TRENDS IN DELINQUENCY AND FORECLOSURES IN CALIFORNIA

January 2010
National Trends

- Signs that the economy is starting to grow and move out of the recession
  - GDP positive for the first time since start of 2008
- Major weaknesses still exist in the housing, labor, and credit markets
- Foreclosures continue to rise
  - Although the HAMP program has succeeded in reaching 728,408 distressed borrowers (as of November 2009), few of these modifications have been made permanent and scale still falls significantly short of need.
National Trends
GDP Shows Positive Growth in 3rd Quarter 2009

Real Gross Domestic Product
(percent change at seasonally adjusted annual rate)

GDP % change based on chained 2005 dollars

Source: Bureau of Economic Analysis
Weakness in Labor Market Grave Concern

U.S. Unemployment Rate

Dramatic Increase in Duration of Unemployment

Median Duration of Unemployment

Source: Bureau of Labor Statistics
Case-Shiller Shows Continued Uptick in House Prices in 3rd Qtr 2009

Case-Shiller National House Price Index
(2000 = 100, quarterly)
FHFA Shows Continued Declines, Reflecting Activity at Lower End of Market

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

Source: Federal Housing Finance Agency (formerly OFHEO)
National Foreclosure Rate Remains High

Source: Mortgage Bankers Association, National Delinquency Survey

National Foreclosures Starts
Percent of All Loans

Source: Mortgage Bankers Association, National Delinquency Survey
Concern that Upcoming Resets will Continue to Drive New Foreclosures

Monthly Mortgage Rate Resets
(first reset in billions of US dollars)

Loan Modifications:
Home Affordable Modification Program

Source: HAMP Service Performance Report Through Nov. 2009:
http://www.financialstability.gov/docs/MHA%20Public%2020121009%20Final.pdf
Although there are Signs of Improvement, Small Businesses Still Face a Tightened Credit Market

Senior Loan Officer Opinion Survey on Bank Lending:
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans
Unemployment Rate Remains Very High

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)
Northern CA MSAs Experiencing Significant House Price Declines

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

Source: Federal Housing Finance Agency (formerly OFHEO)
Southern California MSAs also Experiencing Declining House Prices

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

Source: Federal Housing Finance Agency (formerly OFHEO)
Central Valley Cities Have Seen Greatest House Price Declines

Source: Federal Housing Finance Agency (formerly OFHEO)
Low Tier Has Seen Greatest Changes in House Prices

Source: Case - Shiller Home Price Index
Low Tier Has Seen Greatest Changes in House Prices

Tiered Case - Shiller Home Price Index: Los Angeles
(2000 = 100)

Source: Case - Shiller Home Price Index
Low Tier Has Seen Greatest Changes in House Prices

Tiered Case- Shiller Home Price Index: San Diego
(2000 = 100)

Source: Case - Shiller Home Price Index
California Foreclosure Starts Seem to be Leveling Off

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>Characteristics</th>
<th>Percent of Total Current Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Only</td>
<td>United States: 7% California: 13%</td>
</tr>
<tr>
<td>Jumbo</td>
<td>United States: 23% California: 23%</td>
</tr>
<tr>
<td>Option Arm</td>
<td>United States: 6% California: 10%</td>
</tr>
</tbody>
</table>

Legend:
- United States
- California
State & Local Data Maps
Areas Affected by Concentrated Foreclosures
November 2009

Legend
Share of Foreclosures & REOs (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
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Source: Lender Processing Services Inc. Applied Analytics
Areas at Risk of Additional Foreclosures
November 2009

Legend
Share of Seriously Delinquent (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

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

Areas Affected by Concentrated Foreclosures

November 2009

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- Less than 2 percent
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- 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
Southern Central California Data Maps

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Source: Lender Processing Services Inc. Applied Analytics
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Source: Lender Processing Services Inc. Applied Analytics
Inland Empire Regional Data Maps

Areas at Risk of Additional Foreclosures

November 2009

Legend
Share of Seriously Delinquent (as a percent of total loans)
- Less than 4 percent
- 4 - 8 percent
- 8 - 12 percent
- 12 - 16 percent
- More than 16 percent
- Insufficient Data
- County Boundary

Source: Lender Processing Services Inc. Applied Analytics
Areas Affected by Concentrated Foreclosures

November 2009

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

Neighborhoods at Risk of Additional Foreclosures

November 2009

Legend
Share of Seriously Delinquent (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

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