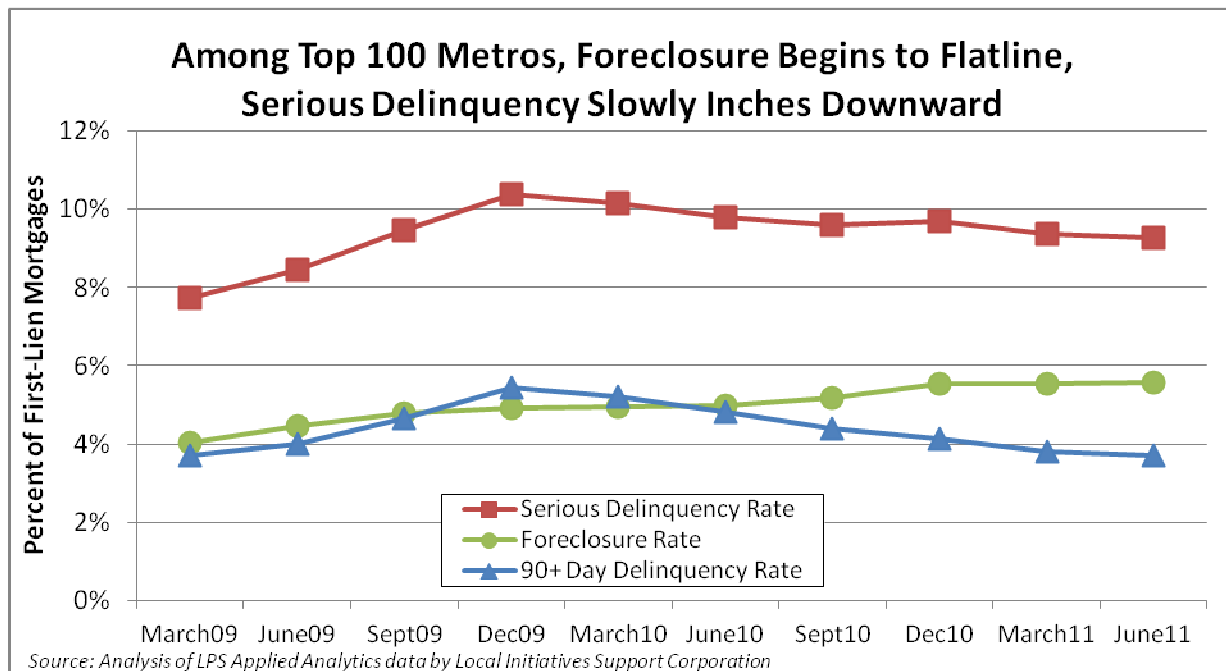


## Serious Delinquency Rates – 100 Largest Metro Areas, June 2011

By Rob Pitingolo and Leah Hendey, Urban Institute

For several years, the U.S. housing market has been in the midst of a foreclosure crisis with no clear end in sight. After tracking data on serious delinquency for the past year, in June 2011 we begin to see signs of hope that the overall problem is no longer growing, even though many areas continue to struggle.

Rates of serious delinquency have inched down steadily from their peak in December 2009 among the largest 100 U.S. metropolitan areas. Until now, serious delinquency rates - made up of two components: the foreclosure rate and 90+ day delinquency rate - have been stabilizing mostly as the result of a drop in the number of 90+ day delinquent mortgages. There are now signs that the rate of foreclosure is stabilizing as well<sup>1</sup>. LPS Applied Analytics' Mortgage Monitor presentations<sup>2</sup> confirm that foreclosure starts are relatively flat. However, emerging evidence suggests that the number of foreclosure filings may be artificially depressed due to banks slowing the foreclosure process while legal issues associated with robo-signing are addressed and the current foreclosures move through the system.<sup>3</sup>



<sup>1</sup> The foreclosure rate refers to the percent of first-lien mortgages in the middle of the foreclosure process, otherwise known as the foreclosure inventory.

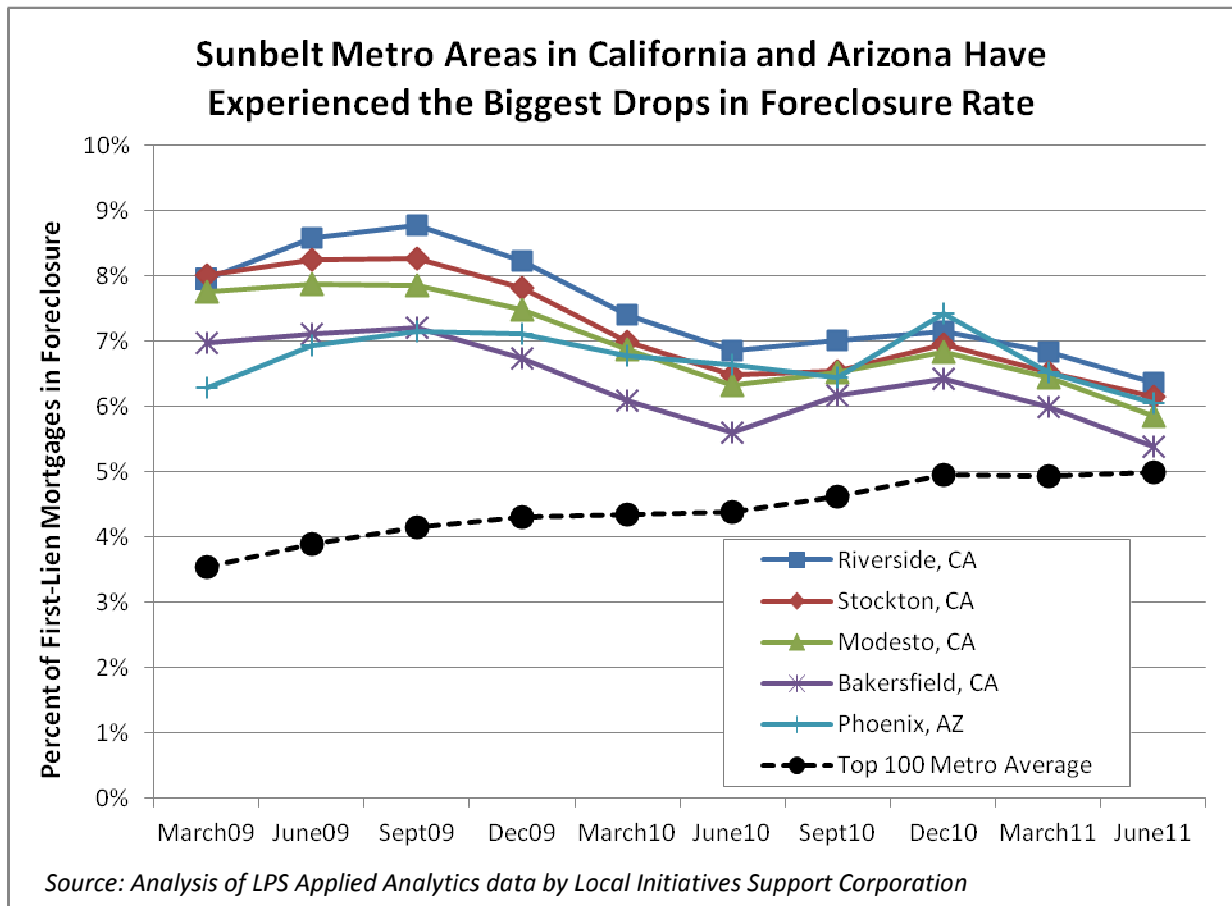
<sup>2</sup> <http://www.lpsvcs.com/LPSCorporateInformation/ResourceCenter/PressResources/Pages/MortgageMonitor.aspx>

<sup>3</sup> Les Christie. "Fewer foreclosed homes in November, but Outlook Isn't Bright." [CNNMoney.com](http://www.CNNMoney.com) Dec 15, 2011.

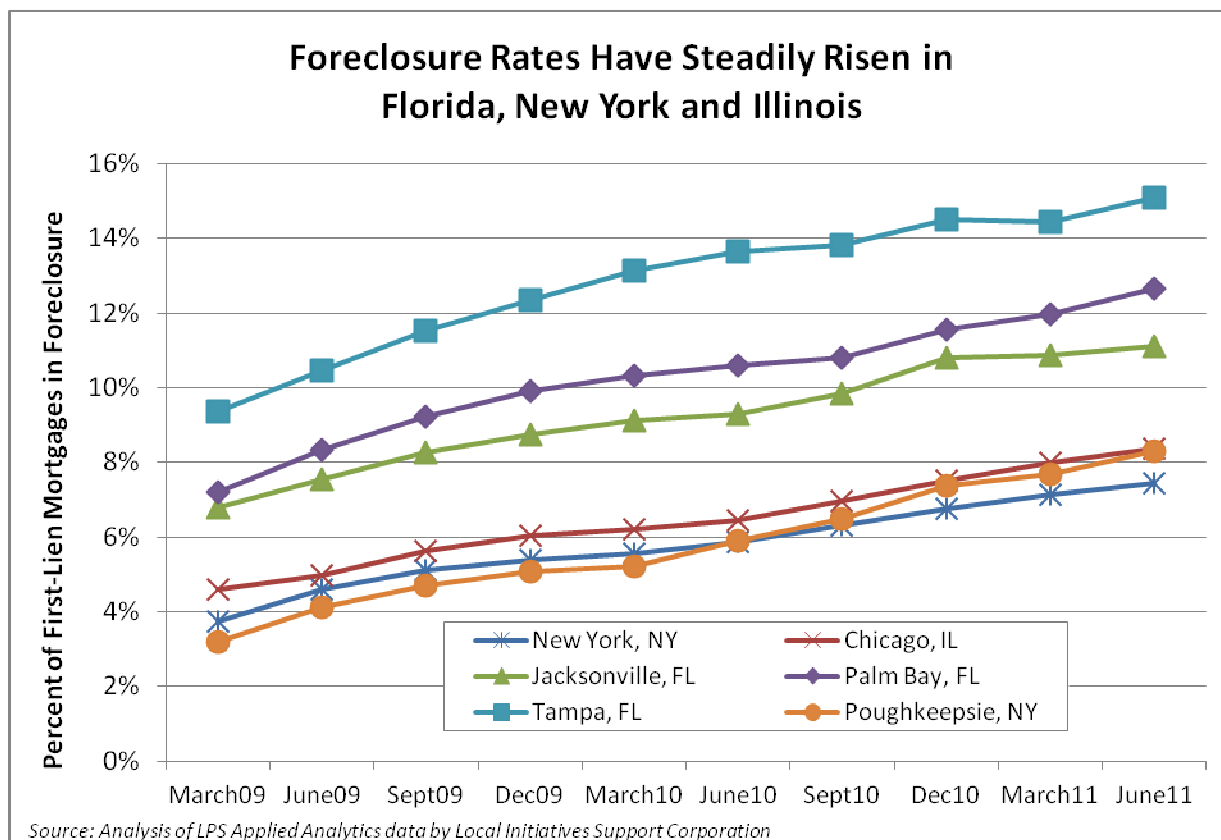
From December 2010 through June 2011, the foreclosure rate among the largest 100 U.S. metropolitan areas has flat-lined at 5.5%. Meanwhile, the rate of 90+ day delinquencies has fallen steadily from a high of 5.5% in December 2009 to its current rate of 3.7%. Combined, these indicators account for the slow but generally steady decline of the serious delinquency rate over the six quarters since the peak.

While the average foreclosure rate appears to be stabilizing across the 100 largest U.S. metropolitan areas, the rates for individual metropolitan areas suggest the trend is not quite so clear. There are regional differences in the foreclosure rates among metro areas.

Metro areas exhibiting the most significant downward trend are geographically concentrated in the Sunbelt states of California and Arizona. These areas now have foreclosure rates more in-line with the top 100 metro average. In Riverside, California, the foreclosure rate is down 2.4 percentage points from its peak. Similarly, the foreclosure rate is down 2.1 percentage points from a peak of 8.3% in September, 2009.



Meanwhile, on the other end of the spectrum, a few metropolitan areas have seen their foreclosure rates grow steadily since 2009. These include several metropolitan areas in Florida, as well as two of America’s largest metropolitan areas – New York City and Chicago. The foreclosure rate has risen 3.8 percentage points in Chicago and 3.7 percentage points in New York City since March of 2009, when we began tracking this data.

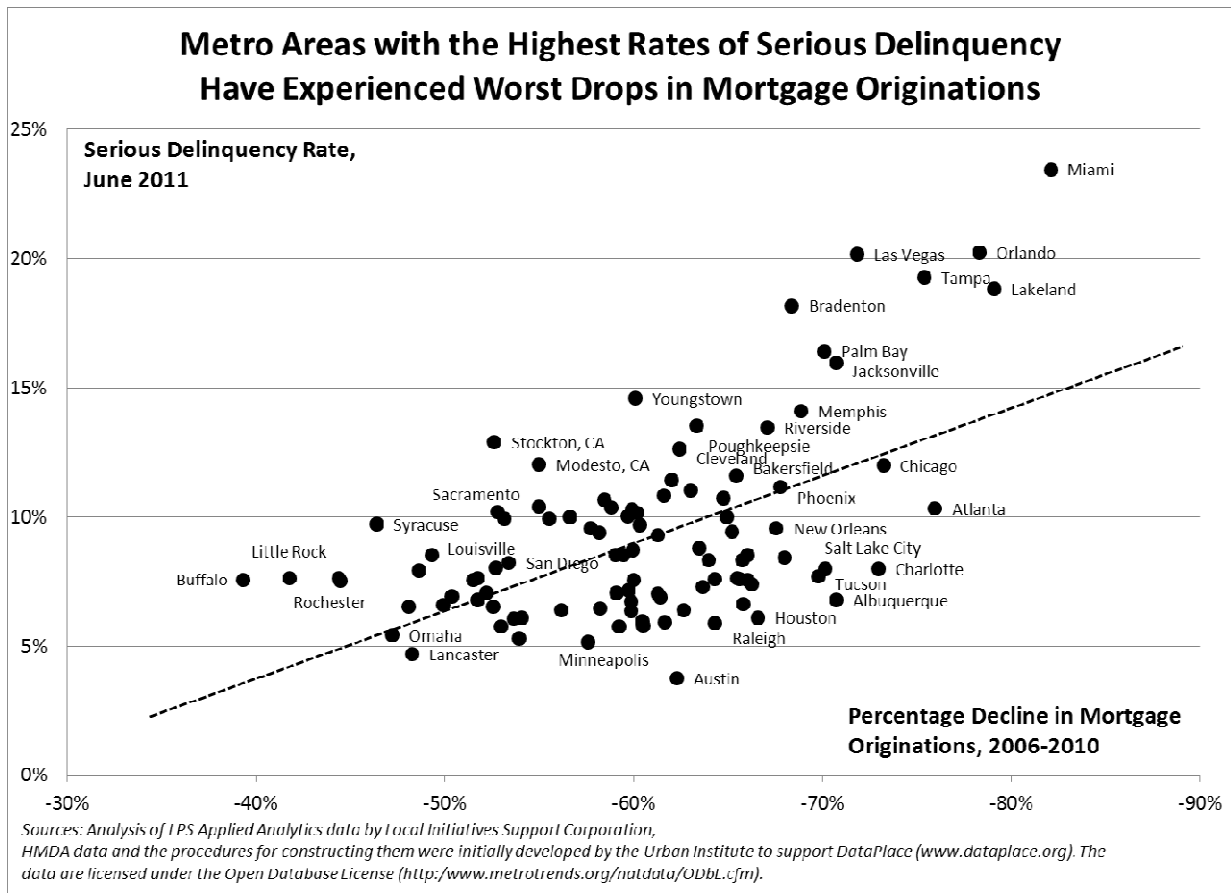


New York, Illinois, and Florida all require judicial foreclosure proceedings, in which a court makes the final decision about a property before it can exit the foreclosure process. LPS Applied Analytics reports that the backlog of properties in foreclosure this process creates is significant and that foreclosure inventories in judicial states continue to hit new highs.<sup>4</sup> In New York, it would take lenders 57 years to clear their inventories at the current pace of foreclosure sales; in Illinois, it would take 10 years.<sup>5</sup>

Serious delinquency is not the only marker of trouble in housing markets. Between the peak of the housing market in 2006 and 2010, all of the top 100 metro areas experienced a slowdown in mortgage originations for home purchases, according to data from the Home Mortgage Disclosure Act (HMDA). The most significant drop occurred in Miami, which saw originations decline 82% over those four years. Even Buffalo, which had the least severe decline among the top 100 metro areas, still experienced a 39% decline in originations.

<sup>4</sup> <http://www.lpsvcs.com/LPSCorporateInformation/ResourceCenter/PressResources/Pages/MortgageMonitor.aspx>

<sup>5</sup> Julie Schmit, USA TODAY. “Foreclosure backlogs could take decades to clear out” November 8, 2011.



One caveat for the major decline in mortgage originations is that all-cash transactions, which are not accounted for in the HMDA data, are becoming increasingly common, especially in areas where high rates of serious delinquency have caused prices to fall dramatically. In Miami, for example, all cash transactions accounted for more than half of home sales in 2010<sup>6</sup>. As the chart shows, other metro areas in Florida, hard hit by serious delinquency, have experienced a similar phenomenon.

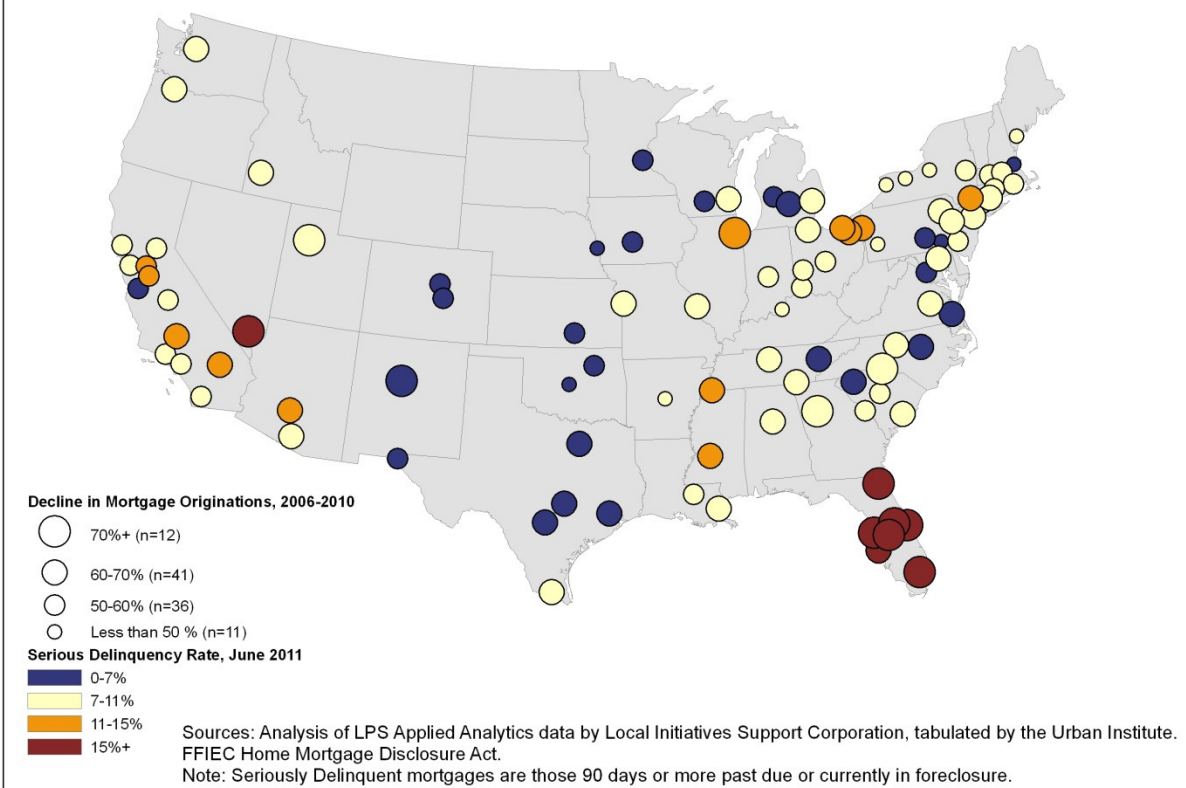
In 2006, approximately 4.8 million home purchase mortgages were originated in the 100 largest U.S. metro areas; by 2010 that number had fallen to 1.7 million. Even with a decline across the top 100 metro areas that exceeds 60%, there is still noticeable variation between metro areas. Those with the highest rates of serious delinquency in June 2011 also tend to have seen greater decreases in mortgage originations since the peak of the market.

Metro areas in Florida and Nevada stand out in this regard, in addition to a steep decline in mortgage originations between the market peak in 2006 and 2010. In the middle of the country, metro areas in Texas stand out as still having a decline in mortgage originations between 60%-70%, even though metro areas in Texas were less severely hit by delinquencies and foreclosures than those in other states<sup>7</sup>.

<sup>6</sup> S. Mitra Kalita, Wall Street Journal. "Cash Buyers Lift Housing: Bargain Hunting Boosts Prices in Depressed Cities; Broader Asset Rebound Spreads" February 8, 2011.

<sup>7</sup> Anil Kumar, Federal Reserve Bank of Dallas. "Why Texas Feels Less Subprime Stress than U.S." December 2008.

## Florida and Nevada Metro Areas Experienced Sharpest Origination Declines and Highest Rates of Serious Delinquency



The delinquency and foreclosure problem that began with the subprime meltdown several years ago has clearly manifested itself in the mortgage originations, typically a proxy for home sales activity. While the serious delinquency problem is no longer worsening in many metro areas, mortgage originations, and other aspects of the housing market, have yet to catch up.