



Discussion is part of Kansas City Fed's ongoing efforts

In the midst of the ongoing foreclosure surge, consumer education is the key to prevention, but help is available to those facing default, experts say.

The Federal Reserve Bank of Kansas City has hosted a number of events focusing on housing issues, including two forums at its Kansas City office, one at its Denver Branch and other events at the Oklahoma City and Omaha Branches.

On Nov. 6, the Kansas City Fed partnered with the social services nonprofit Mid America Assistance Coalition to sponsor a forum on home mortgage foreclosure issues. This event

was held at the Ewing Marion Kauffman Foundation.

These ongoing efforts are in line with part of the Fed's mission of spurring economic growth through community development, which includes financial education, asset building and entrepreneurship.

Attendees included educators, real estate agents, regulators, lenders and representatives from nonprofits and government agencies. The forum and its question-and-answer session were an opportunity for these organizations to learn about foreclosure issues from each other as well as Kansas City Fed staff.

Kelly Edmiston, senior economist at the

Kansas City Fed, presented his research on the causes of increased foreclosures both nationally and regionally. Additionally, Edmiston and research associate Roger Zalneraitis authored the paper, "Rising foreclosures in the United States: A perfect storm," which will be featured in an upcoming issue of *TEN* and was published in the Kansas City Fed's fourth quarter 2007 *Economic Review*.

Also at the forum, a panel of experts discussed the roles their organizations play in foreclosure prevention and intervention. They were: Marjorie Major of Neighborhood Housing Services of Kansas City, Inc.; Gregg Lombardi of Legal Aid of Western Missouri; and Pam Hilder Johnson of Greater Kansas City Housing Information. Also on the panel was Ariel Cisneros, senior community affairs advisor for the Kansas City Fed's Denver Branch, who discussed the foreclosure task force formed in Colorado in late 2005.

The Kansas City Fed dedicates its resources to foreclosure prevention and consumer assistance through economic research and community involvement throughout its District. This includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

Its message for consumers: Help is available.

At the recent forum, Edmiston first explained the extent of the foreclosures in the Kansas City metro area, which spans parts of both Missouri and Kansas, and then the causes and potential effects in the future.

"I think the foreclosure problem is going to get a little worse before it gets better," Edmiston said. "But consumers are not without options."

Foreclosure surge

The onslaught of subprime mortgage foreclosures has been ongoing since mid-2006. During the years prior, would-be borrowers who were unable to qualify for traditional mortgages, usually because of weak credit histories, obtained subprime loans. These

borrowers paid a higher interest rate than someone with good credit would have been charged. Their adjustable-rate mortgages often started out with good "teaser" rates, but became unaffordable for some borrowers as teaser rates expired and market interest rates rose.

During this period, the U.S. homeownership rate was at an all-time high; many of the new homeowners were lower-income households. Some have been able to pay their mortgages; others have defaulted. Many borrowers said they didn't understand fully the terms of their loans, or the extent to which their payments could increase.

The resulting sharp rise in foreclosures also has caused several major lenders to fold or file for bankruptcy. The impact has been felt worldwide with falling stock prices, especially in mortgage companies, and cast a dark cloud



over the already-slumping U.S. housing market.

With a foreclosure rate of 1.12 percent, Missouri falls below the country's foreclosure rate of 1.4 percent, Edmiston said at the forum. In some areas of the state, however, the foreclosure rate is greater than 5 percent—much higher than any overall state rate. Foreclosures in Kansas also are near all-time highs for the state.

“Foreclosures are concentrated in urban areas, specifically in low- and moderate-income areas,” Edmiston said, “while foreclosure rates in rural areas of both states generally are low.”

'Perfect storm'

There is always an ebb and flow of foreclosures, Edmiston said, but three conditions recently merged to create what he calls the “perfect storm”:

- The rise in popularity of subprime mortgages;
- The inability to pay these nontraditional

mortgages and other adjustable-rate mortgages when payments reset;

- The stabilization or decline in the appreciation of home prices, coupled with low equity in many cases.

This means borrowers who obtained a subprime mortgage and couldn't make the payments when the initial rate increased, in many cases, couldn't sell their home at a price that exceeded what they owed.

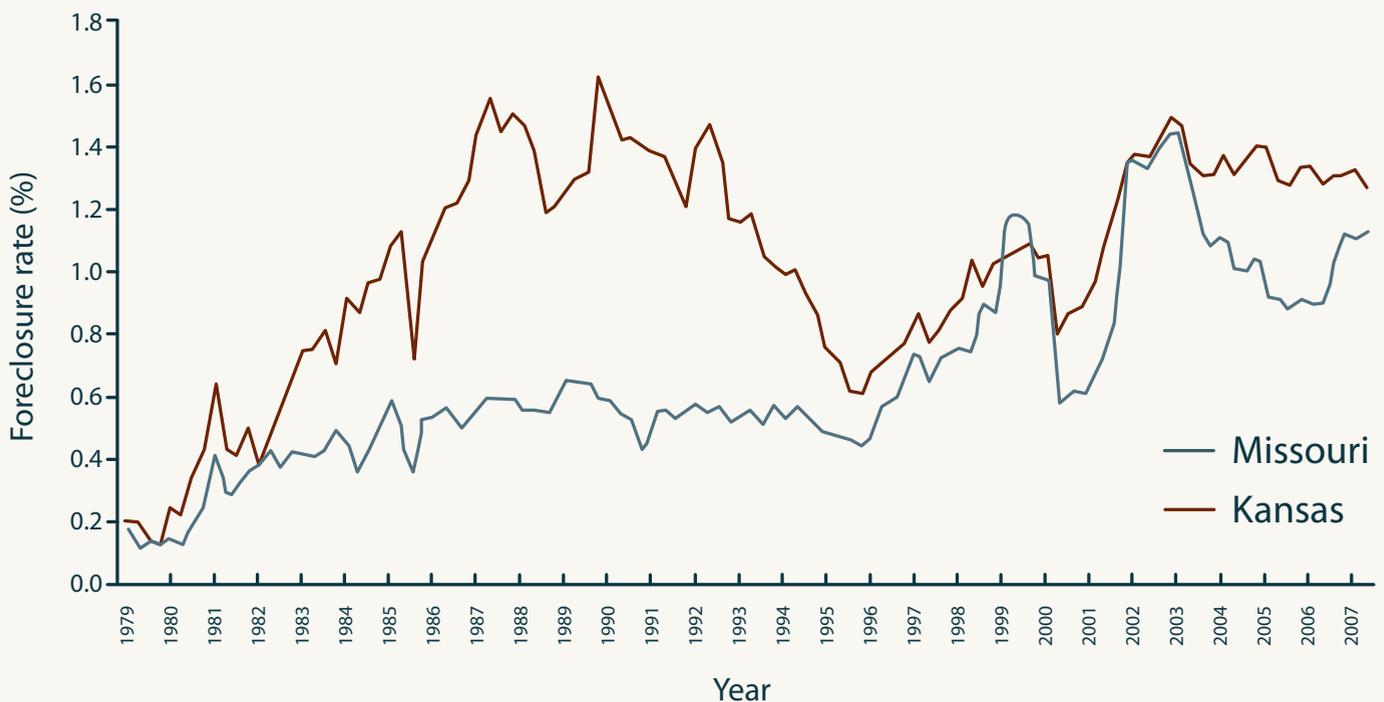
Edmiston predicts foreclosure rates will continue to grow through 2009.

Not only can this be detrimental for the homeowner and family, the neighborhood and community can be affected if homes become abandoned and deteriorate—crime can increase, property values may fall, tax revenues can decrease and lenders might shy away from urban lending.

There are solutions for the homeowner, such as refinancing or prepaying (although sufficient equity is needed). Sometimes a lender will work with the homeowner to circumvent foreclosure, but often the homeowner avoids

Kansas and Missouri foreclosure rates

First Quarter 1979 to Second Quarter 2007



contact out of fear. However, it can be difficult for a troubled borrower to work with his or her lender—because mortgages are packaged together and sold to investors, the loans aren't held in the loan originators' portfolios, which can create a disconnect between the borrower and lender.

There is a nationwide hotline (888-995-HOPE) through the NeighborWorks organization that can put homeowners in touch with local resources. Currently, though, only about 5 percent of callers from Missouri are from the Kansas City area, although this metro area represents a much more substantial share of all Missouri foreclosures.

“One thing we can take away from this meeting is more needs to be done,” Edmiston said. “We've got a problem getting this message out there.”

Taking action

Whether organizations offer preventative foreclosure counseling or mail information to at-risk homeowners, efforts focus on educating the consumer with the hopes of preventing foreclosure or mitigating its impacts.

The Denver Branch hosted a similar foreclosure forum in August, Cisneros said during the panel discussion. He shared insight from the Colorado task force and statewide hotline, which was formed about a year ago by 25 counseling agencies to work with individual homeowners and resolve foreclosure issues. The hotline has received more than 20,000 calls, mostly from those who are already delinquent on their mortgage. Other data show 60 percent don't contact or respond to their lender when facing default; a quarter of the callers aren't even sure what type of loan they have.

“The hotline is looking for the best resolution,” Cisneros said. “What is the right product for this individual and how can the hotline help?”

All the panelists emphasized the importance of seeking assistance early, when more options are available and problems may be resolved with less difficulty. Lombardi, of



PHOTO BY GARY BARBER

ARIEL CISNEROS, SENIOR COMMUNITY AFFAIRS ADVISOR at the Kansas City Fed's Denver Branch, was a panel member at the Kansas City forum. He spoke about a recently implemented task force in Colorado.

Legal Aid, noted that initial counseling with a troubled borrower may take just a few hours, whereas working on a home foreclosure case can take hundreds of hours.

Panelists also spoke of the importance of working together for this common goal.

“Everybody has to have somewhere to live,” said Johnson, of Greater Kansas City Housing Information.

The Kansas City Fed continues to host roundtables throughout the District to do its part to aid homebuyers.

“The best thing I think you can do,” Edmiston said, “is educate the consumer.”

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BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

For related information, please see the Federal Reserve Bank of Kansas City's materials from its 2007 Jackson Hole Symposium, “Housing, housing finance & monetary policy,” at www.KansasCityFed.org/TEN.

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.