TRENDS IN DELINQUENCIES AND FORECLOSURES IN NORTHERN CALIFORNIA

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Lena Robinson, Community Development Department, Federal Reserve Bank of San Francisco
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
  - 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

Source: Haver Analytics and FRBSF Calculations, annual percent change, 2000 Q3 - 2008 Q3
Foreclosures in California Have Risen Significantly, Surpassing US Average

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Like National Trends, California Saw a Decrease in Foreclosure Starts in 3rd Quarter 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
California Has Seen Significant and Steep Decline in House Values

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

(2000=100, quarterly)

Source: Federal Housing Finance Agency (formerly OFHEO), 3rd Quarter 2008
Metropolitan Areas also Experiencing a Softening Real Estate Market

FHFA House Price Index: Northern California
(2000 = 100)

Source: Federal Housing Finance Agency (formerly OFHEO), 3rd Quarter 2008
California’s Foreclosures are Concentrated in Subprime ARM Market

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd 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

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

Source: Home Mortgage Disclosure Act Data, 2005
Unemployment Rate in California on the Rise, May Affect Future Foreclosures

# Employment Trends by Industry in CA

<table>
<thead>
<tr>
<th>California</th>
<th>Total Employed (thousands)</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec-08</td>
<td>1-mo.*</td>
</tr>
<tr>
<td>Total</td>
<td>14,913.6</td>
<td>-6.1</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>2,815.9</td>
<td>-10.2</td>
</tr>
<tr>
<td>Professional &amp; Business Svcs.</td>
<td>2,252.0</td>
<td>-4.4</td>
</tr>
<tr>
<td>Educational &amp; Health Svrs.</td>
<td>1,738.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>1,543.3</td>
<td>-5.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,405.4</td>
<td>-7.8</td>
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<tr>
<td>Financial Activities</td>
<td>857.0</td>
<td>-4.5</td>
</tr>
<tr>
<td>Construction</td>
<td>763.4</td>
<td>-22.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>513.6</td>
<td>-2.1</td>
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<tr>
<td>Information</td>
<td>468.8</td>
<td>-17.8</td>
</tr>
<tr>
<td>Government</td>
<td>211.1</td>
<td>-0.7</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>26.6</td>
<td>-12.6</td>
</tr>
</tbody>
</table>

Significant Drop in Construction Employment

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

State & Local Data Maps
California Data Maps

Areas Affected by Concentrated Foreclosures
September 2007

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, September 2007
California Data Maps

Areas Affected by Concentrated Foreclosures
April 2008

Source: Lender Processing Services Inc. Applied Analytics, April 2008
California Data Maps

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
Neighborhoods at Risk of Additional Foreclosures

November 2008

Bay Area Data Maps

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, November 2008
Concentration of REO Properties

November 2008

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

Source: Lender Processing Services Inc. Applied Analytics, November 2008
Loan workouts have increased

California Loan Workouts

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

Foreclosure & Delinquencies v. Loan Workouts in California
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/