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Subprime mortgage conditions remain a concern upstate, where six counties with large urban centers account for half of the loans in foreclosure. When foreclosure levels are scaled to housing density, however, the relative severity of these concentrations declines. Moreover, the loan characteristics of mortgages in foreclosure reveal striking similarities in underwriting patterns across the region.

A Look at Upstate New York's Subprime Mortgages in Foreclosure

In upstate New York, the number of home mortgages in foreclosure continues to be a concern.[1] Homeowners who are struggling to make or have fallen behind on their mortgage payments may require mortgage counseling, loan modifications, or other forms of assistance in order to avoid foreclosure. Yet the challenges of how best to plan, scale, and prioritize such assistance are complicated by the sheer size and diversity of upstate. The lack of timely and complete loan data is another complicating factor.

This issue of *Facts & Trends* attempts to put upstate New York's foreclosure conditions in perspective by examining a segment of the region's subprime mortgages for patterns of relative distress and providing information on the characteristics of the loans.[2,3] A key goal is to help local housing service providers identify the upstate counties with higher levels of subprime mortgages in foreclosure. In addition, by presenting current information on these mortgages, our analysis strives to broaden the understanding of the characteristics of loans in foreclosure and of the factors that distinguish these loans from others.

We find the highest concentrations of subprime mortgages in foreclosure (Tier 1) in upstate counties with large urban centers.[4] However, when we scale foreclosure levels to different housing densities, the relative severity of the Tier 1 subprime mortgages diminishes. Our examination of the loan characteristics of these mortgages uncovers striking similarities in underwriting characteristics among subprime mortgages across the entire region. Even when we disaggregate the loans by their foreclosure status—revealing slightly more rigorous underwriting characteristics among loans not in foreclosure—the pattern is consistent across the region.

An Overview of Upstate's Subprime Mortgage Portfolio

The extent of upstate's mortgage foreclosure problem is difficult to evaluate because there is no single complete and accurate data source. To address this shortcoming, we use a data set that collects consistent and timely information for securitized subprime mortgages on owner-occupied properties across the nation (see "About the Numbers"). As a result, our analysis is based on a snapshot of a subset of upstate home mortgages—approximately 30,000, of which about 2,000 were in foreclosure on December 31, 2008.

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Insofar as our data accurately reflect the larger reality of upstate New York's mortgages, we can identify patterns of relative subprime mortgage concentration.

- Upstate New York has fewer subprime mortgages than New York State as a whole or the nation. The forty-eight upstate counties have a ratio of 11 subprime mortgages per 1,000 housing units, compared with 15 for the state and 18 for the nation.
- In terms of foreclosures, the subprime loans we analyzed in upstate New York are performing better than those we examined in the state and the country. The share of subprime mortgages in foreclosure is 7 percent—considerably less than 14 percent for New York State and 12 percent for the nation.

Upstate Counties with the Most Subprime Mortgages in Foreclosure

Bearing in mind the size and diversity of upstate New York, we assess the relative severity of subprime mortgages in foreclosure using two measures. The first measure is the absolute number of such mortgages, which, while incomplete, can be useful in gauging the scale of potential homeowner assistance; the second is the ratio of subprime mortgages in foreclosure per 1,000 housing units (the "foreclosure-to-housing-units ratio"), a preferred measure for comparing areas with different housing densities.

Measuring Severity by Level of Subprime Mortgages in Foreclosure

Ranking upstate counties by the absolute number of subprime mortgages in foreclosure, we find that half of the loans are located in just six of upstate New York's forty-eight counties (see chart).

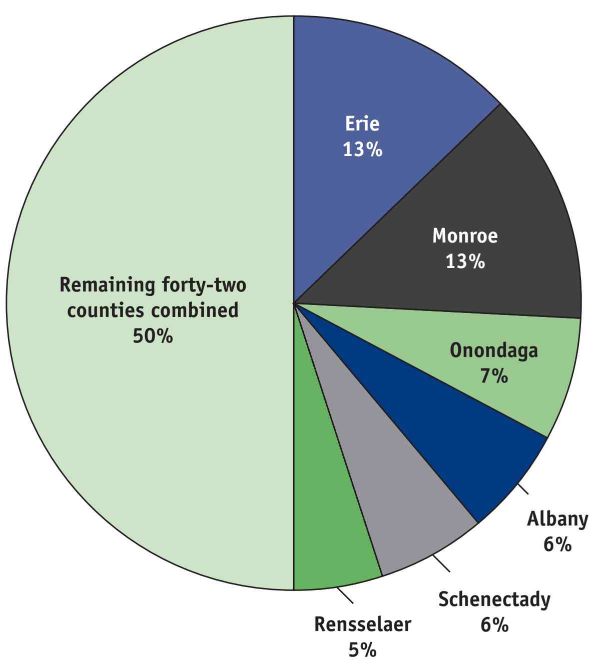
When we plot these data by county, we find pockets of relatively high concentrations of subprime mortgages in foreclosure (see map, page 3).

- Monroe and Erie counties account for about a quarter of upstate's subprime mortgages in foreclosure, with more than 200 each.
- Another quarter of upstate's subprime mortgages in foreclosure is represented by Onondaga, Albany, Schenectady, and Rensselaer counties, with between 100 and 199 each.
- The remaining half of upstate's subprime mortgages in foreclosure is spread across forty-two counties, with each having fewer than 100.

Adjusting Severity for Different Housing Densities

The higher concentration of subprime mortgages in foreclosure found in a small number of counties reflects in part their higher housing densities. Using a foreclosure-to-housing-units ratio to control for such differences, we find that the severity of subprime mortgages for Tier 1 counties is less pronounced (Table 1).

Percentage of Upstate New York's Subprime Mortgages in Foreclosure, by County
December 31, 2008



Source: First American CoreLogic, LoanPerformance data.

Table 1

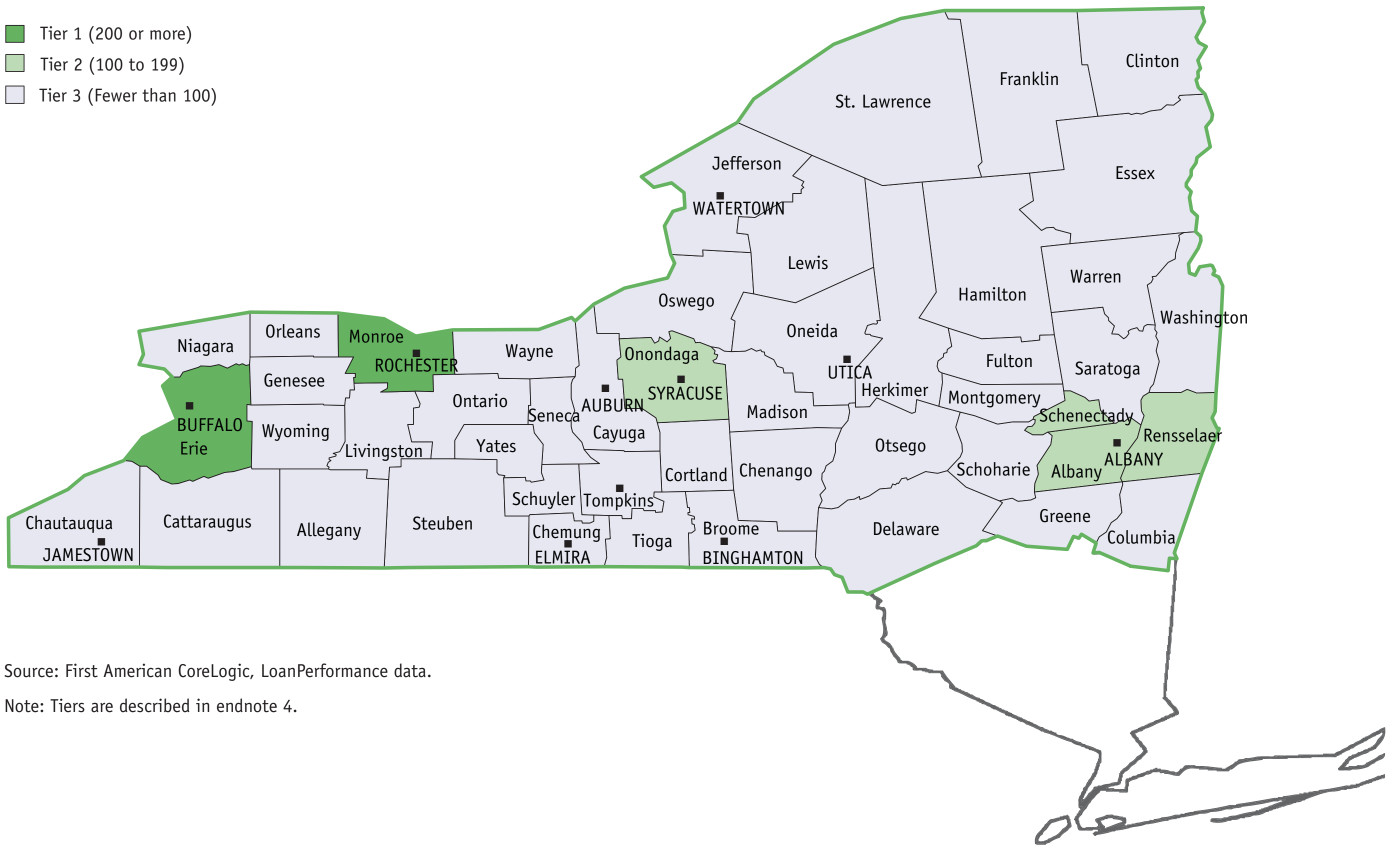
Upstate New York's Ratio of Subprime Mortgages in Foreclosure per 1,000 Housing Units, by County
December 31, 2008

Tier	County	Ratio
1	Erie	0.7
	Monroe	0.9
2	Onondaga	0.7
	Albany	1.0
	Schenectady	1.8
	Rensselaer	1.7
3	Remaining forty-two counties combined	0.7

Source: First American CoreLogic, LoanPerformance data.

Note: Subprime mortgages are defined in endnote 3; tiers are described in endnote 4.

Concentration of Upstate New York's Subprime Mortgages in Foreclosure
December 31, 2008



Source: First American CoreLogic, LoanPerformance data.

Note: Tiers are described in endnote 4.

Loan Characteristics of Upstate New York's Subprime Mortgages

We now examine several loan characteristics of upstate's subprime mortgages and consider how these characteristics vary geographically. These characteristics, available in the data set we analyzed, have been examined by other researchers as indicators of the future riskiness of loans.[5]

Our comparison of the Tier 1 portfolio with Tier 2 and Tier 3 portfolios shows that the loan characteristics of each tier are strikingly similar, regardless of the concentration of subprime loans in foreclosure. Additionally, when we disaggregate the loans according to their foreclosure status, we find differences between loans that are in foreclosure and those that are not; however, these differences are consistent across tiers. Accordingly, we combine the data values for all three tiers and present a single set of loan characteristics for upstate New York (Table 2, page 4).

Placing upstate New York in a broader geographic context, we also compare the loan characteristics of subprime mortgages upstate with those of New York State and the nation. We again find striking similarities—and a few notable differences:

- Properties in upstate New York have considerably lower loan values than those in New York State or the United States, reflecting the lower property values in the region.
- Certain loan characteristics—such as the combined loan-to-value ratio at origination, including junior liens, and borrower credit score at origination—are fairly similar across upstate New York, New York State, and the country. However, they are consistently weaker for loans in foreclosure than for those not in foreclosure.
- In the three regions, the share of loans lacking complete documentation is consistently higher for mortgages in foreclosure than for other mortgages. However, upstate's share of no-doc/low-doc loans is noticeably lower than that of the state or the nation.

Table 2

Subprime Mortgage Characteristics

December 31, 2008

	Upstate New York		New York State		United States	
	In Foreclosure	Not in Foreclosure	In Foreclosure	Not in Foreclosure	In Foreclosure	Not in Foreclosure
Mean appraised value of collateral property (thousands of dollars)	134	125	443	368	280	231
Mean loan amount (thousands of dollars)	111	101	356	270	227	177
Mean combined loan-to-value (CLTV) ratios at origination[a]	87	85	88	79	88	83
Mean FICO score at origination	599	614	629	631	615	618
Percentage with no/low documentation	30	26	64	41	44	30
Loans in data set (thousands)	2	28	18	105	280	2,000

Source: First American CoreLogic, LoanPerformance data.

Notes: Subprime mortgages are defined in endnote 3. FICO scores are used by lenders to assess the credit risk of prospective borrowers. Means and percentages were calculated using all available data; however, in some cases, missing data caused the number of loans used in the calculation to differ from the actual number.

[a]CLTV ratios capture only the information reported by the first lender on second, or "piggyback," loans made at the time of origination. In our upstate sample, 11 percent of the loans included multiple-lien data. Home equity lines of credit are not captured in our CLTV ratios.

About the Numbers

The loan data source is First American CoreLogic (for more information, see <http://www.newyorkfed.org/regional/subprime.html>). The loan figures are based on December 31, 2008, data for active, first-lien, owner-occupied mortgages placed into a security assigned a grade of subprime. The underlying data do not represent every subprime mortgage, whether in a portfolio or security. We estimate that as of year-end 2007, there were 7 million subprime loans in the United States. The underlying data contained 3.3 million active subprime loans, suggesting a coverage ratio of 47 percent. Total housing units data are 2008 estimates prepared by GeoLytics (<http://www.geolytics.com>). The map was created using ESRI software (<http://esri.com>).

Notes

1. Upstate New York refers to forty-eight counties in New York State. It does not include New York City; Dutchess, Orange, Putnam, Rockland, Sullivan, Ulster, and Westchester counties; and Nassau and Suffolk counties on Long Island.

2. The mortgages we examine are active, securitized, first-lien, owner-occupied subprime mortgages (hereafter "subprime mortgages"). Occupancy status is self-reported.

3. Subprime mortgages, also referred to as subprime loans, are typically given to borrowers with a blemished credit history or with only limited documentation of income or assets. For the purposes of this analysis, we do not include Alt-A mortgages, which are also associated with limited documentation of income or assets, but are usually given to borrowers with a stronger credit history and represent higher dollar amounts than do subprime mortgages.

Subprime mortgages in foreclosure include subprime mortgage loans on owner-occupied properties (which could be multi-unit) in which the lender has initiated the foreclosure process but has not completed it. The length of the process varies by state, so two otherwise similar areas in different states could record different foreclosure densities if the process takes longer in one state. The foreclosure process does not always end with the lender taking possession of the property—for example, if the property is pre-sold by the owner or retained through a work-out plan, payment of arrears, or other resolution. Thus, we measure the stock of loans at some stage in the foreclosure process at a particular time, not the rate of completed foreclosures.

4. There are three levels of severity for subprime mortgage concentration, ranging from Tier 1 (highest) to Tier 3 (lowest).

5. For a discussion of loan characteristics and risk of default, see Yuliya Demyanyk, "Changes in Mortgage Underwriting Standards," in *Synopses of Selected Research on Housing, Mortgages, and Foreclosures* (September 2008), 53-7. Available at <http://www.newyorkfed.org/regional/synopses.pdf>.

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