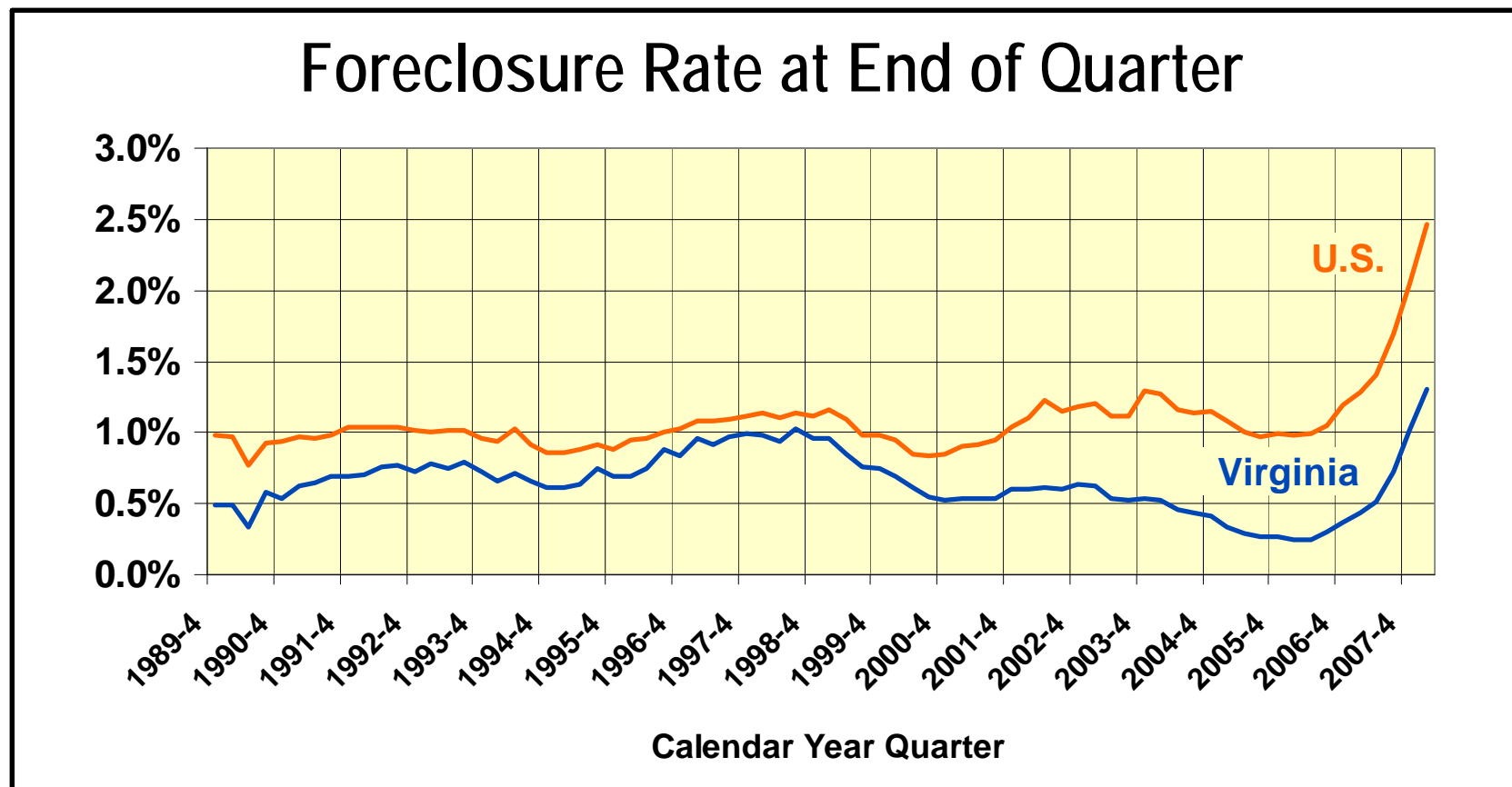


Overview of Virginia's Foreclosure Problem

July 23, 2008

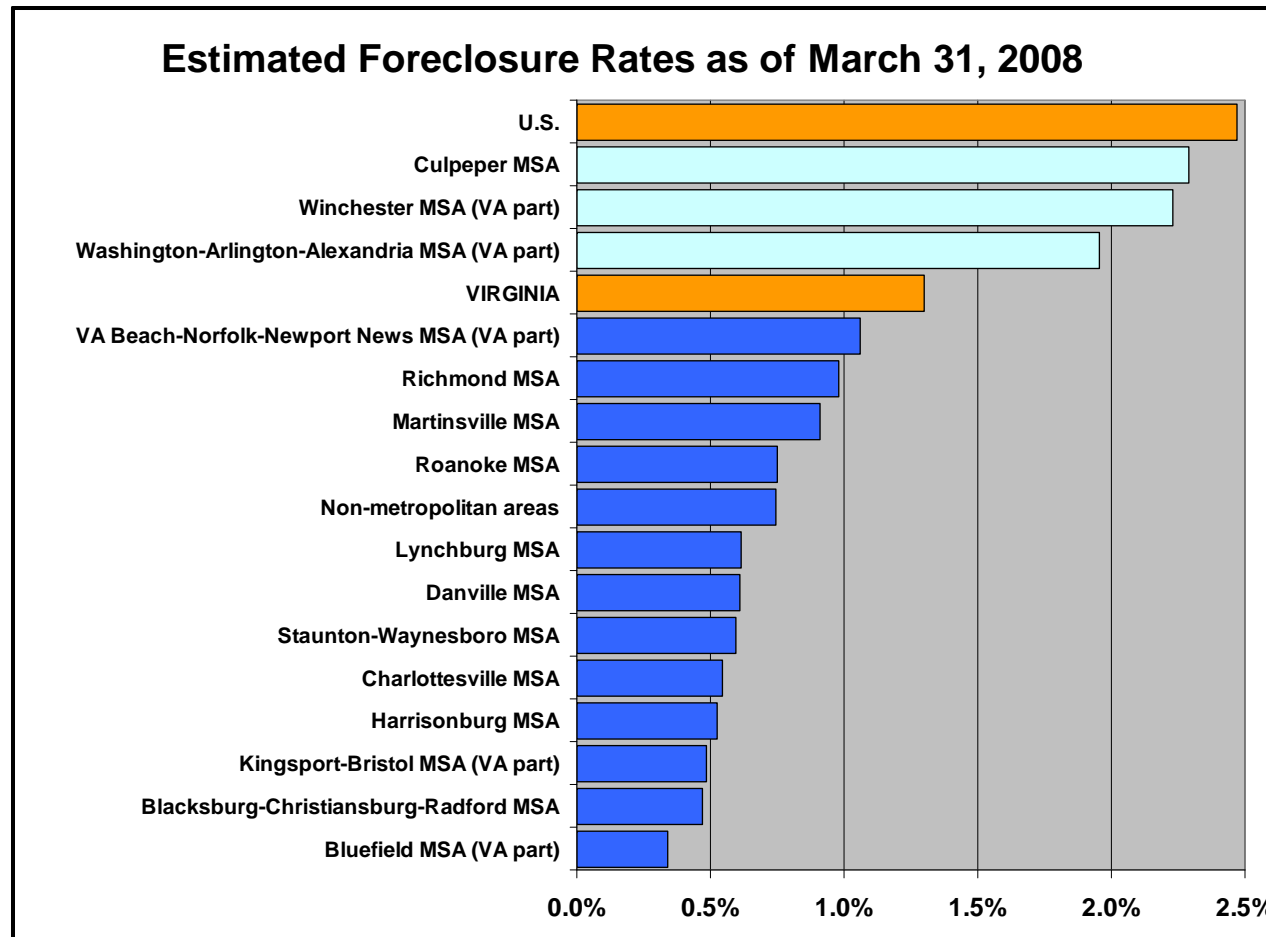
What is the size and extent of Virginia's foreclosure problem?

Virginia's foreclosure rate is nearly half the U.S. rate, but has risen rapidly



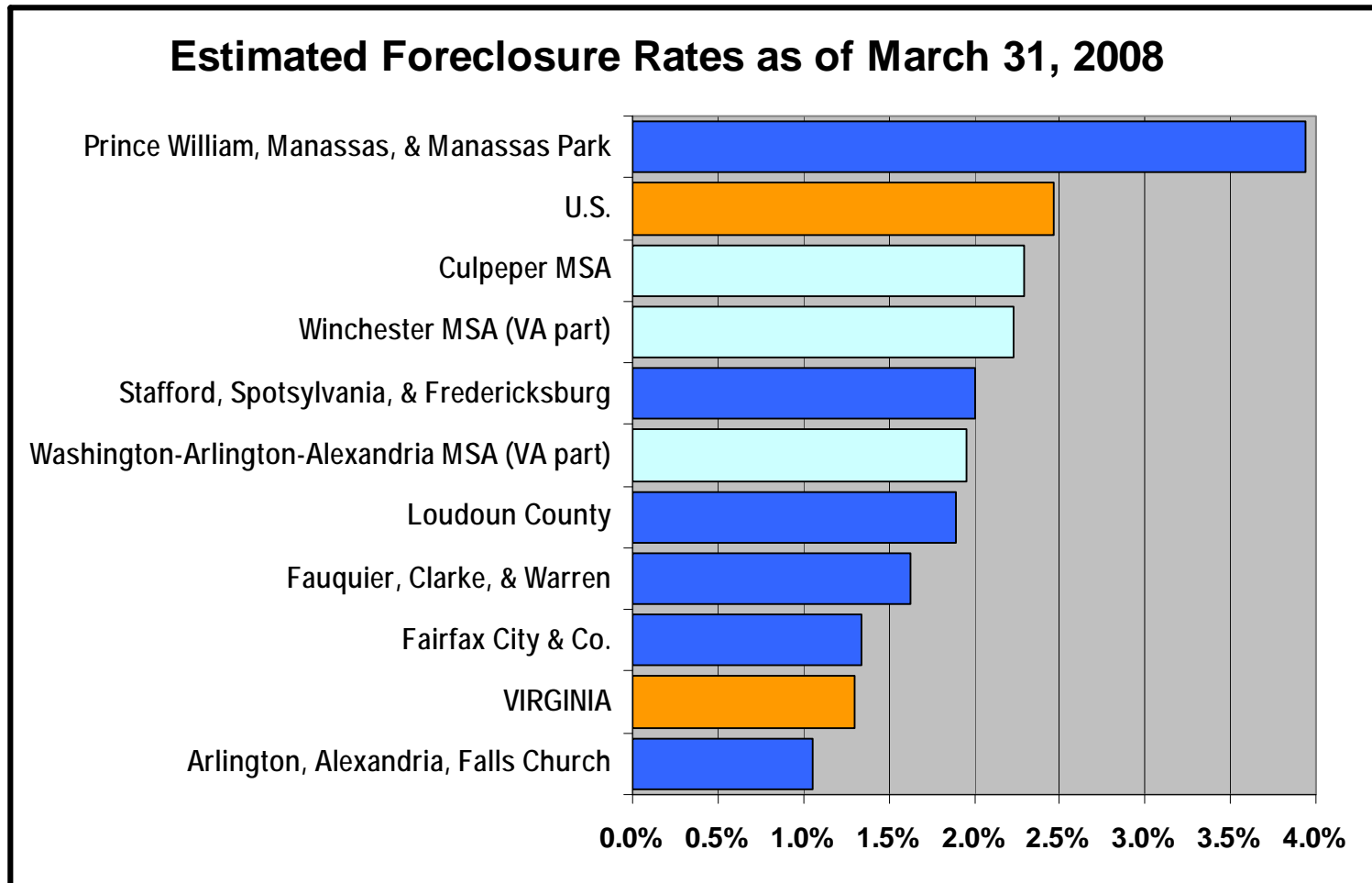
Source: Mortgage Bankers Association (MBA)

Northern Virginia's problem is worse than elsewhere in the state



Area estimates are based on data from the MBA and First American LoanPerformance

But, there is significant variance in rates among localities within NoVA

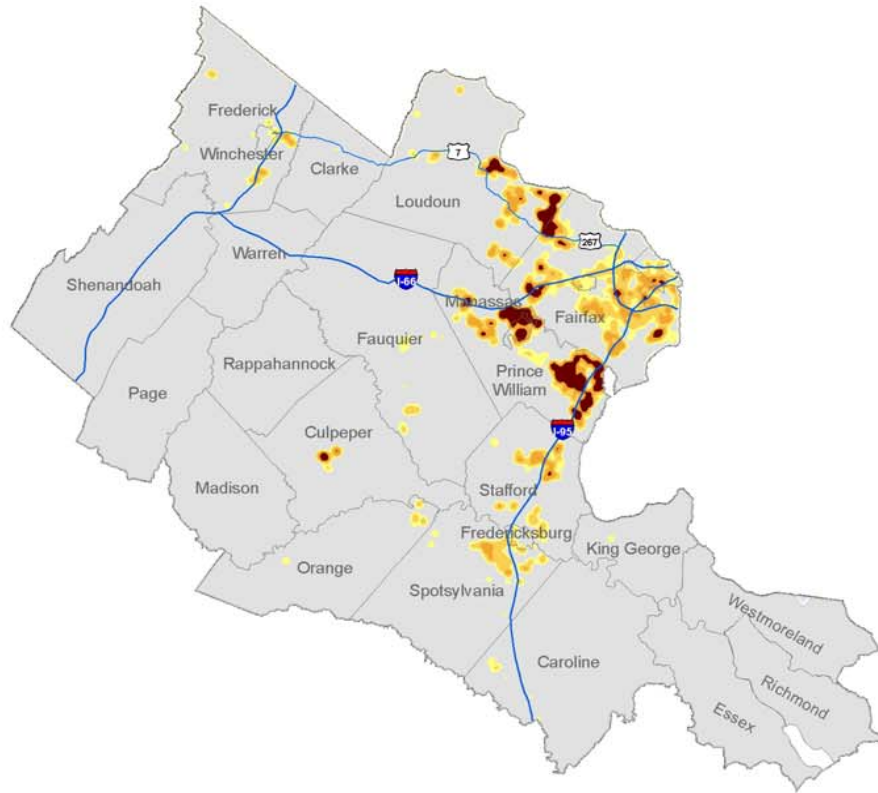


Local estimates are based on data from the MBA, RealtyTrac.com and First American LoanPerformance

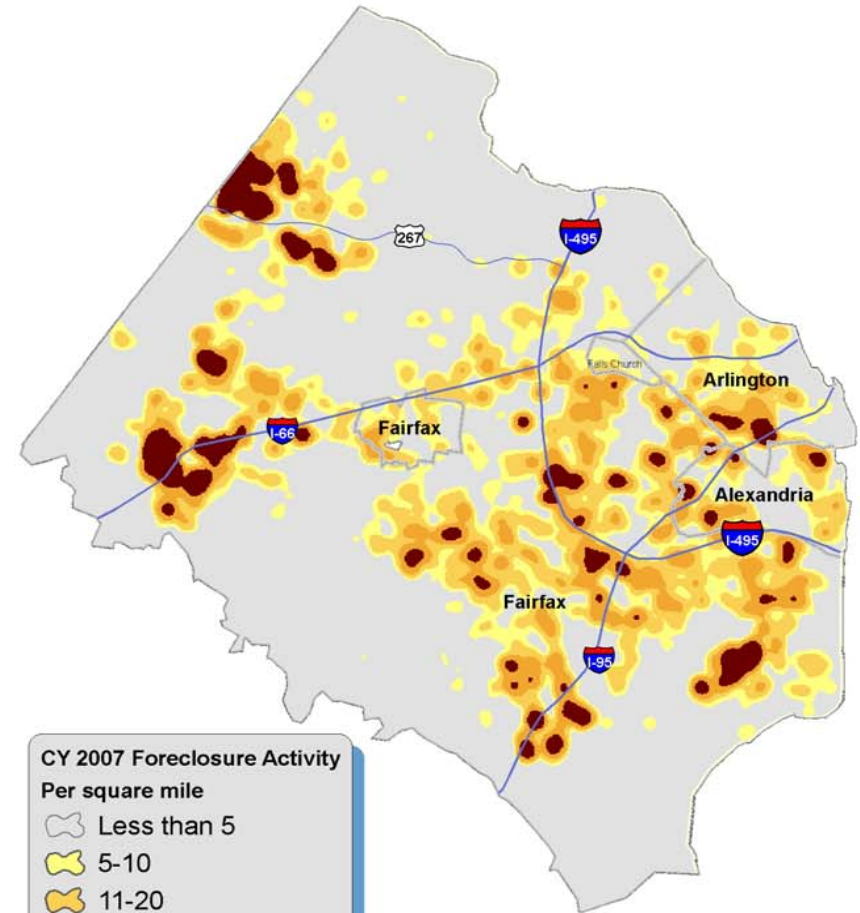
2007 Neighborhood Foreclosure Density

Northern Tier

Regional 1 Mile Radius



Fairfax - Arlington - Alexandria 1/2 Mile Radius



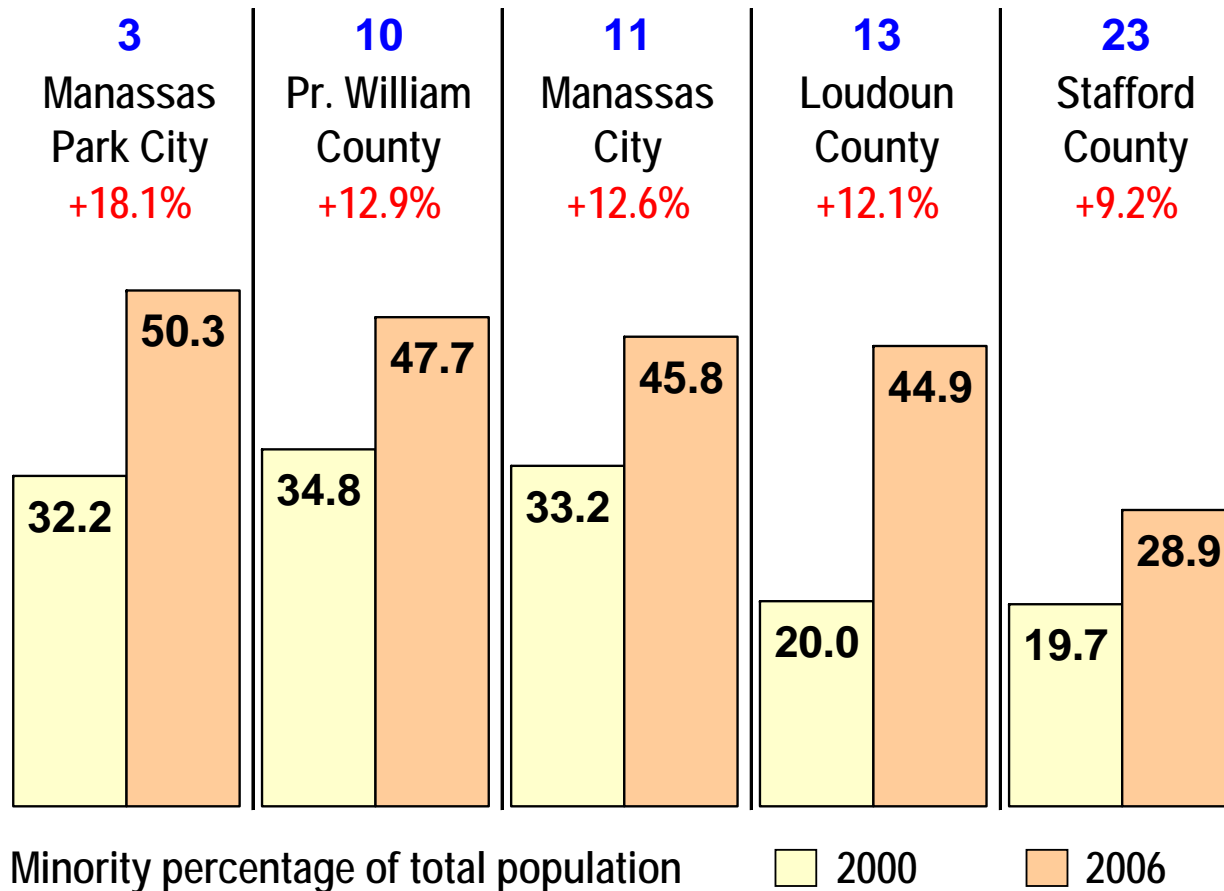
CY 2007 Foreclosure Activity
Per square mile

- Less than 5
- 5-10
- 11-20
- 21-40
- Greater than 40

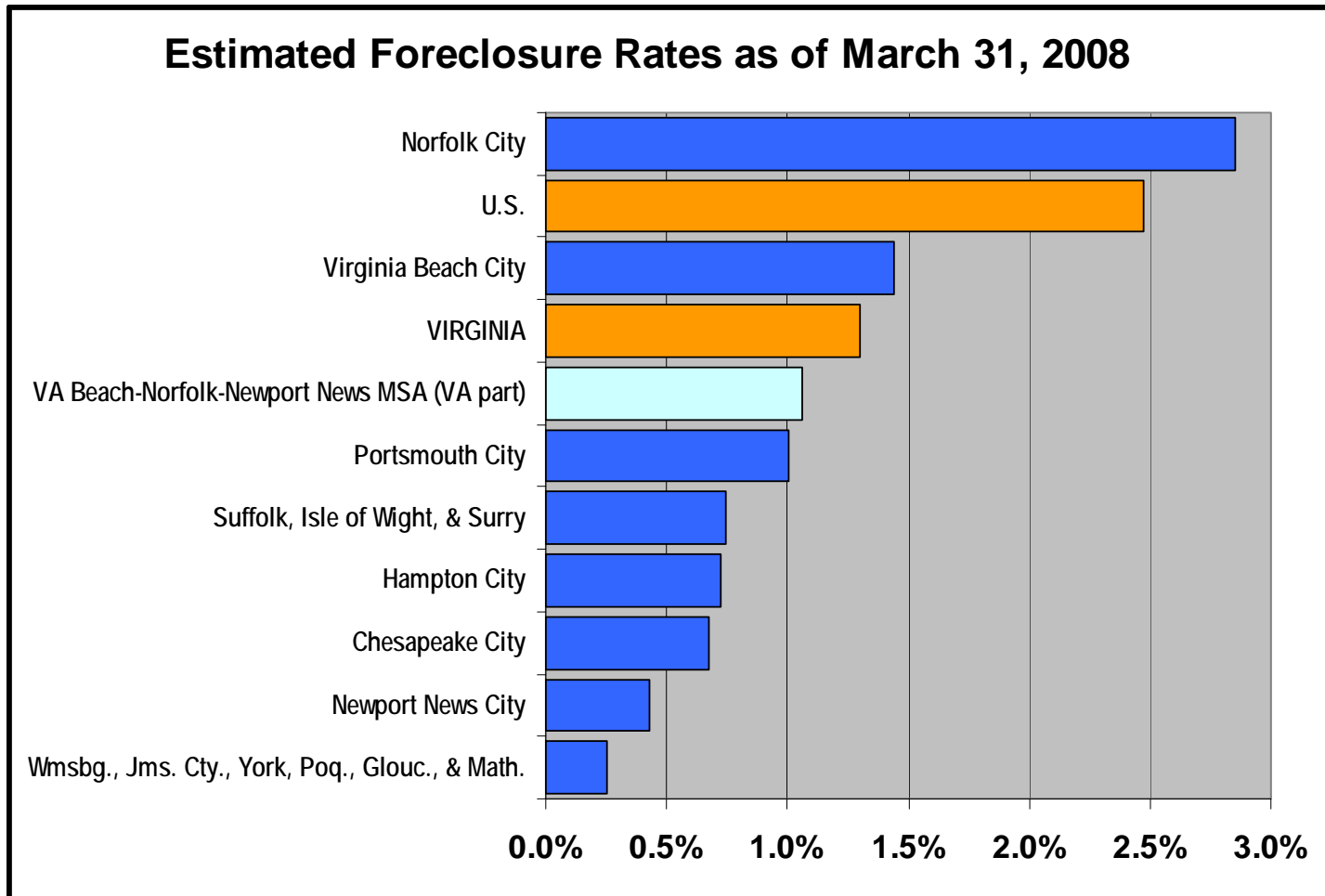


Foreclosure “hot spots” in NoVA have large, growing minority populations

RANK AMONG TOP 25 JURISDICTIONS NATIONALLY
IN RATE OF MINORITY POPULATION GROWTH



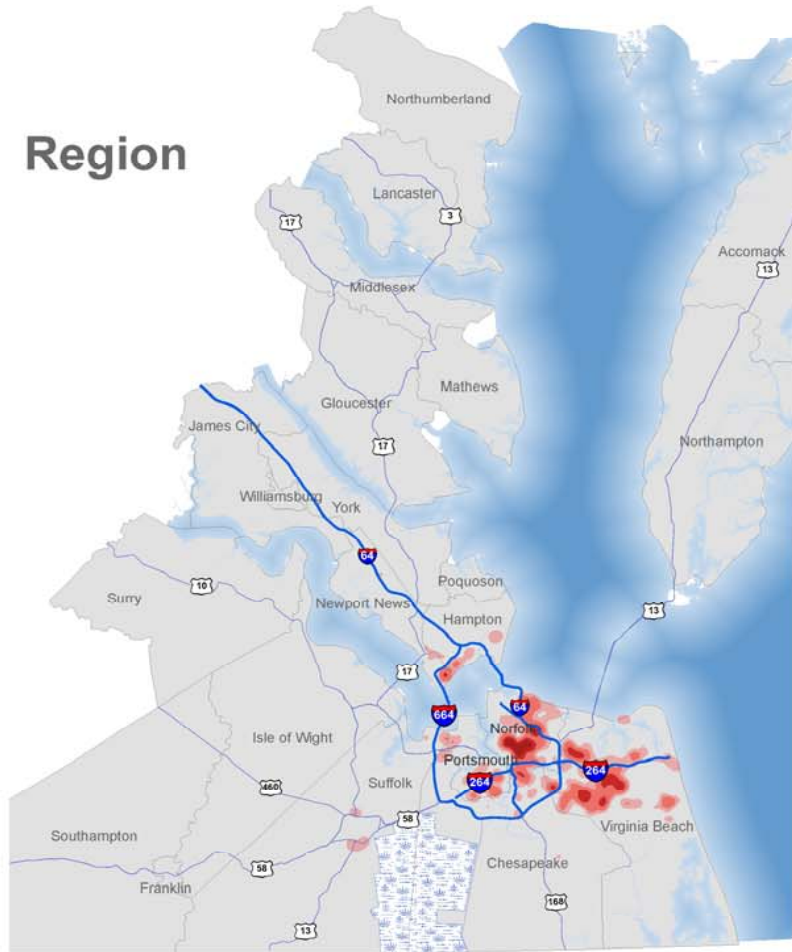
Hampton Roads' problem is highly focused in Norfolk and VA Beach



Local estimates are based on data from the MBA, RealtyTrac.com and First American LoanPerformance

2007 Neighborhood Foreclosure Density

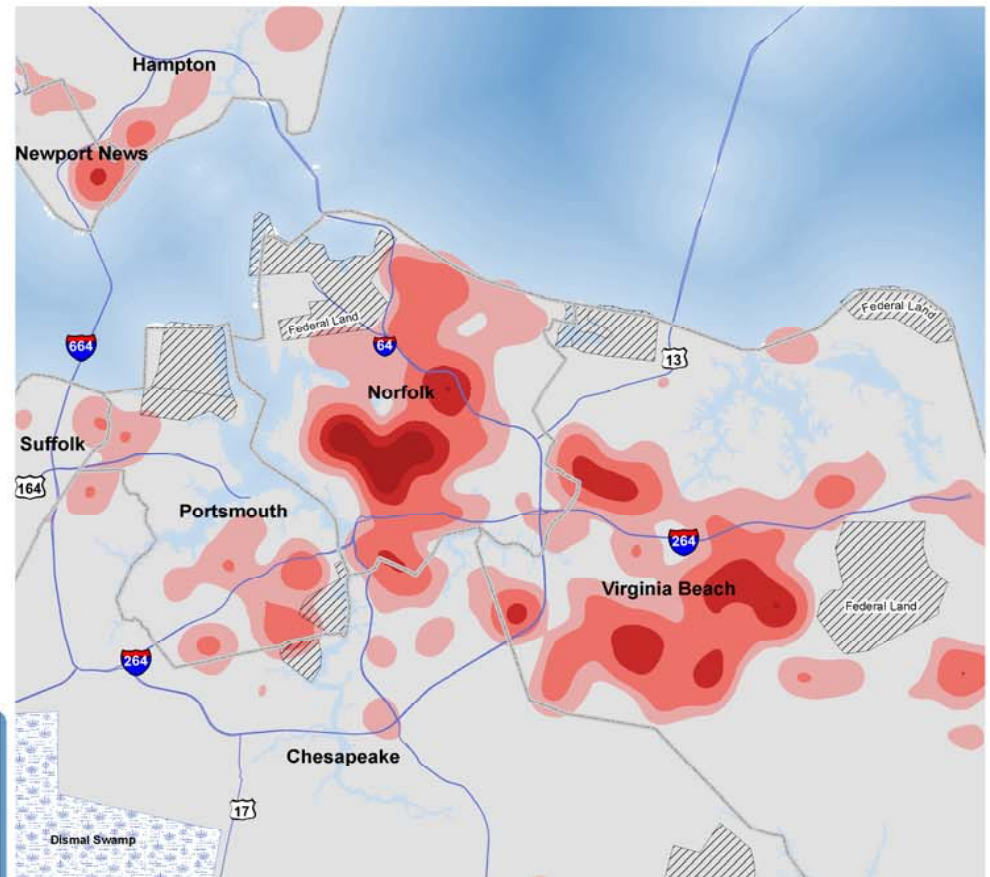
Region



Hampton Roads

1 Mile Radius

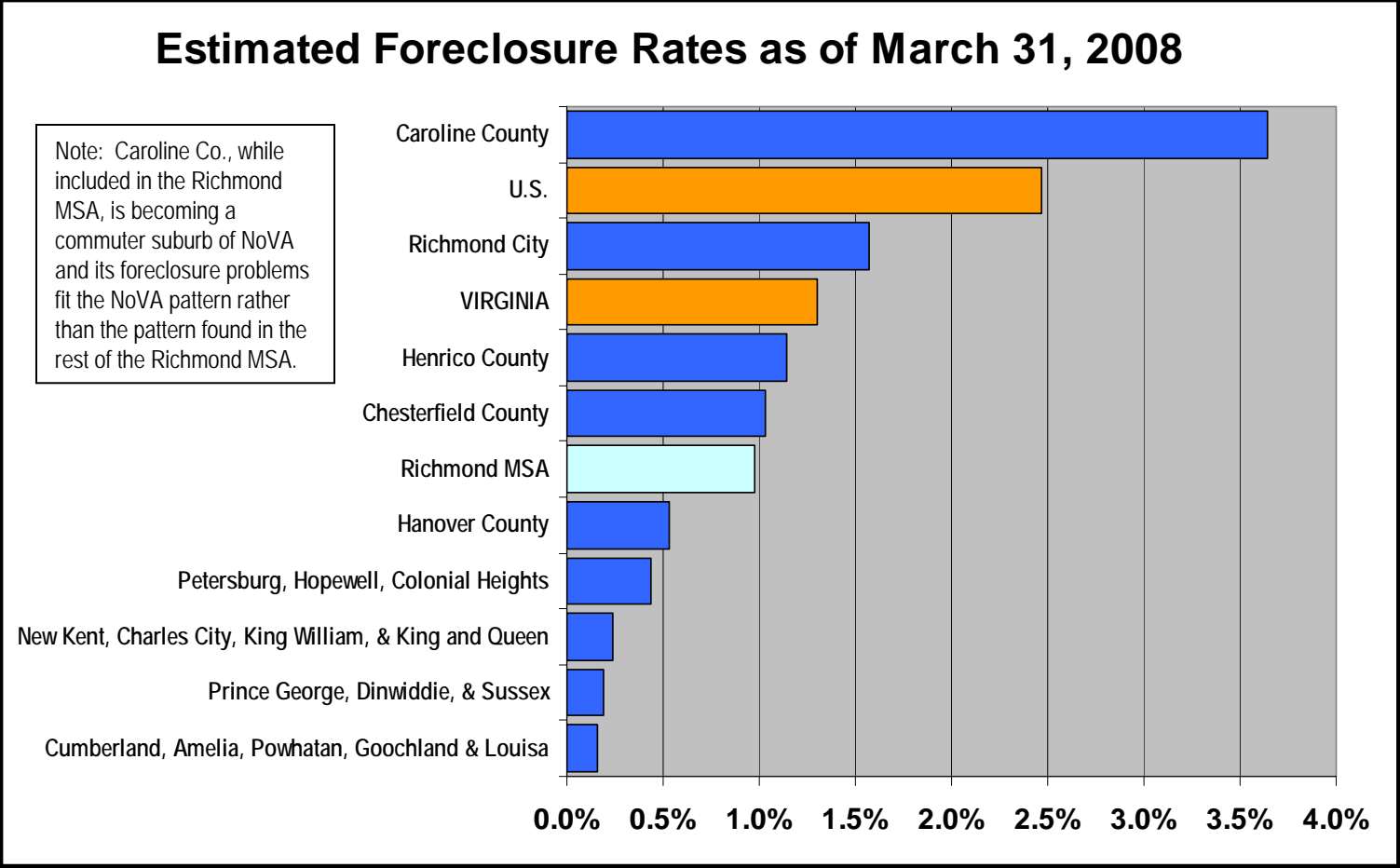
Core



CY2007 Foreclosure Activity Per square mile

- Less than 5
- 5-10
- 11-20
- 21-30
- Greater than 30

Richmond's problem is focused in the city and adjacent county areas

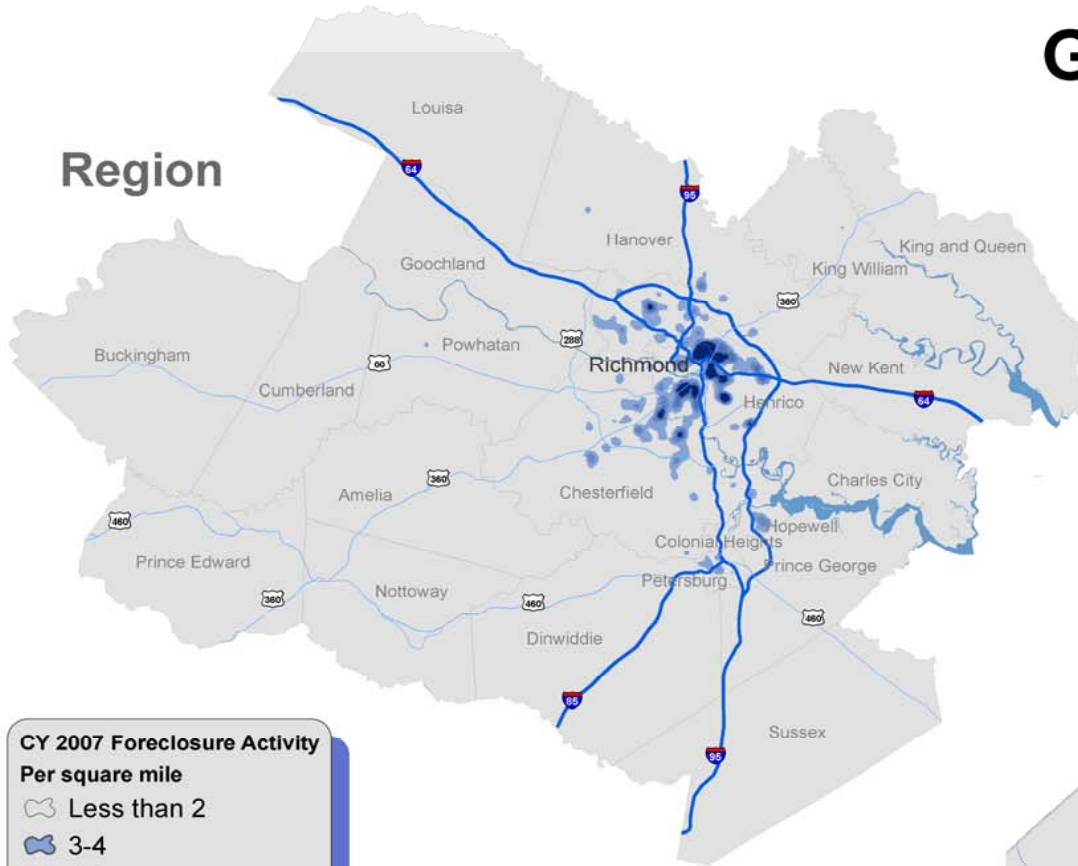


Local estimates are based on data from the MBA, RealtyTrac.com and First American LoanPerformance

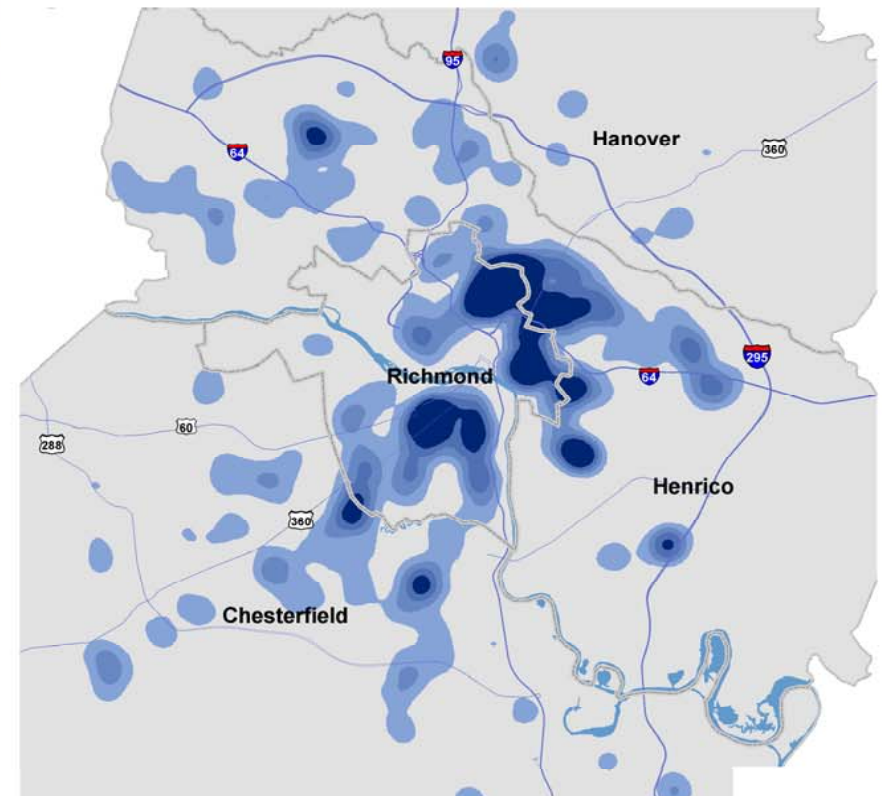
2007 Neighborhood Foreclosure Density

Greater Richmond 1 Mile Radius

Region



Core



CY 2007 Foreclosure Activity Per square mile

- Less than 2
- 3-4
- 4-6
- 6-8
- Greater than 8



Source: RealtyTrac CY 2007 Foreclosure Activity

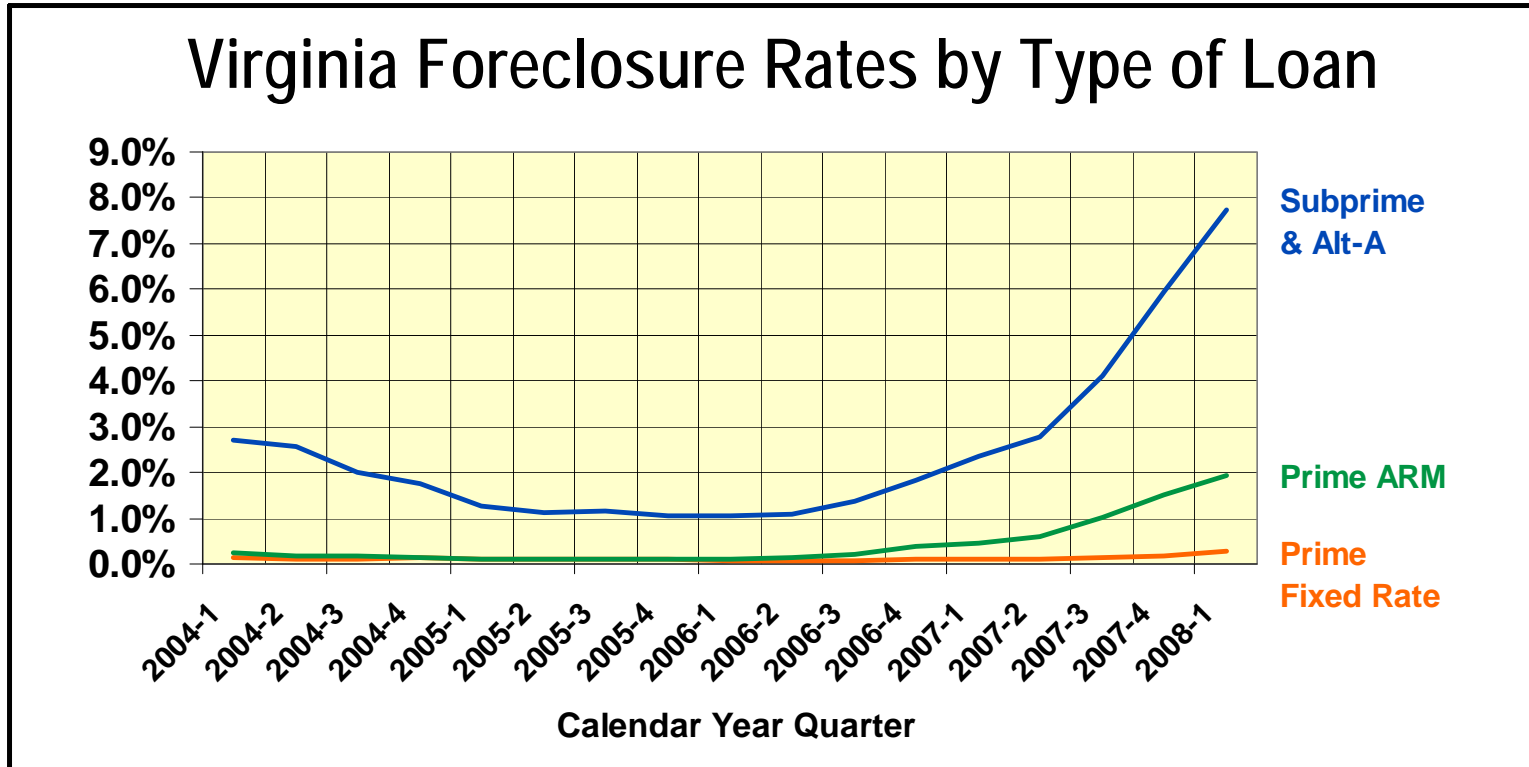
What is driving Virginia's
foreclosure problem?

Today's foreclosure problem is being driven by a new set of factors

- In the past, rising foreclosures mainly resulted from changes in household economic condition—e.g., job loss, separation/divorce, unforeseen medical bills.
- Today, there are three new interrelated drivers:
 1. use of high-cost, non-traditional mortgage products to purchase homes in high-cost markets that households simply could not afford;
 2. use of high-cost mortgages to consolidate household debt;
 3. declining home values that put homeowners “upside down” with their mortgage and lead to tightened credit standards that limit homeowners’ refinancing and resale opportunities.

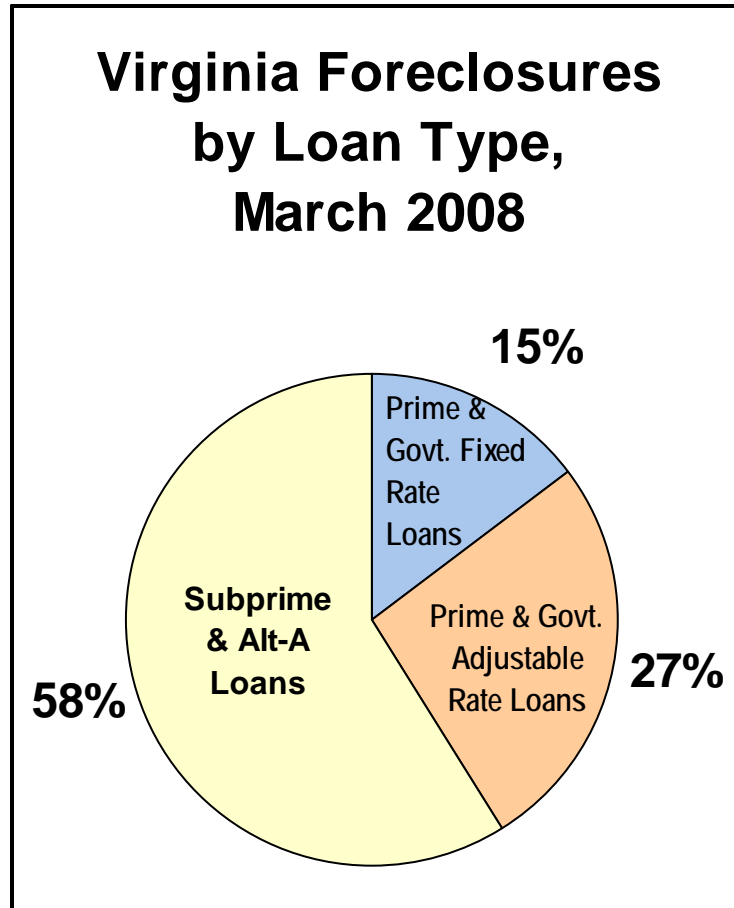
The problem is primarily with higher cost, non-traditional types of loans

Virginia's foreclosure rate has increased sharply since mid 2005. The rise is attributable to poorly performing subprime, alt-A, and adjustable rate loans.



Source: Mortgage Bankers Association (MBA)

High-cost “subprime” and “alt-A” loans make up a large share of foreclosures



Source: Mortgage Bankers Association (MBA)

58% of foreclosures in March 2008 were on two types of non-traditional loans.

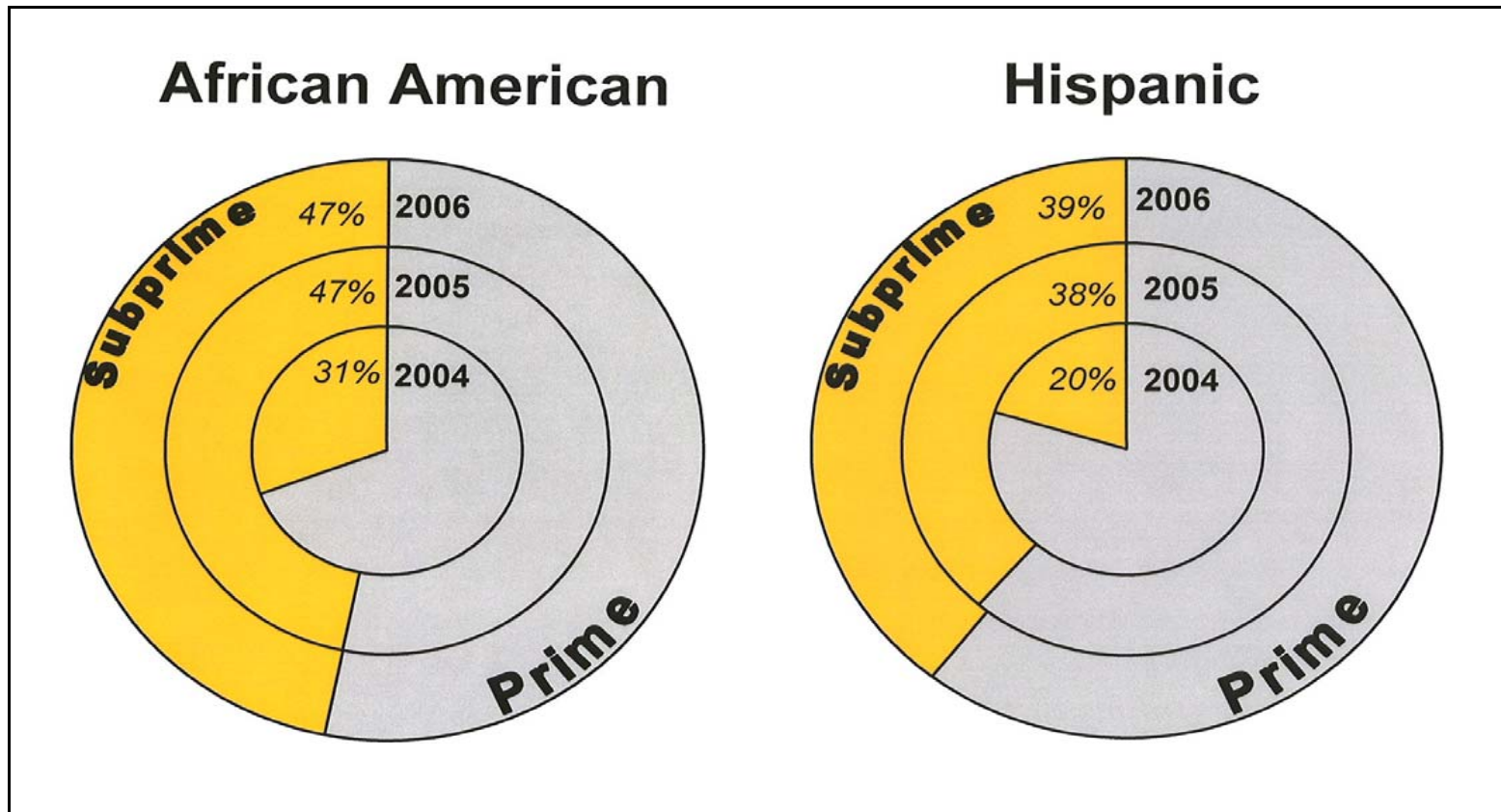
1. “Subprime” loans made to borrowers with low credit scores. Two-thirds of subprime loans in Virginia were used for cash-out refinancings.
2. “Alt-A” loans made to borrowers with slightly tarnished credit and/or in need of special underwriting terms and conditions. A large share involved limited documentation.

Another 27% of foreclosures were on prime and government-backed ARM loans.

Most of the alt-A and ARM loans were used in high-cost markets to enable borrowers to buy homes they otherwise could not afford.

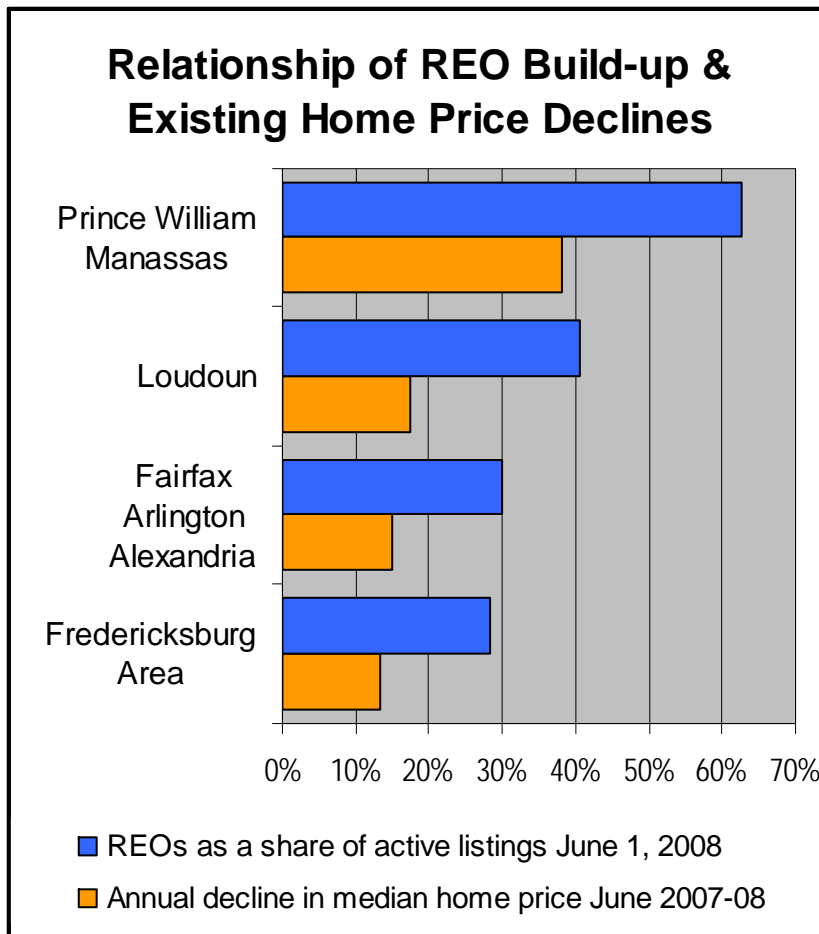
Generally, all three types of loans, when used for home purchase, had very high loan-to-value ratios. A large share were made with the expectation by both the lender and the borrower of being refinanced as soon as an anticipated rapid appreciation in home value created built-up equity.

Minority Homebuyers Depended Heavily on High Cost Mortgages



How are foreclosures
impacting the market?

A build-up of REO properties puts downward pressure on home prices



- Historically, home prices have been “sticky” during market downturns—i.e., price declines are retarded by an unwillingness of sellers to accept losses.
- This has meant that price corrections often occur through depressed rates of appreciation over protracted periods of time.
- However, REO build-ups can change that dynamic due to the pressure on lenders to turn over properties quickly even in the face of substantial losses.

Source: MRIS and RealtyTrac.com

Virginia now has a number of areas defined as “declining” markets

- Private mortgage insurers and lenders are taking steps to mitigate financial risk by curtailing lending in markets where home values are declining.
- “Declining” markets are being made subject to tighter underwriting standards, which are further reducing home sales and limiting the ability of at-risk borrowers to refinance out of troubled loans.

Insurer Defined “Declining” Markets as of July 2008	
Market Area	Private Mortgage Insurers Defining Market as Declining
<u>Small Metro Markets:</u> <ul style="list-style-type: none"> • Charlottesville MSA • Danville MSA 	Radian AIG United Guaranty Radian
<u>Hampton Roads:</u> <ul style="list-style-type: none"> • Virginia Beach-Norfolk-Newport News MSA 	Genworth MGIC Radian
<u>Greater Richmond:</u> <ul style="list-style-type: none"> • Richmond MSA 	MGIC Radian
<u>Northern Virginia:</u> <ul style="list-style-type: none"> • Washington-Arlington-Alexandria MSA • Winchester MSA 	AIG United Guaranty Genworth MGIC PMI Group, Inc. Radian RMIC

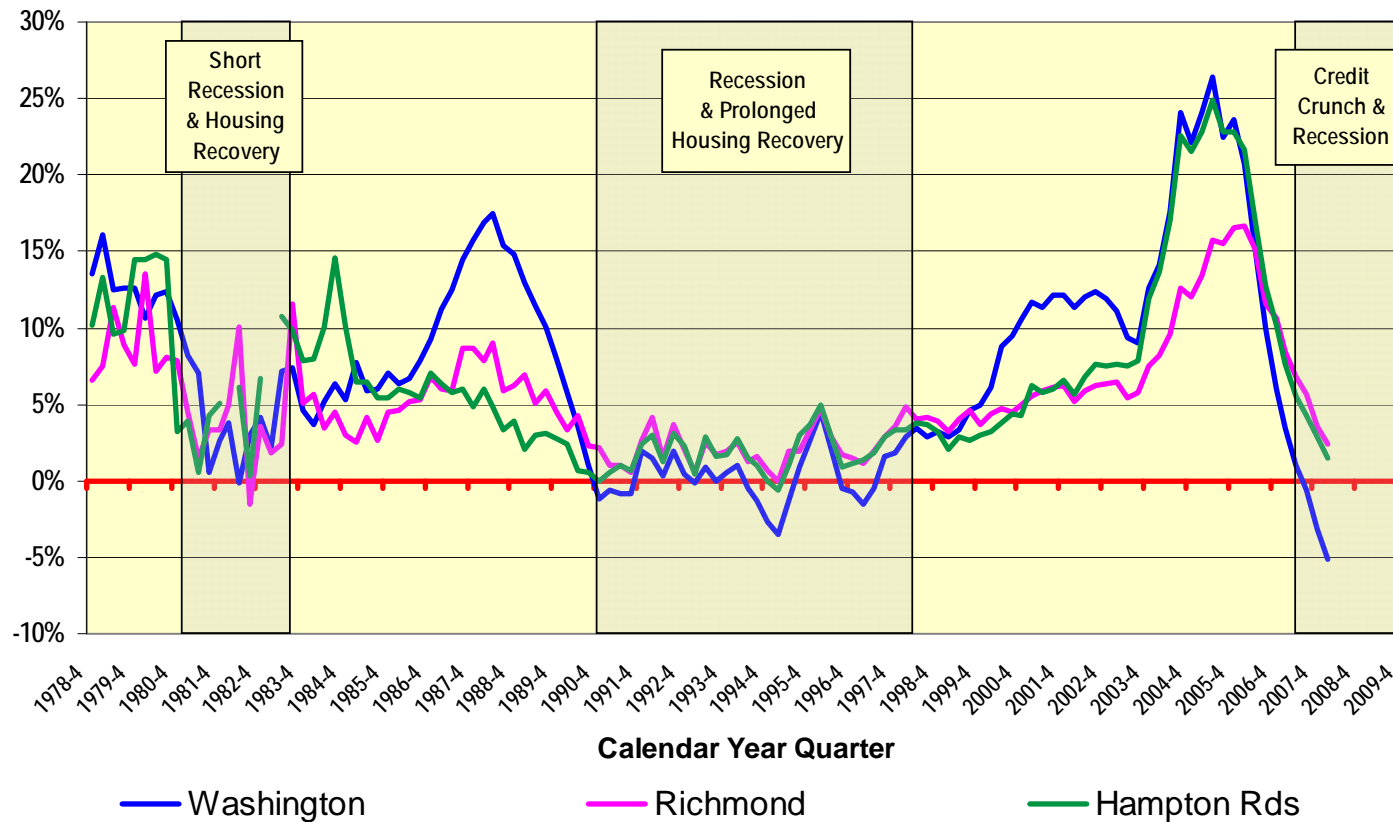
Price declines and foreclosures have become mutually reinforcing

- Initially, weak housing market conditions resulted in declining rates of appreciation and, in time, actual declines in resale prices.
- This stimulated foreclosures for at-risk borrowers who found themselves “upside down” with their mortgage and unable to refinance or sell.
- As foreclosure activity became substantial, then large numbers of distressed sales further depressed market prices.
- As REO inventories built, the pressure to lower prices became intense.
- Sustained price declines weaken buyer confidence and cause lenders to tighten lending standards. In a worst case scenario, this creates a self-reinforcing downward cycle.

What does the future hold for
Virginia's foreclosure problem?

Current and historic trends suggest further price declines

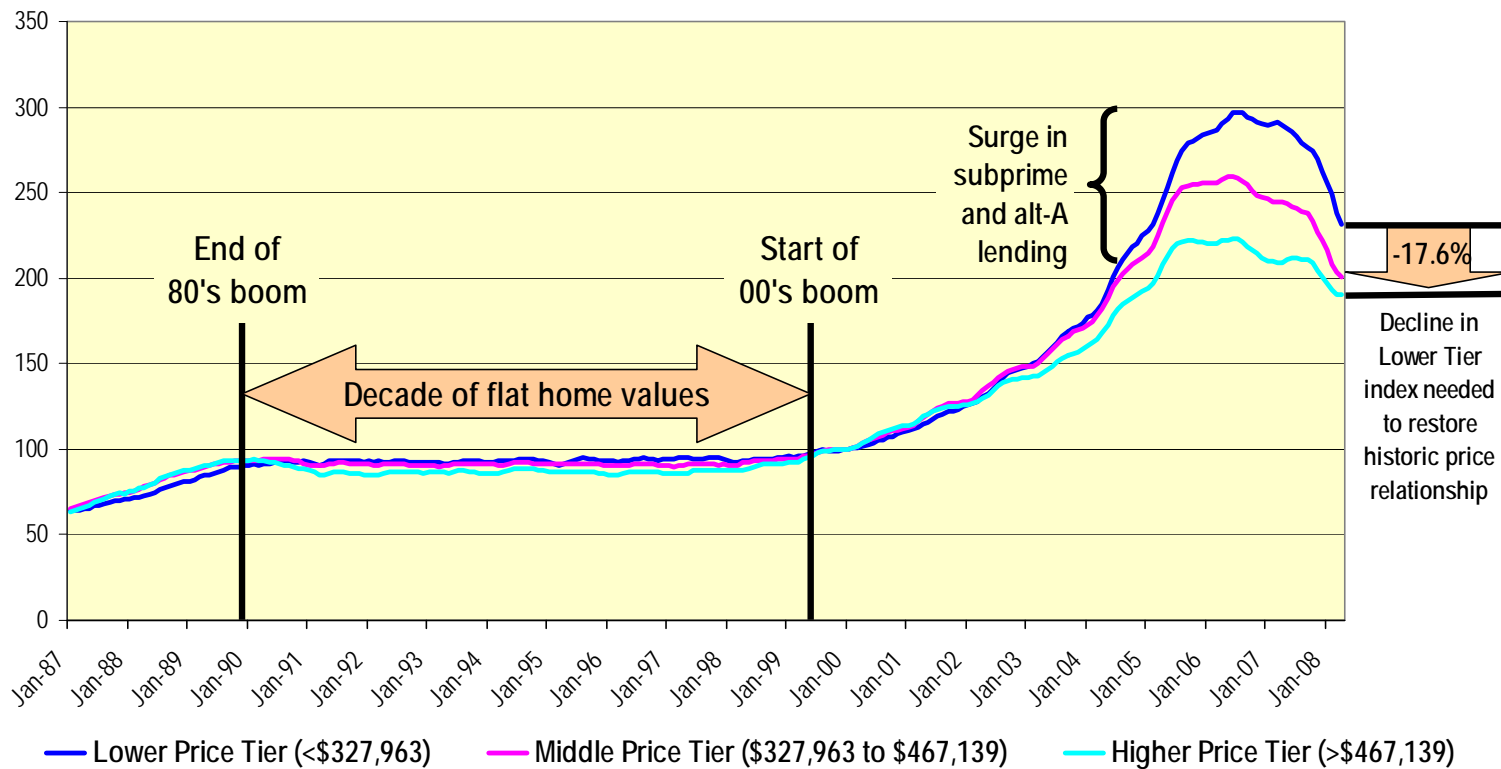
Annual Change in Home Prices



Source: OFHEO

There is particular pressure on lower-end prices

Change in Existing Home Prices, Washington, DC MSA
 S&P Case-Shiller Monthly Home Price Index (January 2000=100)



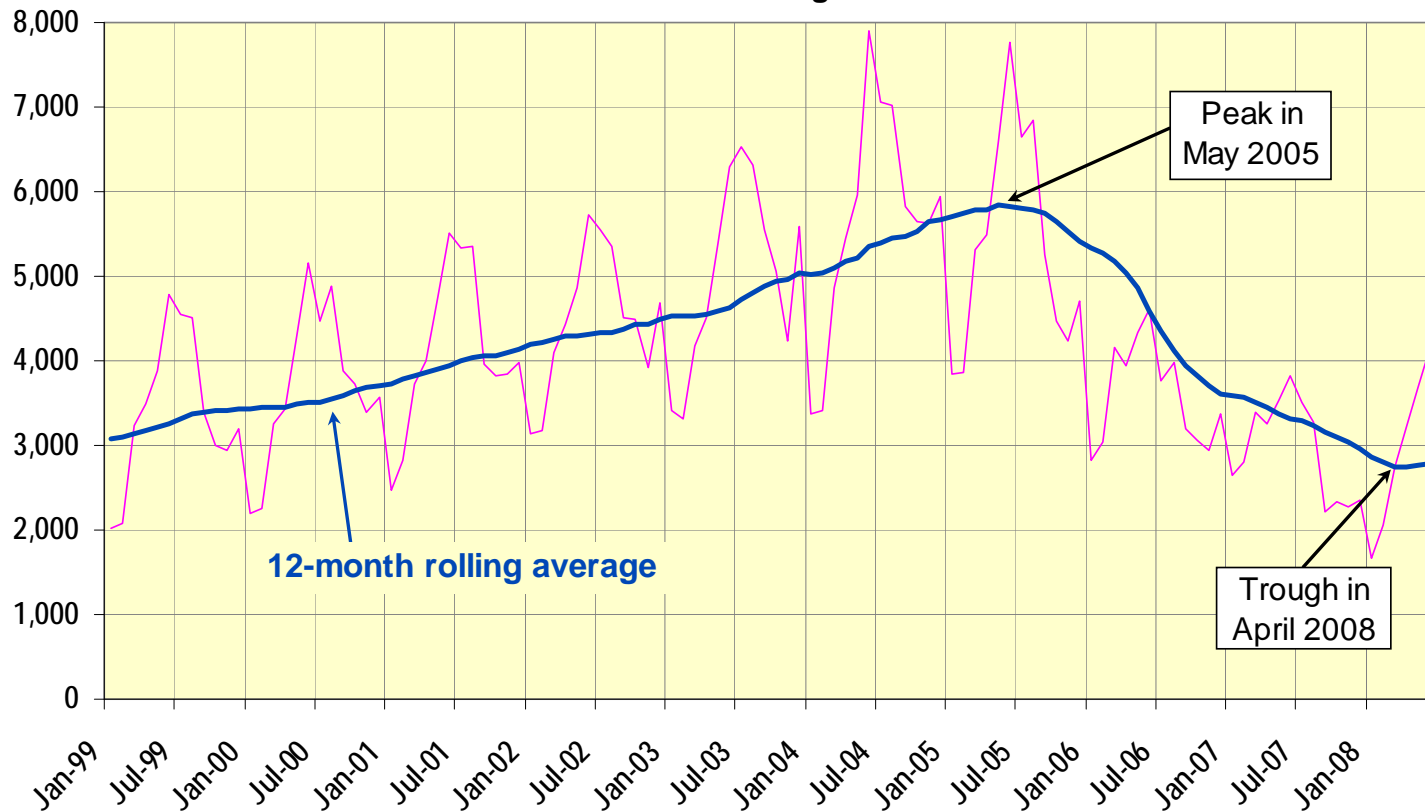
Note: Tiered price breakpoints are as of April 2008

The following factors will contribute to how quickly markets rebound

- An upturn in home sales will mark the bottom of the market—as unsold inventory declines, prices will stabilize and foreclosures ease.
- Current data show most Virginia markets still experiencing declining home sales. However, in Northern Virginia steep price cuts are now contributing to a rebound in home sales.
- The quicker that prices fall, the sooner that home sales and appreciation rates are likely to turn positive—more modest short-term price declines may contribute to prolonged price stagnation as occurred in Northern Virginia during the 1990's.

In NoVA, falling prices are now reviving existing home sales

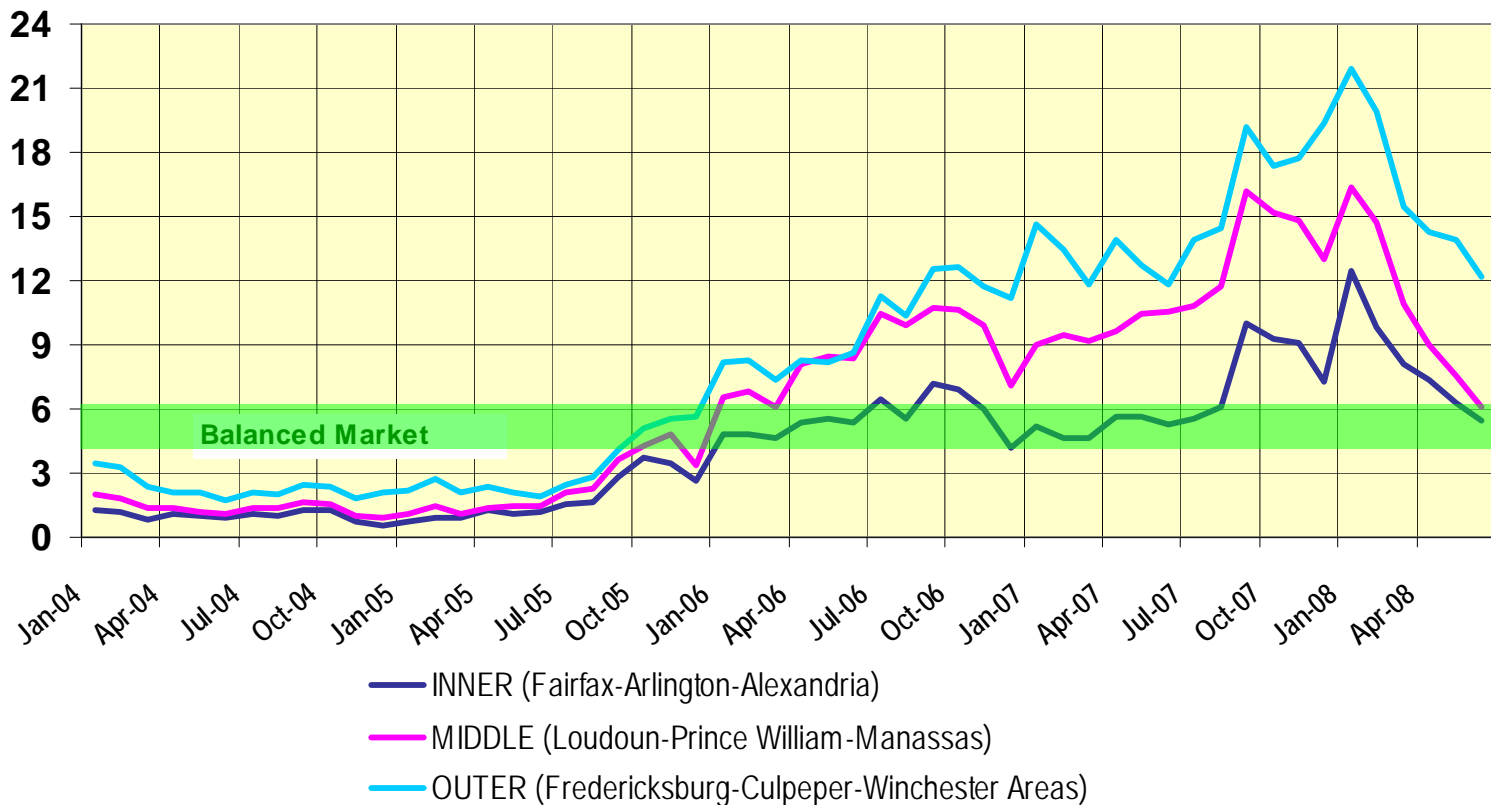
Existing Home Sales
Northern Tier Region



Source: MRIS

Rising home sales are reducing unsold housing inventory

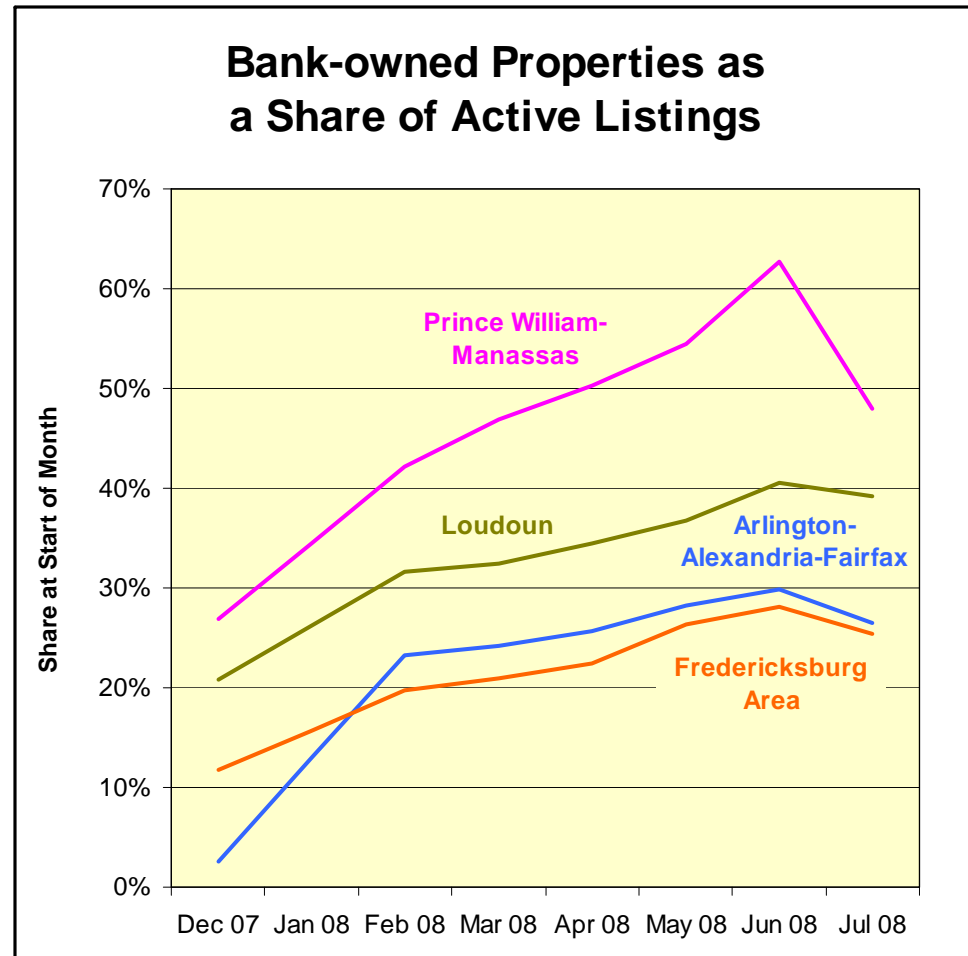
Months Supply of Unsold Homes Northern Tier Region



Source: MRIS

Falling prices are also starting to reduce the impact of REOs

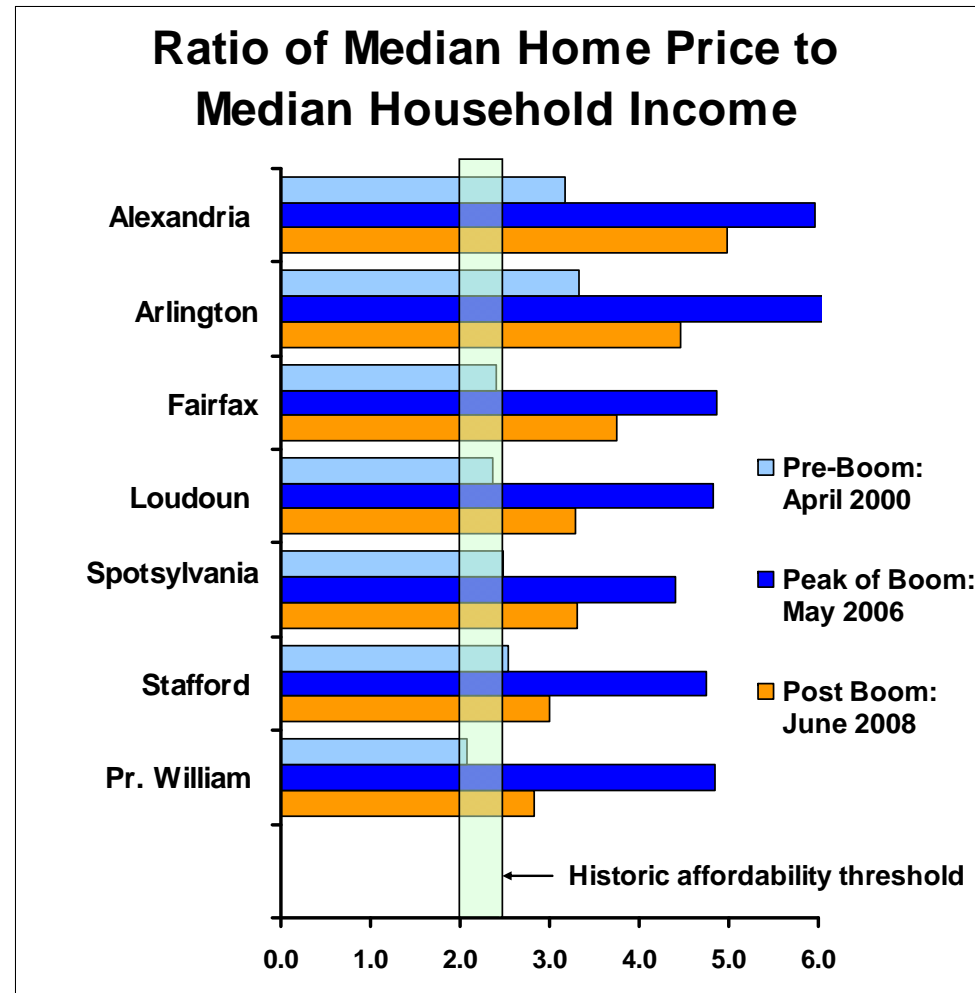
- The sharp decline in home prices in NoVA markets is starting to reduce the inventory of bank-owned properties (REOs).
- Over time, this will help stabilize prices.



Source: MRIS and RealtyTrac.com

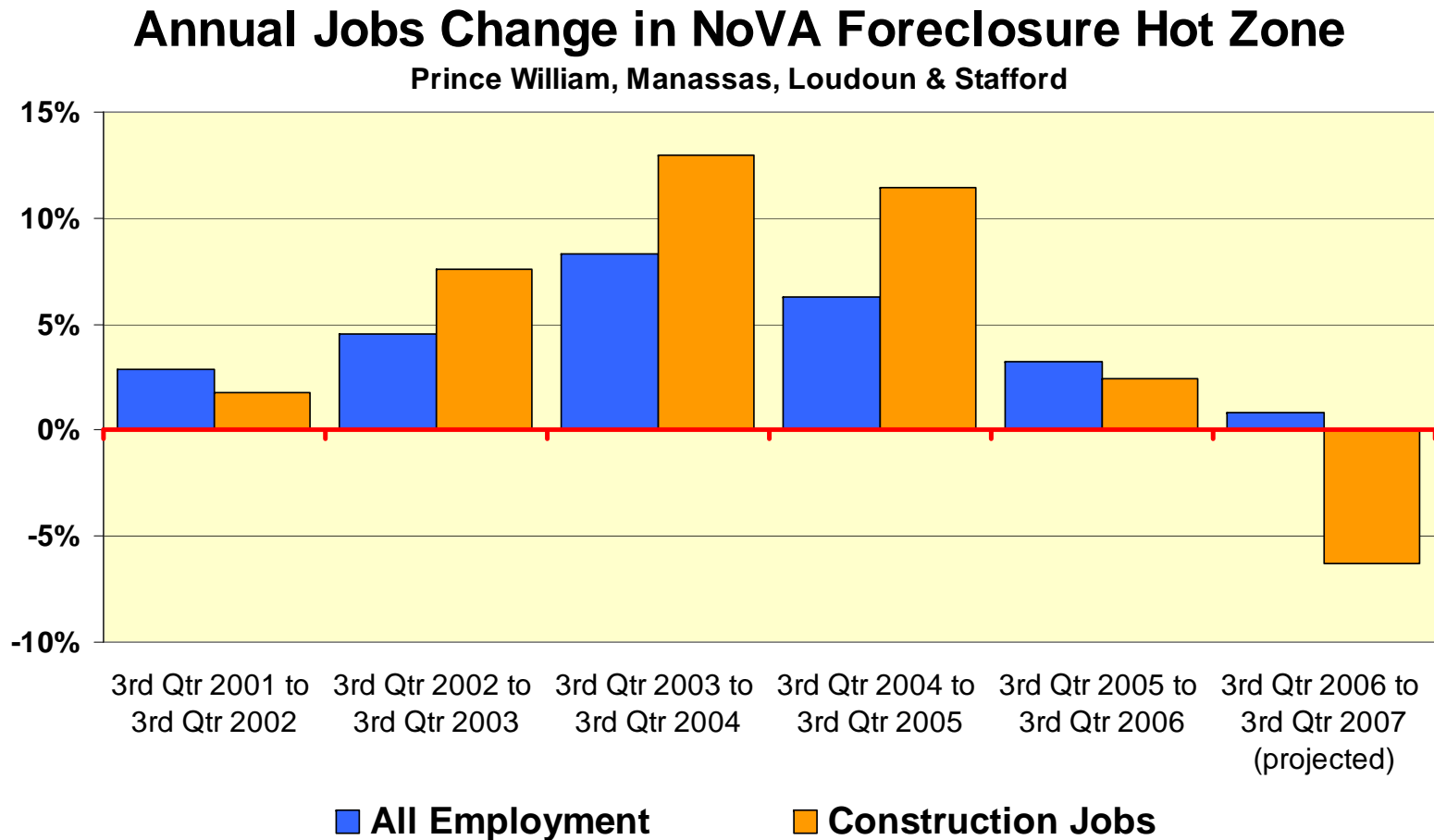
A big factor in NoVA's sales rebound is increased affordability

- In 2000, affordability was a problem mainly inside the Beltway
- At the peak of the boom, affordability pressures were severe even in the outer suburbs
- Today, affordability is returning to pre-boom levels



Source: MRIS and Census Bureau

However, the impact of declining employment is a big unknown



Source: Bureau of Labor Statistics

What further risks lie ahead?

1. First, the length and severity of a recession is a major unknown. A layering of traditional economic foreclosure drivers on top of the current factors impacting the market will compound current weakness.
2. A second risk is REOs. While REO inventories are beginning to decline, they could quickly rebuild now that the seasonal peak in sales is past. Such a build-up would reinforce price cuts in NoVA and could stimulate significant price declines in other markets as well.
3. Finally, there is the ongoing risk of further trauma in the credit markets that would significantly reduce the availability of affordable home financing. It is essential that an adequate supply of affordable mortgage funds remain available to enable the market to recover.