TRENDS IN DELINQUENCY
AND FORECLOSURES IN
ARIZONA

April 2009

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Outline of Presentation

- National Trends
  - Rising foreclosures
  - House price declines
  - Rising unemployment

- Arizona
  - Trends in foreclosure
  - Housing market softening
  - Rising unemployment
  - Scale of loan modifications still falls short of need
National Trends
National Trends

- Foreclosures rose steadily in 2008, with wide repercussions for US economy
  - After a slight decline in the national foreclosure rate in the 3rd Quarter of 2008, rose again in 4th Quarter
- Factors driving foreclosures nationally
  - House price declines
  - Rising unemployment, coupled with turmoil in financial and credit markets, may further influence foreclosure rate going forward
National Foreclosure Starts Rose Slightly in 4th Quarter of 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
Nationally, House Prices Continue to Decline

**Case-Shiller National House Price Index**

(2000 = 100, quarterly)

Source: Case - Shiller Home Price Index, 4th Q 2008
Recession Marks Significant Jump in Unemployment

U.S. Unemployment Rate

Source: Bureau of Labor Statistics
Arizona Trends
Foreclosures in Arizona are Twice the National Average

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
Unlike National Trends which seem to be Slowing, Arizona Continues to See Rising Foreclosure Rates

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
Arizona Has Seen Dramatic House Price Declines Since the Peak of “Housing Boom”

Source: Federal Housing Finance Agency (formerly OFHEO), 4th Quarter 2008
Phoenix Experiencing Greatest Declines in House Values

**FHFA (formerly OFHEO) House Price Index**

*(2000 = 100)*

Source: Federal Housing Finance Agency (formerly OFHEO), 4th Quarter 2008
Arizona’s Foreclosures Remain Concentrated in Subprime ARM Market, though Subprime Fixed and Prime ARM also Rising

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
Arizona Saw High Rates of High-Cost Lending During Subprime Boom

Source: Home Mortgage Disclosure Act Data, 2005
High Cost Lending in Arizona More Prevalent Among Minority Groups, Especially Latinos

Source: Home Mortgage Disclosure Act Data, 2005
Unemployment Rate in Arizona is Rising

# Employment Trends by Industry in Arizona

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total Employed (thousands)</th>
<th>1-mo.*</th>
<th>3-mo.*</th>
<th>12-mo.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Arizona</strong></td>
<td>Feb-09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,480.9</td>
<td>-11.5</td>
<td>-11.5</td>
<td>-6.7</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>483.9</td>
<td>-5.5</td>
<td>-11.2</td>
<td>-8.2</td>
</tr>
<tr>
<td>Government</td>
<td>431.7</td>
<td>-15.0</td>
<td>-3.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Professional &amp; Business Svcs.</td>
<td>356.3</td>
<td>-5.2</td>
<td>-13.9</td>
<td>-10.9</td>
</tr>
<tr>
<td>Educational &amp; Health Svcs.</td>
<td>316.9</td>
<td>-5.9</td>
<td>-6.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>257.7</td>
<td>-11.3</td>
<td>-6.0</td>
<td>-6.1</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>171.2</td>
<td>-9.9</td>
<td>-6.1</td>
<td>-4.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>166.1</td>
<td>-12.1</td>
<td>-14.8</td>
<td>-6.4</td>
</tr>
<tr>
<td>Construction</td>
<td>149.1</td>
<td>-41.0</td>
<td>-39.0</td>
<td>-26.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>95.8</td>
<td>-4.9</td>
<td>-14.8</td>
<td>-5.1</td>
</tr>
<tr>
<td>Information</td>
<td>39.9</td>
<td>-21.2</td>
<td>-10.3</td>
<td>-6.3</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>12.3</td>
<td>-25.1</td>
<td>-35.0</td>
<td>-4.7</td>
</tr>
</tbody>
</table>

Significant Drop in Construction Employment

Significant Drop in Financial Activities Employment

Financial Activities Employment
(percent change, year-over year)

Arizona Foreclosure Data Maps
Arizona Data Maps

Distribution of Lending Volumes

September 2007

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, September 2007
Areas Affected by Concentrated Foreclosures

September 2007

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, September 2007
Areas Affected by Concentrated Foreclosures

April 2008

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, April 2008
Areas Affected by Concentrated Foreclosures
February 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, February 2009
Areas with Concentrations of REO Properties

February 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, February 2009
Areas at Risk of Additional Foreclosures

February 2009

Legend:
Share of Seriously Delinquent (as a percent of total loans)
- Less than 2 percent
- 2 - 4 percent
- 4 - 6 percent
- 6 - 8 percent
- More than 8 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, February 2009
Areas with Concentrations of REO Properties
February 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, February 2009
Loan Modifications as Share of Loan Workouts Have Increased

### Arizona Loan Workouts

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Repayment Plans</th>
<th>Loan Modifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2007</td>
<td>5,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Q4 2007</td>
<td>6,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Q1 2008</td>
<td>6,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Q2 2008</td>
<td>7,000</td>
<td>2,500</td>
</tr>
<tr>
<td>Q3 2008</td>
<td>7,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Q4 2008</td>
<td>8,000</td>
<td>3,500</td>
</tr>
</tbody>
</table>

Source: Hope Now Alliance Servicing Data, 4th Quarter 2008
Yet, Workouts Still Fall Short of Need

Foreclosure & Delinquencies v. Loan Workouts in Arizona
4th Quarter 2008

Number (Adjusted for Hope Now Servicers)
0 10,000 20,000 30,000 40,000 50,000 60,000 70,000

Serious Delinquencies  Foreclosure Starts  Foreclosure Sales  Repayment Plans  Loan Modifications

Source: Hope Now Alliance Servicing Data, 4th Quarter 2008
Conclusions
Conclusions

- Multi-pronged strategy is needed to stem foreclosure crisis
- Continued foreclosure prevention efforts are critical
  - Foreclosure Prevention: Borrower Outreach, Refinance and Loan Modification (including principal reduction)
    - Reaching these borrowers now may help to prevent unnecessary foreclosures
    - Encourage borrowers to contact the Hope Hotline by calling (888) 995-HOPE or visiting www.995hope.org
Conclusions

- Other strategies that can help to mitigate the negative impacts of foreclosure on families and neighborhoods
  - Addressing vacant properties: ensuring that servicers maintain properties
  - REO property disposition: return REO properties into productive use, affordable housing
  - Ensuring continued access to credit and homeownership: credit repair, financial education, responsible lending
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/