

Status of Virginia's Foreclosure Problem

By and large, foreclosure trends in the 2nd Qtr. of 2011 represent a continuation of those that emerged at the end of 2010.

Default and Foreclosure Levels

In the 2nd Qtr., the steady decline in mortgages 90+ days delinquent continued, but at a somewhat slower rate. The slowing was due to a renewed up-tick in early-stage delinquencies resulting from a slowdown in jobs creation and income growth.

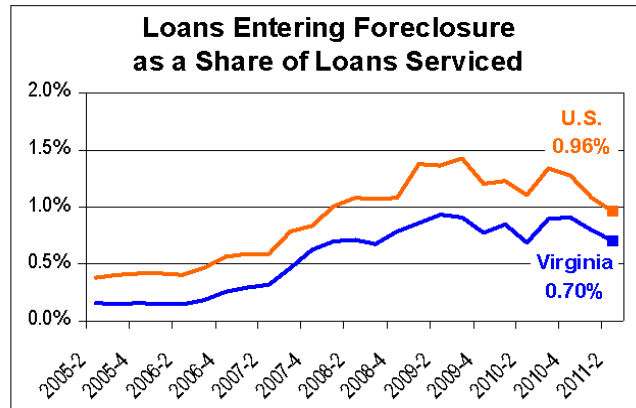
Virginia loans entering foreclosure continued to decline. This followed the increase in foreclosure starts during the second half of 2010 that resulted from loan servicers moving large numbers of long-term delinquent loans unable to be successfully modified into the foreclosure process.

Loan servicers continue to have difficulty resolving the backlog of loans in foreclosure in a timely manner due to continuing foreclosure processing issues as well as a desire to manage the disposition of lender-owned homes in manner least disruptive to local markets. Consequently, the number of loans in foreclosure remains high.

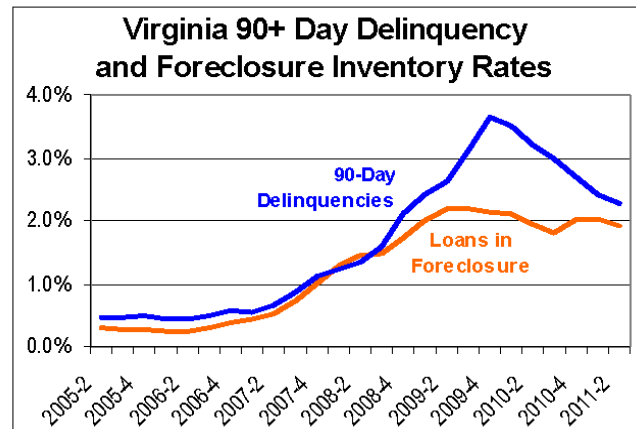
Virginia continues to outperform the nation on all foreclosure measures. This is due to: 1) the waning of the first wave of sub-prime and alt-A loan defaults that hit "bubble" markets in Virginia's Northern Tier region especially hard; and 2) the much better performance of Virginia's economy relative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

Virginia's improvement relative to other states has been 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 the foreclosure rate to a level below the state average.

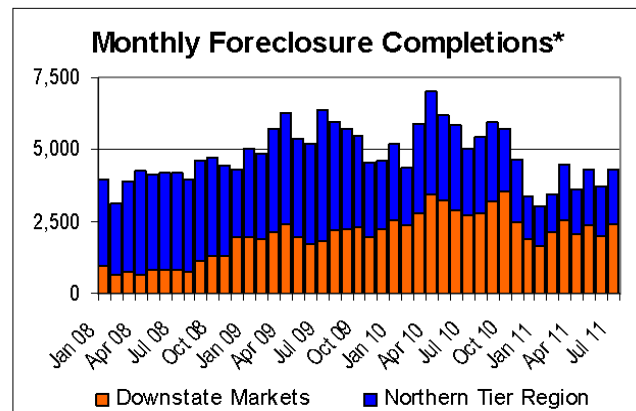
This improvement has offset continued weakness in the outer portions of the Northern Tier region (i.e., northern Shenandoah Valley, northern Piedmont and Fredericksburg areas) and ongoing deterioration in downstate markets, especially Hampton Roads. It is unclear how many downstate markets have yet seen a peak in foreclosure activity. However, foreclosure activity appears to be stabilizing in most areas.



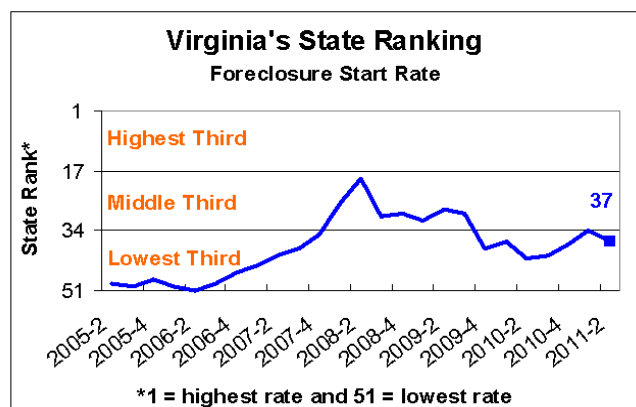
Source: Mortgage Bankers Association



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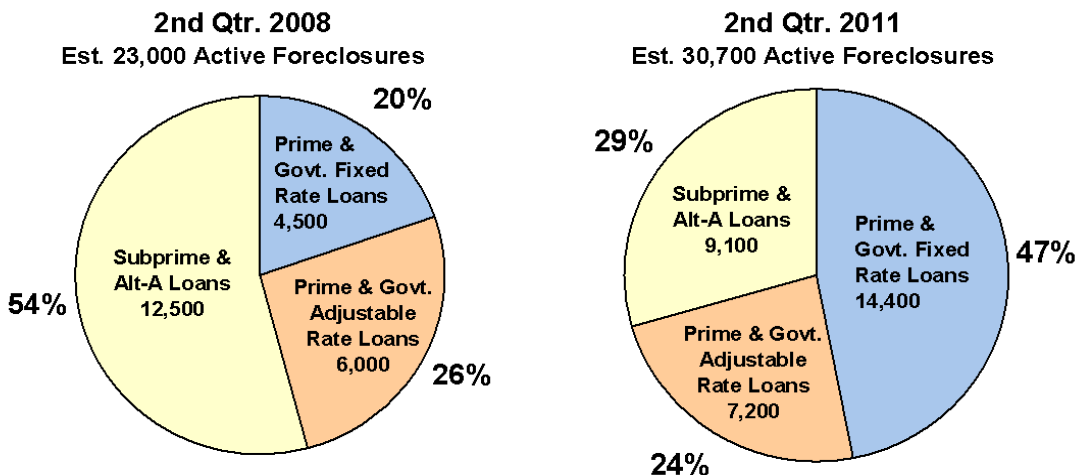


Source: RealtyTrac *Trustee sales and lender repossessions



Source: Mortgage Bankers Association

Virginia Foreclosures



Change 2nd Qtr. 2008 to 2nd Qtr. 2011

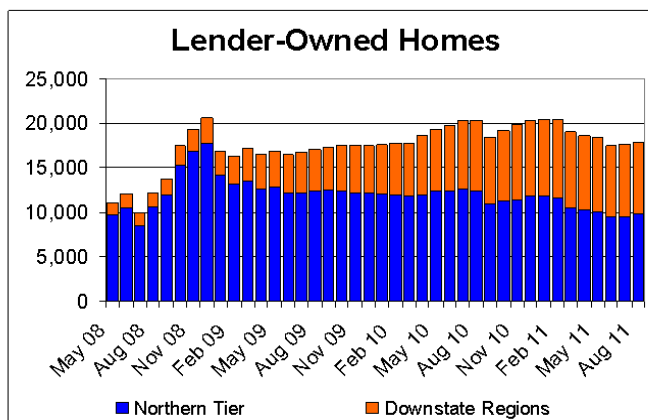
Subprime Foreclosures	- 3,400
Prime & Govt. ARM Foreclosures	+ 1,200
Prime & Govt. Fixed Rate Foreclosures	+ 9,900

Source: Mortgage Bankers Association

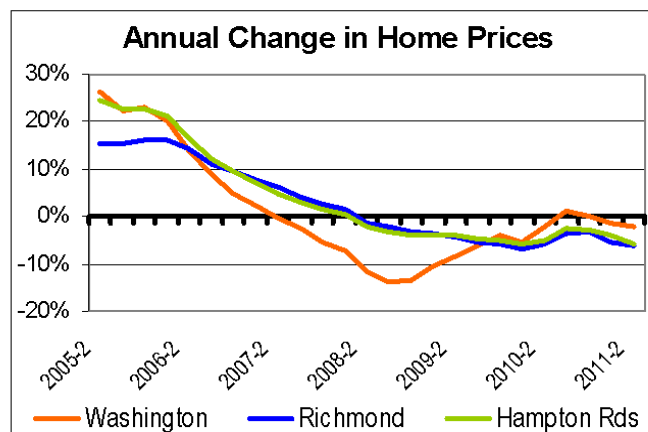
Inventory of Lender-Owned Homes

The inventory of lender-owned homes remains extremely large throughout the state, and shows no near-term sign of significant abatement despite a modest decline since the first of the year. This decline likely has resulted as much from the current slow rate of foreclosure completions as from increased sales. Therefore, local inventories may again rise if the pace of foreclosure completions increases. 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 still 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. Likewise, home prices in downstate regions that were seeking equilibrium in mid 2010 are seeing increased declines due to distressed sales.



Source: RealtyTrac



Source: FHFA Home Price Indices