

# Status of Virginia's Foreclosure Problem

## Default and Foreclosure Levels

**Trend:** Virginia's foreclosure starts rate trails the national rate, and further declined to 42<sup>nd</sup> lowest in the 2<sup>nd</sup> Qtr. of 2010—down from a rank of 17 in the 2<sup>nd</sup> Qtr. of 2008.

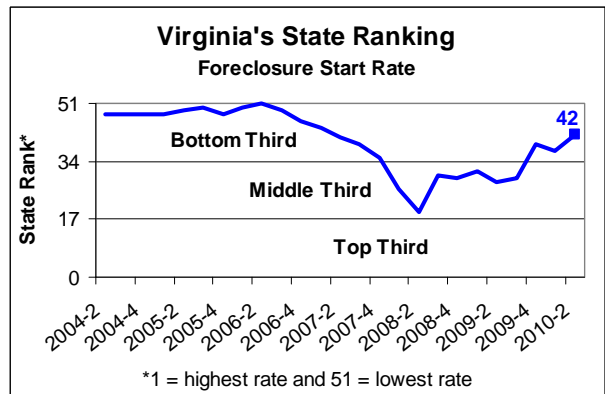
In the 2<sup>nd</sup> Qtr. of 2010, serious delinquencies—the total of 90-day delinquencies plus loans in foreclosure—were still very high, but declined from their peak in the 4<sup>th</sup> Qtr. of 2009. This reflected the increasing exit of troubled loans from lender portfolios through foreclosure, short sale or deed-in-lieu of foreclosure. These loans had remained for an extended period in loss mitigation—thereby driving up the earlier serious delinquency rate—but were unable to be successfully modified.

**Problem in 2010:** Subprime default rates remain high, but the number of subprime foreclosures is now steadily dropping as the most troubled loans have left lender portfolios and the number of subprime loans in servicing continues to fall.

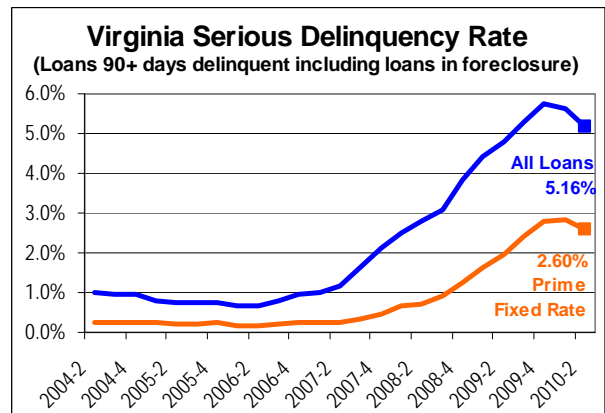
However, the easing of subprime foreclosures has been offset by rising defaults among traditional fixed rate loans as a result of the deep recession. Loss of income is now the primary driver of loan default. Consequently, Virginia's foreclosure problem has now spread from the "bubble" market areas of Northern Virginia, to regions suffering high unemployment. However, unemployment does not directly lead to a large rise in foreclosure. In more traditional recessions, homeowners experiencing significant loss of income have been able to sell their homes and move to more affordable accommodations, often retaining some built-up equity. The Martinsville area has Virginia's highest unemployment rate, but has a foreclosure rate below the state average having missed out on the housing price boom.

The greatest foreclosure problems are now found in areas with both high unemployment and a large share of "underwater" homeowners. Rates are high in the Northern VA, Richmond and Hampton Roads metro areas, with the very highest rates in the smaller outlying market areas of the Northern Tier—e.g., Winchester, Front Royal, Culpeper and Fredericksburg—and in older central cities.

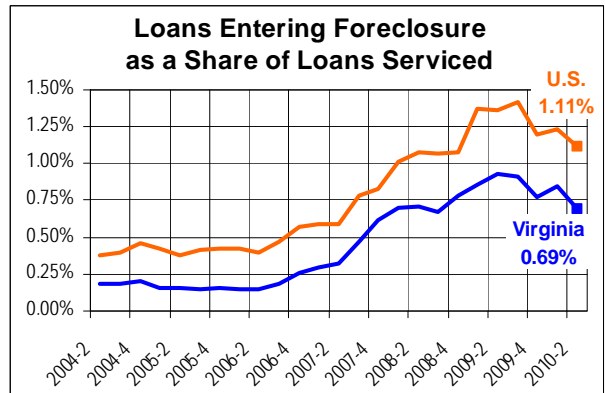
As Virginia's unemployment rate has peaked, so too have mortgage defaults. Foreclosure and default rates have shown modest declines in markets where unemployment is starting to abate.



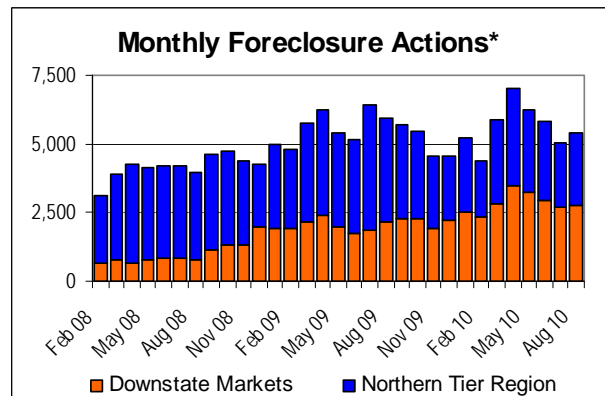
Source: Mortgage Bankers Association



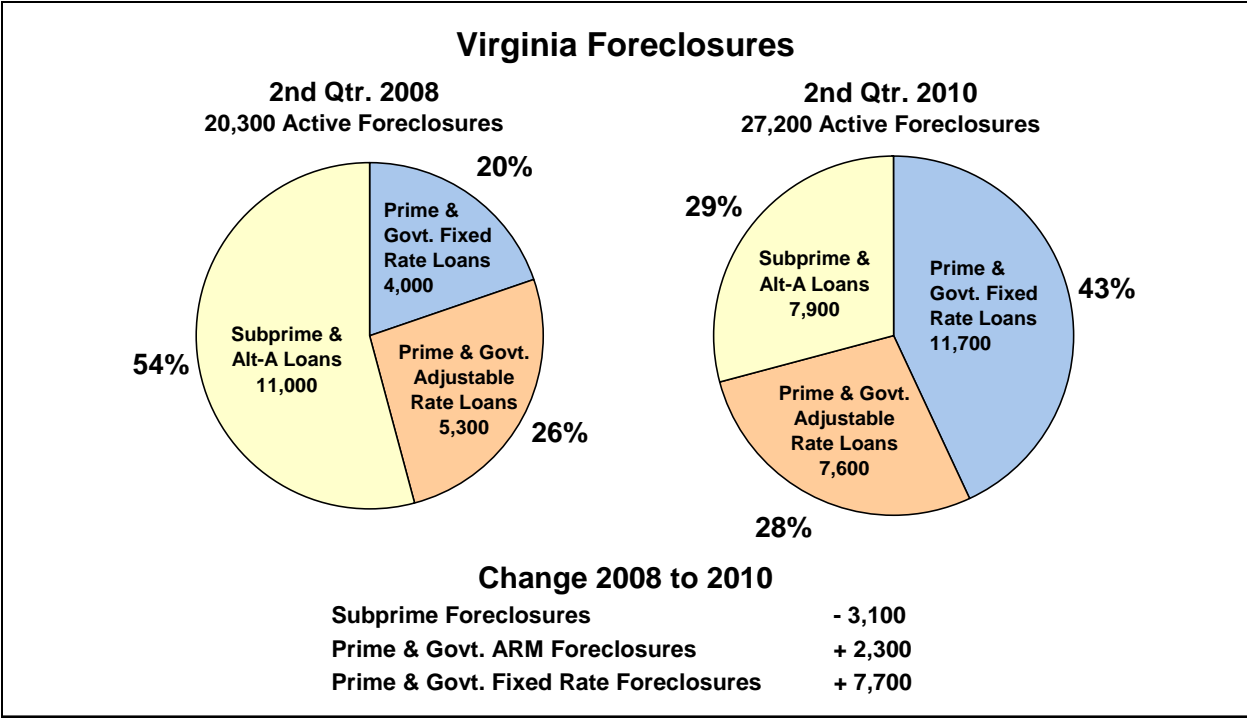
Source: Mortgage Bankers Association



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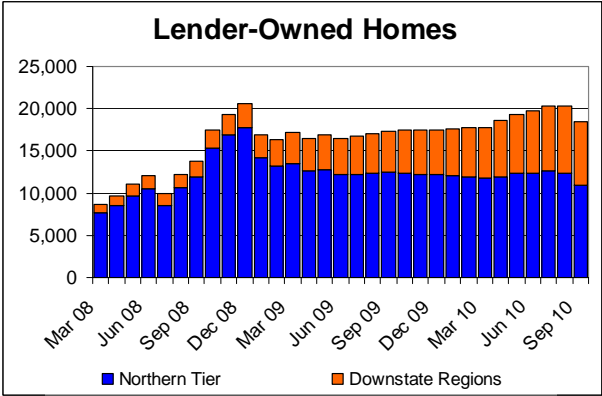
Source: RealtyTrac \*Trustee sales and lender repossessions



Source: Mortgage Bankers Association

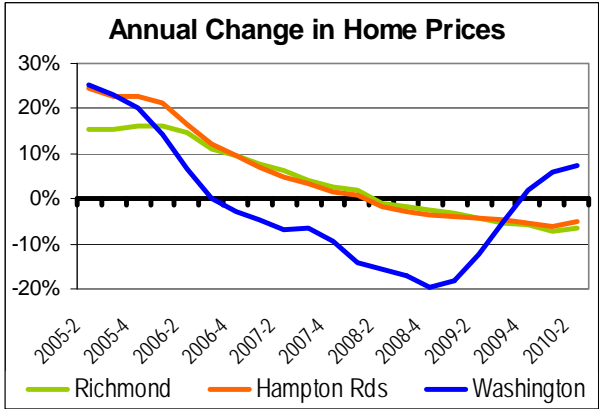
### Inventory of Lender-Owned Homes

**Problem in 2010:** Home prices have stabilized in the Northern Virginia metro area as rising existing home sales and declining new for-sale listings have reduced the inventory of unsold homes to a normal level. However, the distressed inventory has only recently begun to decline due to the large ongoing inflow of new foreclosures. While the number of new foreclosures is starting to abate, home sales are again weakening. So long as the inventory of foreclosed homes remains high, there will remain a barrier to any significant appreciation in values.



Source: RealtyTrac

Inventories of lender-owned homes have grown in downstate markets—especially in the Hampton Roads and Richmond metro areas. As in Northern Virginia, efforts to reduce those inventories now face the challenge of weakening home sales. Home price declines in downstate markets accelerated in 2009 due to falling home sales and increasing foreclosure rates. Existing home sales in downstate regions bottomed out in the 3<sup>rd</sup> Qtr. of 2009 and then had a moderate rebound, due in part to the federal homebuyer tax credit. However, the supply of unsold homes has not yet returned to normal levels, and so the large inventory of foreclosed homes will further stress home prices.



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

Large volumes of distressed lender-owned homes will have a major impact on state and local tax revenues for at least several years, and will impose substantial new service cost burdens on local governments.