

Mortgage Delinquencies and Foreclosures: Hawaii



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Overview of Presentation

- What are current trends in delinquencies and foreclosures in Hawaii?
 - Mortgage Bankers Association data
 - Trends in Delinquencies and Defaults
 - OFHEO
 - Trends in House Values
- What neighborhoods in Hawaii are witnessing increased issues with foreclosures?
 - McDash data on foreclosures and REOs
- What responses are needed?
 - Foreclosure prevention
 - Stabilizing neighborhoods affected by concentrations of foreclosures
 - Long-term access to affordable homeownership opportunities and responsible lending

Data Caveats

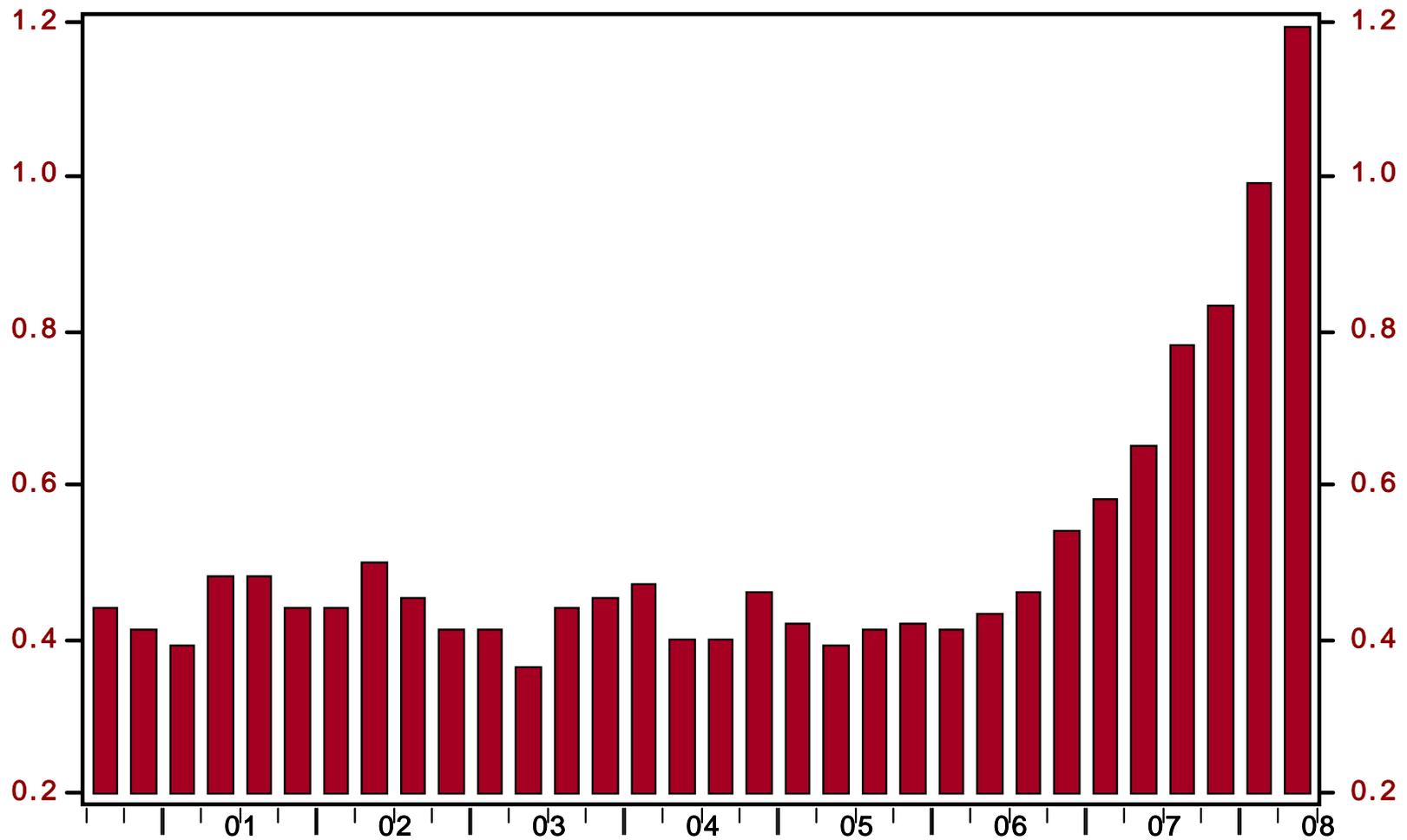
- ❑ Data on the real estate and mortgage markets are collected by many different sources, most costly and proprietary
- ❑ As a result, it is important to consider the limitations of data presented
 - Different definitions of subprime may affect the reporting of rates of delinquencies and foreclosures
 - Different methodologies and different sampling methods may affect the reports
 - Aggregated data at the zip code level can mask significant geographic variation and the types of borrowers affected
 - The sample of loans in McDash for Hawaii is quite small; may not fully represent what is happening at the local level

Trends in Delinquencies and Foreclosures



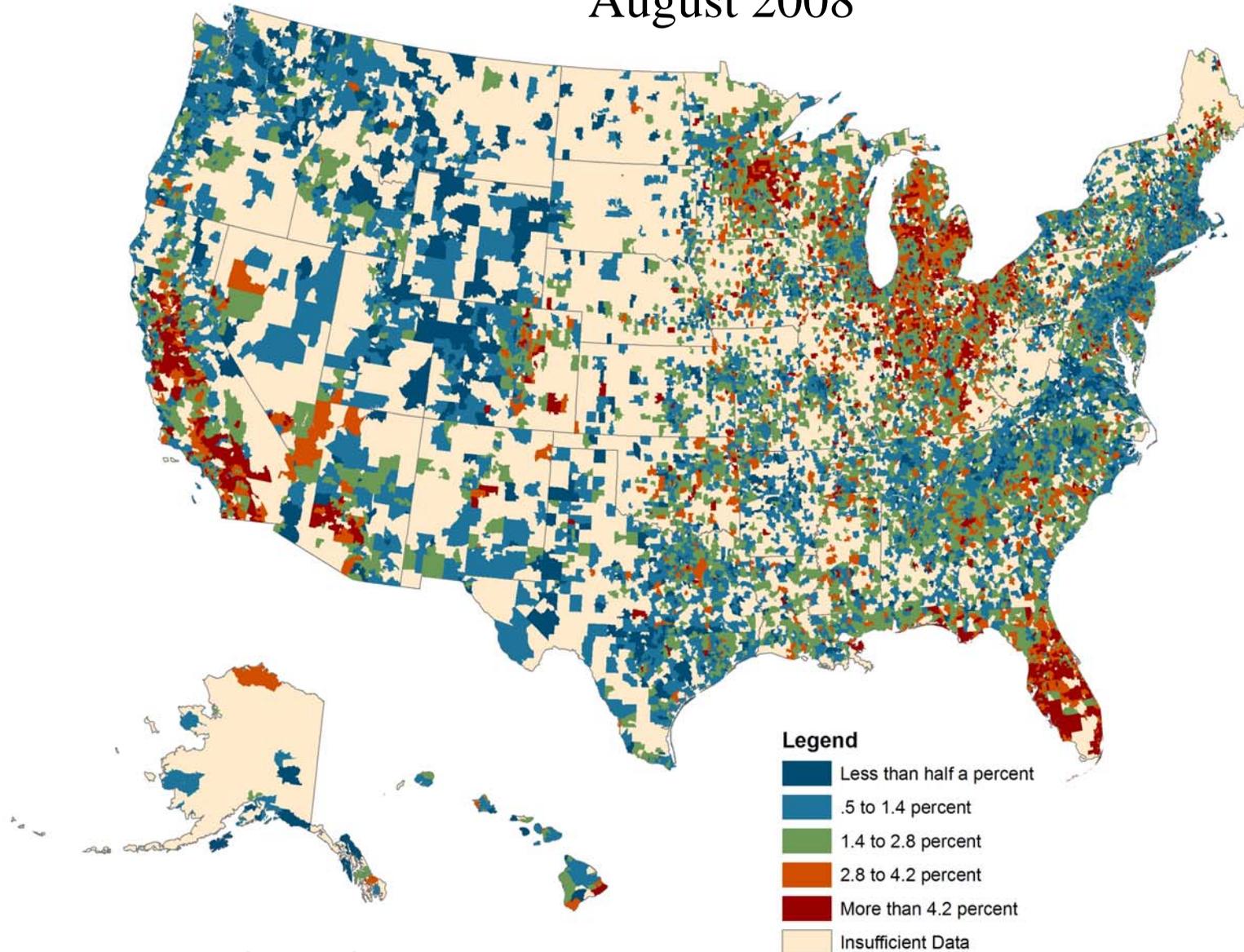
National Foreclosure Starts Continue to Rise

Foreclosure Starts: Percent of all Loans



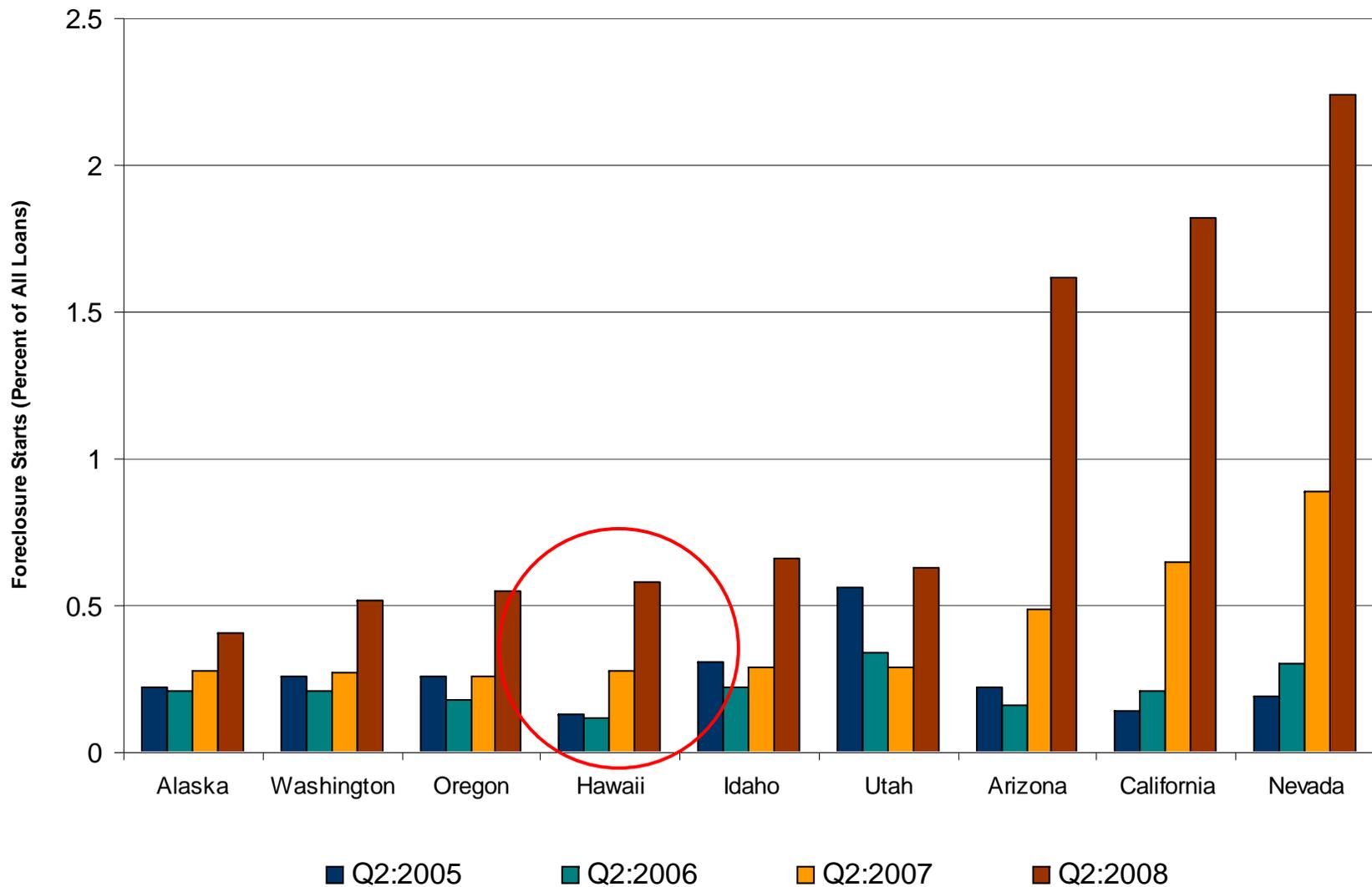
Source: Mortgage Bankers Association, National Delinquency Survey, 2nd Quarter 2008

Percent of Mortgage Loans in Foreclosure or REO (by zip code) August 2008



Source: McDash Analytics, LLC and FRBSF calculations

Hawaii has seen pretty rapid jump in foreclosure starts in the past year, though below national average

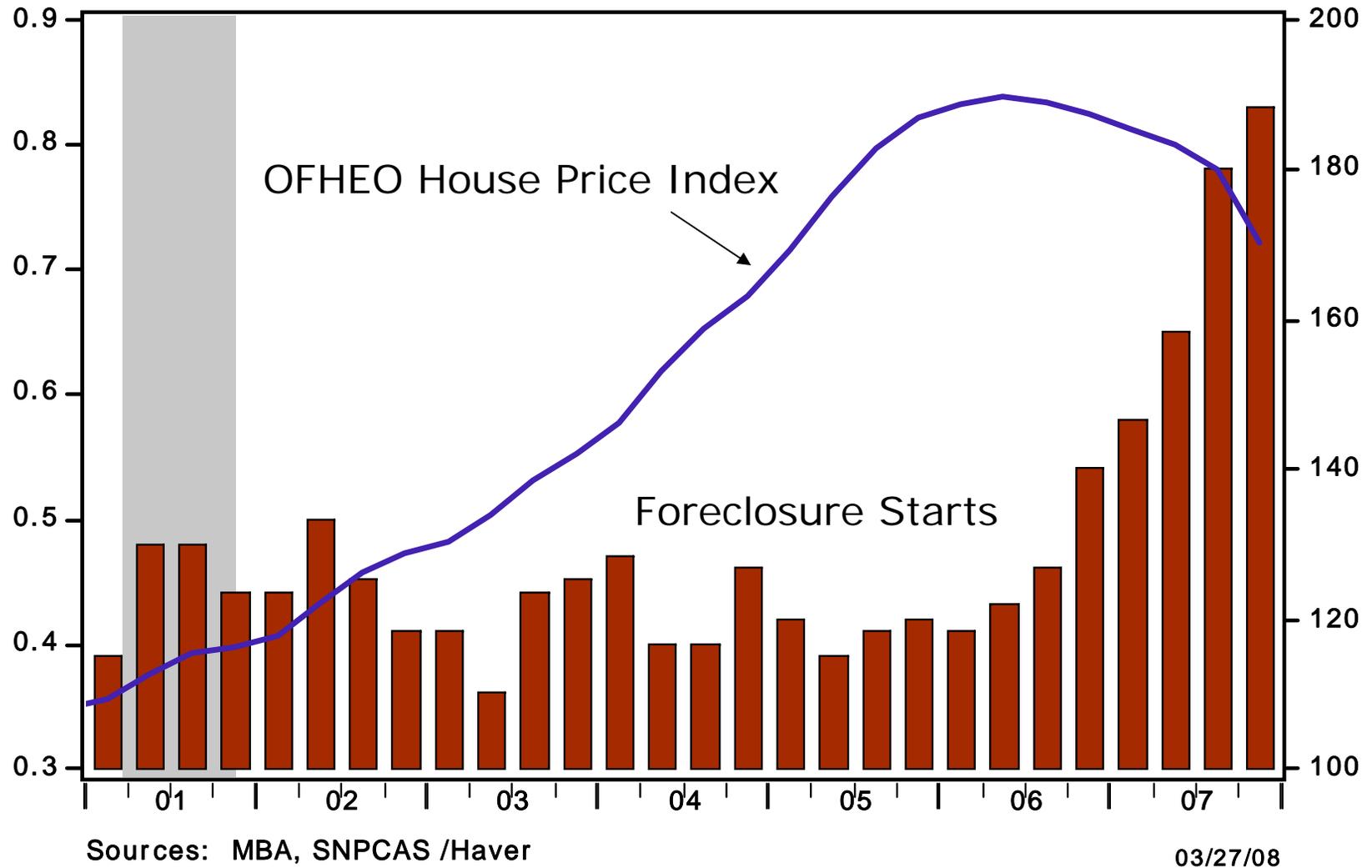


Source: Mortgage Bankers Association, National Delinquency Survey, 2nd Quarter 2008.

Trends in House Values

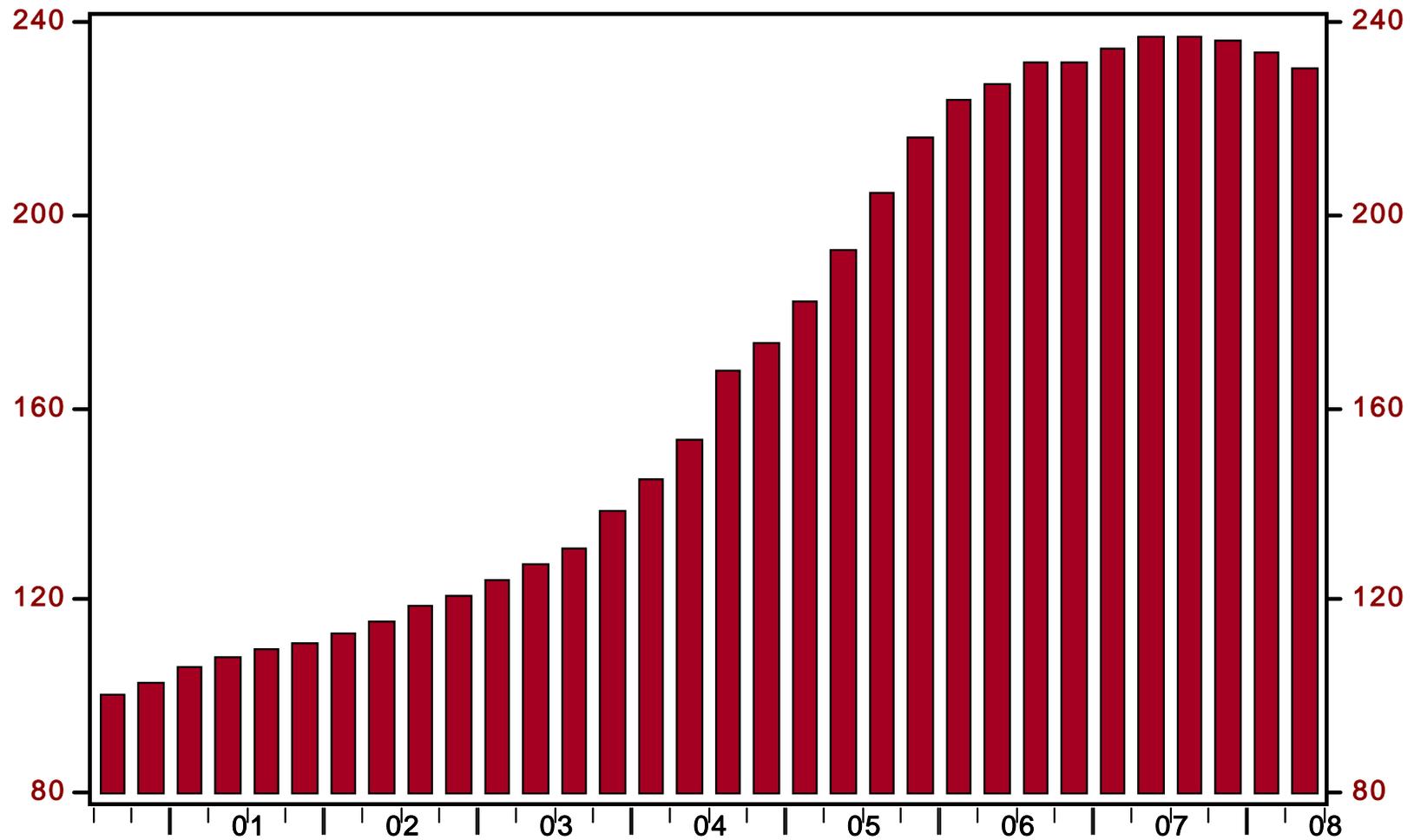


Nationally, Subprime Foreclosure Rates Closely Track Declines in House Values



Hawaii's Housing Market Softening Slightly

OFHEO House Price Index (2000=100)

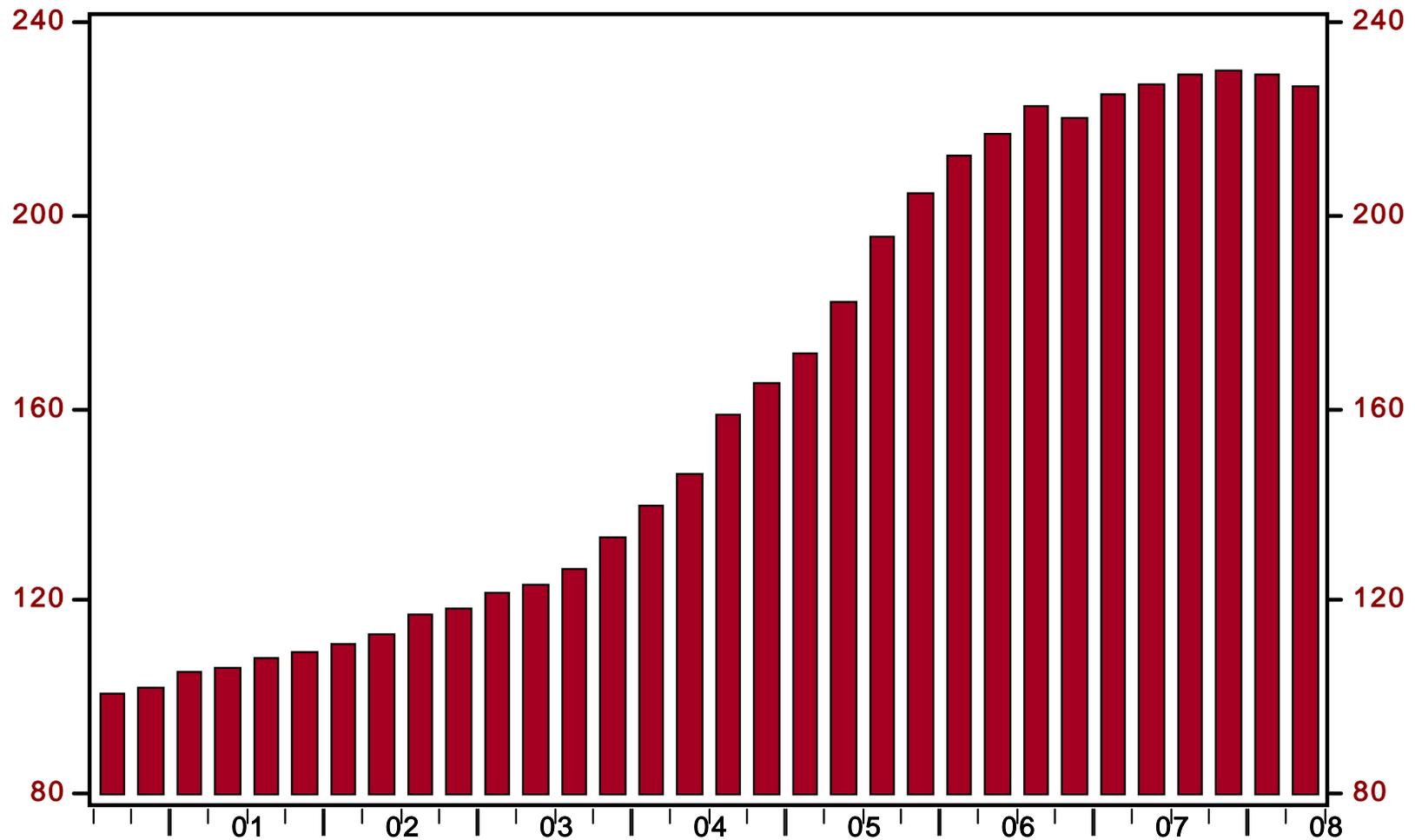


Source: OFHEO /Haver

10/16/08

Honolulu Has Not Seen Same Declines as in Many Mainland Markets

Honolulu - OFHEO House Price Index (2000=100)



Source: OFHEO /Haver

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Hawaii Board of Realtors also shows declining prices and sales in 3rd Quarter 2008

2008 Third Quarter Residential Resale Statistics for Oahu

Single Family Home Resales

	<u>Number of Sales</u>	<u>Median* Sales Price</u>	<u>This Quarter Compared To</u>
3rd Quarter 2008	721	\$615,000	
2nd Quarter 2008		\$636,000	- 3.3%
3rd Quarter 2007	975	\$649,900	- 5.4%

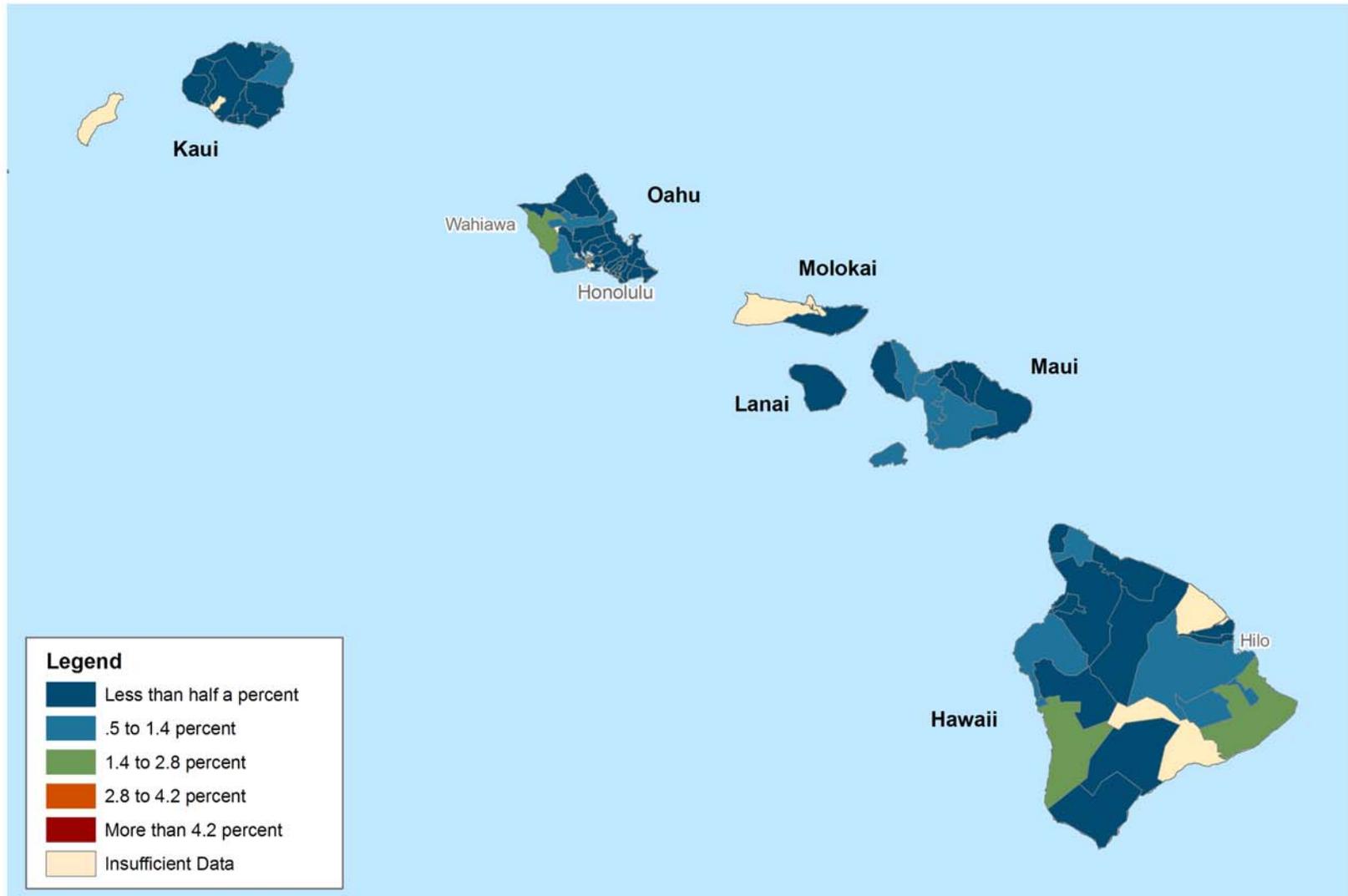
Foreclosure rates in Hawaii may continue to rise

- Economic research suggests that the current mortgage crisis on the mainland has been driven by declining house values
 - Hawaii vulnerable to same dynamic if house prices fall further
- Instability in the credit and financial markets
 - May keep potential buyers on the sidelines
 - Will make it more difficult for buyers to access credit, especially anyone with a less than perfect credit history
 - Refinancing has become more difficult
- Helping to prevent foreclosure among distressed borrowers now should be highest priority

Hawaii “Hot Spots”



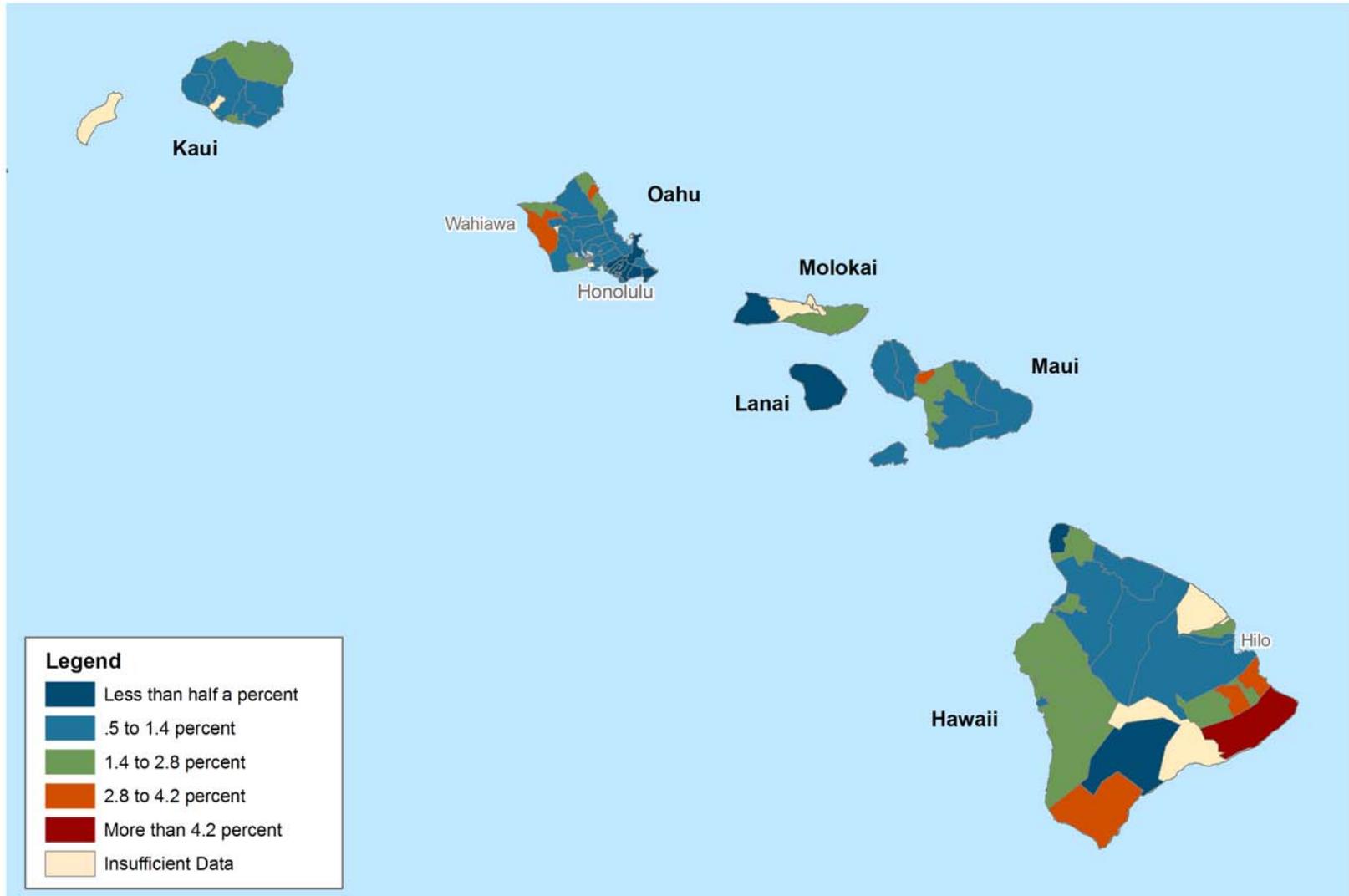
Percent of Loans in Foreclosure and REO September 2007



Source: McDash Analytics, LLC and FRBSF calculations, Data from September 2007

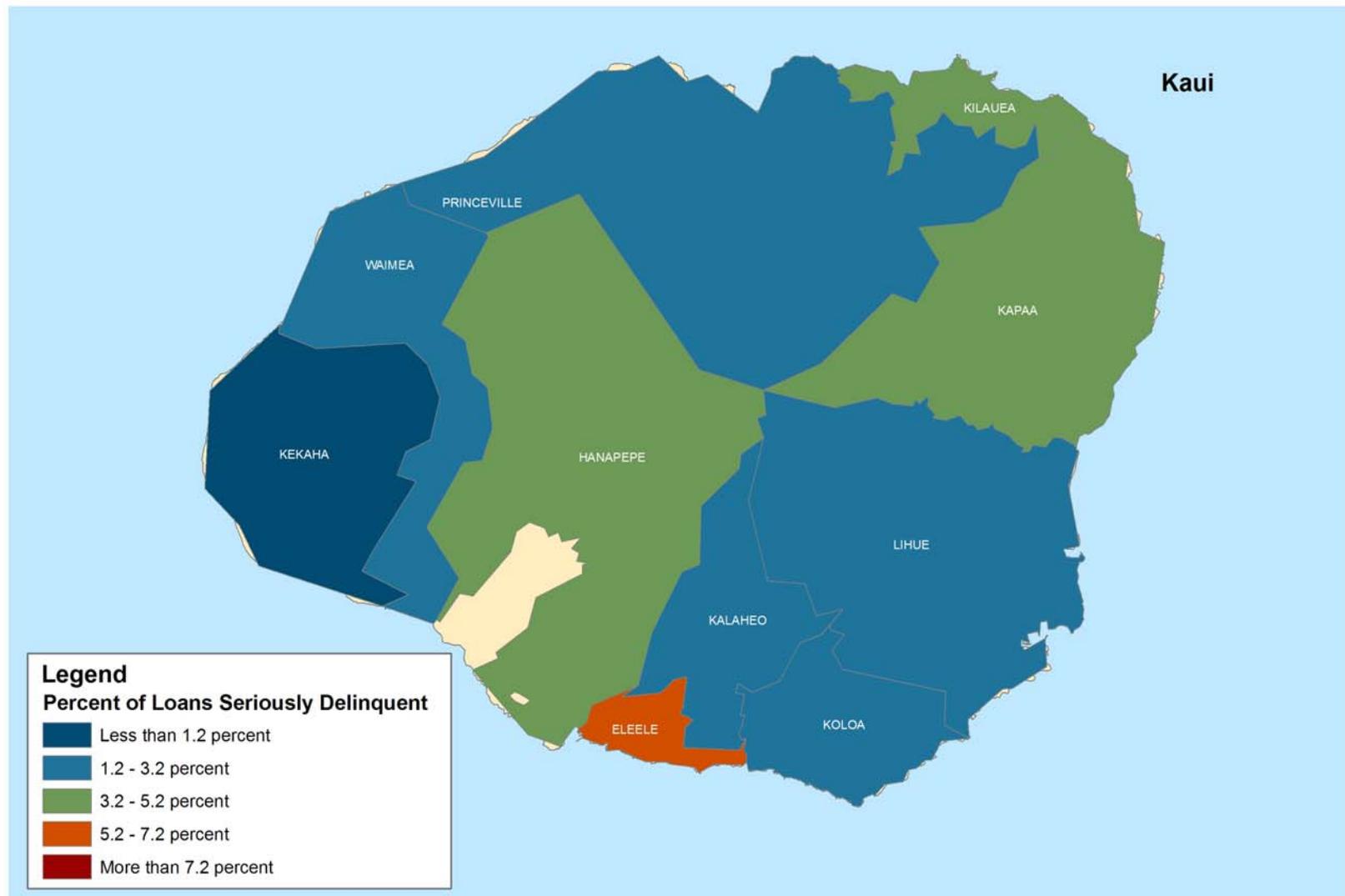
Percent of Loans in Foreclosure and REO

August 2008



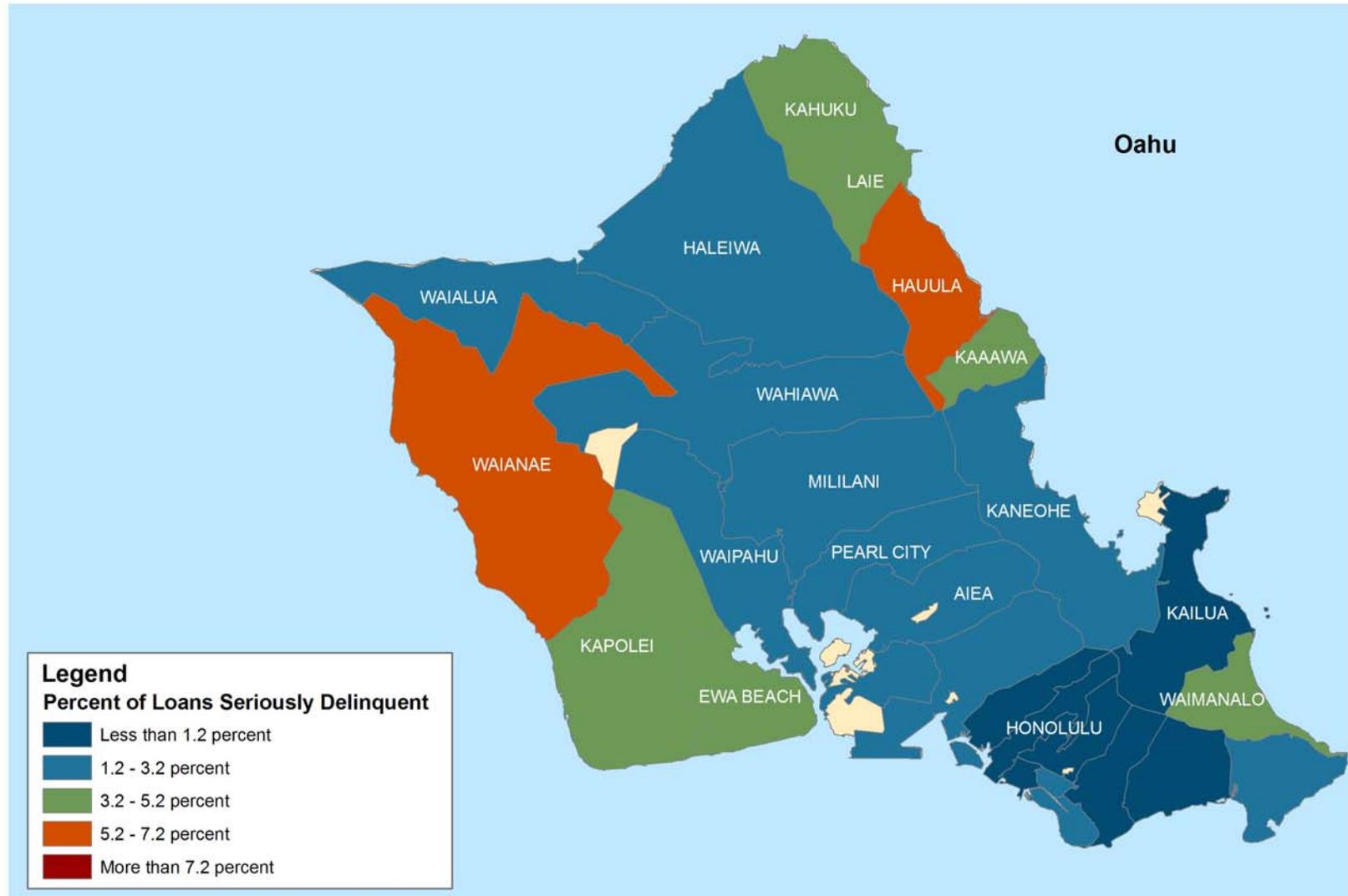
Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008

Percent of Loans Seriously Delinquent



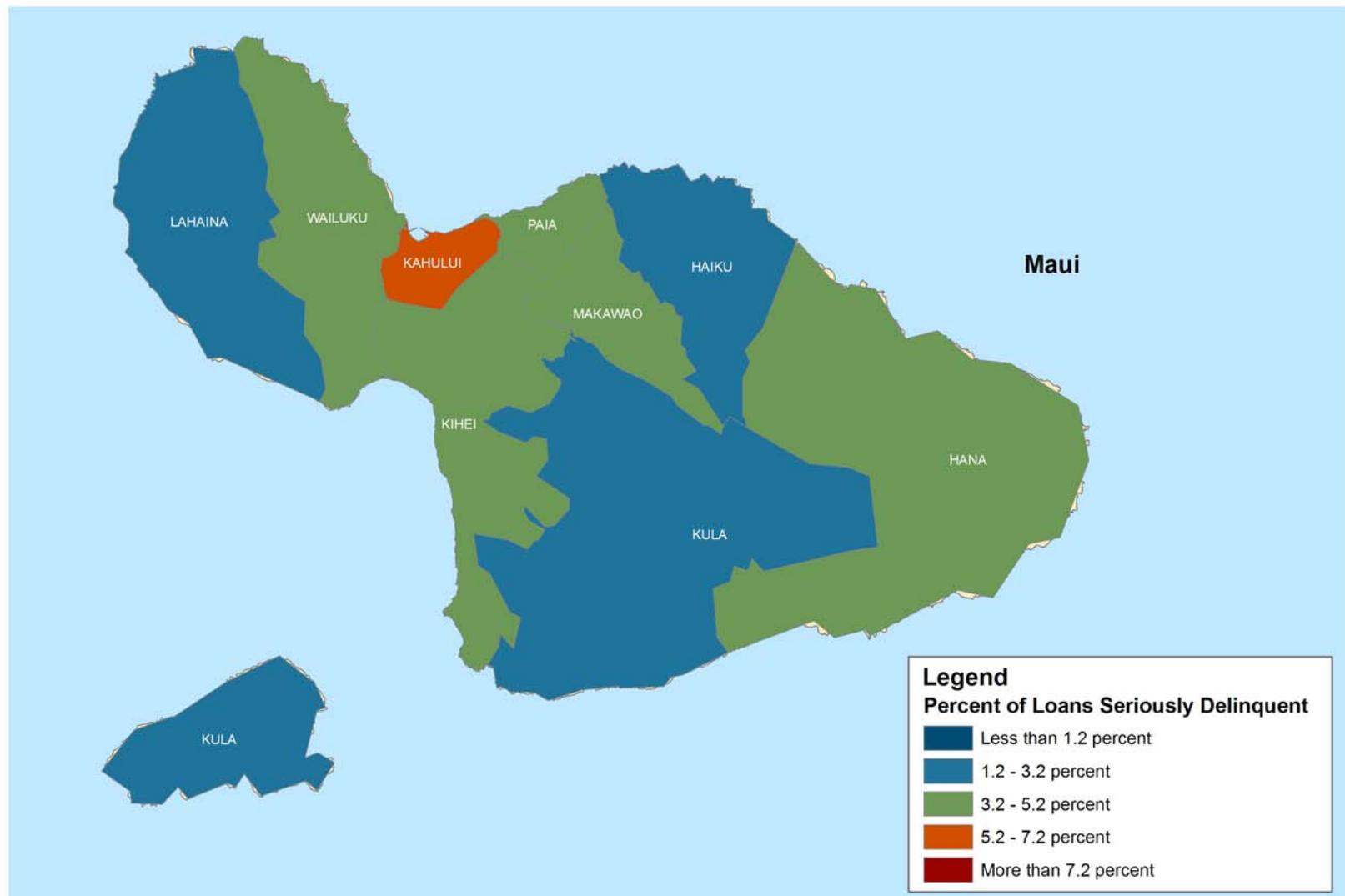
Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008

Percent of Loans Seriously Delinquent



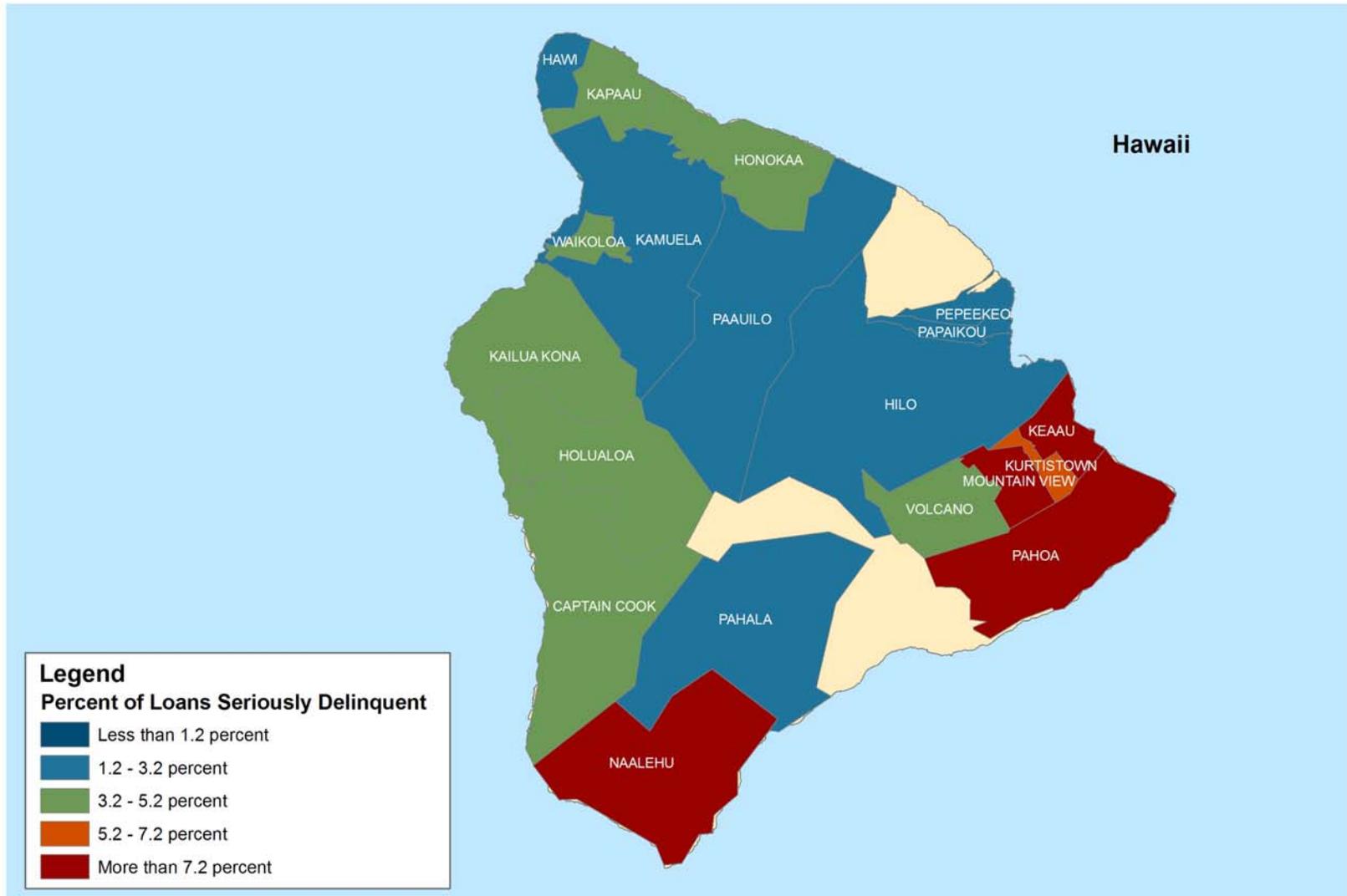
Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008

Percent of Loans Seriously Delinquent



Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008

Percent of Loans Seriously Delinquent



Source: McDash Analytics, LLC and FRBSF calculations, Data from August 2008

Responding to Foreclosures in Utah



Responding to the Foreclosure Crisis

- Multi-pronged strategy is needed to stem the foreclosure crisis
 - Foreclosure prevention: borrower outreach, loan modification (including principal reduction)
 - 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

Foreclosure Mitigation Toolkit

- Available online at
<http://www.frbsf.org/community/issues/toolkit/index.html>
- The resources in the toolkit are presented as a four-step process
 - Step One: Assess the foreclosure situation
 - Step Two: Reach troubled homeowners
 - Step Three: Establish post-foreclosure support systems
 - Step Four: Stabilize neighborhoods

Community Strategies – Foreclosure Prevention

- Foreclosure prevention: borrower outreach, loan modification
 - HOPE NOW: servicer guidelines
 - New technology platforms can assist counselors/servicers in doing loan modifications
 - New finance products: e.g., H4H program just released
 - Most effective when there is a direct relationship between counselor and servicer
 - Borrower outreach events
- Prevention remains key, since over the long-term, more cost effective than having to respond to foreclosed property issues

HOPE NOW Servicer Data for Hawaii

- ❑ Loan modifications rose substantially in the past year, likely helping to prevent many additional foreclosures
- ❑ Important to continue these efforts, particularly as more borrowers face distress due to economic and housing market problems

	2 nd Qtr 2007	2 nd Qtr 2008
Repayment Plans	328	518
Loan Modifications	34	322
Foreclosure Sales	66	210
60+ Delinquency Rate	0.89%	1.95%

Source: Hope Now Servicing Data, August State Data Tables 2008, includes both prime and subprime loans

Community Strategies - Addressing Vacant Properties

- Goal is to establish **continuity of responsibility** for property, and to help finance the maintenance of vacant properties
 - Code enforcement (e.g. Chula Vista and Stockton)
 - Vacant property registration and fees (e.g. Chicago)
- Identifying responsible party on the property
 - State Law – Georgia SB 531 requires that notice of the foreclosure sale includes the name, address, and telephone number of the “individual or entity who shall have full authority to negotiate, amend, and modify all terms of the mortgage with the debtor.”
- Strategies for taking over abandoned properties
 - Receivership models
 - Tax foreclosure

Community Strategies – REO Property Disposition

- Intervening before Foreclosure: entails buying the delinquent note before foreclosure and working with borrower first, if not successful, return to either rental or ownership
 - CDFIs: Self Help, Colorado, and Massachusetts
- Neighborhood Revitalization Approaches: targeting neighborhoods and using ‘traditional’ community development tools to acquire and rehab housing units
 - Neighborhood Progress Inc. in Cleveland
 - Dallas, Rochester, and Chicago
 - DC: New Markets Tax Credits
- Lender Approaches: working with a single lender to acquire a “bundle” of properties at a discount
 - Bulk Purchase
 - Pilot studies (e.g. HSBC model)
- Borrower approaches: providing favorable financing to borrowers interested in buying foreclosed properties
 - CAL FHA product

Key Lessons

- ❑ Use data strategically
 - National data sets can't capture local dynamics or "property level" data
 - Engage a local partner (e.g. title company, university, public records co., real estate agent) who can help to identify properties and their owners
- ❑ Cross-sectoral collaboration
 - Importance of political support and the "stick" of regulation
 - Task force model works well, especially when it brings together government, nonprofits, lenders/servicers, and private interests
- ❑ Draw on a wide range of funding sources
- ❑ Use public subsidies wisely
 - Cross-subsidize affordable housing goals by selling some properties at market rate
 - Anticipate long "holding" costs and ensure you have enough capital in addition to subsidy to implement your business plan
- ❑ Evaluate strategies across strong/weak markets