

## Housing market responds to crisis but looks relatively good

**A**laska's housing market continues to outperform the dismal national housing market, but that's not saying much. The Alaska housing market has reflected the national housing bubble and subsequent crash in a typical Alaskan fashion – bucking some national trends and mirroring others. This snapshot of Alaska's housing market will examine how we are faring.

There's no denying it, the prognosis for the national housing market is uncertain. The home buyer's tax credit, an important catalyst for recent signs of recovery, has recently expired. But despite historically low interest rates, national housing indicators aren't yet pointing to a recovery.

Alaskans avoided the worst of the housing bubble by keeping a lid on speculation and subprime lending. Average single-family home prices have been largely stable. Residential foreclosures are on the rise but aren't setting re-

recs. Mortgage lending activity peaked in late 2006 and has continued to decline since then. Much of the recent downturn in home sales was offset by a flurry of refinancing activity spurred by historically low interest rates.

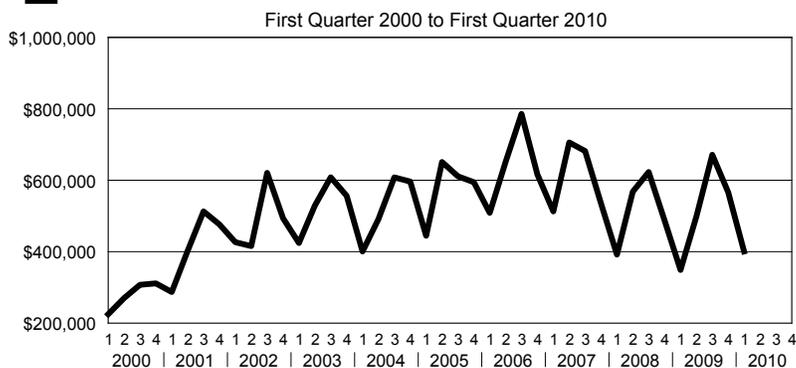
### Meek mortgage lending activity

The Alaska Department of Labor and Workforce Development, under contract with the Alaska Housing Finance Corporation, conducts the Survey of Mortgage Lending Activity every quarter. Alaska's major private and public mortgage lenders provide data on the vast majority of mortgage lending activity in Alaska.

Mortgage lending activity for single-family homes and condos – the number of loans, the loan dollar volume and the total value of home sales – was up in the first quarter of 2010 compared to a year earlier. Although the direction is positive, this is not yet a cause for jubilation. The total loan volume for single-family homes and condos was \$401 million in the first quarter of 2010, compared to \$349 million in the first quarter of 2009. The first quarter of 2009 was the lowest on record since the first quarter of 2001, when such low dollar volumes for loans were the norm. (See Exhibit 1.)

Lending activity in Alaska began its decline near the end of 2007, well before statewide employment growth turned negative. Year-to-year change in quarterly loan volume was negative for eight consecutive quarters – from the third quarter of 2007 through the second quarter of 2009. The third quarter of 2009 finally marked an end to the decline, outperforming the third quarter of 2008 by \$48 million. Whether this rebound is the beginning of a long-term recovery

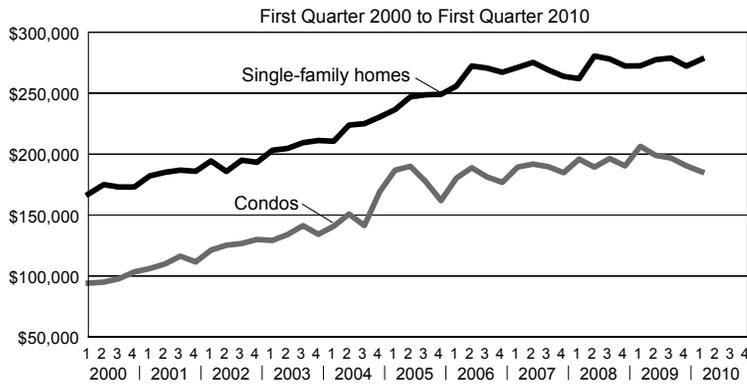
### 1 Single-Family Homes and Condos Quarterly loan volume, Alaska



Note: Mortgage lenders are surveyed four times per year; 2010 data are only for the first quarter of the year.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Quarterly Survey of Mortgage Lending Activity

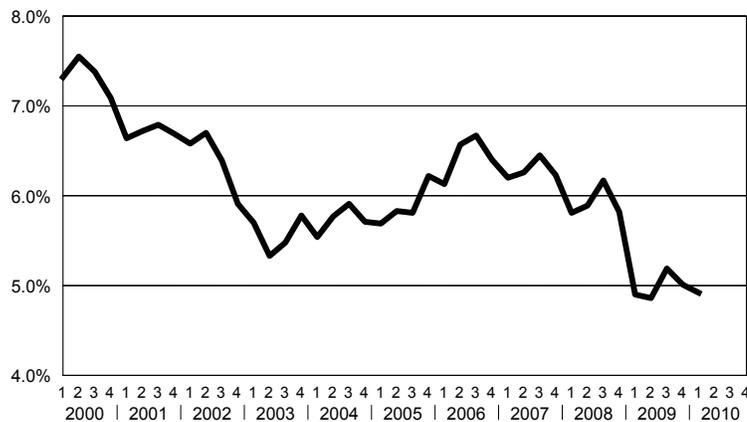
## 2 Single-Family Homes and Condos Average sales price, Alaska



Note: Mortgage lenders are surveyed four times per year; 2010 data are only for the first quarter of the year.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Quarterly Survey of Mortgage Lending Activity

## 3 Mortgage Rates Stay Low 30-year fixed-rate mortgages,<sup>1</sup> Alaska



Note: Mortgage lenders are surveyed four times per year; 2010 data are only for the first quarter of the year.

<sup>1</sup> The 30-year mortgage rates are based on a weighted average.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Quarterly Survey of Mortgage Lending Activity

for loan volumes or just a short-term reprieve remains to be seen.

Lending activity was likely stimulated in the first quarter of 2010 by the impending expiration of the home buyer's tax credit. The program offered up to \$8,000 in tax credit for home buyers who signed a contract before April 30 and closed on their purchase prior to June 30, 2010.<sup>1</sup> The tax credits may have nudged on-the-fence buyers into the home buying game or

<sup>1</sup> The deadline to close was recently extended until September 30, 2010 for buyers that had signed a contract before April 30, 2010.

encouraged buyers planning to purchase later in the year to make their move earlier.

Despite the possible expiration of the tax credit, lending activity will likely continue to creep up from the first quarter of 2010 based on seasonality alone. Historically, first quarter lending activity is the weakest of the year, followed by the fourth quarter. Third quarter activity is typically the highest. This seasonal phenomenon is not isolated to Alaska. Home sales tend to occur in the summer months when moving is easier and homes are less obscured by snow and darkness. Home buyers with school-age children are more likely to move in the summer so as not to interrupt the school year, and summer weddings often precipitate a slew of home purchases. The greatest first quarter loan volume this decade was in 2007 at \$512 million, paltry compared to the record high \$786 million loan volume from the third quarter of 2006.

### Home sales prices stay flat

Average sales prices for single-family homes and condominiums have remained remarkably stable considering the recent drop in mortgage activity. From the first quarter of 2000 to the first quarter of 2010, single-family home sales prices grew about 5 percent per year, and condo sales prices grew about 8 percent per year. (See Exhibit 2.)

We can split the decade into a period of accelerated growth and a period of almost no growth. During the feverish first period that extended from 2000 through 2006, single-family home sales prices grew an average of 8 percent each year. The tide turned in 2007. During the first quarter of 2007 through the first quarter of 2010, single-family home sales price growth had slowed to 1 percent per year.<sup>2</sup>

Condo sales prices exhibited a similar pattern. Prices increased by an average of 11 percent per year from 2000 through 2006 and an average of 2 percent per year from 2007 to the first quarter of 2010. Comparing the first and second parts of the decade shows that home sales prices in Alaska did react to the boom-and-bust cycle

<sup>2</sup> Home sales price growth is calculated by averaging the year-over-year change in price for each quarter during the period.

that ravaged the housing market in many states. Unlike those states that suffered most from the crash, Alaska's housing market responded with restraint.

### Mortgage rates hit record lows

Mortgage rates are at a historic low, but other factors like a weak economy and tighter lending requirements have kept a damper on home sales. Low mortgage rates make borrowing cheaper, which in turn makes purchasing a home more affordable.

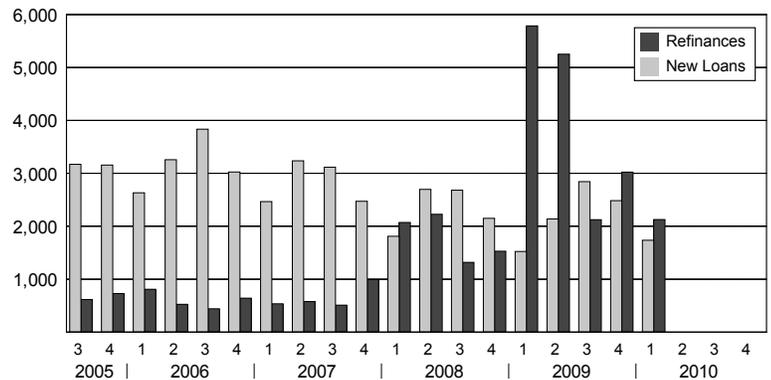
### Refinancing activity skyrockets

Despite originating fewer new mortgages, lenders have stayed busy. Many homeowners responded to record-low mortgage rates by refinancing their existing mortgages, which can lead to major savings over the life of the loan. The Department of Labor has only collected single-family and condo mortgage refinance data since the third quarter of 2005, but longtime Alaska lenders agree that recent refinance activity is unprecedented.

From the third quarter of 2005 through the fourth quarter of 2007, the average number of single-family and condo refinances per quarter was below 650. In the first quarter of 2008, interest rates dropped below 6 percent and the number of refinances doubled from the previous quarter – from 991 to 2,072. When interest rates slid below 5 percent in early 2009, refinances spiked again – from 1,529 in the fourth quarter of 2008 to a record 5,786 in the first quarter of 2009. (See Exhibit 4.)

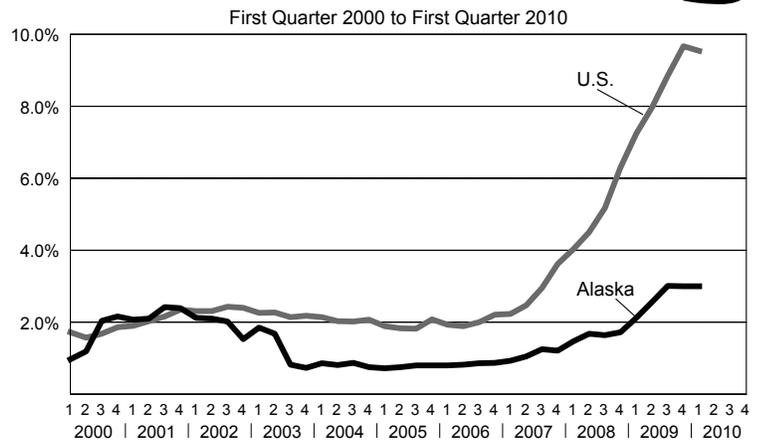
During the first quarter of 2009, the \$1.4 billion in refinance loans dwarfed the \$349 million in new mortgage loans. But refinance volumes of that magnitude aren't sustainable. In the first quarter of 2010, refinance loan volume just barely outpaced new loan volume – \$461 million in refinances compared to \$400 million in new loans. Refinance activity is expected to remain high as long as mortgage rates stay low, but it isn't likely to reach levels comparable to the first half of 2009 for some time. Most homeowners who would benefit have already refinanced.

## Refinancing activity peaks in 2009 Single-family homes and condos, Alaska **4**



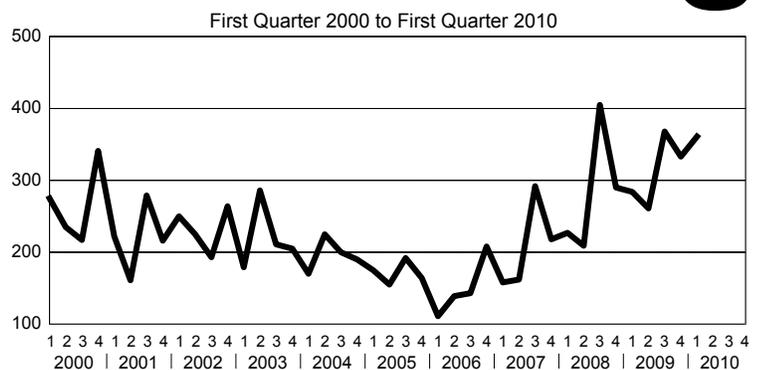
Note: Data are from the third quarter of 2005 to first quarter of 2010.  
Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

## Seriously-Delinquent Mortgages<sup>1</sup> Alaska and U.S., 2000 to 2010 **5**



<sup>1</sup> Percentage of mortgages 90+ days past due or in foreclosure.  
Source: Mortgage Bankers Association, National Delinquency Survey

## Residential Foreclosures Increasing Alaska, 2000 to 2010 **6**



Source: Alaska Department of Natural Resources, Recorder's Office

## Delinquencies and foreclosures

The collapse of the mortgage bubble left a flood of delinquencies and foreclosures that spread across the country, leaving empty homes and broken lives in its wake. Alaska escaped the worst of the crisis but has seen an increase in both mortgage delinquencies and foreclosures.

### Alaska mortgage delinquencies stay low

Since 1979, the Mortgage Bankers Association has collected data from roughly 80 percent of mortgages nationwide in its National Delinquency Survey. The association reports the number of mortgages that are considered seriously-delinquent, meaning they are more than 90 days past due or in foreclosure.

Alaska has ranked near the bottom of all the states in terms of delinquency – a good ranking on a bad list. In the first quarter of 2010, the most recent quarter for which data are available, Alaska’s seriously-delinquent rate of 3 percent was second lowest in the United States, outperformed only by North Dakota with a rate of 2.3 percent. (See Exhibit 7.) One reason that Alaska’s seriously-delinquent rate is so low is that higher risk subprime and adjustable rate mortgages were less popular in Alaska than nationally.

Alaska’s seriously-delinquent mortgage rate started creeping up in 2007 but leveled off at around 3 percent from the second quarter of 2009 through the first quarter of 2010. Since the first

quarter of 2007, the national seriously-delinquent rate has grown at an average of more than one-half of a percentage point each quarter, peaking at 9.7 percent in the fourth quarter of 2009.

Alaska’s comparable rate peaked at 3.01 percent in the third quarter of 2009. (See Exhibit 5.)

### Keeping a lid on residential foreclosures

The Department of Labor collects foreclosure data based on public records. During the first quarter of 2010, the most recent quarter for which data are available, there were 360 foreclosures in Alaska. Foreclosures have been on the rise in Alaska since the first quarter of 2006, when a favorable housing market kept strapped homeowners out of foreclosure. Since then, foreclosures have staggered upward, but their volatility makes clear trends hard to read. (See Exhibit 6.)

Foreclosures will likely continue to be higher than they were during the past 10 years, but it is possible that the worst is over. Much depends on the health of Alaska’s economy. A growing economy could revive a sluggish housing market. Add in high oil and mineral prices and a steady influx of federal dollars, and Alaska’s economy could be brightening.

Alaska’s housing market has pattered along like a reliable old car – you wouldn’t want to drive it to prom but it always starts. As long as the economy doesn’t completely run out of gas, Alaska’s housing market should have a lot more mileage left in it.

## 7 The Lowest and Highest Rates of Serious Delinquency United States, first quarter 2010

10 Lowest Rates			10 Highest Rates		
Rank	State	Percent	Rank	State	Percent
1	North Dakota	2.33%	1	Florida	20.61%
2	<b>Alaska</b>	<b>3.00%</b>	2	Nevada	19.60%
3	South Dakota	3.49%	3	Arizona	12.81%
4	Wyoming	3.73%	4	California	12.14%
5	Montana	4.05%	5	Illinois	11.27%
6	Nebraska	4.17%	6	New Jersey	10.73%
7	Vermont	4.81%	7	Michigan	10.72%
8	Kansas	5.14%	8	Georgia	9.87%
9	Arkansas	5.39%	9	Ohio	9.49%
10	Iowa	5.40%	10	Rhode Island	9.23%

Note: The National Delinquency Survey is a nationwide survey of mortgage lenders, estimated to encompass over 80 percent of active mortgages.

Source: Mortgage Bankers Association, National Delinquency Survey