Identifying Issues in the Subprime Mortgage Market: Nevada

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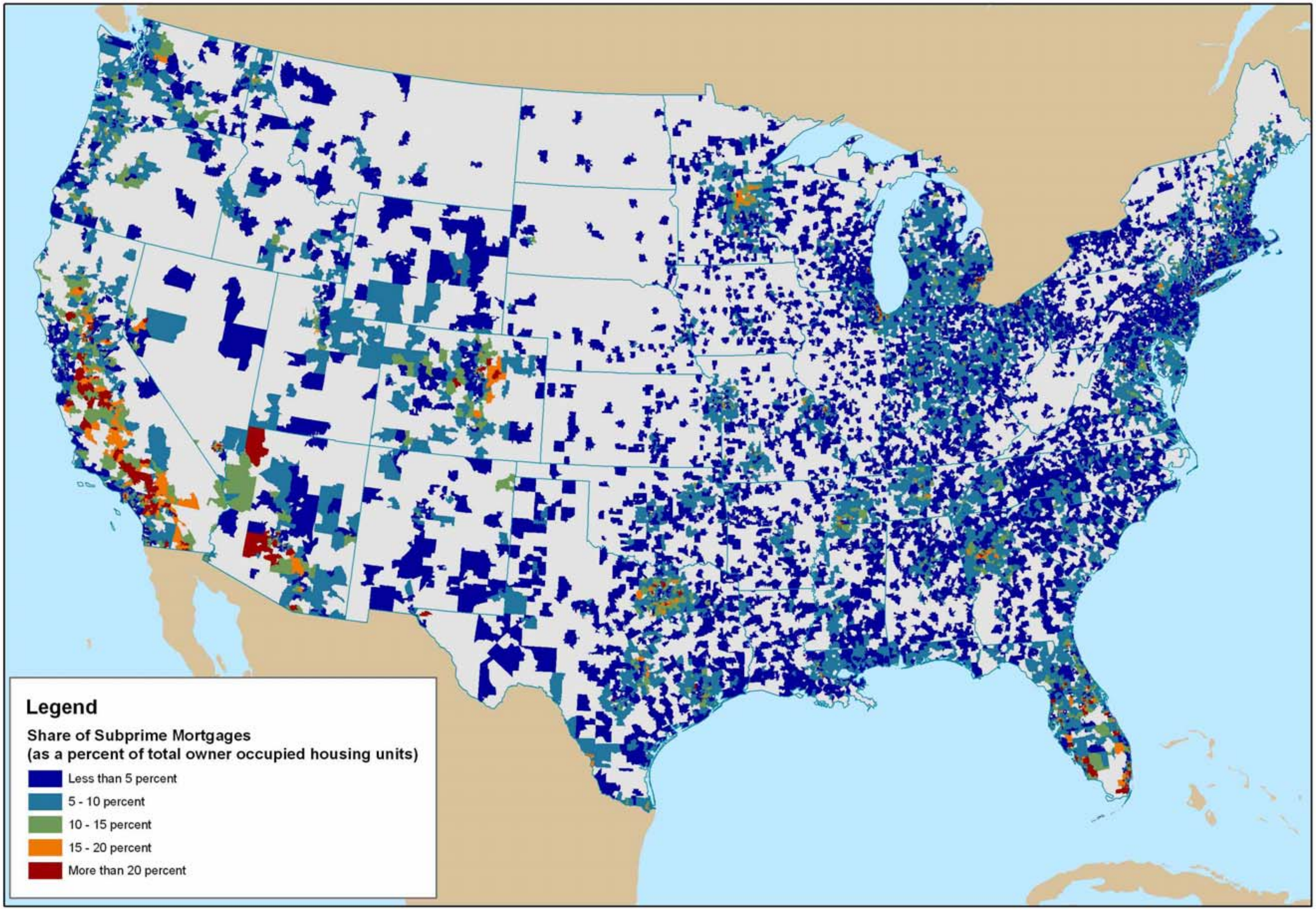
Overview: The Subprime Market

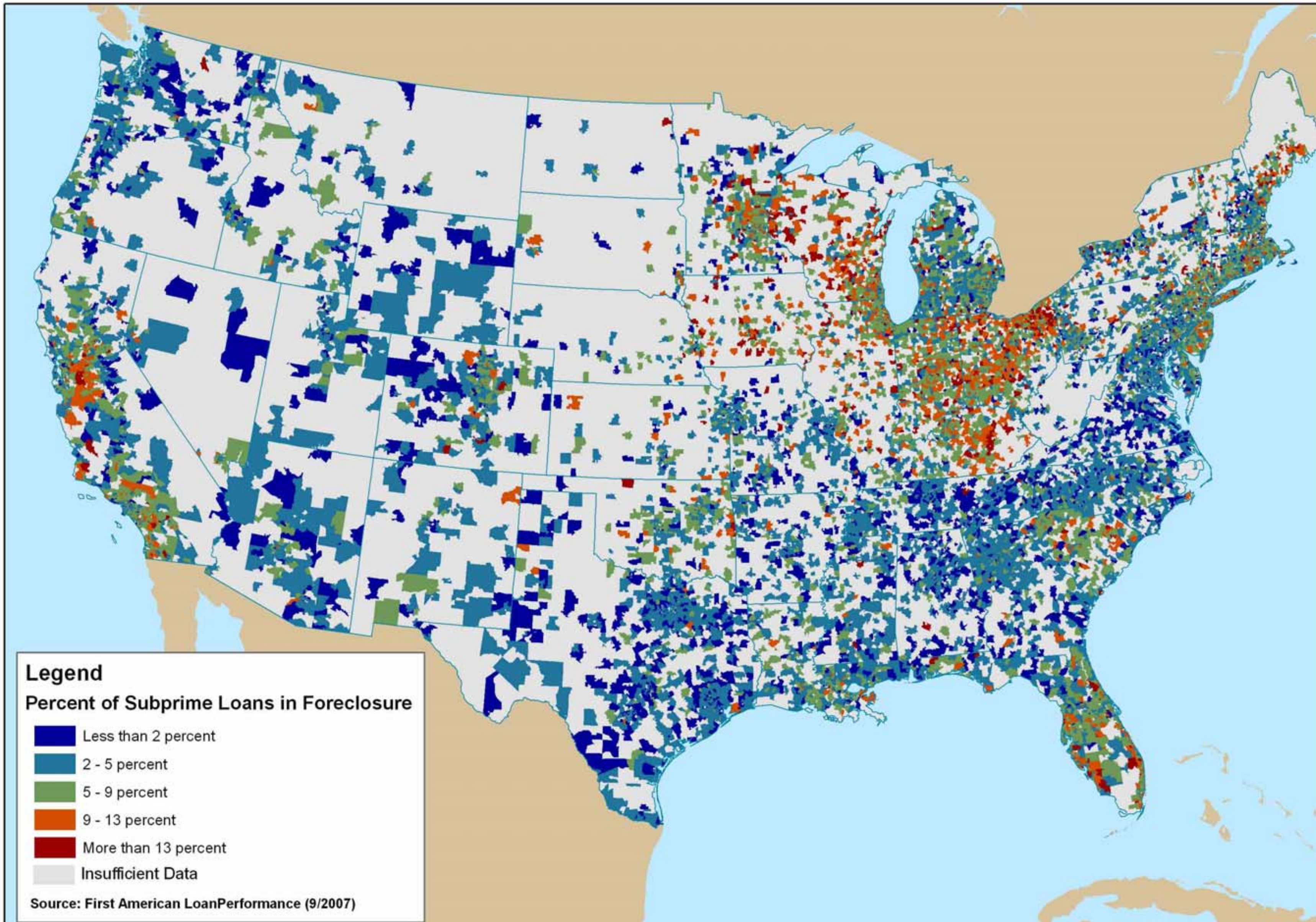
- Subprime lending has grown rapidly since 2000, but is unevenly distributed across the U.S.
- Foreclosures and delinquency rates are rising, particularly in parts of California, Nevada, and Arizona
- Key drivers of delinquency rate patterns in U.S.
  - House prices
  - Economic conditions
  - Underwriting standards
  - Resets

Distribution of Subprime Lending in the United States

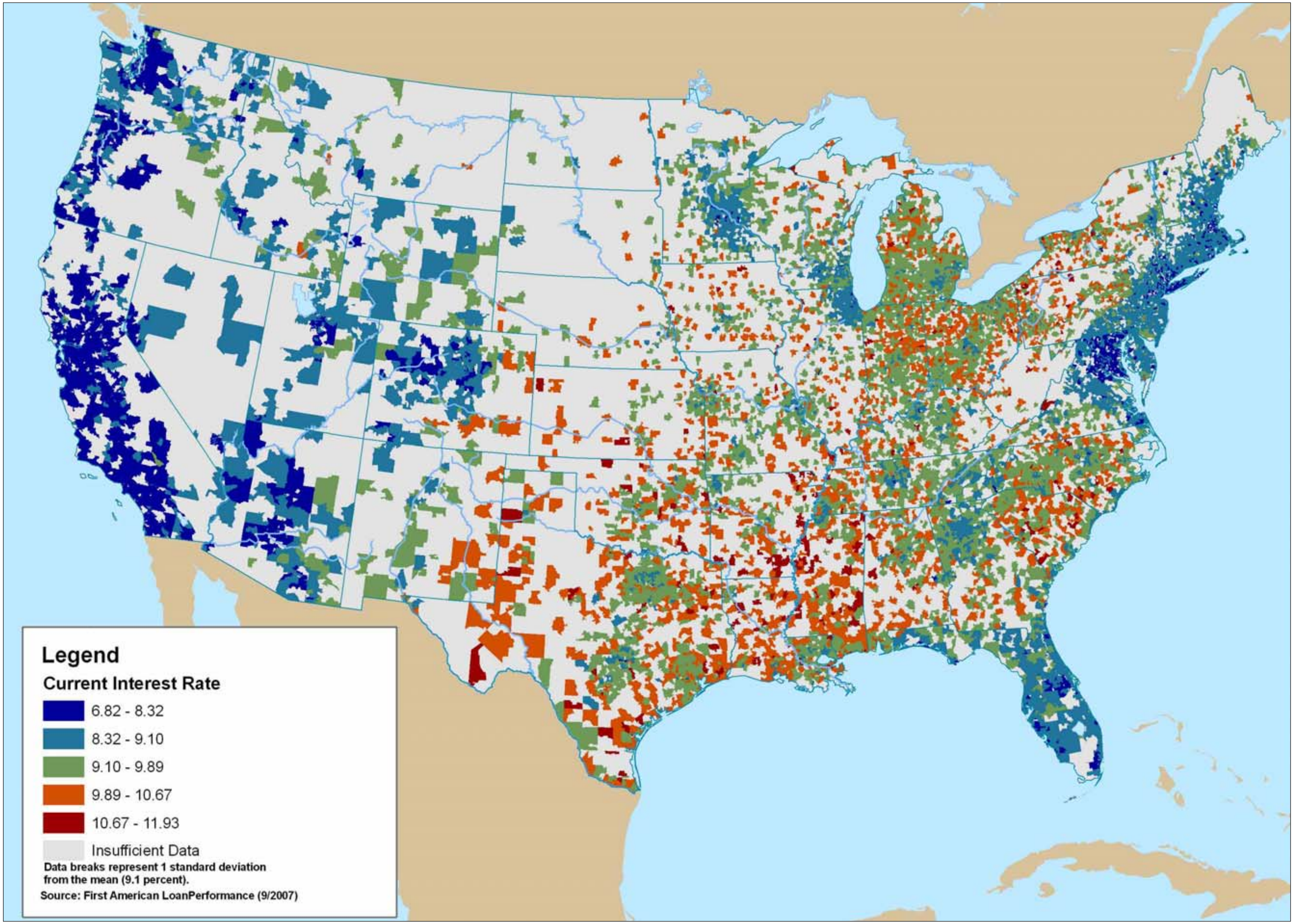


Source: First American Loan Performance (Subprime 9/2007)

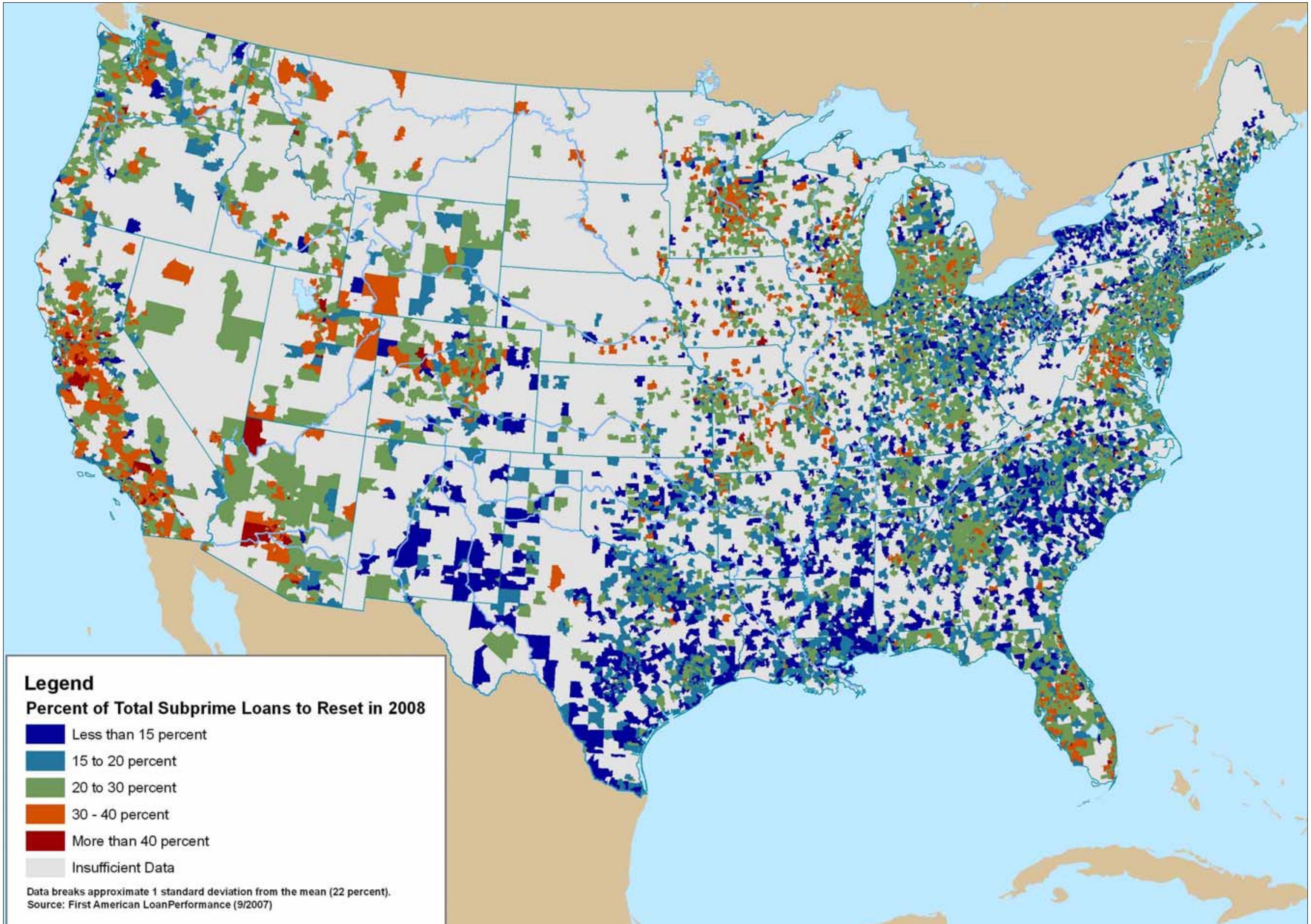
Foreclosure Rates Among Subprime Loans



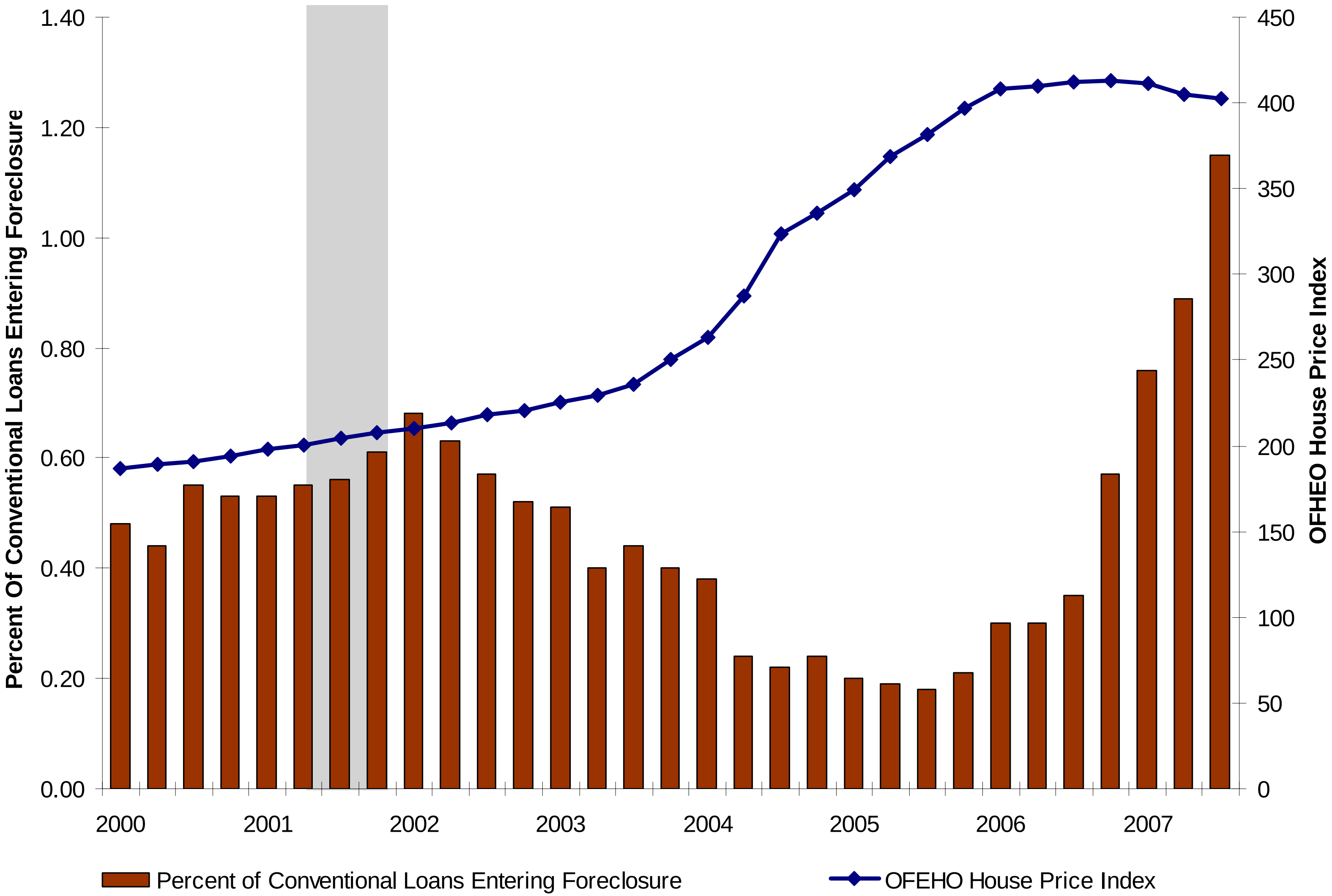
Current Interest Rates on Subprime Loans



Percent of Subprime Loans to Reset in 2008



Foreclosure Rates in Nevada Rising Quickly, Particularly as House Prices Soften

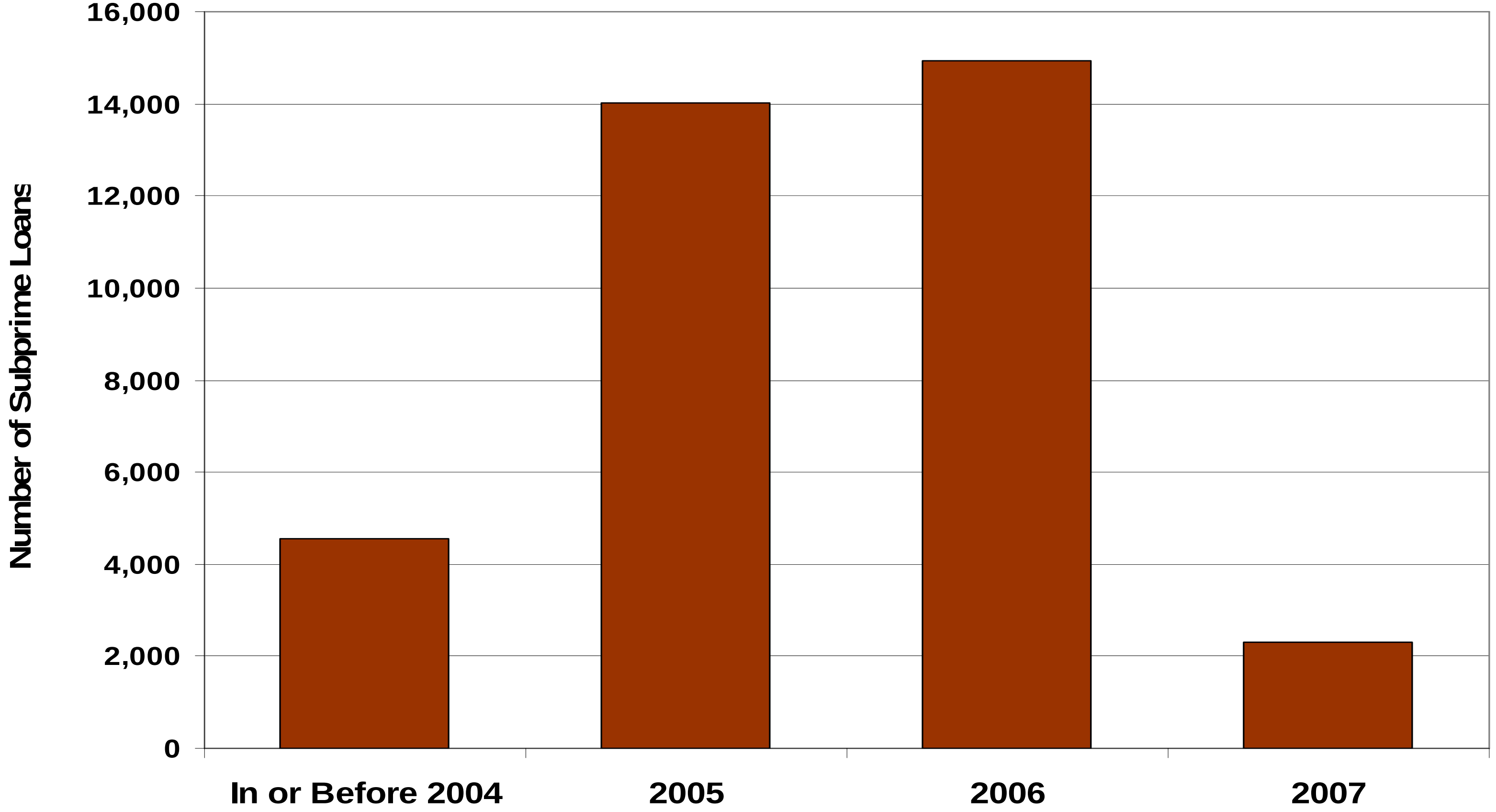


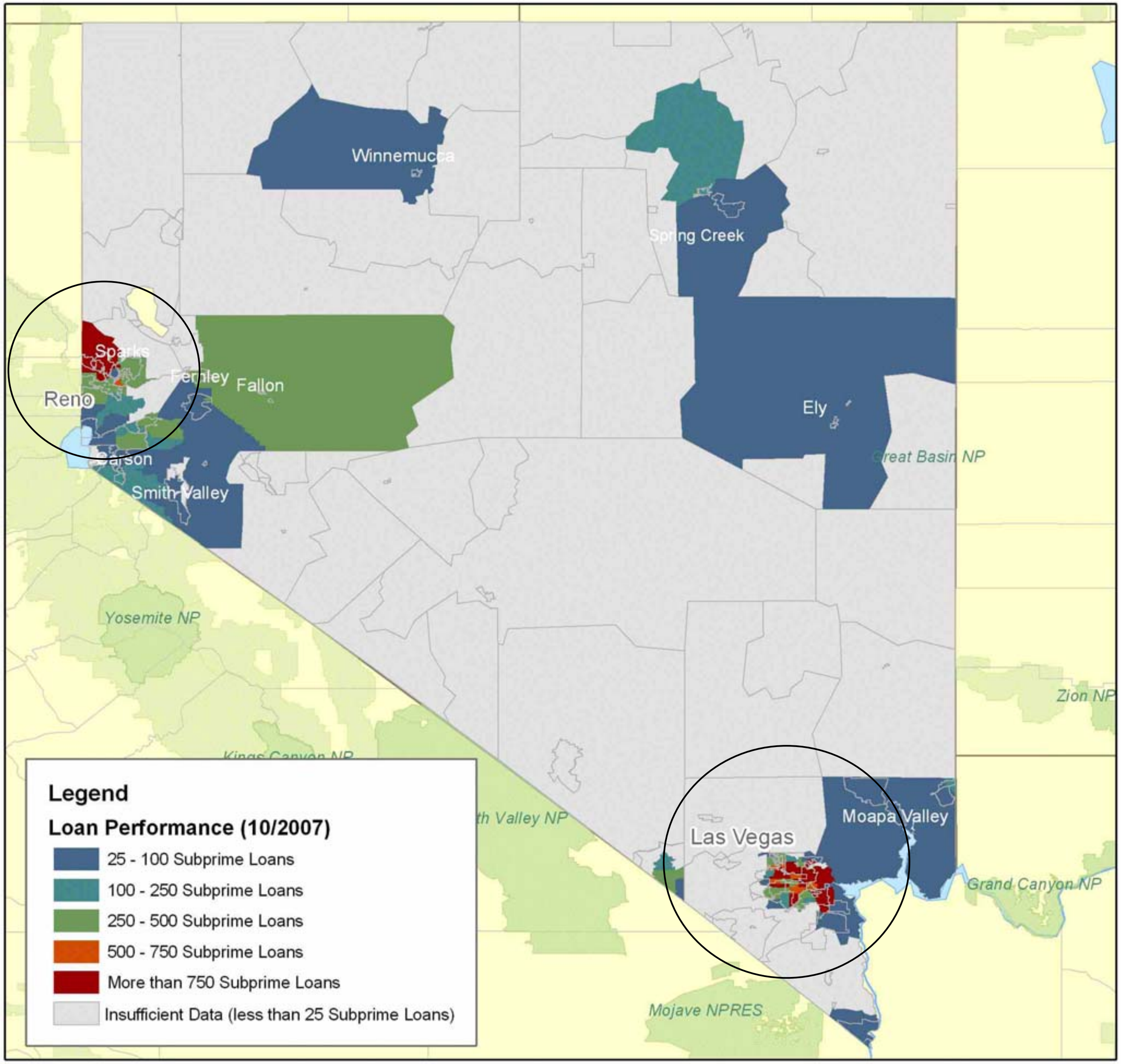
The Subprime Market in Nevada

- Data reported here and in the maps are a preliminary analysis of LoanPerformance's subprime database, which includes approximately 70 percent of subprime loans sold into mortgage-backed securities, aggregated at the zip code level
- Nevada – October 2007
  - Approximately 40,000 subprime loans in LP database
  - Average balance of approximately $232,000 and an average interest rate of 8.45 percent
  - 10.15 percent in foreclosure or REO
  - Approximately 47.6 percent were cash-out refinances, 38 percent were for purchase

Rise in Subprime Lending in Nevada during Real Estate "Boom"

- A large share of subprime originations were made in 2005 and 2006





The largest volume of subprime lending in Nevada is in the Las Vegas area, though the Sparks Area north of Reno includes zip codes with a large number of subprime loans.

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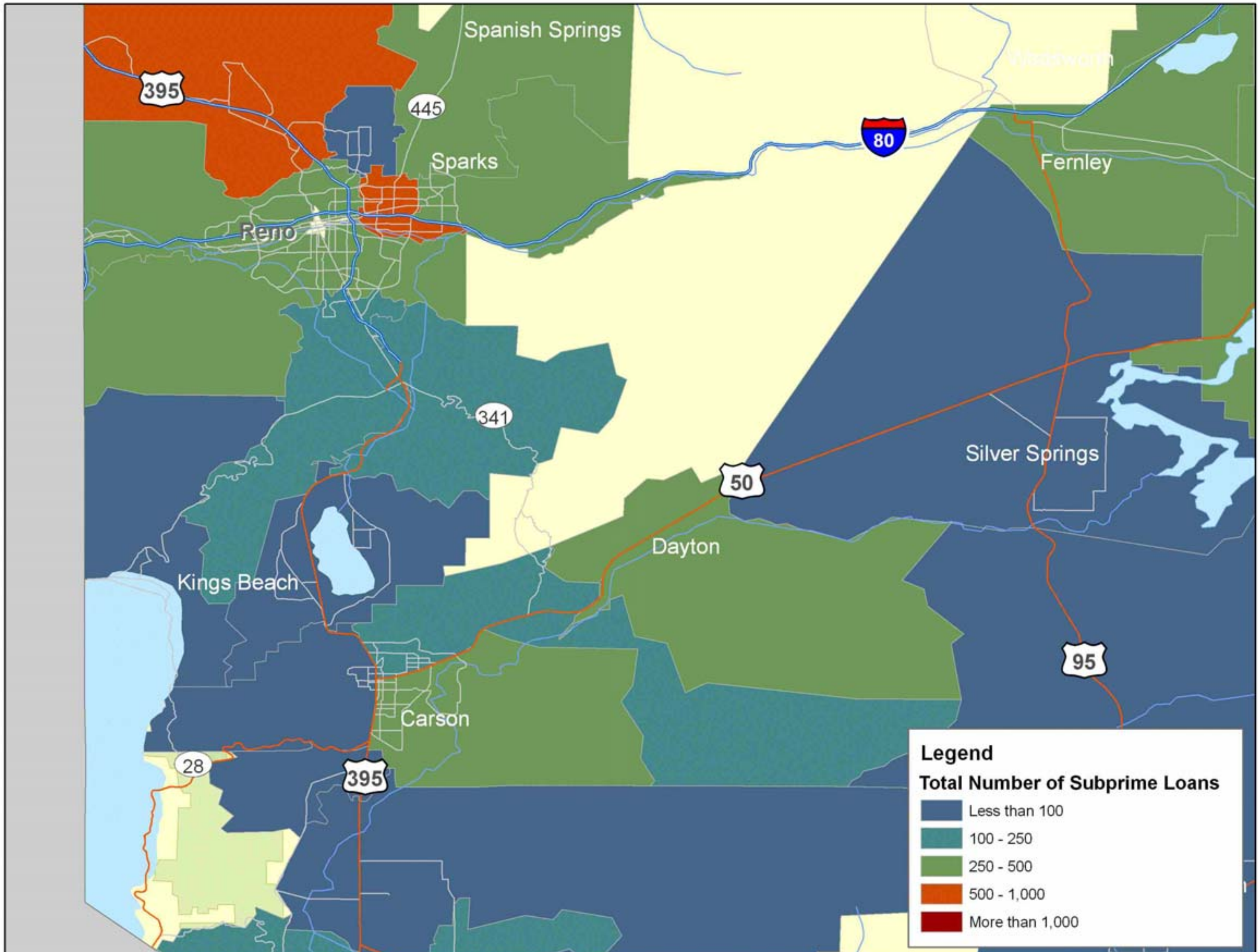
Location of Subprime Loans in Reno Area



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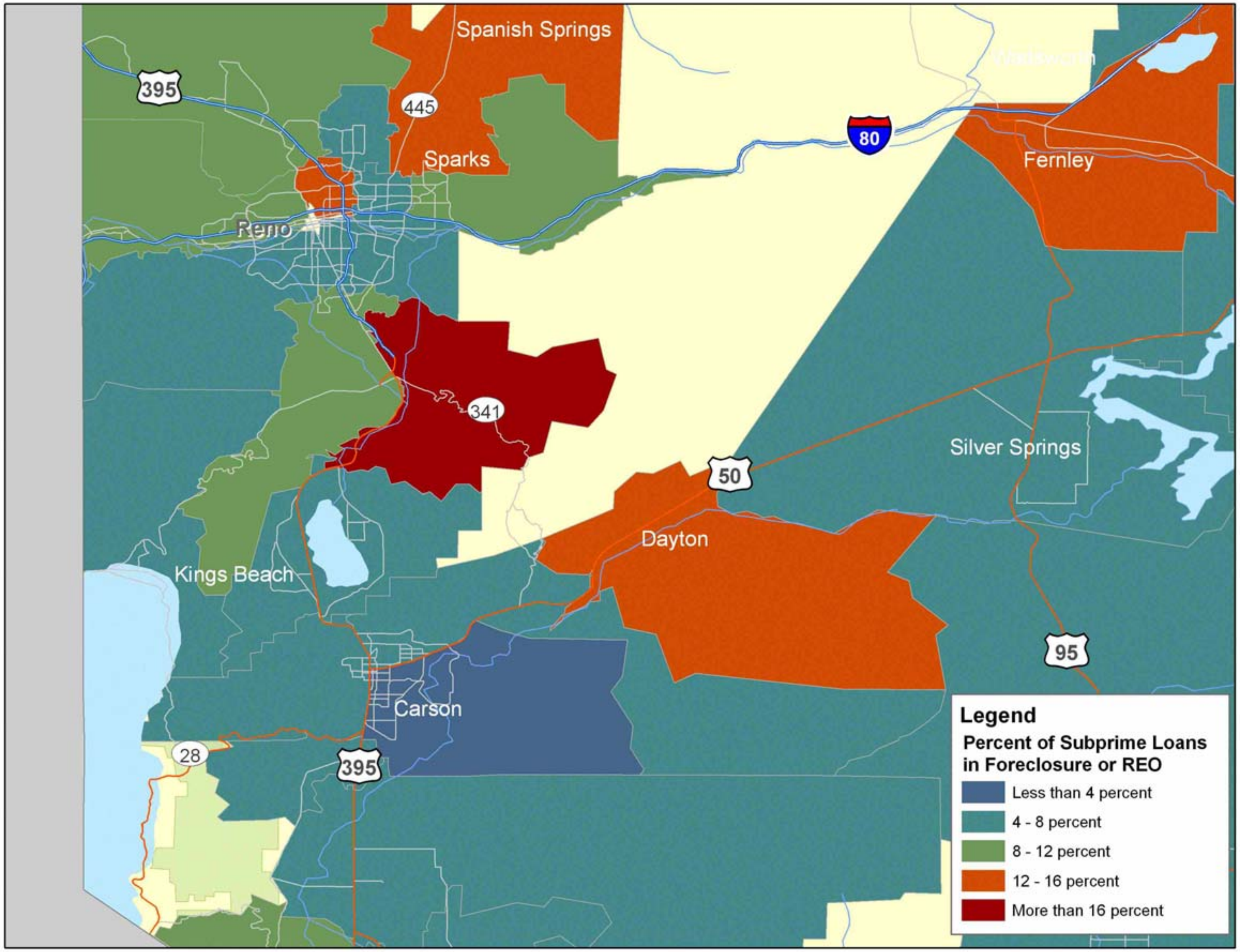
Foreclosure Rates in Reno Area



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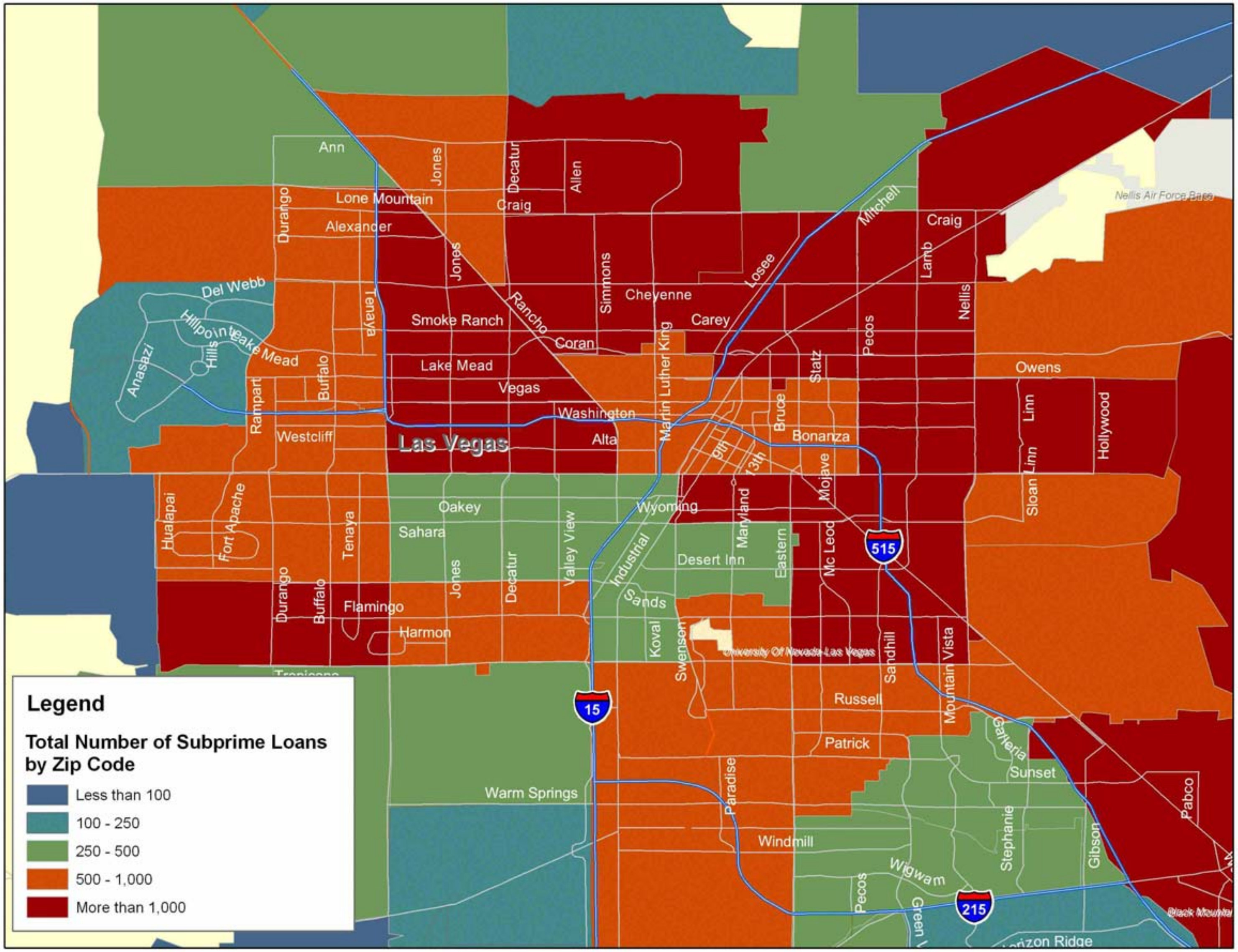
Las Vegas – Large Number of Subprime Loans



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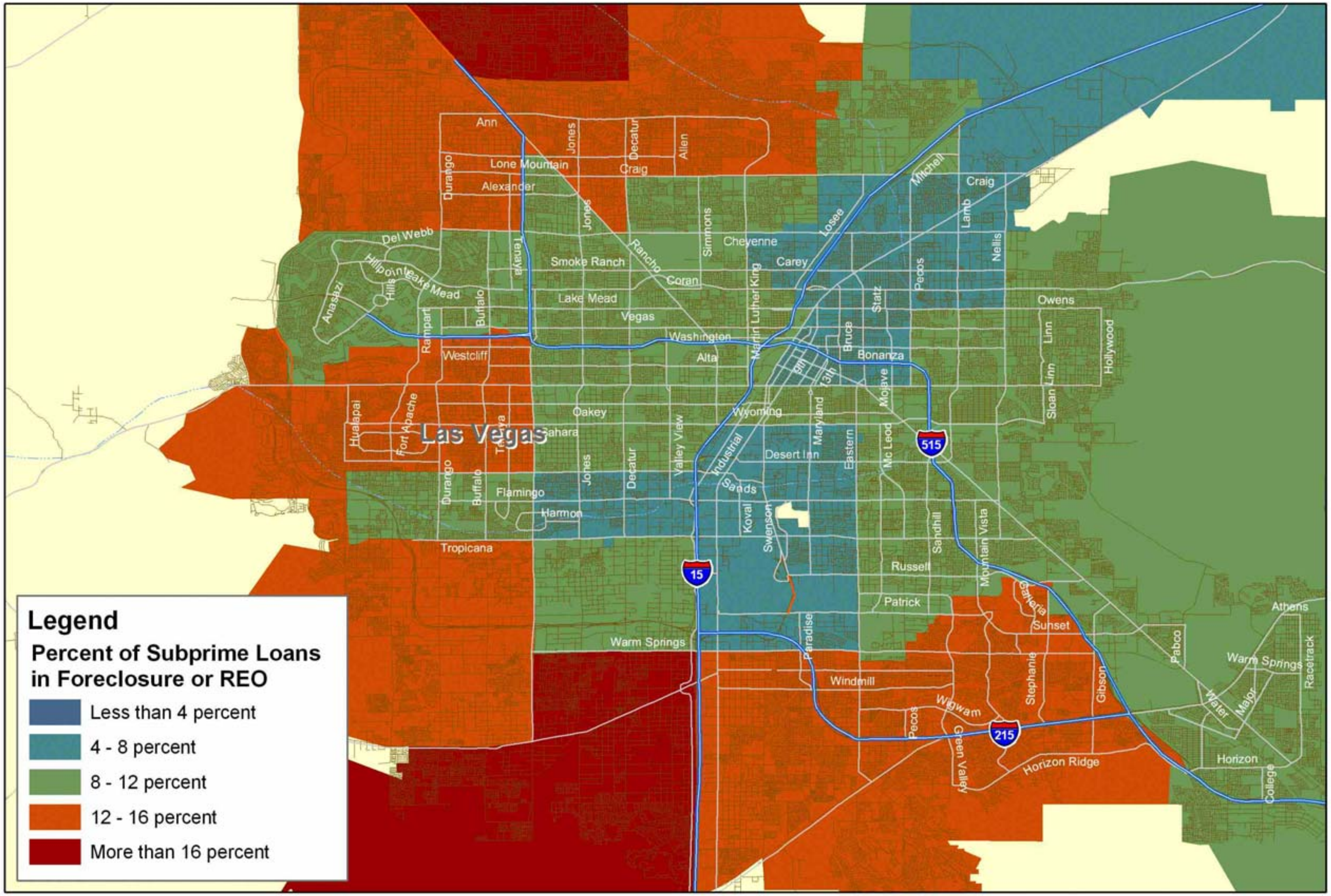
Las Vegas – Foreclosure Rates High in Many Neighborhoods



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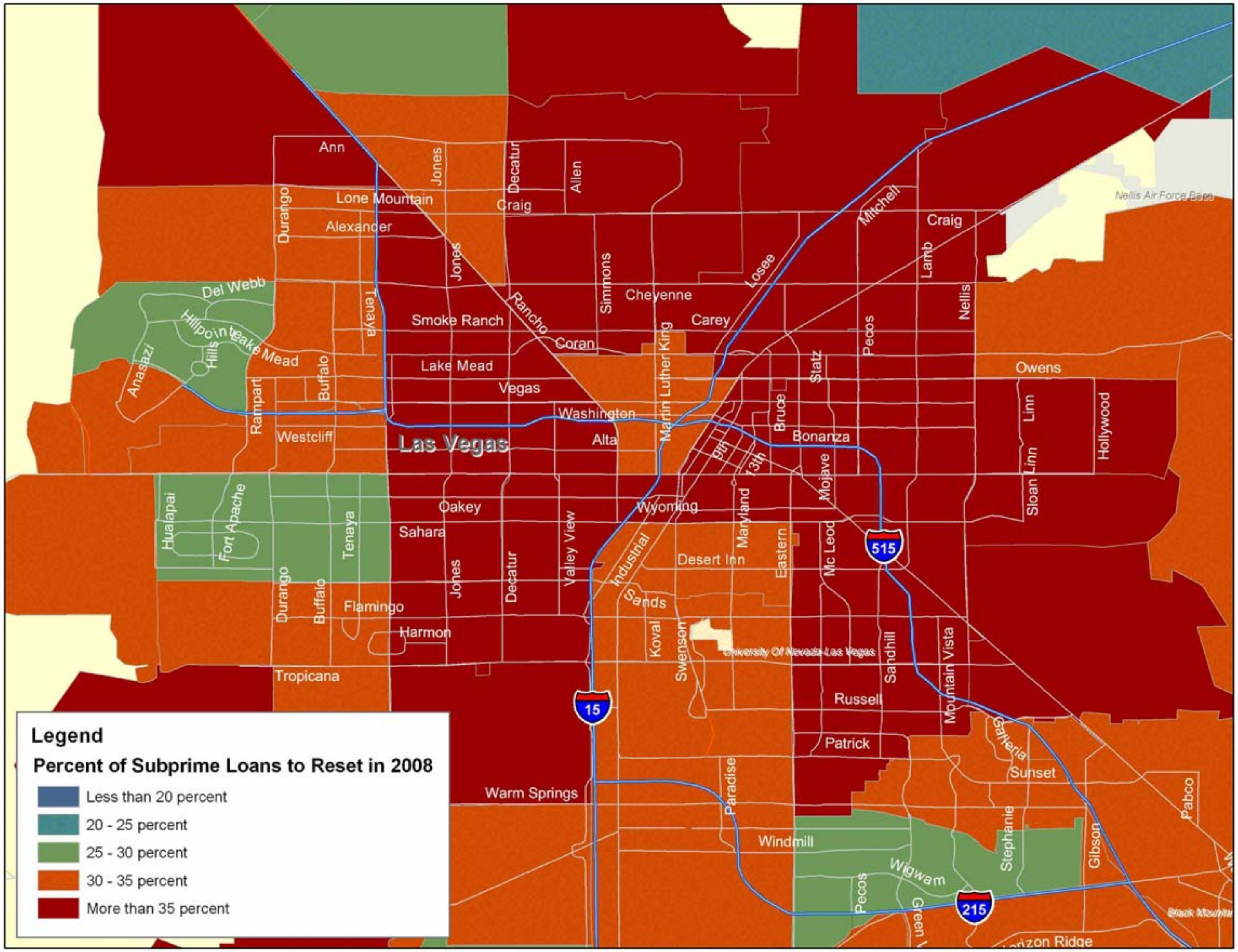
Las Vegas – Large Share of Subprime to Reset in 2008



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Other Factors

- Las Vegas also has a large share of Alt-A loans.
  - As of October 2007, these still appear to be performing better than subprime loans, with fewer delinquencies and foreclosures
  - However, counselors are seeing a larger share of borrowers coming in with Alt-A loans
    - If market continues to soften, what will happen with these borrowers, particularly if they face large rate resets?

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 6,100 outstanding subprime mortgages in Nevada 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
    - In some areas, servicers may not be adequately staffed for individual workouts
- Counselors
  - Lack of capacity and resources to handle the volume of calls