Status of Virginia's Foreclosure Problem

By and large, foreclosure trends in the 1st Qtr. of 2011 represent a continuation of the pattern that emerged in the 4th Qtr. of 2010.

Default and Foreclosure Levels

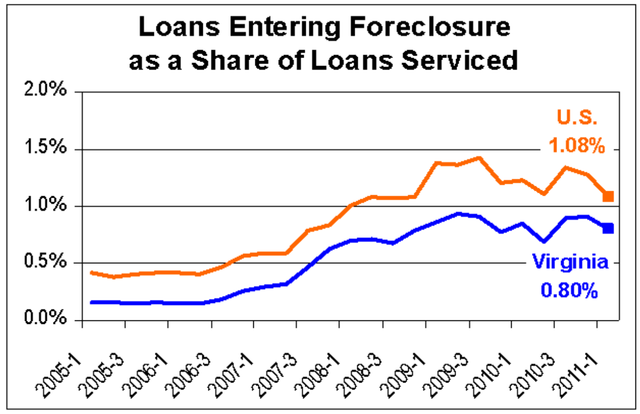
In the1st Qtr., the continued decline in early stage loan defaults facilitated the ongoing steady decline in mortgages 90+ days delinquent. In addition, Virginia loans entering foreclosure renewed their decline. This followed the increase in foreclosure starts during the second half of 2010 that resulted from loan servicers moving large numbers of long-term delinquent loans unable to be successfully modified into the foreclosure process.

Unfortunately, loan servicers are finding it difficult to resolve the backlog of loans in foreclosure in a timely manner due to continuing legal challenges concerning foreclosure procedures as well as a desire to manage the disposition of lender-owned homes in manner least disruptive to fragile local markets. While the number of loans in foreclosure stabilized during the 1st Qtr., it remains very high. LPS Analytics estimates that at the end of April, the ratio of seriously delinquent loans to monthly foreclosure completions in Virginia was 52:1.

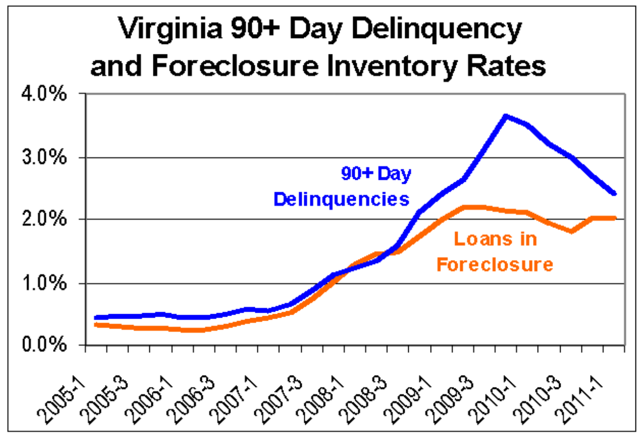
Virginia continues to outperform the nation on all foreclosure measures. This is due to: 1) the waning of the first wave of sub-prime and alt-A loan defaults that hit "bubble" markets in Virginia's Northern Tier region especially hard; and 2) the much better performance of Virginia's economy relative 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 normal for-sale inventories, and a strong investor market for distressed properties have lowered foreclosure activity, which now mirrors the statewide level.

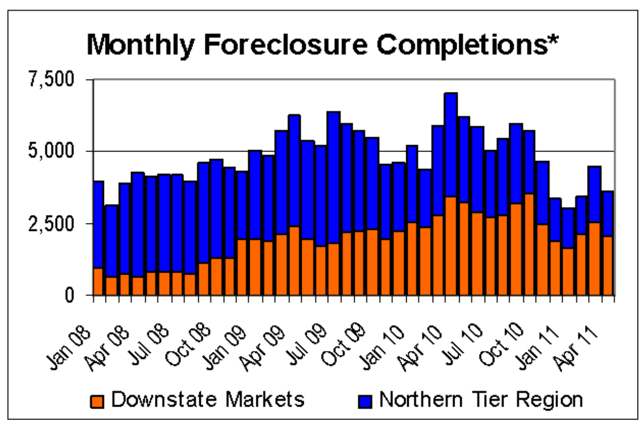
This improvement has offset continued weakness in the outer portions of the Northern Tier region (i.e., northern Shenandoah Valley, northern Piedmont and Fredericksburg areas) and ongoing deterioration in downstate markets where unemployment remains relatively higher. It is unclear how many downstate 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.



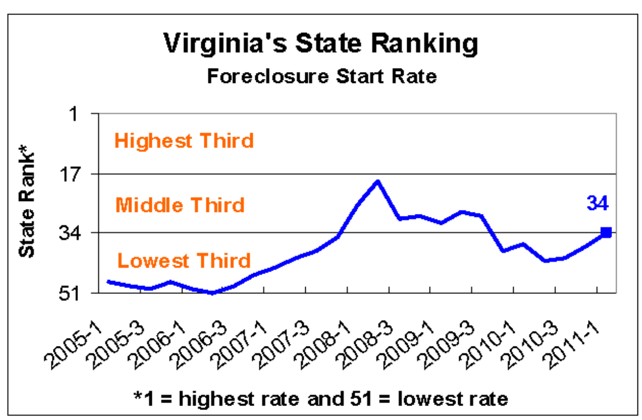
Source: Mortgage Bankers Association



Source: Mortgage Bankers Association



Source: RealtyTrac *Trustee sales and lender repossessions



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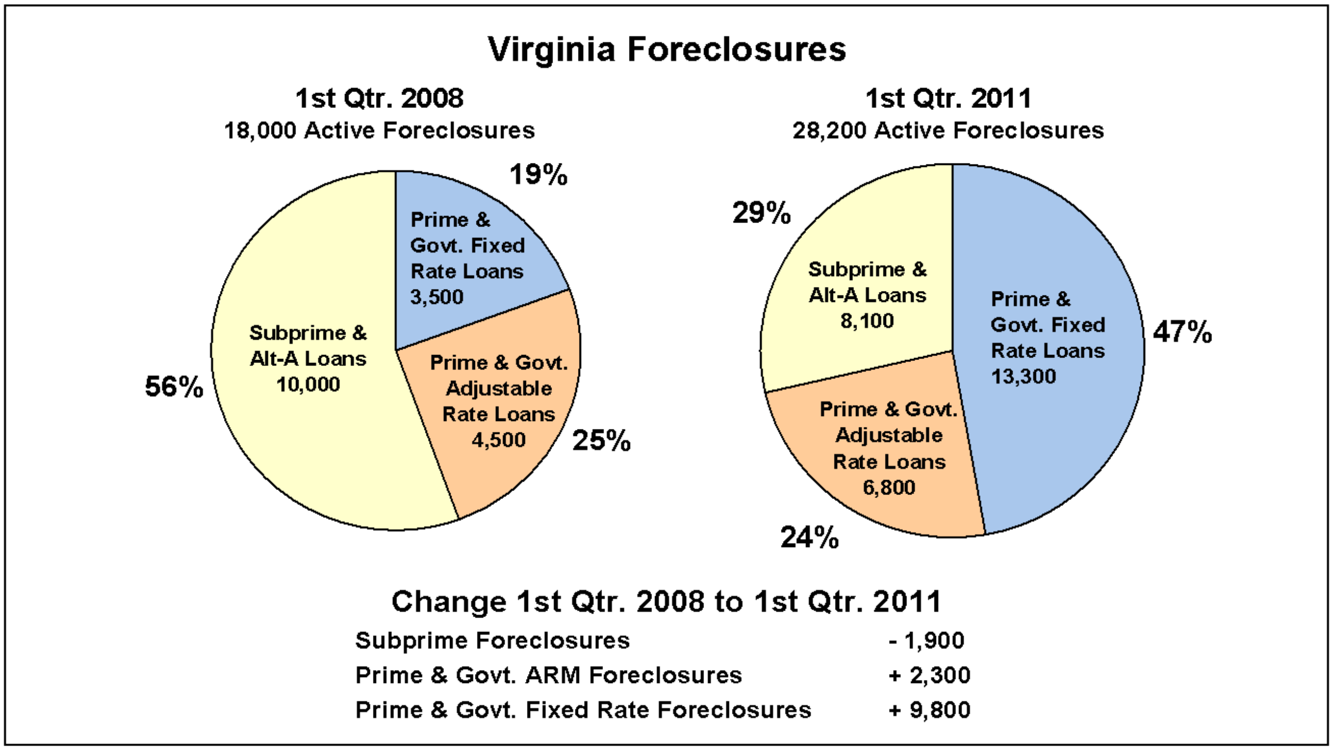
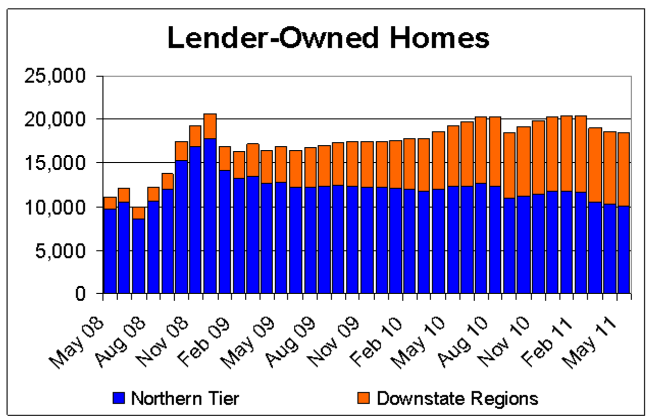


Source: Mortgage Bankers Association

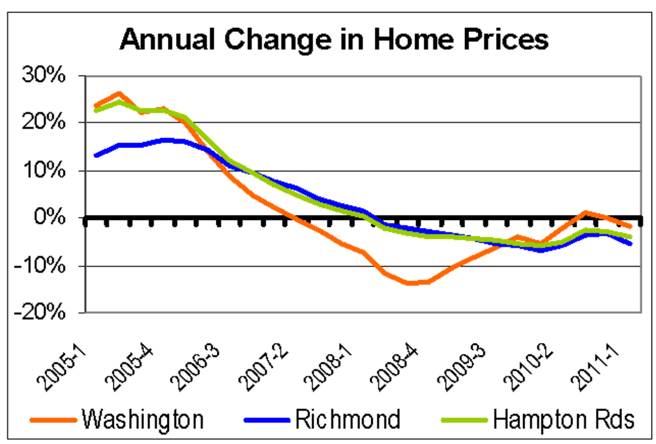
Inventory of Lender-Owned Homes

The inventory of lender-owned homes remains extremely large throughout the state, and shows no near-term sign of significant abatement despite a recent steady, modest decline. This decline, which is occurring throughout the state, likely results as much from the current slow rate of foreclosure completions as from increased sales. Therefore, local inventories are likely to again rise once the pace of foreclosure completions returns to normal. 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 drop in foreclosure rates has enabled a decline in the inventory of lender-owned homes. However, meaningful reduction in that inventory remains extremely slow. The strong investor market for distressed homes helped area home prices—especially in the region's core—to recover modestly during 2010 from their lows in early 2009. However, lender-owned homes are again a growing share of real estate for-sale listings. Consequently, prices throughout the Northern Tier are showing renewed weakness. Home prices in downstate regions that were seeking equilibrium in mid 2010 are seeing increased declines due to the large share of distressed sales.



Source: RealtyTrac



Source: FHFA Home Price Indices