Identifying Issues in the Subprime Mortgage Market: Idaho

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

June 24, 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 Do not cite or reproduce without permission.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 current trends in delinquencies and foreclosures in Idaho?
  - Mortgage Bankers Association data on delinquencies and foreclosures
  - HOPE NOW Alliance Servicer Data

- What are the primary drivers of foreclosures?
  - Declining house values
  - Declines in underwriting standards
    - First American Loan Performance data on subprime loans

- What neighborhoods in Idaho are witnessing increased issues with foreclosures?

- 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.
  - 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
Significant Increase in National Foreclosure Starts

Foreclosure Starts: Percent of all Loans

Source: Mortgage Bankers Association, National Delinquency Survey, 1st Quarter 2008
Foreclosures Concentrated in Subprime ARM Market

Source: Mortgage Bankers Association, National Delinquency Survey, 1st Quarter 2008
Idaho has seen an increase in foreclosure starts, but rates remain low.
Jan/Feb 2008 Servicer Data Also Show Increasing Rates of Foreclosure and Delinquency in Idaho

<table>
<thead>
<tr>
<th>Idaho, 60+ Delinquencies, Prime and Subprime Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>---------</td>
</tr>
<tr>
<td>2,026 (1.01%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Idaho, Foreclosure Starts, Prime and Subprime Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>---------</td>
</tr>
<tr>
<td>137</td>
</tr>
</tbody>
</table>

Delinquency Rates Vary Significantly by Mortgage Type

Idaho: Delinquency and Foreclosure Rates, 1st Qtr 2008

<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>2.82</td>
<td>.29</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>6.78</td>
<td>1.55</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>15.38</td>
<td>1.80</td>
</tr>
<tr>
<td>Subprime ARM</td>
<td>22.07</td>
<td>6.35</td>
</tr>
<tr>
<td>FHA</td>
<td>12.72</td>
<td>0.87</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association, National Delinquency Survey, 1st Qtr 2008
Trends in House Values
Nationally, Subprime Foreclosure Rates Closely Track Declines in House Values

Sources: MBA, SNPCAS /Haver
Idaho’s Housing Market Softening Slightly

OFHEO House Price Index (2000=100)
Subprime Loan Characteristics
Distribution of Subprime Lending in the United States

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.
## Characteristics of Subprime Loans in Idaho

LoanPerformance – February 2008

<table>
<thead>
<tr>
<th>Subprime Loan Characteristics</th>
<th>Idaho</th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Balance</td>
<td>$130,700</td>
<td>$342,000</td>
</tr>
<tr>
<td>Percent “Interest-only”</td>
<td>8.75</td>
<td>33.4</td>
</tr>
<tr>
<td>Percent Full Documentation</td>
<td>75.9</td>
<td>52.5</td>
</tr>
<tr>
<td>Percent with a Variable Interest Rate (ARM)</td>
<td>66.0</td>
<td>73.8</td>
</tr>
<tr>
<td>Percent Cash-Out Refinance</td>
<td>53.2</td>
<td>54.5</td>
</tr>
</tbody>
</table>

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance data, February 2008.
Number of Subprime Loans in LoanPerformance Sample

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, February 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.
Percent of Subprime Loans Seriously Past Due

Legend
Percent of Subprime Loans Seriously Delinquent (more than 90 days past due)
- Less than 4 percent
- 4 - 8 percent
- 8 - 12 percent
- 12 - 16 percent
- More than 16 percent

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, February 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.
Percent of Subprime Loans Seriously Past Due

Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, February 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.
Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, February 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.
Conclusions

- Idaho may see an increase in delinquencies and foreclosures
  - If house values continue to soften and decline, delinquencies and foreclosures will likely rise, and families may have a more difficult time refinancing loans

- Multi-pronged strategy is needed to stem the foreclosure crisis
  - Foreclosure Prevention: borrower outreach, refinance and loan modification
    - Reaching these borrowers now may help to prevent unnecessary foreclosures
    - Encourage borrowers to call (888) 995-HOPE or visit www.995HOPE.org
Conclusions

- 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: working with nonprofits and city governments to redevelop REO properties into affordable housing units
  - Ensuring continued access to credit and homeownership: financial education, responsible lending