

Review of Virginia Foreclosure Trends

September 20, 2011

Summary of the Current Situation

Weakening macro-economic factors have slowed progress in resolving foreclosures:

- Renewed jobs and income weakness have stalled previous progress in reducing early-stage loan delinquencies. This will likely lengthen the time needed to reduce the number of seriously delinquent loans in loss mitigation.
- On the “back end,” there is renewed progress—albeit slow—in clearing the foreclosure pipeline. However, the weakness in home sales continues to hinder lenders’ ability to reduce their large inventories of foreclosed homes.

Estimated Changes in Loan Status

Virginia: 1st Quarter to 2nd Quarter 2011

Payments Current	+ 50
Early Stage Delinquent	+ 8,100
90+ Days Delinquent	- 2,000
In Foreclosure Process	- 1,700
Lender-owned Homes	- 1,100

Source: Estimates based on data from Mortgage Bankers Association (MBA) and RealtyTrac

Front End—Stalled progress:

- Renewed economic weakness has halted steady improvement in on-time payments that began in late 2009.
- Early stage delinquencies are again rising. But, it is too early yet to know whether this will result in increased long-term delinquencies.

Back End—Modest Improvement:

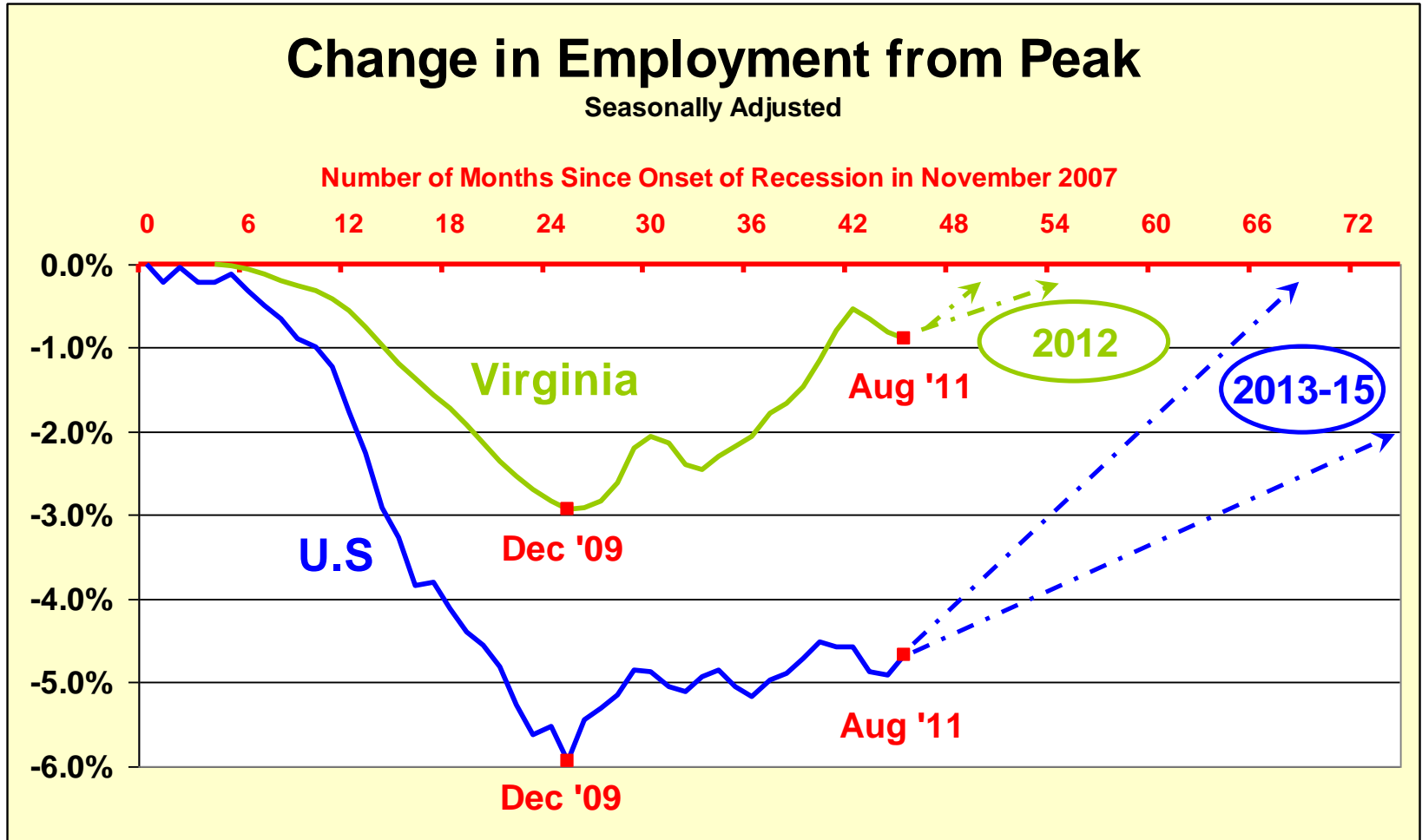
- The foreclosure pipeline is slowly starting to clear.
- The disposition of lender-owned homes continues to be very slow due to weak home sales across Virginia.

Weakening Loan Performance

Weakened economic fundamentals have impacted loan performance.

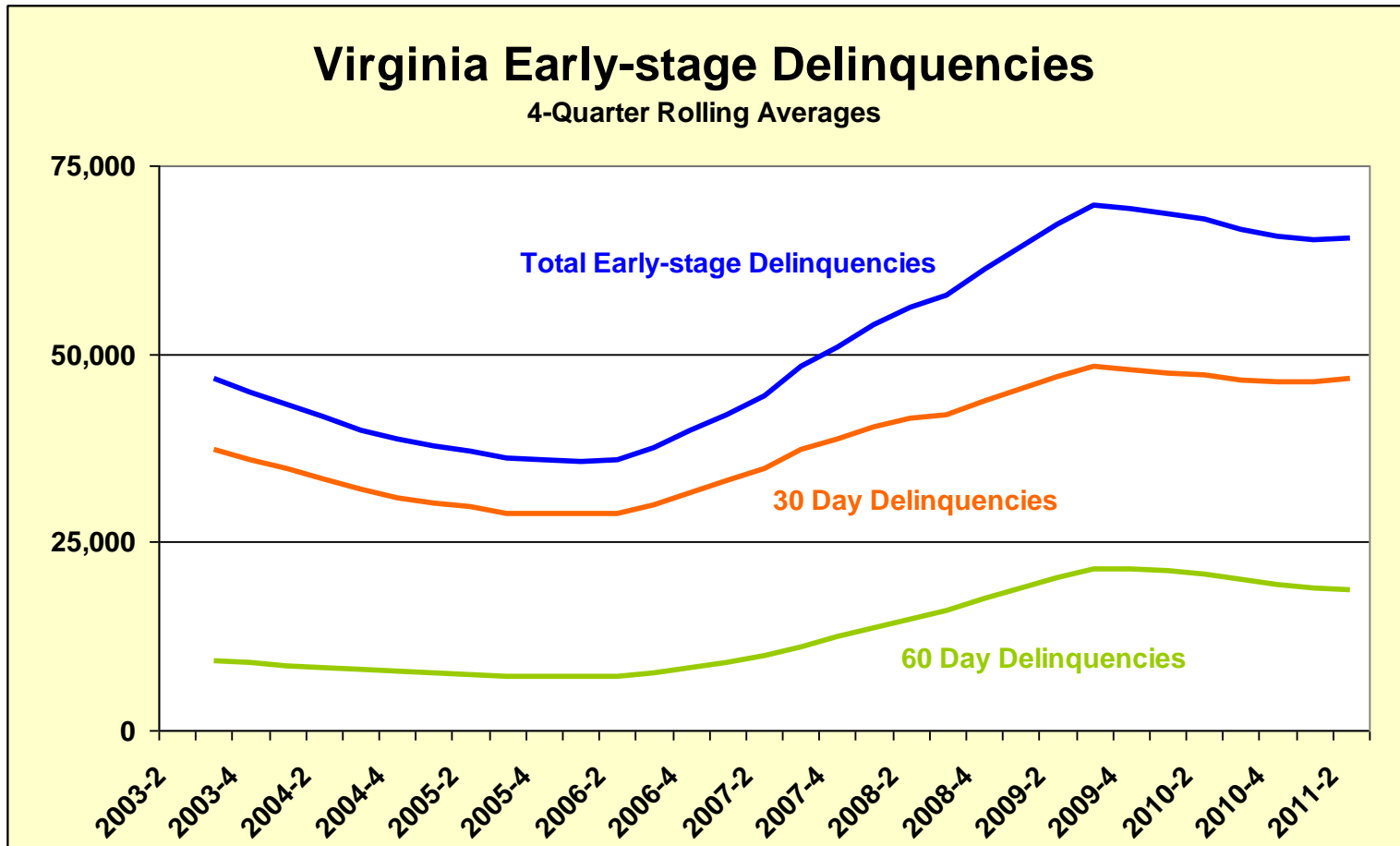
- During the 2nd Quarter of 2011, households faced limited income growth coupled with rising food and fuel costs.
- By mid year, the economic slowdown had led to stagnating employment gains.
- Together, these weakening economic fundamentals increased stress on household budgets. The result was a renewed up-tick in early stage delinquencies.
- While the up-tick was very small, it ended the steady improvement in loan performance since late 2009.

Employment has declined since mid-year.



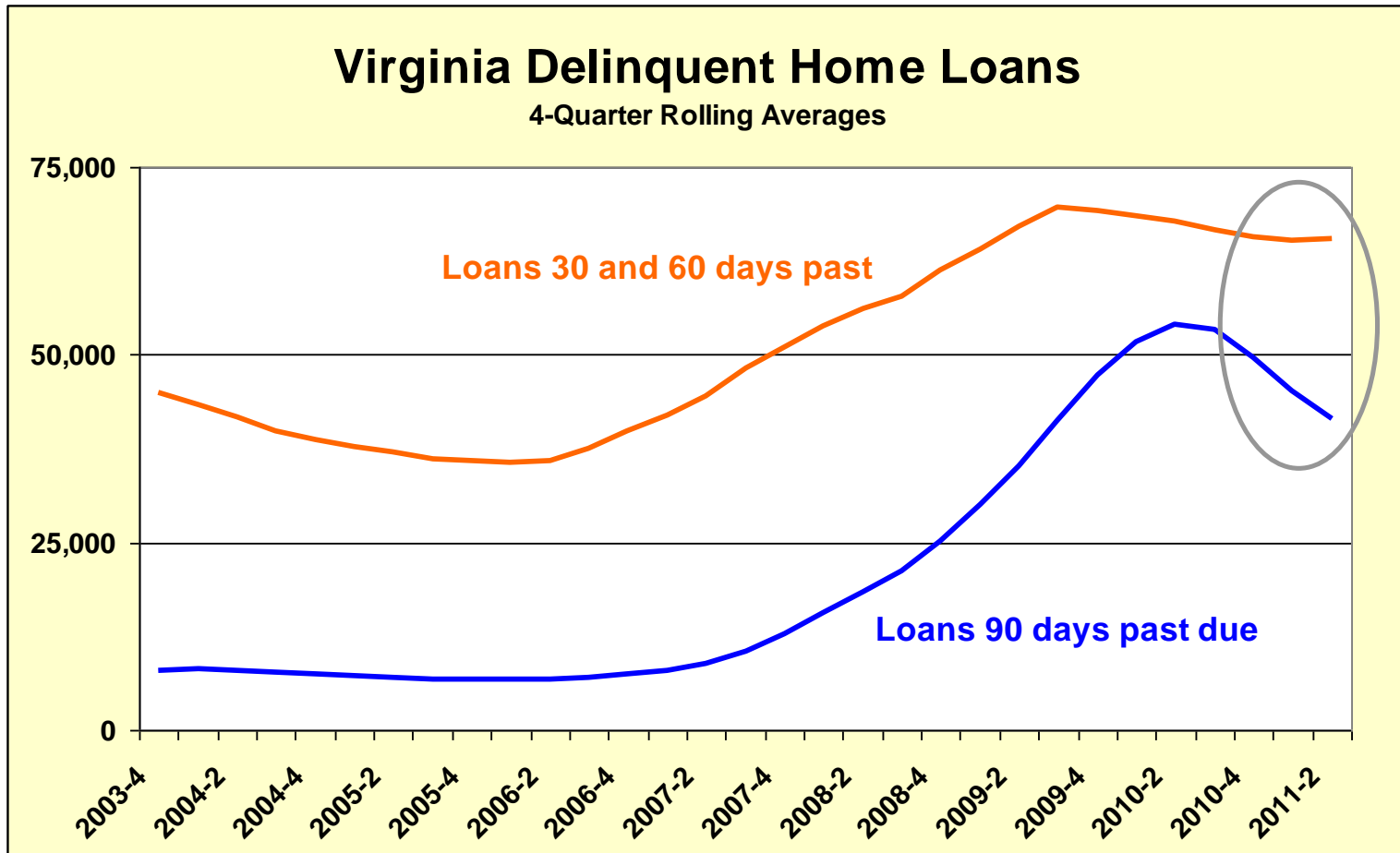
Sources: Virginia Employment Commission and U.S. Bureau of Labor Statistics (BLS)

The modest 18-month improvement in early-stage delinquencies has ended.



Source: Estimated based on data from the Mortgage Bankers Association (MBA)

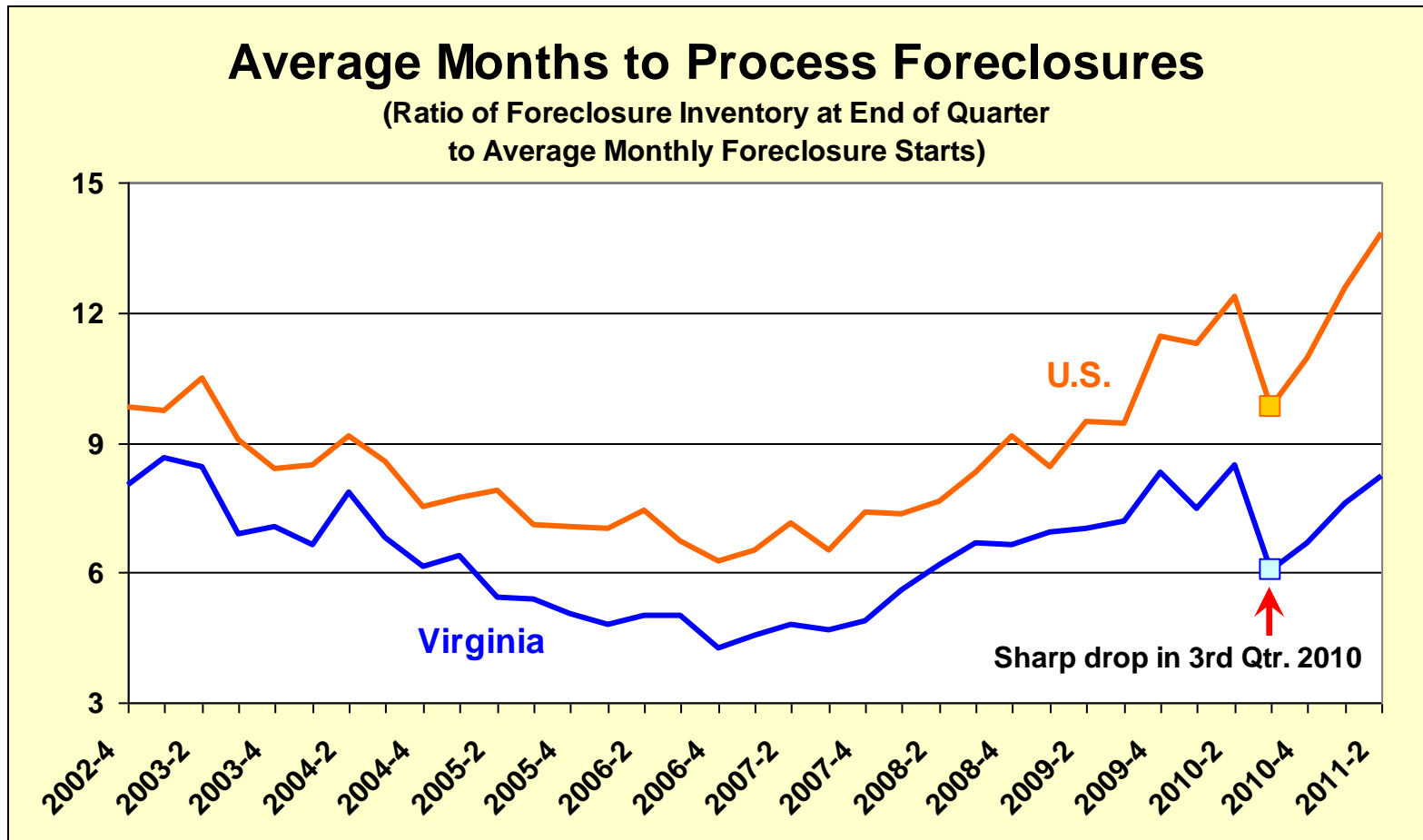
The up-tick in late payments puts at risk the ongoing decline in 90-day delinquencies.



Source: Estimated based on data from the Mortgage Bankers Association (MBA)

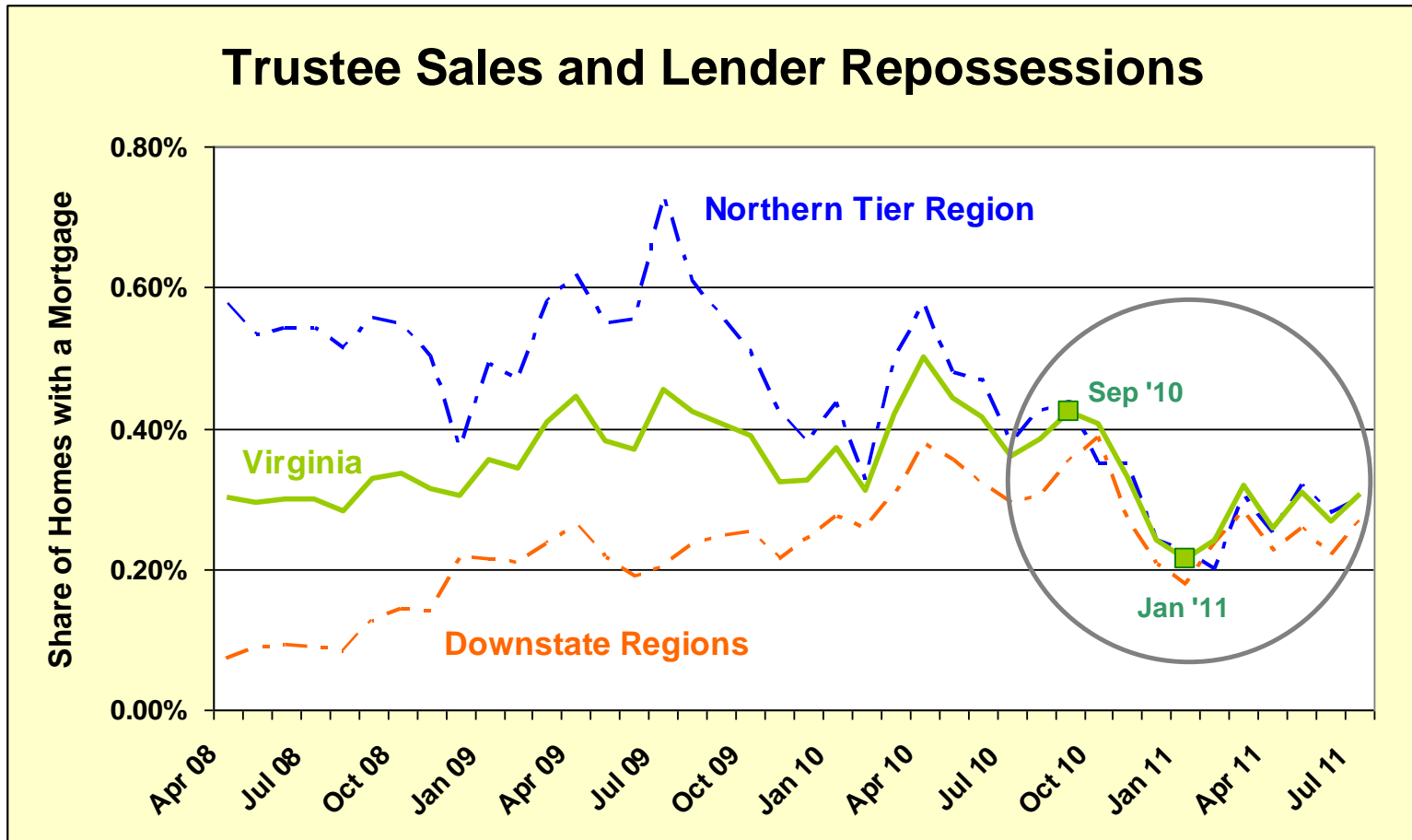
Challenges in Resolving Foreclosures

Processing times continue to lengthen since the lender moratoria in late 2010.



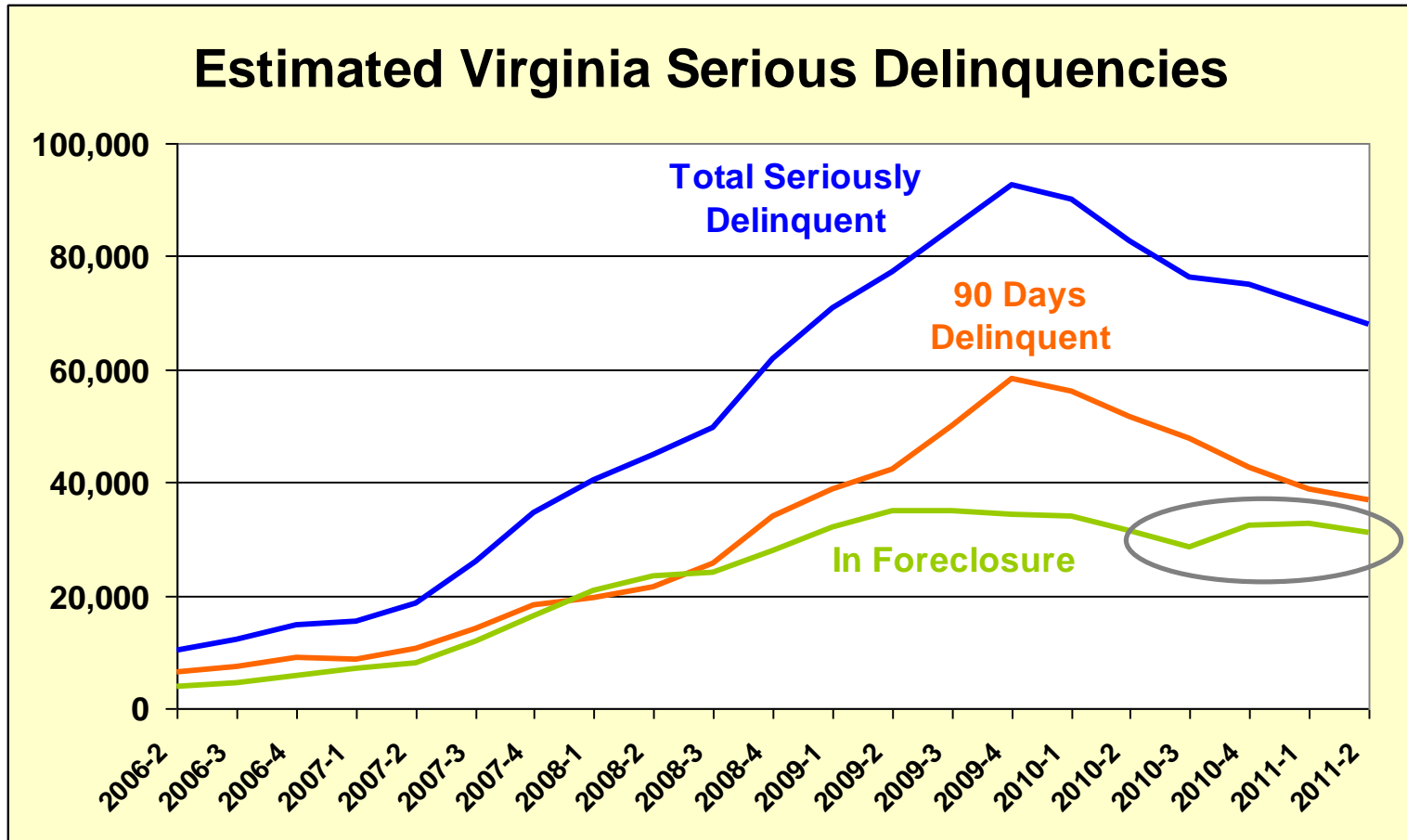
Source: Mortgage Bankers Association (MBA)

Foreclosure completions remain well below pre-moratoria levels.



Source: RealtyTrac

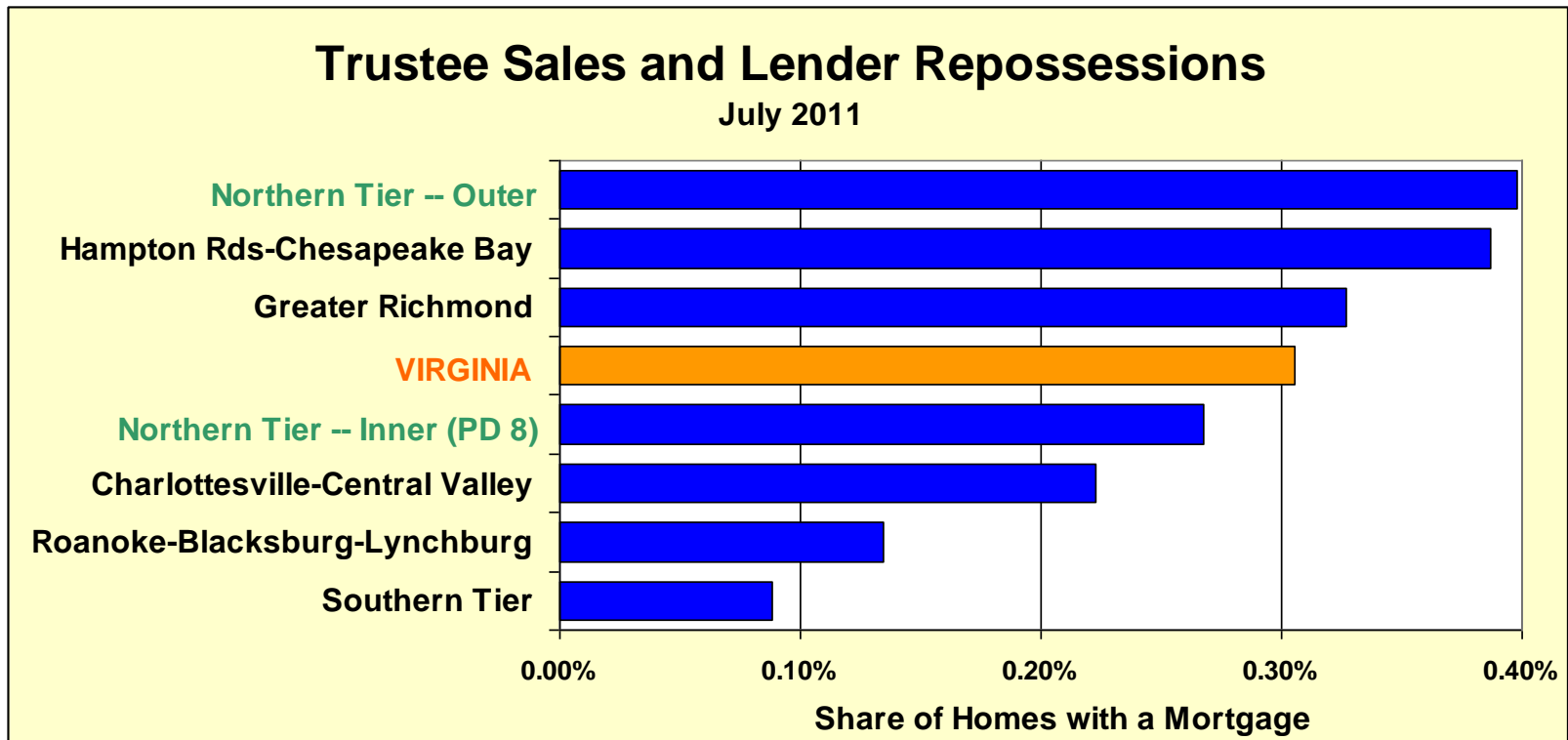
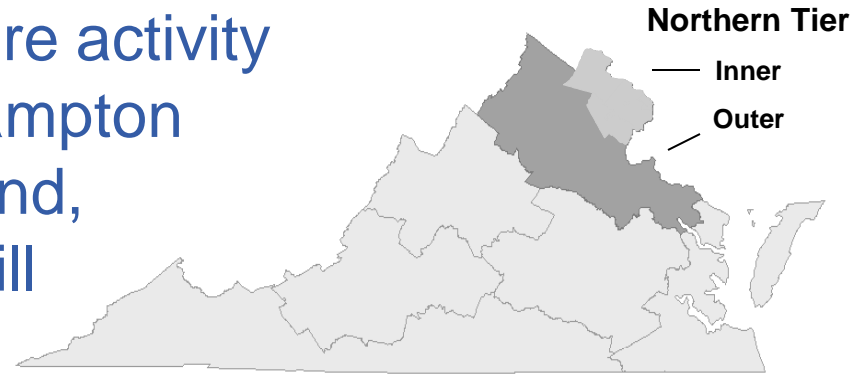
The pace of resolutions remains insufficient to reduce the number of loans in foreclosure.



Source: Estimates based on data from the Mortgage Bankers Association (MBA)

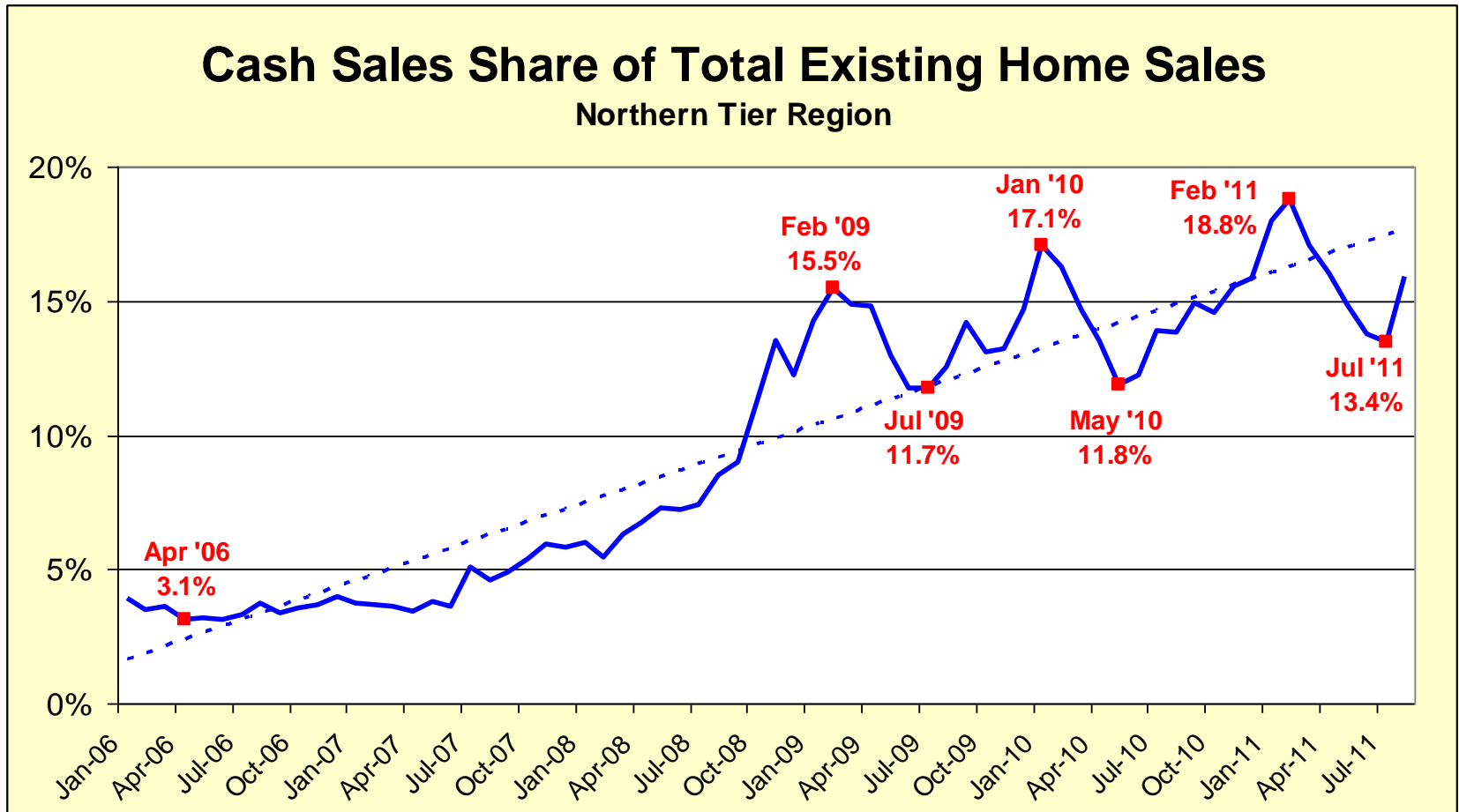
Regional Trends in Foreclosure Activity

The distribution of foreclosure activity continues to shift toward Hampton Roads and Greater Richmond, but with the highest rates still in Outer Northern Tier.



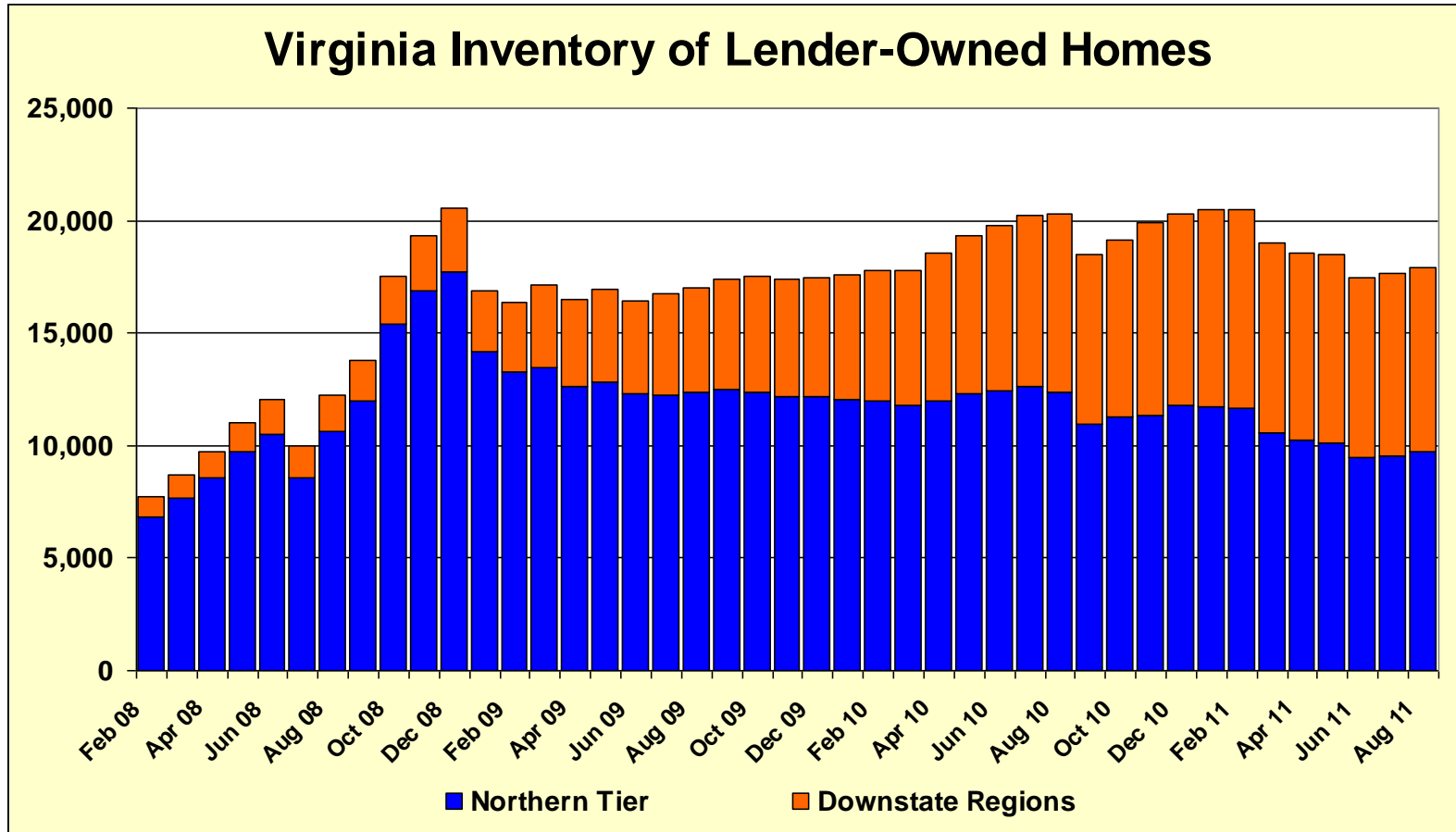
Source: RealtyTrac and Census Bureau

Investor sales continue to trend up in spite of seasonal fluctuations.



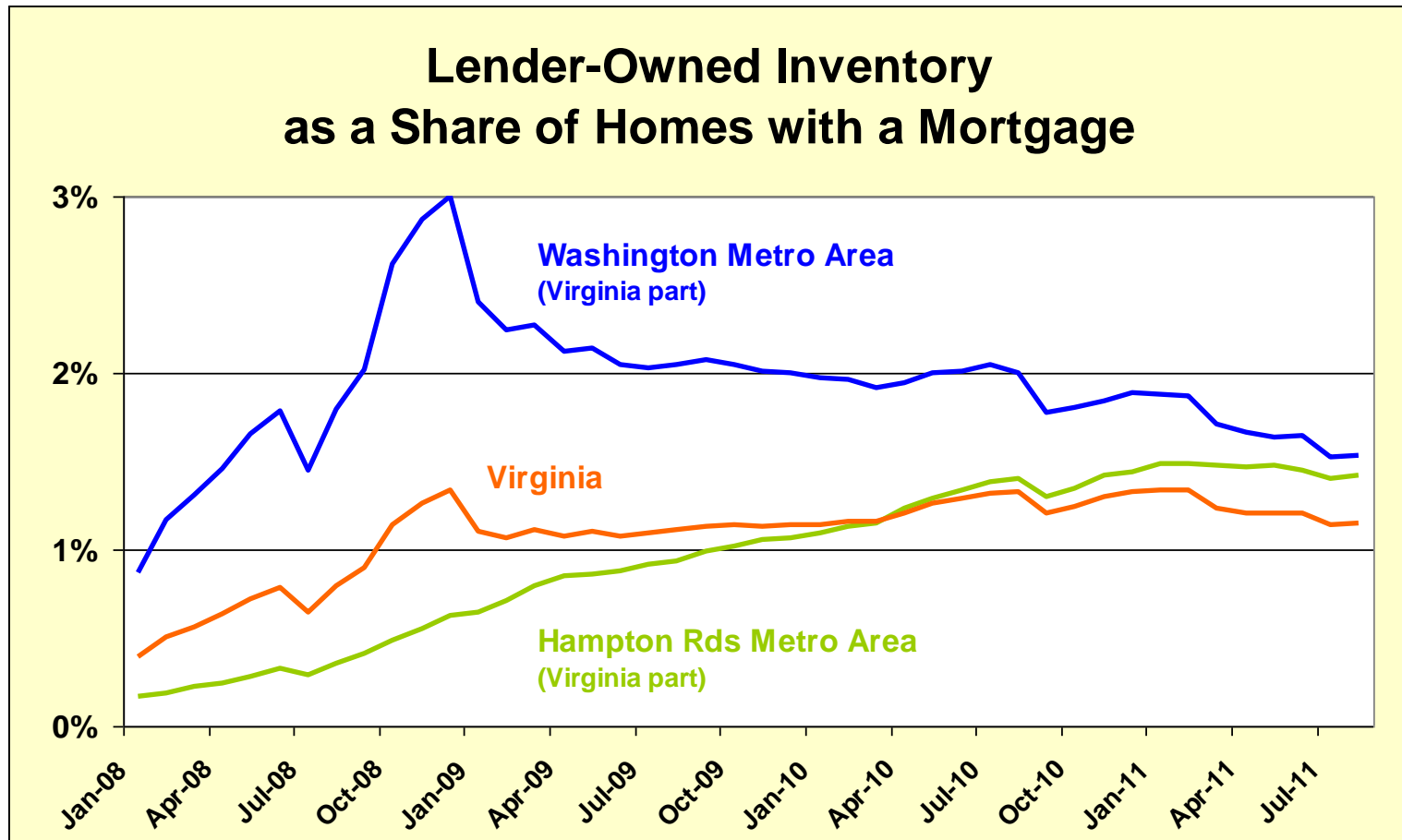
Source: MRIS

Rising investor sales are containing the distressed inventory, but not reducing it.



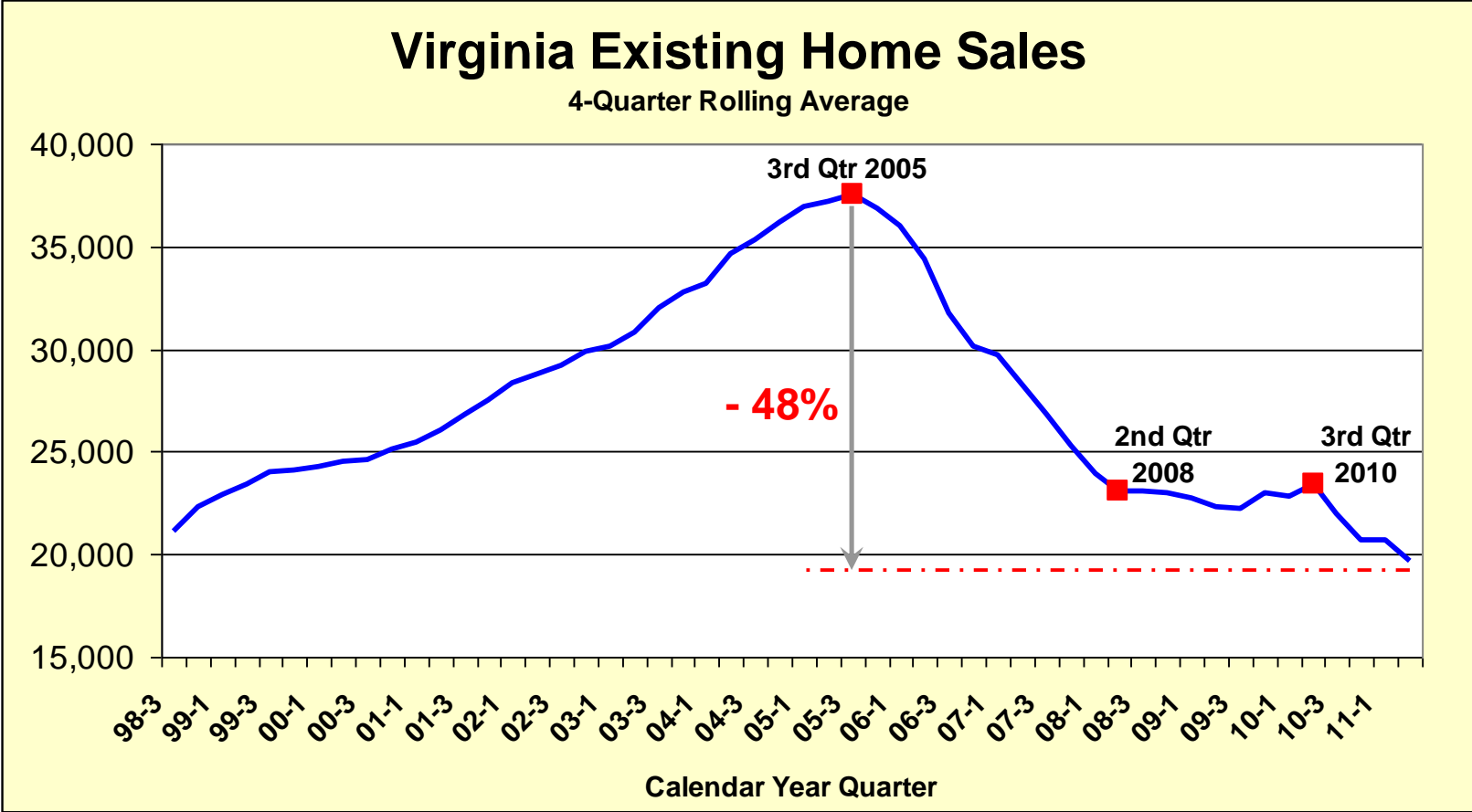
Source: RealtyTrac

Progress in NoVA has been offset by increasing inventories in Hampton Roads.



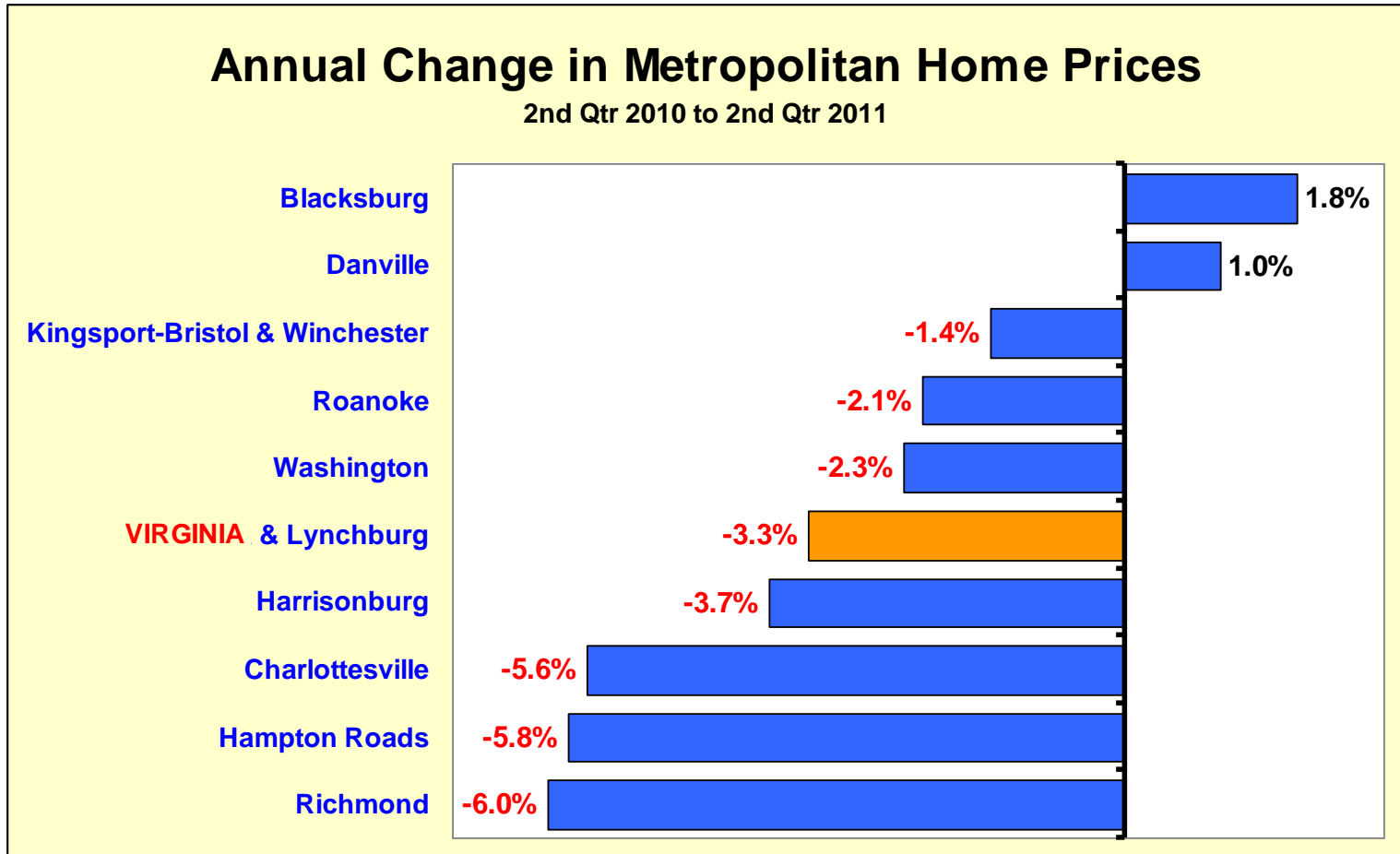
Source: RealtyTrac and Census Bureau

Home sales have not yet found a bottom following the end of the federal tax credit.



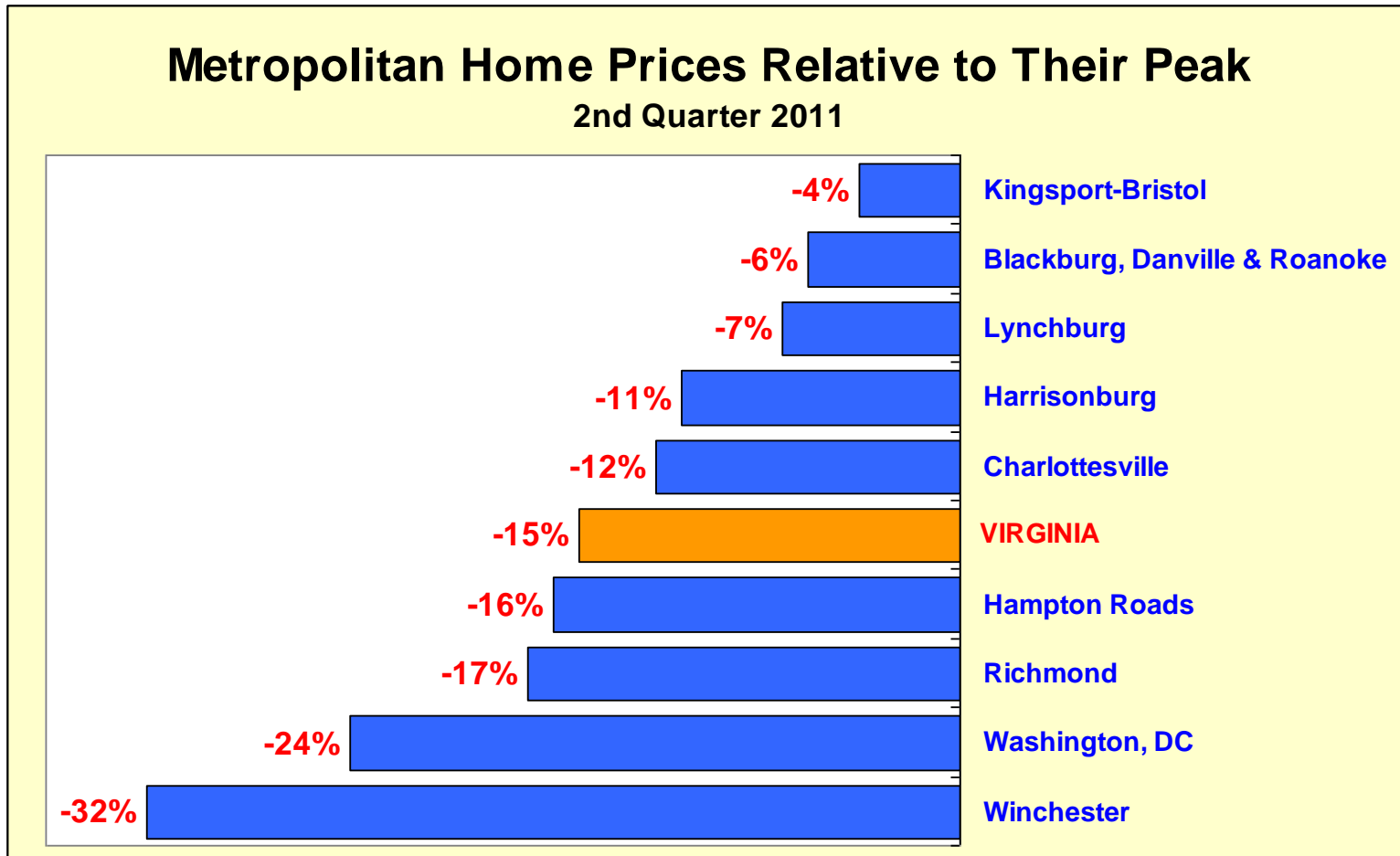
Source: Virginia Association of Realtors (VAR)

Prices are mainly declining, with the largest drops where unsold inventory is greatest.



Source: Federal Housing Finance Agency (FHFA) Home Price Index

Prices, especially in the Northern Tier, remain significantly below their peak.



Source: Federal Housing Finance Agency (FHFA) Home Price Index

In Conclusion: Over the past year, the problem has remained essentially unchanged.

- Delinquency rates have peaked, but remain stubbornly high.
- Processing issues continue to keep large numbers of loans in foreclosure.
- Weak home purchase demand continues to inhibit the reduction in lender-owned homes. The reinforcing interplay of declining home values and large distressed inventories has not been broken.
- Substantial improvement in the foreclosure problem is unlikely until macro-economic conditions show meaningful change—i.e., renewed jobs and income growth and further reduction of household debt.