

# Utah Foreclosures Likely to Set Record in 2009

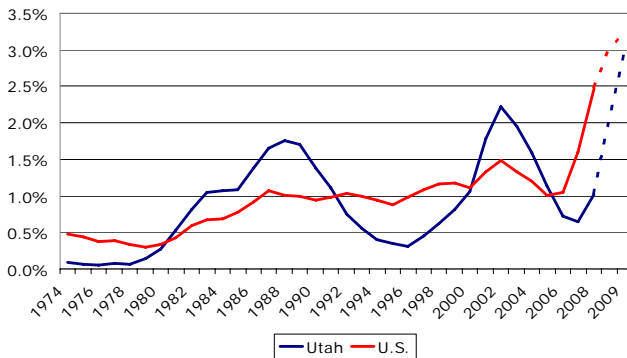
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In the first quarter of 2008 the rate of foreclosures in Utah nearly doubled, rising from 0.64 percent of total mortgage loans to 1.02 percent.

Although Utah's foreclosure rate is currently less than half the national rate, Utah's foreclosure rate has historically been relatively volatile, often rising well above the national rate *Figure 1*. During the past two Utah recessions, 1988 and 2002, Utah's foreclosure rate exceeded the national rate by about 75 basis points, or three-quarters of one percent.

**Figure 1**  
Percent of Mortgage Loans in Foreclosure  
(dotted line = projections)

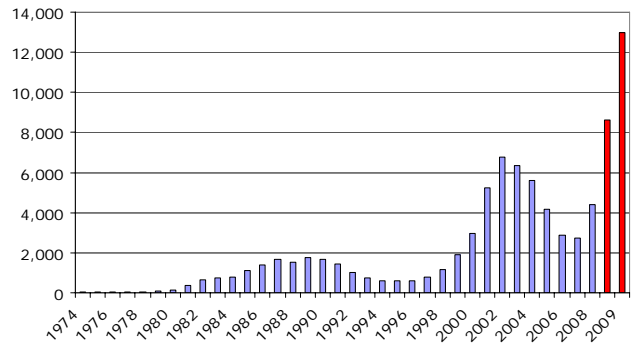


Source: Mortgage Bankers Association.

Nationally the foreclosure rate in the first quarter of 2008 was 2.46 percent. The expectation is that within the next 12 months the national foreclosure rate will increase to over 3 percent.<sup>1</sup> As in the past, Utah's foreclosure rate will likely follow the national trend and rise to at least 3 percent by 2009. There is simply no compelling evidence from either historical trends or local market conditions that Utah will be able to avoid foreclosure rates that approach at least the national rate.

A foreclosure rate of 3 percent would put about 13,000 homes in Utah in foreclosure, nearly double the previous high of 6,800 homes in 2002 *Figure 2*.

**Figure 2**  
Number of Foreclosure Filings in Utah  
(red bars = projections)



Source: Mortgage Bankers Association.

## CONDITIONS CREATING RECORD FORECLOSURES

### National Recession and Global Credit Squeeze

Utah is not insulated from national and global economic conditions. The U.S. recession and housing downturn and the global credit crisis have impaired the availability of credit and driven up interest rates. These global and national conditions have mounting repercussions for the local housing market and little relief is expected until late 2009.

### Declining Housing Prices

Housing price increases in Utah have stalled. Prices peaked in the third quarter of 2007 at a median of \$235,500 and have since declined by 2.3 percent *Table 1*. Falling housing prices will leave some home owners with little or no equity, increasing the risk of default and foreclosure.

**Table 1**  
Median Sales Price of Existing Homes in  
Wasatch Front Counties  
(Davis, Salt Lake, Utah and Weber counties)

	Median Price	Change from Previous Qtr.
2006		
1 <sup>st</sup> Qtr.	\$184,000	
2 <sup>nd</sup> Qtr.	\$196,747	6.9%
3 <sup>rd</sup> Qtr.	\$217,000	12.3%
4 <sup>th</sup> Qtr.	\$220,000	1.4%
2007		
1 <sup>st</sup> Qtr.	\$224,925	2.2%
2 <sup>nd</sup> Qtr.	\$235,000	4.5%
3 <sup>rd</sup> Qtr.	\$235,500	0.2%
4 <sup>th</sup> Qtr.	\$226,250	-3.9%
2008		
1 <sup>st</sup> Qtr.	\$226,000	-0.1%
2 <sup>nd</sup> Qtr.	\$230,000	1.8%

Source: Wasatch Front Regional Multiple Listing Service.

<sup>1</sup> Congressional Testimony of Mark Zandi, Moody's Economy.com, January 2008, to Joint Economic Committee.

## Weak Job Market

High rates of foreclosure in the past have been associated with weak job markets. Utah's two peak years for foreclosures, 1988 and 2002, were both preceded by years when job growth had dropped to 1 percent or less. The recent precipitous drop in Utah's job growth is likely a precursor of higher foreclosure rates *Table 2*. The forecast for job growth in 2008 is 0.4 percent, and 1 percent for 2009.

**Table 2**  
**Employment Change in Utah**

	Year-Over % Chg.	Year-Over Job Increase
October	4.3%	52,200
November	3.9%	48,700
December	3.6%	44,800
January	2.8%	33,800
February	2.3%	28,100
March	2.1%	26,200
April	2.0%	24,800
May	1.4%	17,800
June	0.9%	11,500

*Source: Utah Department of Workforce Services.*

## Utah's Most Severe Residential Construction Contraction in History

Residential construction in Utah is falling at a record-breaking pace as conditions have moved from an orderly correction to a serious contraction. The first quarter of 2008 reported a 58.2 percent year-over decline in total residential building permits (homes, twin homes, condominiums, apartments, cabins, and manufactured homes) *Table 3*. This ranks as the most severe quarterly contraction ever reported, surpassing the fourth quarter of 2007, which had a 53.4 percent drop. Prior to these back-to-back quarters the worst quarterly decline recorded in Utah was the third quarter of 1987, when new permit activity

dropped 50.1 percent and was followed in 1988 by record high foreclosures.

**Table 3**  
**Residential Building Permits Issued by Type of Unit**

	1 <sup>st</sup> qtr 2007	1 <sup>st</sup> qtr 2008	% Chg.
Single-Family	3,804	1,323	-65.2%
Twin Homes and Condos	1,034	528	-48.9%
Apartments	391	319	-18.4%
Cabins	18	12	-33.3%
Manufactured Homes	96	52	-45.8%
Total	5,343	2,234	-58.2%

*Source: Bureau of Economic and Business Research, University of Utah.*

## Exposure to Subprime Loans

An additional factor adding to foreclosure vulnerability in this housing cycle is the presence of over 50,000 subprime mortgages in Utah. Seventy percent of these mortgages carry adjustable rates resetting primarily in 2008 and 2009. Other characteristics that raise the risk of foreclosure are high loan-to-value, piggyback and interest-only loans *Table 4*.

**Table 4**  
**Comparison of Characteristics of Utah Subprime Loans with U.S. Averages**

	% of Utah Subprime Loans	% of U.S. Subprime Loans
High LTV	48%	37%
Piggyback	36%	23%
Low or No Documentation	27%	33%
Prepayment Penalty in Force	68%	45%
Interest Only	16%	13%
ARM	70%	59%
<620 FICO and High LTV	18%	16%
Seriously Delinquent	10%	18%
Share Resetting in 2008	42%	39%
Share Resetting in 2009	26%	18%

*Source: First American Loan Performance.*

## ECONOMIC IMPACT OF FORECLOSURES

### Homeowner Costs

- Loss of down payment and principal
- Penalties, legal fees, and mortgage service fees
- Higher future cost of borrowing due to damaged credit
- Moving expense

### Lender Costs

Average foreclosure cost to lender of \$77,935 per home (Congressional Joint Economic Committee)

### Community Costs

- Decline in property values for surrounding home owners
- Increased municipal costs for police and fire protection, inspections, and legal action
- Loss of tax revenue
- Damage to neighborhood and community image