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Foreclosure Trends

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Key Findings:

- As a non-judicial foreclosure state, Tennessee's foreclosure inventory ranked 39th in the nation as of June 2015 at 0.5 percent.¹ This was the lowest foreclosure rate in the Southeastern United States.
- Tennessee saw substantial declines in delinquencies and REO properties during the second quarter of 2015, while foreclosure inventory shrank by nearly 1,000 homes, or nearly 20 percent, during this same time period.
- Shelby County finished with Tennessee's highest county rates for delinquency and foreclosure in the second quarter of 2015, at about twice the state average in both categories. Despite this, Shelby County saw declines of nearly ten and twenty percent, respectively. Furthermore, its foreclosure rate is still lower than 23 other states, and is less than a third of its highest rate during the Great Recession.

At the Tennessee Housing Development Agency (THDA), we follow foreclosure trends in Tennessee and its 95 counties. Until the end of 2014, we used RealtyTrac data for this purpose. Beginning with the first quarter of 2015, and extending to subsequent foreclosure publications, we will be using CoreLogic[®] Market Trends data, which provides state, county, and zip code level metrics tracking home sales, prices, and foreclosure filings with mortgage performance.

In this quarterly report, we look at areas of the state with foreclosure problems, focusing on rates of serious delinquency², Real Estate Owned (REO)³ properties, and foreclosure⁴ rates. We also compare current quarter values to those of the previous quarter and to the same quarter from the previous year. The rates are calculated by dividing the number of loans in each category by the total number of housing units⁵ in each county⁶. Since CoreLogic[®]'s Market Trends data are computed monthly, we estimated quarterly figures by averaging the monthly data points for each of the quarter's three months.

Because the CoreLogic[®] Market Trends data are proprietary, we cannot publish specific numbers or rates in this report. We follow the methodology used by the Minnesota Housing Finance Agency⁷ and calculate

¹ <u>http://www.corelogic.com/research/the-market-pulse/marketpulse_2015_august.pdf</u>. CoreLogic's MarketPulse reports compute foreclosures relative to loan counts. For this report by THDA, we compute foreclosure rates relative to housing units rather than loan counts.

² The number of mortgages delinquent by 90 days or more, includes loans that are in REO or foreclosure. CoreLogic[®] has approximately 75 percent to 90 percent loan coverage, depending on the market.

³ REO represents the number of real-estate owned loans. The definition of a Real Estate Owned (REO) is a property, which is in the possession of a lender as a result of foreclosure where a lender takes back the title. CoreLogic[®] has approximately 50 percent coverage of REO's.

⁴ Foreclosures measure the number of loans that are in the foreclosure process. A foreclosure is defined by the legal process by which an owner's right to a property is terminated, usually due to default. CoreLogic[®] has approximately 85 percent coverage of foreclosures.

⁵ For the number of housing units, we used the number of residential addresses from HUD Aggregated USPS Administrative Data on Address Vacancies.

⁶ Even though most of the discussion in the report is at the county level, maps are created using zip code level data.

⁷ See "Residential Foreclosures in Minnesota," by Minnesota Housing Finance Agency at <u>http://www.mnhousing.gov/wcs/Satellite?c=Page&cid=1358904870907&pagename=External%2FPage%2FEXTStan</u> <u>dardLayout</u>

similar index values for each of the variables. The index is calculated by dividing each county (zip code) rate by the state rate. For example, a county (zip code) with a foreclosure rate identical to the statewide rate would have a Foreclosure Index value of 100, while counties (zip codes) with Foreclosure Index scores above 100 exceed the statewide average for foreclosure rates, and a county with a Foreclosure Index value of 200 has a foreclosure rate twice as high as the statewide average.⁸ For purposes of showing outliers and comparisons between counties, the index values we calculate may be interpreted similarly to rate statistics. For instance, the county with Tennessee's 4th highest Delinquency Index value also has the state's 4th highest delinquency rate; the Index preserves the order in which county-level rates are ranked.

For each of the "foreclosure trend" variables, we have five maps: four mapping index values (showing East, Middle, West, and the State of Tennessee) and a fifth map showing incidence irrespective of rates. Because high index values may not necessarily reflect a noteworthy pattern (the third highest zip code by REO Index Value, for example, held only two REOs, but was inflated by its low number of housing units) we provide this fifth map to show "hot spots" by volume, whether it be delinquencies, REOs, or foreclosures.

Delinquency

In the second quarter of 2015, loan delinquencies in Tennessee declined by nearly ten percent (nearly 2,500 fewer in total) compared to the first quarter of 2015, and by roughly 20 percent compared to the second quarter of 2014. 89 of Tennessee's 95 counties saw their delinquency totals shrink during the quarter; two counties saw no change, and the remaining four saw an increase of a single delinquency. Consistent with the previous quarter, the distribution of delinquency rates was largely skewed below the state average. 76 of Tennessee's 95 counties had Delinquency Index values below 100. The remaining 19, whether slightly above 100, or with higher delinquency rates, generally saw improvements during the second quarter.

The 10 Counties with the Highest Delinquency Index Values							
	County	Delinquency Index Value*	Percent Change from Q1 2015	Percent Change from Q2 2014			
1	Shelby	203	1.5%	1.0%			
2	Tipton	177	5.2%	2.7%			
3	Hardeman	159	4.9%	7.4%			
4	Fayette	156	-0.1%	8.5%			
5	Robertson	153	4.7%	5.0%			
6	Cheatham	139	-0.5%	-0.4%			
7	Madison	131	4.4%	8.5%			
8	Montgomery	124	-2.9%	-1.3%			
9	Haywood	119	3.6%	6.5%			
10	Lauderdale	114	4.7%	16.6%			

*State delinquency rate=100. Shelby County's delinquency rate equals 2.03 times the Tennessee rate.

⁸ The index values should be treated cautiously, especially on a zip code level, because some zip codes with a relatively small number of housing units might have high rates, even if they have just a handful of delinquent, REO or foreclosure loans compared to other zip codes with more housing units.

As was the case in the previous quarter, Shelby County had the highest volume of delinquencies and the highest Delinquency Index value, finishing with 27.6 percent of the state's delinquencies. Despite seeing these large declines in delinquency rate, Shelby County did not decline as quickly as the state of Tennessee, hence the positive values in the "percent change from Q1 2015" column. This was also true of Tipton County, with the second highest Delinquency Index value in the state; despite a quarterly decrease of 17 delinquencies, Tipton County failed to keep pace with the statewide declines, resulting in a five percent increase in its Index Value. Perhaps the most impressive performance was that of Montgomery County, whose decline of over 100 delinquencies outpaced that of the State of Tennessee.

417 zip codes in the state (out of 601 for which data were available) saw an absolute decline in delinquencies during the second quarter. Because declines occurred across the board for both high and low volume zip codes, the 2nd quarter Delinquency Index median value dropped to 37, a full 31 points lower than its median just one quarter ago. For every zip code with a Delinquency Index value above the state average, there were roughly three below-average zip codes. Consistent with the previous quarter, Davidson County stands out as having zip codes at both extremes of the Delinquency Index within its county boundaries. Maps 1-4 display the Delinquency Index for East, Middle, and West Tennessee, and for the state. Map 5 focuses on the delinquency hot spots, showing high totals of delinquencies, rather than the Index Values in Maps 1-4.



Map 1





Middle Tennessee Delinquency Index Values by Zip Code



West Tennessee Delinquency Index Values by Zip Code

Tennessee Delinquency Index Values by Zip Code



Top Tennessee Zip Codes in Loan Delinquencies



Real Estate Owned (REO) Inventory

In the second quarter of 2015, Real Estate Owned (REO) properties in Tennessee saw a quarterly decline of roughly six percent and a year-over-year decline of roughly 25 percent. Whereas delinquencies followed a more uniform pattern of decline, county-level REO totals were more scattered; 59 counties saw their REO total decrease, 29 experienced an increase, and seven saw no change in REOs. County-level REO rates were more evenly dispersed than delinquency rates, with 46 and 49 counties having an REO rate above and below the state average, respectively.

It is important to note the relative infrequency of real estate-owned homes in Tennessee; statewide, there was one REO for every 10 delinquencies. Furthermore, a county's REO total, from quarter to quarter, tends to only change by a handful of properties. The largest increase in county REO totals was Loudon County, with six, and the largest decrease was Davidson County, with 30 fewer REOs. 63 of Tennessee's 95 counties had less than 20 total REOs in the second quarter of 2015, making a small nominal fluctuation a larger percentage fluctuation.

Shelby County led Tennessee in volume of REO properties, followed by Knox, Davidson, and Hamilton Counties. Despite small declines during the second quarter, Shelby County held 21.5 percent of REOs in the state during the second quarter of 2015, more than three times that of Knox County, which, with 5.7 percent of REOs statewide, held the state's second largest share. Although the biggest four counties held a considerable share of the state's REO properties, the top of the REO Index distribution is dominated by suburban and rural areas. Eleven rural or suburban counties had a higher REO rate than any of the four big urban counties in the second quarter of 2015.

The 10 Counties with Tennessee's Highest REO Index Values							
	County	REO Rate Index Value*	Percent Change from Q1 2015	Percent Change from Q2 2014			
1	Campbell	256	18.1%	28.0%			
2	Humphreys	238	3.7%	72.6%			
3	Hickman	216	0.2%	35.8%			
4	Roane	202	-3.9%	10.2%			
5	Loudon	189	25.8%	55.7%			
6	Cheatham	188	-4.6%	15.4%			
7	Fayette	172	2.8%	11.1%			
8	Tipton	172	-1.7%	8.0%			
9	Coffee	168	18.3%	46.7%			
10	Robertson	159	-13.8%	-6.2%			

*State REO rate=100; Campbell County's value of 256 denotes an REO rate 2.56 times that of the Tennessee overall rate.

Whereas a trend of decline was shared by the top 10 counties for the Delinquency Index, the top 10 counties for REO rates showed much less uniformity. Although the state overall saw a definite decrease, the quarter over quarter changes for the top 10 counties were anywhere from a 26% increase to a 13% decrease. Again, this speaks to the low nominal totals of REO properties, as well as the absence of a universal pattern of increase or declines across the state.

A zip code level analysis of REO rates shows some overlap between the top ten counties listed in the previous table and the zip codes with the highest REO Index values, but not a strong correlation. Campbell, Humphreys, Cheatham and Tipton Counties each had one of the state's top 15 zip codes in the REO Index, but the rest of the top 15 were scattered across the state (and were not concentrated in Shelby County, unlike the case for delinquencies). The highest values in the REO Index, with the highest zip code having an index value that was 30 times the state average, are almost entirely a product of these zip codes' low numbers of housing units. The following maps of REO Index by zip code further demonstrate this. Because these high zip codes, shown in maps 6-9, may not necessarily reflect a noteworthy pattern of bank-owned homes, Map 10 is included to show the 45 Tennessee zip codes with the highest REO totals.

When we examine REO totals, and eliminate housing units from the equation, Map 10 illustrates the share of REOs located in Shelby County; 10 of the 15 zip codes for REO volume were in Shelby. Perhaps more surprisingly, the smaller cities of La Follette (Campbell County) and Sevierville (Sevier County) cracked the top 15 as well.

East Tennessee REO Index Values by Zip Code



Map 6



Middle Tennessee REO Index Values by Zip Code



West Tennessee REO Index Values by Zip Code

Tennessee REO Index Values by Zip Code



Top Tennessee Zip Codes for REO Volume



Foreclosure Rates

Tennessee's rapidly reduced 2nd quarter foreclosure totals represent a 19 percent decline from the previous quarter, and a 23 percent decline from the 2nd quarter of 2014. 81 of 95 counties saw their foreclosure totals shrink during the quarter, with Shelby County finishing with 209 fewer foreclosures than it had in the first quarter of 2015. In contrast, no county saw its foreclosure total increase by more than 3. Although the downward trend was shared by high- and low-foreclosure counties, the Foreclosure Index distribution remained left-centered. Just 18 counties had a foreclosure rate above the state average. While foreclosure tended to behave similarly to delinquency in the second quarter, foreclosures occur at a much lower rate than delinquencies. In this way they more closely resemble REOs, in that a small nominal change will often result in a larger percentage change. In the second quarter, there was 1 foreclosure for every 6.04 delinquencies across the state.

The 10 Counties with the Highest Foreclosure Index Values							
	County	County Foreclosure Rate Index Value* Percent Change from Q1 2015		Percent Change from Q2 2014			
1	Shelby	194	3.1%	8.3%			
2	Montgomery	172	3.5%	5.6%			
3	Robertson	162	5.1%	7.9%			
4	Fayette	140	-9.8%	-11.6%			
5	Hardeman	136	10.2%	53.9%			
6	Tipton	131	-4.7%	8.1%			
7	Hickman	125	48.7%	53.3%			
8	Bedford	122	7.1%	-2.5%			
9	Dickson	120	-0.5%	50.9%			
10	Cheatham	115	-2.2%	-11.8%			

*State rate=100; Shelby County's value of 194 denotes a foreclosure rate 1.94 times that of the Tennessee overall rate.

Whereas the top 10 counties in the Delinquency Index displayed small, uniform declines from past quarters, the above table shows that the top 10 counties in the Foreclosure Index emulate the REO Index, in that they show a huge range of changes, both positive and negative, from previous quarters. This is almost entirely attributable to the low nominal values of foreclosures, relative to delinquent loans.⁹

Hickman County stands out in the above table as having experienced a high percent change from the first quarter, of 48.7%. However, this is a misleading figure—this 48.7% increase was relative to the state average. In fact, Hickman County ended Quarter 2 with just three more foreclosures than it ended with in Quarter 1. This speaks more to the statewide pattern of sharp decline than it does to any worrying development in Hickman County.

After seeing a spike in foreclosures over the past several quarters, Dickson County saw a reduction in foreclosure on par with the state average, suggesting that it is not turning into a hot spot for foreclosures. In light of these numbers, there does not appear to be a Tennessee county with a significantly

⁹ Across the state of Tennessee, for every foreclosure there were 6 delinquencies in Q2 2015. This puts the incidence of foreclosures at about twice that of REO properties.

deteriorating foreclosure situation; the handful of counties with large percentage changes are merely smaller counties with low nominal totals.

By zip code, the number of loans in the foreclosure process in the first quarter ranged from 0 to 121. Similar to trends seen in delinquency, there were 343 zip codes that saw their foreclosures decrease, to 127 which saw increases (97 saw no change). Some of the zip codes with the highest Foreclosure Index values (as high as seven times the state average) are not the zip codes with the highest number of loans in the foreclosure process. Their Index value is high because of the relatively low number of housing units in the zip code. Shelby County held 5 of the top 15 zip codes for Foreclosure Index and 10 of the top 15 for total foreclosures. Not a single East Tennessee zip code was represented in the top 15 for Foreclosure Index or foreclosure trends. To highlight the sheer volume of foreclosure, in addition to rates, Map 15 is included at the end of this report, following Index maps 11-14.

Map 11



East Tennessee Foreclosure Index Values by Zip Code



Middle Tennessee Foreclosure Index Values by Zip Code



West Tennessee Foreclosure Index Values by Zip Code

Tennessee Foreclosure Index Values by Zip Code



The Top Tennessee Zip Codes in Volume of Foreclosure



Appendix: Tennessee's 95 Counties, Complete Index

	Statewide Ranking (1 through 95)			Index Values		
County Name	Delinquency	REO	Foreclosure	Delinquency	REO	Foreclosure
Anderson	43	20	25	76	138	91
Bedford	11	19	8	112	140	122
Benton	73	46	90	48	103	23
Bledsoe	82	76	88	39	56	25
Blount	40	54	37	80	88	83
Bradley	19	49	45	100	97	73
Campbell	33	1	46	83	256	72
Cannon	62	53	70	54	89	53
Carroll	45	32	69	75	124	53
Carter	83	65	75	38	76	47
Cheatham	6	6	10	139	188	115
Chester	22	13	27	98	158	90
Claiborne	60	48	24	56	97	92
Clay	95	95	95	6	0	4
Cocke	48	27	60	71	131	60
Coffee	34	9	61	82	168	59
Crockett	47	63	83	71	79	38
Cumberland	76	50	59	47	94	60
Davidson	26	78	34	90	55	85
Decatur	70	18	85	49	140	34
DeKalb	54	39	63	64	115	57
Dickson	23	58	9	97	84	120
Dyer	31	44	35	84	106	84
Fayette	4	7	4	156	172	140
Fentress	57	21	43	57	134	76
Franklin	58	62	55	57	79	63
Gibson	17	11	18	106	159	104
Giles	30	28	54	84	130	64
Grainger	69	82	74	50	46	50
Greene	51	52	44	66	90	74
Grundy	63	70	49	53	65	69
Hamblen	36	60	15	82	81	108
Hamilton	14	56	30	109	86	89
Hancock	89	86	64	31	41	57
Hardeman	3	15	5	159	154	136
Hardin	59	33	65	56	124	57
Hawkins	79	51	77	42	94	45
Haywood	9	14	58	119	155	60

	Statewide Ranking (1 through 95)			Index Values		
County Name	Delinquency	REO	Foreclosure	Delinquency	REO	Foreclosure
Henderson	38	84	32	80	43	87
Henry	64	71	76	52	63	46
Hickman	16	3	7	107	216	125
Houston	88	92	89	33	24	24
Humphreys	37	2	41	81	238	78
Jackson	81	90	87	39	31	32
Jefferson	50	41	40	67	112	79
Johnson	90	73	86	30	60	33
Кпох	42	61	23	78	80	95
Lake	77	47	82	47	98	39
Lauderdale	10	43	29	114	107	89
Lawrence	46	29	62	74	126	58
Lewis	71	31	73	49	125	51
Lincoln	41	24	31	79	132	88
Loudon	24	5	22	94	189	96
Macon	84	88	93	35	37	19
Madison	7	35	17	131	118	105
Marion	27	67	48	89	70	69
Marshall	15	37	14	108	117	110
Maury	12	55	28	110	86	90
McMinn	18	40	16	104	114	106
McNairy	20	23	19	99	132	102
Meigs	25	72	38	92	63	83
Monroe	49	34	42	71	123	77
Montgomery	8	68	2	124	67	172
Moore	86	83	56	34	45	62
Morgan	80	75	66	42	59	54
Obion	61	25	81	56	132	41
Overton	92	87	92	22	38	20
Perry	93	94	94	15	0	6
Pickett	94	93	79	13	0	43
Polk	66	91	72	51	26	52
Putnam	68	66	57	50	72	61
Rhea	29	79	47	86	55	70
Roane	32	4	21	83	202	97
Robertson	5	10	3	153	159	162
Rutherford	13	77	12	109	56	114
Scott	87	85	67	34	43	54

	Statewide Ranking (1 through 95)			Index Values		
County Name	Delinquency	REO	Foreclosure	Delinquency	REO	Foreclosure
Sequatchie	65	64	50	52	77	69
Sevier	28	22	11	87	133	115
Shelby	1	12	1	203	158	194
Smith	55	36	78	60	117	44
Stewart	53	30	39	64	125	82
Sullivan	72	81	71	49	52	52
Sumner	21	45	20	99	105	98
Tipton	2	8	6	177	172	131
Trousdale	52	38	13	65	116	111
Unicoi	78	57	53	45	85	65
Union	56	17	80	58	144	41
Van Buren	85	69	33	34	67	86
Warren	39	26	51	80	131	66
Washington	75	74	52	48	59	65
Wayne	91	59	91	22	84	21
Weakley	67	16	84	51	151	35
White	35	42	26	82	111	90
Williamson	74	89	68	48	34	53
Wilson	44	80	36	75	54	84