Mortgage Delinquencies and Foreclosures: Oregon

Craig Nolte
Community Development Department
Federal Reserve Bank of San Francisco

September 30, 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 Do not cite or reproduce without permission.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 Oregon?
  - Mortgage Bankers Association data
  - HOPE NOW Alliance Servicer Data
- What are the primary drivers of foreclosures?
  - Declining house values
  - High proportion of subprime loans and poor underwriting standards
- What neighborhoods in Oregon 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
Distribution of Foreclosures Uneven Across the United States
Percent of Loans in Foreclosure or REO, April 2008

Source: McDash Analytics, LLC and FRBSF calculations
Oregon has seen an increase in foreclosure starts, but rates remain lower than other 12th District states.

Delinquency rates vary significantly by mortgage type

Oregon: 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>1.00</td>
<td>1.51</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>2.08</td>
<td>4.24</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>5.12</td>
<td>10.75</td>
</tr>
<tr>
<td>Subprime ARM</td>
<td>8.65</td>
<td>15.27</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

Sources: MBA, SNPCAS /Haver 03/27/08

OFHEO House Price Index

Foreclosure Starts

Sources: MBA, SNPCAS /Haver 03/27/08
Oregon’s housing market softening

OFHEO House Price Index (2000=100)

Source: OFHEO /Haver 09/25/08
Bend and Medford have seen greatest price declines
Though Case-Shiller index also shows declines in Portland area.
What do these trends mean for Oregon?

- In other markets, price declines have exposed unsustainable underwriting
- Economic research suggests that foreclosure rates are closely tied to declining house values
- Oregon vulnerable to same dynamic if house prices continue to fall, particularly given the tightened credit markets and difficulties borrowers may face in refinancing
  - Although subprime lending was not as extensive in Oregon as in states such as California and Nevada, in 2006, approximately 1 in 4 loans in Oregon was a higher-cost loan
More can be done to assist troubled borrowers

HOPE NOW Servicer Data for Oregon

<table>
<thead>
<tr>
<th></th>
<th>2nd Qtr 2007</th>
<th>2nd Qtr 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>60+ Delinquency Rate</td>
<td>1.02%</td>
<td>1.76%</td>
</tr>
<tr>
<td>Repayment Plans</td>
<td>1,927</td>
<td>1,899</td>
</tr>
<tr>
<td>Loan Modifications</td>
<td>233</td>
<td>1,205</td>
</tr>
<tr>
<td>Foreclosure Sales</td>
<td>285</td>
<td>1,114</td>
</tr>
</tbody>
</table>

Source: Hope Now Servicing Data, July State Data Tables 2008, includes both prime and subprime loans
Oregon “Hot Spots”
Oregon Neighborhood Foreclosure Rates
September 2007

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 September 2007.
Oregon Neighborhood Foreclosure Rates
August 2008

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Oregon Neighborhood Delinquency Rates
August 2008

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Portland-Vancouver Neighborhood Foreclosure Rates
August 2008

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Portland-Vancouver Neighborhood Delinquency Rates
August 2008

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Medford Neighborhood Foreclosure Rates
August 2008

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Medford Neighborhood Delinquency Rates
August 2008

Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008
Conclusions

- Oregon may see a continued increase in delinquencies and foreclosures
  - If house values continue to soften, 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