



Preserving Homeownership – Preserving Communities

Understanding Homeowners at Risk of Foreclosure in the Bay Area

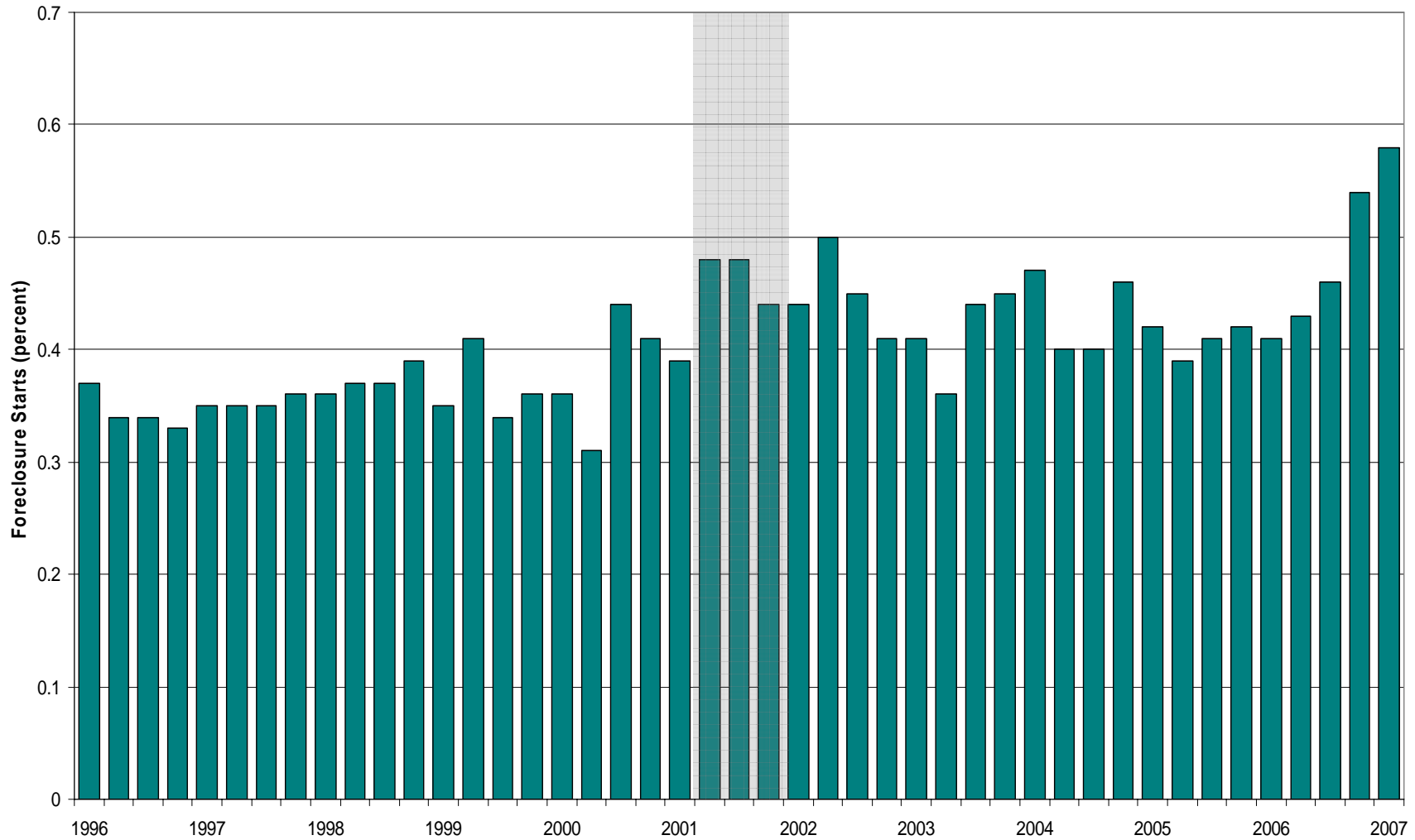
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Outline of Presentation

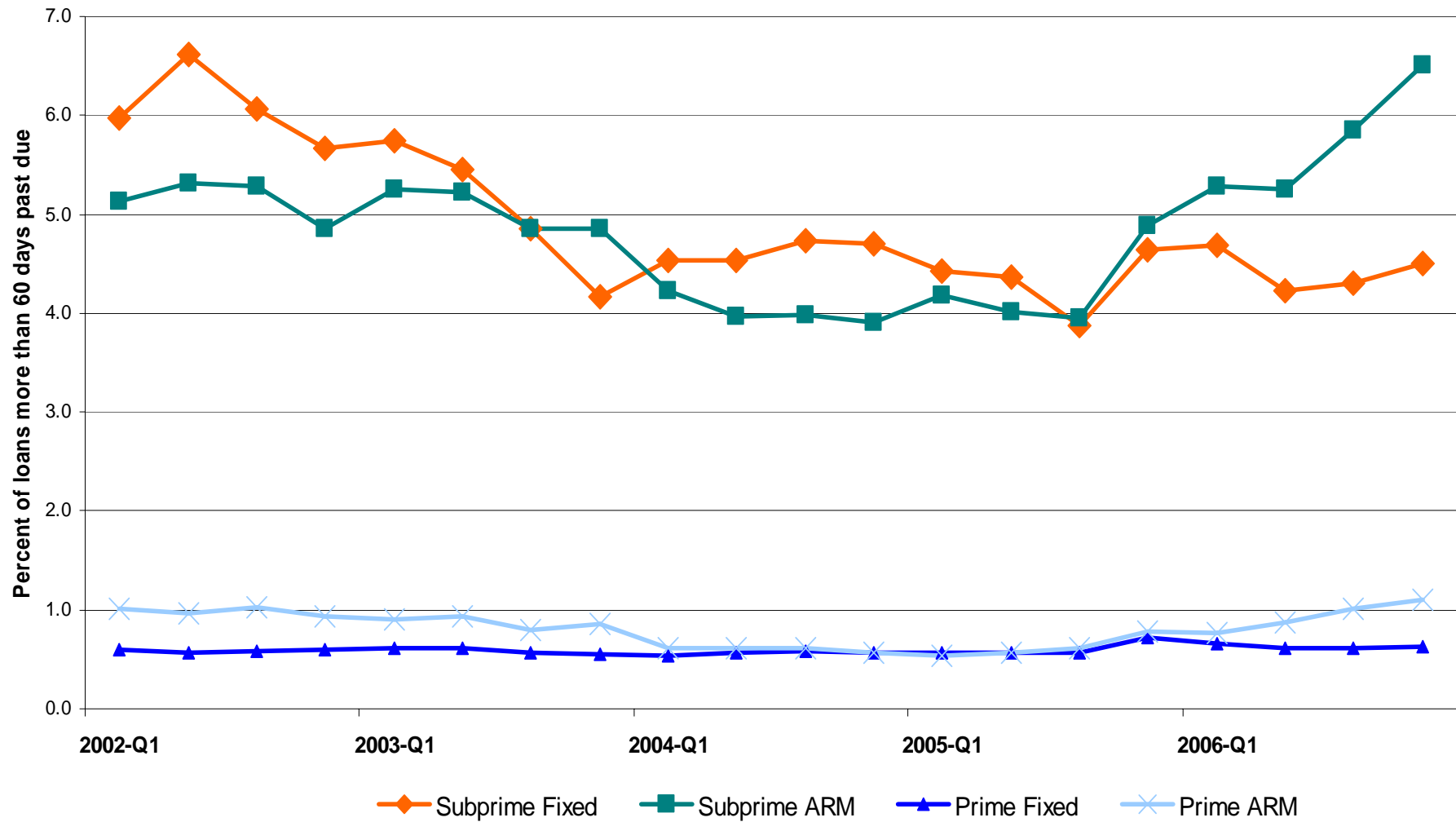
- National Overview
 - Concerns over the rising rate of foreclosures, particularly in the subprime market
- The Bay Area
 - Historically, rates of default and foreclosure have been low
 - Strong real estate market
 - Overall, the Bay Area has not seen a large increase in foreclosures, and equity position of most borrowers still strong
 - However, certain communities may be at risk, particularly if market continues to cool
- Opportunity to Reach Distressed Borrowers Early
 - Reaching out to “high risk” communities now may mitigate the negative impact of default and foreclosures

Nationally, Foreclosure Starts Have Increased Significantly



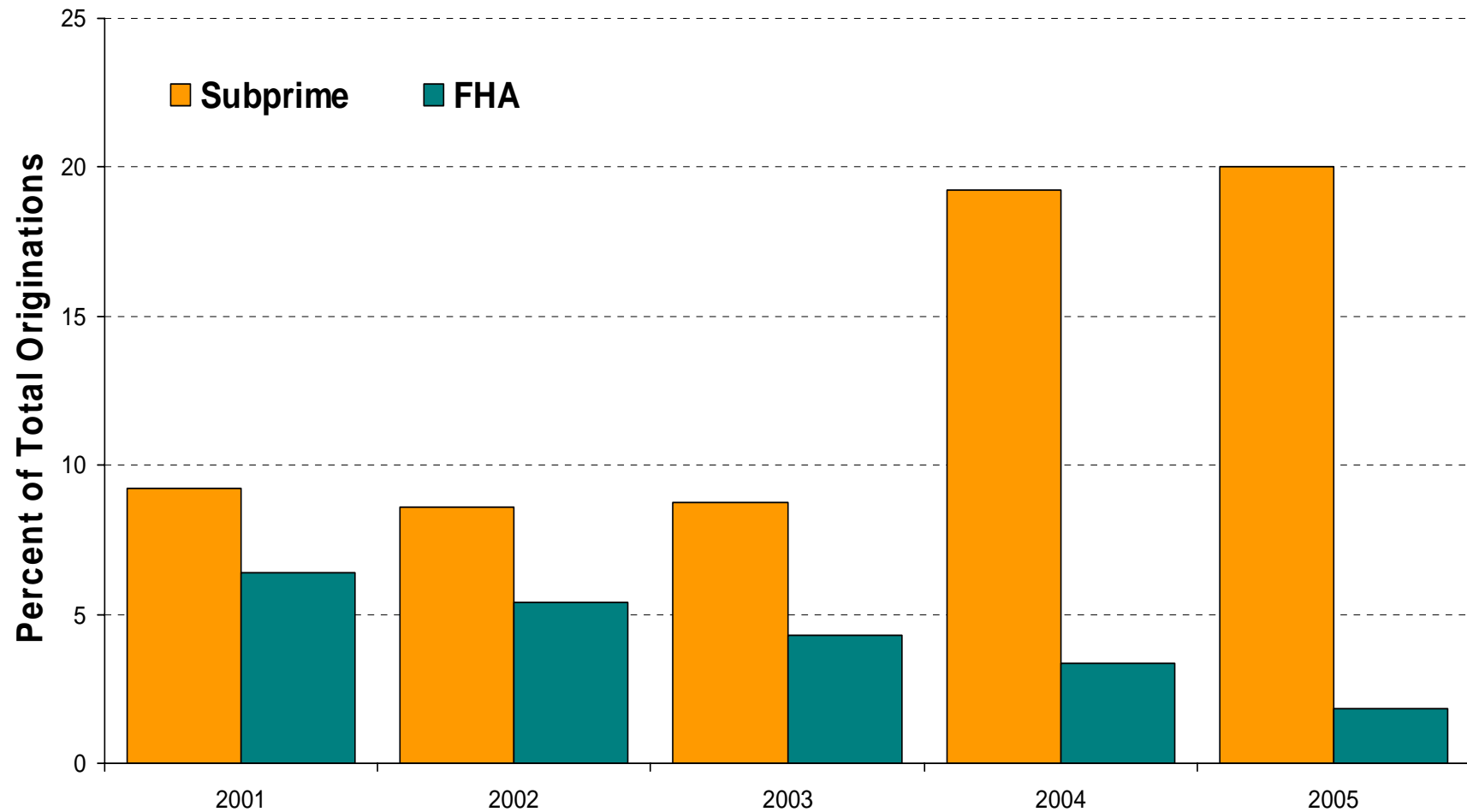
Source: Mortgage Bankers Association, National Delinquency Survey

Delinquency Rates Higher in Subprime Market



Source: Mortgage Bankers Association, National Delinquency Survey

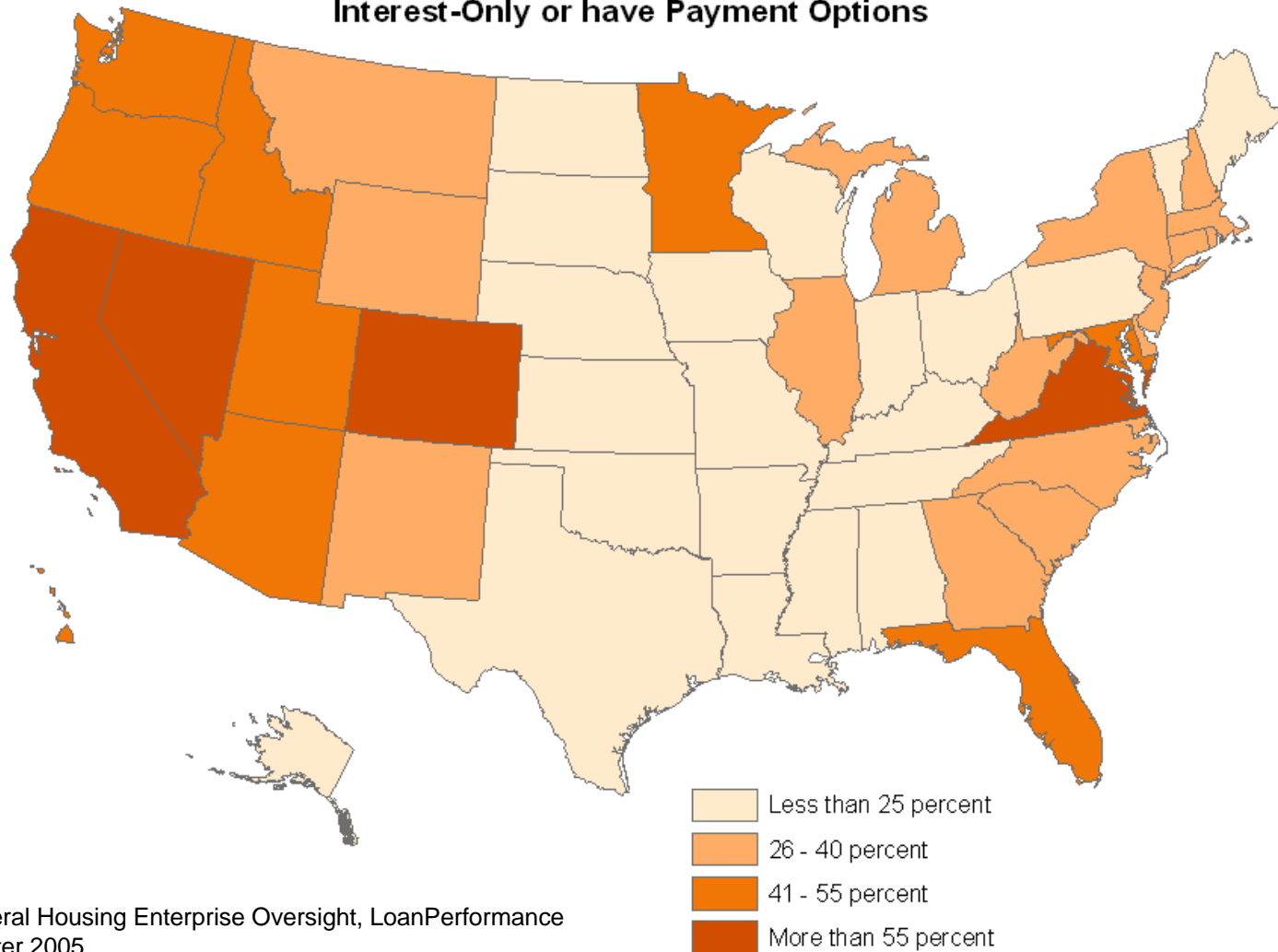
Subprime Market Loan Volume Has Increased



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

High Percentage of Nonprime, Nontraditional Mortgages in California

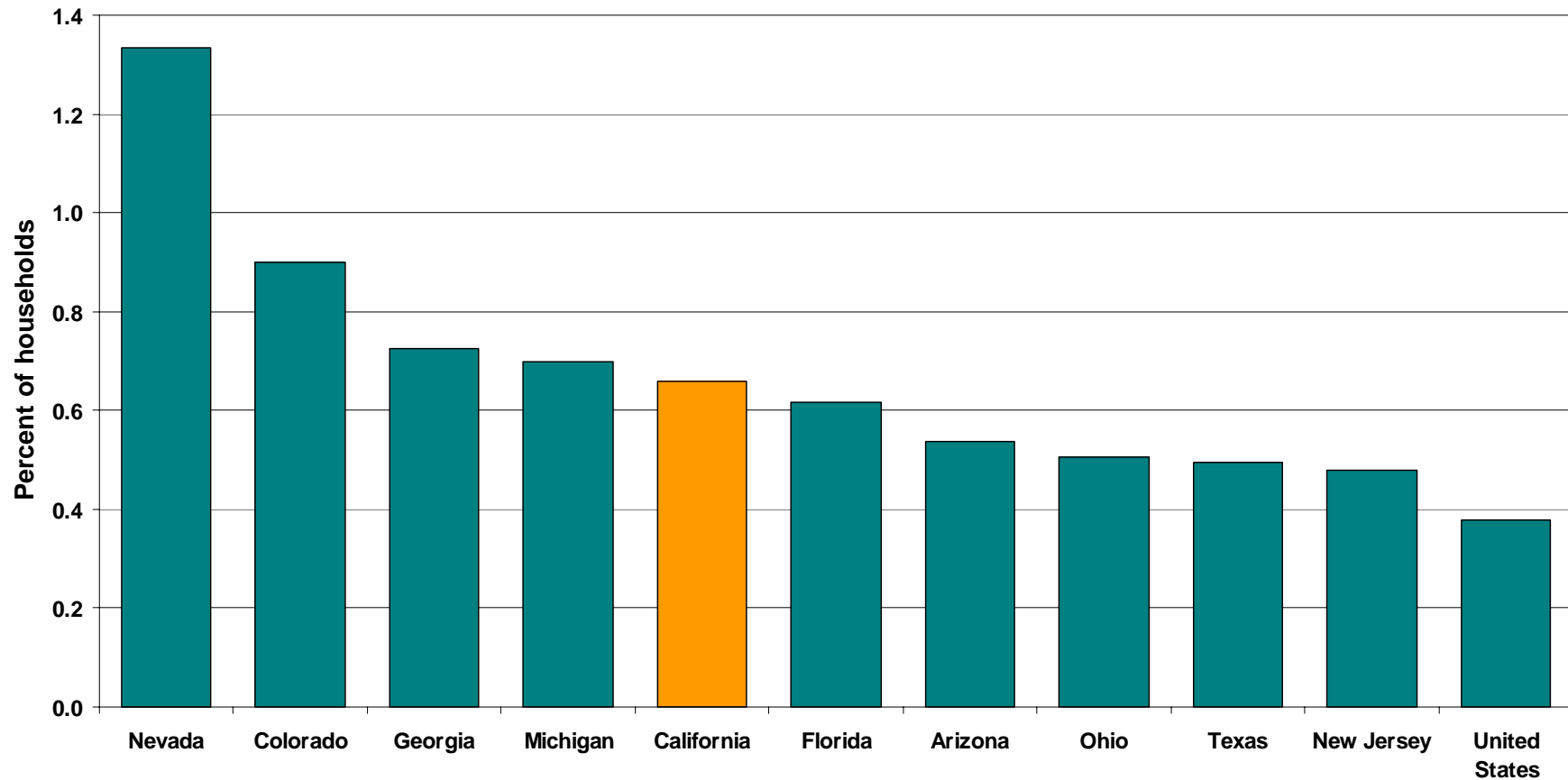
Share of Nonprime Mortgage Originations that are Interest-Only or have Payment Options



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

RealtyTrac: California Ranked 5th Highest in Foreclosure Rates

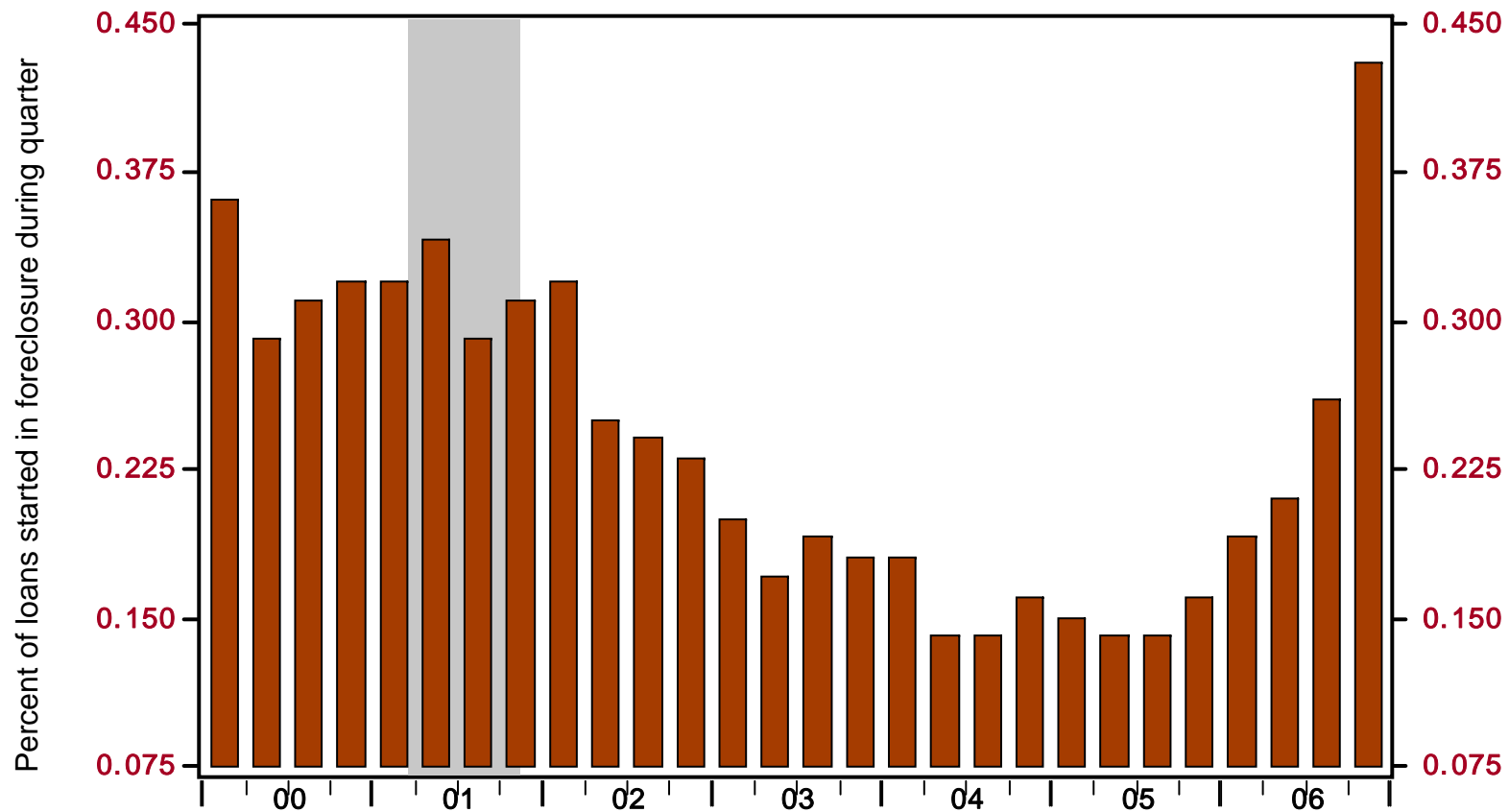
Top Ten States with Highest Foreclosure Rates, 1st Quarter 2007



Source: RealtyTrac, 2007 1st Quarter Foreclosure Filing Data

Other Data Confirm Increase In California

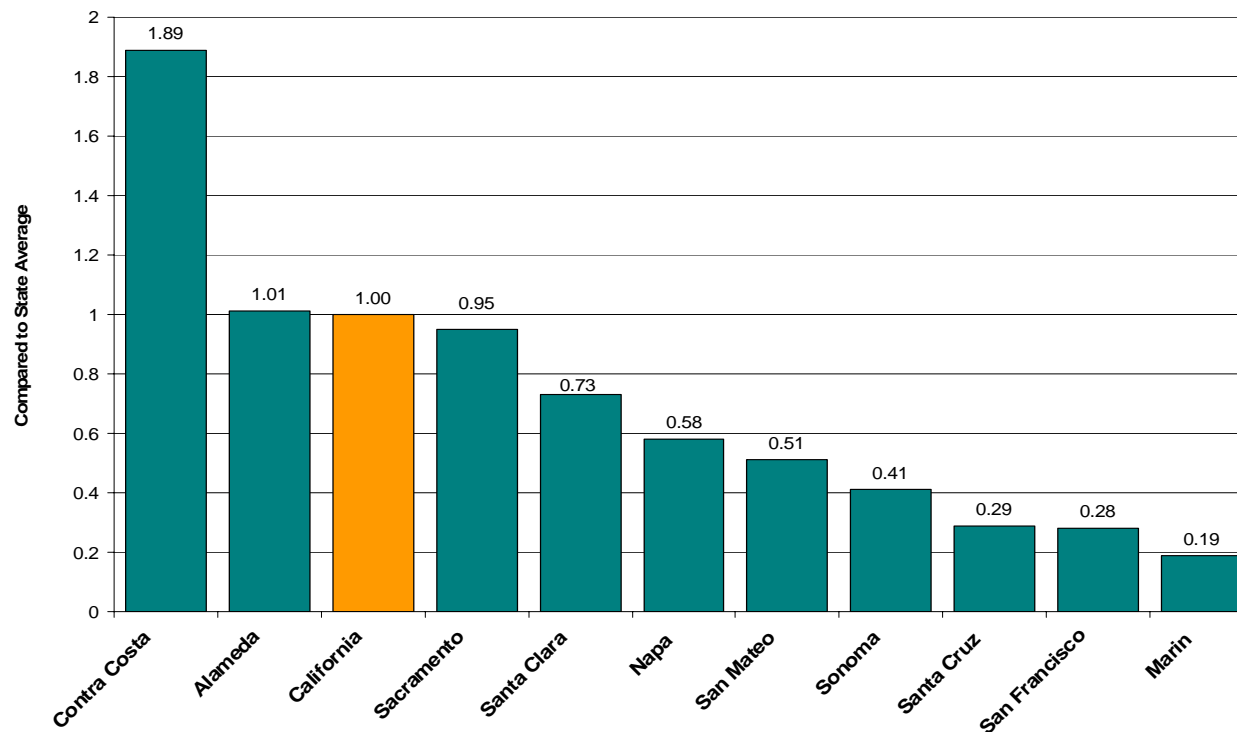
- RealtyTrac's numbers may be high, but MBA data show rapid upward trend in California foreclosures



Source: Mortgage Bankers Association, National Delinquency Survey

The Bay Area

- Overall, the Bay Area has not experienced the same jump in defaults and foreclosures
 - Rates of default and foreclosure for most counties still below state average

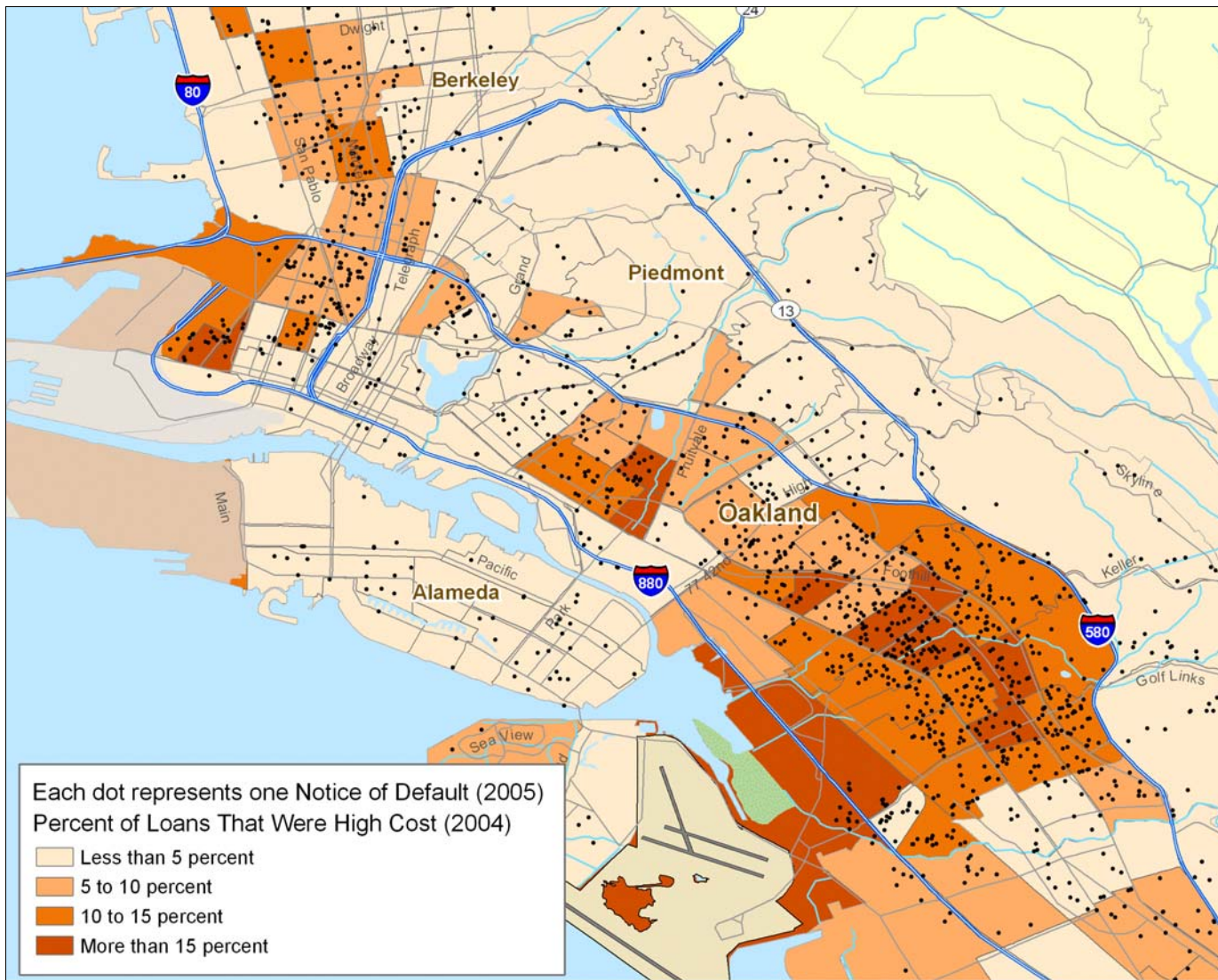


Source: RealtyTrac, California Foreclosure Market by County – October 2006

The Bay Area

- Overall, the Bay Area has not experienced the same jump in defaults
 - Rates of foreclosure for most counties still below state average
 - House values holding steady
 - Most borrowers still hold significant equity in their homes
- But, the strong real estate market over the past two years may have “masked” distressed borrowers
 - High Debt to Income
 - High Percent of Nontraditional Loans
 - In 2006, 40 percent of originations in Bay Area were interest-only or negative amortization
 - High percent of High Cost Loans, particularly in low-income communities

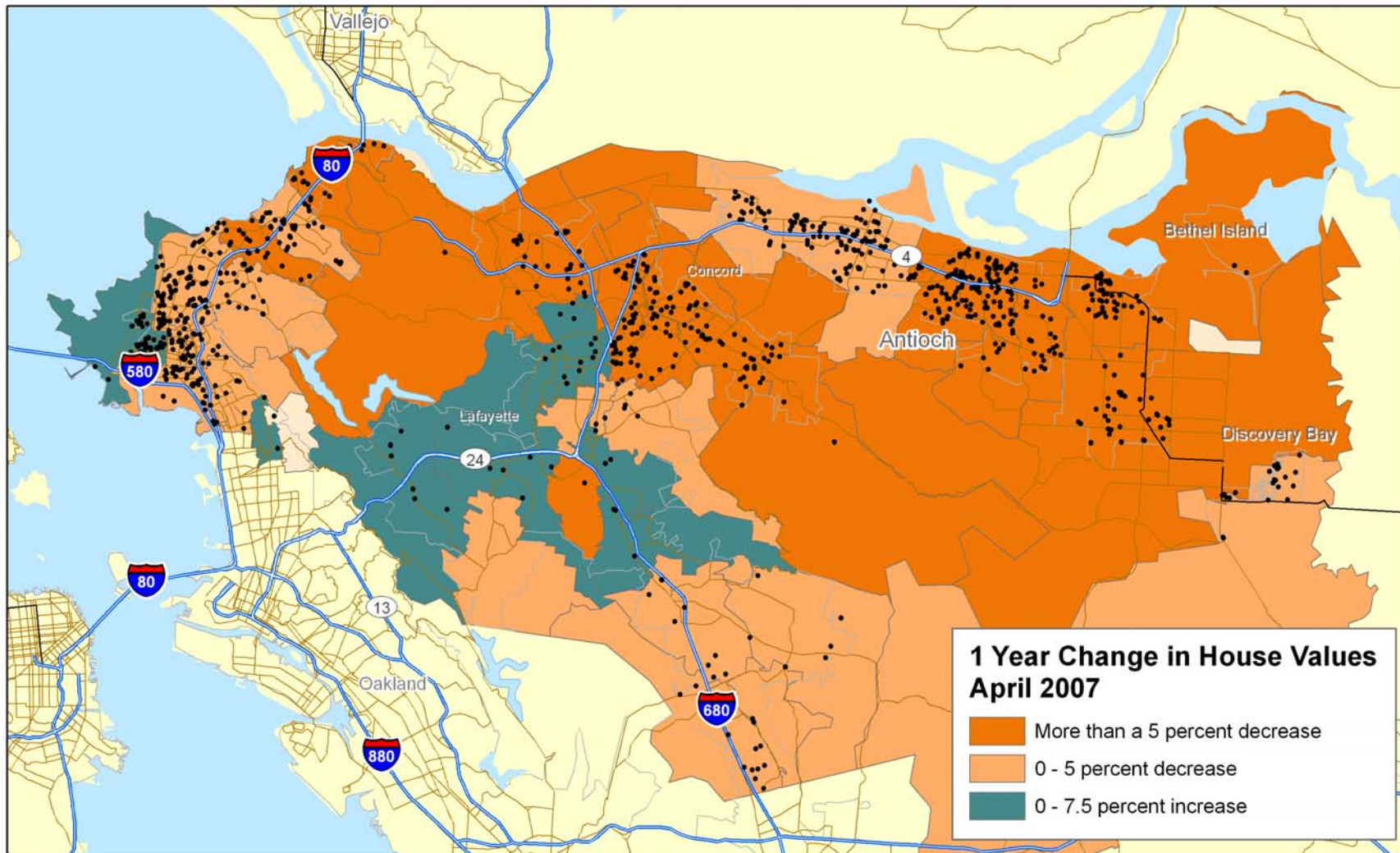
High Cost Loans Concentrated in Low-Income Neighborhoods...as are Defaults



Identifying “high risk” neighborhoods

- Research demonstrates that the risks of foreclosures may be highest in neighborhoods with a high proportion of “subprime” borrowers, as well as borrowers receiving high-cost loans
- Contra Costa County
 - Highest rate of foreclosures in the Bay Area
 - Foreclosures concentrated in areas with high proportions of subprime borrowers
 - And, in areas with declining house values

Contra Costa County – House Values Decline



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

- Bay Area 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
- However, the high proportion of nontraditional mortgages, along with concentrations of subprime borrowers and high cost loans in certain neighborhoods may signal 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

References and Data Sources

Identifying Areas at Risk of Foreclosure

- Grover, M., Smith, L., and Todd, R. (2007). Targeting Foreclosure Interventions: An Analysis of Neighborhood Characteristics Associated with High Foreclosure Rates in Two Minnesota Counties. Presented at the Community Affairs Research Conference, March 2007, Washington, D.C.

Impacts of Foreclosure

- Cutts, A C. & Green, R. K.. (2005). "Innovative Servicing Technology: Smart Enough to Keep People in Their Houses?" in *Building Assets, Building Credit: Creating Wealth In Low-Income Communities* in Retsinas, N. & E. Belsky, eds. Brookings Press. 348-377.
- 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

- 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. Changes in house values calculated using local comparable and repeat sales data on single family homes and condominiums.
- Alameda map of high cost loans and the distribution of Notice of Defaults was adapted from a research paper examining the links between the incidence of high cost loans and defaults. Laura Lanzerotti (2005). *Homeownership at High Cost: Foreclosure Risk and High Cost Loans in California*. Working Paper, Federal Reserve Bank of San Francisco.