



## THE FEDERAL RESERVE BANK OF RICHMOND

RICHMOND ■ BALTIMORE ■ CHARLOTTE

Post Office Box 27622 · Richmond, VA 23261  
Office 804-697-8000 · [www.richmondfed.org](http://www.richmondfed.org)

### **Mortgage Performance Summary for Virginia, 4<sup>th</sup> Quarter, 2008** **Executive Summary of Findings**

This report analyzes the size, composition and performance of prime and subprime home mortgages in Virginia. It also provides information on trends in Virginia's housing market and an appendix with metropolitan and county level data.

#### **Highlights:**

- Mortgage delinquencies continue to increase across the nation and in Virginia as well. Virginia's mortgages are performing better than the national average, but performance varies considerably across the state.
- Virginia ranks 38<sup>th</sup> in the nation in terms of subprime mortgages. Subprime mortgages account for 8.8 percent of all mortgages in Virginia, compared to 11.7 percent in the nation.
- Foreclosure rates for prime loans, which still account for the majority of home loans, are substantially lower than for subprime loans in both Virginia and the United States.
- Virginia's prime foreclosure rate is 1.0 percent, compared to 9.4 percent for subprime loans. This is substantially lower than the national subprime foreclosure rate of 13.7 percent.
- Declining house prices seem to be a more important determinant of mortgage delinquencies and foreclosures than unemployment rates.
- From April 2007-December 2008, house prices in Virginia decreased by 5.2 percent. This decline coincided with the six largest quarterly increases in delinquent mortgages in the state's history.

#### **Northern Virginia:**

- Northern Virginia has experienced the highest foreclosure rate in the state. As of December 2008, 62.0 percent of prime mortgage foreclosures in the state were located in northern Virginia.
- This region has a slightly lower share of subprime loans than the state overall; 7.1 percent compared to 8.8 percent in the state. Yet, the subprime foreclosure rate in northern Virginia (7.2 percent) is significantly higher than the state's (5.4 percent).
- Prince William County and Manassas have to date experienced the worst conditions in northern Virginia. They have the highest percentage of foreclosures for all types of loans except subprime. Fairfax has experienced the highest rate of foreclosures among subprime loans.
- The significant boom in housing prices over the last decade seems to be the primary driver behind foreclosure problems in northern Virginia. During January 2004-May 2006 house prices *increased* by nearly 50 percent. From May 2006-December 2008 house prices *dropped* by 30.1 percent.
- House price movements in the rest of the state have been less volatile.

- Northern Virginia also has a large share of interest-only loans: 20.0 percent of all owner-occupied mortgages. Again, this is nearly twice the state's average, where 12.2 percent of all owner-occupied mortgages are interest-only loans.

**Danville:**

- Danville may be hit hard by a wave of foreclosures in the near future because of the spike in local unemployment and the prevalence of subprime mortgages.
- The 11.5 percent unemployment rate in Danville (as of December 2008) was more than twice that of the state (5.4 percent). From December 2007 to December 2008 unemployment in Danville increased by 5.6 percent, compared to 2.2 percent in the state.
- Danville has one of the highest concentrations of subprime loans in the state (14.4 percent).
- However, Danville has a relatively small share of interest only mortgages: less than one percent of all owner-occupied mortgages.

**Additional Concerns:**

- Unemployment rates have increased dramatically throughout the state, which suggests that Virginia will continue to experience increasing mortgage foreclosures for some time.
- There is concern that the next wave of foreclosures could come from Alt-A mortgages. Alt-A mortgages are "near-prime" mortgages made to borrowers with good credit scores but other risk factors. Many of these borrowers have invested little initial equity and have loans with interest-only or negative amortization features.
- Interest-only loans are most prevalent in northern Virginia, where they account for 20.0 percent of all mortgages.

The complete *Mortgage Performance Summary for Virginia in Fourth Quarter, 2008* can be found at:

[http://www.richmondfed.org/community\\_development/foreclosure\\_resource\\_center/mortgage\\_performance\\_summaries/va/2008/fourth\\_quarter/index.cfm](http://www.richmondfed.org/community_development/foreclosure_resource_center/mortgage_performance_summaries/va/2008/fourth_quarter/index.cfm)

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