

# Status of Virginia's Foreclosure Problem

## Default and Foreclosure Levels

The foreclosure starts rate spiked in the 3<sup>rd</sup> Qtr. of 2010 in Virginia and the U.S. as large numbers of loans that had been in loss mitigation for an extended period, but which could not be successfully modified, moved into foreclosure. Completed foreclosures also accelerated in the 3<sup>rd</sup> Qtr. with the result being a further drop in serious delinquency rates.

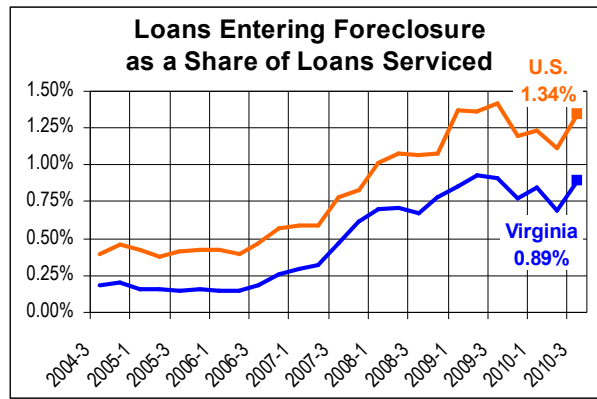
The significant purging of lender loss mitigation and foreclosure pipelines resulted in procedural problems in many states, especially those with judicial foreclosure processes, which led to lender moratoria in late September. The impact of these moratoria on Virginia is not yet known. However, there has likely been a renewed increase in seriously delinquent loans since late September that will enter foreclosure in early 2011.

In spite of the problems lenders face in addressing loss mitigation and foreclosure issues, steady improvement in early-stage and overall default rates has been seen for several quarters. The total number of seriously delinquent loans has fallen by approximately 14,000 (17%) since their peak of over 81,400 in the 4<sup>th</sup> Qtr of 2009.

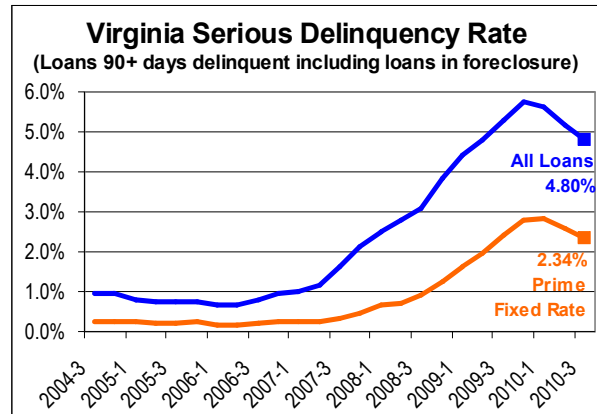
Virginia continues to outperform the nation on all measures, and has seen steady improvement in its ranking among states. This is due to: 1) the waning of the first wave of sub-prime and alt-A loan defaults that hit "bubble" markets in Virginia's Northern Tier region especially hard; and 2) the much better performance of Virginia's economy relative to those of other states.

Virginia's improving situation is being driven mainly by significant reductions in foreclosure activity within the core of the Northern Tier region (Planning District 8). In that area, relatively lower unemployment, a return to more normal for-sale inventories, and a strong investor market for distressed properties have lowered foreclosure activity, which now mirrors the statewide level.

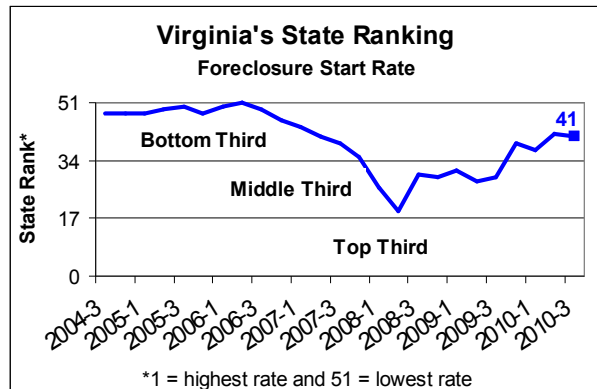
This improvement has offset continued weakness in the outer portions of the Northern Tier region (i.e., northern Shenandoah Valley and northern Piedmont) and ongoing deterioration in downstate markets where unemployment remains high. It is unclear how many downstate markets have yet seen a peak in foreclosure activity. However, recent declines in default rates on traditional fixed-rate loans suggest that the peak is near if not past.



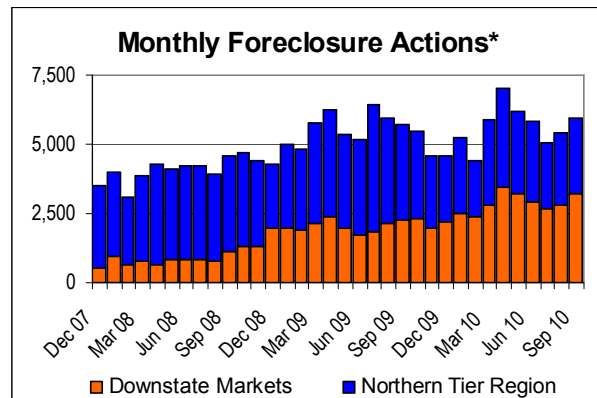
Source: Mortgage Bankers Association



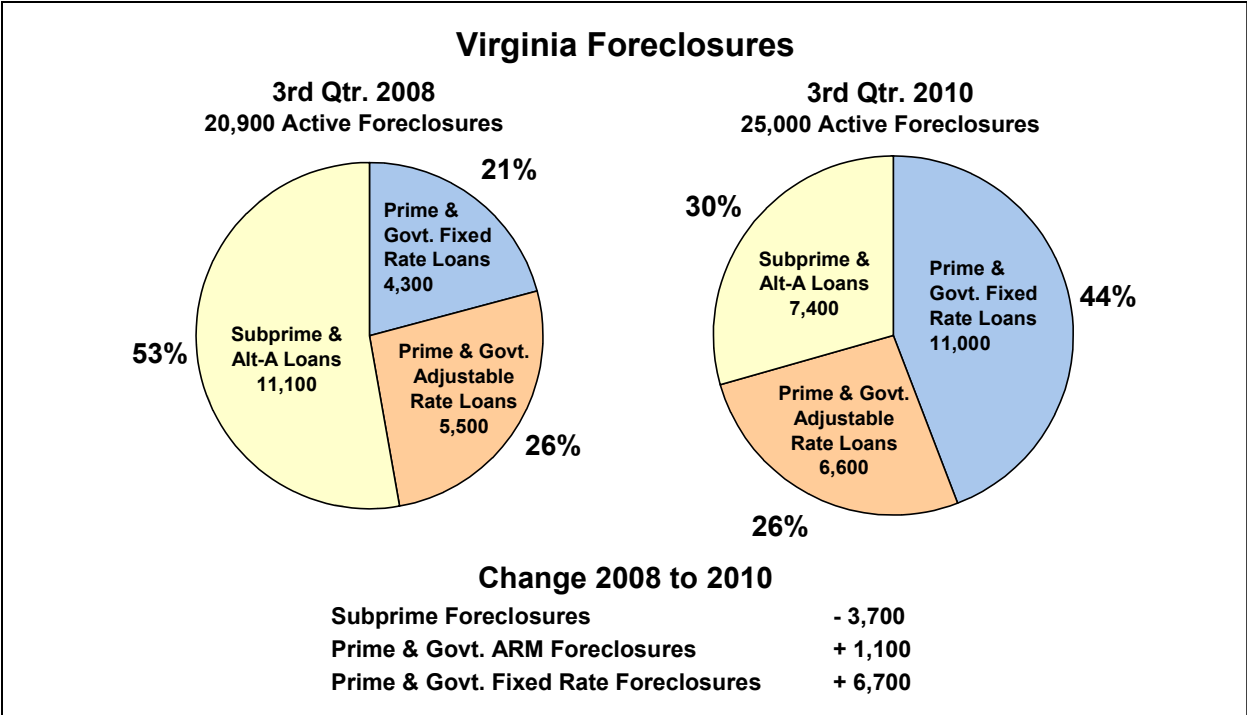
Source: Mortgage Bankers Association



Source: Mortgage Bankers Association



Source: RealtyTrac \*Trustee sales and lender repossessions



Source: Mortgage Bankers Association

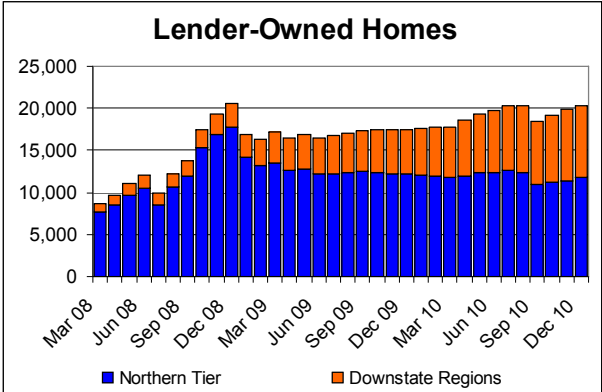
### Inventory of Lender-Owned Homes

The inventory of lender-owned homes is extremely large and shows no near-term signs of abating. Lender inventories of distressed properties remain the principal challenge to housing market recovery and the return to a stable mortgage environment.

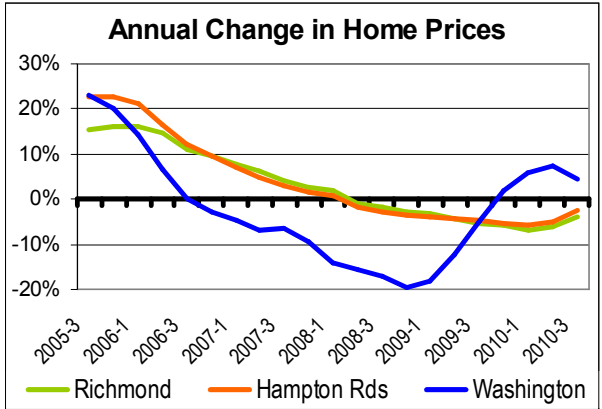
In the Northern Tier, the decline in foreclosure rates has led to stabilization of the distressed home inventory. However, the federal homebuyer tax credit program had minimal impact on reducing that inventory. The strong investor market for distressed homes has helped area home prices—especially in the region’s core—to recover modestly from their lows in early 2009. However, overall area home sales remain weak and are at risk of a “double dip.” A rebound in sales is needed in order to draw down the large distressed inventory in a timely manner.

Inventories of lender-owned homes continue to grow in downstate markets—especially in the Hampton Roads and Richmond metro areas. As in Northern Virginia, efforts to reduce those inventories now face the challenge of weakening home sales. Home price declines in downstate markets slowed in the 3<sup>rd</sup> Qtr., due in part to the stabilizing impact of the federal homebuyer tax credit. However, the overall supply of unsold homes has not yet returned to normal levels, and so the growing inventory of foreclosed homes will further stress home prices.

Large volumes of distressed lender-owned homes will continue to negatively impact state and local tax



Source: RealtyTrac



Source: FHFA Price Indices (Richmond and Hampton Roads) Case-Schiller Price Index (Washington)

revenues for at least several more years, and will impose substantial service cost burdens on local governments.