

# Identifying Issues in the Subprime Mortgage Market: The Bay Area



Presentation prepared by Carolina Reid, Ph.D.  
Community Development Department  
Federal Reserve Bank of San Francisco

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Analysis of First American Loan Performance 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 Do not cite or reproduce without permission.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 California and the Bay Area?
  - Mortgage Bankers Association data on delinquencies and foreclosures
- ❑ What are the primary drivers of foreclosures in California and the Bay Area?
  - 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 Bay Area?

# Data Caveats

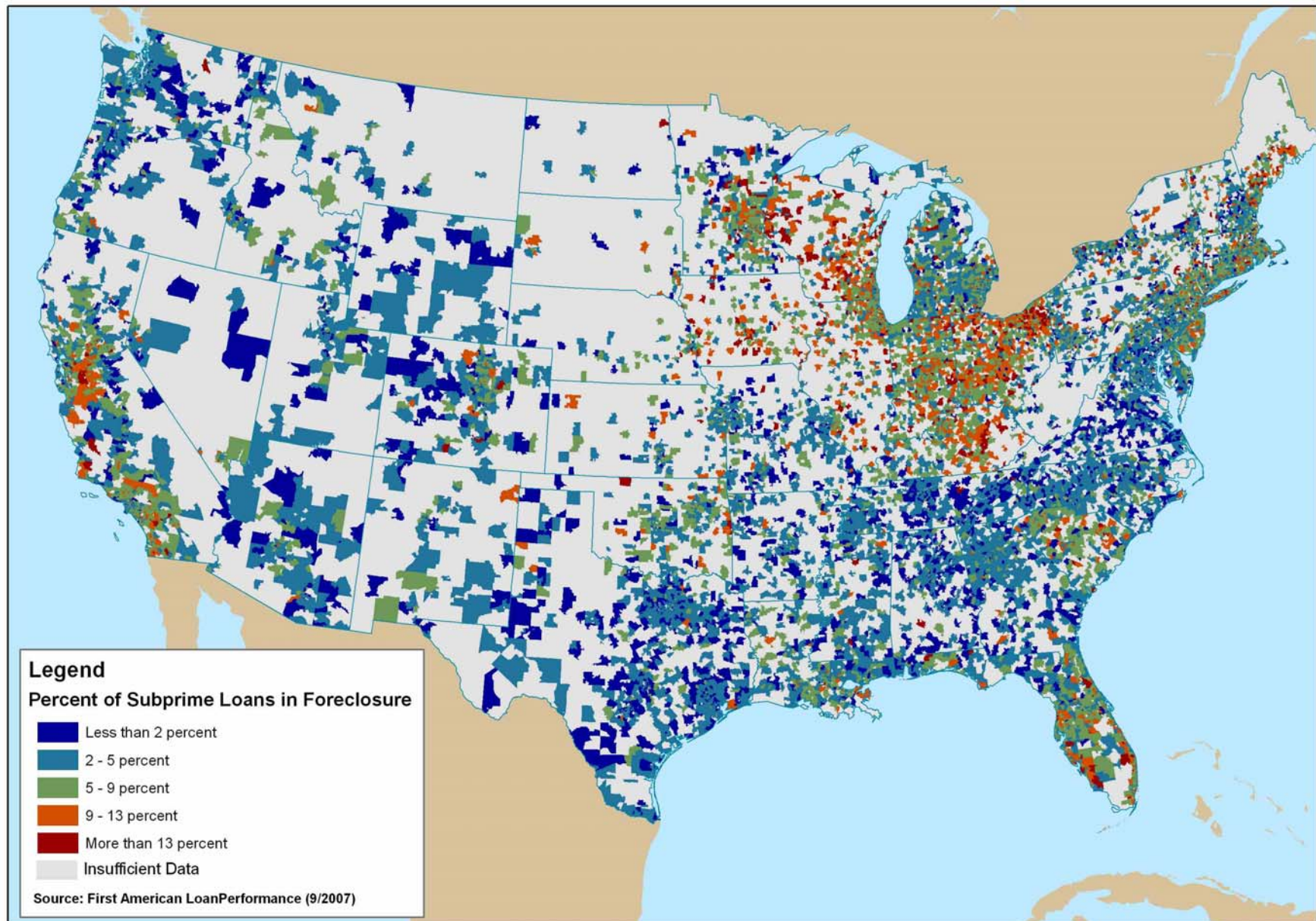
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- ❑ Data on the real estate and mortgage markets are collected by many different sources, some proprietary and some public
- ❑ As a result, it is important to consider the limitations of data presented
  - Different definitions of subprime may affect 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

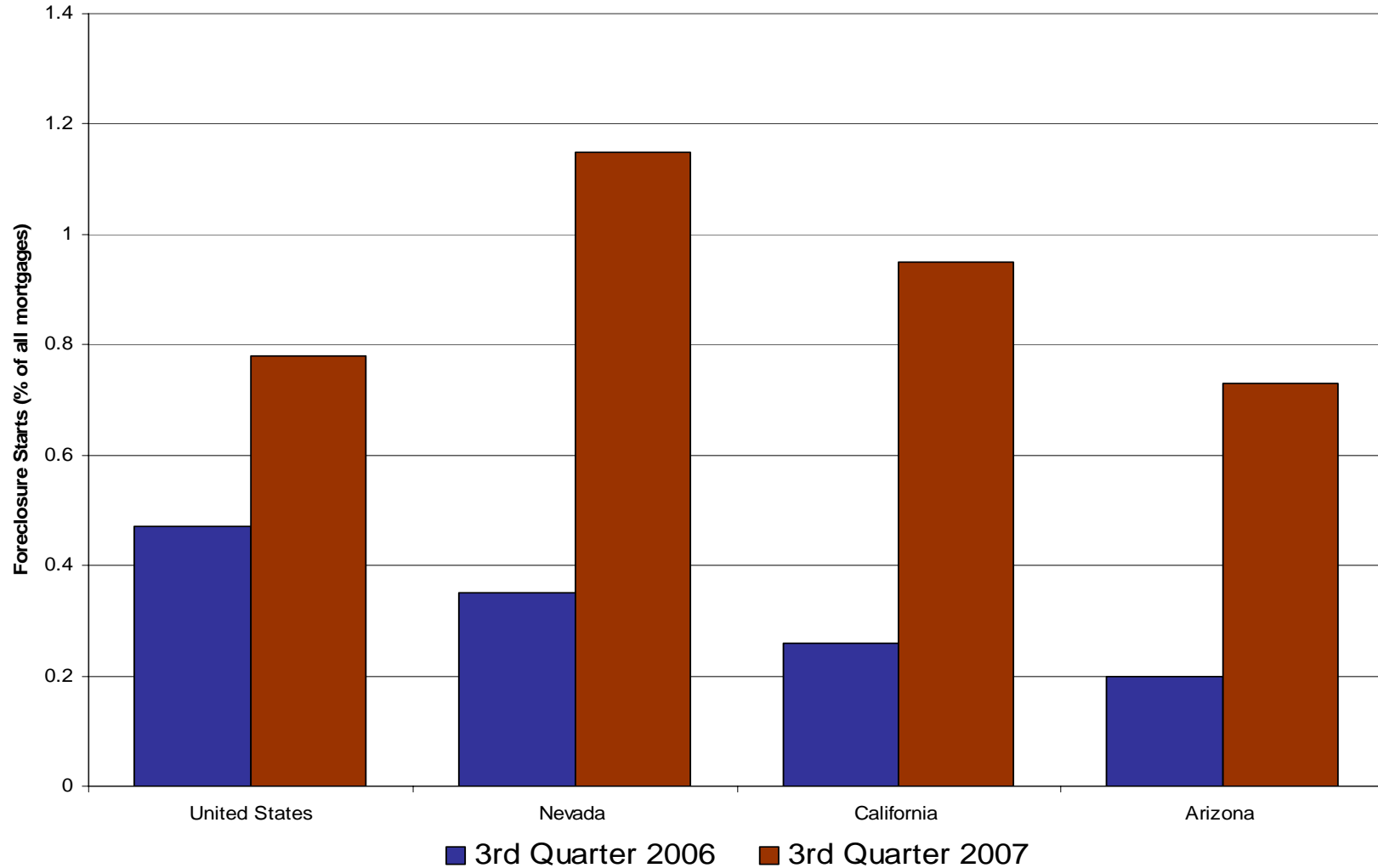
# Trends in Delinquencies and Foreclosures



# Foreclosure Rates Among Subprime Loans



# California has seen a rapid increase in foreclosure starts

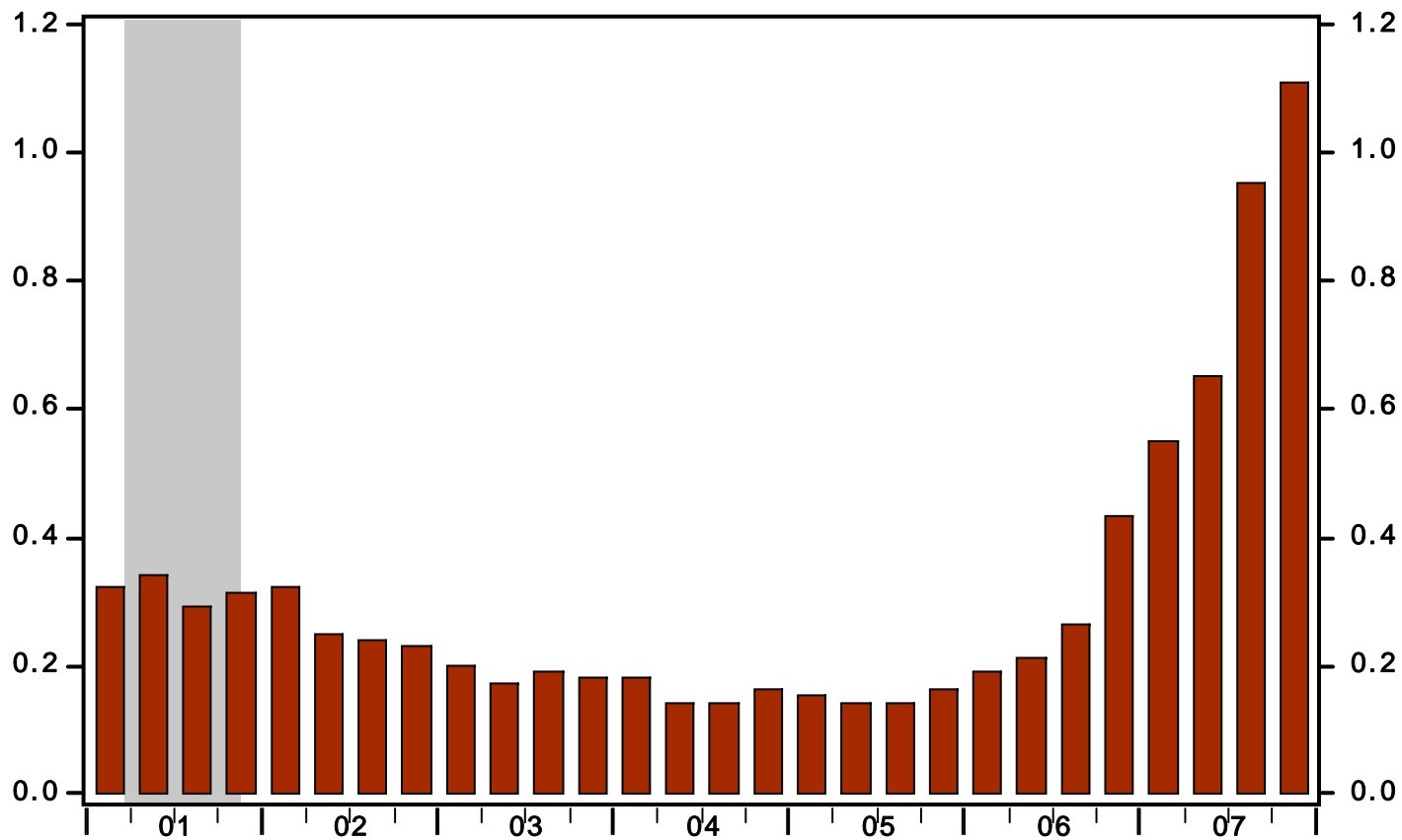


Source: Mortgage Bankers Association, National Delinquency Survey.

# California: Foreclosure Trends

## Mortgage Foreclosures Started: California

NSA, %



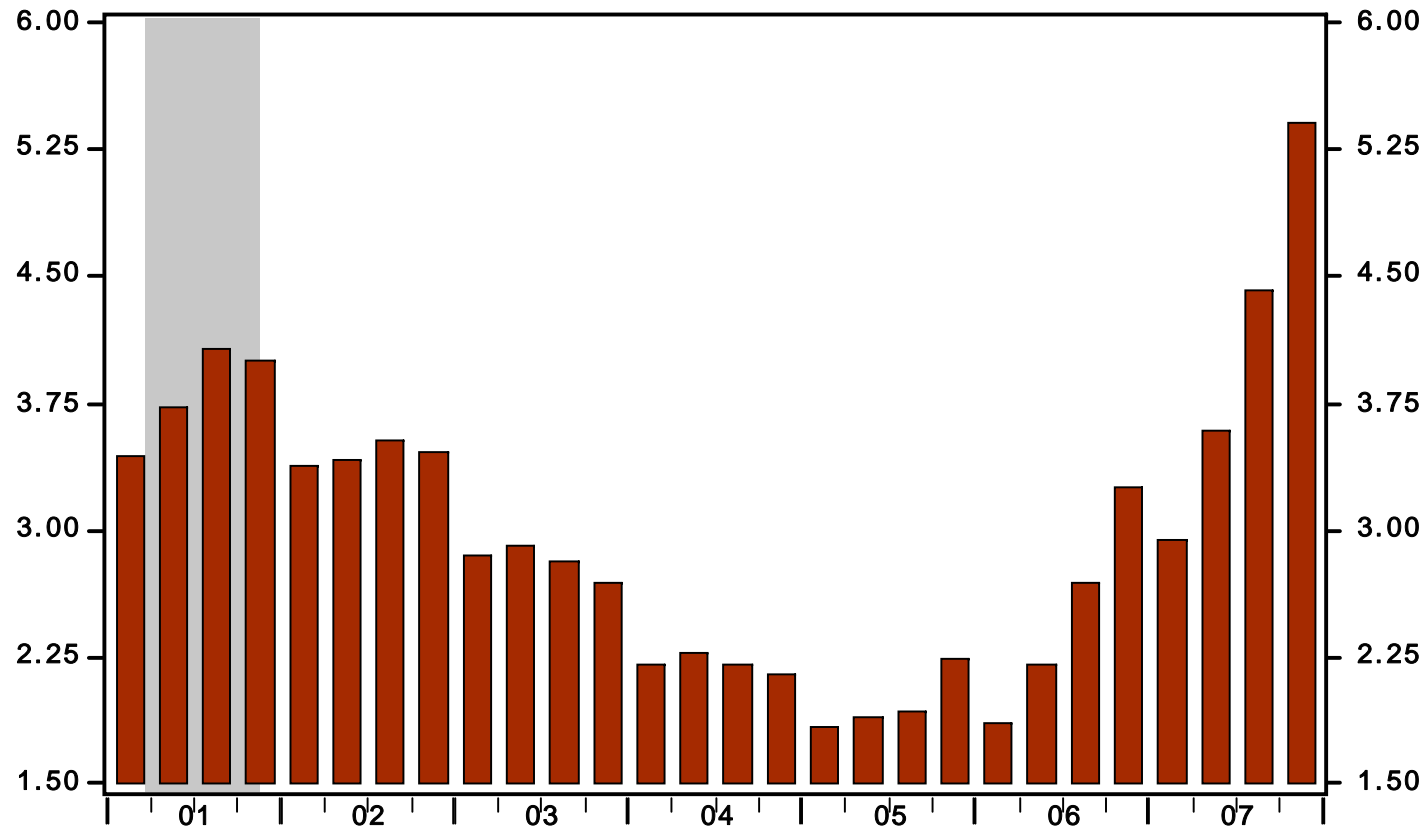
Source: Mortgage Bankers Association /Haver Analytics

03/07/08

# California: Delinquency Trends

## All Mortgages Past Due: California

NSA, %



Source: Mortgage Bankers Association /Haver Analytics

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# Delinquency Rates Vary Significantly by Mortgage Type

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

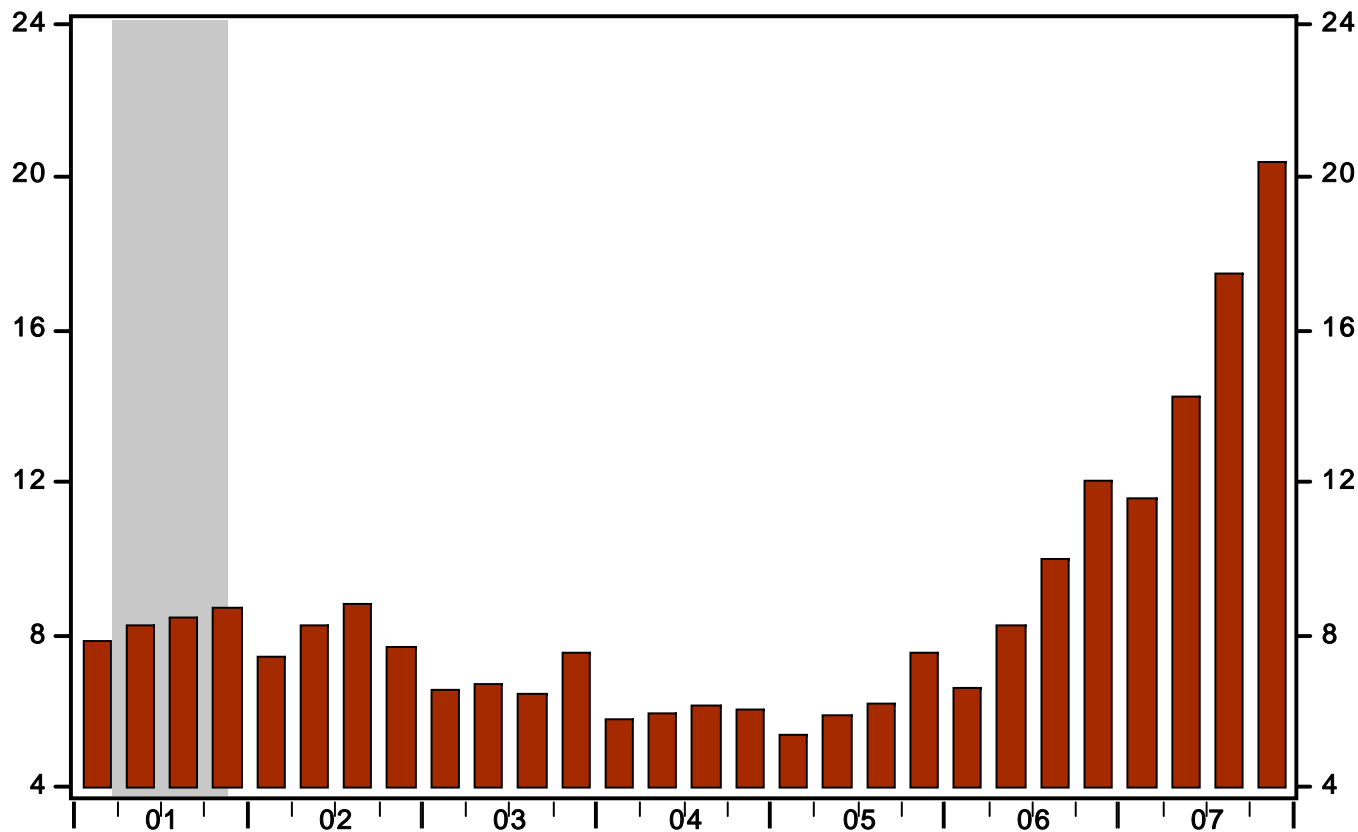
<b>Mortgage Type</b>	<b>Percent Past Due</b>	<b>Foreclosures Started</b>
<b>Prime Fixed</b>	<b>1.73</b>	<b>0.12</b>
<b>Prime ARM</b>	<b>6.15</b>	<b>1.26</b>
<b>Subprime Fixed</b>	<b>13.78</b>	<b>1.18</b>
<b>Subprime ARM</b>	<b>20.39</b>	<b>7.17</b>
<b>FHA</b>	<b>8.64</b>	<b>0.53</b>

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: California

NSA, %



Source: Mortgage Bankers Association /Haver Analytics

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# Loan Performance Data on Subprime Loans in California

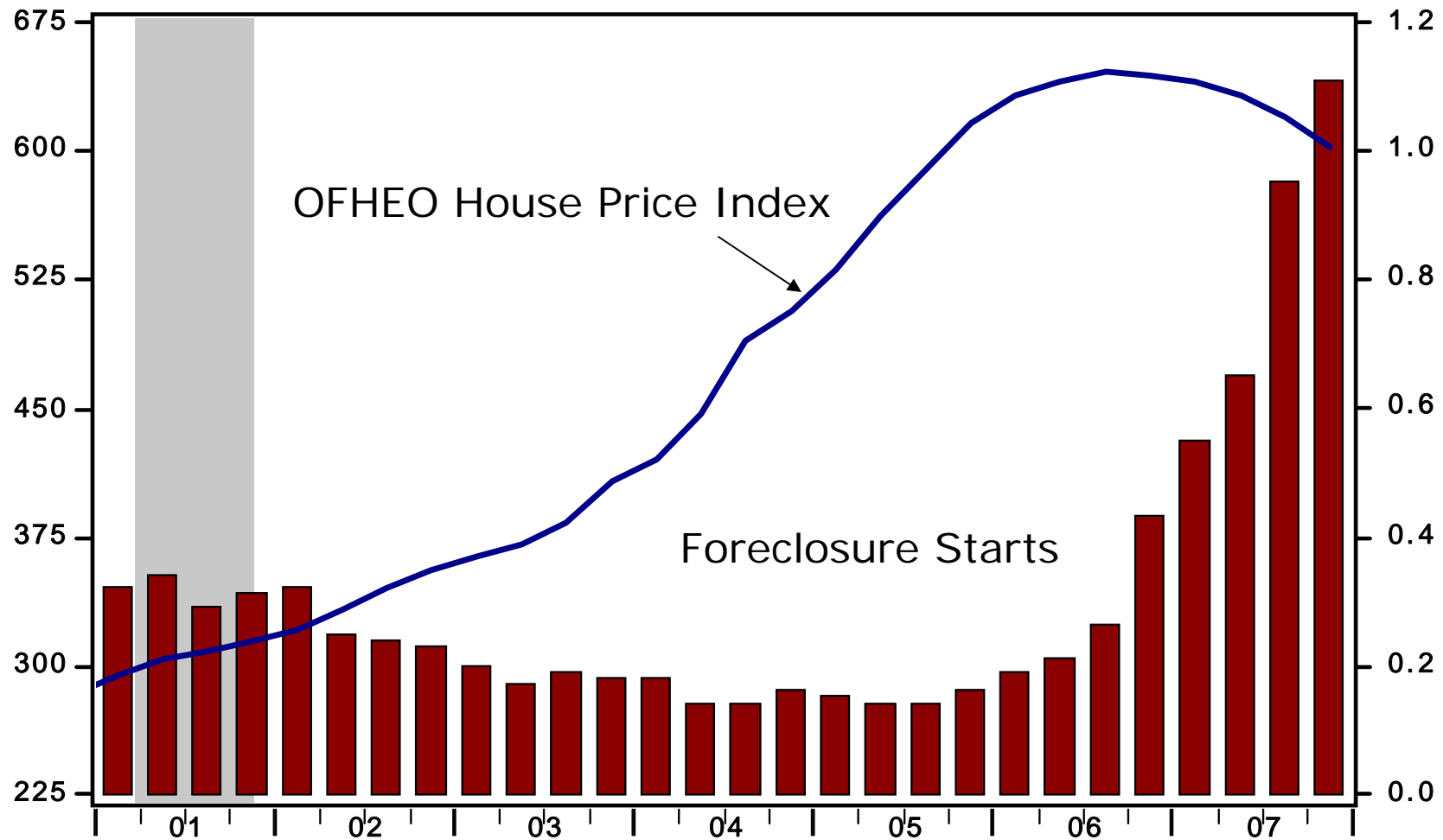
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- Data are from December 2007
  - Show higher rates of delinquency and default among subprime loans than the Mortgage Bankers Association data
- Among owner occupied, first lien subprime loans
  - 21.7 percent were delinquent (30, 60 or 90 days past due)
  - 10.1 percent were in foreclosure
  - 6.8 percent were in REO

# Trends in House Values



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



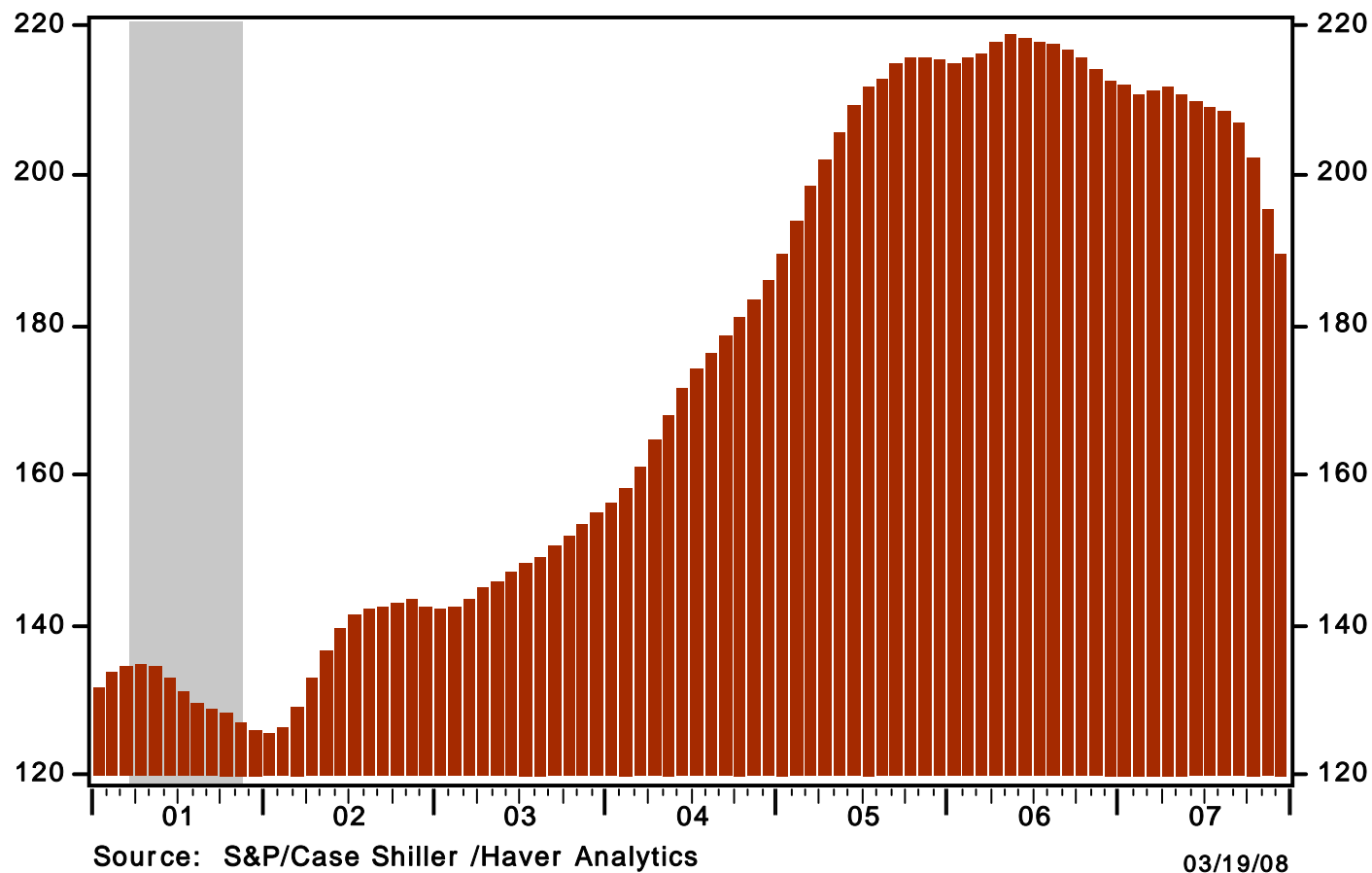
Sources: OFHEO, MBA /Haver

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# Housing Market in Bay Area Softening

S&P/Case-Shiller Home Price Index: San Francisco

NSA, Jan-00=100



# Price Declines in Bay Area

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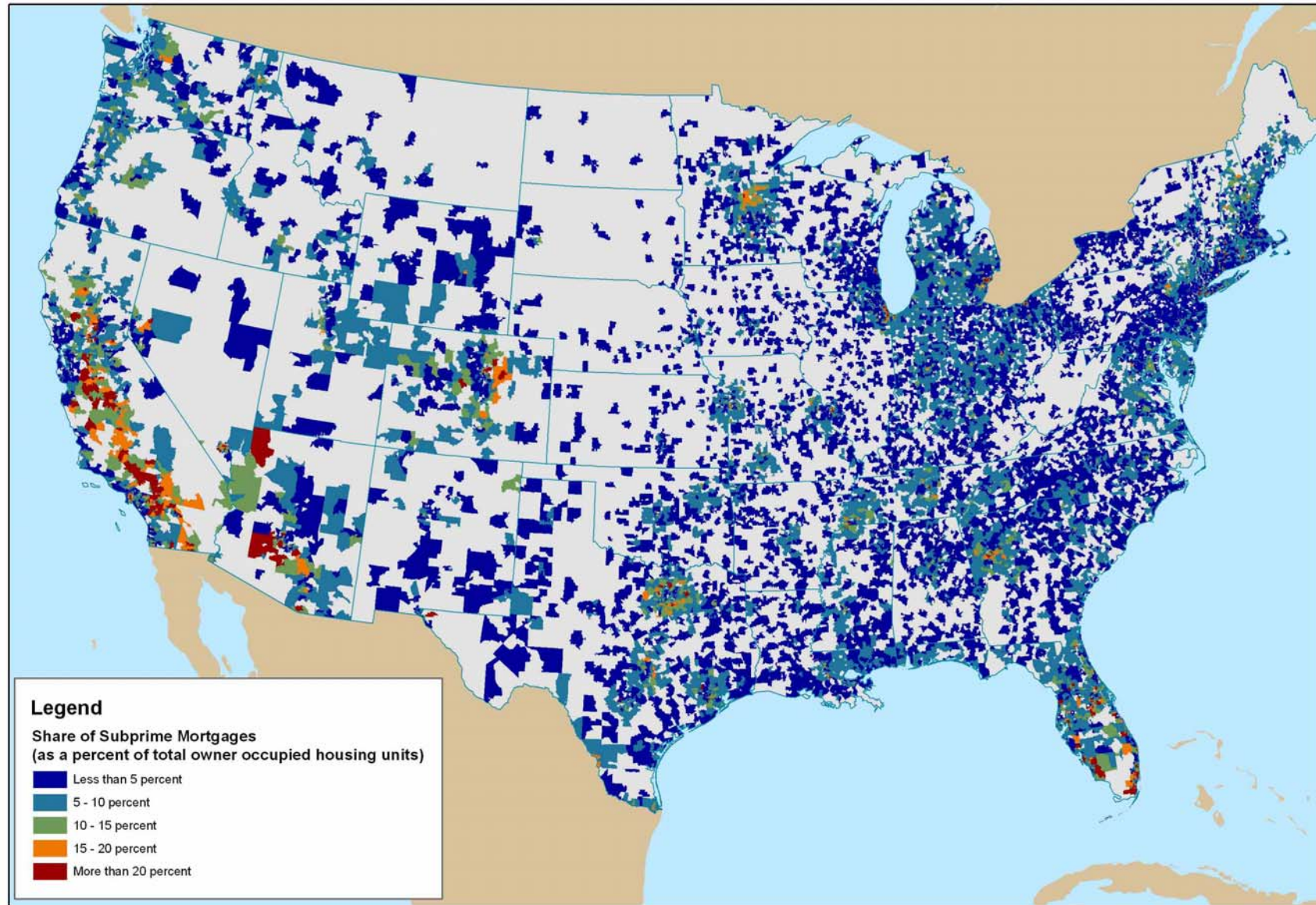
- California Association of Realtors
  - San Francisco Bay Area has seen a 3.9 percent decrease in median house values from Jan-07 to Jan-08
- Unlike some areas of California which have seen broad based price declines, in the Bay Area, local market variations are substantial
  - For example, DataQuick median house values between Jan-07 and Jan-08 show
    - A 25.1 percent decrease in Pittsburg
    - A 17.8 percent decrease in Oakland
    - A .8 percent increase in Walnut Creek

# Subprime Loan Characteristics



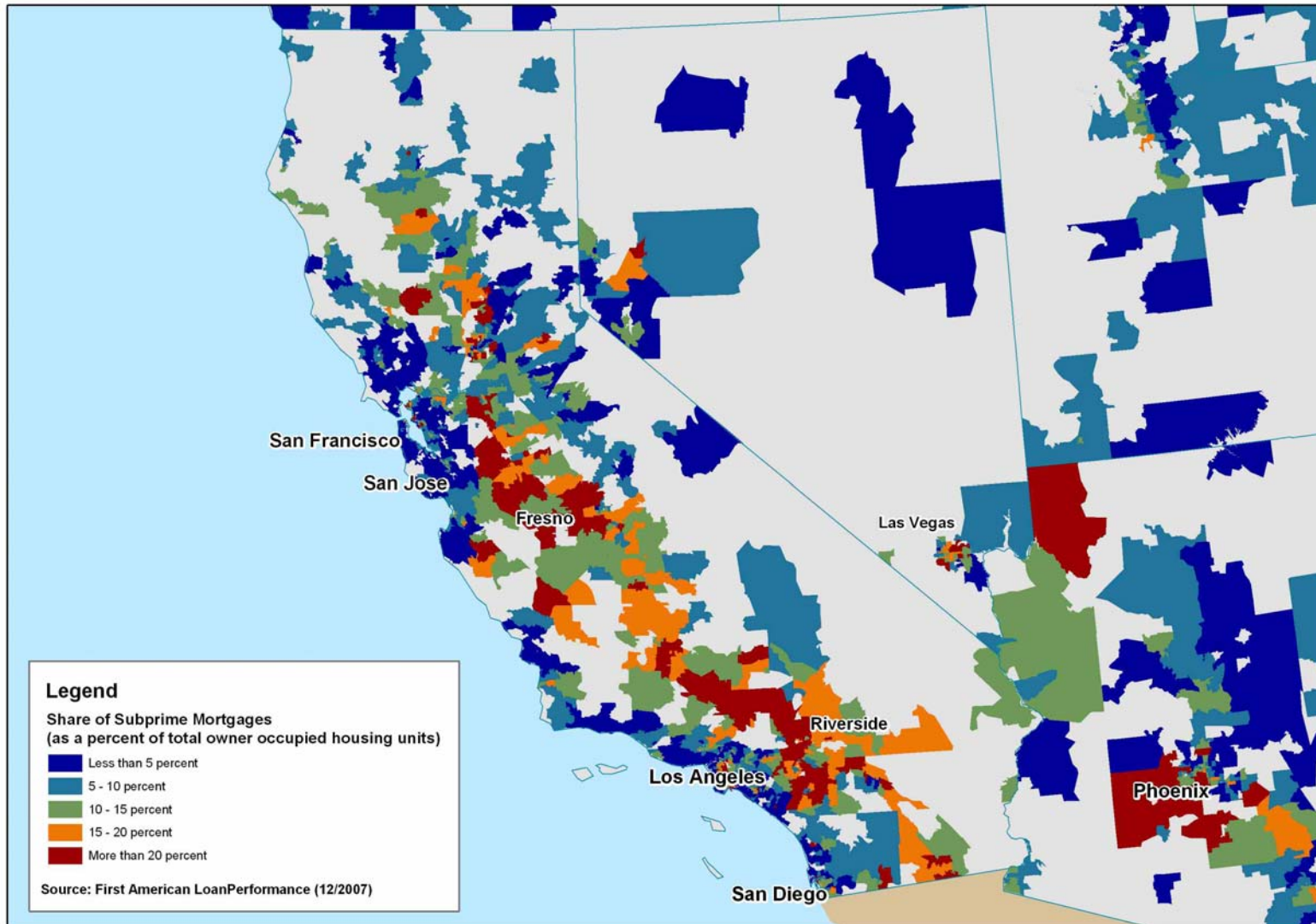


# Distribution of Subprime Lending in the United States



Source: First American Loan Performance (Subprime 12/2007)

# California Has Significant Concentration of Subprime Loans



# Many mortgages have “risky” features

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- ▣ Among owner occupied, first lien subprime loans in the LoanPerformance data for California
  - Average balance of approximately \$340,000
  - 88.4 percent had a prepayment penalty at origination
  - 31.4 percent were “interest-only” loans
  - Only 49.4 percent had full documentation
  - 69.4 percent had a variable interest rate

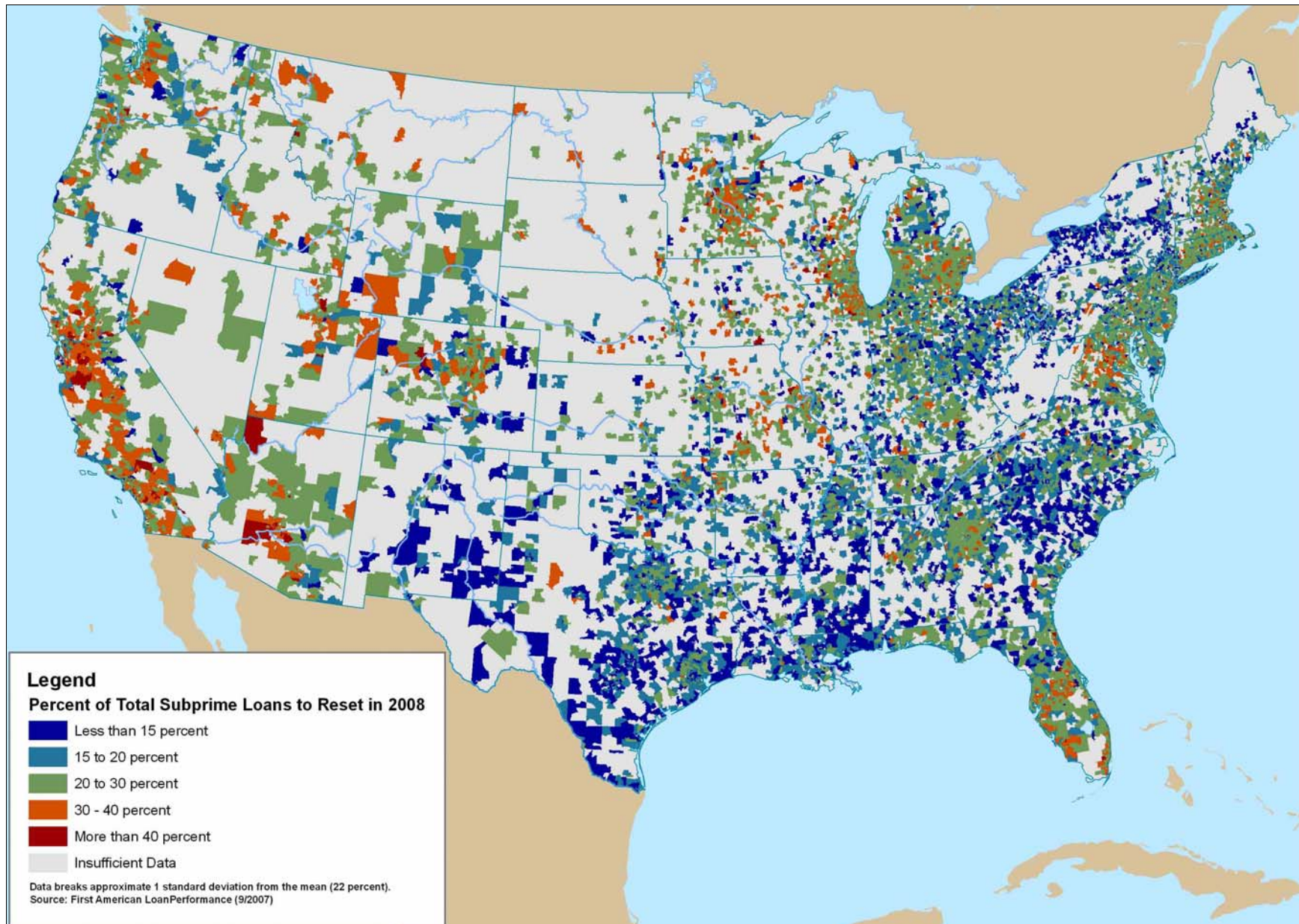
# Interest-Rate Resets

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- Economic research has shown that house value declines are more important than “resets” in predicting foreclosure
  - Resets do not appear to be the trigger for foreclosure
  - Current patterns of delinquency and foreclosure are being seen even before resets are occurring
- But coupled with house price declines in California, resets may increase borrower difficulties and increase the volume of delinquencies and foreclosures
  - In California, for loans with a variable interest rate
    - 43.4 percent will reset in 2008
    - Average margin of 5.7 percent



# Percent of Subprime Loans to Reset in 2008

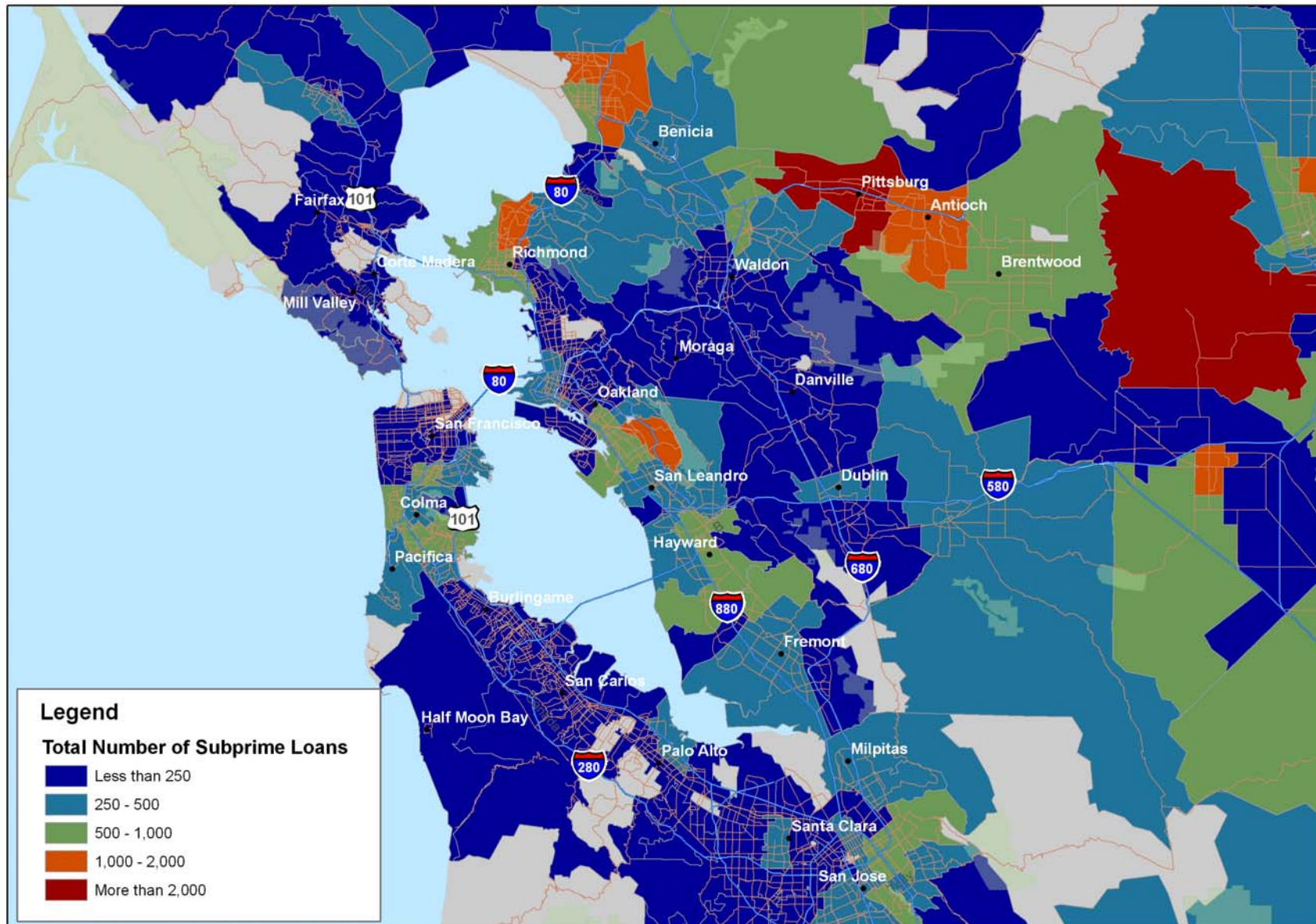


# Neighborhood “Hot Spots” in the Bay Area



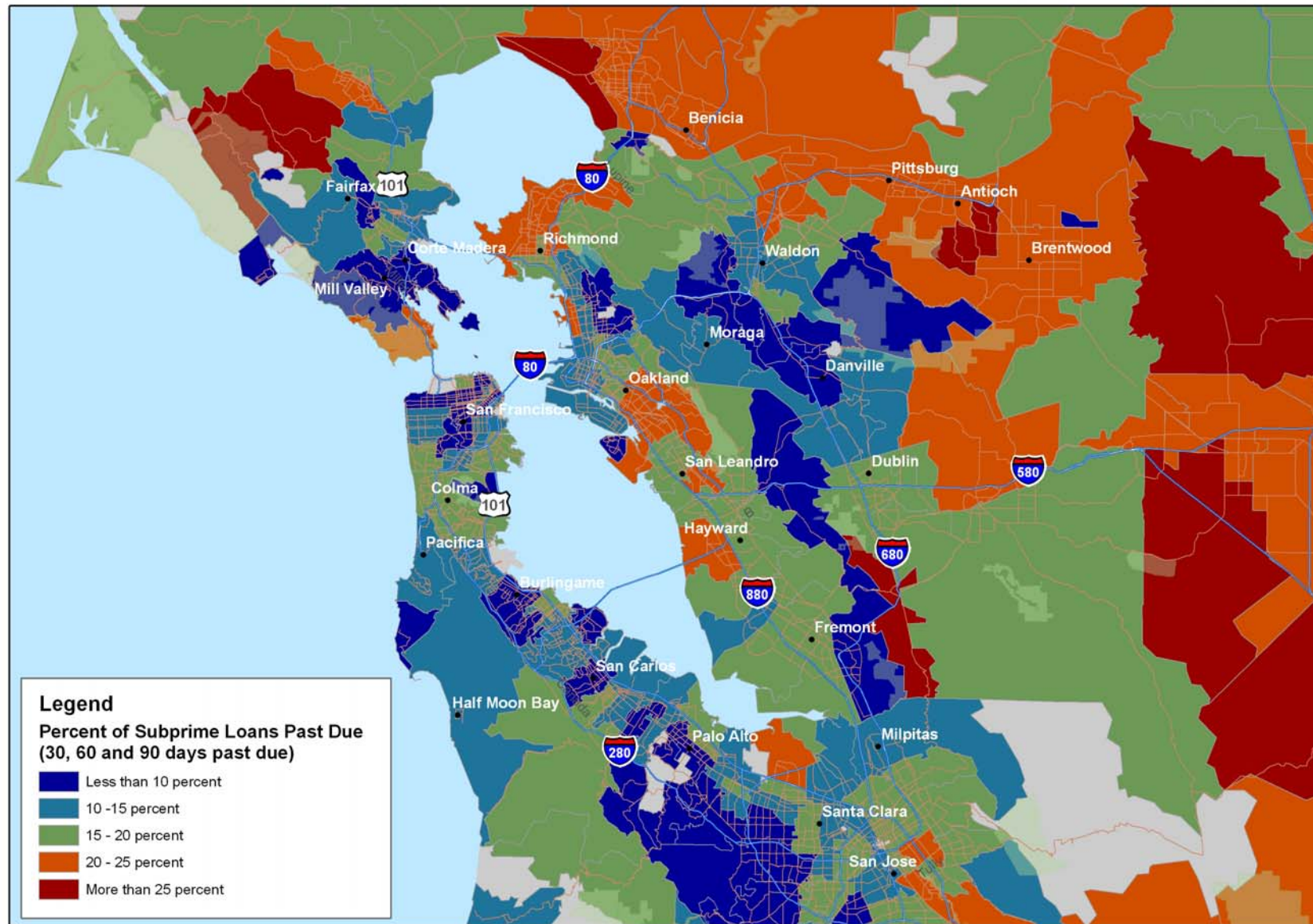


# Distribution of Subprime Loans



Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.

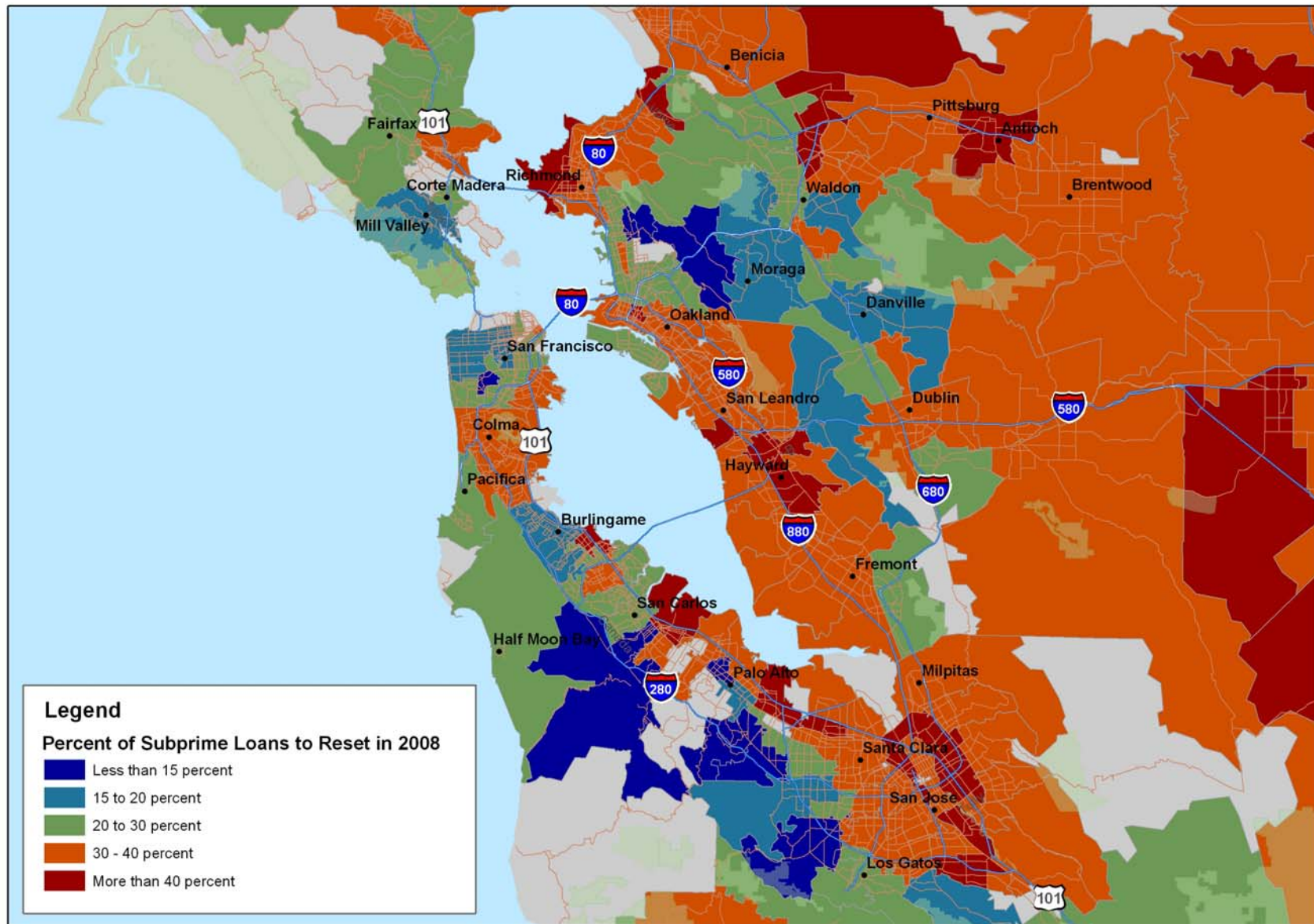
# Percent of Loans Past Due



Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.



# Percent of Subprime Loans to Reset in 2008



Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.

# Conclusion

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- ❑ Pockets of the Bay Area have seen a significant increase in defaults and foreclosures, although volume of subprime lending focused in a few areas
- ❑ 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