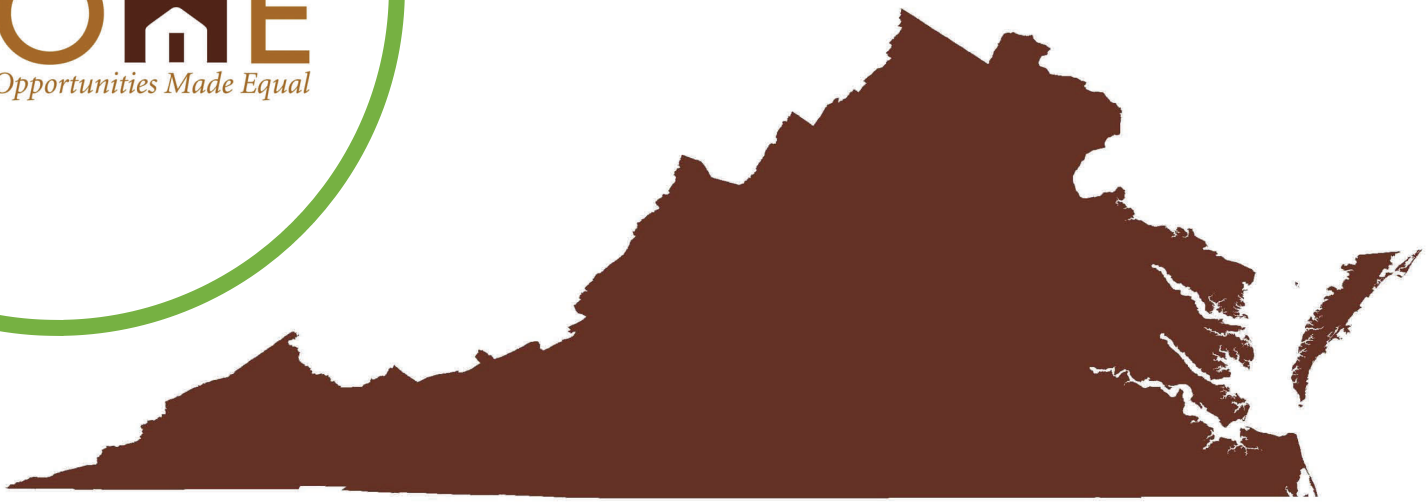
HOME
Housing Opportunities Made Equal



The Impact of Foreclosures on Economic Recovery in Virginia

February, 2012

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Where you live makes all the difference

About Housing Opportunities Made Equal (HOME)

HOME's mission is to ensure equal access to housing for all people.

Housing Opportunities Made Equal of Virginia, Inc. (HOME) is Virginia's premier fair housing organization offering a variety of programs and services designed to ensure equal access to housing for all Virginians. For the past 40 years, HOME has worked to unlock doors closed by housing discrimination.

HOME is a 501(c)(3) nonprofit corporation and a HUD-approved housing counseling agency. HOME's Center for Housing Leadership produces high quality public policy analysis and research to evaluate housing opportunity in Virginia. Research at the Center for Housing Leadership is made possible by a grant from Wells Fargo.

HOME was founded in 1971 to fight discrimination in housing access. By working to promote financial literacy and the proper use of credit, HOME helps create responsible consumers. By ensuring that the fair housing laws are enforced, HOME helps give businesses the confidence that housing will be available for all their employees.

By working to give every family access to good neighborhoods and good schools, HOME helps create a well-educated workforce for the future. And by helping to prevent foreclosures and giving families the tools they need to be long-term sustainable homeowners, HOME helps to avoid disruptions in the workplace and to create a stable workforce.

HOME

Housing Opportunities Made Equal

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HOME's research is made possible in part by the financial support of Wells Fargo

Executive Summary

From 2010 to 2011, the total number of foreclosures declined 32% (64,975 to 43,637).

- This is the first decrease since the collapse of the housing market in 2007.
- However, foreclosures remain 1,000% greater than in 2006 before the recession.
  (Page 2)

The percentage of subprime mortgages resulting in foreclosure continues to increase.

- Subprime loans account for the majority of loans that are 90 or more days delinquent.
- Between the third quarter of 2010 and the third quarter of 2011, this segment of foreclosures increased by 51%, accounting for over 12% of all foreclosures in 2011.
- Since minorities and lower income households were specifically targeted for subprime mortgages, the economic outlook for these households is further marginalized.
  (Page 3)

From 2000 to 2010, residential vacancies increased 30%. Vacant properties accounted for 9% of the total housing stock in 2010.

- Foreclosures have created an excess supply of vacant properties which have driven down the value of homes.
- The foreclosure crisis, particularly the resulting surplus of vacant properties, continues to be a major obstacle to the recovery of the housing market.
- In the last two years alone, Virginia homeowners who lived in close proximity to a vacant property lost $26 billion in home equity.
  (Page 2)

Declining property values have placed numerous homeowners "underwater," or owing more on their mortgage than their home is currently worth.

- Approximately 23 percent of Virginians with a mortgage are underwater.
- The median sale price for homes has decreased 21% from $280,000 in the first quarter of 2006 to $220,000 in the last quarter of 2011.
  (Page 2)

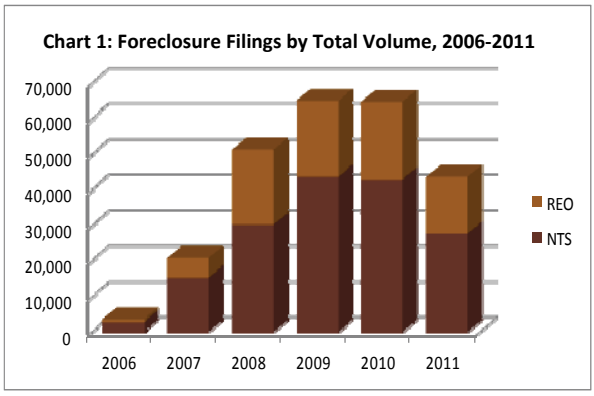
Servicing issues between mortgage lenders and borrowers continue to cause unnecessary foreclosures.

- Federal changes have attempted to resolve "dual tracking" issues in the HAMP program.
- The majority of loan modifications in Virginia occur outside of the HAMP program, leaving numerous Virginians unprotected from dual tracking and other bad servicing policies.
  (Page 3)

Regional analysis including foreclosures, vacancies, and unemployment are located on pages 8—15

Virginia Foreclosures

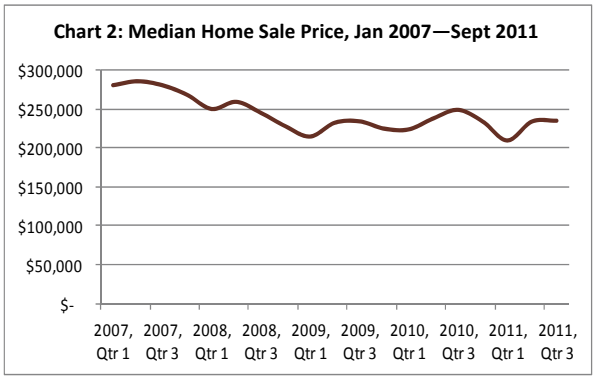
2011 was the first year to see a significant decline in overall foreclosure activity since the housing market collapse in 2007. Statewide, from 2010 to 2011, the number of foreclosures decreased 32% from 64,975 to 43,637.[1] Regardless of this contraction, foreclosures remain 1,000% higher than they were in 2006 (Chart 1).[2] Foreclosures continue to be an obstacle to housing market recovery in Virginia, as the weak housing market is a drag on economic growth.



Source: RealtyTrac.com

Foreclosures have effected Virginia's housing market in two specific ways. First, foreclosures led to vacancies. In turn, vacancies are known to lead to increased vandalism, crime, and the continued downward spiral of home prices.[3] In 2010, the number of vacant homes accounted for 10% of all homes in the state - a 30% increase from 2000.[4] It is estimated that in the last two years alone, Virginia homeowners who lived in close proximity to a vacant property lost $26 billion in home equity.[5] Second, the surplus of vacant homes resulting from foreclosure have exerted tremendous downward pressure on home prices throughout the Commonwealth. From 2007 to the end of 2011 the median home sale price has declined by 21%, from $280,000 to $200,000 (Chart 2).

In the last two years alone, Virginia homeowners who lived in close proximity to a vacant property lost $26 billion in home equity.



Source: Virginia Association of Realtors. Median Home Sales Price

This two-pronged attack on property values has placed numerous homeowners throughout the Commonwealth "underwater," or owing more on their mortgages than their home is currently worth. A report issued last year placed Virginia 8th highest in the nation in terms of the number of homeowners underwater.[6] It is estimated that 32 percent of Virginians with a mortgage are underwater.[7] When faced with an economic crisis such as losing a job or a catastrophic illness, underwater homeowners are unable to utilize normal market clearing actions such as selling their home or refinancing their mortgage.

Increasingly, those families who have lost their homes to foreclosure find it difficult to obtain affordable rental housing. Many rental markets throughout the Commonwealth have tightened considerably over the past several years driving up rental

costs. Moreover, in response, the industry has significantly restricted lending, making it more difficult for the average borrower to get a loan. The restrictions on lending, coupled with the surplus of vacant housing has caused numerous issues for local governments, such as decreased tax revenue and increased costs associated with maintaining abandoned and vacant properties.

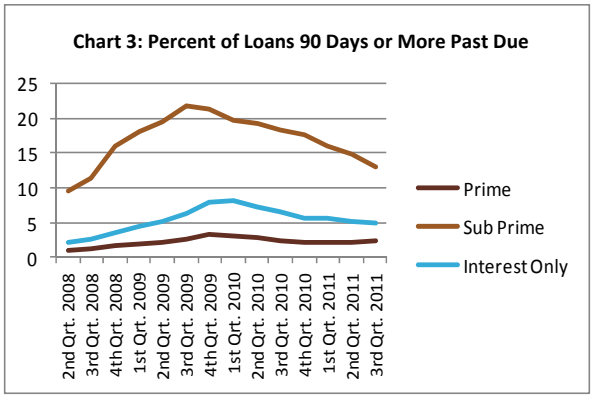
The effects of the foreclosure crisis have been perpetuated by several factors, including loan servicing issues such as improper documentation, forged signatures, and dual tracking. "Dual tracking," is a common practice used by mortgage lenders who begin foreclosure proceedings while simultaneously negotiating a loan modification with a homeowner. This practice proved to be a significant issue in a survey of Virginia Association of Housing Counselors conducted by HOME in the fall of 2010. This survey found that 87% of housing counselors had clients who were foreclosed upon before their loan modification process was complete.[8]

Federal regulations have worked to address these issues with mixed results. For example, dual tracking is not allowed under the Home Affordable Modification Program (HAMP). However, the vast majority of loan modifications are occurring outside the regulatory authority of HAMP. During the third quarter of 2011 only 37.4% of loan modifications occurred through HAMP.[9] This leaves numerous Virginians unprotected from bad servicing policies such as dual tracking.

Mortgage Loan Performance and Economic Indicators

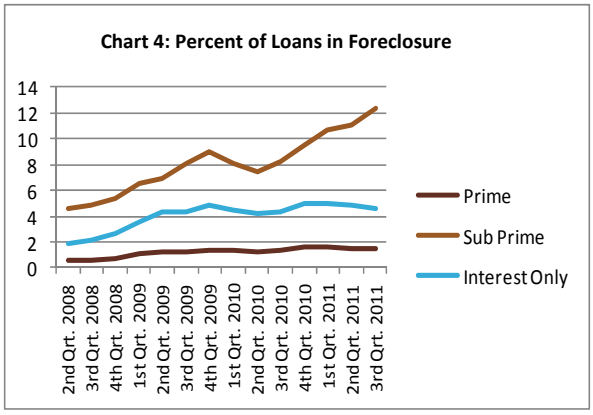
The effects of subprime lending continues to contribute to the foreclosure crisis. Subprime loans are those loans extended to borrowers that do not qualify for prime loans based on their credit worthiness. Many of these loans have introductory "teaser" interest rates for 2 or 3 years before they reset at significantly higher interest rates. Interest-only loans guarantee low monthly payments by postponing repayment on the principal. Fortunately, the frequency with which these loans are being originated has diminished significantly over time.

Examining Home Mortgage Disclosure Act Data (HMDA) from 2004 to 2010 reveals that subprime lending in Virginia peaked in 2006; 17.2% of loans made that year were subprime.[10] Since that time, subprime lending has decreased dramatically; subprime loans accounted for less than 2% of loans originated in 2010.[11] Unfortunately, the deleterious effects of subprime mortgages are still hurting Virginia's economy. As these teaser rates expire, homeowners are unable to make payments at the higher interest and are going into default and eventually foreclosure. Subprime loans account for the majority of



Source: Federal Reserve Bank of Richmond. Loan Processing Services Inc. Applied Analytics Mortgage Data

loans 90 or more days delinquent (Chart 3), and they are more likely to result in foreclosure. It is of grave concern that while the overall number of foreclosures has declined over the past year, the percentage of subprime mortgages going into foreclosure continues to increase (Chart 4). Subprime and interest only loans are typically reserved for individuals with less than favorable credit and characterized by higher interests rates and other terms to compensate for increased risk to the lender. Research has shown that these loans were often made in a discriminatory and predatory manner to predominantly lower income, minority borrowers with little regard for the long term sustainability of such practices.[12] Recently, the U.S.



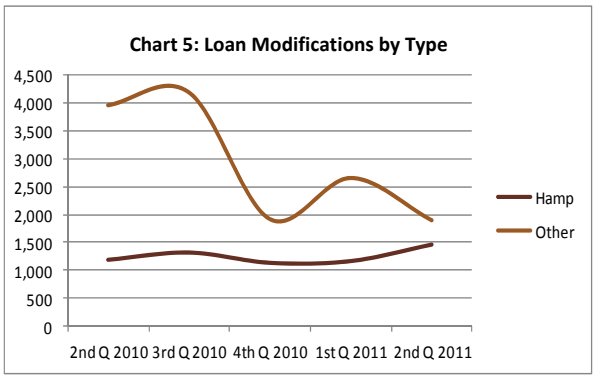
Source: Federal Reserve Bank of Richmond. Loan Processing Services Inc. Applied Analytics Mortgage Data

Department of Justice reached a $335 million settlement over lending discrimination by Countrywide Financial for placing African-American and Hispanic borrowers into subprime loans and charging them higher fees.[13]

Research has shown that these loans were often made in a discriminatory and predatory manner to predominantly lower income, minority borrowers with little regard for the long term sustainability of such practices.

Because of such practices, minority neighborhoods throughout the Commonwealth have experienced up to five times as many foreclosures as non-minority neighborhoods.[14] Over the next year, more of Virginias homeowners with subprime mortgages may lose their homes to foreclosure. These foreclosures will continue to impede robust economic recovery.

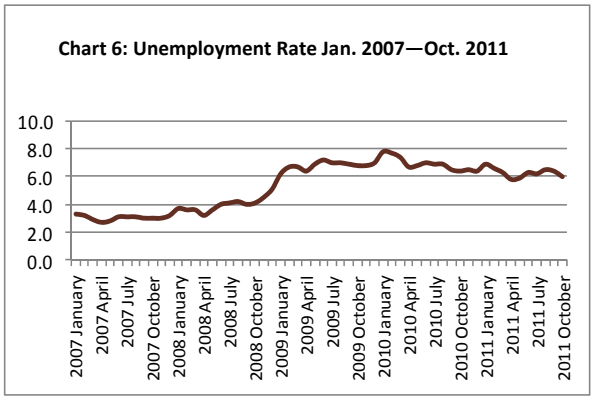
Loss mitigation efforts have done much to keep paying borrowers in their homes. The lower than expected total number of loan modifications through the HAMP program is offset by the fact that HAMP modifications have outperformed other modifications 70.5% to 55.7% respectively.[15] Thus, the chance of a HAMP modified loan going into foreclosure is significantly less than for other types of loan modifications. This is due in large part to the significant reduction in monthly payments offered by the HAMP program.[16] To date the HAMP program has helped keep over 34,000 Virginians in their homes.[17] It is expected that the number of loan modifications will continue to decrease as the pool of qualified applicants applying for loan modifications will continue to decline.



Source: OCC Mortgage Metrics Report

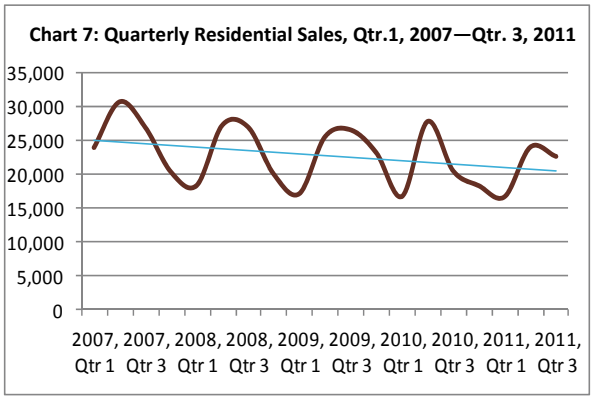
Looking Forward

Some relief may be on the horizon as the percentage of loans that are 90 days or more past due appears to be stabilizing, if not declining. More importantly, the percentage of subprime loans that are 90 or more days past due has declined significantly from its peak in late 2009 to early 2010, from 22% to 13%. As the economy continues its protracted recovery and unemployment continues to decrease, the percentage of homeowners who are unable to make their monthly mortgage payments due to unemployment or underemployment will continue to decline



Source: Virginia Employment Commission

(Chart 6).
It is too early to predict with any accuracy the state of the foreclosures in the coming months and years. Though foreclosures decreased dramatically over the past year, thanks in large part to the stabilization of the unemployment rate and a marginally growing economy, Virginia's housing market remains stagnant. Even accounting for seasonal variations, the general trend in homes sales has been downward (Chart 7, see the blue trend line). This may signify a housing market that has reached the bottom and will begin to gradually recover in the coming years. It could also signify a market



Source: Virginia Association of Realtors

that is still adjusting and will not begin to recover for some time. Given the decline in median sale prices and the vast inventory of vacant real estate, it is doubtful that the housing market will grow dramatically in the coming year unless there is strong employment growth.

Now that many facets of the foreclosure crisis have begun to stabilize, it is important to continue mitigating unnecessary foreclosures. With unemployment slowly decreasing, loss mitigation activities by mortgage servicers and lenders should see more success. Loan modifications should be more successful and will allow Virginia's homeowners to retain the equity in their homes. More households in Virginia are in a better financial position than they were during the worst of the Great Recession. Policies that address servicing issues such as dual tracking and promote loss mitigation will help stabilize Virginia's housing market and promote economic growth.

Recommendations on Foreclosures and Mortgage Lending

- **Expand funding for foreclosure prevention counseling.** The more Virginia homeowners who are able to pursue loss mitigation instead of foreclosure, the better the outlook for economic growth.

- **Many Virginians going through foreclosure are still unprotected from dual-tracking.** Ending dual-tracking in Virginia will ensure that unnecessary foreclosures do not further weaken the housing market.

- **Stabilizing employment means that loss mitigation activities should be more successful for financial institutions.** Mortgage servicers should expand efforts to grant loan modifications to Virginians who are working their way through the process.

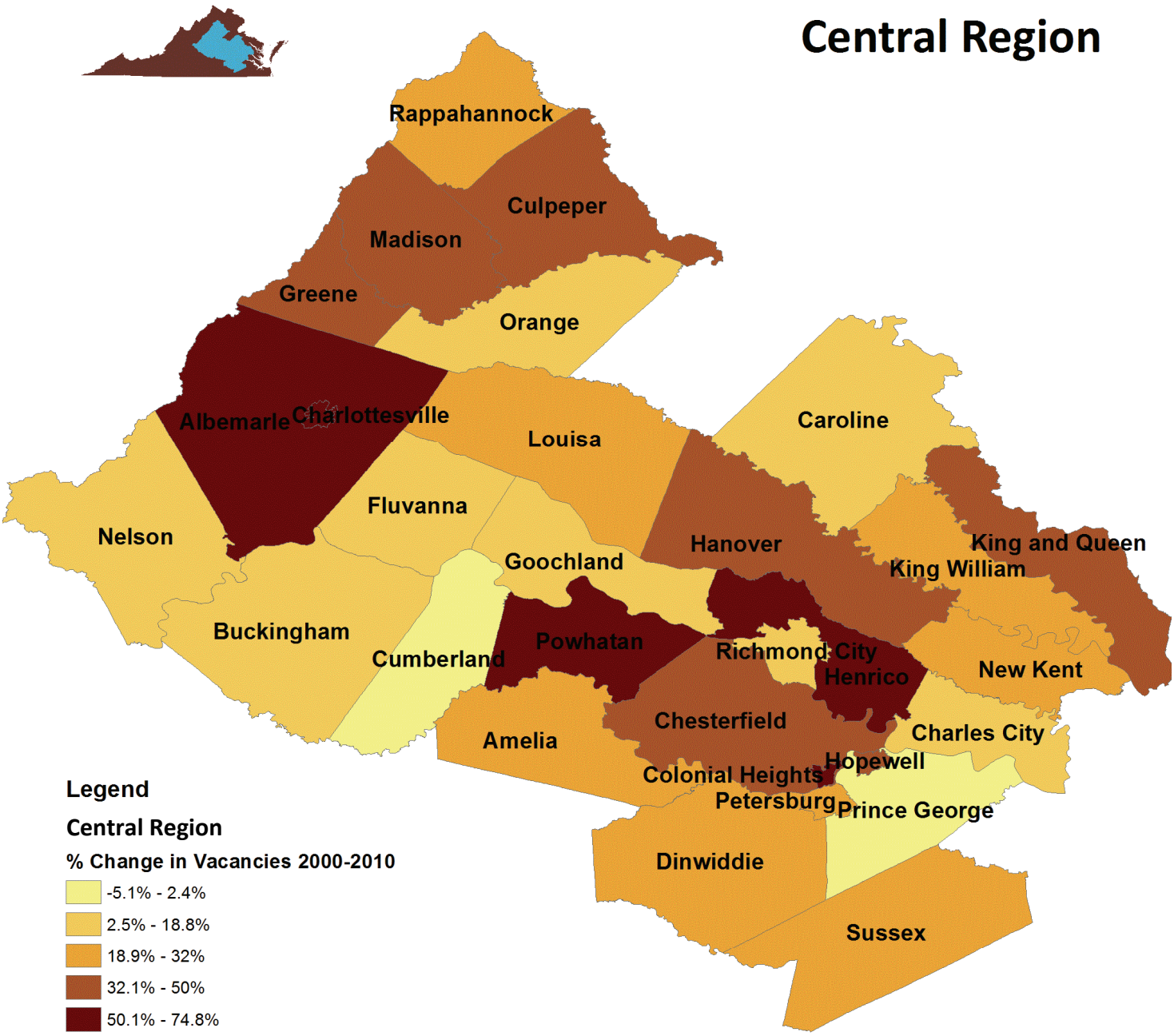
- **Increase investments in housing counseling for first time homebuyers and down-payment assistance to help low and moderate income Virginians qualify for prime mortgages.** Neither the financial institutions, nor the borrowers were well served by subprime mortgages. Mortgage lenders and originators should remain wary of subprime loans. Ensuring that Virginias homeowners qualify for prime mortgages promotes sustainable homeownership and economic growth.

- **The nationwide robo-signing scandal has shown that Virginia's property owners are at risk of losing their homes to fake signatures and fraudulent paperwork.** Ensuring that foreclosure fraud victims can recoup damages from those responsible will strengthen property rights for Virginia's families.

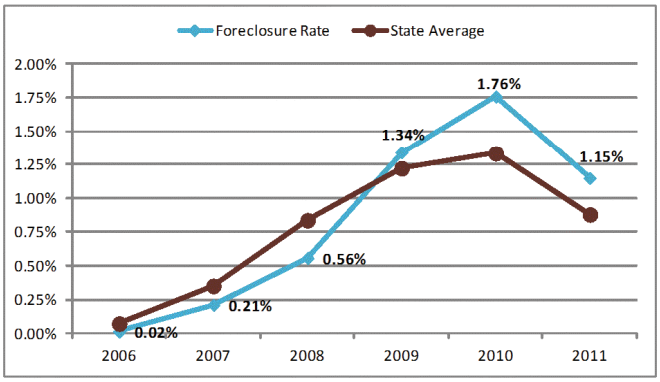
- **The large numbers of vacant properties across the Commonwealth presents a challenge and an opportunity.** Steps should be taken to rehabilitate these vacant homes to meet the new demand for rental units and affordable, workforce housing. More Virginians should have the opportunity to live in communities of their choice and the rehabilitation of vacant properties will assist with this.

[1] RealtyTrac.com monthly foreclosure reports.
[2] This number represents the total number of properties in the foreclosure pipeline. "REO" or Real Estate Owned, are those properties which have been purchased by the lender at the foreclosure auction. "NTS" or Notice of Trustee Sale, is the noticed received by the borrower that their property is going to be auctioned.
[3] US Department of Justice. Office of Justice Programs. Geography and Public Safety. Volume 1 Issue 3, October 2008. Available at http://www.americanprogress.org/issues/2009/09/pdf/tarp_report.pdf
[4] United State Census Bureau. Decennial Census, 2000 and 2010
[5] Center for Responsible Lending. *The Cost of Bad Lending in Virginia.* Available at www.responsiblelending.org/mortgage-lending/tools-resources/factsheets/virginia.html
[6] Mamta Badkar. *The 14 States Where Homeowners are Drowning in Negative Equity.* Business Insider. September 13, 2011.
[7] *Ibid.*
[8] Will Sanford and Ali Faruk. Virginia Foreclosure Trends 2011. Jan 24, 2011. Available at http://www.phonehome.org/Portals/0/PDFs/Virginias_Changing_Foreclosure_Problems_1-24-11.pdf.
[9] US Department of Treasury, Comptroller of the Currency. *OCC Mortgage Metrics Report: Disclosure of National Bank and Federal Savings Association Mortgage Loan Data*. Washington DC, December 2011.
[10] This encompasses only first lien, owner occupied, 1-4 family home purchases.
[11] Since 2004, HMDA requires lenders to report loan price information in the form of a "rate spread" which is the difference between the annual percentage rate (APR) on a loan and the rate on a Treasury security of comparable maturity. The threshold set by the Board in Regulation C for first-lien loans is three percentage points above the Treasury security of comparable maturity. The Board chose this threshold in the belief that they would exclude the vast majority of prime rate loans and include the vast majority of subprime loans.
[12] Jakabovics, Andrew and Chapman, Jeff. *Unequal Opportunity Lenders? Analyzing Racial Disparities in Big Banks' Higher-Priced Lending.* American Progress, September 2009. Available at http://www.americanprogress.org/issues/2009/09/pdf/tarp_report.pdf
[13] U.S. Department of Justice. "Justice Department Reaches $335 Million Settlement to Resolve Allegations of Lending Discrimination by Countrywide Financial Corporation." 21 Dec 2011. http://www.justice.gov/opa/pr/2011/December/11-ag-1694.html
[14] HOME analysis of over 500 Deeds of Trusts for properties in the Greater Richmond Region.
[15] US Department of Treasury, Comptroller of the Currency. *OCC Mortgage Metrics Report: Disclosure of National Bank and Federal Savings Association Mortgage Loan Data*. Washington DC, December 2011.
[16] *Ibid.*
[17] HOME Analysis of HAMP Data.

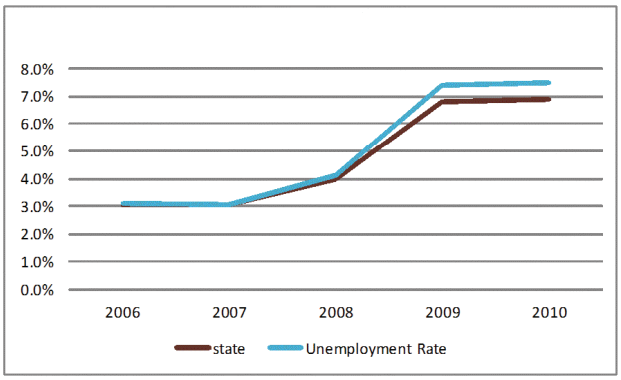
Central Region



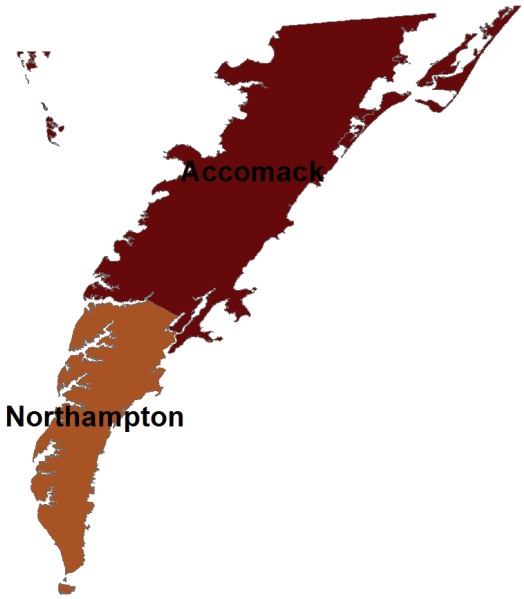
Foreclosure Rate



Unemployment Rate



Eastern Region



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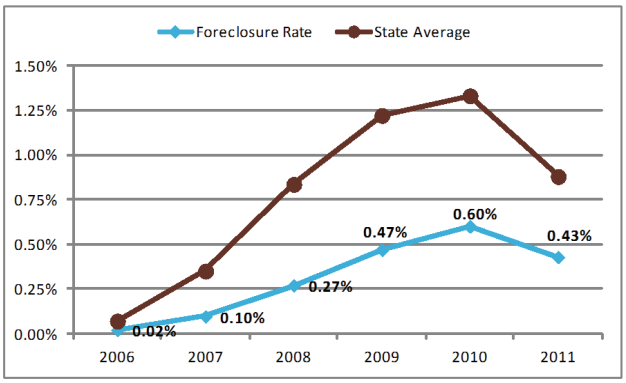
Eastern Region

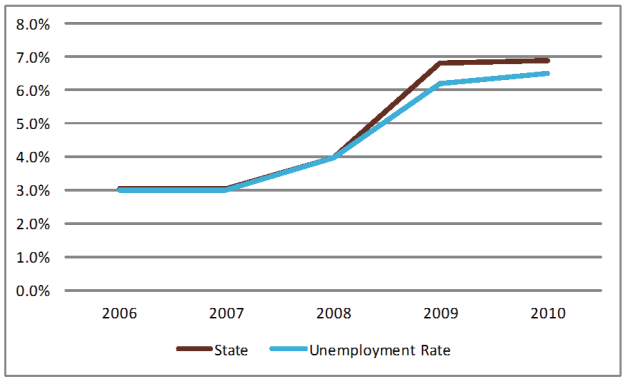
% Change in Vacancies 2000-2010

- 2.6%
- 2.7% - 14%
- 14.1% - 25.6%
- 25.7% - 44.7%
- 44.8% - 57.7%

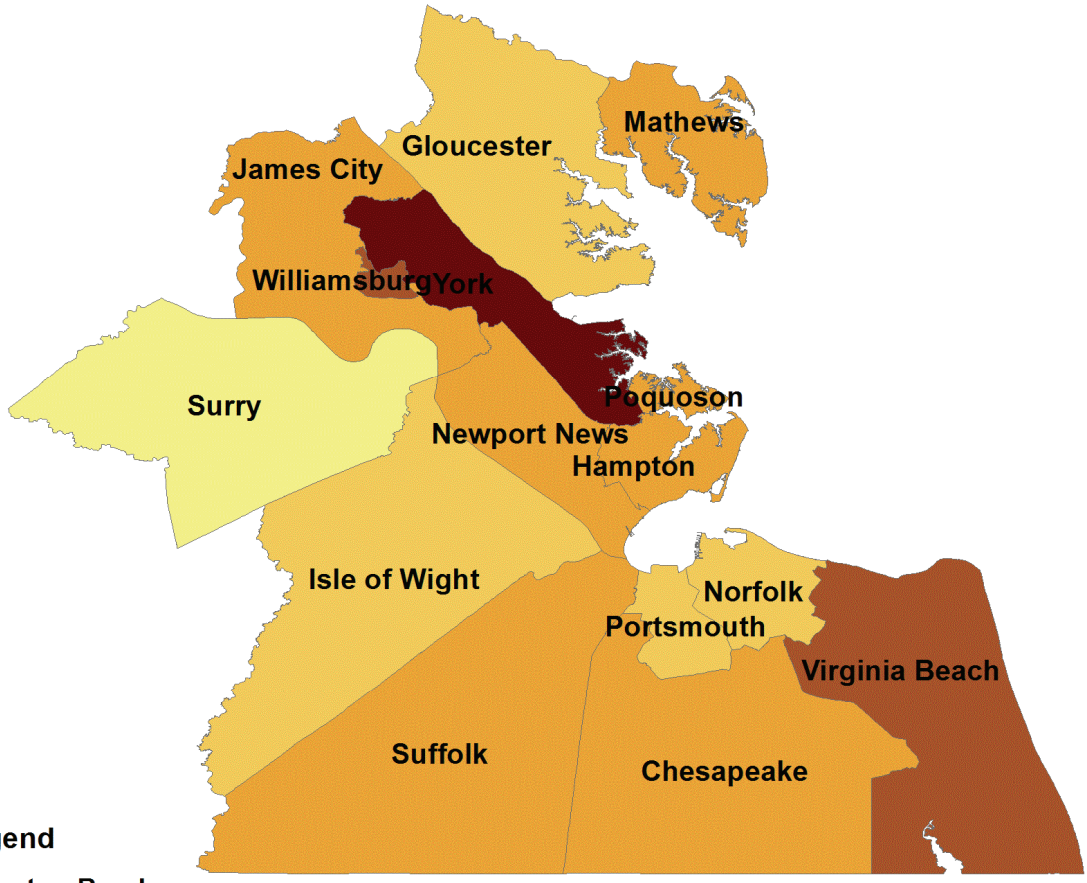
Foreclosure Rate



Unemployment Rate



Hampton Roads



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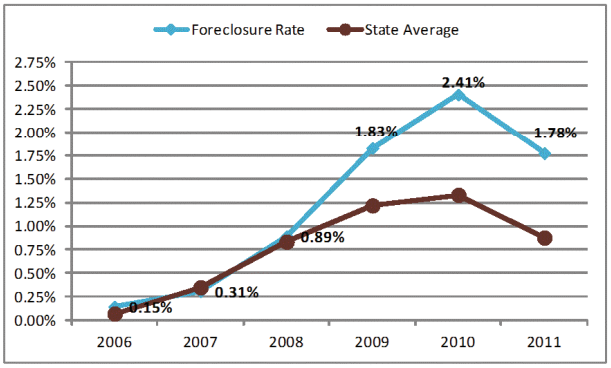
Hampton Roads

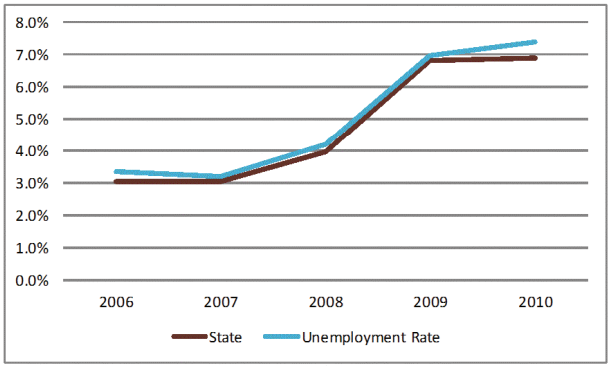
% Change in Vacancies 2000-2010

- -12.4%
- -12.3% - 4.3%
- 4.4% - 36.5%
- 36.6% - 73.8%
- 73.9% - 212.7%

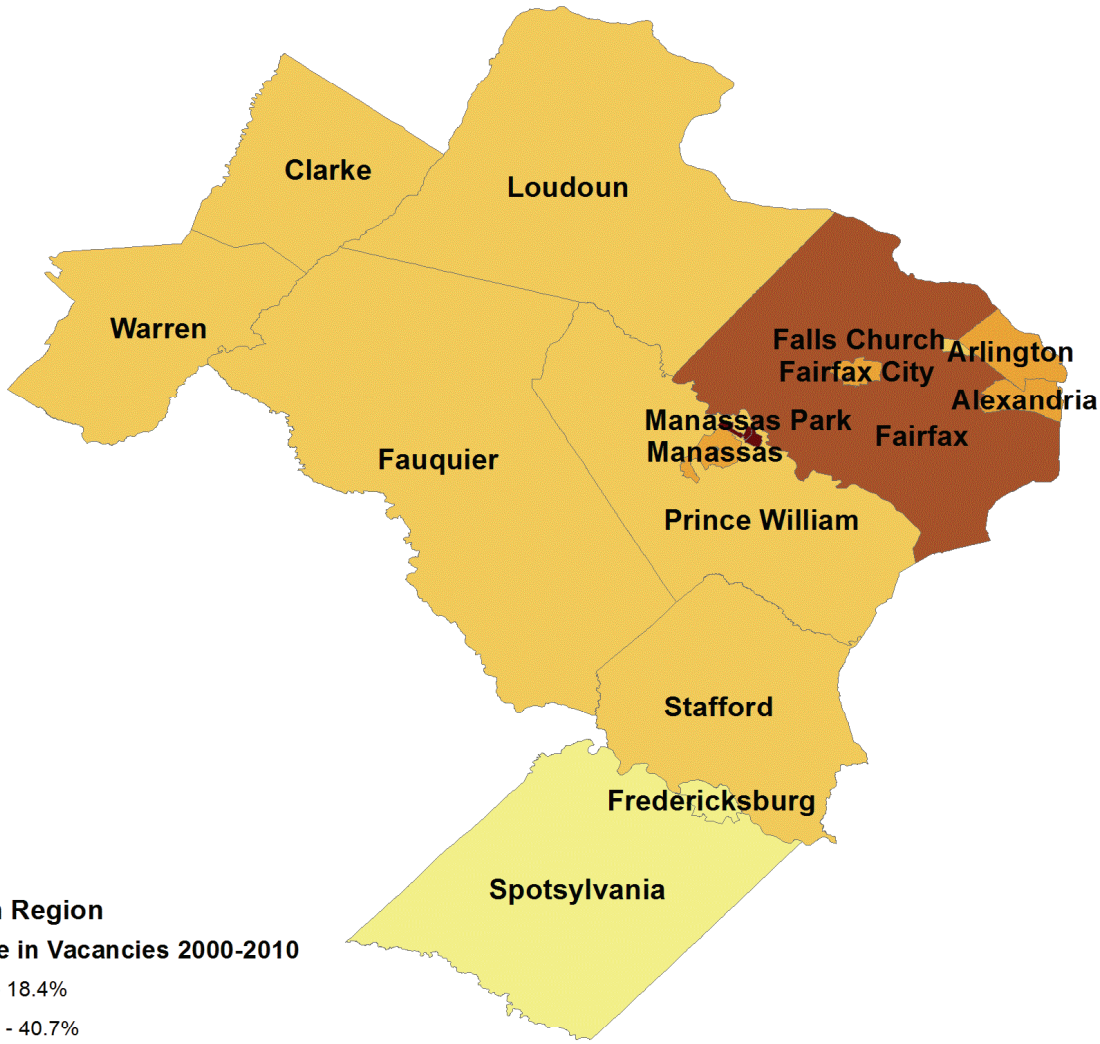
Foreclosure Rate



Unemployment Rate



Northern Region



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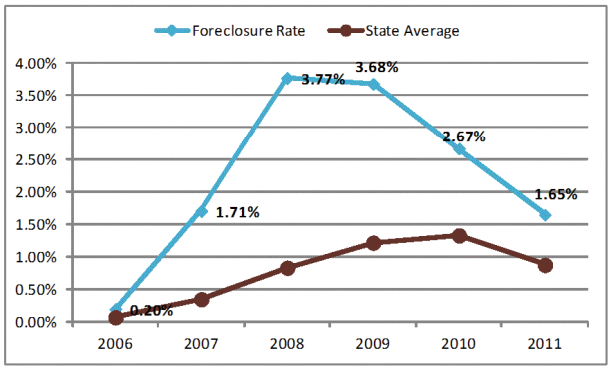
Northern Region

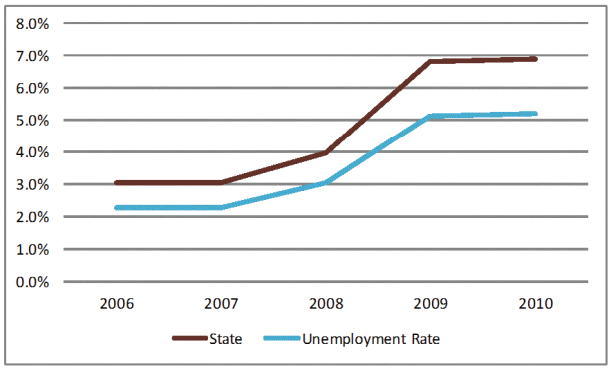
% Change in Vacancies 2000-2010

- 3.9% - 18.4%
- 18.5% - 40.7%
- 40.8% - 65.8%
- 65.9% - 86.2%
- 86.3% - 145.4%

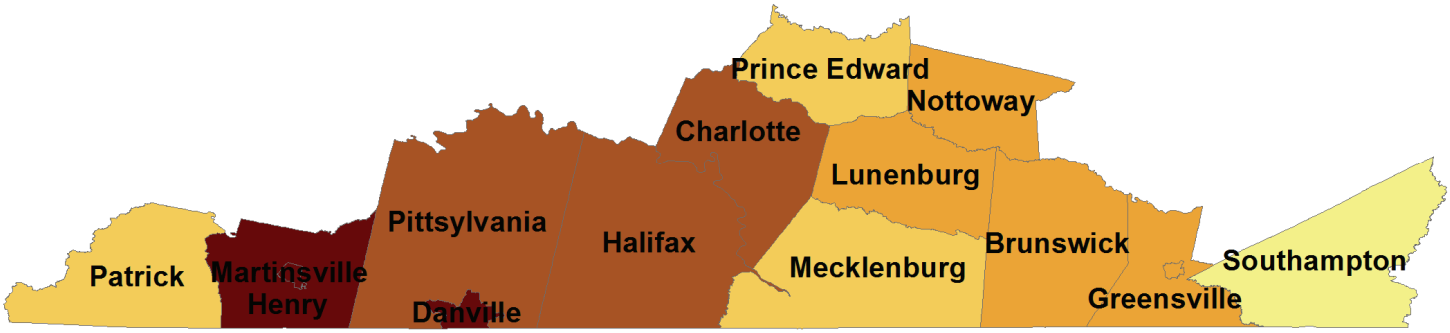
Foreclosure Rate



Unemployment Rate



Southside Region



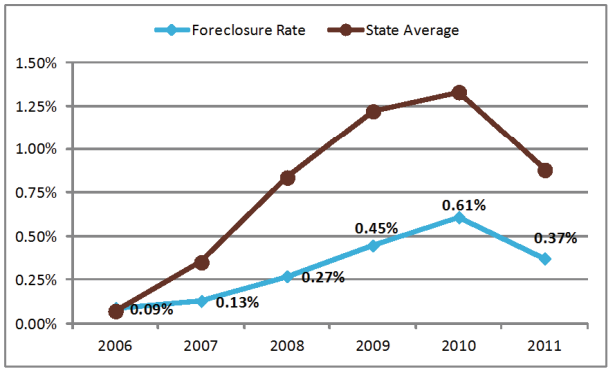
Legend

Southside

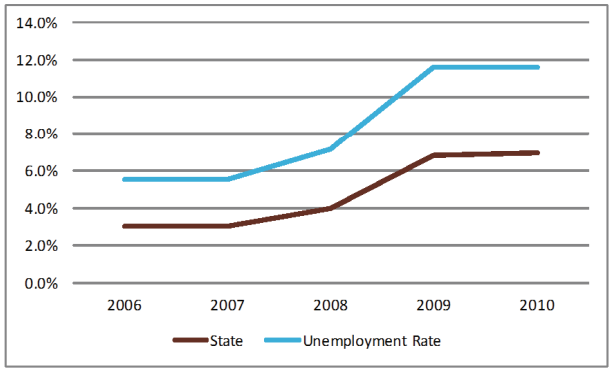
% Change in Vacancies 2000-2010

- -0.1%
- 0% - 0.2%
- 0.3%
- 0.4%
- 0.5%

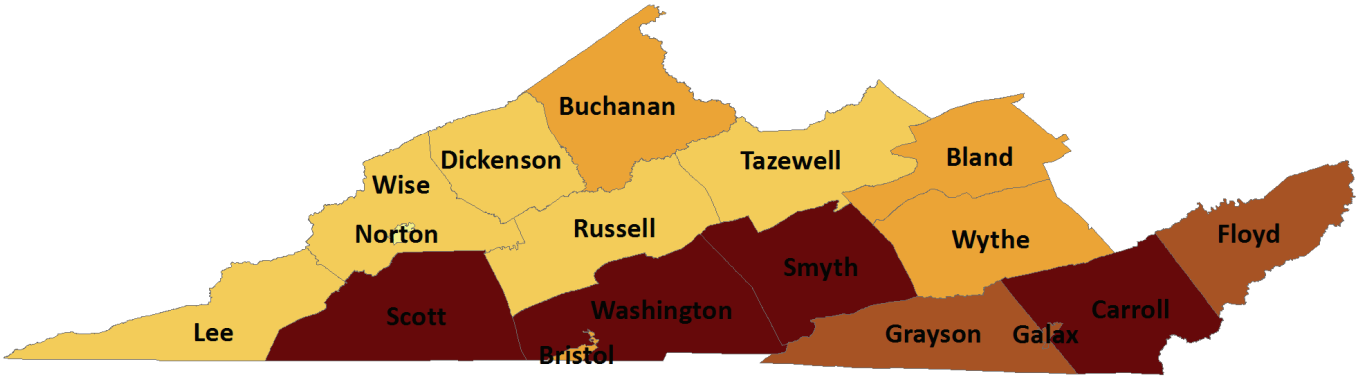
Foreclosure Rate



Unemployment Rate



Southwest Region



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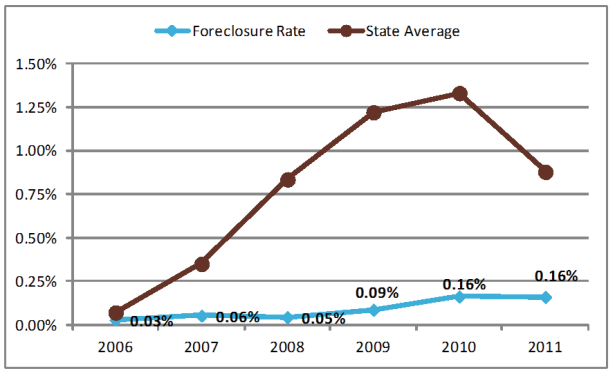
Southwest

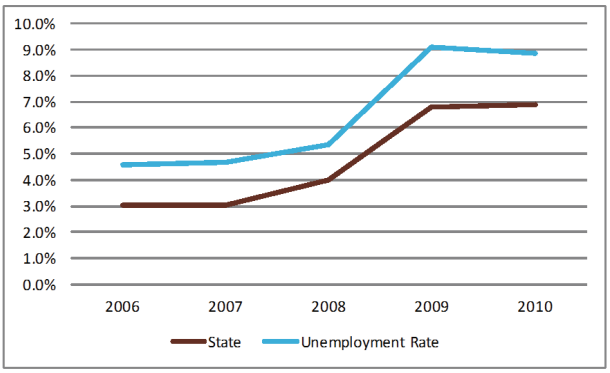
% Change in Vacancies 2000-2010

- -9.7%
- -9.6% - 10.1%
- 10.2% - 18%
- 18.1% - 23.5%
- 23.6% - 32.8%

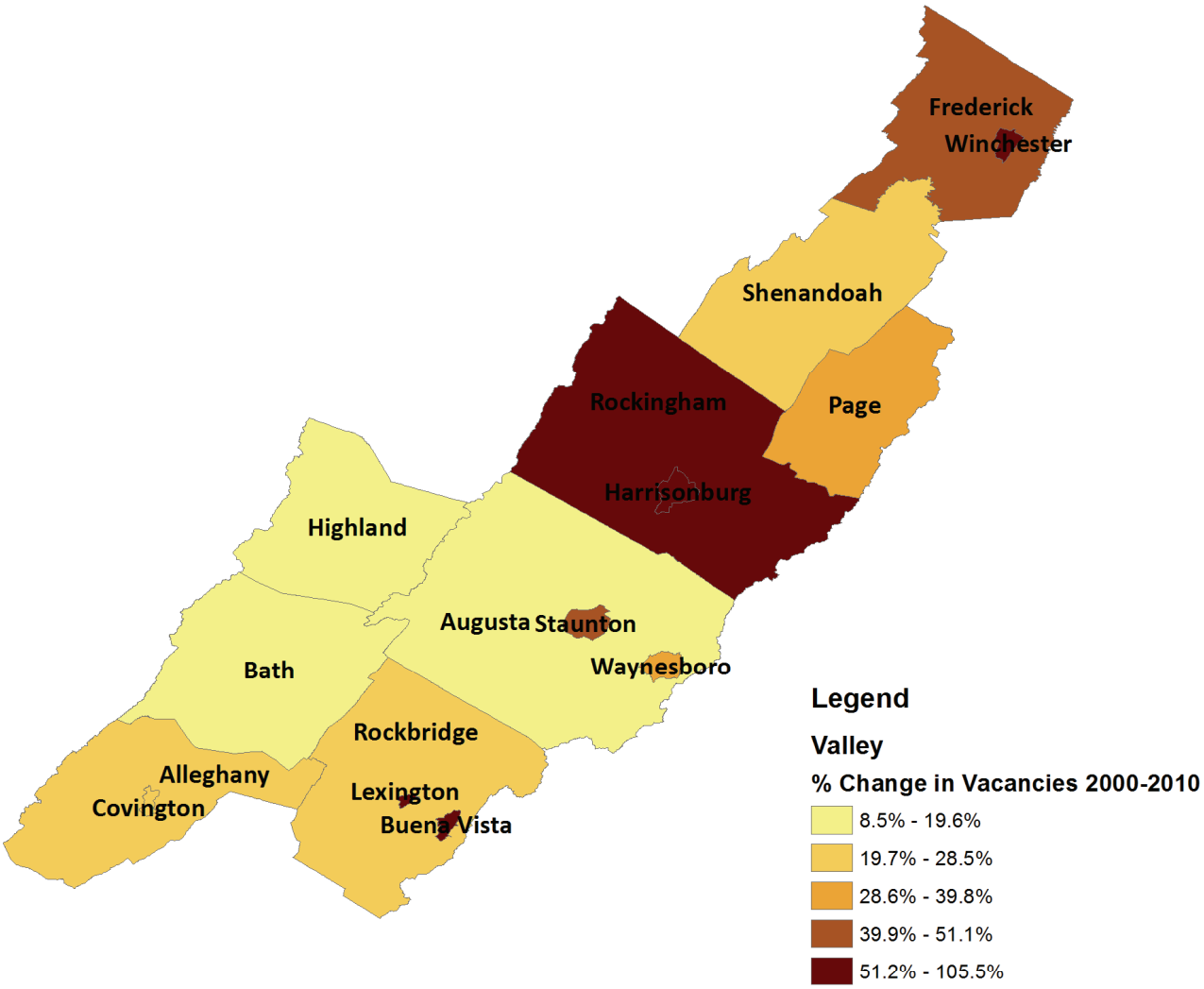
Foreclosure Rate



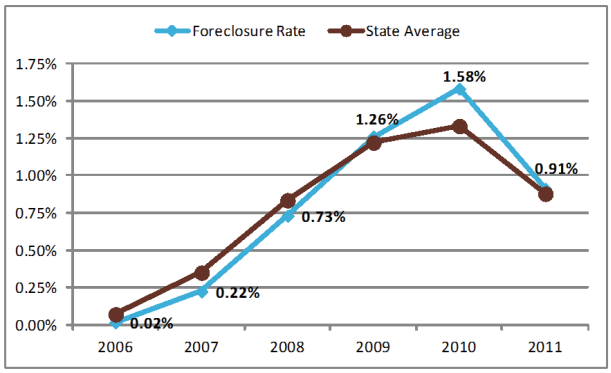
Unemployment Rate



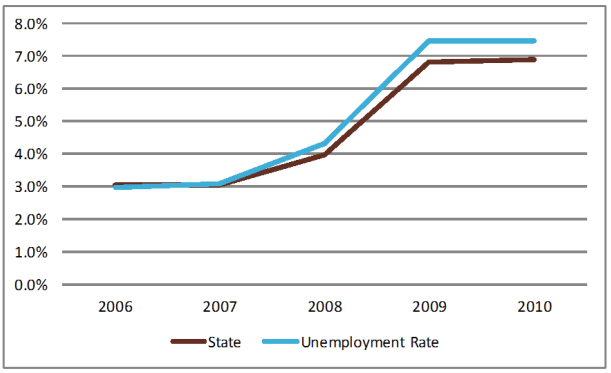
Valley Region



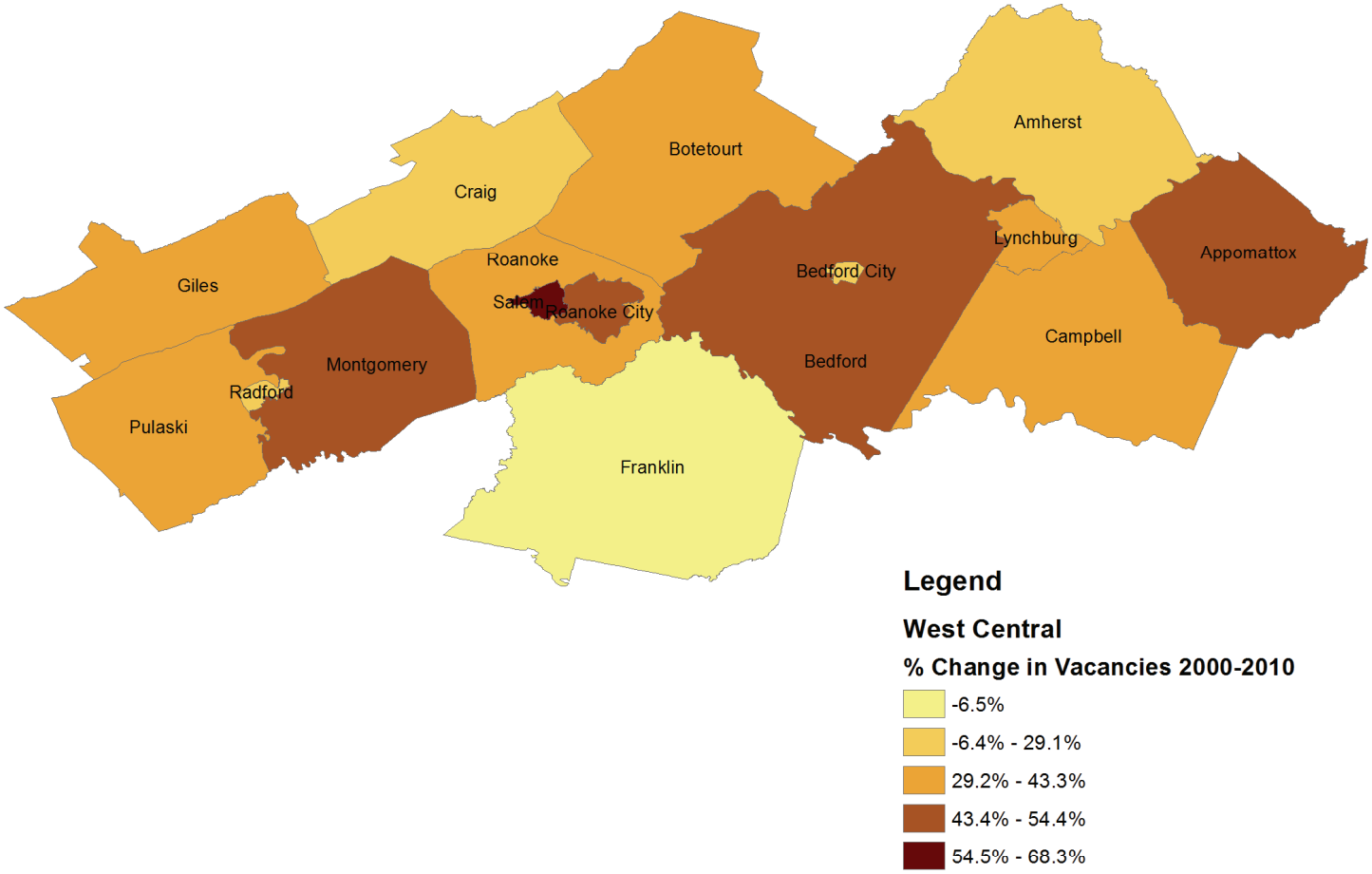
Foreclosure Rate



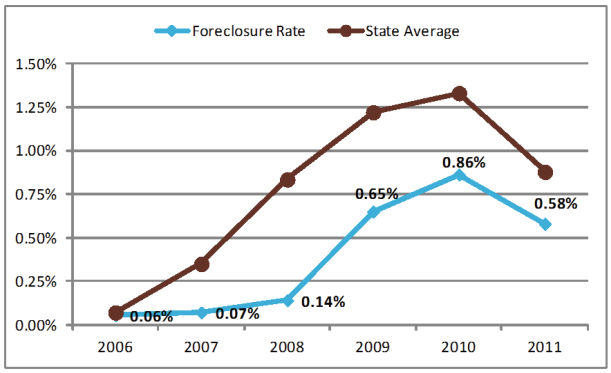
Unemployment Rate



West Central Region



Foreclosure Rate



Unemployment Rate