



Angelyque Campbell, Community Affairs, speaks at an event on foreclosure, one of the Richmond Fed's efforts to educate District communities on the foreclosure crisis.

The Bank in the Community Foreclosure prevention in the Fifth District

The end of 2008 marked a full year spent in a housing-led recession and financial crisis, which resulted in a record-setting number of mortgage delinquencies and foreclosures. The impact on the overall economy and certain regions in particular has been profound, putting the Fed's relationships with local communities into the spotlight.

The nationwide housing boom that followed the 2001 recession brought about a dramatic increase in mortgage lending throughout the country, particularly in subprime markets. According to the Mortgage Bankers Association, the share of all mortgages classified as "sub-prime" grew from slightly more than 4 percent in the beginning of 2003 for both the Fifth District and the nation as a whole, to more than 14 percent nationally and nearly 11.5 percent for the District at its peak in the middle of 2007.

We now know that several factors led to an extension of mortgages to borrowers who would perhaps otherwise not have received them. Mortgage underwriting standards weakened under the assumption that the housing market boom would continue. Substantial innovations in financial markets, combined with weak incentives for mortgage originators to ensure the viability of mortgages, supported a widespread proliferation of subprime lending. While many of the mortgages extended during this time may have remained sound in an environment of continually rising house prices, homeowners' ability or willingness to stay current on many of them was compromised with the fall in house prices.

When house prices started declining, many homeowners quickly found themselves "under-water," meaning they owed more on their mortgages than their homes were worth. Refinancing was not an option for many because they had little equity in their homes,

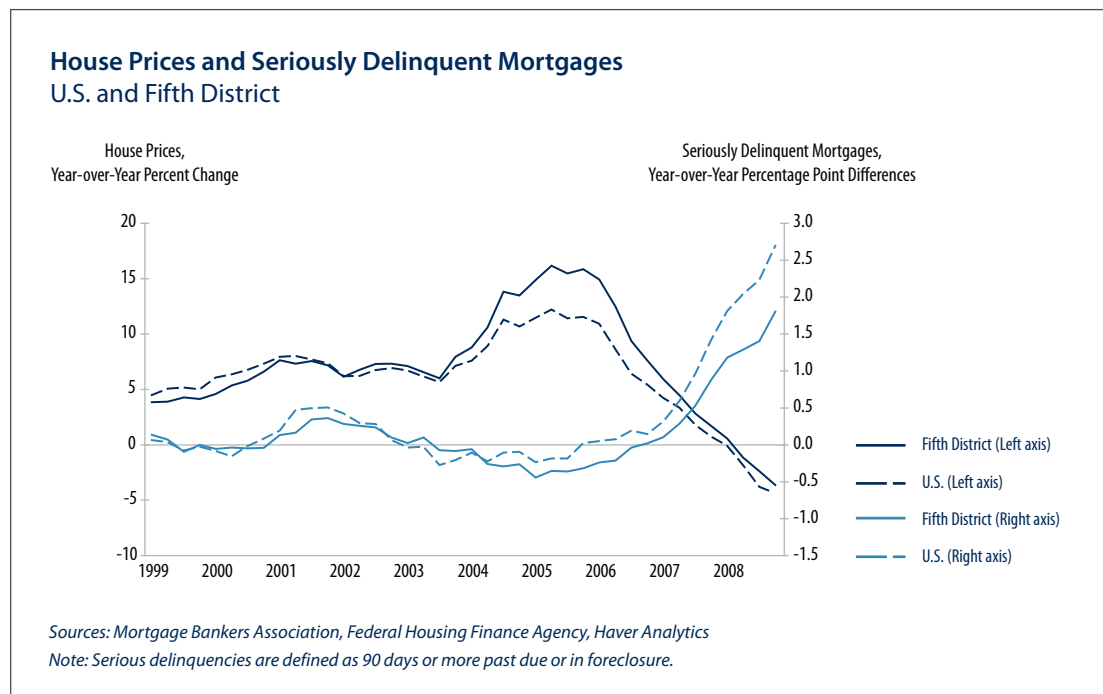
and lenders were less willing to refinance what turned out to be risky mortgages. As shown in the figure below, the declining growth in house prices coincided with a severe spike in delinquencies and foreclosures. House prices nationally dropped more than 4.6 percent from their peak in the second quarter of 2007 through the end of 2008, and in the District fell more than 3.5 percent over the same time period. The share of mortgages nationally that were “seriously delinquent” (90 days or more past due or in foreclosure) multiplied more than two-and-a-half times from the middle of 2007 to the end of 2008, with Fifth District serious delinquencies growing nearly as much.

Because of the severity of the foreclosure problem, the Federal Reserve Board of Governors and regional Reserve Banks joined together to create the Homeownership and Mortgage Initiatives (HMI), a comprehensive national strategy to provide a response to the foreclosure crisis. The HMI leverages the Federal Reserve

System’s substantial knowledge and expertise related to mortgage markets to help policymakers, community groups, and the public deal with the problem.

A focal point of the HMI effort has been to develop a strong base of research and knowledge about the foreclosure crisis, its causes, and its potential spillover effects. One critical aspect of the System’s research efforts has been to identify foreclosure “hot spots” throughout the country, since housing markets can differ drastically within state and even county lines. The Fed has worked extensively to acquire and compile foreclosure and delinquency data to create detailed maps and analyses of regions in the country affected by foreclosures.

Armed with this information, the regional Reserve Banks, including the Federal Reserve Bank of Richmond, have disseminated research and analysis through several strategic avenues. By partnering with community development practitioners, housing counselors, nonprofit



organizations, and local governments, the Richmond Fed hopes to help communities with large numbers of delinquencies to prevent them from going into foreclosure, and in instances where foreclosure cannot be prevented, to help mitigate the costs and spillover effects.

In one key effort in 2008, the Federal Reserve Bank of Richmond partnered with several Fifth District universities to hold a series of forums on “The Widespread Impacts of Mortgage Foreclosures: From Credit Markets to Local Communities.” The forums helped attendees connect broader stories about the economic crisis in the media with the effects of foreclosure evident in local communities. Presentations covered real estate conditions, the widespread impacts of mortgage foreclosures in credit markets and local communities, the role of mortgage services, financial spillovers from

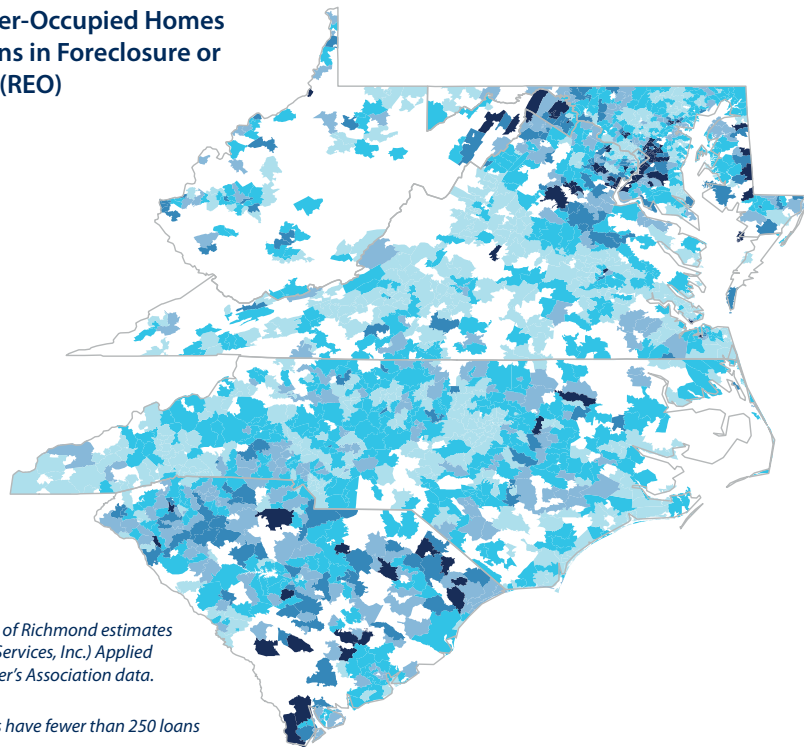
the housing market shakeout, and the Federal Reserve’s response to the housing market downturn. The forums were open to the public, were held in communities that have experienced particularly high rates of delinquencies and foreclosures, and were widely attended.

Local Problems and Local Solutions

The structure of the Federal Reserve System has allowed the regional Reserve Banks to collaborate, with each tailoring its foreclosure mitigation efforts to the needs of the local communities. In the Fifth District, Richmond Fed staff from the Community Affairs, Research, and Banking Supervision & Regulation departments worked together to track local developments and convene with regional stakeholders to share information and explore ways to mitigate foreclosures and their spillover effects.

Percentage of Owner-Occupied Homes with Mortgage Loans in Foreclosure or Real Estate Owned (REO)

- 0.00 - 1.00
- 1.01 - 2.00
- 2.01 - 3.00
- 3.01 - 4.00
- 4.01 - 10.00



Sources: Federal Reserve Bank of Richmond estimates using LPS (Lender Processing Services, Inc.) Applied Analytics and Mortgage Banker's Association data. Data from December 2008.

Note: Uncategorized zip codes have fewer than 250 loans or have no data available.

The Fifth District's economy has, in this recession, generally followed the downward economic trend of the nation, but less severely. Fortunately, the District has never, on balance, seen the same run-up in subprime lending as other hard-hit areas in the country, so the decline in the housing market and the resulting economic struggles have been smaller in magnitude.

Regardless, there are areas within the District that have been heavily affected by the housing market fallout. The accompanying map displays the percentage of all owner-occupied homes with mortgages that are in foreclosure or are "real estate owned" within the Fifth District as of December 2008. Some of these areas, such as much of South Carolina, have high foreclosure rates spread over relatively small populations. On the other hand, two heavily populated counties just outside of Washington, D.C. — Prince William in Virginia and Prince George's in Maryland — are among the hardest hit within the Fifth District and thus have been the focus of recent efforts by the Richmond Fed's Community Affairs and Research departments.

The Federal Reserve Bank of Richmond targeted these communities because of their high incidence of delinquency and foreclosure activity spurred by region-specific conditions. In Prince George's County, the story is largely one of an above-average concentration of subprime lending. By the middle of 2008, the county reported a high number of delinquencies that had not yet progressed to foreclosure, in part because of a moratorium on foreclosures in the state of Maryland. Now that the moratorium has expired, foreclosures have started to rise as well.

In contrast, Prince William County (and the hard-hit neighboring cities of Manassas and Manassas Park) is an area that experienced



Steve Sanderford (left) and Mike Riddle, both of Banking Supervision & Regulation, participate in the forum at Longwood University in Farmville, Va., which helped local regions address spikes in foreclosure.

large increases in housing construction during the boom years. Its Spanish-speaking population was disproportionately affected by the housing downturn, since it relied heavily on the construction industry for employment — the same industry that suffered when housing prices stopped rising, causing residents to flee in search of other opportunities. Overbuilding, the economic downturn, and the rise in gas prices left the Virginia county exposed to delinquencies and foreclosures.

Because numbers don't tell the whole foreclosure story, conducting field work in these affected areas and establishing ongoing relationships with local governments and community development practitioners have helped to qualify the data gathered by Fed researchers about the impact of mortgage delinquency. This will allow prevention resources to be applied to where they are needed most.

For example, in Prince George's and Prince William counties, as well as other communities, the Richmond Fed has sponsored training programs for housing counselors who were formally trained only to get people into homes

— not to help them stay there or find an alternative if avoiding foreclosure was not an option. Prince William County had more than 7,000 properties in foreclosure when Bank staff first visited in the middle of 2008, with only one housing counselor present in the region. Through training seminars sponsored by the Richmond Fed in conjunction with NeighborWorks America, a nonprofit group, Prince William County now has 10 housing counselors trained in foreclosure prevention who are working with affected households to keep them in their homes.

The efforts in Prince William and Prince George's counties show how understanding the regional economic environment is key to identifying how resources should be applied within a region. Further, through these efforts, the Richmond Fed has been able to help assess how likely the crisis is to spill over into neighboring areas, where preventative measures can then be taken.

The Landscape for 2009

The future of the economy is uncertain, but most economists expect housing market strains to persist through much of 2009. The Federal Reserve has expressed its continuing commitment to taking necessary action to avert ongoing economic weakness through monetary policy and other credit mechanisms. In addition, the Fifth District will continue outreach efforts in 2009 to address delinquencies and foreclosures. A number of additional university forums and other outreach events are planned, as well as more training sessions for housing counselors to specialize in foreclosure prevention. Importantly, the relationships established with local communities will include an ongoing discussion of how to assist areas overwhelmed by delin-

quencies and foreclosures.

As one of its final delinquency and foreclosure mitigation efforts of 2008, the Federal Reserve System hosted a research conference on housing and mortgage markets in Washington, D.C., on December 4th and 5th. The Richmond Fed provided important leadership for this event. The agenda included discussions on current research on the mortgage markets, options for loan workouts, and the efficacy of efforts to reduce preventable foreclosures, as well as assessing the spillover effects from foreclosures. Federal Reserve Chairman Ben Bernanke delivered the keynote address and concluded his remarks by reinforcing the Fed's ongoing commitment to reducing preventable foreclosures by actively engaging the community. "Because housing and mortgage markets are tightly interlinked with the rest of the economy, actions to strengthen financial markets and the broader economy are important ways to address housing issues," he said. "By the same token, steps that stabilize the housing market will help stabilize the economy as well."

Fifth District Online Foreclosure Resources

Conferences and Events

http://www.richmondfed.org/conferences_and_events/community_development

Foreclosure Resource Center

http://www.richmondfed.org/community_development/foreclosure_resource_center