

FINANCIAL FAQs

MORTGAGE DELINQUENCIES STILL LOW

Mortgage delinquencies, including foreclosures, peaked in the summer of 2002 and have been declining since then, according to MBA's first quarter 2006 National Delinquency Survey (NDS). Only regions damaged by Hurricane Katrina have shown elevated foreclosure levels, but those regions are now improving with the regional recovery.

Why the continued improvement? "In prior quarters we have indicated a number of factors including the aging of the loan portfolio, increasing short-term interest rates, and high energy prices which are putting upward pressure on delinquency rates. (But) The strong economy and labor markets are offsetting positive factors that were particularly important in the first quarter," said Doug Duncan, MBA's chief economist and senior vice president of research and business development.

The MBA report shows that the percentage of loans in the foreclosure process was 0.98 percent at the end of the first quarter, a drop of 1 basis point from the fourth quarter of 2005, while the seasonally adjusted (SA) rate of loans entering the foreclosure process was 0.41 percent, 1 basis point lower than the previous quarter. The SA delinquency rate for mortgage loans on one-to-four-unit residential properties stood at 4.41 percent at the end of the first quarter, down 29 basis points from the fourth quarter of 2005.

The percentage of loans in the foreclosure process was down 10 basis points and the percentage of loans entering the foreclosure process was down 1 basis point, compared with the first quarter of 2005. The Seasonally-Adjusted delinquency rate was up 10 basis points from one year ago. This quarter's NDS results cover over 41.3 million loans (31.4 million prime loans, 5.6 million subprime loans and 4.3 million government loans).

Hurricane Katrina Impact on the Statistics

First quarter delinquency percentages were higher in Louisiana and Mississippi resulting from the destruction and dislocation caused by the storm. Delinquency statistics for all loan types were lower once the hurricane effects are eliminated from the first quarter statistics. For example, if the effects of Hurricane Katrina are removed from national statistics the total delinquency rate decreases 39 basis points to 4.31 percent from 4.70 percent in the fourth quarter.

The MBA expects continued strong economic growth to offset the effects of rising interest rates on the delinquency rate, as well as any uncertainty about Federal Reserve interest rate policy. "The economy grew at a brisk 5.3 percent pace in the first quarter of 2006, and labor markets were quite strong as well, with an average of 176,000 jobs added per month. Within this context, the housing market was normalizing with a declining pace of new and existing home sales, and slowing rates of home price appreciation," said Sr. V.P. Duncan.

The Seasonally-Adjusted delinquency rate decreased during the first quarter for all loan types, except VA loans. The delinquency rate decreased 22 basis points for prime loans (from 2.47 percent to 2.25 percent), 13 basis points for subprime loans (from 11.63 percent to 11.50 percent), and 95 basis points for FHA loans (from 13.18 percent to 12.23 percent), while increasing 12 basis points for VA loans (from 6.81 percent to 6.93 percent).

The foreclosure inventory percentage also decreased for prime loans and FHA loans while the percentage increased for subprime and VA loans during Q1 2006. The foreclosure inventory rate decreased 2 basis points for prime loans (from 0.42 percent to 0.40 percent) and 16 basis points for FHA loans (from 2.34 percent to 2.18 percent), while the rate increased 17 basis points for subprime loans (from 3.33 percent to 3.50 percent) and one basis point for VA loans (from 1.13 percent to 1.14 percent).

Change from last year (Q1, 2005)

Compared with the first quarter of 2005, the percentage of loans in foreclosure decreased for all loan categories except subprime: 6 basis points for prime loans, 38 basis points for FHA loans, and 24 basis points for VA loans. Among subprime loans the percentage of loans in foreclosure increased 1 basis point over the year.

In the first quarter of 2006, the seriously delinquent percentage was 4 basis points higher than one year ago.

The non-Katrina percentages were calculated by using adjusted second quarter 2005 numbers for Louisiana and Mississippi, instead of their first-quarter 2006 numbers. The hurricane's impact has resulted in elevated delinquency rates and may result in somewhat higher foreclosure rates for at least the next few quarters.

"Going forward we expect these same factors will continue to be important, including the fact that the Federal Reserve might need to raise rates further to keep inflationary pressures contained. In any event, additional modest increases in delinquency and foreclosure rates are likely in the quarters ahead," said Sr. V.P. Duncan.