TRENDS IN DELINQUENCY AND FORECLOSURES IN ARIZONA

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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
Foreclosures rose steadily in 2008, with wide repercussions for US economy

- A slight decline in the national foreclosure rate in the 3rd Quarter of 2008

Factors driving foreclosures nationally

- House price declines
- Rising unemployment, coupled with turmoil in financial and credit markets, may further influence foreclosure rate going forward
After Steady Rise, National Foreclosure Starts Dipped Slightly in 3rd Quarter of 2008

National Foreclosure Starts
(Percent of all loans)

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Nationally, House Prices Continue to Decline

Case-Shiller National House Price Index
(2000 = 100, quarterly)

Source: Case - Shiller Home Price Index, 3rd Q 2008
Recession Marks Significant Jump in National Unemployment Insurance Claims

National Unemployment Insurance Claims, Percent Change Year-over-Year

Source: Haver Analytics and FRBSF Calculations, annual percent change, 2000 Q3 - 2008 Q3
Arizona Trends
Foreclosures in Arizona Have Risen Significantly, Well Above US Average

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Unlike National Trends, Arizona Saw a Continued Increase in Foreclosure Starts in 3rd Quarter 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Arizona Has Seen Dramatic House Price Declines Since the Peak of “Housing Boom”

Source: Federal Housing Finance Agency (formerly OFHEO), 3rd Quarter 2008
Phoenix Experiencing Greatest Declines in House Values

FHFA (formerly OFHEO) House Price Index
(2000 = 100)

Source: Federal Housing Finance Agency (formerly OFHEO), 3rd 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, 3rd Q 2008
Arizona Saw High Rates of High-Cost Lending During Subprime Boom

Percent of All Borrowers with High Interest Conventional Loans, 2005

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

High Cost Conventional Loans by Race, 2005

- All borrowers
- White borrowers
- Asian/Pacific Islander borrowers
- Black borrowers
- Native American borrowers
- Hispanic/Latino borrowers

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>Total</td>
<td>2,543.9</td>
<td>-7.6</td>
<td>-9.9</td>
<td>-4.3</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>493.5</td>
<td>-7.7</td>
<td>-12.7</td>
<td>-5.7</td>
</tr>
<tr>
<td>Government</td>
<td>433.8</td>
<td>-1.6</td>
<td>-0.8</td>
<td>0.9</td>
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<tr>
<td>Professional &amp; Business Svcs.</td>
<td>372.1</td>
<td>-14.8</td>
<td>-19.1</td>
<td>-7.0</td>
</tr>
<tr>
<td>Educational &amp; Health Svrs.</td>
<td>318.7</td>
<td>4.6</td>
<td>3.1</td>
<td>2.9</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>265.4</td>
<td>-6.1</td>
<td>-6.1</td>
<td>-3.5</td>
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<tr>
<td>Manufacturing</td>
<td>175.9</td>
<td>-4.0</td>
<td>3.3</td>
<td>-2.4</td>
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<tr>
<td>Financial Activities</td>
<td>172.4</td>
<td>-4.7</td>
<td>-11.0</td>
<td>-4.0</td>
</tr>
<tr>
<td>Construction</td>
<td>167.2</td>
<td>-30.8</td>
<td>-33.6</td>
<td>-20.7</td>
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<tr>
<td>Other Services</td>
<td>94.3</td>
<td>-2.5</td>
<td>-2.9</td>
<td>-1.8</td>
</tr>
<tr>
<td>Information</td>
<td>39.3</td>
<td>-5.9</td>
<td>-8.7</td>
<td>-7.7</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>11.3</td>
<td>-51.4</td>
<td>-35.3</td>
<td>-7.4</td>
</tr>
</tbody>
</table>

Significant Drop in Construction Employment

Construction Employment
(Percent change, year-over-year)

Significant Drop in Financial Activities Employment

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

Areas Affected by Concentrated Foreclosures
April 2008

Legend
Share of Foreclosures & REOs (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, April 2008
Areas with Concentrations of REO Properties

November 2008
But Foreclosures Concentrated in Specific Neighborhoods

November 2008
Areas with Concentrations of REO Properties

November 2008

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, November 2008
Areas at Risk of Additional Foreclosures
November 2008

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, November 2008
Loan Modifications as Share of Loan Workouts Have Increased

Source: Hope Now Alliance Servicing Data, 3rd Quarter 2008
Yet, Workouts Still Fall Short of Need

Foreclosure & Delinquencies v. Loan Workouts in Arizona
3rd Quarter 2008

Source: Hope Now Alliance Servicing Data, 3rd 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/