TRENDS IN DELINQUENCY AND FORECLOSURES IN SOUTHERN CALIFORNIA

April 2009

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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
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

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

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

Source: Federal Housing Finance Agency (formerly OFHEO), 4th Quarter 2008
Inland Empire and San Diego Most Affected by Declining House Prices

FHFA House Price Index: Southern 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

- Prime Fixed
- Prime ARM
- Subprime Fixed
- Subprime ARM

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

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>March 2009</th>
<th>April 2009</th>
<th>May 2009</th>
<th>June 2009</th>
<th>Percent Change</th>
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<tr>
<td>Total</td>
<td>14,534.8</td>
<td>-9.1</td>
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<td>Trade, Transportation &amp; Utilities</td>
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<td>-6.7</td>
<td>-6.9</td>
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<td>Professional &amp; Business Svcs.</td>
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<td>Educational &amp; Health Srvs.</td>
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<td>Leisure &amp; Hospitality</td>
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<td>Construction</td>
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<td>-2.8</td>
<td>0.4</td>
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</table>

Significant Drop in Construction Employment

State & Local Data Maps
Areas Affected by Concentrated Foreclosures
September 2007
Areas Affected by Concentrated Foreclosures
April 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, April 2008
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
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

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Los Angeles Metro Regional Data Maps

Neighborhoods 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, February 2009
Neighborhoods at Risk of Additional 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
Neighborhoods with Concentrations of Foreclosures

February 2009

Source: Lender Processing Services Inc. Applied Analytics, February 2009
San Diego Regional Data Maps

Neighborhoods 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
- More than 9 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics, February 2009
Concentration of REO Properties
November 2008

San Diego Regional Data Maps

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, 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/