

News Release

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FOR IMMEDIATE RELEASE
January 17, 2008

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RISING FORECLOSURES IN THE UNITED STATES: A PERFECT STORM

Several factors have contributed to a rapid rise in residential foreclosures across the country, and the problem will likely get worse during the next few years before it gets better.

Federal Reserve Bank of Kansas City Senior Economist Kelly D. Edmiston and Research Associate Roger Zalneraitis investigate the factors leading up to the recent foreclosure surge in “Rising Foreclosures in the United States: A Perfect Storm.” The article appears in the fourth quarter edition of the Bank’s *Economic Review*.

The authors provide a historical and geographic context for the growing number of foreclosures. While the nation’s overall foreclosure rate is historically high, not all areas of the country are affected equally.

The factors leading to the foreclosure surge include a growing number of subprime mortgage originations, an increase in foreclosures involving adjustable rate mortgages and various forms of non-traditional mortgages, and high loan-to-value originations coupled with stagnant or falling home prices. Those issues have combined to cause what Edmiston and Zalneraitis call a “perfect storm” in the mortgage market.

The authors also suggest that because of record levels of subprime and nontraditional mortgage lending in 2005 and 2006, the worst is yet to come. But tighter lending standards and fewer non-traditional mortgage originations could result in a better foreclosure picture after the next two to three years.

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