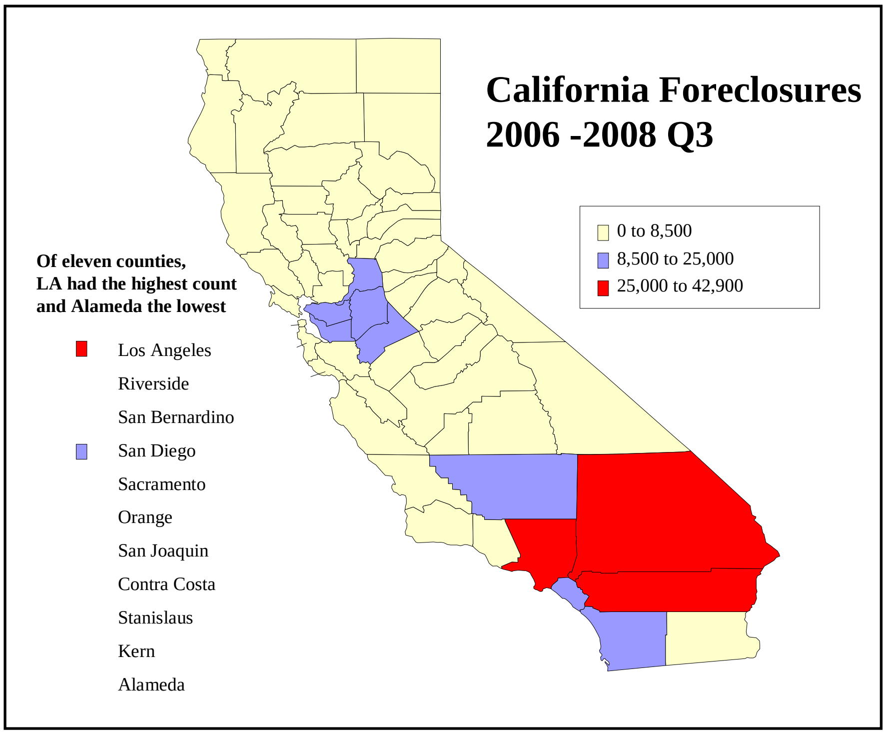
California Research Bureau
Briefly Stated

California Foreclosure Watch
For the Third Quarter 2008

By Rani Isaac, December 1, 2008, for the Assembly Banking & Finance Committee

Please note: A previous CRB report and PowerPoint presentation may provide useful background information.[1] *CRB has been providing updates in various forms to assist the committee members and staff in ongoing deliberations.*

Foreclosures have soared in the past three quarters, according to Data Quick (DQ). The problem has been concentrated in eleven counties (see map). In the spreadsheets accompanying this report, data for 57 counties are available (see Excel Table 2, the spreadsheets can be downloaded in separate files located at foreclosure.xls (Excel) and foreclosure.pdf (PDF). Los Angeles has recorded 42,800 foreclosures in this housing downturn, while the state has lost 288,491 homes to foreclosure since the beginning of 2006. Eleven counties account for 78 percent of the state's foreclosures.

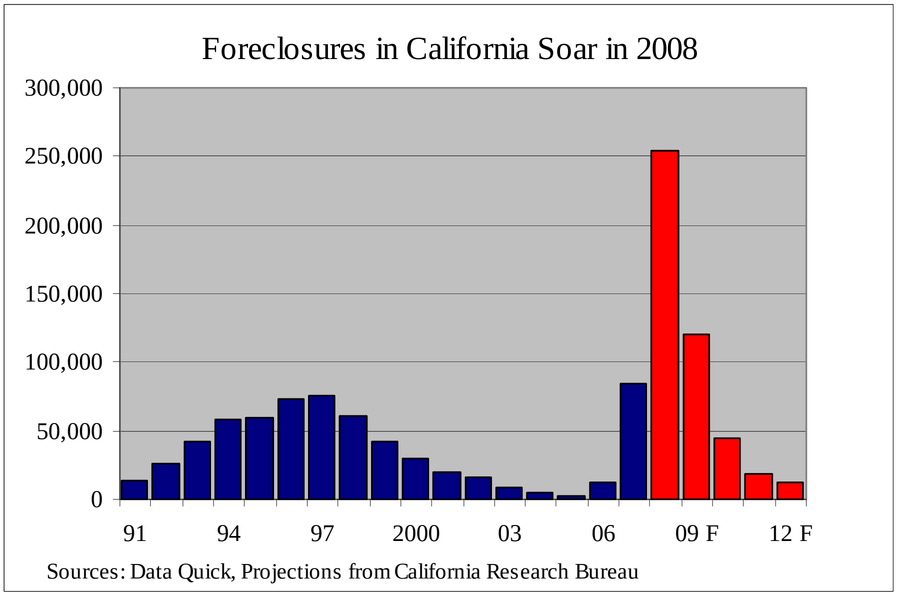


Prices in Los Angeles have been dropping since the peak in 2006. Median existing home prices are expected to decline further in 2009, and begin to recover slowly, beginning in 2010, according to Moody's Economy.com. The situation is similar in the other ten counties. Excel Table 3 shows that statewide median sales prices of homes and condos have dropped 35 percent from 2006 Q1 to 2008 Q3. (Tables 1-3 provide a summary of California projections and county data). Distressed sales are weighing on prices. In the third quarter of 2008, the ratio of foreclosures to sales was 68 percent, and in some counties, such as San Bernardino, foreclosures exceeded sales (with ratios over 100 percent). Because distressed inventory continues to build, projections are getting gloomier. Unfortunately, it may take years for housing markets to regain balance (Excel Table 1 shows two possible scenarios for 2010). The prices reported by Data Quick reflect median sales prices.

[1] The first link will give you access to the author's Sept. 18, 2008 presentation as well as presentations from seven others from a daylong conference: http://www.library.ca.gov/crb/08/foreclosure.html . The second link is for the author's initial report and foreclosure forecast http://www.library.ca.gov/crb/08/08-006.pdf .

According to DQ, the median price for California was $460,000 in Q1 of 2006, and fell to $300,000 in Q3 of 2008, a 35 percent decline. The data probably exaggerate the decline, since the proportions of the different types of sales during the two periods probably differ significantly. The houses sold during a given quarter may not be representative of the overall housing stock and those sold during two different time periods may not be comparable. The Office of Federal Housing Enterprise Oversight (OFHEO) Conventional and Conforming Home Price Index (1980Q1 = 100) is often used as a more reliable measure of price movement, although it may under-represent low-priced homes.[2] According to a recent Moody's Economy.com the forecast, the California OFHEO Index peaked in 2006 at 637, will fall in 2008 to 507 and will continue down in 2009 and 2010, ultimately to 358 (a peak-to-trough decline of 44 percent). That California forecast assumes modest job losses in 2008 of 0.3 percent, and a decline of 0.2 percent in total nonagricultural employment in 2009.

Until job losses abate and home prices stabilize, it will be hard to estimate when the cycle will reach bottom. The Los Angeles-Long Beach-Glendale Metropolitan Division is not expected to bottom out until Q4 of 2009 with prices down from their peak in Q2 of 2006 by over 40 percent. The Sacramento Metropolitan Statistical Area (MSA) is facing a 45 percent peak-to-trough decline, Riverside, a 53 percent decline, and San Diego, a 36 percent decline.[3] In some of these MSAs, prices are sliding faster than expected (see Excel Table 3).



In either Q3 or Q4 of 2008, foreclosures will peak and the cycle will begin to wind down in response to the measures the Federal Reserve Board, various federal agencies, and Congress are taking to address the crisis.[4] After a few more bad quarters through Q2 2009, the loan modification process will be working more smoothly and more families in default or underwater may have a chance of holding on to their homes.[5]

There were 84,757 foreclosures in 2007 and 191,005 in just the first three quarters of 2008, more than double the number in 2007. Altogether, between Q1 of 2006 and Q3 of 2008, there were 288,491 foreclosures statewide. Foreclosures now are likely to exceed 500,000 in the years through 2012 (see chart).[6] The foreclosure problem grew worse in 50 of the state's counties in the third quarter and only a handful of small counties show fewer foreclosures compared to the second quarter.

CRB will continue to post quarterly updates, forecasts and data through next summer. The author invites input and collaboration. She can be reached at risaac@library.ca.gov or by calling (916) 653-7522.

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[2] *Comparing Aggregate Housing Price Measures*, by Jordan Rappaport, Federal Reserve Bank of Kansas City, *Business Economics*, "Focus on Statistics", October 2007, discusses the advantages of numerous types of home price data.

[3] From Moody's Economy.com Household Finances - Special Comment, *Update on U.S. Household Finances*, July 2008, Appendix, pages 14-19.

[4] Federal agencies such as the Federal Deposit Insurance Corp. (FDIC) and the Federal Housing Administration (FHA) of the U.S. Dept. of Housing and Urban Development (HUD) continue to make changes to ease the crisis and promote forbearance by setting standards as lenders or administrators of foreclosure workouts.

[5] Homeowners who owe more on their mortgages than their homes are worth are at higher risk of default and foreclosure.

[6] The foreclosure data does not include short sales or deeds in lieu of foreclosure. Many more homes may be "lost" by these other two routes. Data may also not capture bulk sales by lenders.