



Preserving Homeownership – Preserving Communities

Understanding Foreclosures in Los Angeles

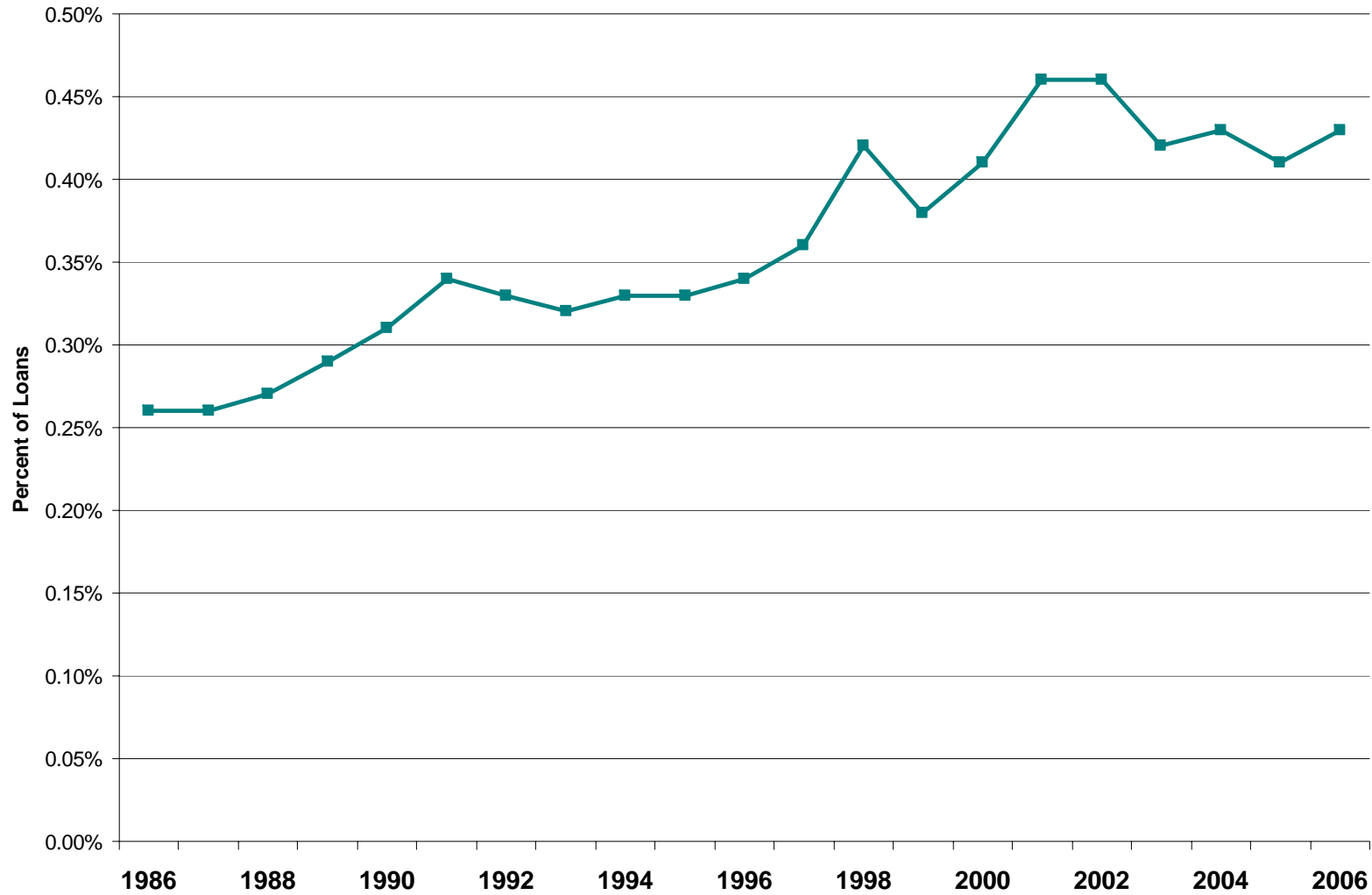
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Outline of Presentation

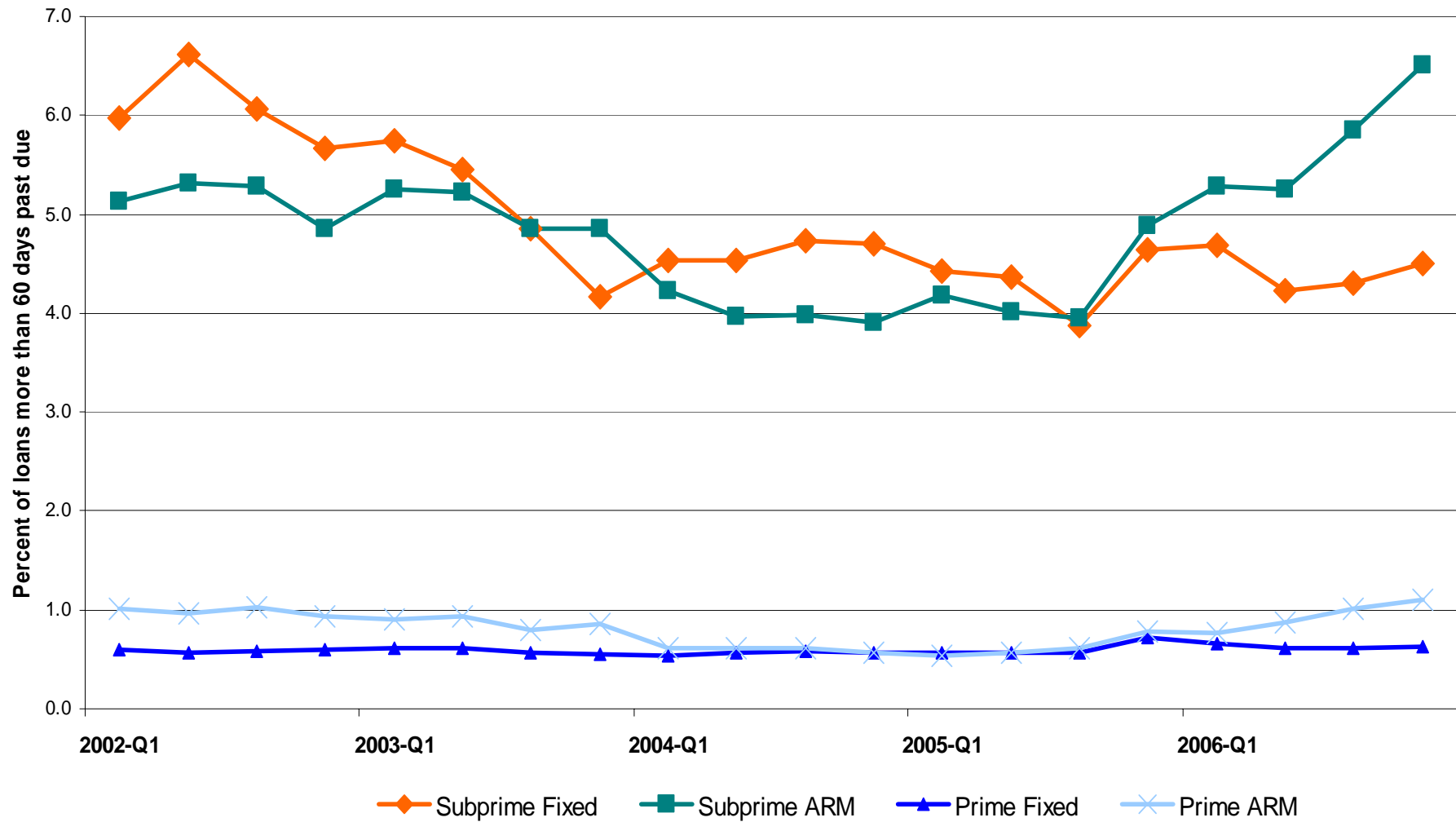
- National Overview
 - Concerns over the rising rate of foreclosures, particularly in the subprime market
- Los Angeles
 - Historically, rates of default and foreclosure have been low.
 - Strong real estate market
 - However, some areas of Los Angeles are showing an increase in the number of defaults and foreclosures.
 - Foreclosures appear to be concentrated in neighborhoods with high numbers of subprime borrowers.
- The Costs of Foreclosure
- Conclusion

Concern Over Increase in National Foreclosure Rate



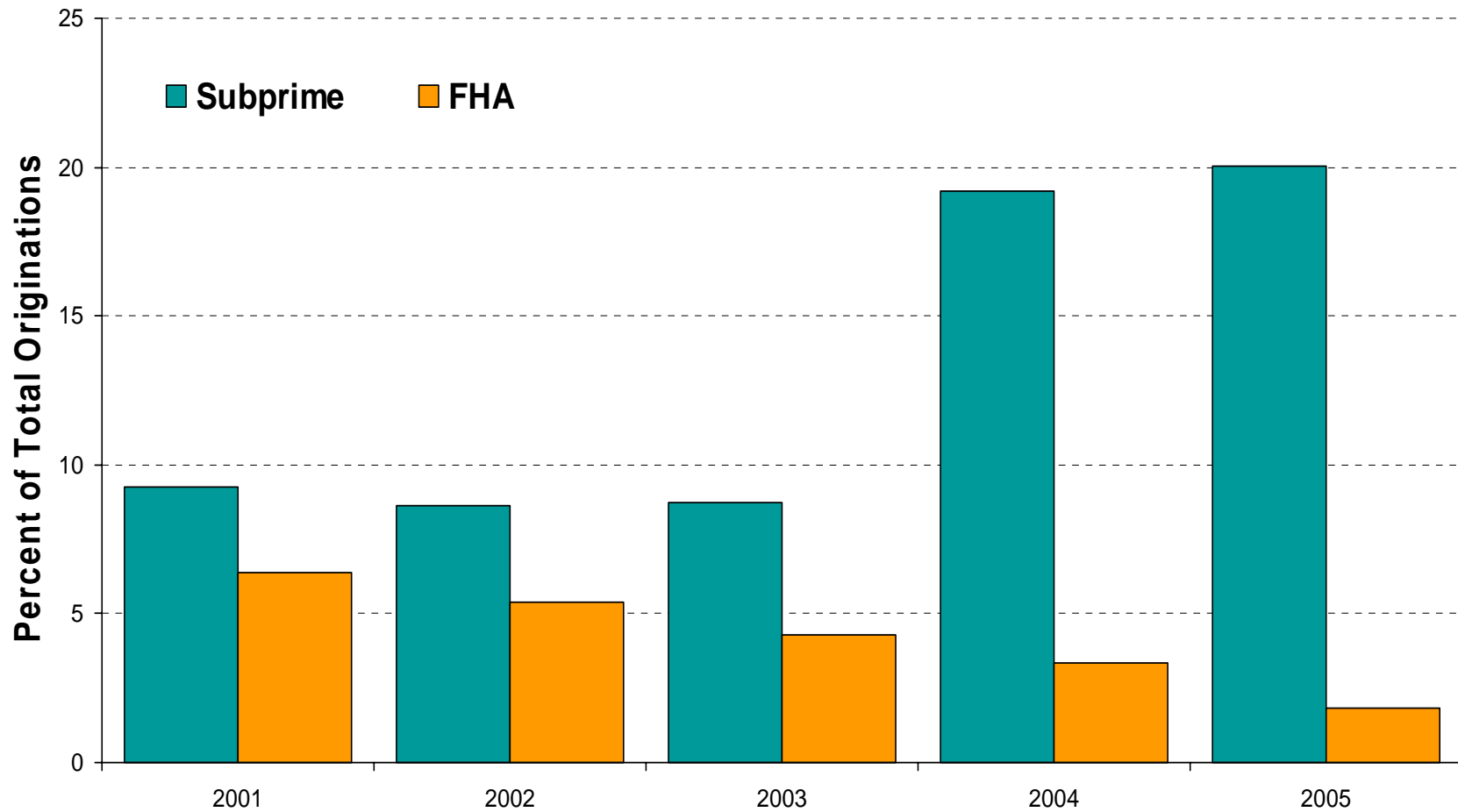
Source: Mortgage Bankers Association, National Delinquency Survey

Delinquency Rates Higher in Subprime Market



Source: Mortgage Bankers Association, National Delinquency Survey

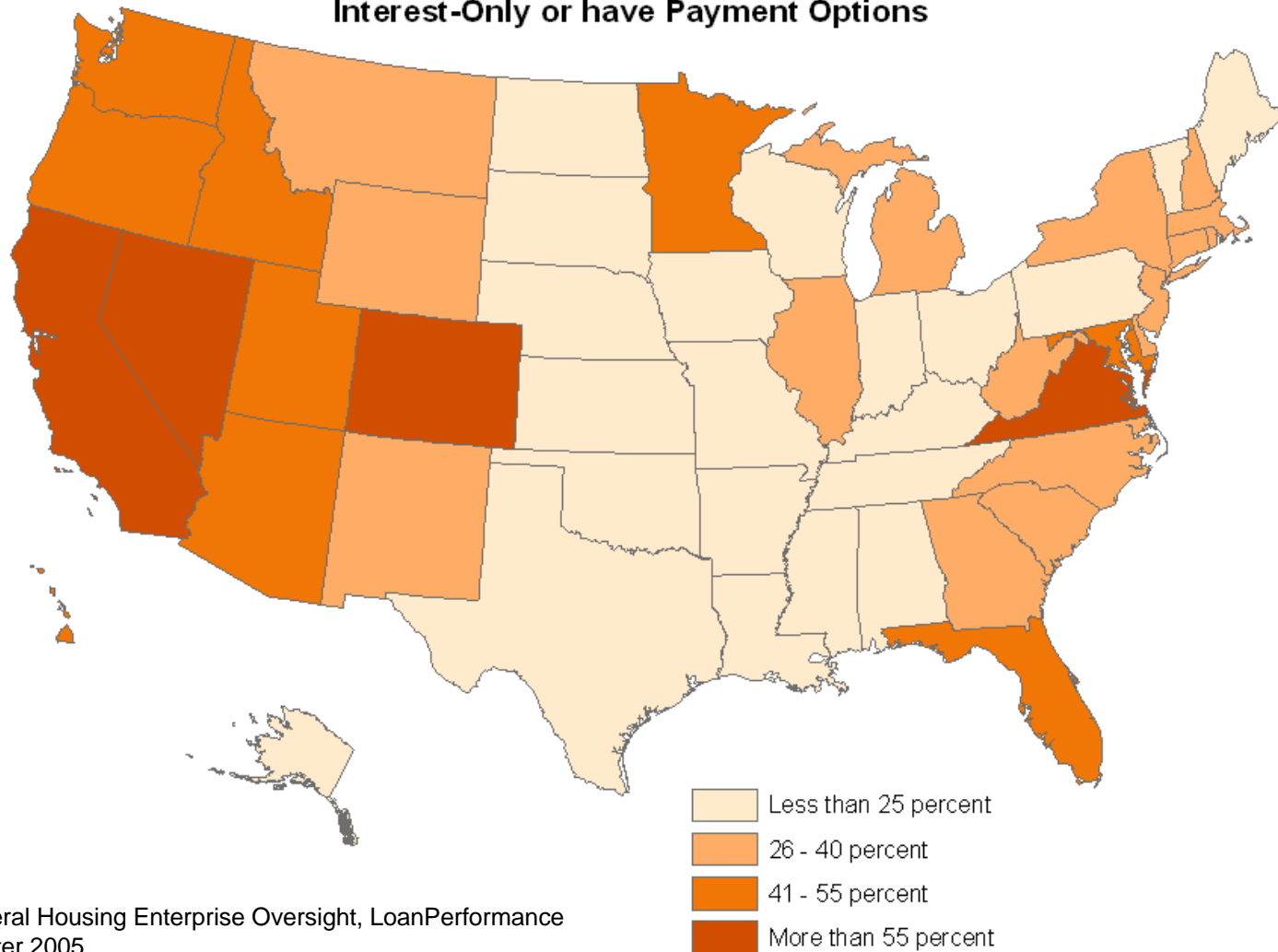
Subprime Market Loan Volume Has Increased



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

High Percentage of Nonprime, Nontraditional Mortgages in California

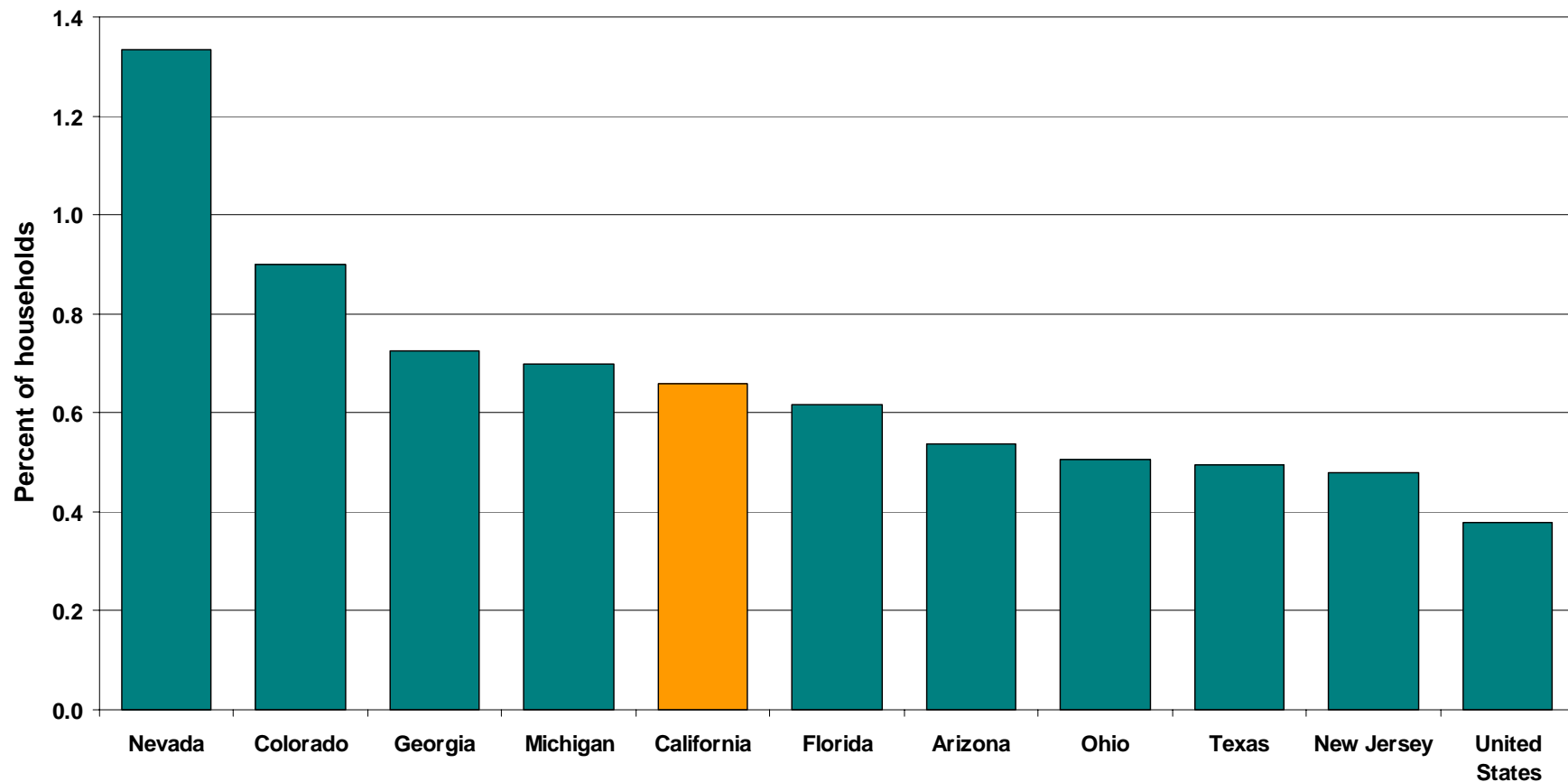
Share of Nonprime Mortgage Originations that are Interest-Only or have Payment Options



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

California Now 5th Highest in Foreclosure Rates

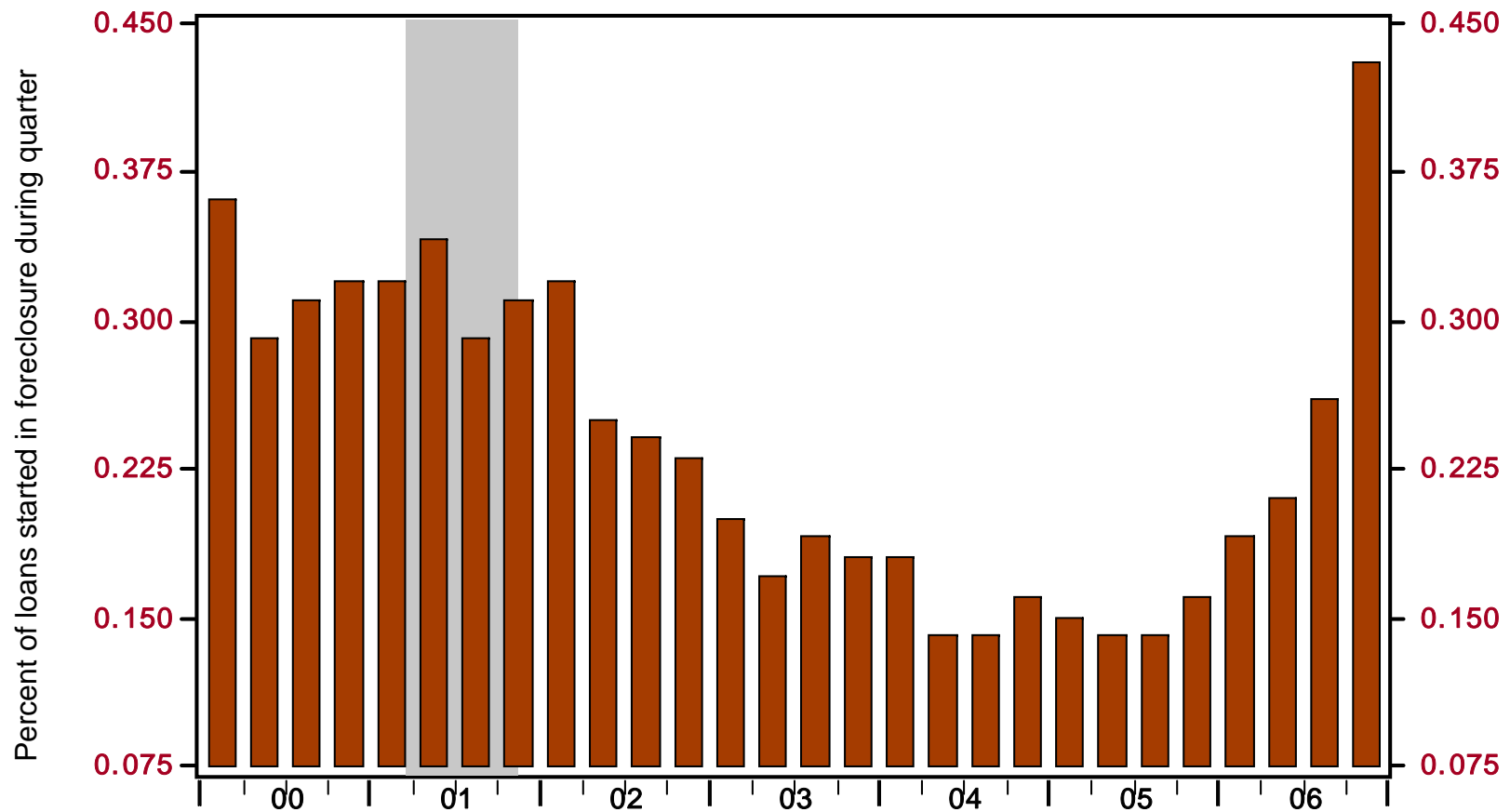
Top Ten States with Highest Foreclosure Rates, 1st Quarter 2007



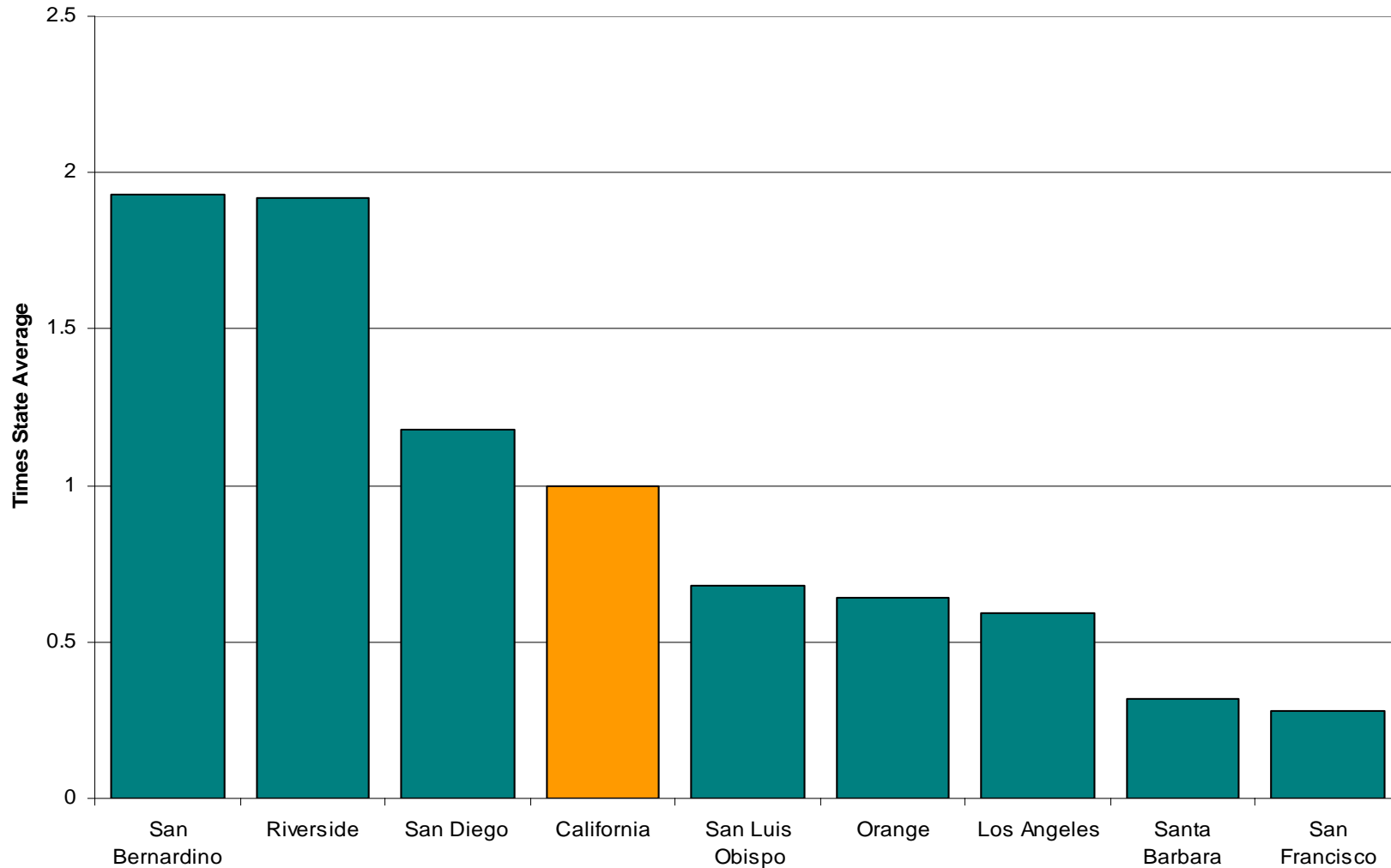
Source: RealtyTrac, 2007 1st Quarter Foreclosure Filing Data

Other Data Confirm Increase In California

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



Los Angeles Default and Foreclosure Rates Remain Lower than California Average

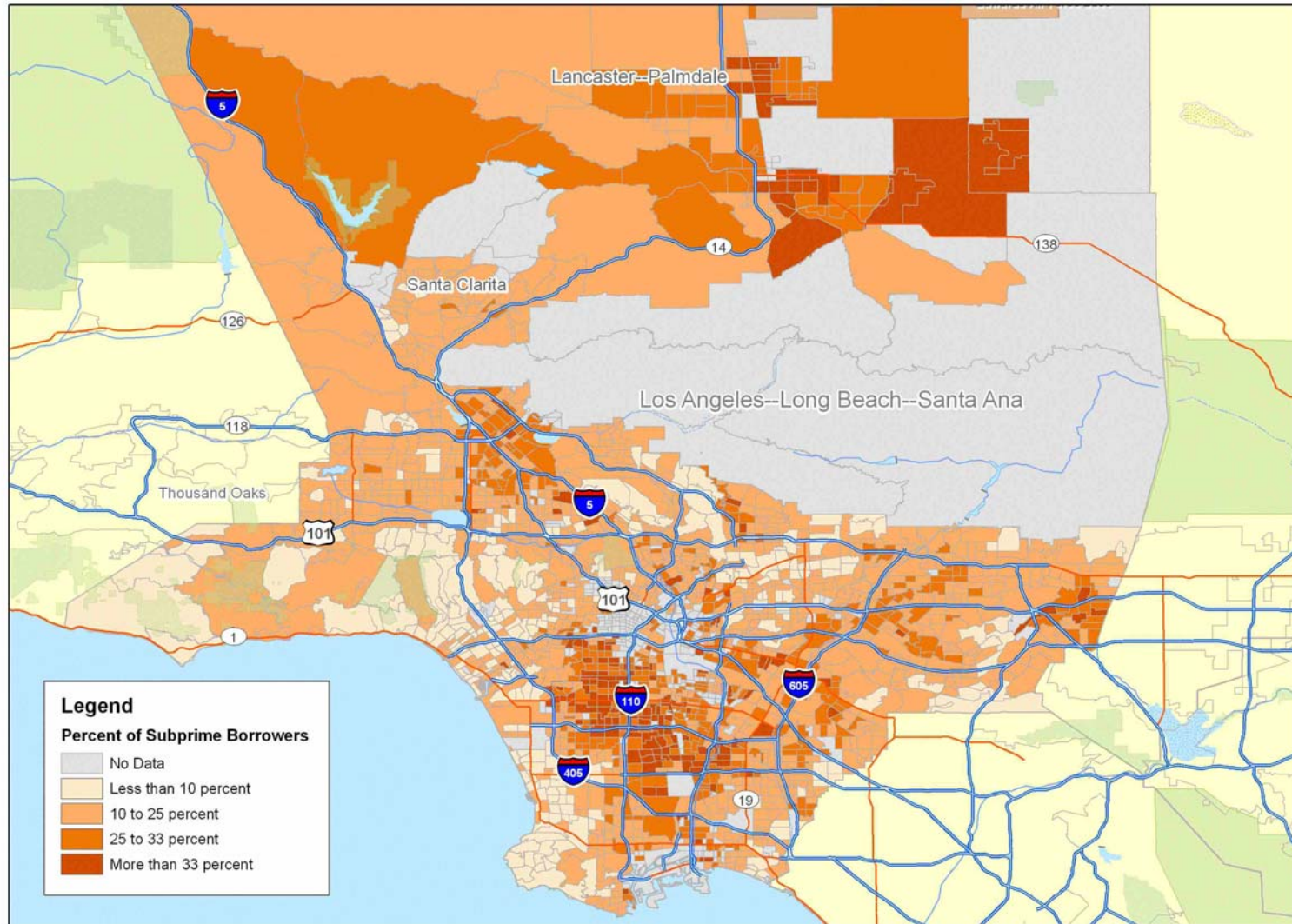


Source: RealtyTrac, California Foreclosure Market by County – October 2006

Relaxation of Underwriting Standards

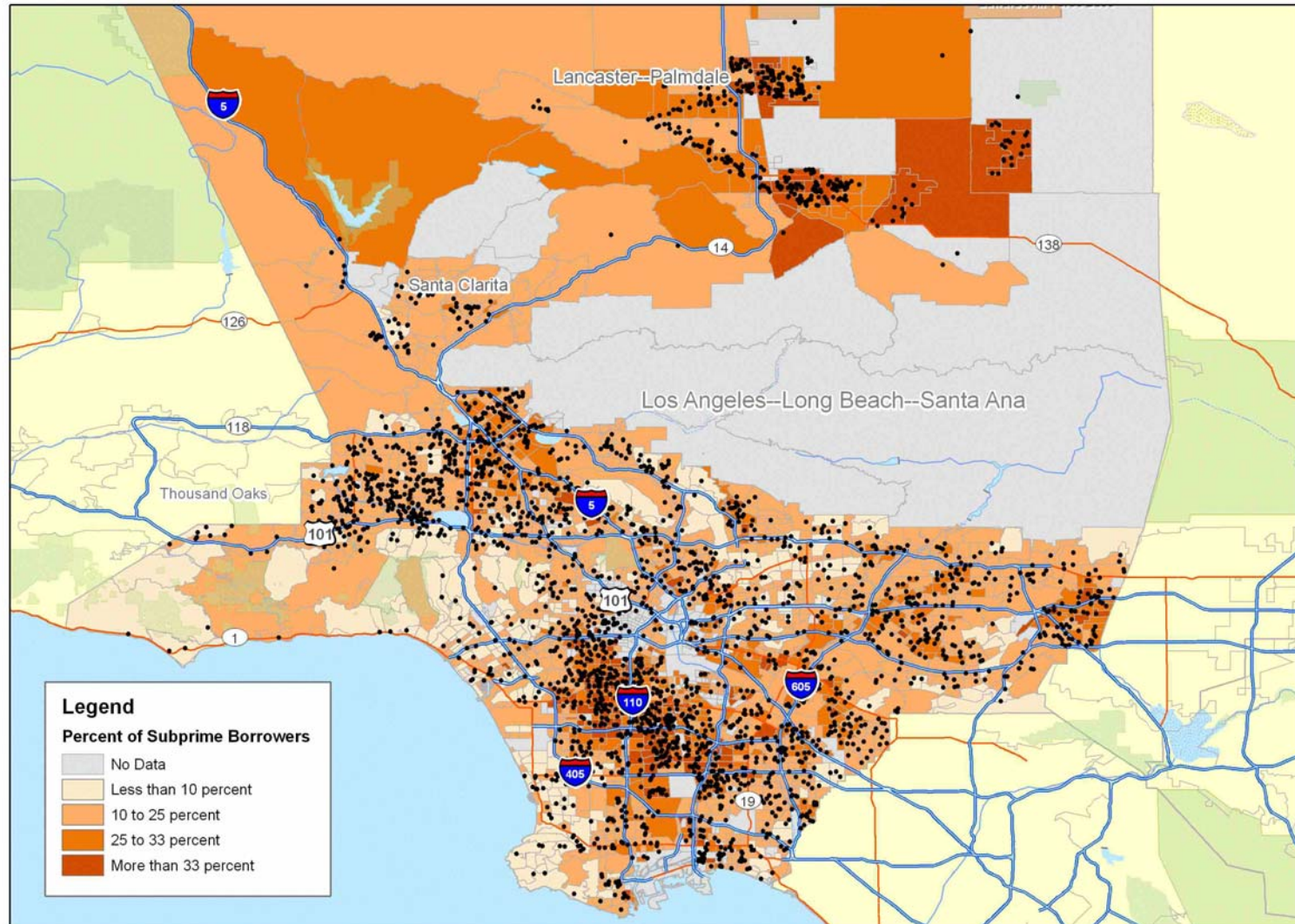
- Higher debt-to-income ratios
 - The high cost of housing in California means that many families stretch to make homeownership possible.
 - According to PPIC, more than half (52%) of state homeowners spend more than 30 percent of their total income on housing. Twenty percent spend more than half their income on housing.
 - 44 percent of recent homebuyers relied on two incomes.
- Risk layering
 - High share of interest-only and negative amortization loans
 - No or low documentation loans
 - Piggyback second loans pushing up combined LTV
- High proportion of subprime borrowers

Los Angeles – Subprime Borrowers Concentrated in Certain Areas



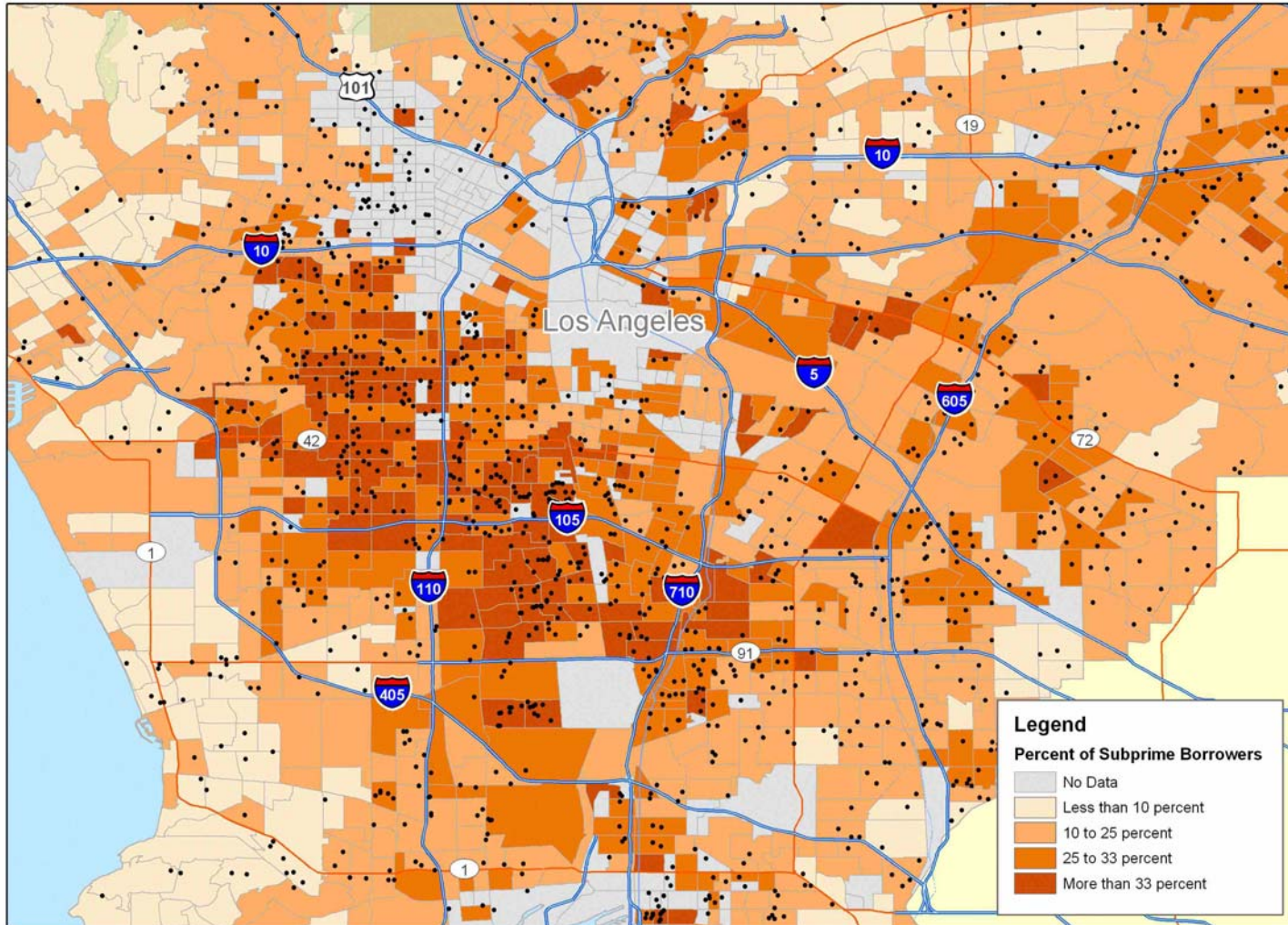
Source: Compiled by the Community Development Department of the Federal Reserve Bank of San Francisco: Do Not Cite or Reproduce without Permission

Los Angeles – As are a large majority of the foreclosure filings



Source: Compiled by the Community Development Department of the Federal Reserve Bank of San Francisco: Do Not Cite or Reproduce without Permission

Targeting outreach in these neighborhoods may reach many distressed borrowers



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

- Los Angeles 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

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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 sample of credit files with mortgages from a National Credit Bureau. Data refers to the percentage of files with a mortgage that have credit scores consistent with subprime borrowing. Data from 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.