

# Identifying Issues in the Subprime Mortgage Market: Arizona



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Analysis of First American LoanPerformance data provided by  
the Federal Reserve Board of Governors. Do not cite or reproduce without permission.

# Overview of Presentation

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- What are the trends in delinquencies and foreclosures in Arizona?
  - Mortgage Bankers Association data on delinquencies and foreclosures
- What are the primary drivers of foreclosures in Arizona?
  - Declining house values in certain neighborhoods/regions
  - Large percent of subprime and nontraditional loans
    - First American Loan Performance data on subprime loans
  - Impending resets may trigger further borrower distress and increased rates of delinquency
- What neighborhood “hot spots” exist in the Phoenix Metropolitan area and in Tucson?

# Data Caveats

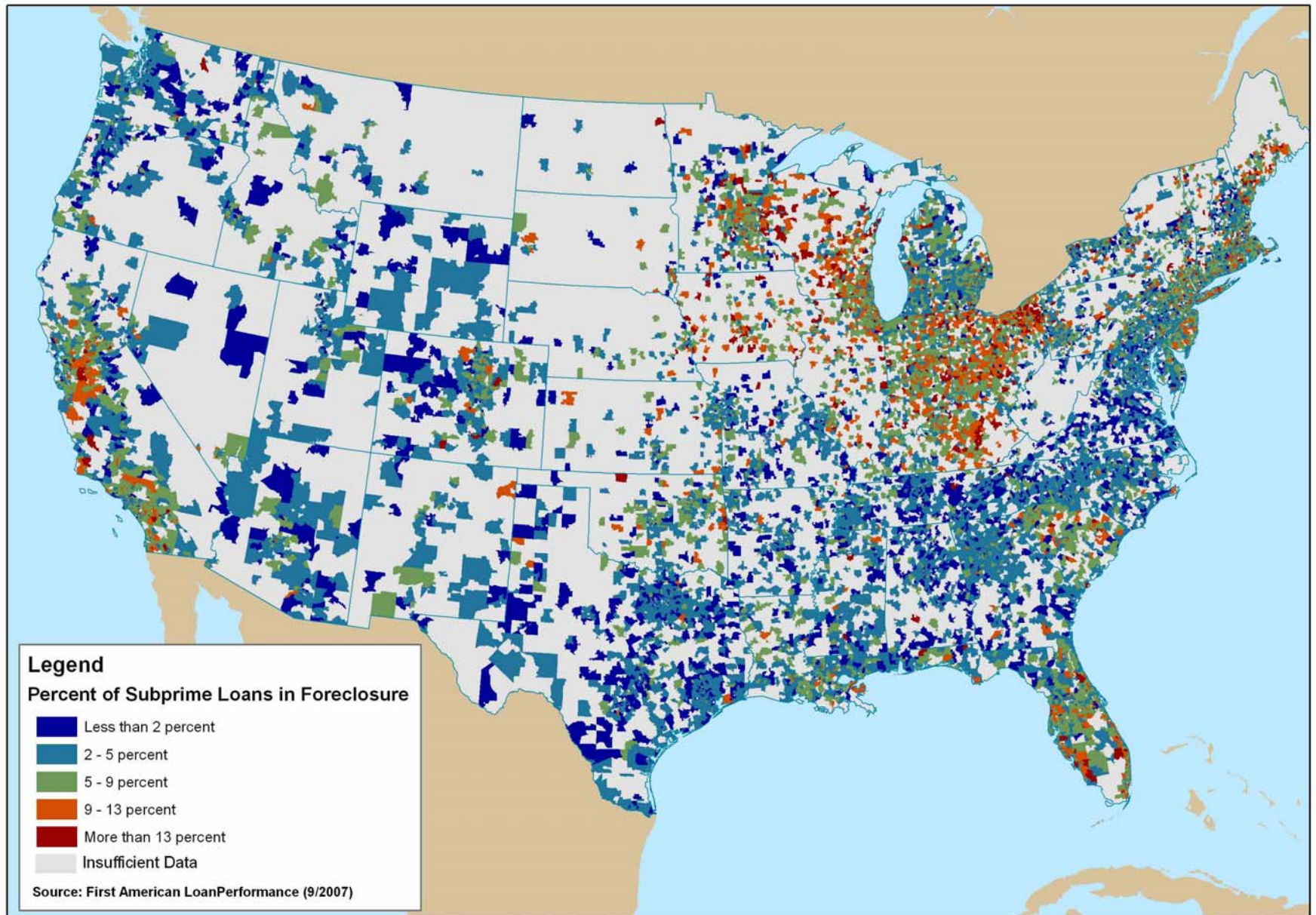
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- ❑ Data on the real estate and mortgage markets are collected by many different sources, some proprietary and some public
- ❑ As a result, it is important to consider the limitations of data presented
  - Different definitions of subprime may affect the reporting of rates of delinquencies and foreclosures
  - Different methodologies and different sampling methods may affect the reports
  - Median property values are influenced significantly by the characteristics of the homes sold
  - Aggregated data at the zip code level can mask significant geographic variation and the types of borrowers affected

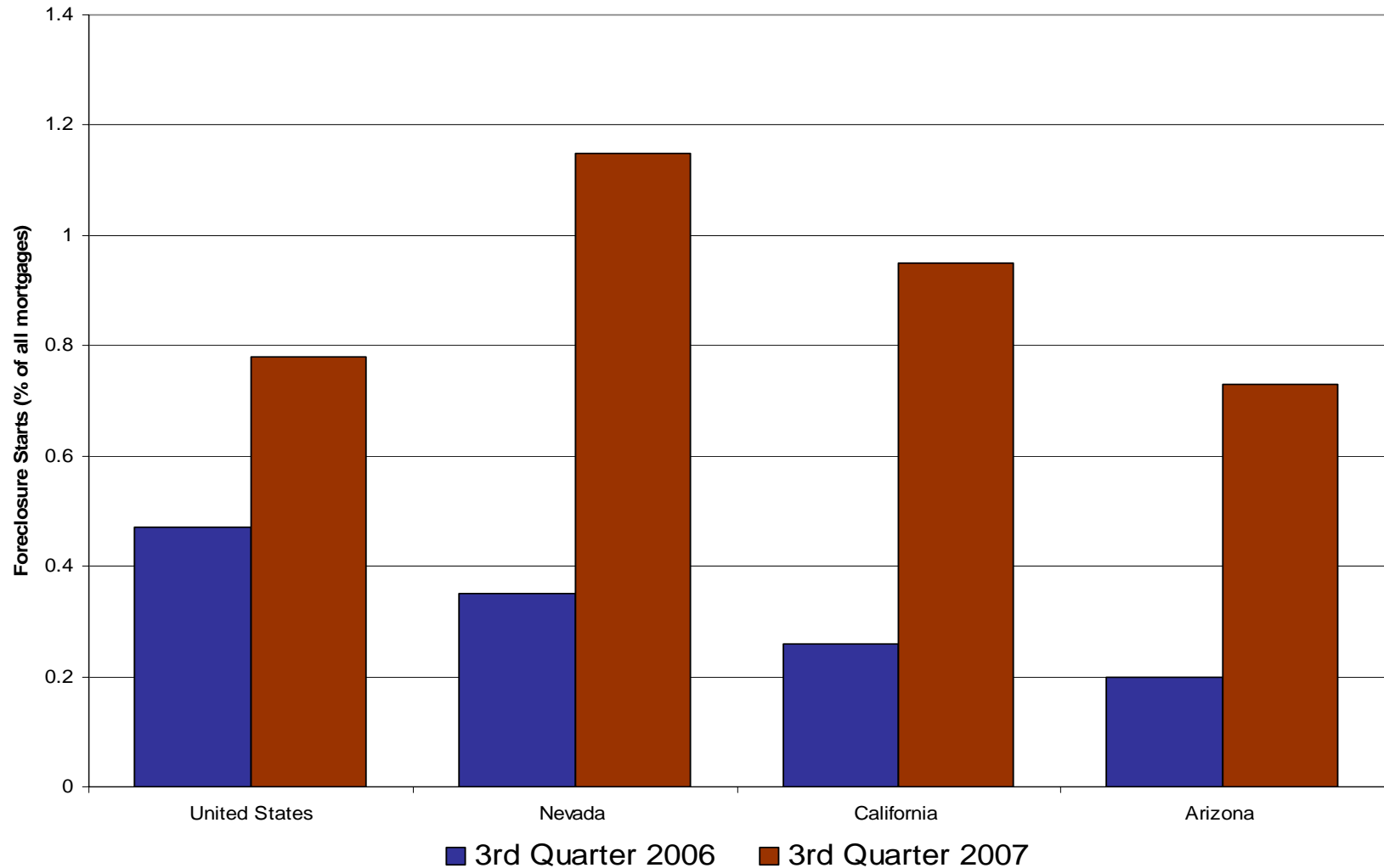
# Trends in Delinquencies and Foreclosures



# Foreclosure Rates Among Subprime Loans



# Arizona has seen a rapid increase in foreclosure starts

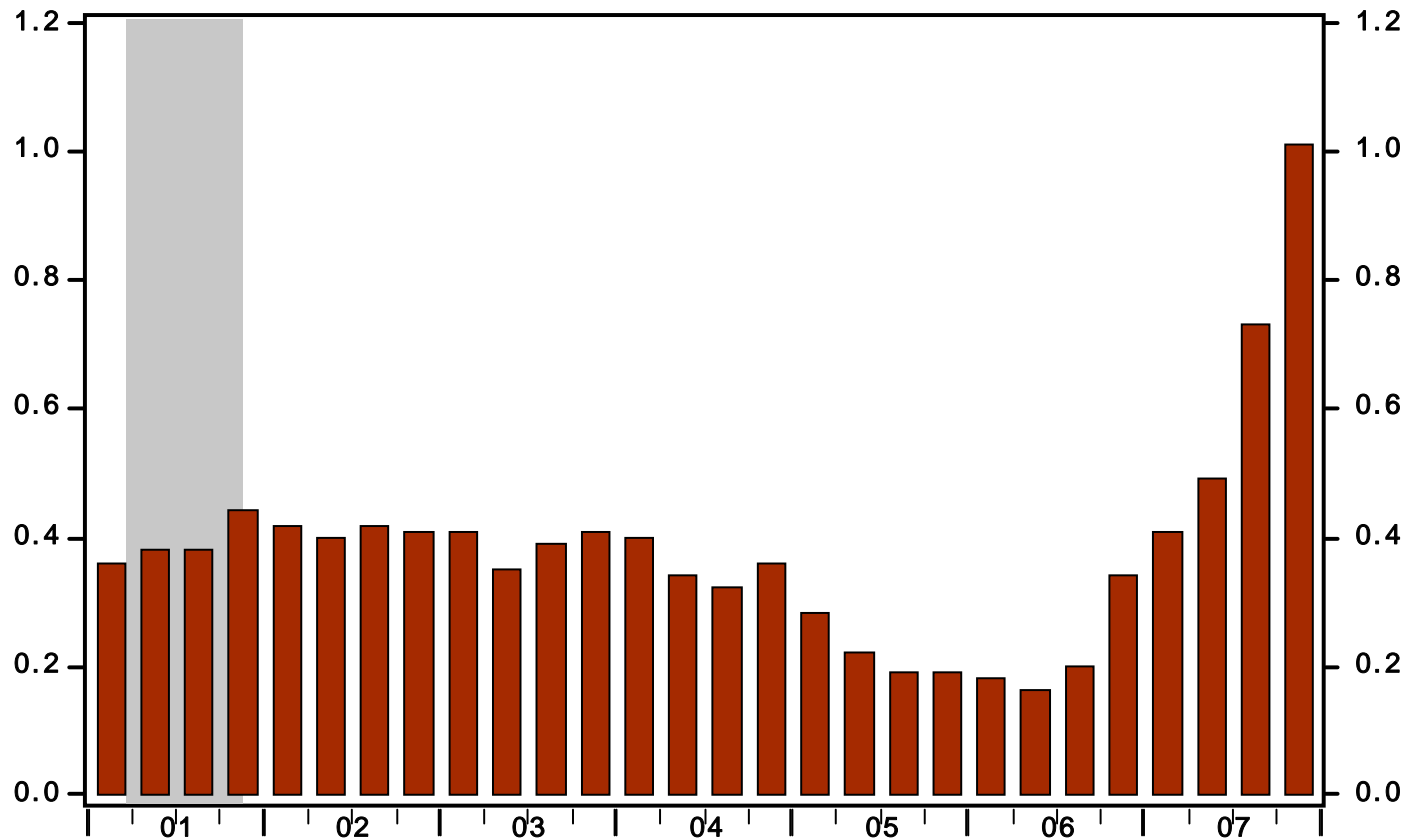


Source: Mortgage Bankers Association, National Delinquency Survey.

# Arizona: Foreclosure Trends

## Mortgage Foreclosures Started: Arizona

NSA, %



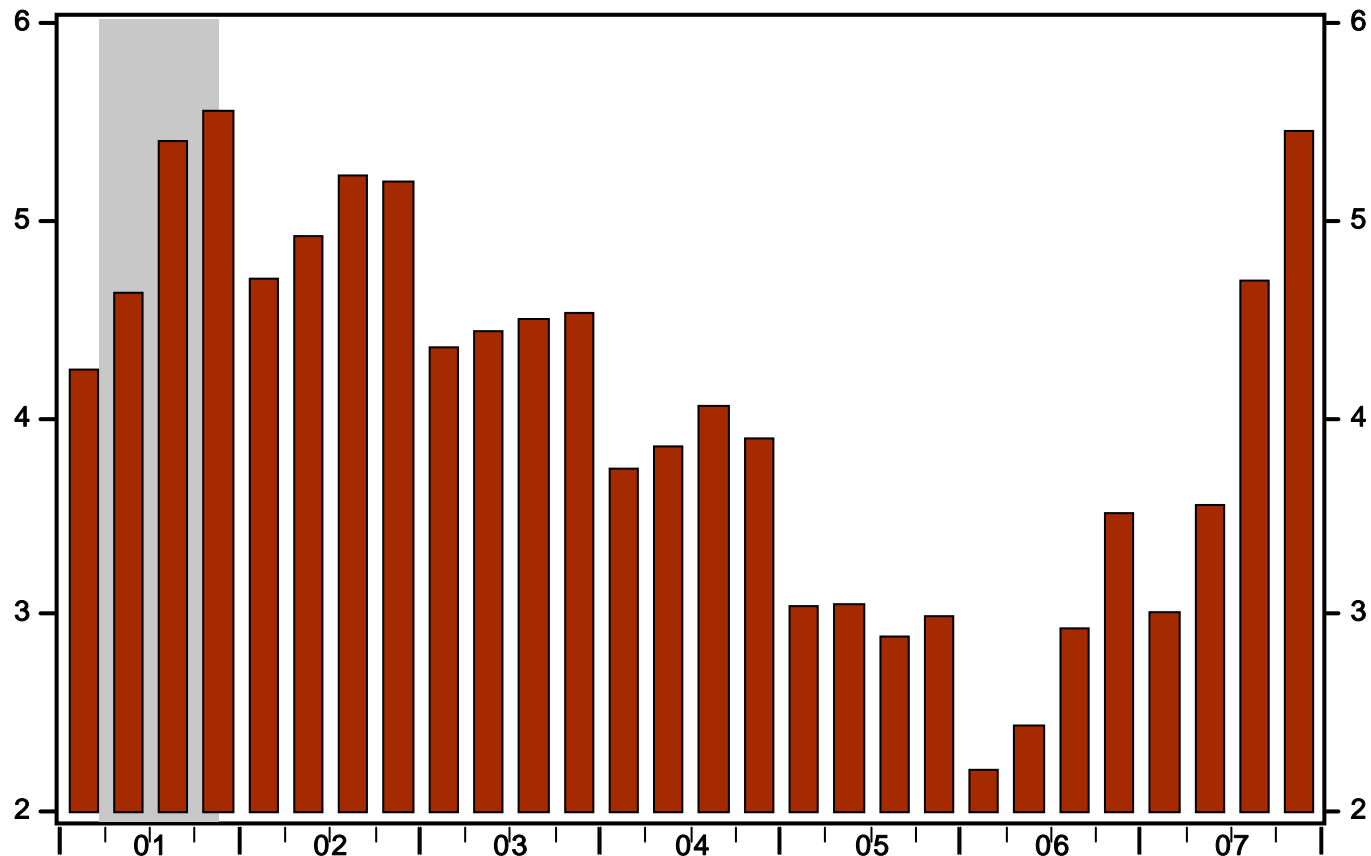
Source: Mortgage Bankers Association /Haver Analytics

03/19/08

# Arizona: Delinquency Trends

## All Mortgages Past Due: Arizona

NSA, %



Source: Mortgage Bankers Association /Haver Analytics

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# Delinquency Rates Vary Significantly by Mortgage Type

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Arizona: Delinquency and Foreclosure Rates, 4<sup>th</sup> Qtr 2007

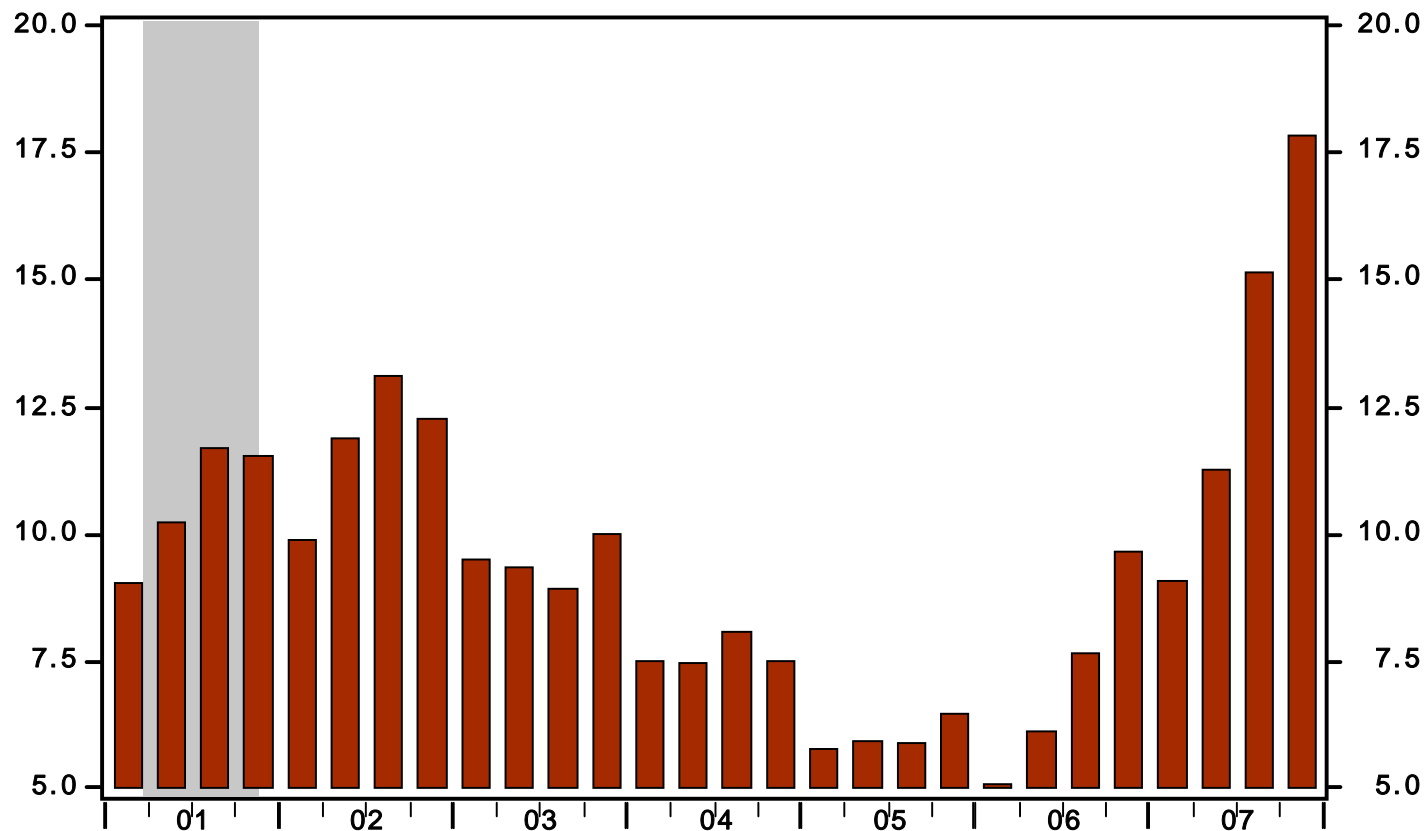
<b>Mortgage Type</b>	<b>Percent Past Due</b>	<b>Foreclosures Started</b>
<b>Prime Fixed</b>	<b>2.33</b>	<b>.23</b>
<b>Prime ARM</b>	<b>5.16</b>	<b>1.12</b>
<b>Subprime Fixed</b>	<b>12.91</b>	<b>1.54</b>
<b>Subprime ARM</b>	<b>17.8</b>	<b>5.3</b>
<b>FHA</b>	<b>10.10</b>	<b>.6</b>

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Quarter 2007

# Subprime ARM Market has Highest Rates of Delinquencies

Conventional Subprime ARM Mortgages: Total Past Due: Arizona

NSA, %



Source: Mortgage Bankers Association /Haver Analytics

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# The Subprime Market in Arizona

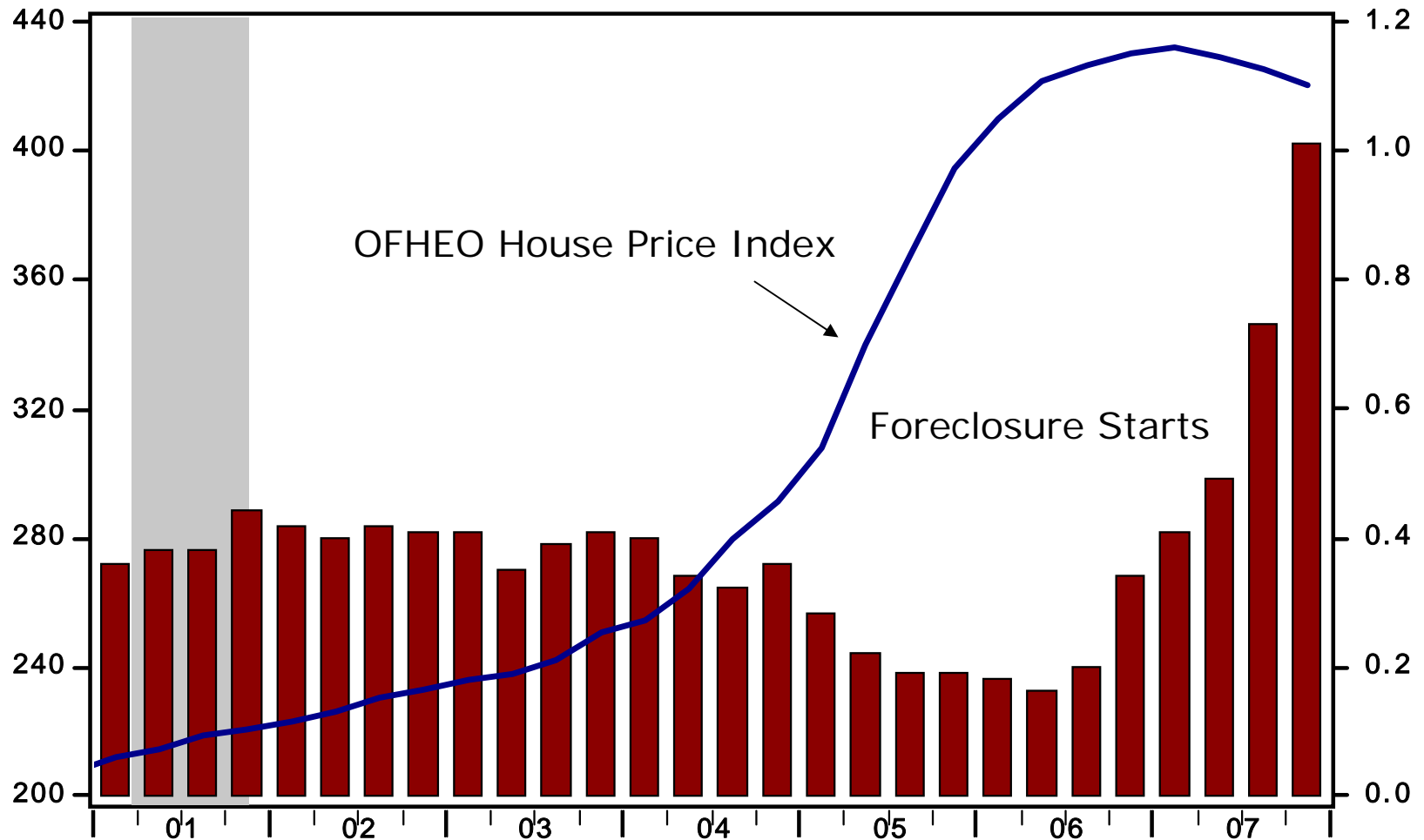
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- Data reported here are from LoanPerformance's subprime database, which includes approximately 70 percent of subprime loans sold into mortgage-backed securities, aggregated at the zip code level
- Arizona
  - Approximately 85,000 subprime loans in LP database
  - Average balance of approximately \$185,000 and an average interest rate of 8.39 percent
  - 5.5 percent in foreclosure or REO
  - Approximately 55 percent were cash-out refinances, 30 percent were for purchase

# Trends in House Values



# Subprime Foreclosure Rates Closely Track Declines in House Values in Arizona



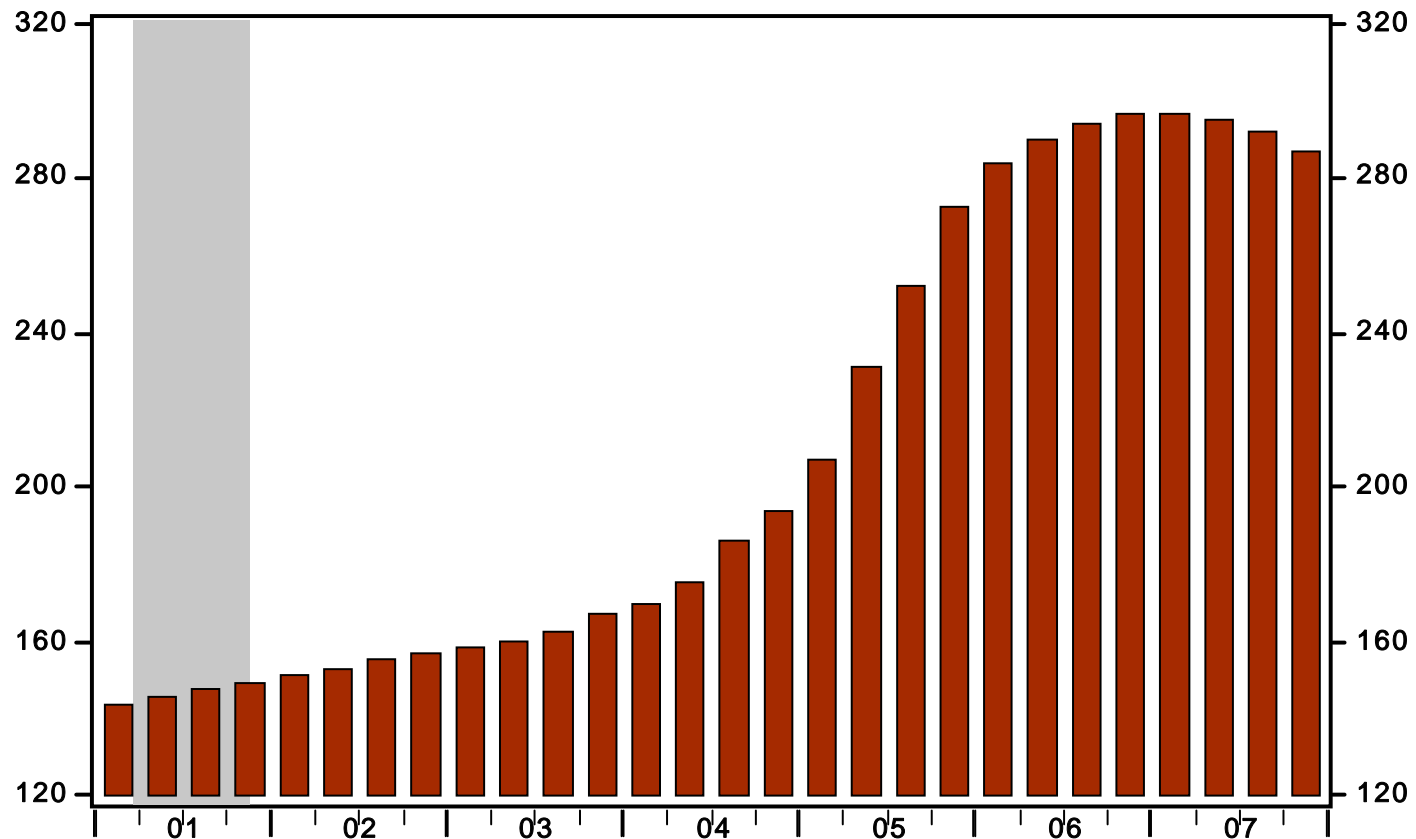
Sources: OFHEO, MBA /Haver

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# Phoenix Housing Market Softening

House Price Index: Phoenix-Mesa-Scottsdale, AZ

Q1 1995=100



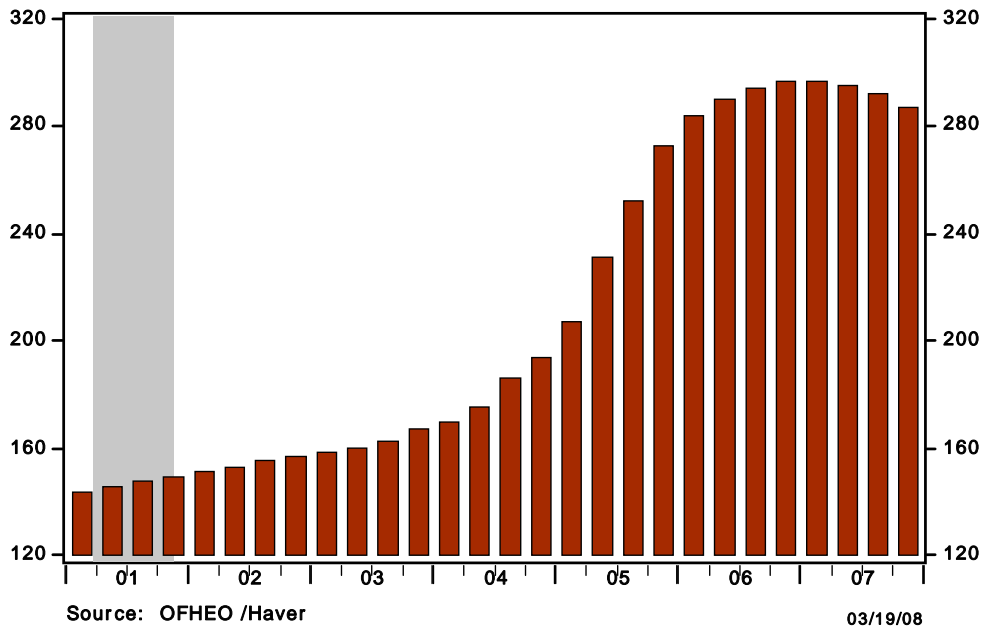
Source: OFHEO /Haver

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# Phoenix is Considerably at Risk

- Declining house values after a period of rapid growth

House Price Index: Phoenix-Mesa-Scottsdale, AZ  
Q1 1995=100



And..

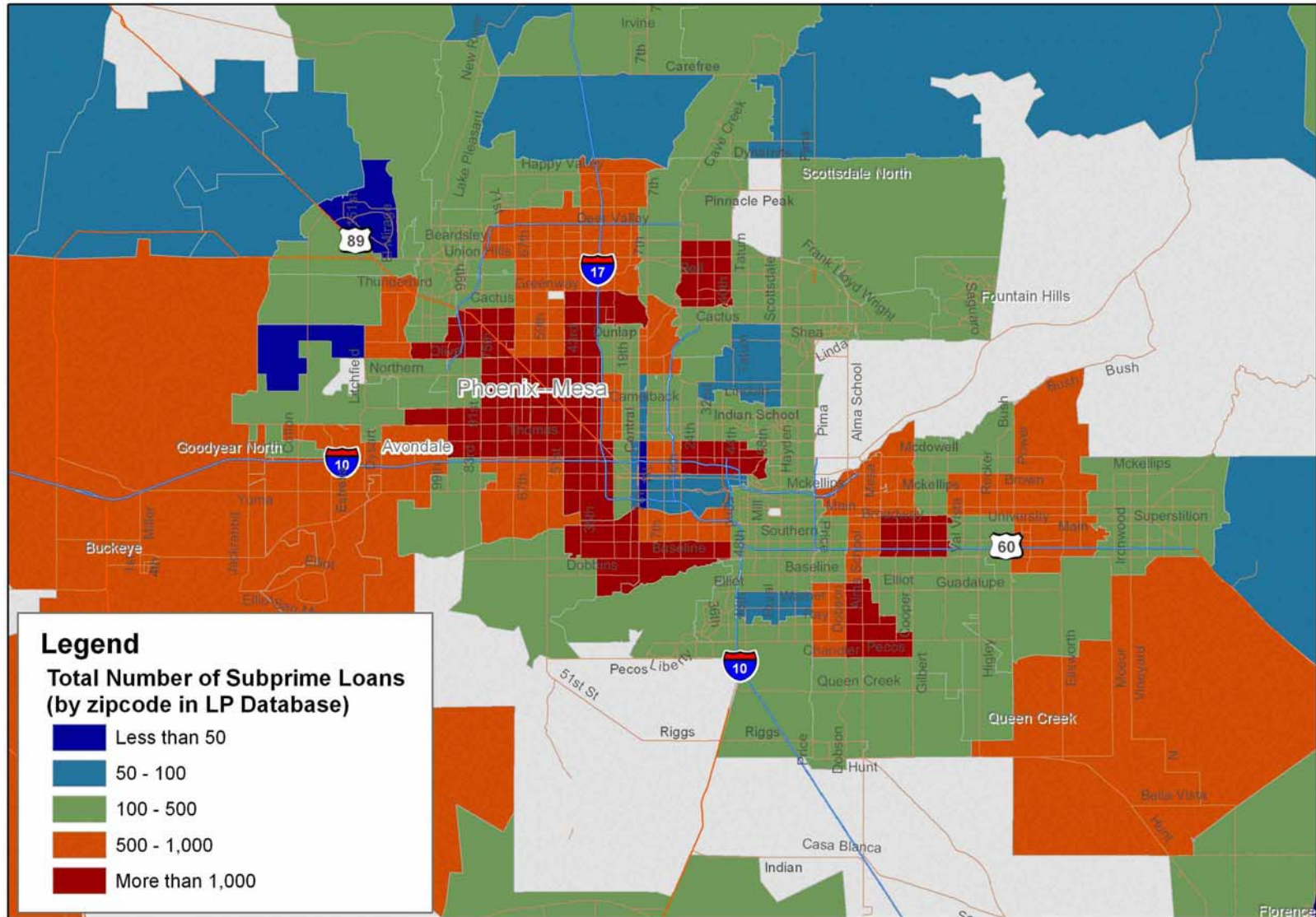
- A large number of subprime loans
- A large percent of loans to reset in 2008
- A large number of borrowers 30+ days delinquent
- Areas of rapid construction and new development

# Neighborhood “Hot Spots” in Phoenix and Tucson



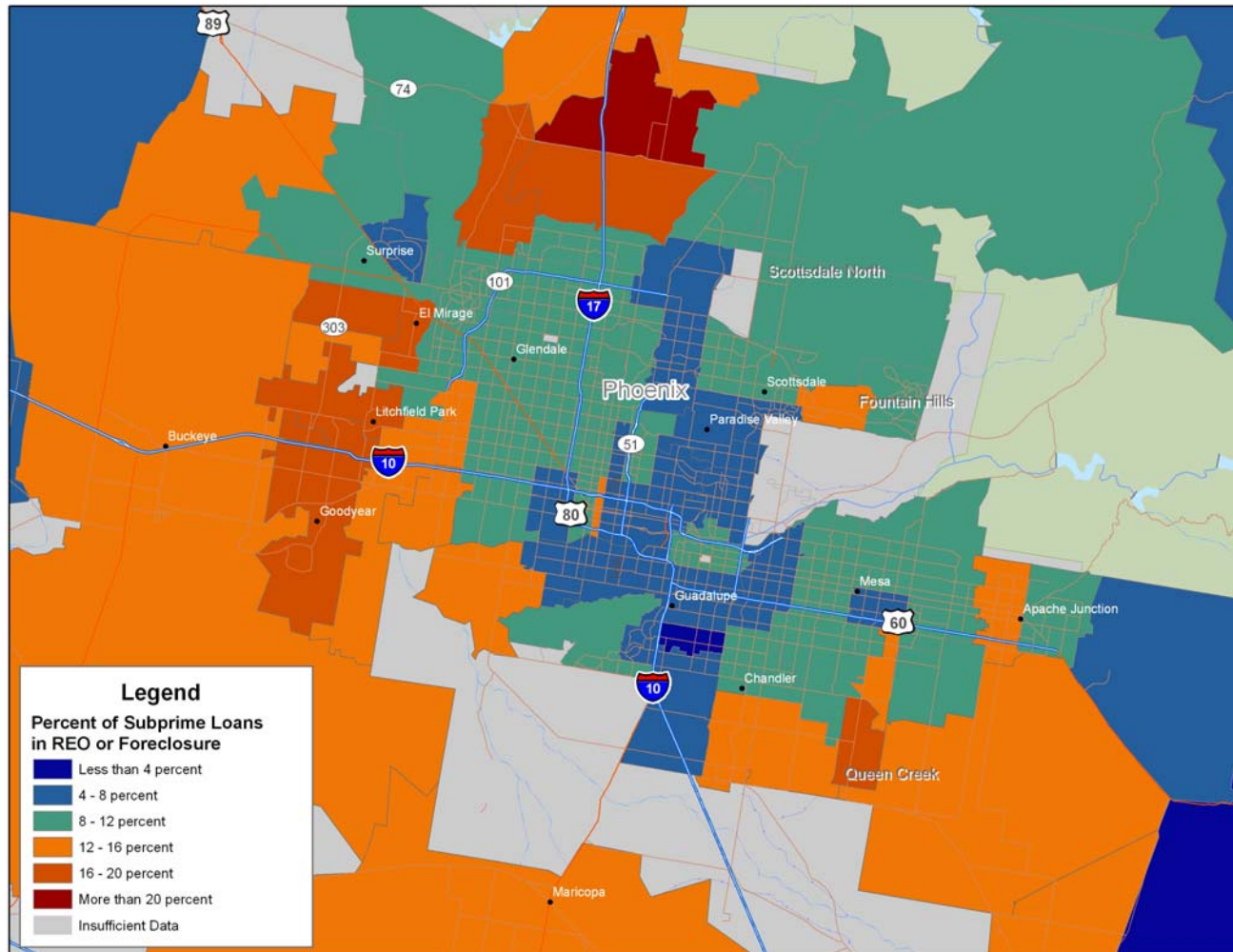


# Neighborhoods with a Large Number of Subprime Loans



Source: First American Loan Performance (9/2007).  
Data from a representative sample of subprime loans aggregated at the zip code level.

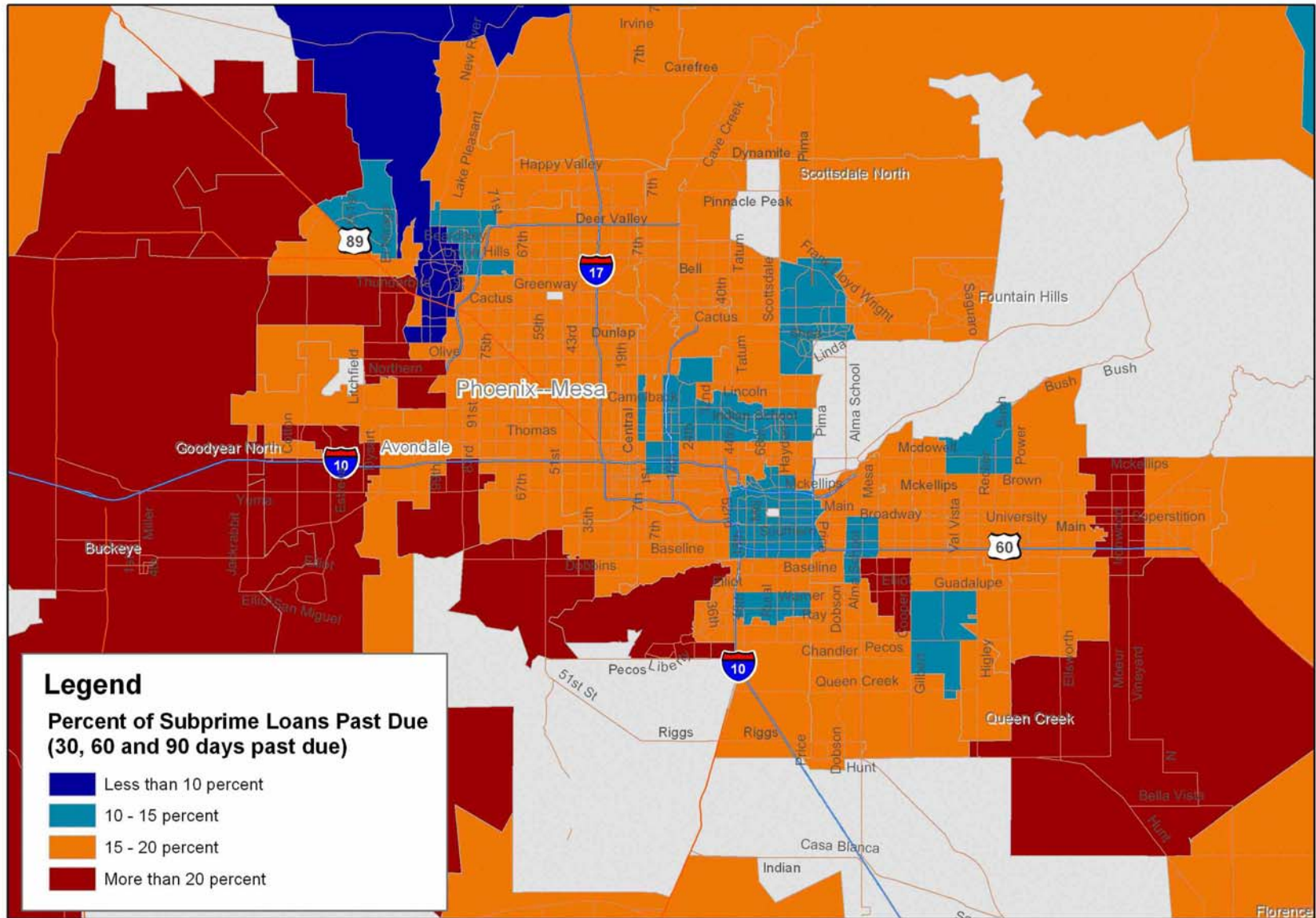
# Foreclosures Concentrated in Suburban Fringe



Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, December 2007. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

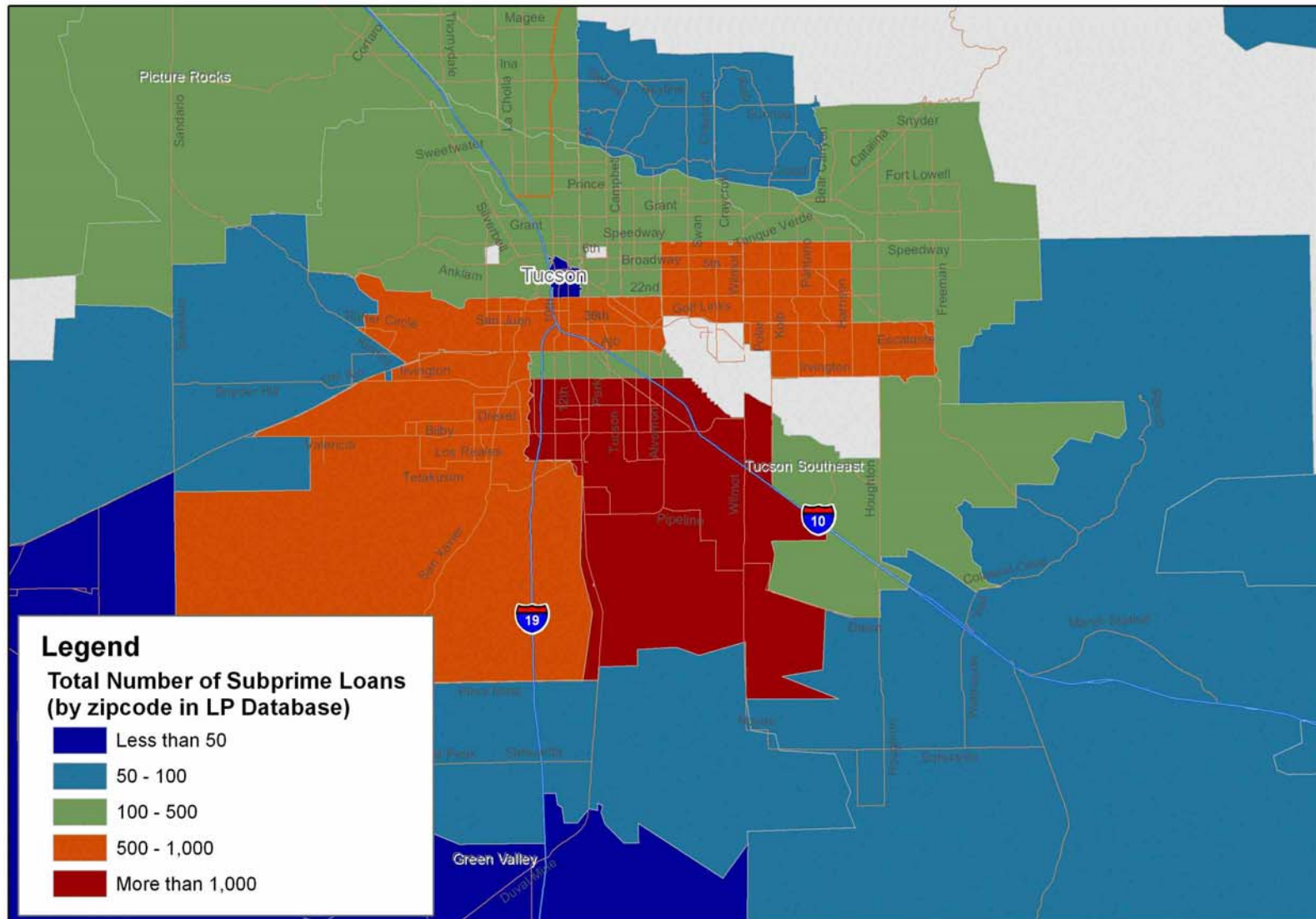


# High Rates of Borrower Distress in Many Neighborhoods



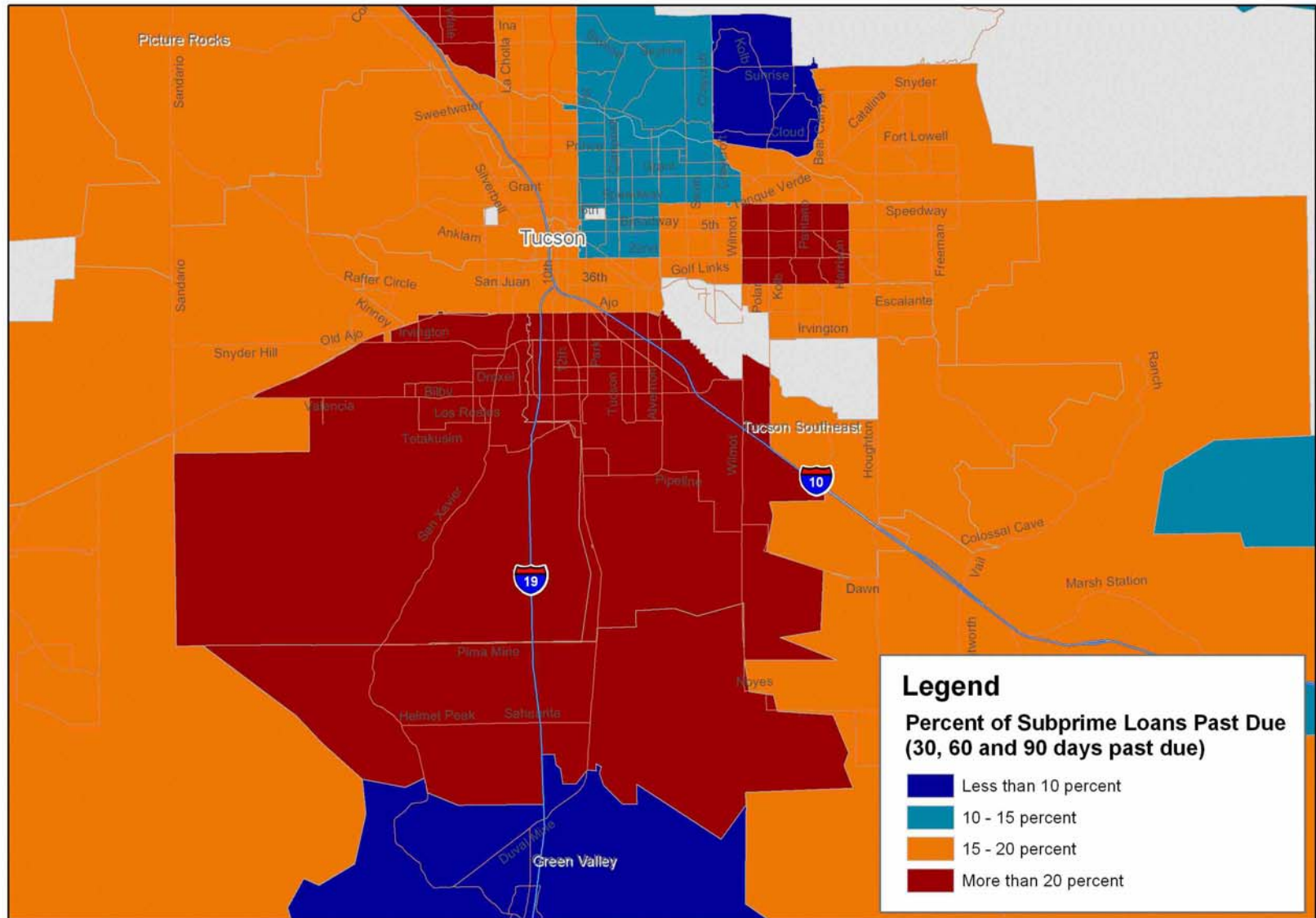
Source: First American Loan Performance (9/2007).  
Data from a representative sample of subprime loans aggregated at the zip code level.

# Total Number of Subprime Loans in Tucson



Source: First American Loan Performance (9/2007).  
Data from a representative sample of subprime loans aggregated at the zip code level.

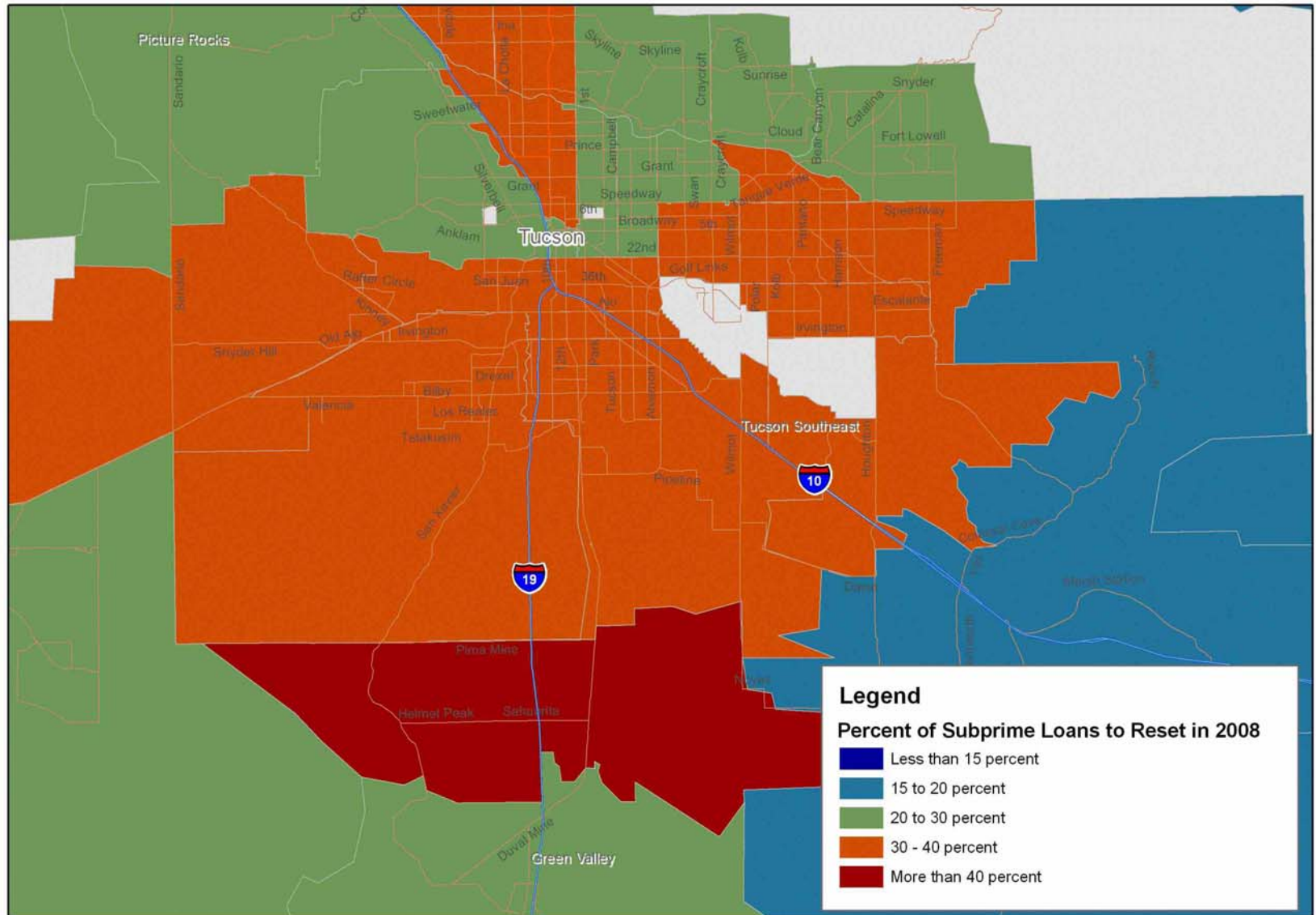
# Percent of Subprime Loans Past Due in Tucson



Source: First American Loan Performance (9/2007).  
Data from a representative sample of subprime loans aggregated at the zip code level.



# Percent of Subprime Loans to Reset in 2008 in Tucson



Source: First American Loan Performance (9/2007).  
Data from a representative sample of subprime loans aggregated at the zip code level.

# Conclusion

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- ❑ Arizona has seen a significant increase in defaults and foreclosures, with the potential of more difficulties if the housing market cools further
- ❑ Foreclosure mitigation strategies
  - Important to reach out to distressed borrowers and those facing resets to prevent additional foreclosures
  - Expand access to services to households who are in the foreclosure process to ensure that they receive help in finding rental housing, credit repair services
  - Mitigate the negative impact of foreclosures and REO properties on neighborhoods