Identifying Issues in the Subprime Mortgage Market: Utah

Jan Bontrager
Federal Reserve Bank of San Francisco
February 4, 2008

Analysis of First American LoanPerformance data provided by the Federal Reserve Board of Governors. Do not cite or reproduce without permission.
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
  - Utah has been fairly insulated due to continued house price appreciation, but this may be “masking” borrower distress
- Key drivers of delinquency rate patterns in U.S.
  - House prices
  - Economic conditions
  - Underwriting standards
  - Resets
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 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 (6/2007)
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 approximately 1 standard deviation from the mean (22 percent).
Source: First American LoanPerformance (M2007)
Subprime Foreclosure Rates Rising, Especially as House Values Soften – United States
The Subprime Market in Utah

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

- Utah
  - Approximately 28,700 subprime loans in LP database
  - Average balance of approximately $155,000 and an average interest rate of 8.73 percent
  - 3.57 percent in foreclosure or REO
  - 74.1 percent current as of September 2007
  - Approximately 38 percent were cash-out refinances, 44 percent were for purchase
Utah May See Significant Rise in Foreclosures

- Recent house price appreciation may be “masking” underlying borrower distress
- Utah has many of the same risk factors we saw in California, Arizona and Nevada
  - Rapid house price appreciation coupled with an increase in the volume of subprime lending
  - A large percent of loans to reset in 2008
  - A large number of loans with a high LTV
House Price Appreciation in Utah

OFHEO House Price Index

Rise in Subprime Lending in Utah during this Period of Rapid Appreciation

- A large share of originations were made in 2006

![Bar chart showing number of subprime loans by year:]
- In or Before 2004: 5,000
- 2005: 7,000
- 2006: 13,000
- 2007: 3,000
Resets in 2008 Utah

A large number of subprime loans will reset in Utah in 2008. If house values drop, it will be difficult for these borrowers to refinance.

As a caveat, in some of these zip codes, the total number of subprime loans may be small.

Source: First American Loan Performance (9/2007).
Data from a representative sample of subprime loans aggregated at the zip code level.
High Loan to Value Utah

Approximately 47 percent of subprime loans in Utah have a High LTV (above 90 percent at origination), a significantly larger share than in the rest of the 12th District (34 percent).

Legend
Percent of Subprime Loans with a High LTV
- Less than 10 percent
- 10 - 20 percent
- 20 - 30 percent
- 30 - 40 percent
- More than 40 percent

Source: First American Loan Performance (9/2007). Data from a representative sample of subprime loans aggregated at the zip code level.
Volume of Subprime Lending Clustered in Certain Areas

Source: First American Loan Performance (9/2007).
Data from a representative sample of subprime loans aggregated at the zip code level.
Legend

Percent of Subprime Loans to Reset in 2008

- Less than 15 percent
- 15 - 20 percent
- 20 - 30 percent
- 30 - 40 percent
- More than 40 percent

Source: First American Loan Performance (9/2007).
Data from a representative sample of subprime loans aggregated at the zip code level.
Utah May See Significant Rise in Foreclosures

- Recent house price appreciation may be “masking” underlying borrower distress
- Utah has many of the same risk factors we saw in California, Arizona and Nevada
  - A large number of subprime loans
  - A large percent of loans to reset in 2008
  - A large number of loans with a high LTV
  - Areas of rapid construction and new development
- Based on the experience of CA, AZ and NV, Utah may see an increase in foreclosures if house values fall, despite continued strong employment growth
- Refinancing eligible borrowers now into FHA or other responsible loans can help to avert the negative impact of foreclosures
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 4,400 outstanding subprime mortgages in Utah 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
    - Servicers are currently not staffed for individual workouts

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