Identifying Issues in the Subprime Mortgage Market: Oregon

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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 Do not cite or reproduce without permission.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 current trends in delinquencies and foreclosures?
  - Mortgage Bankers Association data on delinquencies and foreclosures

- What are the primary drivers of foreclosures?
  - Declining house values
  - Declines in underwriting standards
    - First American Loan Performance data on subprime loans
  - Impending resets may trigger further borrower distress and increased rates of delinquency

- What is happening in Oregon?
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
Significant Increase in National Foreclosure Starts

Mortgage Foreclosures Started: United States

SA, %

Source: Mortgage Bankers Association / Haver Analytics 03/27/08
Foreclosures Concentrated in Subprime Market

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Quarter 2007
Foreclosure Rates Among Subprime Loans

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.
Oregon has seen a recent increase in foreclosure starts, but rates remain low.
Delinquency Rates Vary Significantly by Mortgage Type

Oregon: 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>1.40</td>
<td>0.08</td>
</tr>
<tr>
<td>Prime ARM</td>
<td>3.32</td>
<td>0.50</td>
</tr>
<tr>
<td>Subprime Fixed</td>
<td>8.76</td>
<td>1.07</td>
</tr>
<tr>
<td>Subprime ARM</td>
<td>14.08</td>
<td>2.99</td>
</tr>
<tr>
<td>FHA</td>
<td>7.21</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Quarter 2007
Subprime Market in Oregon Shows Rising Rates of Delinquencies

Conventional Subprime Mortgages Past Due: Oregon

Source: Mortgage Bankers Association /Haver Analytics 03/27/08
LoanPerformance Data on Subprime Loans in Oregon

- Data are from December 2007
- Among owner occupied, first lien subprime loans
  - 4.8 percent were in foreclosure
  - 1.1 percent were in REO
  - These numbers are relatively low compared to states like California and Nevada, yet signs of borrower distress are evident
    - 4.6 percent of loans were 90 days or more past due
    - 4.0 percent of loans were 60 – 90 days past due
    - 8.5 percent of loans were 30 – 60 days past due
Trends in House Values
Nationally, Subprime Foreclosure Rates Closely Track Declines in House Values

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

House Price Index, Oregon

1980 Q1=100

Source: OFHEO/Haver 03/27/08
Case-Shiller Shows Declines in Portland

Portland Case-Shiller Index

Source: S&P/Case Shiller /Haver Analytics 03/27/08
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 Oregon

<table>
<thead>
<tr>
<th>Subprime Loan Characteristics</th>
<th>Oregon</th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Balance</td>
<td>$178,000</td>
<td>$342,000</td>
</tr>
<tr>
<td>Percent “Interest-only”</td>
<td>18.1</td>
<td>33.4</td>
</tr>
<tr>
<td>Percent Full Documentation</td>
<td>72.8</td>
<td>52.5</td>
</tr>
<tr>
<td>Percent with a Variable Interest Rate</td>
<td>67.2</td>
<td>73.8</td>
</tr>
<tr>
<td>Percent Cash-Out Refinance</td>
<td>51.4</td>
<td>54.5</td>
</tr>
</tbody>
</table>

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, resets may increase borrower difficulties and increase the volume of delinquencies and foreclosures
  - In Oregon, for loans with a variable interest rate
    - 44.3 percent, more than 10,000 loans in LoanPerformance sample, will reset in 2008
Conclusion

- Oregon may see an increase in delinquencies and foreclosures
  - If house values decline, delinquencies and foreclosures will likely rise, and families may have a more difficult time refinancing loans
- Reaching these borrowers now may help to prevent unnecessary foreclosures
  - FHASecure
  - HOPE NOW Alliance
- Encourage borrowers to call (888) 995-HOPE or visit www.995HOPE.org