Identifying Issues in the Subprime Mortgage Market: The Bay Area

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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 Do not cite or reproduce without permission.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

- 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

- 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)
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

Source: Mortgage Bankers Association /Haver Analytics 03/07/08
Delinquency Rates Vary Significantly by Mortgage Type

California: 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>1.73</td>
<td>0.12</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>6.15</td>
<td>1.26</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>13.78</td>
<td>1.18</td>
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<tr>
<td>Subprime ARM</td>
<td>20.39</td>
<td>7.17</td>
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<tr>
<td>FHA</td>
<td>8.64</td>
<td>0.53</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: California

Source: Mortgage Bankers Association /Haver Analytics 03/07/08
LoanPerformance Data on Subprime Loans in California

- 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 03/07/08
Housing Market in Bay Area Softening

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

NSA, Jan-00=100

Source: S&P/Case Shiller /Haver Analytics 03/19/08
Price Declines in Bay Area

- 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

Legend
Share of Subprime Mortgages (as a percent of total owner occupied housing units)
- Less than 5 percent
- 5 - 10 percent
- 10 - 15 percent
- 15 - 20 percent
- More than 20 percent

Source: First American Loan Performance (Subprime 12/2007)
California Has Significant Concentration of Subprime Loans
Many mortgages have “risky” features

- 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

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

- 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

Legend
Percent of Total Subprime Loans to Reset in 2008
- Less than 15 percent
- 15 to 20 percent
- 20 to 30 percent
- 30 to 40 percent
- More than 40 percent
- Insufficient Data

Data breaks approximate 1 standard deviation from the mean (22 percent).
Source: First American LoanPerformance (M2007)
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 Subprime Loans Past Due (30, 60 and 90 days past due)

Legend:
- Less than 10 percent
- 10-15 percent
- 15-20 percent
- 20-25 percent
- More than 25 percent

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
Percent of Subprime Loans to Reset in 2008

Legend
Percent of Subprime Loans to Reset in 2008
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Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, December 2007.
Conclusion

- 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