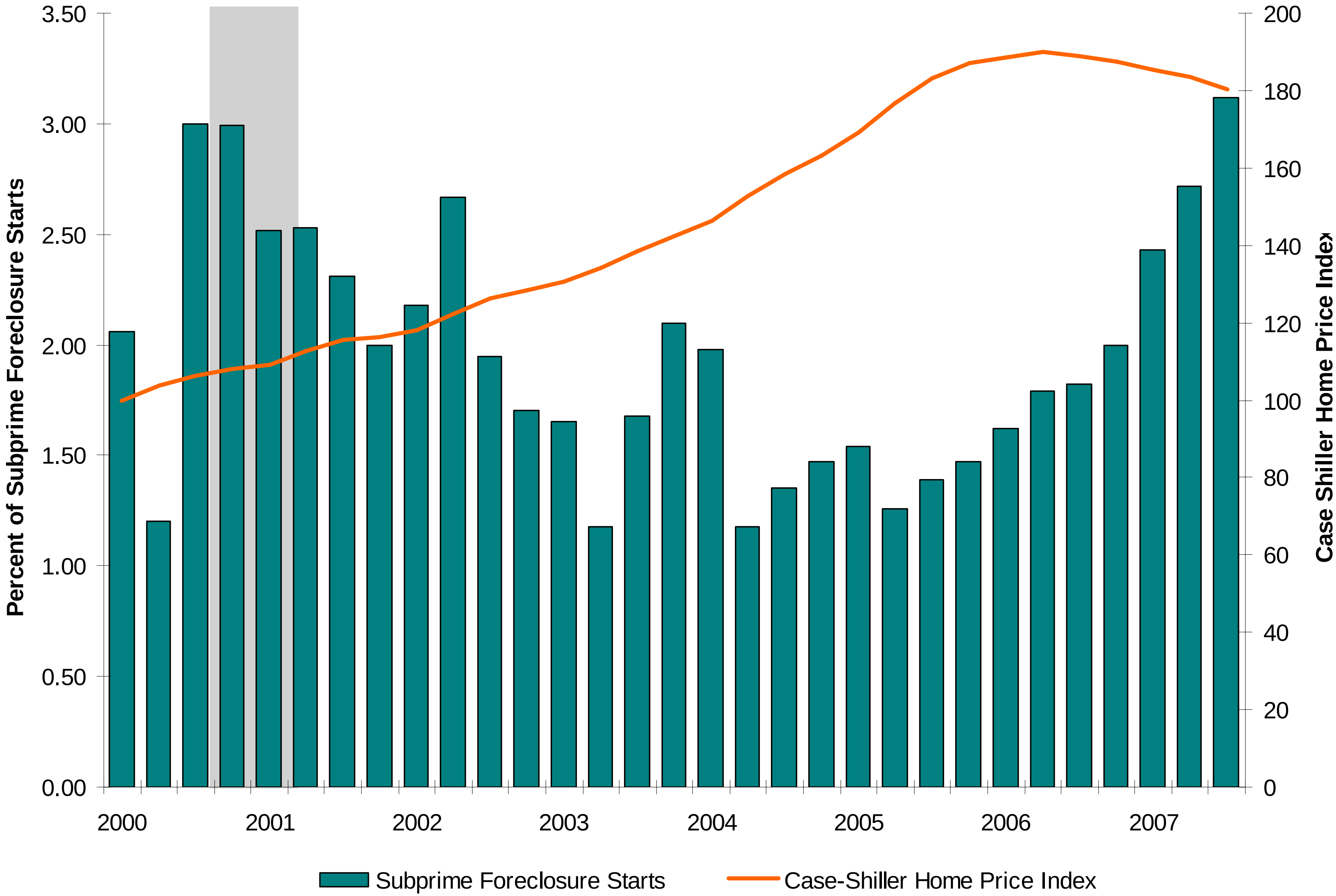
Current Interest Rates on Subprime Loans



Percent of Subprime Loans to Reset in 2008



Subprime Foreclosure Rates Rising, Especially as House Values Soften – United States



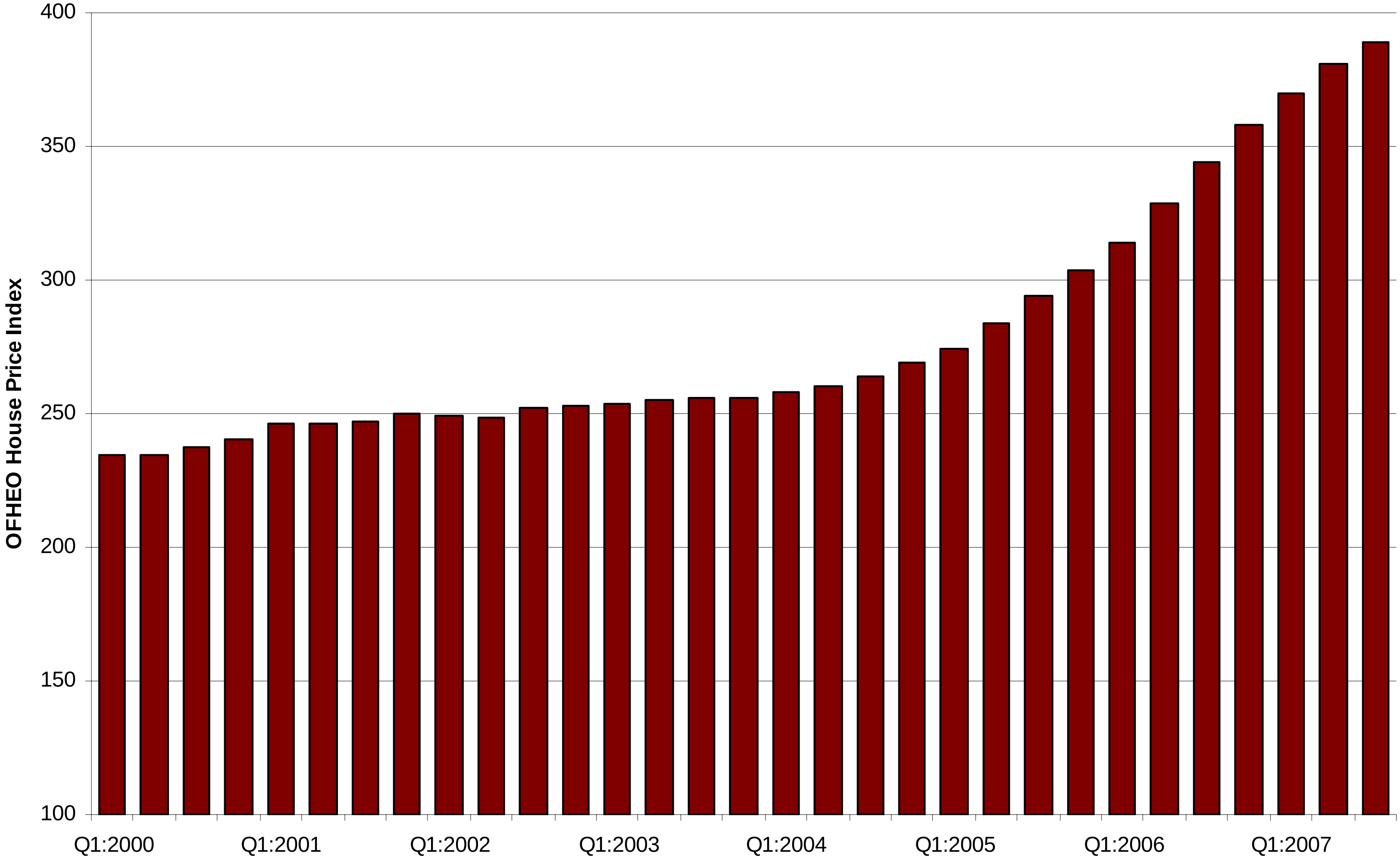
The Subprime Market in Utah

- Data reported here are from LoanPerformance's subprime database, which includes approximately 70 percent of subprime loans sold into mortgage-backed securities, aggregated at the zip code level
- Utah
  - Approximately 28,700 subprime loans in LP database
  - Average balance of approximately $155,000 and an average interest rate of 8.73 percent
  - 3.57 percent in foreclosure or REO
  - 74.1 percent current as of September 2007
  - Approximately 38 percent were cash-out refinances, 44 percent were for purchase

Utah May See Significant Rise in Foreclosures

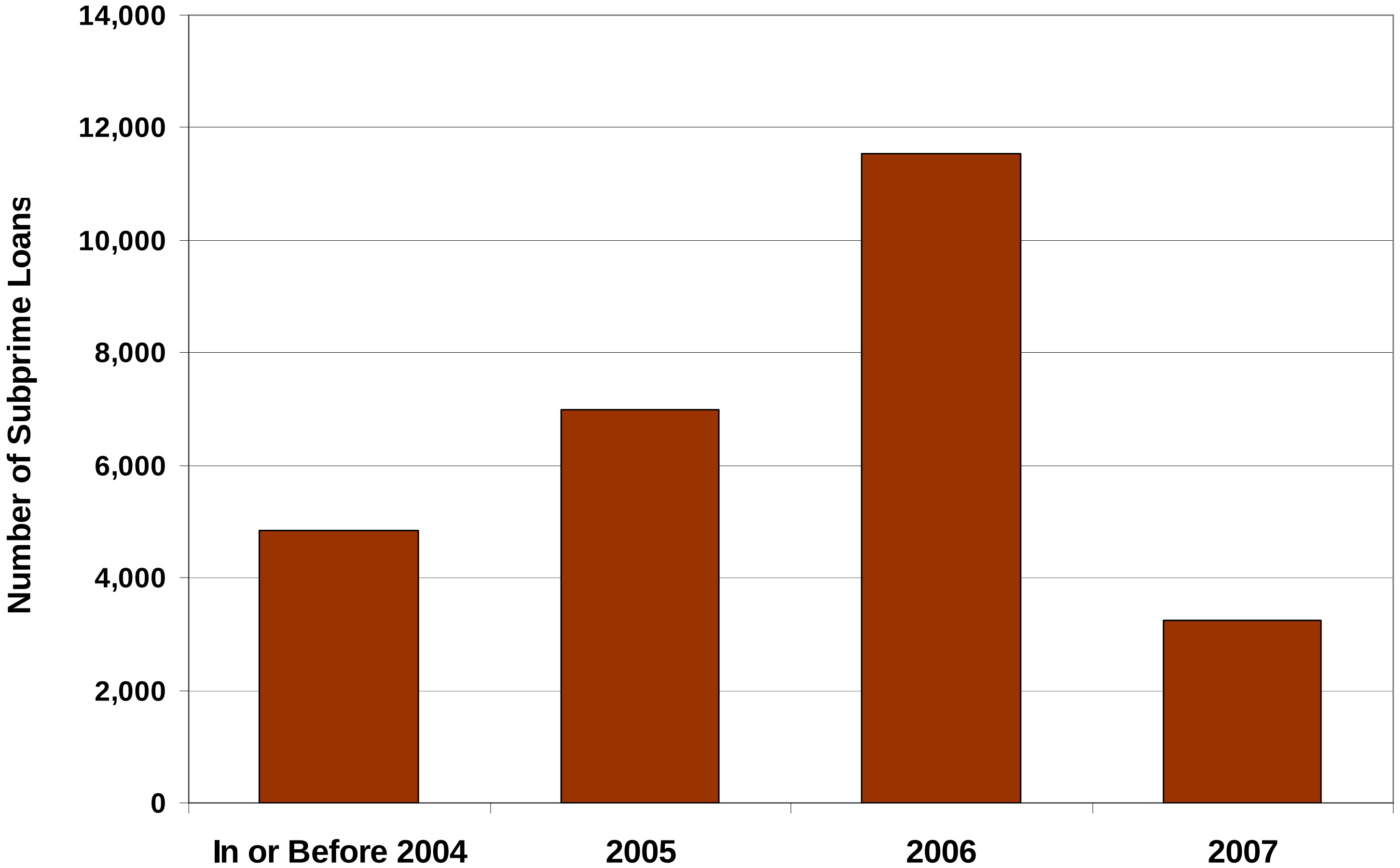
- Recent house price appreciation may be “masking” underlying borrower distress
- Utah has many of the same risk factors we saw in California, Arizona and Nevada
  - Rapid house price appreciation coupled with an increase in the volume of subprime lending
  - A large percent of loans to reset in 2008
  - A large number of loans with a high LTV

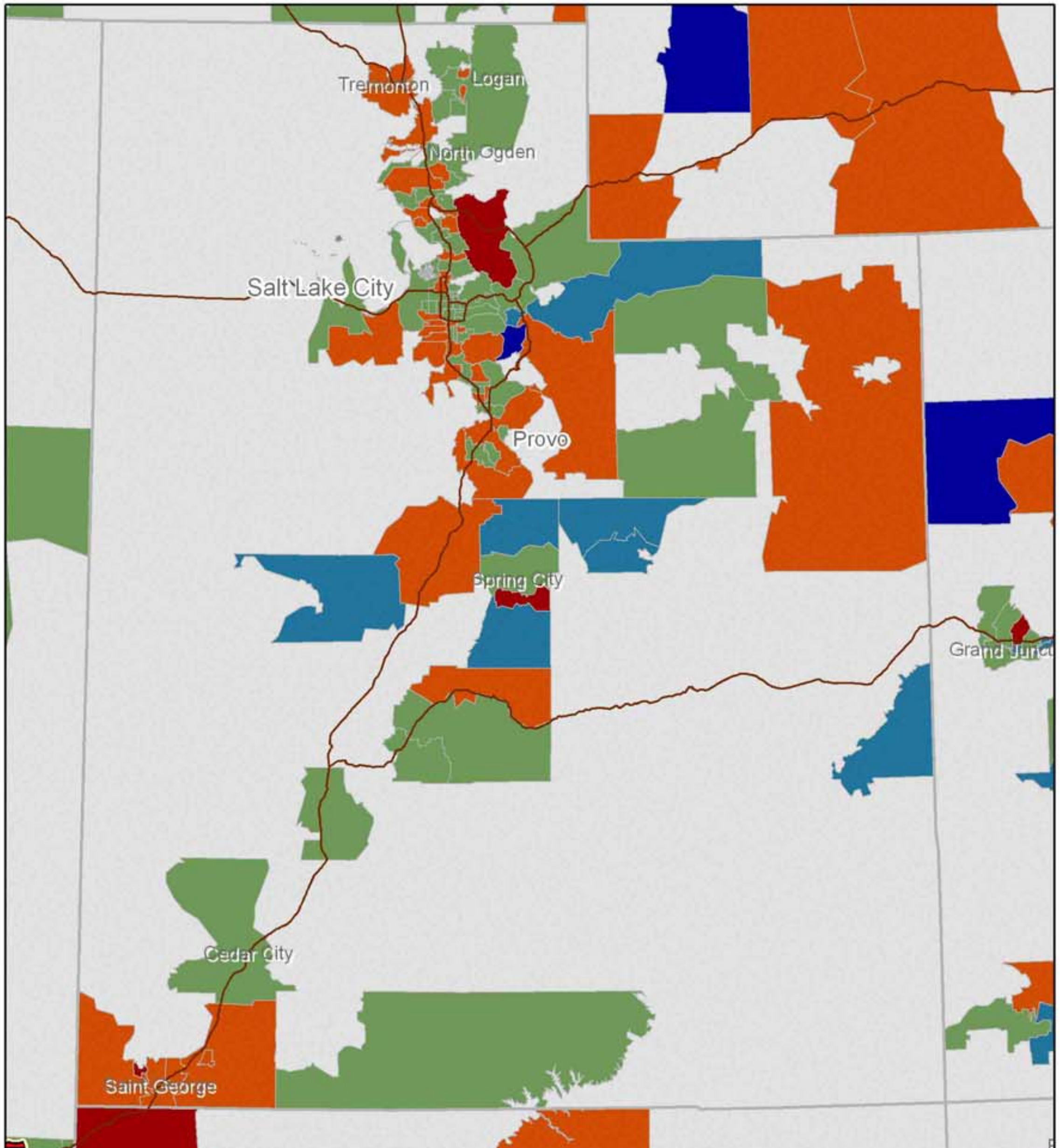
House Price Appreciation in Utah



Rise in Subprime Lending in Utah during this Period of Rapid Appreciation

- A large share of originations were made in 2006





Resets in 2008 Utah

A large number of subprime loans will reset in Utah in 2008. If house values drop, it will be difficult for these borrowers to refinance.

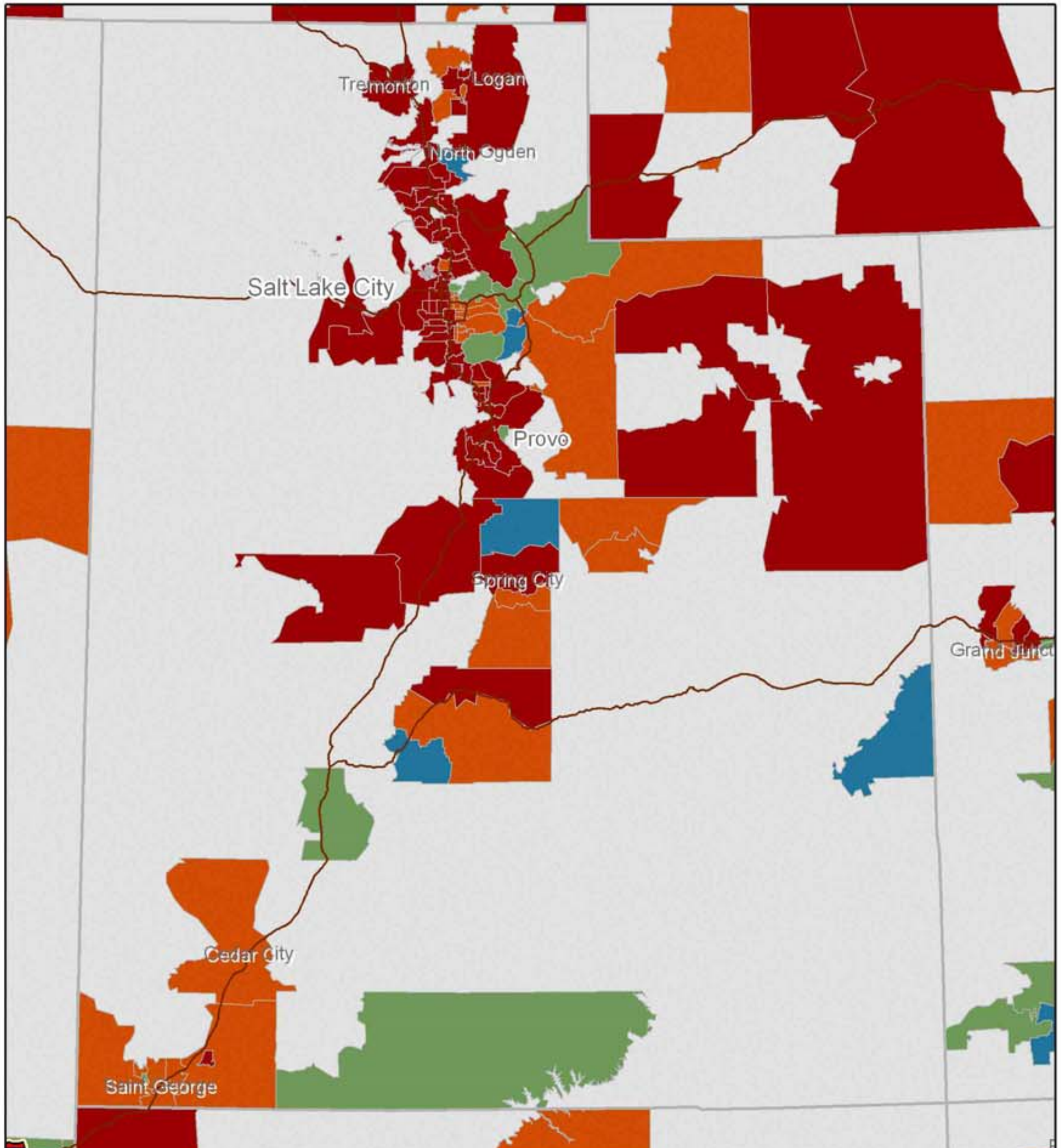
As a caveat, in some of these zip codes, the total number of subprime loans may be small.

Legend

Percent of Subprime Loans to Reset in 2008

- Less than 15 percent
- 15 to 20 percent
- 20 to 30 percent
- 30 - 40 percent
- More than 40 percent

Source: First American Loan Performance (9/2007).
Data from a representative sample of subprime loans aggregated at the zip code level.



High Loan to Value Utah

Approximately 47 percent of subprime loans in Utah have a High LTV (above 90 percent at origination), a significantly larger share than in the rest of the 12th District (34 percent).

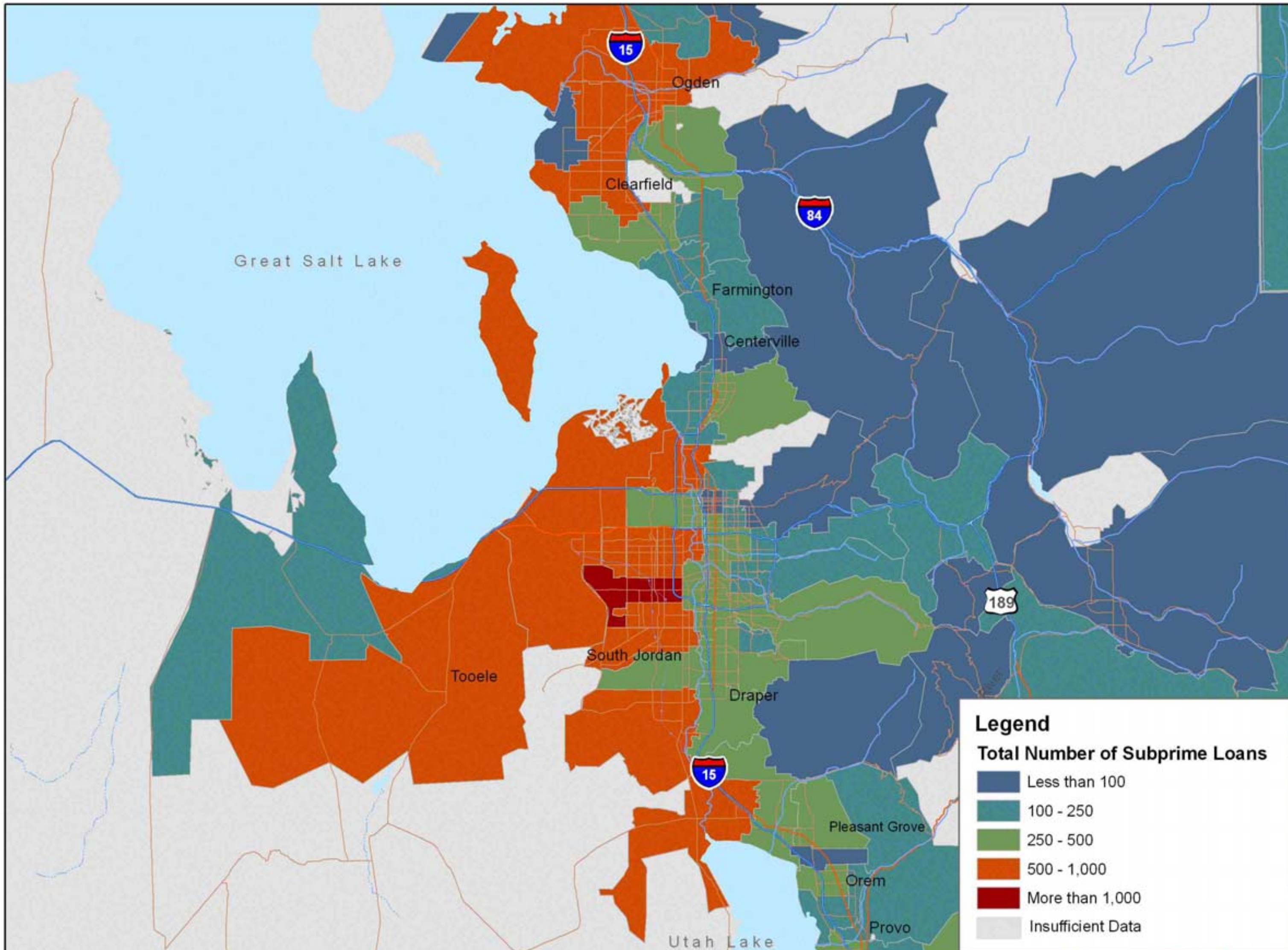
Legend

Percent of Subprime Loans with a High LTV

- Less than 10 percent
- 10 - 20 percent
- 20 - 30 percent
- 30 - 40 percent
- More than 40 percent

Source: First American Loan Performance (9/2007).
Data from a representative sample of subprime loans aggregated at the zip code level.

Volume of Subprime Lending Clustered in Certain Areas



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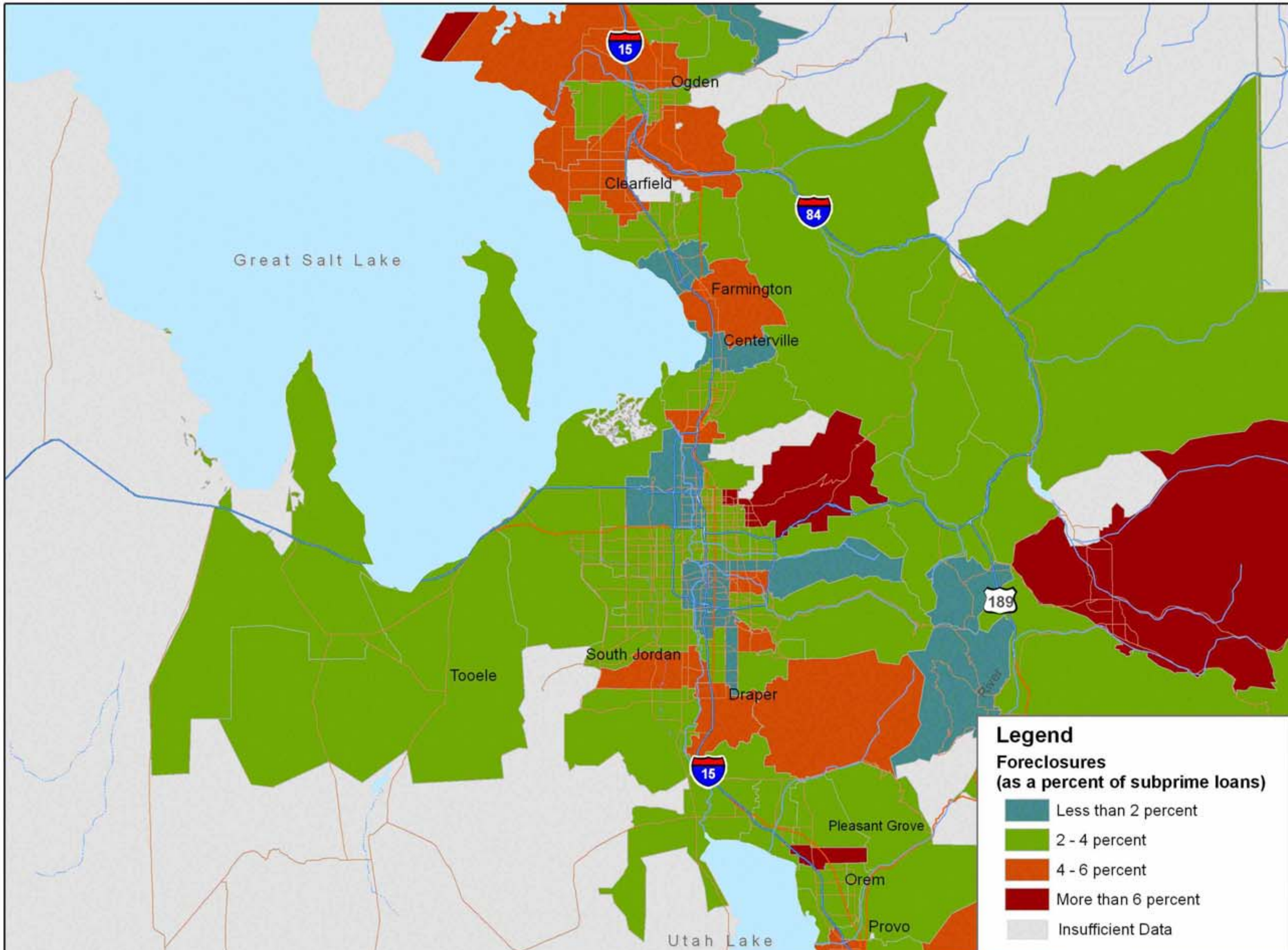

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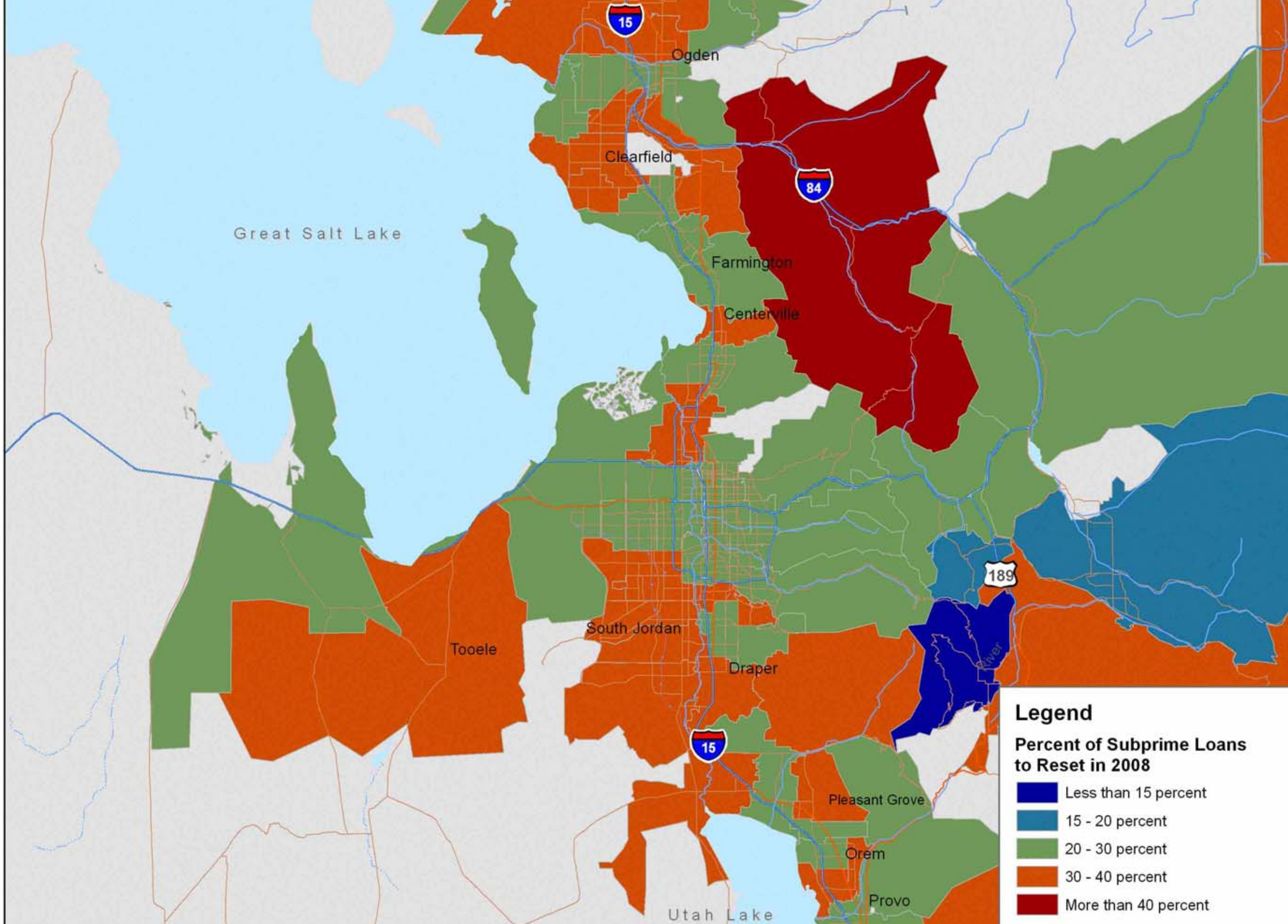

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Utah May See Significant Rise in Foreclosures

- Recent house price appreciation may be “masking” underlying borrower distress
- Utah has many of the same risk factors we saw in California, Arizona and Nevada
  - A large number of subprime loans
  - A large percent of loans to reset in 2008
  - A large number of loans with a high LTV
  - Areas of rapid construction and new development
- Based on the experience of CA, AZ and NV, Utah may see an increase in foreclosures if house values fall, despite continued strong employment growth
- Refinancing eligible borrowers now into FHA or other responsible loans can help to avert the negative impact of foreclosures

Loan Modification Issues

- Servicers and lenders have a variety of options to avoid foreclosures
  - Refinancing **(may become more difficult going forward)**
  - Temporary Forbearance/Repayment Plans for short-term difficulties **(currently most popular option)**
  - Loan Modifications (freeze interest rates, extend maturity date, capitalization of arrearages, and forgiveness of principal)
  - Deed-in-lieu
  - Short sale
- Difficult to assess how many borrowers would need a programmatic workout to stay in their home (not able to refinance or stay current)
  - One industry estimate suggests that 15.4 percent, or approximately 4,400 outstanding subprime mortgages in Utah would need a workout; the rest would either be able to use FHA or private market refinancing
  - This share is likely to increase if house values drop significantly and/or if a larger share of subprime borrowers have silent seconds

Challenges

- Servicers
  - Reaching the borrower (less than 50% contact rate)
  - Servicers are hampered by certain constraints in executing loan modifications
    - Loans must be in default prior to modification
  - Requires loan-by-loan assessment
    - Servicers are currently not staffed for individual workouts
- Counselors
  - Lack of capacity to handle the volume of calls