

The Many Roads to Foreclosure, NC

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Center *for* Community Capital
*Research and analysis on the
transformative power of capital*



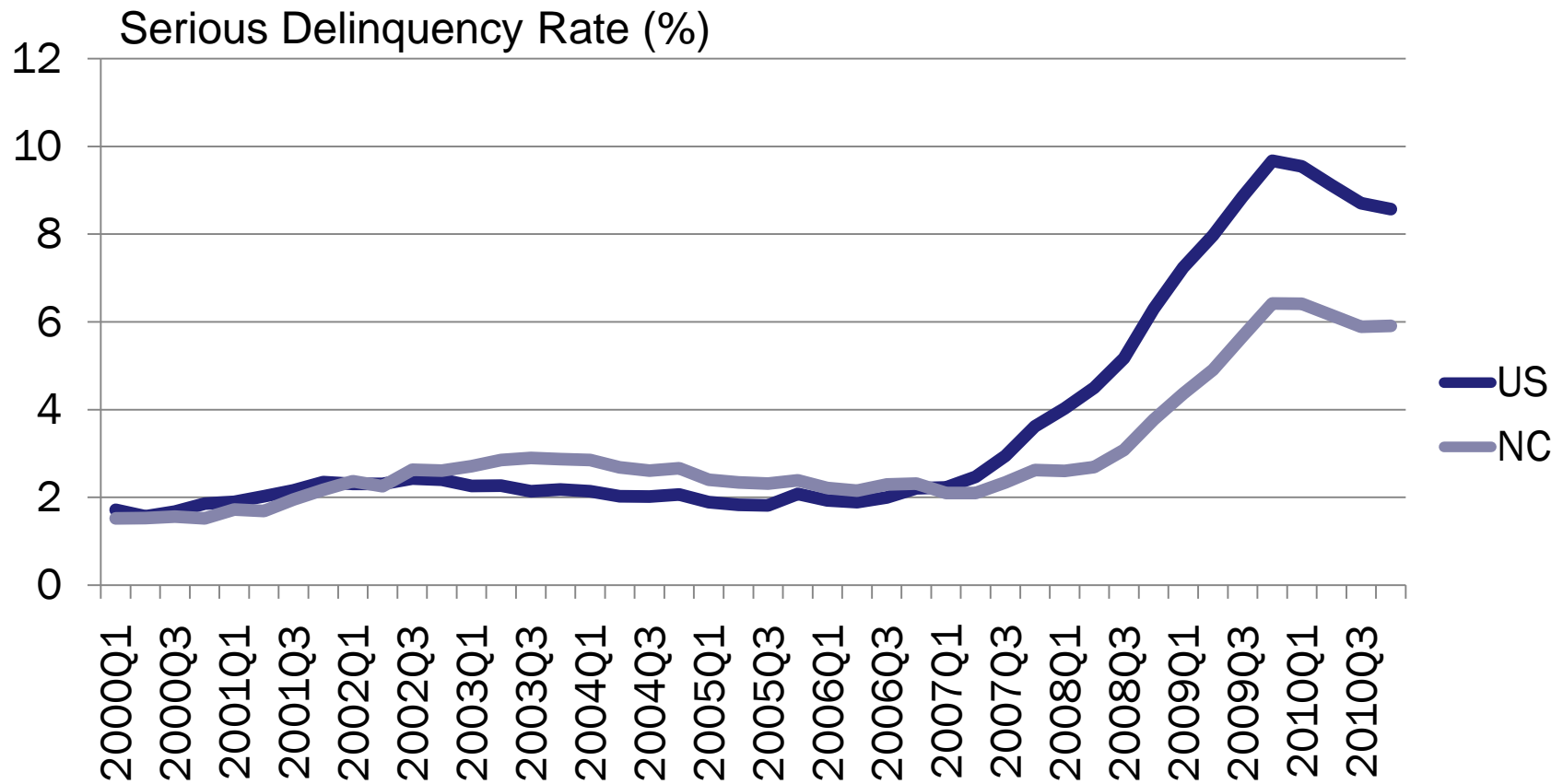
Overview

- Summary of housing market: the good news
- Evolving crisis: the bad news
 - Lending, employment
- Three roads to foreclosure in NC
 - North Carolina examples
- Moving forward

The Good News...Everything is Relative

- US House prices down ~31% from 2006-2007 peak.
 - NC: down 6% from 2009Q1 peak.
- Over 11 million US borrowers (23%) are underwater
 - NC: 170,200 borrowers (11%)
- 8.9% of US workers are unemployed; 15.9% un/under employed
 - NC: 9.9% unemployed
- Nearly 8.6% of US borrowers are seriously delinquent on mortgage payments
 - NC: 5.9% of borrowers

Mortgage Defaults: The Good News



Source: Mortgage Bankers Association

Note: Serious Delinquency includes 90+ Days Late and Foreclosure Inventory

Causes of Foreclosure: The Theory

- Borrowers who owe more than the value of the property (negative equity) have implicit option to default.
- Although investors are more sensitive to asset values, most borrowers are not so “ruthless” – negative equity is a necessary but not sufficient condition.
- Foreclosure results from “trigger event”(e.g., job loss, divorce, etc.) that interrupts borrower’s ability to repay AND a negative equity position that prevents the ability to refinance or sell.

Evolving Crisis in US

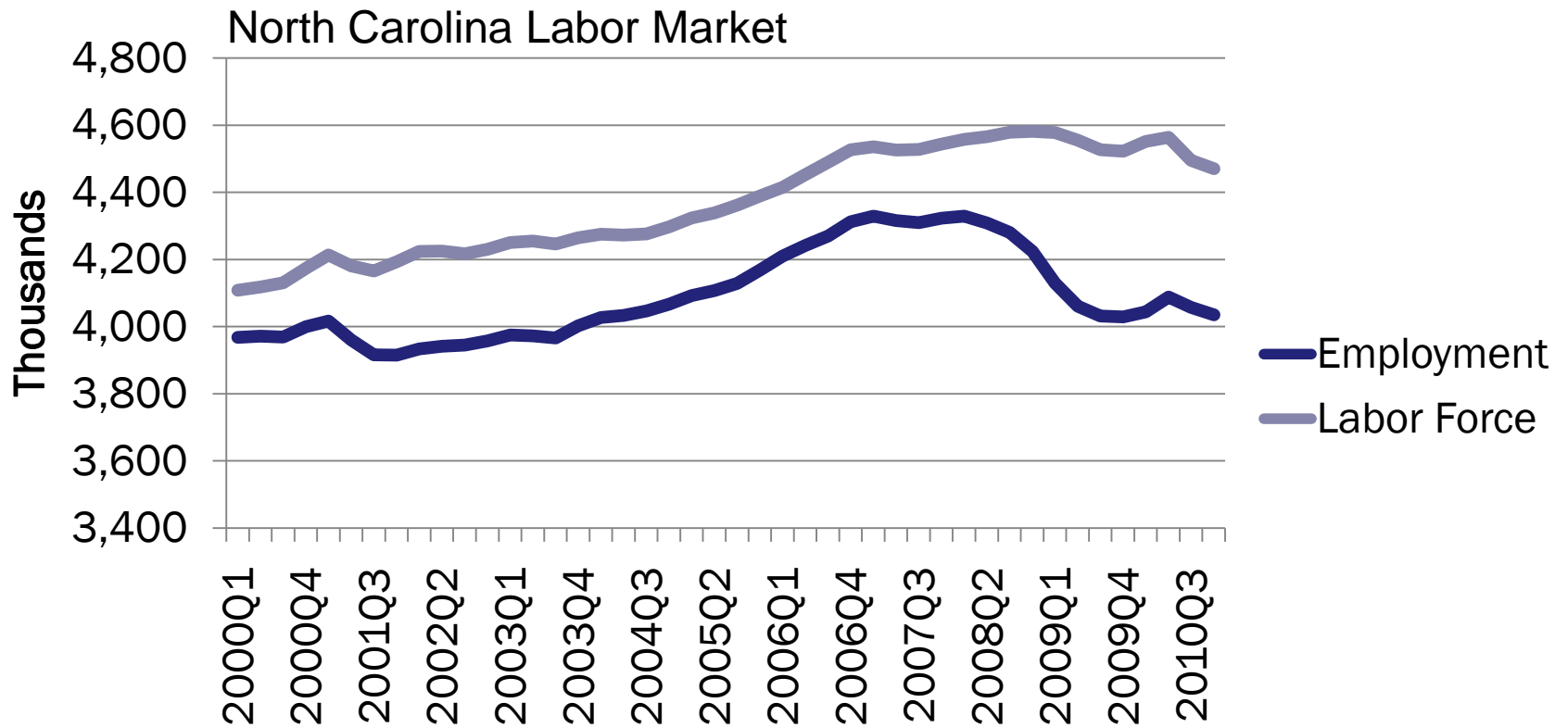
- Problems in the mortgage market were not “contained”
- House prices peaked nationally in 1stQ 2007
- Financial crisis morphed into economic crisis in 1stQ 2009
 - From a lending to an unemployment driven crisis
- Job losses increase mortgage defaults
 - US unemployment peaked in 2010, ~10%

A Very Brief Overview of the NC Economy

- Rapid economic growth during the 1990s
 - Manufacturing and high-technology

- 2001-2007, economy in transition
 - Move toward service economy, lower wages and benefits
 - Move toward knowledge intensive and high-tech
 - Gap in the middle: middle jobs for semi-skilled workers disappearing

Moving Numerator and Denominator



A Very Brief Overview of the NC Economy II

NC Employment	2002	2005	Change 2002-05	% change
Textile mills	99,091	68,580	-30,511	-30.8%
Apparel	35,697	26,426	-9,271	-26%
Furniture	67,695	59,280	-8,415	-12.4%
Computers	46,741	39,215	-7,526	-16.1%
All NC MFG	662,354	590,346	-72,008	-10.9%

A Very Brief Overview of the NC Economy III

- State's traditional manufacturers were often located in small towns. Weakened local/regional economies now.
- Bulk of emerging new jobs located in state's larger metro areas: 81% of projected new jobs expected to be located in these areas. Strong local/regional economies now.
- Some areas are attractive to investors, retirees, and vacationers. Seasonal service employment in these areas

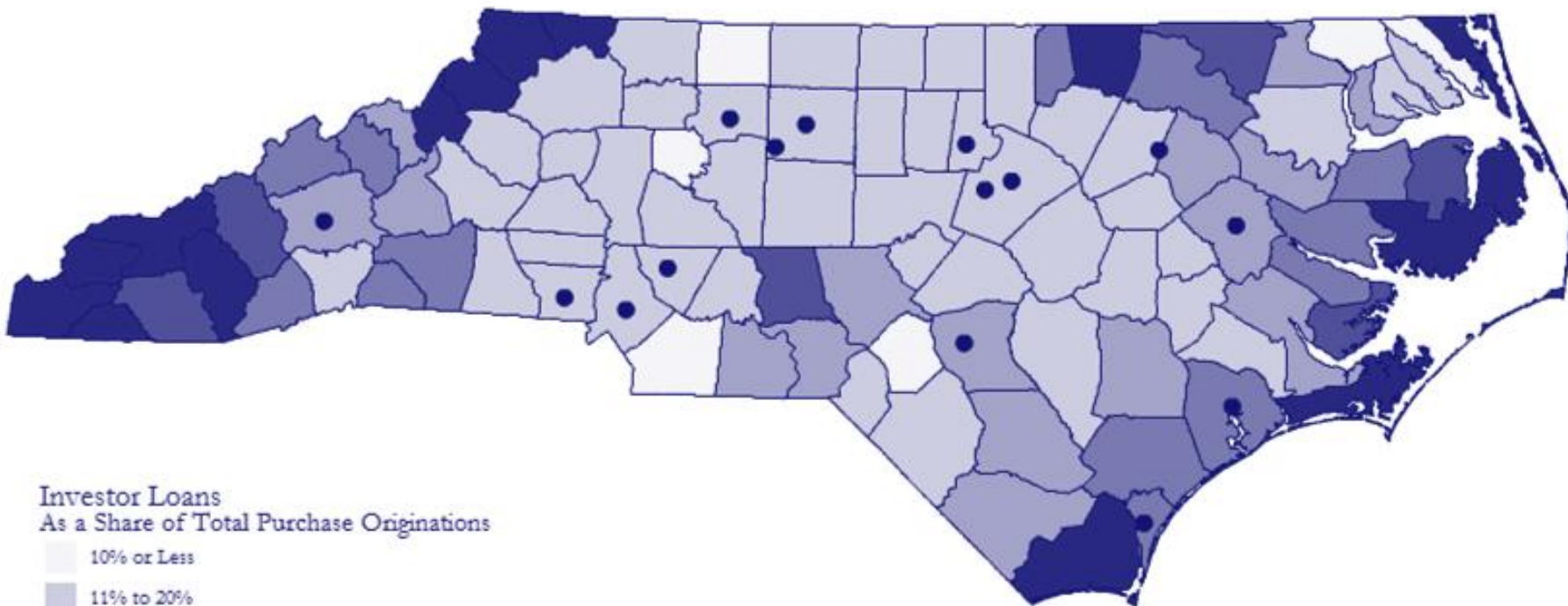
Lending, Unemployment, and Investment

- The crisis in NC did not evolved in the same way it did nationally.
- NC prices peaked in 1stQ 2009
- NC unemployment rate went from 5.1% in 1stQ 2008 to 9.8% in 1stQ 2009, little change since then
- Impacts of subprime lending, unemployment, and investment considerations?



North Carolina

Investor-Owned Properties as a Share of Total Purchase Originations, 2005



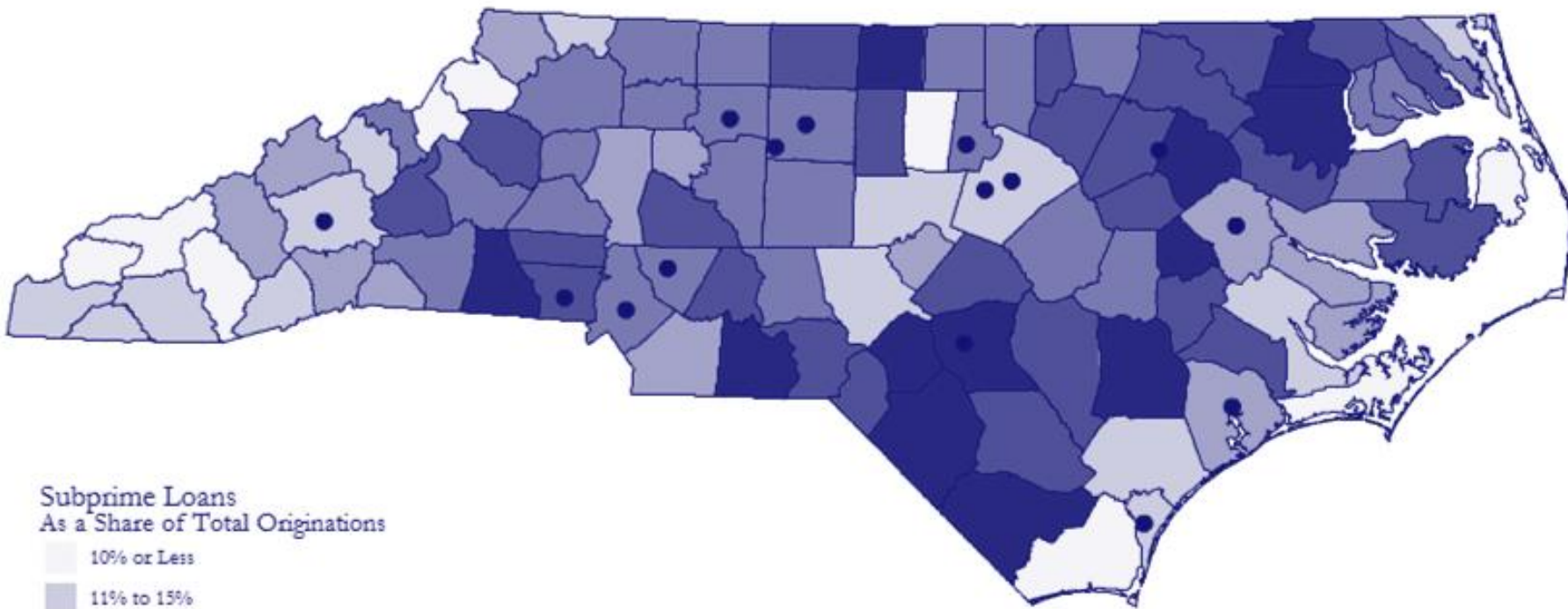
Investor Loans As a Share of Total Purchase Originations

- 10% or Less
- 11% to 20%
- 21% to 30%
- 31% to 40%
- 41% to 50%
- Over 50%

Source: Home Mortgage Disclosure Act data.
Notes: Conventional, first lien, home purchase mortgages originated for 1-to-4 unit properties.
Investor defined as any non-owner occupant.



North Carolina
Subprime Loans as a Share of Total Originations, 2005



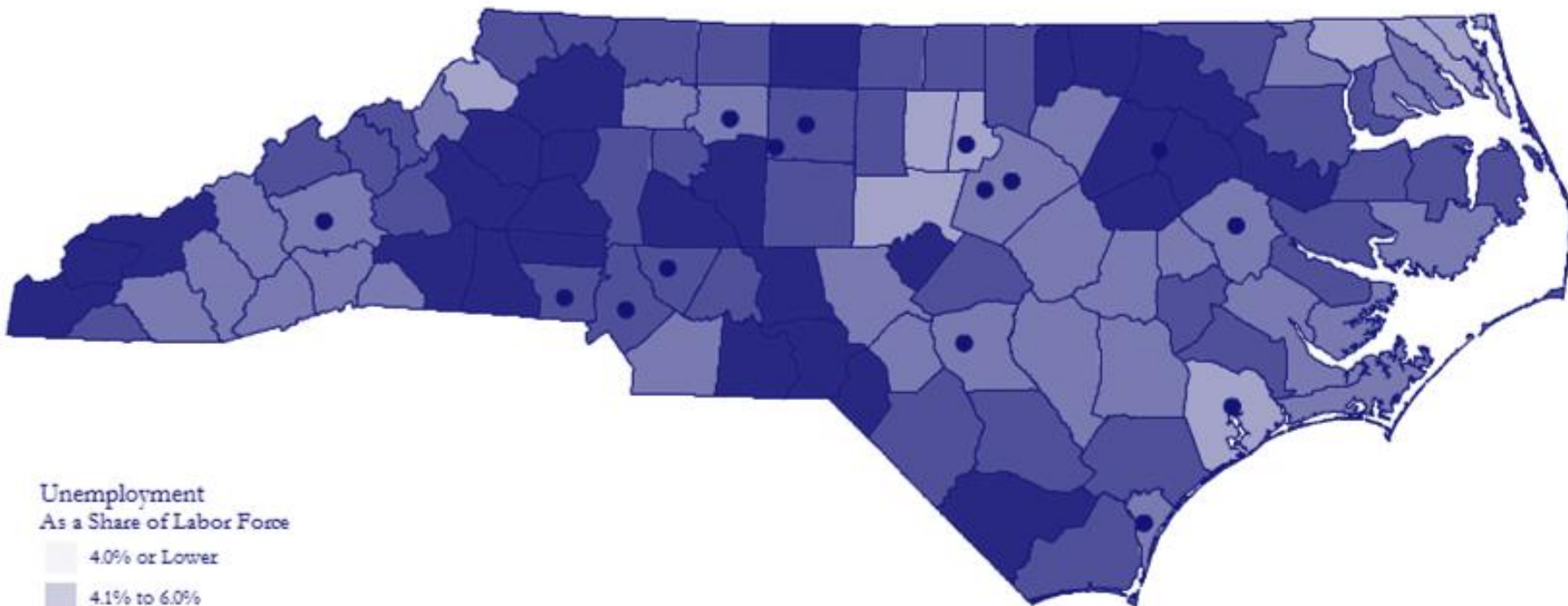
Subprime Loans
As a Share of Total Originations

- 10% or Less
- 11% to 15%
- 16% to 20%
- 21% to 25%
- 26% to 30%
- Over 30%

Source: Home Mortgage Disclosure Act data.
Notes: Conventional, first lien mortgages originated for 1-to-4 unit properties, including refinance and purchase loans. Subprime is approximated as higher-priced loans defined by an APR 300 basis points above the yield of a Treasury security of comparable maturity.



North Carolina Unemployment Rate, 2010



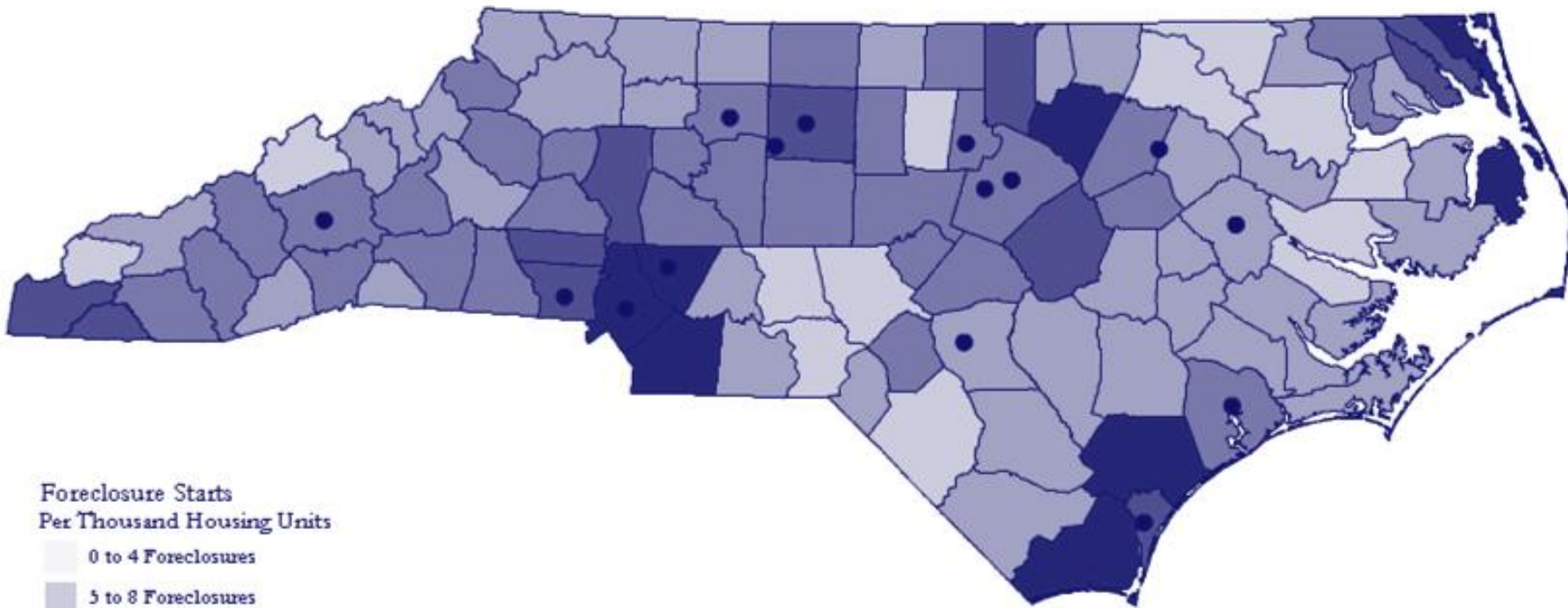
Unemployment As a Share of Labor Force

- 4.0% or Lower
- 4.1% to 6.0%
- 6.1% to 8.0%
- 8.1% to 10.0%
- 10.1% to 12.0%
- Over 12%

Source: Bureau of Labor Statistics.



North Carolina
Foreclosure Starts Per Total Housing Units, 2010



Foreclosure Starts
Per Thousand Housing Units

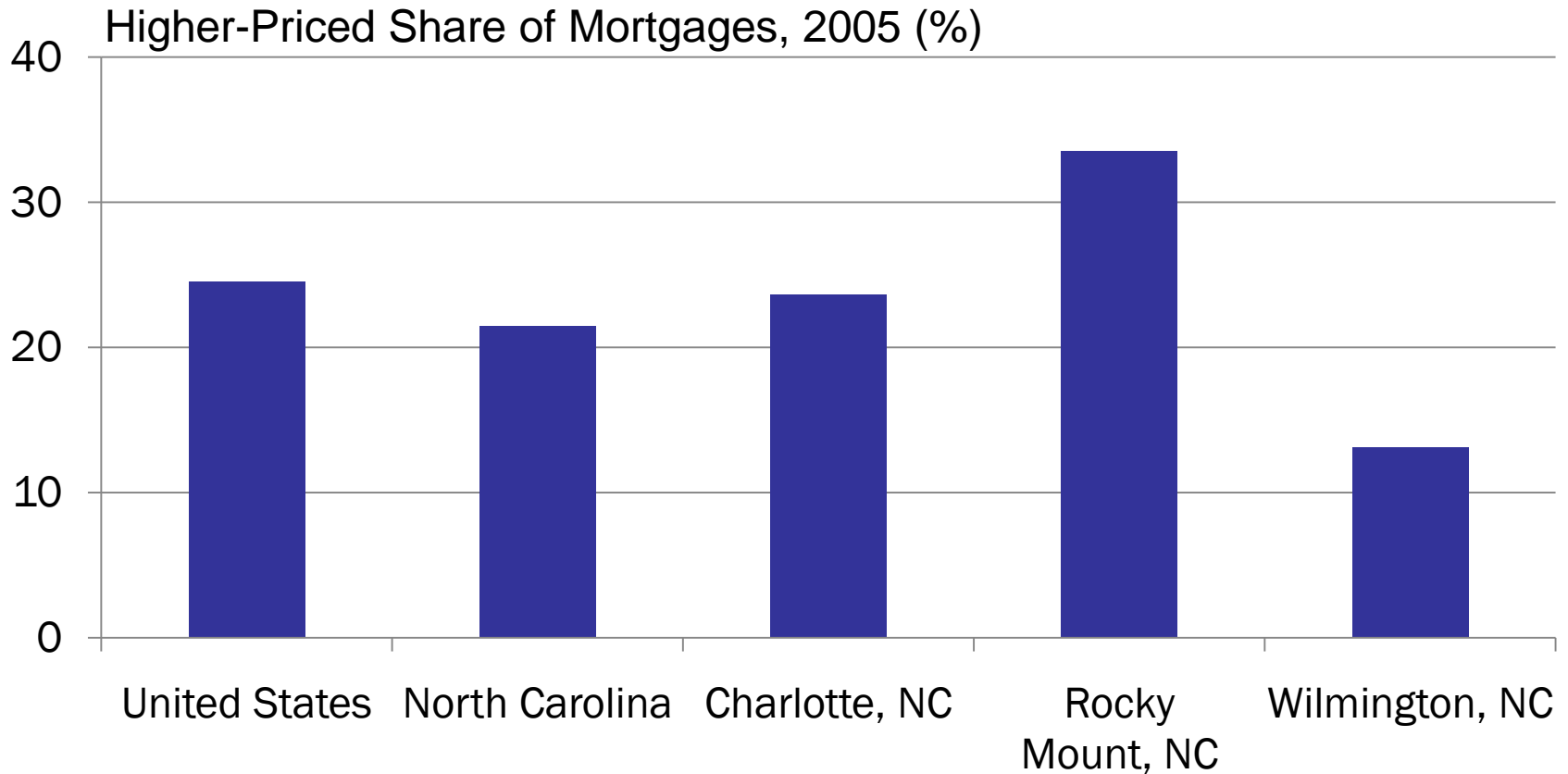
- 0 to 4 Foreclosures
- 5 to 8 Foreclosures
- 9 to 12 Foreclosures
- 13 to 16 Foreclosures
- 17 to 20 Foreclosures
- Over 20 Foreclosures

Source: U.S. Census Bureau;
North Carolina Administrative Office of the Courts
Compiled by North Carolina Commissioner of Banks.

Three Roads to Foreclosure in NC

- Areas with weak economic base prior to the crisis saw a higher incidence of risky subprime lending.
e.g. Rocky Mount, NC
- Areas with strong economic base prior to the crisis saw a greater reliance on risky short term affordability products.
e.g. Charlotte, NC-SC
- Areas with strong investment appeal saw a greater activity by speculators.
e.g. Wilmington, NC

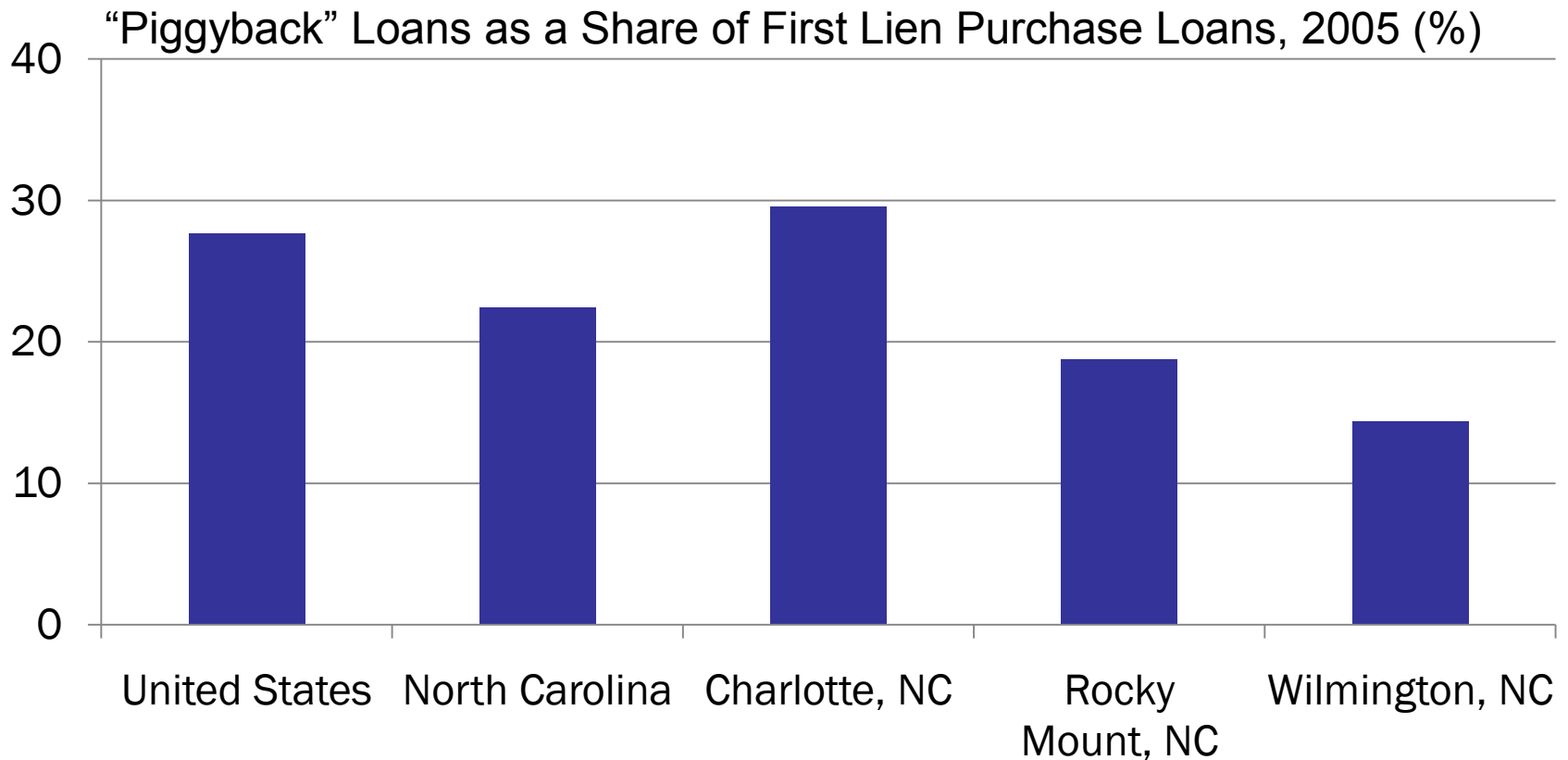
Subprime Lending



Source: Home Mortgage Disclosure Act

Note: First lien conventional mortgages to owner-occupants of 1-to-4 unit properties for purchase or refinance. Higher-Priced defined as an APR 3 percentage points above comparable Treasury security.

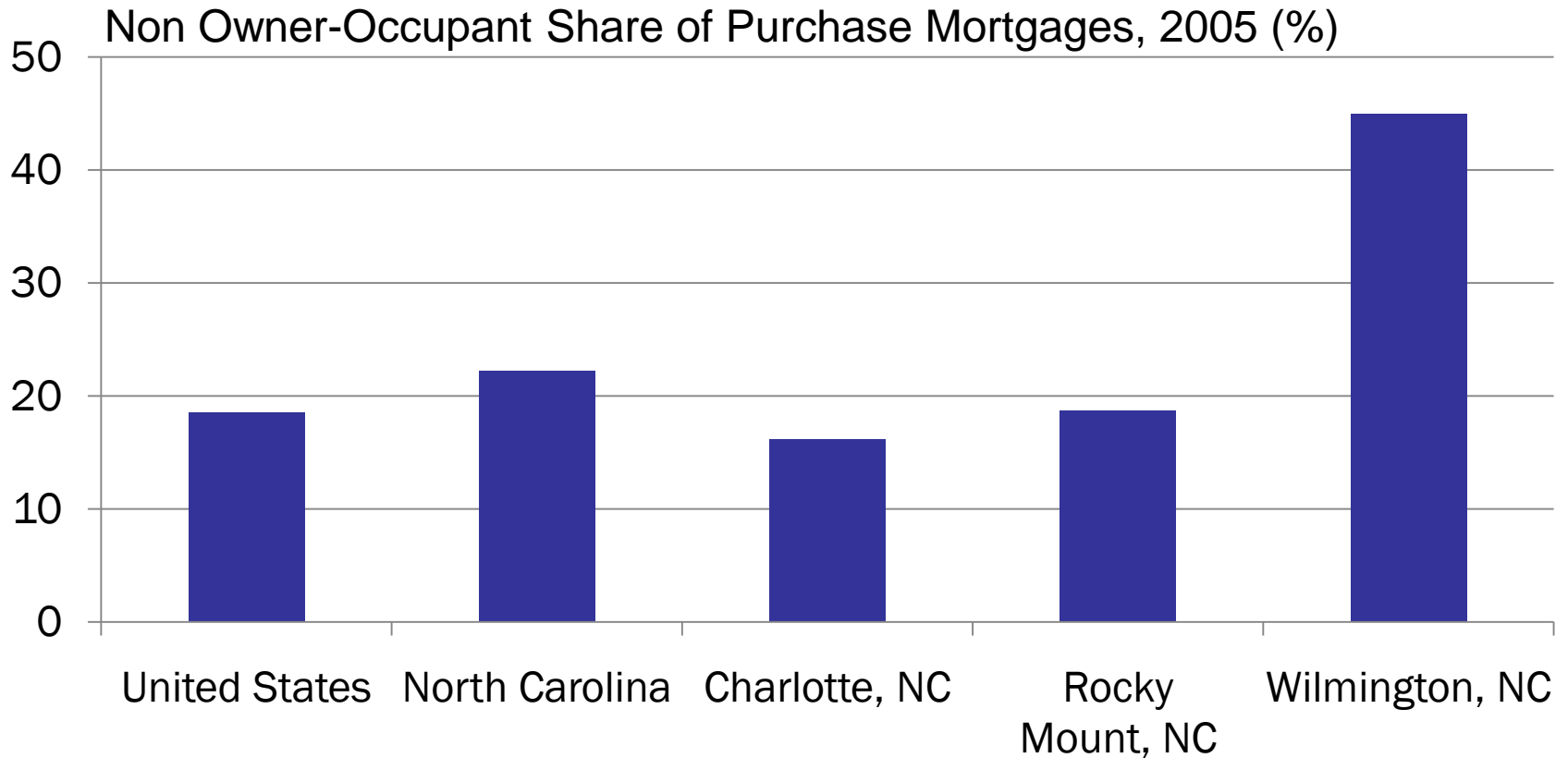
Affordability Products



Source: Home Mortgage Disclosure Act

Note: Piggyback loans defined as conventional second lien home loans for purchase of owner-occupied 1-to-4 unit properties. Does not include HELOCs.

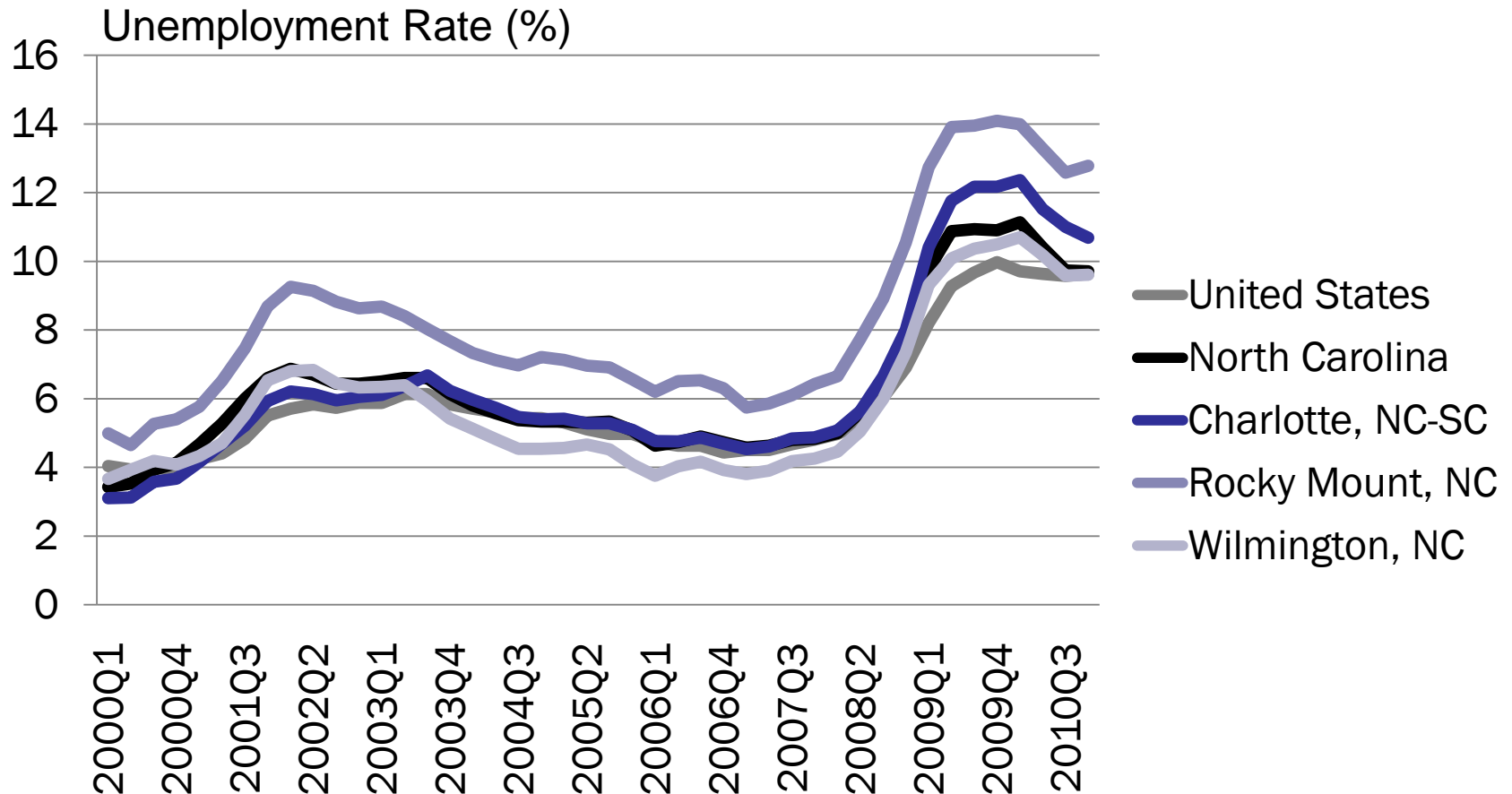
Investors



Source: Home Mortgage Disclosure Act

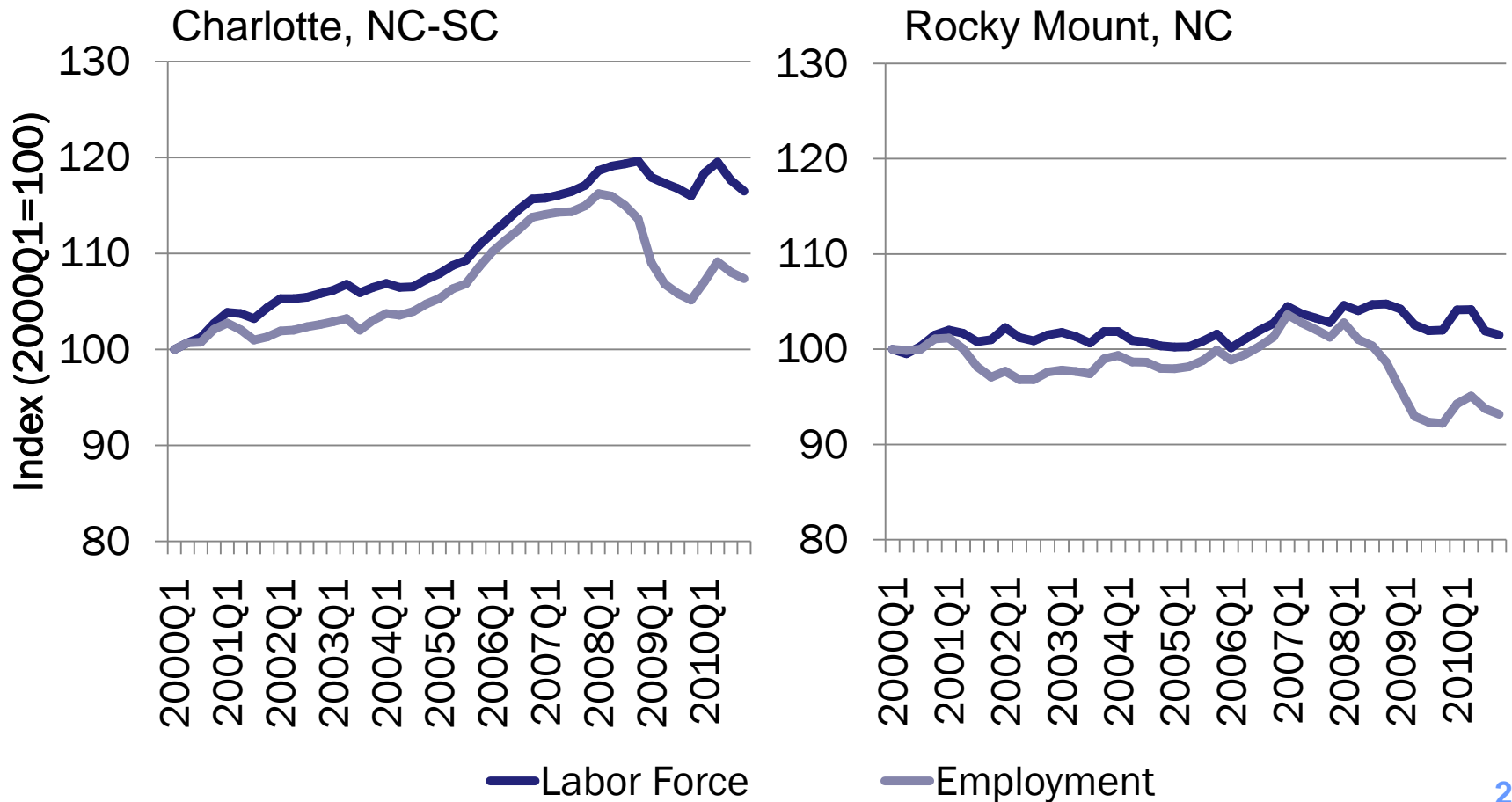
Note: First lien conventional mortgages for purchase of 1-to-4 unit properties.

Local Variations in Unemployment

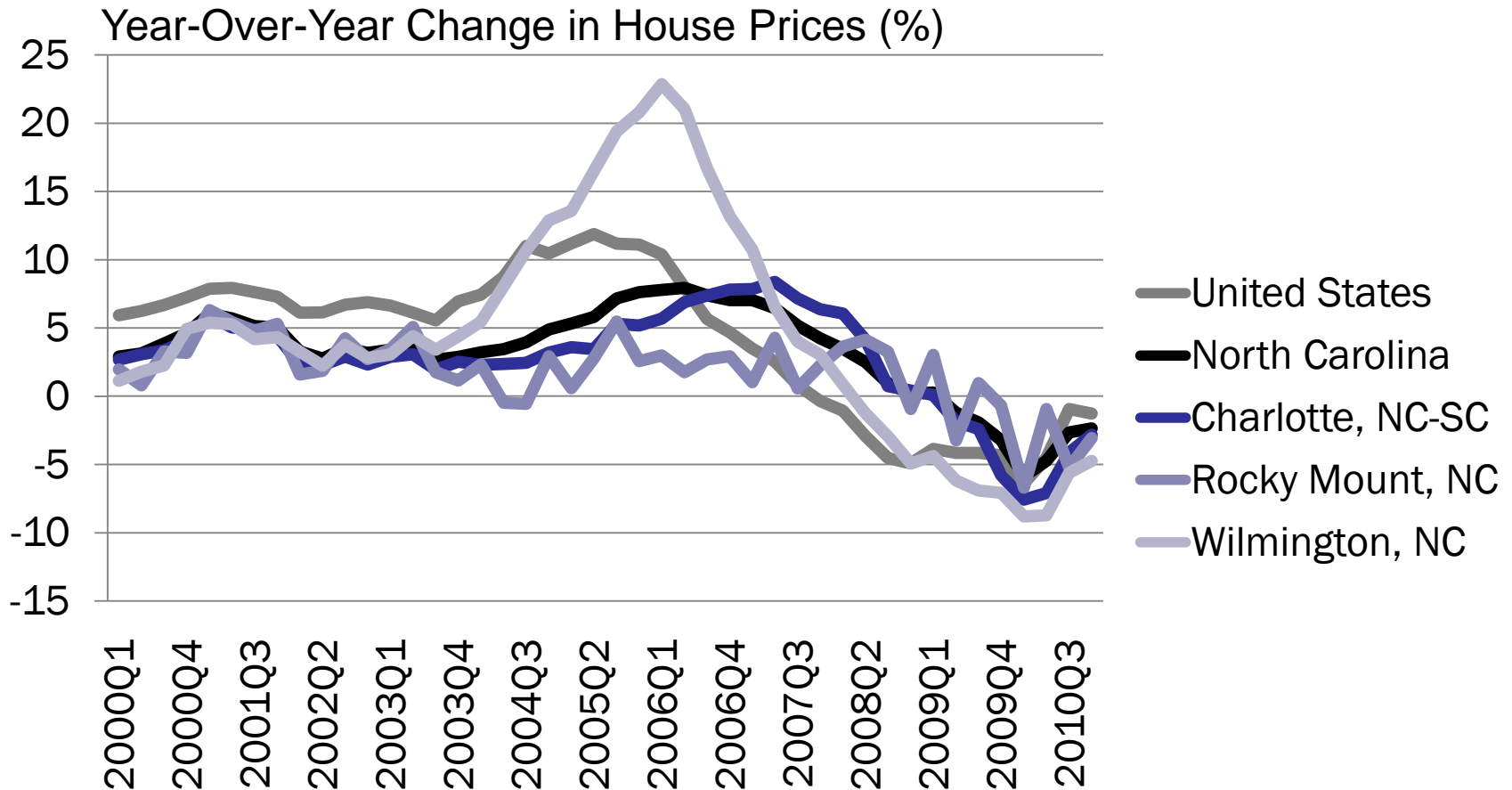


Source: Bureau of Labor Statistics

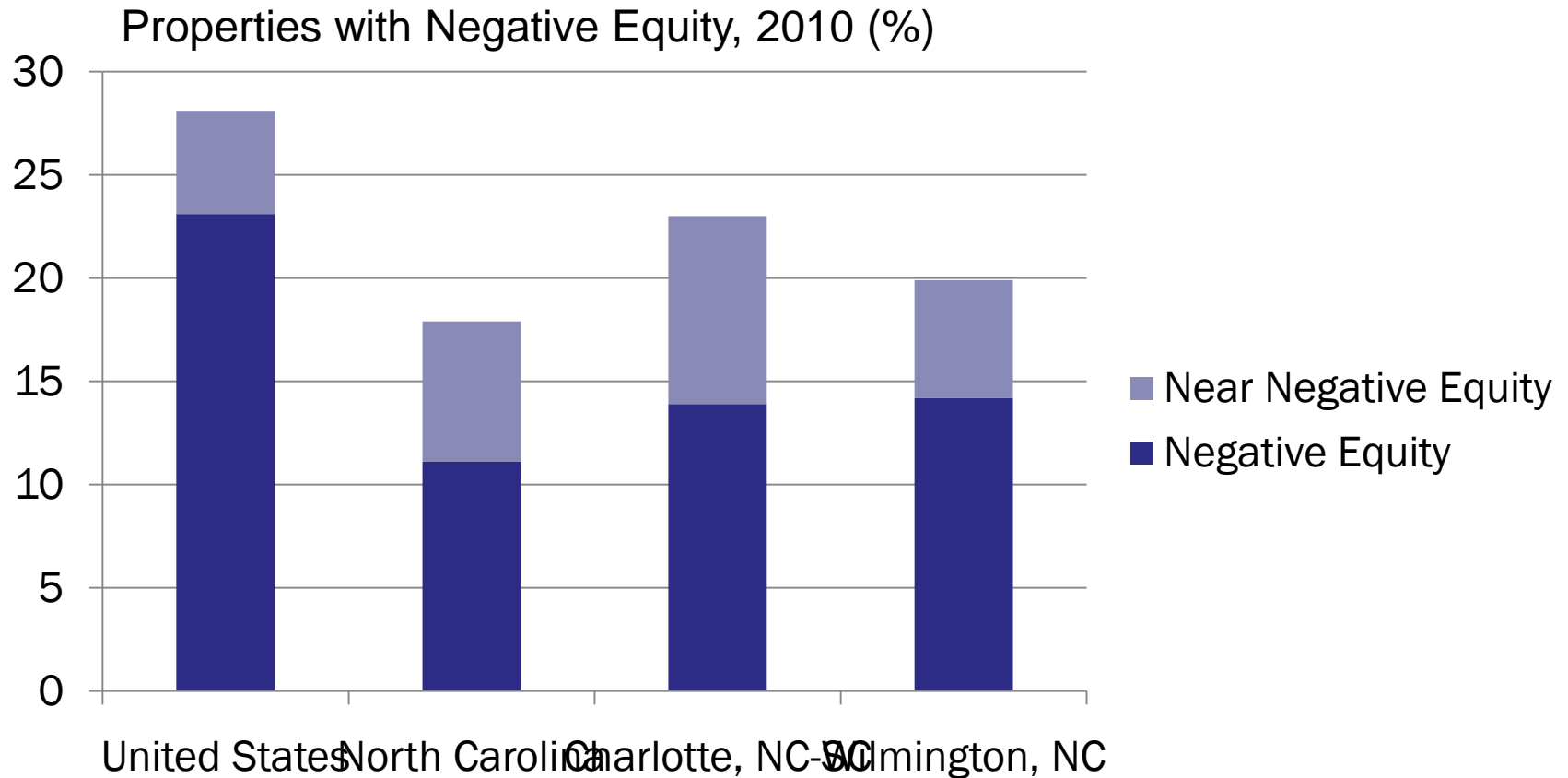
Aggregates Obscure Differences



House Prices



Negative Equity



Source: CoreLogic

Note: Near Negative Equity defined as within 5%. National and North Carolina estimates are from 2010Q4. Metro area estimates are from 2010Q2. Estimates not available for Rocky Mount, NC.

Moving Forward...Tailor Solutions

- Places with strong economic base will recover on their own, problem of negative equity will decline slowly over time
 - Opportunity to increase affordable housing stock now

- Places with weak economic base will need longer term solutions, e.g., job retraining, new economic base
 - Hardest Hit Fun is a good first start

- Investment areas will remain attractive to investors post crisis. These areas will likely recover slowly as US economy improves. Short term impacts on local economies/budgets