Florida:
An Overview of Foreclosures

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Foreclosure Timeline...

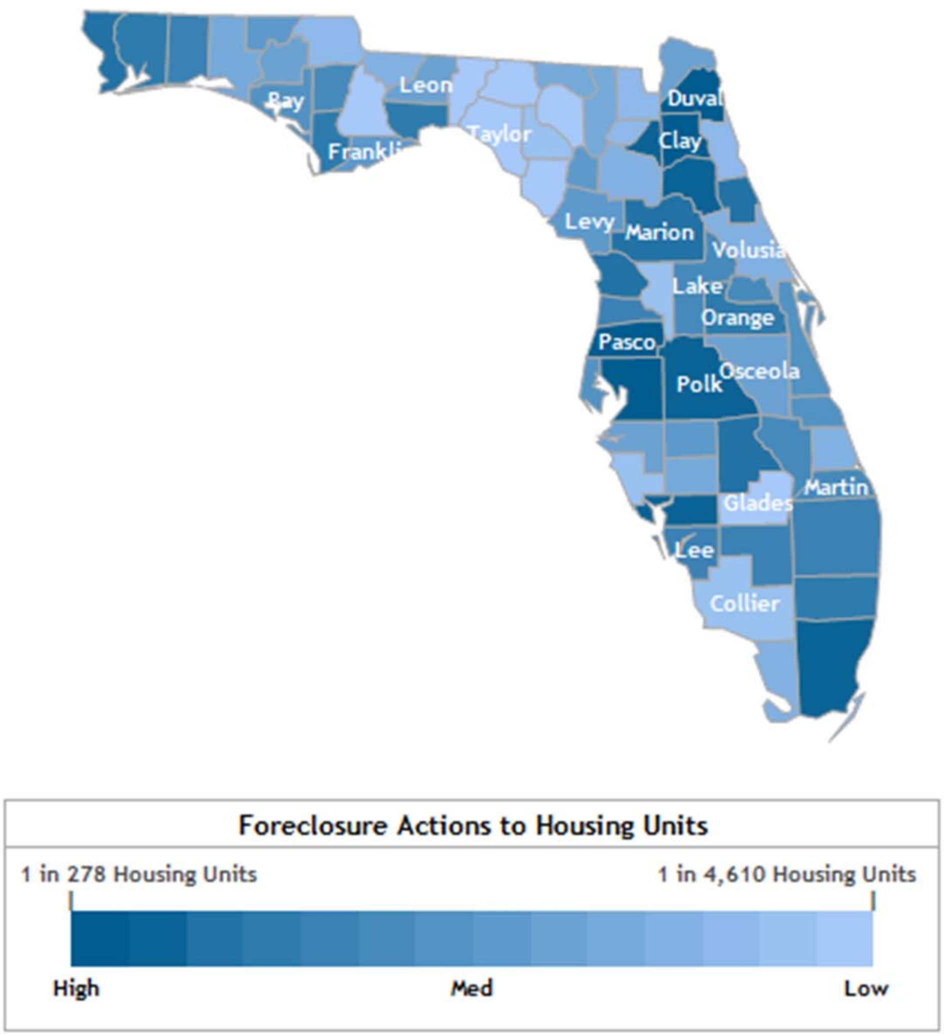
- The housing boom was underway by late FY 2002-03 and clearly in place by FY 2003-04. The peak occurred during FY 2005-06.

- By the summer of 2006, existing home prices began to fall, and owners started to experience negative wealth effects from the price deceleration and accompanying losses in property value. The one-two punch of lower home values and higher interest rates hit homeowners with exotic forms of financing particularly hard, and many investors in the midst of flipping homes were caught short.

- Mortgage delinquencies and foreclosures became more commonplace in 2007 as an increasing stream of homeowners moved underwater (i.e., owing more on their mortgages than their homes were worth), placing even more homes on the market and further driving down prices.

- By the fall of 2008, the excess inventory of unsold homes was further swelled by new waves of foreclosures—this time driven by recession-related unemployment—as well as slowing population growth arising from the national economic contraction.

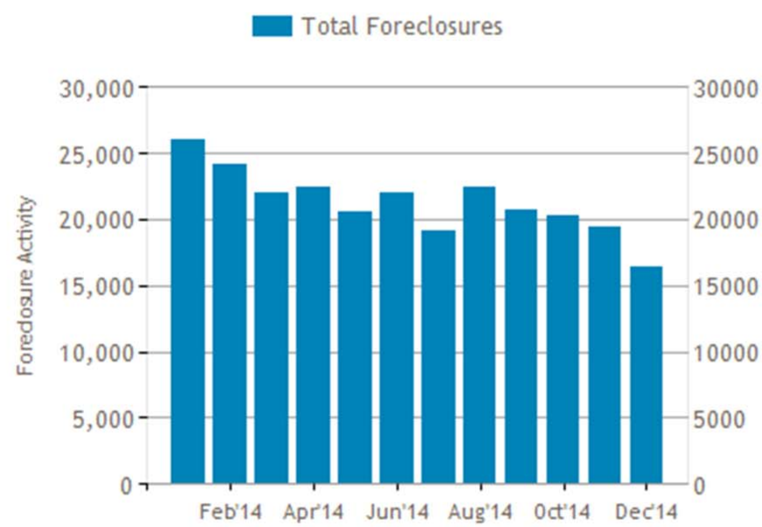
Foreclosures Are Still A Florida Issue



Calendar Year 2014…

- *Highest State for # of Filings*
- *Highest State for Foreclosure Rate*
- *Among US Metro Area rates: 4 of the top 5 highest metro rates in the nation were in Florida.*

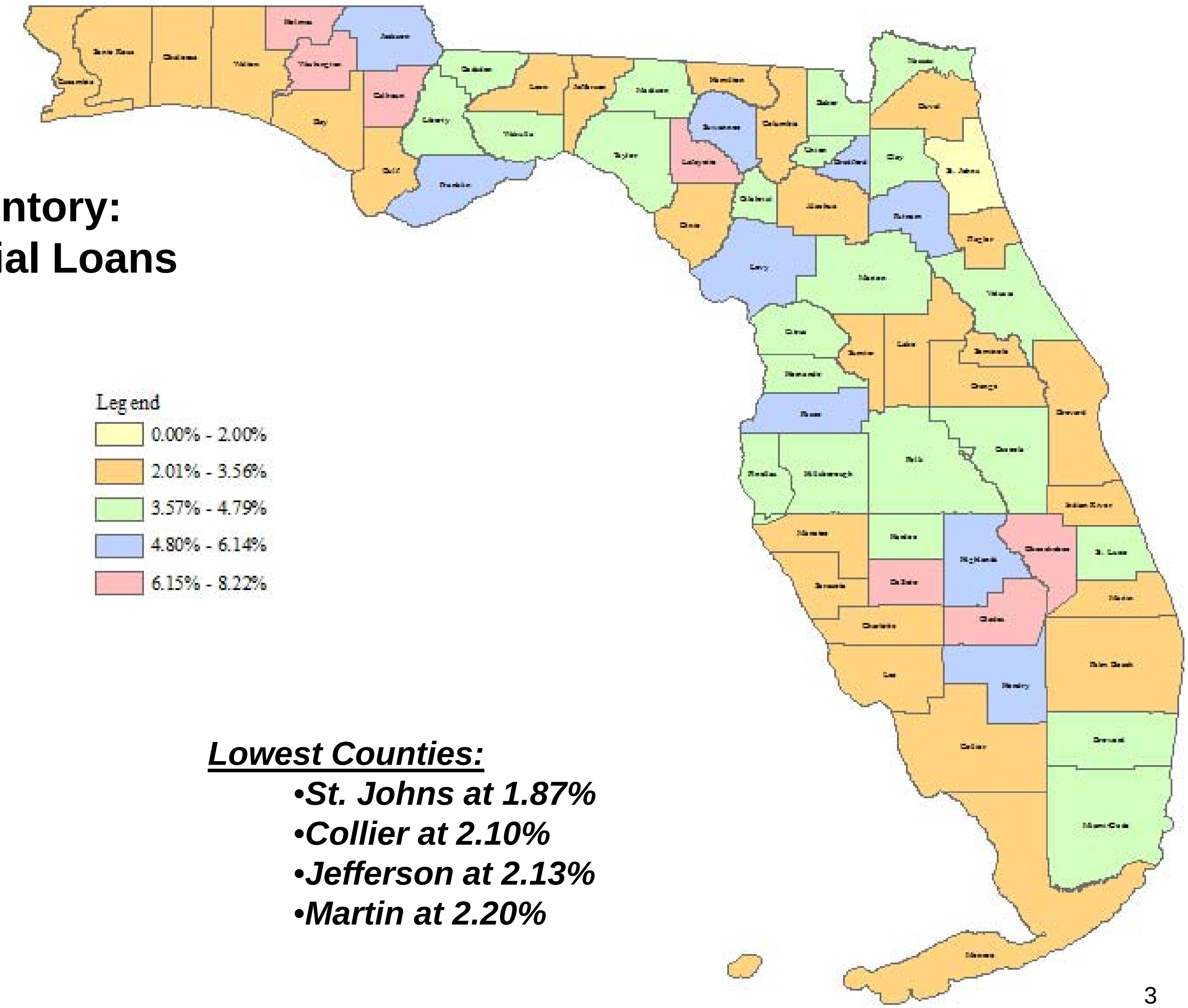
Miami-Fort Lauderdale-Pompano Beach #2
Orlando-Kissimmee #3
Palm Bay-Melbourne-Titusville #4
Tampa-St. Petersburg-Clearwater #5



Data from RealtyTrac

Percent of Loans in Foreclosure

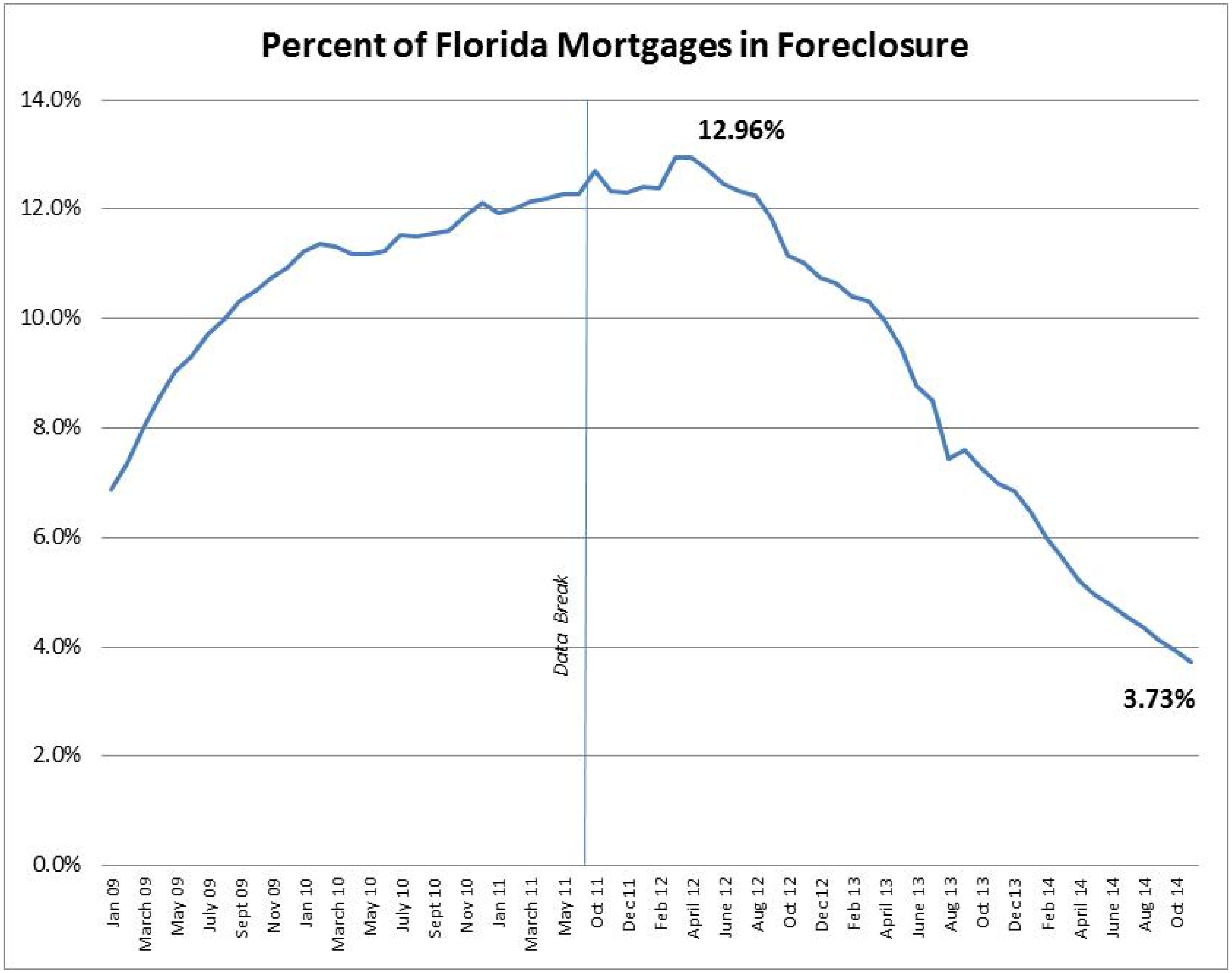
Foreclosure Inventory:
3.73% of Residential Loans
(Nov 2014)



<u>Highest County Rates:</u>
- ***Holmes at 8.22%***
- ***Glades at 7.53%***
- ***Lafayette at 7.35%***
- ***Calhoun 7.20%***

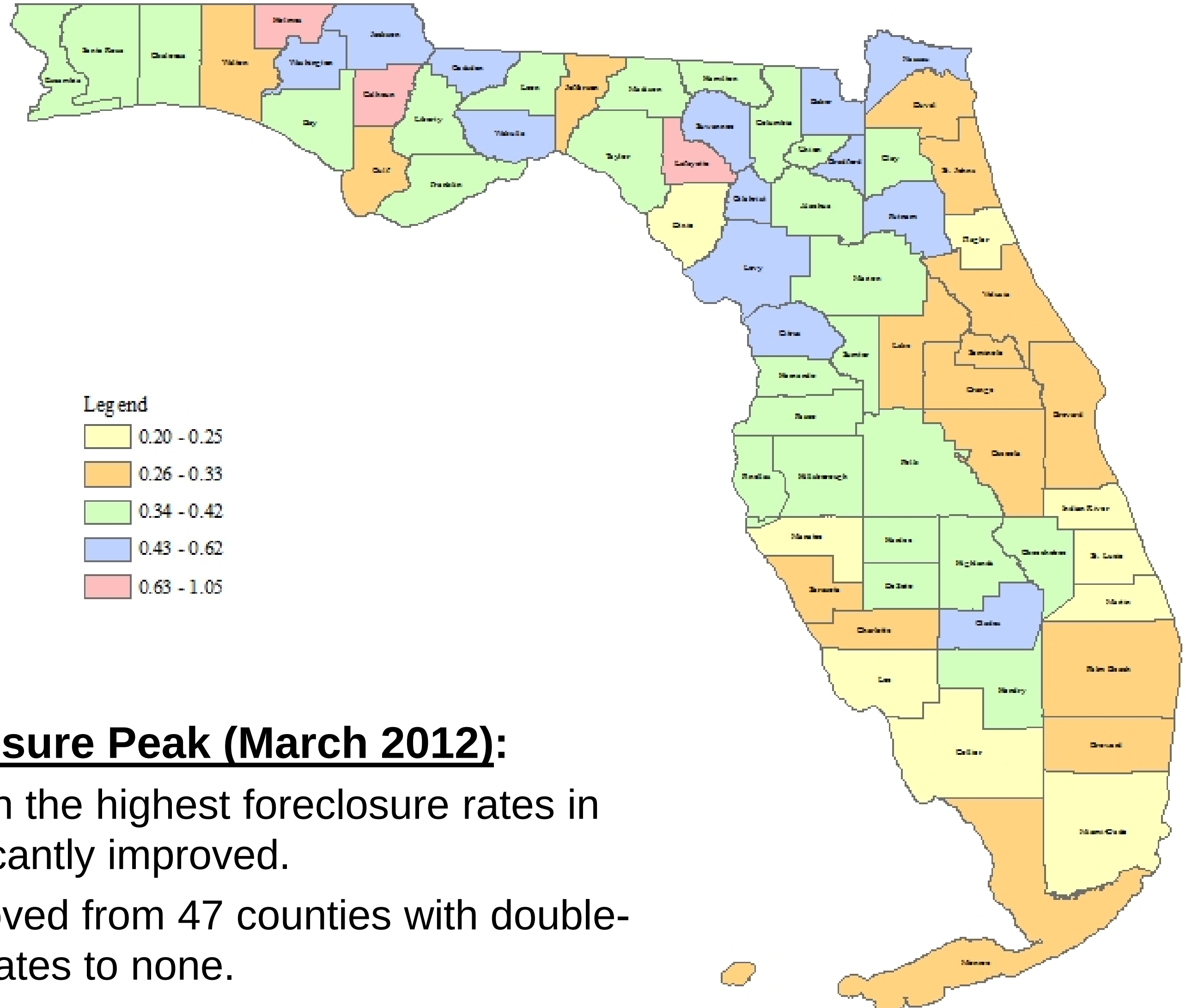
<u>Lowest Counties:</u>
- ***St. Johns at 1.87%***
- ***Collier at 2.10%***
- ***Jefferson at 2.13%***
- ***Martin at 2.20%***

Residential Loans in Foreclosure



Loan Data from LPS / Black Knight Financial Services

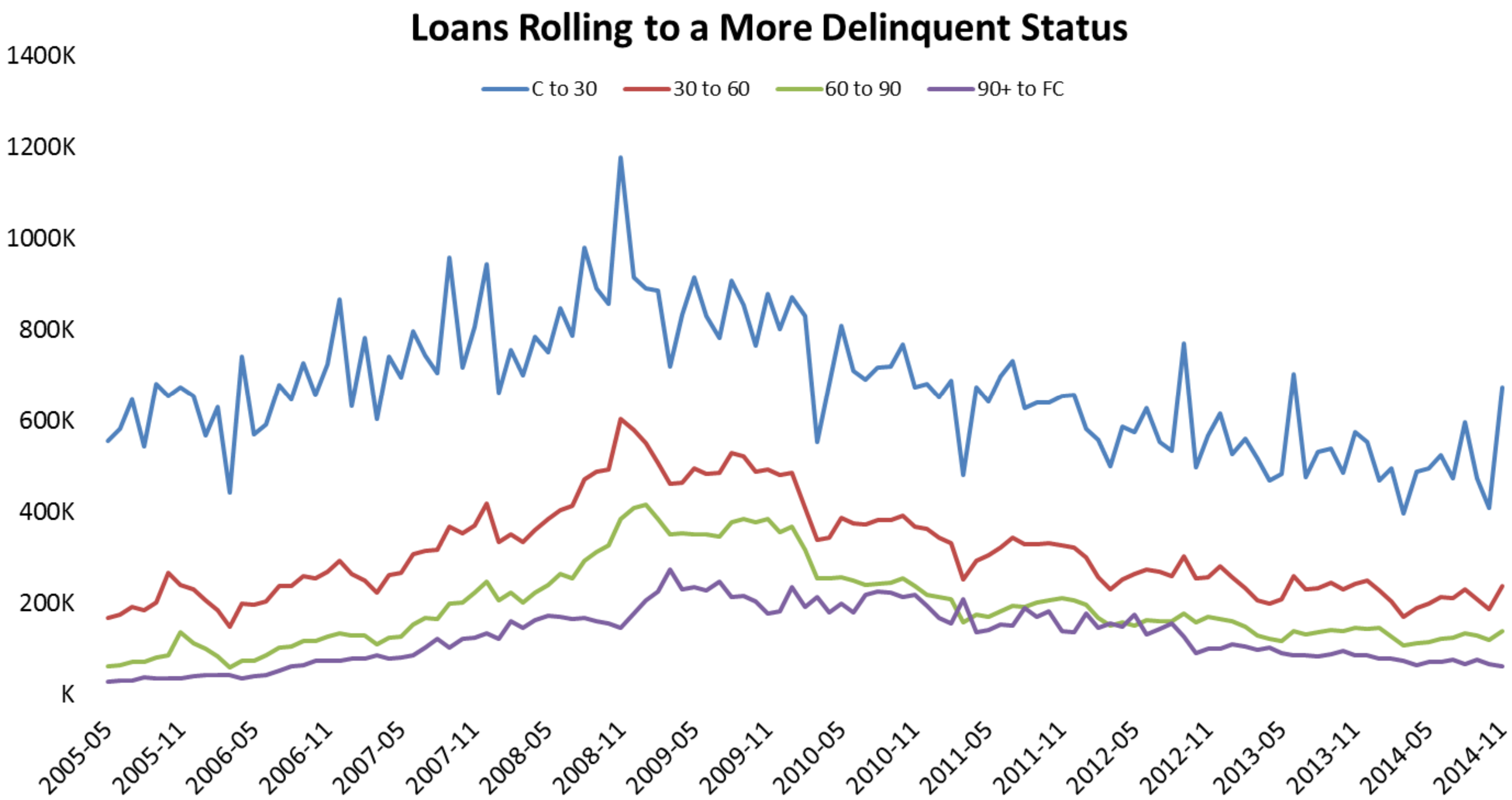
Changes Over Time...



<u>Relative to Foreclosure Peak (March 2012)</u>:

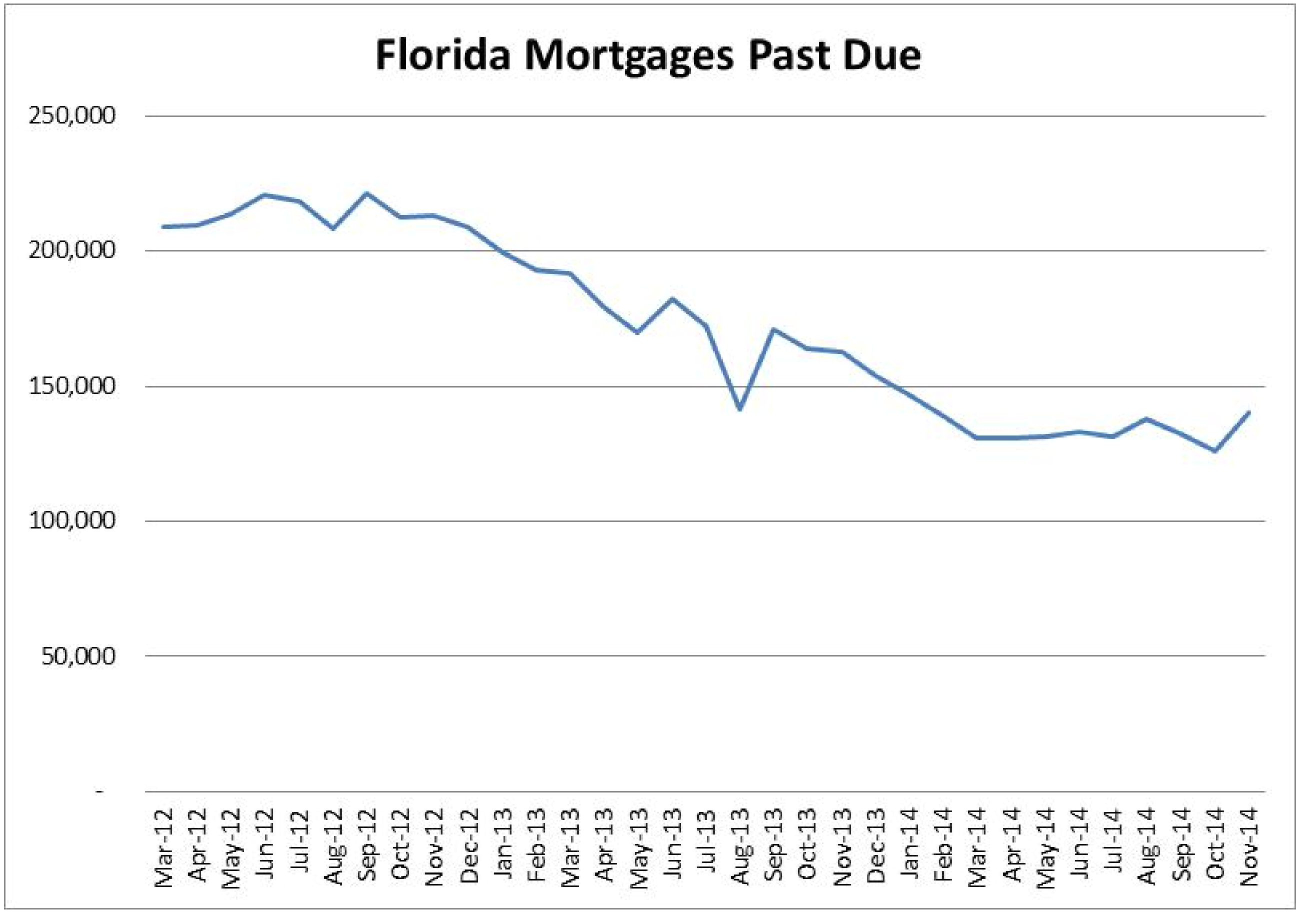
- Five Counties with the highest foreclosure rates in 2012 have significantly improved.
- The State has moved from 47 counties with double-digit foreclosure rates to none.
- However, isolated pockets of the state are showing little improvement—2014 Rate is roughly equal to 2012 Rate.

Nationally, Probability of Increasing Delinquency (Roll-Rate) Has Improved...



Graphic from LPS / Black Knight Financial Services
November Mortgage Monitor

Foreclosures & Shadow Inventory



After being ranked first for many months, Florida has now moved to sixth place among states for non-current mortgages (a measure of delinquencies and foreclosures). A major part of this shift is a reduction in the number of delinquent mortgages which reduces the incoming pipeline.

Upstream from Foreclosure—Much Improved

- **“Exotic” financing practices during the boom**
  - In 2006, almost 47% of all mortgages in the state were considered to be innovative (such as interest only and pay option adjustable rate mortgages). A significant number of these have worked out of the system.

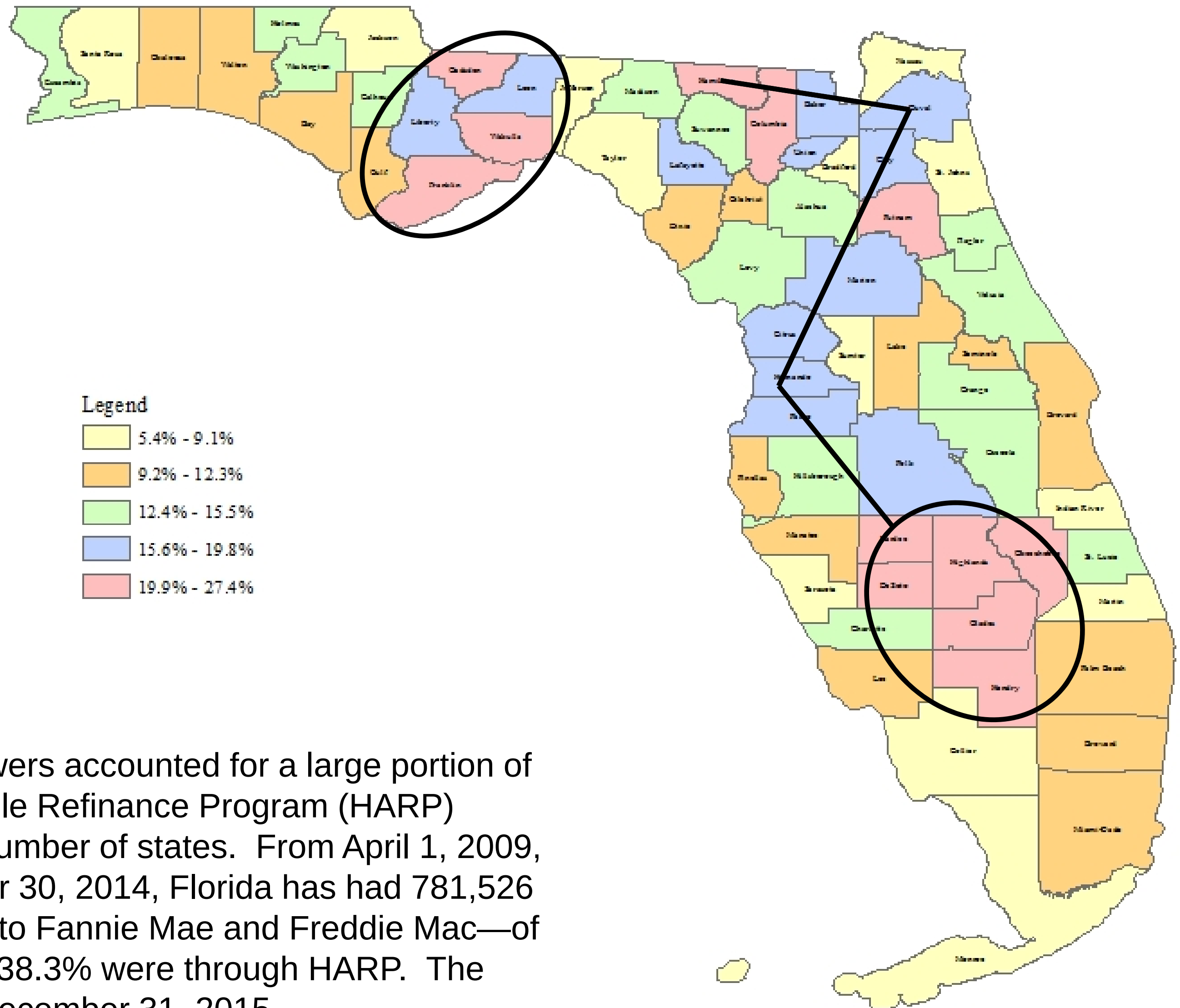
- **Unemployment Rate**
  - Florida’s overall unemployment rate is much improved (5.6% in December versus the Recession high of 11.4%). However, there are still pockets of concern for this purpose. The long-term unemployed were about 40% (242,200) of all unemployed in December. Adding the underemployed and marginally attached to the unemployed, the unemployment rate increases from 5.6% to 12.8%.

- **Underwater Homes (owe more than the home is worth)**
  - In October, underwater homes were down to 15% of all residential mortgages in Florida. This data has improved over the past year.

- **Property Values Since the Peak**
  - 2014 school taxable value grew more than any time since 2007 (7.05%), and 2015 taxable value is expected to continue growth (5.56%).
  - Florida’s December median sales price for existing homes was down 28.2% from its peak, but continuing to rise.

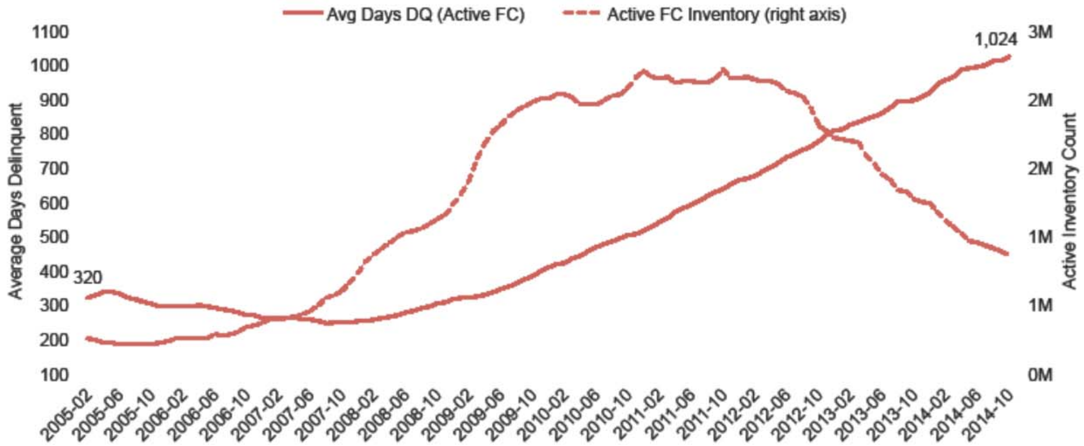
“Underwater” Homes...

In October, underwater homes were down to 15% of all homes with residential mortgages in Florida, improved from over 50%.

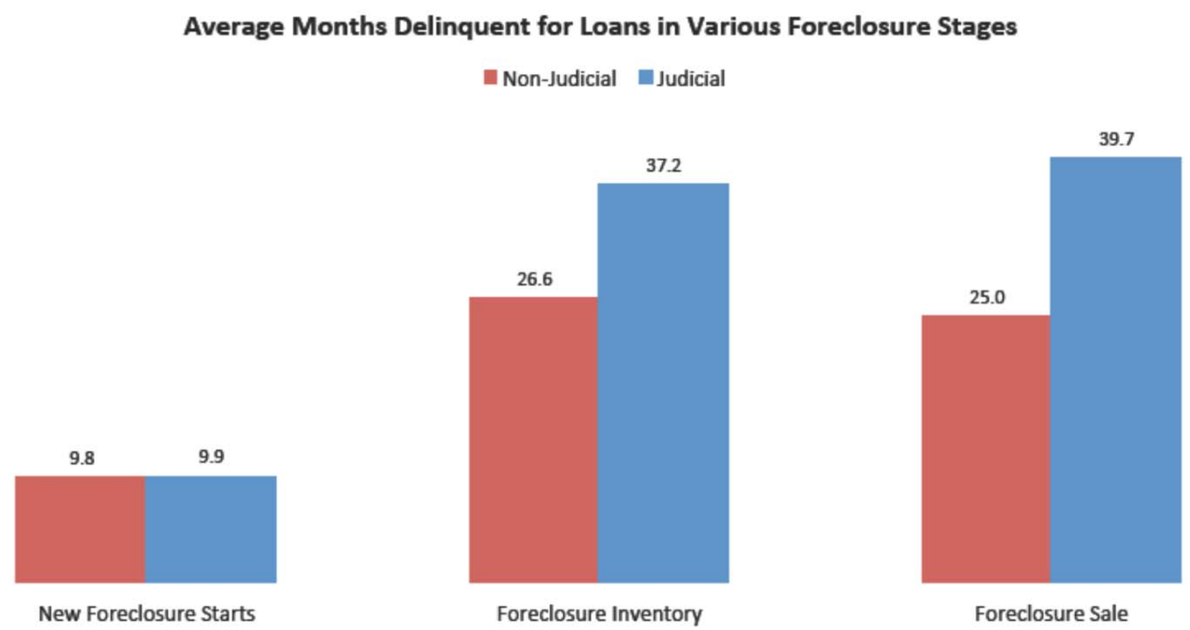


Underwater borrowers accounted for a large portion of the Home Affordable Refinance Program (HARP) refinancings in a number of states. From April 1, 2009, through September 30, 2014, Florida has had 781,526 refinances related to Fannie Mae and Freddie Mac—of which, 299,183 or 38.3% were through HARP. The program expires December 31, 2015.

Delinquency of Homes in Foreclosure



The average number of days delinquent for loans in the active foreclosure inventory continues to rise, hitting 1,024 days in October 2014.



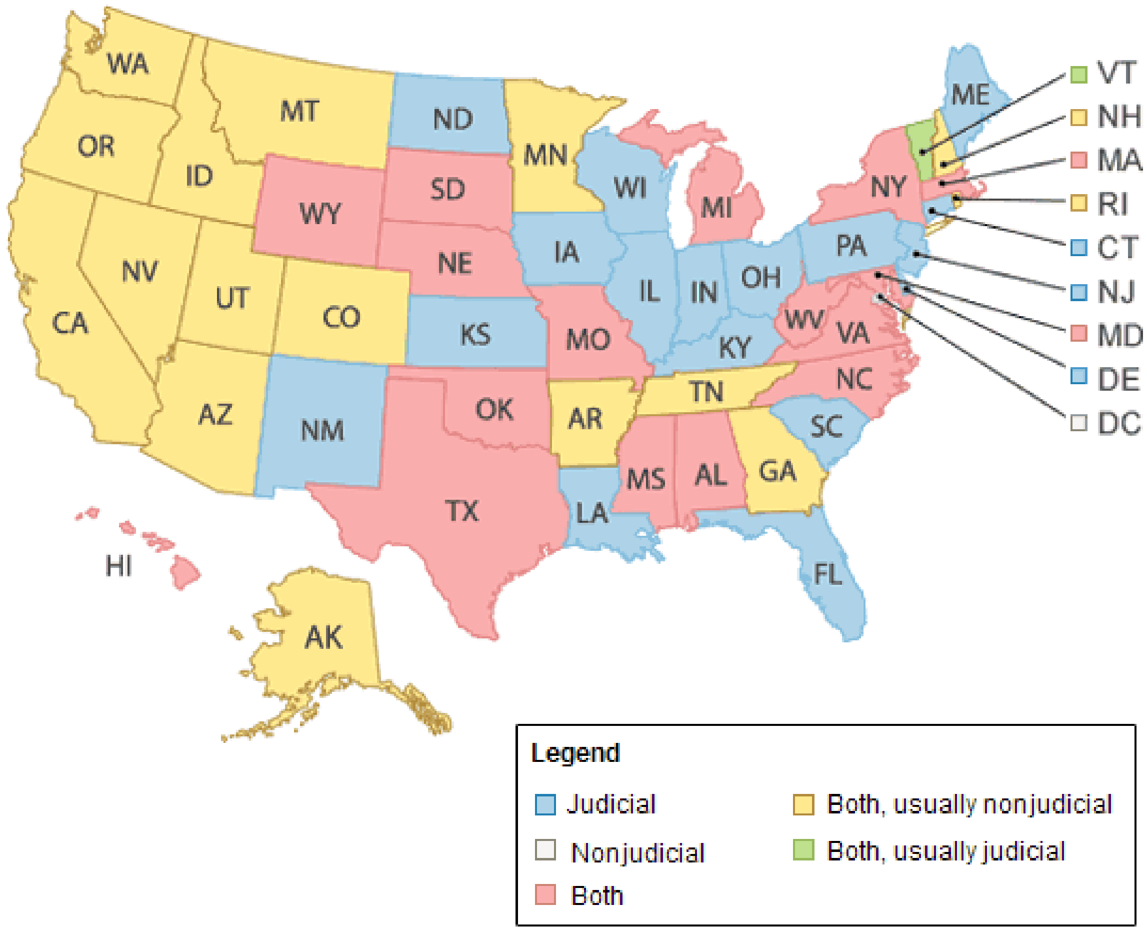
Graphics from LPS / Black Knight

Foreclosure Process Itself is a Factor

- According to the Mortgage Bankers Association, there are 22 states that primarily practice judicial foreclosure

  -- Florida is one of them.

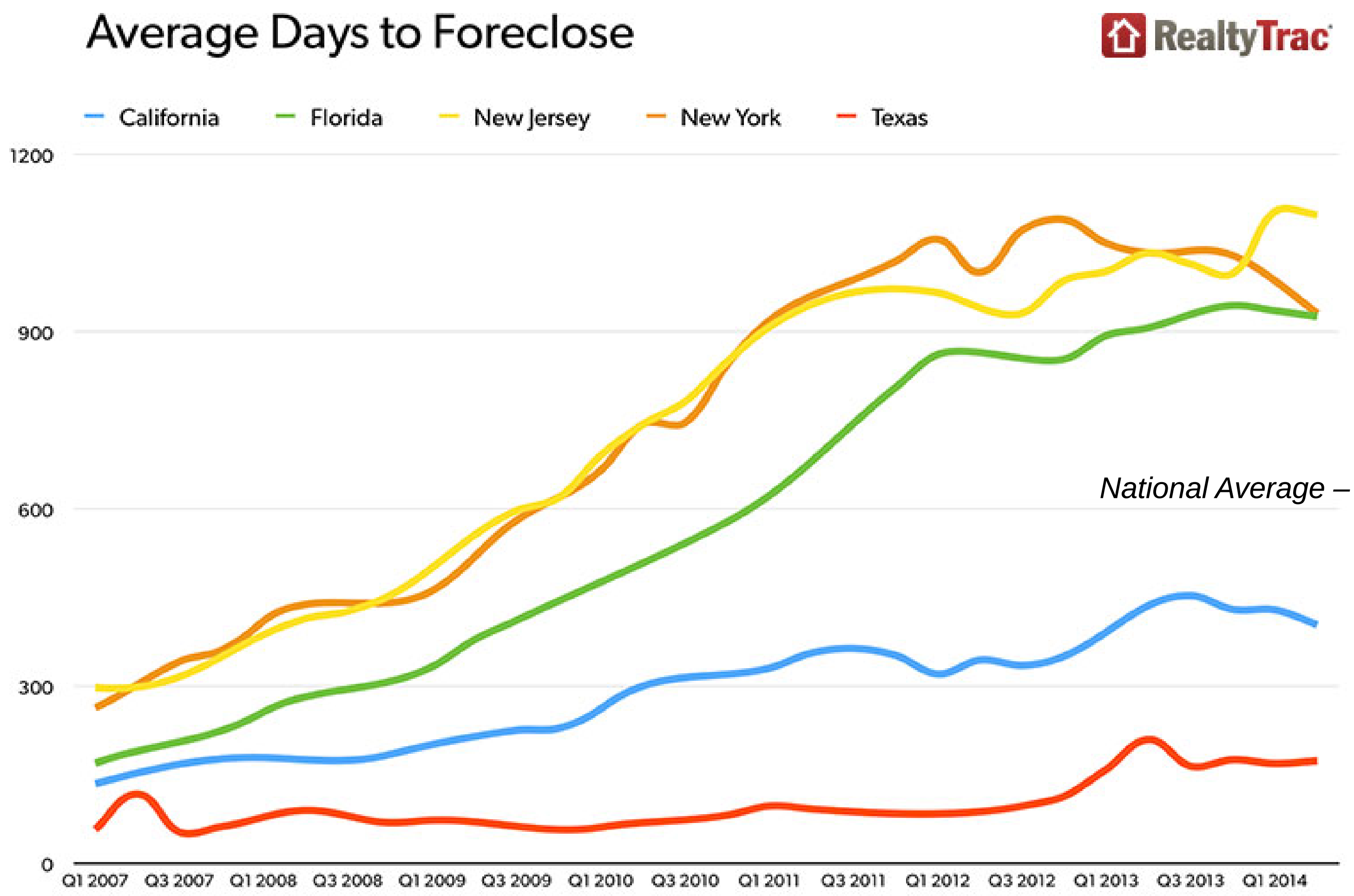
- Bankrate.com has a slightly more nuanced approach.



Days to Foreclose

***Foreclosure Process** (once begun)*

- *946 Days – 2.6 yrs – in Florida (3rd Longest Period in Nation in 2014:Q4)*
- *At the beginning of 2007, Florida was at 169 days or less than 6 months.*



High

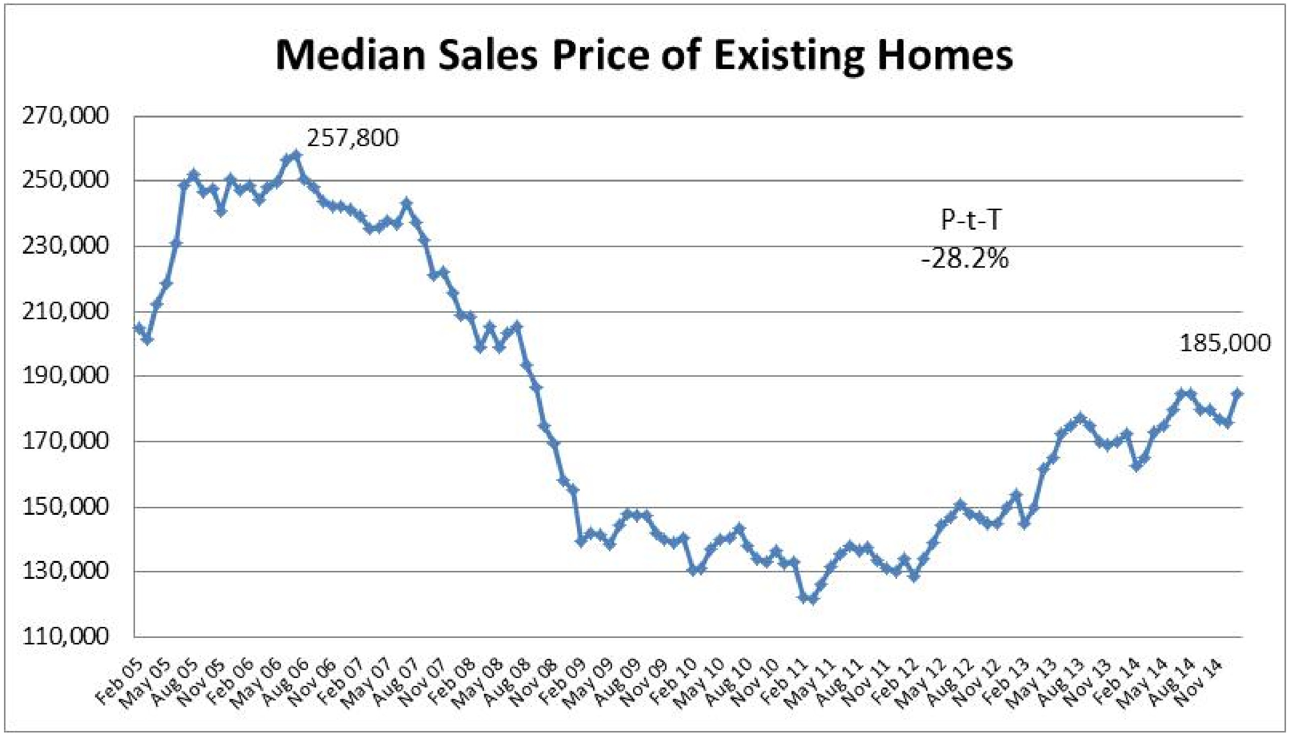
National Average – Now 604 days

Low

Data from RealtyTrac

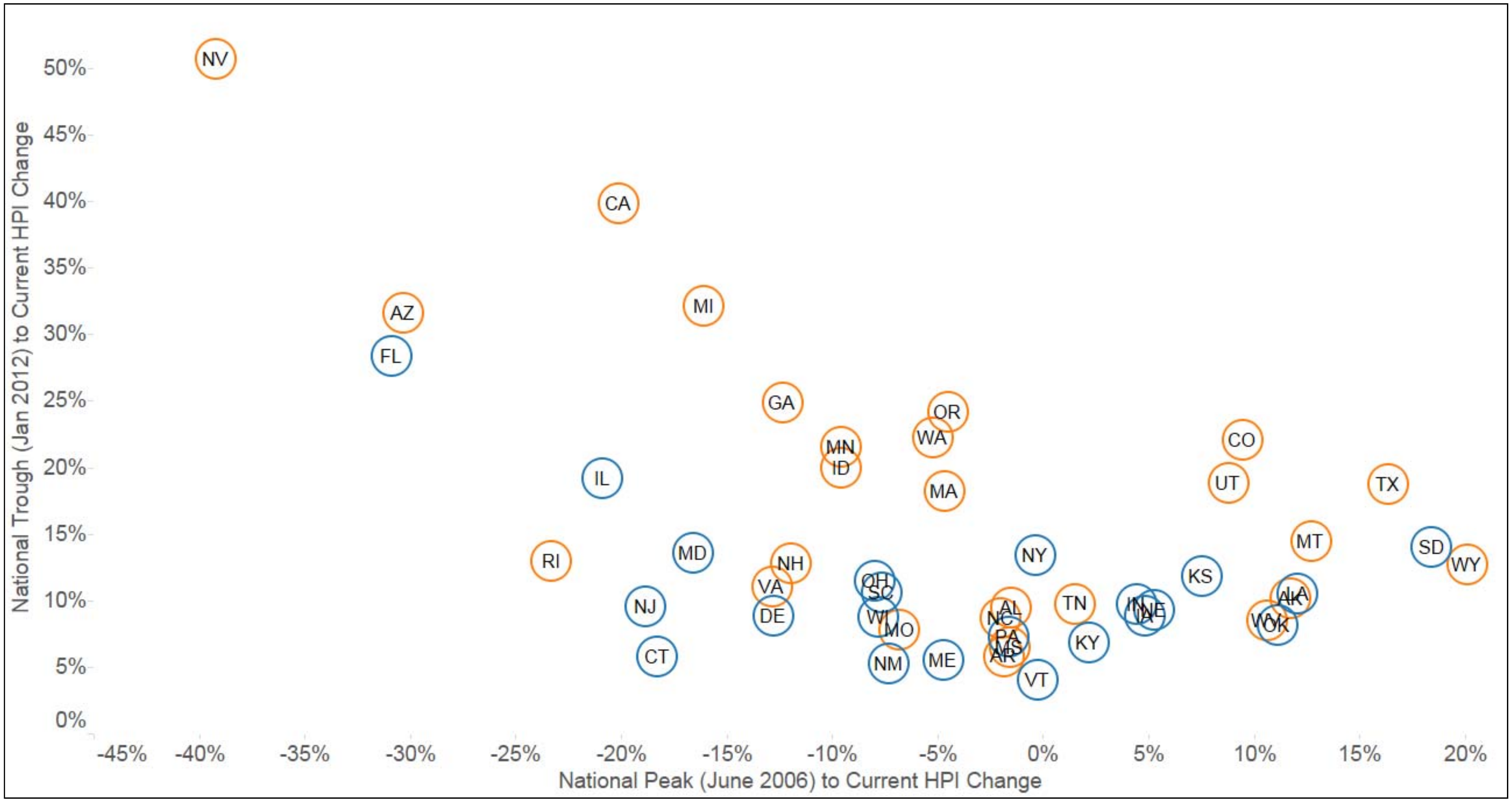
Effect on Market...

- All else being equal, foreclosures initially increase the supply of homes for sale and depress prices. After a period of time, the low prices attract buyers. As the inventory reduces, prices rise. However, the entire process can take years.



Price recovery is split. In Florida, properties in the lowest home price tier (bottom 20%) are still 38.8% off their peaks, while those in the top tier (top 20%) are only 23.0% from the peak.

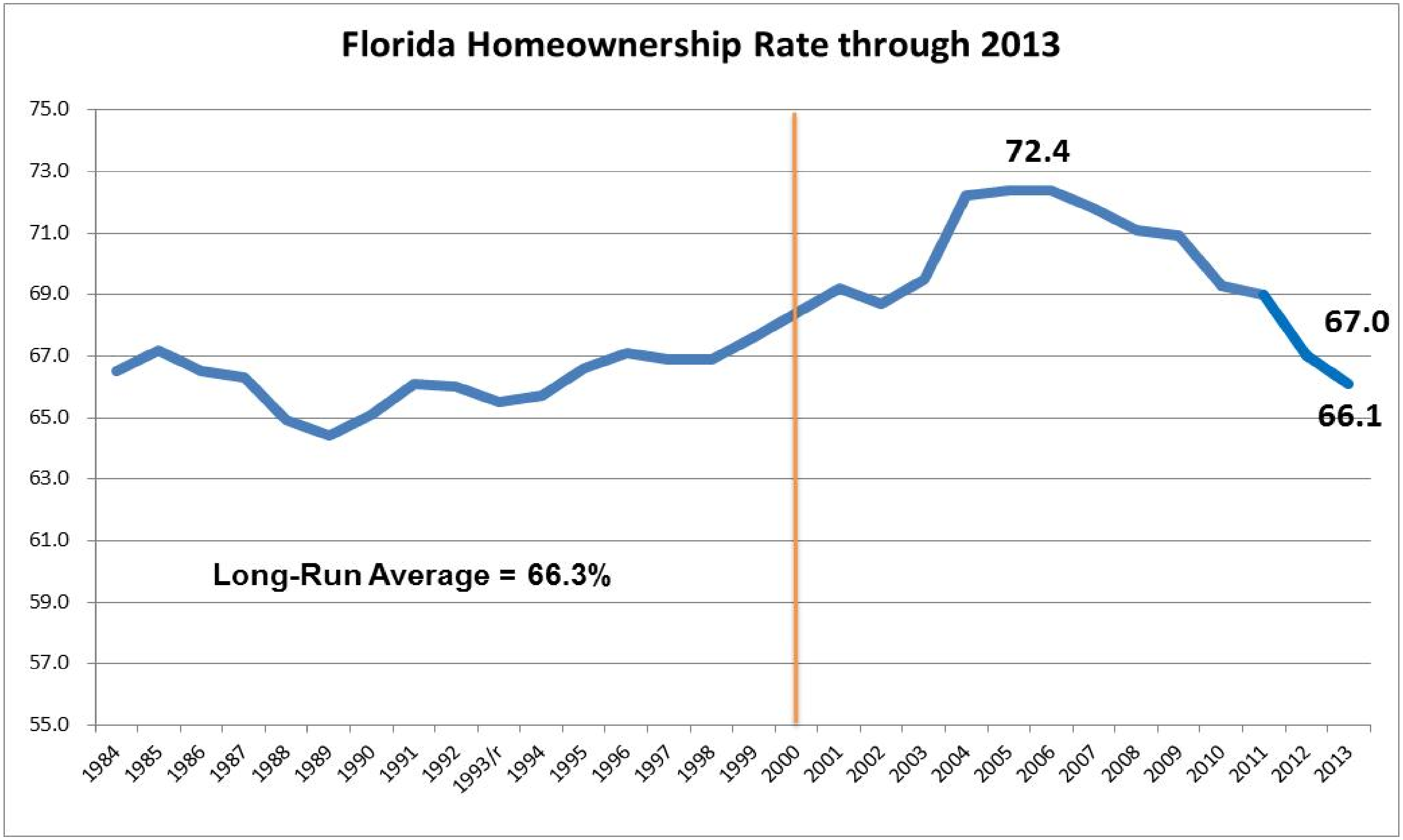
Longer Process Affects Price Recovery



Non-judicial states (orange) are clearly showing higher levels of post-crisis home price appreciation than their judicial counterparts (blue).

Graphic from LPS / Black Knight

Homeownership Rate Below Normal



The 2013 percentage of 66.1 is the lowest since 1994, and it's below the long-term average. The third quarter of the 2014 calendar year has dropped further to 62.4%. If this becomes the final percentage for the year, it will be the lowest level seen since the data series began in 1984.

Credit Conditions Generally Improving

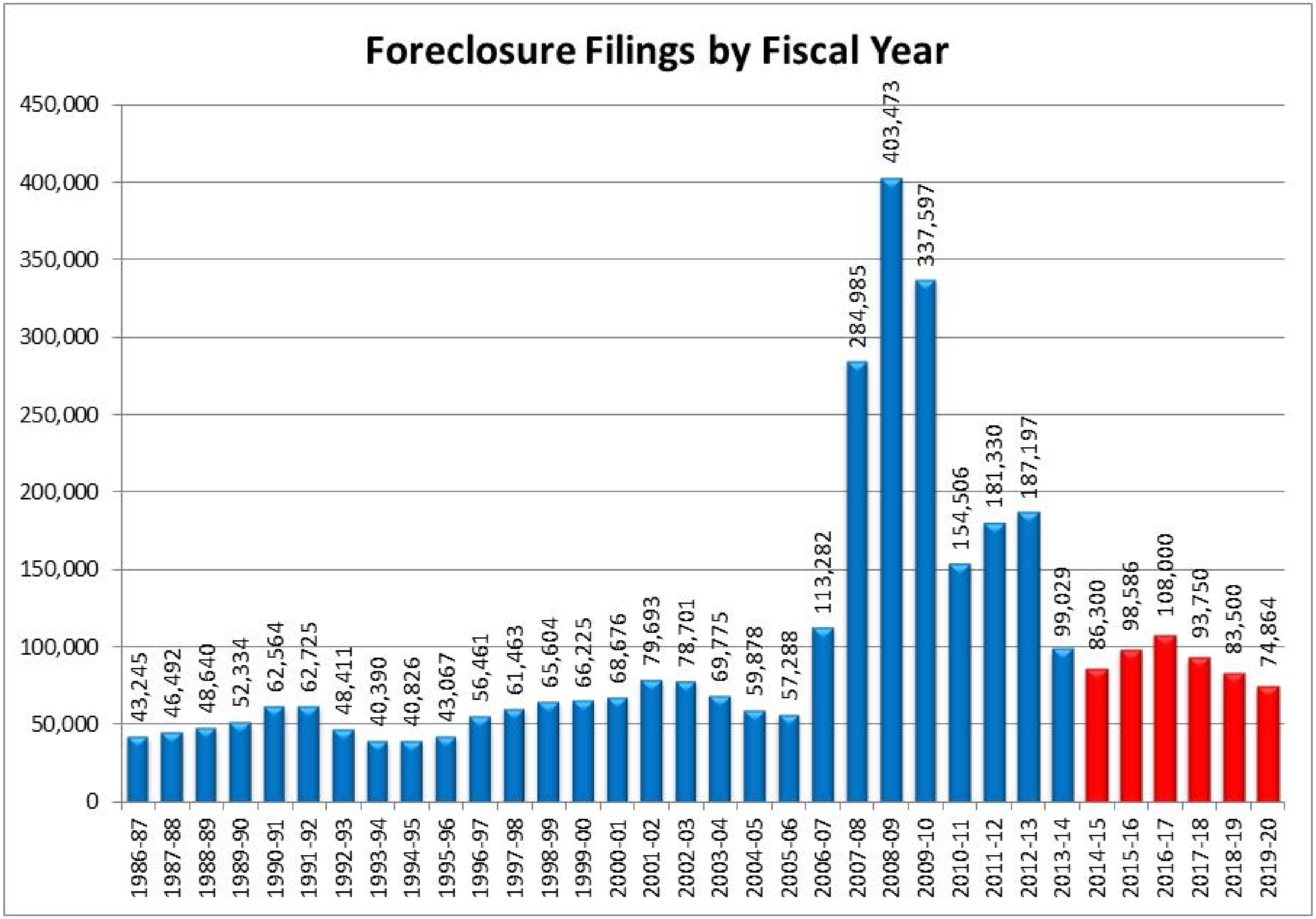
<u>Question to Senior Loan Officers:</u>
Over the past three months, how have your bank's credit standards for approving applications from individuals for **prime residential mortgage loans** to purchase homes changed?

	All Respondents								
	Oct '14 %	July '14 %	Apr '14 %	Jan'14 %	Oct '13 %	July '13 %	Apr '13 %	Jan '13 %	Oct '12 %
Tightened considerably	0.0%	2.8	0.0	1.4	1.4	0.0	0.0	0.0	0.0
Tightened somewhat	2.8%	2.8	14.3	8.5	4.3	3.0	1.6	1.5	3.1
Remained basically unchanged	**83.3**	70.4	72.9	81.7	79.7	86.6	89.1	92.3	92.2
Eased somewhat	13.9%	23.9	12.9	8.5	14.5	10.4	9.4	4.6	4.7
Eased considerably	0.0%	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0
Total	100%	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0

October 2014 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

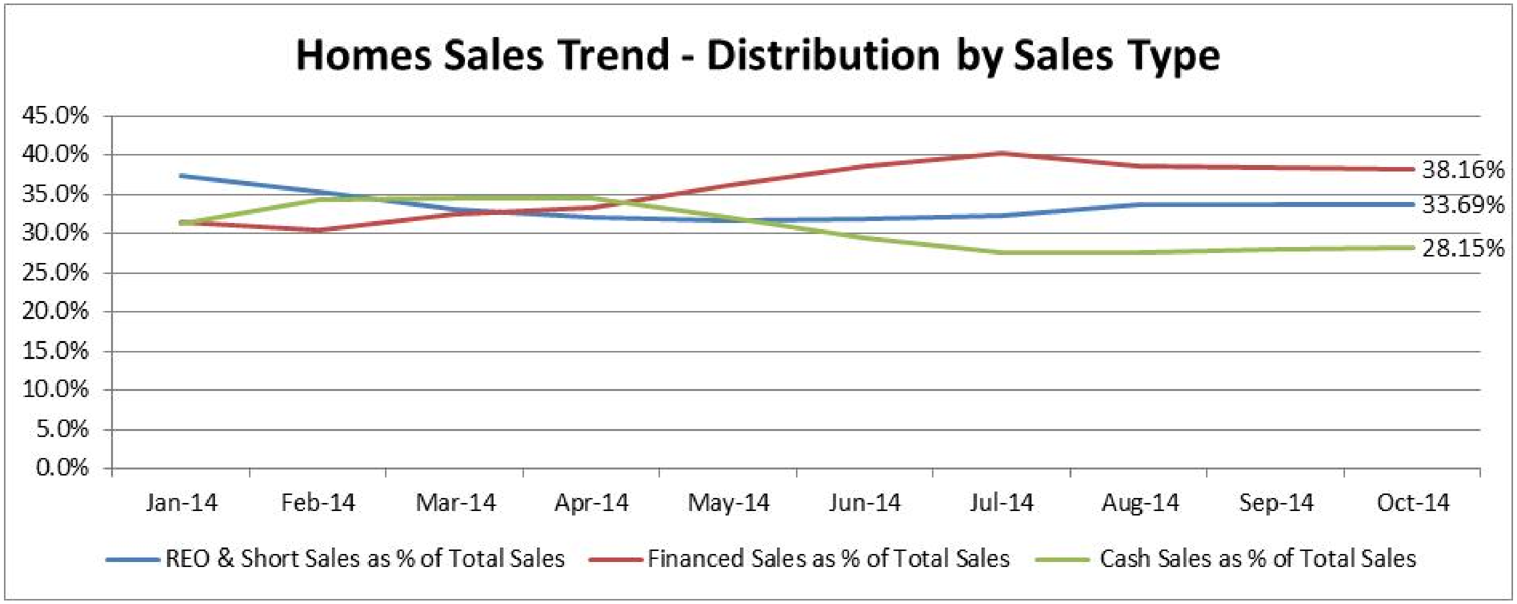
Banks have generally been easing lending standards and terms for certain types of loans, including C&I (commercial and industrial), commercial real estate, and credit card loans. Demand for credit has also increased; however, it is still difficult for homeowners without pristine credit to get mortgages.

REC Foreclosure Forecast...



Sales Mix Still Points To Lower Prices...

Distressed Property Discount 36.5%



Data from LPS / Black Knight

- Financed sales ended October 2014 with a higher share than they had October 2013 (38.2% versus 33.3%); shares for both REO & Short Sales and Cash Sales have drifted slightly downwards. After converging, the share of financed sales has pulled consistently ahead since May 2014.
- While short sales activity has been strong in some states, that is not the case in Florida where the share of total sales is high but not relative to a year ago. There were 5,009 short sales in October 2013, and 4,175 in October 2014. To the extent short sales increase, the foreclosure pipeline will be reduced.

Upside Risks...

Construction...

- The “shadow inventory” of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of “ghost” homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the supply has become two-tiered – viable homes and seriously distressed homes.
- To the extent that the number of viable homes is limited, new construction may come back quicker than expected.

More Buyers...

- In 2015, the first wave of homeowners affected by foreclosures and short sales are past the seven-year window generally needed to repair credit.
- Atypical household formation will ultimately unwind.