Update on
Home Mortgage Foreclosure

to the

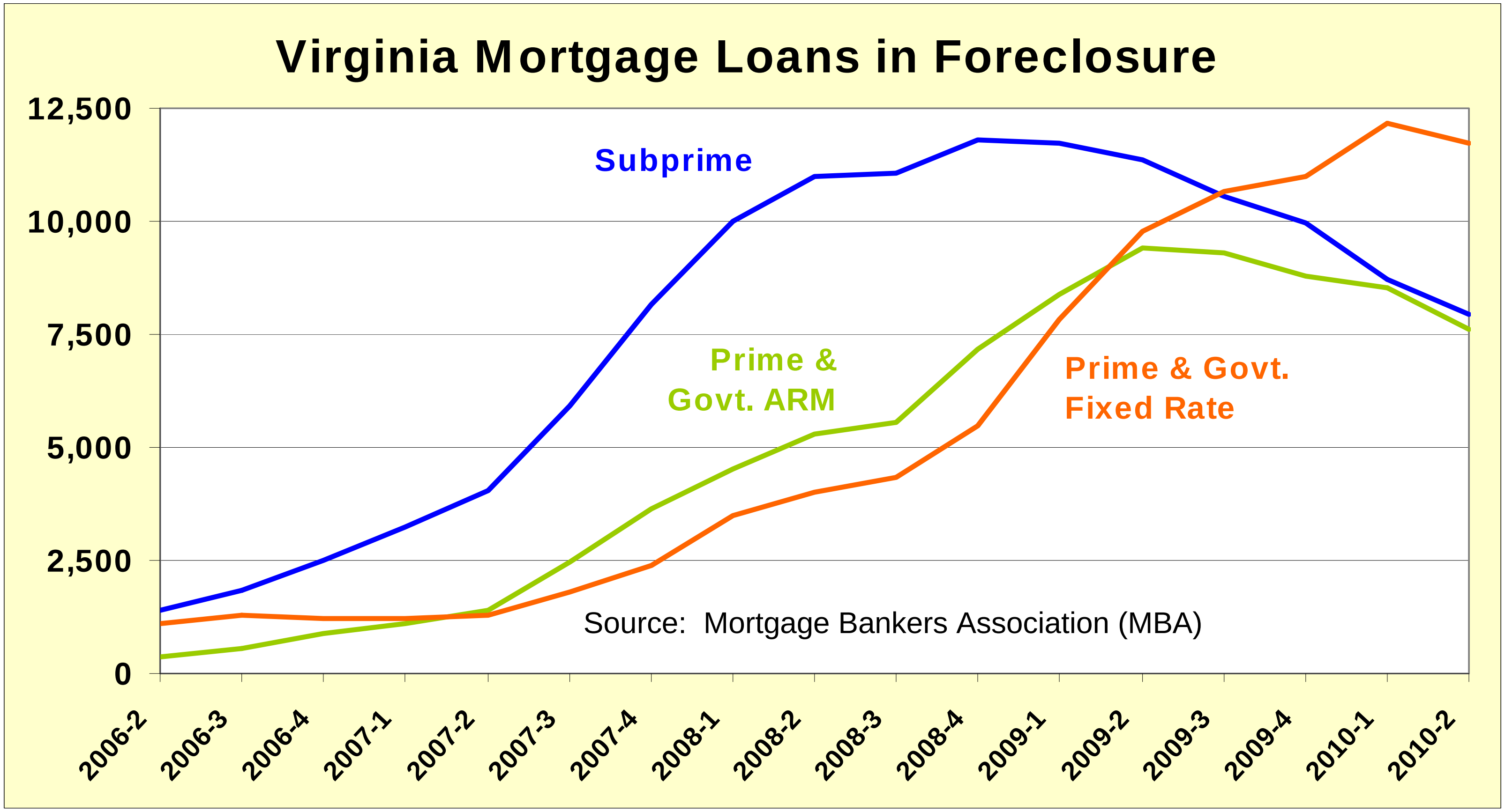
SENATE OF VIRGINIA
Senate Finance Committee

October 21, 2010

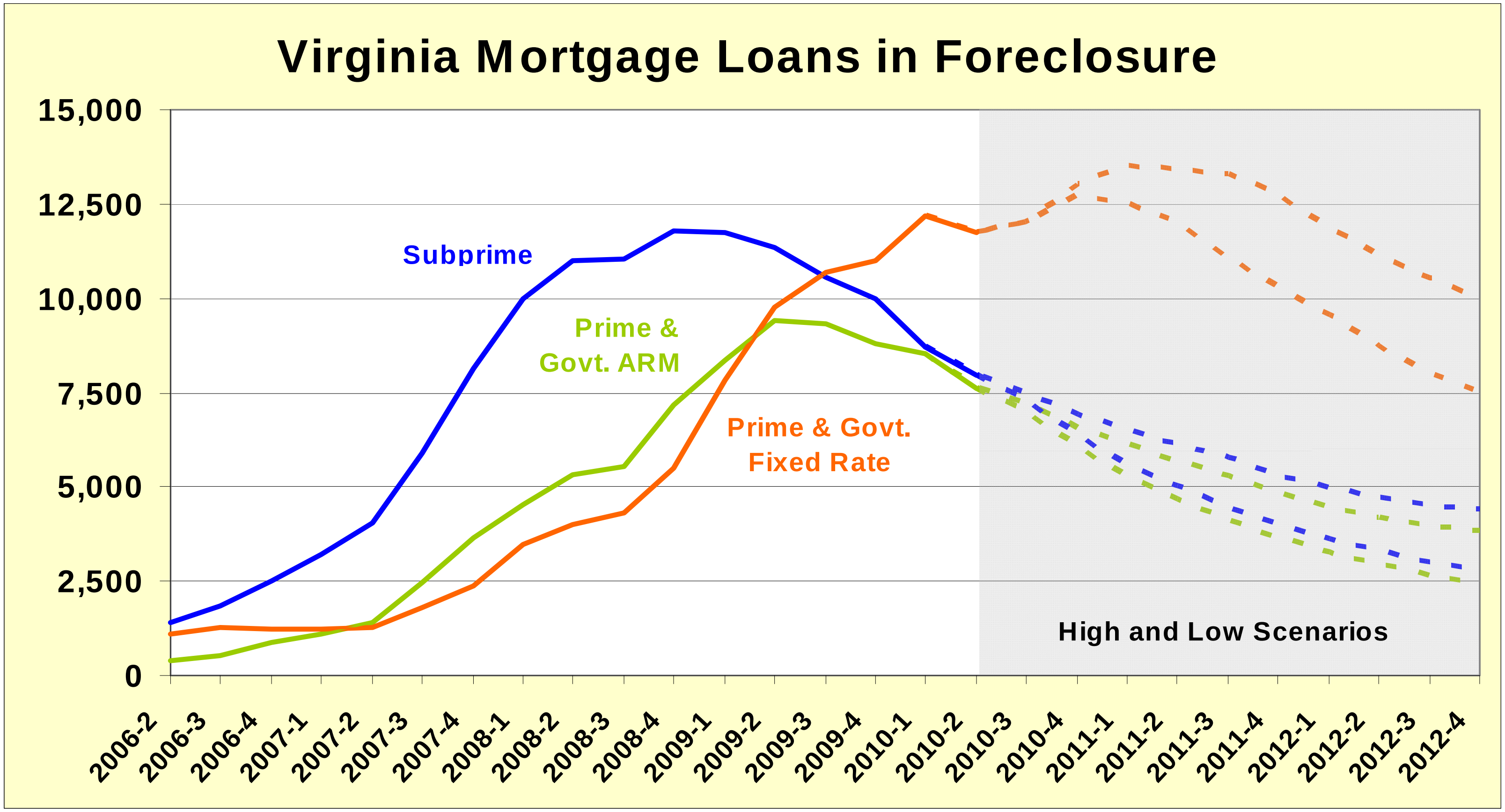
The circumstances surrounding home foreclosures in Virginia have changed.

- The crisis began with accelerating and ultimately massive defaults on riskier sub-prime and low/no documentation loans.
- While that aspect of the problem wanes, the inventory of foreclosed homes remains high and continues to depress home values generally, keeping many mortgages "under water."
- Recession-driven job and income losses are now forcing homeowners with conventional mortgages into default — especially if they are "underwater" and cannot sell.

While subprime foreclosures declined, prime foreclosures began to peak.



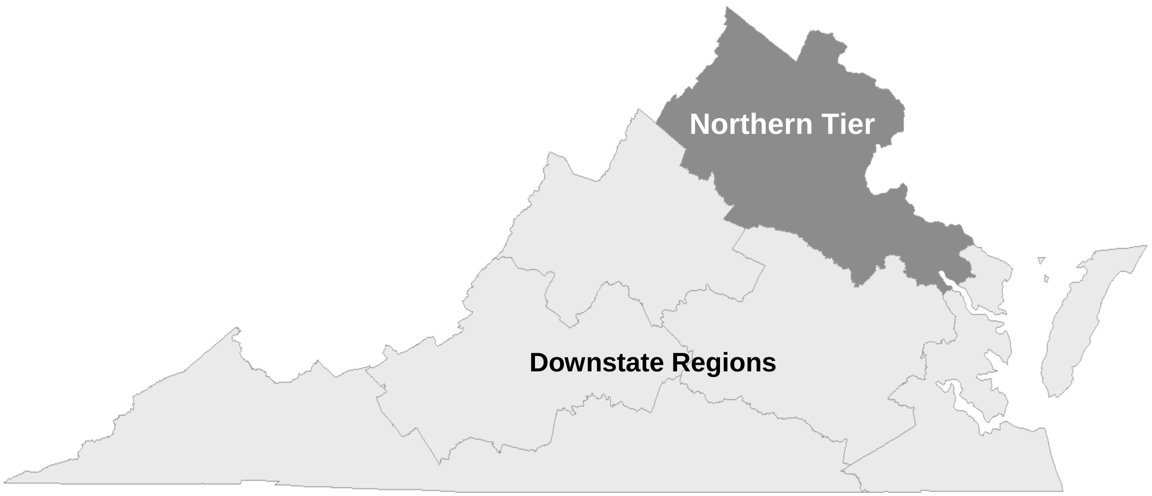
Under current conditions, fixed rate foreclosures are unlikely to decline steadily until 2011 or after.



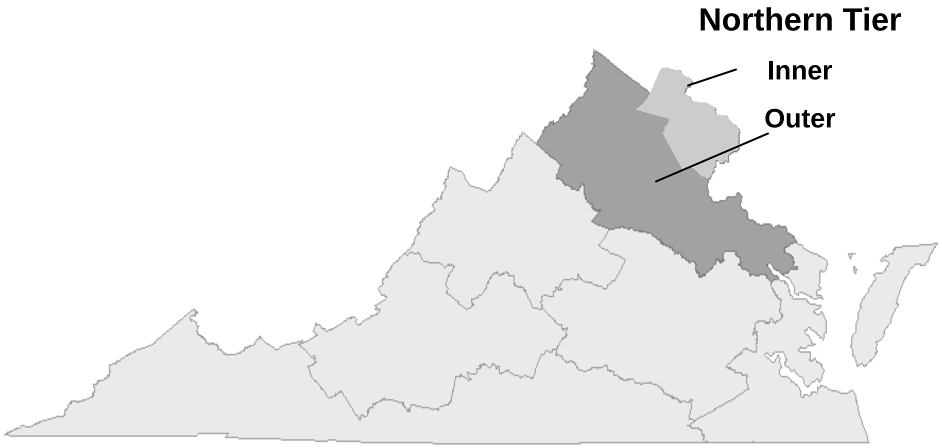
Source: Virginia Employment Commission and Mortgage Bankers Association (MBA)

The locus of home foreclosures in Virginia has changed. (1)

A majority of foreclosures still occur in the Northern Tier, but as economic factors supplant loan underwriting in importance, the balance is shifting. Downstate foreclosures have risen steadily; they are declining in the Northern Tier where unemployment is lower.



The locus of home foreclosures in Virginia has changed. (2)



The outer portion of the Northern Tier now has the most severe foreclosure rates in the region as a whole.

Recent sales, price, and listings data compiled by the Center for Regional Analysis at George Mason suggest that stability is returning to the Virginia portion of the D.C. metro market, but progress toward a broader housing recovery remains vulnerable to uncertainties such as . . .

Recent developments have raised concerns about the foreclosure process and housing recovery.

. . . the role of faulty documentation in some procedures. It may slow the process of working through current and pending foreclosures, further dampening the housing market's recovery.

Virginia is not a judicial foreclosure state, but is not immune to documentation problems or to the broader market consequences of problems elsewhere.

The Office of the Attorney General has joined with those of sister states in examining whether improper or fraudulent submissions of documents are taking place in the foreclosure process.

Unanticipated consequences of the SAFE Act may complicate efforts to address foreclosure.

In the wake of allegations of unprofessional conduct, fraud, and other problems, the SAFE Act applied stringent, national standards to mortgage originators.

State and local agencies and authorities, non-profit housing organizations and others need guidance on whether some federally-funded programs, HUD-certified non-profit counseling services, etc., fall within the ambit of the Act.

The SCC, affected parties, and others are working to clarify some of these issues and to consider whether additional legislation is needed.

The state continues to pursue various means for responding to the foreclosure wave. (1)

The Virginia Foreclosure Task Force continues to monitor closely trends in Virginia while maintaining a web presence with links to sources of help and practical information that homeowners can use to address their circumstances. Much of the data in this presentation was developed for the Task Force.

The Web address is:

http://virginiaforeclosureprevention.com

The state continues to pursue various means for responding to the foreclosure wave. (2)

The Neighborhood Stabilization Program (NSP1), a federal program created within HERA in 2008, is intended to stem the effects of widespread foreclosure on normally healthy communities by purchasing properties in foreclosure and preparing them for sale, rental, or other disposition—working to stabilize neighborhoods and local economies before they succumb to potentially damaging influences associated with concentrations of foreclosed, vacant properties.

The state continues to pursue various means for responding to the foreclosure wave. (3)

DHCD recently, and in advance of the September 17, 2010, federal deadline, obligated all $38.7 million in NSP1 funds plus additional program income.

Working with 21 locally- or regionally-based entities, including local governments, coalitions, commissions and non-profits, NSP1 has:

–facilitated the actual or pending acquisition of 216 properties,
– the resale of 34, and
– the rehabilitation of another 163.

The state continues to pursue various means for responding to the foreclosure wave. (4)

Although, like most states, Virginia received no additional resources from the NSP2 (an ARRA stimulus program), HUD recently announced the award of $5 million to Virginia for the statewide NSP3 program.

NSP3 was part of the Dodd-Frank financial reform bill. Like its predecessors, NSP3 is administered through the Community Development Block Grant (CDBG) program.

NSP3 funds should be available for use early in 2011.

Summary. (1)

- High foreclosure levels remain a major challenge to economic recovery and community well-being.
- In Virginia, both the character and locus of the problem have shifted over time.
- The role of subprime rate mortgages is waning while prime rate mortgages comprise the bulk of new foreclosures.
- In some parts of the state, there are signs of greater stability in the housing market, but foreclosures continue to grow in downstate areas.

Summary. (2)

- Areas with both high unemployment and large numbers of underwater mortgages are particularly vulnerable.
- Recent questions about faulty documentation have at least temporarily slowed the resolution of foreclosures regardless of whether they are judicial or non-judicial.
- State programs have focused on:
  - Mitigating the circumstances of homeowners by providing relevant information, counseling and other services,
  - Mitigating the circumstances of communities hard hit by extensive foreclosures through the NSP and other programs.