

# Status of Virginia's Foreclosure Problem

## Default and Foreclosure Levels

The 4<sup>th</sup> Qtr. of 2011 continued the pattern established in the 3<sup>rd</sup> Qtr. where large numbers of delinquent loans that had been in loss mitigation for an extended period, but which could not be successfully modified, moved into foreclosure. The result was a continued high rate of foreclosure starts coupled with a continued significant decline in 90+ day delinquencies.

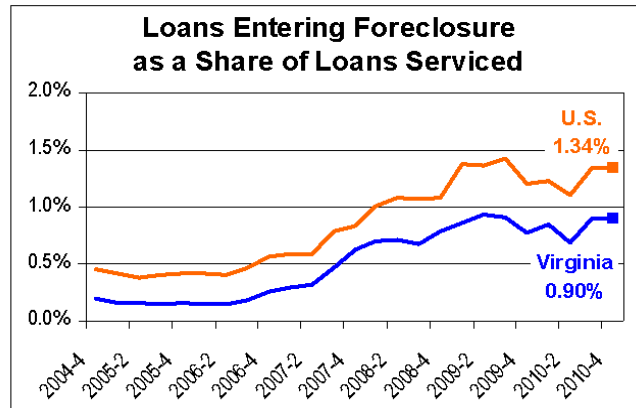
However, a number of national mortgage lenders imposed temporary moratoria in late September in response to identified procedural problems. These moratoria led to a significant drop in completed foreclosures. Whereas in the first half of 2010 the backlog of loans was in the 90+ day delinquent/loss mitigation process, by the end of 2010, the backlog was in the foreclosure process.

In spite of the problems lenders face in moving loans through the foreclosure process, steady improvement in early-stage and overall default rates continues. The total number of seriously delinquent loans was approximately 74,300 in the 4<sup>th</sup> Qtr. of 2010, down by 18,200 (20%) from a peak of over 92,500 in the 4<sup>th</sup> Qtr of 2009.

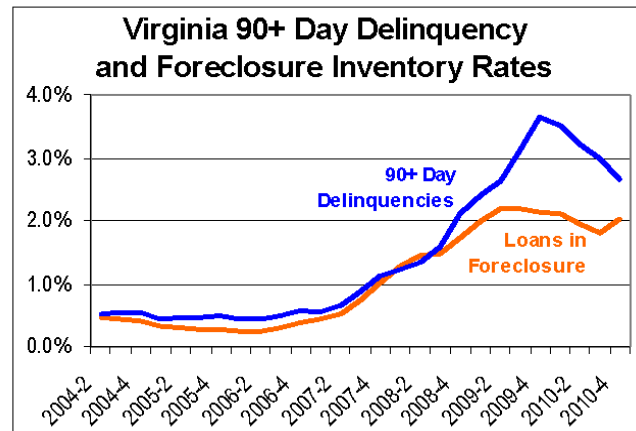
Virginia continues to outperform the nation on all foreclosure measures. This is due to: 1) the waning of the first wave of sub-prime and alt-A loan defaults that hit "bubble" markets in Virginia's Northern Tier region especially hard; and 2) the much better performance of Virginia's economy relative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

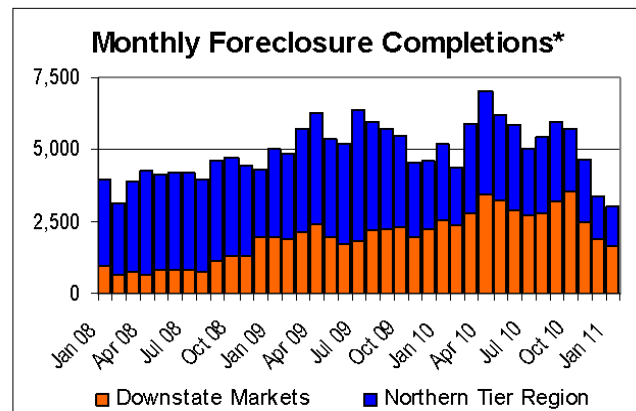
This improvement has offset continued weakness in the outer portions of the Northern Tier region (i.e., northern Shenandoah Valley and northern Piedmont) and ongoing deterioration in downstate markets where unemployment remains high. It is unclear how many downstate markets have yet seen a peak in foreclosure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



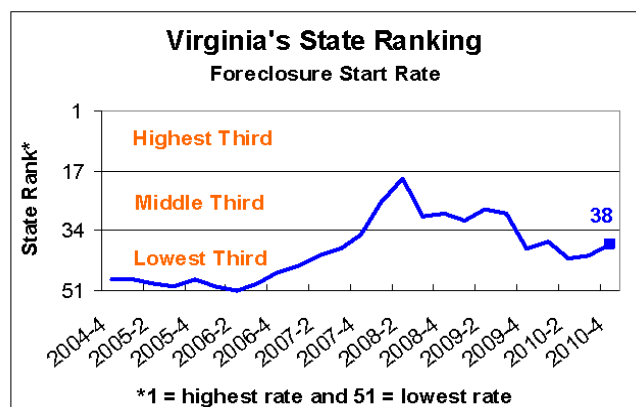
Source: Mortgage Bankers Association



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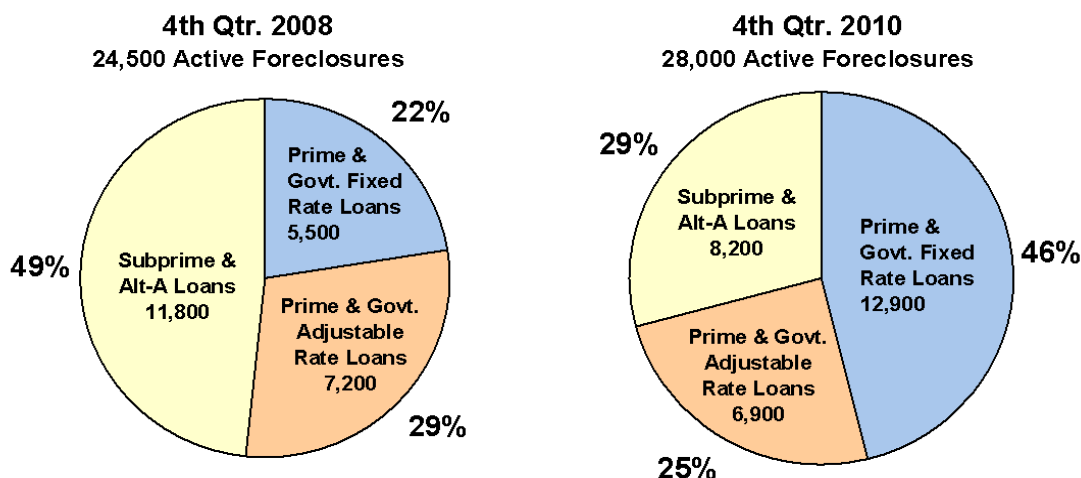


Source: RealtyTrac \*Trustee sales and lender repossessions



Source: Mortgage Bankers Association

## Virginia Foreclosures



### Change 4th Qtr. 2008 to 4th Qtr. 2010

Subprime Foreclosures	- 3,600
Prime & Govt. ARM Foreclosures	- 300
Prime & Govt. Fixed Rate Foreclosures	+ 7,400

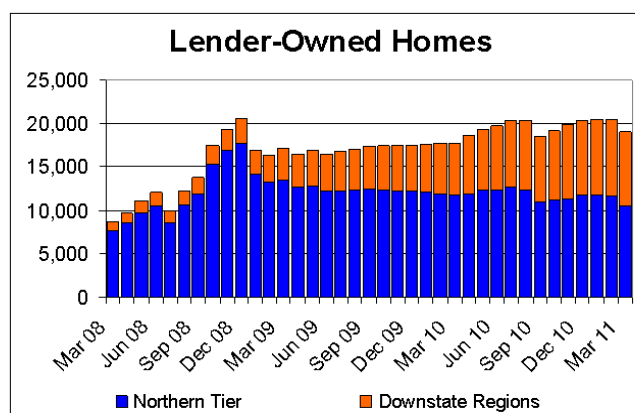
Source: Mortgage Bankers Association

## Inventory of Lender-Owned Homes

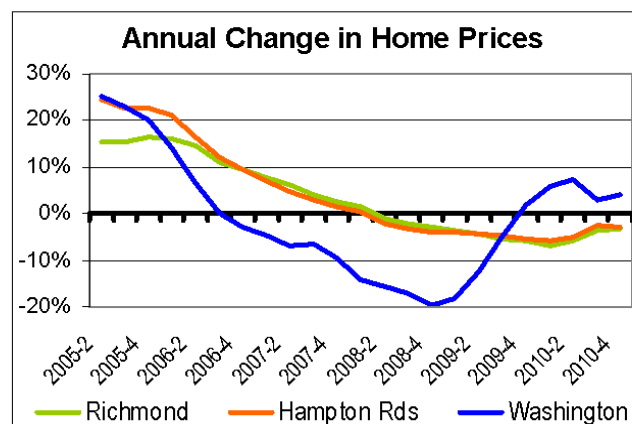
The inventory of lender-owned homes is extremely large throughout the state, and shows no near-term sign of significant abatement despite a meaningful drop in February. The February decline, which occurred throughout the state, was likely the result of lender foreclosure processing moratoria that have temporarily slowed the rate of foreclosure completions. 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, a decline in foreclosure rates has led to stabilization of the distressed home inventory. However, meaningful reduction in that inventory has been 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 likewise showing renewed weakness.

Large volumes of distressed lender-owned homes will continue to negatively impact state and local tax revenues for at least several more years, and will



Source: RealtyTrac



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

impose substantial service cost burdens on local governments.