Eighth District States Weather the Mortgage Foreclosure Storm

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The Regional Economist

Tenth Federal Reserve District

One of the symptoms of the ongoing problems in the nation’s housing markets is a sharp rise in mortgage delinquencies and home foreclosures. From the second quarter of 2007 through the second quarter of 2008, homeowners with more than three missed monthly payments or in foreclosure rose from 2.5 percent to 4.5 percent of all outstanding mortgages.1 Table 1 summarizes the data for Eighth District states as of the second quarter of 2008. The data show that our region has suffered along with the nation. In fact, three Eighth District states—Illinois, Indiana and Mississippi—have had higher proportions of delinquencies than the national average. But the other states in the region—Kentucky, Missouri and Tennessee—have fared better than the national average. Arkansas, in particular, has experienced a much lower rate of delinquencies and foreclosures than the rest of the country has.

Historically, the leading factor in delinquencies and foreclosures is related to unemployment, with homeowners who lose their jobs falling behind in their mortgage payments. In contrast, a distinctive factor in the recent run-up in delinquency rates is falling house prices. Hence, some of the highest delinquency rates are in those states that have suffered the largest declines in housing prices. For example, the comparable rates for delinquency and foreclosure combined in Florida and Nevada are 8.4 and 7.6 percent, respectively.

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District Overview

The downturn in house prices was more subdued and lagged behind the national trend. For example, the comparable rates for Florida and Nevada are 8.4 and 7.6 percent, respectively. Combined in Florida and Nevada are 8.4 and 7.6 percent, respectively. The rate of delinquency and foreclosure for prime loans is generally lower than for subprime loans. However, the rate of subprime delinquency and foreclosure for 2007-vintage FRM loans is higher than that for prime loans.

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