Identifying Issues in the Subprime Mortgage Market: Arizona

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March 7, 2008

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 Do not cite or reproduce without permission.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

- 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

- 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

Legend
Percent of Subprime Loans in Foreclosure
- Less than 2 percent
- 2 - 5 percent
- 5 - 9 percent
- 9 - 13 percent
- More than 13 percent
- Insufficient Data

Source: First American LoanPerformance (9/2007)
Arizona has seen a rapid increase in foreclosure starts

Source: Mortgage Bankers Association, National Delinquency Survey.
Arizona: Foreclosure Trends

Mortgage Foreclosures Started: Arizona

Source: Mortgage Bankers Association /Haver Analytics 03/19/08
Arizona: Delinquency Trends

All Mortgages Past Due: Arizona

NSA, %

Source: Mortgage Bankers Association / Haver Analytics 03/19/08
### Delinquency Rates Vary Significantly by Mortgage Type

Arizona: Delinquency and Foreclosure Rates, 4th Qtr 2007

<table>
<thead>
<tr>
<th>Mortgage Type</th>
<th>Percent Past Due</th>
<th>Foreclosures Started</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Fixed</td>
<td>2.33</td>
<td>.23</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>5.16</td>
<td>1.12</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>12.91</td>
<td>1.54</td>
</tr>
<tr>
<td>Subprime ARM</td>
<td>17.8</td>
<td>5.3</td>
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<tr>
<td>FHA</td>
<td>10.10</td>
<td>.6</td>
</tr>
</tbody>
</table>

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

Source: Mortgage Bankers Association / Haver Analytics 03/19/08
The Subprime Market in Arizona

- 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

OFHEO House Price Index

Foreclosure Starts

Sources: OFHEO, MBA/Haver

03/19/08
Phoenix Housing Market Softening

House Price Index: Phoenix-Mesa-Scottsdale, AZ

Q1 1995=100

Source: OFHEO /Haver 03/19/08
Phoenix is Considerably at Risk

- Declining house values after a period of rapid growth

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

Legend
Percent of Subprime Loans Past Due
(30, 60 and 90 days past due)
- Less than 10 percent
- 10 - 15 percent
- 15 - 20 percent
- More than 20 percent

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

Legend
Total Number of Subprime Loans (by zipcode in LP Database)
- Less than 50
- 50 - 100
- 100 - 500
- 500 - 1,000
- More than 1,000

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

Legend
Percent of Subprime Loans Past Due (30, 60 and 90 days past due)
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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

- 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.