

# TRENDS IN DELINQUENCIES AND FORECLOSURES IN SOUTHERN CALIFORNIA

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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

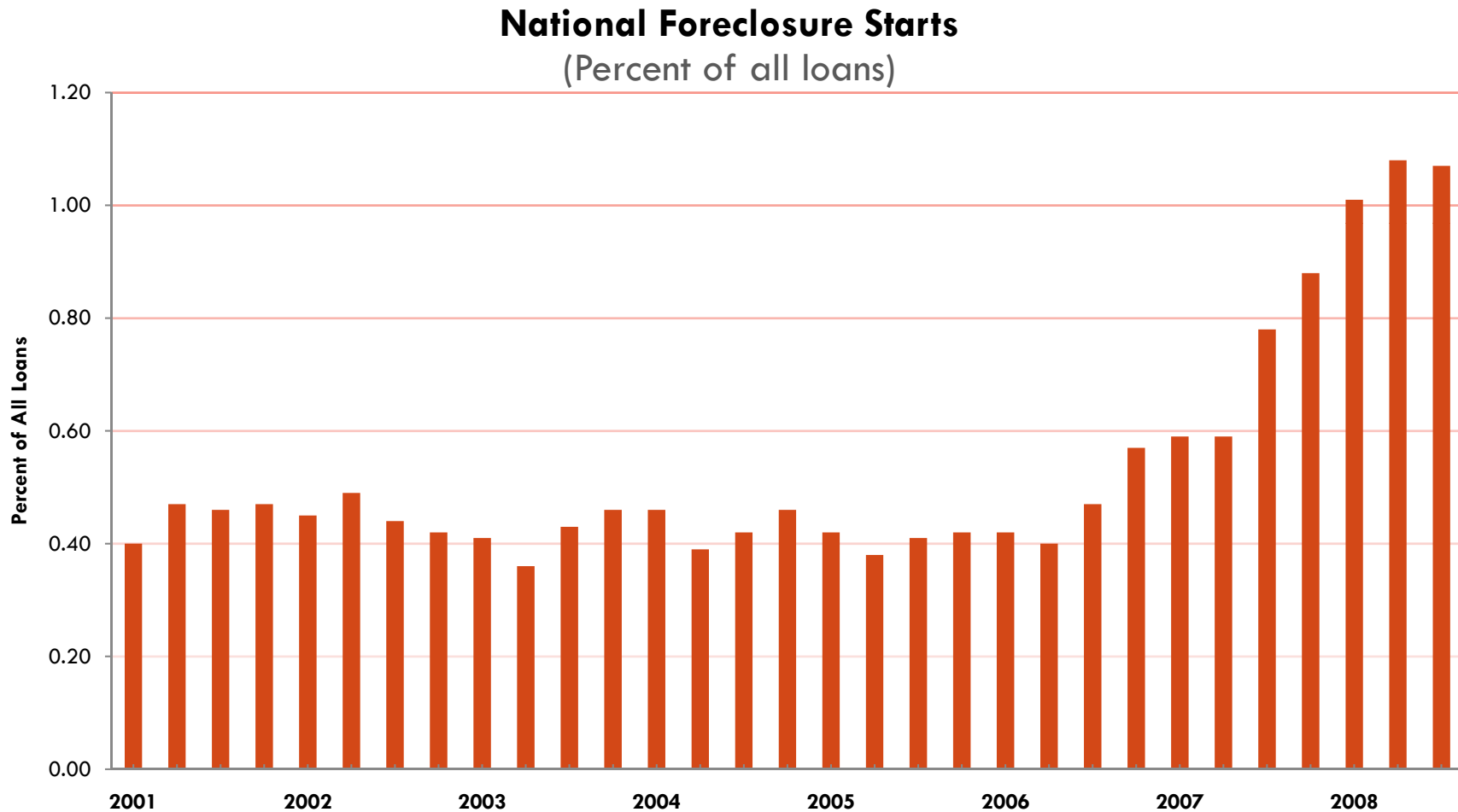
# National Trends

# National Trends



- Foreclosures rose steadily in 2008, with wide repercussions for US economy
  - A slight decline in the national foreclosure rate in the 3<sup>rd</sup> 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

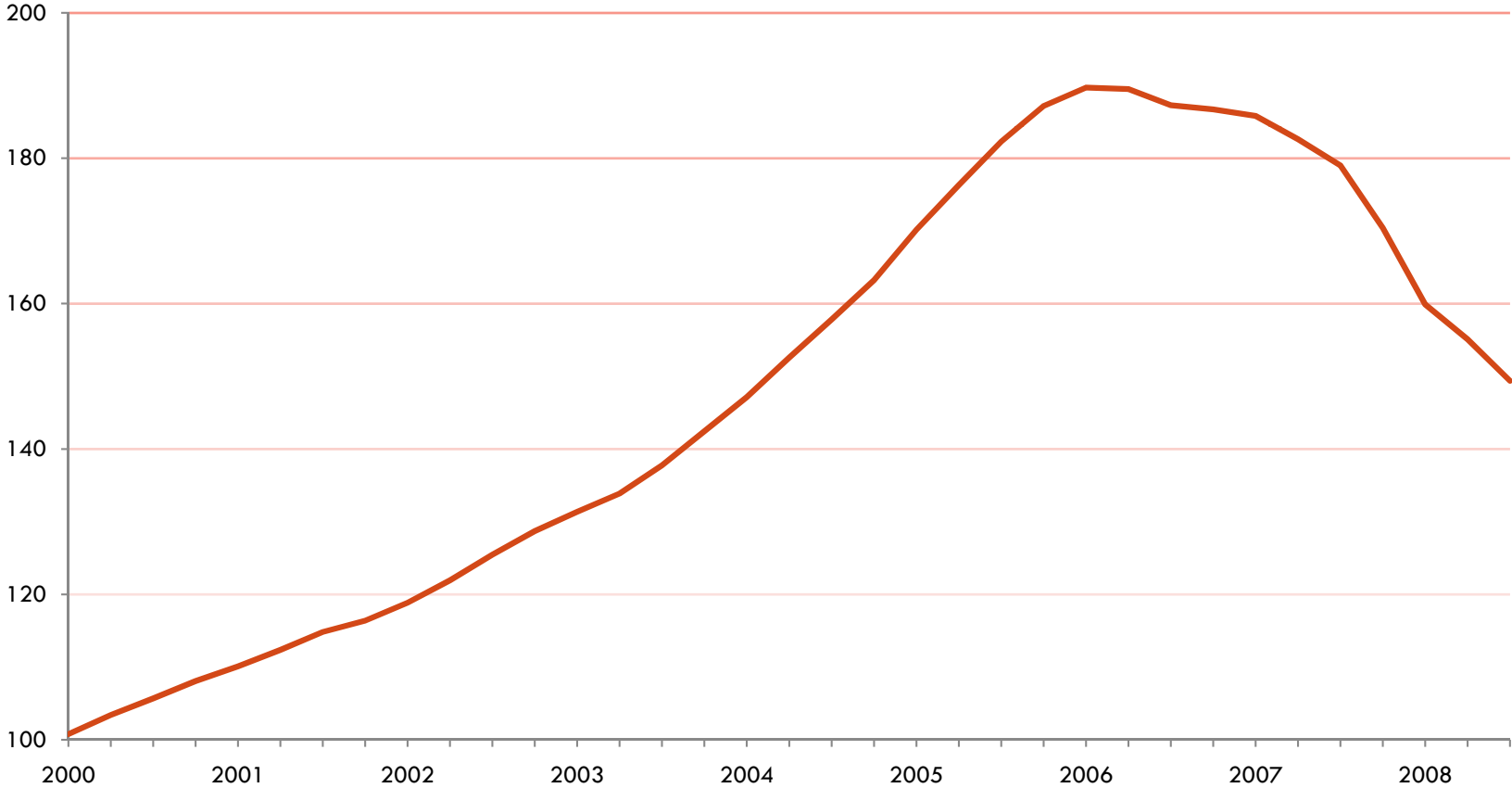
# After Steady Rise, National Foreclosure Starts Dipped Slightly in 3<sup>rd</sup> Quarter of 2008



Source: Mortgage Bankers Association, National Delinquency Survey, 3<sup>rd</sup> Q 2008

# Nationally, House Prices Continue to Decline

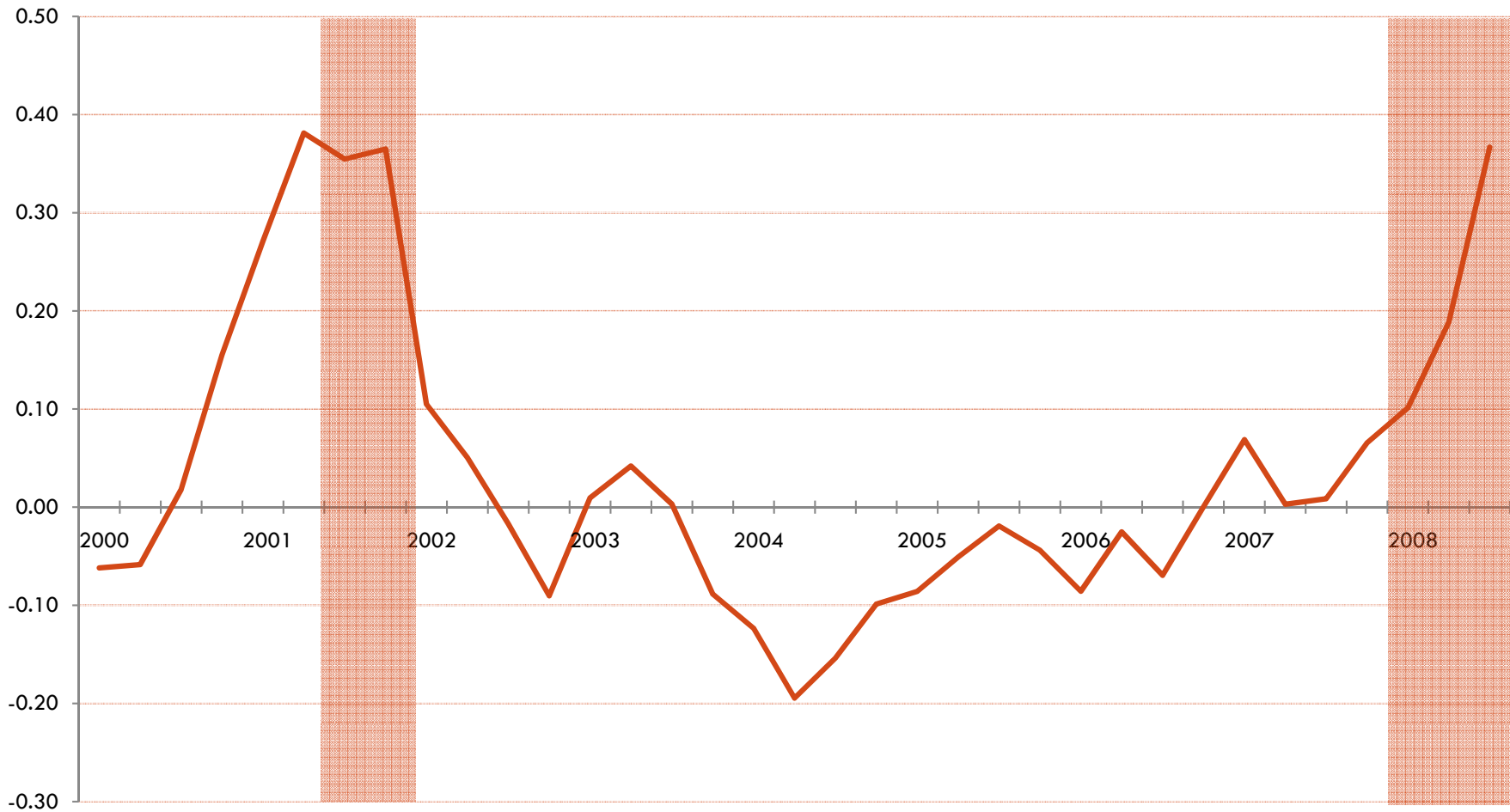
**Case-Shiller National House Price Index**  
(2000 = 100, quarterly)



Source: Case - Shiller Home Price Index, 3<sup>rd</sup> Q 2008

# Recession Marks Significant Jump in National Unemployment Insurance Claims

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

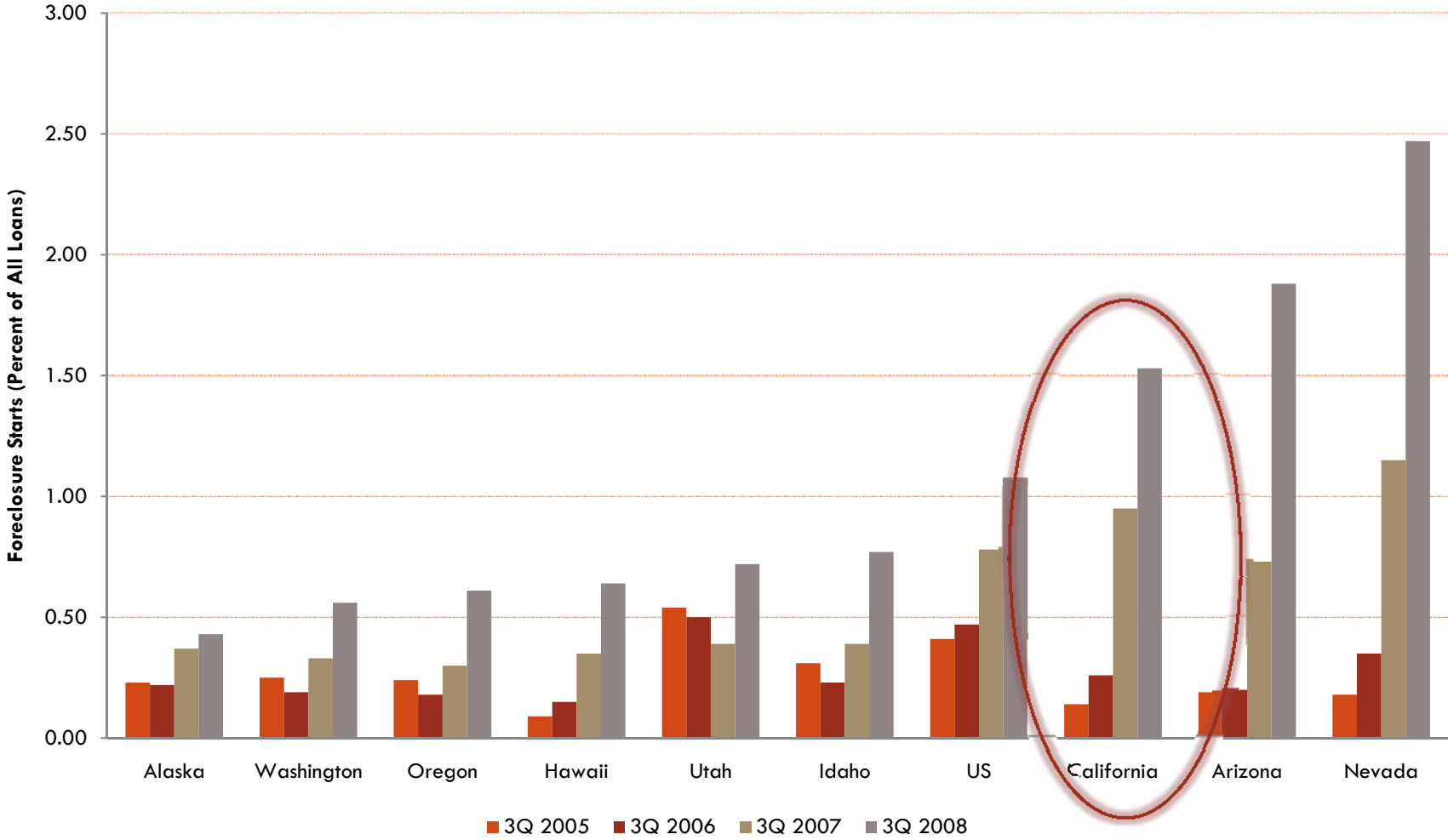


Source: Haver Analytics and FRBSF Calculations, annual percent change, 2000 Q3 - 2008 Q3

# California Trends



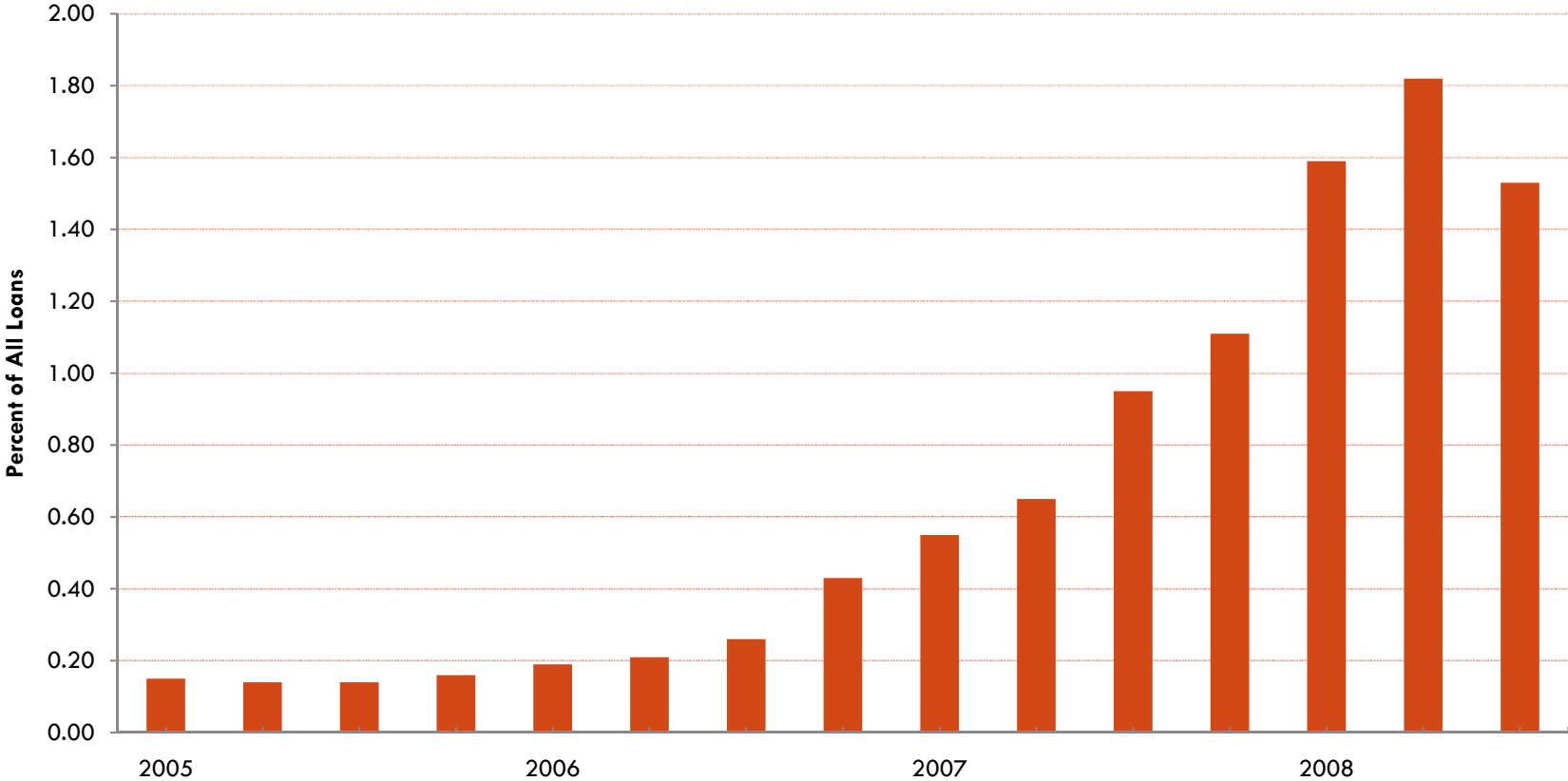
# Foreclosures in California Have Risen Significantly, Surpassing US Average



Source: Mortgage Bankers Association, National Delinquency Survey, 3<sup>rd</sup> Q 2008

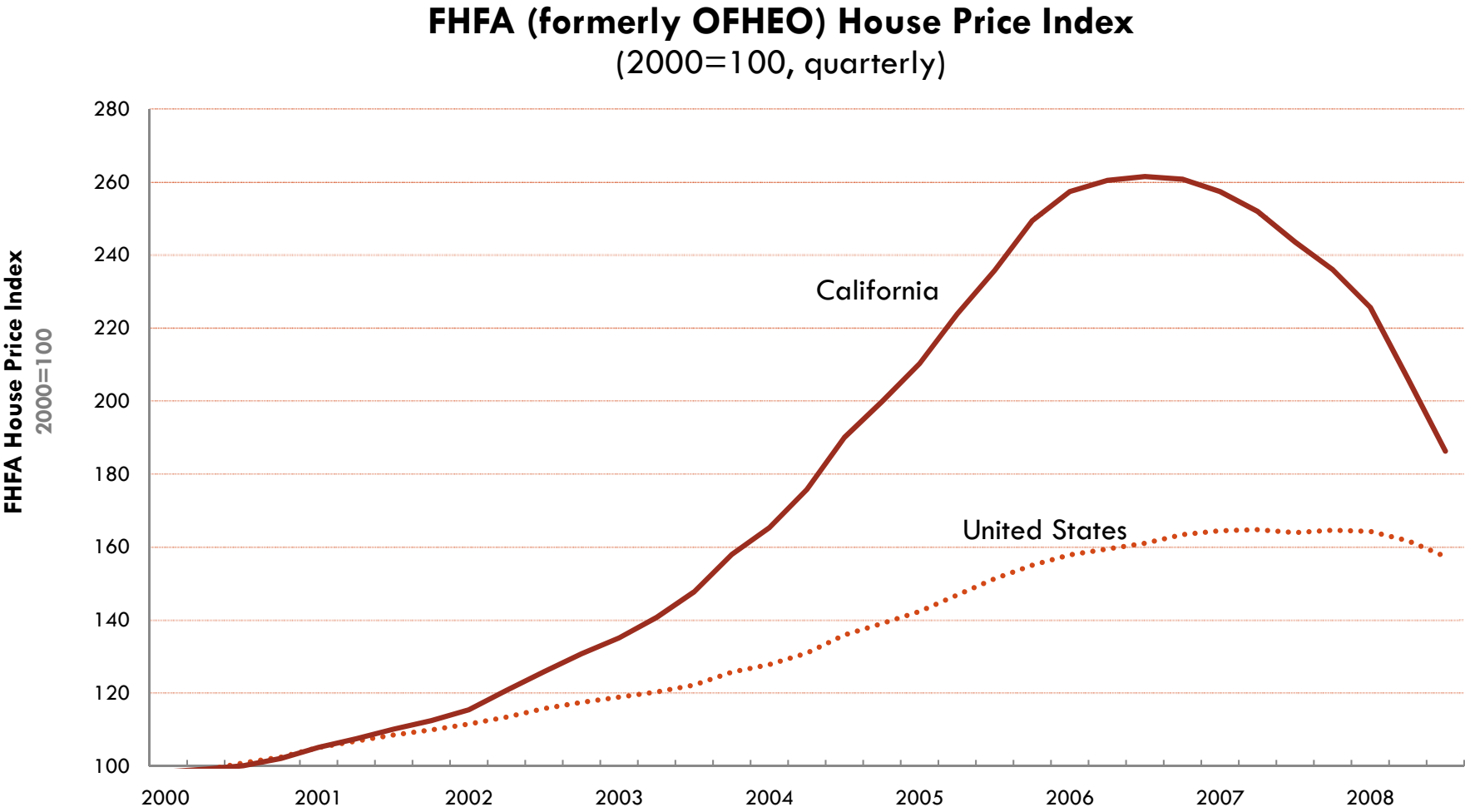
# Like National Trends, California Saw a Decrease in Foreclosure Starts in 3<sup>rd</sup> Quarter 2008

**California: Foreclosure Starts**



Source: Mortgage Bankers Association, National Delinquency Survey, 3<sup>rd</sup> Q 2008

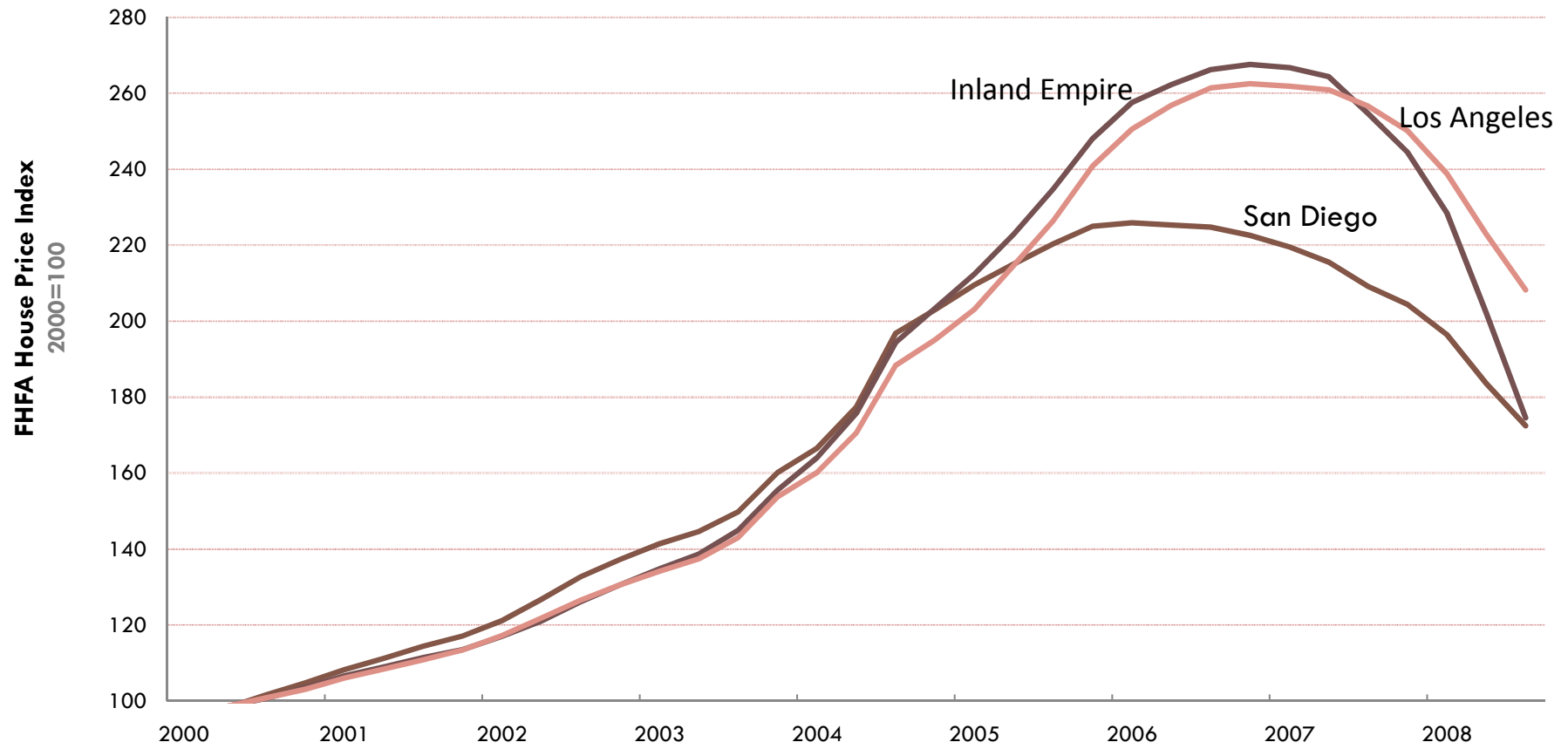
# California Has Seen Significant and Steep Decline in House Values



Source: Federal Housing Finance Agency (formerly OFHEO), 3<sup>rd</sup> Quarter 2008

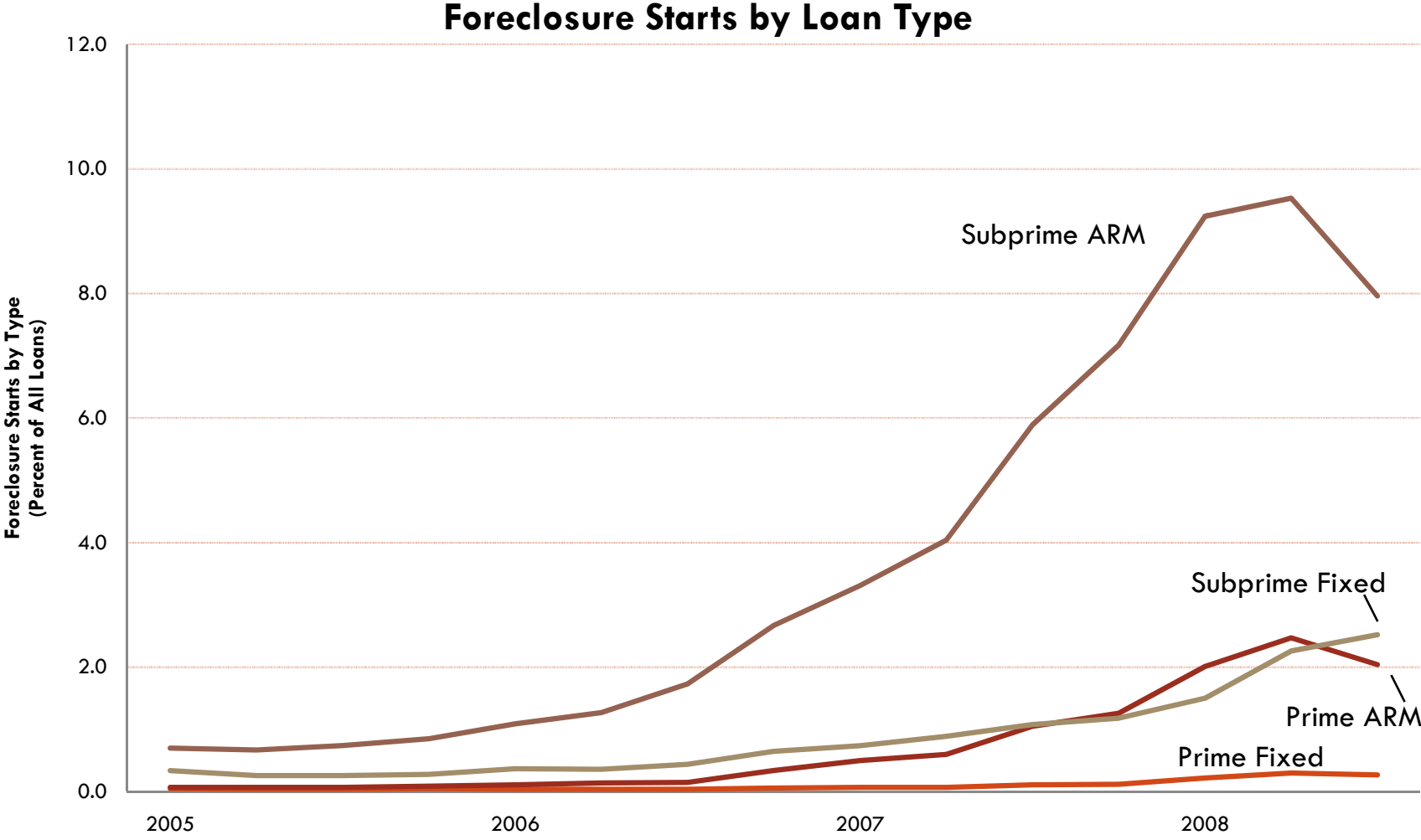
# Metropolitan Areas also Experiencing a Softening Real Estate Market

**FHFA House Price Index: Southern California**  
(2000 = 100)



Source: Federal Housing Finance Agency (formerly OFHEO), 3<sup>rd</sup> Quarter 2008

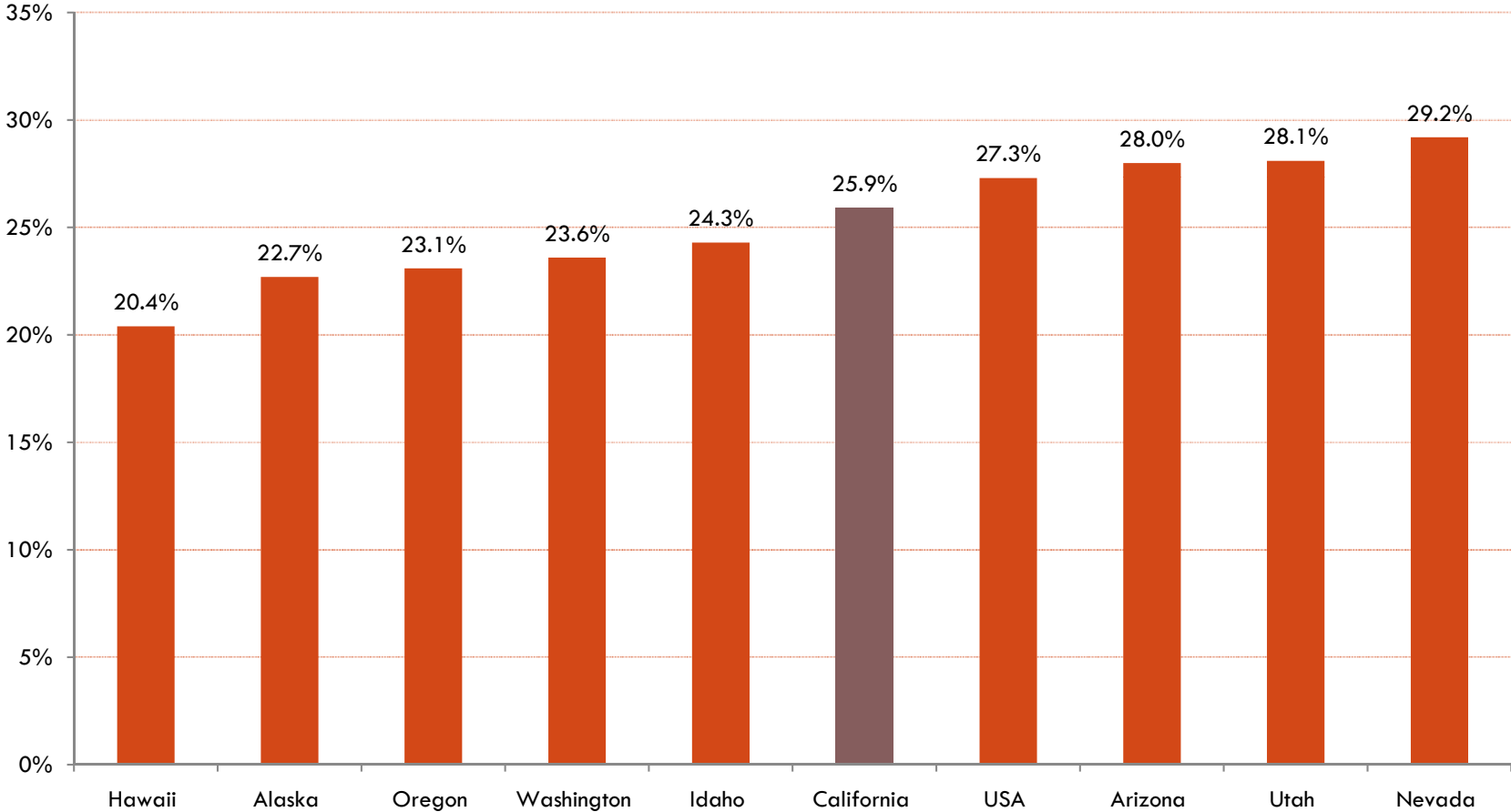
# California's Foreclosures are Concentrated in Subprime ARM Market



Source: Mortgage Bankers Association, National Delinquency Survey, 3<sup>rd</sup> Q 2008

# Approximately 1 in 4 California Households Received a High Cost Loan during the Housing Boom

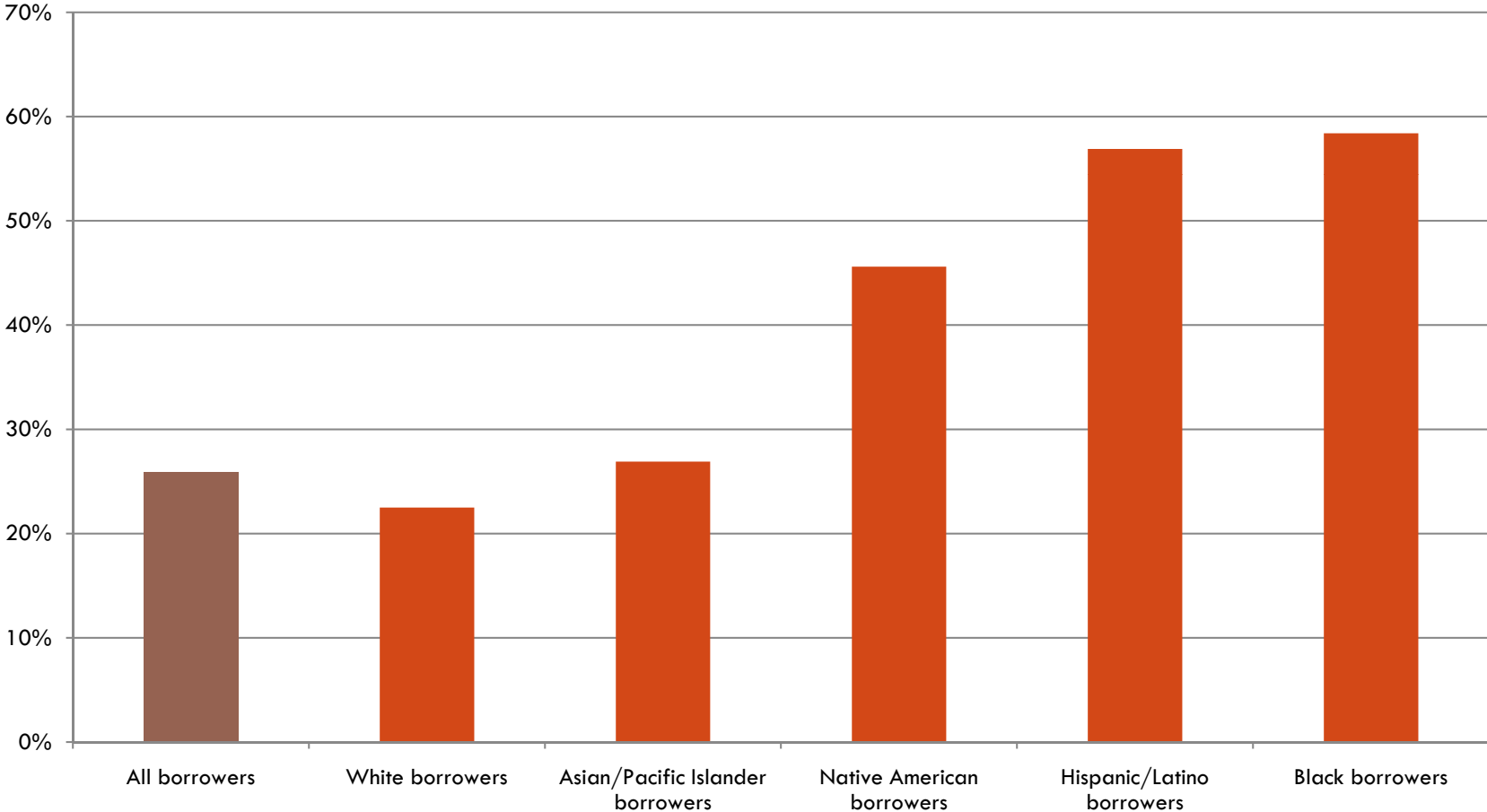
**Percent of All Borrowers with High Interest Conventional Loans, 2005**



Source: Home Mortgage Disclosure Act Data, 2005

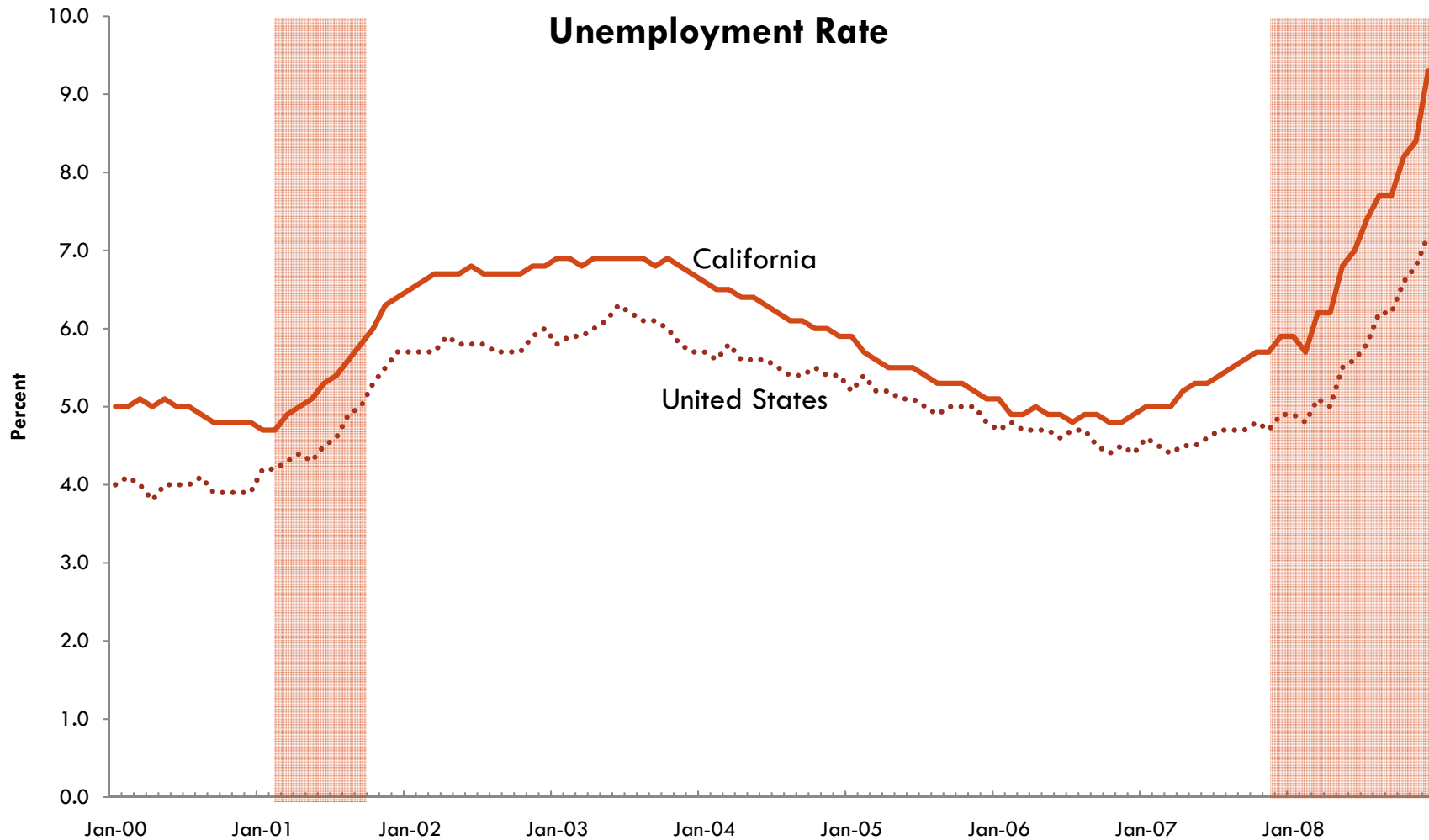
# High Cost Lending in California More Prevalent Among Minority Borrowers

California: High Cost Conventional Loans by Race, 2005



Source: Home Mortgage Disclosure Act Data, 2005

# Unemployment Rate in California on the Rise, May Affect Future Foreclosures



Source: Bureau of Labor Statistics, December 2008

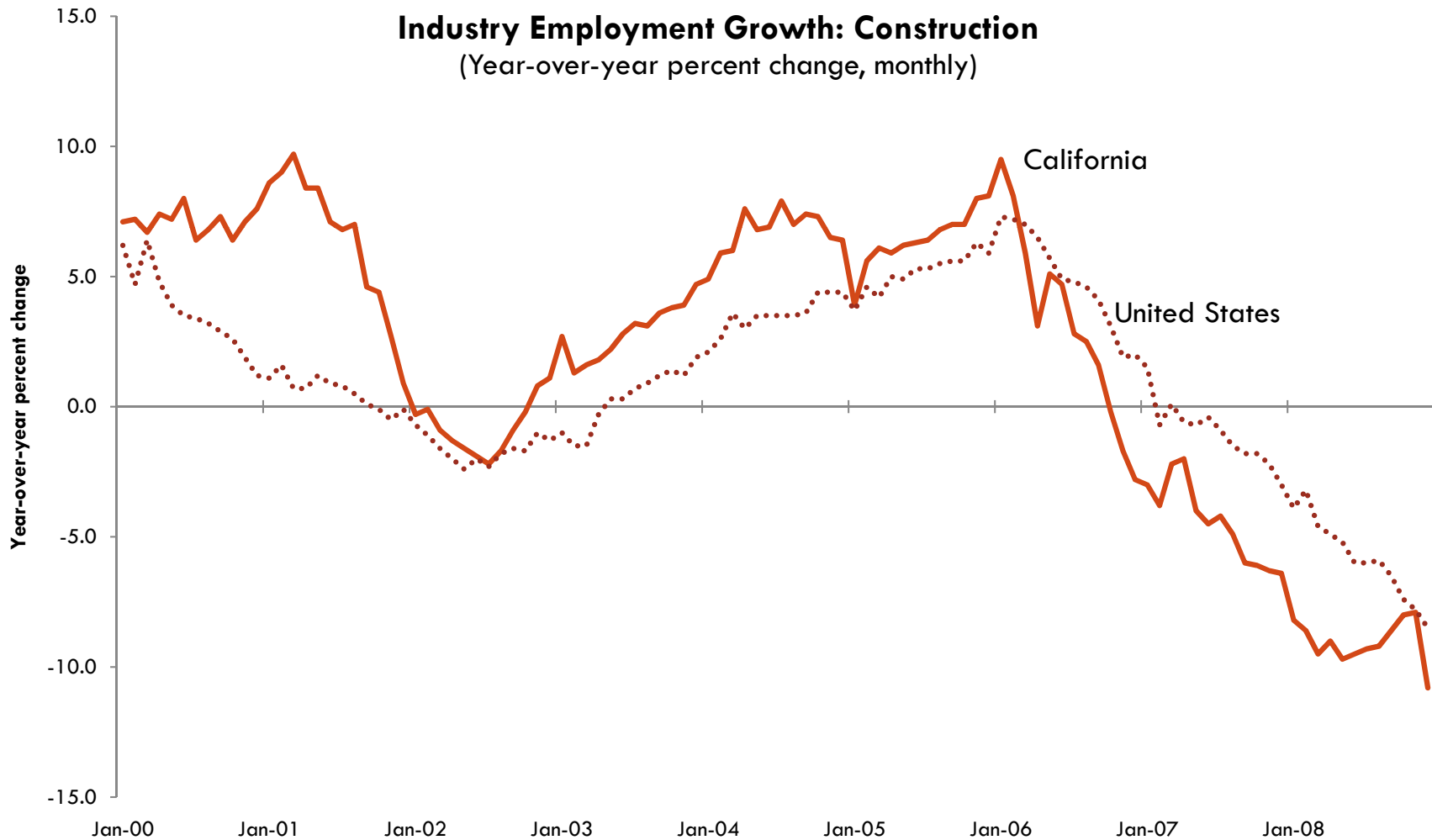


# Employment Trends by Industry in CA

California	Total Employed (thousands)	Percent Change		
		1-mo.*	3-mo.*	12-mo.
	Dec-08			
Total	14,913.6	-6.1	-4.7	-1.7
Trade, Transportation & Utilities	2,815.9	-10.2	-9.1	-3.2
Professional & Business Svcs.	2,252.0	-4.4	-3.5	-1.1
Educational & Health Svcs.	1,738.2	1.6	2.8	3.1
Leisure & Hospitality	1,543.3	-5.1	-5.0	-1.2
Manufacturing	1,405.4	-7.8	-7.1	-3.2
Financial Activities	857.0	-4.5	-3.7	-3.4
Construction	763.4	-22.8	-19.1	-10.8
Other Services	513.6	-2.1	-1.2	-1.0
Information	468.8	-17.8	-4.2	-1.3
Government	211.1	-0.7	-0.2	0.2
Natural Resources & Mining	26.6	-12.6	-4.4	4.3

Source: Bureau of Labor Statistics, December 2008; \*Annualized.

# Significant Drop in Construction Employment

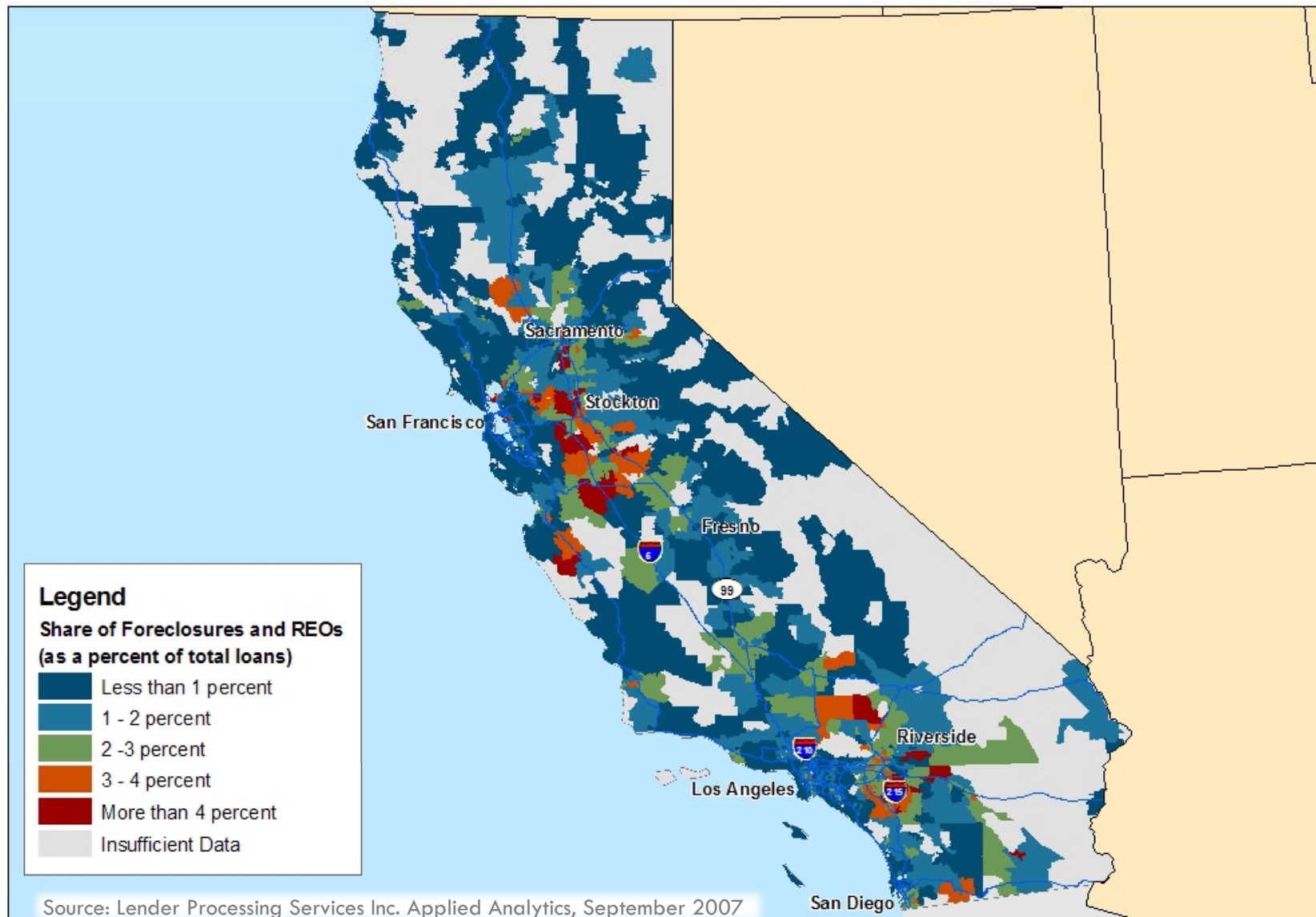


Source: Bureau of Labor Statistics, December 2008

# State & Local Data Maps

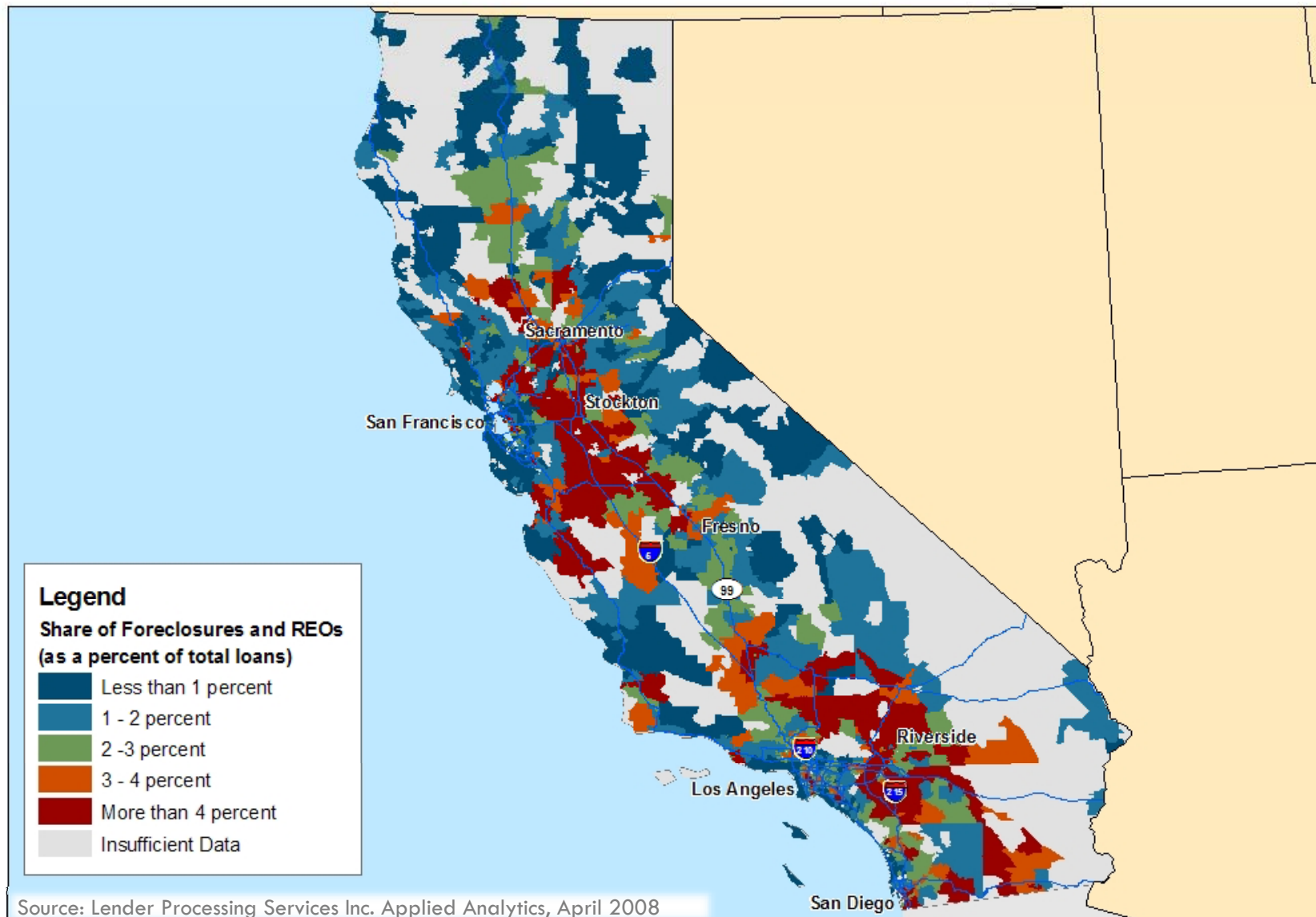
# Areas Affected by Concentrated Foreclosures

September 2007



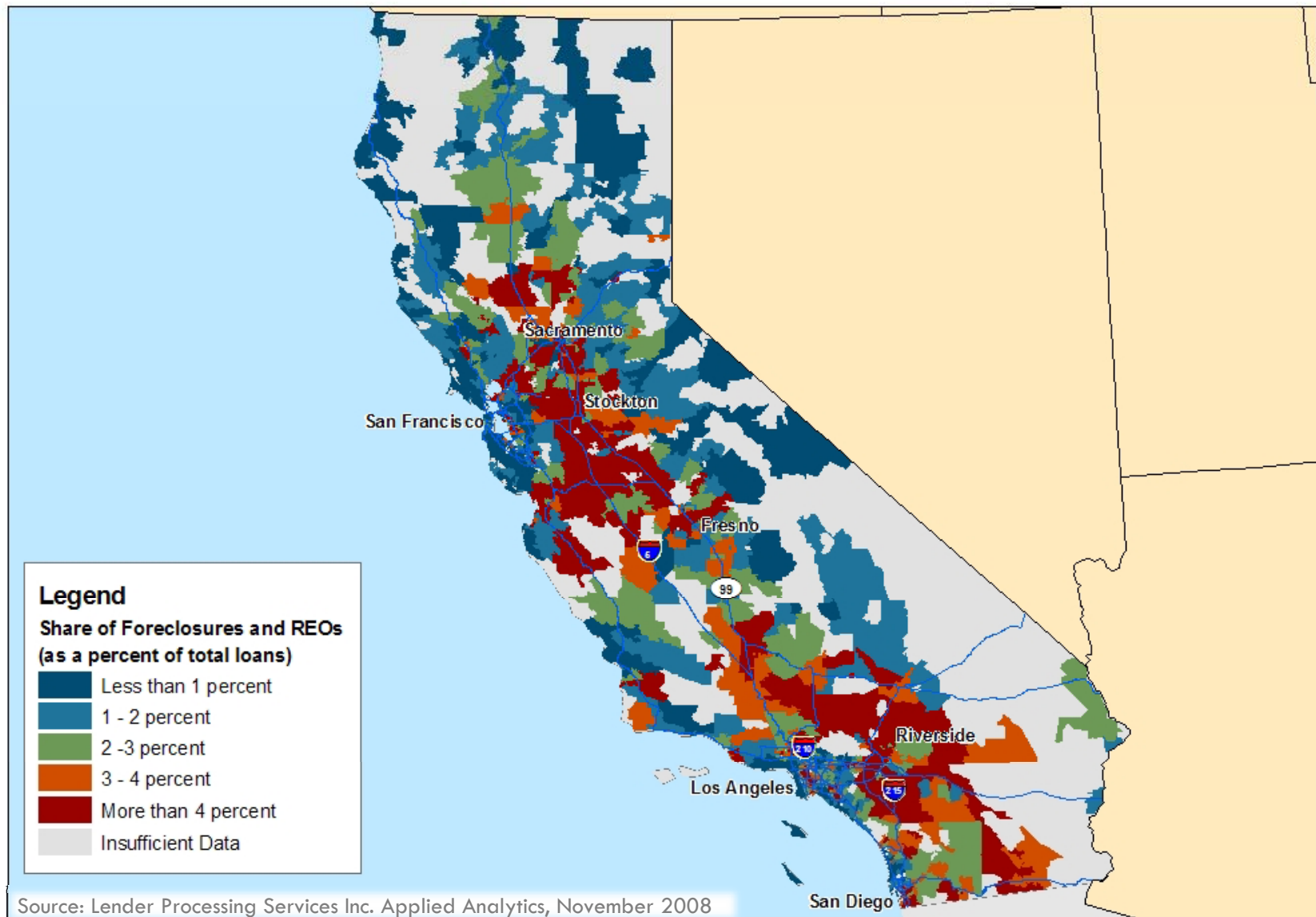
# Areas Affected by Concentrated Foreclosures

April 2008



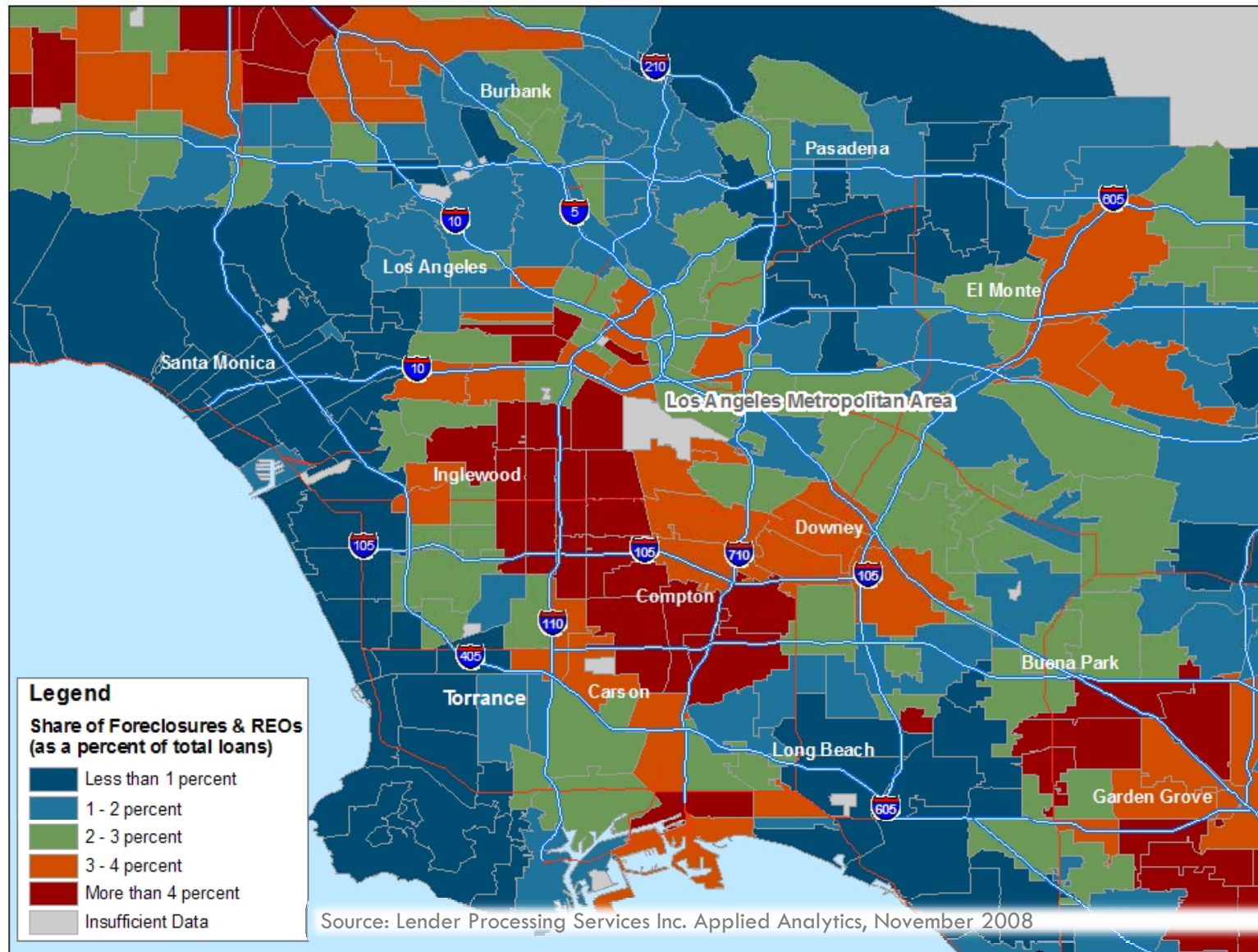
# Areas Affected by Concentrated Foreclosures

November 2008



# Neighborhoods with Concentrations of Foreclosures

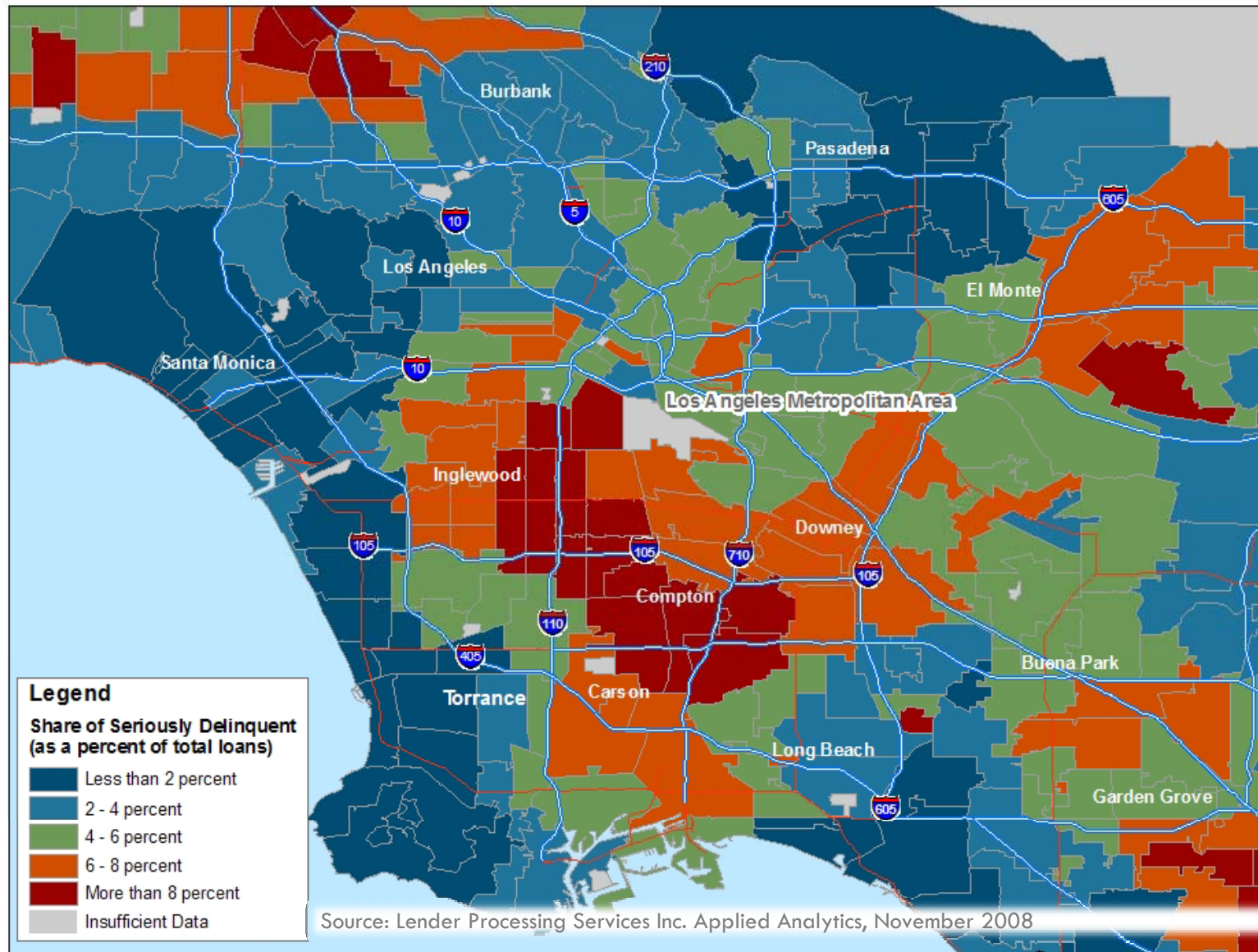
## November 2008





# Neighborhoods at Risk of Additional Foreclosures

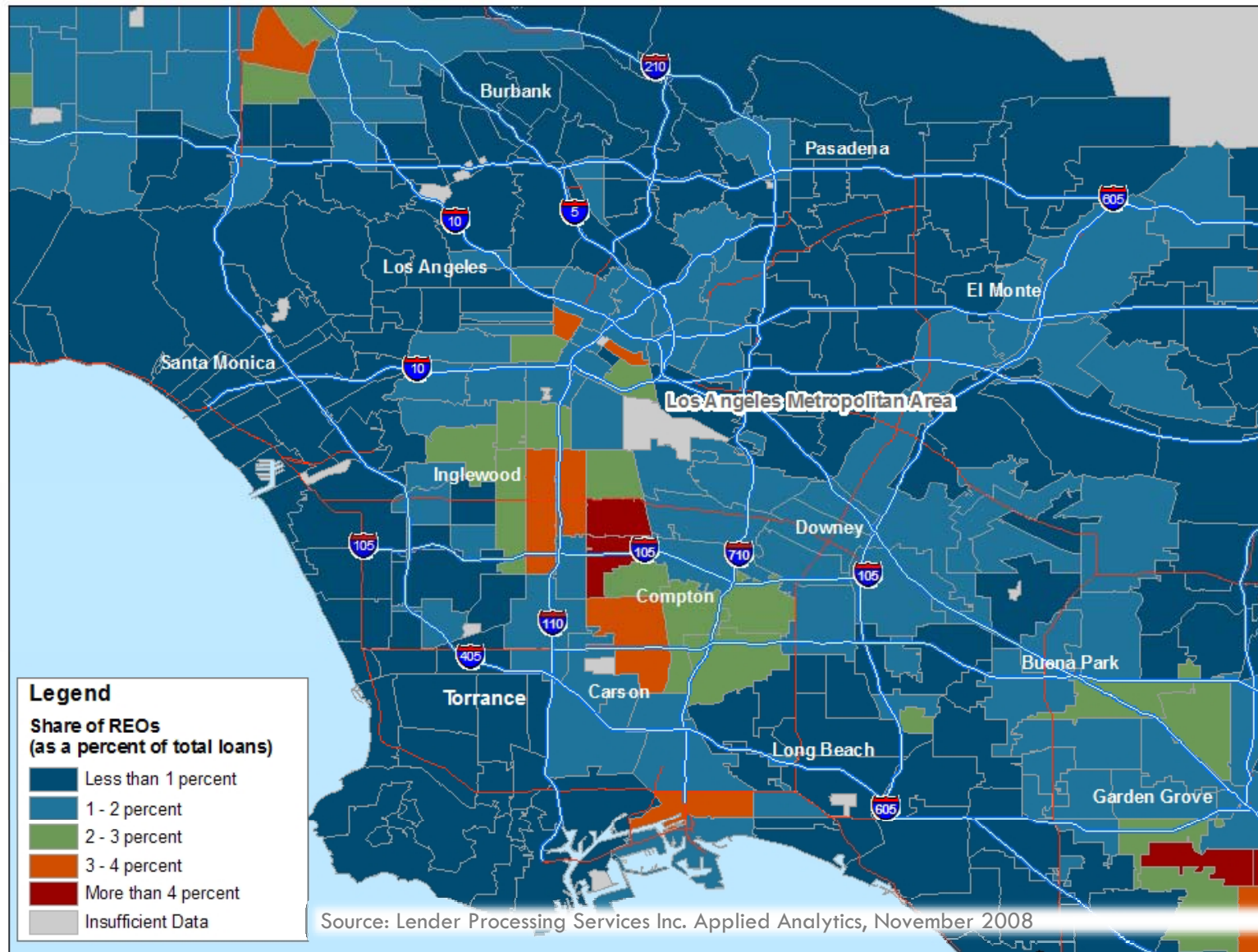
November 2008





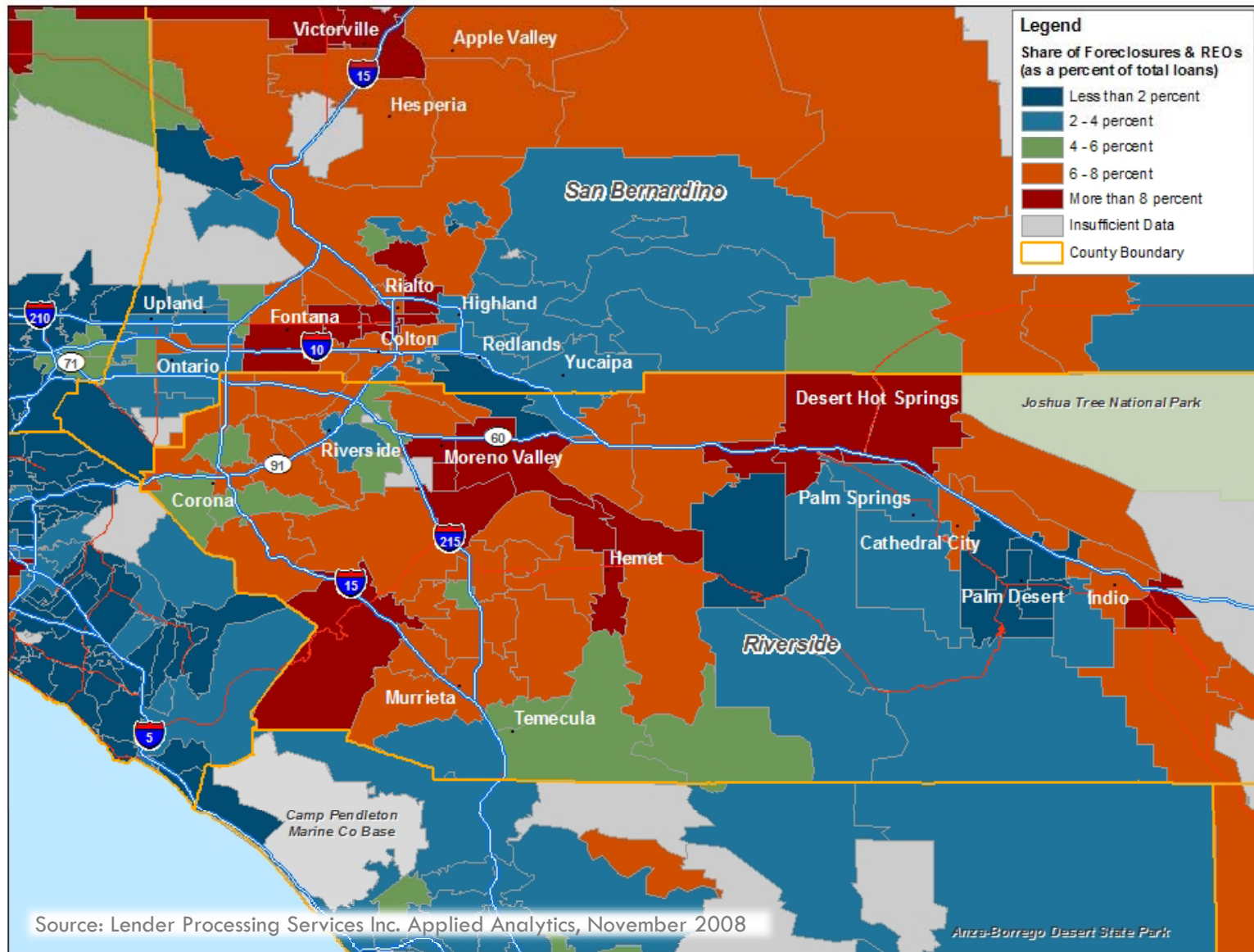
# Concentration of REO Properties

November 2008



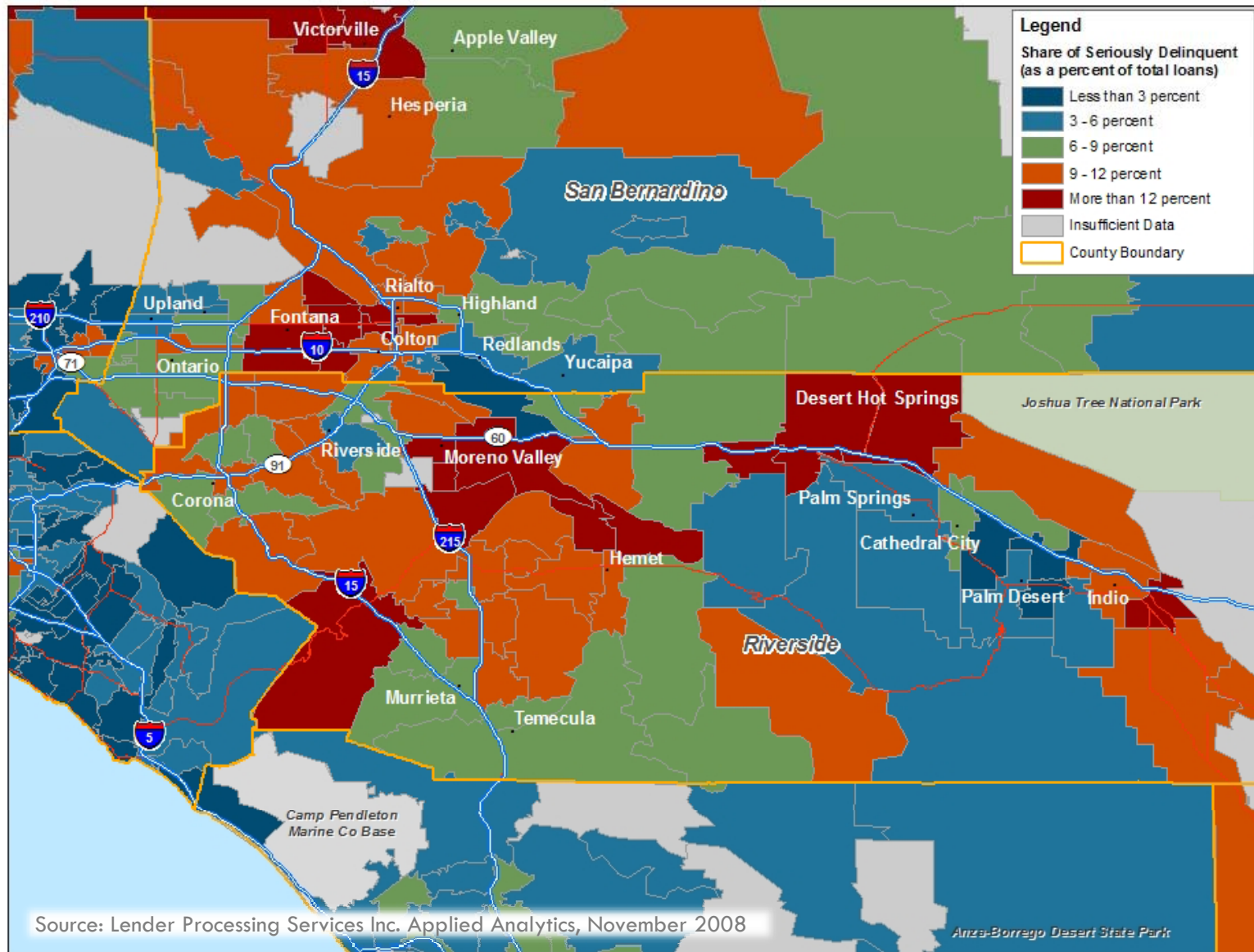
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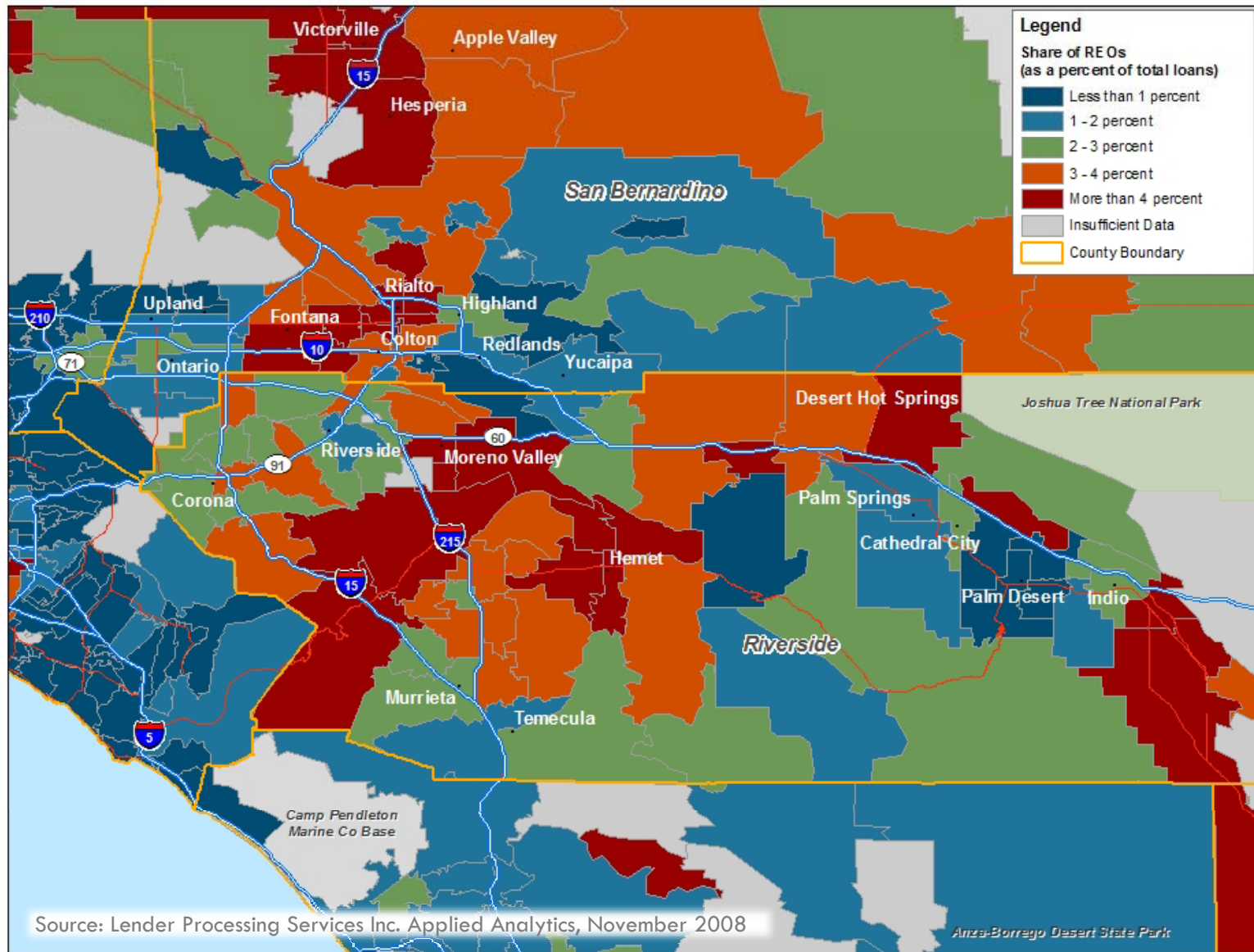
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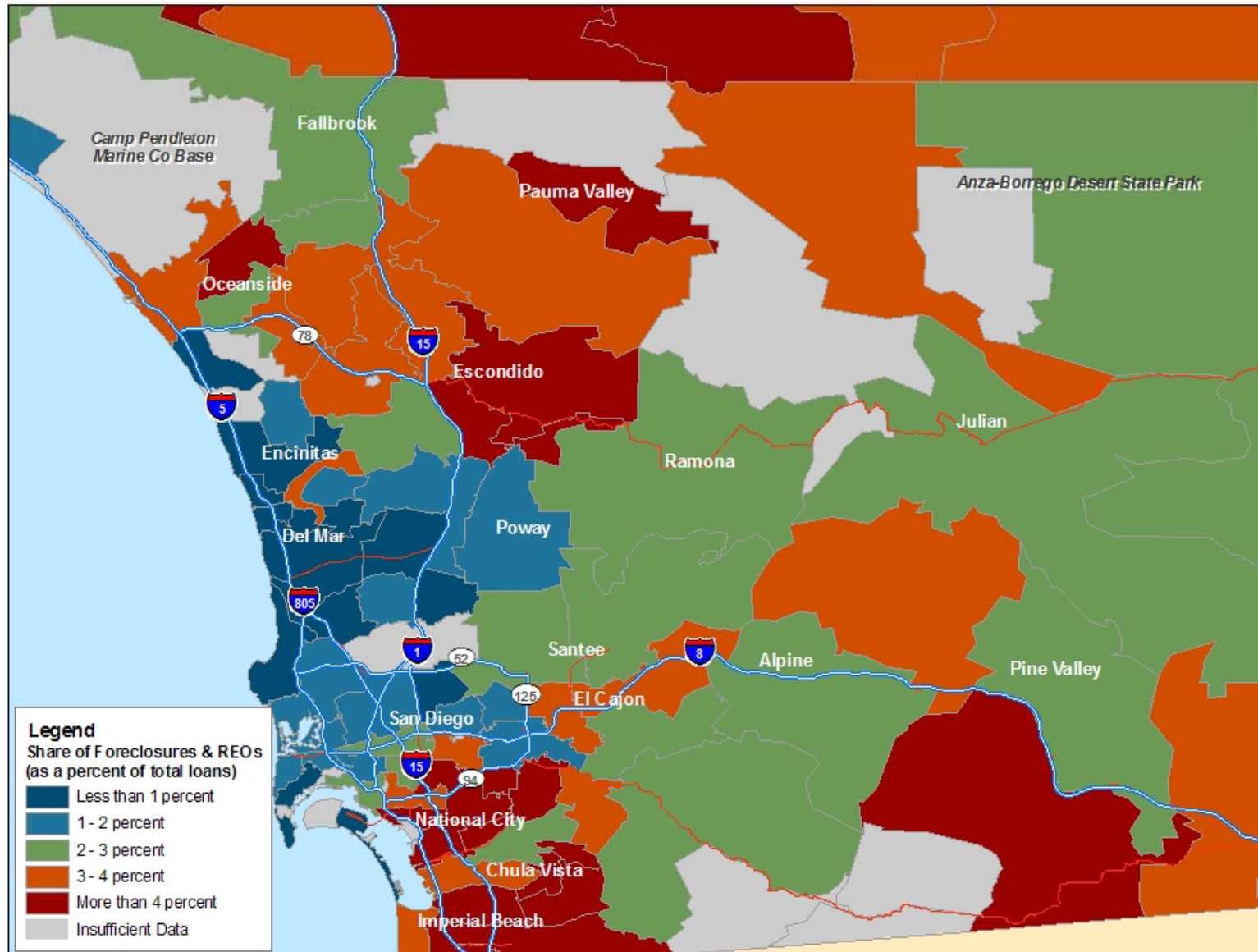


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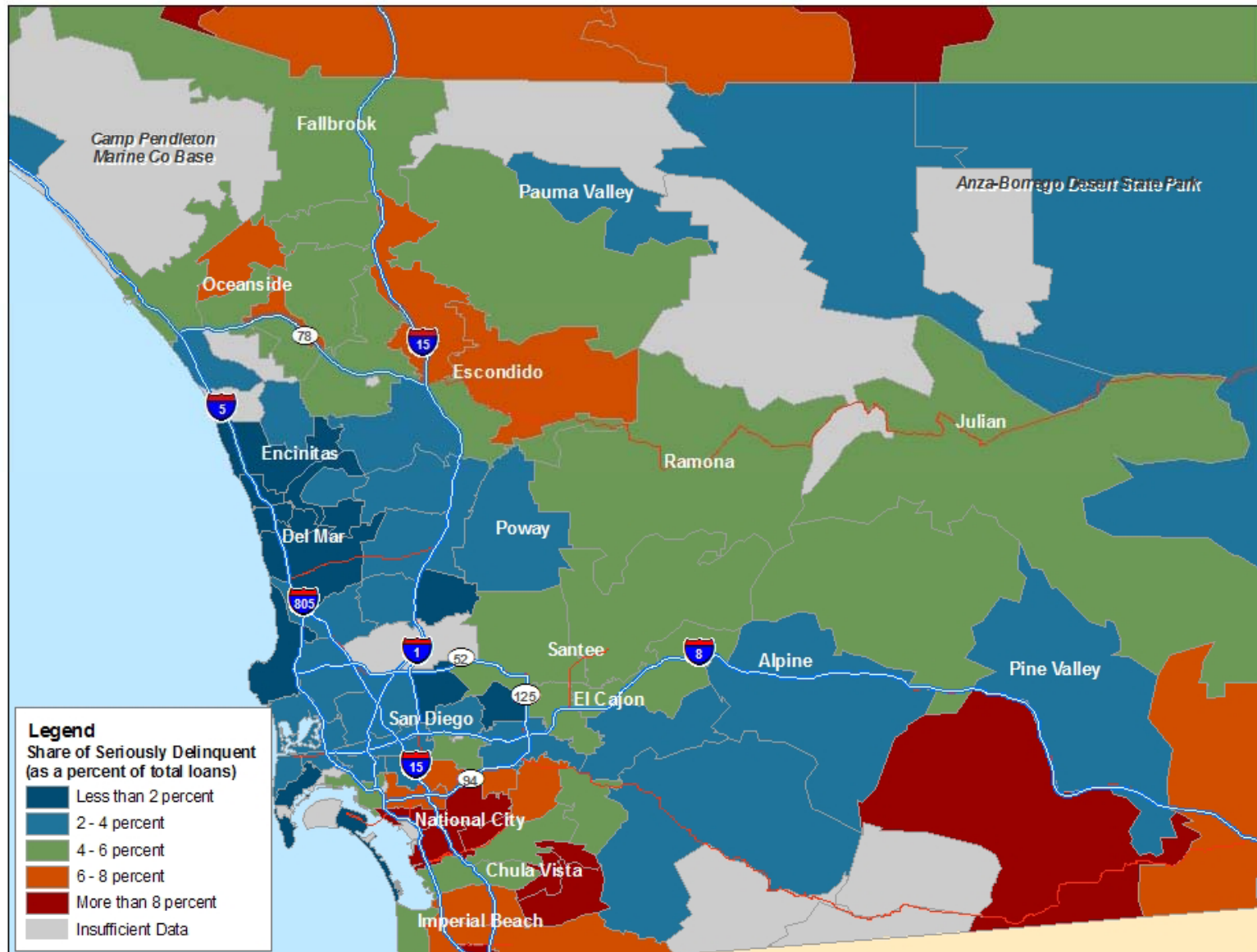


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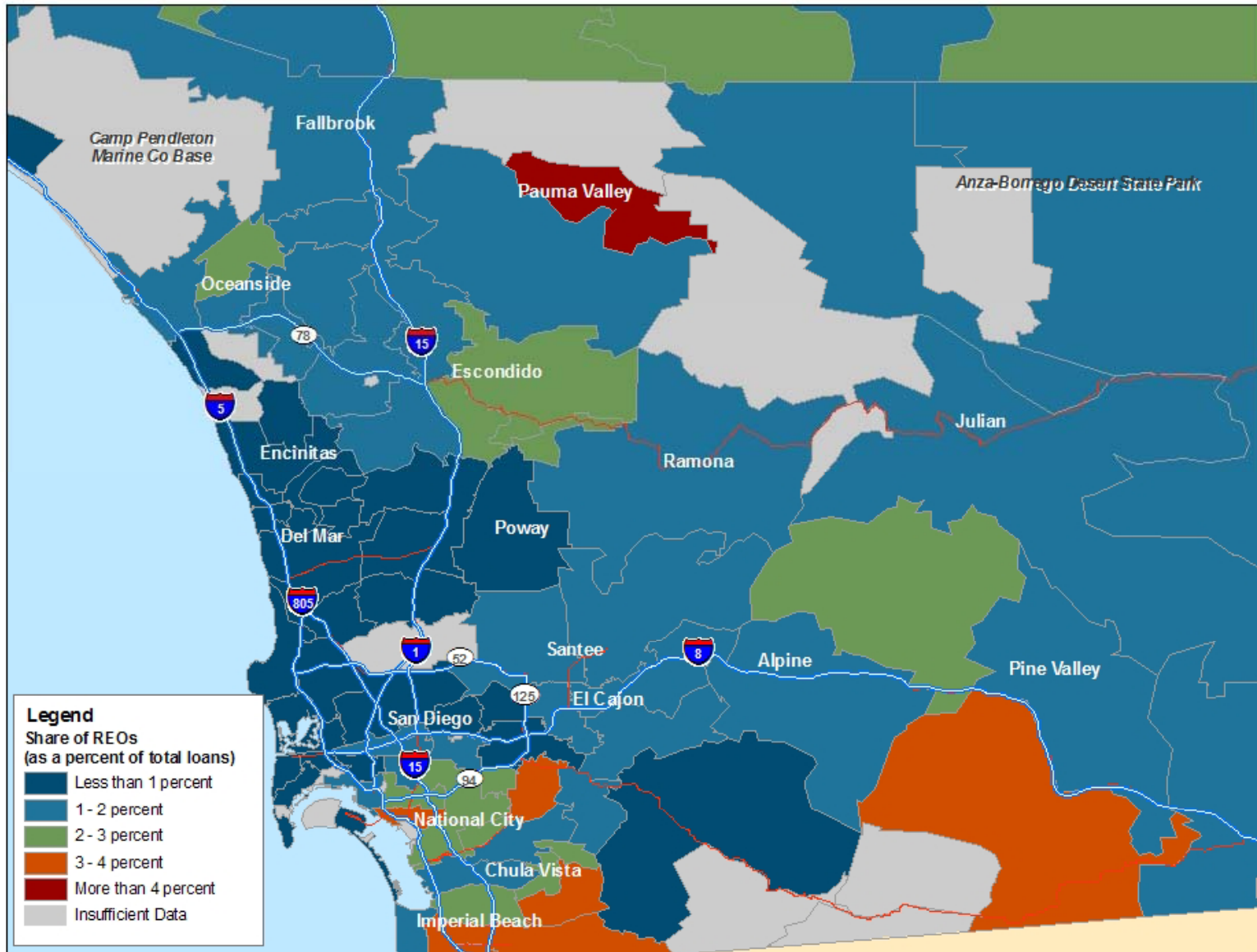
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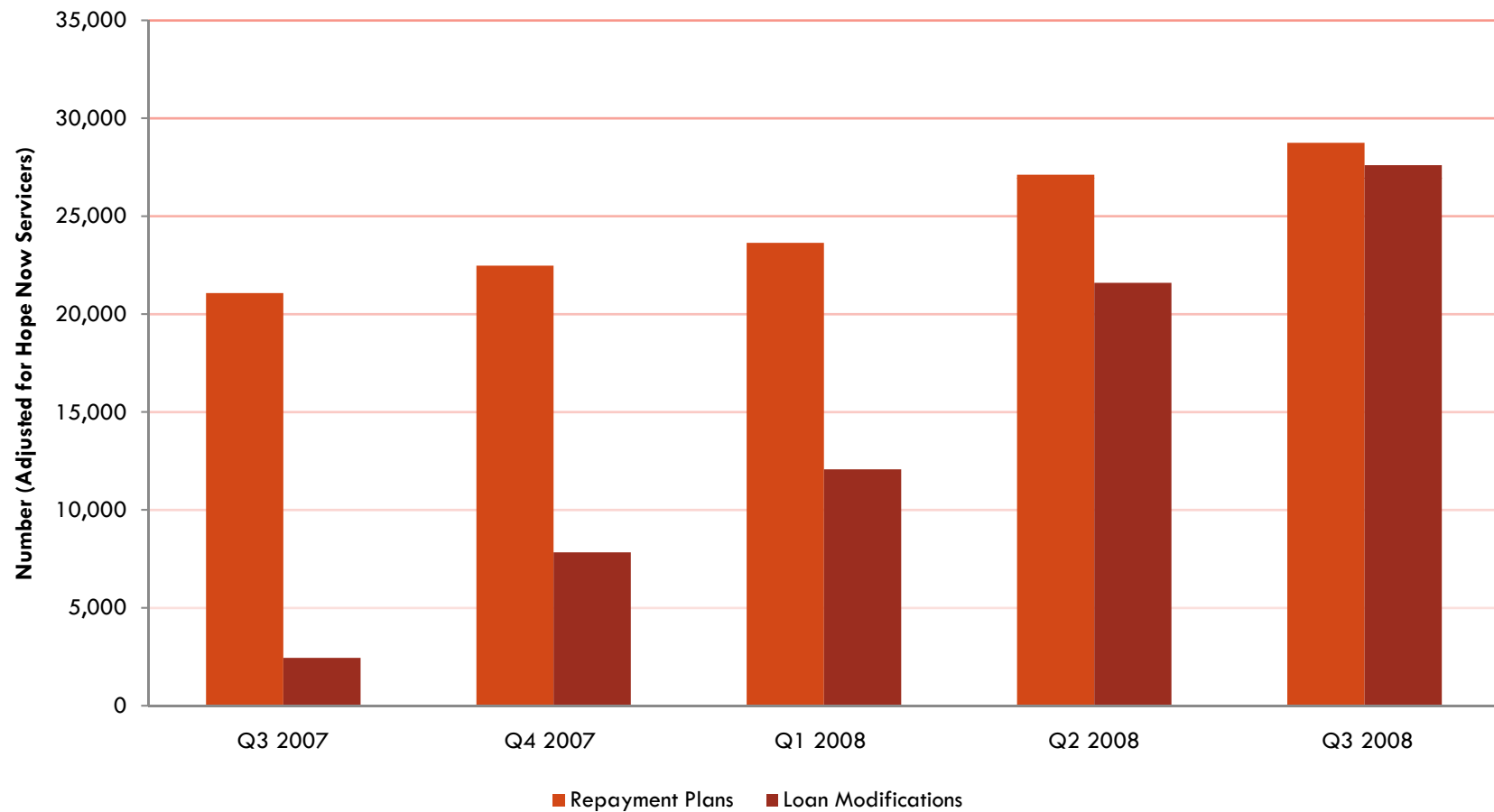
# Concentration of REO Properties

November 2008



# Loan workouts have increased

## California Loan Workouts

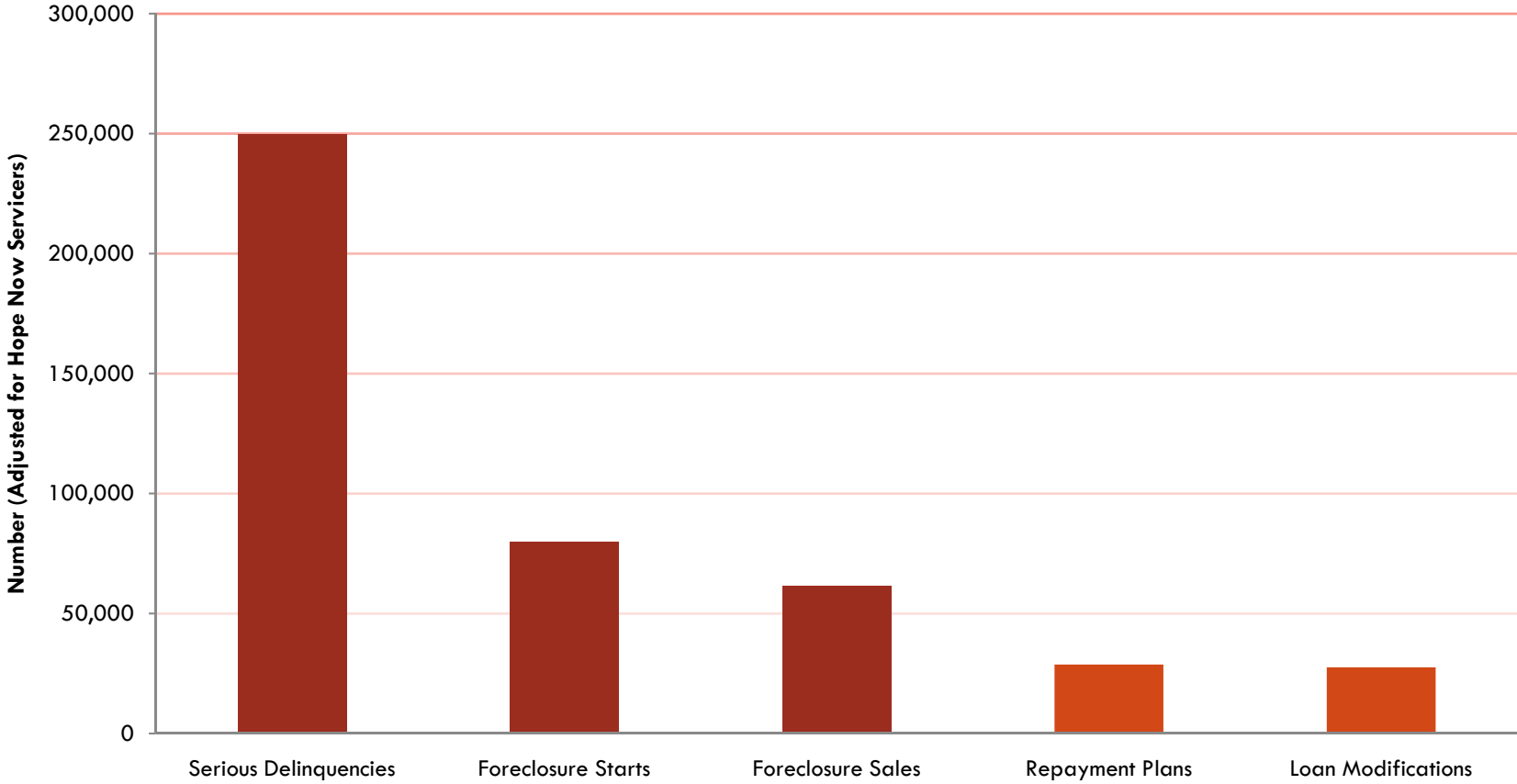


Source: Hope Now Alliance Servicing Data, 3<sup>rd</sup> Quarter 2008



# Yet, Still Fall Short of Need

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



Source: Hope Now Alliance Servicing Data, 3<sup>rd</sup> Quarter 2008

# Conclusions

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- 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](http://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

The screenshot shows the homepage of the Federal Reserve Bank of San Francisco's Community Development website. The header includes the bank's name and navigation links for 'Careers', 'Fed Links', and 'Subscriptions'. A secondary navigation bar lists various departments: 'About the Fed', 'News and Events', 'Economic Research and Data', 'Educational Resources', 'Community Development', 'Consumer Information', 'Banking Information', and 'Services for Financial Institutions'. Below this, there are links for 'Home', 'Community Reinvestment Act (CRA)', 'Community Development Issues', 'Center for Community Development Investments', 'Events and Conferences', 'Publications', and 'About Us'. The main content area is titled 'COMMUNITY DEVELOPMENT' and features a 'Highlights' section with three articles: 'Focus on Community Development Policy' (Community Investments: Volume 20, Issue 3, 2008), 'The Enduring Challenge of Concentrated Poverty in America', and 'Foreclosure Resource Center'. To the right, there is a 'TOOL BOX' with links for 'Fed Links', 'FAQ', 'Subscriptions', 'Glossary', 'Publications', 'Site Map', 'Search', 'Careers', 'Research Pubs', and 'Email Us'. Below the tool box is a search bar and a 'POPULAR CONTENT' section listing 'Upcoming Events' such as 'Stabilizing Communities Series: Acquiring REOs in Compliance with NSP' and 'Innovative Financial Services for the Underserved - Research Conference'. At the bottom, there are sections for 'Programs and Information' (Community Reinvestment Act (CRA), Community Development Issues, Center for Community Development Investments), 'Events and Conferences', 'Publications', and 'About Us'.

<http://www.frbsf.org/community/>