TRENDS IN DELINQUENCIES AND FORECLOSURES IN NORTHERN CALIFORNIA

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Outline of Presentation

- **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
- **California**
  - 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
    - California saw a sharp rise in foreclosure starts in 1st quarter 2009, followed by slight drop
  - House prices continue 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>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP decline</strong></td>
<td>3.9%</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Unemployment</strong></td>
<td>9.4%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Stock Market decline</strong></td>
<td>48%</td>
<td>87%</td>
</tr>
<tr>
<td><strong>Mortgage Delinquency</strong></td>
<td>10.5%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Bank Failures</strong></td>
<td>100</td>
<td>Thousands</td>
</tr>
</tbody>
</table>

Source: FRBSF and Haver Analytics, as of July 2009.
And 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.
California Trends
Unemployment Rate in California Has Risen Sharply

Source: Bureau of Labor Statistics
California Has Seen Significant and Steep Decline in House Prices

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

Source: Federal Housing Finance Agency (formerly OFHEO)
Sacramento and Oakland have seen Dramatic Changes in House Prices
Foreclosure Start Rate in California is Above the National Average

Foreclosure Starts (Percent of All Loans)

<table>
<thead>
<tr>
<th></th>
<th>2006 Q2</th>
<th>2007 Q2</th>
<th>2008 Q2</th>
<th>2009 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>0.1</td>
<td>0.16</td>
<td>0.22</td>
<td>0.27</td>
</tr>
<tr>
<td>Washington</td>
<td>0.3</td>
<td>0.39</td>
<td>0.44</td>
<td>0.49</td>
</tr>
<tr>
<td>Oregon</td>
<td>0.5</td>
<td>0.56</td>
<td>0.62</td>
<td>0.68</td>
</tr>
<tr>
<td>Utah</td>
<td>0.7</td>
<td>0.76</td>
<td>0.82</td>
<td>0.88</td>
</tr>
<tr>
<td>Hawaii</td>
<td>0.8</td>
<td>0.86</td>
<td>0.92</td>
<td>0.98</td>
</tr>
<tr>
<td>Idaho</td>
<td>0.9</td>
<td>0.96</td>
<td>1.02</td>
<td>1.08</td>
</tr>
<tr>
<td>US</td>
<td>1.1</td>
<td>1.16</td>
<td>1.22</td>
<td>1.28</td>
</tr>
<tr>
<td>California</td>
<td>1.3</td>
<td>1.36</td>
<td>1.42</td>
<td>1.48</td>
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Source: Mortgage Bankers Association, National Delinquency Survey
California Saw a Sharp Rise in Foreclosure Starts in 1st Quarter 2009, Followed by Slight Drop

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></th>
<th>Percent of Total Current Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM</td>
<td>California</td>
</tr>
<tr>
<td></td>
<td>US</td>
</tr>
<tr>
<td>Option ARM</td>
<td>California</td>
</tr>
<tr>
<td></td>
<td>US</td>
</tr>
<tr>
<td>Interest Only</td>
<td>California</td>
</tr>
<tr>
<td>(Fixed and ARM)</td>
<td>US</td>
</tr>
<tr>
<td>Jumbo</td>
<td>California</td>
</tr>
<tr>
<td></td>
<td>US</td>
</tr>
</tbody>
</table>
California Data Maps

Areas Affected by Concentrated Foreclosures

June 2007

Legend
Share of Foreclosures & REOs (as a percent of total loans)
- < 2 percent
- 2 - 4 percent
- 4 - 6 percent
- 6 - 8 percent
- > 8 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics
California Data Maps

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Source: Lender Processing Services Inc. Applied Analytics
Areas at Risk of Additional Foreclosures
June 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
Sacramento Valley Data Maps

Areas Affected by Concentrated Foreclosures

June 2009

Legend
Share of Foreclosures & REOs (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
- County Boundary

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

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

- Important to reach borrowers with ‘preventable’ foreclosures
  - Borrower Outreach Events
    - Create a foreclosure prevention workbook -- for an example see Arizona’s:
  - 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
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
  - NeighborWorks PSA: http://www.youtube.com/nwpad
- Other 5 Tip brochures and resources available from the Federal Reserve http://www.federalreserve.gov/consumerinfo/fivetips.htm
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/