WHERE WE STAND

An Update from

EAST-WEST GATEWAY
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WHERE WE STAND UPDATE: THE NATIONAL FORECLOSURE CRISIS

In 2007, foreclosure proceedings were initiated on 1.5 million homes in the United States. This represented a 53 percent increase over 2006. Ben Bernanke, chairman of the Federal Reserve Board, has stated that the foreclosure rate is likely to rise again in 2008. According to Bernanke, an additional 1.5 million adjustable rate loans will re-set in 2008, which suggests that the foreclosure crisis will intensify in the next few months. RealtyTrac®, a California-based company that tracks foreclosure activity, reports that April was a record month for foreclosure filings.

This report uses foreclosure data from RealtyTrac® to compare St. Louis with other large metropolitan areas. In 2007, about 15,000 homes in the St. Louis region were subjected to foreclosure filings. This represented 1.28 percent of all housing units in the region.

FORECLOSURE RATE: FORECLOSURE FILINGS AS A PERCENT OF HOUSEHOLDS 2007

1	**Detroit**	**4.92**
2	Cleveland	2.97
3	Miami	2.72
4	Denver	2.64
5	Atlanta	2.53
6	Memphis	2.14
7	Indianapolis	2.02
8	Phoenix	1.92
9	Columbus	1.83
10	San Diego	1.82
11	Dallas	1.65
12	Chicago	1.64
13	Cincinnati	1.47
14	Charlotte	1.44
	Average	**1.41**
15	Los Angeles	1.36
16	**St. Louis**	**1.28**
17	Houston	1.22
18	Kansas City	1.18
19	Washington DC	1.16
20	San Antonio	1.07
21	Milwaukee	1.02
22	Salt Lake City	0.98
23	Austin	0.87
24	Nashville	0.87
25	Minneapolis	0.84
26	Oklahoma City	0.80
27	Baltimore	0.73
28	Boston	0.68
29	Portland	0.60
30	Louisville	0.60
31	New York	0.52
32	Philadelphia	0.49
33	San Francisco	0.48
34	Seattle	0.48
35	**Pittsburgh**	**0.37**

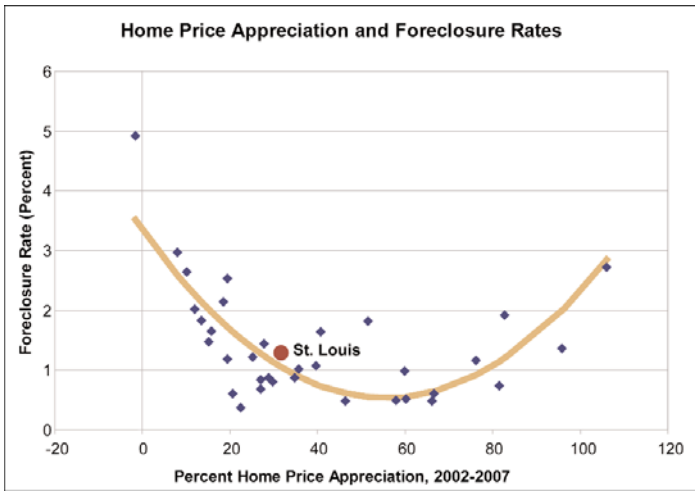
Source: Realtytrac.com

PERCENT HOUSING PRICE APPRECIATION, 2002-2007

1	**Miami**	**106.01**
2	Los Angeles	95.75
3	Phoenix	82.76
4	Baltimore	81.47
5	Washington DC	76.21
6	Portland	66.54
7	Seattle	66.13
8	New York	60.2
9	Salt Lake City	59.84
10	Philadelphia	57.85
11	San Diego	51.58
12	San Francisco	46.29
13	Chicago	40.78
14	San Antonio	39.59
	Average	**39.21**
15	Milwaukee	35.71
16	Nashville	34.8
17	**St. Louis**	**31.71**
18	Oklahoma City	29.8
19	Austin	28.88
20	Charlotte	27.81
21	Minneapolis	27.08
22	Boston	26.95
23	Houston	25.12
24	Pittsburgh	22.52
25	Louisville	20.68
26	Atlanta	19.43
27	Kansas City	19.37
28	Memphis	18.47
29	Dallas	15.82
30	Cincinnati	15.22
31	Columbus	13.49
32	Indianapolis	11.95
33	Denver	10.13
34	Cleveland	8.06
35	**Detroit**	**-1.61**

Source: Office of Federal Housing Enterprise Oversight

HIGHER — AVERAGE — LOWER



Among major metropolitan areas, St. Louis stands about in the middle of the pack. In our *Where We Stand* publications, East-West Gateway regularly compares St. Louis to 34 other large "peer regions." Among the 35 peer Metropolitan Statistical Areas (MSAs), St. Louis ranked 16th. The regions with the highest foreclosure rates were Detroit (4.9 percent), and Cleveland (3.0 percent). Pittsburgh had the lowest foreclosure rate (0.4 percent) among the 35 peer regions. The average among the 35 regions was 1.41 percent. The national average was 1.03 percent.

These foreclosure rates reflect the number of unique addresses for which a foreclosure filing occurred in 2007. Foreclosure filings include notices of default, notices of trustee sales or auctions, and real-estate owned (REO) properties that have been foreclosed.

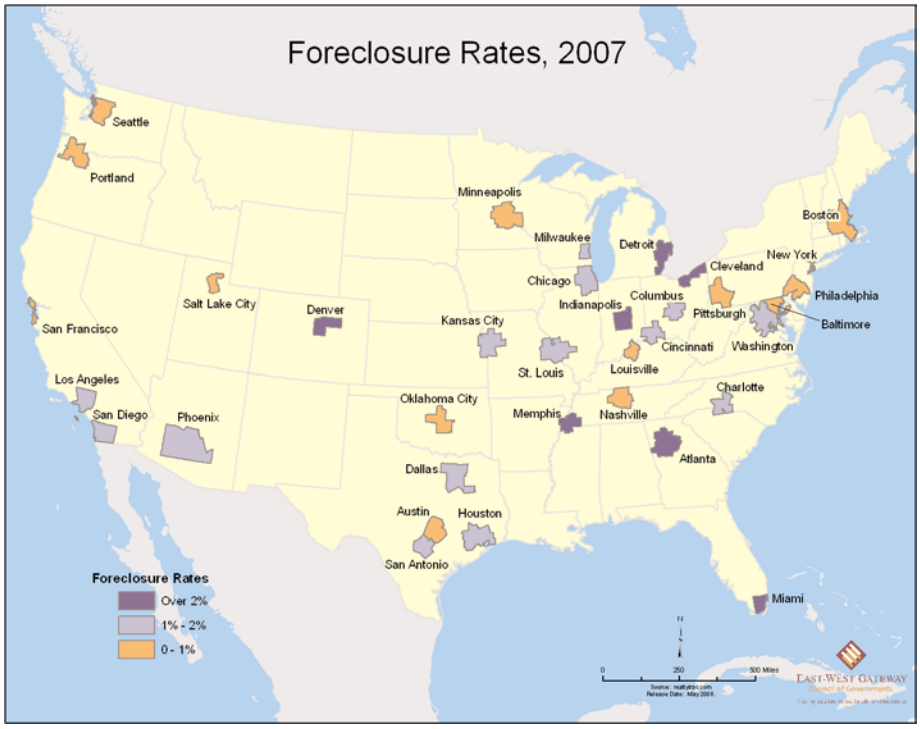
Statistical analysis shows that three factors explain more than 70 percent of the variation in foreclosure rates among the 35 peer regions: the amount of appreciation in home prices in the previous five years, the number of subprime loans issued, and race.

Home Values: There is a U-shaped relationship between recent increases in home prices and foreclosure rates. Regions such as Miami that have experienced the greatest increases in property values are now seeing high foreclosure rates. These areas may have been most affected by the bursting of the housing market bubble. Regions with very small changes in property values over the last few years, such as Detroit and Cleveland, also show high foreclosure rates. A very small increase in property values may indicate weak economic conditions that are conducive to high foreclosure rates. Cities with modest but steady increases in property values over the last five years saw the lowest foreclosure rates in 2007. Pittsburgh and Minneapolis are two such cities.

The graph on page one illustrates the U-shaped relationship between property values and foreclosure rates. Each point on the graph represents a region. St. Louis is represented by the large red dot.

Subprime Markets: The prevalence of subprime lending contributed to foreclosure rates. Prevalence of subprime lending in a region was measured by using the percentage of refinance loans that were classified as subprime in 2004.

Race: The size of the non-white population in a region was also associated with higher foreclosure rates. The association between the non-white population and higher foreclosure rates could be due in part to the income disparity between white and non-white populations and the predatory lending practices more common among economically disadvantaged non-white populations.



Other Factors: A difficult factor to quantify is the relationship between state laws and foreclosure rates. It is reasonable to speculate that state laws relating to both predatory lending and foreclosure processes may affect foreclosure rates. For example, Pennsylvania and New York both have foreclosure processes that last more than 270 days, a lengthy amount of time by national standards. It may be that the difficulty of foreclosing on properties in these states contributes to the low foreclosure rates in New York, Philadelphia and Pittsburgh.

It should also be noted that states are not uniform in the way that information on foreclosures is made public. RealtyTrac® data are based on public foreclosure filings. The State of Texas has a deed-in-lieu-of-foreclosure process that allows some foreclosures to take place without public filings. It is possible that the numbers reported by RealtyTrac® understate the actual number of foreclosures in some states. Nonetheless, RealtyTrac® data are the most frequently cited estimates of foreclosure activity, and represent a reasonable proxy for foreclosures.

Conclusion: Although St. Louis is not among the regions affected most severely by the foreclosure crisis, there is still troubling foreclosure activity in the MSA. The more than 15,000 foreclosure filings in the St. Louis area in 2007 represent a significant problem for the region. Foreclosures cause suffering on the part of those directly affected, and can also lead to declining property values and destabilized neighborhoods.

Several organizations in St. Louis are working together to help prevent families from losing their homes. The coalition includes the Catholic Charities Housing Resource Center, Beyond Housing, the Urban League, ACORN and Better Family Life. Persons at risk of foreclosure should call the Hope Hotline at 888-995-HOPE.

WHERE
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STAND

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