TRENDS IN DELINQUENCIES AND FORECLOSURES IN ARIZONA

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National Trends

- Recession and turmoil in financial markets has had broad repercussions, especially for lower-income households
  - Signs of stabilization in financial markets and consumer spending

Arizona

- Rising unemployment across broad range of sectors
  - Ongoing weakness in the labor market may continue to push up foreclosures and poses risks to the recovery of the housing sector

- Trends in foreclosures
  - Arizona continues to see high foreclosure rate

- Housing market continues its downward trend
National Trends
Weakness in Labor Market Grave Concern

Source: Bureau of Labor Statistics
National Foreclosure Starts Rose Sharply in 1st Quarter of 2009

Source: Mortgage Bankers Association, National Delinquency Survey
In Last 2 Years, Foreclosure Crisis Has Spread Beyond “Rust Belt” Cities

June 2007
In Last 2 Years, Foreclosure Crisis Has Spread Beyond “Rust Belt” Cities

June 2009
House Prices Rose Slightly in 2nd Quarter 2009

Case-Shiller National House Price Index

(2000 = 100, quarterly)

Source: Case - Shiller Home Price Index
How Does This Compare to Great Depression?

<table>
<thead>
<tr>
<th></th>
<th>Current Crisis</th>
<th>The Great Depression</th>
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</thead>
<tbody>
<tr>
<td>GDP decline</td>
<td>3.9%</td>
<td>36%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>9.4%</td>
<td>25%</td>
</tr>
<tr>
<td>Stock Market decline</td>
<td>48%</td>
<td>87%</td>
</tr>
<tr>
<td>Mortgage Delinquency</td>
<td>10.5%</td>
<td>50%</td>
</tr>
<tr>
<td>Bank Failures</td>
<td>100 Thousands</td>
<td></td>
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Source: FRBSF and Haver Analytics, as of July 2009.
Certain Market Indicators are Looking Up

- Financial markets are improving, and the crisis mode that has characterized the past year is subsiding.

- The housing sector, which has been at the center of the economic and financial crisis, also looks to be stabilizing—albeit, at a very depressed level. Housing starts and new home sales have leveled off, and existing home sales have edged up in recent months.

- Income from the federal fiscal stimulus, as well as some improvement in confidence, has helped stabilize consumer spending. Since consumer spending accounts for two-thirds of all economic activity, this is a key precondition for economic recovery.
Nevertheless, Recession is Likely to Have Long-Lasting Impacts, Especially for Lower-Income Families

- 48 states face significant budget shortfalls, and are cutting public services such as health benefits for children and public education.

- Tightening lending standards will make it more difficult for families and small businesses to access credit: the Federal Reserve’s quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices found that 65 percent reported tightened standards for the fourth quarter of 2008.

- CDFIs are increasingly facing liquidity constraints; their borrowers are in more need of ‘patient’ capital at the same time it is becoming harder to provide it.
Unemployment Rate in Arizona Continues to Rise

Source: Bureau of Labor Statistics
Arizona Has Seen Dramatic House Price Declines Since the Peak of “Housing Boom”

Source: Federal Housing Finance Agency (formerly OFHEO)
Phoenix Experiencing Steepest Declines in House Values

Source: Federal Housing Finance Agency (formerly OFHEO)
Foreclosure Rate in Arizona Remains Nearly Twice the National Average

Foreclosure Starts (Percent of All Loans)

Source: Mortgage Bankers Association, National Delinquency Survey
Arizona Continues to See High Foreclosure Rate

Arizona Foreclosure Starts (Percent of All Loans)

Source: Mortgage Bankers Association, National Delinquency Survey
Growing Concerns over Sustainability of Loans with Payment Options (in subprime, prime and Alt-A markets)

Characteristics of Remaining “Current” Loans

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Percent of Total Current Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM</td>
<td>20.0</td>
</tr>
<tr>
<td>Option ARM</td>
<td>15.0</td>
</tr>
<tr>
<td>Interest Only (Fixed and ARM)</td>
<td>15.0</td>
</tr>
<tr>
<td>Jumbo</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Legend: [Arizona] [US]
Arizona Foreclosure Data Maps
Phoenix Data Maps

Areas Affected by Concentrated Foreclosures

June 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations
Phoenix Data Maps

Areas at Risk of Additional Foreclosures

June 2009

Legend
Share of Seriously Delinquent (as a percent of total loans)
- Less than 3 percent
- 3 - 6 percent
- 6 - 9 percent
- 9 - 12 percent
- More than 12 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations
Areas Affected by Concentrated Foreclosures
June 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations
Areas at Risk of Additional Foreclosures

June 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations
Conclusions
Continued Need for Foreclosure Prevention

- Important to reach borrowers with ‘preventable’ foreclosures
  - Borrower Outreach Events
    - Expand use of foreclosure prevention workbook
  - Making Homes Affordable
    - Federal program provides both loan modification and refinance options
    - Online form available that allows borrowers to assess if they qualify for the program
      [http://makinghomeaffordable.gov/eligibility.html](http://makinghomeaffordable.gov/eligibility.html)
Preventing Foreclosure Scams

- Foreclosure scams are proliferating, especially in markets with investor interest
  - Some counties are sending notices to all delinquent borrowers to warn them about foreclosure scams
  - Free media kit available from the Federal Reserve which includes a PSA and other resources: [http://www.federalreserveeducation.org/pfed/mediakit.cfm](http://www.federalreserveeducation.org/pfed/mediakit.cfm)
  - NeighborWorks PSA: [http://www.youtube.com/nwpad](http://www.youtube.com/nwpad)

- Other 5 Tip brochures and resources available from the Federal Reserve
Stabilizing Communities and Helping Families After Foreclosure

- Develop service delivery and resources for families who go through foreclosure
  - Rental housing assistance
  - Credit repair
  - Minimizing disruption for children (e.g. allowing them to finish the school year in their old school)

- Minimize negative spillover effects of vacant properties on surrounding neighborhood
  - Ensure servicer maintenance of REOs
  - Work with lenders/servicers to acquire and rehab foreclosures for affordable housing
For More Information:
FRBSF Community Development Website

- Links to other resources and research on foreclosure trends and mitigation strategies
- All publications, presentations available on our website
- Conference materials also posted shortly after events

http://www.frbsf.org/community/