

Economic Perspectives

Fewer foreclosures or calm before the storm?

March 8, 2010

Foreclosure filings including default and auction notices as well as bank repossessions declined to about 315,716 nationally in January 2010. That is 10% fewer than a month earlier and 12.5% fewer than the peak of 361,000 set in July 2009. Nevertheless, foreclosures remain high; more are coming and they remain a threat to the nation's economic recovery.

The trend was similar in 2008. Foreclosure filings built to a crescendo in the second half of the year. They declined in early 2009 and increased again throughout the year. Given that pattern plus rising defaults, still deteriorating mortgage credit quality (see page 2), underwater homeowners, foreclosures moving into the prime sector and a likely wave of Payment Option ARM defaults, we expect foreclosures to peak again in late 2010. Indeed, foreclosures, short sales and deed in lieu transactions appear likely to peak this year at about 2.5 million before beginning to abate modestly in 2011 and beyond. That statistic refers to "lost homes," not just foreclosure action notices.

Not surprisingly, the sunbelt states including Florida, California, Arizona and Nevada lead the way with the highest number of foreclosures. Nevada remained the highest foreclosure state for the 37th consecutive month. One in every 95 housing units in Nevada received some sort of foreclosure notice. That compares to one in every 409 housing units nationally; one in every 187 in Florida and one in every 152 housing units in Seacoast served markets. Arizona foreclosure action notices rose four-percent over the month making it the second highest state for foreclosures with one in every 129 housing units receiving a notice. California ranks number three, Florida number four and Utah number five.

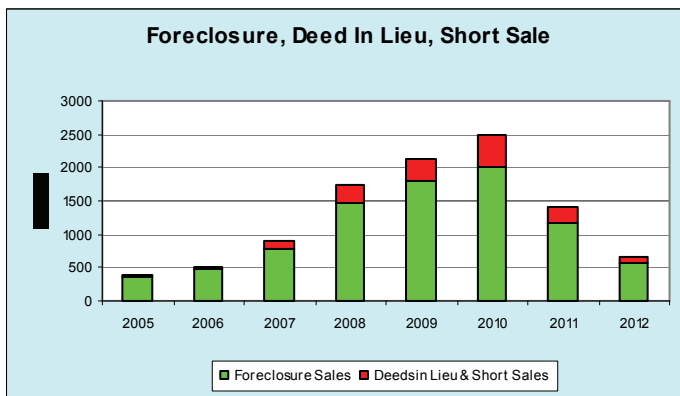
According to a report released recently by First American CoreLogic, a record 24% of residential properties were "underwater" at the end of 2009. In other words, these homeowners owed more on their mortgages than the underlying collateral property was worth. That represents about 11.3 million homes. About 620,000 properties fell into a negative equity position in the fourth quarter alone. California had the largest number of negative equity mortgages at about 2.4 million, followed by Florida with 2.2 million. Underwater mortgages are largely concentrated in five states.

About 70% of Nevada home mortgages are underwater followed by Arizona at 51%, Florida at 48%, Michigan at 39% and California at 35%. States with lowest percentage of underwater homeowners include New York at 6.3% and Oklahoma at 6.0%.

According to the Federal Reserve, mortgage credit quality is continuing to weaken—a trend begun in late 2006. Credit cards and total consumer loans, however, are showing early signs of improvement although it is far too early to call that a trend. We suspect that still weakening mortgage credit quality is being driven by the growing number of underwater homeowners who are giving up in record numbers. Strategic default is a growing phenomenon where homeowners who can afford to pay, choose not to because they believe they are so far underwater they will never recover. Indeed, a 2009 study by Northwestern and Chicago University economists estimates that about 26% of foreclosures today are strategic and usually when the homeowner is more than 10% underwater.

Addressing our headline rhetorical question, there is no apparent trend in the recent downward change in foreclosures. It is more likely the calm before the next storm.

"Lost Homes" Will Likely Peak in 2010



Residential delinquency & foreclosure by the numbers

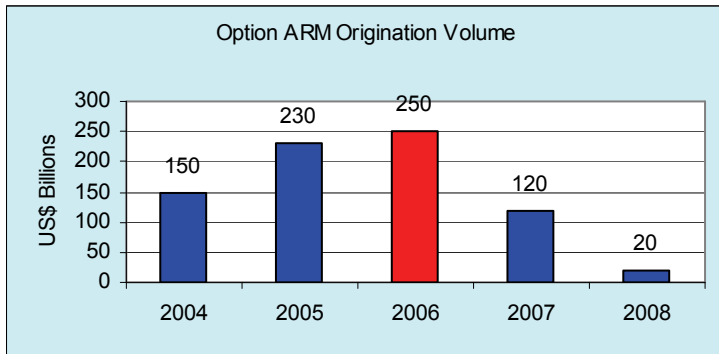
Florida Residential Delinquencies by Loan Type Fourth Quarter 2009								
	Number of Loans Serviced	Percentage of Loans with Installments Past Due				Percentage of Loans in Foreclosure		
		Total Past Due	30-Days Past Due	60-Days Past Due	90-Days + Past Due	Inventory End of Quarter	Started During Quarter	Seriously Delinquent
All Loans	3,433,574	12.66	3.67	2.01	6.99	13.44	2.41	20.43
VA Loans	85,826	8.47	3.47	1.53	3.47	5.33	1.26	8.80
Prime Fixed	1,982,987	9.27	2.82	1.44	5.00	6.62	1.62	11.62
Prime ARM	570,900	12.72	3.25	1.95	7.52	23.67	3.65	31.19
Prime Loans	2,579,415	10.09	2.93	1.56	5.60	10.38	2.05	15.98
FHA Loans	266,514	16.19	6.14	3.00	7.04	8.74	2.19	15.78
FHA Fixed	256,065	16.15	6.09	2.96	7.10	8.76	2.16	15.86
FHA ARM	7,002	15.98	6.80	3.20	5.98	8.37	1.81	14.35
Subprime	501,819	24.73	6.19	3.86	14.68	33.03	4.57	47.71
Subprime Fixed	245,071	27.87	8.13	4.64	15.10	18.87	3.93	33.97
Subprime ARM	256,748	21.72	4.33	3.12	14.27	46.54	5.17	60.81

SOURCE: Mortgage Bankers Association

Foreclosure Activity In Seacoast Served Counties January 2010								
County Name	Population	Household	Income	Pre-Foreclosure	Auction	REO	Total	Household
Brevard	536,521	267,456	\$51,507	669	320	195	1,184	226
Broward	1,751,234	805,772	\$56,574	4,210	2,197	1,270	7,677	105
DeSoto	33,991	14,549	\$42,592	35	11	3	49	297
Glades	11,175	6,079	\$36,143	1	0	2	3	2,026
Hardee	28,888	10,577	\$37,716	19	6	8	33	321
Hendry	39,453	13,359	\$41,525	49	43	11	103	130
Highlands	100,011	55,377	\$41,393	116	43	16	175	316
Indian River	132,315	78,151	\$92,097	247	111	58	416	188
Lake	307,243	143,580	\$49,065	489	214	53	756	190
Martin	138,660	75,920	\$90,676	134	56	18	208	365
Okeechobee	40,359	16,731	\$41,513	38	22	11	71	236
Orange	1,072,801	460,600	\$51,339	1,946	971	455	3,372	137
Osceola	263,676	120,997	\$37,907	520	290	143	953	127
Palm Beach	1,265,293	640,851	\$84,525	2,013	515	234	2,762	232
Seminole	410,854	174,293	\$59,151	589	524	88	1,201	145
St Lucie	265,108	132,341	\$44,358	583	144	106	833	159

SOURCE: Realtytrac

Payment Option ARM Originations Peaked In 2006



Delinquencies Surged Soon Thereafter

