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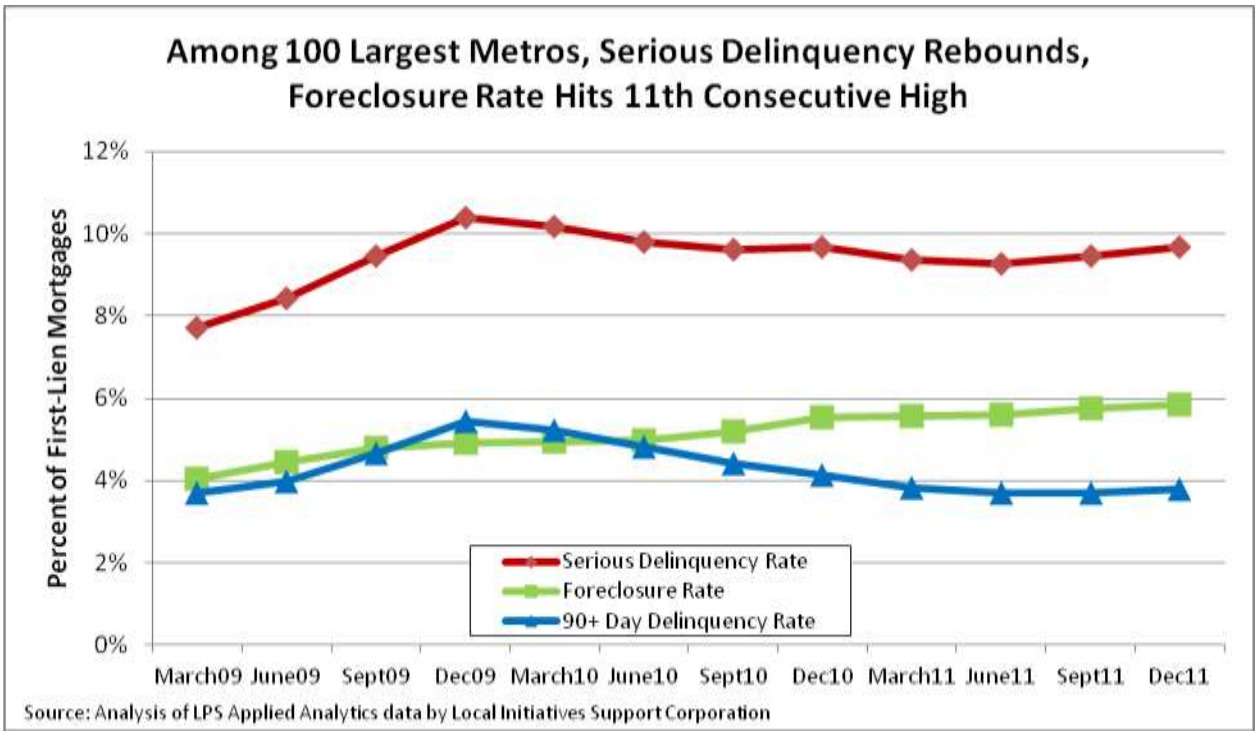
Serious Delinquency Rates – 100 Largest Metro Areas, December 2011

By Rob Pitingolo, Urban Institute

Rates of serious mortgage delinquency are rebounding in the 100 largest U.S. metro areas, after a downward trend between December 2009 and June 2011. The serious delinquency rate stands at 9.7% as of December 2011.

The serious delinquency rate is calculated as the sum of two components: 90-plus day delinquency rate and the foreclosure rate. In December 2011, the number of 90-plus day delinquent mortgages leveled off and that rate now stands at 3.8%. Meanwhile, the foreclosure rate has been increasing steadily over the past 3 years, reaching a 5.9%.



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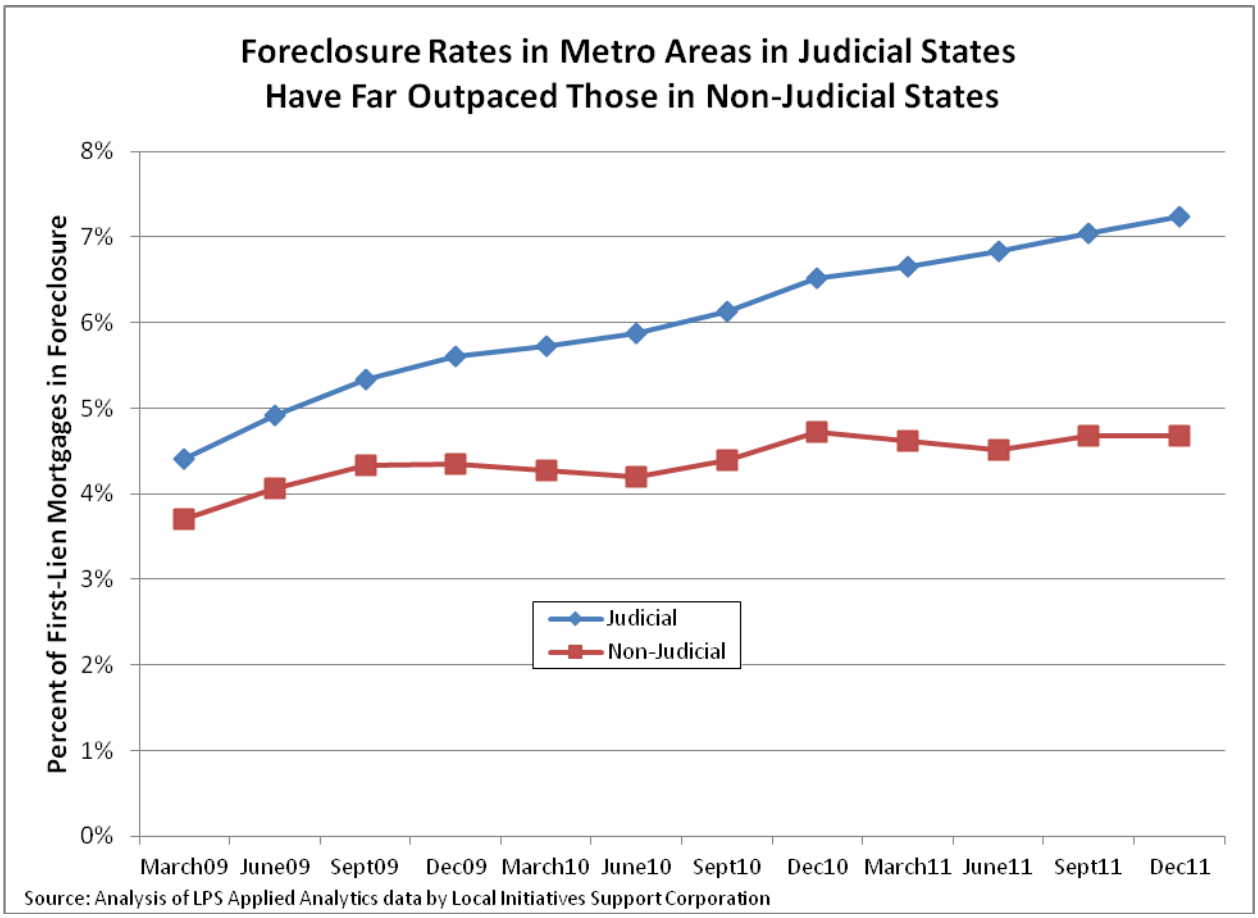
The high and growing foreclosure rate reflects a buildup of homes that are stalled in the foreclosure process. According to data from LPS Applied Analytics, foreclosure starts continue to outpace foreclosure sales[1] and the foreclosure rate will remain high until these properties fully complete the foreclosure process. There are signs of that this is beginning to happen. RealtyTrac Inc. reports that foreclosure sale activity is expected to pick up during 2012, especially in "judicial" states where courts must make a final decision about a property before it can exit foreclosure.[2]

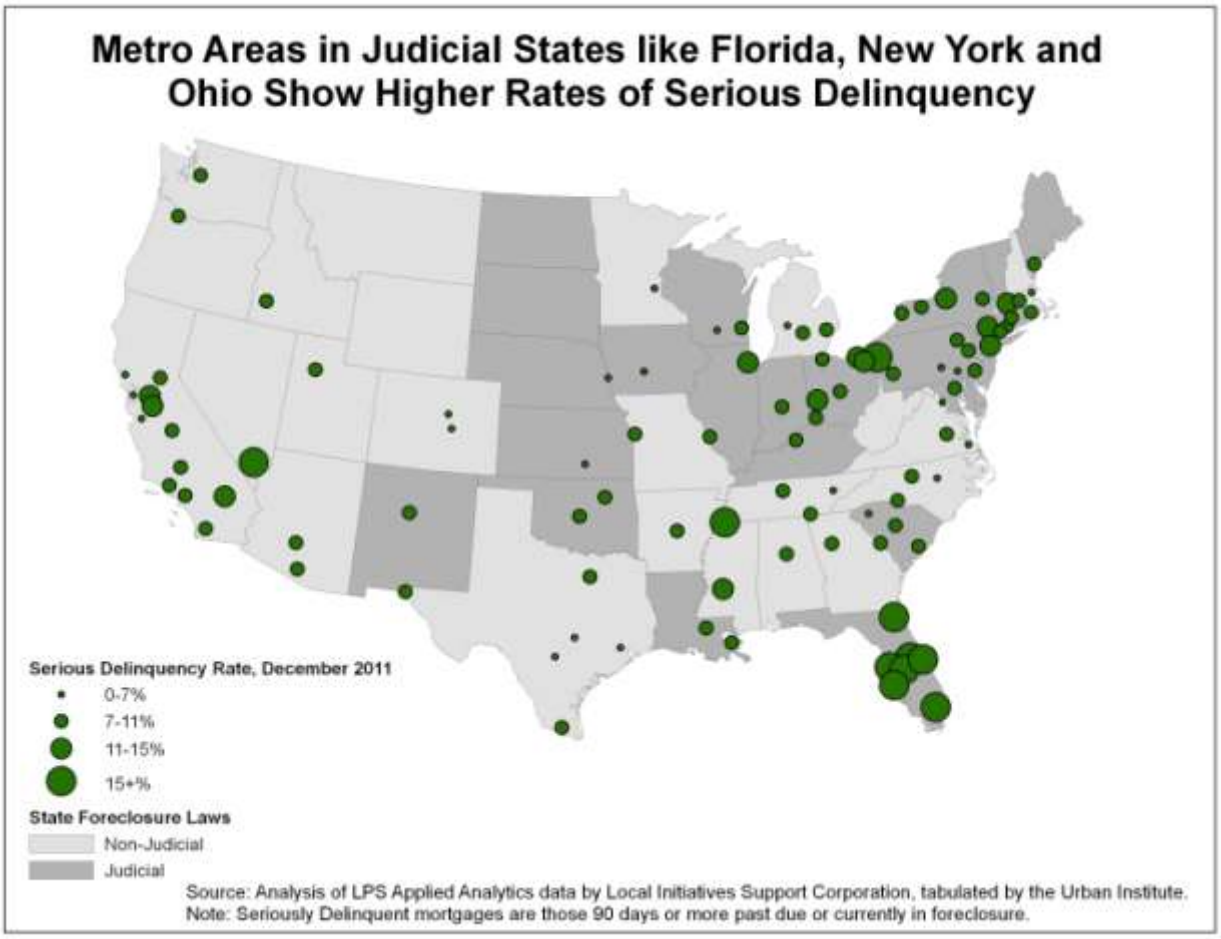
Among the 100 largest U.S. metros, roughly half (46) are primarily in judicial foreclosure states, according to data from LPS Applied Analytics[3]. The difference in the foreclosure rates among these metros in significant. In judicial areas, the average foreclosure rate as of December 2011 was 7.2% while the average rate in non-judicial areas was only 4.7%. The trend has also been bifurcating. Foreclosures in non-judicial areas have remained roughly flat over the past five quarters while the rate in judicial areas has grown every quarter since March 2009, when we began tracking this data.



[1] LPS Mortgage Monitor April 2012 Mortgage Performance Observations
[2] Yuki Noguchi , "Foreclosure Influx Causes Backlog In Some States." NPR March 16, 2012.
[3] LPS Mortgage Monitor April 2012 Mortgage Performance Observations

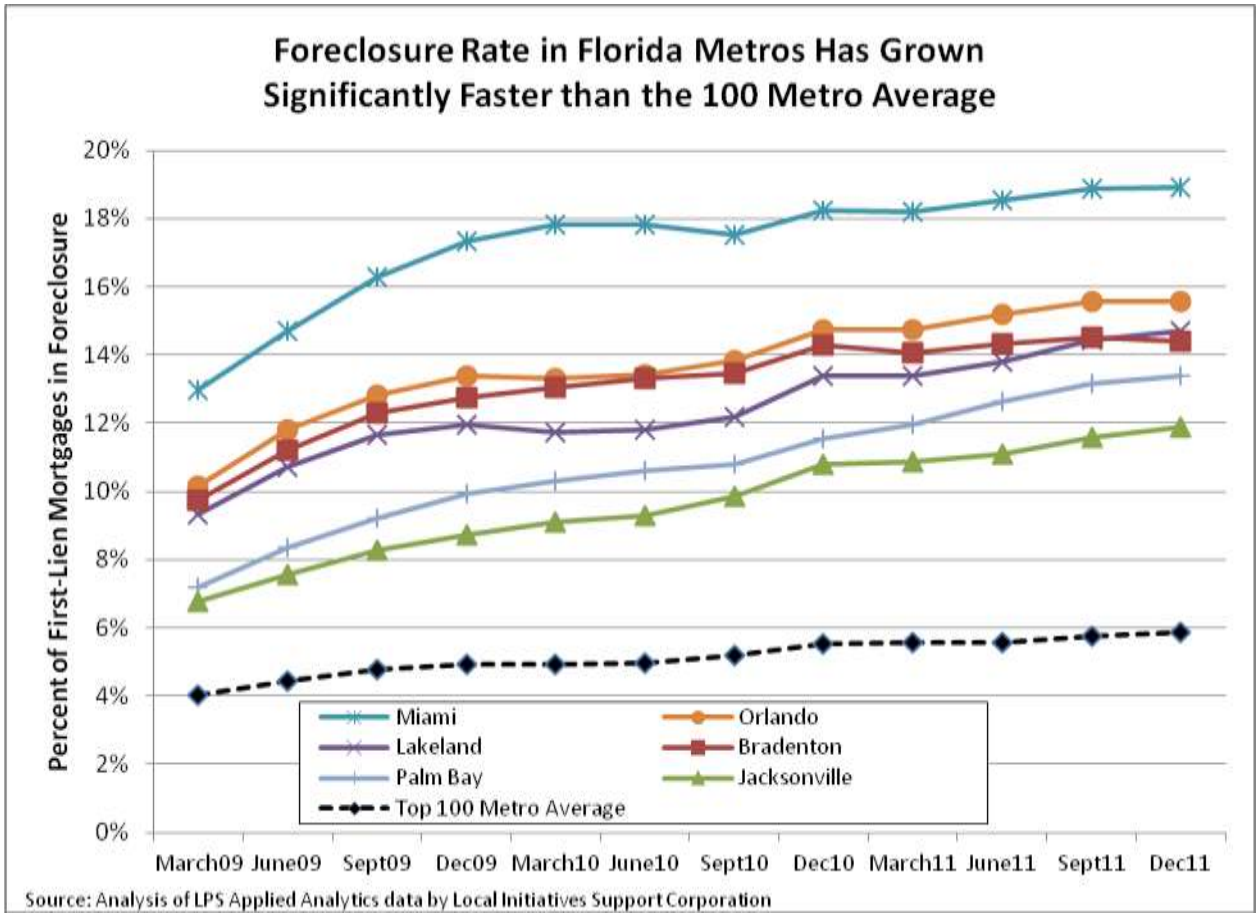
States pass judicial foreclosure laws in attempt to give homeowners time to resolve the financial hardship or work out a mortgage modification with their lender. These laws are also a check against illegal or fraudulent actions by lenders. In 2008, Amy Crews Cutts and William A. Merrill suggested that the optimal time in a property to be in foreclosure should be approximately 120 days[4]. The precise number of days can be debated, but the principle holds true. A property in foreclosure for too little time does not give borrowers sufficient time to resolve their mortgage problems; a property in foreclosure for too much time risks destabilizing neighborhoods and housing markets.

Geographically speaking, we see that metros in judicial states, such as Florida, New York, Illinois and Ohio, tend to have higher serious delinquency rates. However, metro areas such as Riverside, Fresno, Stockton, Las Vegas and Memphis high levels of serious delinquency as well despite being in in states that do not require a judicial foreclosure process.



[4] Amy Crews Cutts and William A. Merrill, "Interventions in Mortgage Default: Policies and Practices to Prevent Home Loss and Lower Costs." Freddie Mac Working Paper #08-01

Florida is notable as a judicial state that was particularly hard hit by foreclosures. Metro areas in Florida show a similar trend as the 100 largest U.S. metros, but the pace of foreclosure growth is significantly higher. Between March 2009, when we began tracking this data, and December 2011, the 100 metro average foreclosure rate has risen 1.8 percentage points. At the same time, the rate has risen 5.9 percentage points in Miami, 5.4 points in Orlando and 5.1 points in Jacksonville.



Due to inadequate resources for the judicial system in Florida, the average property is in limbo for over 800 days before it finally exits the foreclosure process[5]. This year Florida re-hired retired judges to help sort through the backlog of foreclosures. However, the future still remains unclear in Florida and other judicial states.

Major banks recently settled a "robo-signing" legal case that had slowed the pace of new foreclosure filings over the past two years[6]. The LPS Mortgage Monitor indicates that foreclosure rates in judicial states spiked early in 2012 due to an uptick in new foreclosure starts[7]. If the pace of new filings exceeds the pace at which the courts in these states can clear foreclosed properties for sale, the foreclosure rate will continue to climb.

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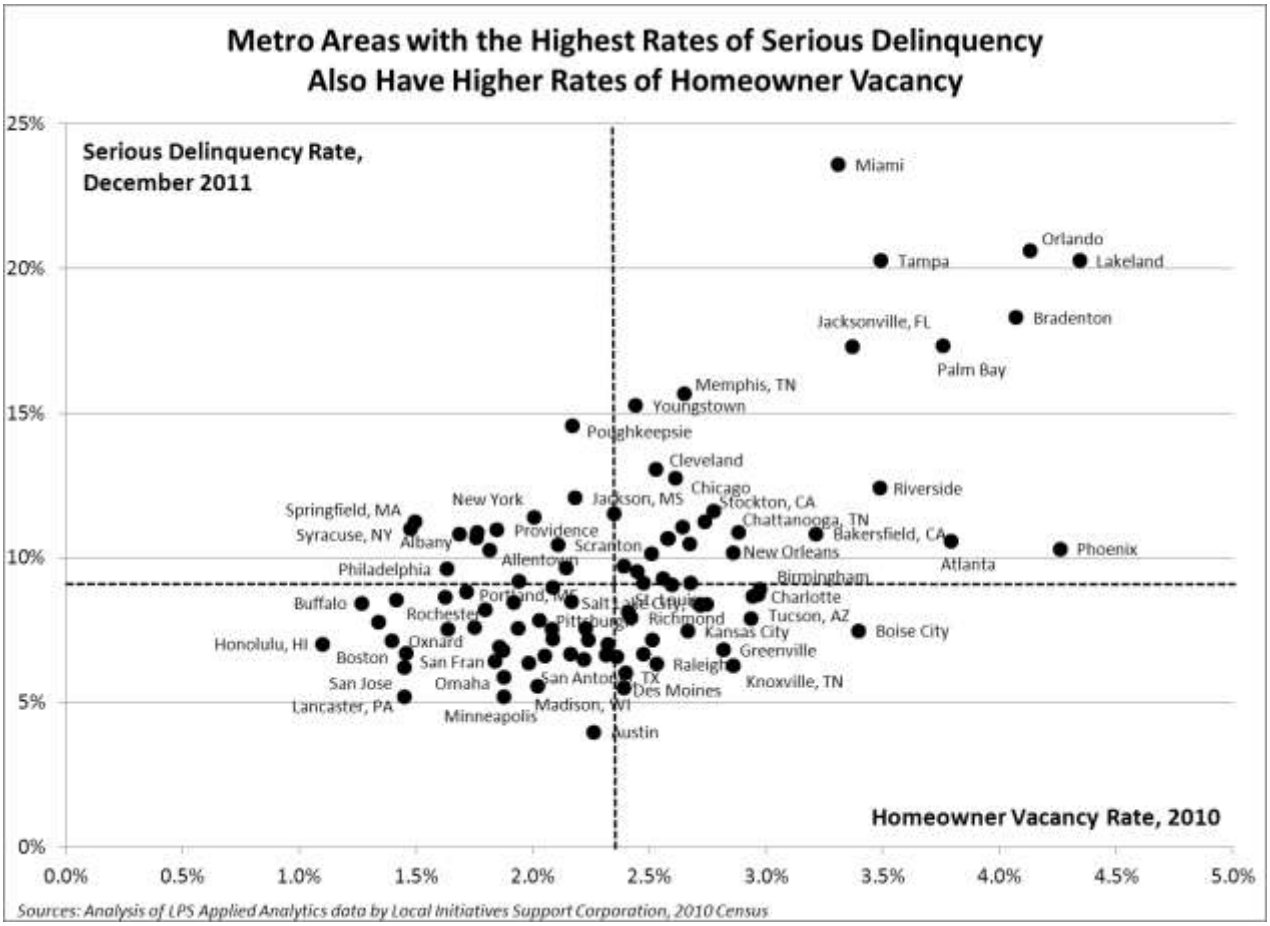
[5] "2011 Year-End Foreclosure Report: Foreclosures on the Retreat." RealtyTrac January 9, 2012.
[6] Scott Neuman, "The Mortgage Deal: A Reality Check." NPR February 9, 2012.
[7] LPS Mortgage Monitor March 2012 Mortgage Performance Observations

High rates of serious delinquency destabilize housing markets by creating uncertainty and reducing buyer confidence. Potential buyers will be reluctant to purchase property if they suspect prices will continue to fall and devalue their newly purchased asset. This weakened demand creates a cycle that puts further downward pressure on prices.

The homeowner vacancy rate offers one measure of market demand (the number of homes for sale divided by the number for sale plus owner-occupied homes). The chart below compares homeowner vacancy rates to serious delinquency rates in the 100 largest U.S. metro areas.

Large numbers of vacant homes for sale indicate that the market is over-supplied with properties. This makes it difficult for homeowners to sell their properties, especially at the price they hope. We see a relationship between a metro area's rate of serious delinquency and its rate of homeowner vacancy; but the two indicators are not a perfect fit. Metro areas should track other factors, including abandoned homes and vacant homes not for sale as they chart their recovery.



The dashed lines on the chart above represent the average homeowner vacancy rates and the average serious delinquency rate for the top 100 metro areas. These lines divide metro areas into four quadrants, representing various levels of market risk. Those in the upper-right corner, primarily metro areas in Florida, California and Nevada, have both higher rates of serious delinquency and homeowner vacancy than the 100 metro average. Metro areas in the upper-left and lower-right quadrants are at less

severe market risk, but nonetheless have a serious delinquency rate or homeownership vacancy rate higher than the 100 metro average and should be monitored.

The judicial process itself is not necessarily problematic, and can ensure due process and provide the opportunity for the borrowers to negotiate with the lender. The foreclosure process in non-judicial states, like California, may move more quickly, but does not have this safeguard for borrowers. The absence of the courts makes fraud and abuse more likely to occur. In San Francisco, for example, an audit by the city government found that 84 percent of foreclosures in the city appeared to be illegal.[8]

State and local governments wrestle with two major issues: the number of homes entering the foreclosure process, and the speed at which those properties can be returned to the market for sale. There is a tension because borrowers need time to navigate the complex legal system and loan modification process to find a way to save their homes if possible. On the other hand, properties in foreclosure for too long are more likely to become vacant and hinder neighborhoods' ability to recover from the crisis quickly. In the worst cases, banks themselves are walking away from homes in distressed neighborhoods that cannot efficiently be returned to the market. [9] Finding the balance between speed and equity is a difficult, but nonetheless critical, task to restore the health of housing markets.

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[8] Tim Reid , "Foreclosure abuse rampant across U.S., experts say." Reuters February 17,2012.

[9] Mary Ellen Podmolik, "More banks walking away from homes, adding to housing crisis" Chicago Tribune January 13, 2011