Record Drop in Foreclosure Starts, but 90 Day Delinquencies Increase -MBA

By: Jann Swanson | Thu, Feb 21 2013, 4:11 PM

Mortgage delinquency rates fell in the fourth quarter of 2012 to their lowest rates since 2008. According to data from the **National Delinquency Survey (NDS)** released by the Mortgage Bankers Association (MBA), delinquencies in one-to-four unit residential properties fell to a seasonally adjusted rate of 7.9 percent of all outstanding loans. This was a decrease of 31 bps (bp) from the third quarter and 49 bps from the fourth quarter of 2011.

The **delinquency rate** includes loans that are at least one payment past due but does not include loans in the process of foreclosure. Foreclosure starts were at the lowest level since the second quarter of 2007, down 20 bps from Q3 to a rate of 0.70 percent and 29 bps lower than in the fourth quarter of 2011. The percentage of loans some stage of foreclosure at the end of the fourth quarter was 3.74 percent, down 33 bps from the third quarter, 64 bps lower than one year ago, and the lowest level since the fourth quarter of 2008.

Mike Fratantoni, MBA's Vice President for Research and Economics said at a press conference accompanying release of the data that delinquency rates typically increase between the third and fourth quarters, possibly due to increasing heating costs and holiday expenses, but the non-seasonally adjusted rate dropped 13 bps to 7.51 percent between the third and fourth quarters of 2012. Most of the improved delinquency numbers, he said, were driven by a drop in the 30+ day rate which decreased 21 bps on an unadjusted basis. This rate, he said, is usually driven by improved employment. The 30+ rate is at its lowest level since mid-2007.

The rate of loans that were seriously delinquent, i.e. 90 or more days past due or in foreclosure, was 6.78 percent, 25 bps lower than the previous quarter and down 95 bps from a year earlier.

The overall percentage of distressed loans, one payment or more past due or in foreclosure was down 46 bps quarter-over-quarter to 11.25 percent. This was 128 bps lower than in the fourth quarter of 2011.

Jay Brinkmann, MBA's Chief Economist and Senior Vice President of Research said, "With fewer new delinquencies, the foreclosure start rate and foreclosure inventory rates continue to fall and are at their lowest levels since 2007 and 2008 respectively.

"The foreclosure starts rate **decreased by the largest amount ever** in the MBA survey and now stands at half of its peak in 2009. Similarly, the 33 bp drop in the foreclosure inventory rate is also the largest in the history of the survey. One cautionary note is that the 90+ delinquency rate increased by 8 bps, reversing a fairly steady pattern of decline and the largest increase in this rate in three years. While we normally see an increase in this rate in individual states when they change their foreclosure laws, 38 states had increases in the percentage of loans three payments or more past due, indicating that we could see a modest increase in foreclosure starts in subsequent quarters.

Brinkmann said the performance of FHA loans is mixed; foreclosure starts and inventory are down while the delinquency percentages generally remained flat or increased slightly, particularly the percentage of loans 90 days or more past due. However, 44 percent of the FHA loans that are seriously delinquent were made in the years 2008 and 2009, while loans made in those years represent a smaller share of FHA's overall book of business. He said that those currently evaluating FHA's performance could not accurately do so without looking at the data on these recent loans.

Finally, Brinkmann said, **Superstorm Sandy** had an impact on the delinquency and foreclosure rates in New York, New Jersey and Connecticut which saw increases in total past due rates, while most other states in the nation saw a drop overall. Servicers were told to report loans as delinquent if payments were not being made as agreed in the original mortgage even if they were in storm-related forbearance. "We expect to see improvements in these states as we move into 2013," he said.

The national foreclosure inventory is being impacted by the 12 percent rate in Florida and by the elevated rates in judicial states which average 6.2 percent, triple the 2.1 percent average rate for nonjudicial states. The effect of the judicial process can be seen by looking at the two charts below which demonstrate the rates of foreclosure starts in judicial and non-judicial states versus their inventories.

Both economists said that the **return to normalcy would be "lumpy**." The 30-day rate is well on its way to that status and will be a leading indicator for other measures but it may take a very long time for foreclosure inventories to be processed out in some states. Brinkmann pointed out that there is always the problem that improving employment may occur in a different location than where the houses are.

Fratantoni said the overall movement of delinquencies and foreclosures is in the right direction but still elevated by historic standards. While there is no way to know when normal levels will return it is possible we are headed for a new definition of normal. He pointed to how the decreasing delinquency and foreclosure rates match the decline in mortgages originated in the 2005-2007 period. Improved credit standards, he said, could mean that, once normal does return it will be at lower than historic levels.

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