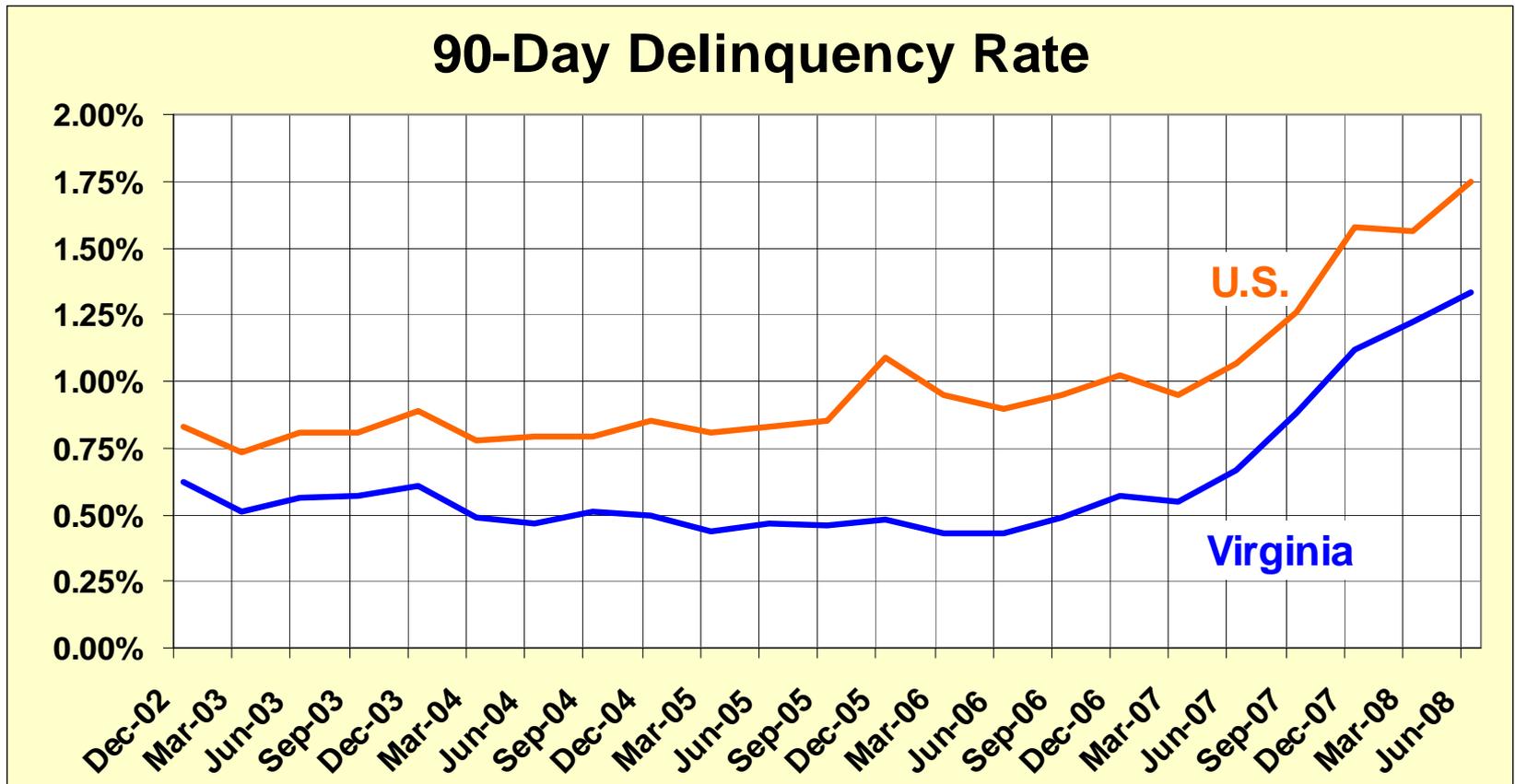


# **Foreclosures and Bank-Owned Homes: More Challenges Ahead**

Virginia Association of Counties  
Annual Meeting  
November 10, 2008

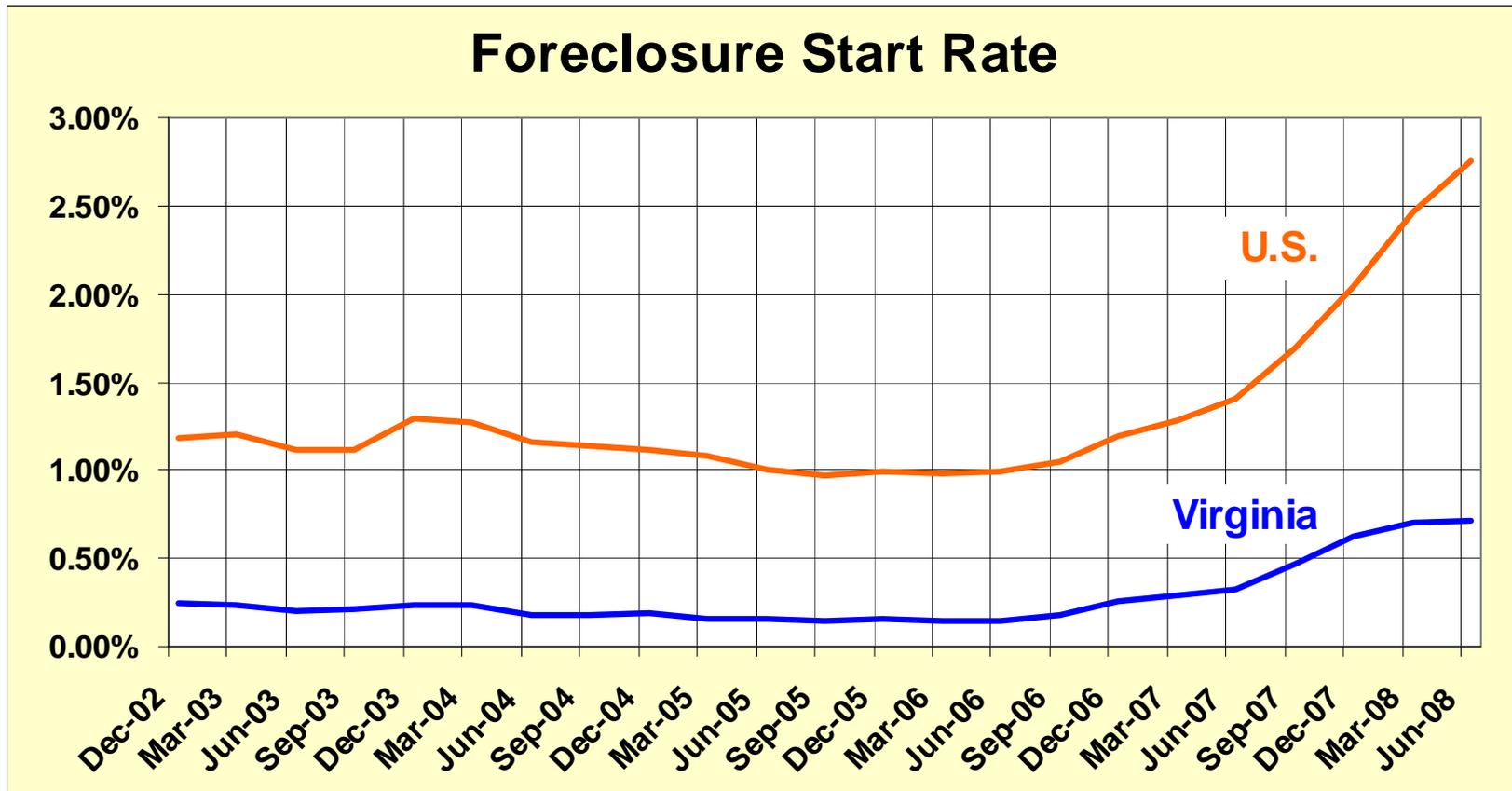
What is the size and extent of Virginia's foreclosure problem?

# The rise in serious delinquencies has been steep, but is starting to slow



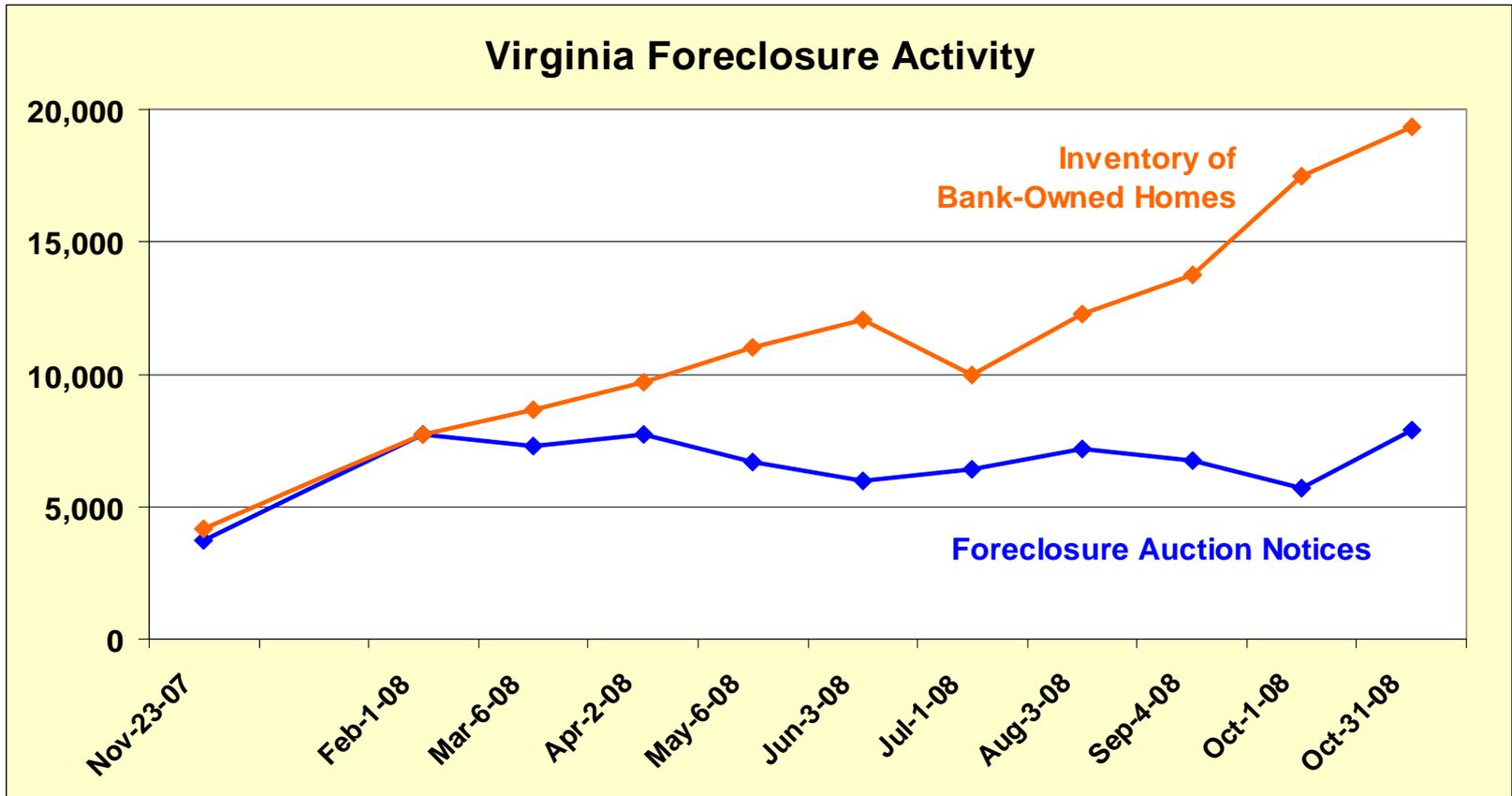
Source: Mortgage Bankers Association (MBA)

# The leveling off of foreclosure starts provides some encouragement



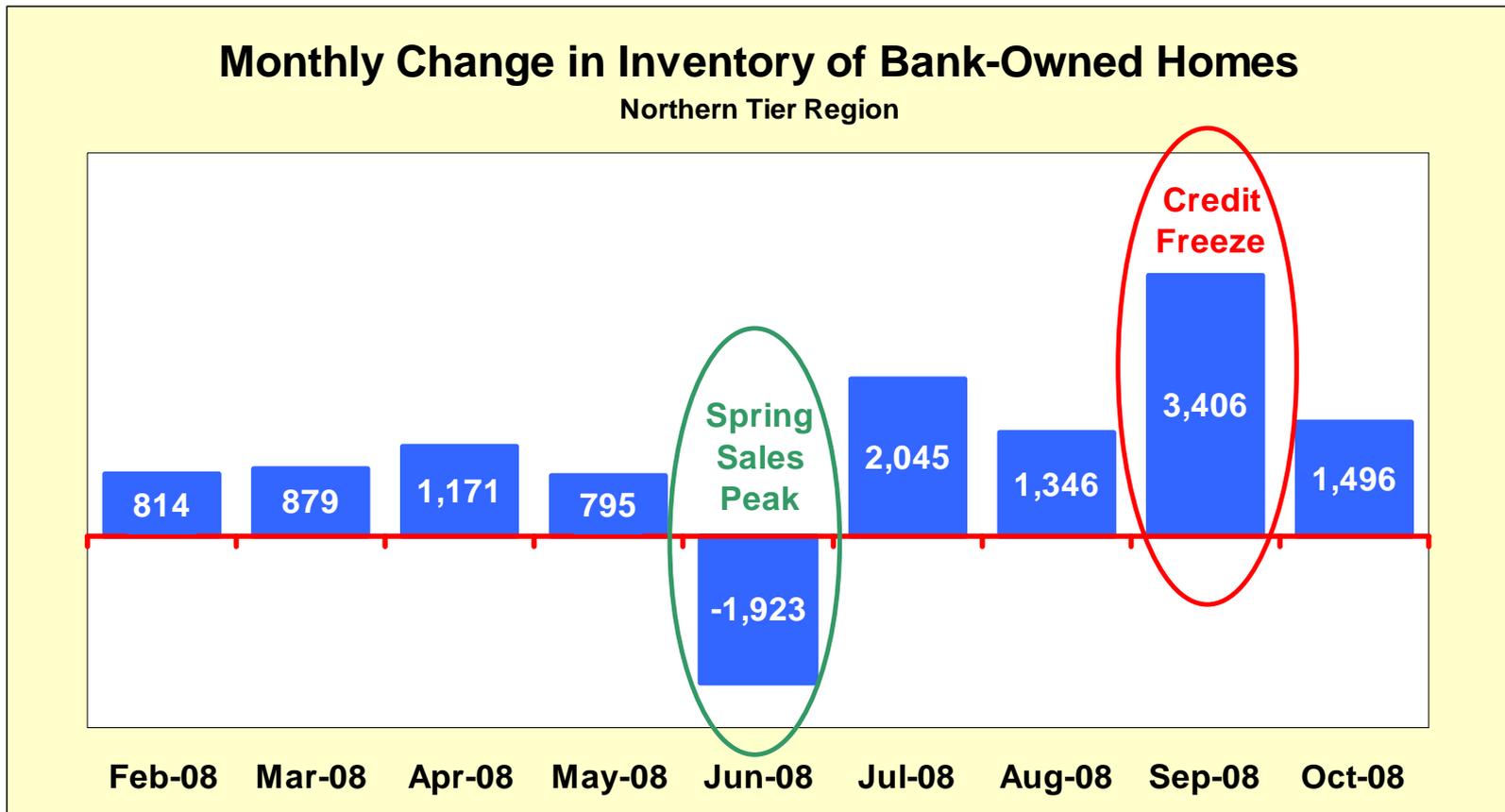
Source: Mortgage Bankers Association (MBA)

# Despite relatively level foreclosures, bank-owned homes are up sharply



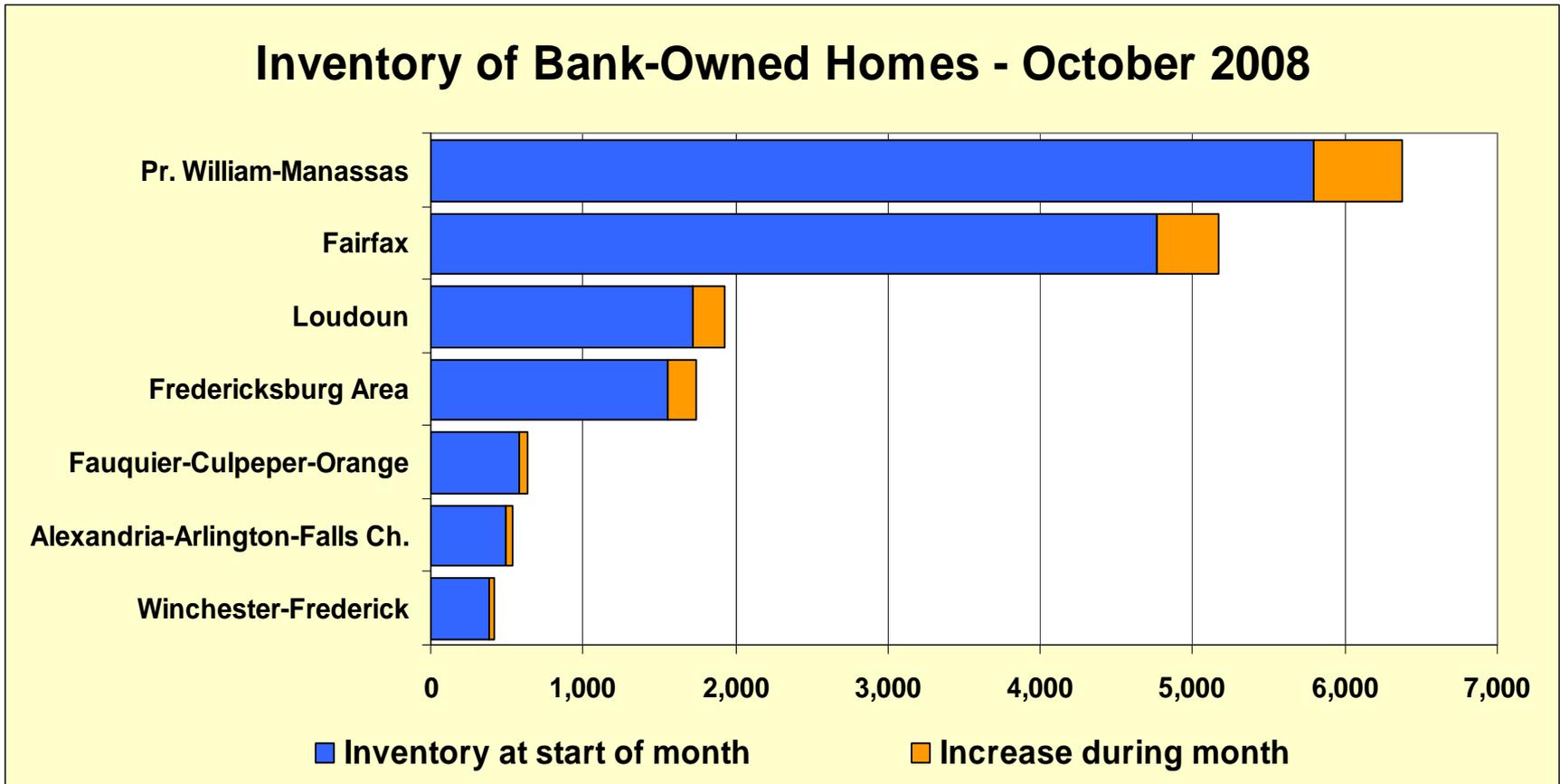
Source: RealtyTrac

# The build-up of bank-owned homes is now at a critical level in Northern VA



Source: RealtyTrac

# The problem is most acute in the Pr. William-Manassas & Fairfax areas

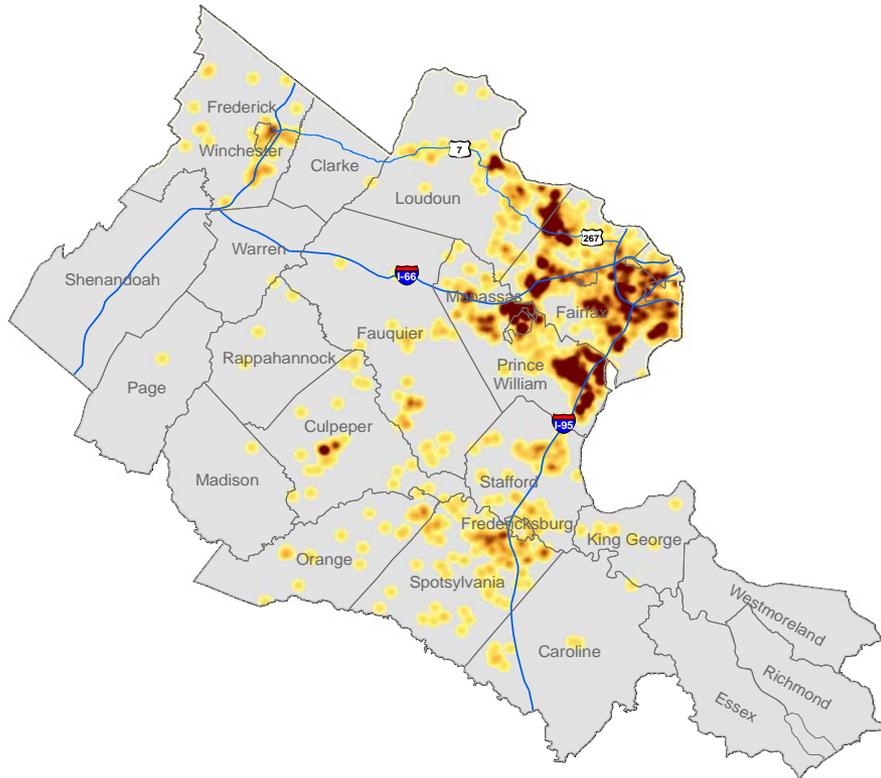


Source: RealtyTrac

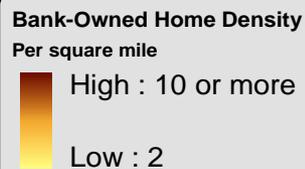
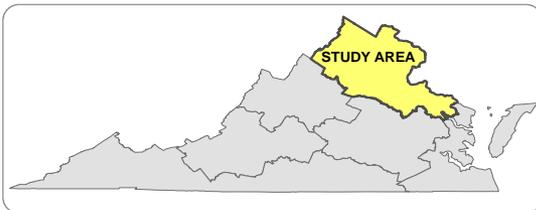
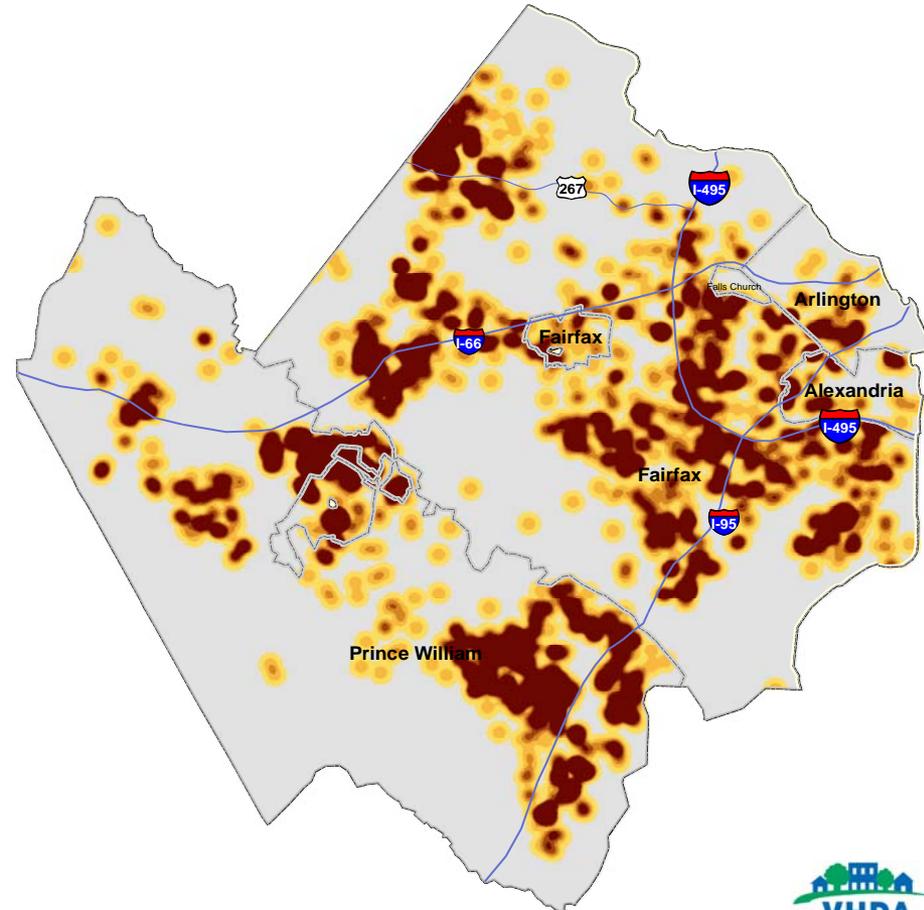
# Bank-Owned Home Activity - Q1 2008

## Northern Tier

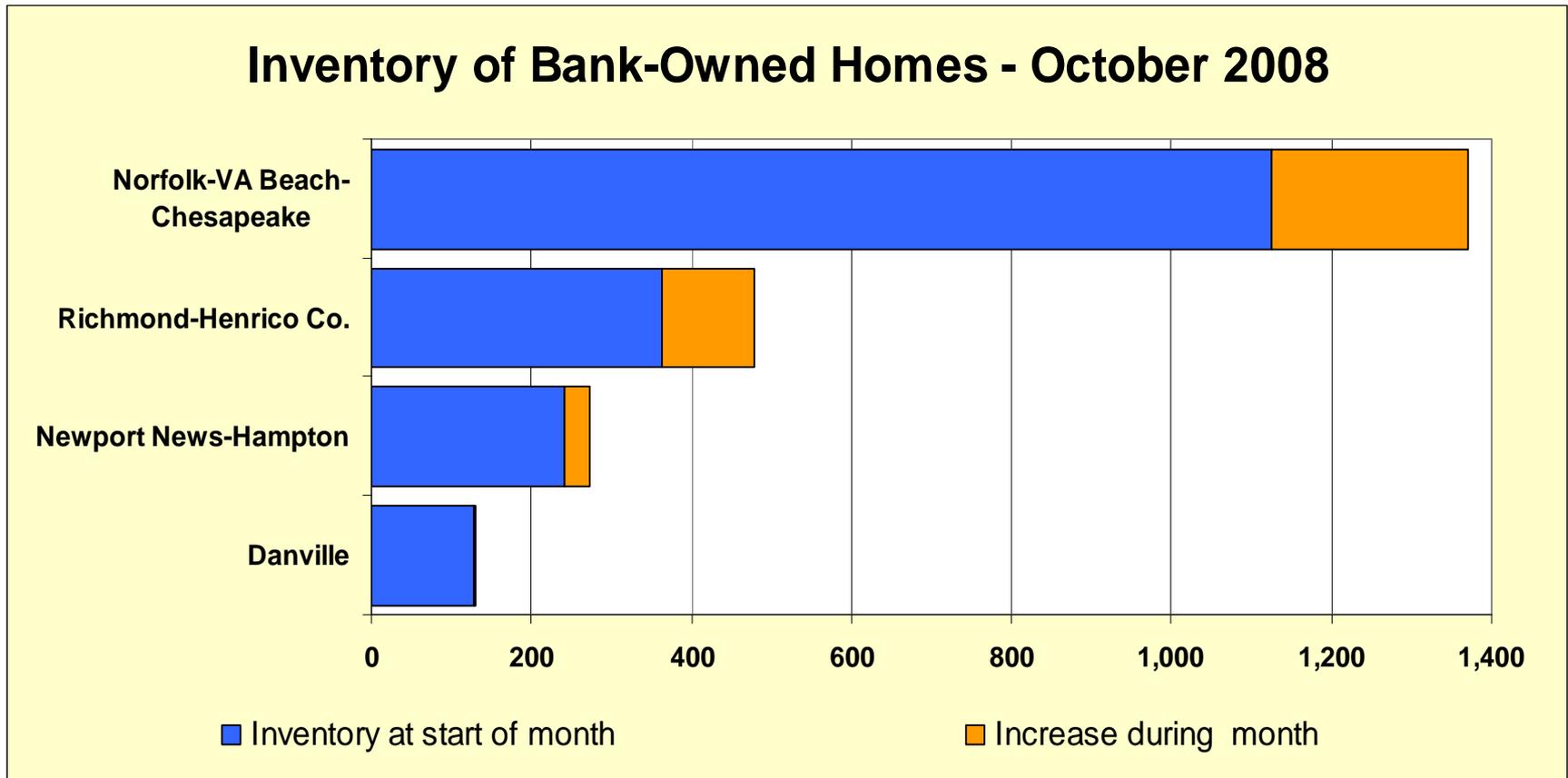
### Regional 1 Mile Radius



### Fairfax - Arlington - Alexandria Prince William - Manassas 1/2 Mile Radius



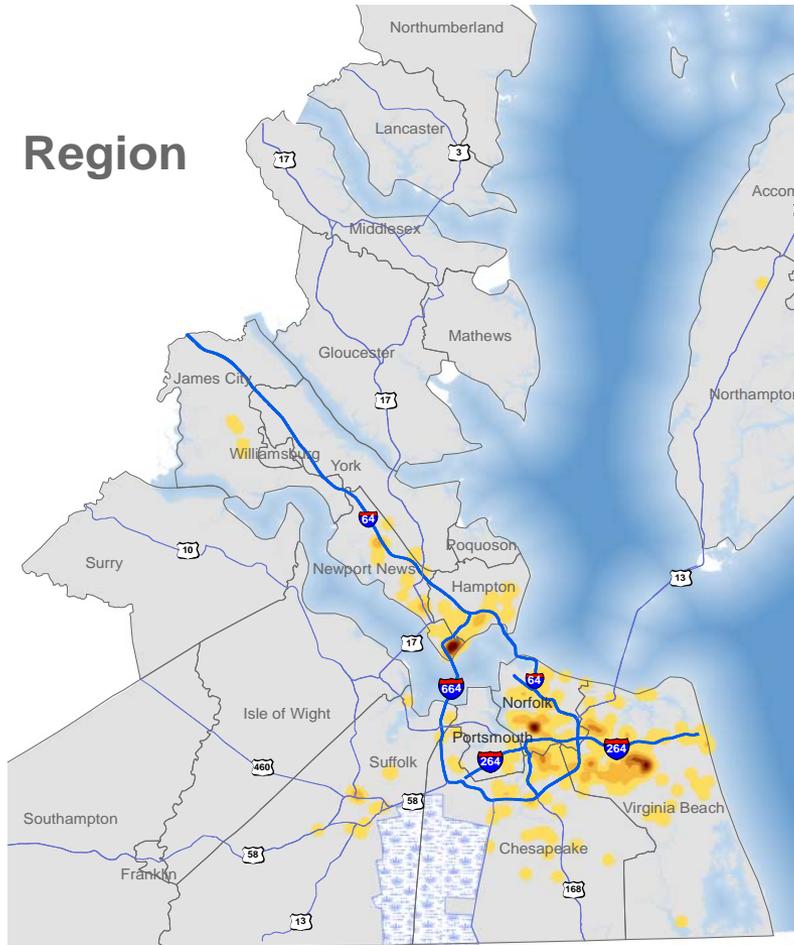
# Other localities have significant inventories of bank-owned homes



Source: RealtyTrac

# Bank-Owned Home Activity - Q1 2008

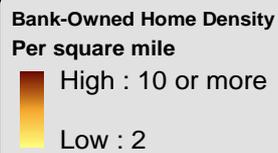
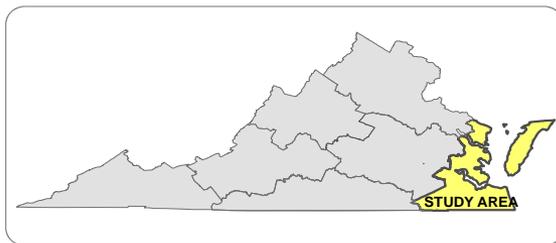
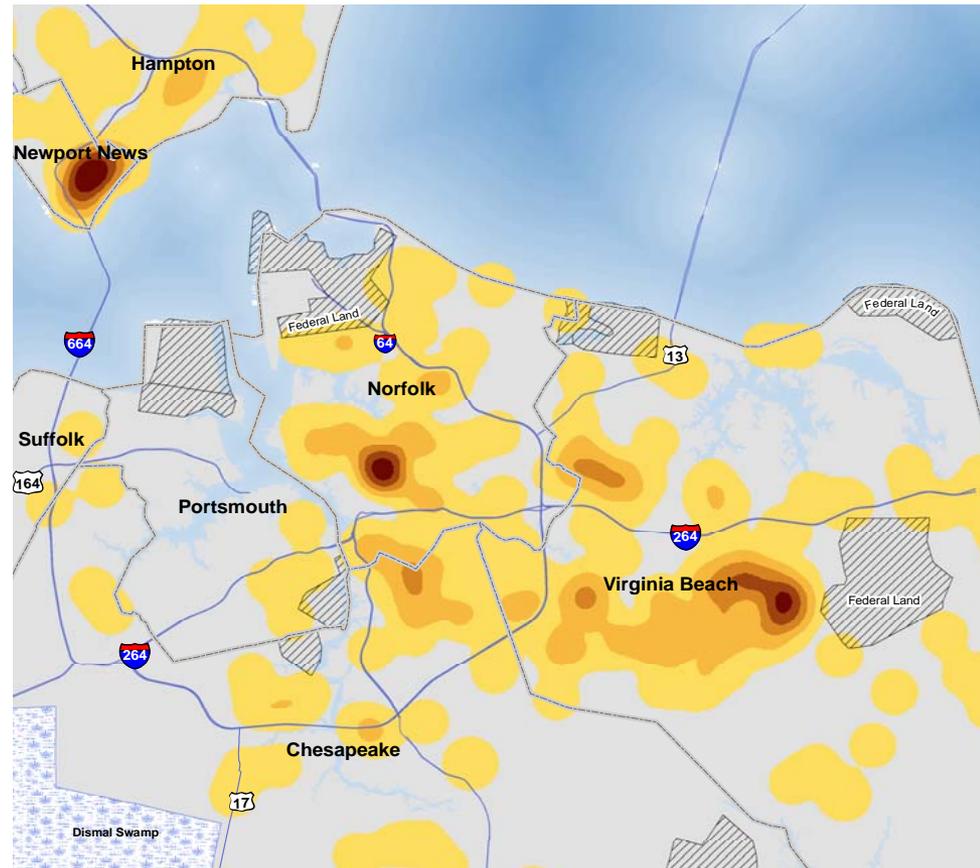
Region



## Hampton Roads

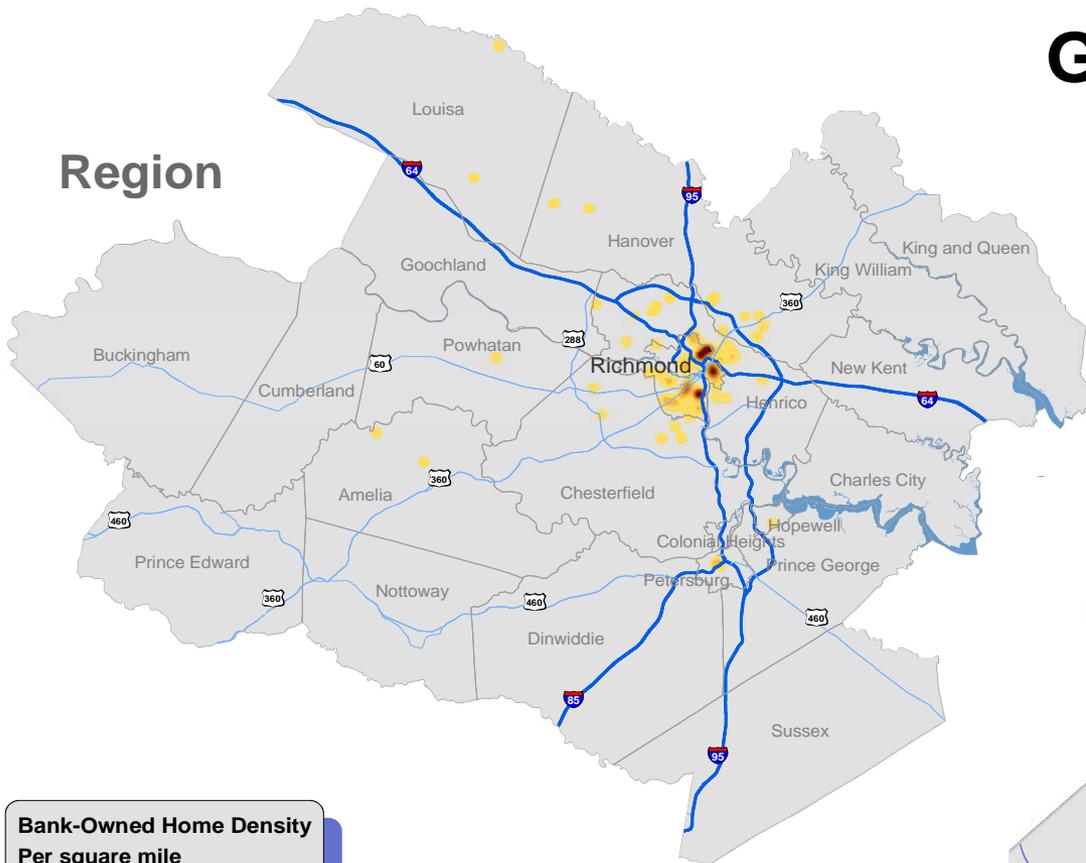
1 Mile Radius

Core



# Bank-Owned Home Activity - Q1 2008

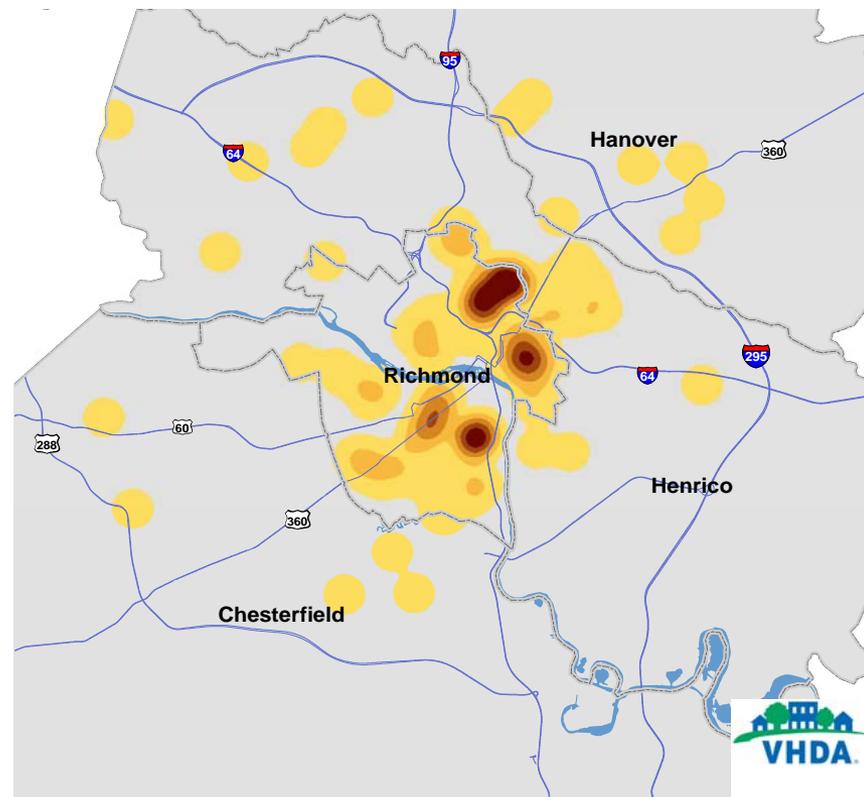
## Region



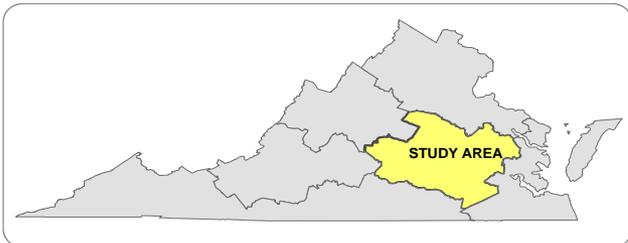
## Greater Richmond

1 Mile Radius

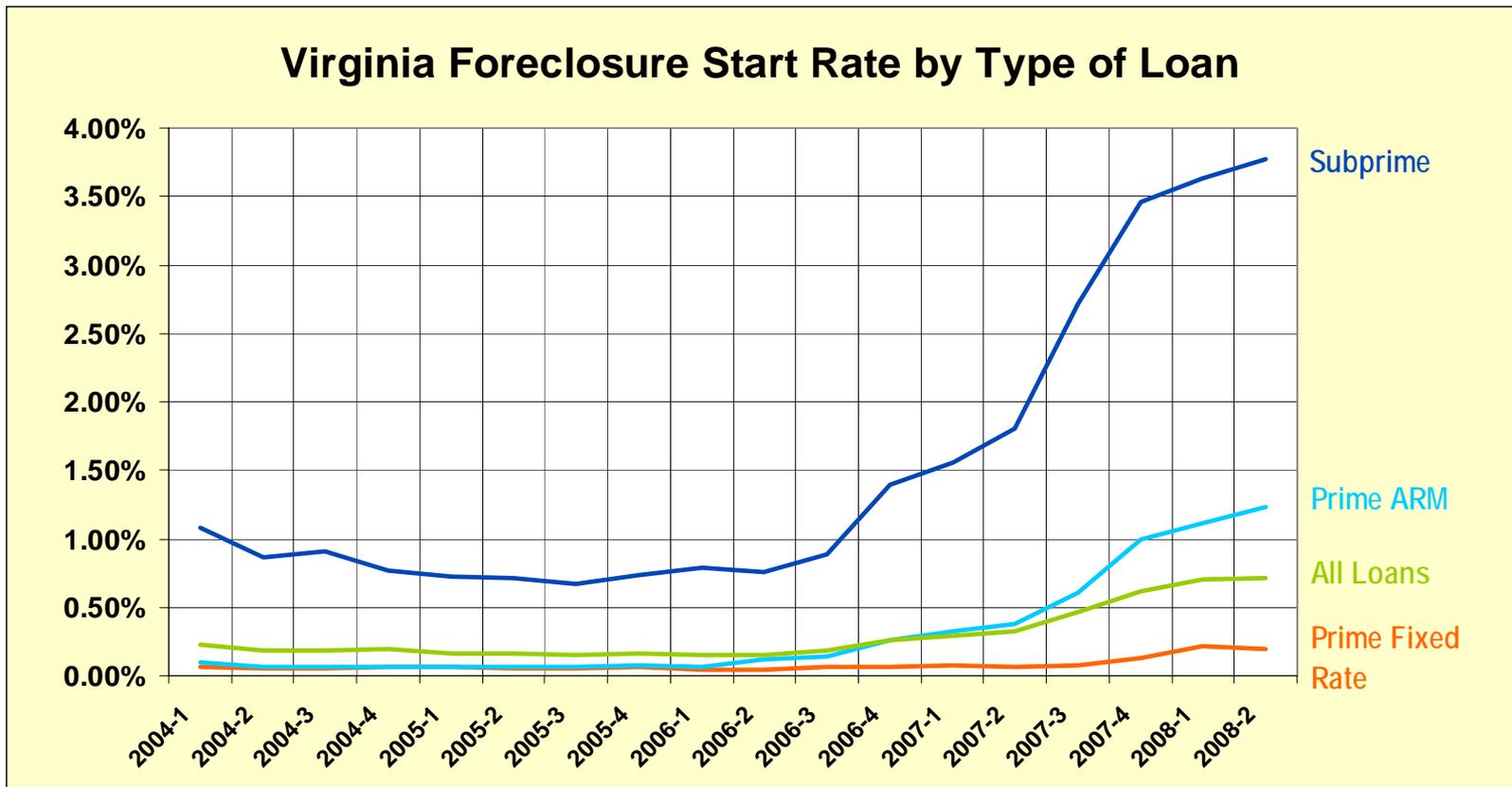
## Core



Bank-Owned Home Density  
Per square mile



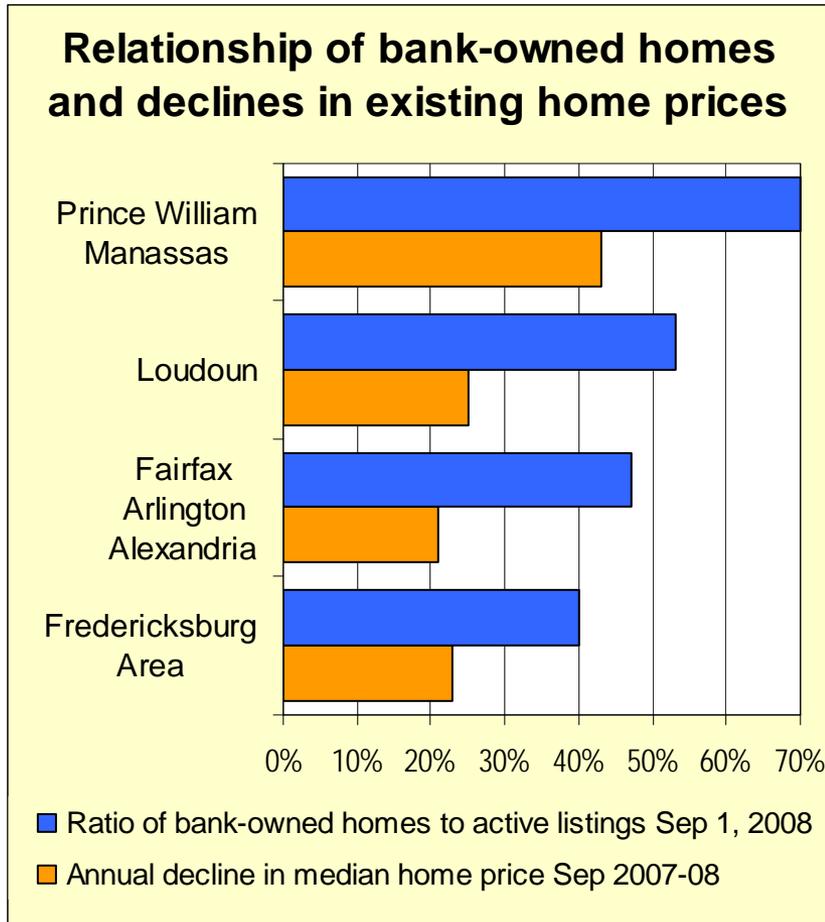
# The problem continues to be with higher cost & adjustable rate loans



Source: Mortgage Bankers Association (MBA)

How are foreclosures  
impacting the market?

# A build-up of bank-owned properties puts downward pressure on prices



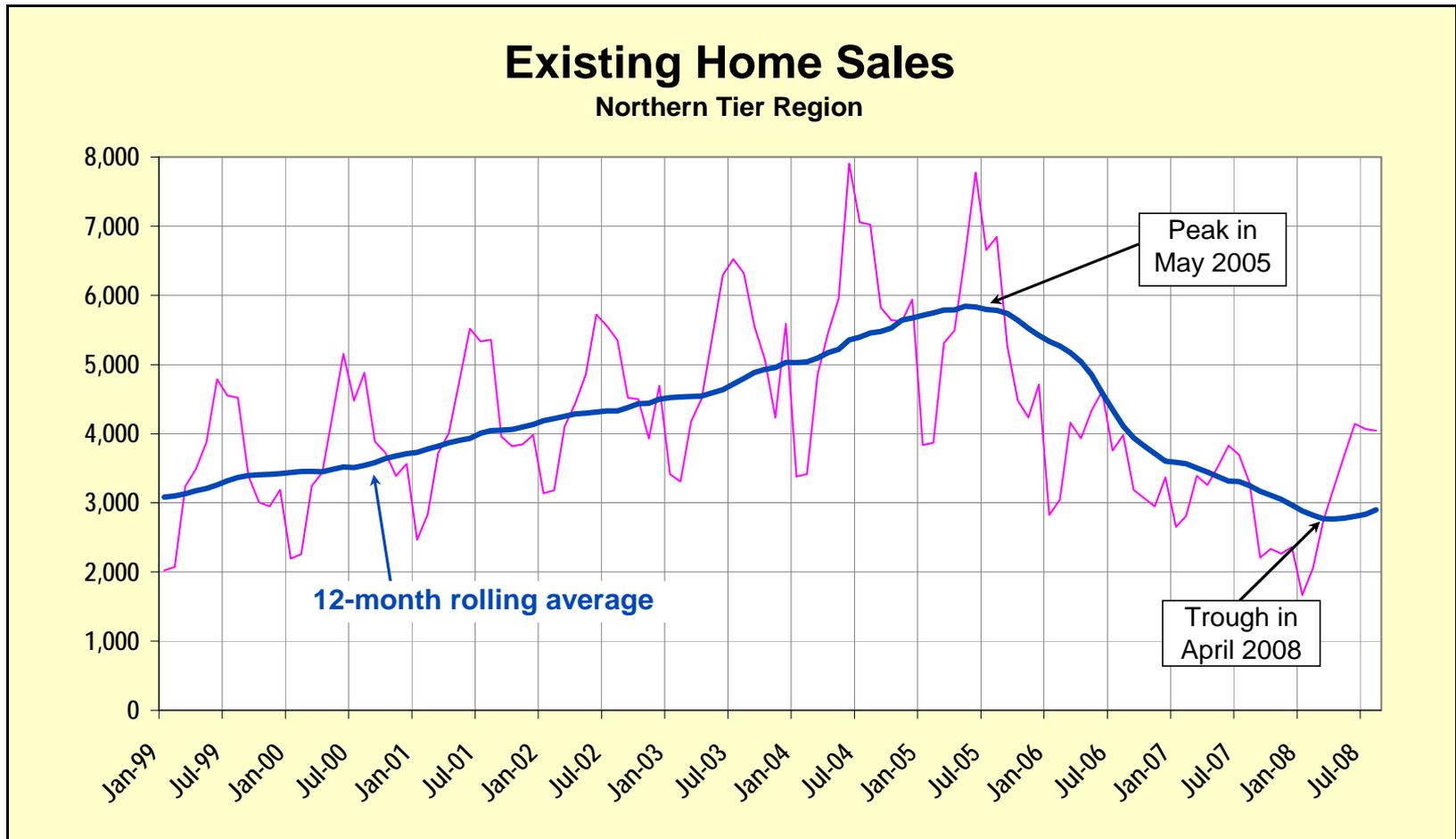
- Historically, home prices have been “sticky” during market downturns—i.e., price declines are retarded by an unwillingness of sellers to accept losses.
- This has meant that price corrections often occur through depressed rates of appreciation over protracted periods of time.
- However, a build-up of bank-owned homes changes that dynamic due to the pressure on lenders to turn over properties quickly even in the face of substantial losses.

# Price declines and foreclosures have become mutually reinforcing

- Initially, weak housing market conditions result in declining rates of appreciation and, in time, actual declines in resale prices.
- This stimulates foreclosures for at-risk borrowers who find themselves “upside down” with their mortgage and unable to refinance or sell.
- As foreclosure activity becomes substantial, then large numbers of distressed sales further depress market prices.
- As inventories of bank-owned homes build, the pressure to lower prices becomes intense.
- Sustained price declines weaken buyer confidence and cause lenders to tighten lending standards. In a worst case scenario—as we see today in Northern Virginia—this creates a self-reinforcing downward cycle.

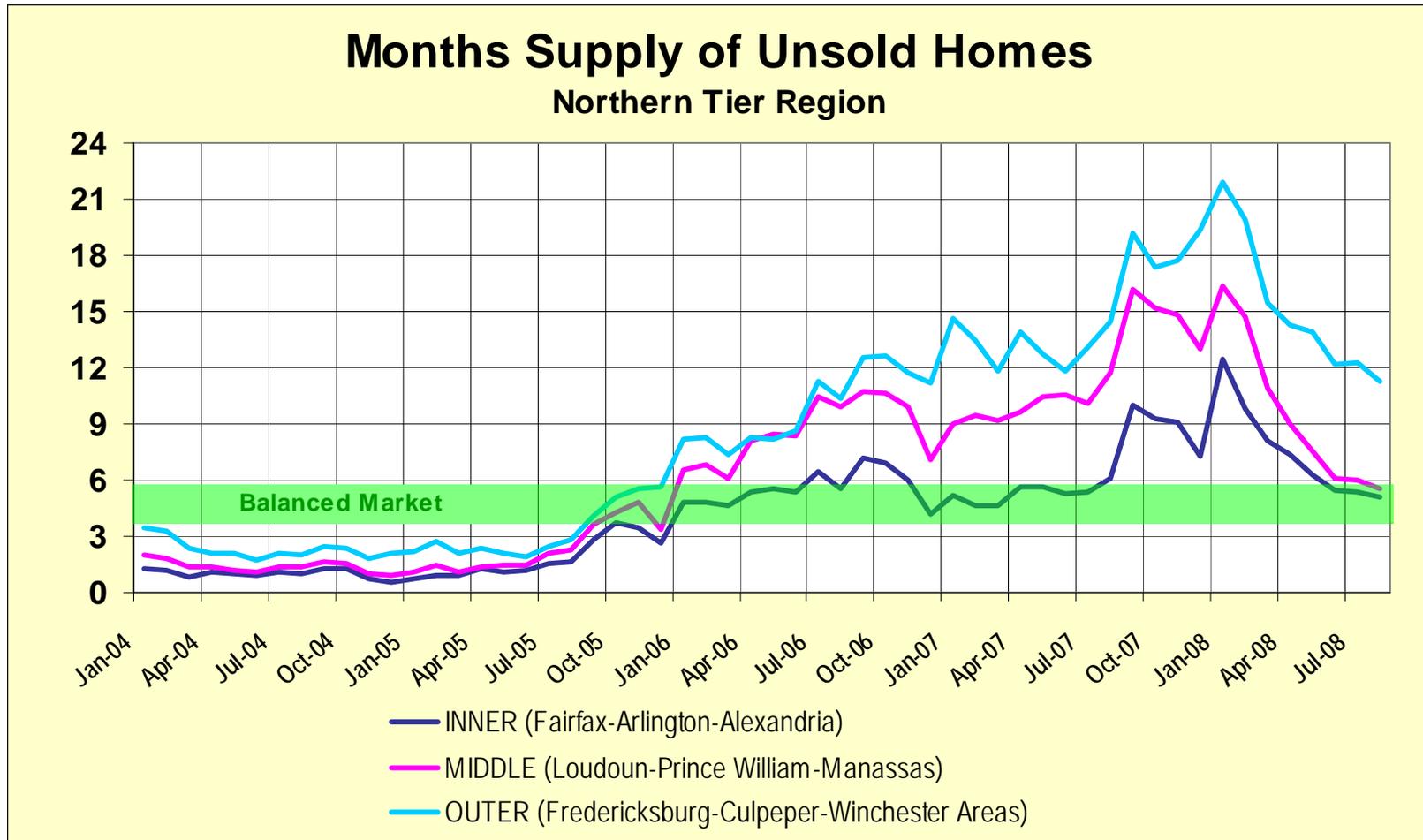
What does the future hold for  
Virginia's foreclosure problem?

# In Northern VA, falling prices are now reviving existing home sales



Source: MRIS

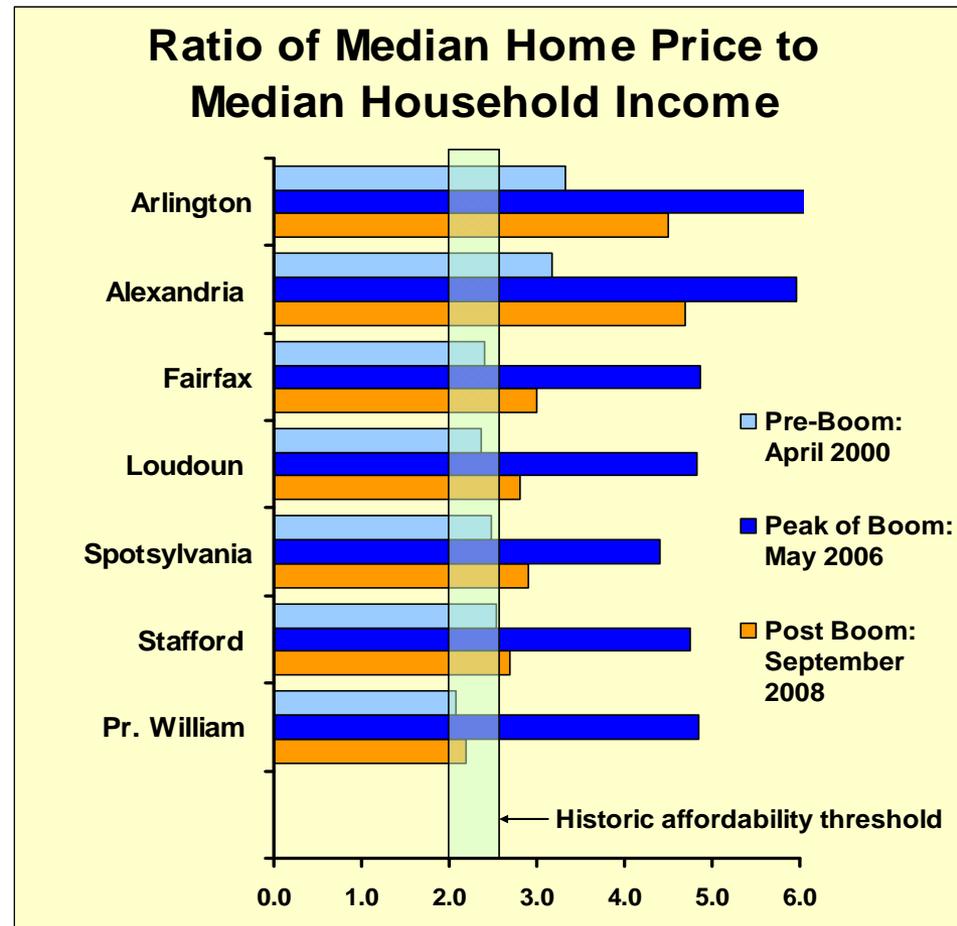
# Rising home sales are reducing unsold housing inventory



Source: MRIS

# A big factor in Northern VA's sales rebound is increased affordability

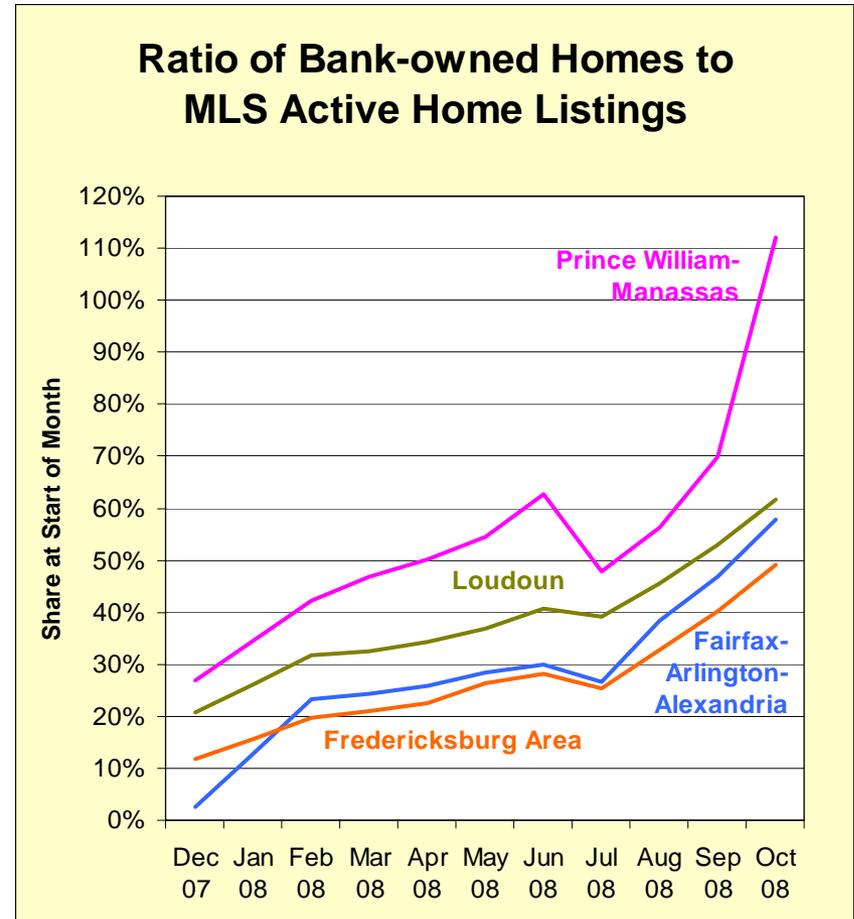
- In 2000, affordability was a problem mainly inside the Beltway
- At the peak of the boom, affordability pressures were severe even in the outer suburbs
- Today, affordability is returning to pre-boom levels



Source: MRIS and Census Bureau

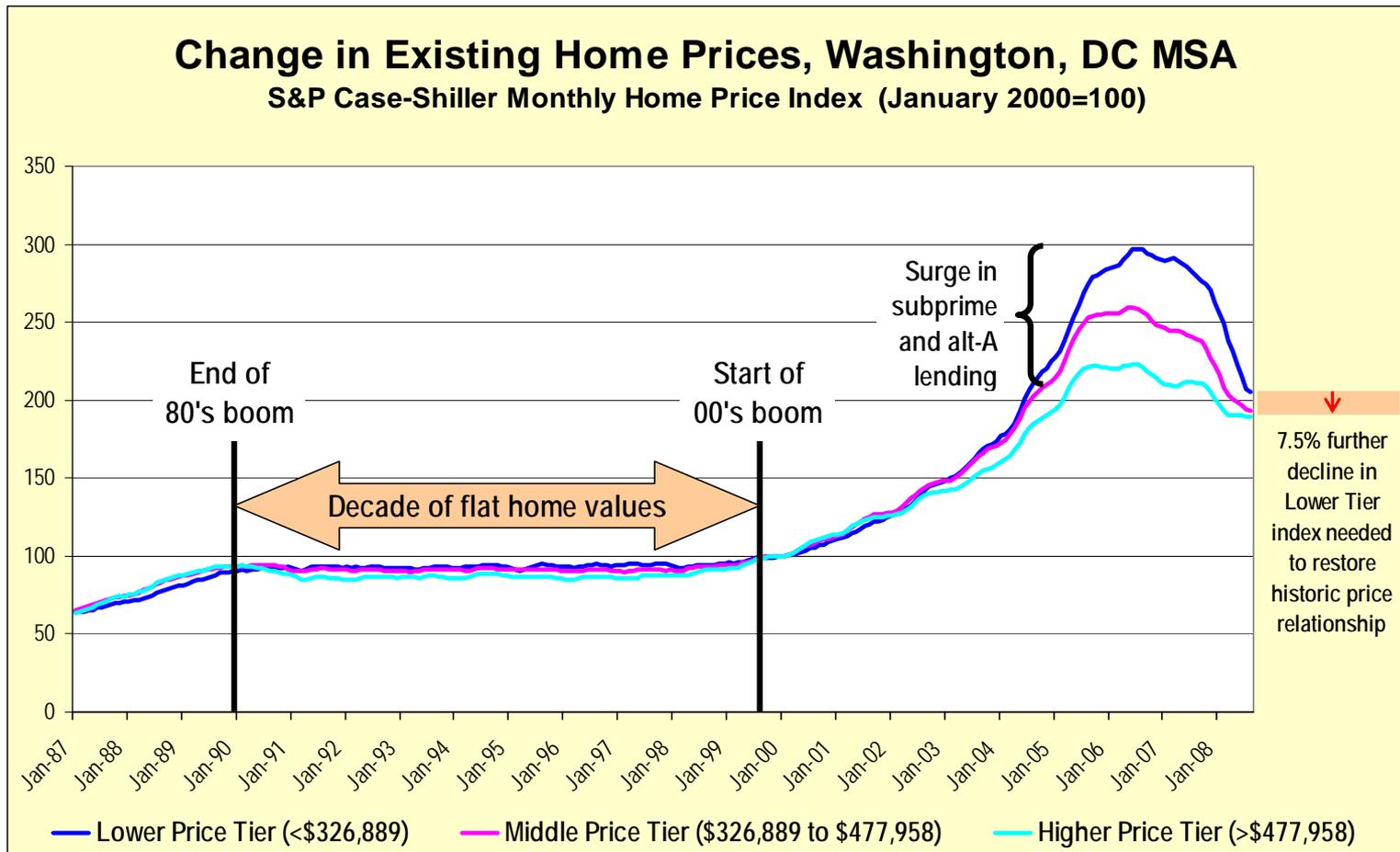
# Bank-owned homes remain a drag and continue to pressure prices

- In June, at the spring peak in home sales, sharply lower prices briefly reduced the number and share of bank-owned homes in Northern Virginia.
- But since then, the seasonal slowdown in sales and fewer active listings have quickly rebuilt the bank-owned homes share of the market—this has accelerated price declines.



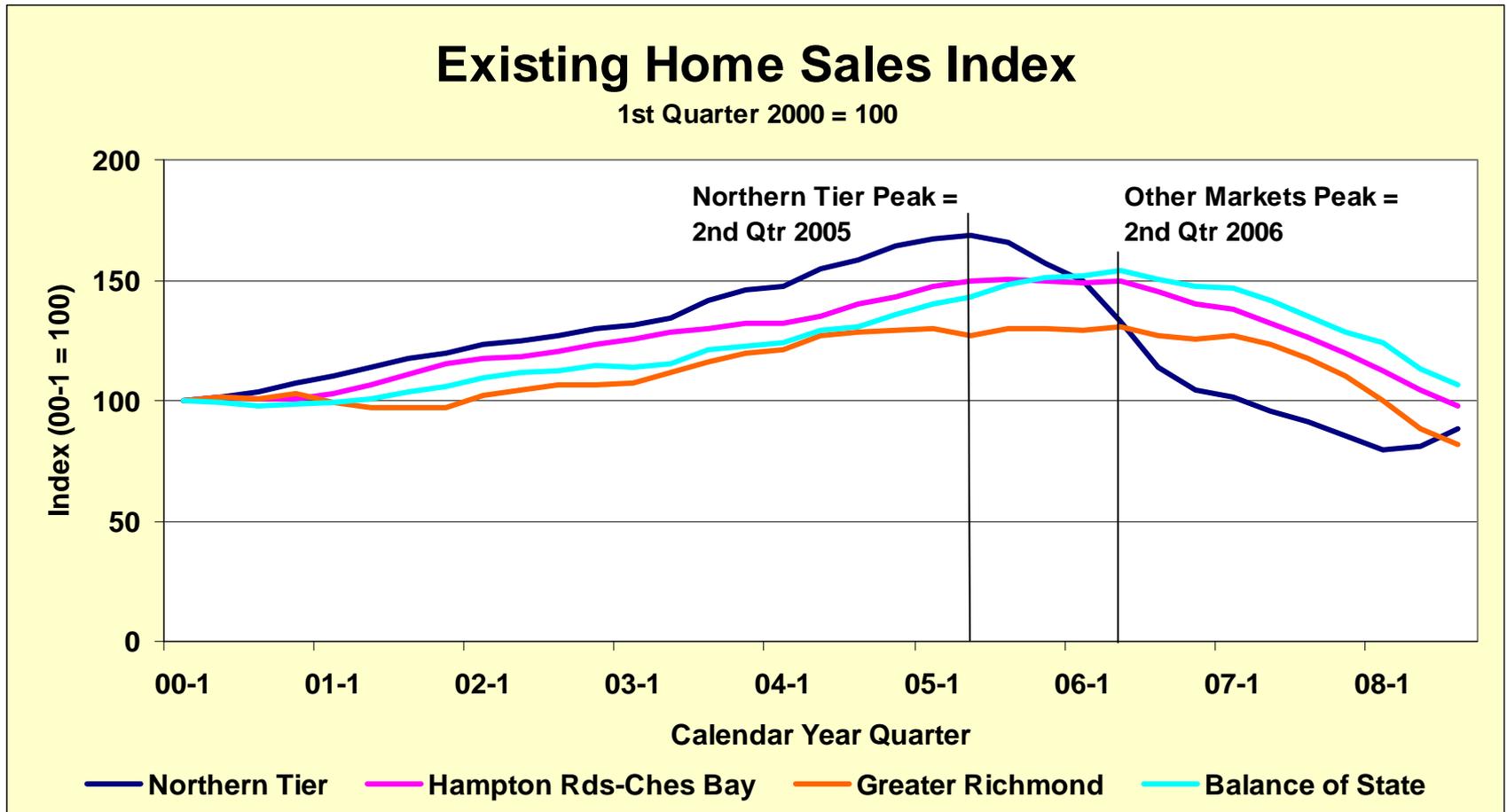
Source: MRIS and RealtyTrac.com

# Lower-end prices have been under the greatest pressure



Note: Tiered price breakpoints are as of August 2008

# Other markets are in an earlier phase of sales and price declines



Source: Virginia Association of Realtors

# The following factors will contribute to how quickly markets rebound

- An upturn in home sales will mark the bottom of the market—as unsold inventory declines, prices will stabilize and foreclosures ease.
- Current data show most Virginia markets still experiencing declining home sales. However, in Northern Virginia steep price cuts are now contributing to a rebound in sales activity.
- The quicker that prices fall, the sooner that home sales and appreciation rates are likely to turn positive—more modest short-term price declines may contribute to prolonged price stagnation as occurred in Northern Virginia during the 1990's.

# What further risks lie ahead?

1. First, the length and severity of the recession is a major unknown. A layering of traditional economic foreclosure drivers on top of the current factors impacting the market will compound current weakness.
2. A second risk is bank-owned homes. This inventory is quickly building now that the June seasonal peak in sales is past. A continued build-up will reinforce current price cuts in Northern Virginia and could stimulate significant price declines in other markets as well.
3. Finally, there is the ongoing risk of further trauma in the credit markets that would significantly reduce the availability of affordable home financing. It is essential that an adequate supply of affordable mortgage funds remain available to enable the market to recover.