The background features a repeating pattern of light green circles on a darker green background. Overlaid on this are several large, semi-transparent circles in various shades of green and white, creating a layered, abstract effect.

# An Overview of Foreclosure Activity in Minnesota and the Nation

**Michael Grover**

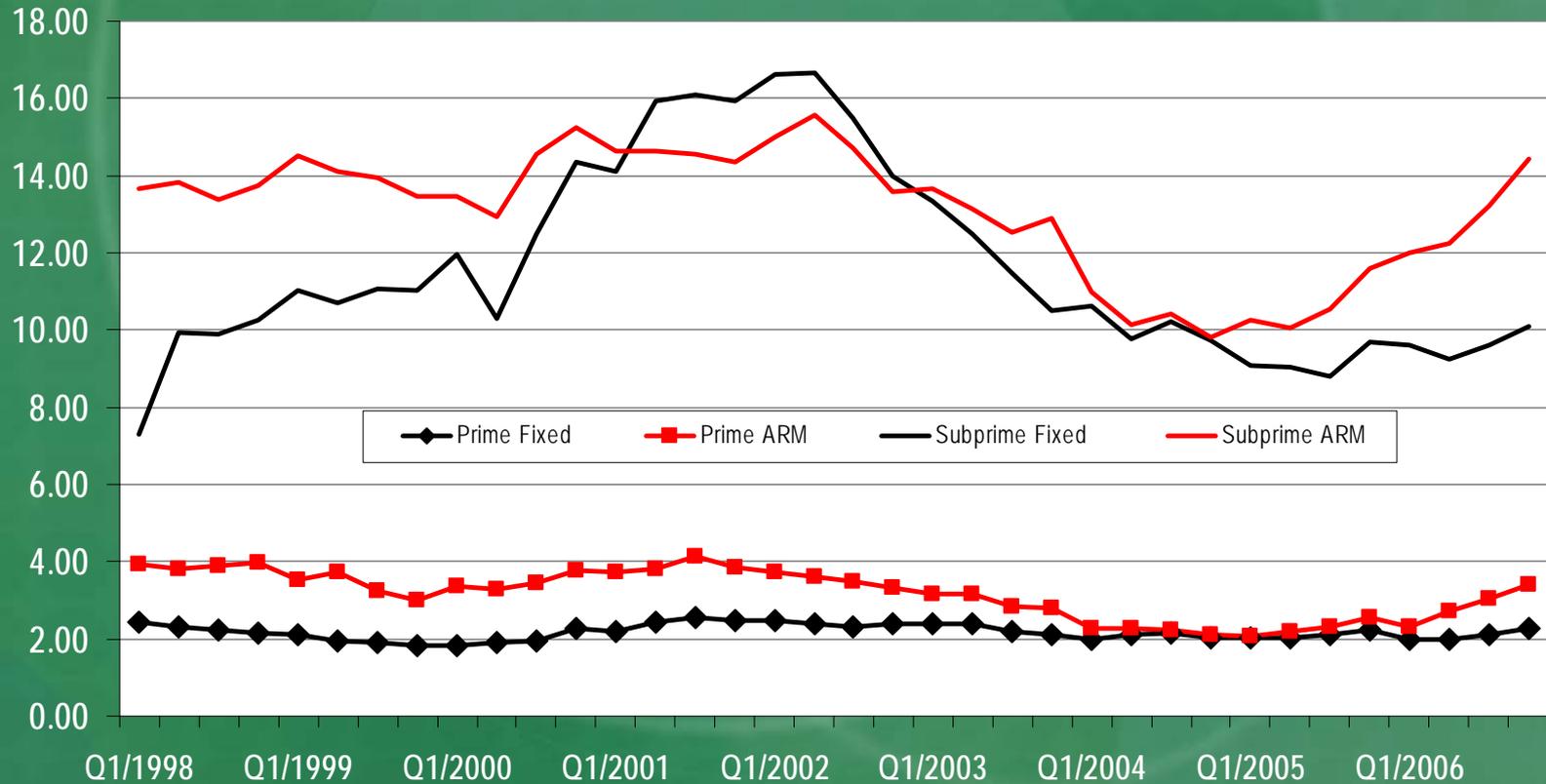
*Community Affairs Project Director  
Federal Reserve Bank of Minneapolis*

# Presentation Overview

- Delinquency and foreclosure trends and hot spots
- “Betting the house” on appreciation
- Impact of the current wave of foreclosures
  - Mortgage lending industry
  - Borrowers
  - Communities
- Minnesota perspective

# Delinquency Rates (National)

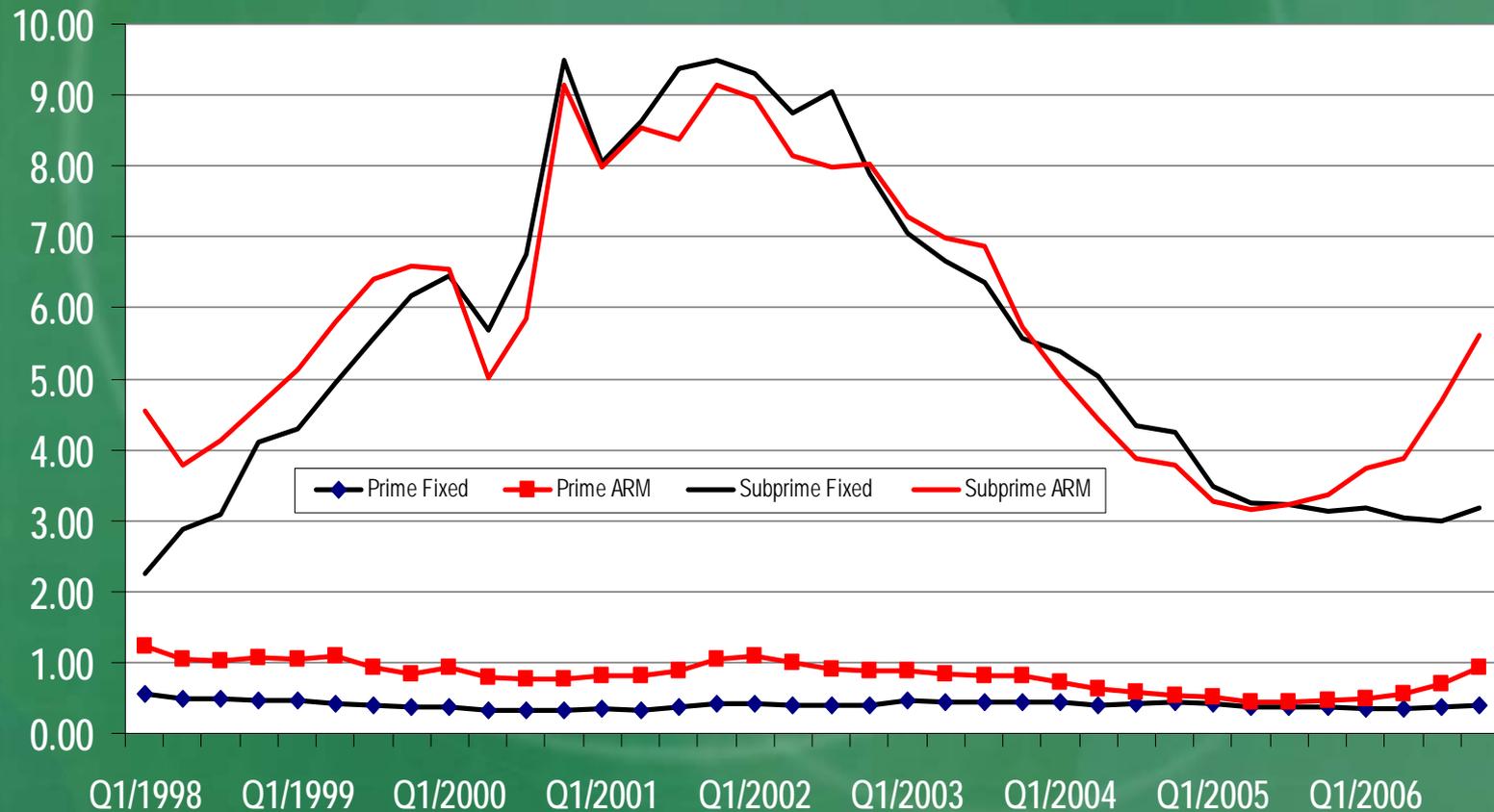
ARM & FRM Delinquency Rates (percent)



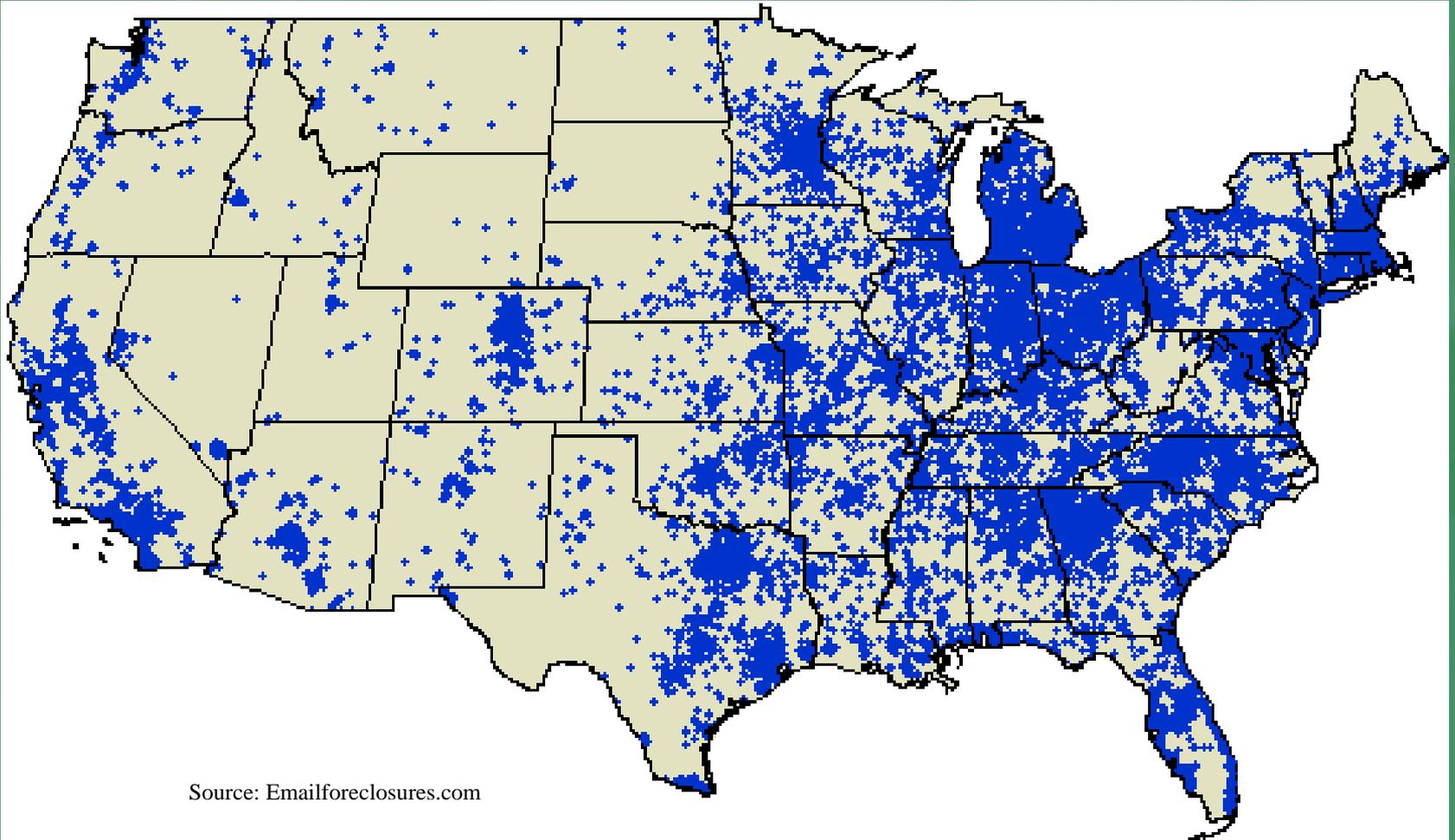
Source: MBAA.

# Foreclosure Inventory (National)

Foreclosure Inventory Rates (percent)



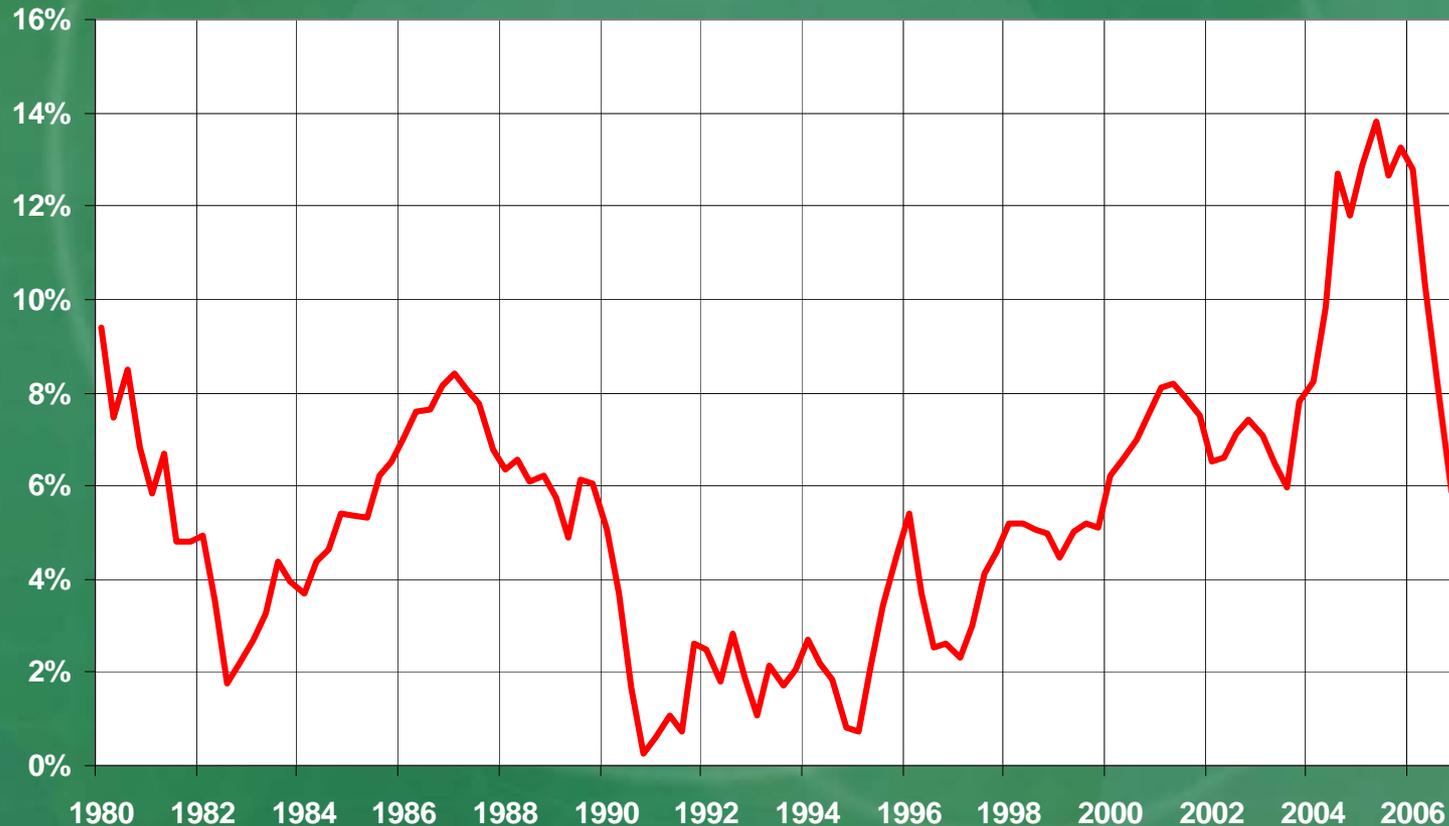
# Foreclosure Hot Spots





# House Appreciation Surged and Fell

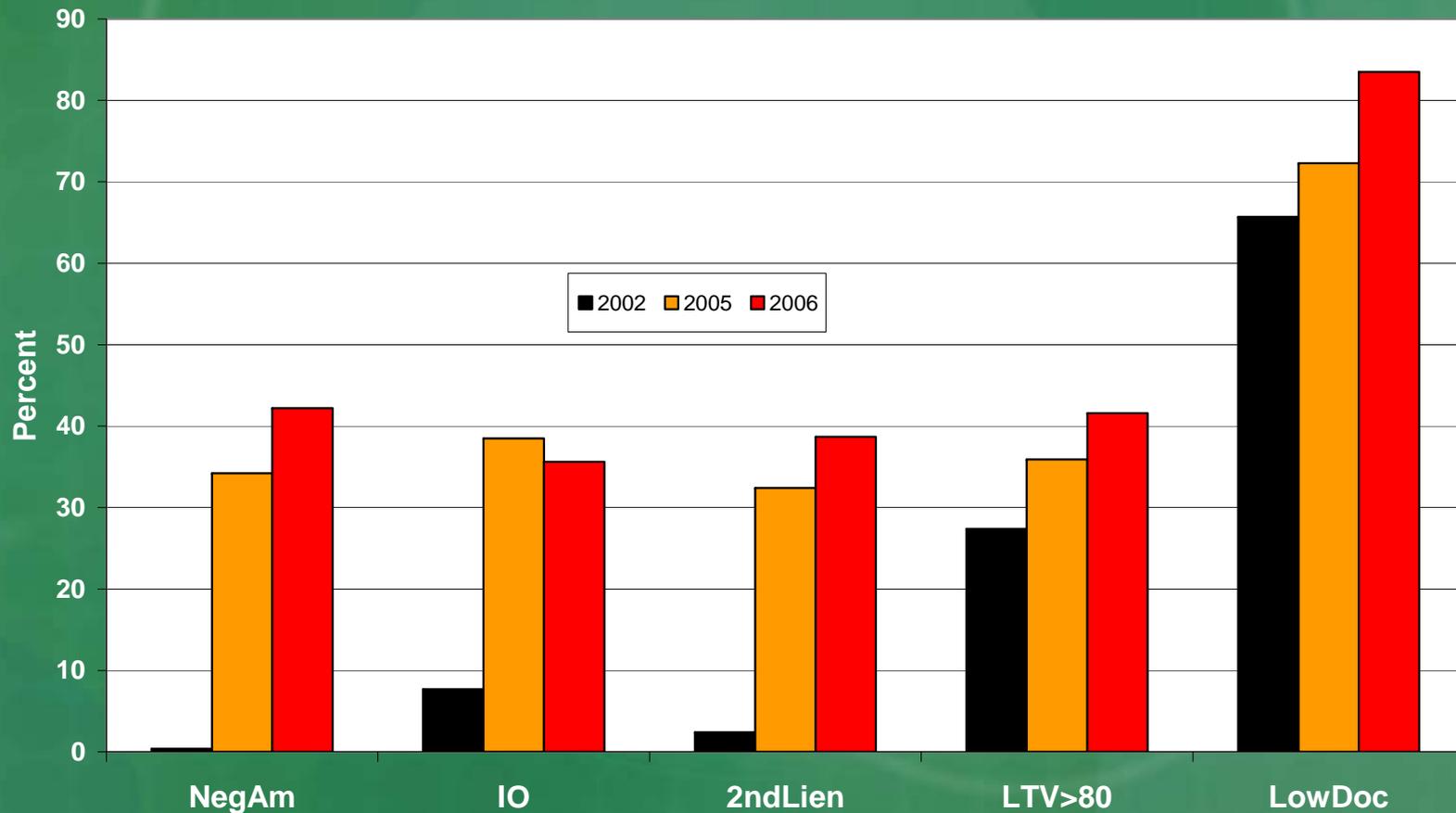
**U.S. Housing Price Appreciation**  
(Yr.-Yr. Pct. Change in OFHEO HPI)



Source: OFHEO.

# Risky Products Surged with House Prices

AMPs in the Alt-A Market, 2002-06



# Many Borrowers Bet on Appreciation

- Borrowers had a variety of rationales
  - Affordability issues
  - Highly leveraged investments
  - Deception (by and of borrowers)
- Used ARMs with temporarily low payments
- Used high loan-to-value (LTV) combinations
- Many of these loans will be foreclosed

# Impact of the current wave of foreclosures

## ■ Mortgage Lending

- Failure of many subprime lenders and the overall decline of subprime lending
- Tightening of the credit markets

## ■ Borrowers

- Fewer mortgage options for credit challenged borrowers
- Not all borrowers in/going into foreclosure will be helped, even as efforts to assist them gear-up at all levels

## ■ Communities

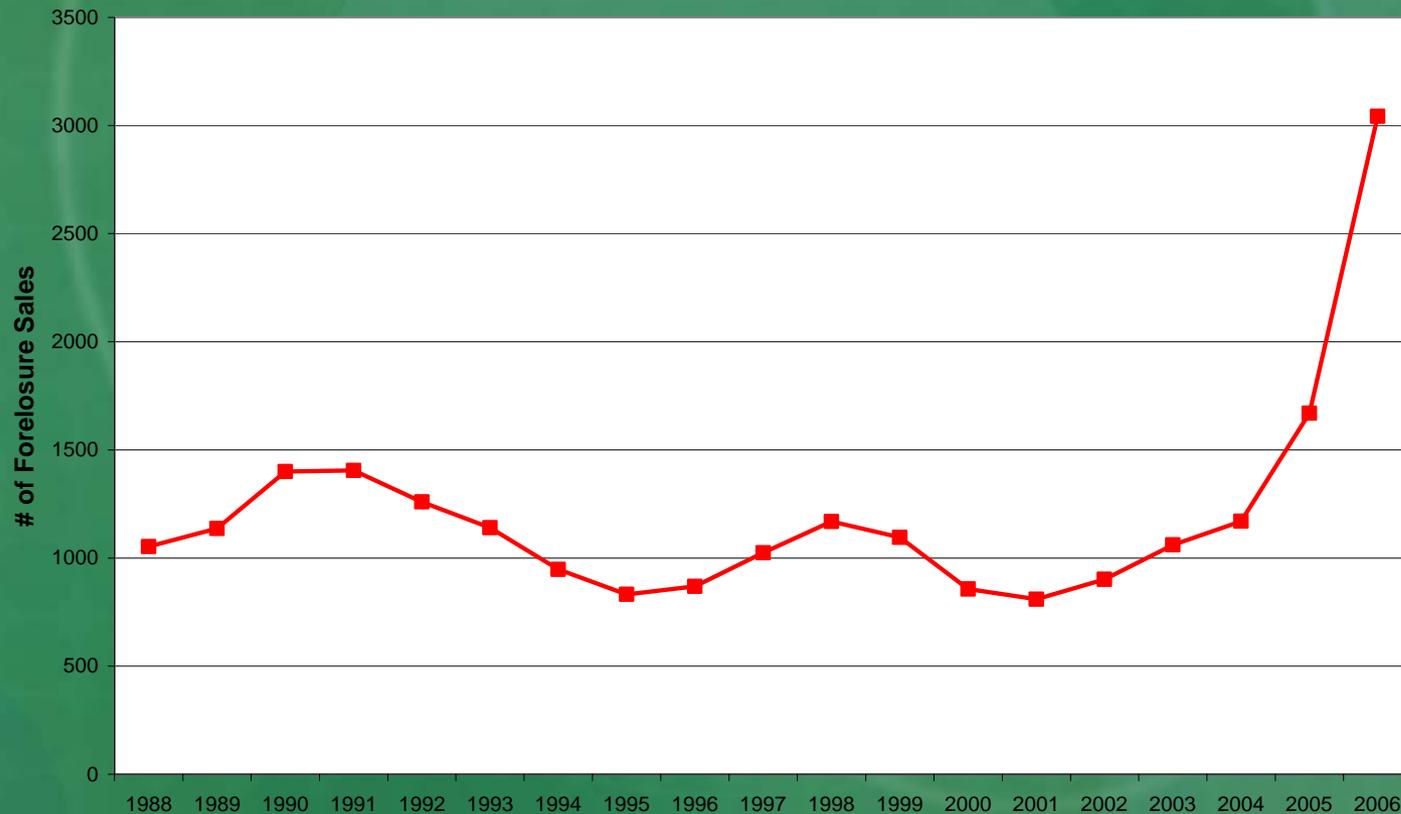
- Suburban communities are not immune from these trends
- Recent gains in minority homeownership and neighborhood revitalization may be at risk

# Minnesota perspective

- Dramatic increase in the number foreclosures began in 2005
- Troublesome loans with ARMs that will reset are concentrated in specific urban neighborhoods, but are also present in suburban and rural communities
- Other characteristics:
  - Geographic concentration highly correlated with minority population share, population with impaired credit histories and an increase in the number of minority homeowners
  - Increase in the number of investor related foreclosures

# Dramatic rise in foreclosures began in 2005

Hennepin County Foreclosures, 1988-2006



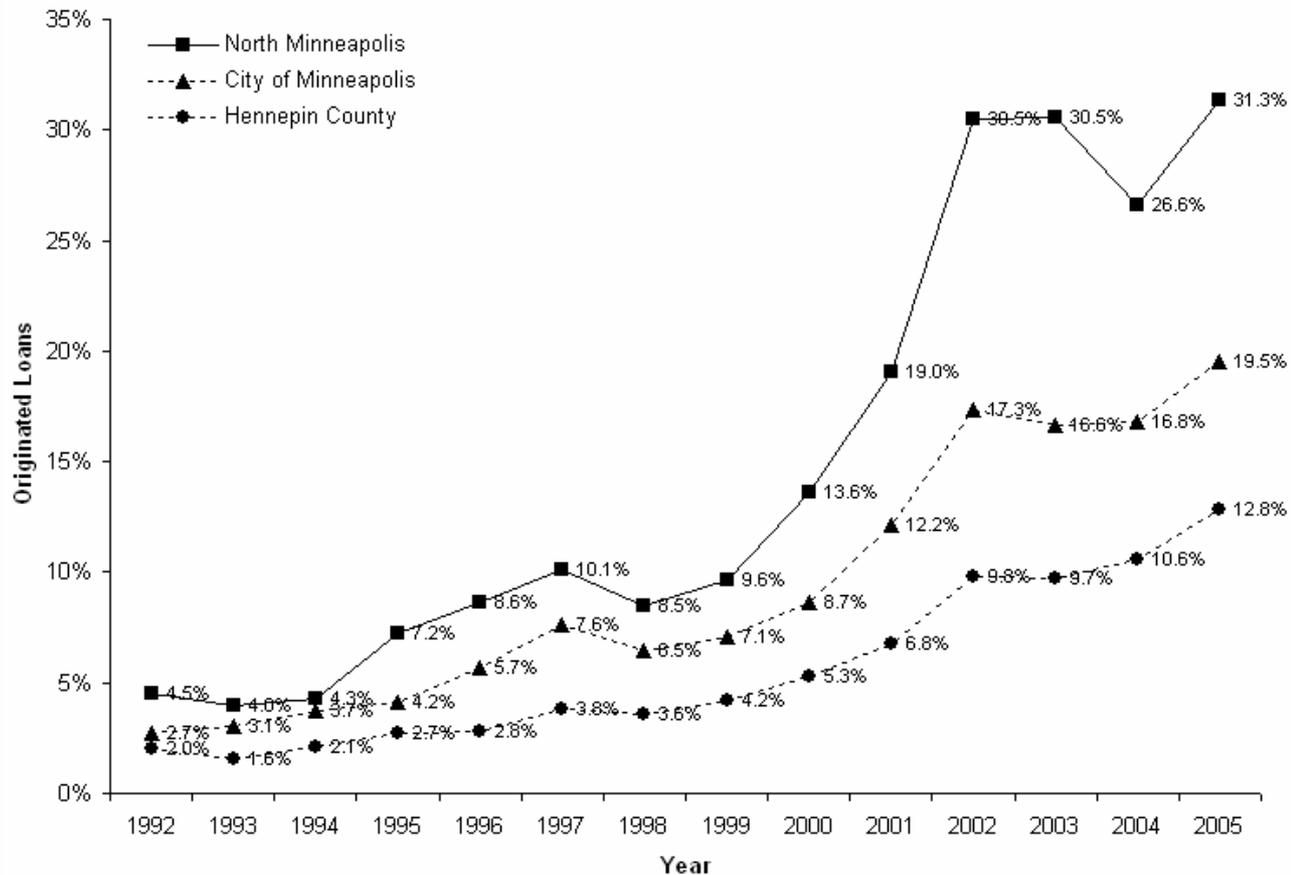
# Geographic distribution of troublesome loans

- 5.5 percent (2,200) of first-lien subprime and Alt-A mortgages are currently in foreclosure in 2007
  - North Minneapolis ZIP codes have the highest rates, 11 to 14 percent in foreclosure
  - ZIP codes surrounding downtown St. Paul had the second highest rate, 8 to 11 percent in foreclosure
  - Hennepin and Ramsey county suburbs also have 5 to 6 percent of these loans in foreclosure
- An additional 13 percent were identified as delinquent
- Monthly payments on about 15,000 of these loans (almost 40 percent of all of these loans) are scheduled to reset to significantly higher values by the end of 2009



# Loans to investors

Number of Originated Conventional Home Purchase Loans Where the Borrower Does Not Intend to Occupy the Property

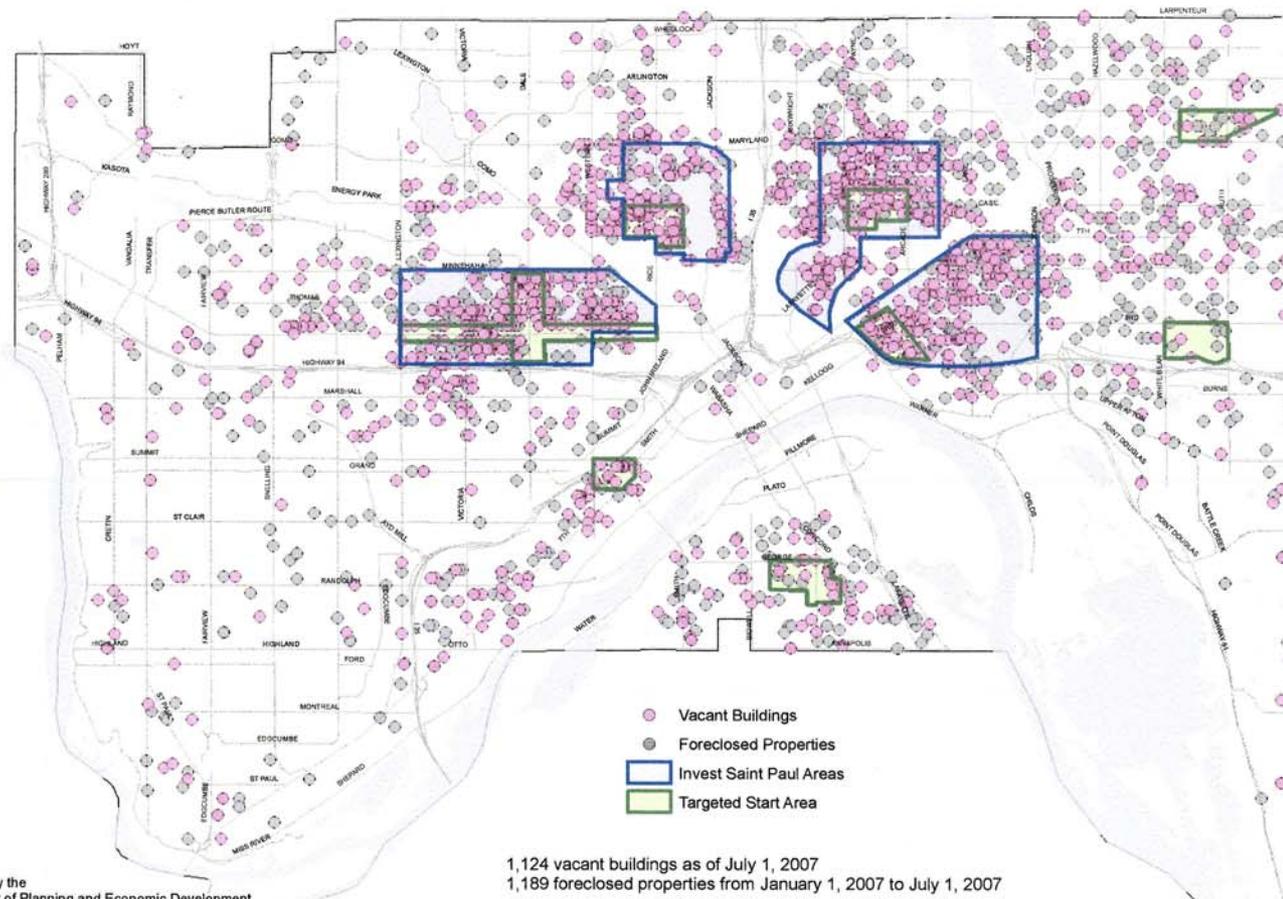


Source: HMDA



# Community Impact: Revitalization Efforts?

## VACANT BUILDINGS AND FORECLOSURES IN SAINT PAUL



1,124 vacant buildings as of July 1, 2007

1,189 foreclosed properties from January 1, 2007 to July 1, 2007



Prepared by the  
Department of Planning and Economic Development

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# Summary

- Recent wave of foreclosures followed a surge (and fall) in housing appreciation and risky loan products
- Foreclosure rates vary by state and within local markets
- The recent wave of foreclosures may place a number of policy efforts at risk