

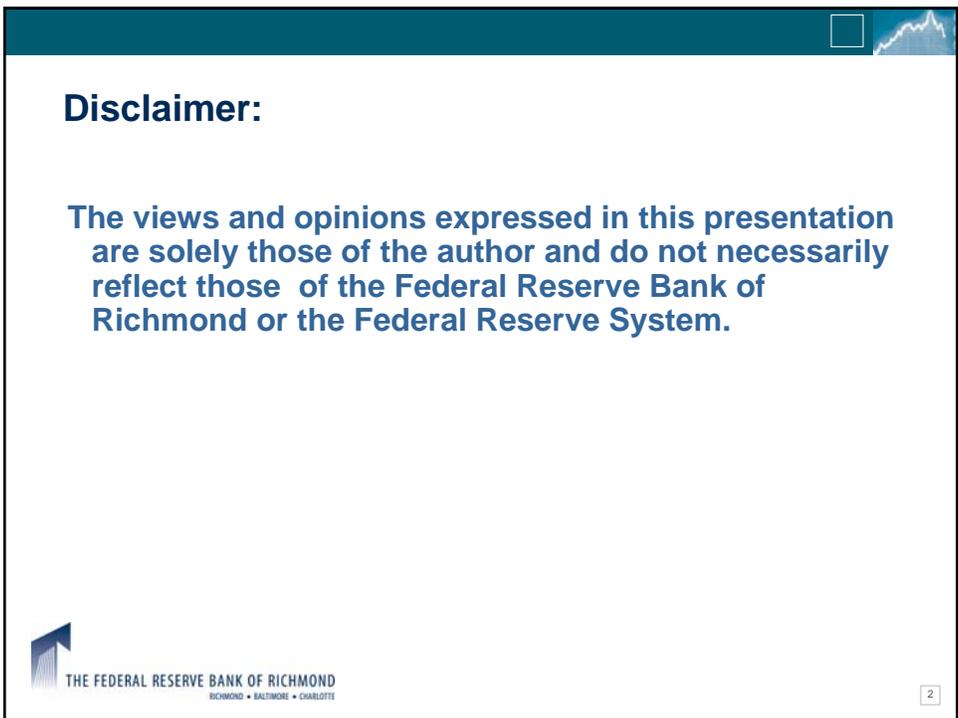
A Survey of Real Estate Conditions  
Longwood University  
September 24, 2008

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This slide features a light beige background at the top with a white square. Below this is a dark teal header bar containing the title, university name, and date. To the right of the text in the header is a white square and a small line graph. The main body of the slide is white and contains the speaker's name and affiliation, a white square, and the bank's logo at the bottom left.



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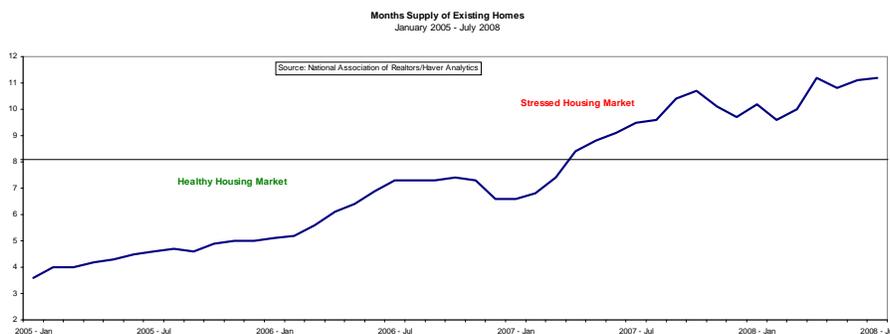
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## The Story...

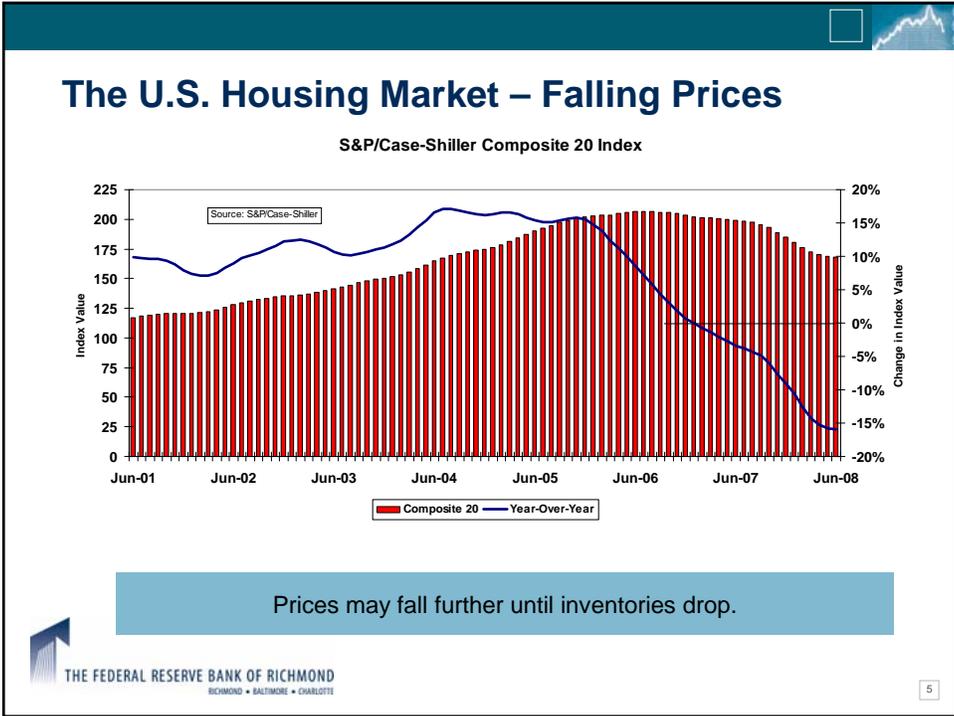
- Where are we?
  - The housing market – still under considerable stress
- How did we get here?
  - One underlying theme
- Where are we headed?
  - Further deterioration in housing and mortgage credit quality likely, with evidence of spillover into other forms of lending

## The U.S. Housing Market – Record Supply



Source: National Association of Realtors

Inventories climbed further in July even though sales increased.



### Virginia House Prices – Mixed Performance

	June 2008	March 2008	December 2007	June 2007
Virginia	-2.60	-0.17	0.68	3.53
Blacksburg/Christiansburg/Radford	1.71	4.55	2.86	5.33
Charlottesville	-0.43	1.13	4.83	4.34
Lynchburg	3.26	3.72	6.17	10.00
Richmond	-0.39	2.25	3.68	6.83
Roanoke	2.52	4.45	4.08	7.68
Va. Beach/Norfolk/Newport News	-0.70	1.48	2.59	5.40
Washington, D.C./Arlington/Alexan.	-9.14	-5.35	-3.42	0.88
Winchester	-9.80	-4.49	-4.56	-2.48

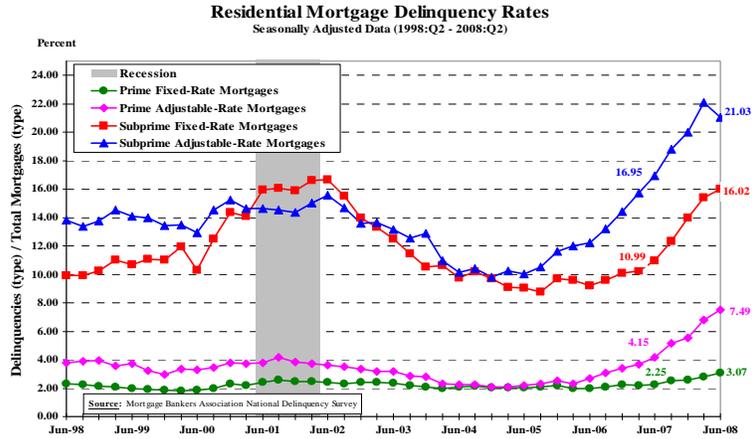
Source: www.oftheo.gov

Not all Virginia MSAs experiencing declining house prices.

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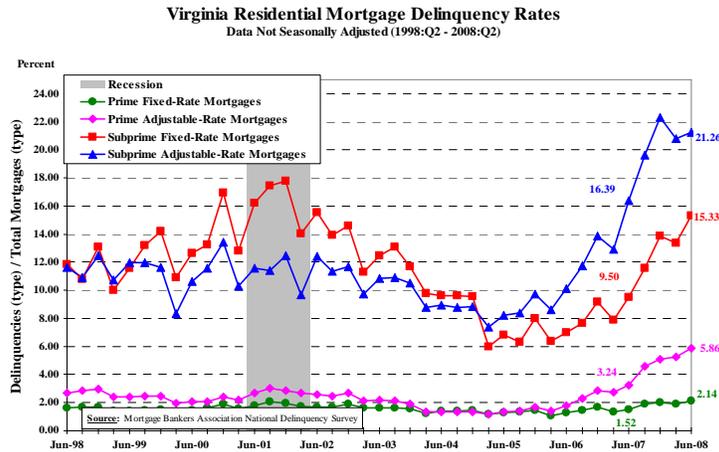
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## U.S. Mortgage Credit Quality – Rapidly Rising Delinquencies



Major subprime problems, but prime loan quality also deteriorating.

## Virginia Mortgage Credit Quality – Delinquencies

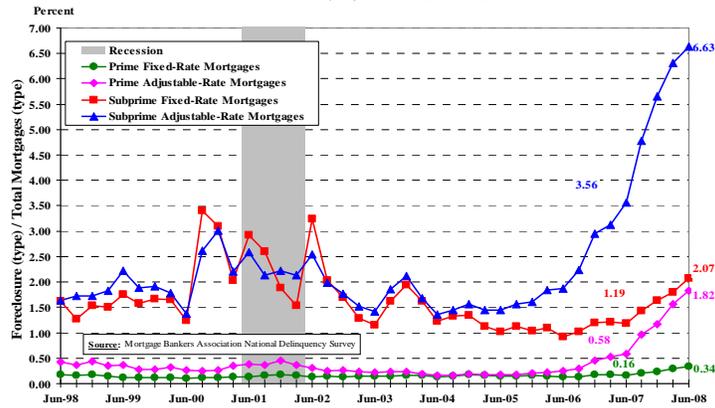


Deteriorating trends, but levels are generally lower than the nation.

## U.S. Mortgage Credit Quality – Unprecedented Foreclosures

Residential Mortgage Foreclosure Rates

Data Not Seasonally Adjusted (1998:Q2 - 2008:Q2)

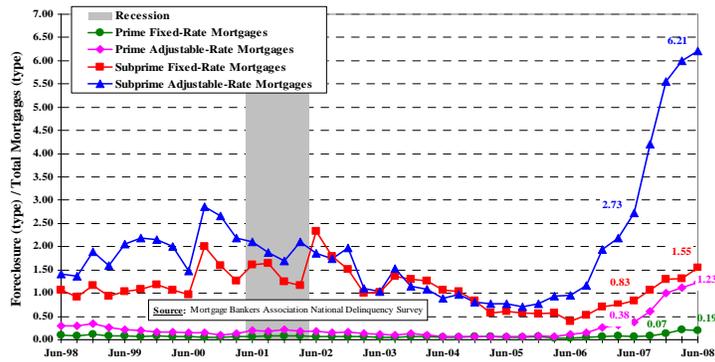


Record foreclosures with subprime leading the way.

## Virginia Mortgage Credit Quality – Foreclosures

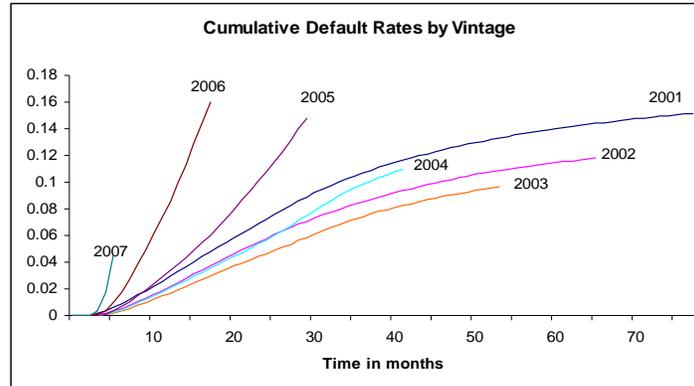
Virginia Residential Mortgage Foreclosure Rates

Data Not Seasonally Adjusted (1998:Q2 - 2008:Q2)



Rapidly rising foreclosures, but still better than the nation as a whole.

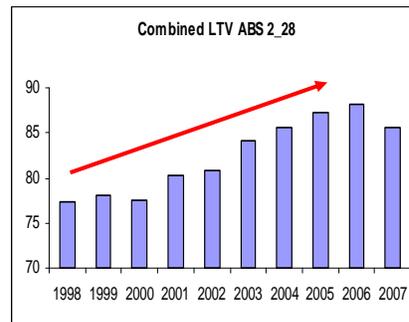
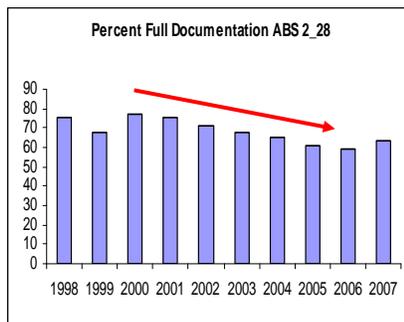
## How Did We Get Here?



Source: Federal Reserve Board calculations using Loan Performance data

Weaker performance at the peak of the housing bubble: Underwriting.

## Underwriting: Documentation and Loan-to-Value



Source: Federal Reserve Board calculations using Loan Performance data

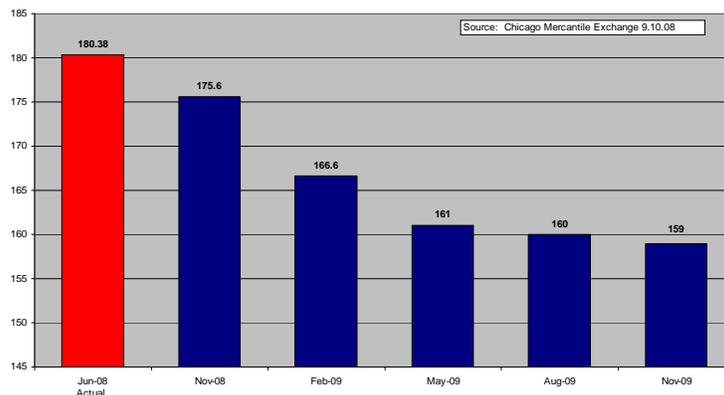
Documentation requirements went down. LTV's went up.

## Underwriting - Where did the “C’s” go wrong?

- Character
  - ✓“Willingness to pay.” A strong credit history demonstrates prudent financial management.
- Capacity
  - ✓“Ability to pay.” Income verification and monthly cash flow establish a basis for sustainable home ownership.
- Collateral
  - ✓Honest, not aggressive, appraisals provide a foundation for home ownership.
- Capital
  - ✓Even a small down payment helps.

## Where Are We Headed?

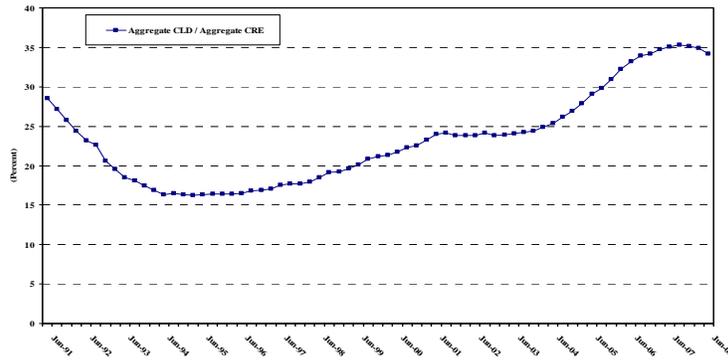
CME Futures on S&P/Case-Shiller Index



It may be a while before housing prices bottom out.

## Spillover - The Commercial Real Estate/ Residential Real Estate (CRE/RRE) Link

Construction and Land Development (CLD) Grows as a Portion of CRE  
1991:Q2 - 2008:Q2

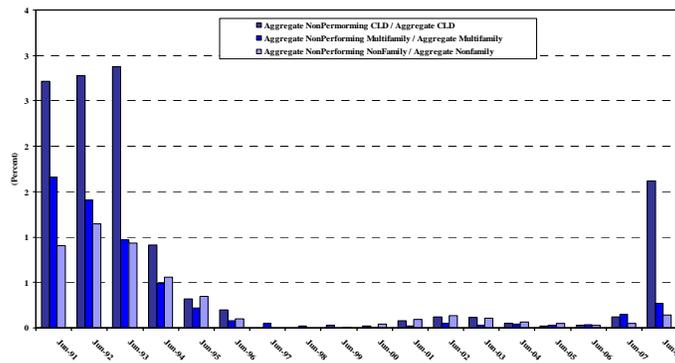


Source: Consolidated Reports of Condition and Income

Construction & Land Development higher than the early 1990's.

## Deteriorating Commercial Real Estate Performance

National Commercial Real Estate (CRE) Chargeoffs  
1991:Q2 - 2008:Q2



Source: Consolidated Reports of Condition and Income

Construction and Land Development fared the worst previously and performance is deteriorating again.

## Recap

- The housing market is characterized by oversupply and falling prices.
- U.S. mortgage loan performance has deteriorated significantly and now has surpassed levels seen at the last recession.
- Virginia's performance has also deteriorated significantly, but still compares favorably to the nation.
- Weakened underwriting standards was a major factor.
- Spillover into commercial real estate (construction and land development) and home equity evident.
- Still not out of the woods yet.

## Questions?

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