

# Foreclosures in New England

Joint Center for Housing Studies  
Fair Housing Center of Greater Boston  
Fair Housing Seminar Series

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# Outline

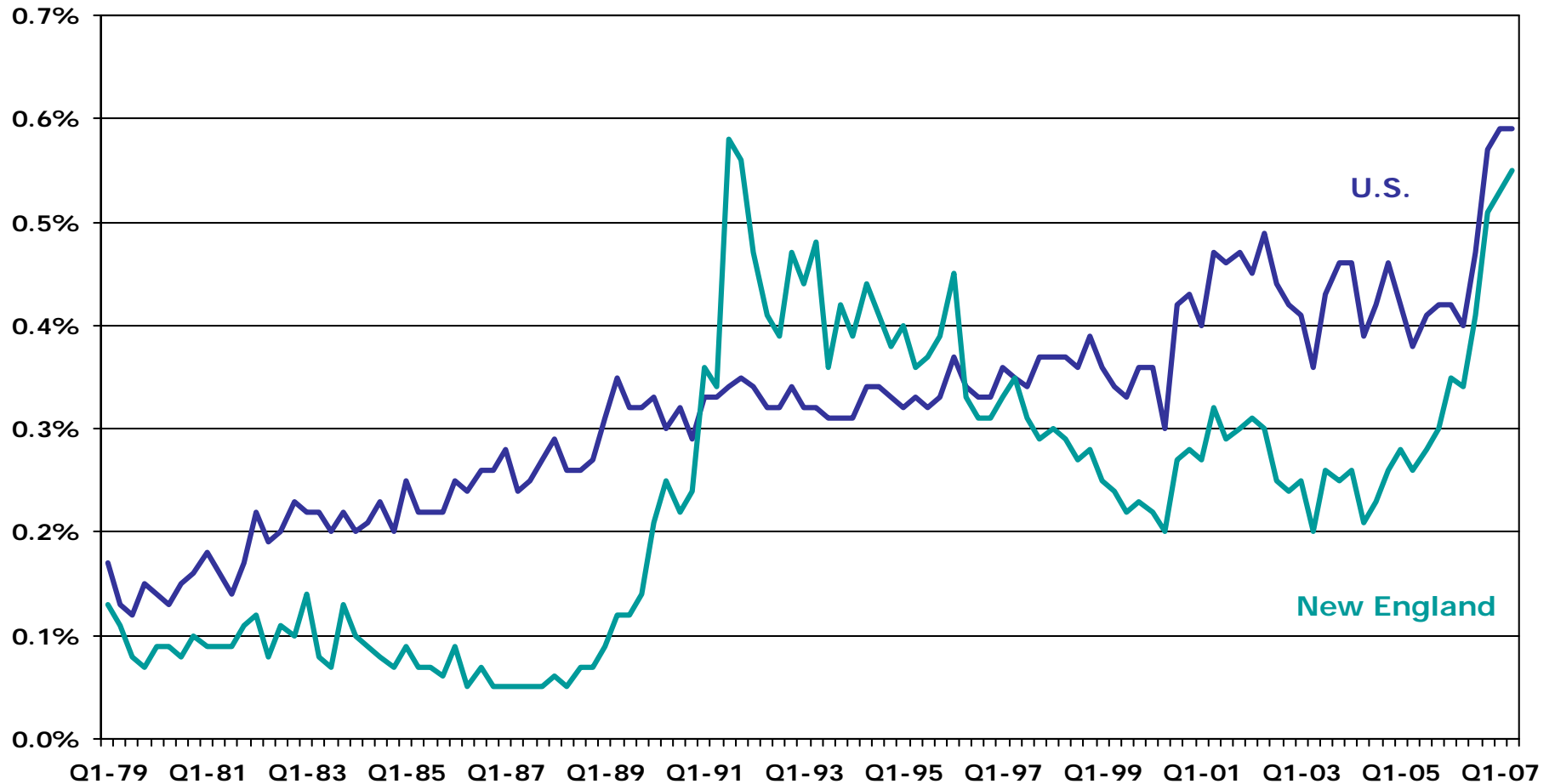
- Current foreclosure patterns
  - national and regional
- How we got where we are
  - What were the driving economic and lending forces
- Who is affected
  - Borrower and neighborhood characteristics
- Likely future trends

## What are current foreclosure patterns?

- Foreclosures up across most of the country
  - Higher than one year ago in 36 states
  - Up at least 25% from one year ago in 21 states
- New England rates just under national
  - New England foreclosure rate has increased rapidly.
  - In 2004, most New England states had a foreclosure rate less than half of the national.
- Latest quarter was one of highest on record for most New England states and United States as a whole

U.S. foreclosure rates at highest recorded. New England had been low over past few years, but rose rapidly in last two quarters of 2006. Rate still grew in first two quarters of 2007, but at a slower rate.

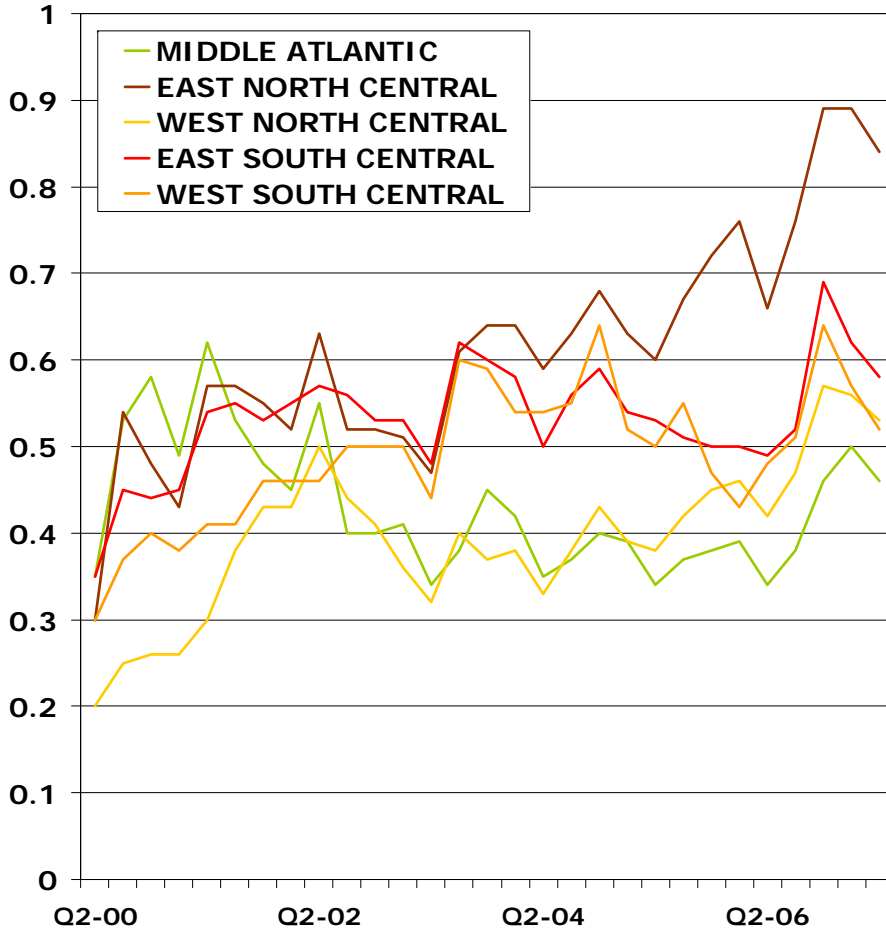
Percent of loans with foreclosure initiation in quarter



Two major patterns: recent declines, usually in higher-rate divisions, and rapid growth in divisions that had been low, most notably Pacific. All but 2 divisions (ENC and MA) have converged to tight range of 0.52 to 0.58.

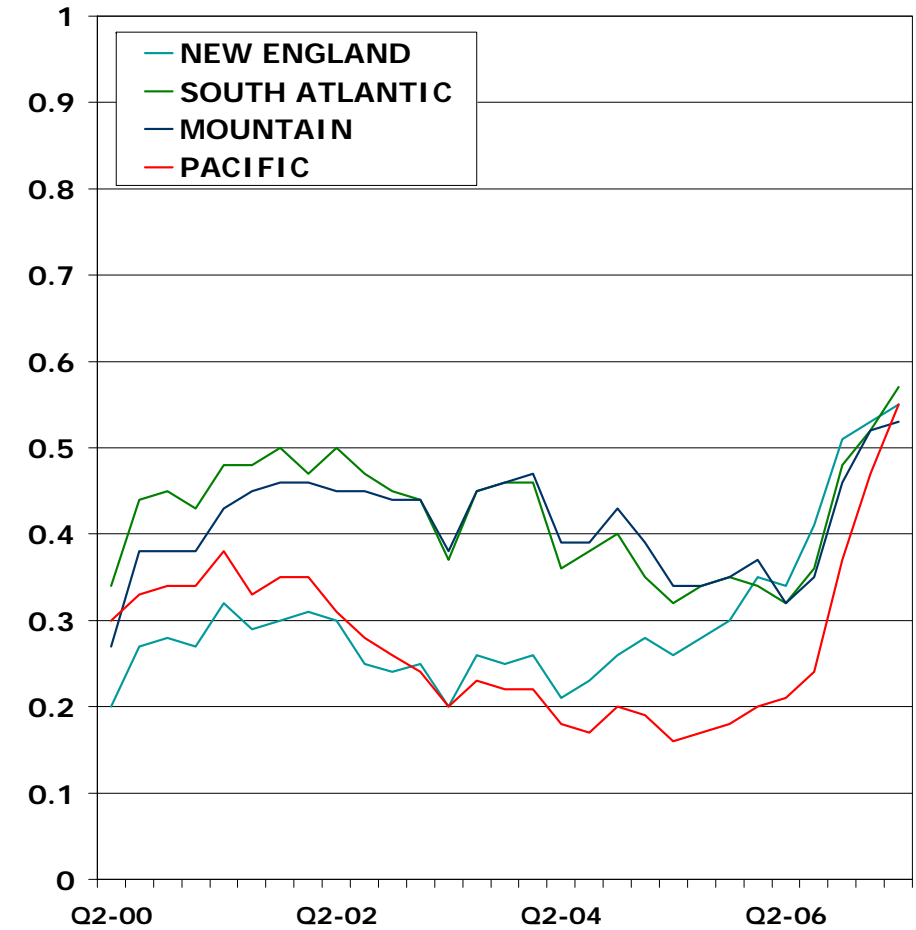
### Recent Decreases

Percent of loans with foreclosure initiation in quarter



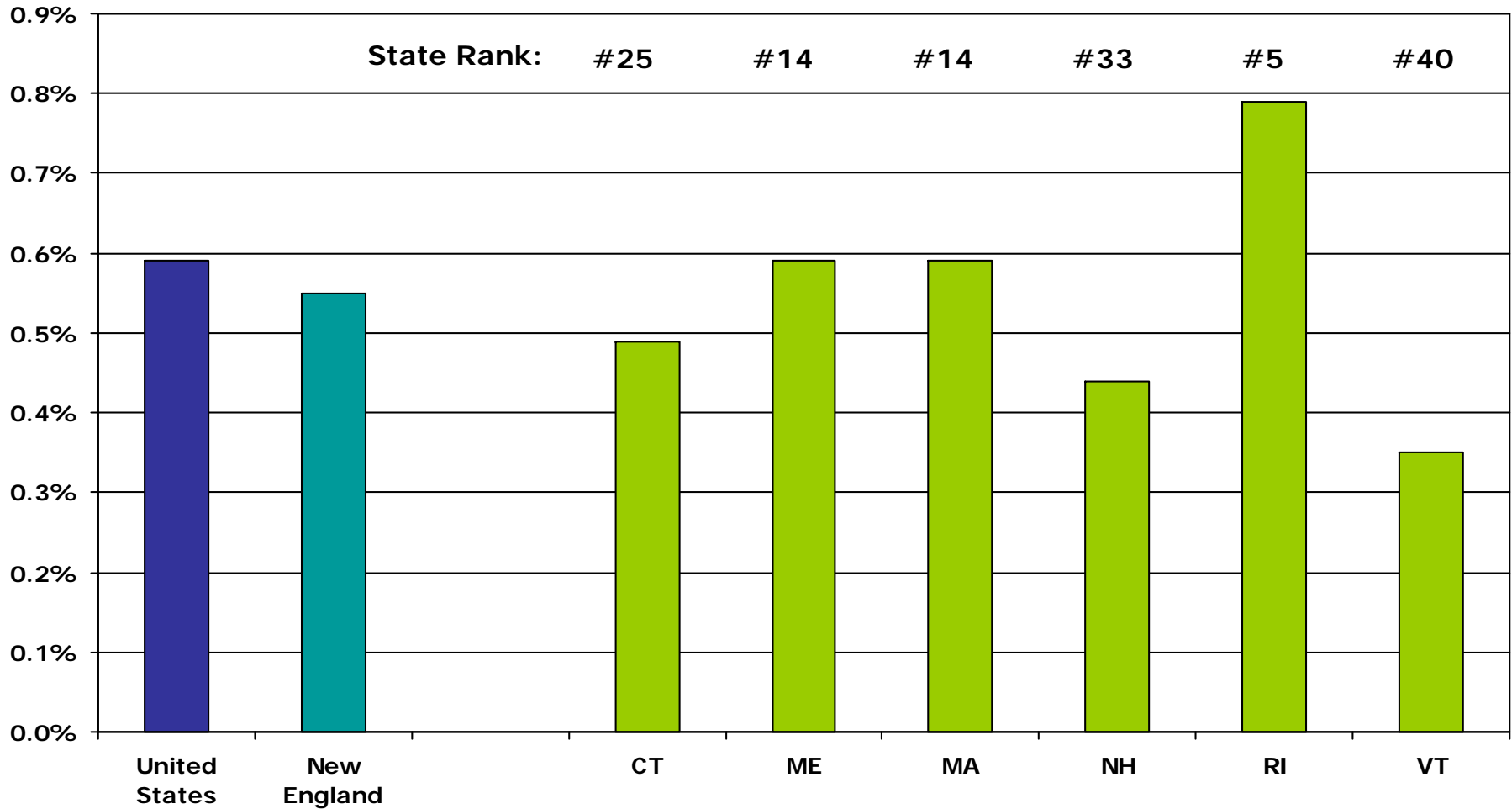
### Still Rising

Percent of loans with foreclosure initiation in quarter



Rhode Island now has 5<sup>th</sup>-highest rate in country. The highest state foreclosure rate is MI, at 1%; ND has the lowest at 0.2%.

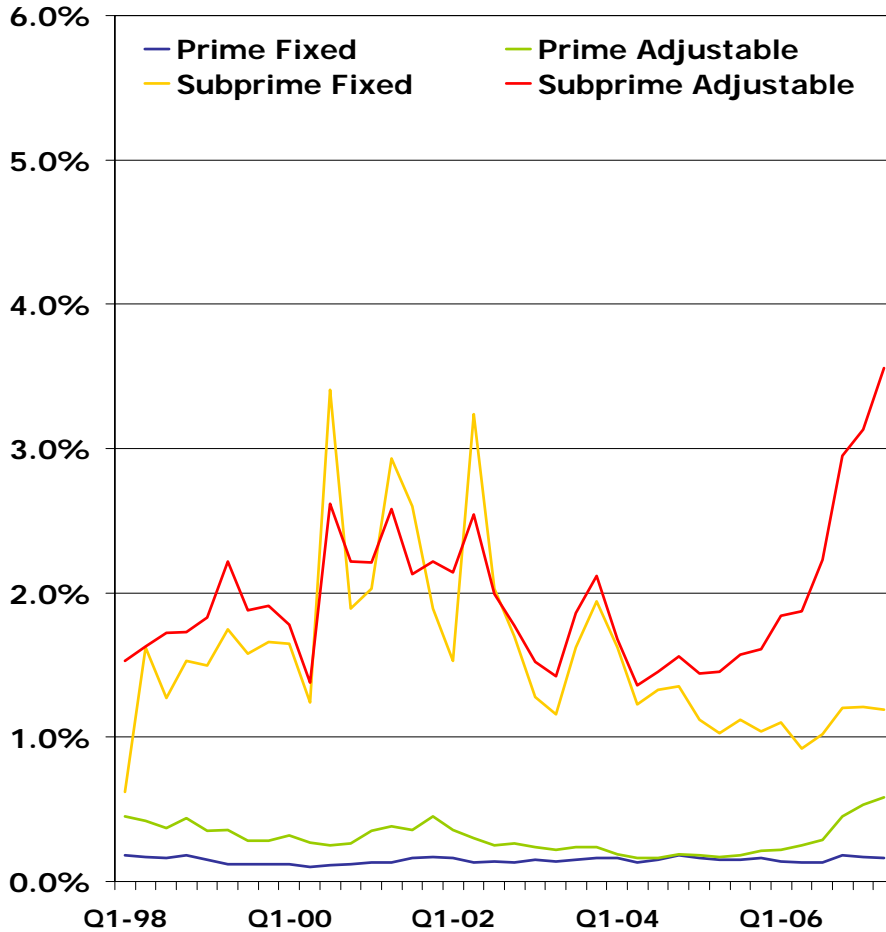
Percent of loans with foreclosure initiation in quarter, with state rank



Subprimes have always had relatively high foreclosure rates. In recent quarters, subprime ARM rates have risen steeply. Increases also in all major conventional product types.

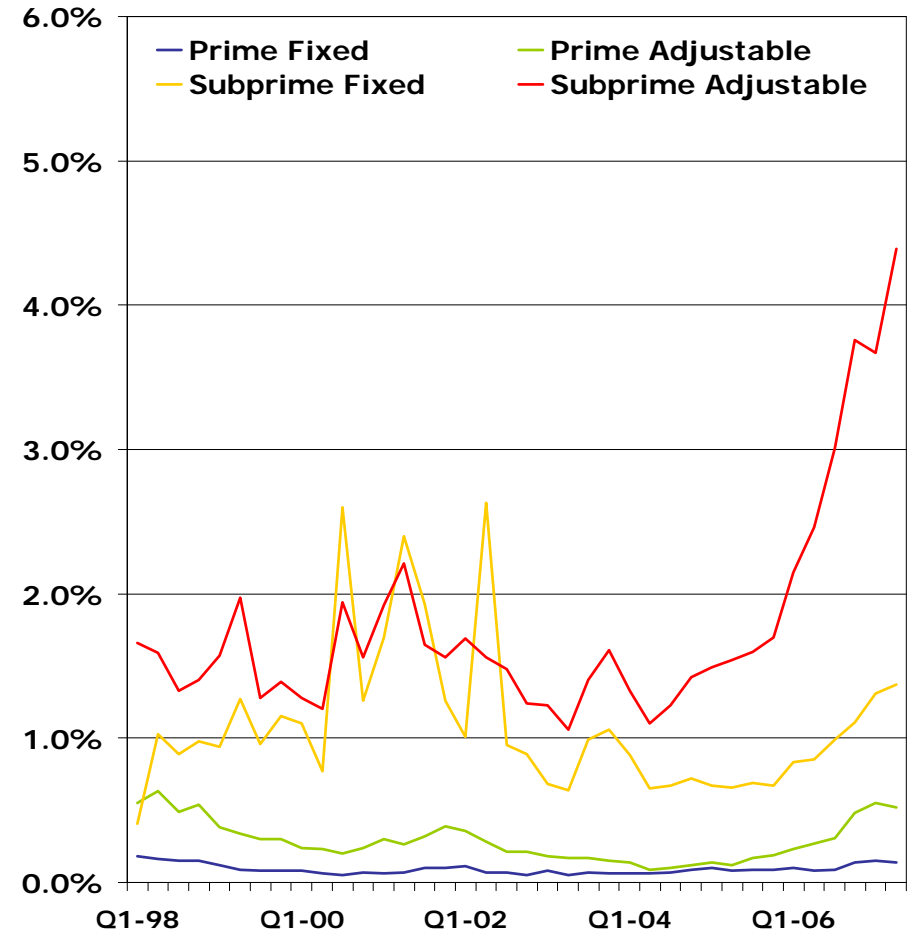
### United States

Percent of loans with foreclosure initiation in quarter



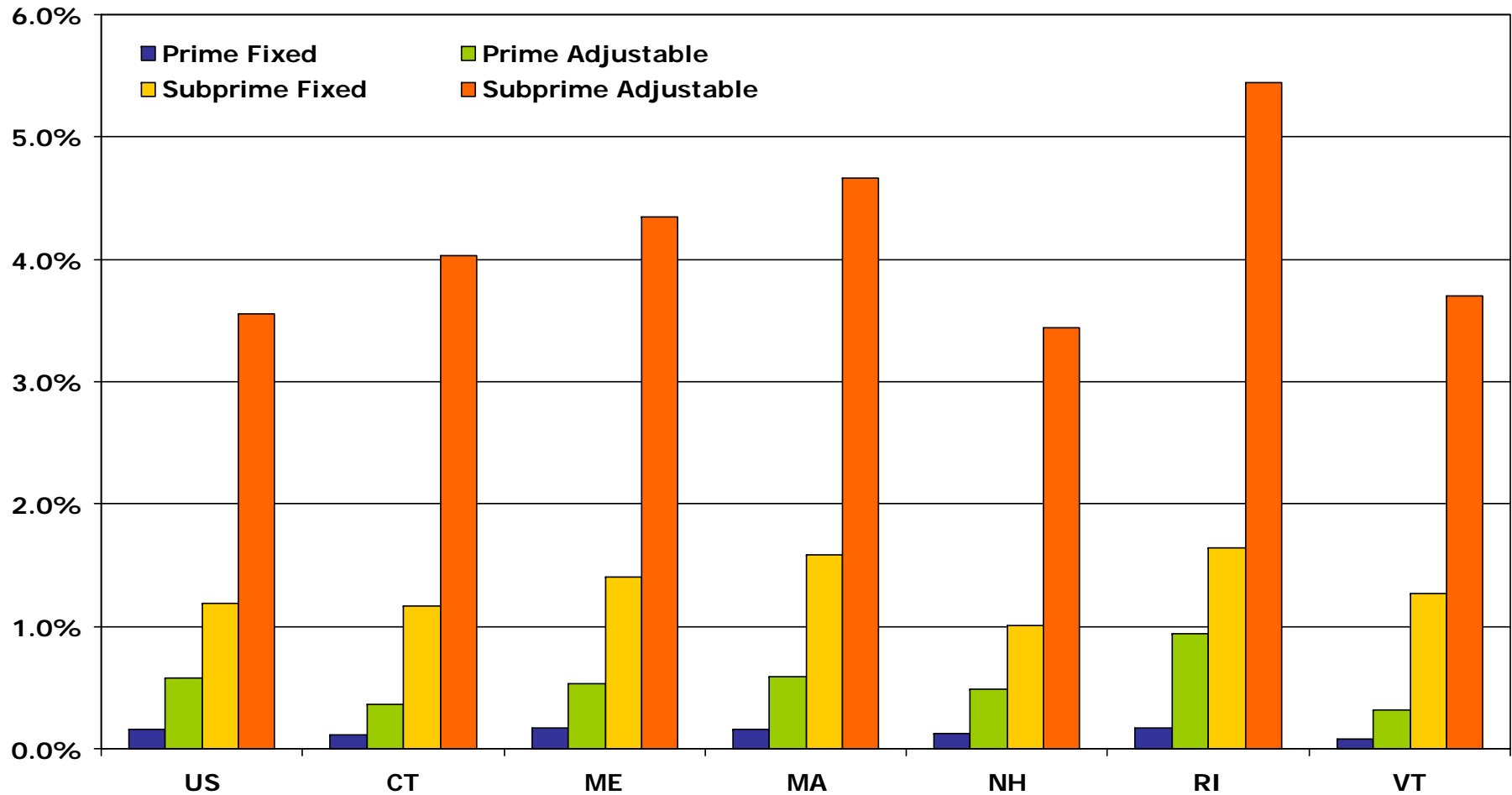
### New England

Percent of loans with foreclosure initiation in quarter



# Subprime ARM foreclosure rates much higher in most New England states than in U.S. overall.

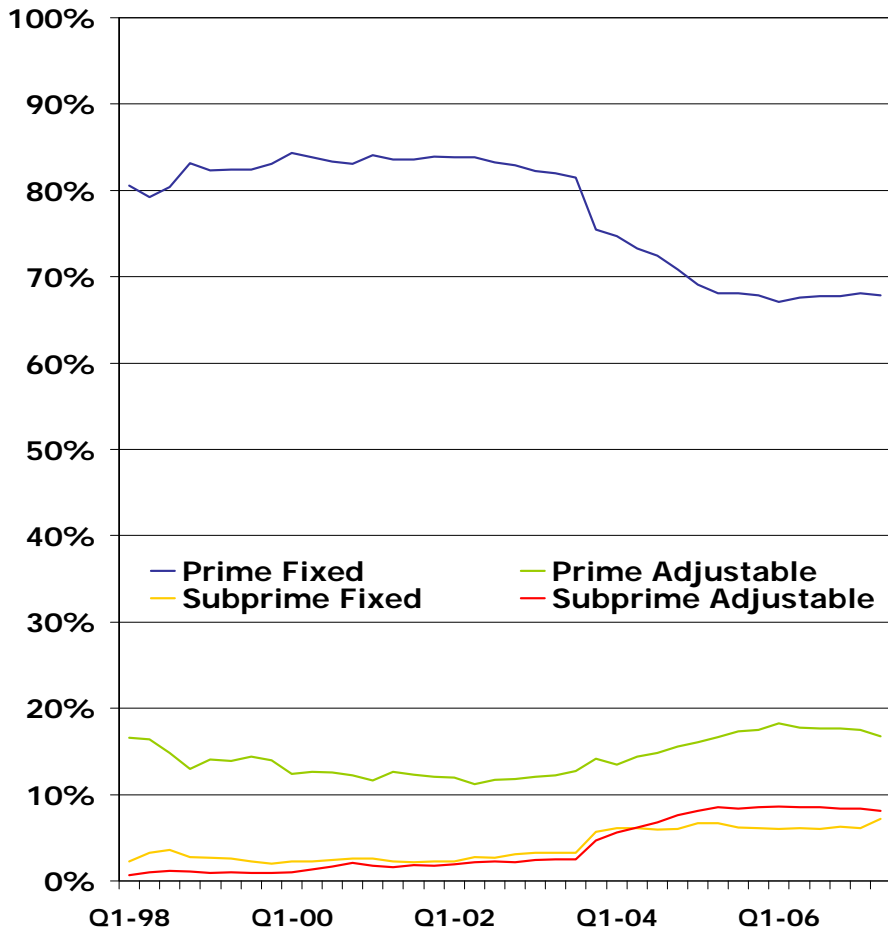
Percent of loans with foreclosure initiation in quarter, Q2-07



Fixed-rate primes make up 70% of the conventional market, but the share has fallen. New England has more lower-risk loans than U.S. average.

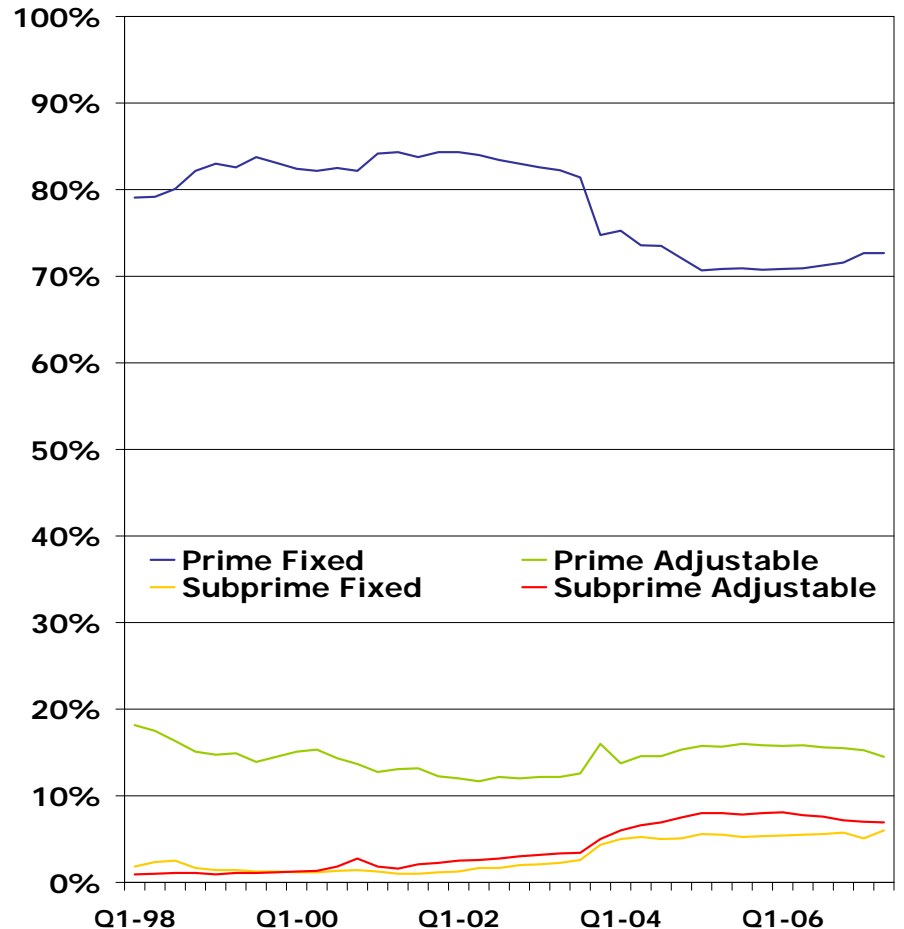
### United States

Market share to Q2-07 (quarterly values sum to 100%)



### New England

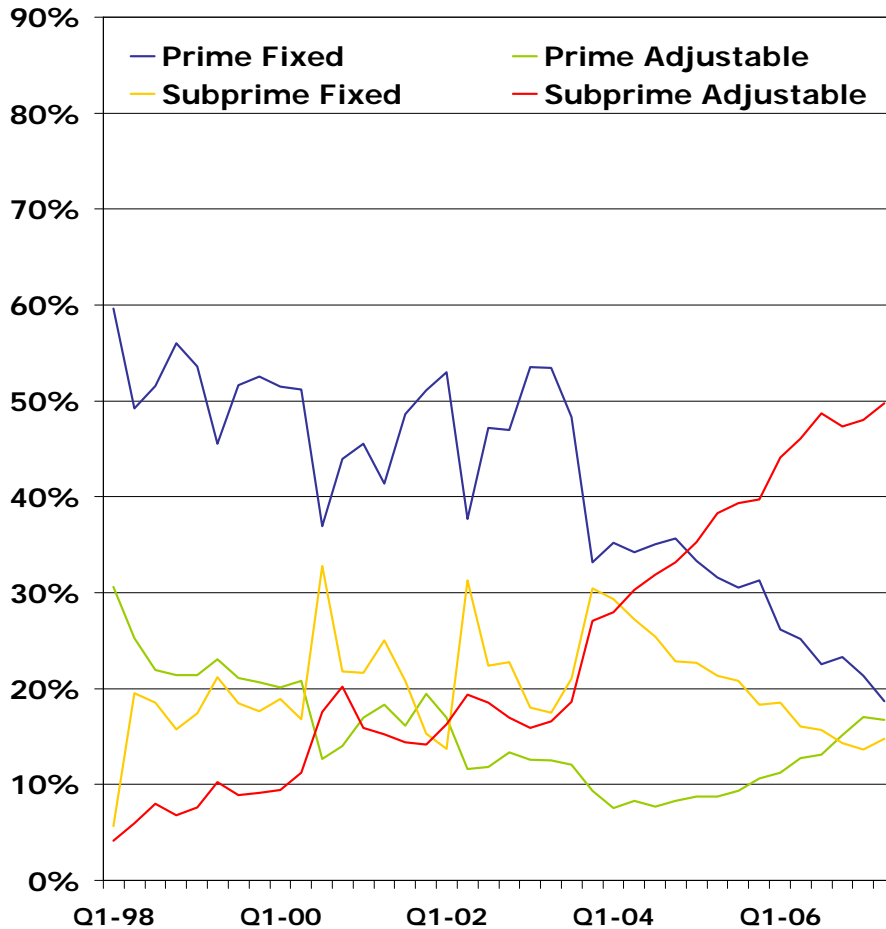
Market share to Q2-07 (quarterly values sum to 100%)



Subprime ARMs account for a rapidly growing share of foreclosures. Despite increasing foreclosure rate for subprime ARMs, their contribution to total foreclosures not growing recently.

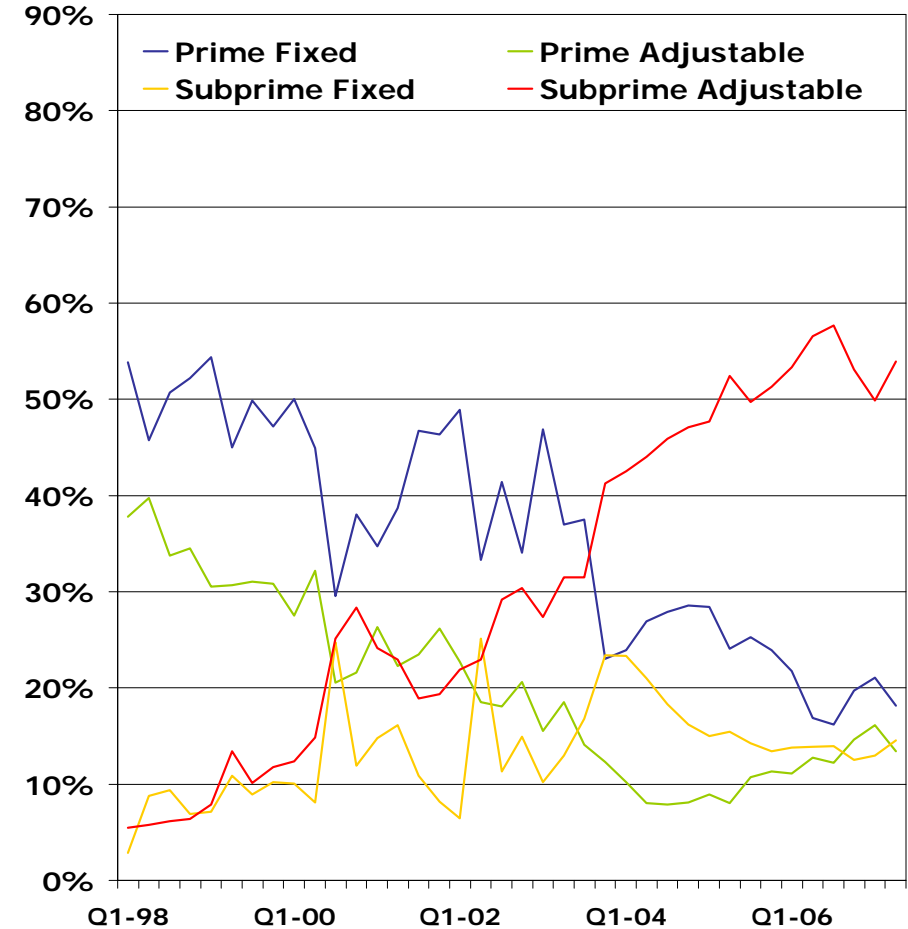
### United States

Foreclosure share (quarterly values sum to 100%)



### New England

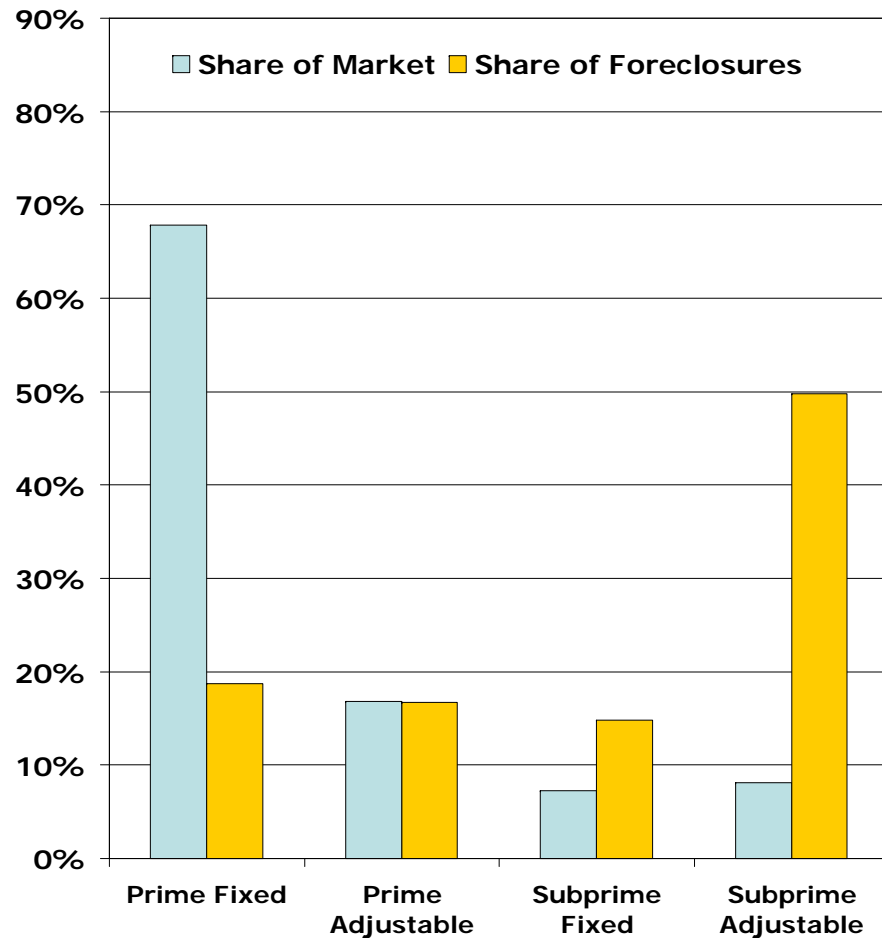
Foreclosure share (quarterly values sum to 100%)



Subprime ARMs account less than 10% of conventional loans but about 50% of foreclosures. Although disproportionately high percent, not the only product type with foreclosures.

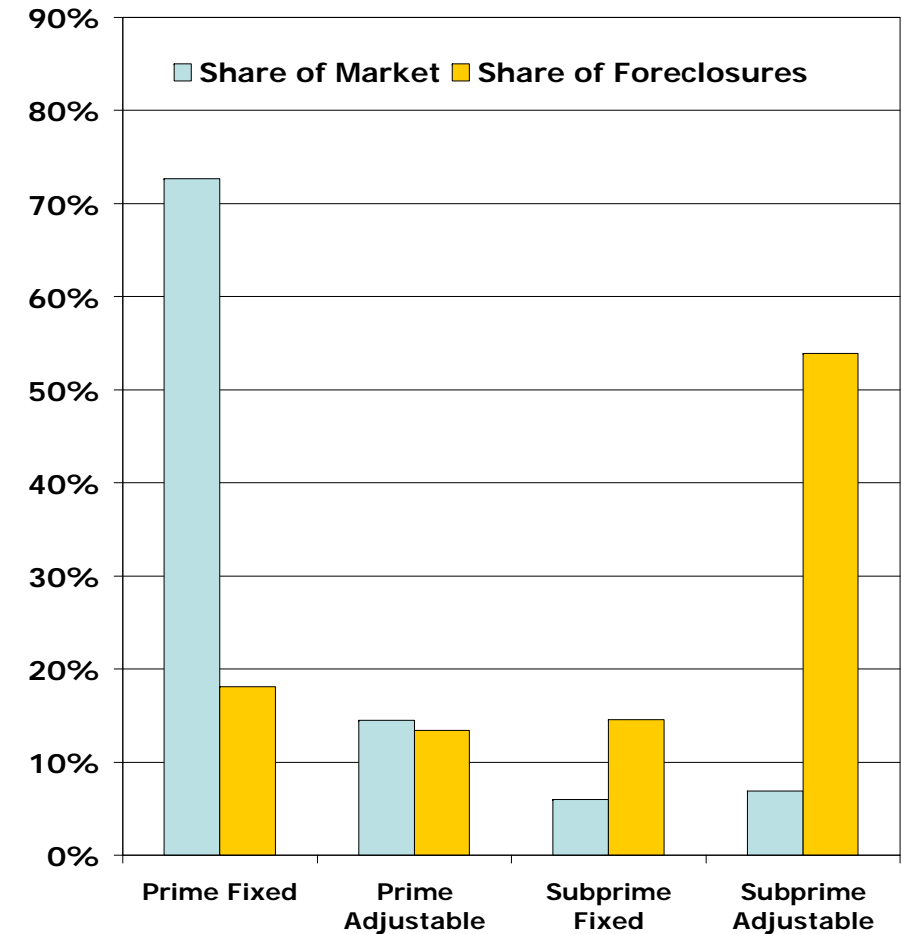
### United States

Market and foreclosure share, Q2-07



### New England

Market and foreclosure share, Q2-07



What happened?

- Economic conditions
- Mortgage characteristics

## What happened?

### Usual causes of foreclosures: Economic conditions

- Housing prices soften: ability to sell / refi if have trouble
  - Main cause of current foreclosures in New England
  - Prices expected to remain weak
- Job losses: ability to cover steady payment
  - Usually the underlying problem. Job numbers had been growing in most of New England and U.S., but fell in most recent data
  - Problems could arise if falling housing market affects construction employment
- Interest rates increase: ability to cover growing payments
  - Contract rates on mortgages have risen, but are still low
  - Not an economic condition, but loans with resets pose future risk

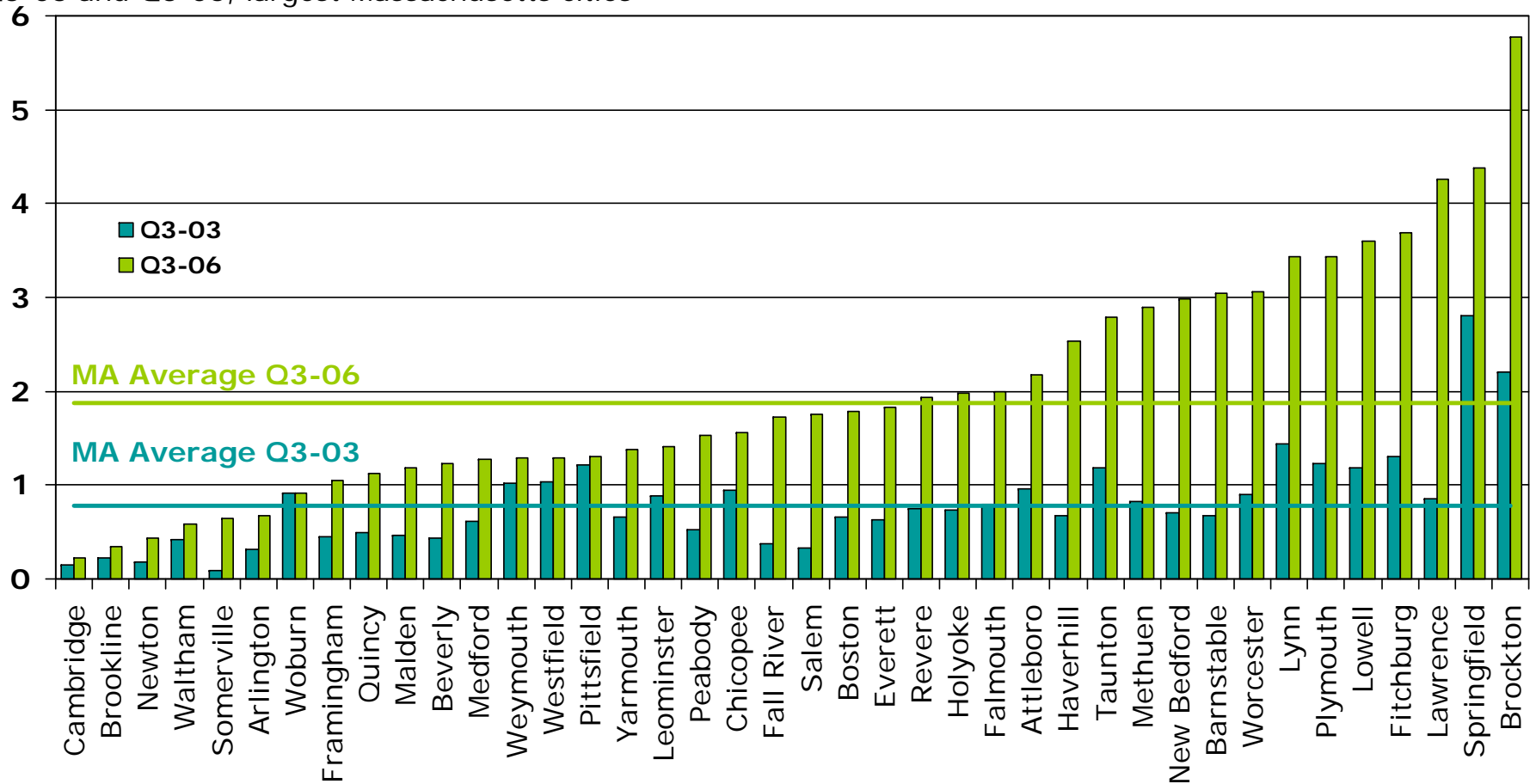
## What happened?

### Mortgage characteristics

- Higher-risk mortgages
  - Products with higher default rates more popular. Emergence of very high risk mortgages.
  - Many lenders have dropped the very high risk products.
- Rising monthly payments
  - Not clear that resets have had much role in the foreclosures we've already seen
  - Much debate as to impact of upcoming rate resets. Many expected to refi out of these products.

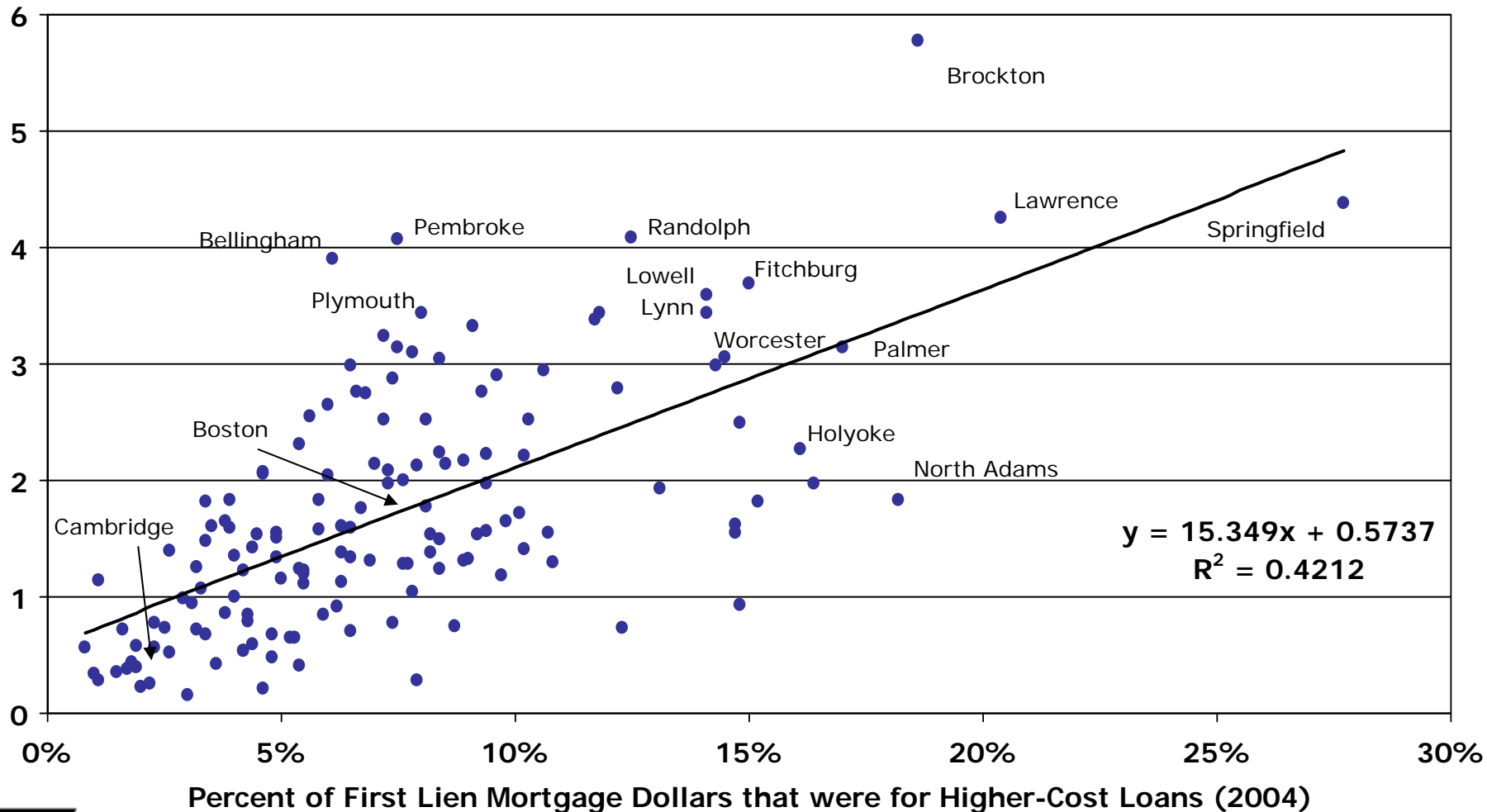
Local foreclosure rates vary widely across Massachusetts. Rates are up for most places, but have risen most in some of the poorest communities.

Foreclosures initiated per thousand housing units, Q3-03 and Q3-06, largest Massachusetts cities



# Subprime lending activity is strongly associated with local foreclosure rates.

Foreclosure Filings in Quarter (Q3-06) per thousand housing units,  
Massachusetts cities and towns

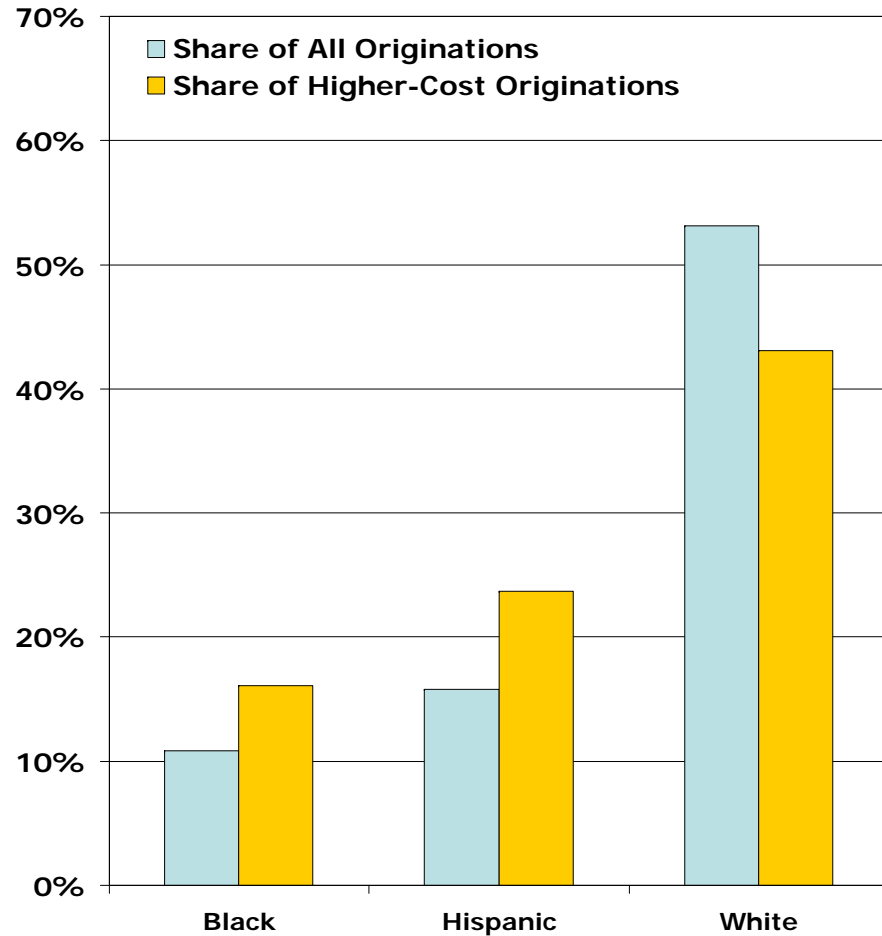


Source: ForeclosuresMass, Corp.,  
Census 2000, HMDA 2004

Blacks and Hispanics receive a disproportionately high share of higher-cost loans.

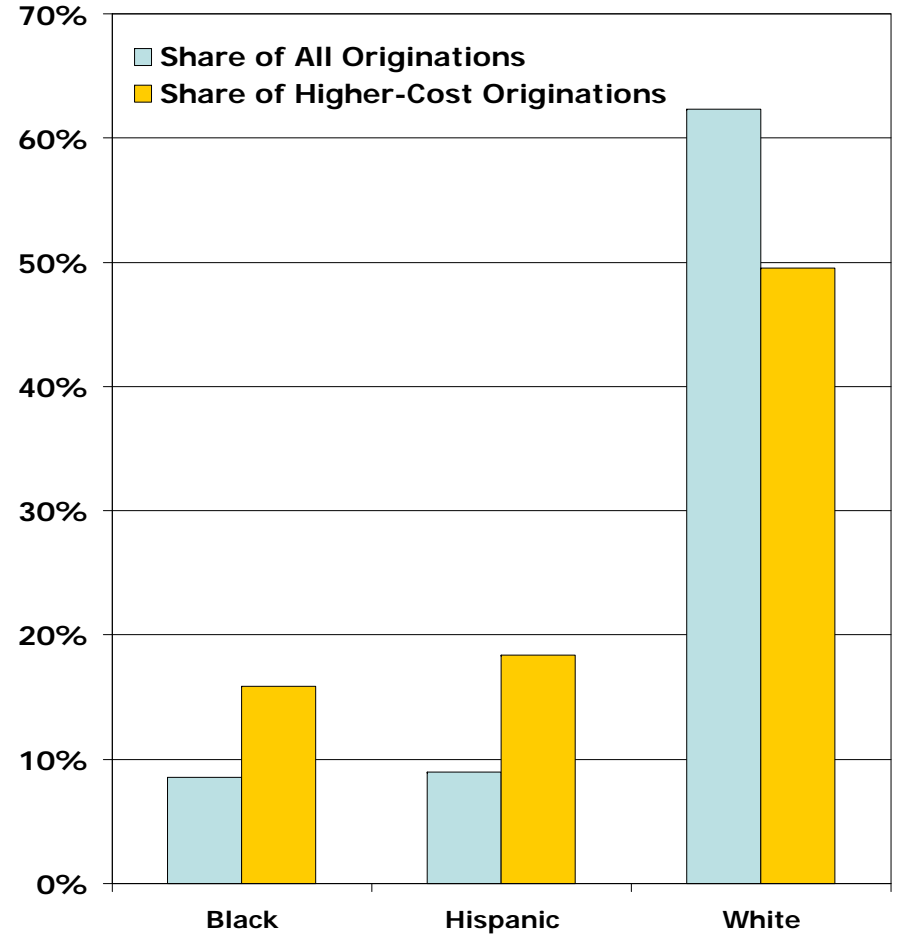
### United States

Total and higher-cost home purchase loan share, 2006



### Boston MSA

Total and higher-cost home purchase loan share, 2006



## Key Points

- Foreclosures are rising throughout New England, near the national average
- Rise is mainly driven by foreclosures of subprime adjustable rate mortgages
  - high and rising foreclosure rate for these products
  - growing market share in recent years
  - many approaching peak period for foreclosure risk
- Local areas with lots of subprime lending are hit hardest—usually lower-income and minority