

A Local Perspective on the Housing Finance Crisis

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Whose Problem?

- Homeowners/Borrowers
- Homebuyers
- Homesellers
- Builders
- Lenders
- Securitizers
- Investors
- Regulators
- Taxpayers
- Government sector

What Kind of Crisis?

Whom?	Crisis?	Resolution?
Homeowners/ Borrowers	Overextended; Negative Equity; Walk away?	<ul style="list-style-type: none">•Keep rates low?•Stay in home?•Financial counseling?•Adjust principal?
Homebuyers	Weaker access to capital <ul style="list-style-type: none">•Conforming loans only•Higher costs for jumbos	<ul style="list-style-type: none">•Tax rebate?•Interest rate cuts•Expanded conforming loan limits

What Kind of Crisis?

Whom?	Crisis?	Resolution?
Homesellers	<ul style="list-style-type: none">• Sell at a “loss?”• Wait for recovery?	<ul style="list-style-type: none">• See homebuyers
Builders	<ul style="list-style-type: none">• Excess inventory• No buyers• Capital freeze	<ul style="list-style-type: none">• See homebuyers• Expanded tax write-offs

What Kind of Crisis?

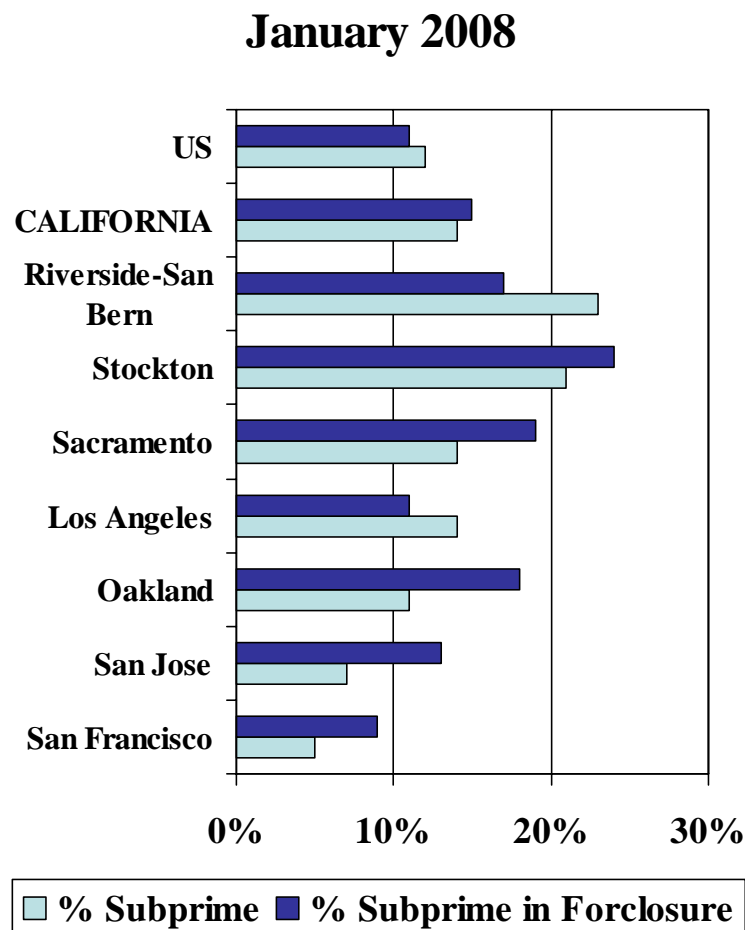
Whom?	Crisis?	Resolution?
Lenders	<ul style="list-style-type: none">• Losses on loans• Declining business	<ul style="list-style-type: none">• Lower interest rates• Access to short term capital• Mortgage regs
Securitizers	<ul style="list-style-type: none">• Devalued products• Credit crunch• Bankruptcy	<ul style="list-style-type: none">• Support for mergers, work-outs, guarantees• Regulations (long term)
Investors	<ul style="list-style-type: none">• Loss of value• Illiquid markets	<ul style="list-style-type: none">• See above• Disclosure req'ts

What Kind of Crisis?

Whom?	Crisis?	Resolution?
Regulators	<ul style="list-style-type: none">•Ratings failure	<ul style="list-style-type: none">•???
Taxpayers	<ul style="list-style-type: none">•Financial crisis•Public expenditures•Higher public debt	<ul style="list-style-type: none">•???
Government sector	<ul style="list-style-type: none">•Loss of revenue•Increased demand for services•Credit crunch	<ul style="list-style-type: none">•???

Local Issues—How has the crisis spread?

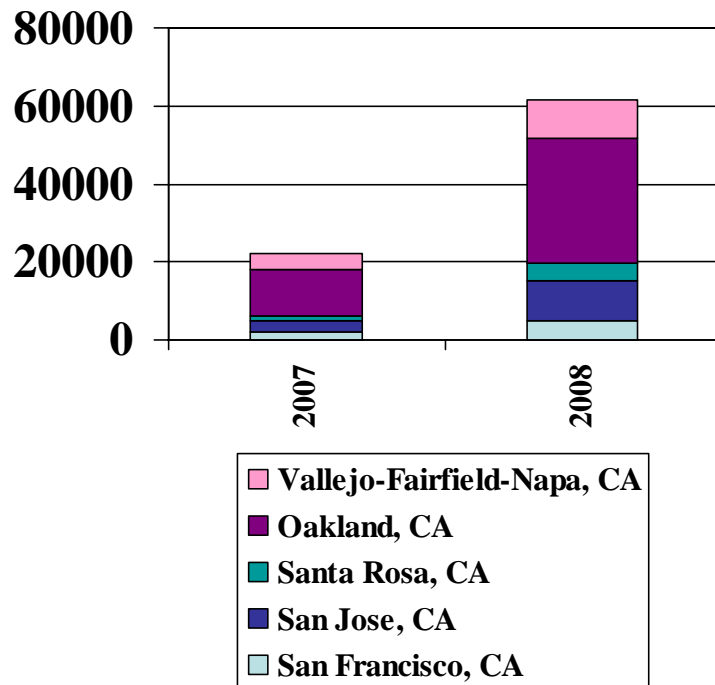
- Varies widely among metro areas and within metro areas
- Lower cost markets
- Newer markets
- Suburban communities
- Minorities, immigrants



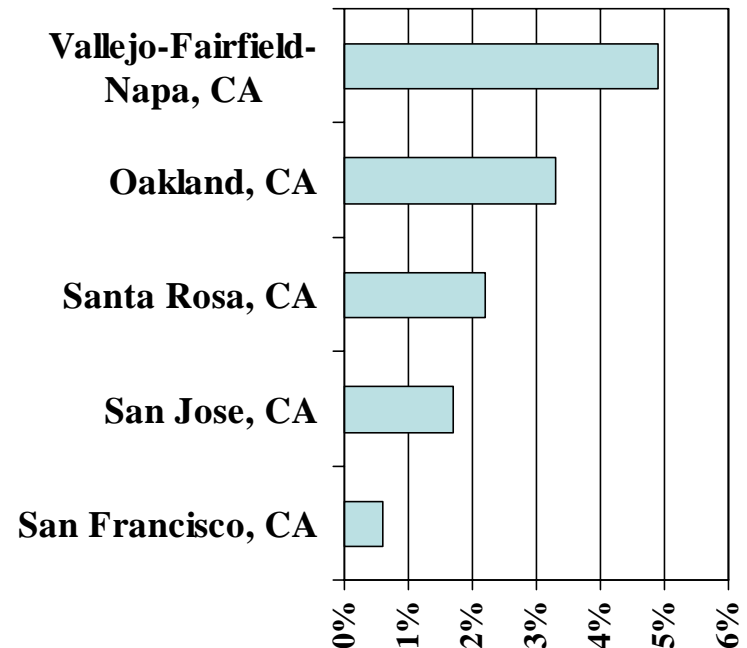
Source: First American CoreLogic, LoanPerformance data.

Bay Area Default Notices Compared to Housing Stock

Default Notices

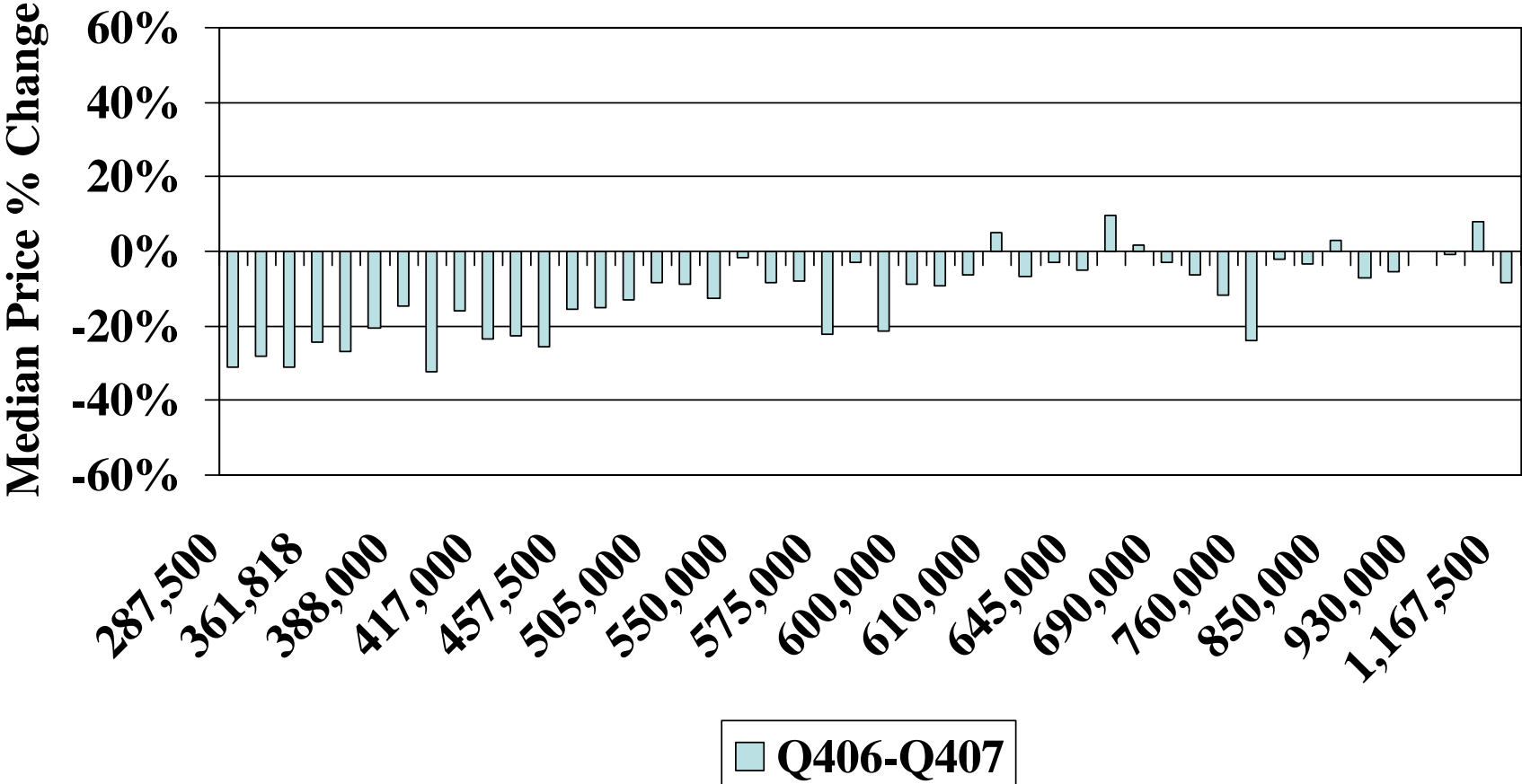


Defaults Jan 2008 Relative to 2008 Housing Stock



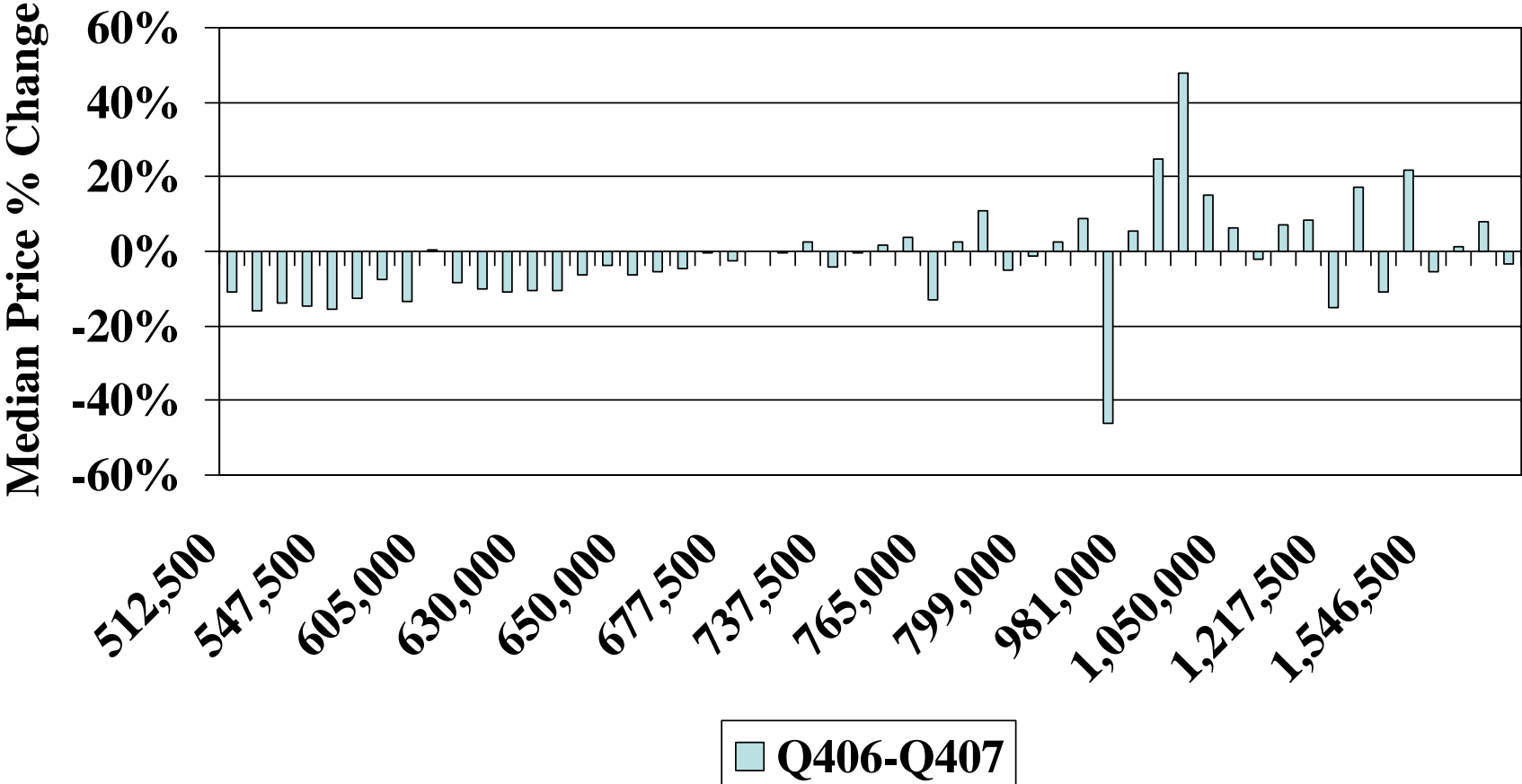
Source: FCREUE from First American CoreLogic Loan Performance data, California Dept. of Finance data.

Home Price Change by Median Price of Neighborhood, Alameda County Detached



Source: FCREUE from zip code summaries provided by IHP Capital.

Home Price Change by Median Price of Neighborhood, Santa Clara County Detached



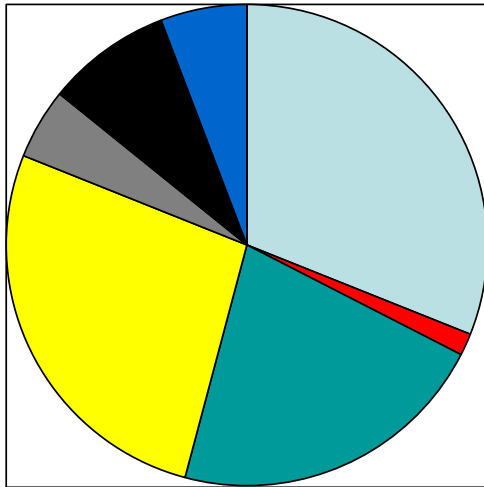
Source: FCREUE from zip code summaries provided by IHP Capital.

Public Sector Vulnerabilities

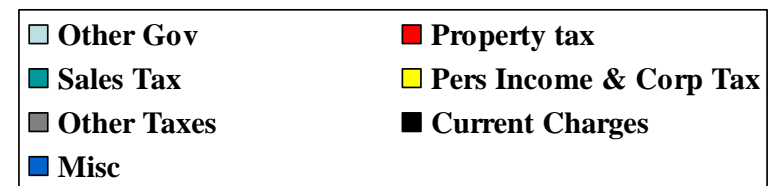
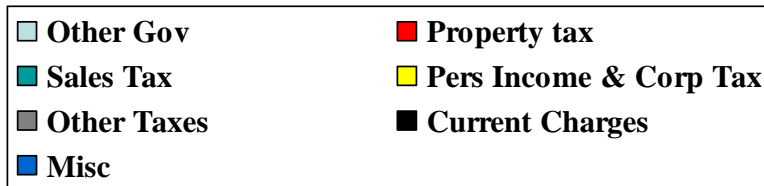
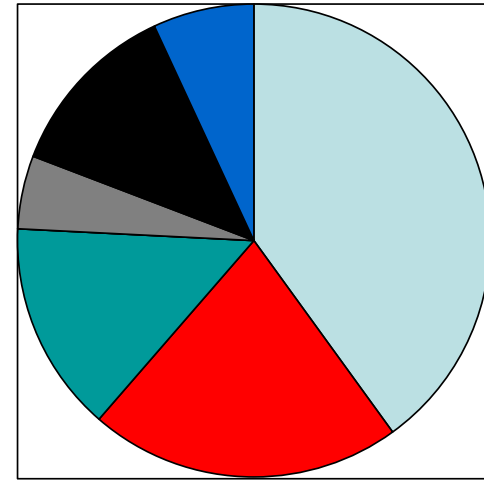
- Local government general funds rely on property and sales tax revenues
- Property transaction revenues and development fees change more rapidly than property tax revenues
- New communities with many recent sales faces greater risk of property tax revenue drops
- State affected by related income and corporate tax revenue declines

General Revenue Sources California State and Local Governments

California State Government



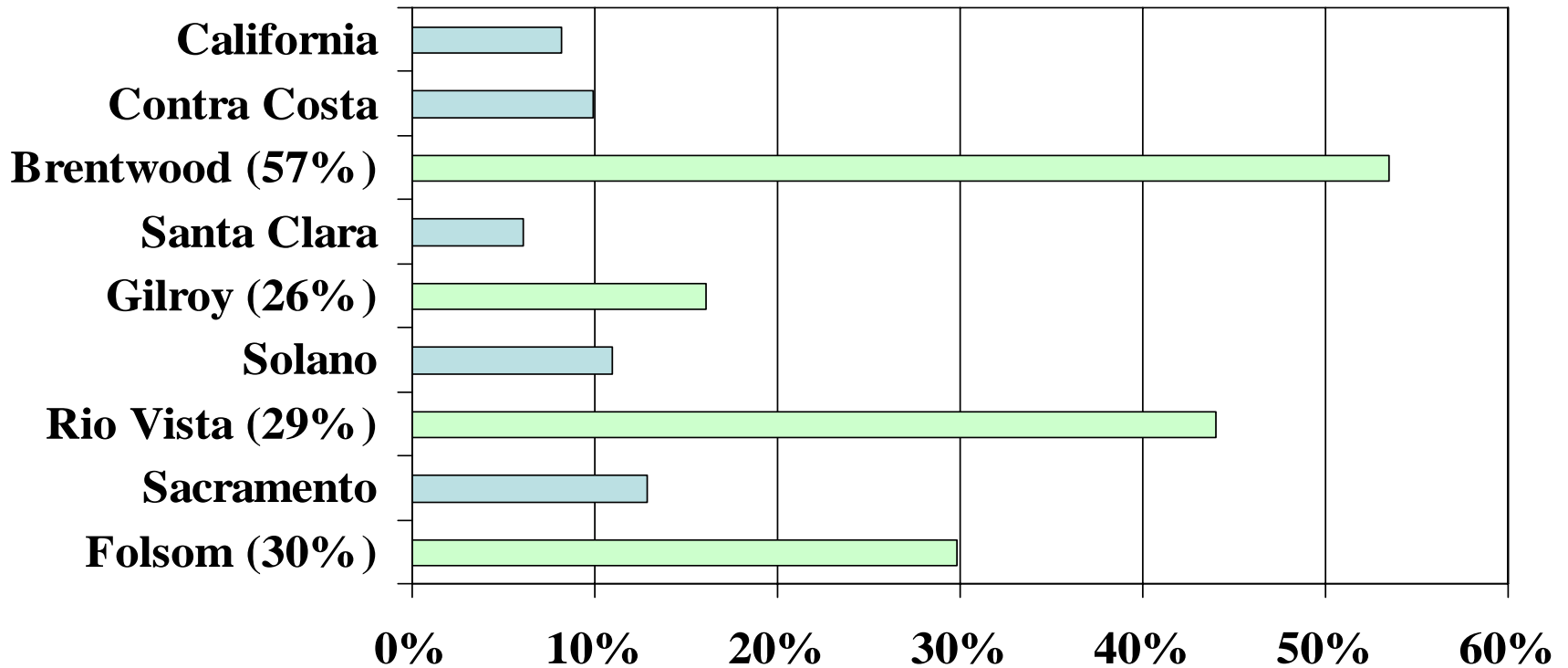
Local Government



Source: US Bureau of the Census, Census of Governments 2002.

Percent of Homes Added within Jurisdiction Since 2000

(*Share of 2004/05 General Fund from Real Estate Income)



Source: FCREUE from California Dept of Finance and Construction Industry Research Board data.

How Would Proposed Responses Affect Local Issues

- Mortgage reform—change incentive structure, responsibility/recourse
- Securitization—reallocate risk, capitalization requirements
- Borrower—reinstate income requirements, counseling, interest rate and long term equity adjustments
- Public sector—access to capital, funding process