U.S. Housing Flash

New Foreclosures Drop Below 300,000 in Q4 2012

- **Past due mortgage loans drop to 7.1%**
- **90 Day+ delinquencies edged up among Subprime and FHA loans**
- **Fastest decline in new foreclosures observed among prime borrowers**
- **January existing home sales march upward, inventory tightens and prices rise**

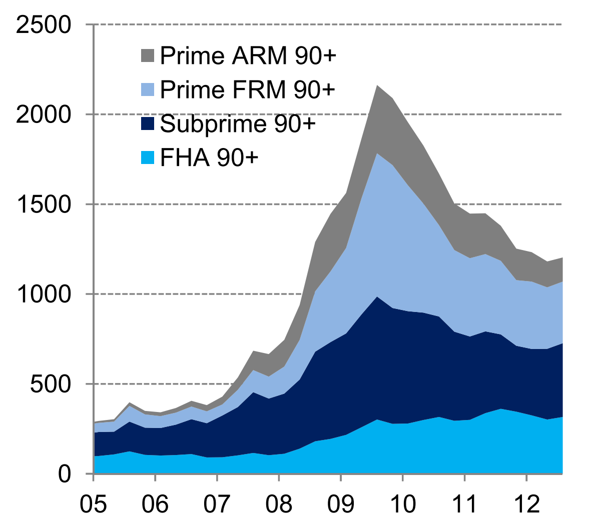
In a further sign that the residential market is healing, the Mortgage Bankers Association today reported a drop in both past due mortgages and new foreclosures during 4Q12. New foreclosures dropped to 290,000, a rate not seen since 2Q07, while overall delinquencies also declined. The pace of improvement in these figures remains hampered by the subprime market, as the greatest improvement continues to occur among prime mortgages. Rising delinquencies among FHA loans remain a concern, although quarterly new FHA loan foreclosures have dropped 44% since 2Q12.

Across states, Florida's foreclosure rate dropped nearly 1 percentage point to 12.2%, but it still has 23.5% of the nation's total foreclosure inventory. Nevada remains the state with the highest residential delinquency rate, but its foreclosure rate continues to decline rapidly. It now stands at 5.9% - down significantly from its peak of 10.4% in 1Q10. Nevada's foreclosure rate now places it fourth, and this shift is a welcome improvement from its former second-place rank. In spite of the severity of the fallout in their housing markets, California and Arizona's foreclosure rate has improved dramatically and now stands just above 2% - well below the U.S. average.

The legal process in certain states underlies the slow decline in foreclosure inventory, as states with a primarily judicial foreclosure process have been unable to appreciably reduce their inventories. Foreclosure inventory in non-judicial states began to decline as soon as the economy began to recover in 4Q09; however, the peak for judicial states occurred at the end of 1Q12. A judicial state requires the court's involvement before putting a foreclosed home up for auction, and RealtyTrac estimates that it takes an average of 853 days to foreclose in Florida - nearly 8 times as long as in Texas and 2.5 times as long in California. Thus, this lag has been holding back a more rapid housing recovery. On a positive note, the foreclosure rates between judicial and non-judicial states narrowed in 4Q12.

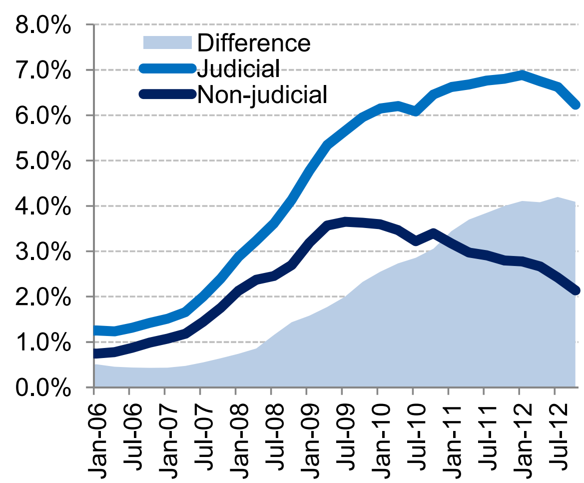
In other news today, existing home sales continued their steady march upward in January, although December's figures were revised slightly downward. Sales rose in the Northeast, Midwest and South, but they pulled back in the West region. The months of supply for existing homes declined to 4.2 months, and thus signals further tightening in the market that will put upward pressure on home prices. The national median home sales price is up 12.3% since 1Q12, and the strongest appreciation is occurring out West at an even faster pace than observed during 2005.

Chart 1
90-Day+ Delinquencies, by Loan Type
Number of non-current loans, thousands



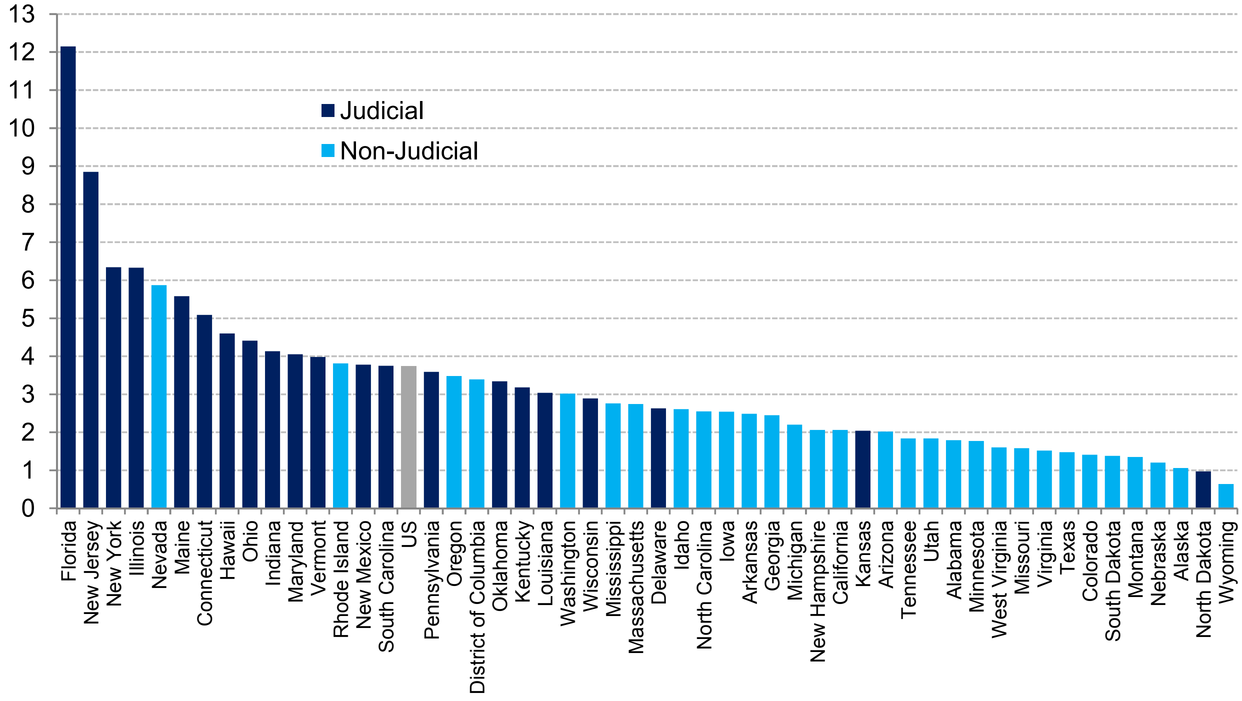
Source: MBA & BBVA Research

Chart 2
Foreclosure Inventory, by Primary Legal Process
% of Total Loans



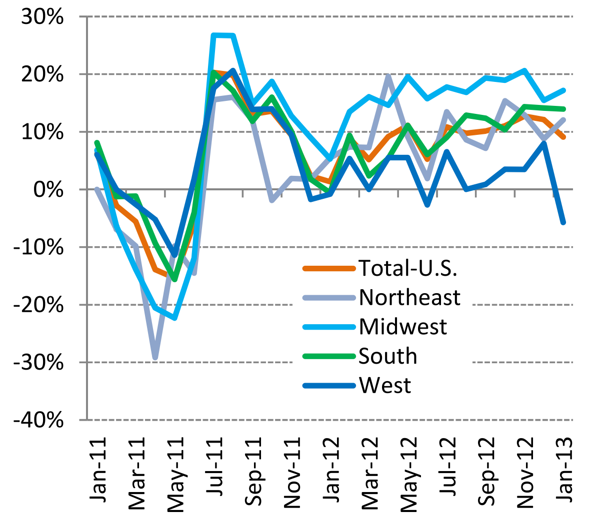
Source: MBA & BBVA Research

Chart 3
Foreclosure Inventory Rate, by State and Primary Legal Process, Q412
% of Total Loans in State



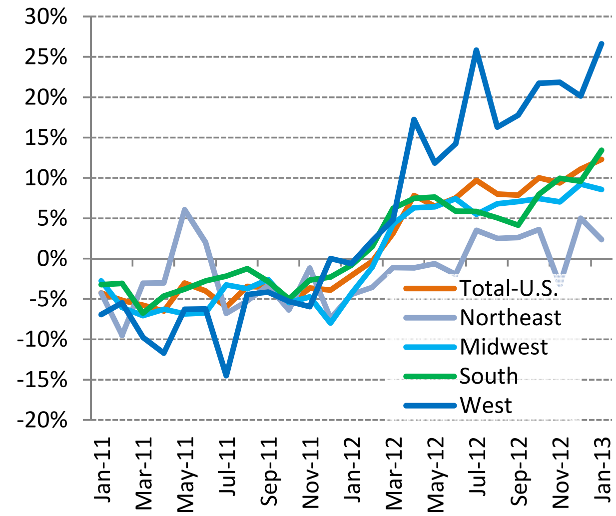
Source: MBA & BBVA Research

Chart 4
Existing Home Sales (SAAR), YoY % Change



Source: National Association of Realtors / Haver Analytics, BBVA Research

Chart 5
Median Home Sales Price (NSA), YoY % Change



Source: National Association of Realtors / Haver Analytics, BBVA Research

Jason Frederick
jason.frederick@bbvacompass.com
+1 713 831 7346

BBVA RESEARCH | 2001 Kirby Drive, Suite 310, Houston, TX 77019 USA | www.bbvaresearch.com