

Foreclosure Trends

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Iowa Delinquency Rates

As of June 30, 2009, Iowa had:

- 24,837 total Subprime loans
- 10.97% of inventory in foreclosure (26th in the Nation)
- 2.75% started foreclosure in the quarter (41st)
- 20.23% seriously delinquent (31st)

Subprime ARMs

- 7,905 loans
- 16.55% of inventory in foreclosure (Tied for 29th)
- 3.36% started foreclosure in the quarter (50th)
- 28.24% seriously delinquent (38th)

Foreclosure Trends

- National Ranking has dropped significantly over the last 2 years.
- Numbers in Iowa appear to be stabilizing.

	<u>Inventory</u>	<u>Starts</u>
Q1 2007	4 th	6 th
Q4 2007	13 th	23 rd
Q2 2008	17 th	19 th
Q4 2008	21 st (tie)	35 th
Q1 2009	24 th	35 th (tie)
Q2 2009	26 th	41 st

Center for Responsible Lending Projected Foreclosure Statistics

Iowa

- Expected foreclosures in 2009:
10,420
- Next 5 years: 34,691

National

- 2009: 2.4 million
- Next 5 years: 8.1 million

The Start of the Crisis

- Crisis created by weak or non-existent underwriting, fraud, and structurally unfair loan products
- Started as a subprime crisis when the economy was still strong
- Early concern was impending wave of 2/28 ARMs that were due to reset and result in higher, unaffordable payments

How the Crisis has Changed

- That has changed over time
- Subprime market collapsed in Fall of 2007
 - No more subprime loans being originated
 - Back to 1991 levels (33% to 4% of total market)
- Many of the ARM resets have worked their way through the system

Three Big Trends

1. Recession is having a big impact

- Crisis has migrated to prime loans
- Many people in trouble due to unemployment or curtailment of income
 - Very different problem than a predatory loan
- Cannot do a modification if you don't have an income
- Need a different approach

2. Alt-A loans and Option-ARMs

- Next big wave will be Option ARMs
- Unlike 2/28s which were everywhere, Option ARMs were much more concentrated in certain states with rapid home price appreciation
 - California, Arizona, Florida, Nevada, Colorado
- Vast majority of Option ARM borrowers chose the lowest payment and have negative amortization
- Those loans will recast over the next few years

2. Alt-A loans and Option-ARMs (cont.)

- Alt-A loans are the area in-between prime and subprime
- Will also see a large increase in defaults
- More downgrades than subprime

3. Home Price Declines (underwater loans)

- 62% of non-agency loans predicted to have negative equity within 2 years
- 72% of subprime loans

Predictions

Credit Suisse predicts

- 8.1 million foreclosures over next 4 years (16% of all mortgages)
- 9.0 million with a mild recession (8% unemployment)
- 10.2 million with a more severe recession
- 6.3 million (mild recession and loan mods)
 - 50% mods ratio and 40% redefault rate

End Result

- Subprime lending has resulted in a net loss in homeownership (Fed Reserve Bank of St. Louis)
- Now a commonly accepted fact
- Refi v. purchase money (16%)
- Now, purchase money are failing, including first time homebuyers
- Dramatic impact on minorities
 - House is biggest asset