

Local Initiatives Support Corporation Concentrated Residential Foreclosure Risk Analysis

The attached maps depict areas likely to be most at risk of large numbers of single-family residential foreclosures in the coming year and beyond. These are areas with large numbers of high-cost loans made to homeowners and investors to purchase or refinance single-family properties in 2006, as reported by financial institutions under the Home Mortgage Disclosure Act (HMDA). Previous research carried out by the Federal Reserve Bank and others has demonstrated a strong tie between concentrations of high-cost loans as measured by HMDA and eventual foreclosures.

Many, but not all, of the interest rates on these high-cost loans are due to reset from lower to higher rates in 2008 and 2009, producing extreme payment burdens and a sharp upswing in foreclosure incidence in many neighborhoods. Even if widespread loan resets are avoided as a result of government or industry policies, foreclosure risks from traditional causes have been heightened, regardless: many borrowers carry high levels of mortgage debt relative to their incomes, have weak credit histories, carry high-cost loans, reside in markets where property prices are falling, or display combinations of all these factors. Many investors fall into these same categories, and are not shielded from impending rate resets under current proposals.

The first three maps display a different way of calculating the risk of concentrated foreclosures, based on lending experience across all census tracts in US metropolitan areas:

- **High Cost Loans as a Percent of Mortgage Loans Originated**, which indicates the dependence of the local residential finance marketplace on high-cost loans. The darker-colored neighborhoods are those where higher percentages of *loans* are likely to experience default and subsequent property foreclosure.
- **Number of High-Cost Loans per 1,000 Occupied Housing Units**, which indicates the degree of neighborhood vulnerability to the adverse consequences of high numbers of defaults. The darker-colored neighborhoods are those where higher percentages of a neighborhood's *units* are likely to experience foreclosure.
- **Tracts at Highest Risk Nationally of Concentrated Foreclosure**, in which tracts in the top quintile of all US tracts with on *both* percentage of loans that are high cost and number of high cost loans per 100 dwelling units. These red-colored neighborhoods are uniquely vulnerable to problems associated with high levels of high cost lending.

A fourth map portrays the numbers of high-cost loans originated per census tract in 2006 grouped according to values with the metropolitan area (not nationally, as in the maps just described).

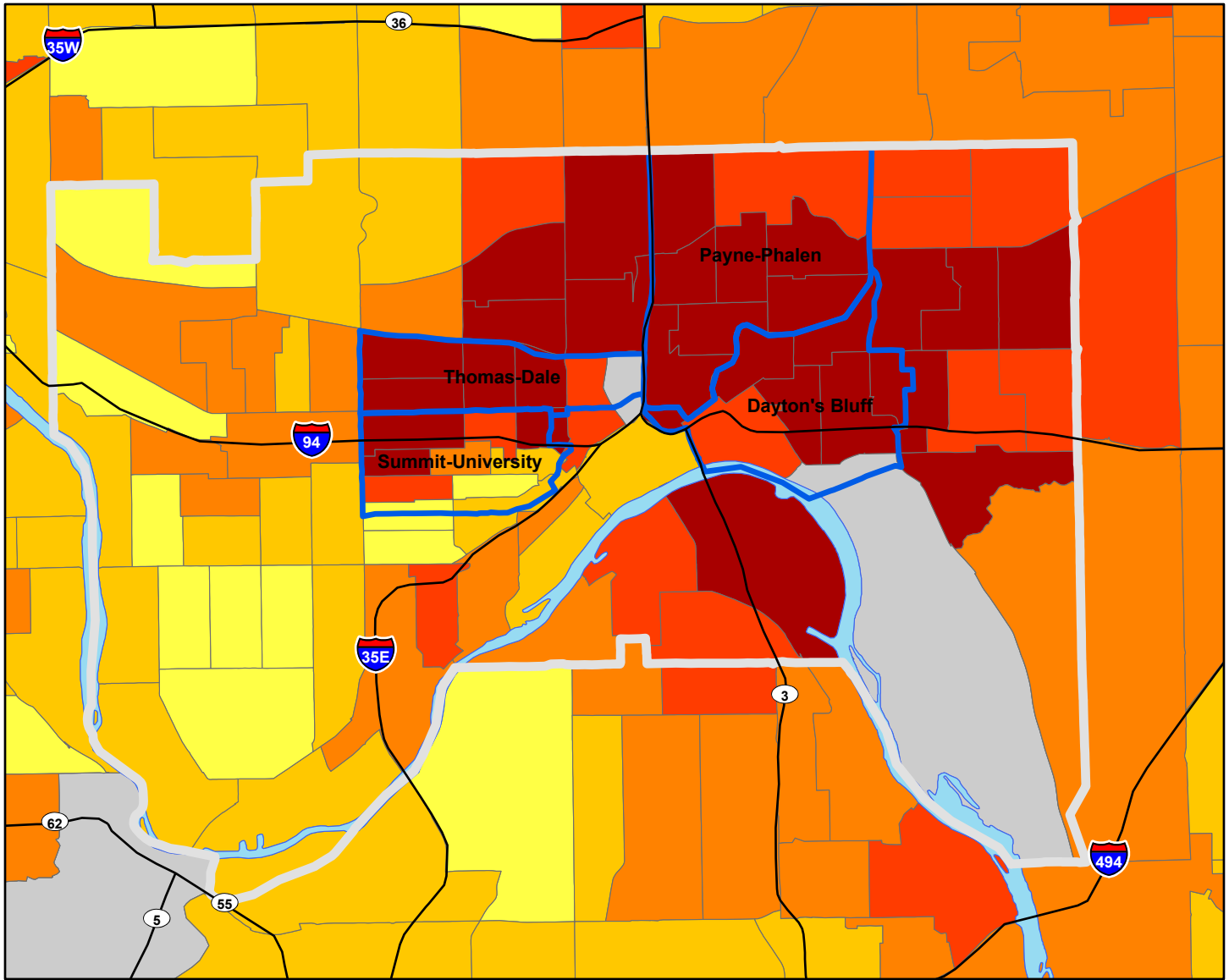
The maps combine data for high-cost home purchase loans and refinancings because both lead to above-normal levels of financial stress for borrowers. In particular neighborhoods, a pronounced skew of the total numbers of high-cost loans toward buyers or refinancings might drive up the resulting incidence of loan default and foreclosure.

Loans to both owner-occupants and investors are included in the figures. However, neighborhoods in which more than one-third of purchasers are investors are cross-hatched on the maps. (This percentage roughly distinguishes the top ten percent of metropolitan area census tracts in terms of the investor percentage of all borrowers.) These typically are neighborhoods with larger number of single-family rental properties.

The HMDA data used to generate these maps have the considerable advantage of good market coverage and low-cost, but mortgage characteristics provide only an indirect measure of foreclosure risk. That is, the maps display information about loan originations, but not about the payment status of the loans or the location of property foreclosures in the recent past. These could offer a more direct measure of concentrated foreclosure risk, and can be purchased from private data vendors or obtained from local governments or nonprofit data providers.

Nevertheless, HMDA data, if conservatively deployed as they are here, can be used to identify areas of highest foreclosure risk with reasonable accuracy. Errors are likely to be those of omission – missing places of high risk – rather than commission – misidentifying an area as highly vulnerable when it is not. Because the scale of foreclosures and subsequent community problems are likely to exceed the resources available to fully respond, errors that reduce the number of areas identified would seem to be less serious than those that expand the number to include those that do not merit attention.

High Cost Loans as Percent of Mortgage Loans Originated in 2006 St. Paul, MN



Data Source: Home Mortgage Disclosure Act, 2006; Census 2000

National Quintiles of High Cost Loan Percentage

- 0% - 15%
- 16% - 25%
- 26% - 35%
- 36% - 45%
- 46% - 100%
- Too few loans to calculate
- City of St. Paul
- Candidate Sustainable Communities Neighborhoods

Notes

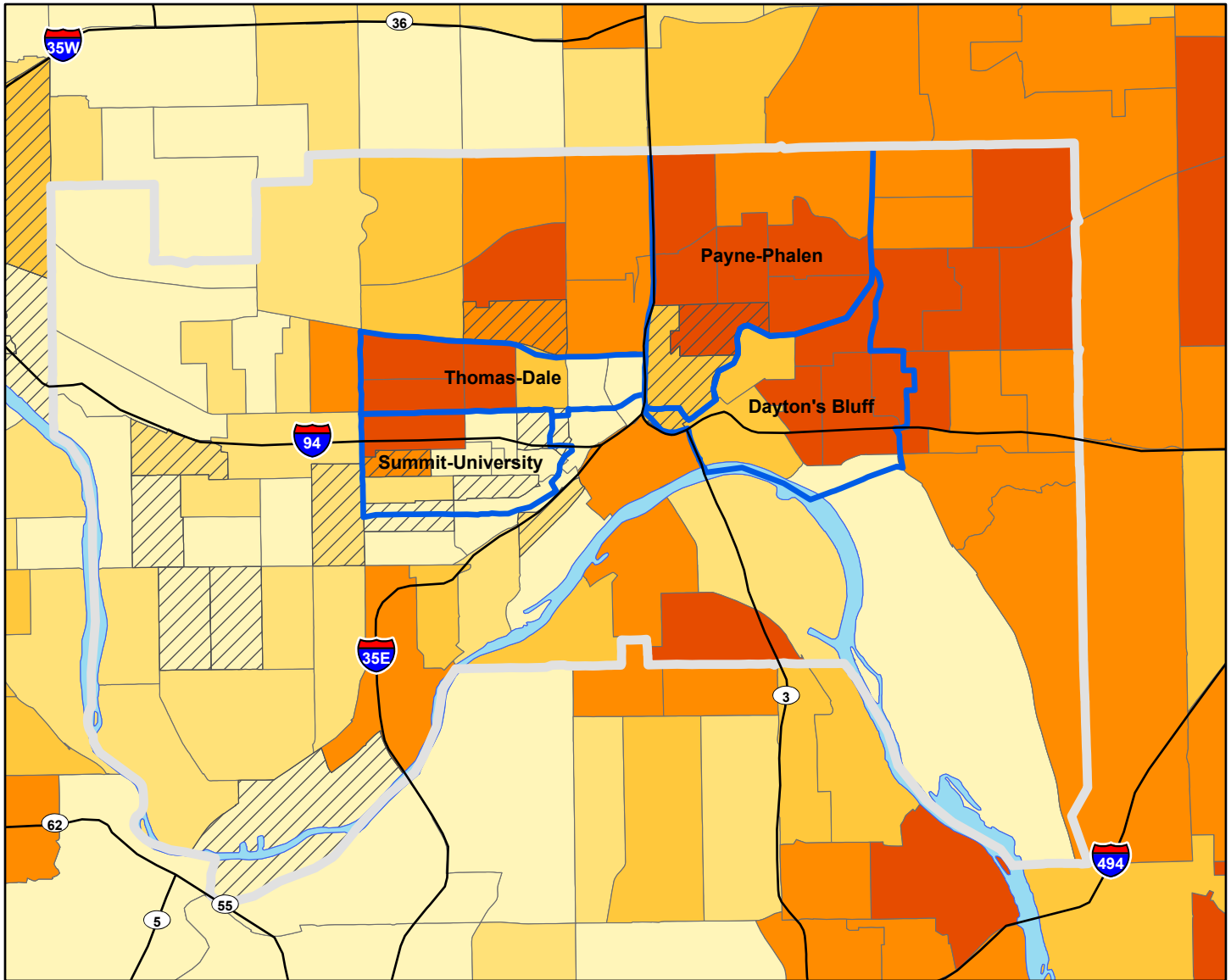
Includes single-family home purchase and home refinance loans originated in 2006.

Quintiles are based on loans originated in all US metropolitan area census tracts.

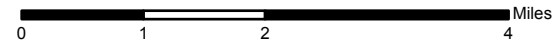
High cost loans have interest rates 3 percentage points above comparable Treasury rates for first liens and 5 percentage points above for junior liens.

Various studies have established the link between HMDA high cost loan percentage and foreclosure risk.

Number of High Cost Mortgage Loans Originated in 2006 per Tract St. Paul, MN



Data Source: Home Mortgage Disclosure Act, 2006; Census 2000



MSA Quintile of High Cost Loans per Tract

- 0 - 20
- 21 - 35
- 36 - 50
- 51 - 75
- 76 or more
- Percent of Investor High Cost Loans > 33%
- City of St. Paul
- Candidate Sustainable Communities Neighborhoods

Notes

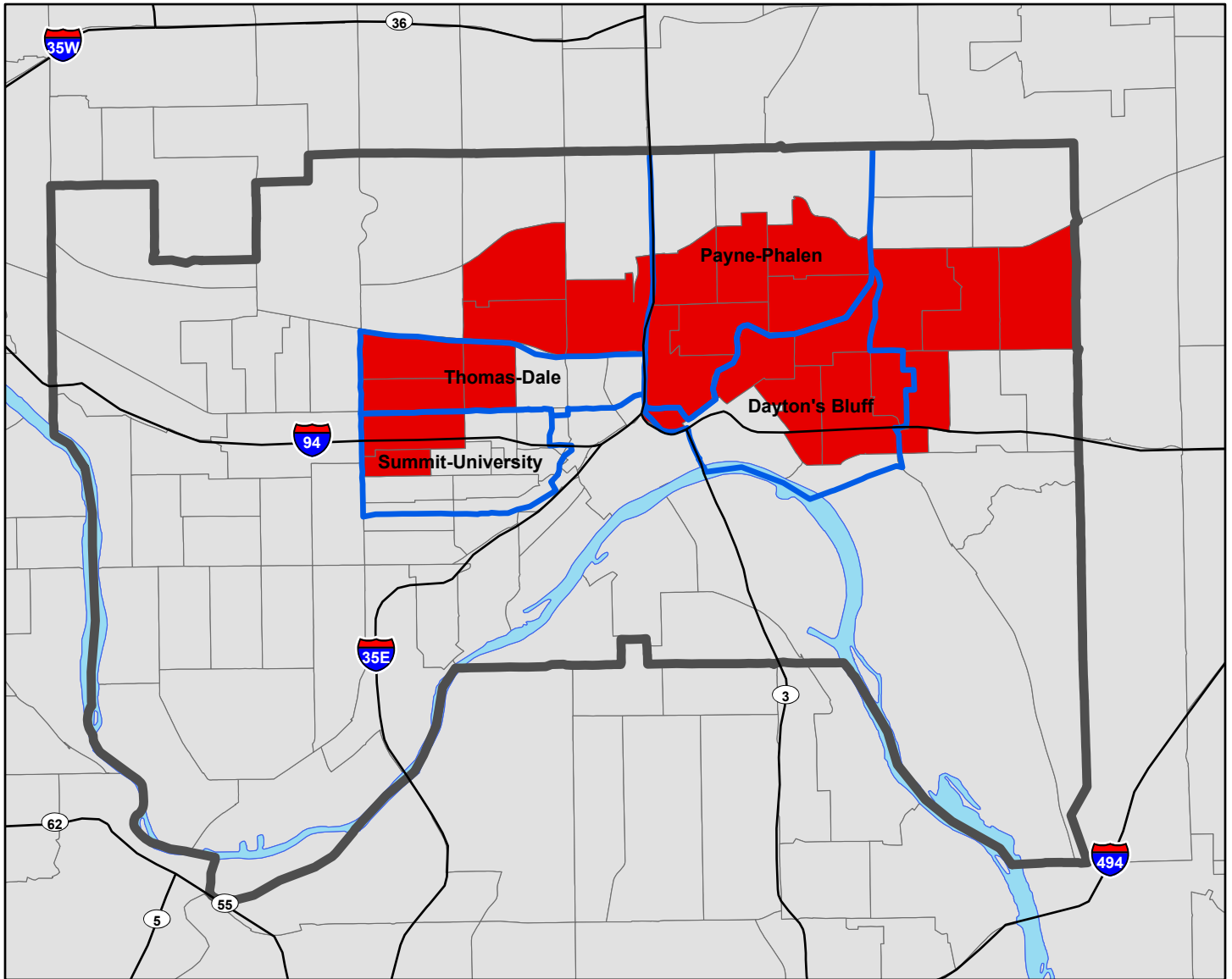
Includes single-family home purchase and home refinance loans originated in 2006.

Quintiles are based on loans originated in all Minneapolis-St Paul metropolitan area census tracts.

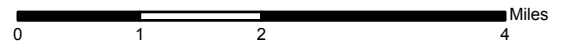
High cost loans have interest rates 3 percentage points above comparable Treasury rates for first liens and 5 percentage points above for junior liens.




Various studies have established the link between HMDA high cost loan percentage and foreclosure risk.

Tracts at Highest Risk Nationally of Concentrated Foreclosure St. Paul, MN



Data Source: Home Mortgage Disclosure Act, 2006; Census 2000



	Highest Risk Tracts
	City of St. Paul
	Candidate Sustainable Communities Neighborhoods

Notes

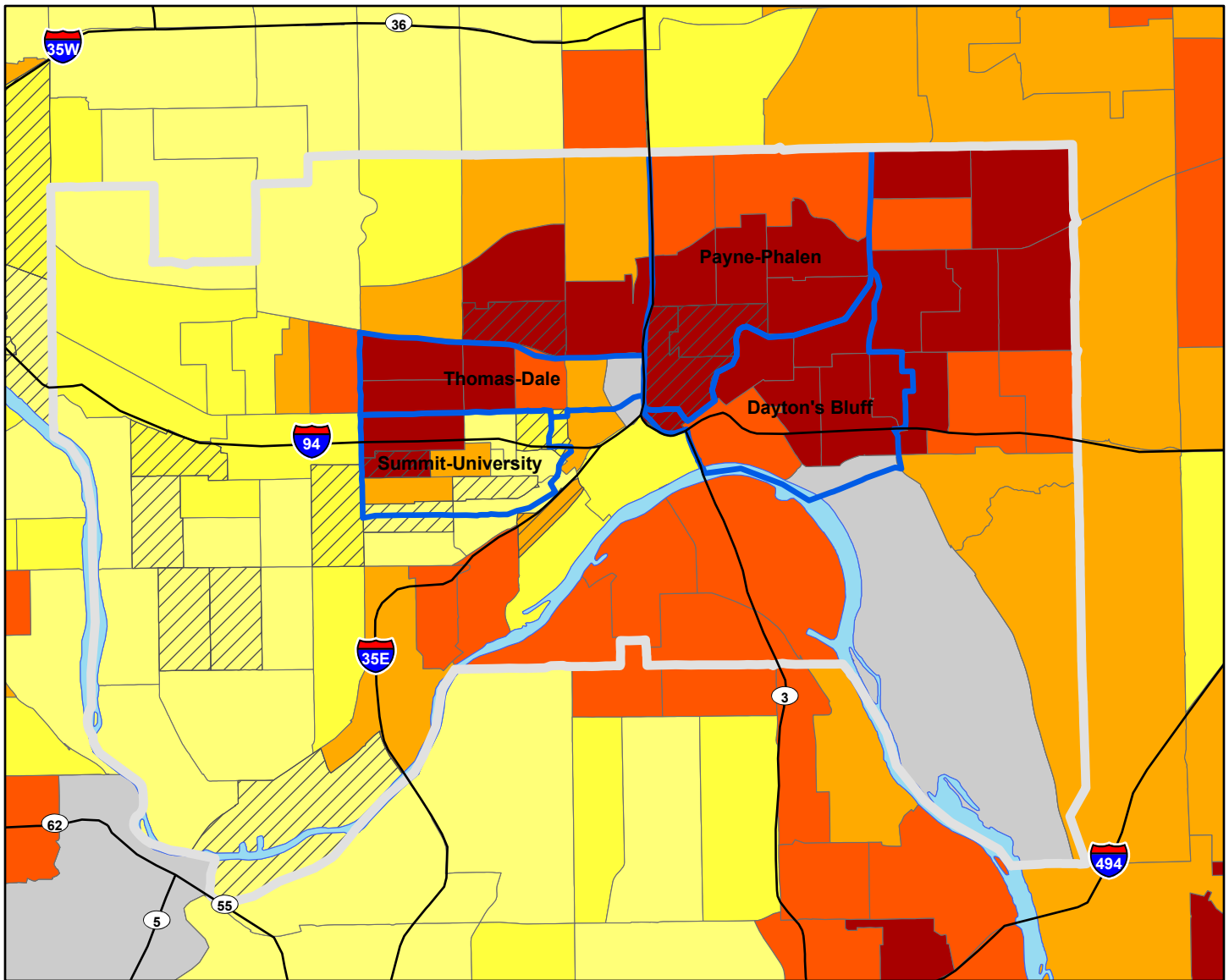
Highest risk tracts are those in top quintile of all US metropolitan area census tracts in *both* number of high cost loans per 1,000 occupied housing units and high cost loans as a percent of mortgage loans.

Includes single-family home purchase and home refinance loans originated in 2006.

High cost loans have interest rates 3 percentage points above comparable Treasury rates for first liens and 5 percentage points above for junior liens.

Various studies have established the link between HMDA high cost loan percentage and foreclosure risk.

High Cost Mortgage Loans Originated in 2006 per 1,000 Occupied Housing Units St. Paul, MN



Data Source: Home Mortgage Disclosure Act, 2006; Census 2000

0 1 2 4 Miles

National Quintile of High Cost Loans per 1,000 Units

- 0 - 15
- 16 - 25
- 26 - 35
- 35 - 55
- 56 or more
- Too few loans to calculate
- Percent of Investor High Cost Loans > 33%
- City of St. Paul
- Candidate Sustainable Communities Neighborhoods

Notes

Includes single-family home purchase and home refinance loans originated in 2006.

Quintiles are based on loans originated in all US metropolitan area census tracts.

High cost loans have interest rates 3 percentage points above comparable Treasury rates for first liens and 5 percentage points above for junior liens.

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Summary of Saint Paul Subprime Loan Patterns and Performance

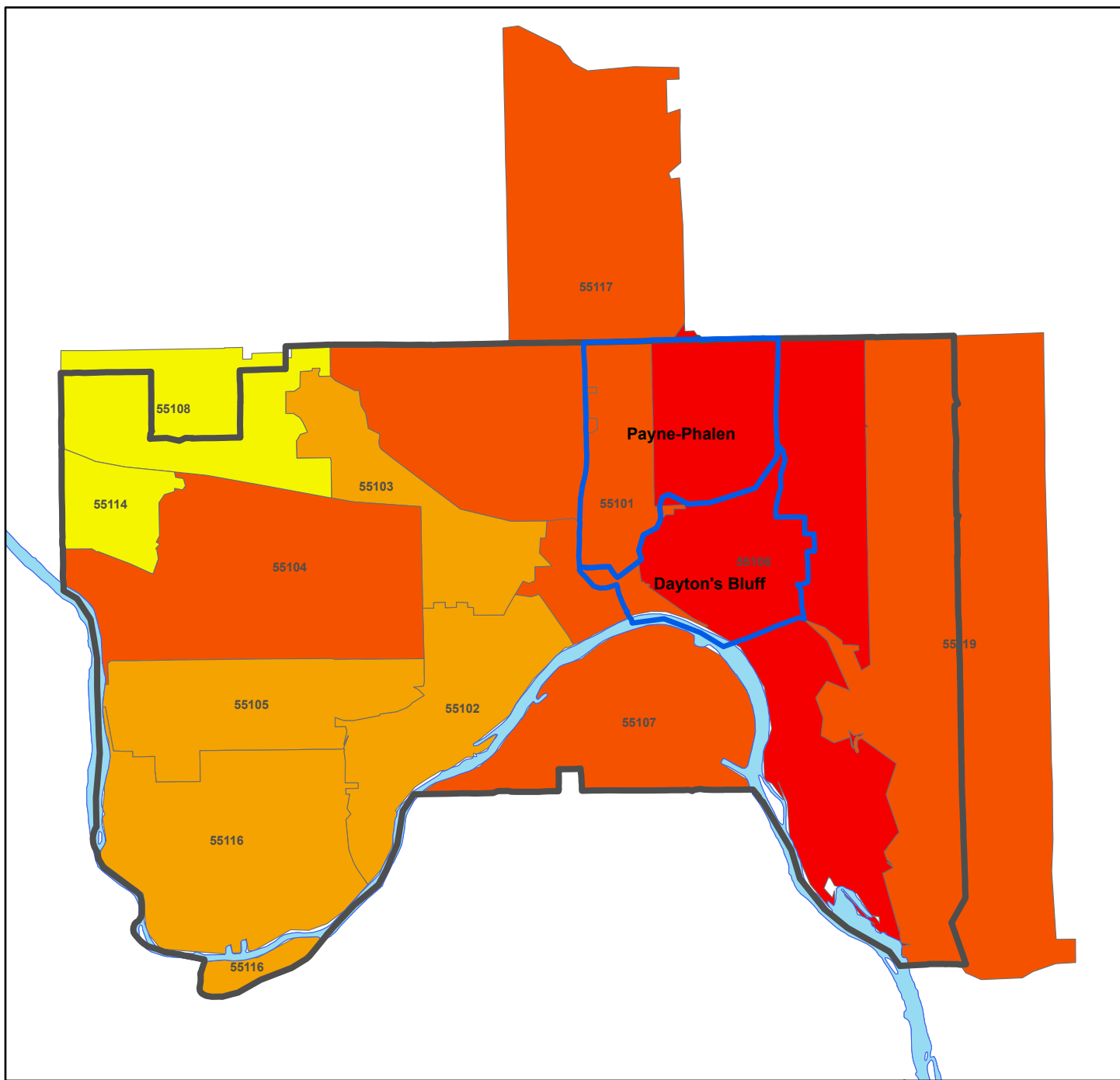
These findings are based on analysis of active securitized subprime residential mortgage loans, using Federal Reserve Board estimates based on data from First American Loan Performance as of October, 2007. The file covers approximately 70 percent of all securitized subprime loans in the United States. Coverage of Minnesota and St. Paul is unknown, but there are no grounds to suspect significant departures from national figures.

- At the end of October, 2007, the total number of active subprime first-lien loans in the city was 4,500. (This is 8 percent of the total 54,344 subprime loans in Minnesota.) **Map 1** shows the distribution of these loans across St. Paul zipcodes, organized according to quartile of number of loans.
- About 52 percent of St. Paul subprime first-lien loans on owner-occupied properties were cash-out refinancings (2,039). The remainder was either home purchases (1,536) or some other kind of loan (304).
- The majority of subprime loans to owner-occupants were variable rate loans, typically with relatively low initial rates that reset to higher rates in subsequent years. In St. Paul, 82 percent of subprime loans active in October 2007 were variable rate (3,192 loans).
- In October, 2007, approximately 47 percent of all active subprime loans had payment problems, including those delinquent, in foreclosure, or real-estate-owned. **Map 2** shows the distribution of these loans, by quartile of number of loans with payment problems.
- In October, 2007, 27 percent of all subprime loans to owner-occupants were in foreclosure or real estate owned. Another 7 percent were 90 days or more delinquent, a strong indicator of eventual foreclosure. Taken together, these 1,315 loans were 34 percent of all active subprime loans.
- As of October 2007, about 40 percent of all variable rate loans had passed their reset date. Another 17 percent of loans (563 loans) were due to reset between November and April 2008. Most likely, a large proportion of these loans have already encountered payment difficulties.
- From May through October, 2008, another 719 subprime loans will reset, amounting to about 22 percent of all subprime loans. **Map 3** shows the distribution of these impending resets, organized according to the quartile of number of resets.
- From November 2008 through October 2009, another 454 subprime loans will reset, after which only 5 percent of loans (158) active in October of 2007 will reset.
- The number of loans expected to reset in 2008 is roughly 1,170, or 36 percent of all variable rate subprime loans to owner-occupants that were active in October of 2007.

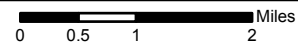
Map 1

Number of Active Subprime Mortgage Loans per Zip Code

St. Paul, MN



Source: LISC calculations using Federal Reserve Board estimates based on data from First American Loan Performance, October 2007.

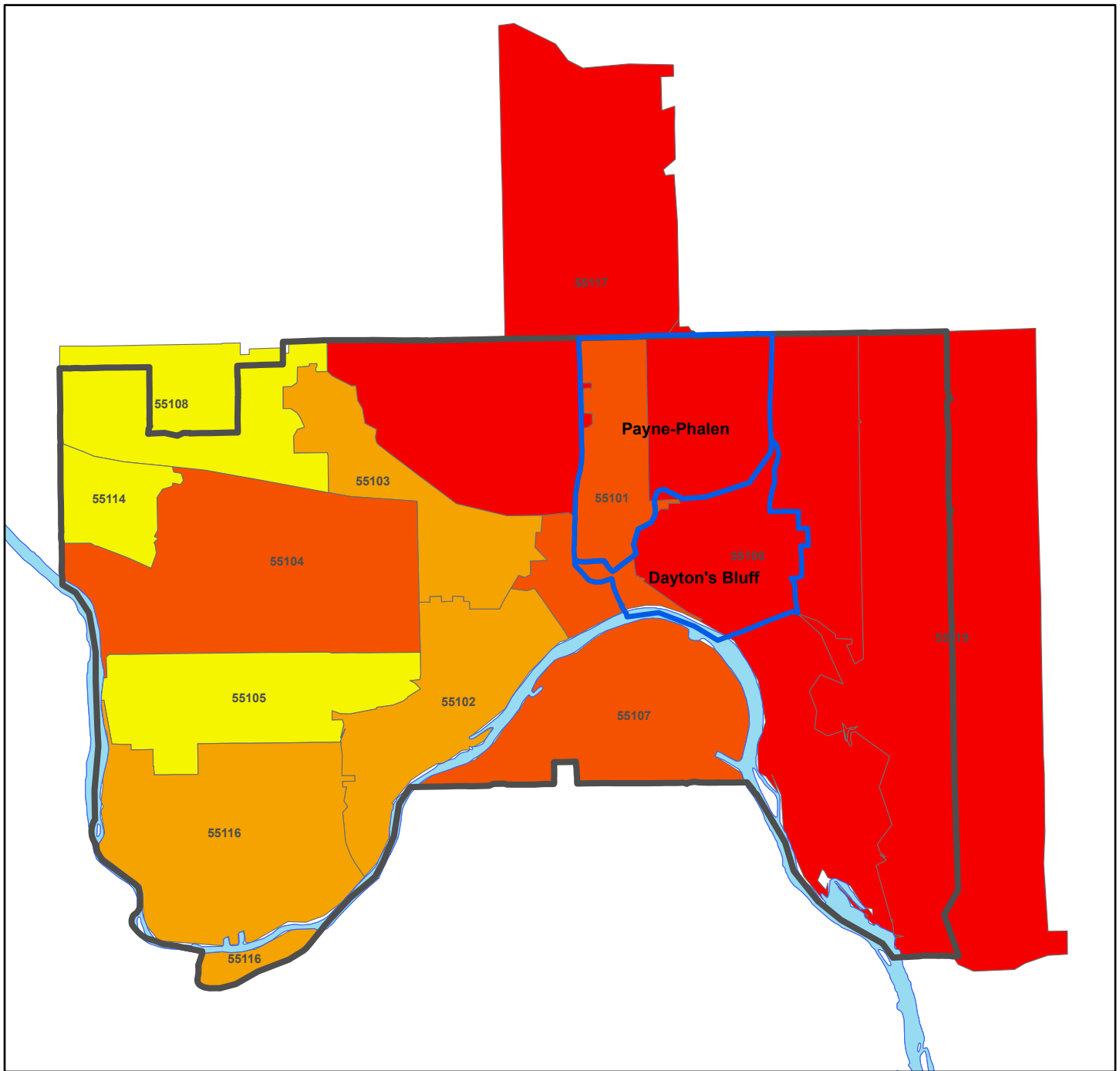


Quartile of Subprime Loans per St Paul Zip Code

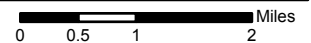
- 0 - 105
- 106 - 250
- 251 - 620
- 621 or more
- City of St. Paul
- Sustainable Communities Neighborhoods

Note: Zip code 55101 contains data for both 55101 and 55130. Zip code 55101 was split into 55101 and 55130 in 2005. An updated shapefile is not yet available.

Map 2 Number of Active Subprime Mortgage Loans with Payment Problems St. Paul, MN



Source: LISC calculations using Federal Reserve Board estimates based on data from First American Loan Performance, October 2007.

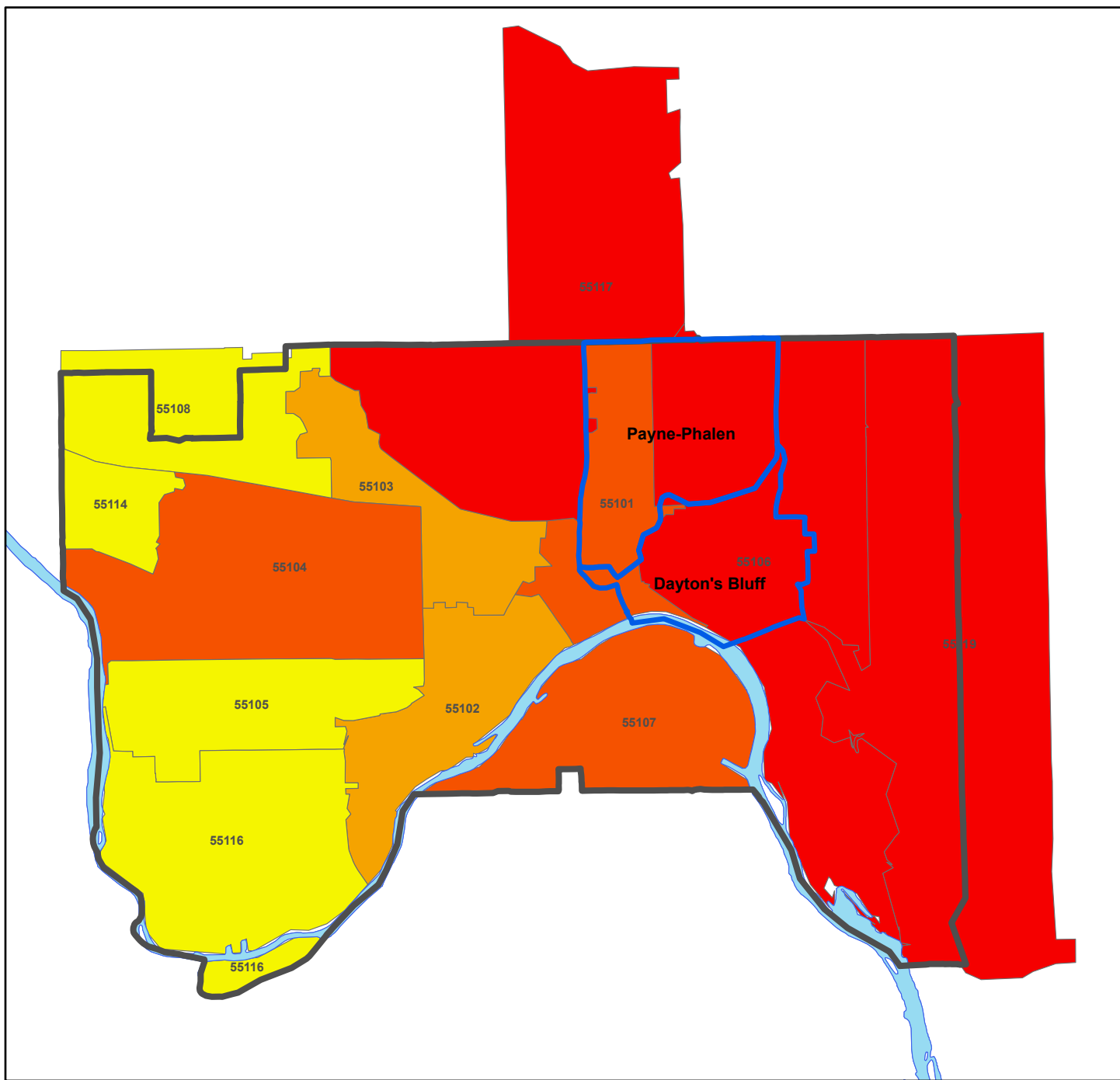


Quartile of Problem Subprime Loans per St Paul Zip Code

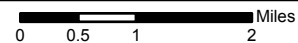
- 0 - 30
- 31 - 100
- 101 - 235
- 236 or more
- Sustainable Communities Neighborhoods
- City of St. Paul

Note: Zip code 55101 contains data for both 55101 and 55130. Zip code 55101 was split into 55101 and 55130 in 2005. An updated shapefile is not yet available.

Map 3 Number of Subprime Loans That Will Reset Between April-October 2008 St. Paul, MN



Source: LISC calculations using Federal Reserve Board estimates based on data from First American Loan Performance, October 2007.



Quartile of Impending Resets per St Paul Zip Code

- 0 - 15
- 16 - 35
- 36 - 100
- 101 or more
- Sustainable Communities Neighborhoods
- City of St. Paul

Note: Zip code 55101 contains data for both 55101 and 55130. Zip code 55101 was split into 55101 and 55130 in 2005. An updated shapefile is not yet available.