



Subprime LOAN REPORT

Omaha

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Omaha Subprime Loan Report

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Omaha, Neb., area subprime loan originations peaked in or before 2004, while the nation's subprime loan originations peaked in 2006. Subprime loans have been widely cited as a predominant source of recent foreclosure activity. Household foreclosures increased 59.7 percent from 2006 to 2007 for the Omaha, Nebraska/Council Bluffs, Iowa, metropolitan area (MSA), which was likely the peak for foreclosures related to subprime activity. In comparison, nationwide foreclosures rose 78 percent in 2007.

Total loan delinquencies, loans in foreclosure, and foreclosed homes already owned by the lender in the Omaha MSA are on par with the nation's average of 37 percent. Analysis of data on securitized subprime loans reveals 64 percent of subprime borrowers in the Omaha area are successfully paying their mortgages.

The key findings include:

1. The largest percent of subprime originations for the Omaha area occurred in 2004 or earlier (36 percent), while nationally, subprime originations peaked in 2006 at 38 percent. Very few loans were originated in 2007.
2. More than one-half (54 percent) of adjustable-rate subprime loans in the Omaha area had reset as of December 2007, versus 41 percent nationally and 34 percent in the Tenth District. Recent declines in interest rates should help the remaining borrowers facing a reset in the near future.
3. Omaha MSA delinquencies are only slightly higher than the national average, with 26 percent of loans in delinquency as of December 2007, compared to 24 percent nationally.
4. The average credit score of the Omaha area was lower (610) than the nation (617). Omaha-area subprime borrowers have been paying above-average interest rates: 9.3 percent in the Omaha area, versus 8.7 percent nationally.
5. Eighty percent of subprime loans in the Omaha MSA were fully documented, compared to the national average of 67 percent, while the average outstanding mortgage balance in Omaha as of December 2007 was \$110,181, well below the U.S. average mortgage balance of \$181,225.

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The average subprime loan in the Omaha area is 34 months old. Collectively, 96 percent of subprime loans for the Omaha MSA originated in 2006, 2005 and 2004 or before. The origination of privately financed subprime loans all but disappeared in 2007 in Omaha and nationally. The share of subprime loans originated in 2007 represents less than 5 percent of outstanding subprime loans for Omaha, versus about 8 percent for the United States.

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Resets on adjustable-rate loans often cause concern among borrowers who may potentially face higher payments. The interest rates of adjustable-rate mortgages (ARM) are generally indexed to the London Interbank Offered Rate (LIBOR) or a similar short-term interest rate index. Throughout much of 2007, LIBOR was near 5.4 percent, making resets to

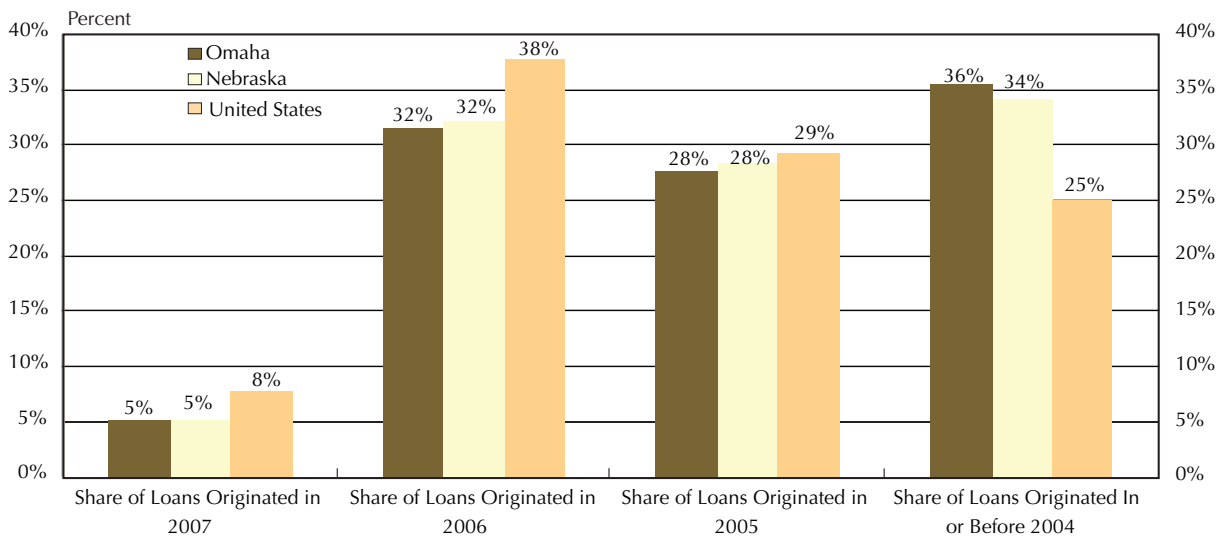
around 11.6 percent likely in the Omaha area. LIBOR has declined substantially over the past few months, however, making resets likely to be closer to 8.8 percent in the Omaha MSA. Subprime loans tend to reset every six months after the first reset, so many households may see their rates decrease from past resets.

In addition to the majority of adjustable-rate loans having already reset by 2008, 39 percent of subprime loans in the area have a pre-payment penalty still in effect. For the group of homeowners with prepayment penalties still in effect, the decline in LIBOR is particularly helpful and may alleviate some of the expected difficulties from resets.

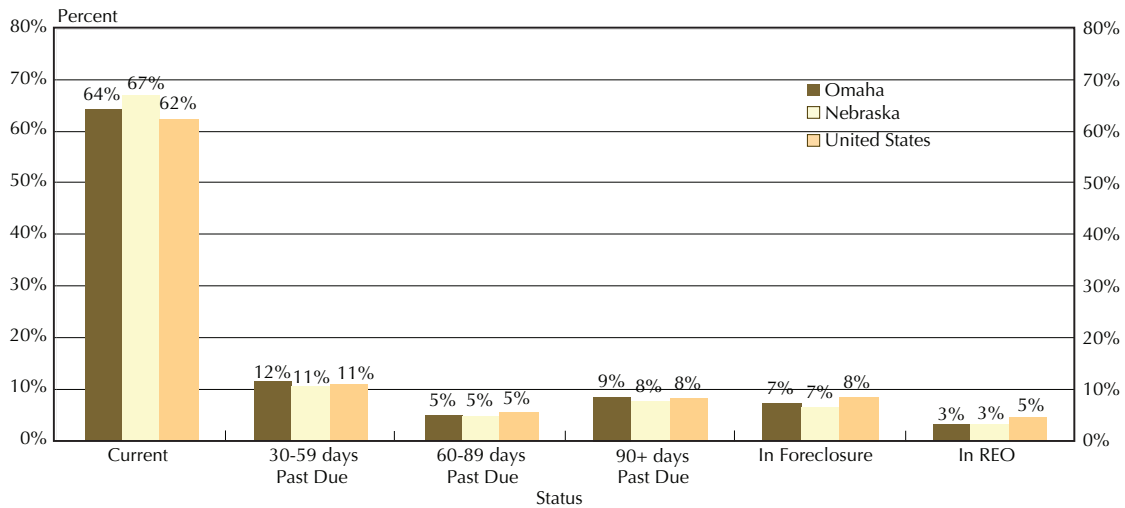
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In the Omaha MSA, 12 percent of subprime loans are past due by more than 30 days, 5 percent are from 60 to 89 days past due and 9 percent are more than 90 days past due. Seven percent of the subprime loans are in foreclosure, with 3 percent in "REO," which means the lender has already taken ownership of the property. Total delinquencies, properties in foreclosure and REO are running comparable to statistics from the United States and are just two percentage points above the Tenth District data.

The Timing of Subprime Origination



Subprime Loan Status

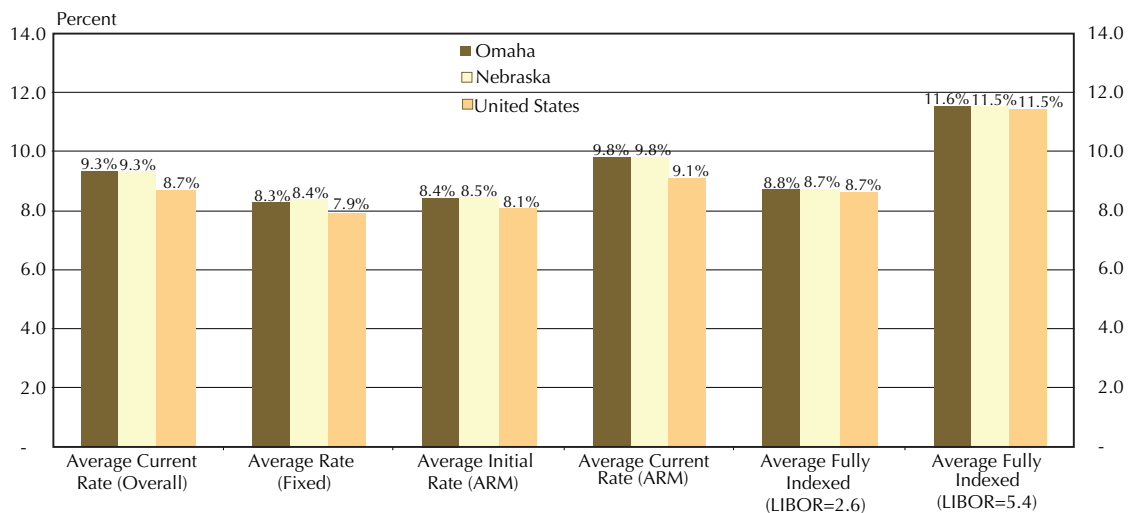


The average credit score of the Omaha area was lower (610) than the nation (617). Omaha-area subprime borrowers have been paying above-average interest rates: 9.3 percent in the Omaha area, versus 8.7 percent nationally.

The average FICO credit score of subprime borrowers in the Omaha area is 610, which is only slightly lower than the United States average of 617. The FICO credit score is one factor contributing to the determination that a loan

product is considered subprime. FICO is the credit score developed by Fair Isaac & Company and is frequently used by many mortgage lenders to determine the possibility that the borrower may default. The share of the property financed also affects the classification of the loan, particularly when the loaned amount is more than 90 percent of the value of the property. “High” initial loan-to-value ratio loans (LTV greater than 90 percent) were more common in the Omaha MSA: 44 percent, compared to 37 percent of subprime loans nationally.

Average Interest Rates on Subprime Loans



The relatively lower credit scores and large proportion of high loan-to-value products suggest higher interest rates for the borrowers in the Omaha area, and this scenario, in fact, holds true. Omaha subprime borrowers on average paid rates several basis points higher than the nation.

In 2007, on fixed-rate loans, they paid 8.3 percent versus 7.9 percent nationwide. Initial adjustable-rates for the area were 8.4 percent versus 8.1 percent nationally. At the end of 2007, the current rate paid for adjustable-rate loans was higher than the nation's average (9.8 percent versus 9.1 percent).

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Subprime loans are often characterized, in part, by low documentation. The subprime loans of the Omaha area were primarily fully documented, which is an important factor in providing sound underwriting. Eighty percent were fully documented, compared to the U.S. average of 67 percent.

Omaha's average outstanding subprime mortgage balance is \$110,181, which is well below the U.S. average mortgage balance of \$181,225. Payment resets on lower mortgage balances aren't as dramatic in total payment amount, which, in part, may contribute to a slightly lower-than-average foreclosure rate. Ability to pay a reset mortgage depends on several factors, including outstanding loan balance, payment amount, home value relative to loan value, owner's income and overall financial situation.

This analysis of subprime loans in the Omaha MSA was conducted using estimates provided by the Federal Reserve Board and the Federal Reserve Bank of Kansas City based on First American LoanPerformance data from December 2007. This data source includes more than 70 percent of securitized subprime loans made nationally, so these estimates should accurately reflect the subprime loan pool in the Omaha MSA. Jane Dokko and Andreas Lehnert at the Board of Governors provided many of the estimates used in this report.

The analysis and views in this report are the authors' and do not necessarily reflect the views of the Federal Reserve System.