TRENDS IN DELINQUENCY AND FORECLOSURES IN HAWAII

January 2009

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

- National Trends
  - Rising foreclosures
  - House price declines
  - Rising unemployment

- Hawaii
  - Trends in foreclosure
    - Increase in delinquencies and signs of borrower distress
  - Housing market softening
  - Rising unemployment, especially in tourism industry
  - 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 3rd 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 3rd Quarter of 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Nationally, House Prices Continue to Decline

Source: Case-Shiller Home Price Index, 3rd Q 2008
Recession Marks Significant Jump in National Unemployment Insurance Claims

Source: Haver Analytics and FRBSF Calculations, annual percent change, 2000 Q3 - 2008 Q3
Hawaii Trends
Foreclosures in Hawaii Have Risen Significantly, but Still Below US Average

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Yet Unlike National Trends, Hawaii Saw a Continued Increase in Foreclosure Starts in 3rd Quarter 2008

Source: Mortgage Bankers Association, National Delinquency Survey, 3rd Q 2008
Softenning of Real Estate Market

Source: Federal Housing Finance Agency (formerly OFHEO), 3rd Quarter 2008
Hawaii Saw Lower Rates of High-Cost Lending During Subprime Boom than National Average

Percent of All Borrowers with High Interest Conventional Loans, 2005

Source: Home Mortgage Disclosure Act Data, 2005
High Cost Lending in Hawaii More Prevalent Among Minority Borrowers

Hawaii: High Interest Conventional Loans by Race, 2005

Source: Home Mortgage Disclosure Act Data, 2005
Unemployment Rate on the Rise

Unemployment Rate

United States

Hawaii

# Employment by Industry

<table>
<thead>
<tr>
<th>Hawaii</th>
<th>Total Employed (thousands)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec-08</td>
<td>1-mo.*</td>
<td>3-mo.*</td>
<td>12-mo.</td>
</tr>
<tr>
<td>Total</td>
<td>612.6</td>
<td>-13.9</td>
<td>-6.0</td>
<td>-2.1</td>
</tr>
<tr>
<td>Government</td>
<td>125.6</td>
<td>-36.8</td>
<td>1.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>115.7</td>
<td>-10.7</td>
<td>-6.3</td>
<td>-4.5</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>104.8</td>
<td>1.2</td>
<td>-8.3</td>
<td>-4.2</td>
</tr>
<tr>
<td>Educational &amp; Health Srvs.</td>
<td>74.2</td>
<td>-1.6</td>
<td>-2.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Professional &amp; Business Svcs.</td>
<td>74.2</td>
<td>-16.0</td>
<td>-10.5</td>
<td>-3.3</td>
</tr>
<tr>
<td>Natural Resources, Mining &amp; Construction</td>
<td>36.7</td>
<td>-22.8</td>
<td>-19.1</td>
<td>-8.2</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>29.1</td>
<td>-11.1</td>
<td>-5.8</td>
<td>-2.9</td>
</tr>
<tr>
<td>Other Services</td>
<td>27.4</td>
<td>0.0</td>
<td>-1.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14.8</td>
<td>-14.0</td>
<td>-5.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>Information</td>
<td>9.5</td>
<td>-59.0</td>
<td>-34.4</td>
<td>-9.0</td>
</tr>
</tbody>
</table>

Significant Drop in Tourism Employment

Leisure & Hospitality
(Year-over-year percent change, monthly)

Hawaii Data Maps

Distribution of Lending Volumes
September 2007

Legend

Total Loans
- Less than 500 loans
- 500 - 1500 loans
- 1600 - 4000 loans
- 4000 - 6500 loans
- More than 6500 loans
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, September 2007
Areas Affected by Concentrated Foreclosures

September 2007

Legend
Foreclosures and REOs
September 2007
- Less than 0.5 percent
- 0.5 - 1.4 percent
- 1.4 - 2.8 percent
- 2.0 - 4.2 percent
- More than 4.2 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, September 2007
Areas Affected by Concentrated Foreclosures
April 2008

Legend
Foreclosures and REOs
April 2008
- Less than 0.5 percent
- 0.5 - 1.4 percent
- 1.4 - 2.8 percent
- 2.8 - 4.2 percent
- More than 4.2 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, April 2008
Hawaii Data Maps

Areas Affected by Concentrated Foreclosures
November 2008

Legend
Foreclosures and REOs
November 2008
- Less than 0.5 percent
- 0.5 - 1.4 percent
- 1.4 - 2.8 percent
- 2.8 - 4.2 percent
- More than 4.2 percent
- Insufficient Data

Source: Lender Processing Services Inc. Applied Analytics & FRBSF Calculations, November 2008
Areas at Risk of Additional Foreclosures

November 2008

Legend
Delinquencies
- Less than 1.2
- 1.2 - 2.0 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, November 2008
Loan workouts have increased

Hawaii Loan Workouts

Source: Hope Now Alliance Servicing Data, 3rd Quarter 2008
Yet, Still Fall Short of Need

Delinquencies  Foreclosures v. Loan Workouts in Hawaii

Source: Hope Now Alliance Servicing Data, 3rd Quarter 2008
Neighborhood Stabilization May Be Less of An Immediate Priority than Foreclosure Prevention

Source: McDash Analytics & FRBSF Calculations, November 2008
Conclusions
Conclusions

- Hawaii is likely to see a continued increase in delinquencies and foreclosures
- Multi-pronged strategy is needed to stem foreclosure crisis, but for Hawaii foreclosure prevention should be top priority
  - 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/