Identifying Issues in the Subprime Mortgage Market: Nevada

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Preliminary Analysis of First American Loan Performance Data.
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Overview: The Subprime Market

- Subprime lending has grown rapidly since 2000, but is unevenly distributed across the U.S.
- Foreclosures and delinquency rates are rising, particularly in parts of California, Nevada, and Arizona
- Key drivers of delinquency rate patterns in U.S.
  - House prices
  - Economic conditions
  - Underwriting standards
  - Resets
Distribution of Subprime Lending in the United States

Source: First American Loan Performance (Subprime 9/2007)
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)
Current Interest Rates on Subprime Loans

Legend
Current Interest Rate
- 6.82 - 8.32
- 8.32 - 9.10
- 9.10 - 9.89
- 9.89 - 10.67
- 10.67 - 11.93

Insufficient Data
Data breaks represent 1 standard deviation from the mean (9.1 percent).
Source: First American LoanPerformance (9/2007)
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)
Foreclosure Rates in Nevada Rising Quickly, Particularly as House Prices Soften
The Subprime Market in Nevada

- Data reported here and in the maps are a preliminary analysis of LoanPerformance’s subprime database, which includes approximately 70 percent of subprime loans sold into mortgage-backed securities, aggregated at the zip code level.

- Nevada – October 2007
  - Approximately 40,000 subprime loans in LP database
  - Average balance of approximately $232,000 and an average interest rate of 8.45 percent
  - 10.15 percent in foreclosure or REO
  - Approximately 47.6 percent were cash-out refinances, 38 percent were for purchase
Rise in Subprime Lending in Nevada during Real Estate “Boom”

- A large share of subprime originations were made in 2005 and 2006

Bar chart showing the number of subprime loans over years:
- In or Before 2004: 4,000
- 2005: 14,000
- 2006: 16,000
- 2007: 2,000

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The largest volume of subprime lending in Nevada is in the Las Vegas area, though the Sparks Area north of Reno includes zip codes with a large number of subprime loans.
Location of Subprime Loans in Reno Area

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Foreclosure Rates in Reno Area

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Las Vegas – Large Number of Subprime Loans

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Las Vegas – Foreclosure Rates High in Many Neighborhoods

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Las Vegas – Large Share of Subprime to Reset in 2008

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Other Factors

- Las Vegas also has a large share of Alt-A loans.
  - As of October 2007, these still appear to be performing better than subprime loans, with fewer delinquencies and foreclosures.
  - However, counselors are seeing a larger share of borrowers coming in with Alt-A loans.
    - If market continues to soften, what will happen with these borrowers, particularly if they face large rate resets?
Loan Modification Issues

Servicers and lenders have a variety of options to avoid foreclosures:

- Refinancing *(may become more difficult going forward)*
- Temporary Forbearance/Repayment Plans for short-term difficulties *(currently most popular option)*
- Loan Modifications (freeze interest rates, extend maturity date, capitalization of arrearages, and forgiveness of principal)
- Deed-in-lieu
- Short sale

Difficult to assess how many borrowers would need a programmatic workout to stay in their home (not able to refinance or stay current):

- One industry estimate suggests that 15.4 percent, or approximately 6,100 outstanding subprime mortgages in Nevada would need a workout; the rest would either be able to use FHA or private market refinancing
- This share is likely to increase if house values drop significantly and/or if a larger share of subprime borrowers have silent seconds
Challenges

- **Servicers**
  - Reaching the borrower (less than 50% contact rate)
  - Servicers are hampered by certain constraints in executing loan modifications
    - Loans must be in default prior to modification
  - Requires loan-by-loan assessment
    - In some areas, servicers may not be adequately staffed for individual workouts

- **Counselors**
  - Lack of capacity and resources to handle the volume of calls