



Preserving Homeownership – Preserving Communities

Understanding Homeowners at Risk of Foreclosure in the Central Valley

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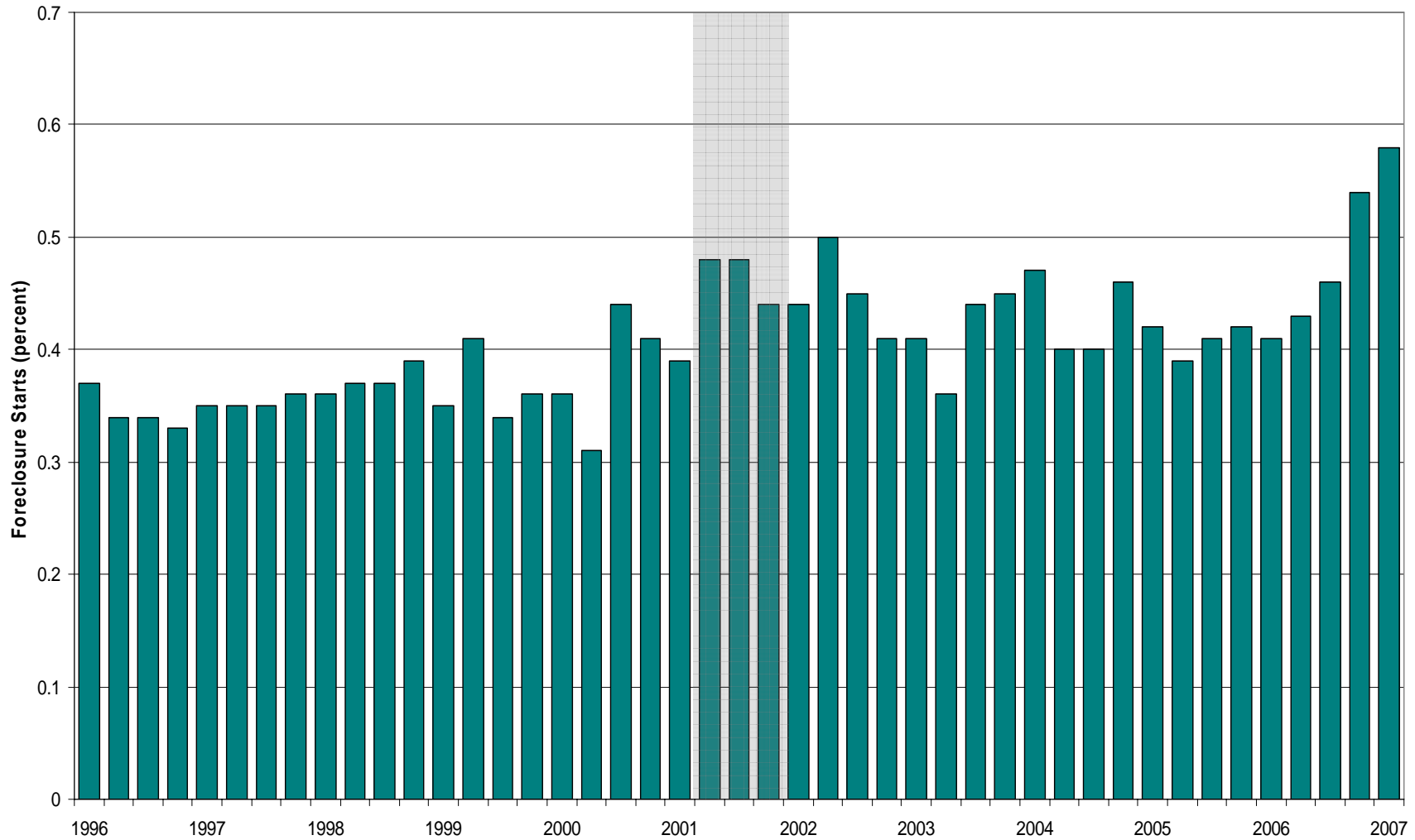
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Outline of Presentation

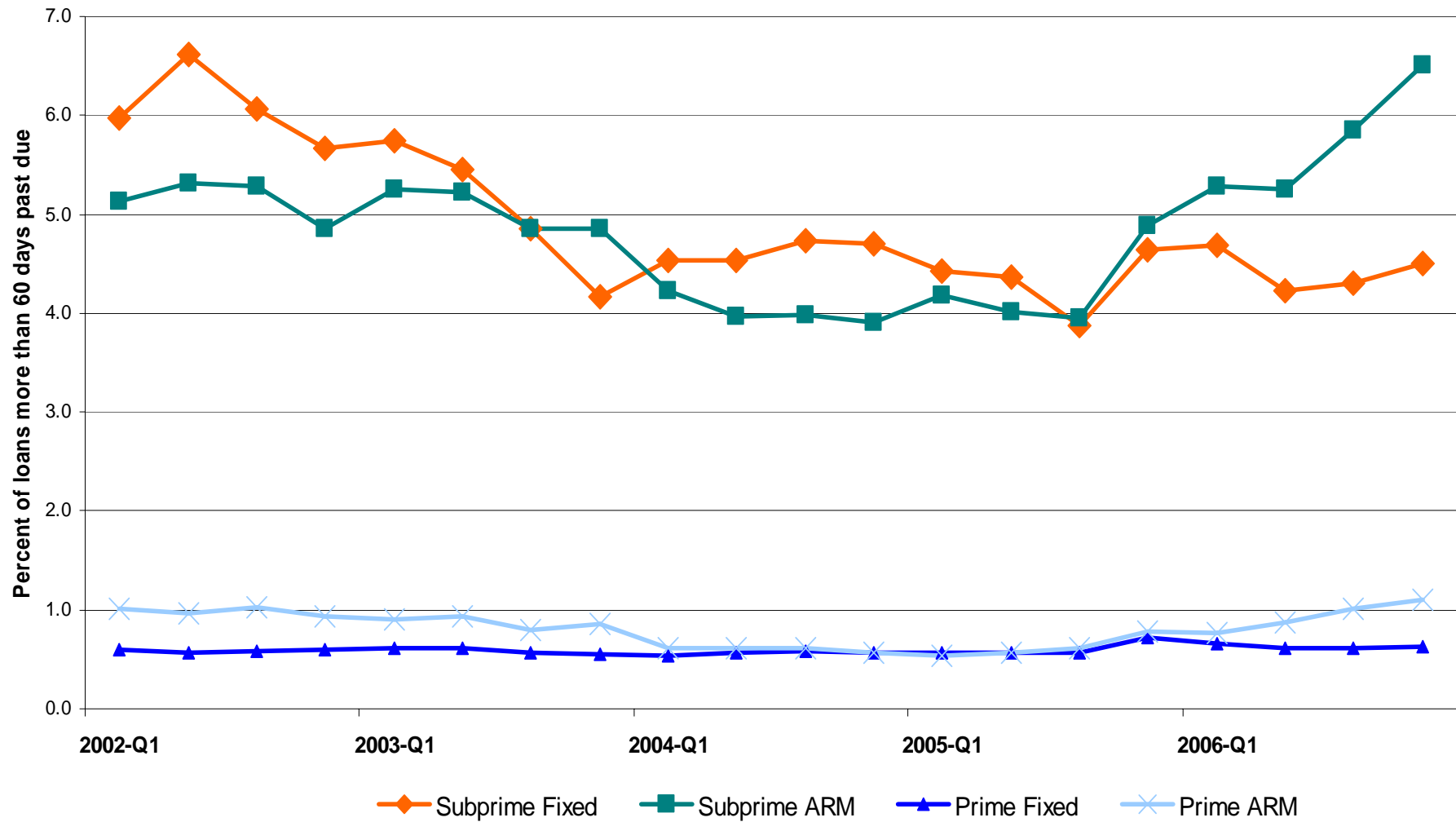
- National Overview
 - Concerns over the rising rate of foreclosures, particularly in the subprime market
- The Central Valley
 - Historically, rates of default and foreclosure have been low
 - Strong real estate market
 - However, counties in Central Valley are showing a large increase in the number of defaults and foreclosures
 - Unlike in the Bay Area, foreclosures are not concentrated in specific neighborhoods – impact is likely to be county-wide
- The Costs of Foreclosure
- Conclusion

Nationally, Foreclosure Starts Have Increased Significantly



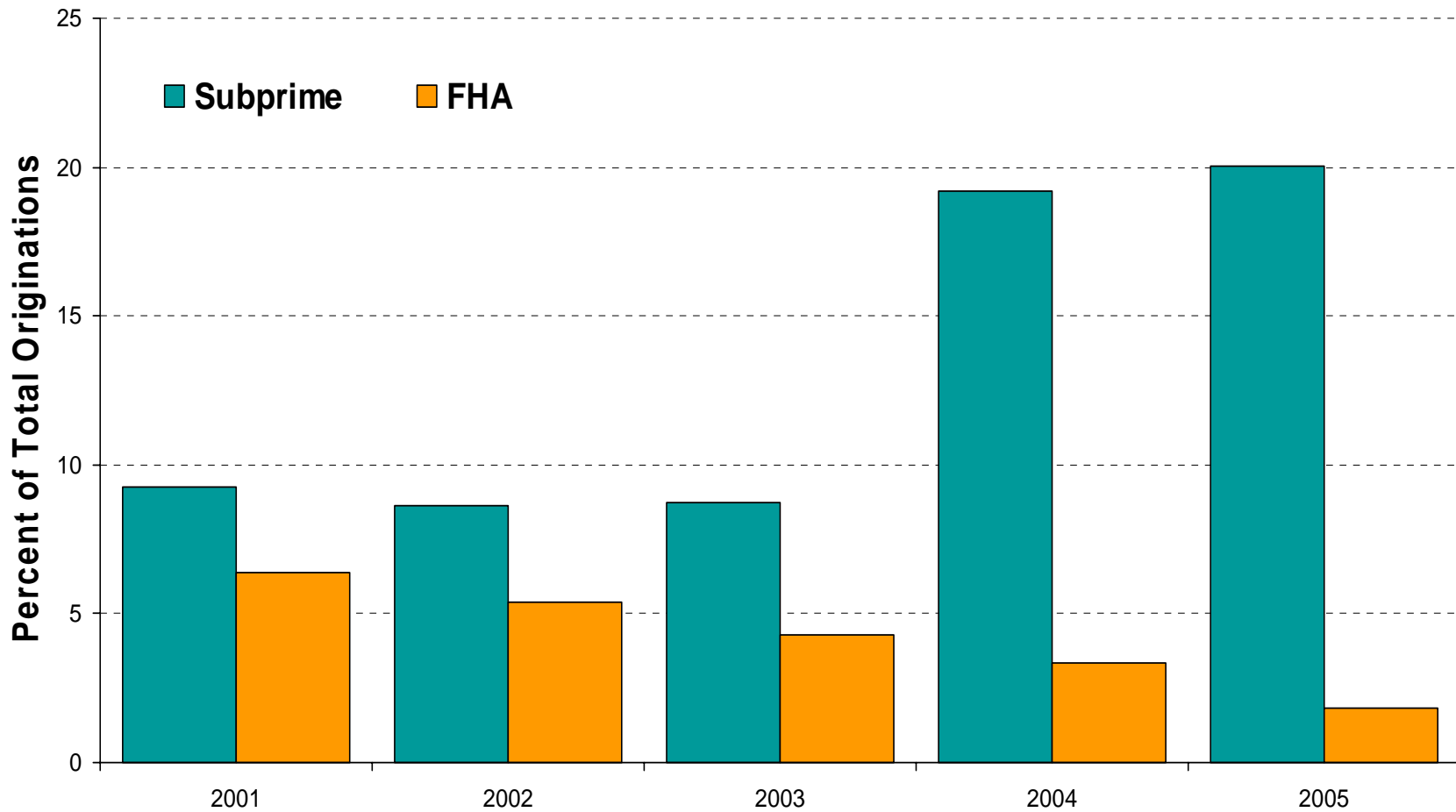
Source: Mortgage Bankers Association, National Delinquency Survey

Delinquency Rates Higher in Subprime Market



Source: Mortgage Bankers Association, National Delinquency Survey

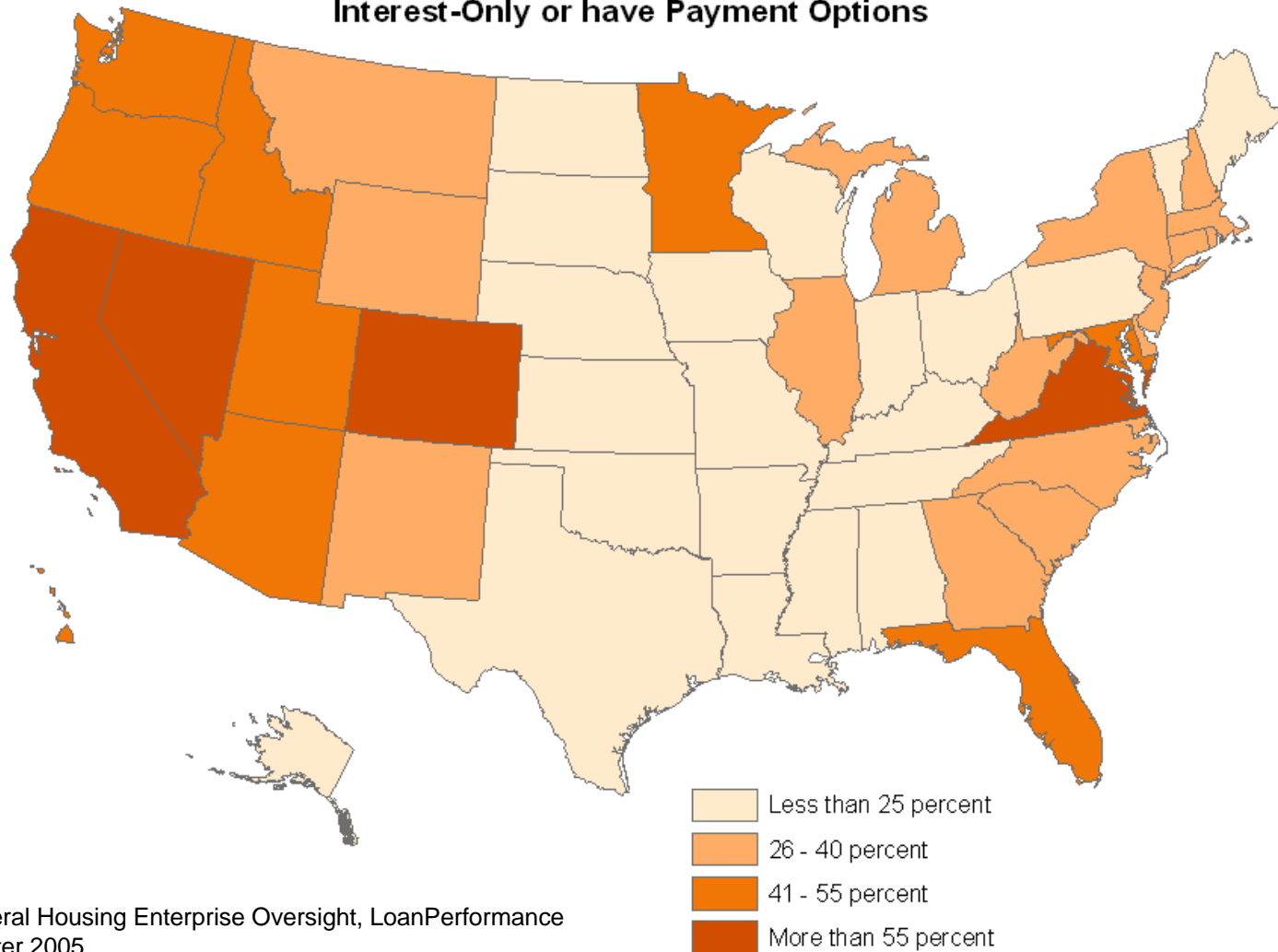
Subprime Market Loan Volume Has Increased



Source: State of the Nation's Housing, 2006, Joint Center for Housing Studies of Harvard University

High Percentage of Nonprime, Nontraditional Mortgages in California

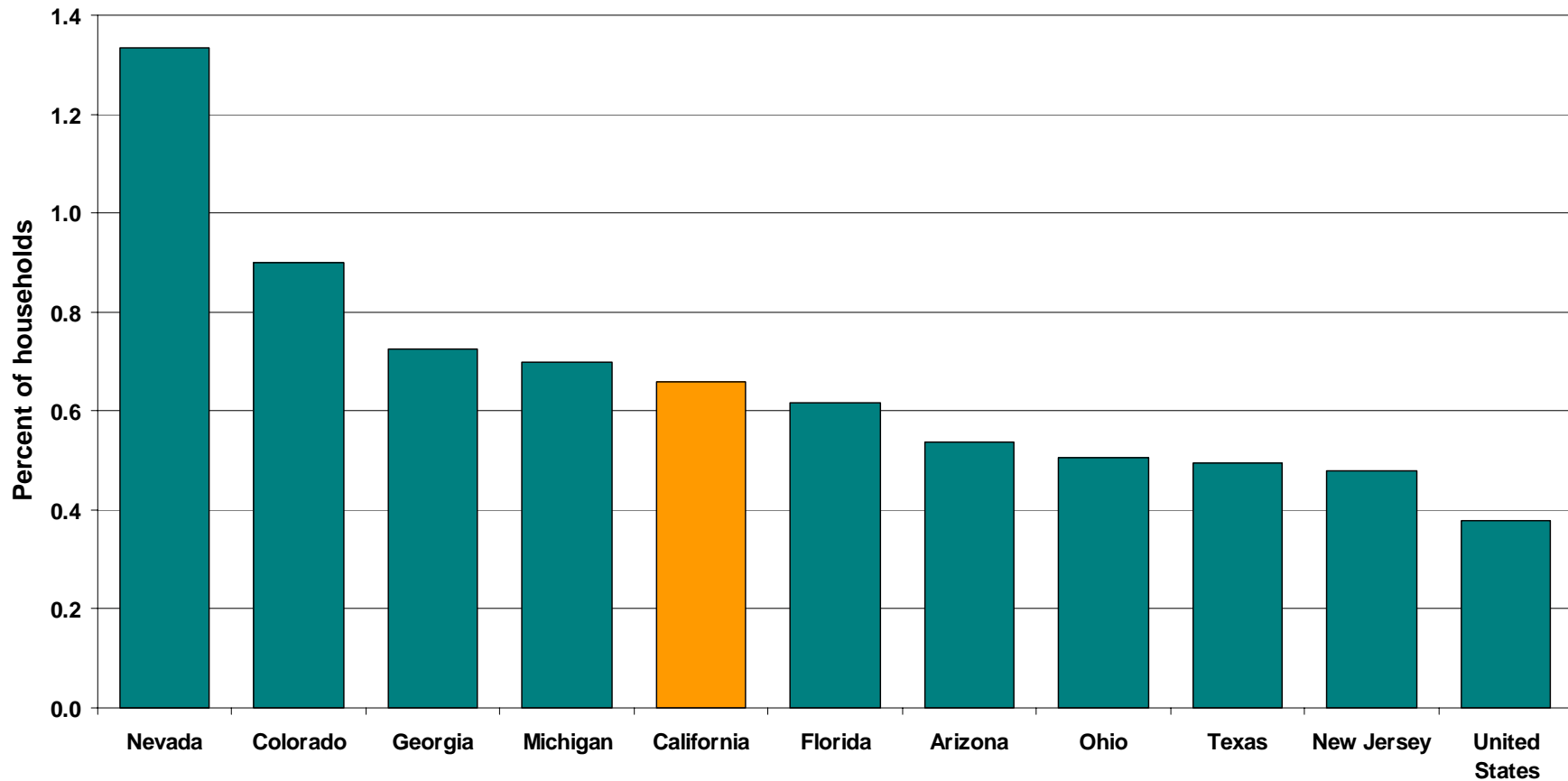
Share of Nonprime Mortgage Originations that are Interest-Only or have Payment Options



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

RealtyTrac: California Ranked 5th Highest in Foreclosure Rates

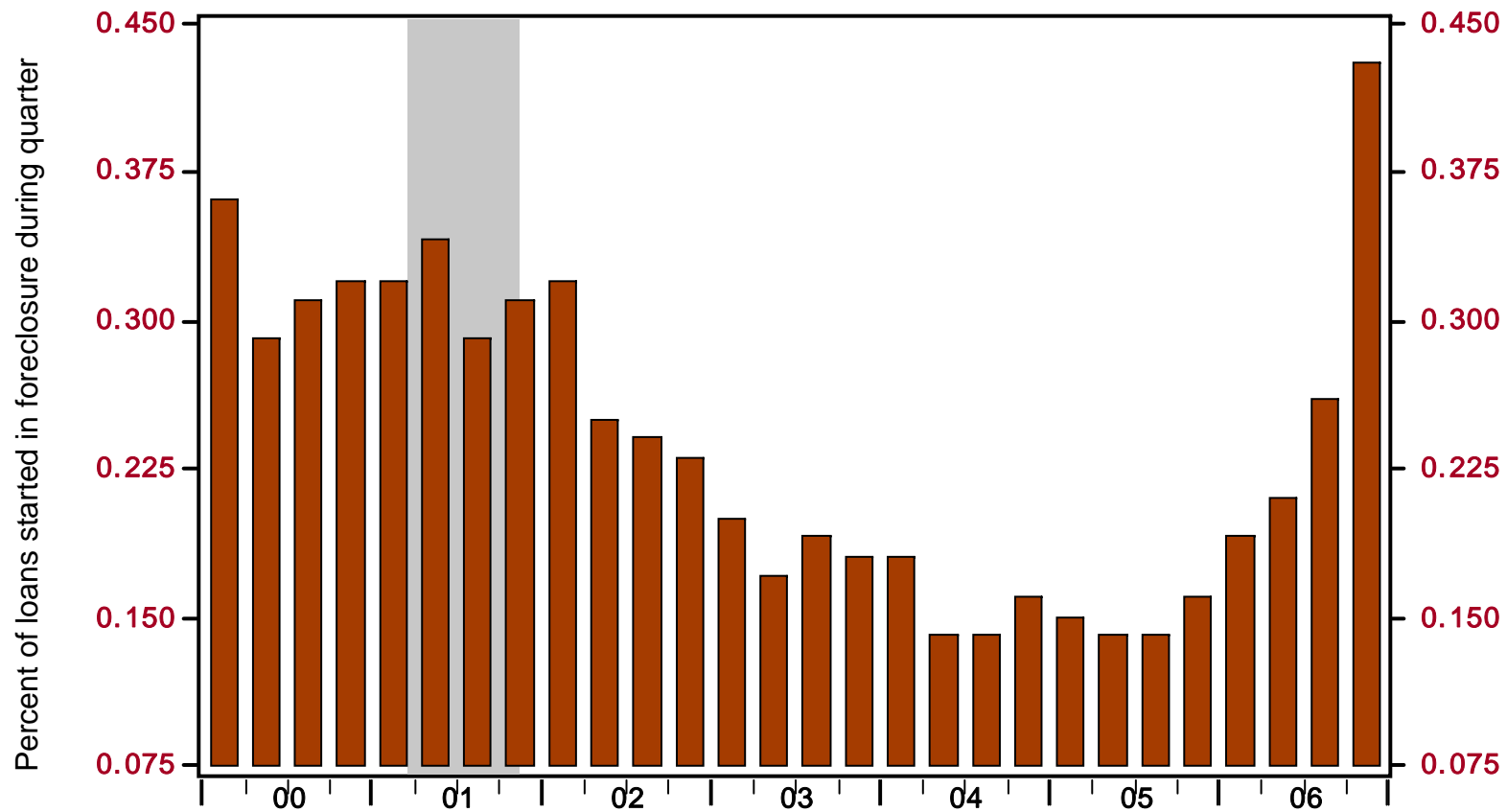
Top Ten States with Highest Foreclosure Rates, 1st Quarter 2007



Source: RealtyTrac, 2007 1st Quarter Foreclosure Filing Data

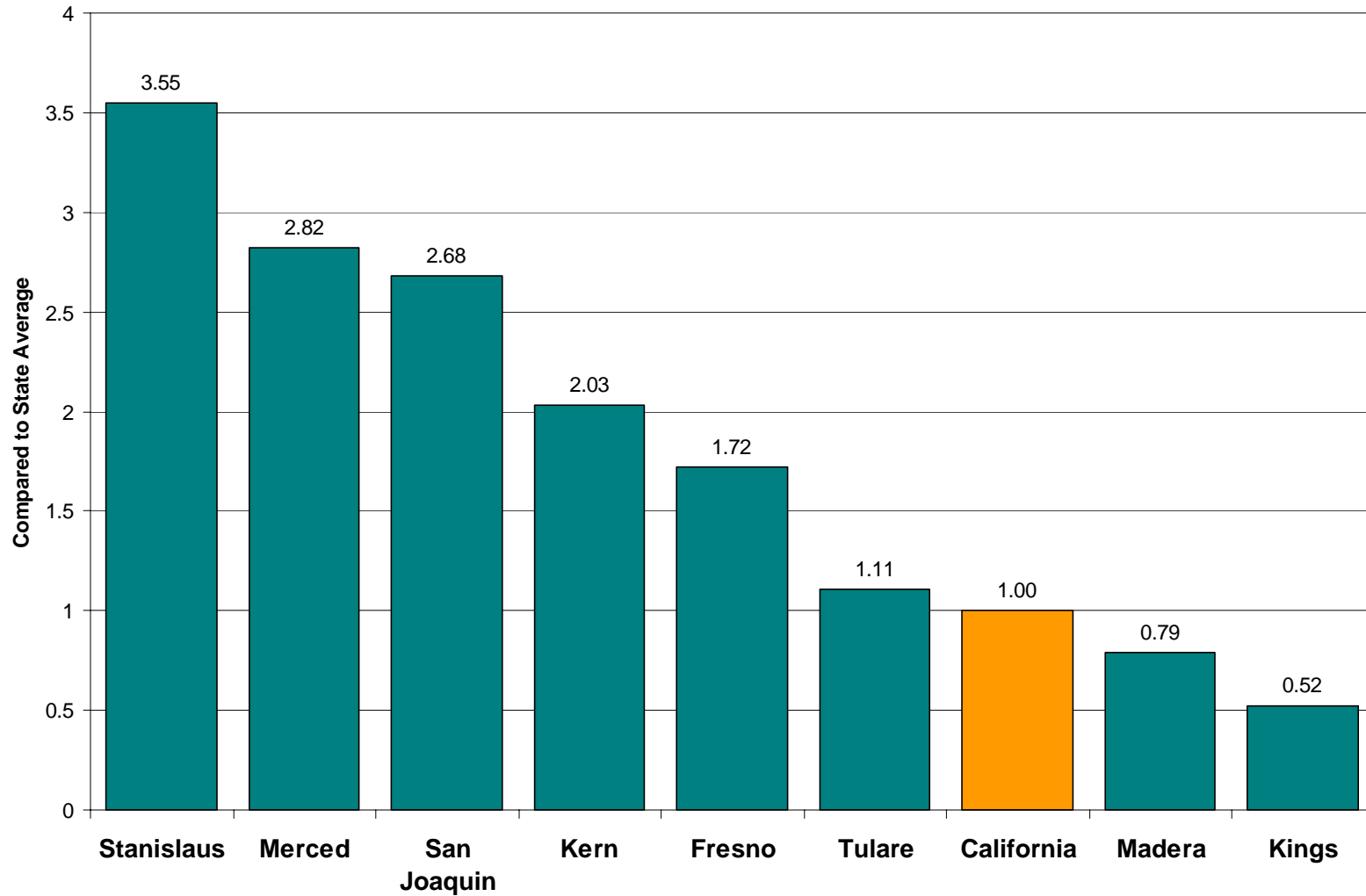
Other Data Confirm Increase In California

- RealtyTrac's numbers may be high, but MBA data show rapid upward trend in California foreclosures



Source: Mortgage Bankers Association, National Delinquency Survey

Central Valley Default and Foreclosure Rates Higher than California Average

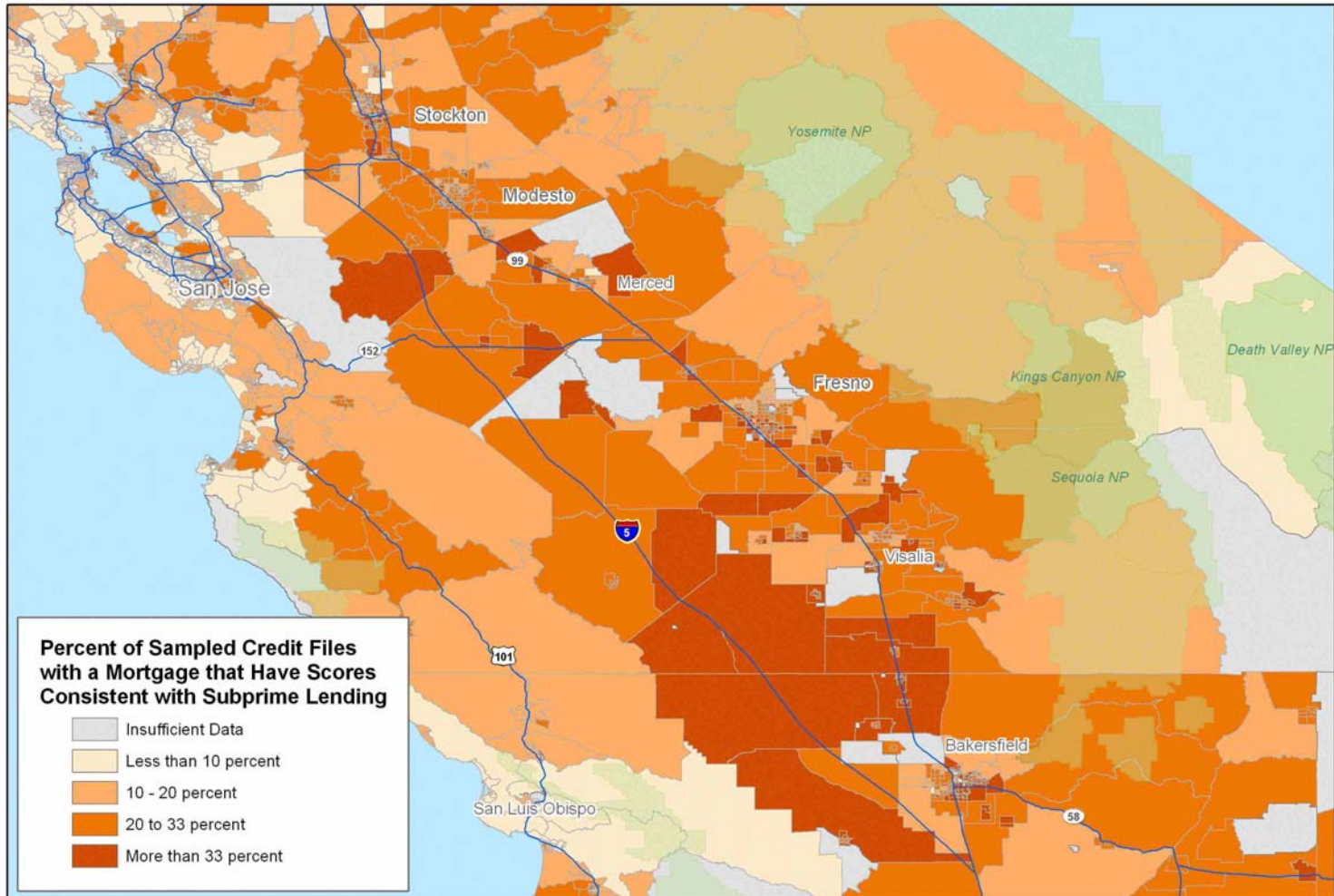


Source: RealtyTrac, California Foreclosure Market by County – October 2006

Relaxation of Underwriting Standards

- Higher debt-to-income ratios
 - The high cost of housing in California means that many families “stretch” to make homeownership possible
 - According to PPIC, more than half (52%) of state homeowners spend more than 30 percent of their total income on housing. Twenty percent spend more than half their income on housing.
 - 44 percent of recent homebuyers relied on two incomes.
- Risk layering
 - “Piggyback” second loans pushing up combined LTV
 - In 2006, 57 percent of home purchases in Fresno had a combined LTV ratio of over 95 percent
 - No or low documentation loans
- High proportion of subprime borrowers

Central Valley – High Percentage of Subprime Borrowers



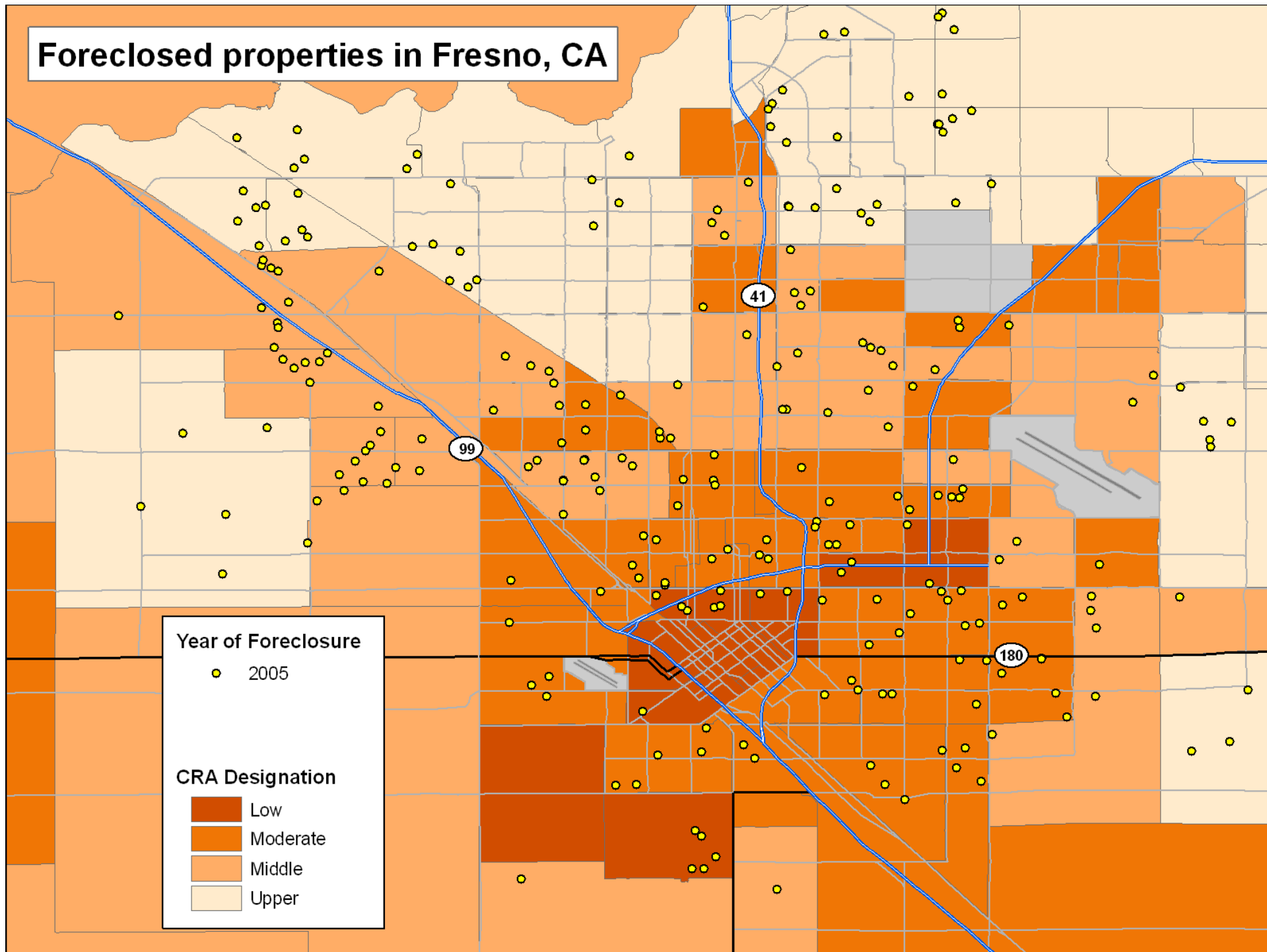
Source: Credit Score data obtained from a sample of credit files from a National Credit Bureau, December 2004.
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FEDERAL RESERVE BANK OF SAN FRANCISCO
Community Development Department

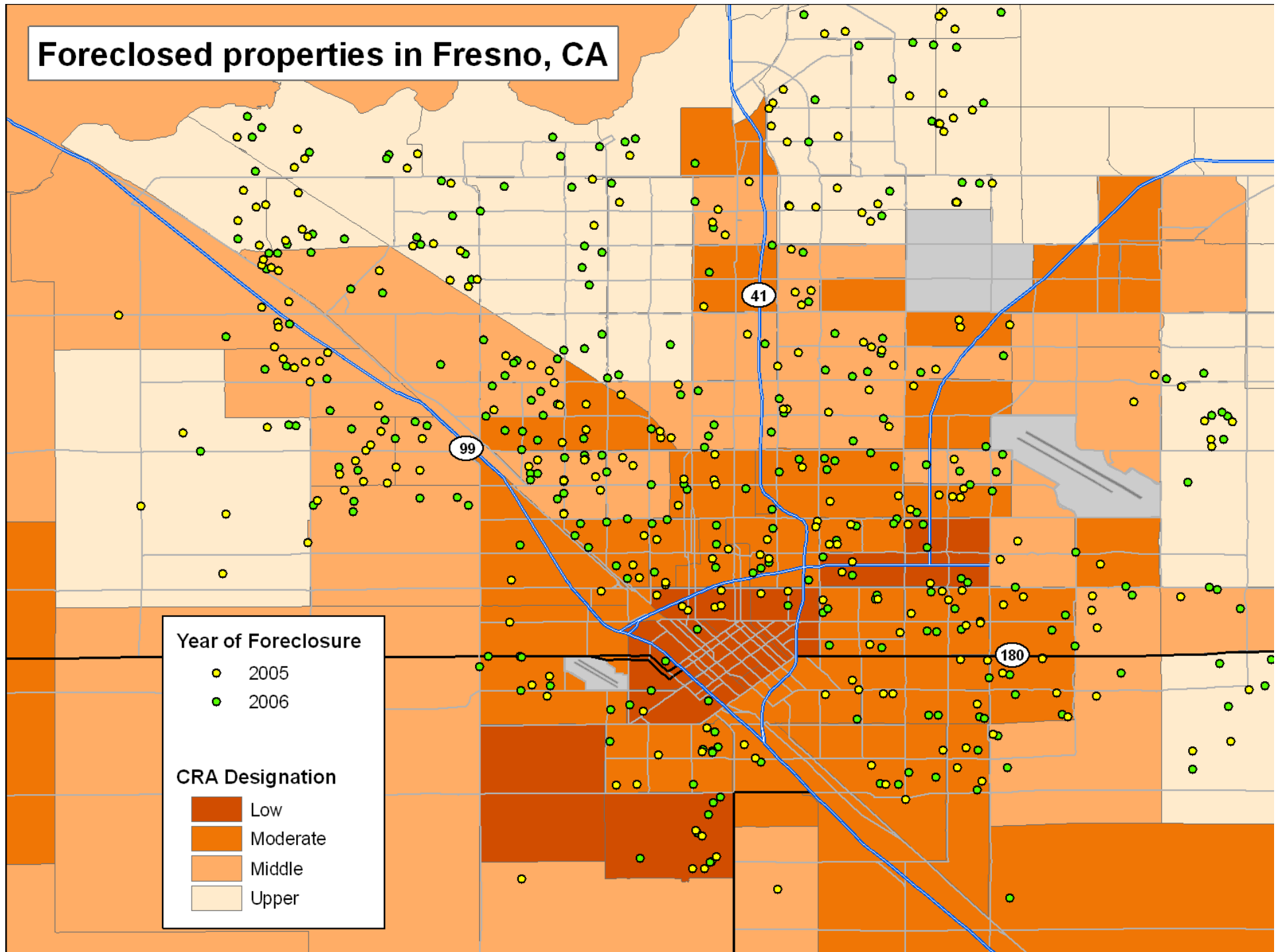
Neighborhood Impacts of Foreclosures

- In Fresno, foreclosures appear to be distributed across the metropolitan area

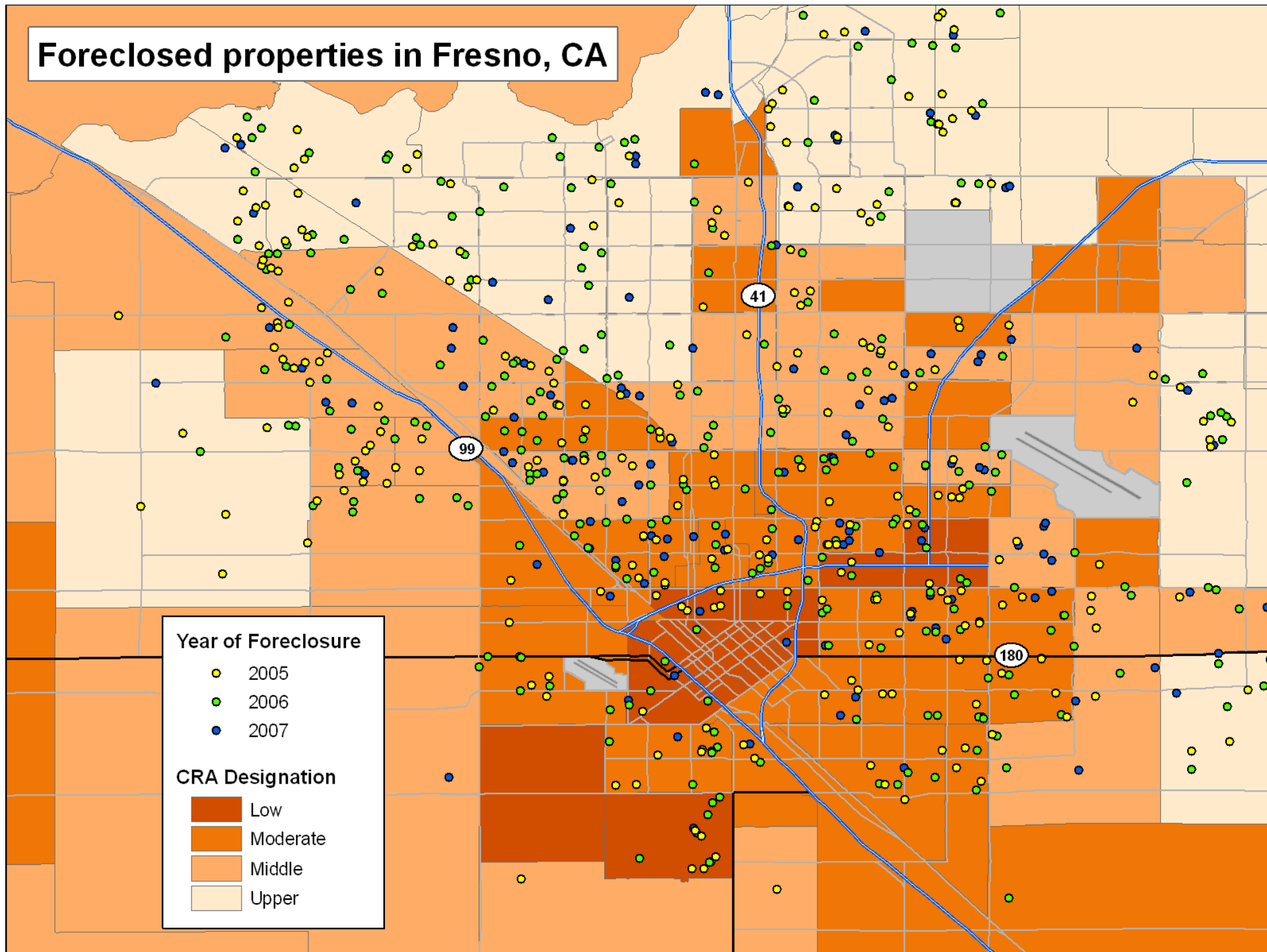
Foreclosed properties in Fresno, CA



Foreclosed properties in Fresno, CA



Foreclosed properties in Fresno, CA



Neighborhood Impacts of Foreclosures

- In Fresno, foreclosures appear to be distributed across the metropolitan area
 - This is different than in many other cities (Chicago, Minneapolis, Oakland), where foreclosures tend to be clustered in neighborhoods with low-income, minority or subprime borrowers
- Implications
 - Beyond impacts on individual borrowers, costs of foreclosure are significant
 - Losses for lenders range from 20 cents to 60 cents on the dollar, an estimated \$58,800 per foreclosure
 - Estimated average municipal cost of \$6,937 per foreclosure
 - Vacant properties due to foreclosure can attract crime and reduce neighborhood property values
 - May be more difficult to develop a targeted outreach strategy to reach distressed borrowers

Conclusion

- Foreclosure trends in the Central Valley threaten to reverse homeownership gains
 - A broad range of homeowners and neighborhoods are likely to be affected
- Important to increase efforts to reach out to distressed borrowers and to connect them to counseling services
 - The high proportion of subprime borrowers in the Central Valley suggests there is also a need to improve credit counseling
- Efforts to develop regional outreach strategies may be particularly effective, as many counties in the Central Valley are facing increased foreclosure risk

References and Data Sources

Impacts of Foreclosure

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- Apgar W.C. & Duda M. (2005). *Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom*. Homeownership Preservation Foundation Minneapolis, Minnesota from www.hpfonline.org.
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Housing Costs in California

- Johnson, H.P. and & Bailey, A. (2005). *California's Newest Homeowners: Affording the Unaffordable*. Public Policy Institute of California, San Francisco.
- Combined Loan to Value for 2006 Mortgage Originations from Zeiman, I. & others (2007). *Mortgage Liquidity du Jour: Underestimated No More*. Credit Suisse Equity Research, March 12, 2007

Data for Maps

- Data on subprime borrowers in California were generated from a 10 percent sample of credit files with mortgages from a National Credit Bureau, December 2004.
- Local data on Notices of Default and Foreclosure were compiled by the Federal Reserve Bank of San Francisco Community Development Department, using data from Foreclosures.com, RealtyTrac, and filings from the county recorder's office.
- Community Reinvestment Act (CRA) Income Designations are available through the FFIEC.