Press Release - NDS

Title: Delinquencies and Loans in Foreclosure Decrease, but Foreclosure Starts Rise in Latest MBA National Delinquency Survey

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WASHINGTON, D.C. (November 18, 2010) — The delinquency rate for mortgage loans on one-to-four-unit residential properties decreased to a seasonally adjusted rate of 9.13 percent of all loans outstanding as of the end of the third quarter of 2010, a decrease of 72 basis points from the second quarter of 2010, and a decrease of 51 basis points from one year ago, according to the Mortgage Bankers Association's (MBA) National Delinquency Survey. The non-seasonally adjusted delinquency rate decreased one basis point to 9.39 percent this quarter from 9.40 percent last quarter. The delinquency rate includes loans that are at least one payment past due but does not include loans in the process of foreclosure.

The percentage of loans on which foreclosure actions were started during the third quarter was 1.34 percent, up 23 basis points from last quarter and down eight basis points from one year ago. The percentage of loans in the foreclosure process at the end of the third quarter was 4.39 percent, down 18 basis points from the second quarter of 2010 and down eight basis points from one year ago. The seriously delinquent rate, the percentage of loans that are 90 days or more past due or in the process of foreclosure, was 8.70 percent, a decrease of 41 basis points from last quarter, and a decrease of 15 basis points from the third quarter of last year.

The combined percentage of loans in foreclosure or at least one payment past due was 13.78 percent on a non-seasonally adjusted basis, a 19 basis point decline from 13.97 percent last quarter.

"Mortgage delinquency rates declined over the quarter and over the past year, due primarily to a large decline in the 90+ day delinquency rate. The number of loans in foreclosure also dropped, bringing the serious delinquency rate to its lowest level since the second quarter of 2009. However, the foreclosure starts rate increased for all loan types and the foreclosure starts rate for prime fixed loans set a new record high in the survey, as more loans entered the foreclosure process," said Michael Fratantoni, MBA's Vice President of Research and Economics.

"Most often, homeowners fall behind on their mortgages because their income has dropped due to unemployment or other causes. Although the employment report for October was relatively positive, the job market had improved only marginally through the third quarter, so while there was a small improvement in the delinquency rate, the level of that rate remains quite high. As we anticipate that the unemployment rate will be little changed over the next year, we also expect only modest improvements in the delinquency rate."

“We have frequently observed that there can be a tradeoff between 90+ day delinquencies and foreclosure starts. That happened this quarter as the foreclosure start rate increased, the mirror image of the decline in the 90+ delinquency rate, although for both prime and subprime ARM loans, both foreclosure starts and 90+ delinquency rates increased from last quarter. Loans that are 90 days or more late remain the largest proportion of delinquencies, with the 90+ rate still almost four times greater than the average of about 1.1 percent over the past 20 years.”

“The foreclosure paperwork issues announced by several large servicers in late September and early October are unlikely to have had a large impact on the third quarter numbers, but may well increase the foreclosure inventory numbers in the fourth quarter of 2010 and in early 2011. The foreclosure inventory rate captures loans from the point of the foreclosure referral to exit from the foreclosure process, either through a cure (perhaps through a modification), a short sale or deed in lieu, or through a foreclosure sale. The servicers that halted foreclosure sales temporarily may show higher foreclosure inventory numbers in the fourth quarter of 2010 and in early next year than would otherwise have been the case. Any drop in foreclosure sales over the next few quarters may actually reduce the inventory of homes on the market, which is still quite swollen, with almost 4 million properties currently listed. However, these foreclosed homes are likely to come on the market in the medium term, so it is only a delay rather than a change in the underlying economics.”

“One of the most important trends in terms of differences across products is the change in the composition of the market, with a rapidly shrinking pool of subprime and prime ARM loans, and a significant increase in the number and proportion of FHA loans. Prime fixed and FHA loans currently make up almost 78 percent of loans outstanding and these loan types now account for more than half of the foreclosures started in the quarter, compared to 39 percent a year ago.”

Change from last quarter (second quarter of 2010)

On a seasonally adjusted basis, the overall delinquency rate decreased, driven by decreases in the rate for most loan types except subprime ARM loans. The seasonally adjusted delinquency rate stood at 5.17 percent for prime fixed loans, 13.31 percent for prime ARM loans, 23.84 percent for subprime fixed loans, 29.80 percent for subprime ARM loans, 12.62 percent for FHA loans, and 7.44 percent for VA loans.

The non-seasonally adjusted foreclosure starts rate increased for all loan types. The foreclosure starts rate increased 22 basis points for prime fixed loans to 0.93 percent, which sets a new record high in the survey for the prime fixed category. The basis point increase is also the largest increase on record for this loan category. Prime fixed loans make up the majority of loans outstanding in the market, with a share of almost 64 percent. The foreclosure starts rate increased 40 basis points for prime ARM loans to 2.36 percent, 48 basis points for subprime fixed loans to 2.78 percent, 70 basis points for subprime ARM loans to 4.09 percent, 22 basis points for FHA loans to 1.24 percent, and 16 basis points for VA loans to 0.86 percent.

Change from last year (third quarter of 2009)

Given the challenges in interpreting the true seasonal effects in these data when comparing quarter to quarter changes, it is important to highlight the year over year changes of the non-seasonally adjusted results. The non-seasonally adjusted delinquency rate decreased 40 basis points for prime fixed loans, 64 basis points for subprime fixed loans, 182 basis points for FHA loans, and 65 basis points for VA loans. The delinquency rate increased 91 basis points for prime ARM loans and 131 basis points for subprime ARM loans.

The non-seasonally adjusted foreclosure starts rate increased 22 basis points for prime fixed loans and 11 basis points for subprime fixed loans, but is down 109 basis points for prime ARM loans, 83 basis points for subprime ARM loans, seven basis points for FHA loans, and one basis point for VA loans, on a year over year basis.

Thirty three states saw increases in the rate of foreclosure starts on a year over year basis, with the largest increases coming in Washington, Indiana and South Carolina. The largest decreases were in Nevada, California, and Florida. Florida and Nevada continue to top the rankings in terms of foreclosure starts and loans in foreclosure across most loan types.

If you are a member of the media and would like a copy of the survey, please contact Melissa Key at mkey@mortgagebankers.org. If you are not a member of the media and would like to purchase the survey, please call (800) 348-8653.

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The above data were obtained in cooperation with the Mortgage Bankers Association (MBA), which produces the National Delinquency Survey (NDS). The NDS, which has been conducted since 1953, covers 44 million loans on one- to four- unit residential properties, representing approximately 88 percent of all "first-lien" residential mortgage loans outstanding in the United States. This quarter's loan count saw a decrease of about 540,000 loans from the previous quarter, and a decrease of around 680,000 loans from one year ago. Loans surveyed were reported by approximately 120 lenders, including mortgage bankers, commercial banks, and thrifts.

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The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.