TRENDS IN DELINQUENCIES AND FORECLOSURES IN HAWAII

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Craig Nolte, Community Development Department, Federal Reserve Bank of San Francisco
Outline of Presentation

- National Trends
  - Recession and turmoil in financial markets has had broad repercussions, especially for lower-income households
    - Signs of stabilization in financial markets and consumer spending
  - Trends in foreclosures
    - Hawaii has seen a rapid and steep increase in foreclosure starts
    - Housing market continues to soften

- Hawaii
  - Rising unemployment across broad range of sectors
    - Ongoing weakness in the labor market may continue to push up foreclosures and poses risks to the recovery of the housing sector
National Trends
Weakness in Labor Market Grave Concern

U.S. Unemployment Rate

Source: Bureau of Labor Statistics
National Foreclosure Starts Rose Sharply in 1st Quarter of 2009

Source: Mortgage Bankers Association, National Delinquency Survey
In Last 2 Years, Foreclosure Crisis Has Spread Beyond “Rust Belt” Cities

June 2007
In Last 2 Years, Foreclosure Crisis Has Spread Beyond “Rust Belt” Cities

June 2009

[Map showing foreclosure data across the United States in June 2009, with a legend indicating the percentage of loans in foreclosure and REO.]
House Prices Rose Slightly in 2nd Quarter 2009

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

Source: Case - Shiller Home Price Index
# How Does This Compare to Great Depression?

<table>
<thead>
<tr>
<th></th>
<th>Current Crisis</th>
<th>The Great Depression</th>
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<tbody>
<tr>
<td>GDP decline</td>
<td>3.9%</td>
<td>36%</td>
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<tr>
<td>Unemployment</td>
<td>9.4%</td>
<td>25%</td>
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<td>Stock Market decline</td>
<td>48%</td>
<td>87%</td>
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<tr>
<td>Mortgage Delinquency</td>
<td>10.5%</td>
<td>50%</td>
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<tr>
<td>Bank Failures</td>
<td>100 Thousands</td>
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Source: FRBSF and Haver Analytics, as of July 2009.
And Certain Market Indicators are Looking Up

- Financial markets are improving, and the crisis mode that has characterized the past year is subsiding.

- The housing sector, which has been at the center of the economic and financial crisis, also looks to be stabilizing—albeit, at a very depressed level. Housing starts and new home sales have leveled off, and existing home sales have edged up in recent months.

- Income from the federal fiscal stimulus, as well as some improvement in confidence, has helped stabilize consumer spending. Since consumer spending accounts for two-thirds of all economic activity, this is a key precondition for economic recovery.
Nevertheless, Recession is Likely to Have Long-Lasting Impacts, Especially for Lower-Income Families

- 48 states face significant budget shortfalls, and are cutting public services such as health benefits for children and public education.

- Tightening lending standards will make it more difficult for families and small businesses to access credit: the Federal Reserve’s quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices found that 65 percent reported tightened standards for the fourth quarter of 2008.

- CDFIs are increasingly facing liquidity constraints; their borrowers are in more need of ‘patient’ capital at the same time it is becoming harder to provide it.
Hawaii Trends
Hawaii and the Economic Crisis

- Hawaii has been somewhat insulated from the severe housing and foreclosure crisis that has hit other 12th District states like Arizona, California, and Nevada
  - In 2007 and 2008, relatively low rates of foreclosure
  - Modest house price declines
  - Lower unemployment than US

- However, recent data show that Hawaii is starting to see stronger effects, and trends point to significant difficulties in labor and housing market
Unemployment Rate Rising Steeply in 1st Half of 2009

Source: Bureau of Labor Statistics
Real Estate Market Continues to Soften

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

Source: Federal Housing Finance Agency (formerly OFHEO)
Hawaii Seeing Rapid Increase in Foreclosure Starts, Approaching National Average for First Time

Foreclosure Starts (Percent of All Loans)

Source: Mortgage Bankers Association, National Delinquency Survey
Foreclosure Rate Doubled over Last 3 Quarters

Hawaii: Foreclosure Starts

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

- ARM
- Option ARM
- Interest Only (Fixed and ARM)
- Jumbo

Percent of Total Current Loans

Hawaii
US
Hawaii Foreclosure Maps
Areas Affected by Concentrated Foreclosures

June 2008

Legend
Percent of Loans in Foreclosure and REO
- 0 percent
- Less than 1 percent
- 1 - 2 percent
- 3 - 5 percent
- More than 5 percent
- Insufficient Data

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

June 2009

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations
Areas at Risk of Additional Foreclosures

June 2009

Legend
Percent of Loans Seriously Delinquent
- Less than 1.2 percent
- 1.2 - 2.8 percent
- 2.8 - 4.2 percent
- 4.2 - 7.2 percent
- More than 7.2 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations
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](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/