TRENDS IN DELINQUENCIES AND FORECLOSURES IN CENTRAL CALIFORNIA

April 2009
Outline of Presentation

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

- California
  - 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
  - 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
Foreclosures in California are Above the National Average

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
Unlike National Trends, California Saw a Decrease in Foreclosure Starts in 4th Quarter 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
California Has Seen Significant and Steep Decline in House Prices

Source: Federal Housing Finance Agency (formerly OFHEO), 4th Quarter 2008
Central Valley MSAs Have Seen Greatest Declines in House Prices

FHFA House Price Index (formerly OFHEO): Central California
(2000 = 100, quarterly)

Source: Federal Housing Finance Agency (formerly OFHEO), 4th Quarter 2008
California’s Foreclosures are Concentrated in Subprime ARM Market

Foreclosure Starts by Loan Type

Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008
Approximately 1 in 4 California Households Received a High Cost Loan during the Housing Boom

Percent of All Borrowers with High Interest Conventional Loans, 2005

- Hawaii: 20.4%
- Alaska: 22.7%
- Oregon: 23.1%
- Washington: 23.6%
- Idaho: 24.3%
- California: 25.9%
- USA: 27.3%
- Arizona: 28.0%
- Utah: 28.1%
- Nevada: 29.2%

Source: Home Mortgage Disclosure Act Data, 2005
High Cost Lending in California More Prevalent Among Minority Borrowers

California: High Cost Conventional Loans by Race, 2005

Source: Home Mortgage Disclosure Act Data, 2005
Unemployment Rate in California Has Risen Sharply, May Affect Future Foreclosures

# Employment Trends by Industry in CA

<table>
<thead>
<tr>
<th>California</th>
<th>Total Employed (thousands)</th>
<th>1-mo.*</th>
<th>3-mo.*</th>
<th>12-mo.</th>
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</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>14,534.8</td>
<td>-9.1</td>
<td>-7.3</td>
<td>-4</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>2,742.5</td>
<td>-6.7</td>
<td>-6.9</td>
<td>-5.5</td>
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<tr>
<td>Professional &amp; Business Svcs.</td>
<td>2,164.8</td>
<td>-15</td>
<td>-9.9</td>
<td>-4.5</td>
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<tr>
<td>Educational &amp; Health Srvs.</td>
<td>1,742.5</td>
<td>3</td>
<td>0.9</td>
<td>1.8</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>1,533.5</td>
<td>-10.9</td>
<td>-5</td>
<td>-2.8</td>
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<tr>
<td>Manufacturing</td>
<td>1,355.4</td>
<td>-13.1</td>
<td>-12.3</td>
<td>-6.2</td>
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<tr>
<td>Financial Activities</td>
<td>816.7</td>
<td>-10</td>
<td>-7</td>
<td>-6</td>
</tr>
<tr>
<td>Construction</td>
<td>681.9</td>
<td>-41.2</td>
<td>-25.7</td>
<td>-18.5</td>
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<tr>
<td>Other Services</td>
<td>510.0</td>
<td>-3</td>
<td>-3</td>
<td>-1.2</td>
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<tr>
<td>Information</td>
<td>450.7</td>
<td>23.6</td>
<td>-22.3</td>
<td>-4</td>
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<tr>
<td>Government</td>
<td>2,508.6</td>
<td>-1.5</td>
<td>-1.3</td>
<td>-0.3</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>28.2</td>
<td>-19</td>
<td>-2.8</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Significant Drop in Construction Employment

Industry Employment Growth: Construction
(Year-over-year percent change, monthly)

State & Local Data Maps
Lending Volumes
September 2007

Legend
Total Loans
- Less than 2,000
- 2,000 - 4,000
- 4,000 - 6,000
- 6,000 - 8,000
- More than 8,000
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics, September 2007
Areas Affected by Concentrated Foreclosures
November 2008

Legend
Share of Foreclosures and REOs (as a percent of total loans)
- Less than 1 percent
- 1 - 2 percent
- 2 - 3 percent
- 3 - 4 percent
- More than 4 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics, November 2008
Areas Affected by Concentrated Foreclosures
February 2009

Legend
Share of Foreclosures and REOs (as a percent of total loans)
- Less than 1 percent
- 1 - 2 percent
- 2 - 3 percent
- 3 - 4 percent
- More than 4 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics, February 2008
Sacramento Valley Data Maps

Neighborhoods with Concentrations of Foreclosures
February 2009

Legend
Share of Foreclosures & REOs (as a percent of total loans)
- Less than 1 percent
- 1 - 2 percent
- 2 - 3 percent
- 3 - 4 percent
- More than 4 percent
- Insufficient Data
- County Boundary

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Sacramento Valley Data Maps

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
- County Boundary

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Concentration of REO Properties
February 2009

San Joaquin Valley Data Maps

Legend
Share of REOs (as a percent of total loans)
- Less than 1 percent
- 1 - 2 percent
- 2 - 3 percent
- 3 - 4 percent
- More than 4 percent
- Insufficient data
- County Boundaries

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Neighborhoods with Concentrations of Foreclosures
February 2009

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Concentration of REO Properties
February 2009

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

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Loan workouts reach approximately 55,000 borrowers each quarter.

Source: Hope Now Alliance Servicing Data, 4th Quarter 2008
Yet, still more than 300,000 borrowers in California were seriously delinquent on their mortgage in 4th Qtr 2008.

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/