

# 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

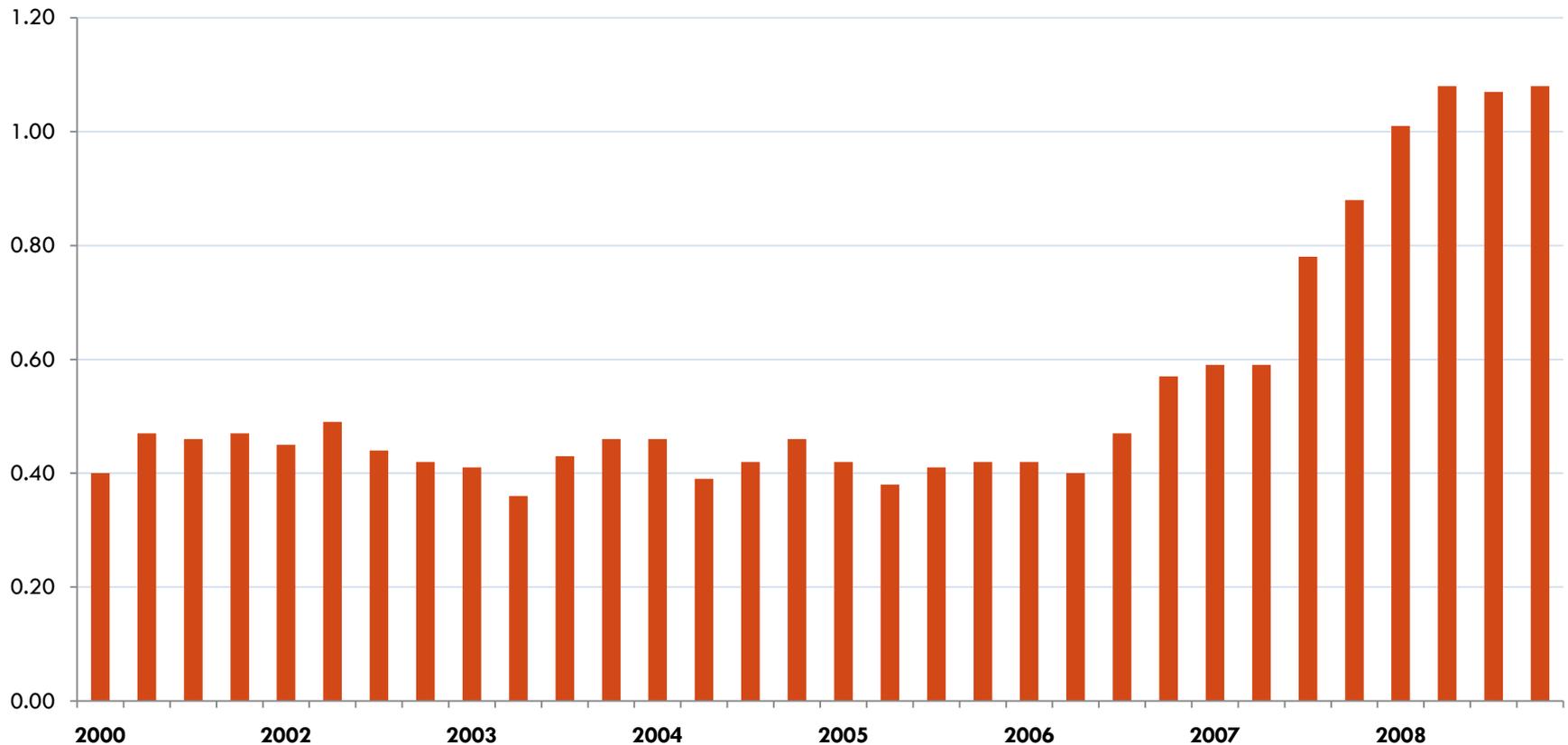
# National Trends

# 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

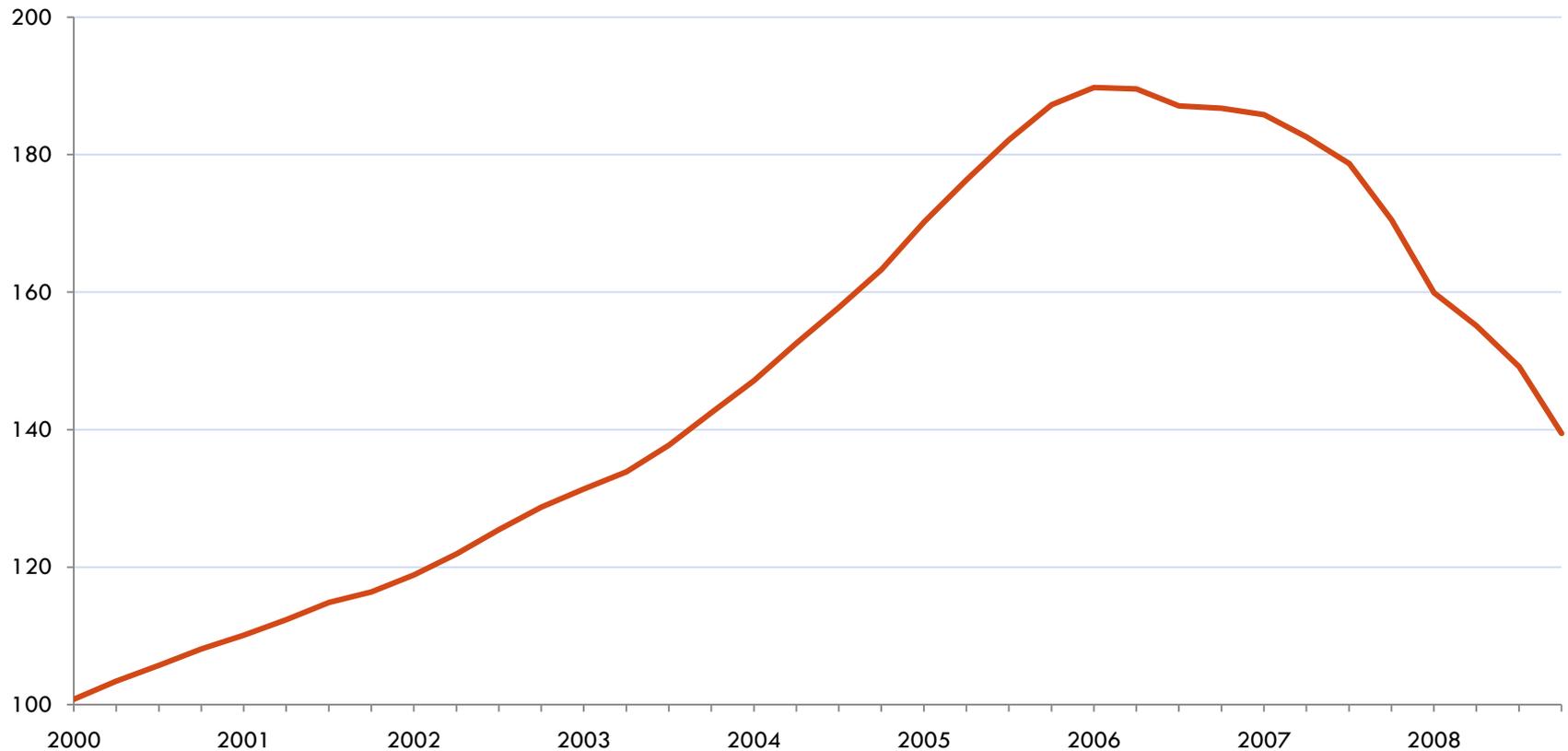
**National Foreclosures Starts**  
Percent of All Loans



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

# Nationally, House Prices Continue to Decline

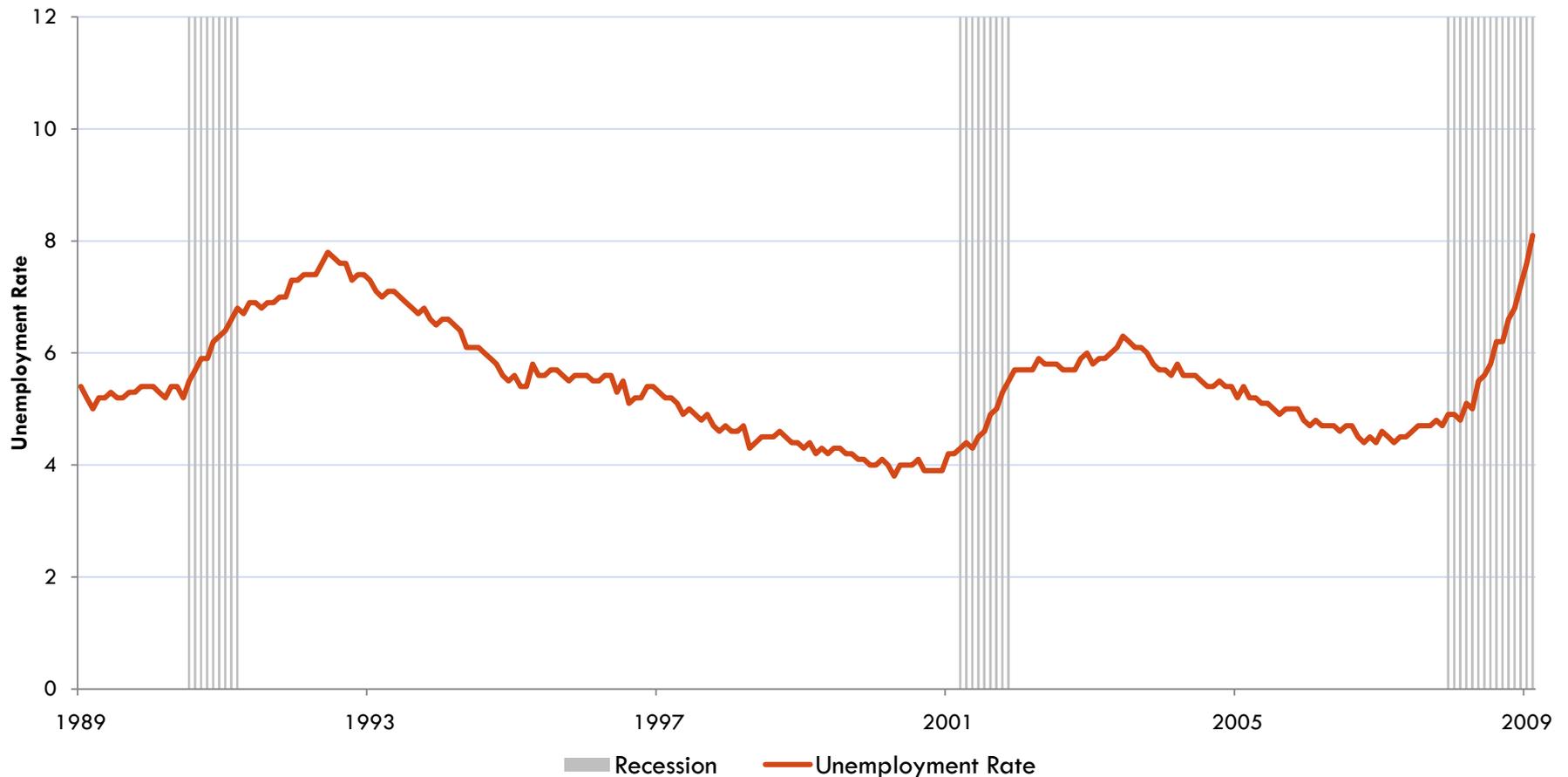
**Case-Shiller National House Price Index**  
(2000 = 100, quarterly)



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

# Recession Marks Significant Jump in Unemployment

## U.S. Unemployment Rate

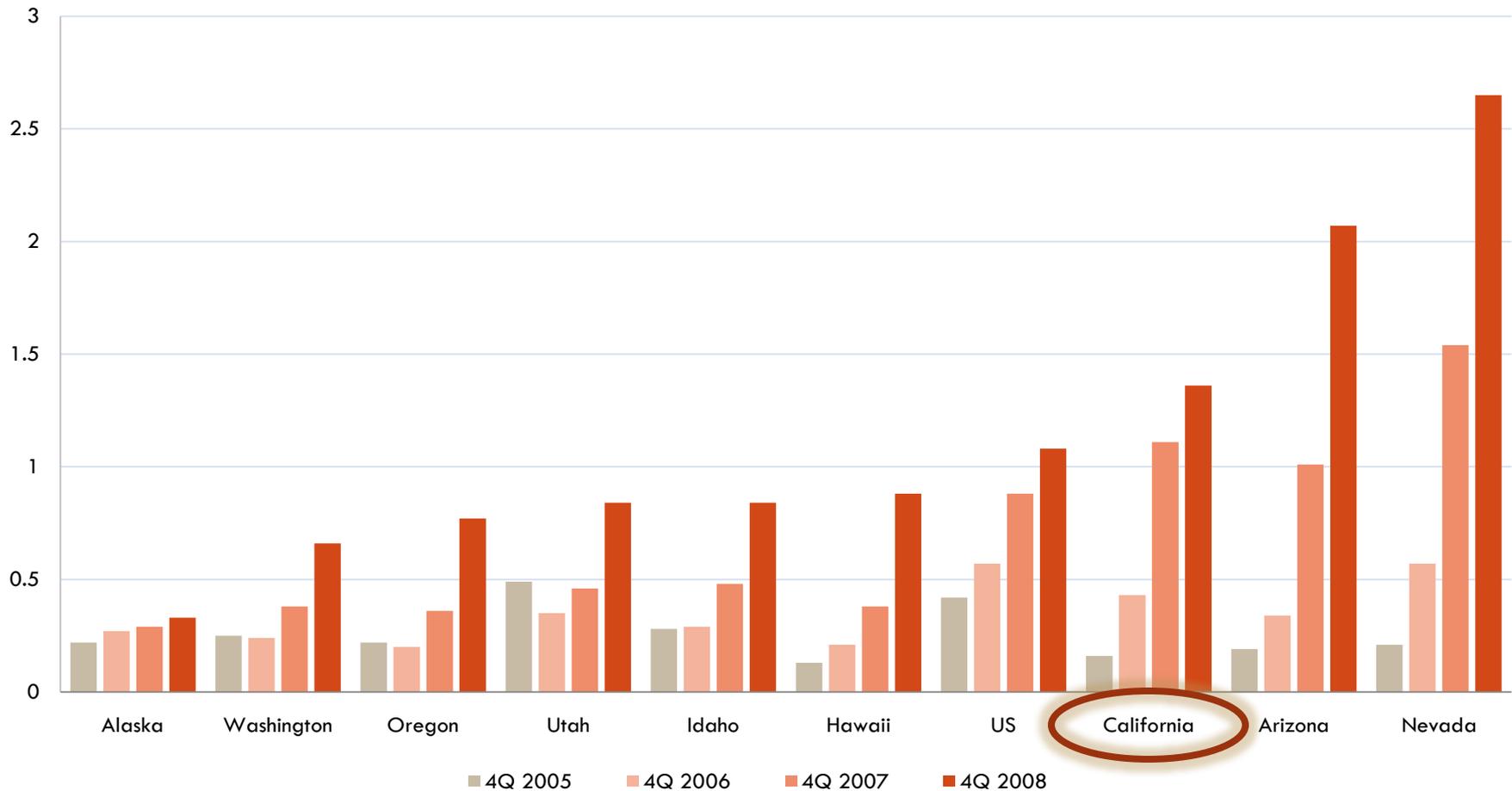


Source: Bureau of Labor Statistics

# California Trends

# Foreclosures in California are Above the National Average

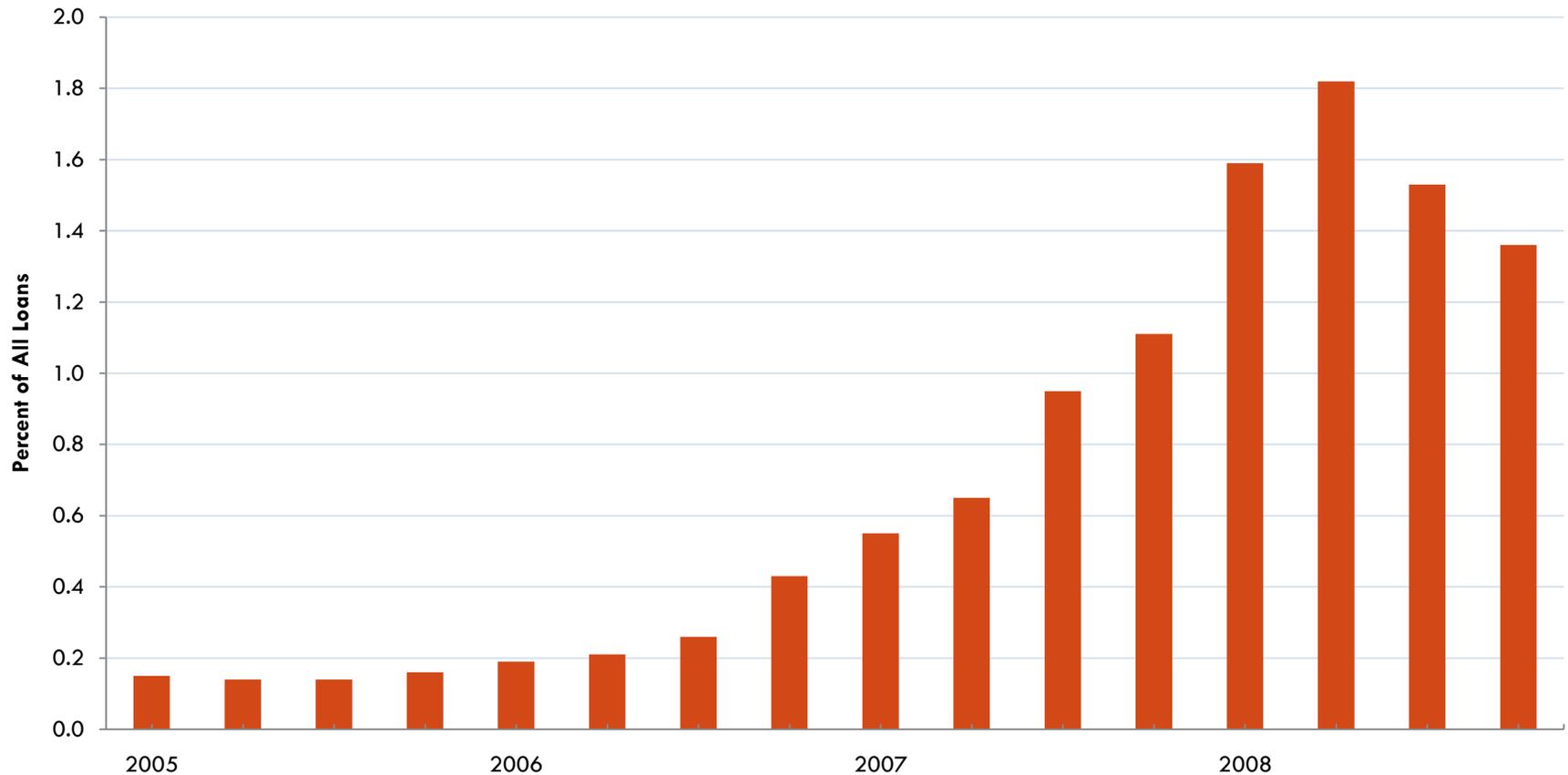
## Foreclosure Starts (Percent of All Loans)



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

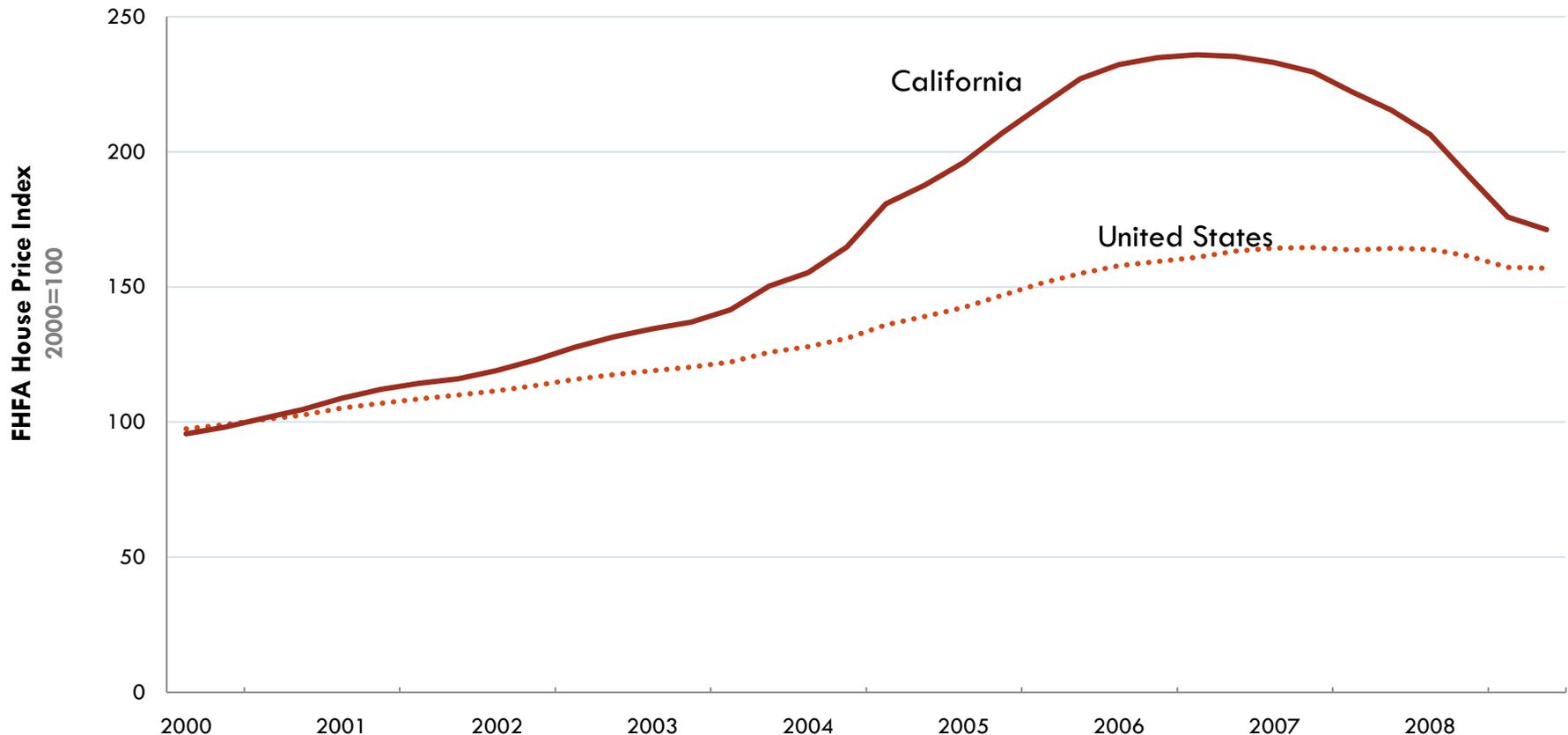
## California: Foreclosure Starts



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

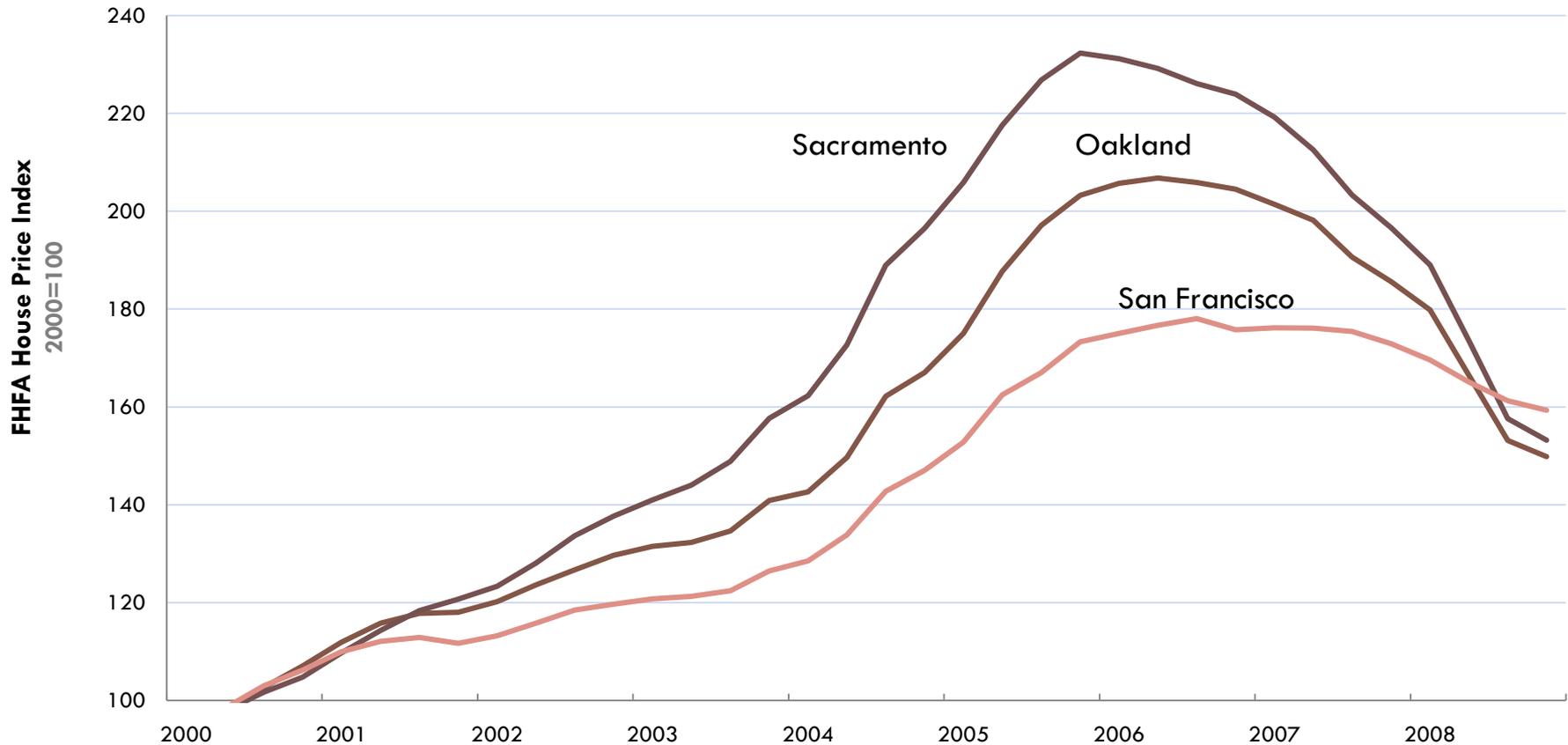
# California Has Seen Significant and Steep Decline in House Prices

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

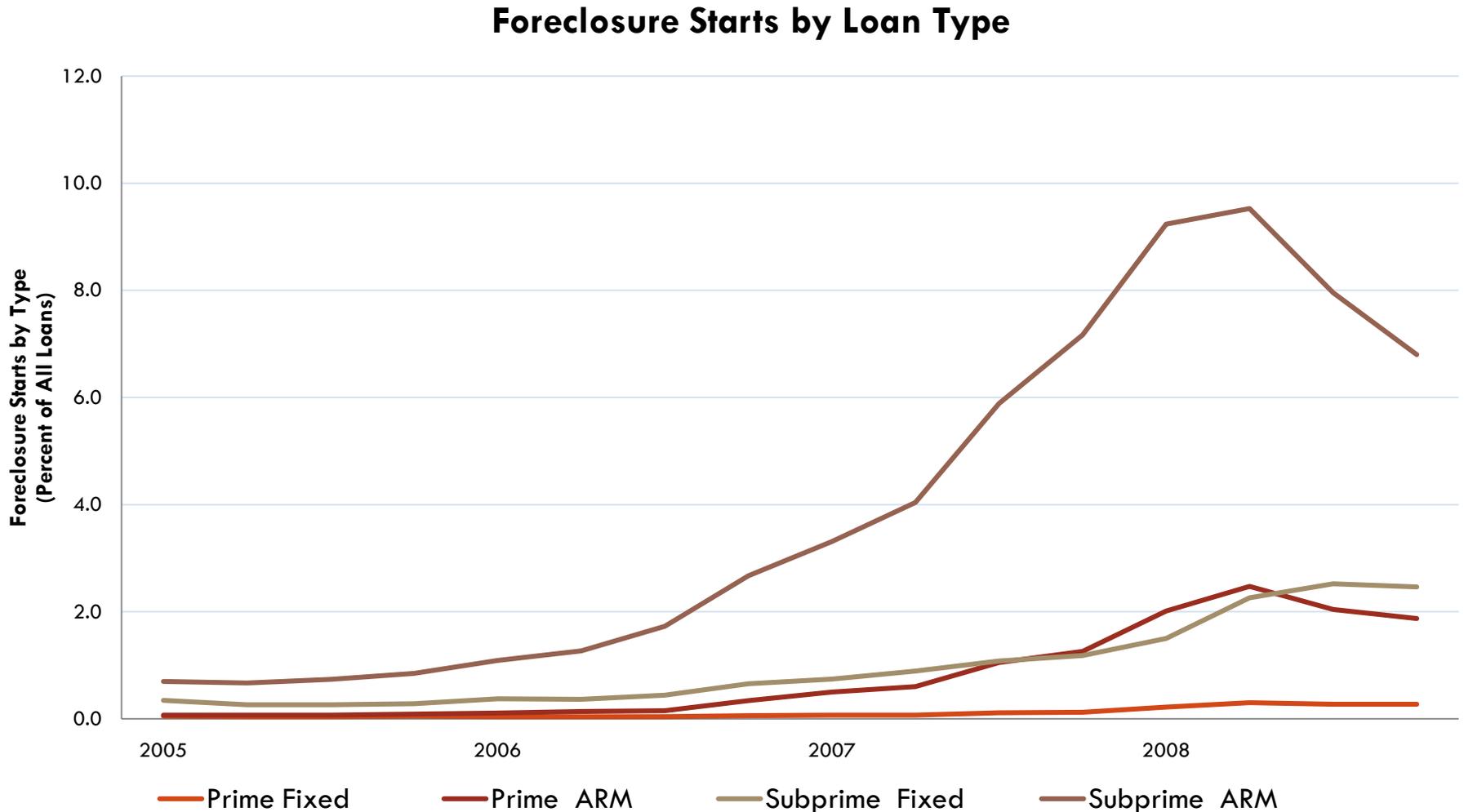


# Northern CA MSAs Experiencing Significant House Price Declines

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



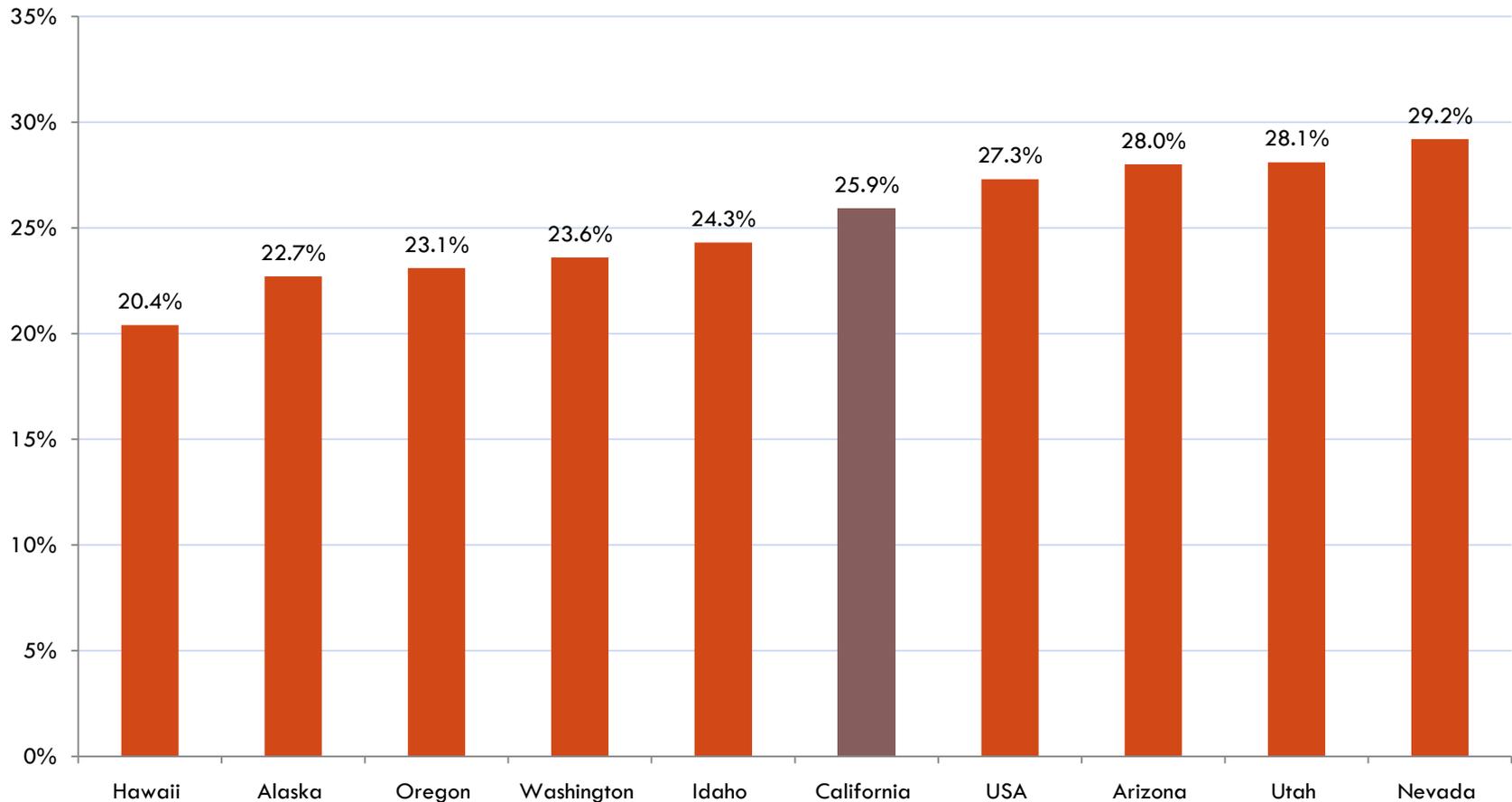
# California's Foreclosures are Concentrated in Subprime ARM Market



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

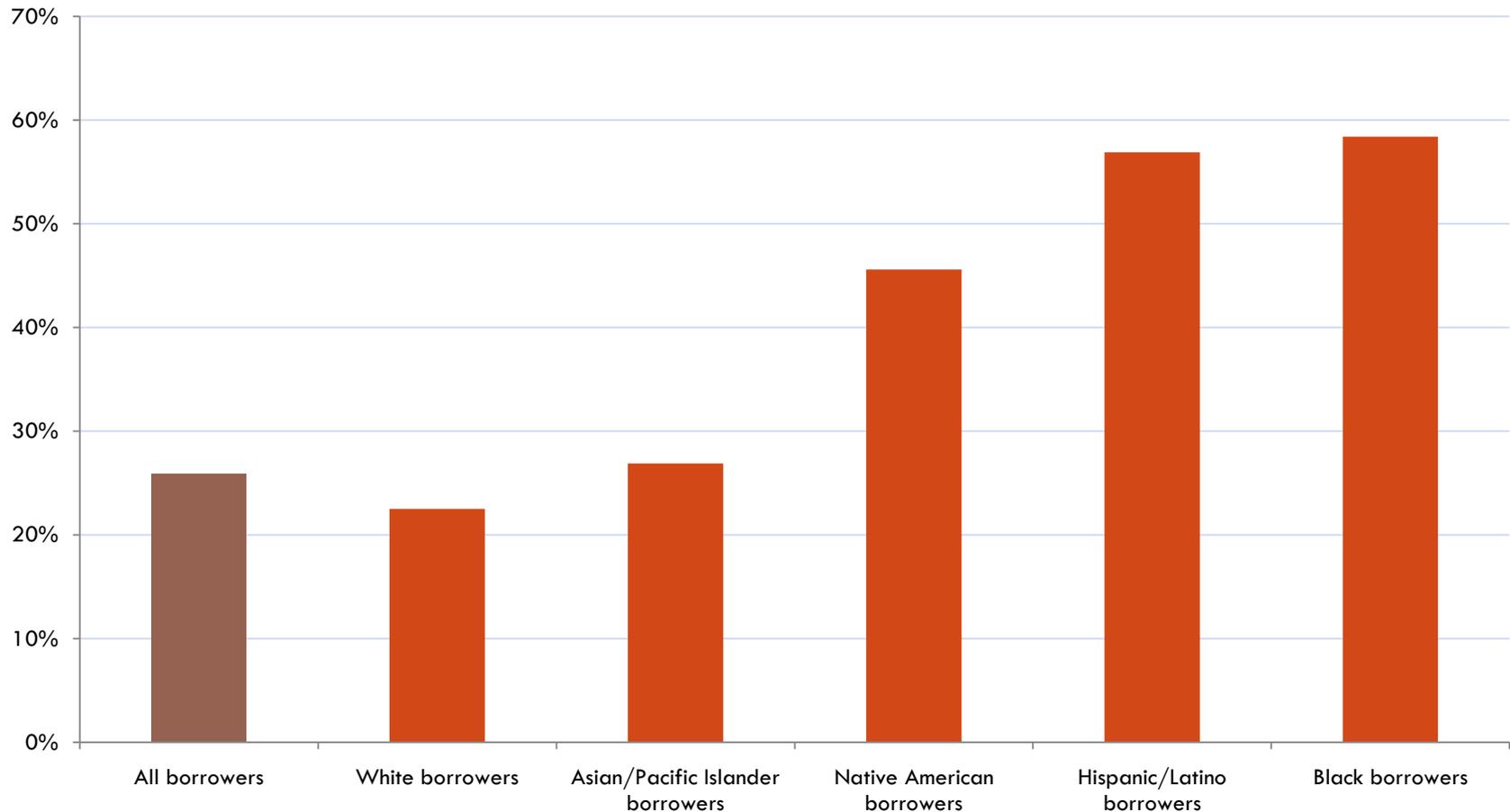
**Percent of All Borrowers with High Interest Conventional Loans, 2005**



Source: Home Mortgage Disclosure Act Data, 2005

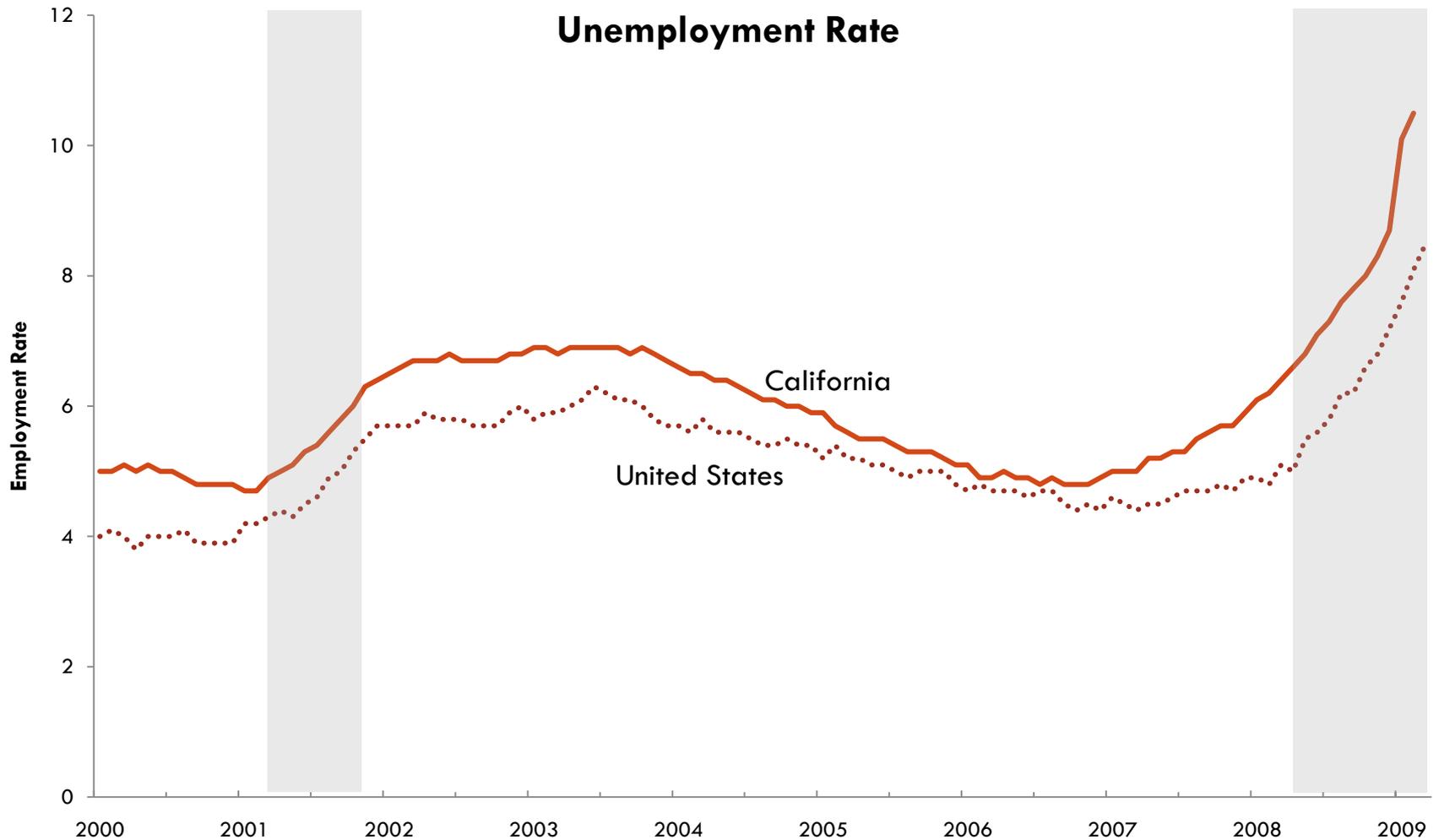
# High Cost Lending in California More Prevalent Among Minority Borrowers

**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



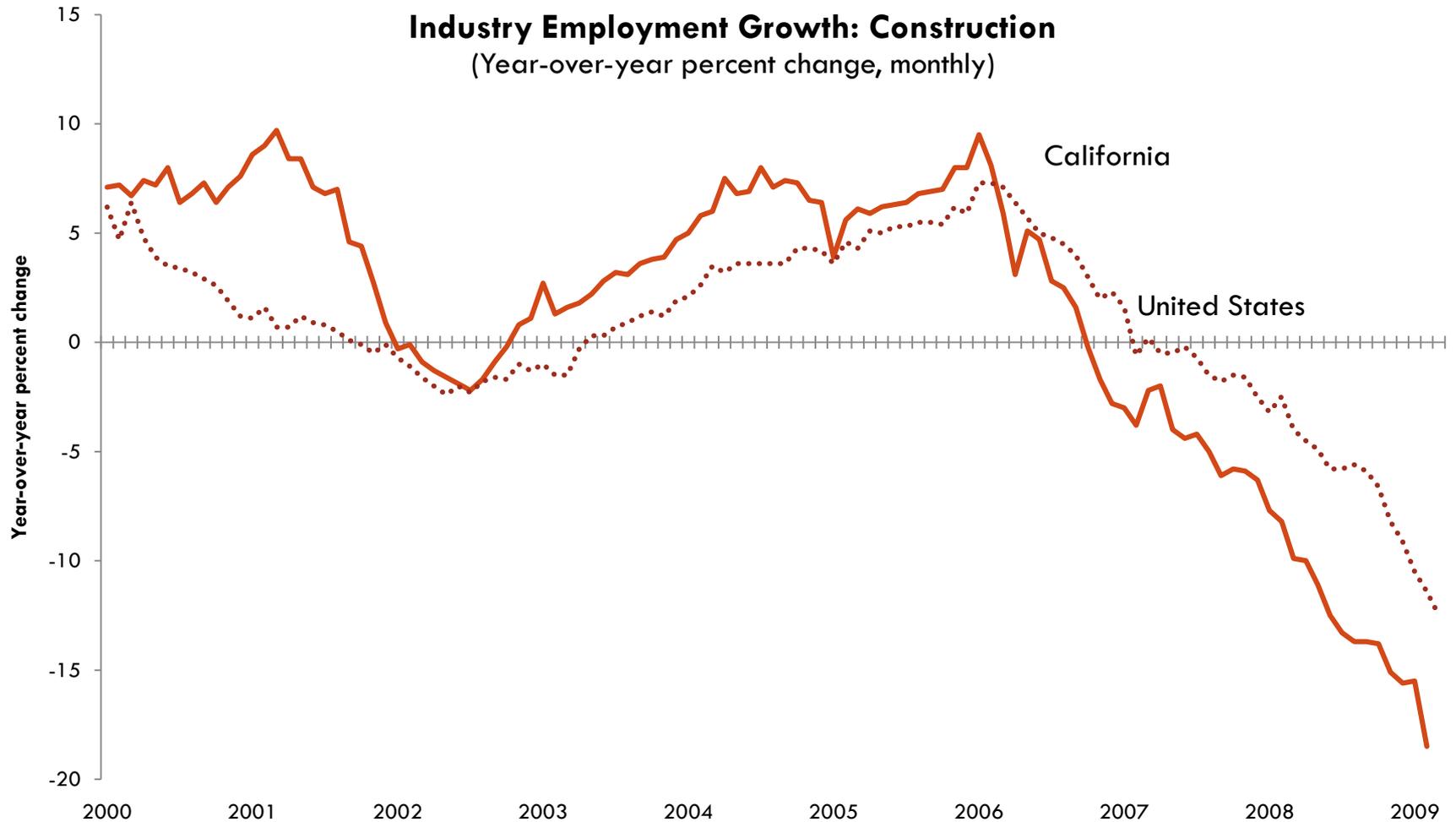
Source: Bureau of Labor Statistics, March 2009

# 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

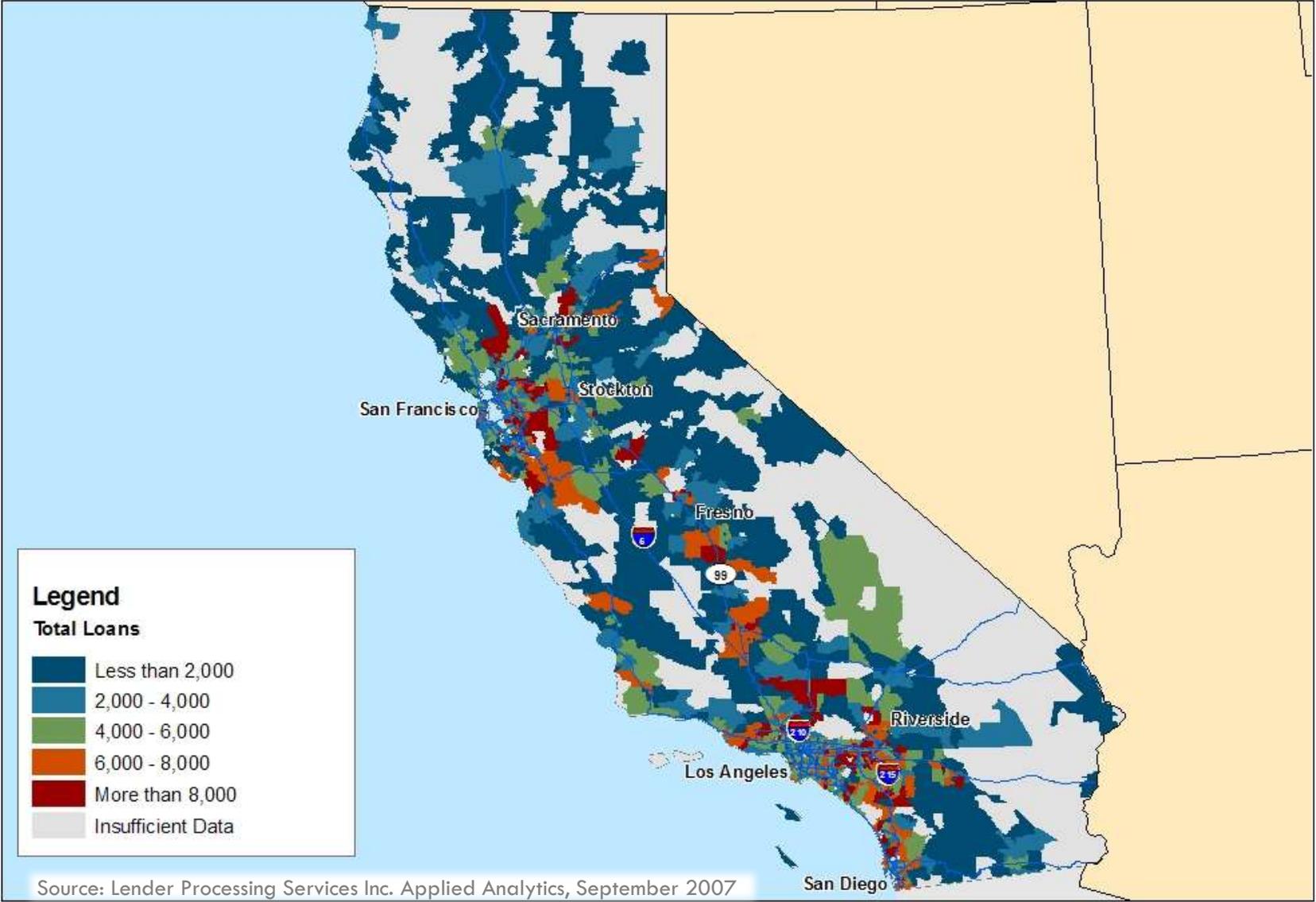


Source: Bureau of Labor Statistics, March 2009

# State & Local Data Maps

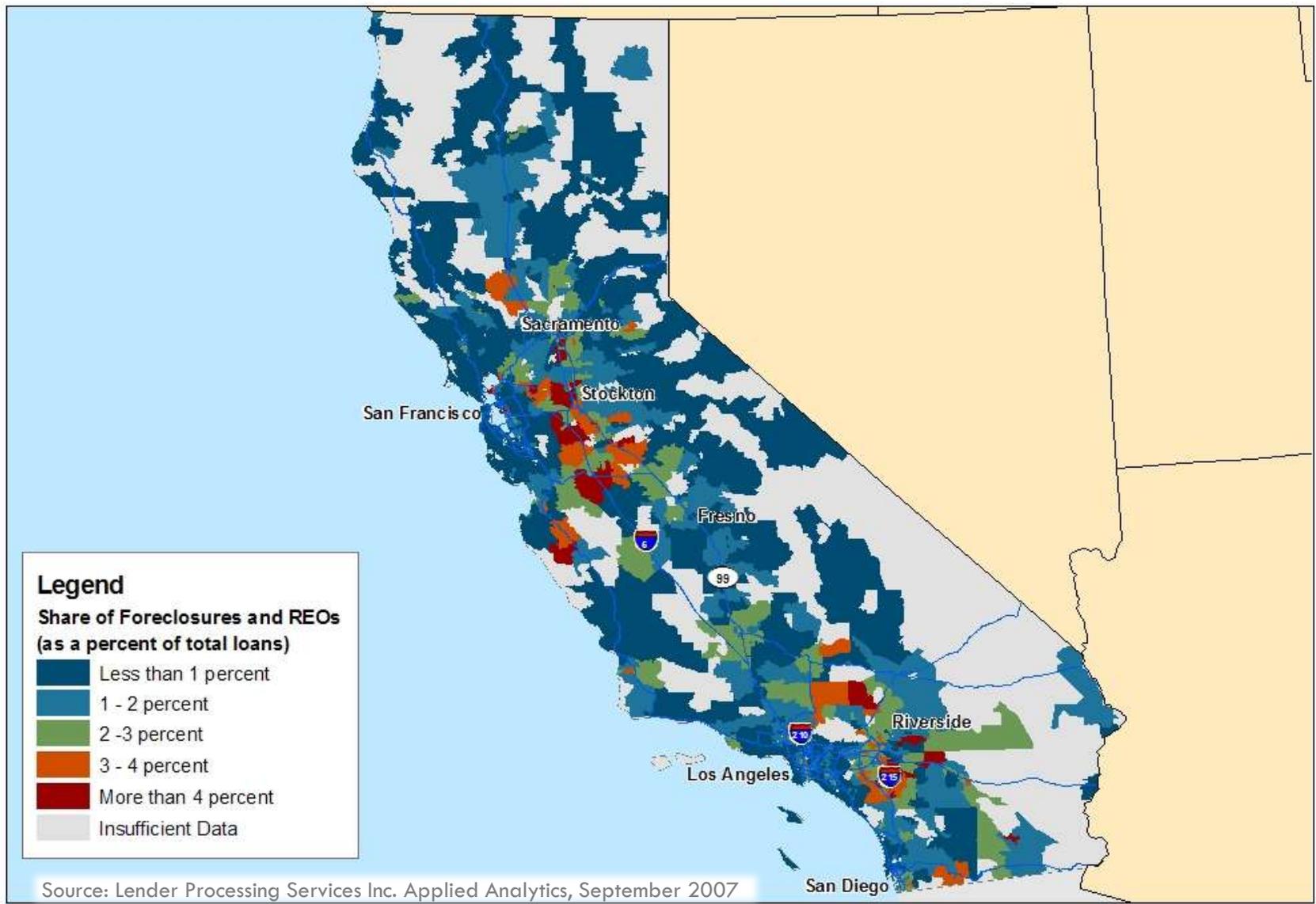
# Lending Volumes

September 2007



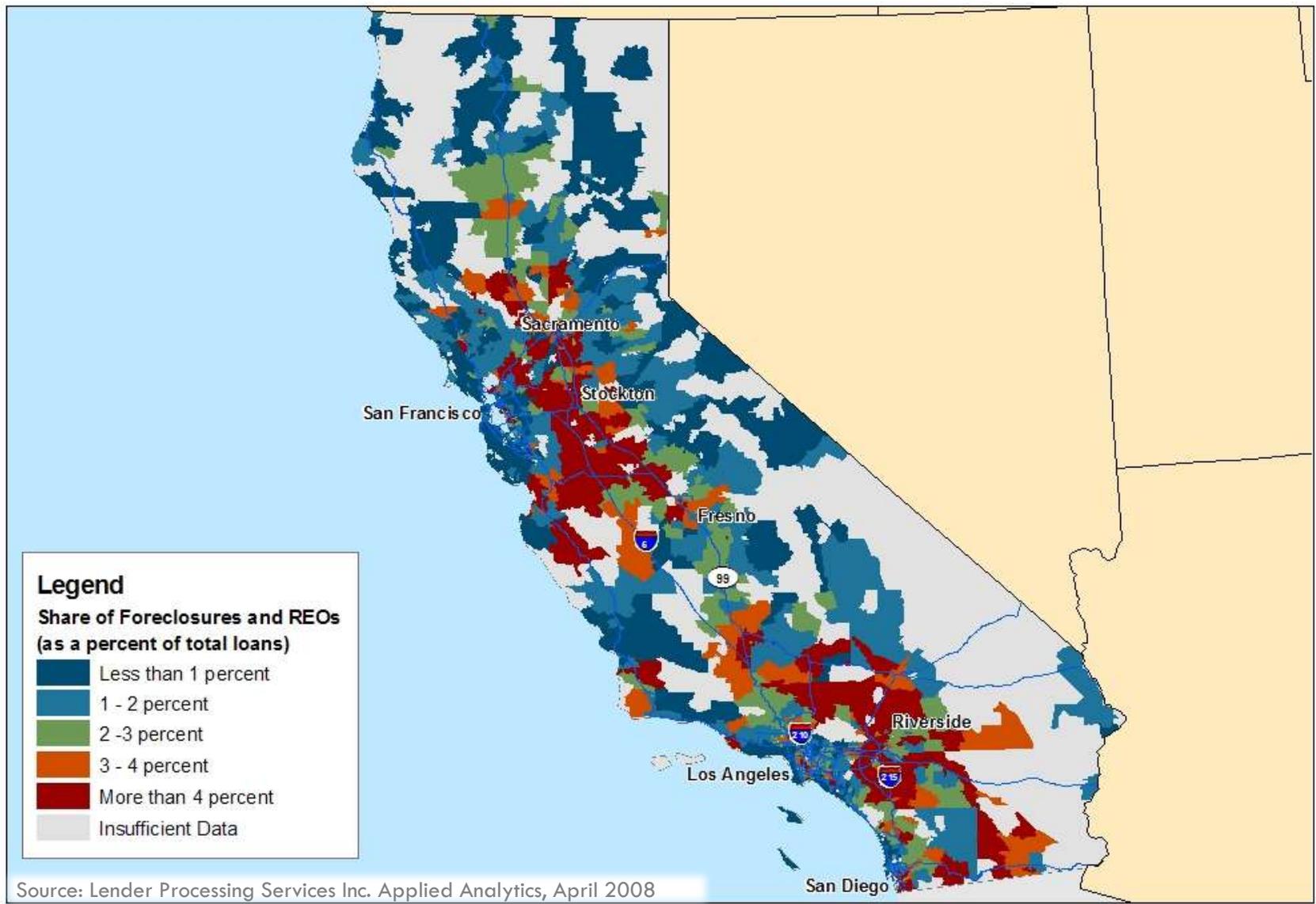
# Areas Affected by Concentrated Foreclosures

September 2007



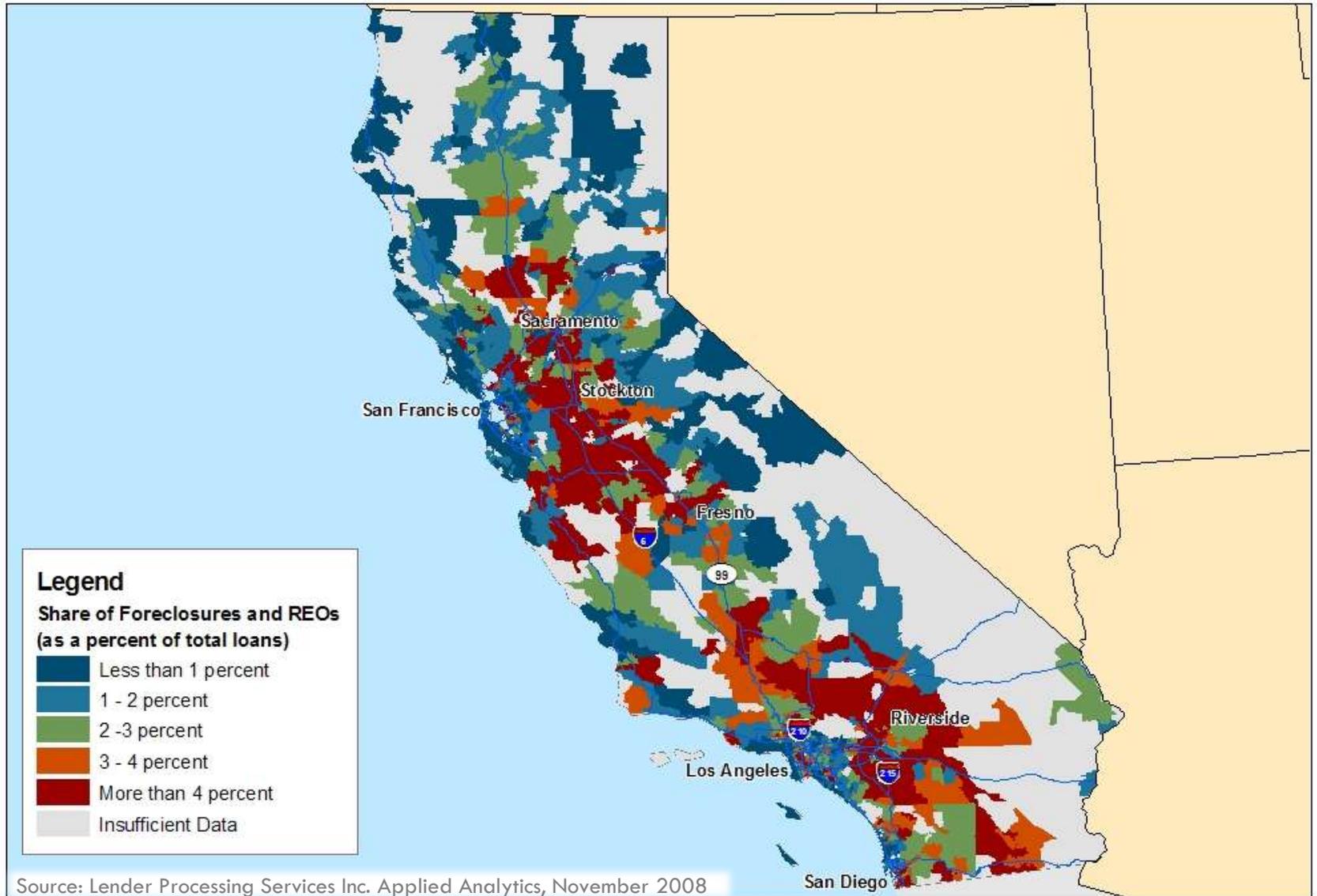
# Areas Affected by Concentrated Foreclosures

April 2008



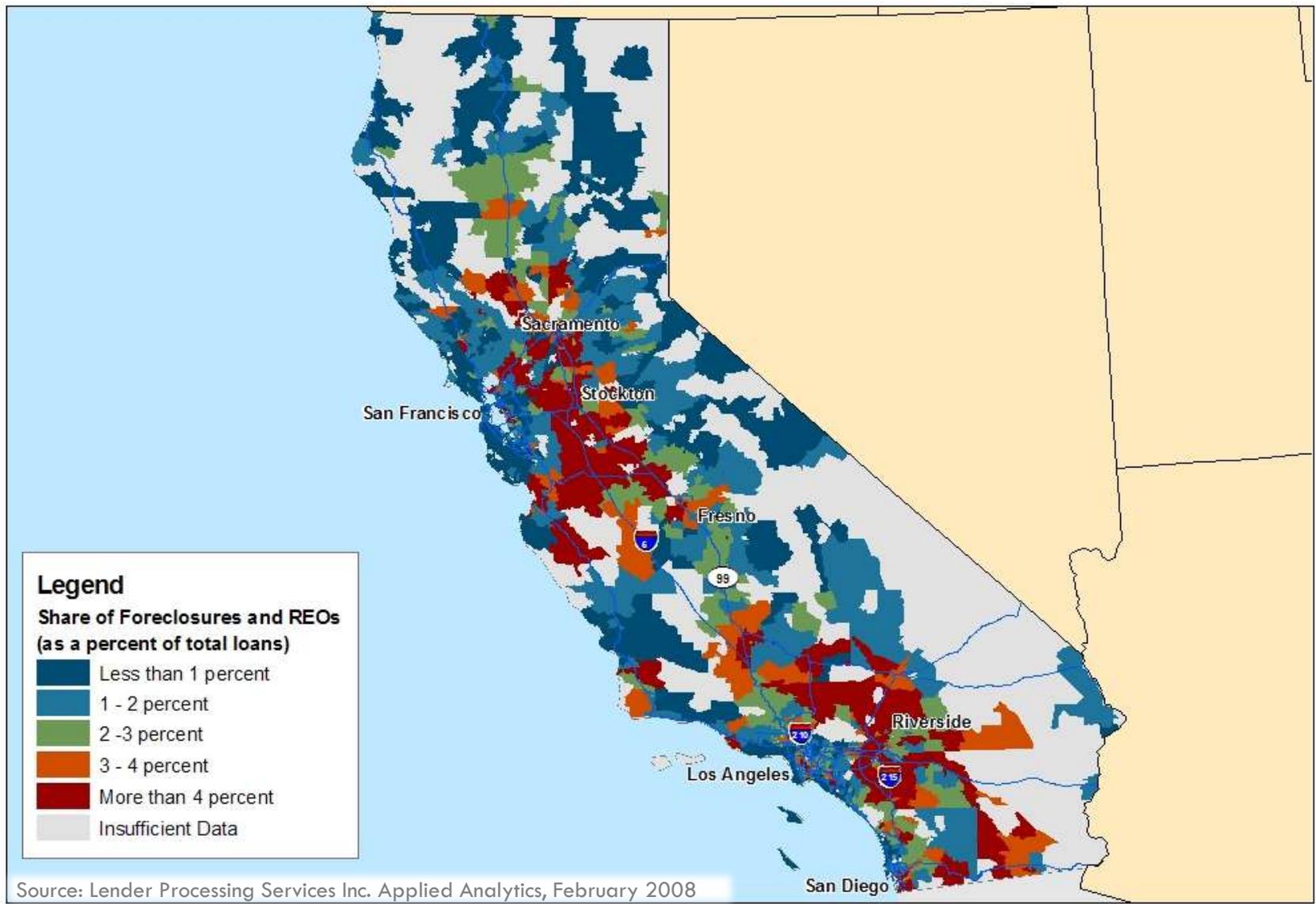
# Areas Affected by Concentrated Foreclosures

November 2008

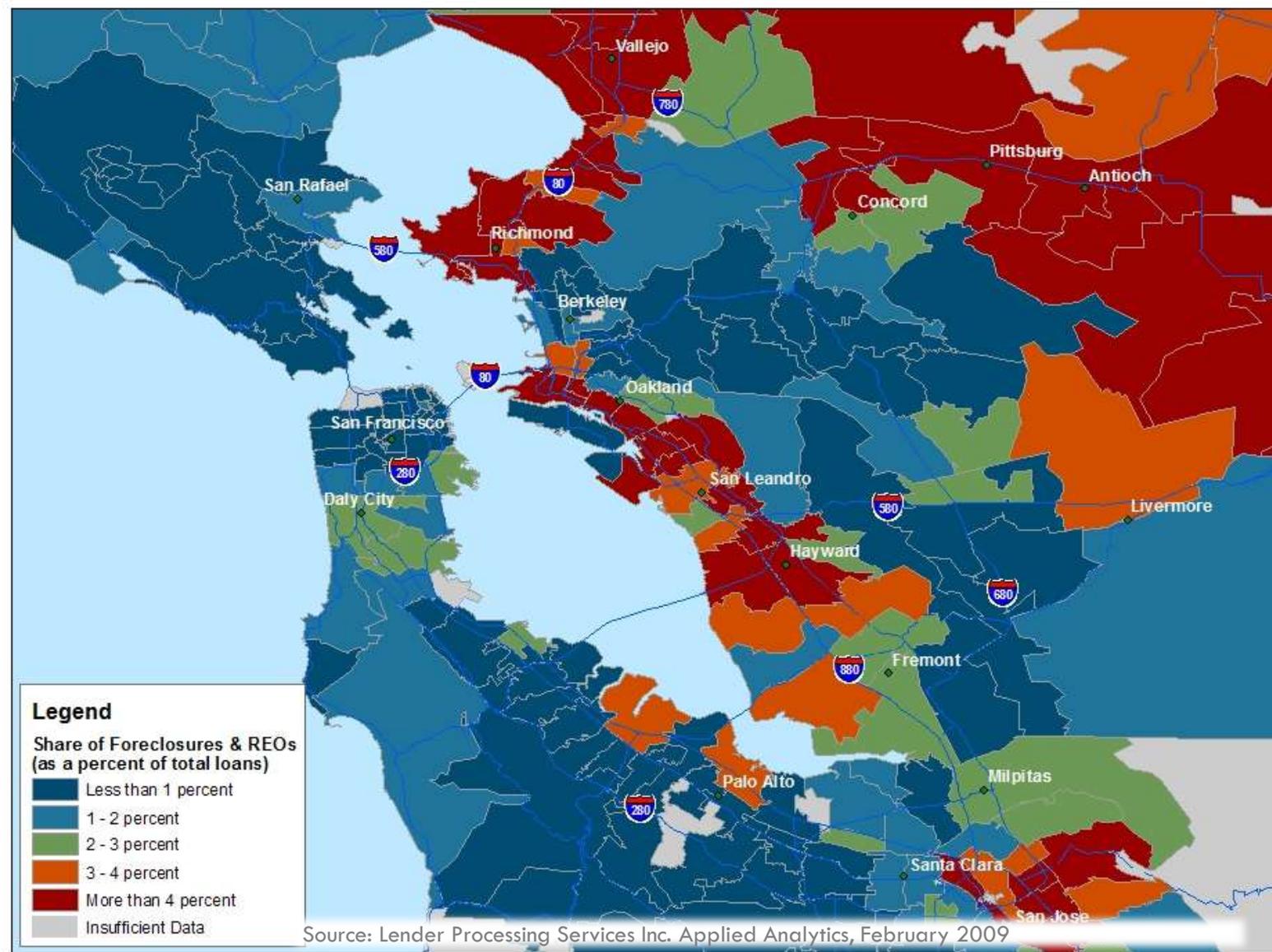


# Areas Affected by Concentrated Foreclosures

February 2009

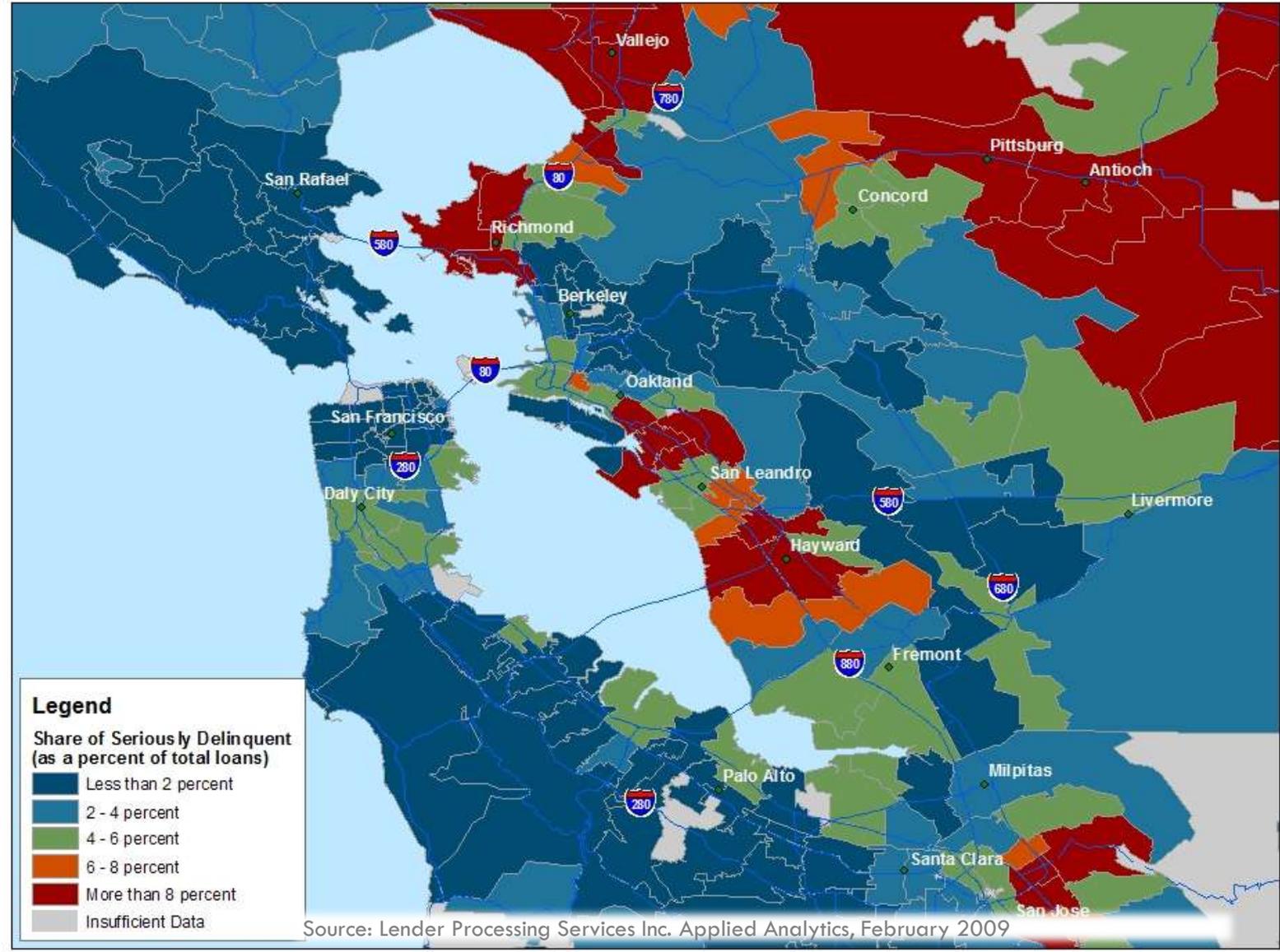


## Neighborhoods Affected by Concentrated Foreclosures February 2009



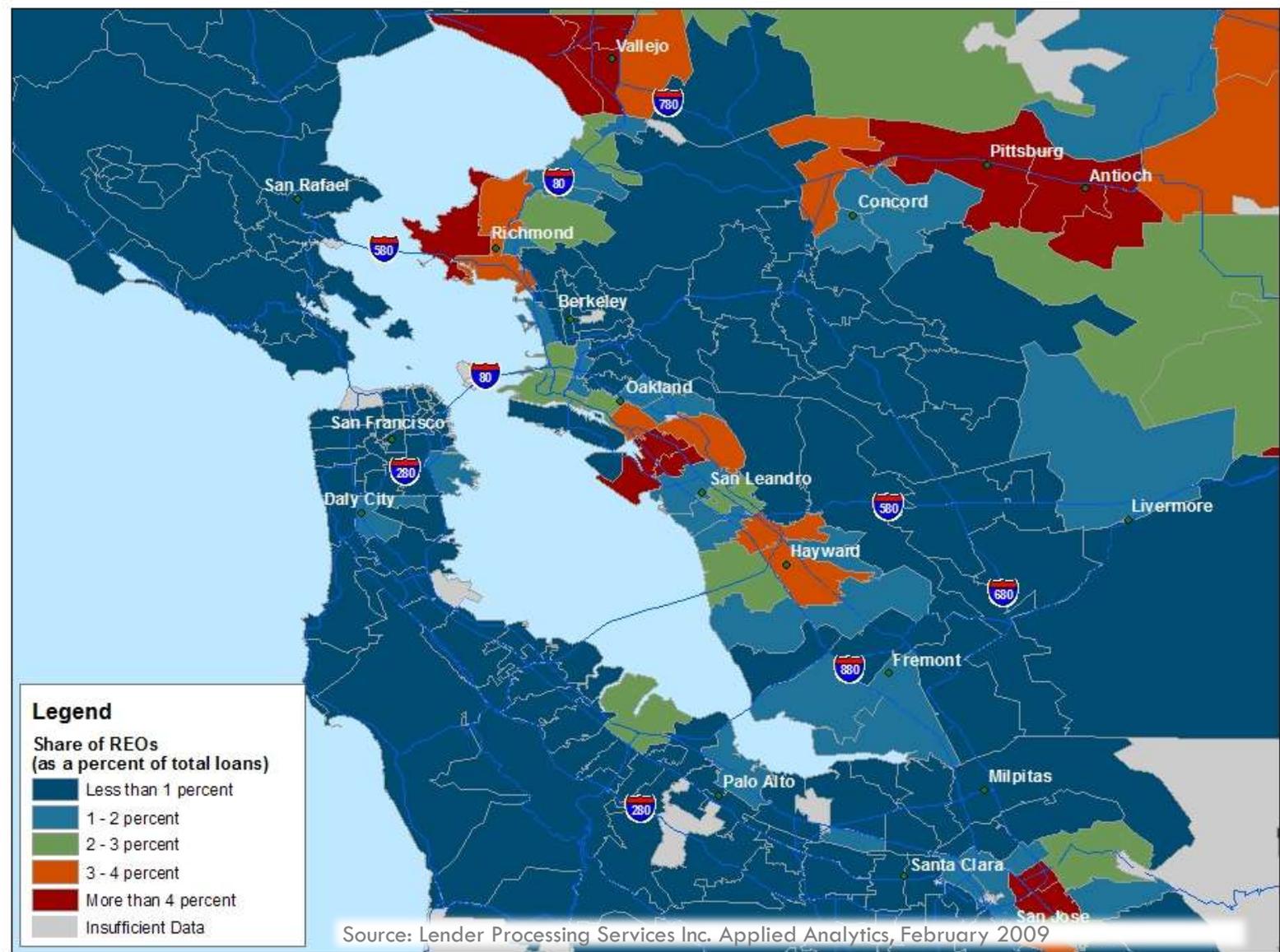
# Neighborhoods at Risk of Additional Foreclosures

February 2009



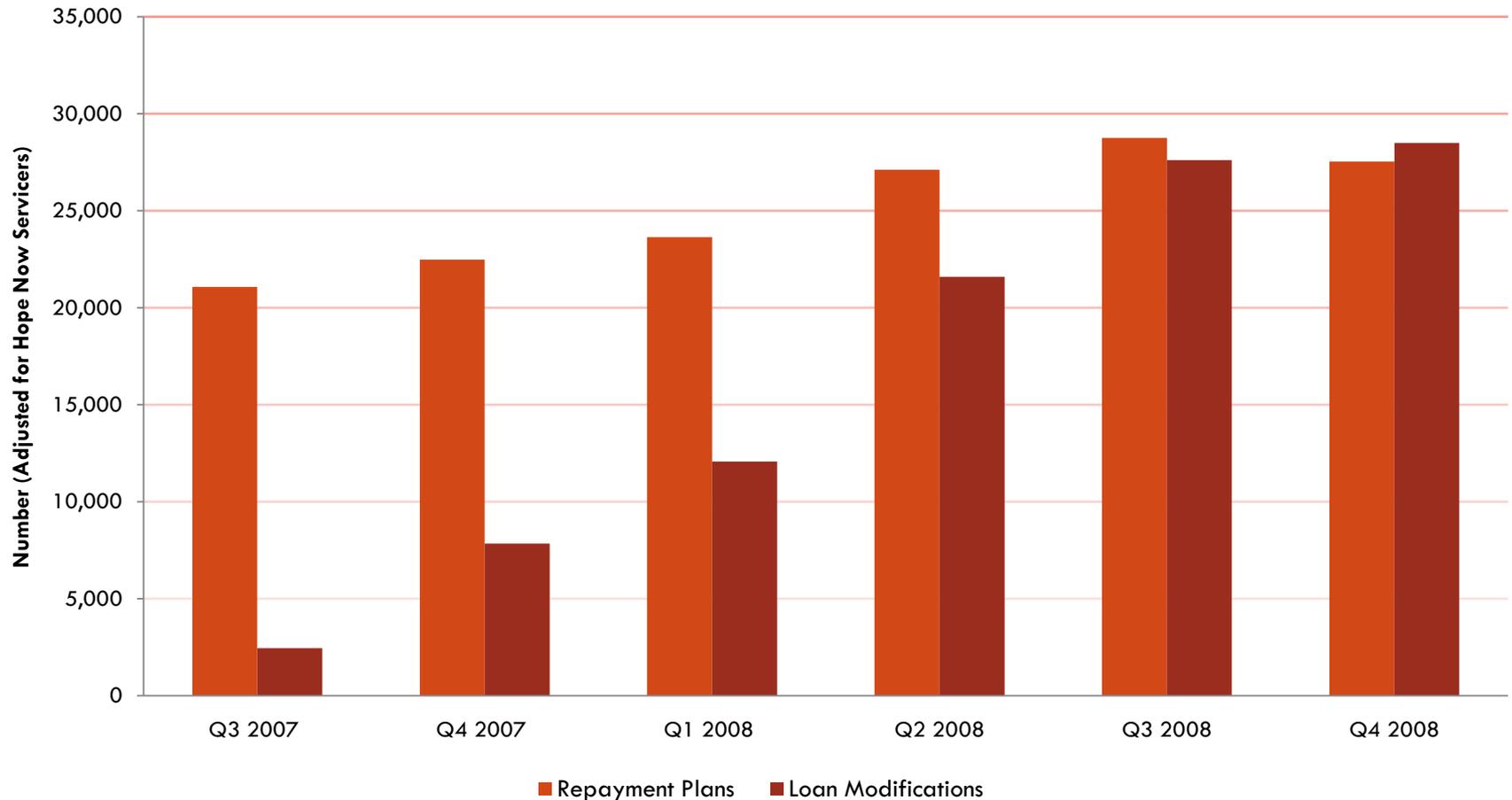
# Concentration of REO Properties

February 2009



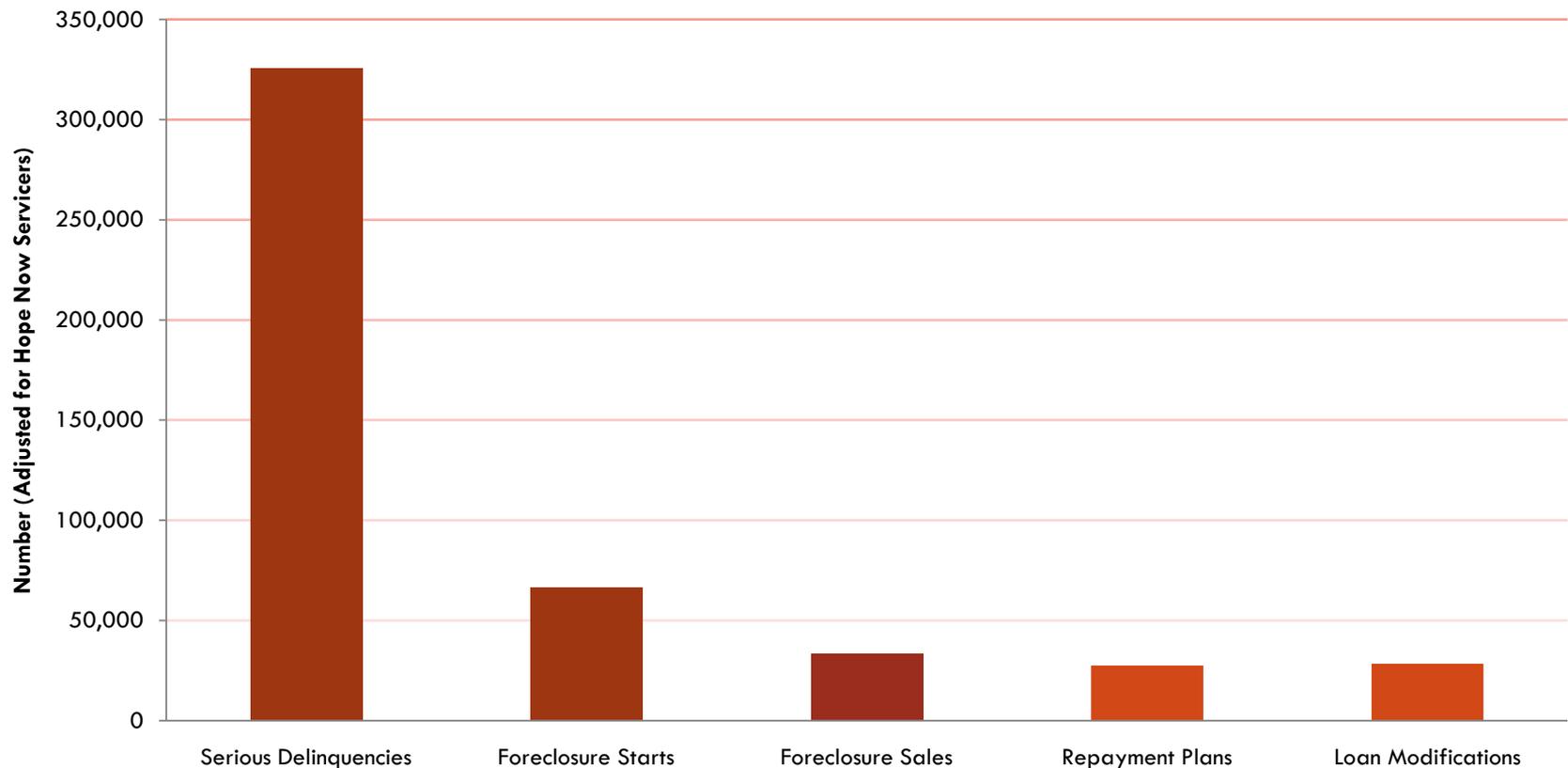
# Loan workouts reach approximately 55,000 borrowers each quarter

## California Loan Workouts



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

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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)

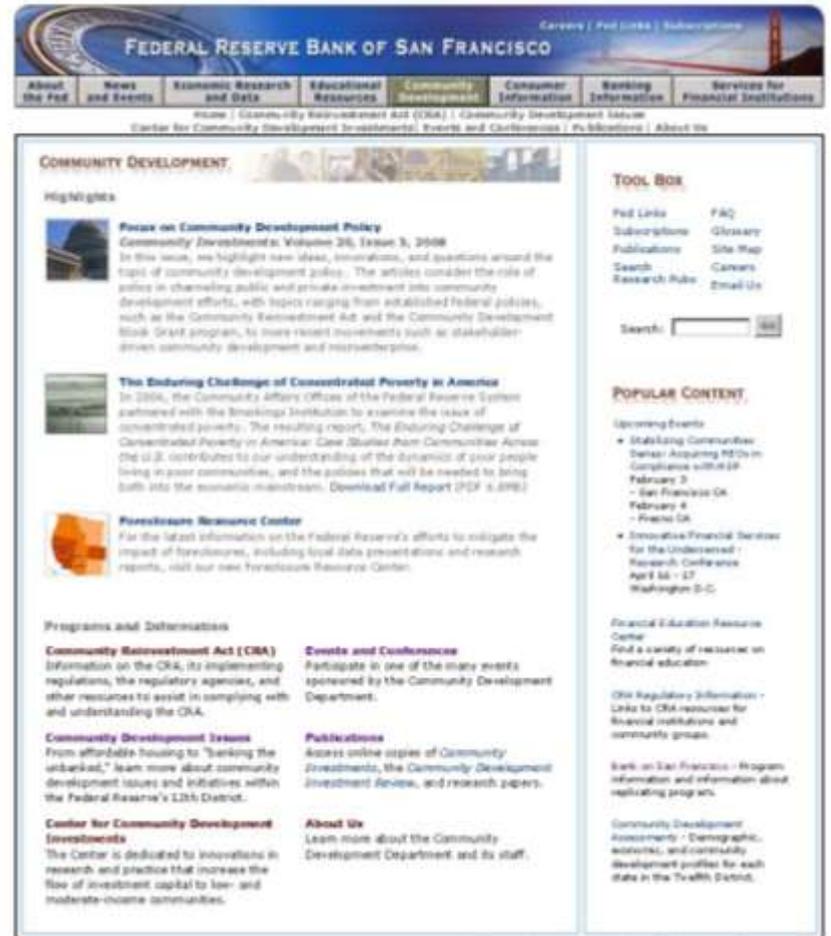
# Conclusions

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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



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 topics: 'About the Fed', 'News and Events', 'Economic Research and Data', 'Educational Resources', 'Community Development' (highlighted), 'Consumer Information', 'Banking Information', and 'Services for Financial Institutions'. Below the header, the main content area is titled 'COMMUNITY DEVELOPMENT' and features a 'Highlights' section with three articles: 'Focus on Community Development Policy', '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', 'Subscriptions', 'Publications', 'Search', and 'Research Hub', along with a search input field. Below the tool box is a 'POPULAR CONTENT' section listing upcoming events such as 'Marking Community Banker Assuring FDIC in Compliance with CBA' and 'Innovative Financial Services for the Underserved'. The bottom of the page contains sections for 'Programs and Information', 'Events and Conferences', 'Publications', and 'About Us'.

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