



Preserving Homeownership – Preserving Communities

Understanding Homeowners at Risk of Foreclosure in Arizona

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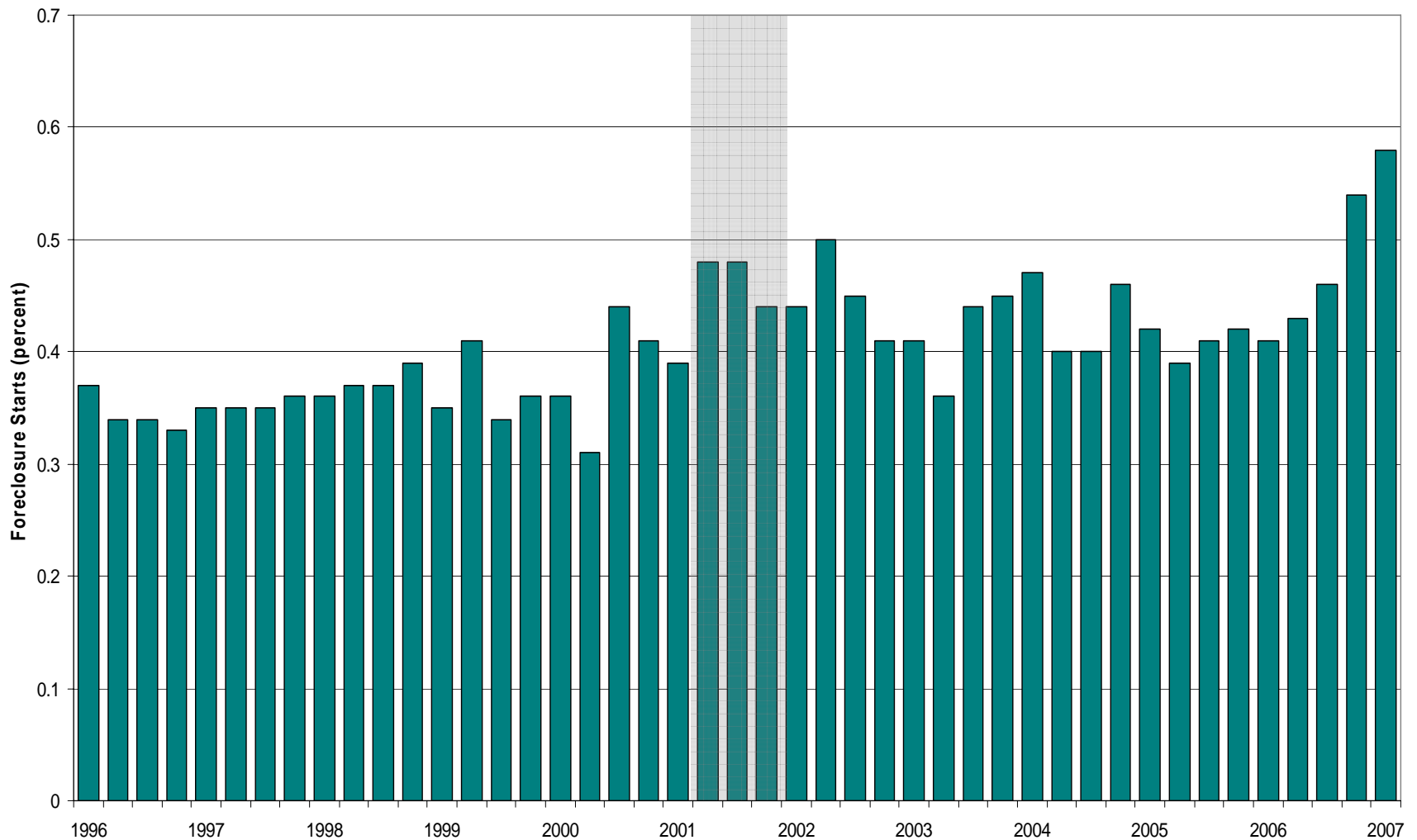
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Outline of Presentation

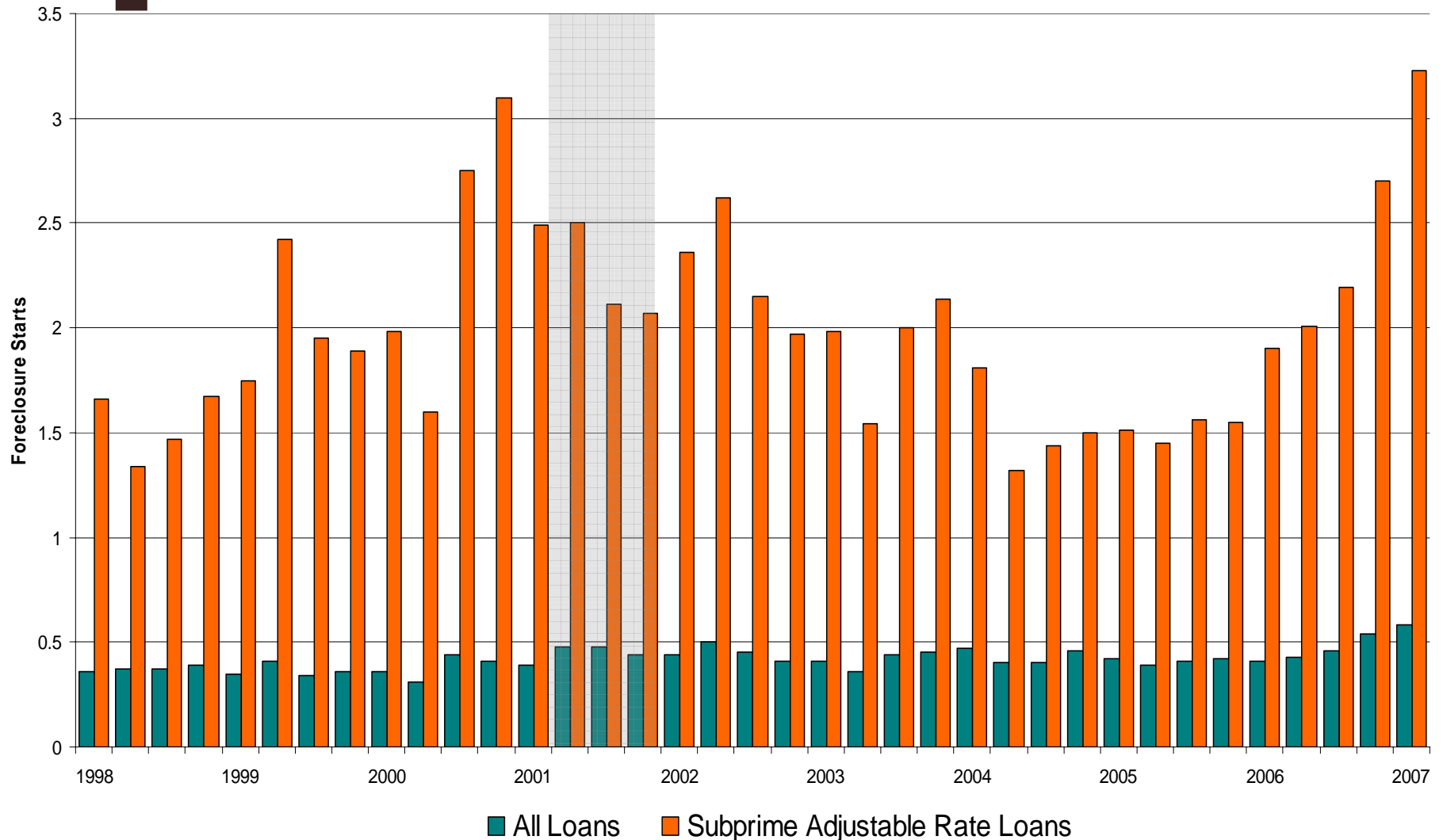
- National Overview
 - Concerns over the rising rate of foreclosures, particularly in the subprime market
- Arizona
 - Recent rates of default and foreclosure have been low
 - Strong real estate market
 - Witnessing an upward trend in foreclosure filings
- Phoenix and Tucson
 - Targeting interventions in neighborhoods with high concentrations of foreclosures
- The Costs of Foreclosure
- Conclusions

Foreclosure Starts Have Increased Significantly



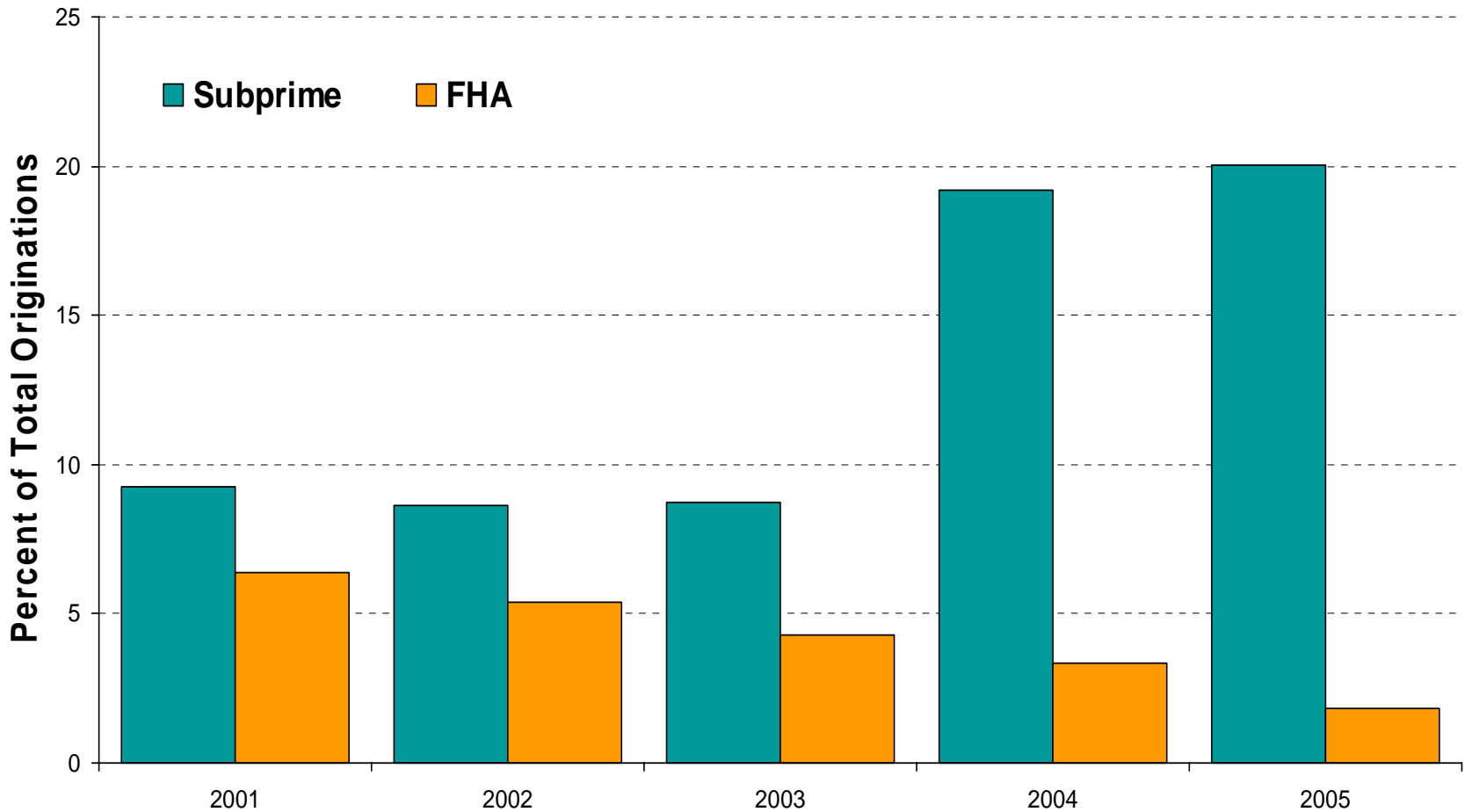
Source: Mortgage Bankers Association, National Delinquency Survey

Subprime Adjustable Rate Mortgages Have Higher Delinquency/Foreclosure Rates



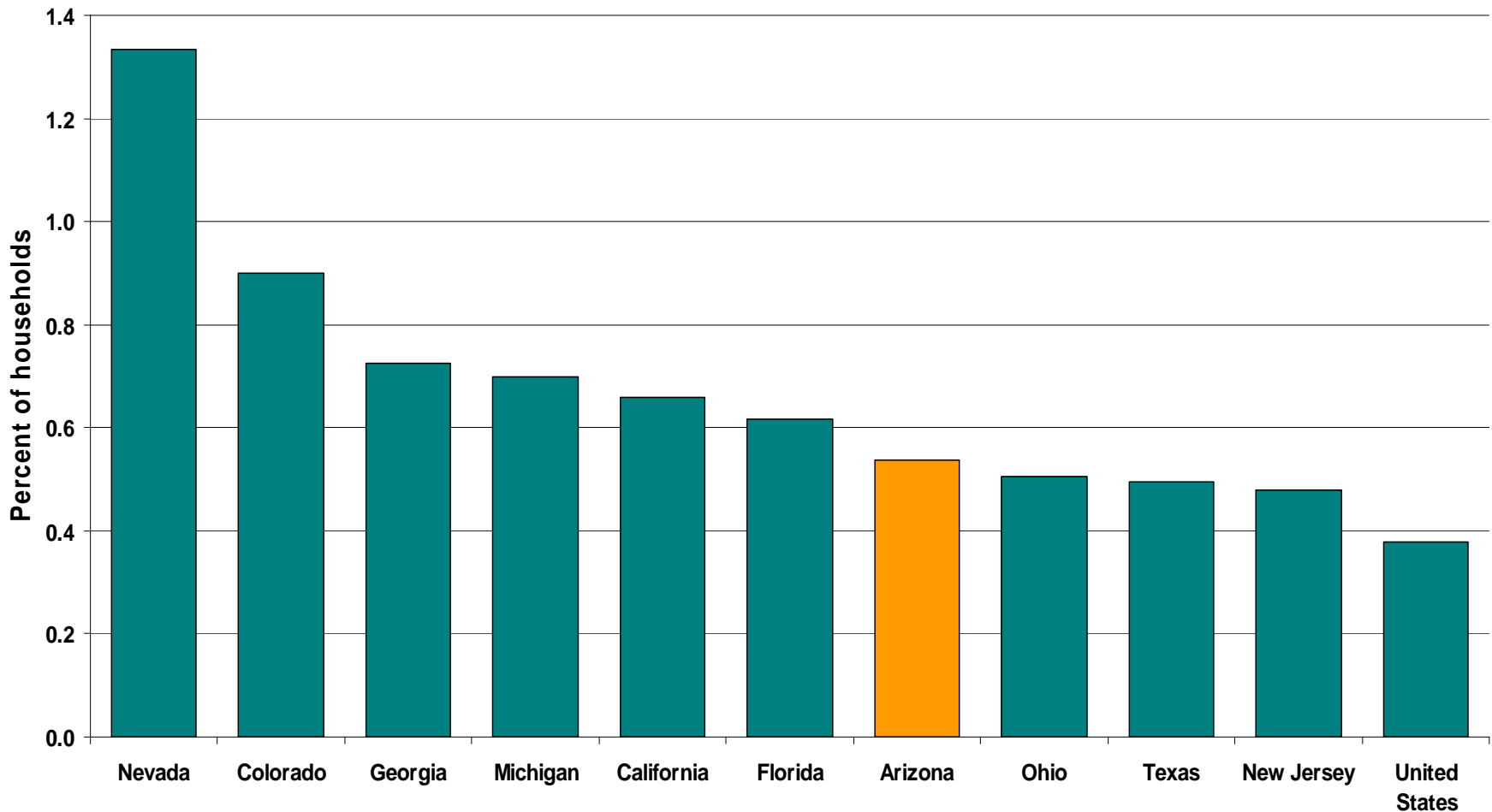
Source: Mortgage Bankers Association, National Delinquency Survey

Subprime Market Loan Volume Has Increased



Top Ten States with Highest Foreclosure Rates

1st Quarter 2007

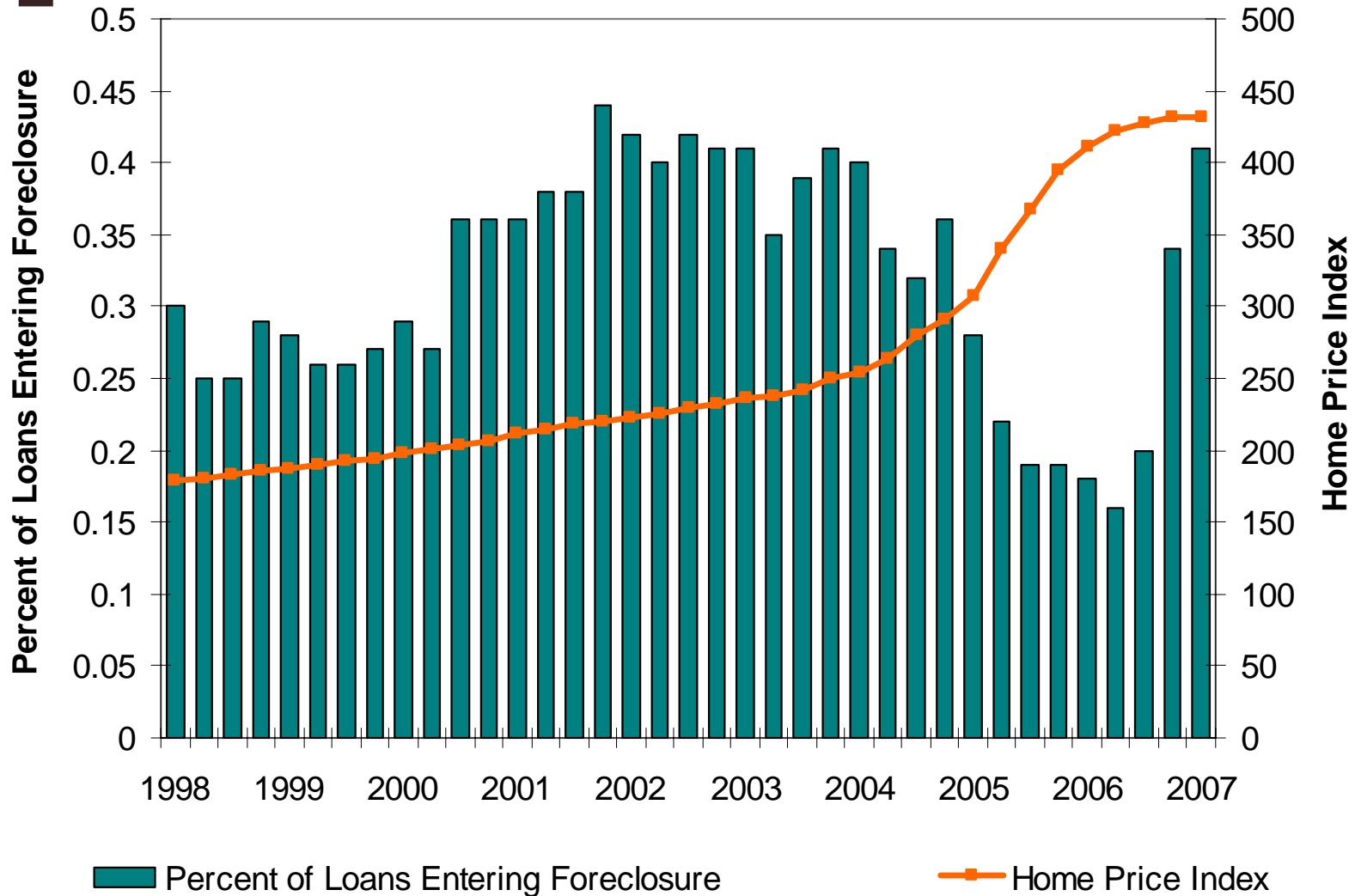


Source: RealtyTrac, 2007 1st Quarter Foreclosure Filing Data

Other Data Confirm Increase In Arizona

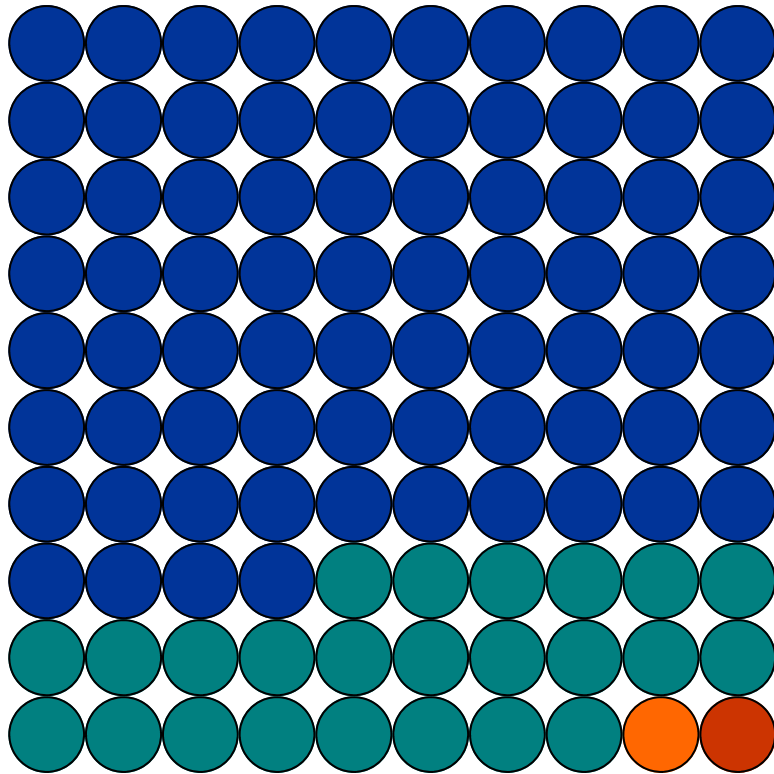
- RealtyTrac's estimates may be high, but MBA data similarly show rapid upward trend in Arizona foreclosures

Arizona Foreclosure Rate



Source: Mortgage Bankers Association, National Delinquency Survey and Office of Federal Housing Enterprise Oversight

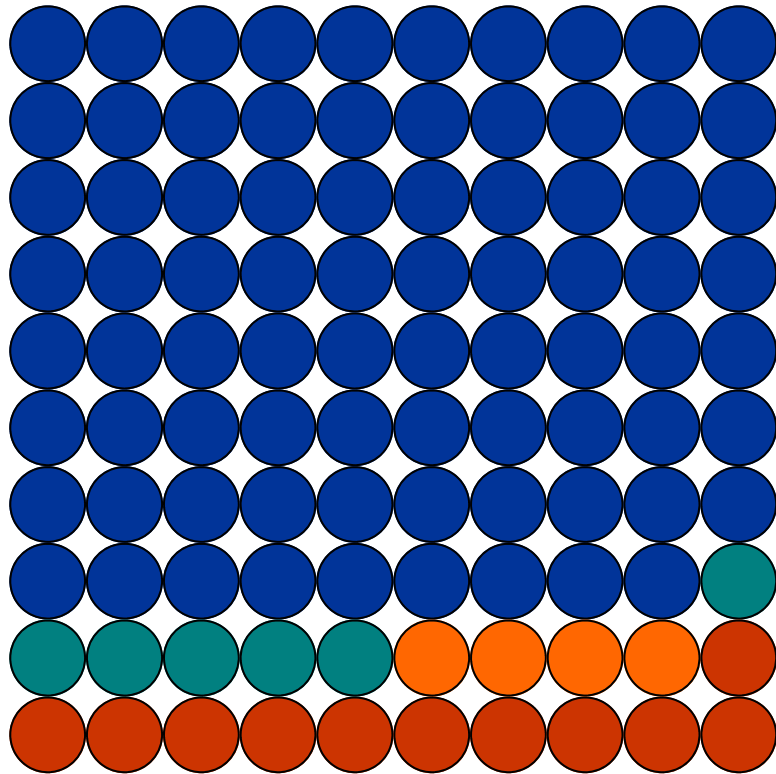
Significant Growth in Subprime Lending in Arizona



- Conventional Prime
- FHA
- Subprime Fixed
- Subprime Adjustable Rate

2000

Significant Growth in Subprime Lending in Arizona

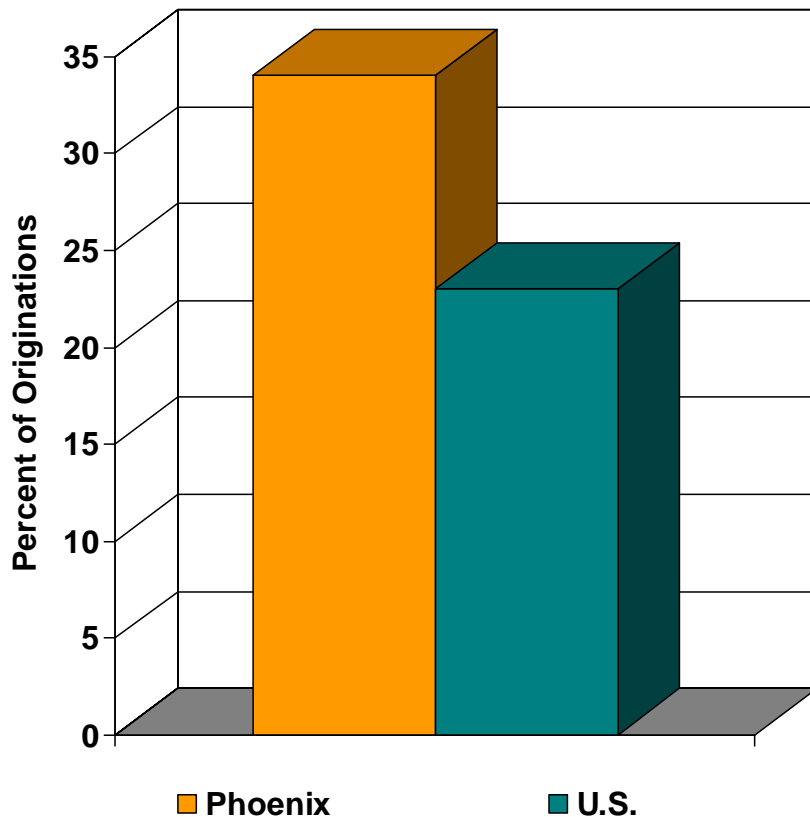


- Conventional Prime
- FHA
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2006

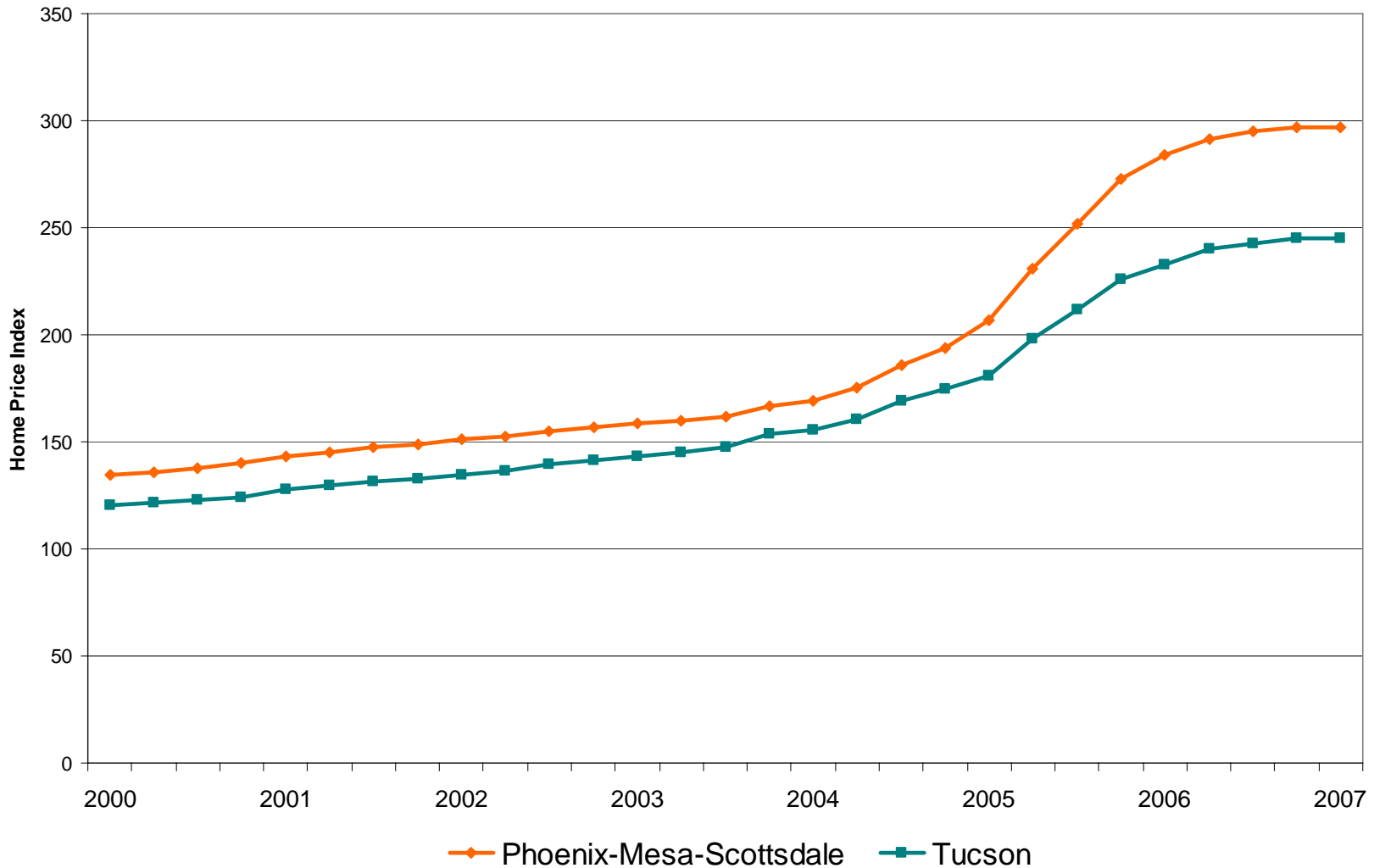
Relaxation of Underwriting Standards

Interest Only and Negative Amortization
2006 Originations



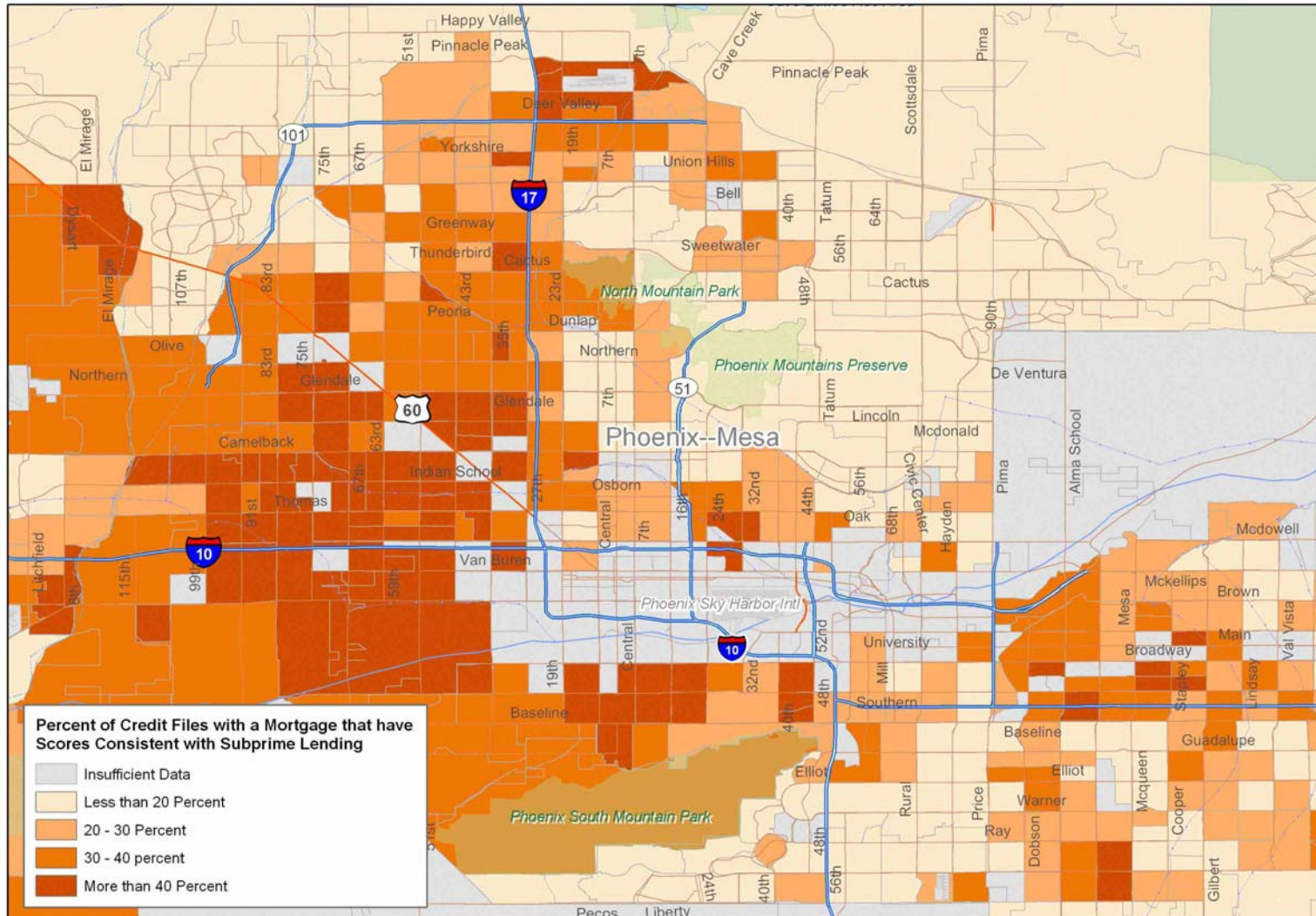
- Relaxation of Underwriting Standards
 - Interest only loans
 - No or low documentation loans
 - “Piggyback” second loans pushing up combined LTV
- Rate resets yet to come
 - Potential “payment shock”

Softening Real Estate Markets

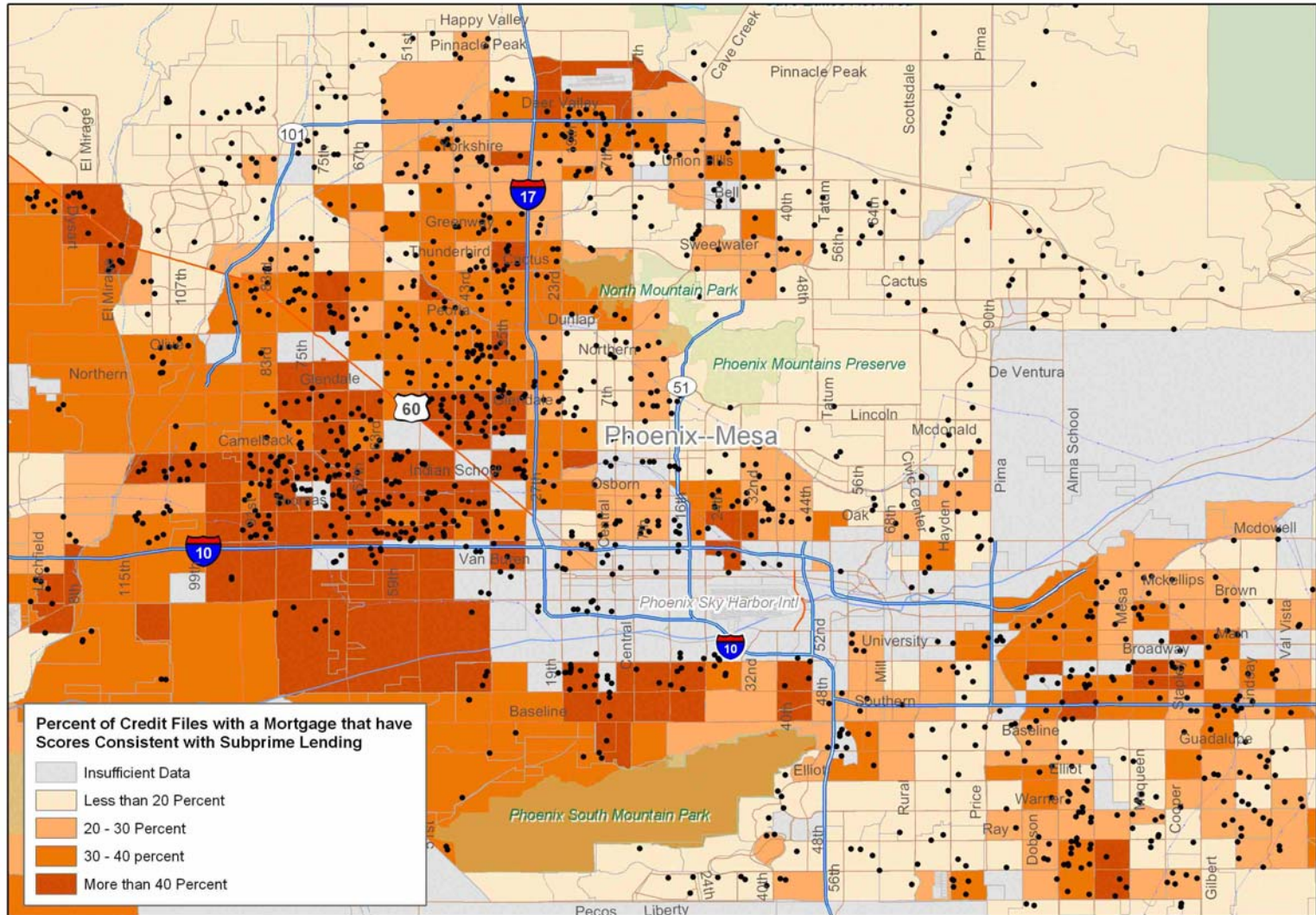


Source: Office of Federal Housing Enterprise Oversight

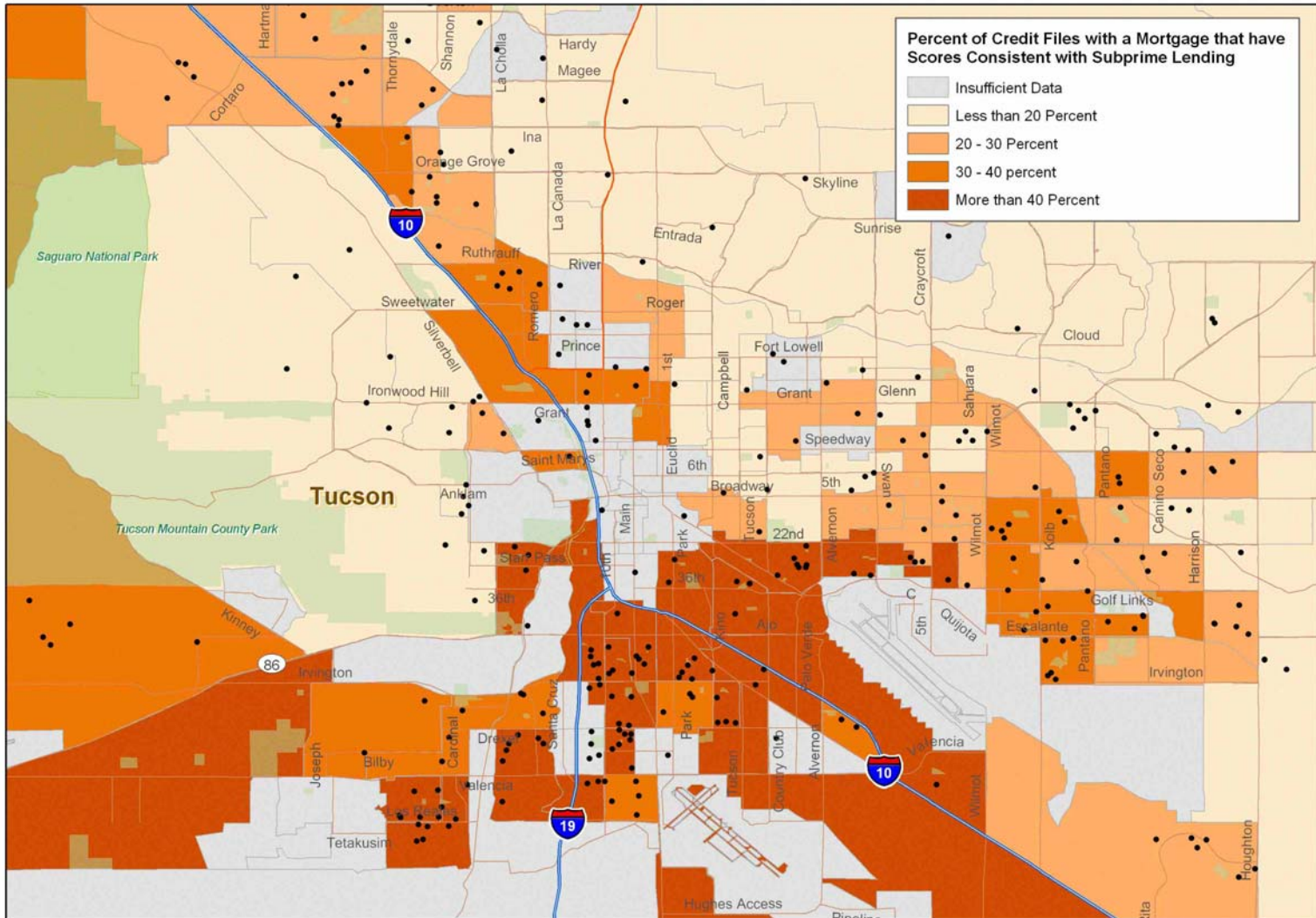
Subprime Borrowers Concentrated in Certain Areas



Foreclosure Filings Show Similar Concentrations



Tucson's Foreclosure Filings Concentrated in Southern Neighborhoods



The Role of Speculators

- According to an analysis completed by *The Arizona Republic*, 25 percent of the foreclosure filings are investment properties
 - In sample we analyzed, percentage was even higher, with more than half of the filings not “owner occupied”
- However, concentration of filings in certain neighborhoods may have negative externalities for owner occupied homes nearby
 - Vacant properties can attract crime and reduce neighborhood property values
 - Research has shown that foreclosures are associated with decreases in nearby property values
 - Municipal costs will also be high, with conservative estimates suggesting public costs of around \$7,000 per foreclosure

Focus on Prevention to Prevent Equity Loss

- In the past couple of years, Arizona has had historically low rates of foreclosures
 - High house price appreciation and strong job growth
- The current trend is an increase in foreclosures, with some sources listing Arizona in the top 10 states in terms of the scale of the problem
 - 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
 - Important to include a Spanish language component in outreach activities

References and Data Sources

Data for Maps

- Important caveat: Local, neighborhood data on delinquencies and foreclosures are not easy to find, and none of the publicly available data sources adequately capture local delinquency trends, the mix of mortgage products, or the economic and/or demographic characteristics of borrowers. The data in these maps are designed to be illustrative only with the hope that they will help community groups with their outreach activities. Much more analysis and data would be needed to truly measure the impact of foreclosures on local neighborhoods.
- Data on subprime borrowers in Arizona were generated from a sample of credit files with mortgages from a National Credit Bureau, December 2004.
- Local data on foreclosure filings 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. Data are from 1st Quarter 2007.

Studies on Impacts of Foreclosure

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