

Understanding the Foreclosure Crisis in California



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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 Do not cite or reproduce without permission.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 the trends in delinquencies and foreclosures in California?
 - Mortgage Bankers Association data on delinquencies and foreclosures
- ❑ What are the primary drivers of foreclosures in California?
 - Declining house values
 - Large percent of subprime and nontraditional loans
 - ❑ First American Loan Performance data on subprime loans
 - Impending resets may trigger further borrower distress and increased rates of delinquency
- ❑ What efforts are underway to help prevent foreclosures and stabilize neighborhoods?

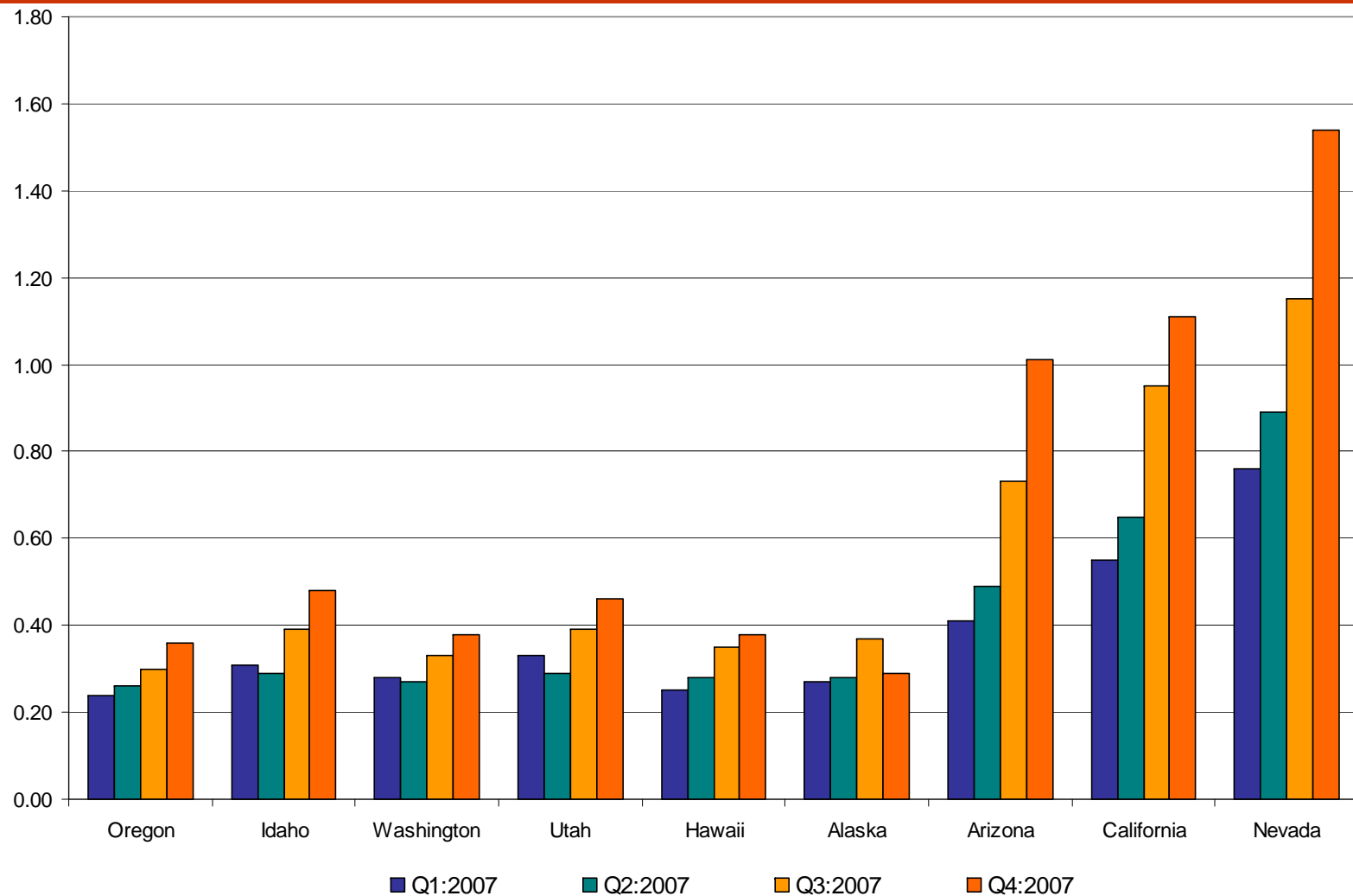
Data Caveats

- ❑ Data on the real estate and mortgage markets are collected by many different sources, most proprietary and hard to assess
- ❑ 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; the “black box” nature of these data make it difficult to assess accuracy
 - Aggregated data at the zip code level can mask significant geographic variation and the types of borrowers affected

Trends in Delinquencies and Foreclosures



California has seen a rapid increase in foreclosure starts

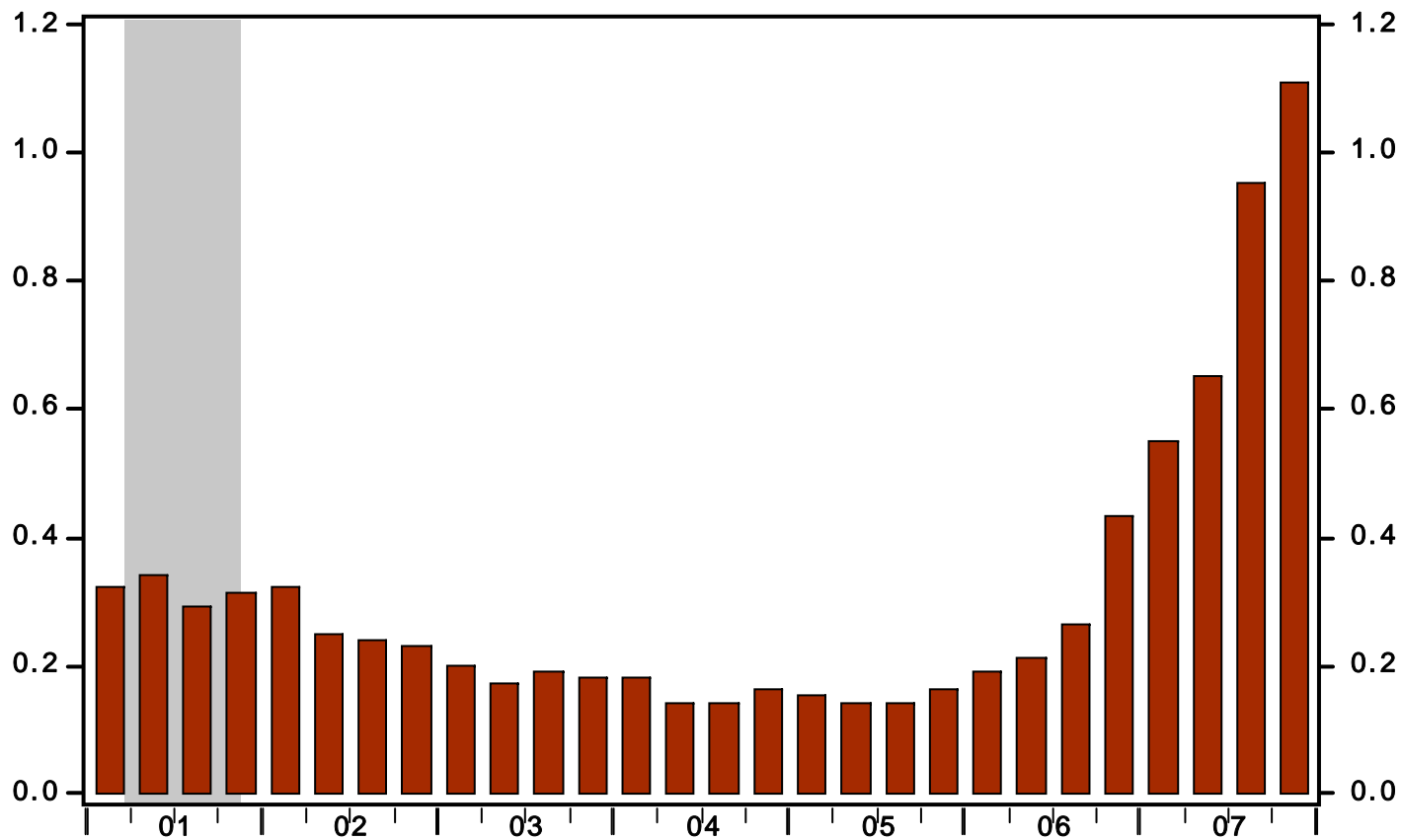


Source: Mortgage Bankers Association, National Delinquency Survey.

California: Foreclosure Trends

Mortgage Foreclosures Started: California

NSA, %



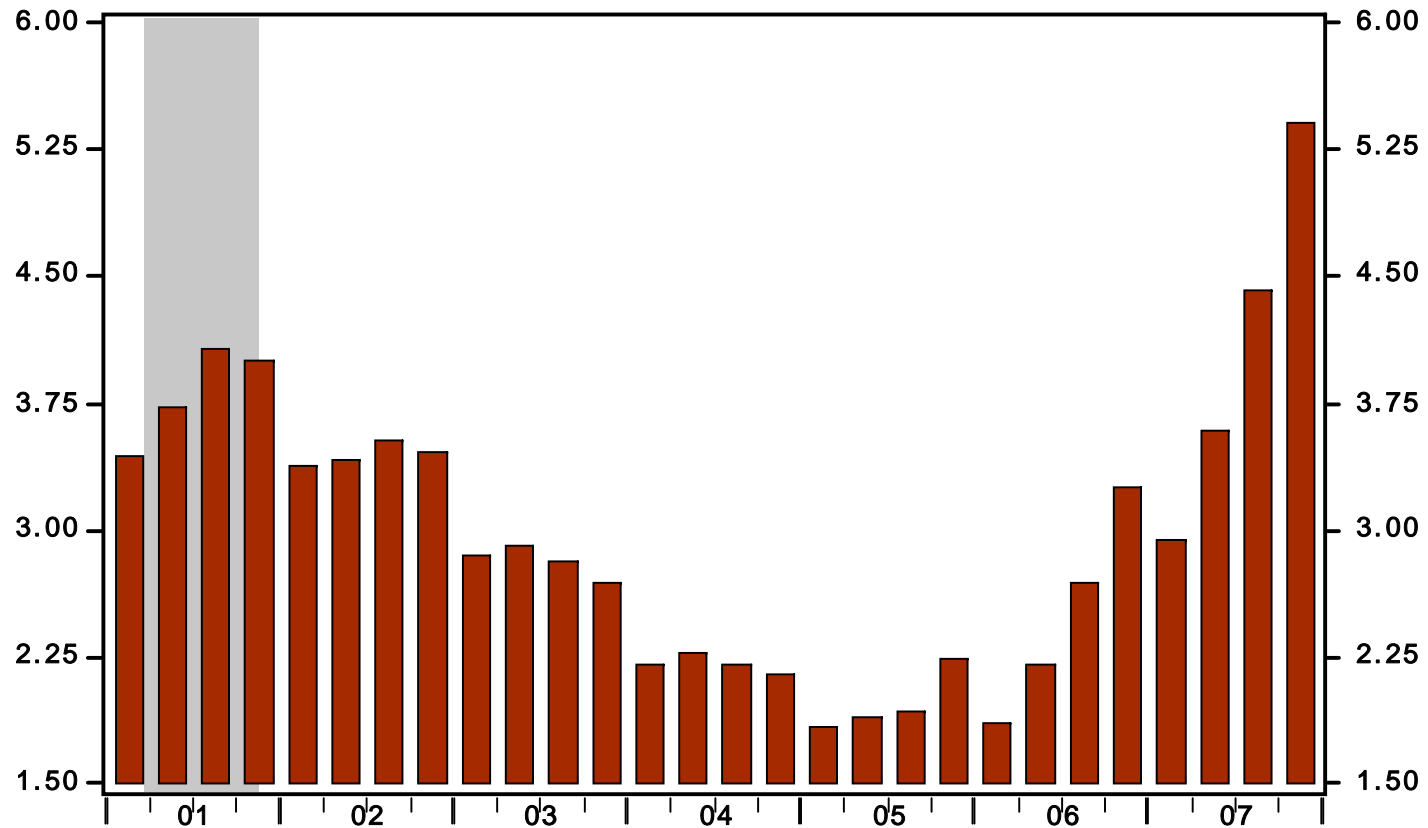
Source: Mortgage Bankers Association /Haver Analytics

03/07/08

California: Delinquency Trends

All Mortgages Past Due: California

NSA, %



Source: Mortgage Bankers Association /Haver Analytics

03/07/08

1st Quarter 2008 Servicer Data

Hint at Scale of Problem in California

While some of the jump may reflect increase in number of servicers reporting data, these numbers paint a dire picture of the number of properties entering foreclosure.

California, 60+ Delinquencies, All Loans				
Q1-2007	Q2-2007	Q3-2007	Q4-2007	Jan/Feb 2008
52,597	64,679	84,632	115,300	171,165
California, Foreclosure Starts, All Loans				
Q1-2007	Q2-2007	Q3-2007	Q4-2007	Jan/Feb 2008
4,985	5,688	8,318	8,240	21,924

Source: Hope Now Servicing Data, February 2008, http://www.fsround.org/hope_now/pdfs/FebruaryStateData.pdf

Delinquency Rates Vary Significantly by Mortgage Type

California: Delinquency and Foreclosure Rates, 4th Qtr 2007

Mortgage Type	Percent Past Due	Foreclosures Started
Prime Fixed	1.73	0.12
Prime ARM	6.15	1.26
Subprime Fixed	13.78	1.18
Subprime ARM	20.39	7.17
FHA	8.64	0.53

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Quarter 2007

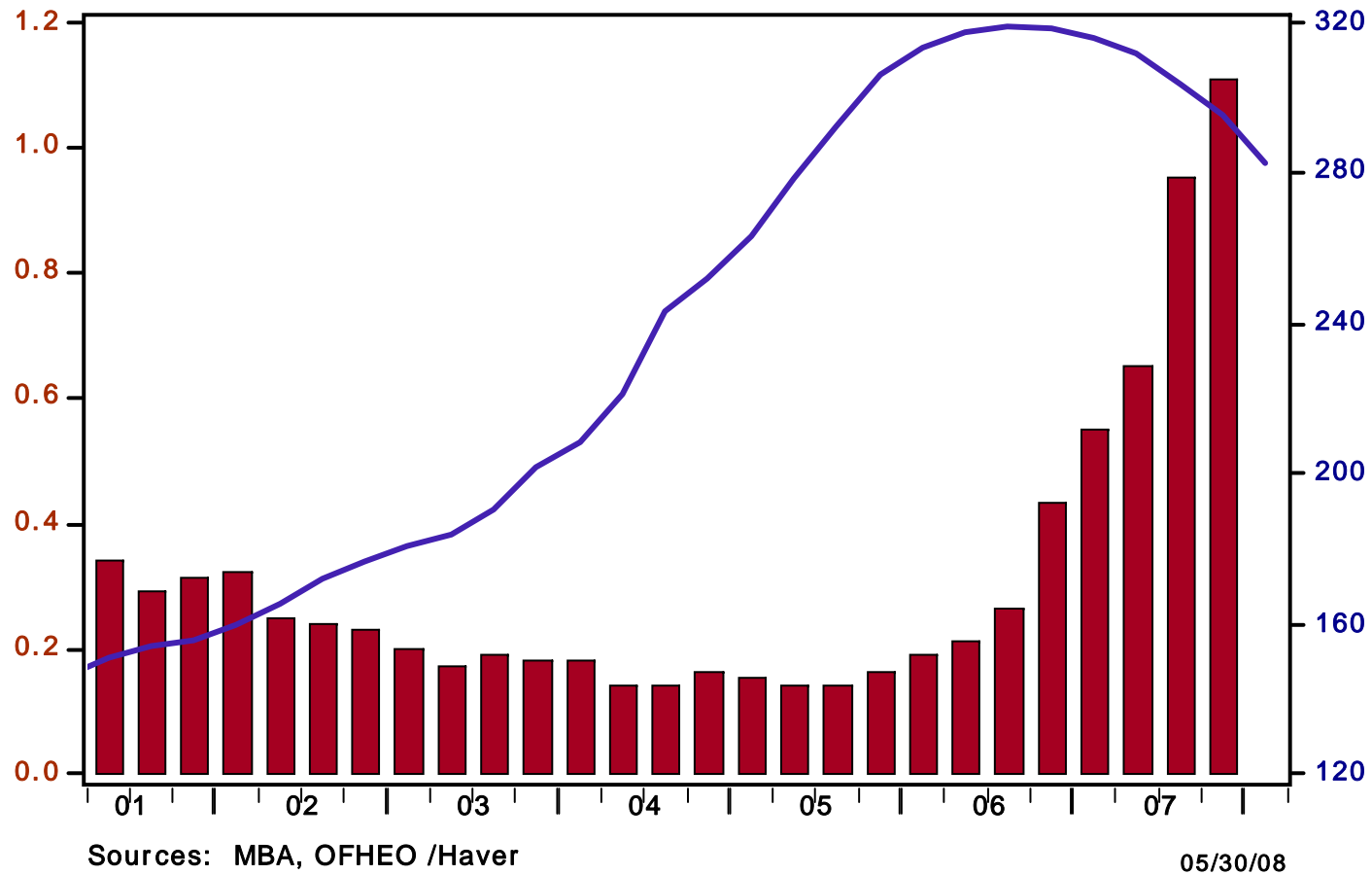
Trends in House Values



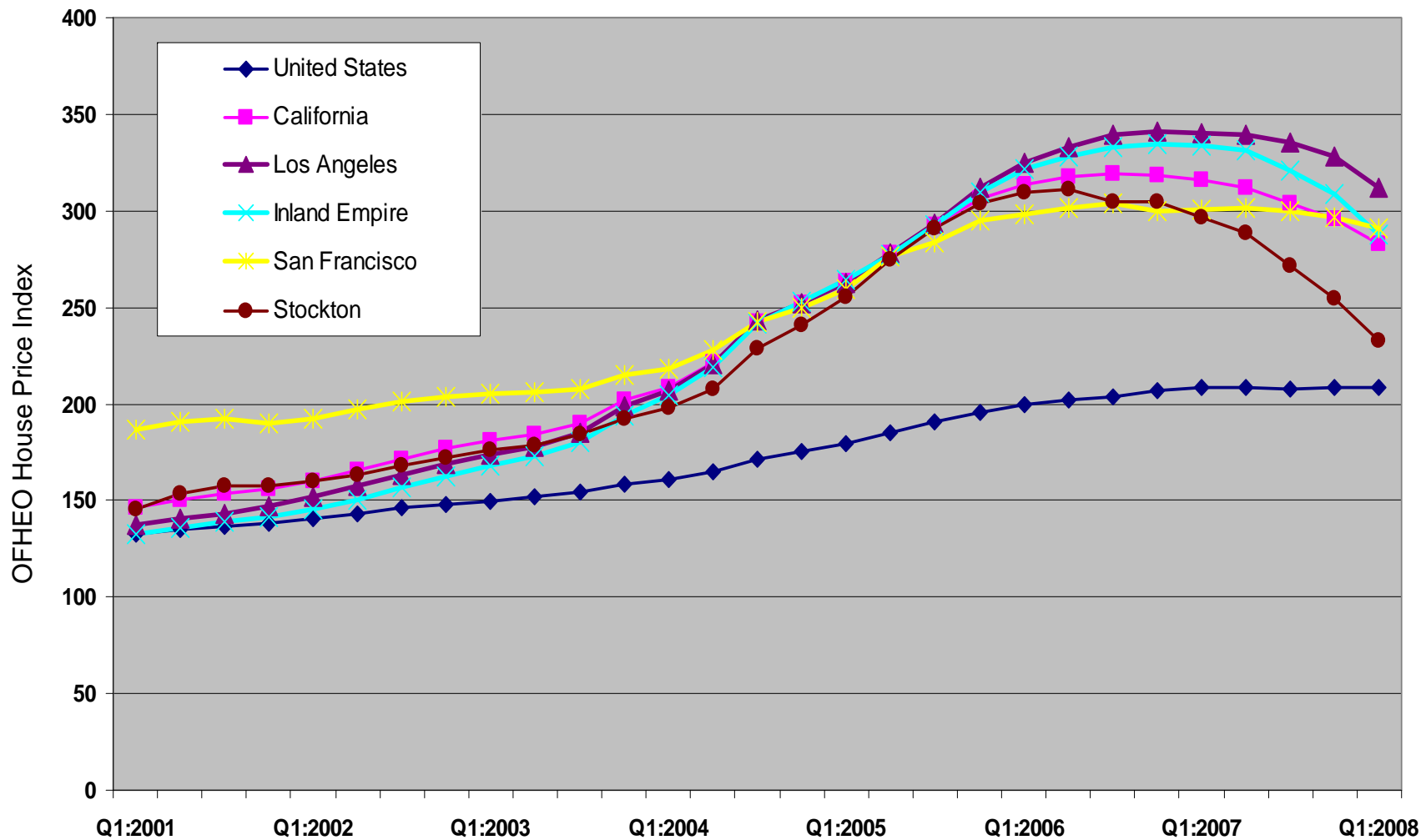
Foreclosure Rates Closely Track Declines in House Values in California

Mortgage Foreclosures Started: California
NSA, %

OFHEO House Price Index, California
1995=100



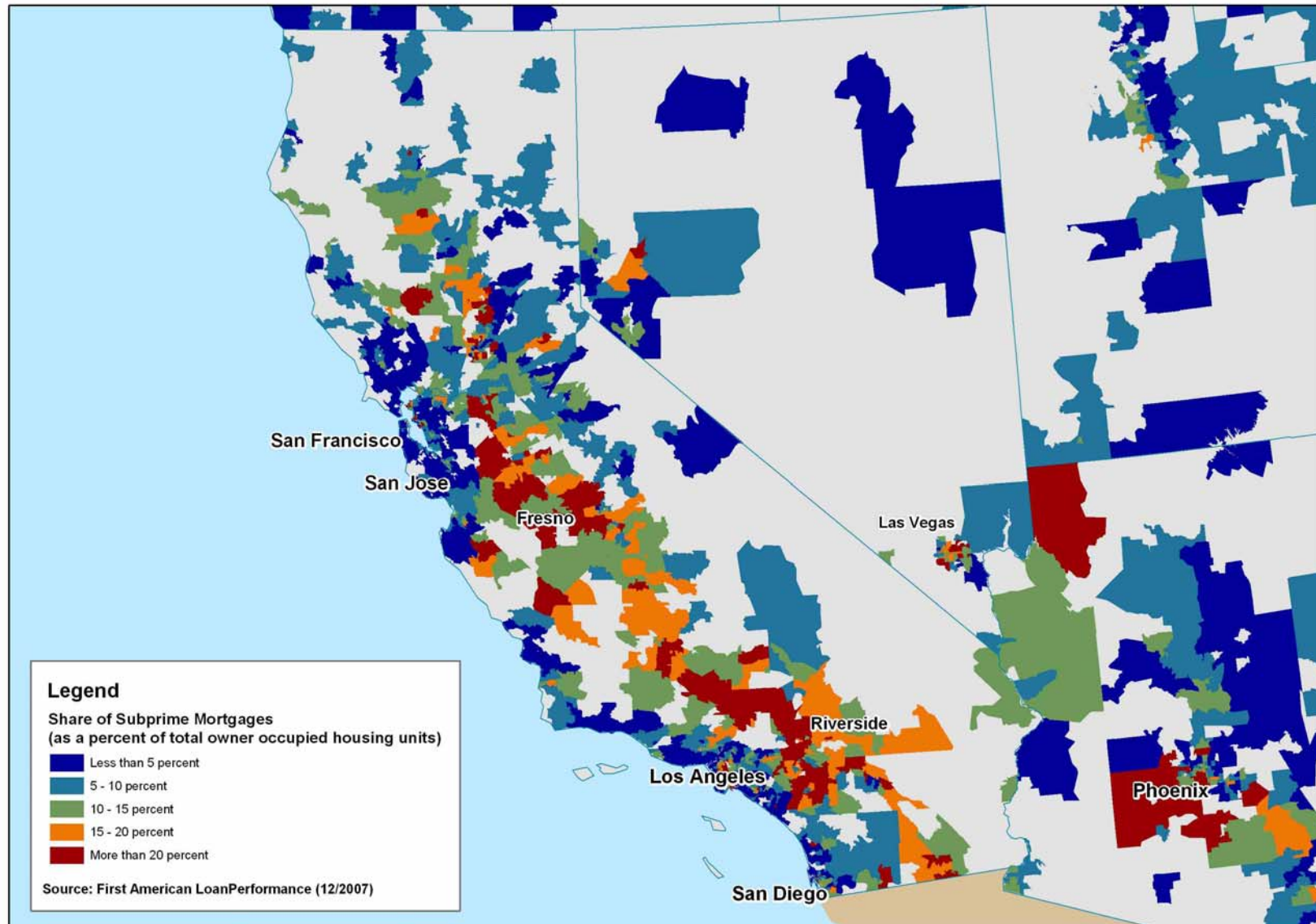
Trends in CA Regional Housing Markets



Subprime Loan Characteristics



California Home to Significant Concentration of Subprime Loans



Many mortgages have “risky” features

- ▣ Among owner occupied, first lien subprime loans in the LoanPerformance data, February 2008, for California
 - Average balance of approximately \$342,000
 - 94.1 percent had a prepayment penalty at origination
 - 33.3 percent were “interest-only” loans
 - 36.3 percent had a High LTV at origination
 - 56.5 percent were cash-out refinance loans
 - Only 52.6 percent had full documentation
 - 73.3 percent had a variable interest rate

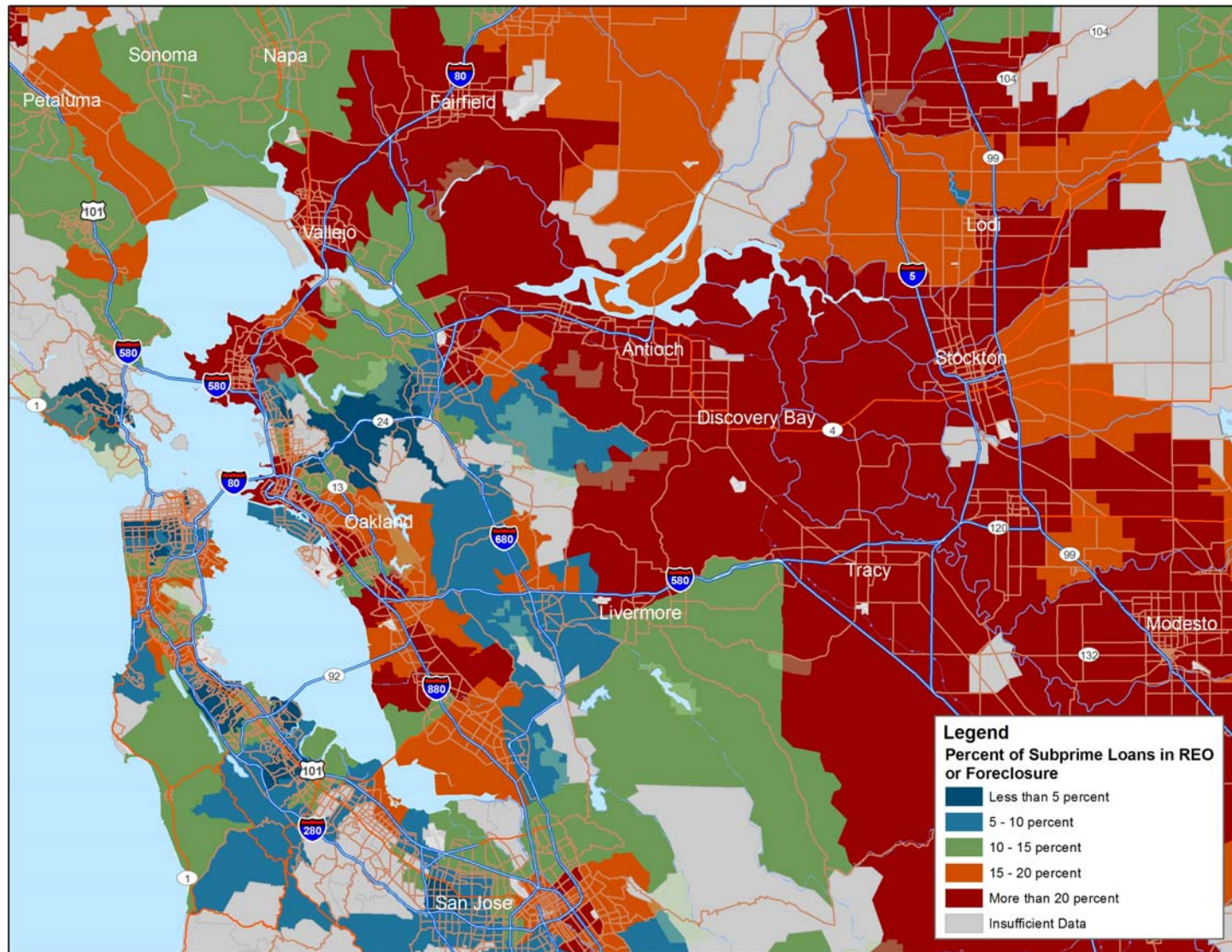
Interest-Rate Resets

- 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 in California, resets may increase borrower difficulties and increase the volume of delinquencies and foreclosures
 - In California, for owner-occupied loans with a variable interest rate
 - 33 percent have already reset
 - 38.8 percent will reset by February 2009

California's "Hot Spots"

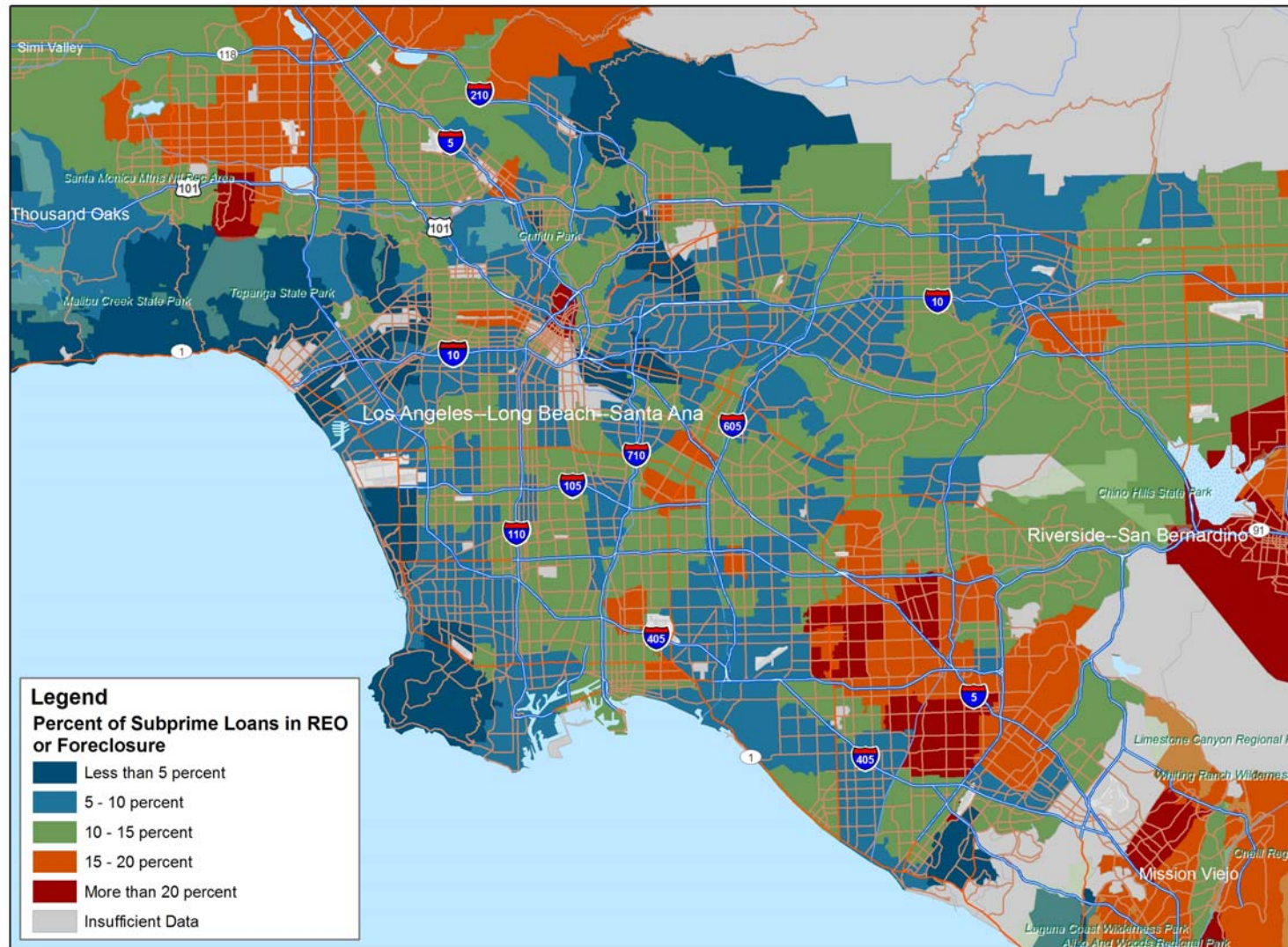


Affected Areas: Suburban Fringe as well as Older, Urban Neighborhoods



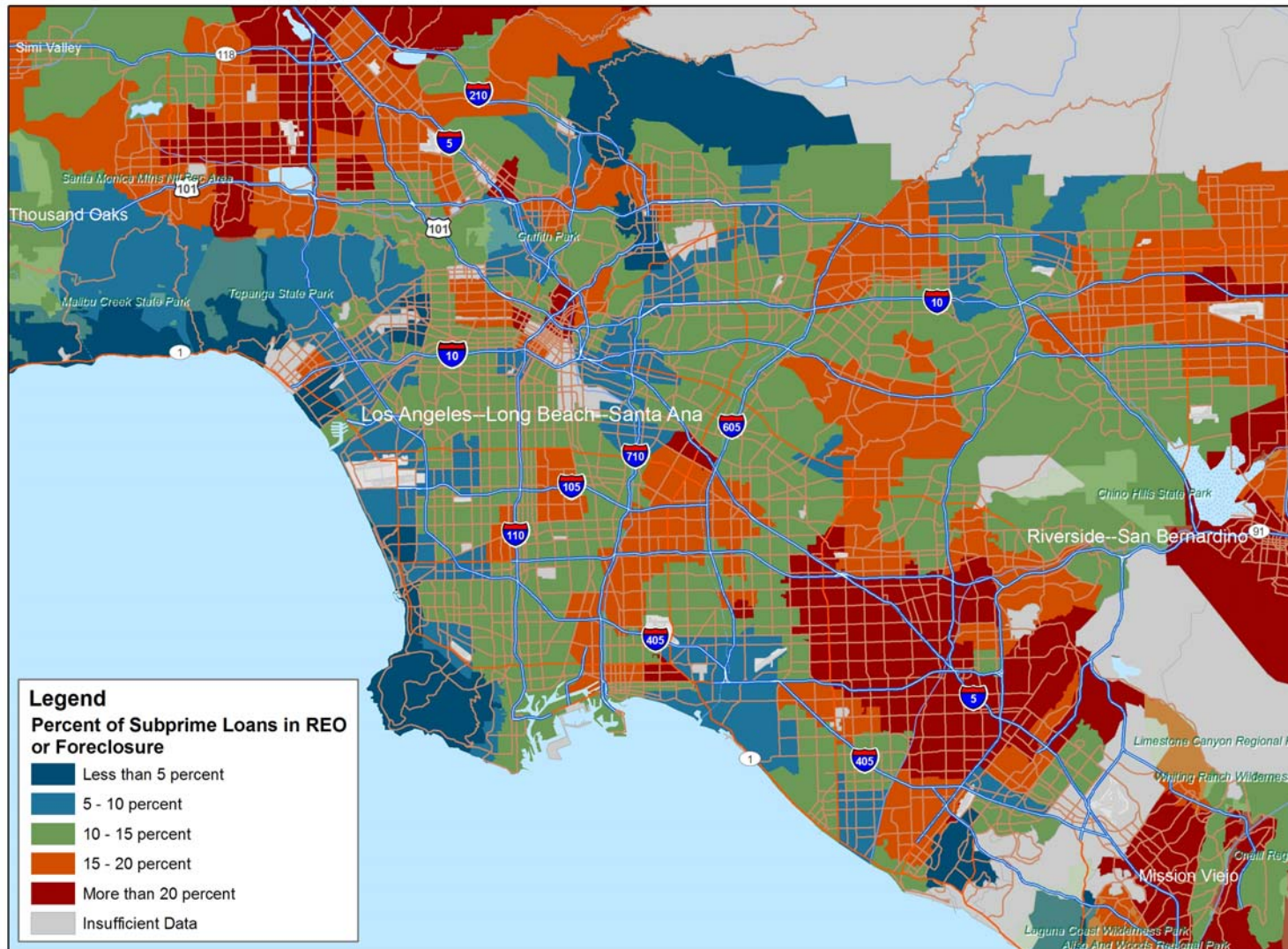
Source: Analysis by Federal Reserve Board of Governors, First American LoanPerformance Data, February 2008. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

Los Angeles “Hot Spots” – December



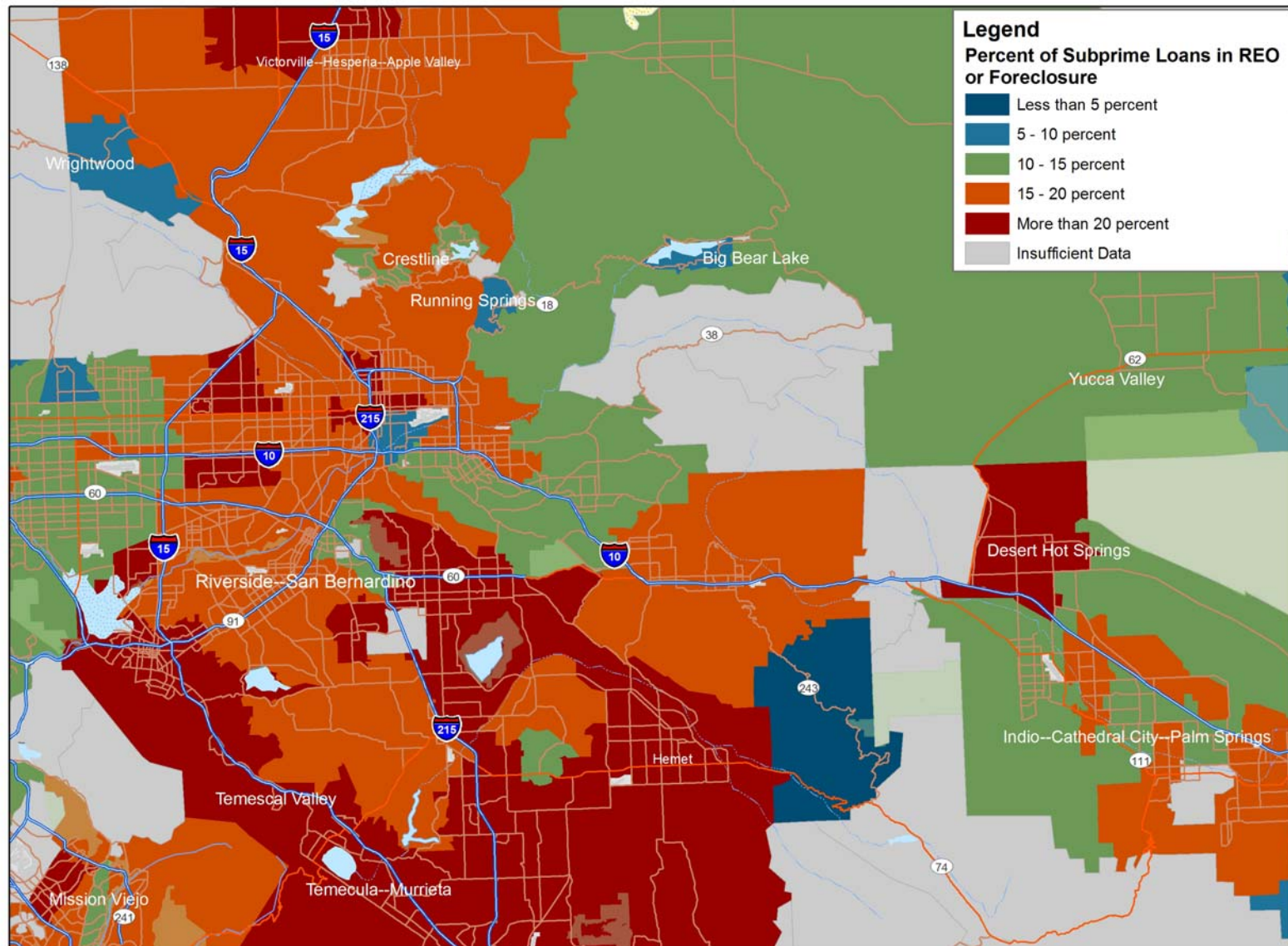
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Los Angeles “Hot Spots” – February



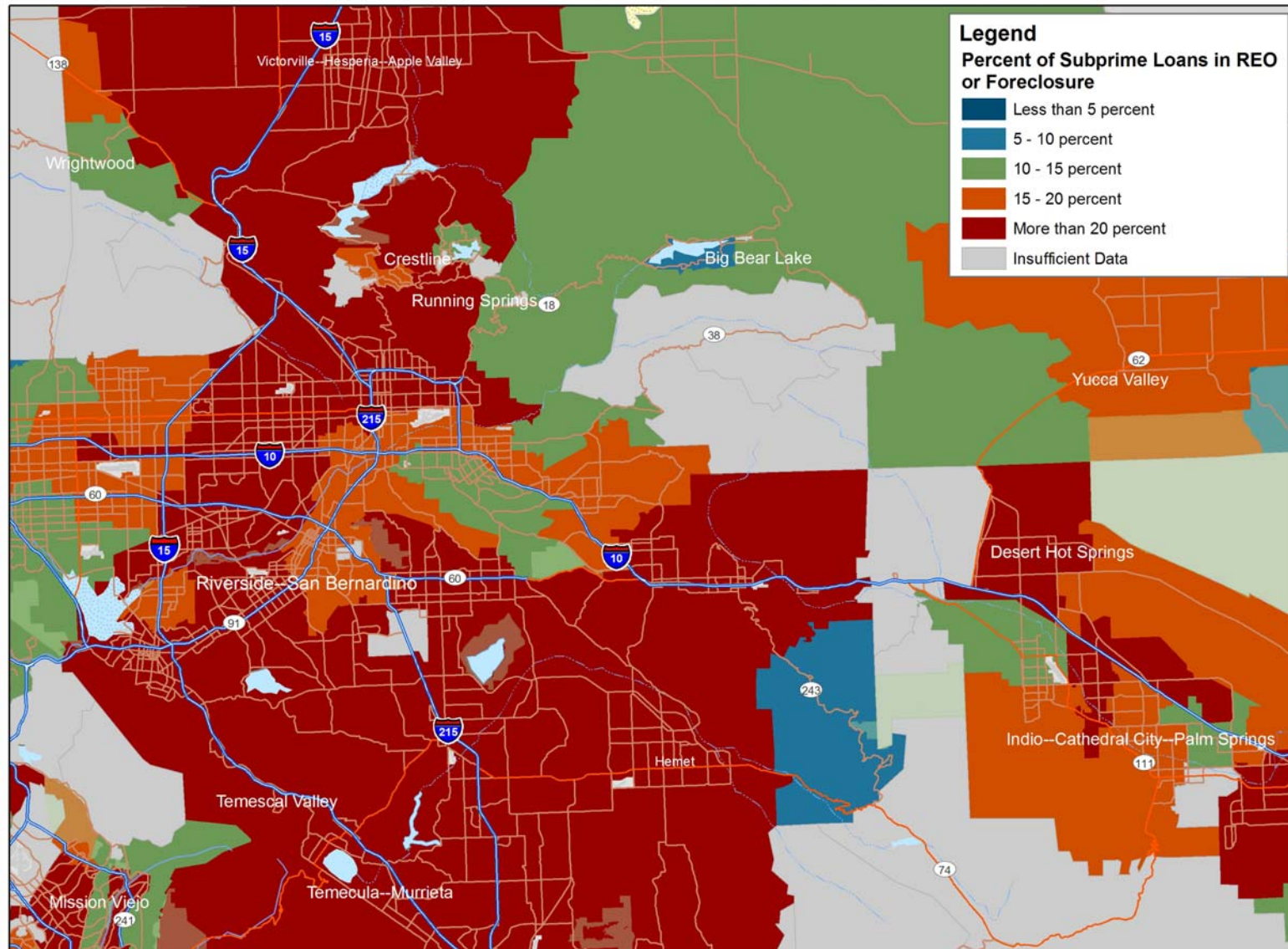
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Inland Empire “Hot Spots” – December



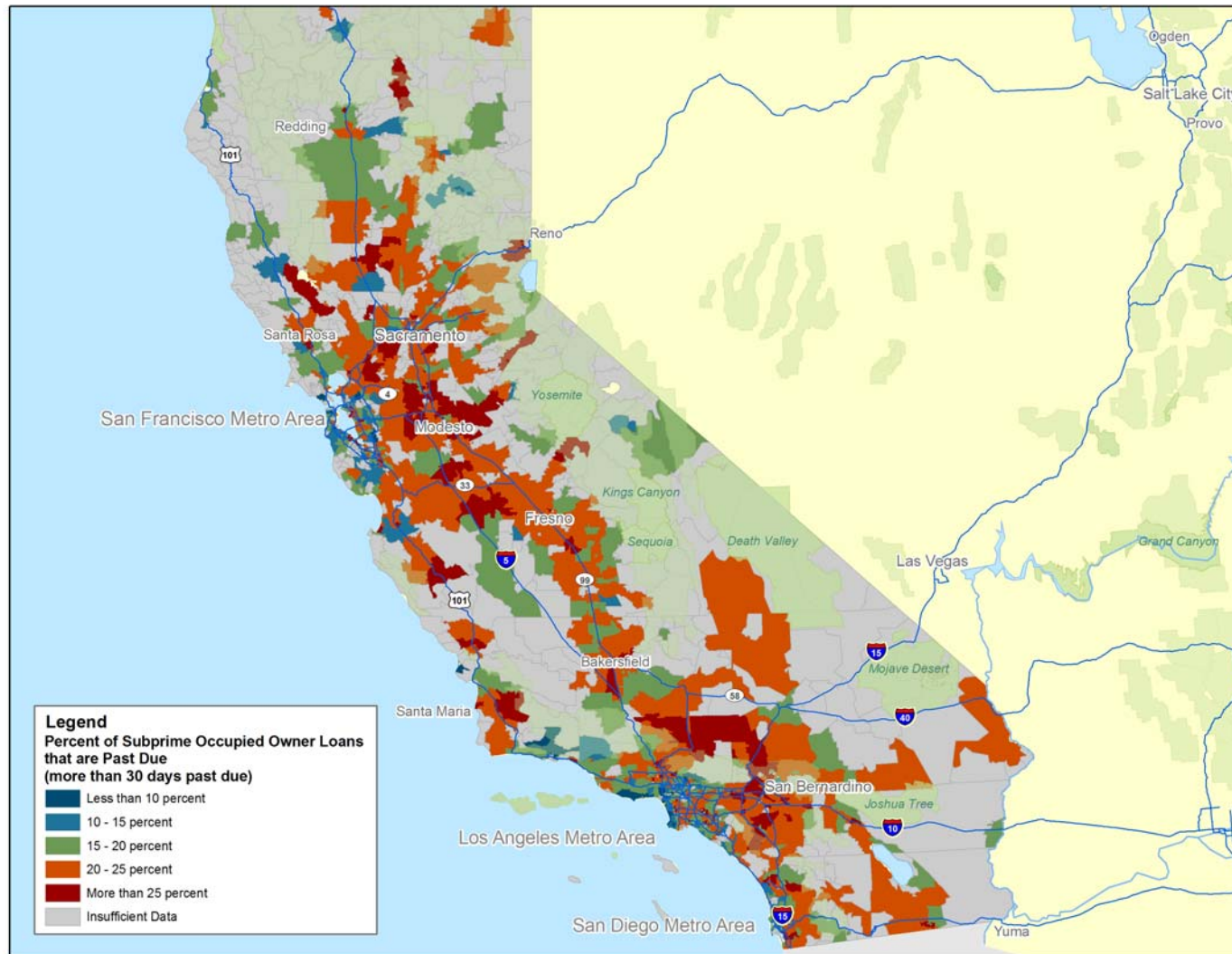
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Inland Empire “Hot Spots” – February



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Foreclosures likely to continue: large percent of remaining subprime loans are past due



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FRBSF's Outreach

- 2007 Activities: Raise awareness of issue and build local capacity to prevent foreclosures
 - Organized **series of summits** in 2Q 2007 to educate constituents, raise awareness, and share best practices
 - Helped **create new, or support existing local taskforces and coalitions** on foreclosure prevention and borrower outreach
 - Provided **training** to lenders and nonprofits and promoted **communication** through servicer/counselor convenings

Ongoing FRBSF Activities

- ▣ Increase reach and scope of foreclosure activities
 - Continue efforts to expand capacity to prevent additional foreclosures
 - ▣ Efforts to streamline and improve effectiveness of borrower outreach fairs and loan modifications
 - Address the negative impact of foreclosures and REO properties on neighborhoods
 - ▣ Stabilizing Communities Symposium
 - Develop “best practices” toolkits and disseminate information through web based publications and videos