



# Preserving Homeownership – Preserving Communities

## Understanding Foreclosures in Utah

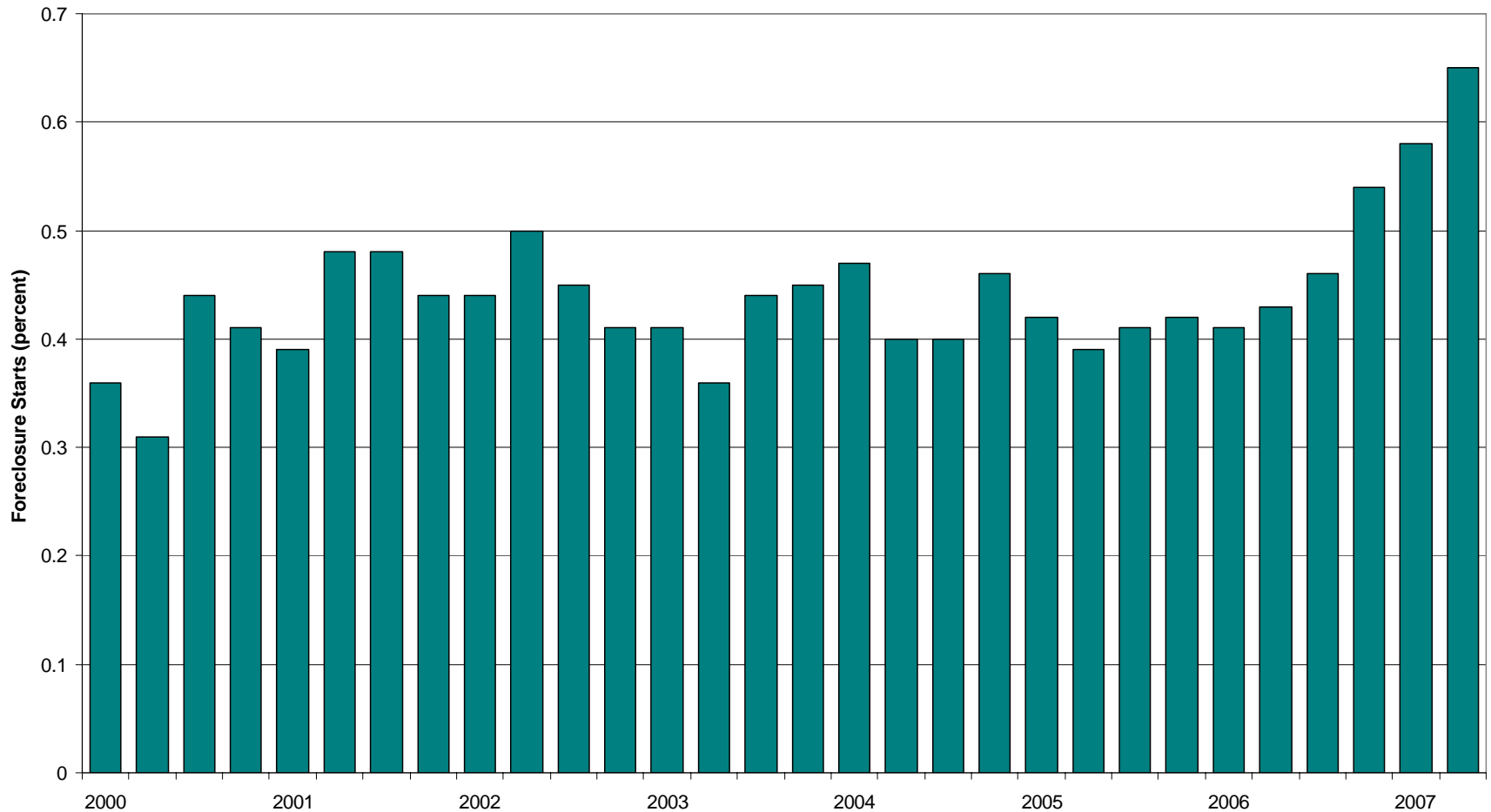
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# Outline of Presentation

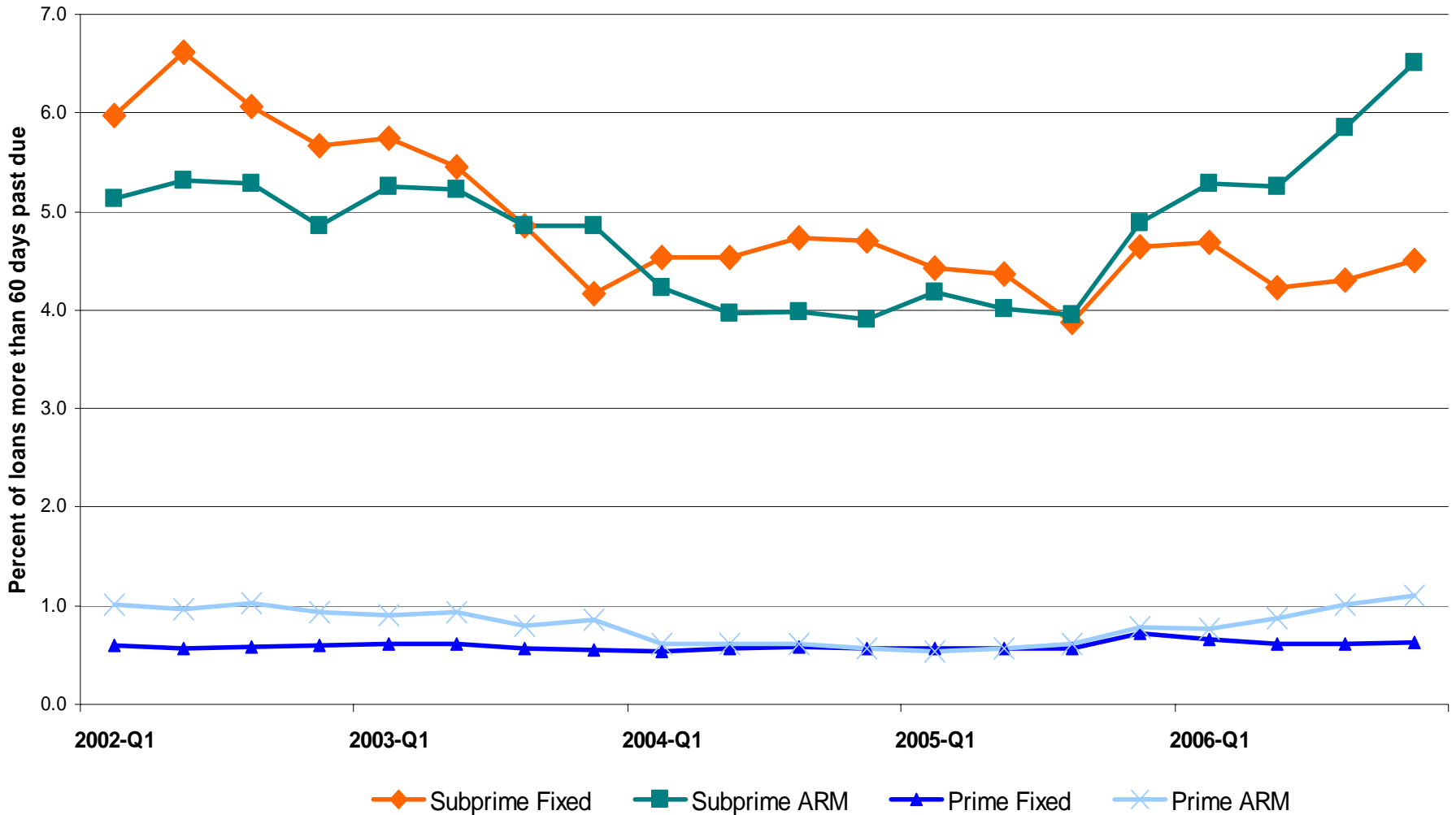
- National Overview
- Utah
- The Costs of Foreclosure
- Conclusion

# National Foreclosure Starts on the Rise



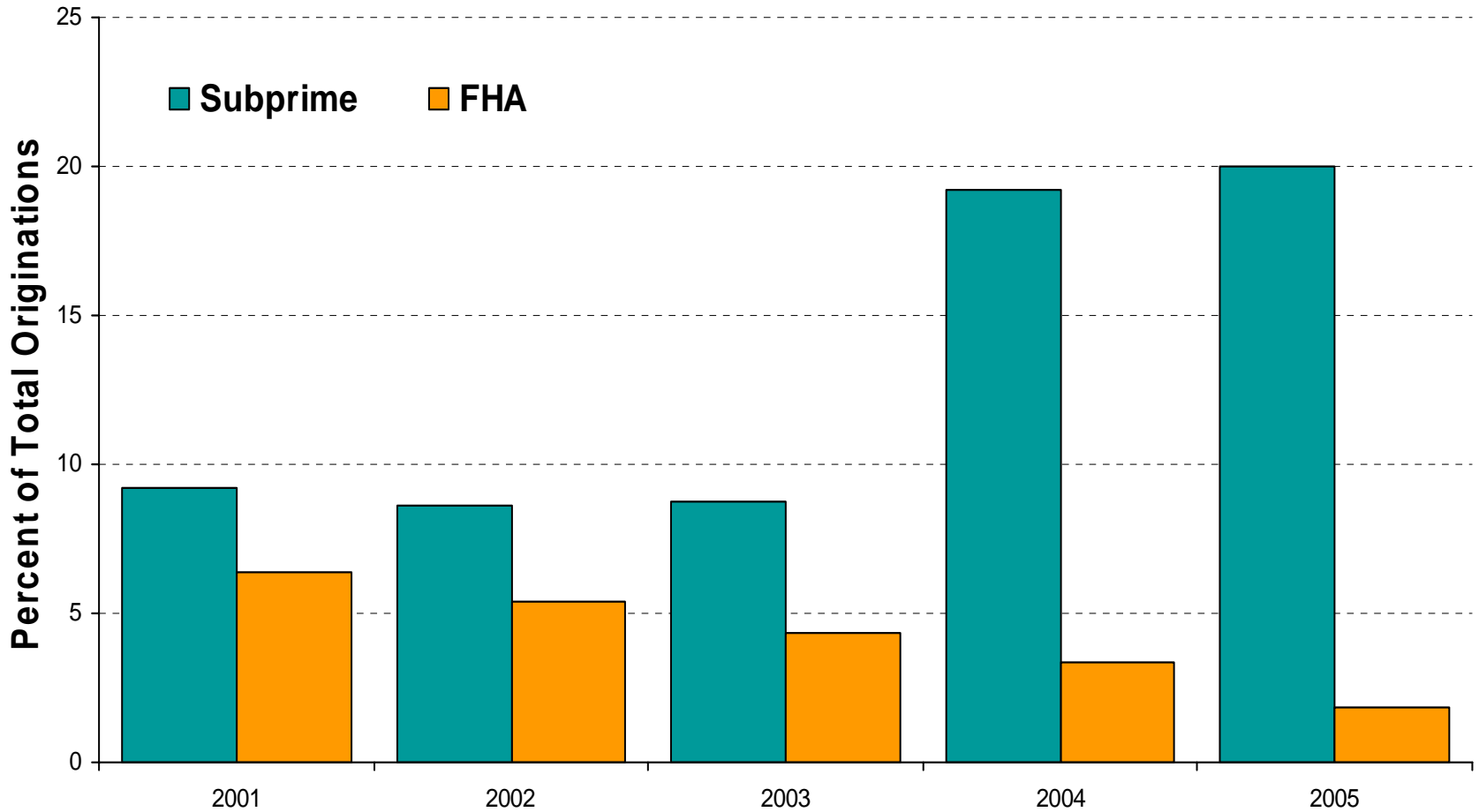
Source: Mortgage Bankers Association, National Delinquency Survey, 2<sup>nd</sup> Quarter 2007.

# Delinquency Rates Highest in Subprime Market



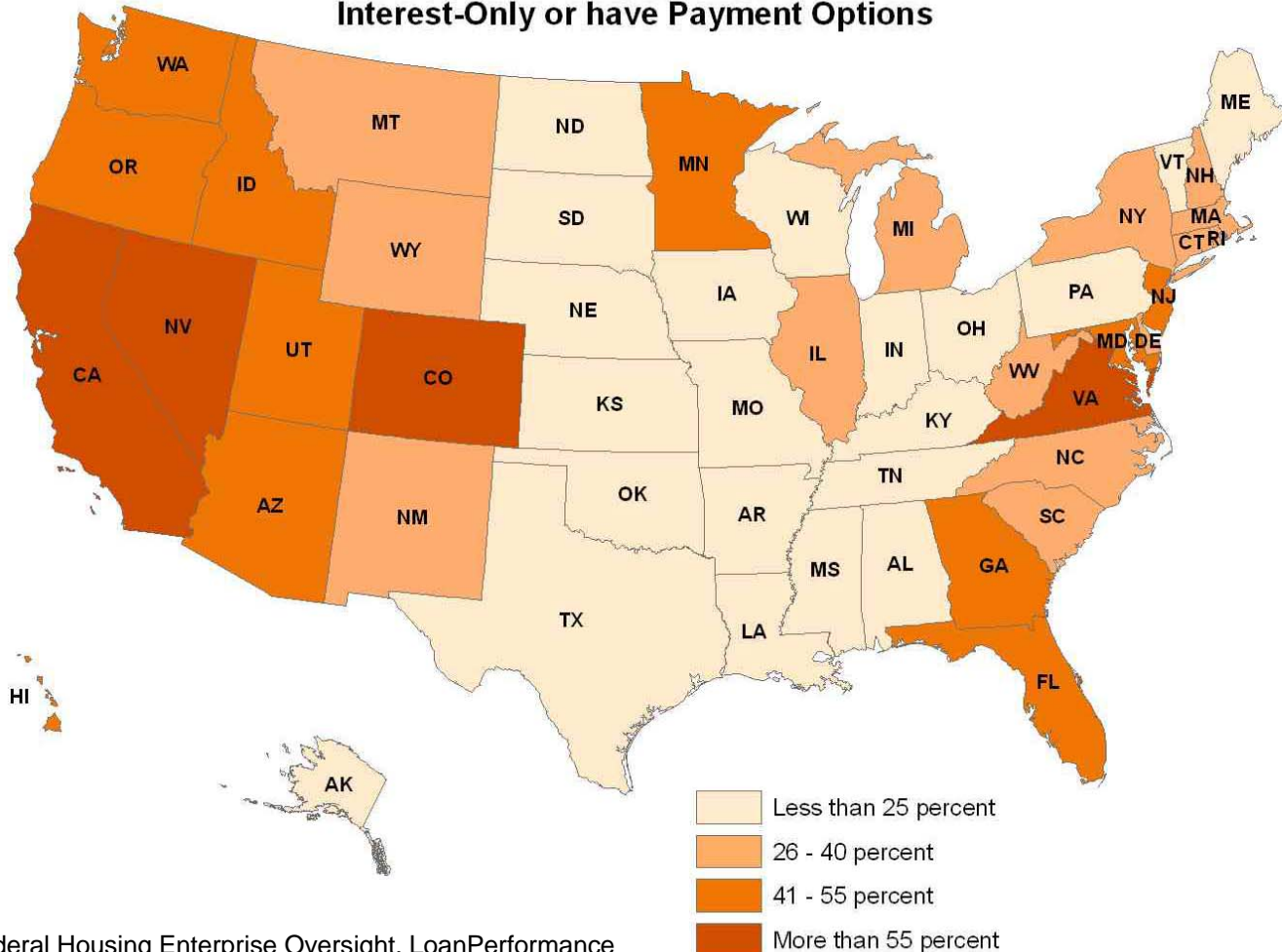
Source: Mortgage Bankers Association, National Delinquency Survey

# Subprime Loan Volume Has Increased



# High Percentage of Nonprime, Nontraditional Mortgages in Utah

Share of Nonprime Mortgage Originations that are Interest-Only or have Payment Options

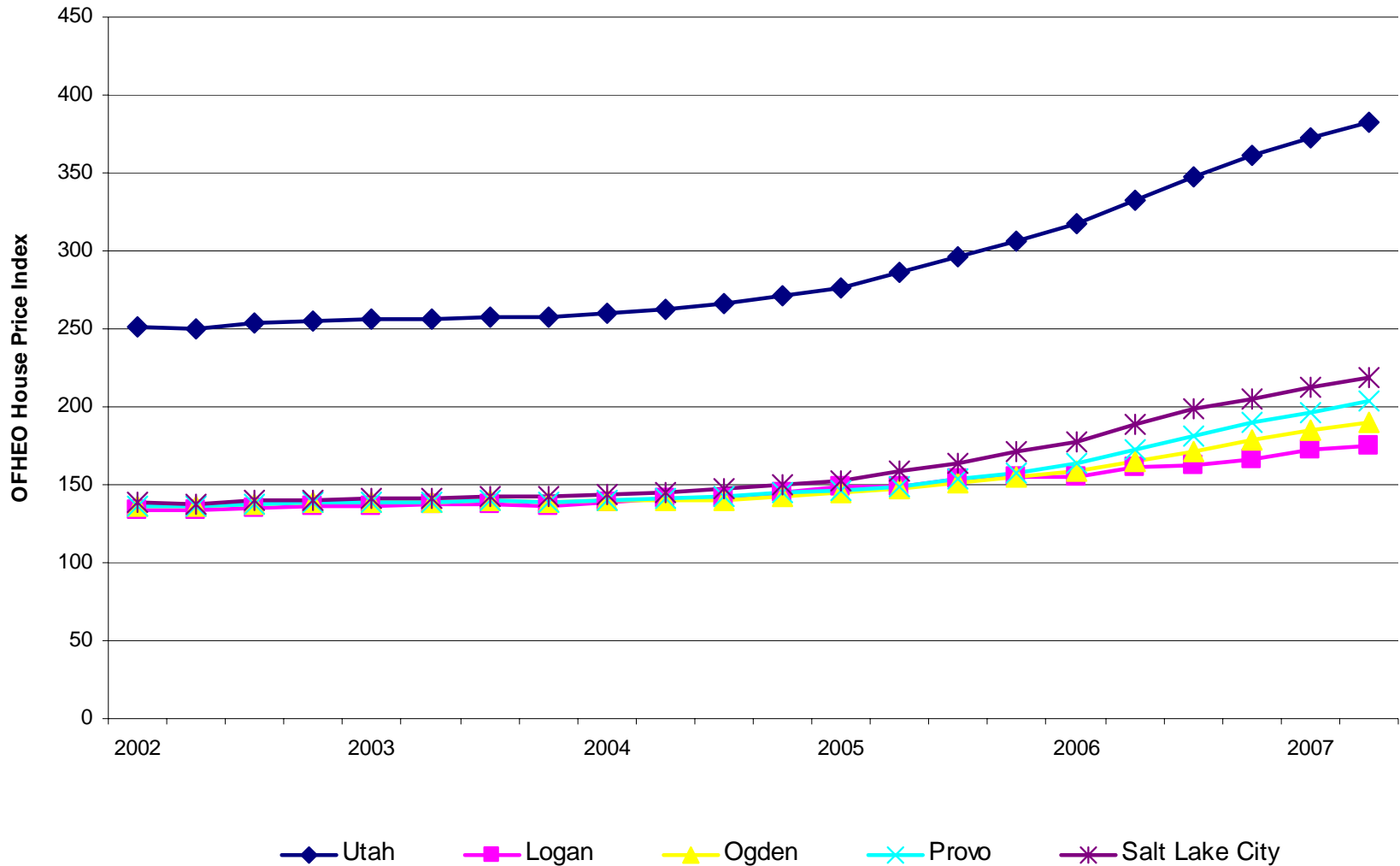


Source: Office of Federal Housing Enterprise Oversight, LoanPerformance Data as of fourth quarter 2005

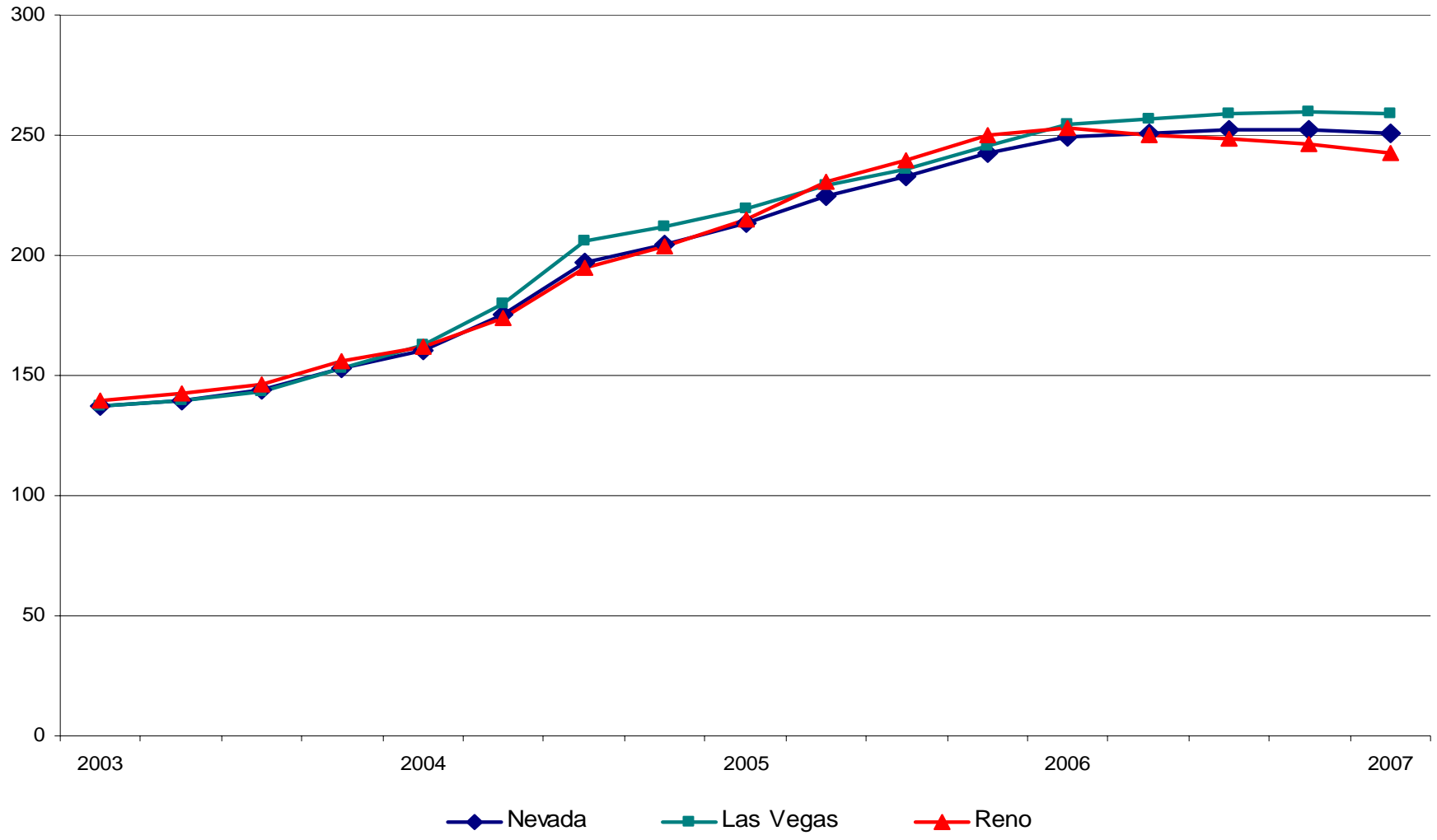
# Risk layering in the subprime market

- Not enough assets: 100% LTV (“piggyback”) loans
- Not enough income to qualify: stated income (“no doc”) loans
- Not enough income to make payments:
  - 2/28 and 3/27 loans
  - interest only
  - payment option
- Still not enough income to make payments: “teaser” rates
- End result: for some borrowers, the only realistic source of repayment is based on the value of the home (i.e. sale or refinance)

# Rapid House Price Appreciation in Utah – Masking Problem?



# Las Vegas



Source: Office of Federal Housing Enterprise Oversight, House Price Index

# Foreclosures in Utah

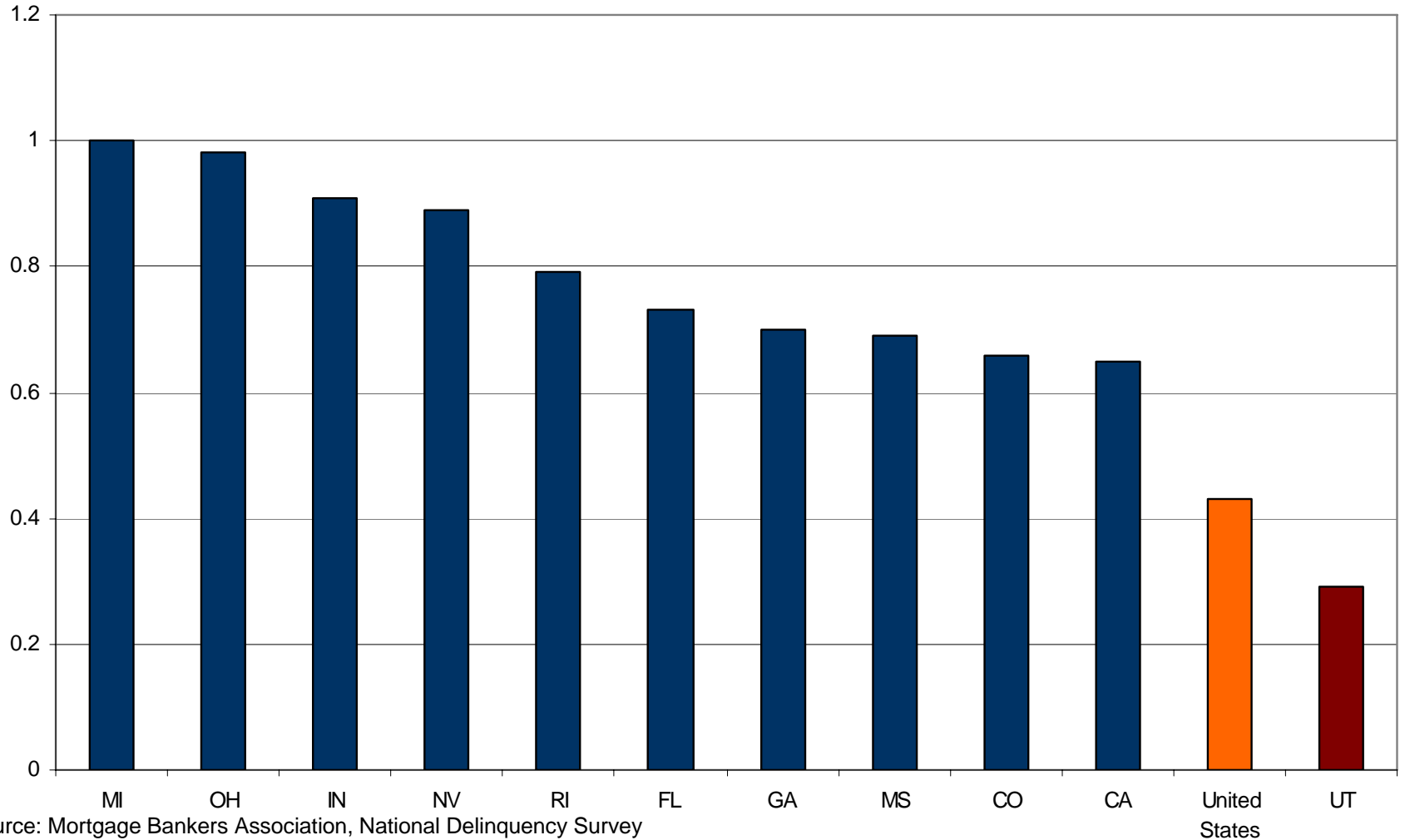
- Recently, rates of default and foreclosure have been low.
  - Strong real estate market may be “masking” borrower distress
- However, counselors are noting an increase in the number of defaults and foreclosures.
- If Utah real estate market softens, it is possible that many borrowers will face difficulties, especially those who are expecting to refinance before their loan resets.

# Regions at Risk

- What's happening locally?
  - Harder to measure, because there's no publicly available, consistently collected data on foreclosures below the state level
  - Different data sources paint different pictures of the scale of the problem
    - RealtyTrac
    - Mortgage Bankers Association
  - Data have significant “lag” time: to help us understand what is happening locally, local counselors and government agencies are important sources of information
    - By mid-January, the SF Fed hopes to have access to proprietary data that will help community groups understand which neighborhoods will see the greatest number of “rate resets” as well as defaults/foreclosures

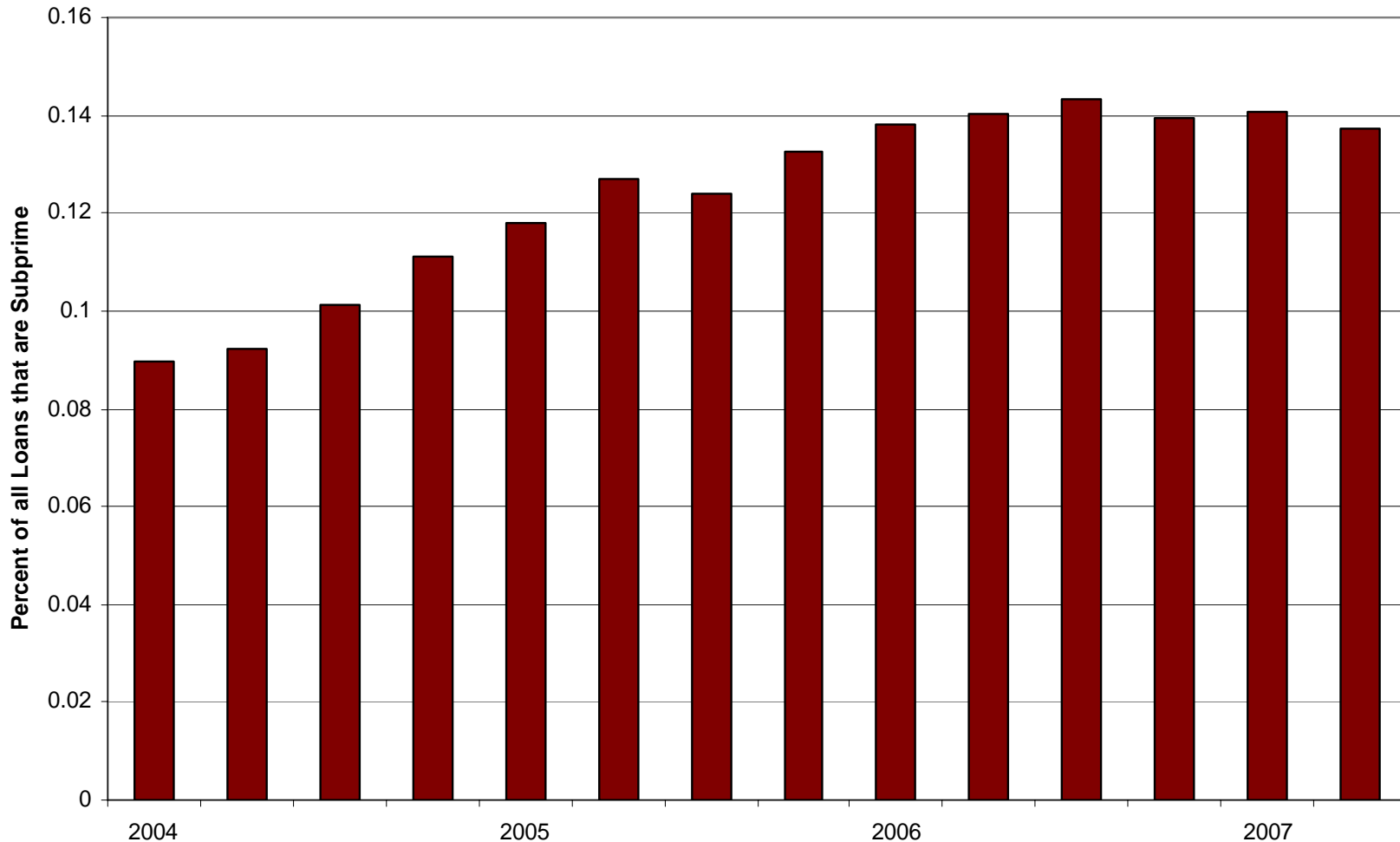
# MBA: Trends in Utah

Utah still ranked low in total foreclosure starts



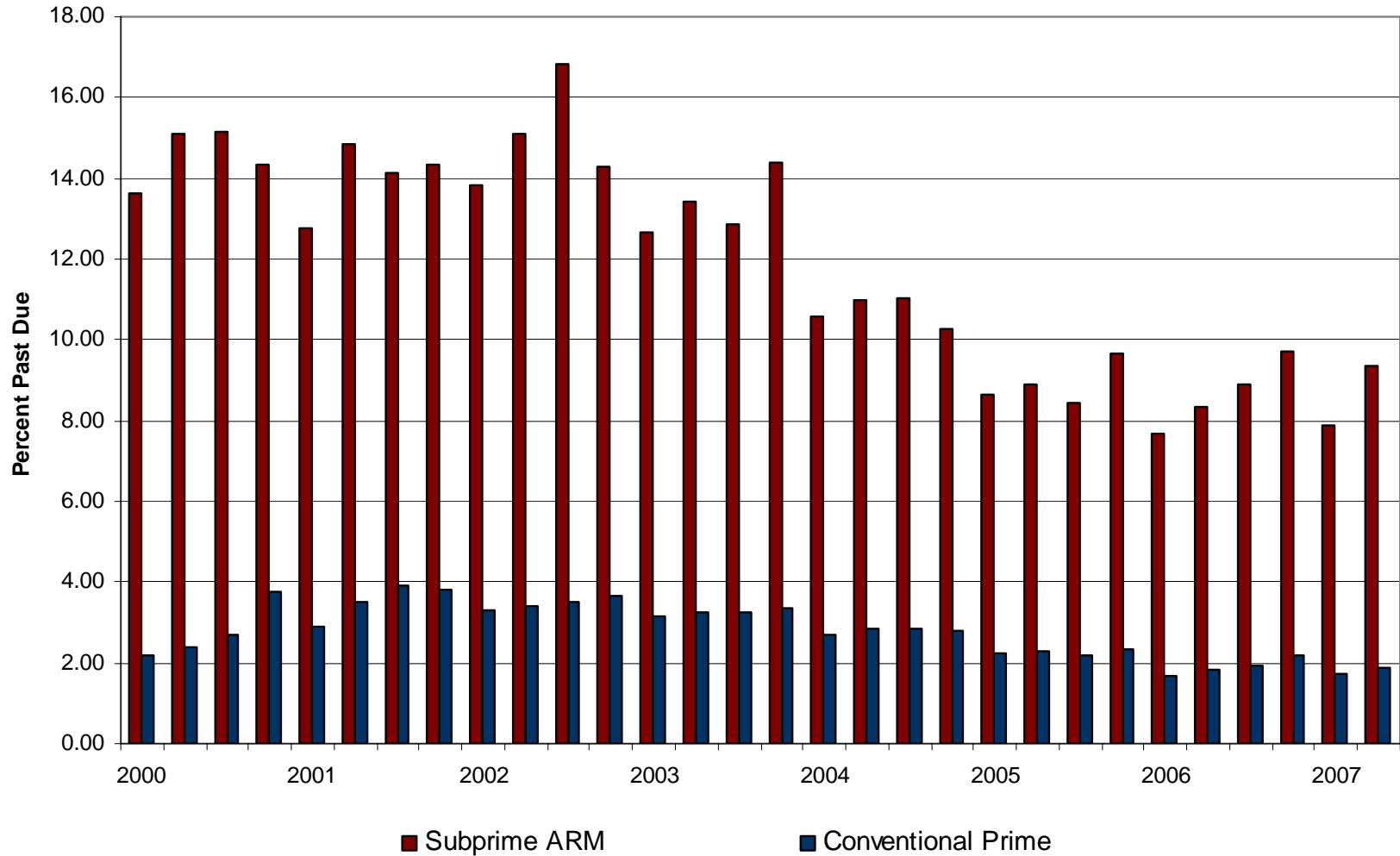
Source: Mortgage Bankers Association, National Delinquency Survey

# Growth in Share of Subprime Loans in Utah



Source: Mortgage Bankers Association, National Delinquency Survey

# Utah: Subprime ARM Mortgages Past Due



Source: Mortgage Bankers Association, National Delinquency Survey

# The Costs of Foreclosure

- Neither lenders nor investors “make money” on foreclosures
  - Losses range from 20 cents to 60 cents on the dollar
  - One estimate: lender’s cost of a foreclosure averages \$58,800
  - Servicers incur expense pursuing problem loans
  - Legal costs and costs of securing/maintaining properties
- Vacant properties can attract crime and reduce neighborhood property values
  - One estimate: each foreclosure associated with a 0.9% decrease in values of properties within 1/8th mile
  - Average municipal cost of \$6,937 per foreclosure

## Conclusion

- Utah as a whole has been relatively insulated from the recent increase in foreclosures
  - High house price appreciation in recent years means that most distressed borrowers can still sell or refinance their homes
- The high proportion of nontraditional mortgages, along with concentrations of subprime borrowers in certain neighborhoods may signal larger problems ahead.
- Reaching these borrowers now may help to mitigate the costs of foreclosures, not only for the homeowners but also for lenders and municipal governments.
  - Targeting areas with large numbers of subprime borrowers may be an effective strategy for preventing future foreclosures.

# References and Data Sources

## Impacts of Foreclosure

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