

# Mortgage Delinquencies and Foreclosures: Utah



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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 Do not cite or reproduce without permission.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

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- What are current trends in delinquencies and foreclosures in Utah?
  - Mortgage Bankers Association data
    - Trends in Delinquencies and Defaults
  - HOPE NOW Alliance Servicer Data
- What are the primary drivers of foreclosures?
  - Declining house values
  - High proportion of subprime loans
  - Declines in underwriting standards
- What neighborhoods in Utah are witnessing increased issues with foreclosures?
  - McDash data on foreclosures and REOs
  - LoanPerformance data on subprime loans
- What responses are needed?

# Data Caveats

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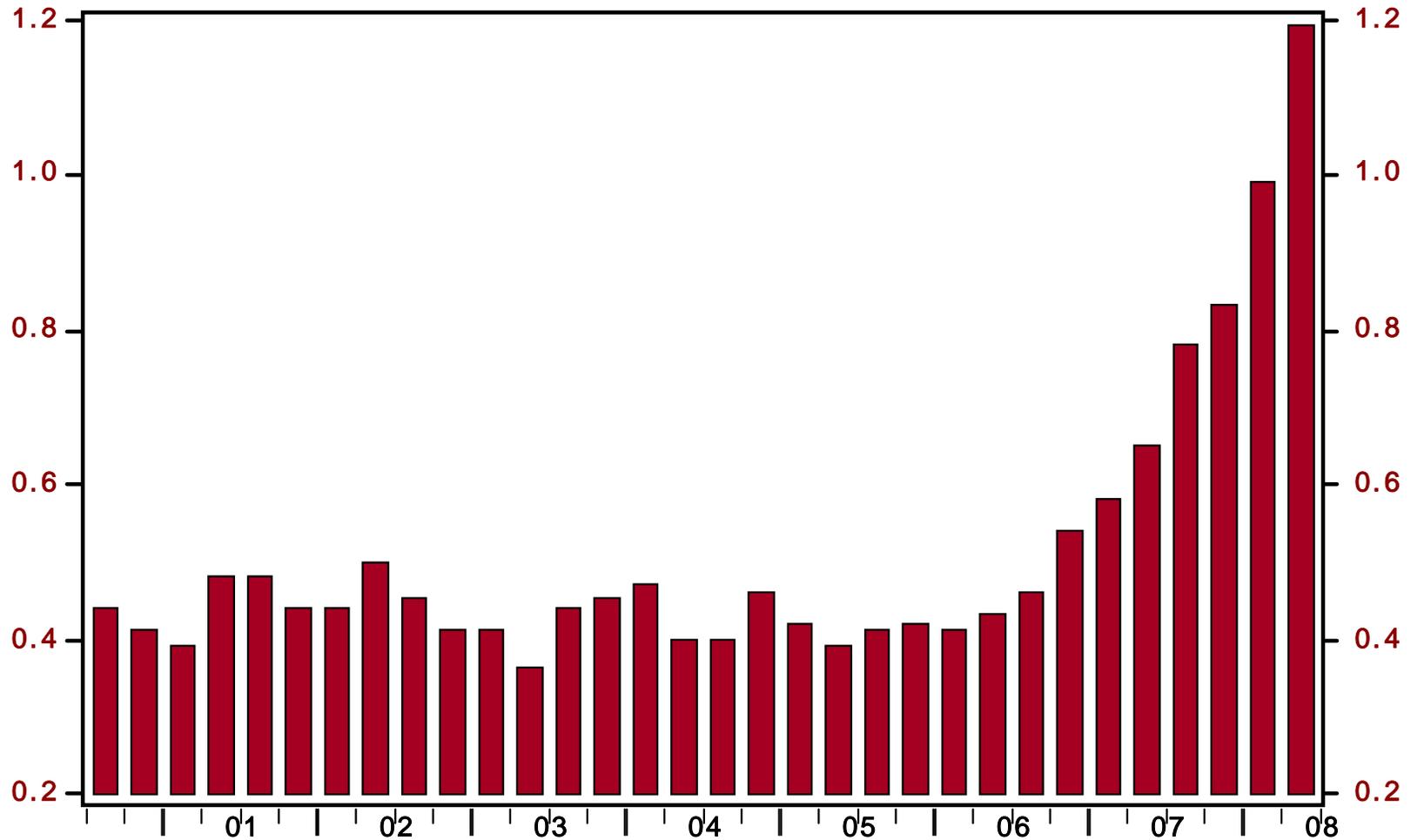
- ❑ Data on the real estate and mortgage markets are collected by many different sources, most costly and proprietary
- ❑ As a result, it is important to consider the limitations of data presented
  - Different definitions of subprime may affect the reporting of rates of delinquencies and foreclosures
  - 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

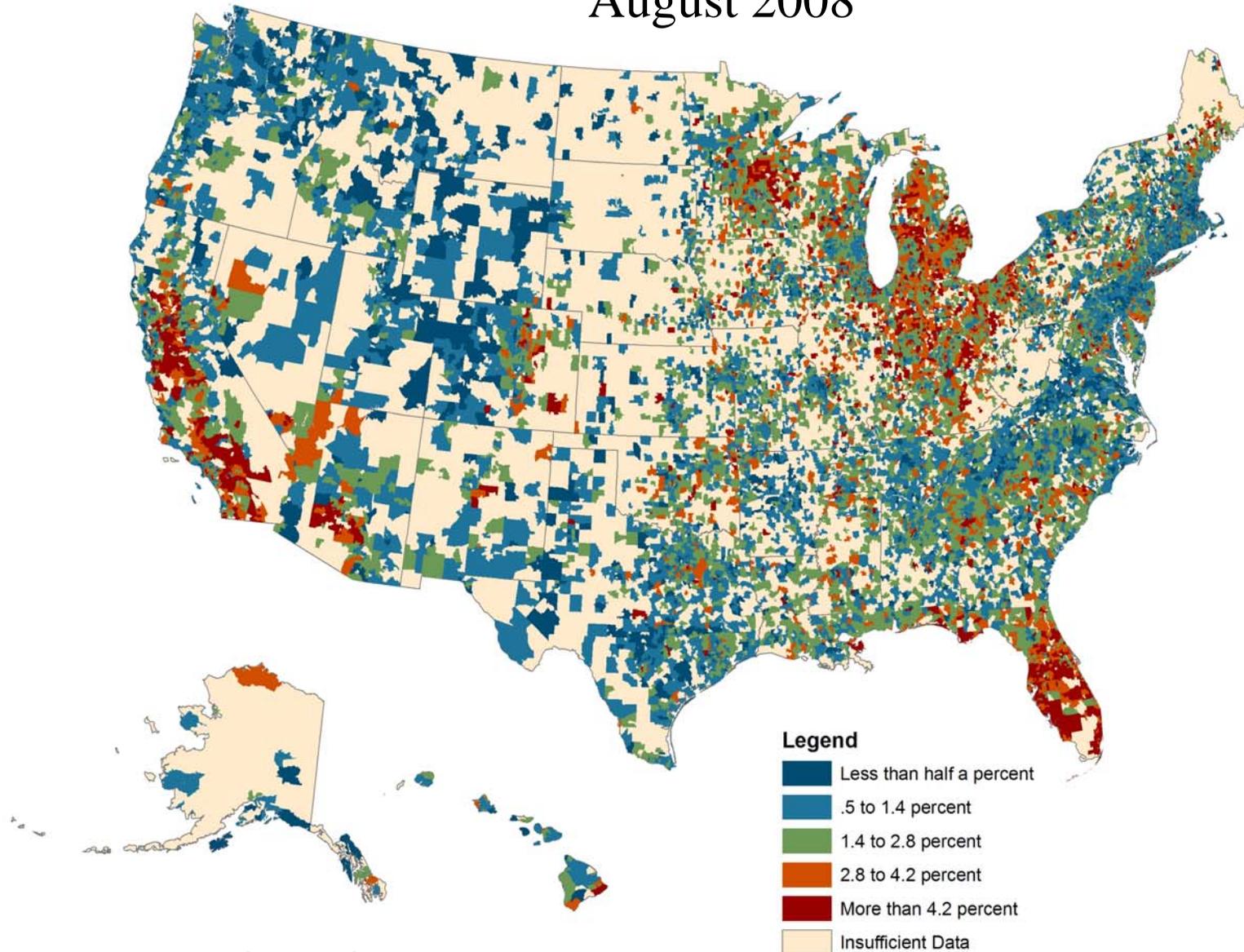
Foreclosure Starts: Percent of all Loans



Source: Mortgage Bankers Association /Haver Analytics

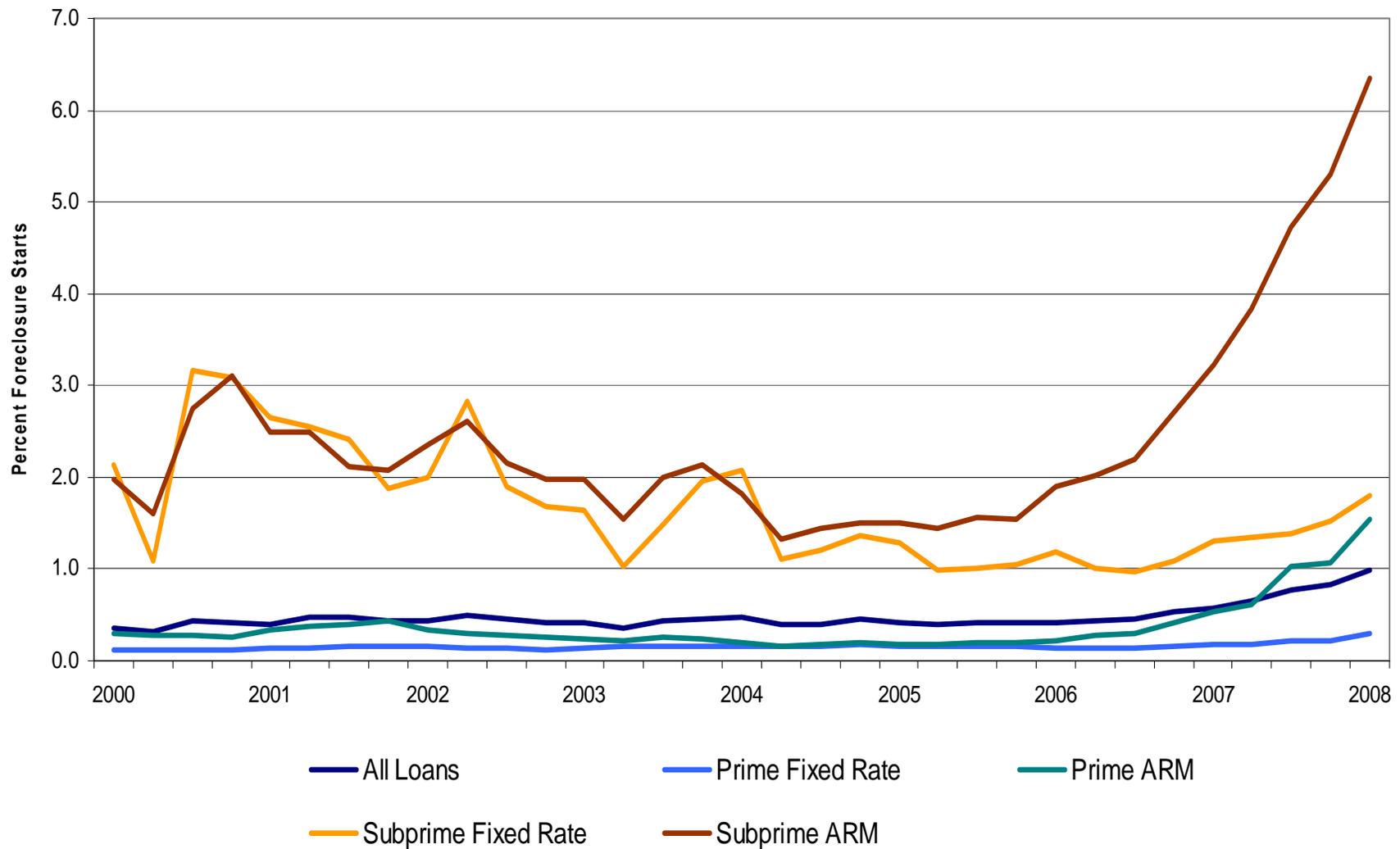
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# Percent of Mortgage Loans in Foreclosure or REO (by zip code) August 2008



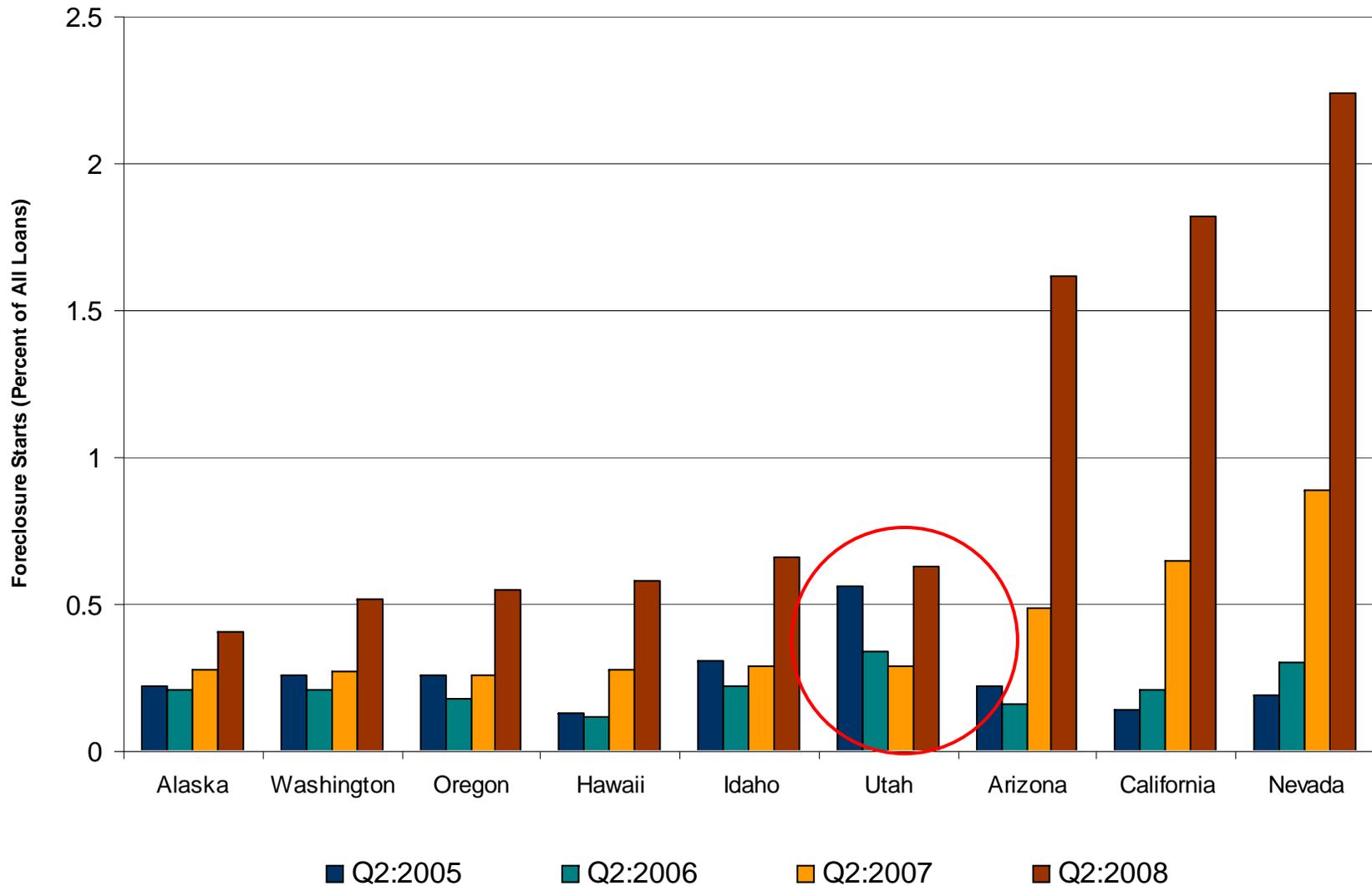
Source: McDash Analytics, LLC and FRBSF calculations

# Foreclosures Concentrated in Subprime ARM Market



Source: Mortgage Bankers Association, National Delinquency Survey, 1st Quarter 2008

# Utah has seen an Increase in Foreclosure Starts



Source: Mortgage Bankers Association, National Delinquency Survey, 2nd Quarter 2008.

## HOPE NOW Servicer Data for Utah

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	2 <sup>nd</sup> Qtr 2007	2 <sup>nd</sup> Qtr 2008
Repayment Plans	2,098	1,809
Loan Modifications	244	811
Foreclosure Sales	168	600
60+ Delinquency Rate	1.55%	2.21%

Source: Hope Now Servicing Data, July State Data Tables 2008, includes both prime and subprime loans

# Delinquency Rates Vary Significantly by Mortgage Type

## Utah: Delinquency and Foreclosure Rates, 2<sup>nd</sup> Qtr 2008

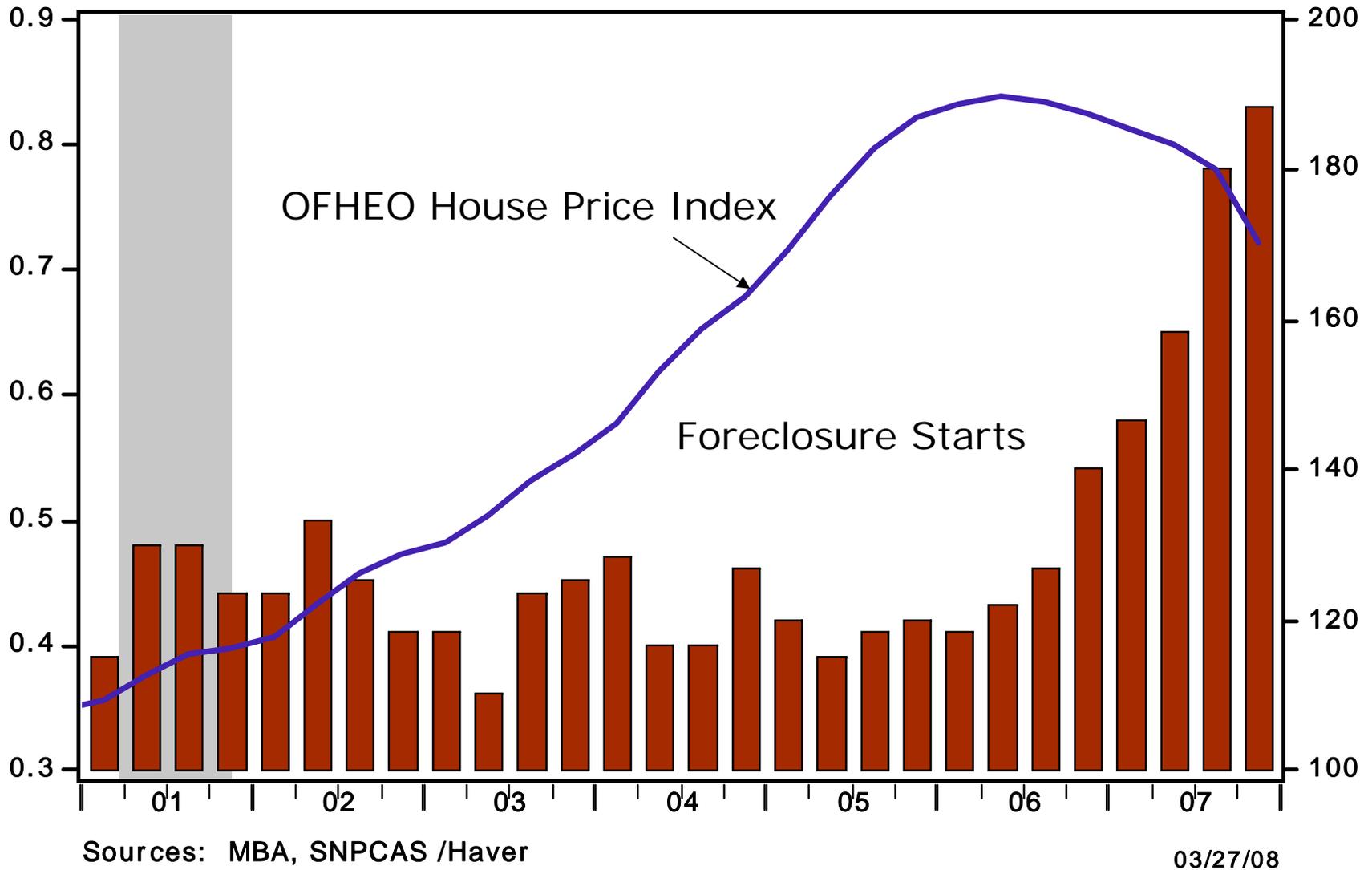
Mortgage Type	Percent Past Due		Foreclosures Started	
	1 <sup>st</sup> Qtr 2007	2 <sup>nd</sup> Qtr 2008	1 <sup>st</sup> Qtr 2007	2 <sup>nd</sup> Qtr 2008
Prime Fixed	1.37	2.00	0.11	.20
Prime ARM	2.40	4.99	0.24	1.06
Subprime Fixed	5.26	10.23	0.70	1.40
Subprime ARM	7.88	14.96	1.42	4.01
FHA	6.89	6.94	.47	.41

Source: Mortgage Bankers Association, National Delinquency Survey, 2<sup>nd</sup> Qtr 2008

# Trends in House Values

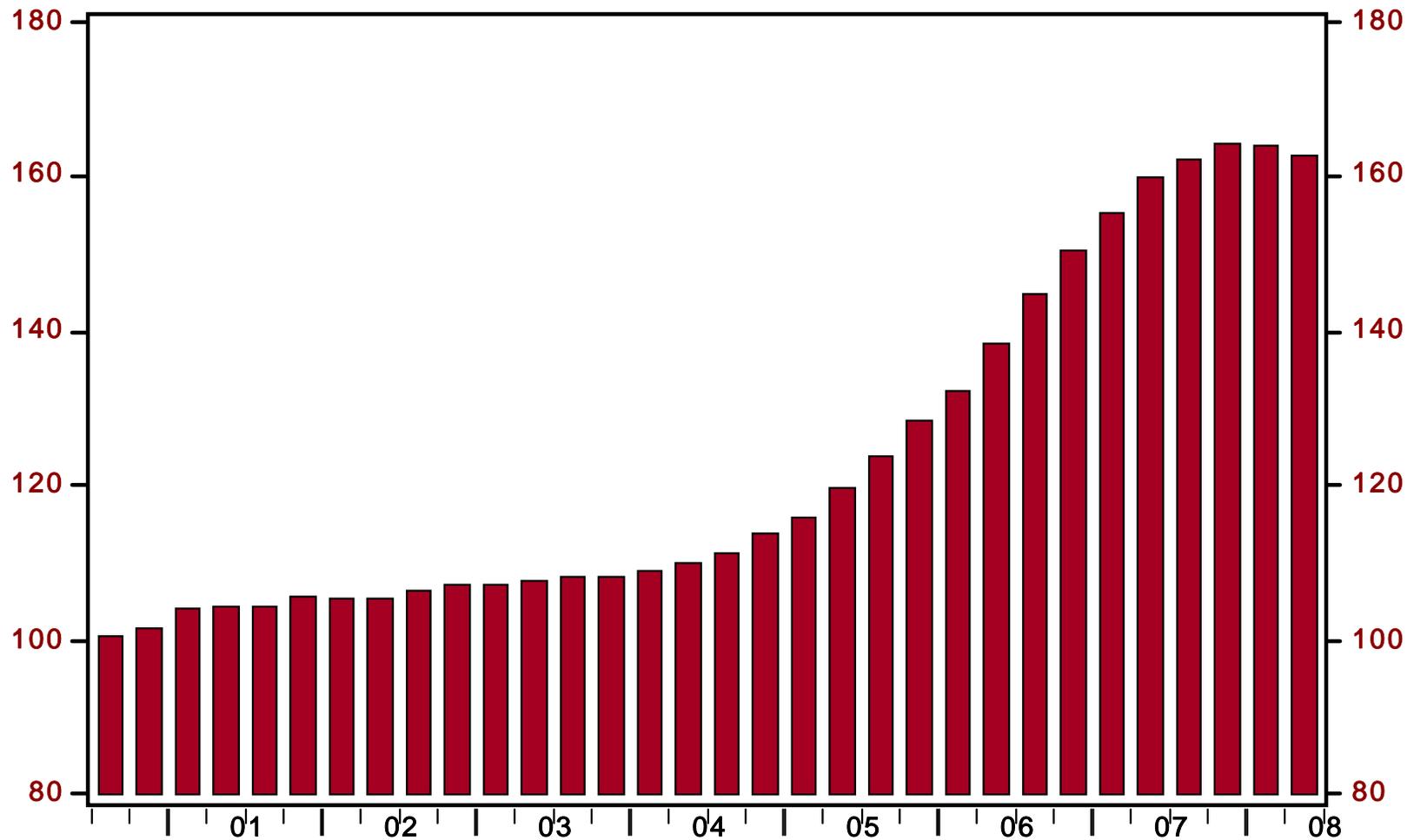


# Nationally, Subprime Foreclosure Rates Closely Track Declines in House Values



# Utah's Housing Market Softening

OFHEO House Price Index (2000=100)

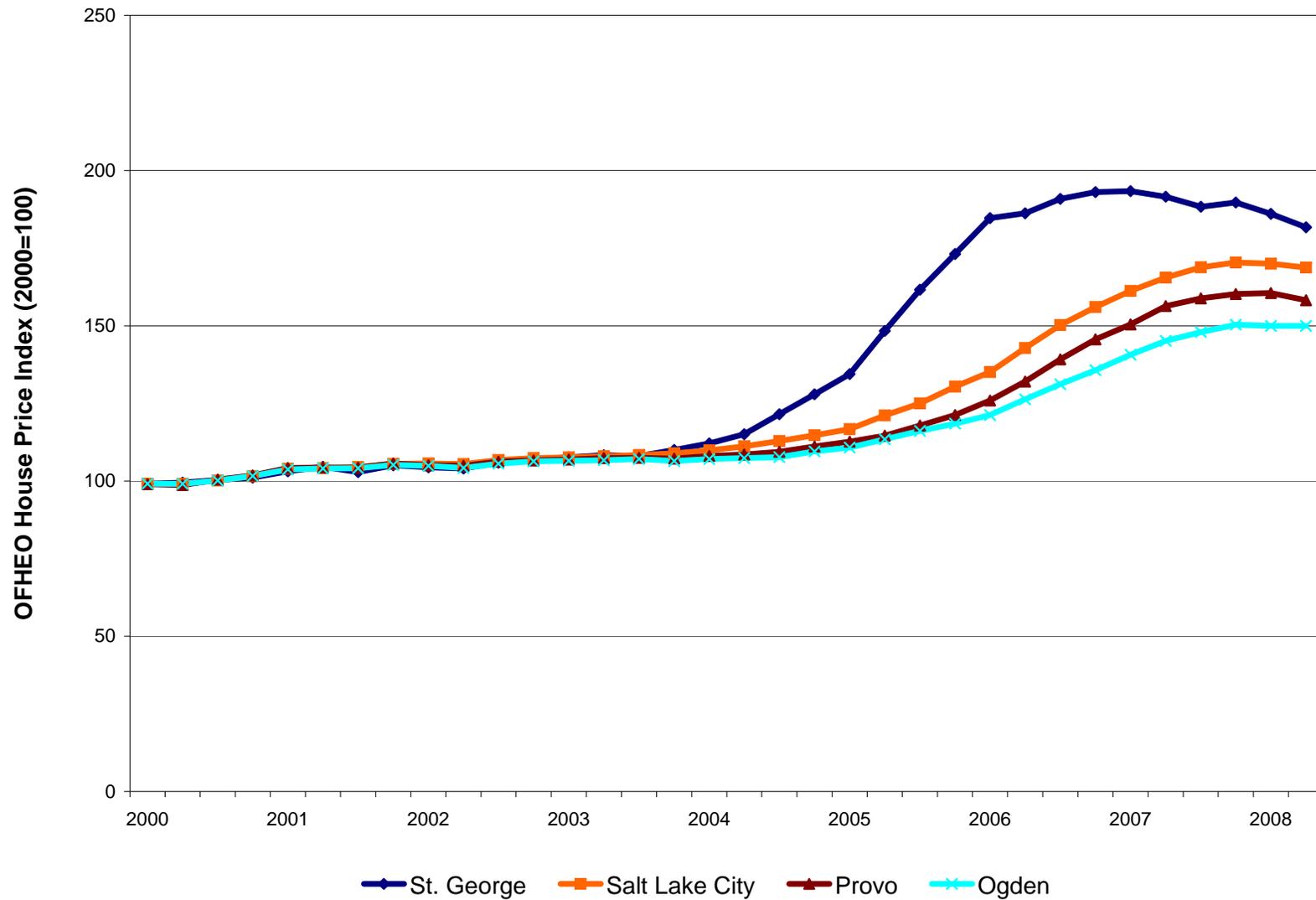


Source: OFHEO /Haver

09/23/08

# Metropolitan Areas Also Seeing Softening

OFHEO House Price Index (2000=100)



# Utah Did See Surge in Subprime Lending

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- ❑ Economic research suggests that the current mortgage crisis has been driven by declining house values
  - Utah vulnerable to same dynamic if house prices fall
- ❑ According to the Pew Center for the States, 1 out of 25 homeowners in Utah are projected to face foreclosure in 2008-2009, the 5<sup>th</sup> highest projected foreclosure rate in the nation
- ❑ Critical to help distressed borrowers now, and refinance into more sustainable loan products

# Utah “Hot Spots”

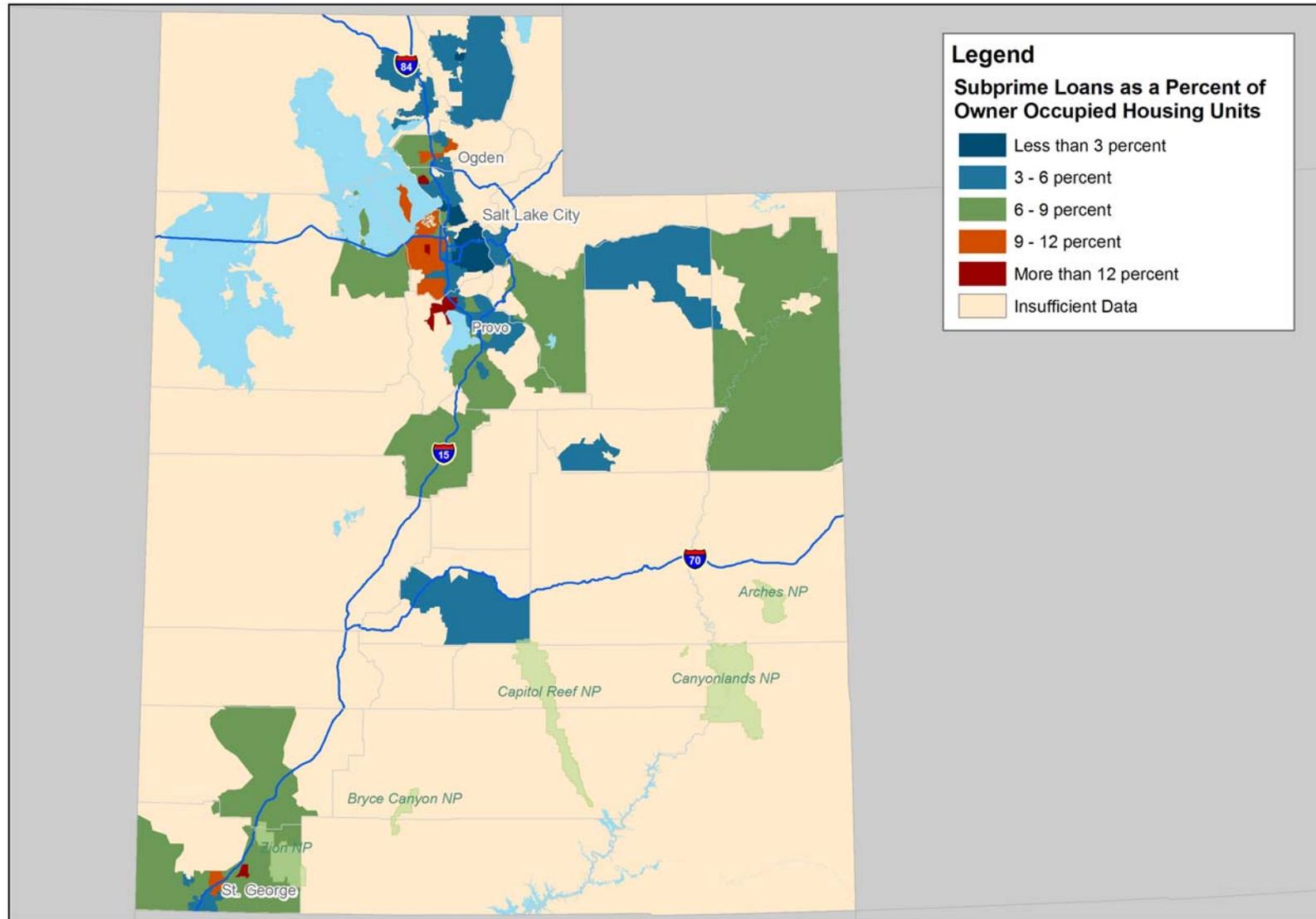






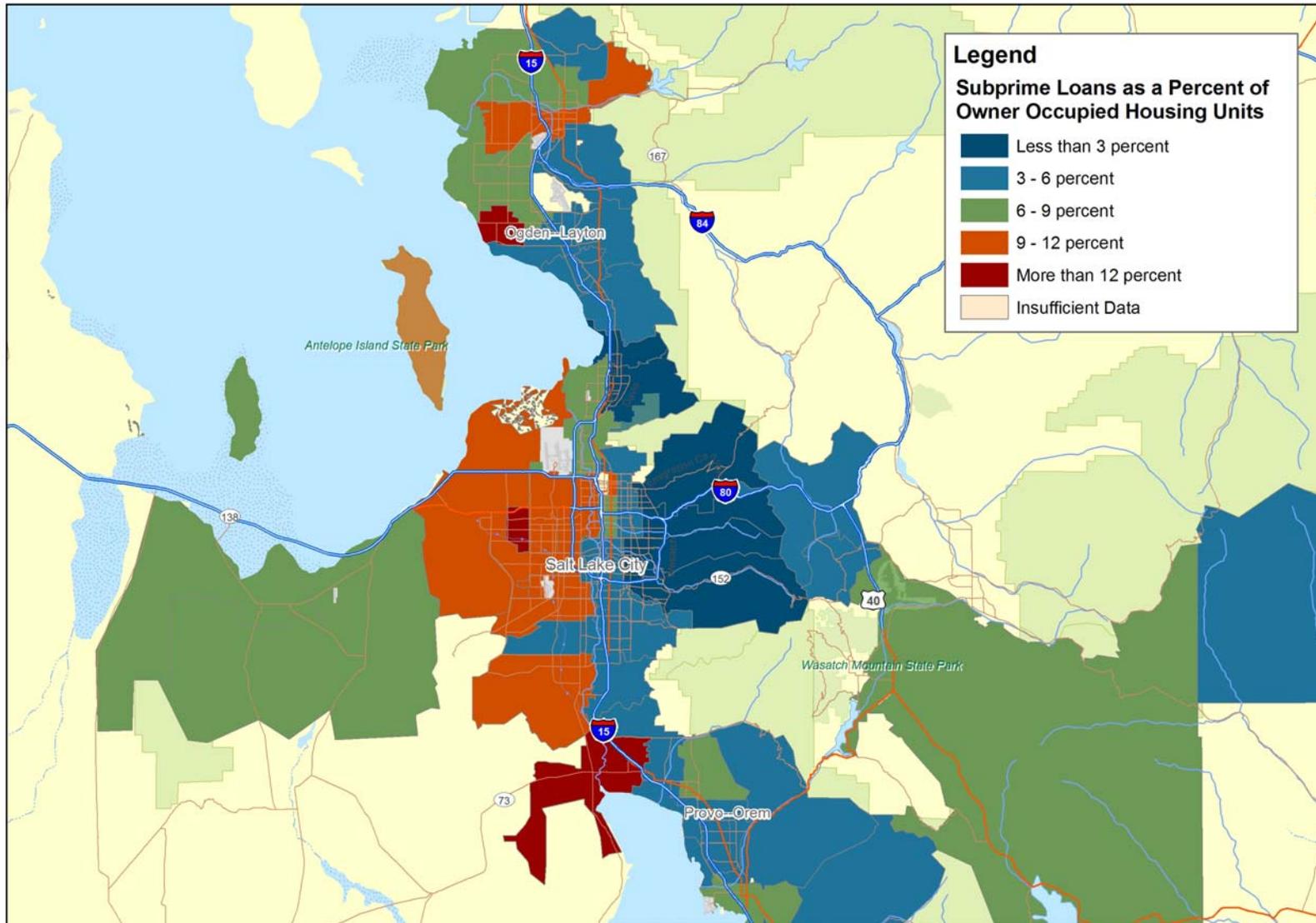


# Utah - Concentrations of Subprime Loans



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

# Salt Lake City - Concentrations of Subprime Loans



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

# Responding to Foreclosures in Utah



# Foreclosure Mitigation Toolkit

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- Available online at  
<http://www.frbsf.org/community/issues/toolkit/index.html>
- The resources in the toolkit are presented as a four-step process
  - Step One: Assess the Foreclosure Situation
  - Step Two: Reach troubled homeowners
  - Step Three: Establish post-foreclosure support systems
  - Step Four: Stabilize neighborhoods

# Responding to the Foreclosure Crisis

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- 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: return REO properties into productive use, affordable housing
  - Ensuring continued access to credit and homeownership: credit repair, financial education, responsible lending

# Key Challenges

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- ❑ Shifting economic ground, locally and in the capital markets
- ❑ Industry complexity and fragmentation
- ❑ Capacity to respond to scale of the problem
- ❑ Funding
- ❑ Valuation
- ❑ Lack of established models, few “experts”
- ❑ Questions regarding how to target interventions effectively

# Community Strategies – Foreclosure Prevention

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- Foreclosure prevention: borrower outreach, loan modification
  - HOPE NOW: servicer guidelines
  - New technology platforms can assist counselors/servicers in doing loan modifications
  - New finance products: e.g., H4H program just released
  - Most effective when there is a direct relationship between counselor and servicer
  - Borrower outreach events
- Prevention remains key, since over the long-term, more cost effective than having to respond to foreclosed property issues

## Community Strategies - Addressing Vacant Properties

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- Goal is to establish **continuity of responsibility** for property, and to help finance the maintenance of vacant properties
  - Code enforcement (e.g. Chula Vista and Stockton)
  - Vacant property registration and fees (e.g. Chicago)
- Identifying responsible party on the property
  - State Law – Georgia SB 531 requires that notice of the foreclosure sale includes the name, address, and telephone number of the “individual or entity who shall have full authority to negotiate, amend, and modify all terms of the mortgage with the debtor.”
- Strategies for taking over abandoned properties
  - Receivership models
  - Tax foreclosure

# Community Strategies – REO Property Disposition

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- ❑ Intervening before Foreclosure: entails buying the delinquent note before foreclosure and working with borrower first, if not successful, return to either rental or ownership
  - CDFIs: Self Help, Colorado, and Massachusetts
- ❑ Neighborhood Revitalization Approaches: targeting neighborhoods and using ‘traditional’ community development tools to acquire and rehab housing units
  - Neighborhood Progress Inc. in Cleveland
  - Dallas, Rochester, and Chicago
  - DC: New Markets Tax Credits
- ❑ Lender Approaches: working with a single lender to acquire a “bundle” of properties at a discount
  - Bulk Purchase
  - Pilot studies (e.g. HSBC model)
- ❑ Borrower approaches: providing favorable financing to borrowers interested in buying foreclosed properties
  - CAL FHA product

# Key Lessons

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- ❑ Use data strategically
  - National data sets can't capture local dynamics or “property level” data
  - Engage a local partner (e.g. title company, university, public records co., real estate agent) who can help to identify properties and their owners
- ❑ Cross-sectoral collaboration
  - Importance of political support and the “stick” of regulation
  - Task force model works well, especially when it brings together government, nonprofits, lenders/servicers, and private interests
- ❑ Draw on a wide range of funding sources
- ❑ Use public subsidies wisely
  - Cross-subsidize affordable housing goals by selling some properties at market rate
  - Anticipate long “holding” costs and ensure you have enough capital in addition to subsidy to implement your business plan
- ❑ Evaluate strategies across strong/weak markets