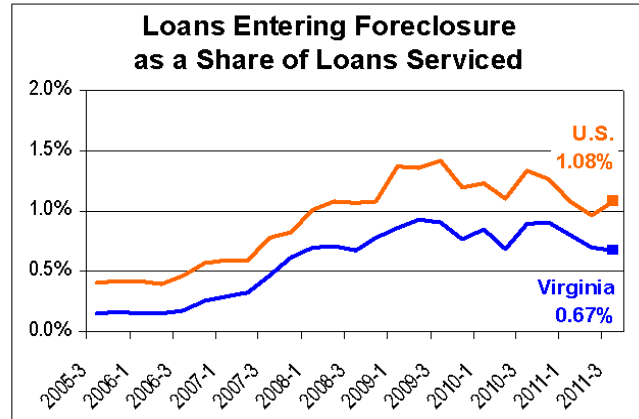


Status of Virginia's Foreclosure Problem

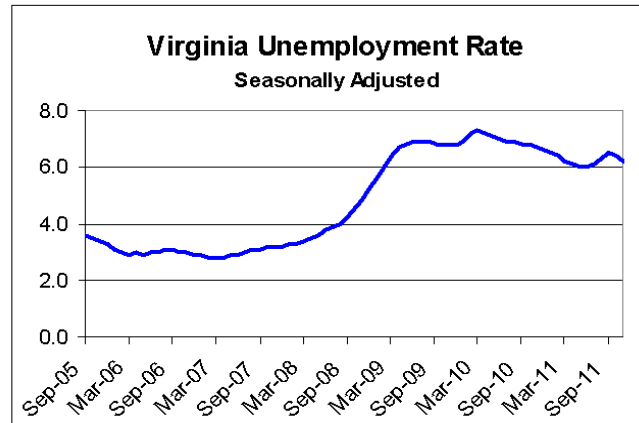
Progress in resolving distressed mortgages continues to be uneven. The initial peak in foreclosure activity in late 2008 and 2009 resulted from the implosion of the subprime bubble. Since then, the number of troubled subprime mortgages has fallen by a third as a result of loan modifications, foreclosures, deeds in lieu of foreclosure and refinancings.

As problem loan defaults ebbed, a second rise in foreclosures was driven by high rates of unemployment and under employment in the aftermath of the Great Recession. Jobs growth has become essential to resolving the substantial number of distressed loans made through traditional, soundly underwritten, fixed-rate loan programs.

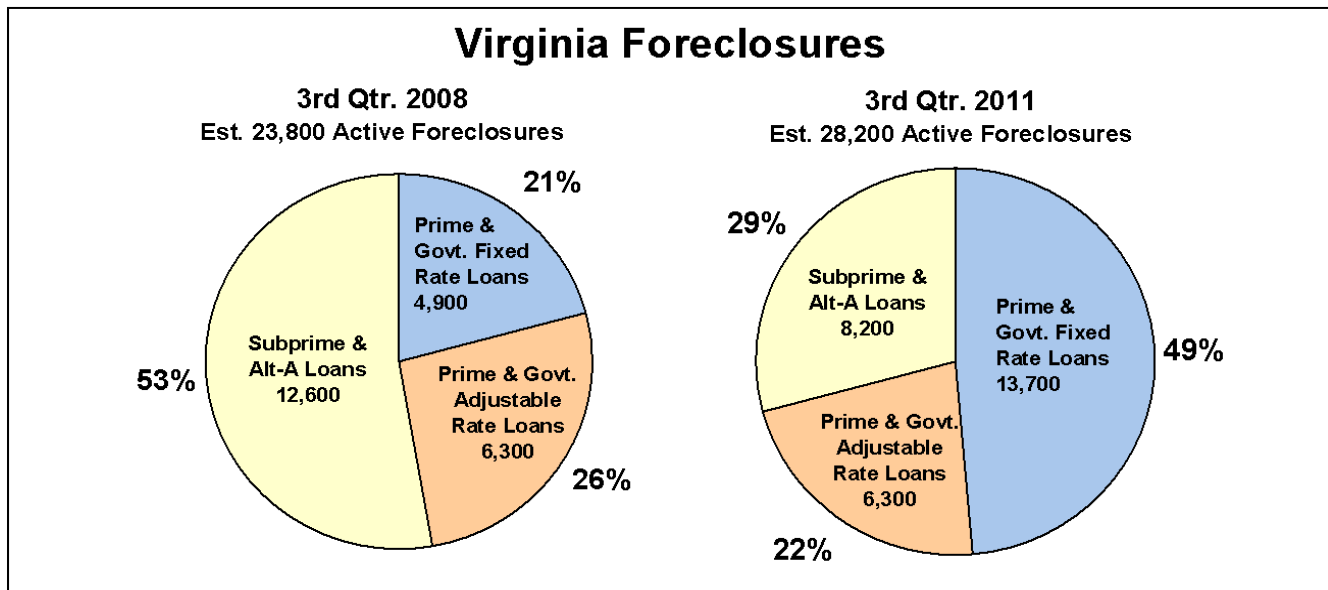
The decline in foreclosure starts took a pause in the third quarter of 2011 due to the slowdown in economic growth in the spring that led to an increase in the unemployment rate and a renewed uptick in new loan defaults. Stronger economic growth in the second half of 2011 led to a renewed drop in the unemployment rate, which will likely be reflected in forthcoming fourth quarter loan performance data.



Source: Mortgage Bankers Association

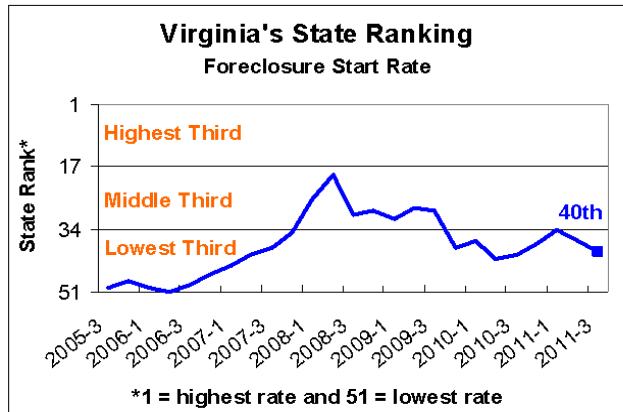


Source: Virginia Employment Commission



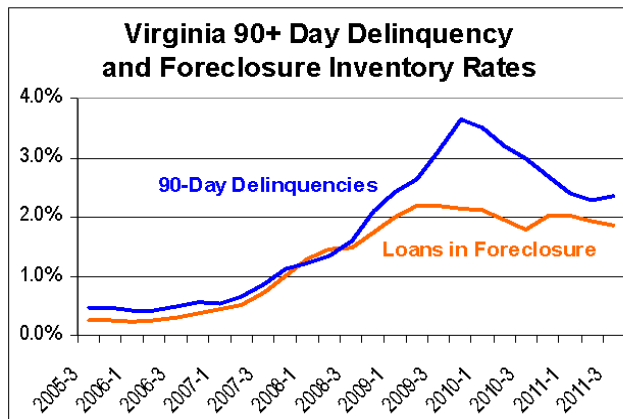
Source: Mortgage Bankers Association

Virginia's progress in resolving problem loans continues to outpace the nation due to the Commonwealth's stronger economy. This is reflected in ongoing improvement in Virginia's foreclosure starts ranking.



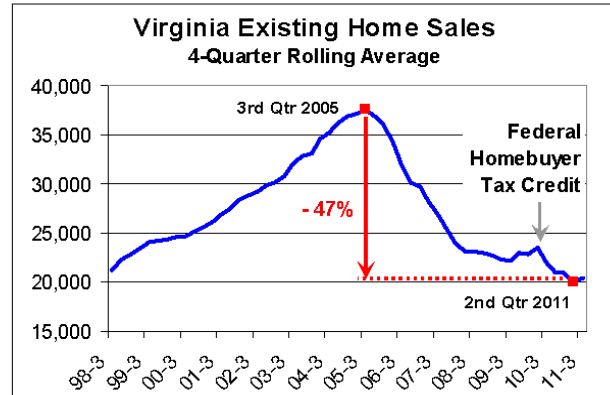
Source: Mortgage Bankers Association

Lenders have reduced the number of loans that are 90+ days delinquent. However, they face ongoing challenges in reducing the inventory of loans in foreclosure as the inflow remains high and they continue to address processing and procedural issues first raised in late 2010. The magnitude of the shadow inventory—approximately 30,000 homes at the end of the 3rd Quarter—will take several more years to resolve.



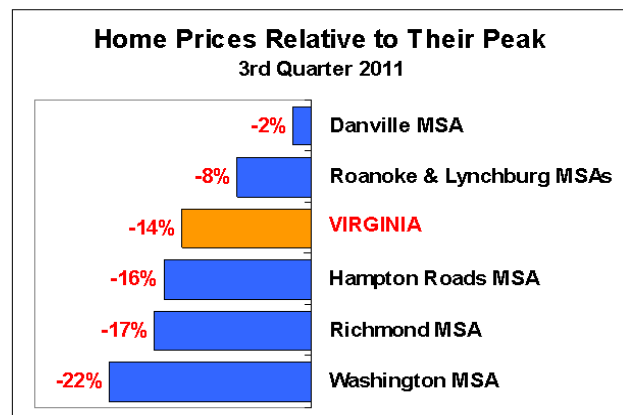
Source: Mortgage Bankers Association

Existing home sales in Virginia have fallen to new lows following the end of the federal homebuyer tax credit stimulus. A recovery in sales is being inhibited by problems facing both would-be buyers and sellers.



Source: Virginia Association of Realtors

Home values in Virginia's large metro areas remain well below their peak. This keeps many would-be sellers "under water" and reluctant/unable to sell. Consequently, new listings of homes for sale continue to fall.



Source: FHFA Home Price Indices

So far, lower, more affordable prices and record low interest rates have not revived sales. Traditional buyers lack confidence in their jobs and income, and worry that prices will fall further. They are frustrated by low for-sale inventories and the combined difficulties of accessing mortgage credit and competing with investor all-cash purchasers.

The low level of traditional home sales activity is keeping the share of distressed sales high. This weakens home values and perpetuates the vicious market cycle. Ongoing jobs growth, increased incomes and a clear floor in home values are needed to rebuild buyer and seller confidence.