

# TRENDS IN DELINQUENCIES AND FORECLOSURES IN CALIFORNIA

April 2009

Community Development Department, Federal Reserve  
Bank of San Francisco

# Outline of Presentation

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## □ 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

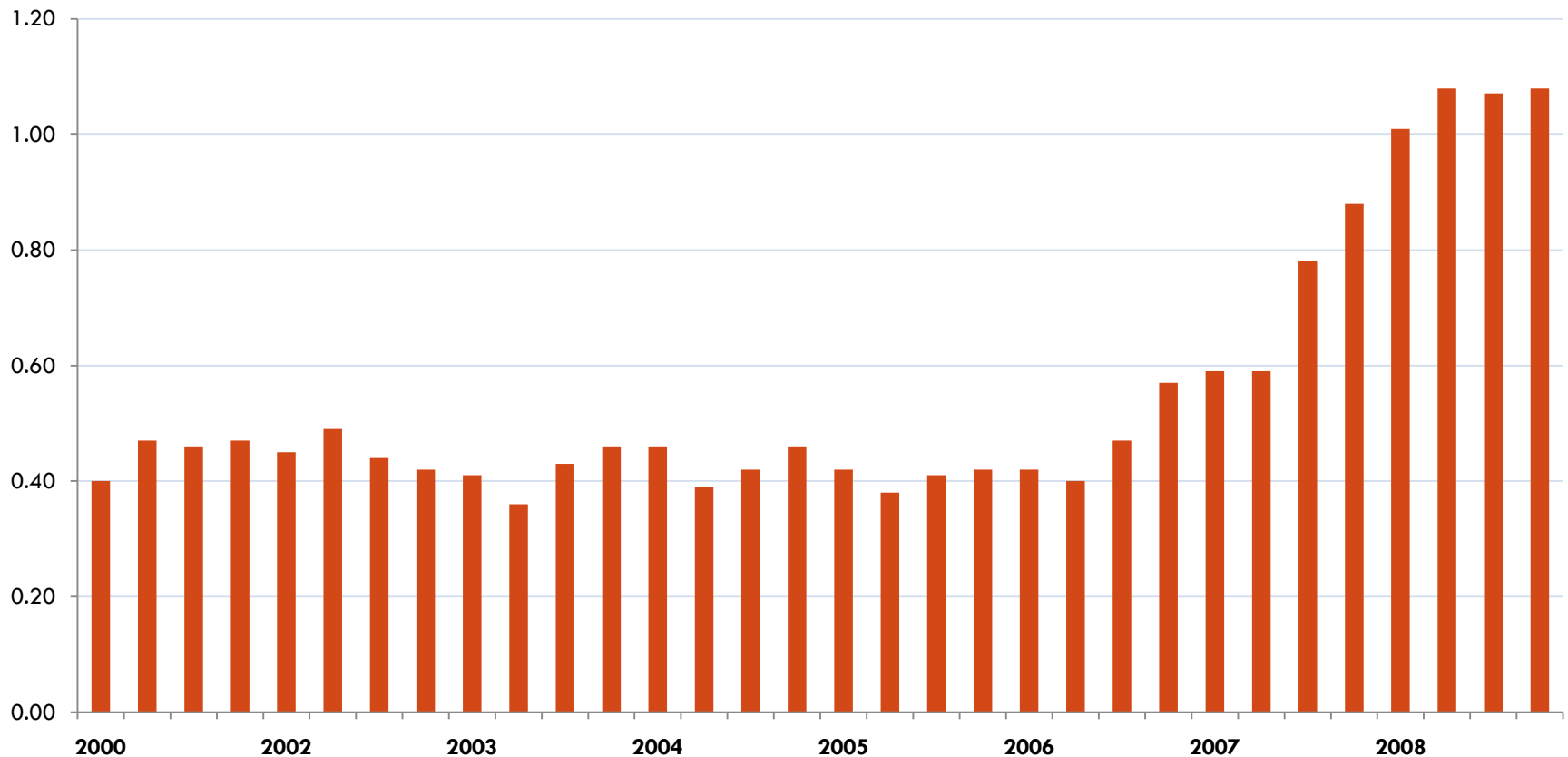
# National Trends

# National Trends

- Foreclosures rose steadily in 2008, with wide repercussions for US economy
  - After a slight decline in the national foreclosure rate in the 3<sup>rd</sup> Quarter of 2008, rose again in 4<sup>th</sup> 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

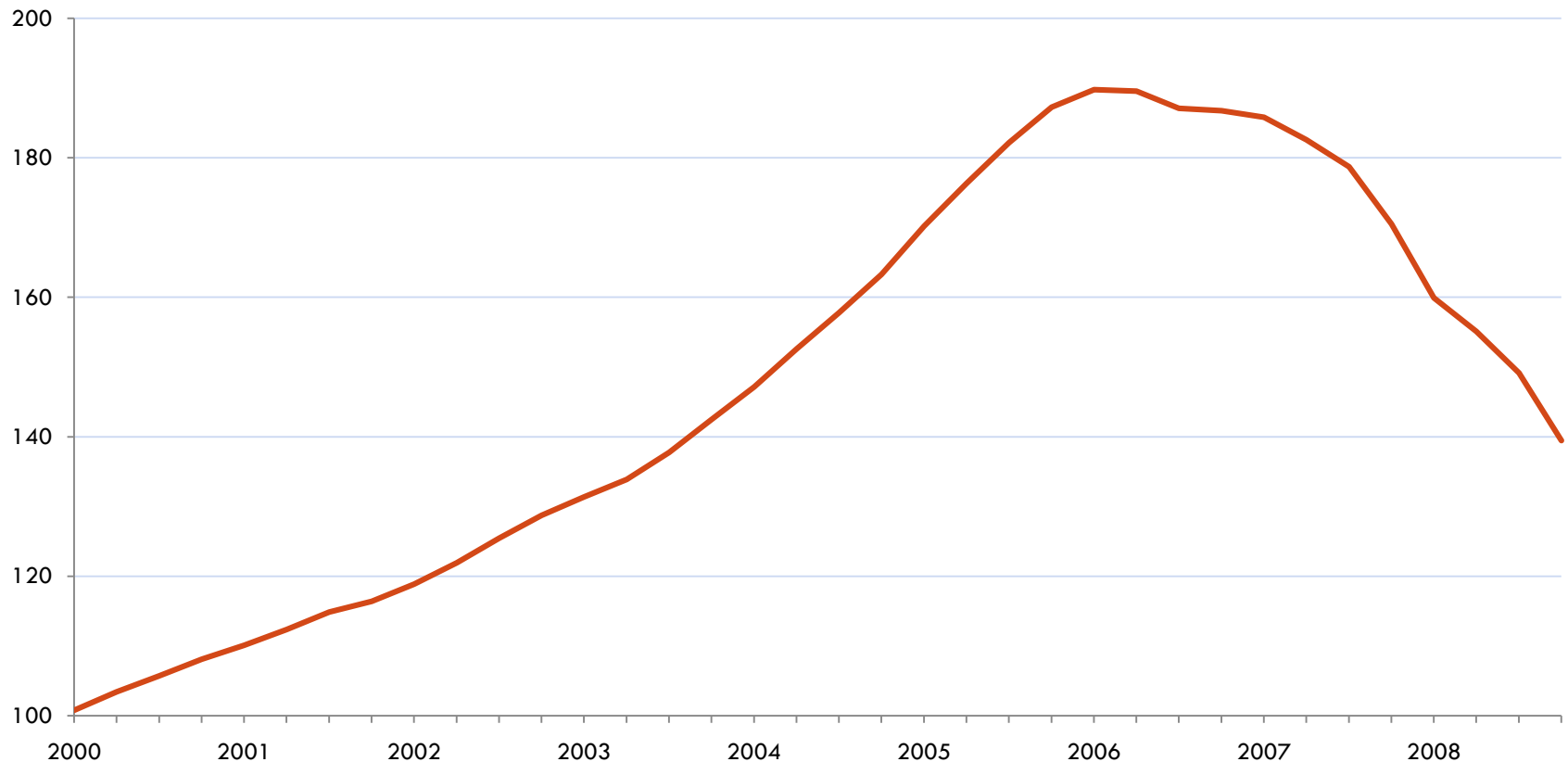
**National Foreclosures Starts**  
Percent of All Loans



Source: Mortgage Bankers Association, National Delinquency Survey, 4th Q 2008

# Nationally, House Prices Continue to Decline

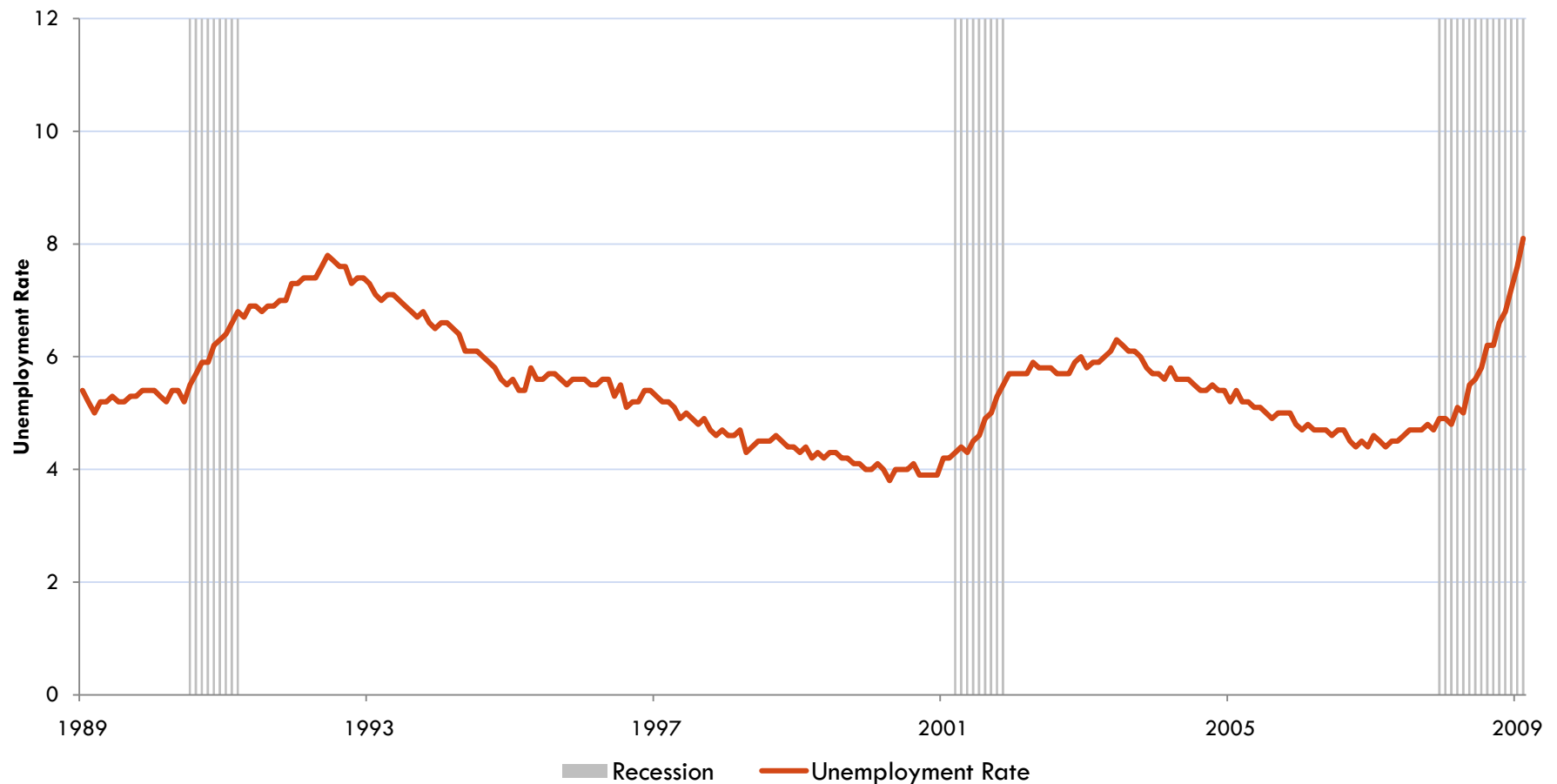
**Case-Shiller National House Price Index**  
(2000 = 100, quarterly)



Source: Case - Shiller Home Price Index, 4<sup>th</sup> Q 2008

# Recession Marks Significant Jump in Unemployment

**U.S. Unemployment Rate**



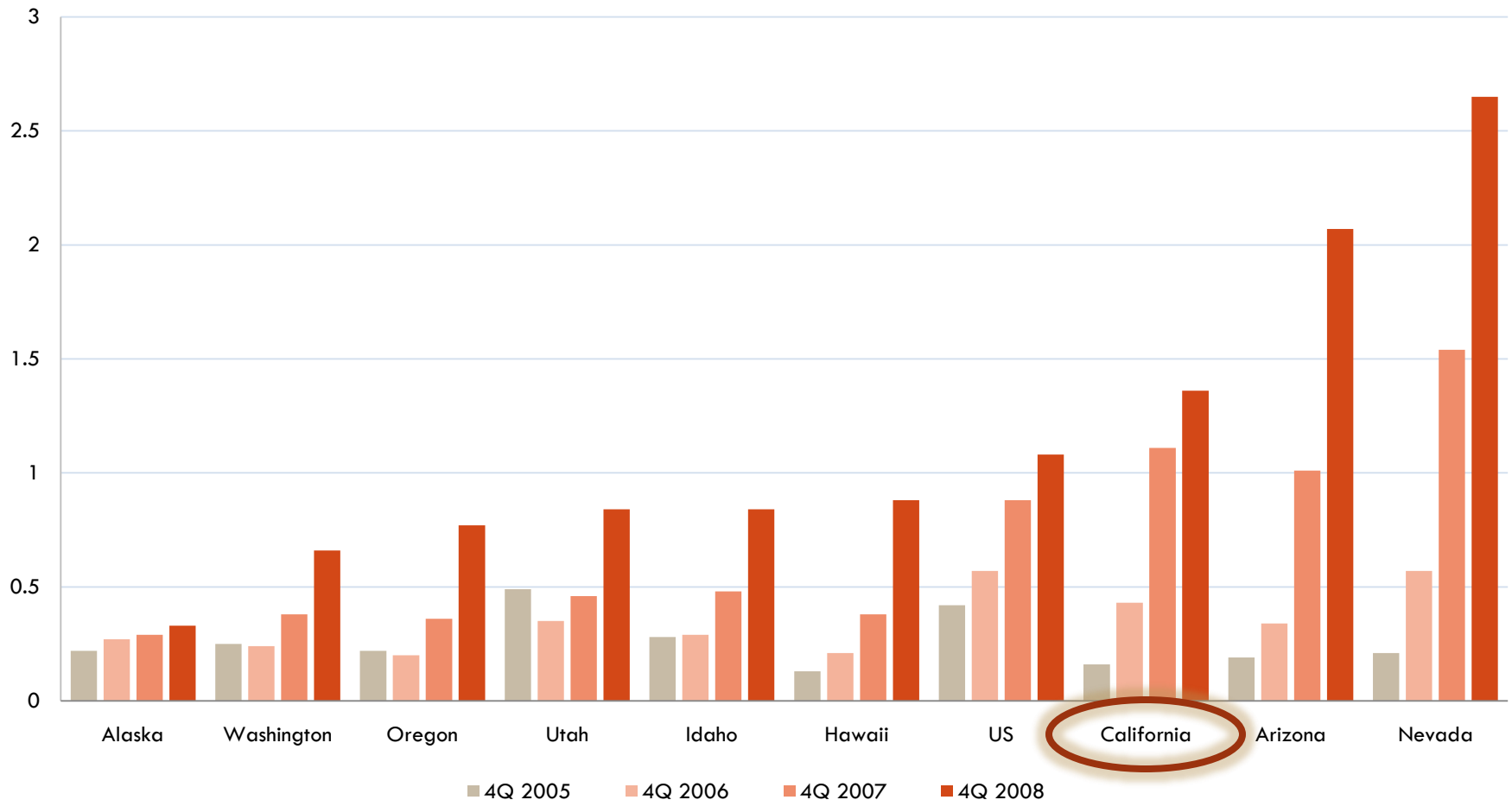
Source: Bureau of Labor Statistics

# California Trends



# Foreclosures in California are Above the National Average

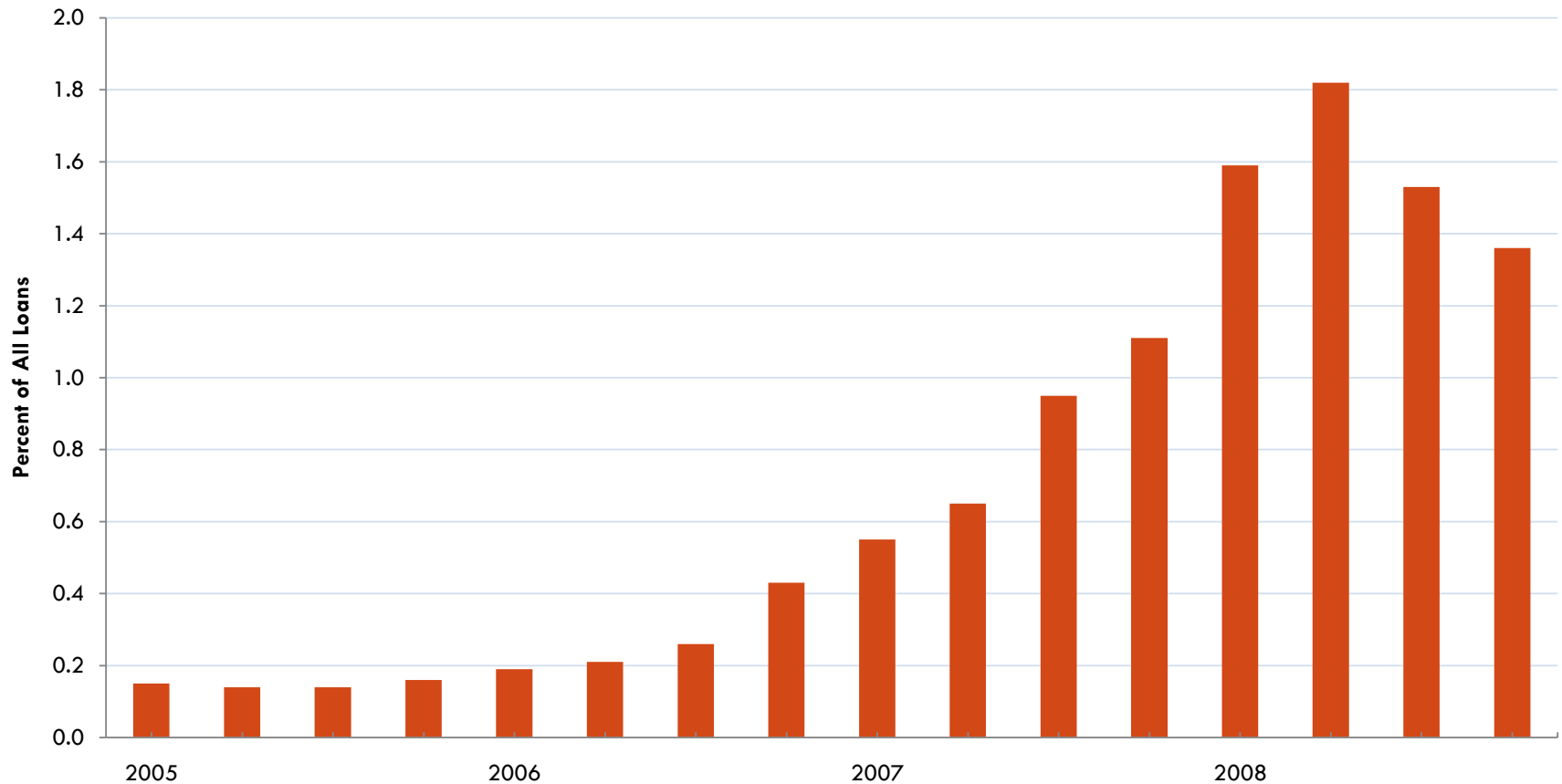
**Foreclosure Starts (Percent of All Loans)**



Source: Mortgage Bankers Association, National Delinquency Survey, 4<sup>th</sup> Q 2008

# Unlike National Trends, California Saw a Decrease in Foreclosure Starts in 4<sup>th</sup> Quarter 2008

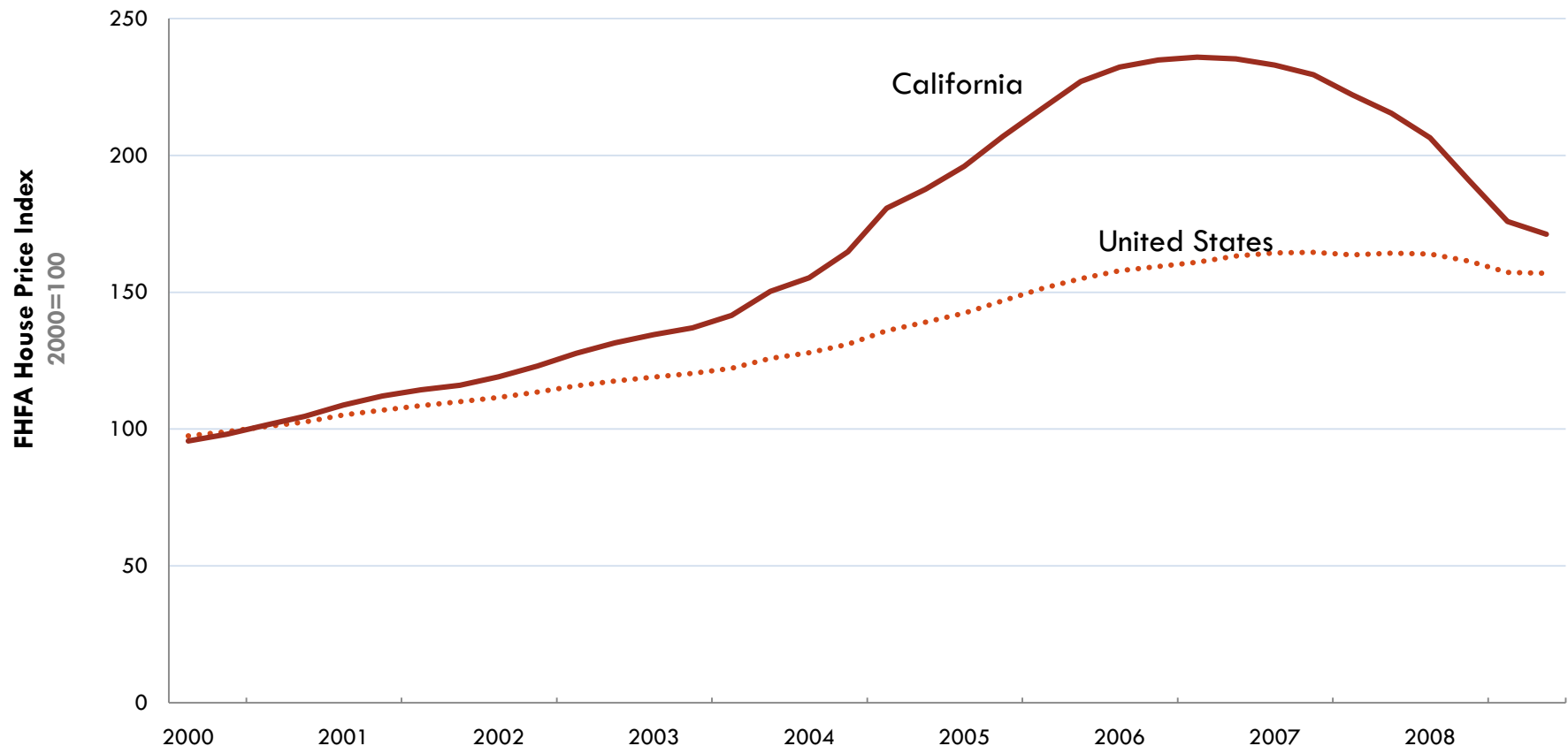
## California: Foreclosure Starts



Source: Mortgage Bankers Association, National Delinquency Survey, 4<sup>th</sup> Q 2008

# California Has Seen Significant and Steep Decline in House Prices

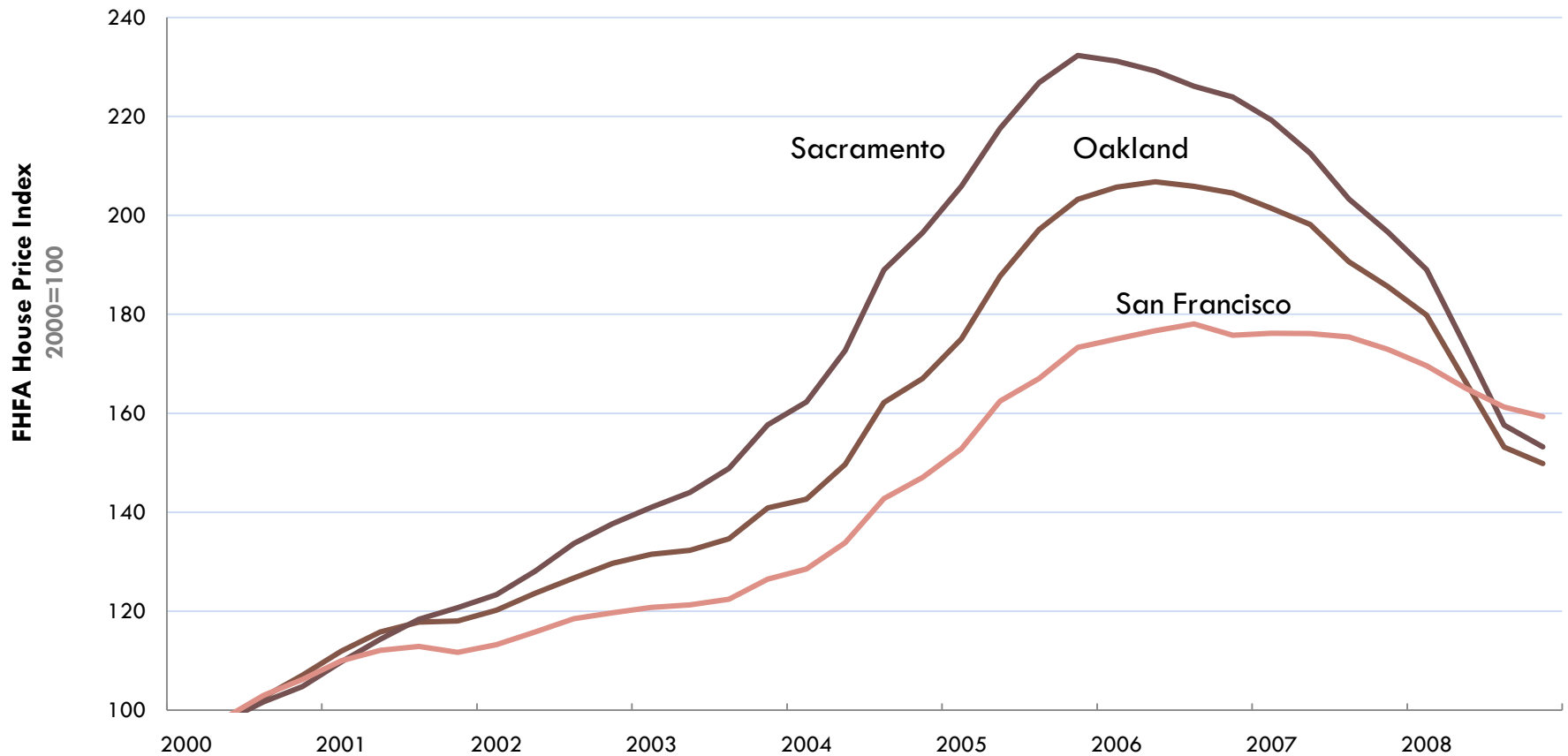
**FHFA (formerly OFHEO) House Price Index**  
(2000=100, quarterly)



Source: Federal Housing Finance Agency (formerly OFHEO), 4<sup>th</sup> Quarter 2008

# Northern CA MSAs Experiencing Significant House Price Declines

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

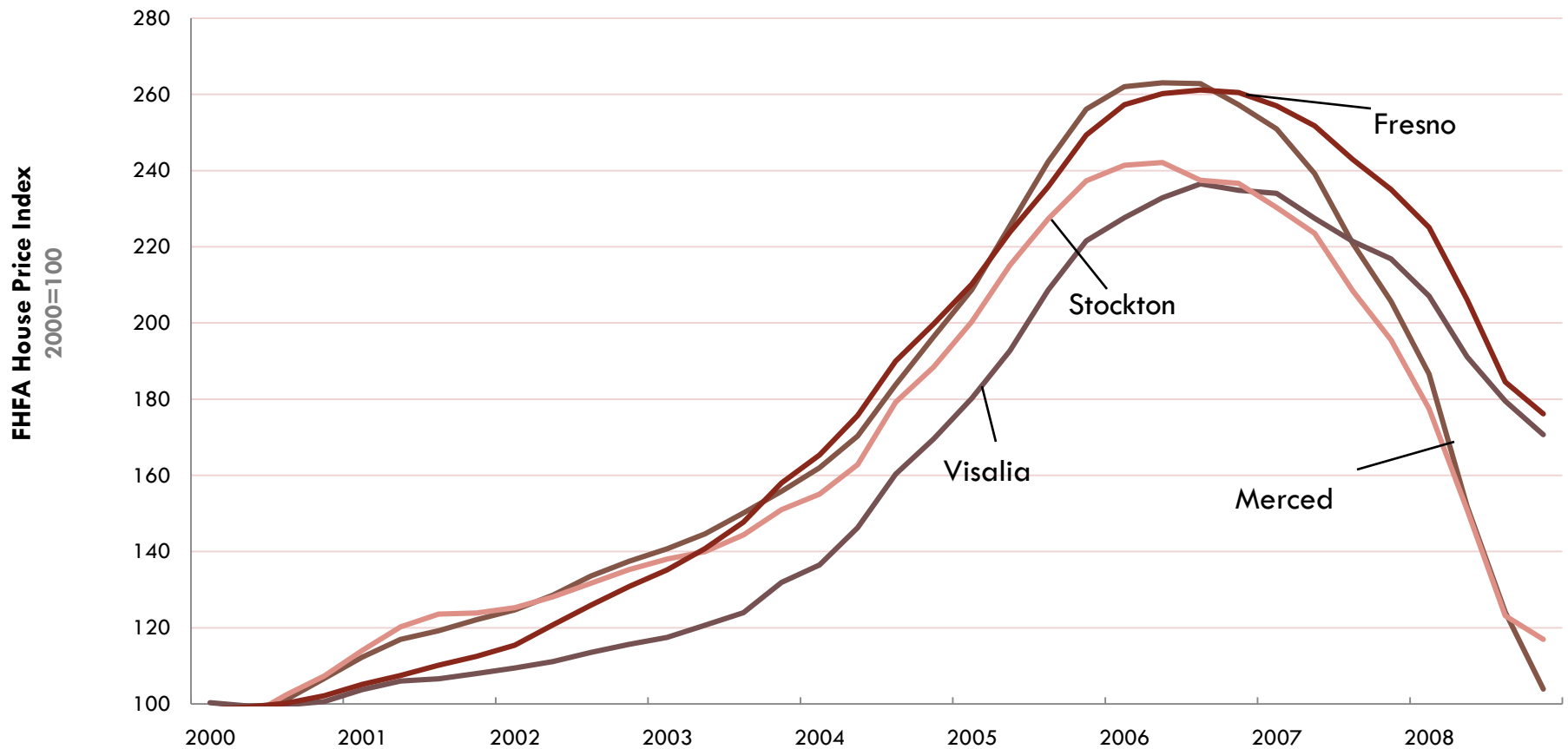


Source: Federal Housing Finance Agency (formerly OFHEO), 4<sup>th</sup> Quarter 2008

# Central Valley Cities Have Seen Greatest House Price Declines

## FHFA House Price Index (formerly OFHEO): Central California

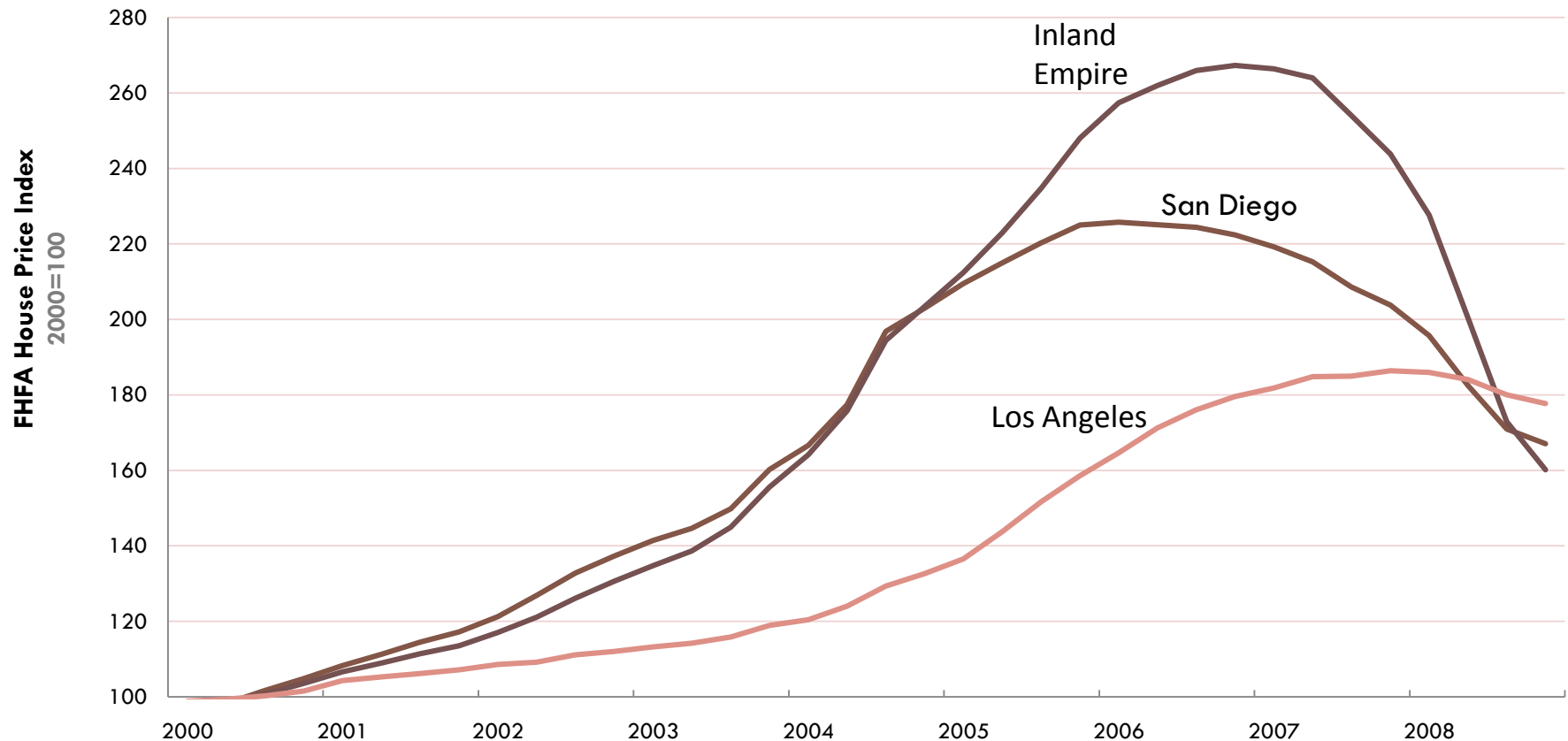
(2000 = 100, quarterly)



Source: Federal Housing Finance Agency (formerly OFHEO), 4<sup>th</sup> Quarter 2008

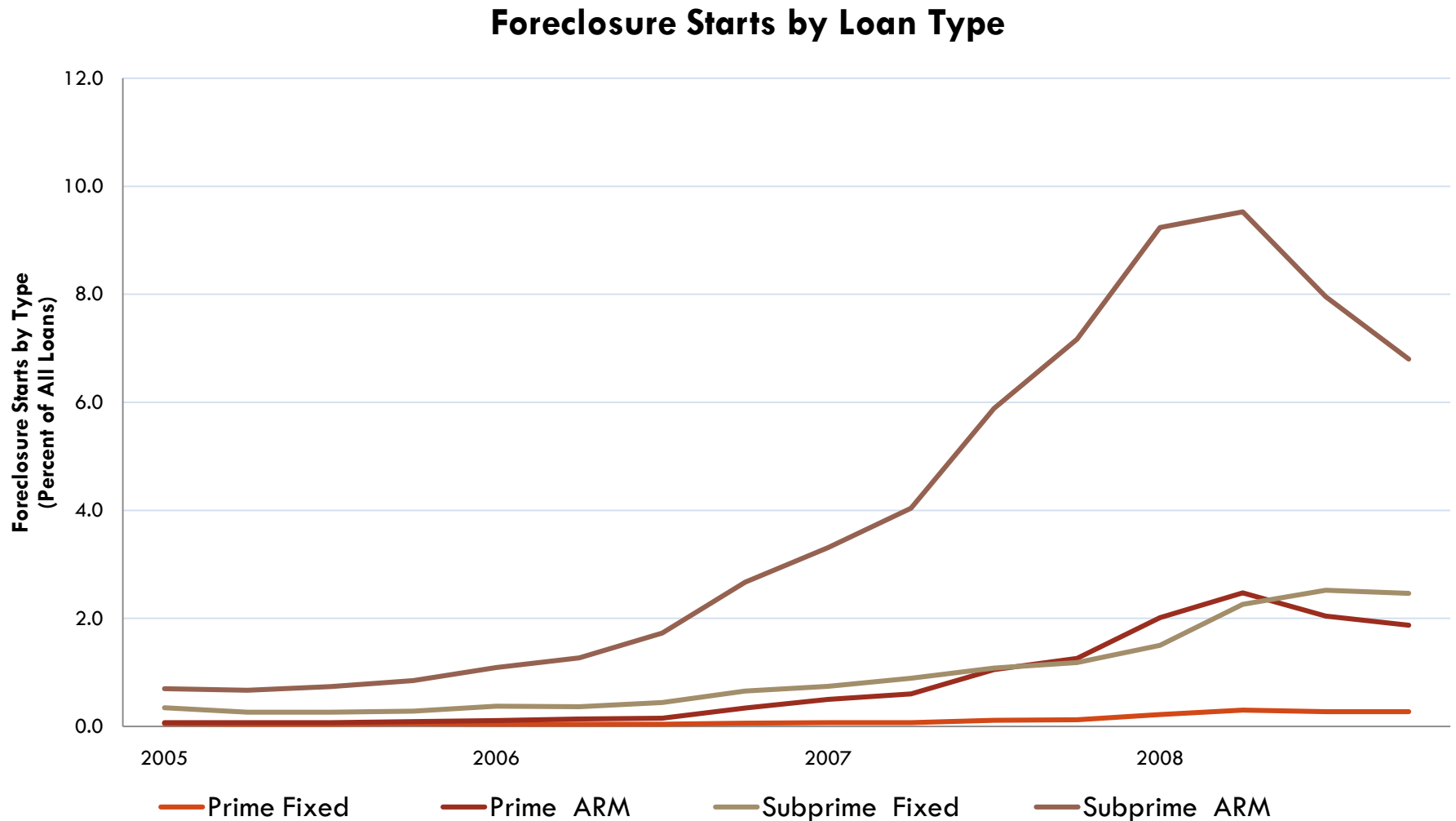
# Southern California MSAs also Experiencing Declining House Prices

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



Source: Federal Housing Finance Agency (formerly OFHEO), 4<sup>th</sup> Quarter 2008

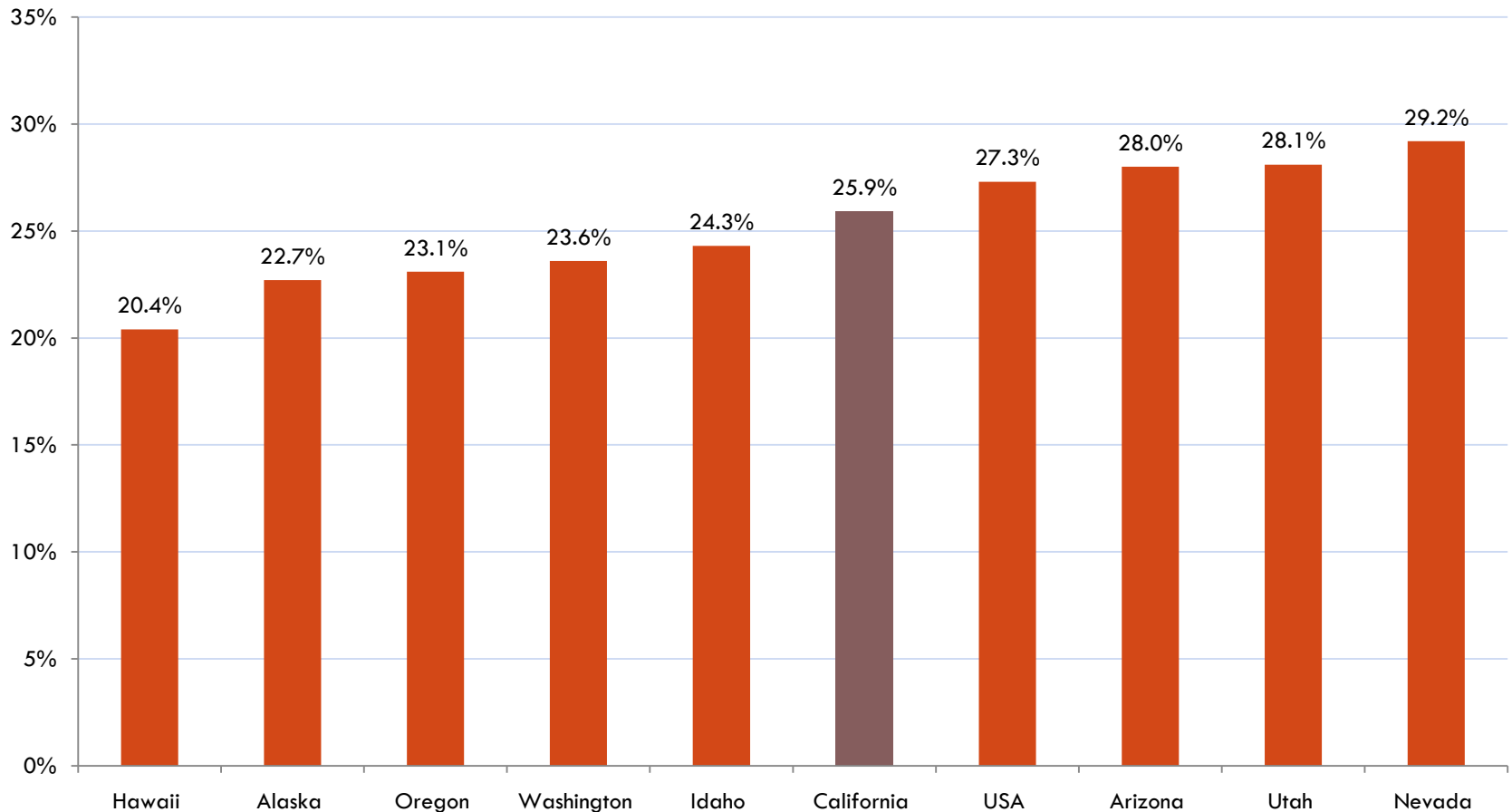
# California's Foreclosures are Concentrated in Subprime ARM Market



Source: Mortgage Bankers Association, National Delinquency Survey, 4<sup>th</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**

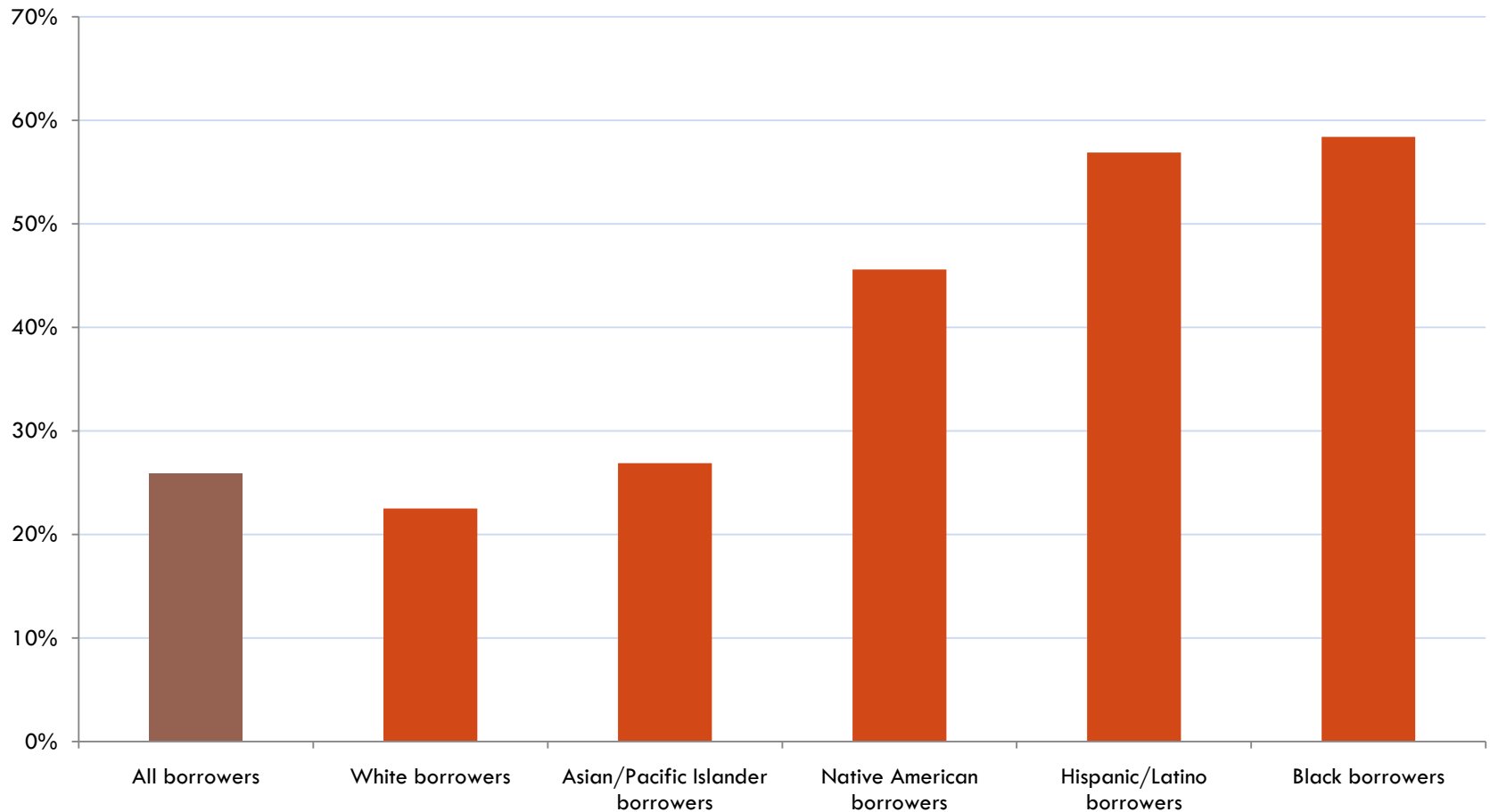


Source: Home Mortgage Disclosure Act Data, 2005



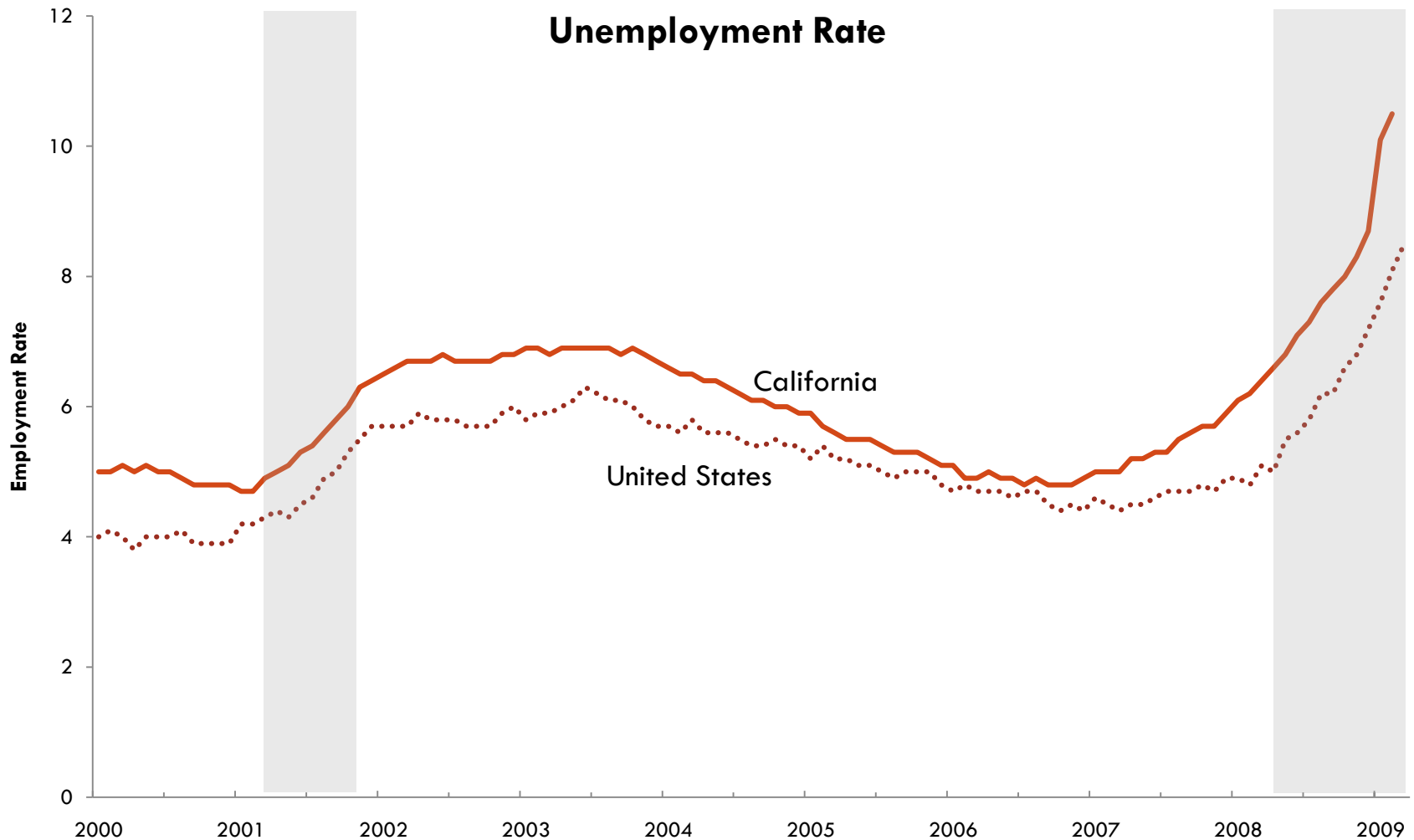
# High Cost Lending in California More Prevalent Among Minority Borrowers

**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



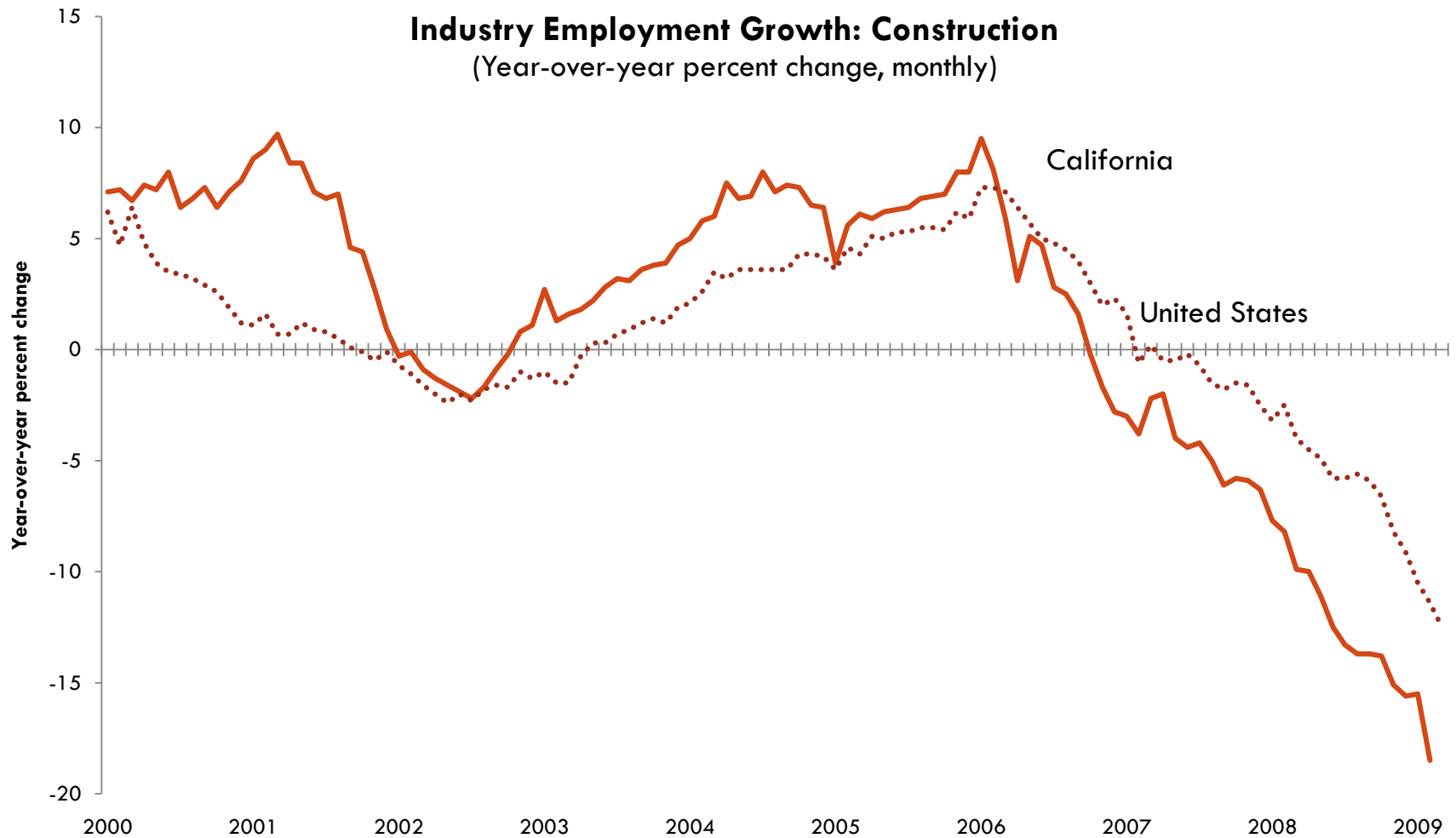
Source: Bureau of Labor Statistics, March 2009

# Employment Trends by Industry in CA

California	Total Employed (thousands) February 2009	Percent Change		
		1-mo.*	3-mo.*	12-mo.
Total	14,534.8	-9.1	-7.3	-4
Trade, Transportation & Utilities	2,742.5	-6.7	-6.9	-5.5
Professional & Business Svcs.	2,164.8	-15	-9.9	-4.5
Educational & Health Svcs.	1,742.5	3	0.9	1.8
Leisure & Hospitality	1,533.5	-10.9	-5	-2.8
Manufacturing	1,355.4	-13.1	-12.3	-6.2
Financial Activities	816.7	-10	-7	-6
Construction	681.9	-41.2	-25.7	-18.5
Other Services	510.0	-3	-3	-1.2
Information	450.7	23.6	-22.3	-4
Government	2,508.6	-1.5	-1.3	-0.3
Natural Resources & Mining	28.2	-19	-2.8	0.4

Source: Bureau of Labor Statistics, February 2009; \*Annualized.

# Significant Drop in Construction Employment

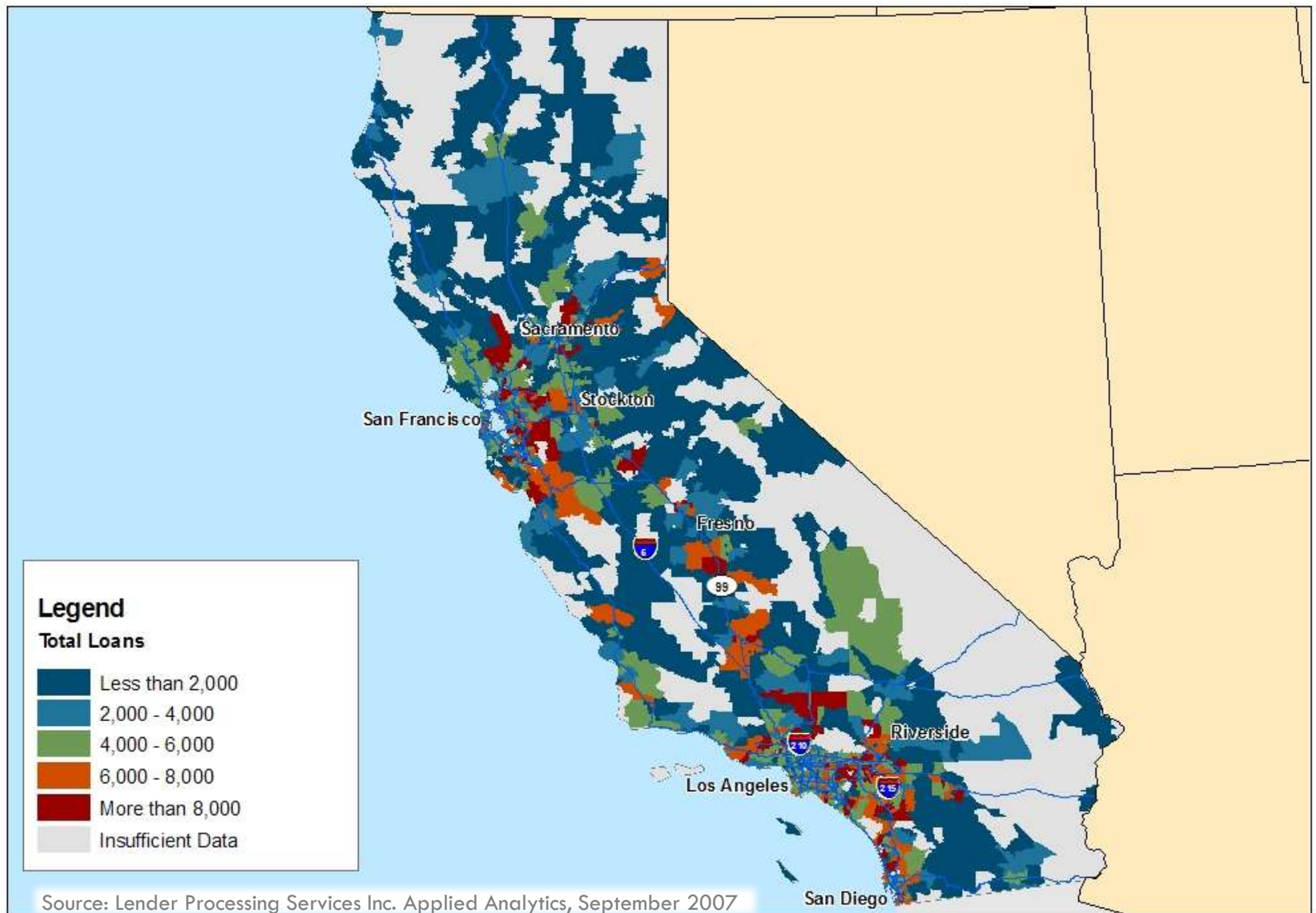


Source: Bureau of Labor Statistics, March 2009

# State & Local Data Maps

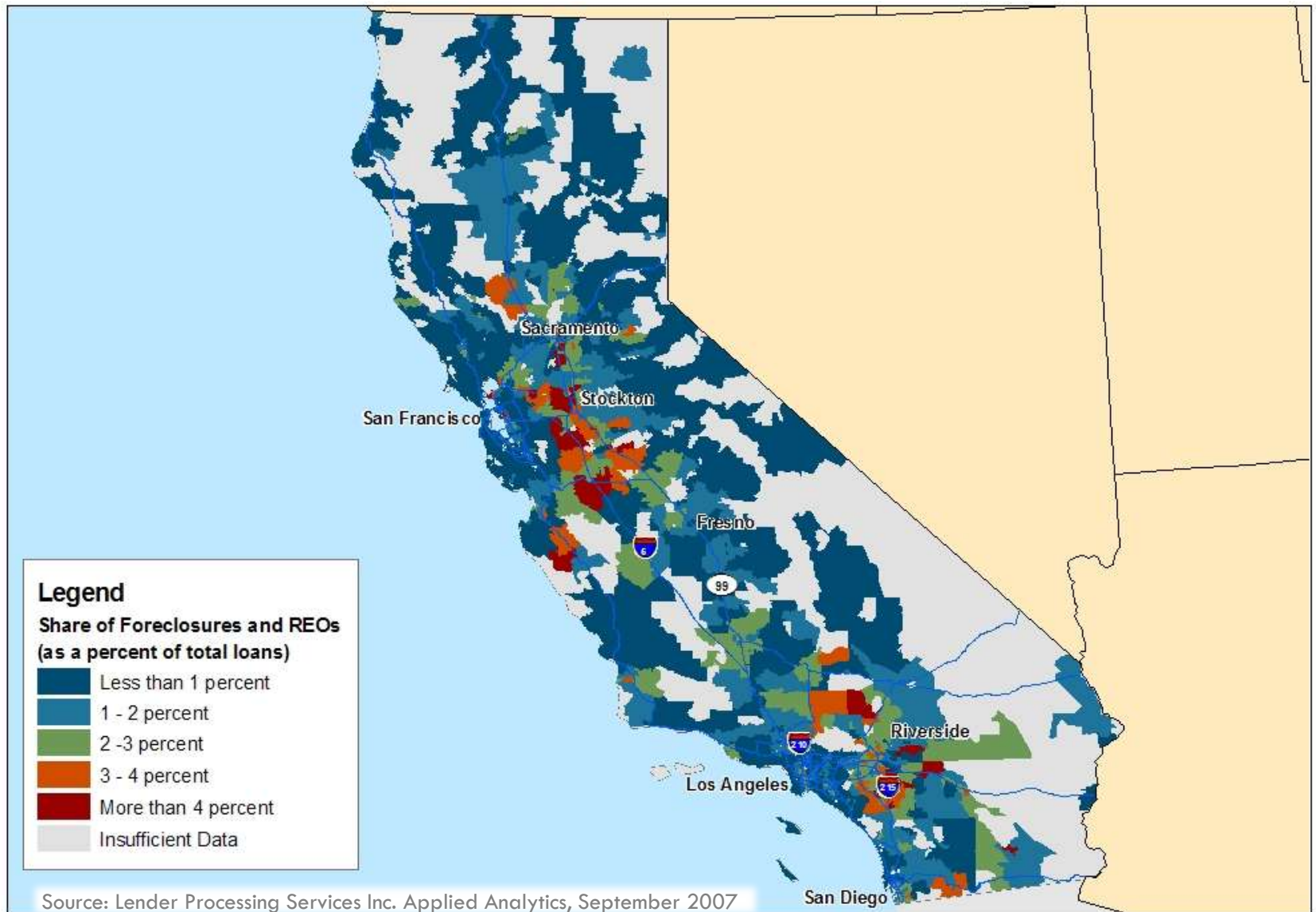
## Lending Volumes

September 2007



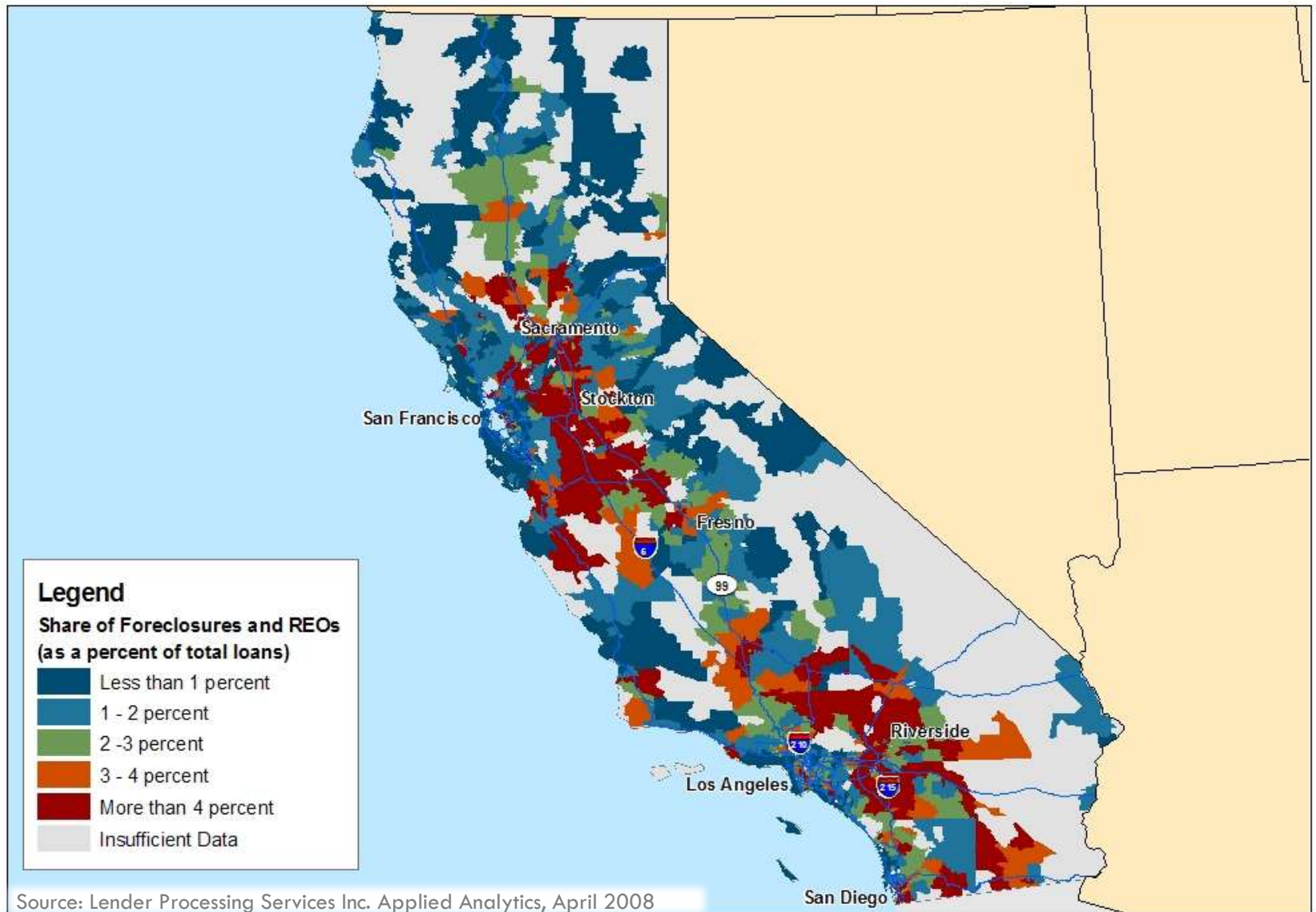
# Areas Affected by Concentrated Foreclosures

September 2007



## Areas Affected by Concentrated Foreclosures

April 2008

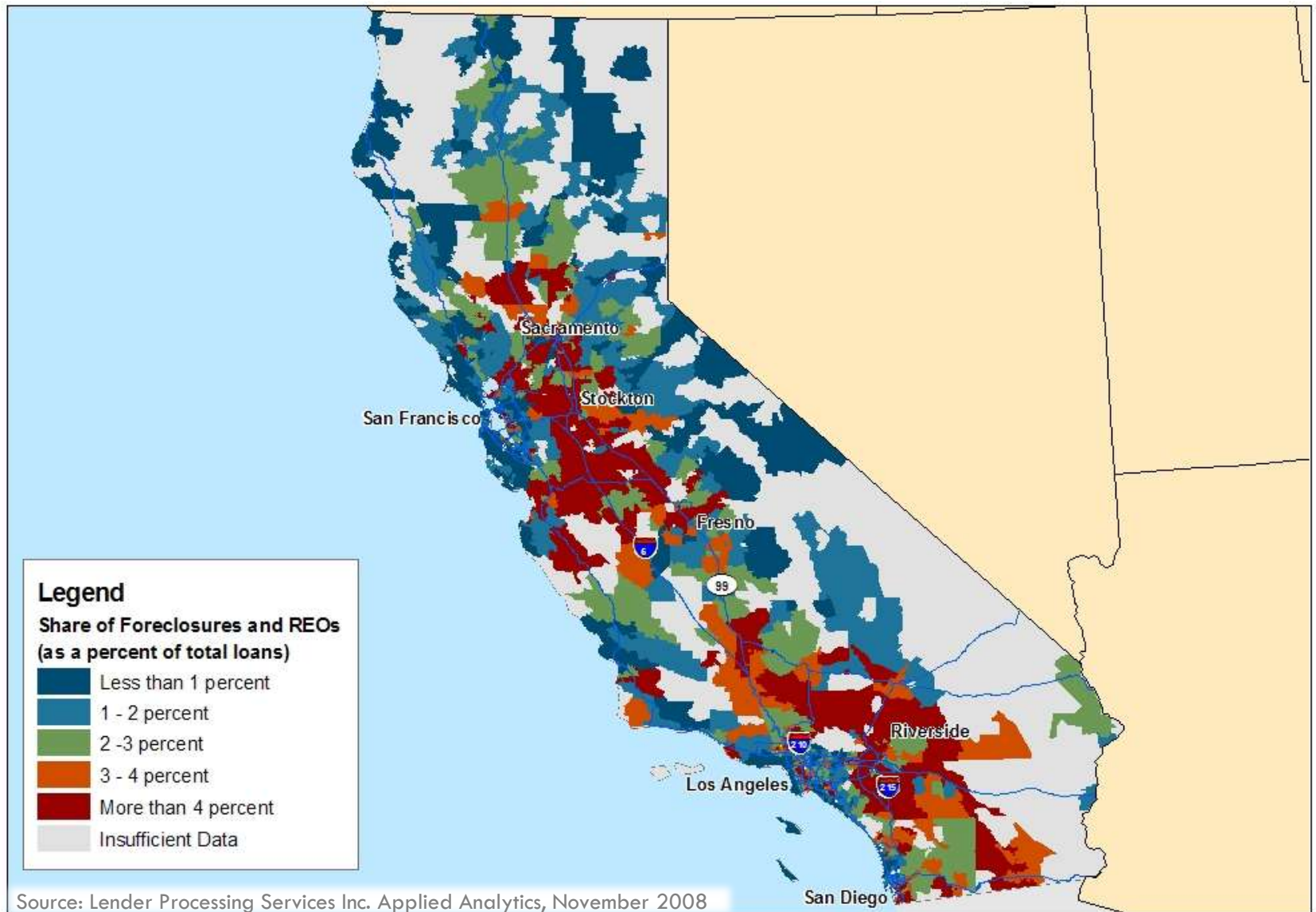


Source: Lender Processing Services Inc. Applied Analytics, April 2008



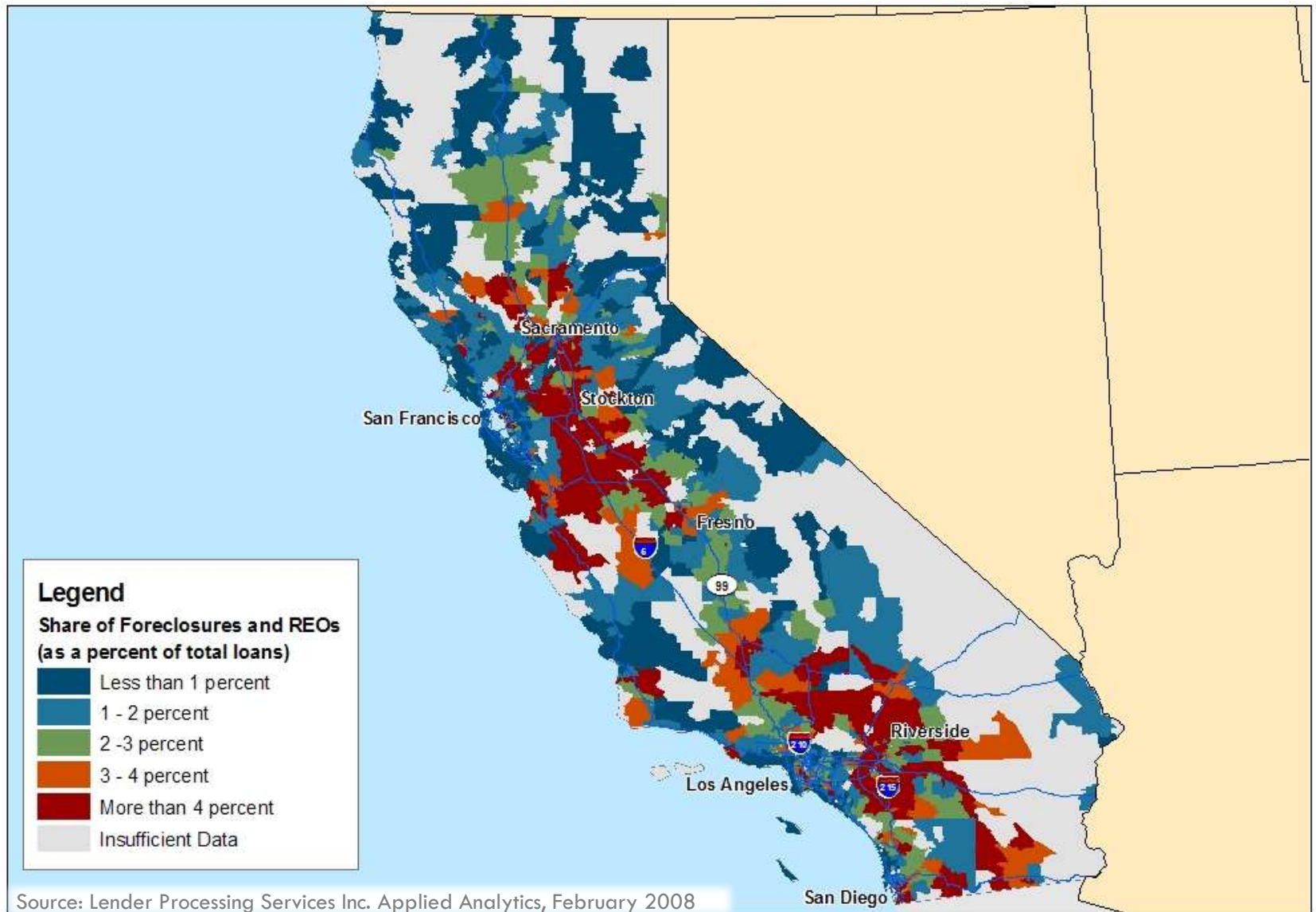
## Areas Affected by Concentrated Foreclosures

November 2008



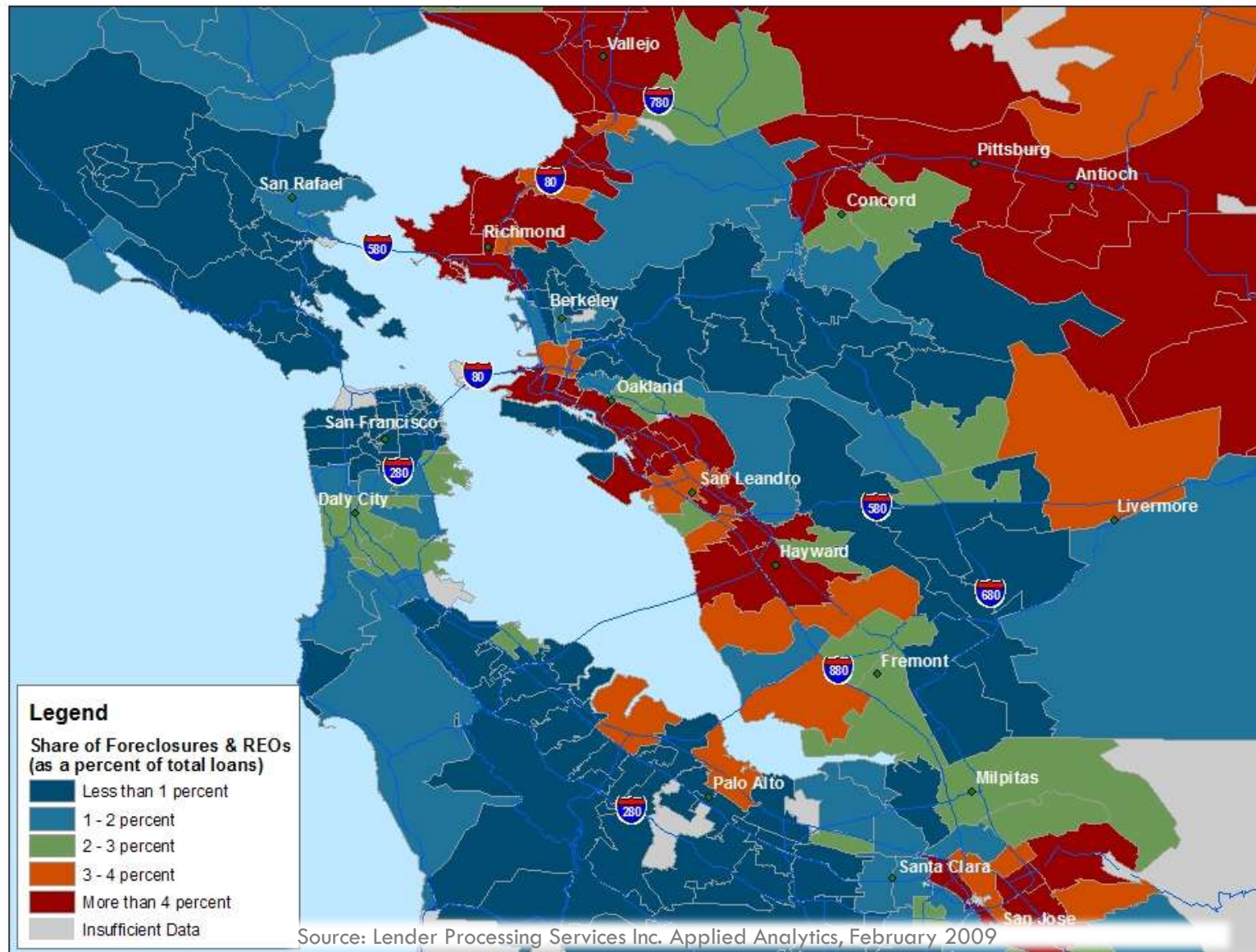
# Areas Affected by Concentrated Foreclosures

February 2009



Source: Lender Processing Services Inc. Applied Analytics, February 2008

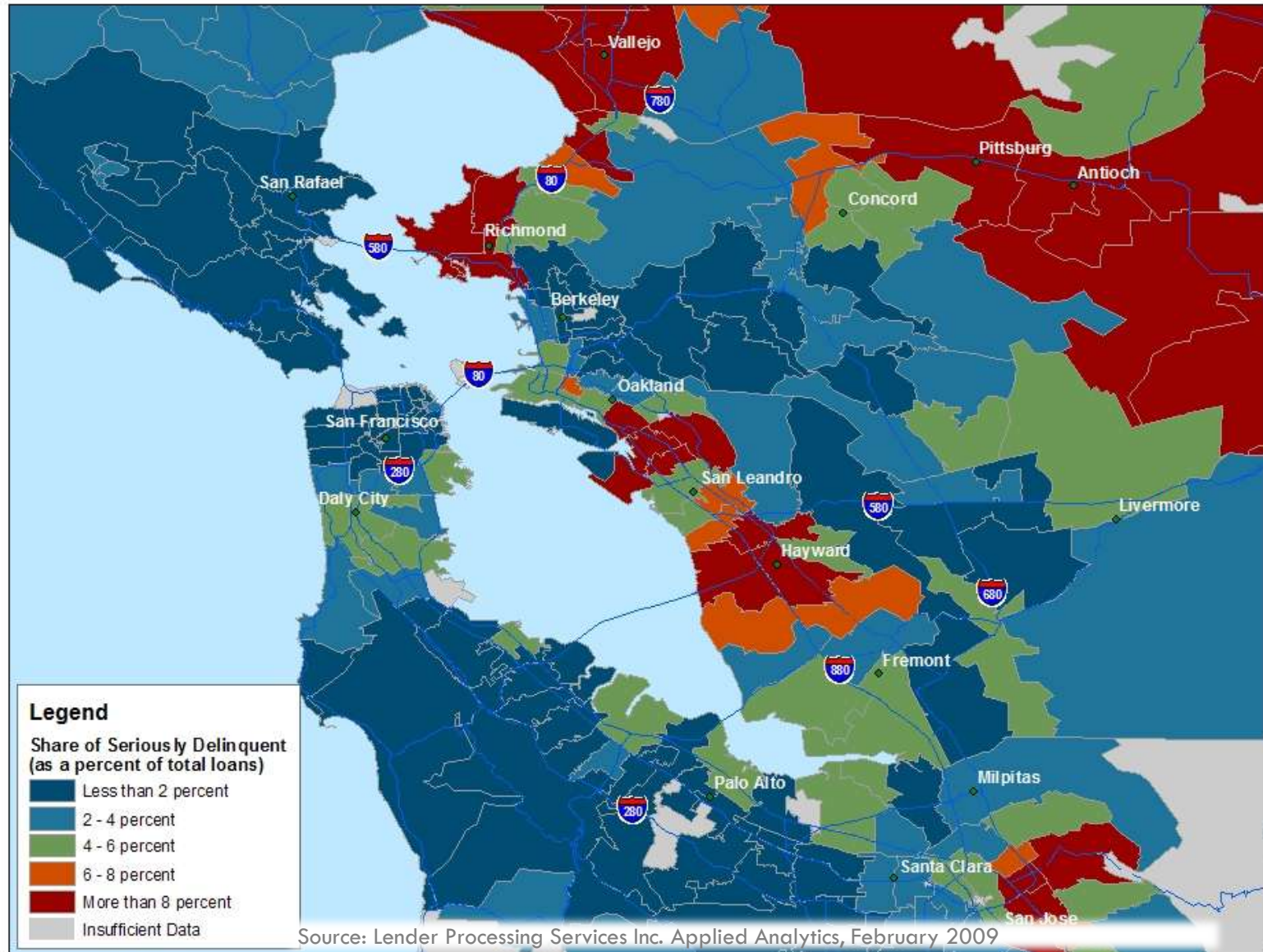
## Neighborhoods Affected by Concentrated Foreclosures February 2009





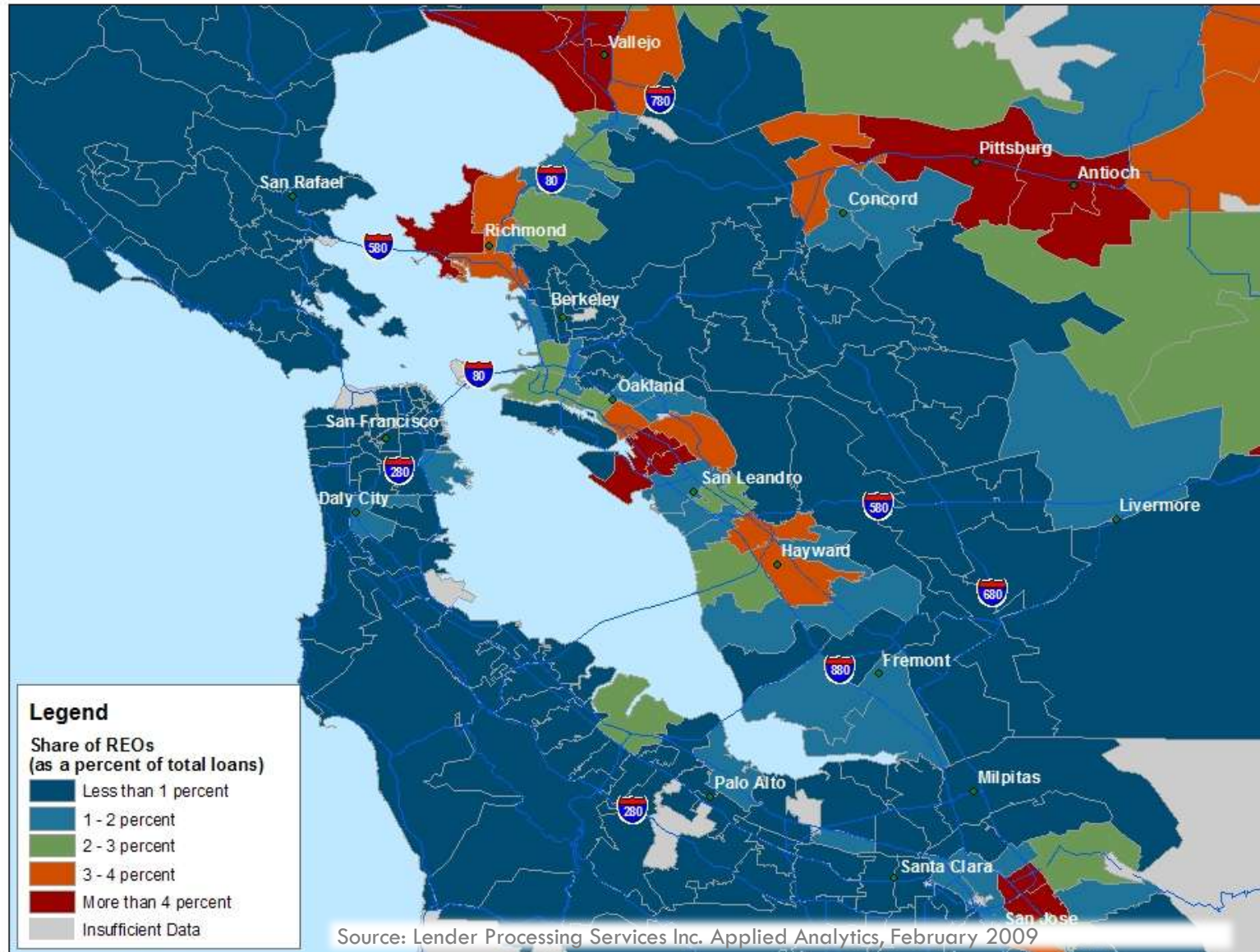
# Neighborhoods at Risk of Additional Foreclosures

February 2009



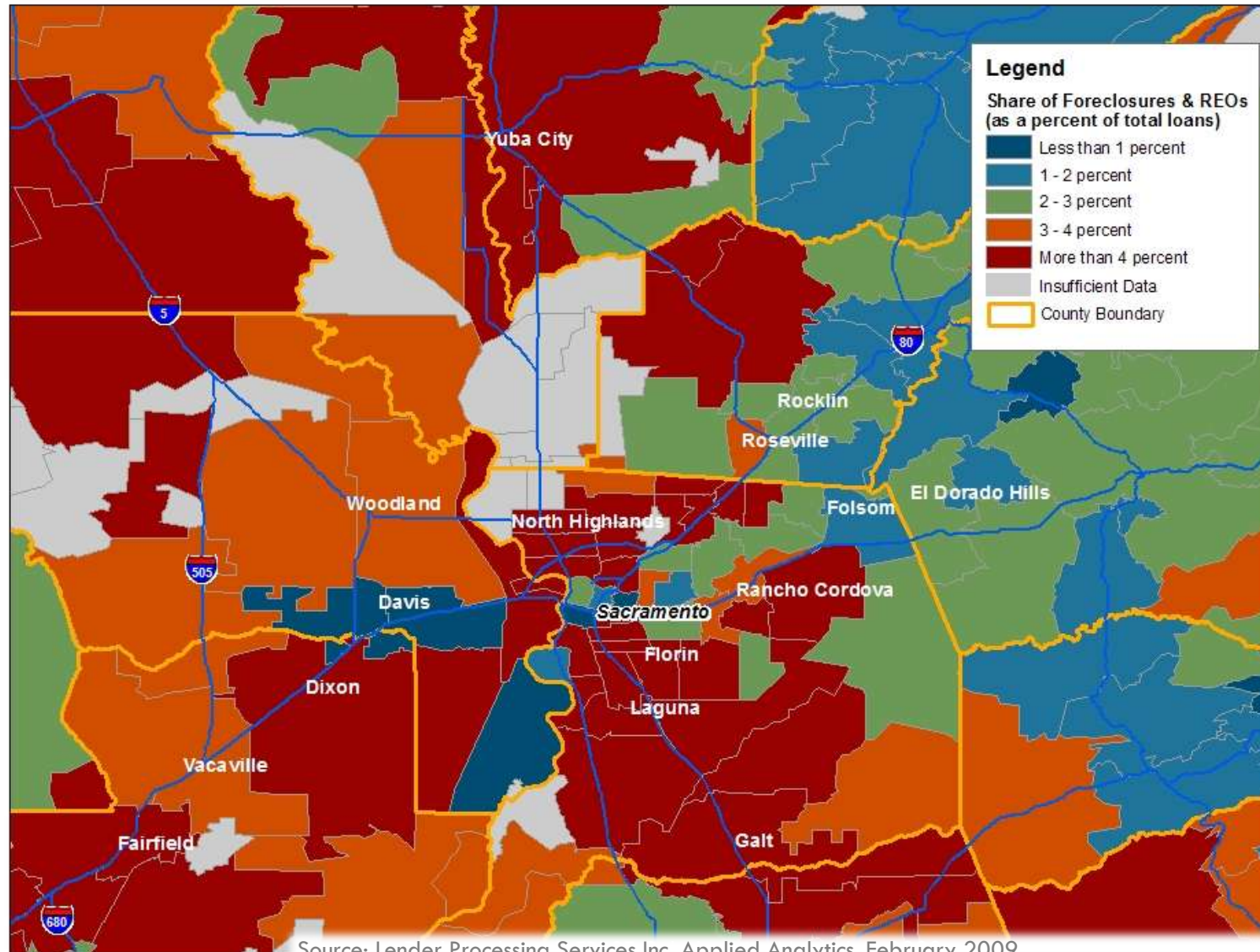
# Concentration of REO Properties

February 2009

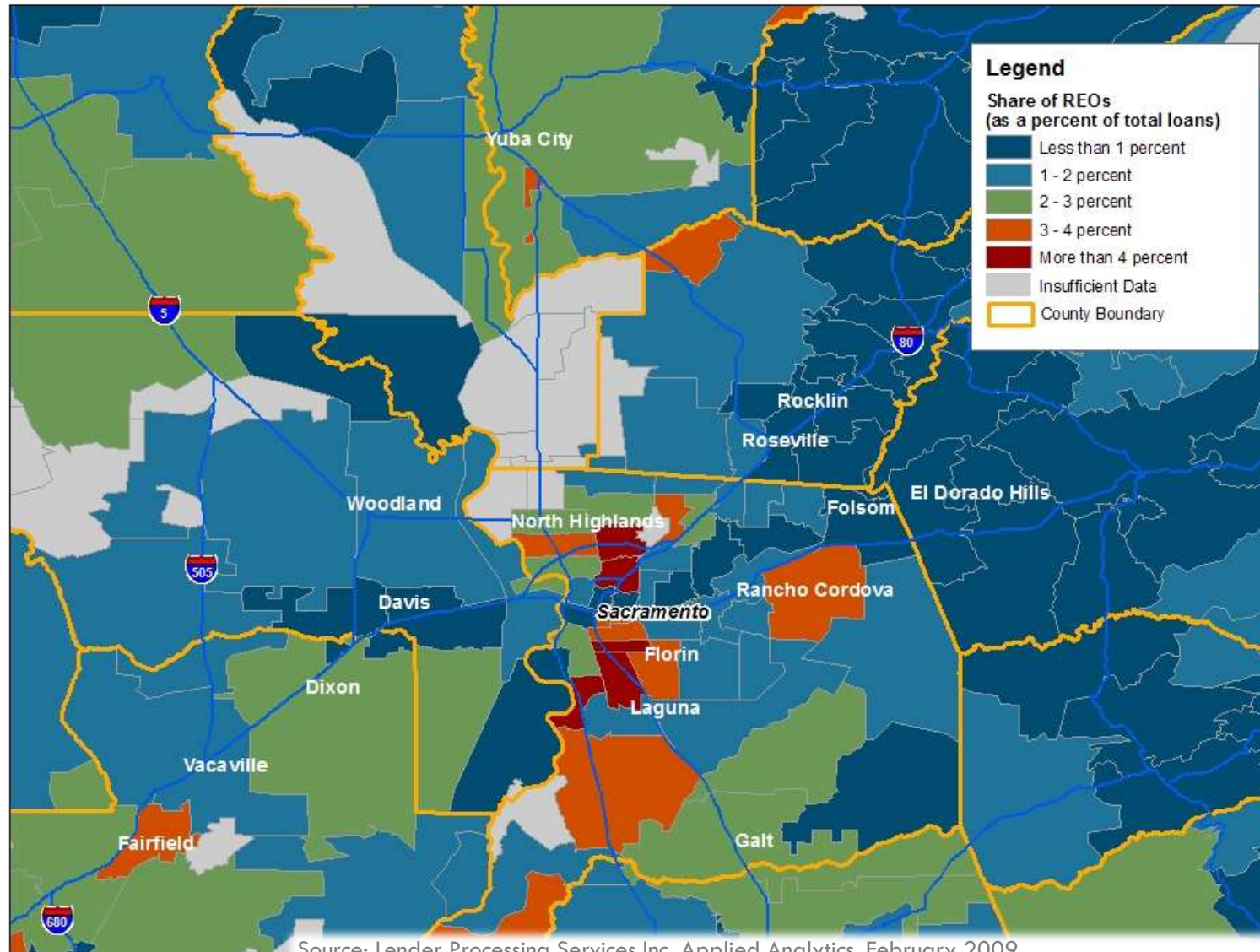




## Neighborhoods with Concentrations of Foreclosures February 2009



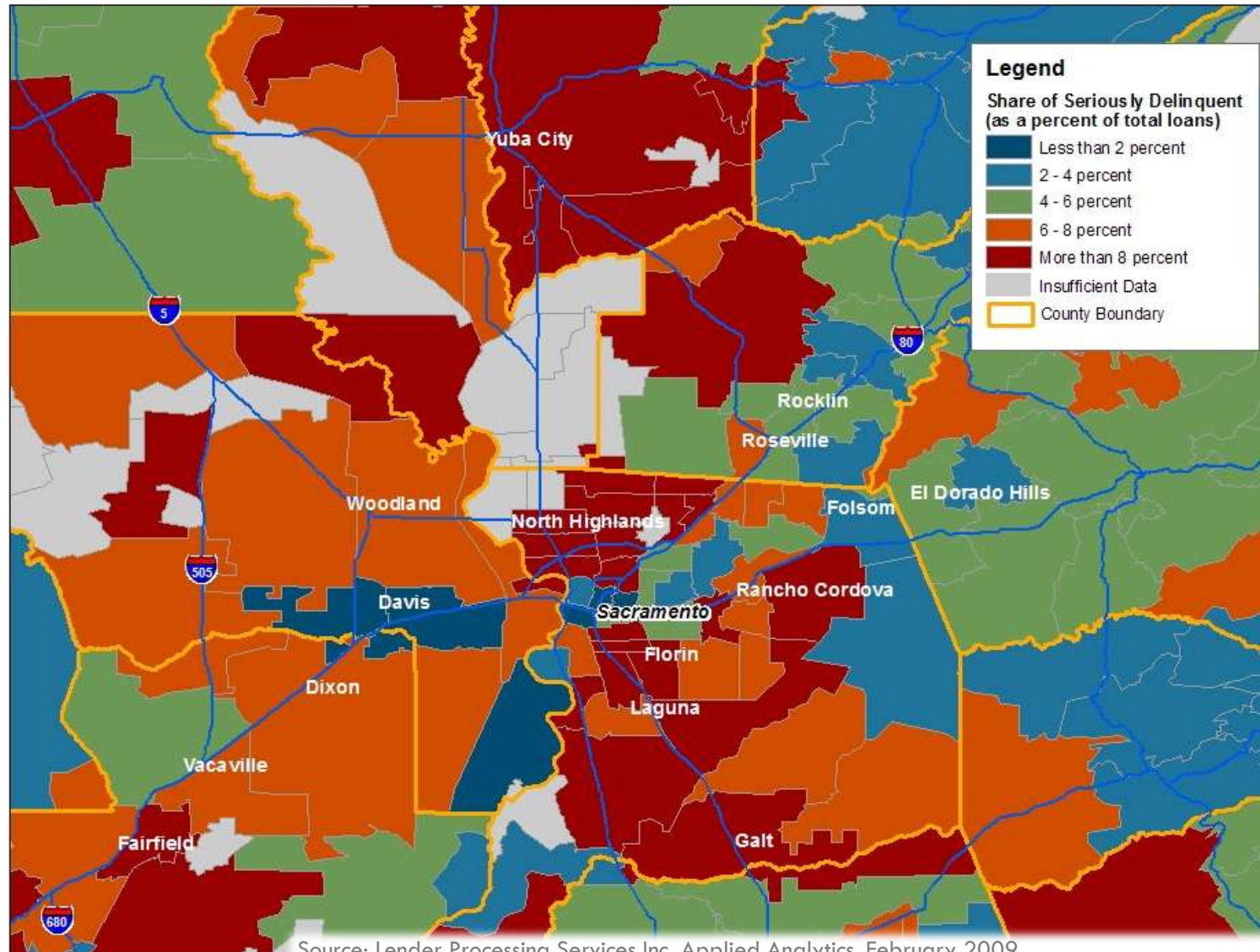
## Concentration of REO Properties February 2009



Source: Lender Processing Services Inc. Applied Analytics, February 2009

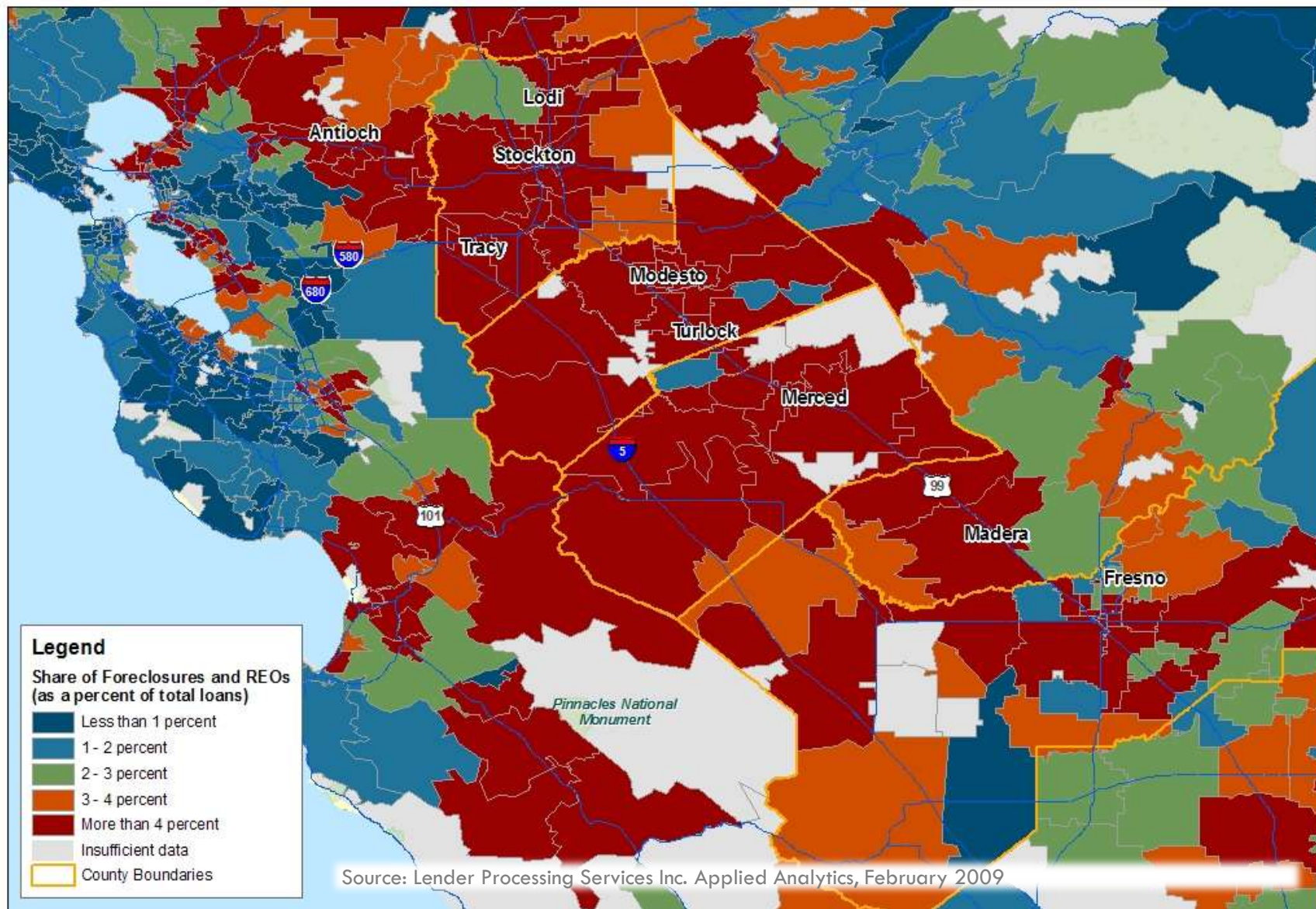


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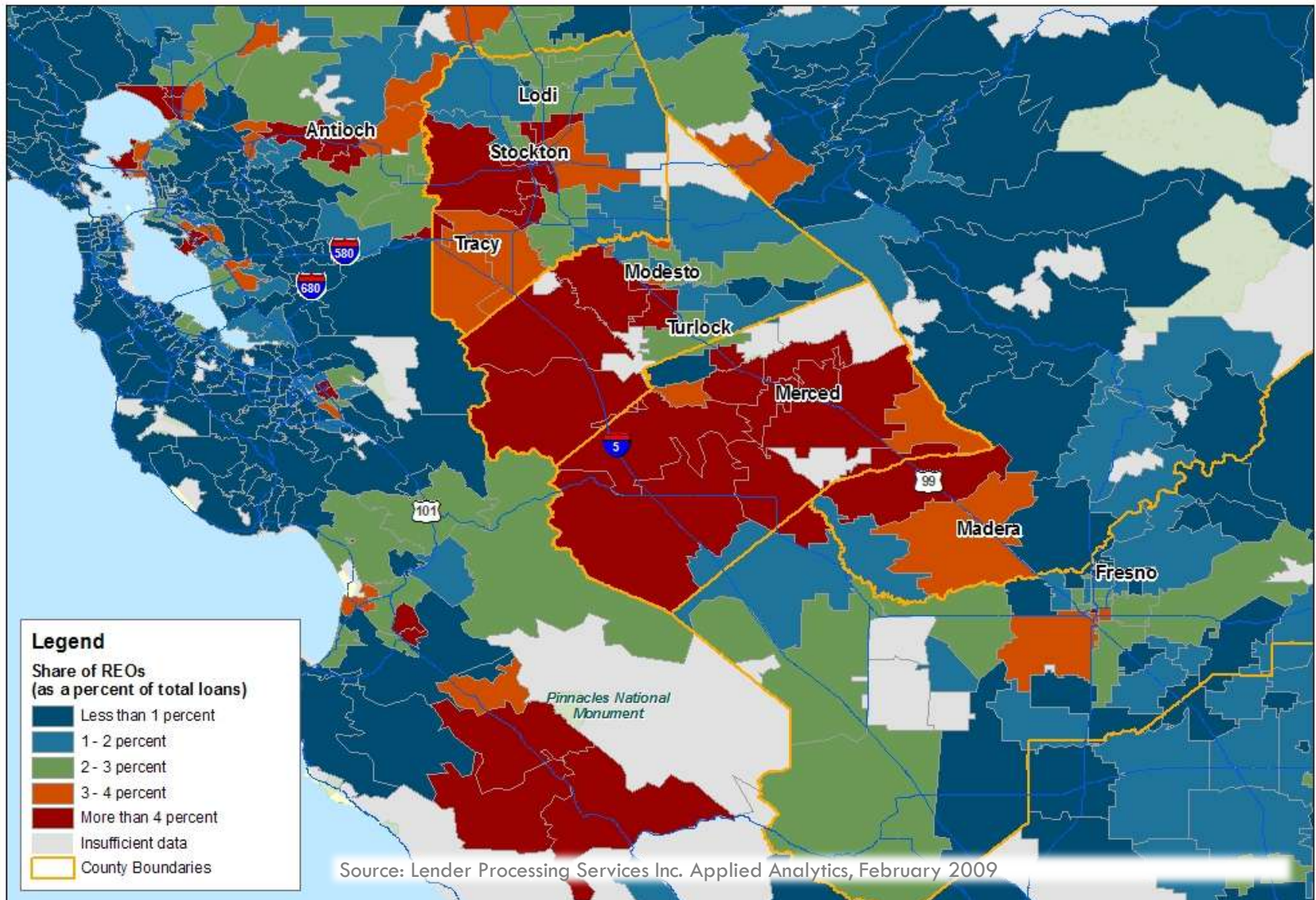
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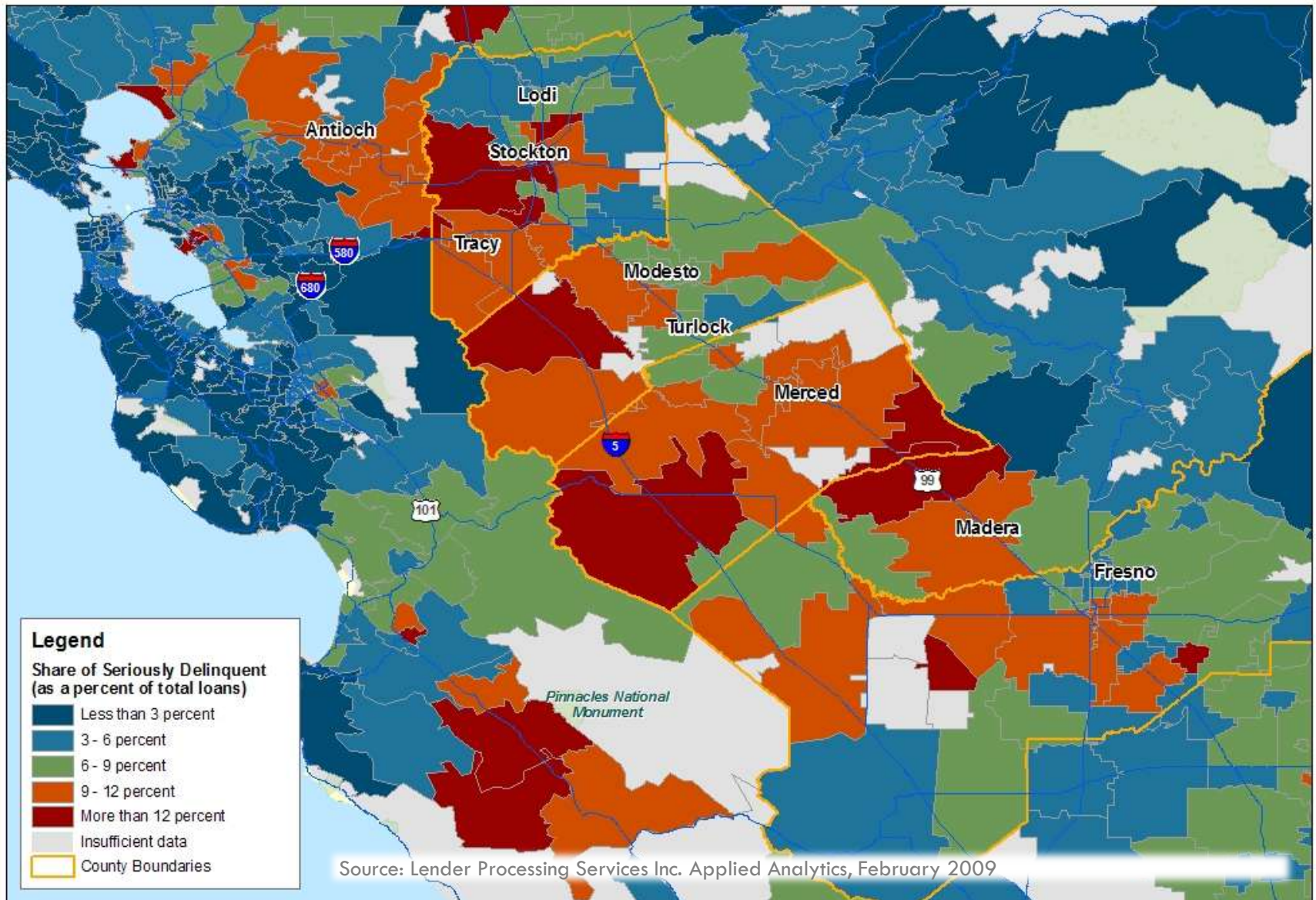
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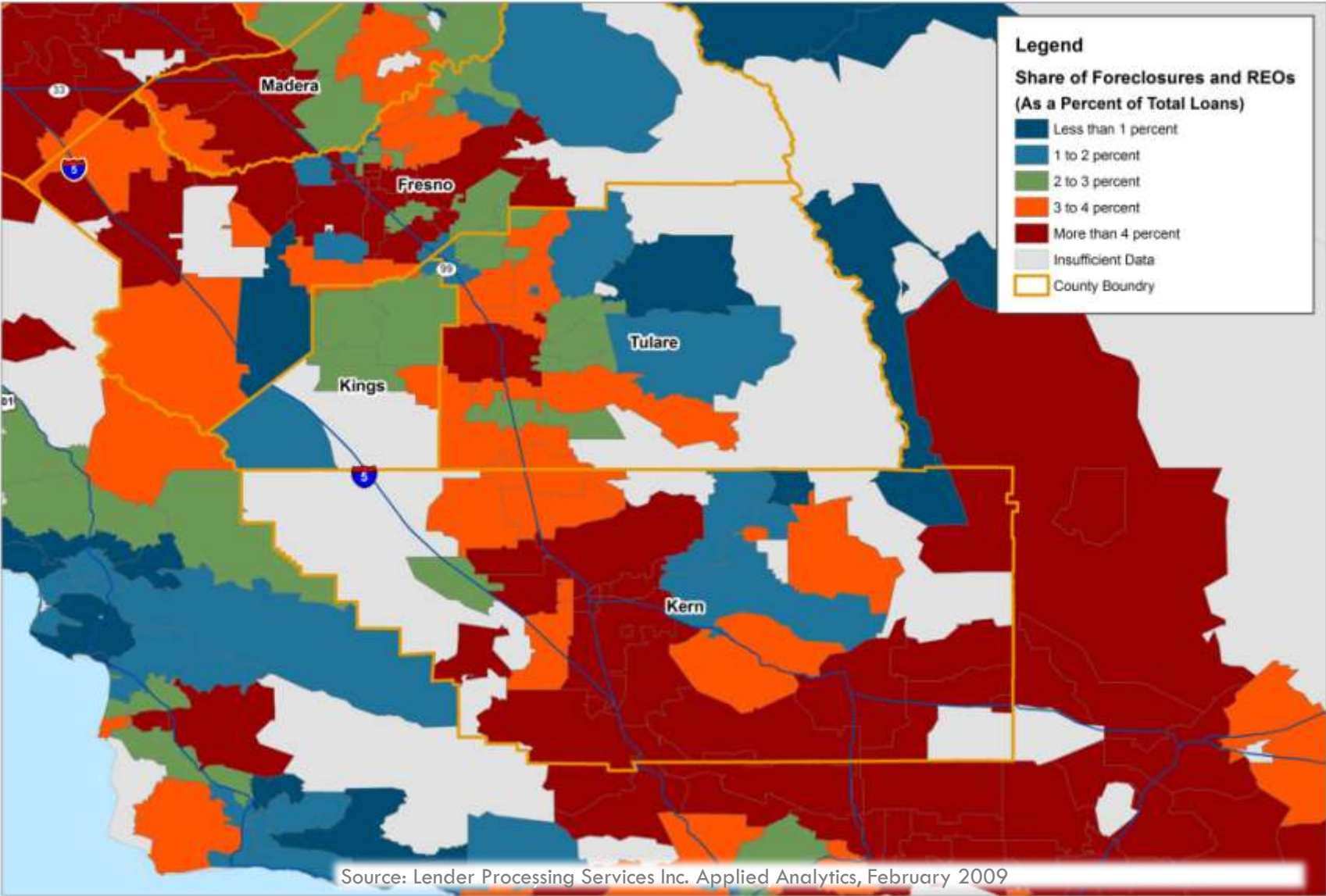
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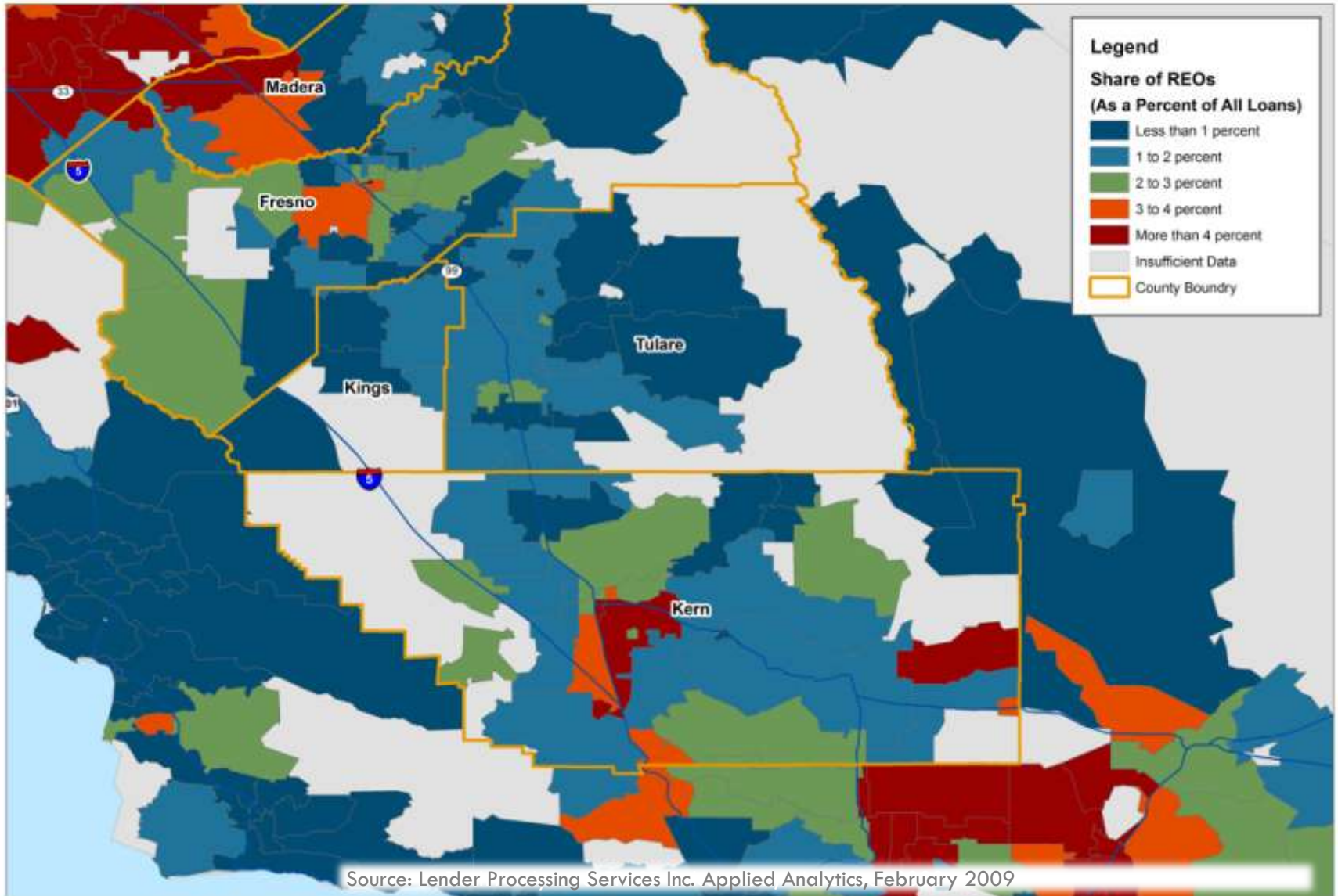
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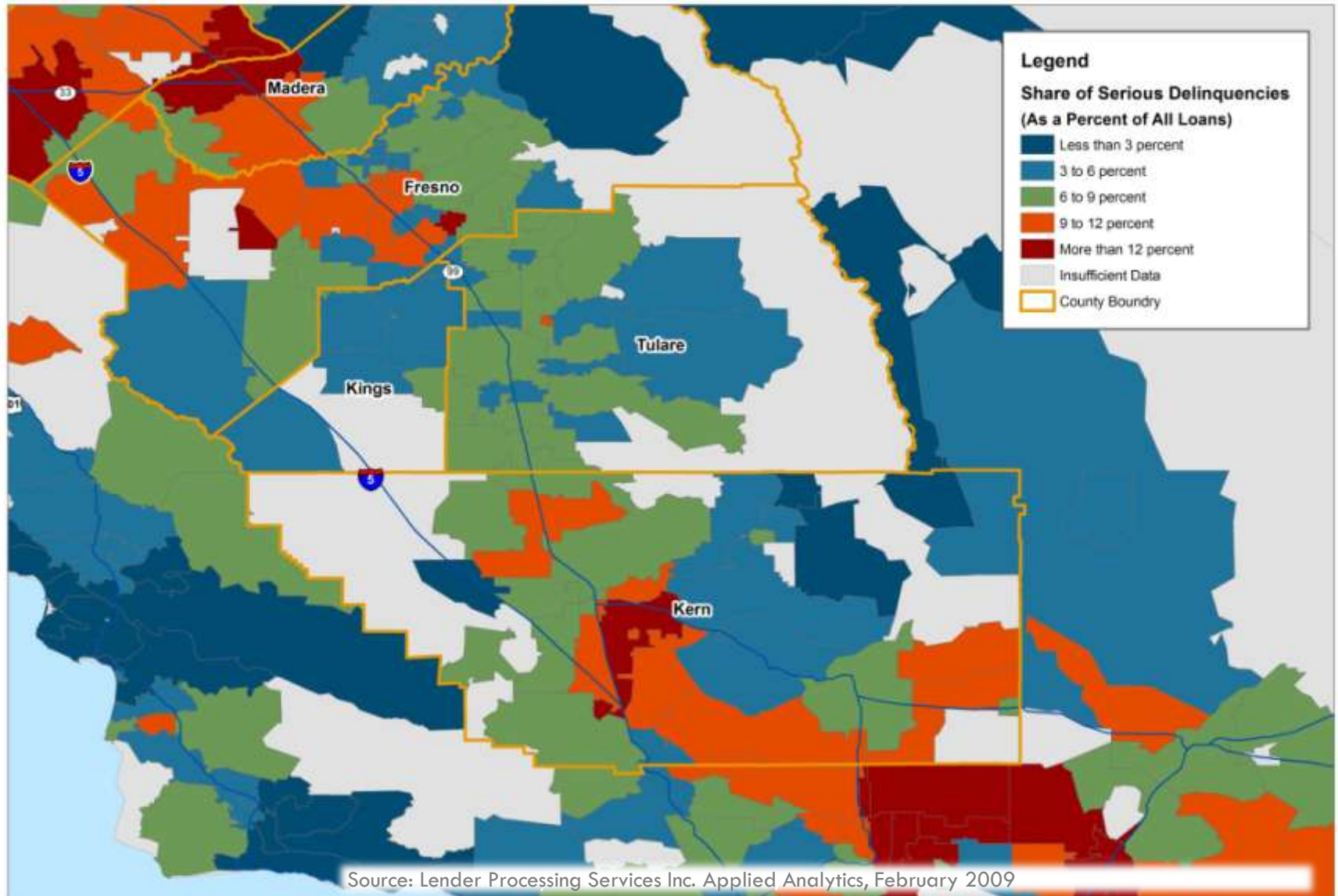
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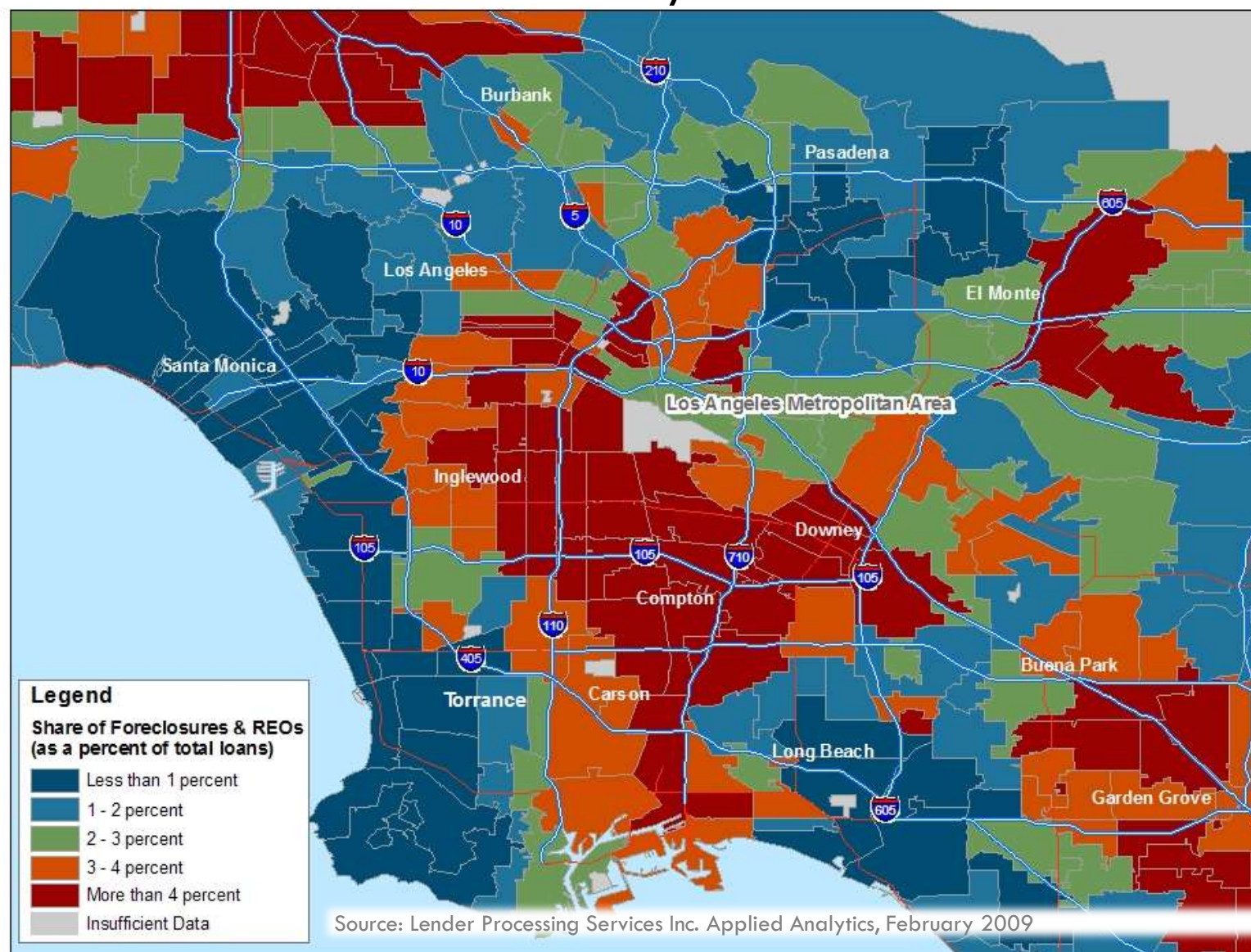
## February 2009





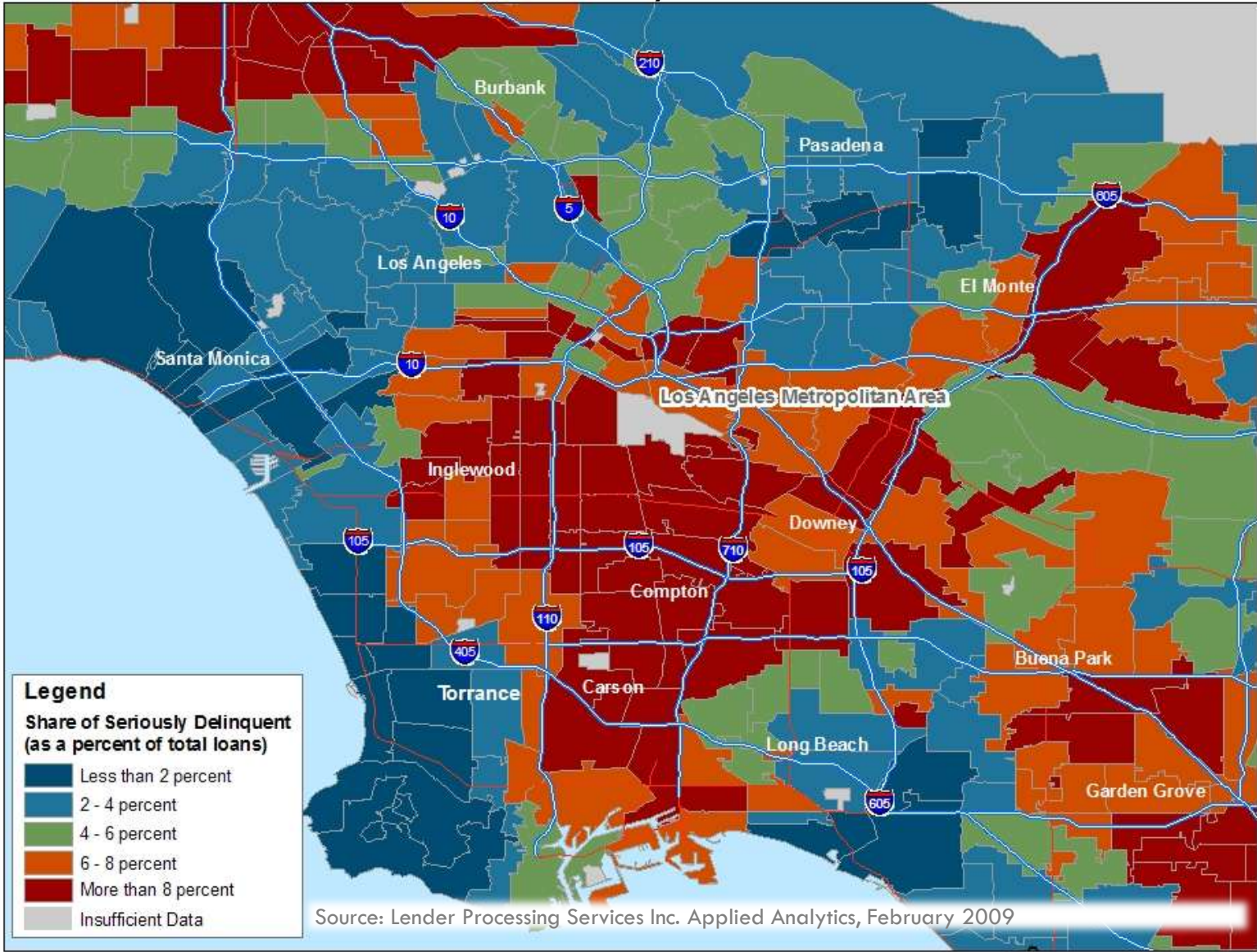
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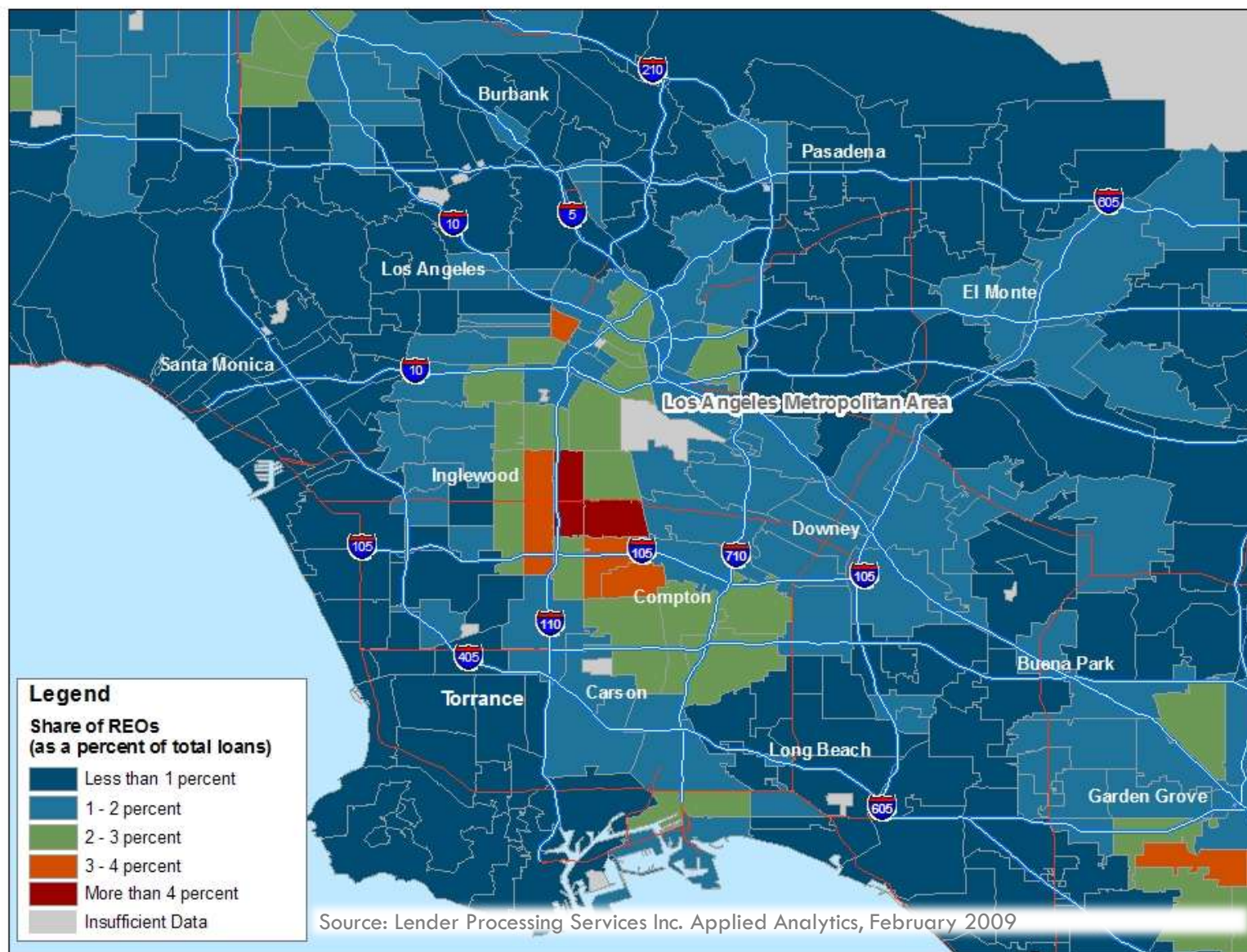
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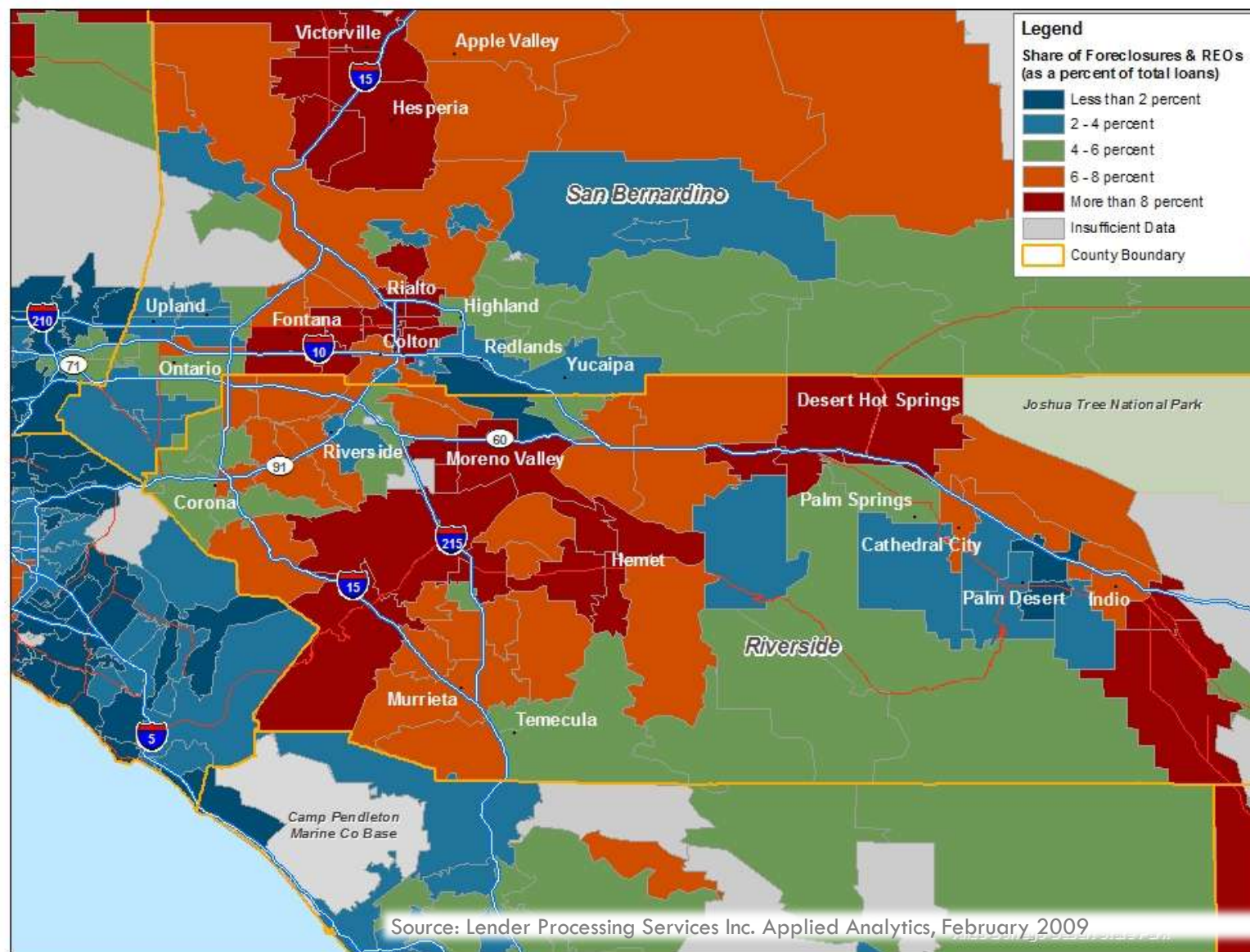
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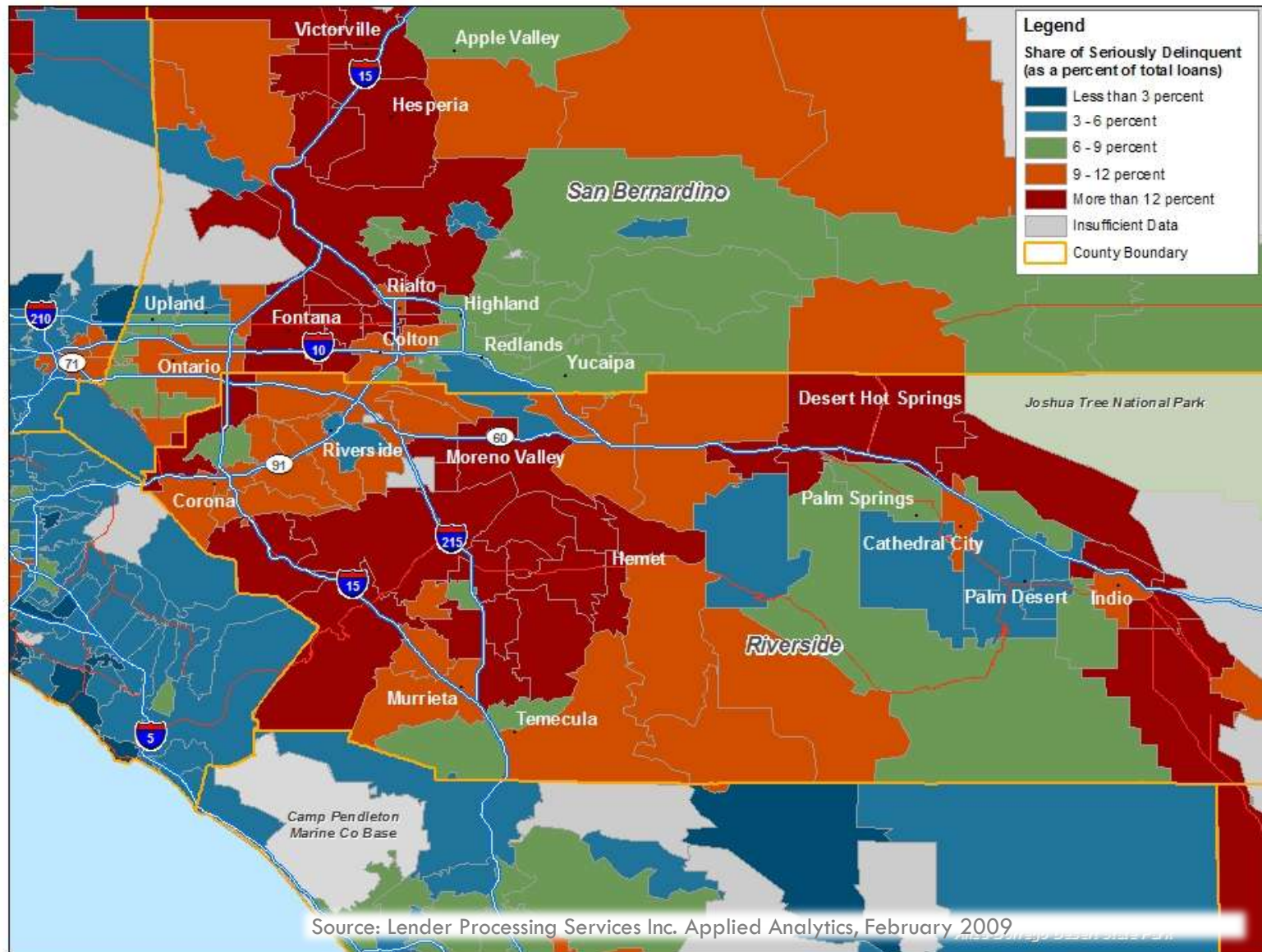
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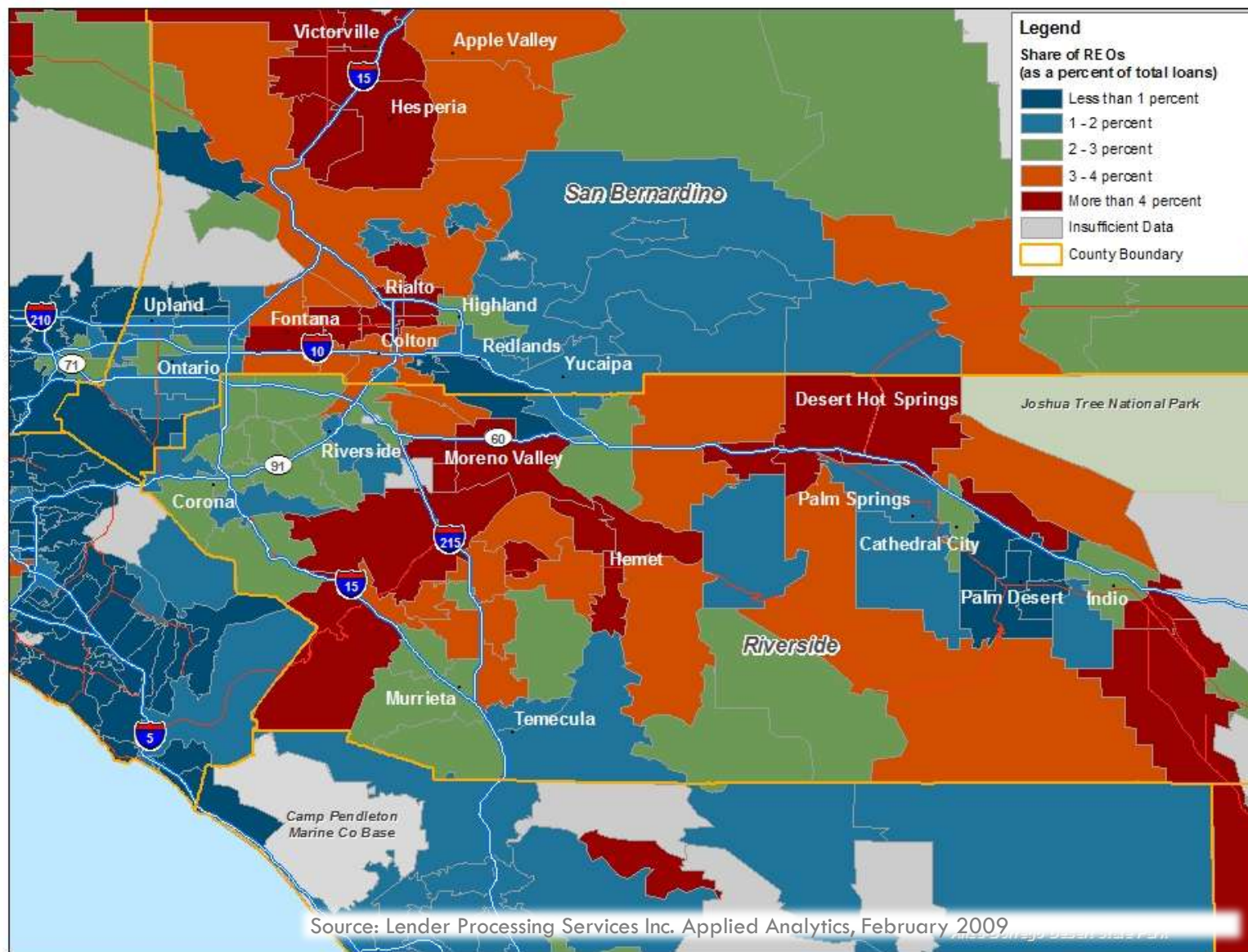
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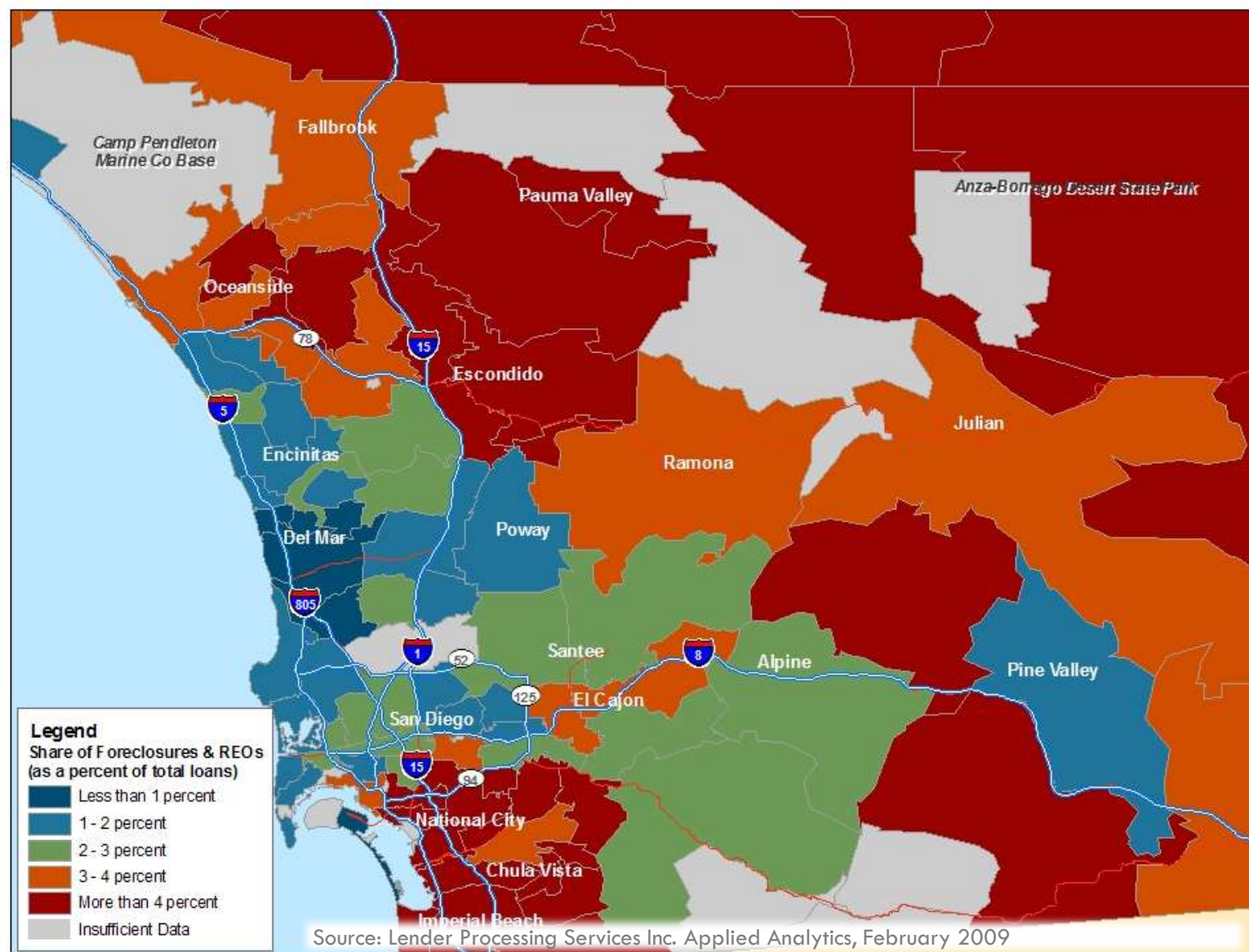
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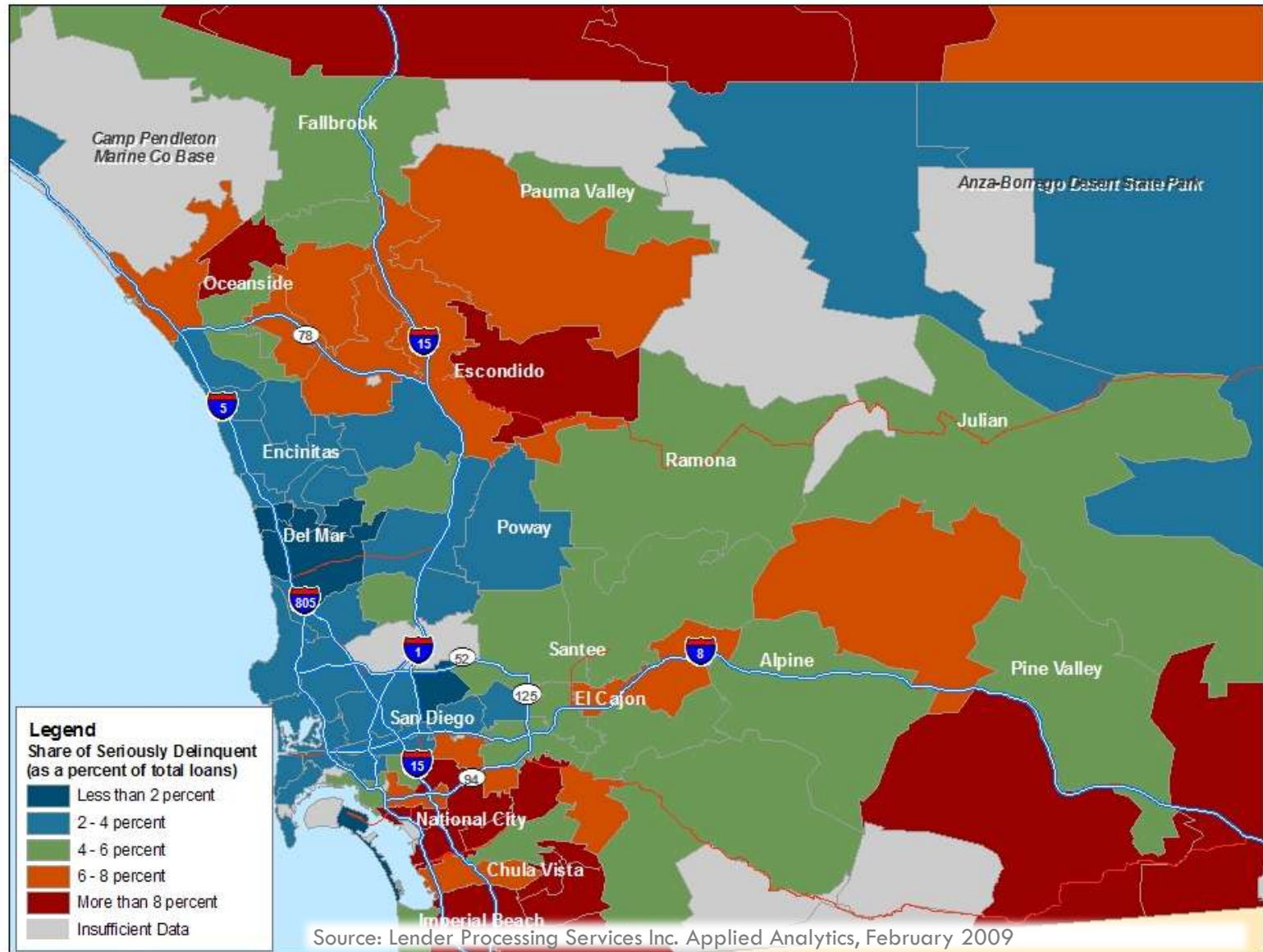
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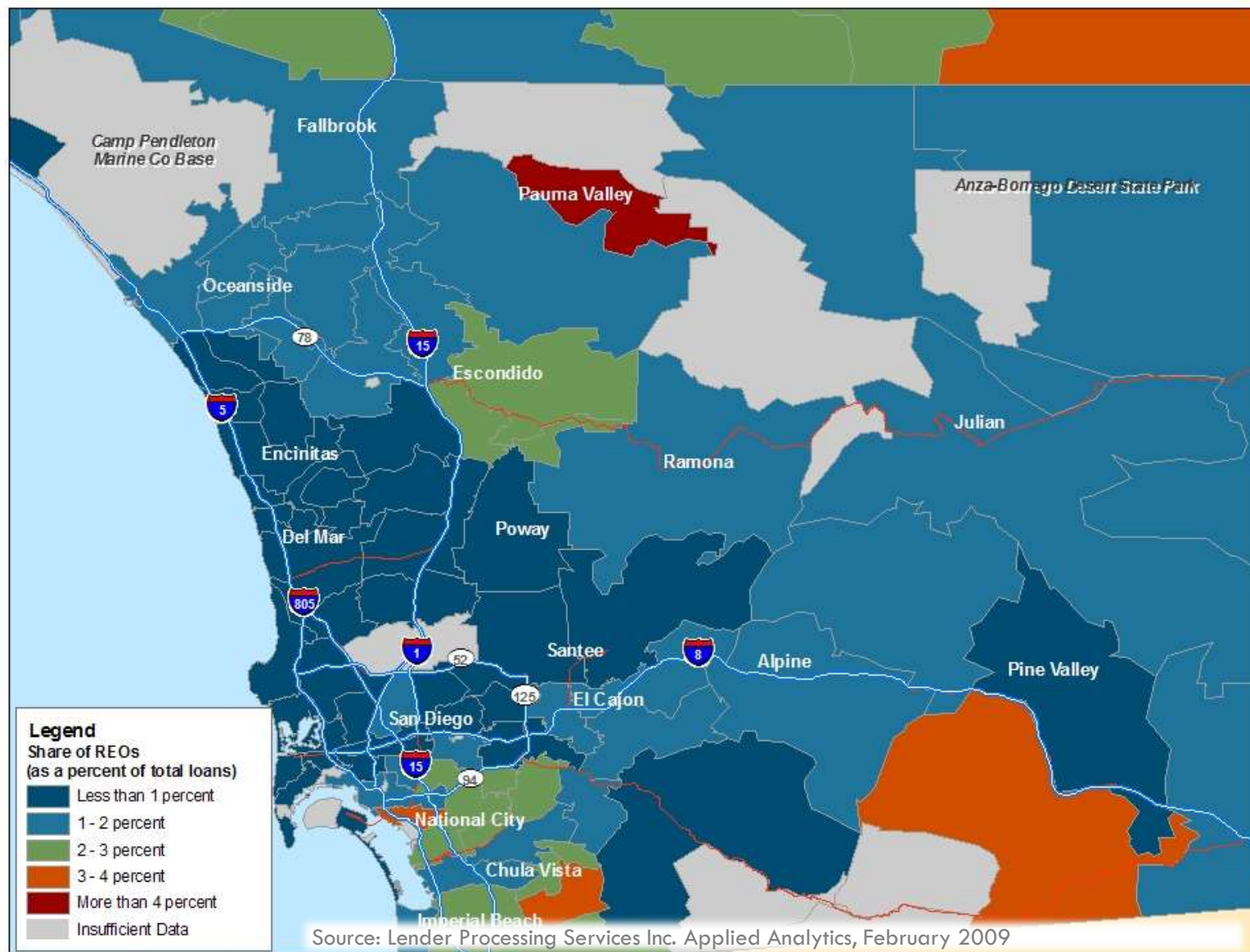
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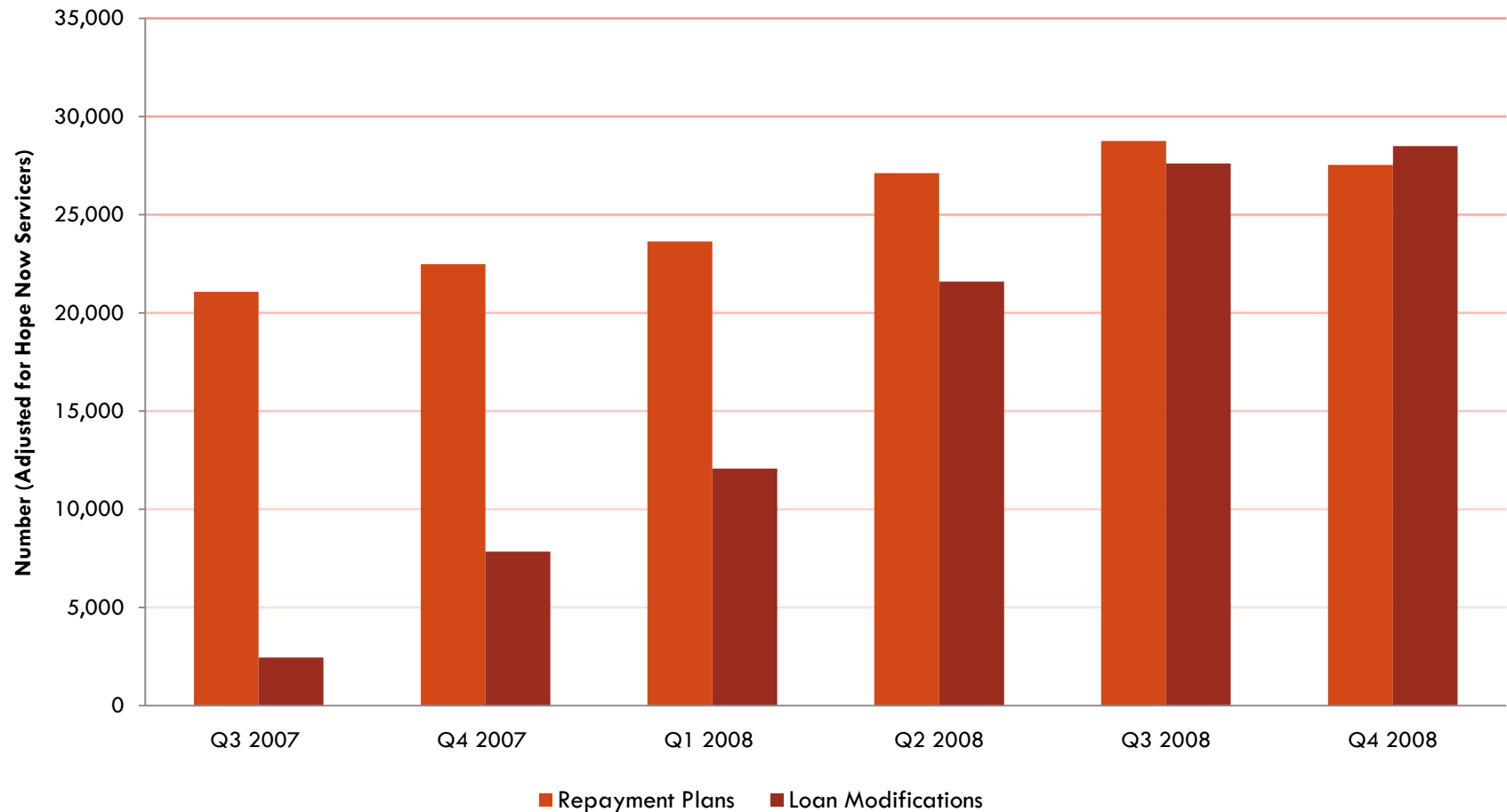
November 2008





# Loan workouts reach approximately 55,000 borrowers each quarter

## California Loan Workouts

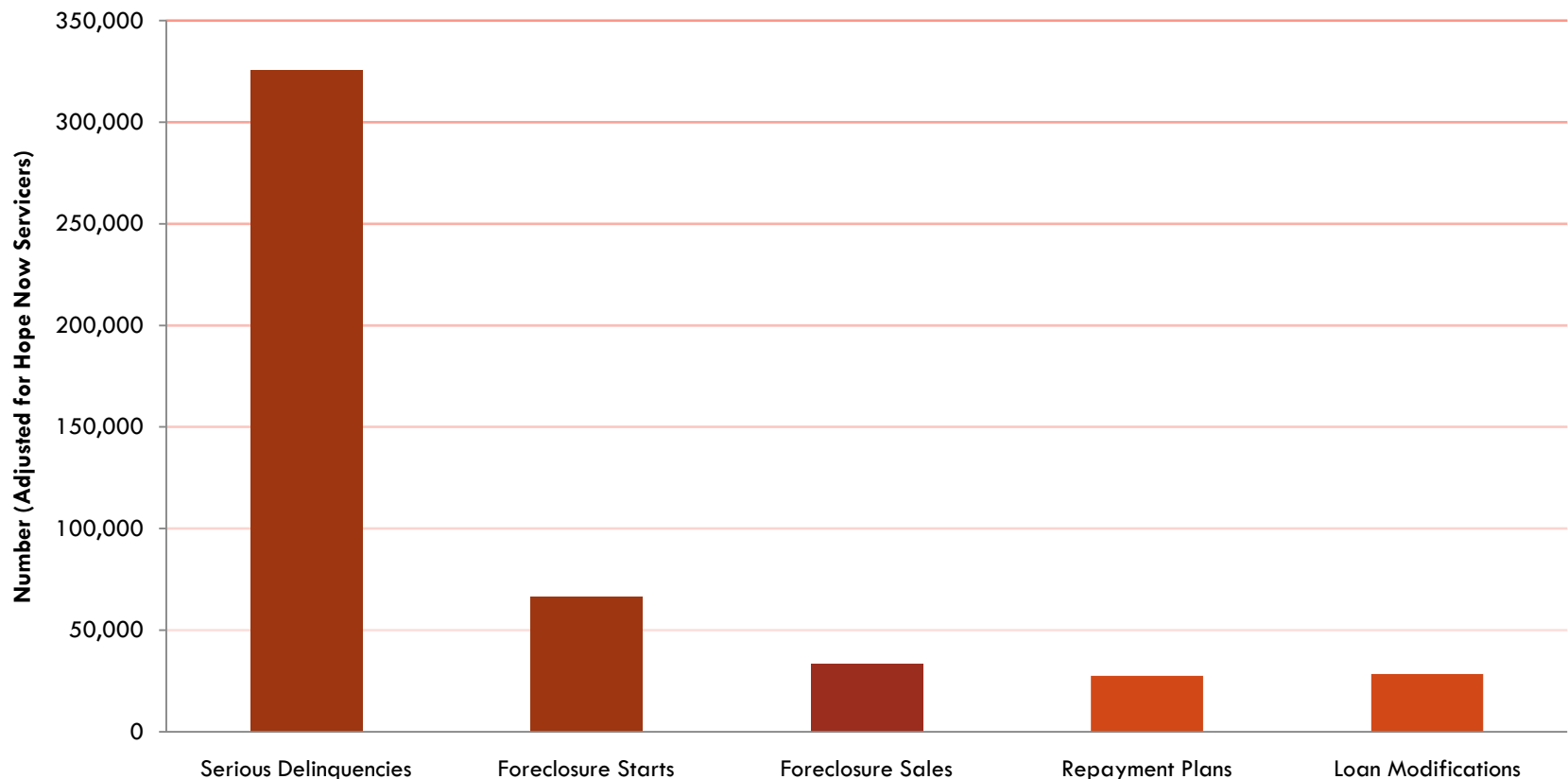


Source: Hope Now Alliance Servicing Data, 4th Quarter 2008



Yet, still more than 300,000 borrowers in California were seriously delinquent on their mortgage in 4<sup>th</sup> Qtr 2008

### Foreclosure & Delinquencies v. Loan Workouts in California 4th Quarter 2008



Source: Hope Now Alliance Servicing Data, 4<sup>th</sup> 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](http://www.995hope.org)

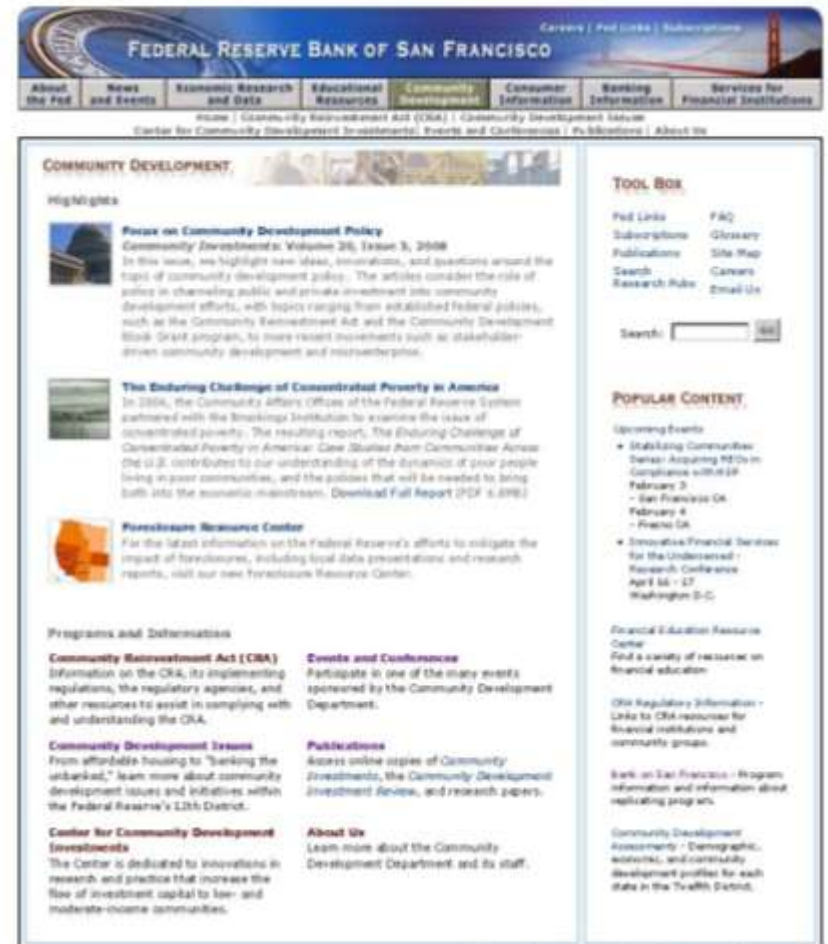
# Conclusions

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- ❑ 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/>