Overview of Presentation

- What are current trends in delinquencies and foreclosures in Utah?
  - Mortgage Bankers Association data
  - Trends in Delinquencies and Defaults
  - HOPE NOW Alliance Servicer Data

- What are the primary drivers of foreclosures?
  - Declining house values
  - High proportion of subprime loans
  - Declines in underwriting standards

- What neighborhoods in Utah are witnessing increased issues with foreclosures?
  - McDash data on foreclosures and REOs
  - LoanPerformance data on subprime loans

- What responses are needed?
Data Caveats

- Data on the real estate and mortgage markets are collected by many different sources, most costly and proprietary.
- 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.
  - Aggregated data at the zip code level can mask significant geographic variation and the types of borrowers affected.
Trends in Delinquencies and Foreclosures
Significant Increase in National Foreclosure Starts

Foreclosure Starts: Percent of all Loans

Source: Mortgage Bankers Association /Haver Analytics 09/23/08
Percent of Mortgage Loans in Foreclosure or REO (by zip code)
August 2008

Source: McDash Analytics, LLC and FRBSF calculations
Foreclosures Concentrated in Subprime ARM Market

Source: Mortgage Bankers Association, National Delinquency Survey, 1st Quarter 2008
Utah has seen an Increase in Foreclosure Starts

## HOPE NOW Servicer Data for Utah

<table>
<thead>
<tr>
<th></th>
<th>2nd Qtr 2007</th>
<th>2nd Qtr 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment Plans</td>
<td>2,098</td>
<td>1,809</td>
</tr>
<tr>
<td>Loan Modifications</td>
<td>244</td>
<td>811</td>
</tr>
<tr>
<td>Foreclosure Sales</td>
<td>168</td>
<td>600</td>
</tr>
<tr>
<td>60+ Deliquency Rate</td>
<td>1.55%</td>
<td>2.21%</td>
</tr>
</tbody>
</table>

Source: Hope Now Servicing Data, July State Data Tables 2008, includes both prime and subprime loans
Delinquency Rates Vary Significantly by Mortgage Type

Utah: Delinquency and Foreclosure Rates, 2nd Qtr 2008

<table>
<thead>
<tr>
<th>Mortgage Type</th>
<th>Percent Past Due</th>
<th>Foreclosures Started</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st Qtr 2007</td>
<td>2nd Qtr 2008</td>
</tr>
<tr>
<td>Prime Fixed</td>
<td>1.37</td>
<td>2.00</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>2.40</td>
<td>4.99</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>5.26</td>
<td>10.23</td>
</tr>
<tr>
<td>Subprime ARM</td>
<td>7.88</td>
<td>14.96</td>
</tr>
<tr>
<td>FHA</td>
<td>6.89</td>
<td>6.94</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association, National Delinquency Survey, 2nd Qtr 2008
Trends in House Values
Nationally, Subprime Foreclosure Rates Closely Track Declines in House Values

OFHEO House Price Index

Foreclosure Starts

Sources: MBA, SNPCAS /Haver

03/27/08
Utah’s Housing Market Softening

OFHEO House Price Index (2000=100)

Source: OFHEO /Haver 09/23/08
Metropolitan Areas Also Seeing Softening

OFHEO House Price Index (2000=100)
Utah Did See Surge in Subprime Lending

- Economic research suggests that the current mortgage crisis has been driven by declining house values
  - Utah vulnerable to same dynamic if house prices fall
- According to the Pew Center for the States, 1 out of 25 homeowners in Utah are projected to face foreclosure in 2008-2009, the 5th highest projected foreclosure rate in the nation
- Critical to help distressed borrowers now, and refinance into more sustainable loan products
Utah “Hot Spots”
Utah – Foreclosure Rates, All Loans, April 2008

Legend
- Less than half a percent
- .5 to 1.4 percent
- 1.4 to 2.8 percent
- 2.8 to 4.2 percent
- More than 4.2 percent
- Insufficient Data

Source: McDash Analytics, LLC and FRBSF calculations, Data from April 2008
Utah – Serious Delinquencies on the Rise

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Utah - Concentrations of Subprime Loans

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, March 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.
Salt Lake City - Concentrations of Subprime Loans

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, March 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.
Responding to Foreclosures in Utah
Available online at http://www.frbsf.org/community/issues/toolkit/index.html

The resources in the toolkit are presented as a four-step process

- Step One: Assess the Foreclosure Situation
- Step Two: Reach troubled homeowners
- Step Three: Establish post-foreclosure support systems
- Step Four: Stabilize neighborhoods
Responding to the Foreclosure Crisis

- Multi-pronged strategy is needed to stem the foreclosure crisis
  - Foreclosure prevention: borrower outreach, loan modification (including principal reduction)
  - Addressing vacant properties: ensuring that servicers maintain properties
  - REO property disposition: return REO properties into productive use, affordable housing
  - Ensuring continued access to credit and homeownership: credit repair, financial education, responsible lending
Key Challenges

- Shifting economic ground, locally and in the capital markets
- Industry complexity and fragmentation
- Capacity to respond to scale of the problem
- Funding
- Valuation
- Lack of established models, few "experts"
- Questions regarding how to target interventions effectively
Community Strategies – Foreclosure Prevention

- Foreclosure prevention: borrower outreach, loan modification
  - HOPE NOW: servicer guidelines
  - New technology platforms can assist counselors/servicers in doing loan modifications
  - New finance products: e.g., H4H program just released
  - Most effective when there is a direct relationship between counselor and servicer
  - Borrower outreach events

- Prevention remains key, since over the long-term, more cost effective than having to respond to foreclosed property issues
Community Strategies - Addressing Vacant Properties

- Goal is to establish **continuity of responsibility** for property, and to help finance the maintenance of vacant properties
  - Code enforcement (e.g. Chula Vista and Stockton)
  - Vacant property registration and fees (e.g. Chicago)
- Identifying responsible party on the property
  - State Law – Georgia SB 531 requires that notice of the foreclosure sale includes the name, address, and telephone number of the “individual or entity who shall have full authority to negotiate, amend, and modify all terms of the mortgage with the debtor.”
- Strategies for taking over abandoned properties
  - Receivership models
  - Tax foreclosure
Community Strategies – REO Property Disposition

- Intervening before Foreclosure: entails buying the delinquent note before foreclosure and working with borrower first, if not successful, return to either rental or ownership
  - CDFIs: Self Help, Colorado, and Massachusetts

- Neighborhood Revitalization Approaches: targeting neighborhoods and using ‘traditional’ community development tools to acquire and rehab housing units
  - Neighborhood Progress Inc. in Cleveland
  - Dallas, Rochester, and Chicago
  - DC: New Markets Tax Credits

- Lender Approaches: working with a single lender to acquire a “bundle” of properties at a discount
  - Bulk Purchase
  - Pilot studies (e.g. HSBC model)

- Borrower approaches: providing favorable financing to borrowers interested in buying foreclosed properties
  - CAL FHA product
Key Lessons

- Use data strategically
  - National data sets can’t capture local dynamics or “property level” data
  - Engage a local partner (e.g. title company, university, public records co., real estate agent) who can help to identify properties and their owners

- Cross-sectoral collaboration
  - Importance of political support and the “stick” of regulation
  - Task force model works well, especially when it brings together government, nonprofits, lenders/servicers, and private interests

- Draw on a wide range of funding sources

- Use public subsidies wisely
  - Cross-subsidize affordable housing goals by selling some properties at market rate
  - Anticipate long “holding” costs and ensure you have enough capital in addition to subsidy to implement your business plan

- Evaluate strategies across strong/weak markets