

# Update on Regional Market Conditions and Trends

Charlottesville Area Association of Realtors  
November 11, 2010

Virginia Housing Development Authority



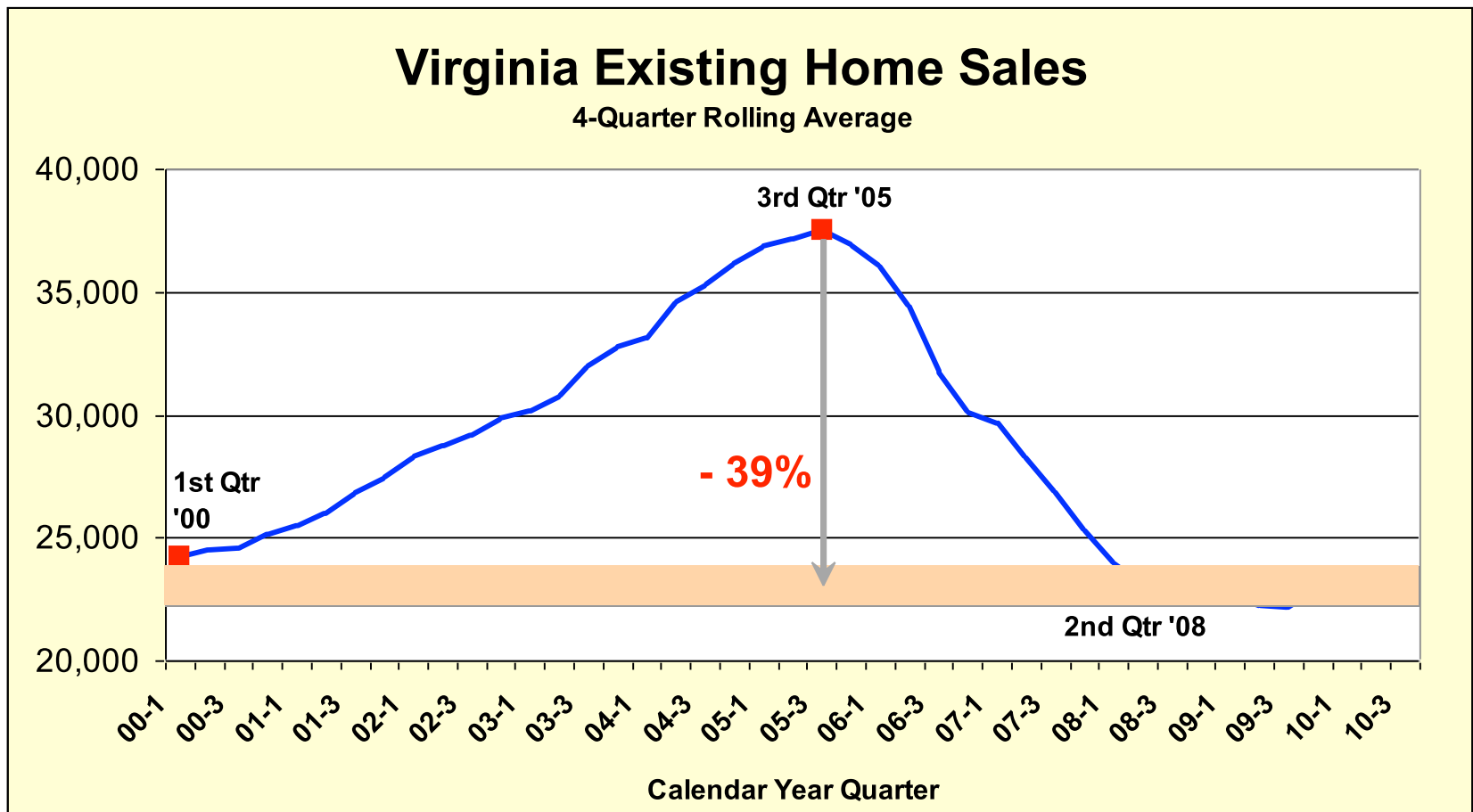
## The Good News:

- The worst may be over.

## The Bad News:

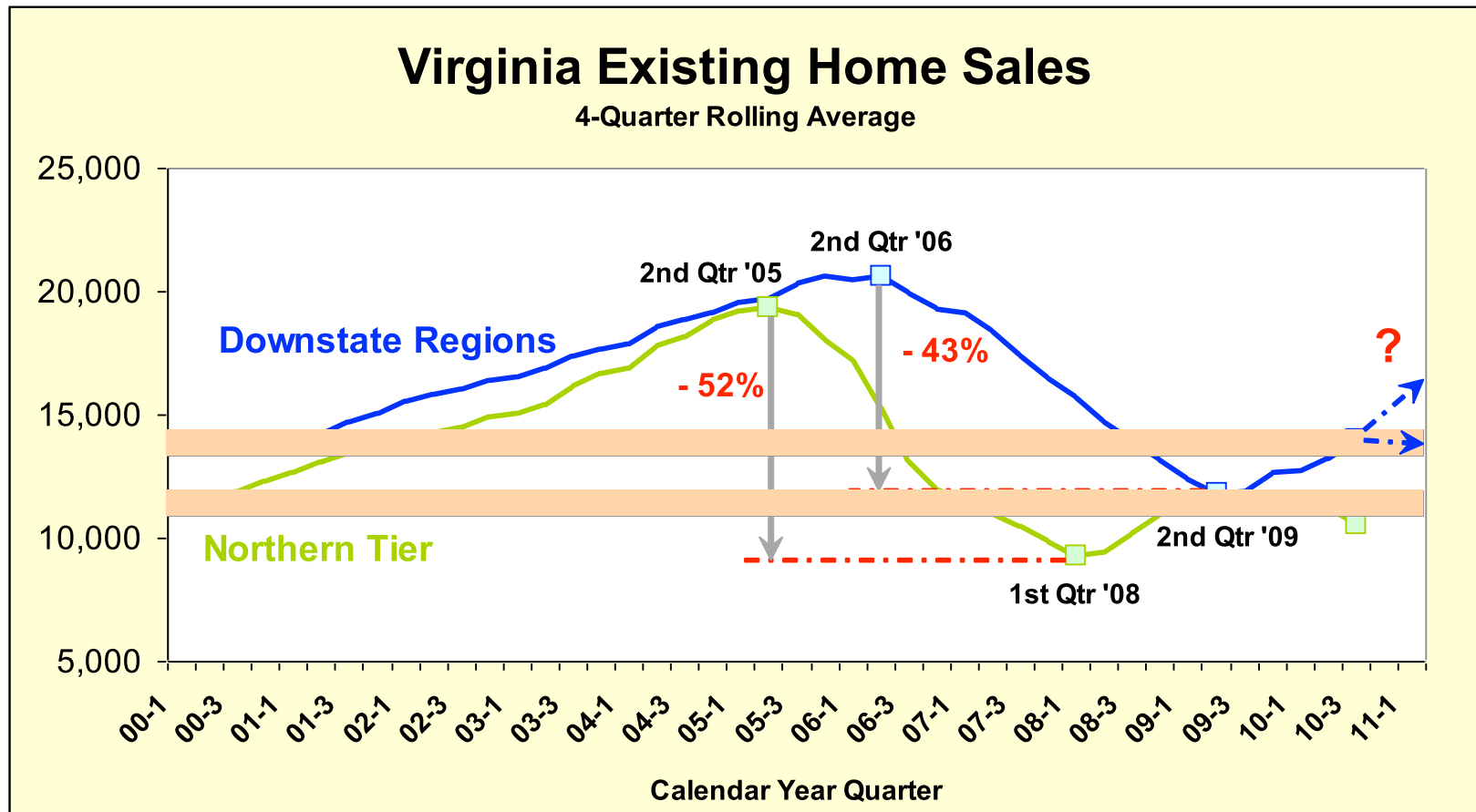
- Local, state and national housing markets remain very weak.
- The direction of the market is uncertain.
- Several major challenges must be addressed before a sustained recovery can occur.

Statewide, existing home sales have remained stagnant for over two years.



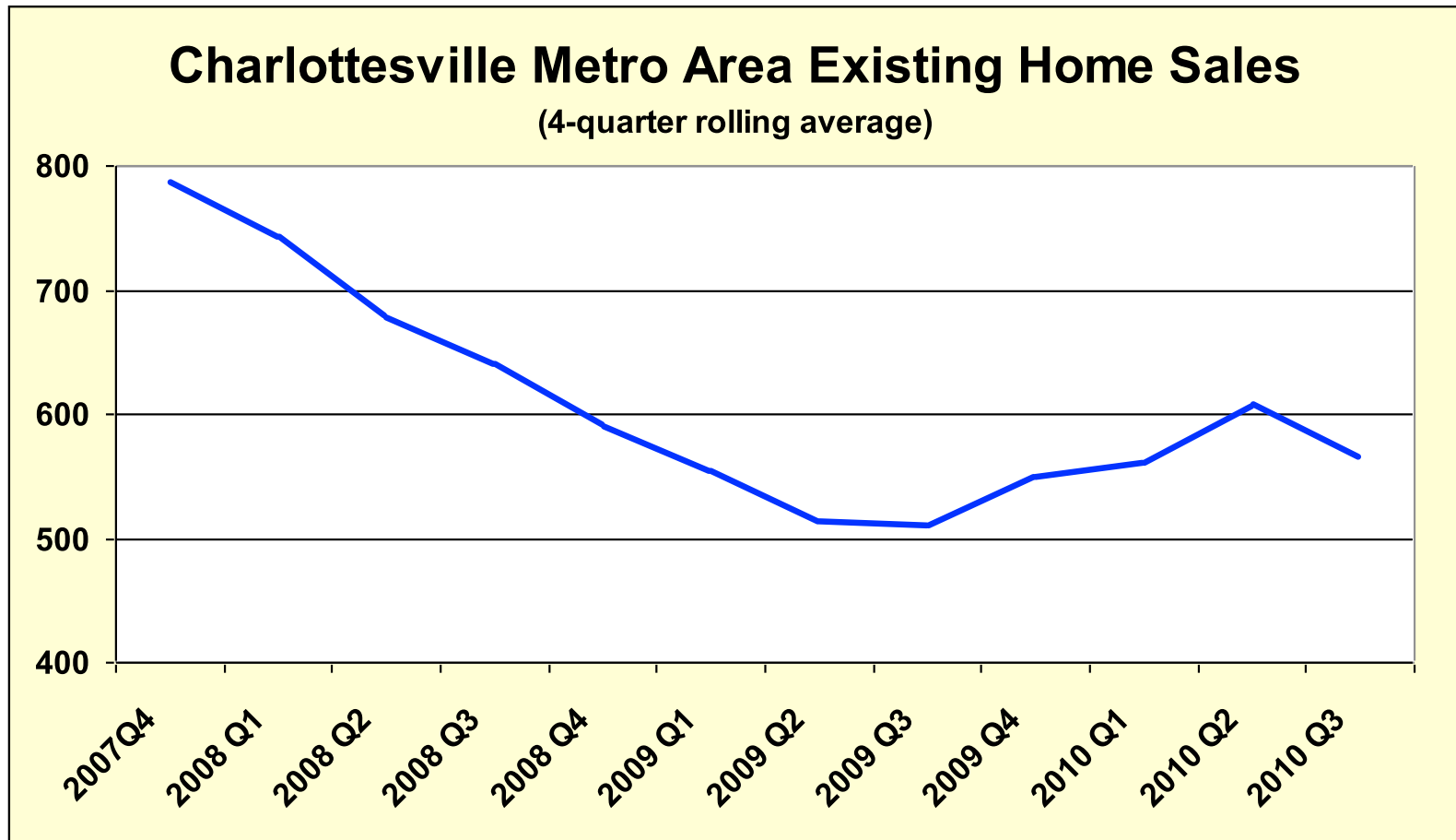
Source: VAR

# Northern Tier sales raise doubts about the sustainability of recent downstate increases.



Source: VAR

This concern is borne out in the 3<sup>rd</sup> Qtr.  
decline in Charlottesville area sales.



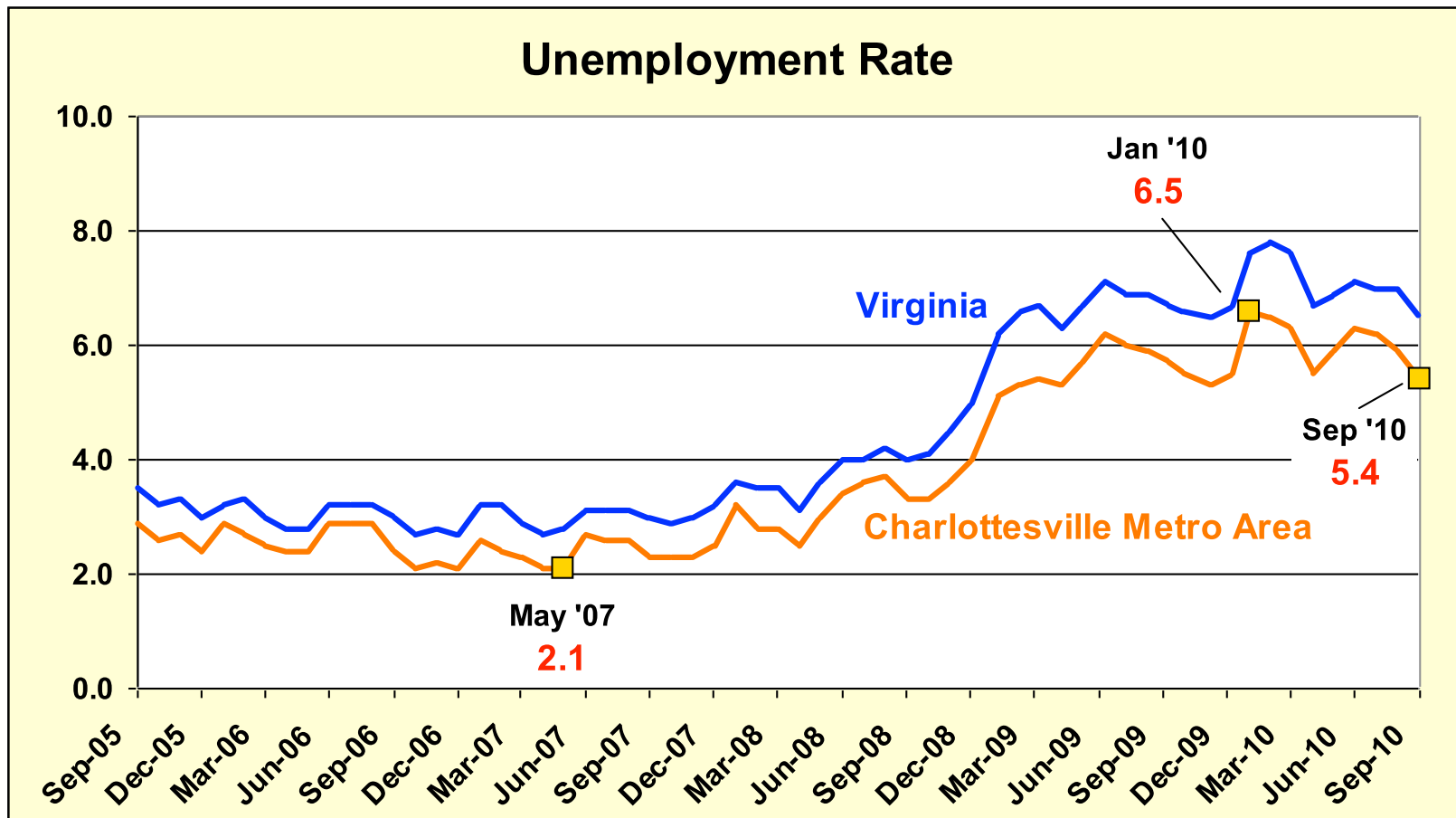
Source: VAR

## Four things are still needed in order to achieve sustained housing market growth:

1. Recovery of employment
2. Reduction in mortgage defaults
3. Stabilization of home prices
4. Revival of a stable private mortgage market

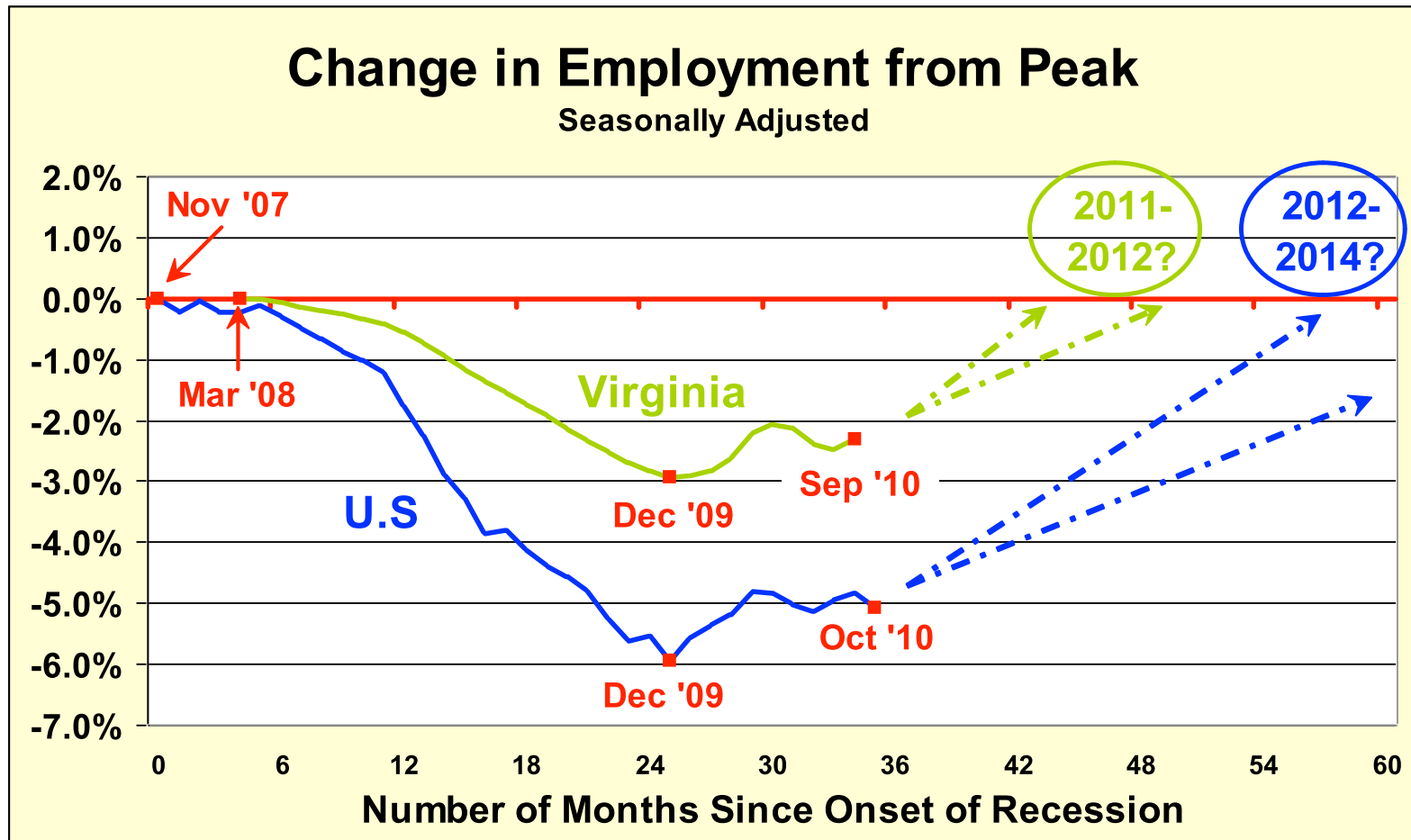
# Employment

# Unemployment is down from its peak, but remains well above pre-recession levels.



Source: Virginia Employment Commission

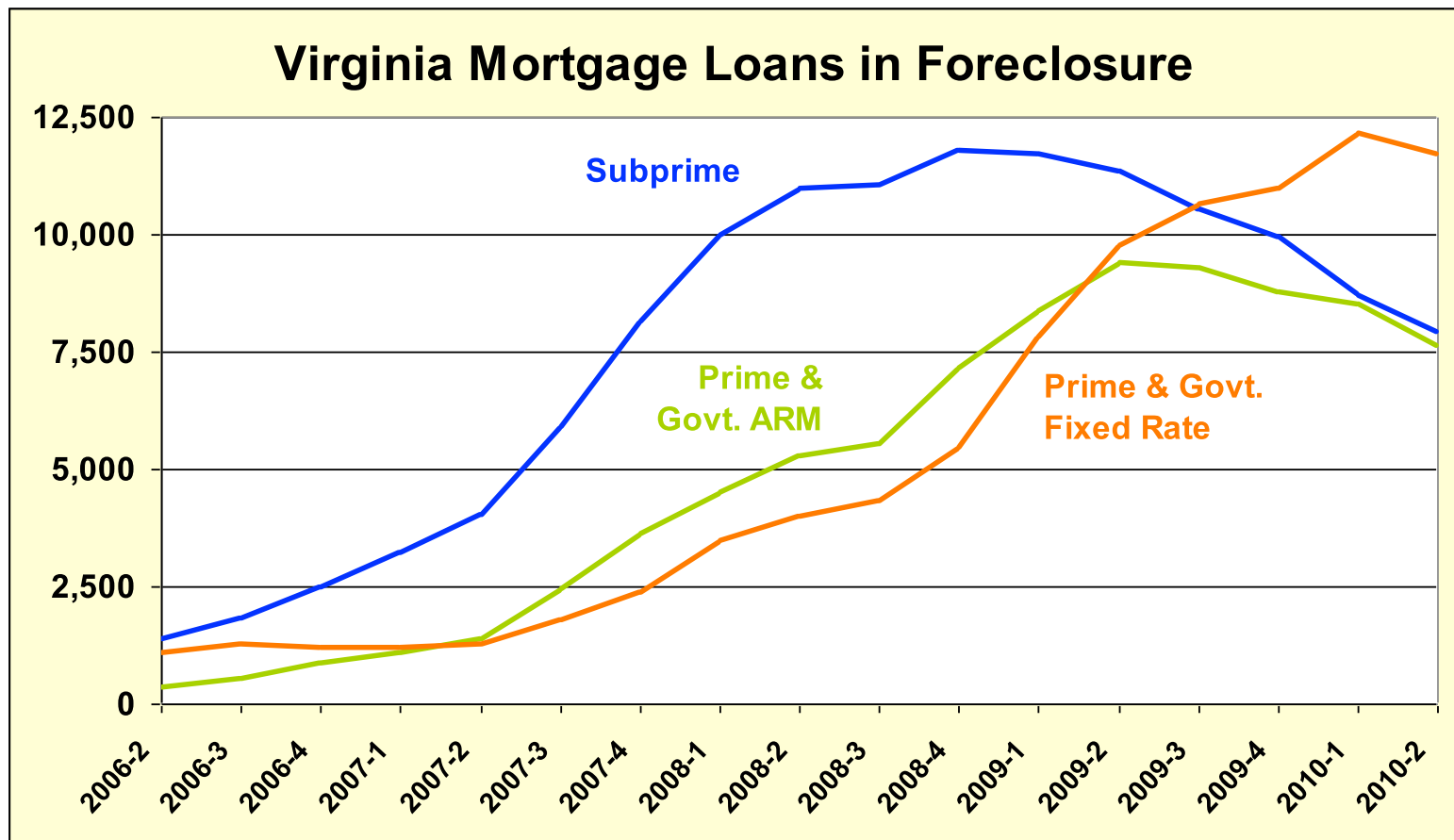
# The recovery in employment still has a very long way to go.



Source: Virginia Employment Commission

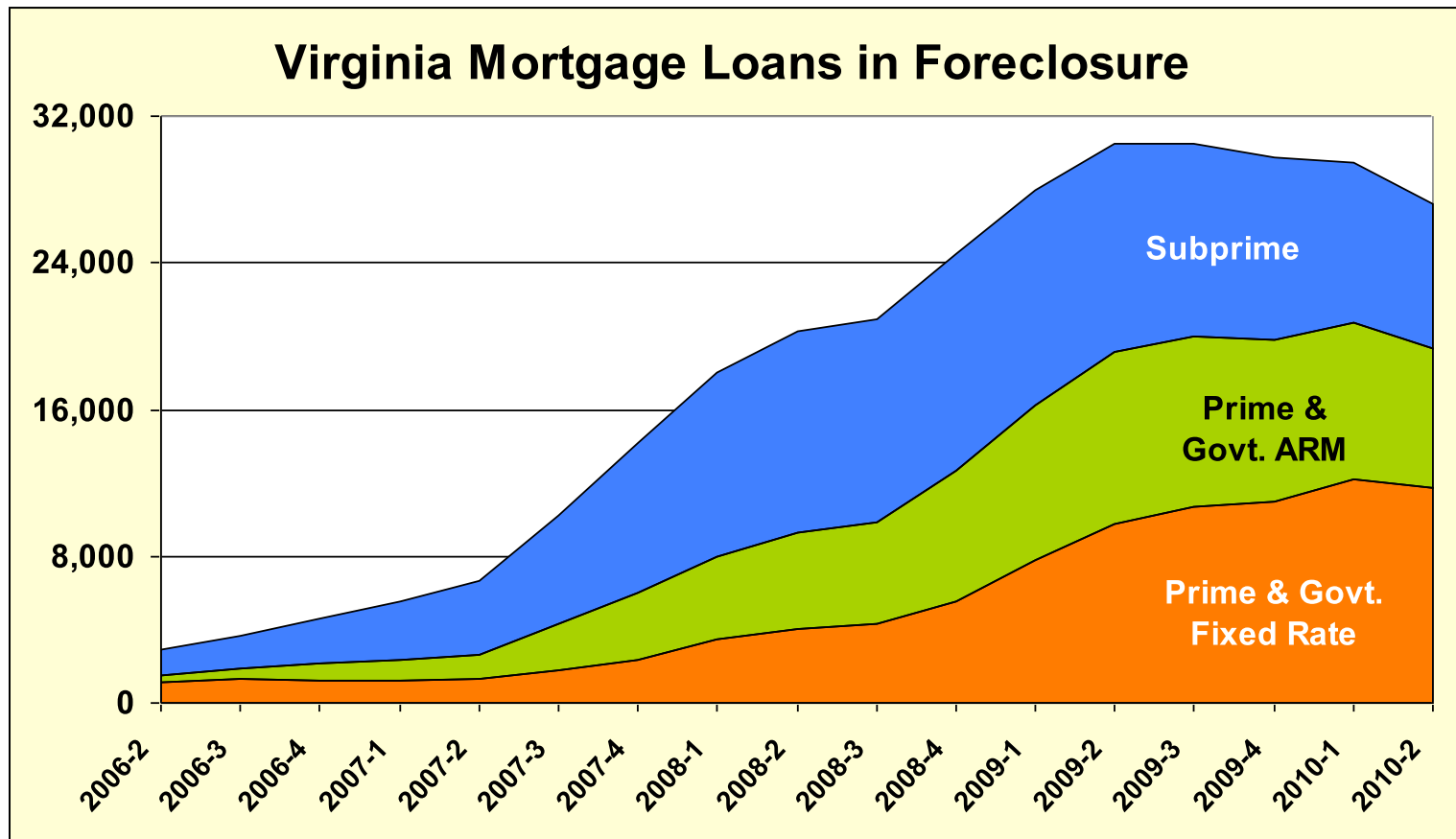
# Mortgage Defaults

# Subprime foreclosures are declining as prime foreclosures begin to peak .



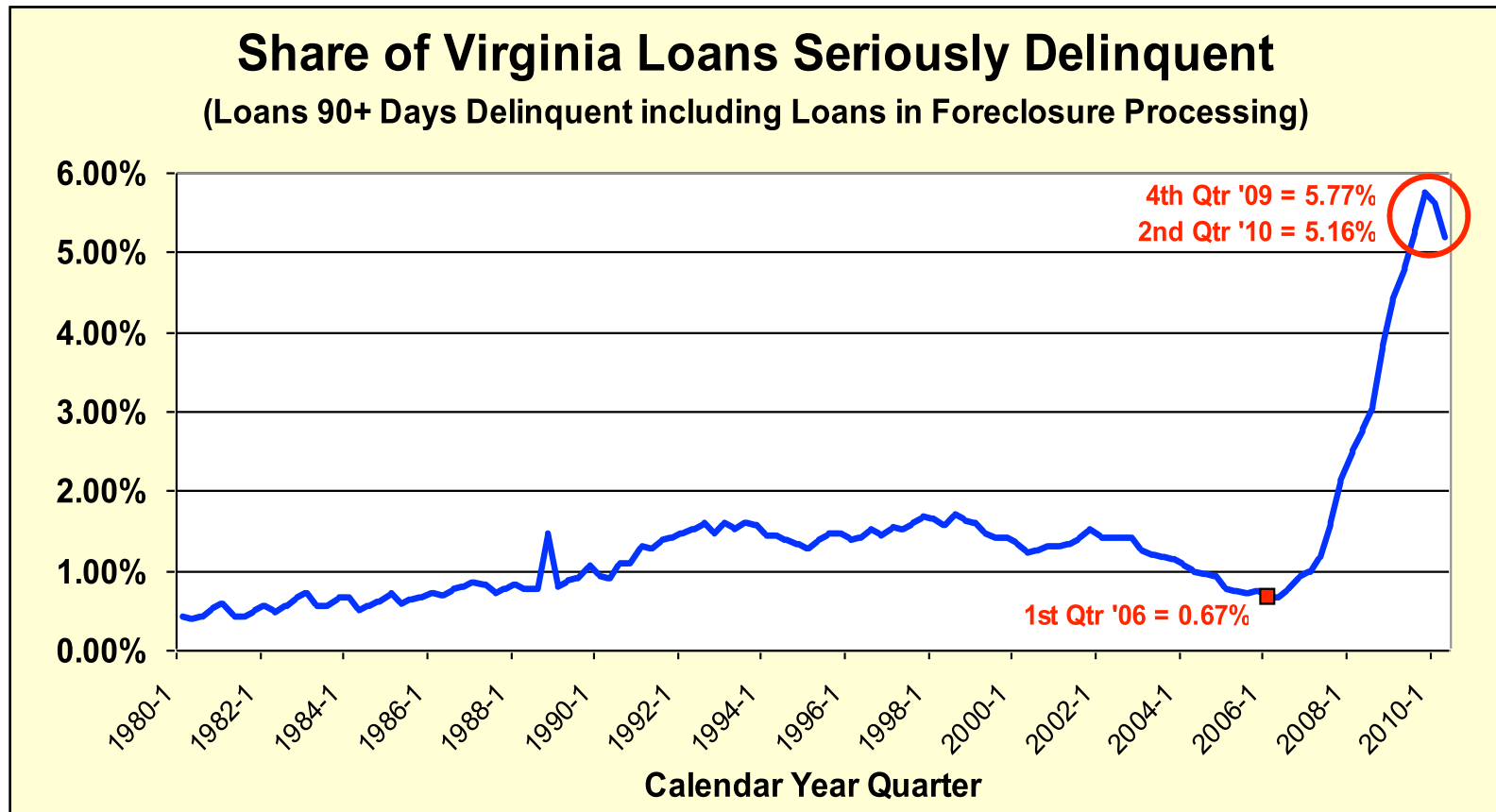
Source: Mortgage Bankers Association (MBA)

Now that the second wave is cresting,  
total loans in foreclosure should fall.



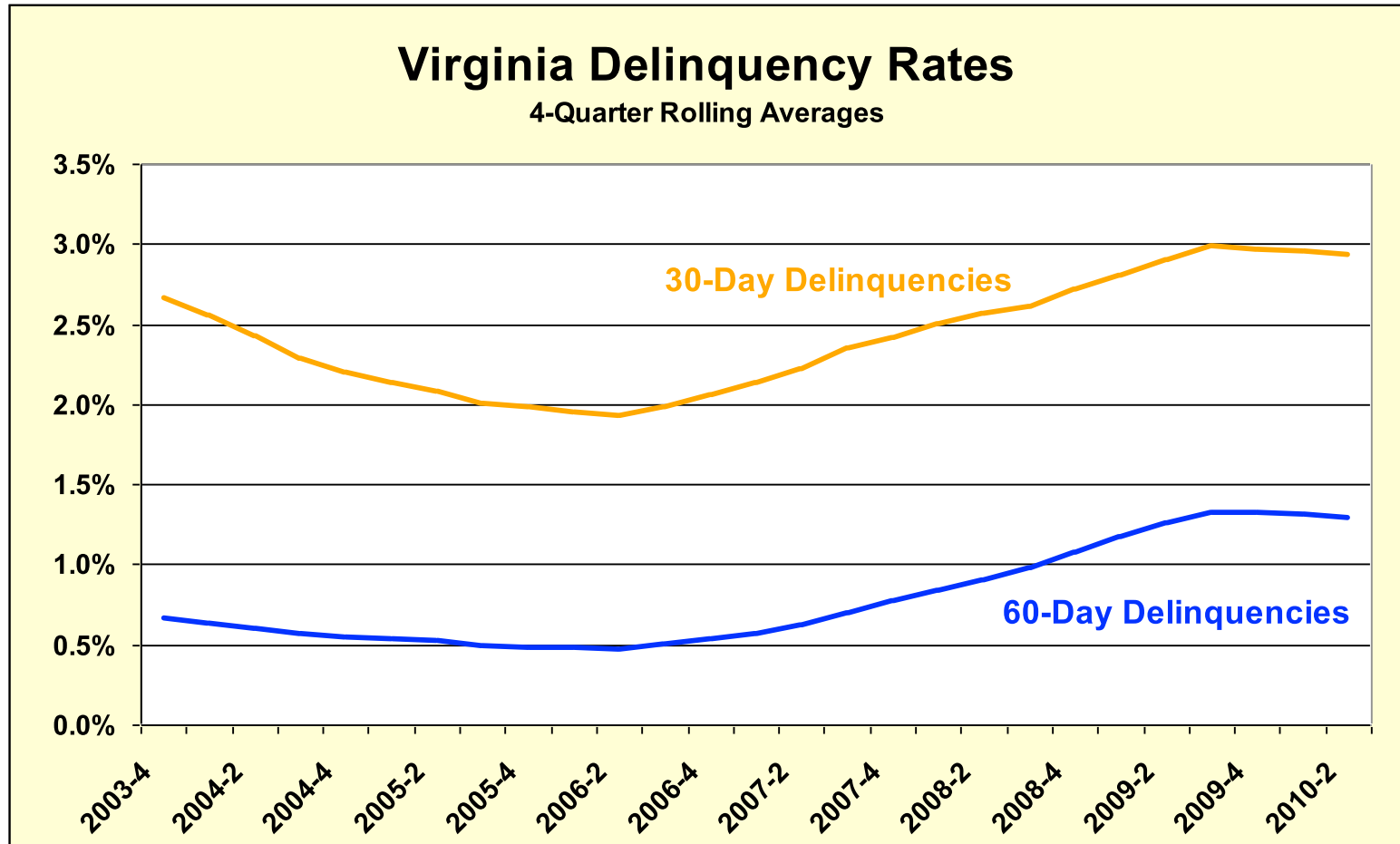
Source: Mortgage Bankers Association (MBA)

In the 2<sup>nd</sup> Qtr. of 2010, the serious delinquency rate continued to drop.



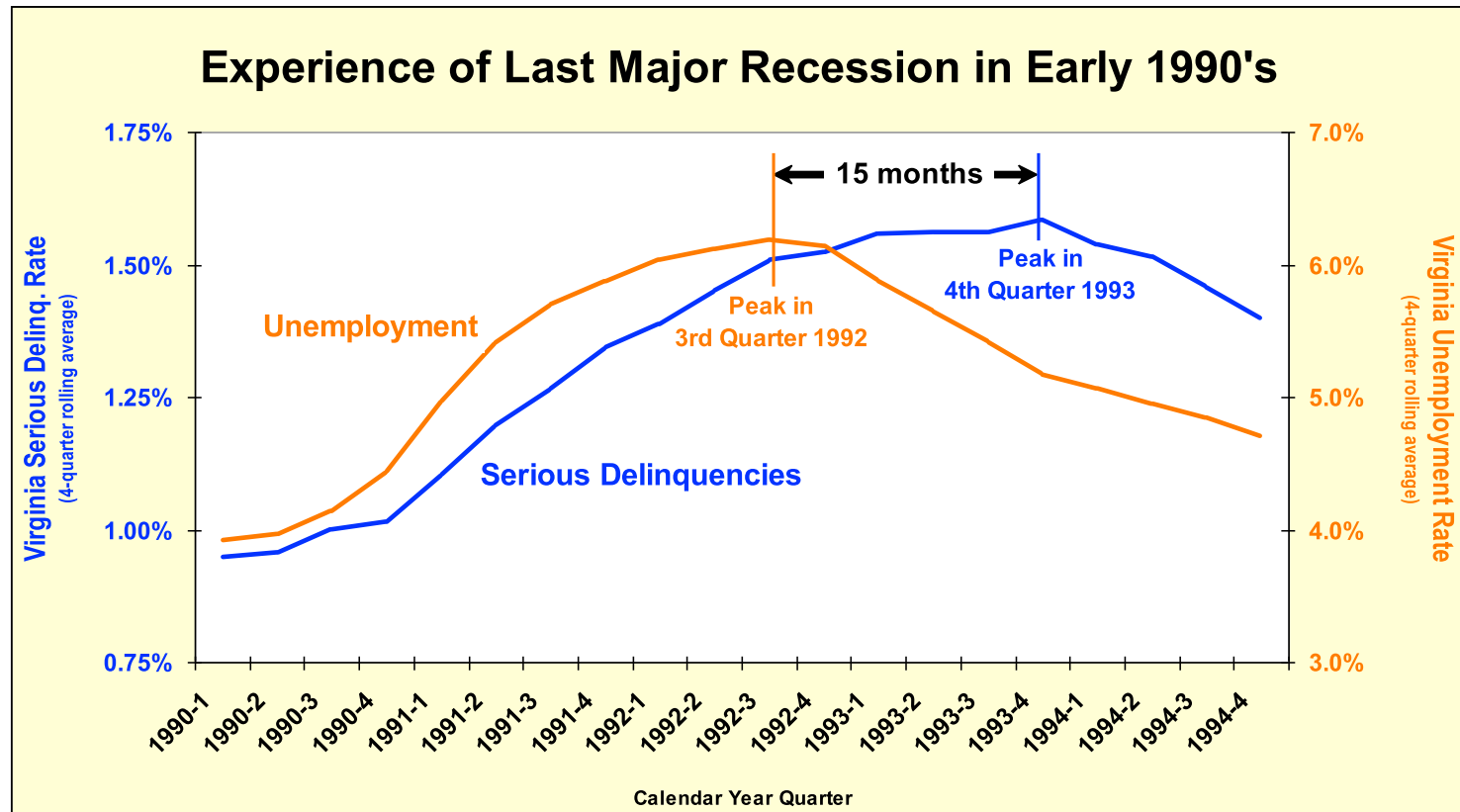
Source: Mortgage Bankers Association (MBA)

Likewise, early delinquency rates have shown recent small declines.



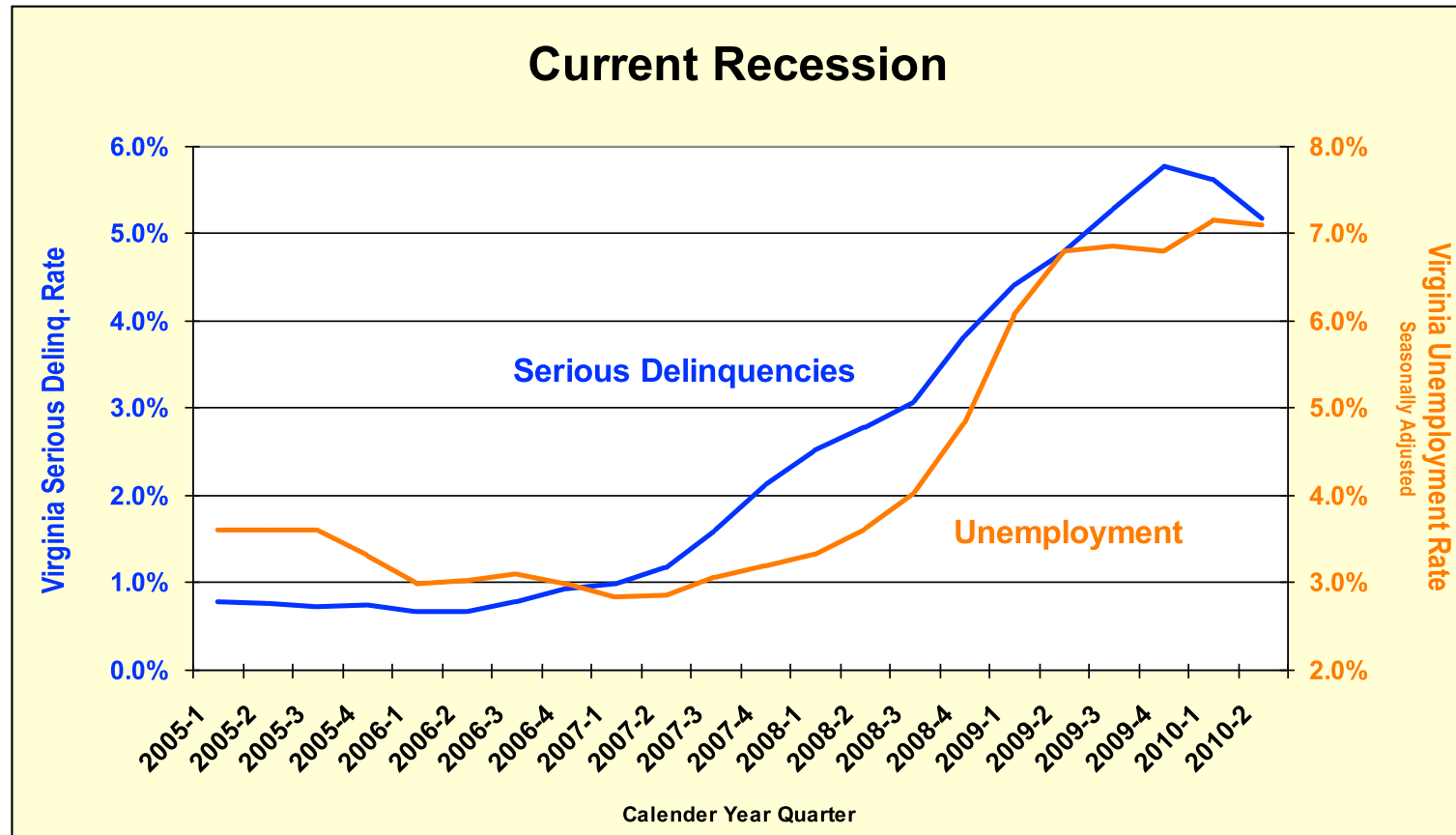
Source: Mortgage Bankers Association (MBA)

In the past, the peak in defaults has trailed the peak in unemployment.



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

This time, defaults have been a leading rather than a lagging indicator.



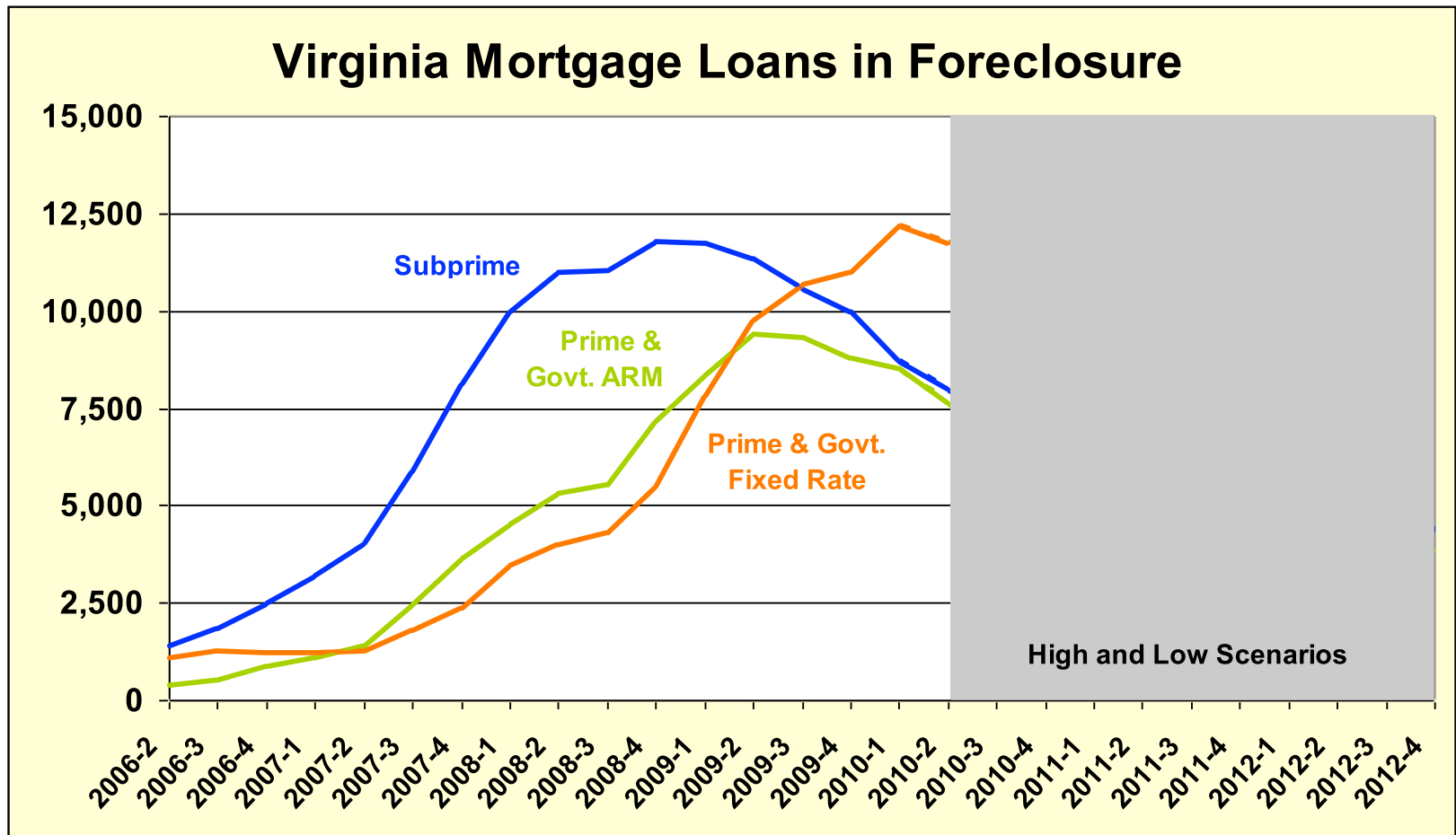
Source: Virginia Employment Commission and Mortgage Bankers Association (MBA)

Despite positive signs, it is likely the foreclosure problem is far from over.

Several major headwinds are likely to retard any near-term steady drop in foreclosure activity:

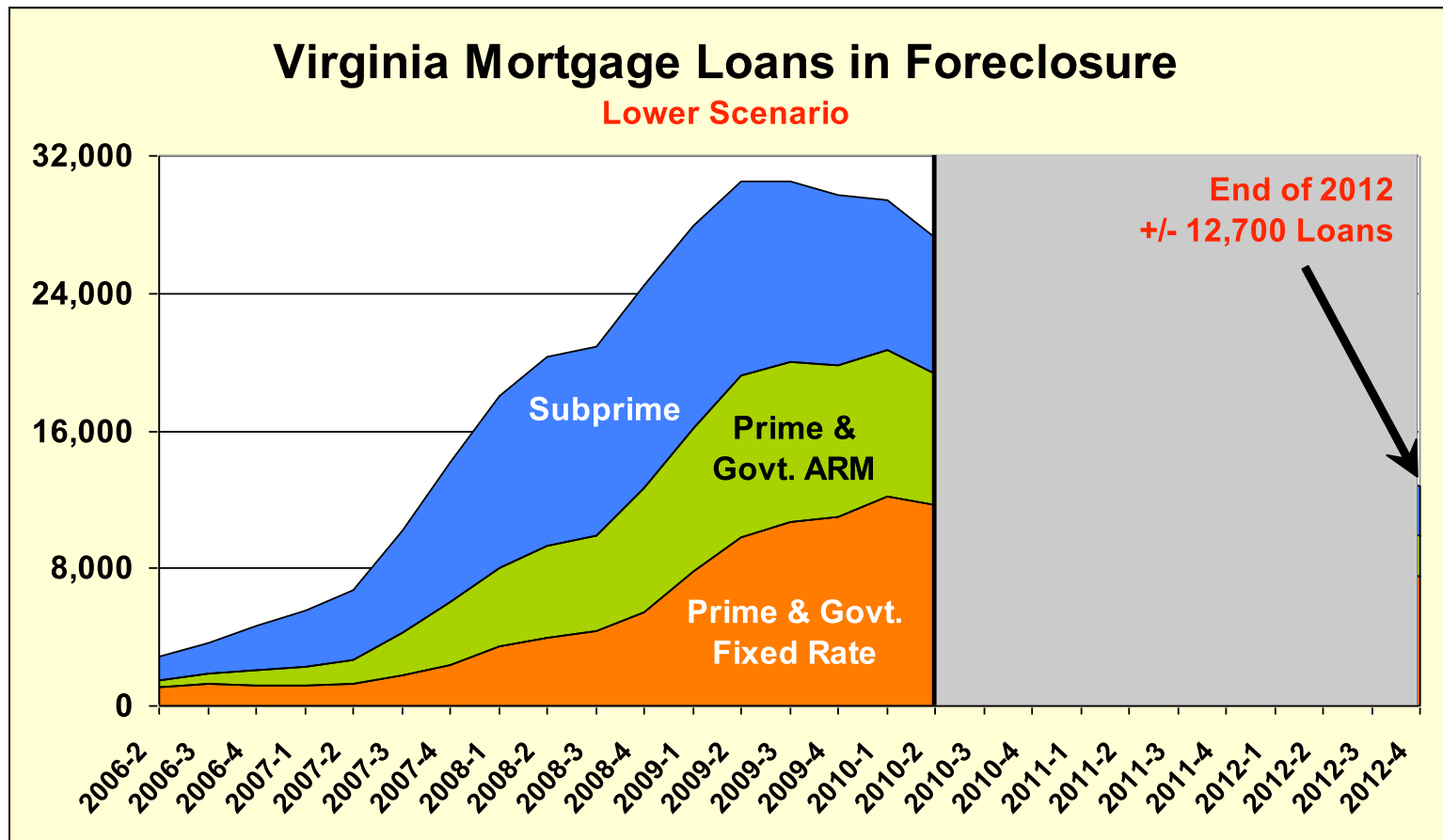
- Slow economic growth will likely extend the weak jobs recovery
- Renewed declines in home sales and large inventories of distressed properties will restrain any further rebound in home prices, keeping large numbers of homeowners “under water”

# Fixed rate loan foreclosures are unlikely to decline steadily until 2011.



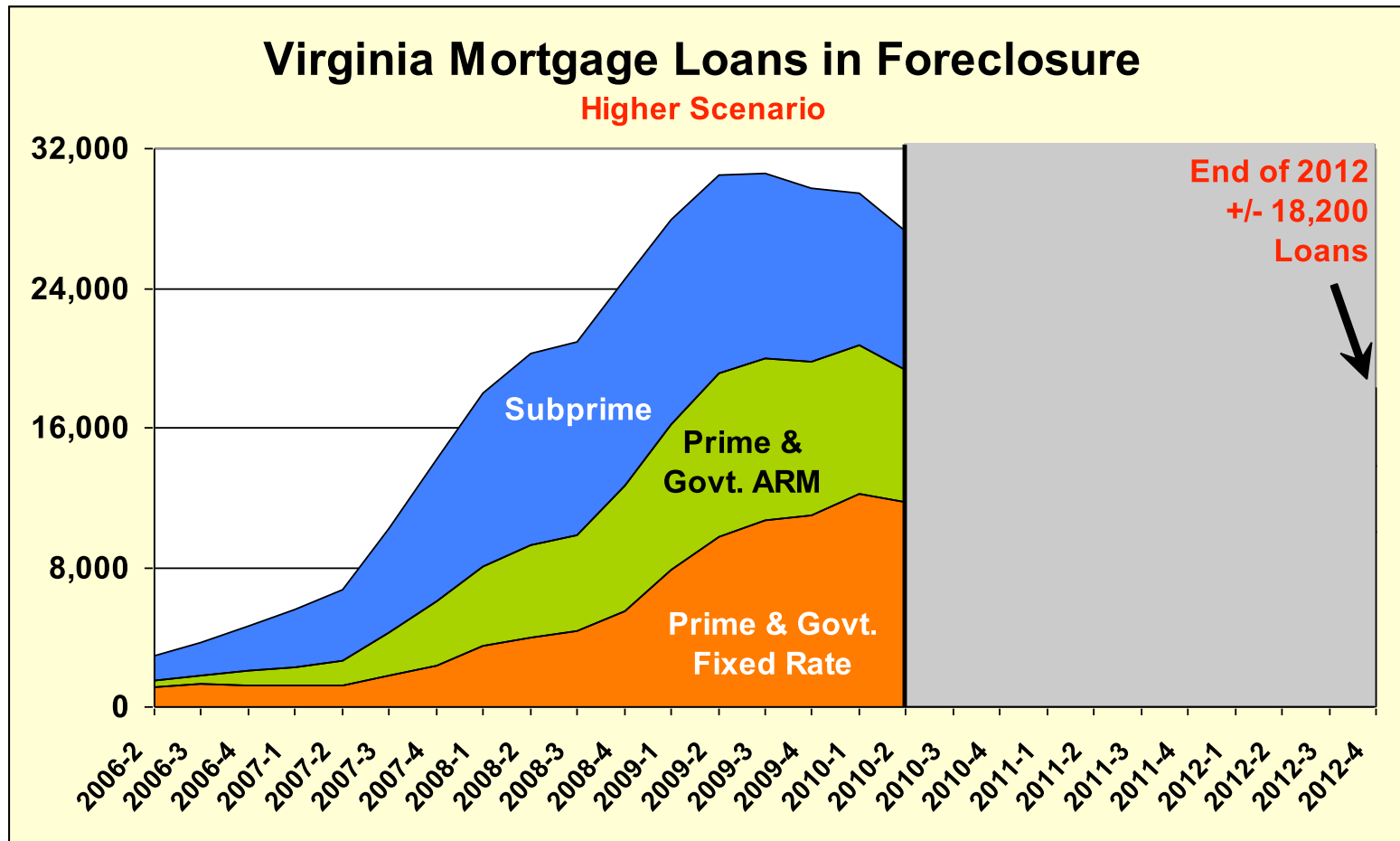
Source: Mortgage Bankers Association (MBA)

# The market will be adversely impacted through at least 2012 ...



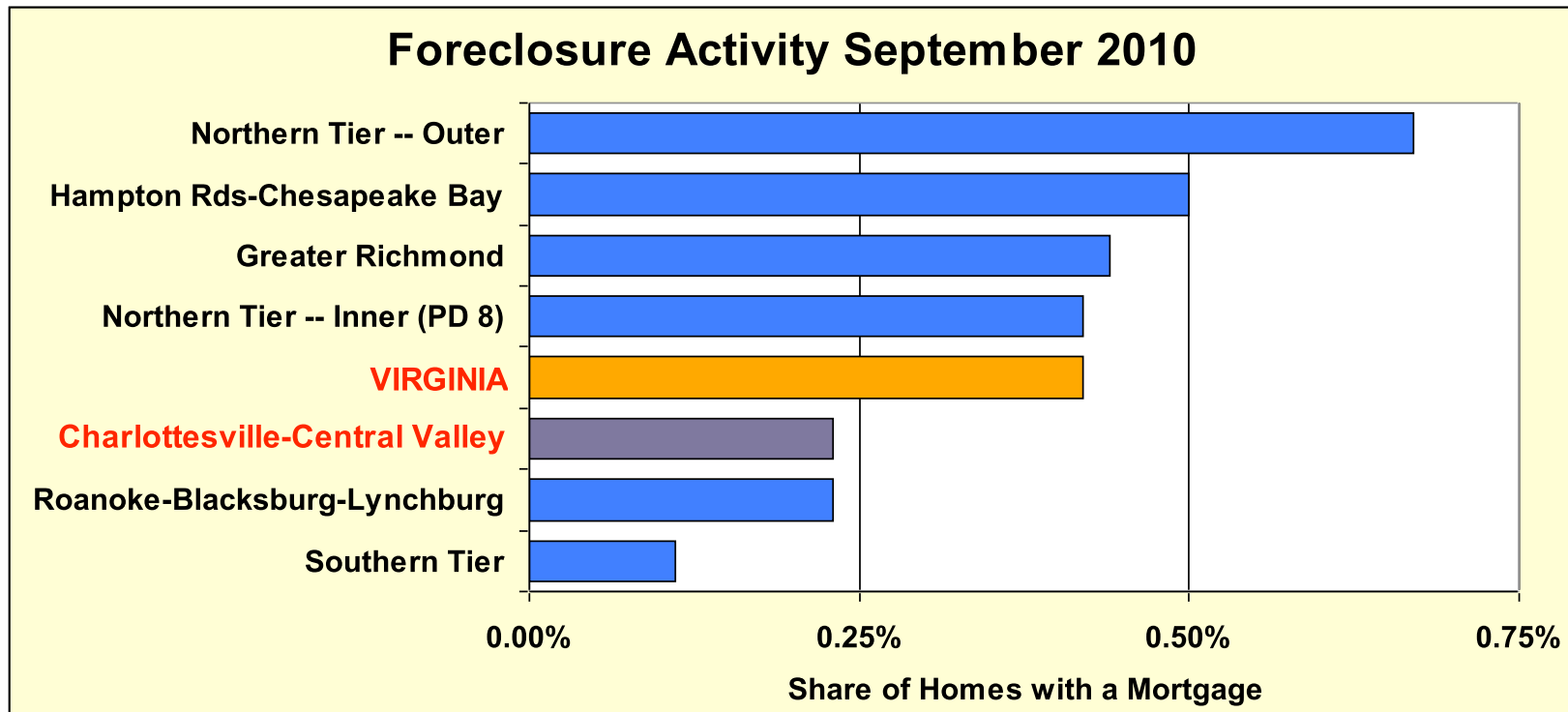
Source: Mortgage Bankers Association (MBA)

...but, the impact of distressed inventory could extend well beyond 2012.



Source: Mortgage Bankers Association (MBA)

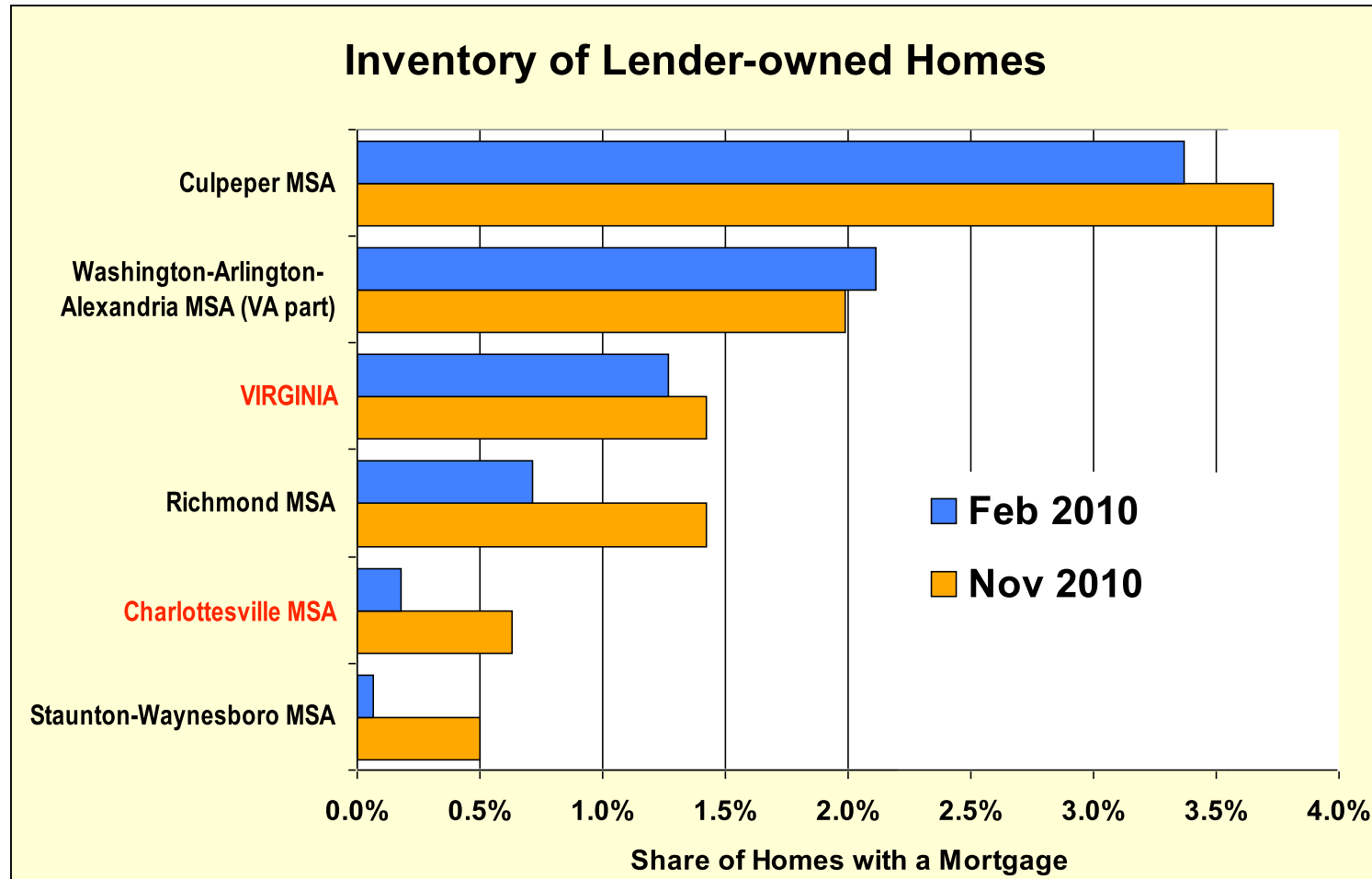
Foreclosure rates are most severe in the outer part of the Northern Tier.



\*Trustee sales and lender repossessions

Source: RealtyTrac and Census Bureau

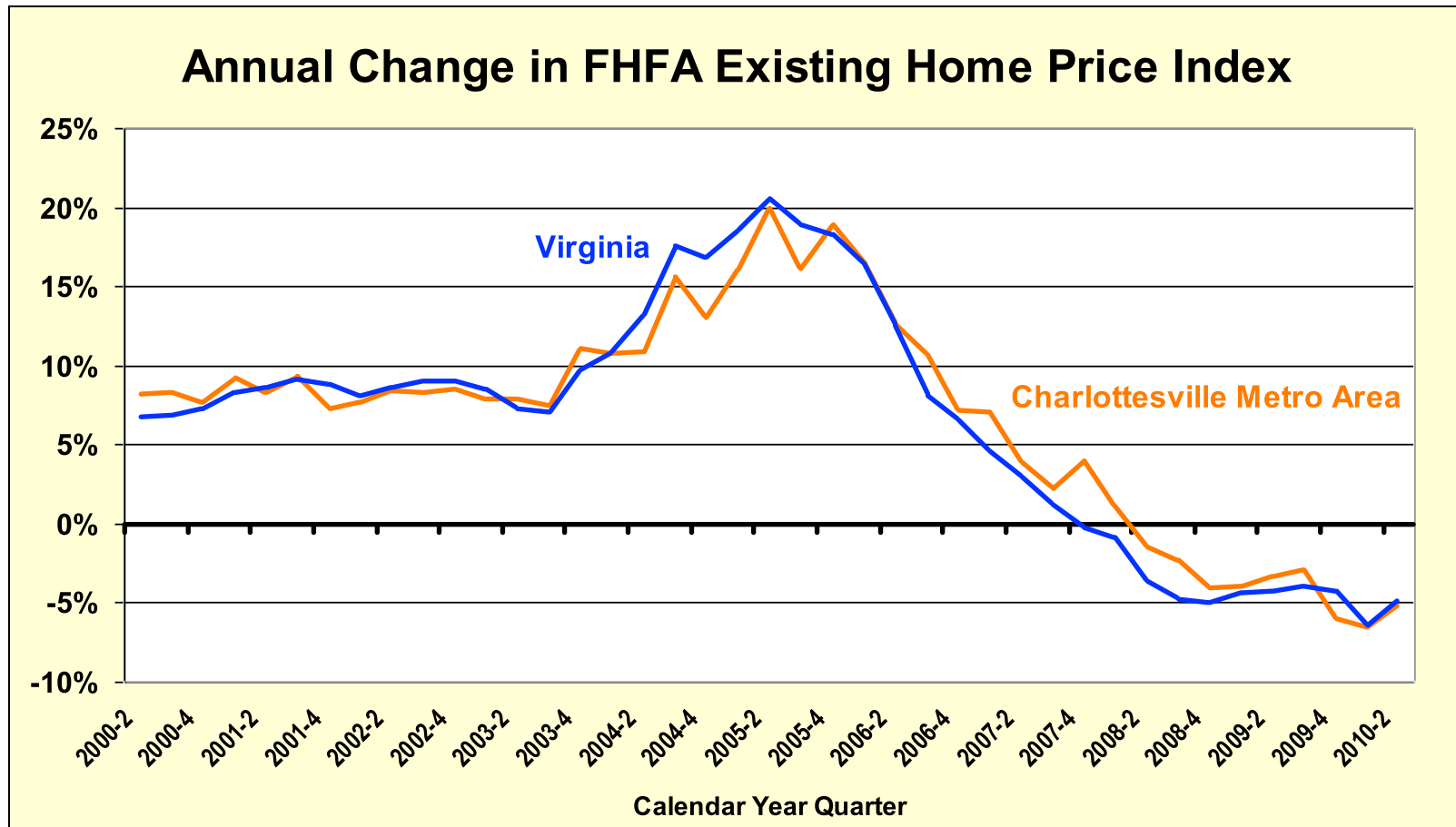
# The inventory of lender-owned homes, while relatively low, is rising rapidly.



Source: RealtyTrac and Census Bureau

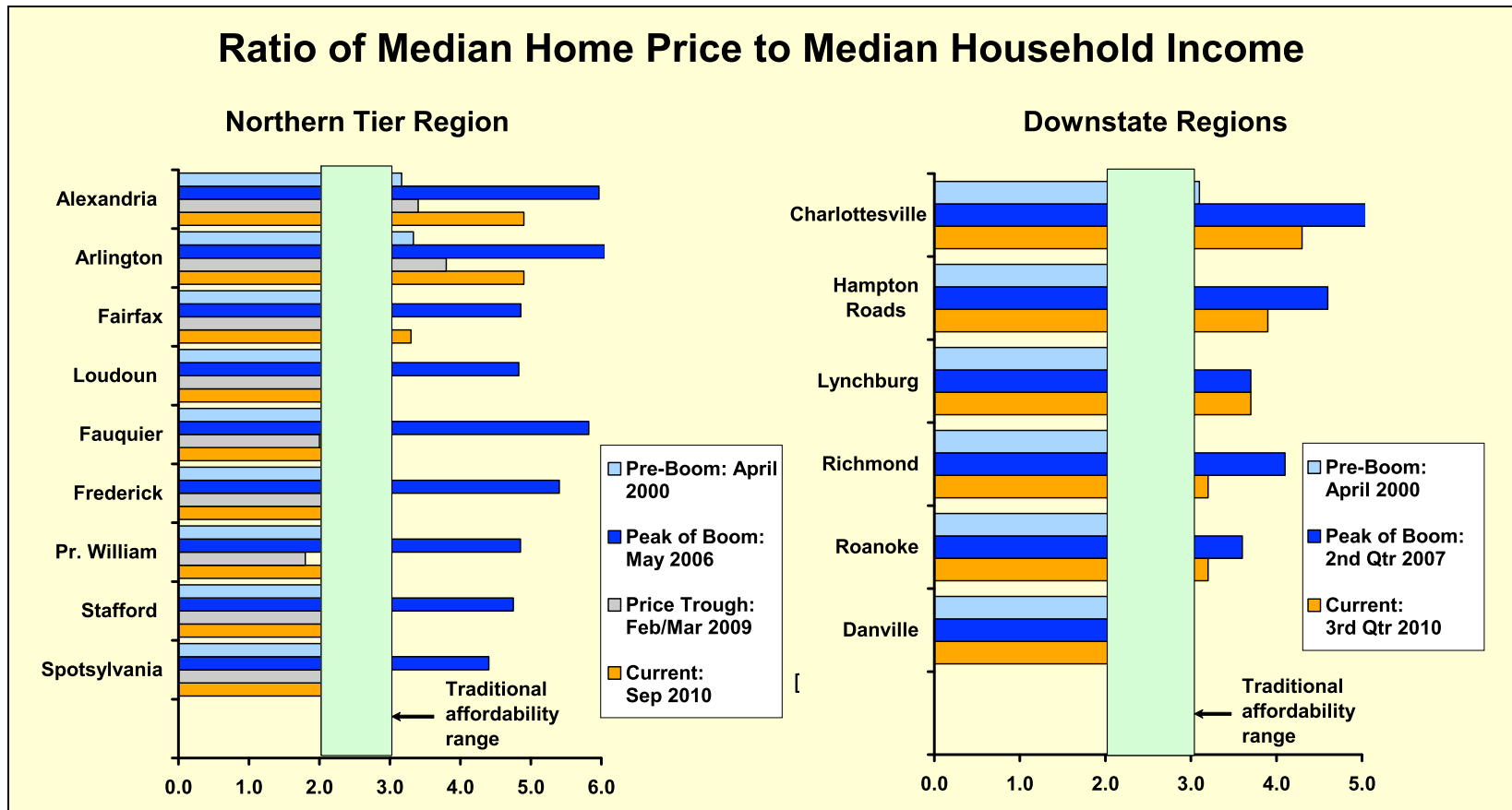
# Home Prices

Area prices are tracking state trends.  
Prices remain well below their peak.



Source: Federal Housing Finance Agency (FHFA)

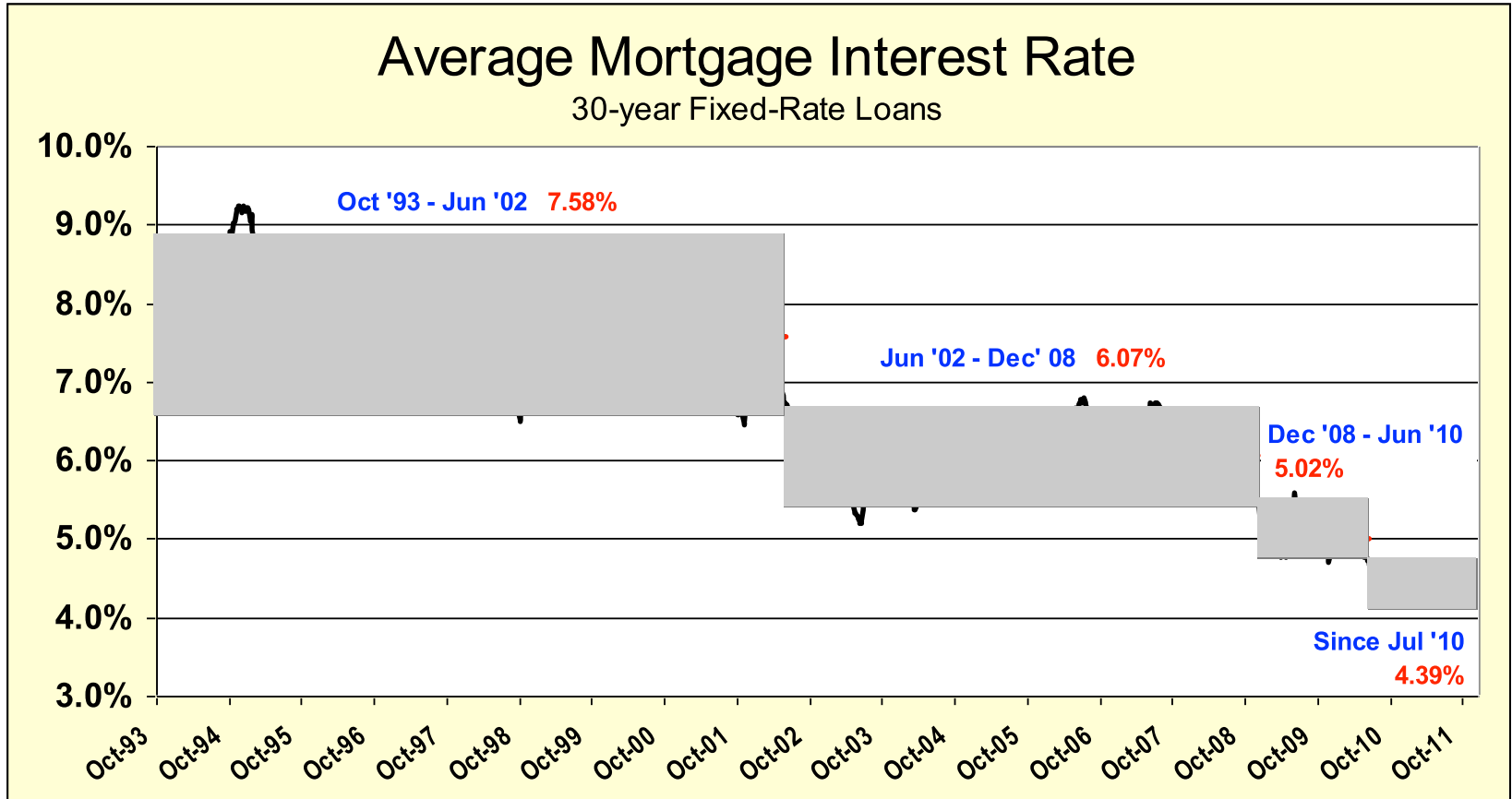
# Increased affordability is still needed in Charlottesville to sustain increased sales.



Source: VAR and Census Bureau

# Mortgage Markets

# The Fed remains committed to keeping mortgage interest rates at historic lows.



Source: Federal Housing Finance Agency (FHFA)

# Federal and state intervention options are limited and carry considerable risk.

## Interest Rates:

- Low mortgage rates have helped to put a floor under home prices and stabilize default rates.
- However, current low rate levels are perpetuating dependence on federal GSE securities, while having little impact on increasing home sales.

## Loan Standards:

- The market remains highly dependent on FHA and the GSEs to fund new mortgages.
- At the same time, they must take action to stem mounting loan losses for which Congress and the public lack patience.

## Loss Mitigation:

- Federal loss mitigation programs have had limited success due to the:
  - Legal complexity of mortgage-backed security transactions
  - Growing share of defaults due to loss of income
  - Large share of borrowers who are significantly “under water”
- Now, just as a massive wave of default cases move toward foreclosure, the legal necessity to correct procedural problems is substantially slowing resolution of distressed properties.
- There is risk that fixing foreclosure procedures will undermine efforts to clear the “shadow inventory,” thereby setting back market recovery.
- Procedural problems could also retard the recovery of the private MBS market and increase the long-term cost of mortgage credit.

## In Summary:

- Market conditions will remain challenging for the next several years until the foreclosure problem is resolved and economic recovery takes fuller hold.
- Long-term increases in home sales and prices will depend on sustained employment and income growth, and the ability of purchasers to access credit under affordable terms and conditions.