Mortgage Performance Summary

South Carolina: First Quarter 2009

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A Summary of the Housing Market and Mortgage Performance in South Carolina

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Introduction

This document provides a summary of the housing market and mortgage performance in South Carolina. The first section provides background information on South Carolina's housing stock and how it has evolved during the past decade. The second section offers data on the size and composition of the South Carolina mortgage market. The third section reports mortgage performance in the area. The fourth section details the role of non-owner-occupied housing units in the state's current and future mortgage market. The last section summarizes the document. Finally, an appendix lists more detailed information about mortgage composition and performance at the MSA level.

Section 1: Housing Background

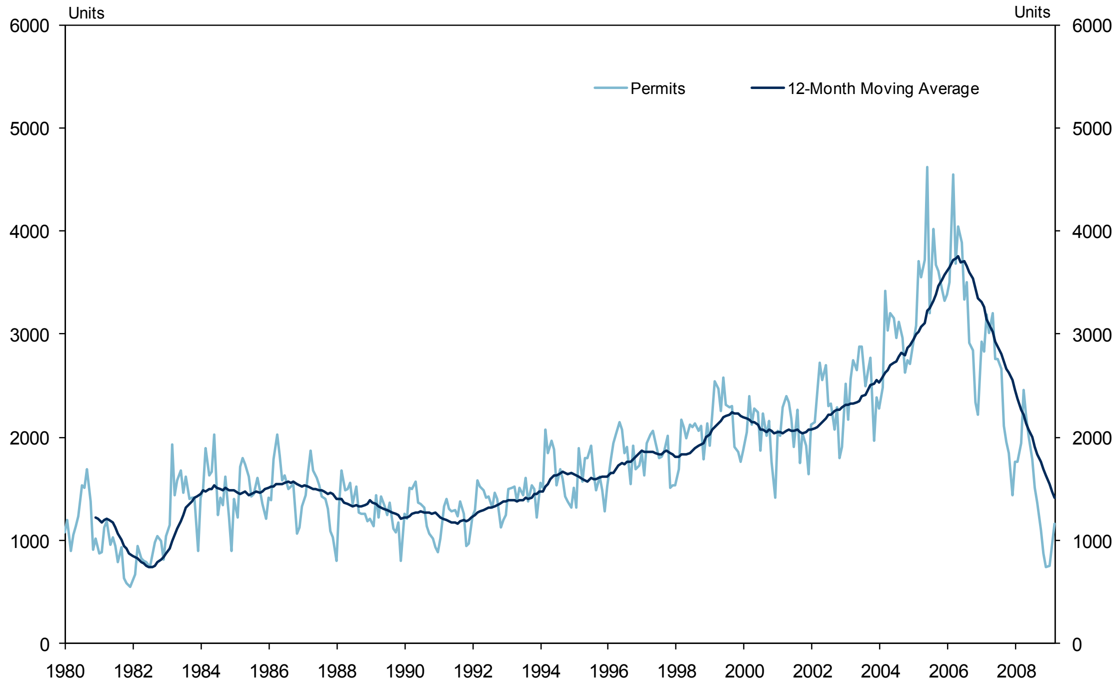
Supply

The number of single-family building permits issued in South Carolina rose every year from 2000 to 2005 (Figure 1). During 2005, 42,916 permits were issued – the most on record for any given year in the state. During 2008, however, only 19,533 permits were issued, which was the lowest level since 1995. The Census Bureau's American Community Survey estimates that in 2007 there were 1,702,564 occupied housing units in South Carolina, of which 70.0 percent (1,192,466) were owner-occupied. According to these data, the total number of housing units rose 15.3 percent in South Carolina between 2000 and 2007.

There has been some recent evidence of excess housing supply in South Carolina. The National Association of Realtors' months' supply of homes measure[1] has been climbing steadily in the Charleston metro area since the second quarter of 2005. In the third quarter of 2006, the measure moved above six months – a common threshold for sluggish sales – and by the first quarter of 2009, months' supply in Charleston hit a series high at 19.9 months. Months' supply also increased continually in the Greenville and Columbia metro areas: in the first quarter of 2009, the measure posted a record high 16.1 months in the Greenville metro area and a near-record of 12.1 months in the Columbia MSA. South Carolina's homeowner vacancy rate, meanwhile, rose to a record high of 3.1 percent in 2007 and 2008, but fell considerably to 1.9 percent in the first quarter of 2009.

[1] Months' supply is defined as the number of houses for sale divided by the number of houses that sold in a month. It is a rough measure of how long a house will take to sell.

Figure 1
Single-Family Housing Building Permits
South Carolina



Source: Census Bureau (January 1980-March 2009)/Haver Analytics

Demand

Existing home sales, as measured by the National Association of Realtors, grew steadily in the beginning of the decade, peaking at 115,200 units sold in 2006. Activity was still strong in 2007, with 105,000 units sold, although sales fell to 80,300 units in 2008. There were a number of factors contributing to this rise in home sales. The population in South Carolina age 25 years and over, increased 12.4 percent from 2000 to 2007. The state's nonfarm employment grew steadily from 2003 through 2007, with 140,400 net jobs added over the five-year period. Real personal income growth also accelerated with annual growth of around 1.0 percent in 2001 through 2003, moving to 3.2 percent in 2004, 2.8 percent in 2005, 5.2 percent in 2006, and 2.8 percent in 2007.

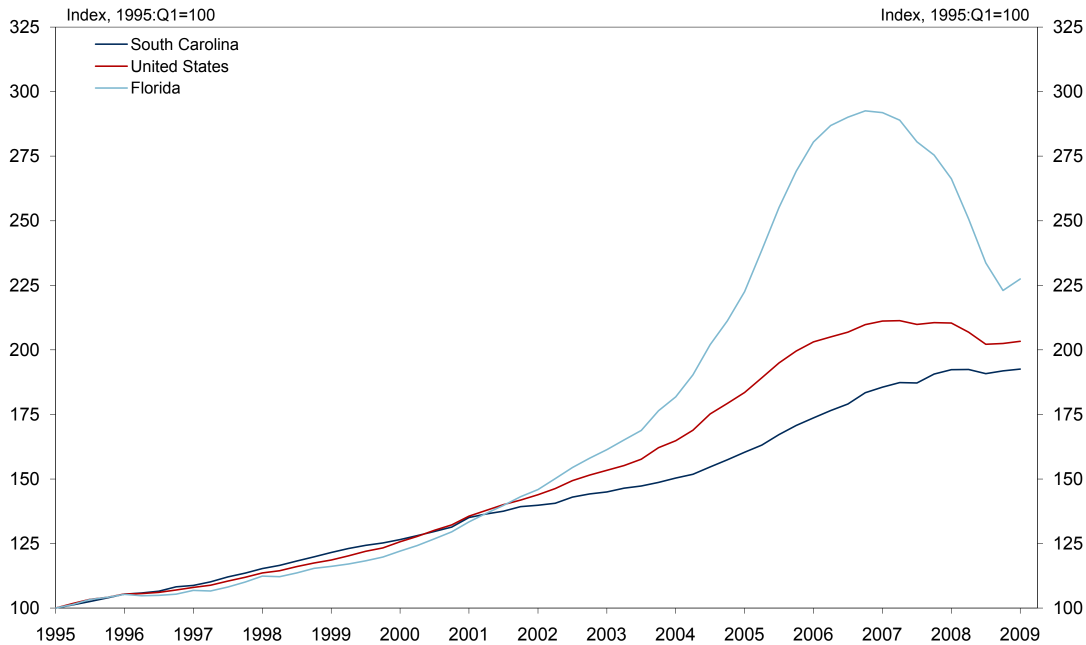
Furthermore, more liberal and innovative lending practices increased credit access to many borrowers previously unable to qualify for mortgages. The new mortgage products, relaxed underwriting standards, and lower interest rates prevalent throughout the nation also helped more South Carolina residents buy homes. The effective rate on conventional mortgages[2] in the state, according to the Federal Housing Finance Board, has trended downward in the past few years. The rate was between 7 percent and 11 percent throughout the 1990s, but has remained below 7 percent since 2001 – falling as low as 5.7 percent in 2003.

[2] The effective rate is the contract rate plus fees and charges amortized over a 10-year period.

House Prices

Research indicates that declines in house prices, even more than unemployment, are the most important factor in mortgage delinquencies and foreclosures.[3] As long as house prices do not drop, a borrower will typically have at least some equity in his house and can sell it to avoid foreclosure in the event of cash-flow problems. However, when house prices decline, fewer borrowers will have an equity cushion to fall back on, increasing the likelihood of default.

Figure 2
FHFA House Price Index
South Carolina



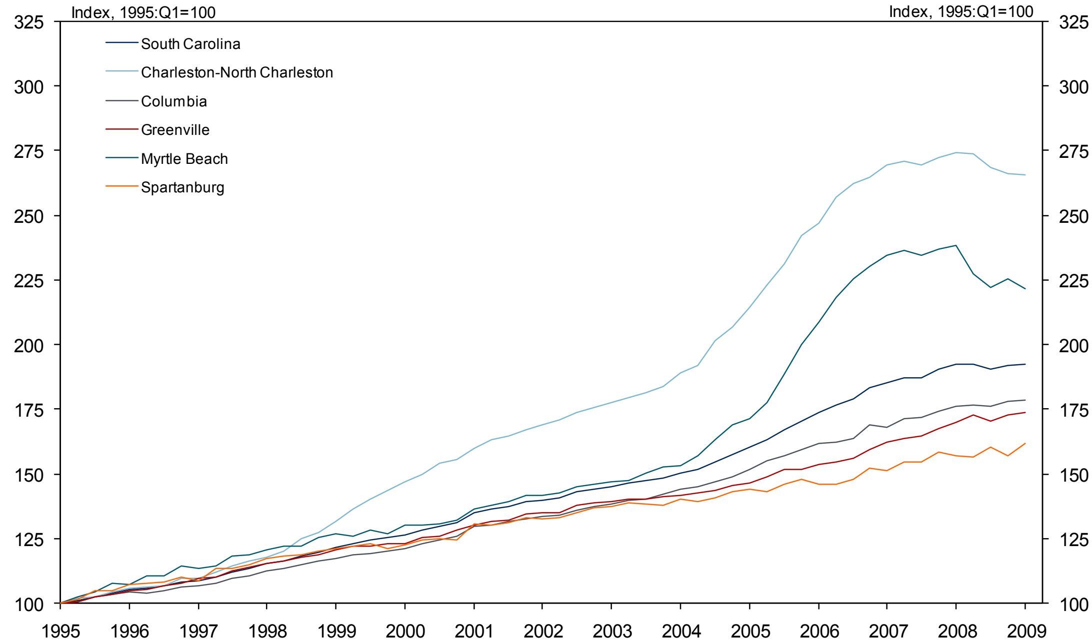
Source: Federal Housing Finance Agency (formerly OFHEO)/Haver Analytics

As indicated in Figure 2, house prices in South Carolina, according to the Federal Housing Finance Agency (FHFA), did not appreciate as much as they did in other areas of the Fifth District and the nation. Correspondingly, they have not fallen as steeply. In fact, house prices in South Carolina have not fallen on a year-over-year basis since 1984, although the 0.1 percent growth over the year ending in the first quarter of 2009 is the slowest growth on record.

There has been considerable variation, however, in house price movement within South Carolina. Figure 3 shows the FHFA house price index for the state's metropolitan statistical areas (MSAs). The Charleston and Myrtle Beach MSAs saw the steepest growth and, subsequently, the steepest declines in house prices. From the first quarter of 2003 to the first quarter of 2008, house prices in Charleston grew 54.7 percent and prices in Myrtle Beach grew 62.2 percent. Since the first quarter of 2008, Charleston prices have fallen 3.2 percent while prices in Myrtle Beach have declined 7.1 percent.

[3] See, for example, Doms, Mark, Fred Furlong, and John Krainer, "Subprime Mortgage Delinquency Rates," Federal Reserve Bank of San Francisco Working Paper 2007-33, November 2007, and Foote, Christopher, Kristopher Gerardi, and Paul S. Willen, "Negative Equity and Foreclosure: Theory and Evidence," Federal Reserve Bank of Boston Public Policy Discussion Papers Series, Paper No. 08-3. (2008).

Figure 3
FHFA House Price Index
South Carolina Metro Areas



Source: Federal Housing Finance Agency (formerly OFHEO)/Haver Analytics

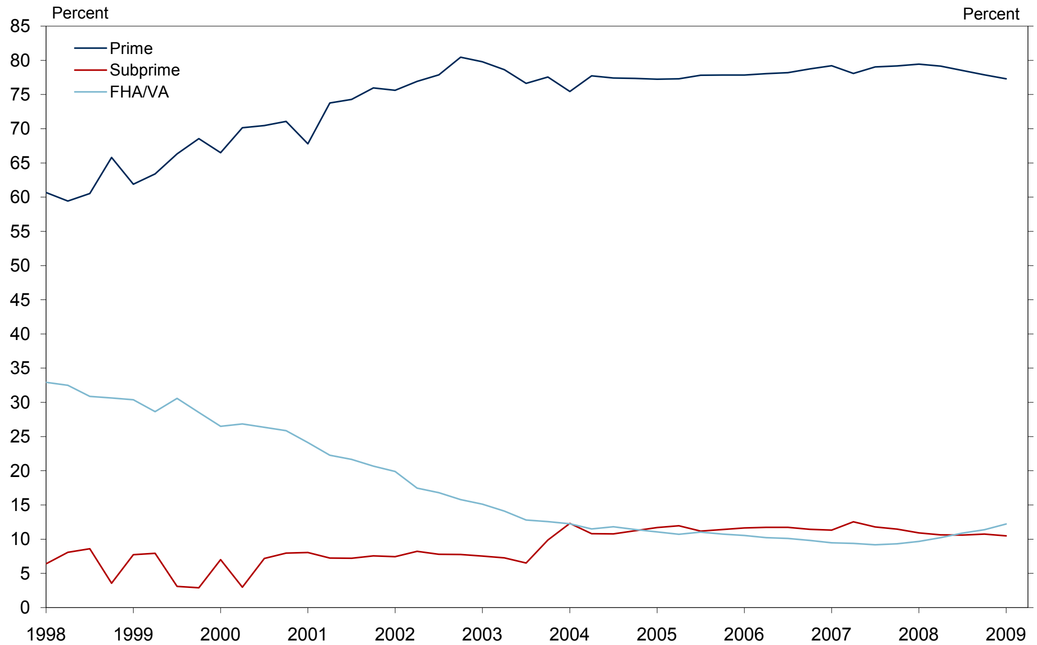
Section 2: Mortgage Composition

Generally, mortgages are classified as either prime or nonprime. Prime mortgages are made to borrowers with strong credit backgrounds. The nonprime mortgage sector is often broken up into the subprime and Alt-A categories. Subprime mortgages are those made to people with poor credit scores; often, a FICO score[4] below 620 is used to identify one of these mortgages. Alt-A loans, on the other hand, are "near-prime" mortgages made to borrowers with good credit scores but that contain other risk factors, such as relaxed underwriting (e.g., low documentation of the borrower's income or a high loan-to-value ratio) or risky loan characteristics (e.g., interest-only or negative-amortization features).

According to the Census Bureau, 64.9 percent of the 1,192,466 owner-occupied housing units in South Carolina had an active mortgage in 2007 – lower than the U.S. rate of 68.4 percent. Using the Lender Processing Services Applied Analytics (LPS) mortgage dataset, and scaling to account for this dataset's approximate coverage, we estimate that South Carolina had about $140 billion of mortgage debt in March 2009, which accounted for 1.3 percent of the outstanding mortgage debt in the nation.

[4] FICO is a commonly used credit score created by the Fair Isaac Corporation.

Figure 4
Percent of Mortgages by Type[5]
South Carolina



Notes: Federal Housing Administration (FHA) and Veterans Affairs (VA) mortgages partially protect lenders against losses in case of default.
Source: Mortgage Bankers Association (MBA) National Delinquency Survey (2009:Q1)/Haver Analytics

Although subprime mortgages have been originated for more than two decades,[6] the volume of these mortgages appeared to increase around 2002 and 2003.[7] Figure 4 shows the fraction of subprime loans in South Carolina as measured by the MBA survey. They reached a peak of 12.5 percent in the second quarter of 2007. However, even with the rise in subprime lending, Figure 5a illustrates that the majority of outstanding loans remain prime. The overall distribution of mortgage types in South Carolina is similar to that in the United States, although subprime loans accounted for a slightly smaller fraction of total loans in South Carolina (10.5 percent) compared to the nation (11.7 percent) in the first quarter of 2009.

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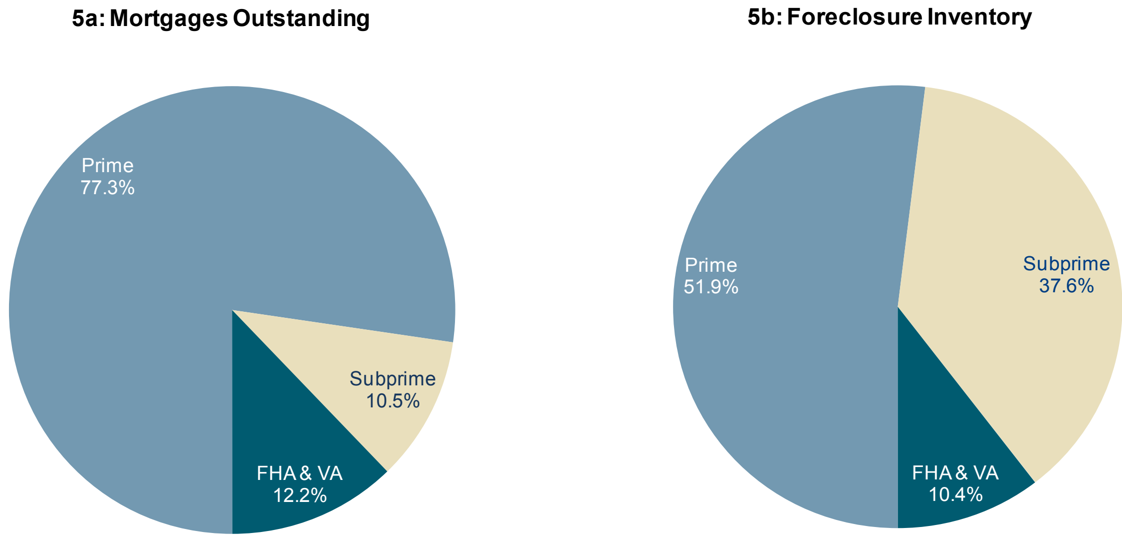
[5] The MBA National Delinquency Survey and the LPS dataset do not have a separate category for Alt-A mortgages, so in both cases Alt-A loans can be in either the prime or subprime category.
[6] Ben S. Bernanke, "The Subprime Mortgage Market," speech delivered at the Conference on Bank Structure and Competition, Chicago, Ill., May 17, 2007.
[7] For a variety of reasons, defining the size of the subprime market is difficult. For the best estimates see Mayer, Chris and Karen Pence, "Subprime Mortgages: What, Where, and to Whom." Federal Reserve Board, FEDS Working Paper 2008-29. For convenience, we use the MBA numbers, which are discussed in more detail in footnote 8. The spike in subprime lending in mid-2003 in that graph is due to the addition of a large subprime servicer to their survey at that time.

Figure 5
South Carolina Mortgage Distribution



Source: Mortgage Bankers Association (2009:Q1)/Haver Analytics. Percentages may not sum to 100 due to rounding.

Section 3: Mortgage Performance[8]

Not surprisingly, mortgage performance differs by mortgage type. Much of the foreclosure activity can be attributed to subprime mortgages as their performance has been notably worse. While subprime loans make up a relatively small fraction of outstanding mortgages, they account for a much larger share of the loans in foreclosure. Figure 5b shows that in South Carolina, subprime mortgages accounted for almost 40 percent of all foreclosures as of the first quarter of 2009.

Table 1: Foreclosure Rates by Mortgage Type

	South Carolina		United States
Loan Type	Percent in Foreclosure	National Rank	Percent in Foreclosure
Prime Fixed-Rate	1.41	13	1.46
Prime Adjustable-Rate	4.26	33	7.55
Subprime Fixed-Rate	6.43	21	6.98
Subprime Adjustable-Rate	16.20	26	23.32

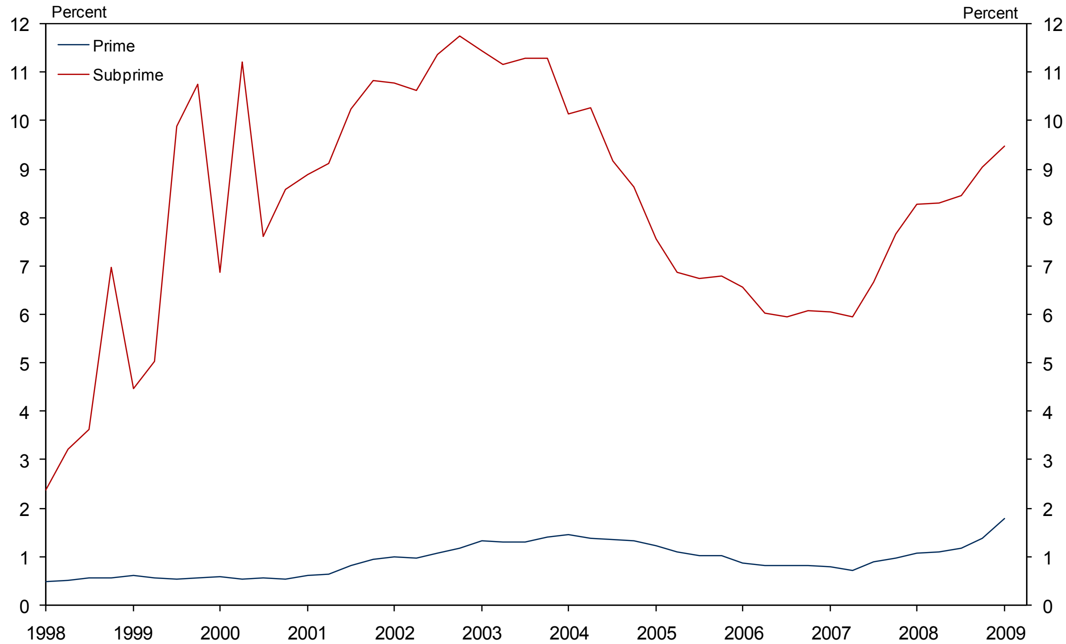
Source: Mortgage Bankers Association (2009:Q1)/Haver Analytics

Mortgage performance also differs by whether the loan is an adjustable-rate or fixed-rate mortgage. Table 1 reports performance for these categories. Subprime adjustable-rate mortgage loans perform substantially worse than all the other categories, including subprime

[8] For mortgage performance data, we use two sources: the MBA National Delinquency Survey and Lender Processing Services Inc. (LPS). The MBA survey has broad coverage, but only provides information down to the state level. The LPS survey is a proprietary loan level database that covers an estimated 60 percent of the market. Its coverage of the prime market is much more extensive than that of the subprime market.

fixed-rate loans. The main reason these loans have performed so poorly is that they seem to have been underwritten based on the expectation of continued home price appreciation.[9]

Figure 6
Foreclosure Inventory Rate by Type
South Carolina



Source: Mortgage Bankers Association (2009:Q1)/Haver Analytics

Prime Loans

As already noted, prime mortgages account for the majority of the outstanding loans in both South Carolina and the United States, and perform better than subprime mortgages. South Carolina's foreclosure rate for prime mortgages is below the national average according to both the LPS measure (1.5 percent) and the MBA measure (1.8 percent).

[9] For more information on differences between subprime adjustable- and fixed-rate mortgages, see Frame, Scott, Andreas Lehnert, and Ned Prescott, "A Snapshot of Mortgage Conditions with an Emphasis on Subprime Mortgage Performance," Manuscript, August 2008.

Table 2
Prime Mortgage Delinquency Rates

Geographic Area	Percent 90+ Days Past Due	National Rank	Percent in Foreclosure	National Rank
District of Columbia	1.61	17	1.54	23
Maryland	2.18	6	1.77	17
North Carolina	1.56	22	0.96	45
South Carolina	1.56	22	1.78	16
Virginia	1.57	20	1.31	36
West Virginia	1.39	28	1.41	32
United States	2.21	--	2.49	--

Source: Mortgage Bankers Association (2009:Q1)/Haver Analytics

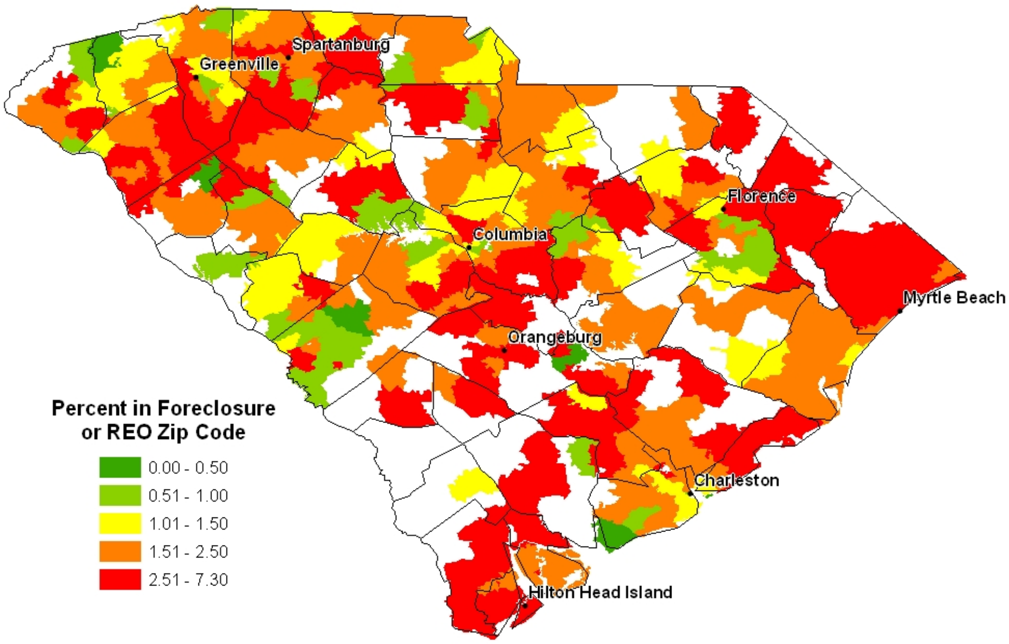
Although in the first quarter of 2009 South Carolina's foreclosure and 90+ day delinquency rates on prime loans were below their national marks (Table 2), each measure posted its highest mark since recording began in 1998. Furthermore, South Carolina's prime foreclosure rate was the highest in the Fifth District.

Figure 7 and Table 6 (see Appendix A) illustrate prime foreclosure and REO rates[10] on owner-occupied units throughout the state using LPS data. The highest prime foreclosure rates in March 2009 were along the coast – the Myrtle Beach metropolitan statistical area and the Hilton Head micropolitan statistical area each recorded a foreclosure rate of 2.2 percent in the month. These two areas also had by far the steepest increase in foreclosures in South Carolina over the past year (1.4 percentage points each). In addition, these coastal areas have seen higher foreclosure rates for the non-owner-occupied borrowers. Non-owner-occupied housing – and its contribution to the current situation in South Carolina – is discussed further in Section 4.

Of the South Carolina zip codes colored red in Figure 7 (greater than 2.5 percent foreclosure/REO), only 14.3 percent have 3,000 or more prime loans while 57.1 percent of the zip codes have fewer than 1,000 prime loans. In other words, although a relatively high percentage of loans in these areas are in foreclosure or REO, the absolute number of prime loans in foreclosure, in many cases, is quite low. In fact, when examining Figure 7 it is important to recognize the low absolute number of loans in many zip codes across South Carolina. A little over 40 percent of the 267 South Carolina zip codes pictured in Figure 7 have fewer than 1,000 total loans and only four percent have more than 10,000 loans.

[10] An REO (Real-Estate-Owned) home is one that has been foreclosed upon but not yet sold.

Figure 7
Percentage of Owner-Occupied Prime Loans in Foreclosure or REO[11]



Notes: FHA and VA loans are included in the count of prime loans. Uncategorized zip codes have fewer than 100 loans or no data available. Over 40 percent of the 267 South Carolina zip codes have fewer than 1,000 total loans; 4 percent (none in the red category) have more than 10,000 loans.
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009), Mortgage Bankers Association (2009:Q1)/Haver Analytics.

Subprime Loans

As illustrated in Figure 5a and shown in Table 3, 10.5 percent of mortgages in South Carolina were subprime in the first quarter of 2009. This ranks South Carolina at number 24 among U.S. states in the prevalence of active subprime loans.

Table 3
Subprime Share of all Loans

Geographic Area	Percent Subrime	National Rank
District of Columbia	8.72	36
Maryland	10.83	19
North Carolina	9.16	33
South Carolina	10.49	24
Virginia	8.49	38
West Virginia	10.85	18
United States	11.36	--

Source: Mortgage Bankers Association (2009:Q1)/Haver Analytics.

[11] Real Estate Owned (REO) properties are in the possession of the lender because of foreclosure or forfeiture.

Table 4 reports the performance of these mortgages. Although the foreclosure and delinquency rates on subprime loans were clearly higher than the rates on prime loans, South Carolina's subprime sector had low delinquency and foreclosure rates compared to the rest of the Fifth District and compared to the nation (although in the past 10 years, South Carolina has generally had a higher foreclosure rate than other District states.) The percentage of subprime mortgages 90+ days past due in South Carolina was the lowest in the Fifth District in March 2009 and even the percentage in foreclosure (9.5 percent) was well below the national rate (14.3 percent).

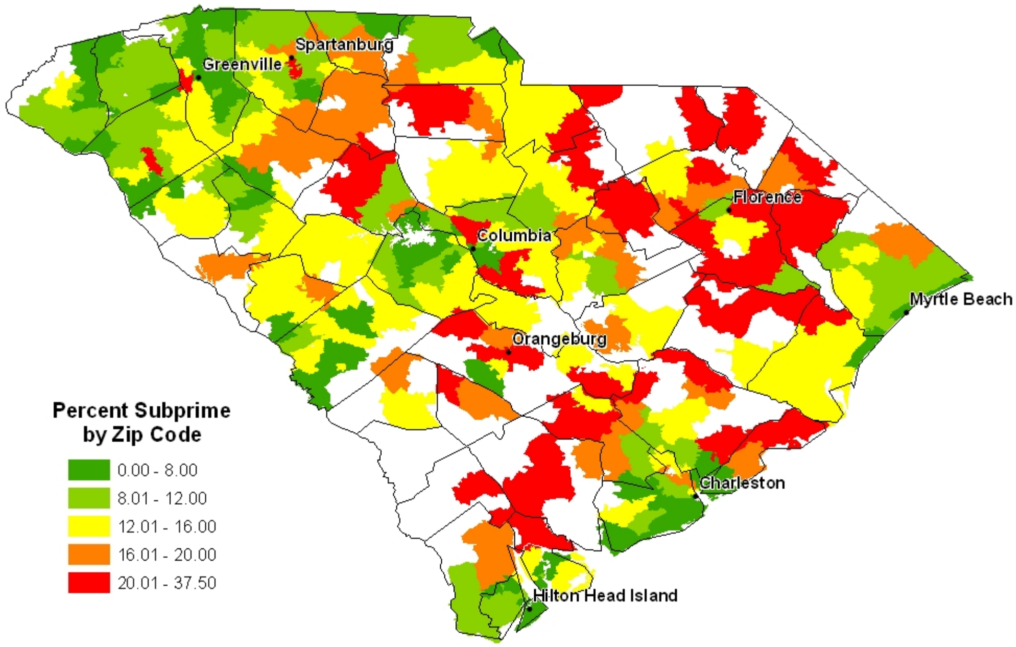
Table 4
Subprime Mortgage Delinquency Rates

Geographic Area	Percent 90+ Days Past Due	National Rank	Percent in Foreclosure	National Rank
District of Columbia	9.59	28	14.16	12
Maryland	11.95	7	13.31	17
North Carolina	9.60	27	5.81	49
South Carolina	8.78	33	9.49	31
Virginia	9.69	25	9.76	27
West Virginia	9.63	26	6.24	44
United States	10.54	--	14.34	--

Source: Mortgage Bankers Association (2009:Q1)/Haver Analytics

As shown in Figure 8, subprime loans are scattered throughout South Carolina, with concentrations in northern Charleston and in the northeastern portion of the state. Although it is important to note the relatively high share of subprime loans in certain parts of the state, we must also recognize the low number of absolute loans in many of those areas. All but one of the counties where the subprime share of the market exceeds 20 percent have fewer than 3,000 loans total. On the other hand, although only 8.3 percent of loans in Charleston County are subprime, the county has almost 80,000 total loans.

Figure 8
Percentage of Owner-Occupied Mortgages with Subprime Loans



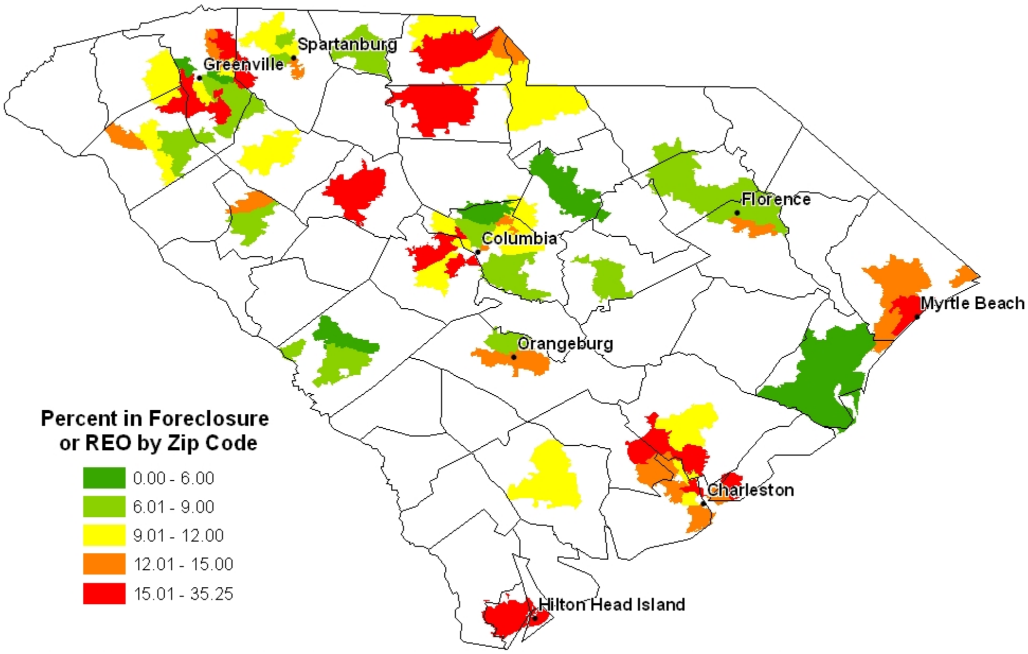
Notes: FHA and VA loans are included in the count of prime loans. Uncategorized zip codes have fewer than 100 loans or no data available.
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009), Mortgage Bankers Association (2009:Q1)/Haver Analytics

Figure 9 uses the LPS data to illustrate the performance of owner-occupied subprime loans in South Carolina for any zip code that contains more than 50 subprime loans. Unlike Table 4, here we report both homes that are in foreclosure those in REO. According to the LPS data, the foreclosure/REO rate for subprime loans in South Carolina was 10.5 percent in March 2009. The foreclosure rate alone for subprime loans in the state increased from 8.1 percent to 9.5 percent between March 2008 and March 2009 (see Table 7 in Appendix A).

As with prime loans, the Charleston, Hilton Head, and Myrtle Beach MSAs saw some of the highest foreclosure/REO rates in the subprime loan market. There were also pockets of high subprime foreclosure rates in Lexington, Newberry, Chester, York, and Greenville counties.[12]

[12] See Appendix D for a map of South Carolina's counties.

Figure 9
Percentage of Owner-Occupied Subprime Loans in Foreclosure or REO



Notes: FHA and VA loans are included in the count of prime loans. Uncategorized zip codes have fewer than 100 loans, fewer than 50 subprime loans, or have no data available.
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009), Mortgage Bankers Association (2009:Q1)/Haver Analytics

Understanding the Past and Moving Forward

It does not appear that the subprime housing sector was the driving force of the economic downturn in South Carolina. First, the share of subprime loans in the mortgage market did not grow in South Carolina in an unprecedented manner as it did in other areas of the country. As stated earlier, although the subprime share of the market peaked at 12.5 percent in the second quarter of 2007, the share was as high as 12.3 percent in the first quarter of 2004.

Second, subprime delinquency and foreclosure rates have not risen as quickly as in other parts of the District. According to MBA data, 8.8 percent of South Carolina's subprime mortgages were 90+ days past due in the first quarter of 2009. This rate is a series high, but it took until the third quarter of 2008 for the measure to rise to unprecedented levels. In the United States as a whole, the 90+ day delinquency rate rose to record levels in the second quarter of 2007; in the District of Columbia and Virginia, the rates reached record highs as early as the first quarter of 2007.

Furthermore, the percentage of South Carolina's subprime mortgages in foreclosure (9.5 percent) has not yet hit a series high. In fact, the rate was between 10 and 12 percent from the third quarter of 2001 through the second quarter of 2004.

Finally, in the first quarter of 2009, homes with subprime loans made up a smaller share of the foreclosure inventory in South Carolina (37.6 percent) than in the United States (42.3 percent) or in other Fifth District jurisdictions such as the District of Columbia (46.6 percent), Maryland (47.4), or Virginia (41.6 percent).

In contrast, South Carolina's prime mortgage market has softened considerably, compared both to other Fifth District states and to its own recent history. As discussed earlier, South Carolina has the highest prime foreclosure rate in the District. Furthermore, according to MBA data, both the number of 90+ day delinquent prime mortgages and the number of prime foreclosures hit their highest marks in the first quarter of 2009.

One reason for the deterioration in the prime mortgage market shown in the MBA data is the inferior performance in non-owner-occupied housing in some of South Carolina's shore communities, which will be discussed in more detail in Section 4. There is also concern going forward that with house price declines in some areas and general recessionary conditions across the state, foreclosures will grow, particularly among Alt-A and/or jumbo mortgages.[13] Generally, borrowers of Alt-A loans have a better credit history than subprime borrowers and thus are more likely to be able to absorb declines in home equity. However, many Alt-A borrowers put little money down for their purchase and had interest-only or negative amortization features in the mortgage in order to afford the payments for the first few years after purchase. In areas where property values have dropped, these loans are particularly likely to end up with negative equity, making foreclosure more likely.

One category of Alt-A mortgages consists of loans that have a period over which only interest payments are required. Using LPS data, Table 5 in Appendix A reports the fraction of mortgages that have interest-only characteristics in South Carolina's MSAs. South Carolina has a much lower percentage of these types of loans than the entire District (4.8 percent versus 8.4 percent). Certain MSAs in South Carolina, however, have a much higher percentage of interest-only loans: in the Hilton Head micropolitan statistical area, these types of loans account for 19.1 percent of all mortgages, while they account for 10.1 percent in the Charleston MSA.

Table 8 reports the performance of interest-only loans for South Carolina MSAs. In the state as a whole, the 90+ day delinquency rate for interest-only loans is more than a percentage point above the prime loan 90+ day delinquency rate (although it is still far below the subprime rate).[14] The Myrtle Beach MSA has the highest rate of foreclosure and REO in the interest-only loan category.

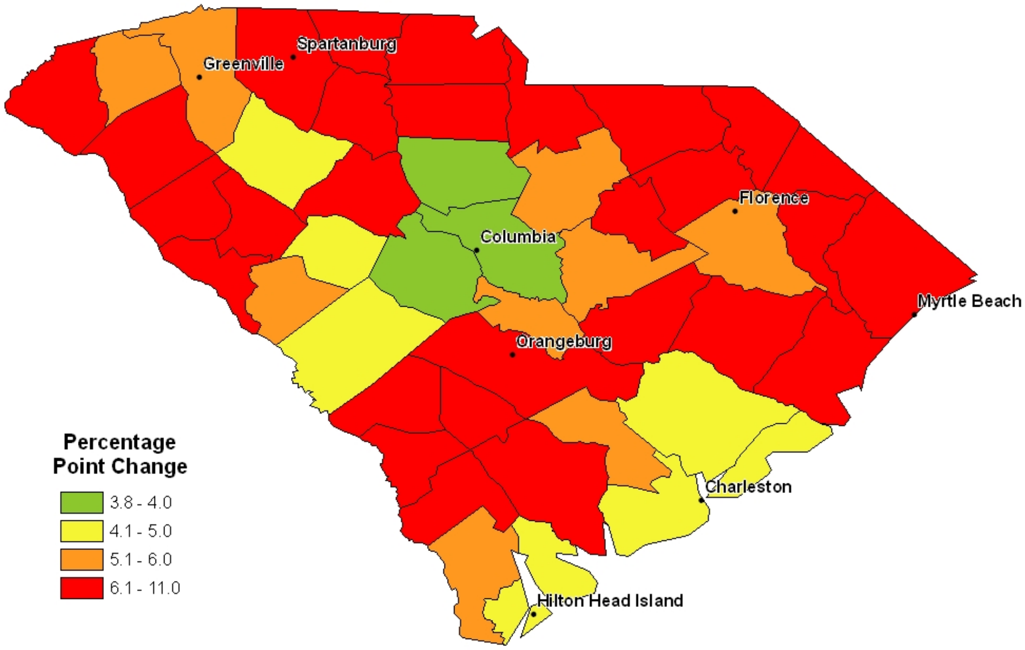
Many people with negative equity in their house still pay their mortgage, although this is much more difficult to do if the borrower faces a negative shock to his income, such as losing a job or incurring an unexpectedly large expense.[15] The unemployment rate is a good proxy for negative income shocks that borrowers potentially face.

The unemployment rate in South Carolina climbed 5.8 percentage points from March 2008 to March 2009, ending the period with 11.3 percent joblessness – the third highest rate in the nation. Figure 10 shows the change in the unemployment rate in each of South Carolina's counties from March 2008 to March 2009. Clearly, labor market conditions have been, and will continue to be a concern for South Carolina's housing markets. Given that house prices have not fallen in most of South Carolina as they have in other parts of the nation, increased

[13] The MBA National Delinquency Survey and the LPS dataset do not have a separate category for Alt-A mortgages. These can be in either their prime or subprime category.
[14] Note that interest-only and VA/FHA loans are included in the prime loan count.
[15] See Foote, Christopher, Kristopher Gerardi, and Paul S. Willen, "Negative Equity and Foreclosure: Theory and Evidence," Federal Reserve Bank of Boston Public Policy Discussion Papers Series, Paper No. 08-3. (2008).

unemployment is likely already contributing to increased delinquency and foreclosure rates, particularly in the noncoastal areas of the state.

Figure 10
Change in the Unemployment Rate



Notes: Twelve-month change is between March 2008 and March 2009
Source: Bureau of Labor Statistics

Section 4: The Role of Non-Owner-Occupied Housing

Non-occupant owners – those who own housing units other than their primary residence – differ from owner occupants in their credit characteristics and their motives, leading to differences in their behavior. Not surprisingly, non-occupant owners tend to have higher income and higher credit scores than owner occupants. However, because non-occupant owners do not live in the home, they tend to put more weight on the (net) profit they can make from rental income and capital gains. Therefore, despite their superior risk credentials, non-occupant owners may be no more likely than owner occupants to make their mortgage payments. In fact, since a non-occupant owner might not face the noninvestment losses associated with foreclosure, such as moving costs, credit impairment effects,[16] or emotional stress, they may be more likely to default on an unprofitable housing investment. This is particularly true for investors, as compared to owners of second homes.

In March 2009, 15.6 percent of foreclosures in South Carolina and 17.0 percent of loans in REO were non-owner-occupied. The only other states with a higher share of non-owner-occupied

[16] This is the case only for investors. If the housing investment is held in a limited liability corporation, then a default would not affect the owner's personal credit rating. (See Haughwout, Andrew, Richard Peach, and Joseph Tracy, "Juvenile Delinquent Mortgages: Bad Credit or Bad Economy," Federal Reserve Bank of New York Staff Reports, Staff Report No.341. (August 2008).)

foreclosures were Florida (19.0 percent), Hawaii (22.9 percent), Idaho (17.2 percent), and Nevada (16.9 percent).[17]

As detailed in Table 10, the coastal South Carolina metro areas have a particularly high percentage of non-owner-occupied loans. In particular, in Hilton Head and Myrtle Beach, 30.6 percent and 41.5 percent of loans, respectively, are not owner-occupied. Charleston also has a relatively high percentage of second homes or investor-owned properties (15.0 percent). Given the generally better risk credentials of non-occupant owners, it is, perhaps, not surprising that more of the non-owner-occupied mortgages are in the prime market. In the Hilton Head MSA, for example, 30.9 percent of prime loans are non-owner-occupied, compared with 12.8 percent of subprime loans. In the Myrtle Beach MSA, 42.1 percent of prime loans are non-owner-occupied, compared with 14.2 percent of subprime loans.

Non-owner/investor properties have higher rates of foreclosure and delinquency than do owner-occupied properties across almost all of South Carolina's metro areas, and certainly in those metro areas with higher shares of investor-owned properties, such as Charleston, Hilton Head, and Myrtle Beach. Second homes are another story, however. In all three of those metro areas, second homes are less likely to be in foreclosure than owner-occupied properties. This finding is not unique.[18] One explanation is that owners of second homes, like investors, tend to have higher incomes and better credit ratings, but also face some of the same noninvestment losses, such as credit impairment or emotional stress, as owner occupants.

It follows from the higher foreclosure rate on non-owner-occupied housing units that those loans make up a sizeable percentage of total foreclosures in certain areas. In the Charleston MSA, non-owner-occupied mortgages make up 13.0 percent of foreclosures and 9.4 percent of loans in REO. In the Hilton Head micropolitan area, 25.1 percent of foreclosures and 15.7 percent of loans in REO are non-owner occupied. In the Myrtle Beach metropolitan area, 39.3 percent of foreclosures are non-owner-occupied, as are 42.7 percent of loans in REO. Delinquency rates foreshadow further problems in this market: 90+ day delinquency rates are 9.4 percent non-owner-occupied in Charleston, 26.5 percent non-owner-occupied in the Hilton Head micropolitan area, and 35.5 percent non-owner-occupied in the Myrtle Beach MSA.

Since house prices in Charleston and Myrtle Beach rose more quickly than in other areas of the state, and Charleston, Myrtle Beach, and Hilton Head are all coastal, it is not surprising that a higher share of properties in those areas are second homes or investor-owned. Given the motives of investors and the subsequent drop in house prices, then, it is also not surprising that those areas have seen higher delinquency and foreclosure rates.

Section 5: Summary

The South Carolina housing and labor markets have progressed somewhat differently than those in the northern areas of the Fifth District such as the District of Columbia, Maryland, and Virginia. Although subprime foreclosures have not risen as quickly and house prices have not fallen as precipitously, unemployment in the state has increased more quickly and to higher levels in South Carolina. In addition, the high share of non-occupant owners along the coastal areas combined with a more rapid house price decline in those areas has led to increased

[17] The high percentage of non-owner-occupied foreclosures does not necessarily mean a high absolute number of those foreclosures. The owner-occupied foreclosure rate in Idaho was 1.8 percent and the rate in Hawaii was 2.0 percent, while the rates in Florida and Nevada were 7.5 percent and 4.7 percent, respectively.
[18] See Haughwout, Andrew, Richard Peach, and Joseph Tracy, "Juvenile Delinquent Mortgages: Bad Credit or Bad Economy," Federal Reserve Bank of New York Staff Reports, Staff Report No.341. (August 2008).

delinquency and foreclosure in the prime mortgage market. If unemployment rates continue to rise and house price depreciation becomes more widespread, we expect to see further deterioration in mortgage markets across South Carolina's prime and subprime markets. The high percentage of interest-only and adjustable-rate mortgages in places like Hilton Head and Charleston may only exacerbate housing problems if labor markets continue to soften in those areas.

For more information on foreclosures, please visit the Richmond Fed's Foreclosure Center at http://www.richmondfed.org/community_development/foreclosure_resource_center/

The views expressed in this article are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Richmond or the Federal Reserve System.

Appendix A: Metropolitan Area Data

Table 5
General Housing Statistics

Geographic Area	Housing Units: Total	Housing Units: Vacant	Housing Units: Occupied	Owner-Occupied: Total	Owner-Occupied: With a Mortgage	Percent of Owner-Occupied Mortgages With: Prime Loan	Subprime Loan	Adjustable Rate	Interest Only
Anderson	82,303	12,187	70,116	52,622	34,262	89.54	10.46	6.08	1.82
Augusta-Richmond									
Entire MSA	227,764	27,632	200,132	138,672	94,031	-	-	-	-
SC Portion	-	-	-	-	-	90.78	9.22	5.22	1.68
Charleston	282,353	39,446	242,907	162,187	115,422	90.41	9.59	16.50	10.09
Charlotte-Gastonia									
Entire MSA	708,149	69,440	638,709	429,931	338,251	-	-	-	-
SC Portion	-	-	-	-	-	91.61	8.39	10.44	4.67
Columbia	310,878	32,184	278,694	193,388	137,210	89.57	10.43	7.52	2.24
Florence	84,253	10,562	73,691	50,487	29,691	84.28	15.72	6.45	1.16
Greenville-Maudlin	268,538	30,115	238,423	165,076	109,531	91.25	8.75	8.54	2.53
Hilton Head Island	88,811	22,183	66,628	46,343	31,291	91.13	8.87	26.19	19.12
Myrtle Beach	168,099	58,507	109,592	79,994	50,503	90.44	9.56	11.46	5.64
Spartanburg	120,682	16,197	104,485	77,449	48,061	87.95	12.05	7.68	2.45
Sumter	45,038	5,593	39,445	26,042	14,420	88.02	11.98	6.43	1.35
South Carolina	2,022,033	319,469	1,702,564	1,192,466	774,384	89.51	10.49	10.44	4.81
Fifth District	12,904,601	1,661,582	11,243,019	7,766,133	5,395,627	90.44	11.68	14.40	8.35

Notes: FHA and VA loans as well as interest-only loans are included in the count of prime loans.
Source: Housing units are 2007 estimates from the Census Bureau. Mortgage estimates are Federal Reserve Bank of Richmond calculations using data from Lender Processing Services (LPS) Applied Analytics (March, 2009) and Mortgage Bankers Association (2009:Q1)/Haver Analytics.
Definitions of the metropolitan areas are provided in Appendix B.

Table 6
Owner-Occupied Prime Loan Statistics

	March, 2008		March, 2009		
Geographic Area	Percent 90+ Days Past Due	Percent in Foreclosure	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO
Anderson	1.08	1.24	2.37	1.65	0.64
Augusta-Richmond*	1.08	0.50	1.85	0.91	0.26
Charleston	0.97	0.68	2.06	1.49	0.23
Charlotte-Gastonia*	1.24	0.59	2.65	0.88	0.33
Columbia	1.38	0.96	2.38	1.29	0.33
Florence	1.31	1.00	2.40	1.26	0.38
Greenville-Maudlin	1.03	0.92	2.03	1.34	0.42
Hilton Head Island	0.64	0.73	2.21	2.15	0.62
Myrtle Beach	0.91	0.86	2.34	2.22	0.68
Spartanburg	1.20	0.98	2.24	1.54	0.52
Sumter	1.62	1.13	2.88	1.38	0.43
South Carolina	1.15	0.88	2.26	1.47	0.39
Fifth District	1.00	0.56	2.24	1.16	0.43

*Only the South Carolina portion of these MSAs is included here.
Notes: FHA and VA loans as well as interest-only loans are included in the count of prime loans. REO numbers for 2008 are not included due to changes in coverage
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009) and Mortgage Bankers Association (2009:Q1), and Haver Analytics.

Table 7
Owner-Occupied Subprime Loan Statistics

	March, 2008		March, 2009		
Geographic Area	Percent 90+ Days Past Due	Percent in Foreclosure	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO
Anderson	6.32	7.09	12.06	8.51	2.60
Augusta-Richmond*	6.11	6.99	12.57	5.31	1.40
Charleston	9.07	7.79	16.46	10.99	2.30
Charlotte-Gastonia*	9.68	8.39	14.35	11.25	1.97
Columbia	8.59	8.66	15.83	9.06	1.86
Florence	10.12	6.48	17.65	7.44	0.52
Greenville-Maudlin	7.24	8.56	11.23	9.61	2.84
Hilton Head Island	8.52	7.22	17.85	11.67	2.29
Myrtle Beach	7.75	8.39	16.71	13.19	2.35
Spartanburg	9.55	7.01	15.72	8.38	2.32
Sumter	11.00	8.41	18.60	8.68	0.83
South Carolina	8.43	8.07	15.12	9.47	2.12
Fifth District	9.82	4.53	17.95	7.55	2.97

*Only the South Carolina portion of these MSAs is included here.
Notes: FHA and VA loans, and interest-only loans, are included in the count of prime loans. REO numbers for 2008 are not included due to changes in coverage.

Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009) and Mortgage Bankers Association (2009:Q1), and Haver Analytics.

Table 8
Owner-Occupied Interest-Only Loan Statistics

Geographic Area	March, 2008 Percent 90+ Days Past Due	March, 2008 Percent in Foreclosure	March, 2009 Percent 90+ Days Past Due	March, 2009 Percent in Foreclosure	March, 2009 Percent in REO
Anderson	0.80	3.20	4.19	3.26	1.40
Augusta-Richmond*	0.49	1.46	1.56	3.65	0.52
Charleston	1.18	1.33	2.95	3.46	0.48
Charlotte-Gastonia*	1.51	1.36	2.98	2.47	0.51
Columbia	1.88	1.65	3.71	3.31	0.74
Florence	3.45	4.83	6.67	5.00	1.67
Greenville-Maudlin	2.00	1.88	3.63	3.40	0.76
Hilton Head Island	0.91	1.33	3.45	4.49	1.26
Myrtle Beach	1.41	2.62	5.20	8.28	2.48
Spartanburg	0.75	2.07	4.39	2.85	0.66
Sumter	1.14	2.27	0.00	5.06	0.00
South Carolina	1.31	1.59	3.44	3.89	0.86
Fifth District	1.93	1.47	4.66	4.66	3.88

*Only the South Carolina portion of these MSAs is included here.
Notes: FHA and VA loans as well as interest-only loans are included in the count of prime loans. REO numbers for 2008 are not included due to changes in coverage.
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009).

Table 9
Unemployment Rates

Geographic Area	Unemployment Rate	Percentage Point Increase from March 2008
Anderson	11.8	6.0
Augusta-Richmond	8.8	3.5
Charleston	9.0	4.6
Charlotte-Gastonia	11.6	6.4
Columbia	8.8	4.0
Florence	11.9	5.8
Greenville-Mauldin	9.7	5.1
Hilton Head Island	8.8	4.5
Myrtle Beach	12.8	7.0
Spartanburg	11.6	6.4
Sumter	13.2	6.0
South Carolina	11.3	5.8
5th District	8.8	4.2

Source: Census Bureau (March, 2009)

Appendix B: Non-Owner-Occupied Data

Table 10
Percent of Loans by Occupancy Type

Geographic Area	All Loans: Percent Second Homes	All Loans: Percent Non-Owner/ Investment	Prime Loans: Percent Second Homes	Prime Loans: Percent Non-Owner/ Investment	Subprime Loans: Percent Second Homes	Subprime Loans: Percent Non-Owner/ Investment
Anderson	3.24	4.69	3.31	4.78	1.11	2.00
Augusta-Richmond*	2.53	4.31	2.58	4.34	1.05	3.41
Charleston	7.25	7.70	7.40	7.80	1.60	4.17
Charlotte-Gastonia*	2.34	3.77	2.40	3.83	0.40	1.85
Columbia	2.32	5.05	2.37	5.12	0.80	2.93
Florence	1.87	3.82	1.89	3.92	1.62	2.10
Greenville-Maudlin	2.23	4.22	2.27	4.25	0.78	2.94
Hilton Head Island	21.54	9.02	21.87	9.07	6.13	6.72
Myrtle Beach	30.63	10.90	31.05	11.04	10.27	3.93
Spartanburg	2.37	4.80	2.42	4.85	0.98	3.30
Sumter	2.08	4.33	2.12	4.38	1.16	3.09
South Carolina	7.84	6.12	8.02	6.21	1.99	3.18
Fifth District	3.71	5.32	3.79	5.36	1.13	3.84

*Only the South Carolina portion of these MSAs is included here.
Notes: (1) FHA and VA loans as well as interest-only loans are included in the count of prime loans.
(2) Percentages do not sum to 100 because the occupancy status on some observations are unknown.
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009).

Table 11
Owner- and Non-Owner-Occupied Total Loan Statistics

	Owner-Occupied Homes			Second Homes			Non-Owner/ Investment Properties		
Geographic Area	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO
Anderson	2.72	1.90	0.71	1.56	0.89	0.00	1.08	3.54	0.77
Augusta-Richmond*	2.18	1.05	0.30	0.00	0.58	0.00	1.87	0.85	0.17
Charleston	2.53	1.80	0.30	0.94	0.87	0.12	1.93	2.05	0.25
Charlotte-Gastonia*	2.36	1.42	0.29	1.74	0.58	0.29	1.08	2.80	0.81
Columbia	2.86	1.56	0.38	1.47	1.58	0.11	2.33	1.30	0.93
Florence	3.25	1.61	0.39	2.29	2.75	0.46	2.02	2.02	0.22
Greenville-Maudlin	2.30	1.59	0.49	0.87	1.67	0.14	2.61	3.18	2.03
Hilton Head Island	2.68	2.43	0.67	1.15	1.17	0.17	4.13	2.98	0.50
Myrtle Beach	2.81	2.58	0.73	1.80	1.85	0.53	2.68	3.08	1.33
Spartanburg	2.80	1.83	0.59	1.55	3.09	0.00	3.72	4.77	1.81
Sumter	3.53	1.68	0.45	4.11	2.05	0.68	1.64	0.99	1.64
South Carolina	2.72	1.76	0.45	1.39	1.44	0.32	2.52	2.46	0.89
Fifth District	2.78	1.38	0.52	1.21	0.96	0.27	2.48	1.93	0.82

*Only the South Carolina portion of these MSAs is included here.

Notes: FHA and VA loans as well as interest-only loans are included in the count of prime (and total) loans.
Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009).

Table 12
Non-Owner-Occupied Prime Loan Statistics

	Second Homes			Non-Owner/ Investment Properties		
Geographic Area	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO	Percent 90+ Days Past Due	Percent in Foreclosure	Percent in REO
Charleston	0.90	0.79	0.08	1.88	1.92	0.21
Hilton Head Island	1.10	1.14	0.15	4.20	2.98	0.51
Myrtle Beach	1.78	1.78	0.52	2.63	2.88	1.28
South Carolina	1.36	1.37	0.30	2.44	2.29	0.86
Fifth District	1.13	0.91	0.26	2.27	1.76	0.75

Source: Federal Reserve Bank of Richmond estimates using data from Lender Processing Services (LPS) Applied Analytics (March, 2009)

Appendix C: MSA Definitions

1. **Anderson, SC MSA –** Anderson County, SC
2. **Augusta-Richmond, GA-SC MSA –** Burke County, GA; Columbia County, GA; McDuffie County, GA; Richmond County, GA; Aiken County, SC; Edgefield County, SC
3. **Charleston, SC MSA –** Berkeley County, SC; Charleston County, SC; Dorchester County, SC
4. **Charlotte-Gastonia, NC-SC MSA –** Charlotte, NC; Gastonia, NC; Concord, NC; Rock Hill, SC; Anson County, NC; Cabarrus County, NC; Gaston County, NC; Mecklenburg County, NC; Union County, NC; York County, SC
5. **Columbia, SC MSA-** Calhoun County, SC: Fairfield County, SC; Kershaw County, SC; Lexington County, SC; Richland County, SC; Saluda County, SC
6. **Florence, SC MSA –** Darlington County, SC; Florence County, SC
7. **Greenville-Maudlin, SC MSA –** Greenville County, SC; Laurens County, SC; Pickens County, SC
8. **Hilton Head Island micropolitan statistical area –** Beaufort County, SC; Jasper County, SC
9. **Myrtle Beach, SC MSA –** Horry County, SC
10. **Spartanburg, SC MSA –** Spartanburg County, SC
11. **Sumter, SC MSA –** Sumter County, SC

Source: Office of Management and Budget, 2008

Appendix D: South Carolina Counties

Appendix E

Loan Processing Services, Inc. Applied Analytics Mortgage Data (LPS Data) does not have as complete coverage of subprime loans as it does of prime loans. To compensate for this, we scaled the LPS subprime and prime data for each locality by common factors such that the LPS totals matched the MBA data at the state level. While this method of dealing with LPS's underrepresentation of loans is far from perfect, it only impacts the figures and tables that report the prevalence of subprime loans within geographic areas of South Carolina. It has no impact on the subprime performance numbers.

The LPS data in this document is subject to revision.